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# The Economic Outlook for the Battle Creek MSA

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W.E. Upjohn Institute for Employment Research

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*Consumers Energy*



**SEMCO ENERGY**



*For good. For ever. For all.*

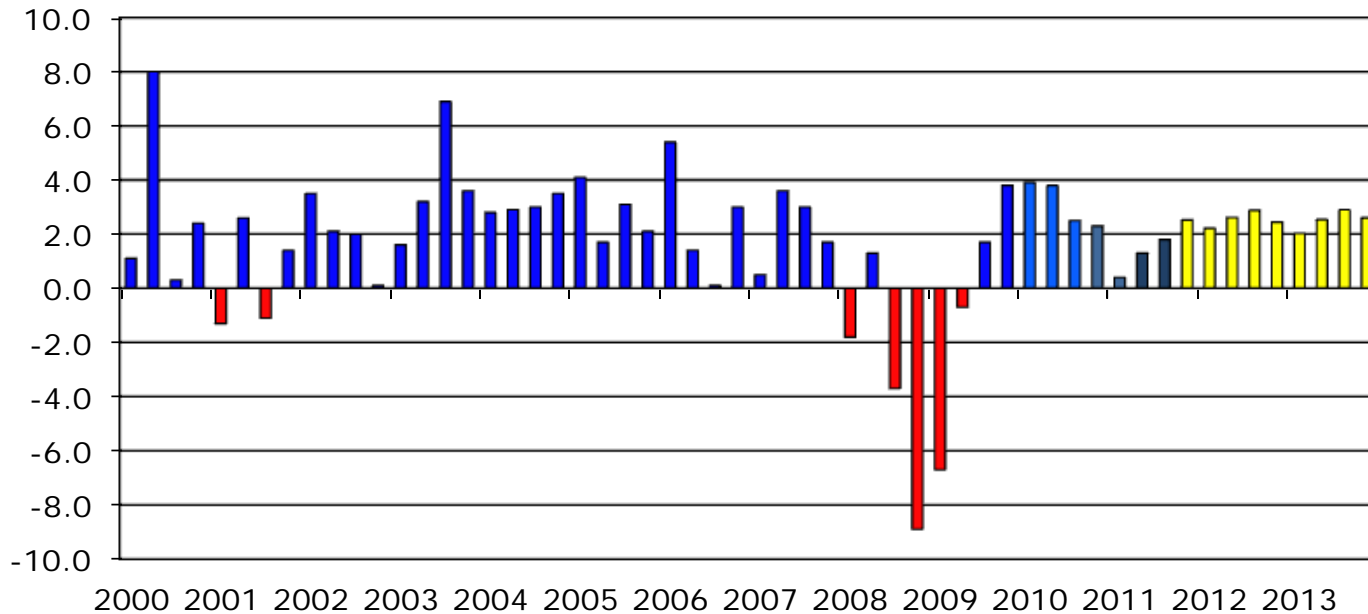
# Outline

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- National Setting—*It is looking better than just a couple of months ago; however, we still can't get out of second gear.*
- Michigan—*Growth has returned thanks to the car industry but unemployment remains high.*
- Battle Creek—*2011 was a bad year; however, 2012 is expected to be better.*
- Random thoughts—*Another look at the region's workforce*

Nationwide, GDP grew by 1.8% in the third quarter, after inching up 1.3% during the second quarter. *And, the forecast is pretty boring.*

Annualized Quarterly Percent Change in GDP



Source: BEA, University of Michigan RSQE forecast.

Consumers are still pessimistic;  
however, they were feeling better at the  
end of the year.

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Consumer Confidence Index (1985 = 100)



Source: Pollingreport.com.

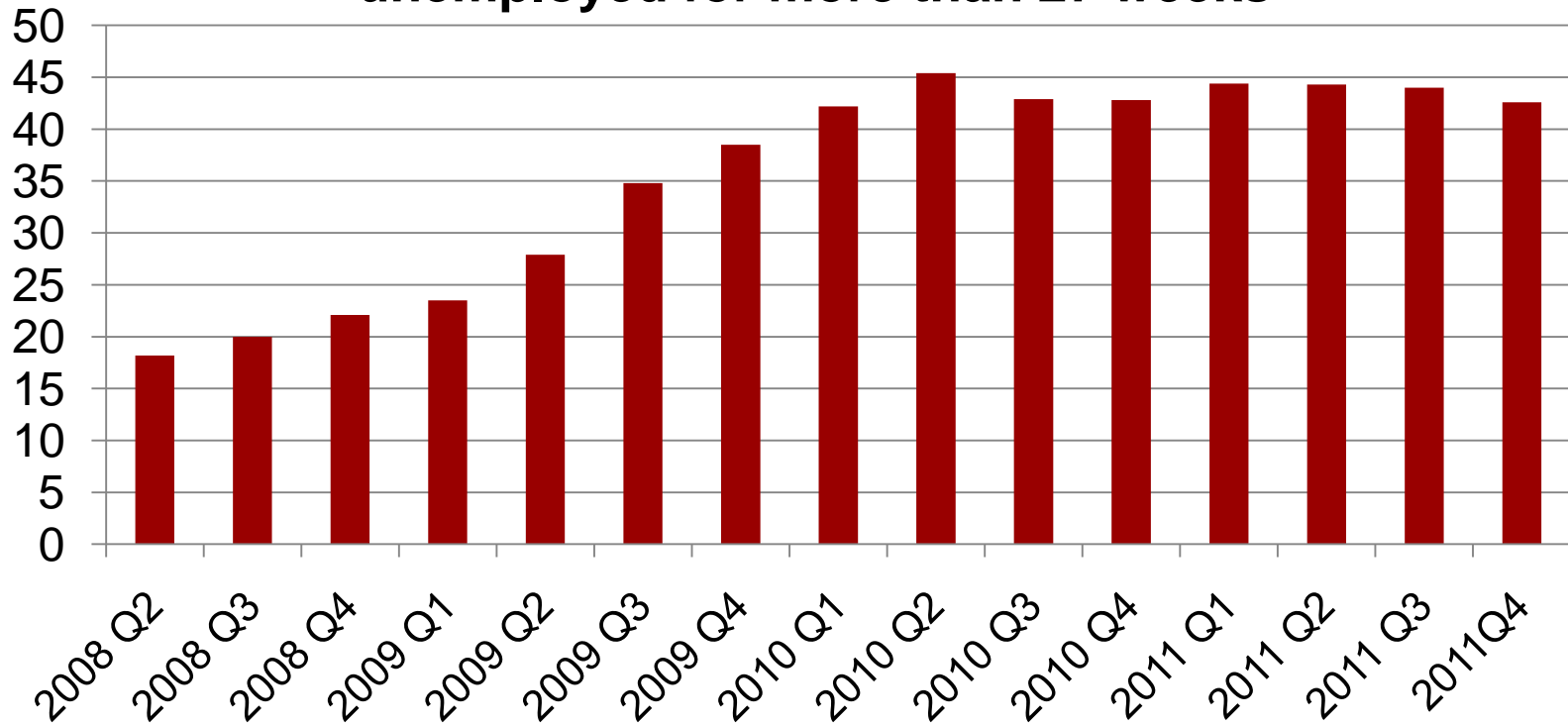
# Employment increased by 200,000 in December after a 100,000 job gain in November.



Source: Bureau of Labor Statistics (BLS).

The duration of unemployment has increased dramatically during the recession, and the longer people are out of work the harder it is to find a job.

### Percent of unemployed who have been unemployed for more than 27 weeks



Source: BLS.

# Now for some scary facts about housing from the Fed.

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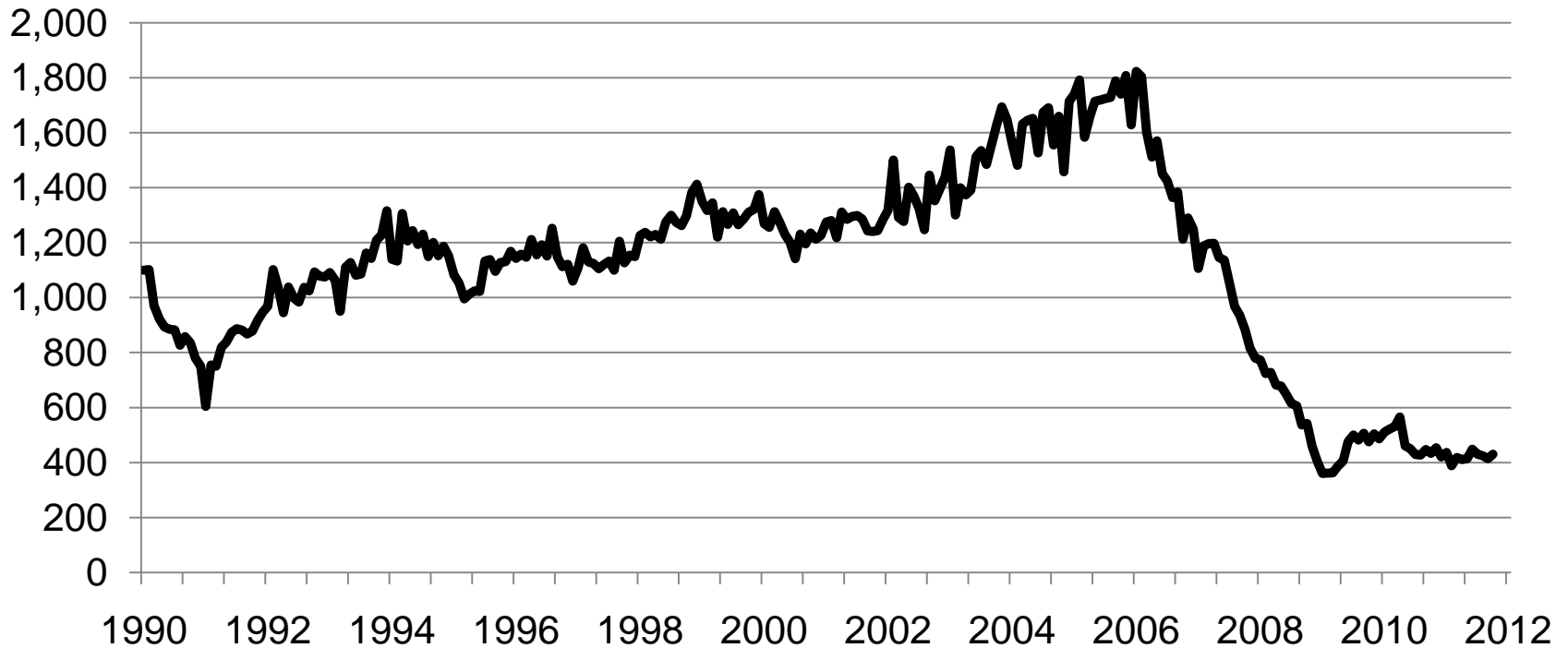
- More than \$7 trillion in home equity—more than half of the aggregate home equity that existed in early 2006—has been lost.
- The decline in average home equity for middle-income homeowners was about 66 percent of the average income in 2007.
- Currently, about 12 million homeowners are underwater on their mortgages—more than 1 out of 5 homes with a mortgage.

Federal Reserve: The U.S. Housing Market: Current Conditions and Policy Considerations 1-4-2012.



# Single-family housing starts remain flat.

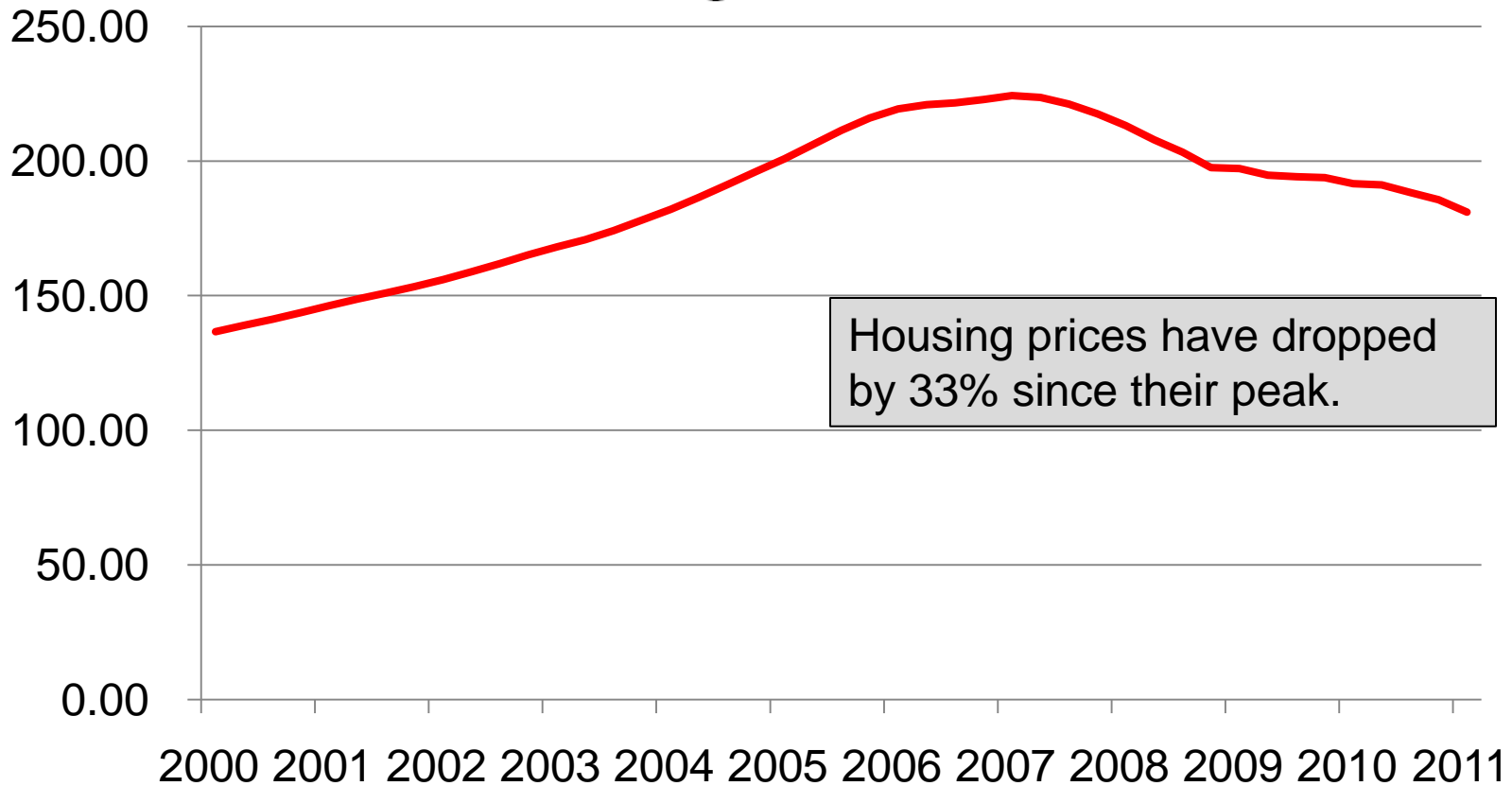
Single-family Housing Starts (thousands)



Source: U.S. Census.

# Housing prices are still falling.

**FHFA Housing Index 1991 Q1 =100**



Source: Federal Housing and Finance Agency.

# If the engine isn't broken where is third gear?

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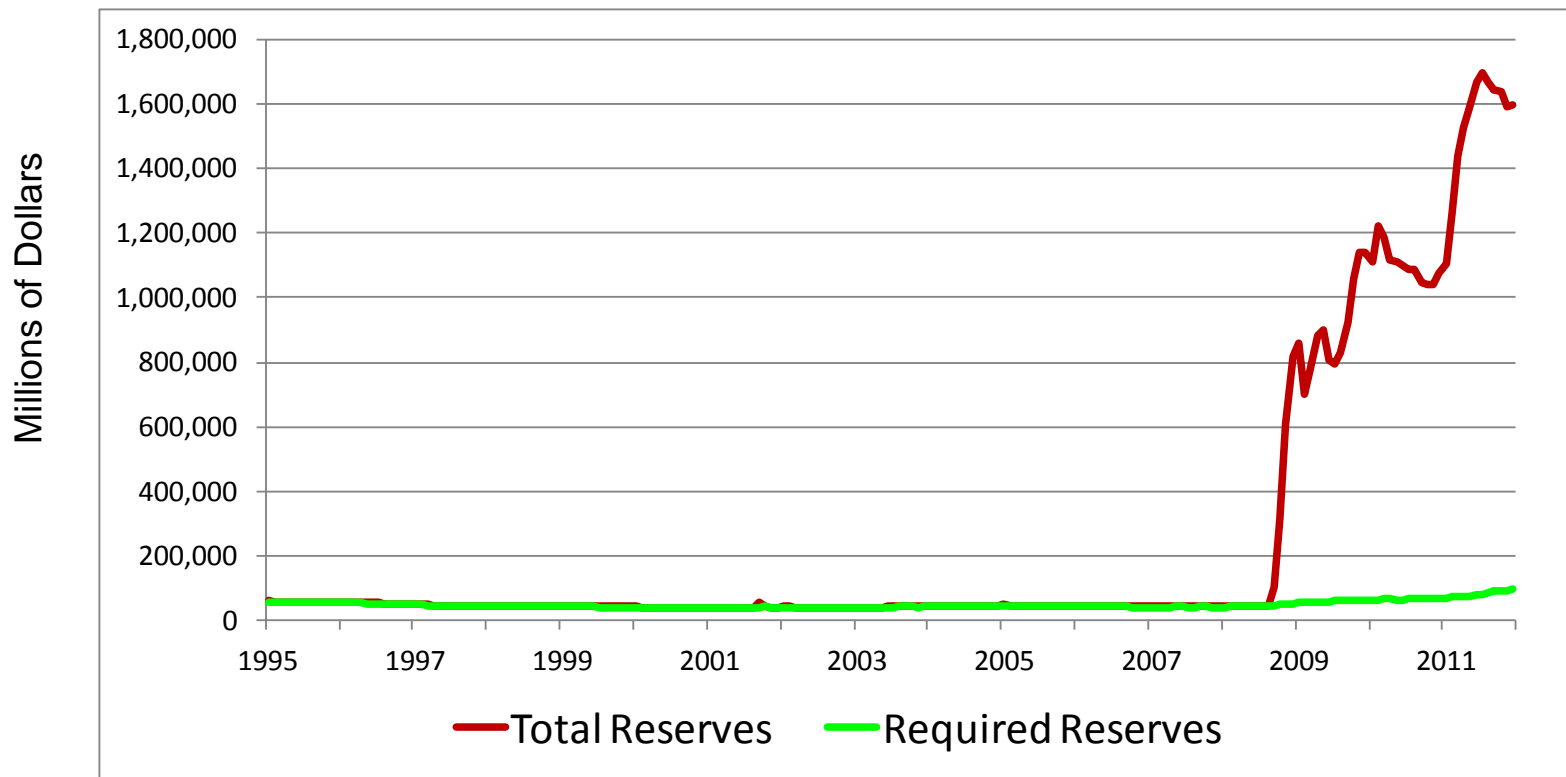
- Consumers are in a better mood, but their “hearts” are just not into it.
- Federal policy is on hold until the 2012 election.

However:

- Corporations are holding a lot of cash.
- Banks are also holding a lot of cash.
- And interest rates are low.
- The stage could be set for a business investment expansion.

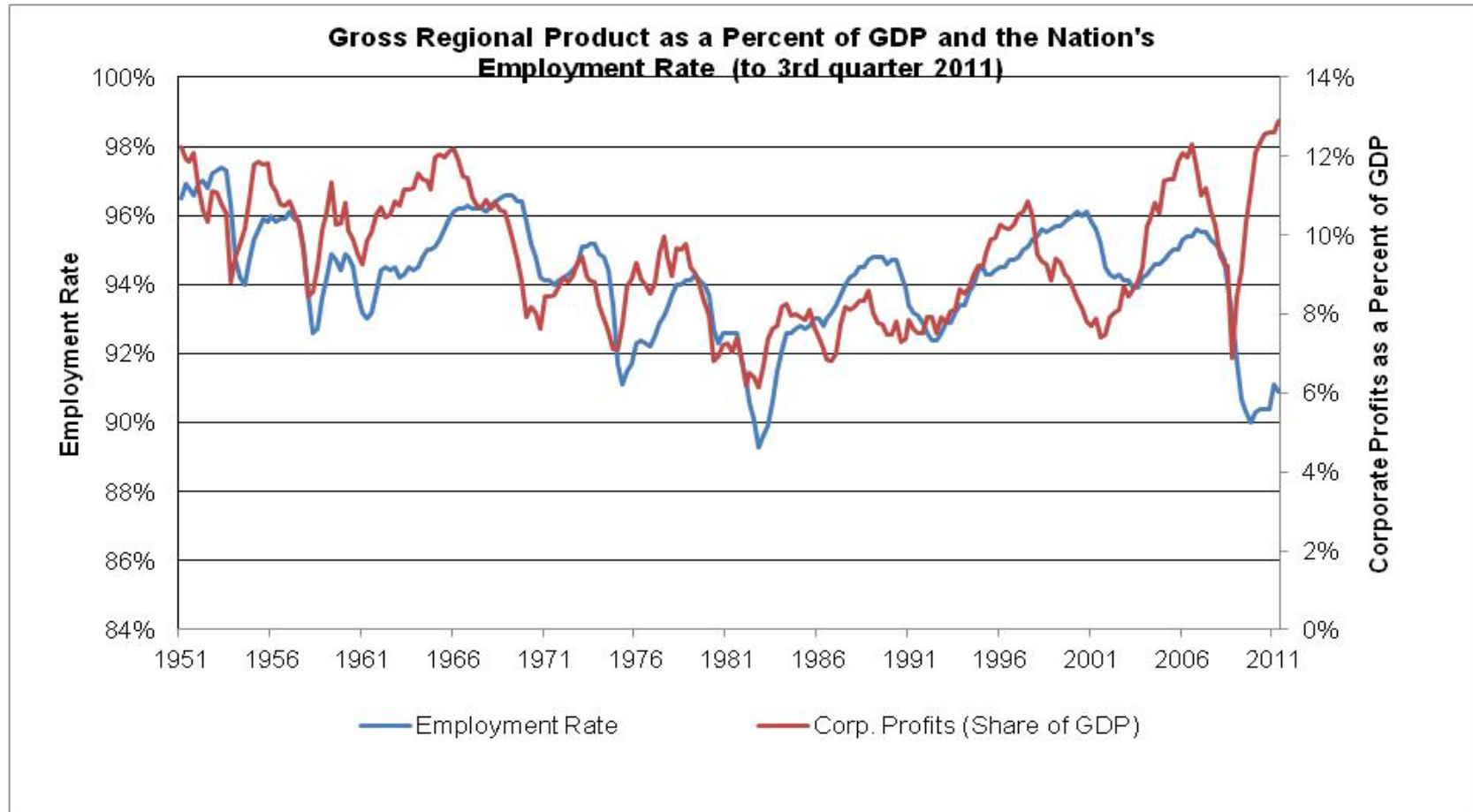
Credit: Banks are still holding more than a trillion dollars in excess reserves—*but it is going down.*

## Total and Required Reserves at the Federal Reserve



Source: Federal Reserve.

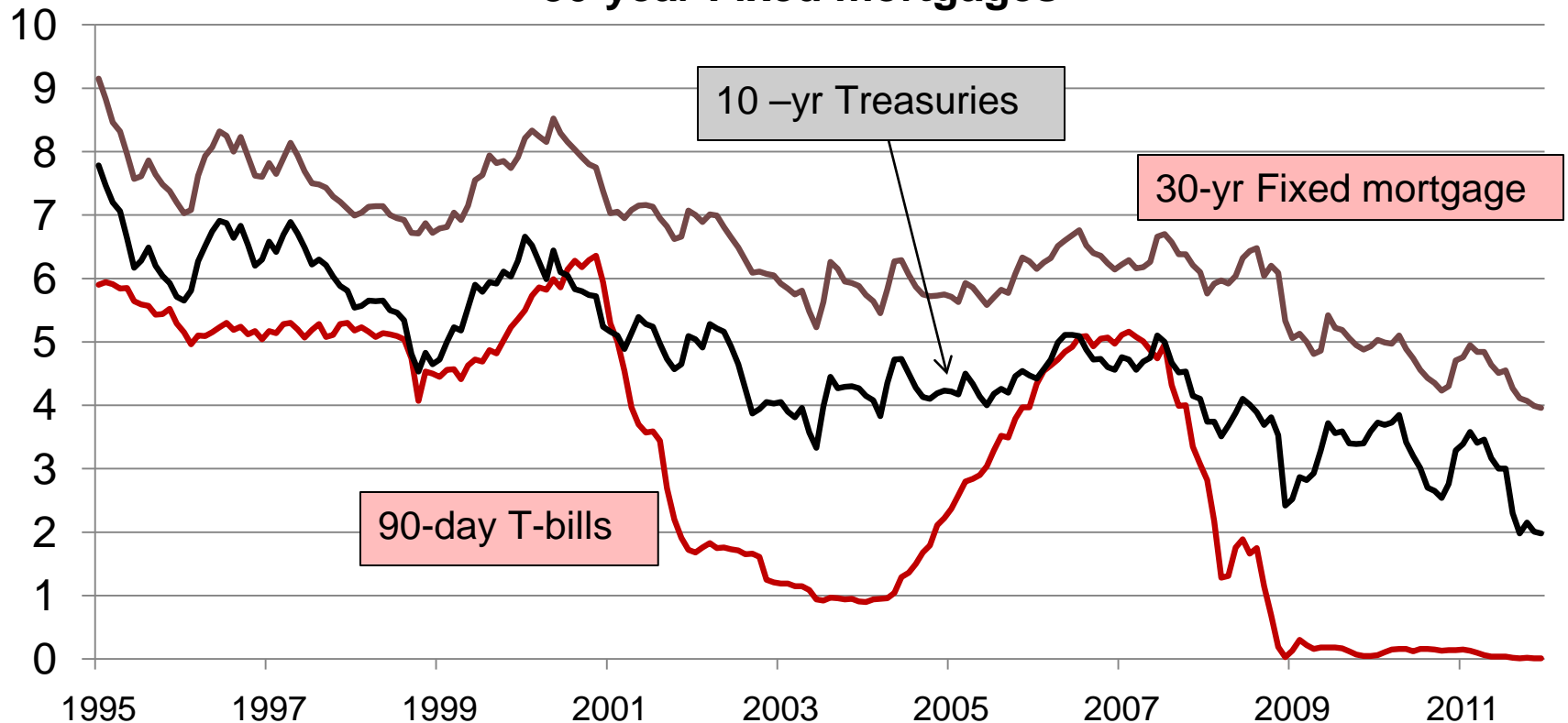
# Corporations are making money without hiring workers—a clear break from past years.



Source: BEA and BLS.

# Where do you go from zero?

Interest Rates for 90-day T-bills, 10-year Treasuries, and 30-year Fixed mortgages



Source: Federal Reserve.

# Turning to Michigan

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- Employment has stabilized.

*During the third quarter, employment was up 1.7% from a year ago, an increase of 64,200 jobs.*

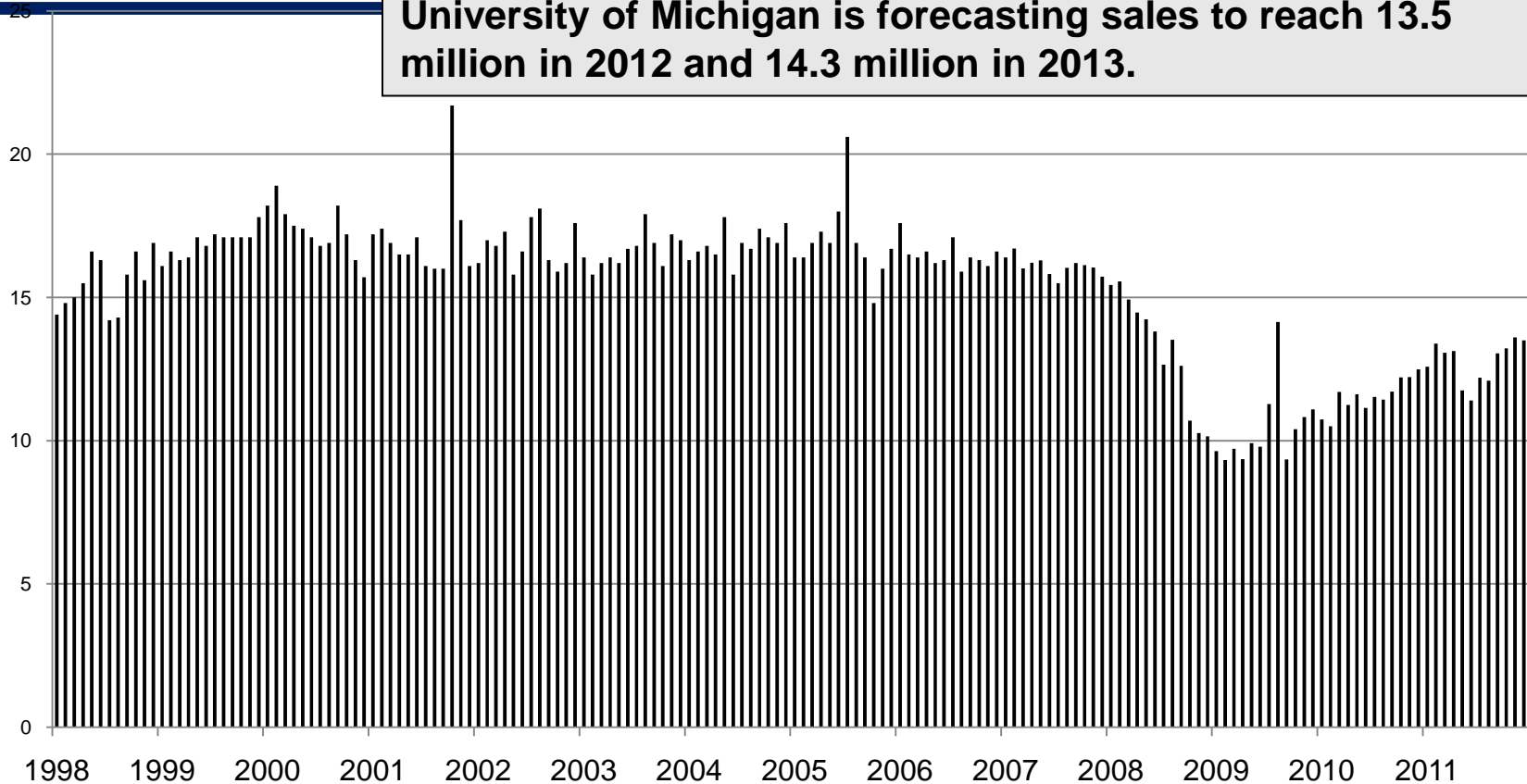
- U of M's Forecast is **positive**.

*31,500 additional jobs in 2012*

*37,200 additional jobs in 2013*

# Auto deals are continuing to pick up.

**Car and light truck sales reached 12.7 million in 2011. The University of Michigan is forecasting sales to reach 13.5 million in 2012 and 14.3 million in 2013.**

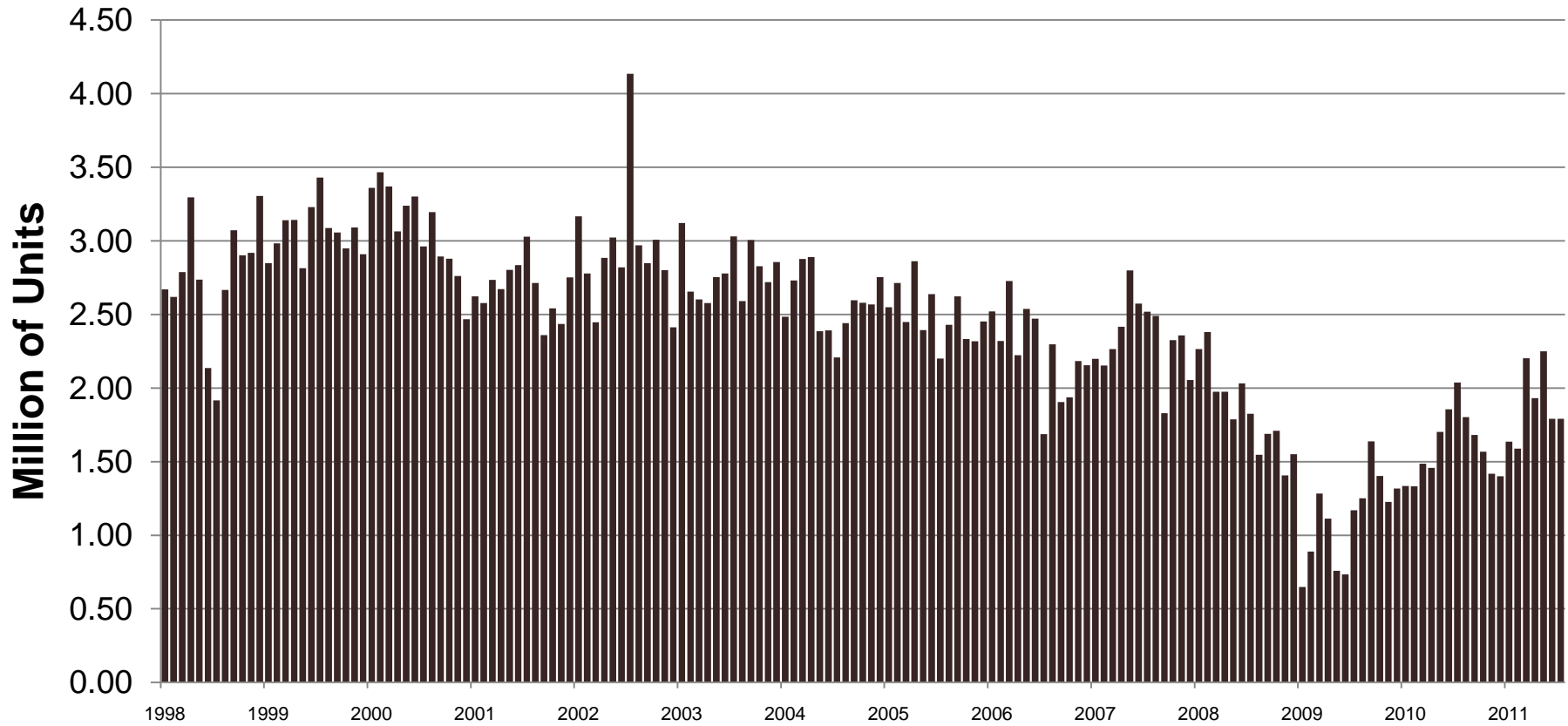


Source: BEA.



# Auto production in Michigan is coming back.

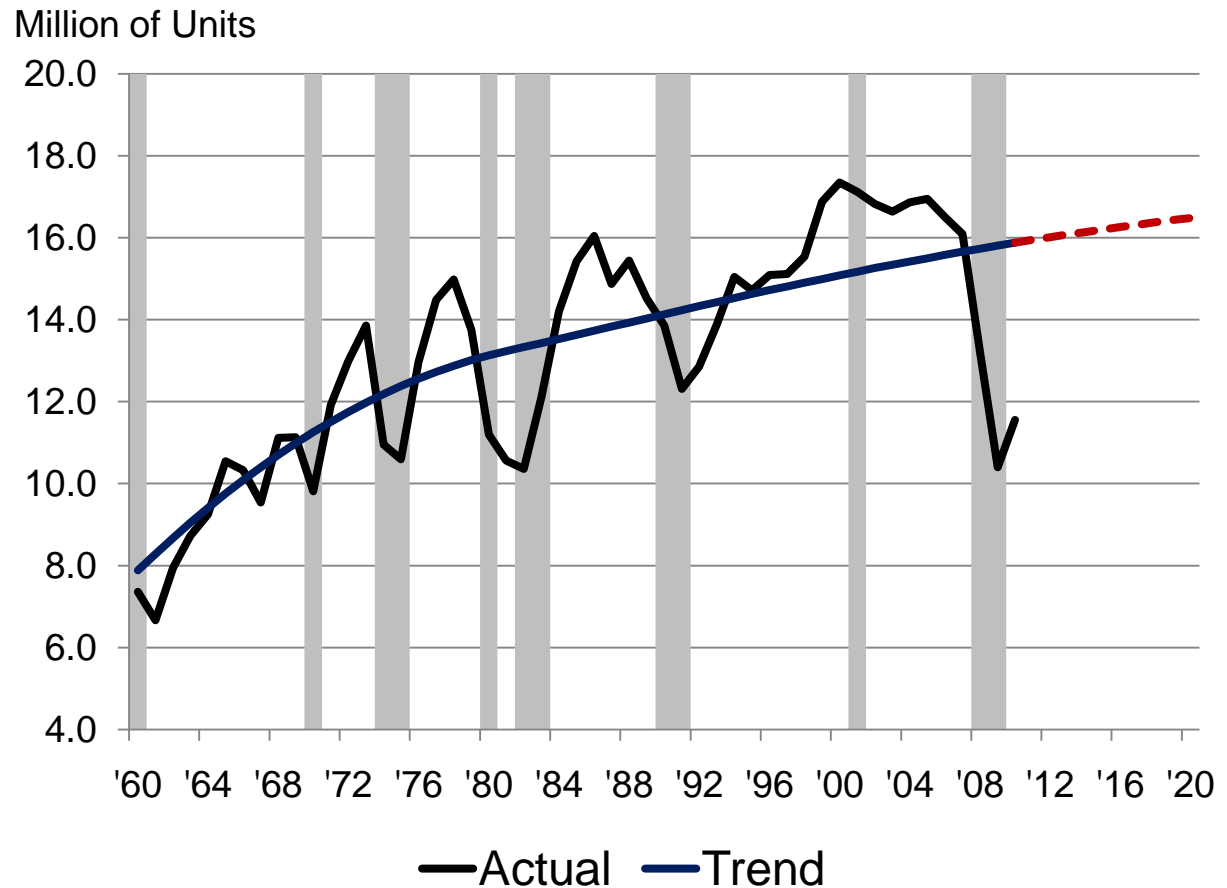
## Annualized Rate of Production Cars and Light Trucks



Source: Michigan Treasury.

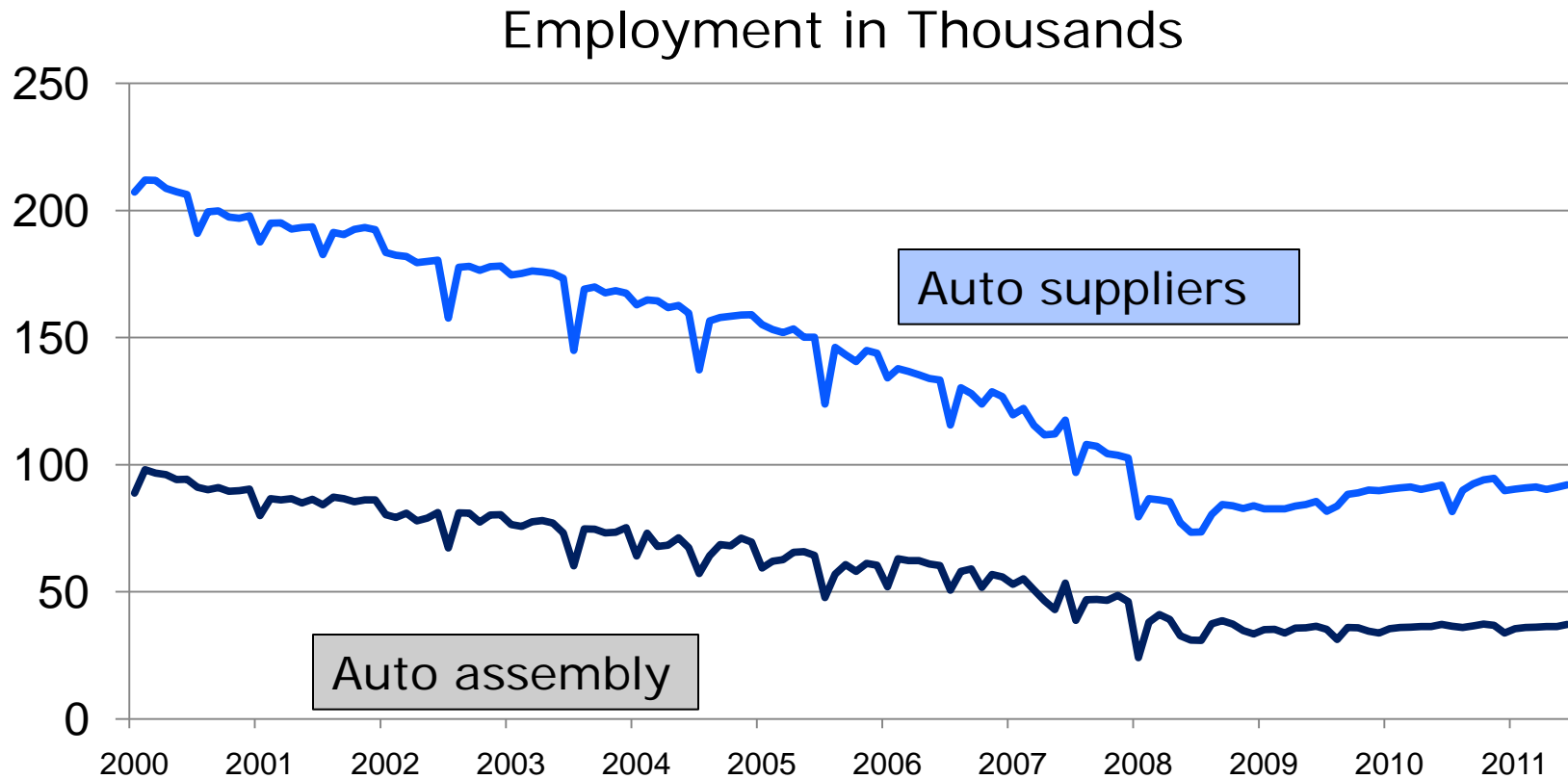
# U.S. Light Vehicles Sales and Trend

**Automotive sales and production are highly volatile. Right now, sales and production are well below trend, presaging a significant and sustained rise in production and sales.**



Source: Bill Testa, Chicago Federal Reserve.

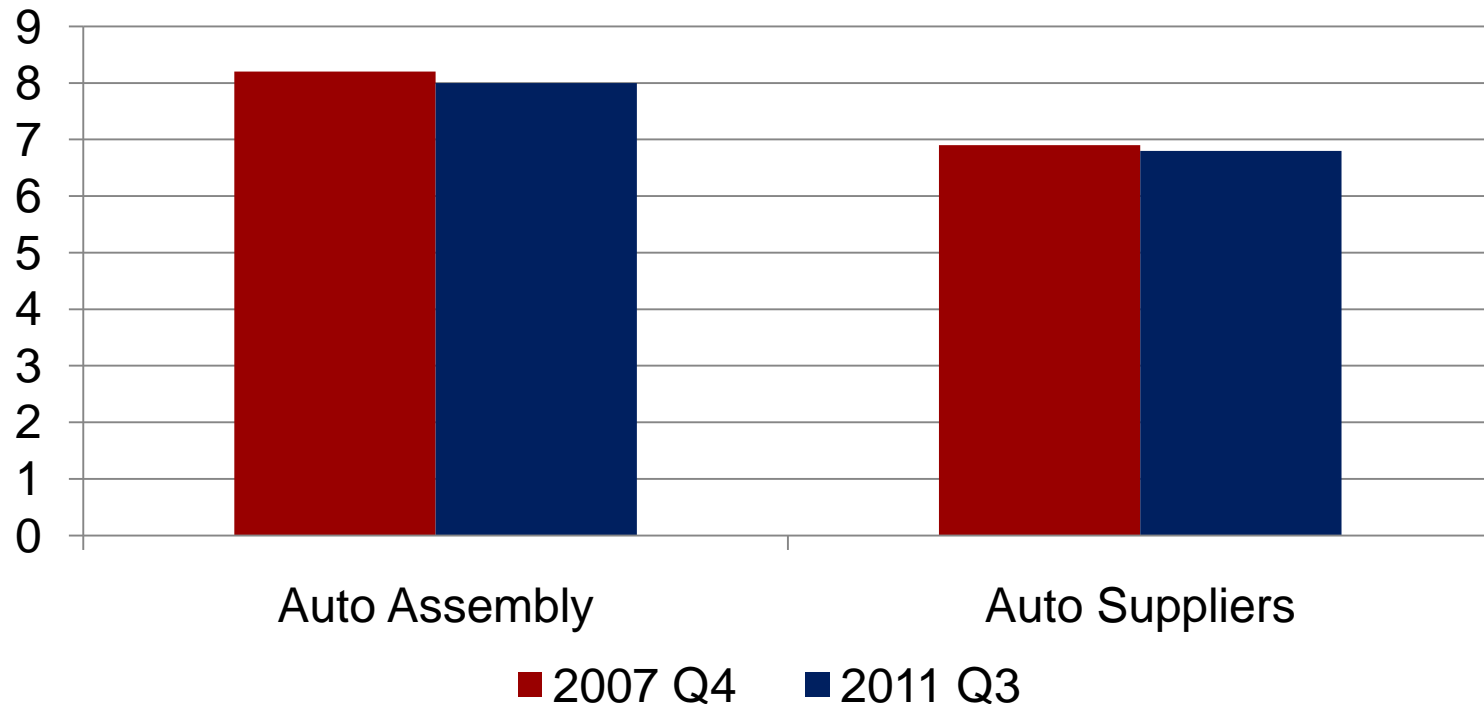
# Employment in the state's auto industry has *clearly* stabilized.



Source: BLS.

# Is the state as auto dependent as before the recession? **YES**

Location Quotient where 1 = the national average



Source: BLS CES.

# How important are autos to the state?

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- From Q3 09 to Q3 11—the approximate expansion—we estimate that auto assembly and parts manufacturers generated a total of 37,100 jobs in the state (a multiplier of 4) accounting for 39 percent of the job growth during the period.

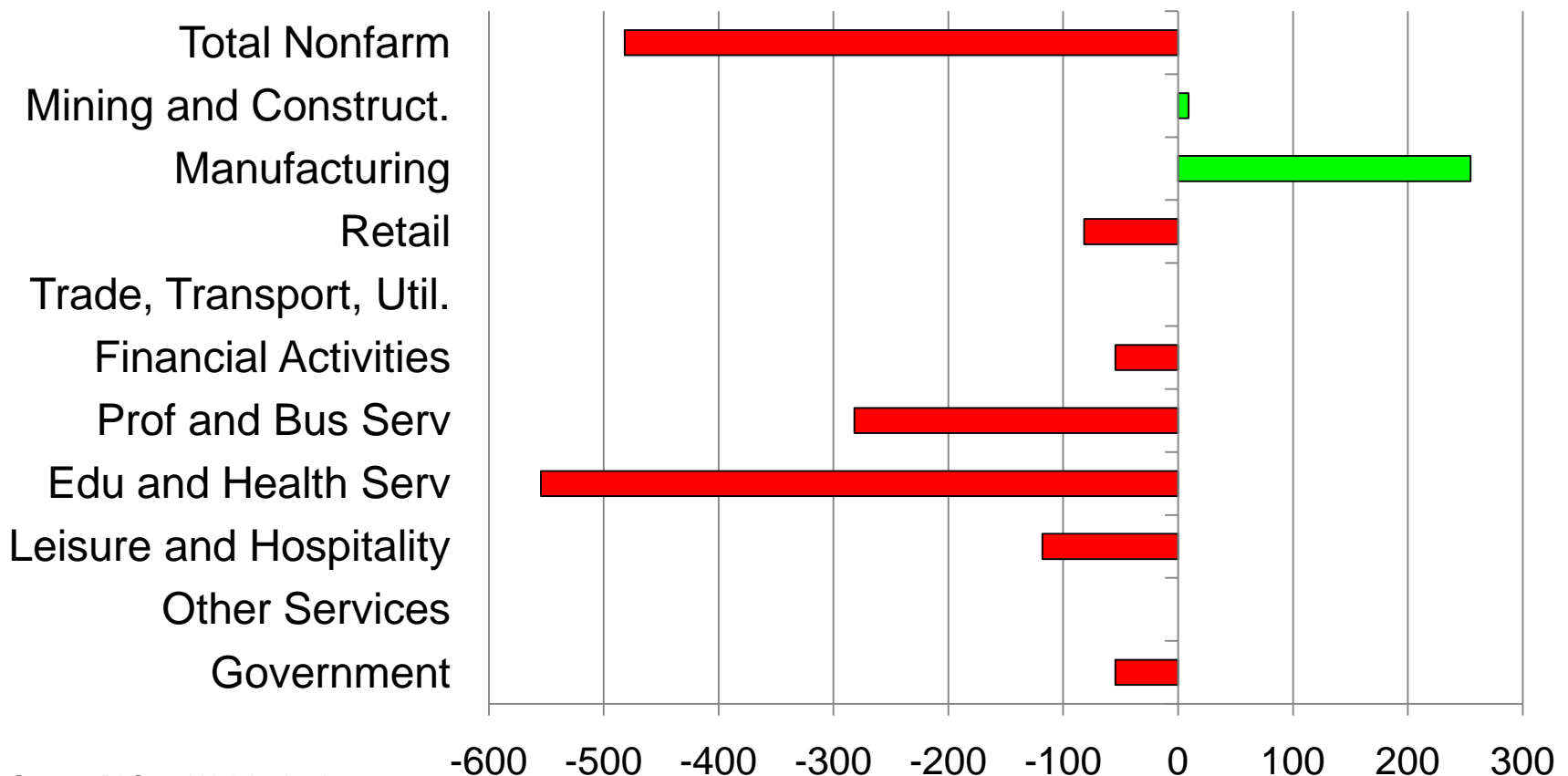
# 2011 was not a good year for the Battle Creek MSA.

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- A loss of 500 jobs in the county *despite a strong manufacturing sector.*
- A loss of 900 employed residents
- Unemployment dropped but for the wrong reason—from 9.5 percent to 6.9 percent—*2,700 people left the workforce.*
- Subpar performance relative to peers
- *And, who is your economic forecaster!?*

# Not a good year: *A loss of 500 jobs due to cutbacks in services (-0.9%).*

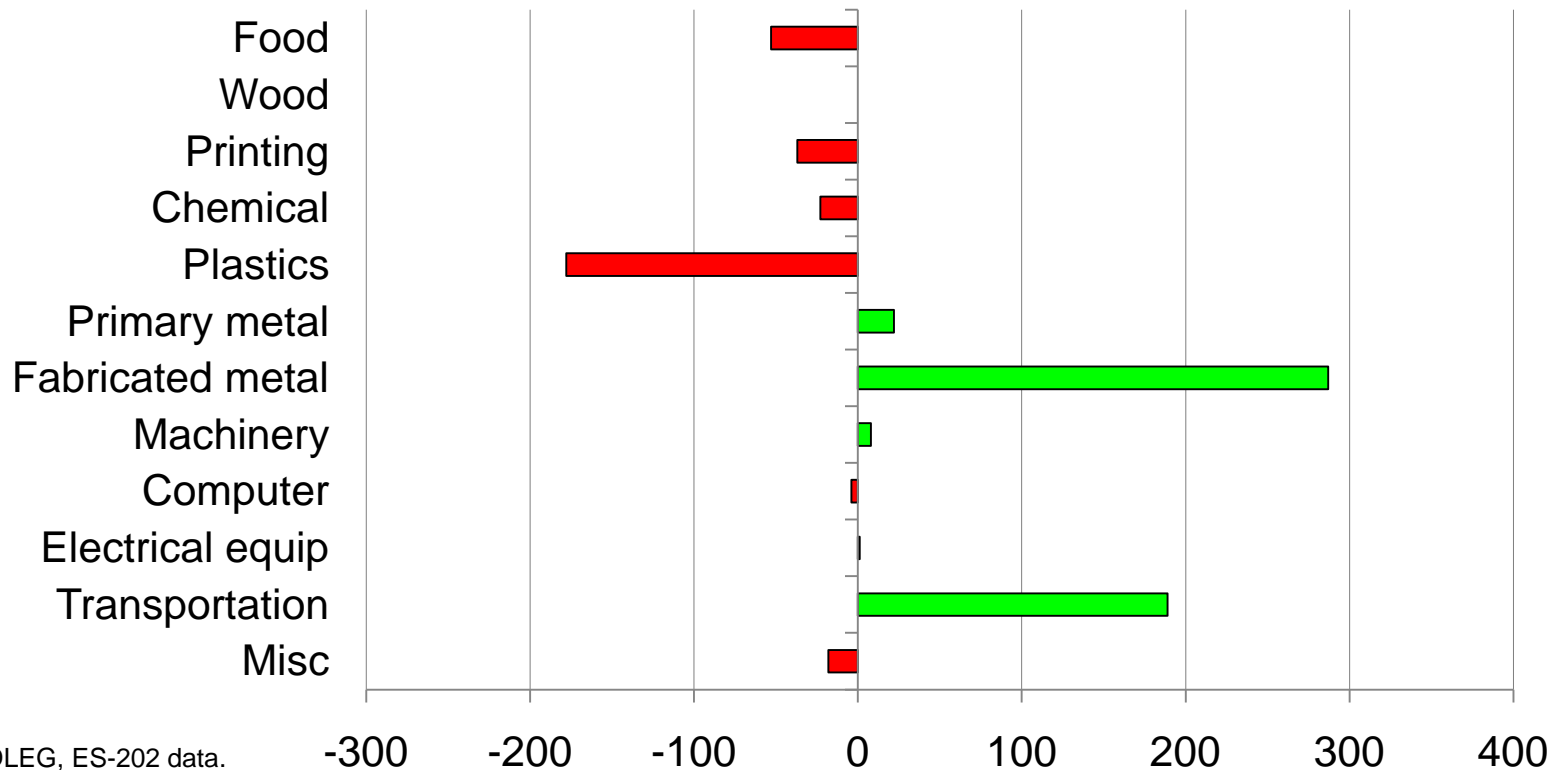
Employment Change Jan-Nov 2010 to Jan-Nov 2011



Source: BLS and Upjohn Institute.

# Mixed bag with gains in autos and fabricated metals

Detailed Manufacturing Employment Change  
Q1 2010 to Q1 2011

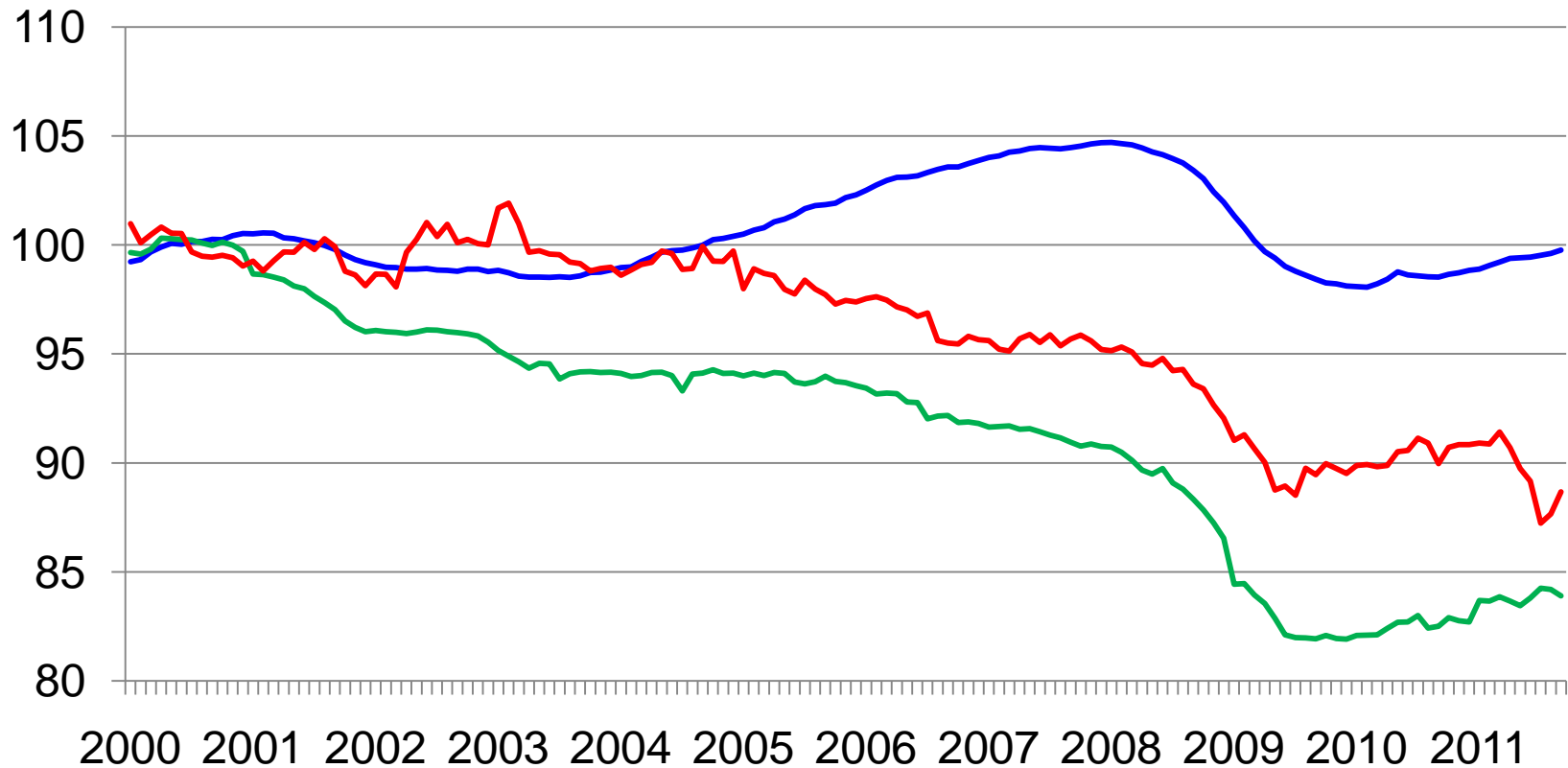


Source: MDLEG, ES-202 data.



# Trending with the state and not the nation

Index of Total Employment (100 = 2000 Average)

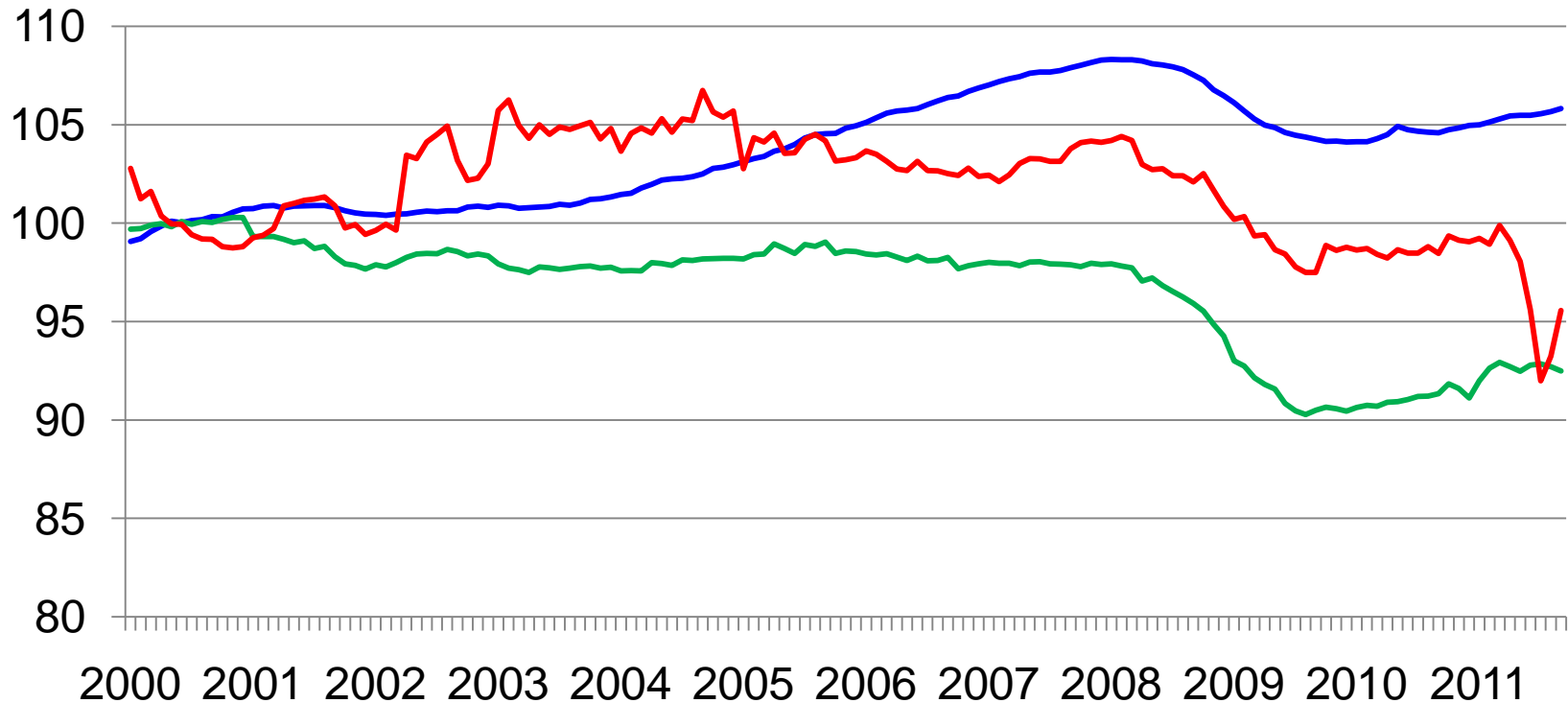


Source: BLS and Upjohn Institute.

— U.S. — Michigan — Calhoun County

# An unexpected dive in service employment

Private Service-providing Employment Index  
(100 = 2000 average)

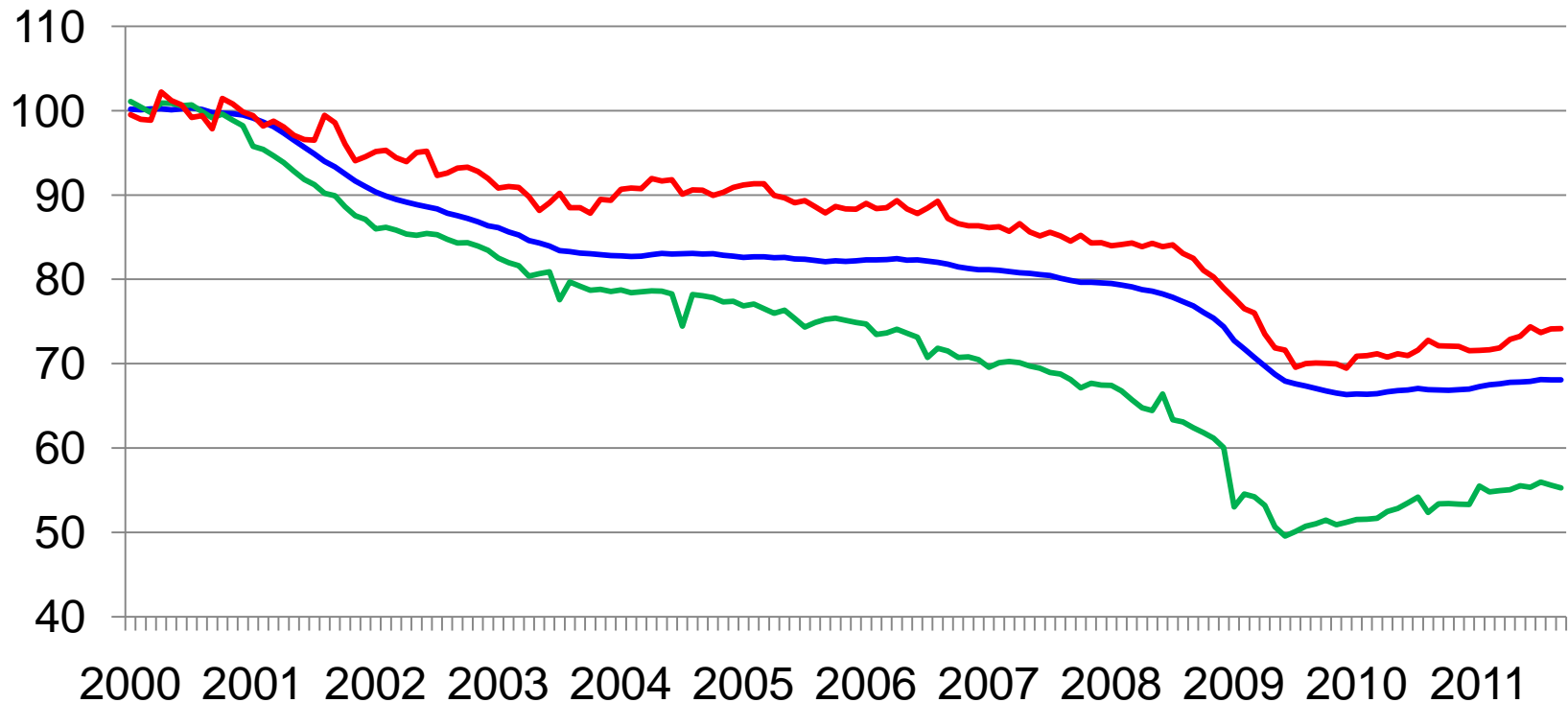


Source: BLS and Upjohn Institute.

— U.S. — Michigan — Calhoun County

# Manufacturing, on the other hand, is trending with the nation.

Index of Manufacturing Average (100 = 2000 average)

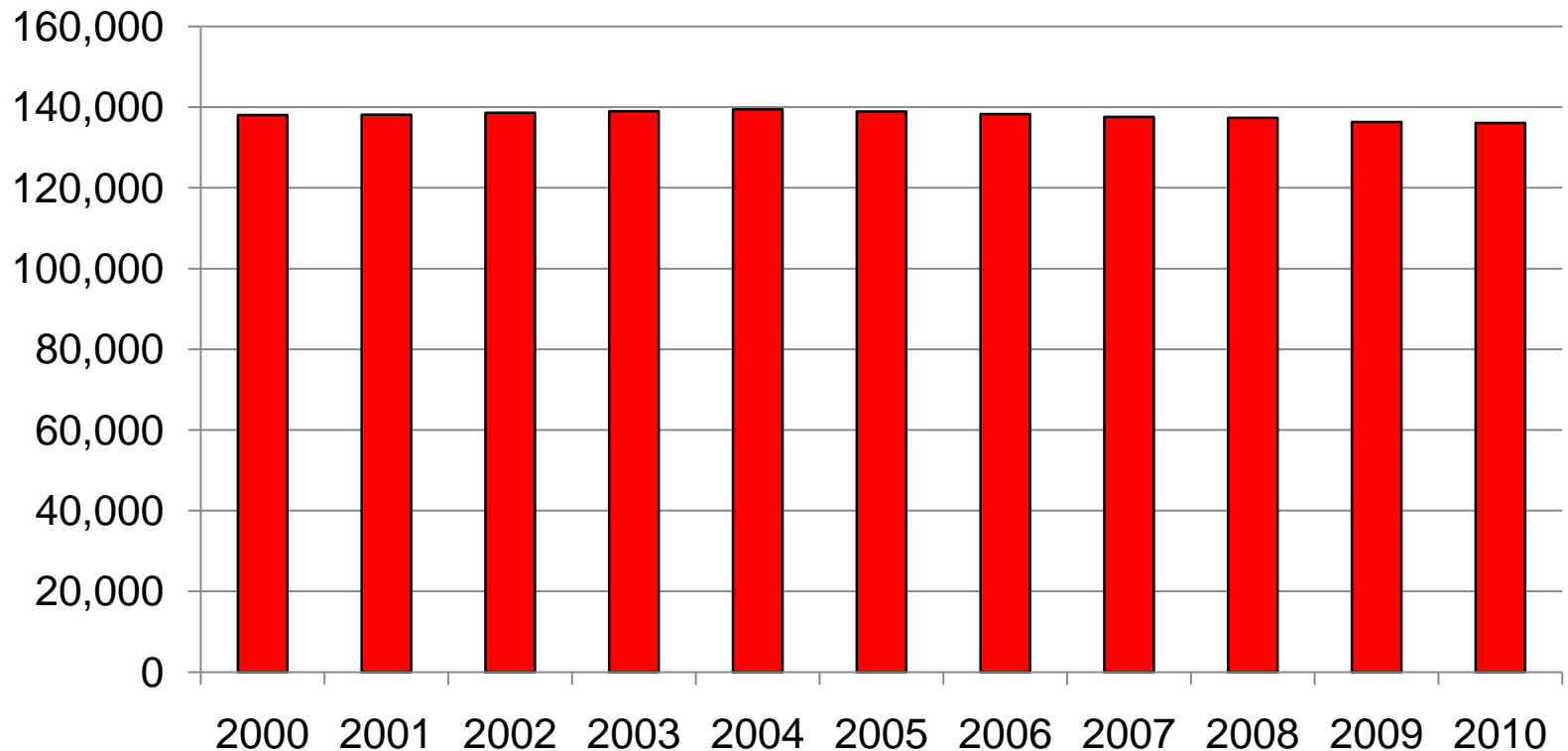


Source: BLS and Upjohn Institute.

— U.S. — Michigan — Calhoun County

# A modest drop in population—*a loss of 2,000 people*

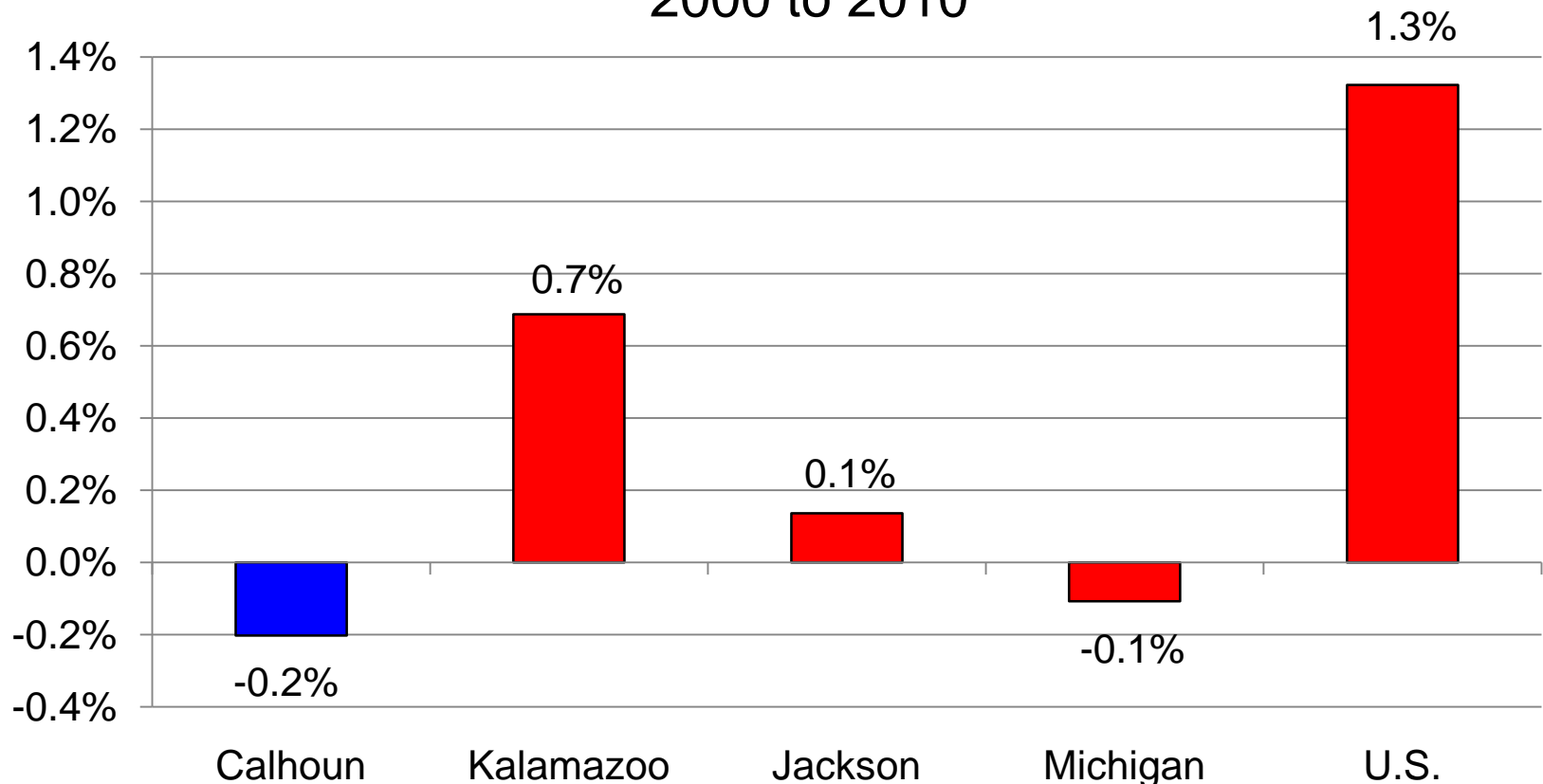
Calhoun County  
Population Estimates



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

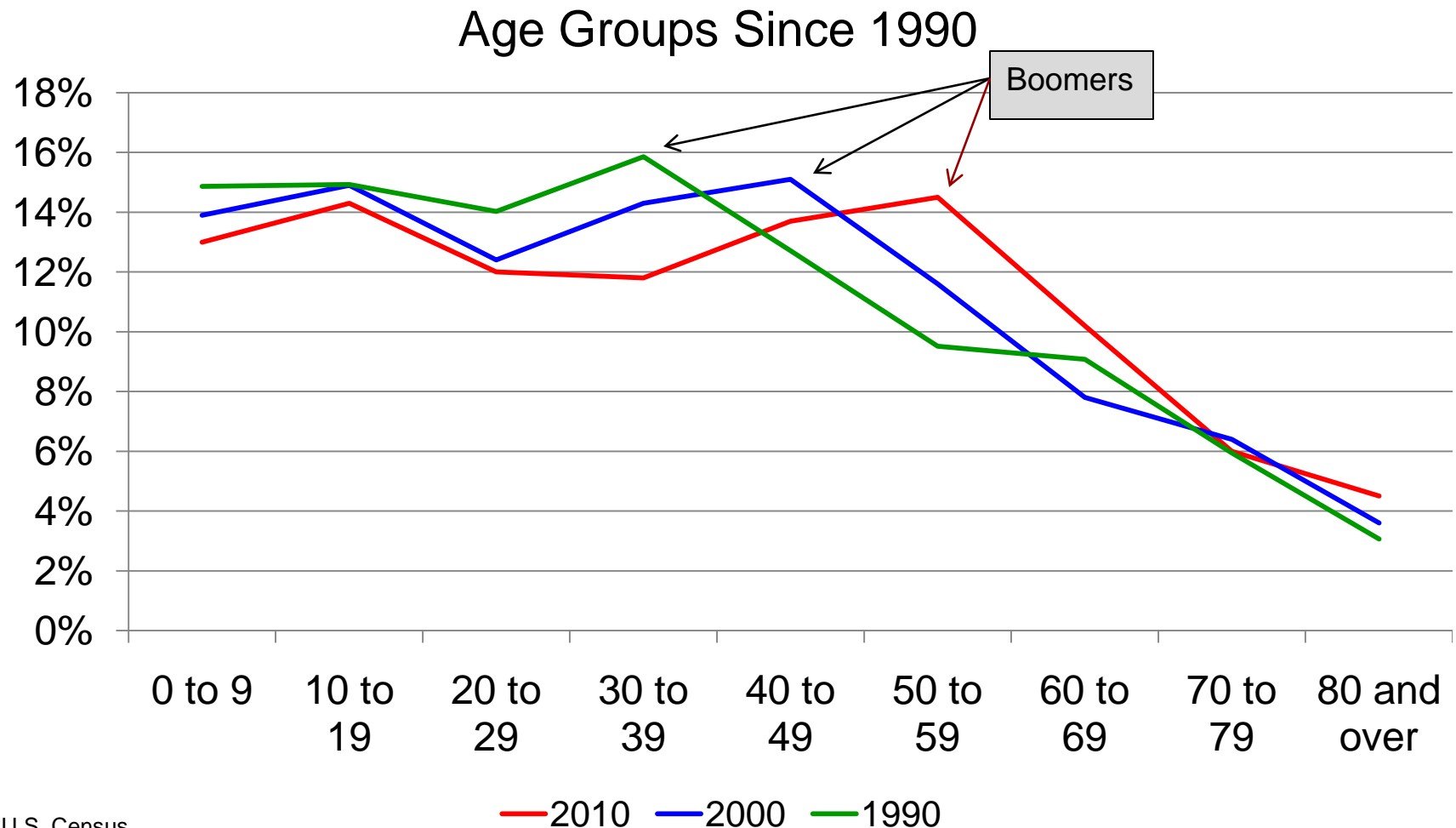
# Unfortunately, many residents are leaving the county.

Annual Average Population Growth Rate,  
2000 to 2010



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

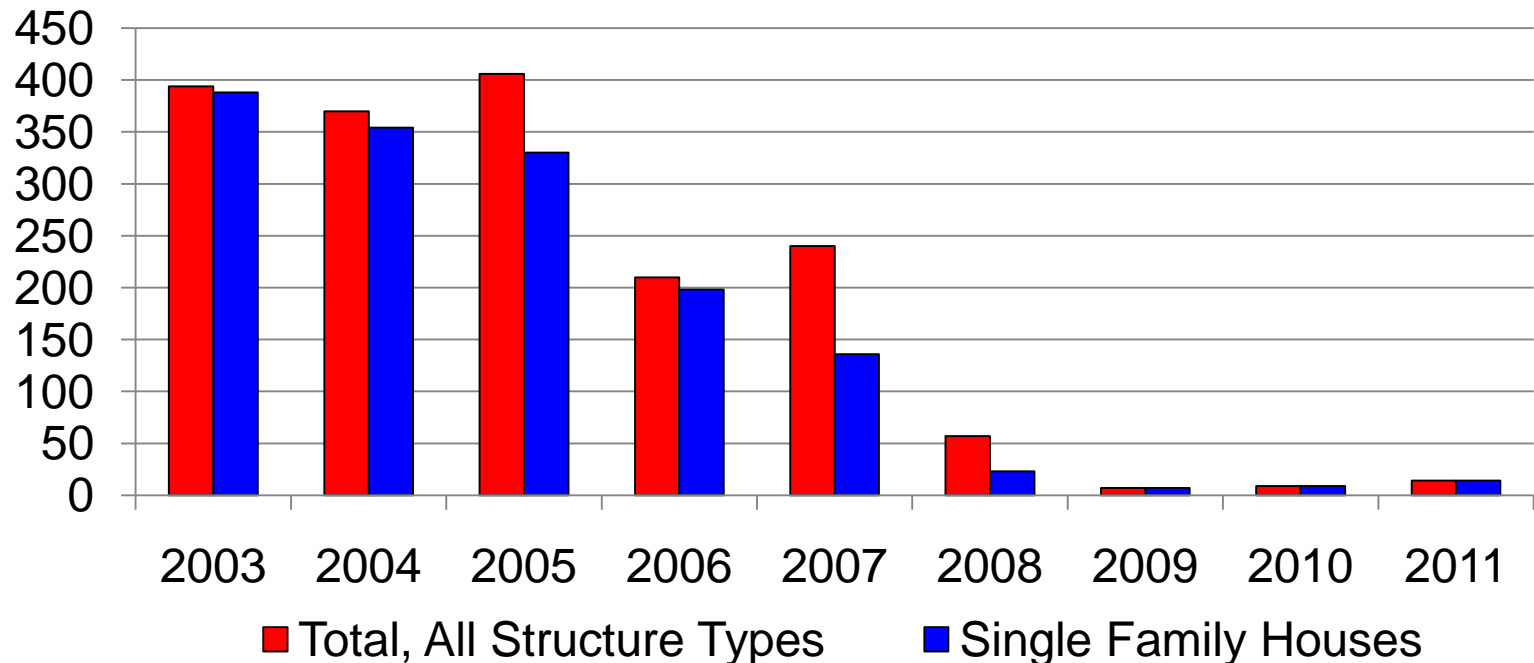
# The county's population is clearly aging with the boomers.



Source: U.S. Census.

# It does not get much worse than this.

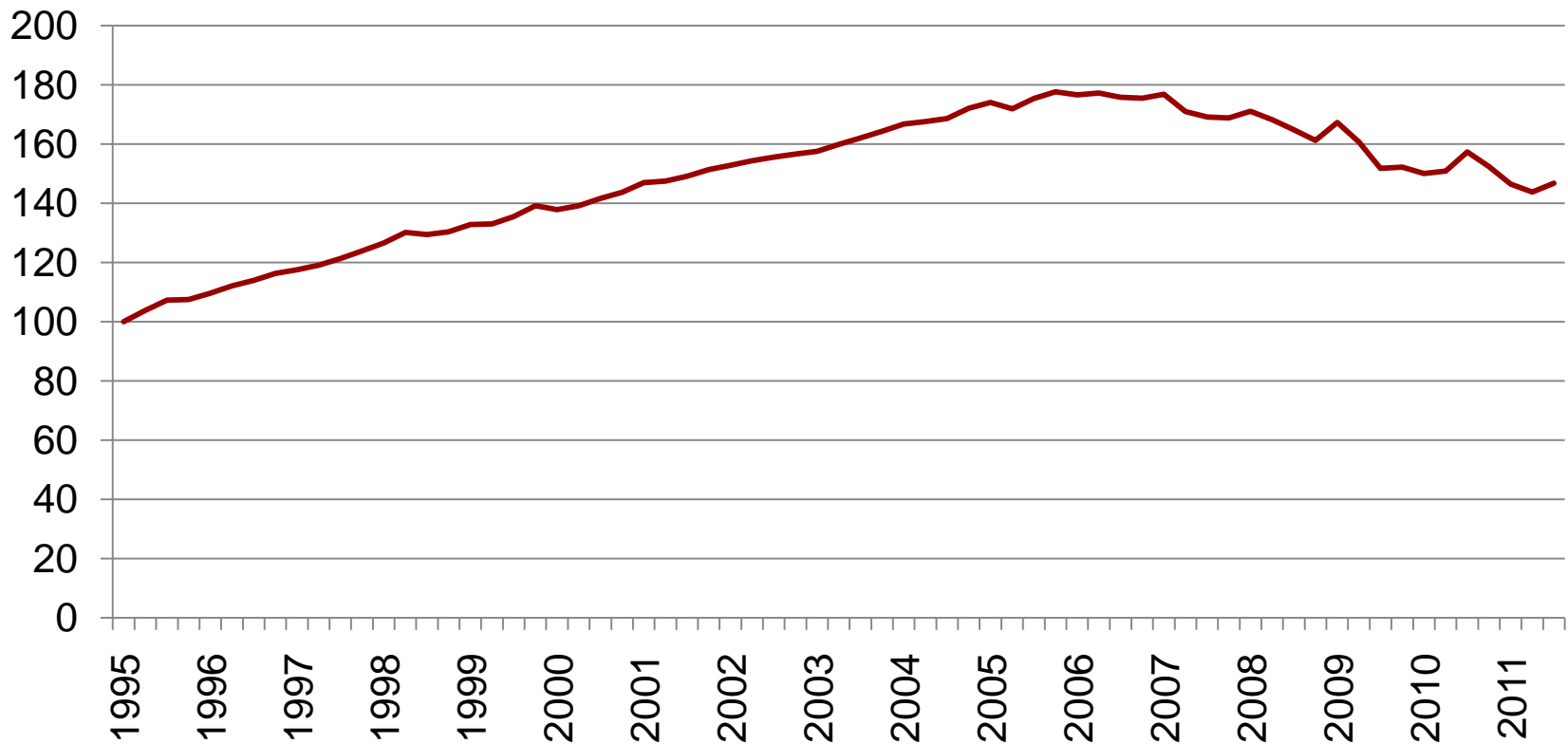
Housing Units Authorized by Building Permit in Calhoun County



Source: U.S. Census Bureau: Manufacturing, mining, & construction statistics.  
Note: 2010 is estimated year-to-date through November 2010 only.

# There was a slight uptick in the third quarter.

Housing Price Index 1995 = 100 for each area

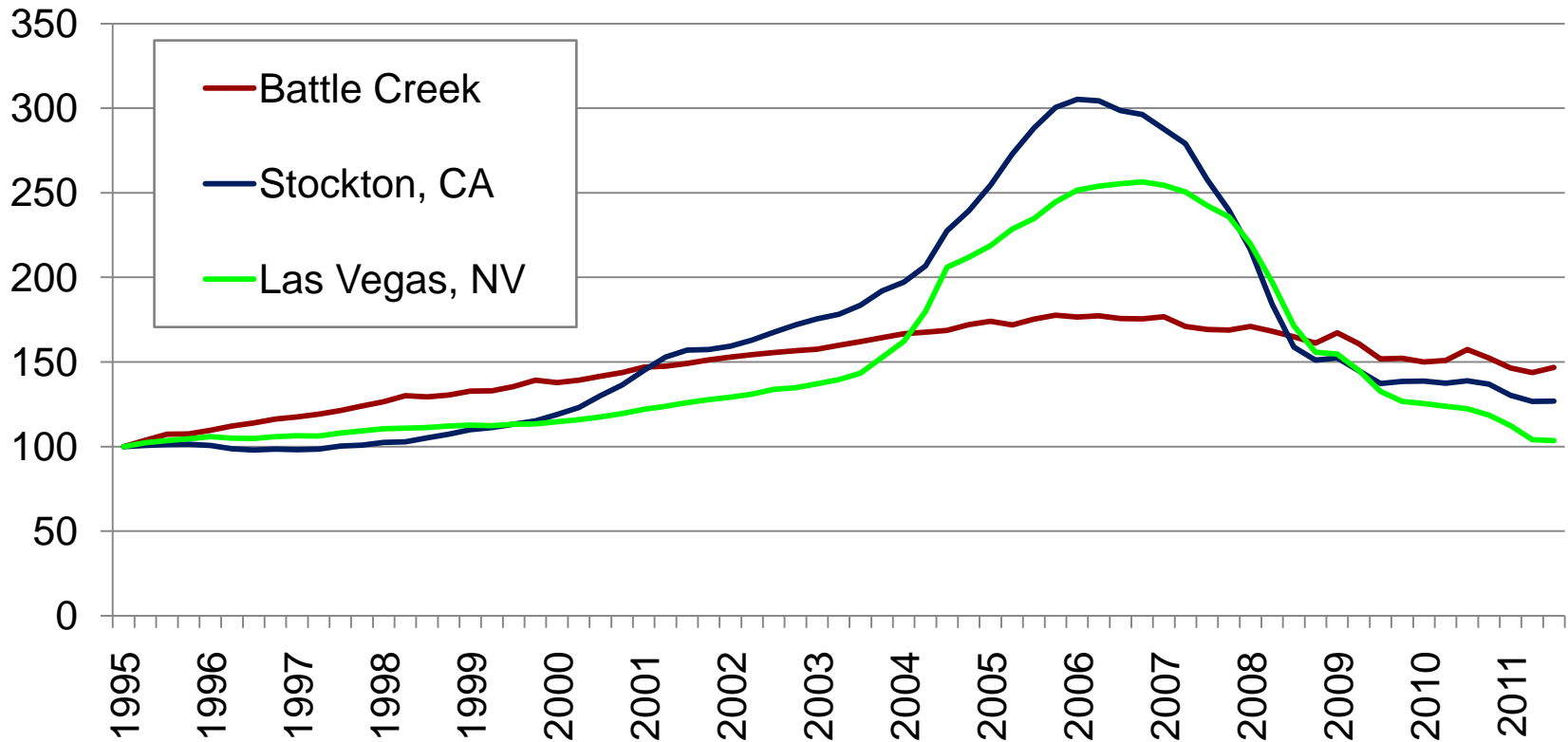


Source: FHFA.



# It could have been worse.

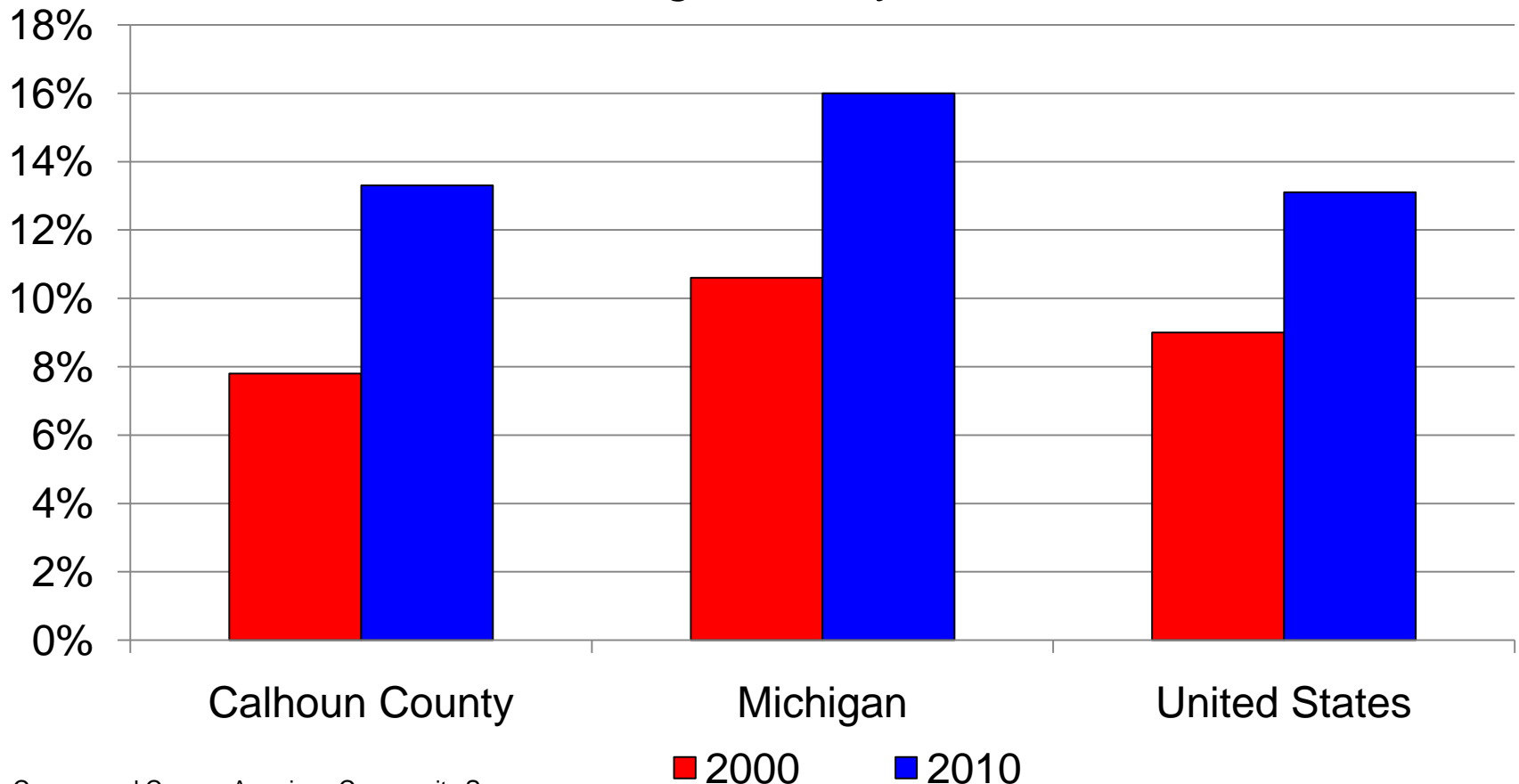
Housing Price Index 1995 = 100 for each area



Source: FHFA.

# A lot of houses are staying empty.

## Housing Vacancy Rate



Source: Census and Census American Community Survey.

# Comparison Analysis

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## Comparison Areas:

- Altoona, PA
- Anderson, IN
- Jackson, MI
- Johnstown, PA
- Lebanon, PA
- Mansfield, OH
- Monroe, MI
- Muncie, IN
- Springfield, OH
- Wausau, WI
- Williamsport, PA

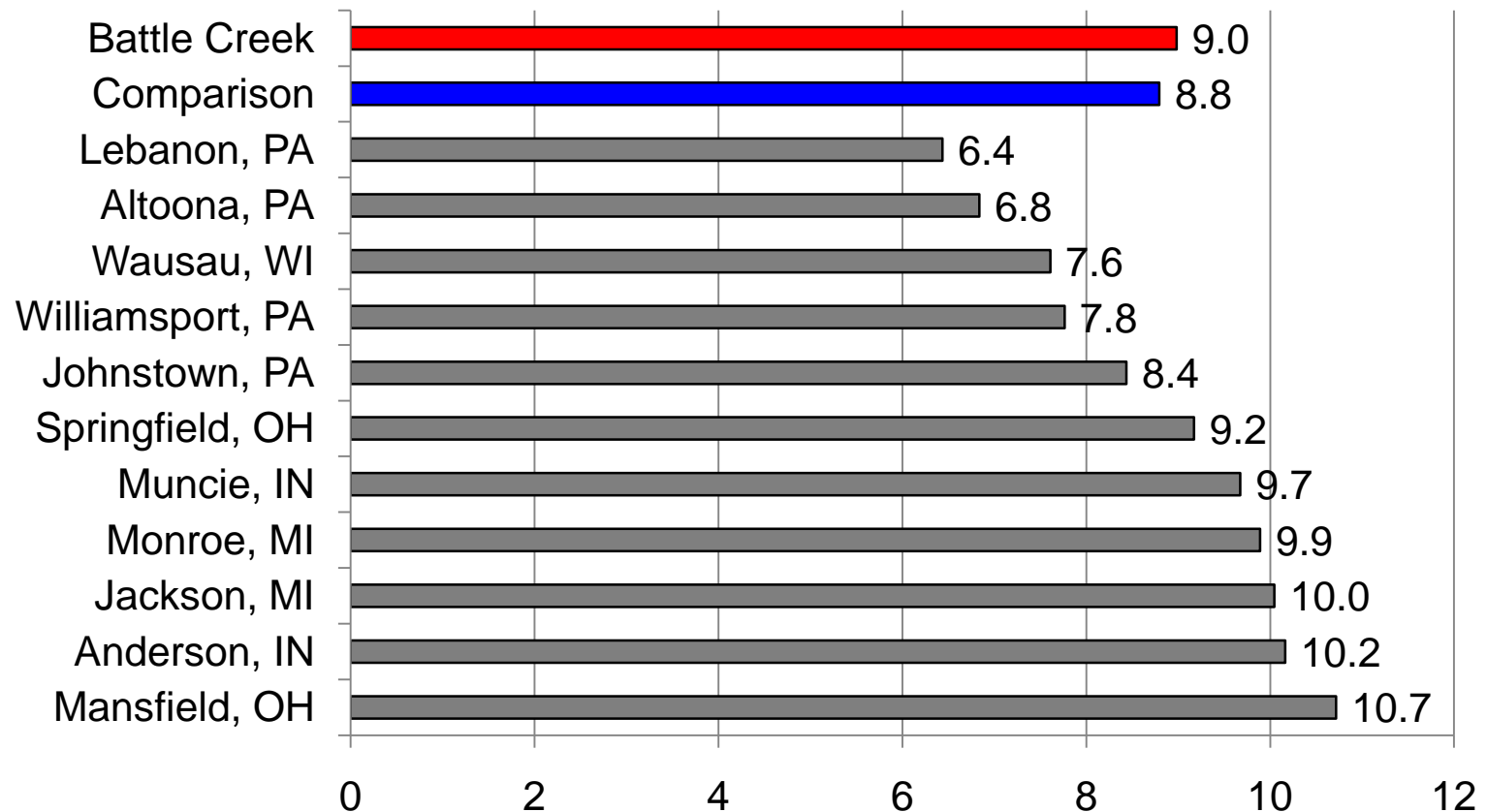
# Comparison Criteria

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- All one-county metropolitan areas
- Within Midwest region
- Not college town or state capitol
- All within 15% population of Calhoun county (plus Jackson)

# Slightly higher unemployment rate

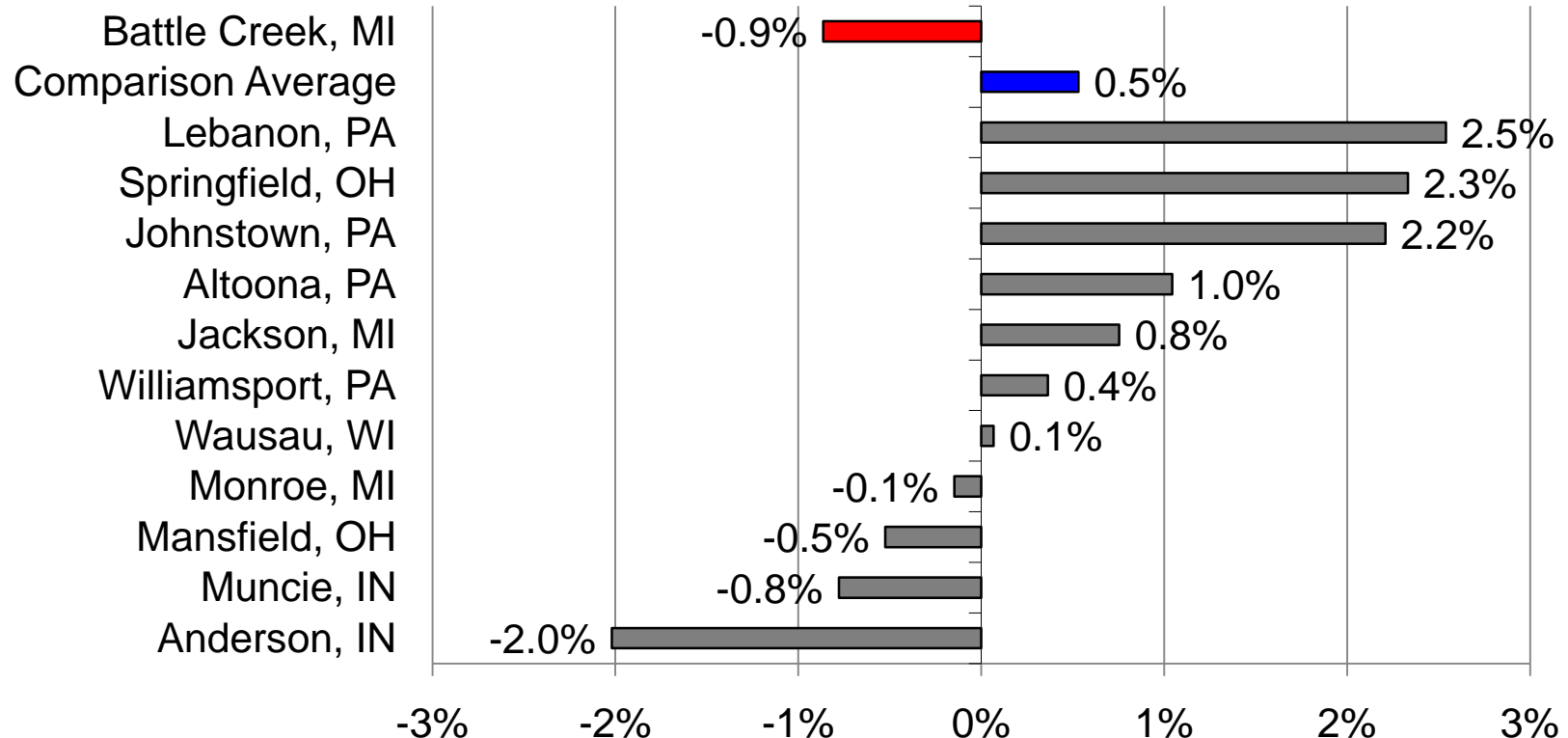
Average Unemployment Rate, Jan-Nov 2011



Source: BLS.

# Unfortunately, going in the wrong direction in employment

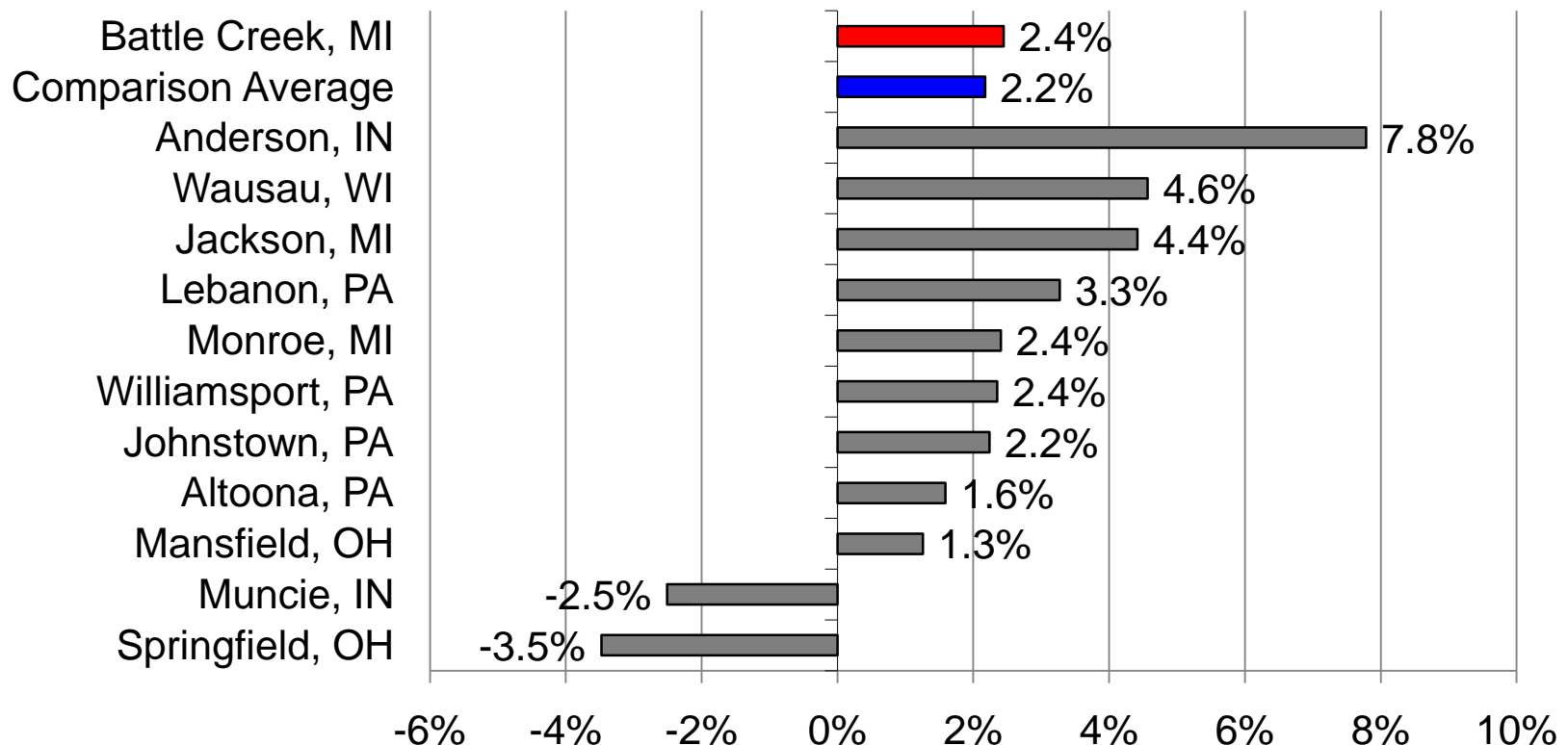
Percent Change in Total Employment,  
Jan-Nov 2010 – Jan-Nov 2011



Source: BLS.

# Manufacturing is holding its own.

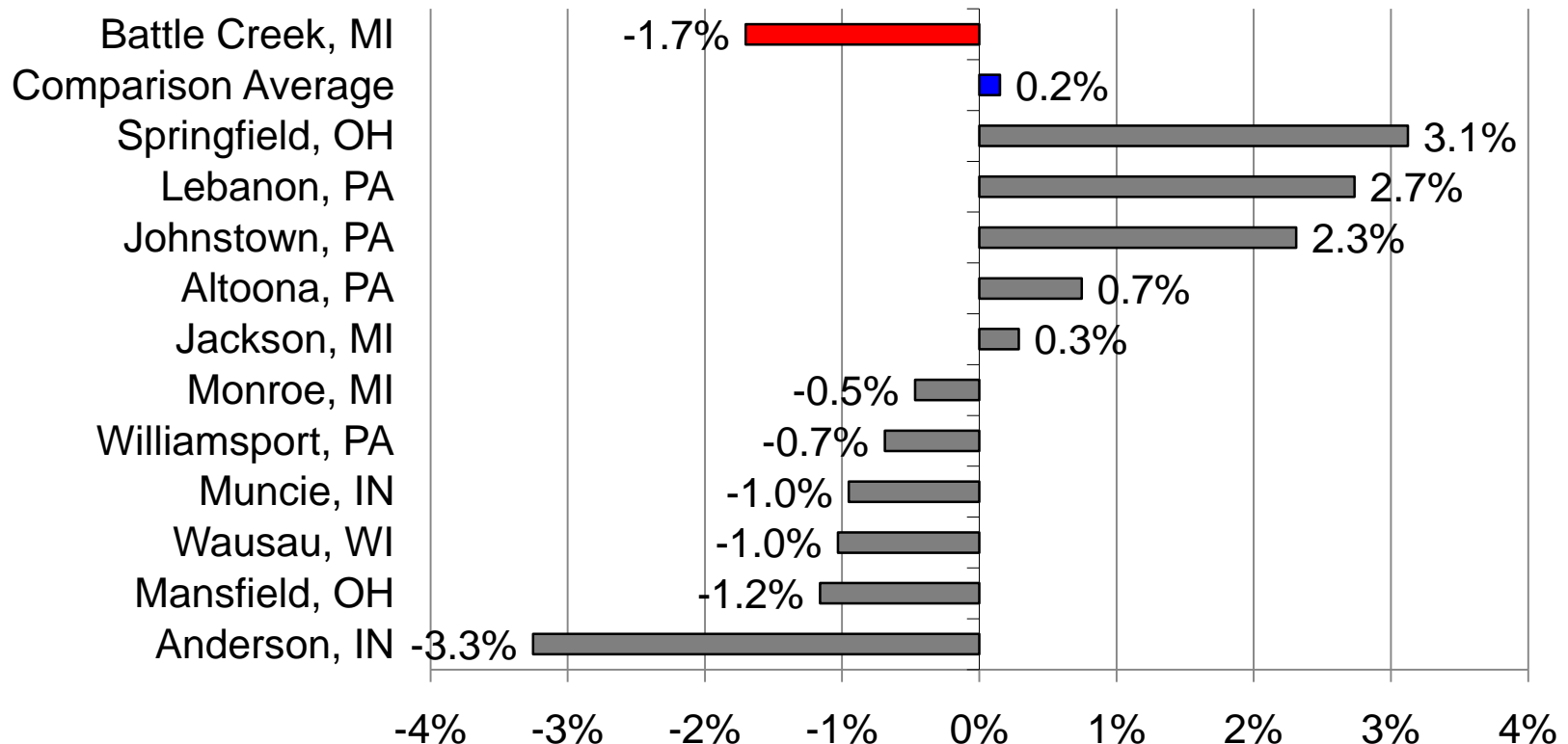
Percent Change in Manufacturing Employment,  
Jan-Nov 2010 – Jan-Nov 2011



Source: BLS.

# It is the service sector that is losing ground.

Percent Change in Service-Providing Employment,  
Jan-Nov 2010 – Jan-Nov 2011

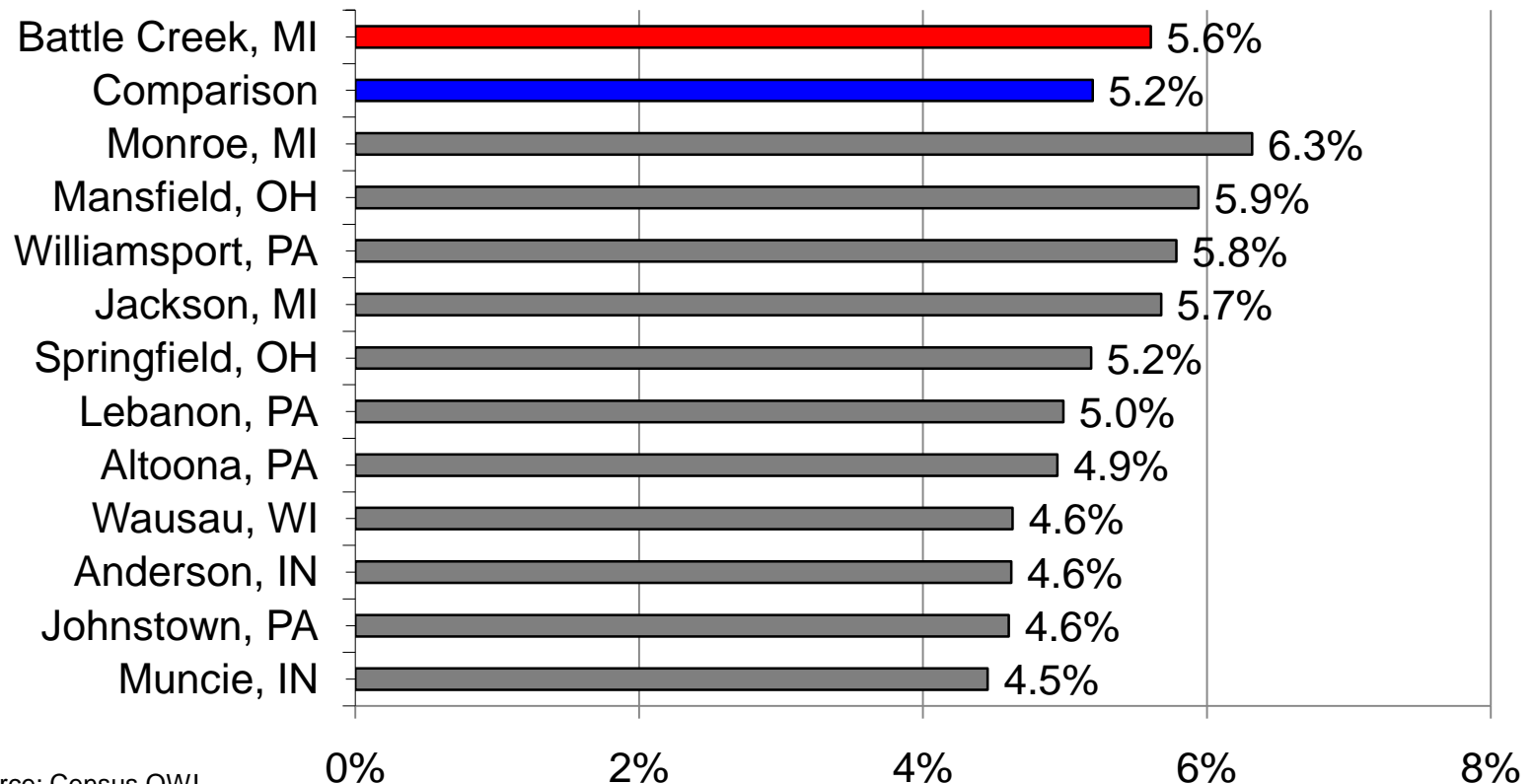


Source: BLS.



# However, overall job creation is slightly above par.

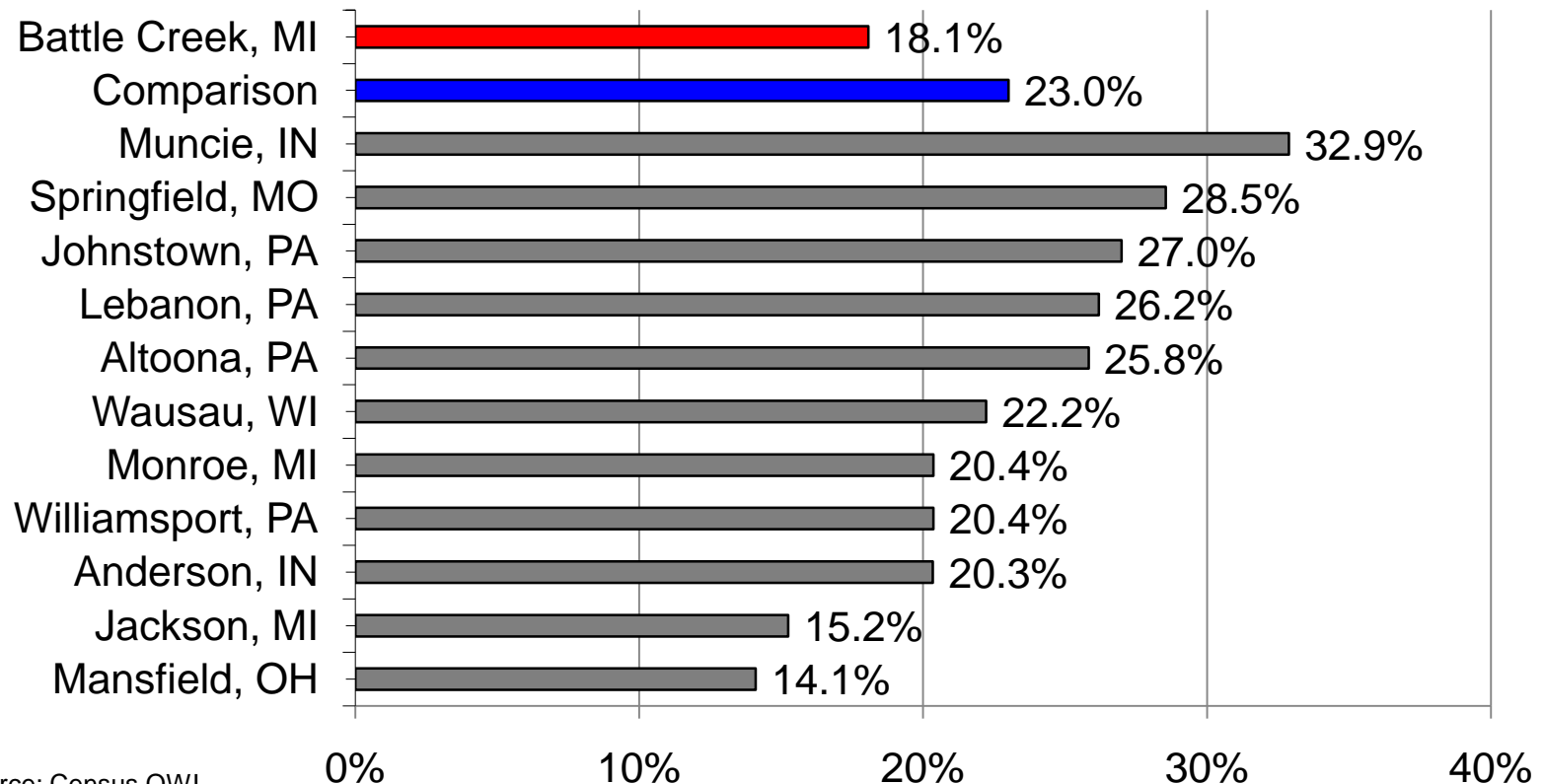
Job Creation as a Percent of Total Employment in 2010



Source: Census QWI.

# This remains one of the major challenges facing the Battle Creek area.

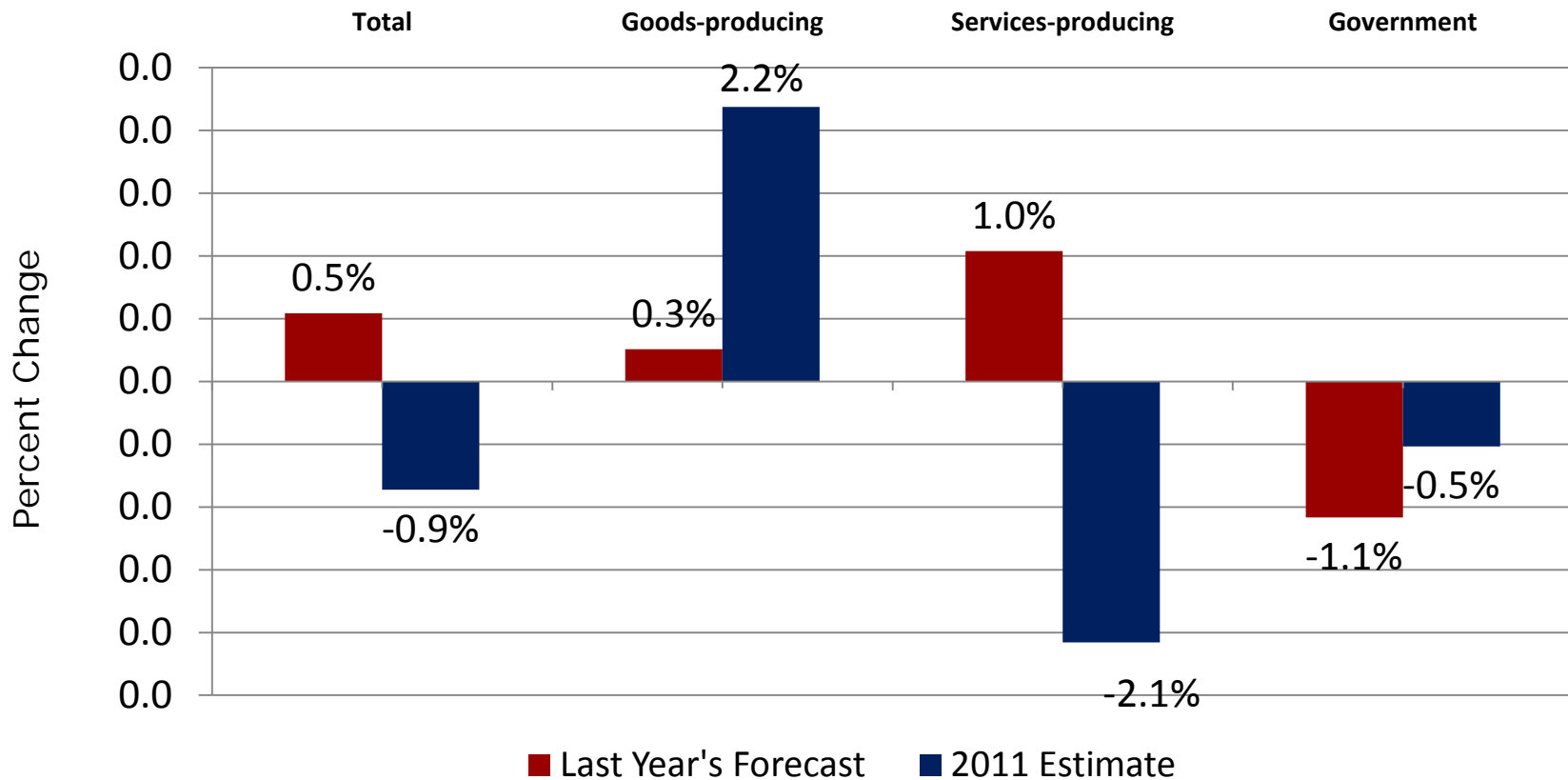
## Bachelor's Degree or Higher, Age 25-34



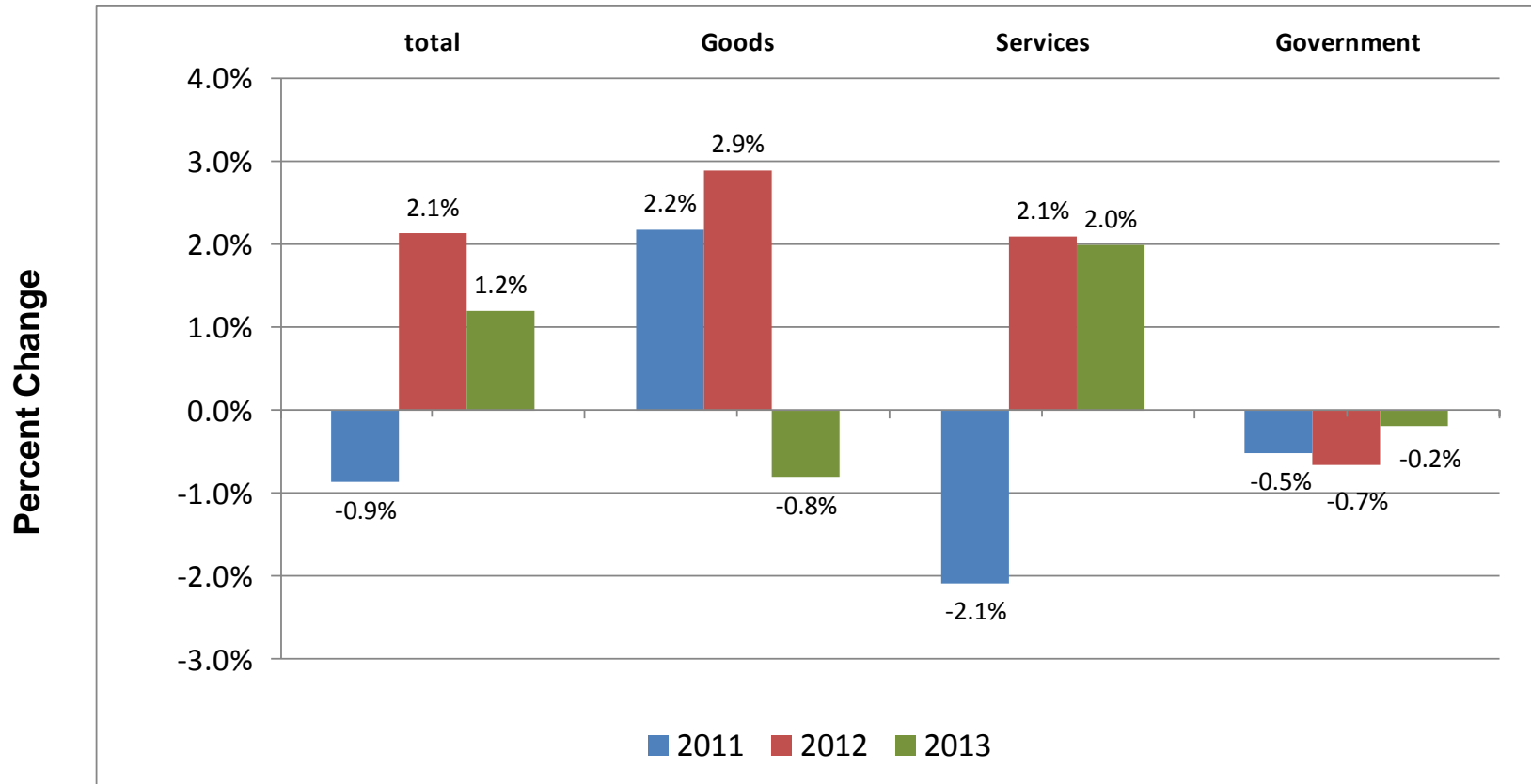
Source: Census QWI.

# So how did we do last year?

*Awful, truly awful.*



# 2012 and 2013 Employment Forecast for the Battle Creek MSA



# What could go wrong or right?

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- Wrong:
  - The Euro Zone Collapses.
    - Exports and Financial Markets would be significantly impacted.
  - Serious conflict in the Persian Gulf
    - Oil prices would likely soar.
- Right:
  - Corporations invest in the U.S. due to changing cost structures.
  - National banks start lending again.

# What is off the table?

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- Fiscal policy until, at least, the 2012 election
- New monetary “easy money” policies

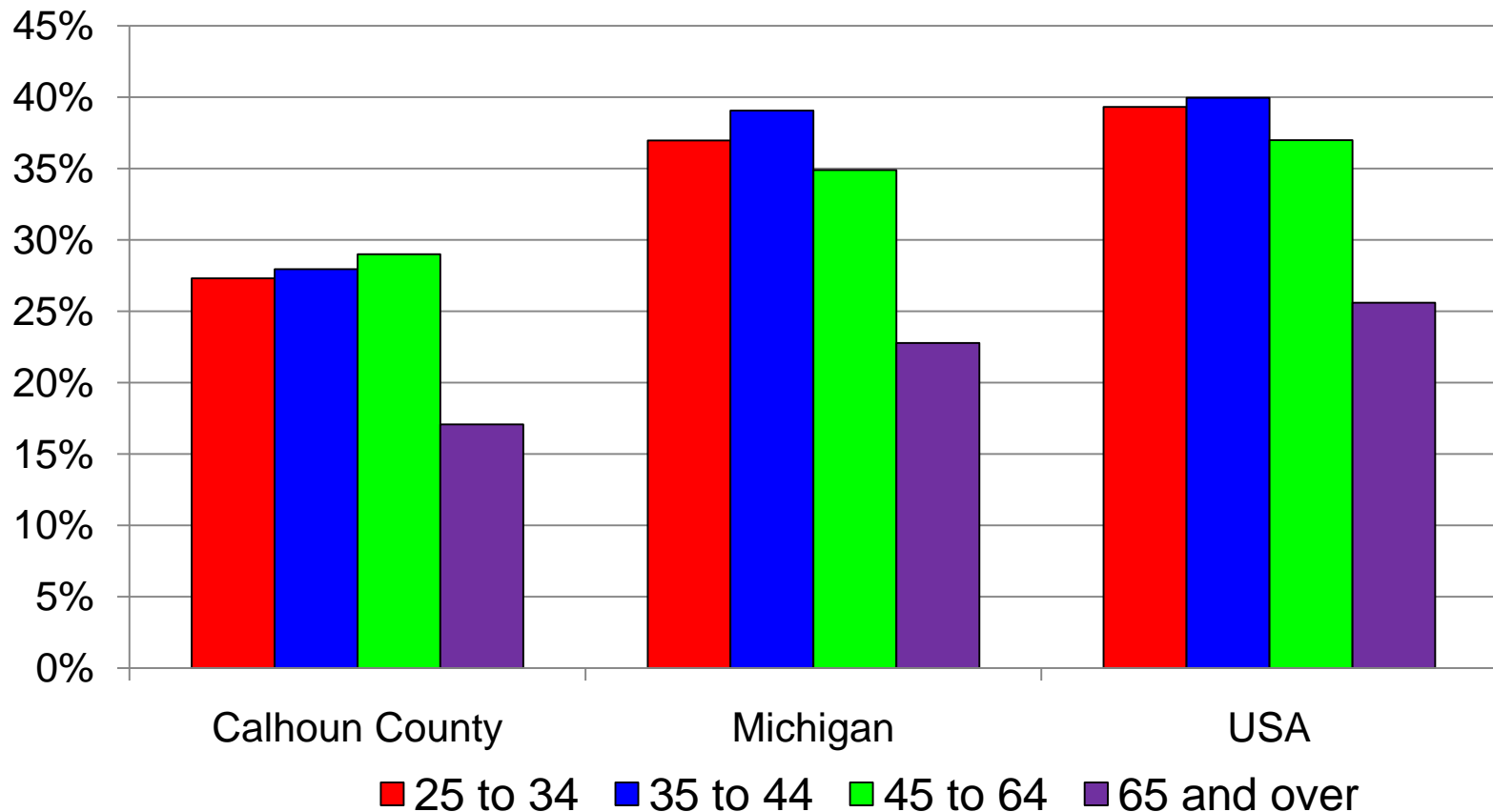
# Another look at the region's workforce

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- The decline in education achievement is still apparent.
- However, the payoff to education still holds.
- Employers are not finding the workers they need even though the unemployment rate remains high.

# This could have a negative impact on the future.

Post-Secondary Education by Age in 2010

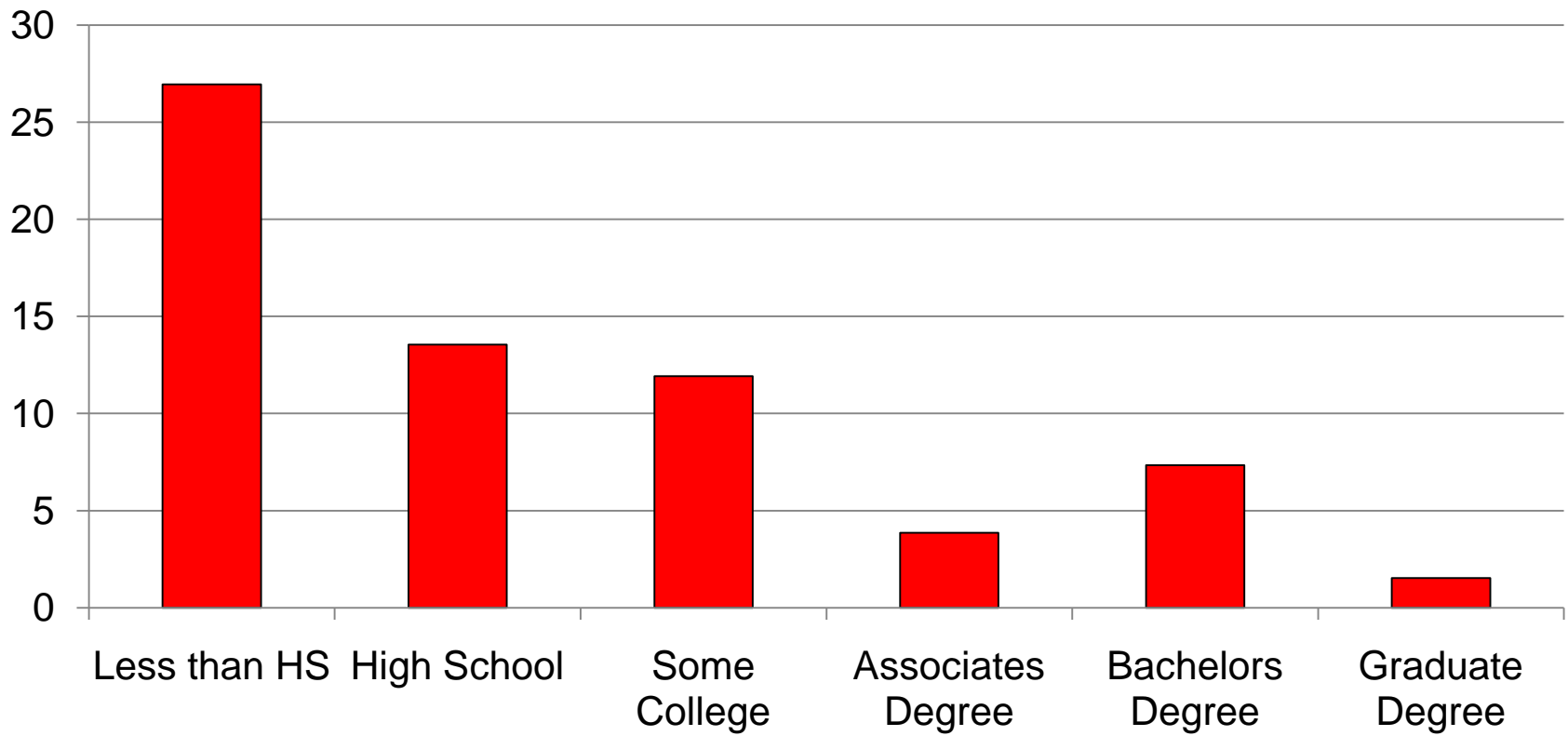


Source: U.S. Census Bureau ACS.



# However, the rewards to education remain strong in terms of unemployment . . .

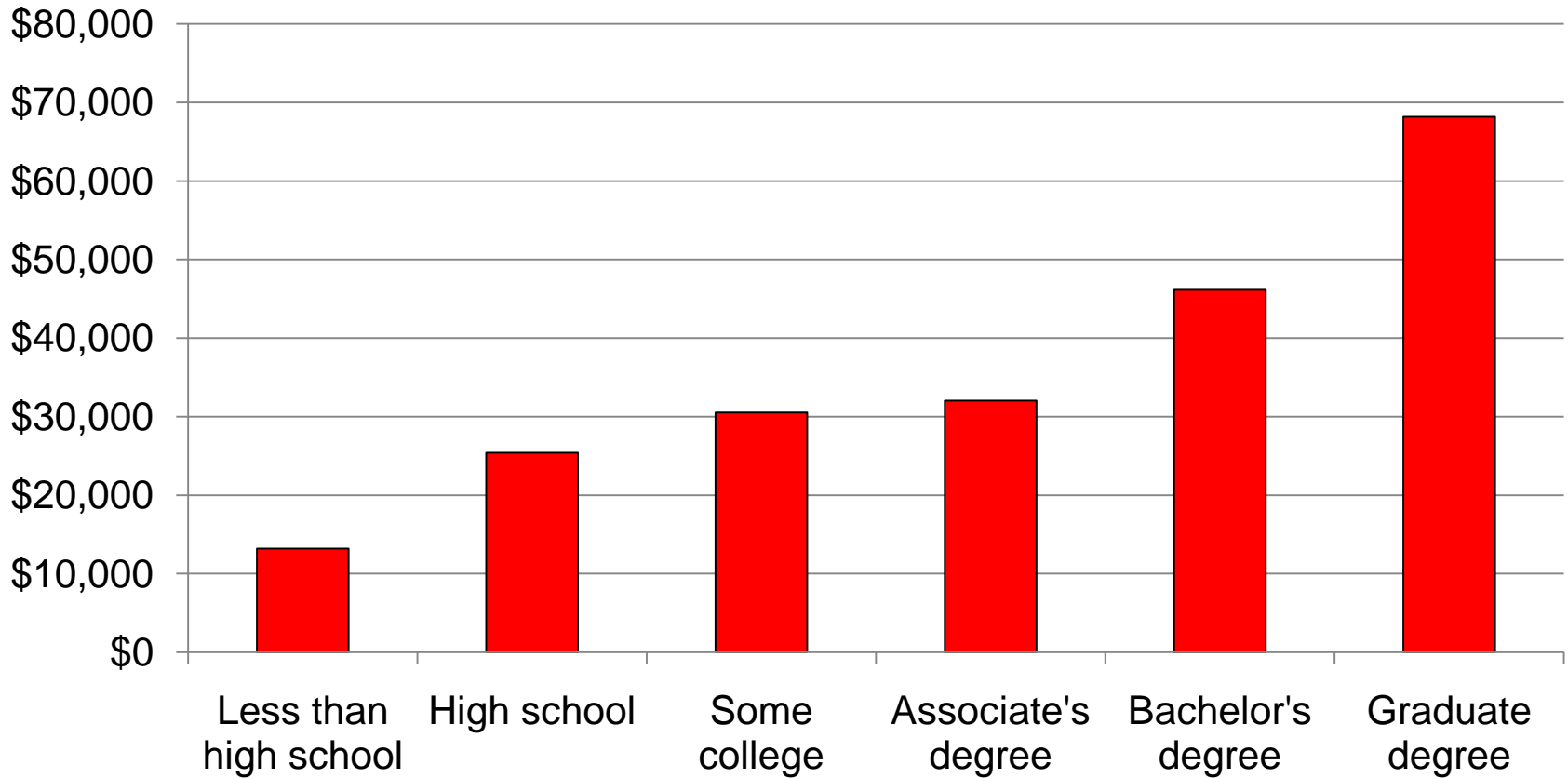
2010 Unemployment Rate by Educational Attainment  
25 to 65 year olds



Source: Ruggels et al, IPUMS USA.

# ... and earnings.

Mean Income by Education



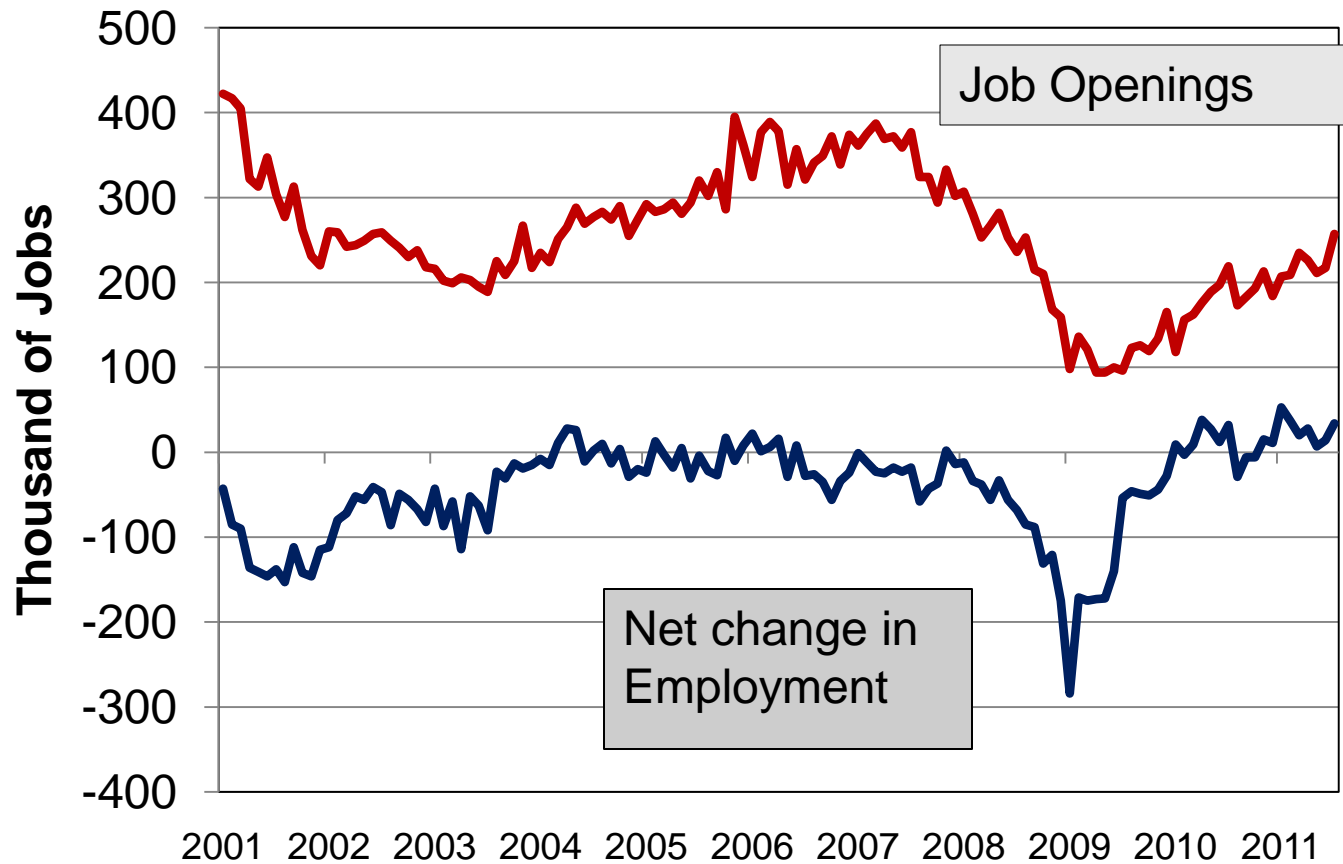
Source: Ruggels et al, IPUMS USA.

# Labor Mismatch

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- Currently 457,000 persons are unemployed in the state and more than 13 million nationwide.
- Yet, manufacturers claim they cannot find workers with the skills they need.

# Nationwide, the gap between job openings and net employment is not large.



# Here is the problem facing manufacturers.

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- Earning potential remains strong when holding education attainment constant.
- However, the employment situation in manufacturing is subject to swings in the business cycle and rapidly changing technology improvements.
- In short, it can be a tough sell to convince someone to pick a manufacturing occupation.

# The Economic Outlook for the Battle Creek MSA

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