Is there a Recession on the Horizon? A Look Forward into 2020

Presentation to
Kruggel Lawton 12th Annual CFO Summit

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W.E. Upjohn Institute for Employment Research

OCTOBER 30th, 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.
We are currently in the longest expansion since WWII

Employment Index during Economic Expansion

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

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</thead>
<tbody>
<tr>
<td>Contraction</td>
<td>8</td>
<td>11</td>
<td>10</td>
<td>8</td>
<td>10</td>
<td>11</td>
<td>16</td>
<td>6</td>
<td>16</td>
<td>8</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>Expansion</td>
<td>37</td>
<td>45</td>
<td>39</td>
<td>24</td>
<td>106</td>
<td>36</td>
<td>58</td>
<td>12</td>
<td>92</td>
<td>120</td>
<td>73</td>
<td>124</td>
</tr>
<tr>
<td>Business</td>
<td>45</td>
<td>56</td>
<td>49</td>
<td>32</td>
<td>116</td>
<td>47</td>
<td>92</td>
<td>18</td>
<td>108</td>
<td>128</td>
<td>81</td>
<td>142</td>
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</table>
GDP is projected to remain solid, with a slowing rate of employment growth; Revision 3: Q2 2.0%
## University of Michigan RSQE national forecast

<table>
<thead>
<tr>
<th></th>
<th>2019 (Forecast)</th>
<th>2020 (Forecast)</th>
<th>2021 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>2.3%</td>
<td>1.7%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Employment</td>
<td>1.5%</td>
<td>1.1%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Light vehicle sales</td>
<td>17</td>
<td>16.9</td>
<td>16.6</td>
</tr>
<tr>
<td>(millions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>3.7%</td>
<td>3.6%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Housing starts</td>
<td>1.23</td>
<td>1.24</td>
<td>1.24</td>
</tr>
<tr>
<td>(millions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI/Inflation</td>
<td>1.7%</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>
The stock market has reacted to various events this year, and the ride is getting bumpier.

Dow Jones Industrial Average

- 01/25: Government shutdown ends
- 04/05: Strong jobs numbers released
- 05/03: Unemployment rate falls to lowest level in 50 years
- 08/01: Fed announces first round of rate cuts
- 08/23: China announces increased tariffs on U.S. imports
- 09/01: Tariffs on Chinese goods go into effect
- 09/18: Fed announces second round of rate cuts
- 09/18: Tariffs on Chinese goods go into effect

Source: Yahoo Finance
Inflation and interest rates have increased in the past two years

Interest Rates and 12-Month Inflation Change

Source: Bureau of Labor Statistics and New York Federal Reserve
High consumer confidence (↓@125.1) and slower debt growth

Consumer Confidence and Change in Consumer Debt

- Consumer Debt (L)
- Consumer Confidence (R)

Index: 1995 = 100
Light vehicle sales have been steady

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

Source: Bureau of Economic Analysis
More openings than workers in the nation...

Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (JOLTS)
Indiana
Education and health added the most jobs last year in the state of Indiana

State of Indiana Employment Change, Q1 2018 to Q1 2019

Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages
RV unit shipments have increased since the Great Recession, but are showing a recent decline.

Source: Bureau of Economic Analysis
USMCA and Brexit matter to Indiana

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total</th>
<th>China</th>
<th>Canada</th>
<th>Mexico</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>$39,330,299,869</td>
<td>5.0%</td>
<td>34.0%</td>
<td>13.8%</td>
<td>23.4%</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>$12,401,157,080</td>
<td>2.5%</td>
<td>53.3%</td>
<td>13.8%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>$9,006,917,779</td>
<td>8.0%</td>
<td>7.7%</td>
<td>4.0%</td>
<td>49.4%</td>
</tr>
<tr>
<td>Machinery</td>
<td>$4,500,992,237</td>
<td>4.8%</td>
<td>21.8%</td>
<td>39.7%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Miscellaneous manufactures</td>
<td>$2,601,469,056</td>
<td>8.8%</td>
<td>12.5%</td>
<td>1.5%</td>
<td>46.6%</td>
</tr>
<tr>
<td>Computer and electronic products</td>
<td>$1,782,551,329</td>
<td>5.9%</td>
<td>31.1%</td>
<td>7.4%</td>
<td>26.6%</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>$1,339,852,919</td>
<td>4.3%</td>
<td>25.4%</td>
<td>18.4%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Food manufacturing</td>
<td>$1,325,003,411</td>
<td>4.1%</td>
<td>28.2%</td>
<td>16.2%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

Source: Department of Commerce, International Trade Administration
# Exposure on the agricultural side

<table>
<thead>
<tr>
<th>2017-2018</th>
<th>Illinois</th>
<th>Indiana</th>
<th>Michigan</th>
<th>Ohio</th>
<th>Wisconsin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soy bean farms</td>
<td>36,393</td>
<td>22,223</td>
<td>11,961</td>
<td>25,595</td>
<td>18,296</td>
</tr>
<tr>
<td>Soy bean sales</td>
<td>$5,668,028</td>
<td>$3,024,384</td>
<td>$998,608</td>
<td>$2,333,805</td>
<td>$938,273</td>
</tr>
<tr>
<td>Agricultural products to China</td>
<td>$163,752</td>
<td>$209</td>
<td>$109</td>
<td>$157,677</td>
<td>$18,982</td>
</tr>
<tr>
<td>Agricultural products to Canada</td>
<td>$59,285</td>
<td>$30,038</td>
<td>$346,322</td>
<td>$362,651</td>
<td>$26,062</td>
</tr>
<tr>
<td>Agricultural products to Mexico</td>
<td>$548,893</td>
<td>$4,130</td>
<td>$30,742</td>
<td>$688,268</td>
<td>$17,128</td>
</tr>
<tr>
<td>Agricultural products to E.U.</td>
<td>$82,673</td>
<td>$8,669</td>
<td>$17,346</td>
<td>$138,186</td>
<td>$179,259</td>
</tr>
</tbody>
</table>

Dollars in ‘000s

Source: Department of Commerce, International Trade Administration, Department of Agriculture, Census of Agriculture
Out-migration from Indiana: 2013 to 2019
In-migration to Indiana: 2013 to 2019
Out-migration from Indiana: 2013 to 2019

Emerging workers aged 25 to 34
In-migration to Indiana: 2013 to 2019

Emerging workers aged 25 to 34
Out-migration from Indiana: 2013 to 2019

Prime-aged workers, 35 to 54
In-migration to Indiana: 2013 to 2019

Prime-aged workers, 35 to 54

Source: Infutor and The Upjohn Institute
Out-migration from Indiana: 2013 to 2019

Post-prime-aged workers, 55 and older

Source: Infutor and The Upjohn Institute
In-migration from Indiana: 2013 to 2019

Post-prime-aged workers, 55 and older
Regional Economy: Northcentral Indiana
Unemployment rate 2018

- Elkhart-Goshen MSA is at 3% as of August 2019
- South Bend-Mishawaka MSA is at 3.8% as of August 2019
- Michigan City-La Porte MSA is at 3.9% as of August 2019
- The United States is currently at 3.7%
- Natural Rate of Unemployment: Q3: 4.4%
Labor force participation rate 2018

- Elkhart-Goshen MSA is at 76.66%
- South Bend-Mishawaka MSA is at 63.69%
- Michigan City-La Porte MSA is at 52.76%
- The United States is currently at ~63% and has been since 2017

Source: U.S. Census American Community Survey, Bureau of Labor Statistics
Housing price index change

- Elkhart-Goshen MSA 2018 HPI Change was 6.45
- South Bend-Mishawaka MSA 2018 HPI Change was 8.03
- Michigan City-La Porte MSA 2018 HPI Change was 4.88
- Indiana's 2018 statewide HPI Change was 6.56

Source: Federal Housing Finance Agency
The Elkhart-Goshen MSA has made a strong recovery since the recession...

Source: BLS Current Employment Survey
The South Bend-Mishawaka MSA has only recently reached prerecession employment levels...
The Michigan City-La Porte MSA has continued to see its employment stable but below pre-2007...

Source: BLS Current Employment Survey
Manufacturing jobs have declined significantly in Elkhart county.
Education and health employment has been increasing in St. Joseph County, while manufacturing has declined

St. Joseph County Employment Change, Q1 2018 to Q1 2019

Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages
Manufacturing jobs have been increasing in LaPorte County, while trade, transportation, and utilities have declined.
Manufacturing employment growth in the Elkhart-Goshen MSA had exceeded that of the state and nation, but has recently declined

Source: BLS Current Employment Survey
Manufacturing employment in the South Bend-Mishawaka MSA has grown slowly since the recession...

Source: BLS Current Employment Survey
Manufacturing employment in the Michigan City-La Porte MSA has remained relatively steady since the recovery and is recently trending upward.

Source: BLS Current Employment Survey
Service employment growth has stalled in the Elkhart-Goshen MSA…

Source: BLS Current Employment Survey
Service employment growth has been below the State and Nation in the South Bend-Mishawaka MSA.

Source: BLS Current Employment Survey
Employment in Services in the Michigan City-La Porte MSA has been declining

Services Employment Index

- United States
- Indiana
- Michigan City-La Porte MSA

Source: BLS Current Employment Survey
The Next Recession:
What We Are Watching
The next recession and what we’re watching: Our thoughts and concerns

• The effect of the announced and anticipated tariffs
The next recession and what we’re watching: Our thoughts and concerns

• The role of trade agreements
  • Blocks
    • Canada/Mexico
    • E.U.
  • Bilateral
    • China
    • Japan
    • U.K.
The next recession and what we’re watching:
Our thoughts and concerns

• Expect interest rates to change
The next recession and what we’re watching: Our thoughts and concerns

• Tight labor markets (U-3 and LFPR)
The next recession and what we’re watching: Our thoughts and concerns

• “Elections have consequences”
  • Tax policy
  • Trade policy
  • Fiscal policy
  • Monetary Policy
  • Legal Policy
• Issues of decisions and implementation
The next recession and what we’re watching: Our thoughts and concerns

• The movement from industry 2.0, to 3.0, and to 4.0
The next recession and what we’re watching: Our thoughts and concerns

• The rising deficit
The next recession and what we’re watching: Our thoughts and concerns

- Softening Global Economies
Questions?

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