

# Welcome



# Outlook for Economic Conditions in West Michigan

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A Presentation to  
First National Bank of Michigan

Randall Eberts, PhD  
Jim Robey, PhD  
W.E. Upjohn Institute for Employment Research

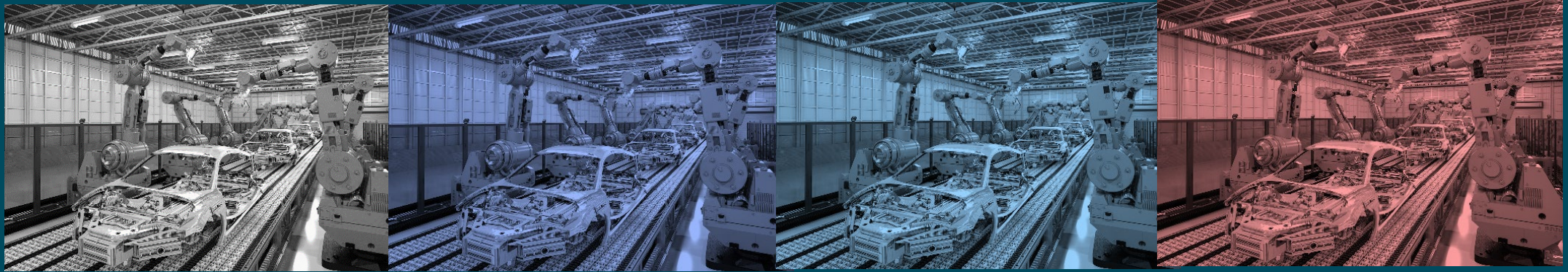
OCTOBER 31, 2019

# W.E. Upjohn Institute for Employment Research

The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by Dr. W.E. Upjohn, founder of the Upjohn Company.

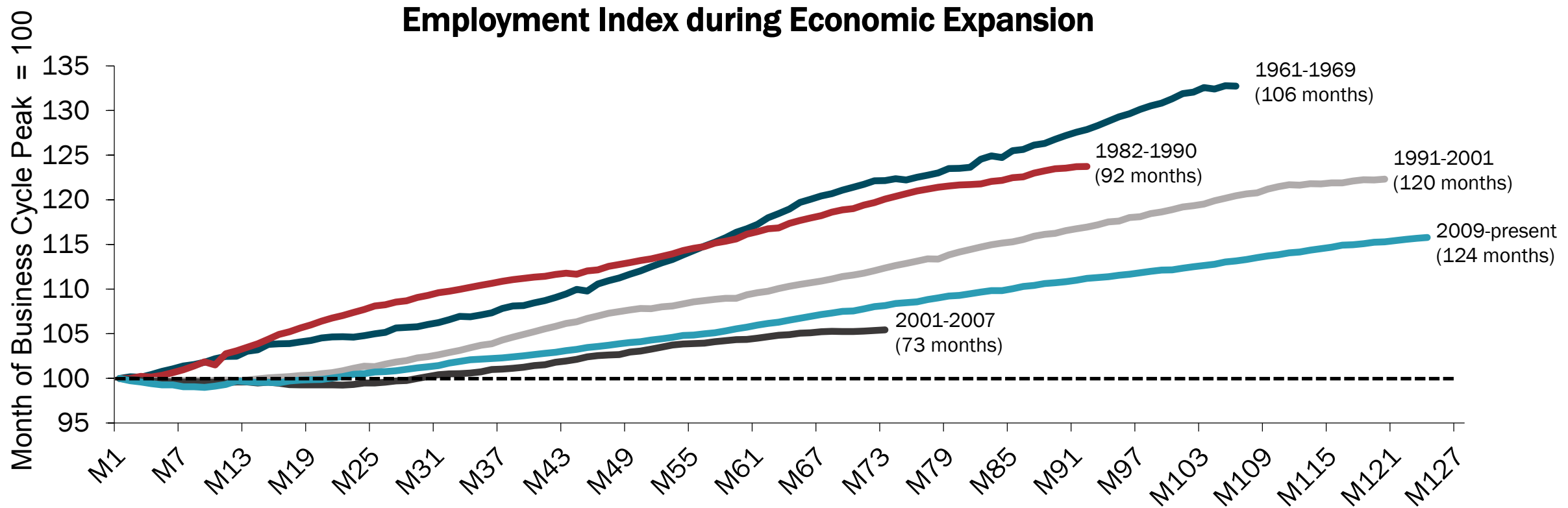
## MISSION:

The W.E. Upjohn Institute for Employment Research is a private, nonprofit, nonpartisan, independent research organization devoted to investigating the causes and effects of unemployment, to identifying feasible methods of insuring against unemployment, and to devising ways and means of alleviating the distress and hardship caused by unemployment.



# National Economy

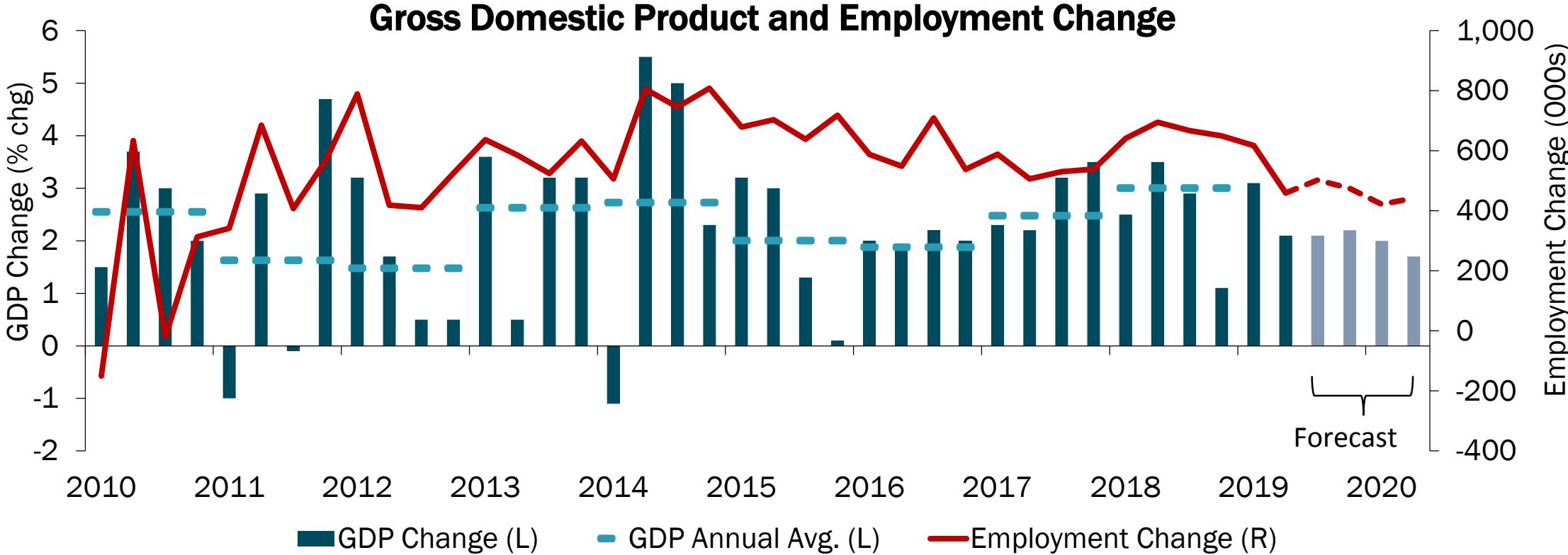
# We are currently in the longest expansion since WWII



# We're in the longest business cycle (contraction and expansion) and the longest expansion, while experiencing the longest recession since measurement began

Length of:	1945-1948	1949-1953	1954-1957	1958-1960	1961-1969	1970-1973	1975-1980	1980-1981	1982-1990	1991-2001	2002-2007	2007-?
Contraction	8	11	10	8	10	11	16	6	16	8	8	18
Expansion	37	45	39	24	106	36	58	12	92	120	73	123
Business Cycle	45	56	49	32	116	47	92	18	108	128	81	142

# GDP growth is projected to remain solid, although employment growth is slowing

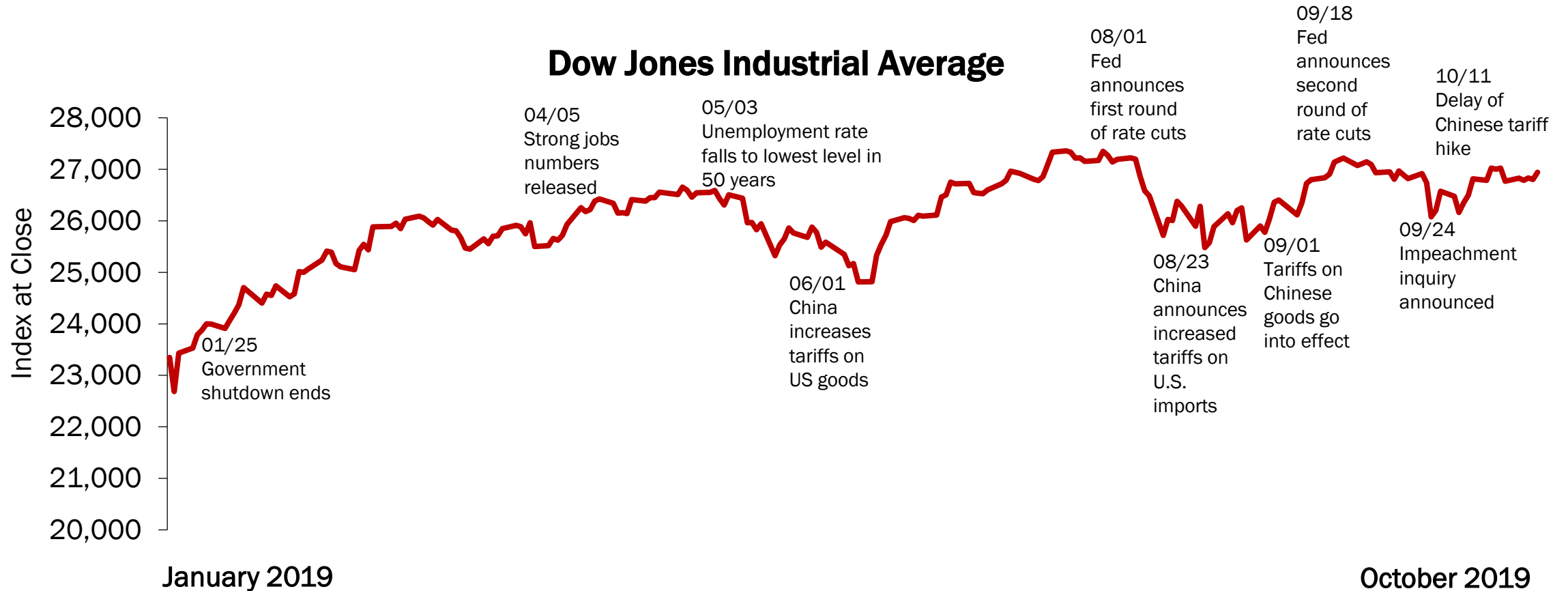


# University of Michigan RSQE national forecast

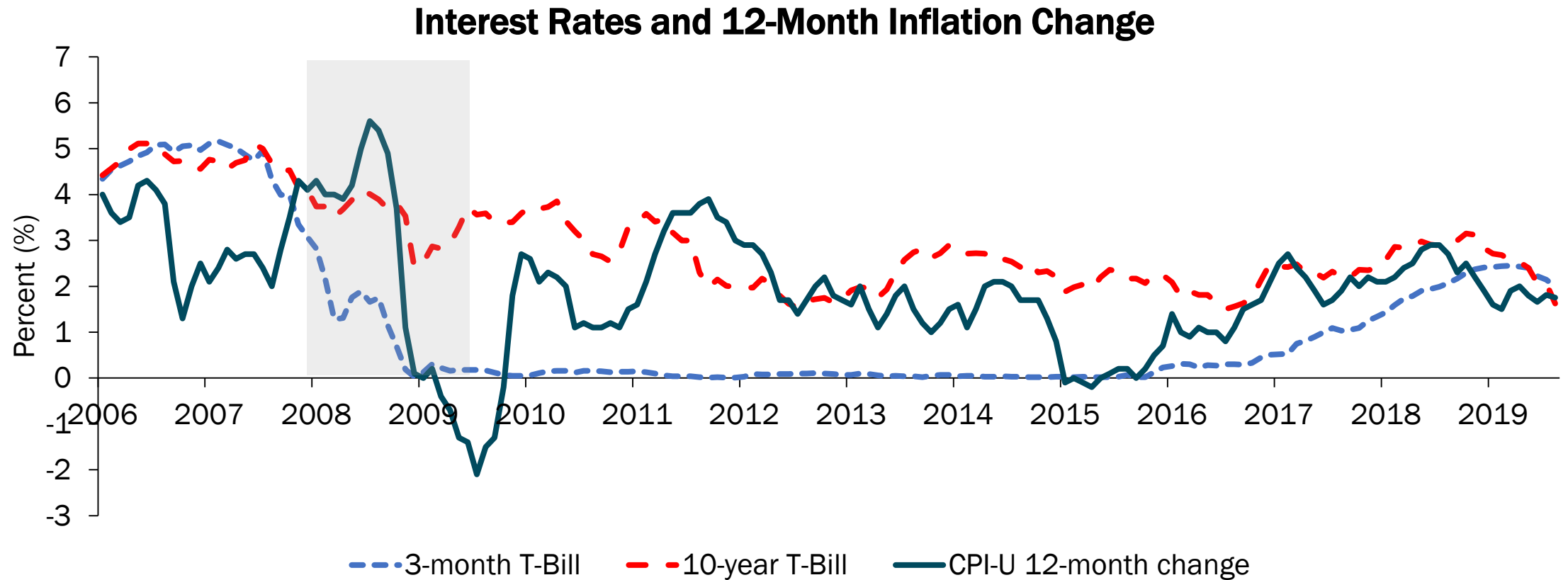
	2019 (Forecast)	2020 (Forecast)	2021 (Forecast)
GDP	2.3%	1.7%	1.6%
Employment	1.5%	1.1%	1.0%
Light Vehicle Sales (Millions)	17	16.9	16.6
Unemployment Rate	3.7%	3.6%	3.4%
Housing Starts (Millions)	1.23	1.24	1.24
CPI/Inflation	1.7%	1.9%	1.9%



# The stock market has reacted to various events this year, and the ride is getting bumpier

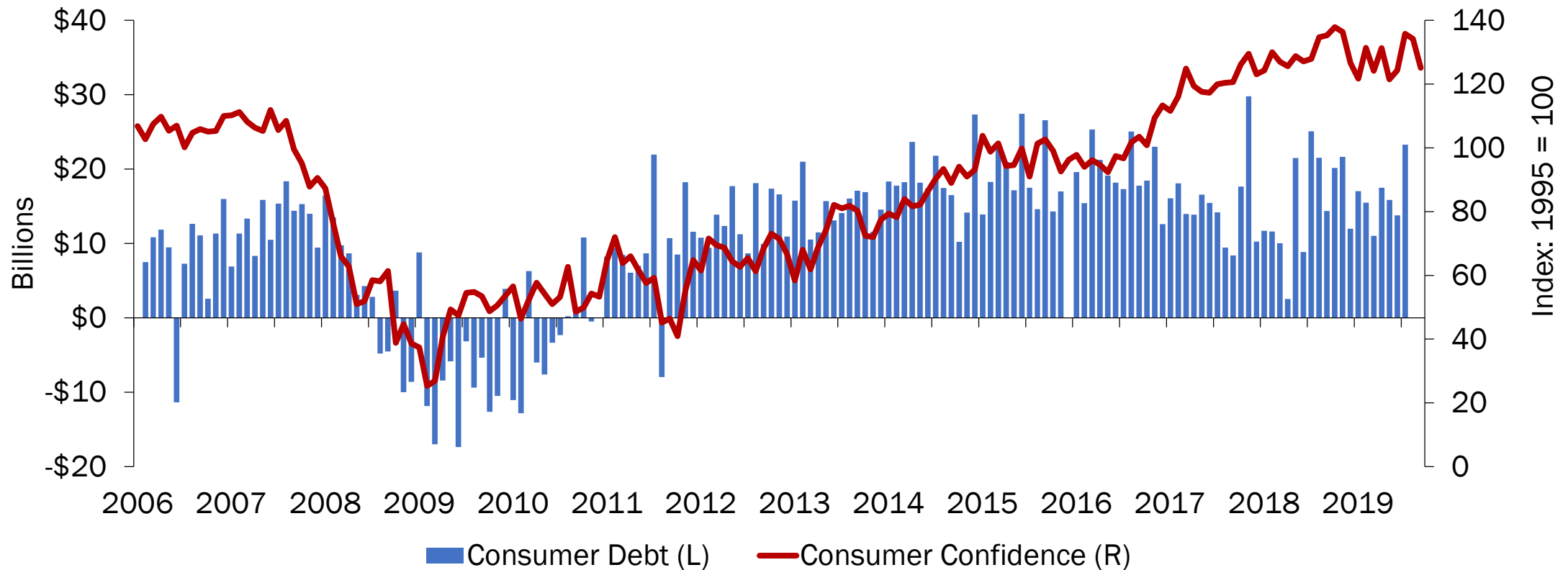


# Inflation and interest rates have increased in the past 2 years



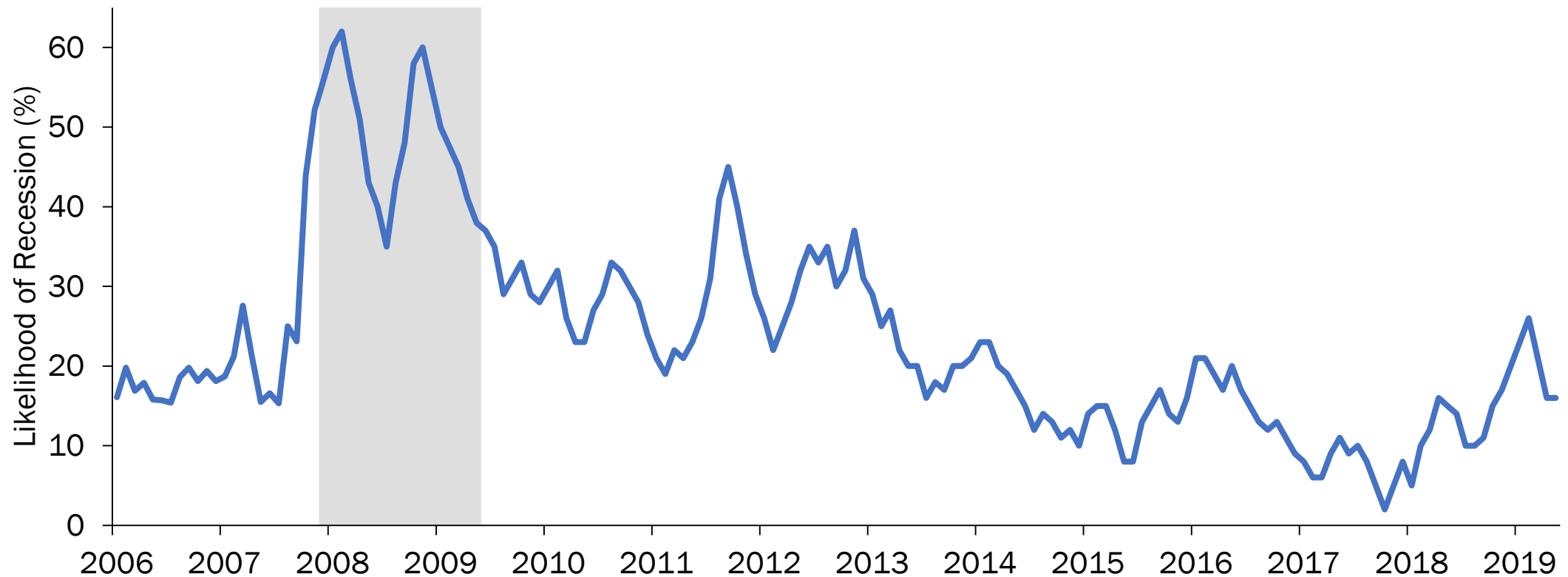
# High consumer confidence (↓@125.1) and slower debt growth

Consumer Confidence and Change in Consumer Debt

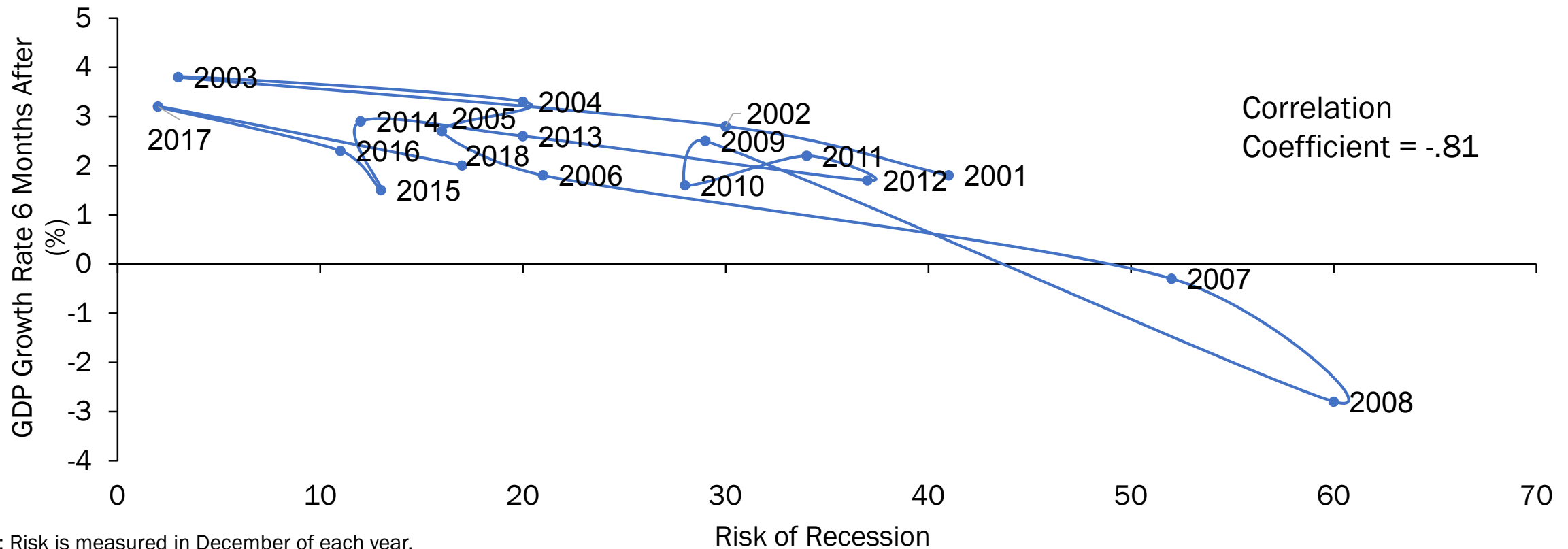


# Moody's predictions of a recession are relatively low and volatile: August 13%

Likelihood of Being in a Recession in the Next 6 Months

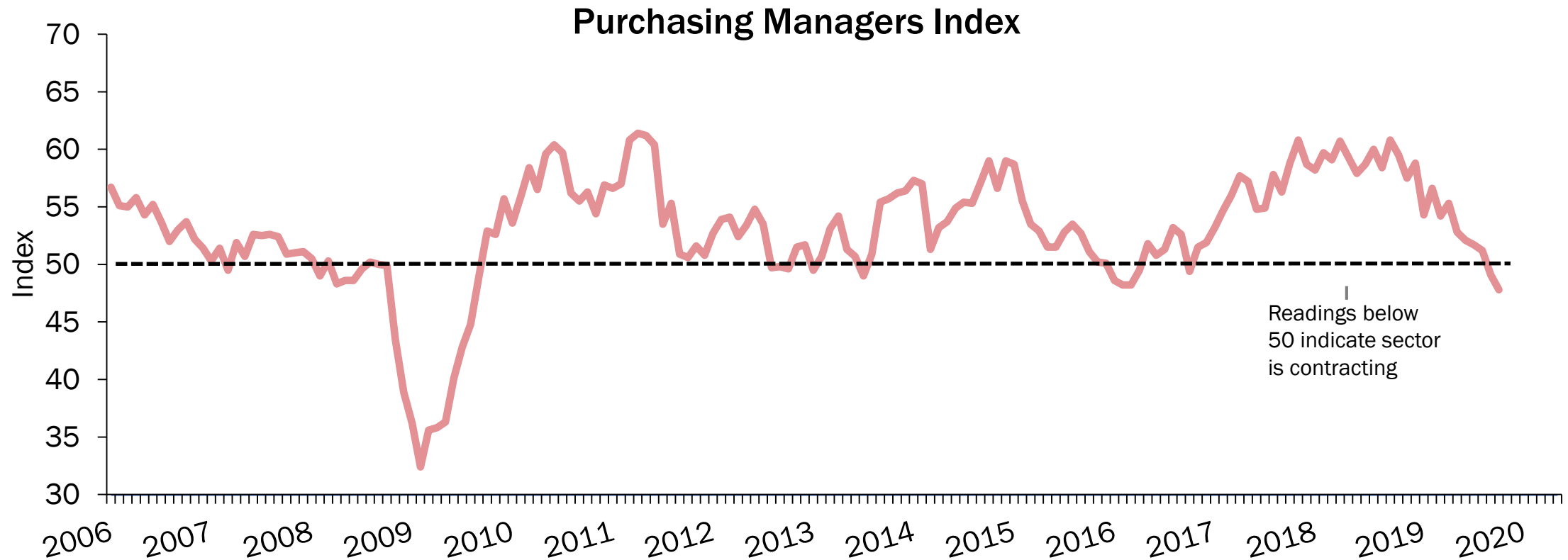


# Moody's recession risk probability appears strongly correlated with real GDP change during the next 6 months



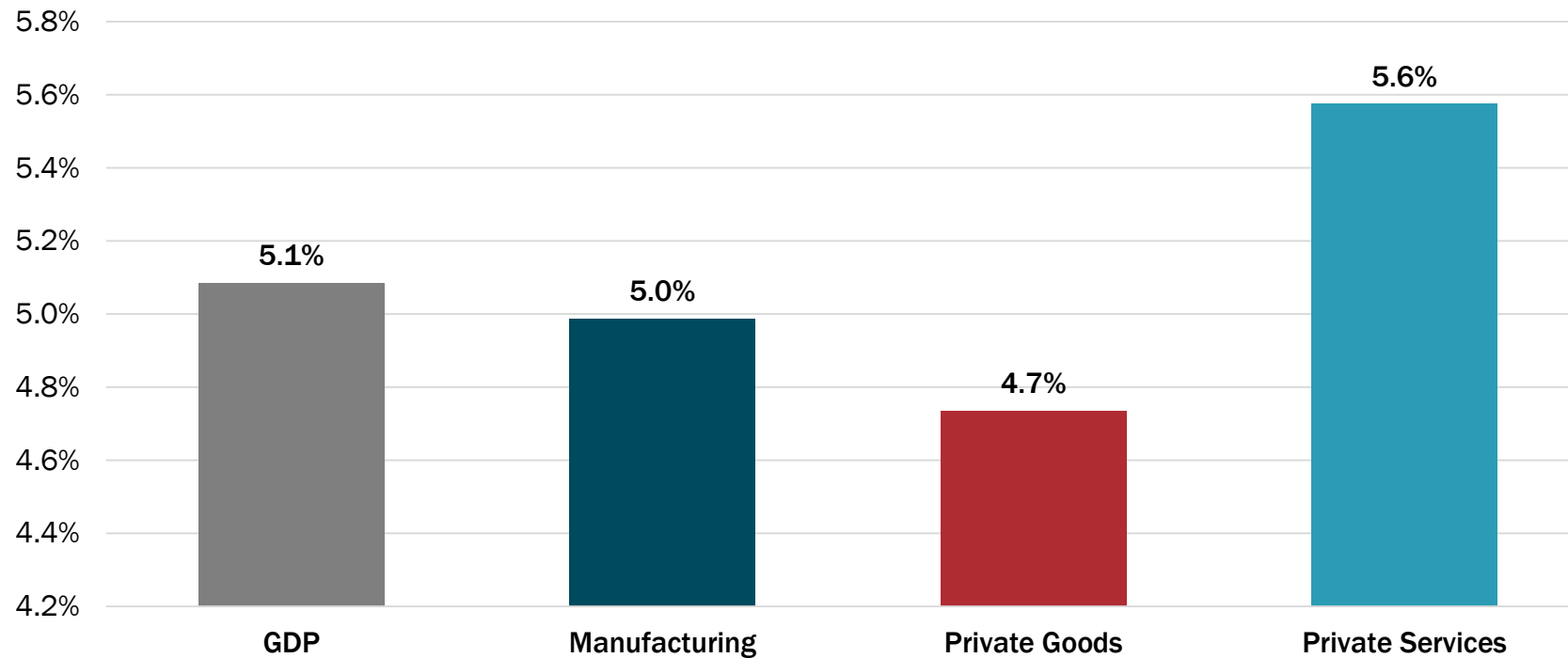
Note: Risk is measured in December of each year.

# PMI stood at 47.8 in September, indicating the manufacturing sector may be contracting



# Despite waning confidence, the manufacturing sector grew last year

Real GDP and Real Value Added by Sector  
Percentage Change, Q1 2018 to Q1 2019





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## **The Next Recession: What We're Watching**



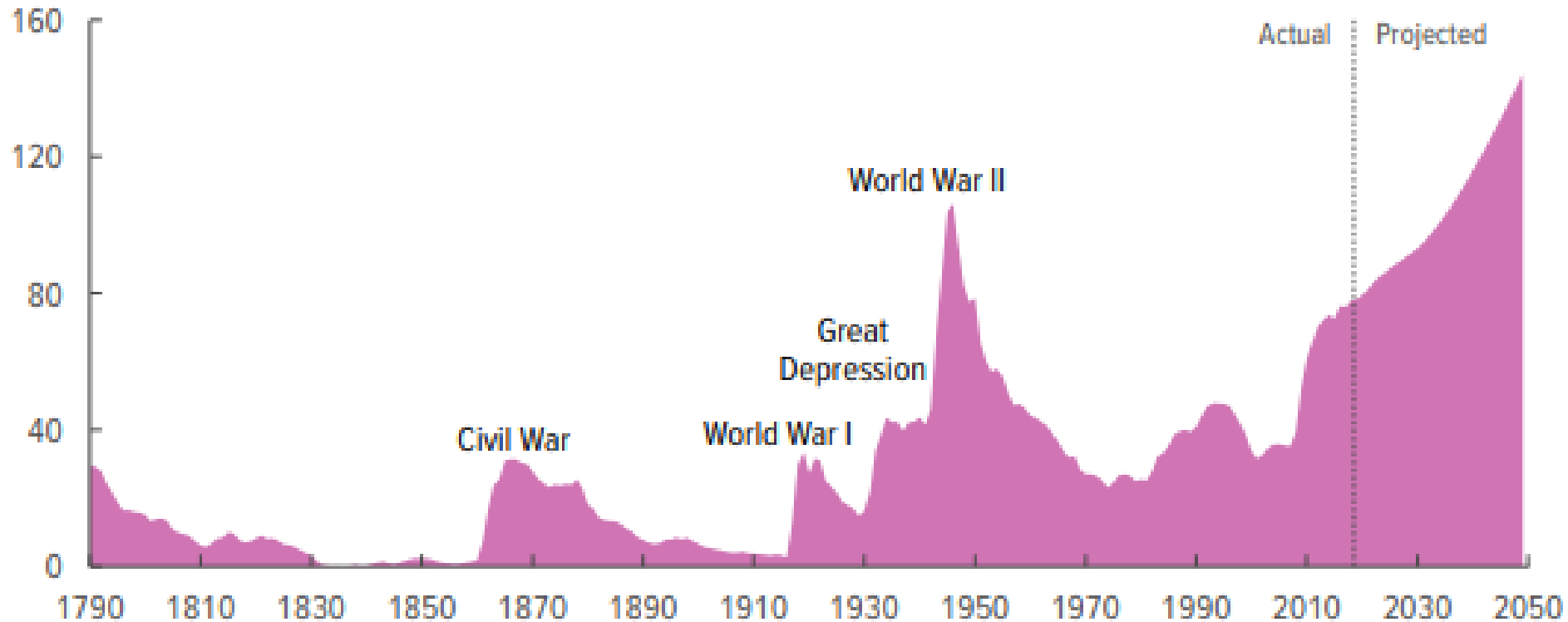
# What keeps economists up at night worrying about a recession?

- Trade wars (tariffs and taxes are the same—a cost to consumers)
- Volatility of stock market
- Corporate repo market volatility
- Growing income inequality
- Low interest rates
- Federal debt and deficits
- Tax cuts

“Expansions don’t get tired; rather, they end due to policy mistakes.”

## Debt and Deficits

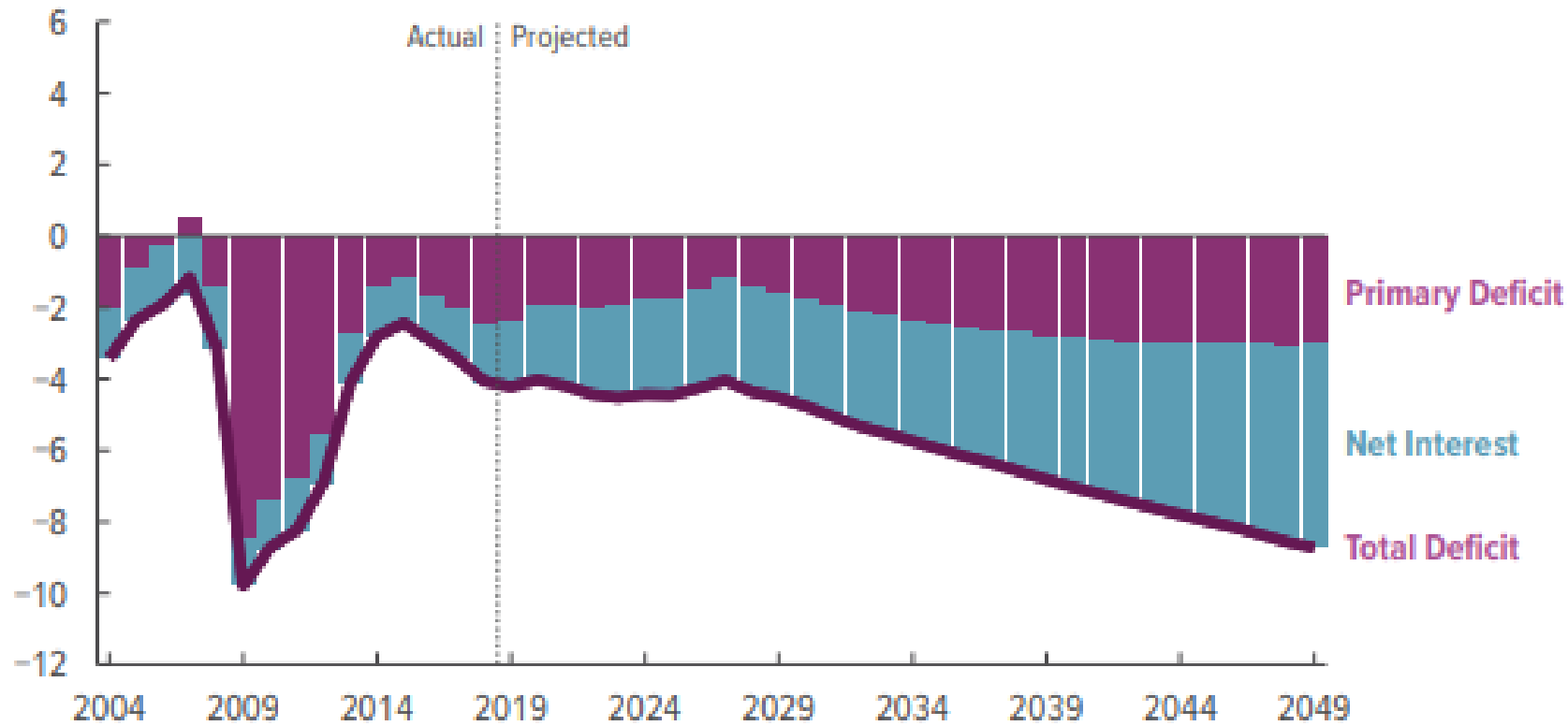
Percentage of Gross Domestic Product



See Figure 1-1

In CBO's projections, federal debt held by the public totals 144 percent of gross domestic product (GDP) in 2049, an unprecedented level.

## Percentage of Gross Domestic Product

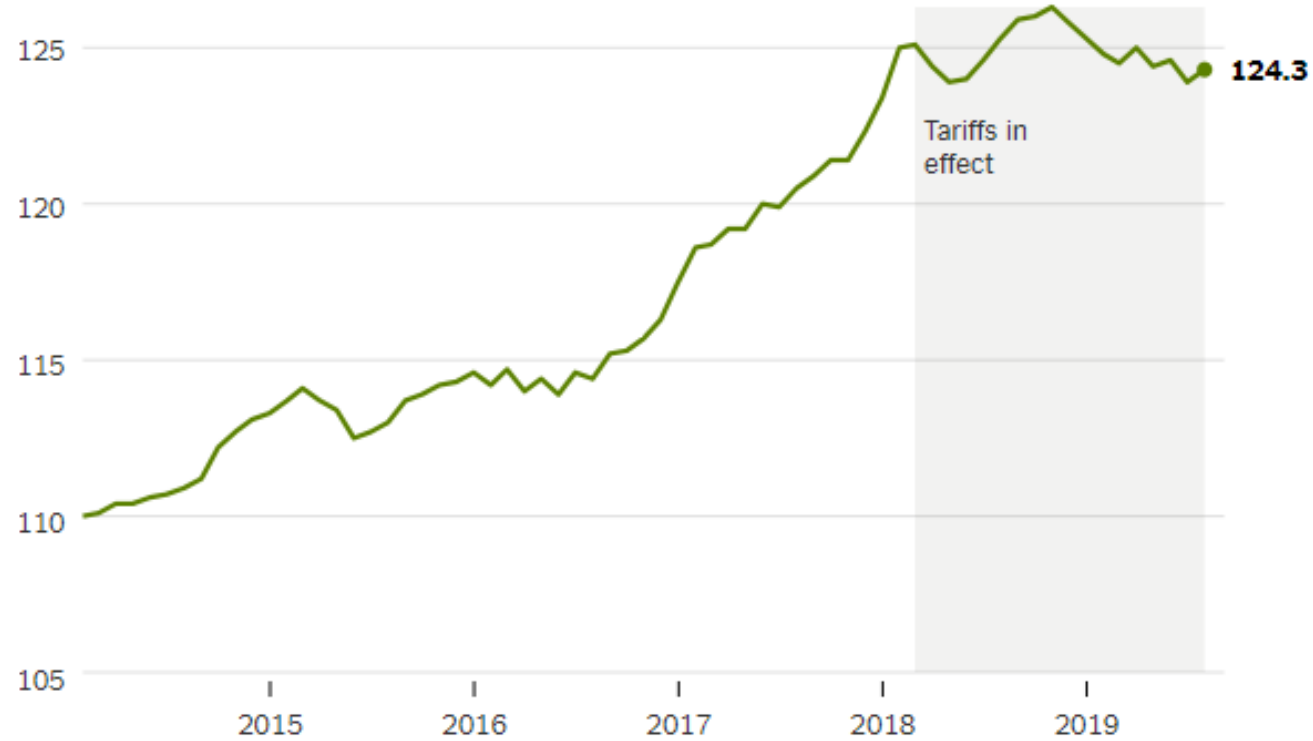


See Figure 1-4

Deficits grow from 4.2 percent of GDP in 2019 to 8.7 percent in 2049, driving up debt. Net spending for interest on debt accounts for most of the growth in total deficits.

## After Growing Smartly, Trade Falters With Tariffs

World trade in goods, index 2010=100, three-month average.



Tariffs in effect begin with the February 2018 imposition on washing machines and solar panels.

## THE TRADE IMBALANCE

The U.S. has a net deficit in goods but a surplus in export of services.



Income on our investments abroad is a positive ...

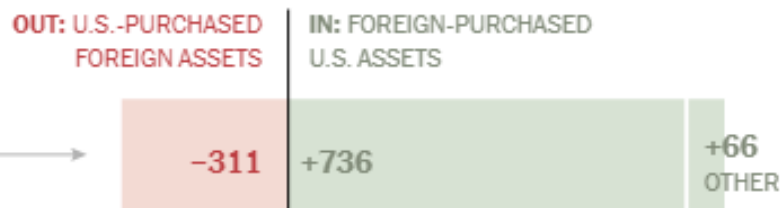


... but overall, these add up to a substantial **“current account” deficit**, a negative of nearly half a trillion dollars.



## CAPITAL FLOWS IN

Partly because of the current account deficit, more investment is coming into the U.S. than going out.

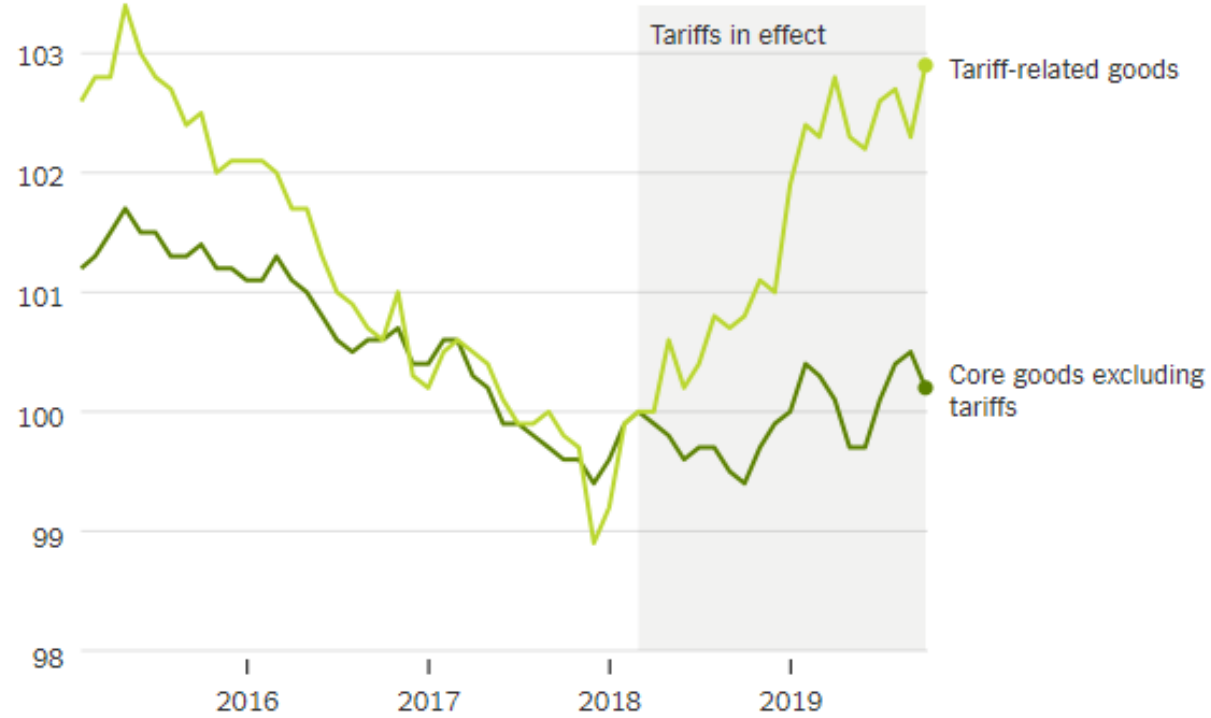


These capital flows, and a small “other” flow of income, add up to a positive near-half trillion. That exactly offsets the current account deficit because the “balance” in the balance of payments always equals zero.



## Tariffs Are Already Costing Consumers

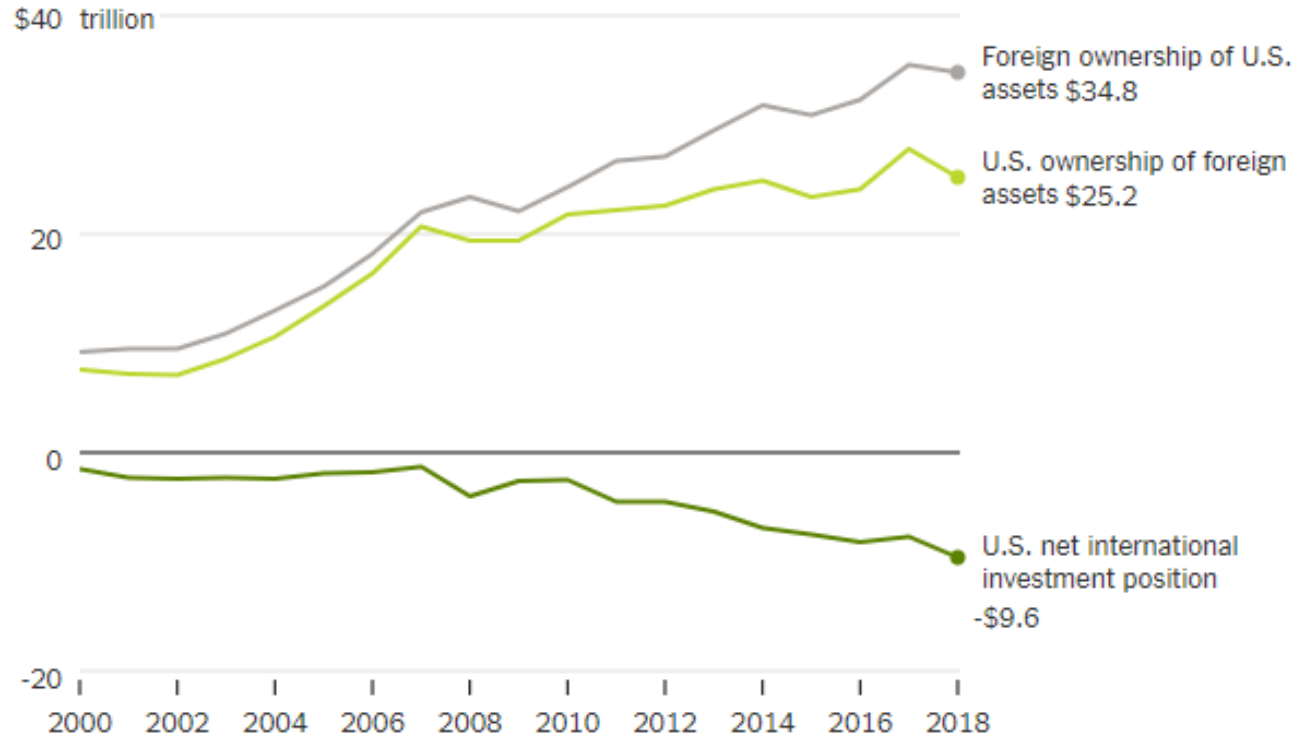
Core goods Consumer Price Index, February 2018=100.



Core goods excludes food and energy; tariff-related goods prices includes laundry equipment and other appliances, furniture and bedding, housekeeping supplies, window and floor coverings, auto parts and bicycles.

## America Has Become a Big Net Debtor

American ownership of assets abroad minus the value of U.S. assets owned by foreigners has widened to a record gap of \$9.6 trillion.



Accumulated value of U.S. owned financial assets abroad versus U.S. liabilities to foreigners.



# Michigan

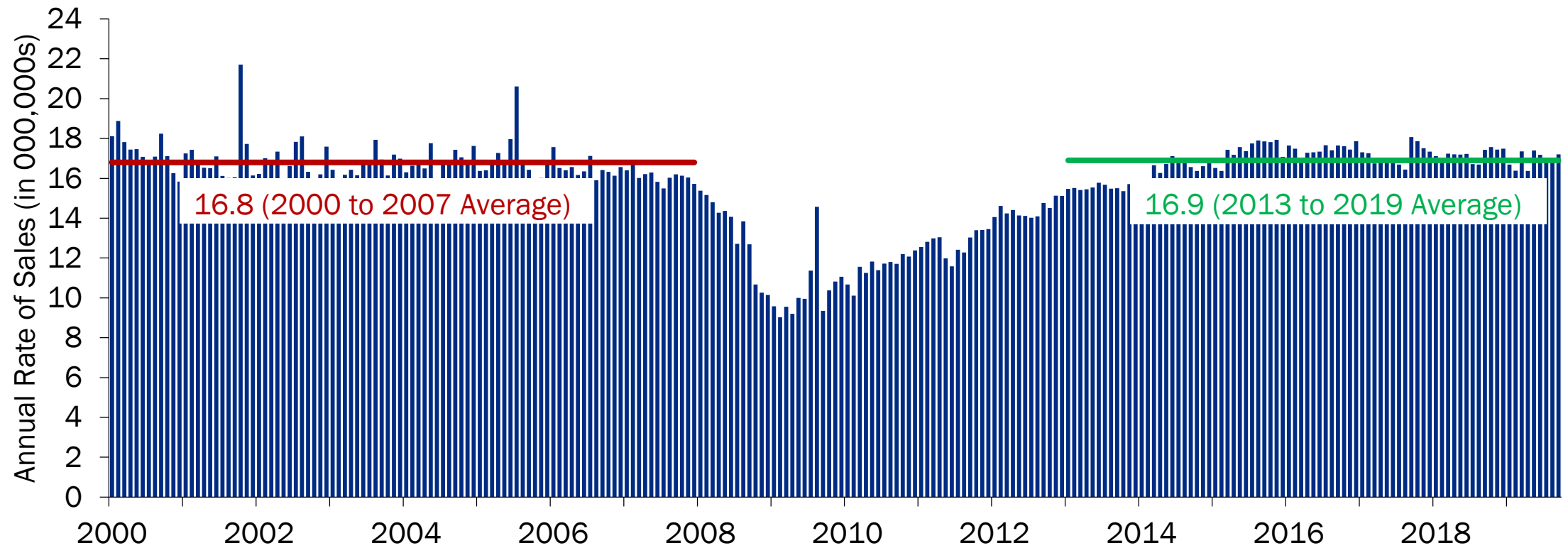


# University of Michigan RSQE statewide forecast

	2018	2019 (Forecast)	2020 (Forecast)
Employment	50,000 (+1.1%)	22,500 (+.05%)	20,400 (+.05%)
Manufacturing Employment (Workers)	13,400	2,800	-100
Unemployment Rate	4.4%	4.4%	4.1%
Labor Force Participation Rate	61.4%	61.9%	61.5%

# Light vehicle sales have been steady

Annualized Rate of U.S. Light Vehicle Sales (in millions)

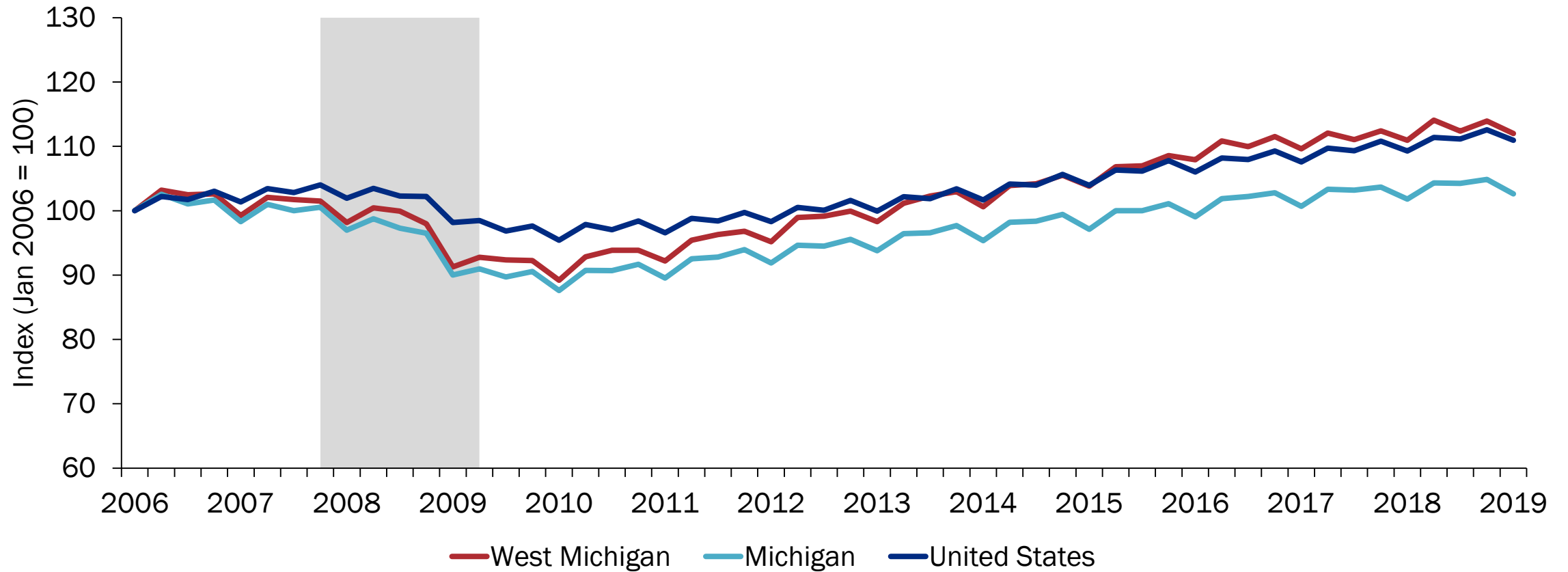




# Regional Conditions: West Michigan

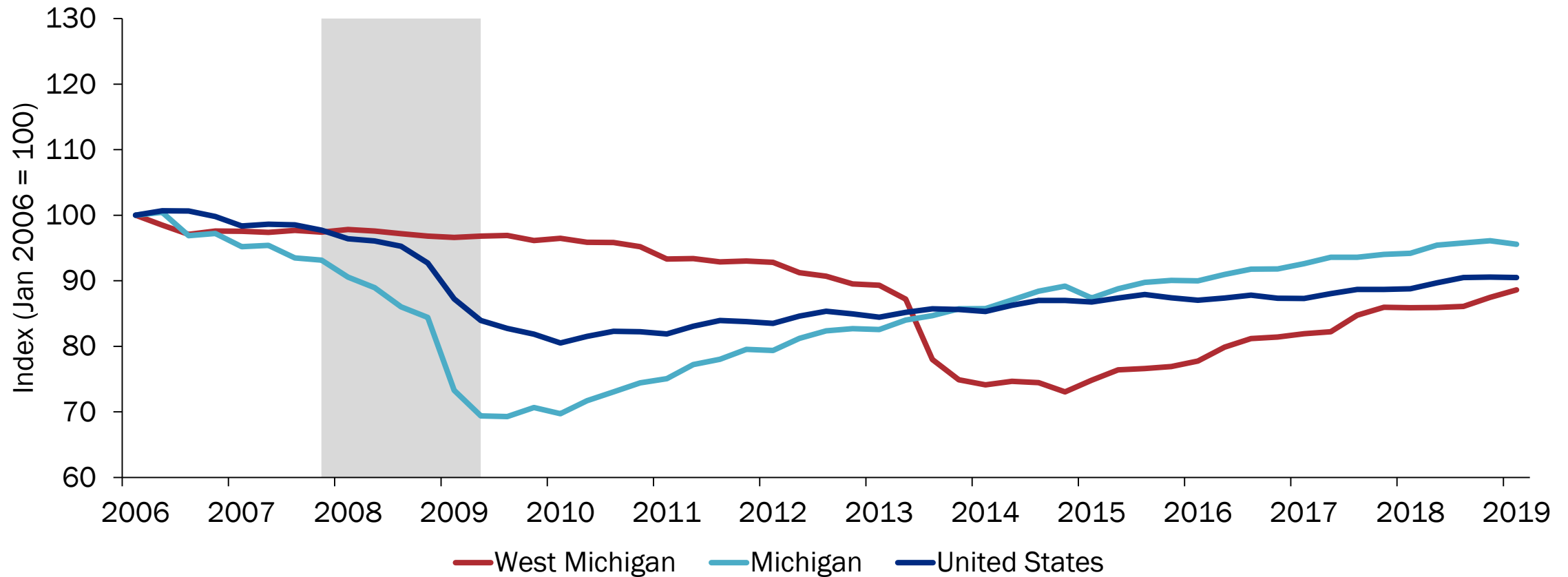
# Employment growth has slowed in 2019

## Total Employment Index



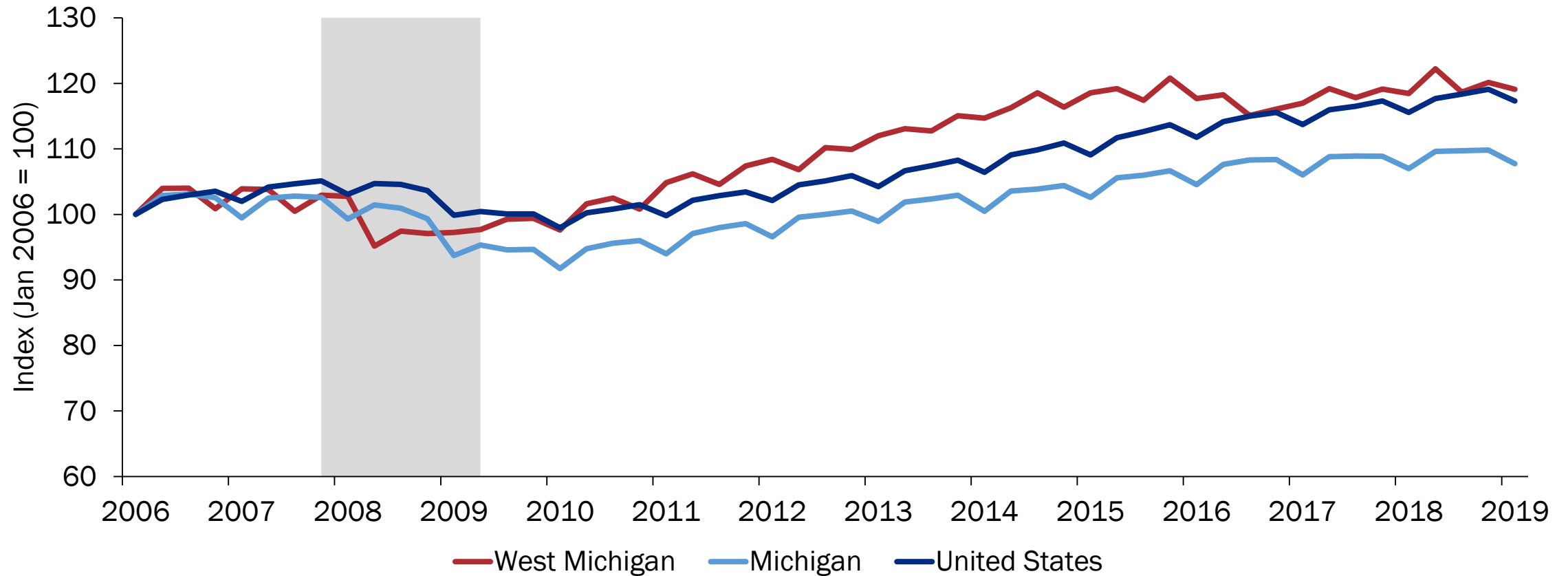
# Manufacturing employment growth has been trending positively...

## Manufacturing Employment Index



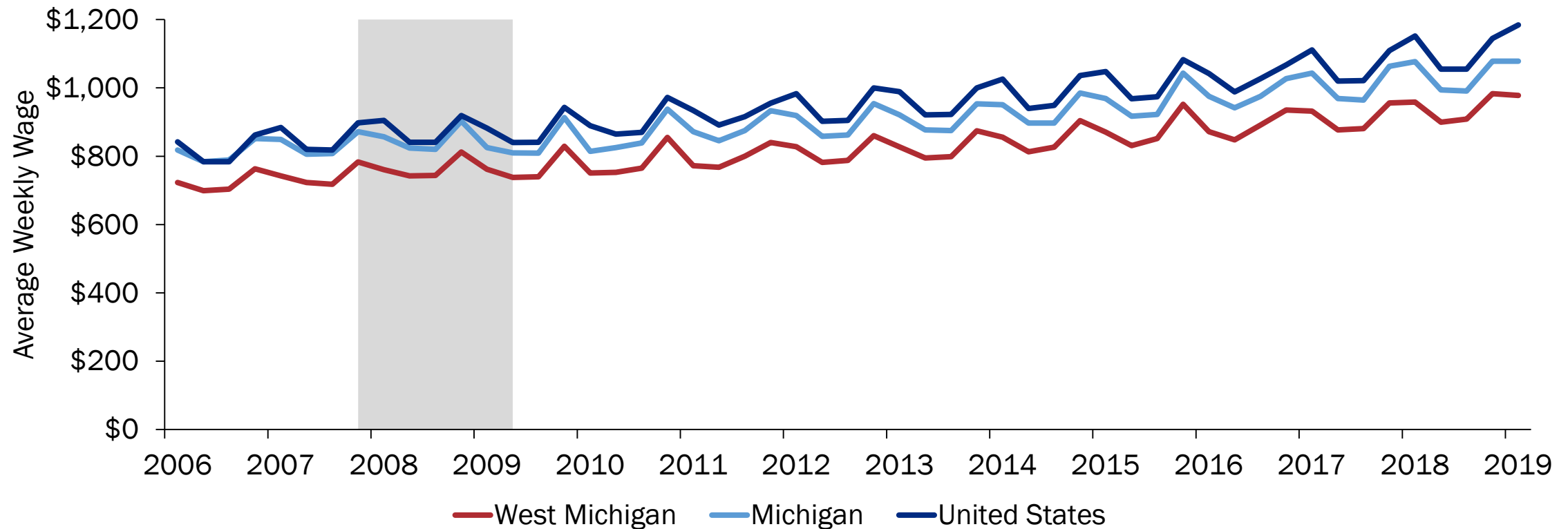
# ...unlike service employment growth

## Services Employment Index



# Wages have been growing at a pace similar to the nation, though at a lower overall amount

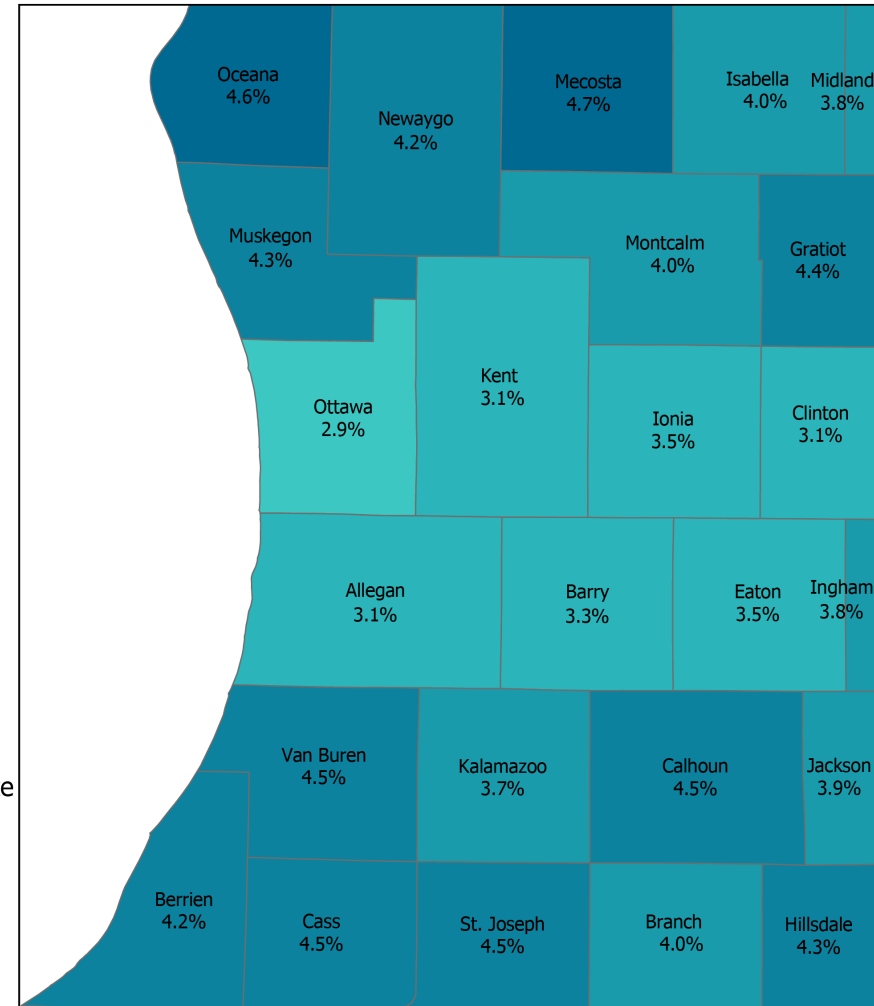
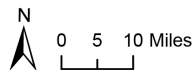
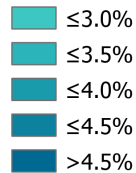
Average Weekly Wage (\$) All Occupations



# Unemployment rates are between 3% and 5% for most counties in West Michigan

## Michigan's rate was 4.3%

Southwest Michigan Unemployment Rate August 2019

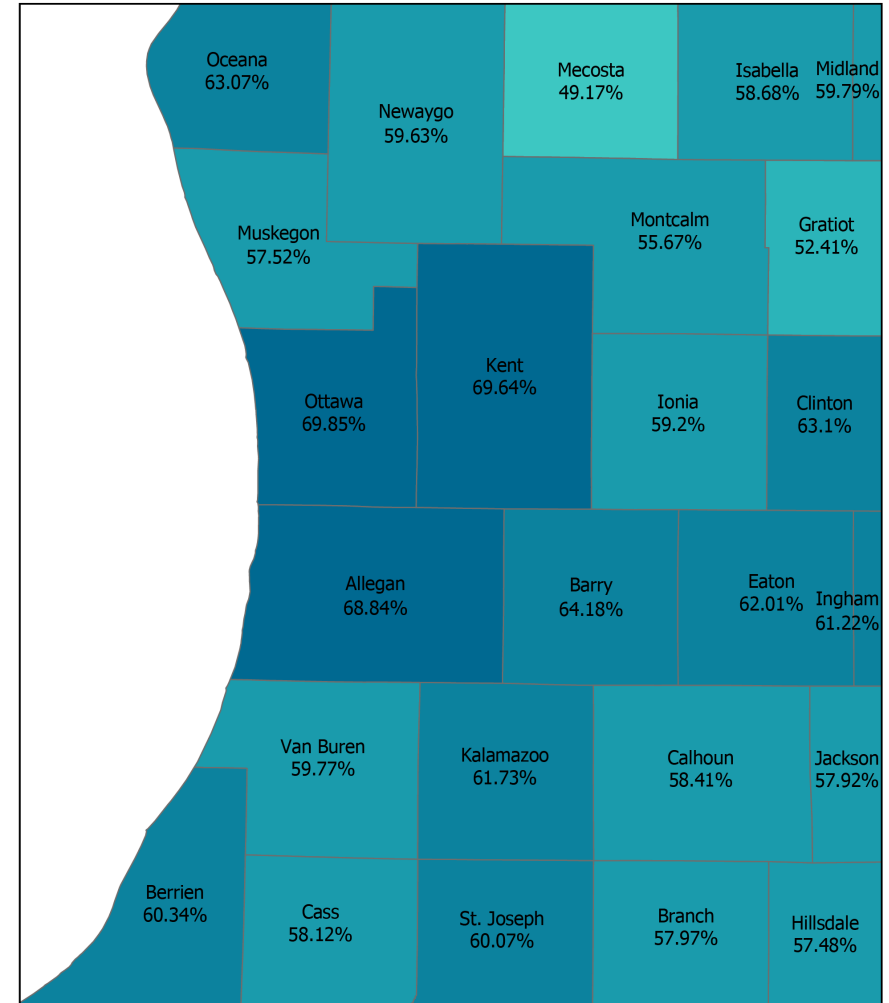
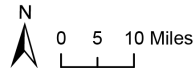




# Labor force participation rates are more varied

## Michigan's rate was 61.9%

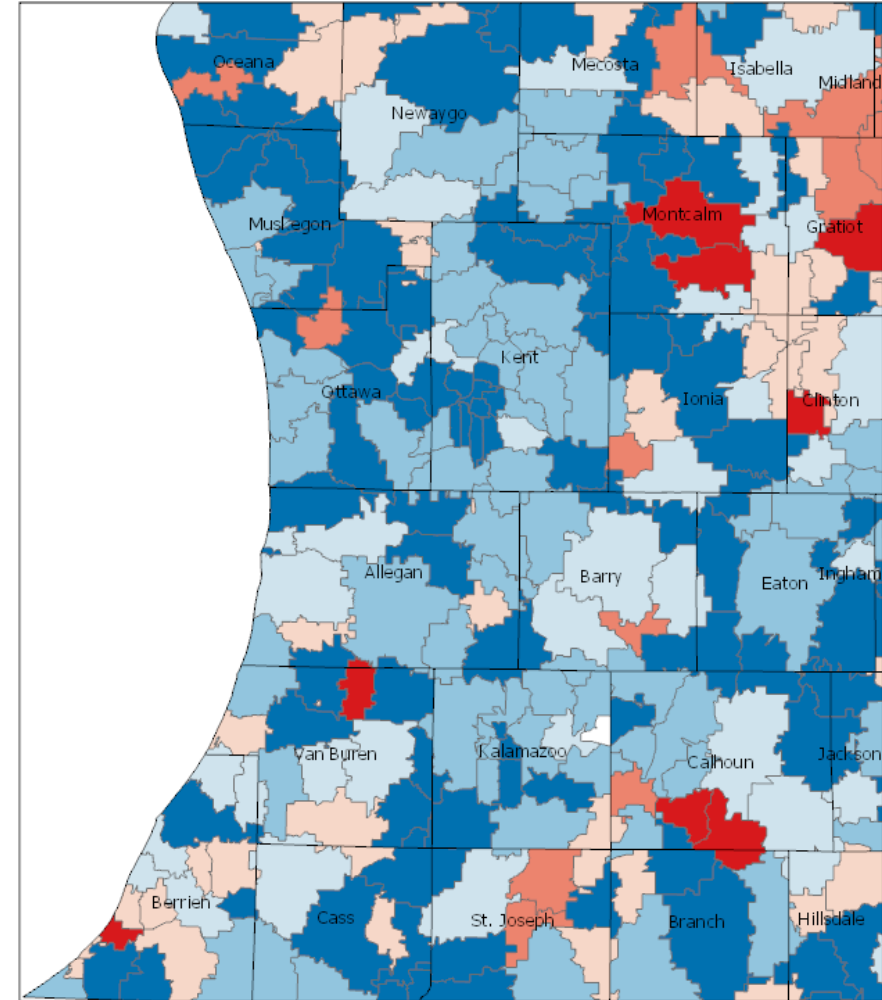
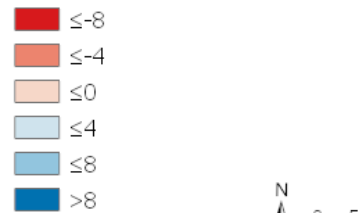
Southwest Michigan Labor Force Participation Rate - August 2019



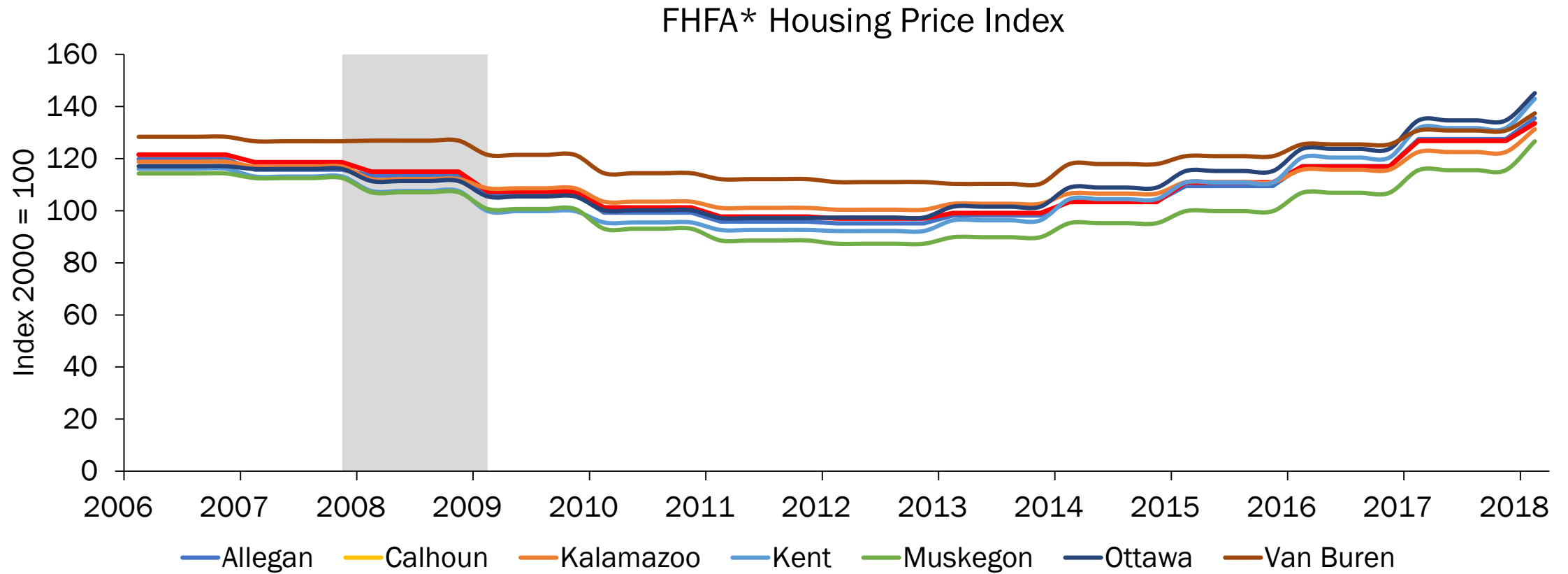
# Housing values continue to rise, but the pace continues to decelerate nationally

Southwest Michigan Housing Price Index Change by 5 Digit Zip Code

Housing Price Index Change 2017 to 2018 Percent Change



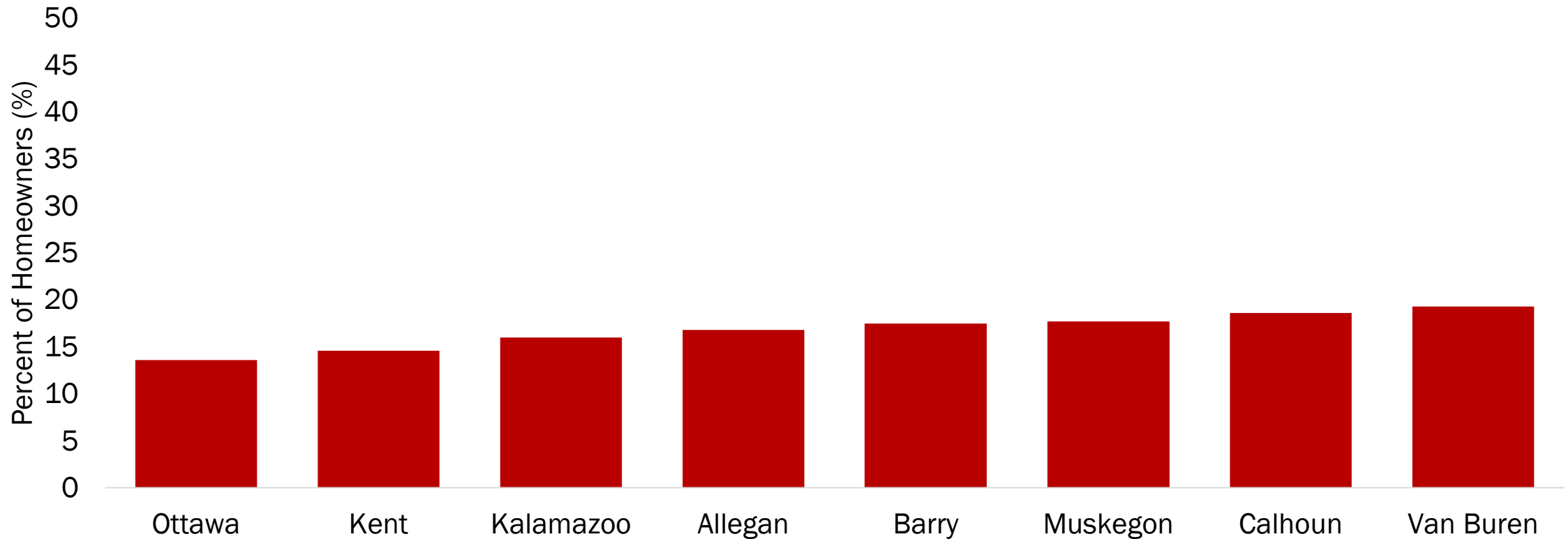
# Local housing prices have been rising for the last few years



\*Federal Housing Finance Agency

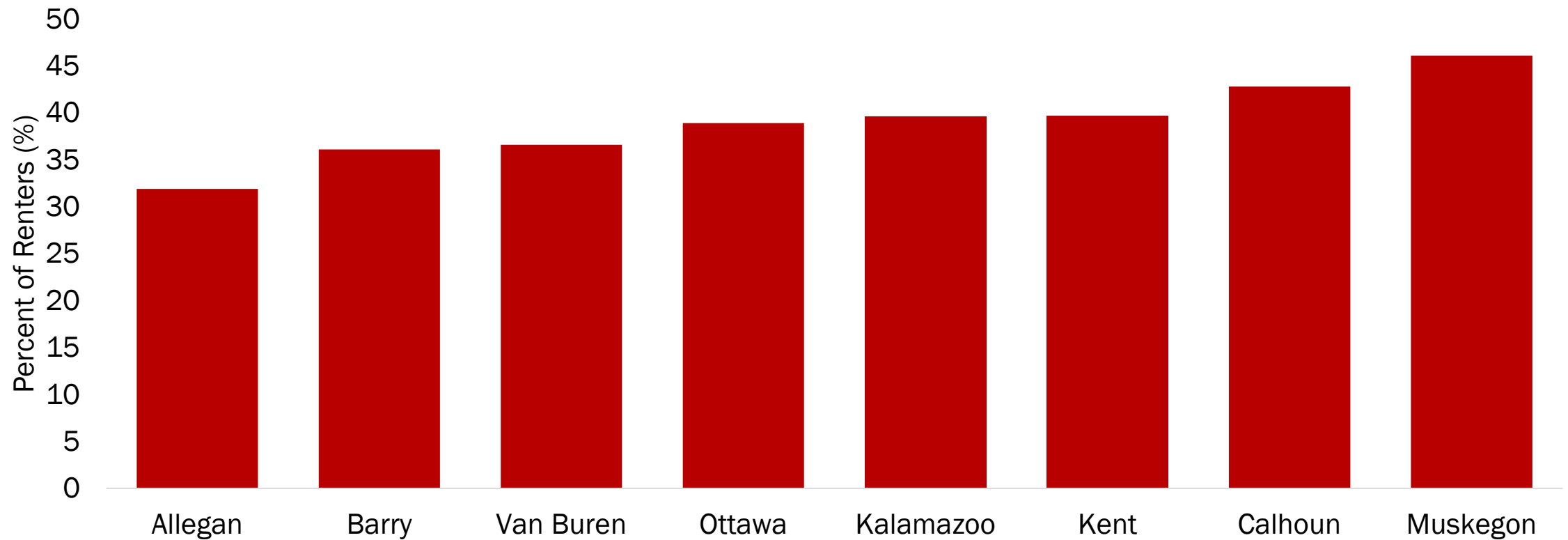
# Many homeowners pay too much for housing

Percent of Owners Paying 35% or More



# Renters are in worse shape

Percent of Renters Paying 35% or More



# Risk Factors to West Michigan

- Global trends
- Light vehicle trends
- Contracts with the OEMs
- Available buildings and sites
- Available workforce
  - Barriers to entry
  - Skill sets
- Affordable housing

# Questions?

- Randy Eberts, PhD
  - Email: [eberts@upjohn.org](mailto:eberts@upjohn.org)
  - Phone: 269-343-5541
- Jim Robey, PhD
  - Email: [jrobey@upjohn.org](mailto:jrobey@upjohn.org)
  - Phone: 269-343-5541