

# Kalamazoo Economy Midyear Review

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George A. Erickcek

W.E. Upjohn Institute for Employment Research

# Agenda

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- ❑ National Outlook—*There are signs of spring.*
- ❑ Michigan—*Are we looking into a tunnel or a mine?*
- ❑ Kalamazoo County is better than any other area in the state.
- ❑ Reflections on the local housing market.

Good News! We only declined by 0.7% in the second quarter.

## Annualized Percent Change in GDP



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

# National outlook: The nation's economic indicators have improved.

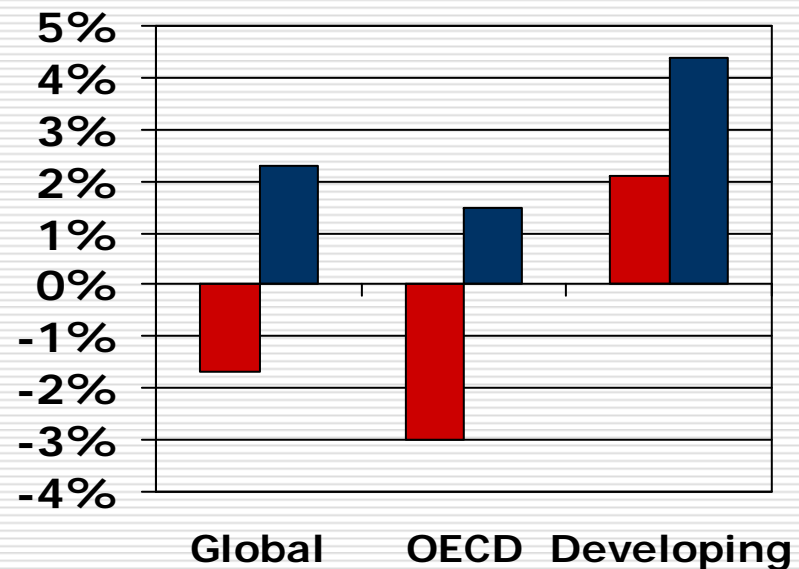
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<input type="checkbox"/> Employment	RED
<input type="checkbox"/> Residential construction	YELLOW
<input type="checkbox"/> Consumer confidence	RED
<input type="checkbox"/> Consumer financial conditions	YELLOW
<input type="checkbox"/> Credit markets	YELLOW
<input type="checkbox"/> ISM Purchasing Mgrs. Index	YELLOW
<input type="checkbox"/> Stock market	YELLOW
<input type="checkbox"/> Inflation	GREEN

# It's global!

- The 1.7 percent forecast decline in worldwide GDP would be the first on record!
- GDP in developed OECD countries is expected to fall this year.
- *However, Japan, Canada, France and Germany all reported positive growth in the second quarter.*

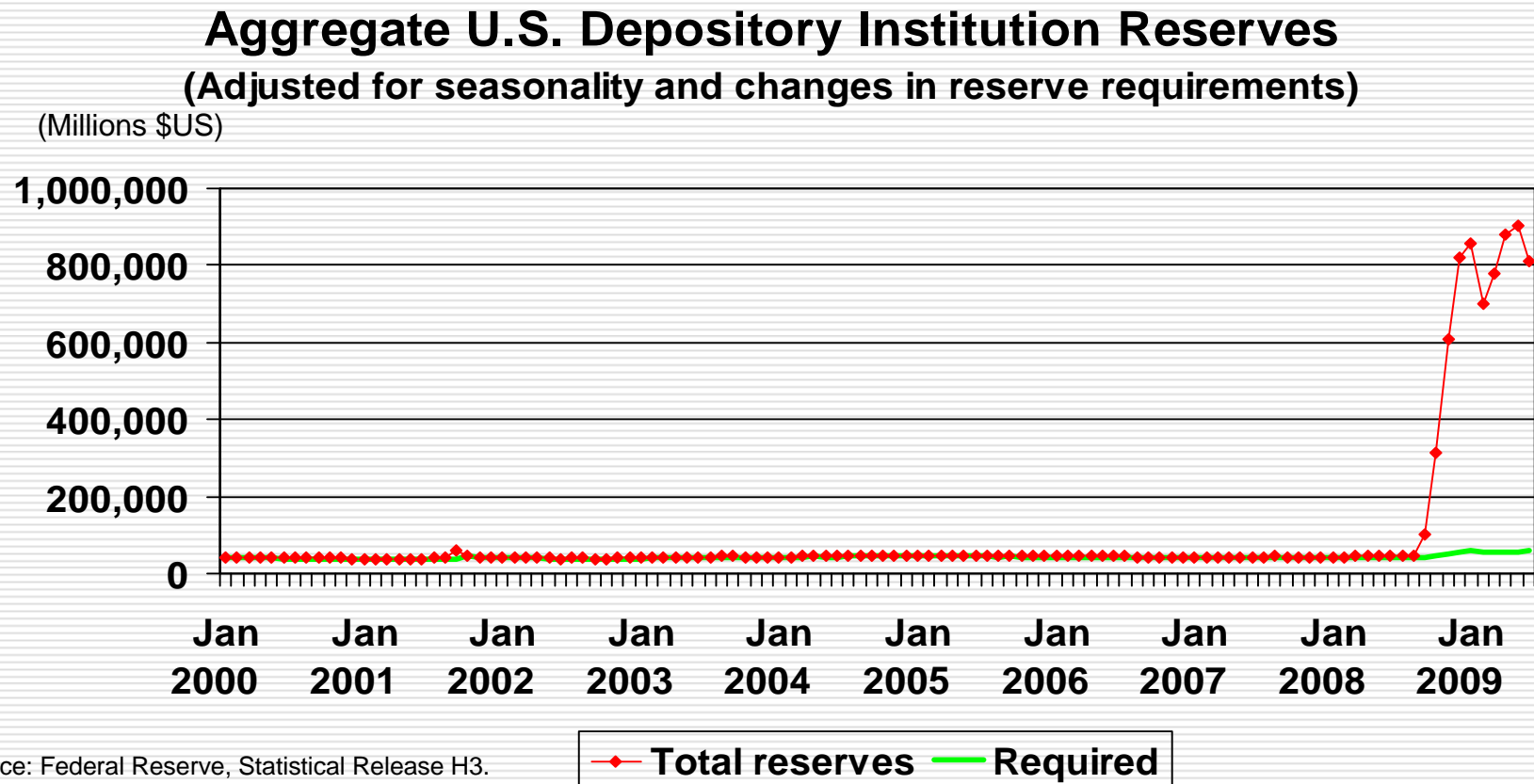
**Forecast 2009 GDP Growth Rates**



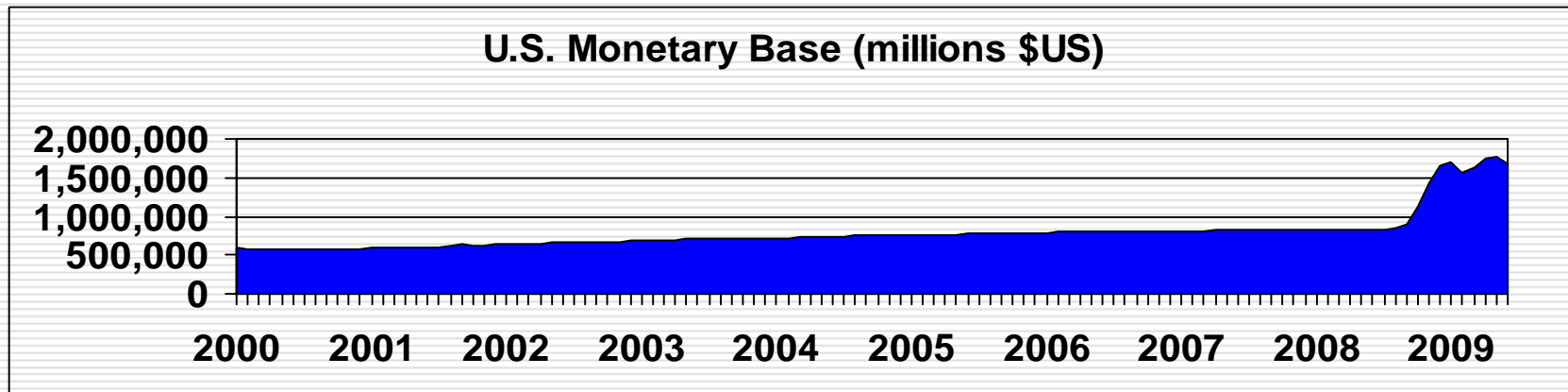
■ 2009 ■ 2010

Source: World Bank, *Global Economic Prospects 2009: Forecast Update*, March 30, 2009.

# Banks continue to hold on to their reserves.



# The nation's money supply has doubled over the past year!



- ❑ Federal stimulus efforts and bank bailouts have led to a substantial increase in the amount of money in the system.
- ❑ However, inflation remains low. Consumers are paying down debts and saving, while banks are hoarding cash reserves.
- ❑ Our international trading partners are also holding a lot of dollars.
- ❑ However, when there is too much money chasing too few goods, inflation is often the result.

Source: Federal Reserve, Statistical Release H3.

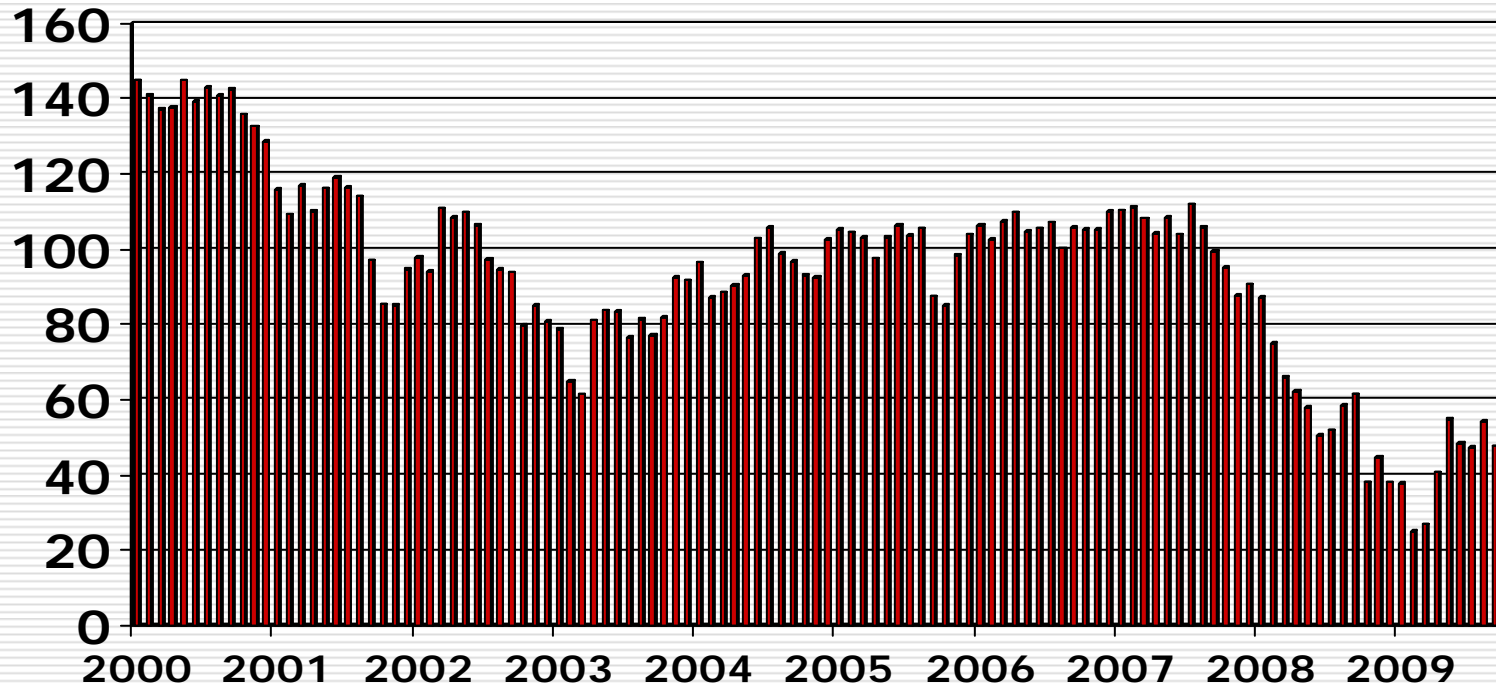
# Consumers

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- ❑ Confidence is slowly returning.
- ❑ The housing market has stabilized.
- ❑ Retirement savings remain troubled, but the savings rate has increased dramatically.
- ❑ Job outlook is not good.

# Consumers' confidence is still low and dropped recently.

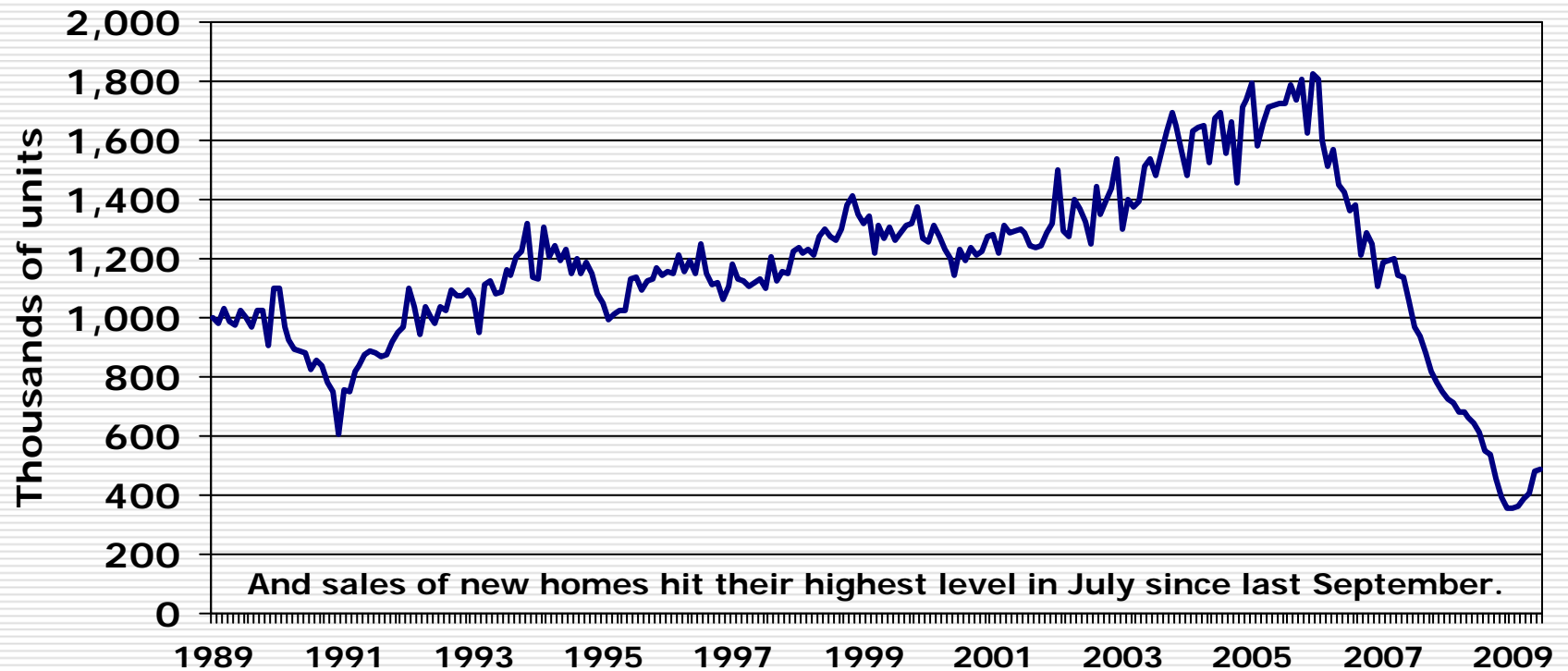
Consumer Confidence (1995=100)



Source: Conference Board.

# The nation's housing market is turning around.

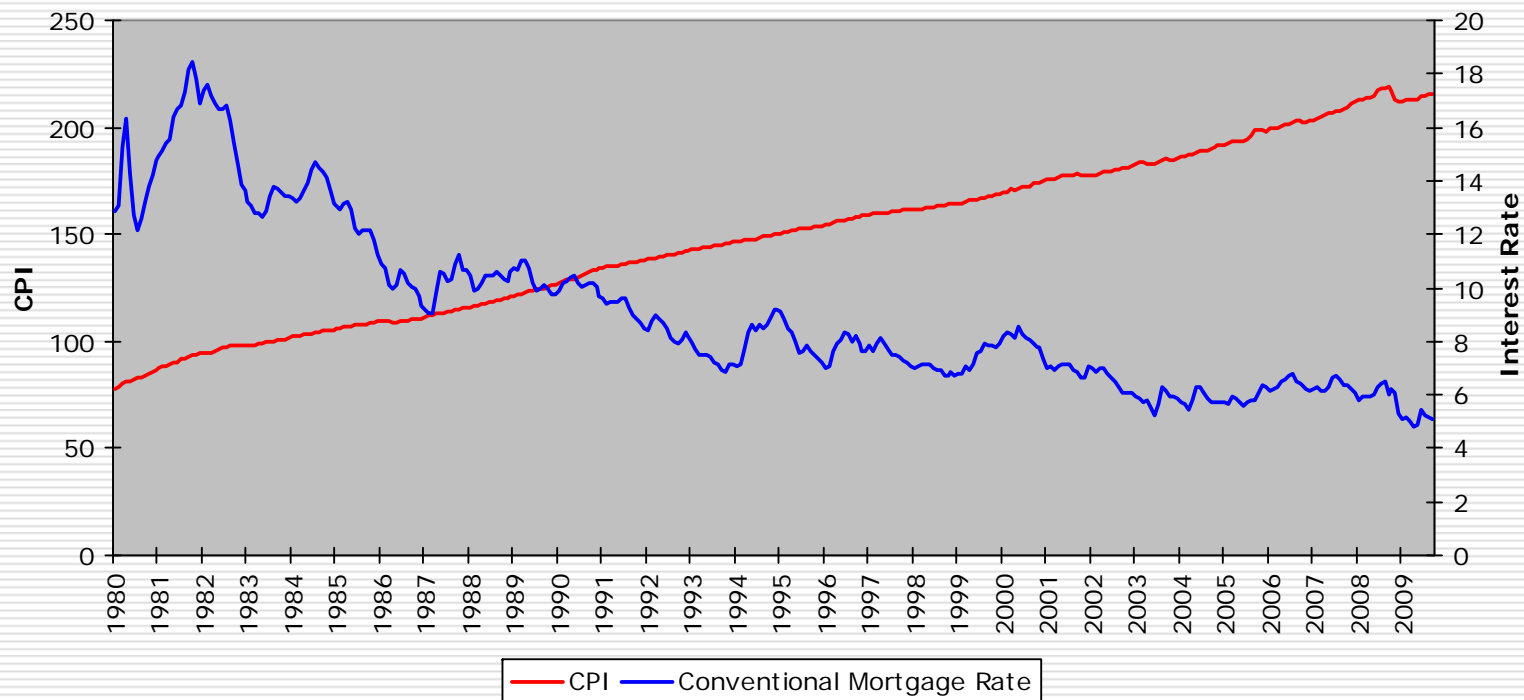
## Seasonally Adjusted Annual Rates



Source: U.S. Census

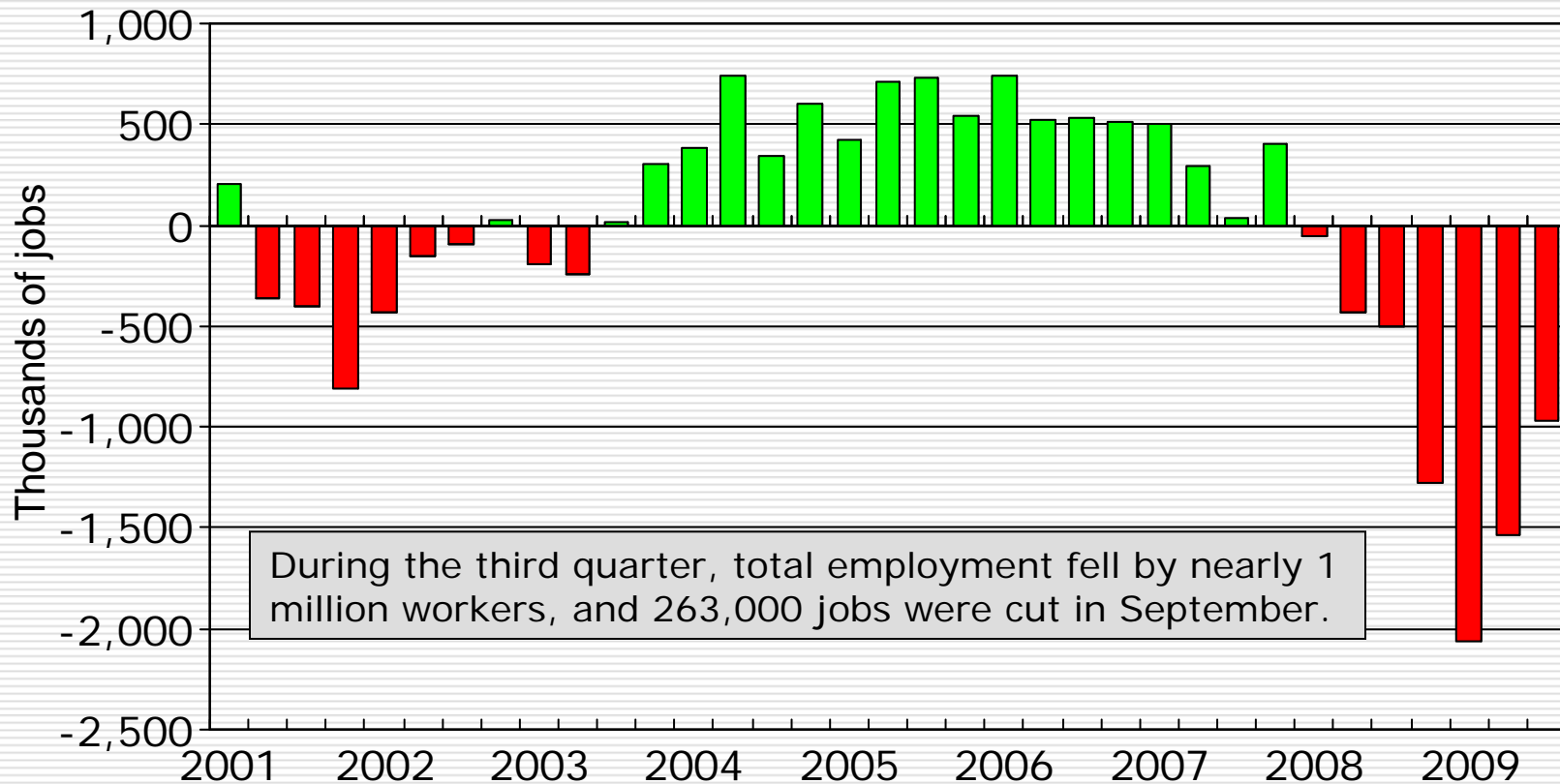
# Mortgage rates are still extremely low

Consumer Price Index and Conventional Mortgage Rate



Source: BLS, Federal Reserve

# Nationwide, employers are still cutting payrolls.



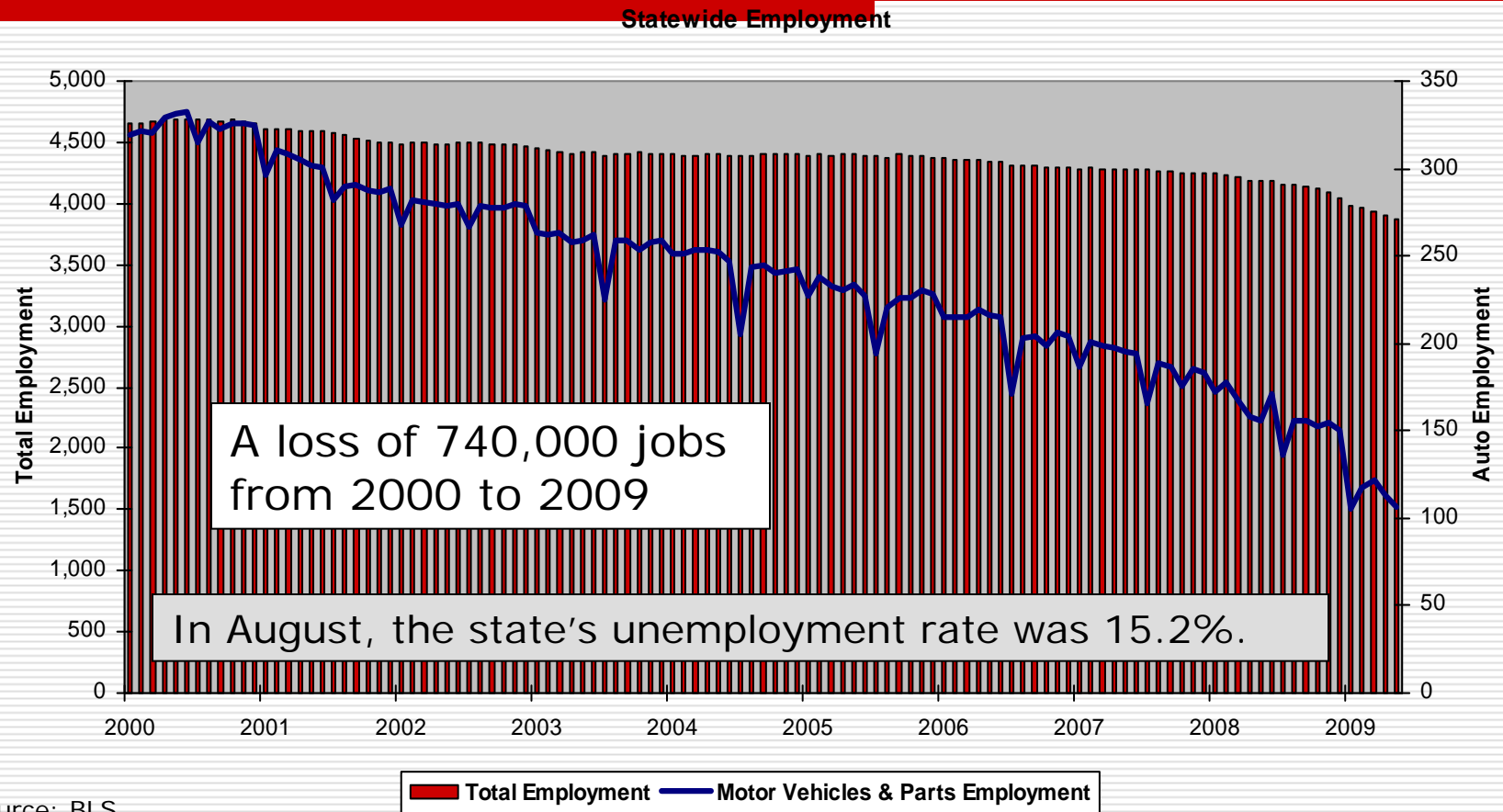
Source: BLS.

# Michigan remains in crisis.

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- ❑ A one-horse town with one sick horse.
- ❑ State government is facing a structural deficit that will not go away without a substantial change in its tax structure.
- ❑ Perceptions are important and hard to change.

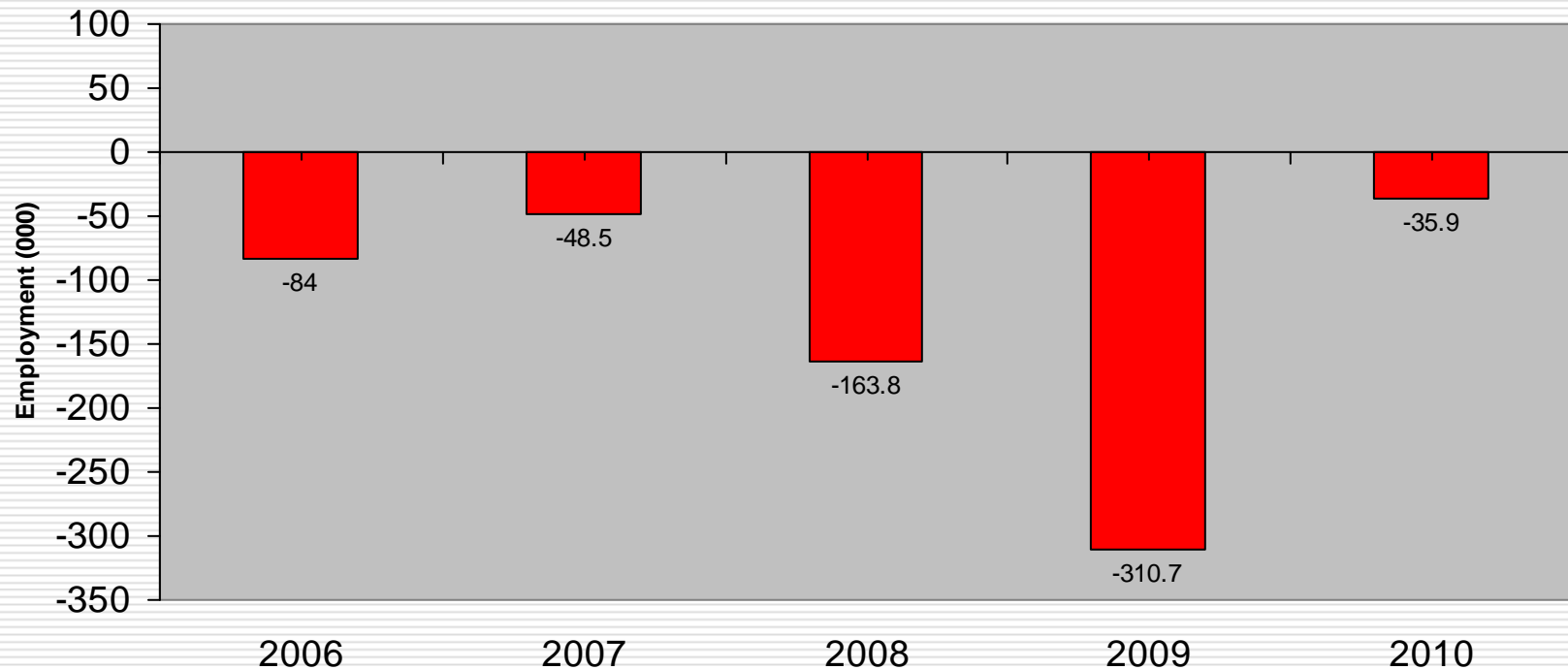
# With the national slowdown, the state's turnaround is further postponed.



Source: BLS.

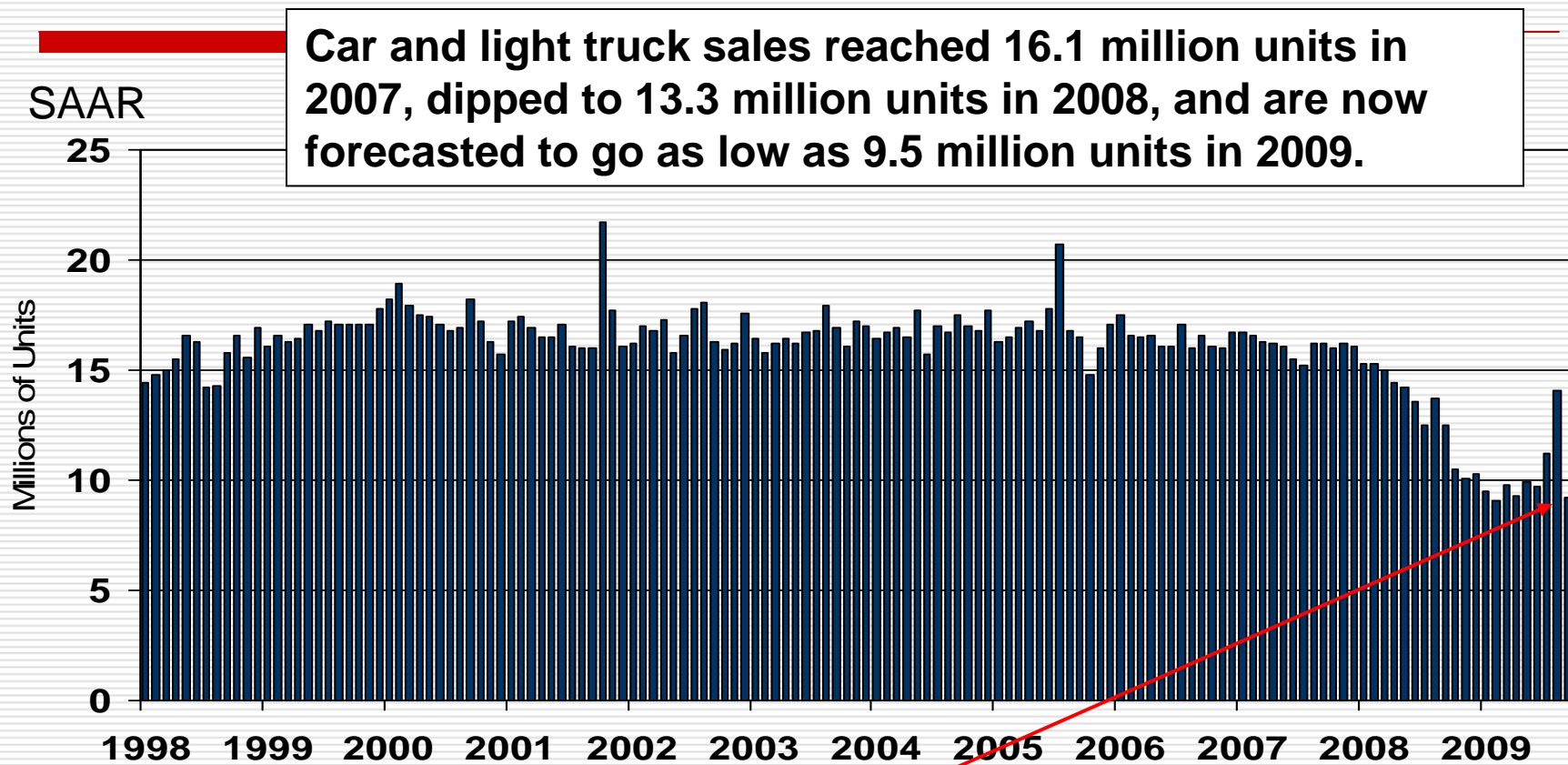
# Employment declined for 10 straight years.

Employment Change, 4th Quarter to 4th Quarter



Source: University of Michigan, July 2009.

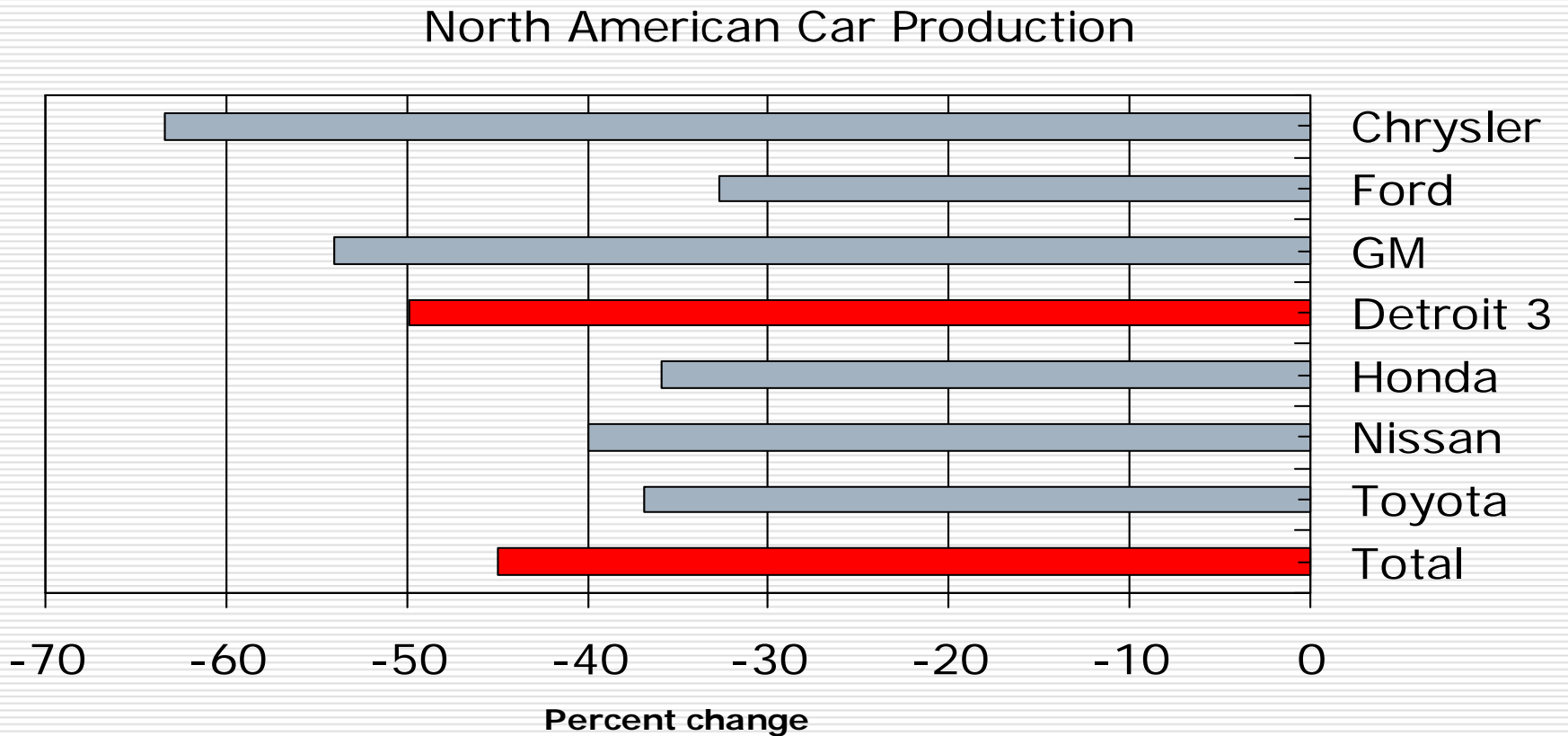
Now that clunkers are no longer gold, the showrooms are quiet.



Source: BEA.

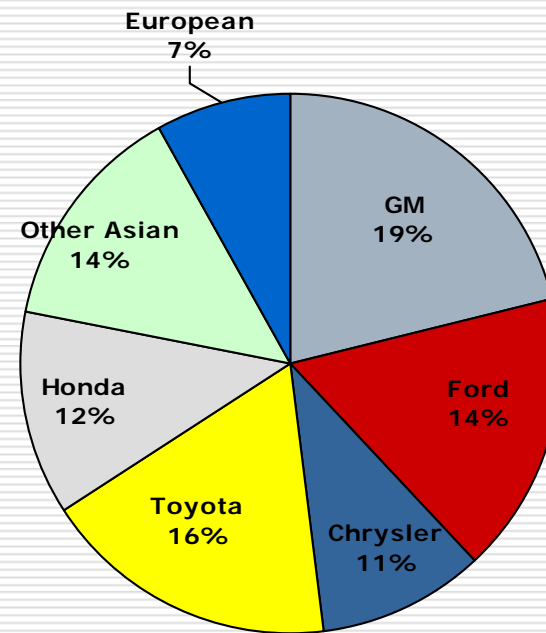
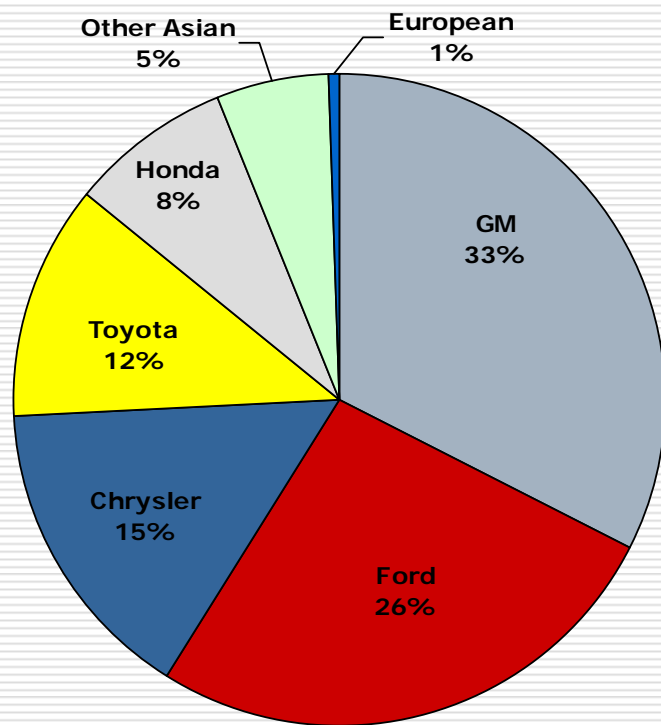
**The sales rate slowed to 9.2 million unit rate in September after posting a 14.1 million unit rate in August .**

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



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

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



Source: *Wards AutoWorld*.

**2001**

**YTD 3<sup>rd</sup> Q 2009**

# So, will GM make it?

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- The company will reportedly go from 47 factories to 34 by the end of 2010. U.S. employment will go from 91,000 at the end of last year to just 64,000 at the end of this year.
  - Their cars are not known for quality.
  - Their cars are not known for design.
  - Their management structure is a mess.
  - The car market is lousy.
  - The competition is not standing still.
  - Building trucks is different than building fuel-efficient cars.
  - And yet my kid (Dr. Kid to you) just researched, tested, and selected a Chevy Malibu over Honda and Toyota.

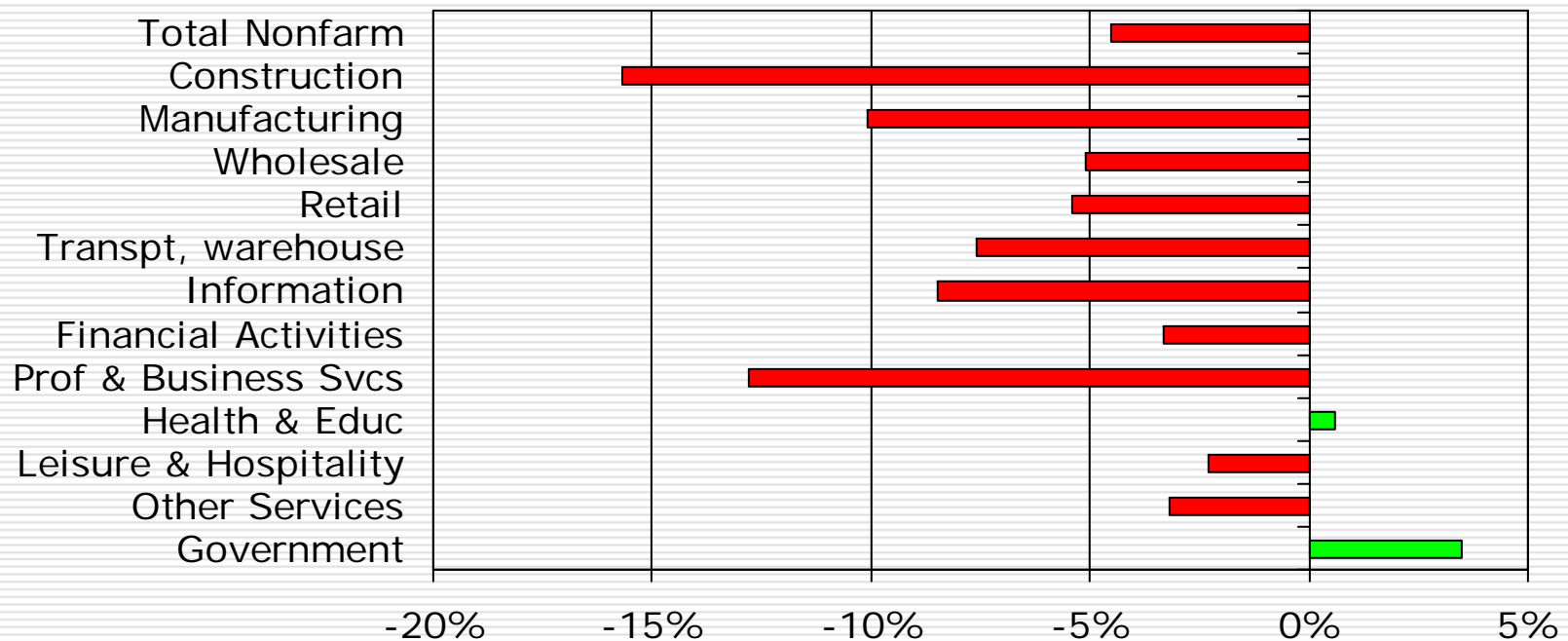
# Turning to Kalamazoo

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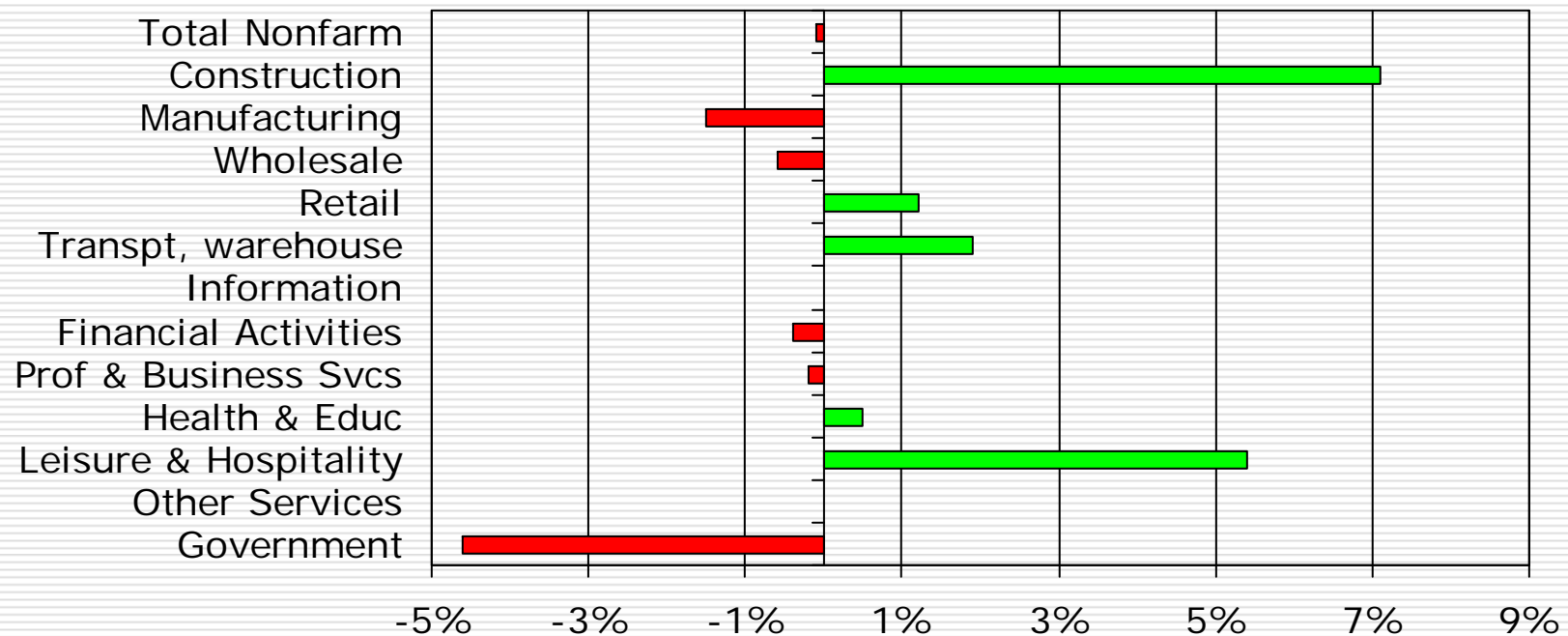
During the past four quarters, employment in the Kalamazoo-Portage MSA fell by 4.5 percent; however....

Kalamazoo Employment Change  
Second Quarter 2008 - Second Quarter 2009

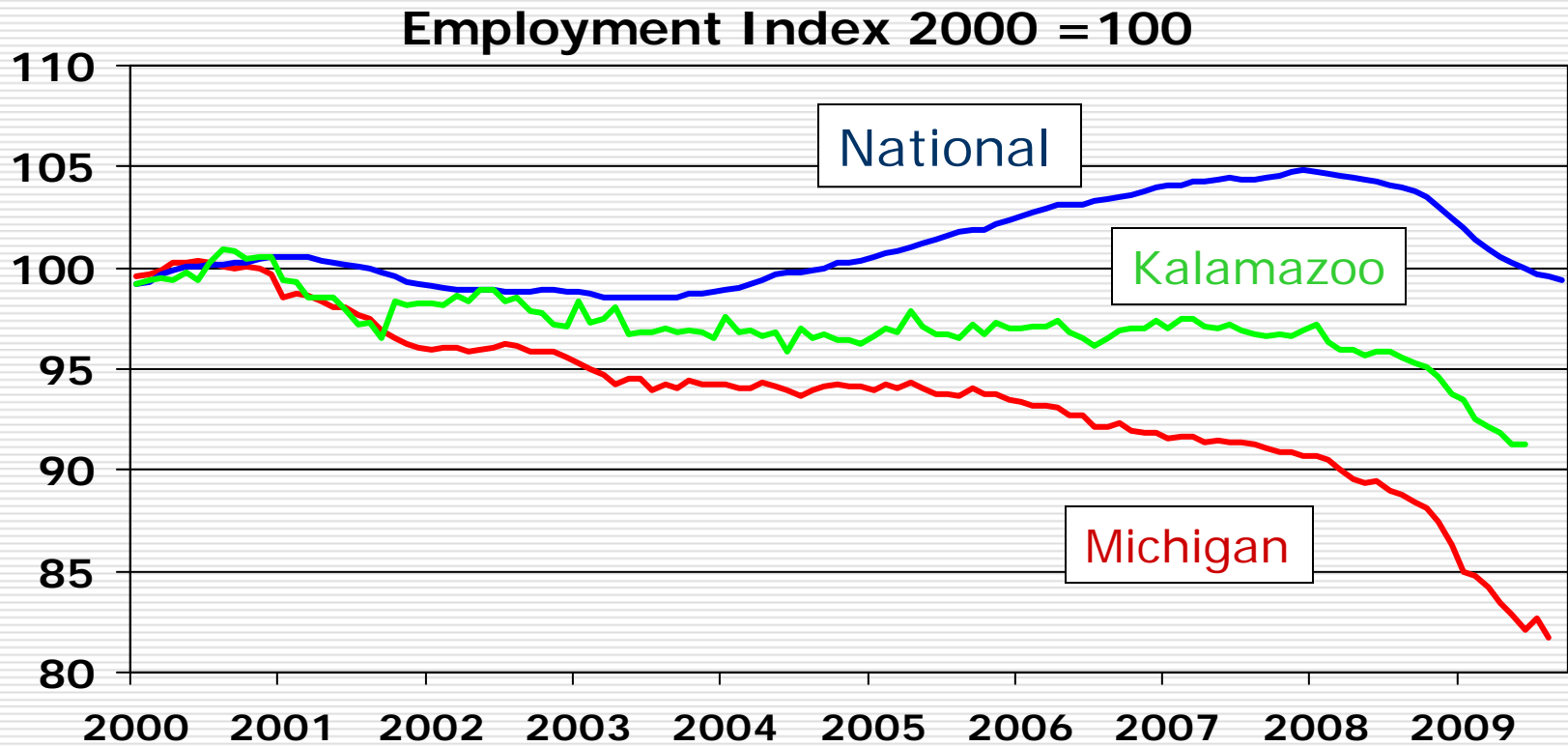


From the first to second quarter, *private employment* in the two-county area rose by 0.9 percent. A gain of 70 jobs.

Kalamazoo Employment Change  
First Quarter 2009 - Second Quarter 2009



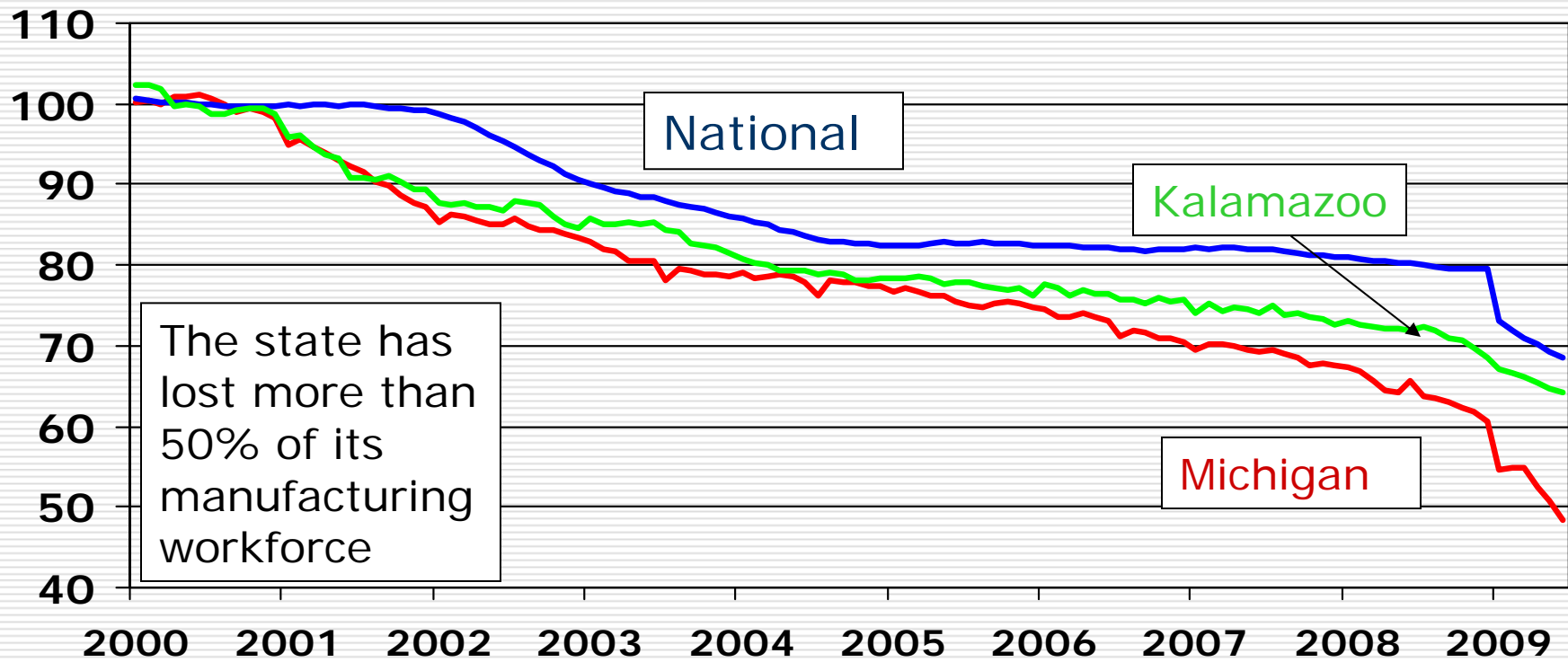
# Kalamazoo is stuck in the middle.



Source: BLS, Upjohn Institute

# Same for manufacturing

**Manufacturing Employment  
Index 2000 = 100**

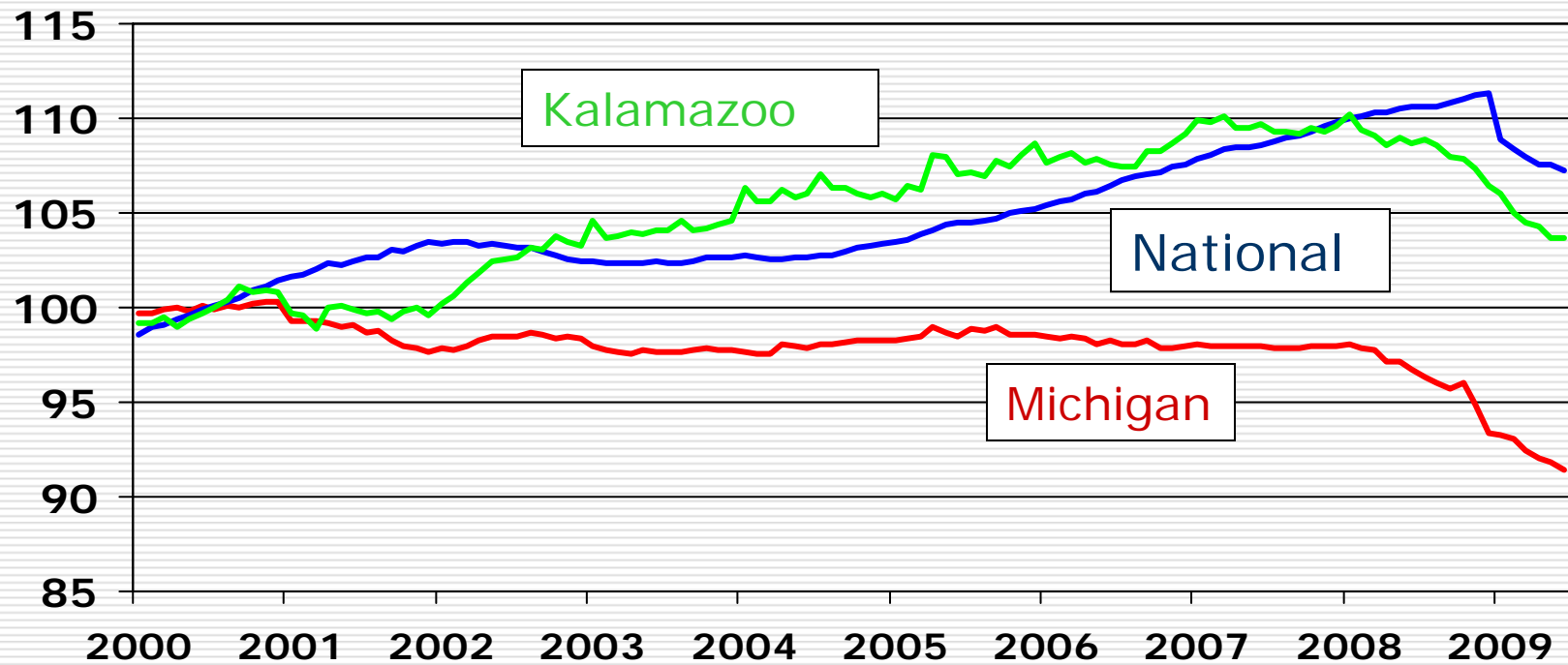


Source: BLS, Upjohn Institute

# Kalamazoo still remains a solid service center.



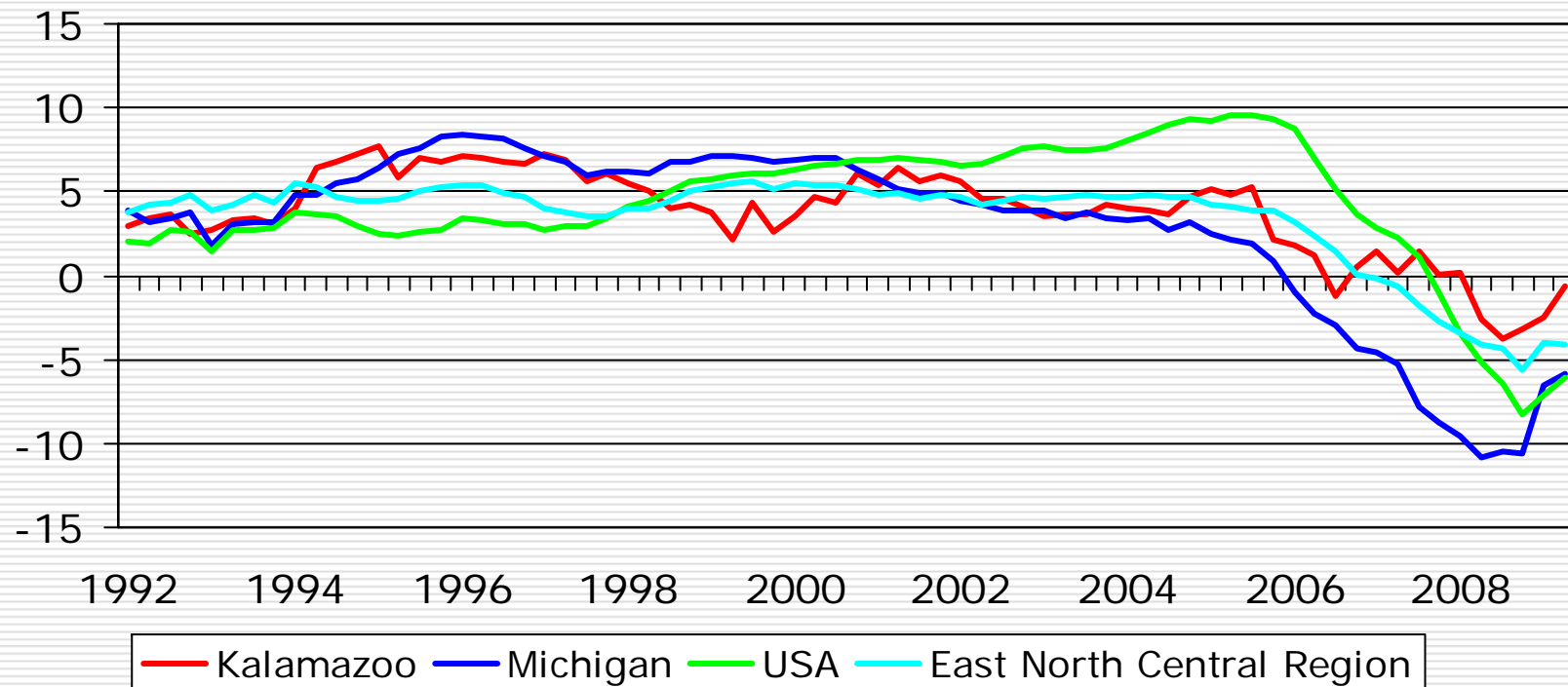
Private Services Employment Index 2000 = 100



Source: BLS, Upjohn Institute

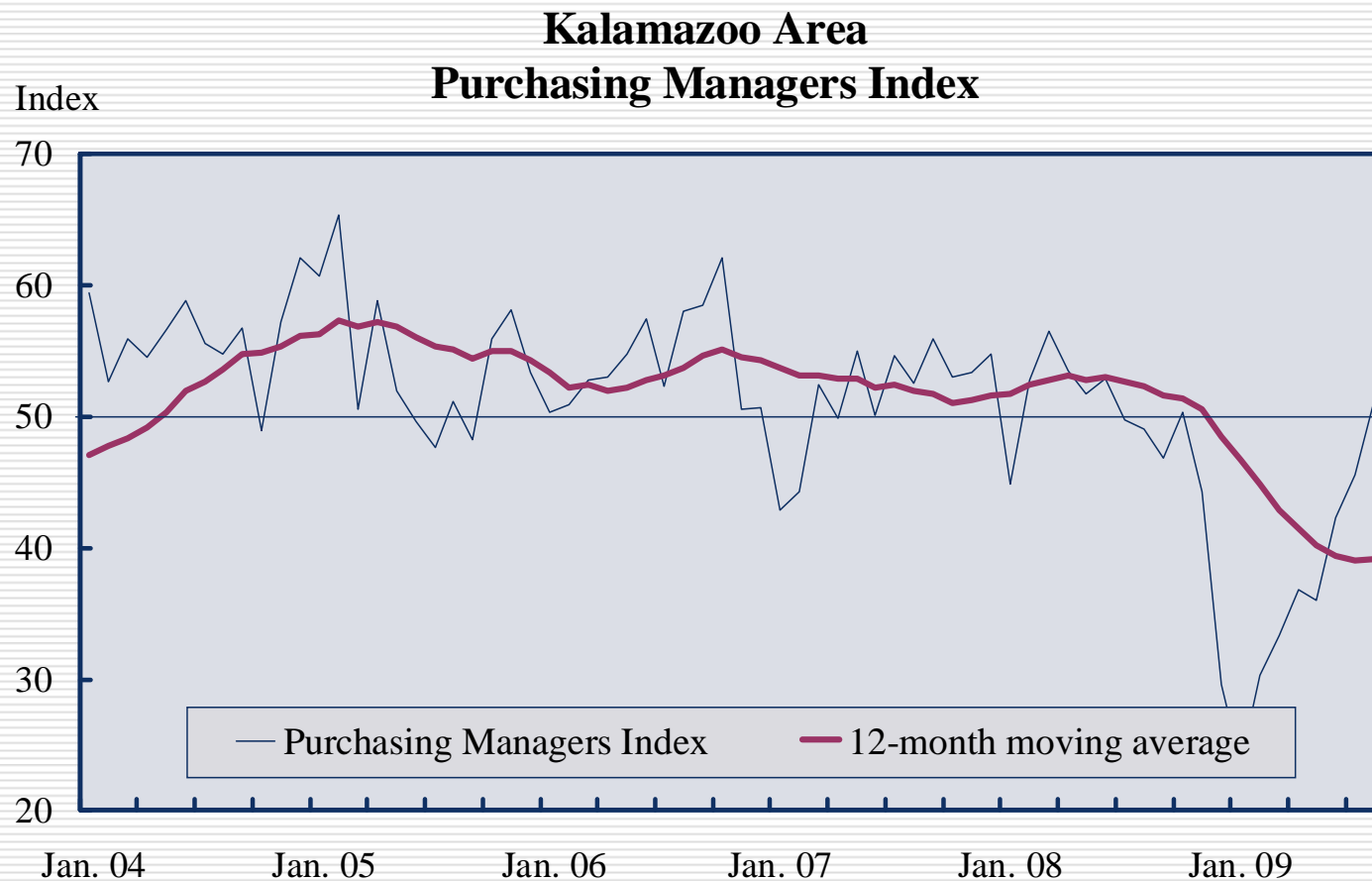
# Kalamazoo housing prices are more stable than U.S.

## Housing Price Index



Source: Federal Housing Finance Agency

Things are looking up in the county's manufacturing sector as well, according to Brian Long.



# Reflections on the Kalamazoo County Housing Market

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- Population growth is expected to remain modest for the next 10 years.
    - WMU enrollment is flat
  - Employment growth is expected to be slow as is the nation's.
    - Employers hold back in a recovery.
    - The fears of a double-dip are clear.
  - There are still plenty of housing units on the market, and there are few signs that prices are firming.
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