

11th Annual Automotive Suppliers Symposium

# Successful Evolution

March 5, 2009



## Is that Light at the End of Tunnel or An Approaching Train? – Industry and Regional Forecast.

George A. Erickcek

Senior Regional Analyst

W.E. Upjohn Institute for Employment Research

March 5, 2009



## Agenda

The national economy—*Very troubled.*

The consumer has left the building.

The financial system is still in crisis.

The world's economy is struggling.

State economy—*Don't even go there.*

Local trends—*Employment is down.*

But we don't have any assembly plants in west Michigan

2009 and 2010 Forecast—*Stormy seas.*

Concluding thoughts



## National outlook:

All but one of the nation's economic indicators are pointing in the same direction.

Employment	RED
Residential construction	RED
Consumer confidence	RED
Consumer financial conditions	RED
Credit markets	RED
ISM Purchasing Mgrs. Index	RED
Stock market	RED
Inflation (deflation??)	YELLOW



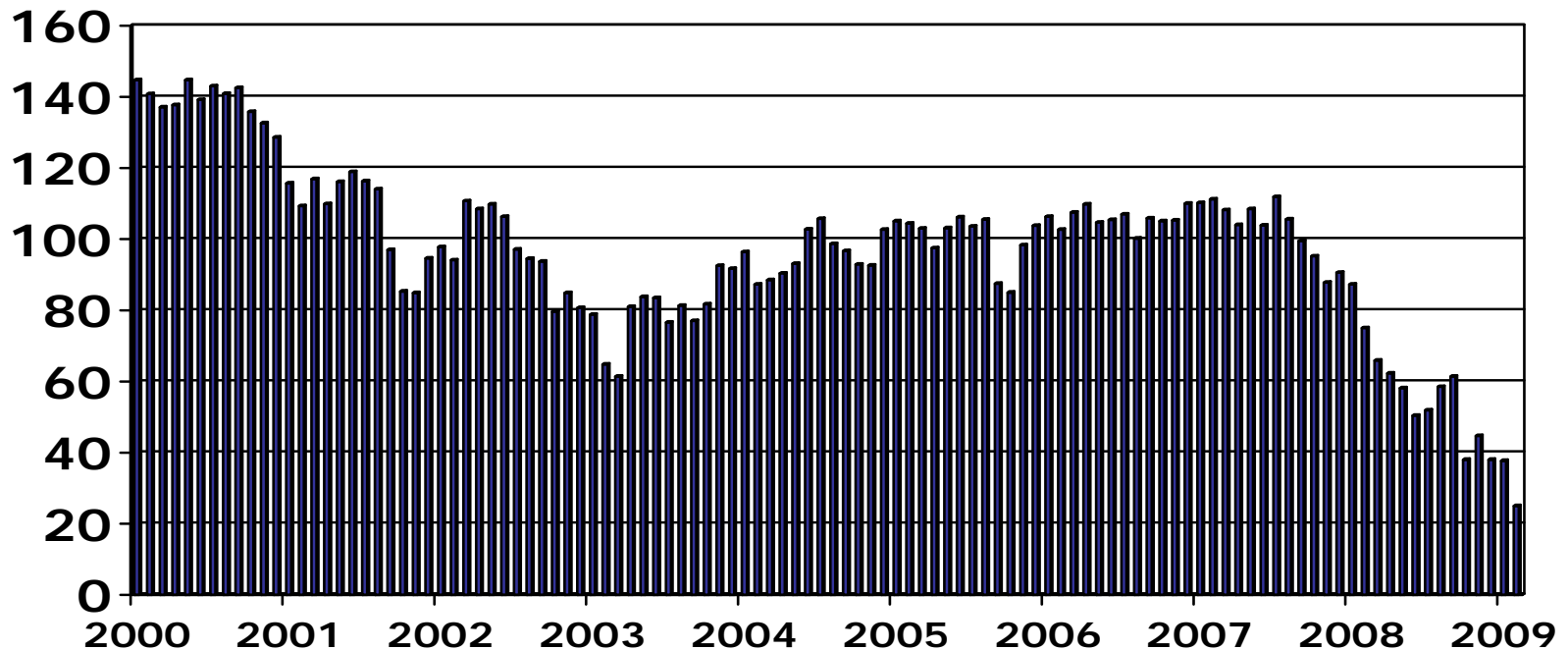
## Consumers

- ✓ Confidence is low.
- ✓ Real estate markets are inactive, and values are dropping.
- ✓ Retirement savings are in jeopardy.
- ✓ Job outlook is dim.



## Consumers are not confident about current economic conditions.

Consumer Confidence (1995=100)



Source: Conference Board



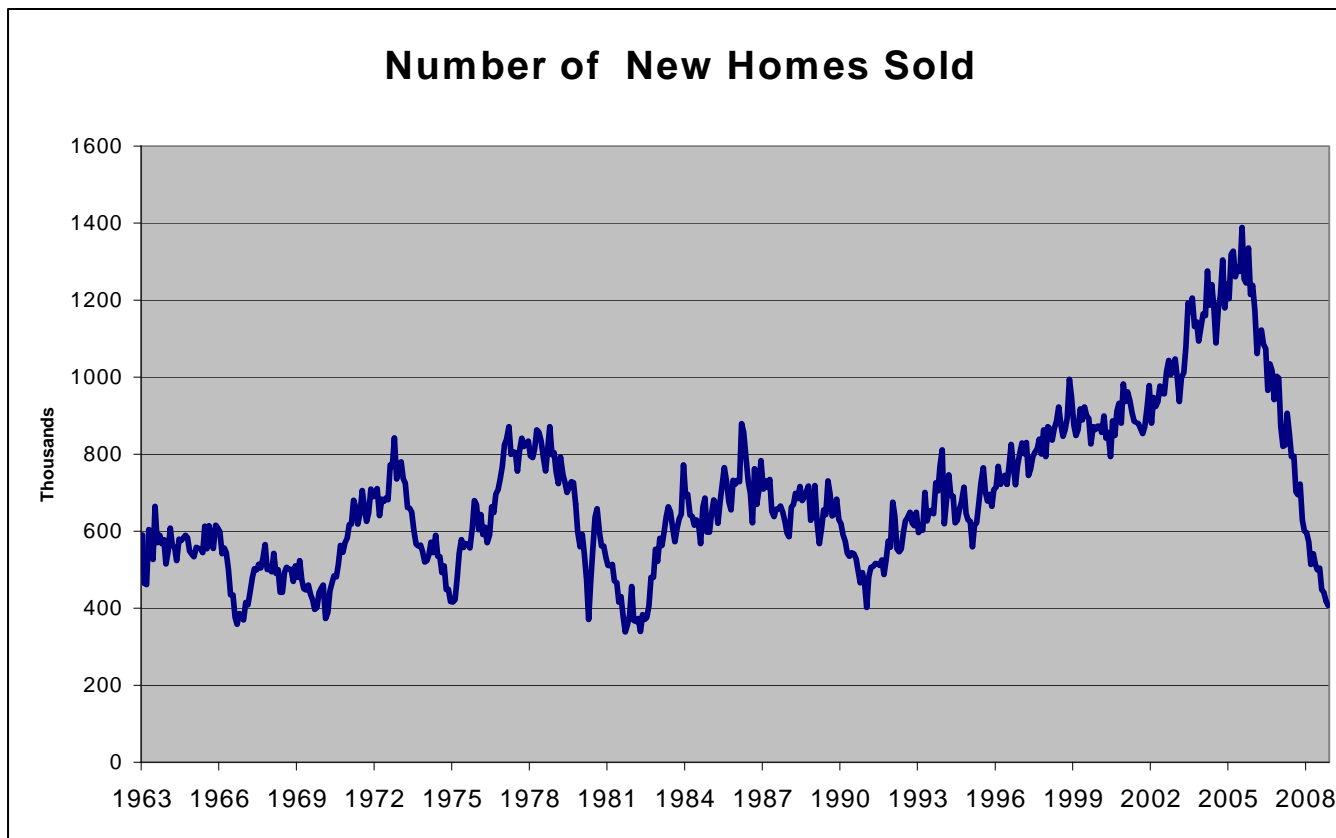
“Consumers were hesitant to make large purchases due to their heightened uncertainty about their future job and income prospects even though most consumers thought that current prices were now quite attractive across a broad range of household products including vehicles.”

Richard Curtin, Director, Reuters/University of Michigan  
Surveys of Consumers

January 2009



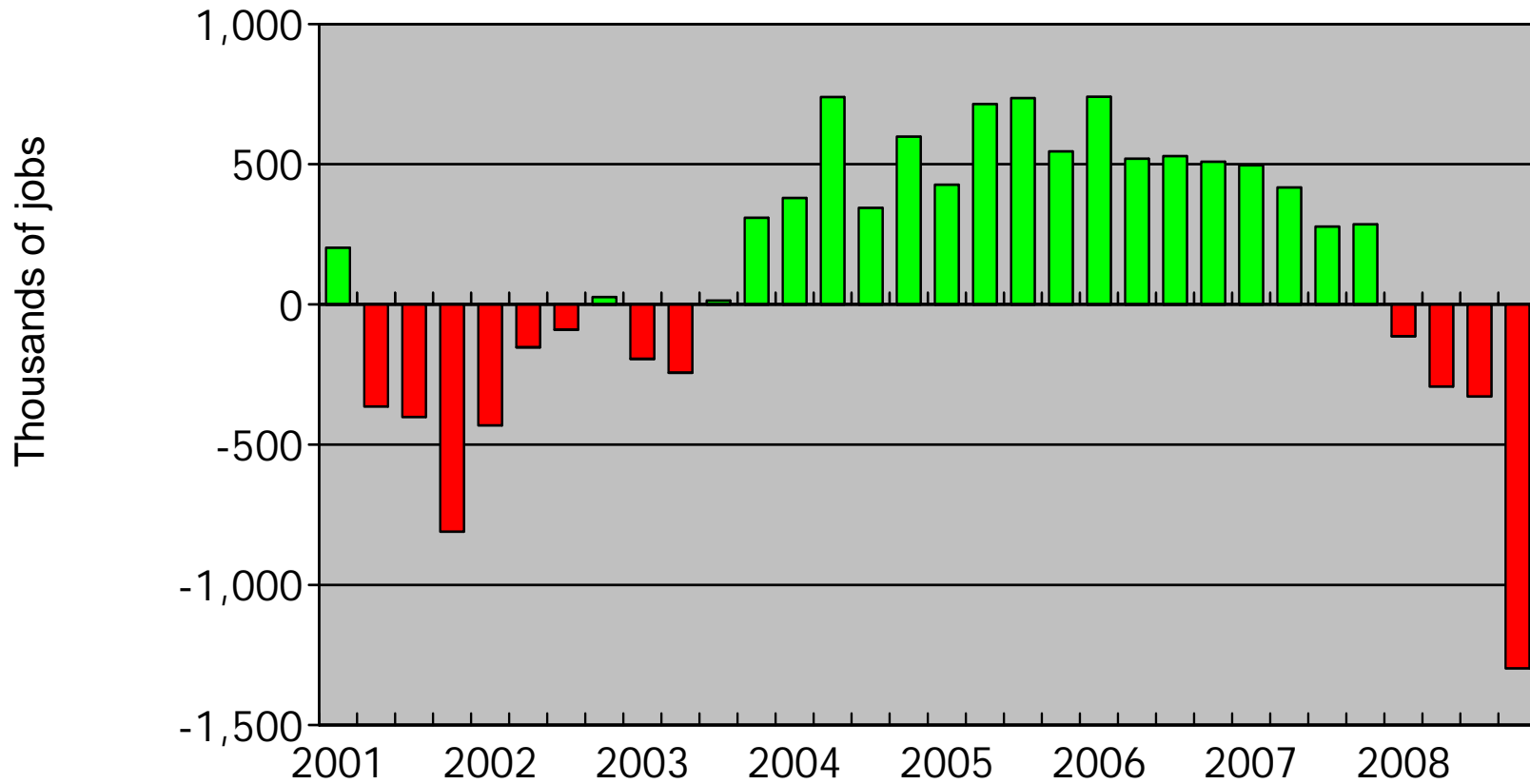
## Sales of newly constructed homes expanded to unseen heights between 2001 and 2006 *and then....*



Source: U.S. Census Bureau, Construction Statistics, new residential home sales, seasonally-adjusted annual average rate.



Nationwide, employers are cutting back.



Source: BLS.

During the fourth quarter, total employment fell by 1,298,000! In January, employment fell by 598,000.



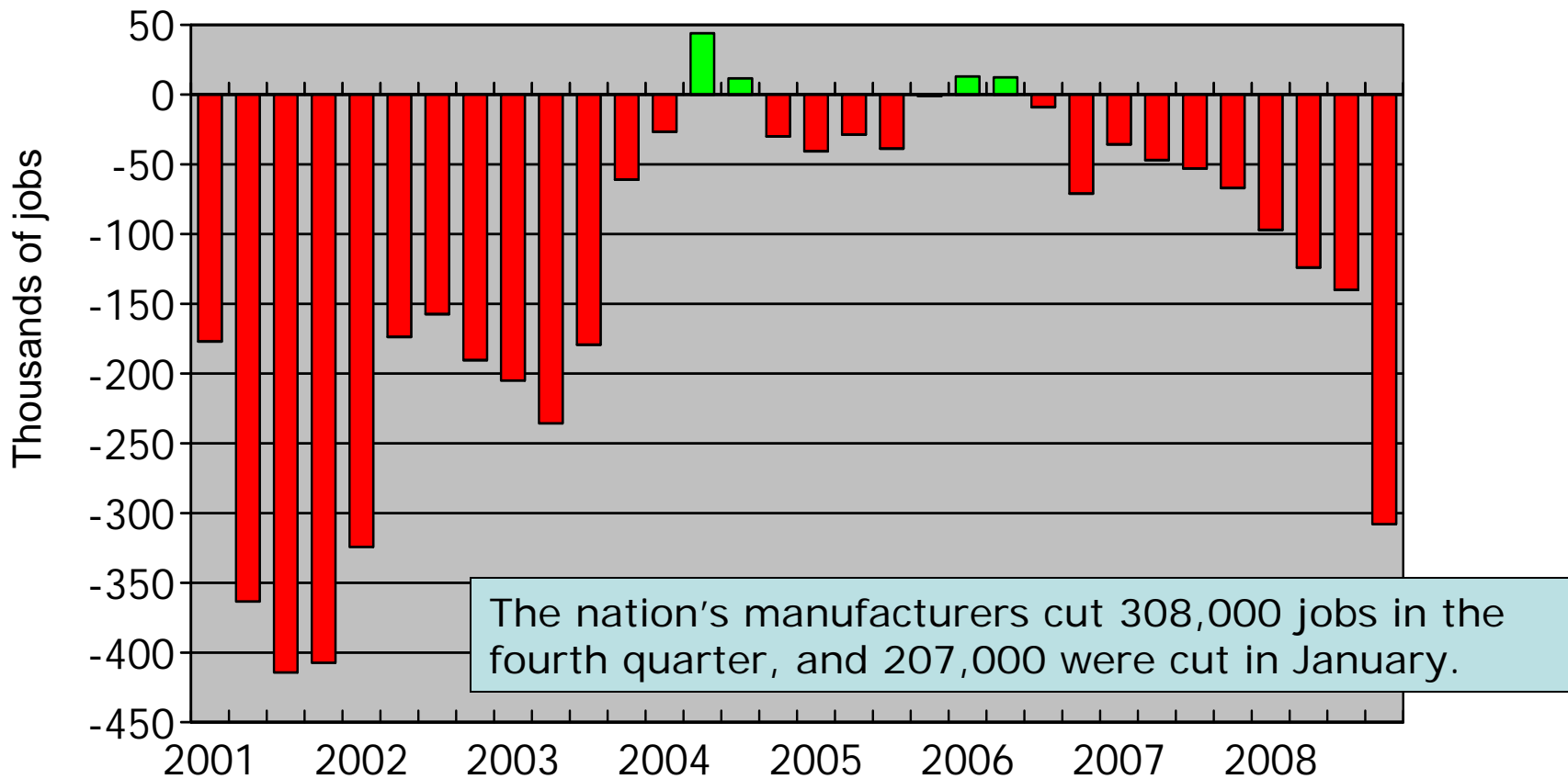
# Business Investment

Decline in demand for goods and services.

Financial system is still nearly frozen.



Manufacturing employment has never recovered from the 2001 downturn.

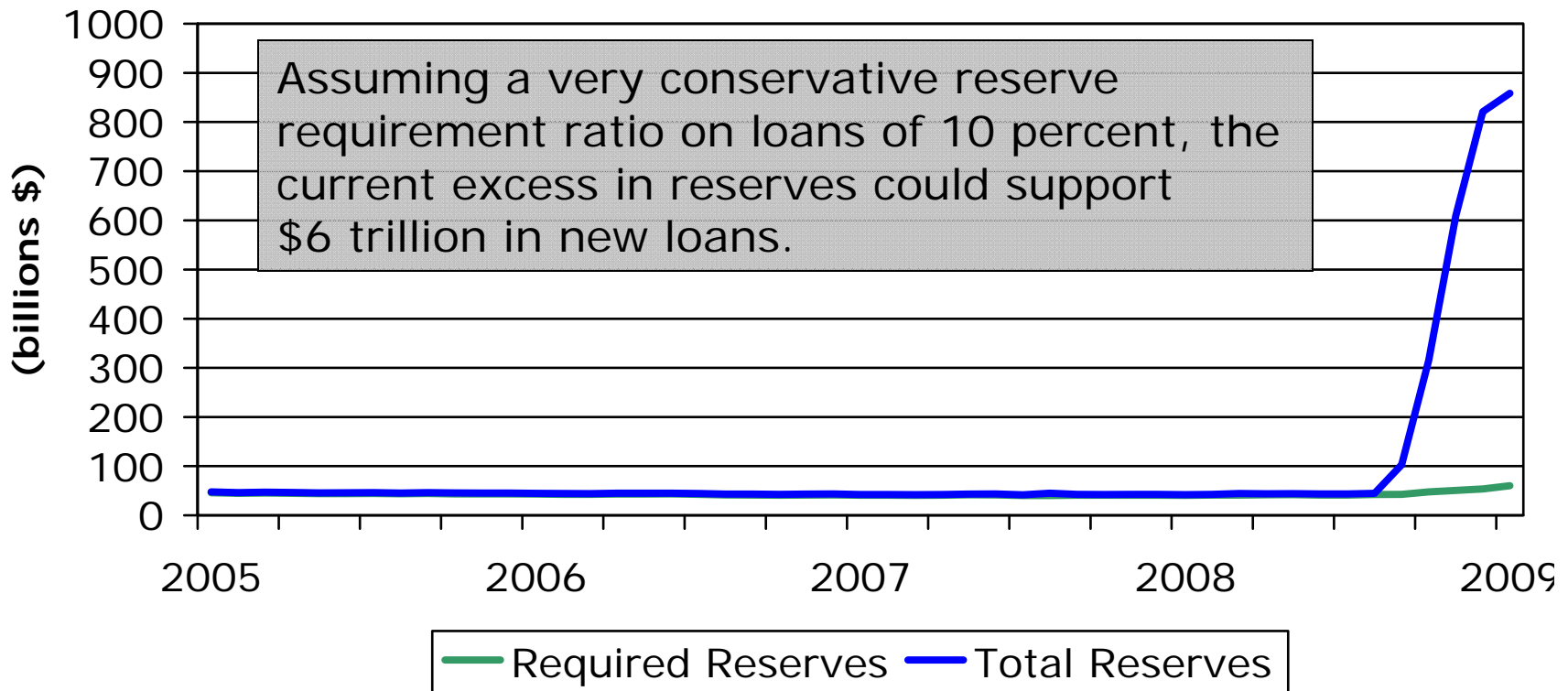


Source: BLS.



## The Fed is flooding the market, but banks are not lending it out.

### Monthly Depository Institution Reserves



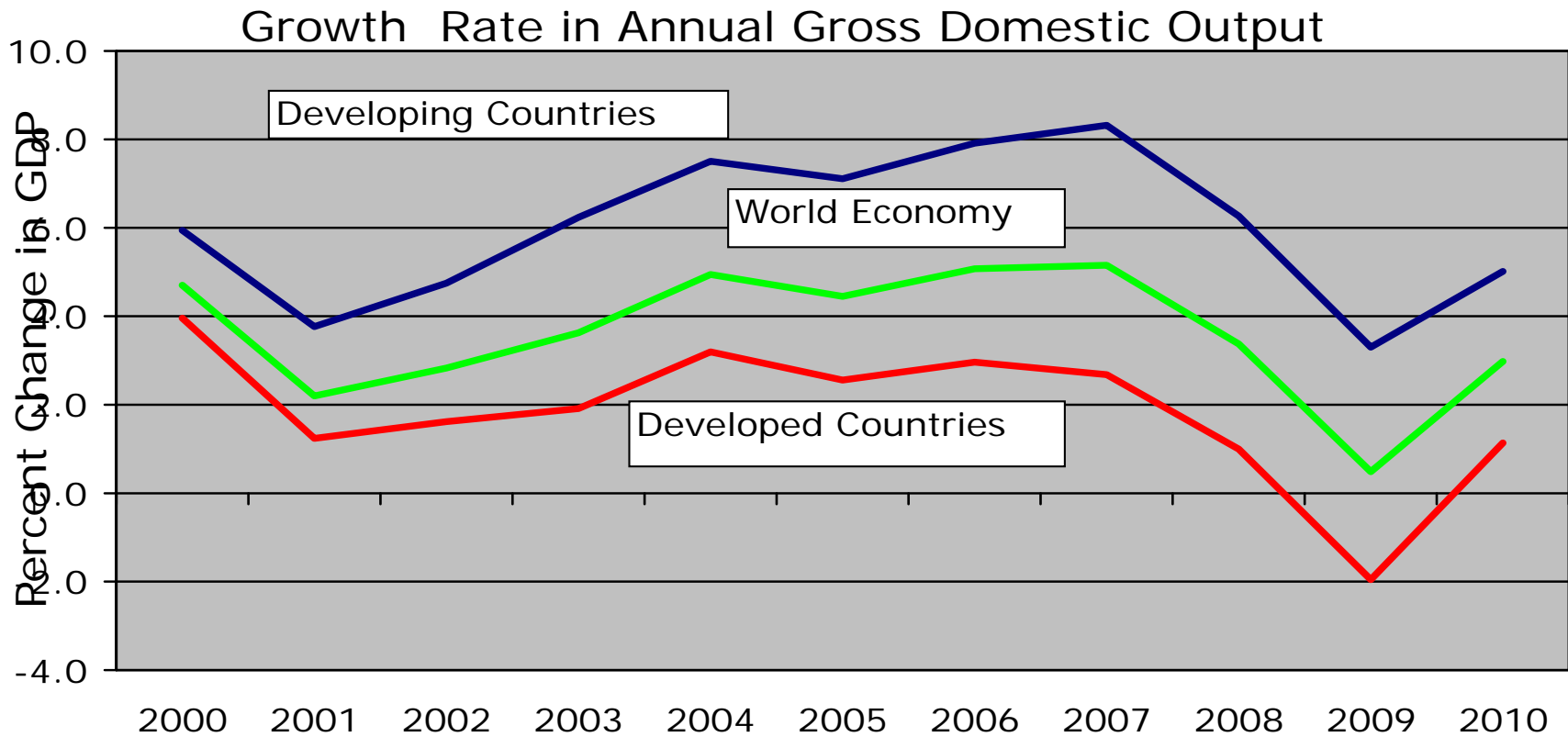


## Export markets are flat.

- ✓ The world economy is in decline.
- ✓ Still, the value of the dollar relative to other major currencies is on the rise.
- ✓ Credit markets are constricting trade.



## The world economy is slowing down.

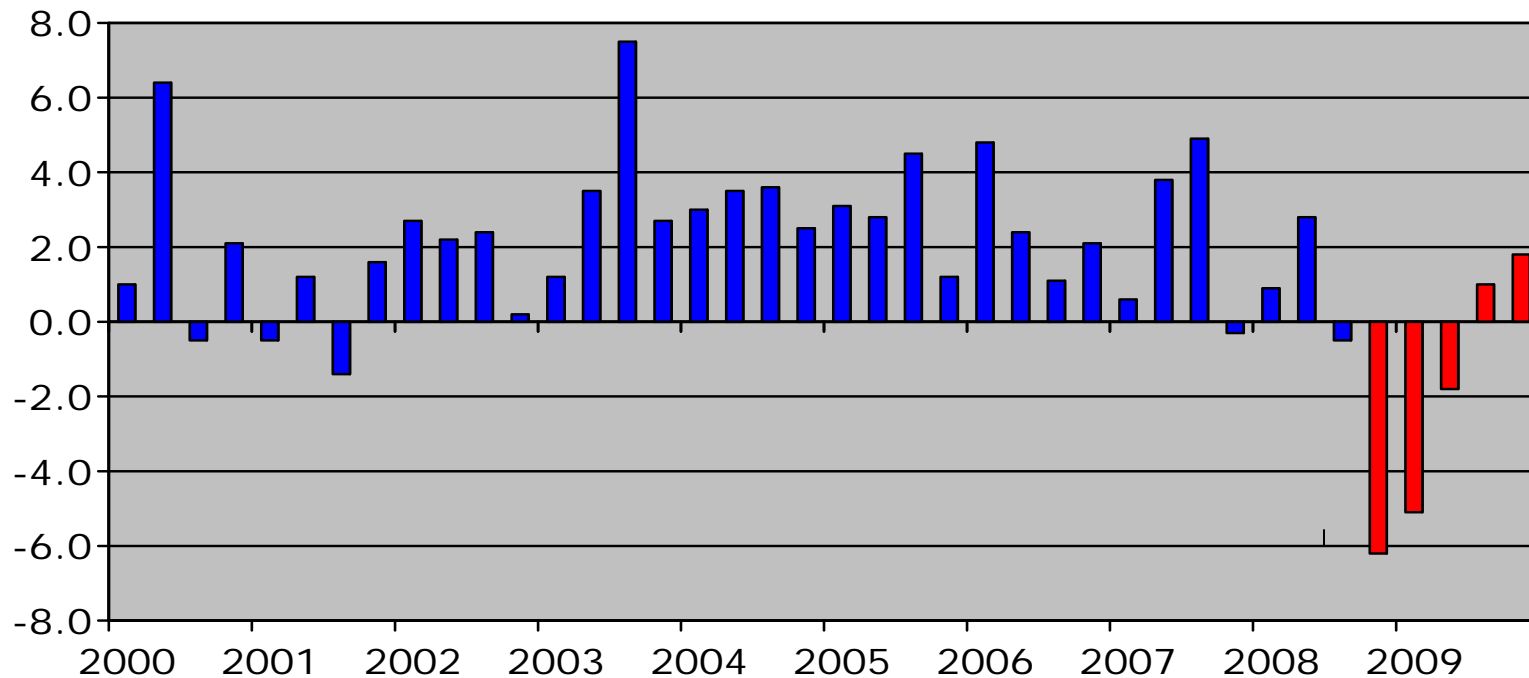


Source: IMF.



Percent change in the nation's GDP—*The fourth quarter of 2008 is expected to be the worst, a drop of 6.2 percent.*

**Annualized Percent Change in GDP**



Source: BEA, Philadelphia Federal Reserve Survey of Professional Forecasters.



## Worse yet,

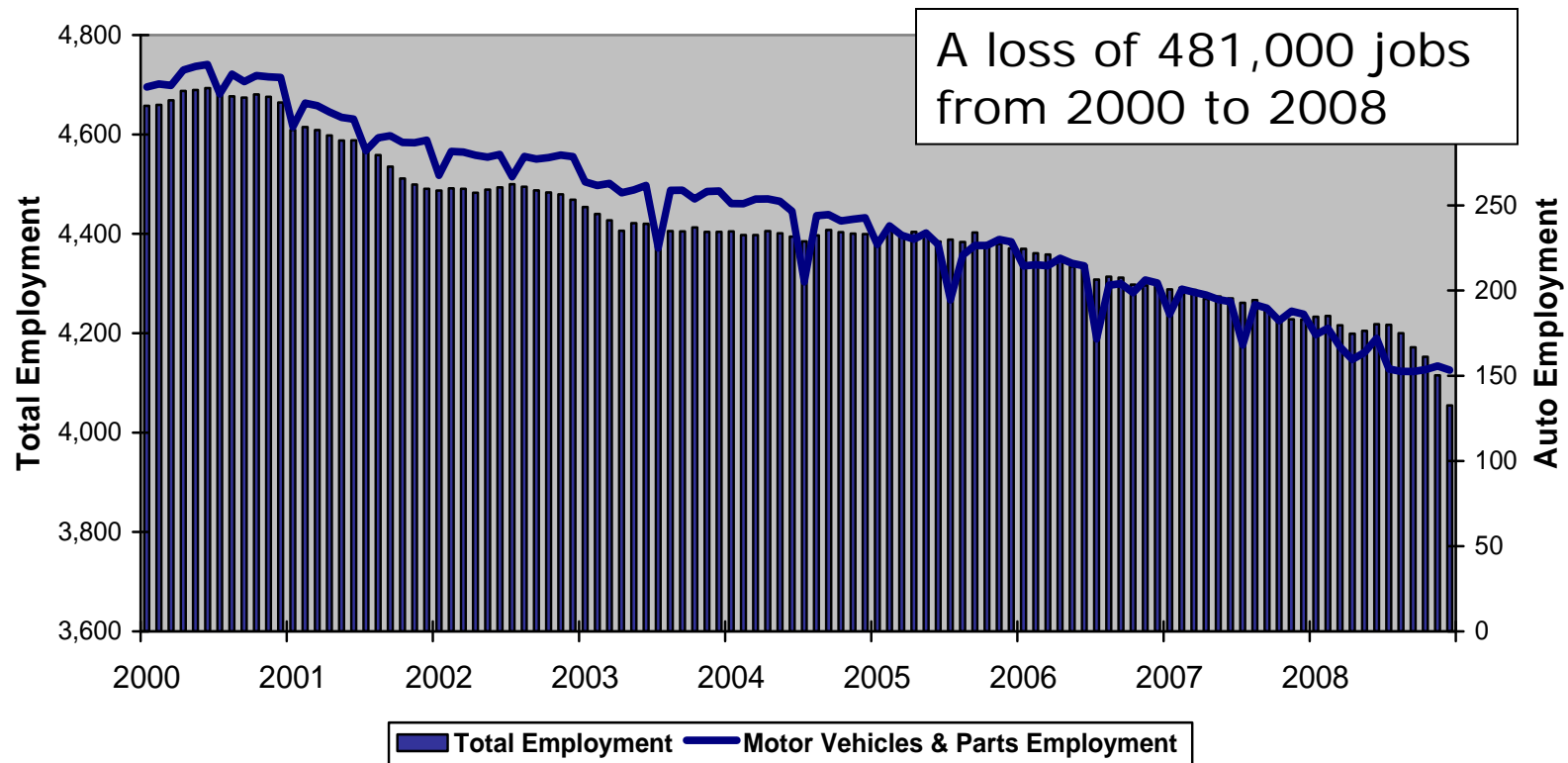
If the recovery of this recession is similar to the 1991 and 2001 recoveries, it may take 2 to 3 years before employment regains its 2007 levels.

And then there is Michigan.



With the national slowdown, the state's turnaround is further postponed.

## Statewide Employment



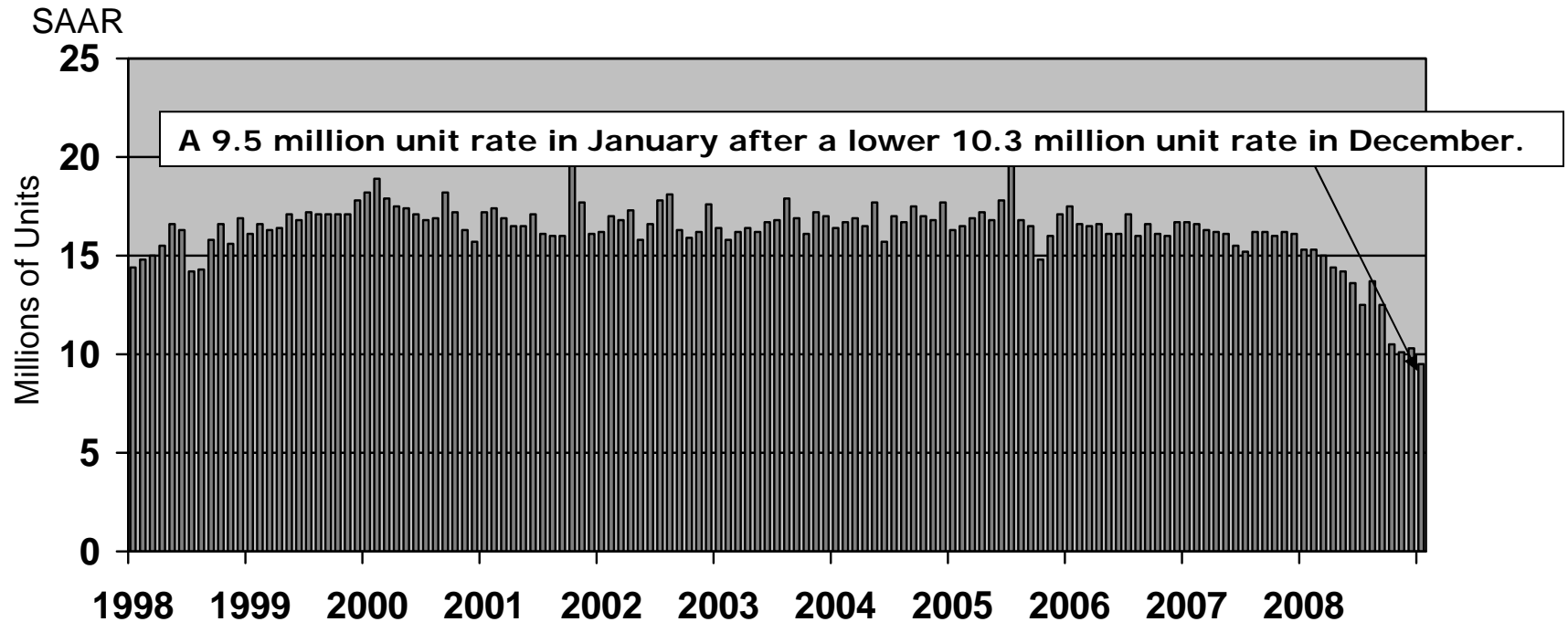
Source: BLS.

The state's unemployment rate is now 10.6%



Consumers are simply postponing purchases that can be postponed.

## Auto and Light Truck Sales

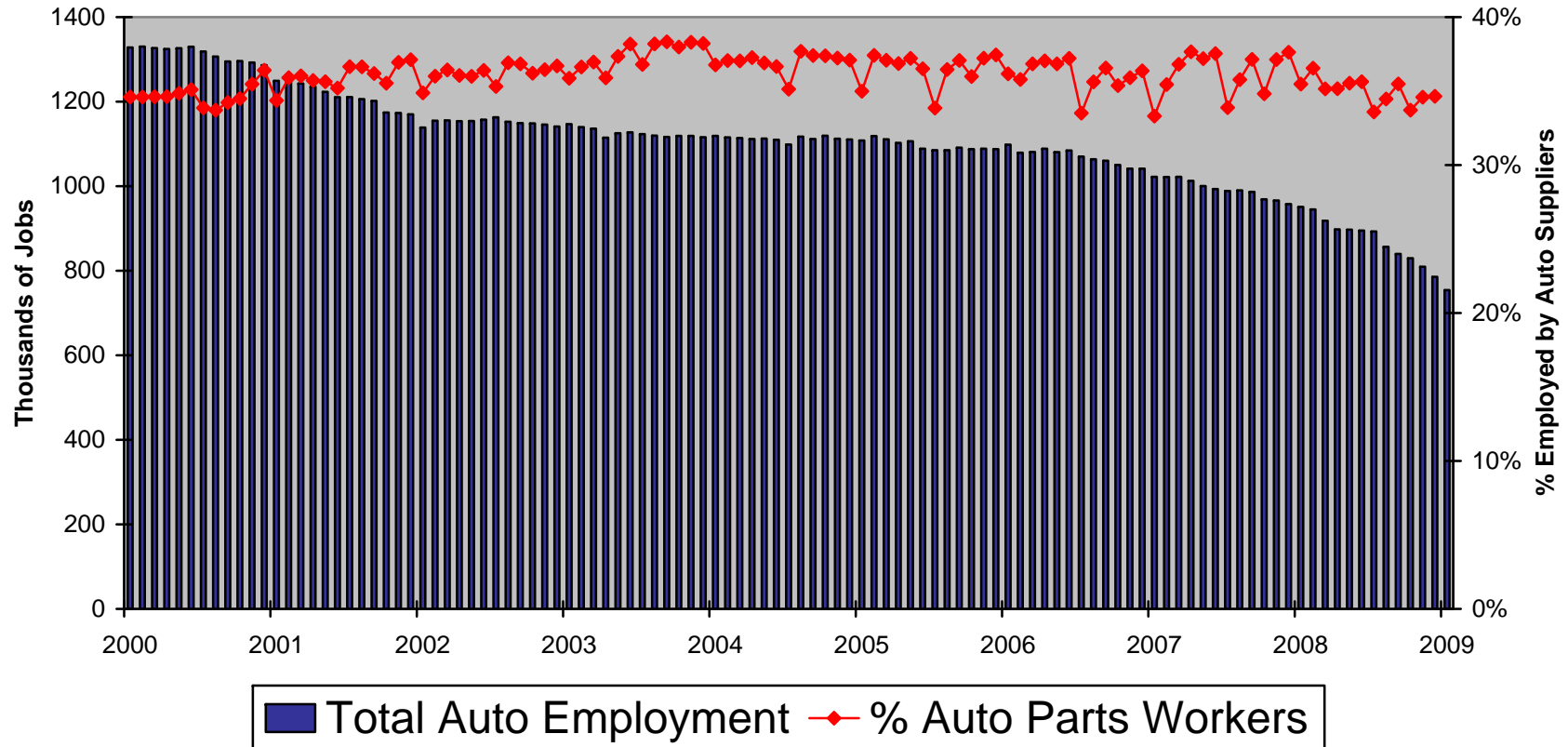


Car and light truck sales reached 16.1 millions units in 2007 but dipped to 13.1 million units in 2008 and now are estimated to be as low 11.5 million units in 2009.

Source: BEA.



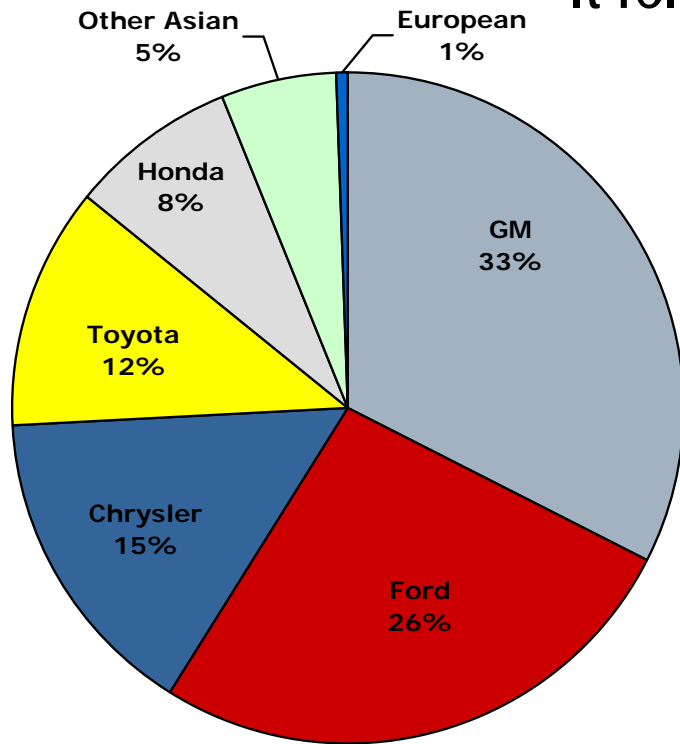
## Employment in the industry continues to decline, and losses are shared by OEMs and suppliers.



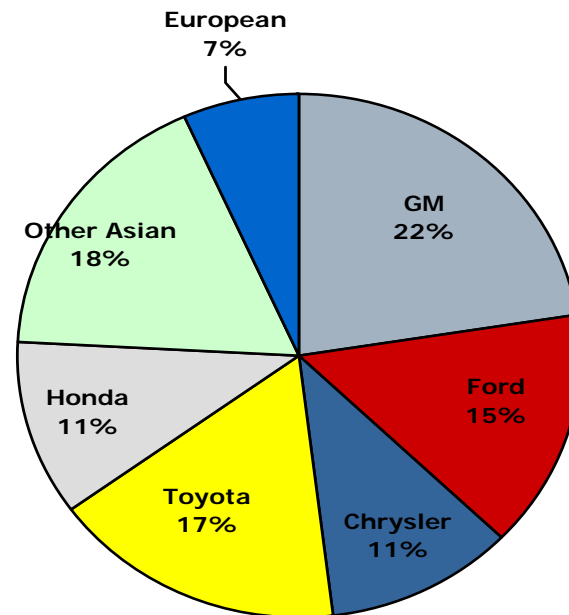
Source: BLS



Loss of market share: In 2001, the Detroit Three controlled 74%.  
It fell to 48% in 2008.



2001



2008

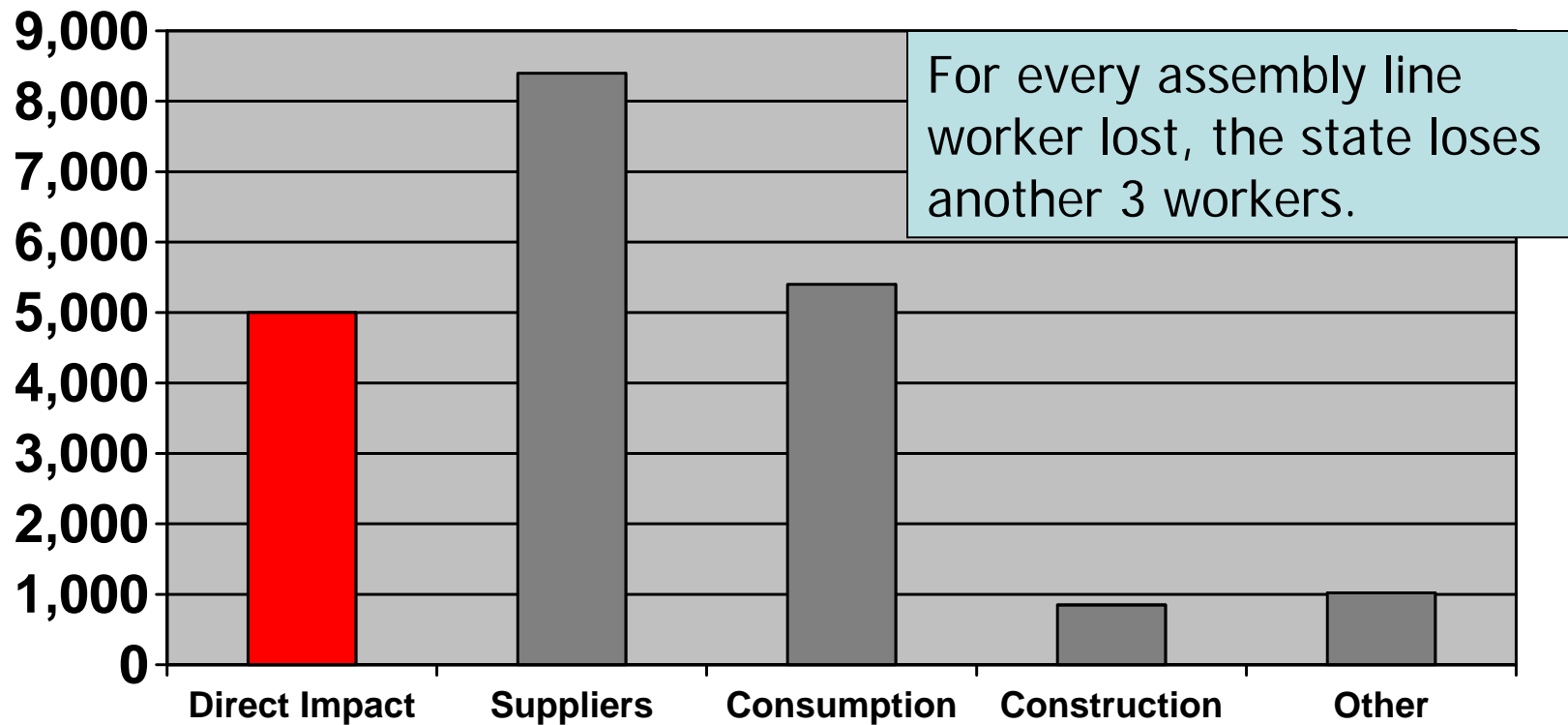
Source: *Wards AutoWorld*.

In the past 12 months, sales of cars fell by 33%; light trucks by 38%.



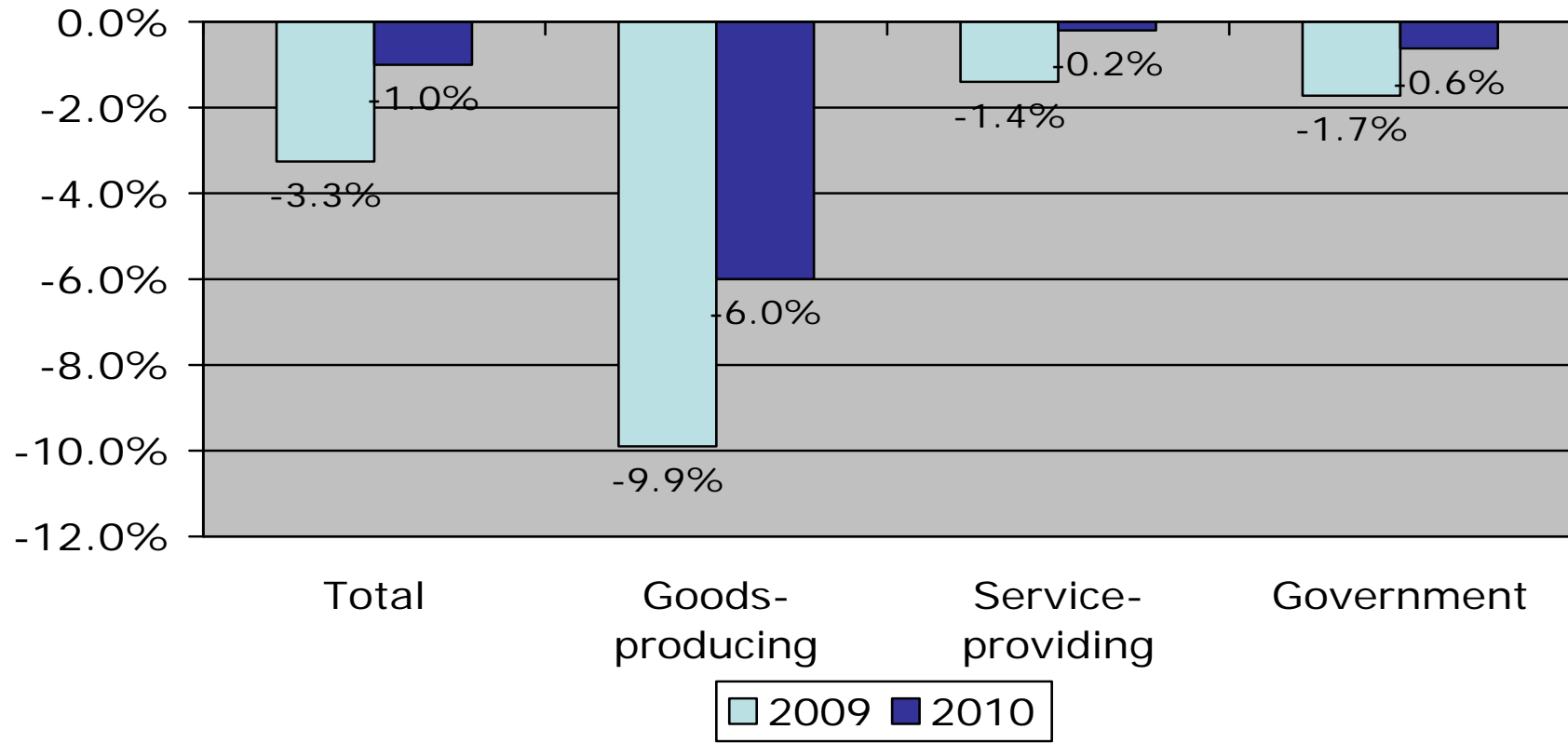
## Impact on the State of Michigan of a Loss of 5,000 Auto Assembly Jobs

### Number of Jobs Lost





## University of Michigan's Statewide Employment Forecast





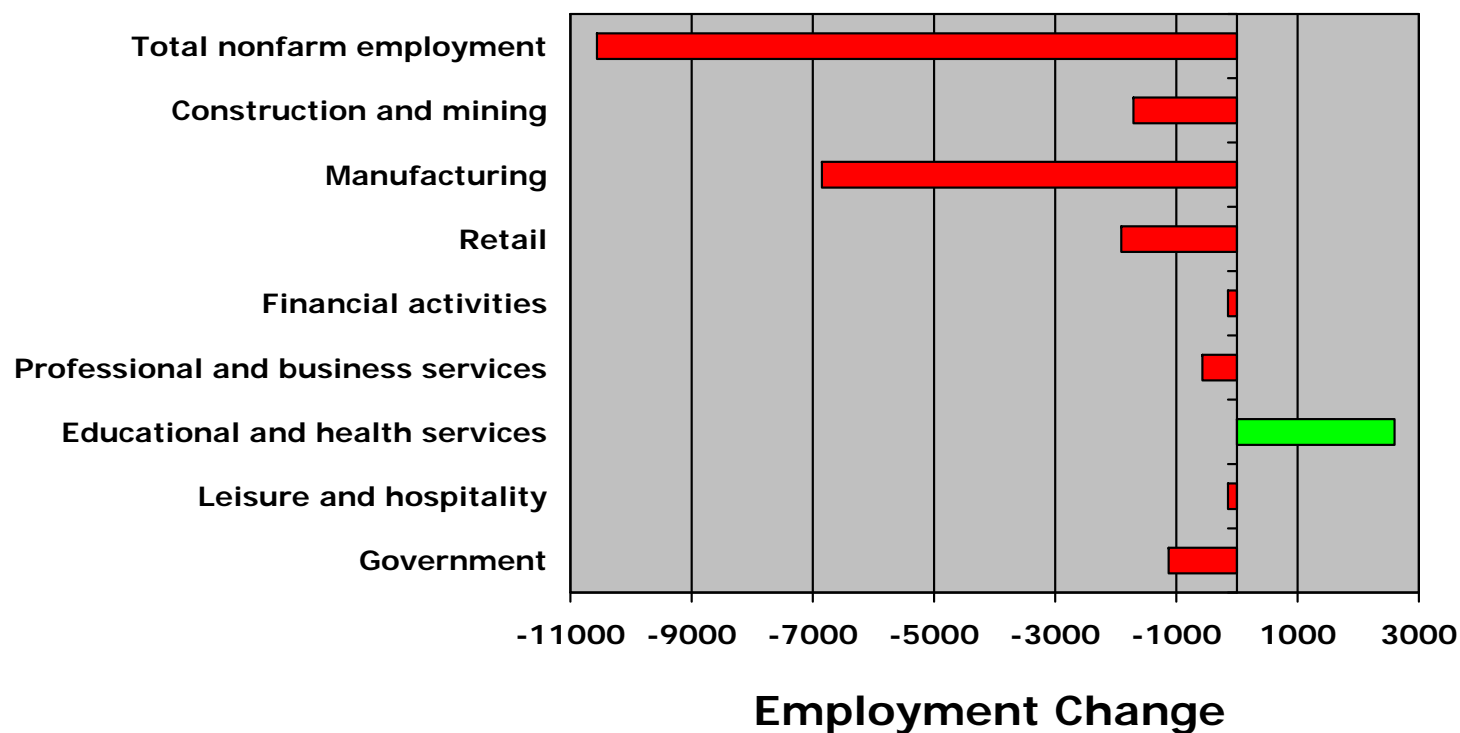
# West Michigan

Grand Rapids, Battle Creek, Kalamazoo, Holland,  
Muskegon, Niles-Benton Harbor

Employment conditions are worsening.



## Employment has declined by 1.3 percent during the past four quarters in West Michigan.

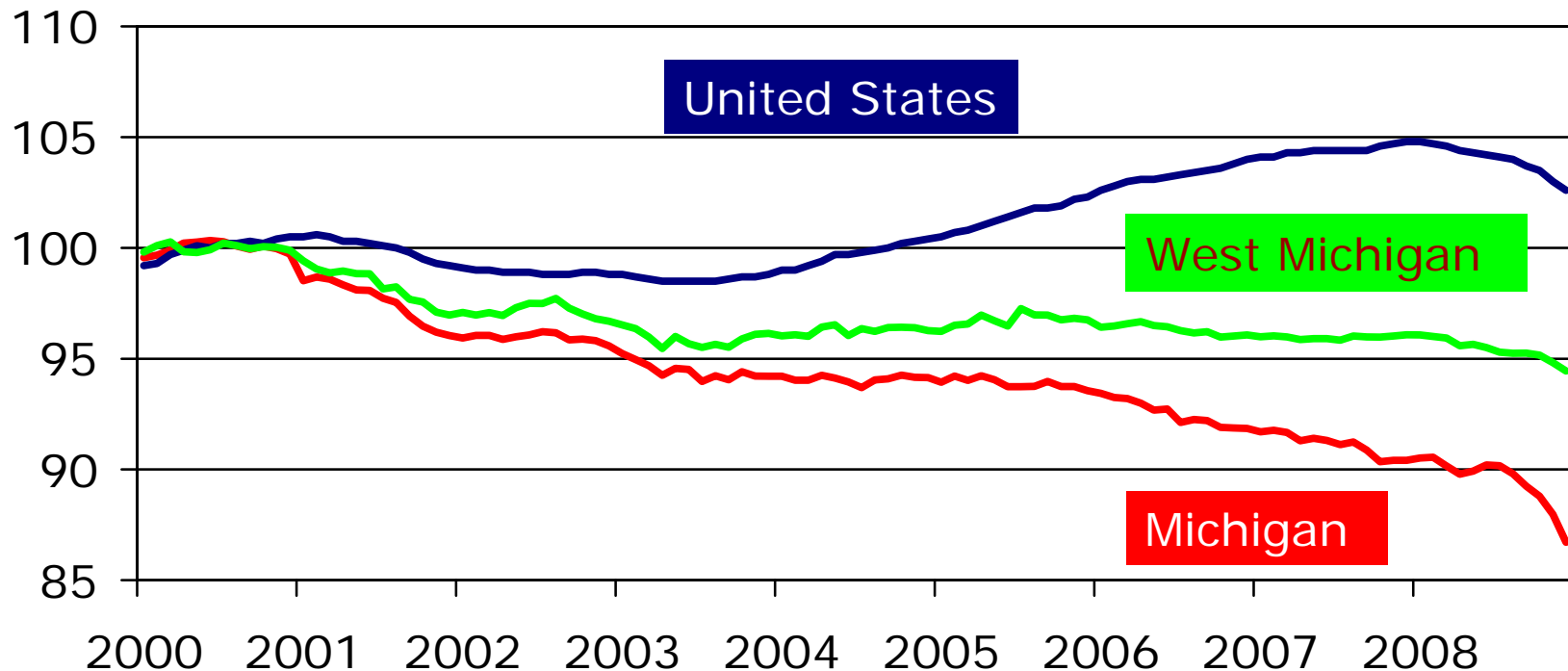


Source: BLS and Upjohn Institute.



West Michigan's employment has dropped by 5% while the nation's has increased by nearly 3%.

Total Employment Index (2000=100)

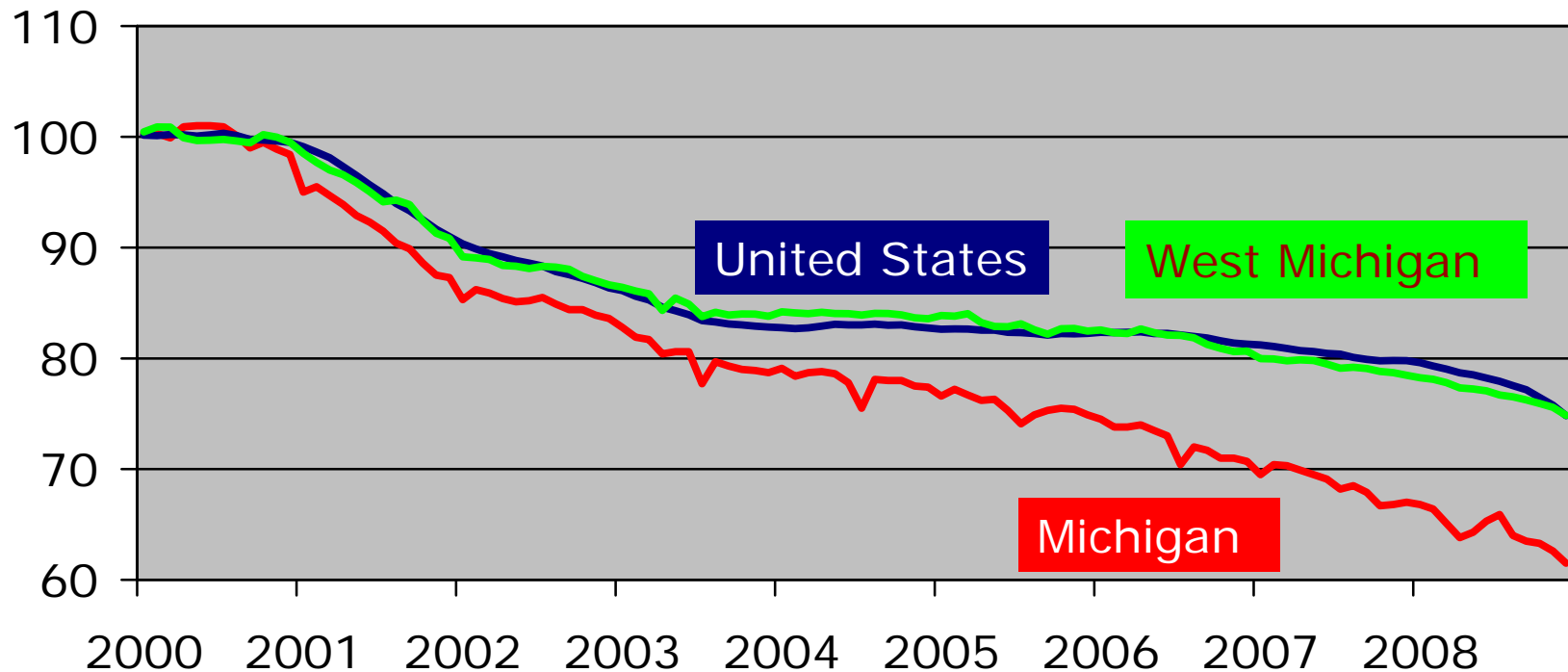


Source: W.E. Upjohn Institute.



West Michigan's manufacturing employment has dropped by 25%, the same as the nation's. Michigan's employment has plunged 40%.

Manufacturing Employment Index (2000=100)

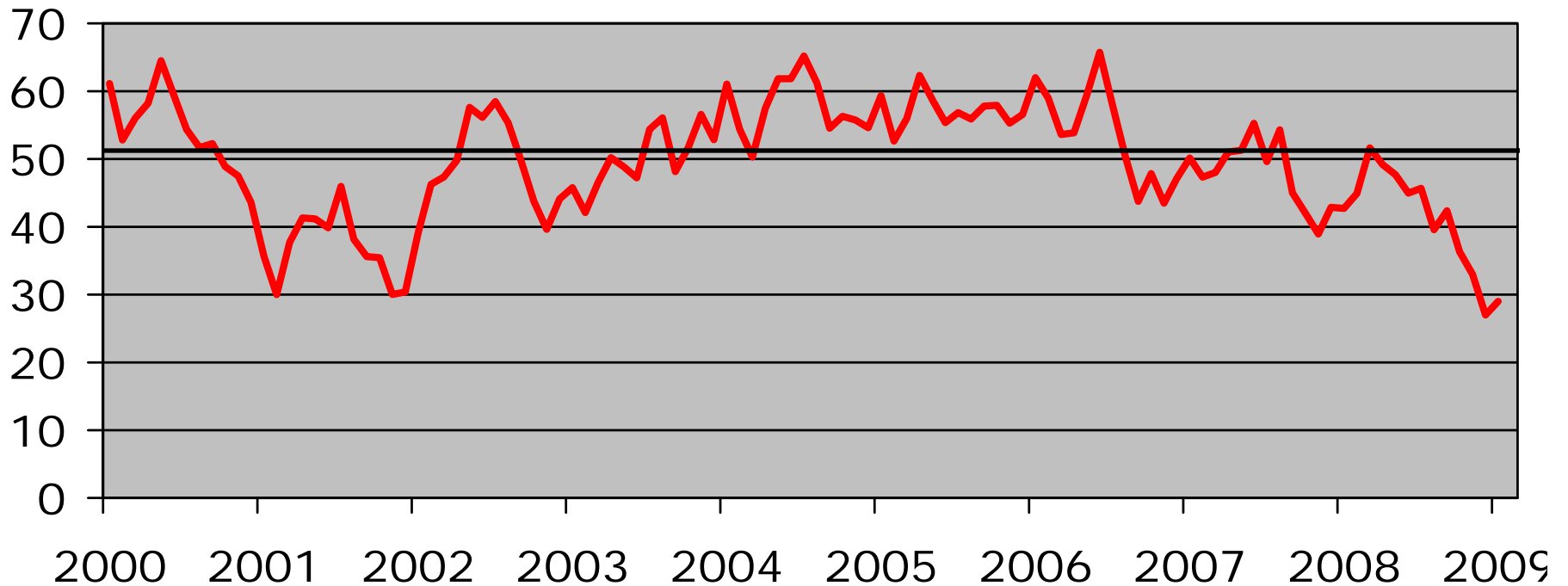


Source: W.E. Upjohn Institute.



The Grand Rapids Purchasing Managers' Index is going in the wrong direction.

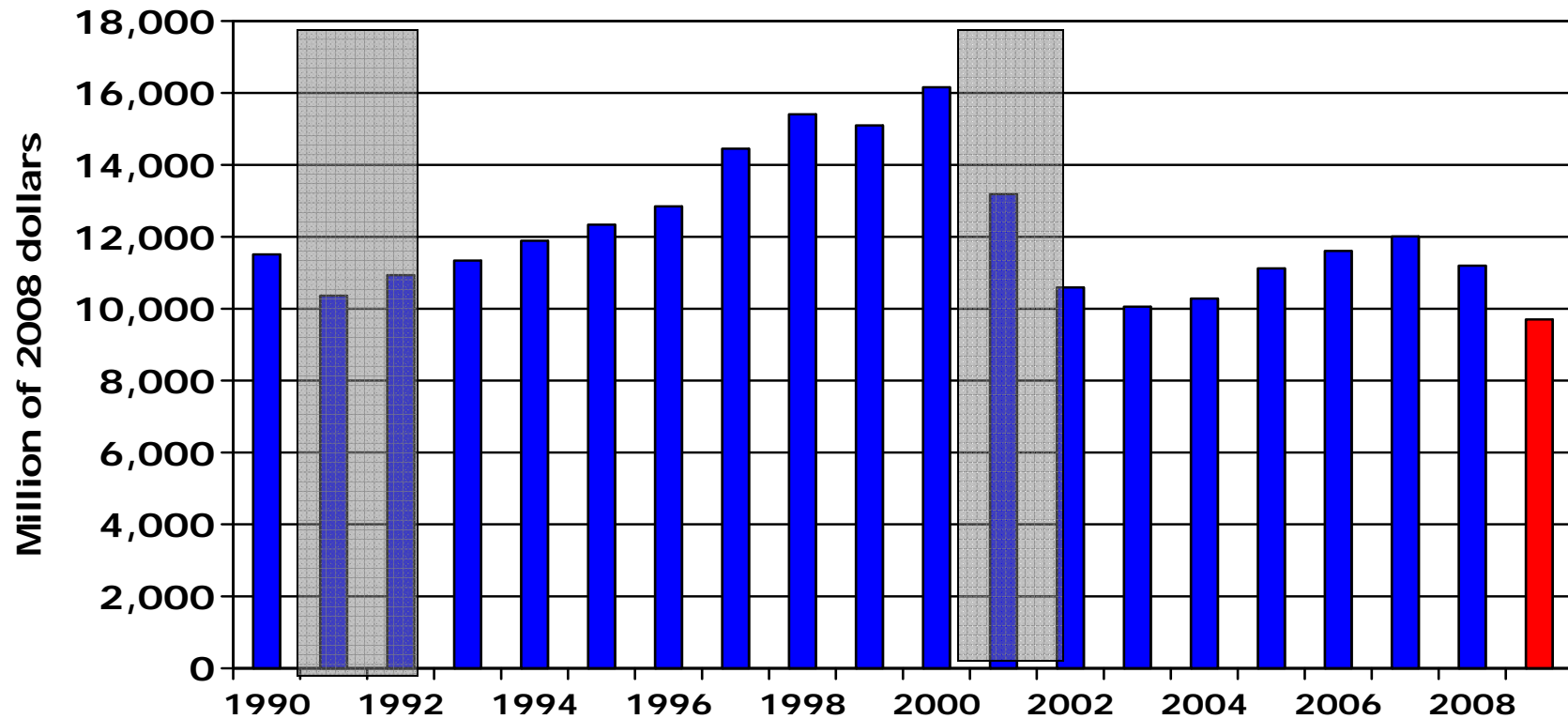
**Purchasing Managers' Index**  
**(50 = an expanding manufacturing sector)**



Source: ISM Greater Grand Rapids, Inc.



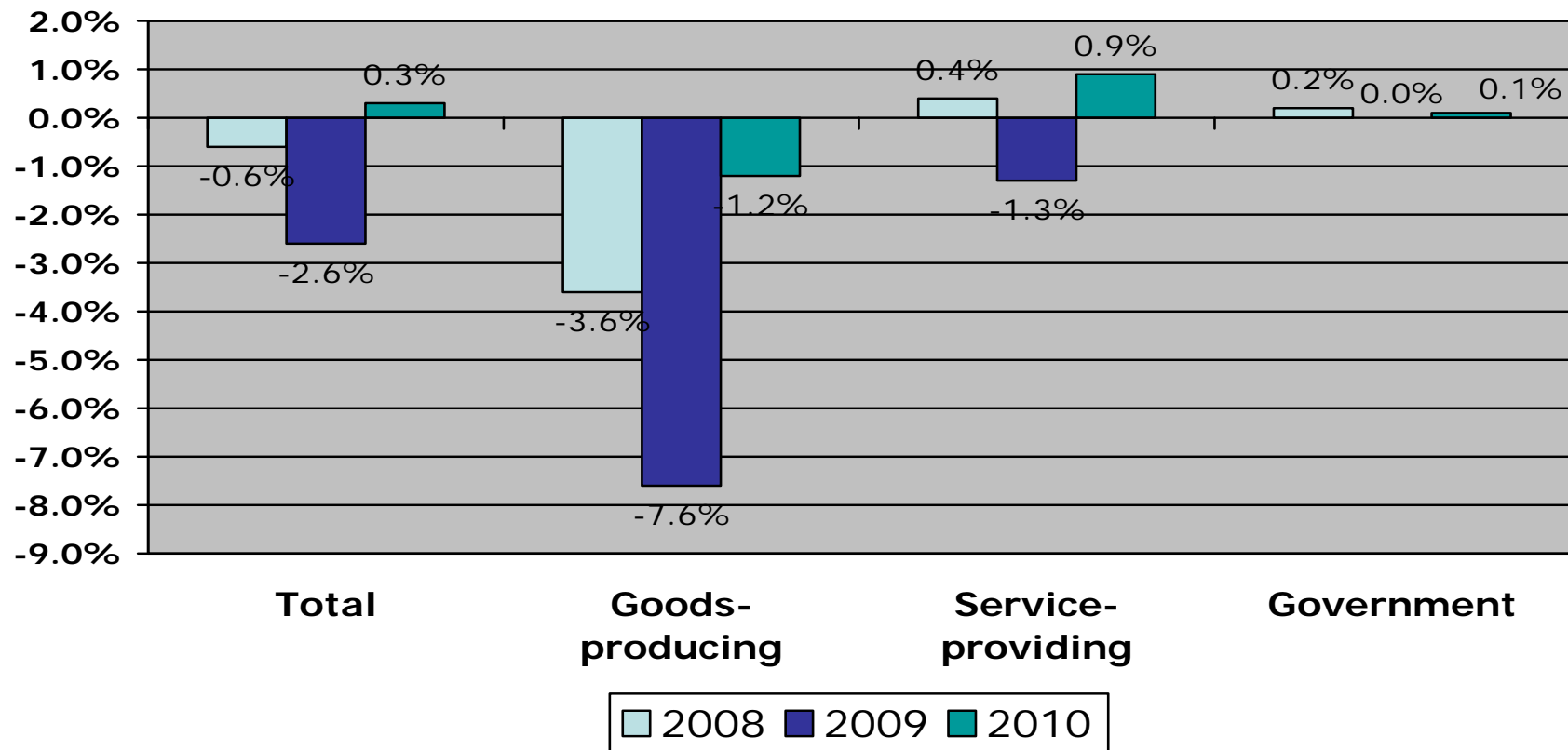
## Office Furniture Production Forecast



Source: BIFMA.



## West Michigan Employment Forecast





## In closing:

What to do on the national level?

*Running into a dark room.*

What to do on the local level?



# Options

## Monetary Policy

With the major banks still unwilling to lend their excess reserves, Fed policies are “pushing on a string.”

- Demand for loans has declined due to the recession.
- Banks are still uncertain about the value of their existing assets.
- Regulators are giving mixed signals—Fair value vs. Easing credit markets.



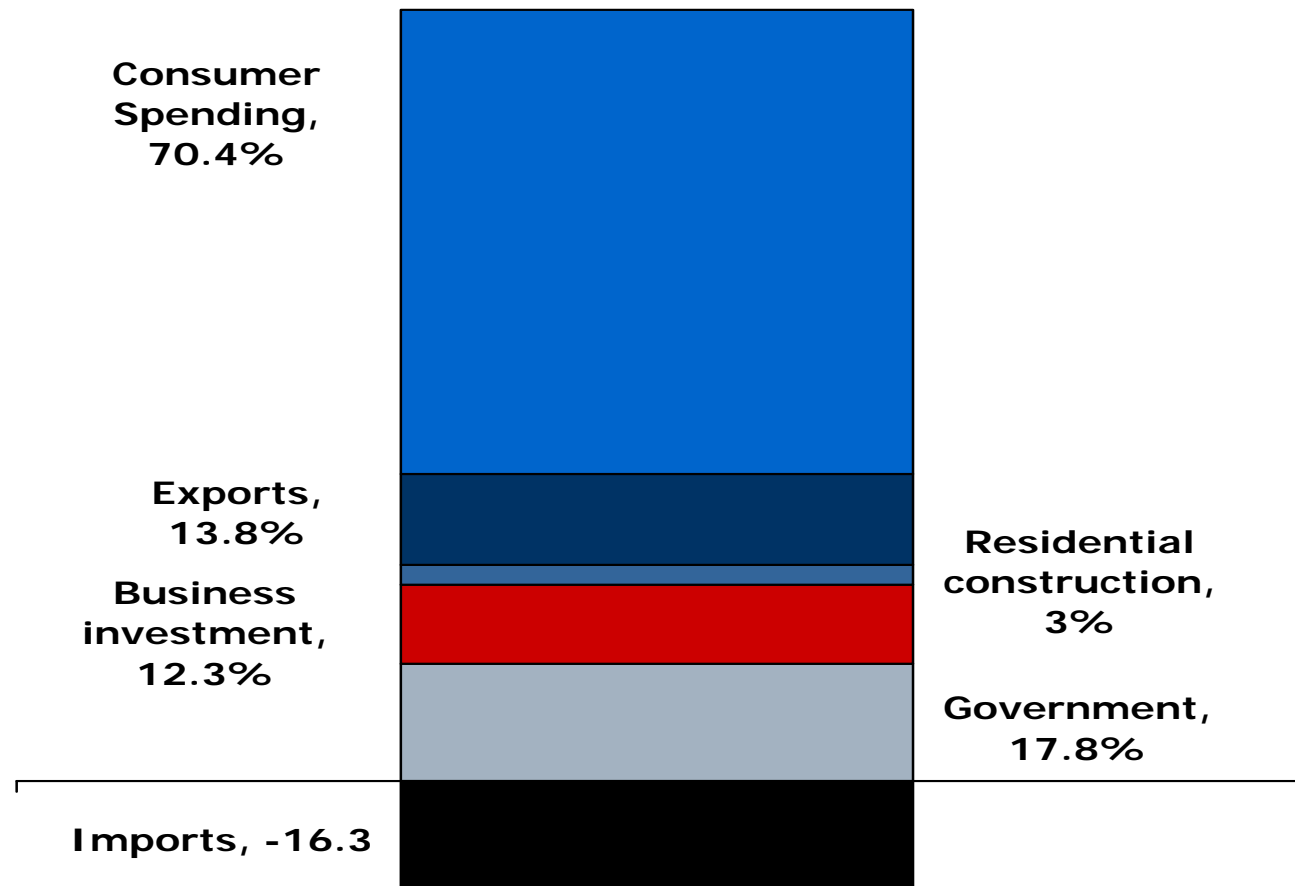
# Fiscal Policy

Problem: There is a gap in the demand for goods and services.

- ✓ Consumers have cut back on spending because of job losses and uncertainty.
- ✓ Export markets are quiet because it is a worldwide recession.
- ✓ Business investment is down because demand is off, and credit is hard to find.



## Breaking down GDP: *Consumers matter.*



Source: BEA.



# Fiscal Policy

Combination of government spending on infrastructure, federal assistance to state and local governments, and tax cuts to fill the demand gap.

- ✓ Consumers will likely save any tax cut and not spend it. Business tax cuts may not be effective either because of the lack of demand.
- ✓ Government spending can create jobs today and, if spent wisely, enhance our future productivity.
- ✓ Tax cuts and/or increased spending will increase the current deficit of \$1.2 trillion (8 percent of the nation's GDP).



## What about the local level?

**We estimate that if 5,000 assembly line jobs are lost in Southeast Michigan:**

- ✓ 500 jobs will be lost in West Michigan.
- ✓ Personal income would decline by \$34 million.

**The loss of 1,000 auto supplier jobs in west Michigan:**

- ✓ Total impact 3,400 jobs (for every job lost, the region would lose 2.4 addition jobs).
- ✓ Personal income would decline by \$183 million.



## No easy answers

- ✓ The auto industry is too big to walk away from.
- ✓ Emerging industries are impossible to predict and will likely require a different skill set for the workforce.
- ✓ Diversification is always preferred; however, new markets are smaller and very competitive.
- ✓ Global markets are growing, however the cost structure is a challenge.

11th Annual Automotive Suppliers Symposium

# Successful Evolution

March 5, 2009



## Is that Light at the End of Tunnel or An Approaching Train? – Industry and Regional Forecast.

George A. Erickcek

Senior Regional Analyst

W.E. Upjohn Institute for Employment Research

March 5, 2009