

Economic Outlook for Southwest Michigan: *What really lies ahead for this region in terms of job growth*

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Agenda

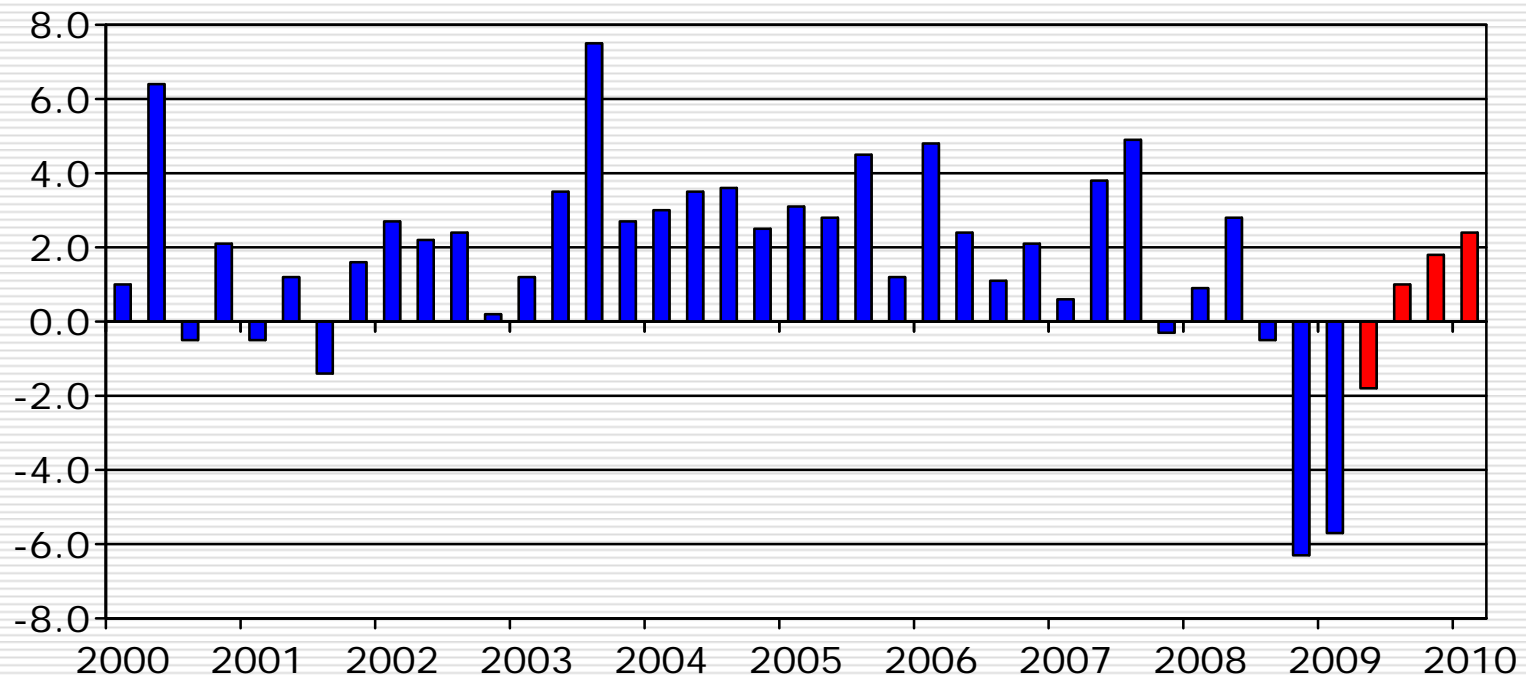
- ❑ National Outlook – *There is cause for some hope.*
- ❑ State Outlook – *Do we have to?*
- ❑ Southwest Michigan- *Stuck in the Middle*
- ❑ Back to the basics.

National outlook: Most of the nation's economic indicators are pointing south.

| | |
|--|--------|
| <input type="checkbox"/> Employment | RED |
| <input type="checkbox"/> Residential construction | RED |
| <input type="checkbox"/> Consumer confidence | YELLOW |
| <input type="checkbox"/> Consumer financial conditions | RED |
| <input type="checkbox"/> Credit markets | RED |
| <input type="checkbox"/> ISM Purchasing Mgrs. Index | RED |
| <input type="checkbox"/> Stock market | YELLOW |
| <input type="checkbox"/> Inflation | GREEN |

Percent change in the nation's GDP—*Fell 5.7 percent during the first quarter.*

Annualized Percent Change in GDP



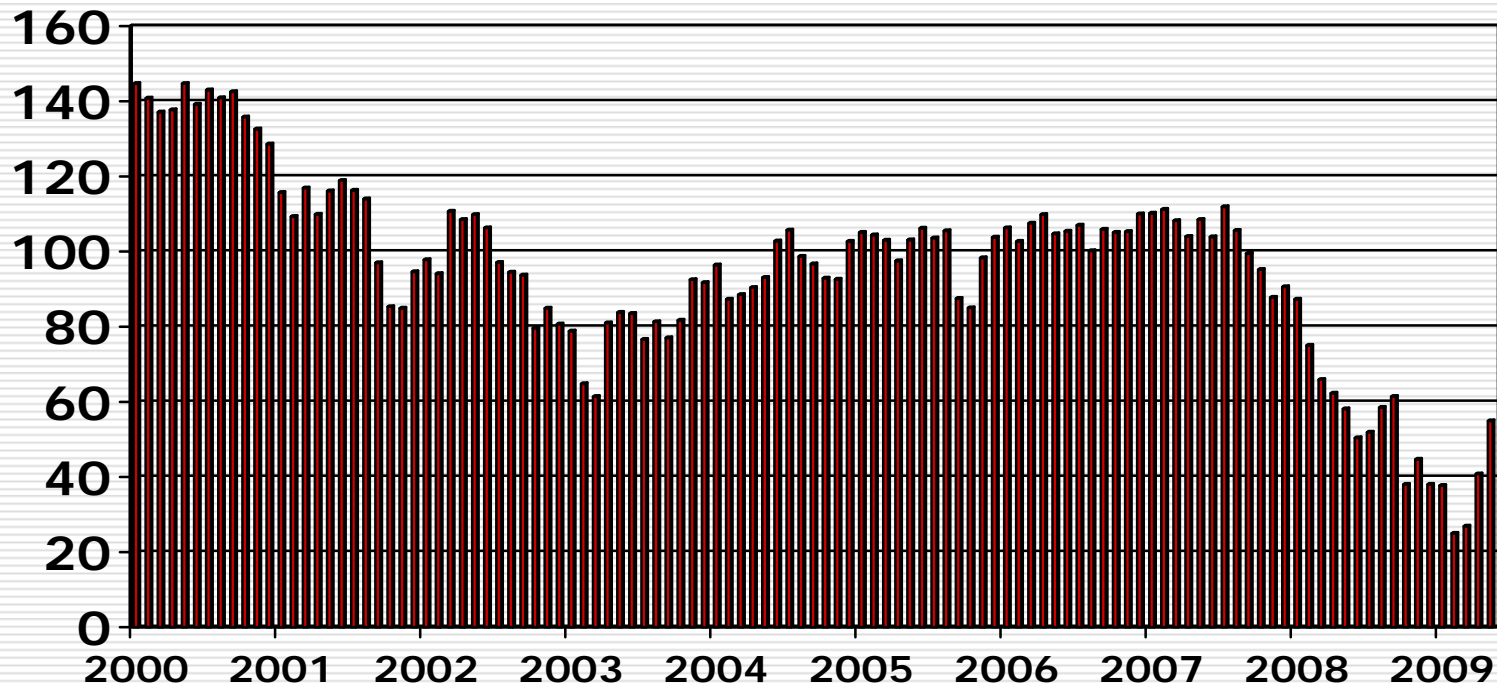
Source: BEA, Philadelphia Federal Reserve Survey of Professional Forecasters.

Consumers

- ❑ Confidence is low but improving.
- ❑ Real estate markets are inactive, and values continue to drop.
- ❑ Retirement savings remain in jeopardy.
- ❑ Job outlook is dim.

Consumers' confidence is still low, but it is improving.

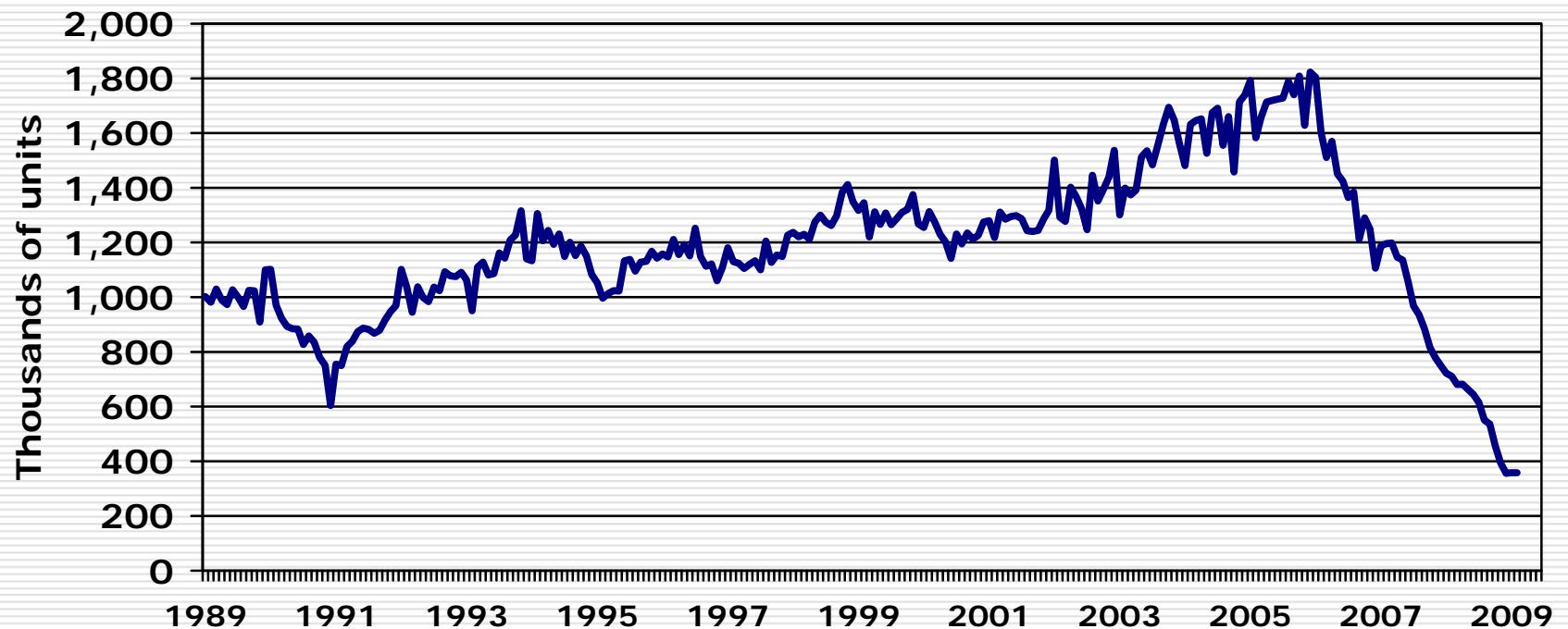
Consumer Confidence (1995=100)



Source: Conference Board

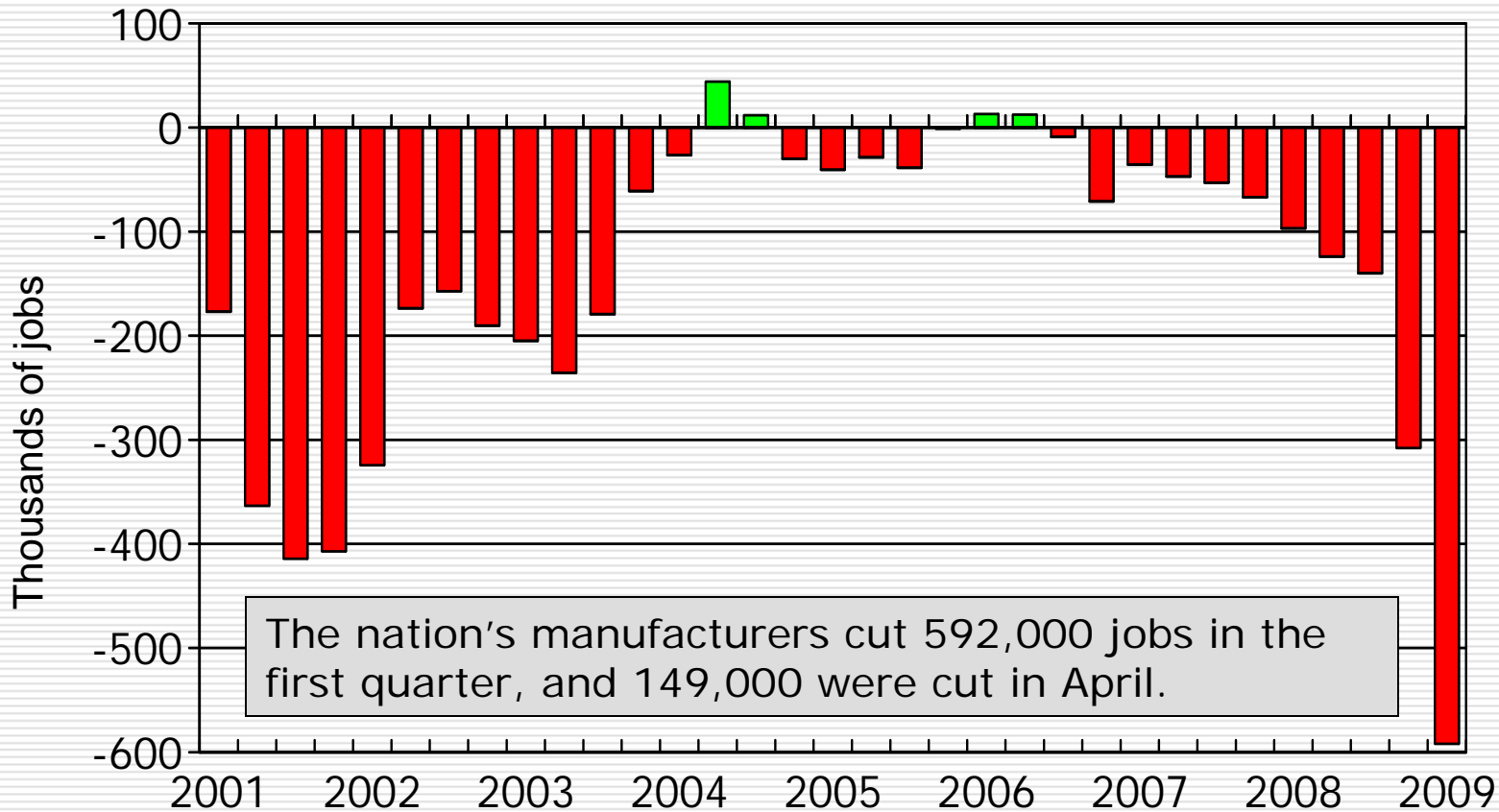
Single-Family Housing Starts—*Have not yet found bottom.*

Seasonally Adjusted Annual Rates



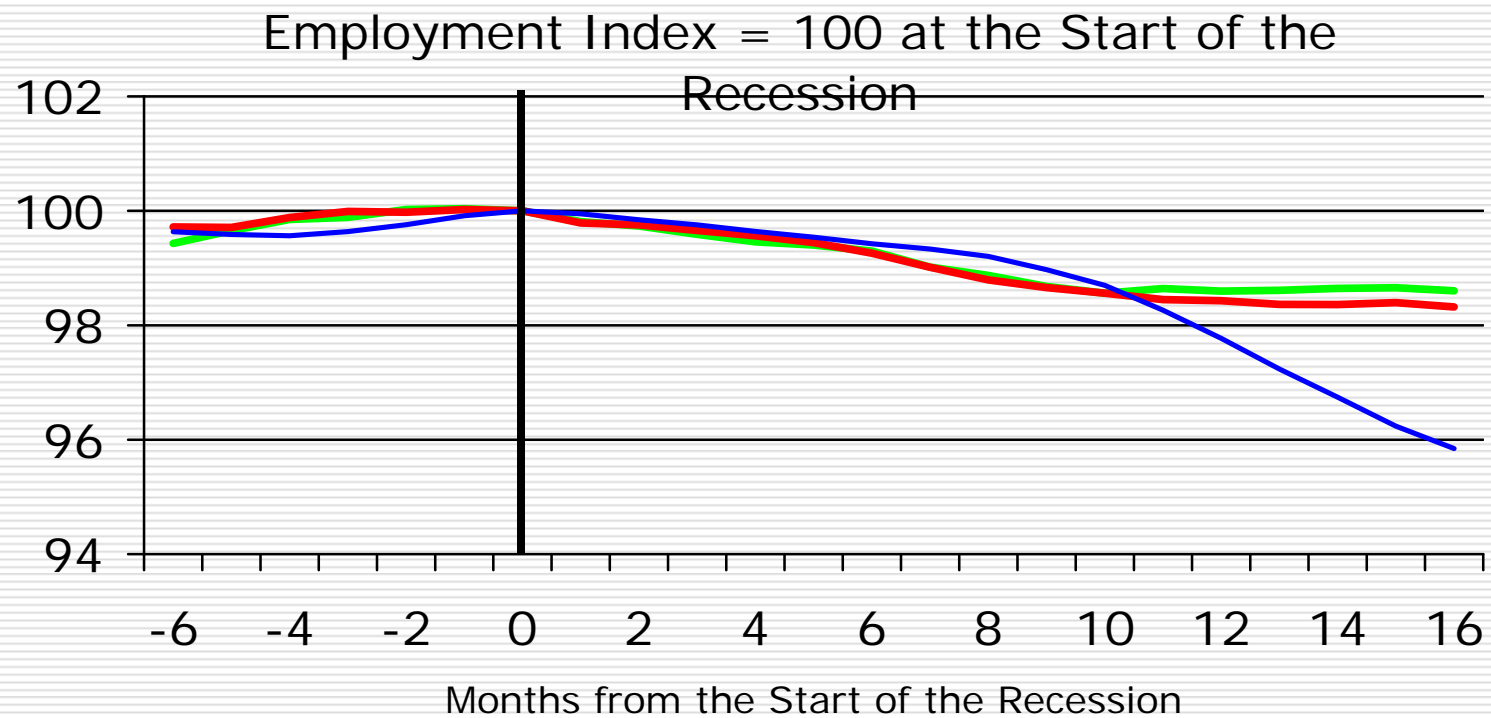
U.S. Census

The nation's manufacturing sector is in trouble.

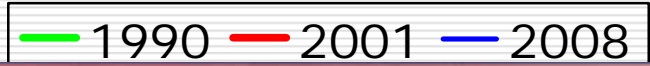


Source: BLS.

Nationwide, the current period has suffered a greater decline in employment than previous ones.



Source: CES, seasonally adjusted



Bottom line

- ❑ There is a large gap in demand for goods and services from the private sector—domestic and abroad.
- ❑ The nation's nearly frozen financial system is still a major part of the problem.
- ❑ Currently, the only short-run source of demand appears to be government spending.

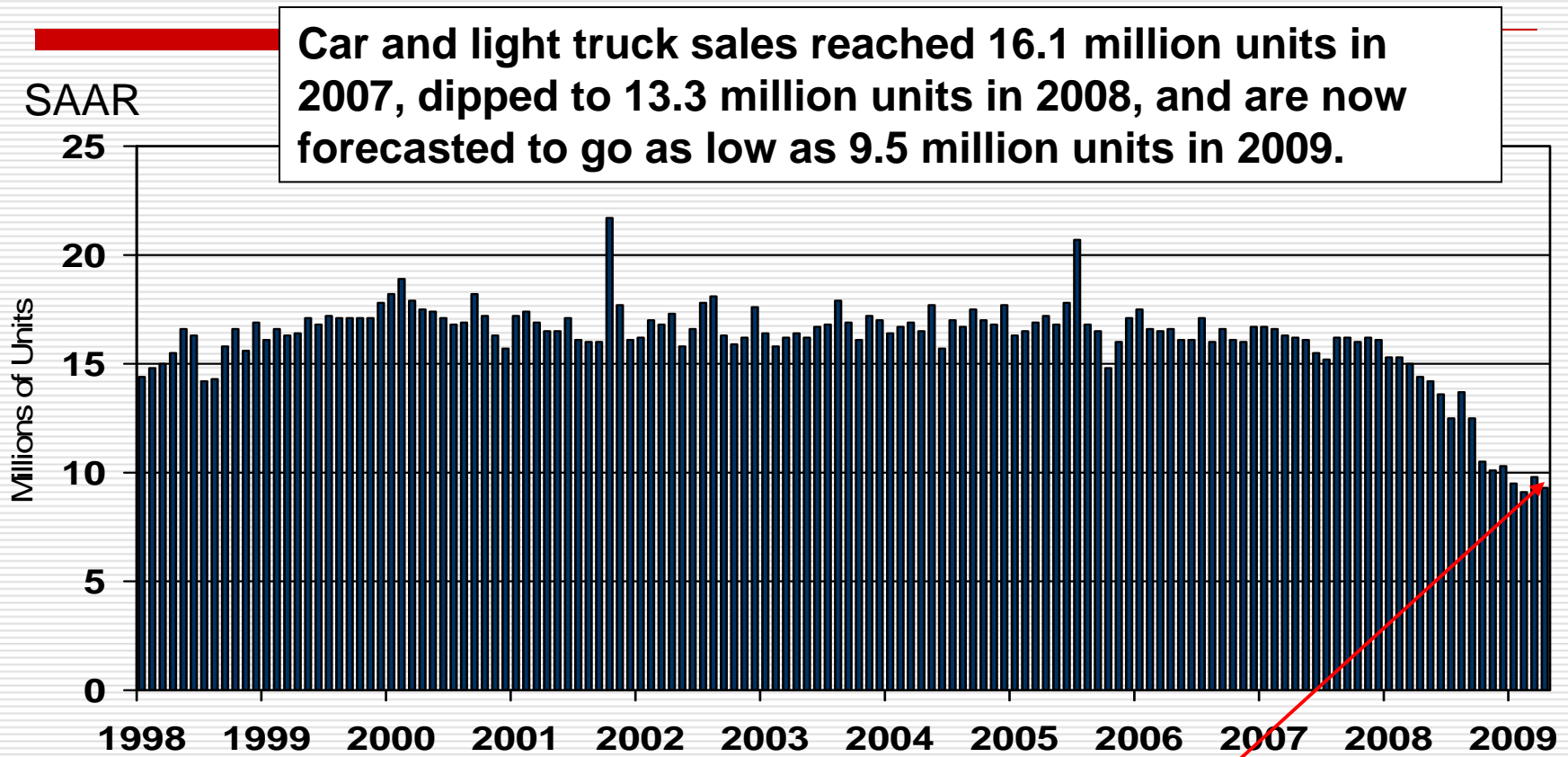
Manufacturing matters.

- ❑ Without production, we also can lose invention, innovation, design, and our seat at the global table for many industries.
- ❑ Without production, many of our business services providers are also in trouble.
- ❑ Controlling for educational achievement, manufacturing pays better wages than any other industry.

Of course, any discussion of manufacturing must address autos.

- ❑ The industry is in a deep depression which is changing the very shape of the industry.
- ❑ In addition, environmental pressures are forcing changes in type of vehicle and its power source.
- ❑ And the industry is moving south. Remember the 500 mile rule.

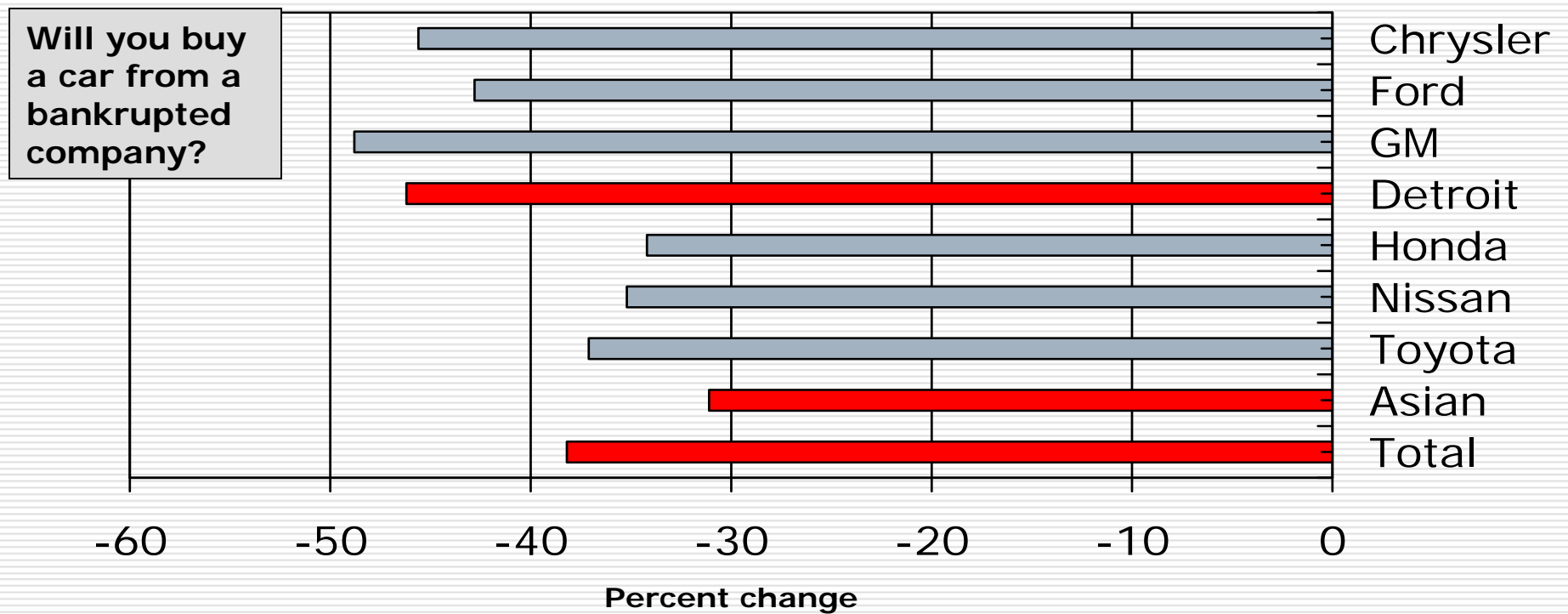
Consumers are simply staying away from auto dealers.



Source: BEA.

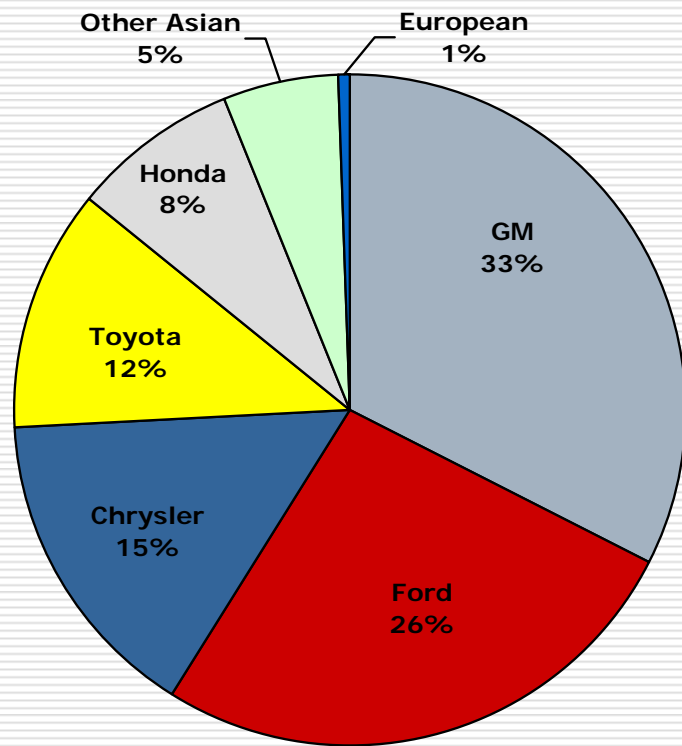
Production levels have plunged. Jan-Mar 2008 to Jan-Mar 2009

North American Car Production



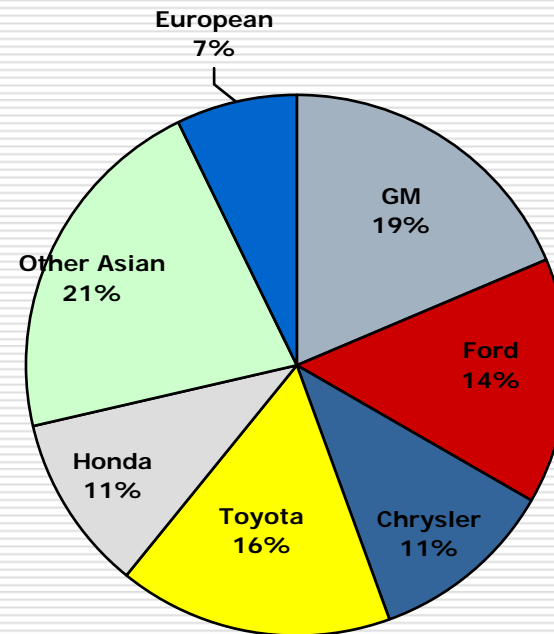
Source: Ward's AutoInfoBank <http://wardsauto.com/keydata/NAProductionSummary0902/>

Loss of market share: In 2001, the Detroit Three controlled 74%; in 2009 it fell to 44%



Source: *Wards AutoWorld*.

2001



1st Q 2009

How the suppliers rank the top six automakers:

- 1. Toyota
- 2. Honda
- 3. Nissan
- 4. Ford
- 5. General Motors
- 6. Chrysler

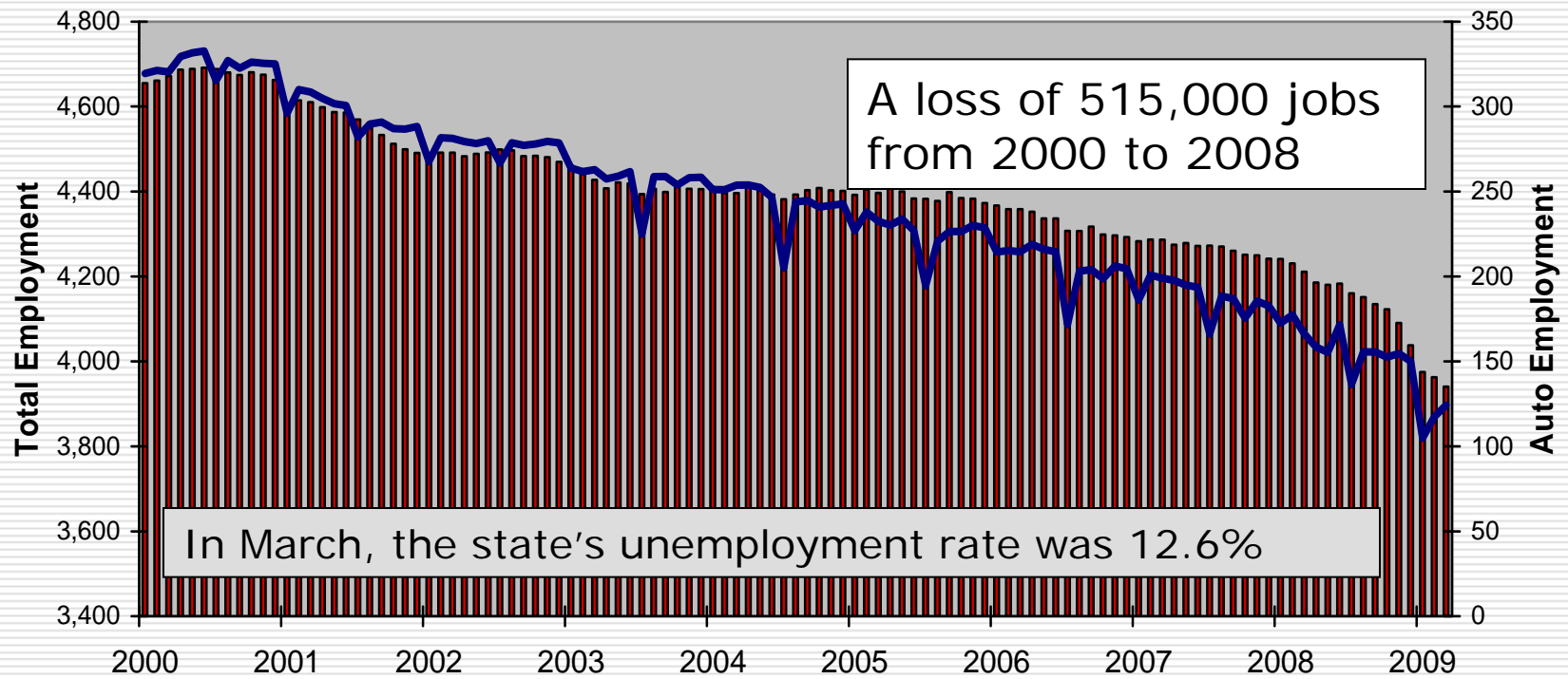
Source: Industry Week, Oct 2008. Planning Perspectives Inc 2008 Working Relations Study.

Michigan is in crisis.

- ❑ A one-horse town with one sick horse.
- ❑ State government is facing a structural deficit that will not go away without a substantial change in its tax structure.
- ❑ Perceptions are important and hard to change.

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

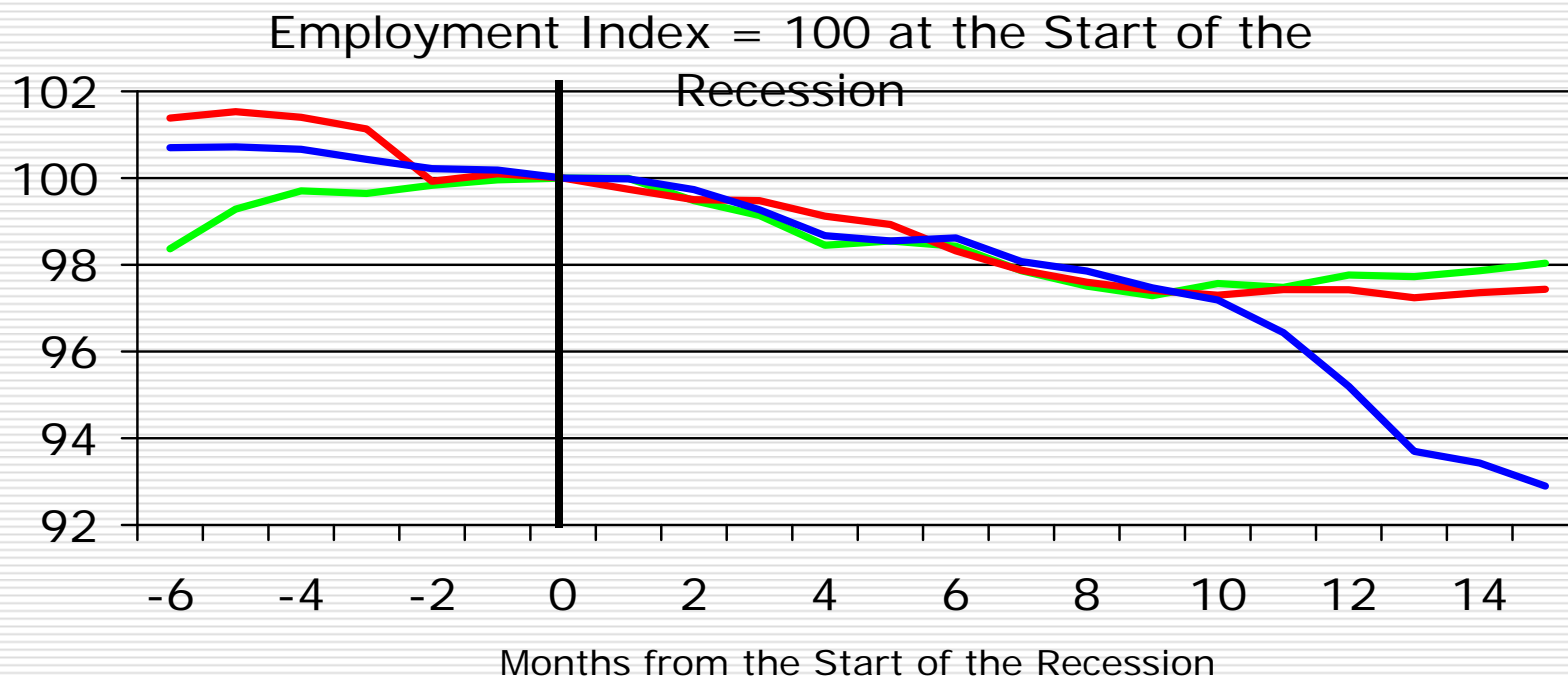
Statewide Employment



Source: BLS.

■ Total Employment — Motor Vehicles & Parts Employment

This is a tough recession for the state.



Source: CES, seasonally adjusted.



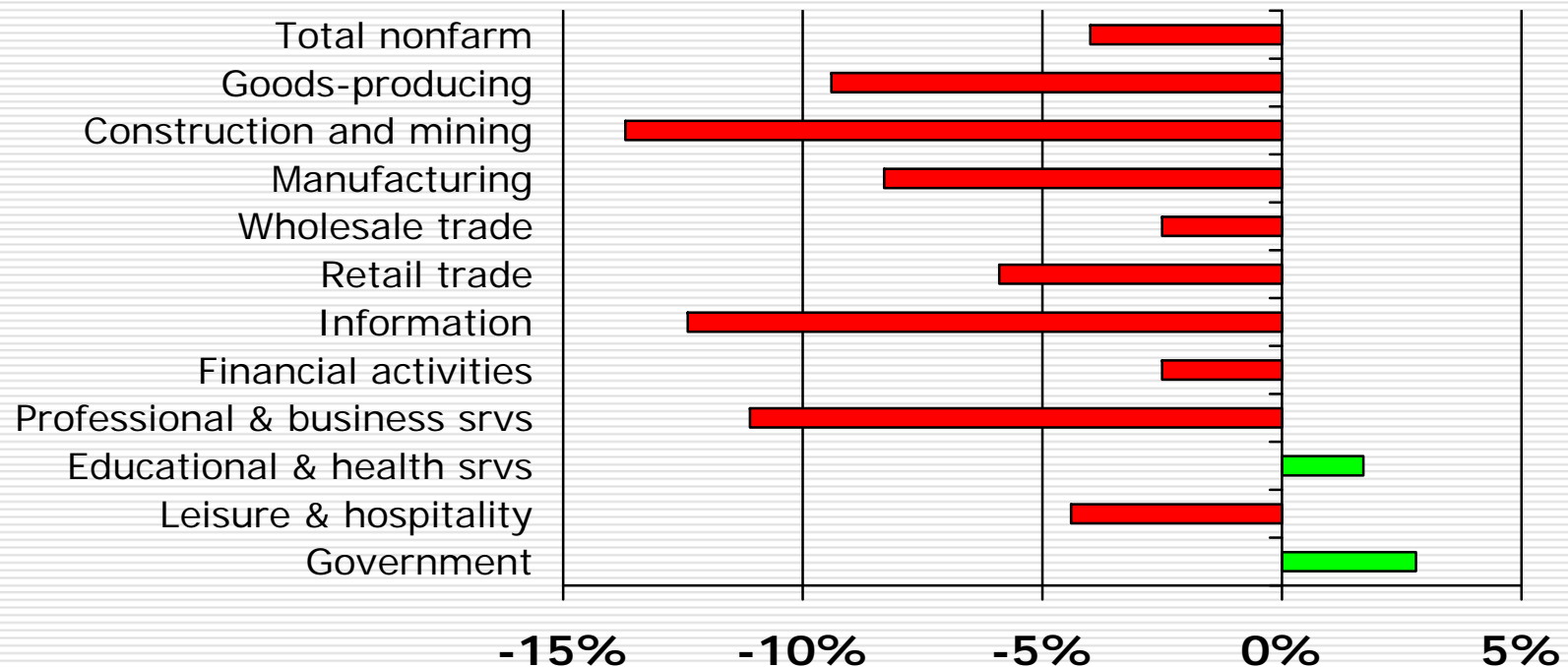
Southwest Michigan

- The Battle Creek, Kalamazoo-Portage, and Niles-Benton Harbor MSAs all lost jobs during the past four quarters.

During the past four quarters, the Kalamazoo-Portage MSA lost 5,800 jobs (4.0% loss).

1st Qtr unemployment rate was 9.3%

Percent Change in Employment
Q1-08 to Q1-09

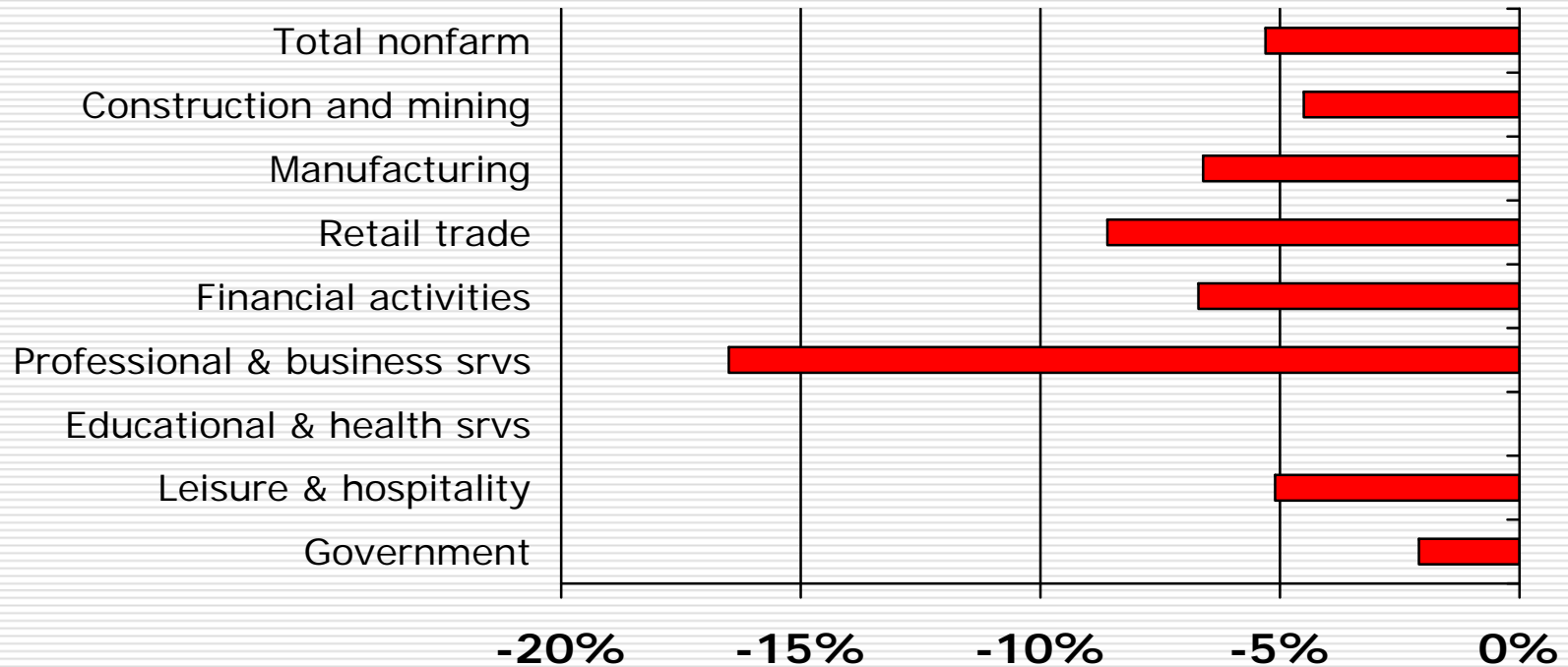


Source: W.E. Upjohn Institute

In the Battle Creek MSA, the job loss reached 3,000 (5.3% loss).

1st Qtr unemployment rate was 10.6%

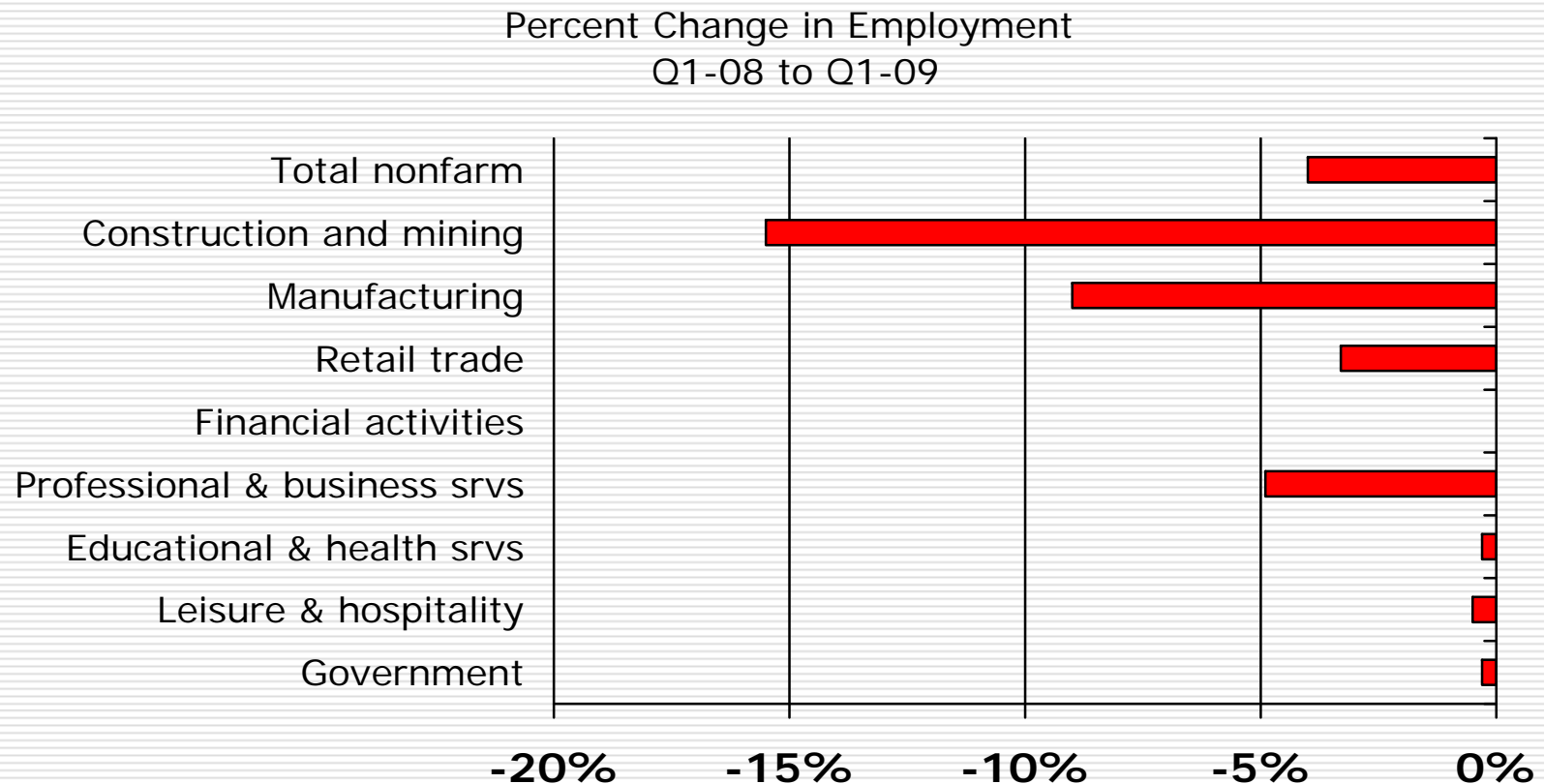
Percent Change in Employment
Q1-08 to Q1-09



Source: W.E. Upjohn Institute

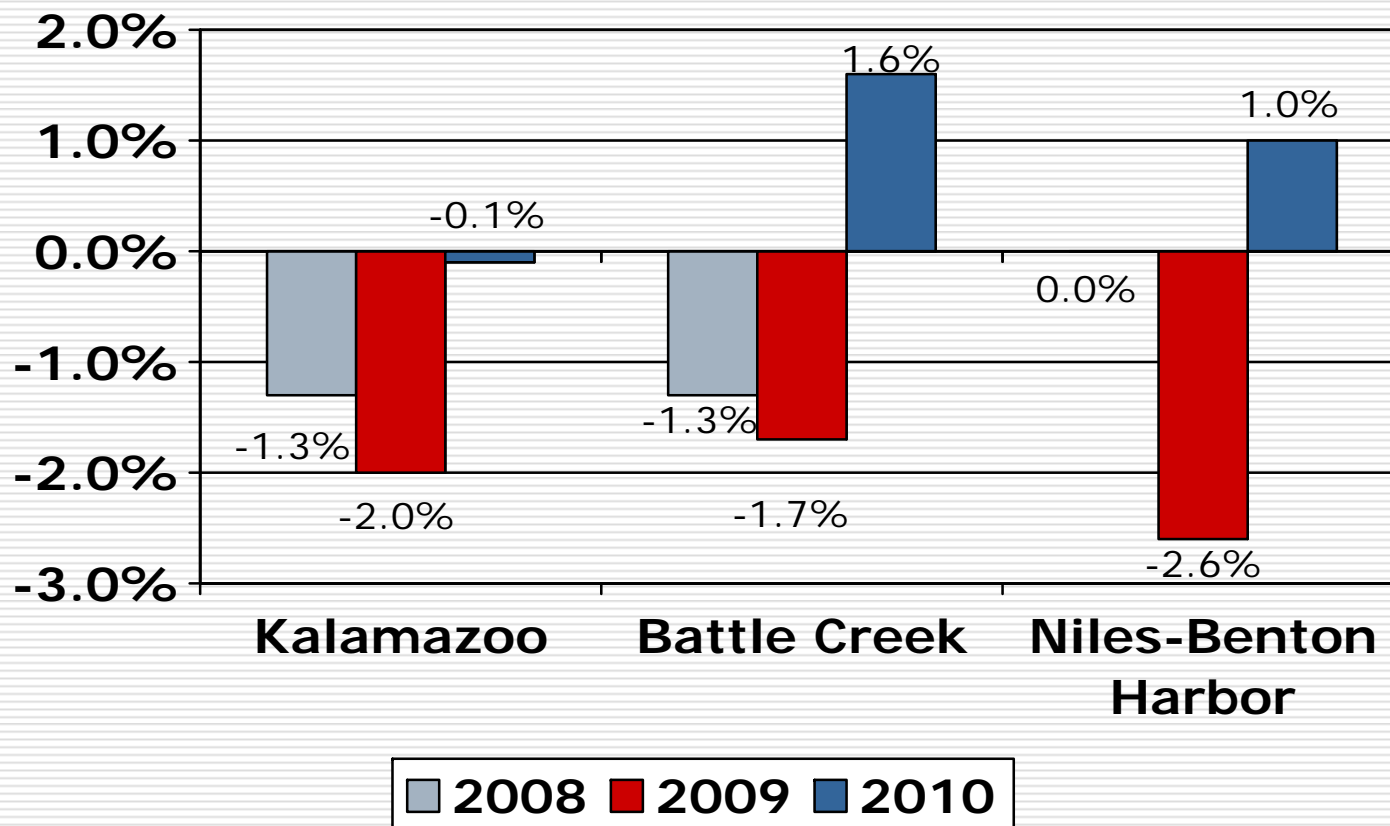
In the Niles-Benton Harbor MSA, the job loss reached 2,500 (4.0% loss).

1st Qtr unemployment rate was 10.9%



Source: W.E. Upjohn Institute

So what's the employment forecast for 2009 and 2010?



O.K. So, now what?

- ❑ Back to basics: what are the drivers of change in a regional economy?

Transformation depends on identifying interaction of three key drivers of regional economies:

Global Factors

Demographic
change

Environmental

Political/Social

Technological Change

Applications

Feasibility

Survivability

Regional Structure

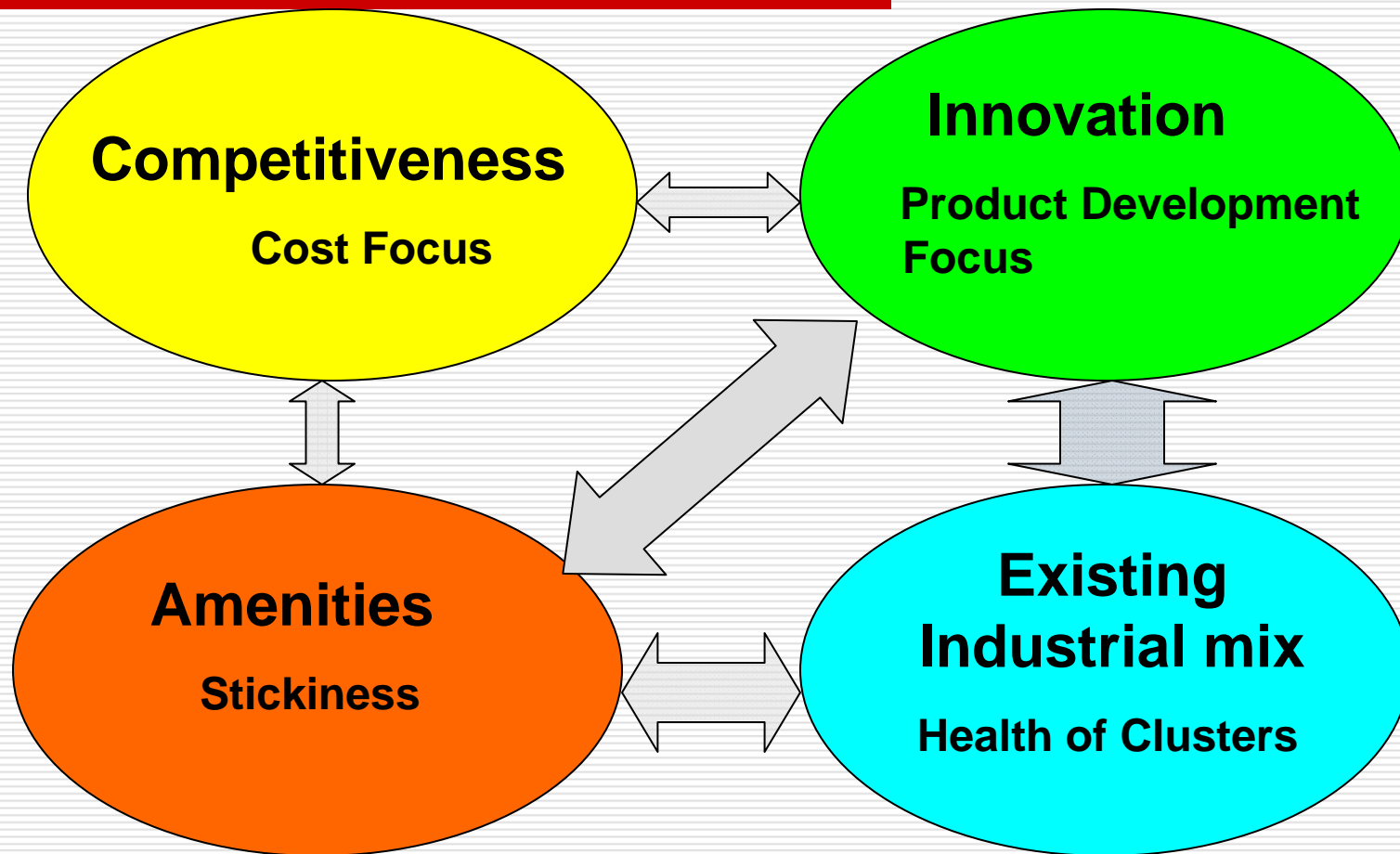
Competitiveness

Innovation

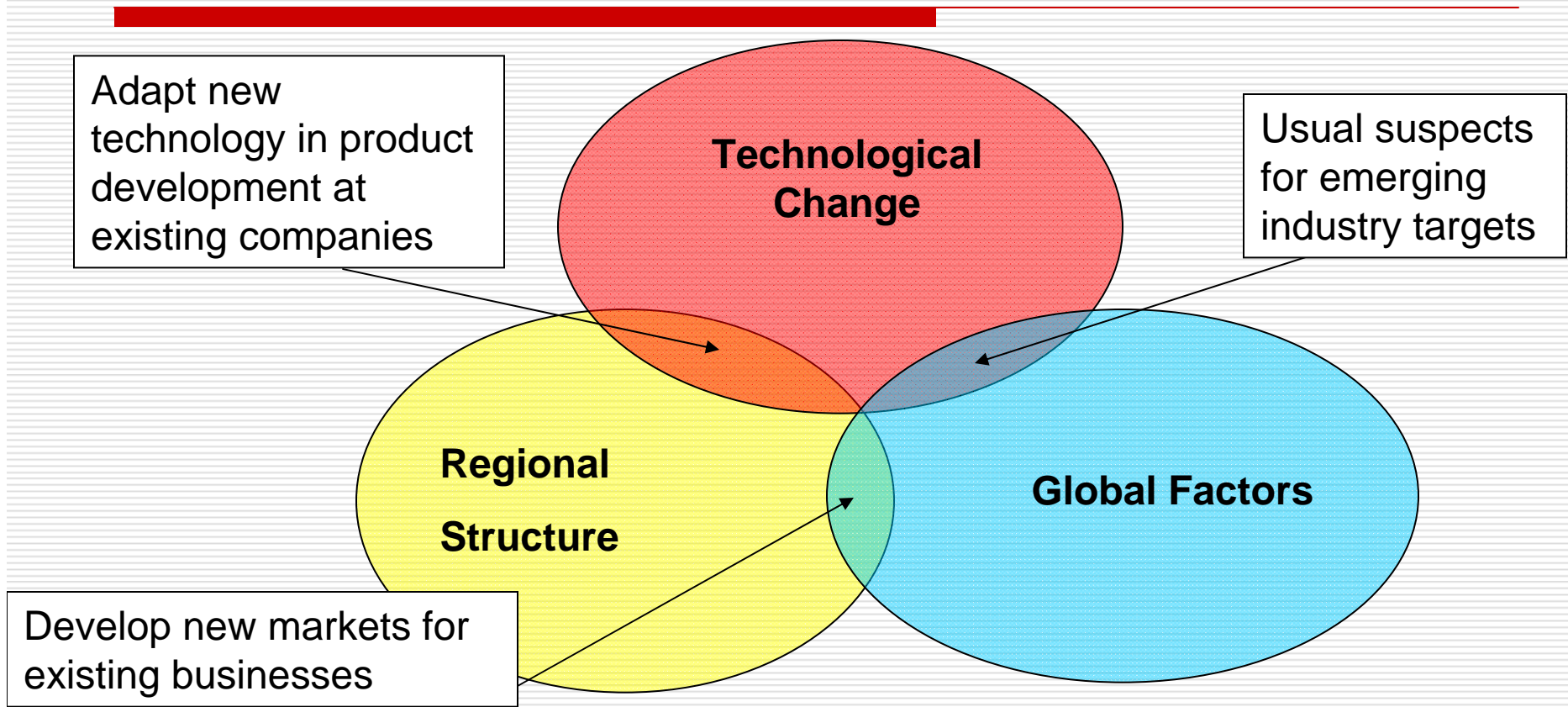
Amenities

Existing industries

Interaction Between Regional Factors



Emerging Industry Opportunities



Think “in the box” with a design eye.

We should question emerging industry thinking.

- Industry clusters matter, as do R & D resources and, simply, luck.
- Great technologies can be eclipsed by better technologies.
- Instead, can we “change the box?”
- Product Cycle Theory

Regional Aspects of a Product Life Cycle

Stage 1: Birth—*An environment of entrepreneurship.*



Stage 2: Product development and wealth creation—*An encouraging environment for success.*

Stage 3: Product standardization—*Low cost, competitive environment.*

Stage 4: Death—*An environment of abandonment.*

Five Types of Entrepreneurs

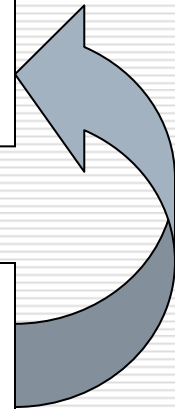
- ❑ Aspiring - High-risk beginners
 - ❑ Survival
 - ❑ Lifestyle
 - ❑ Growth
 - ❑ Serial
- Modest job growth potential
- Experienced entrepreneurs focused on wealth generation and design
- Career idea developers—sell before production.

Dabson et al. *Mapping Rural Entrepreneurship*, W.K. Kellogg Foundation, 2003.

“In the box thinking” could allow a firm to “reverse” the life cycle of its products or services.

Stage 2: Product development and wealth creation—*An encouraging environment for success.*

Stage 3: Product standardization
Low cost, competitive environment.



Entrepreneurship is not limited to start-ups.

- Returning to “growing young again.”
 - Diversification based on assets and regional resources.
 - Building on strengths, not on trying to resolve weaknesses.
 - The growing importance of networks—regional and industrial.
- Many start-ups are not interested in growth or being a “game changer”—which many existing firms are.

Closing Thoughts

The very essence of long-run success in changing times is to recognize *how to make the transition* from doing what you know how to do to using your expertise to do what the market wants as demographics and technology change.

Closing Thoughts (cont'd)

- Avoid jumping on the bandwagon in trying to attract the next best thing.
 - Competition is fierce—most states are going after life sciences.
 - If industry clusters matter at all, then it is risky to go after industries that are currently not in the region.
 - Many of the usual suspects are top-heavy with highly-educated professionals, meaning that “job chains” that reach the underemployed and unemployed will not be created.

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