

5-31-2007

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Citation

Watts, Brad R. 2007. "Michigan Socioeconomic Conditions and Trends: West Michigan Compared to East Michigan." Report prepared for Borgess Health.

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Michigan Socioeconomic Conditions and Trends West Michigan Compared to East Michigan

Prepared for Borgess Health

by

Brad R. Watts

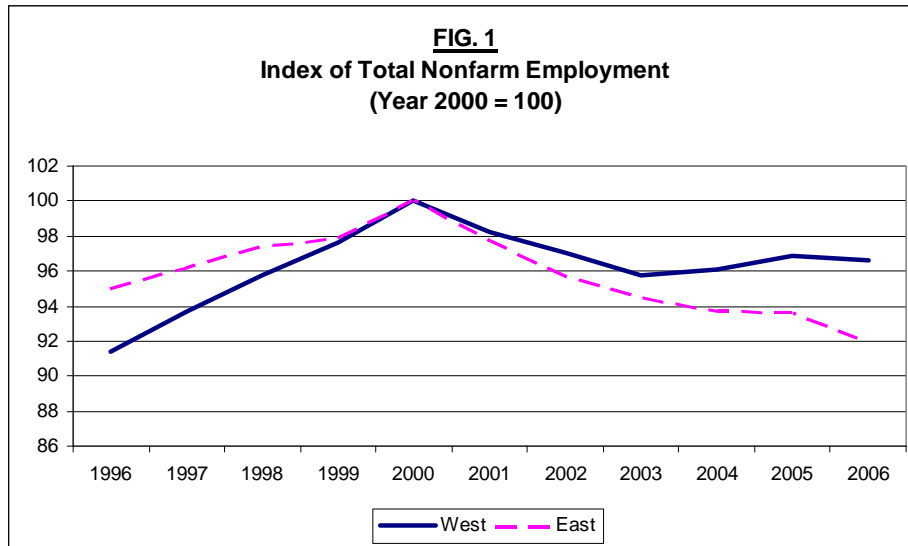
May 31, 2007

Introduction

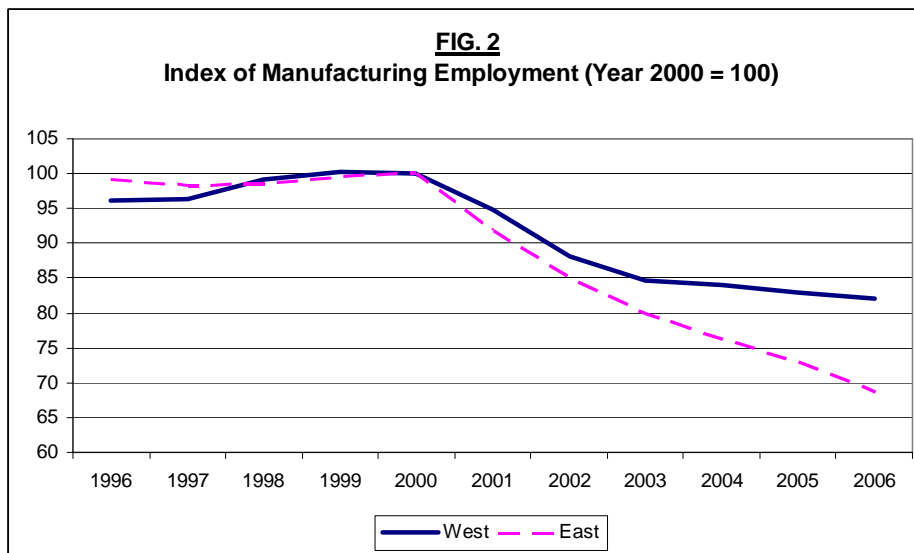
This report provides comparative data on general economic and demographic characteristics for geographic areas roughly comprising the western and eastern sections of Michigan. In general, we are defining the West portion of the state as the metropolitan areas of Battle Creek, Grand Rapids-Wyoming, Holland-Grand Haven, Kalamazoo-Portage, Muskegon-Norton Shores, and Niles-Benton Harbor. The metropolitan areas of Ann Arbor, Bay City, Detroit-Warren-Livonia, Flint, Monroe, and Saginaw define the East side of Michigan. However, in some instances (which we note) these definitions must be modified to include broader areas due to data limitations or the design of our forecasting model. Generally speaking, the information presented in this report should be taken as a broad view of the general conditions faced by two of Michigan's most populous urban regions, which may vary considerably across the individual metro areas and smaller places within each large regional grouping.

Employment Conditions

Total nonfarm employment fared better in the West than in the East between 1996 and 2006. During the 10-year period, total employment in the West grew at a 0.6 percent annual average rate; in the East total employment declined at a 0.3 percent annual average rate. Figure 1 illustrates these employment rates as an index value, with employment levels at the pre-recession peak in 2000 set equal to 100. As shown in the chart, compared to the East, employment in the West was rising more rapidly prior to the recession and suffered less of a decline afterward. Although overall employment is below 2000 levels in both areas, employment in the West stabilized more quickly and began to recover more quickly—starting in 2003.

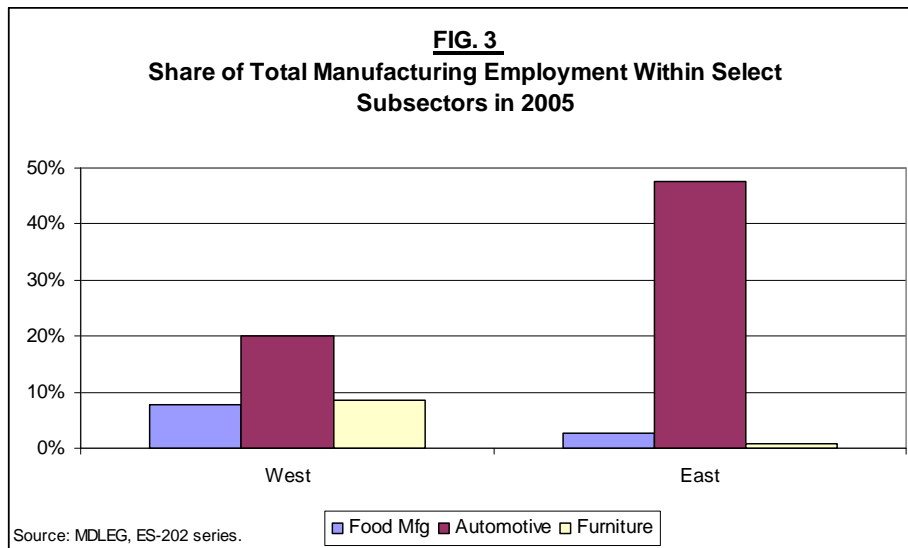


Michigan’s manufacturing sector has endured significant struggles in recent years, leading to significant statewide declines in manufacturing employment. Between 1996 and 2006, total manufacturing sector employment declined at an average annual rate (AAR) of -3.6 percent in the East and -1.6 percent AAR in the West. In Figure 2 manufacturing employment has been indexed to the pre-recession peak to illustrate the magnitude of decline that has occurred in each region. Although both regions have experienced large declines during the past half-decade, the decline has been more devastating in the East.

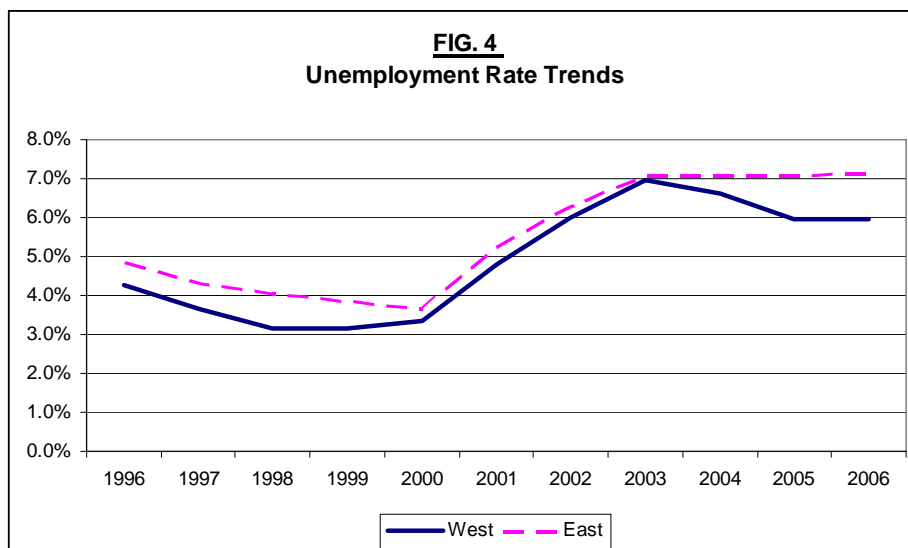


One reason the West has suffered a less dramatic decline in manufacturing employment than the East is the difference in relative diversity of firms located in each region. The East portion of the state is highly concentrated in automotive manufacturing—specifically the activities of the traditional “Big Three” companies: Ford, Chrysler, and General Motors. Although the West is home to a significant number of automotive parts suppliers, manufacturing firms from other

sectors such as office furniture, pharmaceuticals, and food processing have a strong presence in the region. As shown in Figure 3, even in 2005 nearly half of all manufacturing employment in the East is concentrated within the automotive sector, while in the West only about one-in-five manufacturing jobs are in autos.

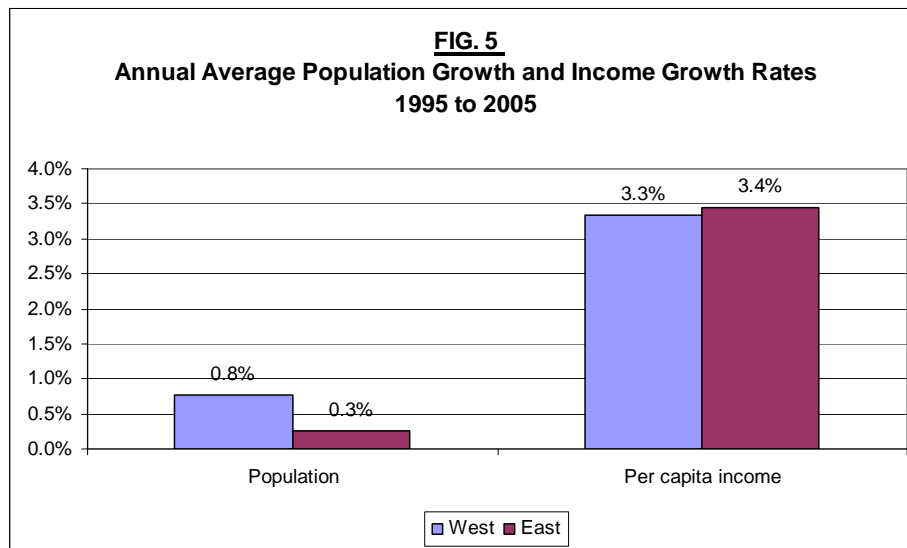


Since the end of the 1990s boom, unemployment rates have risen across all parts of Michigan. However, the West side of the state has managed to maintain a lower unemployment rate than the East side throughout the 10-year period from 1996 to 2006. The following chart (Figure 4) shows annual average unemployment rate trends for the 10-year period. This reflects the relatively-stronger employment situation the West region experienced during the same time period, as shown previously in Figure 1.

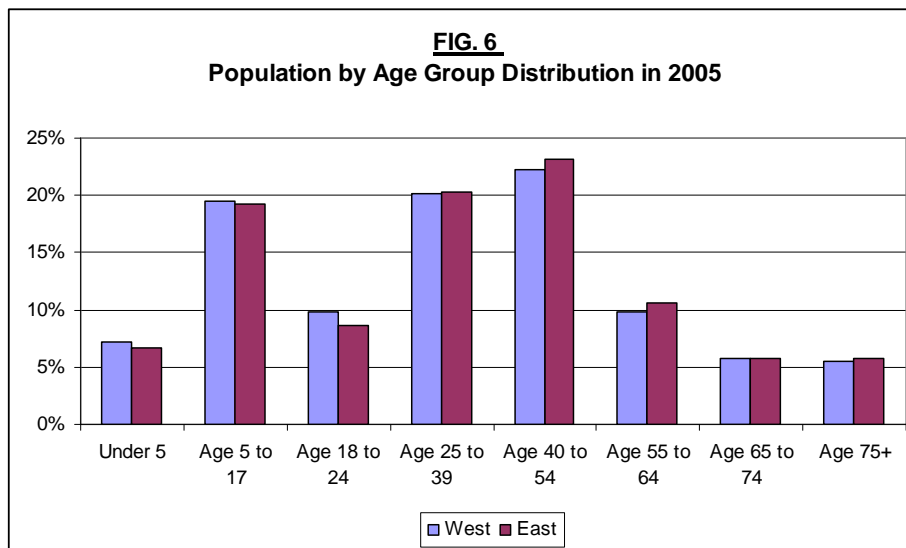


Characteristics of the Population

The East region is home to a greater share of residents than any other part of Michigan. Nearly 57 percent of all Michigan residents live in the East part of the state, compared to the only 18 percent who live in the West region. Additionally, the East is the wealthier region based on its higher per capita income level of \$36,144, versus \$30,340 in the West region. However, the West region is competitive in terms of growth. The annual average population growth rate in the West region is nearly double the rate in the East for the 10-year period from 1995 to 2005: 0.8 percent and 0.3 percent, respectively. Also, although the per capita income level in the West region is lower than the East region, it grew at approximately the same rate during the period. Figure 5 displays annual average population growth and income growth between 1995 and 2005.



In terms of the age of residents, the West and East regions look similar to each other. As shown in Figure 6, the West region is slightly younger than the East region, with persons under age 25 constituting 36.5 percent of total population, compared to 34.5 percent in the East. Adults age 25 to 54 are more concentrated in the East region, representing 54.1 percent of total population versus 52.3 percent in the West. In both regions retirement-age persons 65 and older make up a similar share of total population, 11.2 percent and 11.5 percent in the West and East, respectively.



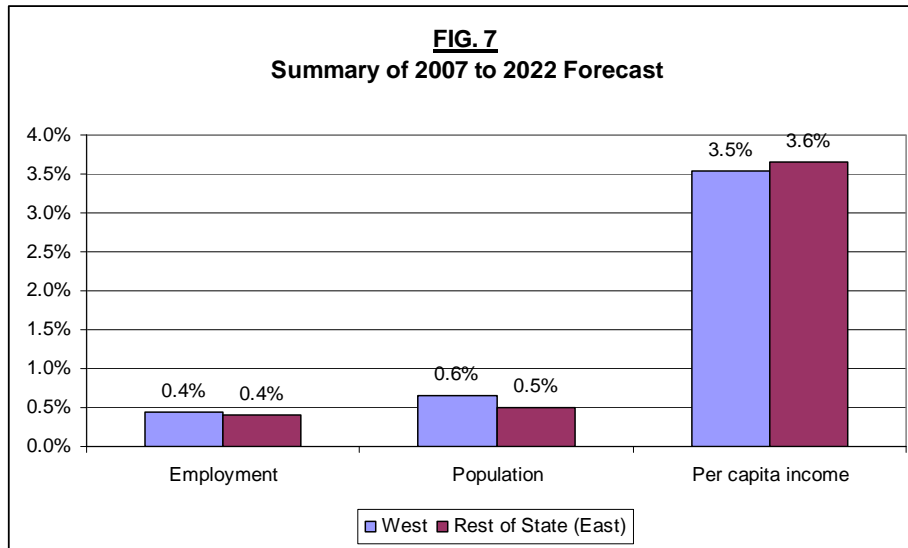
Forecasts: Employment and Population

This section presents our 15-year forecast of employment and population levels based on current economic and demographic trends. Underlying assumptions include the continued loss of automotive jobs in Michigan at an annual average rate of -0.5 percent and the continuation of a moderate national growth pattern averaging a 2.9 percent GDP growth rate. Major changes to either the state or national outlook—for example, the return of a prolonged high-growth national economic expansion similar to the late 1990s, or the closure of one of the Big Three auto companies—could substantially alter regional conditions above or below this forecast. Keeping this in mind, the forecasts presented in this section should be considered conservative outlook scenarios designed for fostering reasonable planning and decision making, based on current demographic and economic trends.

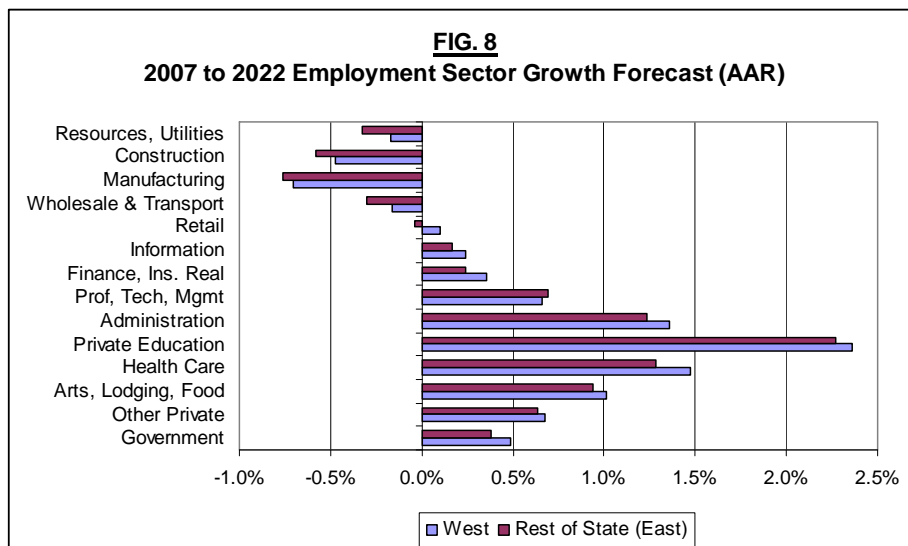
It should also be noted that, due to limitations in our forecasting model, the geographic areas compared in this section differ from the regions used in our analysis of employment and population conditions. The West region is still composed of the same six metropolitan areas, however, it is no longer possible to specifically define an “East” comparison region. Instead, the comparison forecast is for the rest of Michigan, of which the six metropolitan areas from the east side of the state make up the vast majority of population and employment. The only substantial change is the addition of the Lansing–East Lansing and Jackson metropolitan areas into the mix; the remainder of the state is rural and small in number, which should have very little effect on the overall forecast trends.

Over the next 15 years, employment, population, and per capita income are all expected to grow at modest rates statewide. Employment and population growth are expected to occur at a slightly faster annual average rate in the West, while per capita income for the rest of the state is forecast to grow slightly faster than in the West. Figure 7 shows a summary of the 2007 to 2022 forecasted annual average growth rates for each of these variables, by geographic region. Put in terms of total percentage growth for the 15-year period, total employment is forecast to increase a total of 6.7 percent in the West versus 6.1 percent for the rest of the state; population will grow 10.2 percent in the West compared to 7.7 percent across the rest of the state; and per capita

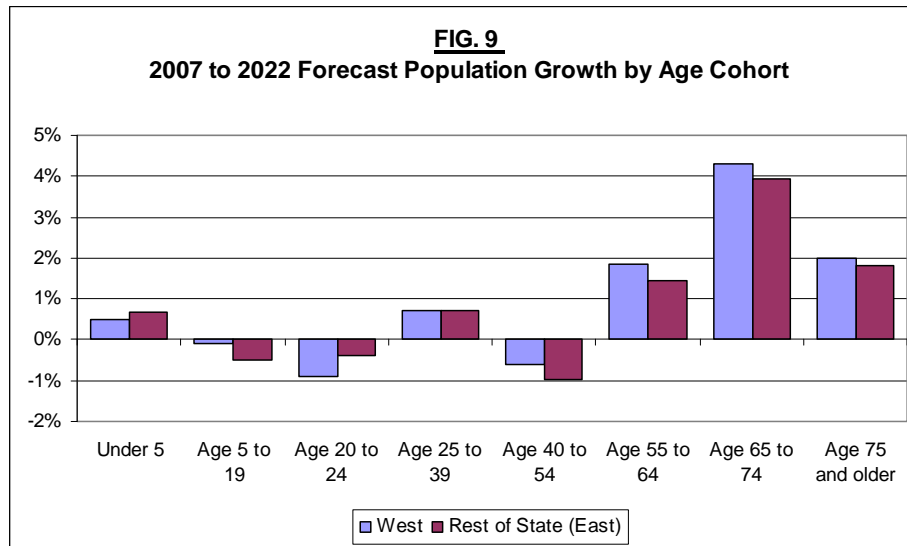
income is projected to increase by a total of 68.3 and 71.1 percent in the West and rest of state, respectively, during the period.



A look at the employment forecast by detailed industry sectors (Figure 8) shows that employment growth is expected to be most robust in service fields such as private education services and health care, while goods producing and distribution industries such as manufacturing, construction, and wholesale & transportation are predicted to suffer the greatest declines. Employment in the West is forecast to do better than the rest of the state in all industries, with the West region consistently either growing at a faster annual average rate or suffering a smaller job loss than the rest of Michigan. Despite this across-the-board strength compared to the rest of the state, total employment in the West is forecast to grow only slightly faster, due to their higher concentration in manufacturing employment—20.7 percent of total jobs in the West, versus 13.2 percent of all jobs in the East region in 2006.



Not surprisingly, population change characteristics over the 15-year forecast period are also expected to differ between the West region and the rest of the state. In addition to a faster overall population growth rate in the West—0.6 percent AAR versus 0.5 percent AAR for the rest of the state—the rate of change within age categories is expected to differ even more dramatically. As shown in Figure 9, population growth amongst the older age cohorts is forecast to be significantly stronger than the rest of the state. Conversely, the West region is expected to experience slower population growth and greater population losses amongst younger age groups. The 65 to 74 year-old category will grow the fastest over the next 15 years, increasing at a 4.3 percent AAR in the West and a 3.9 percent AAR throughout the rest of the state. The age 55 to 64 age cohort and the age 75 and older cohort will also experience high levels of growth.



Conclusions

Overall, this brief comparative analysis shows that economic growth conditions are stronger in the West part of Michigan than in the East. Between 1996 and 2006, population increased at a faster rate in the West than in the East; over the next 10 years, this trend is also forecast to continue. The economy in the West region of the state is also performing better than the East region. Total nonfarm employment in the West region experienced less of a decline than the East region following the 2001 recession and is at a higher level, relative to the 2000 expansion peak. Not surprisingly, unemployment rates were also consistently lower in the West than in the East between 1996 and 2006. In the future, the West region is expected to maintain an economic growth advantage over the East region, with a slightly higher employment growth forecast.

Examining this comparative analysis in the context of health care provision suggests several things. Most importantly, the West region of the Michigan is likely to face greater future changes in demand for health care services than the East region of the state. Compared to the East side of the state, the West is home to greater rates of increase in employment, overall population, and particularly population in older age groups. All three of these situations—the number of workers, the size of the overall population, and the aging of the population—are drivers of health care sector demand growth.

In general, the West region of Michigan has a better forecast outlook than the East region in terms of economic and population growth conditions and future trends. Although growth level differences between the regions are small in terms of annual average rates, over time the cumulative effect is significant. Much of this difference can be attributed to the levels of dependency on the Big Three automotive industry, which is dominant in the East but plays a lesser, though still significant, roll in the West's economy (see Figure 3).

The one apparent advantage of the East region over the West region is the higher per capita income level (Figure 5). However, per capita income level growth rates are similar throughout both regions (Figure 7), suggesting that relative income levels are not changing. It is also worth noting that the per capita income numbers do not account for cost-of-living differences, as many cities in the East region have a reputation for higher housing and transportation costs than those in the West.

In summary, the general economic and demographic trends that influence health care service demand are expected to be slightly stronger in the West region than in other parts of Michigan. Between 2007 and 2022, health care sector employment is forecast to increase by 1.5 percent AAR in the West, versus a 1.3 percent AAR in the East. In total, by 2022 employment in the health care sector is predicted to be 24.5 percent higher than today in the West region and 21.1 percent greater than current levels throughout the rest of the state.

Data Sources

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