

The Economic Outlook for the Muskegon-Norton Shores MSA 2007 and 2008: *Looking Beyond a Disappointing Year*

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W.E. Upjohn Institute
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Special thanks to

- Verizon
 - Muskegon Area First
 - Warner, Norcross & Judd
 - Employers Association of West Michigan
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Agenda

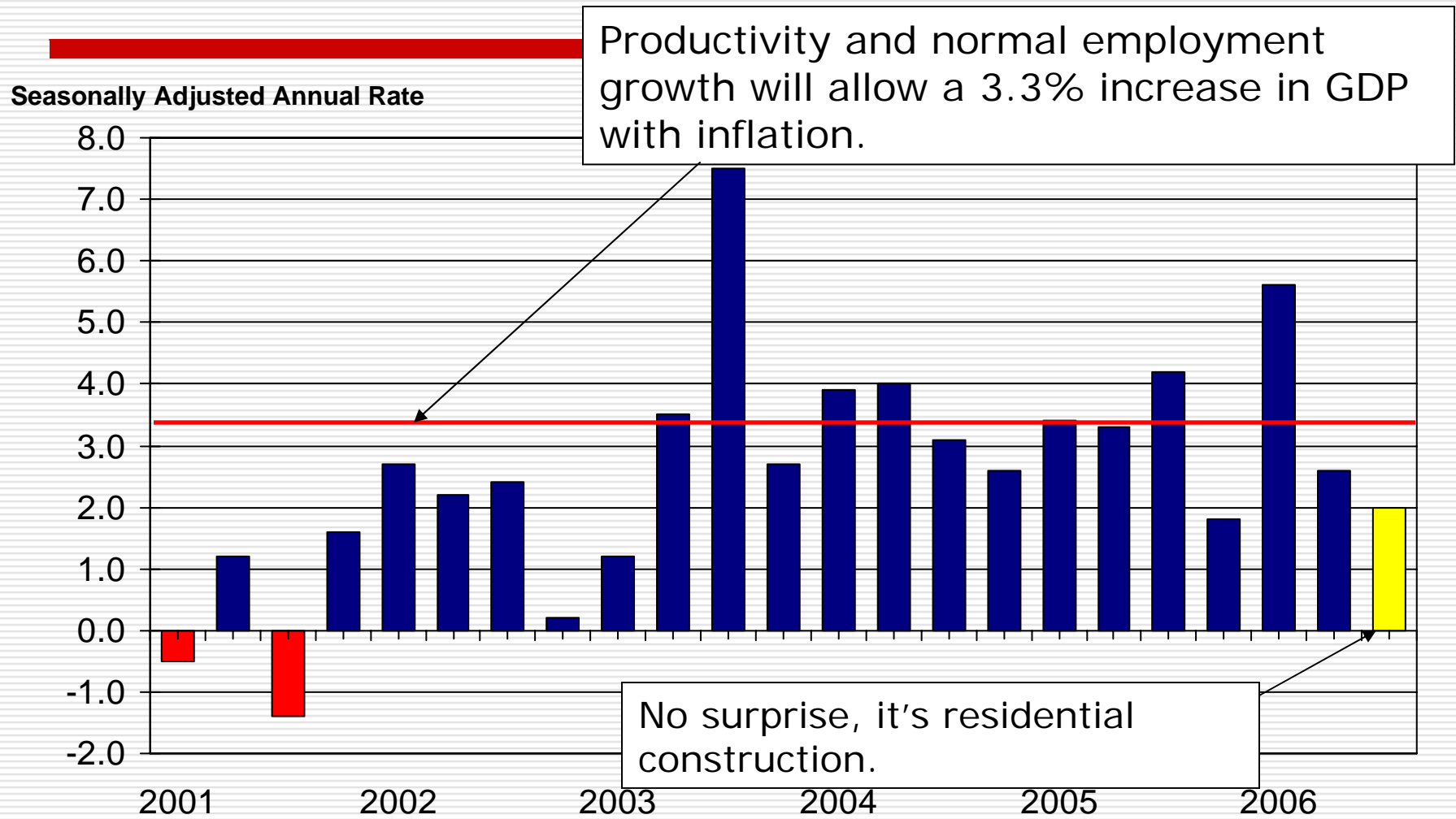
- National forecast – there are clouds on the horizon.
 - Slowdown in residential construction continues.
 - Inverted yields curve – always a bad sign.
 - Personal savings rate is awful.
 - Sluggish growth is forecasted for 2007.
 - There is a good chance that the state will totally miss the first expansion of the century.
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Agenda (cont'd)

- ❑ Current conditions in Muskegon County: What happened last year?
 - ❑ Forecast for 2007 and 2008 after a quick and hurried visit to last year's forecast
 - ❑ Thoughts on Future Economic Development – Becoming younger and thoughts on the baby boomers
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Gross Domestic Product

The expansion is five years old and starting to age.



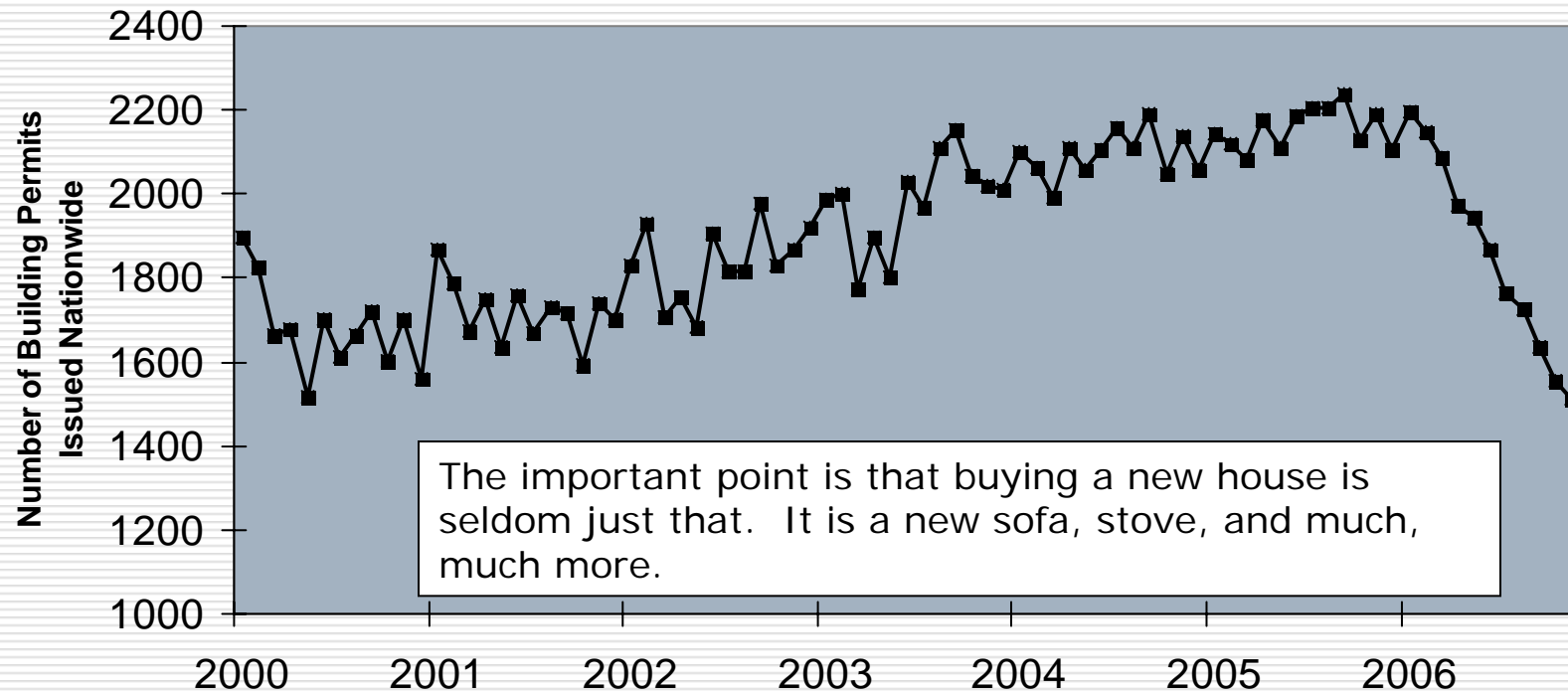
Source: BEA.

Economic Indicators

- Employment **GREEN**
 - Residential construction **RED**
 - Consumer confidence **GREEN**
 - Consumer financial conditions **RED**
 - Bond markets **RED**
 - ISM Purchasing Mgrs. Index **YELLOW**
 - Stock market **GREEN**
-

Now, take my house...*please!*

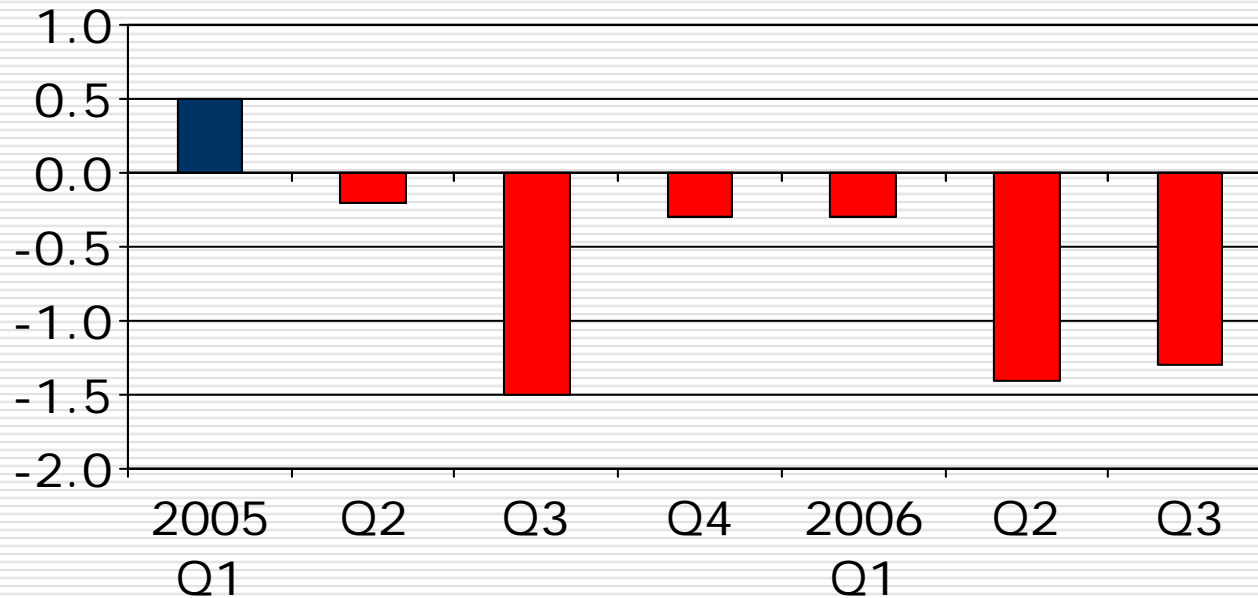
Housing Starts as Measured by Building Permits Issued



Source: U.S. Census.

We are a nation of grasshoppers.
During the 3rd quarter, we spent \$121.3 billion more than we made.

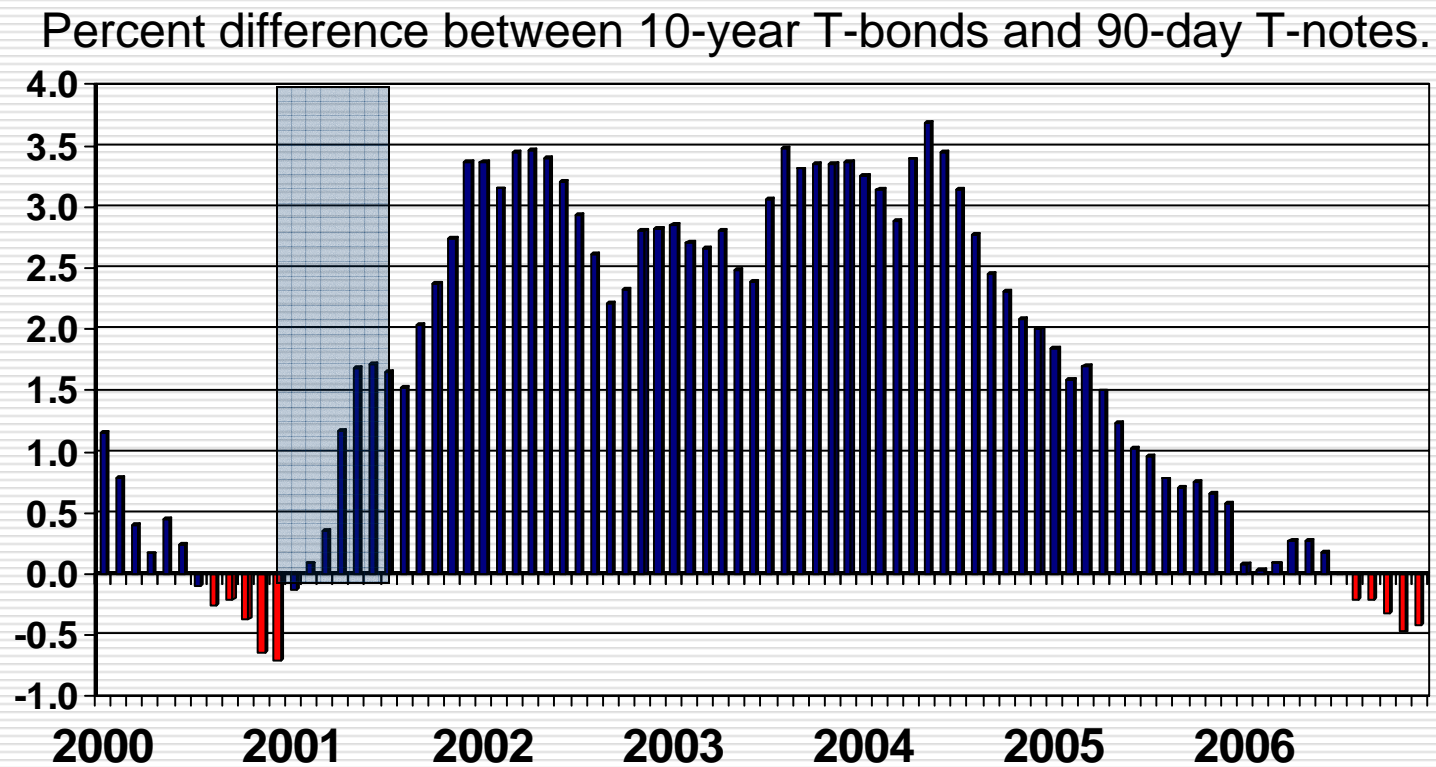
Personal Savings
(As a % of disposable personal income)



Source: BEA

Without rising housing prices, can we continue to support this level of spending?

Interest rate spread - This indicator has not given a false positive in more than 50 years. *But there is always the first time.*

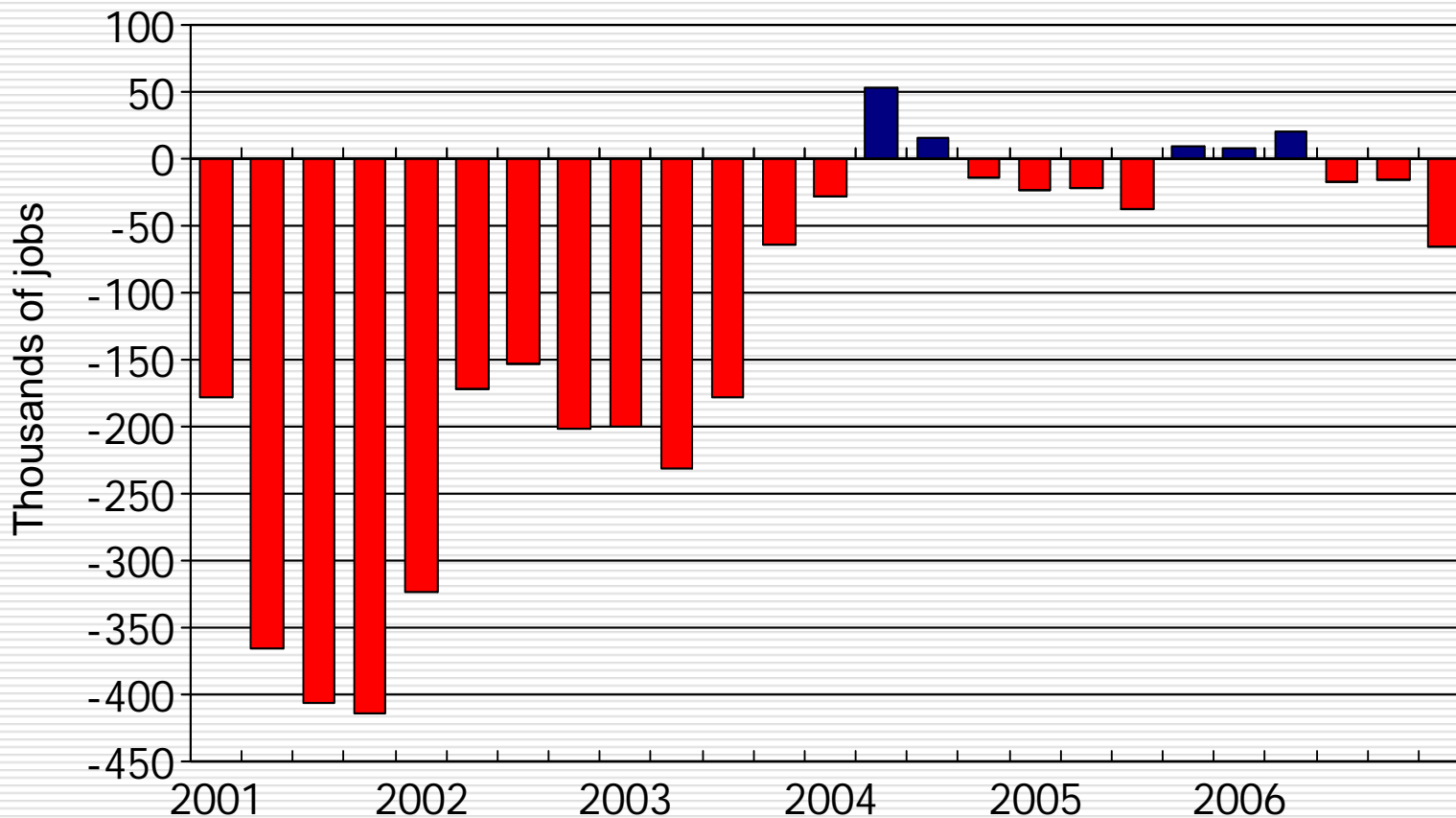


The spread turned negative in August.

Why is this time different?

- ❑ Inflation expectations are low.
 - ❑ Foreign investors are still buying government securities with their dollar holdings.
 - ❑ Still, when investors are willing to accept lower returns on long-term debt than short-term, it does suggest that they expect lower short-term interest rates in the future.
 - ❑ Low short-term rates are associated with economic slowdowns.
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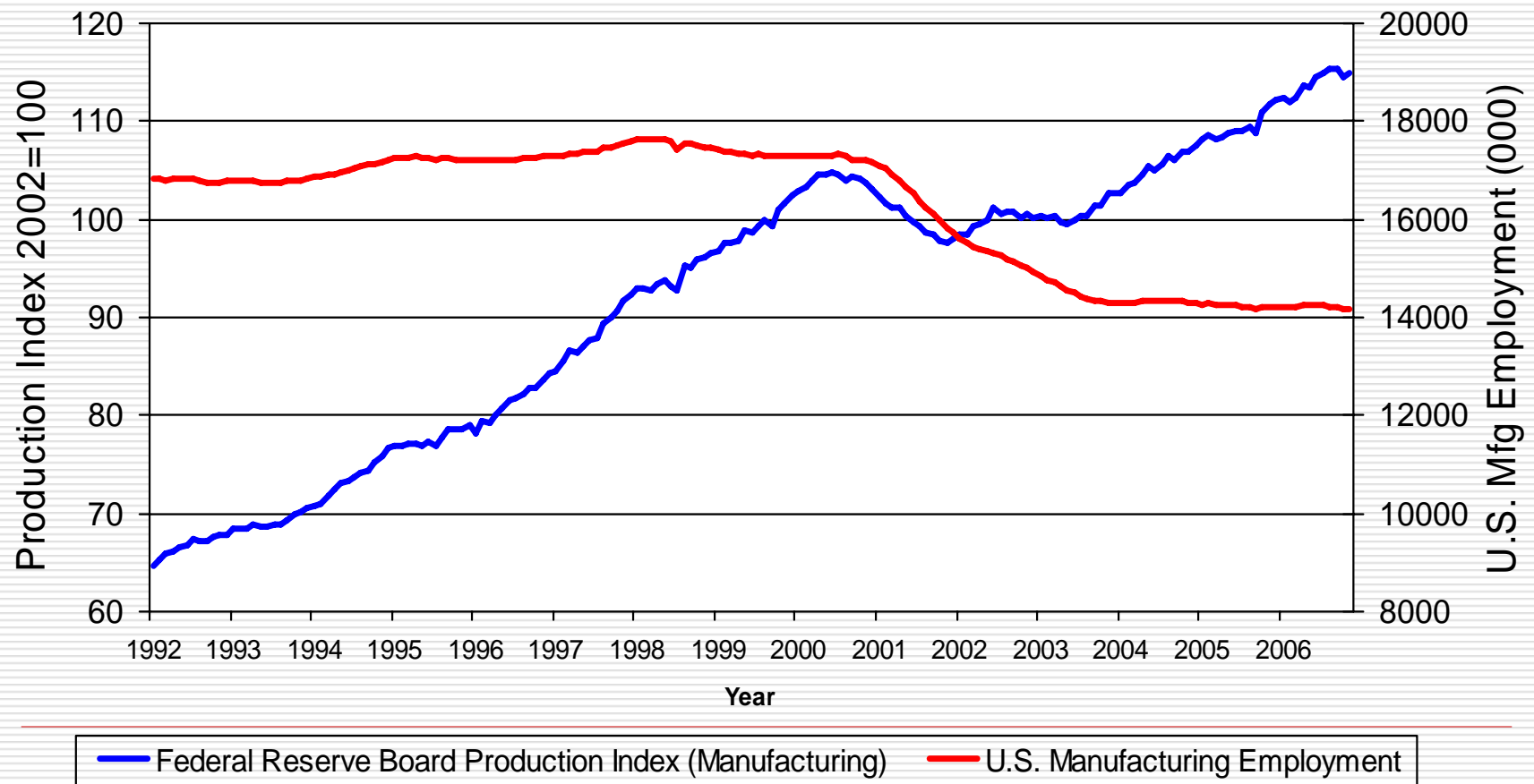
However, for Michigan the nation's manufacturing employment trends are worrisome.



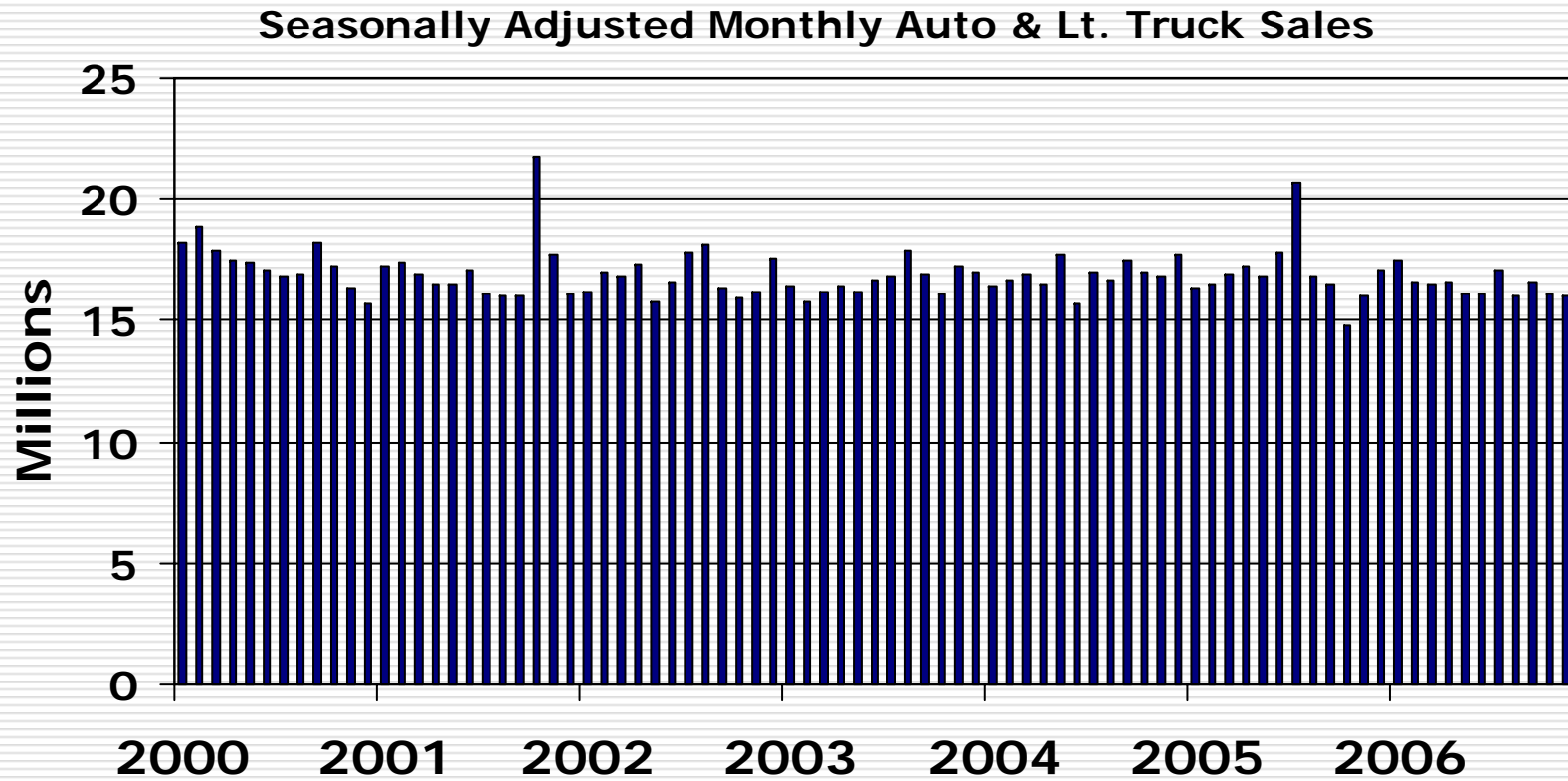
Manufacturers eliminated 12,000 more workers in December.

Source: BLS.

Production Index and U.S. Manufacturing Employment – *Manufacturing is doing great!*



U.S. auto sales are nothing if not stable.



Source: BEA.

The Auto Sector

Still, when does a stable market become a stagnant market?

Stability can mean a lack of growth.

A lack of growth means a fight for market share and even more pressure on auto suppliers.

Are you going to bet against Toyota?

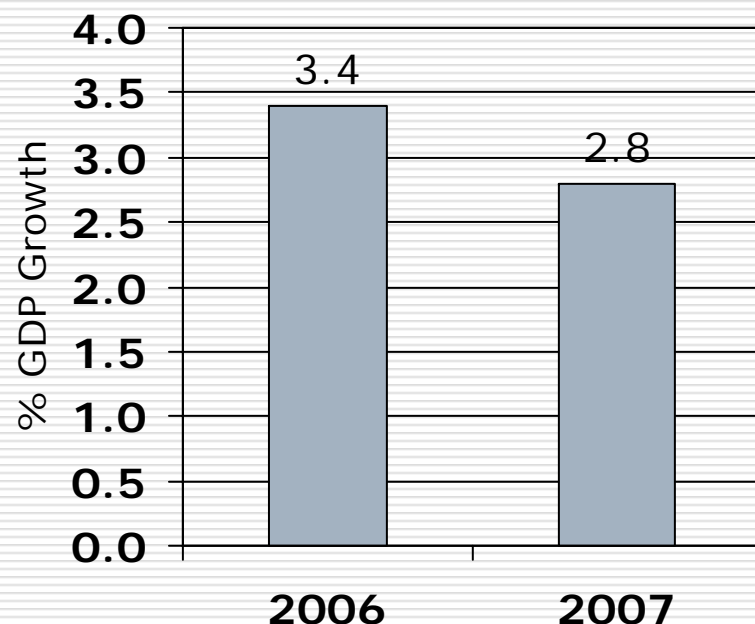
Are you truly surprised by Ford?

Outlook for Michigan and the Big Three

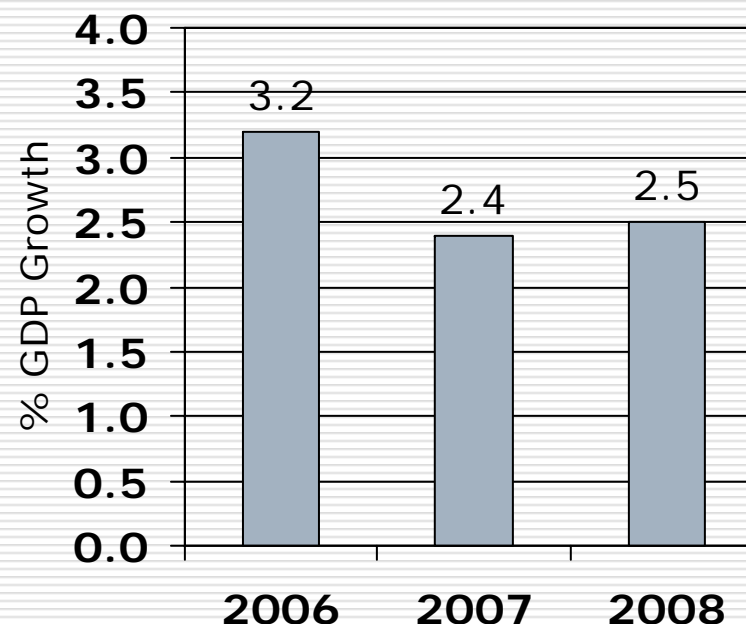
- Big Three's market share to drop from 55% in 2006 to 49% in 2011. *For every 1% drop in share, we estimate a loss of 5,700 jobs in Michigan.*
- *Ward's Automotive* predicts production capacity in the state will decline by 2.9% from 2006 to 2010, with Ontario becoming the top producer.

Still forecasters are expecting the national economy to slow down next year.

**Philadelphia Fed
GDP Forecast**



**U of M - RSQE
Forecast**



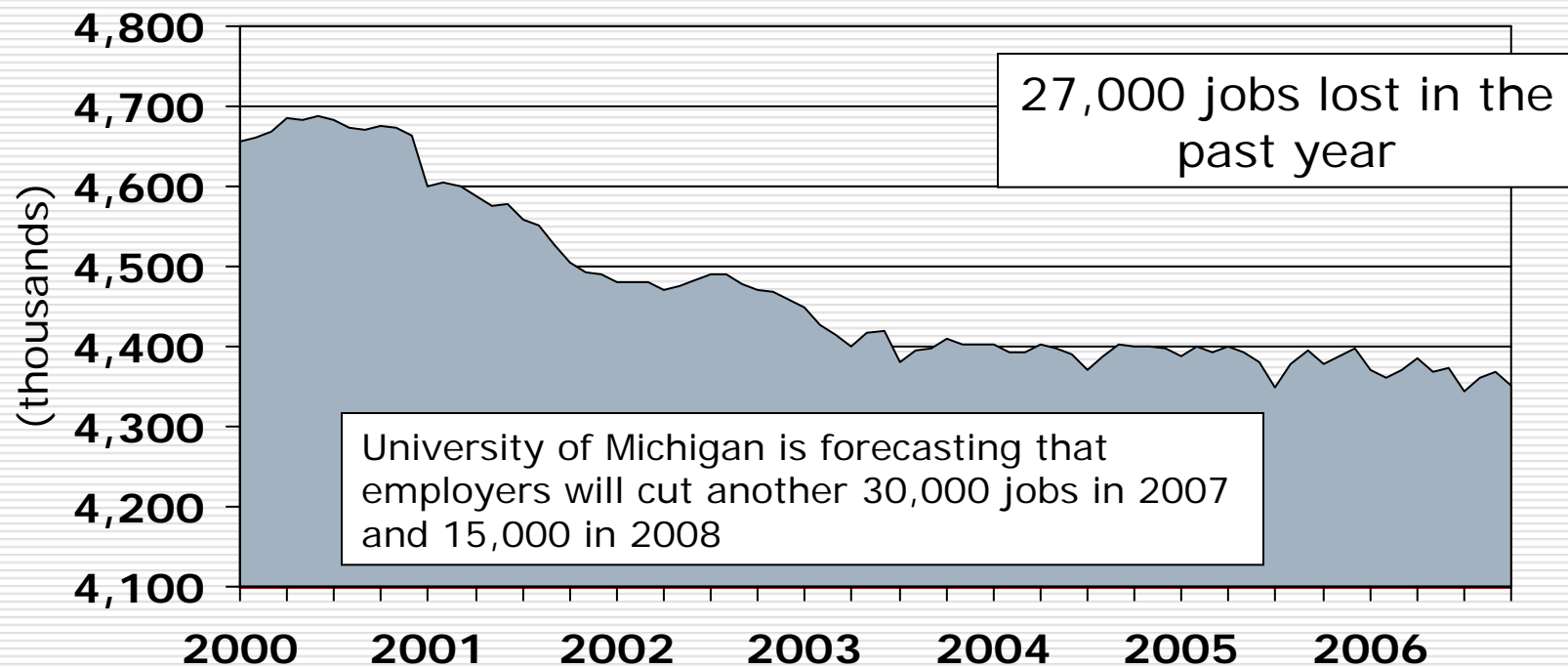
We use the U of M forecast in our model.

Michigan's Economy

It is o.k. to close your eyes.

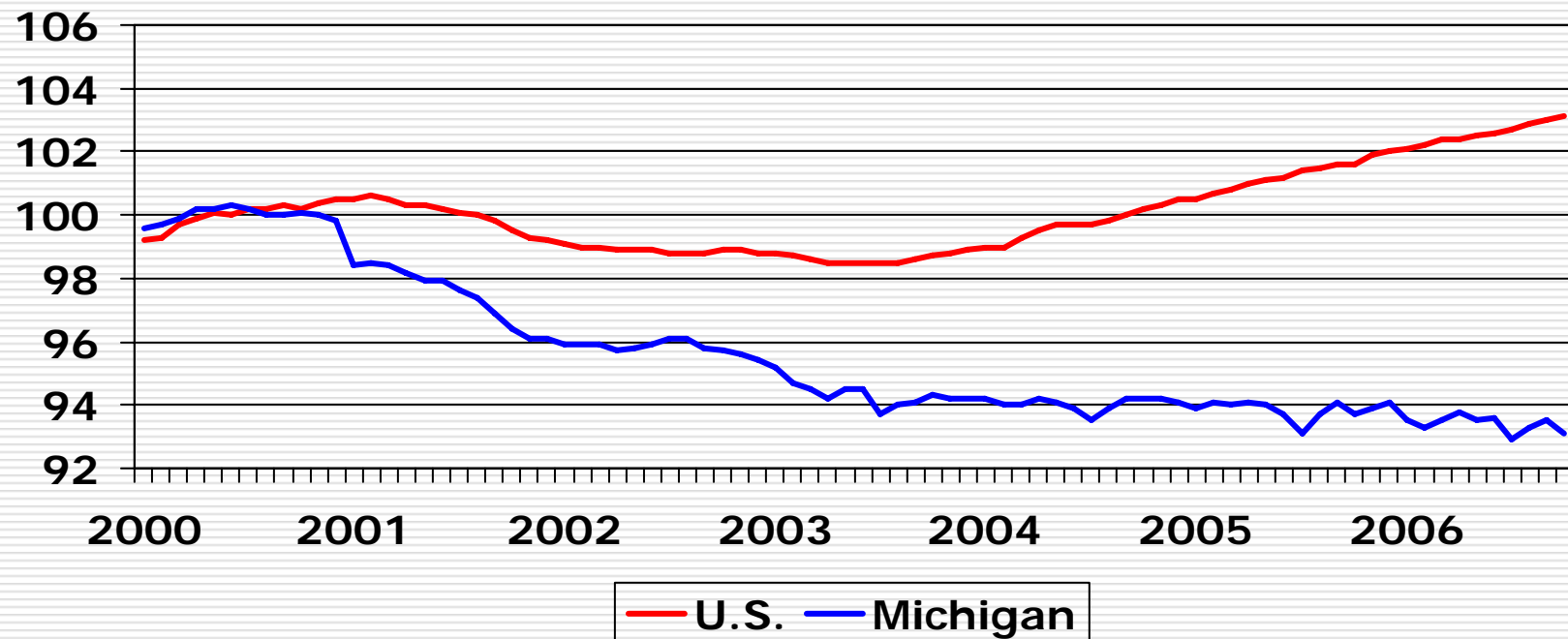
Michigan lost 313,000 jobs from November 2000 to November 2006. *We have never been here before.*

Michigan Total Nonfarm Employment



Michigan's employment conditions are very different from the rest of the nation's as a whole.

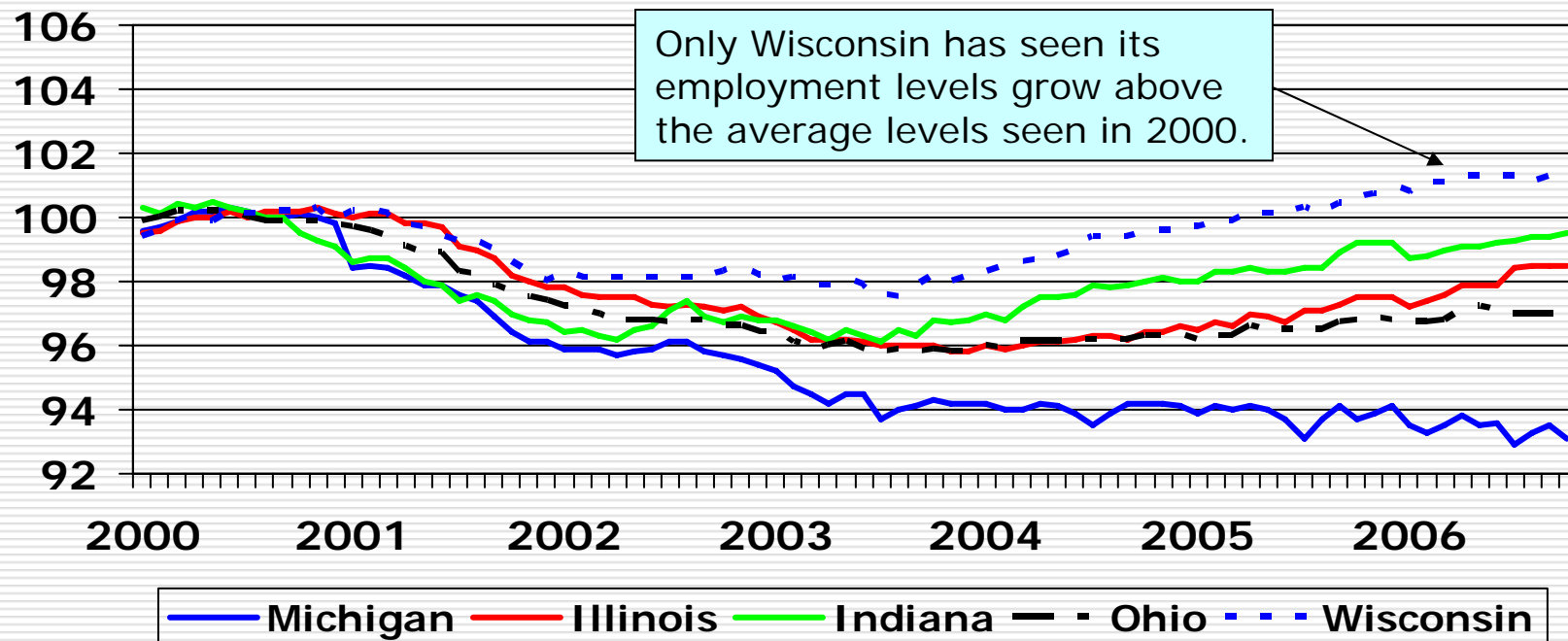
**Index of Total Nonfarm Employment
(100 = 2000 average)**



Source: Upjohn Institute. Based on seasonally adjusted BLS CES data.

Employment levels in other states throughout the region have struggled, though not as badly as Michigan.

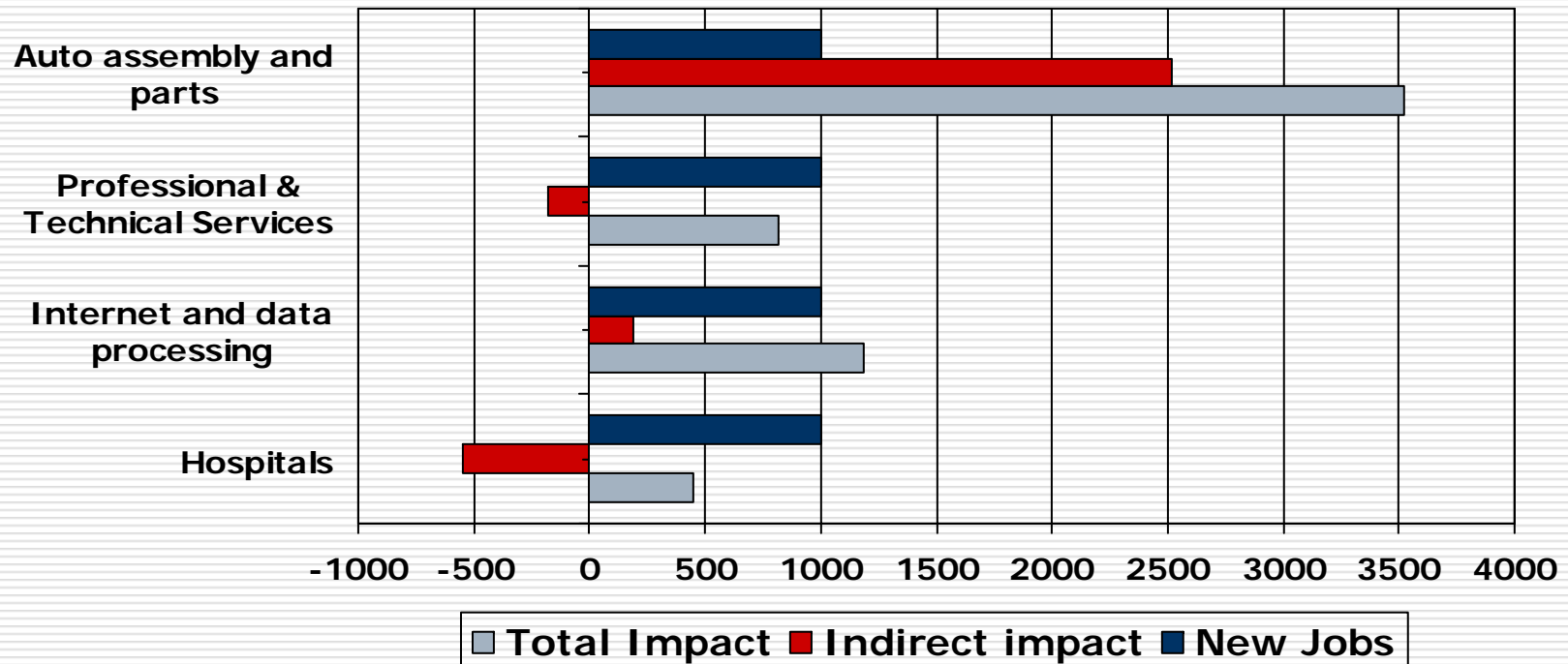
**Index of Total Nonfarm Employment
(100 = 2000 average)**



Source: Based on seasonally adjusted BLS CES data.

The state has been built to make cars. *And it was a good ride.*

Employment impact of 1,000 new jobs in Michigan



For states and local areas, the displacement effects of new jobs can be very large.

Manufacturing has too much potential and life to ignore.

- It won't generate strong employment numbers, and the auto industry outlook for the state is not robust, but
 - its income and wealth generation capacity is still impressive,
 - it is still something that we do well, and
 - it may be where our future begins.
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Turning to Muskegon and West Michigan

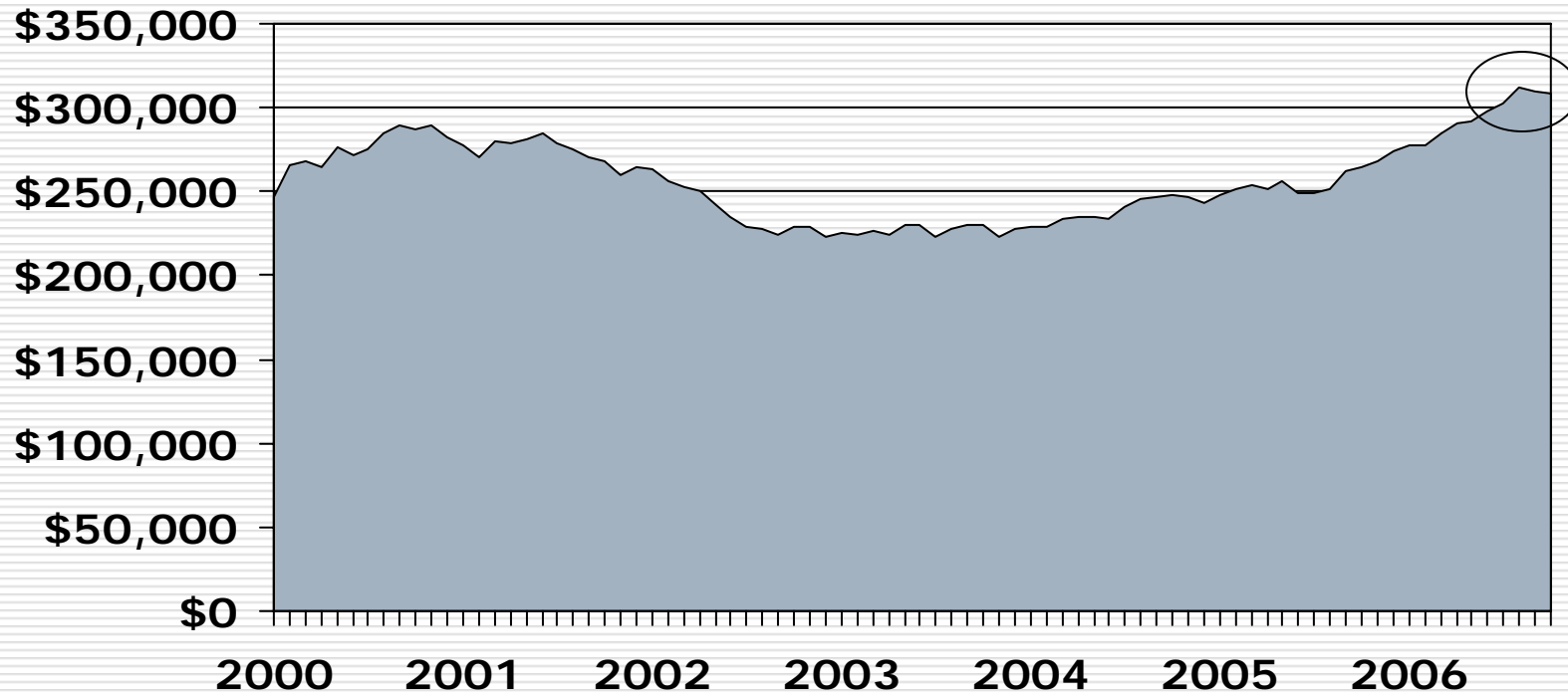
- ❑ You can open your eyes now.
 - ❑ The furniture industry is reporting good numbers.
 - ❑ The region's auto industry is more stable than many believe.
 - ❑ Still, uncertainty remains regarding what is next.
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Office Furniture

- Michael Dunlap's Industry Index remains robust.
 - The industry's fundamentals are strong:
 - Commercial construction
 - Office employment
 - Interest rates
 - Still, productivity gains will keep employment levels constant.
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A recovering commercial construction market should be helping the office furniture industry.

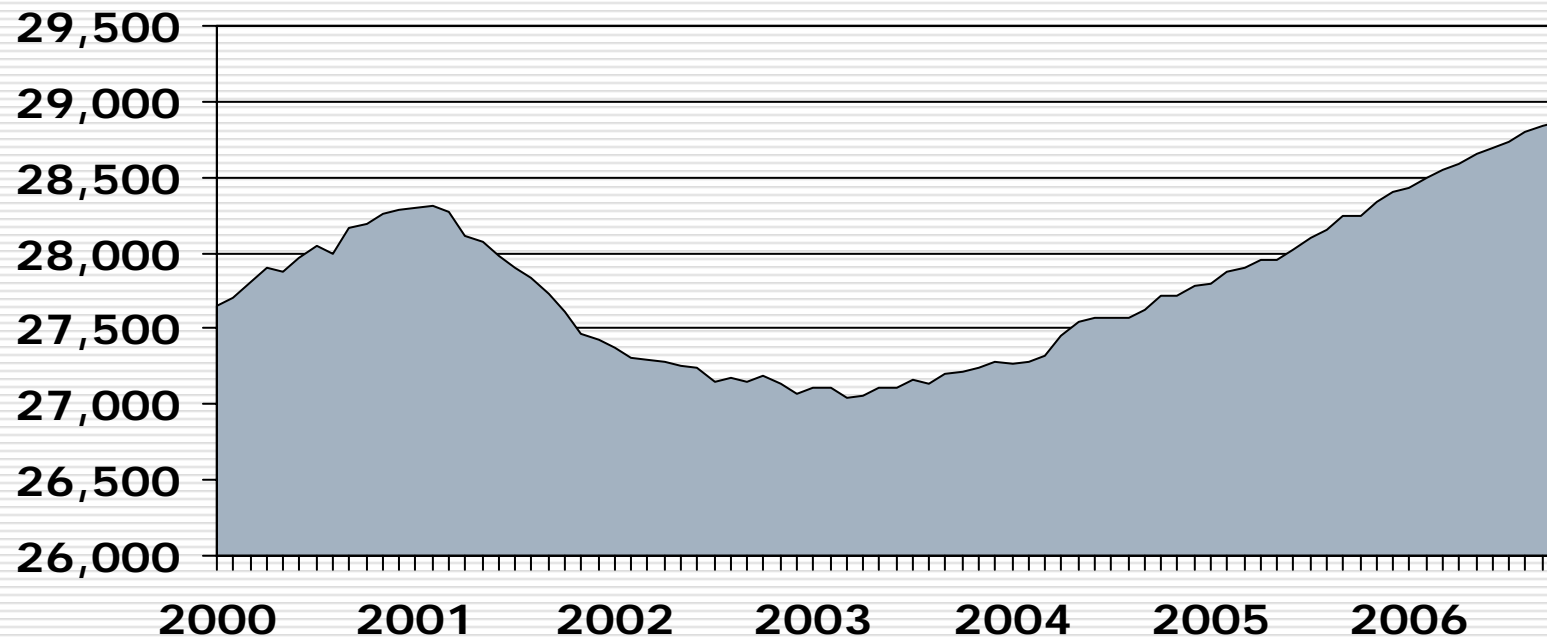
Value of Non-residential U.S. Construction



Source: U.S. Census Bureau, *October 2006 Construction Spending*, manufacturing, mining, & construction statistics.

The national recovery in white-collar employment should help the office furniture business.

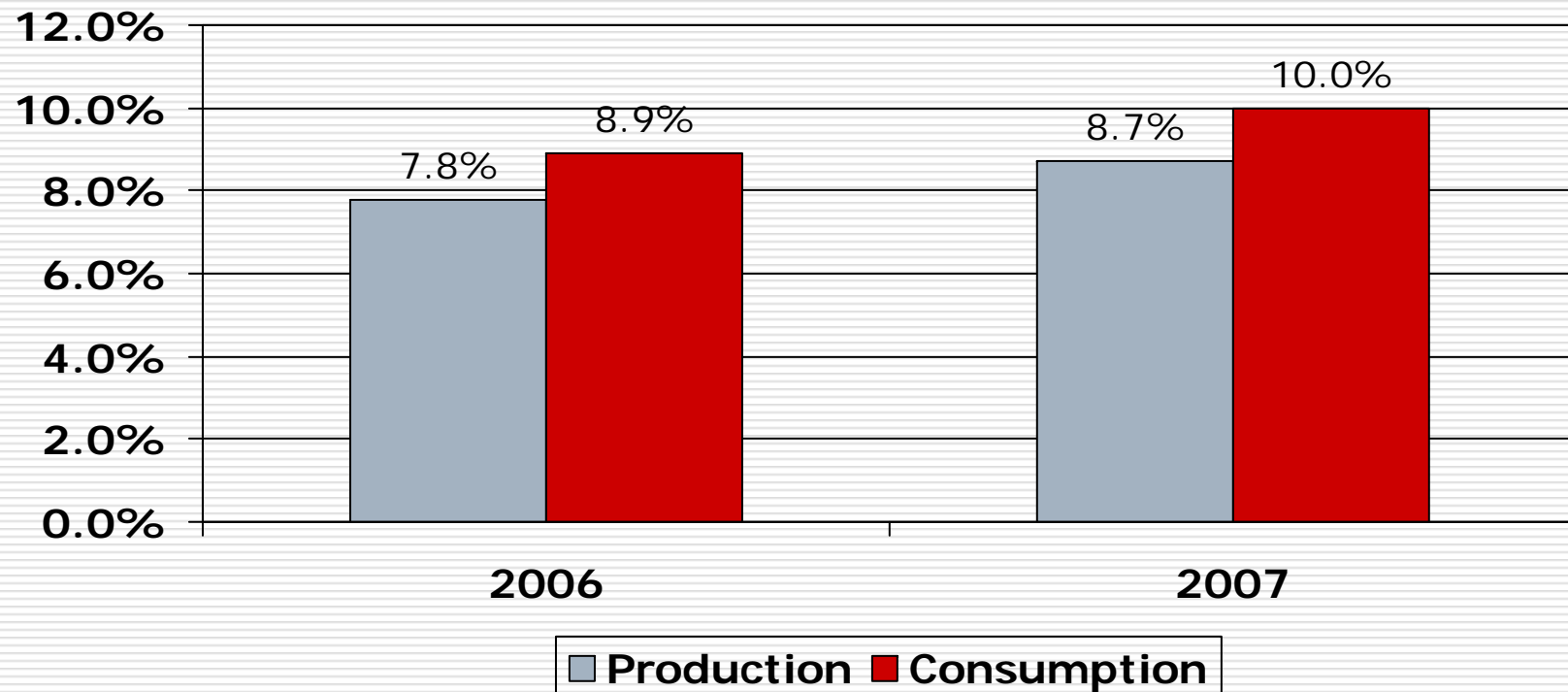
U.S. Employment Change in Office Environment Industries



Source: BLS. Industries include Financial Activities, Information, and Business and Professional Services.

The office furniture market is forecast to grow, however imports will allow consumption to outpace production.

Office Furniture Market Projections



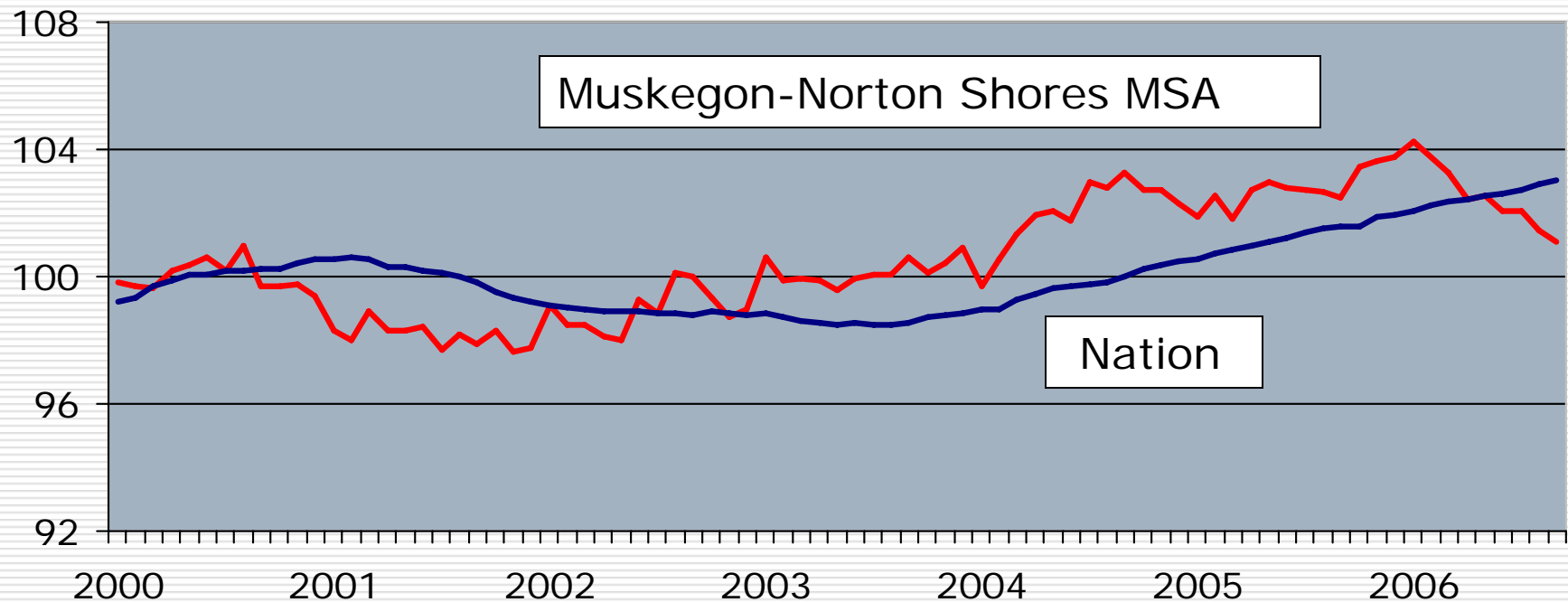
Source: BIFMA, projections for the U.S. office furniture market, updated 11-10-06.

Muskegon-Norton Shores MSA

- ❑ Employment trends have surprisingly turned south during the past year.
 - ❑ Population is still on the rise.
 - ❑ Housing activity, like much of the nation's, has slowed.
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The Muskegon MSA outperformed the nation until last year.

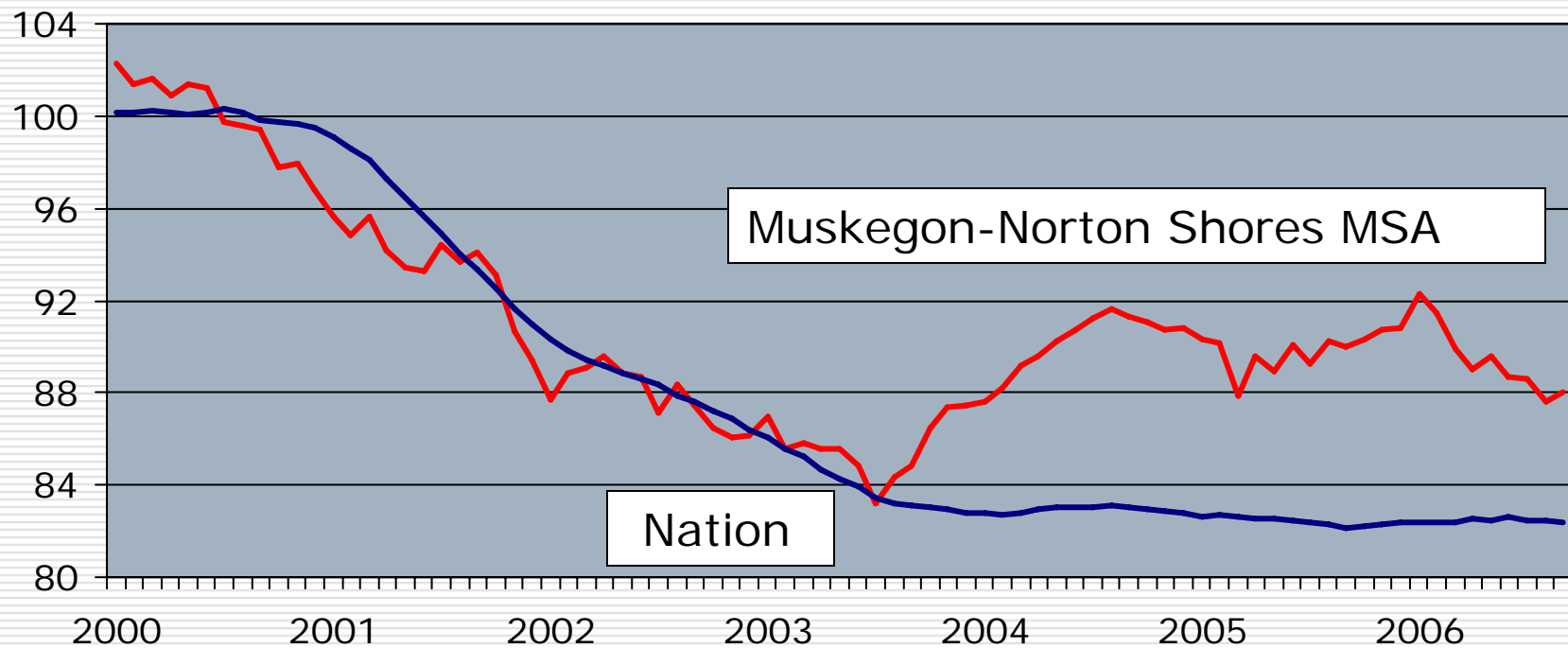
Employment Index
(2000 Average = 100)



Source: BLS, seas adj. by the Upjohn Institute.

Since mid-2003, Muskegon followed a different drummer in terms of manufacturing performance.

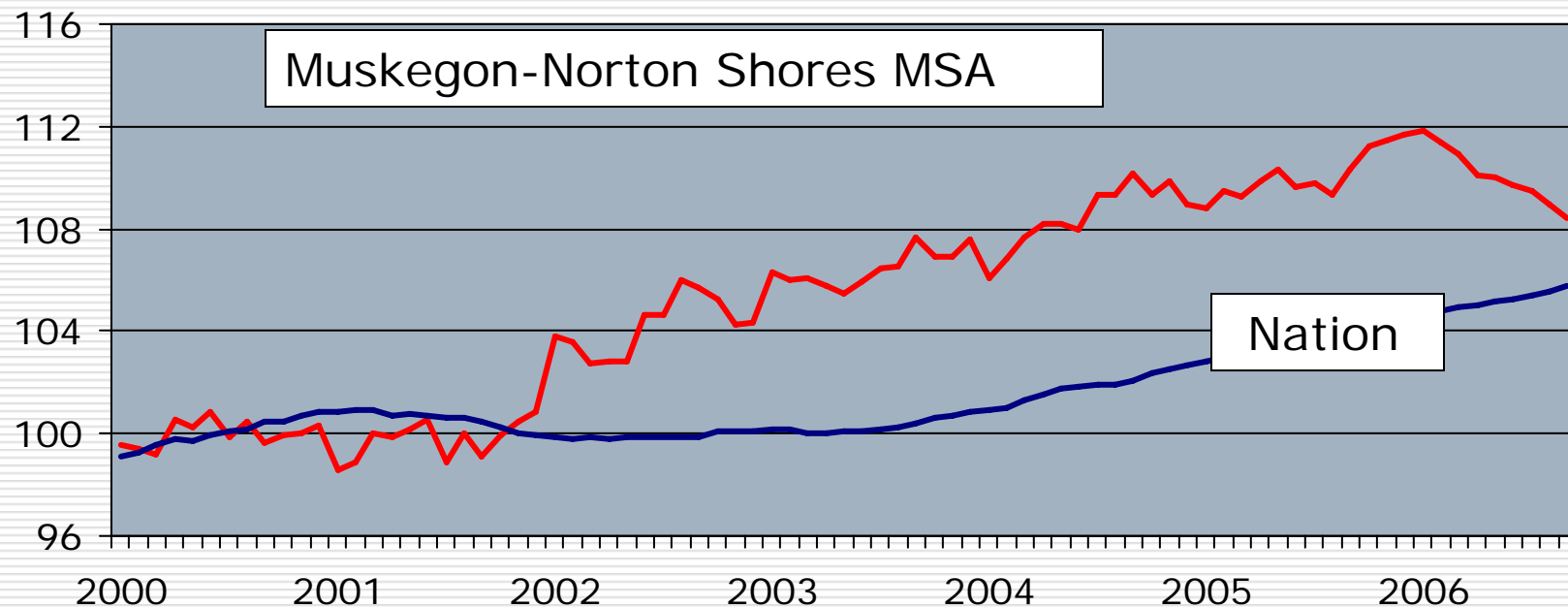
Manufacturing Employment Index
(2000 Average = 100)



Source: BLS, seas adj. by the Upjohn Institute.

Moreover the county's service-providing sector is still outperforming the nation's.

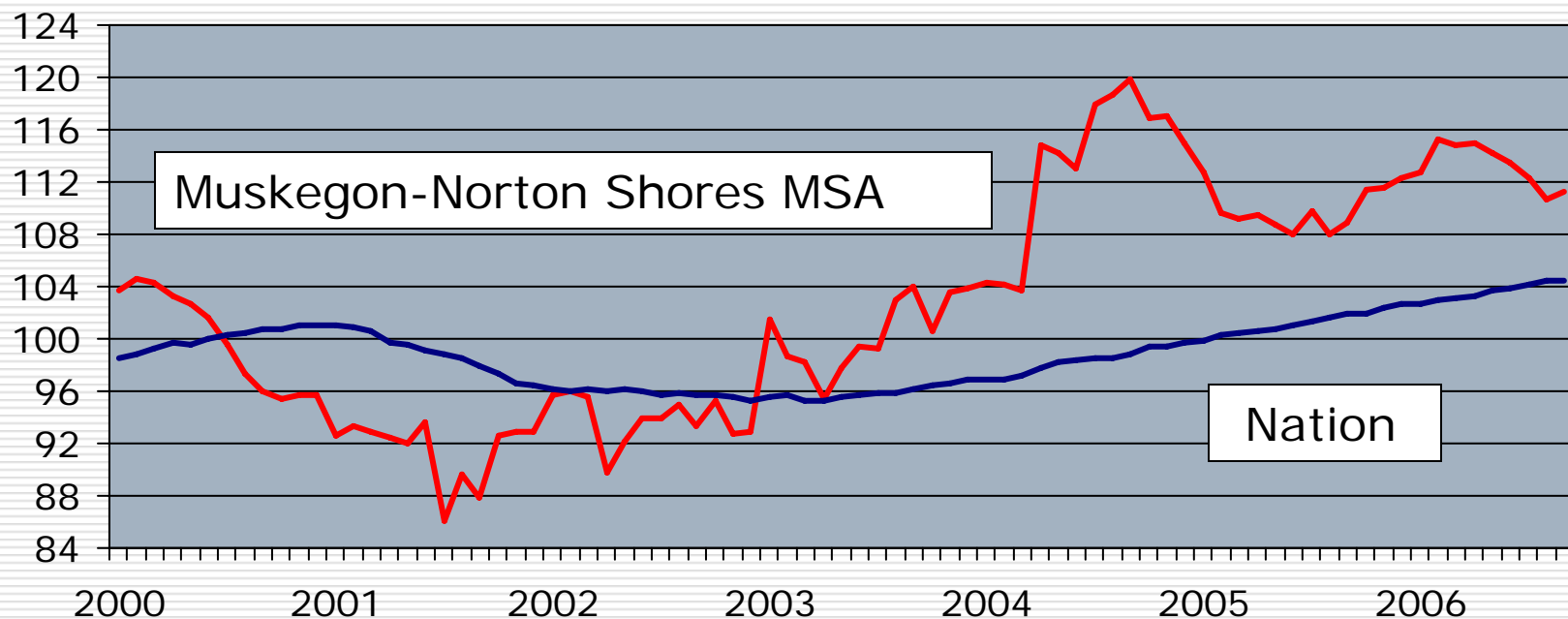
Service-providing Employment Index
(2000 average = 100)



Source: BLS, seas adj. by the Upjohn Institute.

The area's professional services sector is still outperforming the nation's.

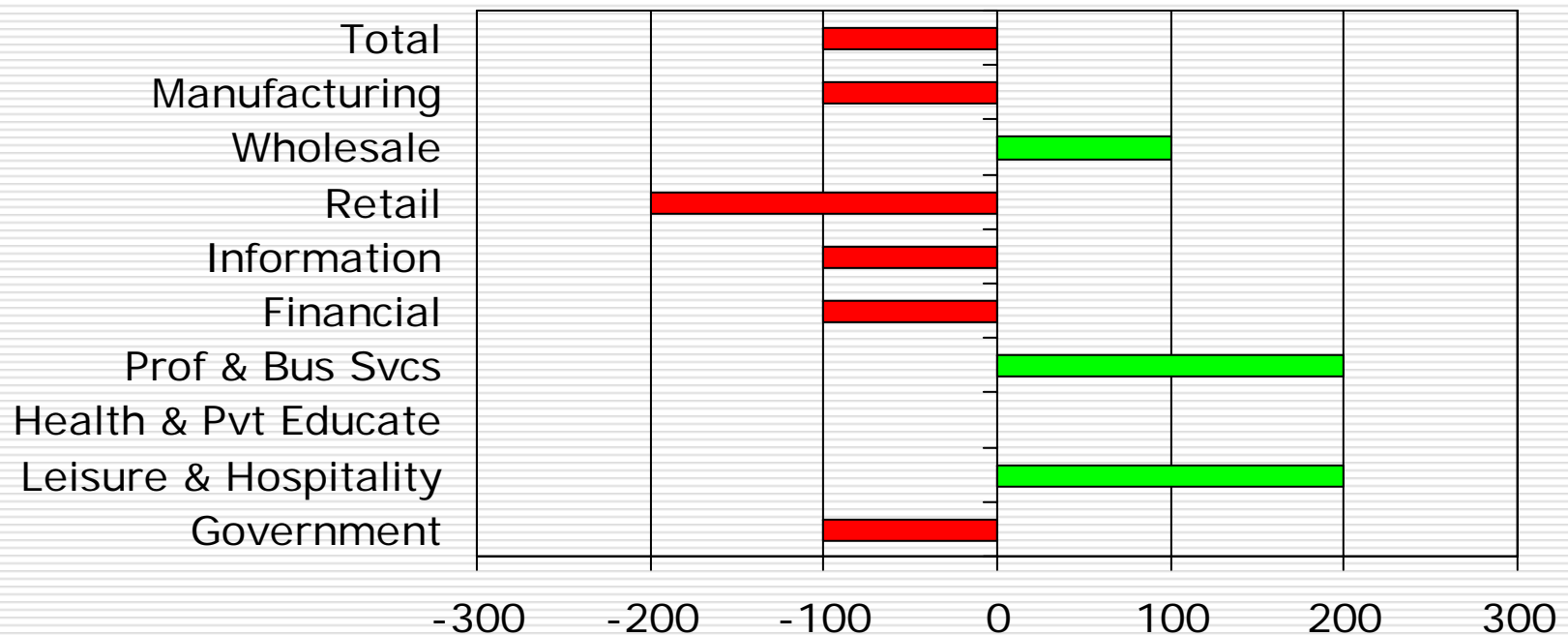
Professional & Business Services Employment Index
(2000 average = 100)



Source: BLS, seas adj. by the Upjohn Institute.

Total employment is down slightly in 2006, with small losses occurring across multiple industry sectors.

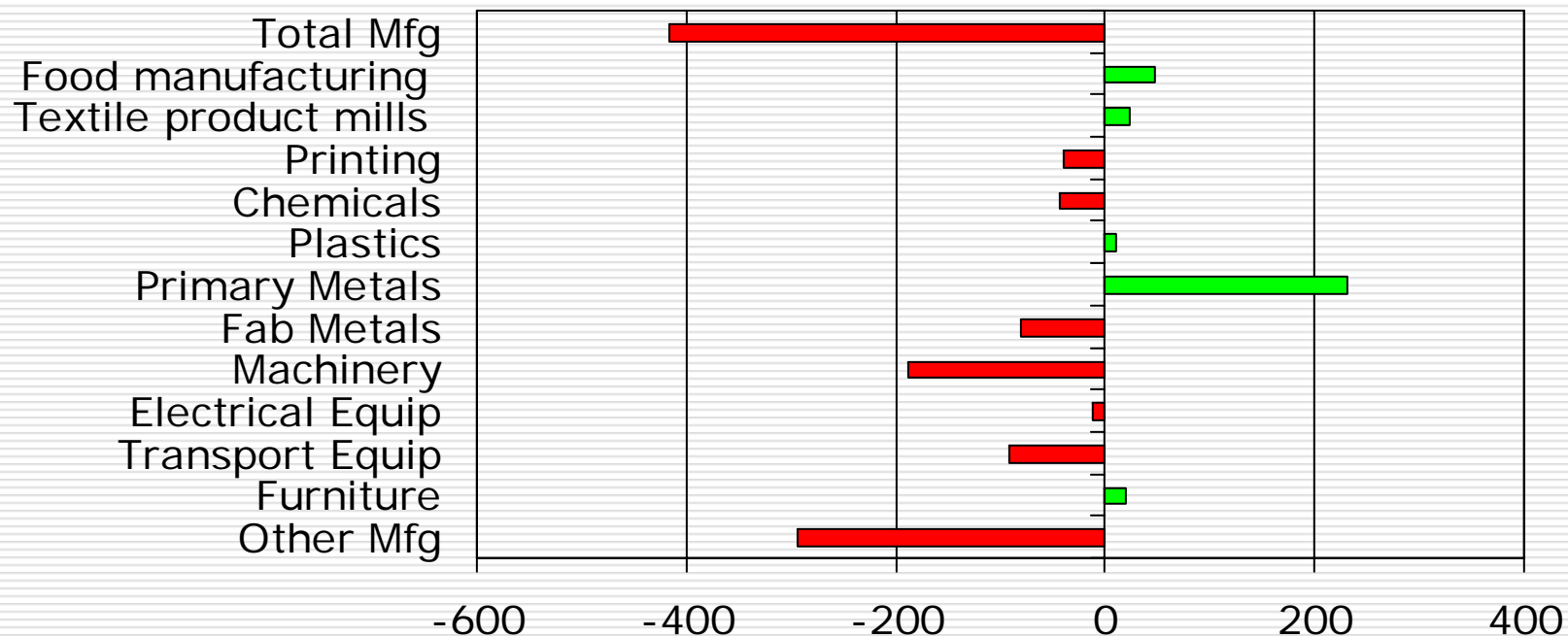
Muskegon MSA Employment Change
Jan-Nov 2005 to Jan-Nov 2006



Source: MDLEG.

Primary metals and foods are the strongest manufacturing industries in Muskegon County.

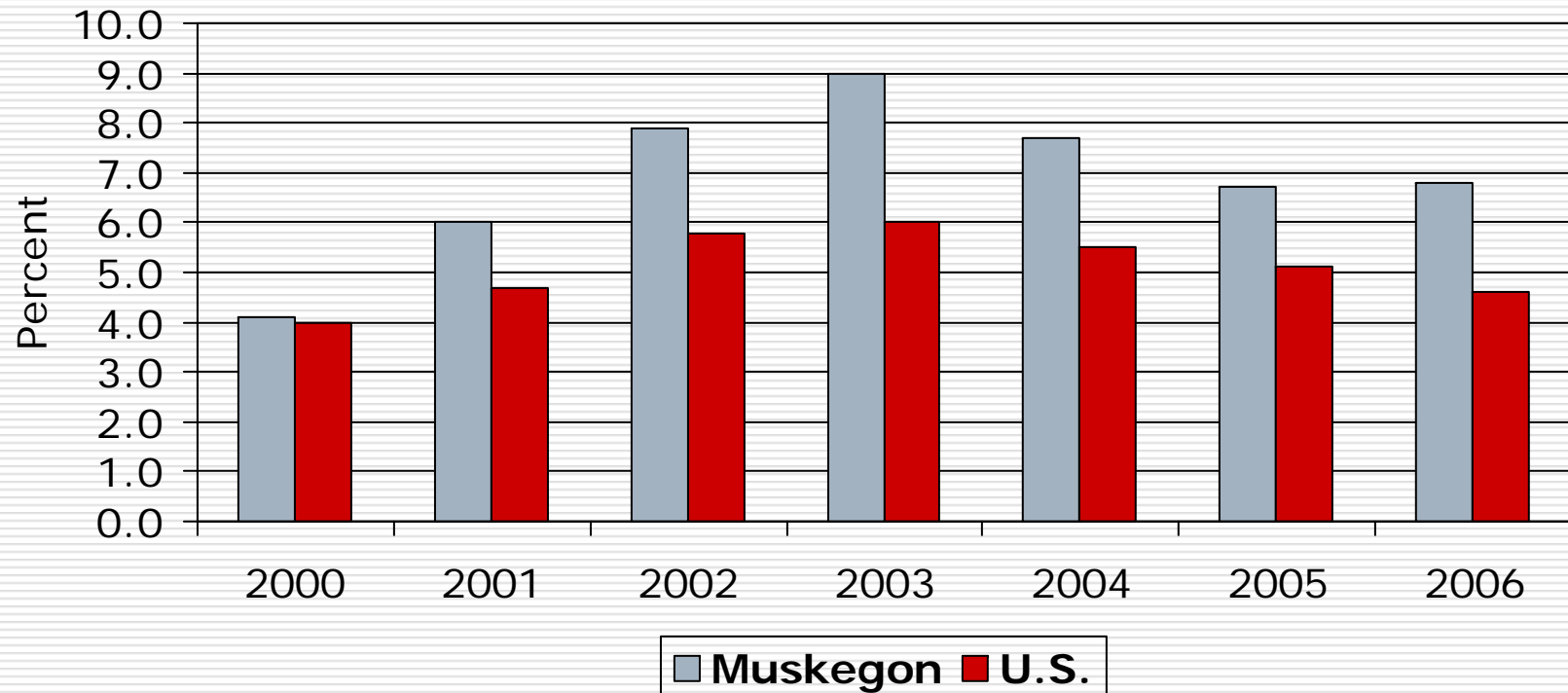
Detailed Manufacturing Change in Muskegon Co.
Q1 2005 to Q1 2006



Source: MDLEG, ES-202 data series.

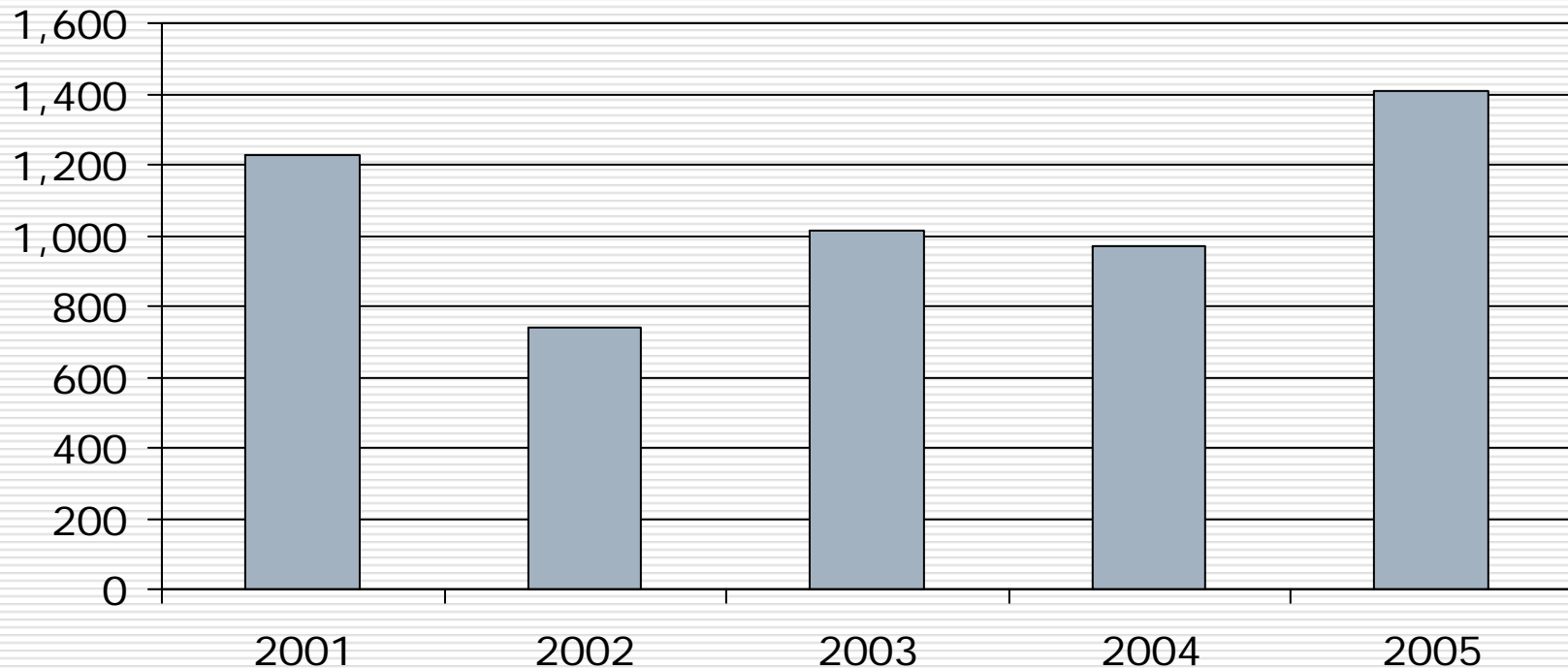
Still, the county's unemployment rate is consistently higher than the U.S.

Percent Unemployment Rate



Since 2000, Muskegon County has grown at a 0.6 percent annual average rate—slower than the U.S. rate of 1.0 percent.

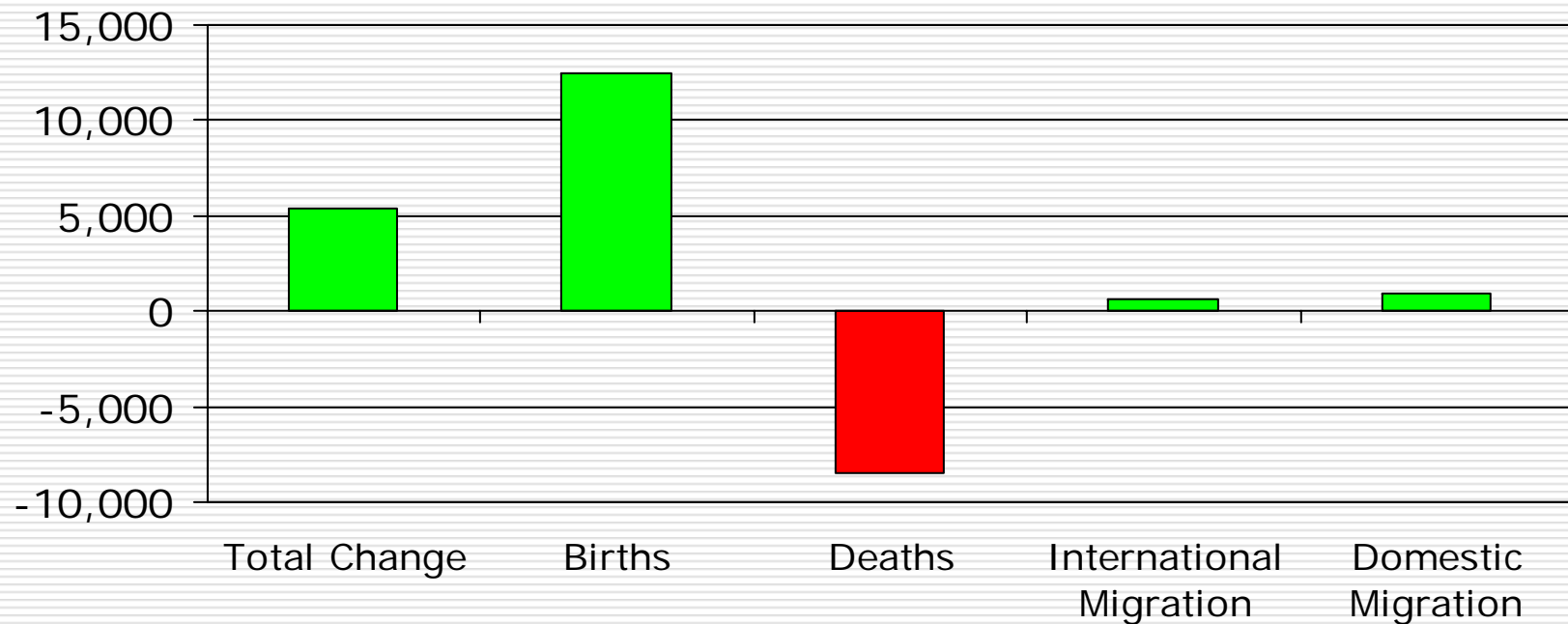
Muskegon County Population Change



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

Muskegon County has seen some small positive net in-migration.

Components of Muskegon Co. Population Change
2000 to 2005



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

Muskegon County gains population from its neighbors, but loses many residents to other parts of the country.

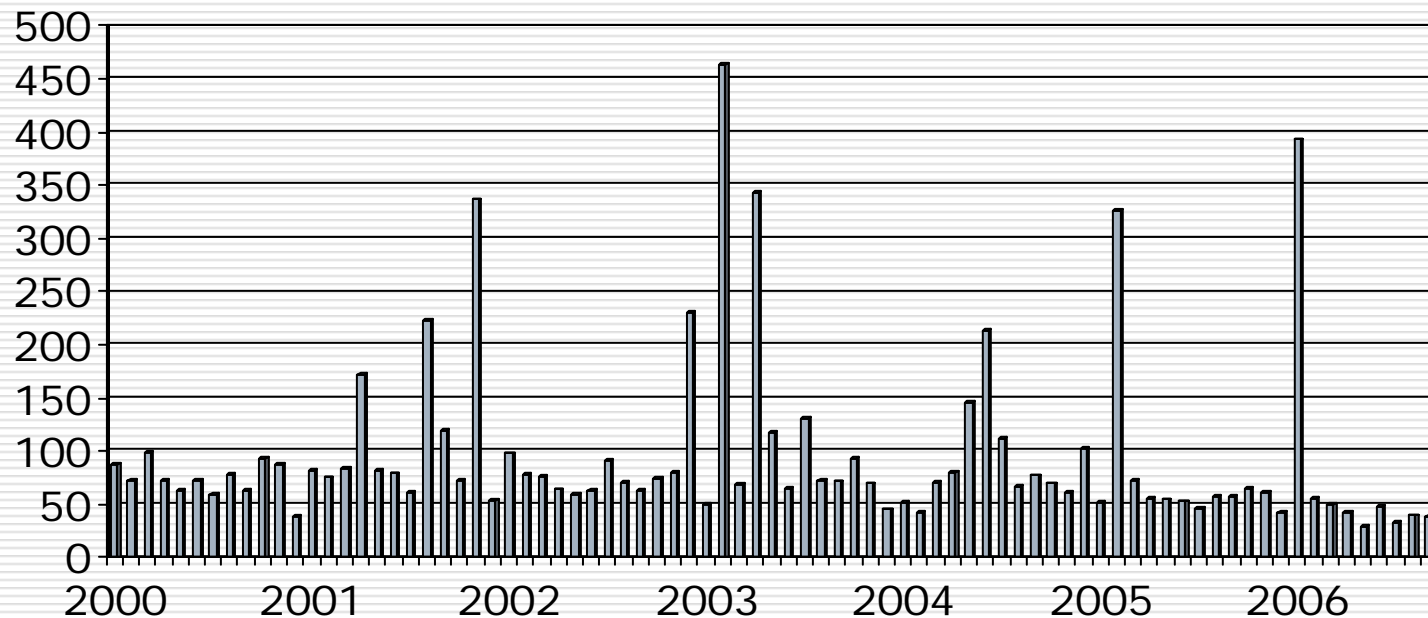
Muskegon County Migration Flows 2004-2005

Destination or Source Area	Households			People		
	In	Out	Net	In	Out	Net
Total	2,540	2,500	40	4,956	4,626	330
Ottawa County	638	506	132	1,244	957	287
Kent County	329	325	4	641	531	110
Oceana County	208	139	69	401	279	122
Newaygo County	145	135	10	299	310	-11
Rest of Michigan	559	507	52	1,024	863	161
Other States	648	867	-219	1,330	1,652	-322
International	13	21	-8	17	34	-17

Source: IRS migration data.

The number of new dwelling units putting under contract for construction shows a clear trend.

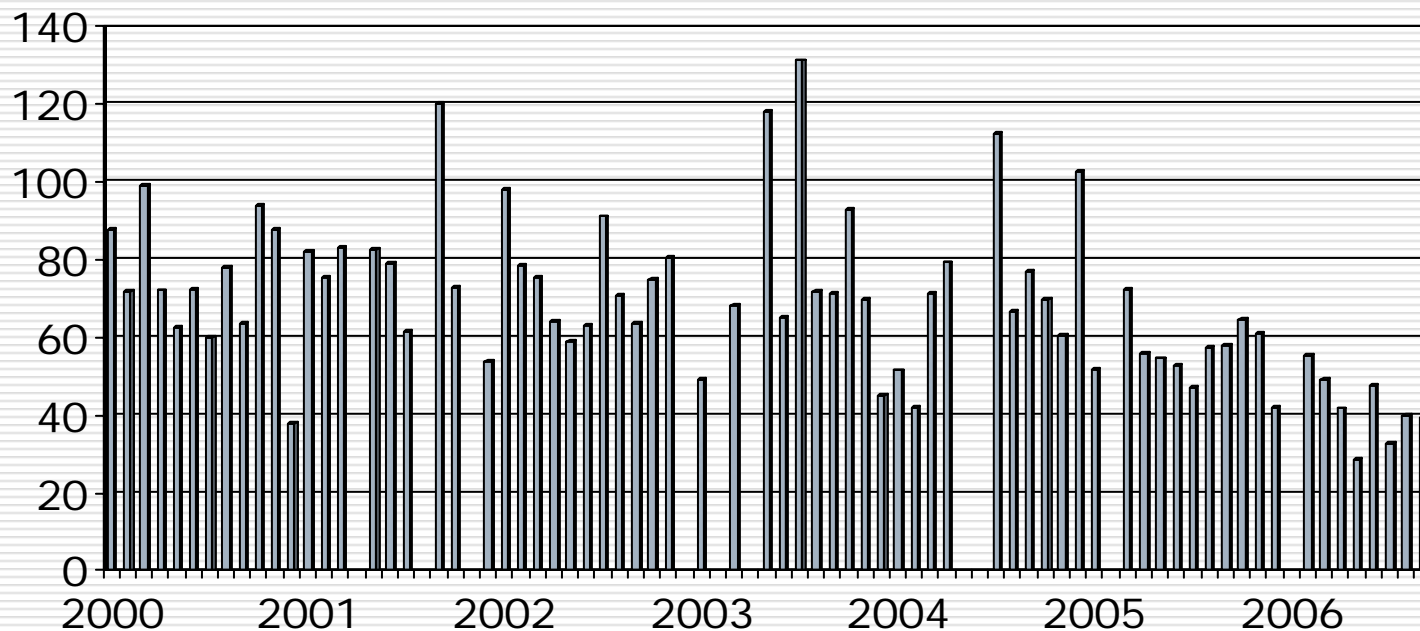
Number of dwelling units put under contract for construction



Source: Dodge Construction Reports and Upjohn Institute.

This is especially true if we take out the months with large multi-unit projects, **but still, it is not as bad as the nation**

Number of new dwelling units put under contract for construction-months with fewer than 140 units.



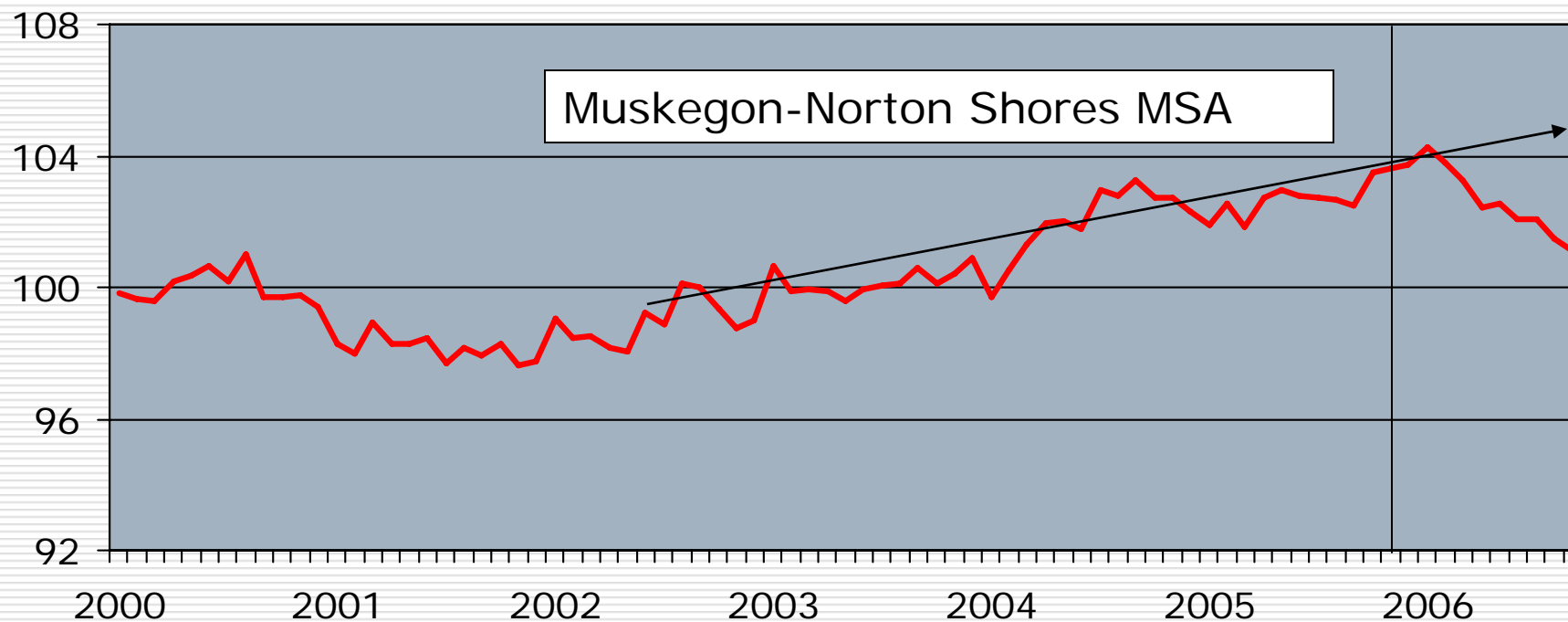
Source: Dodge Construction Reports and Upjohn Institute.

2007-2008 Forecast

- Things to consider:
 - Predictions of a slight slowdown nationally
 - In automotive the latest cuts will be felt during 2007-2008.
 - The office furniture market has recovered, but what about the jobs?
 - But first, a look at last year's forecast—a very quick look.
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A lesson in forecasting

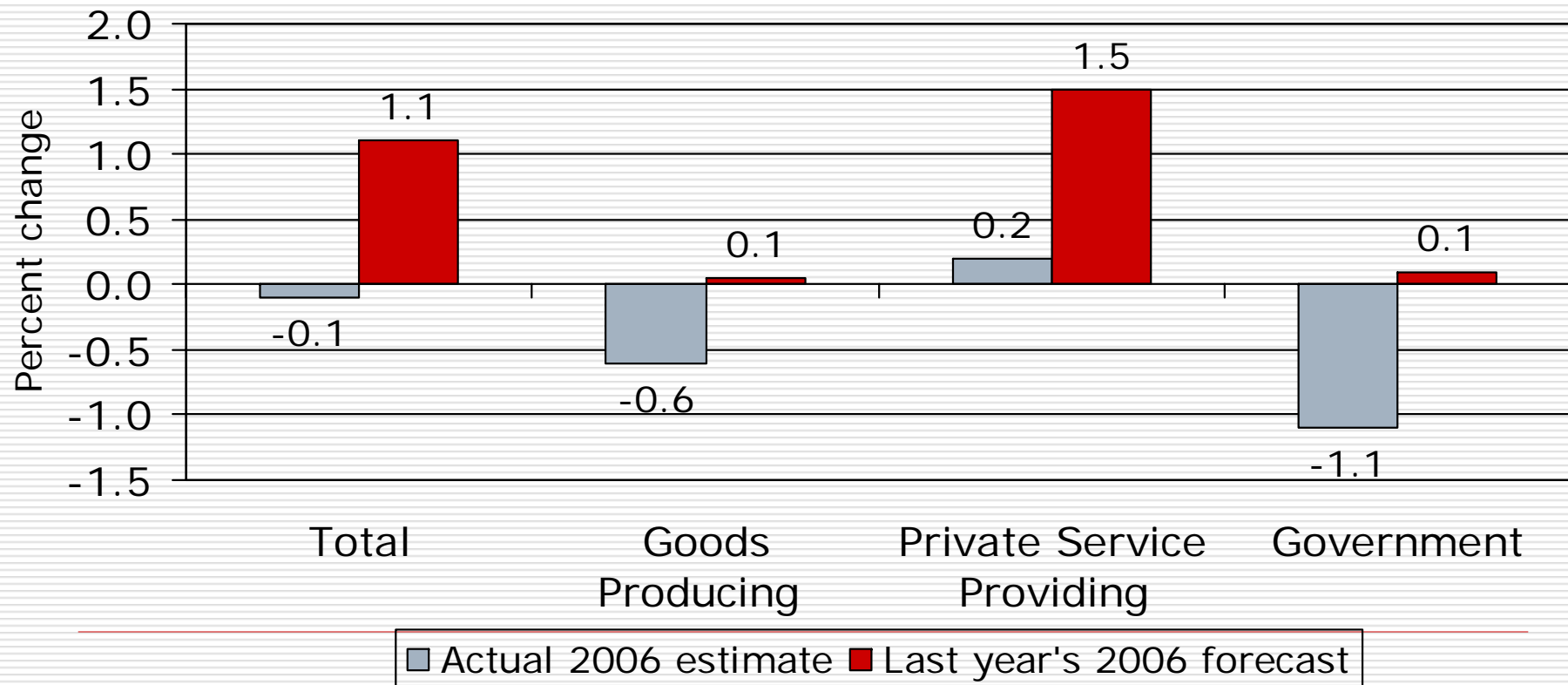
Employment Index (2000 Average = 100)



Source: BLS, seas adj. by the Upjohn Institute.

Ouch! Things looked *way* too optimistic last year.

Comparison of Actual and Old Forecast for 2006



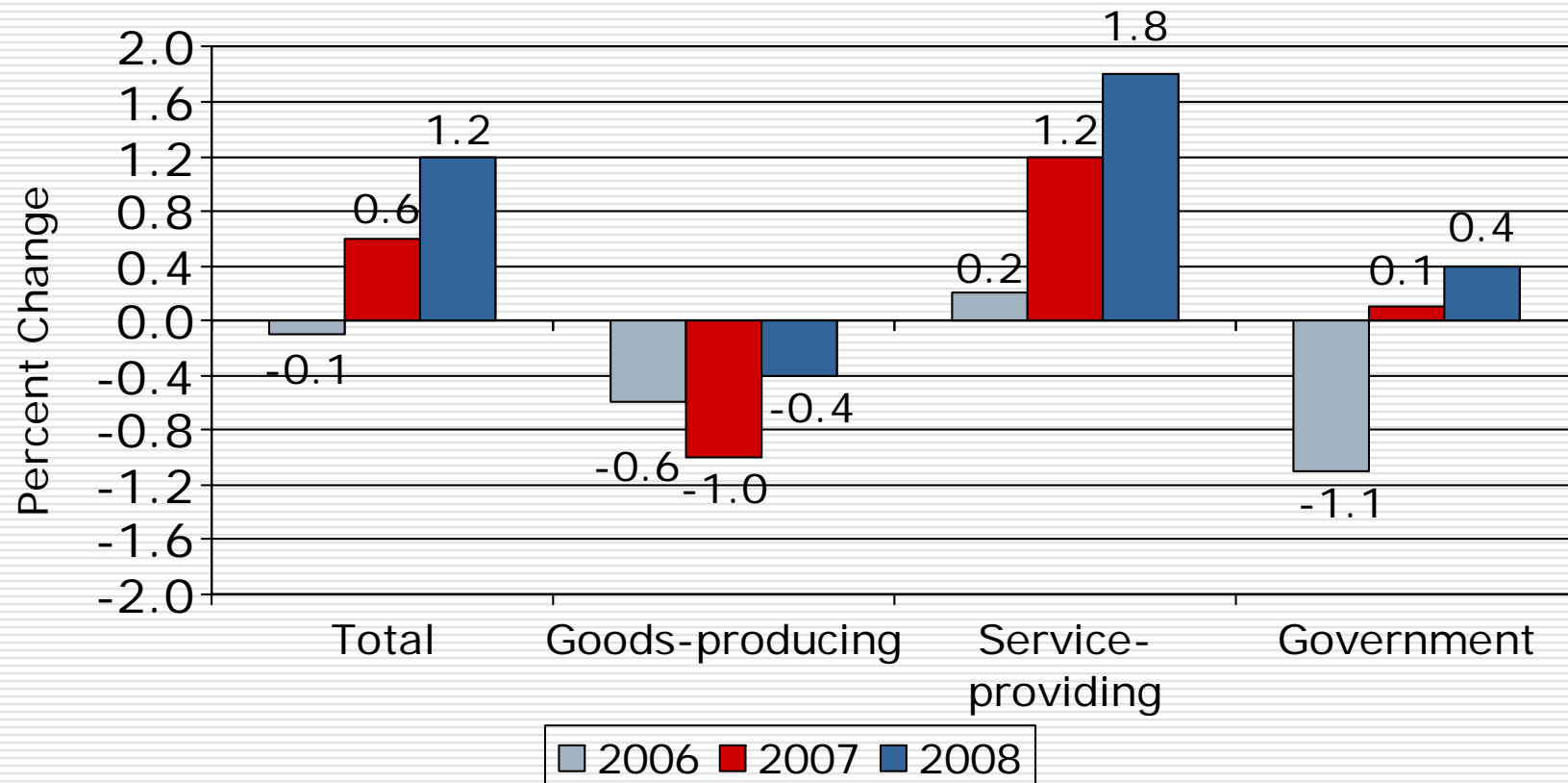
Note: 2006 estimate based on Jan-Nov 2006 CES data.

Before turning to the 2007
forecast,

a special thanks to Muskegon Area
First for arranging its annual focus
group of business representatives.

2007-2008 Muskegon-Norton Shores MSA Employment Forecast

Percent Change in Employment



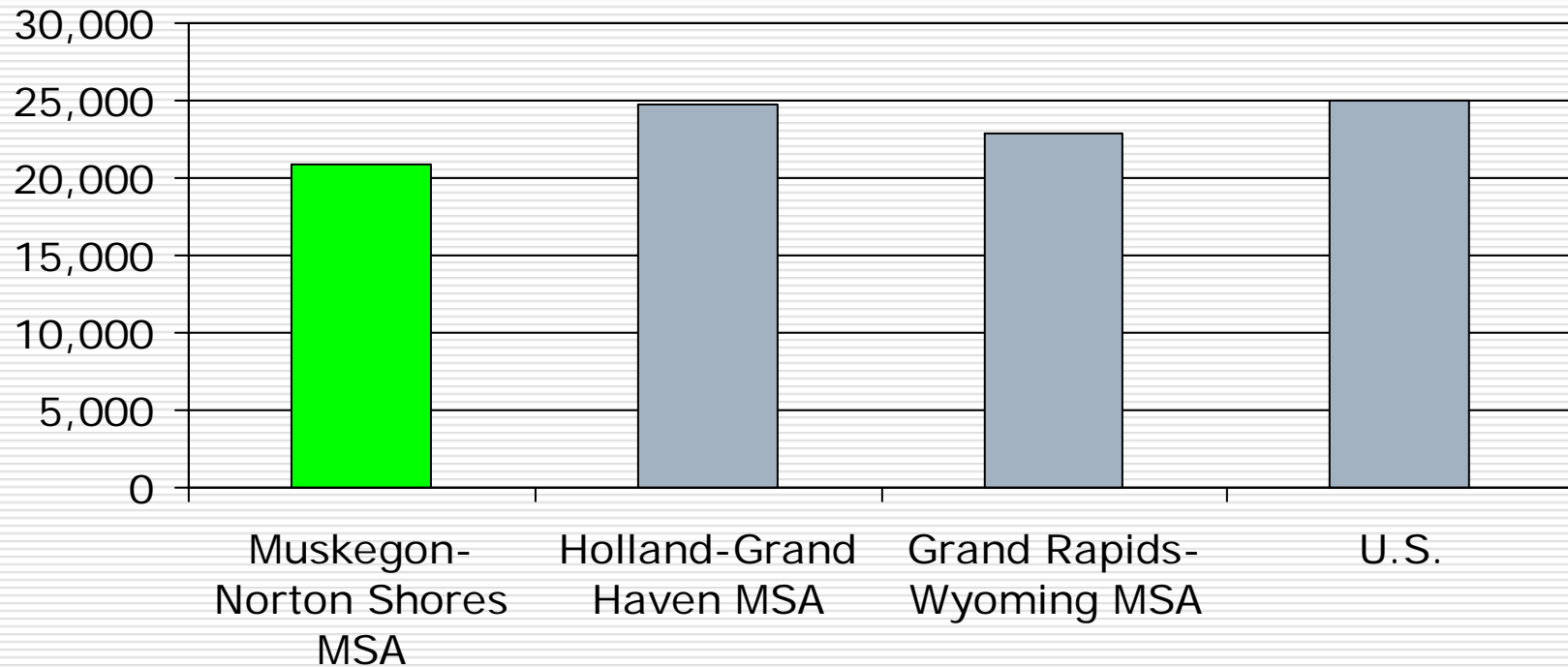
Source: W.E. Upjohn Institute.

Muskegon's position in the Greater Grand Rapids-Holland-Muskegon region

- ❑ Muskegon is an integral part of the greater region that includes Kent, Ottawa, Newaygo, Oceana counties, as well as, Allegan, Barry, and Ionia counties.
 - ❑ Share resources but compete for economic and demographic share.
-

Muskegon County's income is below its neighbors and the U.S. average.

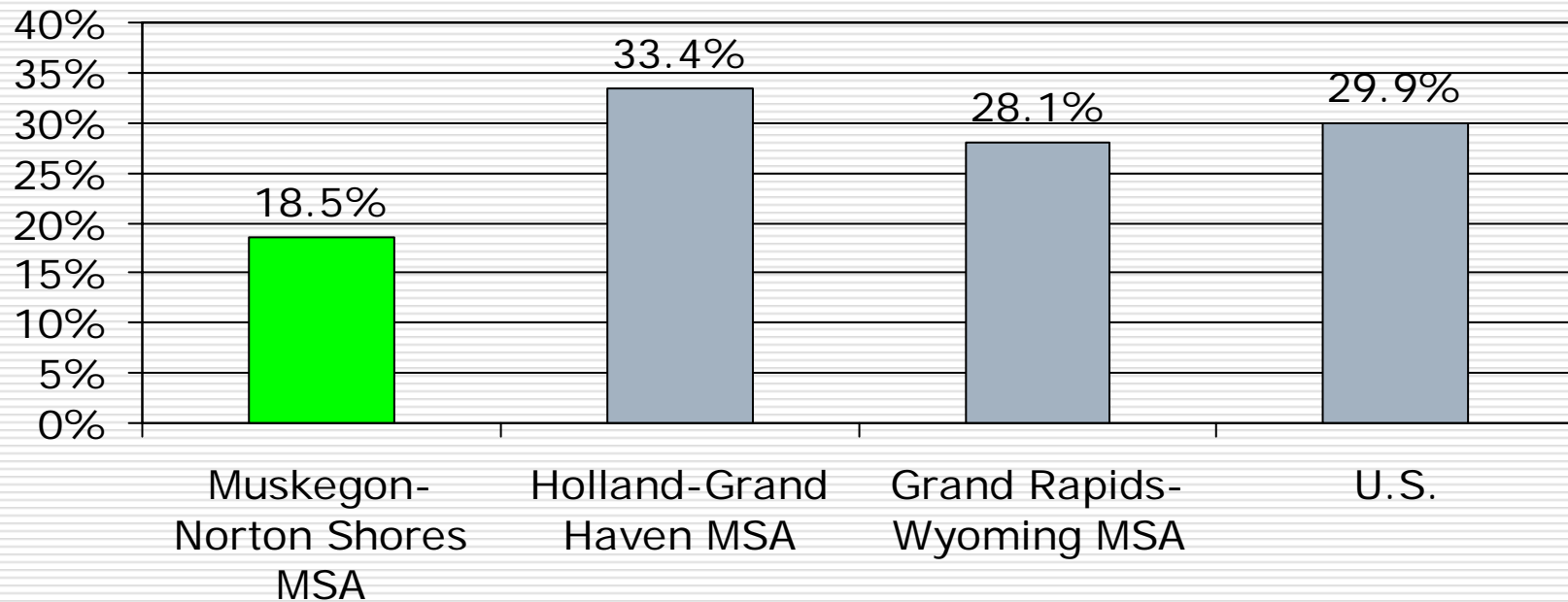
2005 Per Capita Income



Source: U.S. Census Bureau, ACS.

Serious challenge: Muskegon County is not the residence of choice for the region's higher-educated, younger workers.

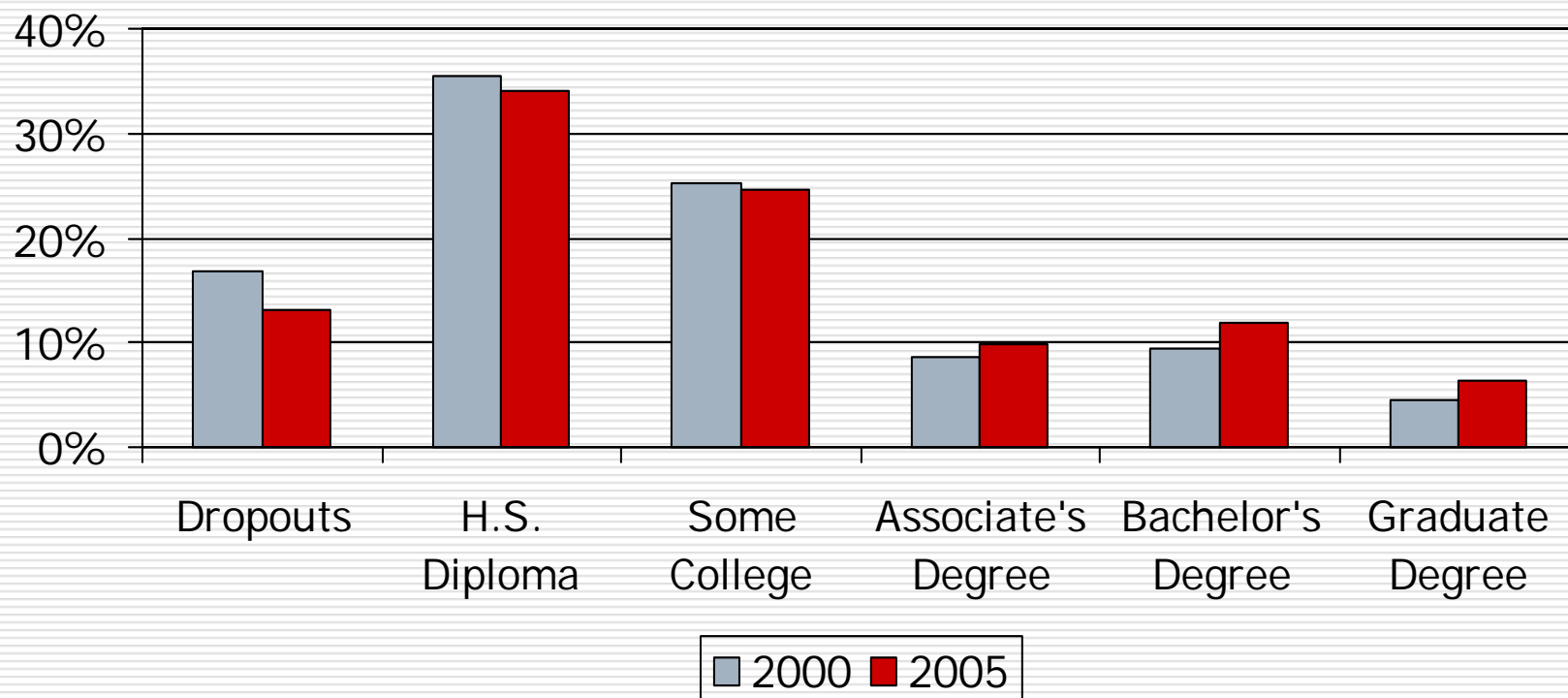
2005 Share of Residents, Age 25 to 34 with a Bachelor's Degree or Higher



The continued development in downtown Muskegon will help, but what else can be done?

However, the share of adults with college degrees has improved over the past five years.

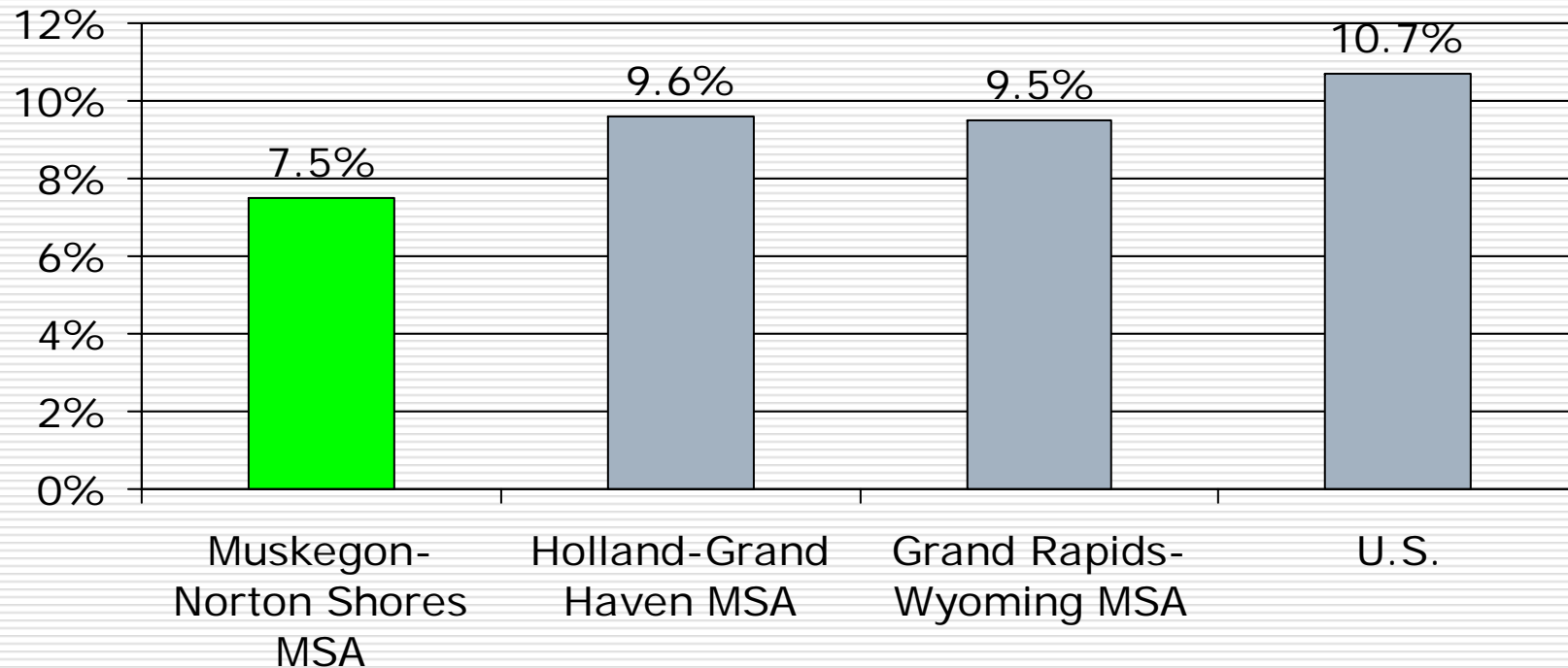
2005 Educational Attainment of Muskegon Residents, Age 25 and Older



Source: U.S. Census Bureau, ACS.

Self-employment is not a popular avenue for current residents in Muskegon County.

2005 Percent of Workers Self-employed



Source: U.S. Census Bureau, ACS.

Thoughts about Economic Growth

- ❑ Entrepreneurship is important, don't get me wrong.
 - ❑ However, *for communities* the road is more difficult than ever before in taking this route.
 - ❑ Looking beyond manufacturing.
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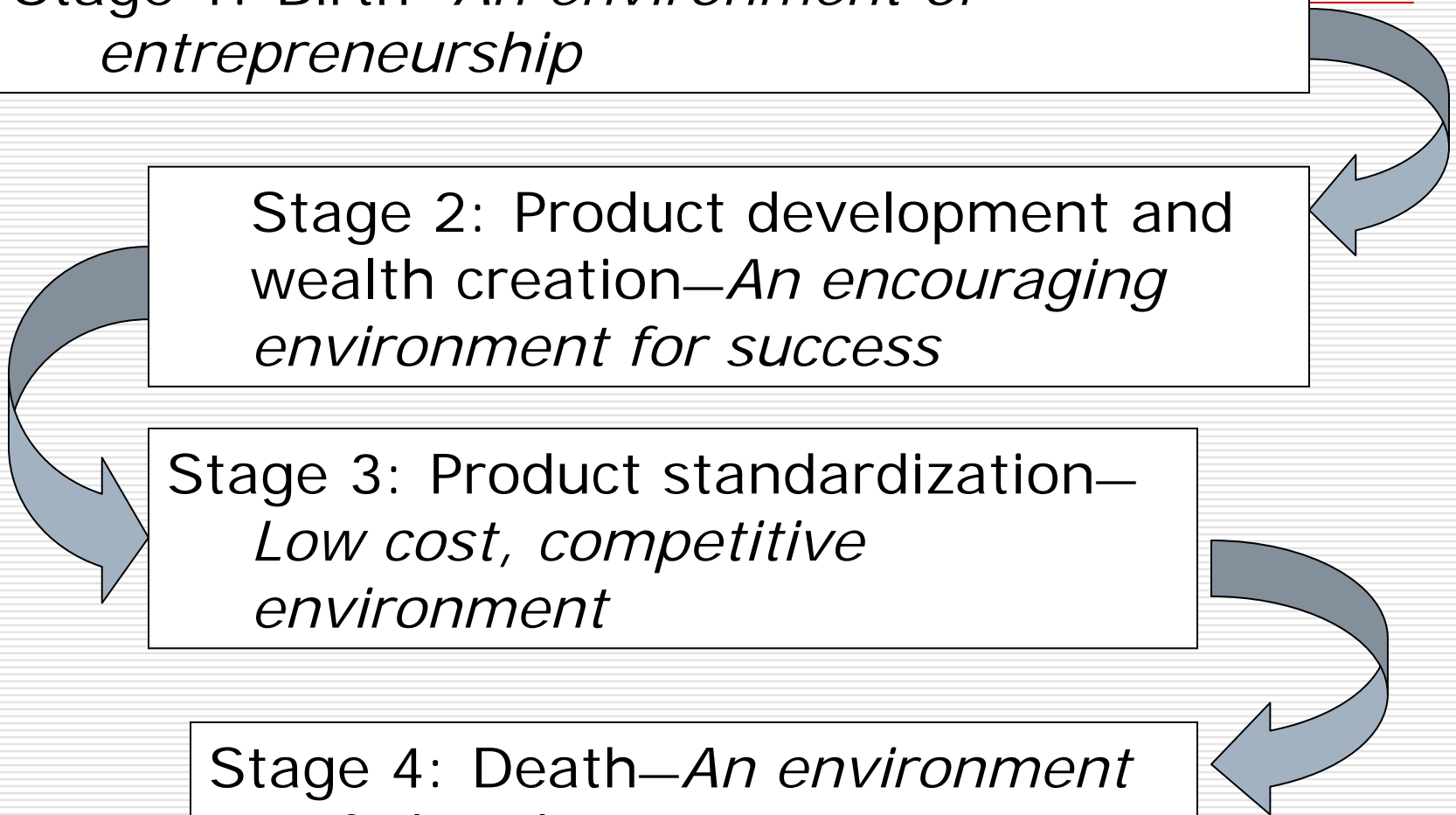
Regional Aspects of a Product Life Cycle

■ Stage 1: Birth—*An environment of entrepreneurship*

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

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

Stage 4: Death—*An environment of abandonment*

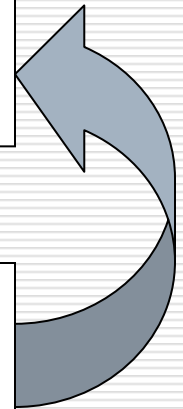


Regional Aspects of a Product Life Cycle

Perhaps the best route for Michigan:

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

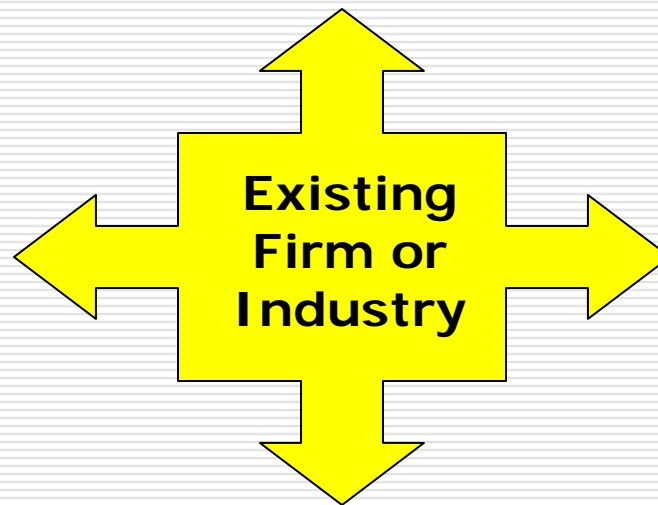
Stage 3: Product standardization—*Low cost, competitive environment*



Avenues available for firms looking to grow young again:

Break into a new market with the same type of product

Introduce a new product into a new market



Introduce a new/better product into the existing market

Internalize a supplier and grow as a supply source to other companies

Each path requires industry knowledge and a fire in the belly.

What about those aging boomers?

- ❑ George Fulton of the University of Michigan has opened the discussion on Michigan becoming a retirement destination.
 - ❑ Don't look outside right now; think five months from now.
-

What about those aging boomers? (cont'd)

- Tax laws are favorable – the tax treatment of pensions and homesteads for retirees are very generous.
 - But, we aging boomers could be different.
 - We will want to stay active longer – demands on health care.
 - We will want to continue to learn – demands on our higher education institutes.
-

What about those aging boomers? (cont'd)

- With its excellent health care facilities, Muskegon Community College, and Lake Michigan, is this such a foolish idea?
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The Economic Outlook for the Muskegon-Norton Shores MSA 2007 and 2008

For an electronic version of the presentation email
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