Outlook for Economic Conditions in West Michigan and St. Joseph County

St. Joseph County EDGE Annual Meeting

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

December 6, 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.

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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

Employment Index during Economic Expansion

Month of Business Cycle Peak = 100

1961-1969 (106 months)
1982-1990 (92 months)
1991-2001 (120 months)
2001-present (125 months)

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>
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<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>125</td>
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<tr>
<td>Business Cycle</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>143</td>
</tr>
</tbody>
</table>

Source: National Bureau of Economic Research
Both GDP growth and employment growth are slowing...
## 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>1.7%</td>
</tr>
<tr>
<td>Employment</td>
<td>1.6%</td>
<td>1.3%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Light Vehicle Sales (Millions)</td>
<td>17.0</td>
<td>16.8</td>
<td>16.7</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>3.7%</td>
<td>3.5%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Housing Starts (Millions)</td>
<td>1.25</td>
<td>1.26</td>
<td>1.28</td>
</tr>
<tr>
<td>CPI/Inflation</td>
<td>1.7%</td>
<td>1.7%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
The stock market has reacted to various events this year, and the ride is getting bumpier

Dow Jones Industrial Average

January 2019

Index at Close

01/25 Government shutdown ends
04/05 Strong jobs numbers released
05/03 Unemployment rate falls to lowest level in 50 years
06/01 China increases tariffs on U.S. goods
08/01 Fed announces first round of rate cuts
08/02 China announces increased tariffs on U.S. goods go into effect
08/23 Fed announces second round of rate cuts
09/01 Tariffs on Chinese goods go into effect
09/09 Tariffs on Chinese goods go into effect
09/24 Impeachment inquiry announced
10/11 Delay of Chinese tariff hike

November 2019

Unemployment Rate %
Inflation and interest rates have increased in the past 2 years

Source: Bureau of Labor Statistics and New York Federal Reserve
High consumer confidence (↓ @125.5) and slower debt growth
Moody’s predictions of a recession are relatively low and decreasing: 9% in October

Source: Moody’s Analytics
PMI stood at 48.1 in November, indicating the manufacturing sector may be contracting

Source: Institute for Supply Management
Despite slowing global growth, the manufacturing sector grew last year.

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>5.1%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.0%</td>
</tr>
<tr>
<td>Private Goods</td>
<td>4.7%</td>
</tr>
<tr>
<td>Private Services</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis
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
- Growing income inequality
- Interest rates
- Federal debt and deficits
- Tax cuts
- Politics

“Expansions don’t get tired; rather, they end due to policy mistakes.”
Michigan
## University of Michigan RSQE statewide forecast

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<thead>
<tr>
<th></th>
<th>2019 (Forecast)</th>
<th>2020 (Forecast)</th>
<th>2021 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment Change</td>
<td>23,300 (.99%)</td>
<td>29,000 (.64%)</td>
<td>25,900 (.42%)</td>
</tr>
<tr>
<td>Manufacturing Employment Change (Workers)</td>
<td>2,100 (.33%)</td>
<td>2,000 (.32%)</td>
<td>1,600 (.25%)</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.1%</td>
<td>3.9%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Labor Force Participation Rate</td>
<td>61.9%</td>
<td>61.7%</td>
<td>61.7%</td>
</tr>
</tbody>
</table>
Regional Conditions:
St. Joseph County
Light vehicle sales have been steady

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

Source: Bureau of Economic Analysis
Employment growth has slowed in 2019. . .

Source: BLS Quarterly Census of Employment and Wages
Nondurable Manufacturing is forecast to mostly decline in both employment and gross domestic product

2019–2024 Projection

Employment Change

Gross Product Change

Source: Moody’s Analytics and Upjohn Institute
Durable Manufacturing is forecast to increase in gross domestic product and lose employment

2019–2024 Projection

-40% -35% -30% -25% -20% -15% -10% -5% 0% 5% 10% 15% 20% 25% 30% 35% 40%

Employment Change

Gross Product Change

-40% -35% -30% -25% -20% -15% -10% -5% 0% 5% 10% 20% 30% 40%

Source: Moody’s Analytics and Upjohn Institute
Information Services and Software Publishing are expected to grow the most

2019–2024 Projection

- Accounting
- Architectural and Engineering
- Computer Systems Design
- Data Processing
- Insurance Carriers
- Legal Services
- Management of Companies
- Professional, Scientific, and Technical
- Office Administrative Services
- Other Information Services
- Other Prof, Scientific, and Technical Services
- Scientific Research and Development
- Software Publishers
- Specialized Design Services

Source: Moody’s Analytics and Upjohn Institute
Manufacturing employment growth has been trending downward

Source: BLS Quarterly Census of Employment and Wages
...unlike service employment growth

Source: BLS Quarterly Census of Employment and Wages
Wages have been growing at a pace somewhat similar to the nation but at lower levels

Average Weekly Wage ($) All Occupations

Source: BLS Quarterly Census of Employment and Wages
Unemployment rates are between 3% and 5% for most counties in West Michigan.

Michigan’s rate was 4.2%.

St. Joseph County was 3.7%.

Source: Bureau of Labor Statistics, U.S. Census Bureau
Labor force participation rates are more varied

Michigan’s rate was 61.8%

St. Joseph County was 57.81%
Housing values continue to rise, but the pace continues to decelerate nationally.
Local housing prices have been rising for the last few years

Source: Federal Housing Finance Administration
Net Migration to St. Joseph County: 2013 to 2019
Net Migration to St. Joseph County: 2013 to 2019

Emerging workers, ages 25 to 34
Net Migration to St. Joseph County: 2013 to 2019

Prime-aged workers, 35 to 54
Net Migration to St. Joseph County: 2013 to 2019

Post-prime-aged workers, 55 and older
Are homeowners paying too much for housing?

Percent of Homeowners Paying 35% or More

<table>
<thead>
<tr>
<th>City</th>
<th>Percent of Homeowners Paying 35% or More</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ottawa</td>
<td>13.6</td>
</tr>
<tr>
<td>Kent</td>
<td>14.6</td>
</tr>
<tr>
<td>Kalamazoo</td>
<td>16</td>
</tr>
<tr>
<td>Allegan</td>
<td>16.8</td>
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<tr>
<td>Barry</td>
<td>17.5</td>
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<tr>
<td>Muskegon</td>
<td>17.7</td>
</tr>
<tr>
<td>St. Joseph</td>
<td>18.3</td>
</tr>
<tr>
<td>Calhoun</td>
<td>18.6</td>
</tr>
<tr>
<td>Van Buren</td>
<td>19.3</td>
</tr>
<tr>
<td>Michigan</td>
<td>18.8</td>
</tr>
<tr>
<td>United States</td>
<td>22.3</td>
</tr>
</tbody>
</table>

Source: U.S. Census American Community Survey, Table DP04
Renters are in worse shape

**Percent of Renters Paying 35% or More**

- Allegan: 31.9%
- St. Joseph: 35.9%
- Barry: 36.1%
- Calhoun: 36.6%
- Kalamazoo: 38.9%
- Kent: 39.6%
- Muskegon: 39.7%
- Ottawa: 42.8%
- Van Buren: 46.1%
- Michigan: 41.8%
- United States: 41.5%

Source: U.S. Census American Community Survey, Table DP04
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?

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