

# Outlook for the Grand Rapids MSA: *A long and winding road to recovery*

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# A Special Thanks to

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***Right Place*** for making this whole program possible.

The participants of the Forecast Advisory Focus Group who accept none of the credit but all of the blame for our forecasts.

# Agenda

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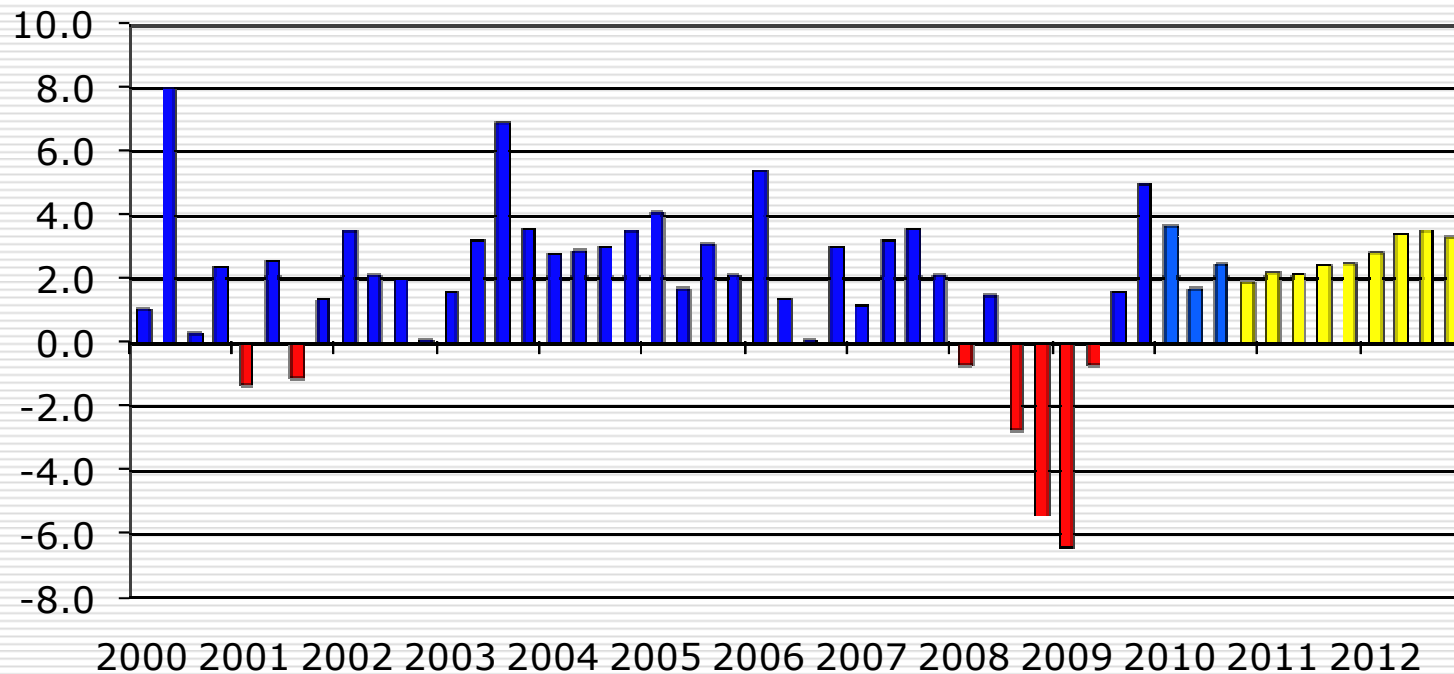
- ❑ Review of National economic conditions – *It is not all the banks' fault.*
- ❑ Statewide – *You have to love autos*
- ❑ Comparison analysis
- ❑ A quick review of last year's forecast – *Too pessimistic.*
- ❑ The 2011 and 2012 employment forecast for the Grand Rapids MSA.
- ❑ Challenges, Opportunities, and Fears

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So there is this guy in Tibet.....

Nationwide, GDP increased by 2.5% in the second quarter, *disappointing to say the least. And the forecast is not great.*

### Annualized Quarterly Percent Change in GDP



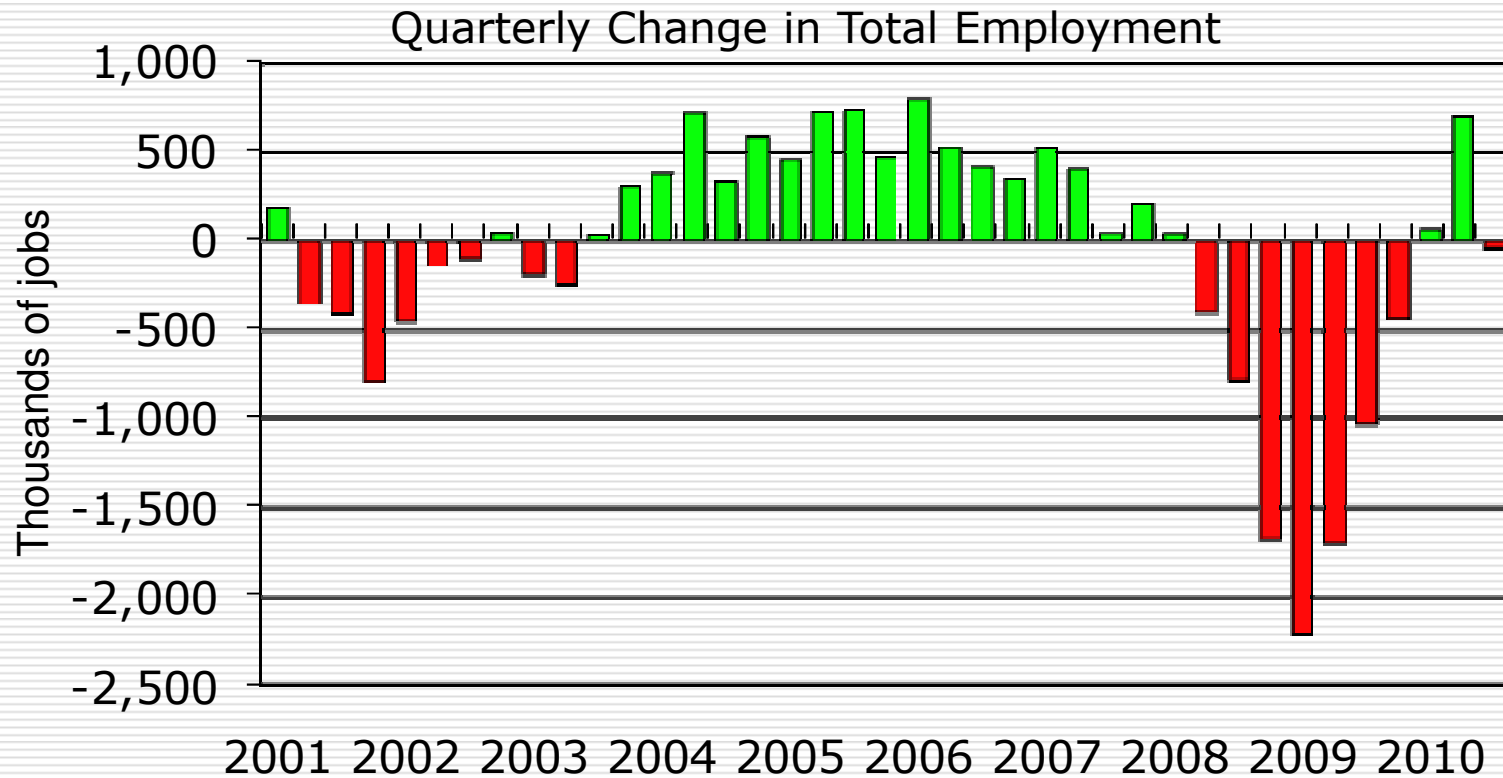
Source: BEA, University of Michigan November 10, 2010 .

# Employment growth occurs when GDP growth surpasses productivity growth

## GDP annual percent growth – Percent change in Productivity



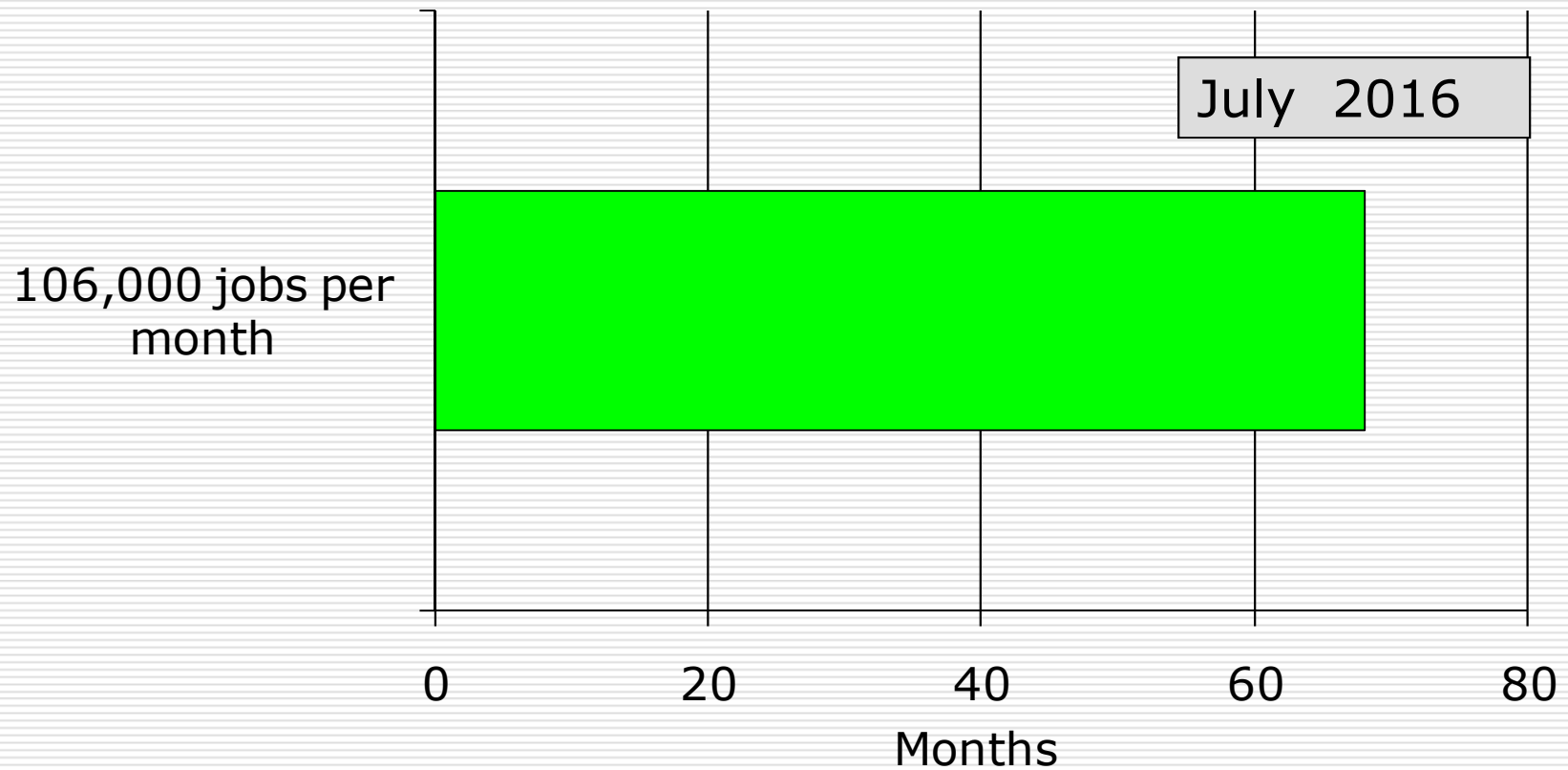
Employment inched up 39,000 in November, after jumping up by 172,000 in October. It fell by 43,000 during the third quarter.



Source: BLS.

# How long will it take for employment to reach its pre-recession level if current trends continue in the private sector?

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# What are the headwinds?

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- ❑ Consumer confidence is still lackluster and spending has slowed: bargain hunting and paying off debts are cool.
- ❑ Housing is still flat.
- ❑ Financial markets are **STILL** in crisis.
- ❑ Although the dollar has lost value, exports are still flat.
- ❑ Election results have likely limited future fiscal policy.

# Single-Family Housing Starts— *Reached bottom hopefully.*

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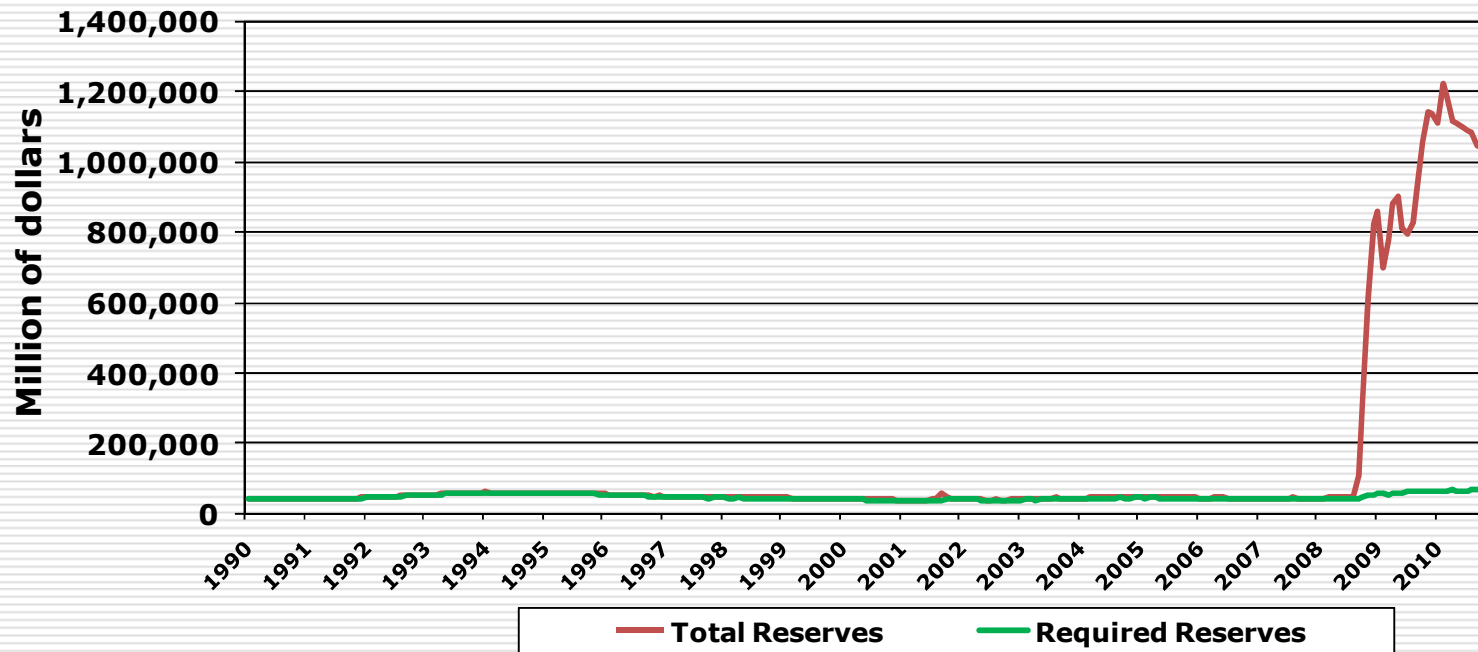
**Single-family Housing Starts (thousands)**



U.S. Census

# Financial Roadblock: *Banks are still holding a trillion dollars in excess reserves.*

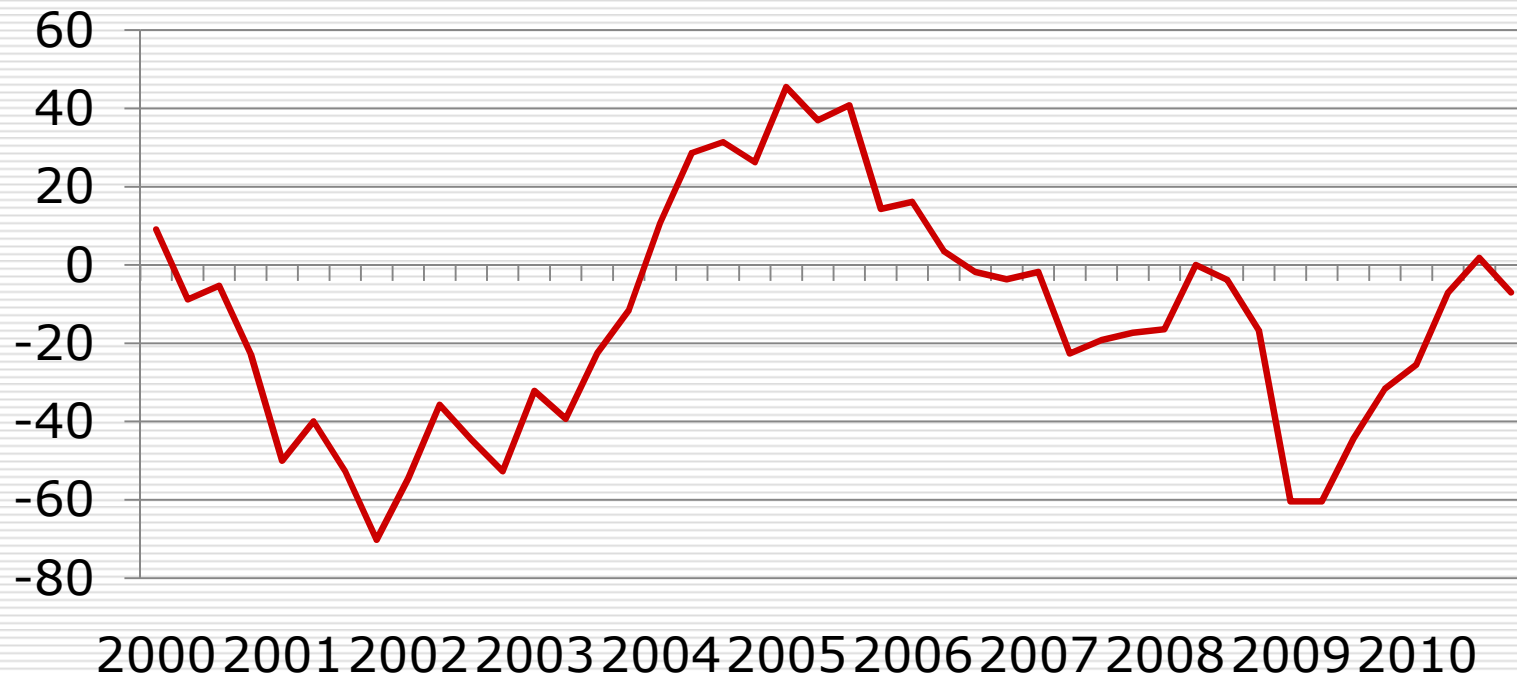
**Total And Required Reserves at the Federal Reserve**



Source: Federal Reserve

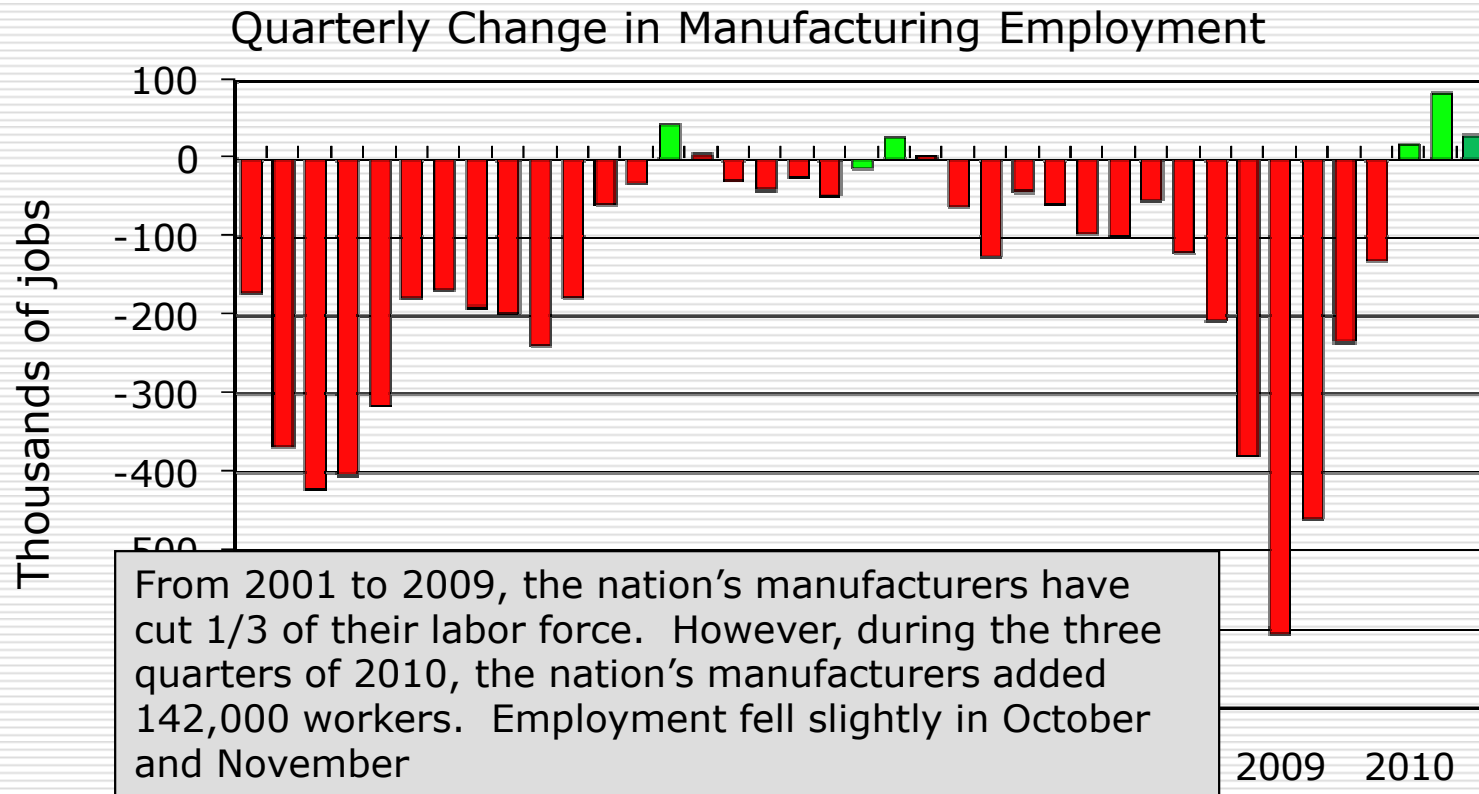
# Demand for C & I loans has improved.

**Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans**



Source: Federal Reserve

# Manufacturing employment is expanding.



Source: BLS.

# Possible Government Action

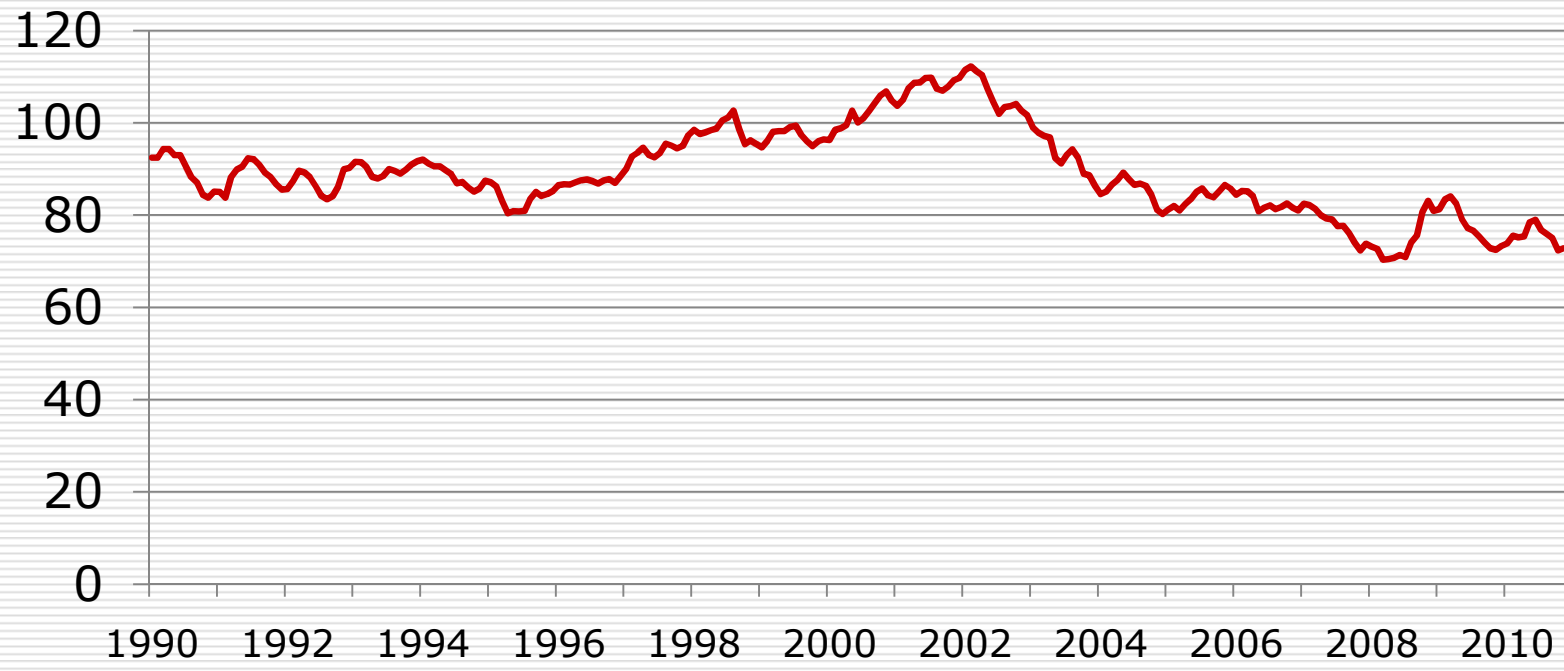
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- ❑ Fiscal Policy: *Further tax cuts are likely, as well as larger deficits.*
- ❑ Monetary Policy: *Carefully monitored aggressiveness. "We could raise interest rates in 15 minutes."*
- ❑ Dangers:
  - *A growing national debt*
  - *Inflationary spiral*
  - *A weakening dollar*

# The dollar has been slipping against major currencies.

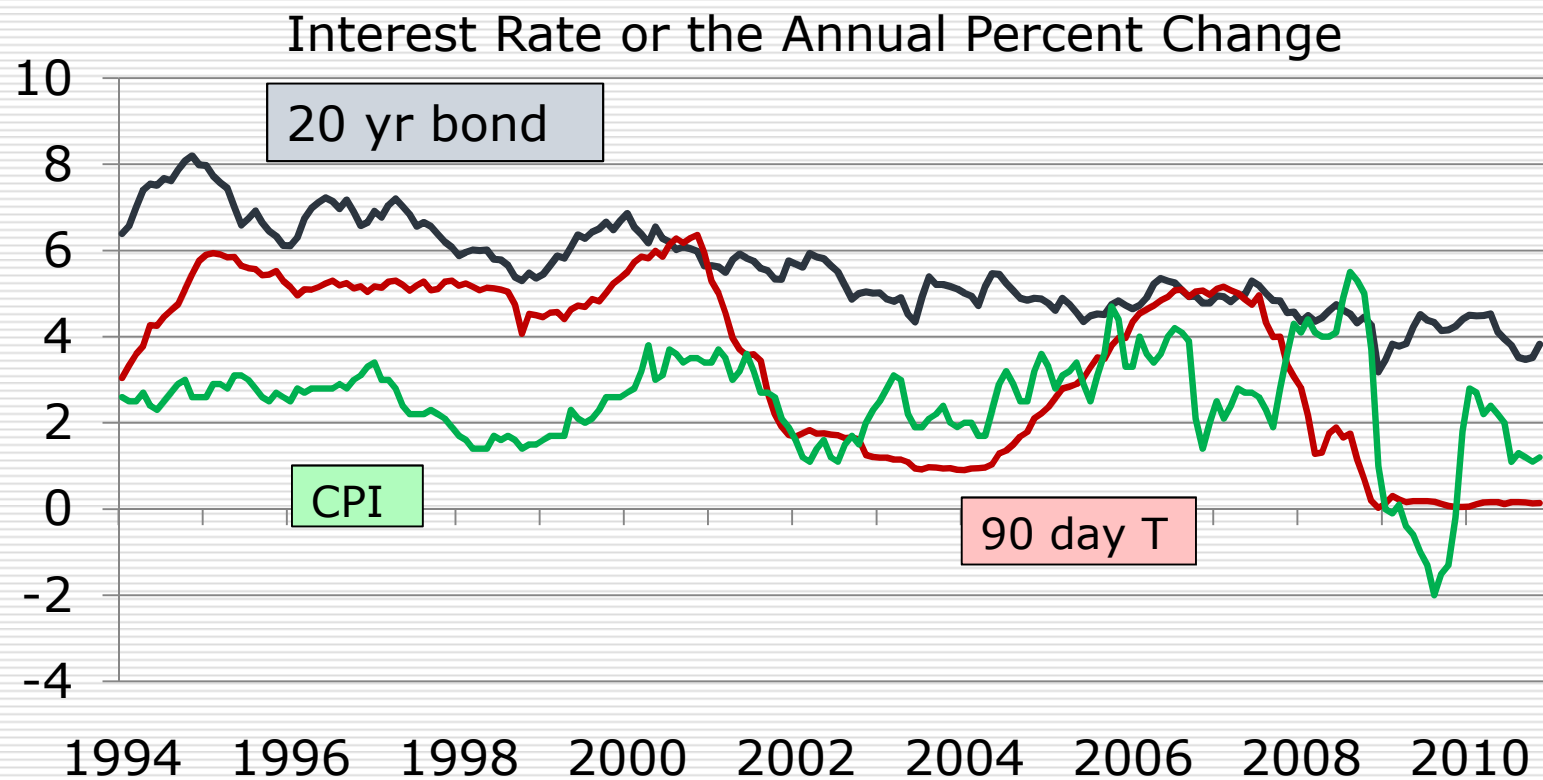
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## Dollar relative to major currencies



Source: Federal Reserve

# Interest rates and inflation are both low.



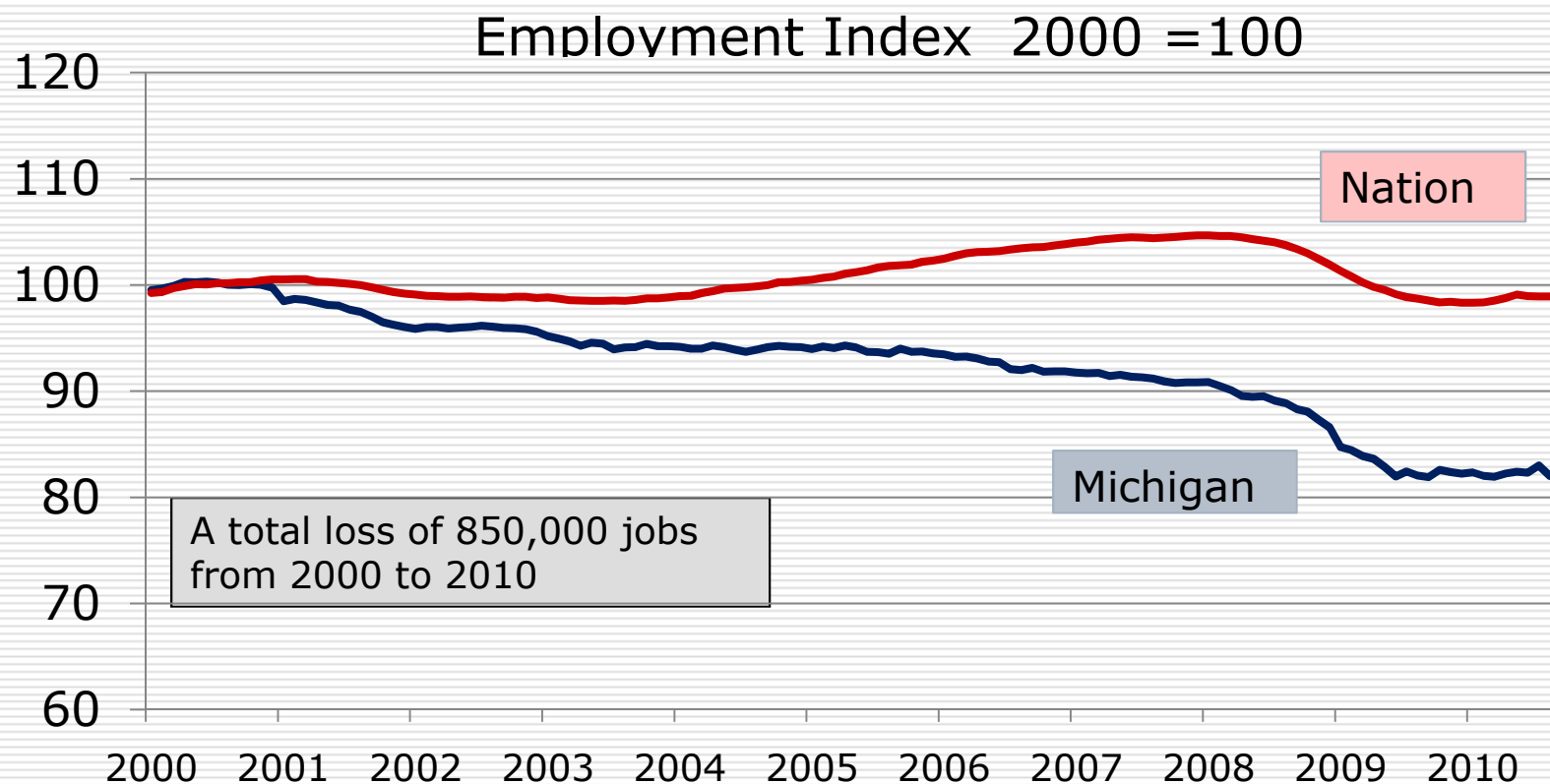
Source: Federal Reserve and BLS

# Michigan

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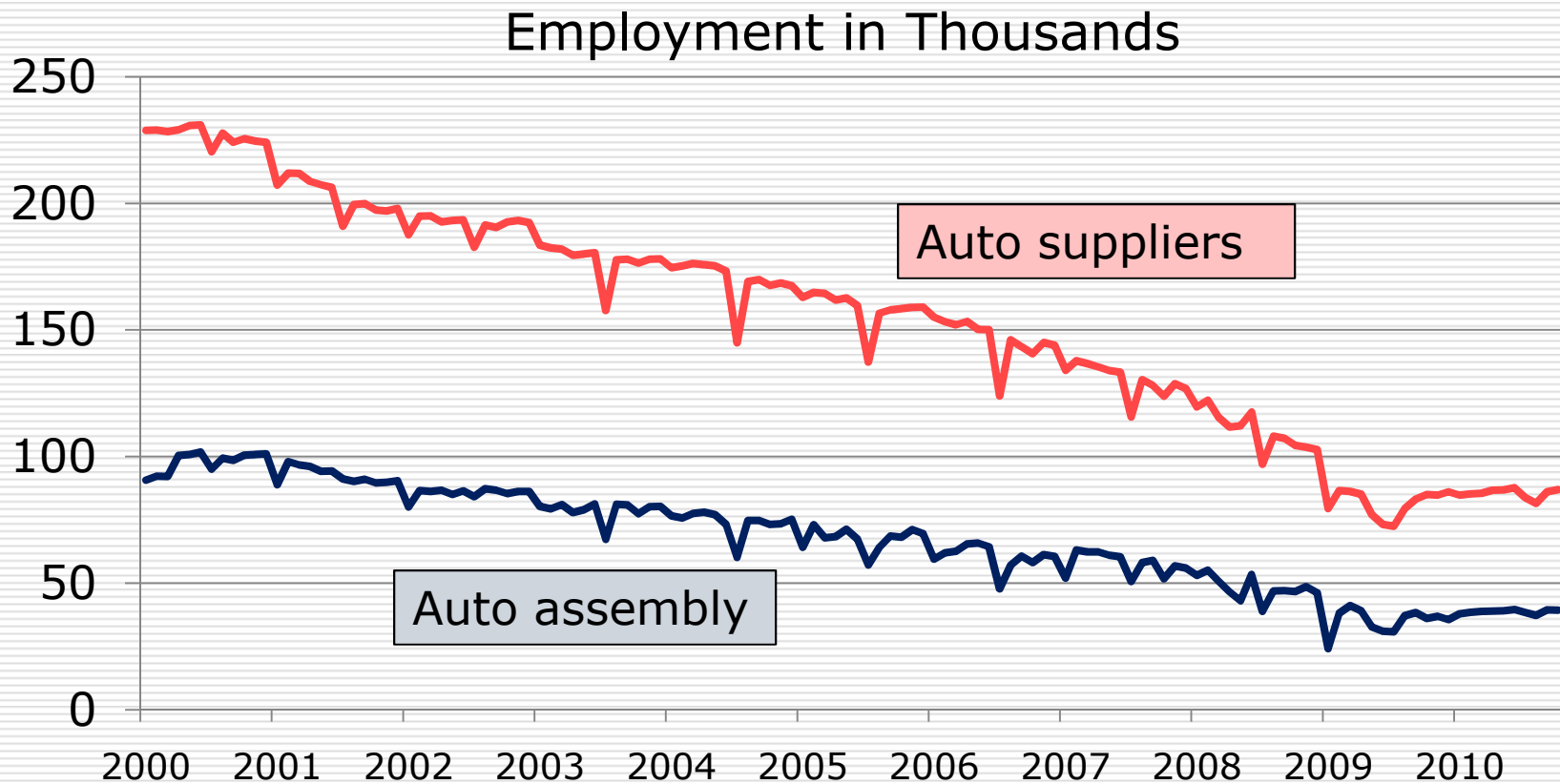
- Employment has stabilized. *From the third quarter 2009 to the third quarter 2010, employment increased by 6,000.*
- Retail indicators are up.
- The University of Michigan forecast is ***positive***.

# Michigan employment has finally stabilized.



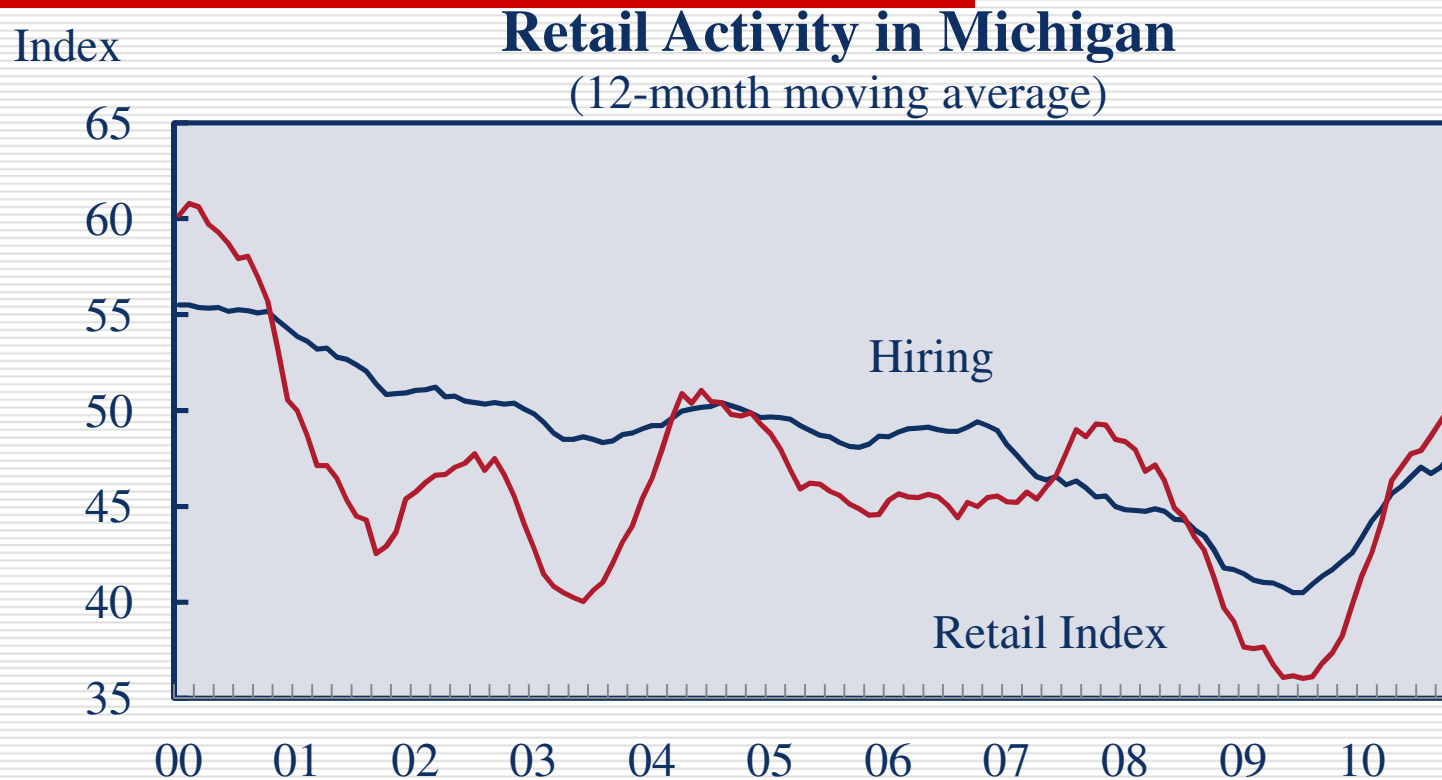
Source: Upjohn Institute calculation using BLS data.

# Employment in the state's auto industry has *finally* stabilized.



Source: BLS.

# Michigan's retail activity has picked up.

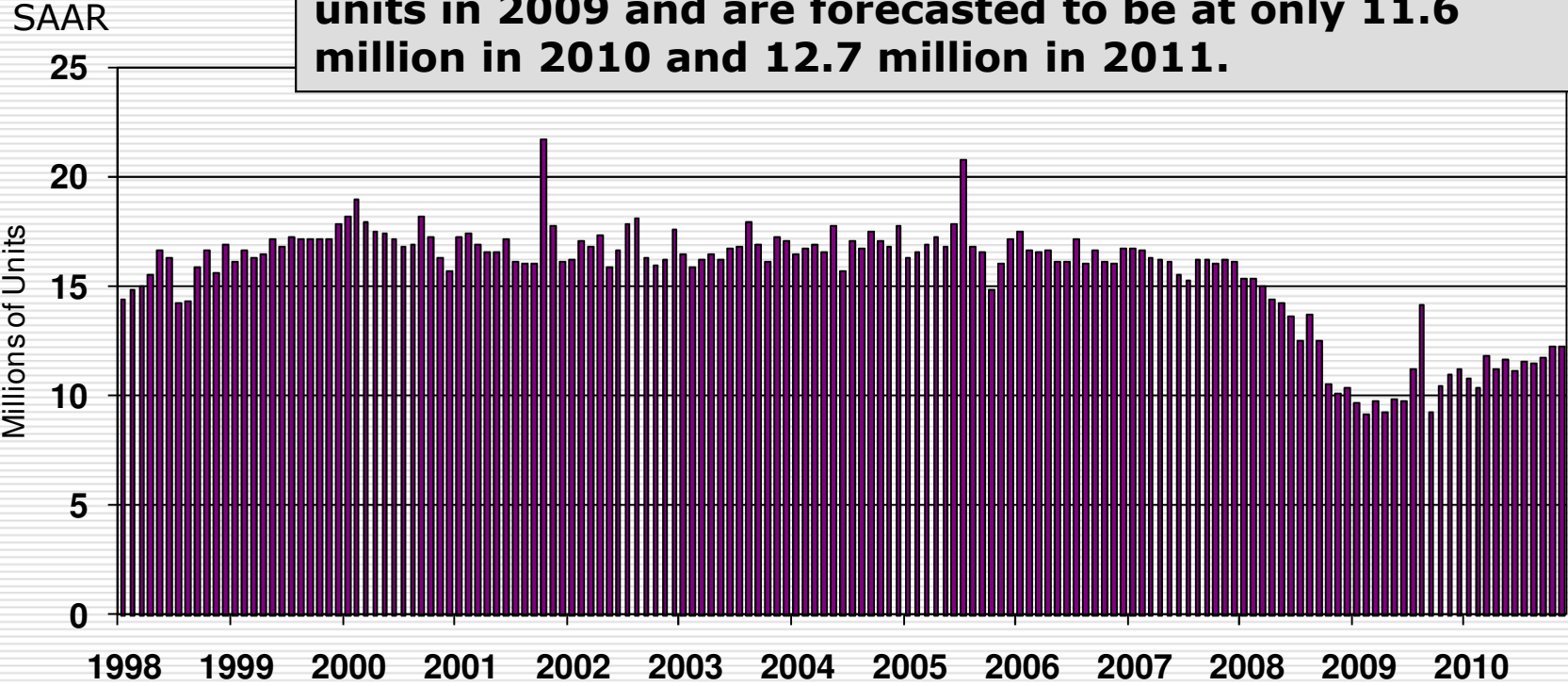


NOTE: Index = percent reporting an increase in sales + [0.5 x (% reporting no change)].

Source: Federal Reserve

# Auto dealers have been making some deals.

**Car and light truck sales reached 16.1 million units in 2007, dipped to 13.3 million units in 2008, 10.5 million units in 2009 and are forecasted to be at only 11.6 million in 2010 and 12.7 million in 2011.**



Source: BEA.

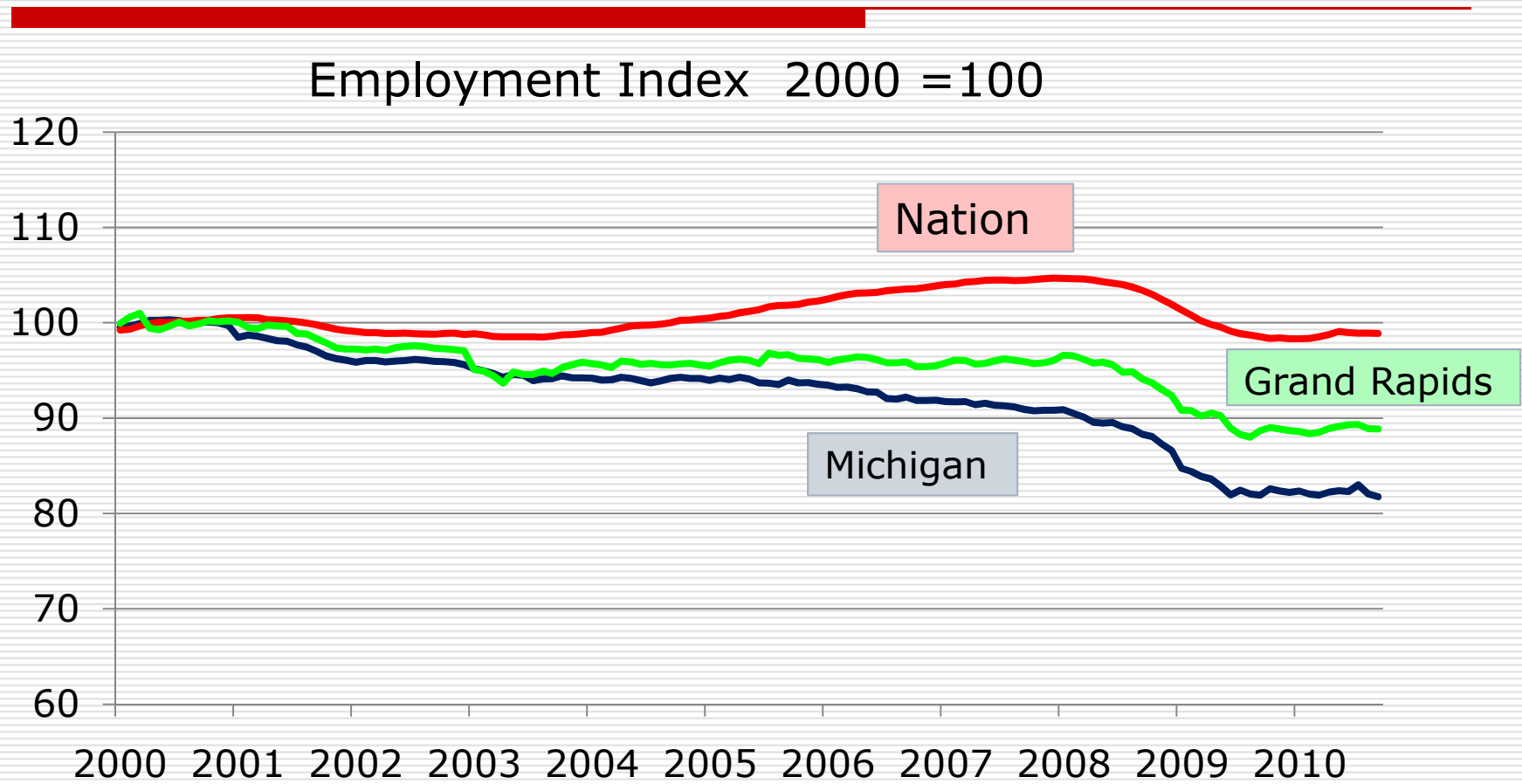
**Sales have averaged an 11.6 million unit pace during the first 10 months of the year.**

# Grand Rapids MSA

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- ❑ Employment has stabilized.
- ❑ The office furniture industry is expected to have a better year in 2011.
- ❑ Purchasing Managers are reporting better numbers.

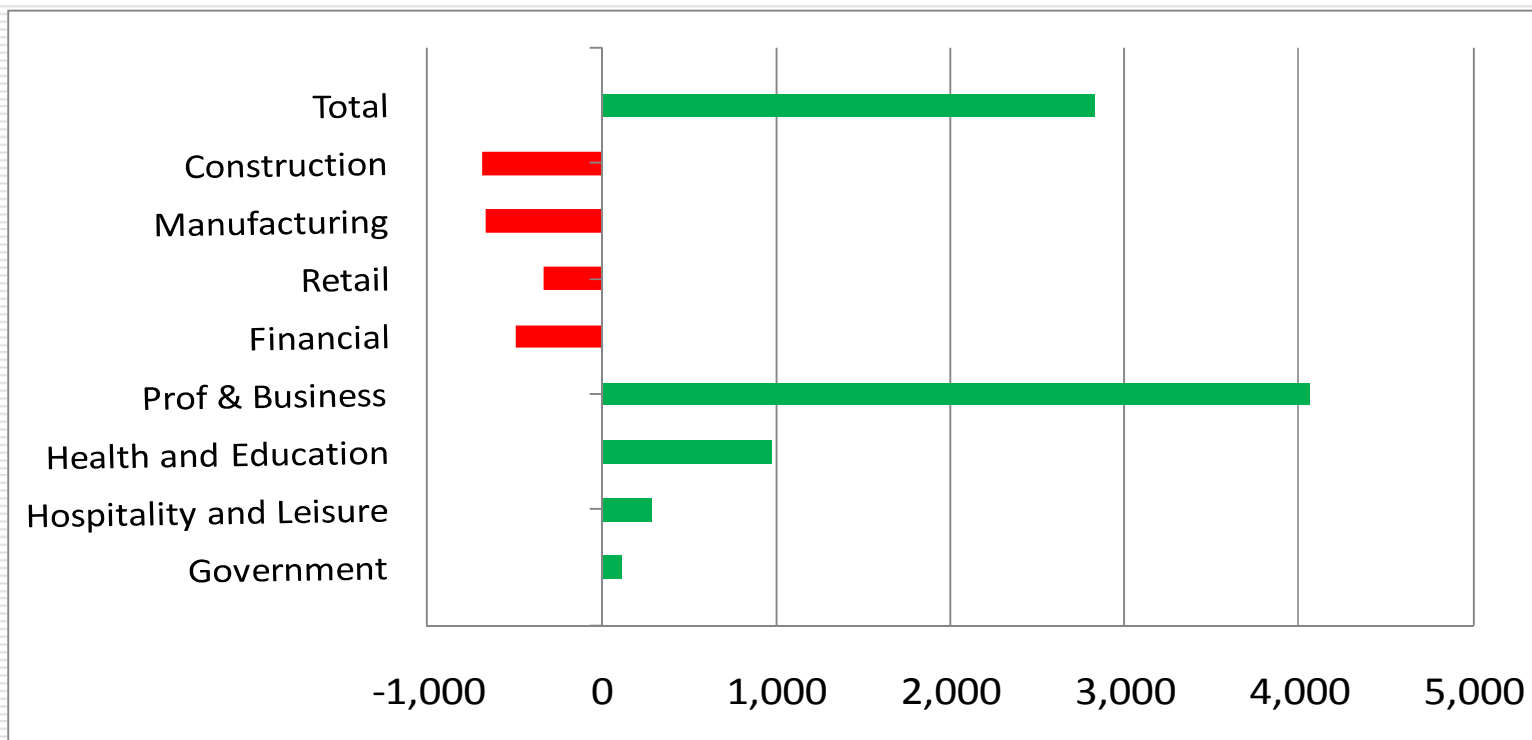
# Like the state, Grand Rapids has lagged behind the nation since 2001.



Source: Upjohn Institute calculation using BLS data.

Total employment in the Grand Rapids MSA increased by 2,800 from 3<sup>rd</sup> quarter 2009 to 3<sup>rd</sup> quarter 2010.

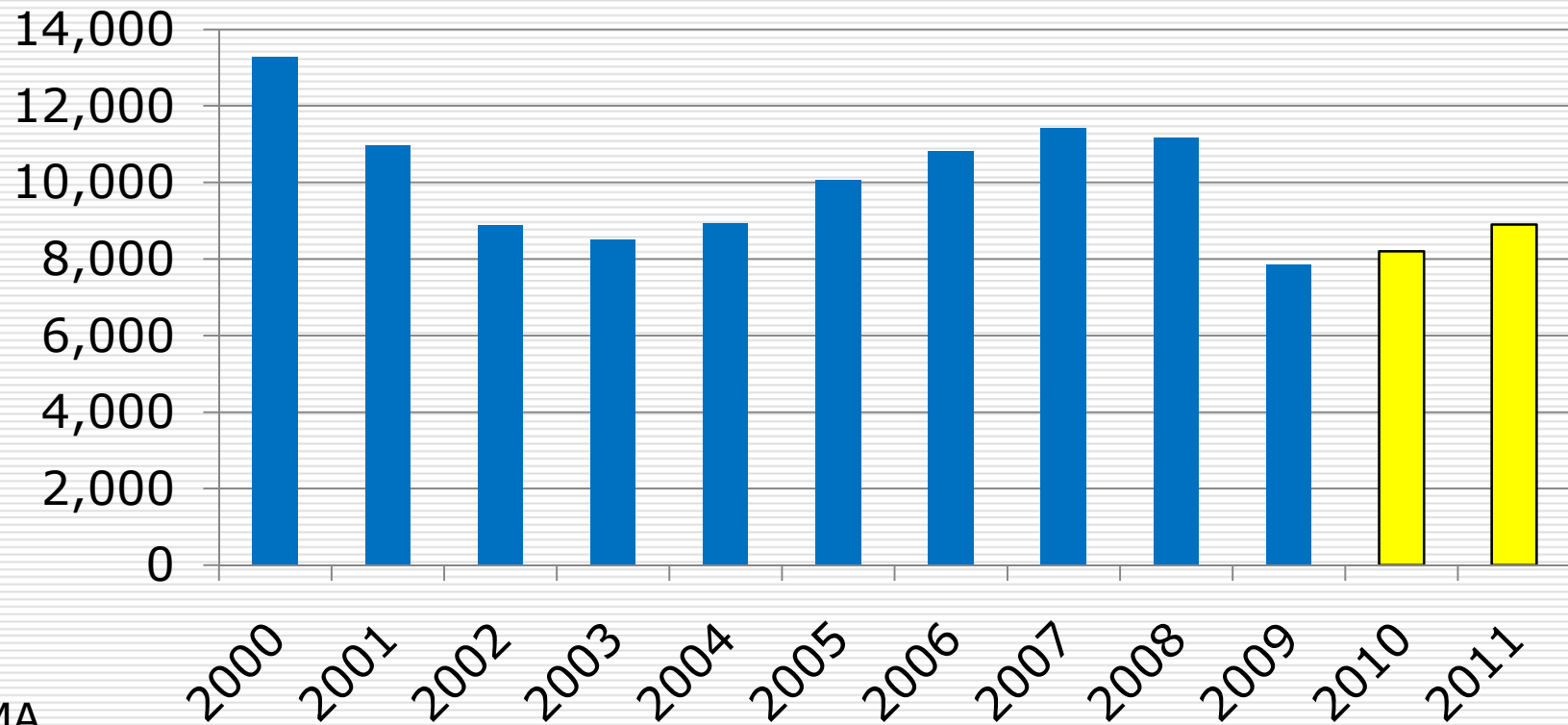
Employment Change 3<sup>rd</sup> quarter 2009 to 3<sup>rd</sup> Quarter 2010



Source: BLS

The office furniture industry is forecasted to experience better times.

### Production in billion of dollars



BIFMA

# Grand Rapids Area Purchasing Managers Index



# Comparison Analysis

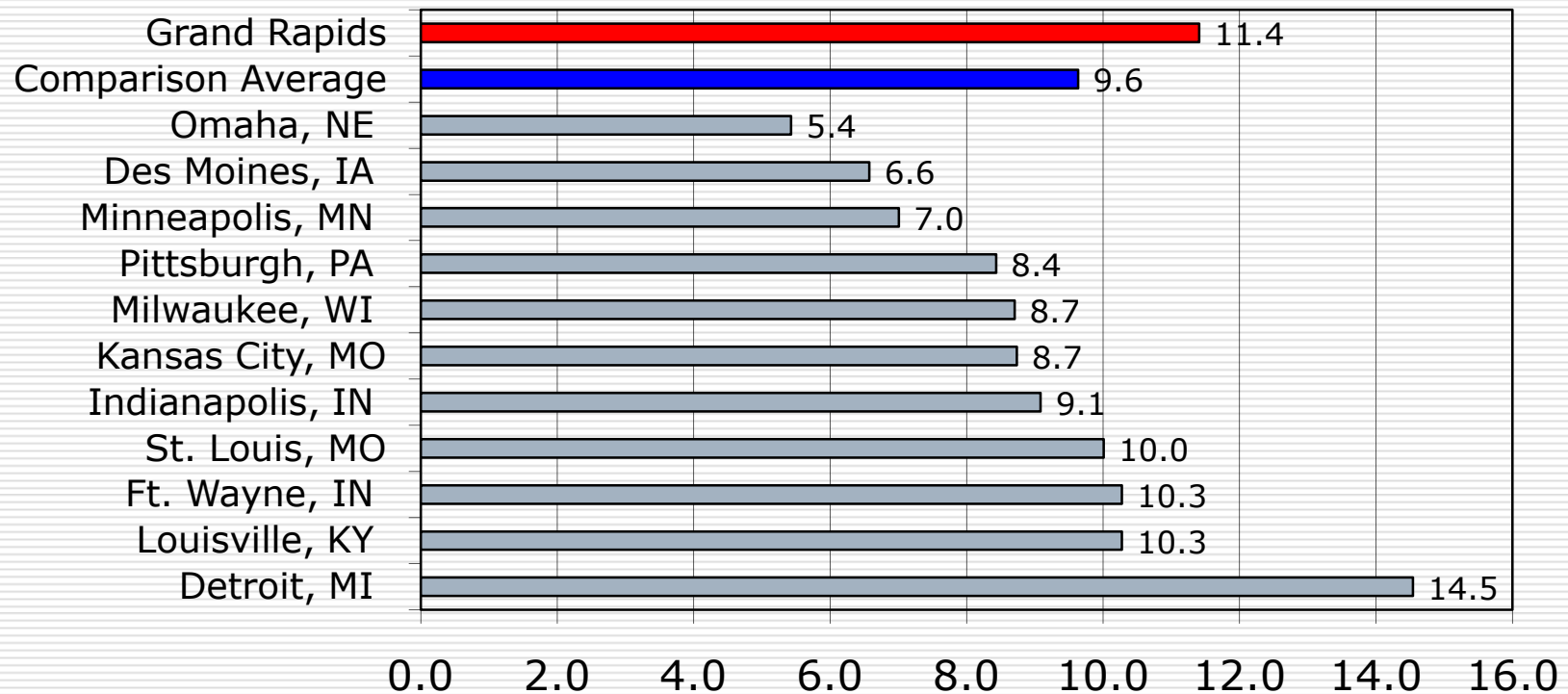
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## Comparison Areas:

- Omaha, NE
- Pittsburgh, PA
- Des Moines, IA
- Detroit, MI
- Ft. Wayne, IN
- Indianapolis, IN
- Kansas City, MO
- Louisville, KY
- Milwaukee, WI
- Minneapolis, MN
- St. Louis, MO

# Unfortunately, Grand Rapid's unemployment rate remains stubbornly high.

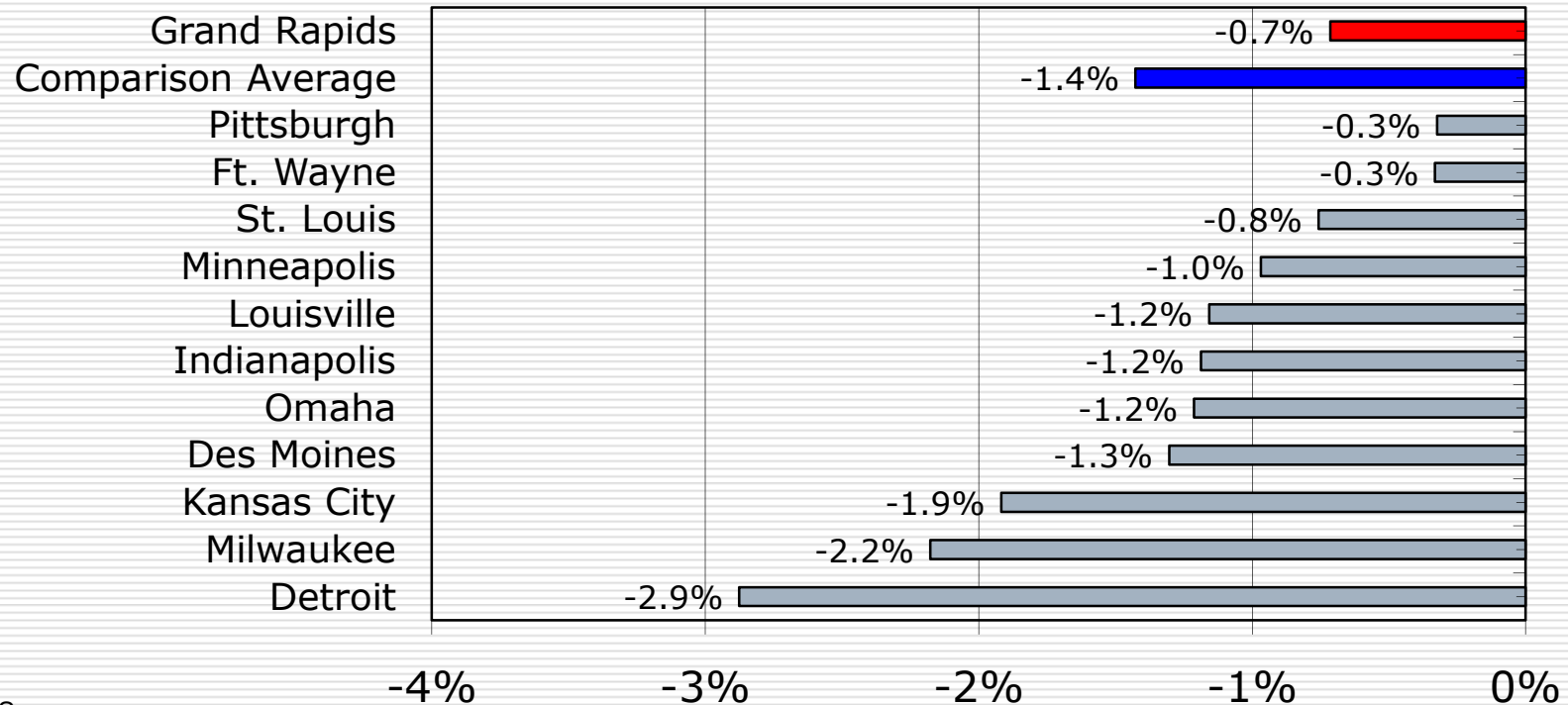
**Average Unemployment Rate, Jan-Oct 2010**



Source: BLS

# The area employment situation is better than most.

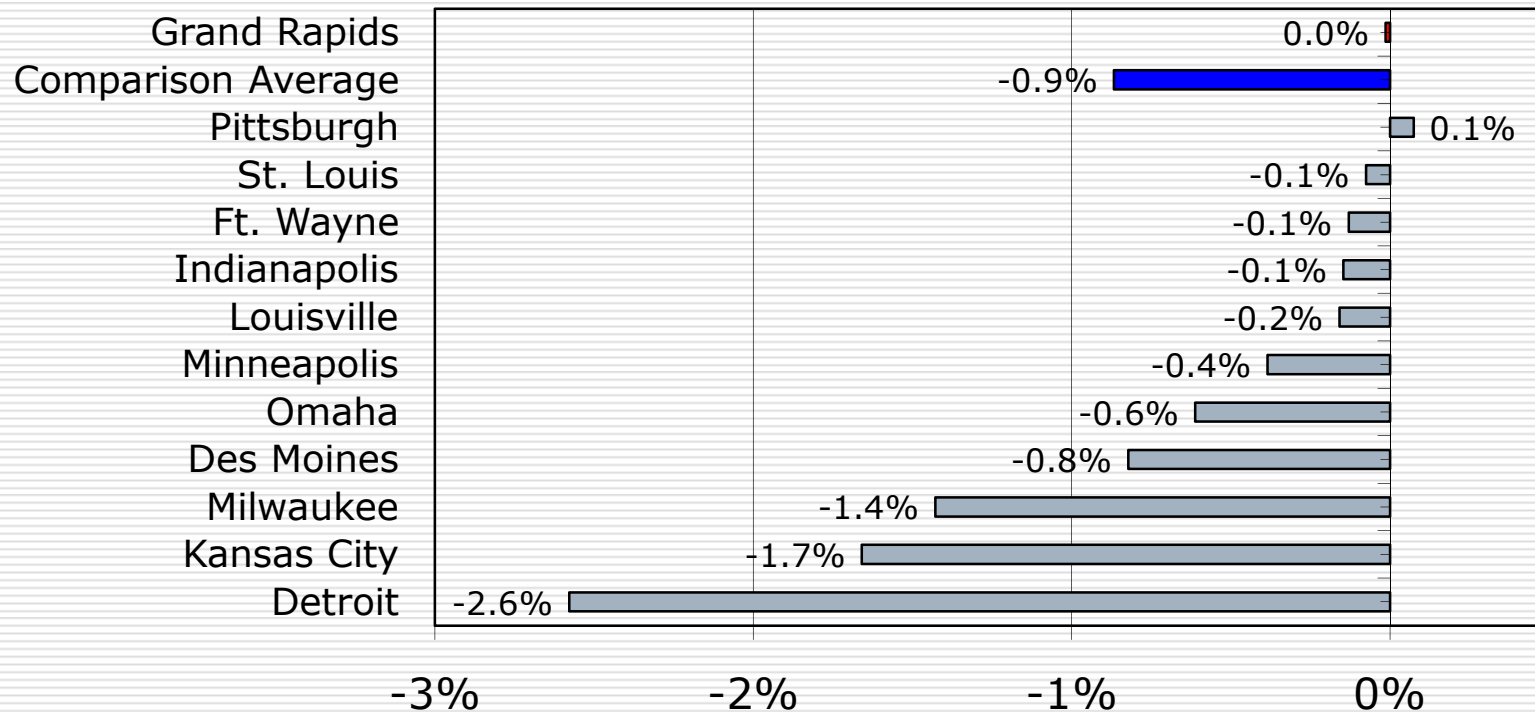
Percent Change in Total Employment  
Jan-Oct 2009 to Jan-Oct 2010



Source: BLS

# Only Pittsburgh had a better (and positive) change in service employment.

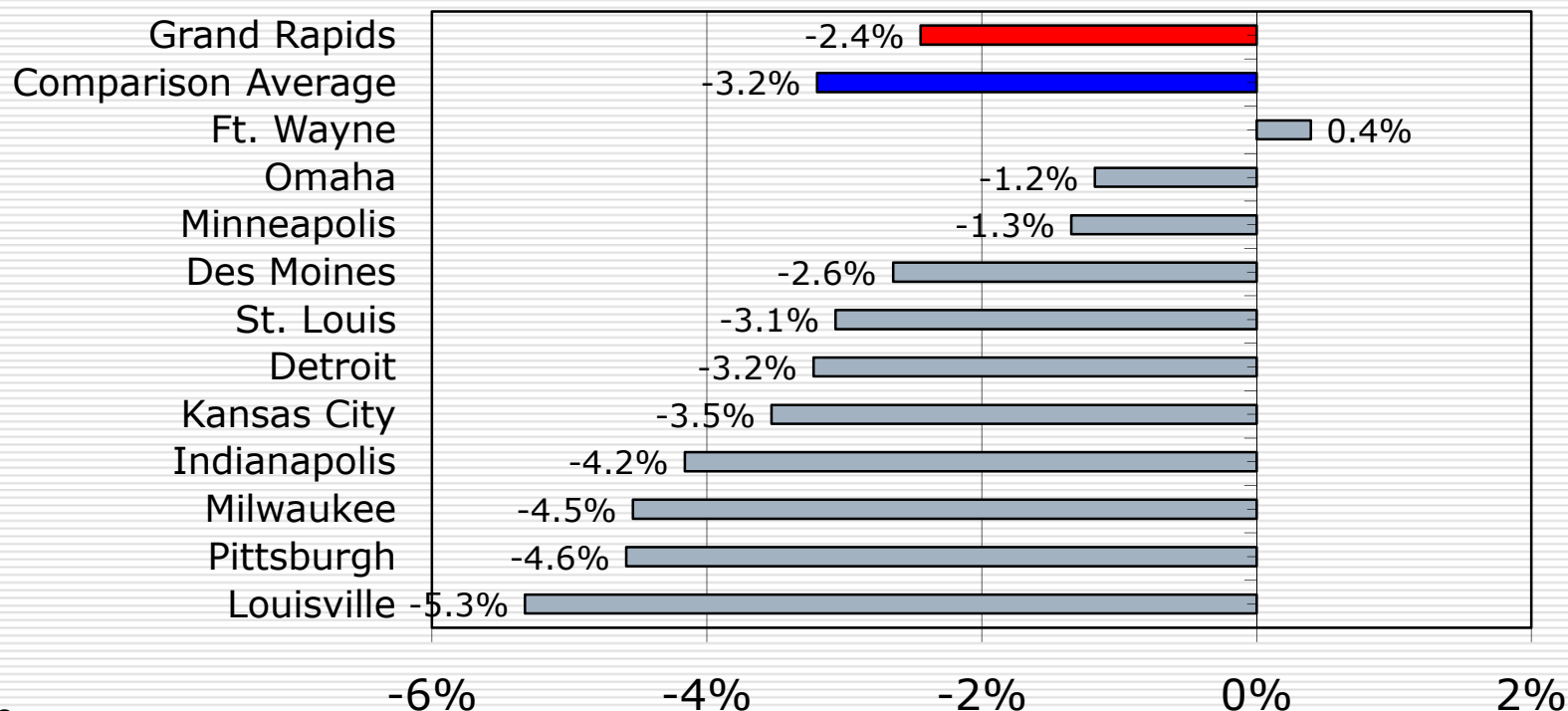
Percent Change in Service Employment  
Jan-Oct 2009 to Jan-Oct 2010



Source: BLS

# Manufacturing is again ahead of the pack.

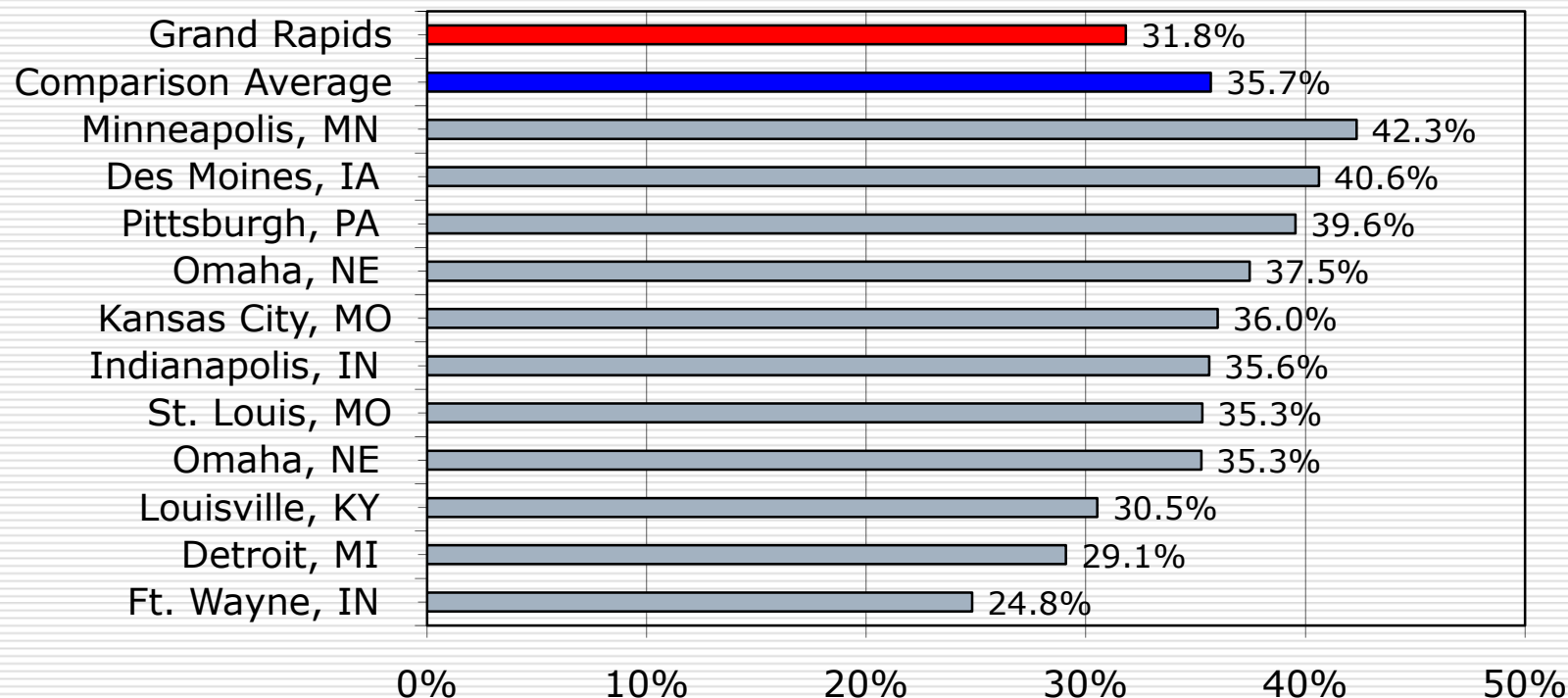
Percent Change in Manufacturing Employment  
Jan-Oct 2009 to Jan-Oct 2010



Source: BLS

# This is a story that we will return to later.

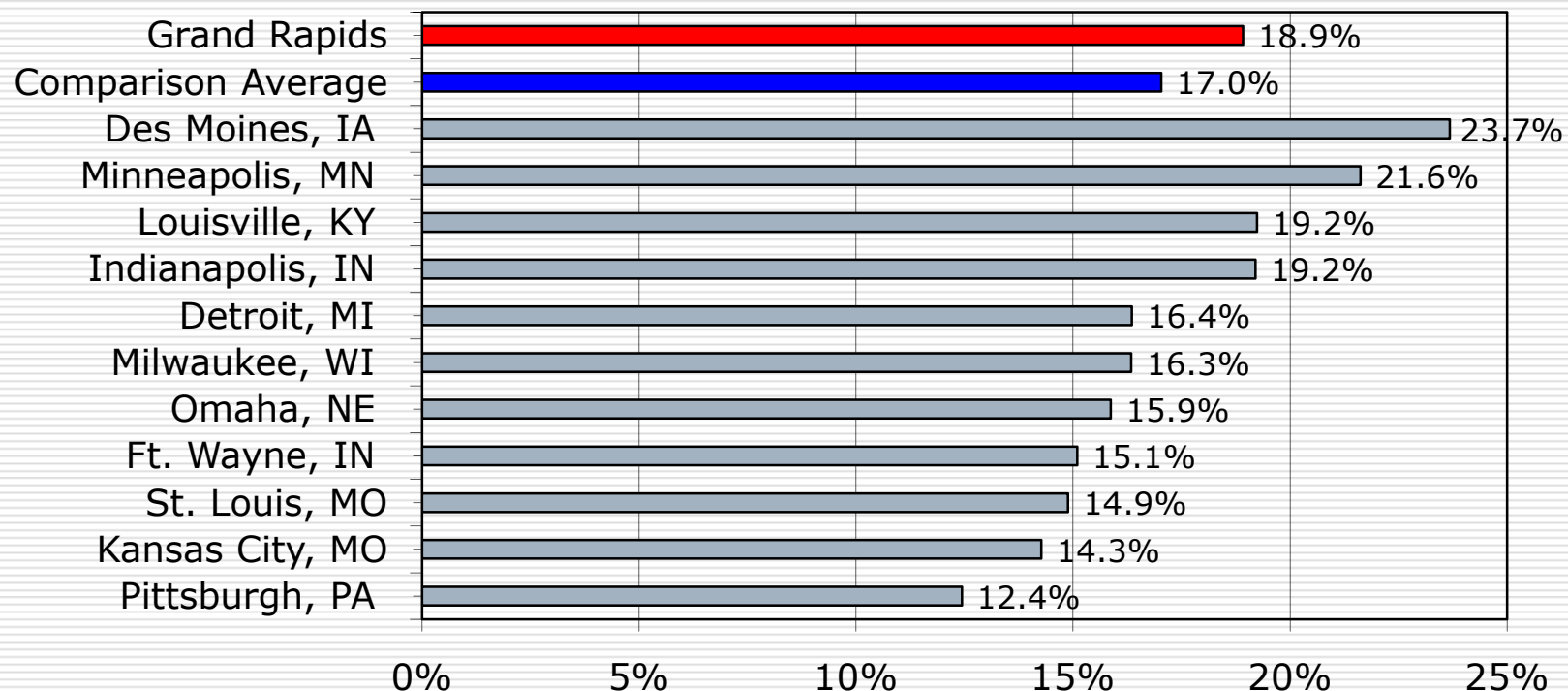
Percent of 25-34 Year-Olds with Bachelor's Degree or Higher



Source: ACS

# What is the story with Des Moines?

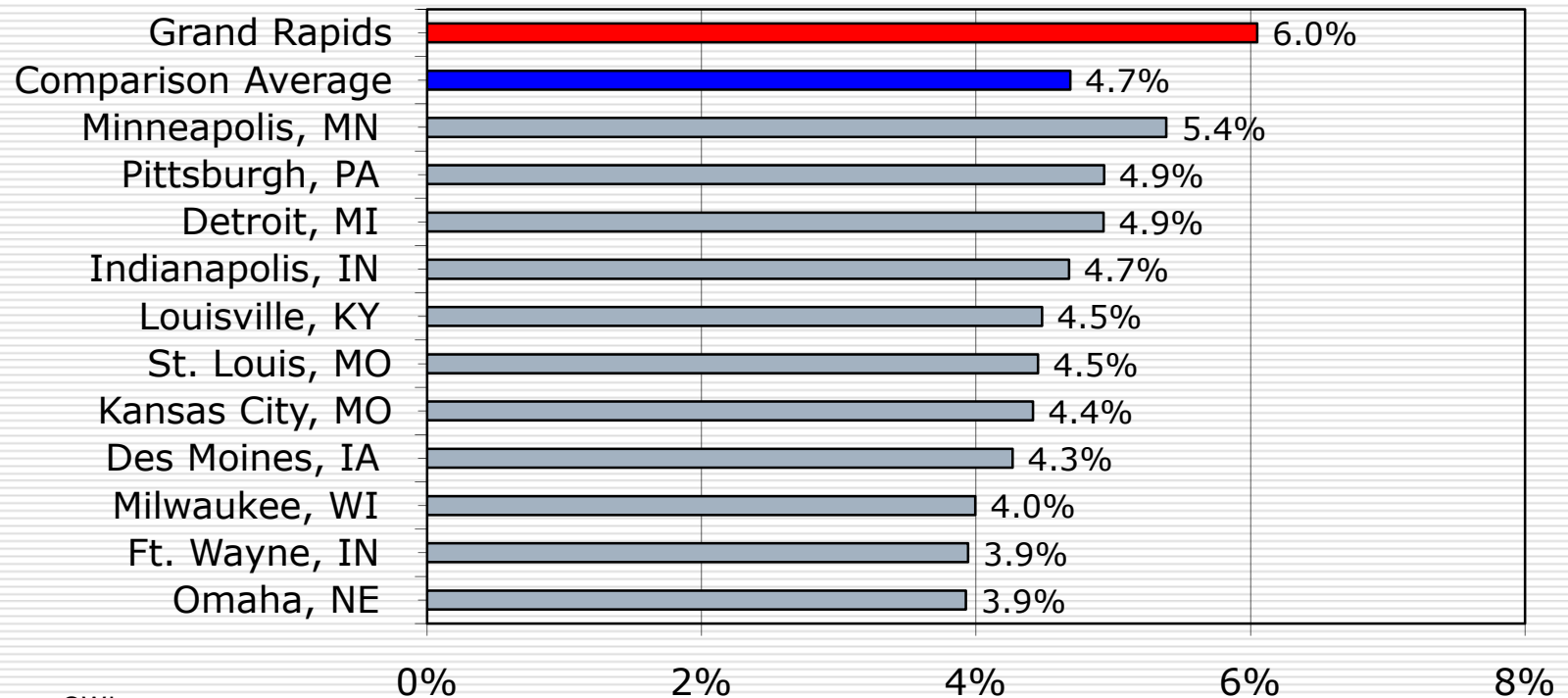
Percent of Self-Employed in Professional, Scientific, or Technical Industries



Source: ACS

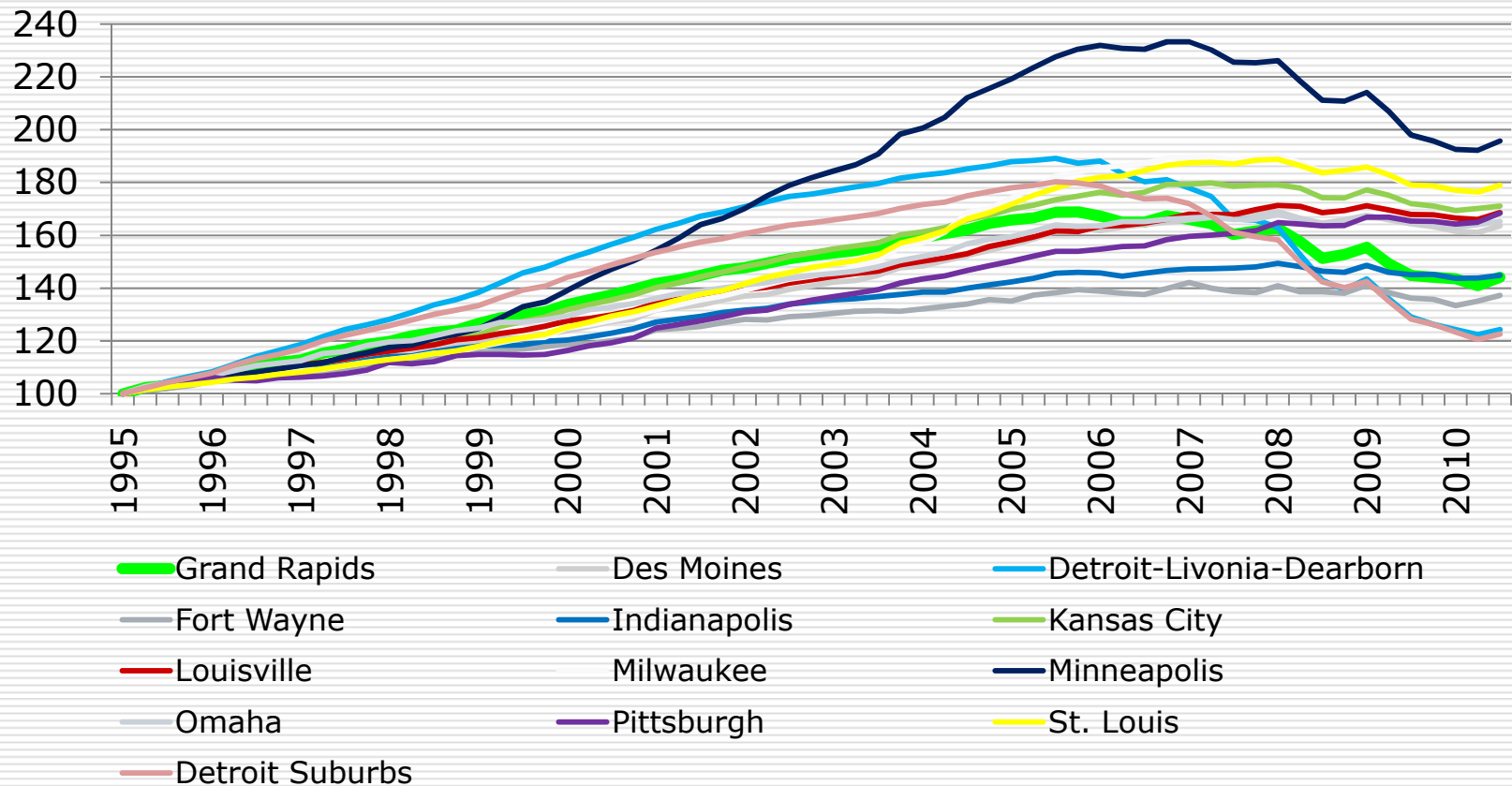
This statistic is what I find the most promising: Job creation depends on meeting the demand of the marketplace.

Job Creation as a Percent of Total Employment in Q1-Q3 2009



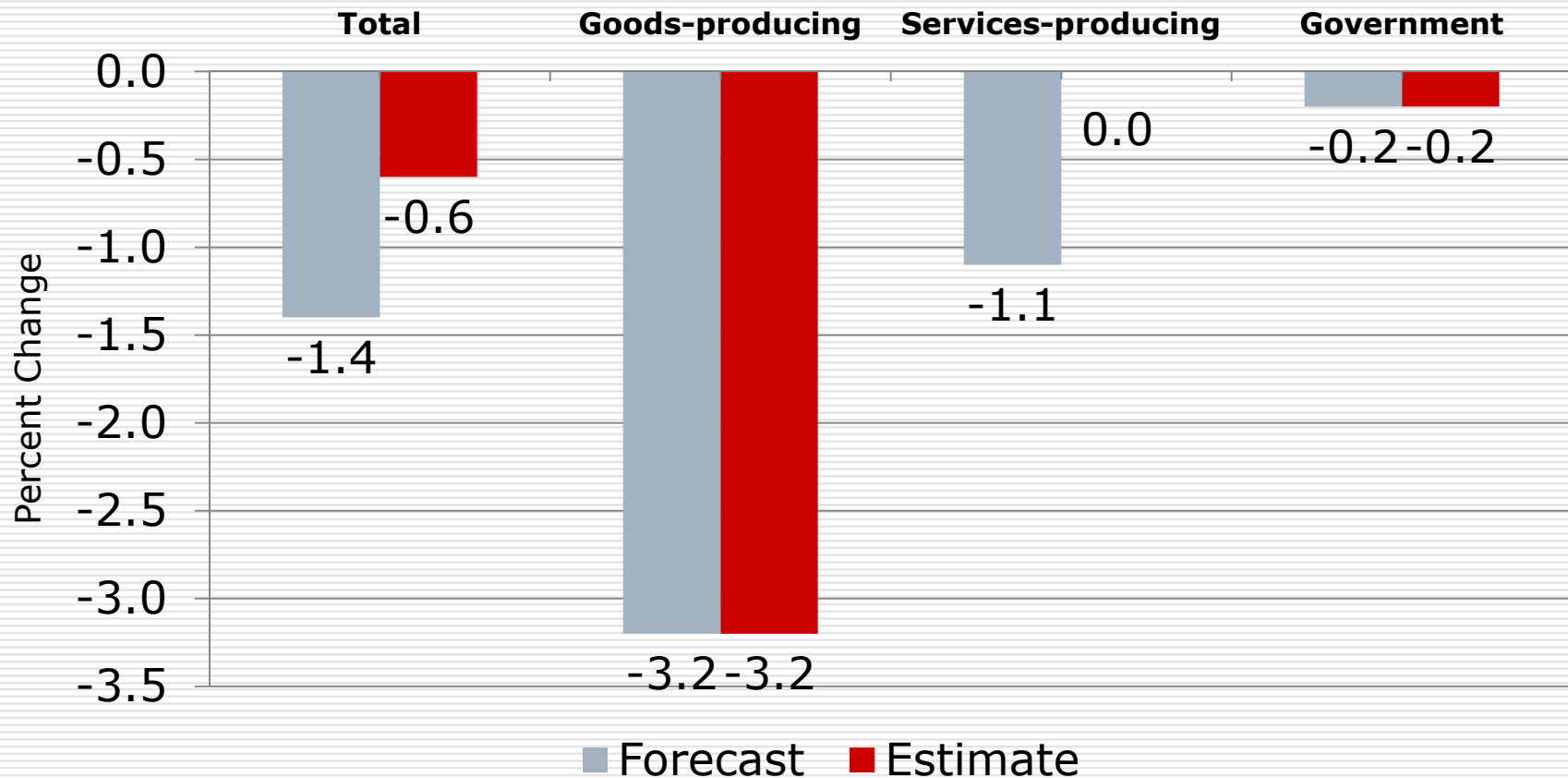
Source: Census QWI

# Housing prices: again, better than most.

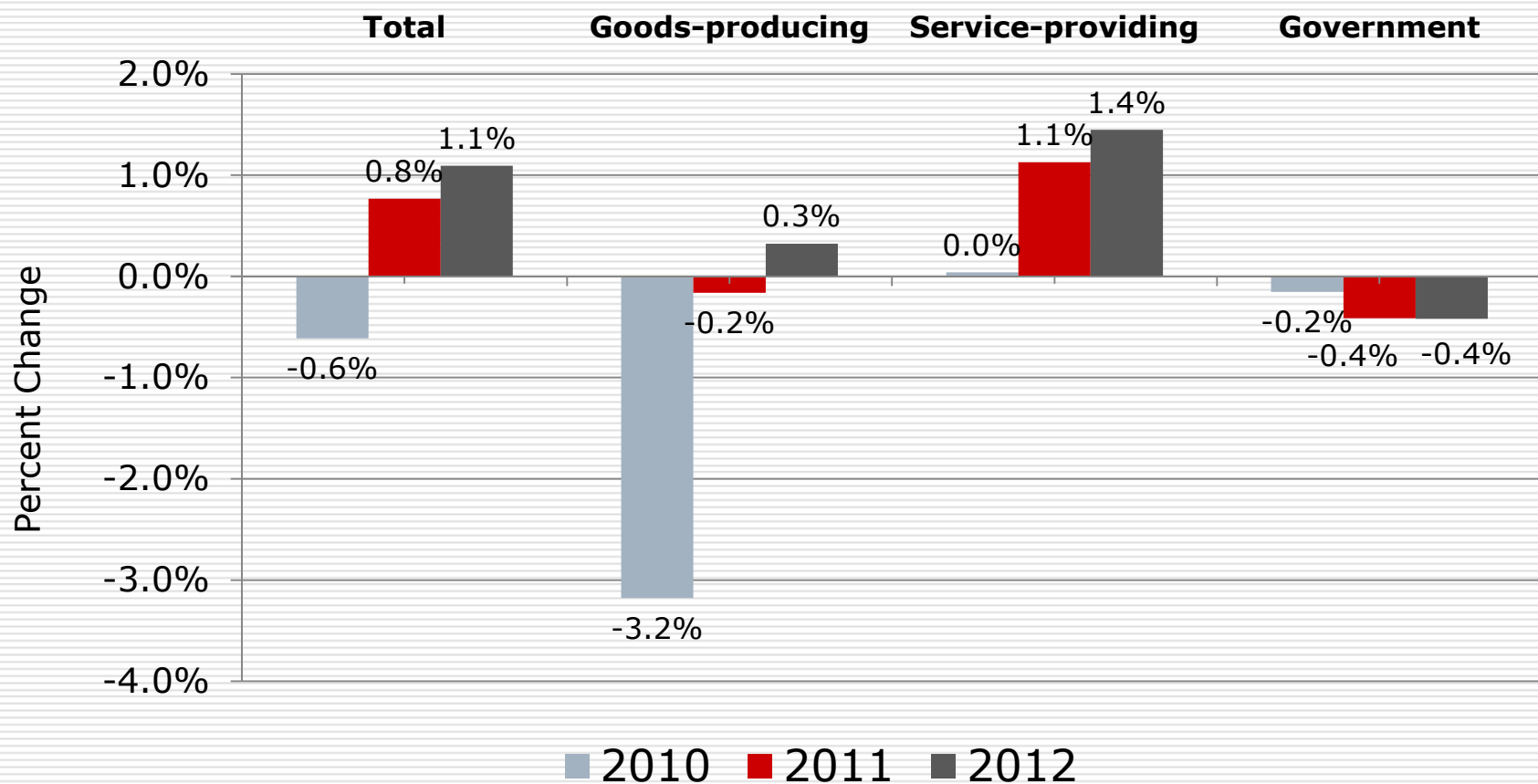


Source: FHFA

# So how did we do last year? *We blew it in the service sector.*



# Employment Forecast for the Grand Rapids MSA



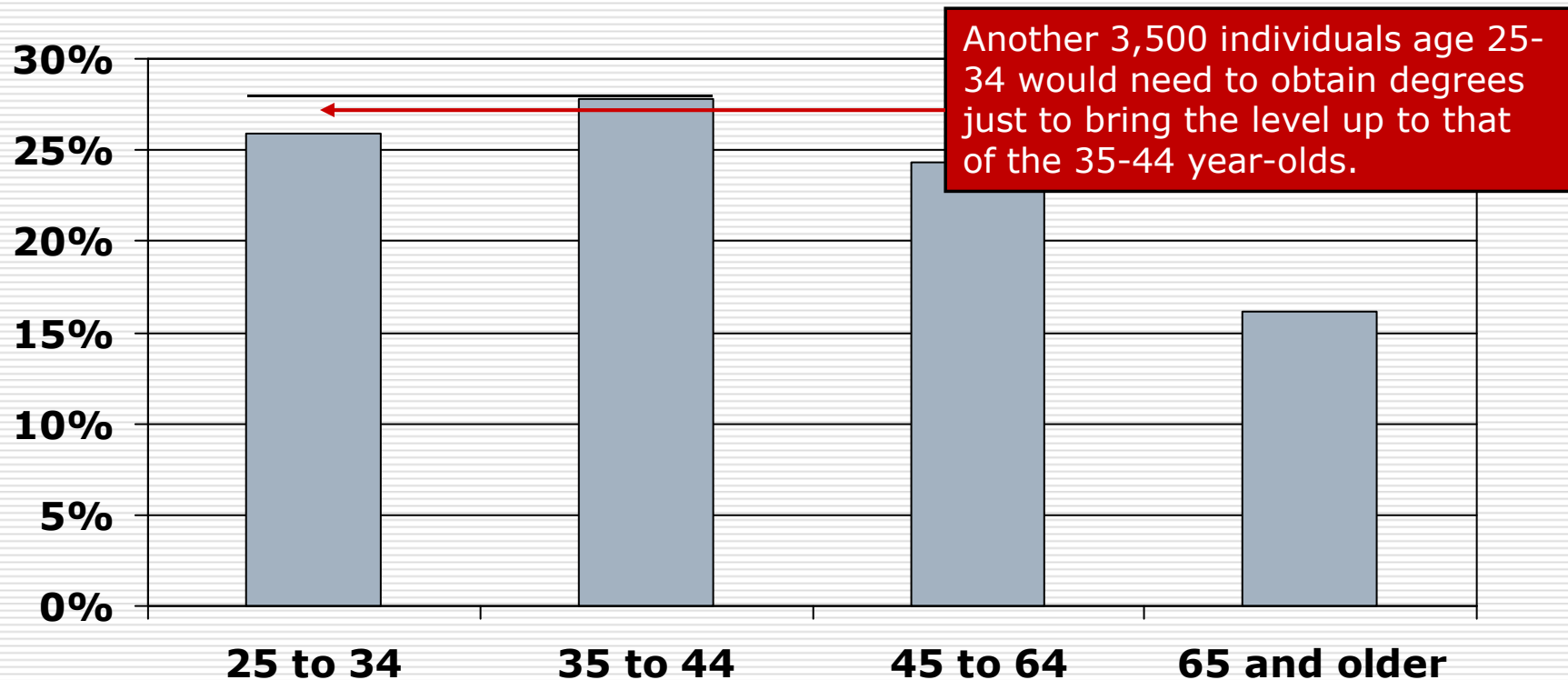
# Overall what are the area's:

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- Challenges
  - Opportunities
  - And my fear?
-

A Challenge to West Michigan: *The younger generation is less educated than earlier generations.*

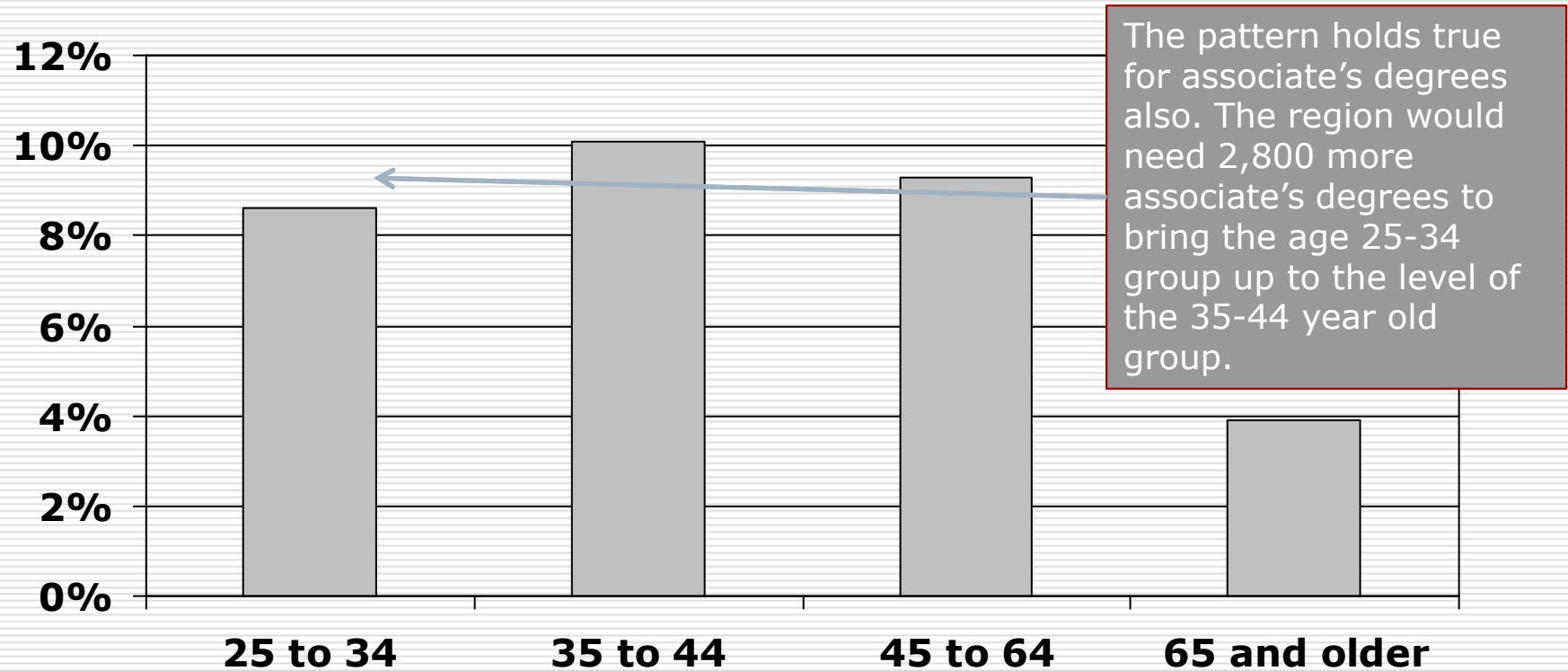
**West Michigan: Bachelor's Degree or Higher by Age**



U.S. Census Bureau, ACS 2006-2008.

# The younger generation is less educated than earlier generations.

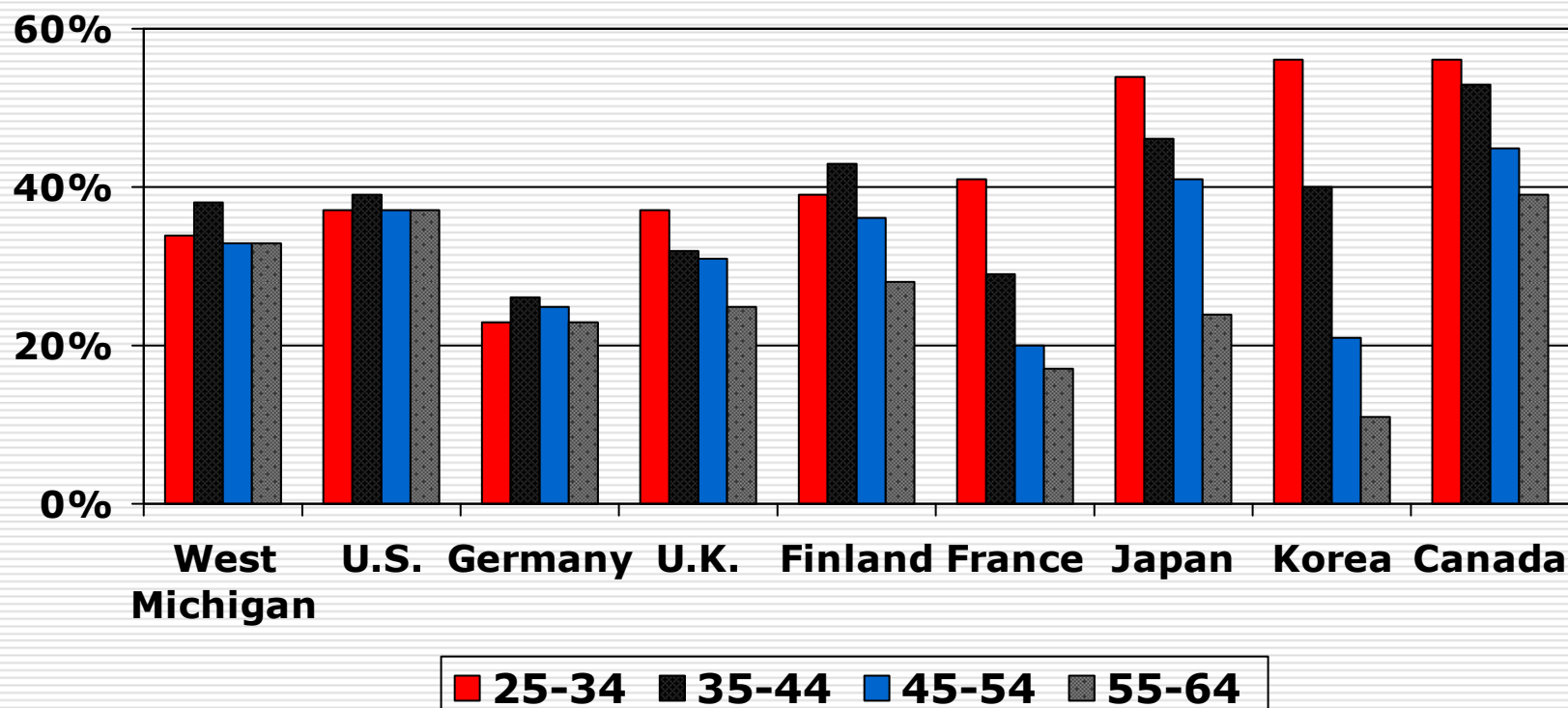
### West Michigan: Associate's Degree Holders by Age



U.S. Census Bureau, ACS 2006-2008.

The problem is NOT just West Michigan: *The U.S. is still globally competitive, but lags behind other nations in post-secondary training for the younger generation.*

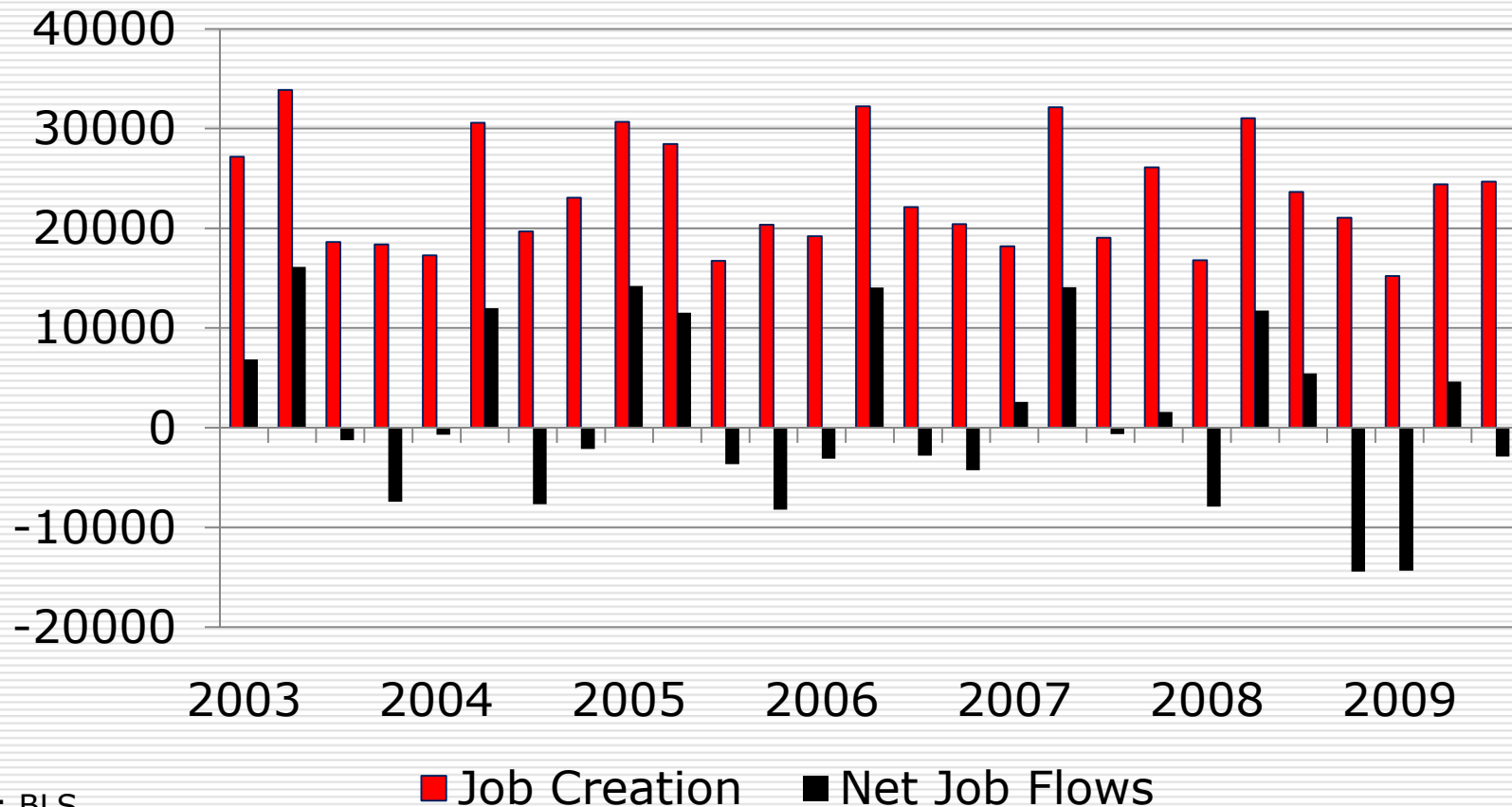
**Percent Completing Post-Secondary Training, by Age**



OECD, *Education at a Glance*, 2009.

Census Bureau, ACS 2006-08. Note W. Michigan and U.S. age 44-64 are combined.

Even in 2009, employers created more than 20,000 jobs per quarter.

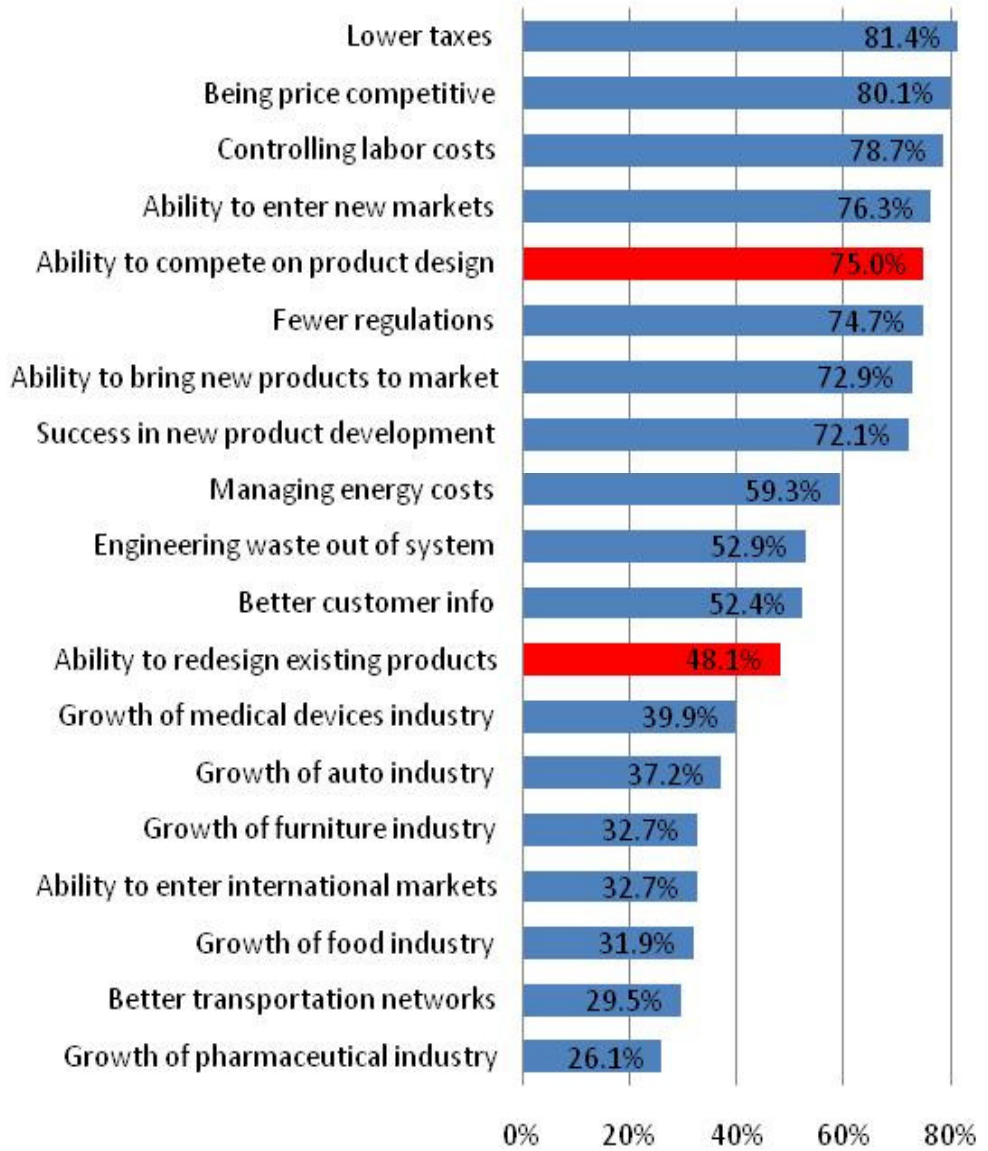


Source: BLS

# Summary findings of our recent survey of West Michigan manufacturers

**The average rate of sales growth for the past five years reported by firms interested in design was 9.9 percent, which is higher than the 5.6 percent average reported by the other firms.**

## Key Factors for Success Over the Next Five Years, Percent of Responses Stating Agree or Strongly Agree



# And, to my fear:

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A region can be trapped in a no-growth path because the local leaders have a strong vested interest in the current state of affairs. Such path dependency often requires an external jolt to shake things up and create the new conditions that will foster economic growth.

Fabrizio Barca, 2009

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