

# Supporting the Arts in Troubling Economic Times

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George A. Erickcek

W.E. Upjohn Institute for Employment Research

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# Agenda

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- National Outlook –
  - *There is cause for some hope.*
  - *However, the recovery may be painfully slow.*
- State Outlook – *Do we have to?*
- So what?
  - *Foundation and corporation giving may remain tight during the next two years.*
  - *Arts and Economics*

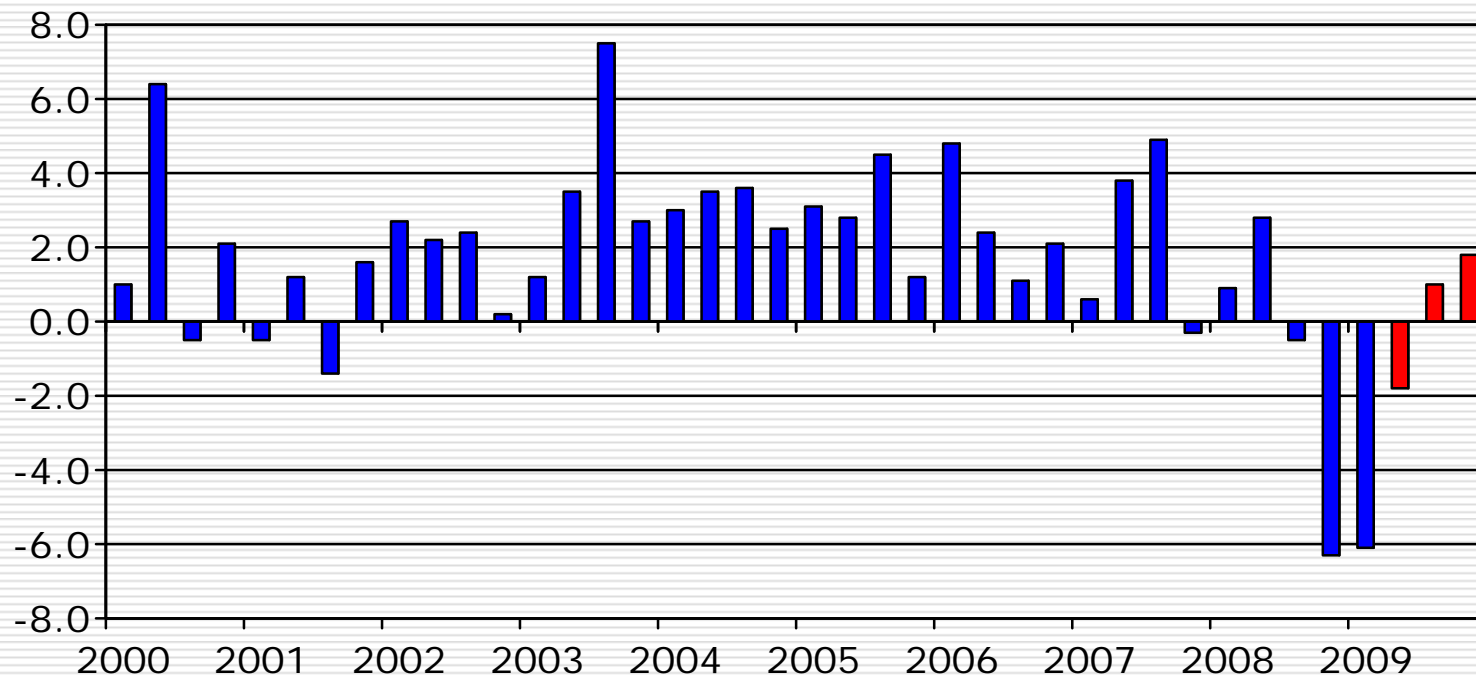
# National outlook: Most of the nation's economic indicators are pointing south.

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|--|--------|
| <input type="checkbox"/> Employment                    | RED    |
| <input type="checkbox"/> Residential construction      | RED    |
| <input type="checkbox"/> Consumer confidence           | YELLOW |
| <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                  | YELLOW |
| <input type="checkbox"/> Inflation                     | GREEN  |

Percent change in the nation's GDP—*Fell 6.1 percent during the first quarter.*

### Annualized Percent Change in GDP



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

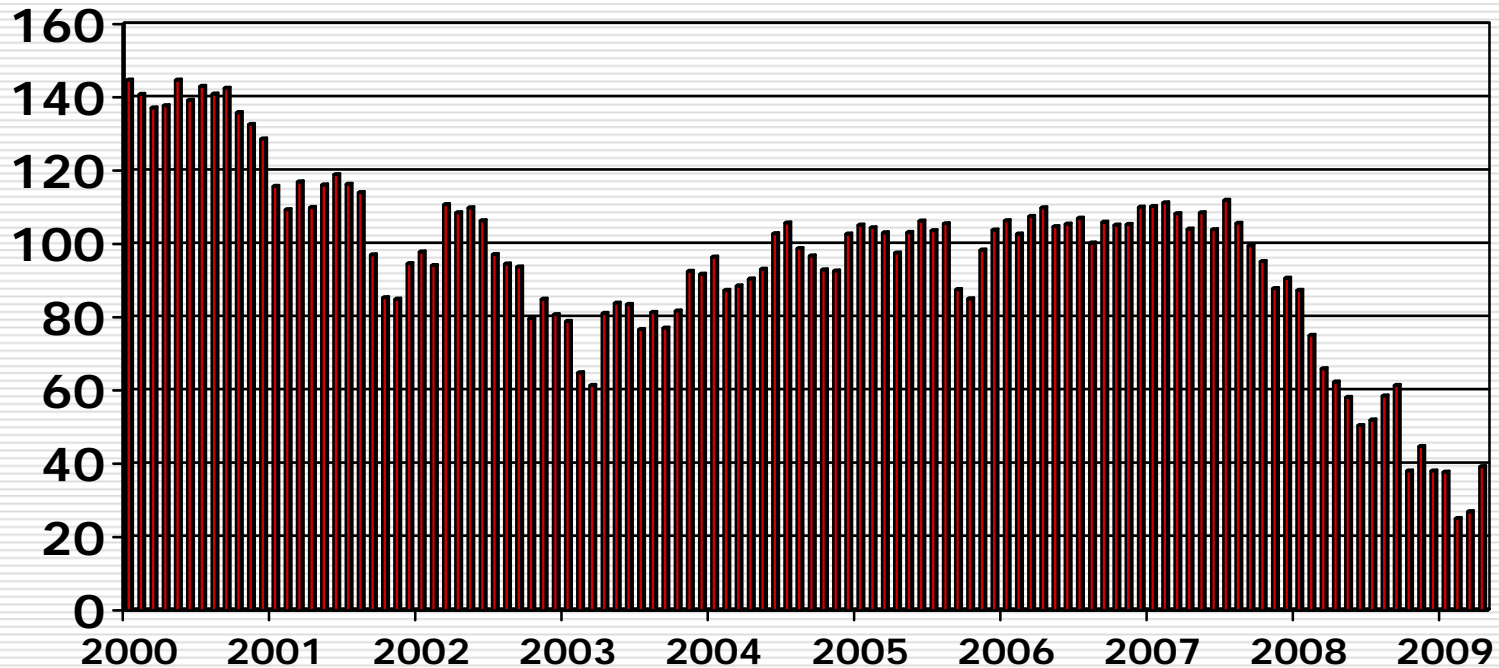
# Consumers

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- ❑ Confidence is low but improving.
- ❑ Real estate markets are inactive, and values continue to drop.
- ❑ Retirement savings remain in jeopardy.
- ❑ Job outlook is dim.

# Consumers are not confident about current economic conditions.

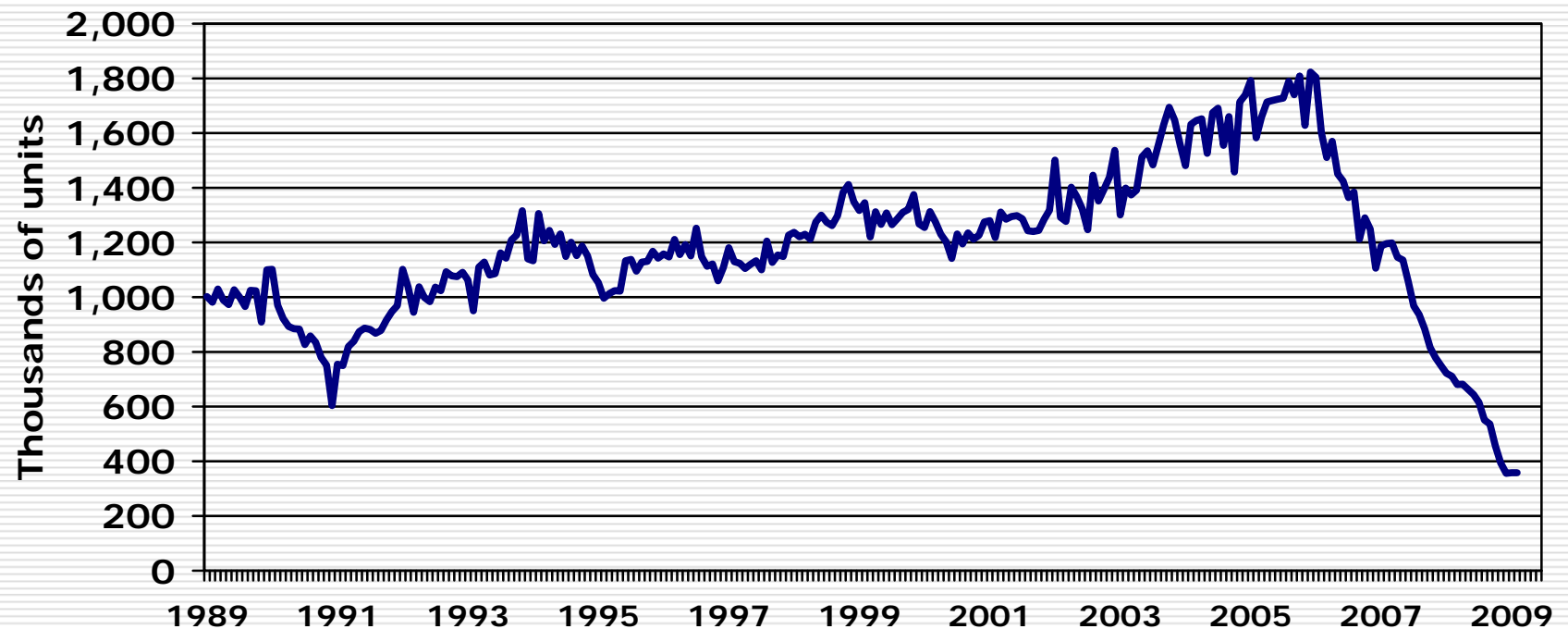
Consumer Confidence (1995=100)



Source: Conference Board.

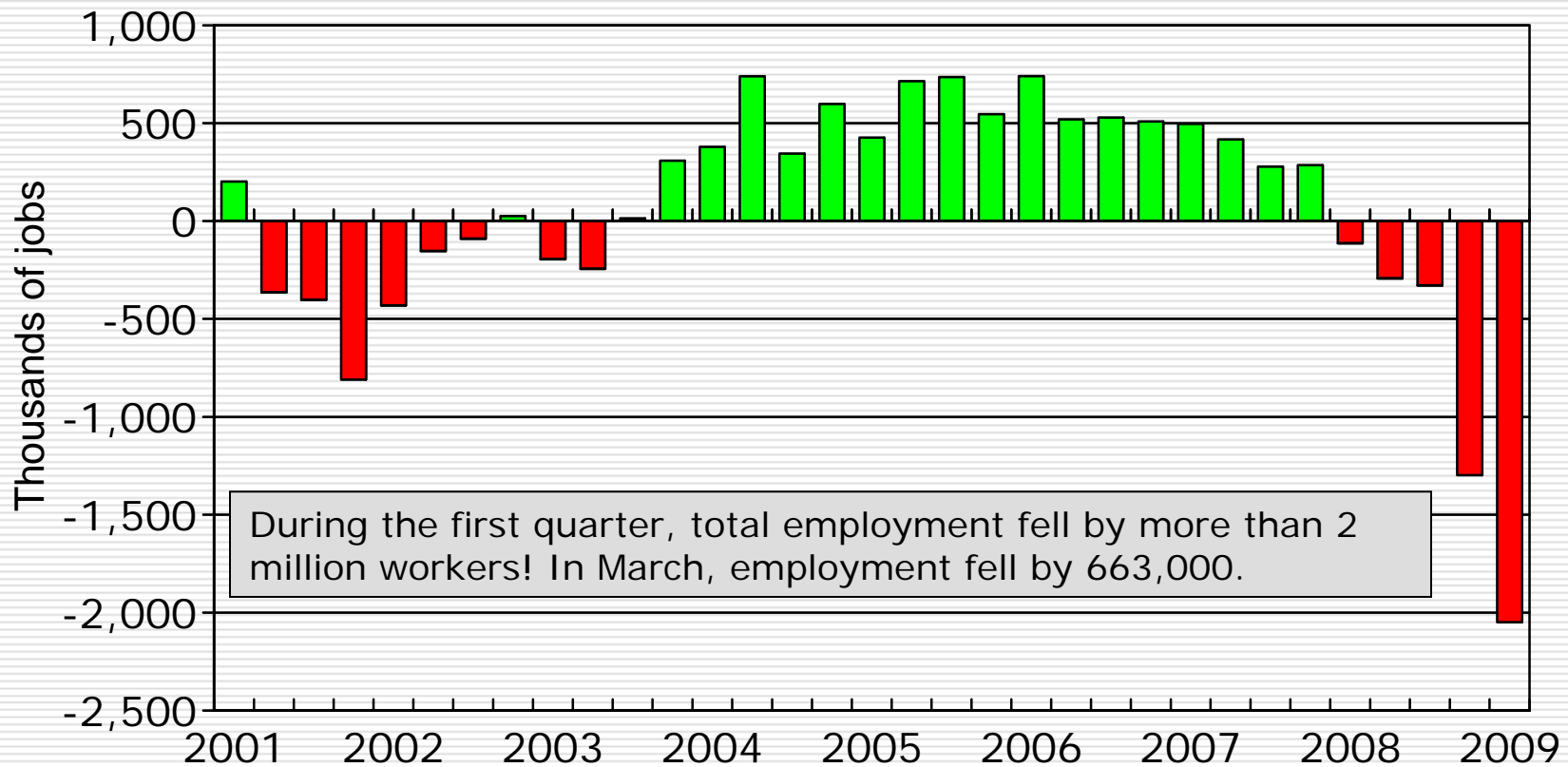
# Single-Family Housing Starts—*Have not found bottom yet.*

## Seasonally Adjusted Annual Rates



Source: U.S. Census.

# Nationwide, employers are cutting way back.



Source: BLS.

# Bottom line

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- ❑ There is a large gap in demand for goods and services from the private sector—domestic and abroad.
- ❑ The nation's nearly frozen financial system is still a major part of the problem.
- ❑ Currently, the only short-run source of demand appears to be government spending.

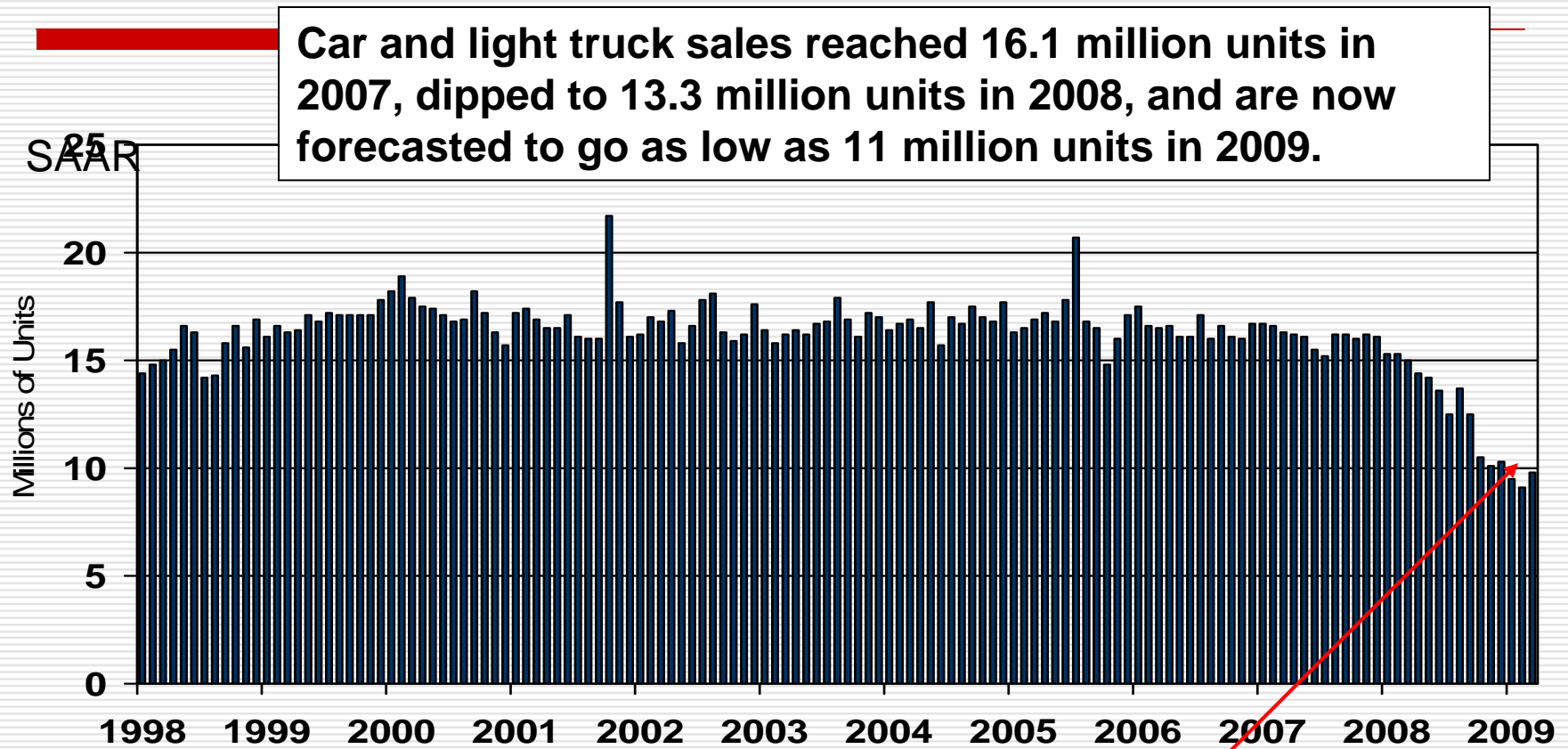


# The state's situation is grim.

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- The employment and fiscal outlook for the state is not promising.
  - Auto production is at a standstill, and the industry is moving south.
  - Other industries are also struggling.
  - Fiscal revenues for the state are way down.

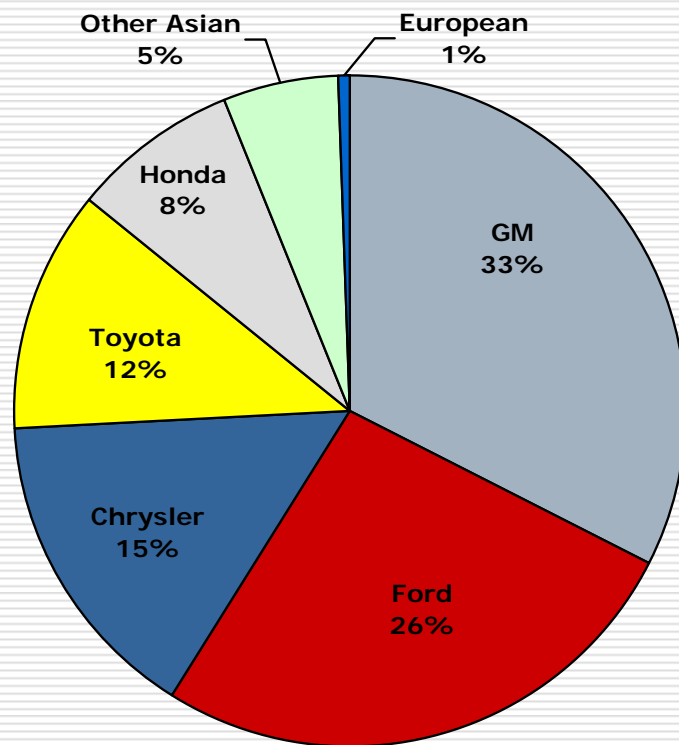
# Consumers are simply postponing purchases that can be postponed.



Source: BEA.

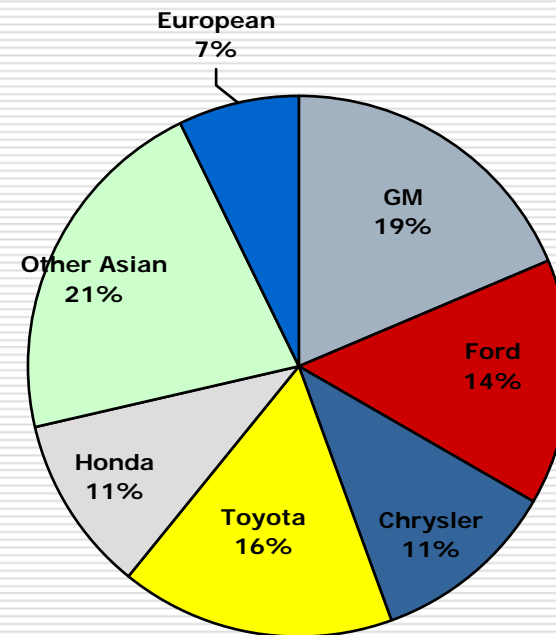
A 9.8 million unit rate in March after a poor 9.1 million unit rate in February.

Loss of market share: In 2001, the Detroit Three controlled 74%; it fell to 44% in the first quarter of 2009.



Source: *Wards AutoWorld*.

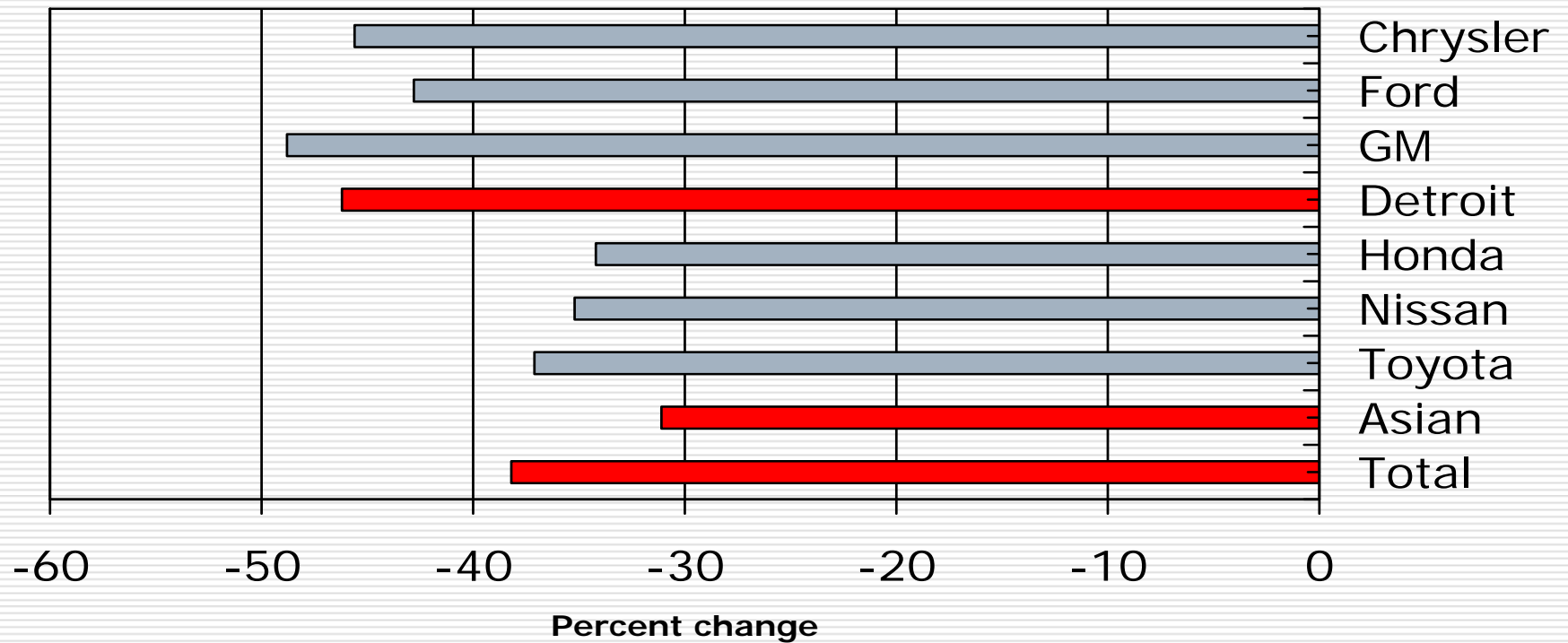
**2001**



**1st Q 2009**

# Production levels have plunged. Jan-Mar 2008 to Jan-Mar 2009

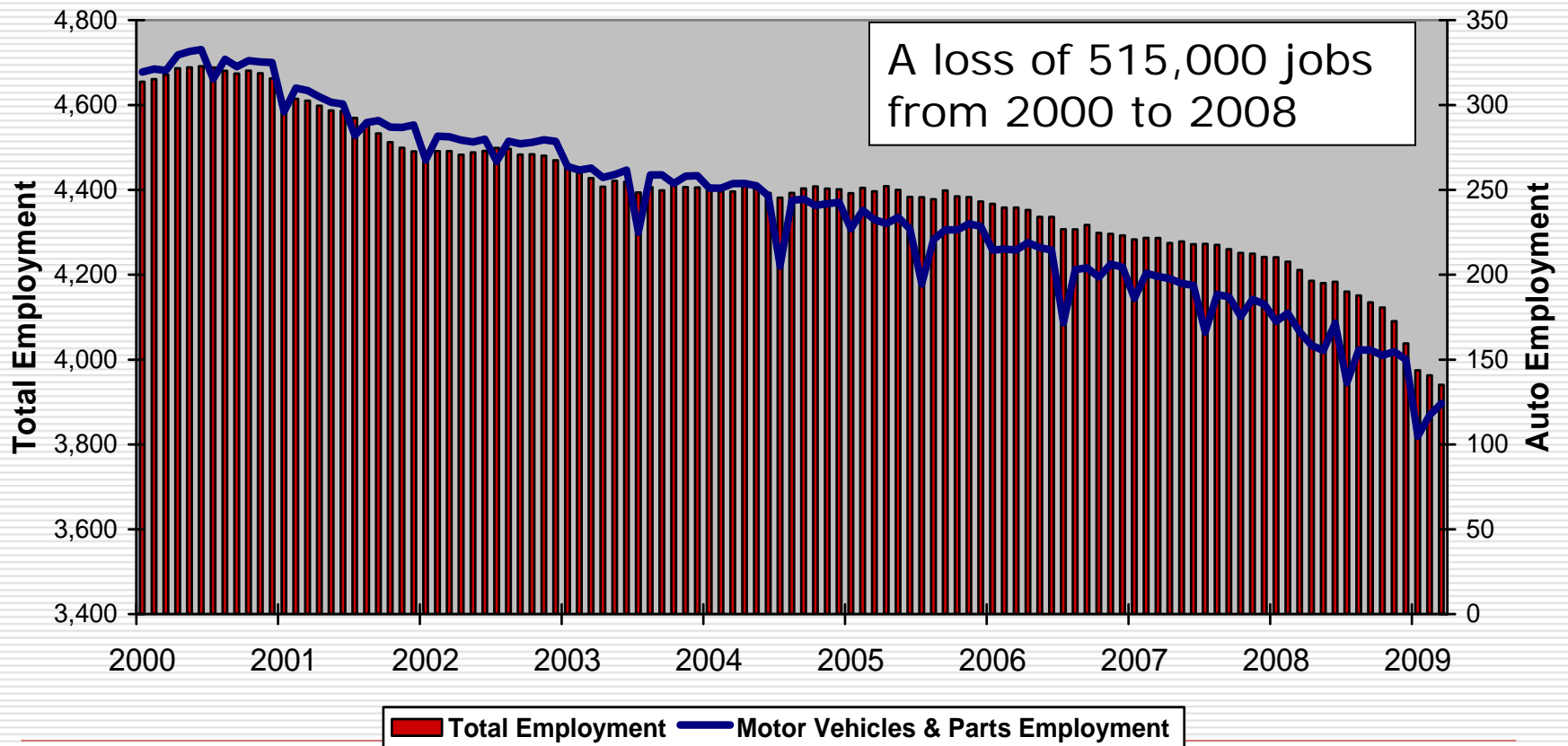
North American Car Production



Source: Ward's AutoInfoBank <http://wardsauto.com/keydata/NAProductionSummary0902/>

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

### Statewide Employment

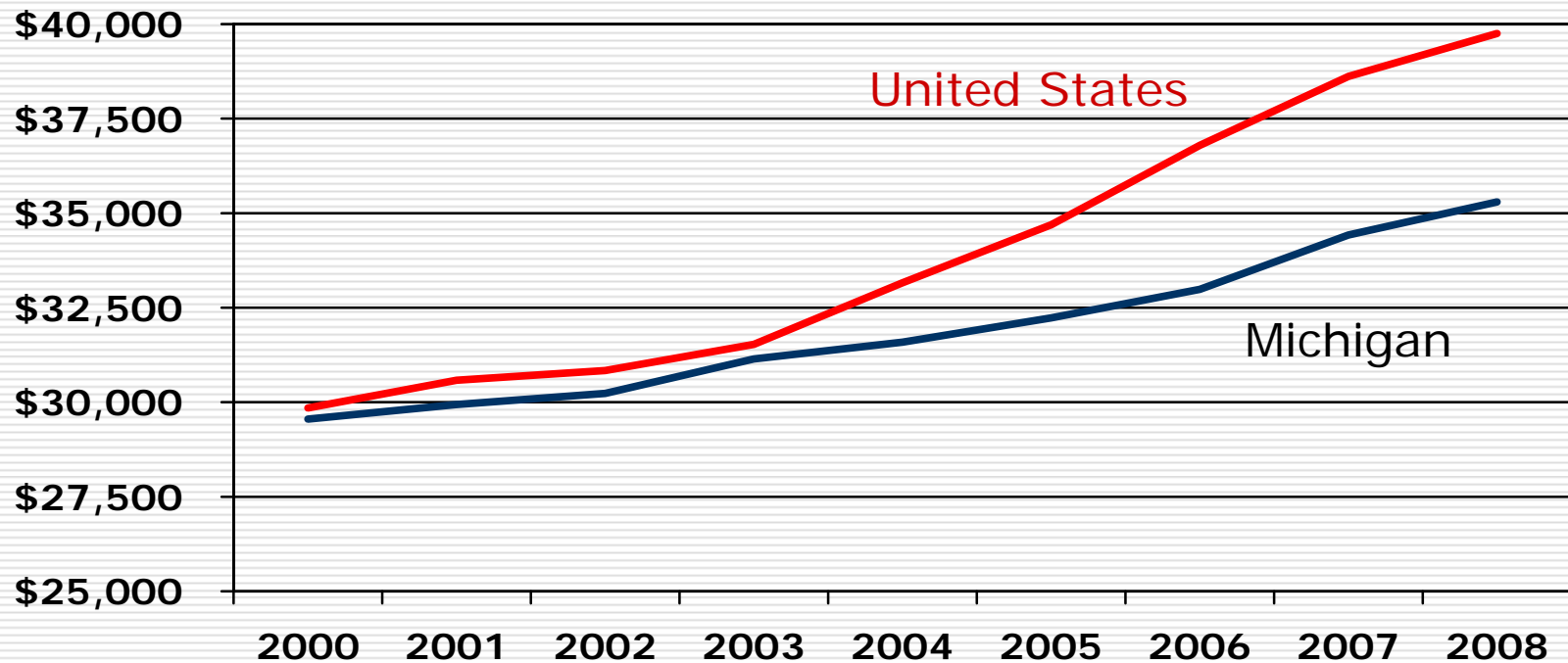


Source: BLS.

The state's unemployment rate is now 12.6%

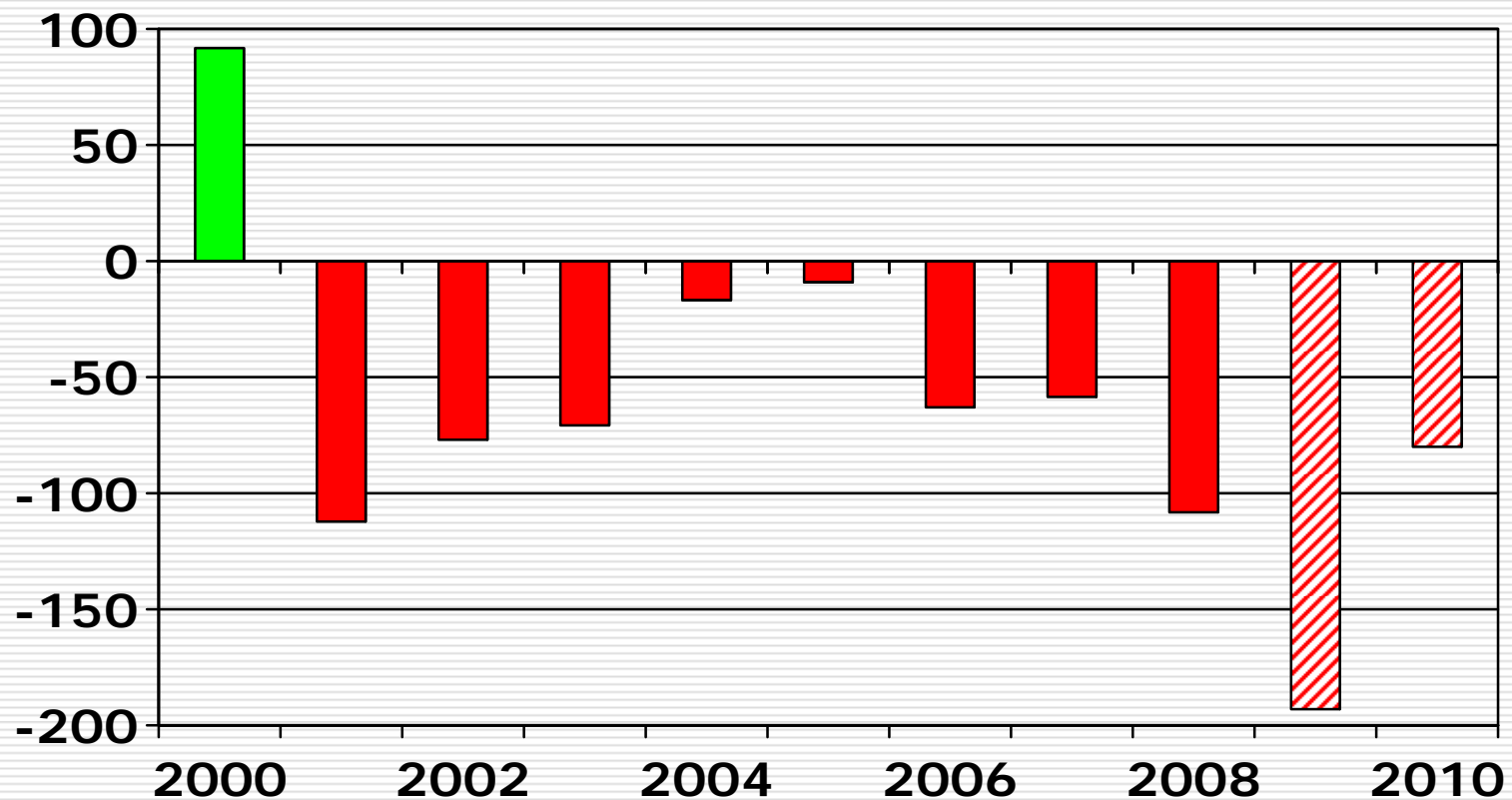
Growth in Michigan's per capita income has not kept pace with the nation's.

### Per Capita Income in Current Dollars



# Michigan Employment Forecast— two more years of decline.

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# Long-term Outlook

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Joint project of the

Citizens Research Council of Michigan  
and

W.E. Upjohn Institute for Employment Research

# Summary of Results

## Major Indicators for Michigan

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### **Annual rates of change 2007-2017**

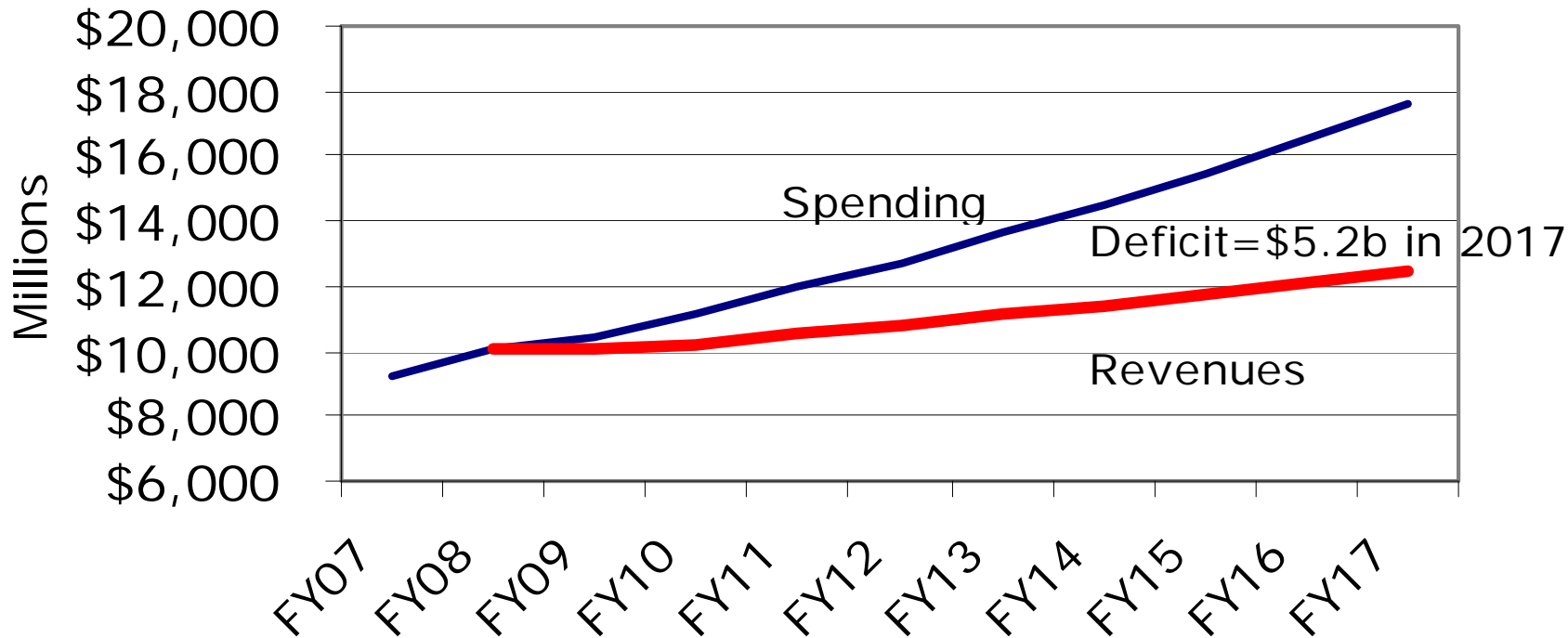
- ❑ Total Employment (-.07%)
- ❑ Labor Force (-.25%)
- ❑ Real Gross State Product (+1.2%)
- ❑ Labor Productivity (+1.6%)
- ❑ Personal Income (+4.2%)
- ❑ Payrolls (+3.8%)
- ❑ Population (-.04%)

*These statistics are better than the statistics for the last six years.*

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# Deficits for the Next 10 Years

General Fund Structural Deficit Projections  
Fiscal Years 2007-2017



# Outcome for the Arts

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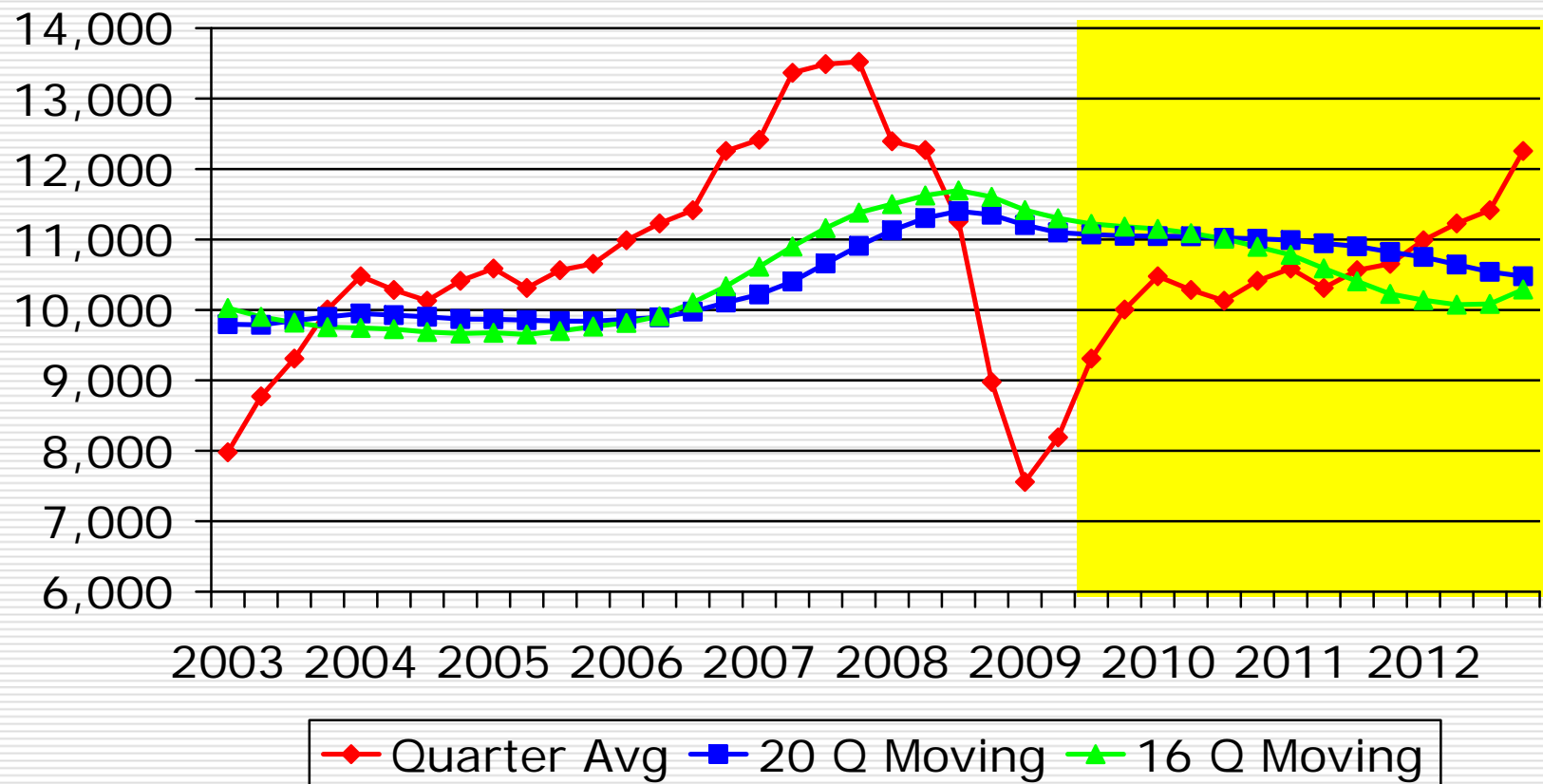
- ❑ The current governor's budget proposal calls for deep cuts in arts funding from \$7.7 million last year to \$1 million in 2010.
- ❑ And even if this cut is avoided, arts will face similar challenges year after year.

# So what?

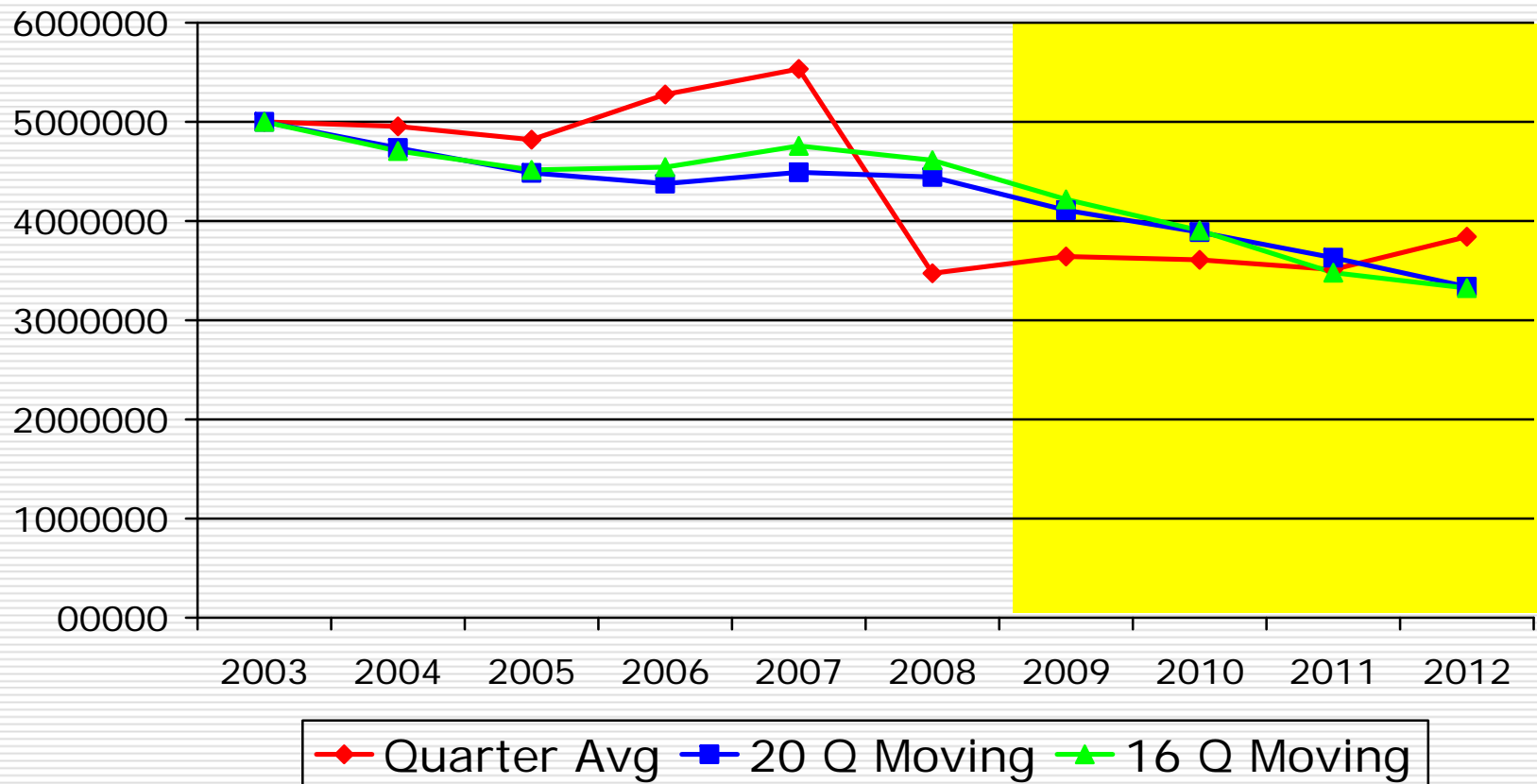
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- ❑ Clearly, art funding is being seriously impacted by the loss of wealth
- ❑ The arts are competing against other social and economic issues and concerns.
- ❑ In hard economic times the arts have to think in economic terms.

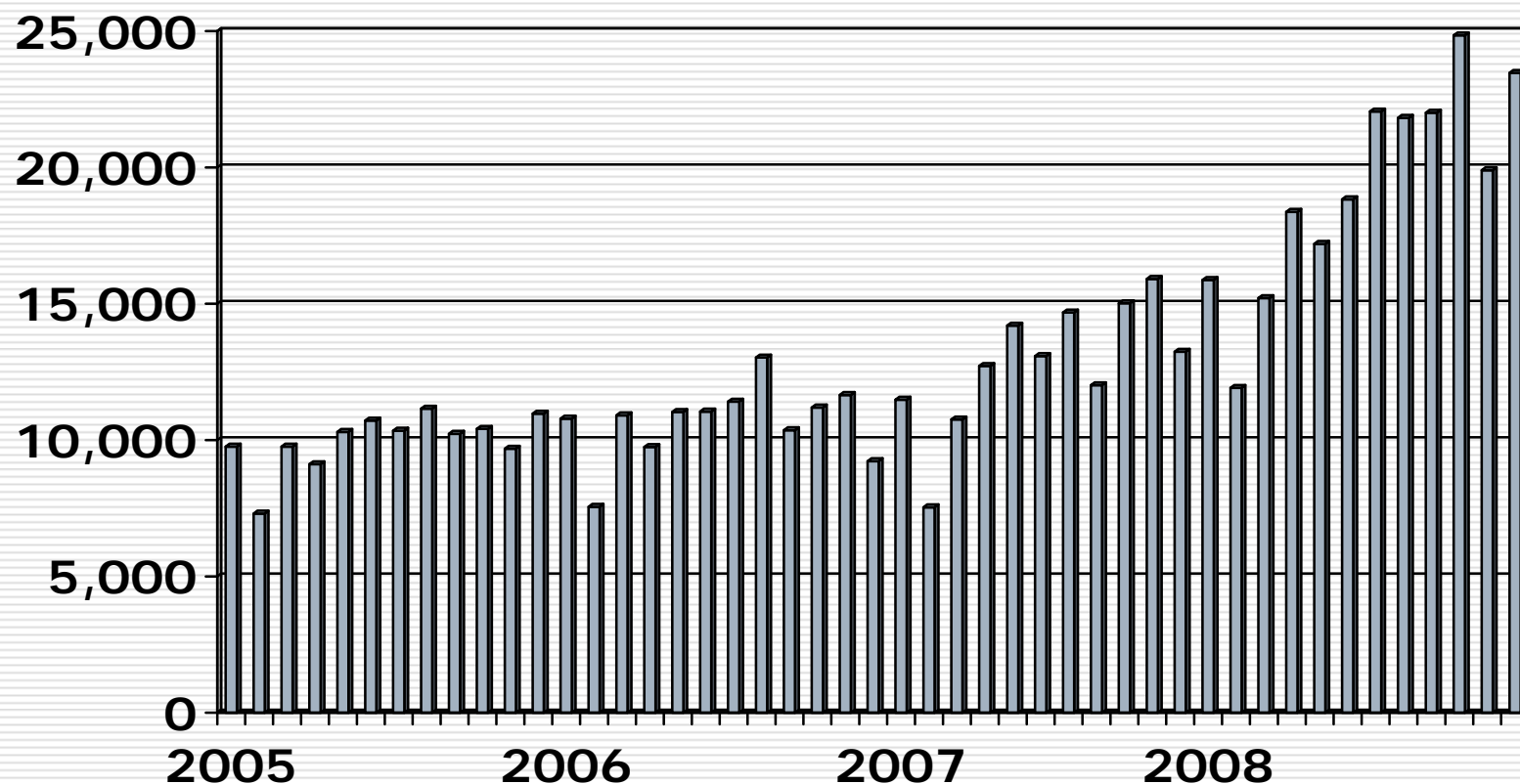
Let's say that from 2009 to 2012, Dow Jones Index's mirrors its 2003 to 2006 performance.



# Endowment Payouts at 5% Assuming \$100 Million in 2003



# Number of One-day Food Orders Filled by Loaves and Fishes Food Pantries in Kalamazoo County



Source: Loaves and Fishes

# So, what can economics bring to the discussion?

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- Net revenues =  $P * Q - \text{Costs}$
- It is key to know the difference between variable cost and fixed cost.
  - If your organization faces high fixed costs, e.g. rent, administrative staff, then cutting back in hard times could be the wrong thing to do.

# An example: *Cutting back in hard times can be a bad decision.*

## Net Revenue

|                                      | Year 1     | Year 2           | Year 3           |                  |
|--------------------------------------|------------|------------------|------------------|------------------|
|                                      |            |                  | Cut              | Continue         |
| Tickets                              | 10,000     | 8,000            | 6,000            | 8,000            |
| Events                               | 10         | 10               | 6                | 10               |
| Avg attendance                       | 1,000      | 800              | 1,000            | 800              |
| Price                                | \$5.00     | \$5.00           | \$5.00           | \$5.00           |
| Revenues                             | \$50,000   | \$40,000         | \$30,000         | \$40,000         |
| Fixed Costs<br>(Rent, Admin Staff)   | \$45,000   | \$45,000         | \$45,000         | \$45,000         |
| Variable Cost<br>(performance costs) | \$5,000    | \$5,000          | \$3,750          | \$5,000          |
| <b>Net Revenue</b>                   | <b>\$0</b> | <b>-\$10,000</b> | <b>-\$18,750</b> | <b>-\$10,000</b> |

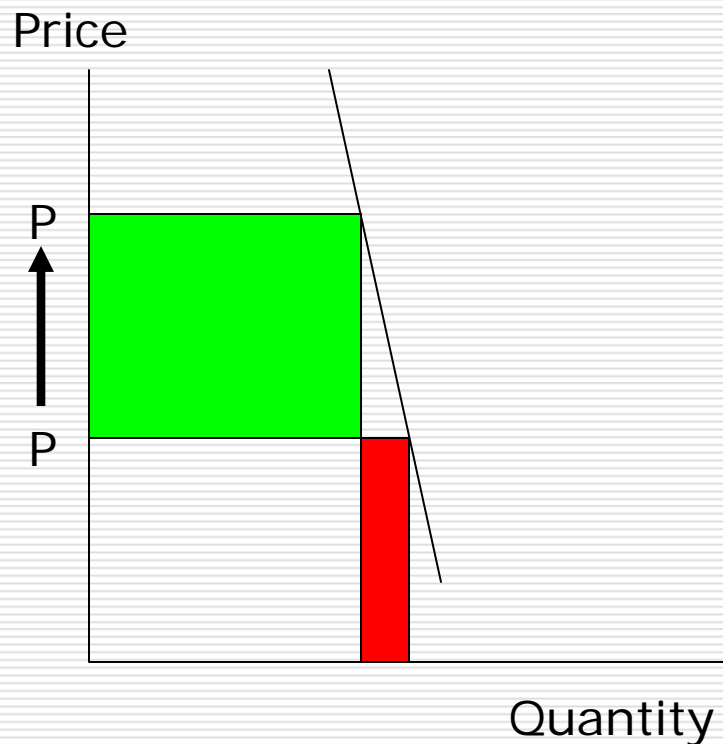
So, it is time to look at demand.

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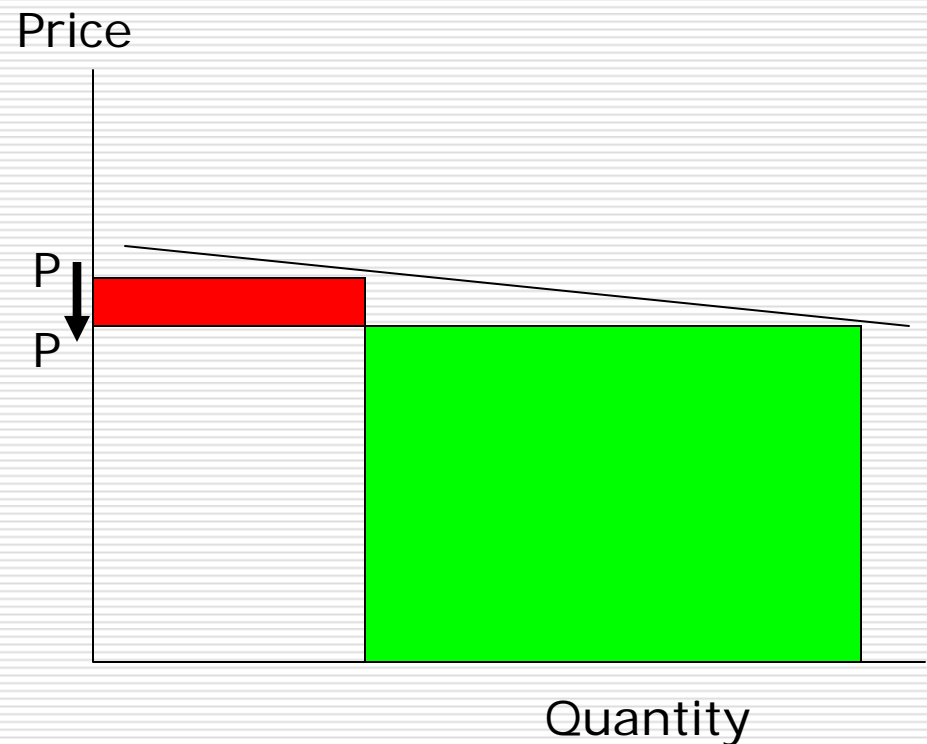
- Is your pricing right?
- Can you segment your market?
- Do you know who your competition is?

# Do you raise or lower your price to increase revenues? *It depends.*

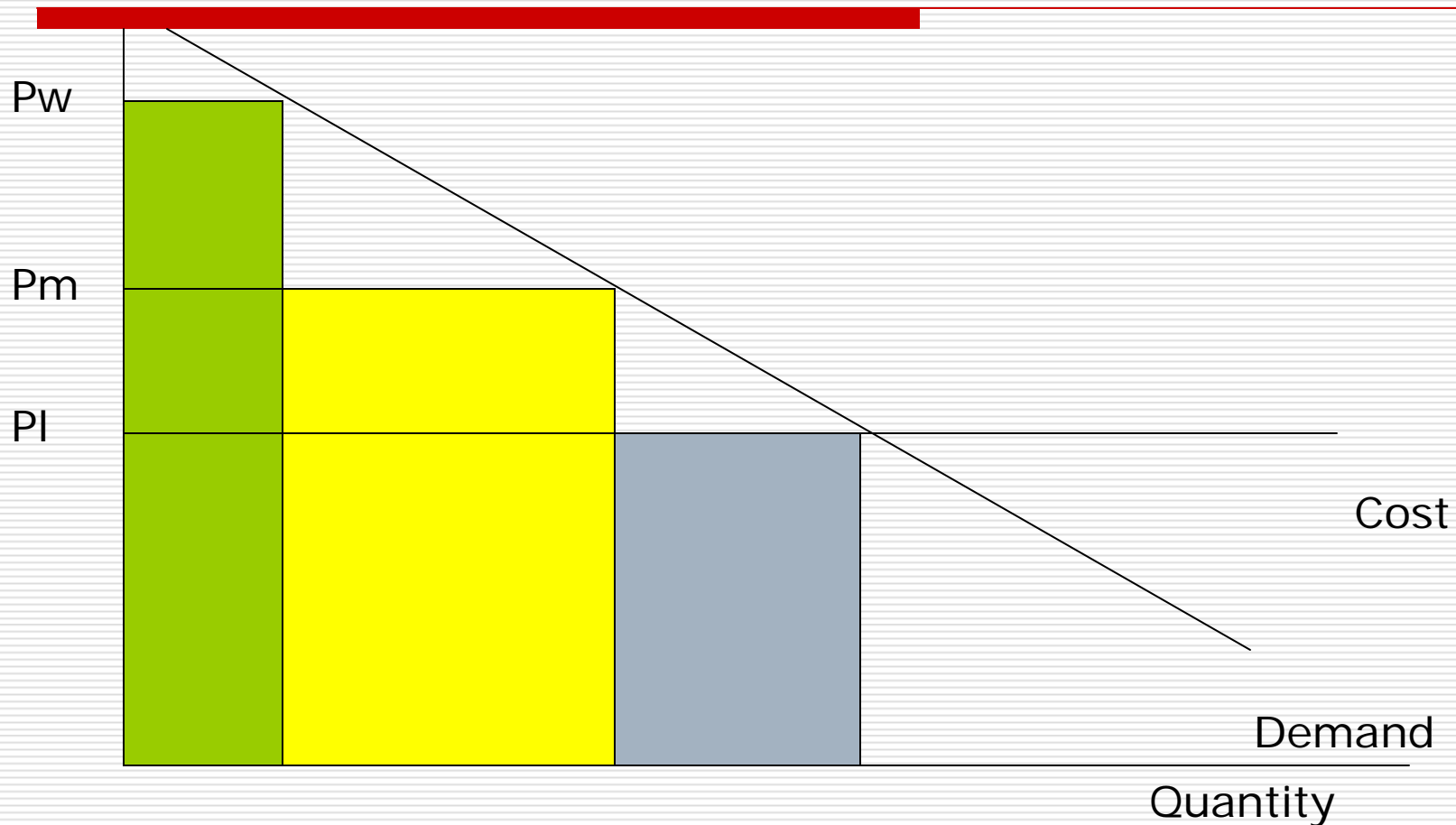
## Raise your price



## Cut your price



# Can you segment your market by the ability/willingness to pay?



# Who is your competitor?

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- Chicago, Grand Rapids
- Movies/home entertainment centers
- Retail outlet art

What do they offer that you don't and, more importantly, what do you offer that they can't?

# Finally, you have an economic development role.

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- Kalamazoo artists and art events:
  - Keep dollars in the area because without the arts more people would travel elsewhere to enjoy it.
  - Add to the area's quality of life
  - Can attract money into the area.
- All of these generate additional business and create potential friends to the arts.

# The Very Last Word

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- Encourage your spectators to become patrons.
  - Season ticket holders can become more than just customers if they feel that they are considered stakeholders.
  - Art hoppers may become more supportive if they see themselves as key supporters of the art community.

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