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The 2010 and 2011 Employment Forecast for Calhoun County

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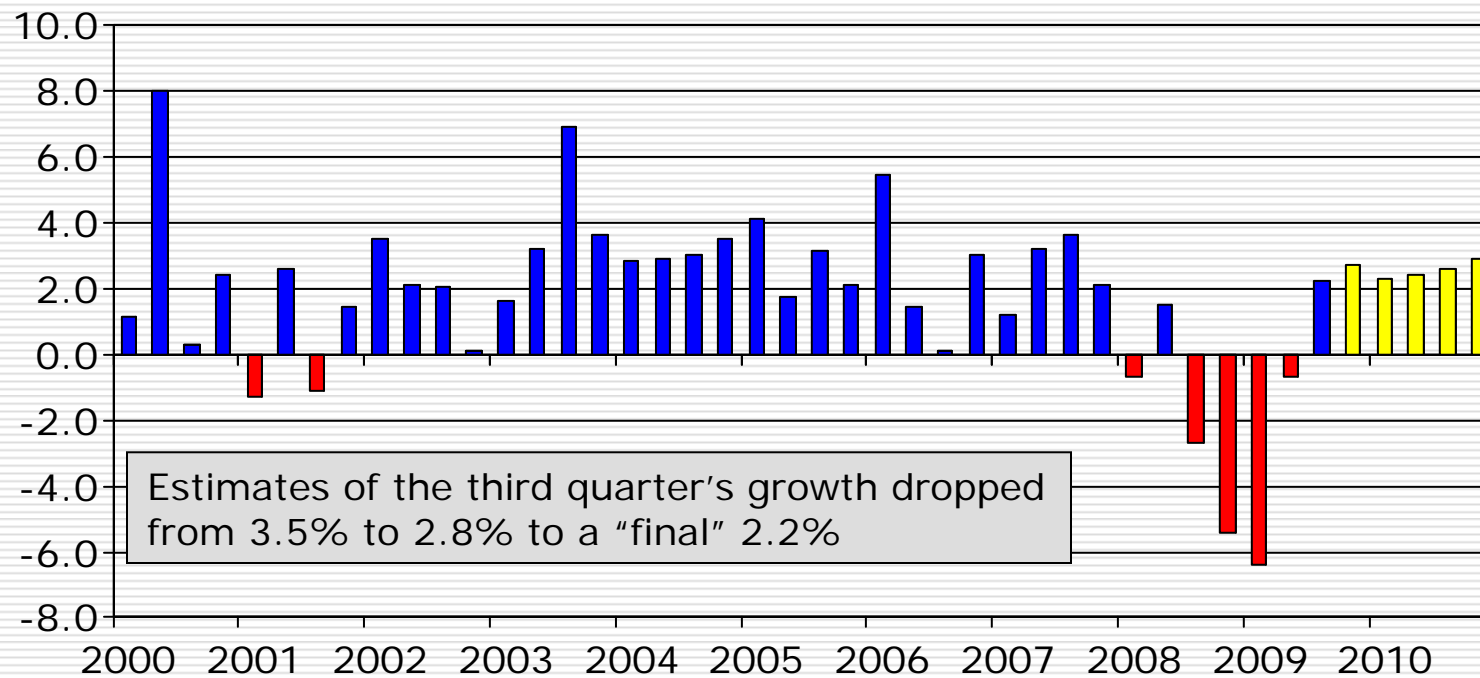
January 7, 2010

Agenda

- ❑ Why 2010 is looking better and better—*Yet the double-dip scenario is in the shadows.*
- ❑ The state will likely not get an invitation to the nation's party—*in fact, it is still waiting for the 2002 invitation.*
- ❑ Battle Creek (Calhoun County) 2010-2011 forecast—*We will get it right this time.*
- ❑ Thoughts about the Country of Calhoun

Nationwide, GDP increased by 2.2 percent in the third quarter.

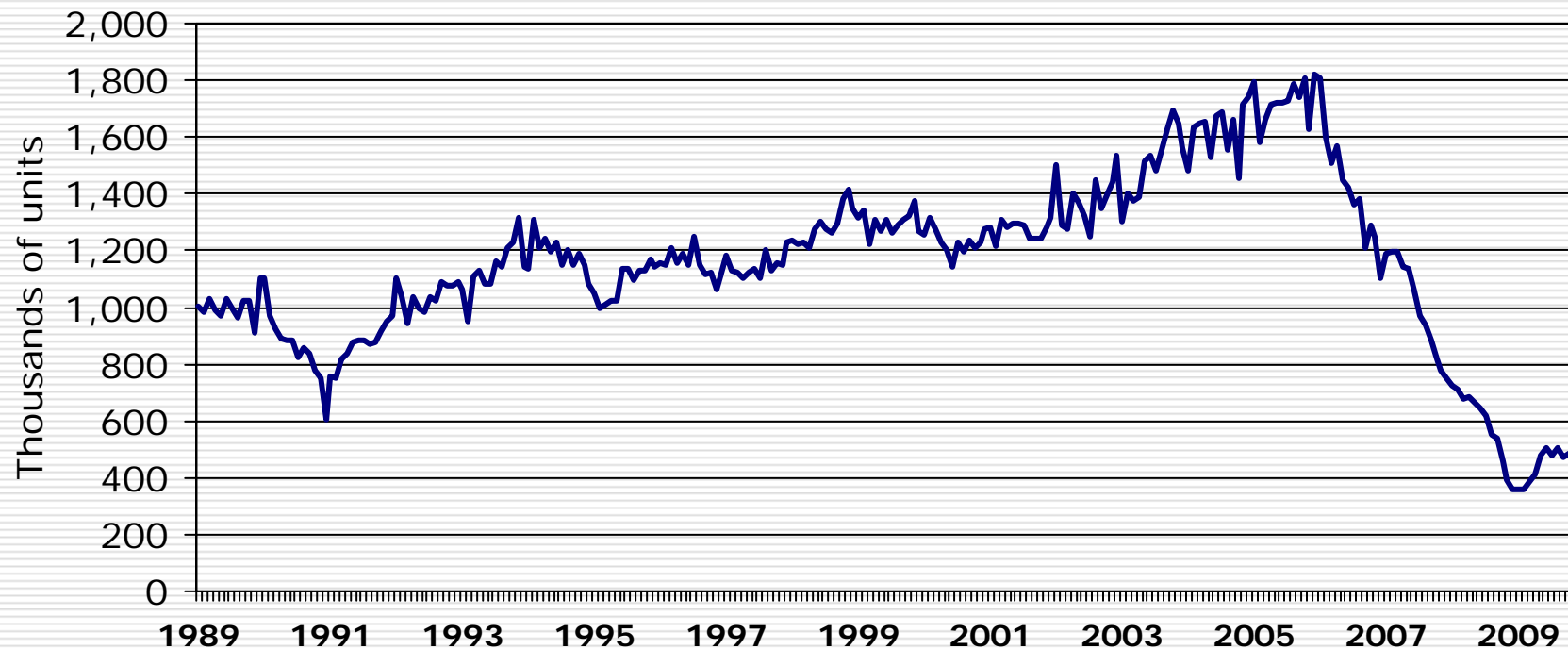
Annualized Percent Change in GDP



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

Single-Family Housing Starts—*We appear to be turning around.*

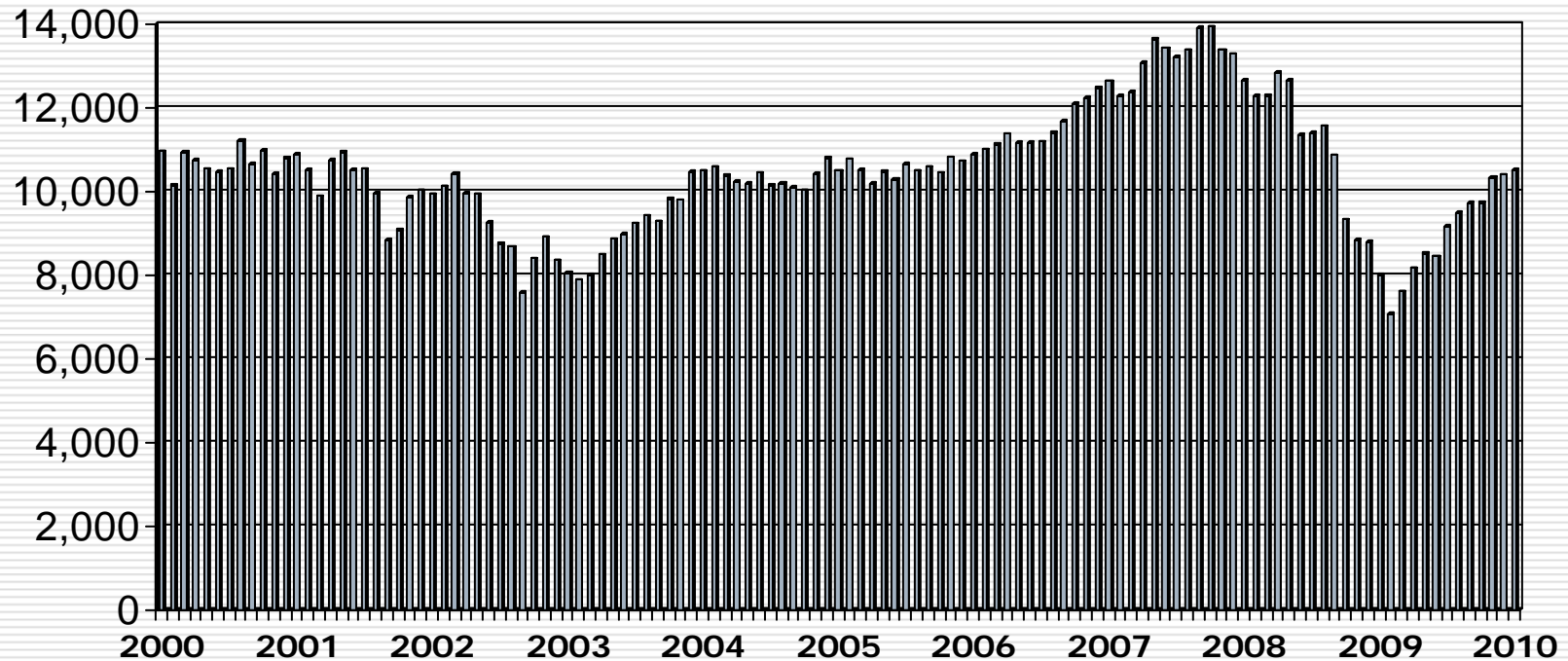
Seasonally Adjusted Annual Rates



U.S. Census

The stock market has enjoyed a nine-month run.

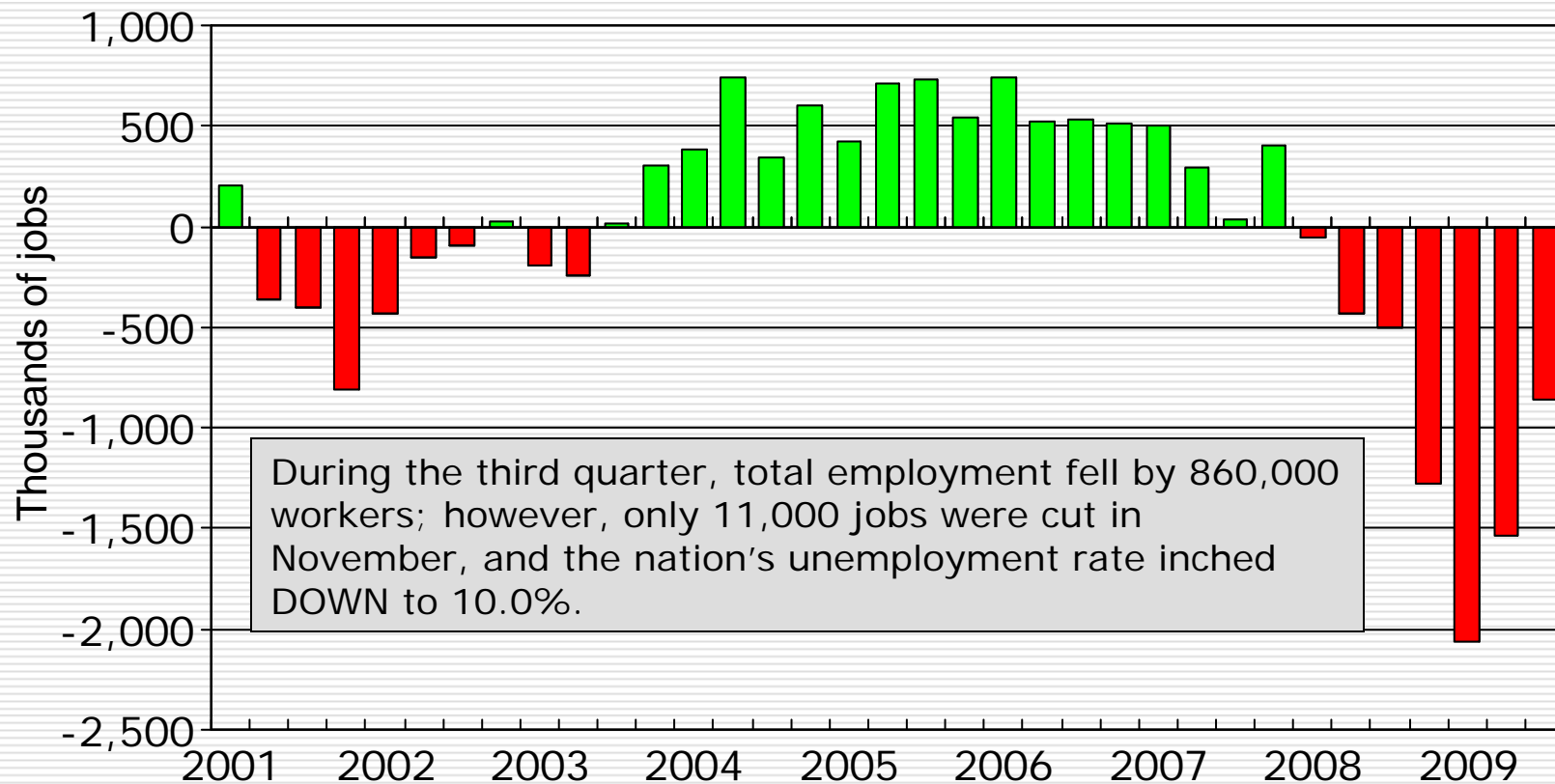
Dow Jones Index



Ok, where is the bad news?

- ❑ Banking system—*The banks have a lot of money to lend but are not.*
- ❑ Employment outlook— *The rate of decline is slowing, but we may not return to pre-recession levels until 2011 or later.*
- ❑ Consumer confidence—*Will slowly improve but is dependent upon employment.*
- ❑ The auto industry—*2010 is expected to be better than the latter half of 2009.*

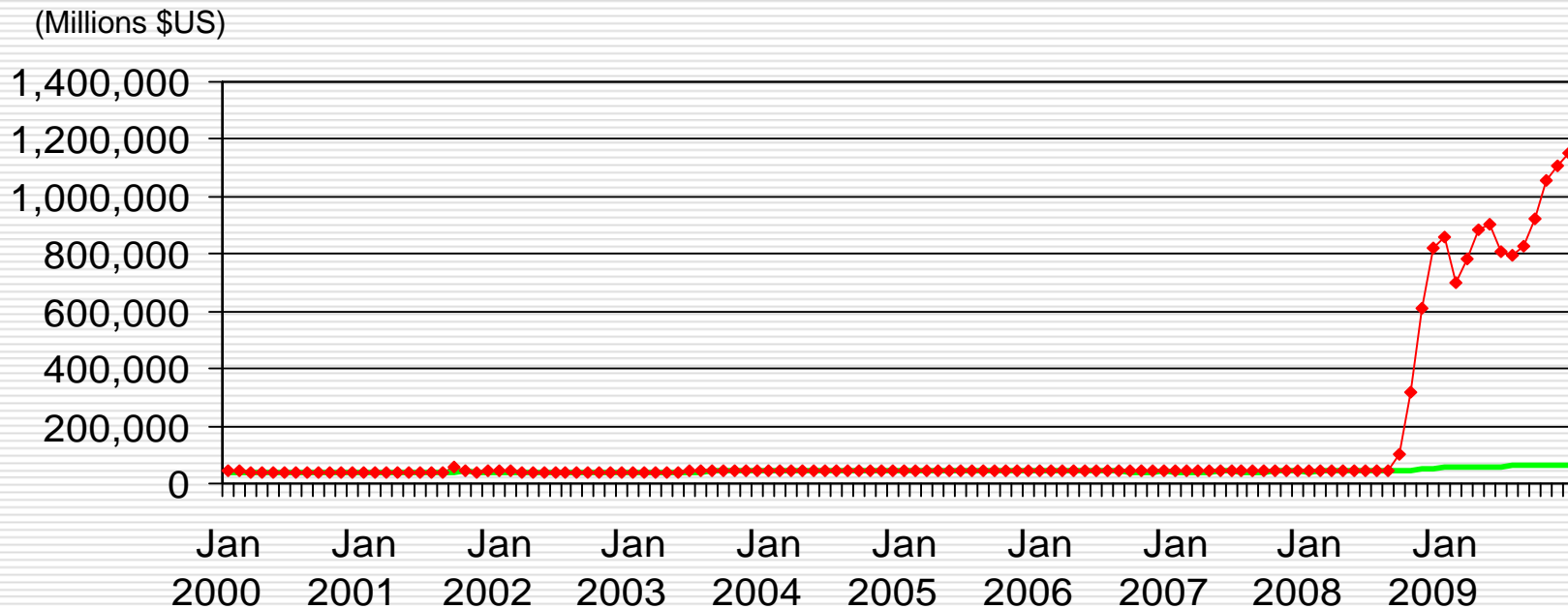
Nationwide, employers are still cutting payrolls.



Source: BLS.

Banks have a trillion dollars to lend out but they are not.

Aggregate U.S. Depository Institution Reserves
(Adjusted for seasonality and changes in reserve requirements)

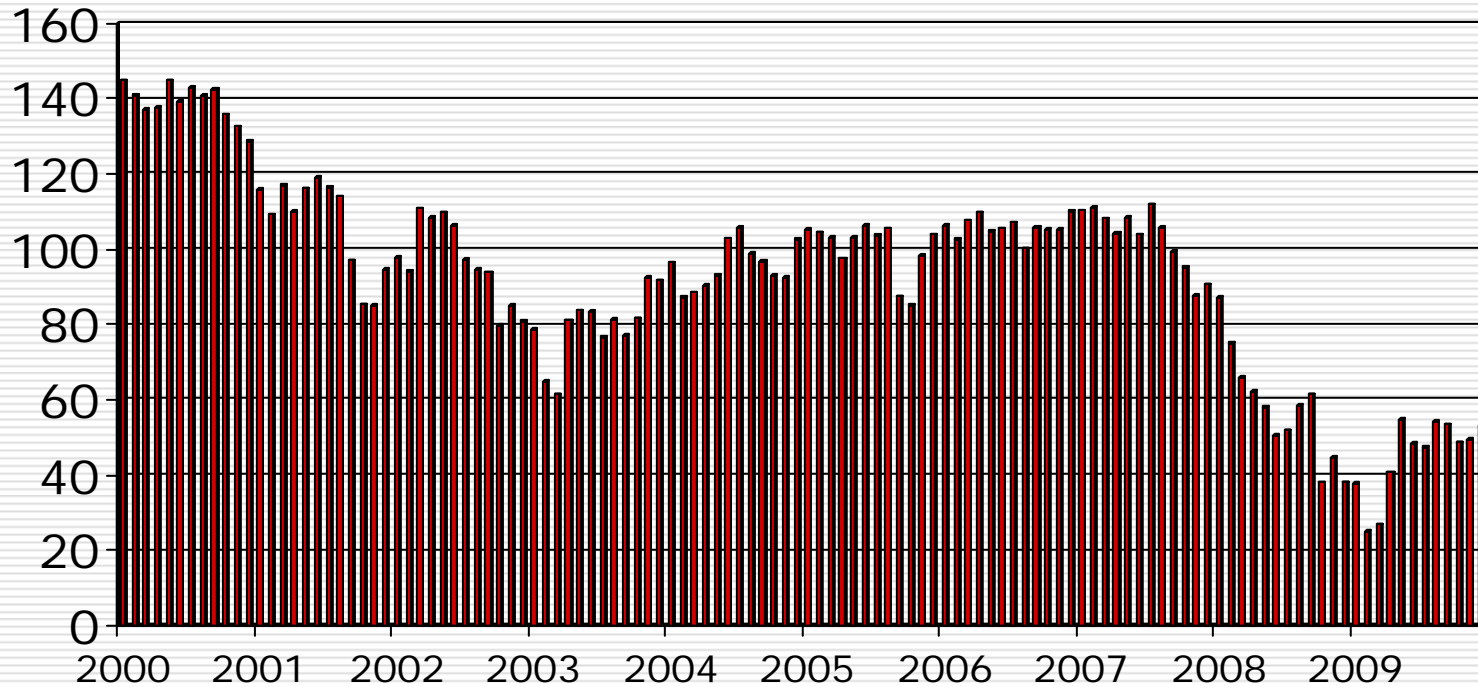


Source: Federal Reserve, Statistical Release H3.

◆ Total reserves — Required

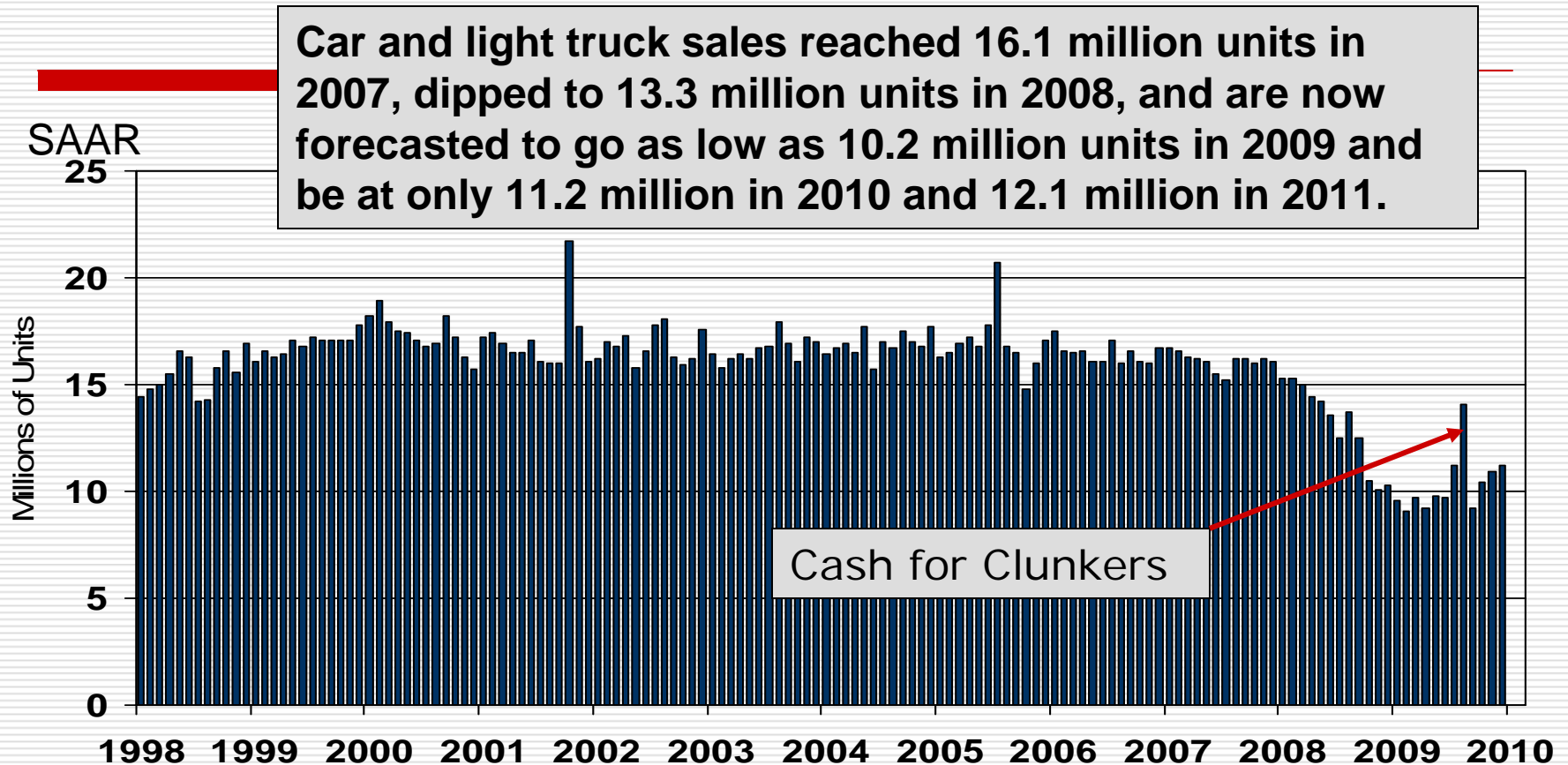
Consumers' confidence is still low.

Consumer Confidence (1995=100)



Source: Conference Board.

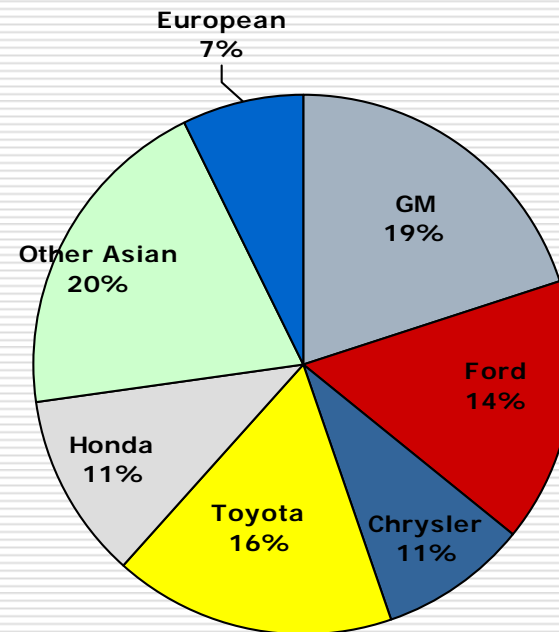
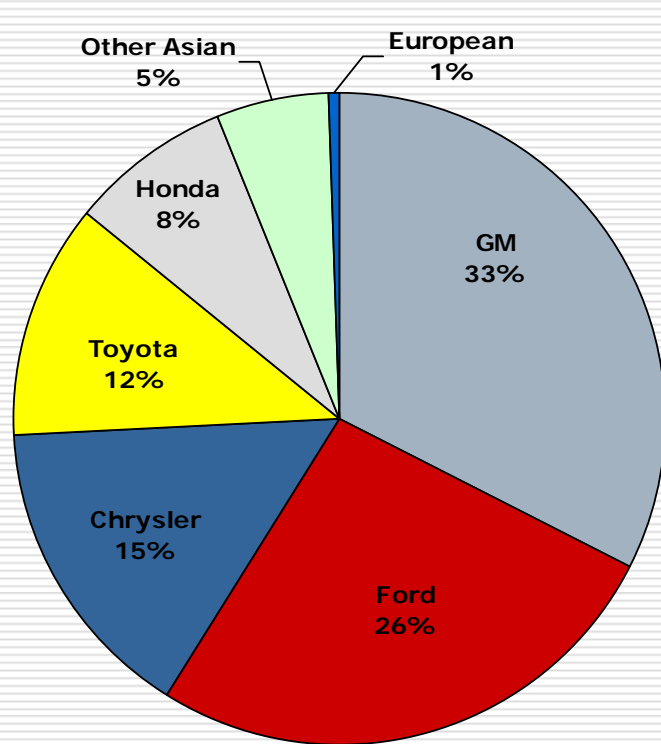
The showrooms are still pretty quiet.



Source: BEA.

Fueled by cash-for-clunkers, sales hit a 14.1 million unit rate in August but have fallen back since. Sales were up to a 11.2 million unit pace in December.

Loss of market share: In 2001, the Detroit Three controlled 74%; in 2009 it fell to 44.7%.



Source: *Wards AutoWorld*.

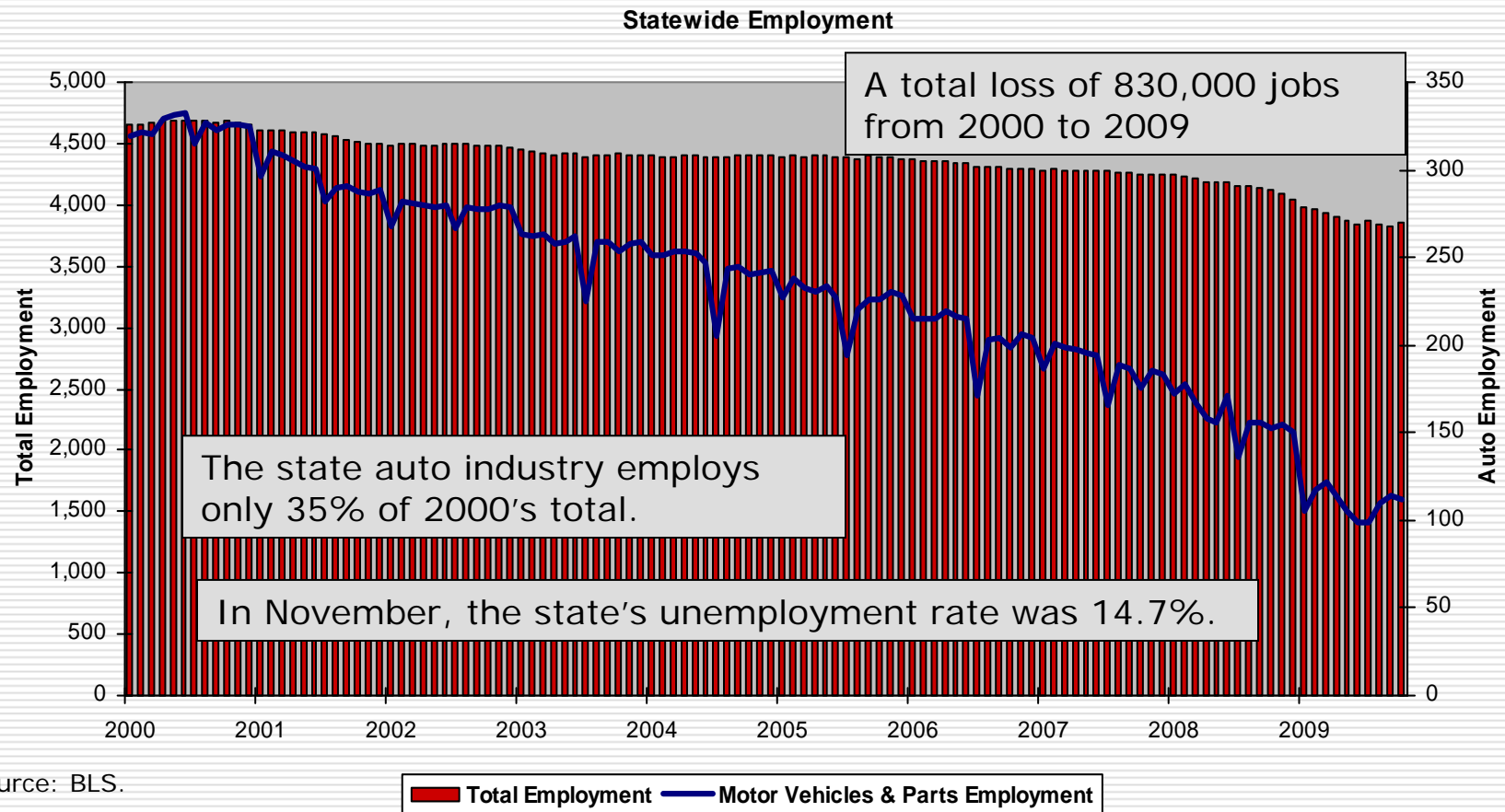
2001

2009

Only 3 of the top 10 selling vehicles are made by Detroit.

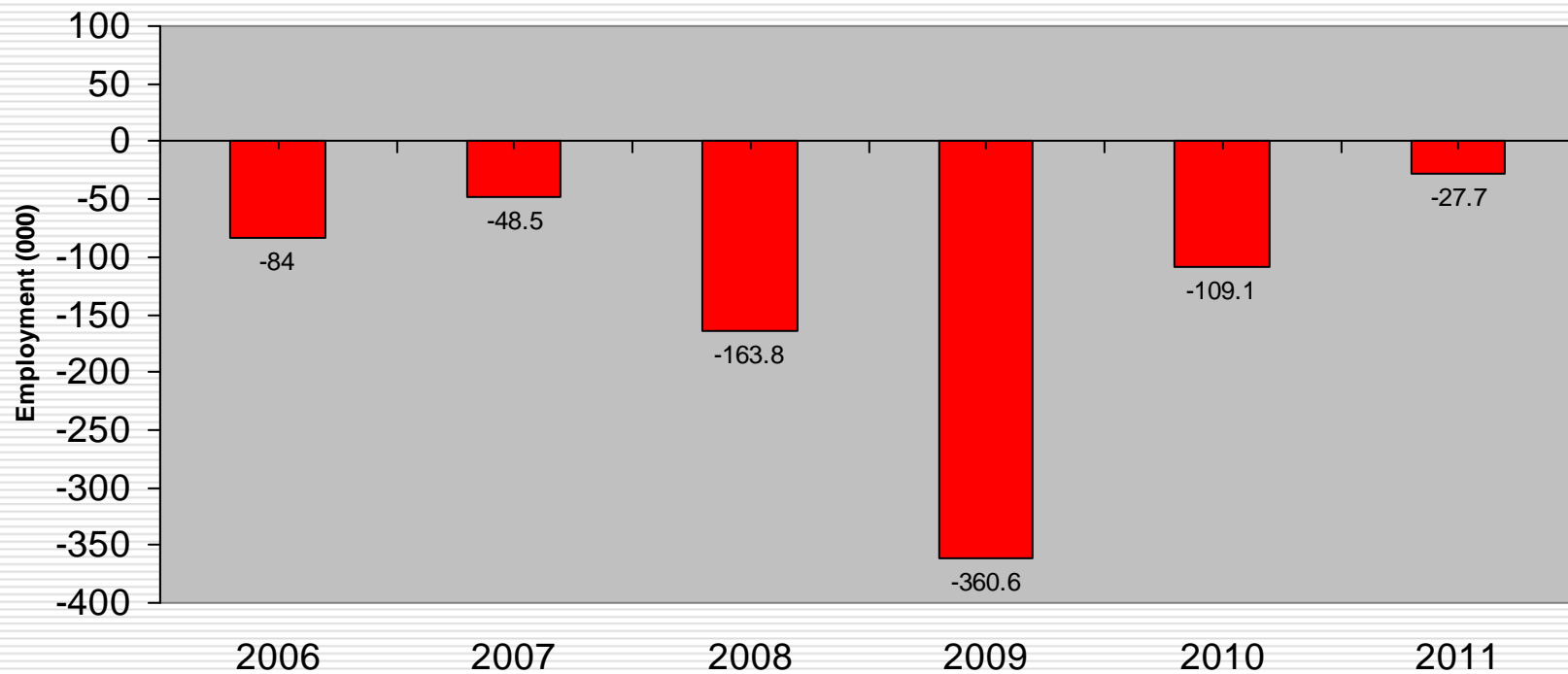
| 2009 Best Selling Vehicles | | |
|----------------------------|----------------|---------|
| Ford | F Series | 413,625 |
| Toyota | Camry | 356,824 |
| GM | Silverado | 316,544 |
| Toyota | Corolla/Matrix | 296,874 |
| Honda | Accord | 287,492 |
| Honda | Civic | 259,722 |
| Nissan | Altima | 203,568 |
| Honda | CR-V | 191,214 |
| Ford | Fusion | 180,671 |

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



Total employment has declined for 10 straight years and is expected to decline in 2010 and 2011.

Change in Total Employment



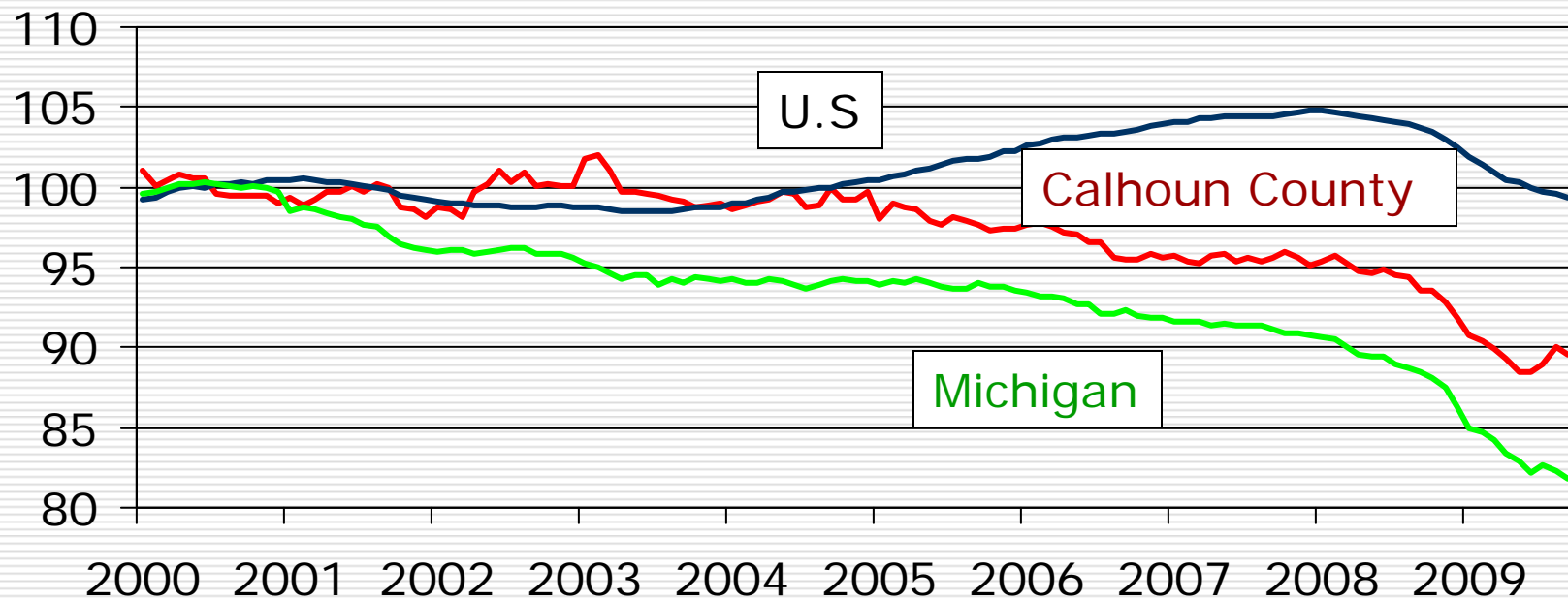
Source: University of Michigan, Nov 2009.

Calhoun County—*2009 was not a good year.*

- ❑ Serious employment declines.
- ❑ Too many people are moving out.
- ❑ Housing prices are still retreating.
- ❑ Residential construction is at a standstill.

Struck in the middle between the state and the U.S.

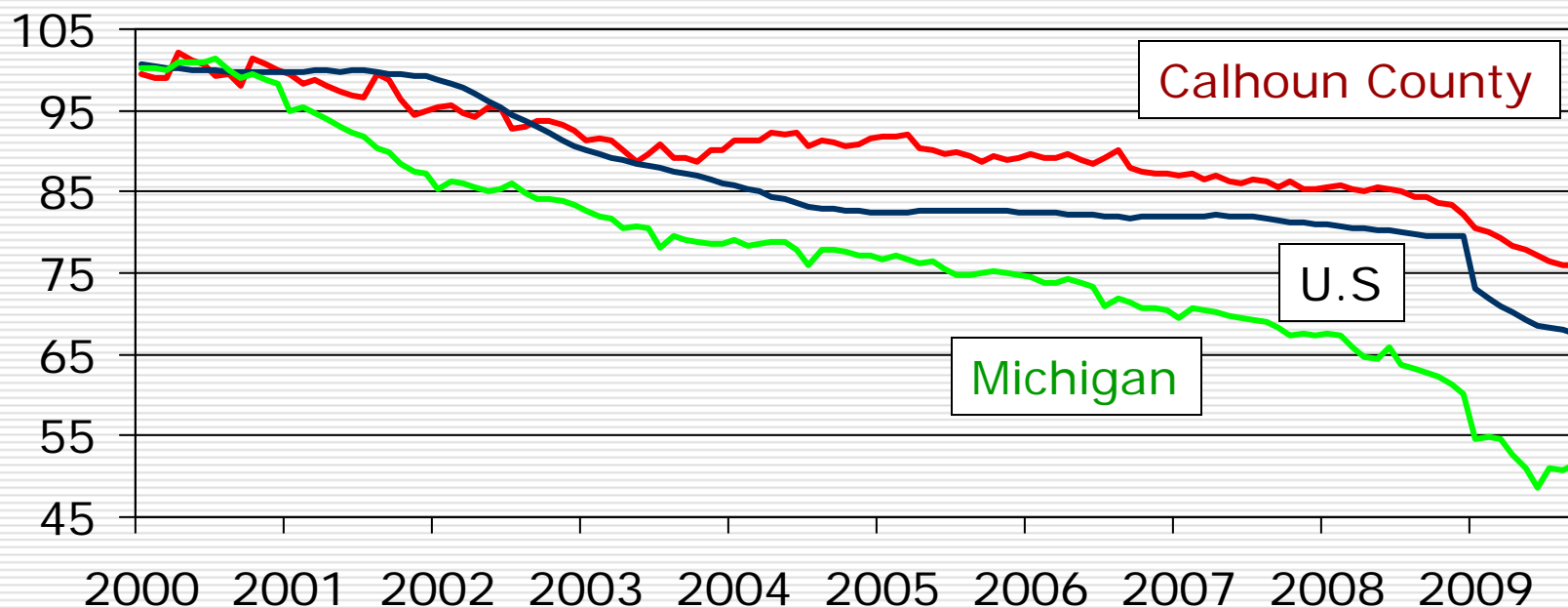
Index of Total Employment
(100 = 2000 average)



Source: W.E. Upjohn Institute and BLS.

The county's manufacturers outperformed the nation's.

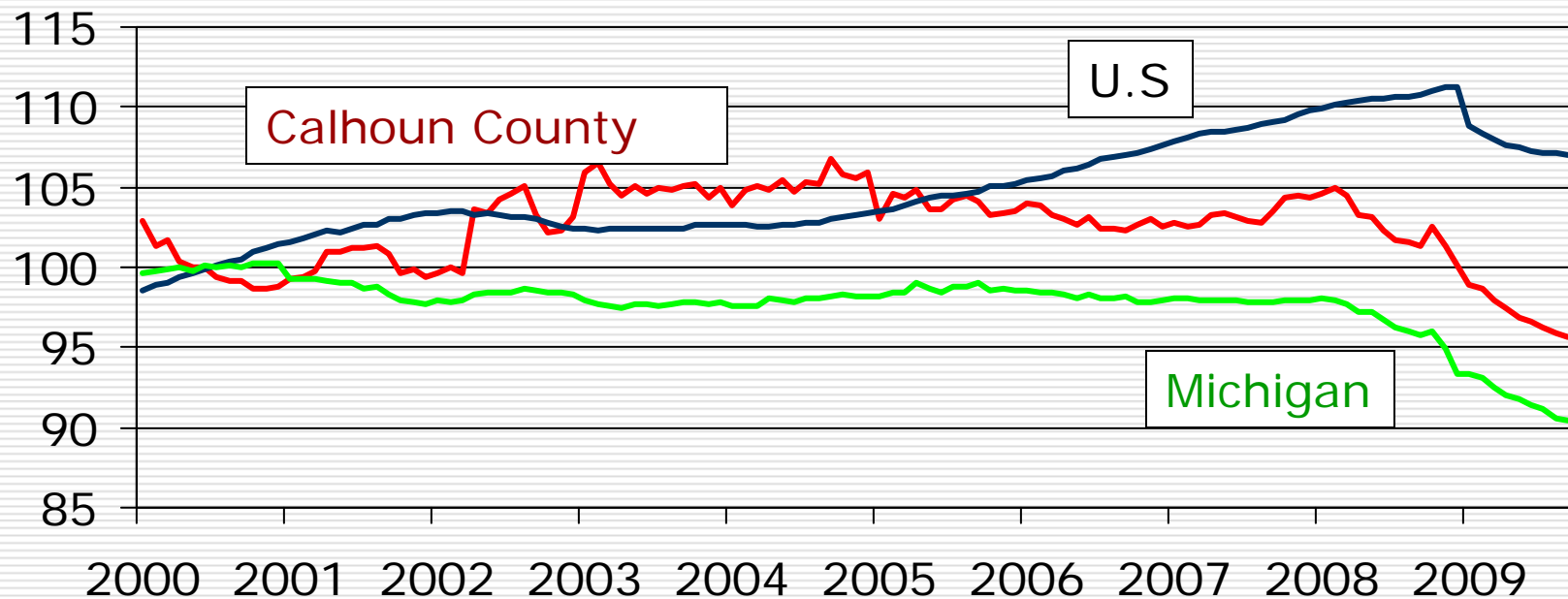
Manufacturing Employment Index
(100 = 2000 average)



Source: W.E. Upjohn Institute and BLS.

However, its private services sector follows the state.

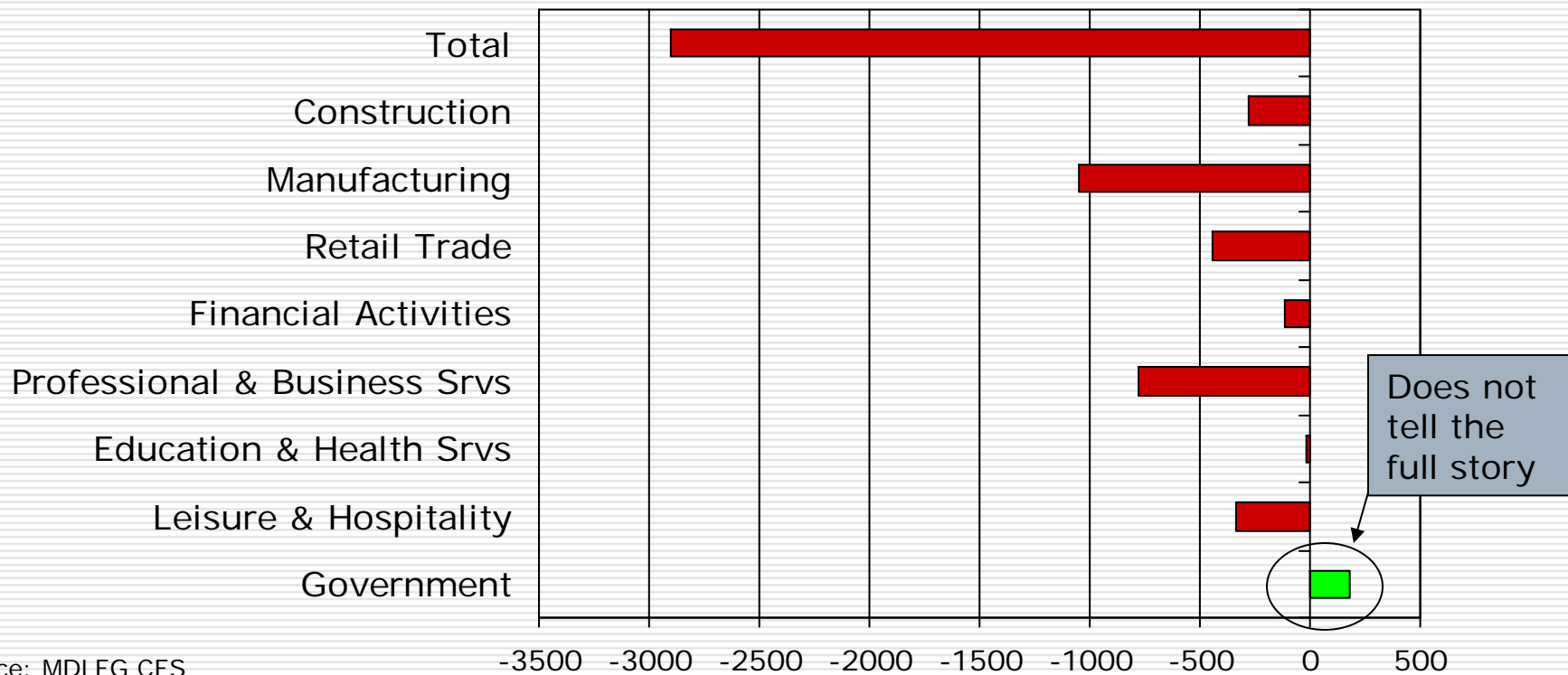
Private Service-providing Employment Index
(100 = 2000 average)



Source: W.E. Upjohn Institute and BLS.

2009 was simply a bad year—*2,900 jobs were lost.*

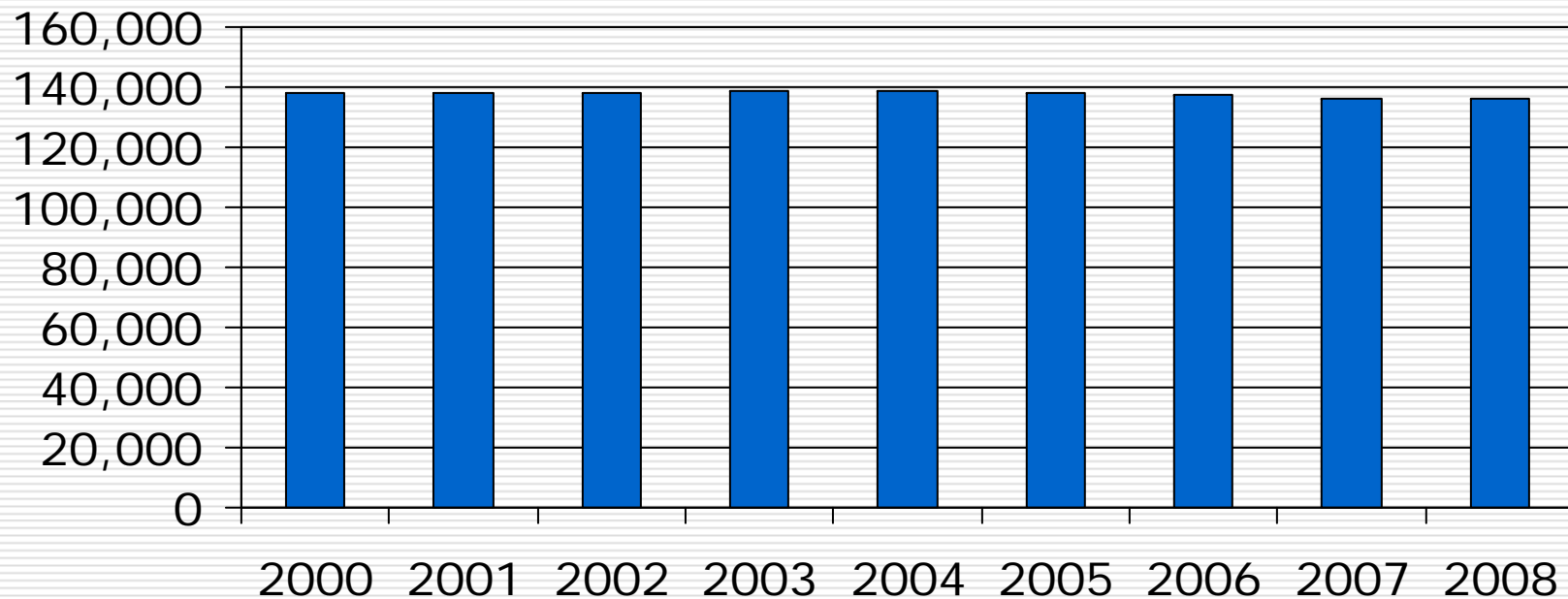
Calhoun County Change
Jan to Oct 2008 - Jan to Oct 2009



Source: MDLEG CES

Population is at a standstill—*A loss of 2,100 people from 2000 to 2008.*

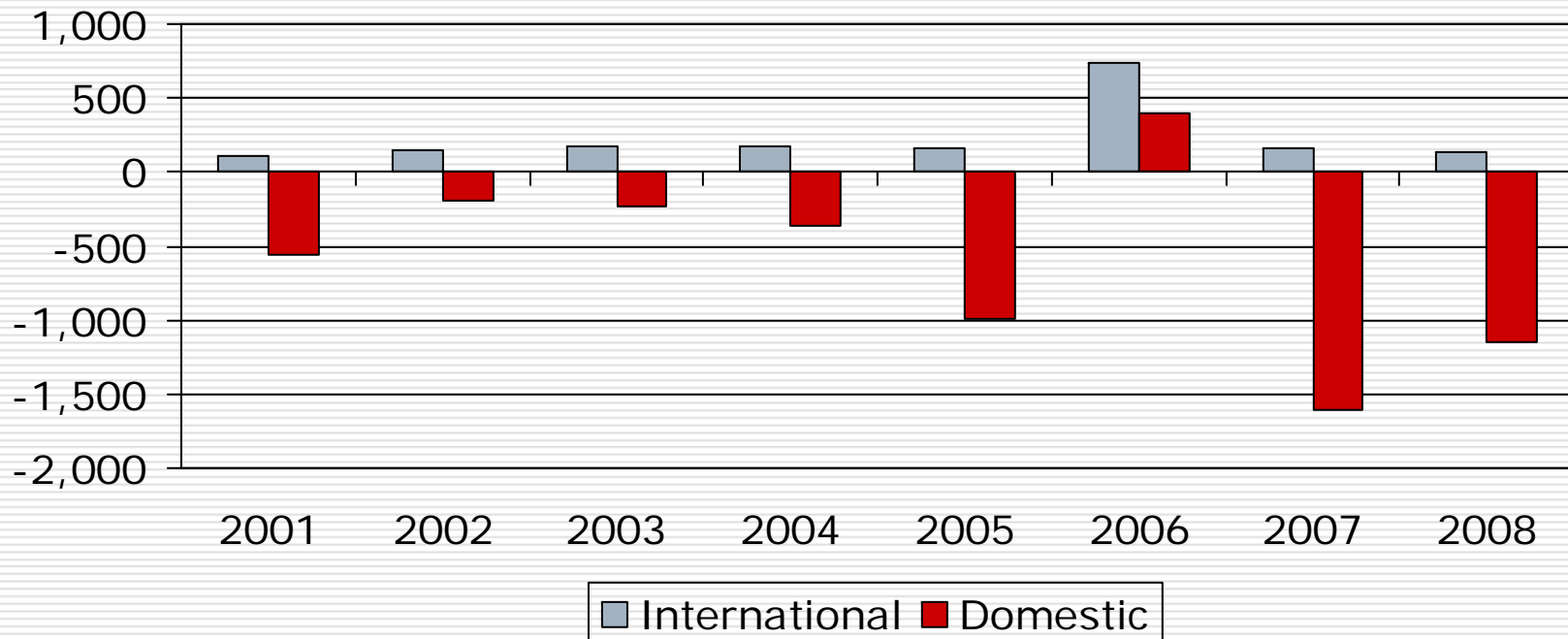
Calhoun MSA
Population Estimates



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

Many households are being forced to move elsewhere while others may be choosing to live elsewhere.

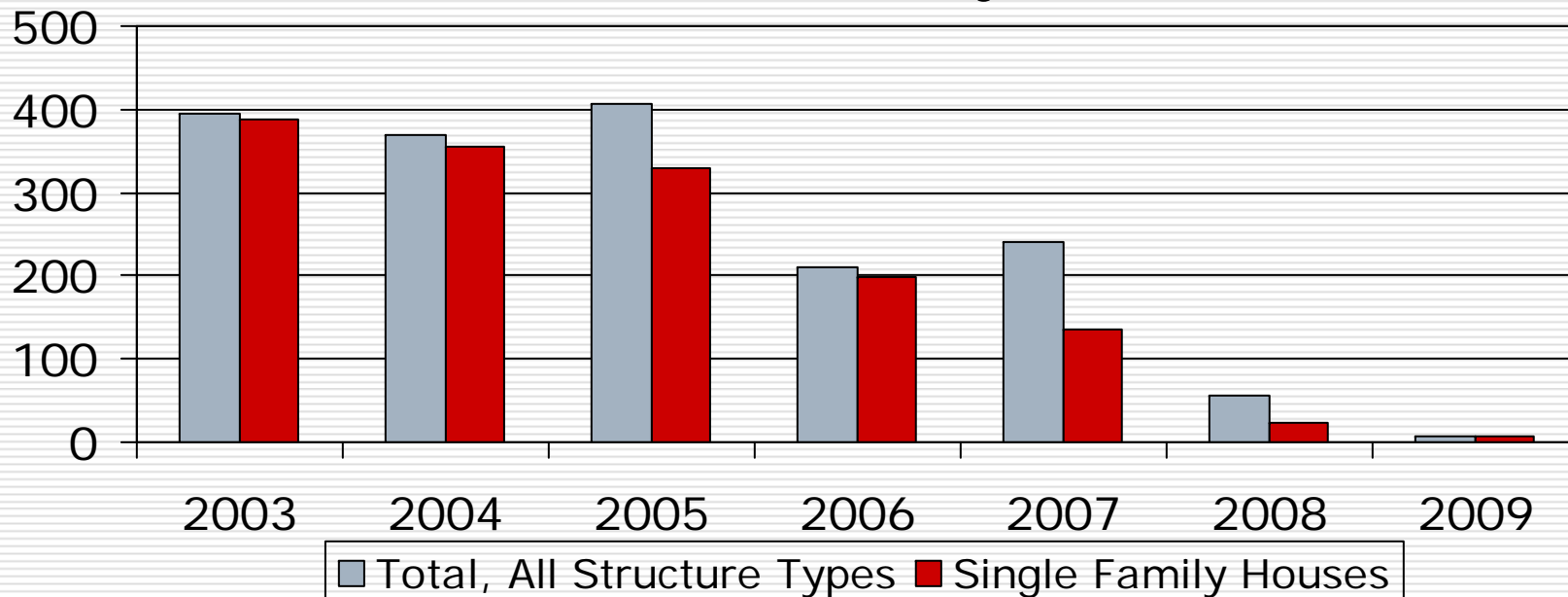
Net Migration Component of Population Change in Calhoun County



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

Building activity is on hold.

Housing Units Authorized by Building Permit in Calhoun County

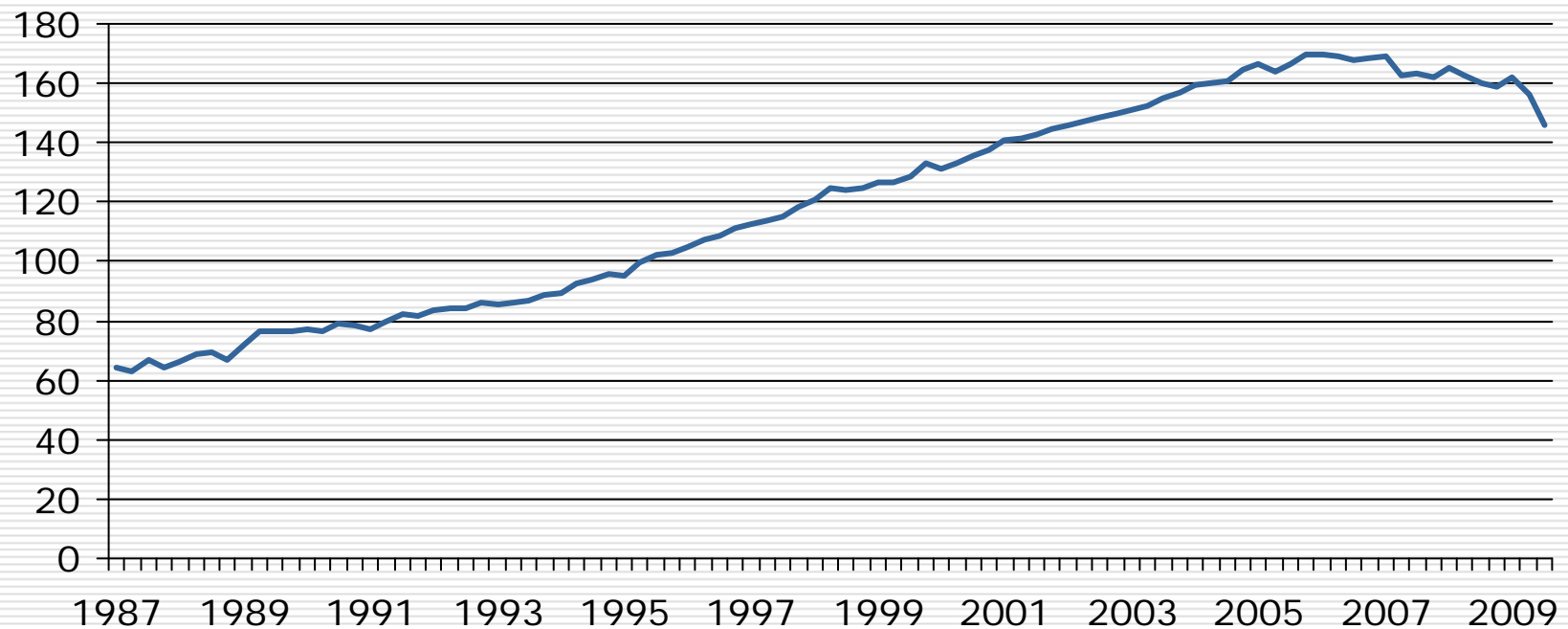


Source: U.S. Census Bureau: Manufacturing, mining, & construction statistics.

Note: 2009 is estimated year-to-date through November 2009 only.

And housing prices are dropping.

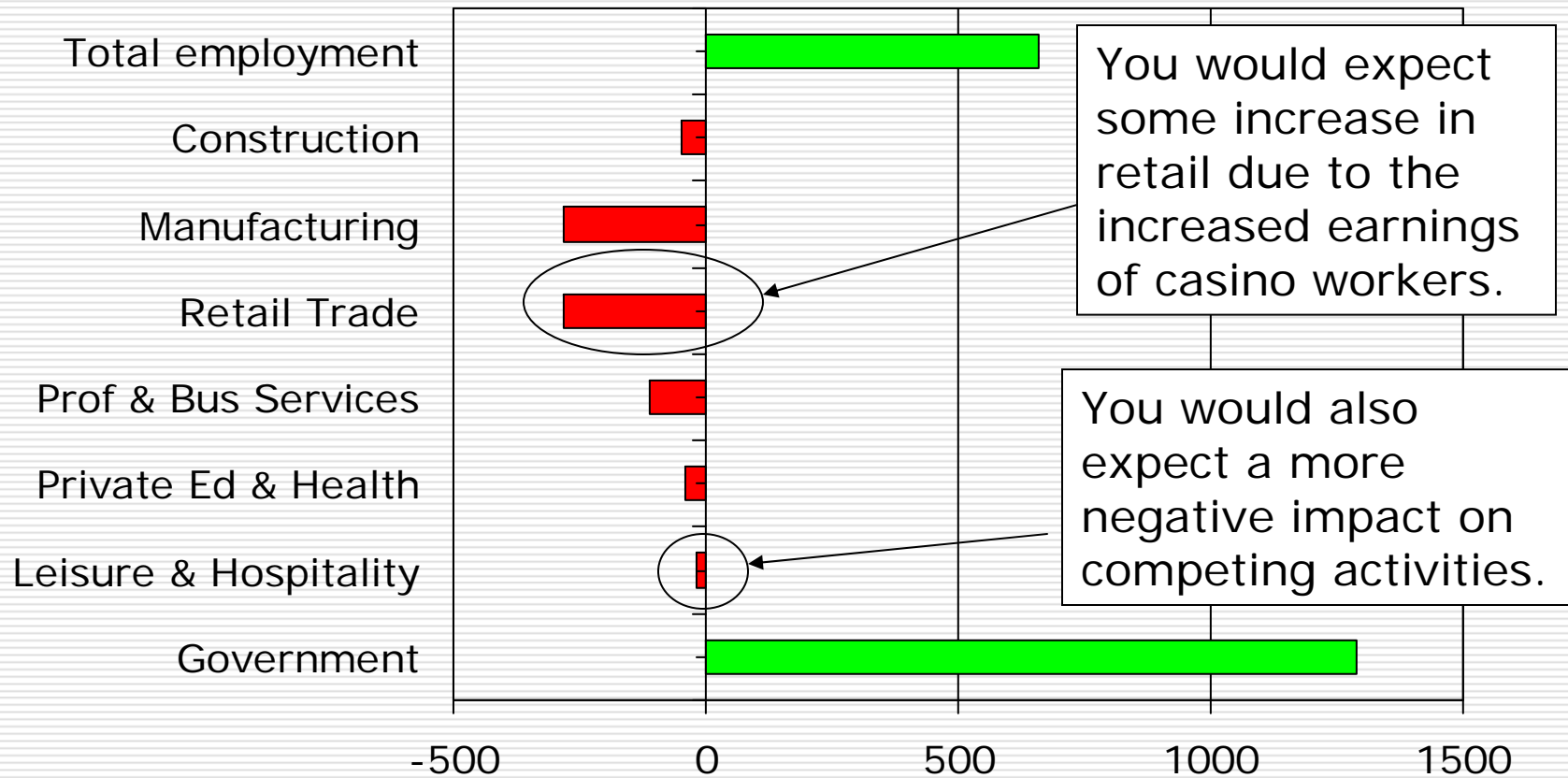
Battle Creek Housing Index
1995 = 100



Source: FHFA

Employment Change in the Third Quarter

The Firekeeper's Casino has had a clear impact.



The Impact of the Casino

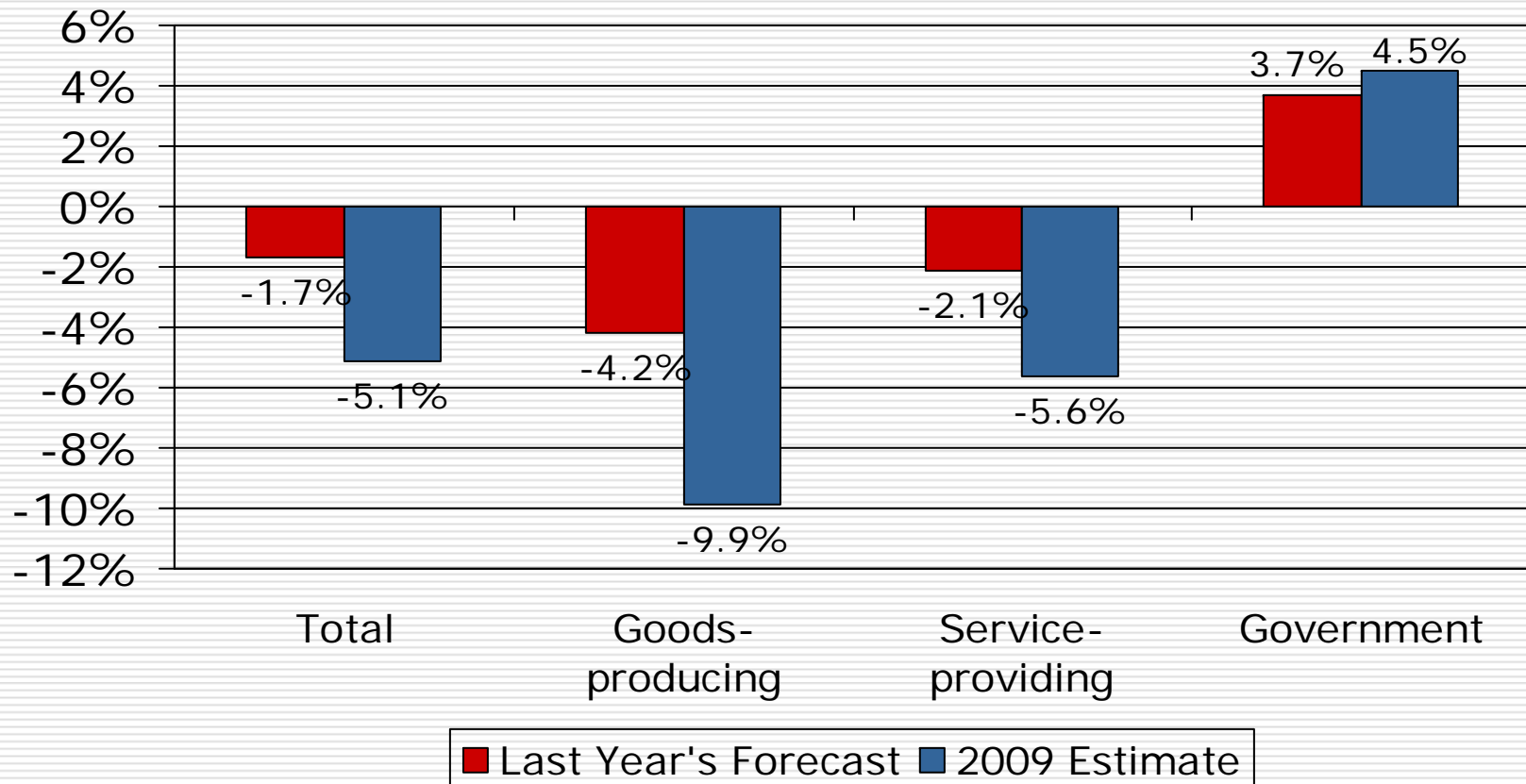
- No matter what your thoughts are about gaming, it does create jobs for the local economy.
 - Modest evidence of crowding out.
 - Modest evidence of a substantial multiplier effect.

Employment Forecast for 2010 and 2011

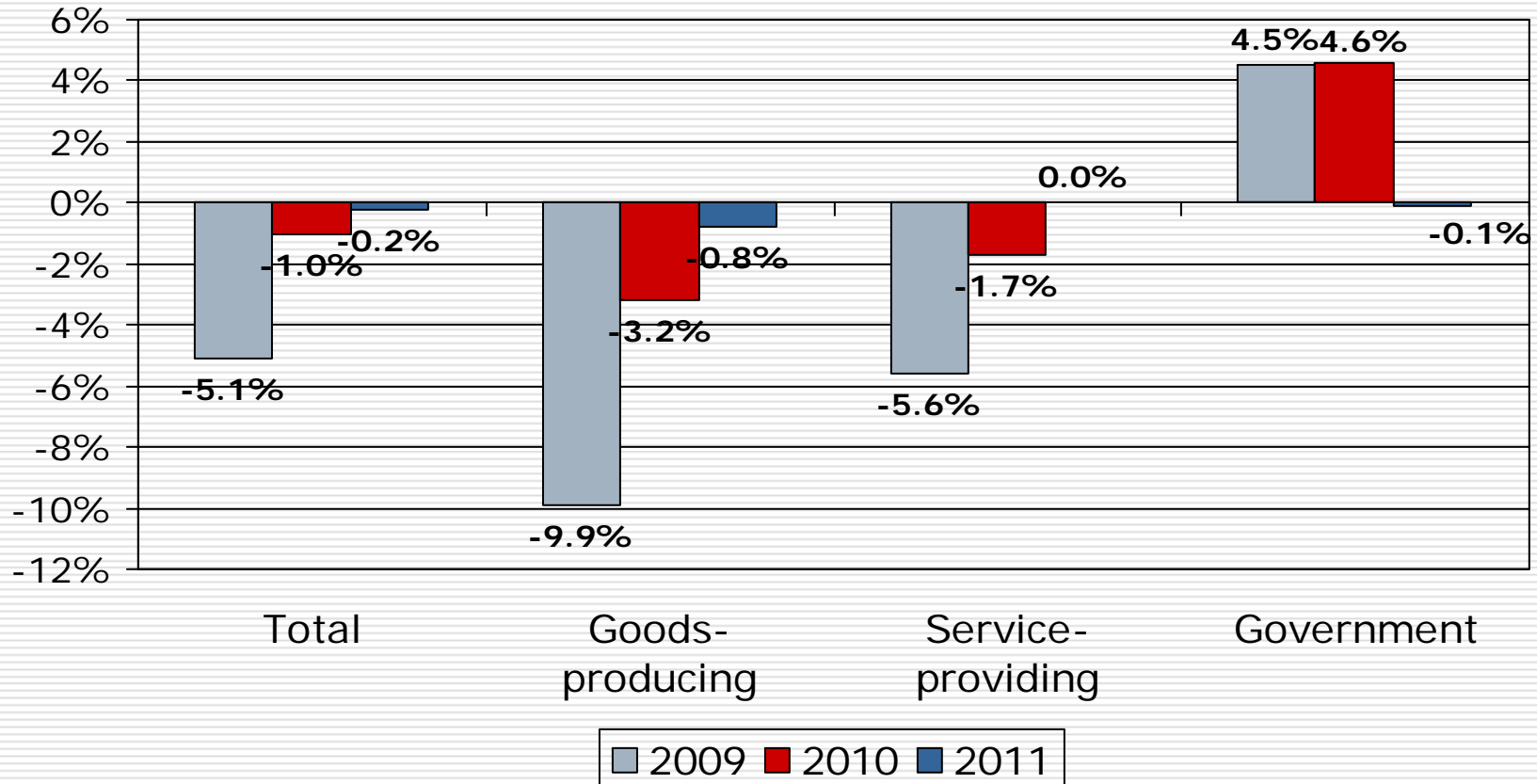
- A special thanks for the forecast advisory committee for taking the blame for last year's forecast.
-

So, how did we do last year?

Not great.



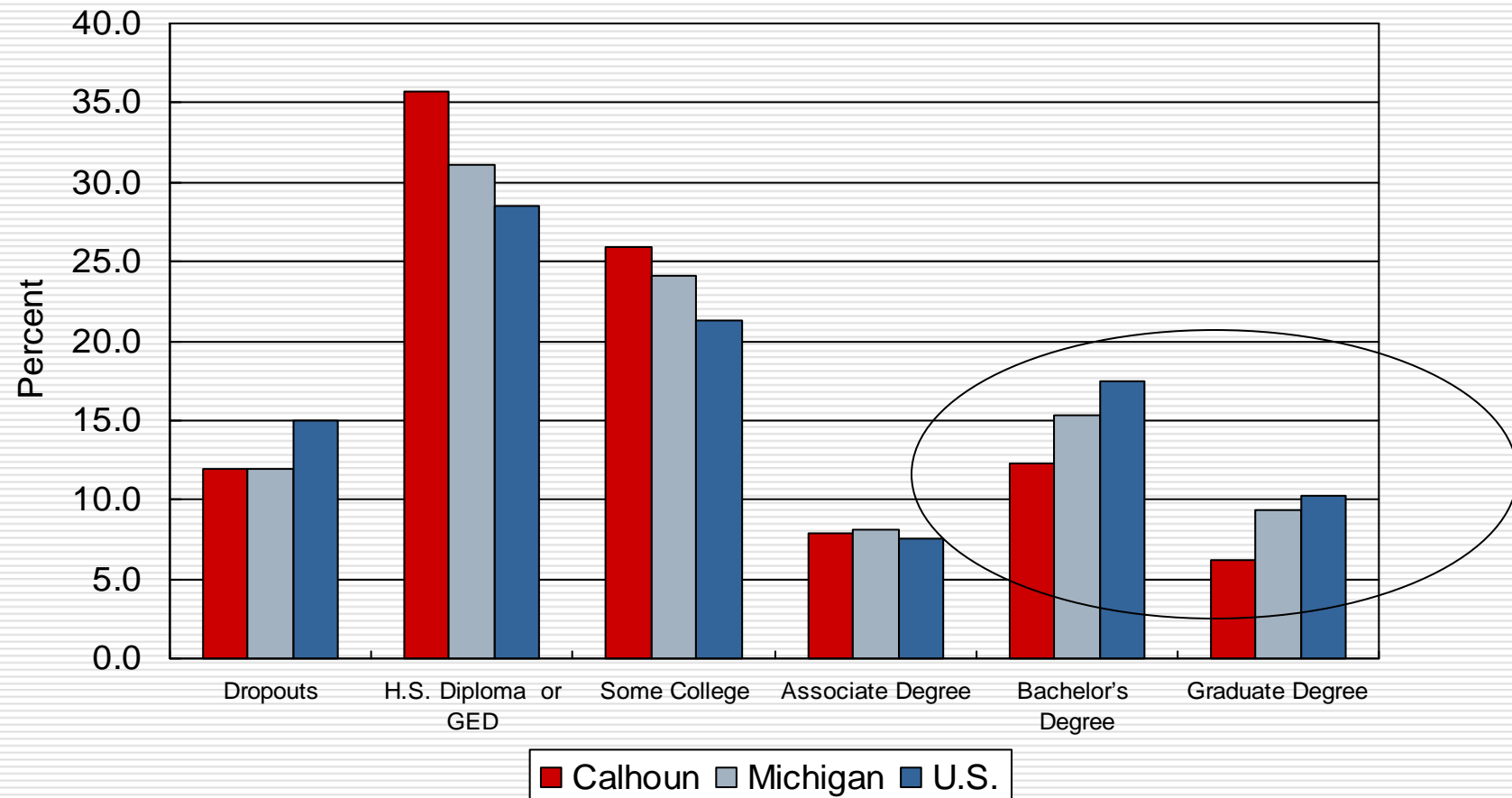
2010 and 2011 Forecast for Calhoun County—*Not out of the woods yet.*



So, what keeps me up at night?

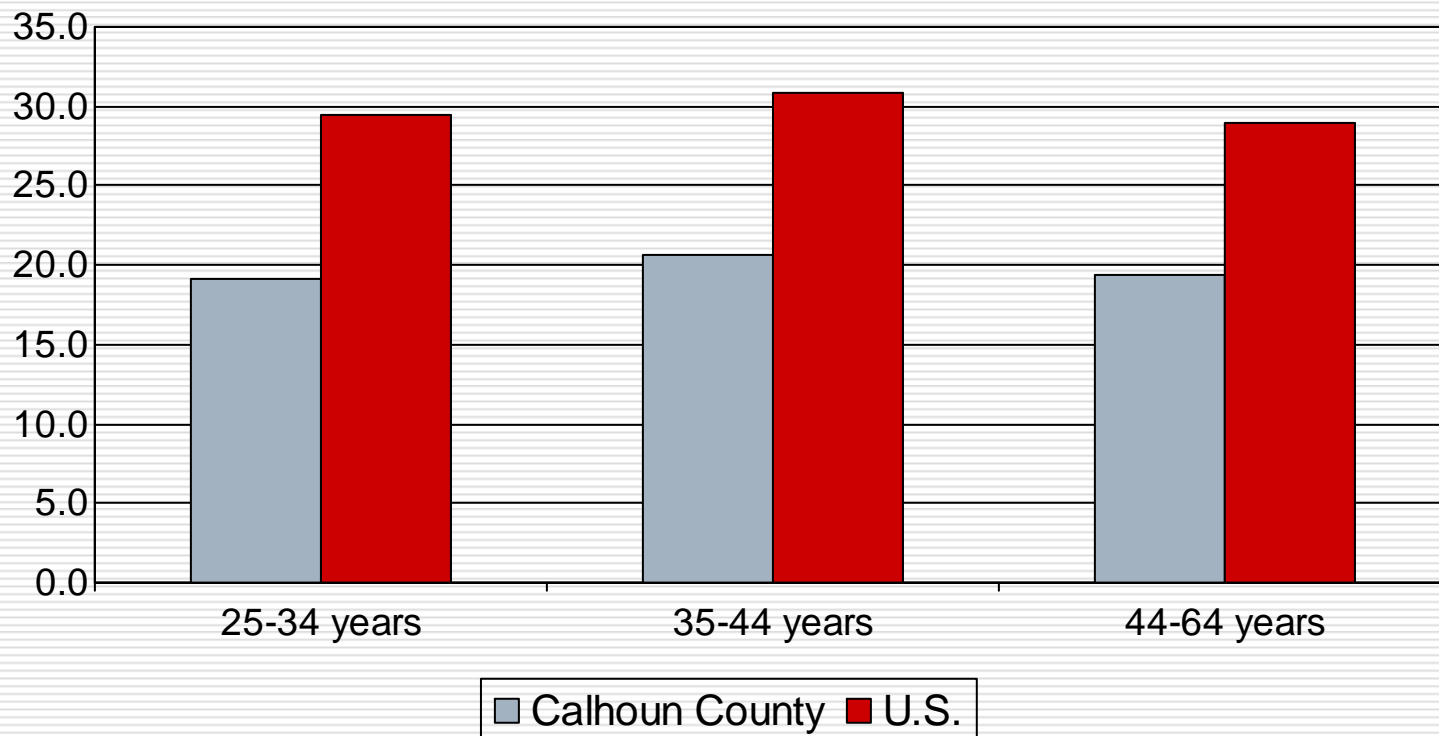
- Fear of the double-dip
 - What if current economic growth is simply inventory restocking?
 - Consumers are not in a good mood.
- Stagnation in education achievement.

Educational Attainment of Persons 25 Years and Older in 2008



We have hit a ceiling in education achievement.

Percent with a Bachelor's Degree or Higher in 2008



Challenges

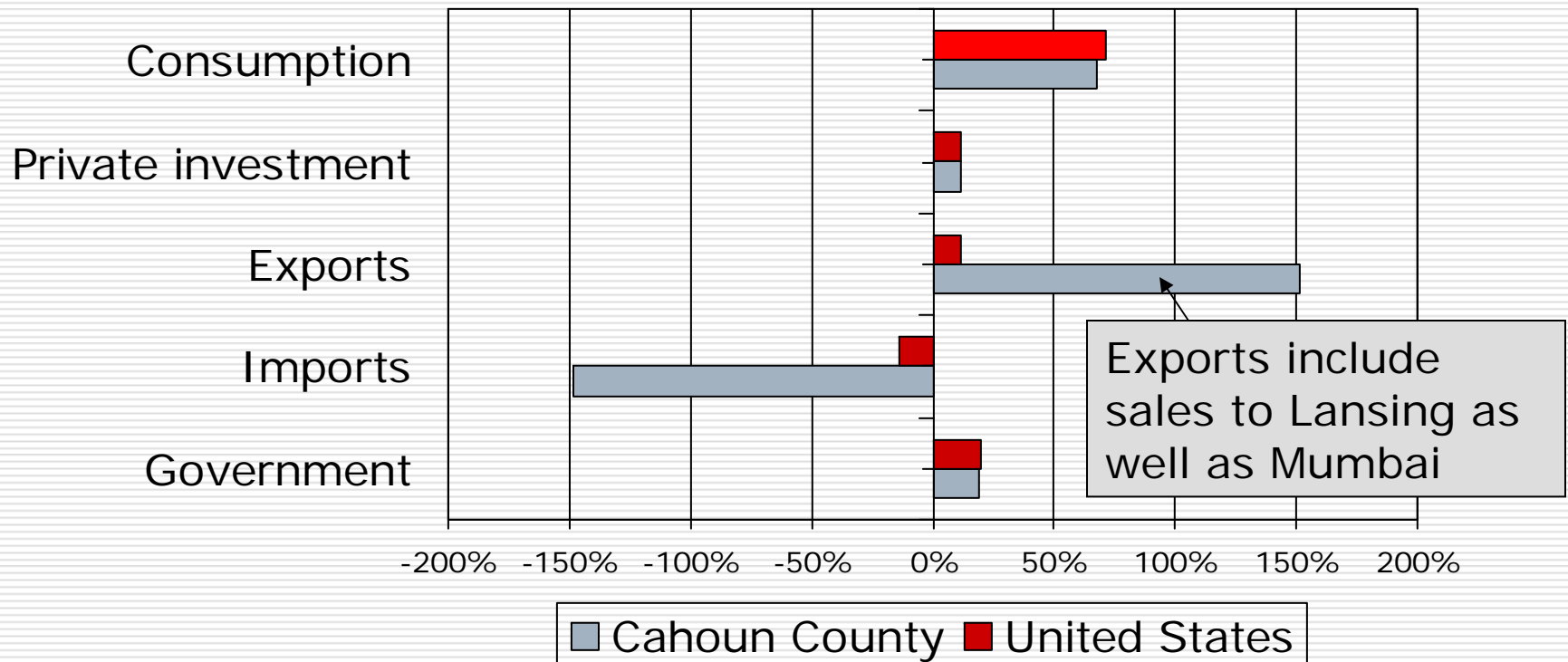
- Nationwide,
 - Approximately only 20% of all full-time community college students complete their coursework in three years—*for Kellogg Community College, it is 16%*
 - Only 50% of full-time, four-year college students get their Bachelor degree in six years.
 - Why:
 - Financial stress
 - Lack of career counseling
-

Thoughts about the Nation of Calhoun County

- ❑ A one-county country.
- ❑ No monetary policy: Statesdollars
- ❑ Fiscal policy:
 - Limited, due to balanced budget requirements.
 - Gets social assistance from United States government.

The country of Calhoun County is much more dependent on exports than the greater U.S.

Components of Gross Domestic Product



Like most all small countries, Calhoun County depends upon trade.

□ Growth options:

- Export more
- Import less: become more self-sufficient
- Attract more consumers

□ Questions to answer:

- What do we export?
- Who depends on exports?

What does the region export? *It is highly dependent upon food and autos.*

- Top two industries account for 67.8% of the regions exports. The top five, 75.0%
- Food products
- Auto suppliers
- Fabricated metals
- Machinery
- Mgt. of companies

- Top 10 account for 81.1%
- Outpatient health
- Broadcasting, except internet
- Printing
- Wholesale
- Nonmetallic products

Who depends upon the region's exports?

- Everyone, but 45 percent of the county's private sector's workers depend directly on exports.

| Export Dependent | | |
|-------------------------|-------|-------|
| Food Products | 5,980 | 92.4% |
| Auto Suppliers | 2,331 | 97.2% |
| Education | 1,084 | 76.4% |
| Fabricated Metals | 1,080 | 86.1% |
| Administrative services | 1,061 | 28.8% |

Policy Options for the Country of Calhoun County

- Import substitution
 - Can't put up tariffs.
 - Can build better networks.
- Attract more consumers
 - Can't lower taxes and maintain services.
 - Hard to provide better public services without raising taxes.
 - Quality of life factors are hard to move.

Leaves only one major option: *Increase exports.*

- Nearly all of the region's sectors export.
- Different markets
 - 17% of export employment depends on regional sales (*selection and expertise*)
 - 70% on national markets
 - 13% on international markets
 - Cost, quality, and design/innovation with, I believe, a growing importance on the latter.

Importance of Design

In our ongoing research on Design we have 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.

Calhoun County Economic Outlook 2010-2011

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January 7, 2010

This presentation is available in the West
Michigan section at

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