

2010 Economic Outlook for Muskegon County: *A Shaky Start to Hopefully a Long Expansion*

George A. Erickcek

Brad R. Watts

W.E. Upjohn Institute for Employment Research

January 29, 2010

A special thanks to

*Muskegon Area First
Employers Association of West Michigan,
Muskegon Area Chamber of Commerce
Warner Norcross & Judd,
Manpower
Nichols Paper & Supply
Community Foundation for Muskegon County*

And, of course, a special thanks to

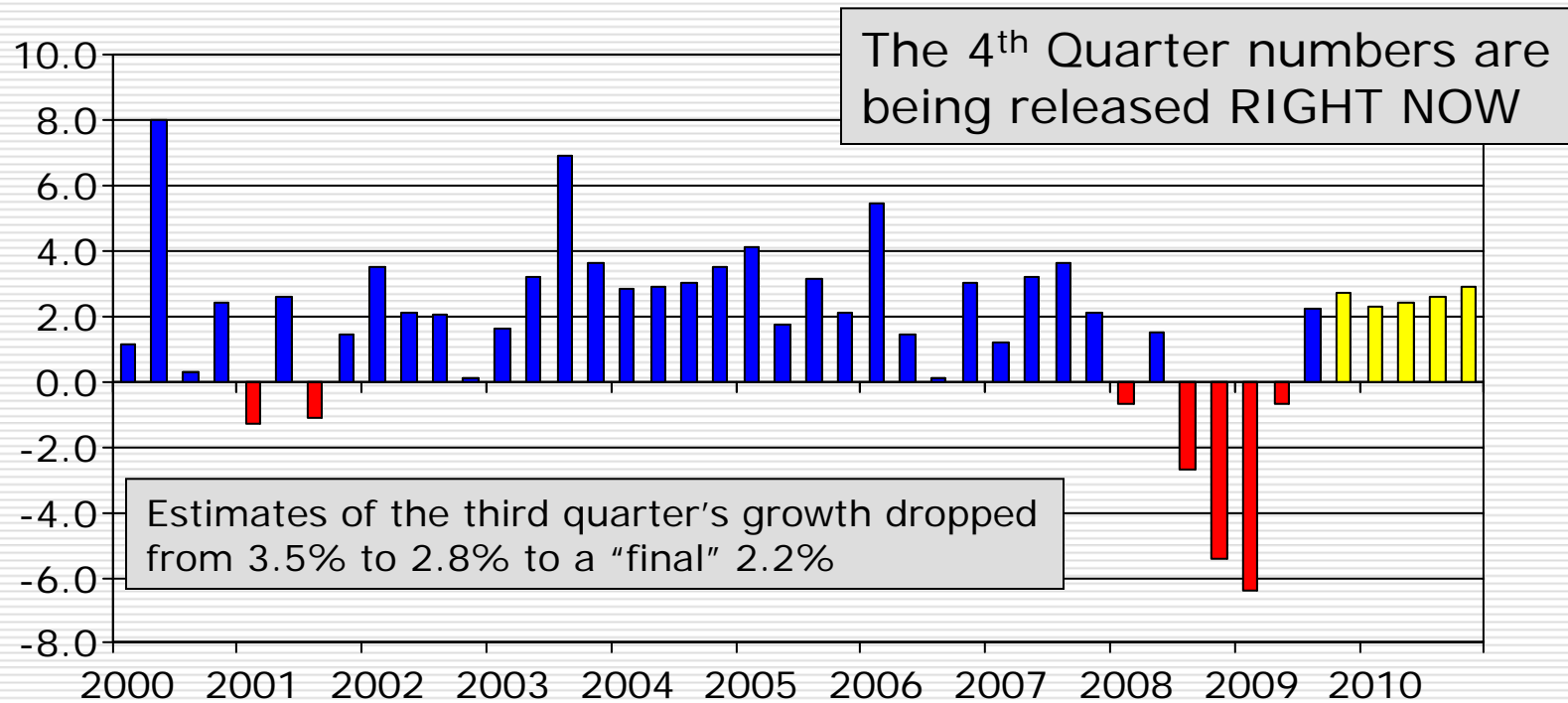
The participants of the Forecast Advisory Focus Group who accept none of the credit but all of the blame for our forecasts.

Agenda

- Well, 2010 still looks pretty promising—*Yet the double-dip scenario is in the shadows.*
- The state will likely not get an invitation to the nation's party—*in fact, it is still waiting for the 2002 invitation.*
- Muskegon 2010-2011 forecast—*Better but still in negative territory.*
- What keeps me up at night—*Double-dips, educational achievement, and stuff.*

Nationwide, GDP increased by 2.2 percent in the third quarter.

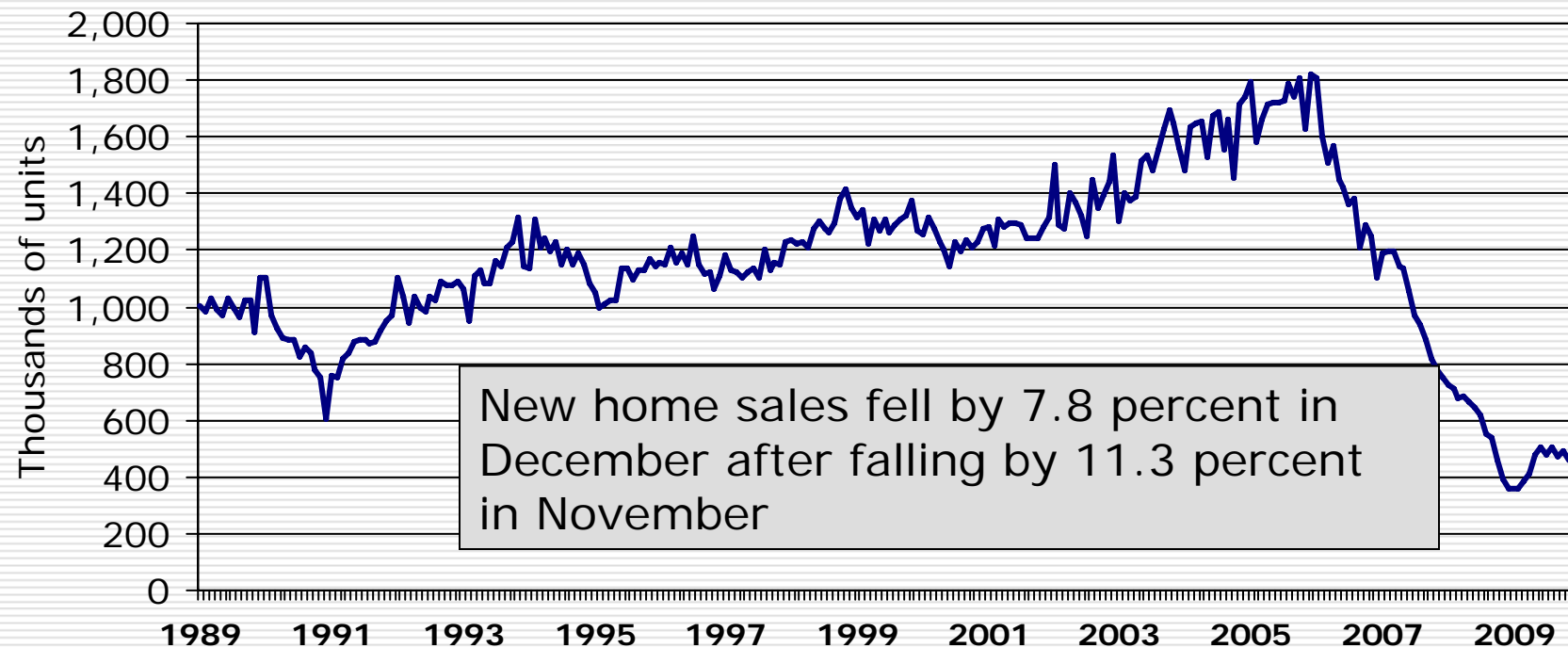
Annualized Percent Change in GDP



Source: BEA, Philadelphia Federal Reserve Survey of Professional Forecasters.

Single-Family Housing Starts—*Were starting to turn around; however...*

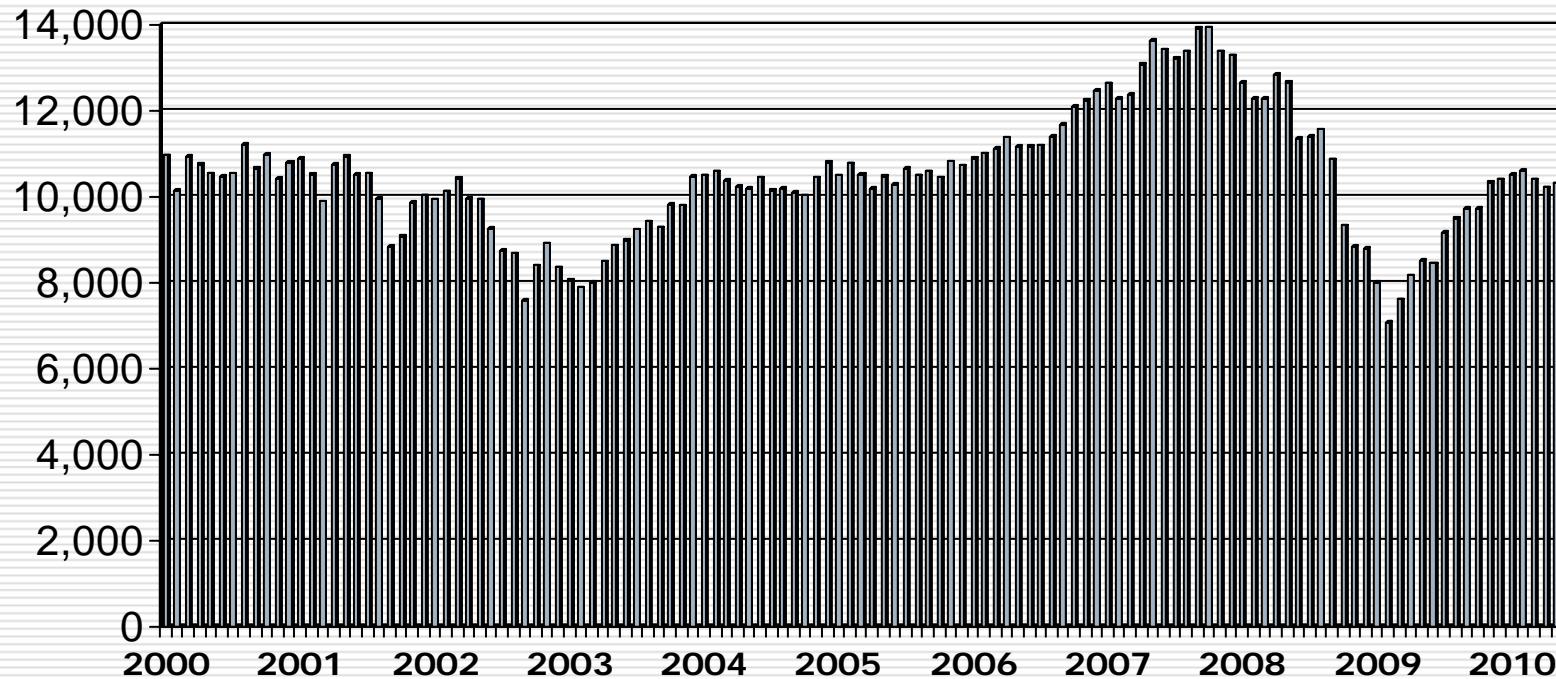
Seasonally Adjusted Annual Rates



U.S. Census

The stock market has enjoyed a nine-month run: *up until last week.*

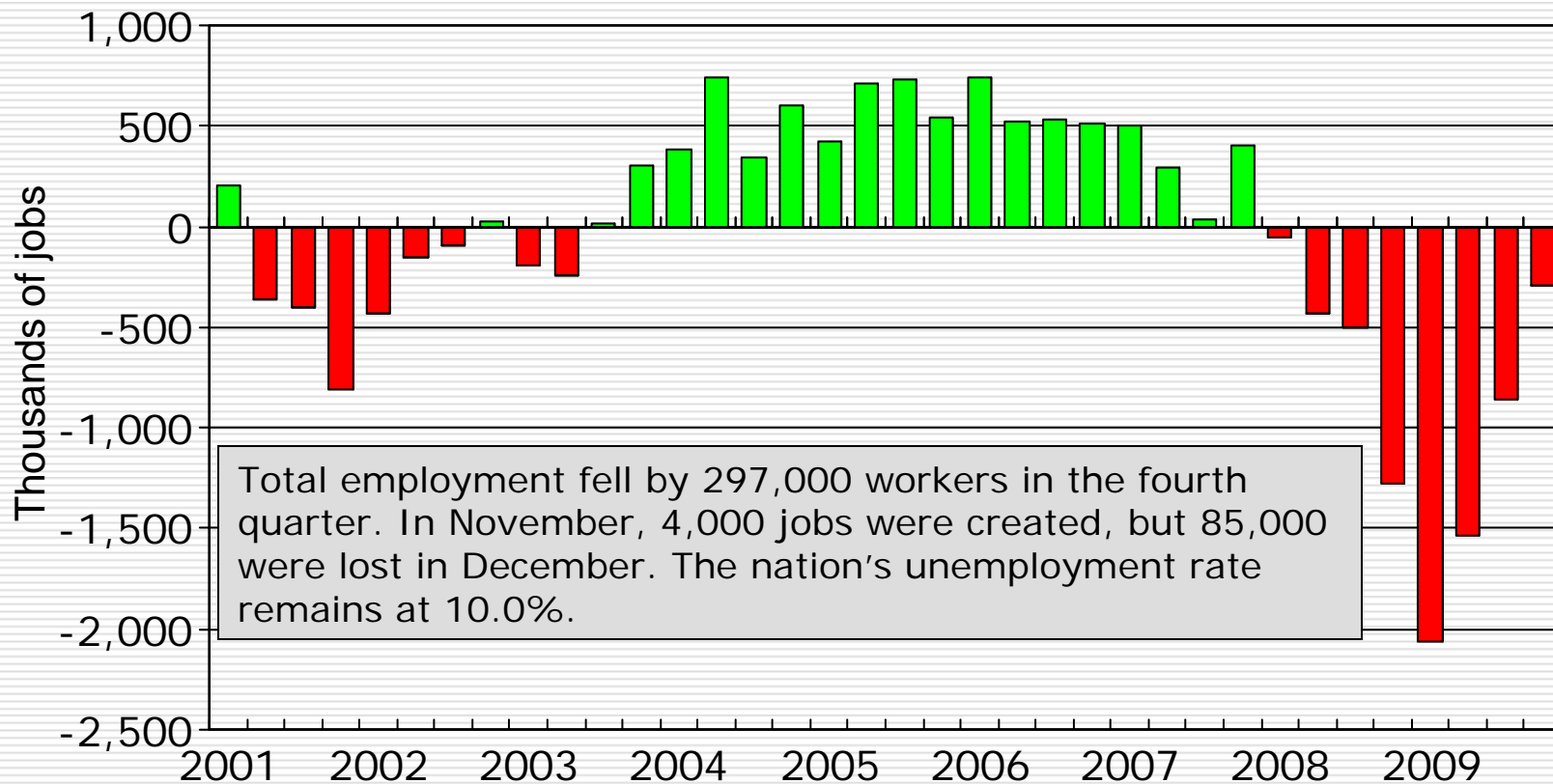
Dow Jones Index



Ok, so the good news is “so, so” where is the bad news?

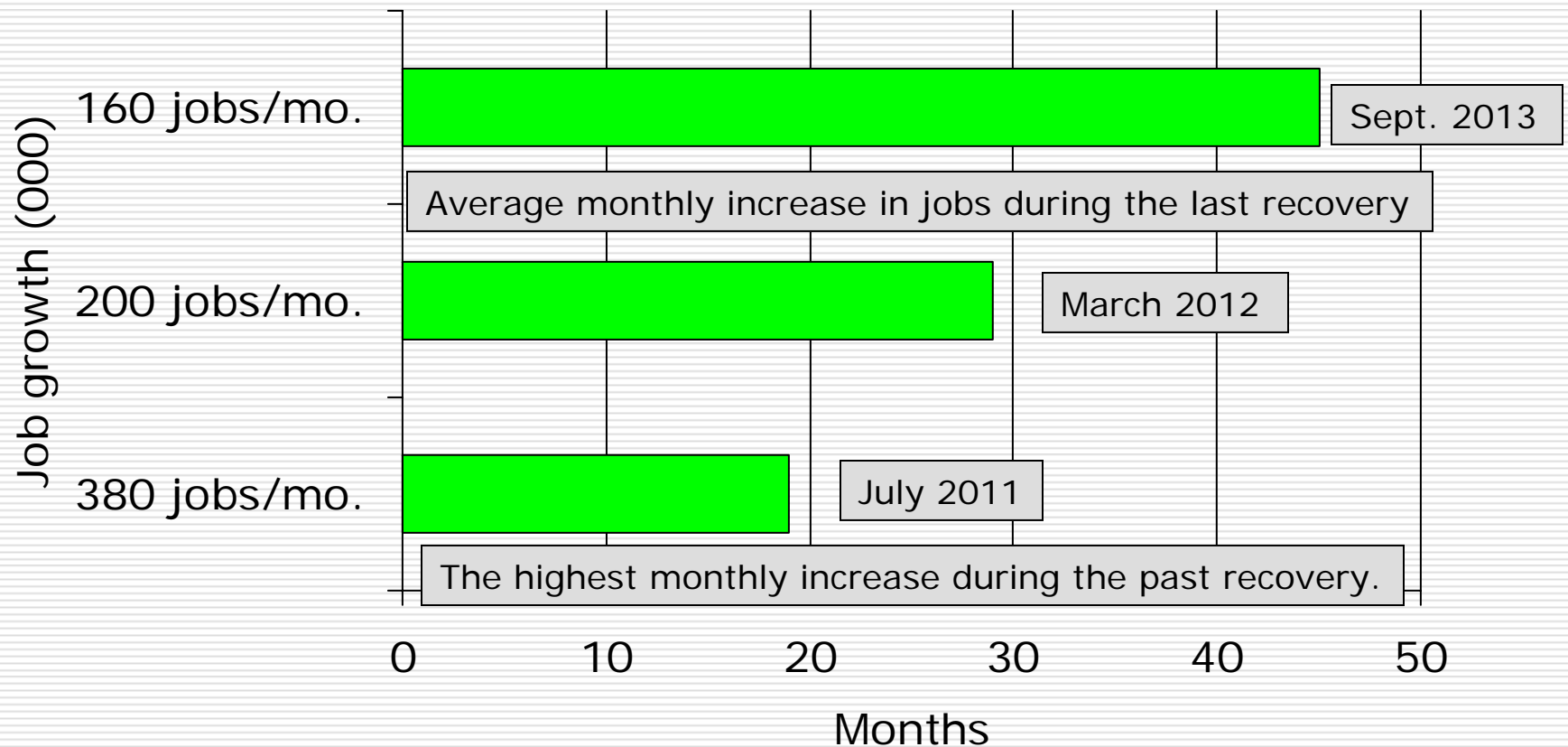
- ❑ Banking system—*The banks have a lot of money to lend but are not.*
- ❑ Employment outlook— *The rate of decline is slowing, but we may not return to pre-recession levels until 2011 or later.*
- ❑ Consumer confidence—*Will slowly improve but is dependent upon employment.*
- ❑ The auto industry—*2010 is expected to be better than the latter half of 2009.*

Nationwide, the rate of employment decline is slowing.



Source: BLS.

How long will it take for employment to reach its pre-recession level?



Manufacturing employment decline is slowing as well.

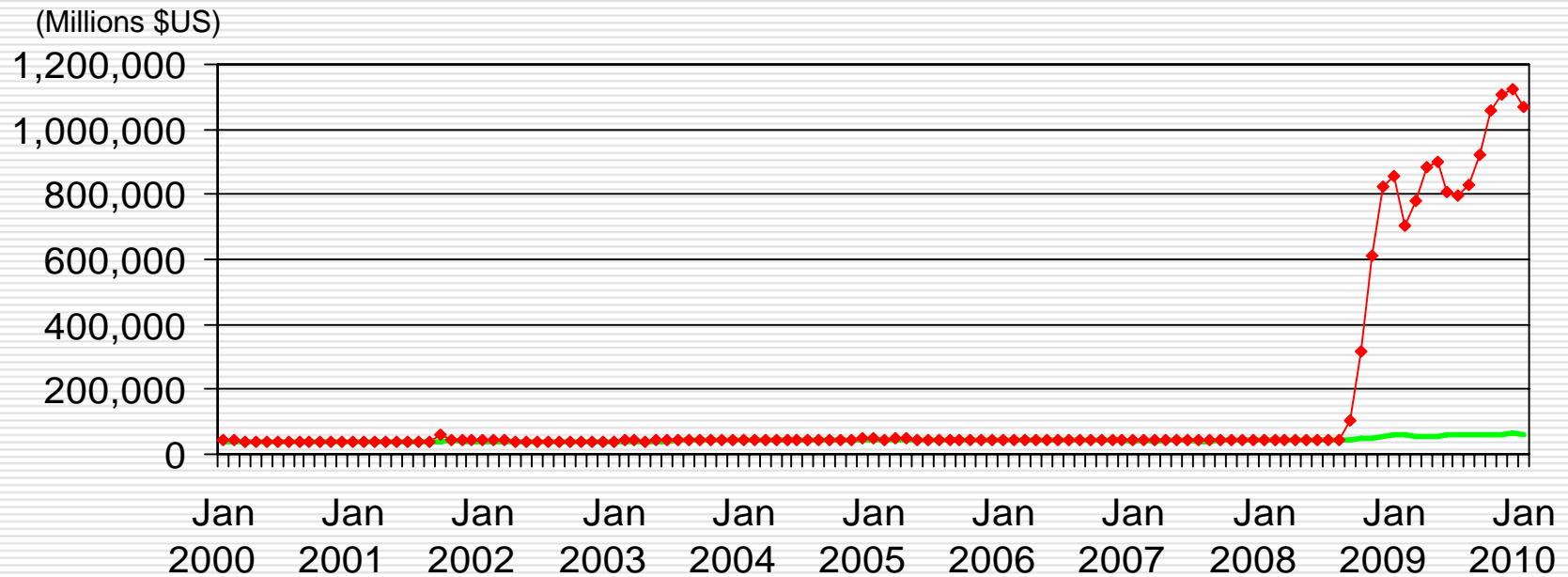


From 2001 to 2009, the nation's manufacturers have cut 1/3 of their labor force. Since 2006, 2.6 million manufacturing jobs have been lost.

Source: BLS.

Banks have a trillion dollars to lend out but they are not.

Aggregate U.S. Depository Institution Reserves
(Adjusted for seasonality and changes in reserve requirements)

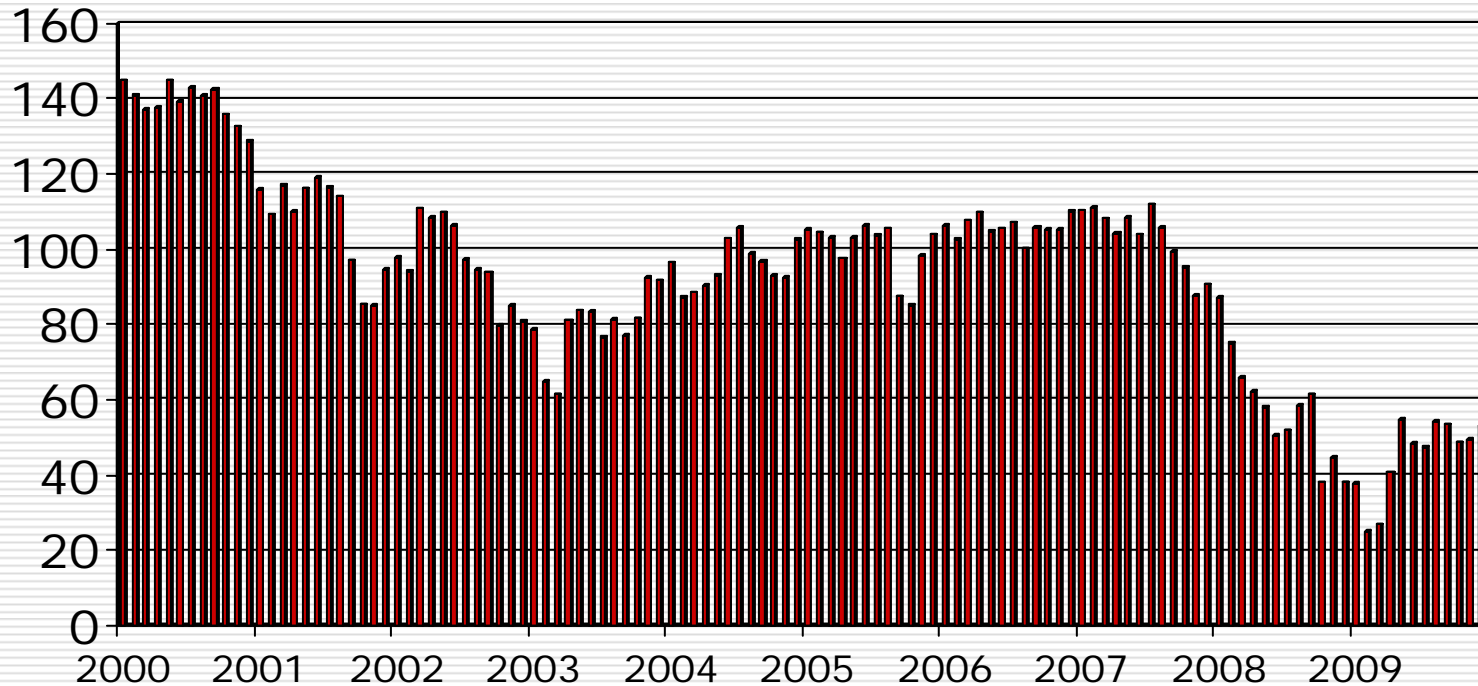


Source: Federal Reserve, Statistical Release H3.

—◆— Total reserves — Required

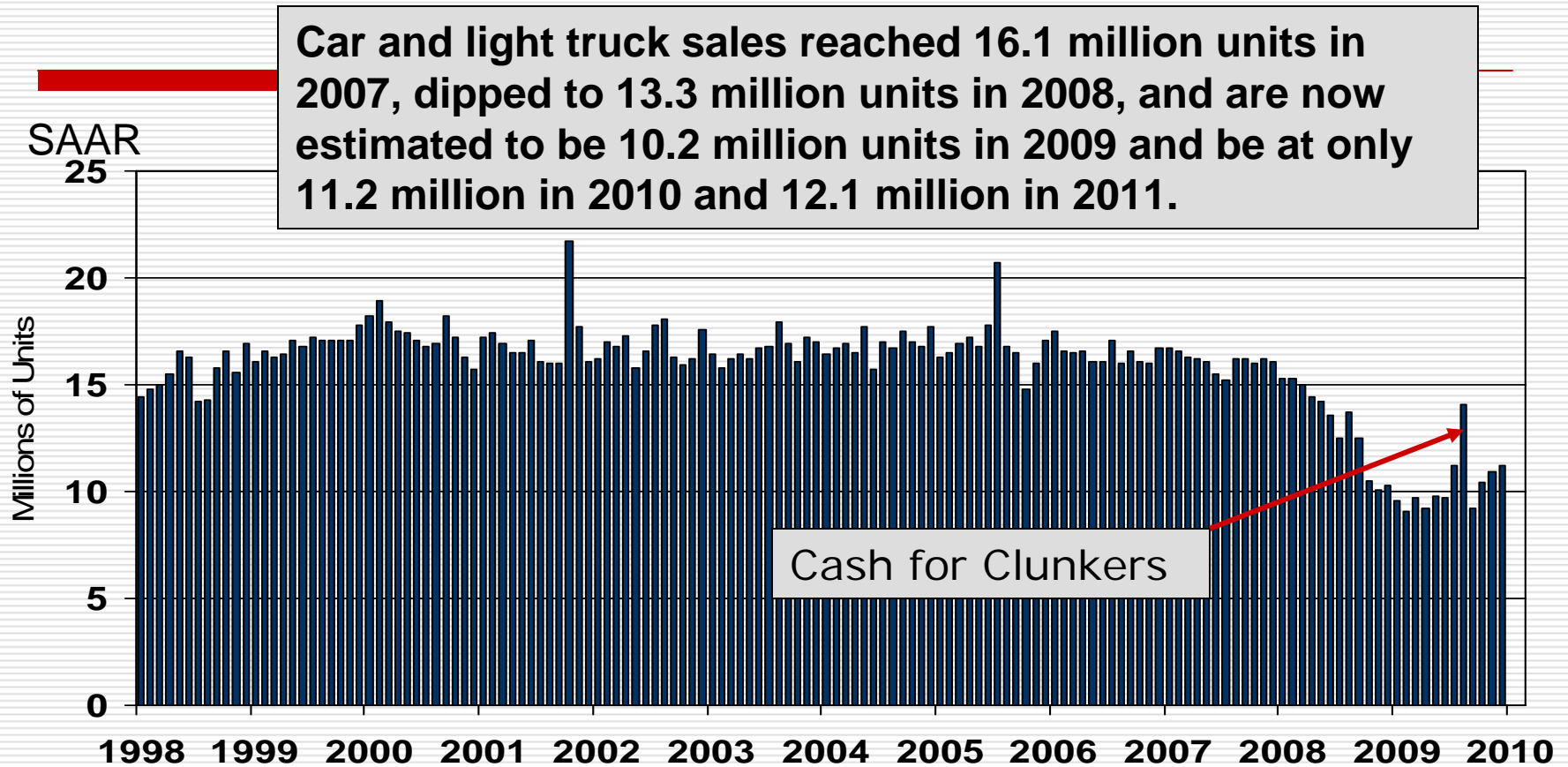
Consumers' confidence is still low.

Consumer Confidence (1995=100)



Source: Conference Board.

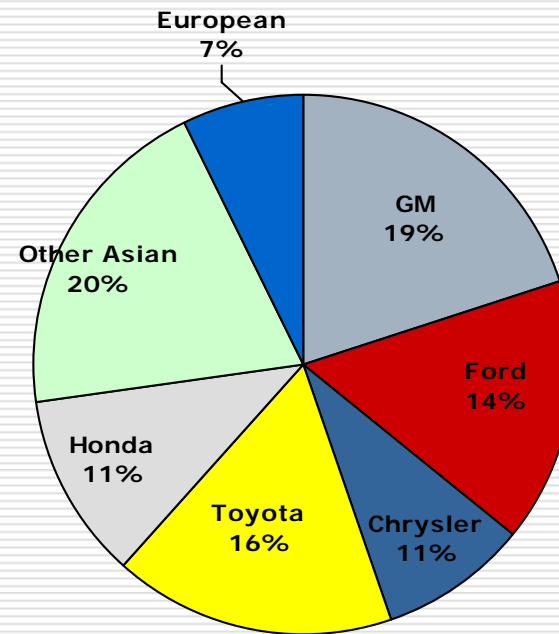
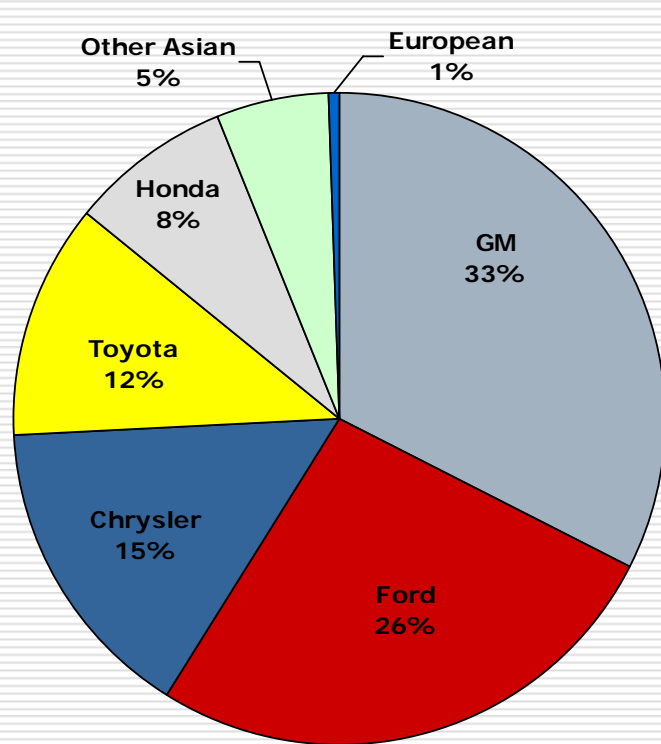
The showrooms are still pretty quiet.



Source: BEA.

Fueled by cash-for-clunkers, sales hit a 14.1 million unit rate in August but have fallen back since. Sales were up to a 11.2 million unit pace in December.

Loss of market share: In 2001, the Detroit Three controlled 74%; in 2009 it fell to 44.7%.



Source: *Wards AutoWorld*.

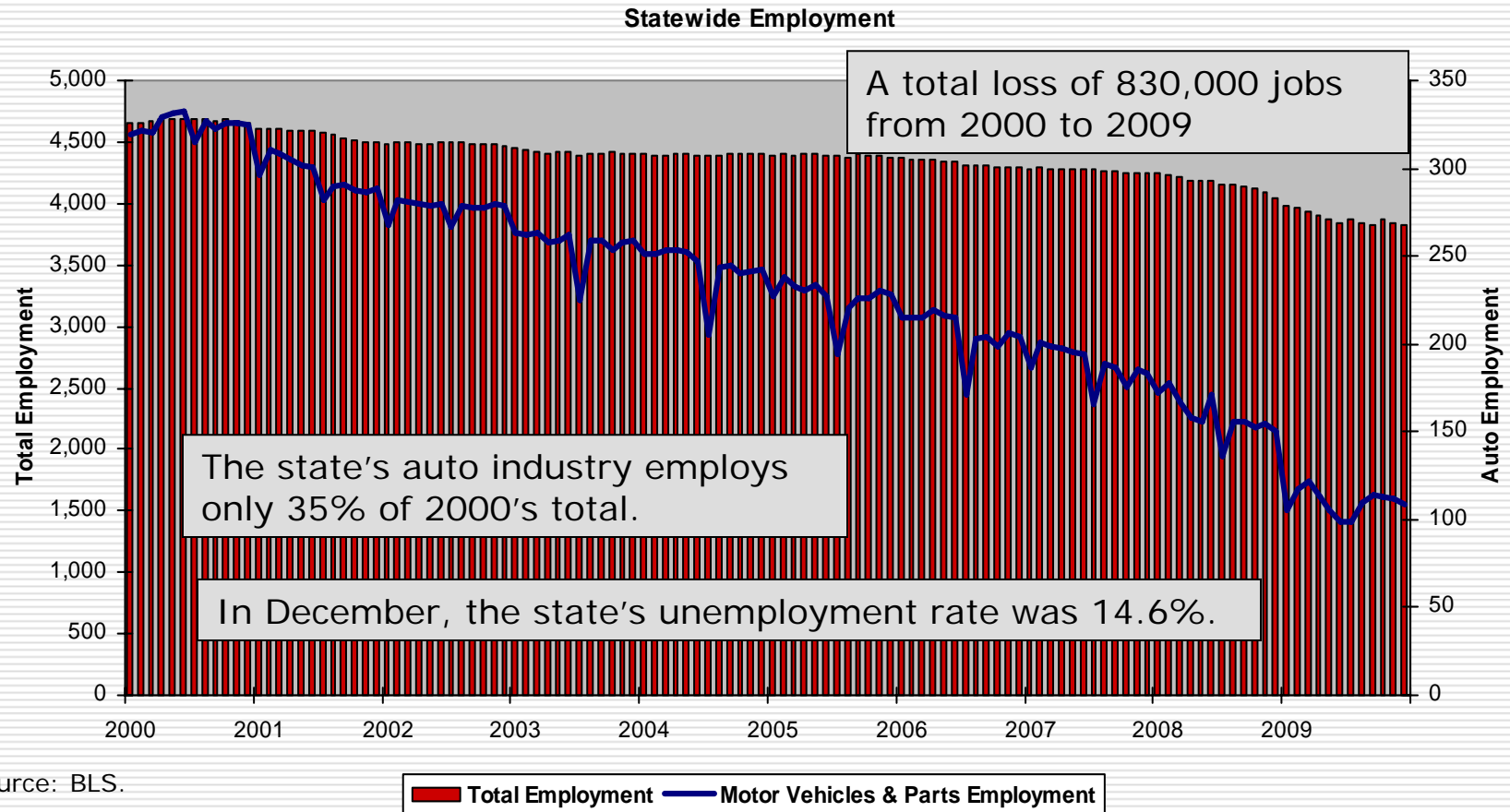
2001

2009

Only 3 of the top 10 selling vehicles are made by Detroit.

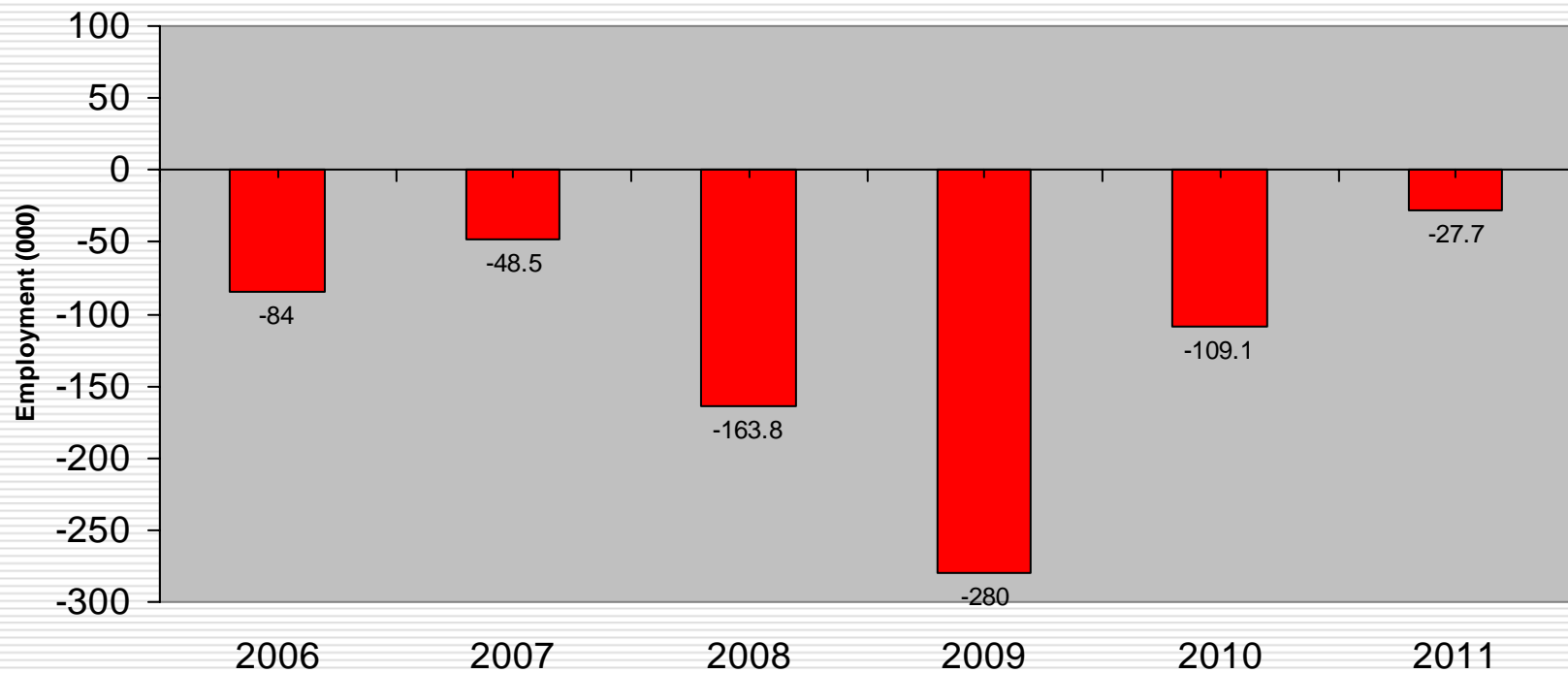
2009 Best Selling Vehicles		
Ford	F Series	413,625
Toyota	Camry	356,824
GM	Silverado	316,544
Toyota	Corolla/Matrix	296,874
Honda	Accord	287,492
Honda	Civic	259,722
Nissan	Altima	203,568
Honda	CR-V	191,214
Ford	Fusion	180,671

With the national slowdown, the state's turnaround is further postponed.



Total employment has declined for 10 straight years and is expected to decline in 2010 and 2011.

Change in Total Employment



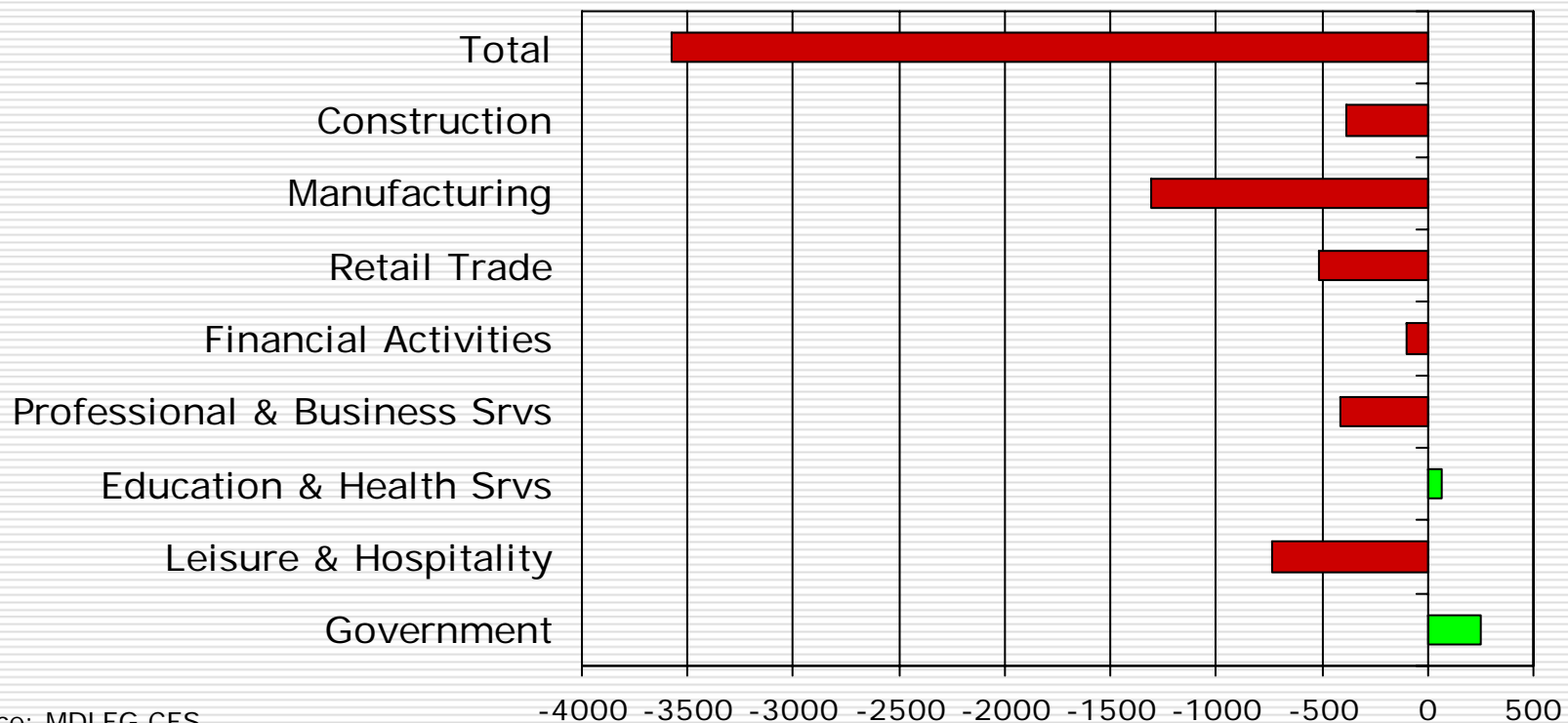
Source: University of Michigan, Nov 2009.

Muskegon County—*2009 was not a good year.*

- ❑ Serious employment declines. In November, unemployment stood at 15.7%
- ❑ Too many people are moving out.
- ❑ Housing prices are still retreating.
- ❑ Residential construction is at a standstill.

Employers cut more than 3,500 jobs from their payrolls in 2009.

**Muskegon MSA Change
2008 to 2009**



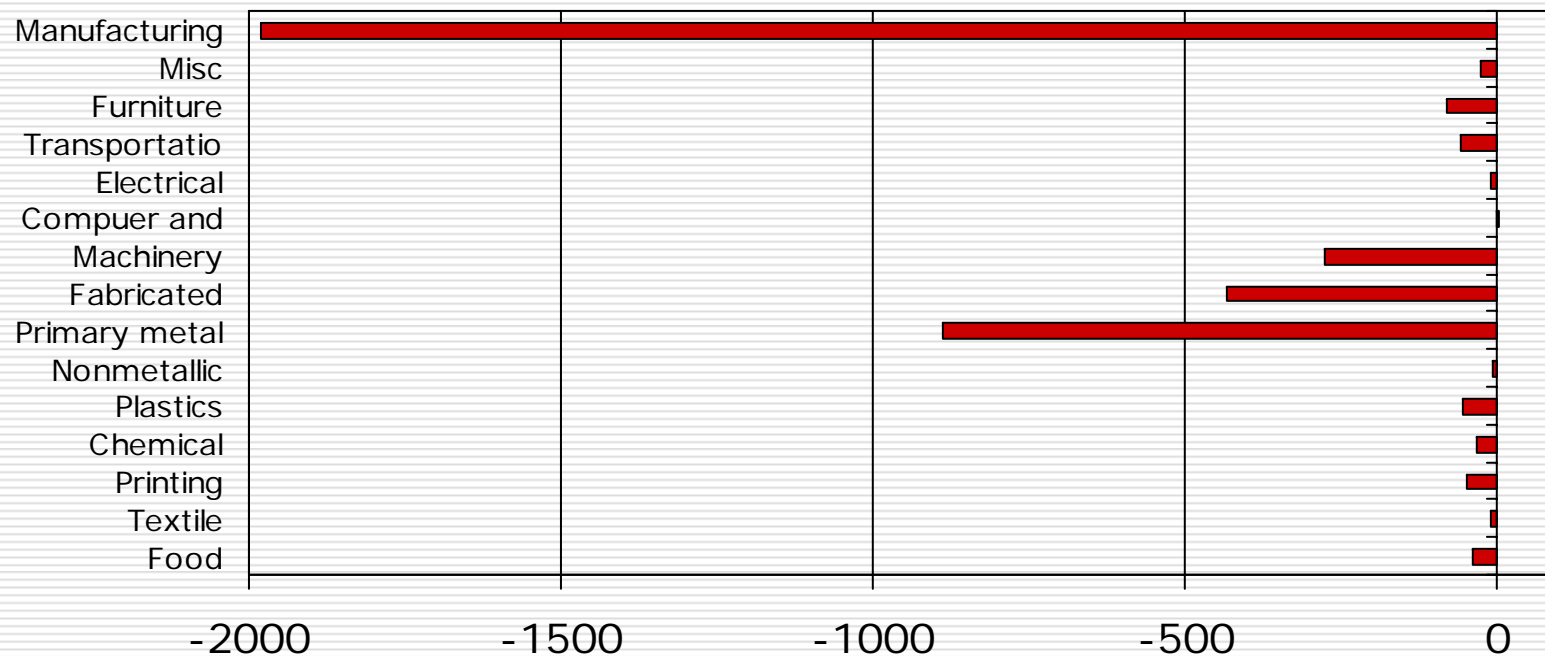
Source: MDLEG CES

For a more detailed look at local employment trends, we must look at an older data set:

Employment change from Q1 2008 to Q1 2009

All of the county's manufacturing sectors lost jobs during the period although some of the losses were minor.

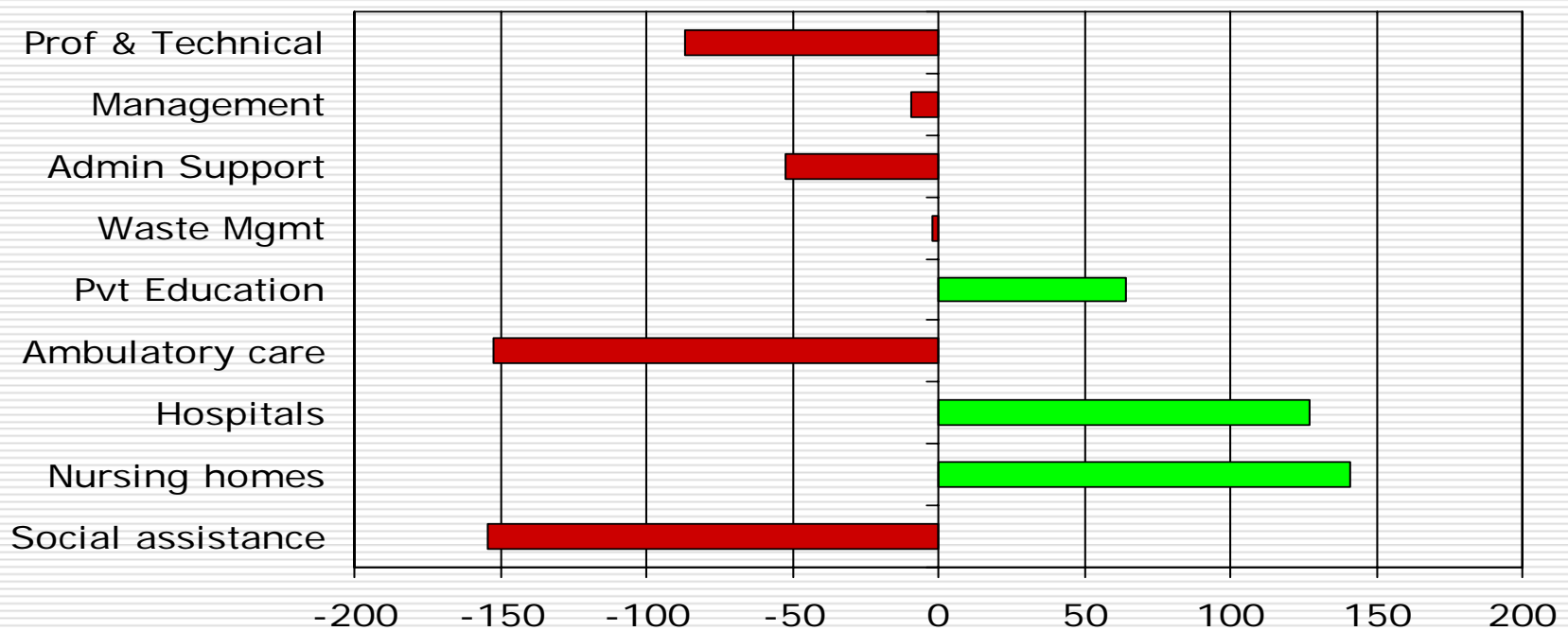
Detailed Manufacturing Employment Change Q1 2008 to Q1 2009



Source: MDLEG, ES-202 data.

The county's healthcare sector has supplied welcomed support.

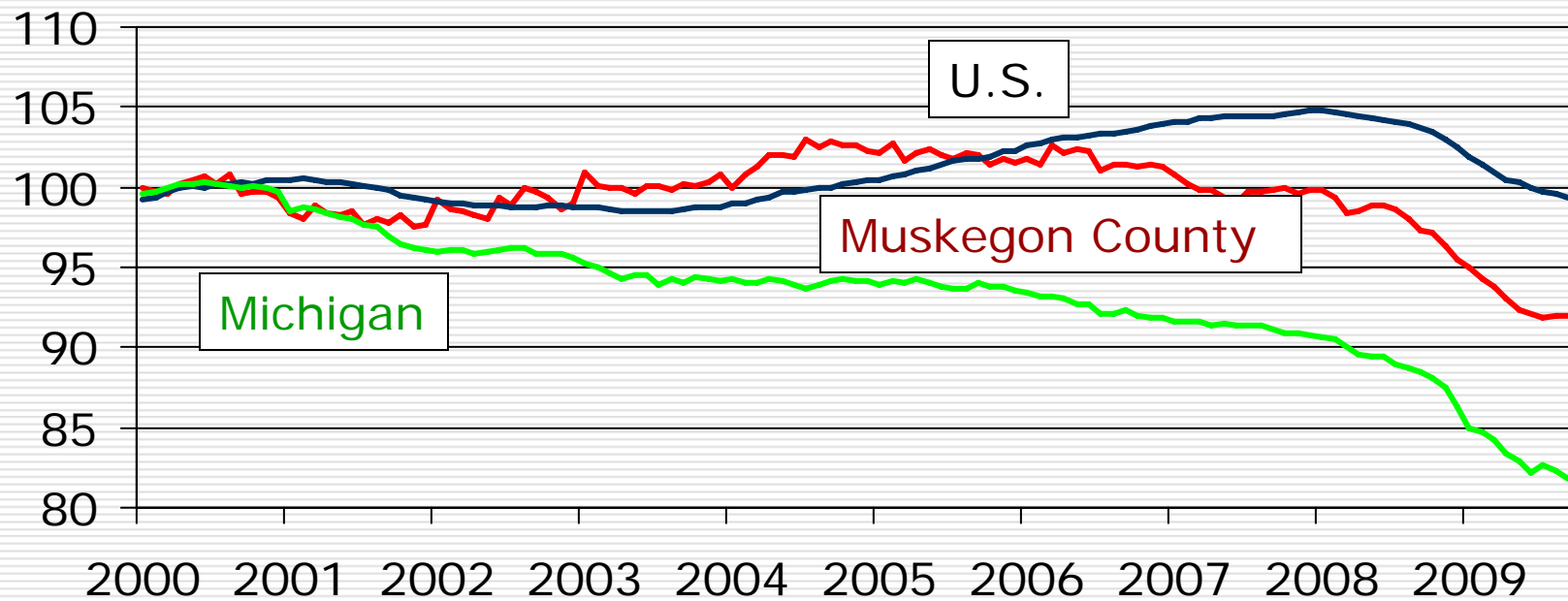
Detailed Professional and Business Services and Health and Education Services
Employment Change, Q1 08-Q1 09



Source: MDLEG, ES-202 data.

Muskegon County remains stuck in the middle.

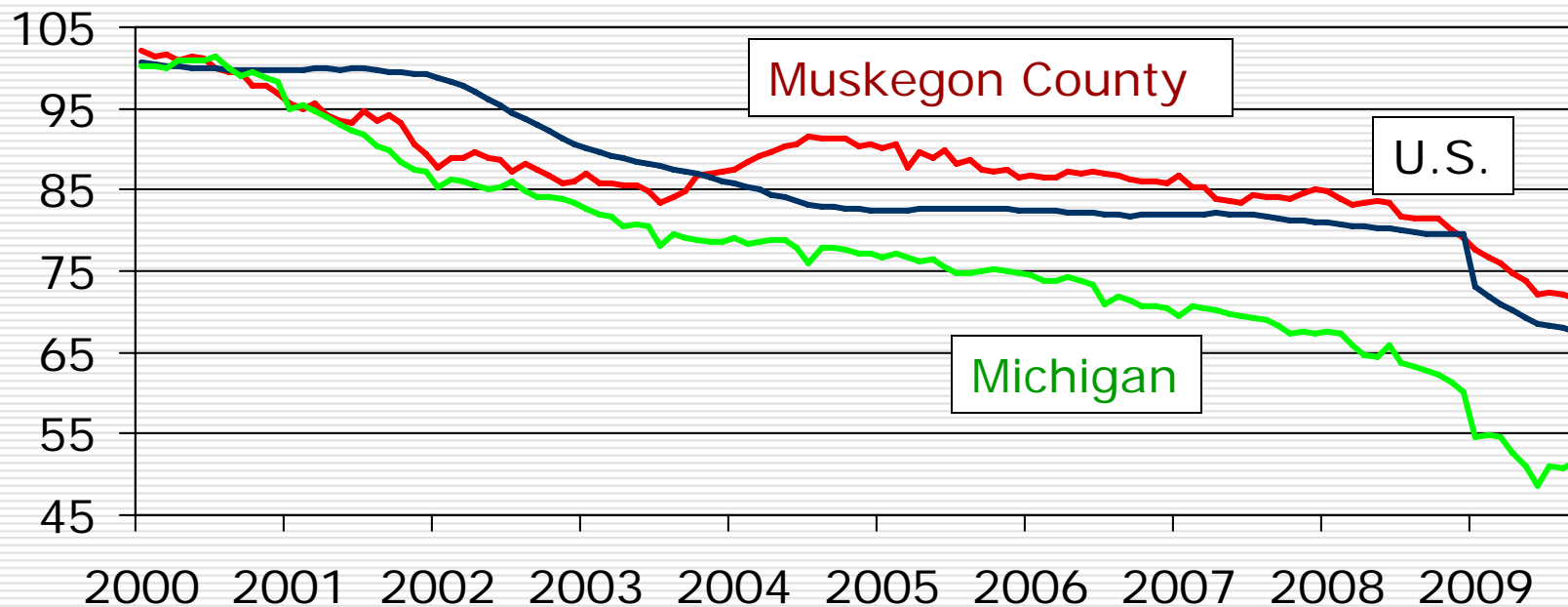
Index of Total Employment
(100 = 2000 average)



Source: W.E. Upjohn Institute and BLS.

The county maintains a strong manufacturing base...

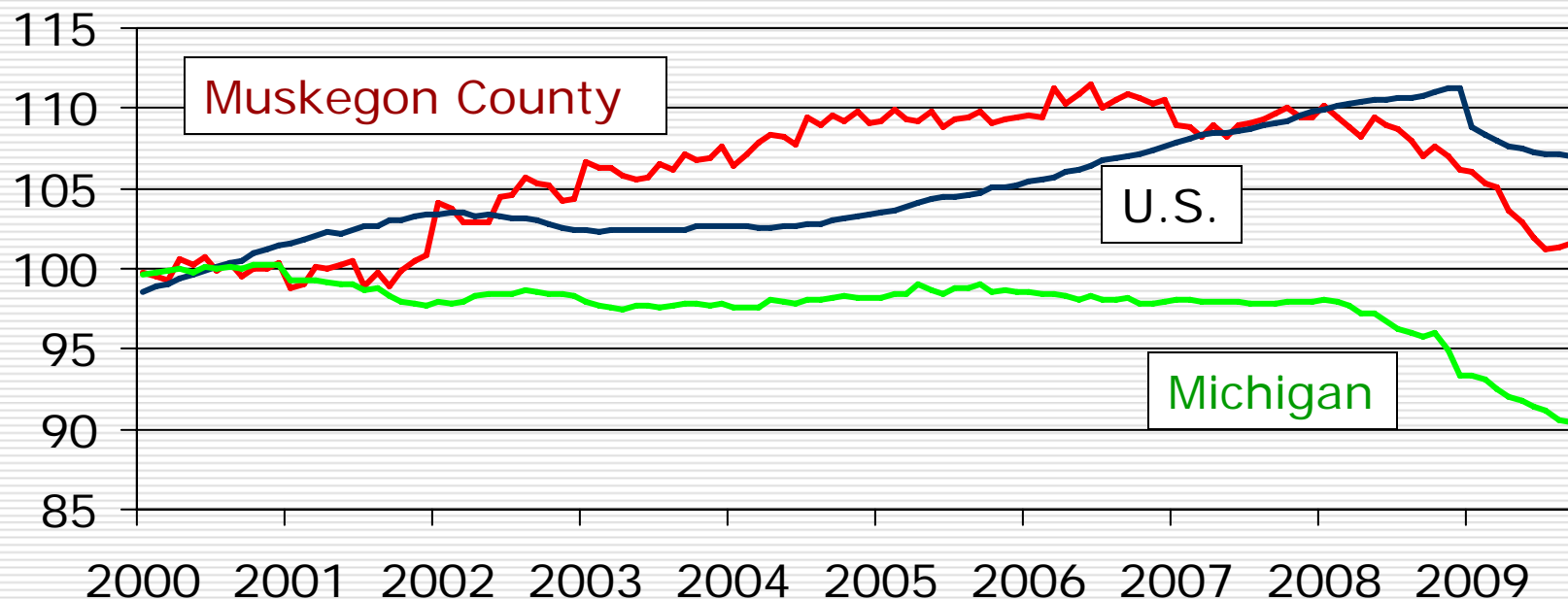
Manufacturing Employment Index
(100 = 2000 average)



Source: W.E. Upjohn Institute and BLS.

as well as a competitive private services sector.

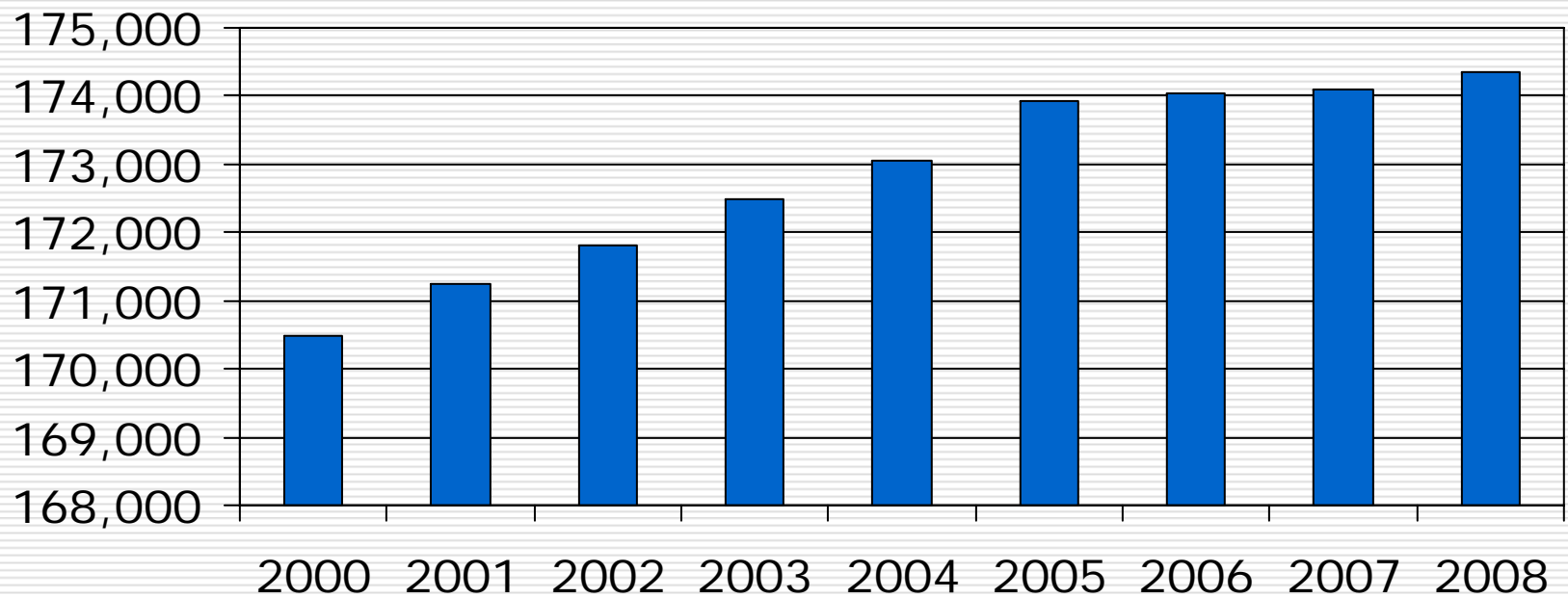
Private Service-providing Employment Index
(100 = 2000 average)



Source: W.E. Upjohn Institute and BLS.

Population continues to grow however..

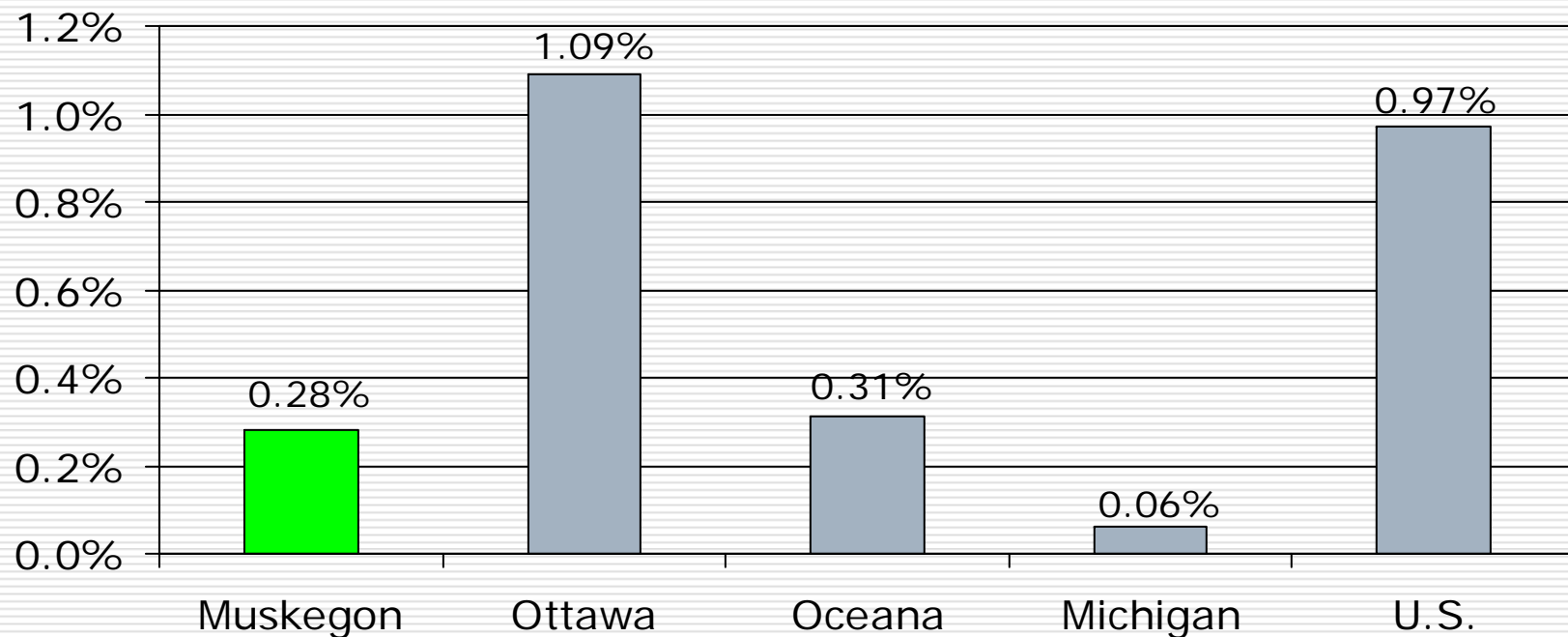
Muskegon County Population Estimates



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

its growth is weaker than surrounding counties.

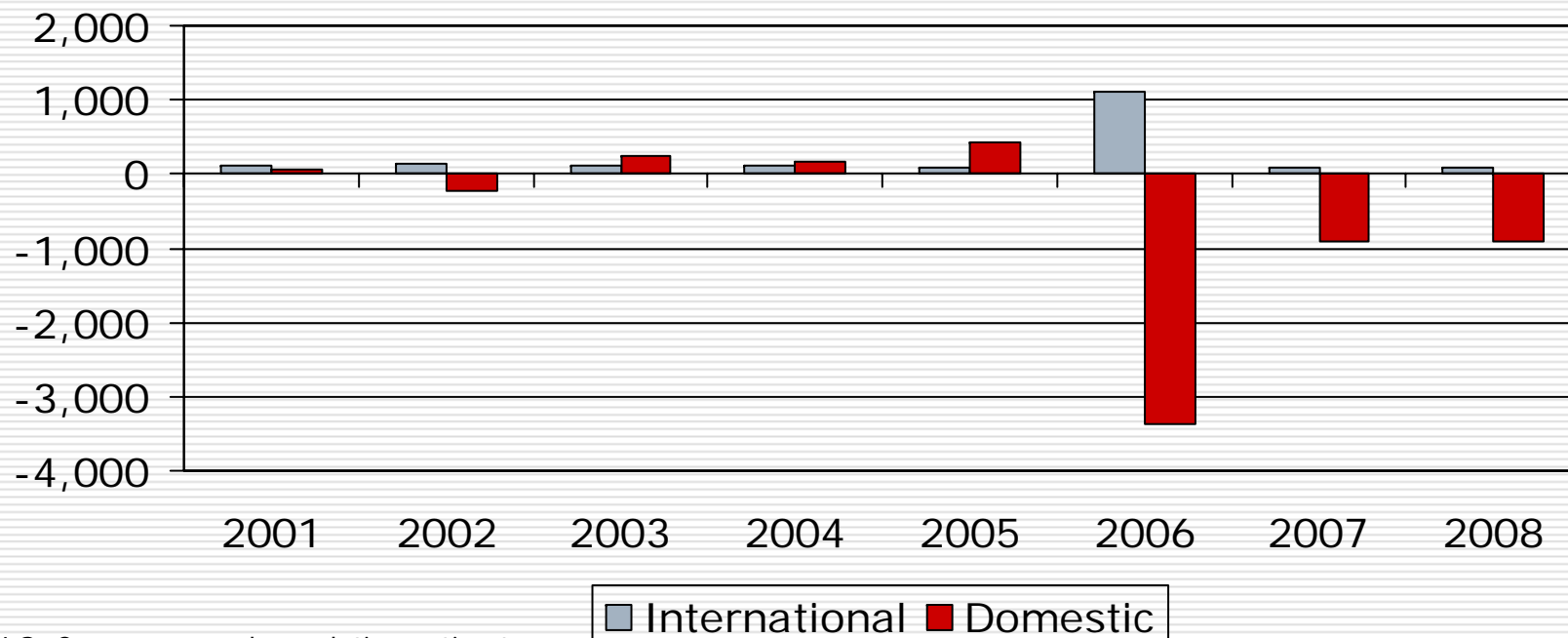
Annual Average Population Growth Rate,
2000 to 2008



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

Since 2006, there has been a steady net outmigration from the county.

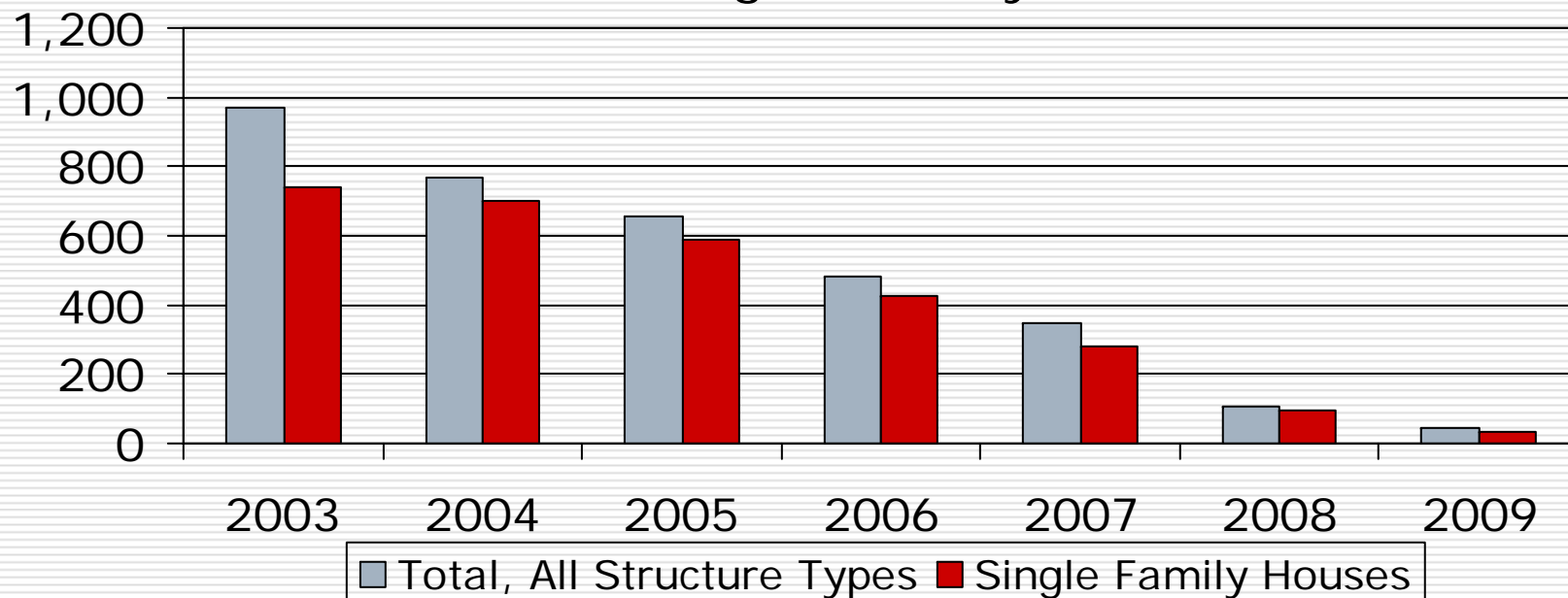
Net Migration Component of Population Change in Muskegon County



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

And, housing starts are at a near standstill.

Housing Units Authorized by Building Permit in Muskegon County

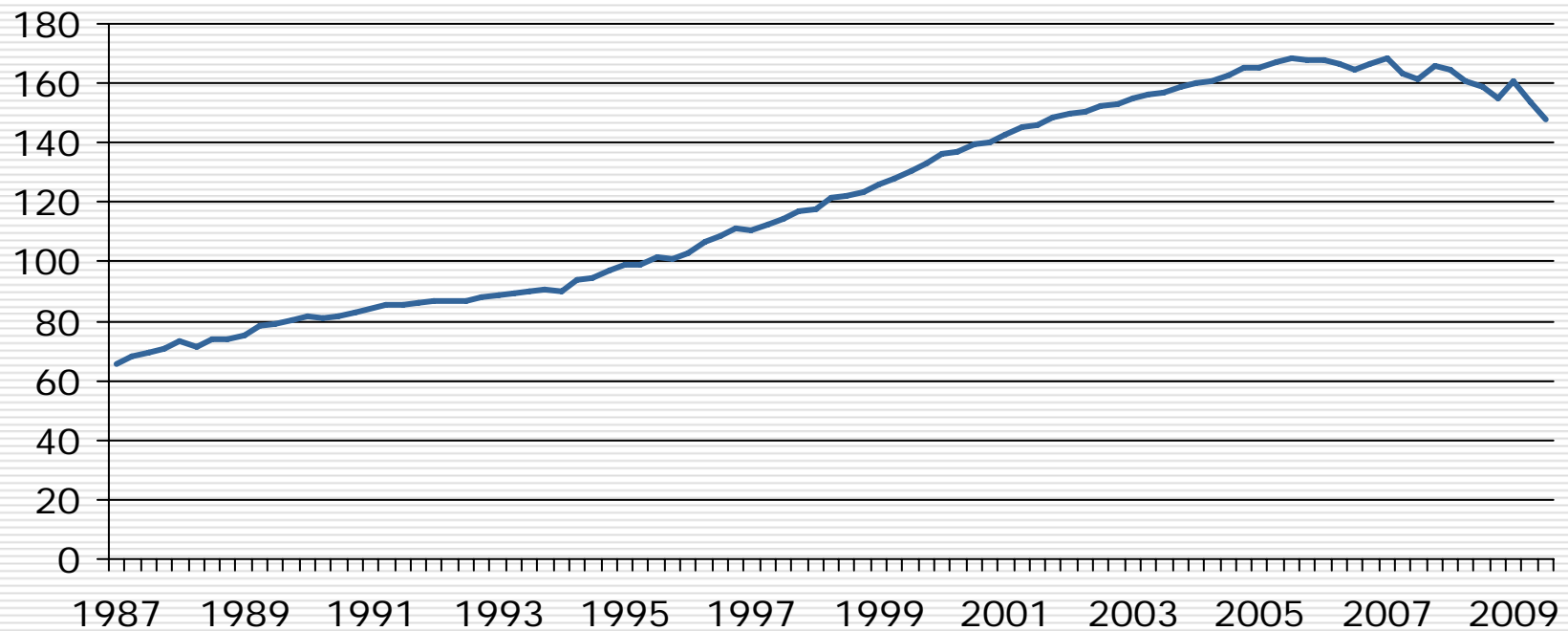


Source: U.S. Census Bureau: Manufacturing, mining, & construction statistics.

Note: 2009 is estimated year-to-date through November 2009 only.

Housing prices are still soft.

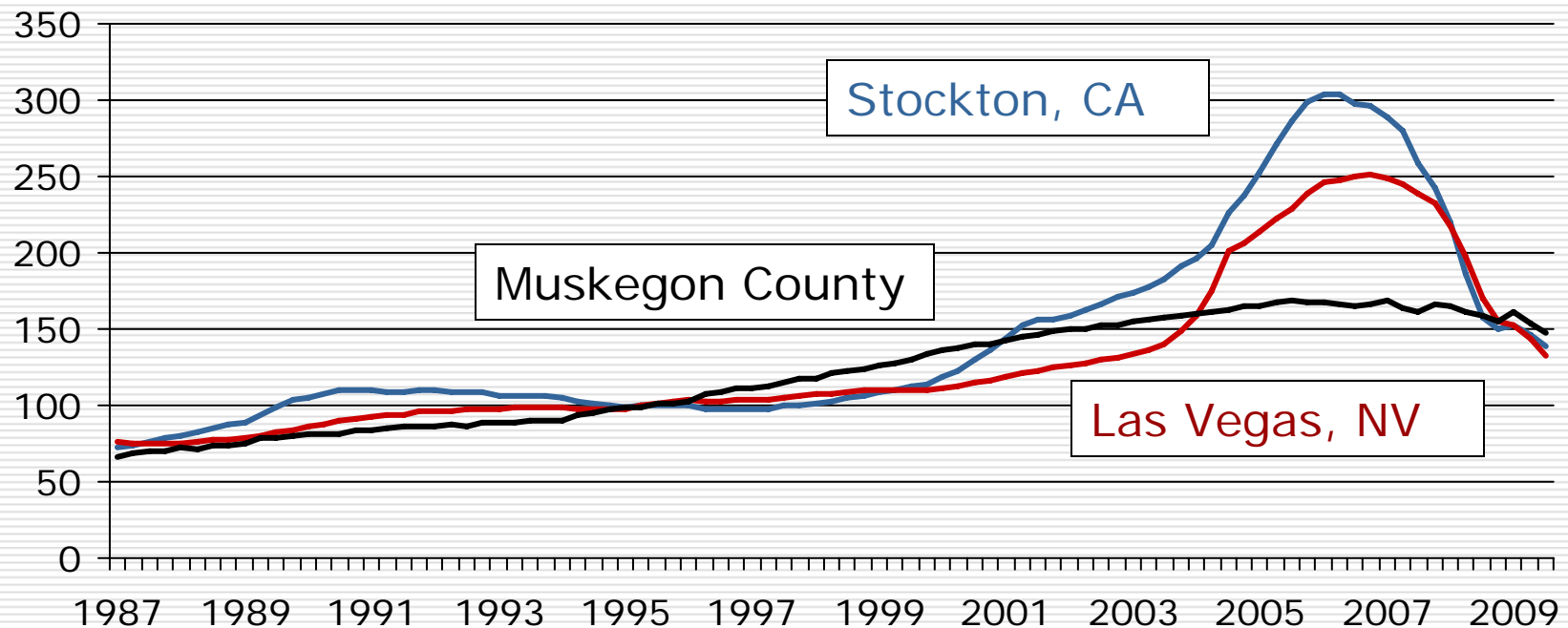
Muskegon County Housing Index
1995 = 100



Source: FHFA

Still, the county's situation is a lot better than other places.

Crisis Metro Housing Index
1995 = 100



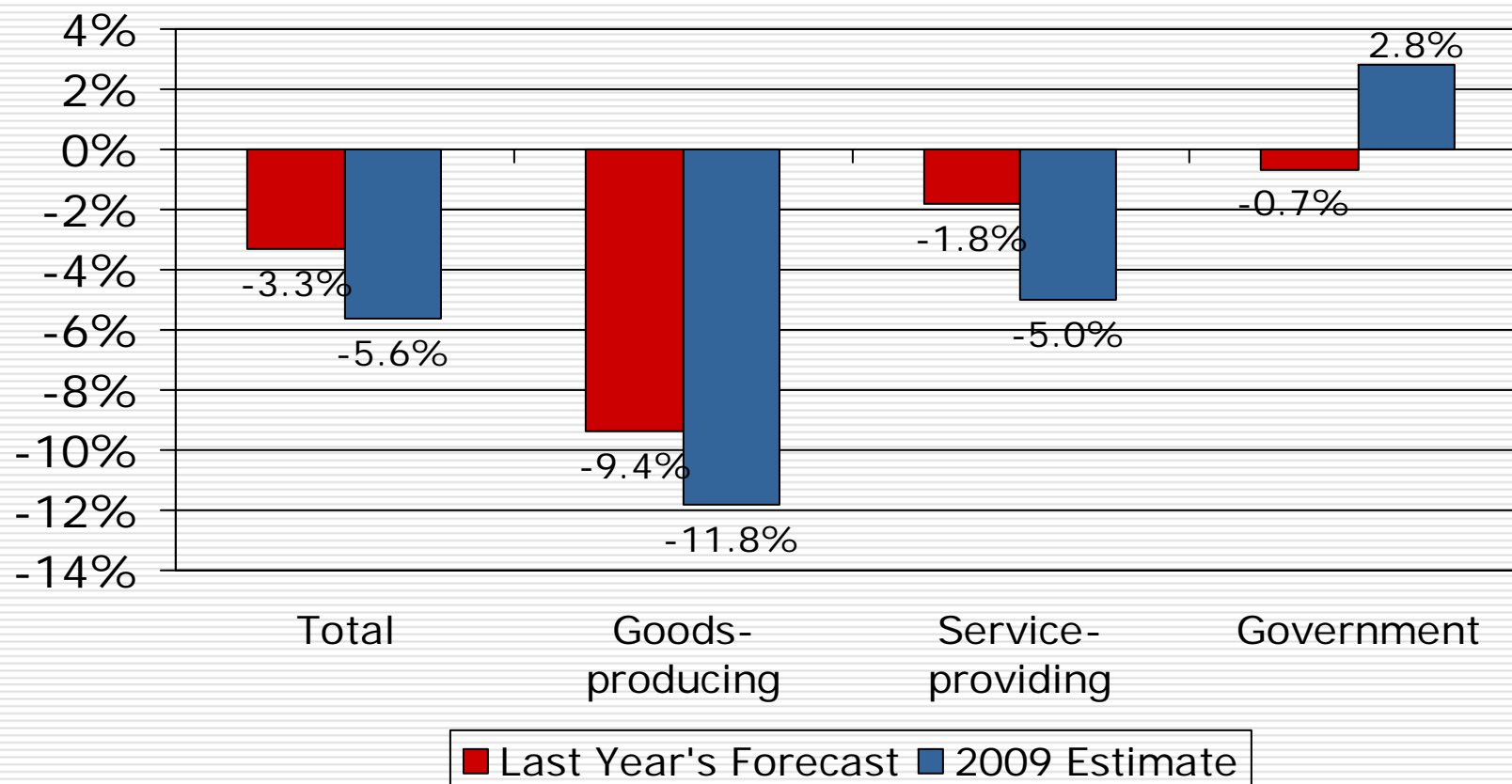
Source: FHFA

So, how did we do last year?

- Why should we care?
- Our eyes should be on the future
- We must not dwell on the could've, should've, would've of life.

So, how did we do last year?

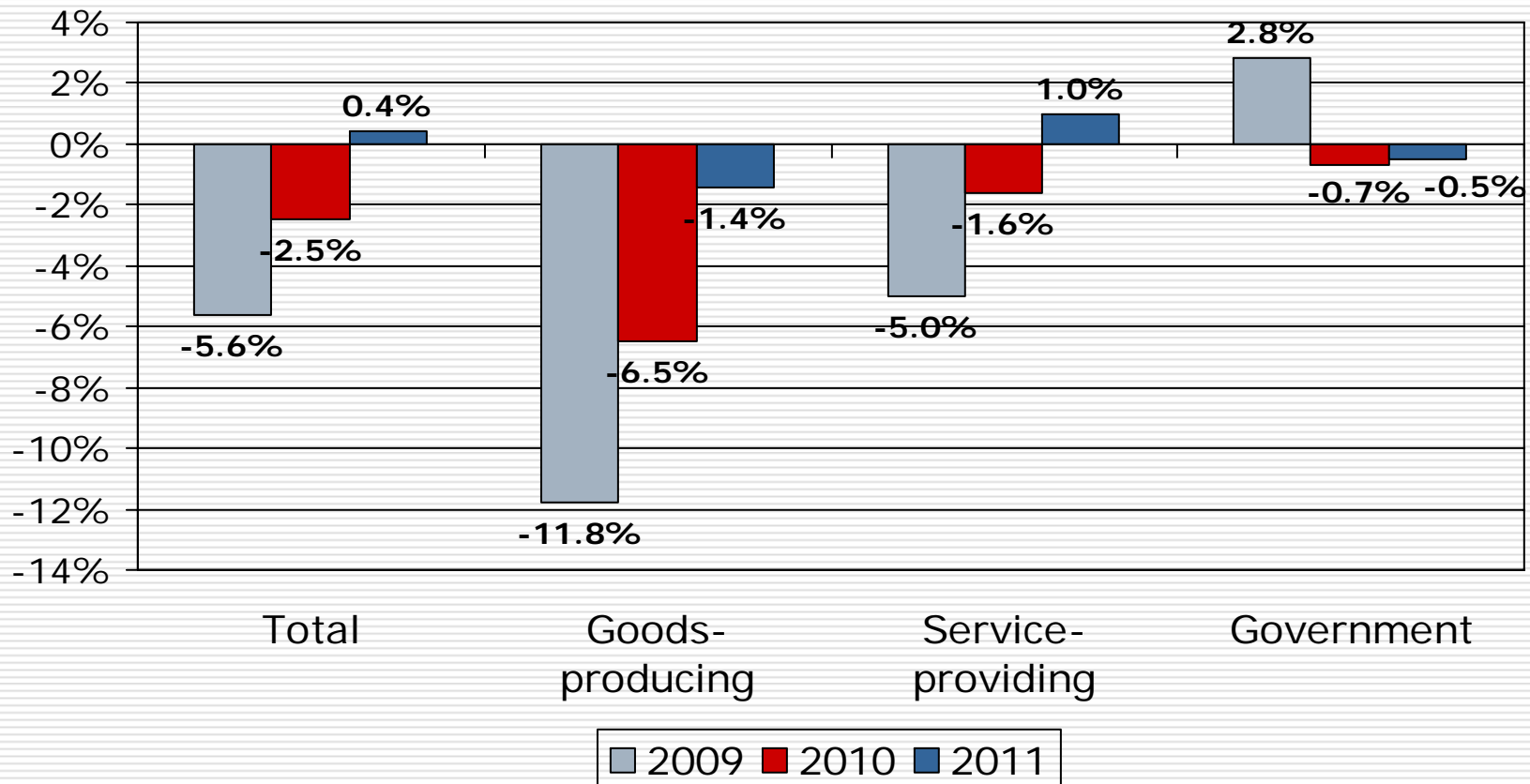
Not great, especially in private services.



Before turning to the 2010 and 2011 forecast:

- A special thanks to Muskegon Area First for pulling together business and government leaders to review our naïve forecast.

2010 and 2011 Forecast for Muskegon County—*Not out of the woods yet.*

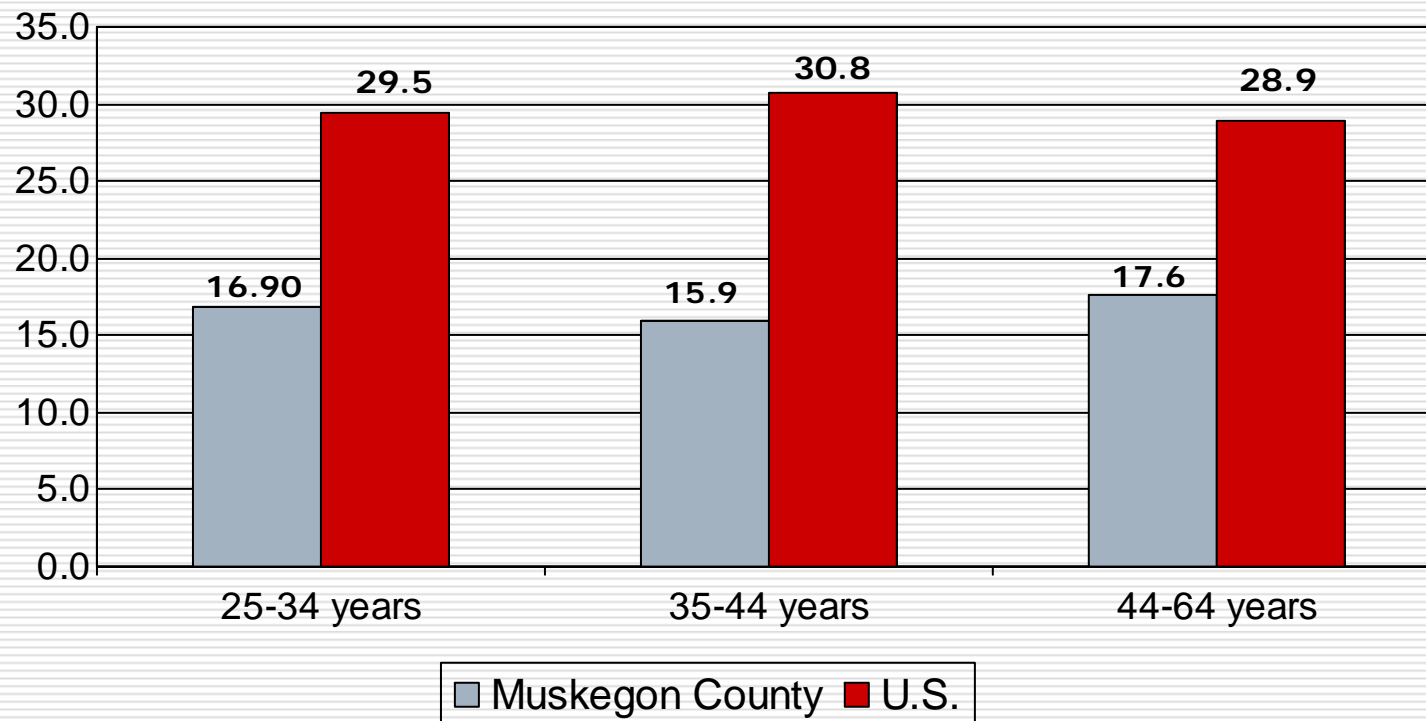


So, what keeps me up at night?

- Fear of the double-dip
 - What if current economic growth is simply inventory restocking?
 - Consumers are not in a good mood.
- Stagnation in educational achievement.
- Thoughts on exports and new stuff.

We have hit a ceiling in educational achievement.

Percent with a Bachelor Degree or Higher in 2008



Challenges

- Nationwide,
 - Approximately only 20% of all full-time community college students complete their coursework in three years.
 - Only 50% of full-time, four-year college students get their Bachelor degree in six years.
- Why:
 - Financial stress
 - Lack of career counseling

Thoughts on Muskegon County's Export Base

- ❑ 42% of the county's workers either make goods or provide services for customers outside the county.
- ❑ The county's major export activities may surprise you.
- ❑ Not before we go, Let me share the comments of a HR director for a major west Michigan company

“West Michigan’s future depends on our ability to not only create new stuff but to design the manufacturing processes so that it can be built here.”

Muskegon's Major Export Employers

Industry	Employment	Percent of Industry Employment Export Dependent	Percent of Export Employment
Manufacturing	12,498	87.2%	36.1
Retail Trade	12,786	38.9%	16.4
Health Care	12,304	35.0%	14.3

Source: W.E. Upjohn Institute 2008

- All other industries account for less than 5 percent of the county's export base.

Muskegon County production workers may face a severe challenge in moving to higher-skilled occupations.

Muskegon County Production Workers in 2008

Highest Level of Education Attained	Est. No. of Workers	Percent of Total	Average Age
Dropouts	1,760	12.2%	36.9
GED	1,212	8.4%	43.5
H.S. Diploma	6,647	46.0%	39.9
Some college	4,097	28.3%	35.2
Associate's degree	518	3.6%	46.5
Bachelor's degree	225	1.6%	52.4

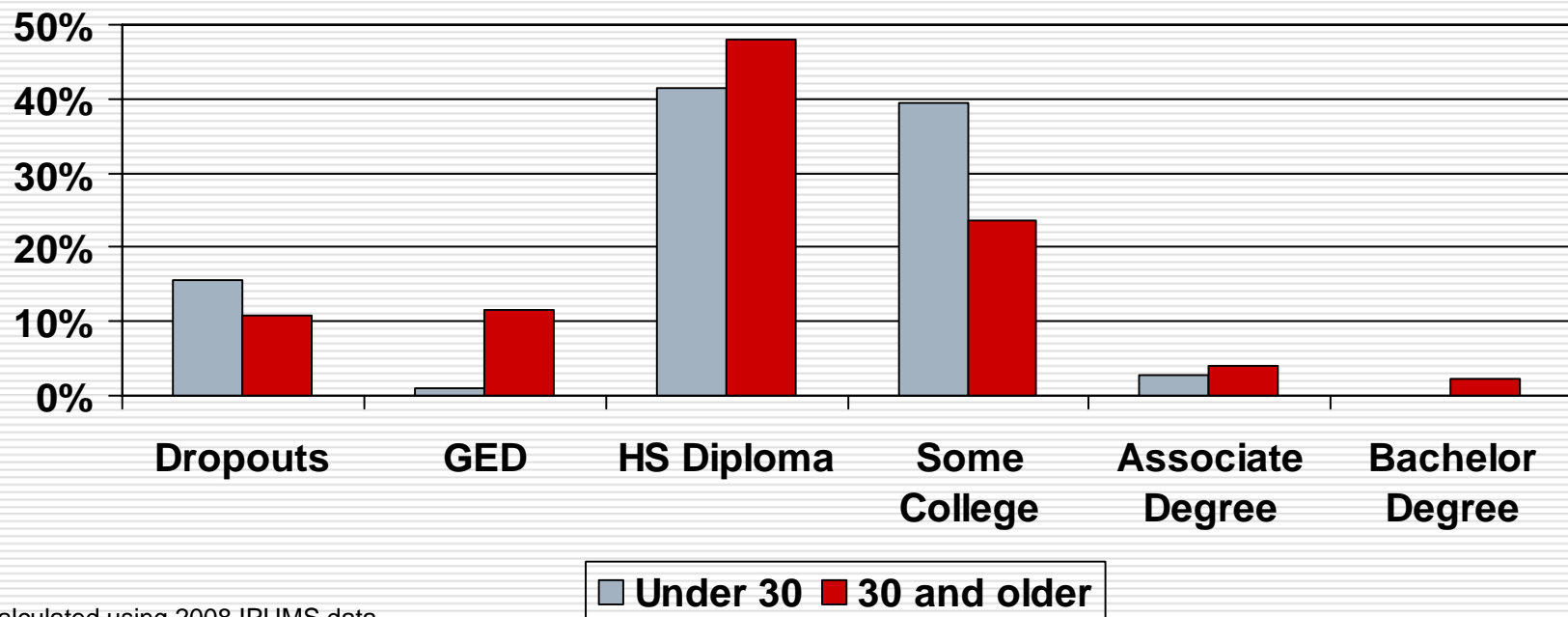
Universe is workers classified in occupation SOC code 51-xxxx.

Calculated using Ruggels et al IPUMS electronic database.

- Nearly 95 percent of production workers have no post-secondary degree, although more than one-in-four have some college experience.
- The average age of production workers with post-secondary degrees is slightly older overall.

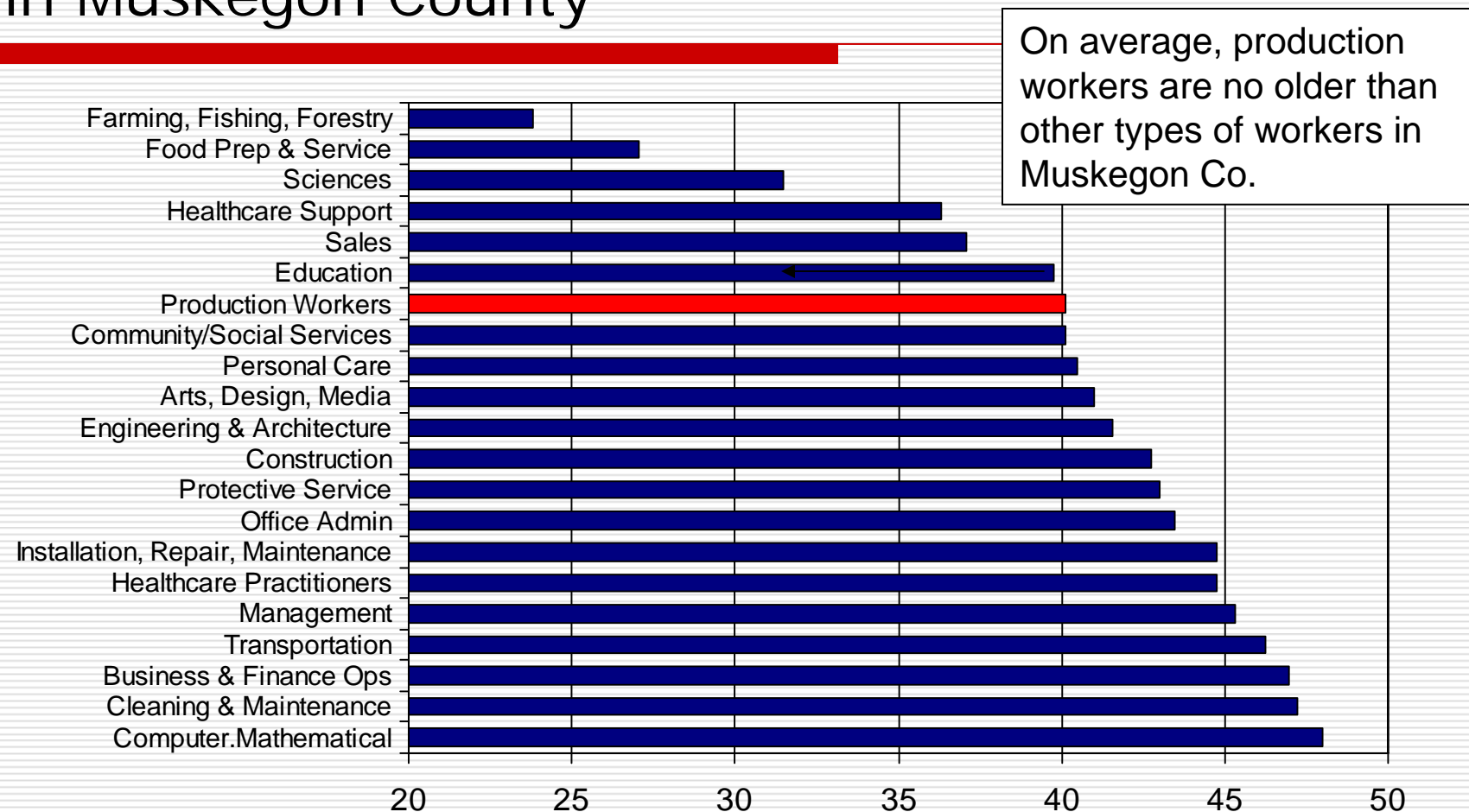
Younger workers: *More dropouts* *but many also attempt college.*

Education of Muskegon County Production Workers by Age Group



Source: Calculated using 2008 IPUMS data.

Average Age of Workers by Occupational Group in Muskegon County



Source: Calculated using data from IPUMS. Data is for 2008.

Production jobs in manufacturing provide decent wages for individuals without much education.

Average Muskegon County Earnings by Occupatin & Education

SOC Code	Occupation Type	H.S. Dropout	HS Diploma or GED	Some College or College Degree
11	Management	20,093	29,047	51,938
13	Business & Finance Ops	n.a.	26,131	49,485
15	Computer.Mathematical	n.a.	n.a.	42,838
17	Engineering & Architecture	n.a.	28,402	53,514
19	Sciences	n.a.	n.a.	56,183
21	Community/Social Services	n.a.	14,283	41,053
23	Legal Occupations	n.a.	n.a.	54,507
25	Education	n.a.	19,418	34,405
27	Arts, Design, Media	n.a.	36,377	26,363
29	Healthcare Practitioners	n.a.	n.a.	63,242
31	Healthcare Support	n.a.	15,223	20,135
33	Protective Service	n.a.	57,249	54,460
35	Food Prep & Service	11,158	8,688	15,348
37	Cleaning & Maintenance	22,531	16,558	26,090
39	Personal Care	2,118	8,737	10,180
41	Sales	12,927	22,036	31,753
43	Office Admin	15,007	26,008	26,214
45	Farming, Fishing, Forestry	13,595	10,184	n.a.
47	Construction	22,503	39,416	36,513
49	Installation, Repair, Maintenance	23,328	29,431	38,599
51	Production Workers	25,711	30,001	34,429
53	Transportation	24,758	30,126	29,955

For workers without a HS diploma, production work is the highest paying occupation available; however, more educated workers have better-paying choices.

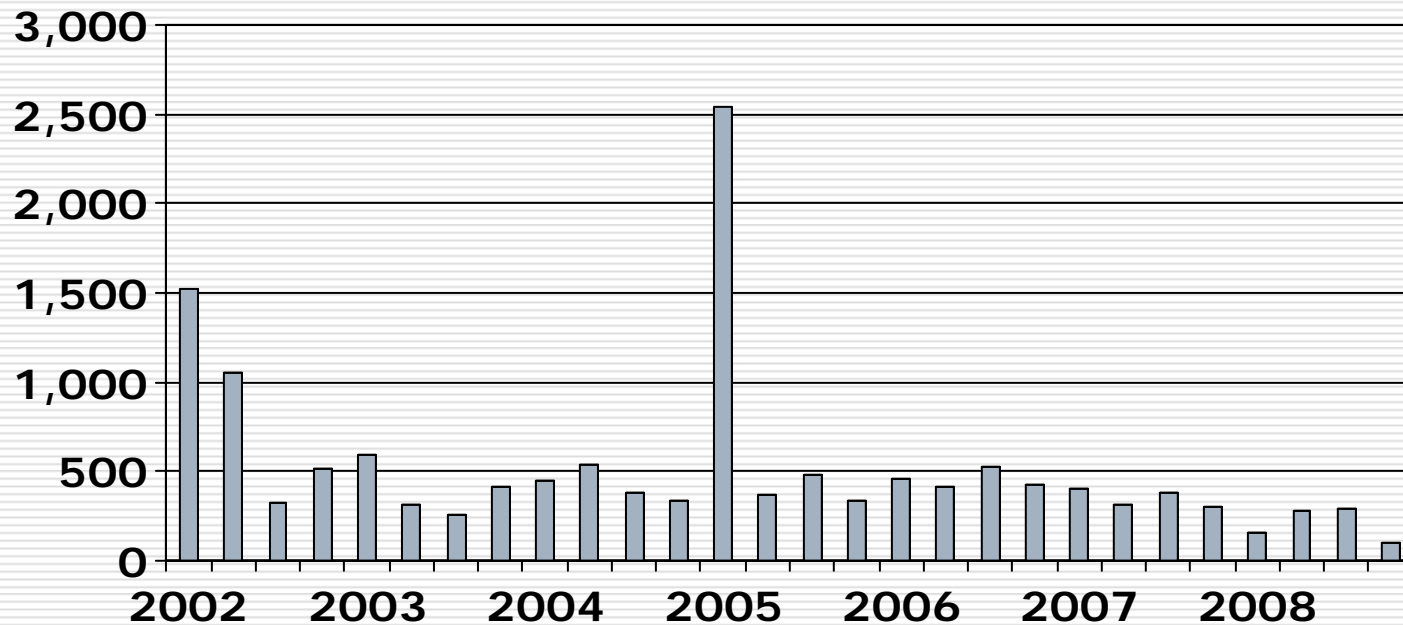
Universe: Employed persons over age 18.
 Calculated using Ruggles et al IPUMS database data for 2006-2008.

Challenges

- The survival of the county's production workers depends upon
 - The availability of high-skilled manufacturing workers: machinists, tool and die, and engineers.
 - High-quality production with few defects.
 - New stuff for existing and new markets.
 - In short, new stuff designed to be built by the region's workforce.

Muskegon County's manufacturers are job creators.

Number of jobs created per quarter



Importance of Design

In our ongoing research on Design, we have found so far:

- Design is risky, but inaction can be fatal.
- Design can beat out engineering.
- Design is expensive; being an industry leader invaluable.
- Design is customer-focused, while it is too easy to become provider-focused.
- It is easier to lose Design than to regain it.

2010 Economic Outlook for Muskegon County: *A Shaky Start to Hopefully a Long Expansion*

George A. Erickcek

Brad R. Watts

W.E. Upjohn Institute for Employment Research

January 29, 2010

This presentation is available in the West
Michigan section at

www.upjohninstitute.org

Or e-mail me: erickcek@upjohn.org