2018

Economic Conditions: Updates on the National, State, and Regional Economies with a Look at 2018

Jim Robey
W.E. Upjohn Institute, jim.robey@upjohn.org

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Economic Conditions:
Updates on the National, State, and Regional Economies with a Look at 2018

Jim Robey, PhD
Director, Regional Economic Planning Services
The W. E. Upjohn Institute for Employment Research
March 14, 2018
The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 for the purpose of finding ways to alleviate the hardship of unemployment.

MISSION:
- The W.E. Upjohn Institute for Employment Research is a private, nonprofit, nonpartisan, independent research organization devoted to investigating the causes and effects of unemployment, to identifying feasible methods of insuring against unemployment, and to devising ways and means of alleviating the distress and hardship caused by unemployment.
- Today, the Institute has a three-pronged mission
  - Research the causes and consequences of unemployment and evaluate public employment programs and social safety nets
  - Administer all federal and state reemployment and training programs in our four-county area (Michigan Works!)
  - Disseminate our research findings and information on best practices
The next recession, is time on our side?

Employment Index From Business Cycle Peak

Month of Business Cycle Peak = 100

Is there a new norm?

Gross Domestic Product and Employment Change

Employment change is tapering off slightly

## National University of Michigan RSQE Forecast

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018 (Forecast)</th>
<th>2019 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (Percent)</strong></td>
<td>2.2</td>
<td>2.5</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Employment (Percent)</strong></td>
<td>4.4</td>
<td>4.2</td>
<td>4.1</td>
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<tr>
<td><strong>Light Vehicle Sales ($Millions)</strong></td>
<td>$17.1</td>
<td>$17.1</td>
<td>$17.0</td>
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<tr>
<td><strong>Unemployment Rate (Percent)</strong></td>
<td>4.4</td>
<td>4.2</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>Housing Starts (Millions)</strong></td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
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<tr>
<td><strong>CPI/Inflation (Percent)</strong></td>
<td>2.1</td>
<td>1.6</td>
<td>1.8</td>
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</table>
Consumer debt and confidence surge at the end of ‘17

Source: New York Federal Reserve and Conference Board
A weaker dollar should be good for the economy

U.S. Exports and Major Currencies Index

Source: St. Louis Federal Reserve and U.S. Census Bureau
Since 2015, wage increases have started to rise.

**Year-Over-Year Percentage Change in Hourly Earnings**

- **Average Jan ‘11 – Dec ‘14**: 2.1%
- **Average Jan ‘15 – Sep ‘17**: 2.6%

Housing inventory as a % of housing stock is back to pre-bubble levels
Prices have returned to peak-bubble levels permits for single-family homes are still below pre-bubble levels
Moving on to Michigan
Statewide University of Michigan RSQE Forecast

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</thead>
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<tr>
<td>GDP (Percent)</td>
<td>2.24</td>
<td>2.48</td>
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<tr>
<td>Employment (Percent)</td>
<td>1.43</td>
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<tr>
<td>Manufacturing Employment (Percent)</td>
<td>0.76</td>
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<tr>
<td>Unemployment Rate (Percent)</td>
<td>4.4</td>
<td>4.2</td>
<td>4.1</td>
</tr>
<tr>
<td>CPI-Detroit/Inflation (Percent)</td>
<td>1.88</td>
<td>1.49</td>
<td>3.07</td>
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</table>
Strong growth in most industry sectors

Employment Change, 2016 to 2017

After a slight bump from hurricanes, returning to normal

Annualized Rate of U.S. Light Vehicle Sales (in millions)

18.1 (2000 to 2007 Peak)
16.8 (2000 to 2007 Average)

Source: Bureau of Economic Analysis
Michigan is still a place that “makes things”

Manufacturing Employment

Moving on to west Michigan
The national unemployment rate was 4.6% in 2017.
The national labor force participation rate was 62.8% in 2017.
The Kalamazoo area is doing well

Employment Change, Q4 2016 to Q4 2017

Kalamazoo MSA

New Dwelling Units and All-Transaction Sale Price

Source: Dodge Analytics & Federal Housing Finance Agency
Battle Creek

New Dwelling Units and All-Transaction Sale Price

Source: Dodge Analytics & Federal Housing Finance Agency
Grand Rapids MSA

New Dwelling Units and All-Transaction Sale Price

- New Dwelling Units
- 12-Month Moving Average
- Housing Price

Source: Dodge Analytics & Federal Housing Finance Agency
Can firms make money at these points?

2017 Residential Construction, Value Per Sq. Foot

- Kalamazoo MSA: $96
- Battle Creek MSA: $90
- Grand Rapids MSA: $112

Source: Dodge Data and Analytics
Household income has rebounded since the recession.

Household Income Index (2007 = 100)

Source: US Census ACS Table 19013
Some of the factors affecting 2018

**Headwinds**
- Volatile dollar
- Unclear regulatory changes
- Tight labor market
- Limited buildings
- Potential rising cost of capital
- Longer-run slowing light vehicles

**Tailwinds**
- Volatile dollar
- Unclear regulatory changes
- Continued expansion
- Recent estimates of GRP at +3%
- Strong consumer confidence
So, what keeps me up at night?

- The changing face of economic development, trading jobs for capital investment
- The Production Function equation
- Middle-skilled jobs
- Artificial intelligence
- Universal Basic Income (UBI) & paying for public goods
The shift from jobs to CapEx?

- Grand Rapids
- Kalamazoo
- Alpha
- Cleveland Cliffs
Why the production function?

• Production is a function of how firms use $(K*L*T)$

• Where:
  – K= capital
  – L= labor
  – T=technology
  – And they can be substituted as driven by economics
A sign of the times?

People are dead wrong to think America doesn’t manufacture things anymore. Our West Michigan factory produces thousands of units per hour. It really keeps our 7 employees busy.
Based on continued information and speculation...my thoughts continue to evolve..... The coming of Industry 4.0
What are middle-skilled jobs?

- Jobs that require more than a high school diploma and at least 6 months of formal on-the-job training, but less than a Bachelor’s degree.

The majority of individuals employed in these professions are considered middle skilled:

- 94.6%  Installation, Maintenance, & Repair Occupations
- 84.4%  Production Occupations
- 77.5%  Construction and Extraction Occupations
- 69.7%  Health Care Support Occupations
- 55.4%  Protective Services Occupations
Middle skill employment shares

Employment by Skill Level (2016)

- High Skill, 25.6%
- Low Skill, 39.8%
- Middle Skill, 34.6%

Source: BLS & Upjohn Institute
Middle skill employment trend

Employment Change 2006 to 2016
(By Skill Level, % Change since 2006)

Source: Bureau of Labor Statistics & Upjohn Institute
Middle skill employment trend

Employment Change 2012 to 2016
(By Skill Level, % Change since 2012)

Source: Bureau of Labor Statistics & Upjohn Institute
Warren Buffett queried on AI

- Buffett said that AI could be "enormously disruptive," yet beneficial in making the economy more efficient.
- "I would certainly think [AI] would result in significantly less employment in certain areas," he said. "It would be a good thing that would require enormous transformation in how people relate to each other, what they expect of government, all kinds of things."
- Buffett laid out a theoretical scenario at one of Berkshire's best-known companies, Geico. The insurer employs about 36,000 people, yet the financial services industry is seen as vulnerable to automation. Buffett asked: What if all of Geico's current functions, aided by AI, could be done by 10,000 people or a third of the staff?

Source: Chip Cutter, Managing editor at LinkedIn
How do we pay for public services & UBI?

• If you assume worker displacement due to AI
• State and local governments across the U.S. are funded by:
  – Income taxes
  – Sales taxes
  – Property taxes
    • Real
    • Personal
  – User fees, excise taxes, permit fees, and others
• How do we support population and services?
Questions and comments?

• Jim Robey, PhD – Director of Regional Economic Planning Services
  – jrobey@upjohn.org
  – 269-343-5541
  – Twitter: JimRobey