Peering Into Economic Conditions: A Look at the Nation, the State, and the Grand Rapids Region

A Presentation at the 2020 Economic Outlook for West Michigan

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W.E. Upjohn Institute for Employment Research

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W.E. Upjohn Institute for Employment Research

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National Economy
We are currently in the longest expansion since WWII

Employment Index during Economic Expansion

We’re in the longest business cycle (contraction and expansion) and the longest expansion, while experiencing the longest recession since measurement began

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Contraction</td>
<td>8</td>
<td>11</td>
<td>10</td>
<td>8</td>
<td>11</td>
<td>16</td>
<td>6</td>
<td>16</td>
<td>8</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>125</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 has reacted to various events this year, and the ride is getting bumpier.

Dow Jones Industrial Average

Source: Yahoo Finance & Bureau of Labor Statistics
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 (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>
High and stable consumer confidence

Source: Conference Board and University of Michigan
Moody’s predictions of a recession are relatively low and decreasing: 9% in October
With tax cuts and 2018 fiscal stimulus overhang, federal debt and deficits continue to climb

**Federal Deficit and Debt**

- **Deficit**
- **Deficit (projected)**
- **Debt**
- **Debt (projected)**

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

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

“Expansions don’t get tired; rather, they end due to policy mistakes.”
Michigan
Michigan continues to outperform expectations

Michigan Employment Change, Q3 2018 to Q3 2019

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 2019 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>Employment Change</td>
<td>23,300 (.99%)</td>
<td>29,000 (.64%)</td>
<td>25,900 (.42%)</td>
</tr>
<tr>
<td>Manufacturing 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>
Michigan exports in 2018: 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>$58,034,773,175</td>
<td>6.1%</td>
<td>41.8%</td>
<td>21.2%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>$28,174,245,233</td>
<td>6.5%</td>
<td>52.5%</td>
<td>15.7%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>$5,277,878,144</td>
<td>7.7%</td>
<td>14.1%</td>
<td>22.1%</td>
<td>26.5%</td>
</tr>
<tr>
<td>Machinery</td>
<td>$4,902,788,438</td>
<td>5.5%</td>
<td>27.9%</td>
<td>35.6%</td>
<td>15.6%</td>
</tr>
<tr>
<td>Computer and electronic</td>
<td>$3,064,025,650</td>
<td>6.3%</td>
<td>19.1%</td>
<td>27.3%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>$2,453,426,141</td>
<td>5.8%</td>
<td>25.0%</td>
<td>41.2%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Primary metals</td>
<td>$2,389,388,016</td>
<td>2.3%</td>
<td>47.5%</td>
<td>14.6%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Fabricated metals</td>
<td>$2,382,272,594</td>
<td>6.1%</td>
<td>28.1%</td>
<td>40.9%</td>
<td>11.8%</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</td>
<td>$163,752</td>
<td>$209</td>
<td>$109</td>
<td>$157,678</td>
<td>$18,952</td>
</tr>
<tr>
<td>(% change 2017-2018)</td>
<td>(-88.7%)</td>
<td>(-99.2%)</td>
<td>(-46.6%)</td>
<td>(-74.3%)</td>
<td>(-12.6%)</td>
</tr>
<tr>
<td>Other animal products to Canada</td>
<td>$2,713</td>
<td>$7,703</td>
<td>$8,297</td>
<td>$47,732</td>
<td>$103,047</td>
</tr>
<tr>
<td>(% change 2017-2018)</td>
<td>(-48.1%)</td>
<td>(-1.9%)</td>
<td>(-8.1%)</td>
<td>(+43.0%)</td>
<td>(+40.0%)</td>
</tr>
<tr>
<td>Food manufacturing to Canada</td>
<td>$1,254,712</td>
<td>$347,206</td>
<td>$405,388</td>
<td>$732,669</td>
<td>$938,941</td>
</tr>
<tr>
<td>(% change 2017-2018)</td>
<td>(-1.2%)</td>
<td>(+1.7%)</td>
<td>(-3.1%)</td>
<td>(+6.5%)</td>
<td>(-6.0%)</td>
</tr>
</tbody>
</table>

Dollars in ‘000s

Source: U.S. Census of Agriculture, International Trade Administration
Regional Conditions: The Right Place
The Grand Rapids-Wyoming Metropolitan Statistical Area

- Barry County
- Kent County
- Montcalm County
- Ottawa County

Source: Basemap
The current unemployment rate is 3.0%, with 17,746 persons looking for work.

Source: Bureau of Labor Statistics Local Area Unemployment Statistics
Unemployment rates are between 2.3% and 4.7% for counties in West Michigan

The MSA is at full employment

Michigan’s rate is 4.1% (October 2019)
Labor force participation rates are more varied

While Montcalm struggles, the rest of the MSA is doing well

Michigan’s rate is 61.8% (October 2019)
Housing values continue to rise.

But the pace continues to decelerate nationally.
Grand Rapids continues to outpace the state and nation in employment growth

Nonfarm Employment Index (2007 = 100)

Grand Rapids recovered faster than the state or nation, although growth appears to be slowing

Grand Rapids exceeds both the state and nation, although employment growth is leveling off

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

The total labor force in Grand Rapids continues to grow

Total Labor Force: Grand Rapids-Wyoming Metro Area

- Employed
- Unemployed

Source: Bureau of Labor Statistics Local Area Unemployment Statistics
National PMI stood at 48.1 in November, indicating the manufacturing sector may be contracting

Source: Institute for Supply Management
The recent trend is plunging downward – 36.3 in October (although the GM strike may have impacted this number)

Purchasing Managers Index – Grand Rapids

Readings below 50 indicate sector is contracting

Source: Institute for Supply Management & Upjohn Institute
A stable index with positive regional employment growth

How is the Grand Rapids region doing compared to peer regions?
Comparison areas: Economically comparable and/or aspirational

Metropolitan Statistical Areas:
• Boise, ID
• Cincinnati, OH-KY-IN
• Cleveland-Elyria, OH
• Greenville-Anderson-Mauldin, SC Metro Area
• Indianapolis-Carmel-Anderson, IN Metro Area
• Louisville/Jefferson County, KY-IN Metro Area
• Milwaukee-Waukesha-West Allis, WI Metro Area
• Minneapolis-St. Paul-Bloomington, MN-WI Metro Area
• Nashville-Davidson-Murfreesboro-Franklin, TN Metro Area
• Salt Lake City, UT
• Tulsa, OK
• Wichita, KS
The Grand Rapids MSA posted one of the lower unemployment rates of the group.

### Average Unemployment Rate, Jan-Oct 2019

<table>
<thead>
<tr>
<th>Location</th>
<th>Percent of Labor Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Rapids</td>
<td>2.9</td>
</tr>
<tr>
<td>Comparison average</td>
<td>3.3</td>
</tr>
<tr>
<td>Cleveland, OH</td>
<td>3.3</td>
</tr>
<tr>
<td>Louisville, KY</td>
<td>3.3</td>
</tr>
<tr>
<td>Cincinnati, OH</td>
<td>3.2</td>
</tr>
<tr>
<td>Wichita, KS</td>
<td>3.1</td>
</tr>
<tr>
<td>Tulsa, OK</td>
<td>3.0</td>
</tr>
<tr>
<td>Milwaukee, WI</td>
<td>2.9</td>
</tr>
<tr>
<td>Indianapolis, IN</td>
<td>3.2</td>
</tr>
<tr>
<td>Minneapolis, MN</td>
<td>3.0</td>
</tr>
<tr>
<td>Greenville, SC</td>
<td>2.8</td>
</tr>
<tr>
<td>Salt Lake City, UT</td>
<td>2.7</td>
</tr>
<tr>
<td>Boise, ID</td>
<td>2.6</td>
</tr>
<tr>
<td>Nashville, TN</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics Local Area Unemployment Statistics
Grand Rapids ranked in the middle in employment growth

Manufacturing employment change at the comparison group average

Manufacturing Employment Change Jan-Oct 2018 to Jan-Oct 2019

- Grand Rapids: 1.3%
- Comparison average: 1.3%
- Boise, ID: 0.8%
- Wichita, KS: 0.6%
- Cincinnati, OH: 0.1%
- Indianapolis, IN: 1.6%
- Salt Lake City, UT: 2.4%
- Louisville, KY: 2.4%
- Minneapolis, MN: 2.4%
- Tulsa, OK: 4.2%
- Milwaukee, WI: 2.8%
- Cleveland, OH: 0.0%
- Nashville, TN: -0.6%
- Greenville, SC: -1.2%

Services grew slower than the average of the comparison group

The indicator for entrepreneurship shows the area at the top of the comparison group

Source: U.S. Census American Community Survey
The area ranks in the middle for college-educated emerging workers within the comparison group.

Source: U.S. Census American Community Survey
Housing prices are rising at the rate near the average for the group

Source: Federal Housing Finance Agency
How did we do last year?
Review of last year’s forecast

Annual Percent Change In Employment

<table>
<thead>
<tr>
<th>Category</th>
<th>Current estimate</th>
<th>Forecasted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>0.96</td>
<td>1.00</td>
</tr>
<tr>
<td>Goods producing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service providing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
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</tbody>
</table>

Review of last year’s forecast

Annual Percent Change in Employment

<table>
<thead>
<tr>
<th>Category</th>
<th>Current estimate</th>
<th>Forecasted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Goods producing</td>
<td>1.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Service providing</td>
<td>0.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Government</td>
<td>2.5</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Review of last year’s forecast

Annual Percent Change in GRP

Source: Upjohn Institute & REMI
Review of last year’s forecast

Annual Percent Change in GRP

<table>
<thead>
<tr>
<th>Category</th>
<th>Current estimate</th>
<th>Forecasted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Goods producing</td>
<td>1.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Service providing</td>
<td>2.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Government</td>
<td>1.6</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: Upjohn Institute & REMI
Our View of 2020 & 2021
REMI Grand Rapids MSA 2019–2020 employment forecast

Annual Percent Change in Employment

Source: Upjohn Institute, REMI, and Bureau of Labor Statistics
REMI Grand Rapids MSA 2019–2020 employment forecast

Total Change in Employment

Source: Upjohn Institute, REMI, and Bureau of Labor Statistics
Grand Rapids MSA, state, & national 2020 employment forecast

Annual Percent Change in Employment

- Total: Grand Rapids (0.7% increase), Michigan (0.5% increase), United States (0.9% increase)
- Goods producing: Grand Rapids (-0.7% decrease), Michigan (-0.9% decrease), United States (-0.3% decrease)
- Service providing: Grand Rapids (1.1% increase), Michigan (1.0% increase), United States (1.2% increase)
- Government: Grand Rapids (0.1% increase), Michigan (0.0% increase), United States (-0.4% decrease)

Source: Upjohn Institute and REMI
REMI Grand Rapids MSA 2019–2020 GRP forecast

Annual Percent Change in GRP

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Goods producing</th>
<th>Service providing</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2.0</td>
<td>1.3</td>
<td>2.4</td>
<td>1.6</td>
</tr>
<tr>
<td>2020</td>
<td>1.8</td>
<td>1.1</td>
<td>2.2</td>
<td>0.6</td>
</tr>
<tr>
<td>2021</td>
<td>1.4</td>
<td>1.1</td>
<td>1.7</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Upjohn Institute and REMI
REMI Grand Rapids MSA 2019–2020 GRP forecast

Total Change in GRP

Source: Upjohn Institute and REMI
Grand Rapids MSA, state, & national 2020 GRP forecast

Annual Percent Change in GRP

- Total: Grand Rapids 1.8, Michigan 1.5, United States 1.9
- Goods producing: Grand Rapids 1.1, Michigan 0.9, United States 1.6
- Service providing: Grand Rapids 2.2, Michigan 2.0, United States 2.2
- Government: Grand Rapids 0.6, Michigan 0.2, United States 0.5

Source: Upjohn Institute and REMI
Questions?

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