THE OUTLOOK FOR THE ECONOMIC GROWTH ALLIANCE REGION 2011–2013

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The Outlook for the Economic Growth Alliance Region

Executive Summary

October 25, 2011

- The Economic Growth Alliance (EGA) is a partnership of six counties in southeast Michigan: Genesee, Lapeer, Livingston, Macomb, Oakland, and St. Clair. The partnership was formed in recognition of the region's influence as an economic unit of interrelated counties whose impact is greater than its individual parts, and where regional cooperation is a key factor in promoting the area's economic development initiatives.
- This study contributes to the EGA partnership by providing an economic forecast from 2011 to 2013 for the six-county region. The study includes projections of employment by industry division as well as the unemployment and inflation rates. Also included are forecasts of total household employment and the unemployment rate for each member county, and a summary of the underlying national forecast.

Region History

- The six-county region has ridden the economic waves over the difficult first decade of the 2000s.
- The U.S. recession in 2001 hit the region hard, followed by progressively diminished job loss through 2004 and modest job gains in 2005.
- Fortunes reversed course after 2005, however, with a return to job loss largely due to the continuing shrinkage of the Detroit Three automakers in confluence with a severely slumping housing market nationwide.
- The bottom fell out in the 2008–09 period with the onset of the Great Recession, the bankruptcy proceedings for both General Motors and Chrysler, and soaring home foreclosure rates. The regional job loss for 2009 was by far the largest annual drop in history.
- The current resurgence in the region's economy has been as dramatic as its prior plunge—in one short year (from 2009 to 2010), the local economy transitioned from a loss of 109,369 jobs to a gain of 4,034, a remarkable turnaround of 113,403 jobs.
- The private sector added 7,888 jobs in 2010, while the government sector lost jobs (3,854) for the fifth consecutive year. The sectors with the largest gains were professional and business services (9,316), manufacturing on the rebound (1,594), and health services (638). The largest losses were in financial activities (2,385) and construction (1,307). **(Figure 1)**
- The unemployment rate for the six-county region moved up from 2001 to 2003, stabilized from 2003 to 2006, and moved up again from 2006 to 2008.
- The jobless rate then surged from 8.3 percent in 2008 to 14.2 percent in 2009, the highest rate since the early 1980s recession.

- With the improving economy in 2010, the unemployment rate drifted down in 2010, but only to a still painfully high rate of 12.9 percent.

- Historically, the region's unemployment rate has run a little below the rate for Michigan, but in 2009–10 the region's rate climbed above the state's. **(Figure 2)**

- The inflation-adjusted (real) wage in total for the six-county region declined by 2.3 percent over the period 2001 to 2010. Among the individual counties that constitute the region, though, the wage trend varied widely.

- The three largest counties in the region all showed declines in total real wage over the decade, ranging from a dramatic loss of 8.1 percent in Genesee to losses just under 2 percent in Macomb and Oakland. Conversely, the three smallest counties realized real wage gains over the period, with the increases ranging from 0.6 percent in Livingston and 3 percent in Lapeer to an impressive 6 percent in St. Clair.

- Much of the deviation in wage growth among the counties stems from the industry composition of their economies, particularly the weight carried in a county by the high-paid manufacturing industries that declined precipitously over the period—Genesee is a case in point. **(Figure 3)**

U.S. Outlook

- The future course of the region's economy will depend in part on the ability of the national economy to overcome the vulnerabilities that have developed this year. Consumers remain cautious about future economic prospects in the face of persistently high unemployment. And financial markets are concerned about the European debt crisis and its implications for the global economy.

- The American economy downshifted in the first half of 2011, slowing an already subpar pace of recovery to a crawl. The U.S. economy is forecast to remain weak in the second half of 2011, but not quite as fragile as in the first half of the year.

- Inflation-adjusted (real) GDP growth averages an anemic 1.6 percent for 2011, before rebounding to 2.3 percent in 2012 and 2.9 percent in 2013—still too weak to support rapid improvement in the labor market. Our forecast for 2011 is about the same as the consensus (mean) among twenty-seven forecasting organizations, and a little stronger for 2012.

- Over the balance of 2011, the motor vehicle sector starts to bounce back, as production returns to more normal levels following the supply chain disruptions triggered by the Japanese crisis. The assumed extension and expansion of business investment incentives and payroll tax cuts help support steady gains in business capital spending and improving consumption next year. Restrained government purchases retard growth throughout the forecast period. **(Figure 4)**

- The current recovery through 2013 is forecast to fall short of the 3.2 percent growth rate for GDP averaged per year since World War II. More to the point, the average growth for three-year intervals following a period of output decline is a much higher 4¾ percent. **(Figure 5)**

- The painfully slow recovery in employment has stalled in recent months. With some pickup in economic activity over the next two years, the labor market shows a bit more life as well, but the employment gains are modest and unemployment remains high.

- The unemployment rate edges up to 9.2 percent early in 2012 before beginning a slow retreat to 8.5 percent by the close of 2013. The jobless rate averages 9.1 percent next year—unchanged from 2011—and a still-high 8.7 percent in 2013. Our unemployment forecast for both 2011 and 2012 is identical to the consensus among forecasting organizations. **(Figure 6)**

- For context, the annual unemployment rate has not sat above 9 percent for a four-year span (2009–12) since the Great Depression. Even an improved 8.7 percent jobless rate projected for calendar year 2013 remains well above both the post-World War II average rate of 5.7 percent and the 5.8 percent rate seen as recently as 2008, prior to the spike in unemployment. **(Figure 7)**

- Although total unit sales of light vehicles—cars, minivans, sport utility vehicles, crossovers, and pickup trucks—are forecast to continue increasing through 2013, they do not recover to the 16 to 17+ million units sold annually from 1999 to 2007. As a result of restructuring, however, the companies' break-even sales levels are now lower than they were previously. Officials at General Motors recently estimated that the company can break even with annual industrywide light vehicle sales of 10.5 million. **(Figure 8)**

- Light vehicle sales are forecast to improve by about a million units per year from 2010 through 2013. At 14.5 million units, sales in 2013 would be 4.1 million units higher than the recession low in 2009. Our forecast for 2011 is the same as the consensus among forecasting organizations, and a little higher for 2012.

- The Detroit Three share of the light vehicle market turned up in 2010, to 44.2 percent, from a low of 43.3 percent the year before. This was the first annual increase since 1995, when their share sat at 72.6 percent.

- Market share moves up further in 2011 to 46.2 percent, due in part to a temporary boost resulting from the crisis in Japan. Their share then backs off a little, settling into a stable position around 45 percent for the following few years.

- The projections for total sales and the Detroit Three's share of that market, taken together, yield our outlook for Detroit Three sales, which move up progressively from 5.1 million units in 2010 to 6.5 million in 2013. **(Figure 9)**

Region Outlook

- Our view is that the recovery in the six-county region that began in 2010 will be sustained over our forecast horizon through 2013. We see improved, but not vigorous, growth over the three-year period, with job gains of 54,482 from 2010 to 2013. The continuation of the recovery is supported by steadily rising vehicle sales and an improved U.S. economy over the next two years.

- The pattern of job creation is not smooth over the forecast period, however, with the largest gains, 23,951, occurring in 2011. This is followed by a slowdown to 13,307 job additions in 2012 before the region economy picks up again in 2013 to add 17,224 jobs.
- These would be the best years for the local economy since 2000, although as with the nation, they would constitute a slower recovery than we've seen in most of the recent expansions. **(Figure 10)**
- From its most recent peak employment quarter in the spring of 2000 to its trough in the fall of 2009, the six-county region lost 299,979 jobs.
- From its low point in the fall of 2009 to the first quarter of 2011, the region recovered 44,036 jobs, and from then to the end of 2013, we are forecasting it will gain an additional 30,312 jobs—a total of 74,348 job additions during the recovery from the end of 2009 to the close of 2013.
- For historical comparison, the region's job count at the end of 2013 would be a little below where it was at the end of 2008, before the unprecedented crash of 2009. **(Figure 11)**
- All of the net job gains from 2010 to 2013 occur in the private sector, cumulating to 61,431 job additions. All levels of government continue to be financially challenged, and we expect the public sector to lose jobs this year and the next two, shrinking by 6,949 jobs over the period.
- The goods-producing sector (natural resources, mining, construction, and manufacturing) contributes about 20,000 jobs over the forecast period, producing 37 percent of the gains in the region while accounting for 15 percent of the current workforce. Over 90 percent of the gains in the sector are concentrated in manufacturing, which until 2010 had declined for nine consecutive years.
- The major source of manufacturing's renaissance in the region is, of course, the motor vehicle industry (included in other manufacturing in table 1). The bounce in auto employment in 2011 includes the reopening of the Orion Assembly Plant in Oakland County. The continuation of the auto recovery is anticipated by our forecast of steadily rising vehicle sales through 2013.
- The job gains forecast for construction this year and the next two are meager, but they do reverse the trend of decline in nine of the past ten years.
- Two-thirds of the private-sector jobs created in the region between 2010 and 2013 emanate from the private service-providing sector. The major subsectors in this diverse sector can be grouped into three general categories based on our forecast: those that are projected to be stronger-growing through 2013, those that are weaker-growing, and those that are declining.
- Included in the stronger-growing sectors are professional and business services; private education and health services; and trade, transportation, and utilities.

- Much of the gain in professional and business services in the early stages of the recovery is in its temporary help component, but important gains are also in the much higher wage components of professional, scientific, and technical services and management of companies.

- Employment in the region's health services industry has declined in only two years since 1990, and in both cases the drop was minor. We see the industry extending its trend, adding another 8,562 jobs altogether over this year and the next two.

- Some components of the trade, transportation, and utilities industry category (wholesale trade, trucking, and warehousing) have ties to the resurgent manufacturing sector, and thus are expected to rebound with it. Retail trade also shows some life in the improving local economy.

- Included in the weaker-growing sectors are leisure and hospitality services and financial activities.

- The local economic environment has been inhospitable to leisure and hospitality in recent times, with the industry losing jobs in each of the past four years as consumers cut back discretionary spending. With some pickup in the region's economy, we anticipate modest growth in this sector going forward.

- Gains in financial activities are muted by the loss of jobs in the region as Blue Cross Blue Shield of Michigan relocates some of its activities to the GM Renaissance Center in Detroit in 2011 and 2012.

- Included in the declining sectors are other services and information.

- Other services is a miscellaneous industry category that includes a grab-bag of activities (repair and maintenance services, personal and laundry services, membership associations and organizations, and private households). The industry is expected to lose a few jobs through 2013.

- Information (publishing, film, broadcasting, telecommunications, and data processing) sees job losses this year and is relatively flat thereafter, as the more traditional information delivery systems continue to give ground to the changing ways of doing business. **(Table 1)**

- With the improved job growth outlook we expect through 2013, the unemployment rate for the six-county region gravitates down from its 12.9 percent reading in 2010 to 10.6 percent in 2013. Although this reflects an improving situation over the period, the improvement is relatively modest.

- We are forecasting that after shrinking for several years, the region's labor force will begin expanding again starting in 2012, as additional job seekers are drawn in by improving job opportunities. This keeps the jobless rate from falling as much as it otherwise would with the employment gains we are projecting.

- If instead of increasing, the labor force were to hold constant at its levels for 2011 with the same employment growth, the unemployment rate would be lower by one-half of a percentage point in 2012 and by a full percentage point in 2013. Alternatively, a continued drop in the labor force with our employment scenario would result in additional declines in the jobless rate—a distinct possibility. **(Figure 12)**

- By 2013, the region's unemployment rate in our baseline forecast remains over 2 percentage points above the 8.3 percent rate seen as recently as 2008, prior to the rate surge, and almost four percentage points higher than the 6.7 percent rate averaged in the region from 1990 to 2010. **(Figure 13)**

- Local inflation surged in the first half of 2011, but is forecast to ease in the second half as oil prices return to a more stable path, yielding a rate of 3.3 percent for the calendar year. Local inflation is moderate over the following two years, slowing to 2.3 percent in 2012 and decelerating further, to 1.7 percent, in 2013—running with or slightly below the national rate. **(Figure 14)**

County Outlook

- There are two ways the government measures employment. The first is an estimate of jobs on the payrolls of business and government establishments, or establishment employment, which is what we have been looking at so far. The second is an estimate of the number of residents who say they are working, either for someone else (an establishment employee), or for themselves (self-employed); this is known as household employment. Other differences between these measures of employment arise when people hold more than one establishment job, thereby being counted more than once in the establishment survey while being counted only once in the household survey. Another factor that can cause the two measures to deviate is commuter flows, where residents of one county work at establishments in another county.

- The forecast of household employment on an annual basis for the six-county region can also be broken out for each individual county. The number of employed persons is forecast to increase in 2012 in five of the six counties, and all of the counties see employment gains in 2013.

- Over the entire three-year forecast period, household employment increases by 21,629 in the region, with three-quarters of the gains occurring in the two largest and highest-wage counties, Oakland and Macomb. On a percentage basis, the most rapid employment growth occurs in Livingston County. **(Table 2)**

- All of the counties in the six-county region are forecast to see some decline in the unemployment rate over the next three years, although in each county the rate remains stubbornly high. The greatest declines in the rate over the forecast horizon occur in Genesee and Lapeer counties. The lowest jobless rates over the period are consistently found in Livingston and Oakland counties. **(Table 3)**

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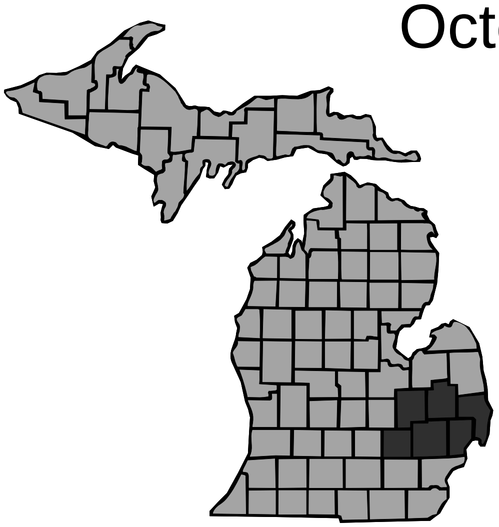
2011–2013

October 25, 2011



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Region History

Figure 1

Annual Job Change
Six-County Region, 2001–10

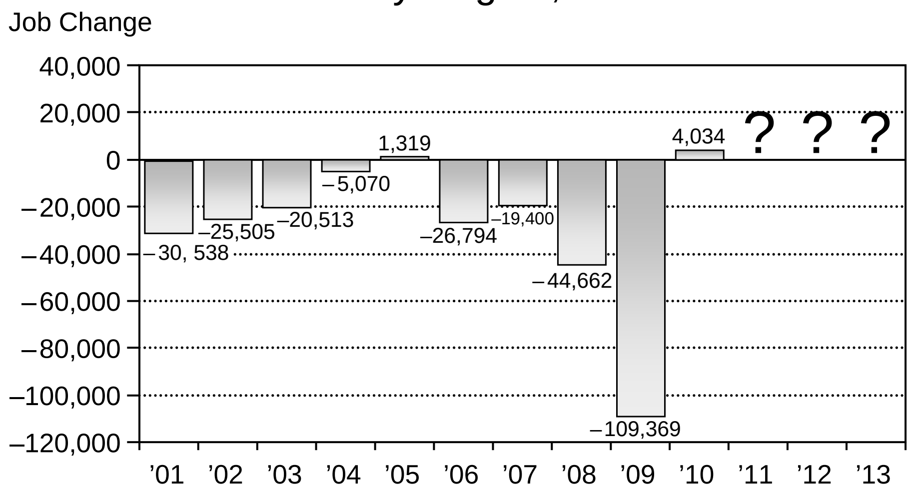
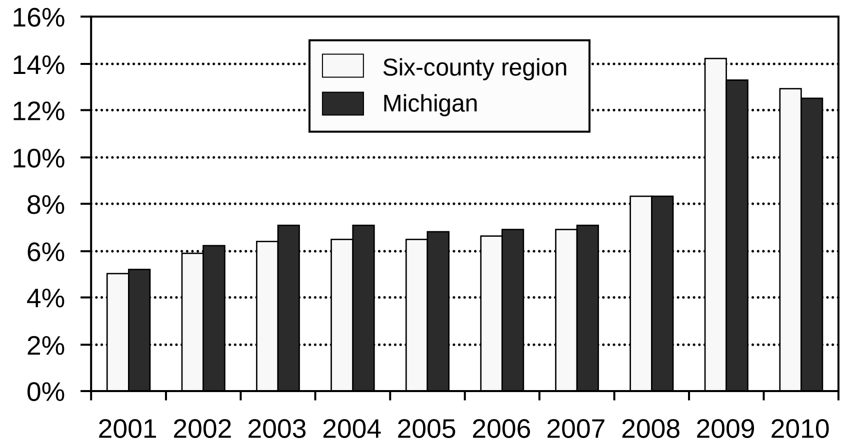


Figure 2

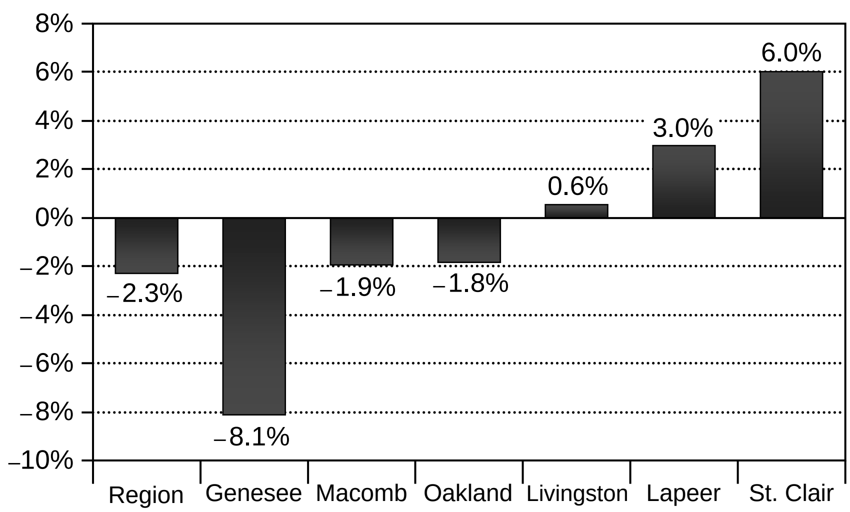
Unemployment Rates for the Six-County Region and for Michigan, 2001–10



Six-county	5.0	5.9	6.4	6.5	6.5	6.6	6.9	8.3	14.2	12.9
Michigan	5.2	6.2	7.1	7.1	6.8	6.9	7.1	8.3	13.3	12.5

Figure 3

Percentage Change in Total Real Wage in the Six-County Region, 2001–2010



U.S. Outlook

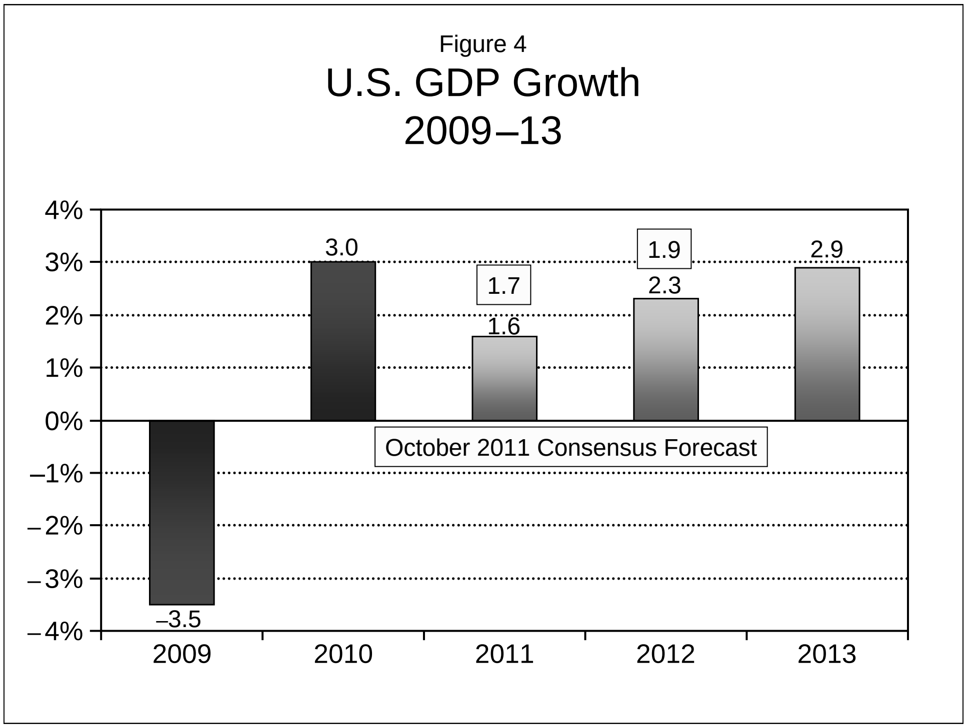


Figure 4
U.S. GDP Growth
2009–13
4%
3%
2%
1%
0%
–1%
–2%
–3%
–4%
3.0
1.7
1.6
1.9
2.3
2.9
–3.5
October 2011 Consensus Forecast
2009
2010
2011
2012
2013

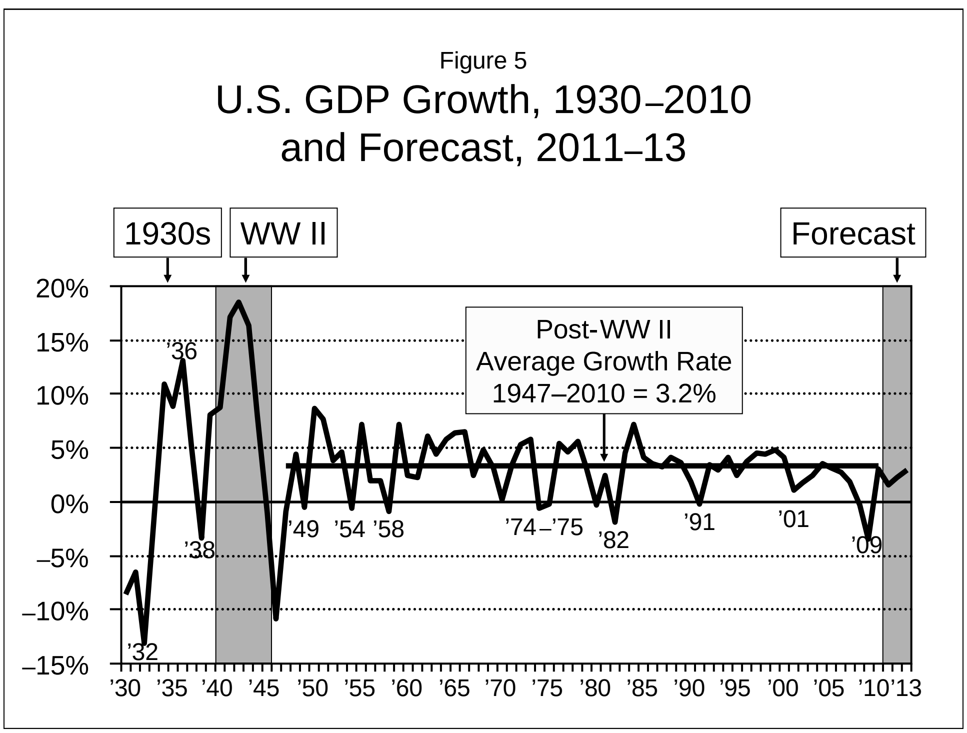


Figure 5
U.S. GDP Growth, 1930–2010
and Forecast, 2011–13
1930s
WW II
Forecast
Post-WW II
Average Growth Rate
1947–2010 = 3.2%
20%
15%
10%
5%
0%
–5%
–10%
–15%
'36
'38
'32
'49
'54
'58
'74–'75
'82
'91
'01
'09
'30 '35 '40 '45 '50 '55 '60 '65 '70 '75 '80 '85 '90 '95 '00 '05 '10 '13

Figure 6

U.S. Unemployment Rate 2009–13

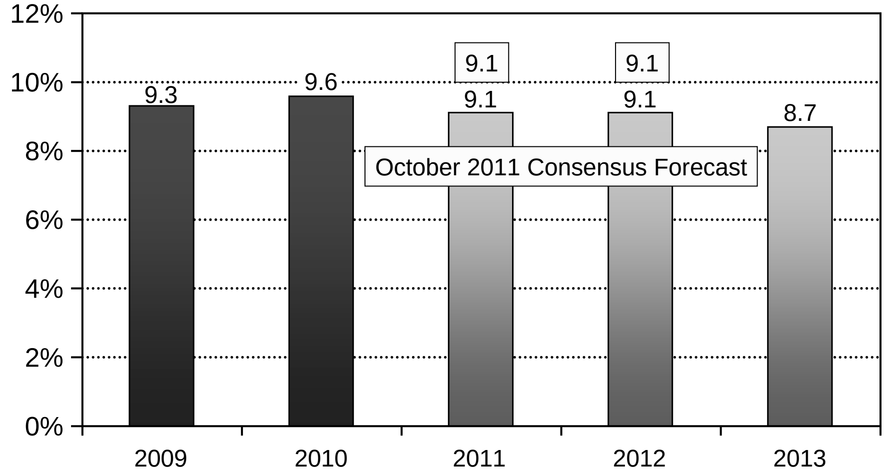
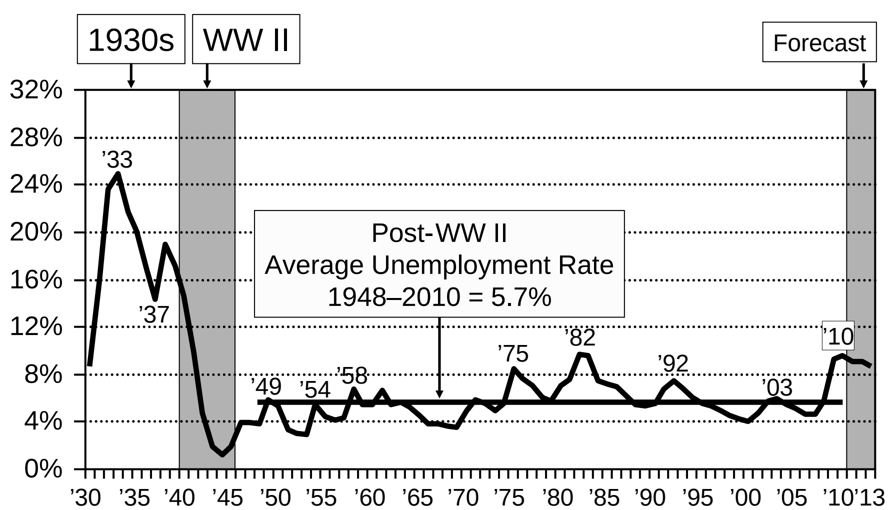


Figure 7

U.S. Unemployment Rate, 1930–2010 and Forecast, 2011–13



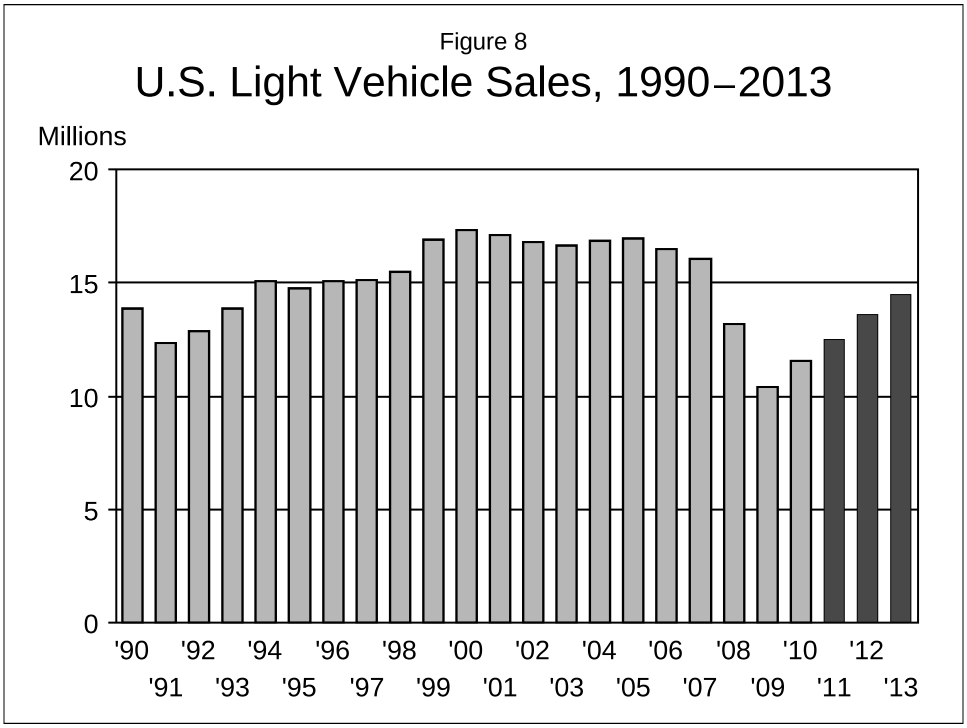


Figure 8
U.S. Light Vehicle Sales, 1990–2013
Millions
20
15
10
5
0
'90
'91
'92
'93
'94
'95
'96
'97
'98
'99
'00
'01
'02
'03
'04
'05
'06
'07
'08
'09
'10
'11
'12
'13

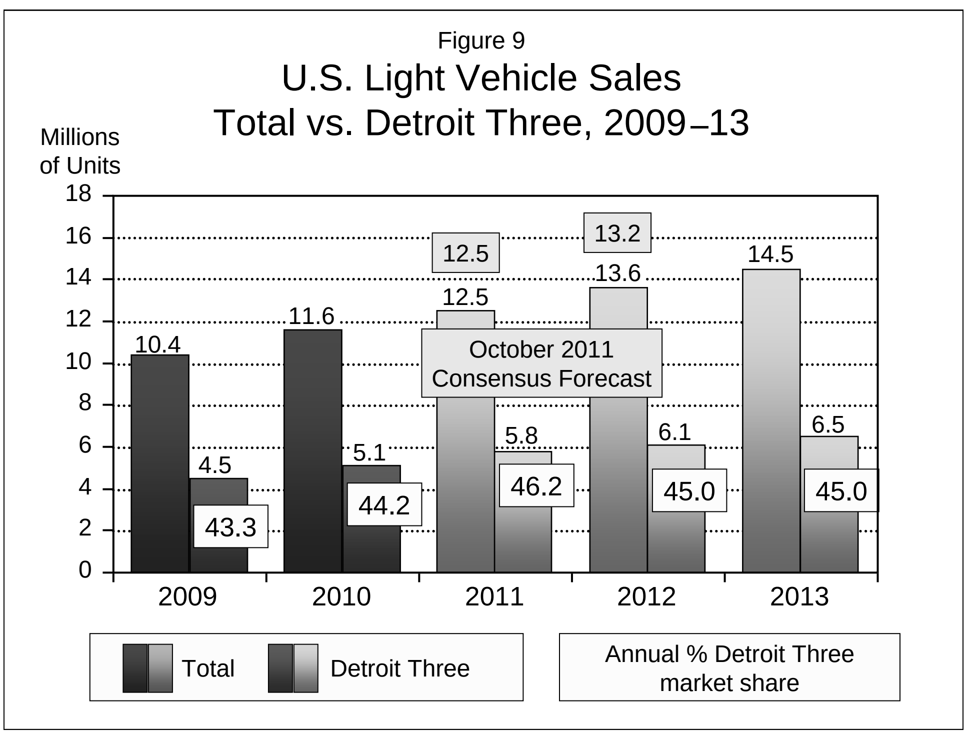


Figure 9
U.S. Light Vehicle Sales
Total vs. Detroit Three, 2009–13
Millions of Units
18
16
14
12
10
8
6
4
2
0
10.4
4.5
43.3
11.6
5.1
44.2
12.5
12.5
5.8
46.2
13.2
13.6
6.1
45.0
14.5
6.5
45.0
October 2011 Consensus Forecast
2009
2010
2011
2012
2013
Total
Detroit Three
Annual % Detroit Three market share

Region Outlook

Figure 1

Annual Job Change

Six-County Region, 2001–10

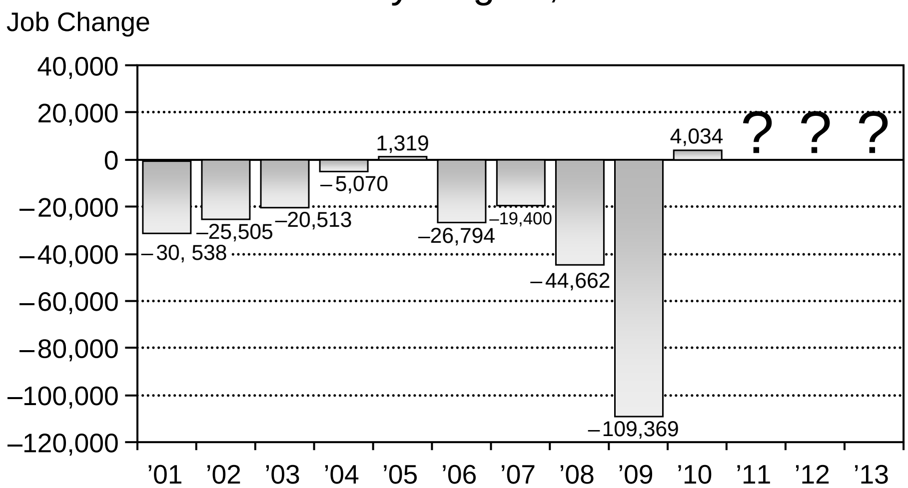


Figure 10

Annual Job Change

Six-County Region, 2001–13

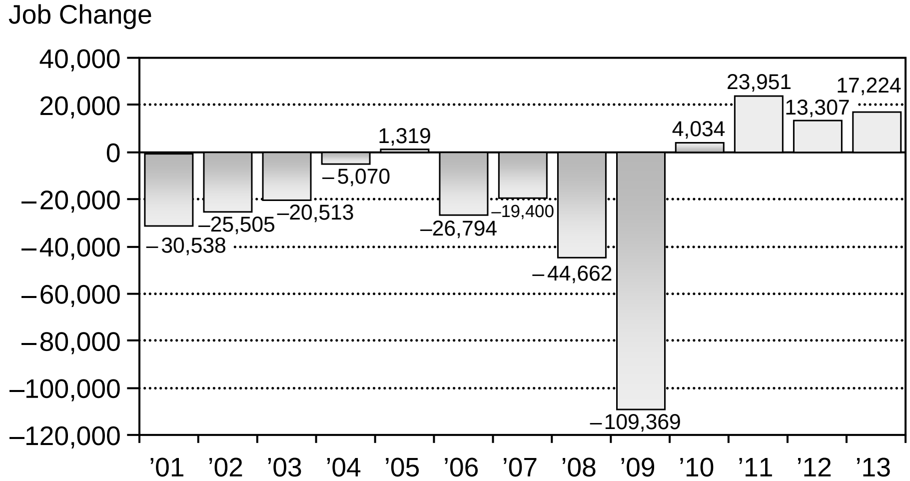


Figure 11

Six-County Region Total Jobs

First Quarter of 2000 to Fourth Quarter of 2013

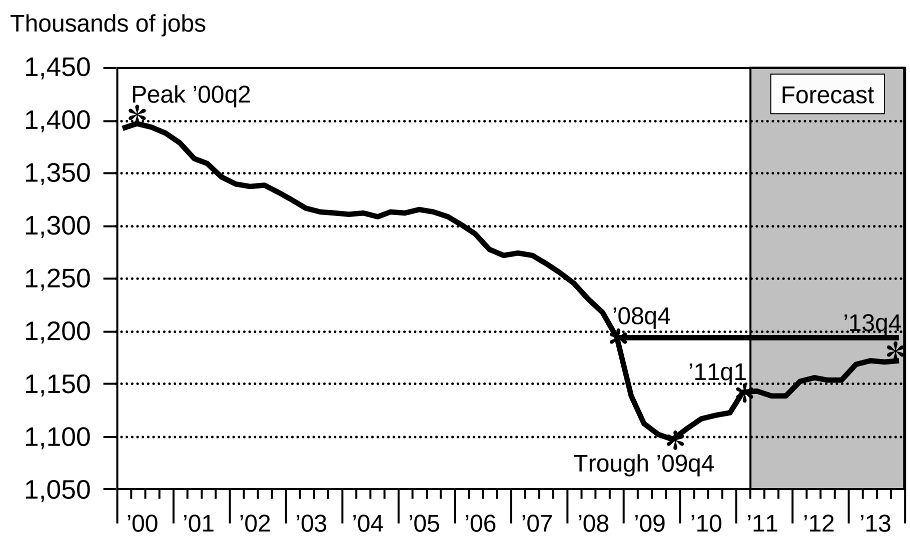


Table 1

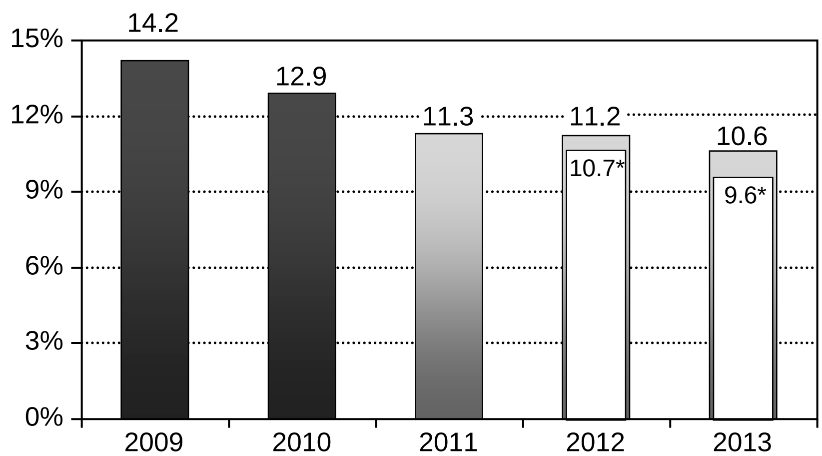
Forecast of Jobs in the Six-County Region by Major Industry Division, 2011–13*

	Actual 2010	Forecast Job Change '10–'11	'11–'12	'12–'13	'10–'13	Wage 2010
TOTAL JOBS (Number of persons)	1,116,500	23,951	13,307	17,225	54,482	$47,853
(Annual percentage change)	(0.4)	(2.1)	(1.2)	(1.5)		
TOTAL GOVERNMENT	124,149	–4,921	–1,400	–628	–6,949	50,335
TOTAL PRIVATE	992,351	28,872	14,707	17,852	61,431	47,542
GOODS-PRODUCING	165,893	9,462	5,048	5,483	19,993	62,863
Natural resources, mining	2,097	–295	–70	–19	–384	27,156
Construction	35,975	433	484	1,323	2,240	55,947
Manufacturing	127,820	9,325	4,633	4,179	18,137	65,395
Fabricated metal products	20,195	2,433	1,078	938	4,450	51,170
Machinery	19,307	2,165	1,091	1,041	4,297	66,602
Other manufacturing	88,318	4,726	2,464	2,200	9,390	68,384
PRIVATE SERVICE-PROVIDING	826,458	19,410	9,659	12,369	41,438	44,467
Trade, transportation, and utilities	212,681	3,300	1,436	2,041	6,777	40,780
Wholesale trade, durable goods	30,992	1,036	650	878	2,564	75,584
Retail trade	143,871	872	954	1,027	2,853	27,622
Other wholesale trade, transportation, warehousing, utilities	37,818	1,392	–168	136	1,361	62,316
Information	21,550	–828	–15	62	–781	63,558
Financial activities	67,712	422	423	615	1,461	60,749
Finance and insurance	47,911	284	379	493	1,156	70,227
Real estate and rental and leasing	19,801	138	44	122	304	37,816
Professional and business services	200,664	13,664	3,679	4,927	22,270	59,369
Professional, scientific, and technical, management of companies	116,676	5,386	1,651	1,672	8,709	76,638
Administrative support and waste management	83,988	8,278	2,028	3,255	13,561	35,378
Private education and health services	179,670	2,964	2,916	3,117	8,996	44,494
Private education services	17,065	–215	284	365	434	33,701
Health care and social assistance	162,604	3,179	2,631	2,752	8,562	45,627
Leisure and hospitality	108,409	192	1,469	1,555	3,216	15,483
Other services	35,698	–299	–253	52	–500	28,161
Unclassified	74	–5	5	0	0	34,037

*Some subtotals do not add to totals due to rounding of annual average computations.

Figure 12

Six-County Region Unemployment Rate
2011–13



*Civilian labor force held constant at levels for 2011.

Figure 13

Six-County Region Unemployment Rate, 1990–2010
and Forecast, 2011–13

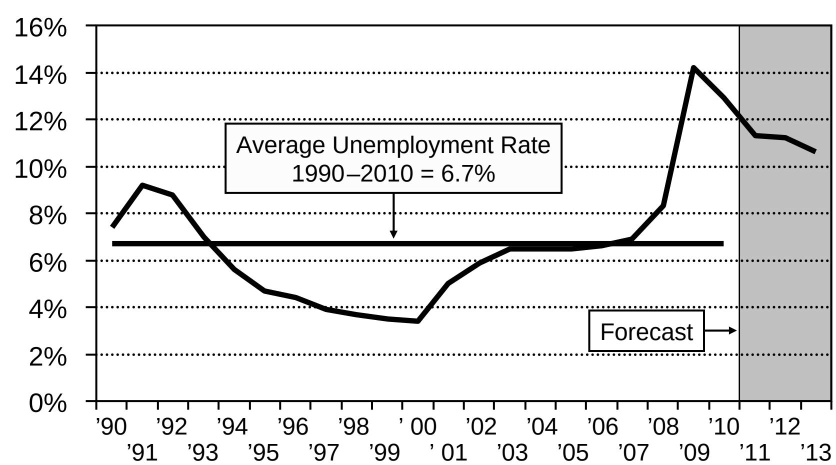
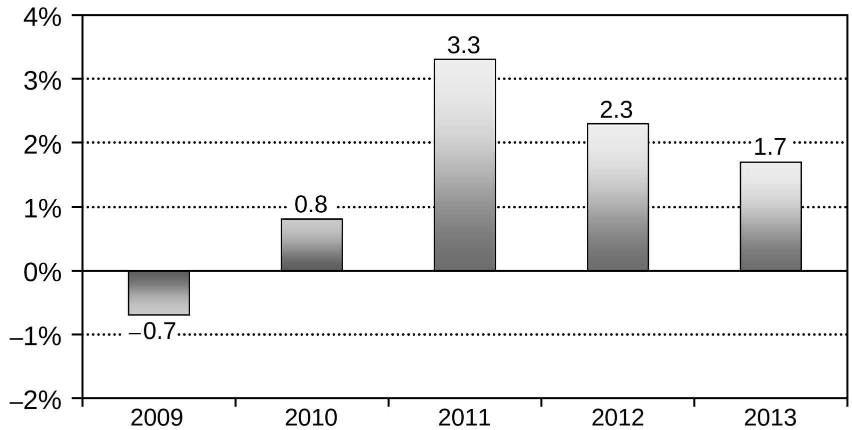


Figure 14

Inflation Rate, Detroit CPI
2009–13



County Outlook

Table 2

Forecast of Household Employment* by County 2011–13

County	Actual 2010	Forecast Household Employment Change 2010–11	2011–12	2012–13	2010–13	Wage 2010
Genesee	164,643	691	–107	775	1,359	$38,894
Lapeer	35, 754	–107	305	486	684	33,720
Livingston	80,579	–88	978	1,050	1,940	38,628
Macomb	351,126	–772	2,887	4,938	7,053	46,679
Oakland	528,258	–1,317	3,565	7,076	9,324	51,990
St. Clair	67,751	–165	504	929	1,268	38,154
REGION	1,228,111	–1,758	8,132	15,255	21,629	47,853

*Household employment = total establishment jobs + self-employed – net commuters – multiple job-holding

Table 3

Forecast of Unemployment Rate by County 2011–13

County	Actual 2010	Forecast Unemployment Rate 2011	2012	2013	Change, 2010–13
Genesee	13.7	11.3	11.0	10.4	–3.3
Lapeer	15.2	13.4	13.0	12.3	–2.9
Livingston	11.1	9.8	9.8	9.4	–1.7
Macomb	13.6	12.1	12.1	11.2	–2.4
Oakland	12.0	10.5	10.6	10.0	–2.0
St. Clair	14.9	13.4	13.2	12.7	–2.2
REGION	12.9	11.3	11.2	10.6	–2.3

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