

The Economic Outlook for the Grand Rapids Metropolitan Area: *Are we there yet?*

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W.E. Upjohn Institute for Employment Research

*NO, not
yet*

A Special Thanks to

The 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.

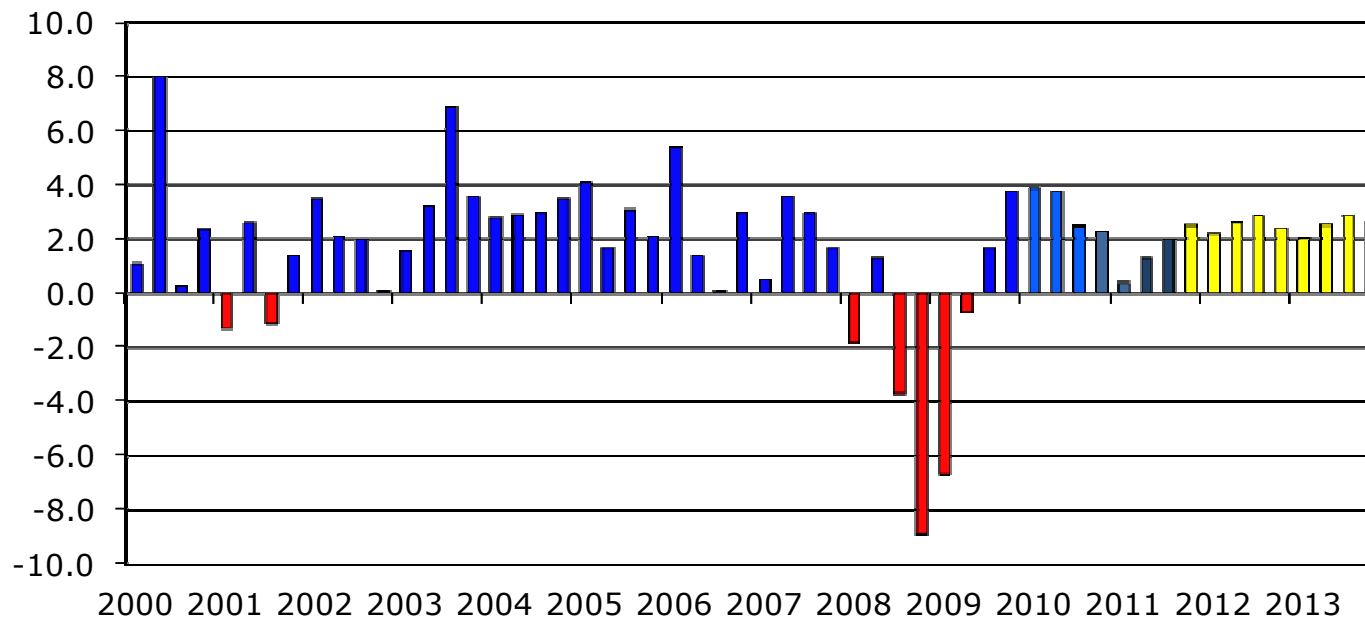
Outline

- National Setting—*Either the economy is stuck in 2nd gear or there is something wrong with the engine.*
- Michigan – *Growth has returned thanks to the car industry but unemployment remains high.*
- Grand Rapids— *Exceeding expectations*
- 2012 and 2013—*Continued employment growth but not at the pace we want*
- Random thoughts— *Did the recession “change the region” and a second look at the region’s workforce.*

Nationwide, GDP grew by 2.0% in the third quarter, after inching up 1.3% during the second quarter.

And, the forecast is pretty boring.

Annualized Quarterly Percent Change in GDP



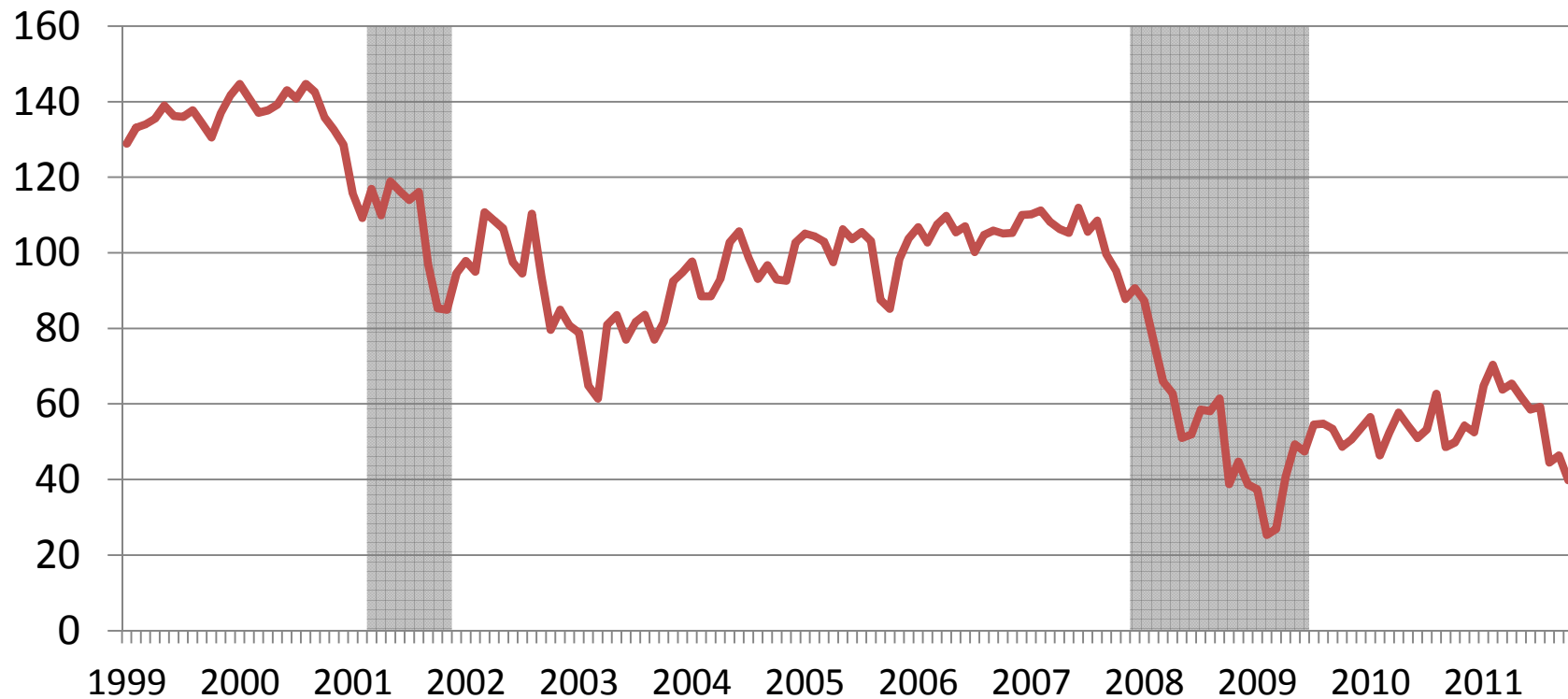
Source: BEA, University of Michigan RSQE forecast.

What is happening?

- Consumers are spending, but they are not happy about it.
- Employment growth has stalled.
- Housing is still flat.
- Government spending continues to be down.
- International markets, especially European, are uncertain or in trouble.

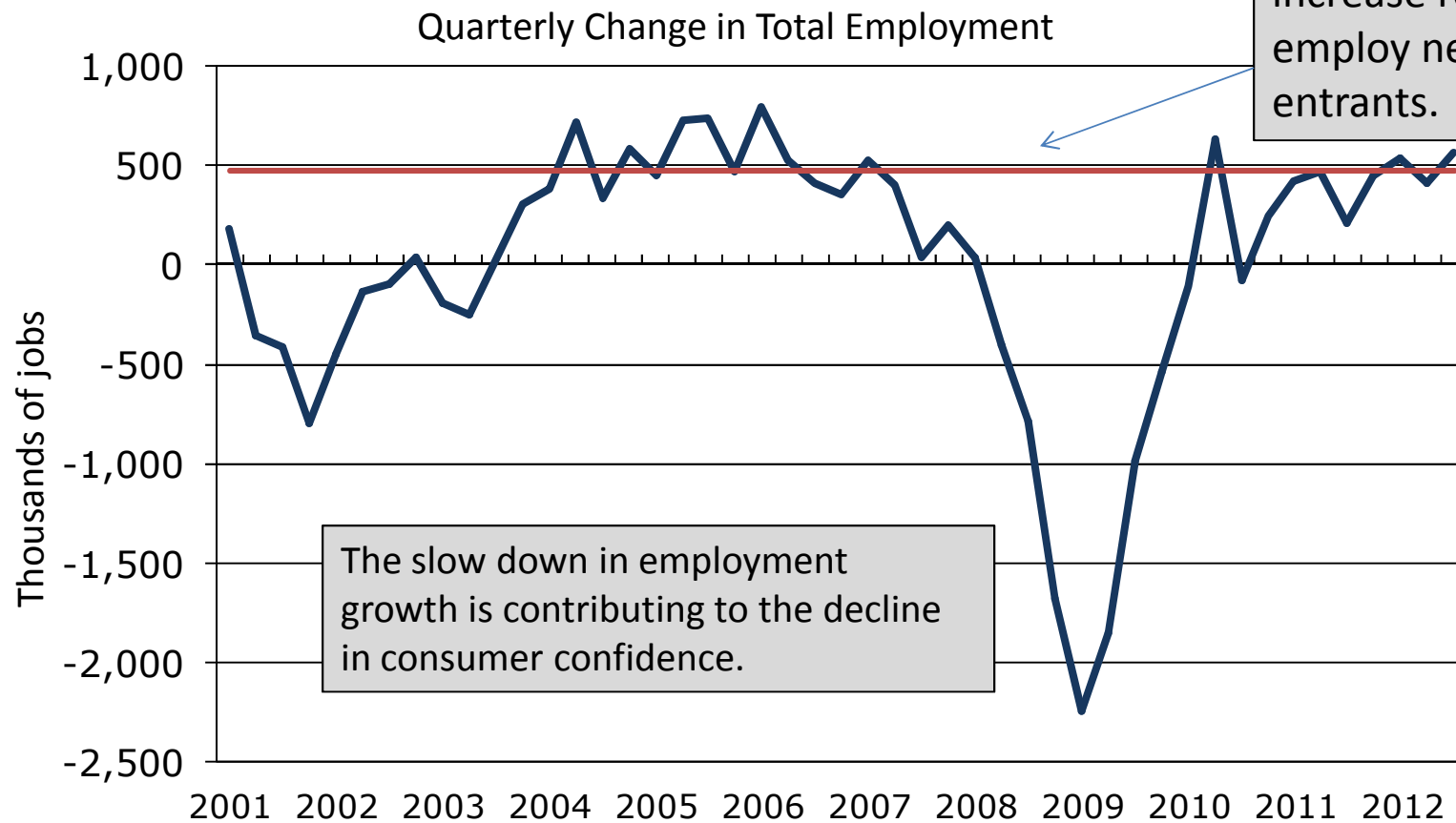
Consumers are as pessimistic about the future as they were in the recession.

Consumer Confidence Index (1985 = 100)



Source: Pollingreport.com.

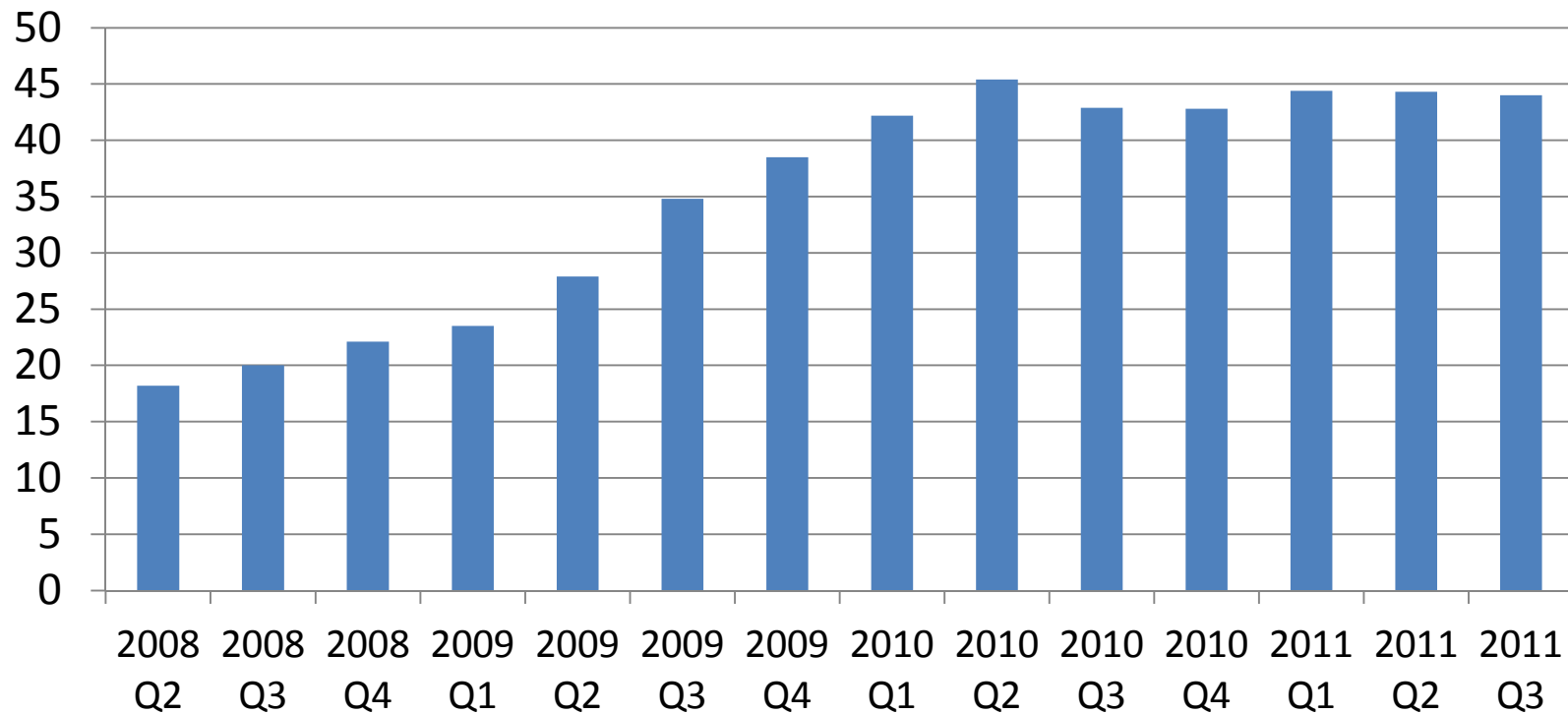
Employment increased by 120,000 in November after a 100,000 job gain in October.



Source: Bureau of Labor Statistics (BLS).

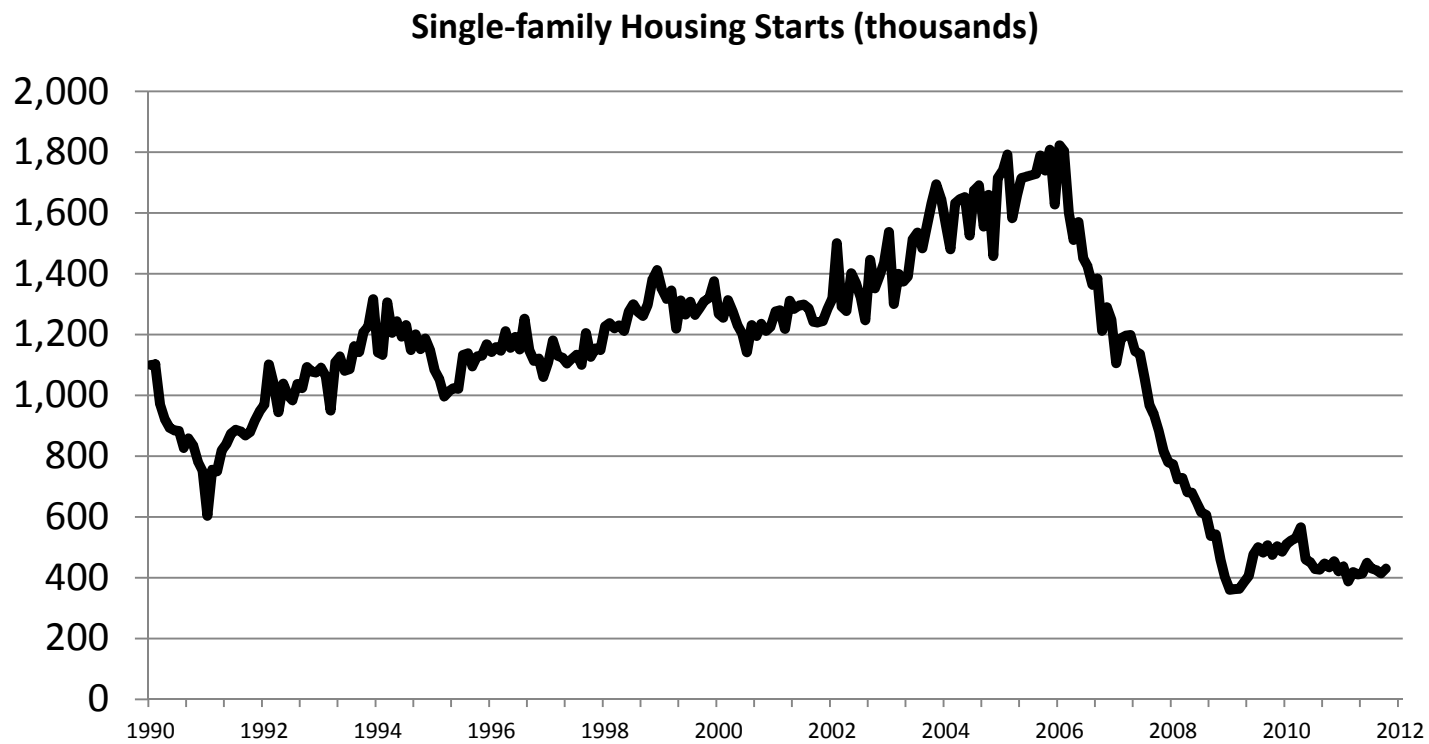
The duration of unemployment has increased dramatically during the recession, and the longer people are out of work the harder it is to find a job.

Percent of unemployed who have been unemployed for more than 27 weeks



Source: BLS.

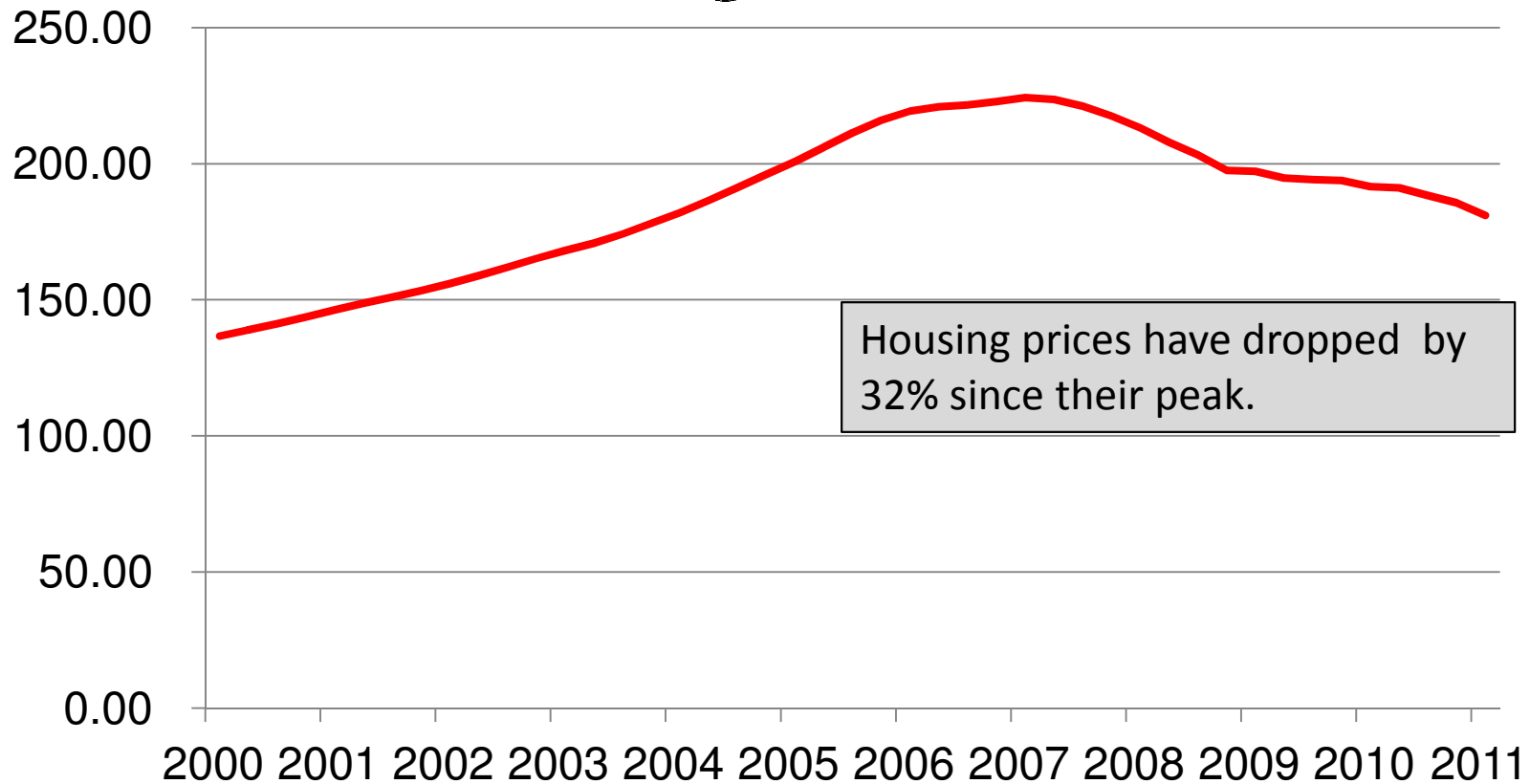
Single-family housing starts remain flat.



Source: U.S. Census.

Housing prices are still falling.

FHFA Housing Index 1991 Q1 =100



If the engine isn't broken where is third gear?

- Again, The consumer's "heart" is just not into it.
- Federal policy is on hold until the 2012 election.

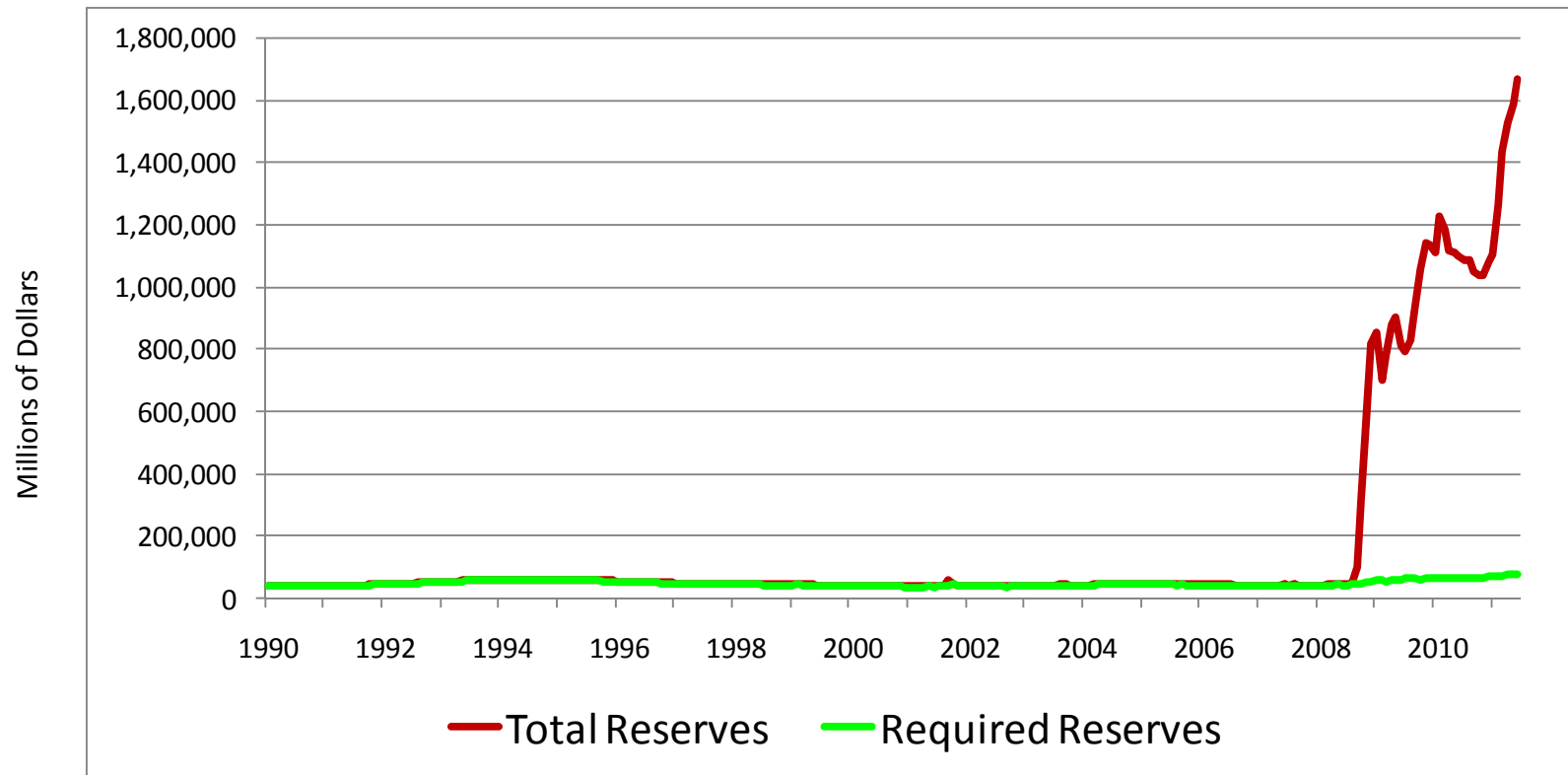
However:

- Corporations are holding a lot of cash.
- Banks are also holding a lot of cash.
- And interest rates are low.

The stage could be set for a business investment expansion.

Credit: Banks are still holding more than a trillion dollars in excess reserves.

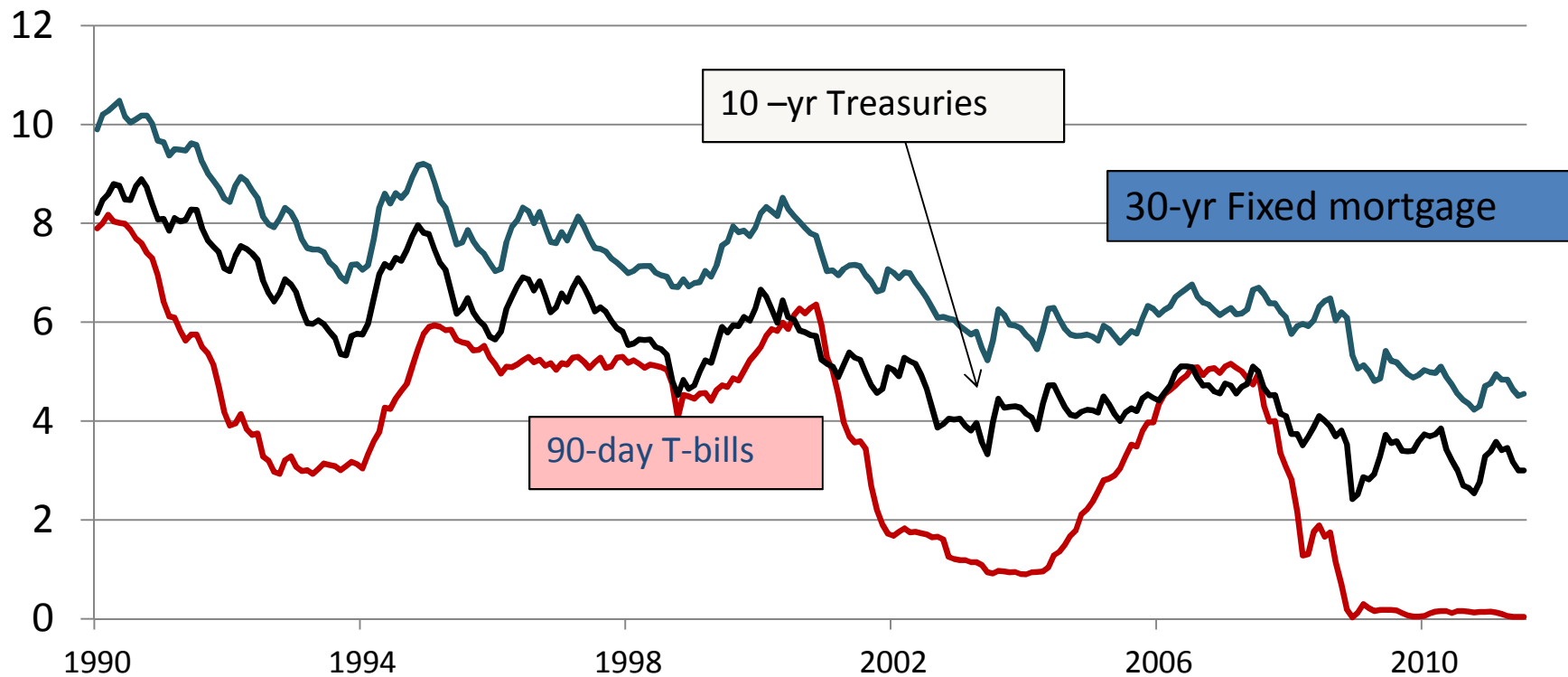
Total and Required Reserves at the Federal Reserve



Source: Federal Reserve.

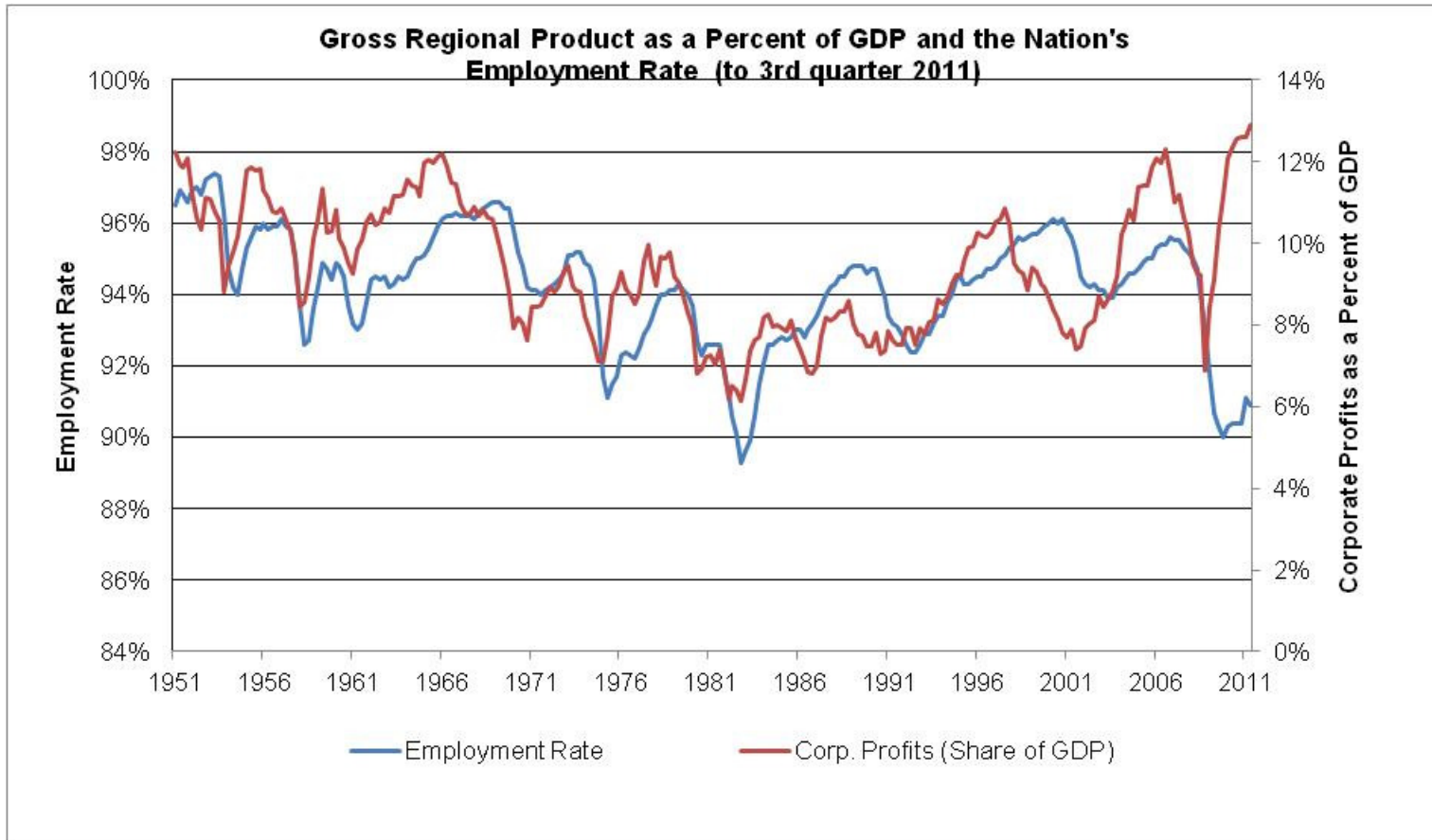
Where do you go from zero?

Interest Rates for 90-day T-bills, 10-year Treasuries, and 30-year Fixed mortgages



Source: Federal Reserve.

Corporations are making money without hiring workers – *A clear break from past years.*



Turning to Michigan

- Employment has stabilized.

During the third quarter, employment was up 1.7% from a year ago, an increase of 64,200 jobs.

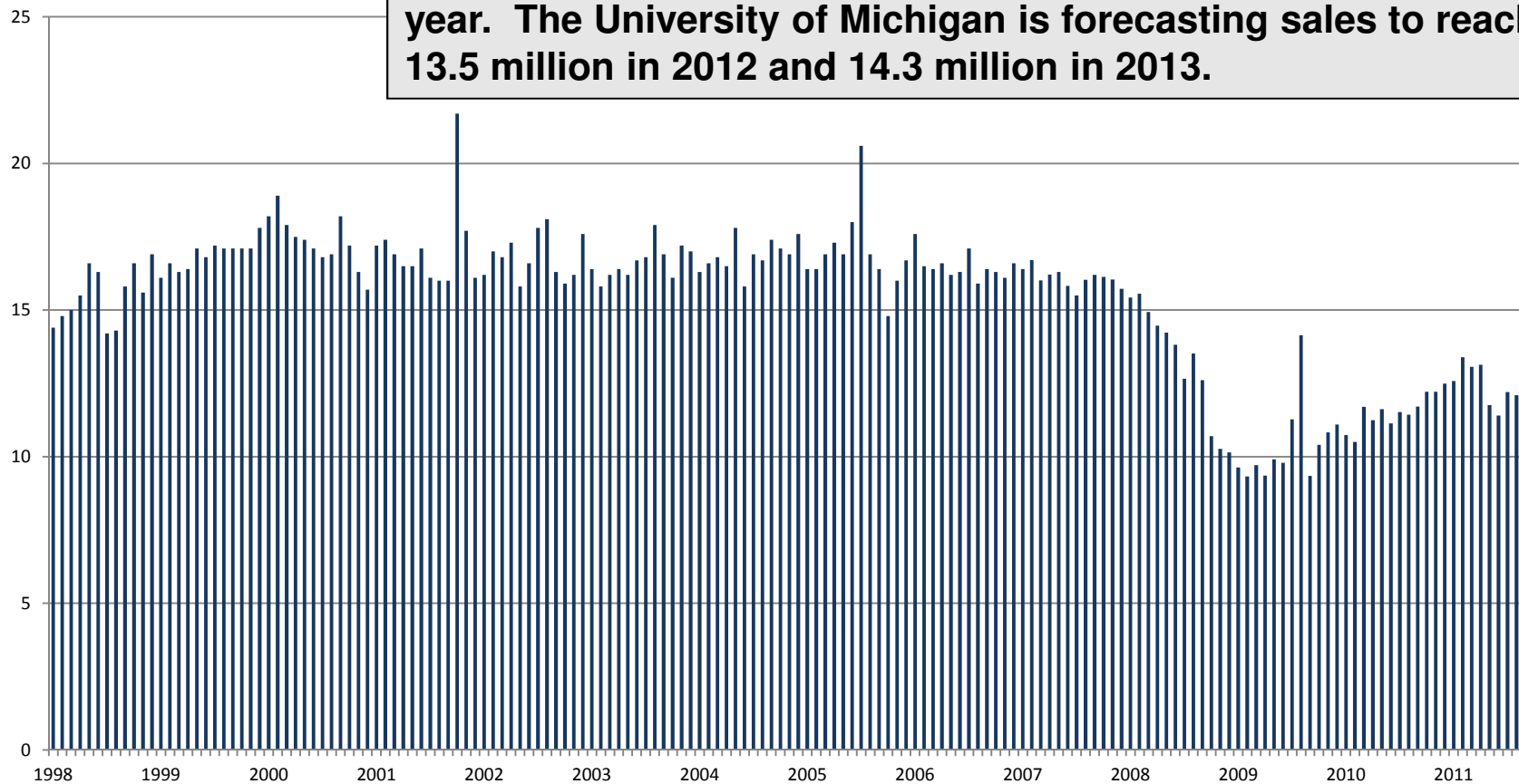
- U of M's Forecast is **positive**.

31,500 additional jobs in 2012

37,200 additional jobs in 2013

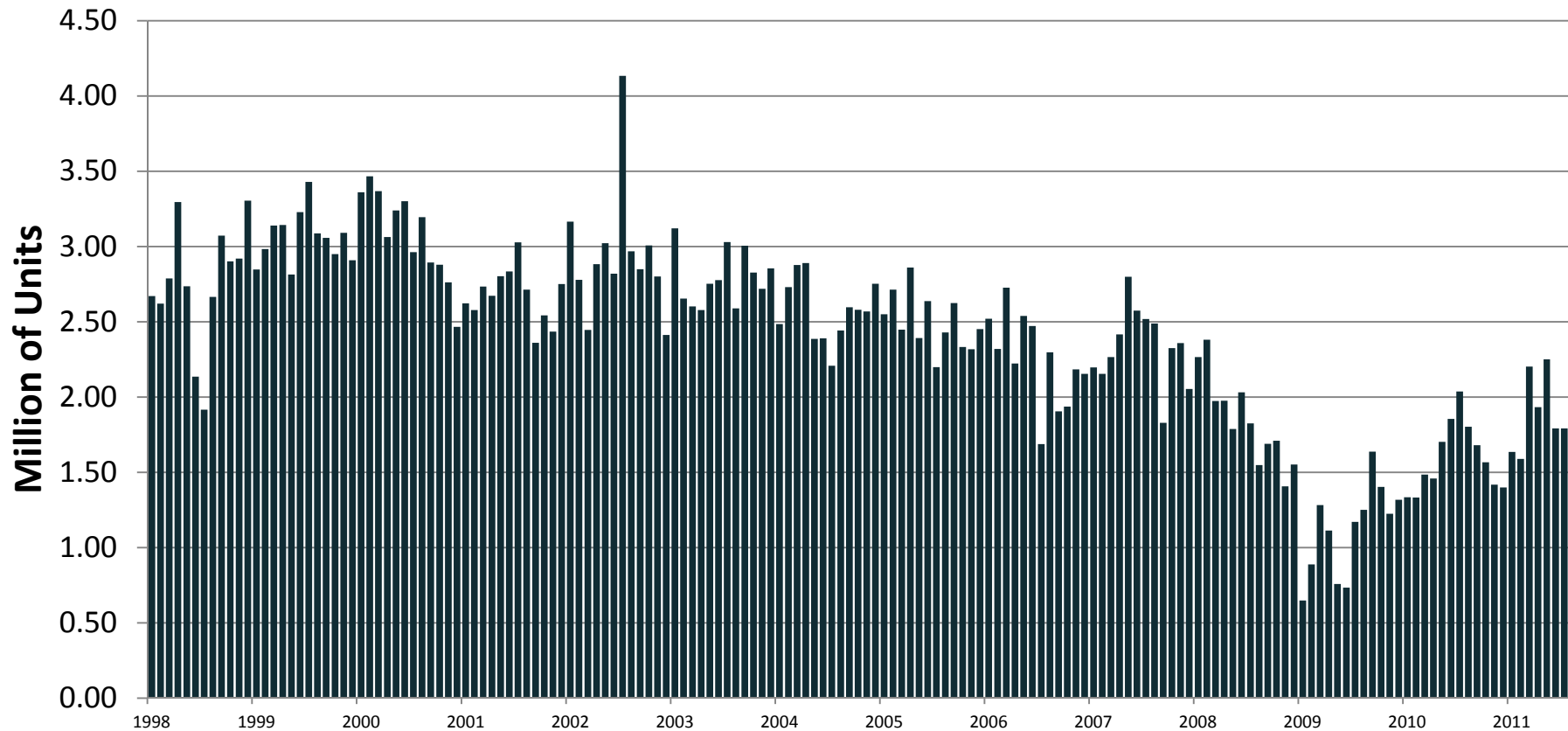
Auto deals are picking up from a slow summer.

So far car and light truck sales have reached 12.6 million this year. The University of Michigan is forecasting sales to reach 13.5 million in 2012 and 14.3 million in 2013.



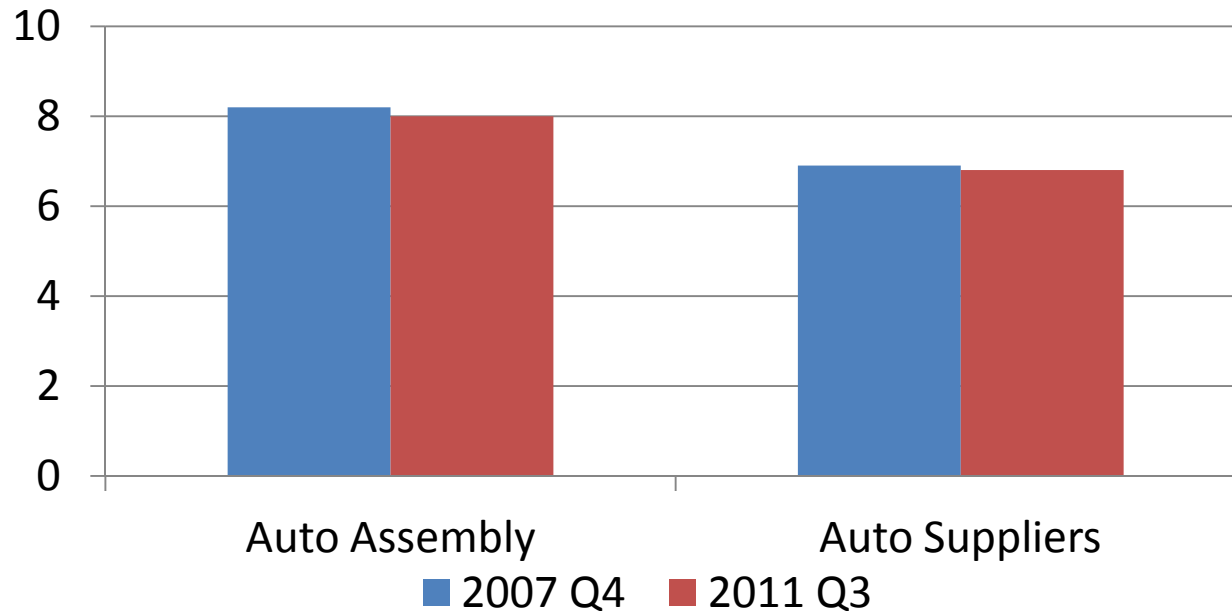
Auto production in Michigan is coming back.

Annualized Rate of Production Cars and Light Trucks



Is the state as auto dependent as before the recession? *YES*

Location Quotient where 1 = the national average



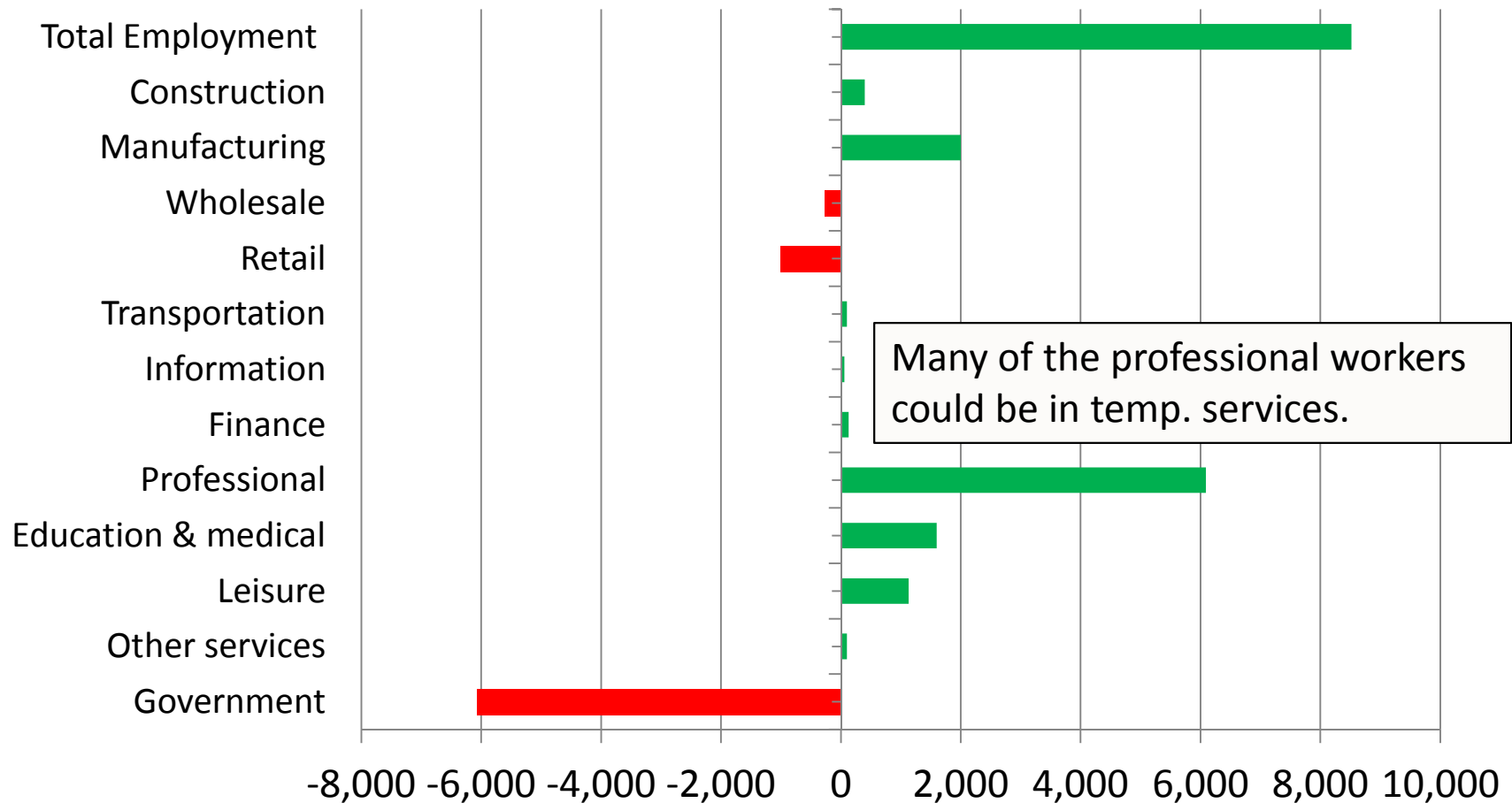
The importance of the auto industry

- From 2009 Q3 to 2011 Q3, state employment increased by 96,800 workers.
- During the same time period, employment in the auto industry increased by 9,260 workers.
- We estimate that the increase in auto jobs generated a total of 37,100 jobs in the state, accounting for 39 percent of the total increase in the state.

The Grand Rapids MSA

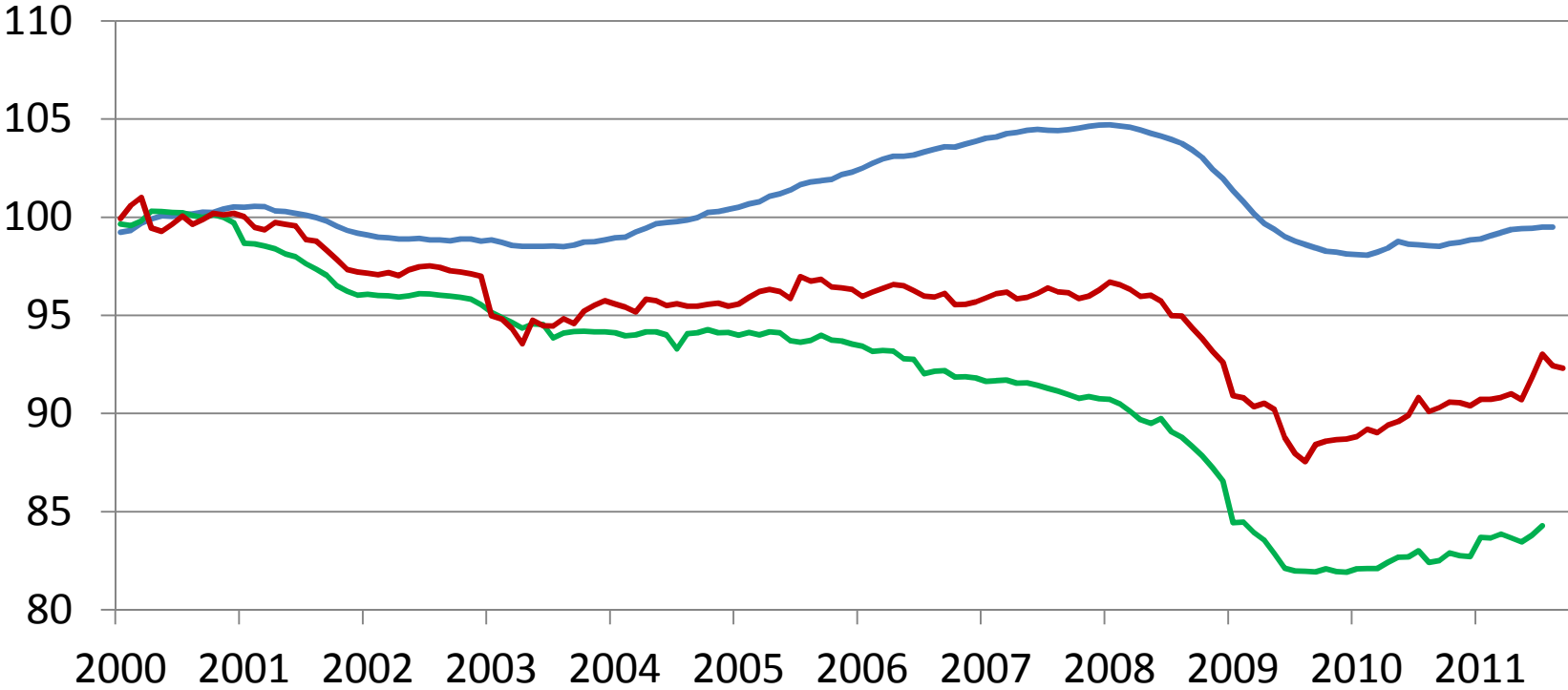
- 2011 was a surprisingly good year. Employment increased by 8,250 or 2 percent.
- It was a strong year for manufacturing.
- The MSA outperformed the comparison group except in one key area.
- The 2012 and 2013 outlook is promising.

From the third quarter of 2010 to the third quarter 2011, employment is up 8,250.



Since mid-2009, employment in Grand Rapids has been growing faster than the nation.

Index of Total Employment (100 = 2000 Average)

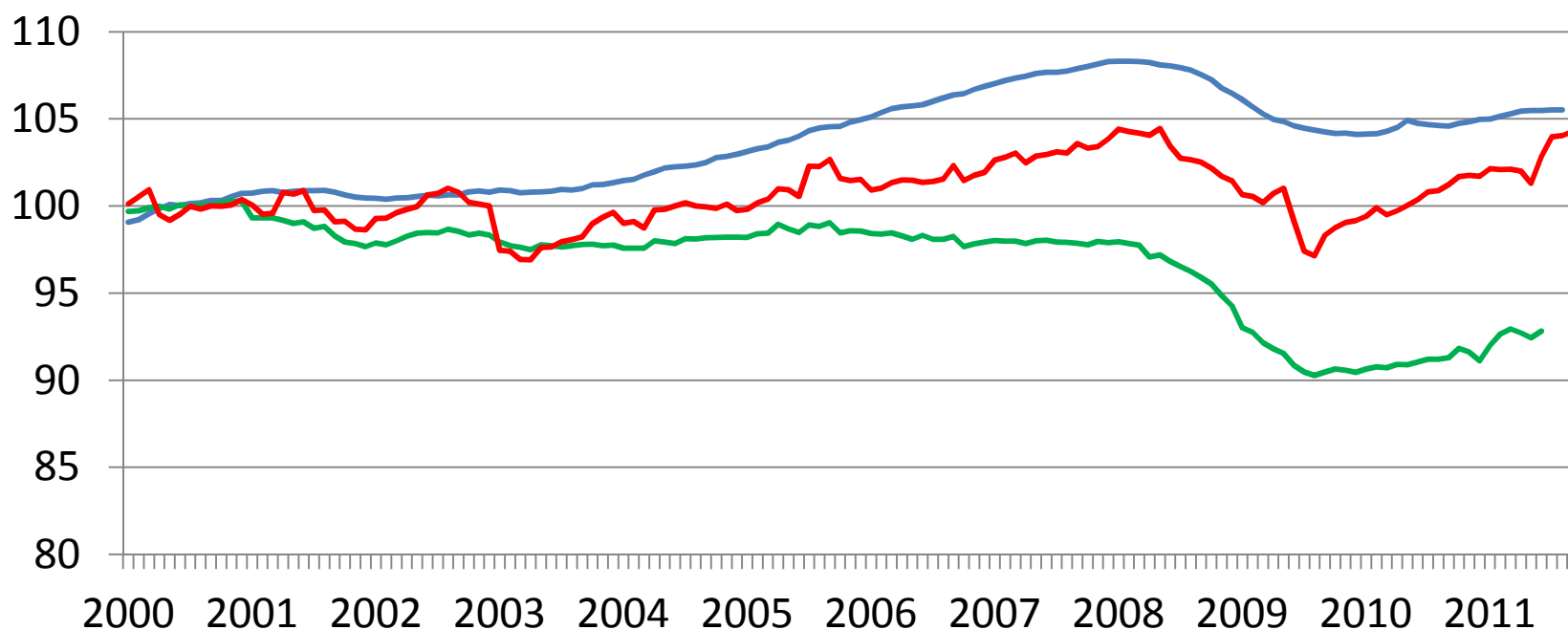


Source: BLS and Upjohn Institute.

— U.S. — Michigan — Grand Rapids MSA

Employment in the area's service-producing sectors has fully recovered from the recession.

Private Service-providing Employment Index (100 = 2000 average)

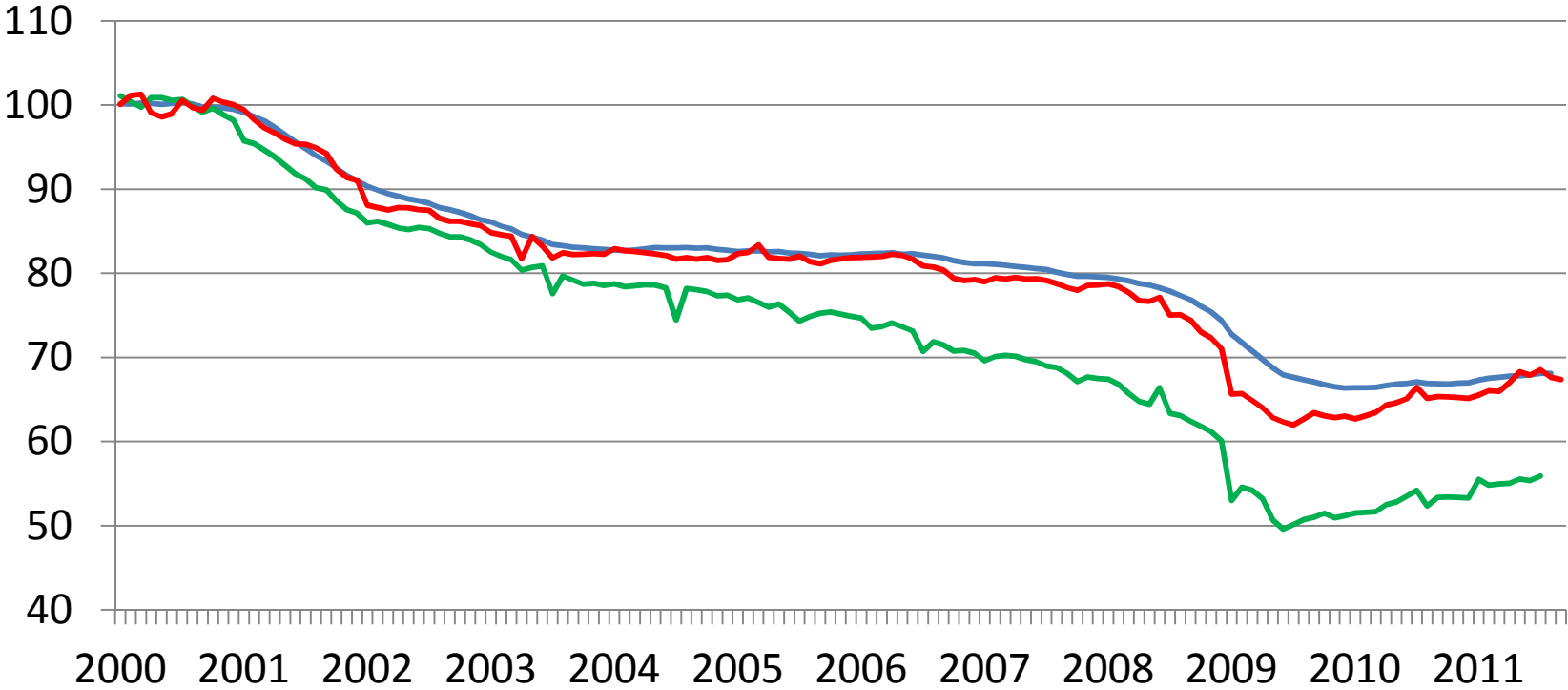


Source: BLS and Upjohn Institute.

— U.S. — Michigan — Grand Rapids MSA

Employment trend in manufacturing is tracking with the nation.

Index of Manufacturing Average (100 = 2000 average)

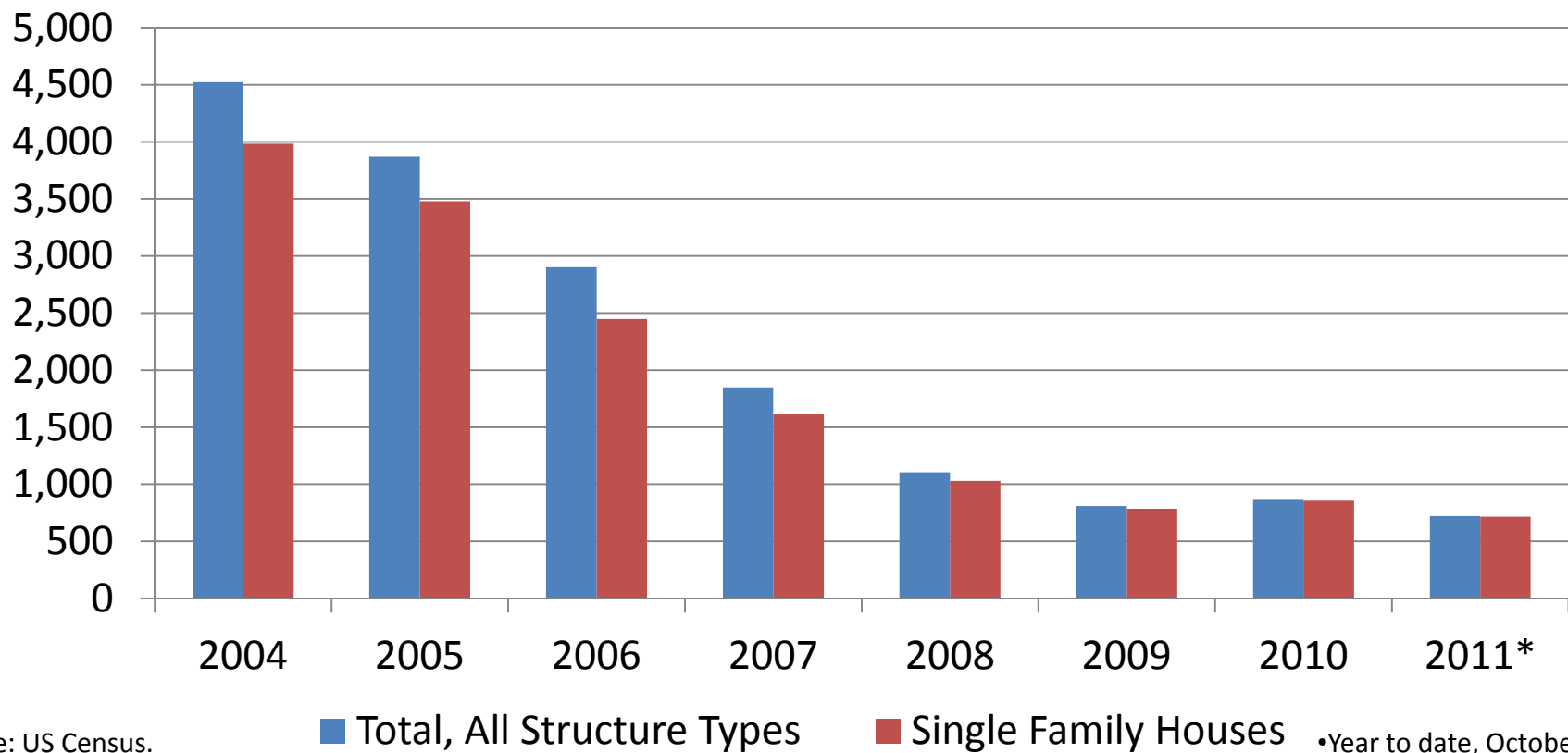


Source: BLS and Upjohn Institute.

— U.S. — Michigan — Grand Rapids MSA

The area's housing market remains flat with little sign of change.

Construction Permits Issued, Grand Rapids MSA



Source: US Census.

■ Total, All Structure Types

■ Single Family Houses

•Year to date, October 2011

Comparison Analysis –

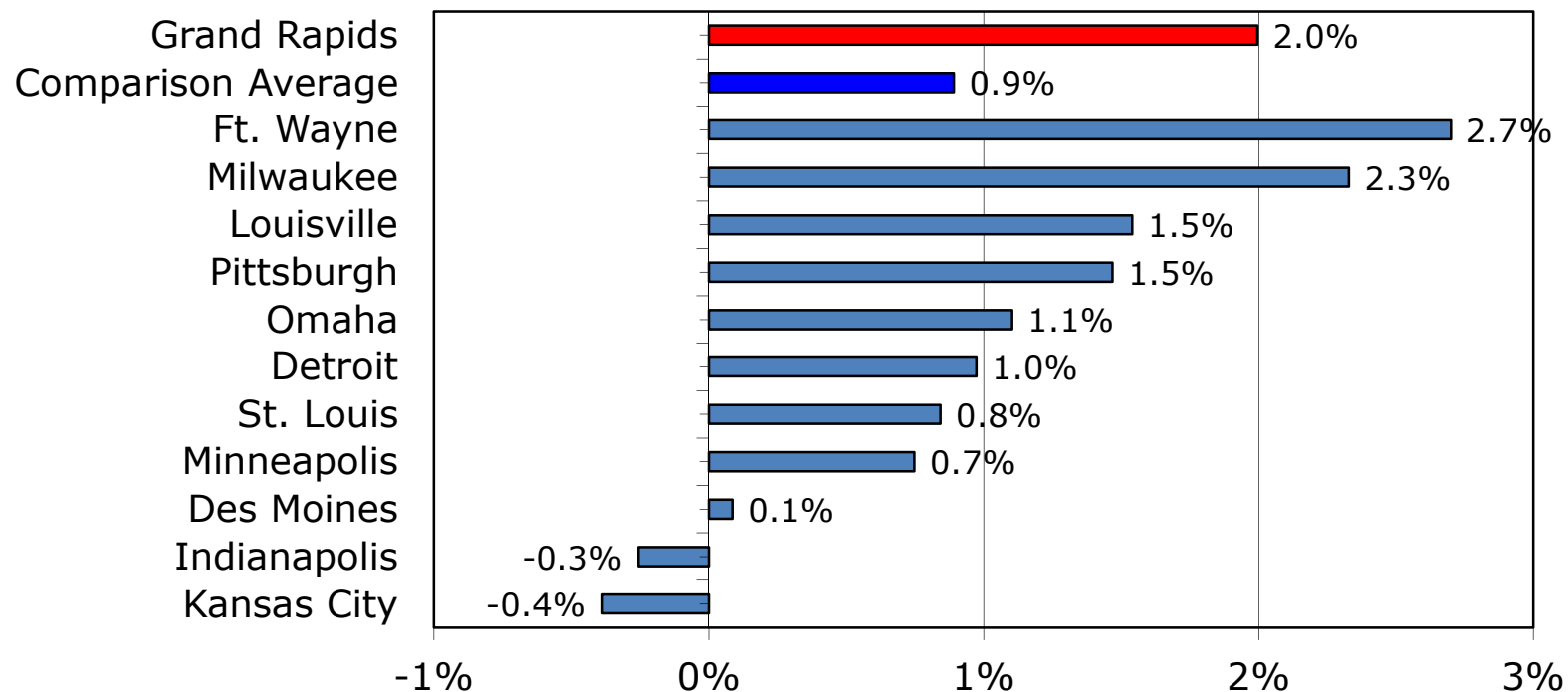
This is going to be fun except in one area.

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

Grand Rapids performance is well above the average for the comparison group.

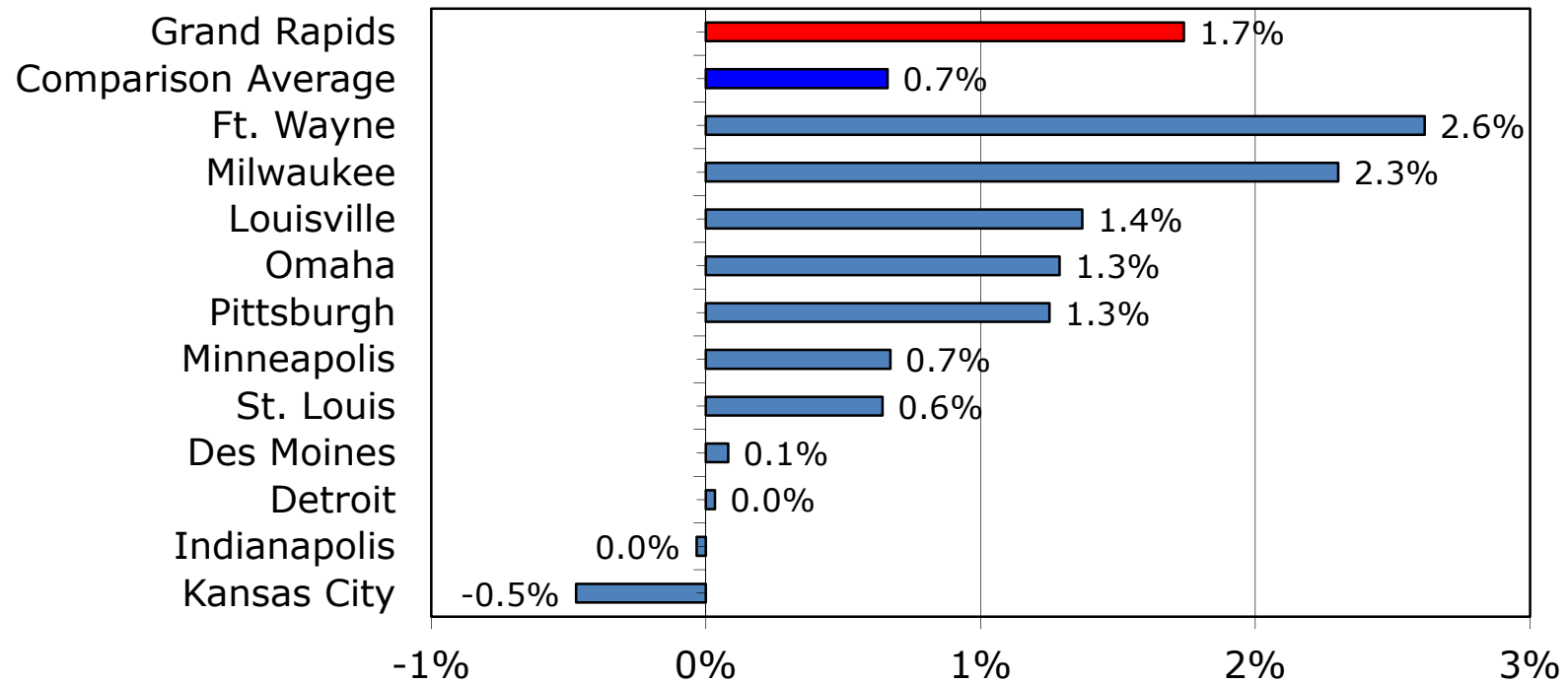
Percent Change in Total Employment
Jan-Oct 2010 to Jan-Oct 2011



Source: BLS.

The same is true with service employment.

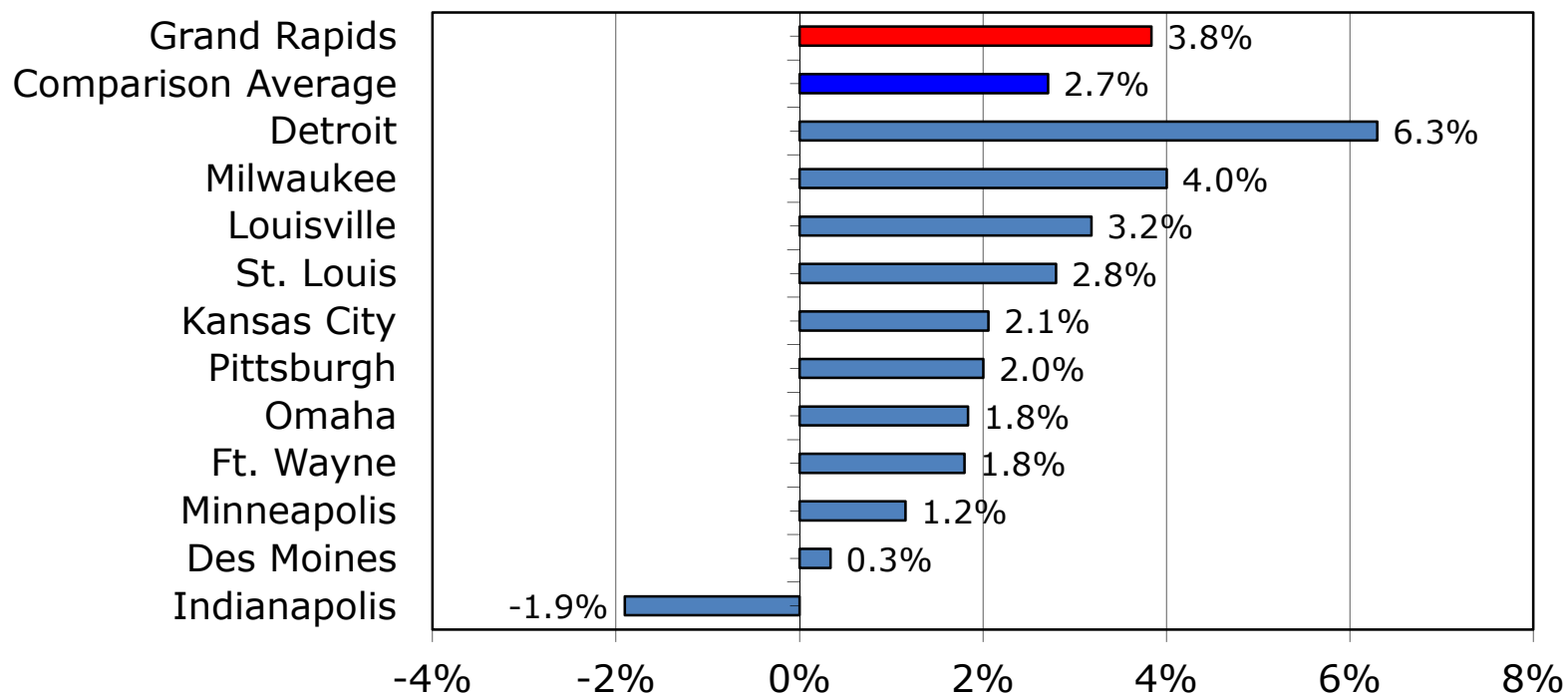
Percent Change in Service Employment
Jan-Oct 2010 to Jan-Oct 2011



Source: BLS.

Grand Rapids ranks third behind auto-driven Detroit and Milwaukee. (What's going on there?)

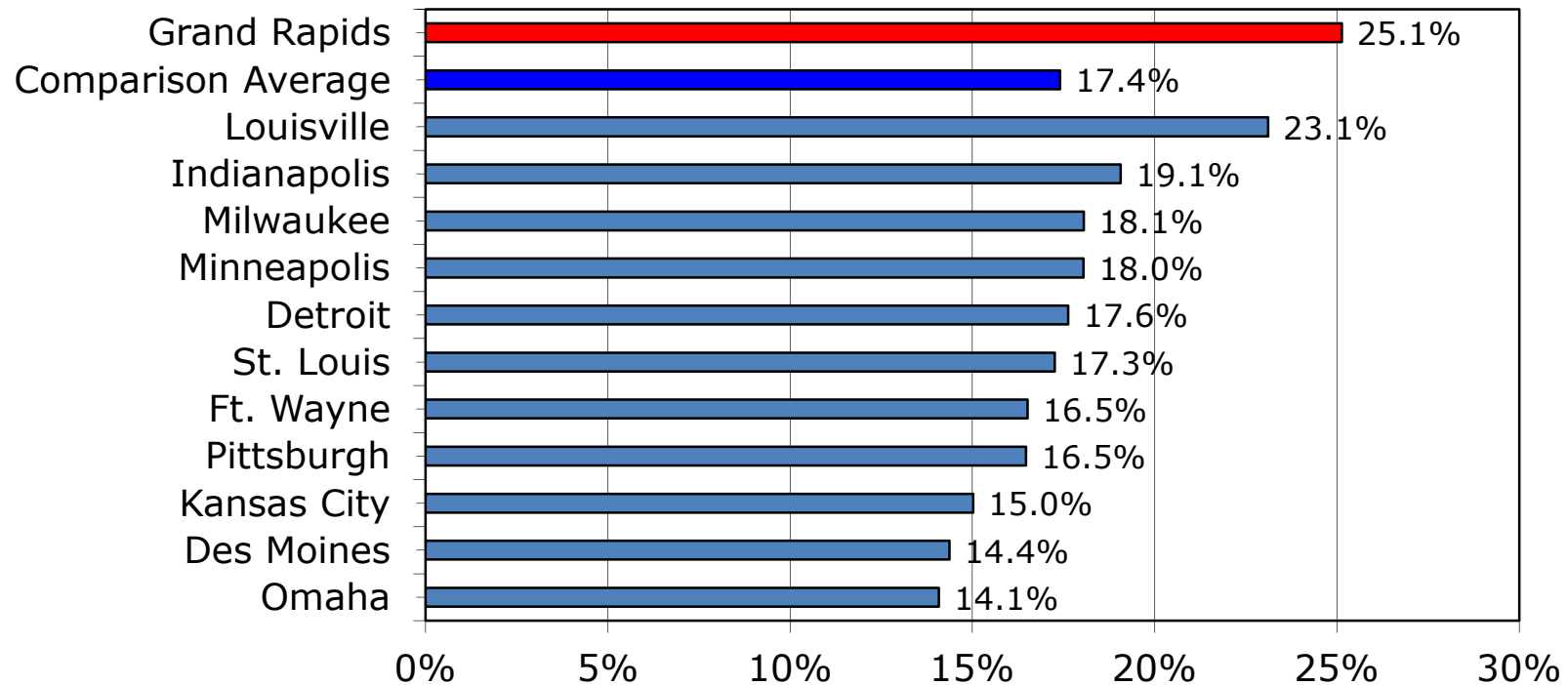
Percent Change in Manufacturing Employment
Jan-Oct 2010 to Jan-Oct 2011



Source: BLS.

Entrepreneurship in professional and scientific industries—*Grand Rapids cannot be touched.*

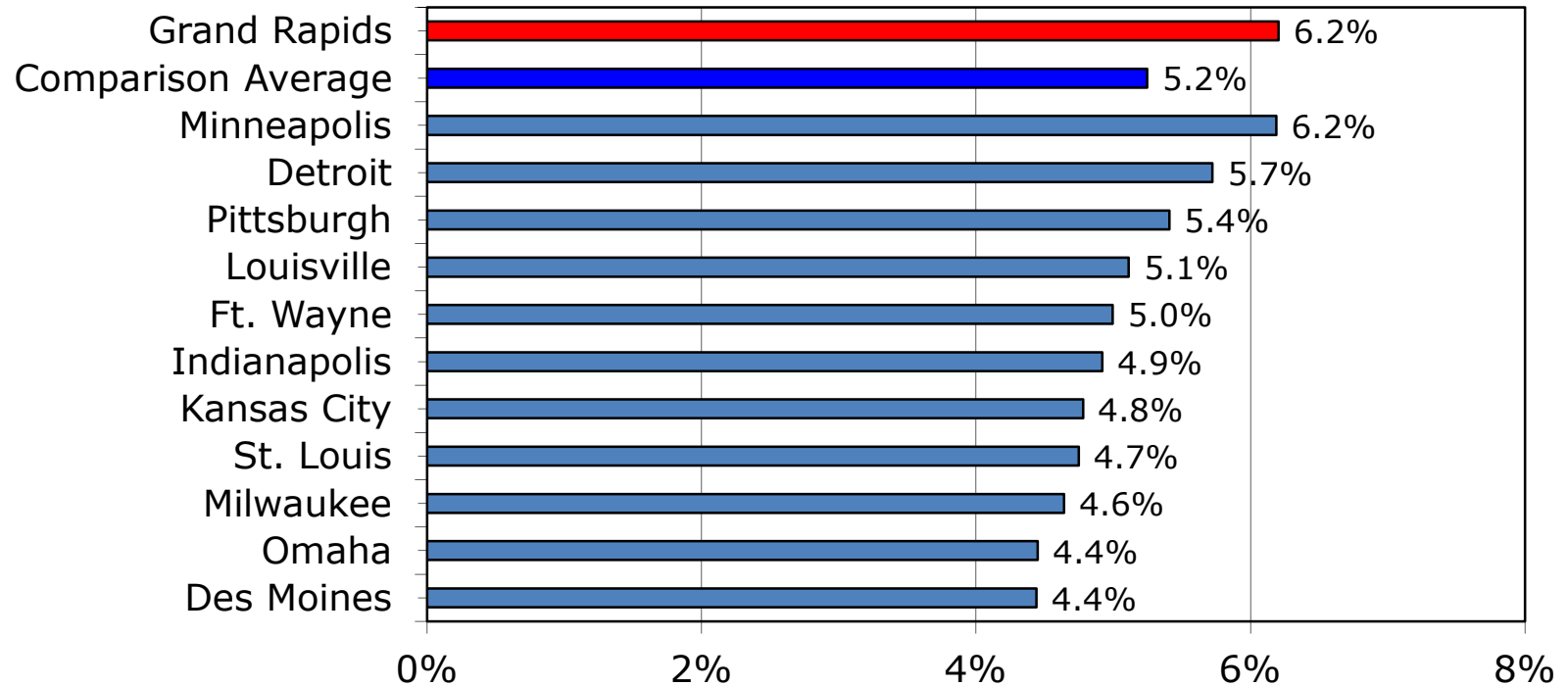
Percent of Self-Employed in Professional, Scientific, or Technical Industries



Source: ACS.

Grand Rapids and Minneapolis top the list in job creation.

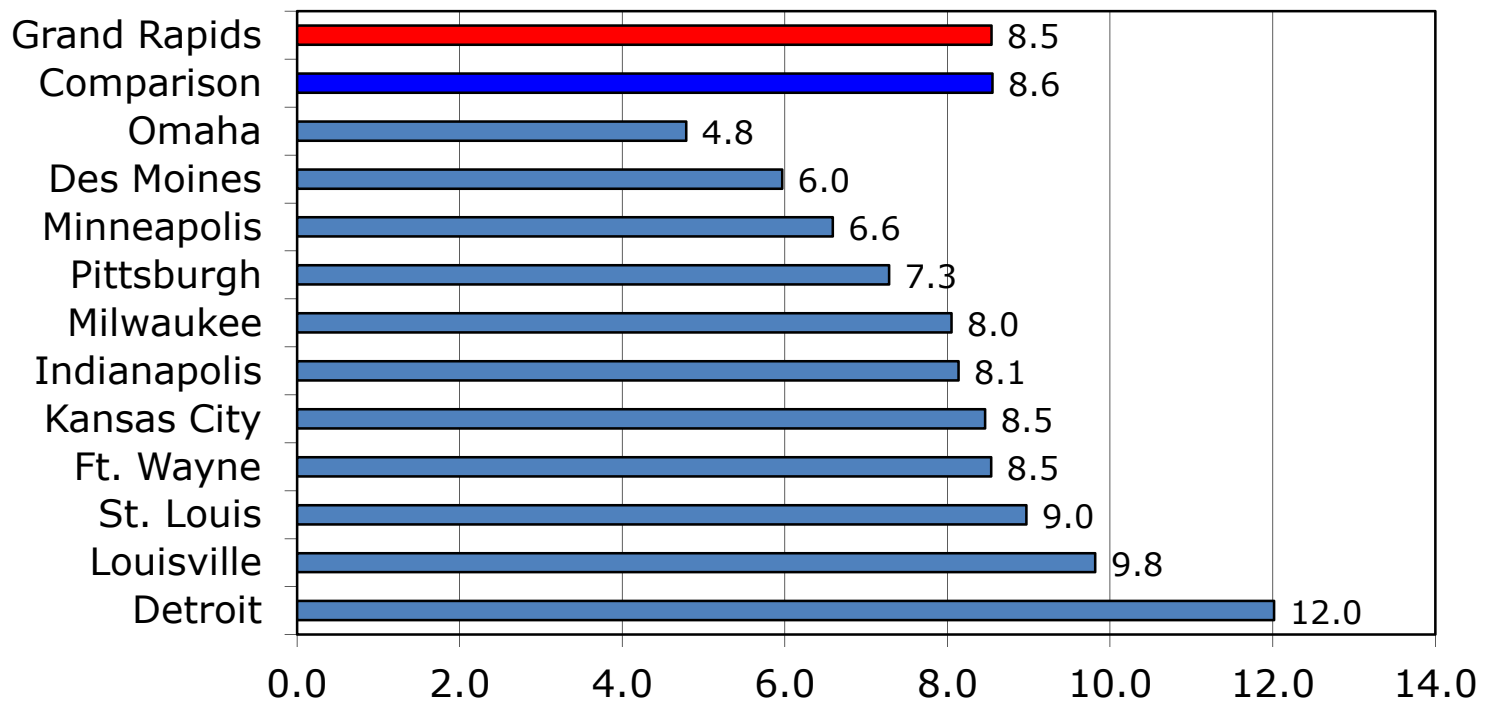
Job Creation as a Percent of Total Employment in Q1-Q3 2010



Source: Census QWI.

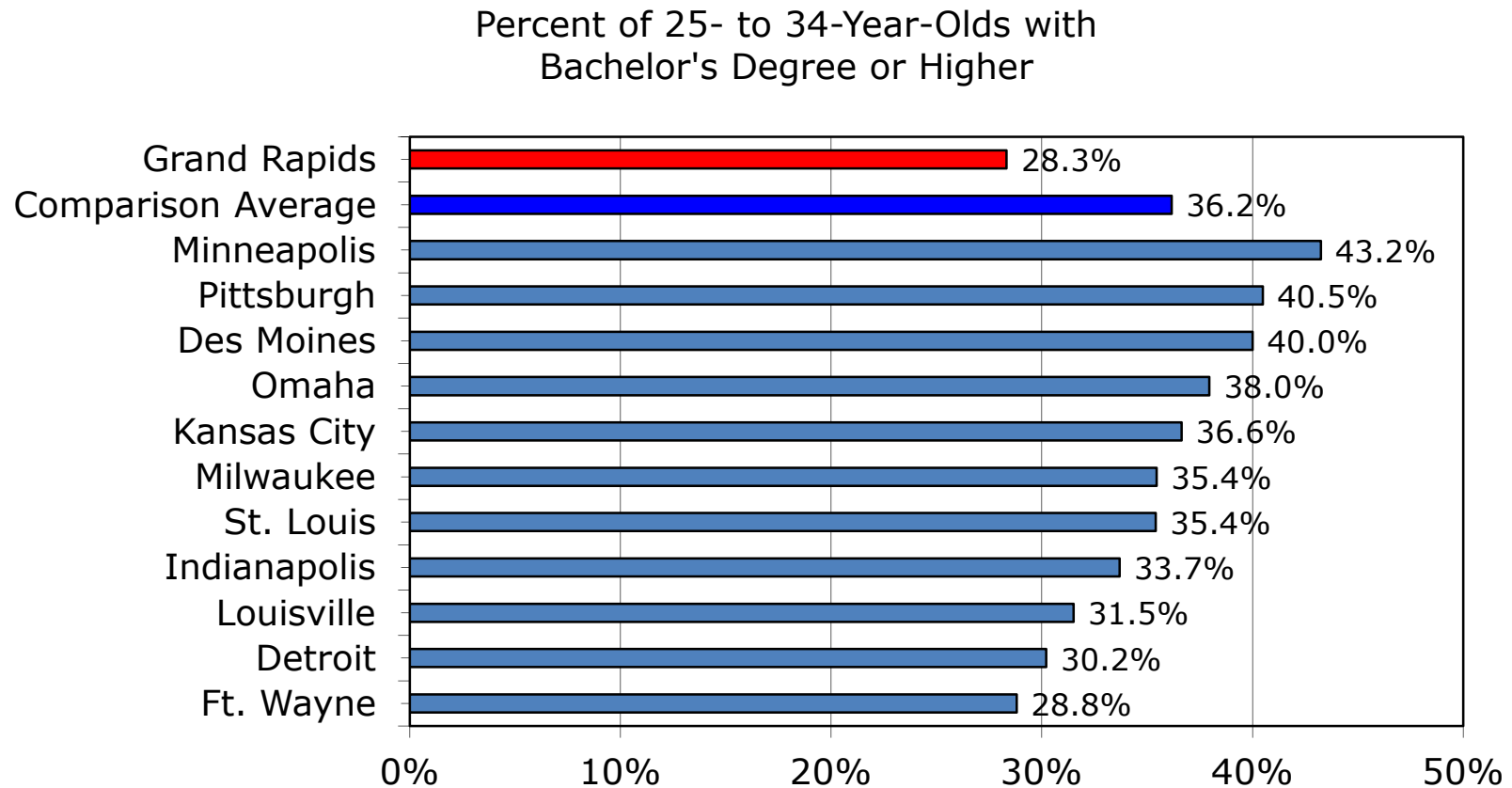
However, the area's unemployment rate is only average. *But what is worse...*

Average Unemployment Rate, Jan-Oct 2011



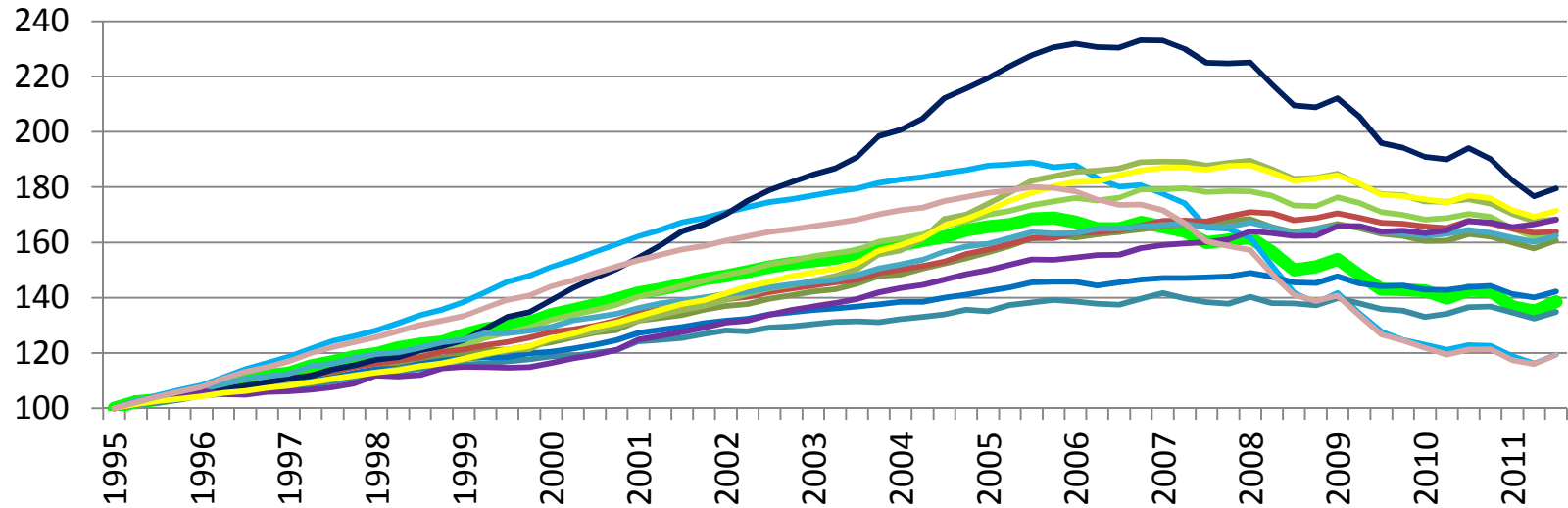
Source: BLS.

Disturbingly, a key indicator of the quality of the area's workforce is at the bottom of the group.



Source: ACS.

The area's housing prices have stabilized.



- Grand Rapids
 ■ Des Moines
■ Detroit (Wayne County)
■ Fort Wayne
- Indianapolis
 ■ Kansas City
■ Louisville
■ Milwaukee
- Minneapolis
 ■ Omaha
■ Pittsburgh
■ St. Louis
- Detroit Suburbs

Source: FHFA.

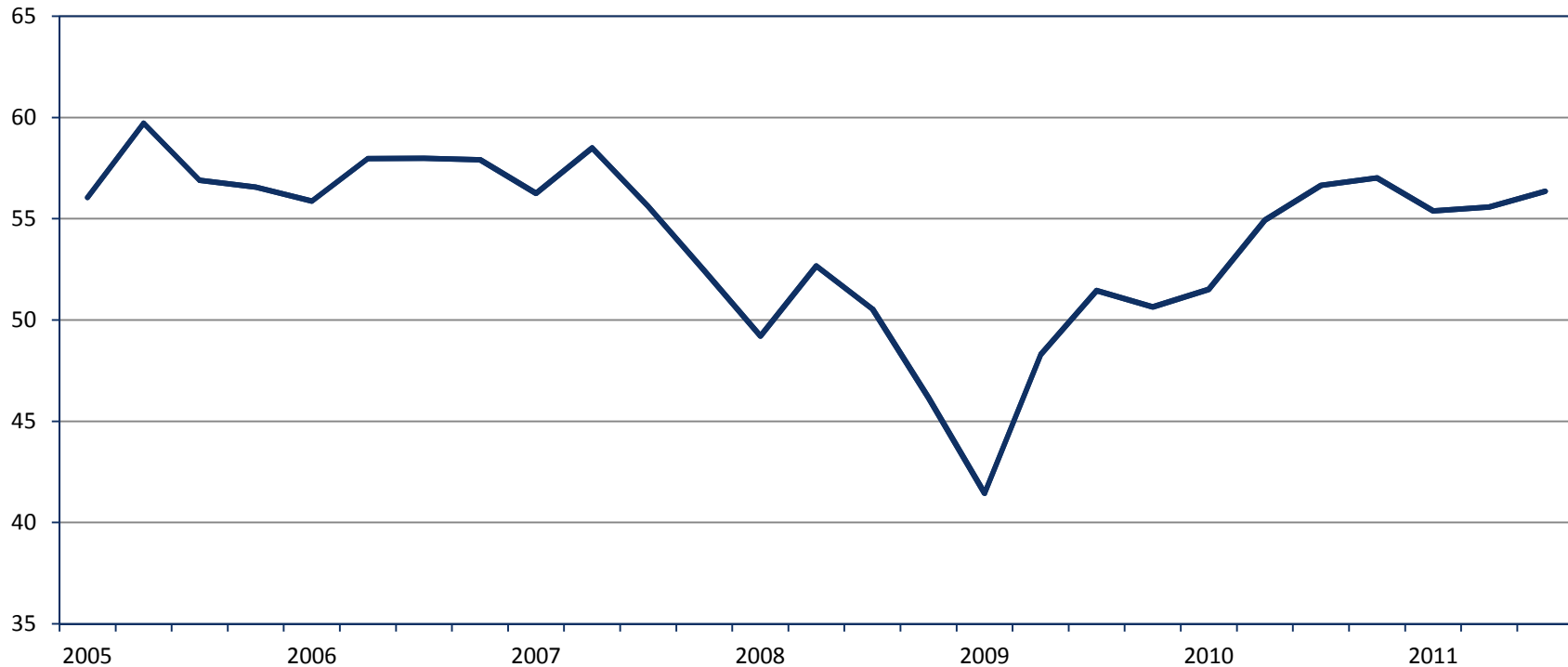
Brian Long's survey-based Purchasing Managers Index is still above 50.

Grand Rapids Area Purchasing Managers Index



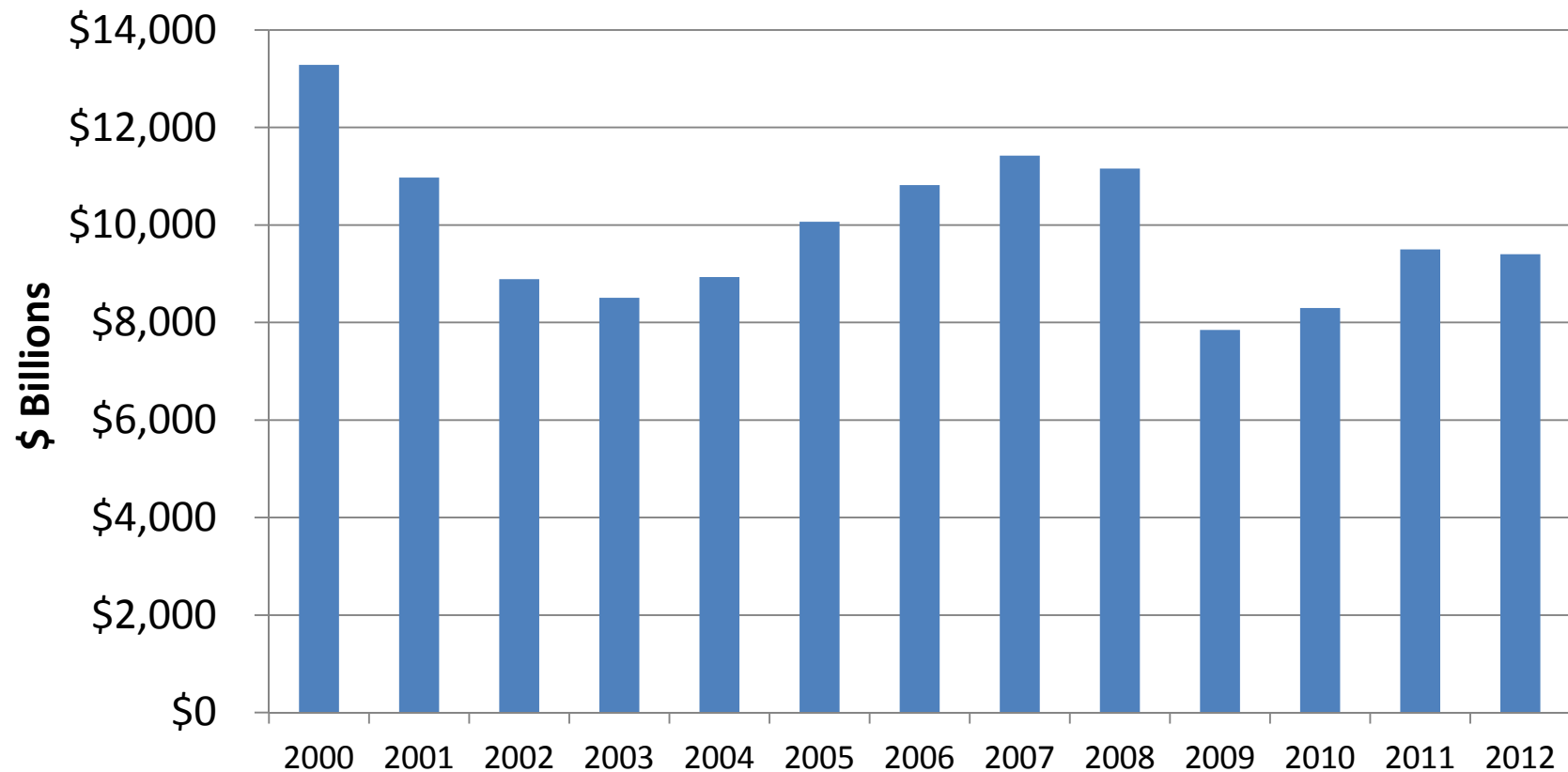
According to the Dunlap's quarterly survey of the office furniture industry, employment levels have stabilized.

**Michael A. Dunlap & Associates Index of Office Furniture
Employment
(100 = 2000 Average)**



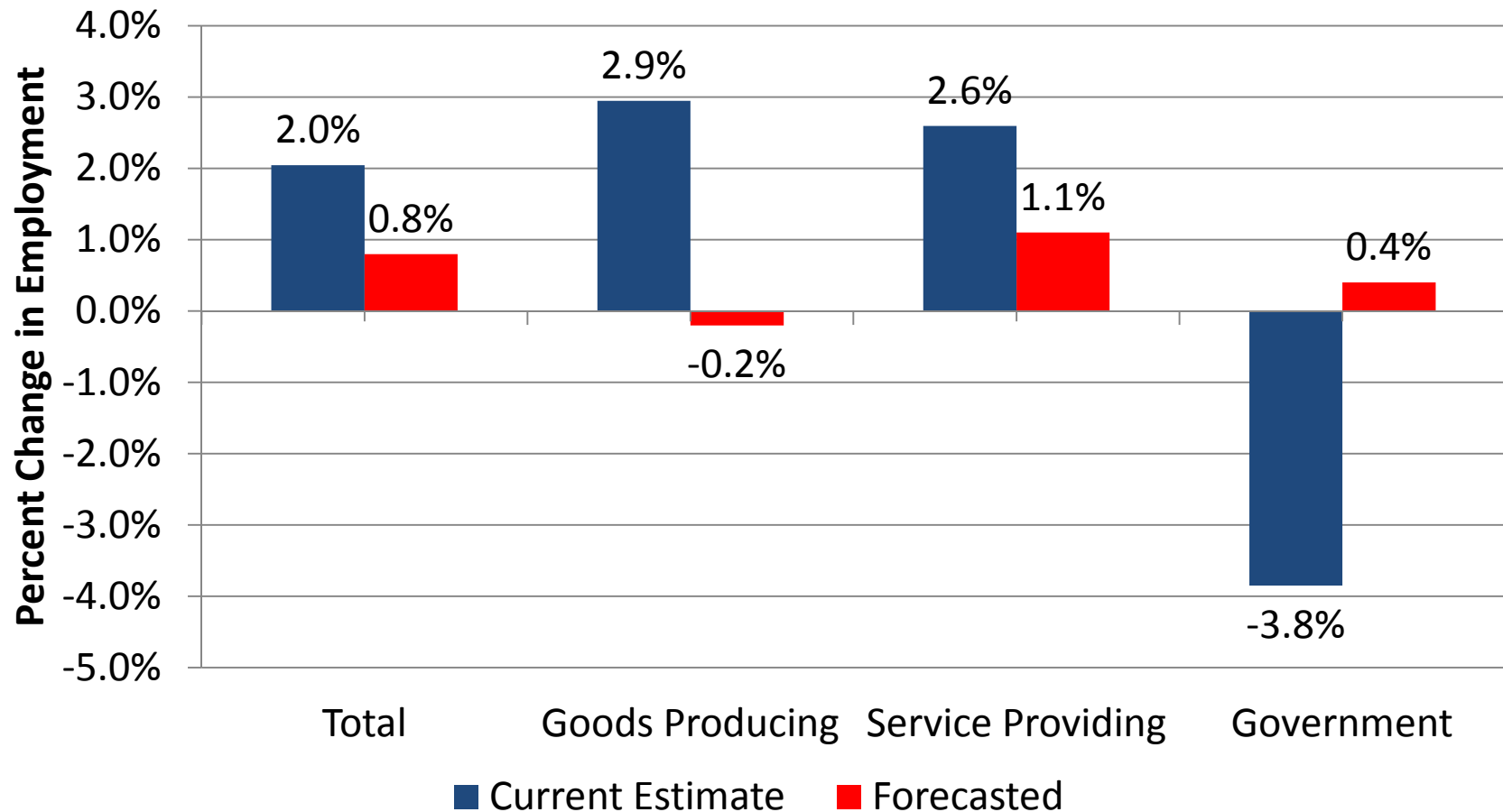
BIFMA is forecasting a modest 1.7% drop in office furniture production in 2012.

U.S. Production of Office Furniture



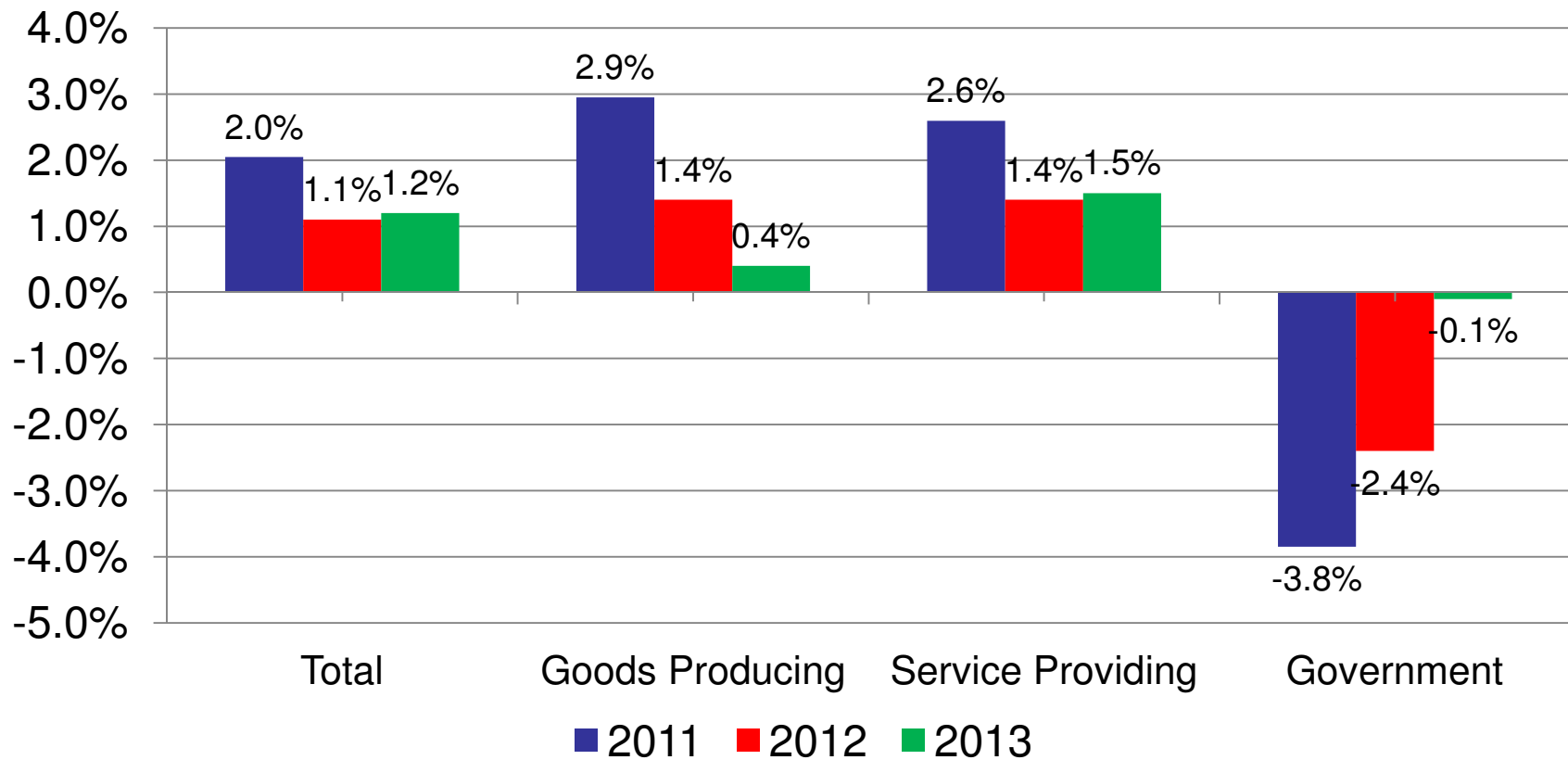
Review of last year's forecast:

We were too pessimistic.



Grand Rapids MSA 2012 -2013 Forecast

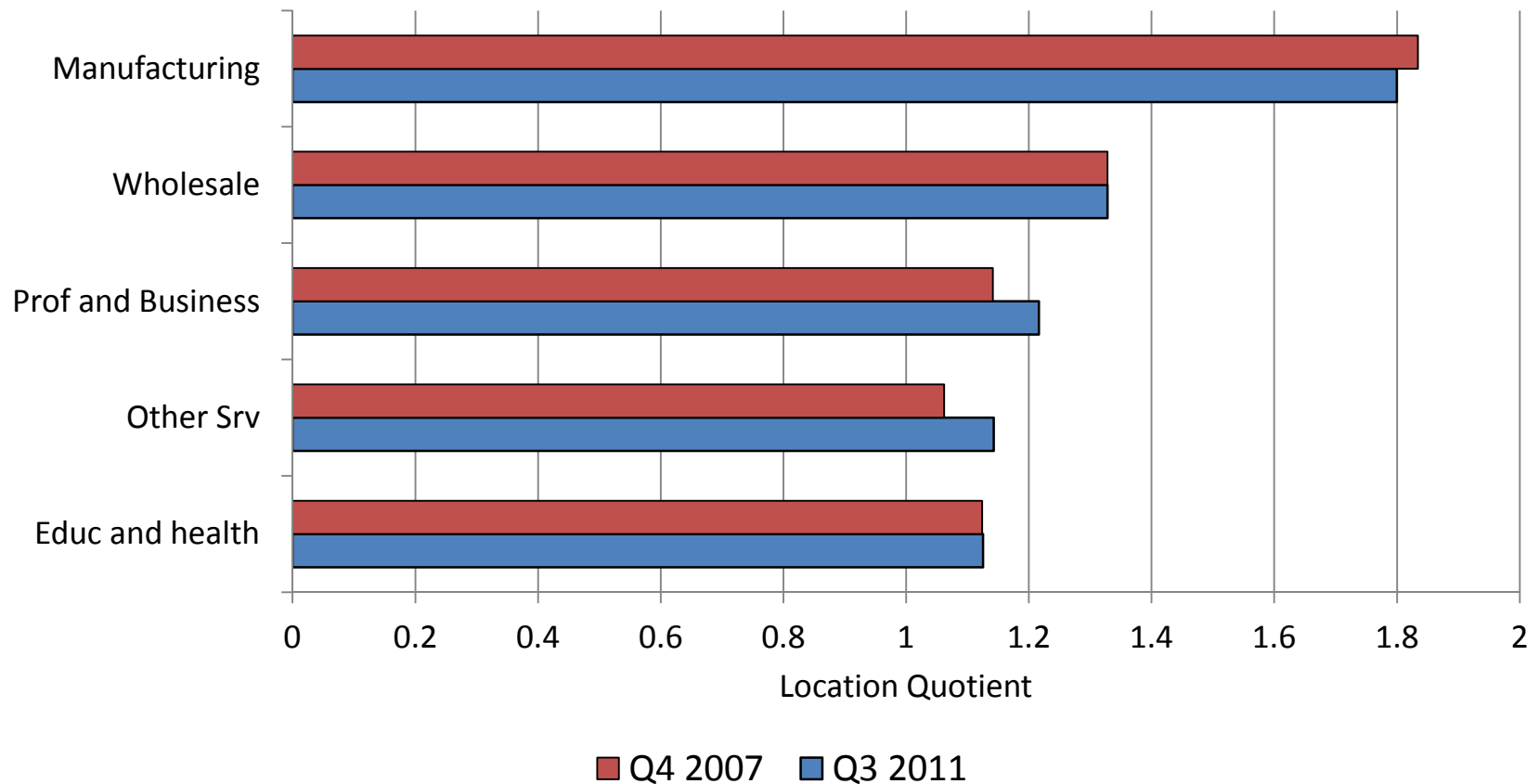
Annual Percent Change in Employment



Is the area any different now than before the recession?

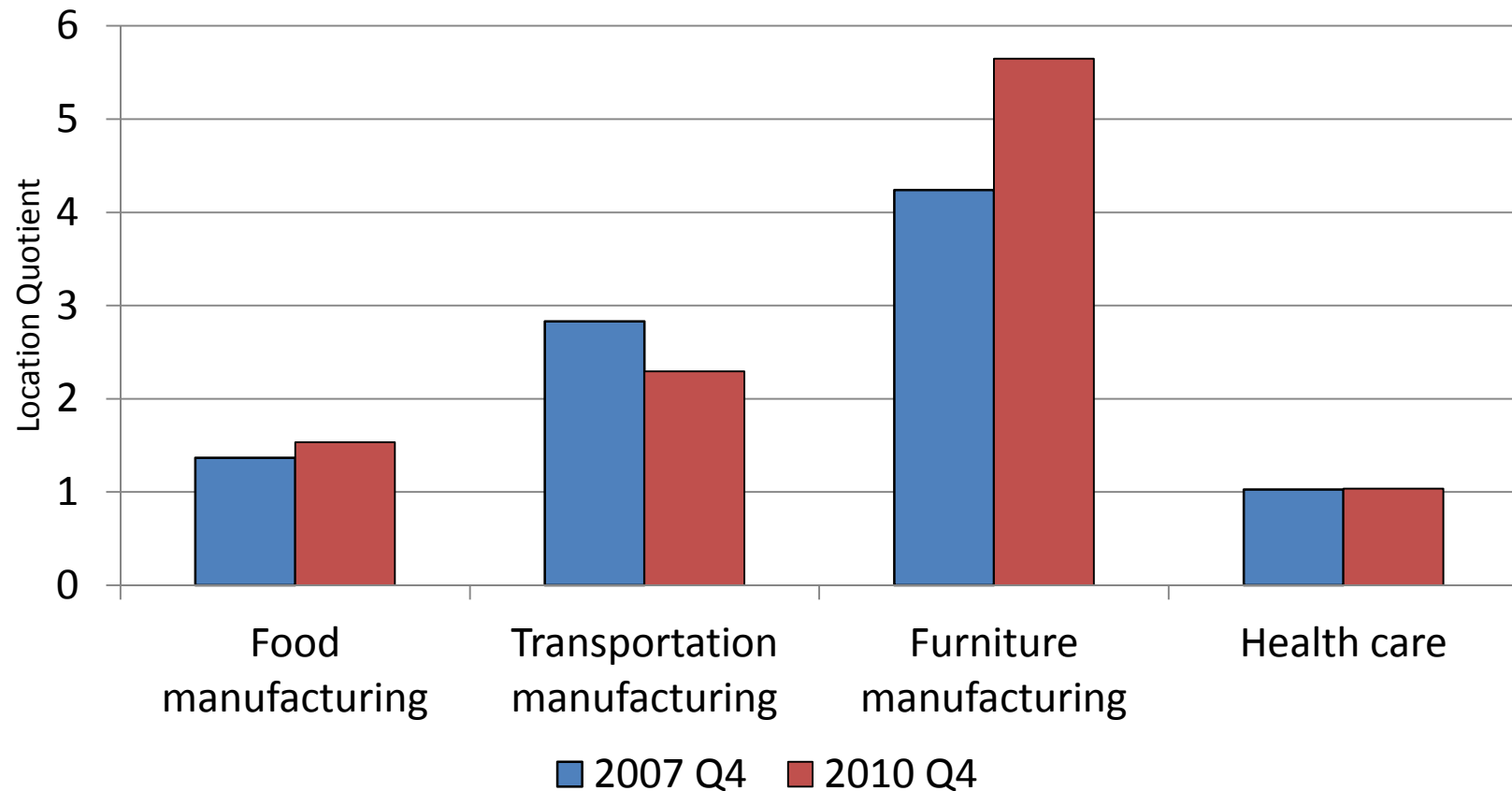
- No
- From December 2007 to June 2009, the area's industrial structure, relative to the nation, has not changed.

The structure of the area's "base" industries did not change.



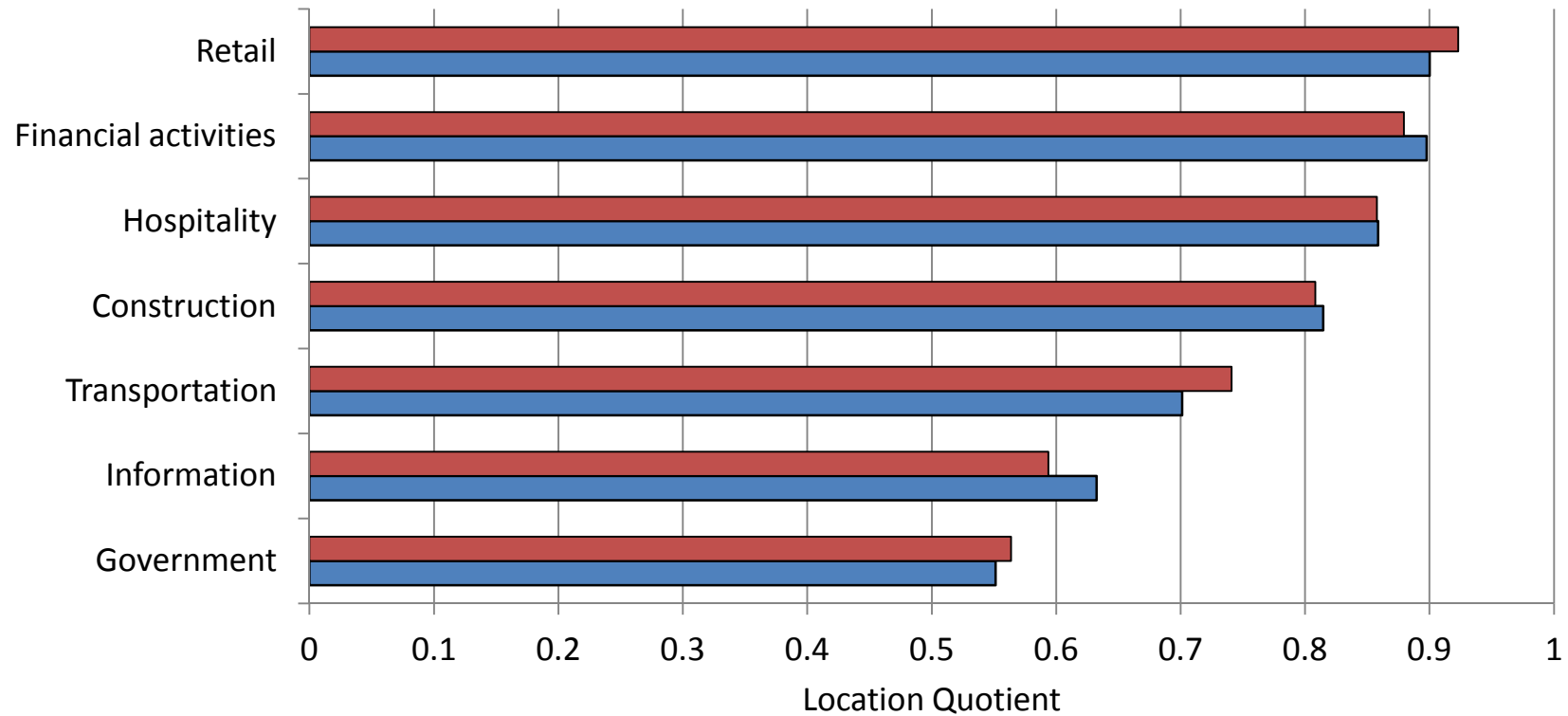
Source: BLS and Upjohn Institute (seasonally adjusted).

A closer look shows that strong presence of the furniture industry has only grown (excludes Ottawa County).



Source: BLS and MILMI.

The “non-base” changed little as well, relative to the nation.



■ Q4 2007 ■ Q3 2011

Source: BLS and Upjohn Institute (seasonally adjusted).

One last look at the area's labor force (Kent, Ottawa, Muskegon Counties)

2010 Working Age Adults 16 to 65 years					
	Total		Percent Employed	Percent Unemployed	Percent Not in Workforce
	Number	Percentage			
Did Not Complete H.S.	90,071	13.1%	36.7%	13.8%	49.5%
High School Graduate	176,087	25.7%	62.1%	10.9%	26.9%
Some College	168,436	24.5%	67.1%	10.5%	22.4%
Associate Degree	71,925	10.5%	78.5%	6.1%	15.4%
Bachelor's	109,987	16.0%	79.6%	5.3%	15.0%
Graduate Degree	69,849	10.2%	85.3%	4.2%	10.6%
Total	686,355	100.0%	66.9%	9.1%	24.0%
Source: ACS					

Final Comments

- A challenge to the nation: We are “copying exactly” plants from other countries – *Does that seem right to you?*
- Maybe my father was right: “Send a fool to college and all you get is an educated fool.”
- Still, it is clear to me that despite the area’s solid, short-term gains, *talent will determine its long-term success.*

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Copies of this presentation are available at:
www.upjohn.org

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