Albion 2020 Economic Forecast

A Presentation to the ALBION ECONOMIC DEVELOPMENT CORPORATION

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

March 5, 2020
W.E. Upjohn Institute for Employment Research

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National Economy
We are currently in the longest expansion since WWII

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

Dow Jones Industrial Average

February 2019

04/05 Strong jobs numbers released
05/03 Unemployment rate falls to lowest level in 50 years
06/01 China announces increased tariffs on U.S. goods
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
12/12 Phase 01 Trade Deal with China signed
09/18 Fed announces second round of rate cuts
10/11 Delay of Chinese tariff hike
01/29 USMCA signed into law
01/31 Coronavirus declared public health emergency

February 2020

Source: Yahoo Finance
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>129</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>142</td>
</tr>
</tbody>
</table>

Source: National Bureau of Economic Research
GDP growth is projected to remain solid, although employment growth is slowing.
# University of Michigan RSQE national forecast

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020 (Forecast)</th>
<th>2021 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>2.3%</td>
<td>2.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Employment</td>
<td>1.3%</td>
<td>1.5%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Light Vehicle Sales (Millions)</td>
<td>16.9</td>
<td>16.8</td>
<td>16.6</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>3.7%</td>
<td>3.4%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Housing Starts (Millions)</td>
<td>1.30</td>
<td>1.34</td>
<td>1.35</td>
</tr>
<tr>
<td>CPI/Inflation</td>
<td>1.8%</td>
<td>2.0%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>
High and stable consumer confidence

Source: Conference Board and University of Michigan
Moody’s predictions of a recession are relatively low: 14% in December

Source: Moody’s Analytics
Inflation and interest rates have increased in the past 2 years

Interest Rates and 12-Month Inflation Change

3-month T-Bill  10-year T-Bill  CPI-U 12-month change

Source: Bureau of Labor Statistics and New York Federal Reserve
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
- Low interest rates
- Federal debt and deficits
- Tax cuts
- Politics
- Global Pandemics

“Expansions don’t get tired; rather, they end due to policy mistakes.”
Michigan
Michigan has seen declines in some key sectors of the economy
Light vehicle sales have been steady

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

- 16.8 (2000 to 2007 Average)
- 16.9 (2013 to 2020 Average)

Source: Bureau of Economic Analysis
## University of Michigan RSQE statewide forecast

<table>
<thead>
<tr>
<th></th>
<th>2019 (Forecast)</th>
<th>2020 (Forecast)</th>
<th>2021 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment Change</strong></td>
<td>23,300 (.99%)</td>
<td>29,000 (.64%)</td>
<td>25,900 (.42%)</td>
</tr>
<tr>
<td><strong>Manufacturing Employment Change (Workers)</strong></td>
<td>2,100 (.33%)</td>
<td>2,000 (.32%)</td>
<td>1,600 (.25%)</td>
</tr>
<tr>
<td><strong>Unemployment Rate</strong></td>
<td>4.1%</td>
<td>3.9%</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>Labor Force Participation Rate</strong></td>
<td>61.9%</td>
<td>61.7%</td>
<td>61.7%</td>
</tr>
</tbody>
</table>
Regional Conditions: Battle Creek MSA
The Battle Creek Metropolitan Statistical Area

- Calhoun County

Source: Basemap
Unemployment rates are between 2.3% and 6% for counties in West Michigan

The MSA is at full employment

Michigan’s rate is 3.9% (December 2019)
The labor force participation rate in Calhoun county is 58.24%

Michigan’s rate is 61.7% (December 2019)
Total Employment in the MSA continues to be just above pre-recession levels

Nonfarm Employment Index (2007 = 100)
Battle Creek manufacturing growth is trending above the nation

Manufacturing Employment Index (2007 = 100)

Employment in services has held near pre-recession levels for the past seven years.

**Private Services Providing Employment Index (2007 = 100)**

- **Battle Creek MSA**
- **Michigan**
- **United States**

Overall, a greater proportion of the labor force in Battle Creek is employed than in the past

Total Labor Force: Battle Creek Metro Area

Source: Bureau of Labor Statistics Local Area Unemployment Statistics
Housing values continue to rise.

But the pace continues to decelerate nationally.
New construction has remained relatively flat

New Permits for Housing - Units

Source: U.S. Census Building Permits
Housing prices are rising more quickly than the State of Michigan

Source: Federal Housing Finance Agency
There are concerns when housing costs exceed 30% of household income

Percent of Homeowners Paying 30% or More

- Muskegon: 11.9%
- Grand Rapids-Wyoming: 12.1%
- Niles-Benton Harbor: 12.2%
- Kalamazoo-Portage: 14.2%
- Battle Creek: 16.4%
- Michigan: 14.6%
- United States: 13.9%

American Community Survey (ACS) 5-year estimates (2018)
Would more housing help?

Percent of Renters Paying 30% or More

- Grand Rapids-Wyoming: 46.8%
- Kalamazoo-Portage: 47.6%
- Niles-Benton Harbor: 49%
- Battle Creek: 50.5%
- Muskegon: 53.2%
- Michigan: 49.6%
- United States: 50.2%

American Community Survey (ACS) 5-year estimates (2018)
How did we do last year?
Review of last year’s forecast

Annual Percent Change in Employment

- Total: 0.8
- Goods producing: 0.8, 0.8
- Service providing: -0.1
- Government: 0.5, 1.2

Our View of 2020 & 2021
Battle Creek MSA 2020–2021 employment forecast

Annual Percent Change in Employment

<table>
<thead>
<tr>
<th>Percent Change in Employment</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<tbody>
<tr>
<td>Total</td>
<td>0.0</td>
<td>0.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Goods producing</td>
<td>-0.5</td>
<td>-1.0</td>
<td>-1.4</td>
</tr>
<tr>
<td>Service providing</td>
<td>1.1</td>
<td>0.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Government</td>
<td>0.5</td>
<td>-0.5</td>
<td>-0.9</td>
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Source: Upjohn Institute, REMI, and Bureau of Labor Statistics
Battle Creek MSA, state, & national 2020 employment forecast

Source: Upjohn Institute and REMI
REMI Battle Creek MSA 2020–2021 GRP forecast

Annual Percent Change in GRP

<table>
<thead>
<tr>
<th>Sector</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<tbody>
<tr>
<td>Total</td>
<td>3.5</td>
<td>3.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Goods producing</td>
<td>2.7</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Service providing</td>
<td>4.2</td>
<td>3.9</td>
<td>3.6</td>
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<tr>
<td>Government</td>
<td>2.6</td>
<td>1.9</td>
<td>2.0</td>
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Source: Upjohn Institute and REMI
Battle Creek MSA, state, & national 2020 GRP forecast

Annual Percent Change in GRP

<table>
<thead>
<tr>
<th>Category</th>
<th>Battle Creek</th>
<th>Michigan</th>
<th>United States</th>
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<tbody>
<tr>
<td>Total</td>
<td>3.2</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Goods producing</td>
<td>2.4</td>
<td>0.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Service providing</td>
<td>3.9</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Government</td>
<td>1.9</td>
<td>0.2</td>
<td>0.5</td>
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Source: Upjohn Institute and REMI
Questions?

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