

Economic Outlook for Calhoun County

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Research**

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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— *Employment is down.*
 - 2009 and 2010 Forecast—*Stormy seas.*
 - Concluding thoughts
 - Will the stimulus work?
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National outlook: All but one of the nation's economic indicators are pointing in the same direction.

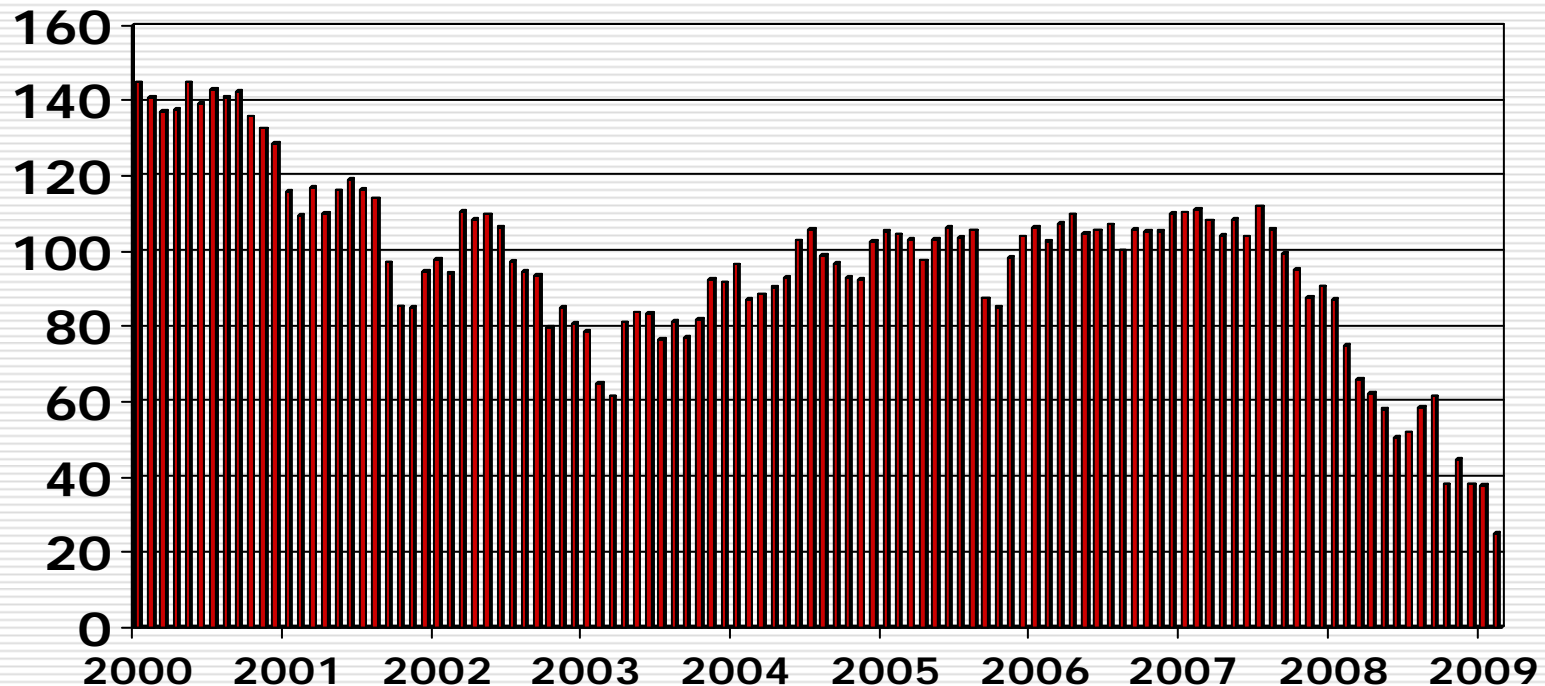
- Employment RED
 - Residential construction RED
 - Consumer confidence RED
 - Consumer financial conditions RED
 - Credit markets RED
 - ISM Purchasing Mgrs. Index RED
 - Stock market RED
 - Inflation (deflation??) YELLOW
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Consumers

- Confidence is low.
 - Real estate markets are inactive, and values are dropping.
 - Retirement savings are in jeopardy.
 - Job outlook is dim.
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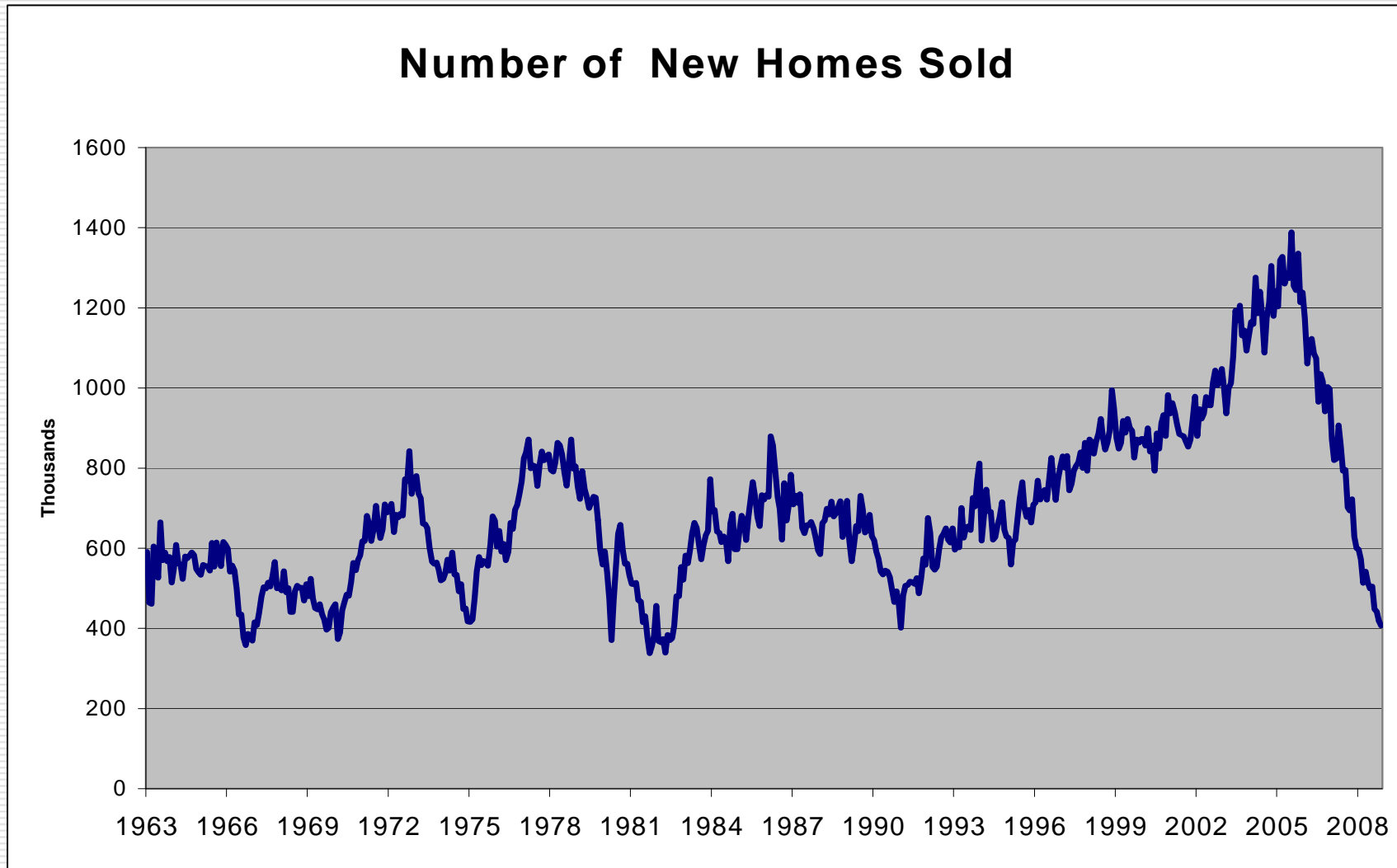
Consumers are not confident about current economic conditions.

Consumer Confidence (1995=100)



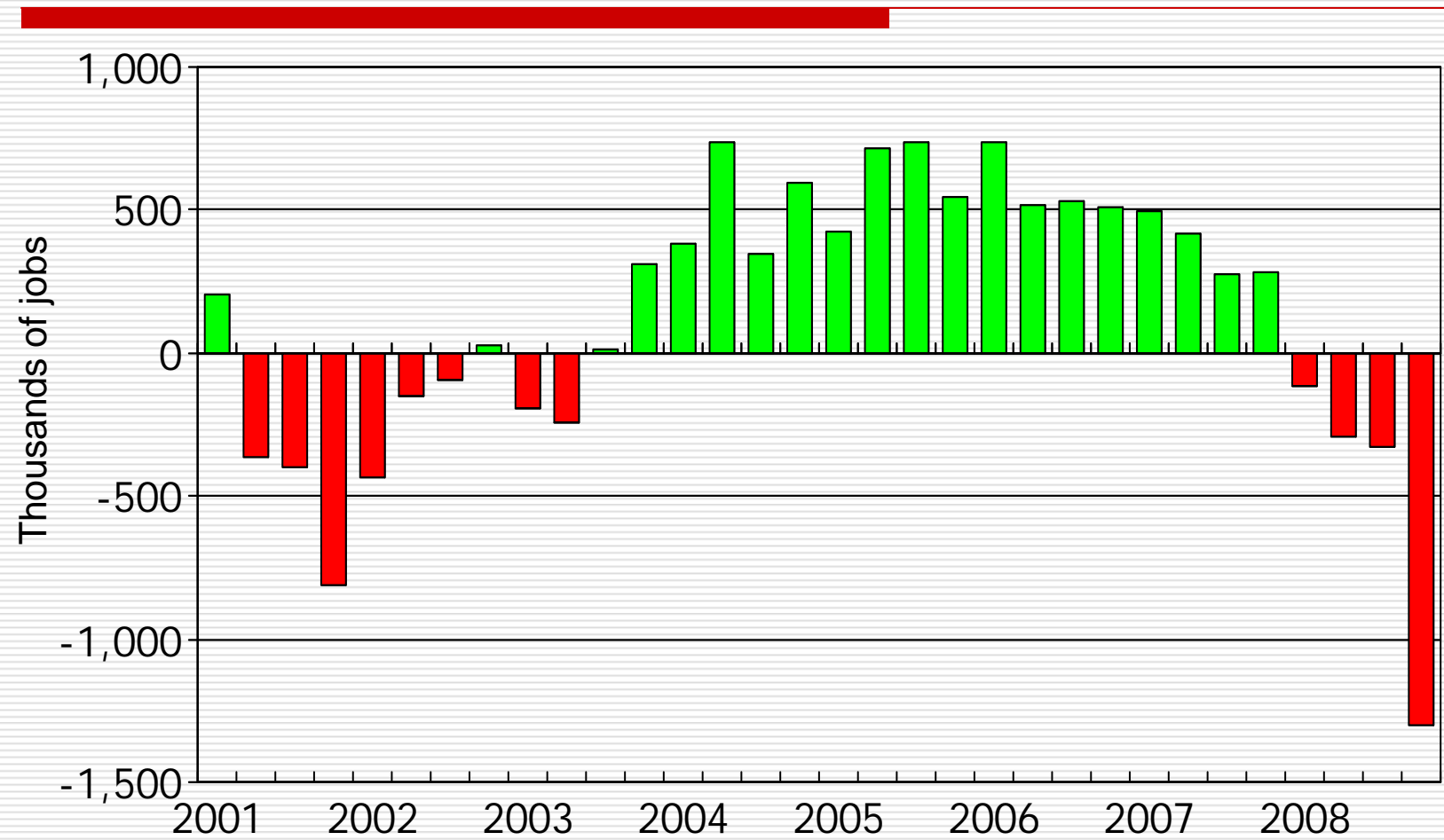
Source: Conference Board

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.



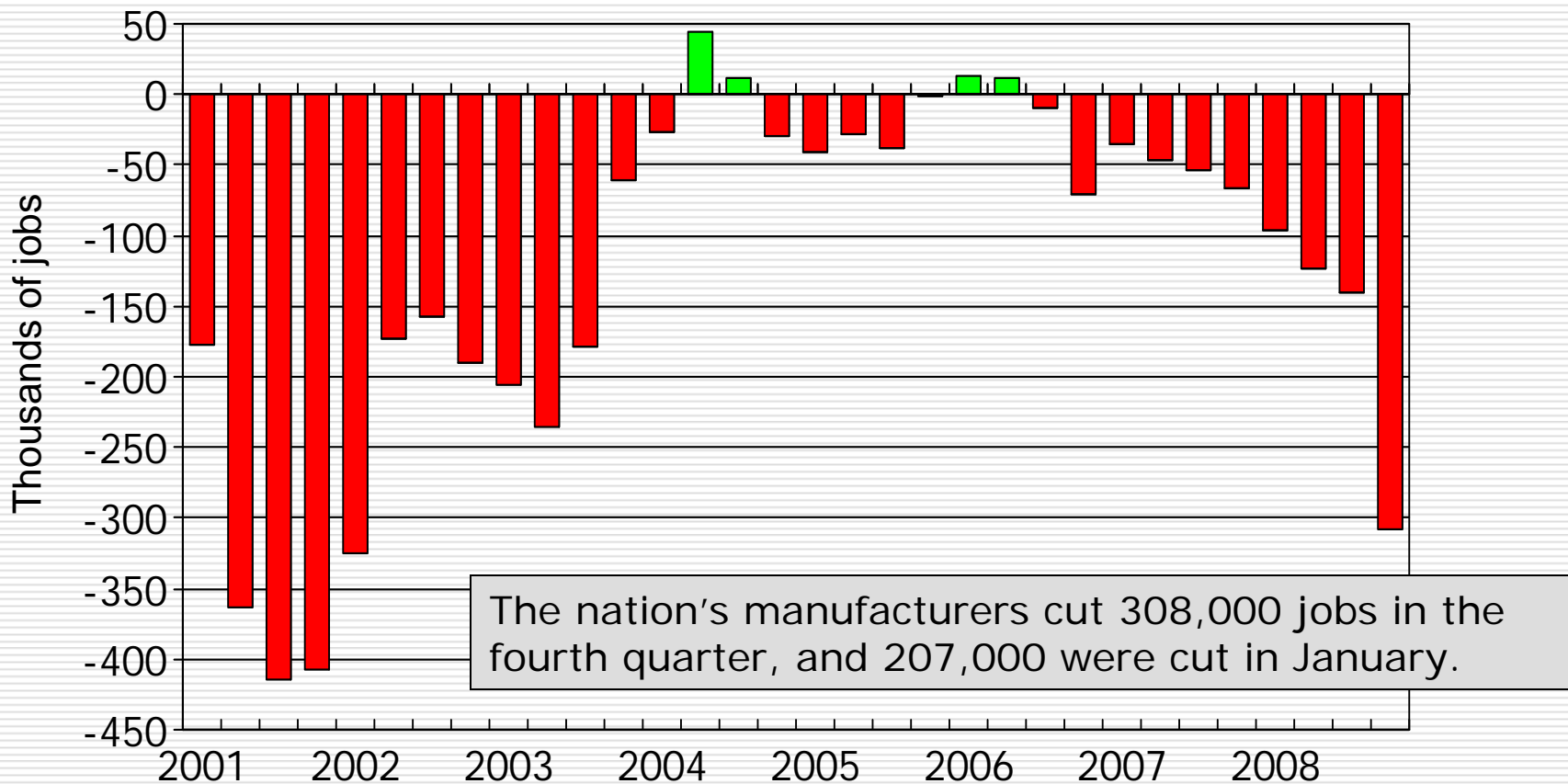
Source: BLS.

During the fourth quarter, total employment fell by 1,298,000! In January, employment fell by 598,000.

Business Investment

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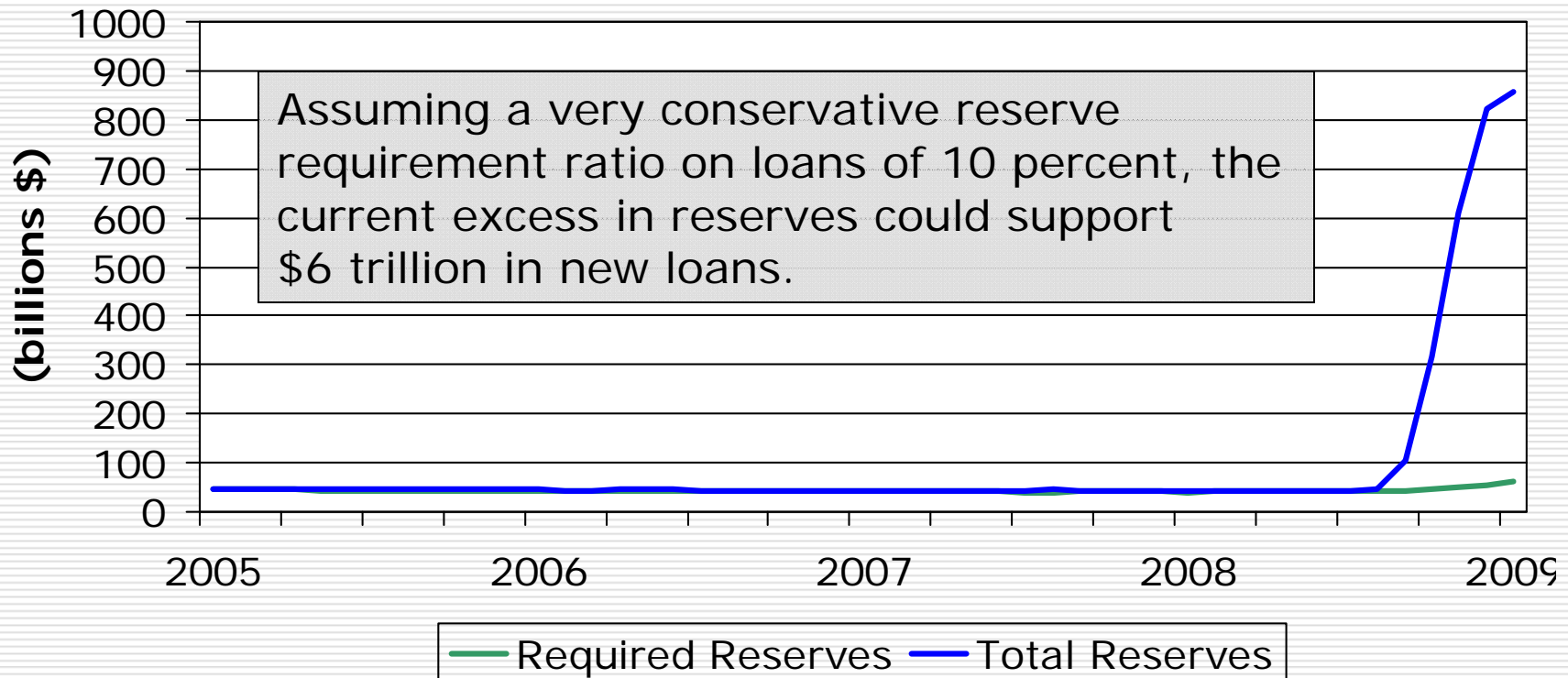
Manufacturing employment has never recovered from the 2001 downturn.



Source: BLS.

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

Monthly Depository Institution Reserves

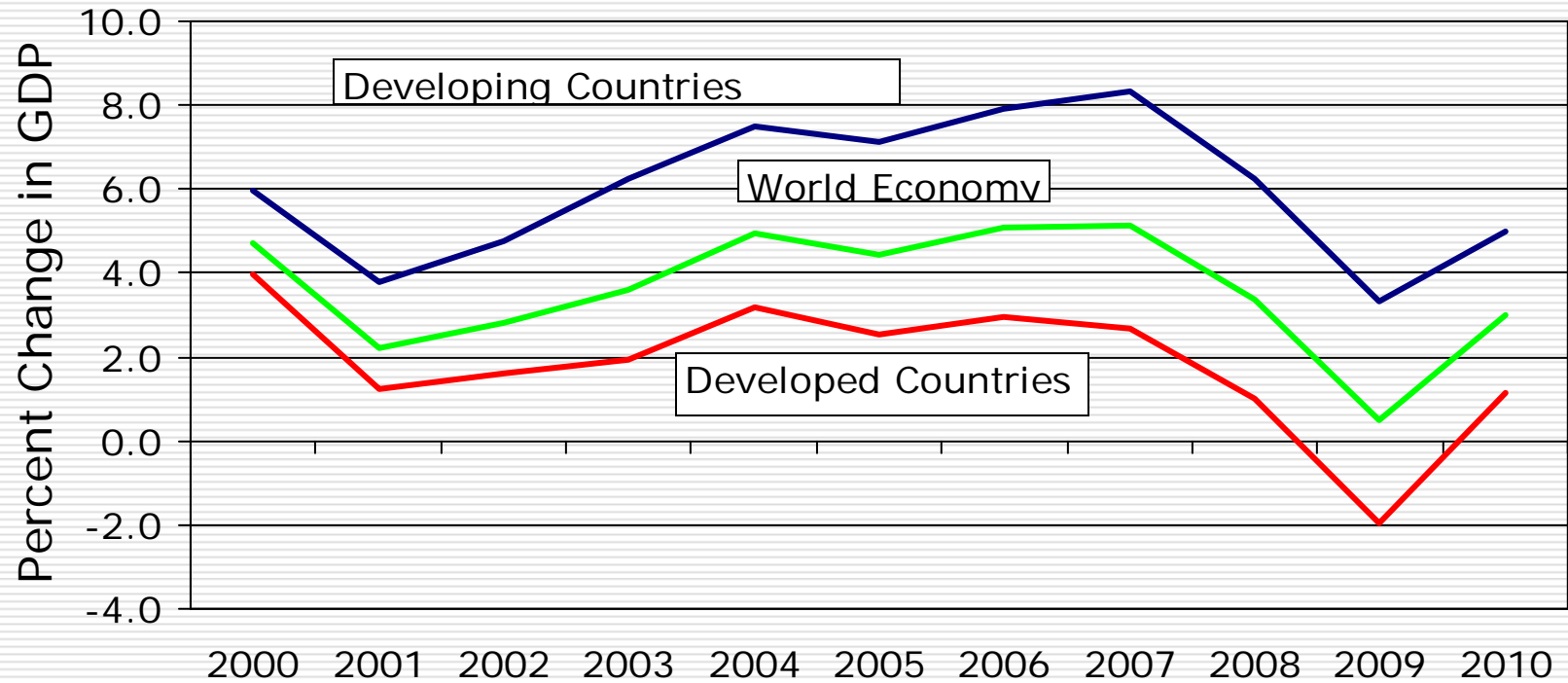


Export markets are flat.

- ❑ 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.
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The world economy is slowing down.

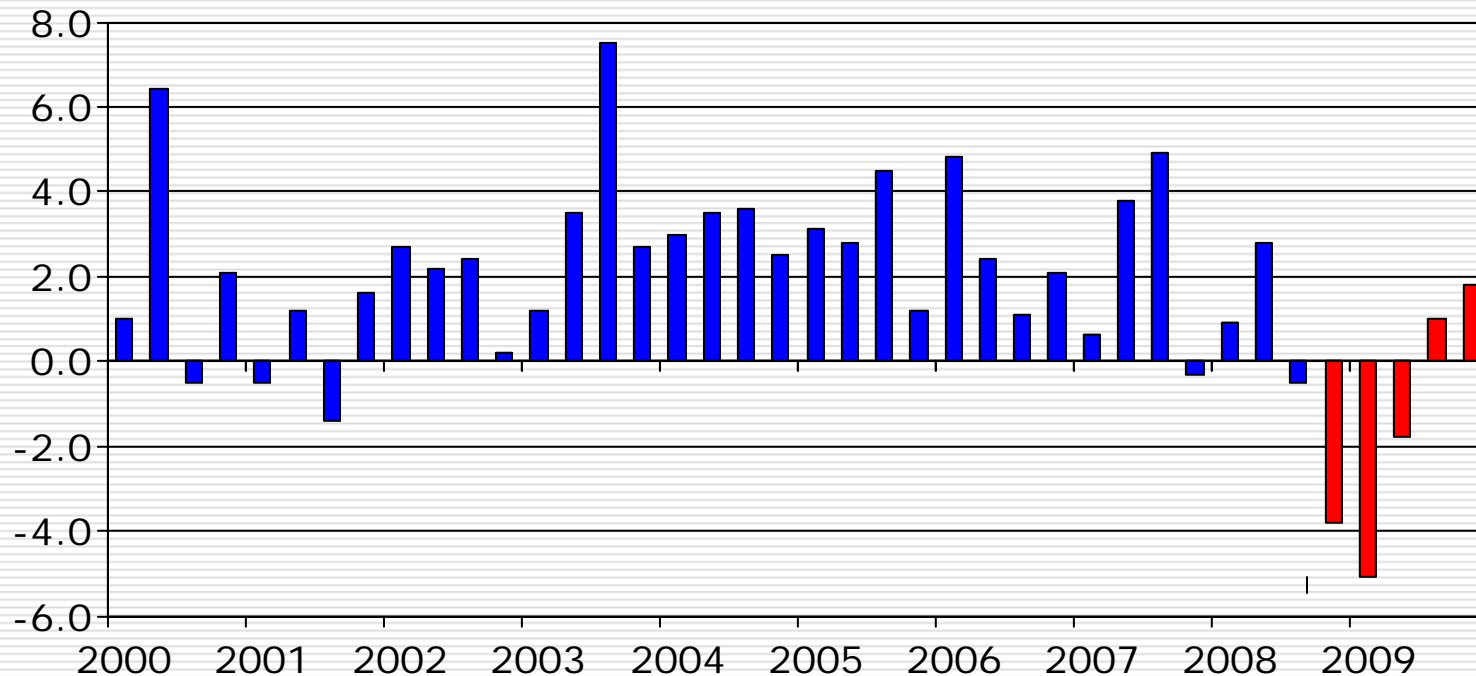
Growth Rate in Annual Gross Domestic Output



Source: IMF.

Percent change in the nation's GDP—*The current quarter is expected to be the worst, a drop of 3.8 percent.*

Annualized Percent Change in GDP



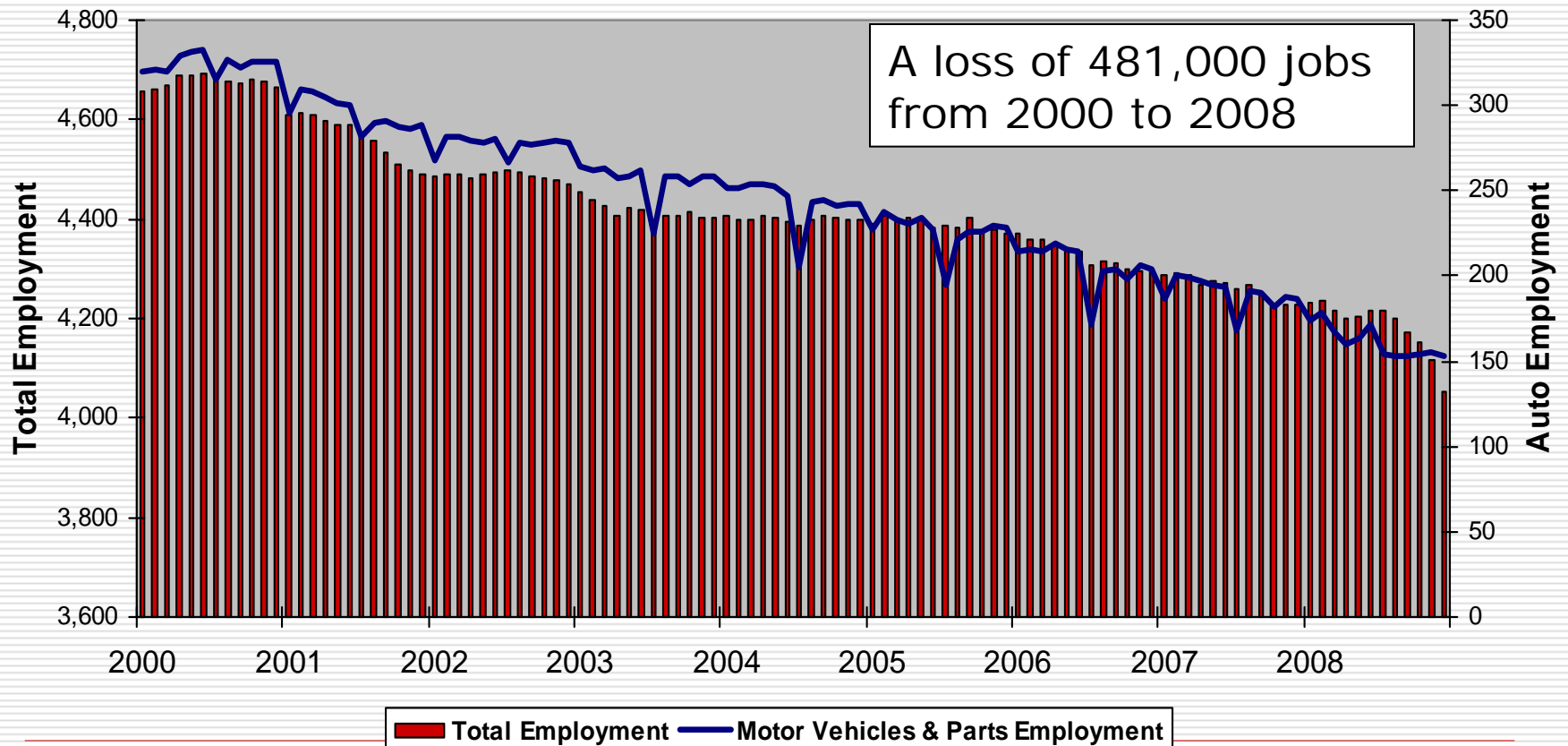
Source: BEA, Philadelphia Federal Reserve Survey of Professional Forecasters.

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

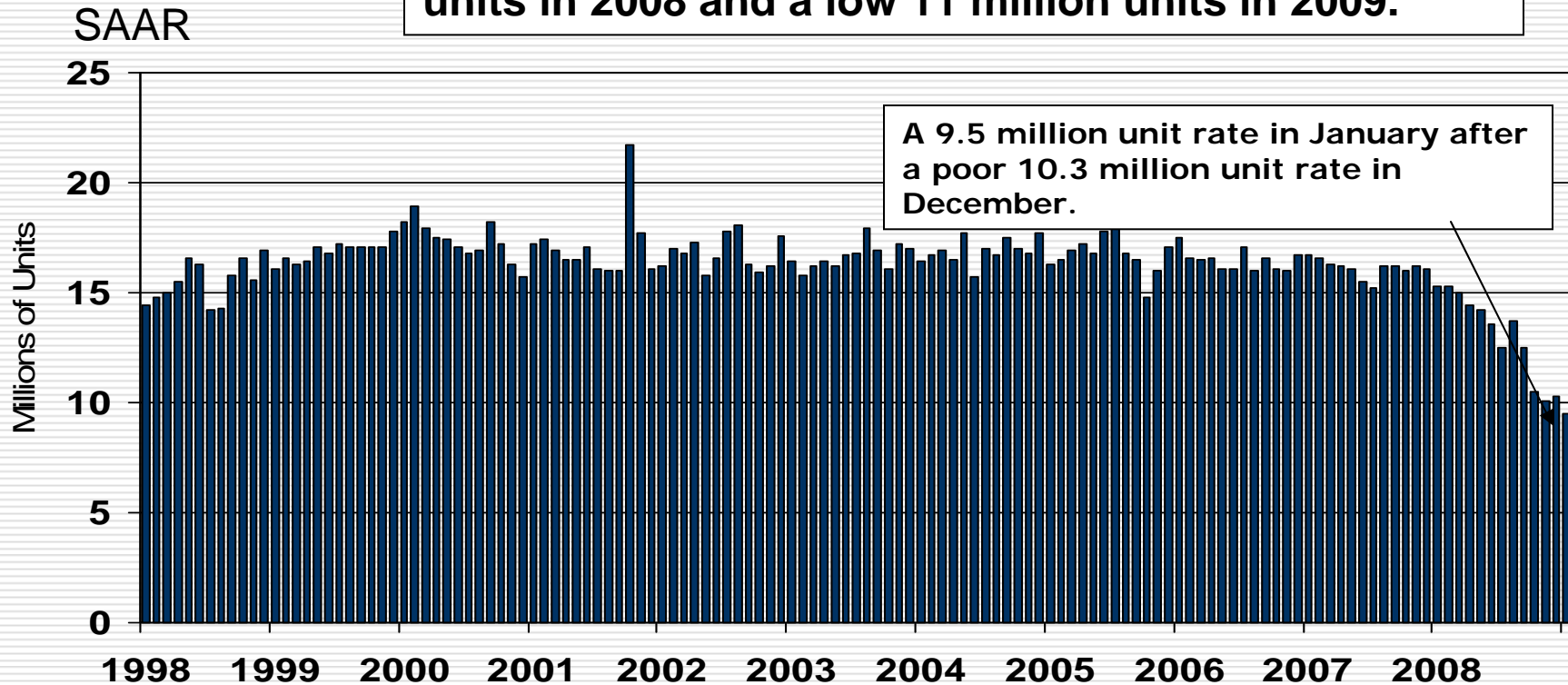


Source: BLS.

The state's unemployment rate is now 10.6%

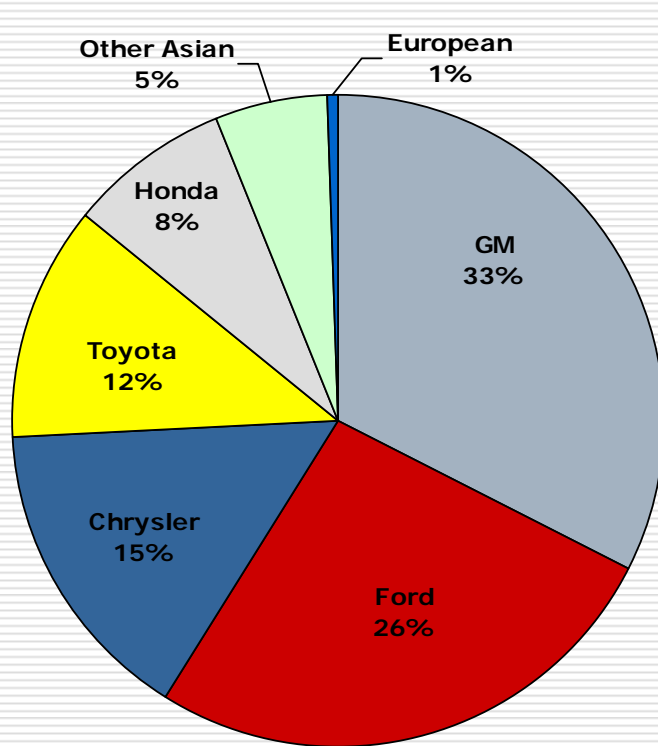
Consumers are simply postponing purchases that can be postponed.

Car and light truck sales reached 16.1 million units in 2007 but are forecasted to dip to 13.3 million units in 2008 and a low 11 million units in 2009.

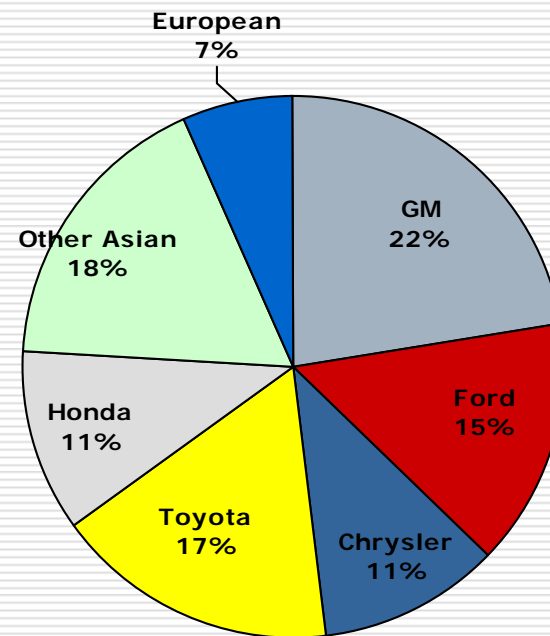


Source: BEA.

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



2001

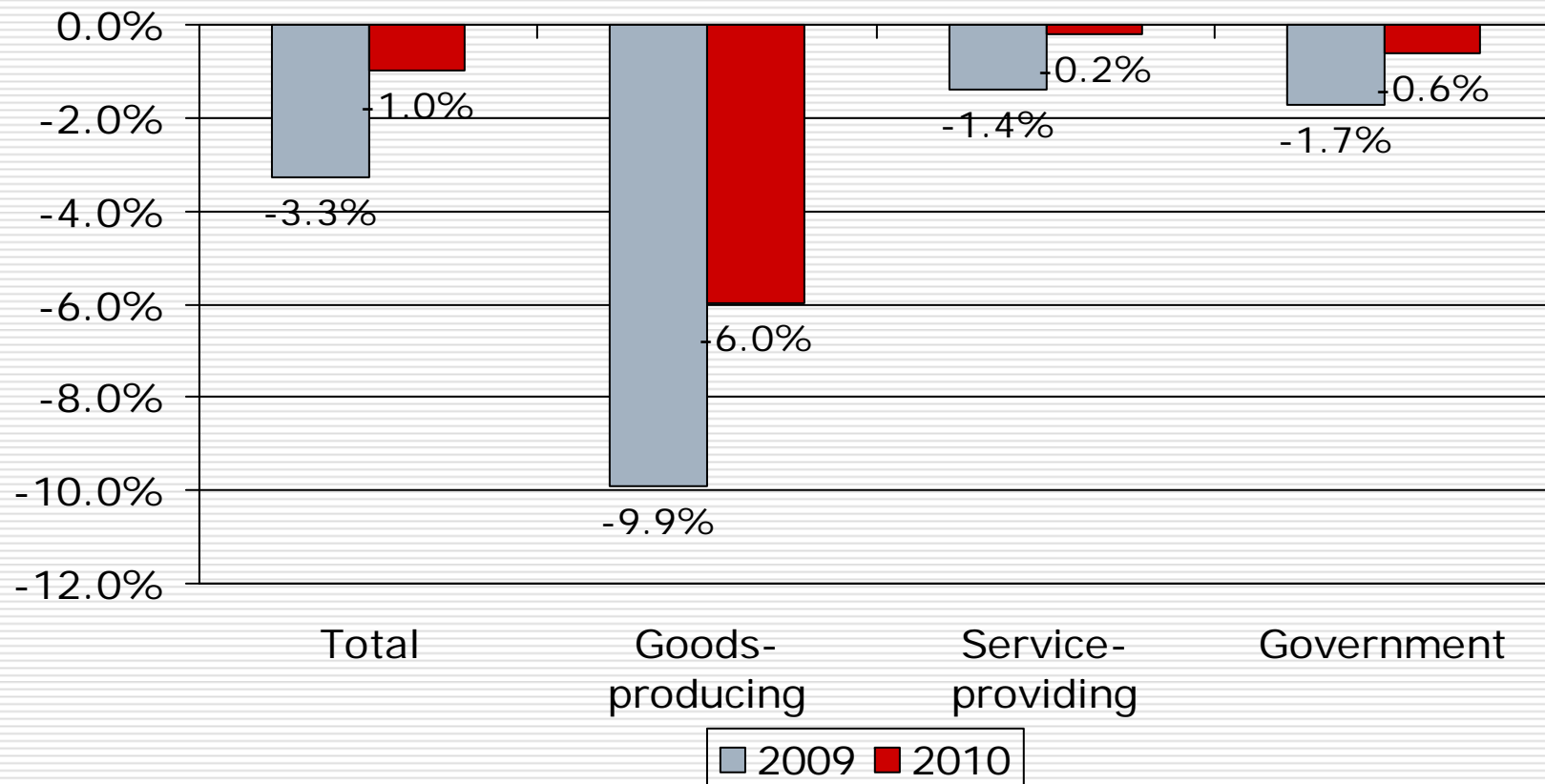


2008

Source: *Wards AutoWorld*.

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

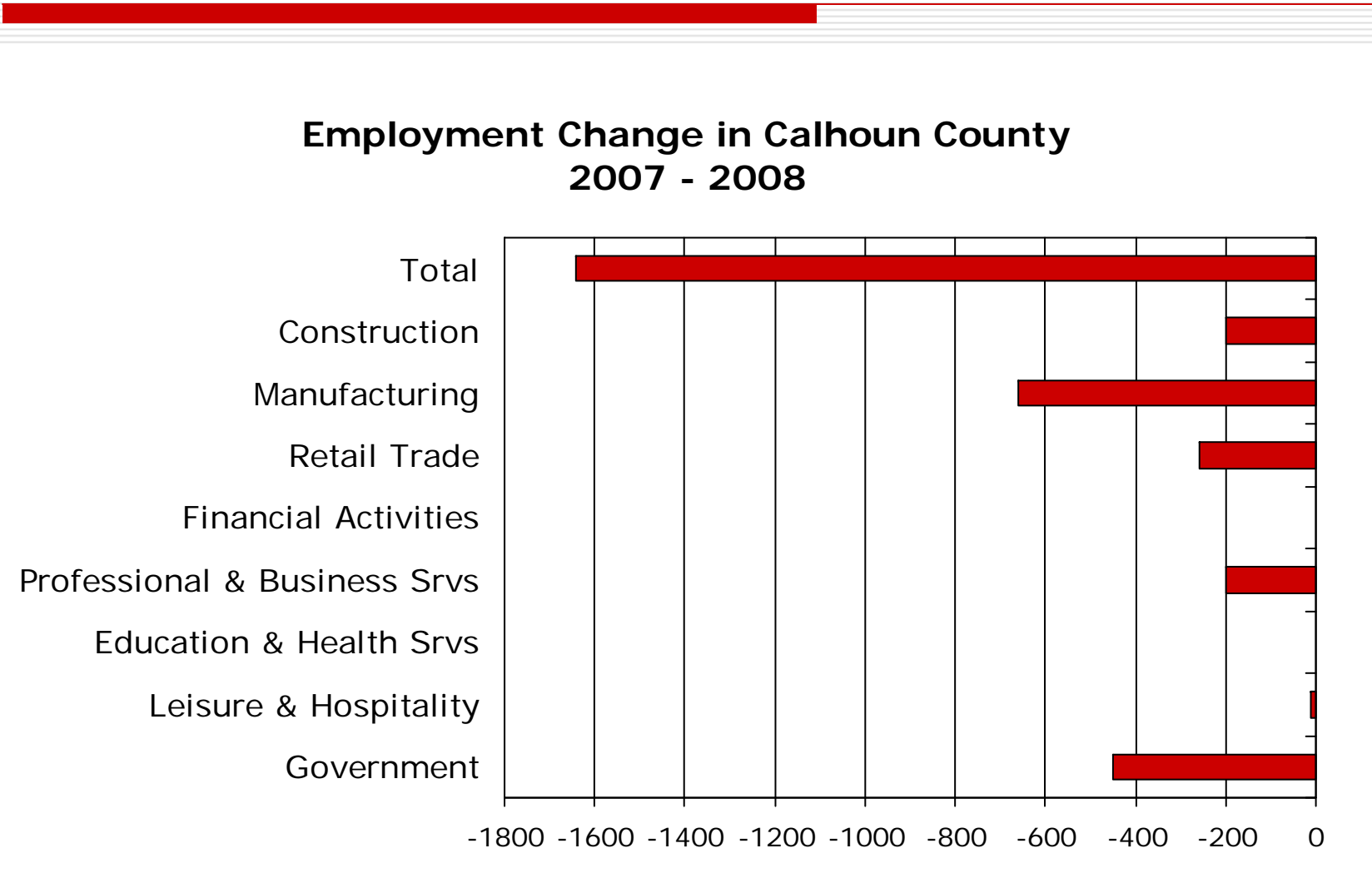
University of Michigan's Statewide Employment Forecast



Calhoun County

- ❑ Employment is declining.
 - ❑ Unemployment is nearly 10 percent.
 - ❑ Population is flat.
 - ❑ 2009 is expected to be a better year in terms of employment than 2008, despite the downturn.
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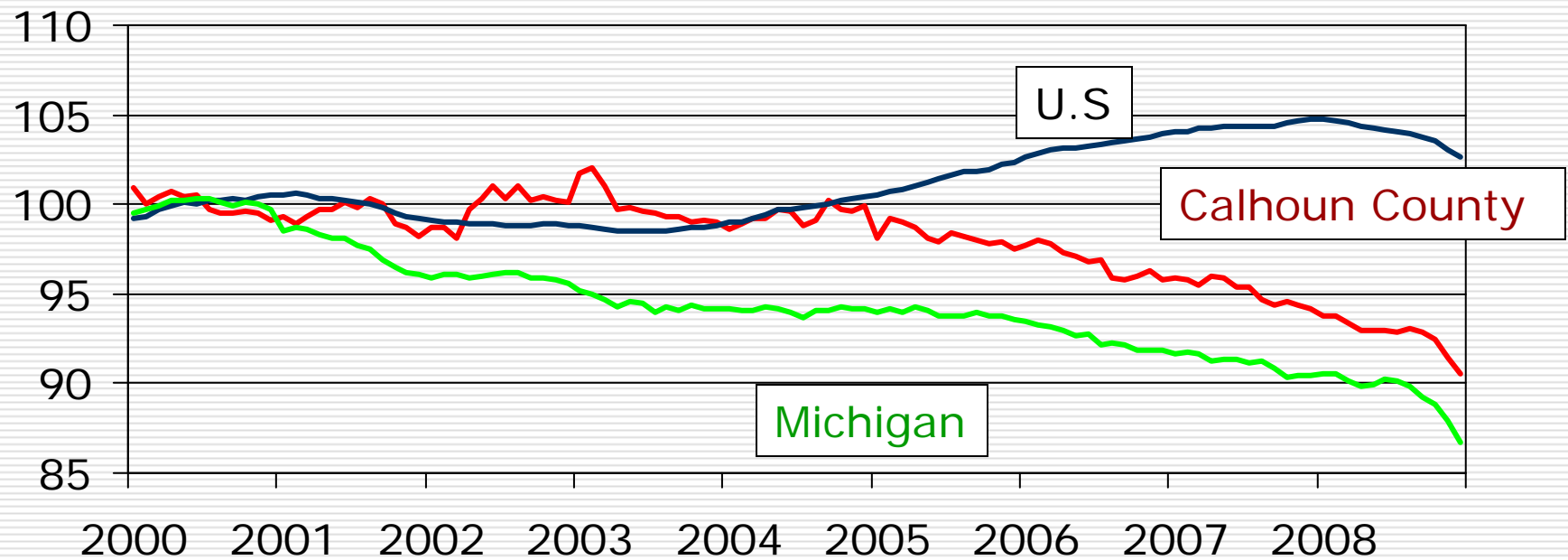
Total employment fell by 2.8 percent in 2008, a loss of more than 1,600 jobs.



Source: BLS, CES 2008

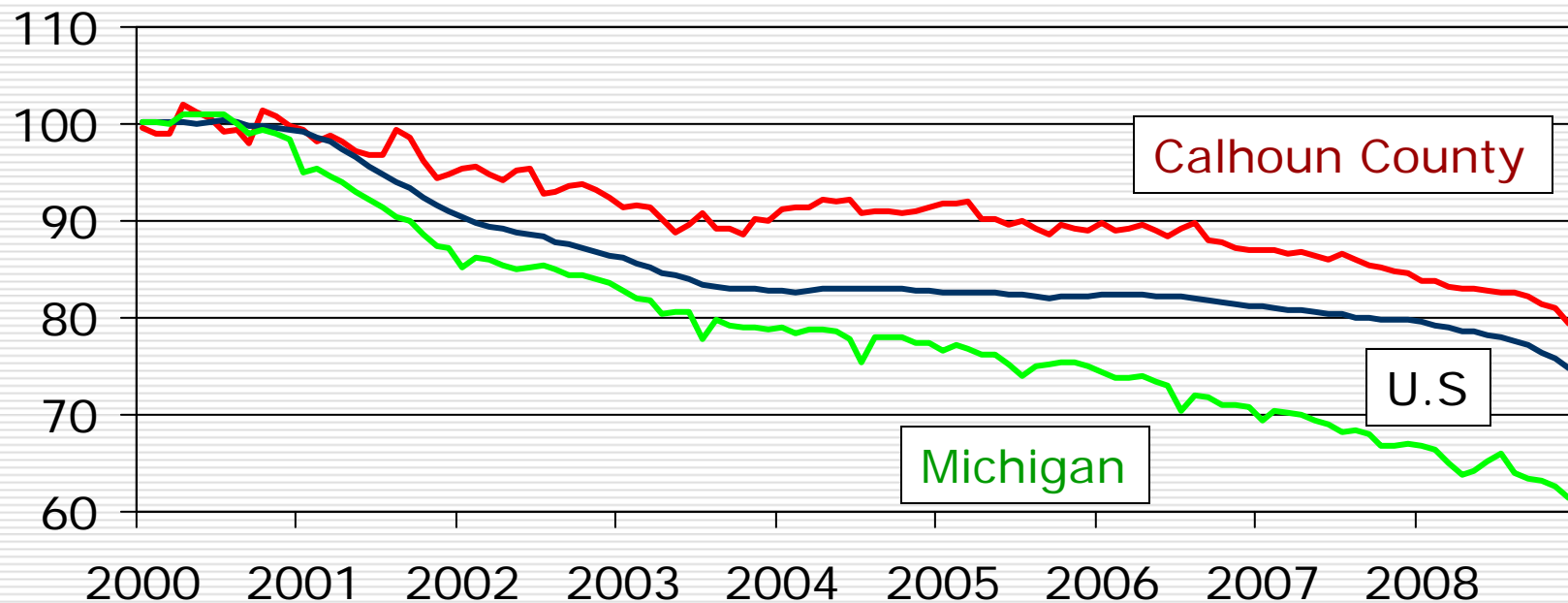
Unfortunately, Calhoun County has been tracking with the state.

Index of Total Employment
(100 = 2000 average)



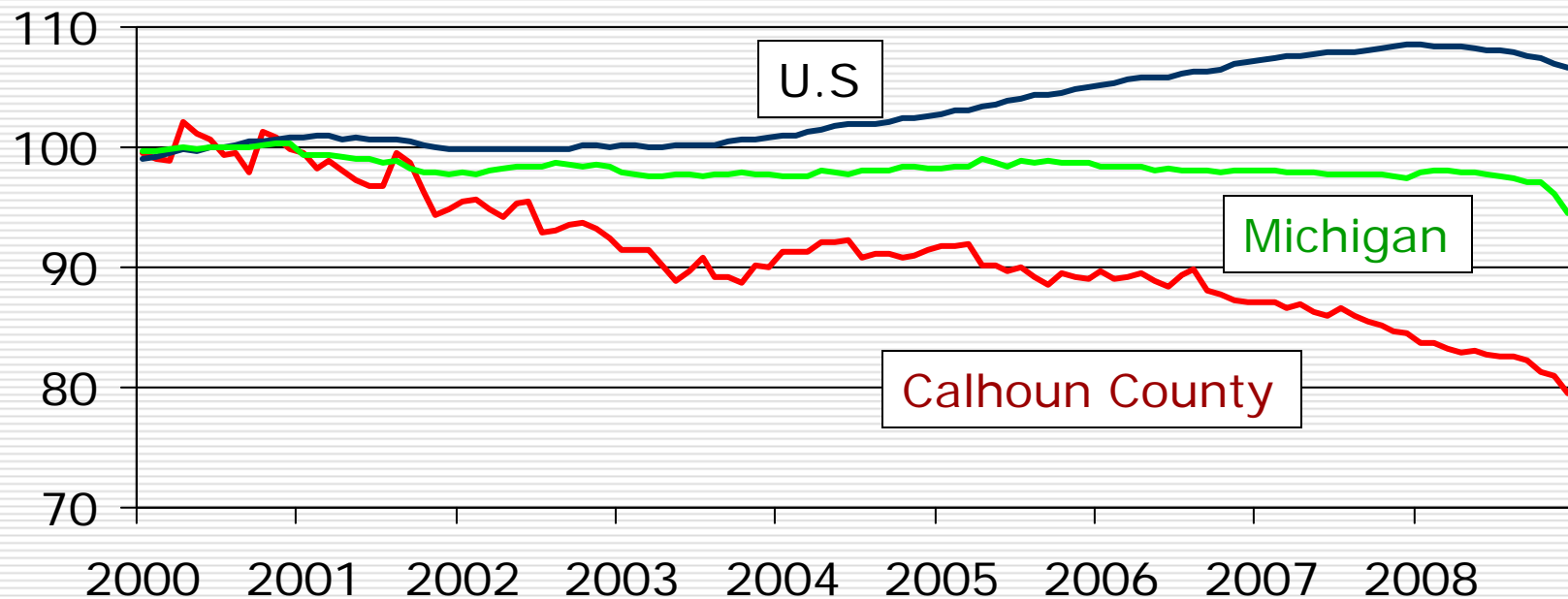
Calhoun County's manufacturing sector is doing better than the nation's and *well above the state's trend.*

Manufacturing Employment Index
(100 = 2000 average)



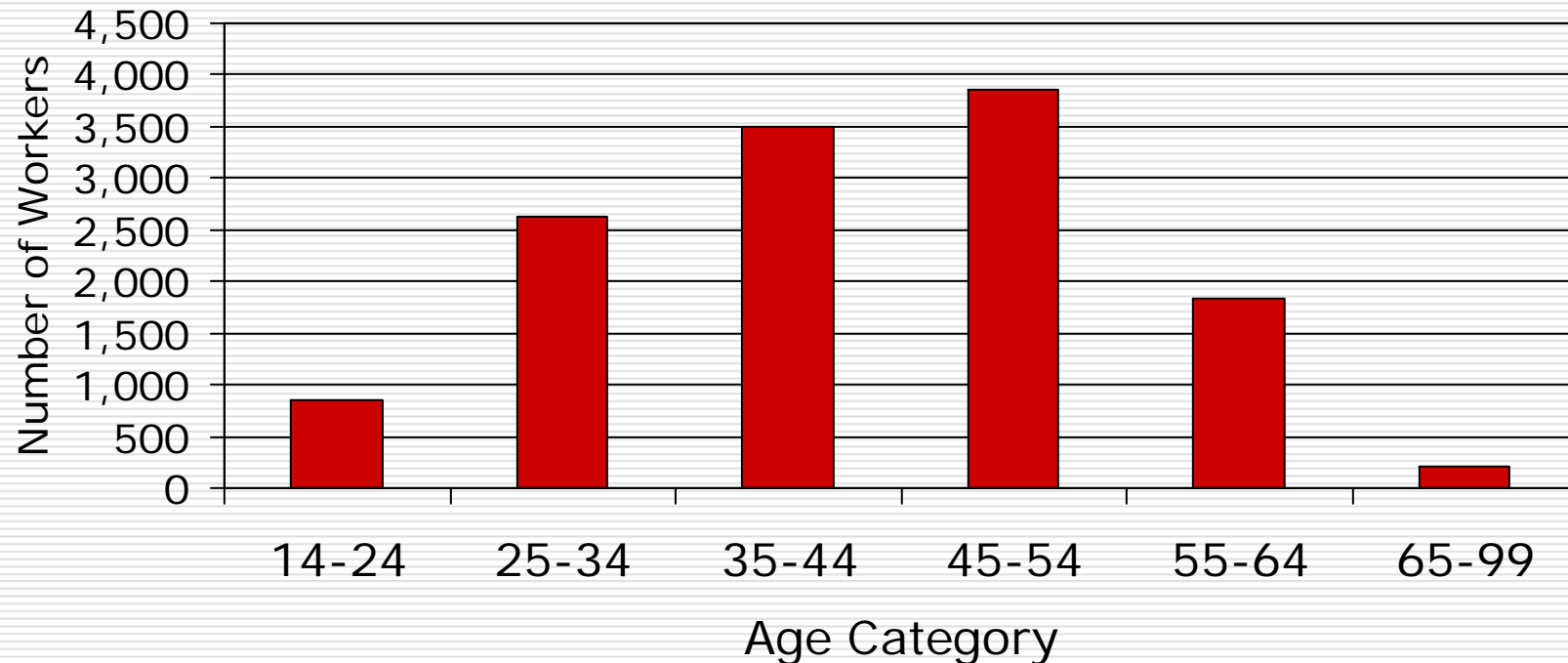
Finally, the Battle Creek MSA's private services has been losing jobs since 2005.

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



Nearly 55% of the county manufacturing workers are younger than 45 years of age.

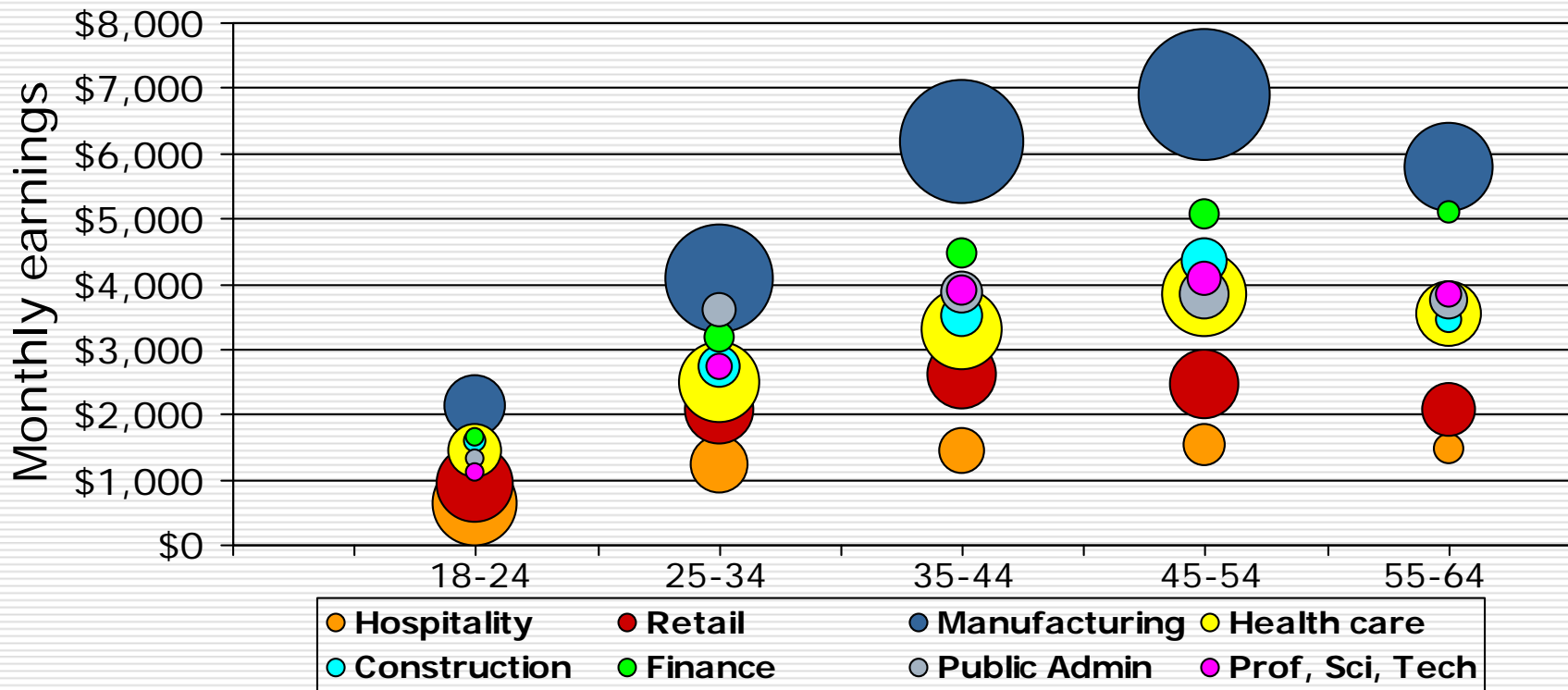
Q2 - 2008



Source: MDLEG, Quarterly Workforce Indicators.

Manufacturing pays better and employs more workers than most all other industries in the county.

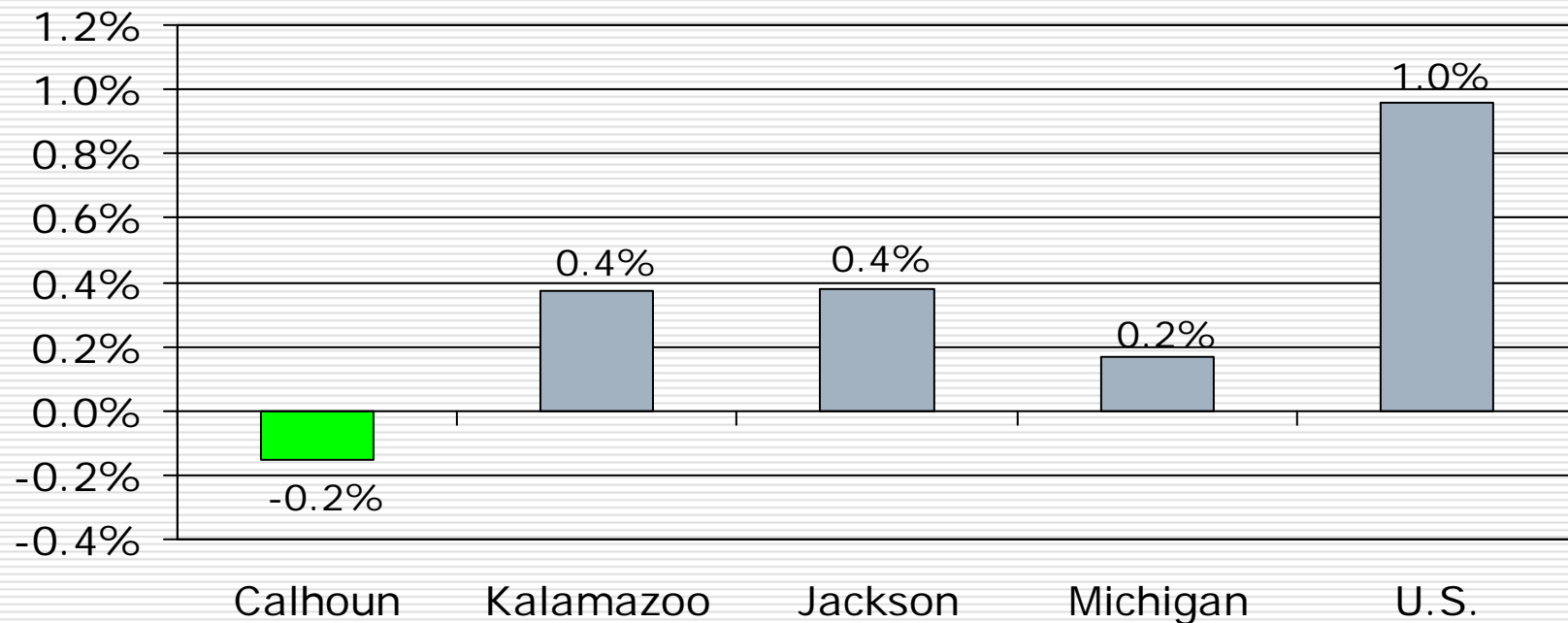
Earnings and Employment, Q1 2008



Source: MDLEG, Quarterly Workforce Indicators.

Still over the past seven years, the county's population has declined slightly.

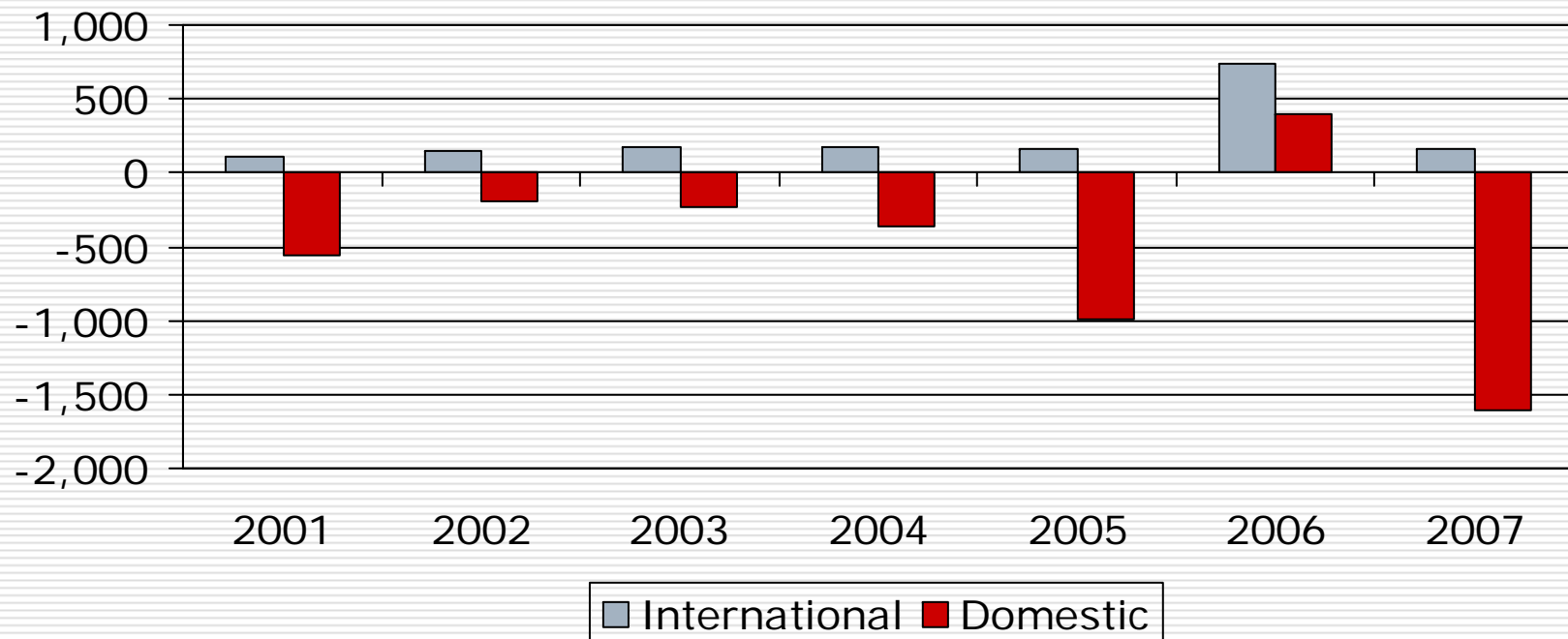
Annual Average Population Growth Rate,
2000 to 2007



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

The county's economic slowdown may be causing some of its residents to move elsewhere.

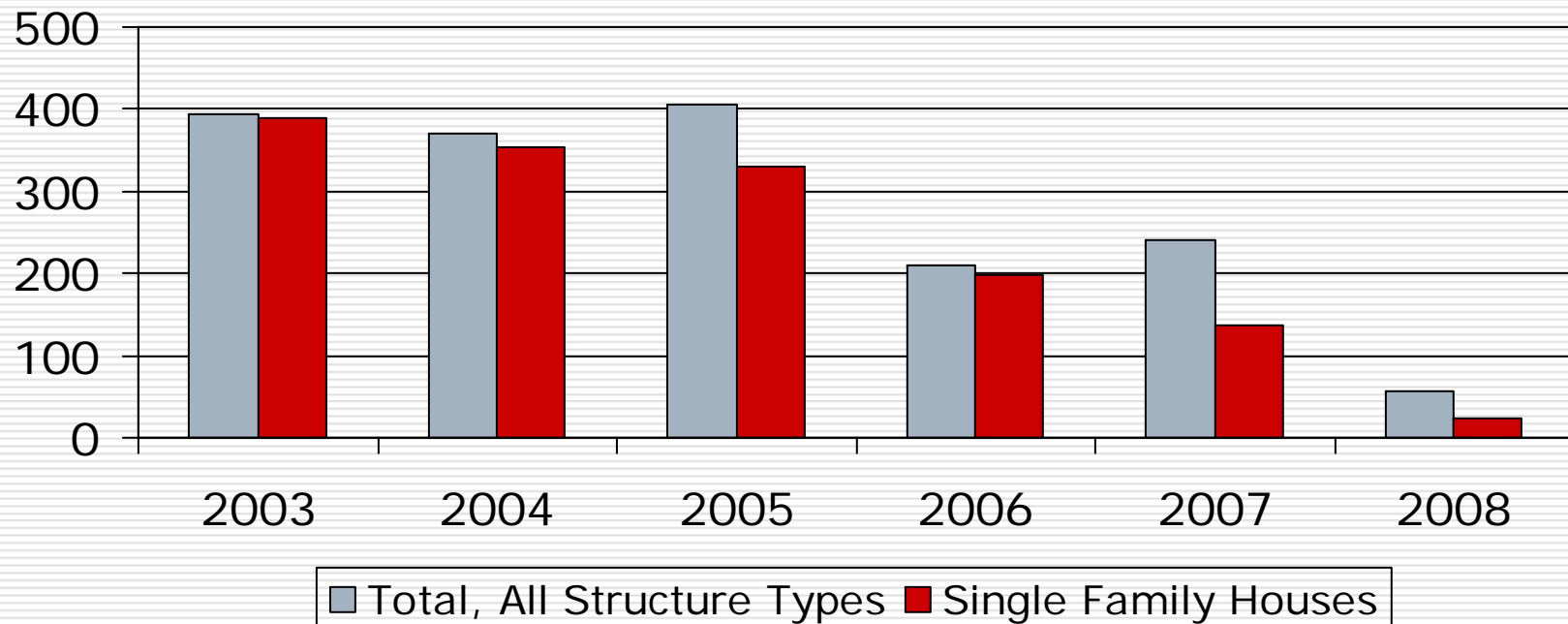
Net Migration Component of Population Change in Calhoun County



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

The residential construction market has slowed dramatically.

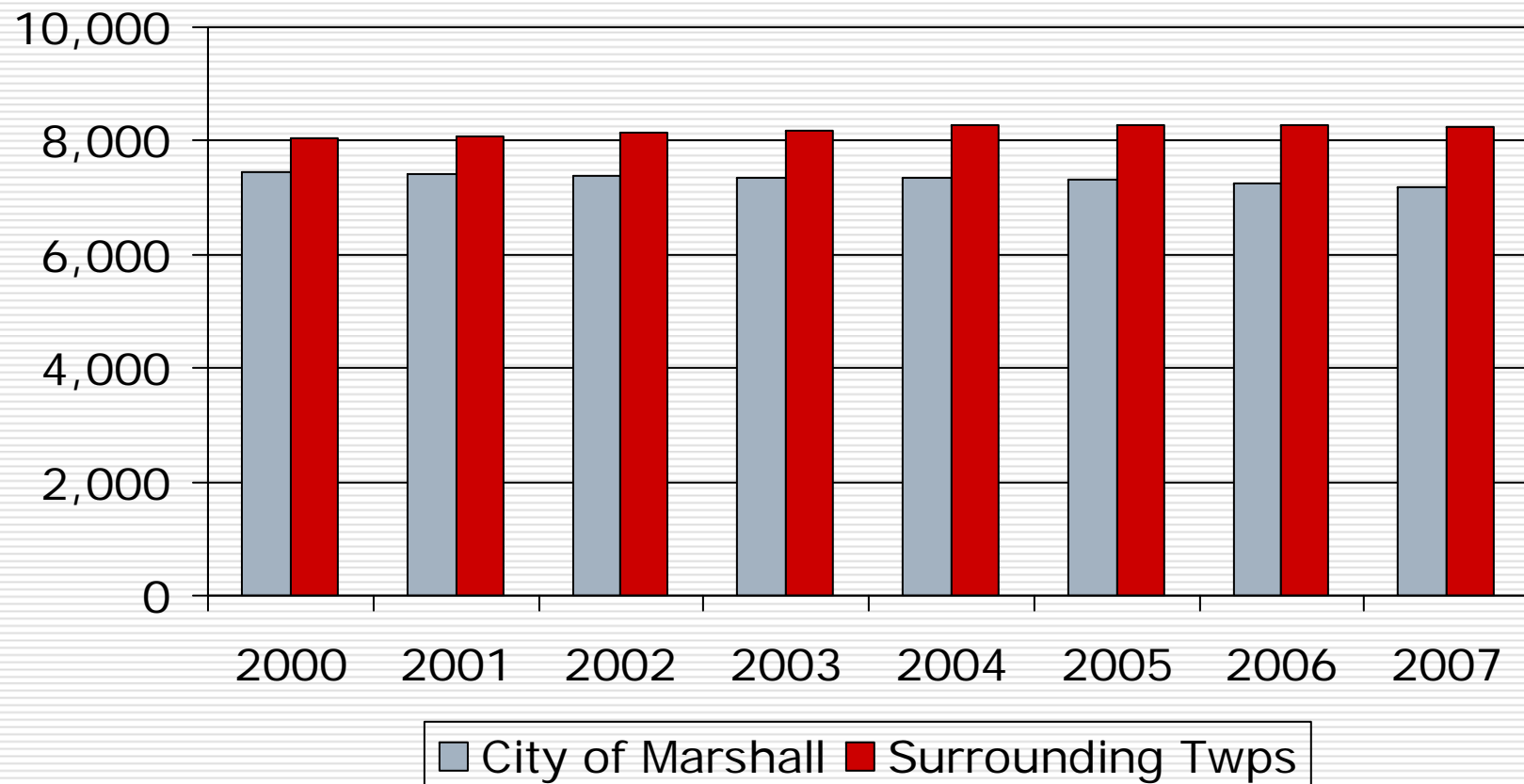
Housing Units Authorized by Building Permit in Calhoun County



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

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

Population in the Marshall area remains stable.

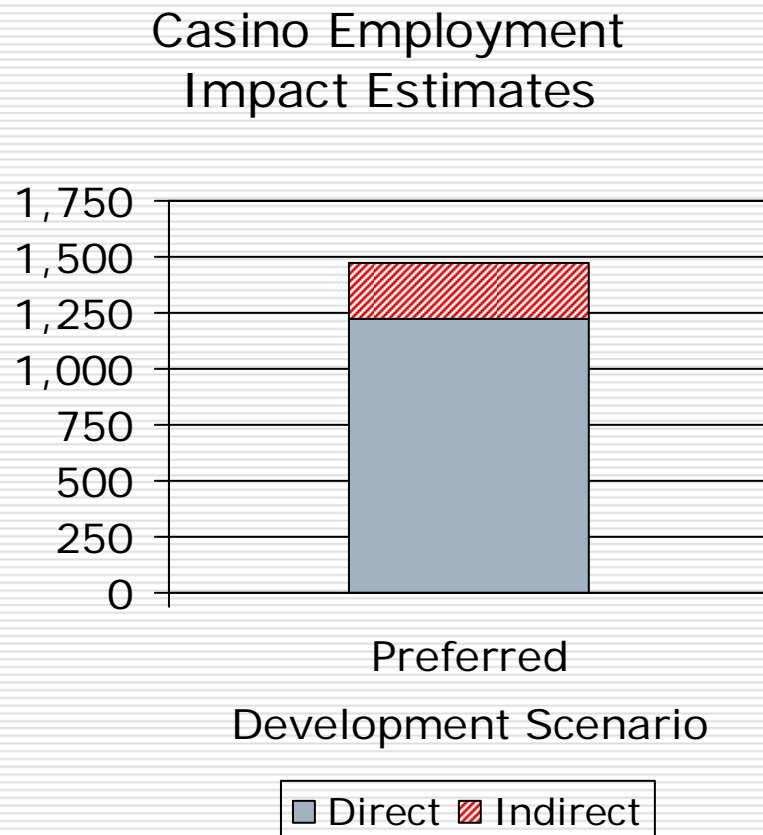


Source: U.S. Census. Townships include Marshall, Marengo, Fredonia, and Eckford.

The 2009 and 2010 Forecast

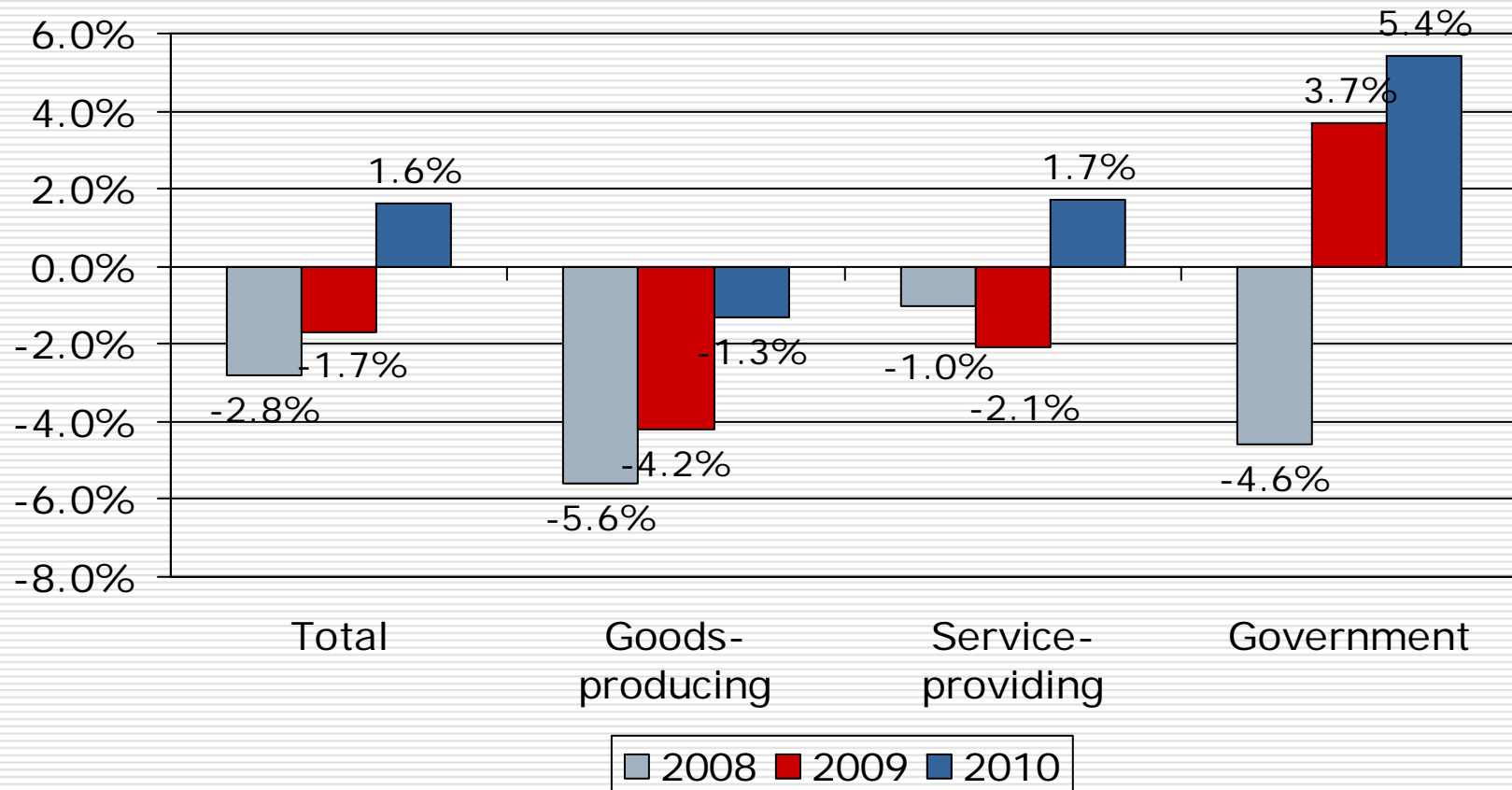
- Impact of the Firekeeper's Casino
 - 2009 and 2010 Forecast
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The new casino should have a large impact on employment in Calhoun County.



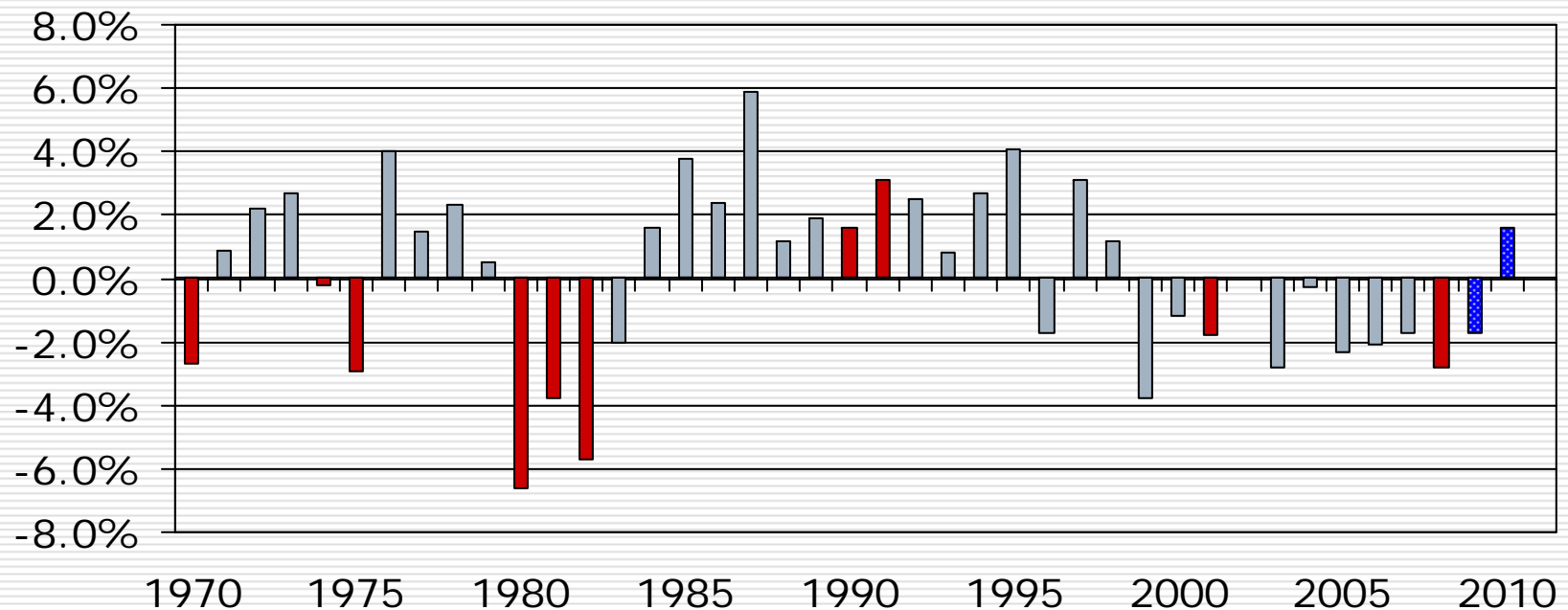
- For every 10 permanent casino jobs, another two are created elsewhere in the county.
- Some displacement effects are expected.

Battle Creek Area Employment Forecast 2009 - 2010



The current recession is expected to be worse than the last two, but not nearly as bad as the '70s and '80s.

Annual Battle Creek MSA Wage & Salary Employment Change



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

In closing:

- What to do on the national level?

Running into a dark room.

Options

Monetary Policy

- With major banks remaining unwilling to lend their excess reserves, Fed policies are “pushing on a string.”
 - Demand for loans has declined due to the recession.
 - Banks are still uncertain about the value of their existing assets.
 - Regulators are giving mixed signals—Fair Value vs. Easing credit markets.
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Fiscal Policy

- Problem: There is a gap in the demand for goods and services.
 - Consumers have cut back on spending because of job losses and uncertainty.
 - Export markets are quiet because it is a worldwide recession.
 - Business investment is down because demand is off, and credit is hard to find.
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Fiscal Policy (cont'd)

- Combination of government spending on infrastructure, federal assistance to state and local governments, and tax cuts to fill the demand gap.
 - Consumers will likely save any tax cut and not spend it. Business tax cuts may not be effective either because of the lack of demand.
 - Government spending can create jobs today and, if spent wisely, enhance our future productivity.
 - Tax cuts and/or increased spending will increase the current deficit of \$1.2 trillion (8 percent of the nation's GDP).
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