

The West Michigan Economy

Now What!

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Agenda

- National Outlook— *There are signs of spring.*
- Michigan— *Are we looking into a tunnel or a mine?*
- Now what?

Agenda (continued)

- Sharing Half-baked Thoughts
 - **The traditional way of doing economic development may not be as effective as before.**
 - *It is the firm's activity and not its industry that matters.*
 - *Innovation and design may be the key. Lean is good but maybe not enough*
 - *Thought on entrepreneurship*

Agenda (continued)

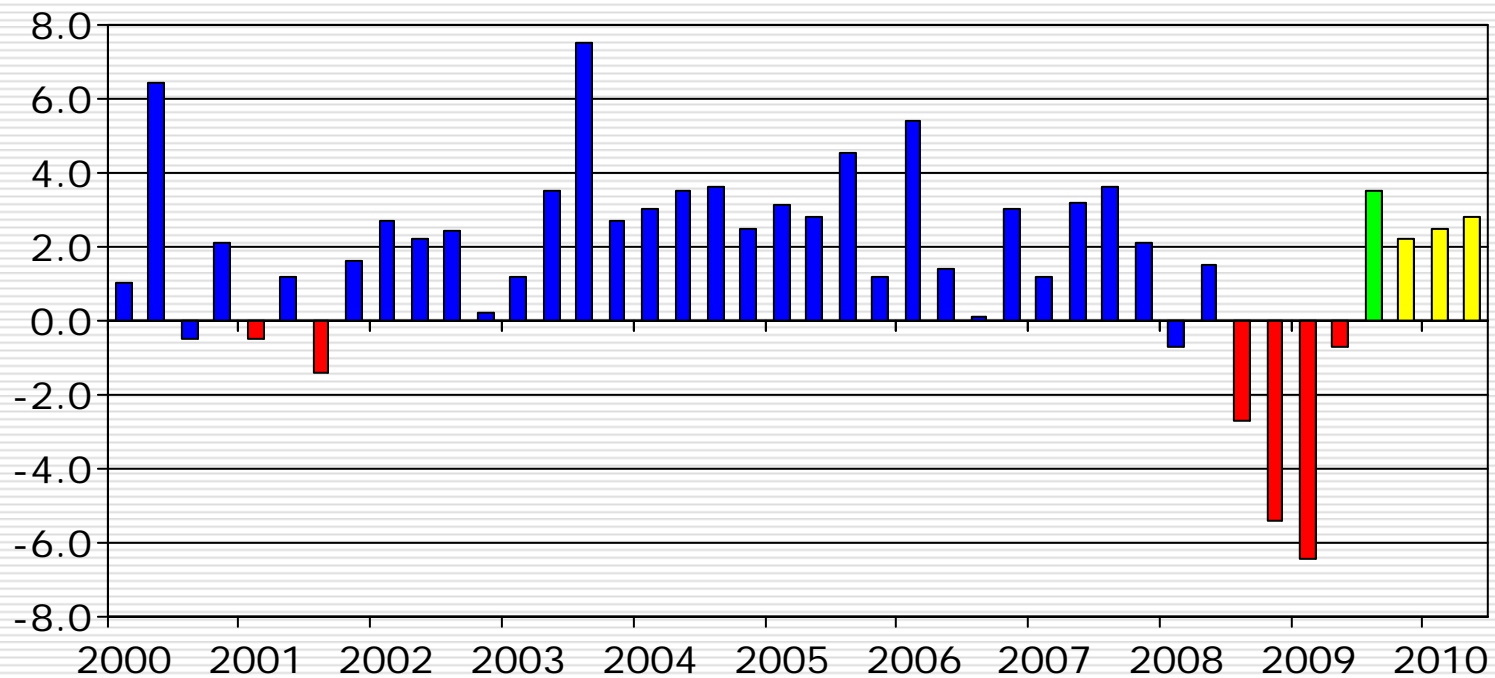
- Sharing Half-baked Thoughts
 - **Physical capital is losing importance to human capital and network capital.**
 - *Human capital is, in part, amenities driven.*
 - *Generation of "ideas in the air."*
 - *However, network capital is extremely tricky because it can depreciate quickly.*

Thoughts on Economic Development

- The very essence of long-run growth is, in fact, ***the transition*** ...from one export base to another as the area matures in what it can do, and as rising per capita income and technological progress change, ***what the world economy wants done.***
- Local economic development activities should be focused on bringing economic opportunity to ***current underemployed and unemployed residents.***

Good News! GDP increased by 3.5 percent in the third quarter.

Annualized Percent Change in GDP



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

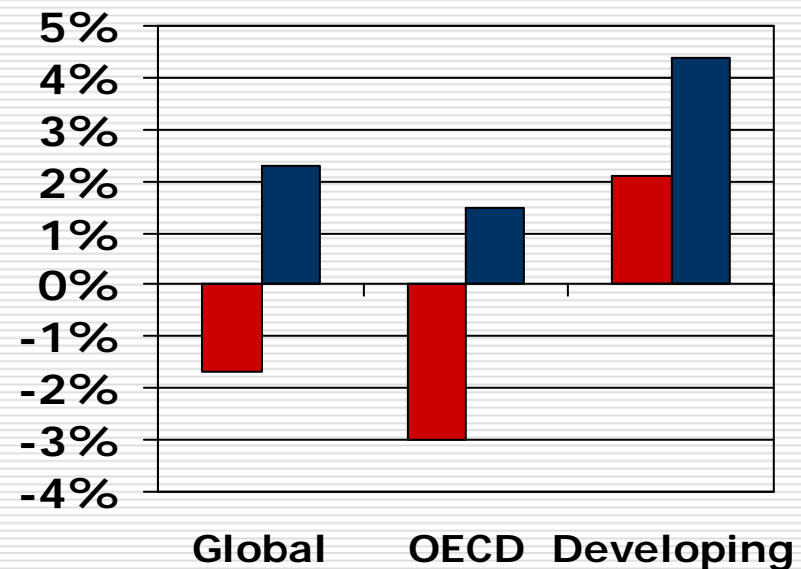
National outlook: The nation's economic indicators have improved.

<input type="checkbox"/> Employment	RED
<input type="checkbox"/> Residential construction	YELLOW
<input type="checkbox"/> Consumer confidence	YELLOW
<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

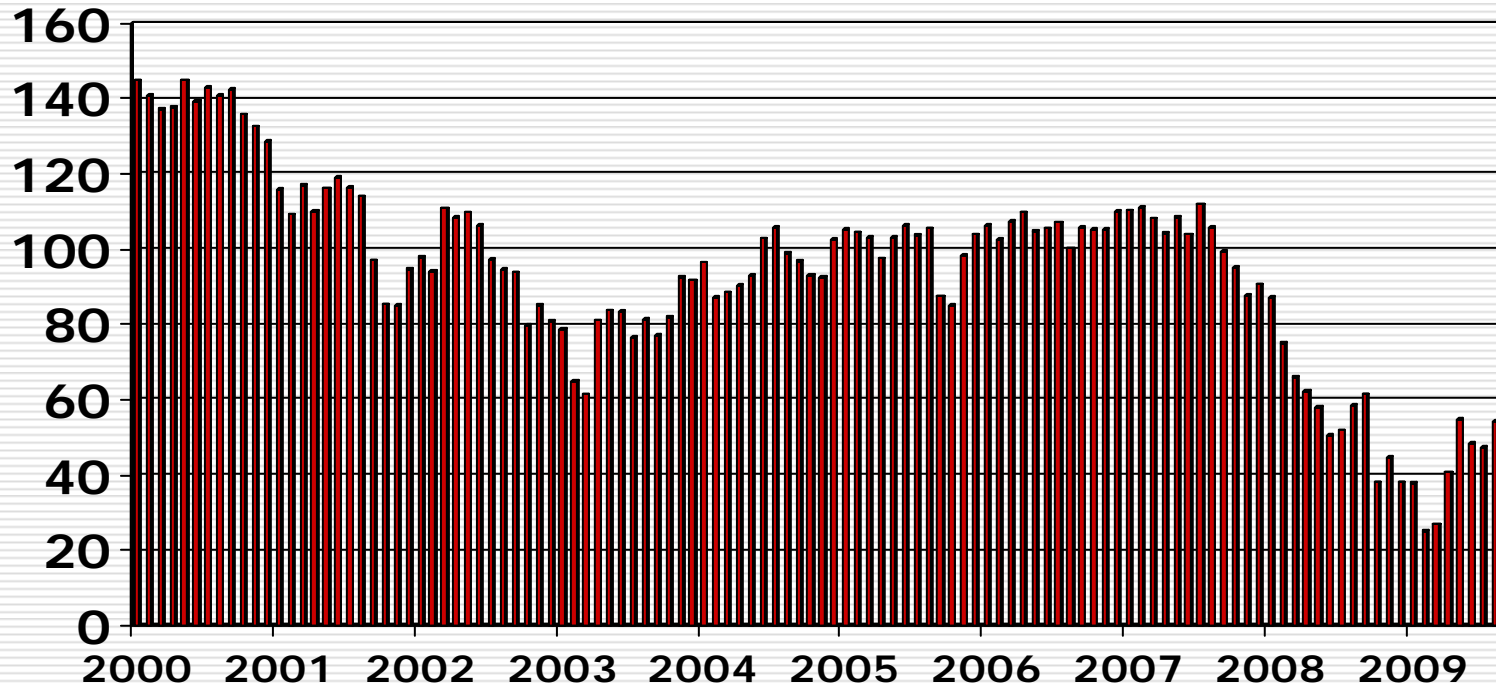


■ 2009 ■ 2010

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

Consumers' confidence is still low but improving.

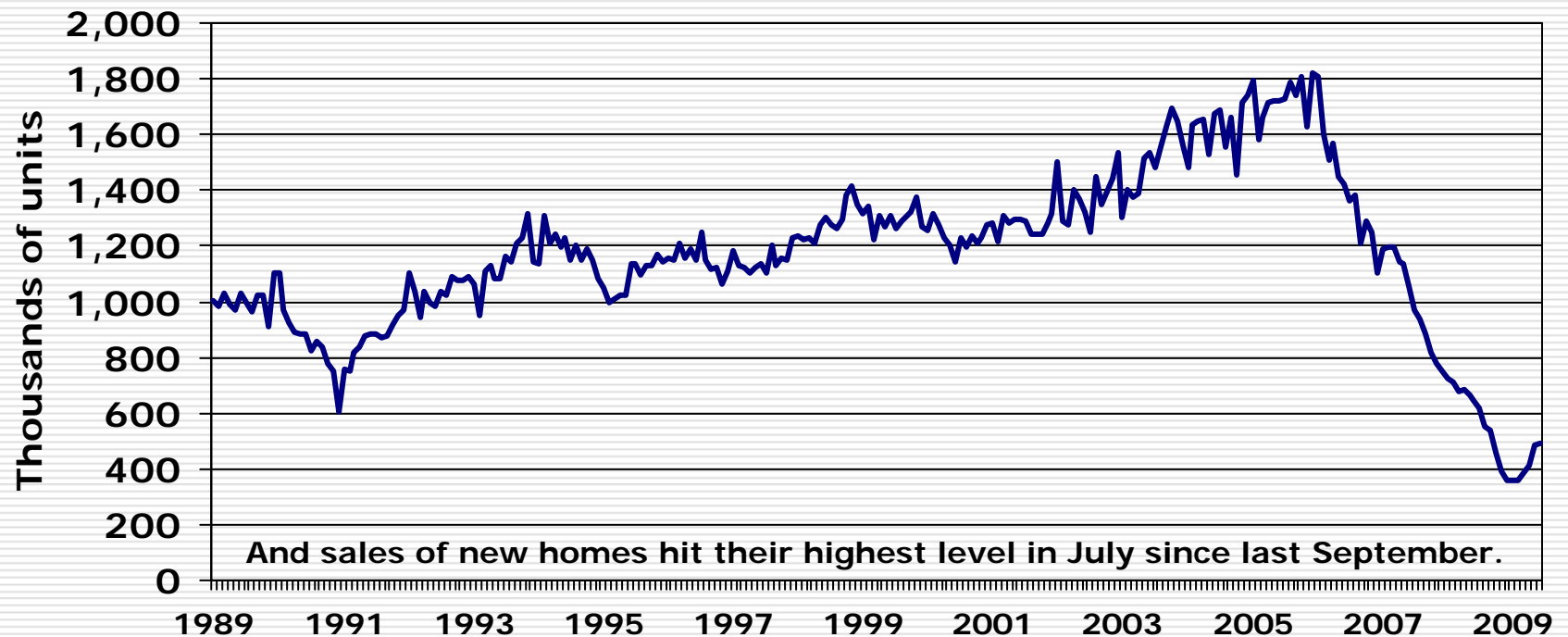
Consumer Confidence (1995=100)



Source: Conference Board.

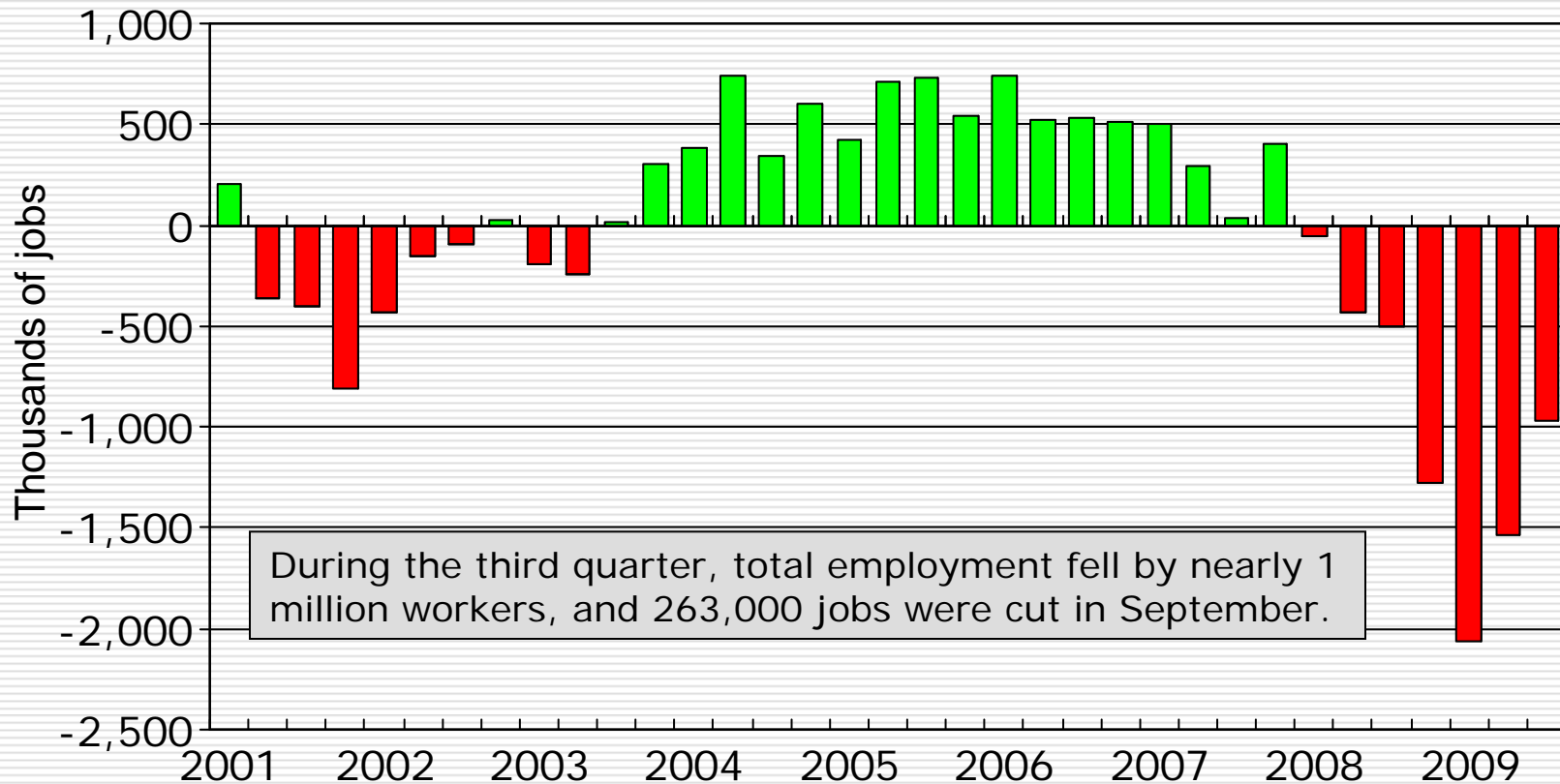
Single-Family Housing Starts—*Have we found bottom?*

Seasonally Adjusted Annual Rates



U.S. Census

Nationwide, employers are still cutting payrolls.

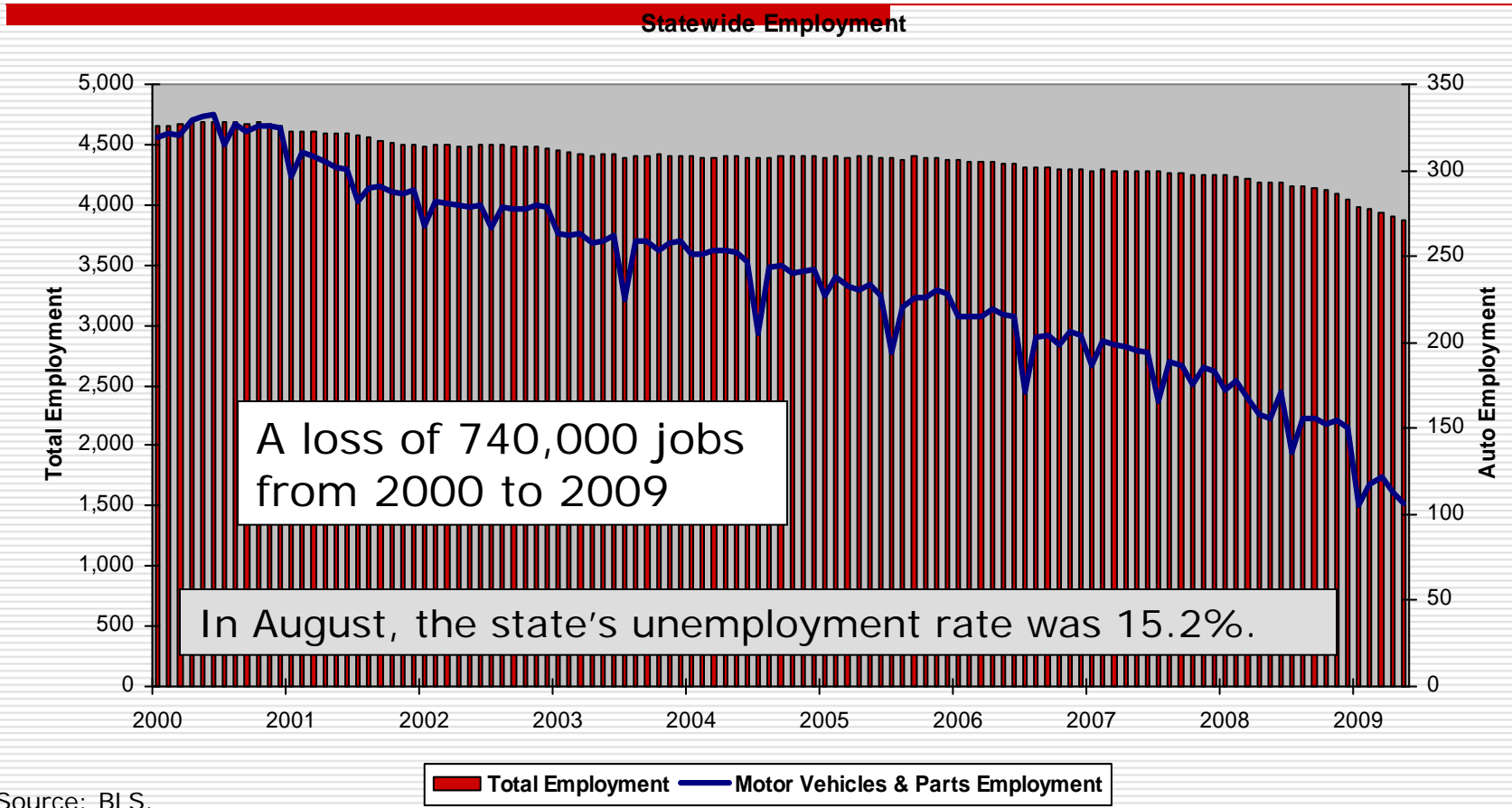


Source: BLS.

Michigan remains in crisis.

- ❑ 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.

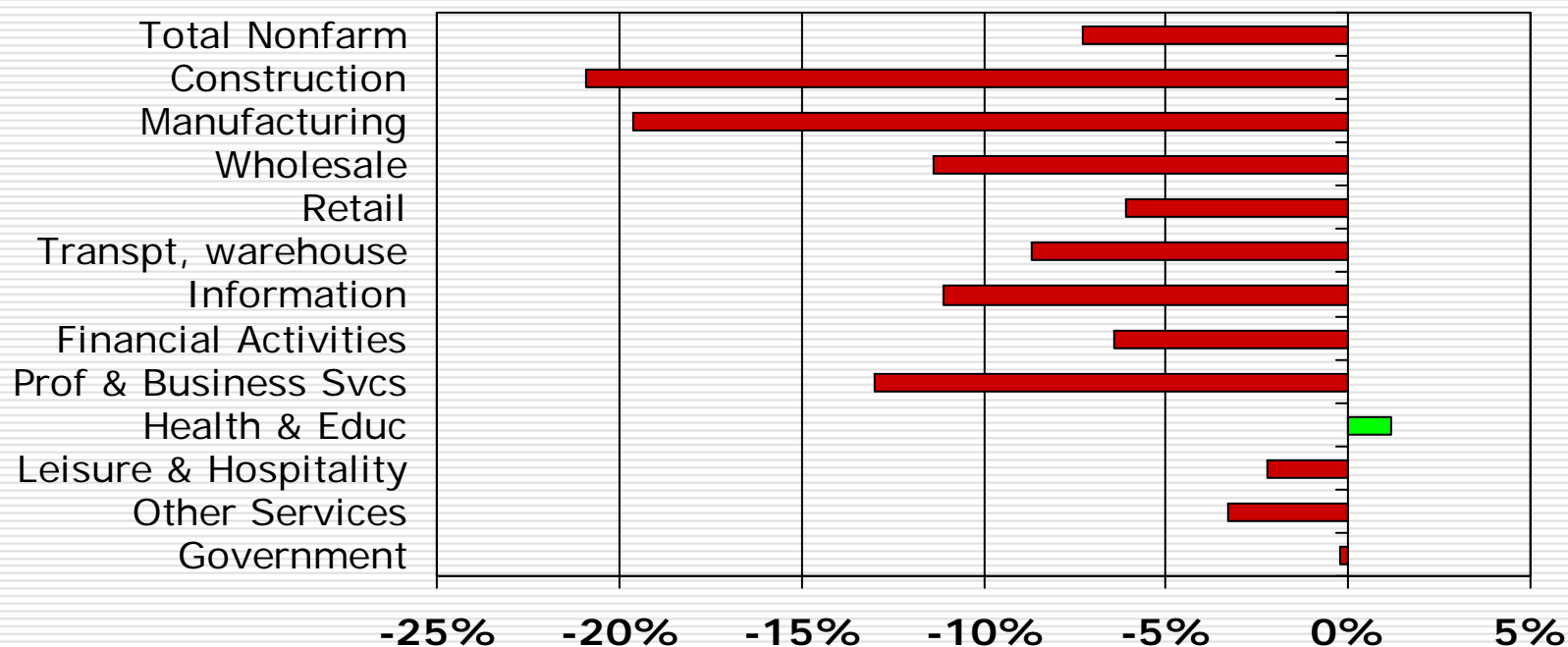
With the national slowdown, the state's turnaround is further postponed.



Source: BLS.

During the past four quarters, employers have cut 303,000 jobs in the state.

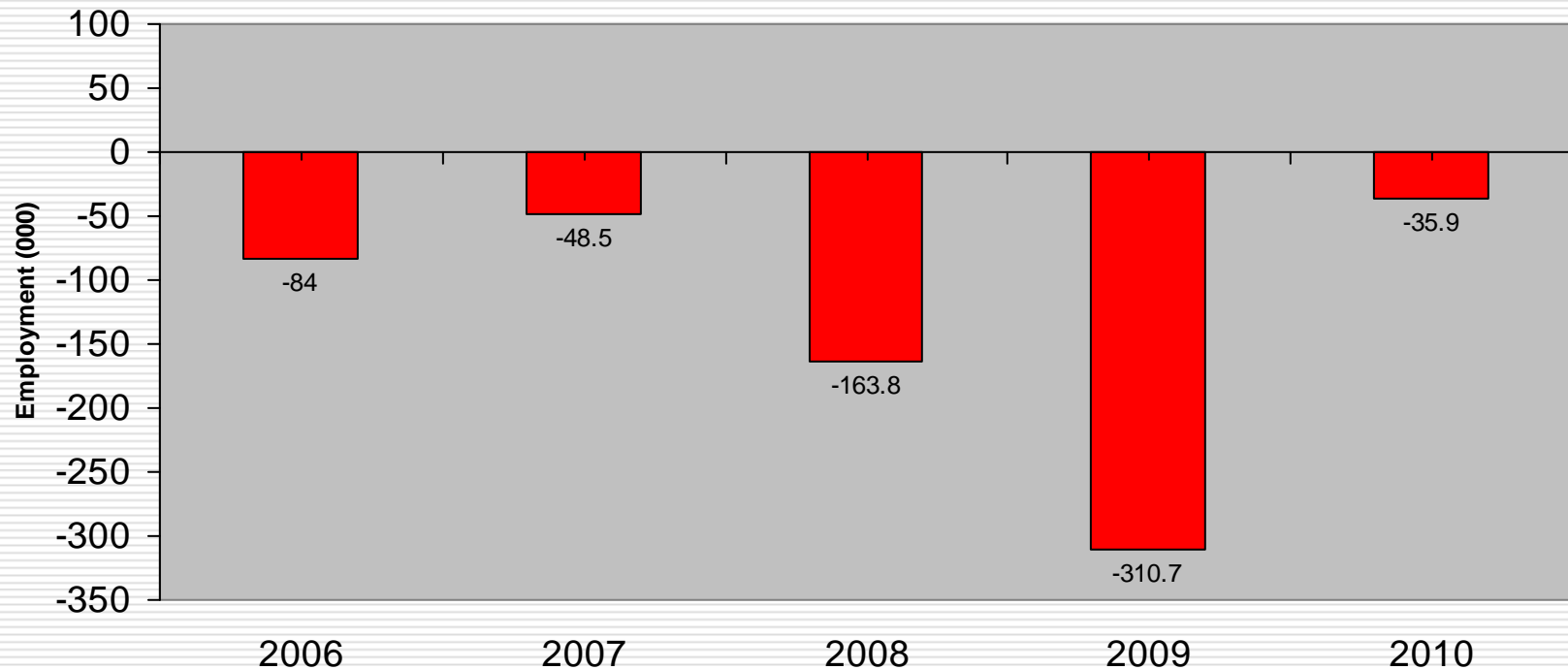
Michigan Employment Percent Change
Third Quarter 2008 - Third Quarter 2009



Source: BLS.

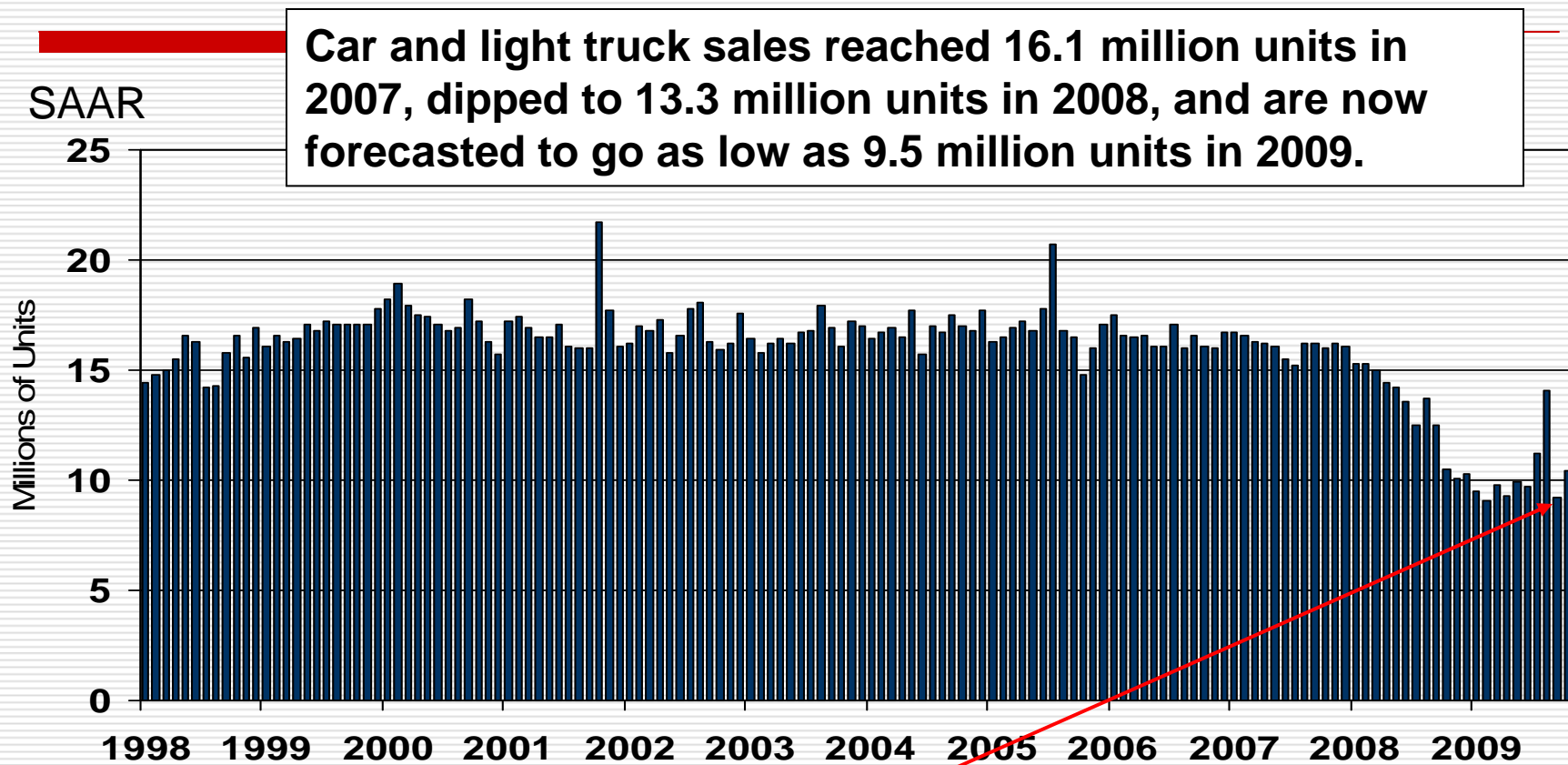
Employment declined for 10 straight years.

Employment Change, 4th Quarter to 4th Quarter



Source: University of Michigan, July 2009.

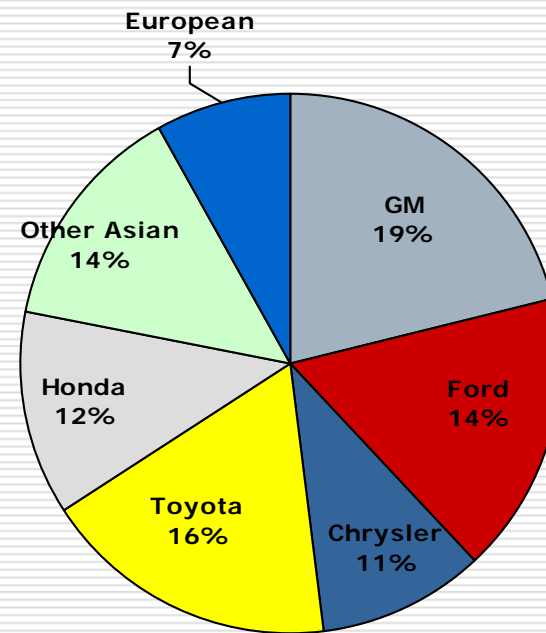
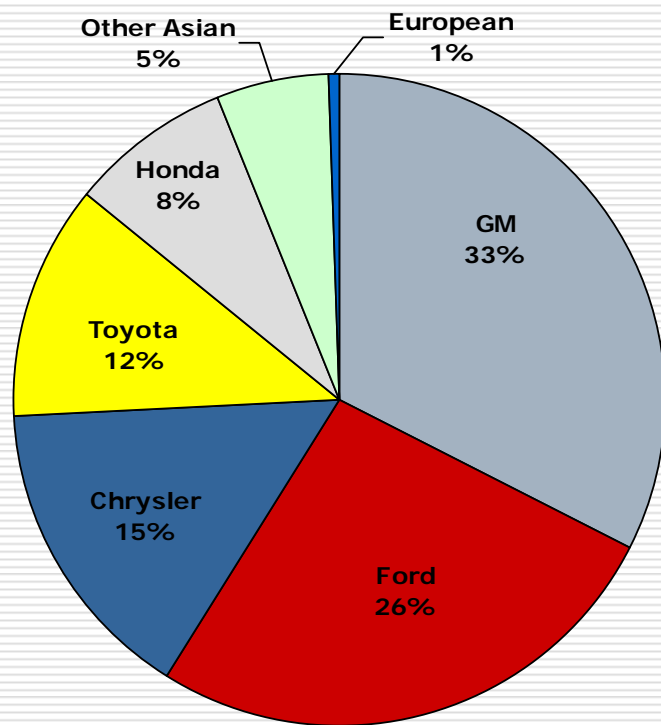
Now that clunkers are no longer gold, the showrooms are quiet.



Source: BEA.

The sales rate slowed to 9.2 million unit rate in September after posting a 14.1 million unit rate in August . Sales were up to a 10.4 pace in October

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



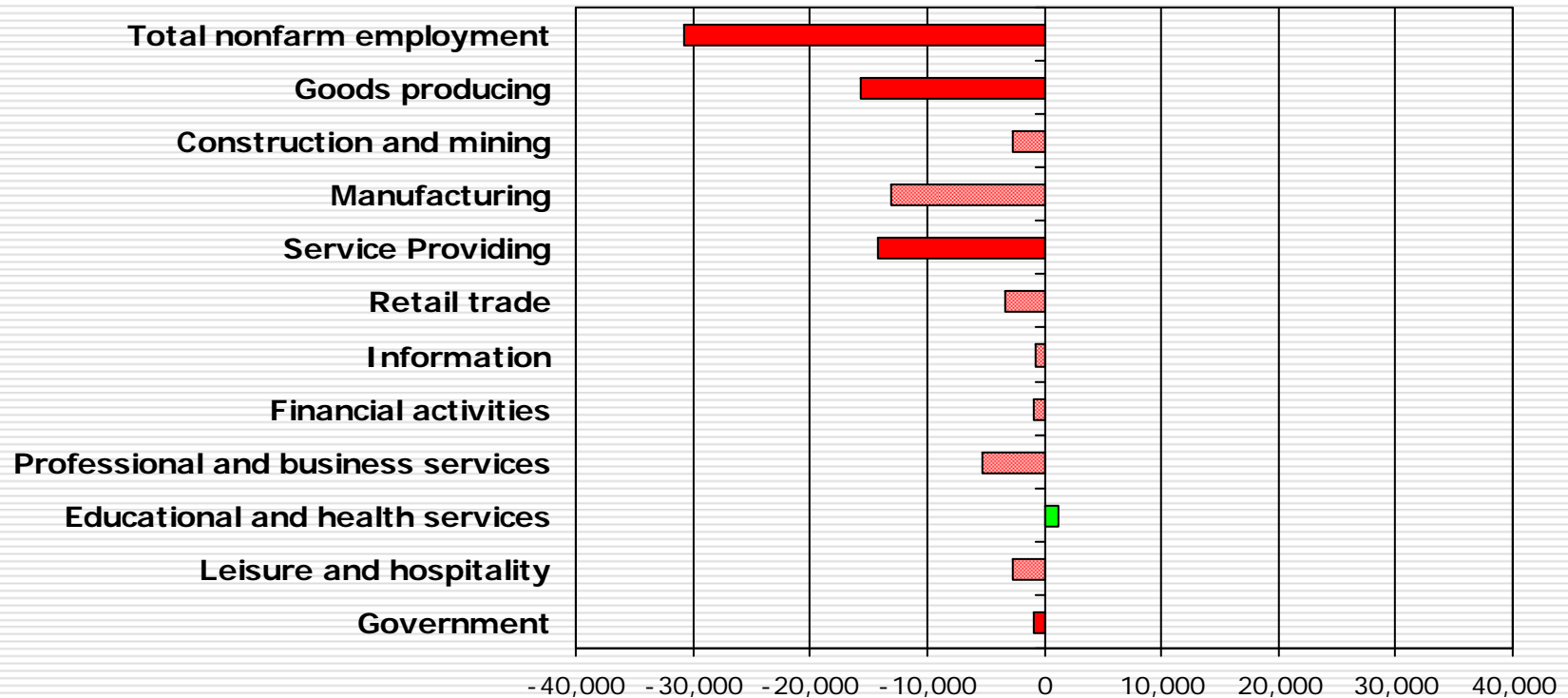
Source: *Wards AutoWorld*.

2001

YTD 3rd Q 2009

Current conditions in the West Michigan region- *a 5.5% decline.*

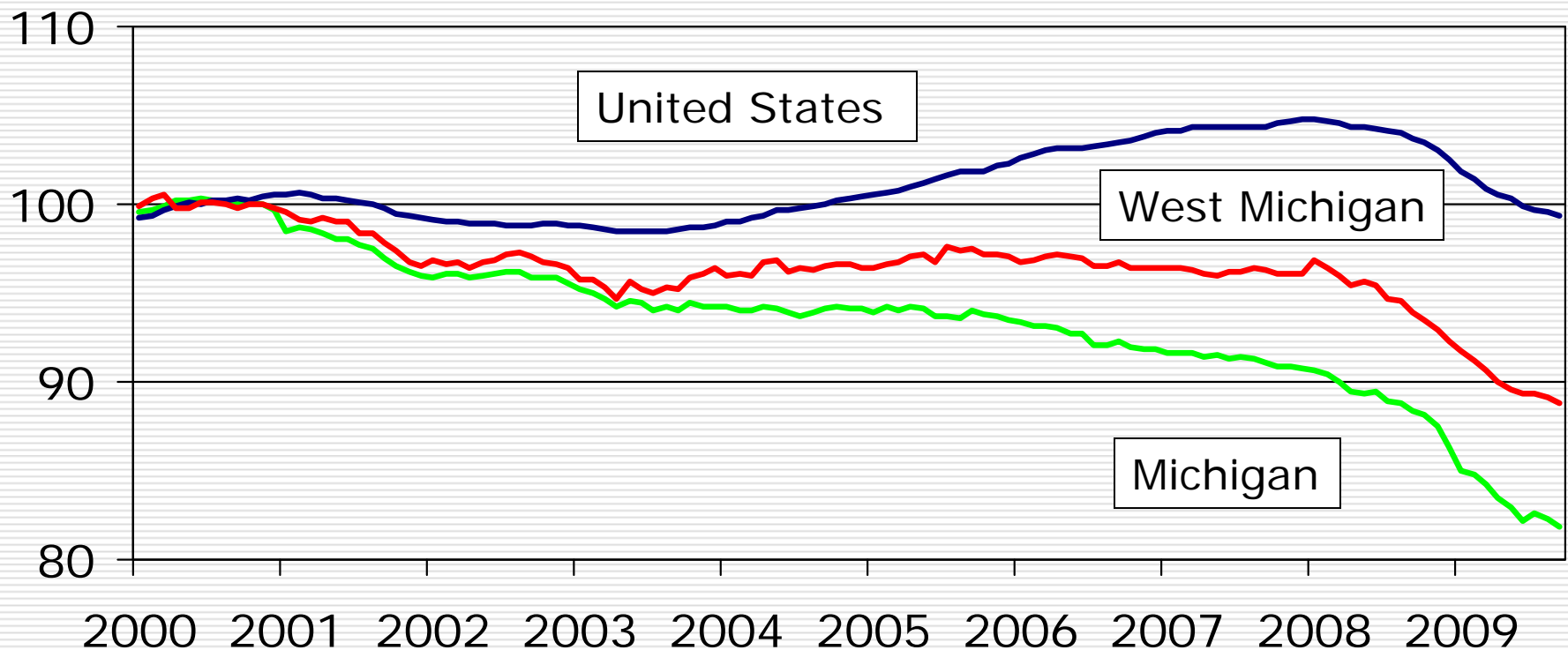
Employment Change 3Q 08 to 3Q 09



Source: MDLEG.

West Michigan is stuck in the middle *but is down 10% from 2000.*

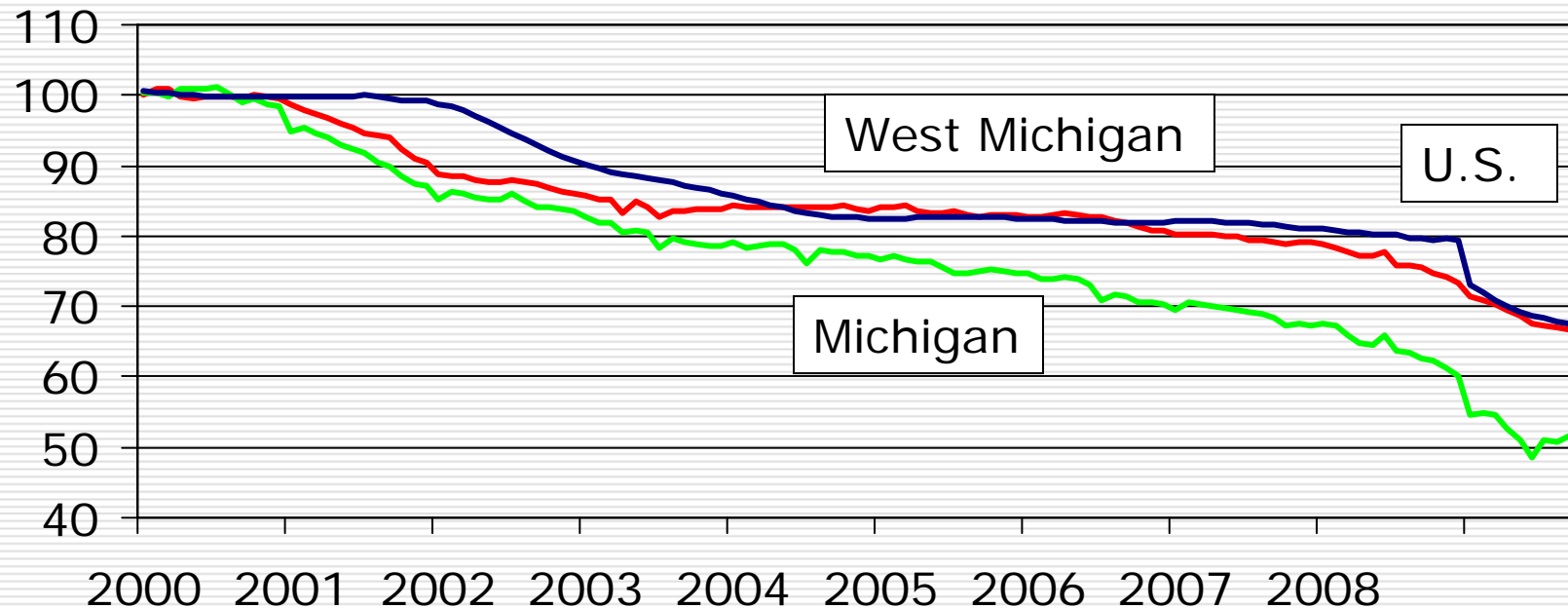
Total Employment Index (2000=100)



Source: W.E. Upjohn Institute. West Michigan includes Grand Rapids, Holland and Muskegon MSAs.

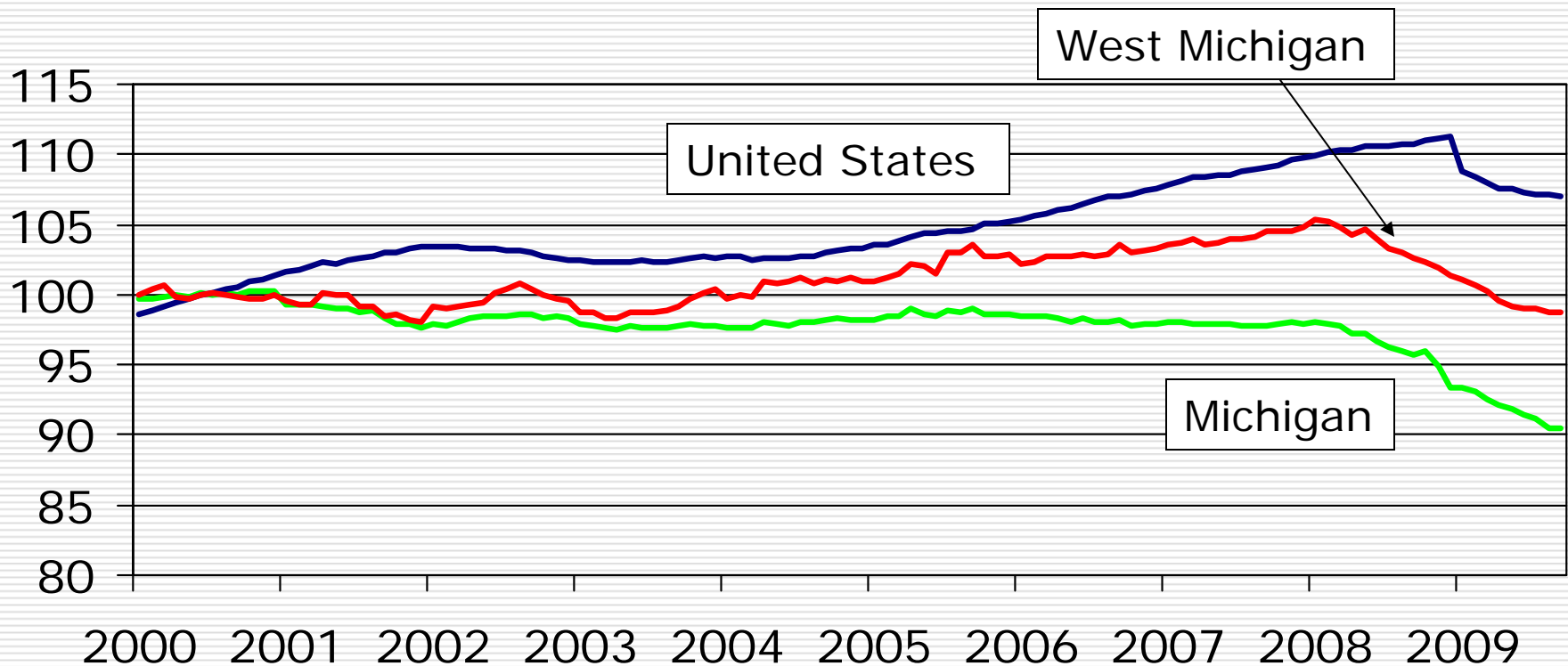
Regional manufacturing trends are following the nation's and are well above the state's.

Employment Index for Manufacturing
2000 = 100



The West Michigan economy is again stuck in the middle.

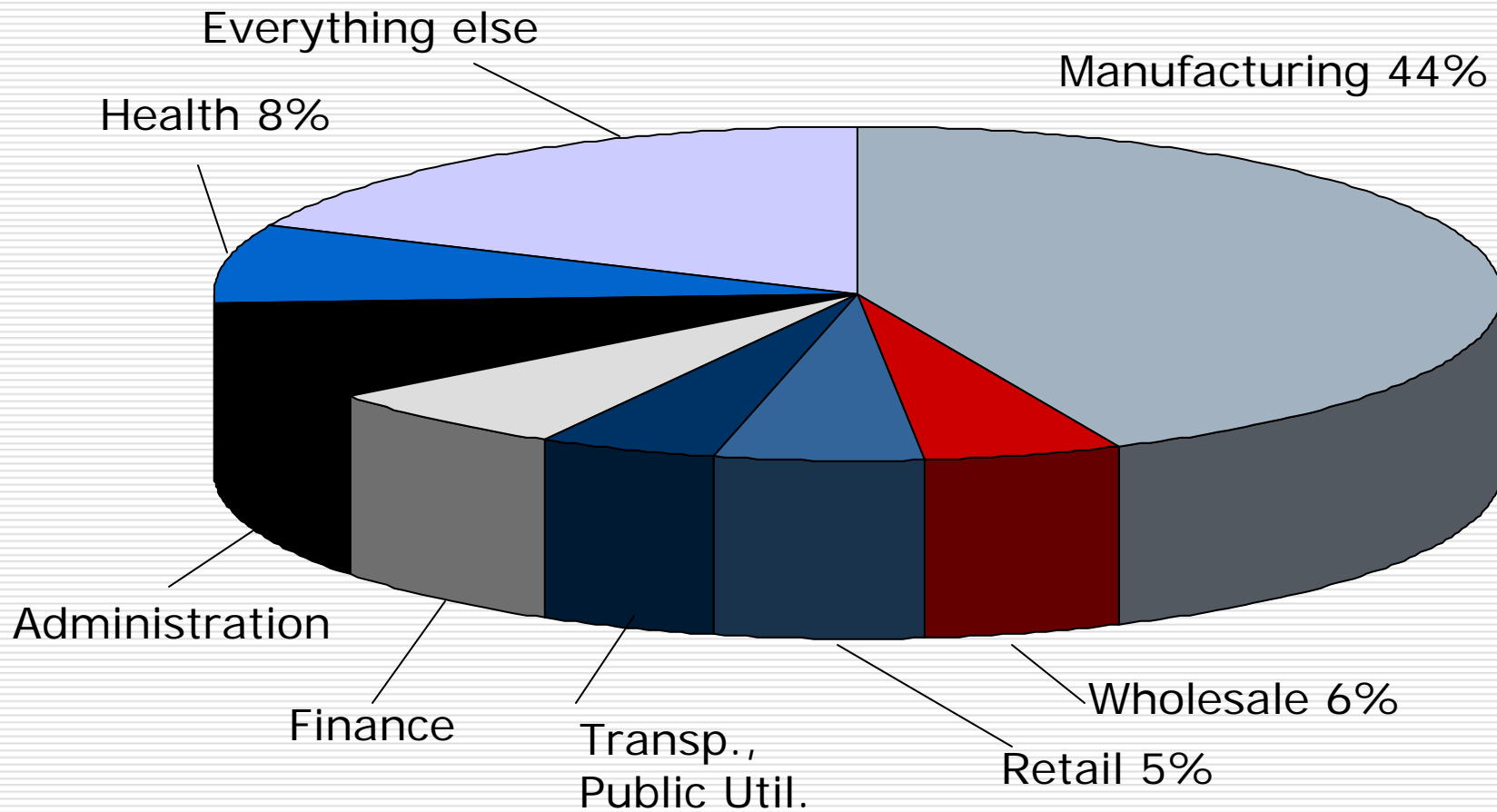
Private Service-Providing Employment
(2000 = 100)



Basic Economic Model



The composition of the region's economic base 2008—*Manufacturing, anyone?*



Source: W.E. Upjohn Institute. West Michigan = Grand Rapids-Wyoming, Holland-Grand Haven, and Muskegon-Norton Shores MSA.

Manufacturing brings new monies and jobs into the region.

Employment impact on the Grand Rapids-Wyoming, Holland-Grand Haven, and Muskegon-Norton Shores MSAs

Impact of 100 new jobs In:	Direct	Indirect	Total
Auto parts production	100	312	412
Furniture manufacturing	100	109	209
Professional services	100	-4	96
Hospitals	100	-31	69
Retailers	100	-70	30

Source: Upjohn Institute.

Manufacturing matters.

- ❑ Without production, we also can lose invention, innovation, design, and our seat at the global table for many industries.
- ❑ Controlling for educational achievement, manufacturing pays better wages than any other industry.

Challenge to the Traditional Base Model

- Increasingly, it is NOT the industry but the activity that matters:
 - New medical procedures
 - Specialized law services
 - Specialized software design
 - Green architecture
- But a bigger challenge is that talent may be driving investment.

Success depends on identifying interaction of three key elements of regional economies:

Global Factors

Demographic change

Environmental

Political/Social

Technological Change

Applications

Feasibility

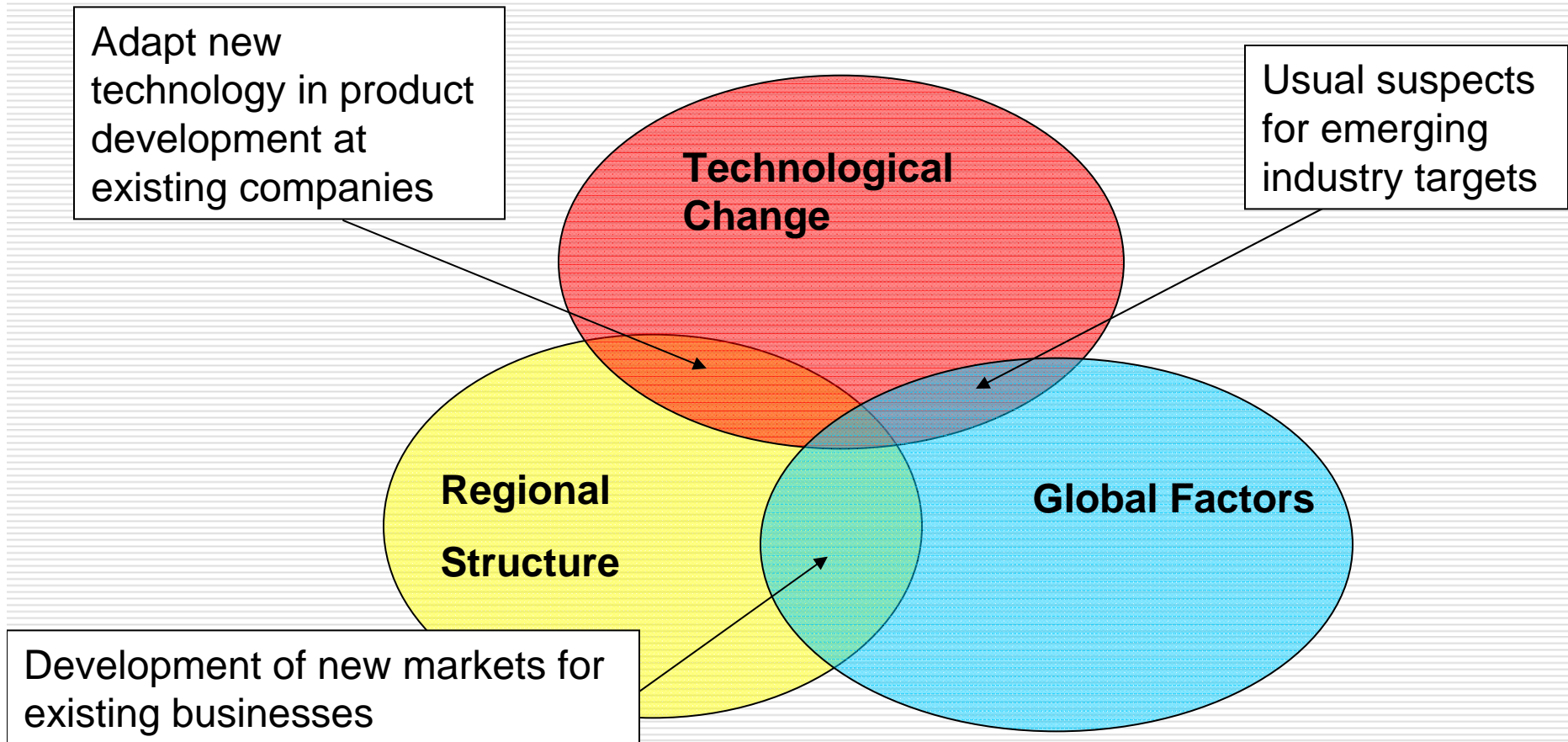
Survivability

Regional Structure

Export Base activities across all industries

Non-Export Base activities

Emerging Industry Opportunities



Design is tied to the firm's product's life cycle

Stage 1: Birth—*An environment of entrepreneurship*

Stage 2: Product development and wealth creation—*An environment for success*

Stage 3: Product standardization—*Low cost, competitive environment*

Stage 4: Death—*An environment of abandonment*

Design and the Product Cycle

- ❑ Design can make an existing product and company young again.
- ❑ Design can allow an existing company to enter new markets.
- ❑ However, many mature companies in stable or declining markets may not be open to new design but instead become stuck on the low-road of production which will end sooner or later in an offshore solution.

Evidence from the UK and Italy

- ❑ Rapidly growing businesses are nearly six times as likely as static ones to see design as integral.
- ❑ Shares in design-led businesses outperform key stock market indices by 200%.
- ❑ Design firms are less likely to compete on price, and more on quality.
- ❑ Businesses that add value through design see a greater impact on business performance than the rest.

Source: Design Council, *The Value of Design*, 2007.

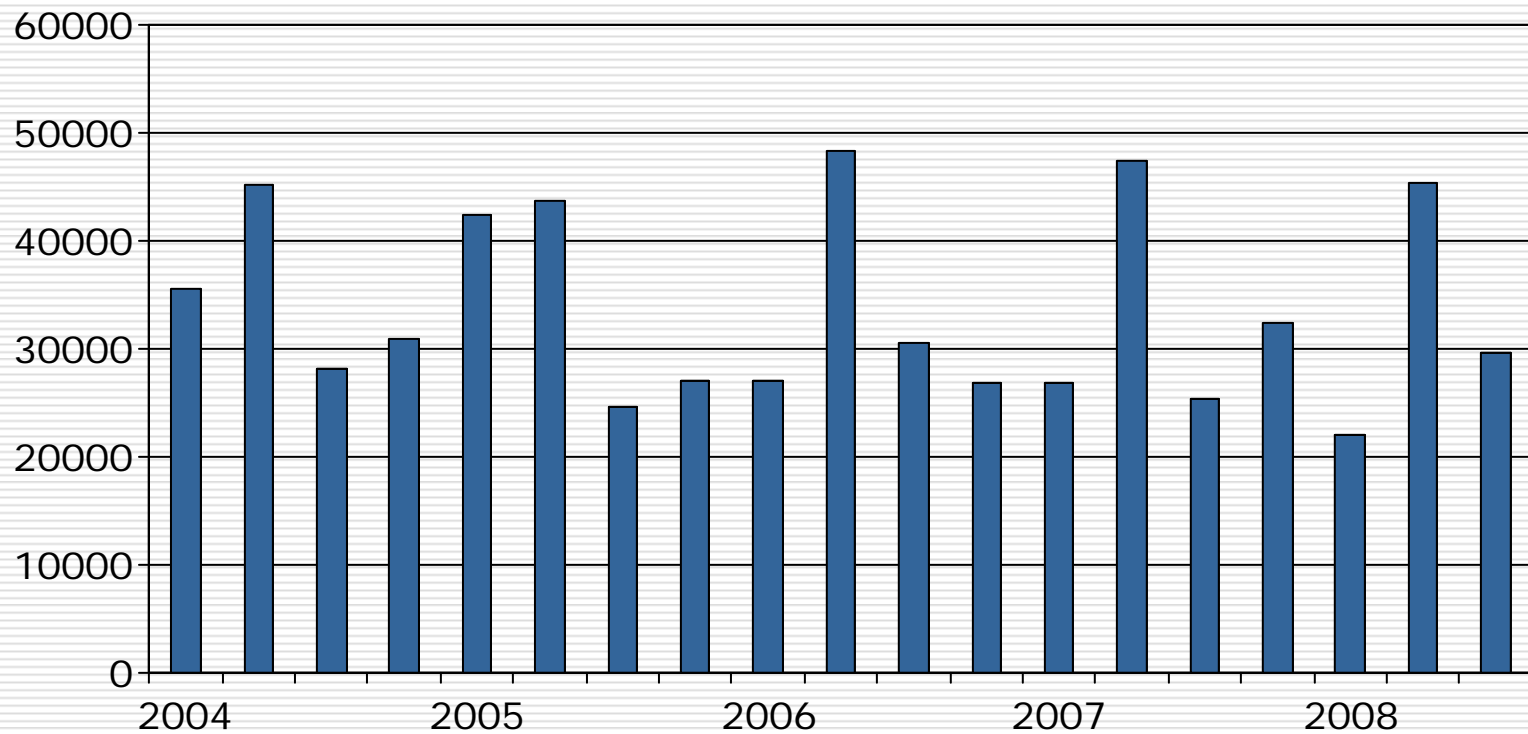
Ongoing Research Effort on the Importance of Design

- Kendall School of Arts and Design and Design West Michigan
- What we 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.

What is the evidence in west Michigan for births or restarts?

- ❑ The “net” numbers do not hold much promise.
- ❑ Nevertheless, job creation in west Michigan is robust.

Job Creation in West Michigan



Job creation excludes recalls.

Approaches to small business assistance

- Standard Approach
- Advocacy
- Skill-building
- Competitive team building

Thinking differently about economic development:

□ What if:

- Human capital not physical capital will be the new dominant factor for growth:
 - Tax abatements lose their value.
 - Government services become more important—good schools, safe streets, recreational/cultural opportunities, and a vibrant downtown.

Thinking differently about economic development: (cont'd)

- What if network capital not human or physical capital will be the new dominant factor for growth.
 - It could be tacit knowledge that is key to innovation. ***Those who know don't have the words to tell and those with the words don't know that well.***
 - Networks depend on an environment of trust and on network weavers.
 - Again, traditional economic development policies are not very useful.

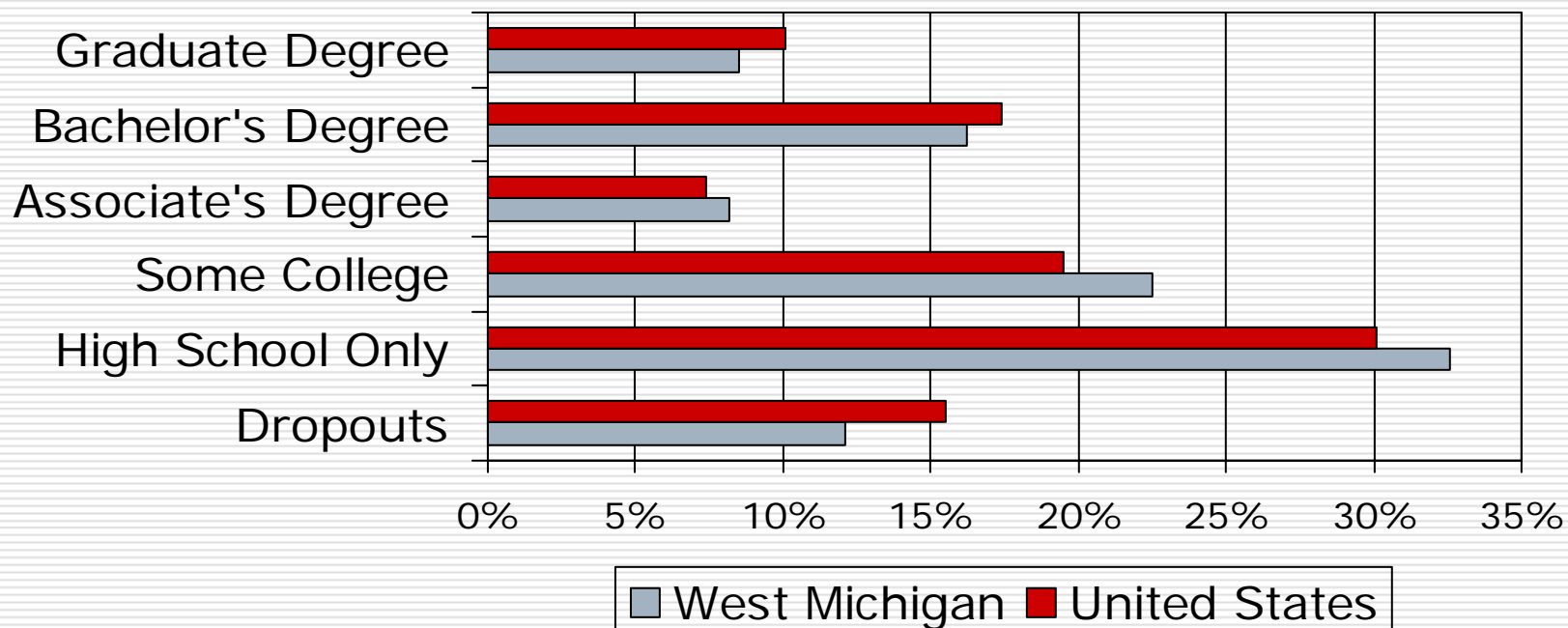
At this time:

- West Michigan appears to be at a disadvantage in a knowledge-based world.
 - Difficult to convince parents and students that high school is no longer enough.
 - Like all smaller metro areas, it can be a challenge to attract young professionals.

2008 Education Profile

High school was once the ticket.

Percent Education Attainment for Persons 25 and Older



In West Michigan, 27.1% of 25-34 year olds have a four-year degree or higher; U.S. 29.1%. We rank 11th among 26 "peer" regions.

Final Thoughts

- Predicting emerging industries is simply a form of gambling.
 - If you are lucky enough to have picked the right race, have you also selected the right horse?
 - If industry clusters hold any value, they are likely the source of regional innovation.
 - Entrepreneurs tend not to move.

Final Thoughts (cont'd)

- It would be foolish to step away from manufacturing.
 - For individuals without college there are few better opportunities.
 - And we are good at it.
- However, increasingly our products are not what the world wants.
 - Developed economies are consuming more and more services.
 - Developing countries want stuff that meets their needs and cost structures.

Final Thoughts (cont'd)

- ❑ Where will the future job growth be? Easy: health care.
- ❑ How can the region expand its economic base? This is the question!
 - Incorporate design and innovation in our products.
 - Build network capital.
 - Attract and retain human capital; GVSU will only grow in importance.
 - Rethink how we promote entrepreneurship
 - Promote Lake Michigan as a quality of life asset for knowledge-based professional workers.

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