

Grand Rapids Region Economic Outlook 2010-2011

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A Special Thanks to

Right Place for making this whole program possible.

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

Agenda

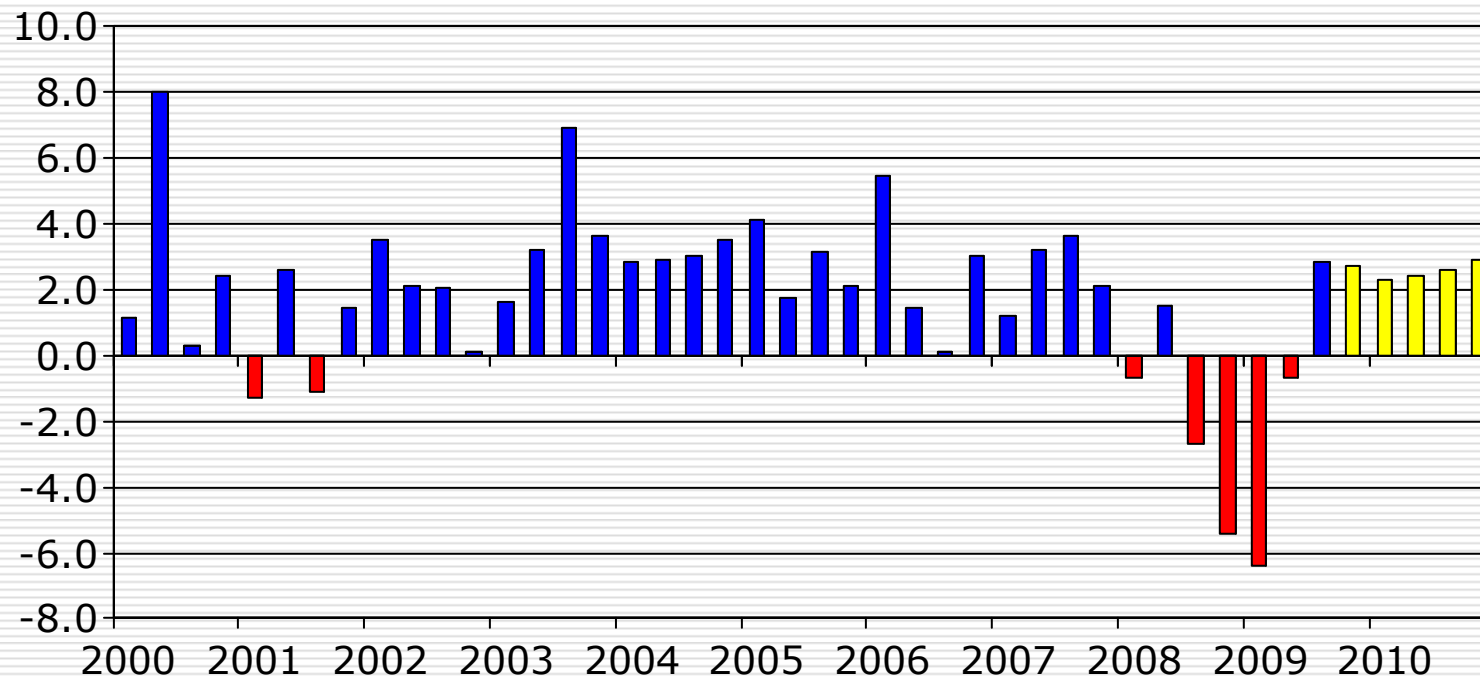
- ❑ Why 2010 is looking better and better
- ❑ The state will likely not get an invitation to the national party – *in fact it is still waiting for the 2002 invitation.*
- ❑ Employment in the Grand Rapids region will stabilize but remain negative.
- ❑ Thoughts on the *country* of Grand Rapids and what can be done

2009 was dreadful!

- The Great Recession
- Moreover, our economic tool box has been found wanting.
 - Monetary policy has been pretty ineffective.
 - Fiscal policy: painfully slow.
- Worse yet, a pillar of economic theory has been shattered—*We are not all that rational.*

Nationwide, GDP increased by 2.8 percent in the third quarter.

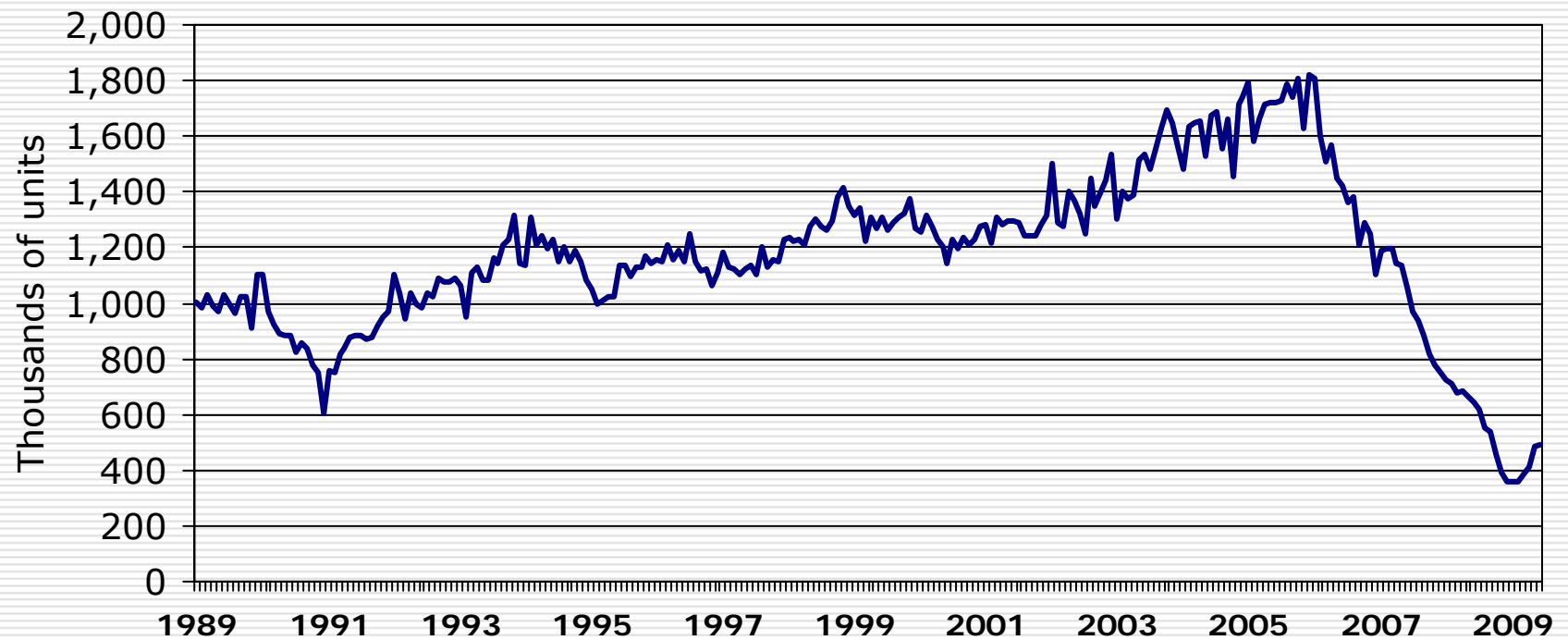
Annualized Percent Change in GDP



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

Single-Family Housing Starts—*We appear to be turning around.*

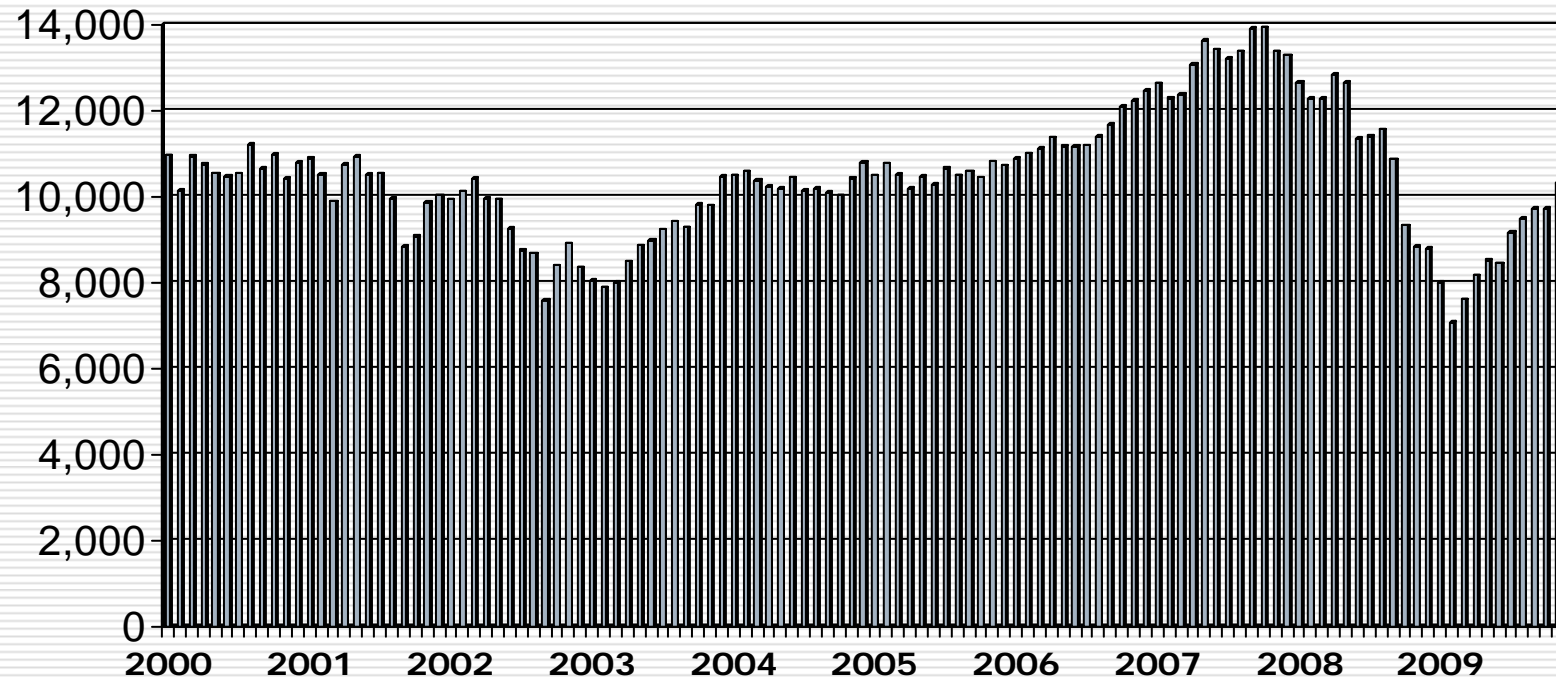
Seasonally Adjusted Annual Rates



U.S. Census

The stock market has enjoyed a nine-month run.

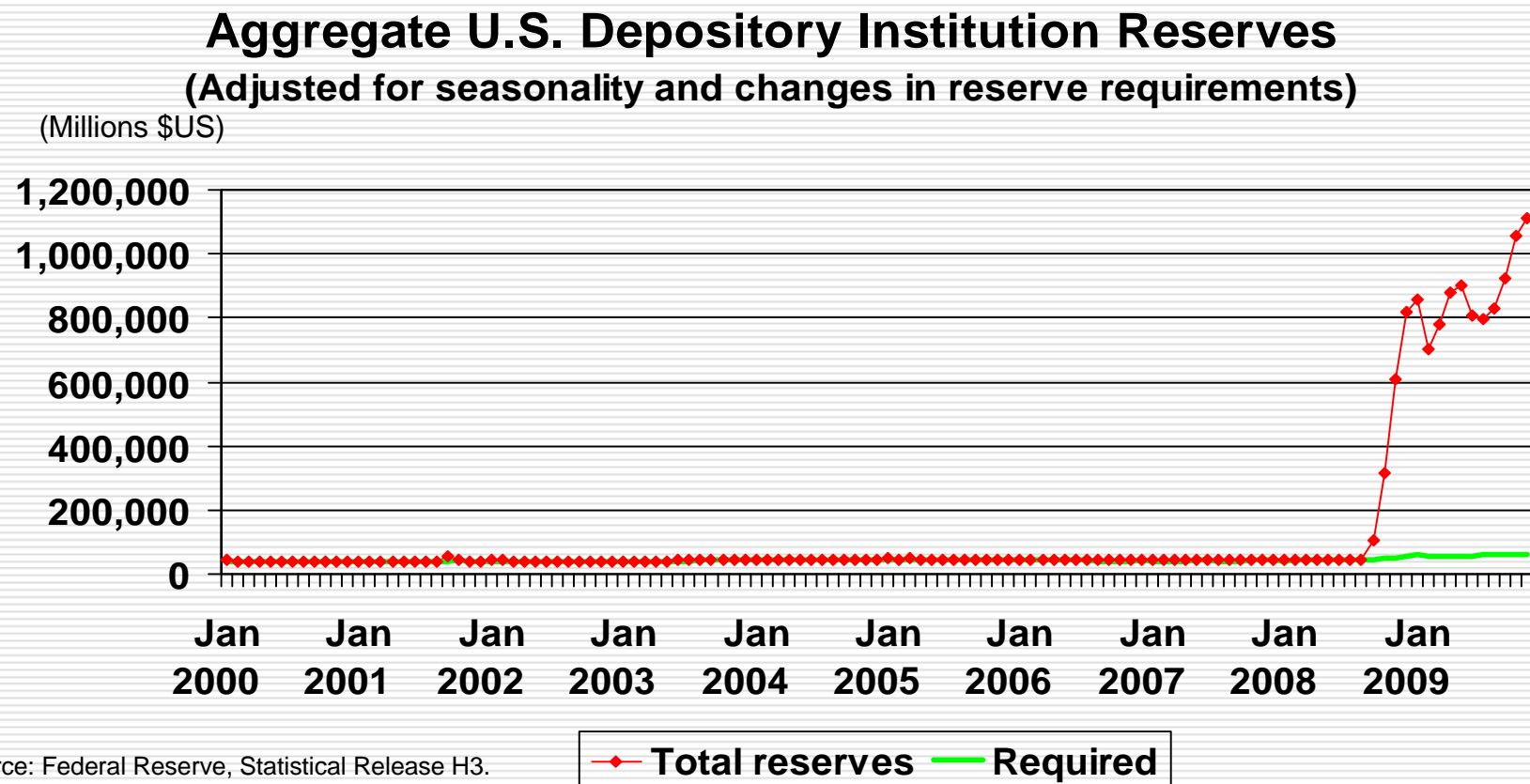
Dow Jones Index



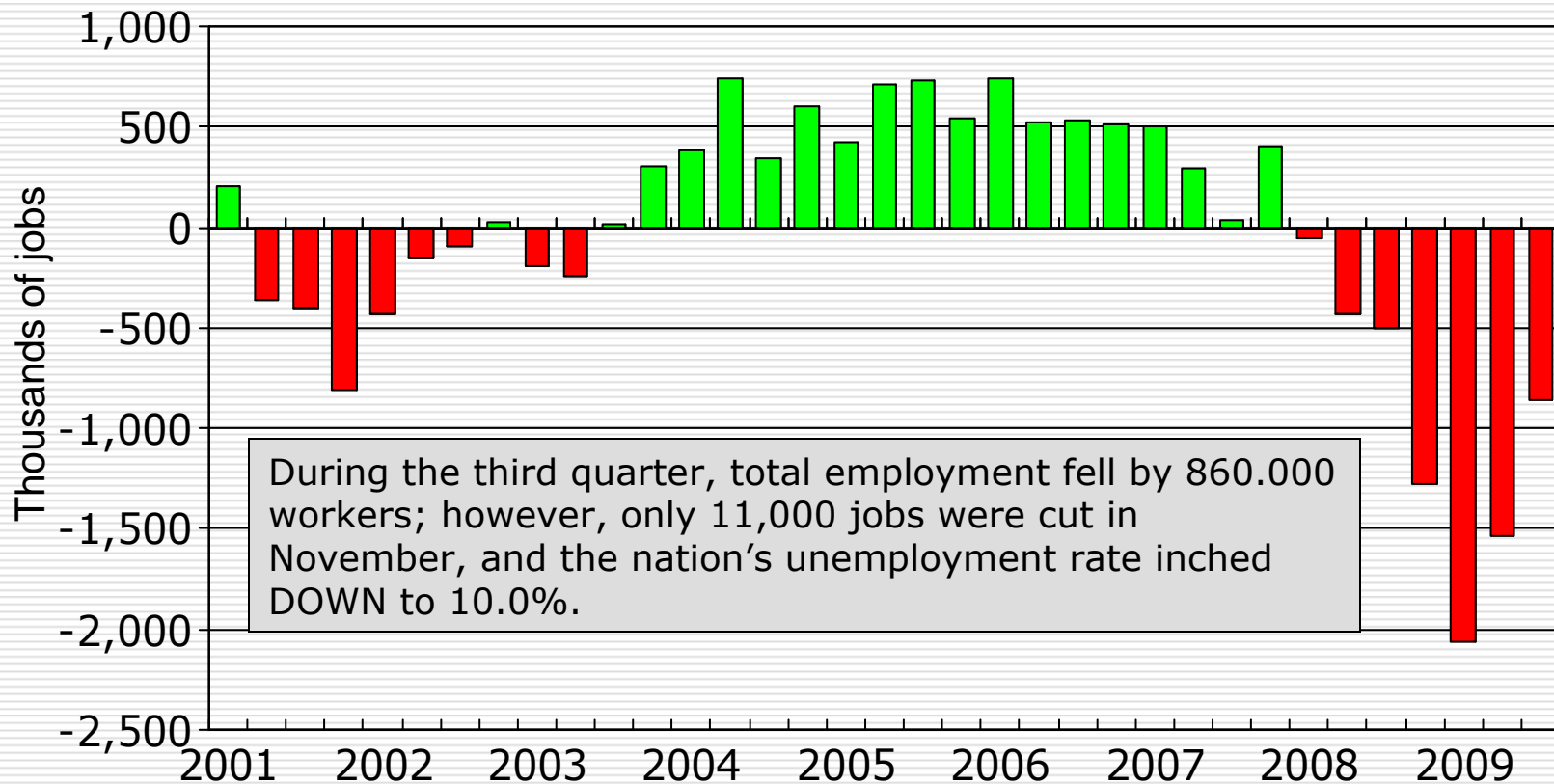
Ok, where is the bad news?

- ❑ Banking system—*The banks have a lot of money to lend but are not.*
- ❑ Employment outlook—*However the rate of decline is slowing and could turn around.*
- ❑ Consumer confidence—*Should improve with employment.*
- ❑ The auto industry—*2010 is expected to be better than the latter half of 2009.*

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



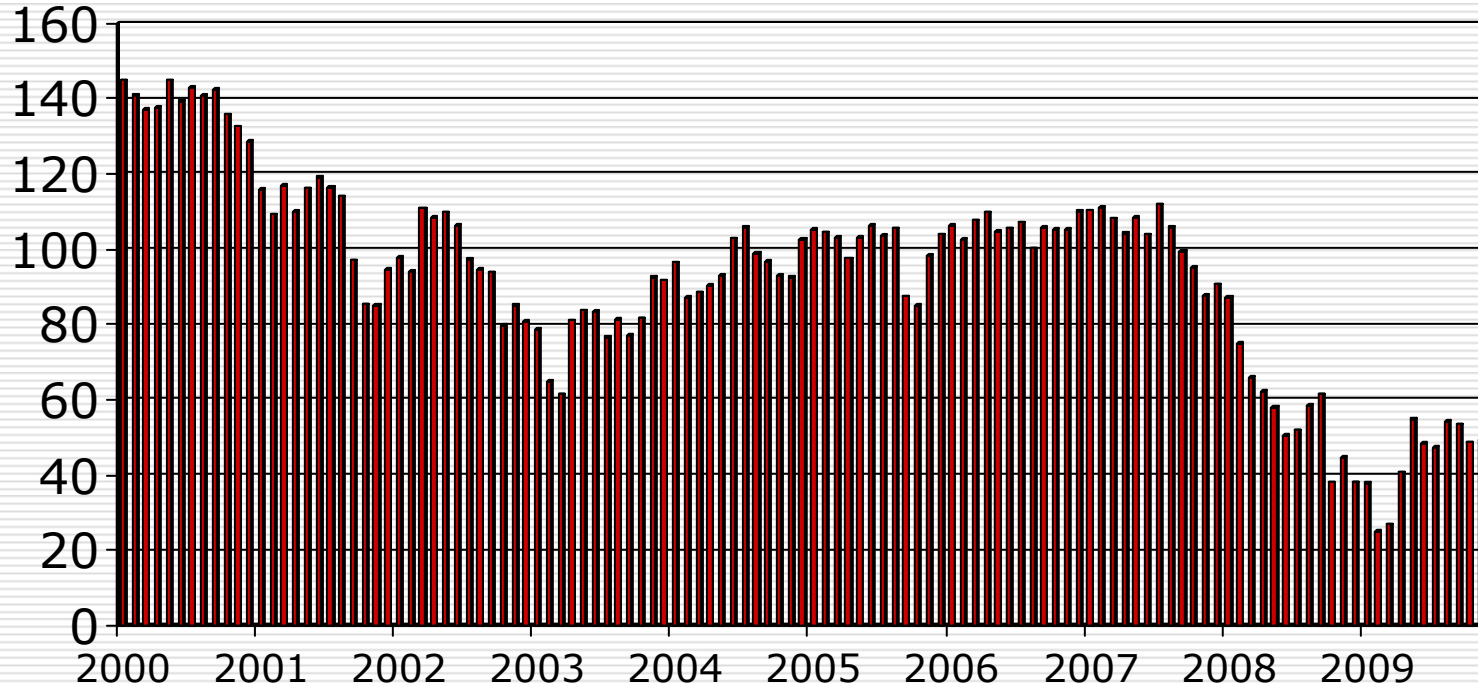
Nationwide, employers are still cutting payrolls.



Source: BLS.

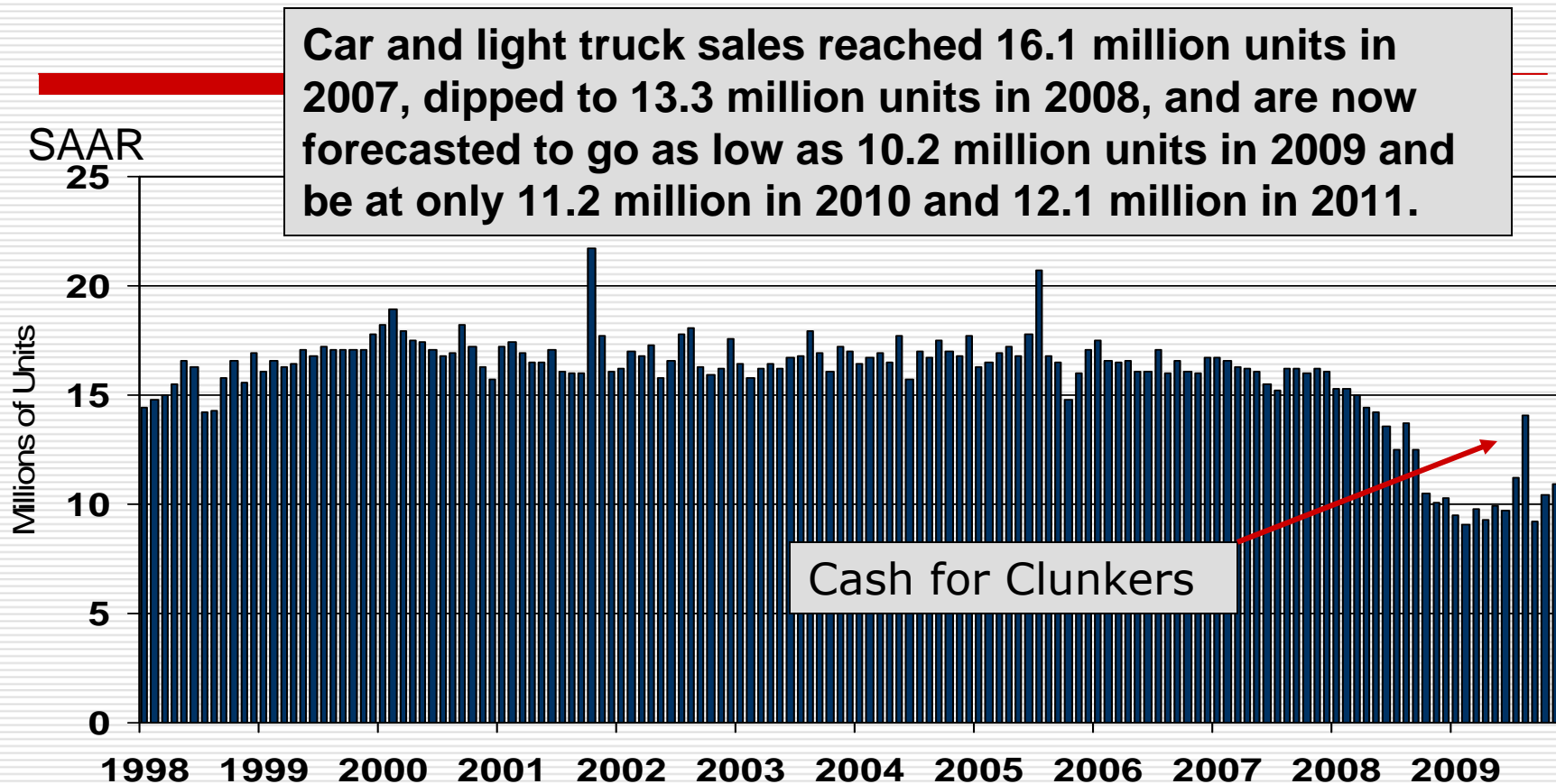
Consumers' confidence is still low, it could be an "olde fashion" Christmas.

Consumer Confidence (1995=100)



Source: Conference Board.

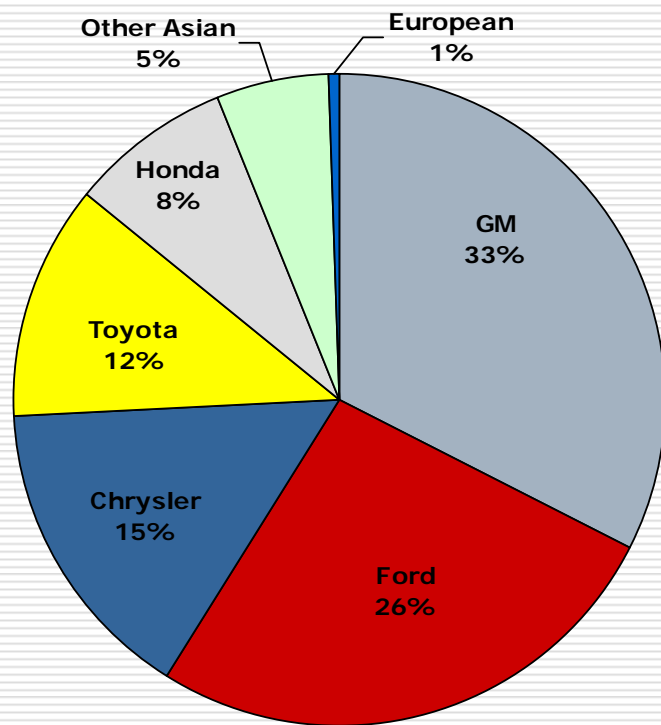
The showrooms are still pretty quiet.



Source: BEA.

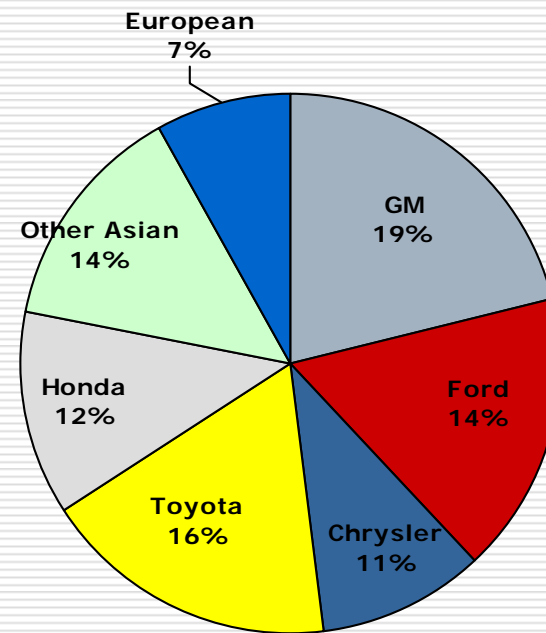
Fueled by cash-for-clunkers, sales rate hit a 14.1 million unit rate in August but have fallen back since. Sales were up to a 10.9 million in November.

Loss of market share: In 2001, the Detroit Three controlled 74%; in 2009 it fell to 45%.



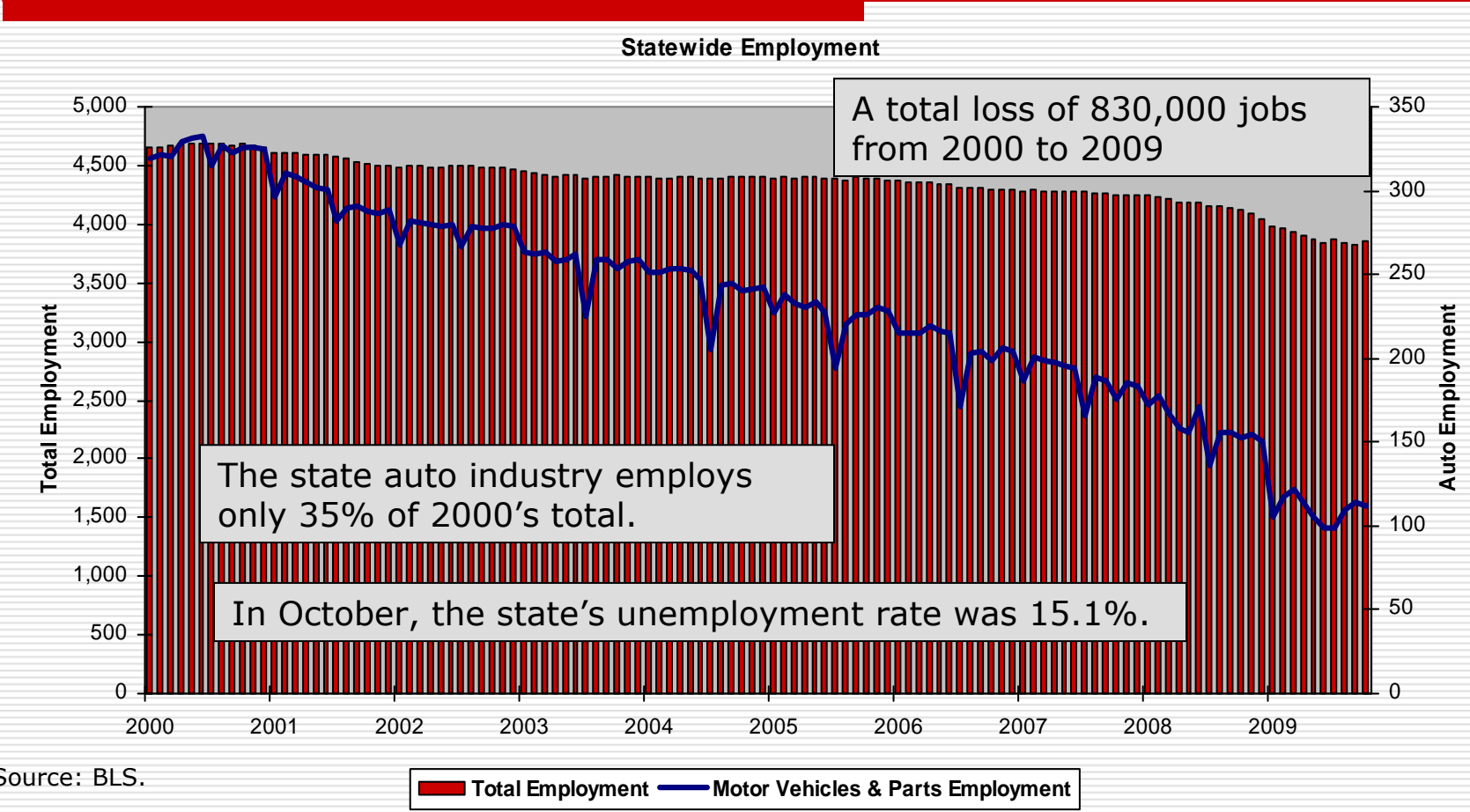
Source: *Wards AutoWorld*.

2001



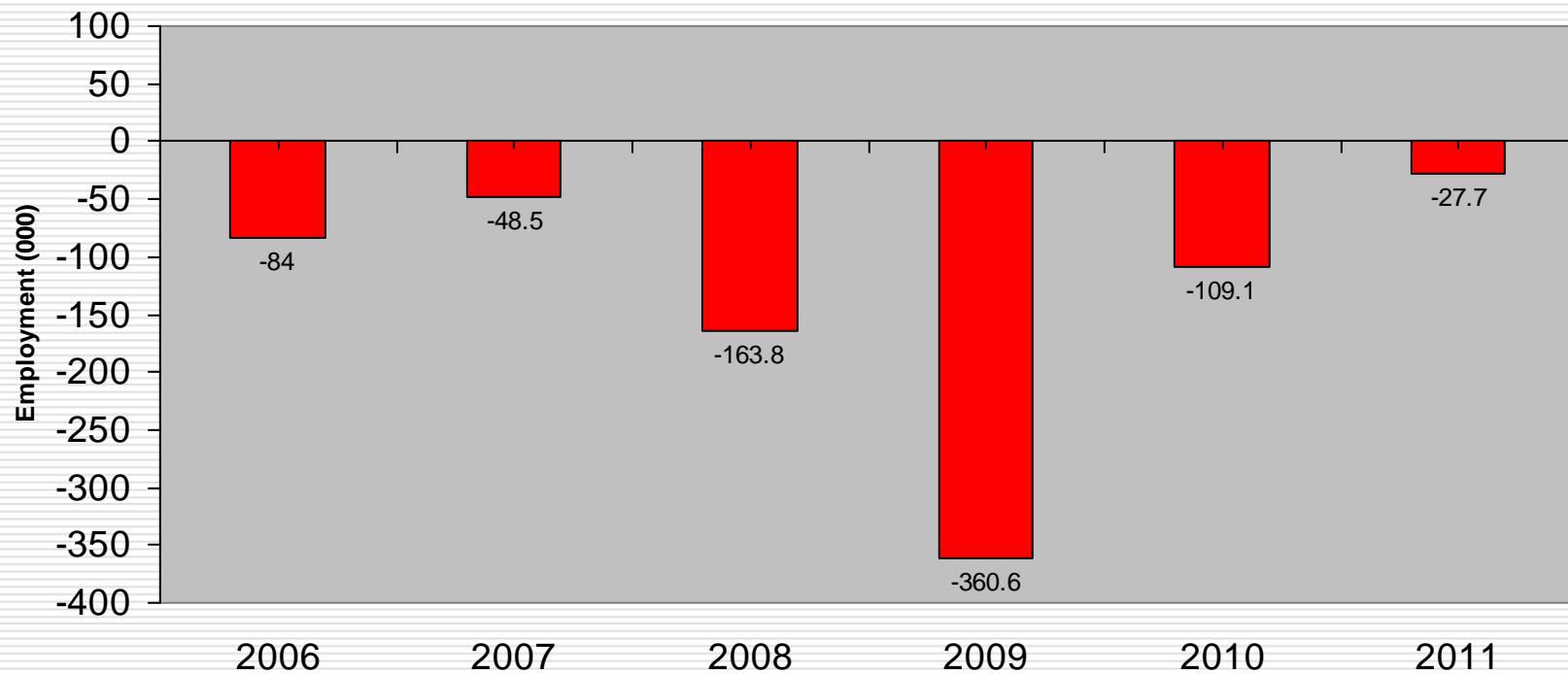
YTD 3rd Q 2009

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.

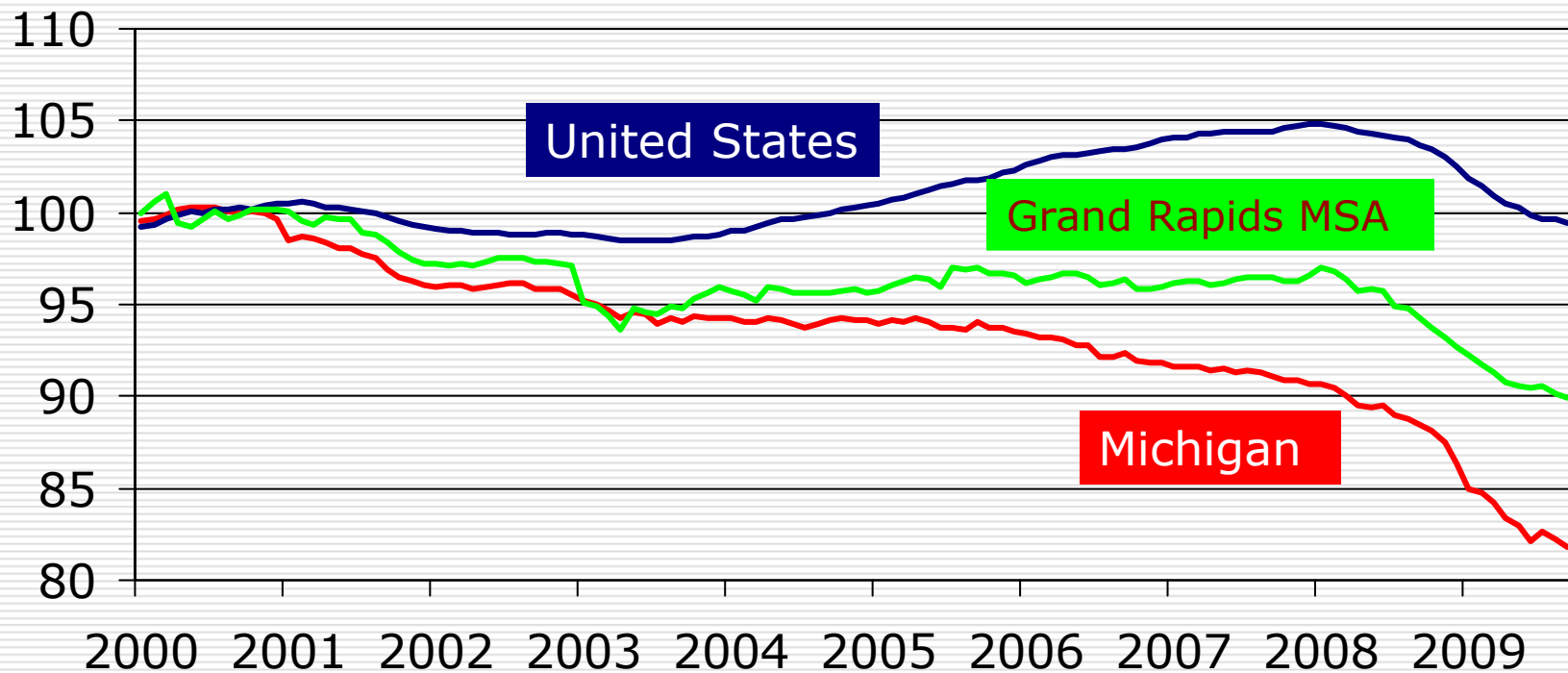
Change in Total Employment



Source: University of Michigan, Nov 2009.

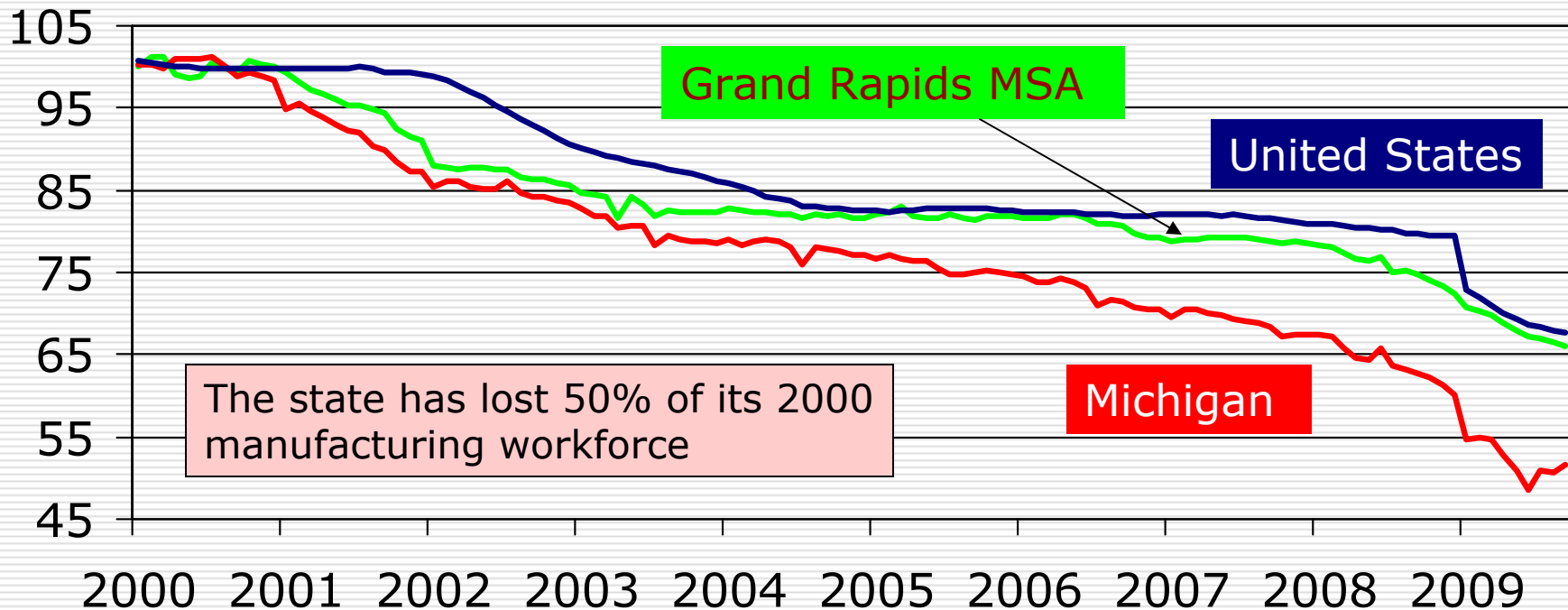
Grand Rapids-Wyoming MSA's employment has dropped by nearly 10% from its 2000 level, while the nation's has dropped back to its 2000 levels.

Total Employment Index (2000=100)



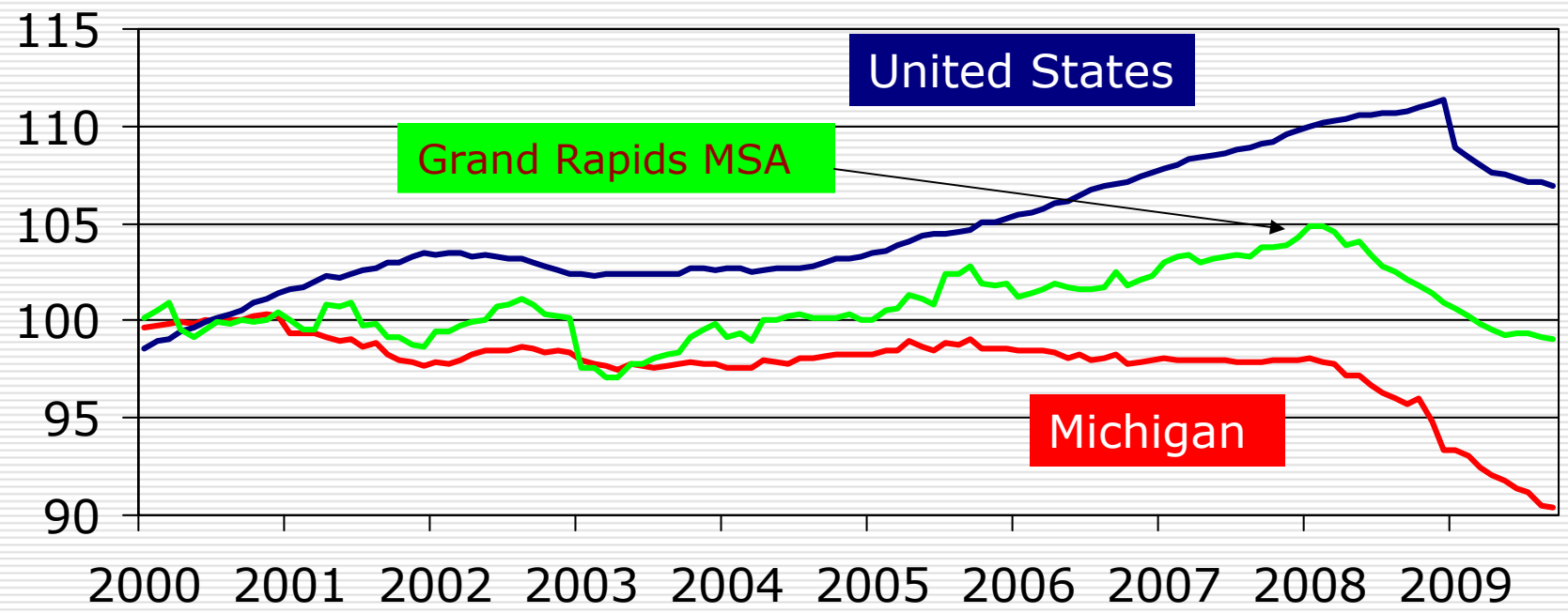
Grand Rapids' manufacturers have been keeping up with the nation's.

Employment Index for Manufacturing
2000 = 100



Private services had increased by nearly 5% in the Grand Rapids MSA, but has recently declined to just below its 2000 level.

Private Service-Providing Employment
(2000 = 100)



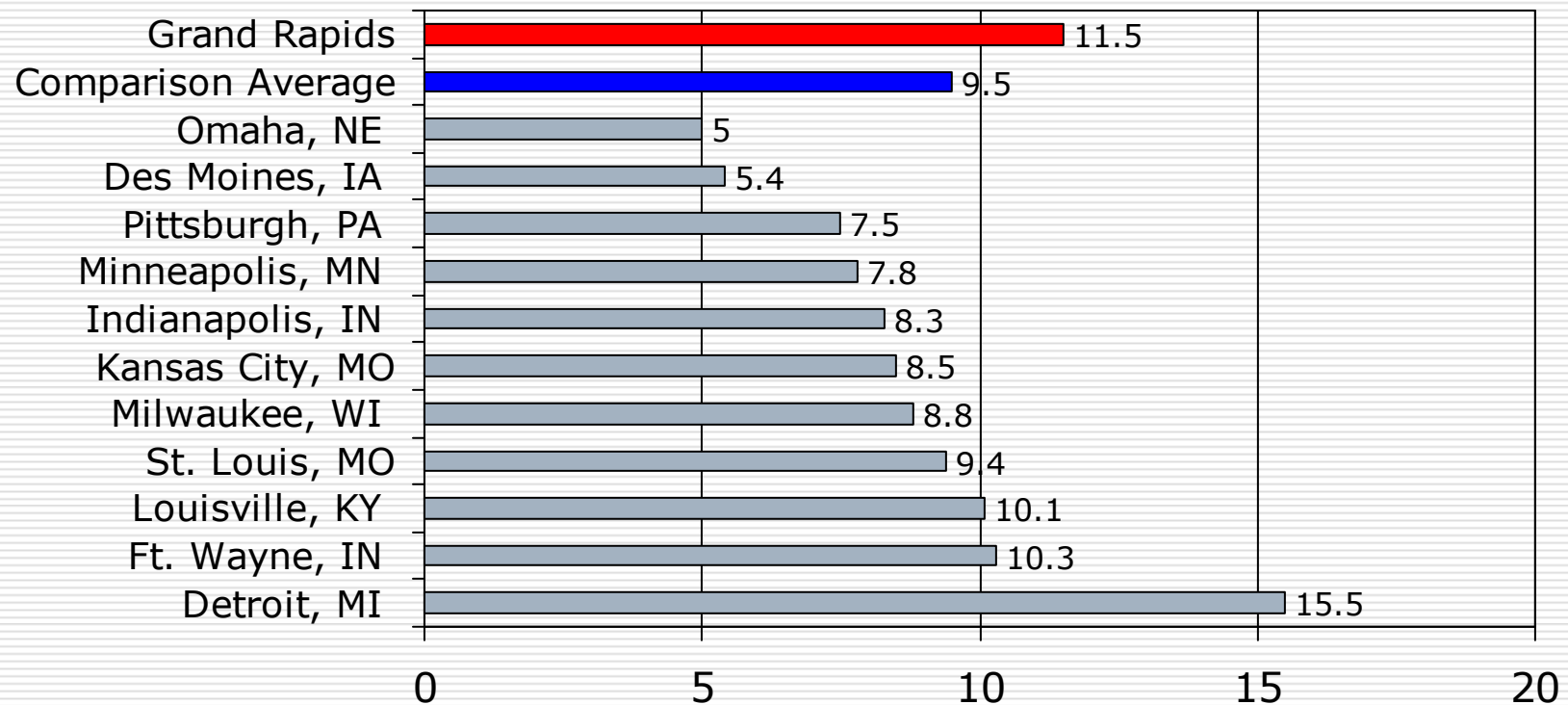
Comparison Analysis

Comparison Areas:

- Omaha, NE
- Pittsburgh, PA
- Des Moines, IA
- Detroit, MI
- Ft. Wayne, IN
- Indianapolis, IN
- Kansas City, MO
- Louisville, KY
- Milwaukee, WI
- Minneapolis, MN
- St. Louis, MO

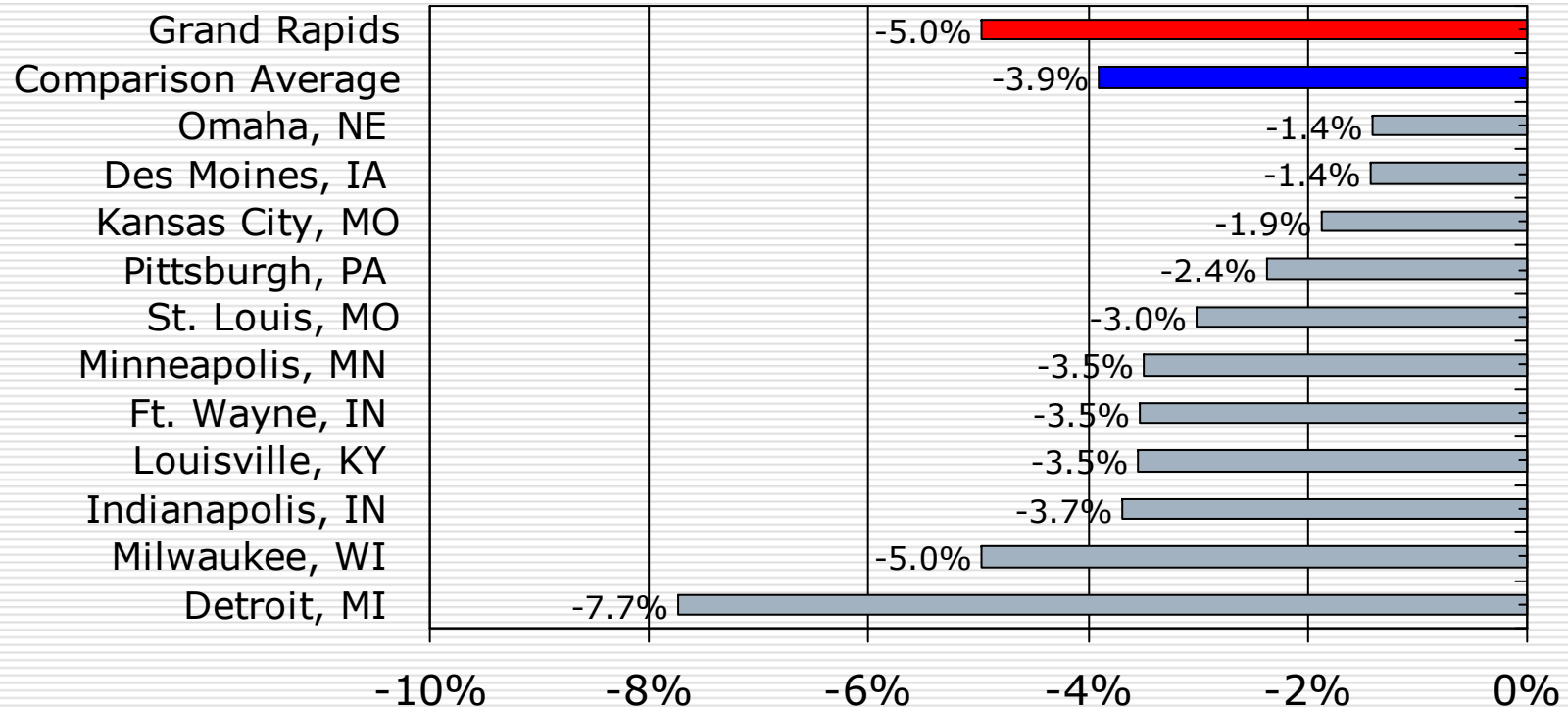
Grand Rapids MSA's unemployment is higher than all other comparison regions except for Detroit's.

Average Unemployment Rate, Jan-Oct 2009



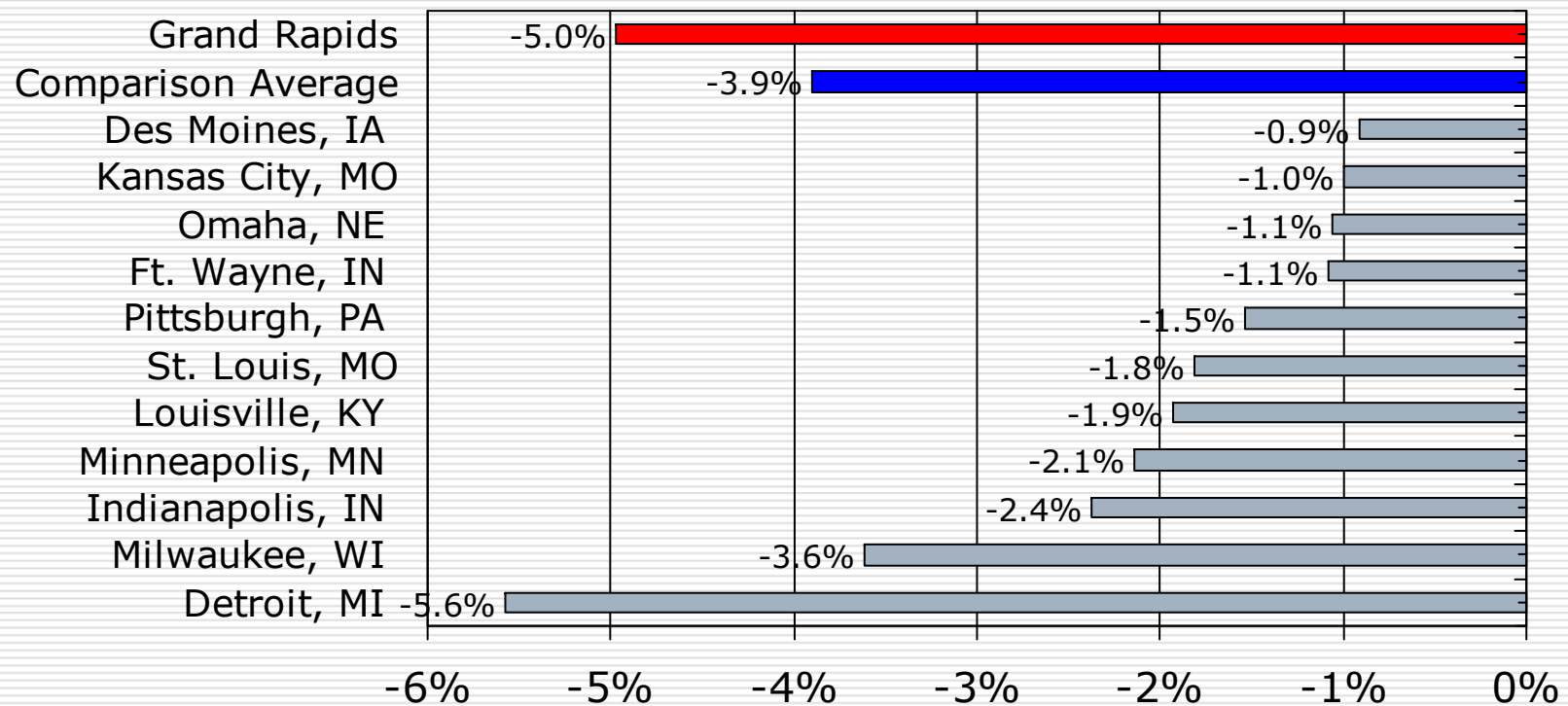
All of the metro areas suffered in 2009; however, the Grand Rapids area fared worse.

Percent Change in Total Employment
Jan-Oct 2008 to Jan-Oct 2009



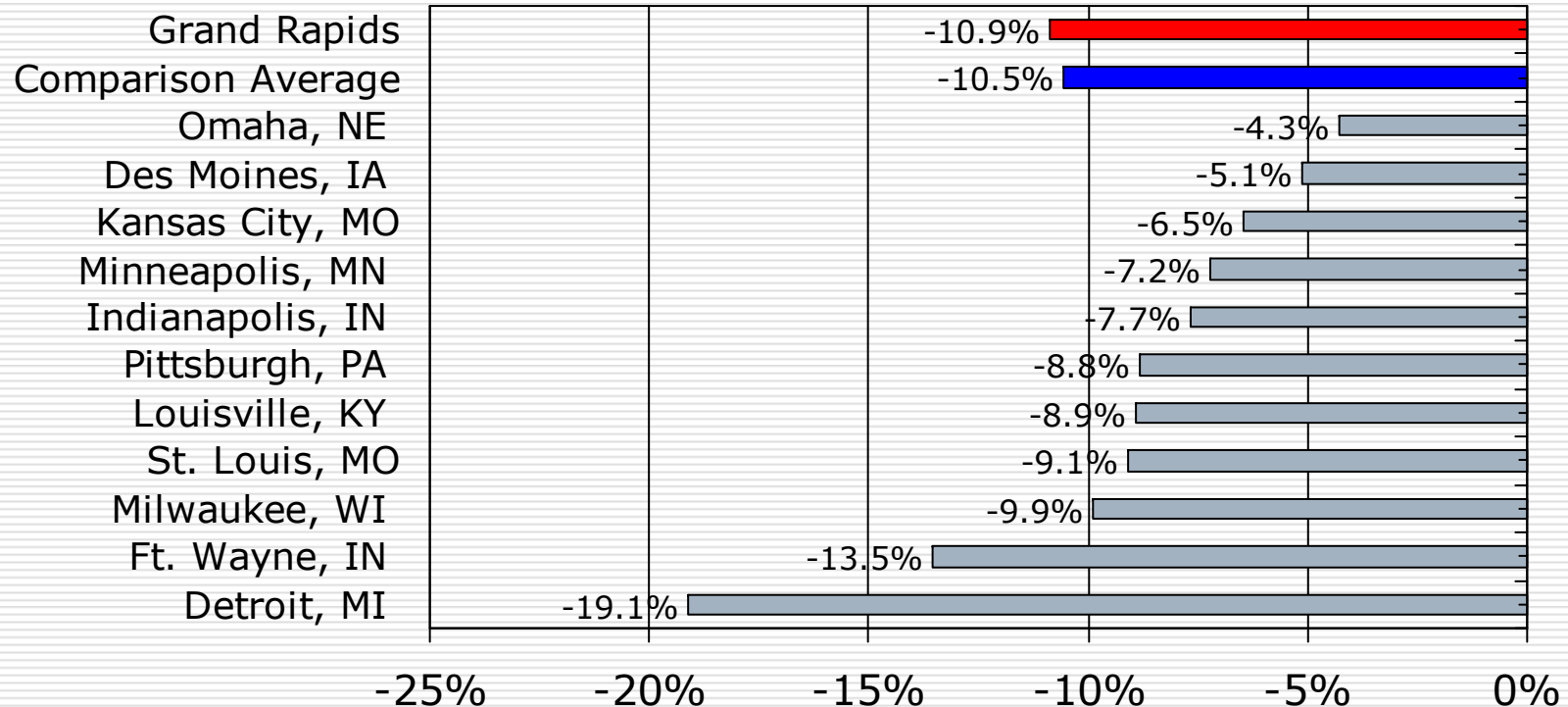
This was true in services as it was in....

Percent Change in Service Employment
Jan-Oct 2008 to Jan-Oct 2009



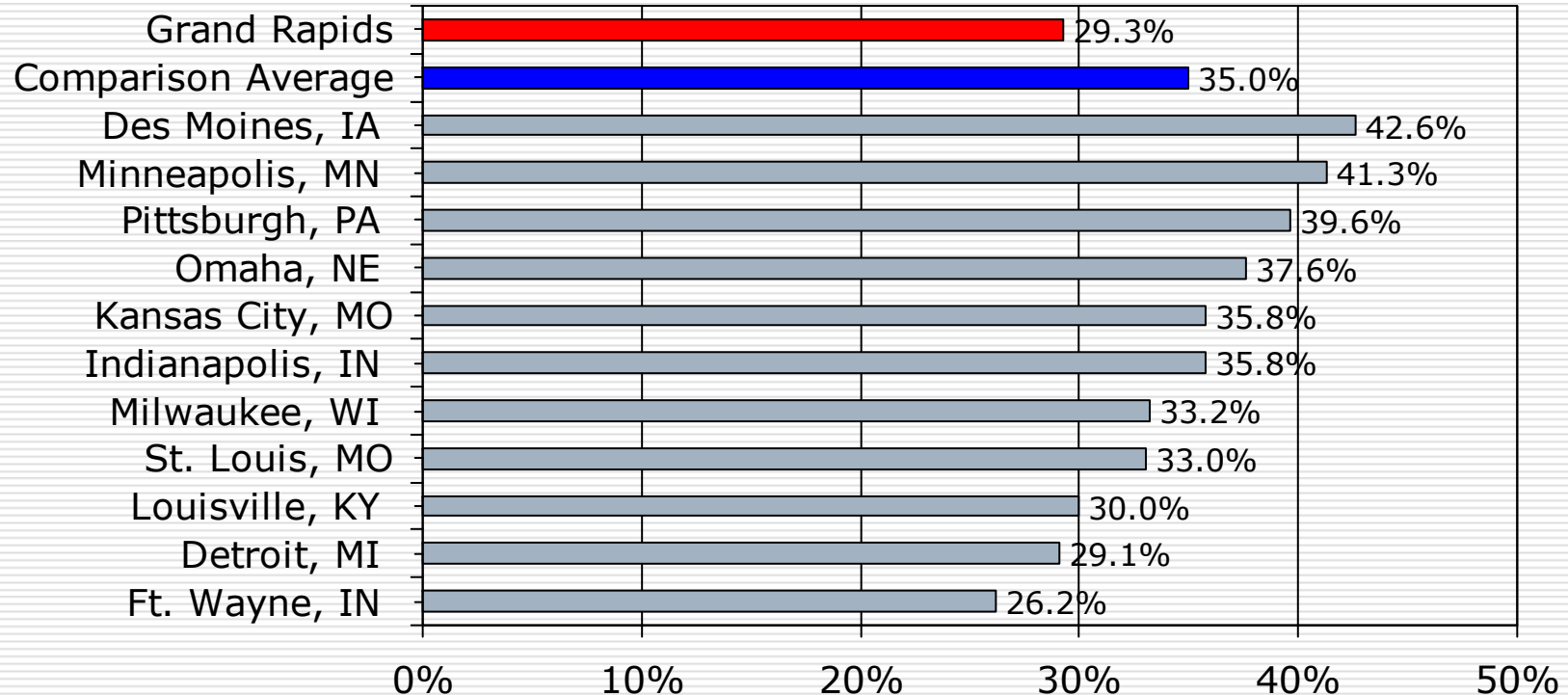
manufacturing where Grand Rapids ranked only 10th among the 12 areas.

Percent Change in Manufacturing Employment
Jan-Oct 2008 to Jan-Oct 2009



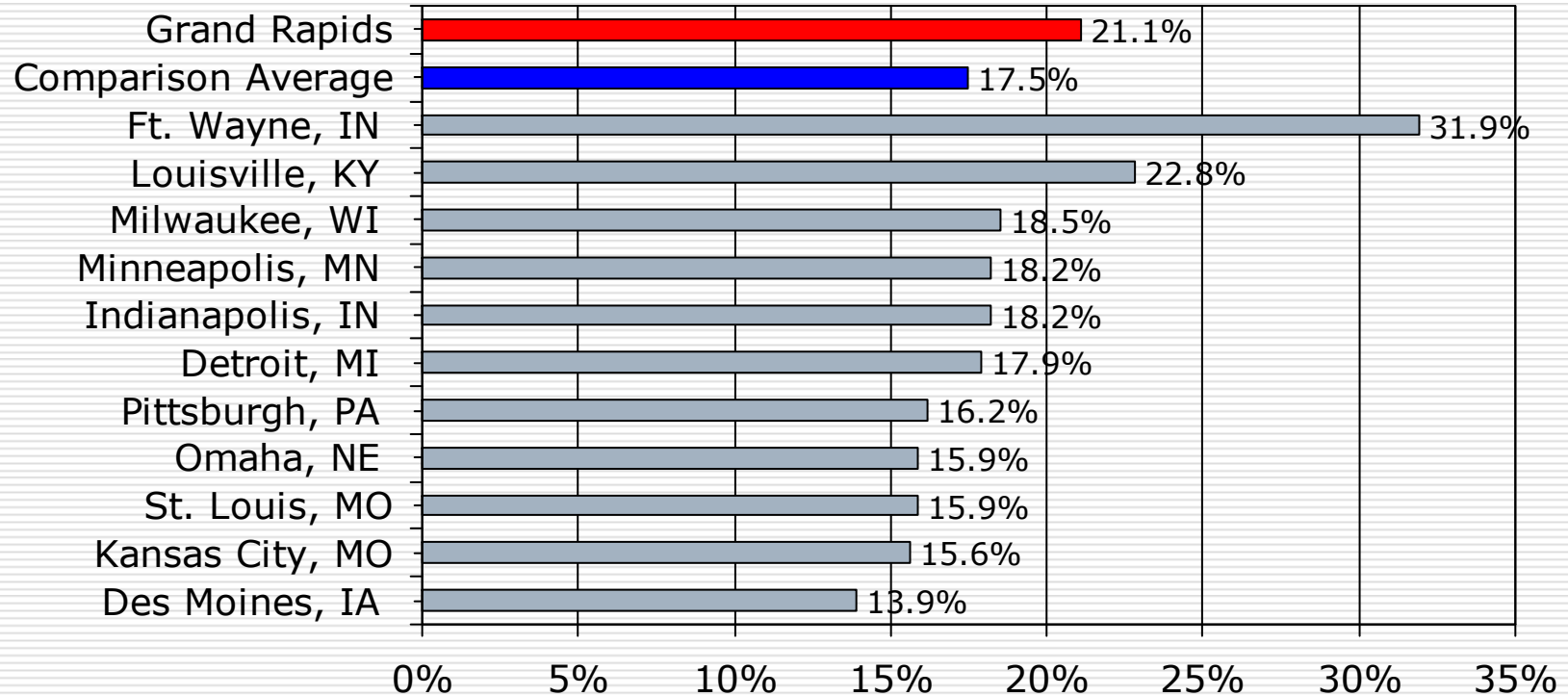
One of the long-term challenges facing the region is its lagging education achievement of its young adults.

Percent of 25-34 Year-Olds with Bachelor's Degree or Higher



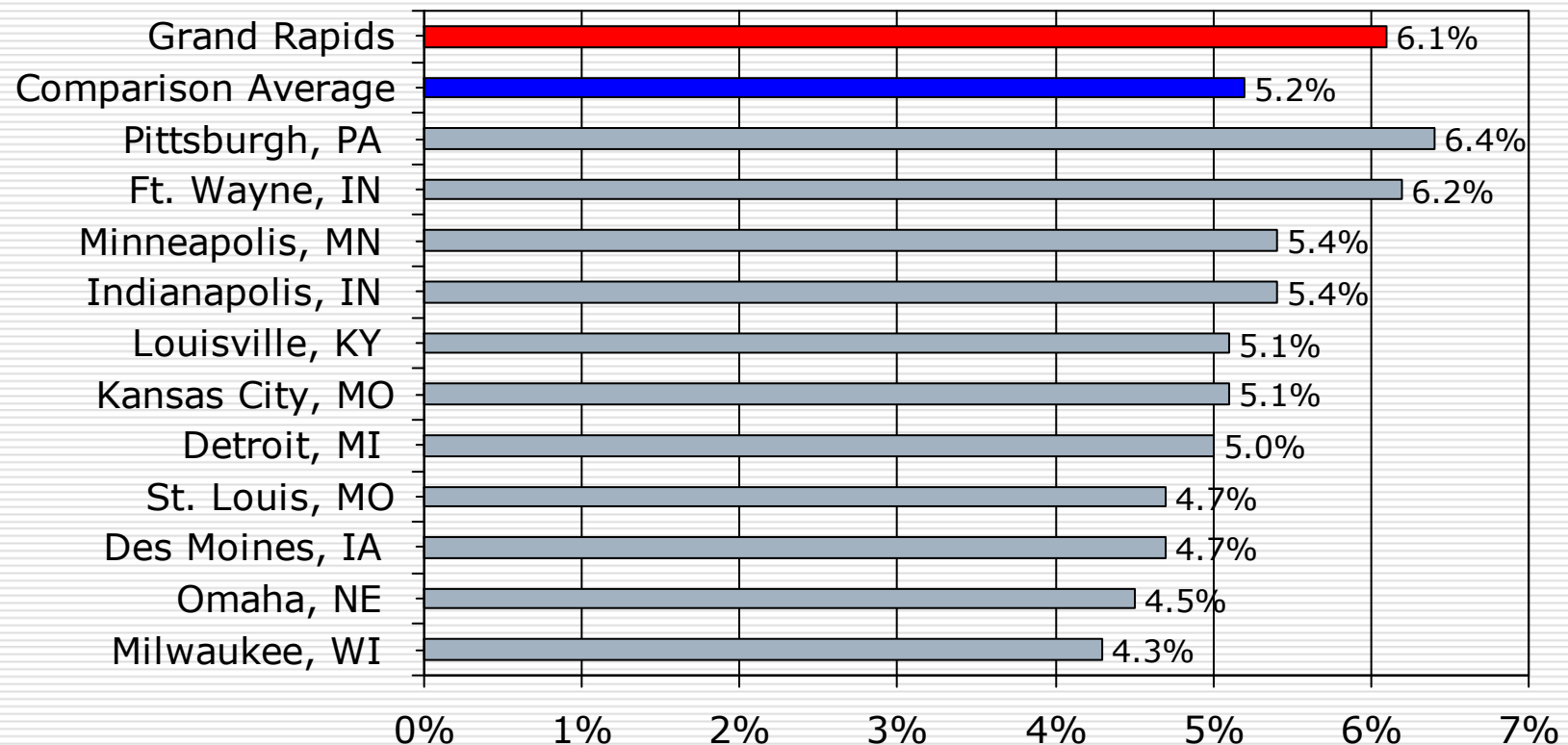
Still, Grand Rapids maintains an entrepreneurial environment.

Percent of Self-Employed in Professional, Scientific, or Technical Industries



And, it still ranks high in job creation.

Job Creation as a Percent of Total Employment in 2008



Current Situation

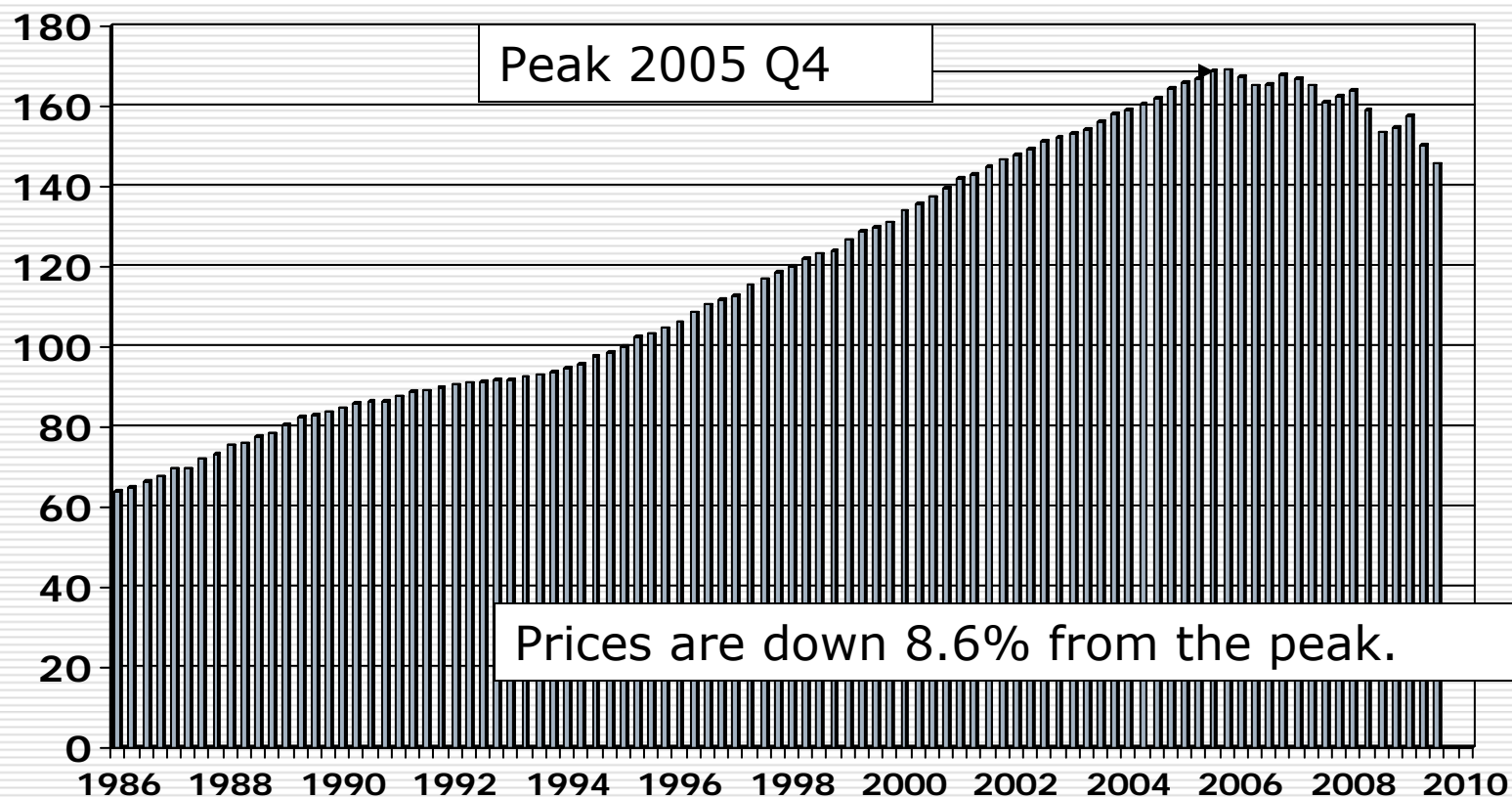
- The bad news:
 - The MSA's third quarter unemployment rate stood at 12.0% from 7.6% just a year ago. *46,800 unemployed job seekers.*
 - Third quarter's total employment is down by 4.6% from last year. *The only major section reporting growth was health care and private education.*
 - Housing starts are still off by 11.7% from last year.
 - Housing prices are still shaky.
-

Current Situation (cont'd)

□ The good news:

- New unemployment insurance claims were down in the third quarter—*Down by 42% from the second quarter.*
 - The region's purchasing managers index is nicely up.
 - Manpower reported fairly positive employment for the third quarter.
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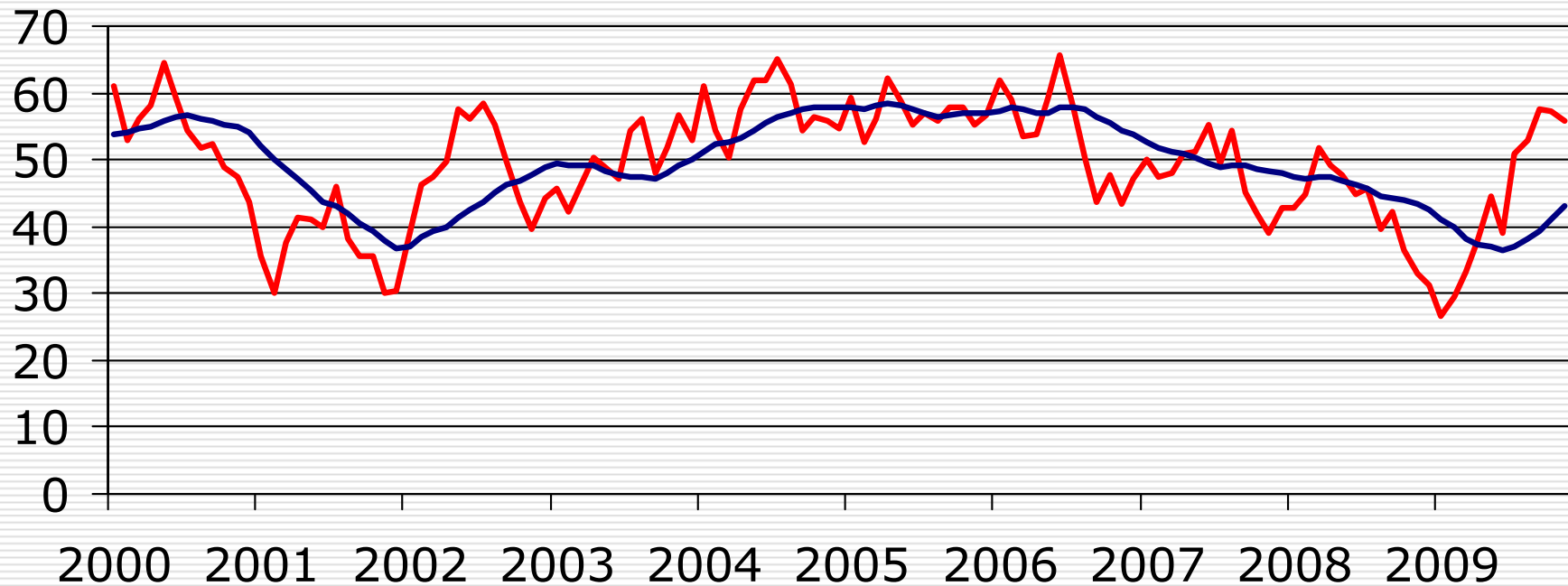
Housing Prices in the Grand Rapids MSA (1995 = 100)



Source: OFHEO

The Grand Rapids Purchasing Managers Index has turned around.

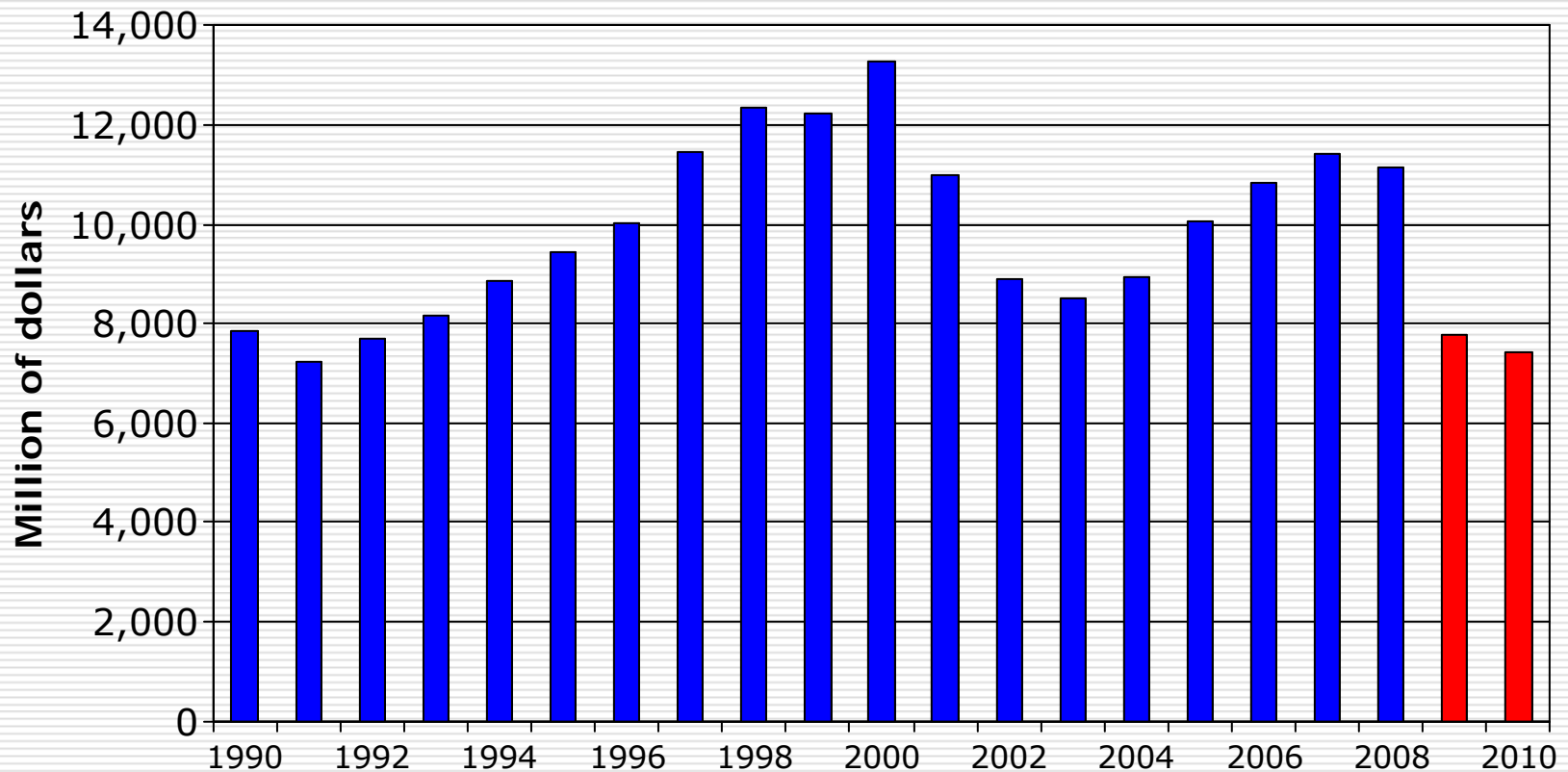
Purchasing Managers Index
(50 = an expanding manufacturing sector)



Source:ISM Greater Grand Rapids, Inc.

Office furniture production forecast is not promising.

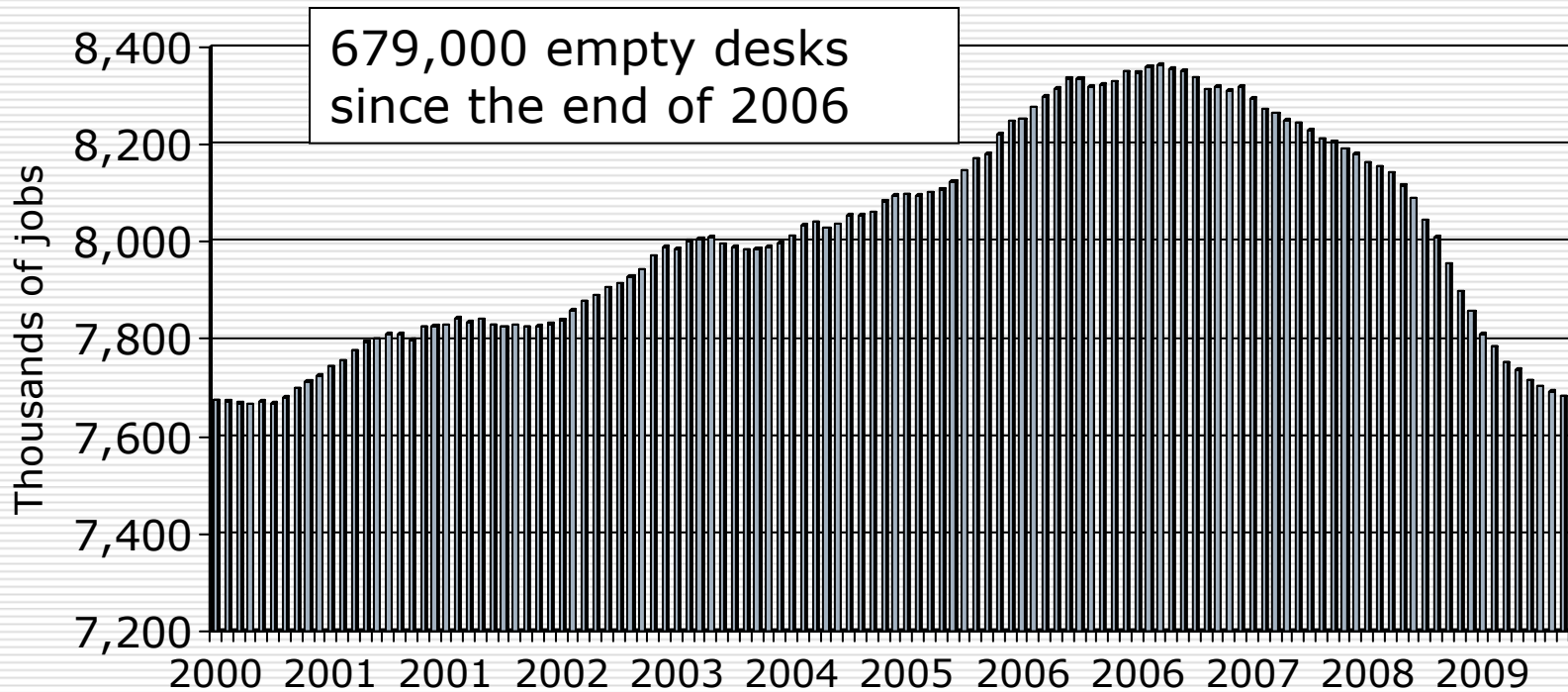
The October reading of the Overall MADA/OFI index stood at 51.45, which is the highest reading since July 2008



Source: BIFMA

A lot of empty desks and chairs in the financial sector.

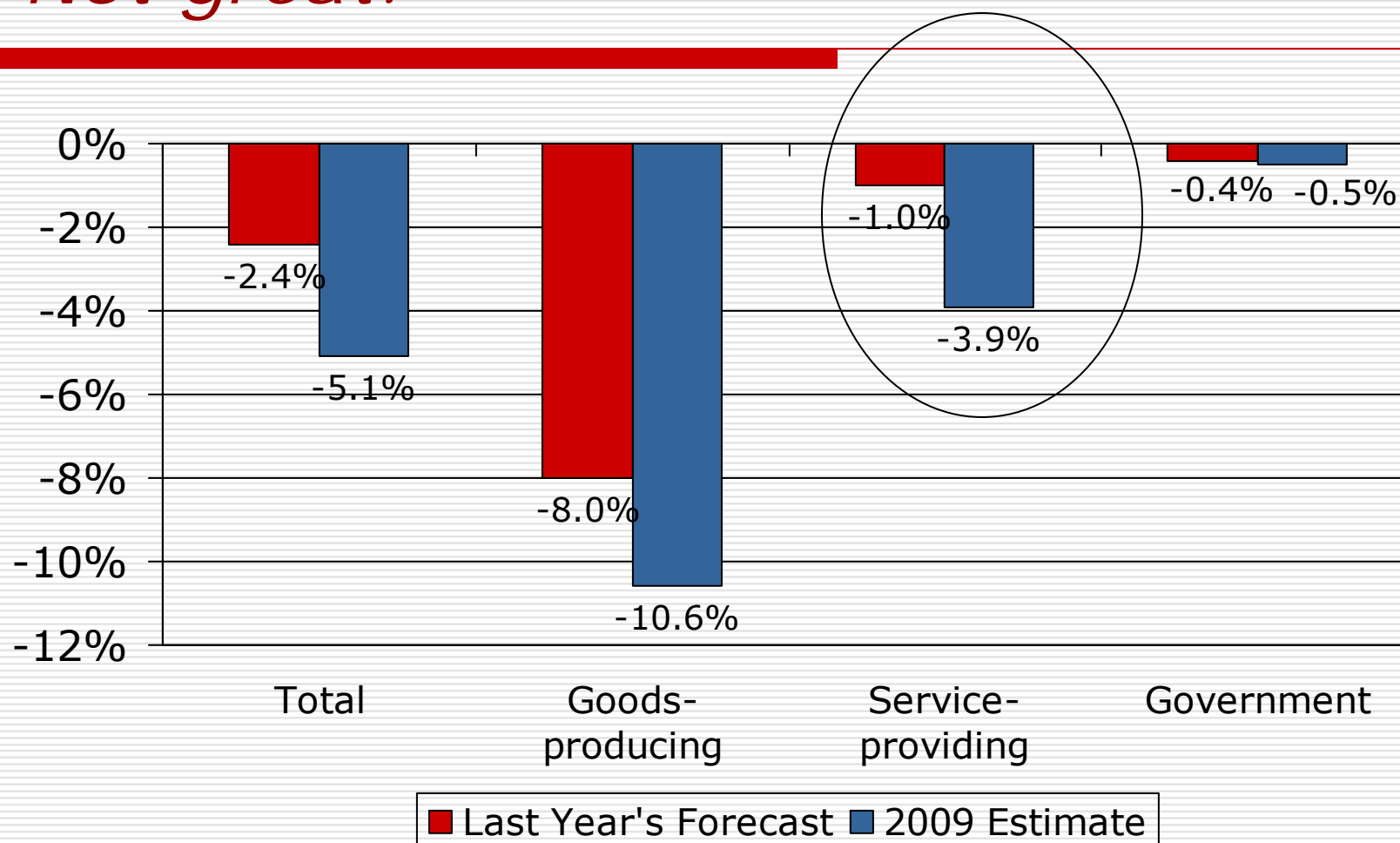
Employment in Financial Activities



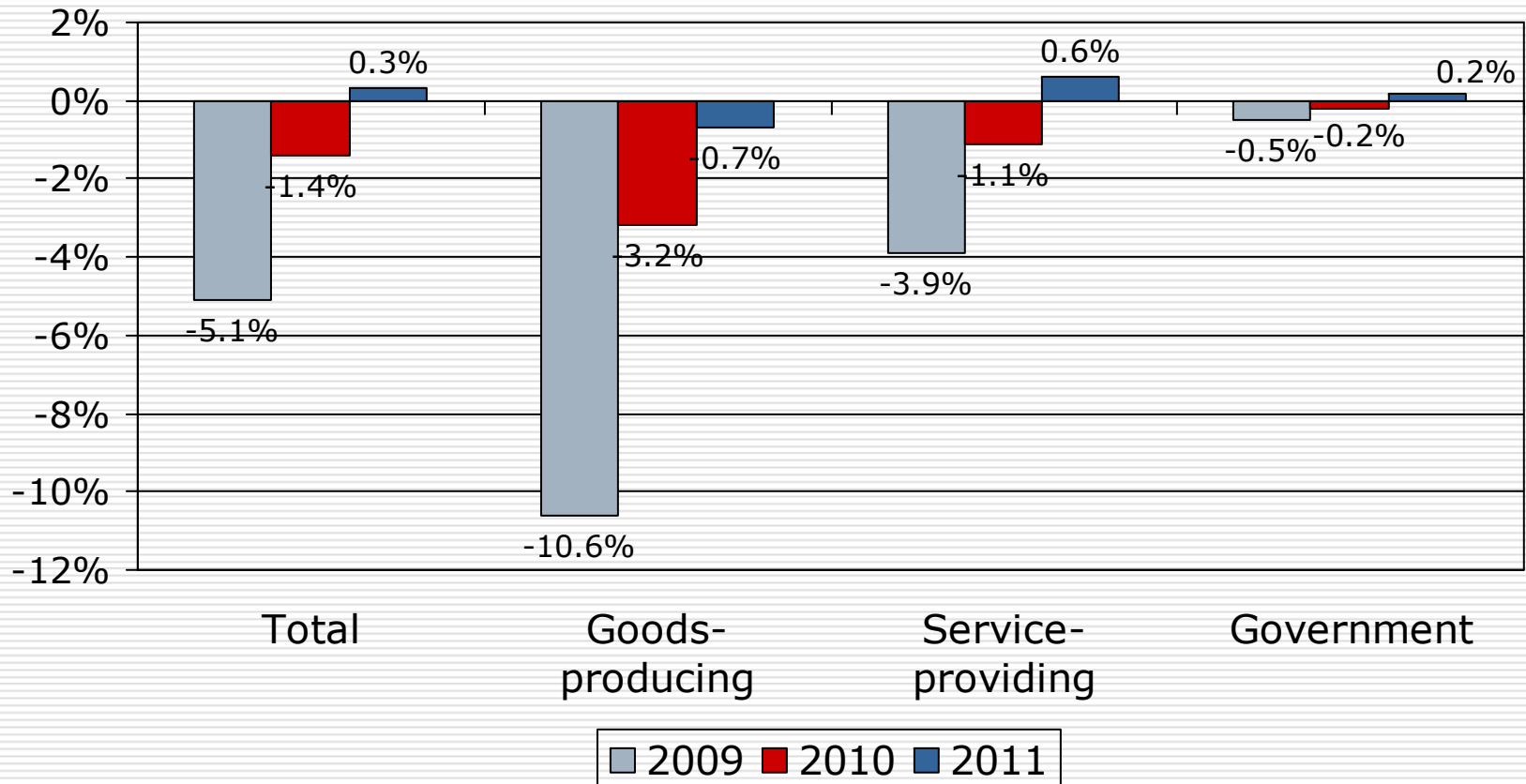
Source: BLS

So, how did we do last year?

Not great.



Our employment forecast for 2010— down by 1.4 percent

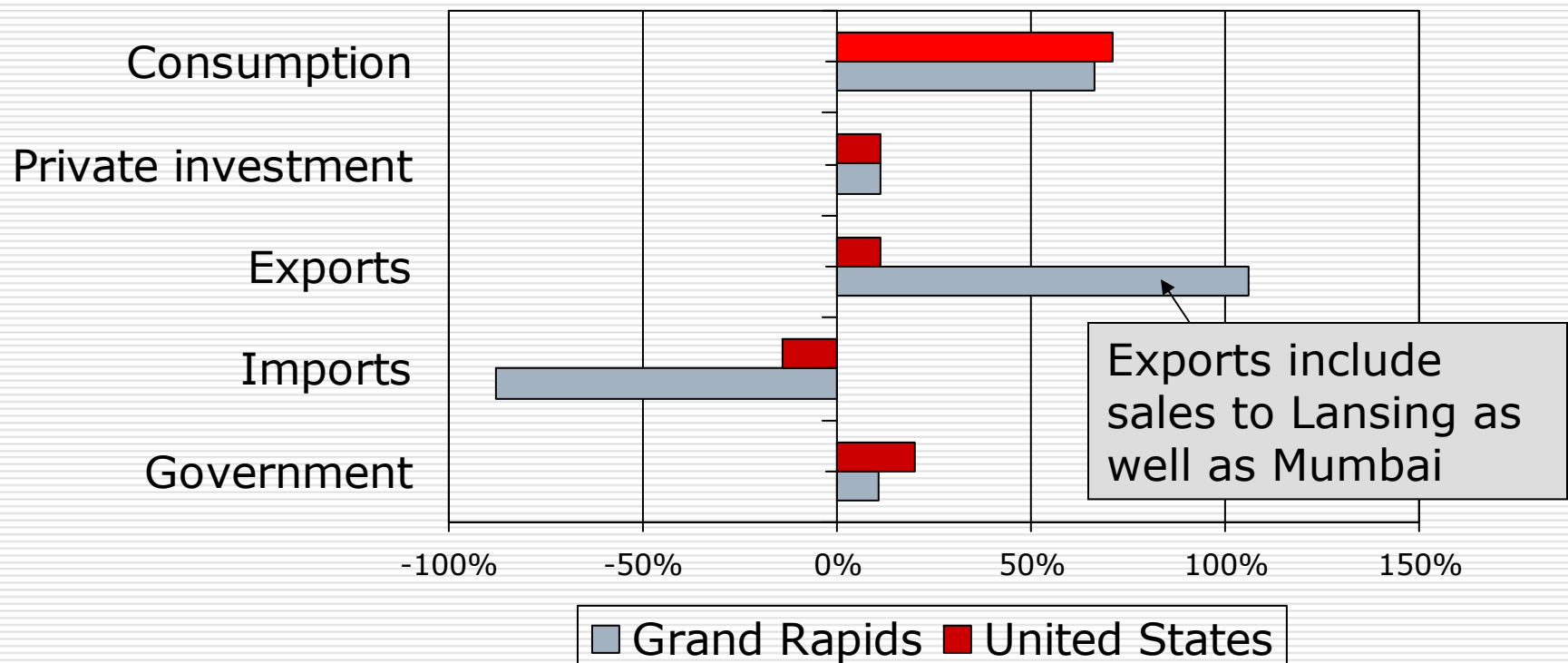


Thoughts about the Nation of Grand Rapids

- ❑ A country of four counties.
- ❑ No monetary policy – Statesdollars
- ❑ Fiscal policy:
 - Limited, due to balance budget requirements
 - Gets social assistance from United States government.

The country of Grand Rapids is much more dependent on exports than the greater U.S.

Components of Gross Domestic Product



Like most all small countries, Grand Rapids depends upon trade.

□ Growth options:

- Export more
- Import less: become more self-sufficient
- Attract more consumers

□ Questions to answer:

- What do we export?
- Who depends on exports?

What does the region export?

□ Top 5 industries account for 43.5% of the regions exports

- Auto suppliers
- Furniture
- Machinery
- Food Products
- Wholesale

□ Top 10 account for 67%

- Computers
- Chemicals
- Plastics
- Insurance
- Administrative services

Who depends upon the region's exports?

- Everyone, but 37 percent of the region's workers depend directly on exports.

Export Dependent Employment

Top Export Employment Industries	Impacted workers	% of Industry Workforce
Administrative services	19,265	46.8%
Wholesale trade	8,858	42.6%
Hospitals	7,557	41.6%
Retail trade	7,317	17.1%
Auto suppliers	6,903	92.1%

Policy Options for the Country

- Import substitution
 - Can't put up tariffs
 - Can build better networks
- Attract more consumers
 - Can't lower taxes and maintain services.
 - Hard to provide better public services without raising taxes.
 - Quality of life factors are hard to move.

Leaves only one major option— *Increase exports.*

- Nearly all of the region's sectors export.
- Different markets
 - 27% of export employment depends on regional sales (*selection and expertise*)
 - 63% on national markets
 - 10% on international markets
 - Cost, quality, and design/innovation with, I believe, a growing importance on the latter.

Importance of Design

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.

West Michigan Economic Outlook 2010-2011

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