

Business, Finance, & Entrepreneurship in Wisconsin: Shaping the New Wisconsin Economy

Prepared by

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Introduction:

To be competitive in the New Global Economy, Wisconsin must be competitive in global markets and have an attractive business climate to encourage entrepreneurial activity and to attract investment capital.

In 2002, the Wisconsin Technology Council (Tech Council) published *Vision 2020: A Model Wisconsin Economy*, which laid out a number of indicators related to global competitiveness and business formation. The purpose of this paper is to report on the progress Wisconsin has made in reaching for those goals.

This is the third in a series of reports that monitors the progress on goals established in Vision 2020. We previously reported on Knowledge Worker/Human Capital measures, and they were for the most part encouraging. In a second report, we analyzed Wisconsin's progress in knowledge and technology and found some very positive trends. The final report in this series will address the topic of risk capital and provide measures related to venture capital, angel investing, SBIR grants, and private equity activity. All of the benchmarks and milestones for this series of reports are contained in the table on page 45 of *Vision 2020*.

Context for this Report:

The dot.com bust, the recession of 2001, the events of Sept. 11, 2001, and a very slow economic recovery have had a major influence on the Wisconsin and U.S. economies. Despite these factors, both the U.S. and Wisconsin economies began to show strong growth in early 2004 and high-tech businesses are emerging as an area of high economic growth. That growth has continued in 2005 despite major challenges posed by hurricanes Katrina and Rita and resulting soaring oil prices.

Wisconsin's transition to the New Economy has tended to lag many other states. Some states, notably Minnesota, experienced robust growth in high-tech businesses in the mid-1990s and that growth has continued into the 21st century. Wisconsin's challenge is to build on its solid economic base and to expand its economy through investment and support in high-growth areas.

Business Investment, Exports and Entrepreneurship Metrics

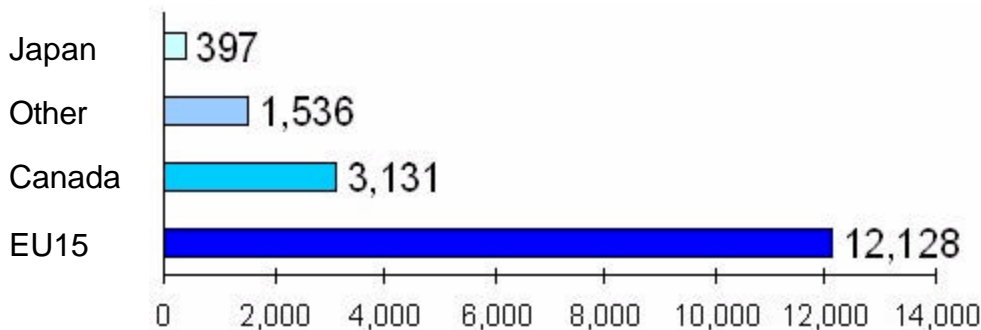
Foreign Direct Investment in Wisconsin

Foreign direct investment (FDI) refers to investments by foreign companies into structures, equipment and organizations in the U.S. Below we report on a direct measure of that activity and in Appendix 1 to this report we also show an indirect measure of foreign investment based upon the Progressive Policy Institute (PPI) methodology.

In *Vision 2020: A Model Wisconsin Economy*, we reported \$11.0 billion in foreign direct investment (FDI) in Wisconsin in 2000. Data from the European Union Delegation of the European Commission to the USA for the year 2002 shows an increase in direct foreign investment which substantially moves Wisconsin towards the 2005 goal of \$13.4 billion in FDI. For reasons that we give later in this section, this data may be reflecting events that mask the true level of foreign direct investment.

According to the European Union Delegation of the European Commission to the USA, a majority of the FDI in 2002 came from EU15 countries. EU15 refers to the fifteen countries which comprised the European Union prior to May 1, 2004, specifically Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom (since that time, 10 additional countries have joined the union). According to the U.S. Bureau of Economic Analysis (BEA), in 2002, EU15 investment in Wisconsin supported an estimated 76,700 jobs, representing an investment of \$12,128 billion dollars, or 70.5% of total FDI in Wisconsin. Significant FDI also came from Canada and Japan in 2002, as summarized below:

Major FDI in Wisconsin in 2002 (in Millions of U.S. Dollars)



Source: European Union Delegation of the European Commission to the USA, U.S. Bureau of Economic Analysis

Vision 2020: A Model Wisconsin Economy set forth a series of five-year goals for several key economic benchmarks on the road to prosperity by the year 2020. The goal established for foreign direct investment in 2005 was approximately \$13.4 billion. According to the data above, by 2002 Wisconsin already had nearly \$17.2 billion in foreign direct investment.

We advise extreme caution in drawing any definitive conclusions from this data. Because many Wisconsin companies have been acquired by foreign firms, the direct foreign investment data may be reflecting an accounting entry in that investments that would have been recorded as domestic investments by domestic firms now will be categorized as foreign direct investment by foreign firms. For example, much of the ownership of the paper industry in Wisconsin has changed as foreign corporations have acquired a significant portion of that industry. Investments in these companies will now show up as foreign direct investments by virtue of the ownership of the firm.

Wisconsin Exports

Wisconsin exported \$12.7 billion in goods to foreign countries in 2004, an increase of 10.4% from 2003. For the last several years, Wisconsin has consistently been responsible for roughly 1.5% of total U.S. exports, as detailed in the table below.

The baseline for exports in Vision 2020 is the value of exports in 2000. In that year, Wisconsin totaled \$10.9 billion in exports. If exports continue to grow as they have in recent years, we should meet the goal of nearly \$13.4 billion in exports in 2005 as set forth in *Vision 2020: A Model Wisconsin Economy*.

Total Value of Wisconsin Exports and Share of U.S. Total Exports

	2001	2002	2003	2004
Total Wisconsin Exports (\$ Million)	\$10,488.7	\$10,684.3	\$11,509.8	\$12,706.3
% Share of U.S. Exports	1.43 %	1.54 %	1.59 %	1.55 %

Source: U.S. Census Bureau, Foreign Trade Division

According to the Foreign Trade Division of the U.S. Census Bureau, Canada has consistently been the primary recipient of goods exported from Wisconsin, based on the dollar value of the goods exported. Based on the geography, common border, and economic linkages between the two countries, this is not surprising.

2004 also marked the first year in which Mexico became our second ranking trading partner. Mexico displaced Japan as the number two trading partner and Wisconsin exported over \$1 billion in goods and services to Mexico.

Total U.S. Exports (Origin of Movement) via Wisconsin Top 10 Countries Based on 2004 Dollar Value (in millions of dollars)

	2003		2004		% Change 2004 / 2003
	Total (\$M)	% of WI	Total (\$M)	% of WI	
Canada	\$4,349.3	37.79 %	\$4,856.7	38.22 %	11.66 %
Mexico	\$ 788.0	6.85 %	\$1,064.4	8.38 %	35.07 %
Japan	\$ 816.7	7.10 %	\$ 624.6	4.92 %	-23.52 %
China	\$ 548.2	4.76 %	\$ 583.3	4.59 %	6.40 %
United Kingdom	\$ 494.0	4.29 %	\$ 517.3	4.07 %	4.72 %
Germany	\$ 448.5	3.90 %	\$ 460.6	3.62 %	2.70 %
France	\$ 371.1	3.22 %	\$ 364.6	2.87 %	-1.76 %
Belgium	\$ 262.7	2.28 %	\$ 330.8	2.60 %	25.95 %
Australia	\$ 279.9	2.43 %	\$ 325.5	2.56 %	16.29 %
South Korea	\$ 258.4	2.24 %	\$ 273.0	2.15 %	5.66 %

Source: U.S. Census Bureau, Foreign Trade Division

Wisconsin exports a variety of products and commodities, with several of the most valuable exports including engines and medical equipment of various types. The top twenty-five commodities exported by Wisconsin comprise approximately one-third of total Wisconsin exports. Several Wisconsin industry clusters enjoyed high growth in exports in the period 2003-2004. Reciprocating piston engines, marine propulsion, medical equipment and heavy machinery parts grew by over 30% in a one year period.

**Total U.S. Exports (Origin of Movement) via Wisconsin
Top 10 Commodities Based on 2004 Dollar Value (in millions of dollars)**

	2003		2004		% Change 2004 / 2003
	Total (\$M)	% of WI	Total (\$M)	% of WI	
Spark-Ignition Reciprocating Piston Engines Over 1000 CC	\$ 402.7	3.50 %	\$ 543.08	4.27 %	34.86 %
Outboard Engines for Marine Propulsion	\$ 187.1	1.63 %	\$ 260.77	2.05 %	39.35 %
Tractors, N.E.S.O.I.	\$ 230.7	2.00 %	\$ 250.87	1.97 %	8.76 %
Parts and Accessories for ADP Machines and Units	\$ 209.6	1.82 %	\$ 248.10	1.95 %	18.34 %
Electro-Diagnostic Apparatus N.E.S.O.I. and Parts	\$ 249.7	2.17 %	\$ 231.44	1.82 %	-7.29 %
Spark-Ignition Internal Combustion Piston Engine Parts	\$ 378.3	3.29 %	\$ 226.83	1.79 %	-40.03 %
X-Ray/High Tension Generators, Control Panels and Desks, Exam/Treatment Tables and Parts	\$ 131.0	1.14 %	\$ 192.31	1.51 %	46.83 %
Magnetic Resonance Imaging Apparatus	\$ 176.1	1.53 %	\$ 177.94	1.40 %	1.04 %
Parts and Attachments N.E.S.O.I. for Derricks	\$ 92.9	0.81 %	\$ 166.24	1.31 %	78.91 %
Wheat (Other Than Durum Wheat) and Meslin	\$ 137.5	0.99 %	\$ 145.90	1.15 %	28.21 %

Source: U.S. Census Bureau, Foreign Trade Division

According to the American Electronics Association's *Cyberstates 2005*, 21% of Wisconsin's exports (\$2.6 billion of \$12.7 billion total) were high-tech exports. This represents a 15% increase in high-tech exports from the previous year, ranking Wisconsin ahead of our Midwest neighbors, as well as the nation as a whole, as detailed in the table below.

High-Tech Exports as a Share of Total Exports

	Percent Change 2003-2004		Percent Change 1998-2004	
Wisconsin	15.0%	Rank: 26	41.5%	Rank: 21
Illinois	13.9%	Rank: 27	-24.9%	Rank: 51
United States	11.7%	Rank: n/a	15.1%	Rank: n/a
Indiana	10.5%	Rank: 33	52.1%	Rank: 16
Minnesota	9.5%	Rank: 36	53.0%	Rank: 15
Iowa	4.7%	Rank: 40	5.0%	Rank: 37
Michigan	3.9%	Rank: 42	42.7%	Rank: 20

Source: CyberStates 2005, American Electronics Association

Net Business Formation

According to the United States Small Business Administration, there were an estimated 13,093 new employer small businesses in Wisconsin in 2004, 5.6% more than the previous year. The total number of small businesses in the state grew to 406,766.

According to the Wisconsin Department of Financial Institutions, there were more than 33,000 new domestic business entities created in 2004, an increase of nearly 14% over the previous year. Wisconsin can boast similar increases for the last several years, as 2003 saw 15% more new business formations than 2002, which saw 16% more than 2001. For the last several years, limited liability companies have represented the substantial majority of new entities created.

New Domestic Entities Created in Wisconsin

	2001	2002	2003	2004
Business Corporations	4,916	4,916	4,806	4,776
Statutory Close Corporations	702	638	617	569
Cooperatives	22	14	11	18
Service Corporations	191	189	190	185
Statutory Close Service Corporations	20	23	19	23
Corporations Only	5,851	5,780	5,643	5,571
Limited Liability Companies	13,953	17,448	21,356	25,268
Limited Partnerships	235	270	191	203
Limited Liability Partnerships	424	367	337	342
Not-for-Profit Corporations	1,431	1,541	1,719	1,927
Total New Domestic Entities	21,894	25,406	29,246	33,311

Source: Wisconsin Department of Financial Institutions

While *new* business formation has consistently grown by approximately 15% per year, the *net* business formation has fluctuated as the business failure rate rises and falls. Most likely due to the 2001 recession and subsequent recovery, the net rate of business

formation decreased significantly in 2001, then rose dramatically in 2002. After the surge in 2002, 2003 (the most recent year for which data is available), again reflects a small net gain.

Vision 2020: A Model Wisconsin Economy established a goal for 2005 of 700 net business formations, based on a 2000 estimate of 579, though that data was based on figures collected under the retired Standard Industry Classification System. The data currently available based on the North American Industrial Classification System indicates a 2000 figure of 769 net formations. On average, Wisconsin experienced net business formation of approximately 602 annually since 2000, though it is difficult to predict whether the 2005 goal will be met because of the large fluctuations in yearly data.

Wisconsin Net Business Formation 2000 - 2003

Year	# of Business Establishments	Net Business Formations
2000	140,415	769
2001	140,540	125
2002	142,086	1,546
2003	142,220	134

Source: United States Census Bureau County Business Patterns

On average, Wisconsin ranks behind Minnesota and Illinois with respect to net business formation, but ahead of other Midwestern states, as shown in the following table.

Net Business Formation in Midwestern States 2000 - 2003

	2000	2001	2002	2003	Average
Minnesota	1,775	1,888	3,255	1,908	2,207
Illinois	1,168	-711	2,624	1,734	1,204
Wisconsin	769	125	1,546	134	644
Indiana	-207	-741	1,724	243	255
Michigan	456	-201	905	-494	167
Iowa	-323	-498	650	36	-34

Source: United States Census Bureau County Business Patterns

Summary and Conclusions:

Wisconsin is on track toward reaching the economic goals established in *Vision 2020: A Model Wisconsin Economy*. Net business formation has fluctuated from year to year, but continues to increase each year. The value of Wisconsin's exports continues to rise at a pace consistent with the goals of *Vision 2020*, and the percentage of those exports comprised of high-tech goods continues to rise as well, which bodes well for meeting the goals for subsequent years. Foreign direct investment has risen dramatically in recent years though we advise caution in drawing conclusions on direct foreign investment data

because of the number of Wisconsin firms acquired by foreign corporations in recent years.

For questions about the report, please contact

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APPENDIX 1

According to the Progressive Policy Institute, in 2002 (the most recent year for which data is available at the state level), Wisconsin ranked 34th in the nation in foreign direct investment, with approximately 3.6% of its workforce employed by foreign companies. Foreign direct investment in Wisconsin has increased in recent years, as the PPI's previous edition of the State New Economy Index reveals that Wisconsin ranked 40th with 2.5% FDI in 1999. Despite the recent increase, Wisconsin is still below the national average of 4.7%.

PPI has not updated the State New Economy Index since the publication of the 2002 report.