Looking into 2020: What We Are Watching

A Presentation to the
CADILLAC AREA CHAMBER OF COMMERCE

Jim Robey, Director, Regional Economic Planning Services
W.E. Upjohn Institute for Employment Research
February 19, 2020
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 Outlook
We are currently in the longest expansion since WWII

Employment Index during Economic Expansion

- 1961-1969 (106 months)
- 1982-1990 (92 months)
- 2001-2007 (73 months)
- 1991-2001 (120 months)
- 2009-present (128 months)

Month of Business Cycle Peak = 100

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>128</td>
</tr>
<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
The stock market reacted to various events last year, but continues to grow

Dow Jones Industrial Average

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. goods
09/01 Tariffs on Chinese goods go into effect
09/18 Fed announces second round of rate cuts
10/11 Delay of Chinese tariff hike
12/12 Phase 01 Trade Deal with China signed
01/29 USMCA signed into law
1/31 Coronavirus declared public health emergency

February 2019
February 2020

Source: Yahoo Finance
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 (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</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Millions)</td>
<td>17.0</td>
<td>16.8</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>3.7%</td>
<td>3.5%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Housing Starts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Millions)</td>
<td>1.25</td>
<td>1.26</td>
</tr>
<tr>
<td>CPI/Inflation</td>
<td>1.7%</td>
<td>1.7%</td>
<td>2.0%</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: 10% in November

Source: Moody’s Analytics
With tax cuts and 2018 fiscal stimulus overhang, federal debt and deficits continue to climb.

Source: Office of Management and Budget
Inflation and interest rates have increased in the past 2 years

Interest Rates and 12-Month Inflation Change

Source: Bureau of Labor Statistics and New York Federal Reserve
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
Class 8 Truck orders declined significantly in 2019

Class 8 Truck Orders (in thousands)
## University of Michigan RSQE statewide forecast

<table>
<thead>
<tr>
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<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</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment Change</td>
<td>2,100 (.33%)</td>
<td>2,000 (.32%)</td>
<td>1,600 (.25%)</td>
</tr>
<tr>
<td>(Workers)</td>
<td></td>
<td></td>
<td></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>
U.S. total employment growth continues to outpace Michigan

Michigan manufacturing employment outpaces the nation

Manufacturing Employment Index (2007 = 100)

Employment in services continues to stay above pre-recession levels, although growth is slowing

Private Services Providing Employment Index (2007 = 100)

Index (2007 = 100)

- Michigan
- United States

The current unemployment rate is 4.0%, with 191,395 persons looking for work
The national unemployment rate was 3.5% in November 2019 while Michigan was at 4.0 (November 2019).
The national labor force participation rate was 63.2% in November 2019. This is down from October 2007, when it was 66%.
Will some upward wage pressure bring more employees into the current labor market?

Average Hourly Earnings (Not Adjusted for Inflation)

The national S&P CoreLogic Case-Shiller index change year/year for October 2019 was 3.3%.
Michigan exports in 2019: USMCA matters!

<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>$55,314,589,565</td>
<td>5.9%</td>
<td>41.0%</td>
<td>20.2%</td>
<td>13.8%</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>$27,343,832,561</td>
<td>6.8%</td>
<td>51.5%</td>
<td>14.8%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>$5,005,572,148</td>
<td>7.6%</td>
<td>14.1%</td>
<td>16.7%</td>
<td>32.7%</td>
</tr>
<tr>
<td>Machinery</td>
<td>$4,169,676,675</td>
<td>4.4%</td>
<td>32.2%</td>
<td>31.7%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Computer and electronic</td>
<td>$2,888,333,921</td>
<td>6.7%</td>
<td>17.9%</td>
<td>30.5%</td>
<td>14.9%</td>
</tr>
<tr>
<td>Fabricated metals</td>
<td>$2,294,195,949</td>
<td>2.4%</td>
<td>45.2%</td>
<td>13.5%</td>
<td>30.8%</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>$2,252,355,800</td>
<td>3.2%</td>
<td>23.2%</td>
<td>40.2%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Primary metals</td>
<td>$1,979,295,285</td>
<td>4.8%</td>
<td>29.0%</td>
<td>42.0%</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

Source: International Trade Administration
## Exposure on the agricultural side

<table>
<thead>
<tr>
<th></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>22,174</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 (% change 2017-2018)</td>
<td>$95,962</td>
<td>$37</td>
<td>$33</td>
<td>$582,771</td>
<td>$11,765</td>
</tr>
<tr>
<td></td>
<td>(-70.6%)</td>
<td>(-457.4%)</td>
<td>(-223.4%)</td>
<td>(+72.9%)</td>
<td>(-61.3%)</td>
</tr>
<tr>
<td>Other animal products to Canada (% change 2017-2018)</td>
<td>$1,640</td>
<td>$5,987</td>
<td>$5,378</td>
<td>$26,307</td>
<td>$77,328</td>
</tr>
<tr>
<td></td>
<td>(-65.4%)</td>
<td>(-28.6%)</td>
<td>(-54.3%)</td>
<td>(-81.4%)</td>
<td>(-33.3%)</td>
</tr>
<tr>
<td>Food manufacturing to Canada (% change 2017-2018)</td>
<td>$1,217,959</td>
<td>$451,691</td>
<td>$405,328</td>
<td>$746,601</td>
<td>$898,814</td>
</tr>
<tr>
<td></td>
<td>(-3.0%)</td>
<td>(+17.2%)</td>
<td>(0.0%)</td>
<td>(+1.9%)</td>
<td>(-4.5%)</td>
</tr>
</tbody>
</table>

Dollars in ‘000s

Source: U.S. Census of Agriculture, International Trade Administration
Current Conditions

Cadillac/Wexford County
The county is just starting to reach pre-recession levels of employment

Nonfarm Employment Index (2007 = 100)
Manufacturing shines

Employment Change, Q1/2 2018 to Q1/2 2019

Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages
Manufacturing employment is growing

Manufacturing Employment Index (2007 = 100)

Index (2007 = 100)


- Wexford County
- Michigan
- United States

Employment in Services has been trending upward in recent years

Private Services Providing Employment Index (2007 = 100)

Unemployment rates vary greatly between 2.6% to 8.1% in Northern Michigan.

Michigan’s rate is 4.0% (November 2019)
Labor force participation is lower than the State.

Michigan’s rate is 61.7% (November 2019)
House prices are rising in Wexford and the surrounding counties.

But the pace continues to decelerate nationally.
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/increases
- Politics—elections matter
- Global pandemics

“Expansions don’t get tired; rather, they end due to policy mistakes.”
Questions?

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