

Muskegon County Employment Forecast: 2009–2010: *Batten Down the Hatches*

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January 30, 2009

A special thanks to

- Verizon
 - Nichols Paper
 - Warner, Norcross & Judd
 - Holiday Inn
 - Muskegon Area First
 - Muskegon Area Chamber of Commerce
-

Agenda

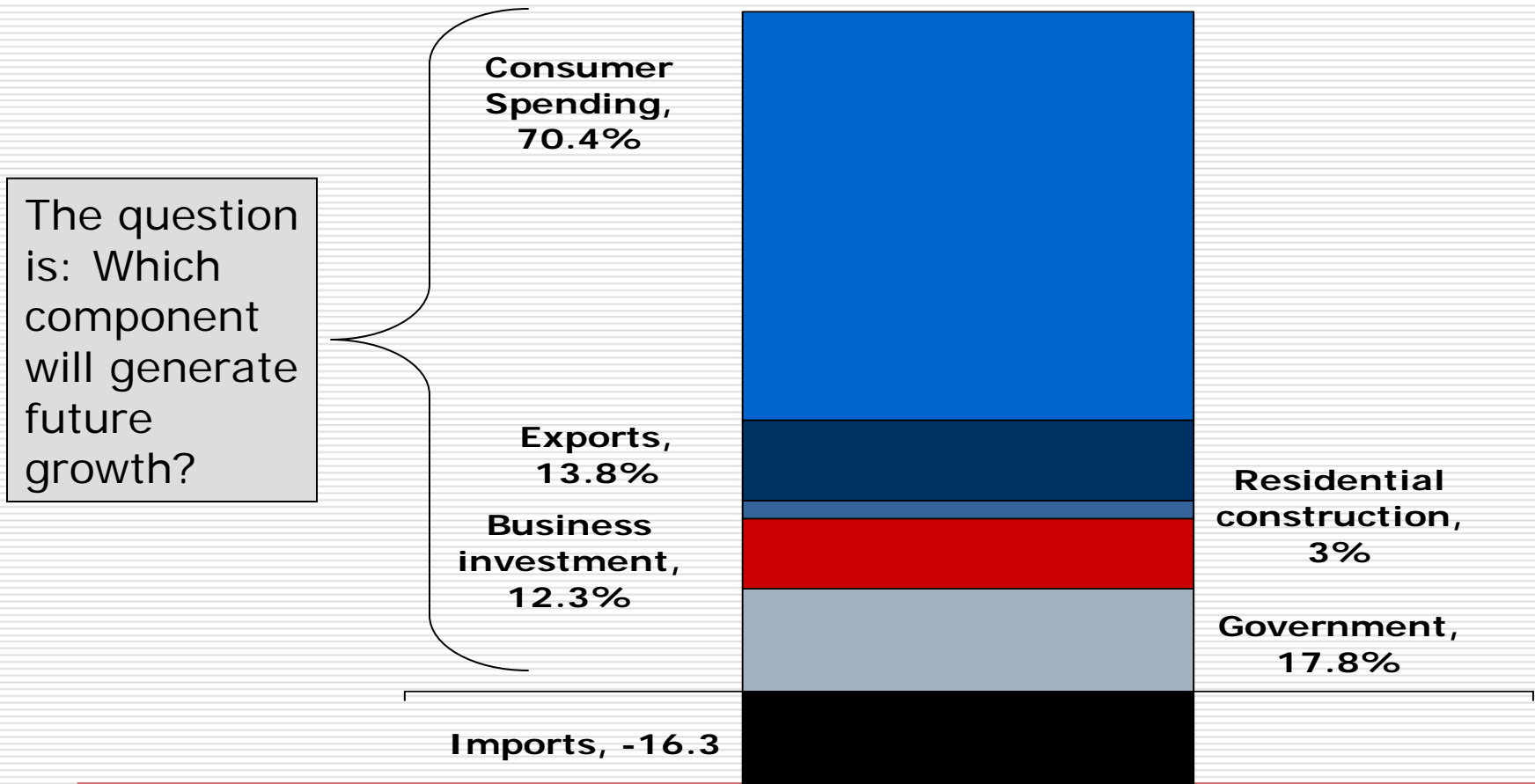
- The national economy—*Very troubled.*
 - The consumer has left the building.
 - The financial system is still in crisis.
 - The world's economy is struggling.
 - State economy—*Don't even go there.*
 - Local trends—*2008 was not a bad year.*
 - 2009 and 2010 Forecast—*Stormy seas.*
 - Will the real Muskegon please stand up?
-

National outlook: All but one of the nation's economic indicators are pointing in the same direction.

- | | |
|--|--------|
| <input type="checkbox"/> Employment | RED |
| <input type="checkbox"/> Residential construction | RED |
| <input type="checkbox"/> Consumer confidence | RED |
| <input type="checkbox"/> Consumer financial conditions | RED |
| <input type="checkbox"/> Credit markets | RED |
| <input type="checkbox"/> ISM Purchasing Mgrs. Index | RED |
| <input type="checkbox"/> Stock market | RED |
| <input type="checkbox"/> Inflation (deflation??) | YELLOW |
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Breaking down GDP:

Consumers matter.

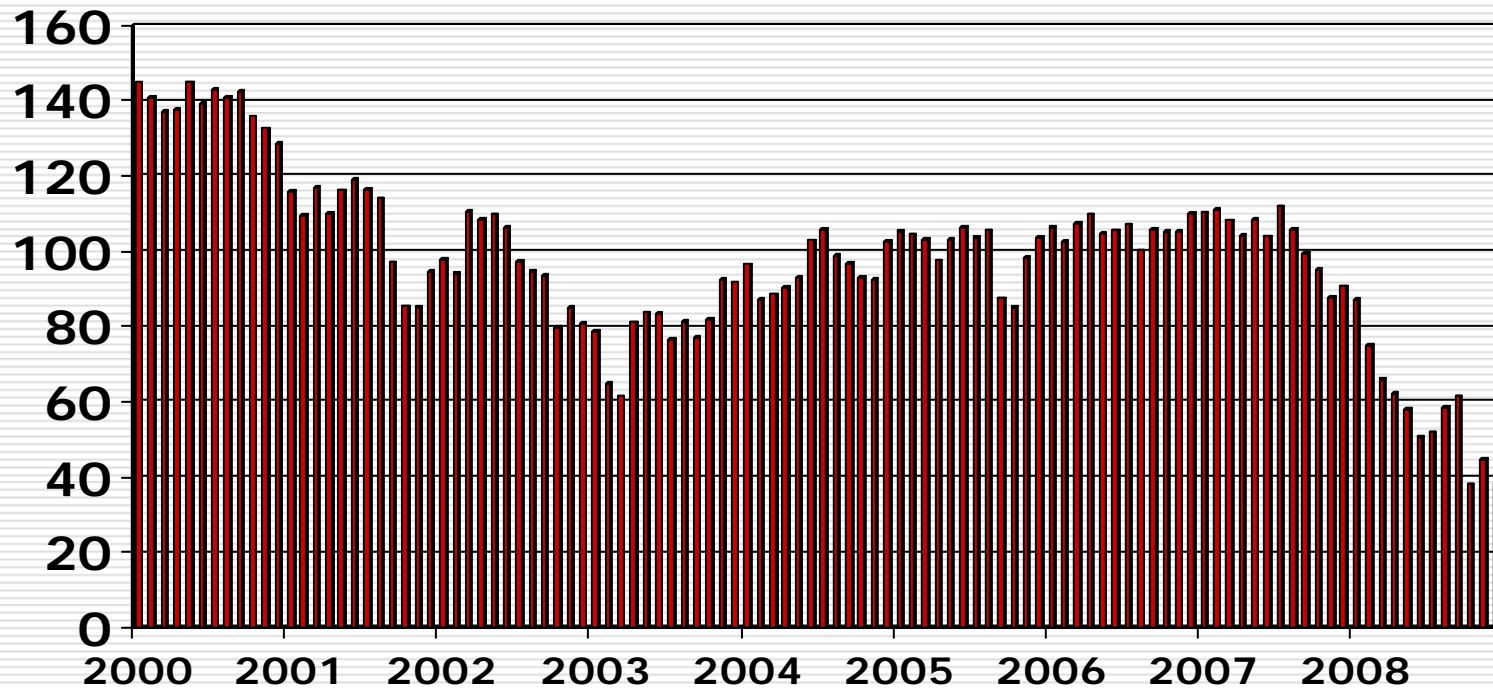


Consumers

- Confidence is low.
 - Real estate markets are inactive, and values are dropping.
 - Retirement savings are in jeopardy.
 - Job outlook is dim.
-

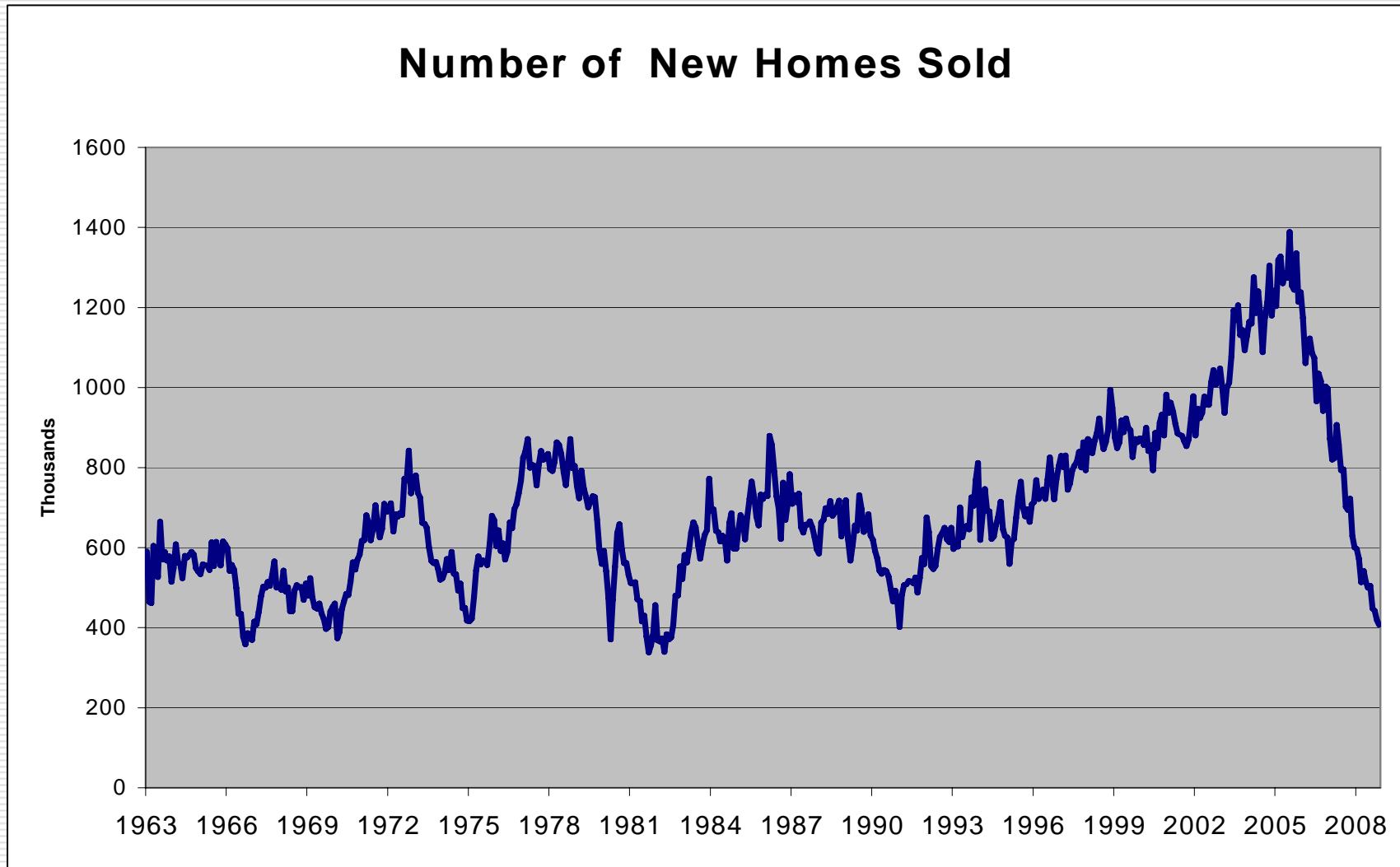
Consumers are not confident about current economic conditions.

Consumer Confidence (1995=100)



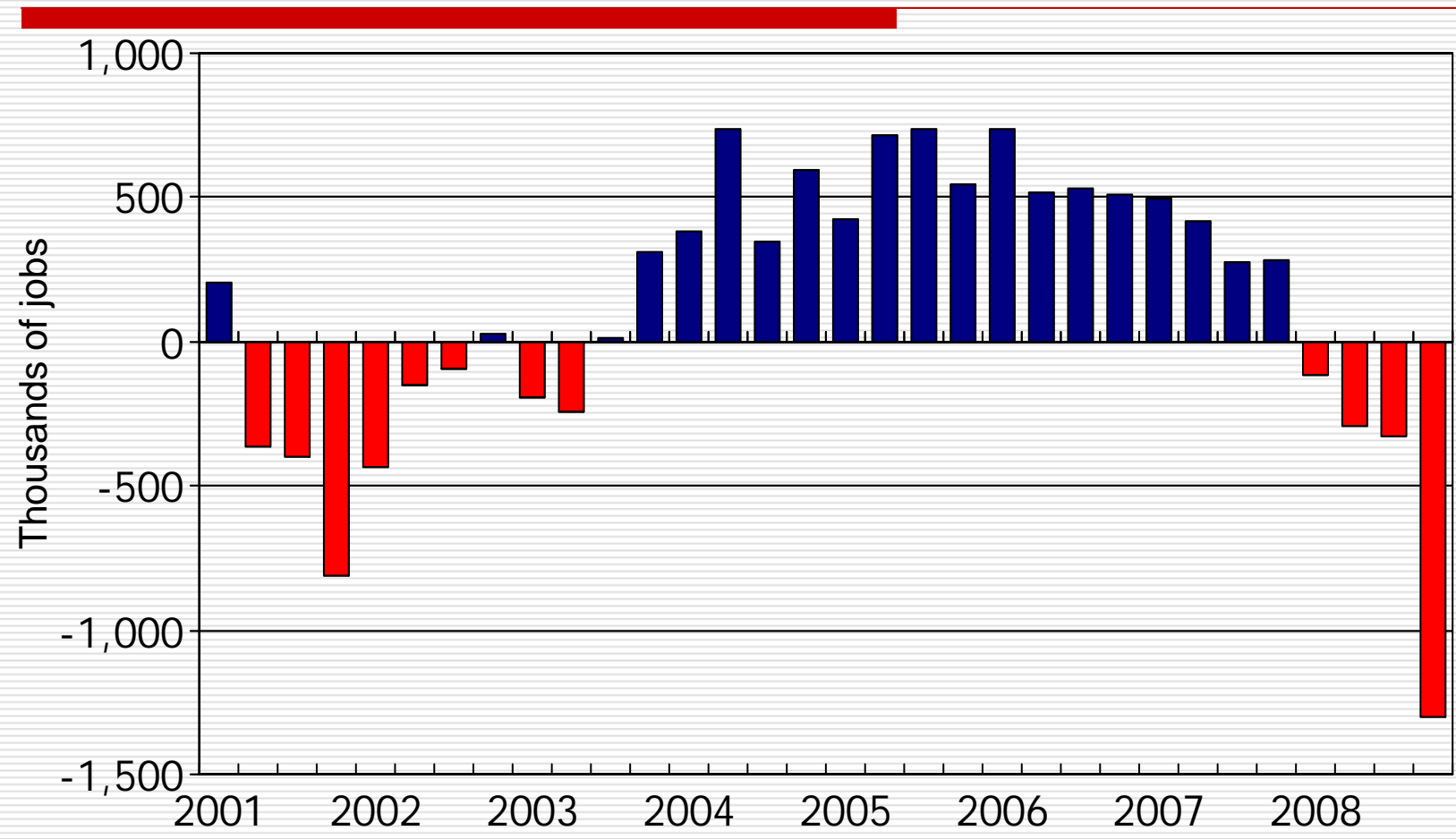
Source: Conference Board

Sales of newly constructed homes expanded to unseen heights between 2001 and 2006 *and then....*



Source: U.S. Census Bureau, Construction Statistics, new residential home sales, seasonally-adjusted annual average rate.

Nationwide, employers are cutting back.



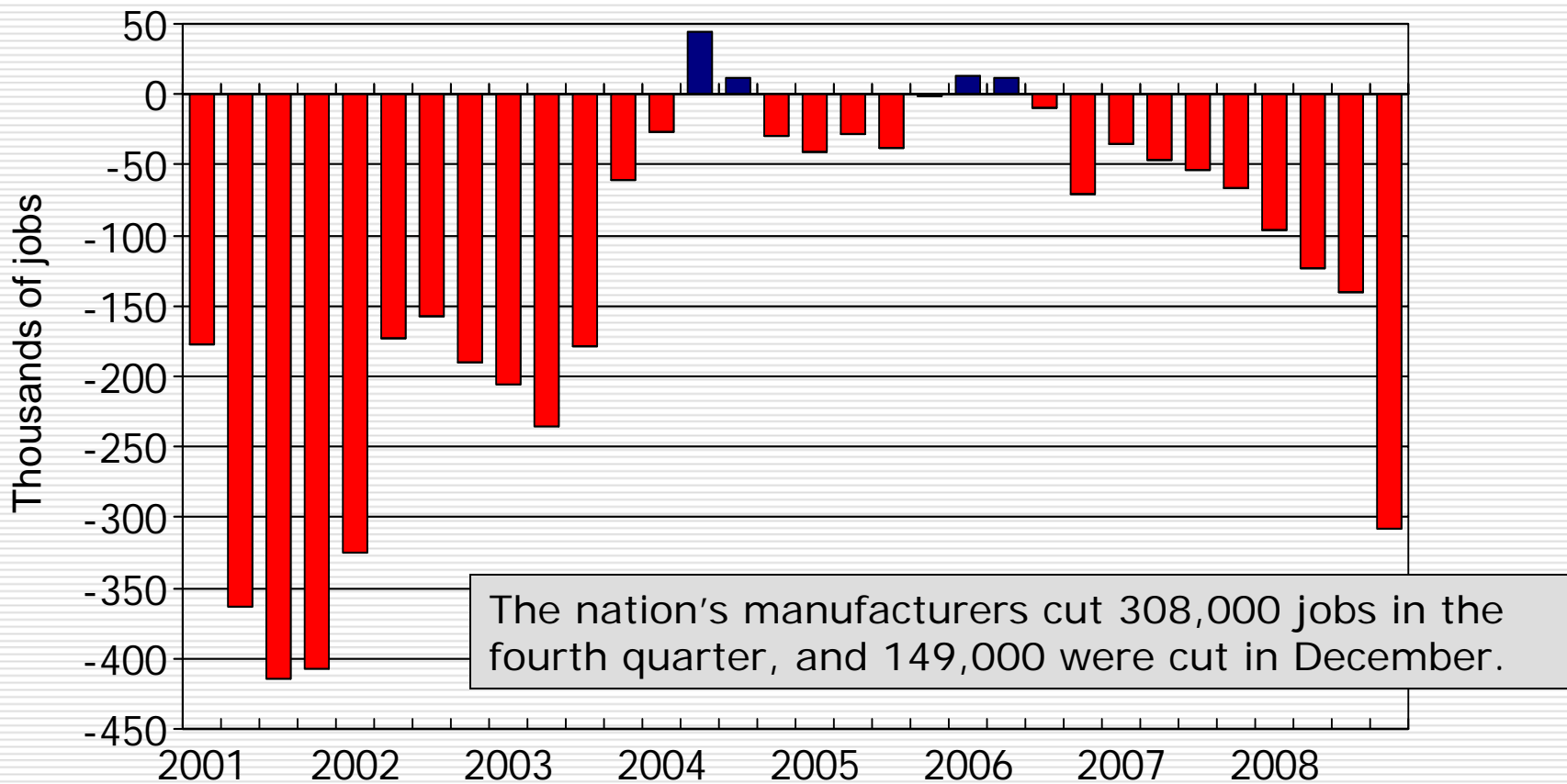
Source: BLS.

During the fourth quarter, total employment fell by 1,298,000! In December, employment fell by 524,000.

Business Investment

- Decline in demand for goods and services.
 - Financial system is still nearly frozen.
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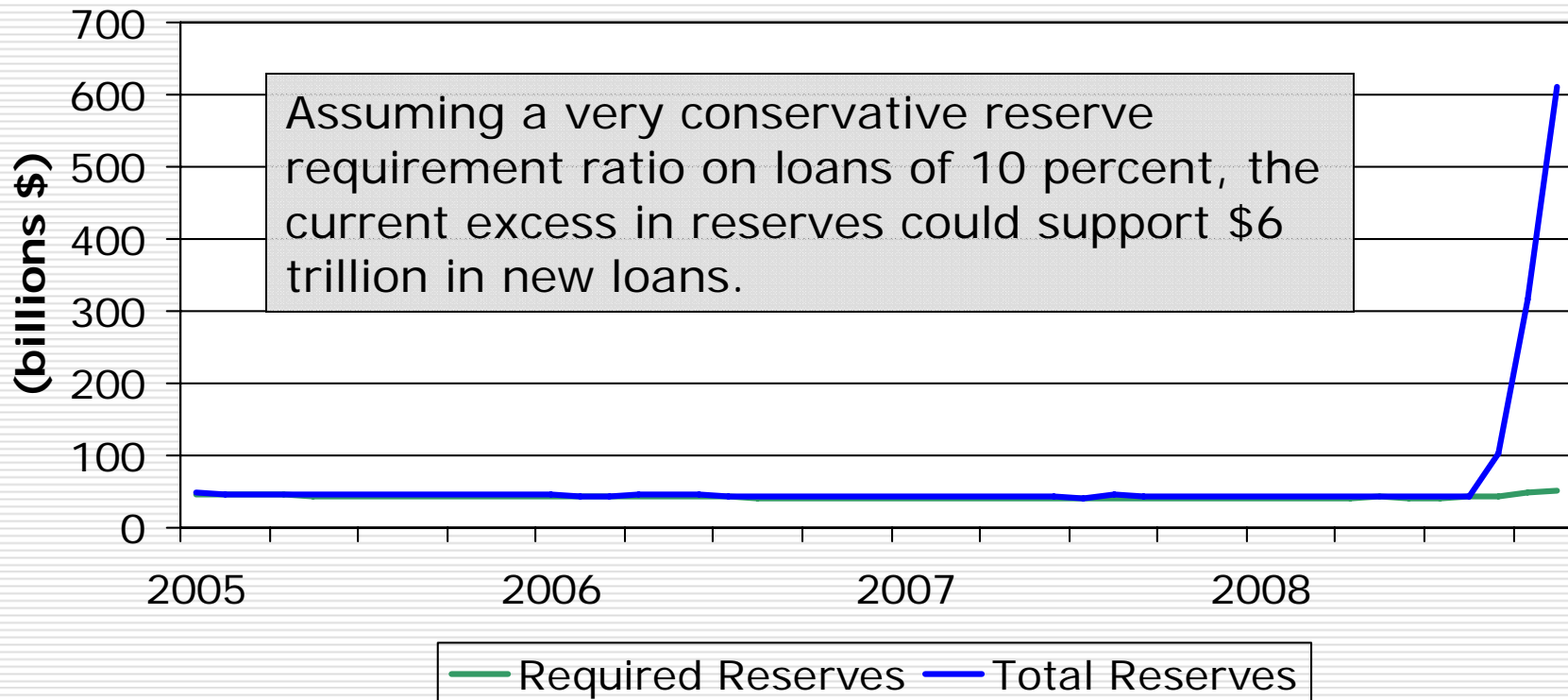
Manufacturing employment has never recovered from the 2001 downturn.



Source: BLS.

The Fed is flooding the market, but banks are not lending it out.

Monthly Depository Institution Reserves

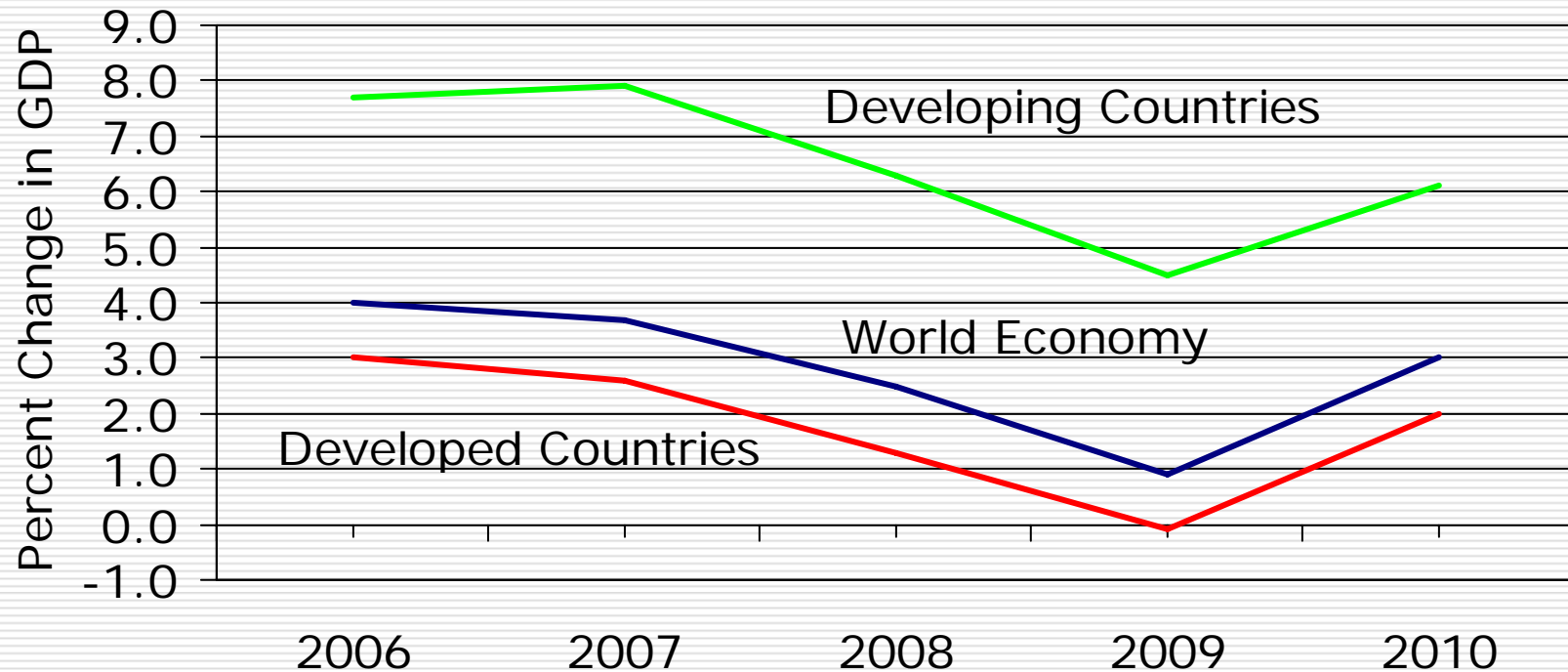


Export markets are flat.

- The world economy is in decline.
 - Still, the value of the dollar relative to other major currencies is on the rise.
 - Credit markets are constricting trade.
-

The world economy is slowing down.

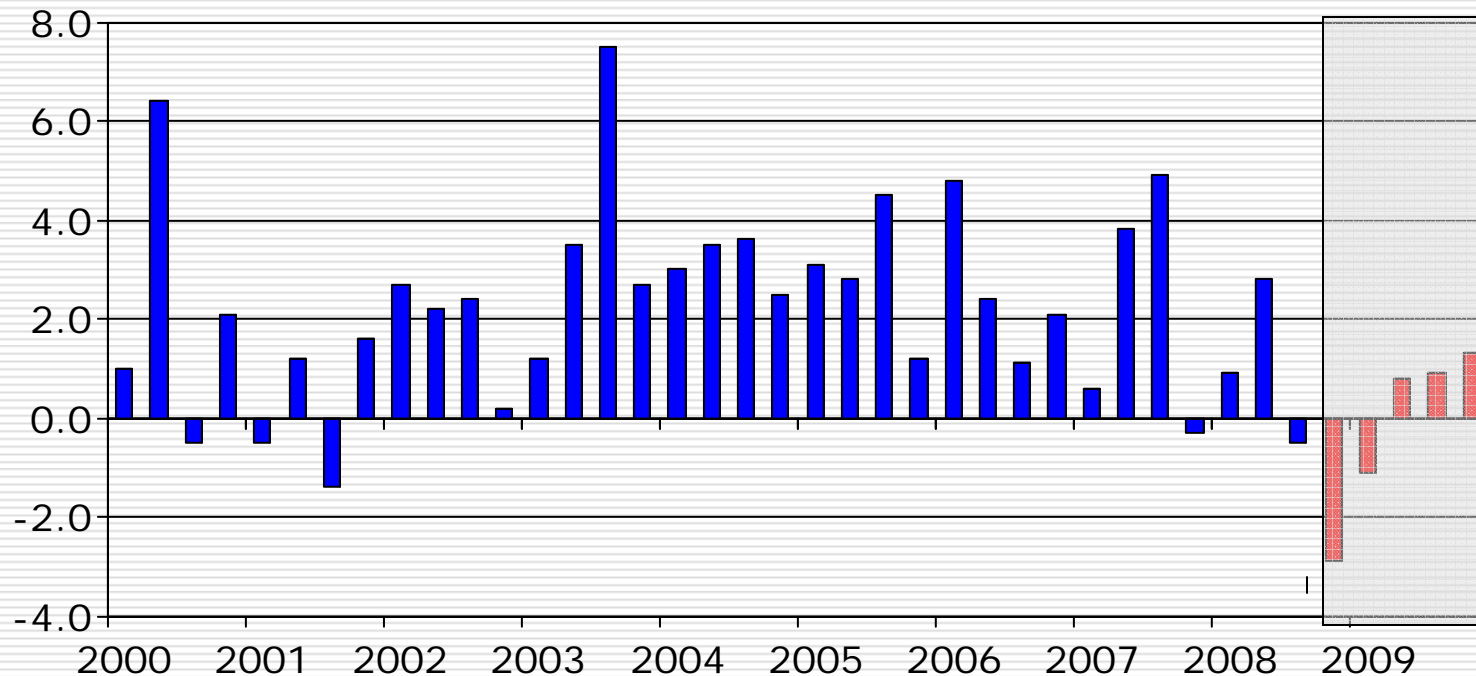
Growth Rate in Annual Gross Domestic Output



Source: World Bank.

Percent change in the nation's GDP—*The current quarter is expected to be the worst.*

Annualized Percent Change in GDP



The Fourth Quarter Estimate is being released this morning at 8:30 am

University of Michigan's national forecasts support a dim local outlook through 2009.

<u>U of M Forecast (%)</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
GDP	2.0	1.3	-1.0
U.S. unemployment rate	4.6	5.7	7.8
U.S. vehicle sales (mill)	16.1	13.2	12.2
U.S. housing starts (thou)	1,341	965	836

However, more recent forecasts are predicting that the recession will cut much deeper and may last until the middle of 2010.

Source: U of M's RSQE Michigan Forecast and U.S. Forecast, November 2008.

Options

Monetary Policy

- With major banks remaining unwilling to lend their excess reserves, Fed policies are “pushing on a string.”
 - If foreign investors continue to withdraw capital from the U.S., the Fed will have to raise rates.
 - On a positive note, prices are flat, giving the Fed room to lower short-term rates to near zero.
-

Fiscal Policy

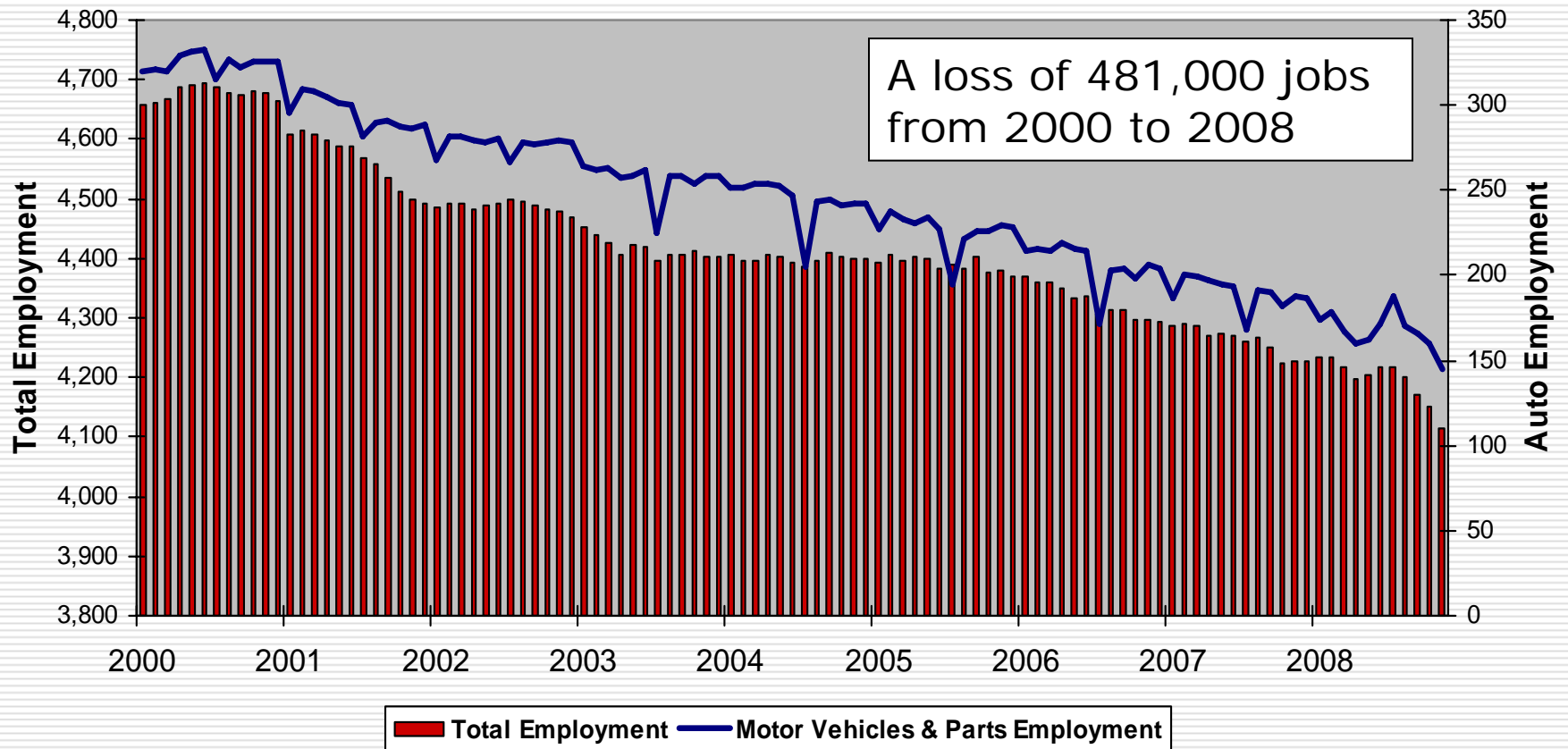
- Combination of government spending on infrastructure, federal assistance to state and local government, and tax cuts.
 - Consumer tax cuts will likely be saved and not spent.
 - Government spending can be for more “bridges to nowhere.”
 - The current deficit is \$1.2 trillion or 8 percent of the nation’s GDP.
-

Worse yet,

- If the recovery of this recession is similar to the 1991 and 2001 recoveries, it may take 2 to 3 years before employment regains its 2007 levels.
 - And then there is Michigan.
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With the national slowdown, the state's turnaround is further postponed.

Statewide Employment

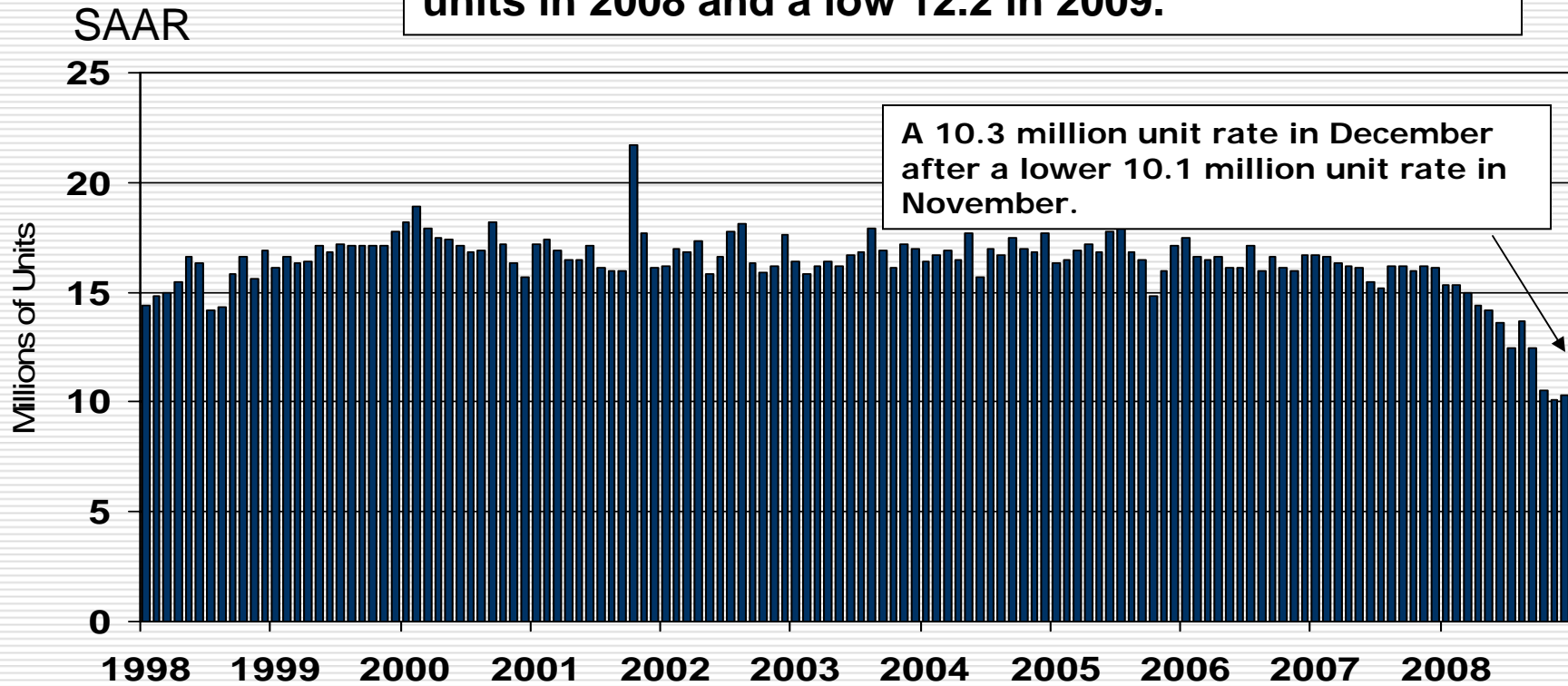


Source: BLS.

The state's unemployment rate is now 10.6%

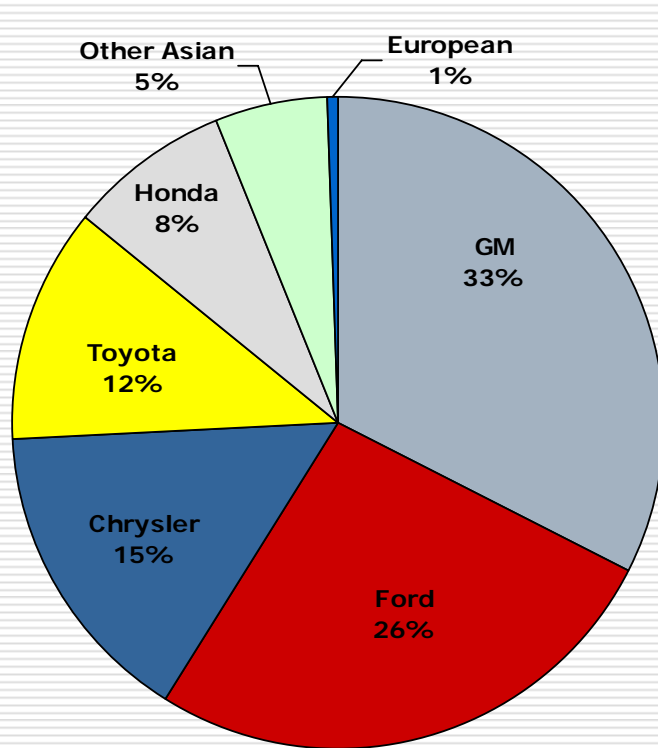
Consumers are simply postponing purchases that can be postponed.

Car and light truck sales reached 16.1 millions units in 2007 but are forecasted to dip to 13.3 million units in 2008 and a low 12.2 in 2009.

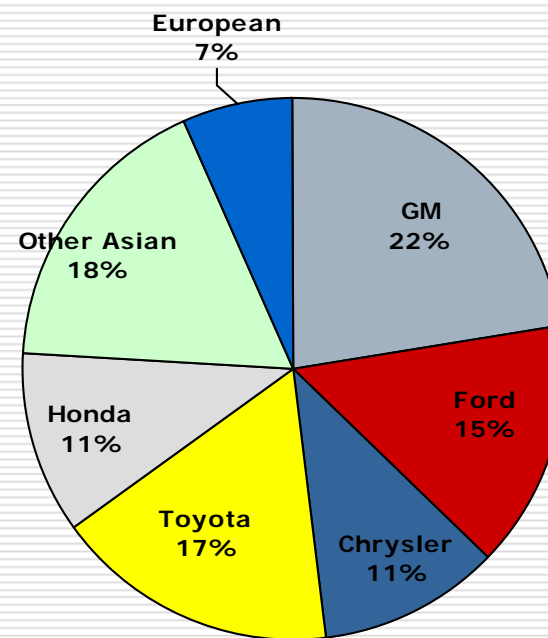


Source: BEA.

Loss of market share: in 2001, the Detroit Three controlled 74%; it fell to 48% in 2008.



2001

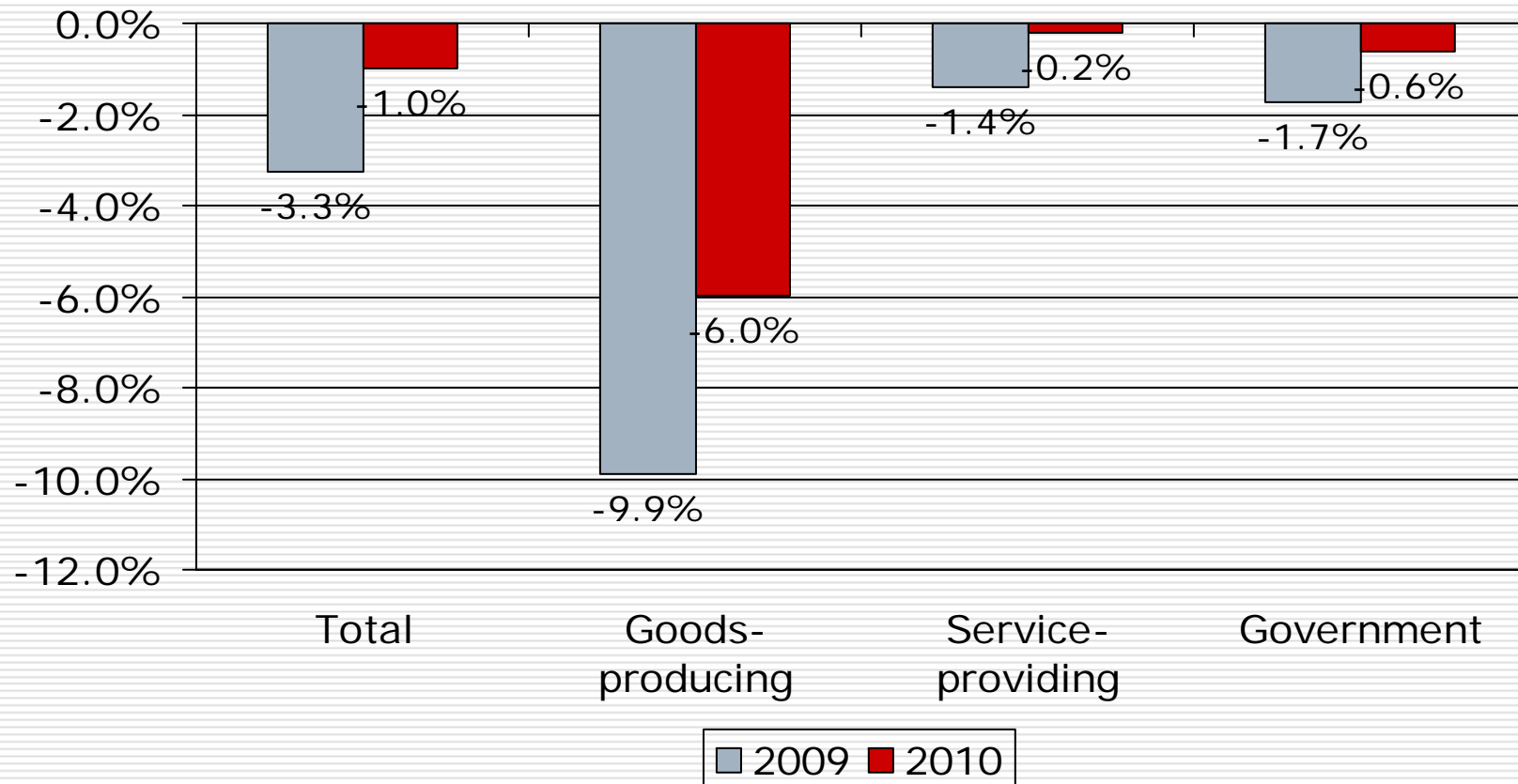


2008

Source: *Wards AutoWorld*.

In the past 12 months, sales of cars fell by 33%; light trucks by 38%.

University of Michigan's Statewide Employment Forecast



Michigan:

It is not that it has been a harsh winter; it is the fact that it seems to be never-ending.

On an average annual basis:

2008: -104,000 jobs

2009: -148,600 jobs

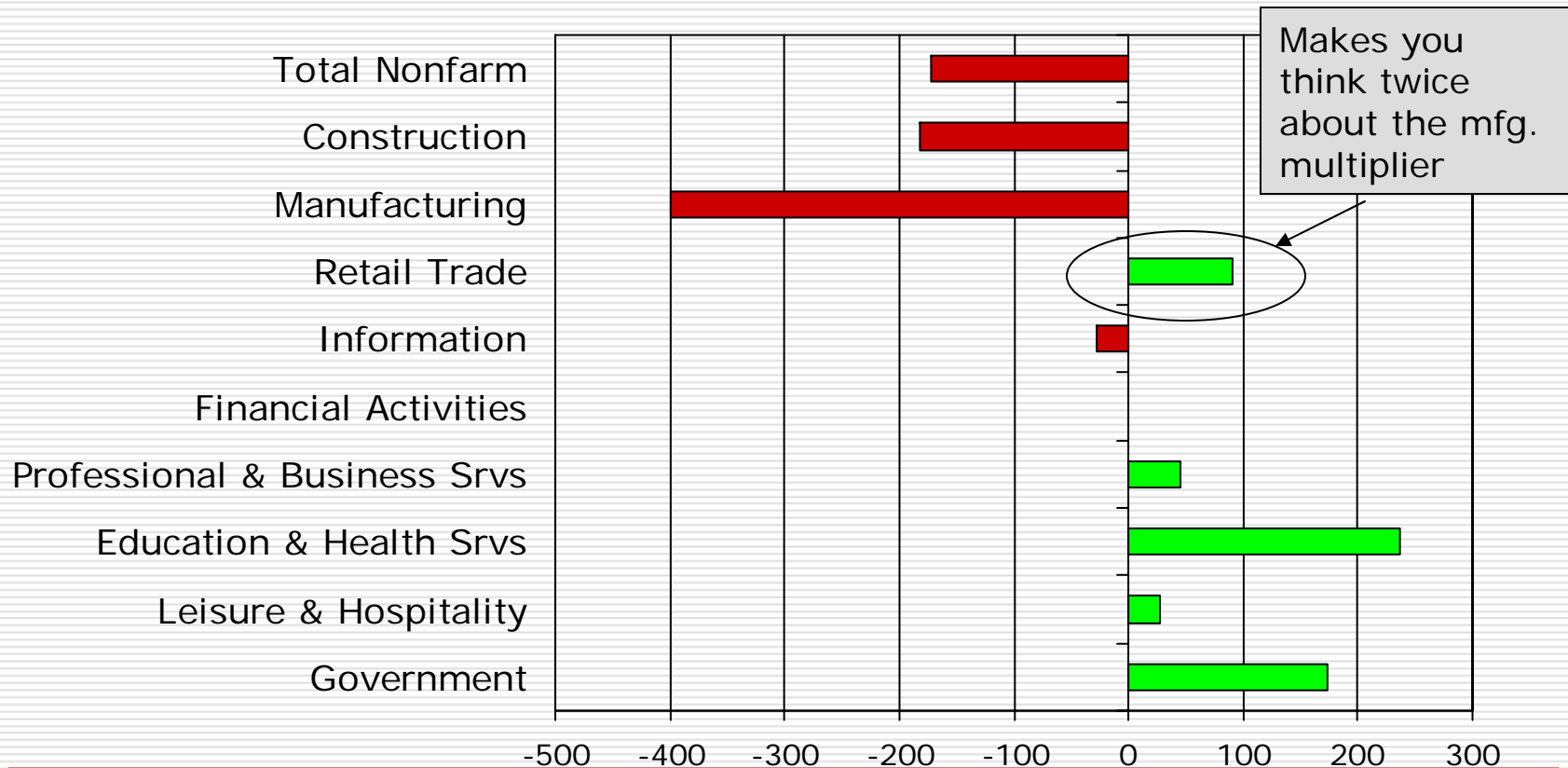
2010: -43,900 jobs

Muskegon County- *You proved me wrong, again!*

- ❑ 2008 was not a bad year given the circumstances.
 - ❑ Population growth is at a standstill.
-

Muskegon employment was down only 0.3 percent in 2008, a loss of fewer than 200 jobs.

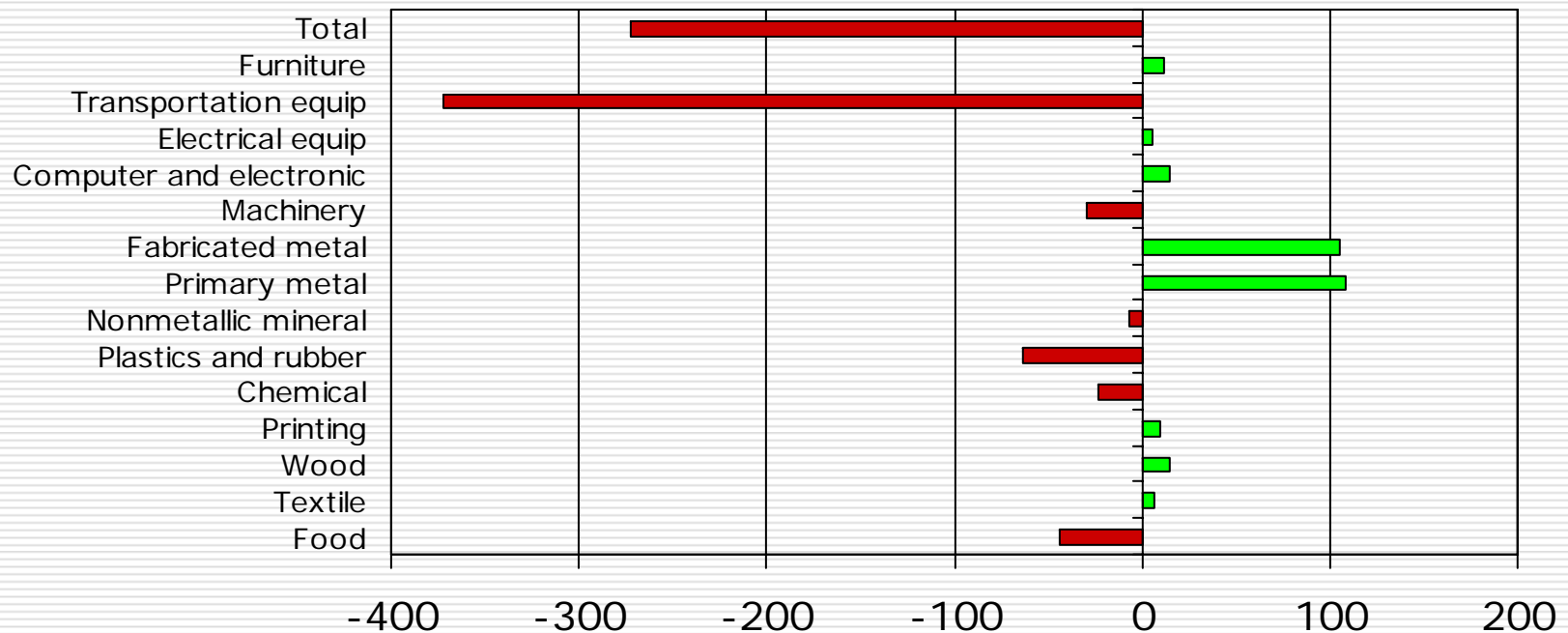
Muskegon Change
Jan to Nov 2007 - Jan to Nov 2008



To take a closer look, we have to use a older database that covers the period from 1st Quarter 2007 to the 1st Quarter of 2008

Manufacturing employment losses were heavy in transportation equipment

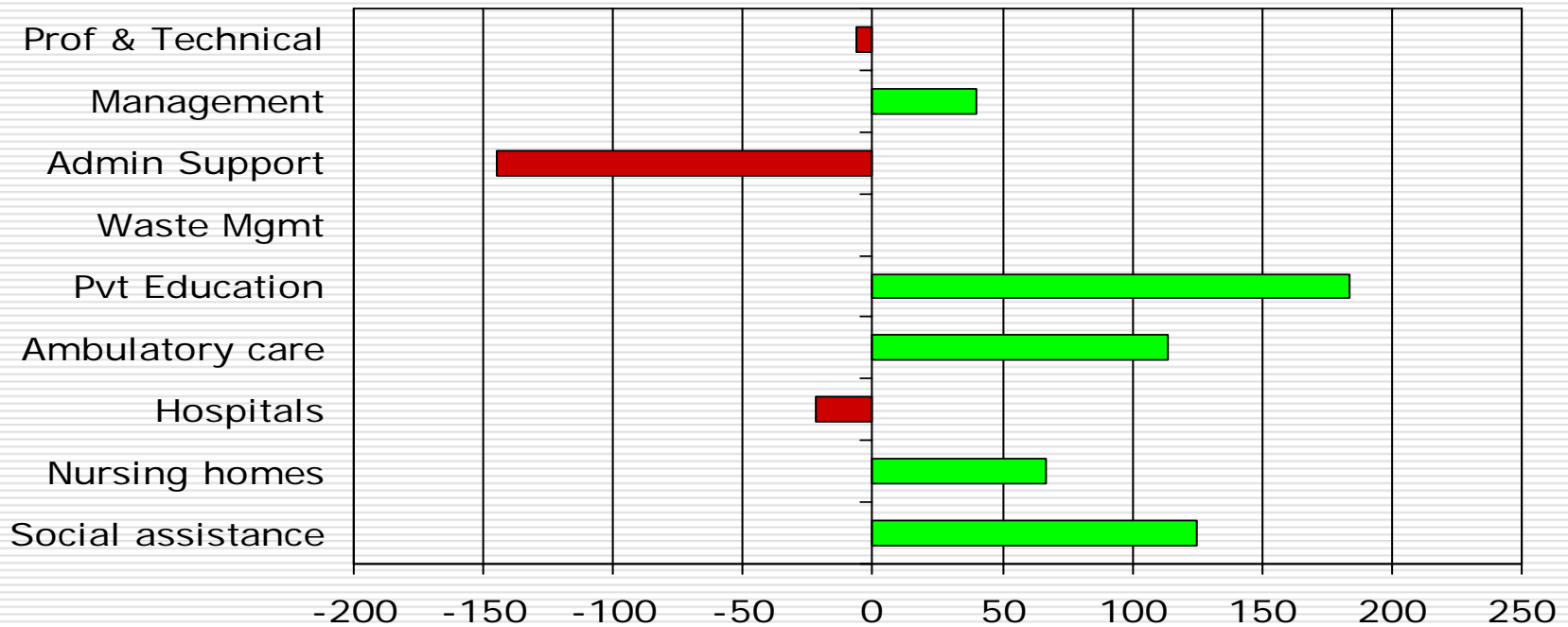
Detailed Manufacturing Employment Change Q1 2007 to Q1 2008



Employment growth in the county's service-providing sector is in education and health care.

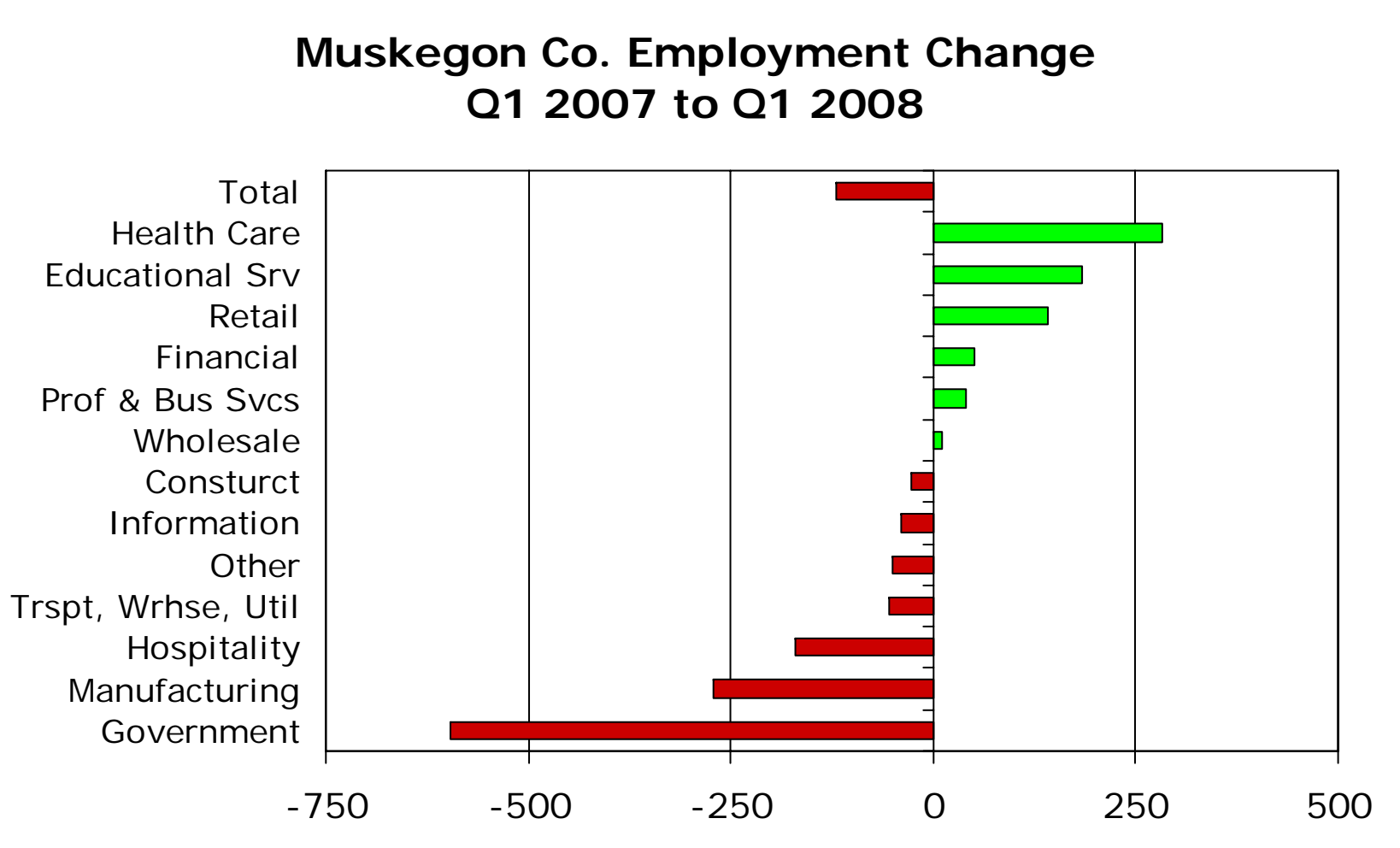


**Detailed Professional and Business and Health and Education Services
Employment Change, Q1 07-Q1 08**



Source: MDLEG, ES-202 data.

Clearly, Muskegon is becoming more service focused.



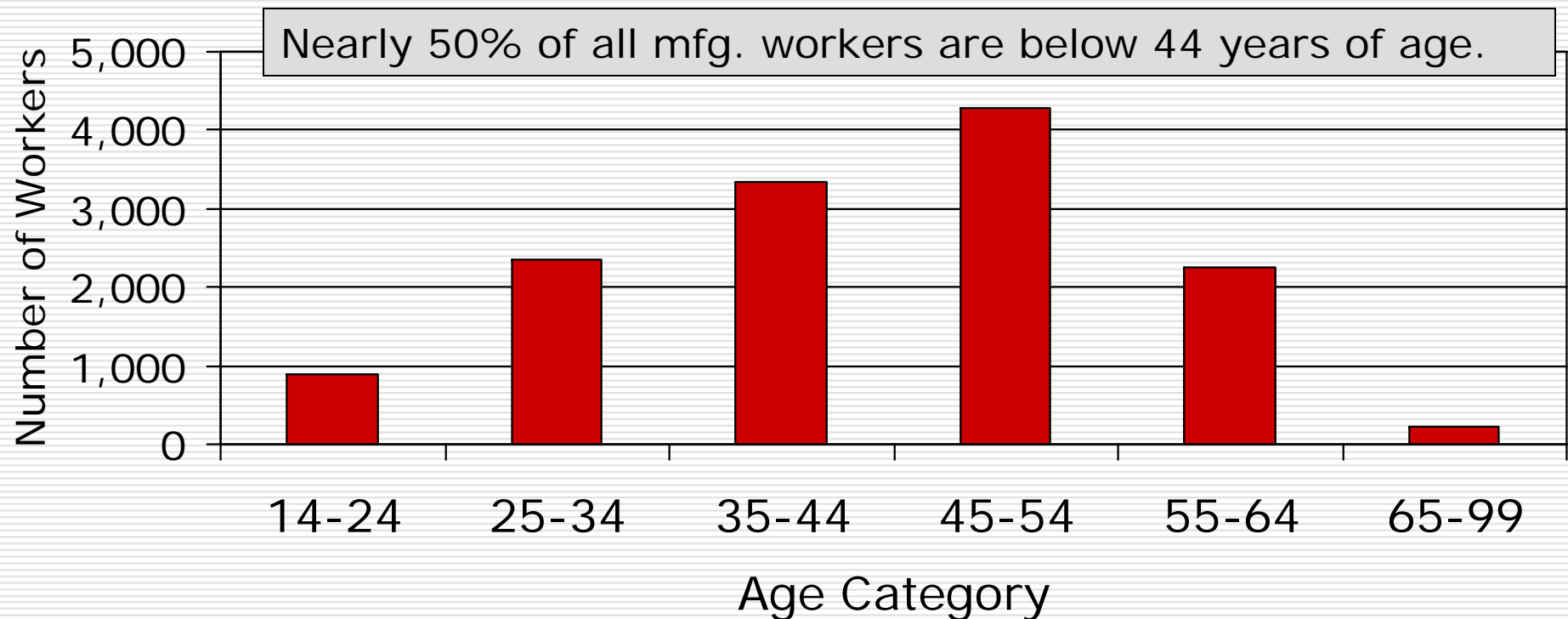
Source: MDLEG, ES-202 data.

Regarding Manufacturing

- ❑ One fear can be put to rest: *We will not be facing a labor shortage when the baby-boomers retire.*
 - ❑ Manufacturing still delivers on earnings.
 - ❑ Don't forget about job creation.
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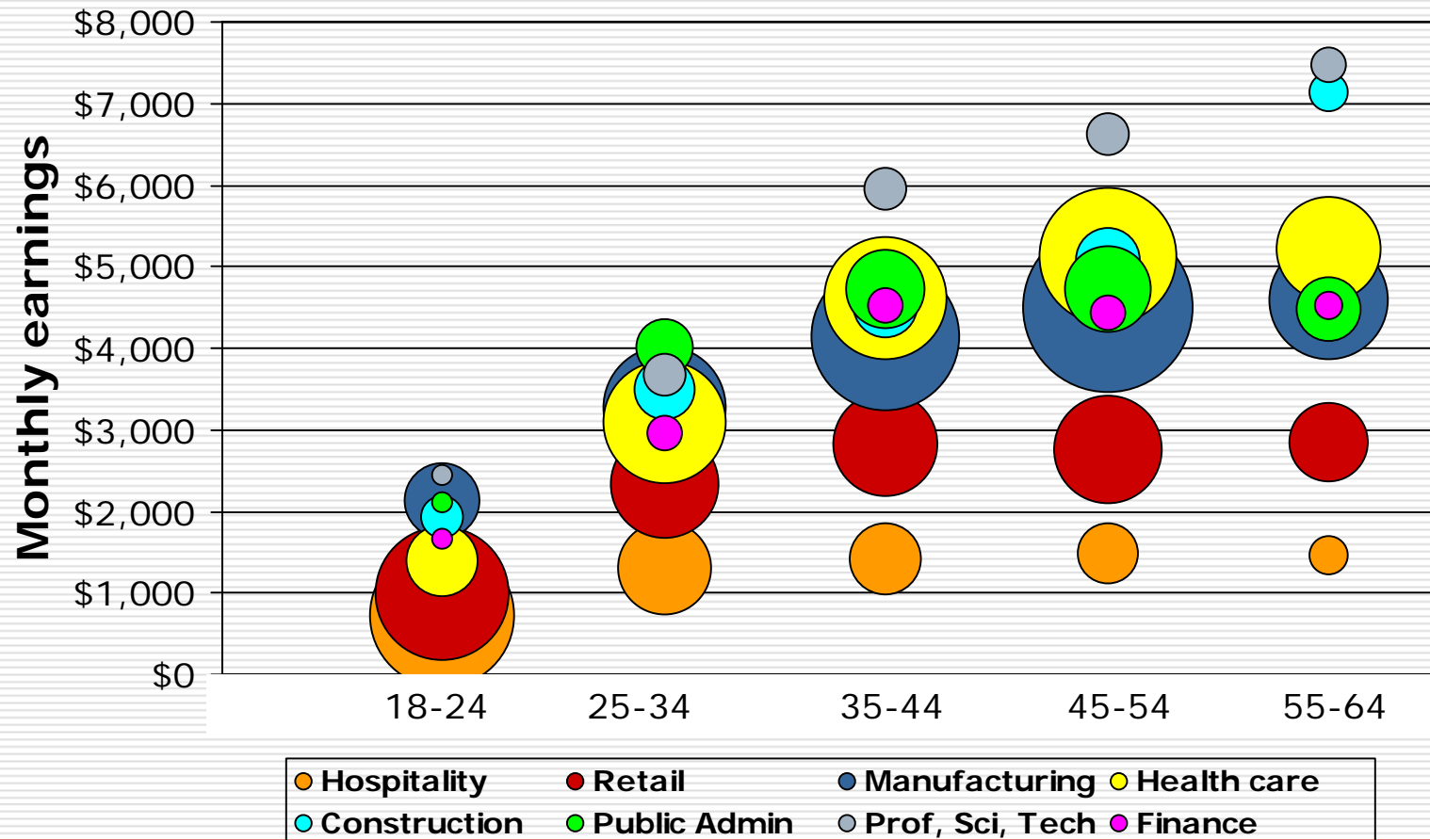
Age of Manufacturing Workers in Muskegon County

Number of workers by age group
1st Quarter, 2008



Source: MDLEG, Quarterly Workforce Indicators.

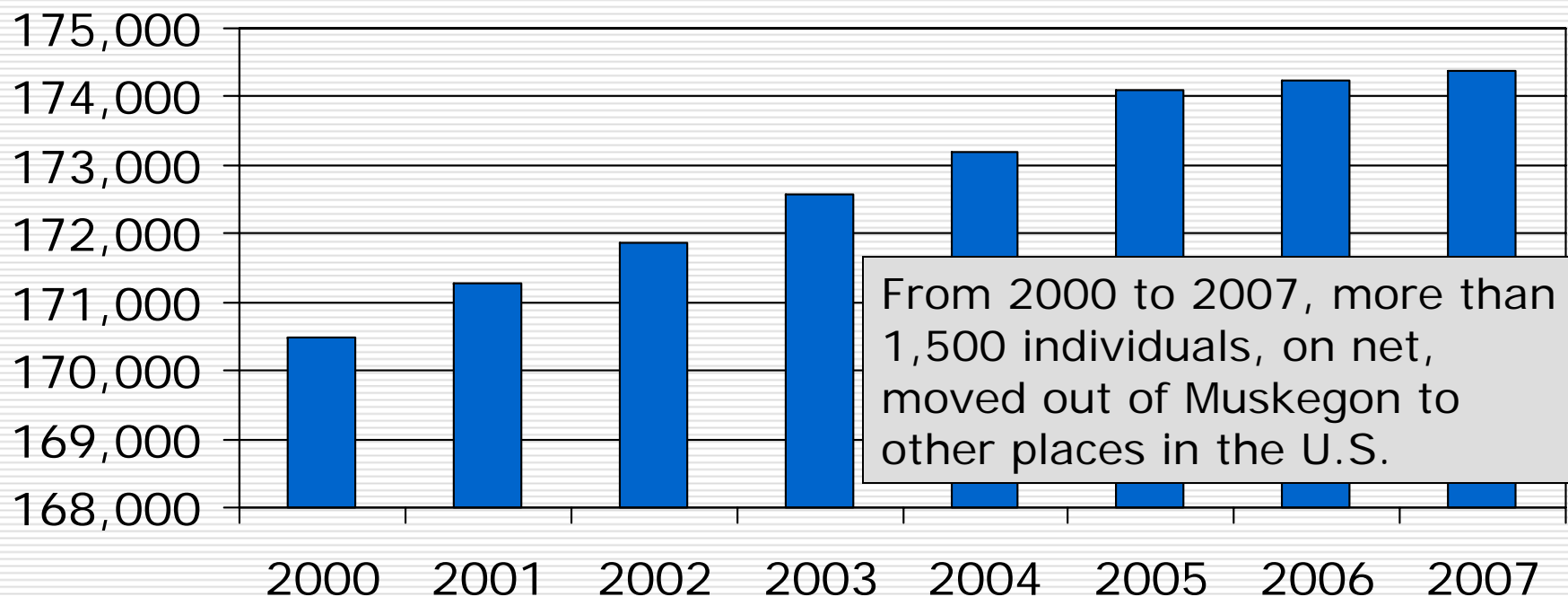
Manufacturing pays well and employs a lot of worker as does health care.



Source: MDLEG, Quarterly Workforce Indicators.

Population growth came to a halt in 2007

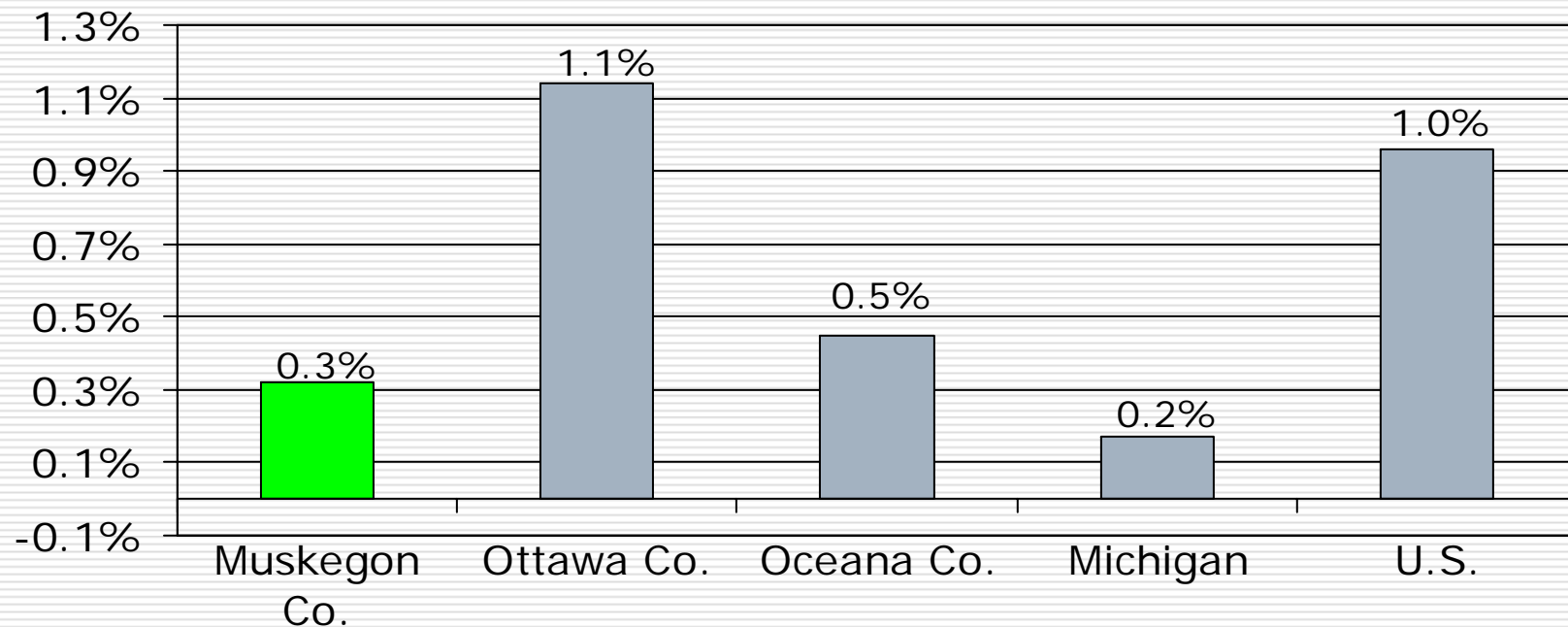
Muskegon MSA
Population Estimates



Source: U.S. Census Bureau, annual population estimates.

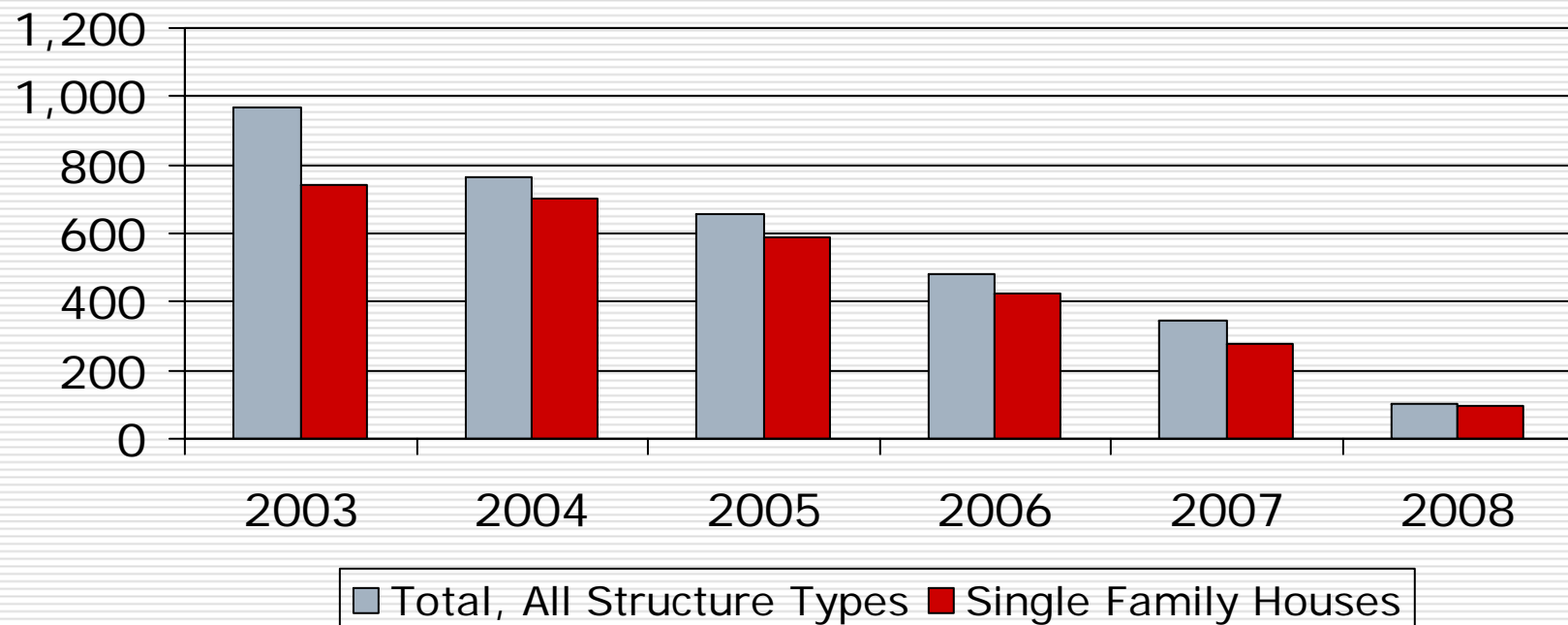
Due to its negative out-migration, the county is growing at a slower pace than surrounding areas.

**Annual Average Population Growth Rate
2000 to 2007**



The residential construction market has slowed dramatically.

Housing Units Authorized by Building Permit in Muskegon County

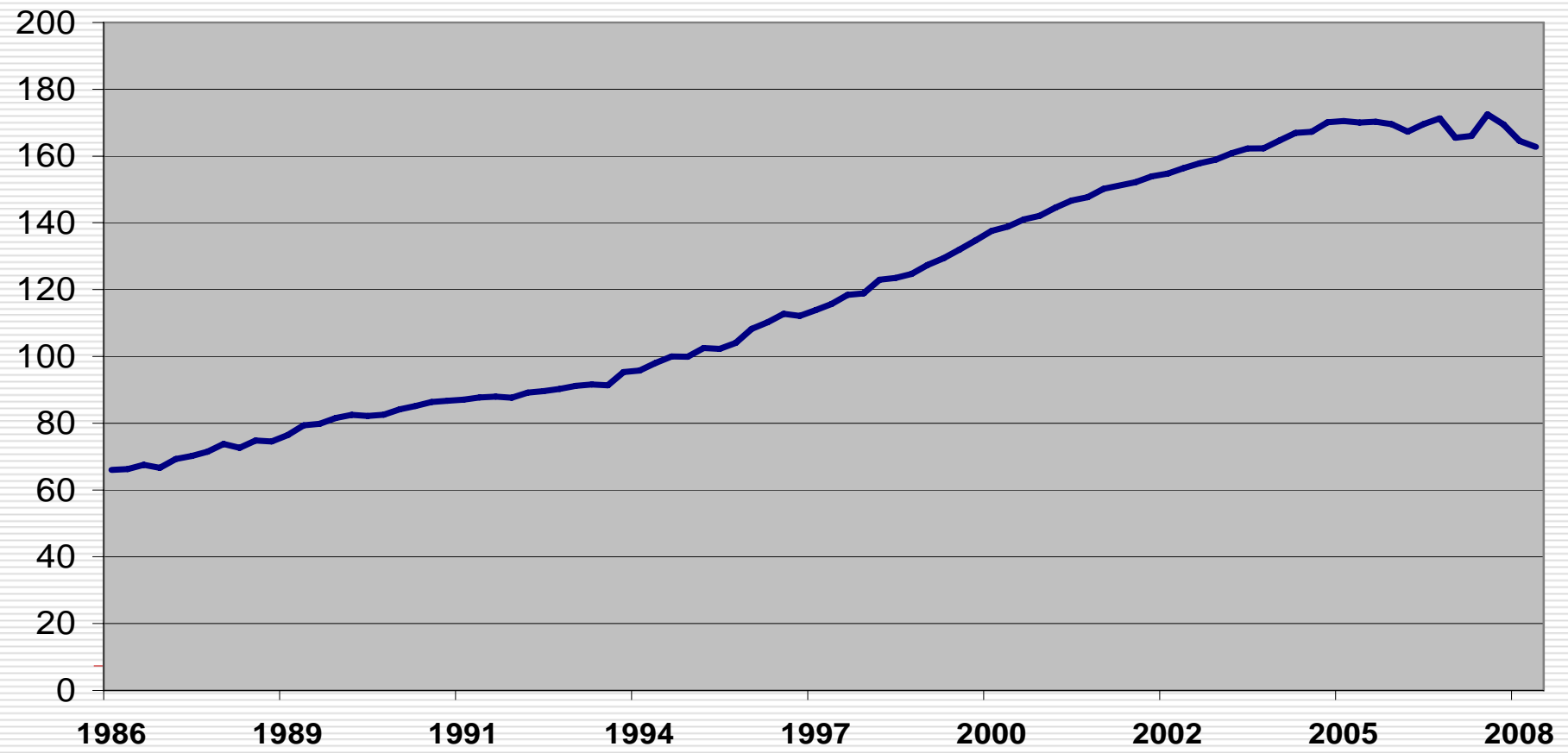


Source: U.S. Census Bureau: Manufacturing, mining, & construction statistics.

Note: 2008 is estimated year-to-date through November 2008 only.

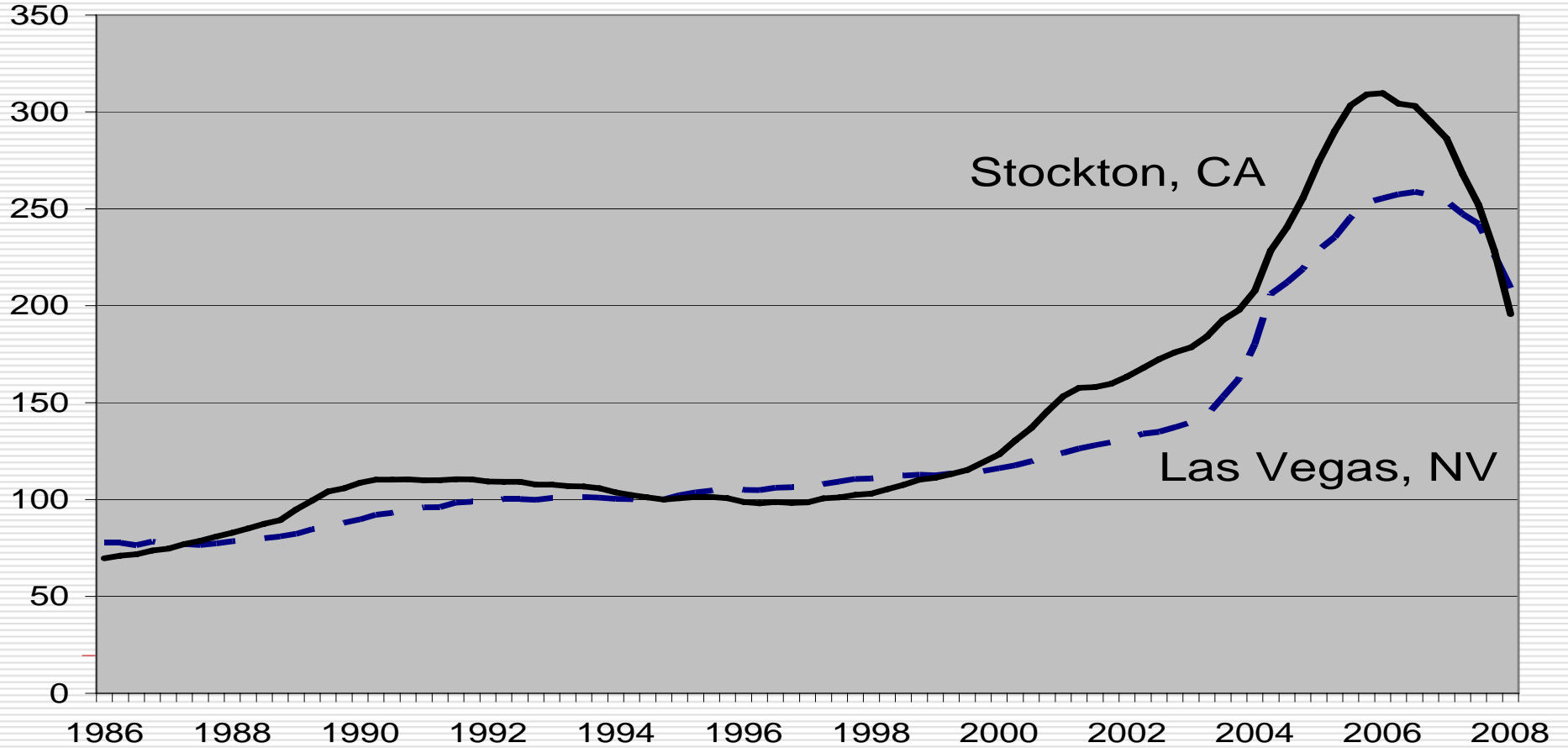
Housing prices declined by only 5.6 percent from their 2007 peak.

**Muskegon-Norton Shores MSA
OFHEO Housing Price Index (1995 =100)**



Some metro areas are in free fall.

Crisis Metros - Housing Prices in Free Fall
OFHEC Housing Price Index (1995 =100)

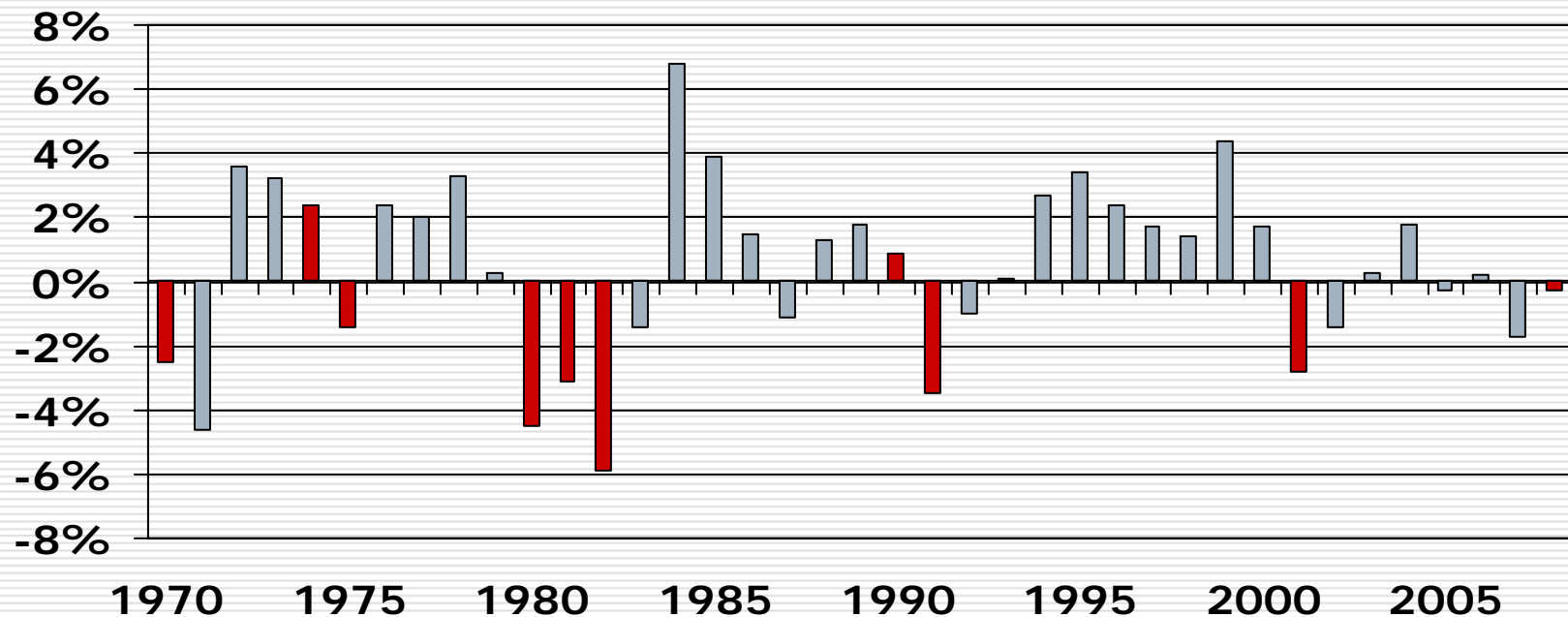


2009 and 2010 Forecast

- Historical view of past recessions
 - A glance at last year's forecast
 - This year's forecast.
-

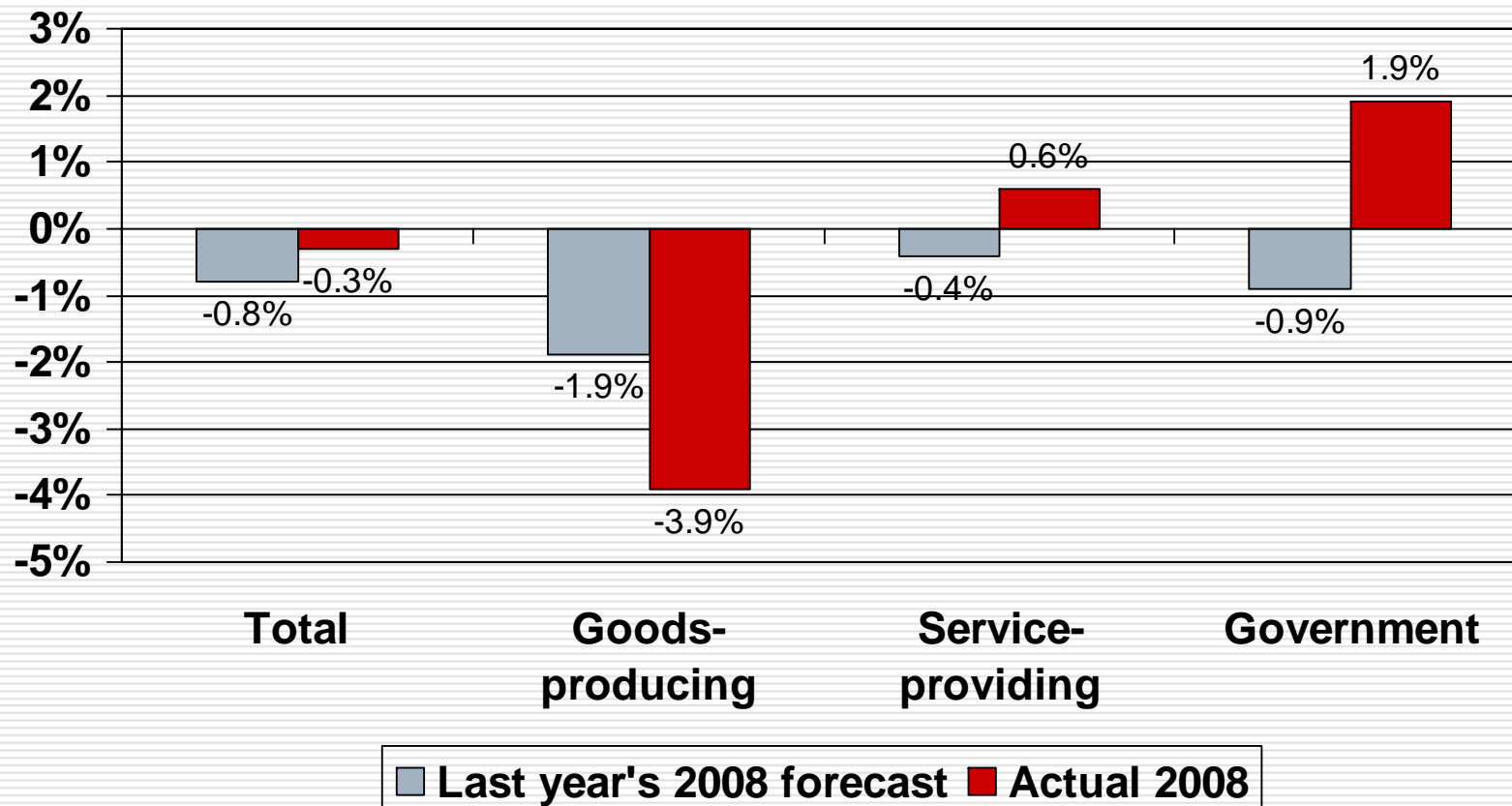
Previous recessions have caused major job losses in Muskegon County. However, the jobs used to come back.

Annual Muskegon MSA Historical Wage & Salary Employment Change



Source: BEA-REIS and CES (2007 & 2008est.) Note: Years with recessionary periods are in red.

How did last year's forecast hold up? Offsetting errors make us look pretty good.

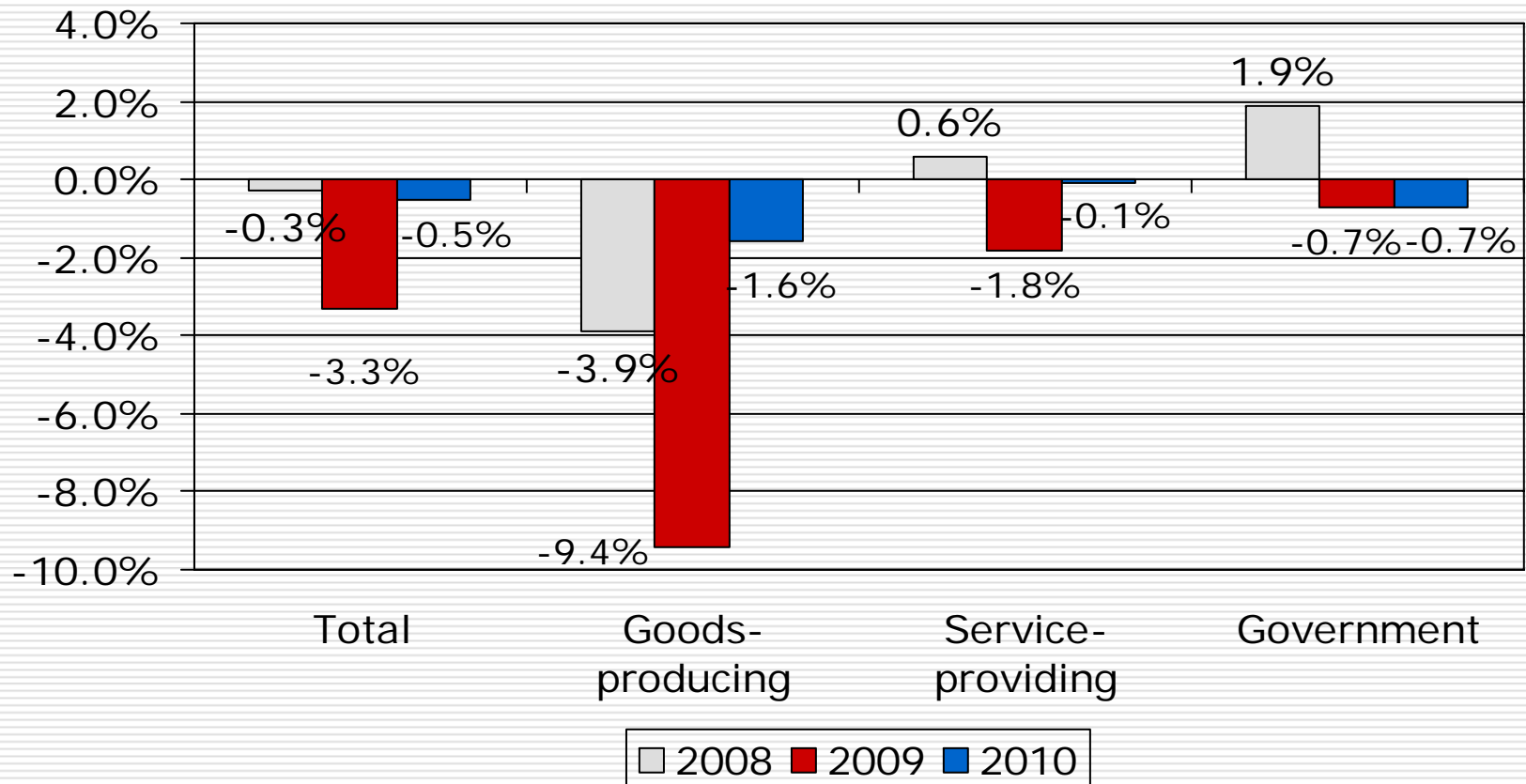


Note: 2008 estimates based on January-November data from the BLS.

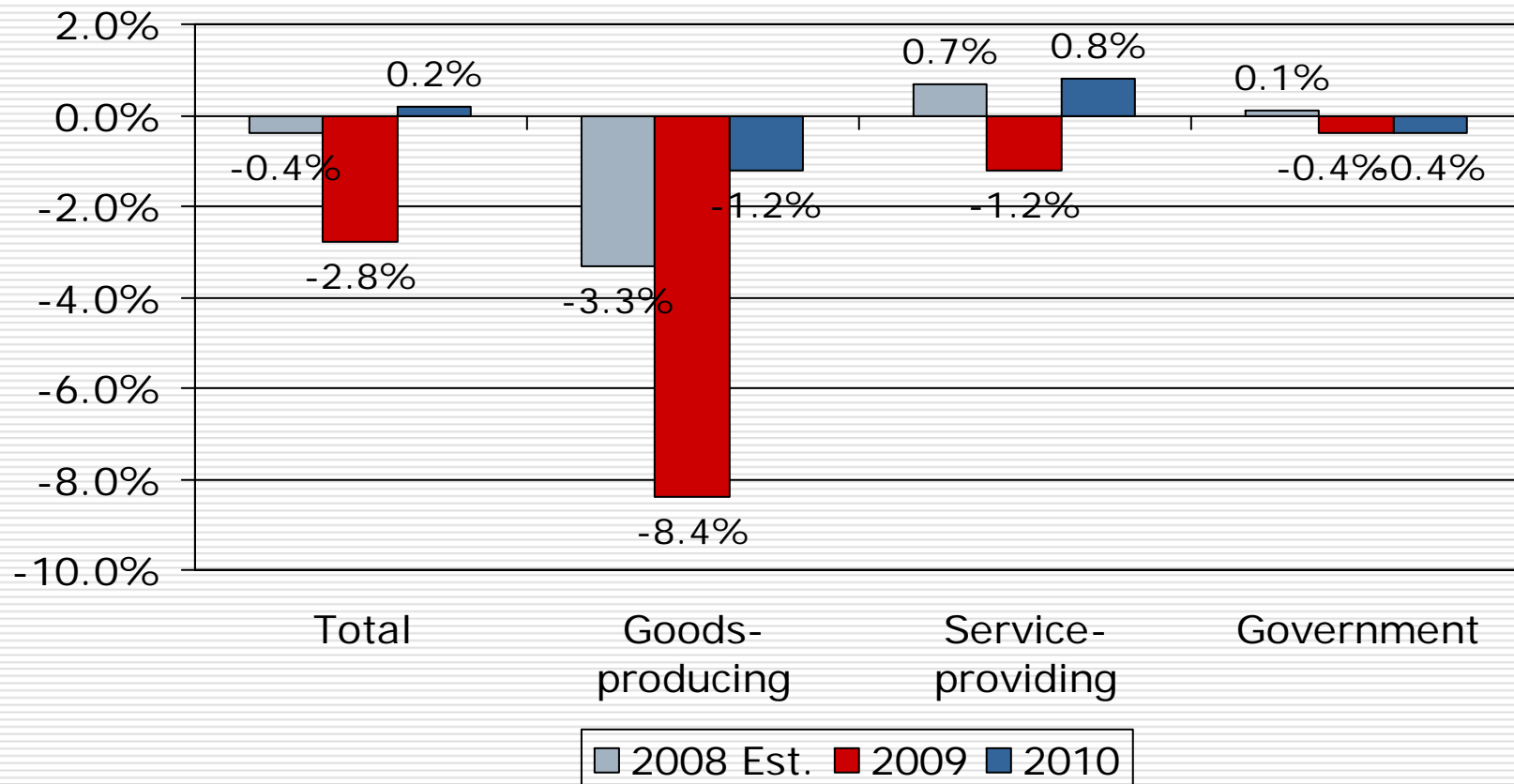
Factors influencing our forecast:

- ❑ Manufacturing is big in Muskegon, which means state and national trends will have an even greater impact.
 - ❑ Industries that were local bright spots—defense and aerospace suppliers—have begun to slow down.
 - ❑ Housing—the vacation home market was the first to fall and could be the last to recover.
 - ❑ Services that have grown, i.e. health care, face a hospital merger and declining insurance coverage.
 - ❑ Government employment is an unknown.
-

Muskegon MSA 2009-2010 Employment Forecast

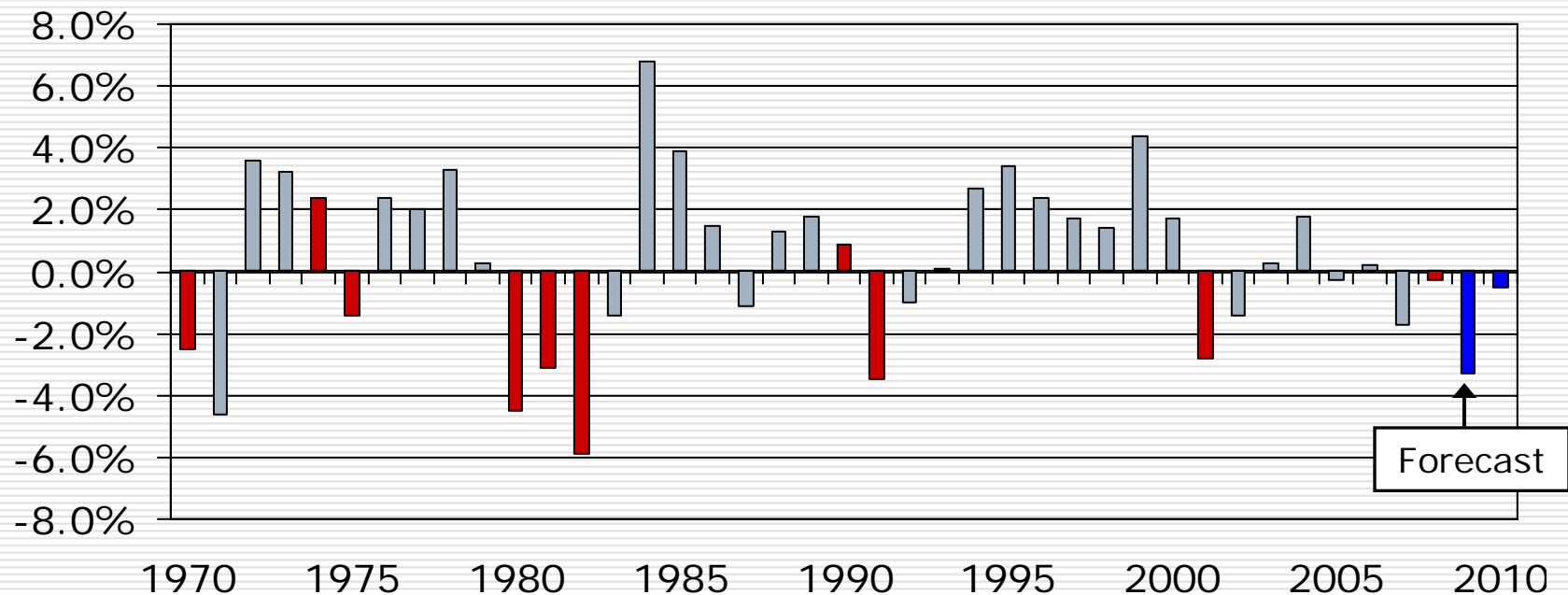


Grand Rapids–Holland–Muskegon Regional Employment Forecast



We expect the current recession will end up looking more like the last two downturns, than the ones in the '70s or early '80s.

Annual Muskegon MSA Historical Wage & Salary Employment Change

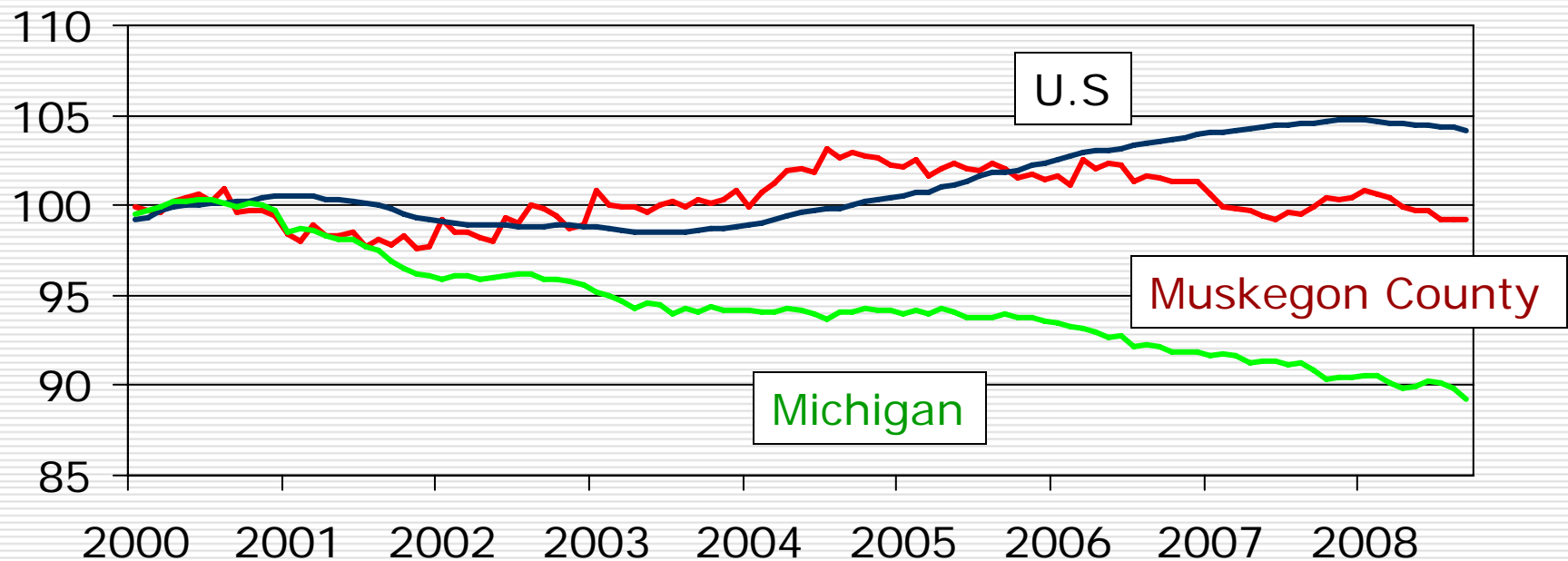


Source: BEA-REIS and CES (2007 and 2008 est.) Note: Years with recessionary periods are in red.

Will the real Muskegon please
stand up?

Muskegon County's employment trends have deteriorated slightly in the last two years *but is still above the state's.*

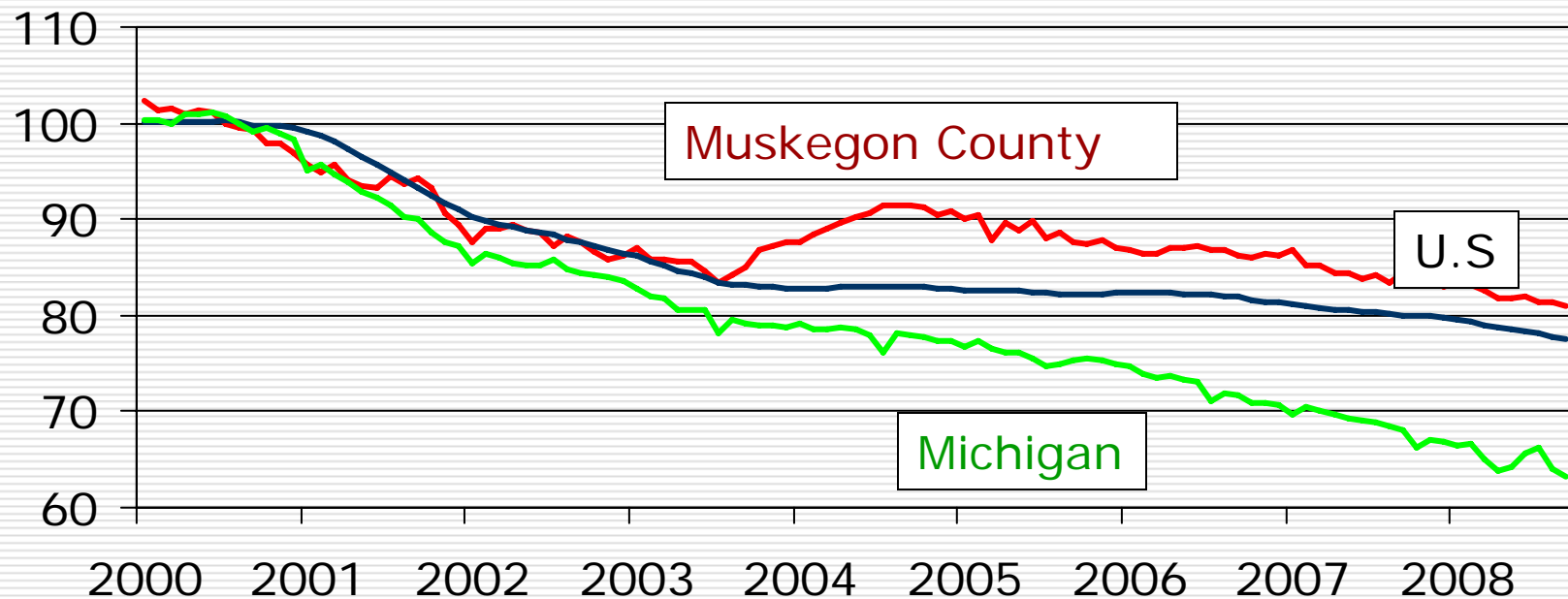
**Index of Total Employment
(100 = 2000 average)**



Source: W.E. Upjohn Institute and BLS.

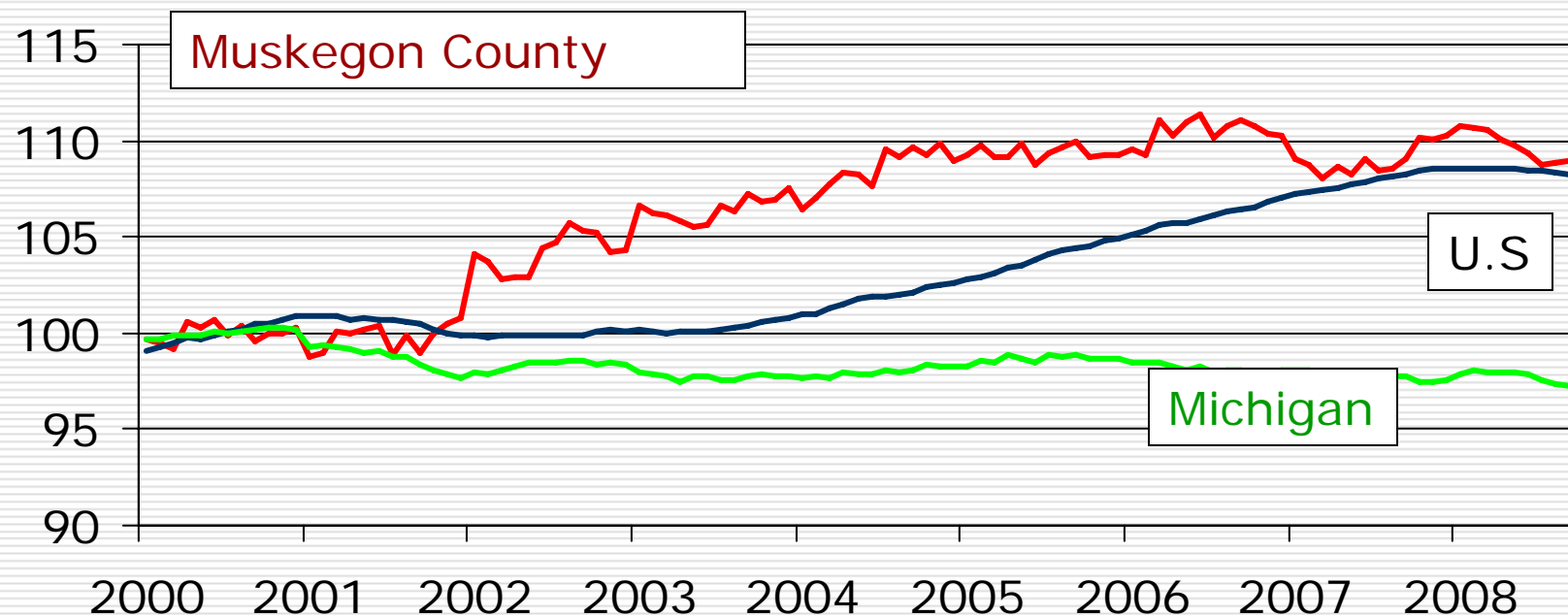
Muskegon manufacturing sector is doing better than the nation's and *well above the state's trend.*

**Manufacturing Employment Index
(100 = 2000 average)**



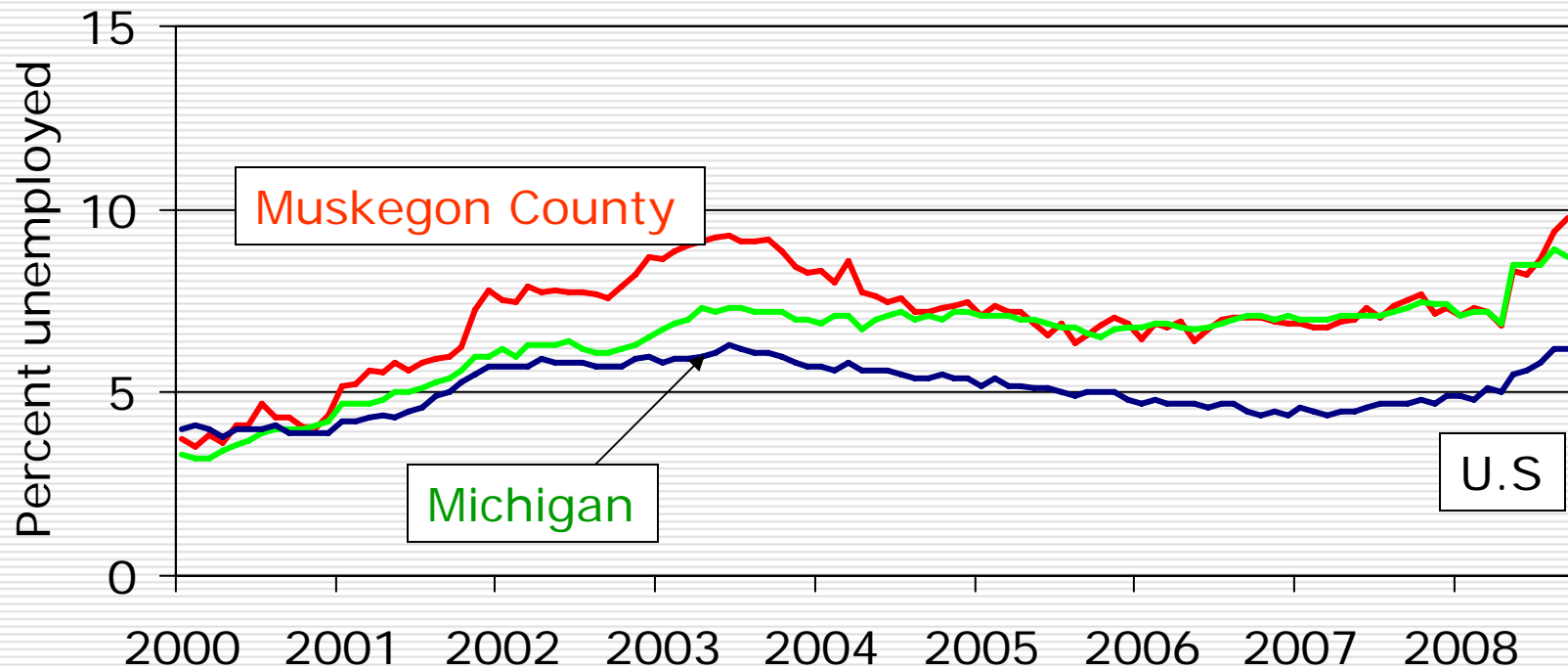
Also, Muskegon MSA's private services employment growth is above the nation's *and the state's*.

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



But then Muskegon has an unemployment rate that is above that of the state. *What gives?*

Seasonally Adjusted Unemployment Rate

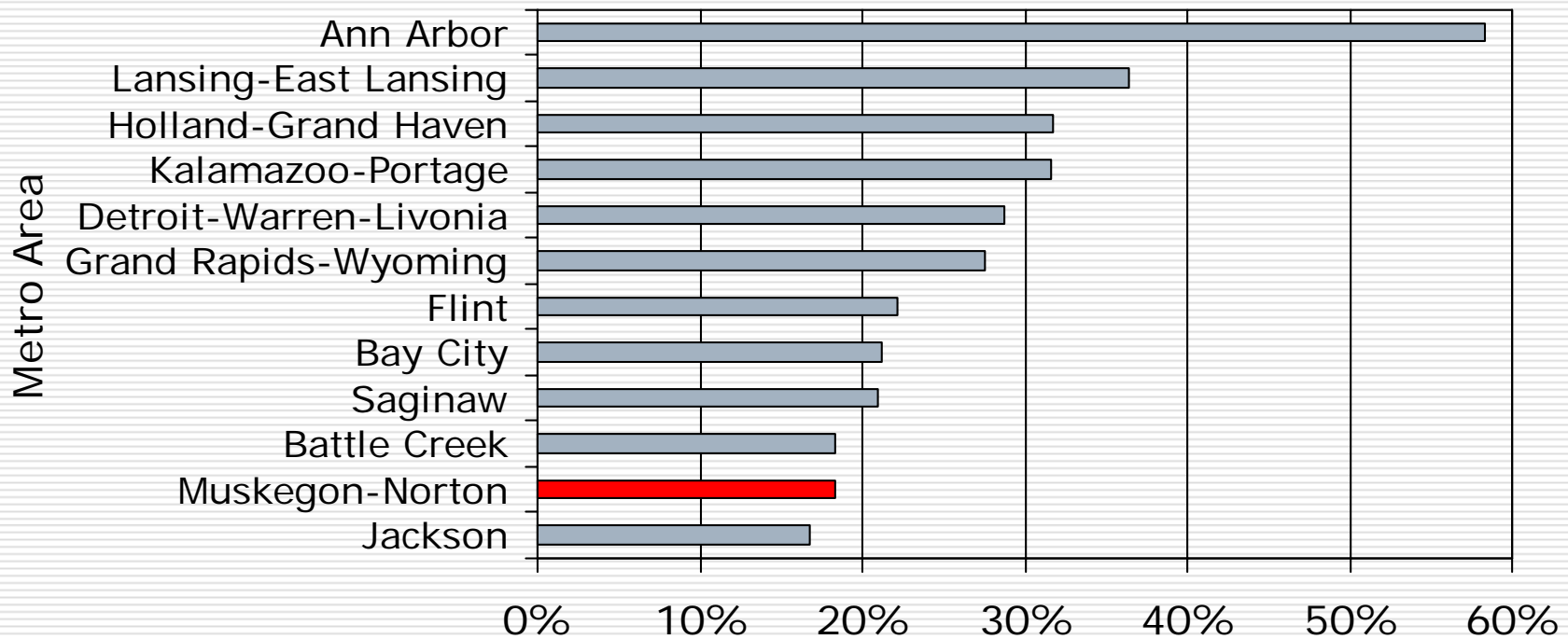


So how can this be?

- Many of the county's job holders live outside county and commute.
 - This is supported by recent statistics released by the U.S. Census. City of Muskegon's average unemployment rate in the 2005-2007 period was 22 percent.
 - Bad data.
 - From a purely statistical standpoint, the county's employment estimates are better numbers.
-

The Muskegon MSA ranks second to last in Michigan for adults age 25-34 with a Bachelor's degree or higher education.

Percent of Age 25 to 34 with a Bachelor's Degree or Higher Education in 2007



Source: U.S. Census Bureau, 2007 American Community Survey.

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