

# Is there a Recession on the Horizon? A Look Forward into 2020

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Presentation to  
Kruggel Lawton 12<sup>th</sup> Annual CFO Summit

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W.E. Upjohn Institute for Employment Research

OCTOBER 30<sup>th</sup>, 2019

# W.E. Upjohn Institute for Employment Research

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- 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.

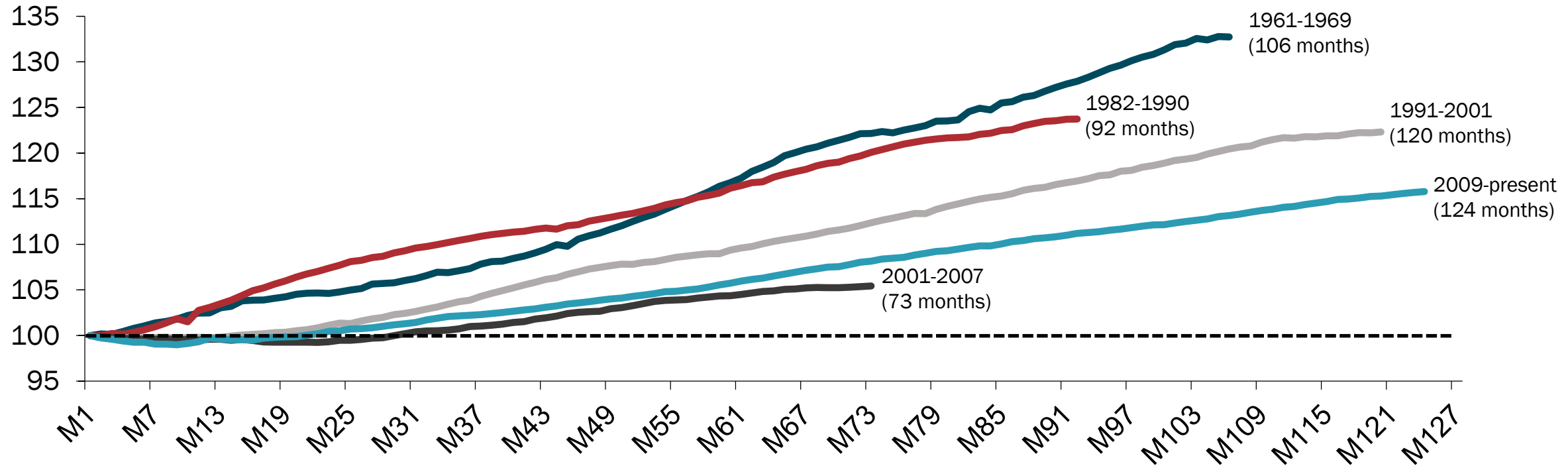


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# National Economy

# We are currently in the longest expansion since WWII

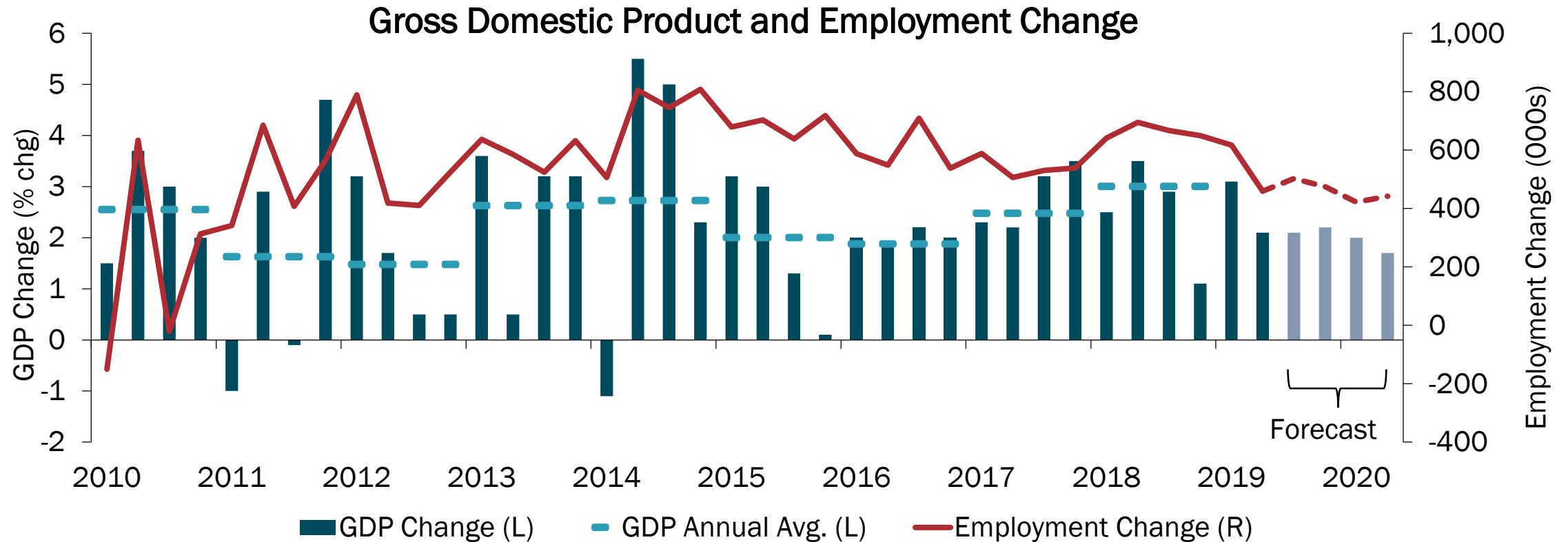
## Employment Index during Economic Expansion



# We're in the longest business cycle (contraction and expansion) and the longest expansion, while experiencing the longest recession since measurement began

Length of:	1945-1948	1949-1953	1954-1957	1958-1960	1961-1969	1970-1973	1975-1980	1980-1981	1982-1990	1991-2001	2002-2007	2009-?
Contraction	8	11	10	8	10	11	16	6	16	8	8	18
Expansion	37	45	39	24	106	36	58	12	92	120	73	124
Business Cycle	45	56	49	32	116	47	92	18	108	128	81	142

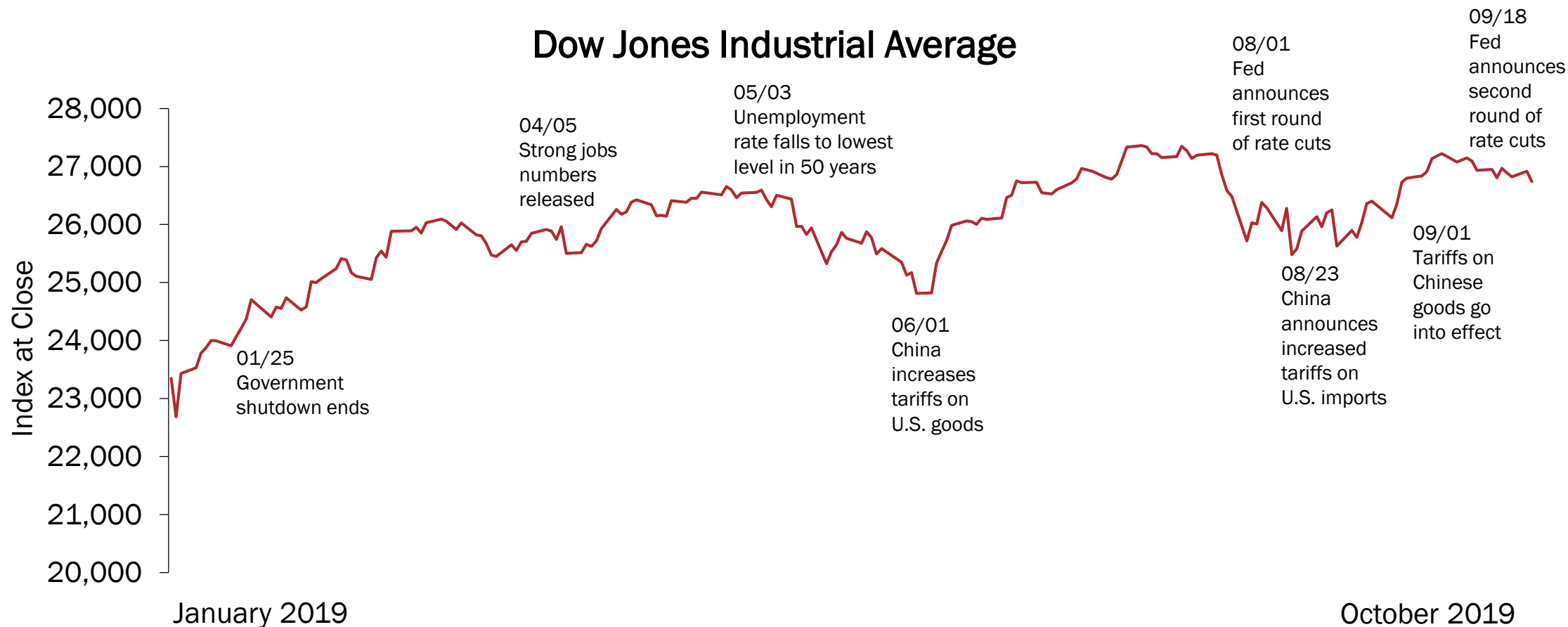
# GDP is projected to remain solid, with a slowing rate of employment growth; Revision 3: Q2 2.0%



# University of Michigan RSQE national forecast

	2019 (Forecast)	2020 (Forecast)	2021 (Forecast)
GDP	2.3%	1.7%	1.6%
Employment	1.5%	1.1%	1.0%
Light vehicle sales (millions)	17	16.9	16.6
Unemployment rate	3.7%	3.6%	3.4%
Housing starts (millions)	1.23	1.24	1.24
CPI/Inflation	1.7%	1.9%	1.9%

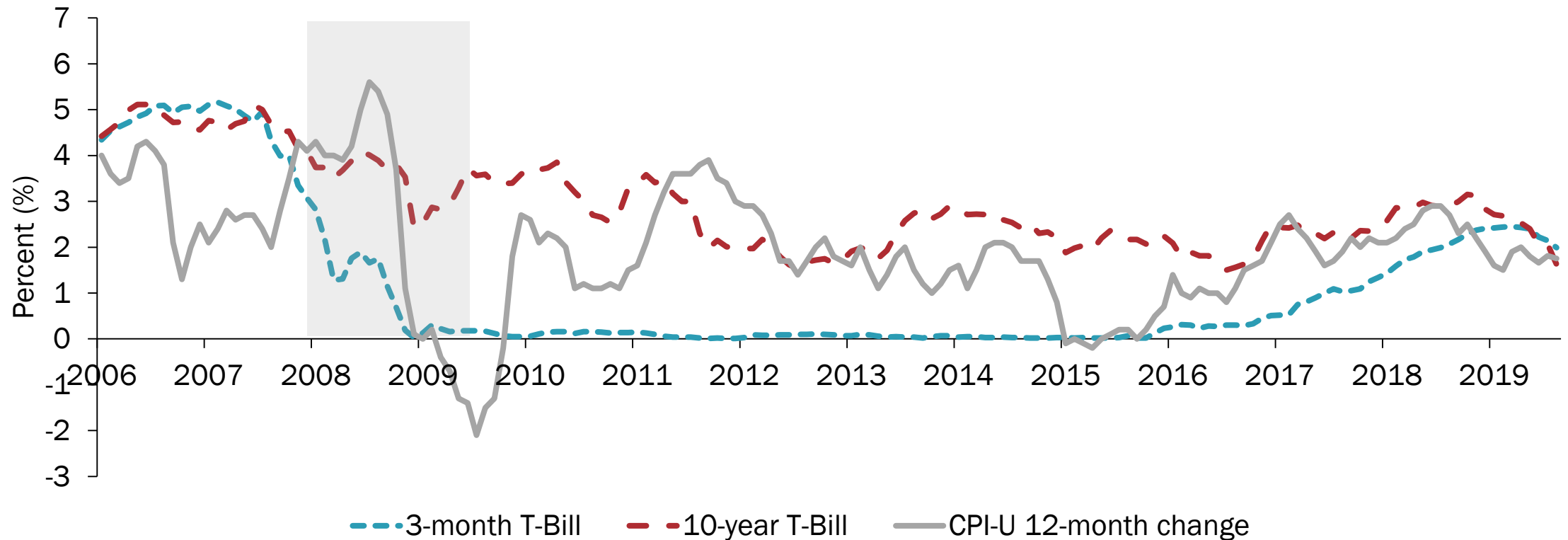
# The stock market has reacted to various events this year, and the ride is getting bumpier





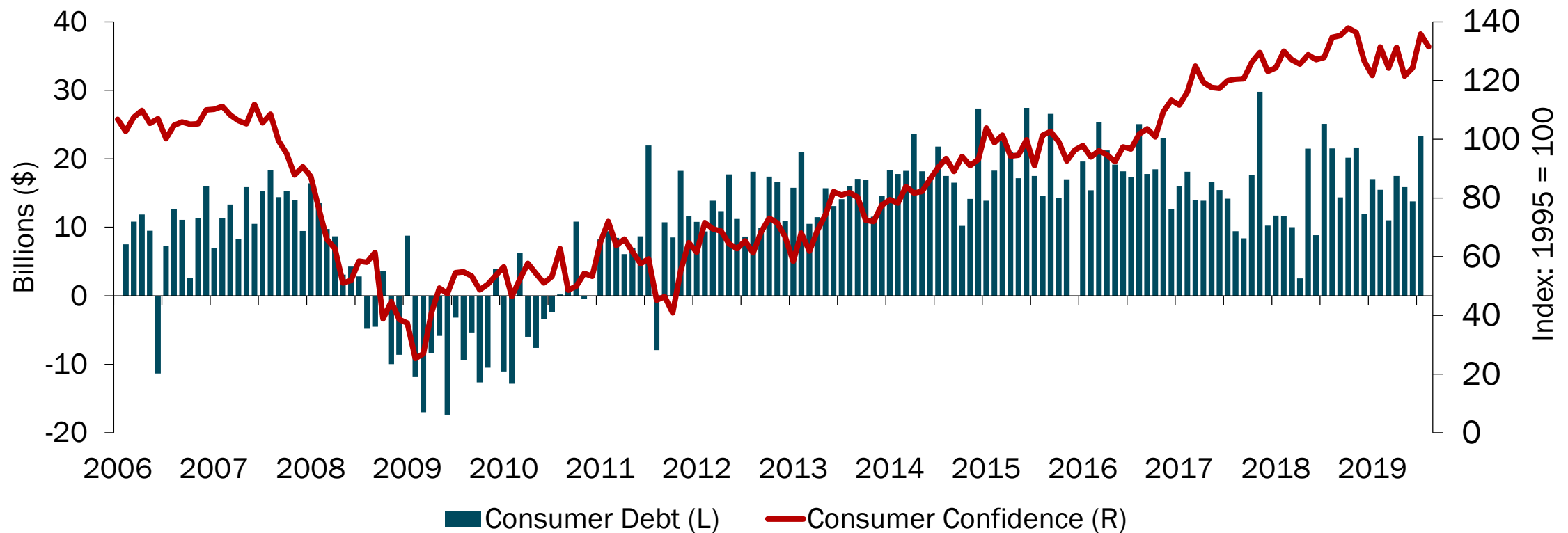
# Inflation and interest rates have increased in the past two years

Interest Rates and 12-Month Inflation Change



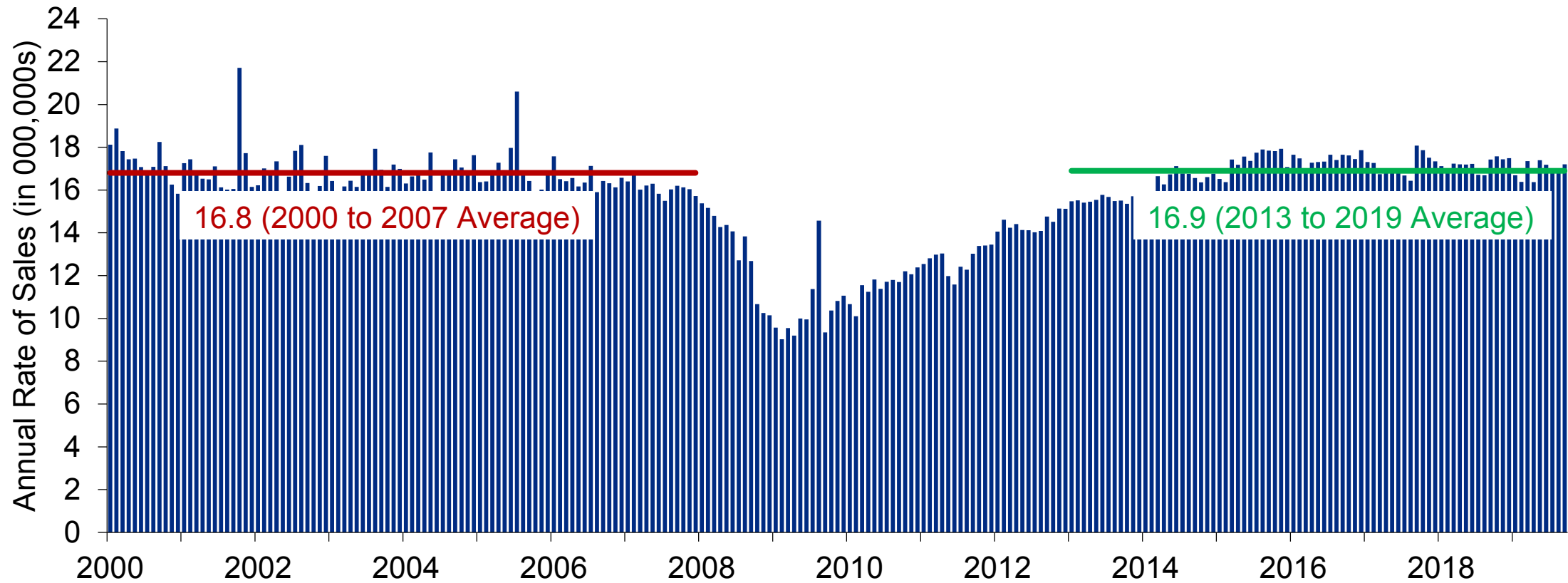
# High consumer confidence (↓@125.1) and slower debt growth

Consumer Confidence and Change in Consumer Debt

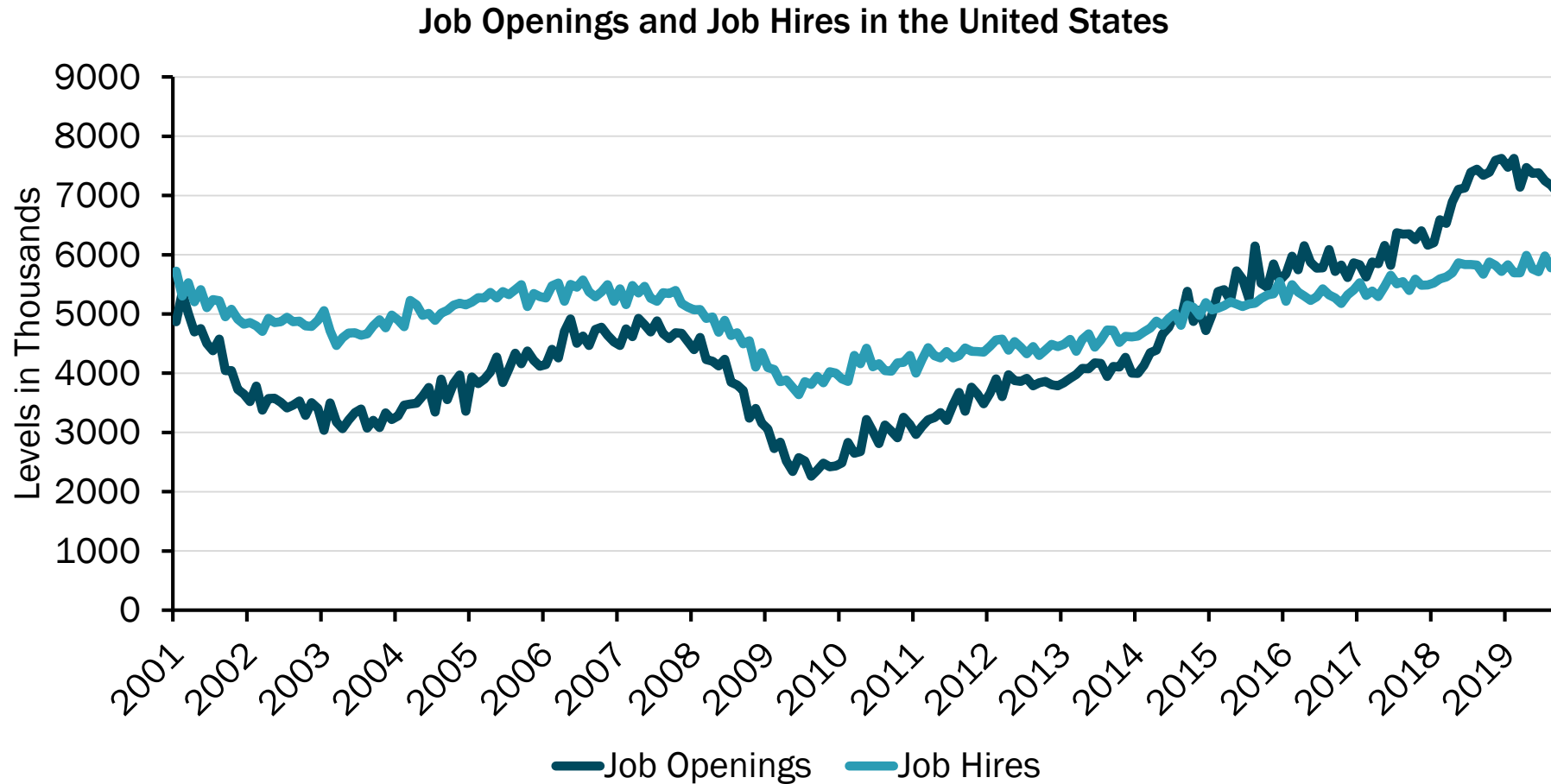


# Light vehicle sales have been steady

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



# More openings than workers in the nation...



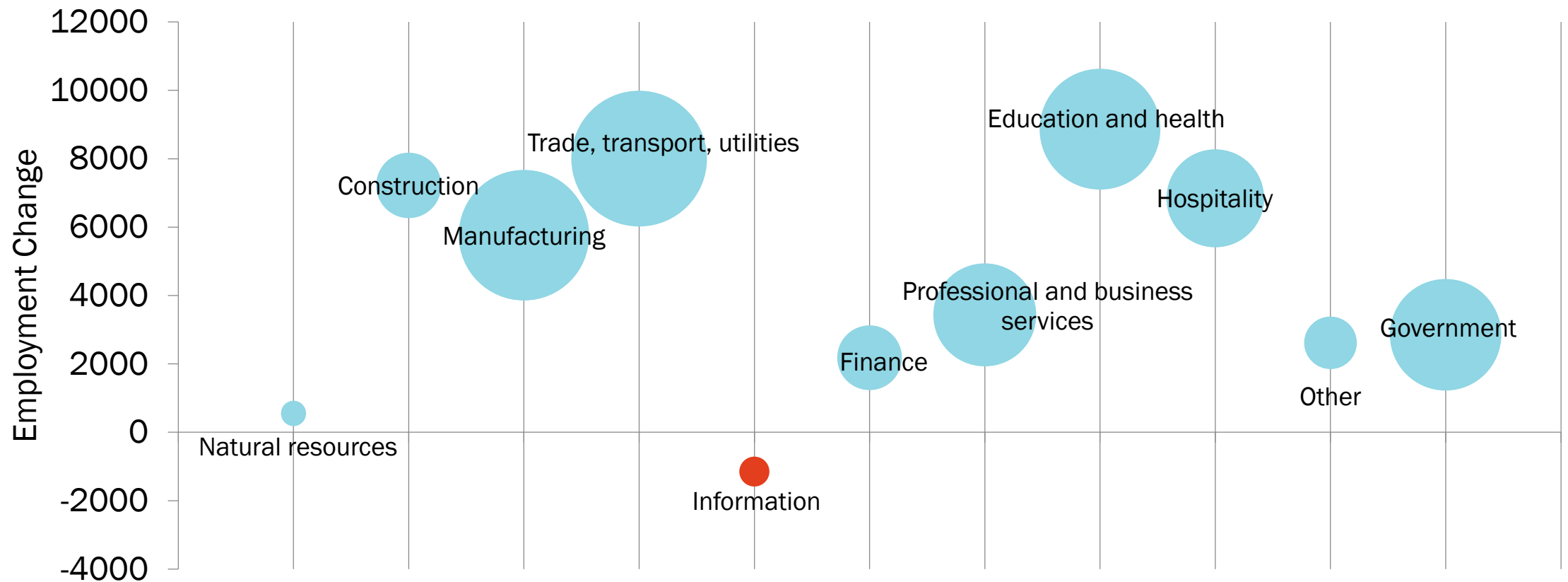


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**Indiana**

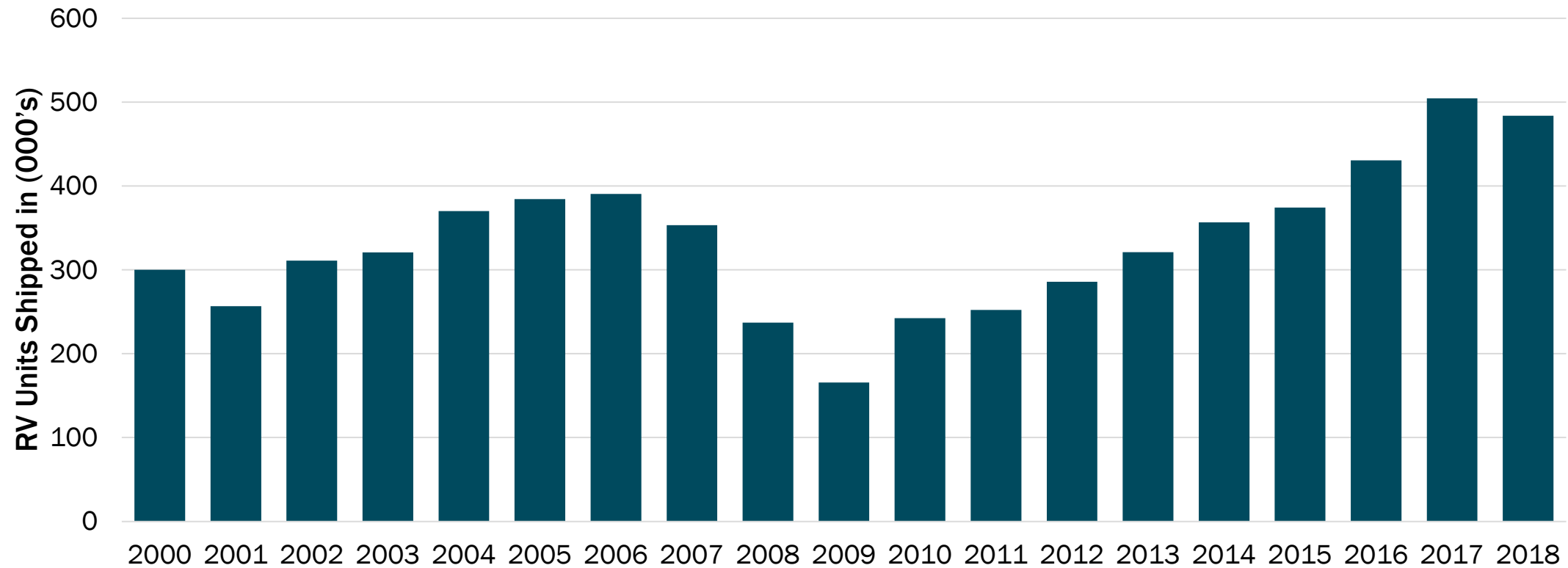
# Education and health added the most jobs last year in the state of Indiana

State of Indiana Employment Change, Q1 2018 to Q1 2019



# RV unit shipments have increased since the Great Recession, but are showing a recent decline

Total RV Unit Shipments



# USMCA and Brexit matter to Indiana

Industry	Total	China	Canada	Mexico	EU
TOTAL	\$39,330,299,869	5.0%	34.0%	13.8%	23.4%
Transportation equipment	\$12,401,157,080	2.5%	53.3%	13.8%	11.6%
Chemicals	\$9,006,917,779	8.0%	7.7%	4.0%	49.4%
Machinery	\$4,500,992,237	4.8%	21.8%	39.7%	12.8%
Miscellaneous manufactures	\$2,601,469,056	8.8%	12.5%	1.5%	46.6%
Computer and electronic products	\$1,782,551,329	5.9%	31.1%	7.4%	26.6%
Electrical equipment	\$1,339,852,919	4.3%	25.4%	18.4%	12.9%
Food manufacturing	\$1,325,003,411	4.1%	28.2%	16.2%	9.5%

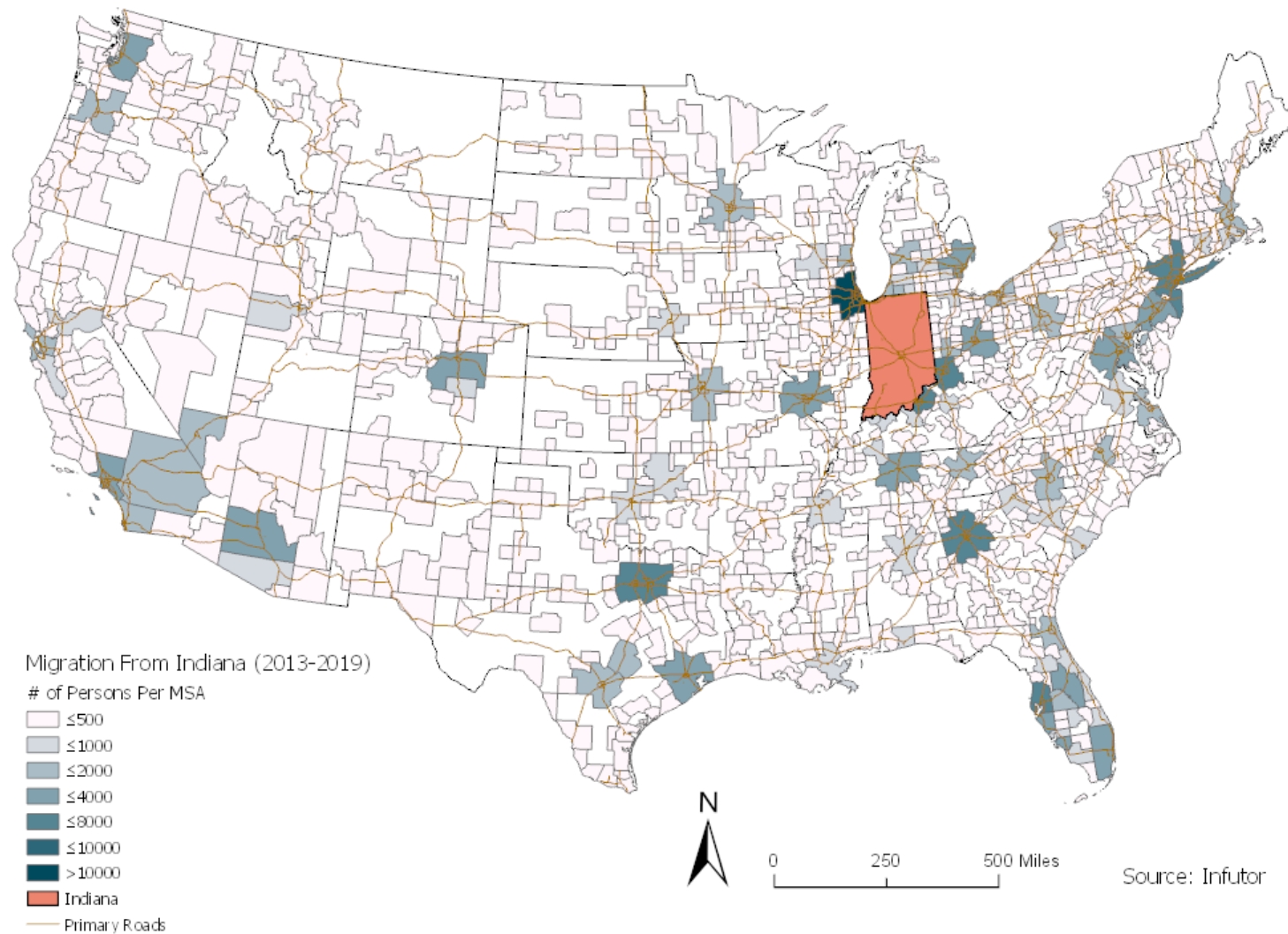


# Exposure on the agricultural side

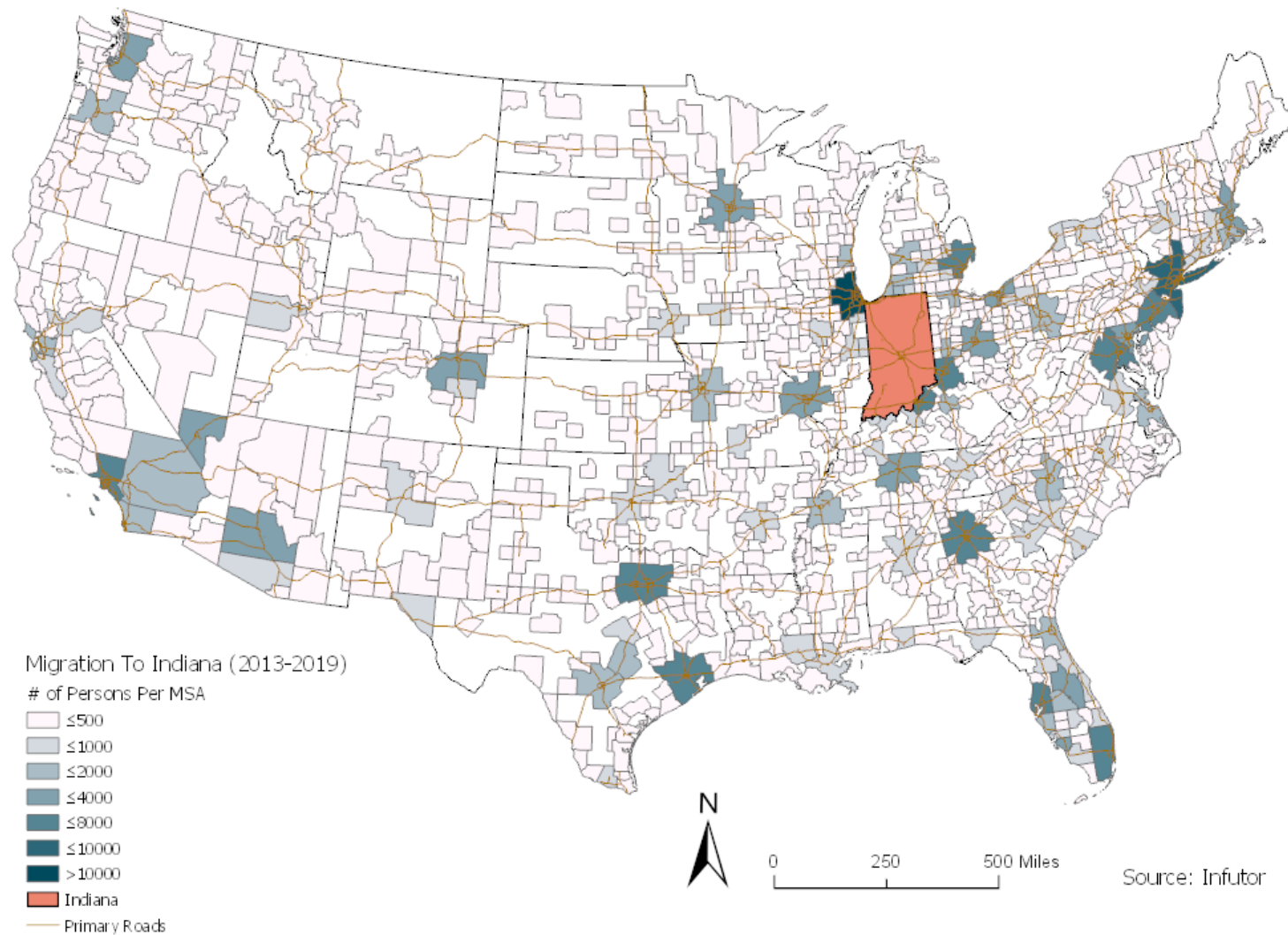
2017-2018	Illinois	Indiana	Michigan	Ohio	Wisconsin
Soy bean farms	36,393	22,223	11,961	25,595	18,296
Soy bean sales	\$5,668,028	\$3,024,384	\$998,608	\$2,333,805	\$938,273
Agricultural products to China	\$163,752	\$209	\$109	\$157,677	\$18,982
Agricultural products to Canada	\$59,285	\$30,038	\$346,322	\$362,651	\$26,062
Agricultural products to Mexico	\$548,893	\$4,130	\$30,742	\$688,268	\$17,128
Agricultural products to E.U.	\$82,673	\$8,669	\$17,346	\$138,186	\$179,259

Dollars in '000s

# Out-migration from Indiana: 2013 to 2019

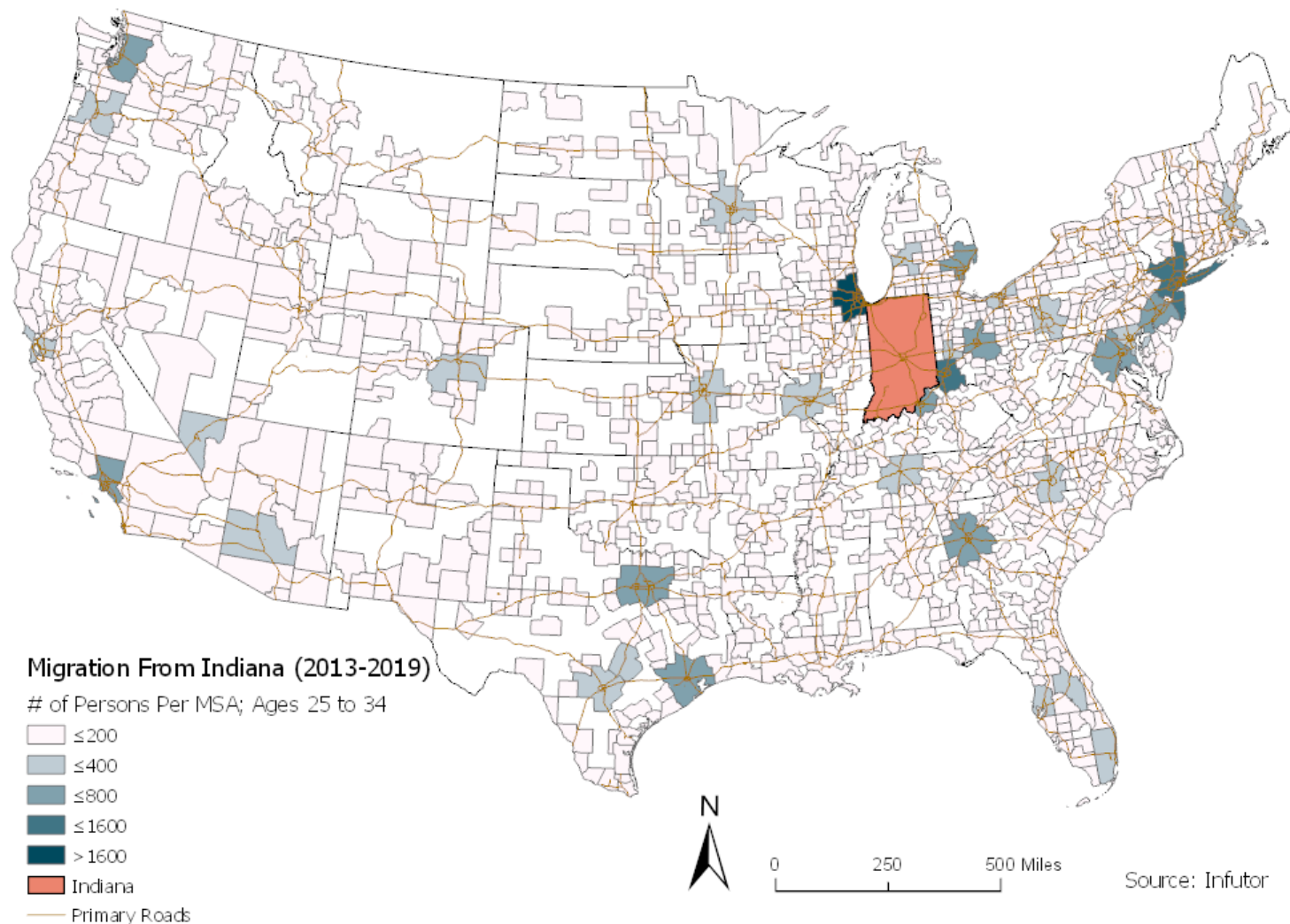


# In-migration to Indiana: 2013 to 2019



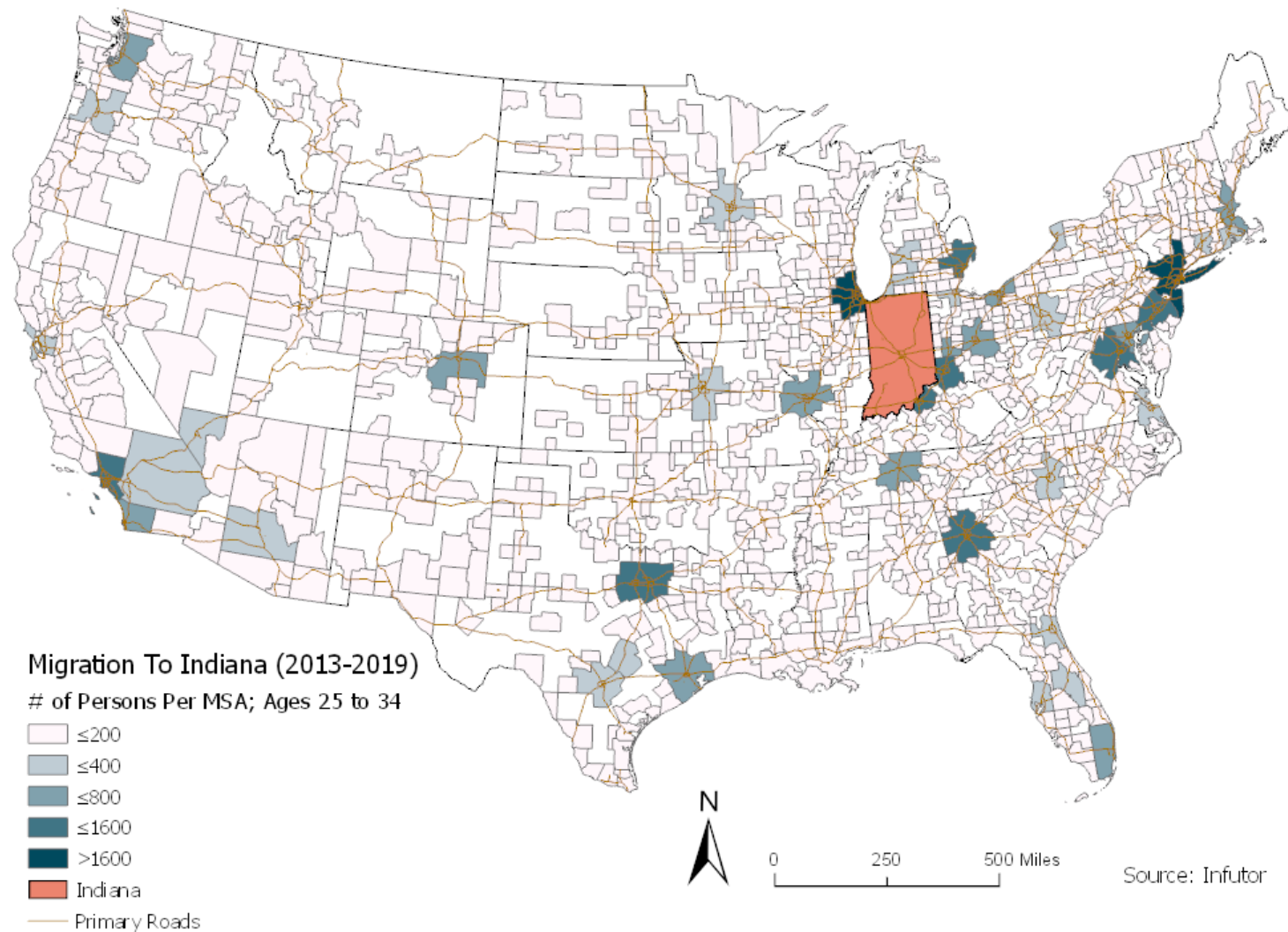
# Out-migration from Indiana: 2013 to 2019

## Emerging workers aged 25 to 34



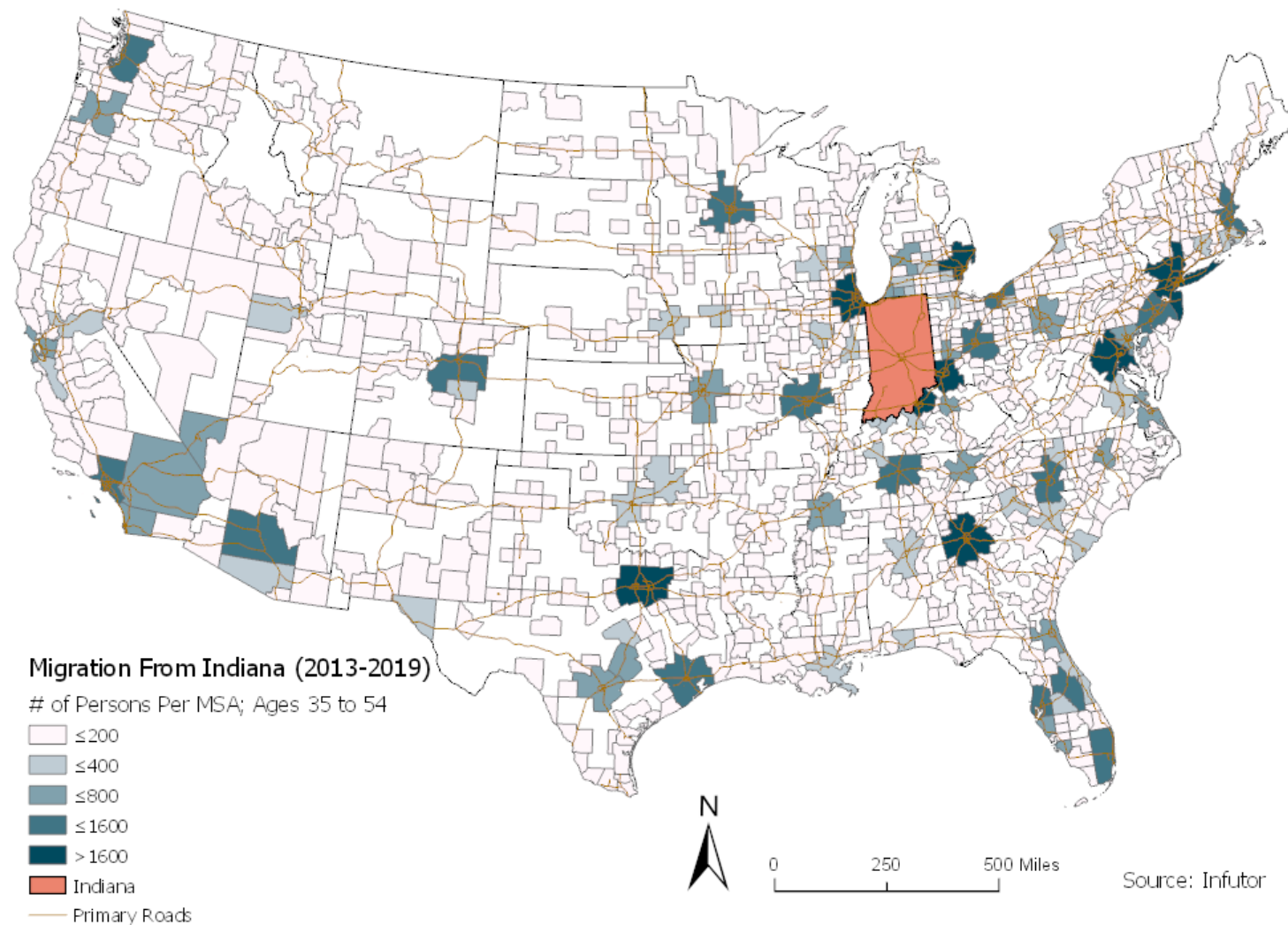
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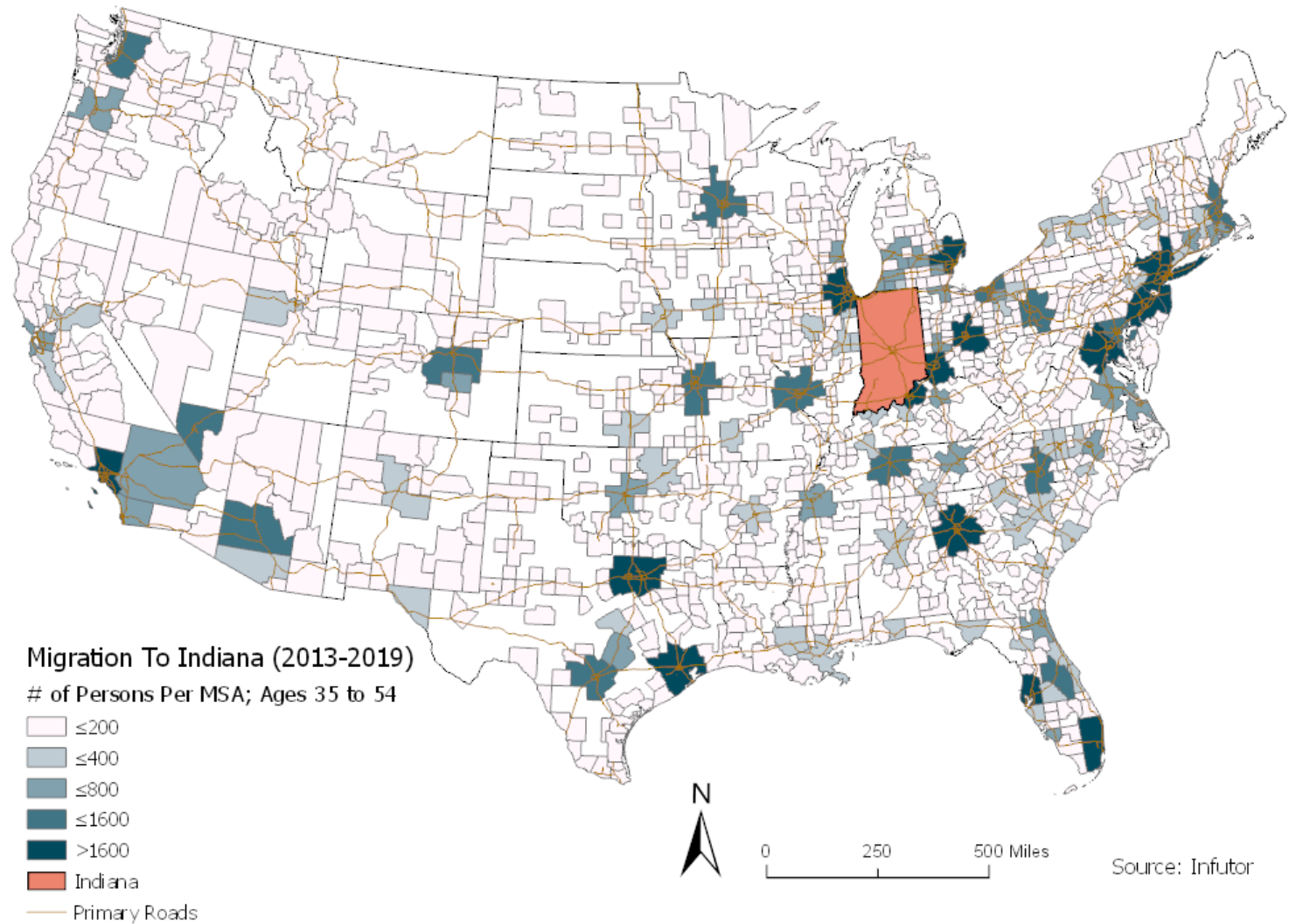
# Out-migration from Indiana: 2013 to 2019

## Prime-aged workers, 35 to 54



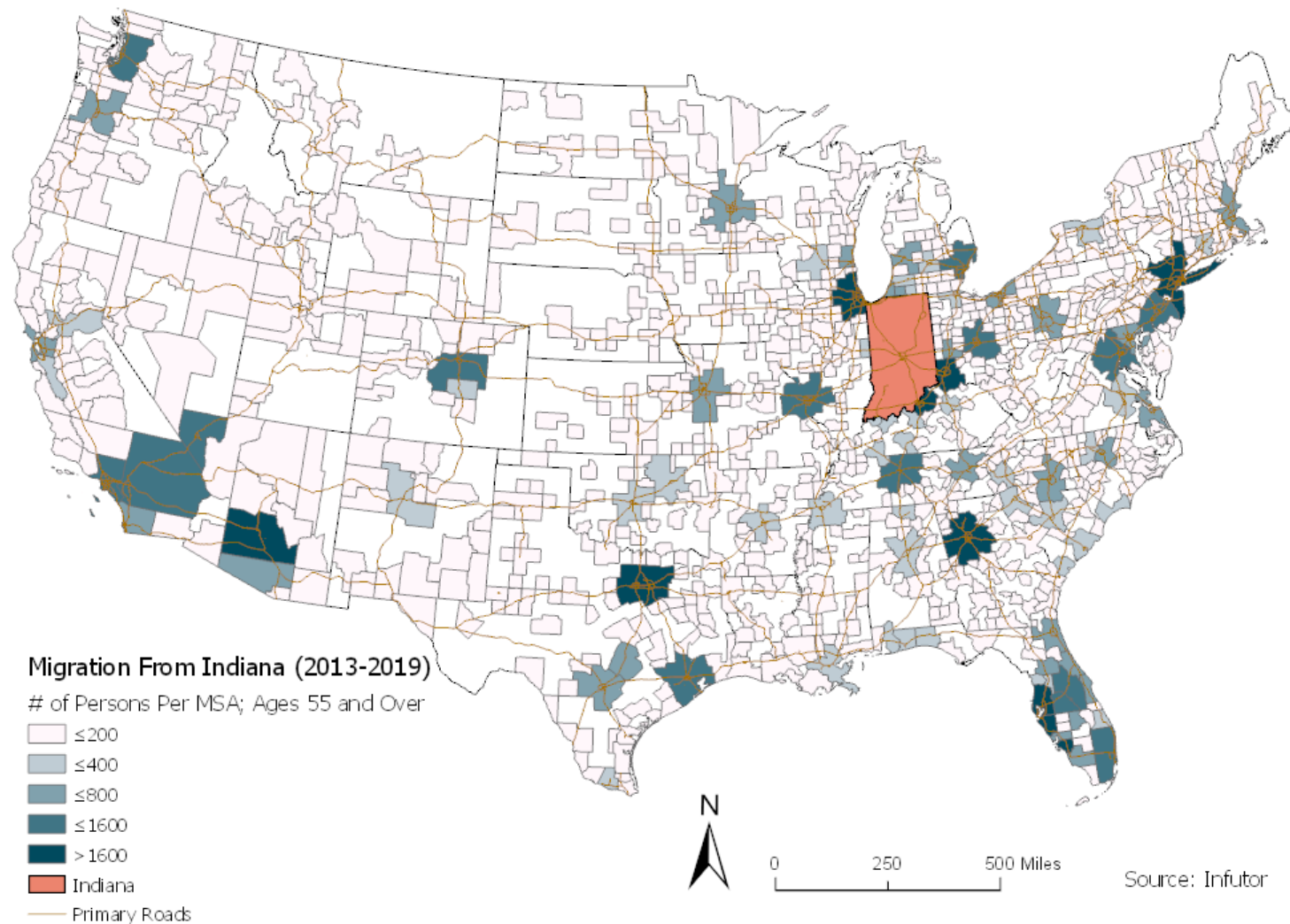
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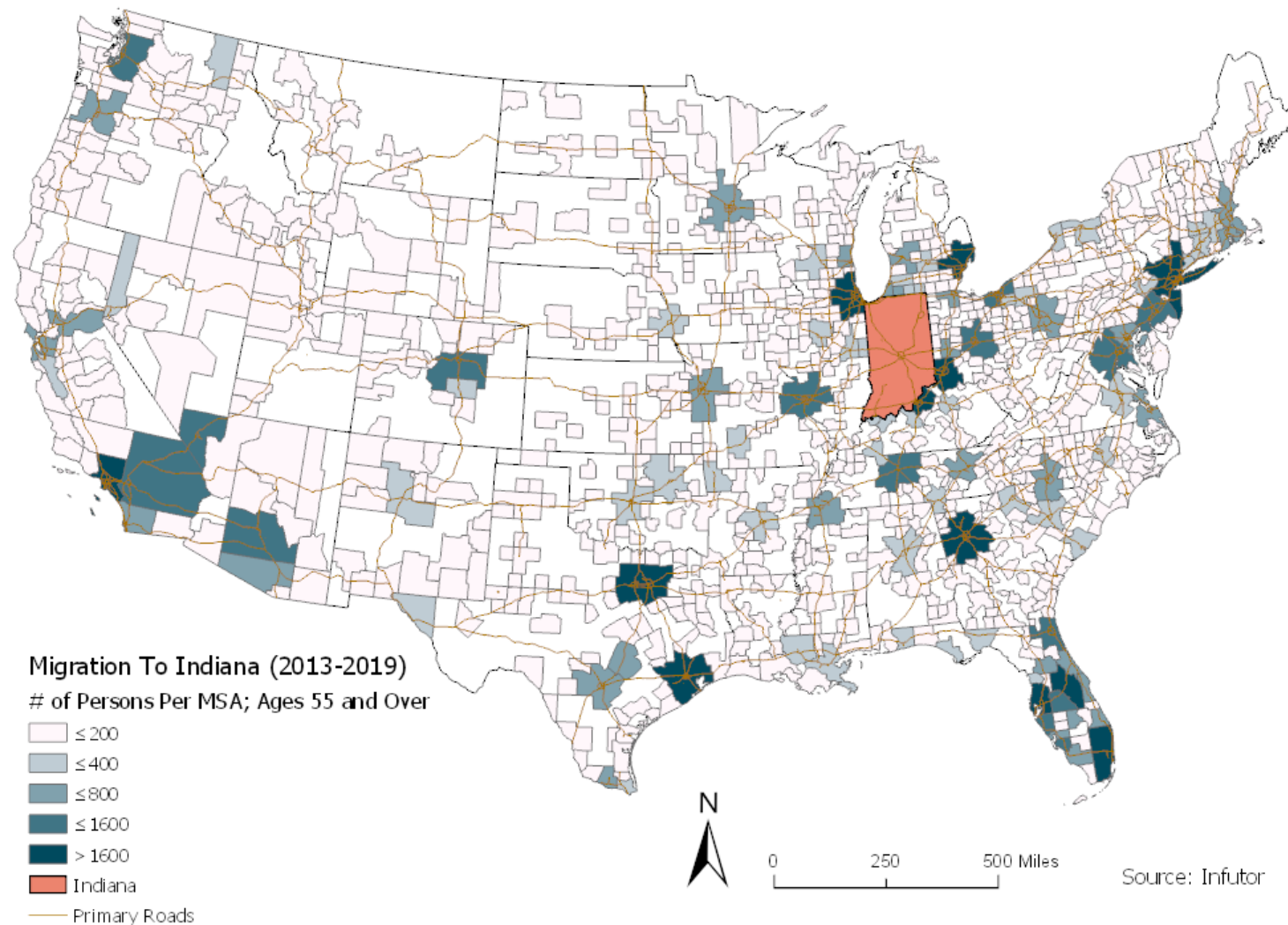
## Post-prime-aged workers, 55 and older





# In-migration from Indiana: 2013 to 2019

## Post-prime- aged workers, 55 and older

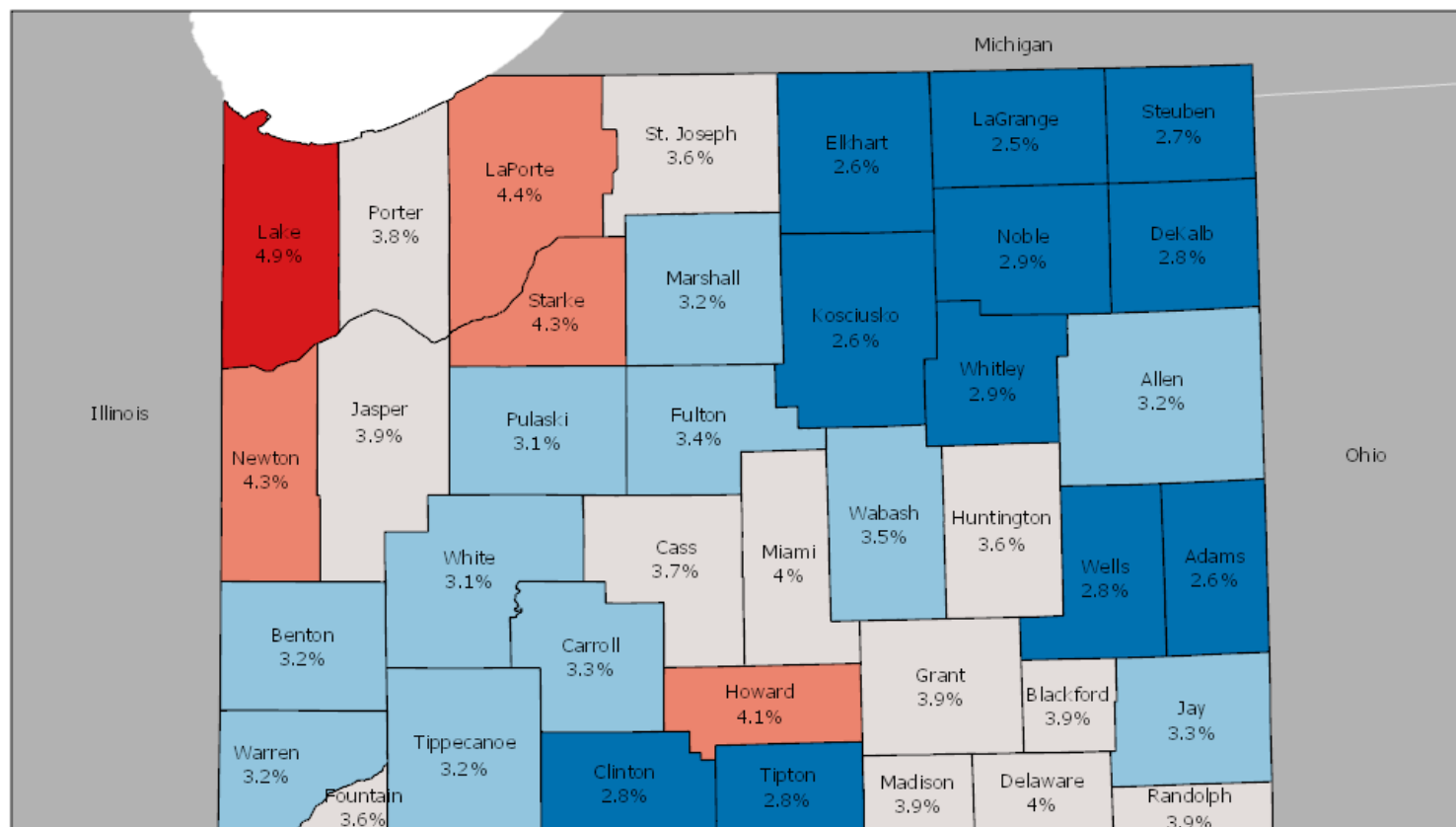




# Regional Economy: Northcentral Indiana

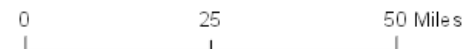
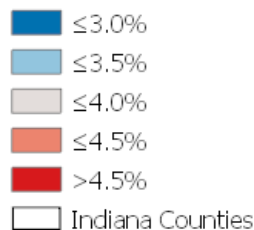
# Unemployment rate 2018

- Elkhart-Goshen MSA is at 3% as of August 2019
- South Bend-Mishawaka MSA is at 3.8% as of August 2019
- Michigan City-La Porte MSA is at 3.9% as of August 2019
- The United States is currently at 3.7%
- Natural Rate of Unemployment: Q3: 4.4%



State of Indiana

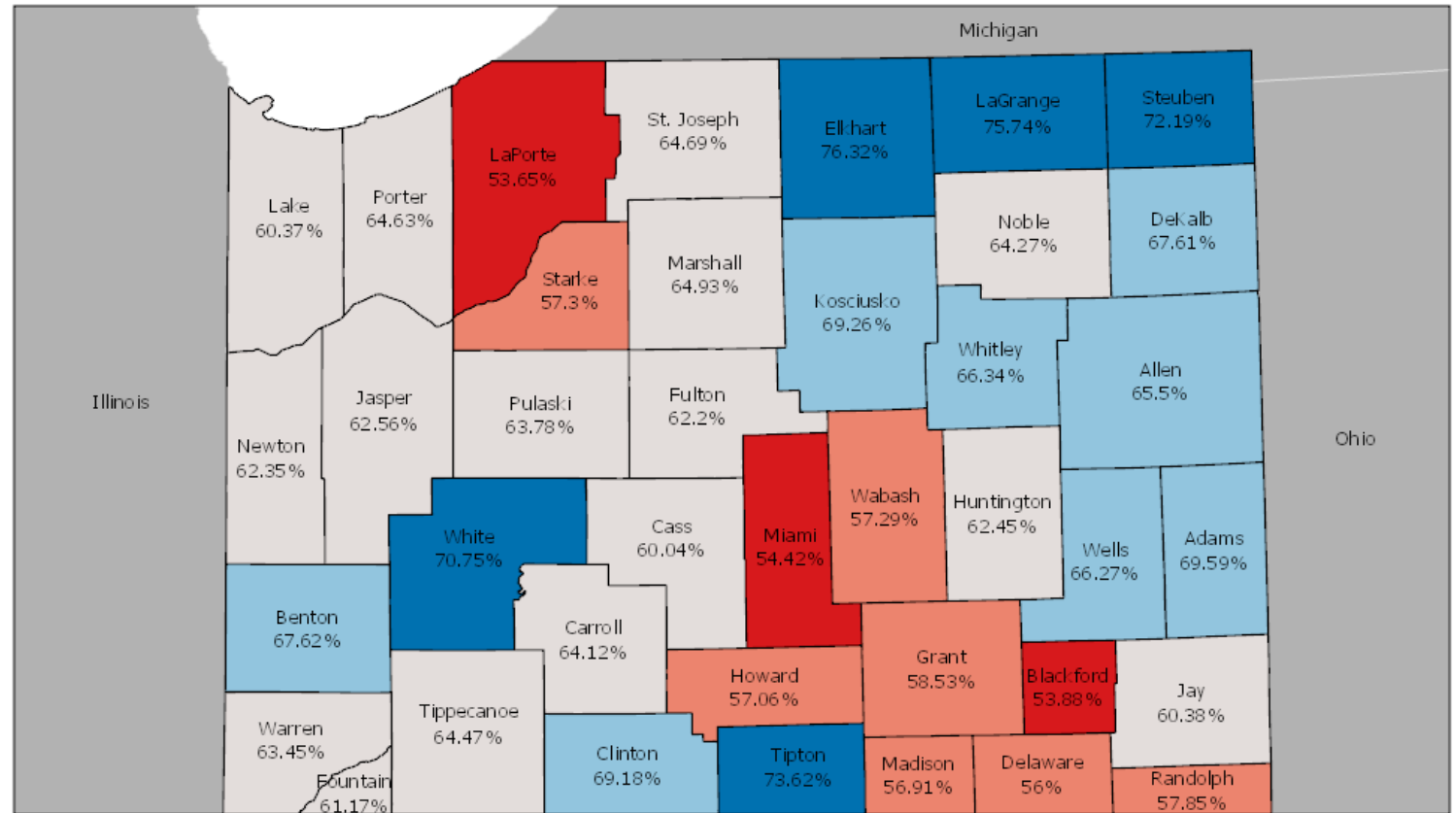
2018 Unemployment Rate by County



Source: Bureau of Labor Statistics

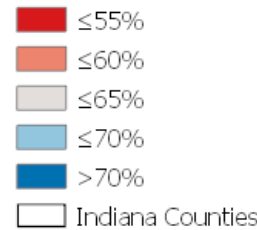
# Labor force participation rate 2018

- Elkhart-Goshen MSA is at 76.66%
- South Bend-Mishawaka MSA is at 63.69%
- Michigan City-La Porte MSA is at 52.76%
- The United States is currently at ~63% and has been since 2017



State of Indiana

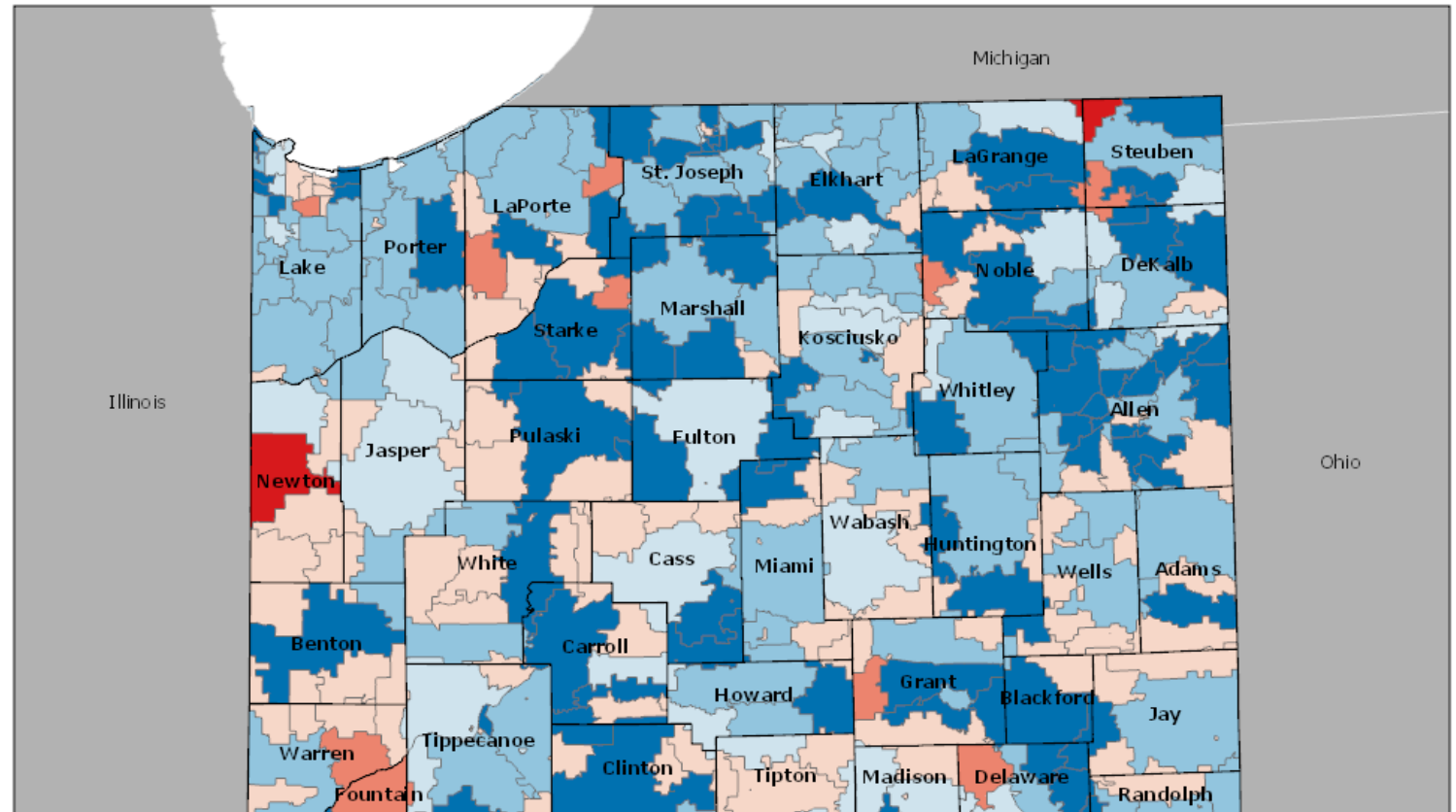
2018 Labor Force Participation Rate by County



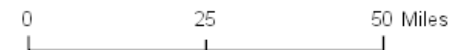
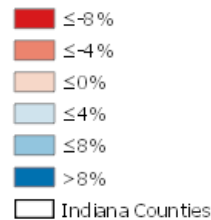
Source: Bureau of Labor Statistics

# Housing price index change

- Elkhart-Goshen MSA 2018 HPI Change was 6.45
- South Bend-Mishawaka MSA 2018 HPI Change was 8.03
- Michigan City-La Porte MSA 2018 HPI Change was 4.88
- Indiana's 2018 statewide HPI Change was 6.56



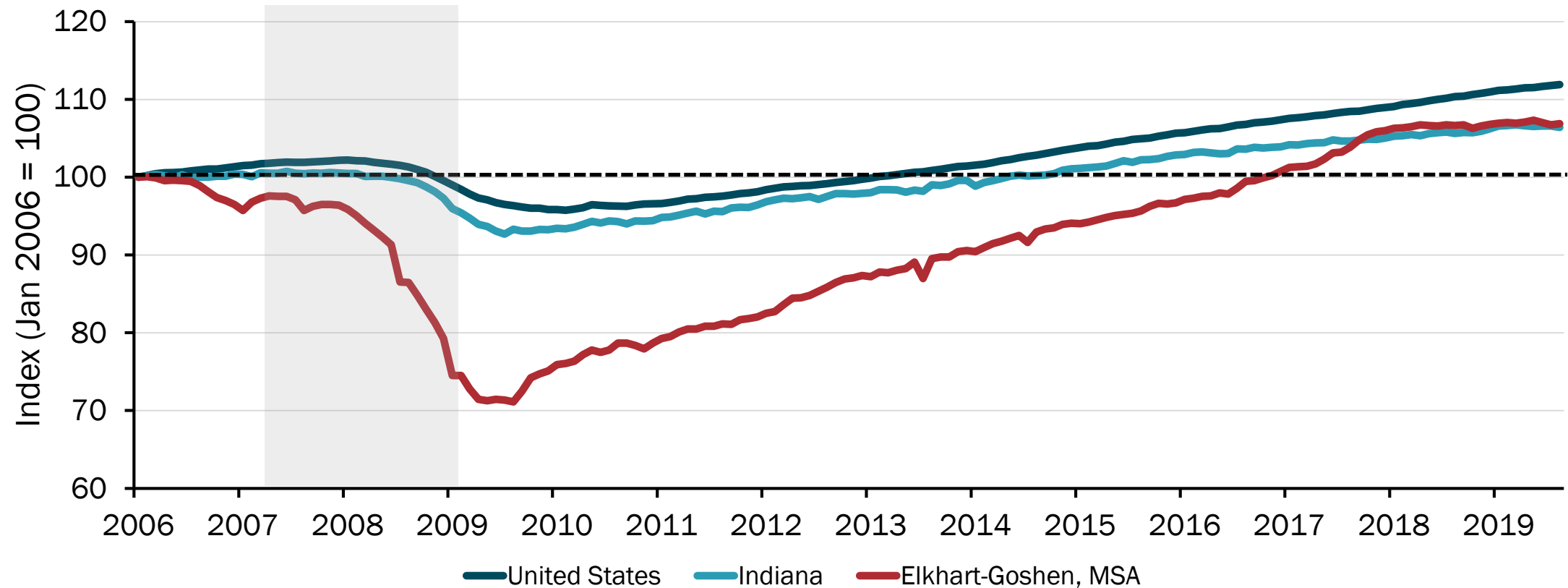
Indiana 2017 to 2018 Housing Price Index Change by 5 Digit Zip Code



Source: Federal Housing Finance Agency

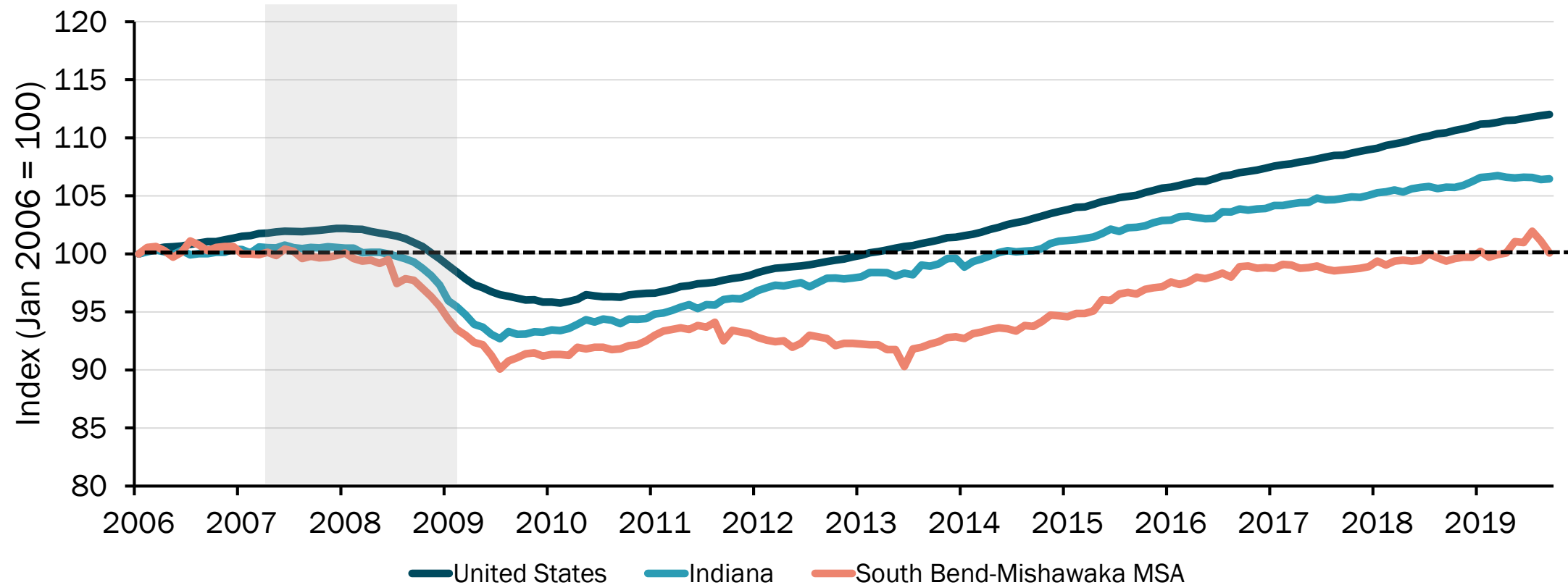
# The Elkhart-Goshen MSA has made a strong recovery since the recession...

Total Employment Index

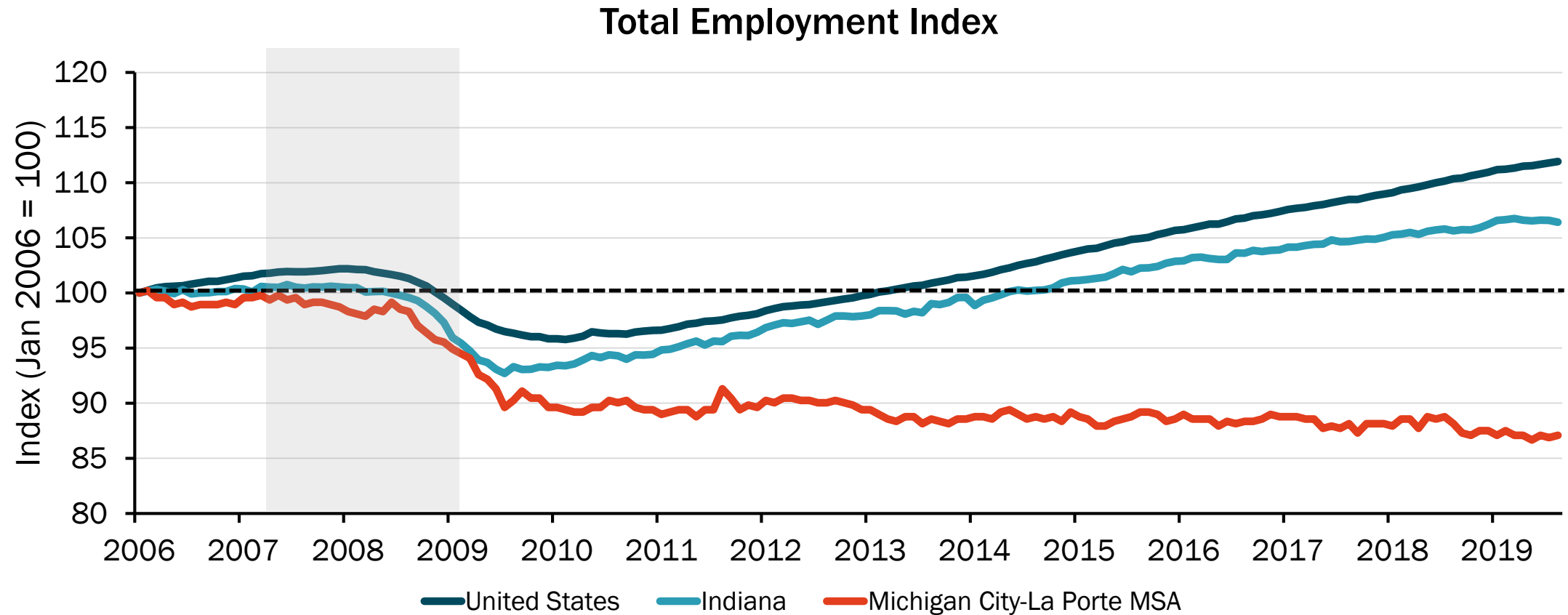


# The South Bend-Mishawaka MSA has only recently reached prerecession employment levels...

Total Employment Index



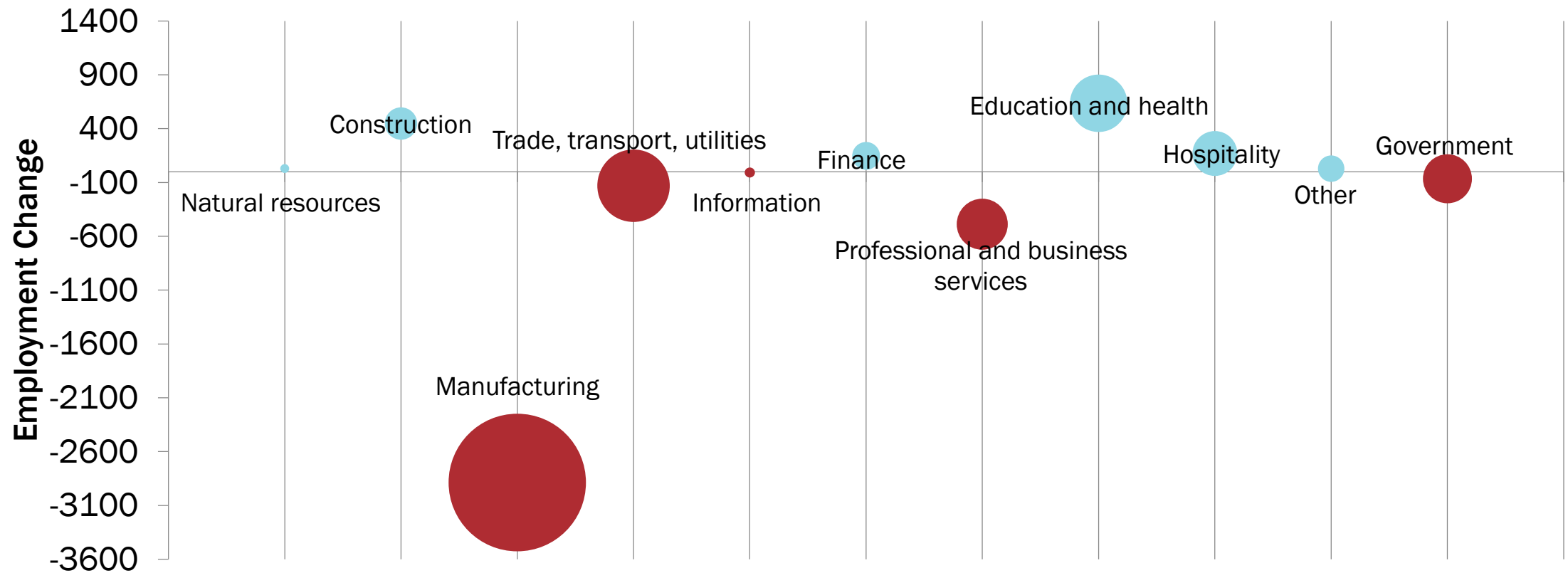
# The Michigan City-La Porte MSA has continued to see its employment stable but below pre-2007...





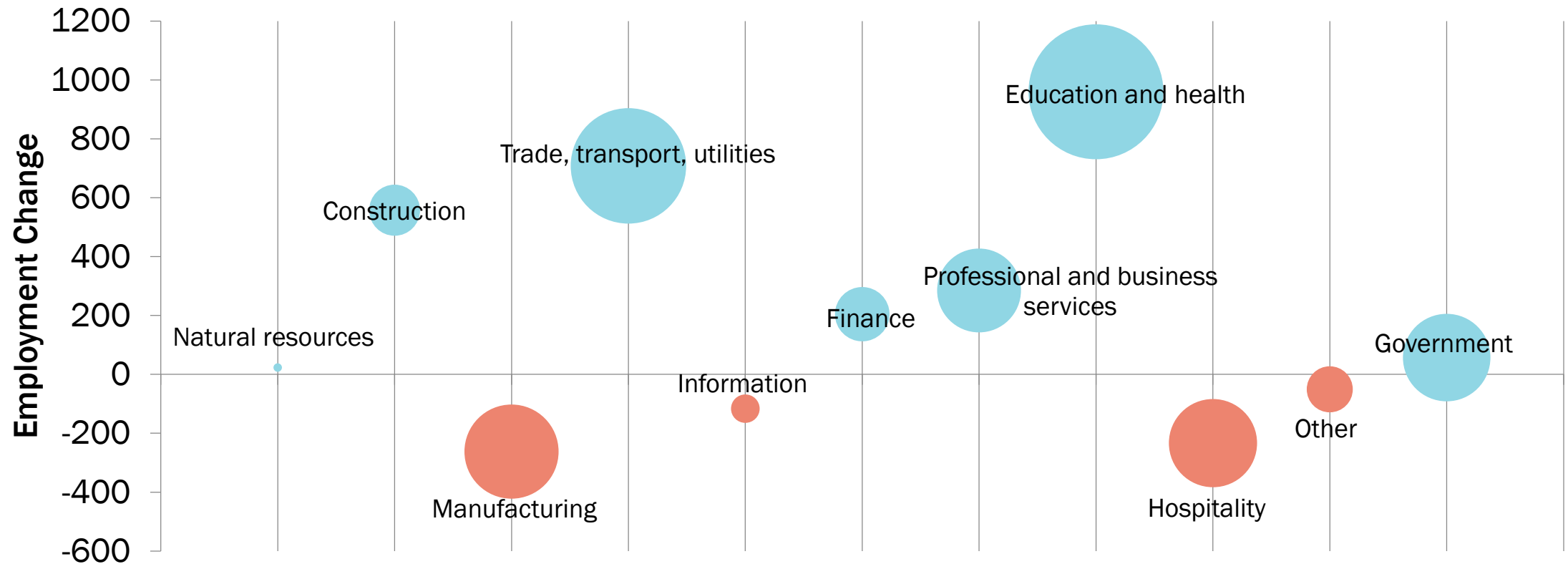
# Manufacturing jobs have declined significantly in Elkhart county

## Elkhart County Employment Change, Q1 2018 to Q1 2019



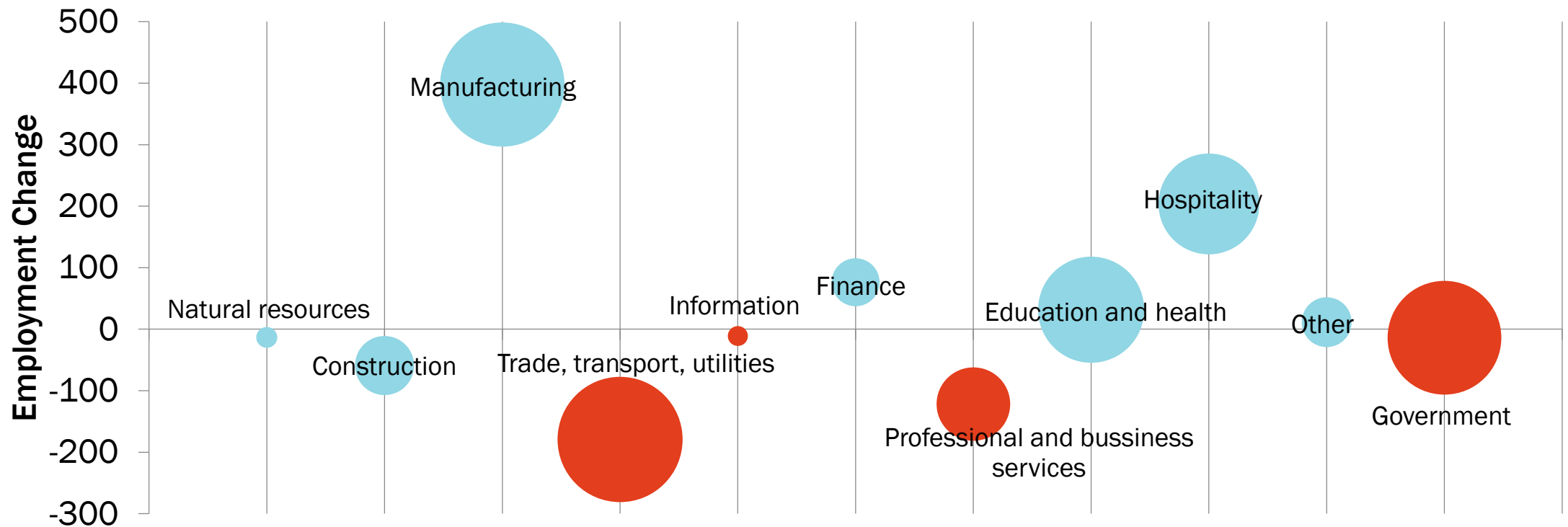
# Education and health employment has been increasing in St. Joseph County, while manufacturing has declined

St. Joseph County Employment Change, Q1 2018 to Q1 2019



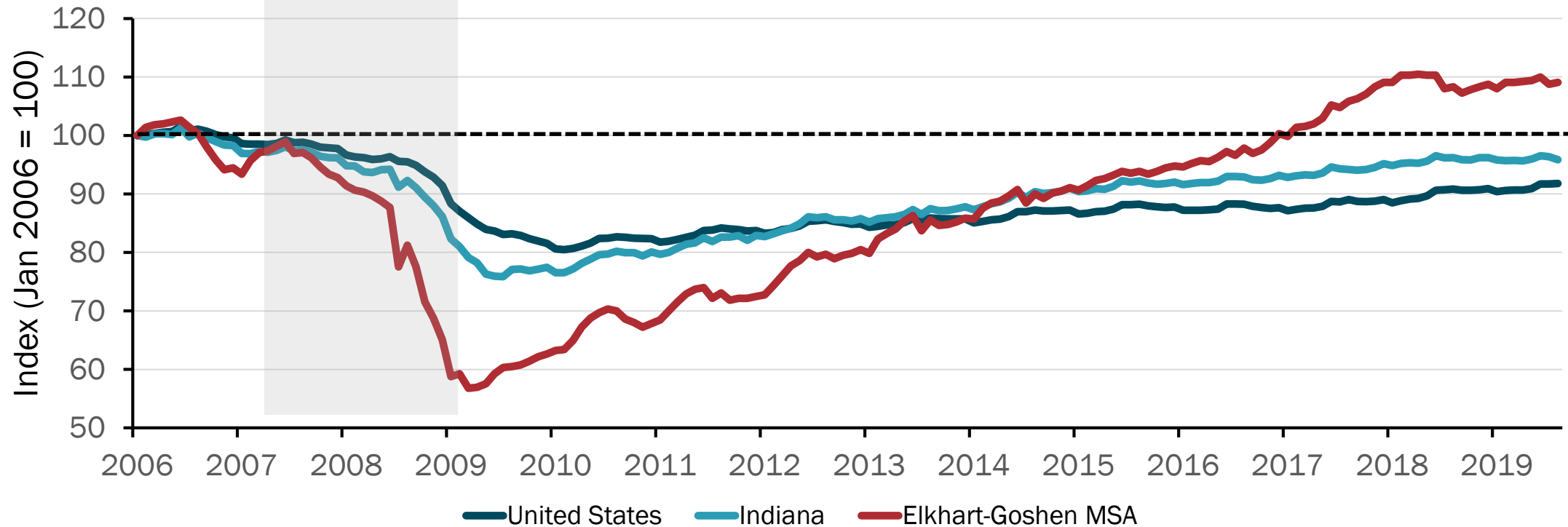
# Manufacturing jobs have been increasing in LaPorte County, while trade, transportation, and utilities have declined

LaPorte County Employment Change, Q1 2018 to Q1 2019

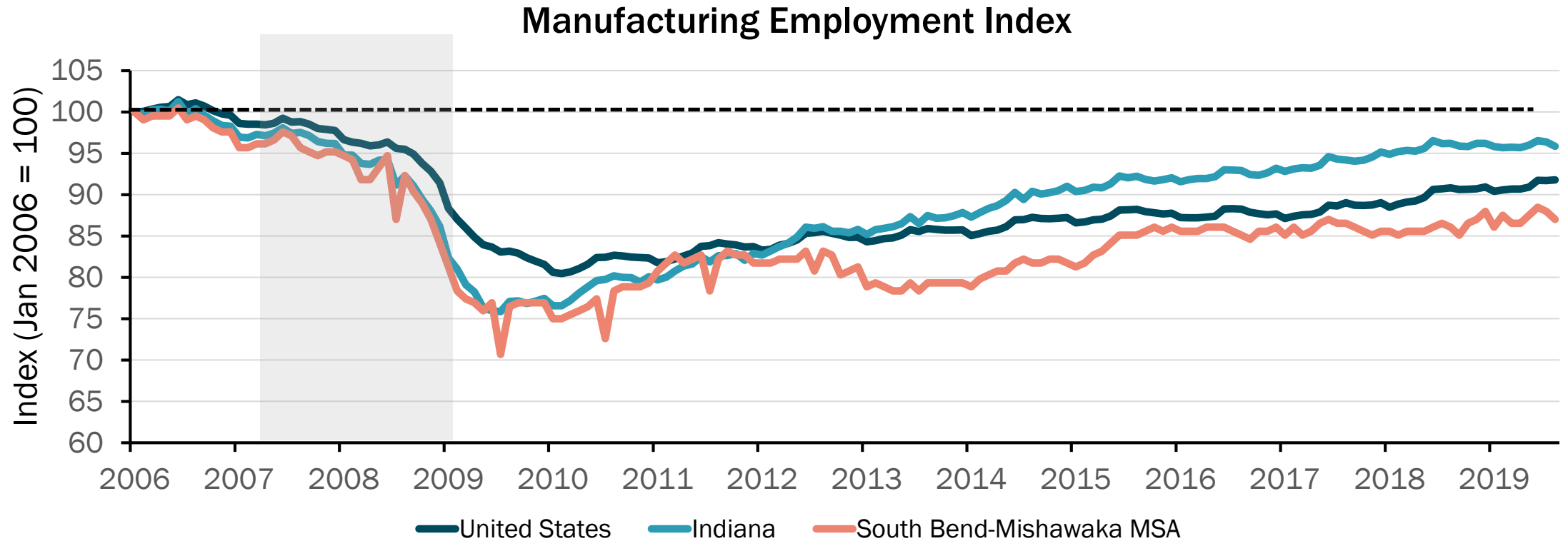


# Manufacturing employment growth in the Elkhart-Goshen MSA had exceeded that of the state and nation, but has recently declined

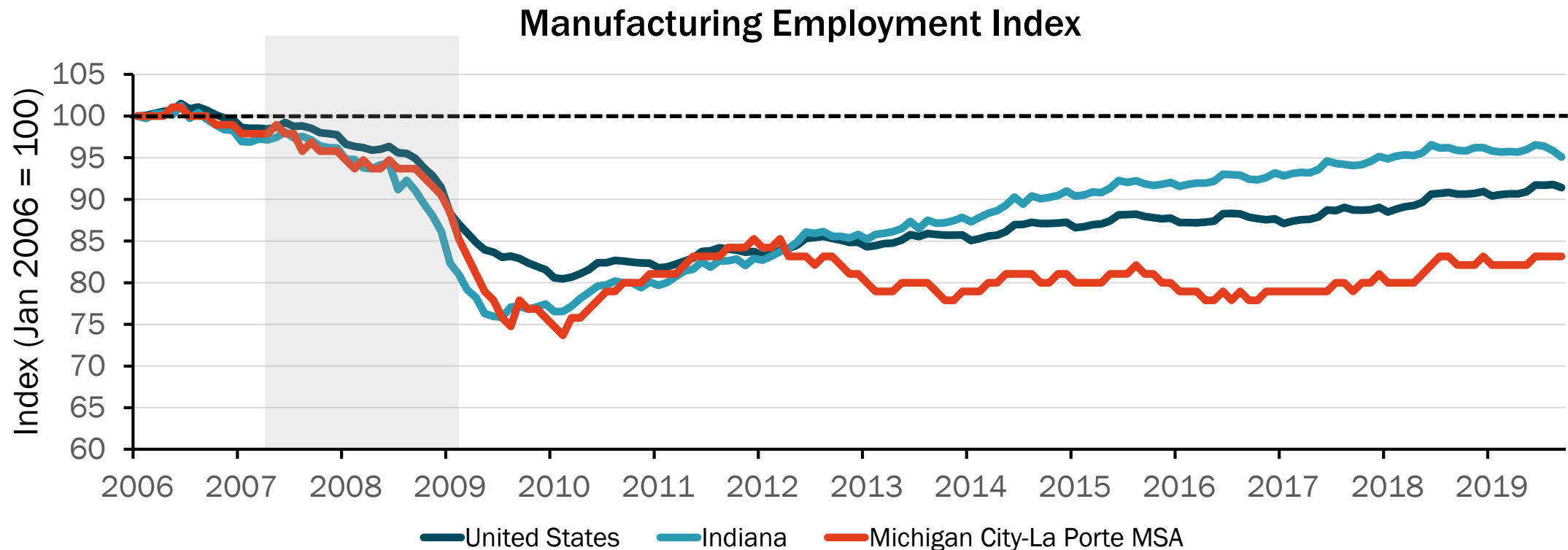
Manufacturing Employment Index



# Manufacturing employment in the South Bend-Mishawaka MSA has grown slowly since the recession...

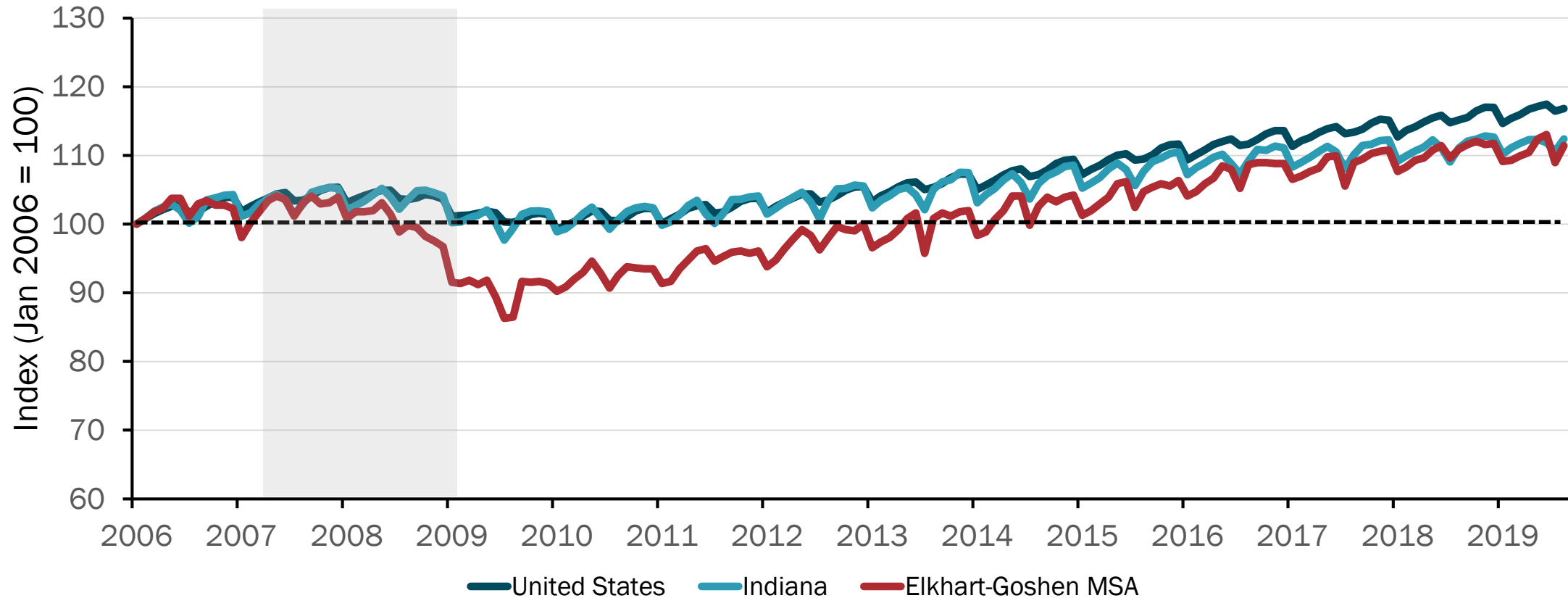


# Manufacturing employment in the Michigan City-La Porte MSA has remained relatively steady since the recovery and is recently trending upward



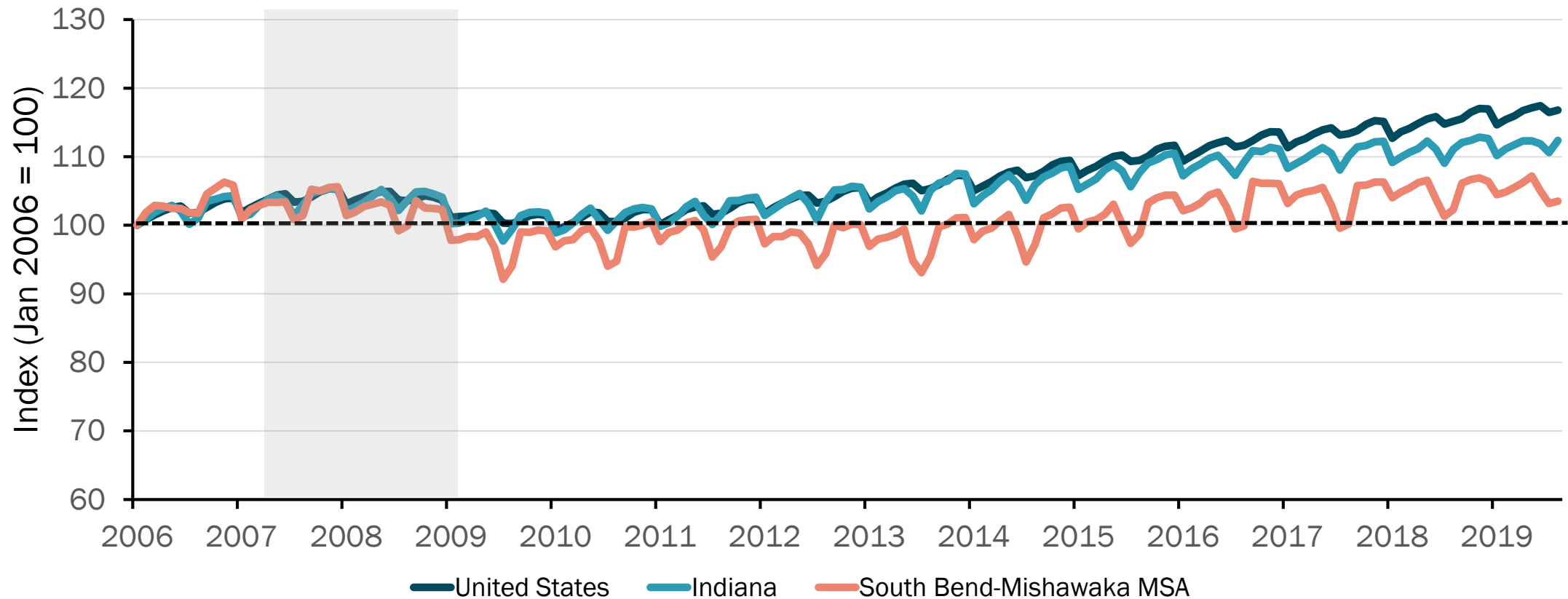
# Service employment growth has stalled in the Elkhart-Goshen MSA...

Services Employment Index



# Service employment growth has been below the State and Nation in the South Bend-Mishawaka MSA. . .

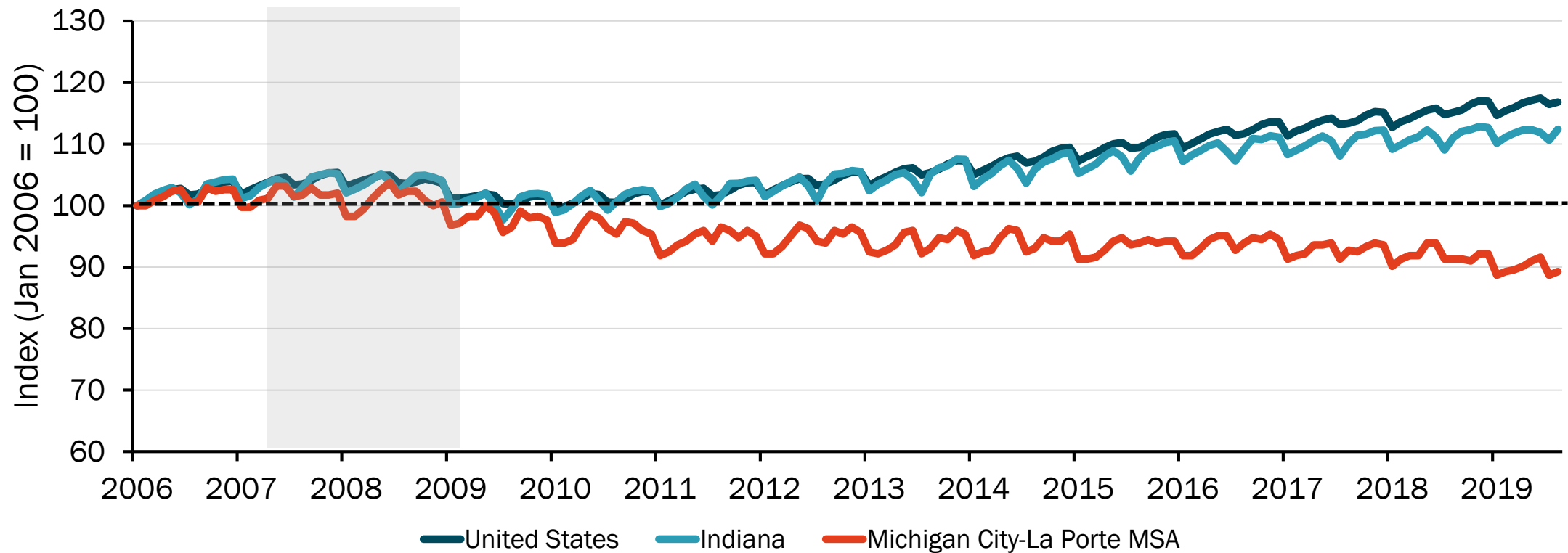
Services Employment Index





# Employment in Services in the Michigan City-La Porte MSA has been declining

Services Employment Index

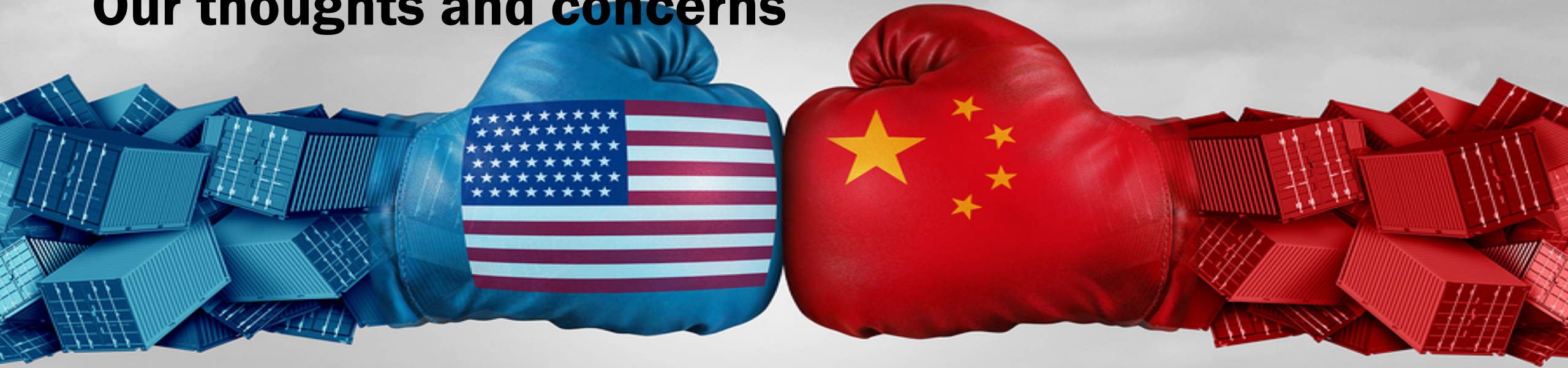




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# The Next Recession: What We Are Watching

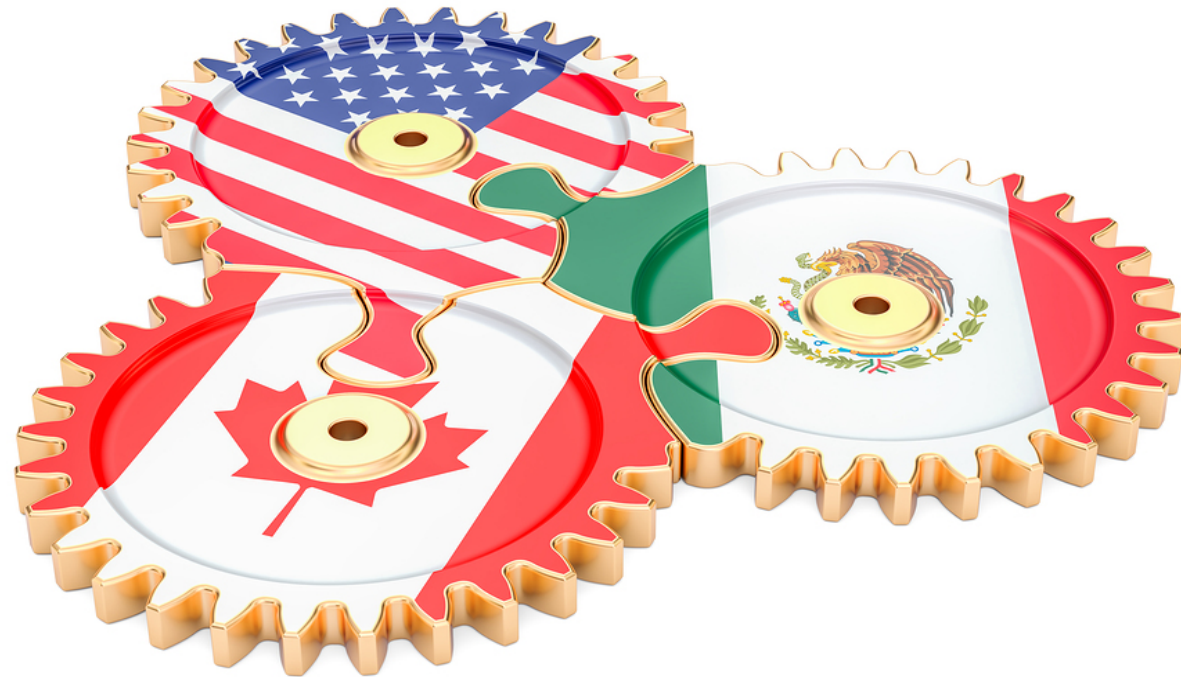
# The next recession and what we're watching: Our thoughts and concerns



- The effect of the announced and anticipated tariffs

# The next recession and what we're watching: Our thoughts and concerns

- The role of trade agreements
  - Blocks
    - Canada/Mexico
    - E.U.
  - Bilateral
    - China
    - Japan
    - U.K.



# The next recession and what we're watching: Our thoughts and concerns

- Expect interest rates to change



# The next recession and what we're watching: Our thoughts and concerns

- Tight labor markets (U-3 and LFPR)



# The next recession and what we're watching: Our thoughts and concerns

- “Elections have consequences”
  - Tax policy
  - Trade policy
  - Fiscal policy
  - Monetary Policy
  - Legal Policy
  - Issues of decisions and implementation



# The next recession and what we're watching: Our thoughts and concerns

- The movement from industry 2.0, to 3.0, and to 4.0



# The next recession and what we're watching: Our thoughts and concerns

- The rising deficit

DEFICIT

# The next recession and what we're watching: Our thoughts and concerns

- Softening Global Economies

# Questions?

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  - 269-385-0450