

# 2013–2014 Forecast for Calhoun County

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*2012 was not a good year.*

George A. Erickcek  
Brian Pittelko

W.E. Upjohn Institute for Employment Research

January 17, 2013

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***Consumers Energy***



**SEMCO ENERGY**



*For good. For ever. For all.*

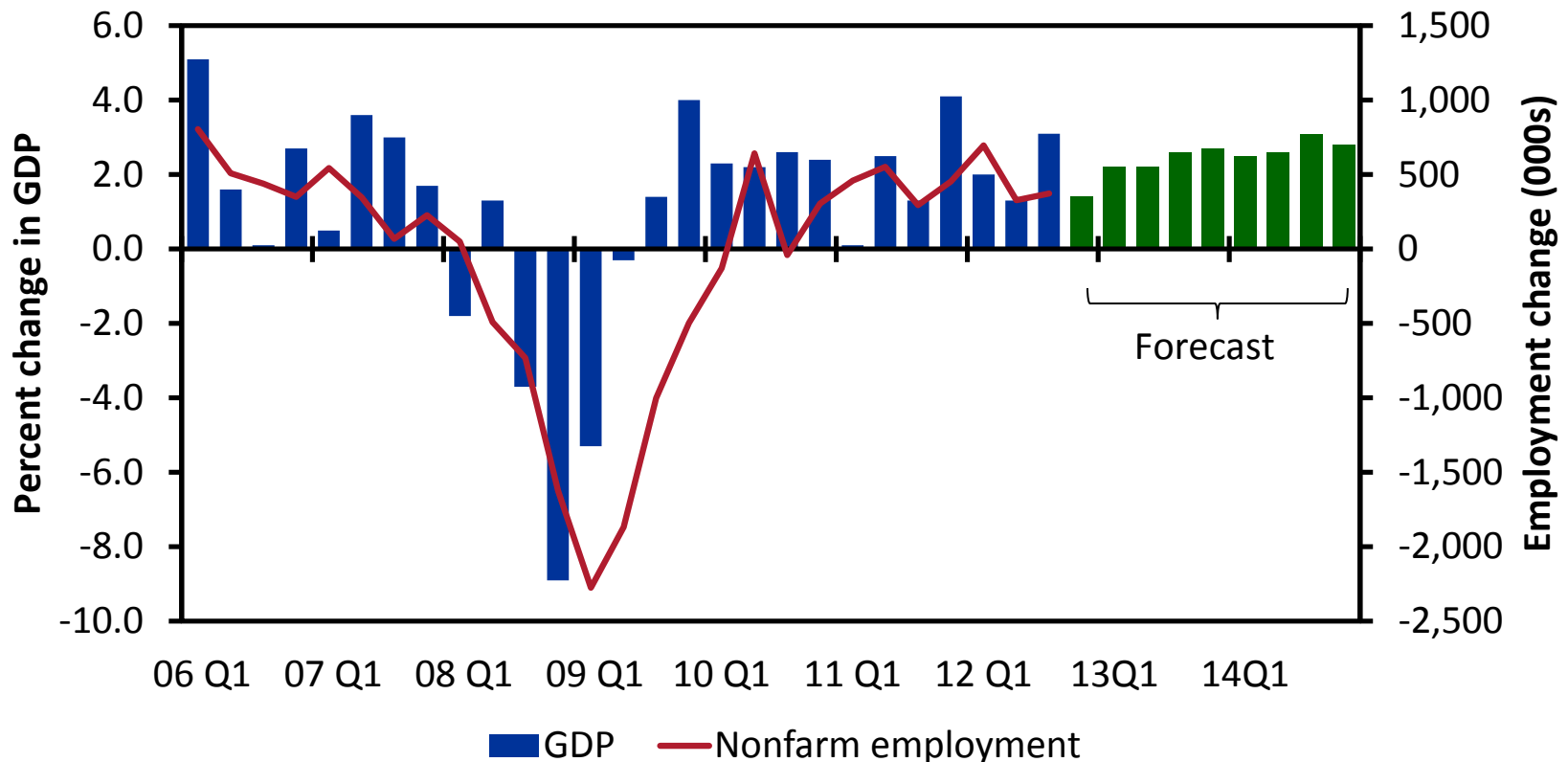
# Agenda

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- Looking at the usual suspects for economic growth
- The state economy continues to be driven by the car industry.
- Employment in Calhoun County was at a standstill in 2012.
- Stepping into the skill gap vs. wage gap debate.
- Comparison analysis with similar areas
- Review of last year's forecast—*a very quick review*
- Forecast for 2013 and 2014

Nationwide, GDP grew at a strong 3.1% rate during the third quarter. *However, the forecast is pretty boring.*

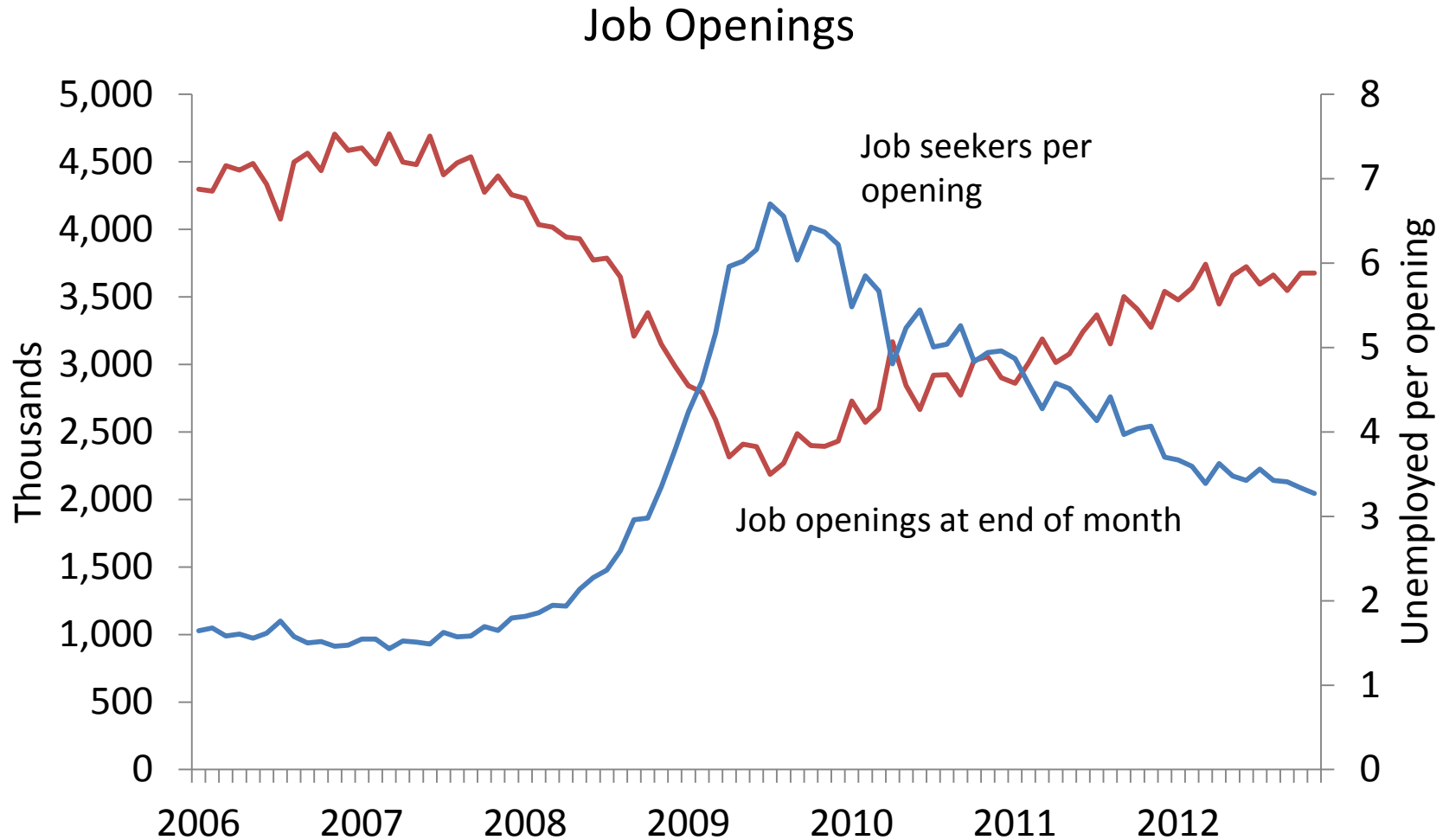
**Gross Domestic Product and Nonfarm Employment**



If this forecast holds, productivity will generate much of the nation's output.

Source: BEA, University of Michigan RSQE forecast.

There are still three job seekers for every job opening, up from less than two before the recession.



# Looking for a power source: *the usual suspects*

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Consumers

Export  
Market

Business  
Investment

Government

# Looking for a power source

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Consumers

Consumer confidence is at a low level.

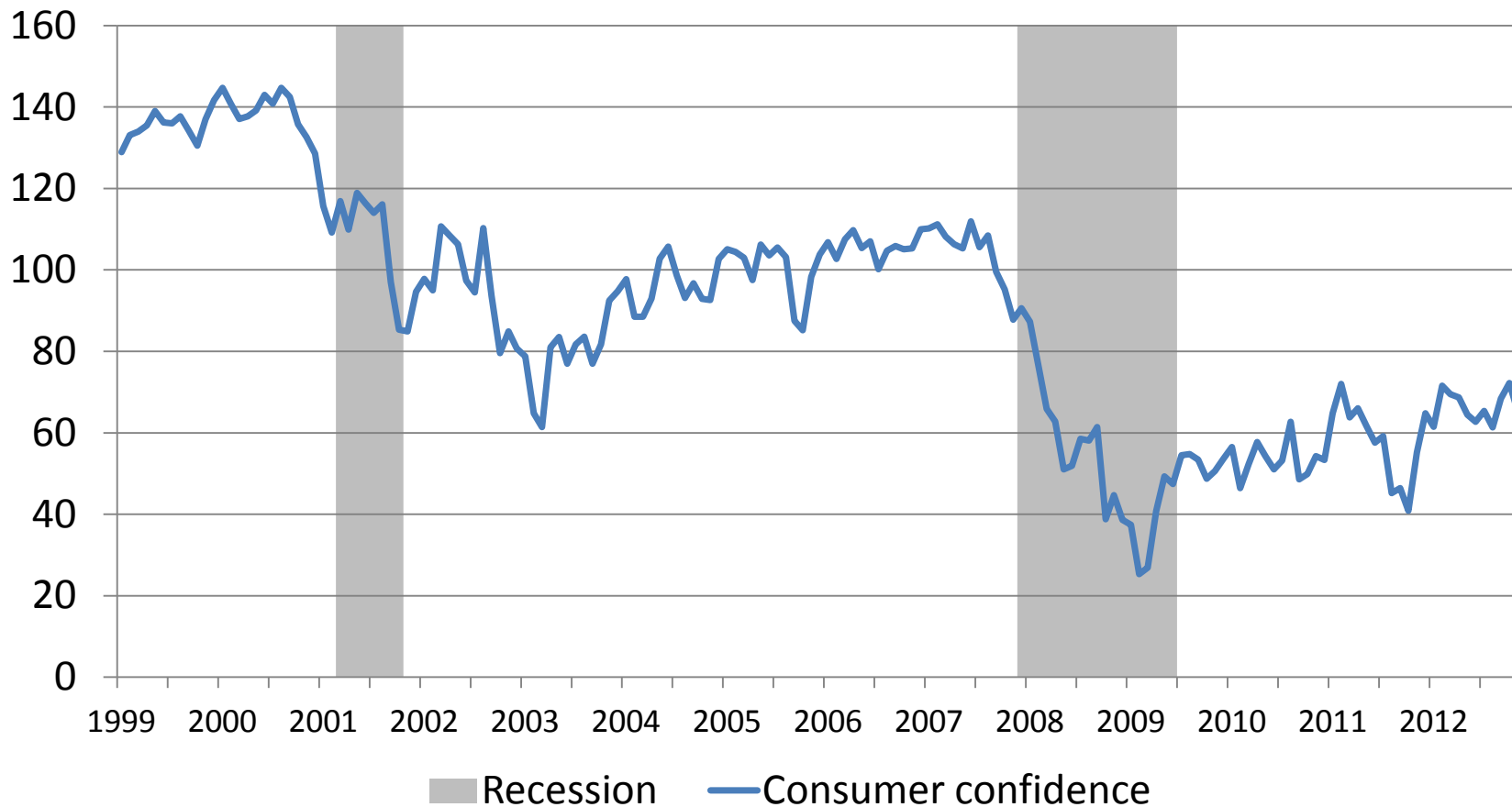
Debt levels have increased.

Employment growth is improving.

The housing market is improving but prices are still low.

# Consumer confidence is growing but still weak.

Consumer Confidence 1999 to Present

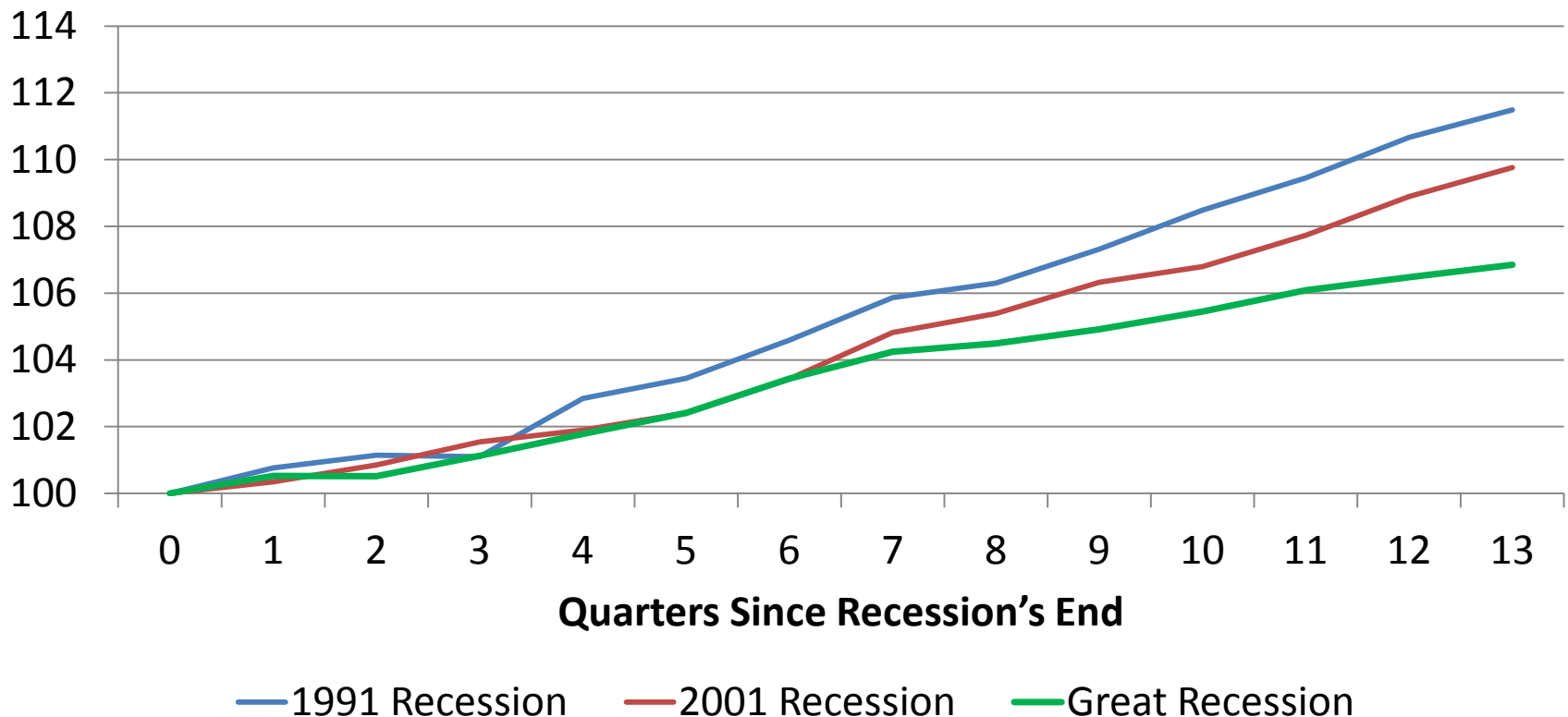


Source: Conference Board and NBER.



# Consumer spending is not as robust as previous recoveries.

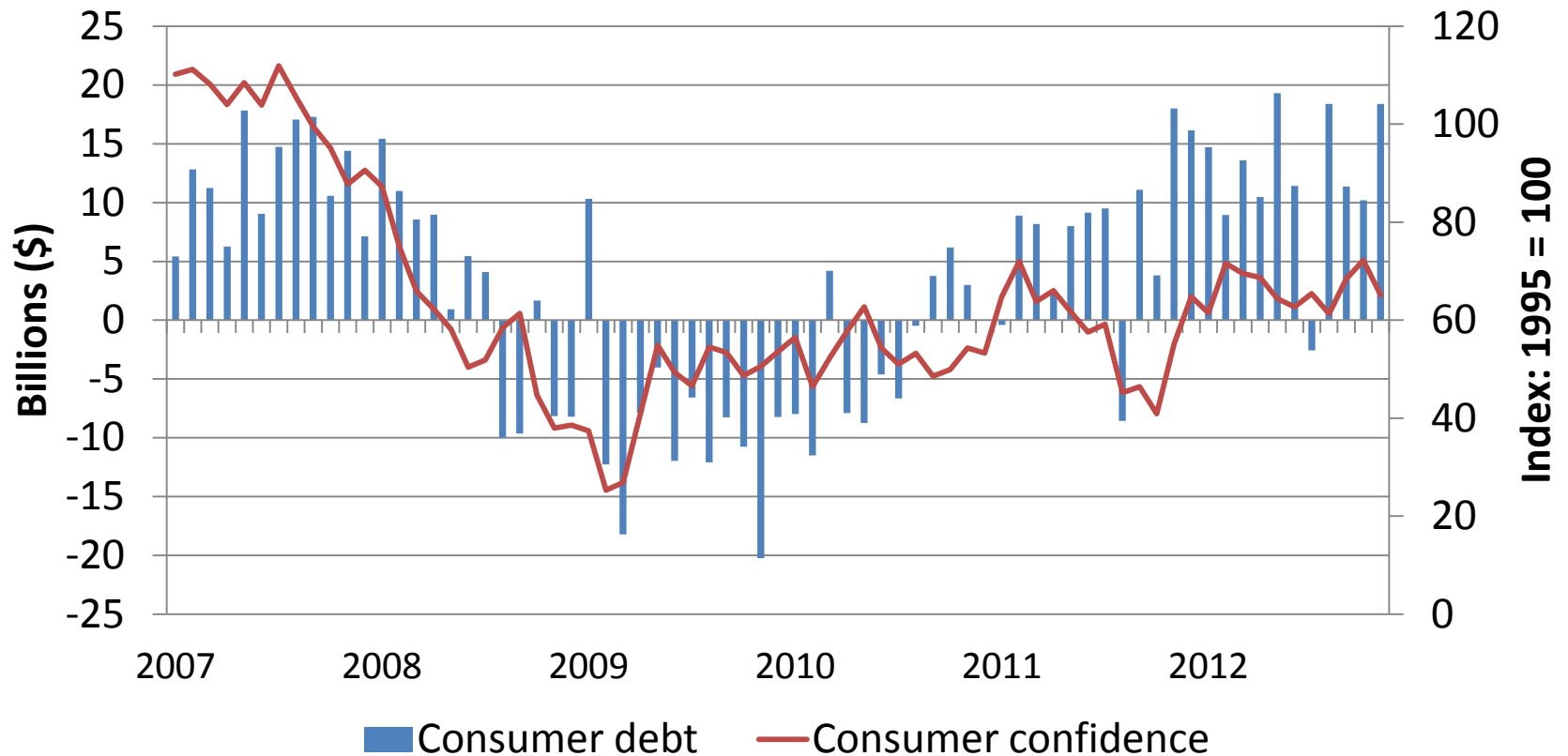
**Post Recession Index, Last Quarter of Recession = 100:  
Consumer Expenditures**



Source: BEA and NBER.

# Consumers appear to be unhappily in debt.

## Consumer Confidence and Change in Consumer Debt



Source: Conference Board and the Federal Reserve

# Conditions appear to be improving: employment is on the rise.

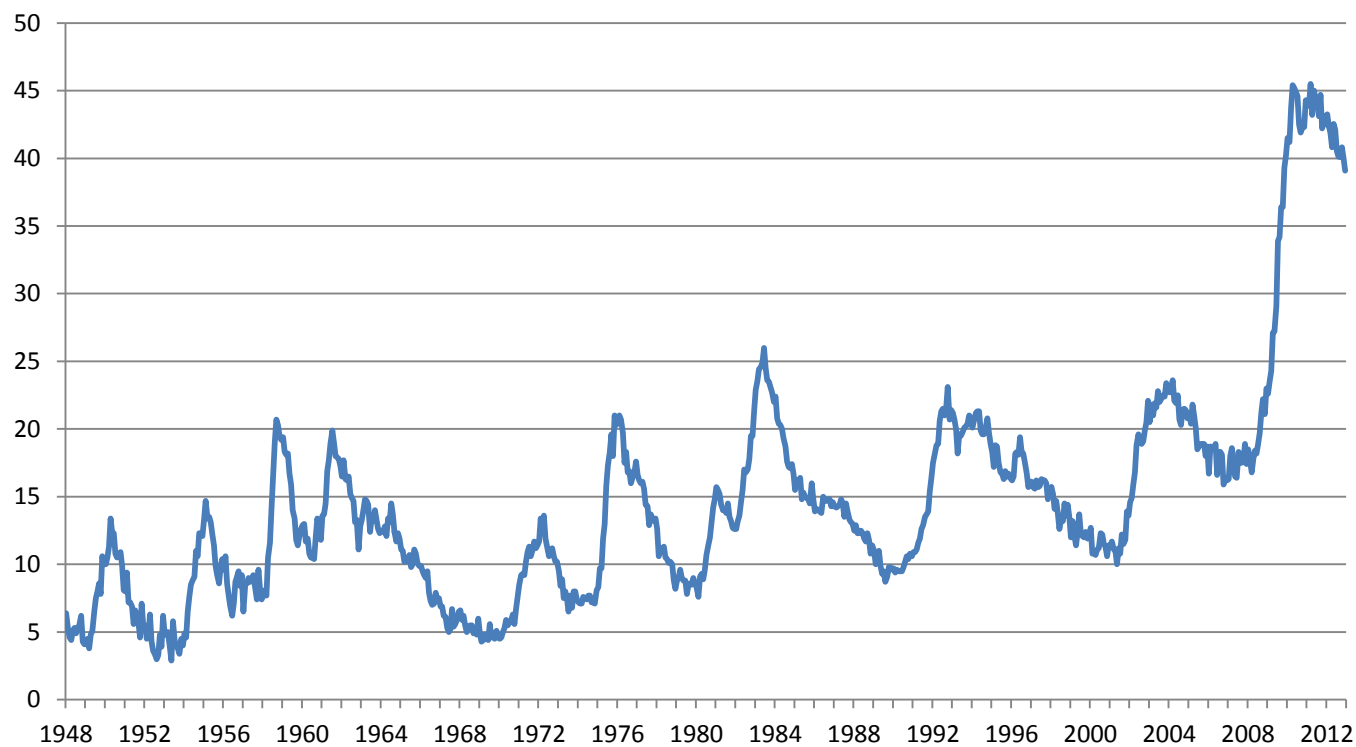
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- Employment— *In December 155,000 net jobs were created, and we need 150,000 jobs per month just to break even.*
- In 2012, employment gains have averaged 157,000 per month, compared with an average monthly gain of 153,000 in 2011.
- Nationwide, the unemployment rate is now 7.8. *However, the labor participation rate is down to 63.6% from a low of 64.1% last year.*

Being unemployed for more than six months is bad for your health. *The good news is that it is going down.*

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Percent Unemployed for More Than 27 Weeks



# Looking for a power source

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## Business Investment

Depends upon consumer spending and was down in the third quarter

The Fed has been extremely aggressive lowering interest rates and increasing liquidity.

Loan activity appears to be “normal.”

# Business investment is up but dipped in the 3<sup>rd</sup> Quarter.

Post Recession Index, Last Quarter of Recession = 100:  
Nonresidential Private Investment

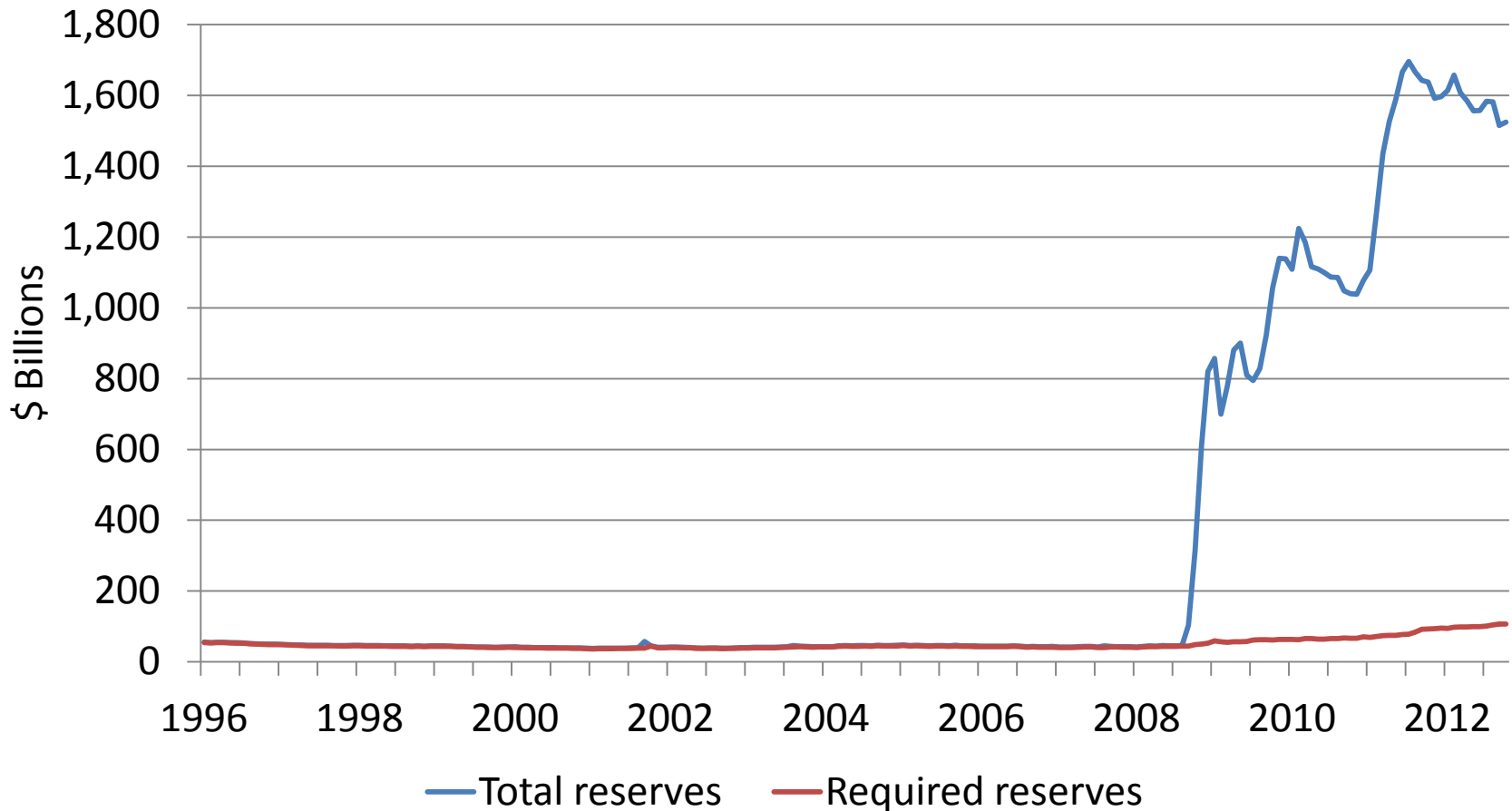


Source: BEA and NBER.

\*Includes residential

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

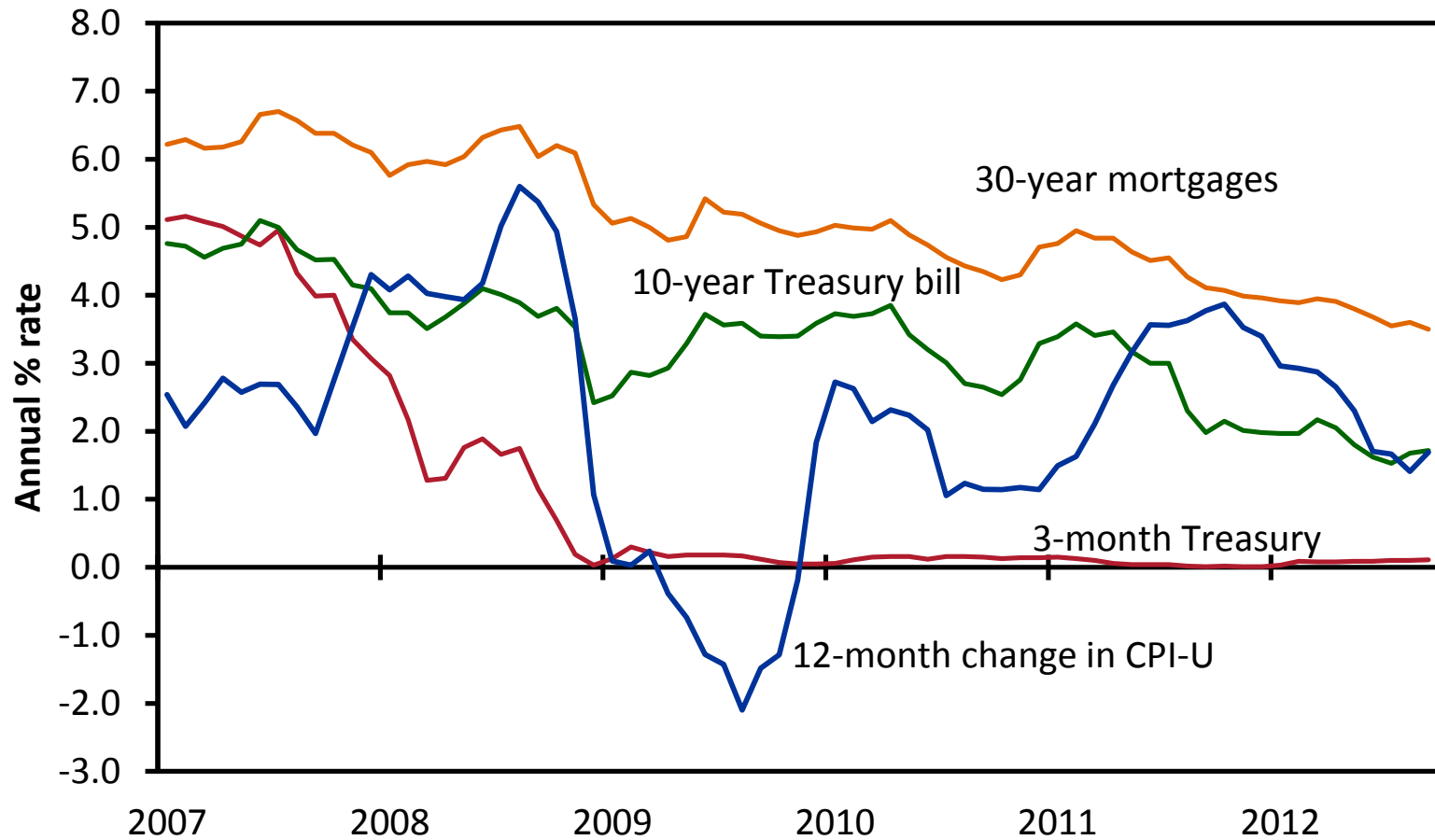
Total and Required Reserves at the Federal Reserve



Source: Federal Reserve.

# Interest rates must matter

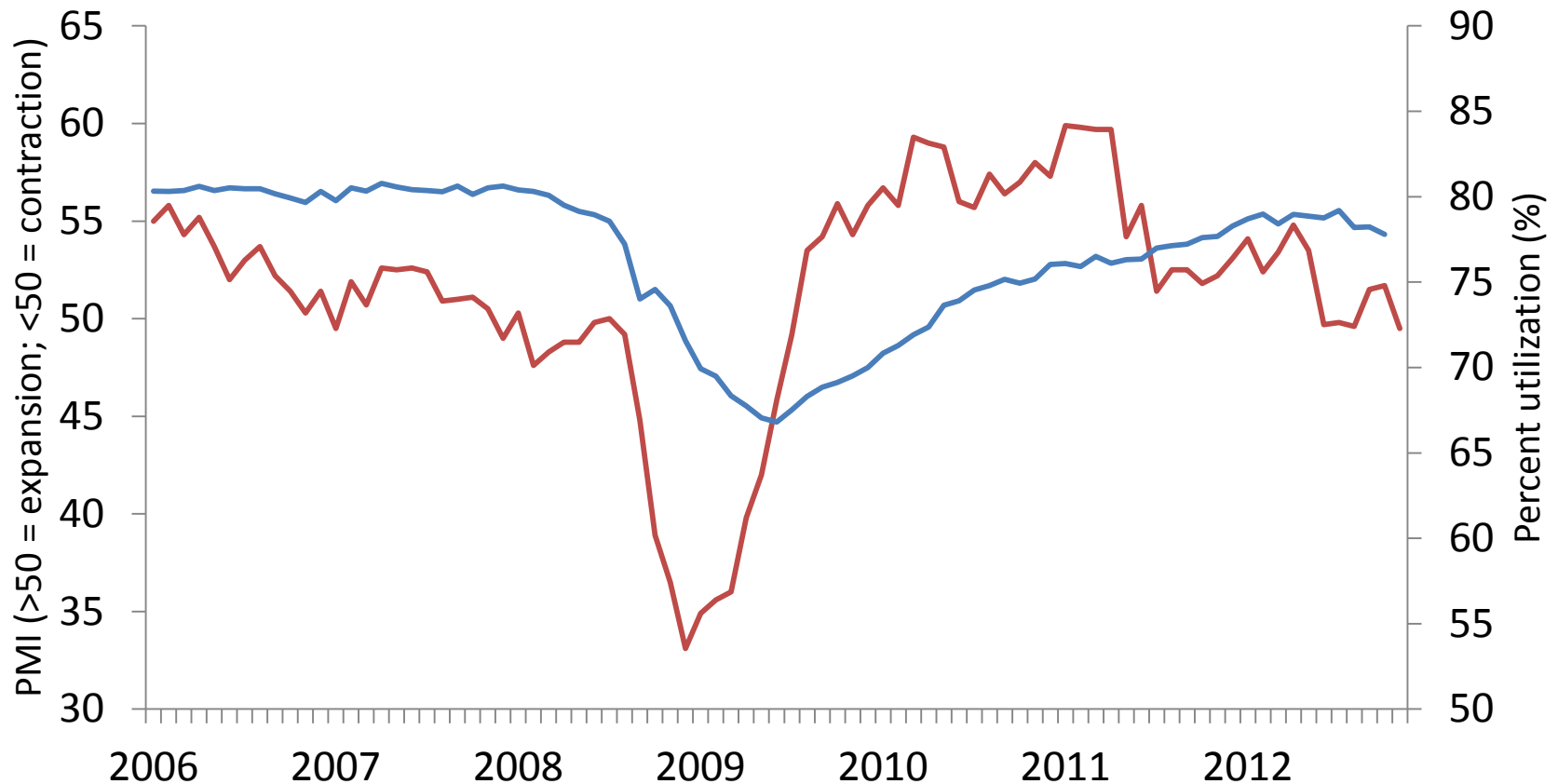
## Interest Rates and Inflation





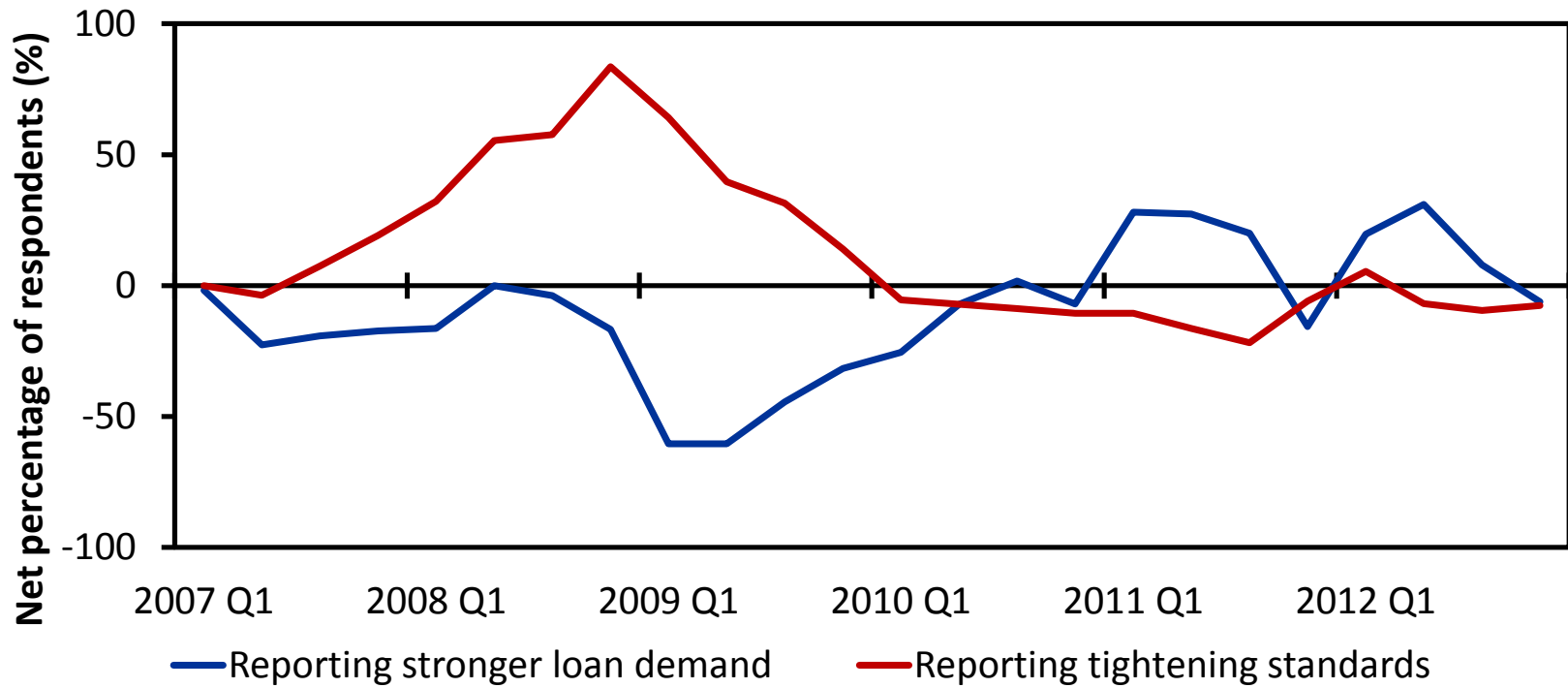
# Manufacturing activity has slowed but capacity utilization rates are tightening.

**Purchasing Managers' Index for Manufacturing  
and Industrial Capacity Utilization**



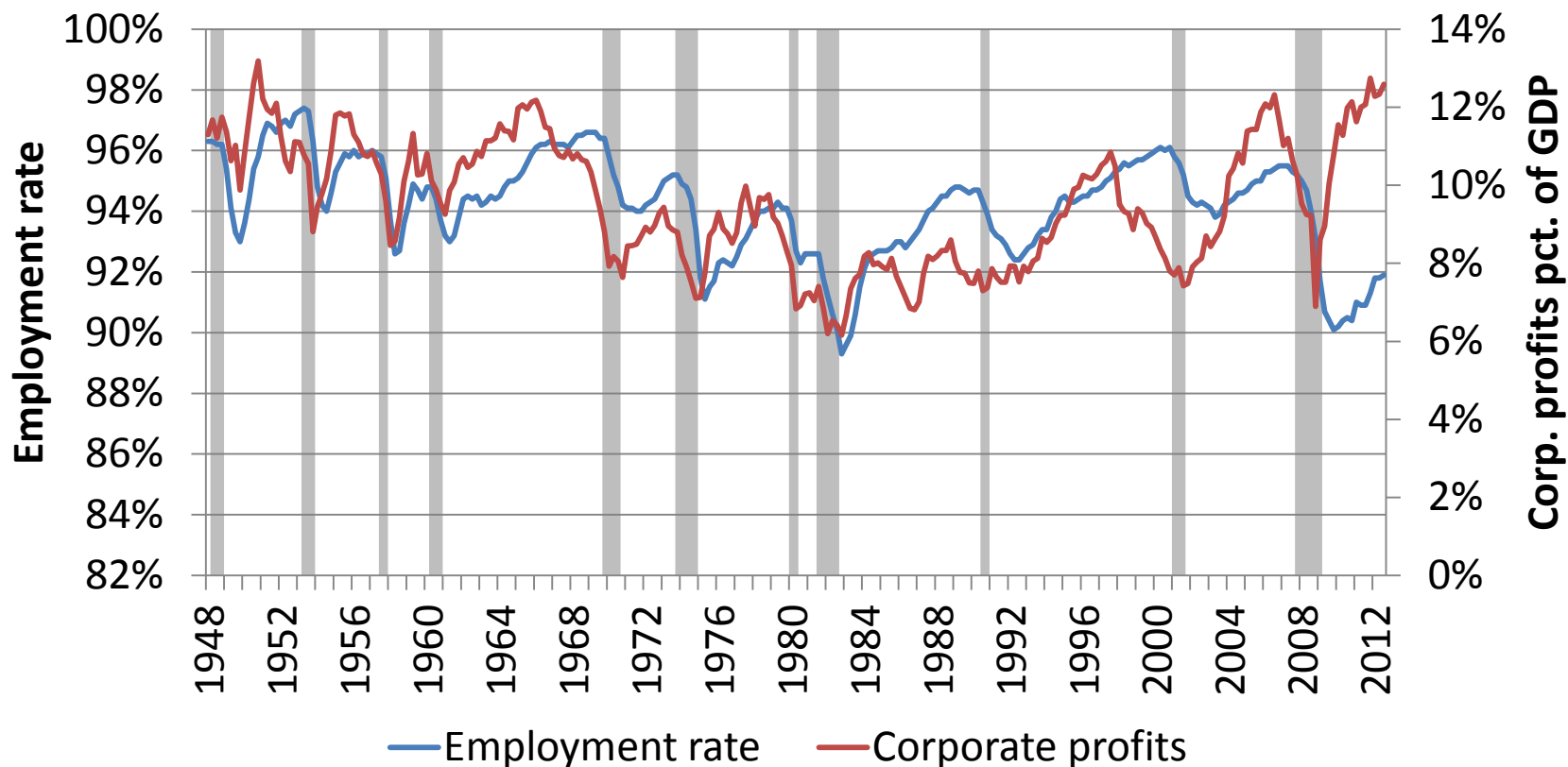
# Loan activity appears soft.

**Federal Reserve Senior Loan Officers Survey  
Demand and Lending Standards for Commercial and Industrial  
Loans by Medium-to-Large Firms**



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

Employment Rate and Corporate Profits



# Looking for a power source

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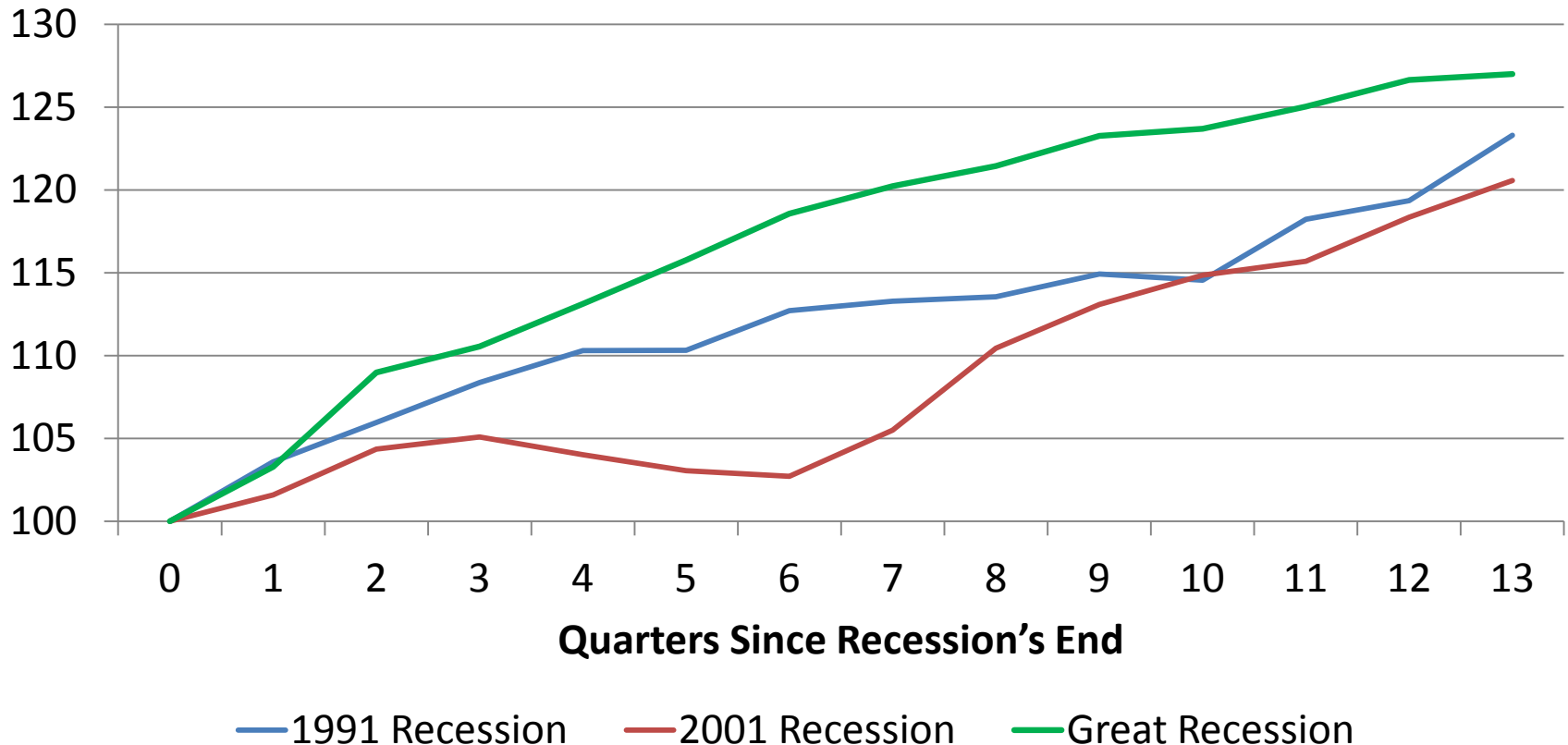


Export  
Market

Questions about the  
health and stability of  
the Eurozone

# Export growth is strong.

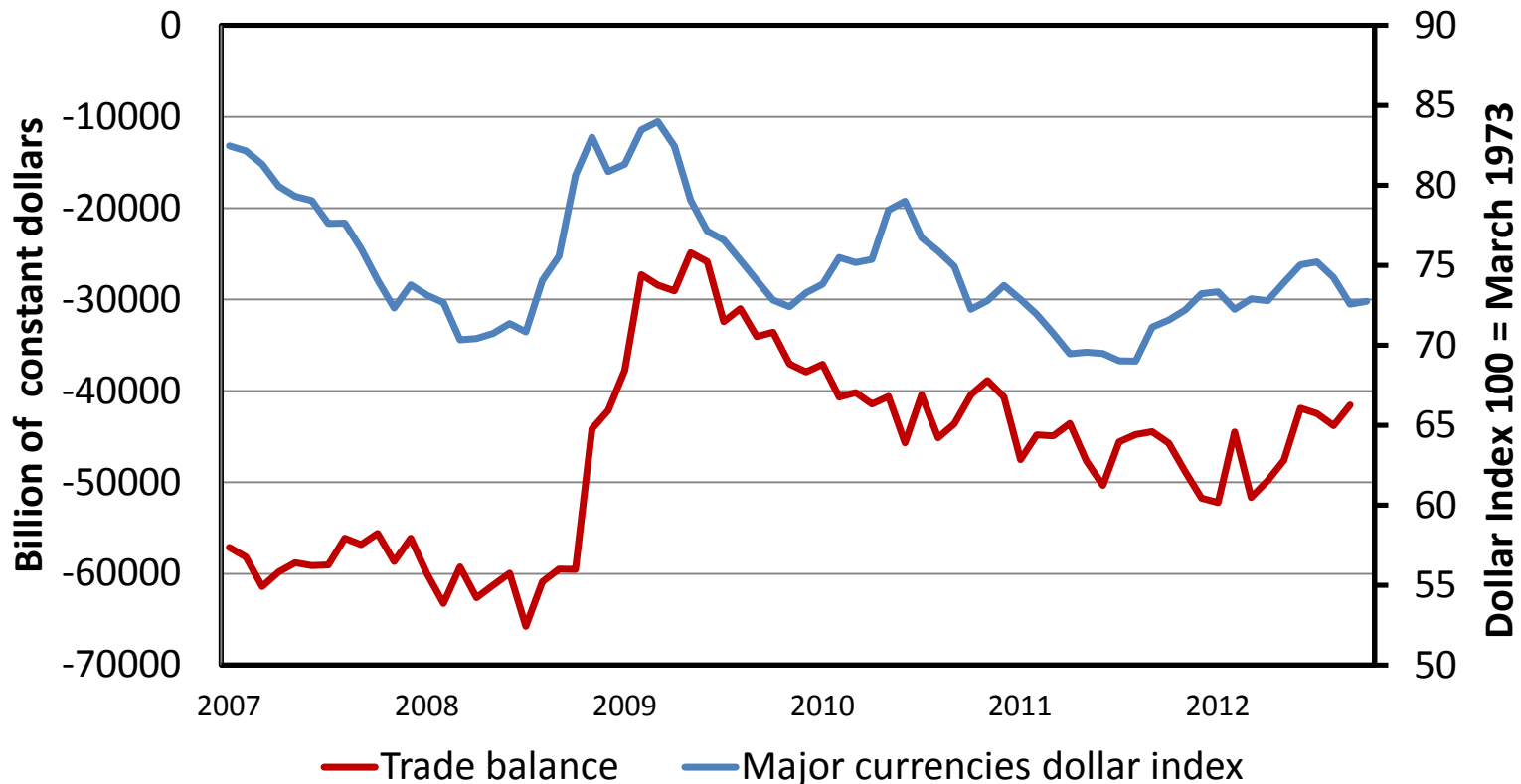
## Post Recession-Index, Last Quarter of Recession = 100: Exports



Source: BEA and NBER.

# Both the value of the dollar and the U.S. trade balance are holding steady.

## U.S. Trade Balance and Nominal Index of the Value of the Dollar against Seven Major Currencies



# Looking for a power source

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Government

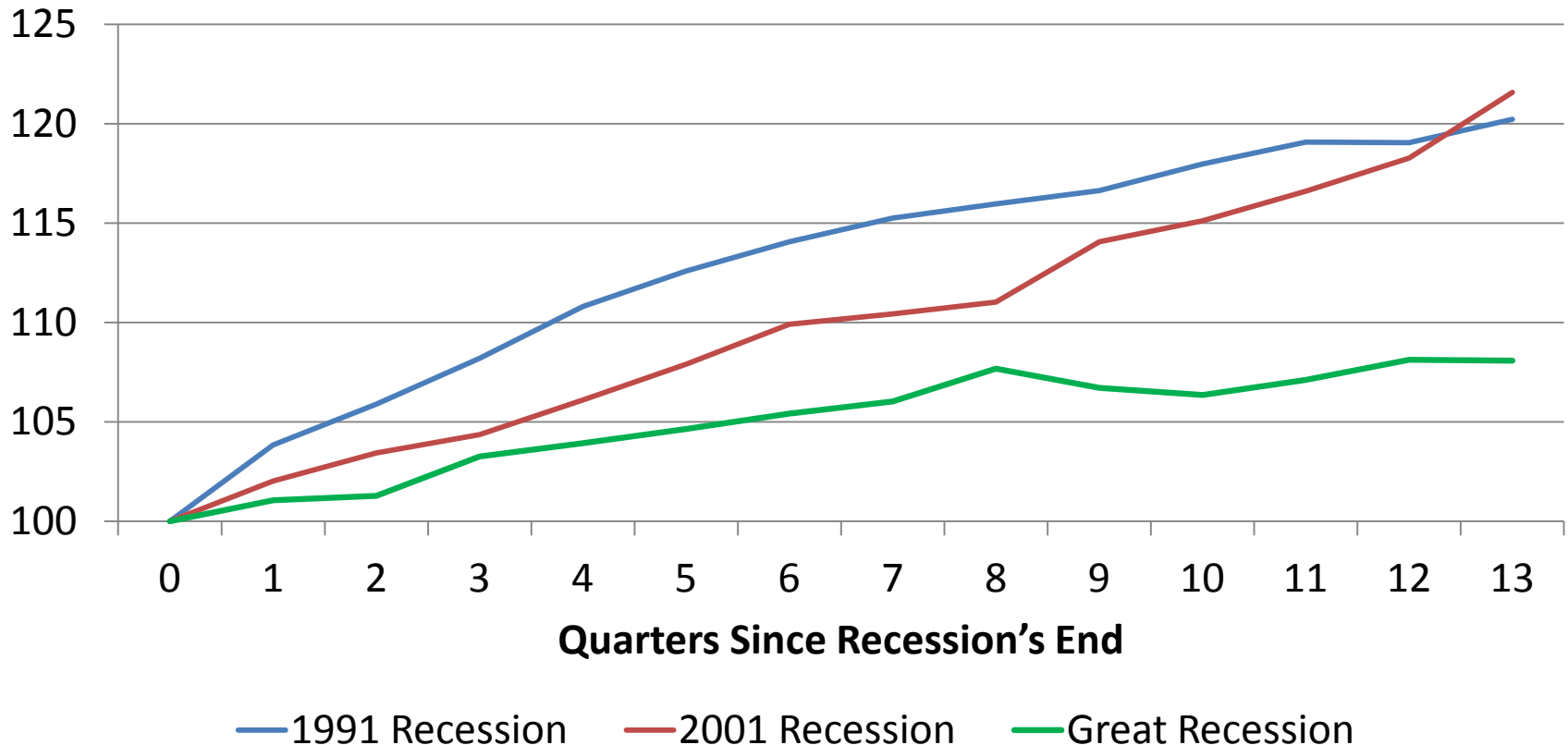
Are you joking?

The Federal Government is at an impasse.

State governments are still struggling.

# Government spending is down from past recoveries.

**Post Recession Index, Last Quarter of Recession = 100:  
Government Expenditures and Investment**



Source: BEA and NBER.



# Clouds on the horizon

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- In Washington, only one side of the coin has been addressed: revenues. *Now comes that hard part.*
- Europe is a never-ending story of struggle, China is slowing down, *and international uncertainty reigns.*
- We remain in unknown territory.
  - *Too many people have been unemployed for too long.*
  - *National banks are holding too much cash.*
  - *Corporate profits are no longer tied to employment growth.*

# What about the other stuff?

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- However, housing may be climbing out of the basement. *Home prices went up 4.3% in October from a year earlier according to S&P/Case-Shiller.*
- Prices are up by only 1.7 percent from a year ago. *Still quiet.*
- Few, if any, forecasters are calling for a recessionary slowdown.
- The Fed launched the QE3. *It is buying \$40 billion in mortgage-backed securities every month and keeping low-term rates near zero until mid 2015.*

# Turning to Michigan

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- Employment continues to grow.

*Year to Date (up to Nov):*

*49,950 total jobs created, up 1.3%*

*19,670 manufacturing jobs, up 3.9%*

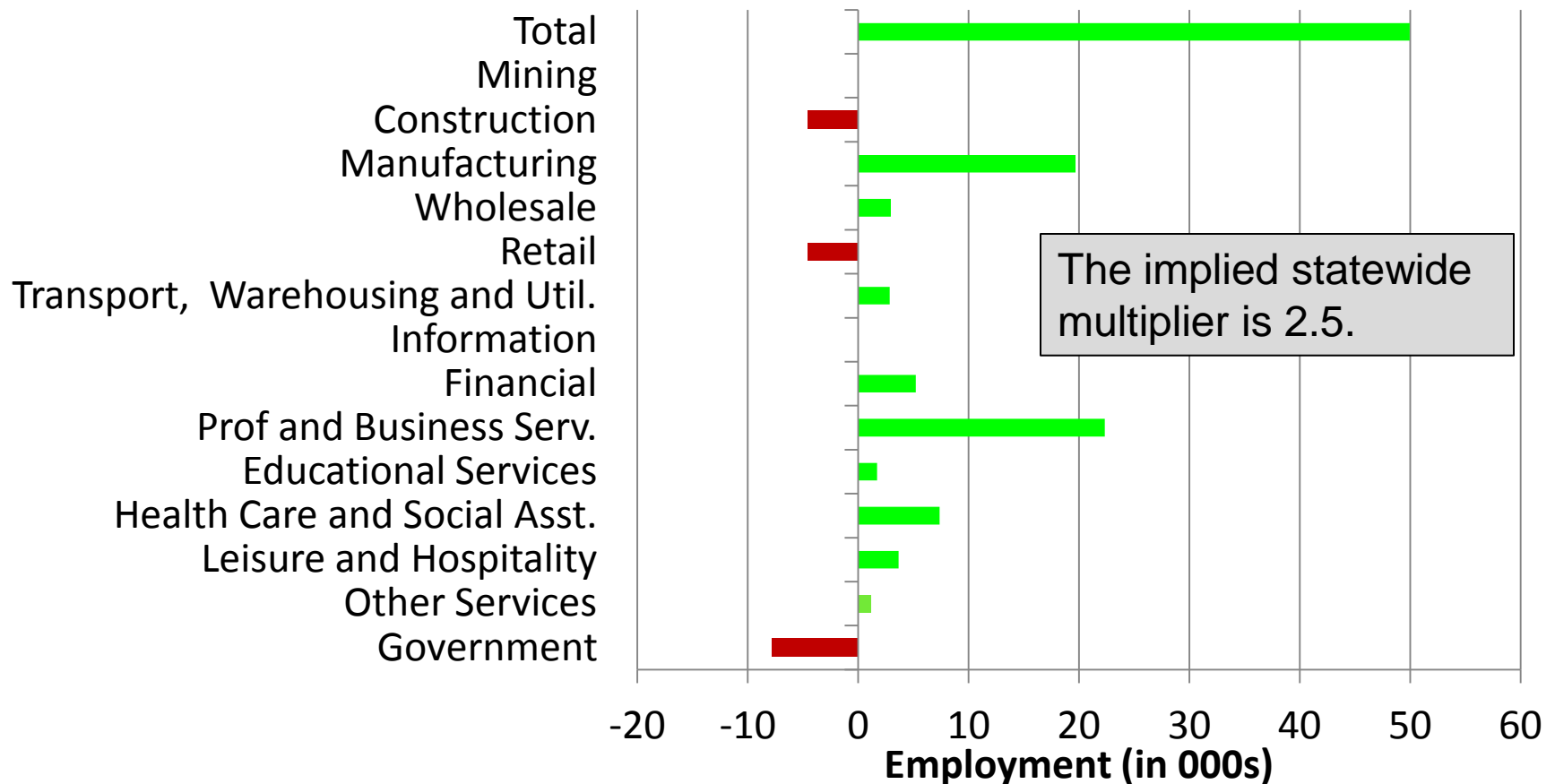
- U of M's Forecast is ***positive***.

*37,500 additional jobs in 2013*

*57,600 additional jobs in 2014*

# Manufacturing is powering the state economy, through its multiplier effect.

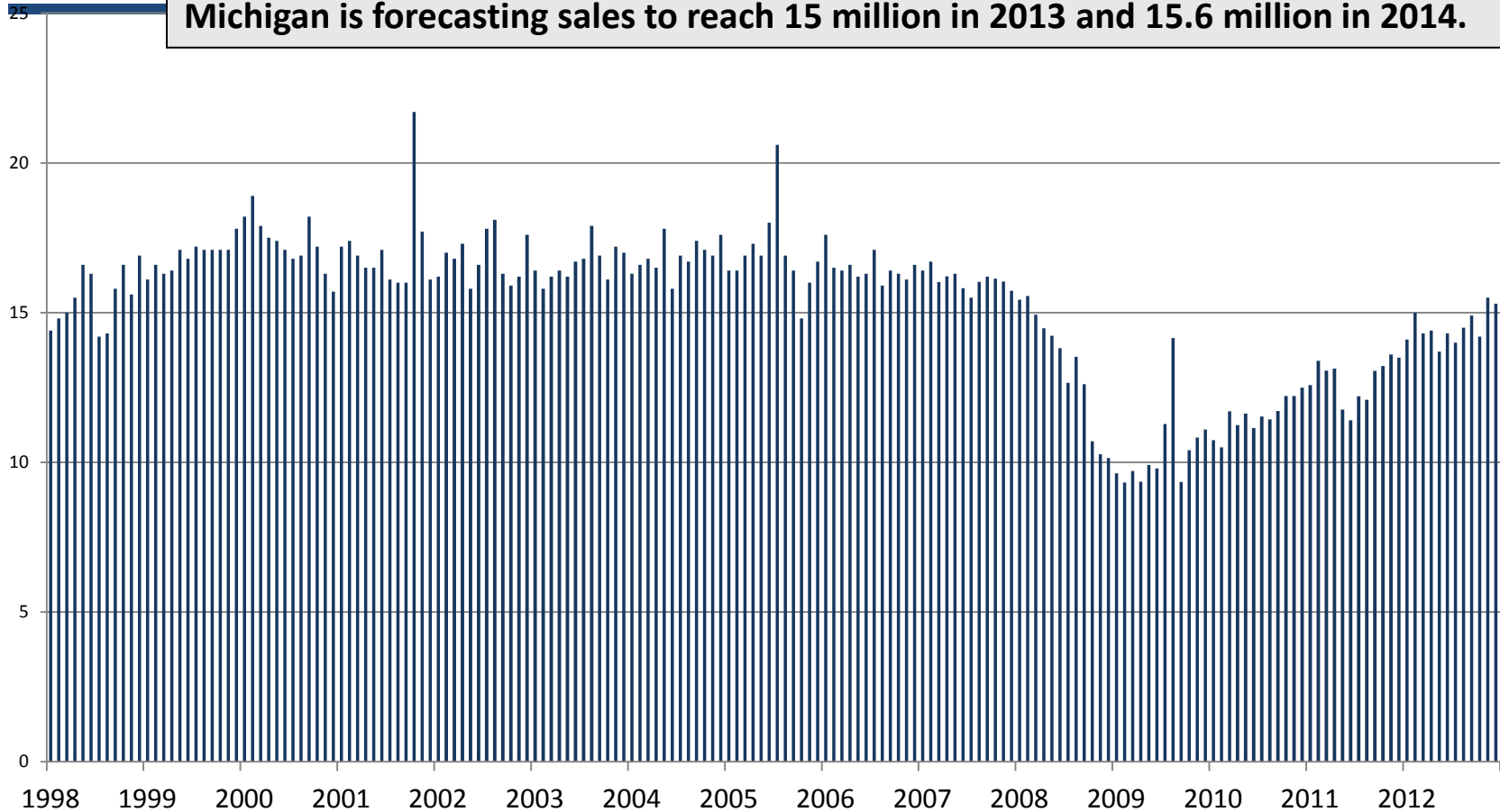
## Employment Change Jan–Nov 2011 to Jan–Nov 2012



Source: Michigan Labor Market Information, CES.

# Auto sales continue to pick up.

Car and light truck sales reached 14.3 million units in 2012. The University of Michigan is forecasting sales to reach 15 million in 2013 and 15.6 million in 2014.



Source: BEA.

# How about buying a car?

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- Comerica Auto Affordability Index – *rising slightly*
- Auto interest rates – *remain low*
- Average age of cars on the road – *more than 11 years, older than ever*
- Average price of used car – *rising*

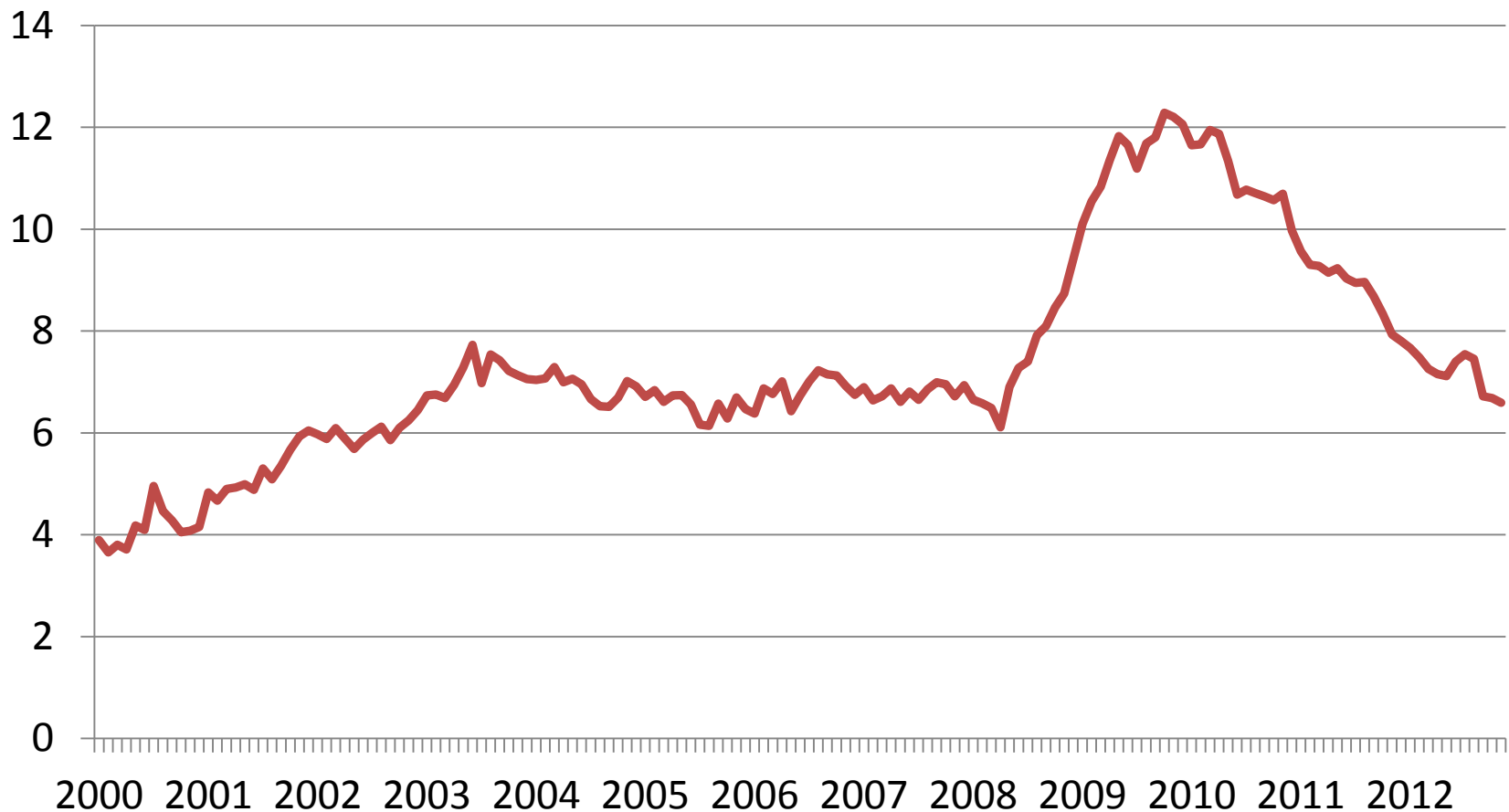
# Turning to Calhoun County

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- Not a good year.
- Unemployment fell but for the wrong reason.
- The area's manufacturing sector is growing, but there is a strong weakness in its private services sector.
- Conflicting labor market statistics on wages and skills
- Lagging similar areas

# The county's unemployment rate has reached pre-recession levels.

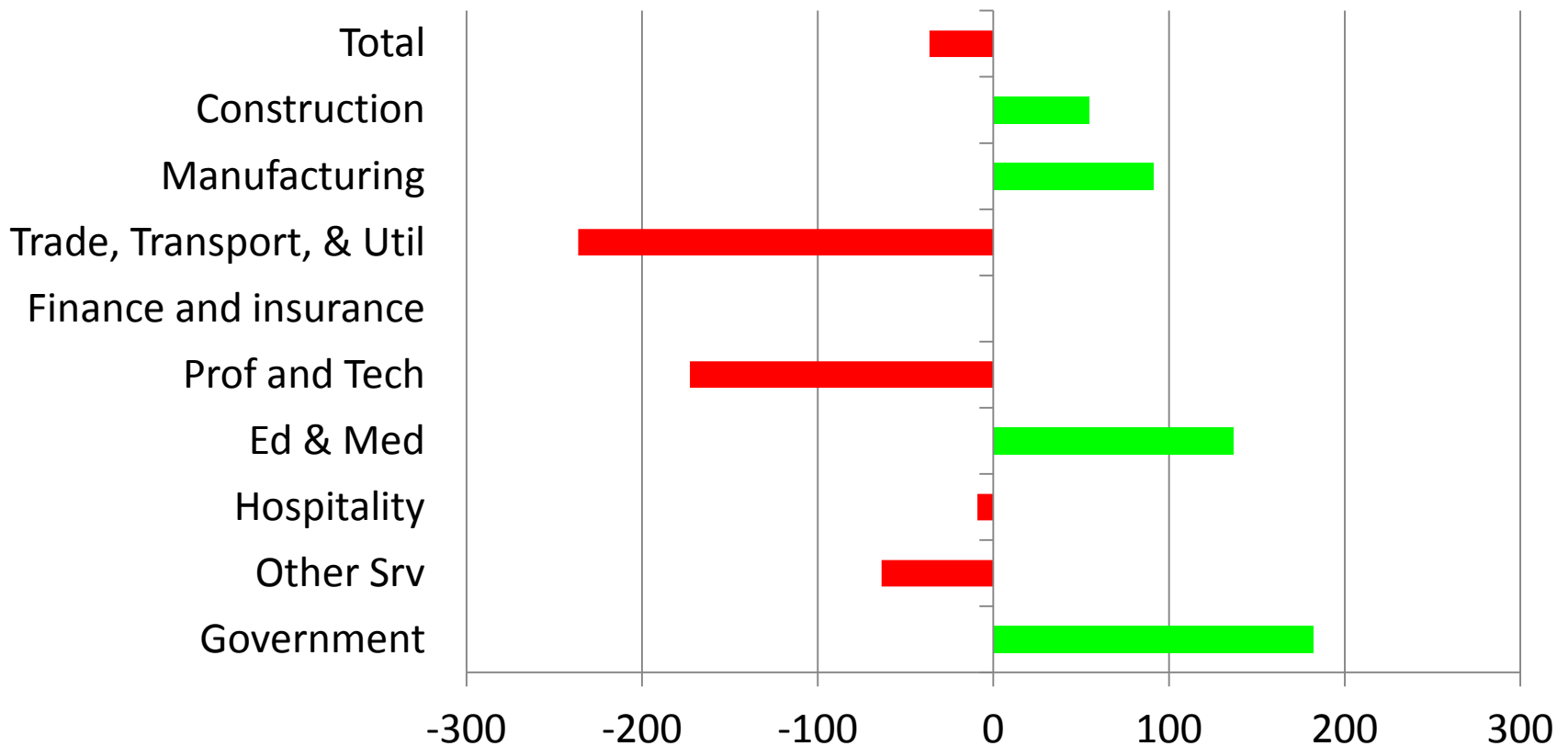
## Unemployment Rate for Calhoun County





# Employment was flat for the year.

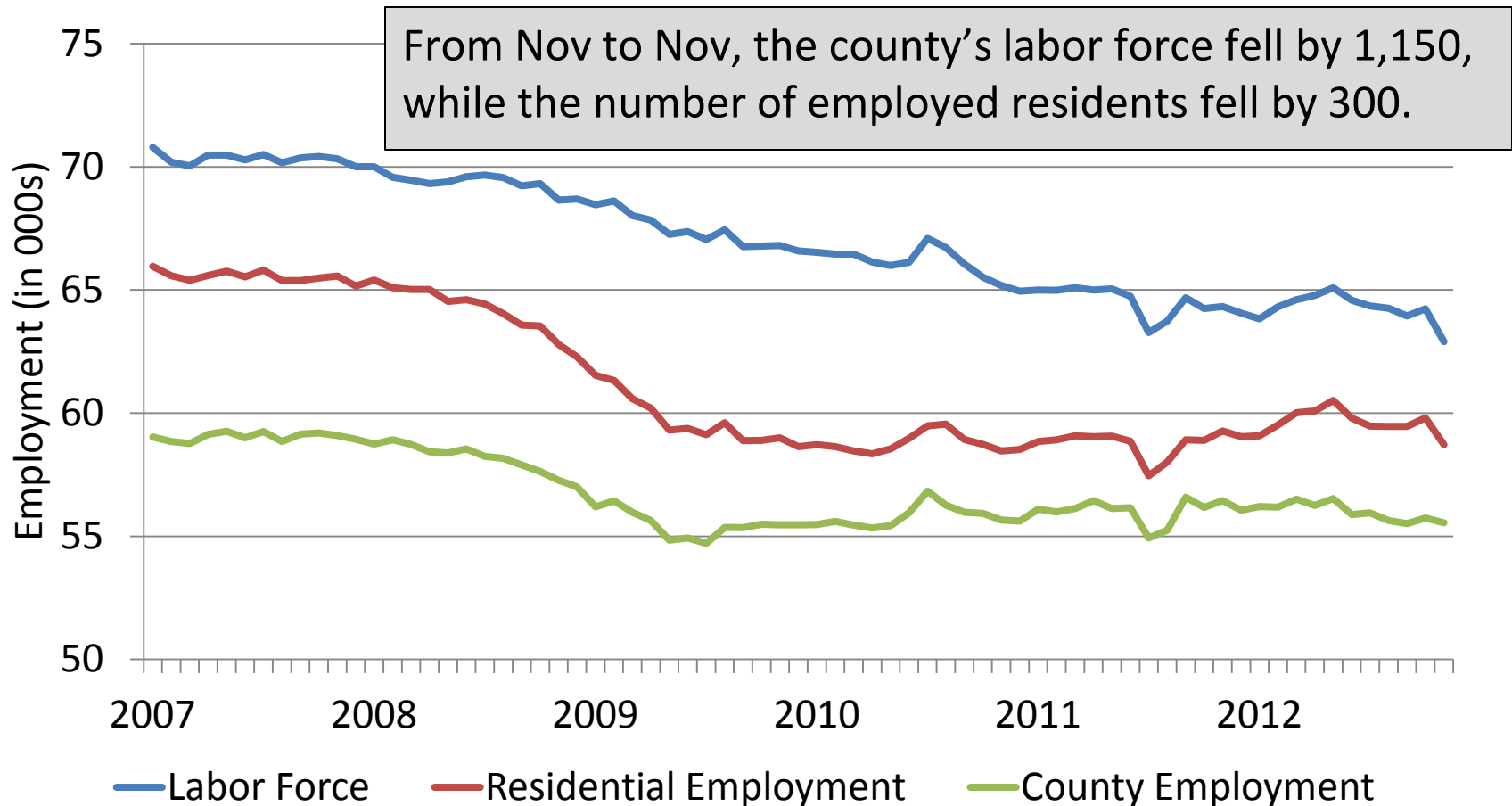
Employment Change, Jan–Nov 2011 to Jan–Nov 2012



Source: BLS – QCEW.

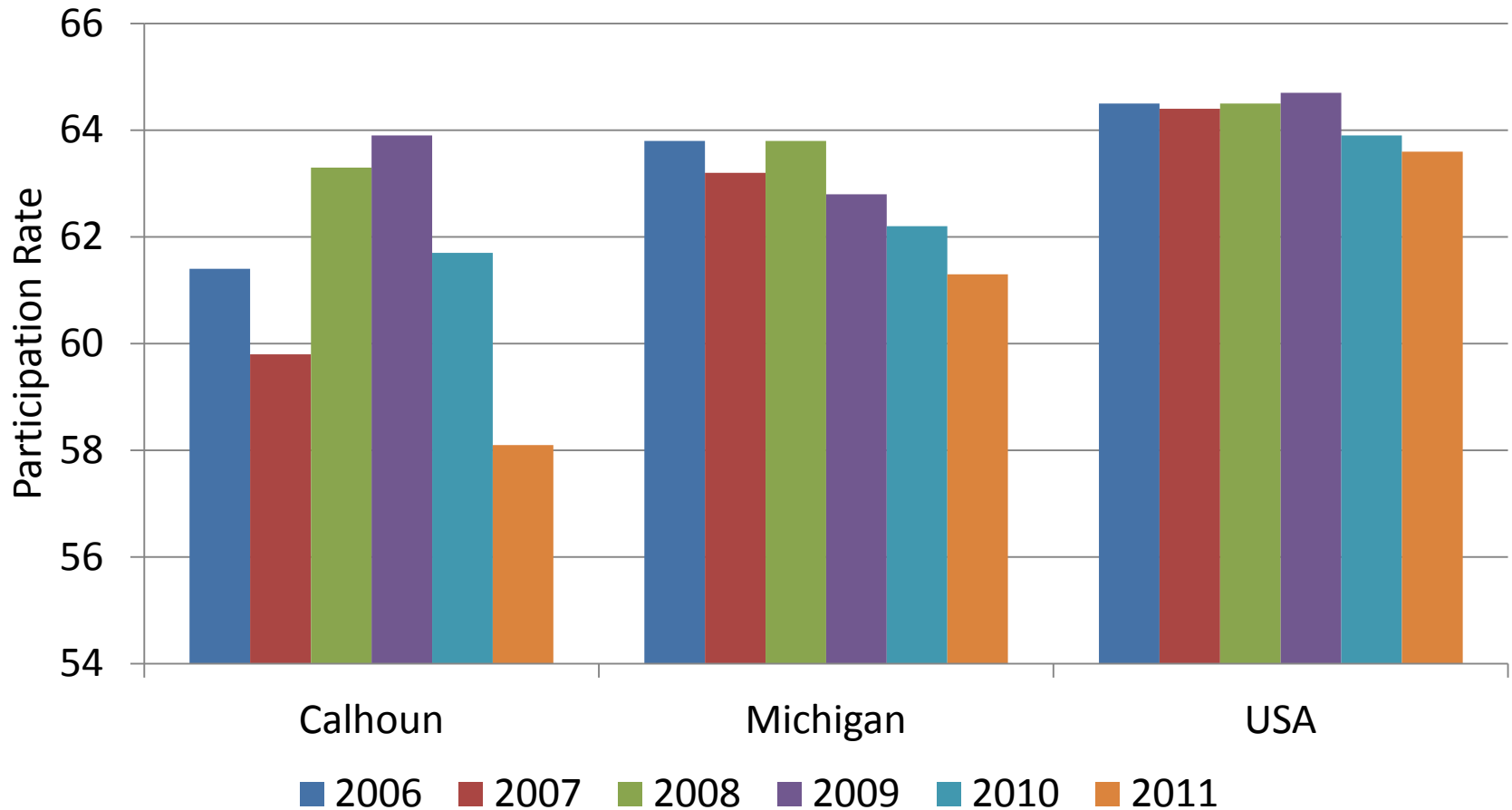
Unfortunately, the substantial drop in the county's unemployment rate appears to be due to persons dropping out of the labor force.

County Labor Force and Employment



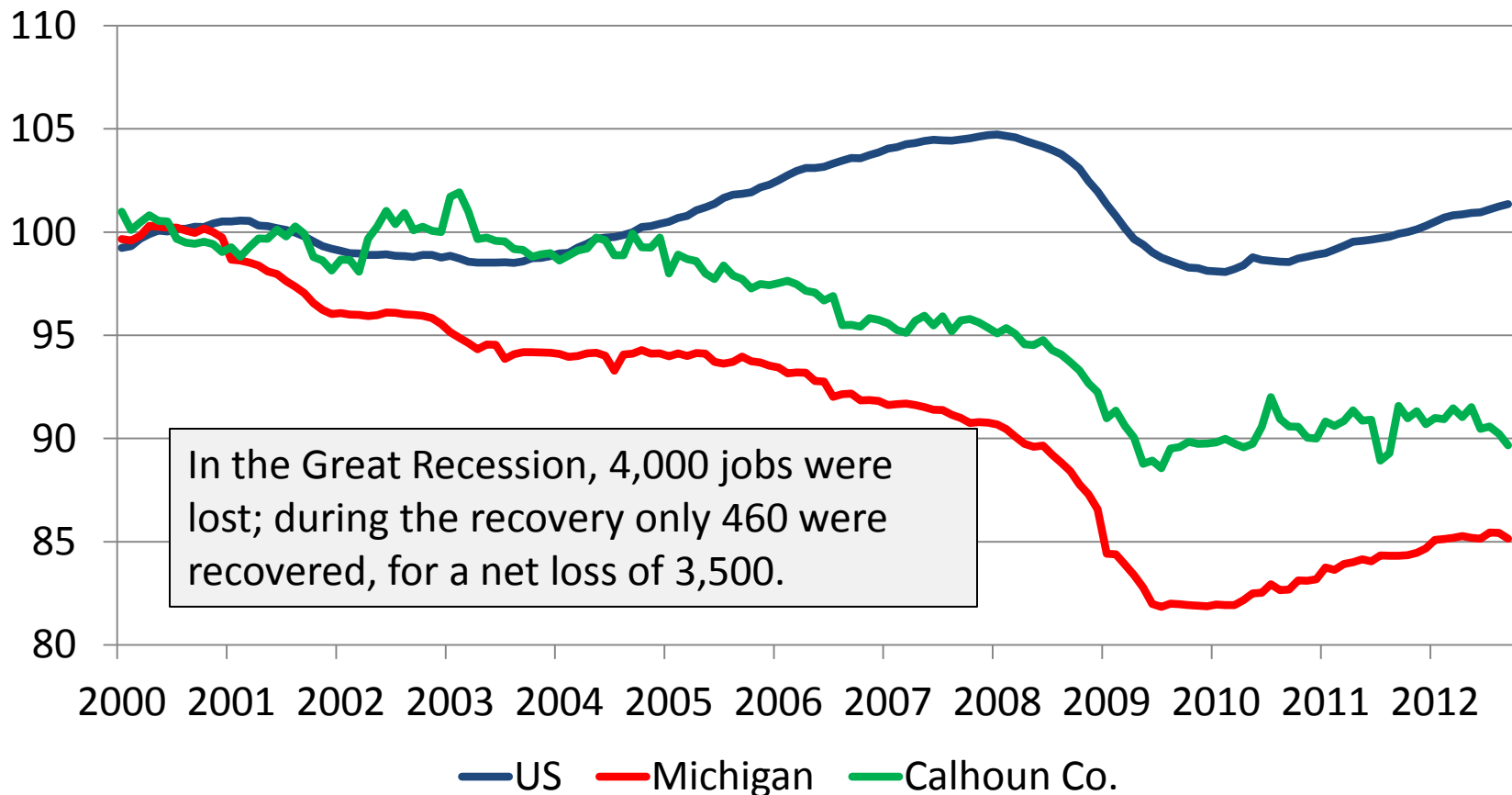
# Nearly 4,000 working-age individuals dropped out of the labor force in Calhoun County in 2011.

## Labor Force Participation



# For the county, the recovery appears to have stalled.

## Total Employment Index (2001 = 100)



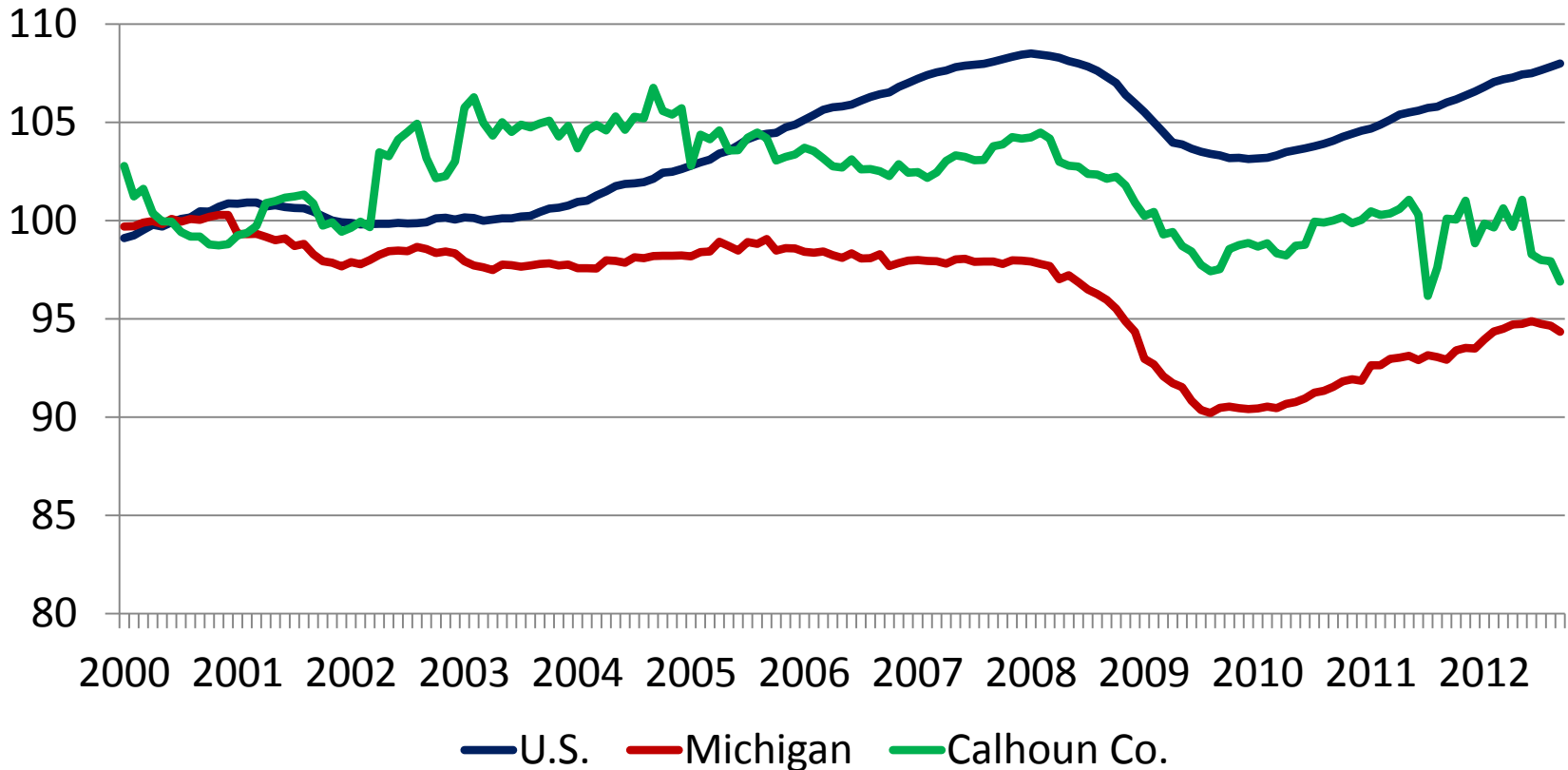
In the Great Recession, 4,000 jobs were lost; during the recovery only 460 were recovered, for a net loss of 3,500.

— US — Michigan — Calhoun Co.

Source: BLS and Upjohn Institute.

# A rocky year for services

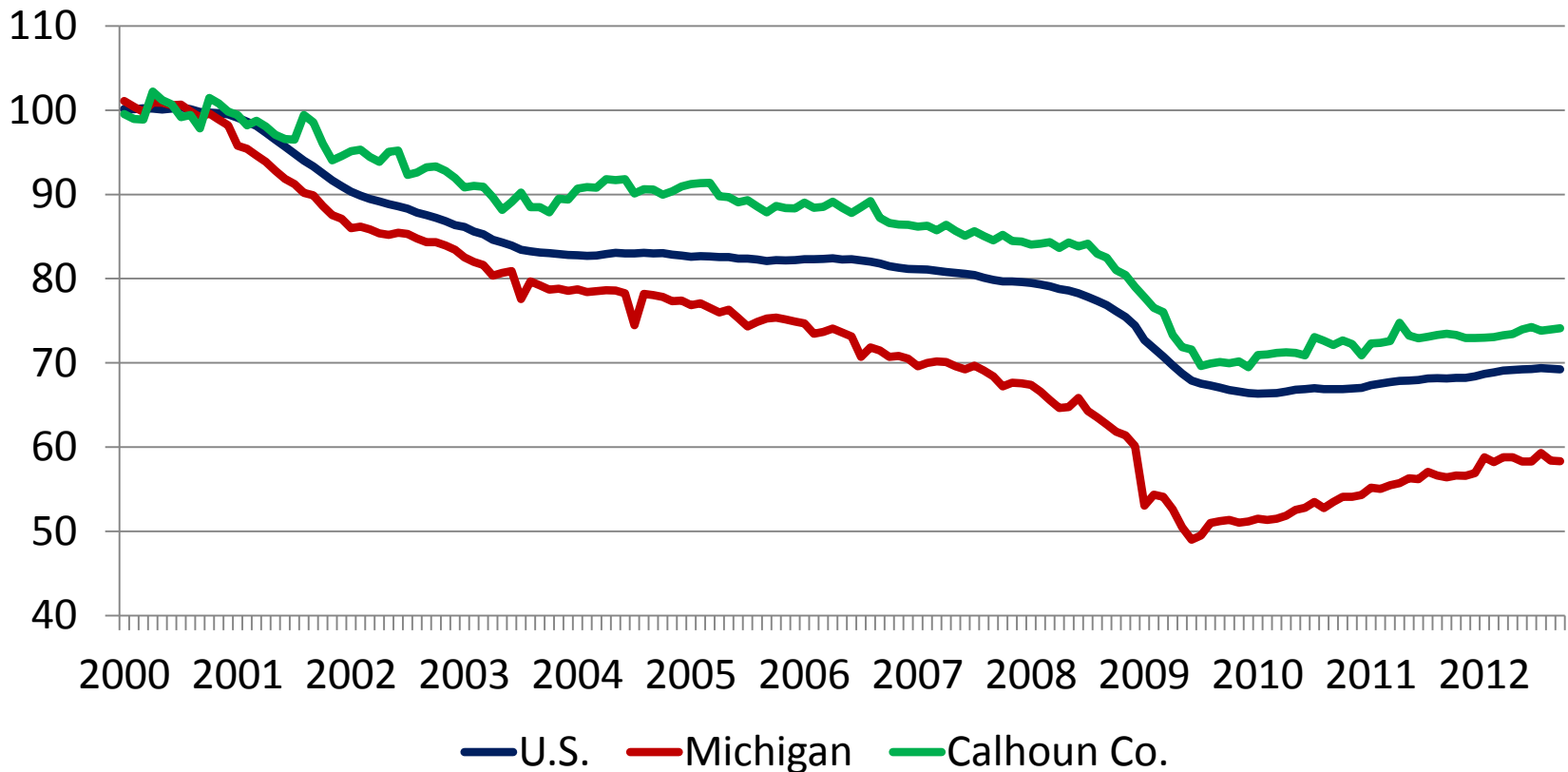
**Private Service-providing Employment Index**  
(100 = 2000 average)



Source: BLS and Upjohn Institute.

# Slightly better for manufacturing

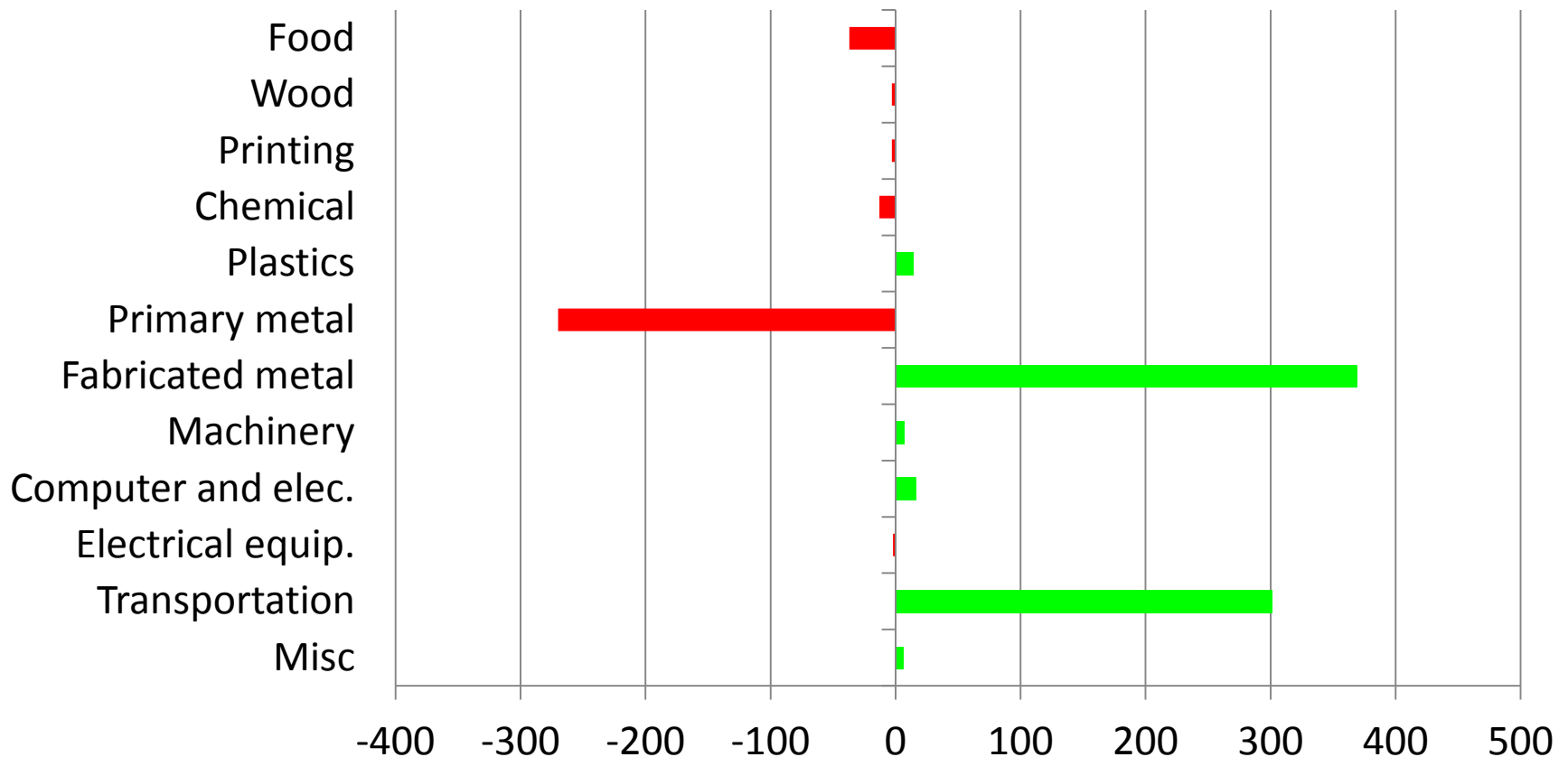
Index of Manufacturing Employment  
(100 = 2000 average)



Source: BLS and Upjohn Institute.

The county has benefited from a robust fabricated metal and auto industry, but these gains are being offset by losses in other industries.

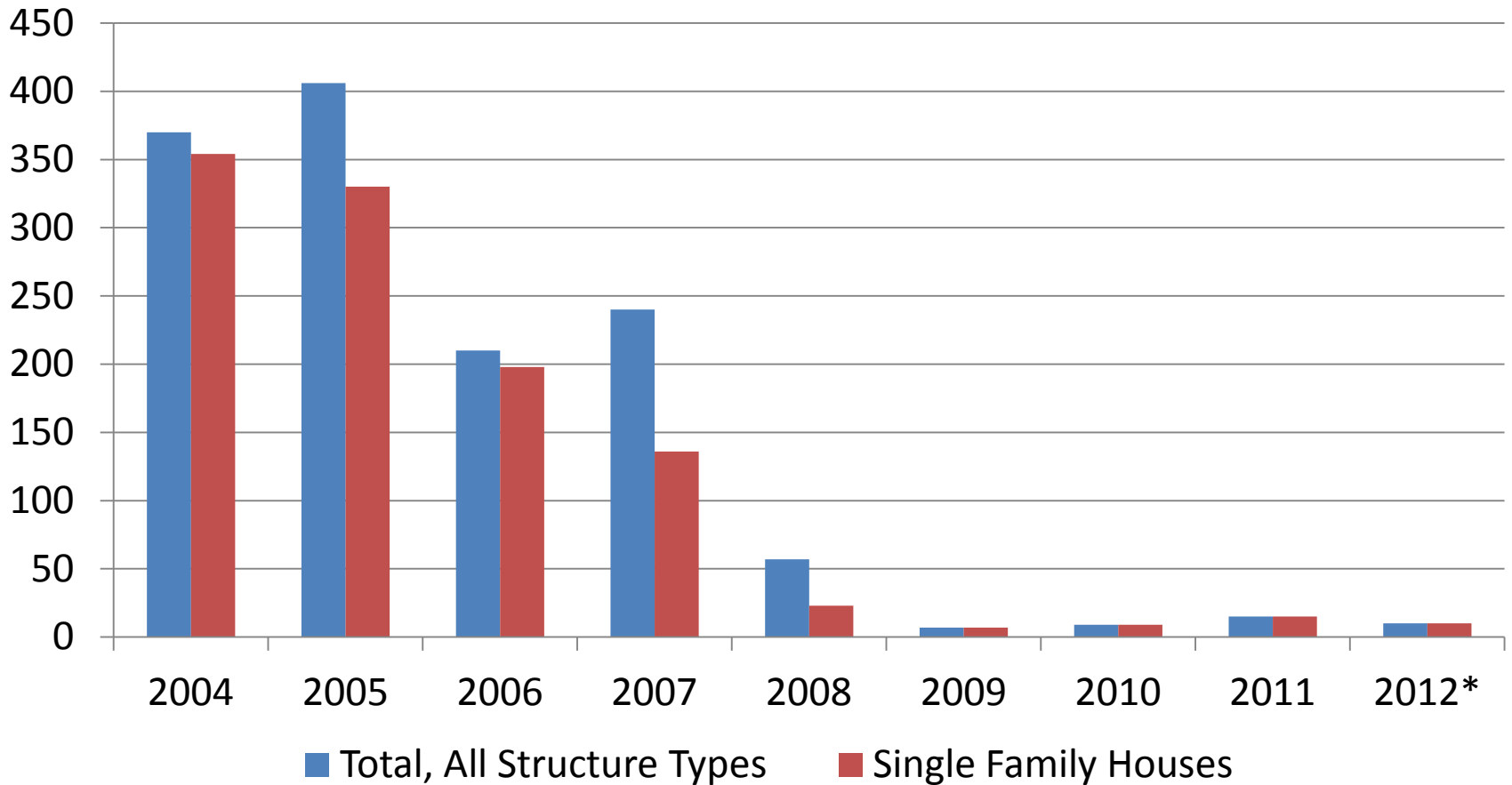
### Manufacturing Employment Change Q1 2011 to Q1 2012



Source: BLS QCEW.

# What can we say?

## Construction Permits Issued, Calhoun Co.

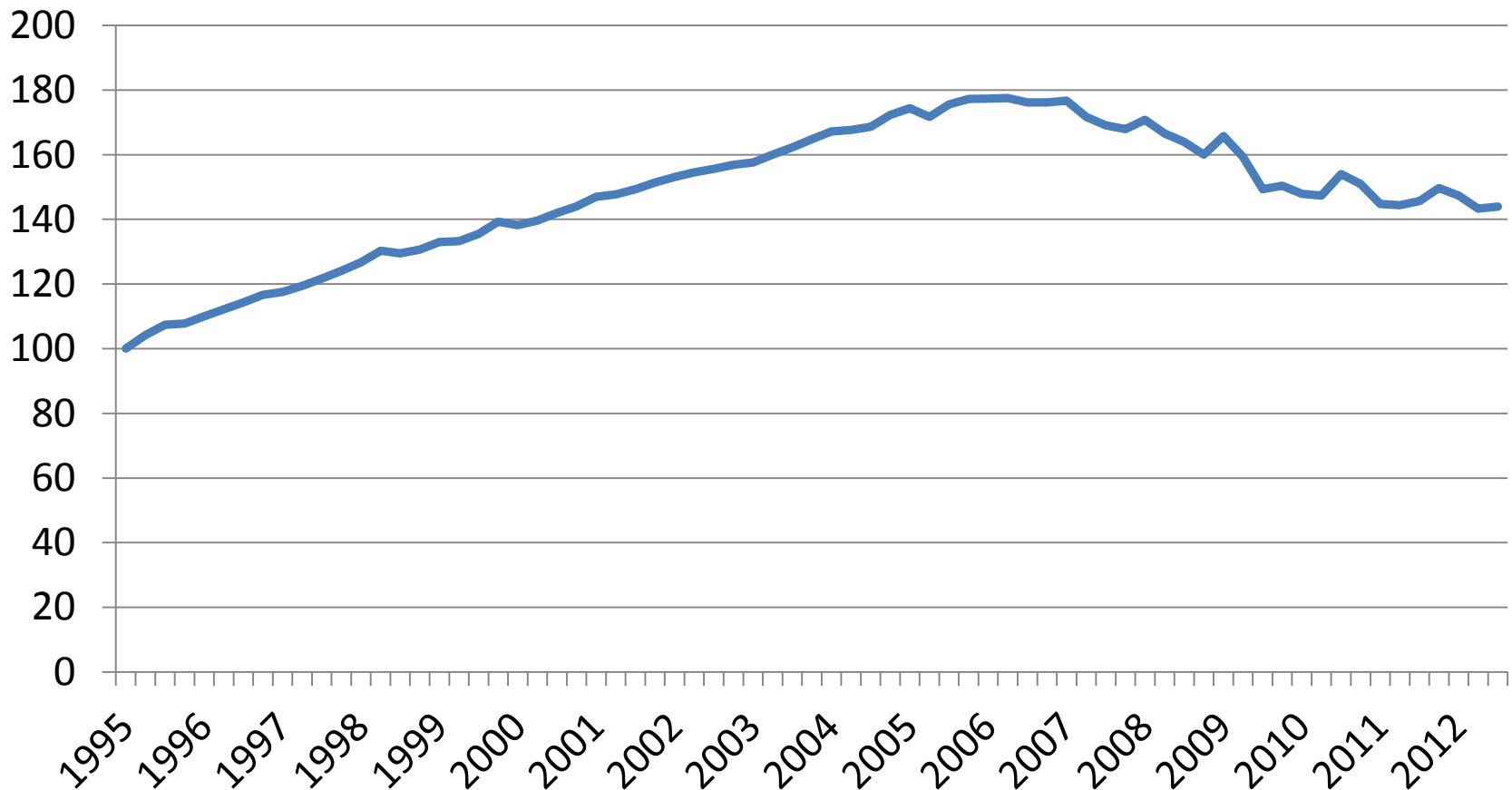


Source: U.S. Census.



# Latest housing data suggest little improvement in housing prices.

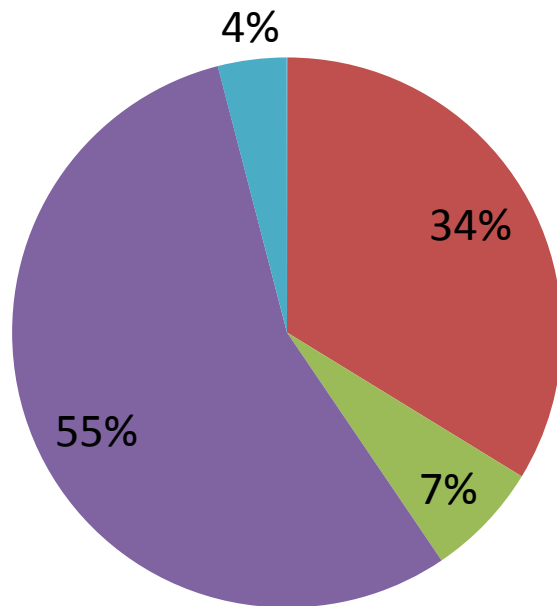
FHFA Housing Price Index (1995=100)



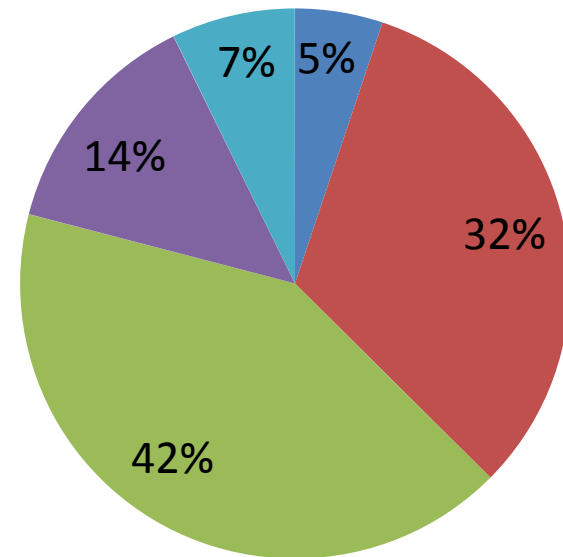
Source: FHFA Housing Index.

There appears to be a mismatch in education level for job postings and the workforce in Calhoun County. *Note the difference in supply and demand for post-secondary/associate's degrees.*

**Educational Requirements of Postings**



**Educational Attainment of Workforce**

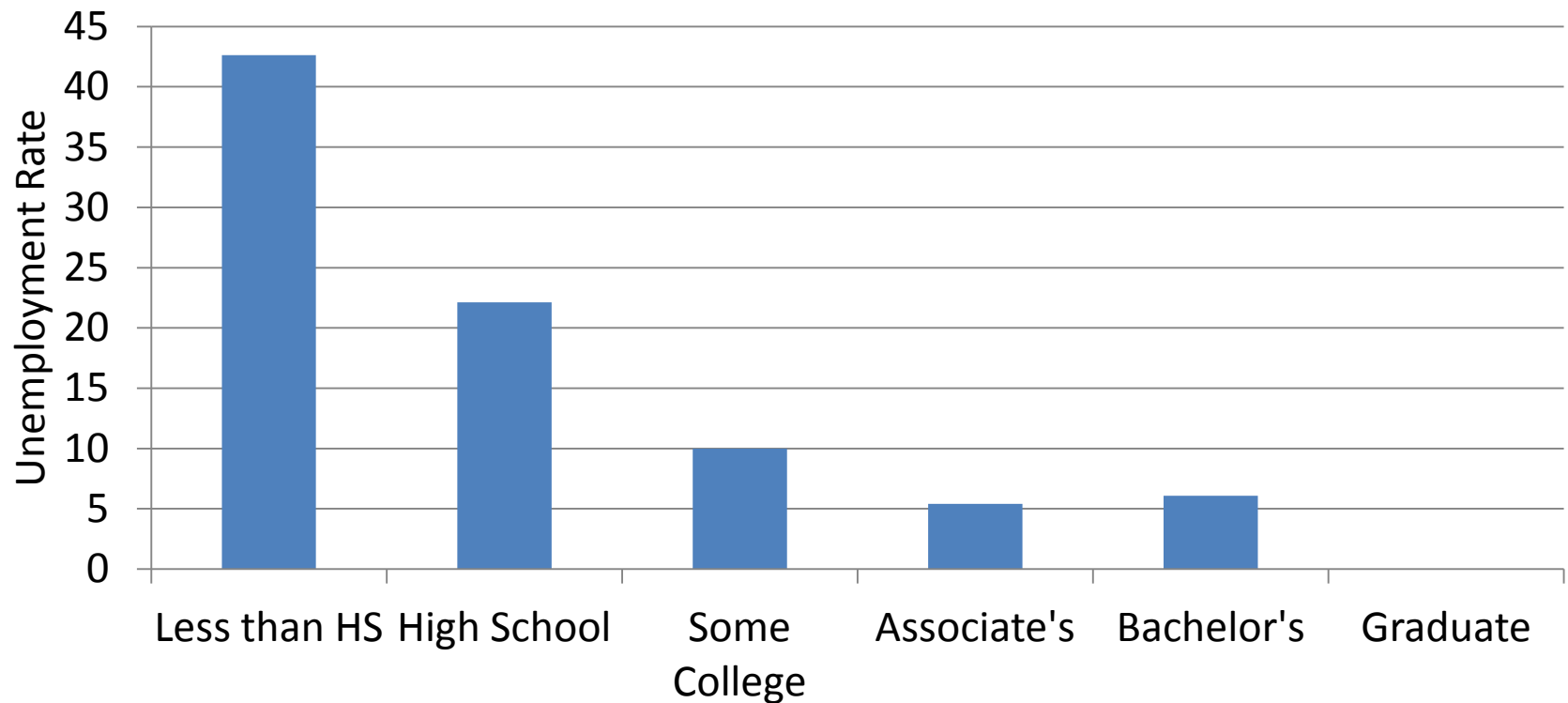


■ Dropout ■ High school ■ Post-sec. or assoc. ■ Bach. ■ Grad.

Source: IPUMS USA and BurningGlass.

# Education matters in terms of employment – *Note high school grads and associate's degrees.*

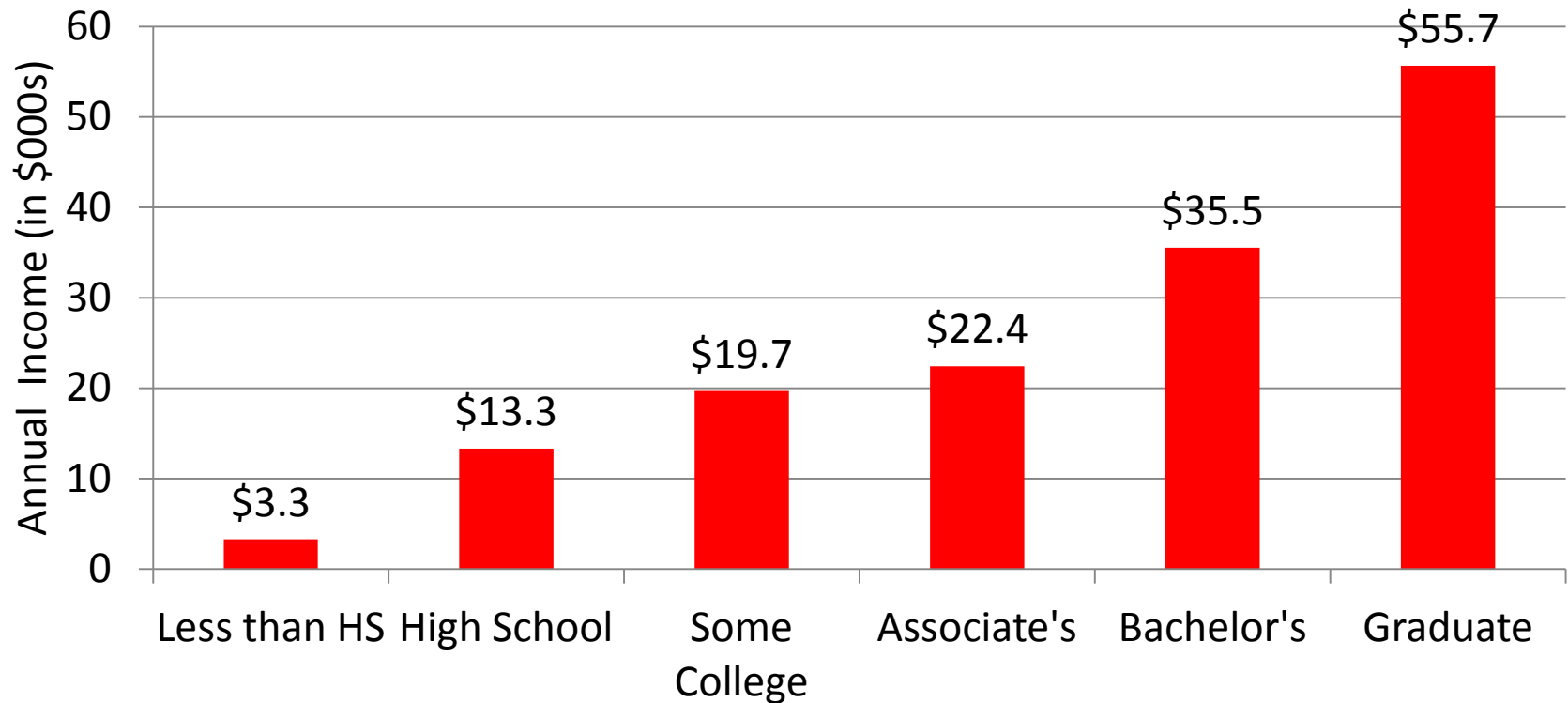
Unemployment Rate by Educational Attainment  
Calhoun County , 2011



Source: IPUMS USA.

If associate's degree holders were only filling high-school-level positions, you would not expect to see the difference in annual income.

Total Income by Educational Attainment in Calhoun County 2011



Source: IPUMS USA.

# 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

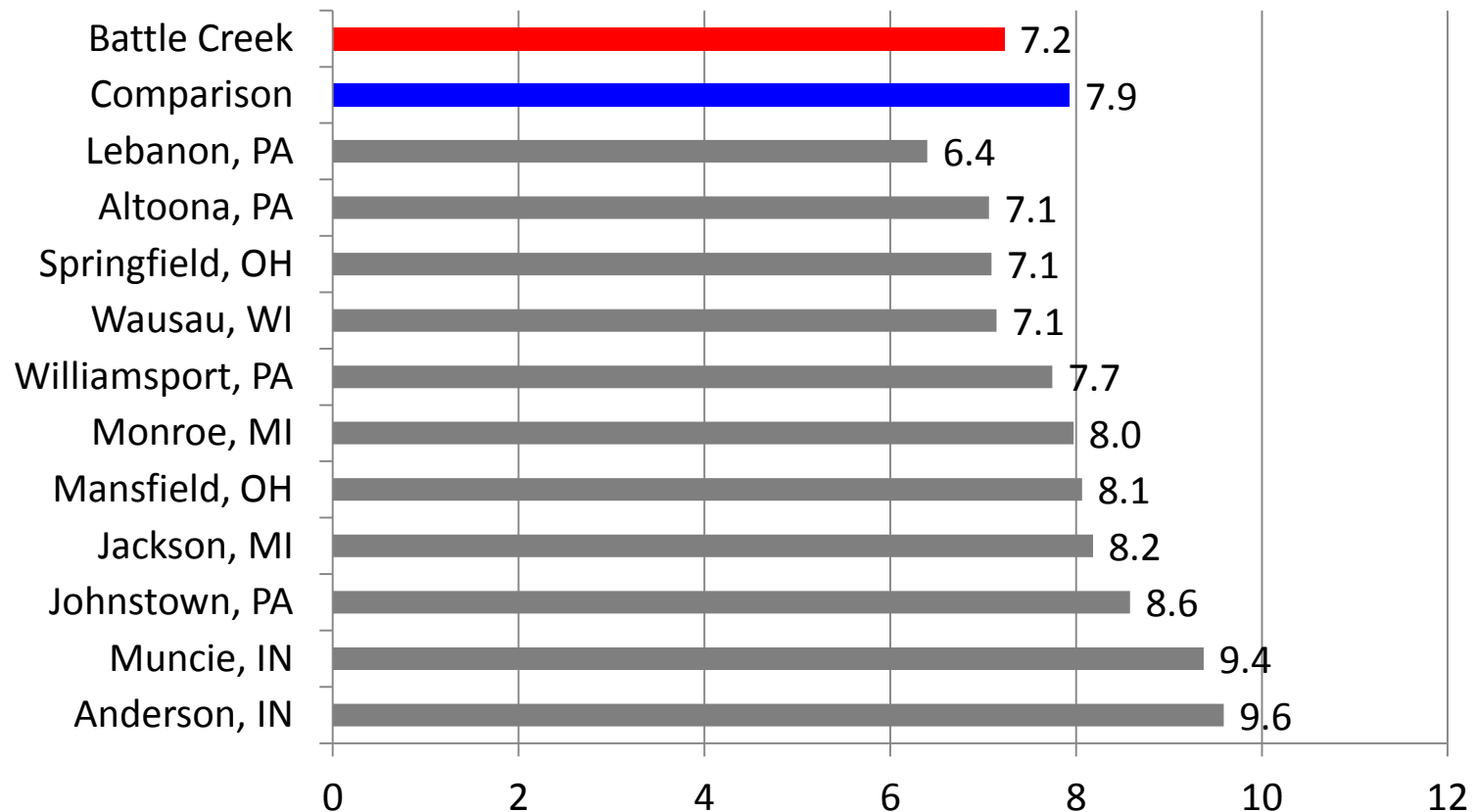
# Comparison Criteria

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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)

# In terms of the unemployment rate, the county is doing better than average.

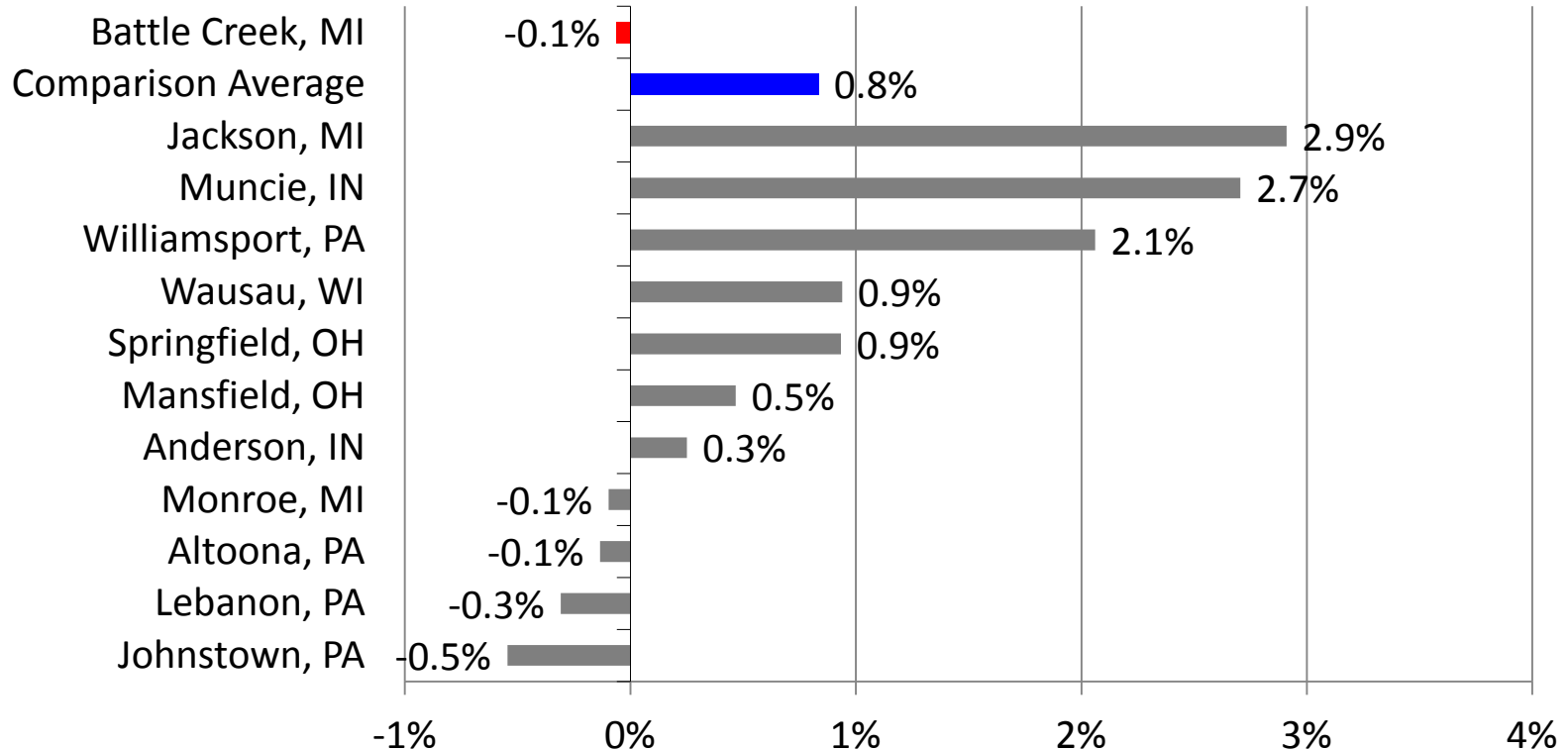
Average Unemployment Rate, Jan-Nov 2012



Source: BLS.

# One of the five areas that never got an invitation.

Percent Change in Total Employment,  
Jan-Nov 2011 – Jan-Nov 2012

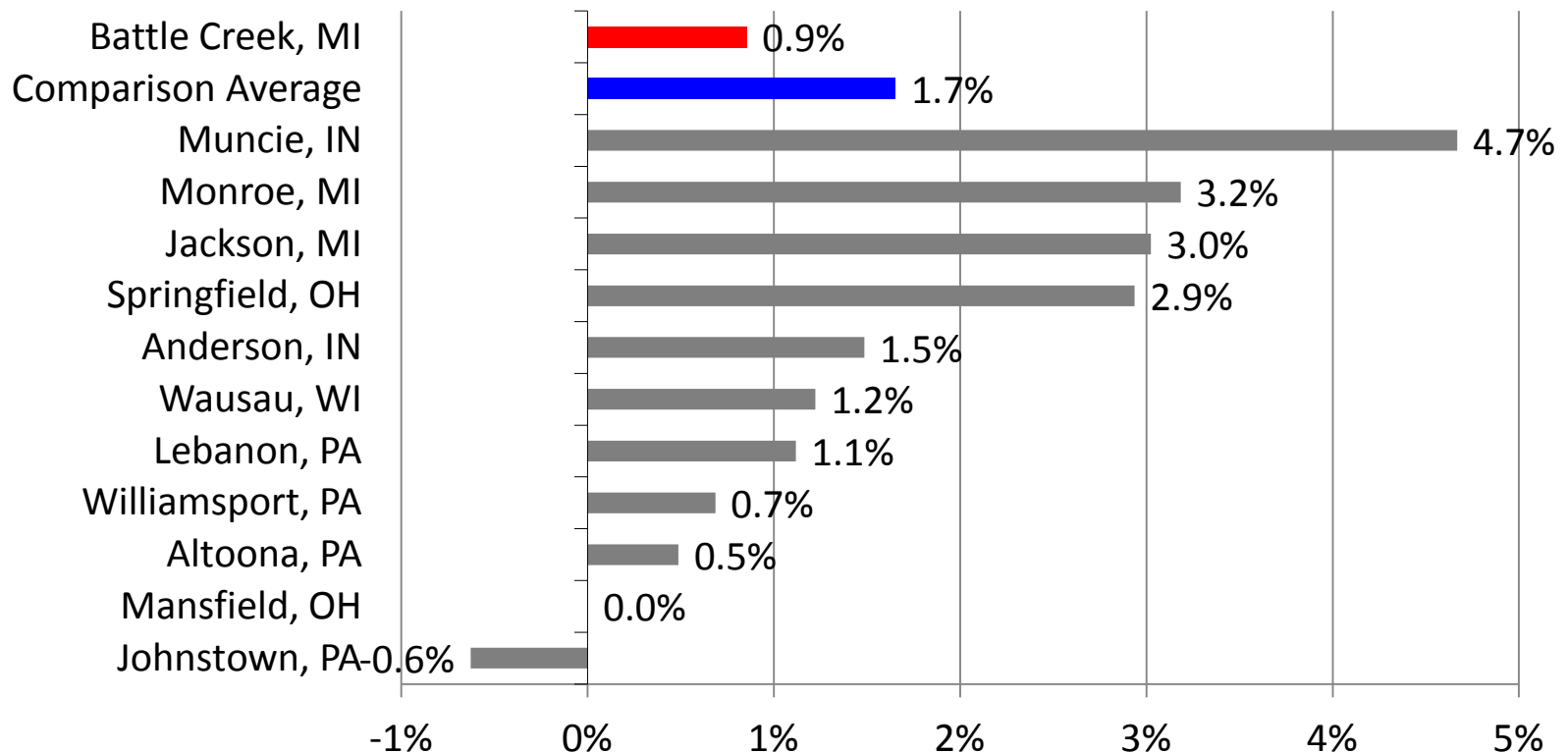


Source: BLS.



# Did not keep up with the others

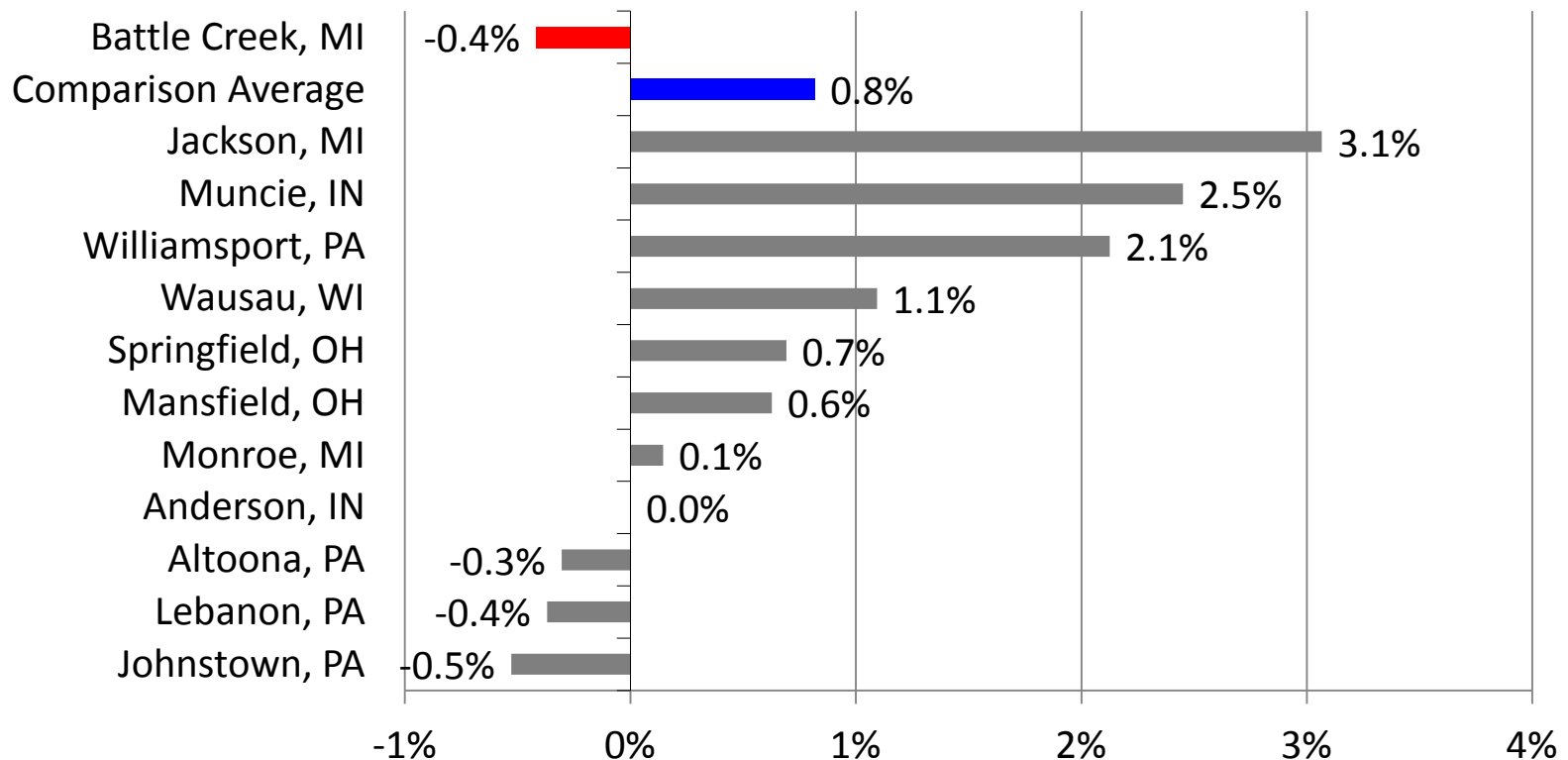
Percent Change in Manufacturing Employment,  
Jan-Nov 2011 – Jan-Nov 2012



Source: BLS.

# Where is the manufacturing multiplier?

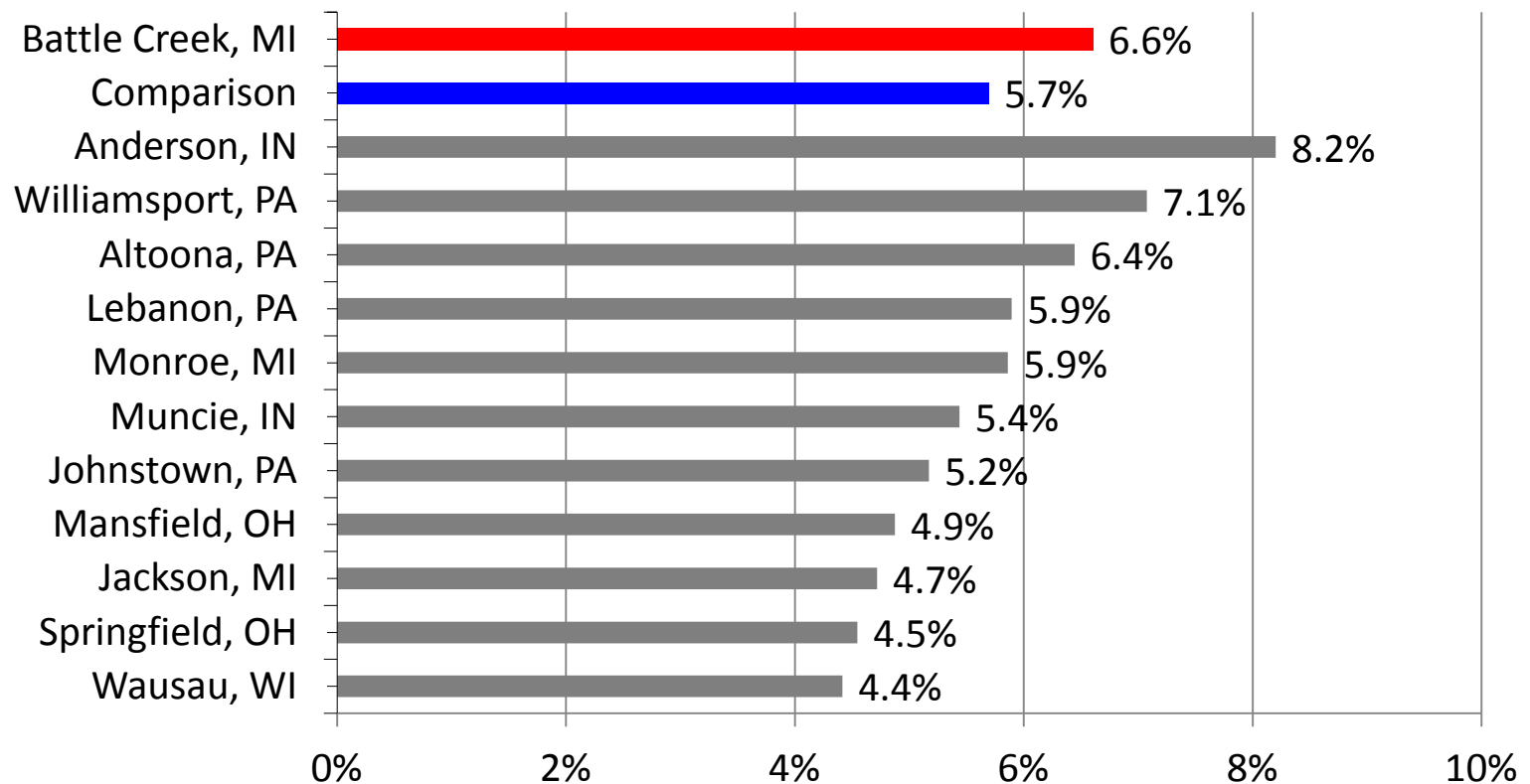
Percent Change in Service-Providing Employment,  
Jan–Nov 2011 to Jan–Nov 2012



Source: BLS.

# Job creation is strong but area separations are stronger.

Job Creation as a Percent of Total Employment in 2011

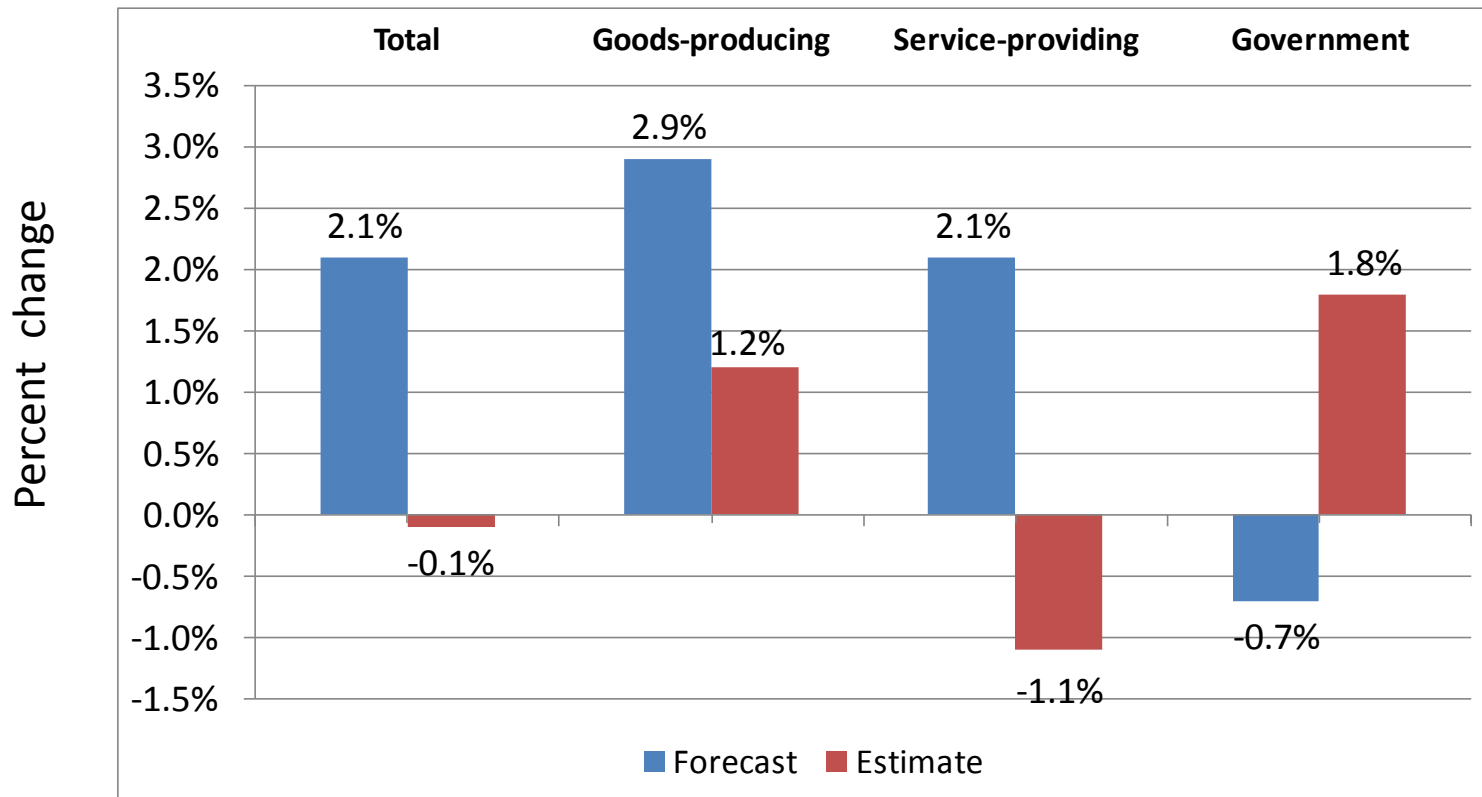


Source: Census QWI.

# So, how did we do last year?

## *Second year of awfulness*

Calhoun County Estimated and Forecasted Employment Growth for 2012



Source: Upjohn Institute.

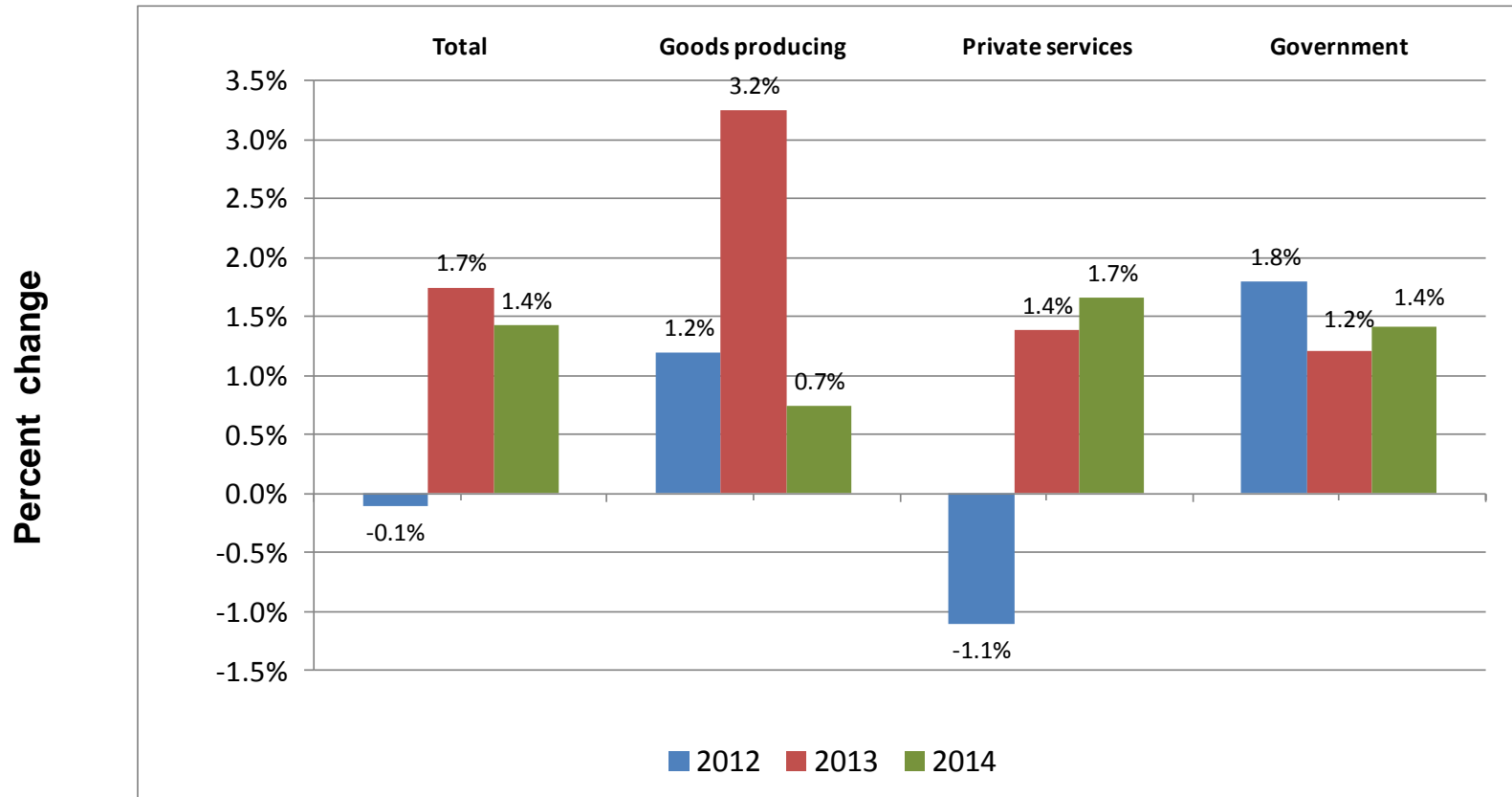
# Recent business reports have been robust.

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- Denso
- Janesville Acoustics
- Kellogg's
- RSB Transmissions
- Firekeeper's Casino

And, the manufacturing employment multiplier cannot be zero.

# 2013 and 2014 Employment Forecast for Calhoun County



# Last words

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- 2012 was a surprisingly rough year for Calhoun County
- The drop in the area's unemployment rate was due to individuals giving up.
- The link between the area's manufacturing sector and its service sectors is very weak, suggesting strong retail leakage from the county.
- I truly believe 2013 will be a better year—however, this has been the third year in a row that our forecast has been too robust.

# 2013–2014 Forecast for Calhoun County

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