

# Current Outlook for Economic Conditions in West Michigan

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A Presentation to  
First National Bank of Michigan

Presenters:  
Randall Eberts, PhD  
Jim Robey, PhD  
W.E. Upjohn Institute for Employment Research

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# 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

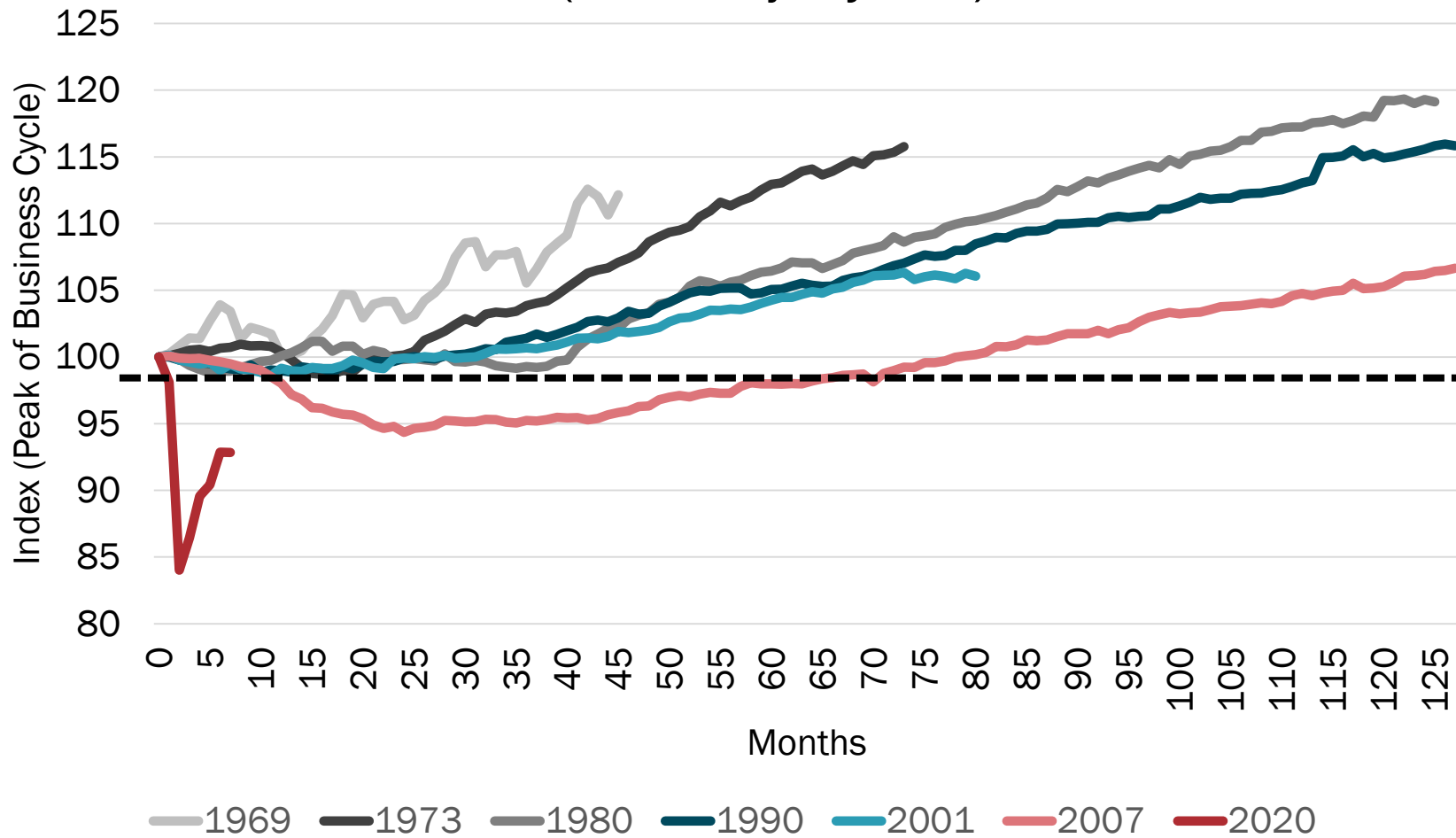
## We broke some records with the last business cycle:

- the longest business cycle...
- the longest expansion...
- the longest recession since WWII

Length of:	1945-1948	1949-1953	1954-1957	1958-1960	1961-1969	1970-1973	1975-1980	1980-1981	1982-1990	1991-2001	2002-2007	2007-2020	2020-?
Contraction	8	11	10	8	10	11	16	6	16	8	8	18	3?
Expansion	37	45	39	24	106	36	58	12	92	120	73	128	
Business Cycle	45	56	49	32	116	47	74	18	108	128	81	146	

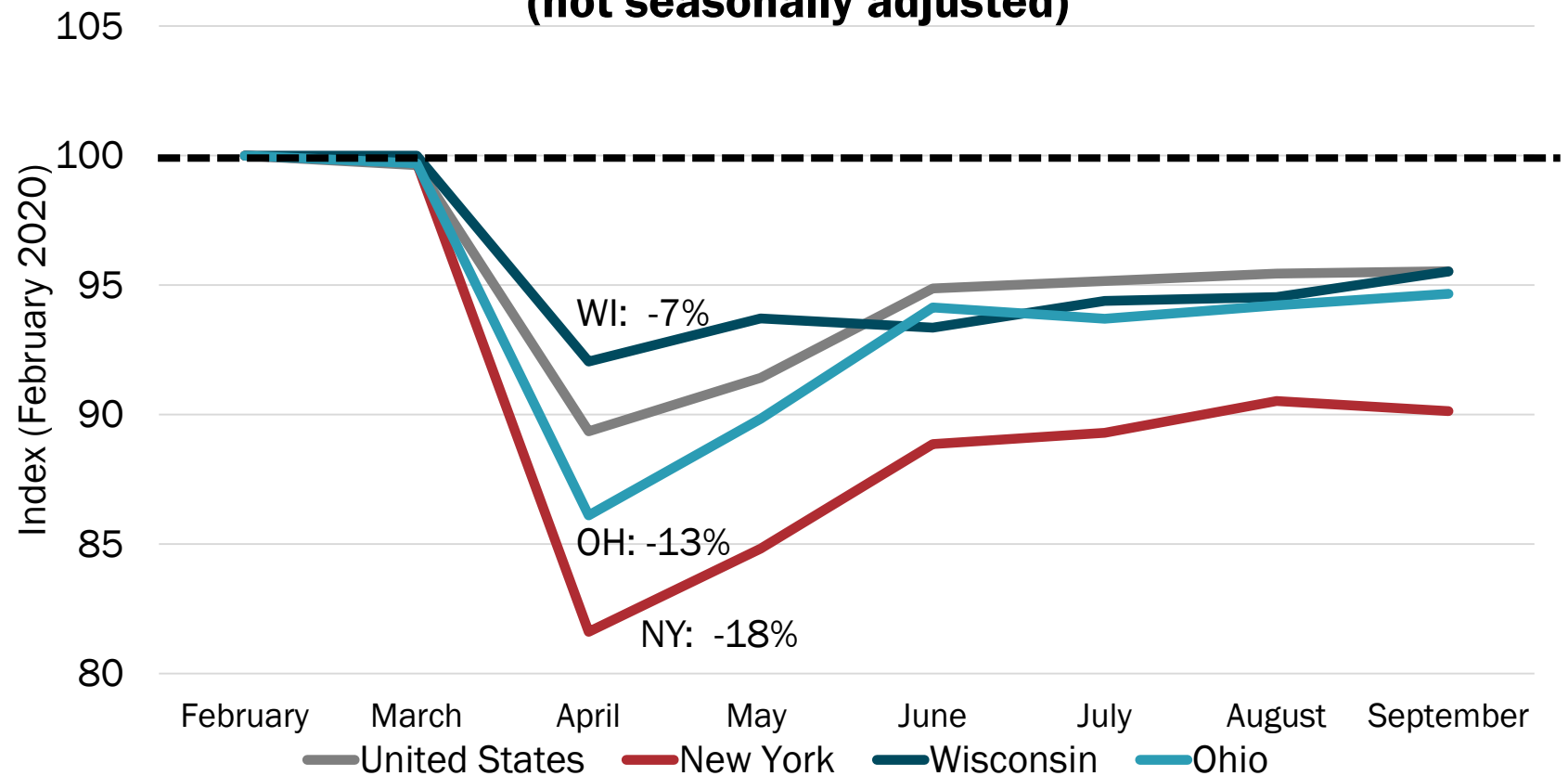
**The most recent recession is the deepest and quickest**

## Peak to peak of national business cycles since 1969 (seasonally adjusted)



# The COVID-19 pandemic has hit the economy worse than the Spanish Flu of 1918

Manufacturing employment in selected states in 2020  
(not seasonally adjusted)



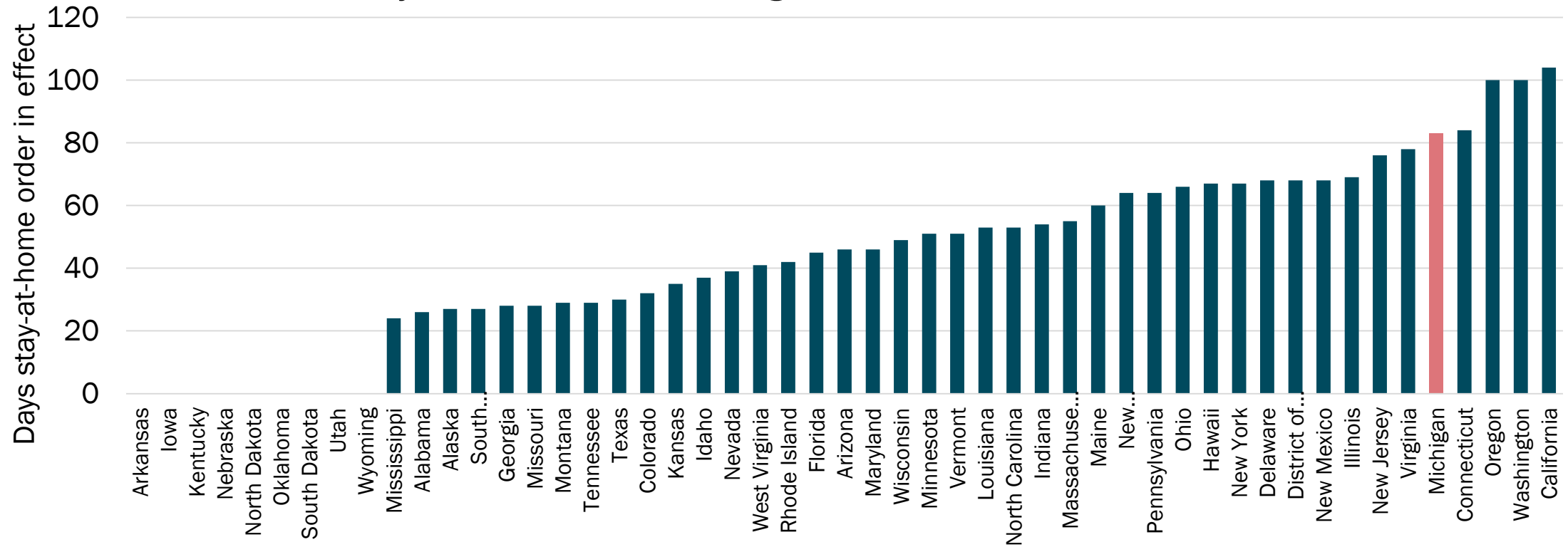
Manufacturing Employment during Spanish Flu Pandemic

New York: -15%  
Ohio: -11%  
Wisconsin: -7%

Velde, F. R. (2020). What happened to the US economy during the 1918 influenza pandemic? A view through high-frequency data.

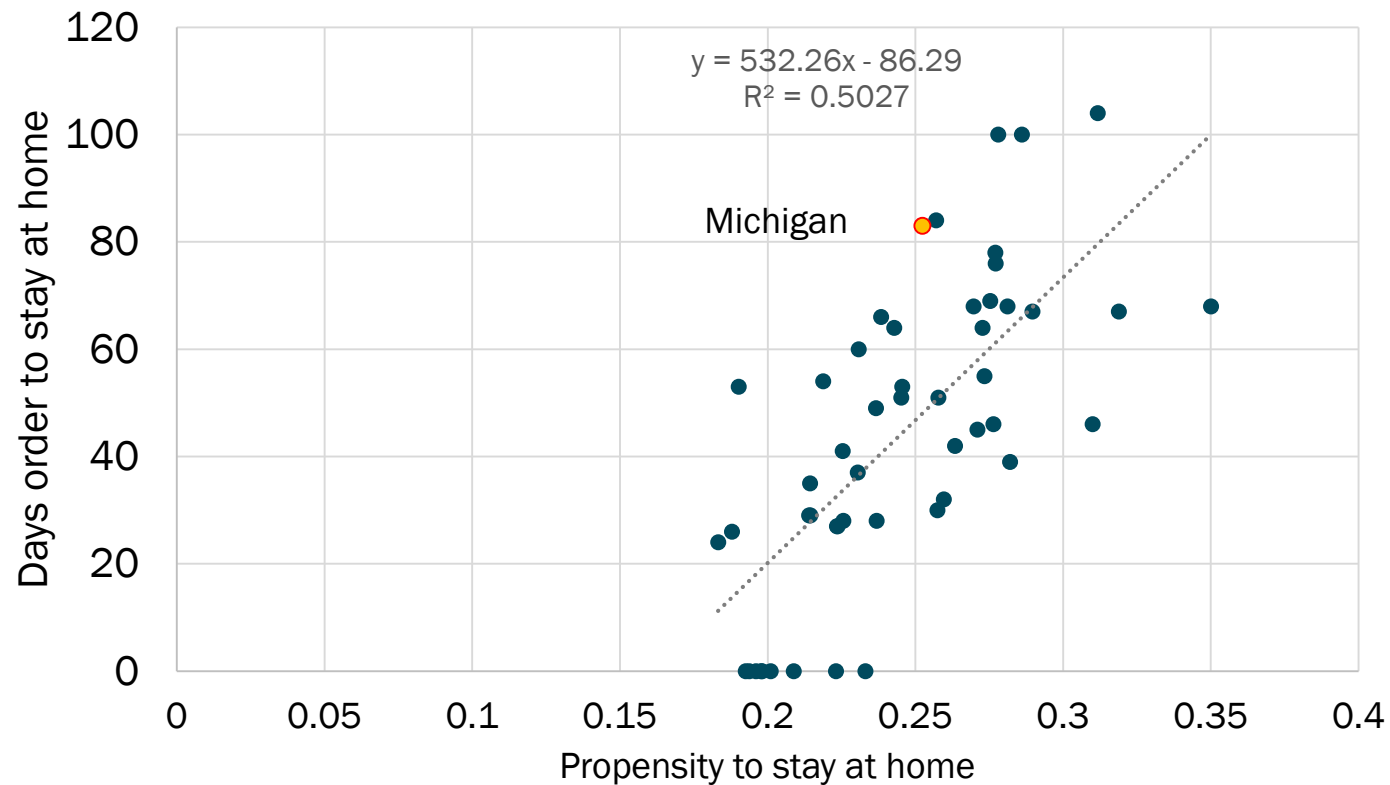
# Wide variation in the time a state's stay-at-home order was in effect

Stay-at-home orders during the Covid-19 Pandemic in 2020



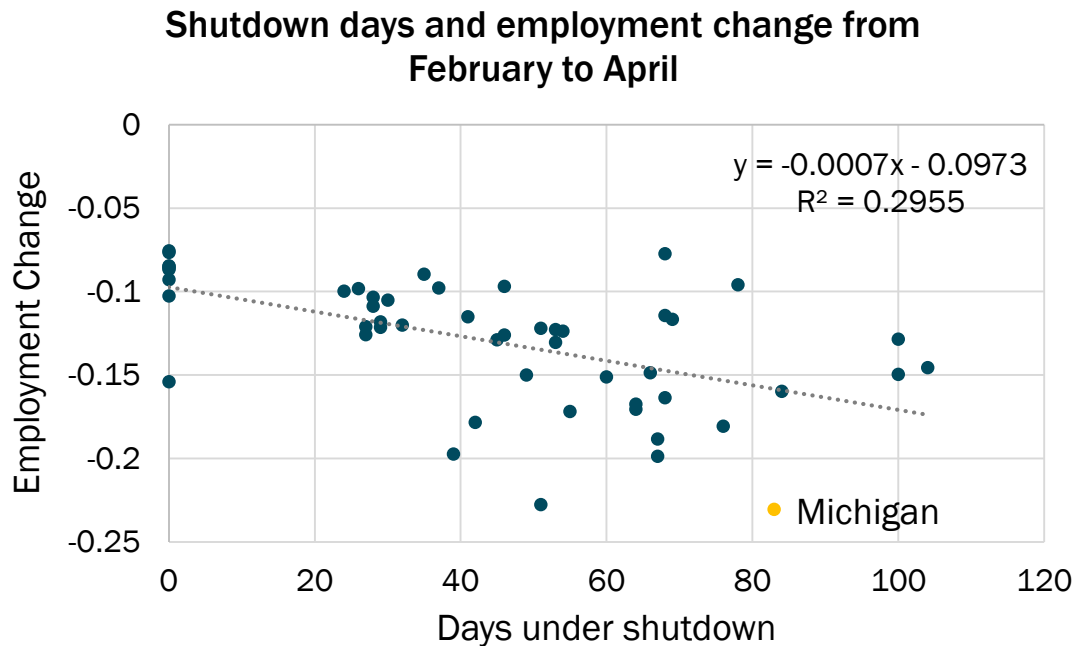
# The longer the stay-at-home order the greater the compliance by state

Length of stay-at-home orders and propensity to stay at home

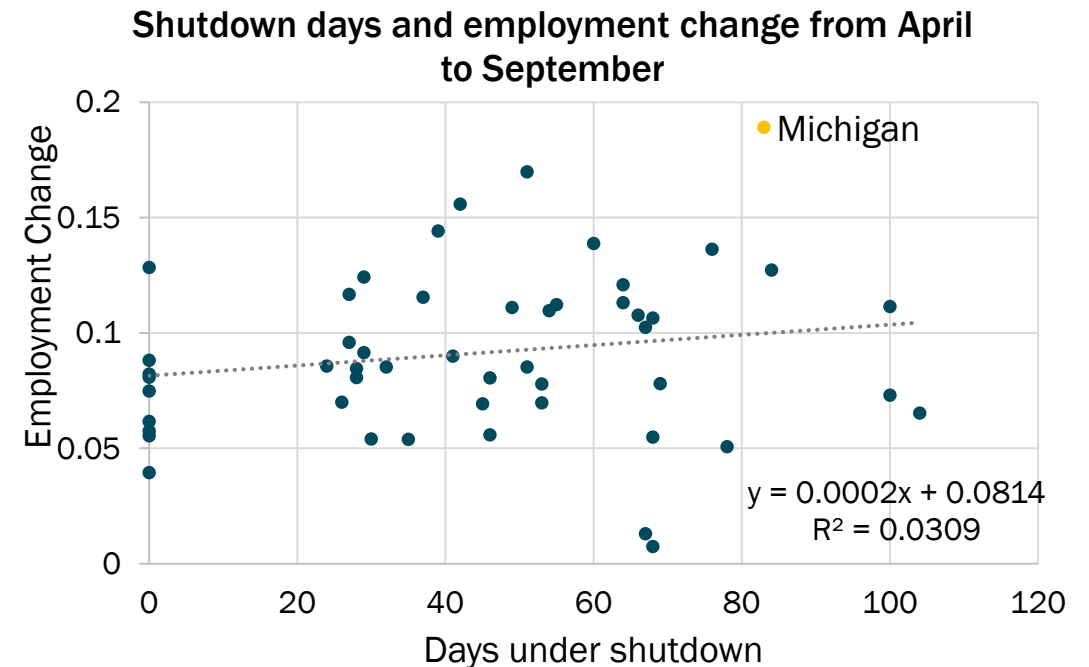




# The length of time a state issued a stay-at-home order is correlated with employment change from February to April...

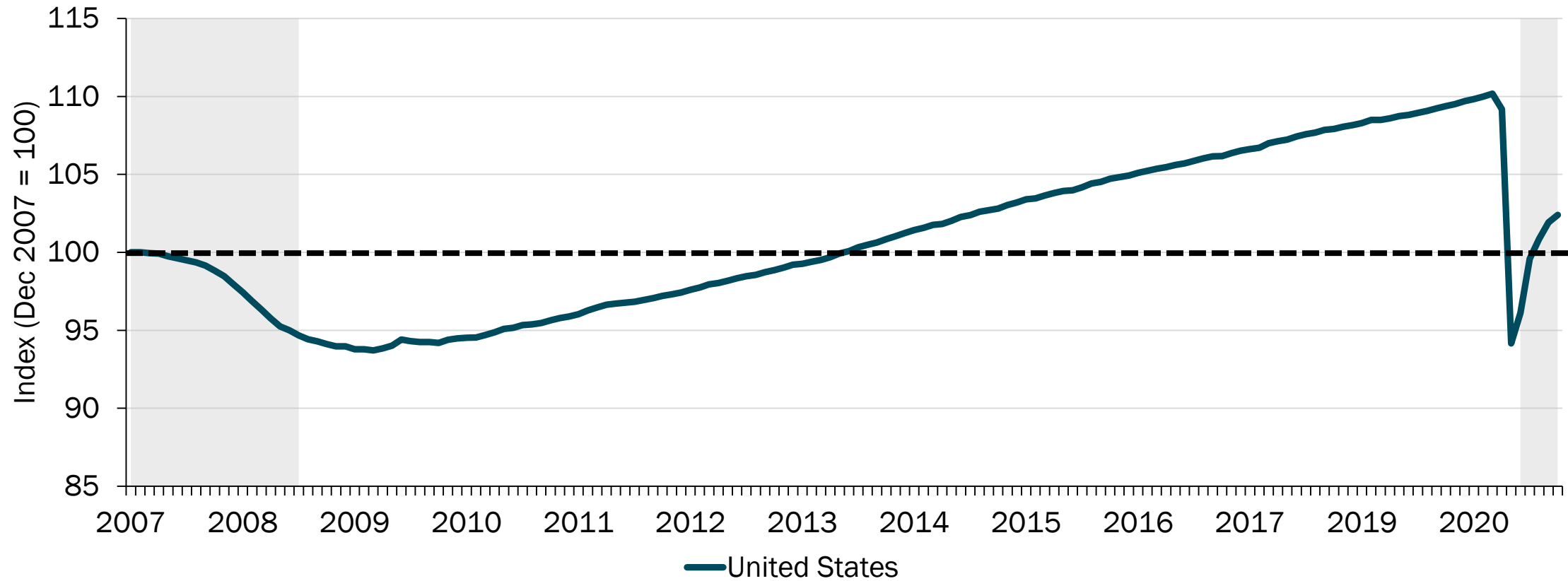


# ... but length of stay is not correlated with the recovery of employment from April to September

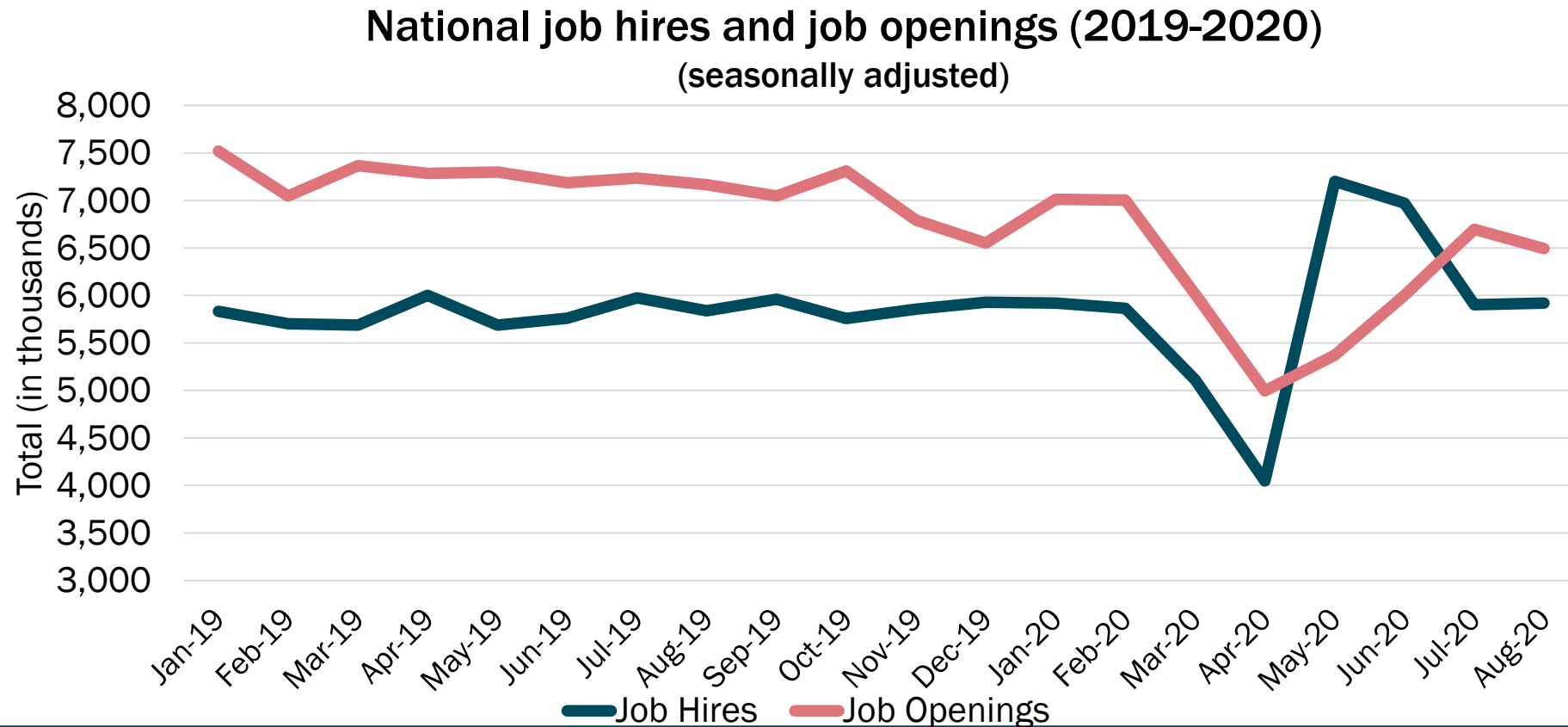


# Employment is just slightly higher than in December 2007

## Non-Farm Employment Index

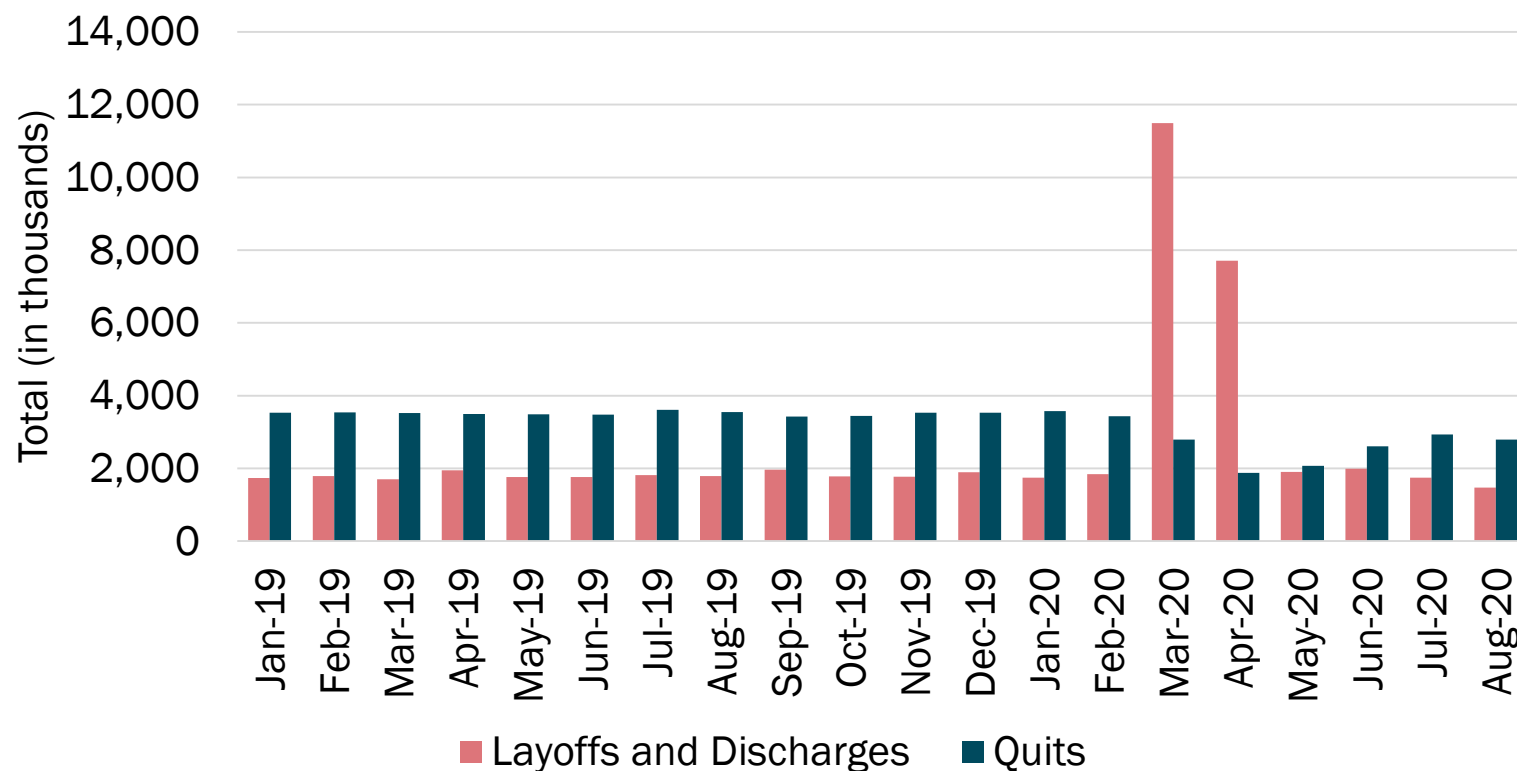


# Back to normal? After falling precipitously, hires bounced back in one month and then returned to the same trend as before...

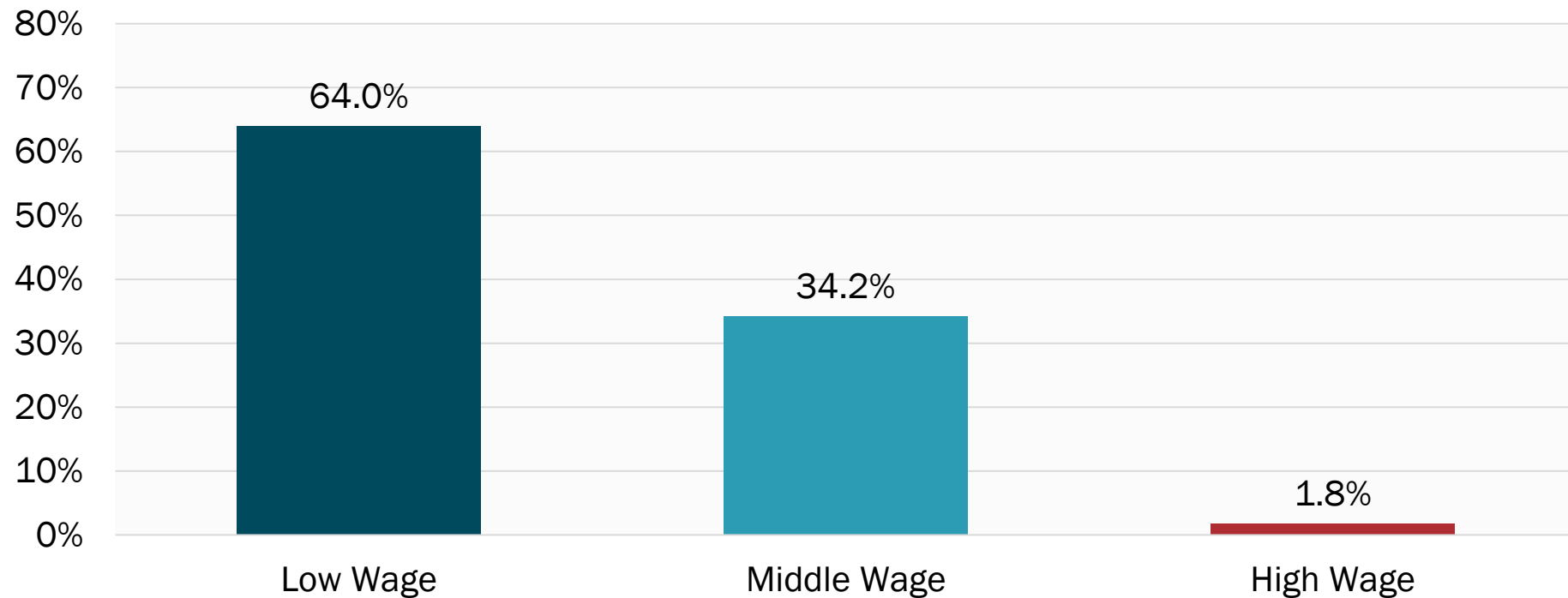


# ...Layoffs jumped dramatically in March and April and then settled back to trend; quits changed relatively little

National layoffs and discharges and quits (2019-2020)  
(seasonally adjusted)

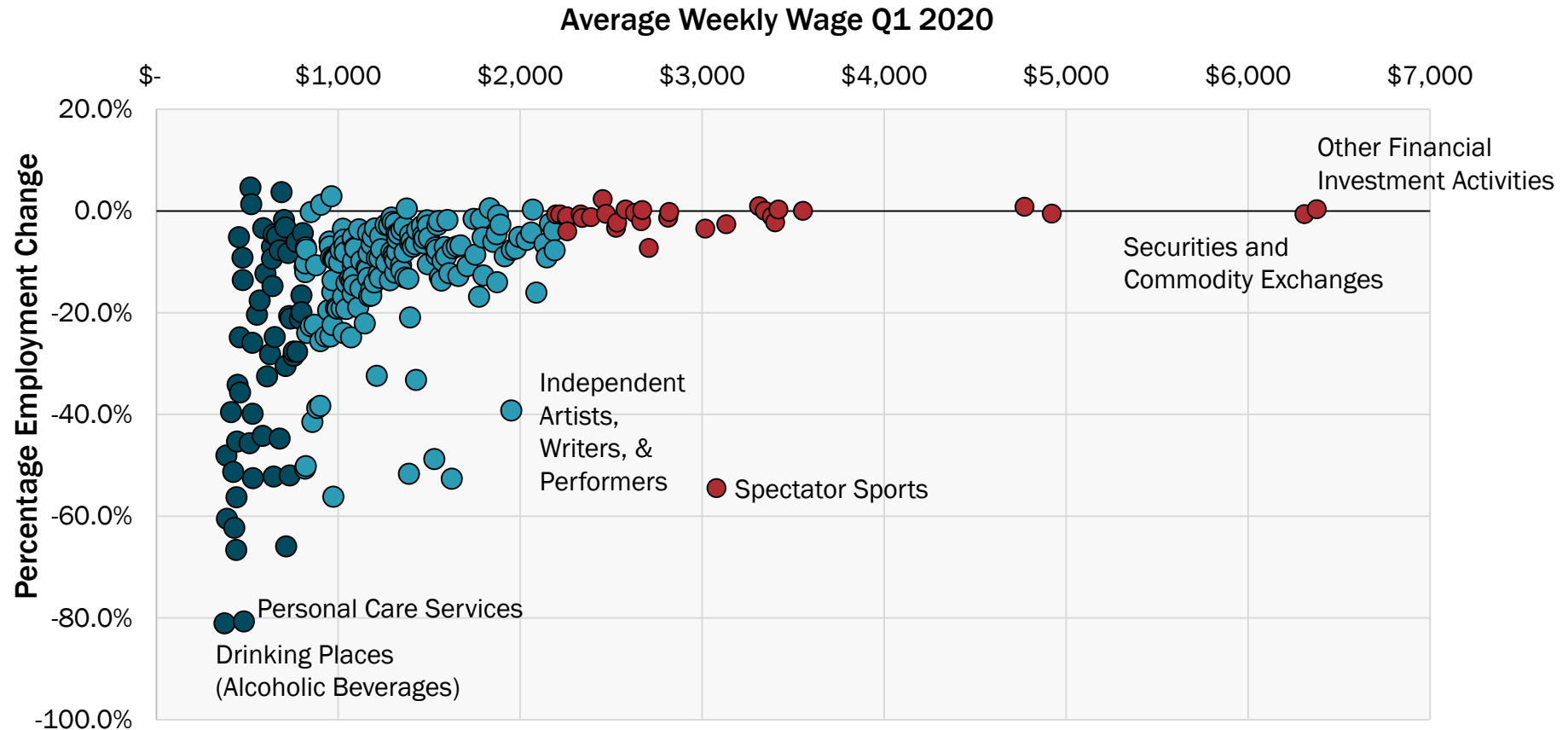


# Low-wage workers experienced the largest employment losses from February to April 2020, while high-wage workers experienced the least



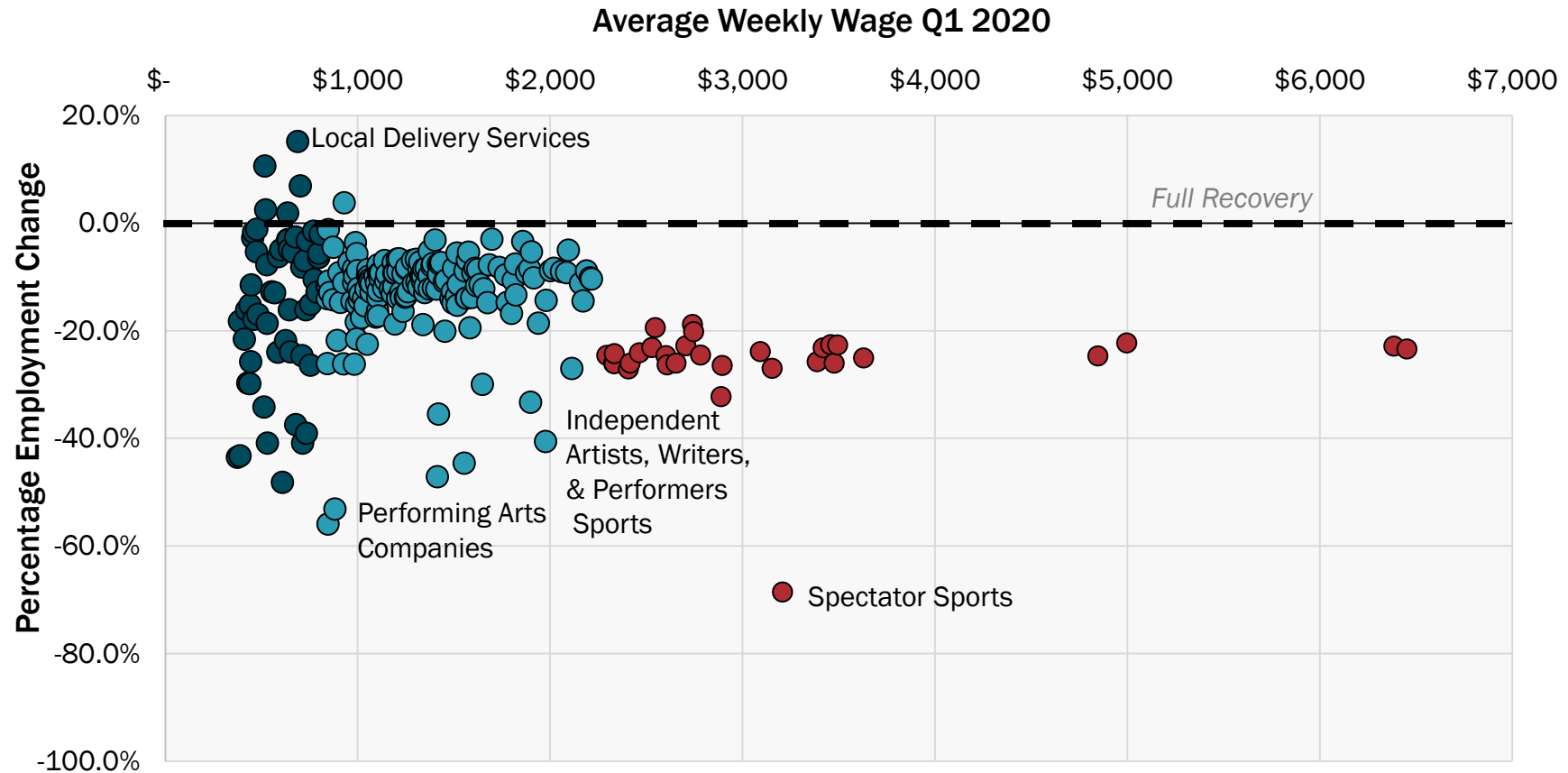
\* Derived from 3- and 4-digit NAICS industries with employment losses from Feb – Apr 2020; low, medium and high wage industries based on average weekly wages, 2020 Q1. Thresholds based on percentages of the overall average weekly wage (Low  $\leq .67$ ,  $.67 < \text{Medium} \leq 1.8$ , High  $> 1.8$ ).

## Percentage Employment Change February 2020 to April 2020



\* Based on percentage employment changes of 3- or 4-digit NAICS industries using seasonally adjusted data. Low, medium, and high wage industries based on average Q1 2020 (QCEW) weekly wages. Thresholds based on industry percentages of the overall average weekly wage (Low < .67, .67 ≤ Medium < 1.8, High ≥ 1.8).

Some recovery occurred by August/September 2020, with various industries adapting to life under the pandemic, such as local delivery services



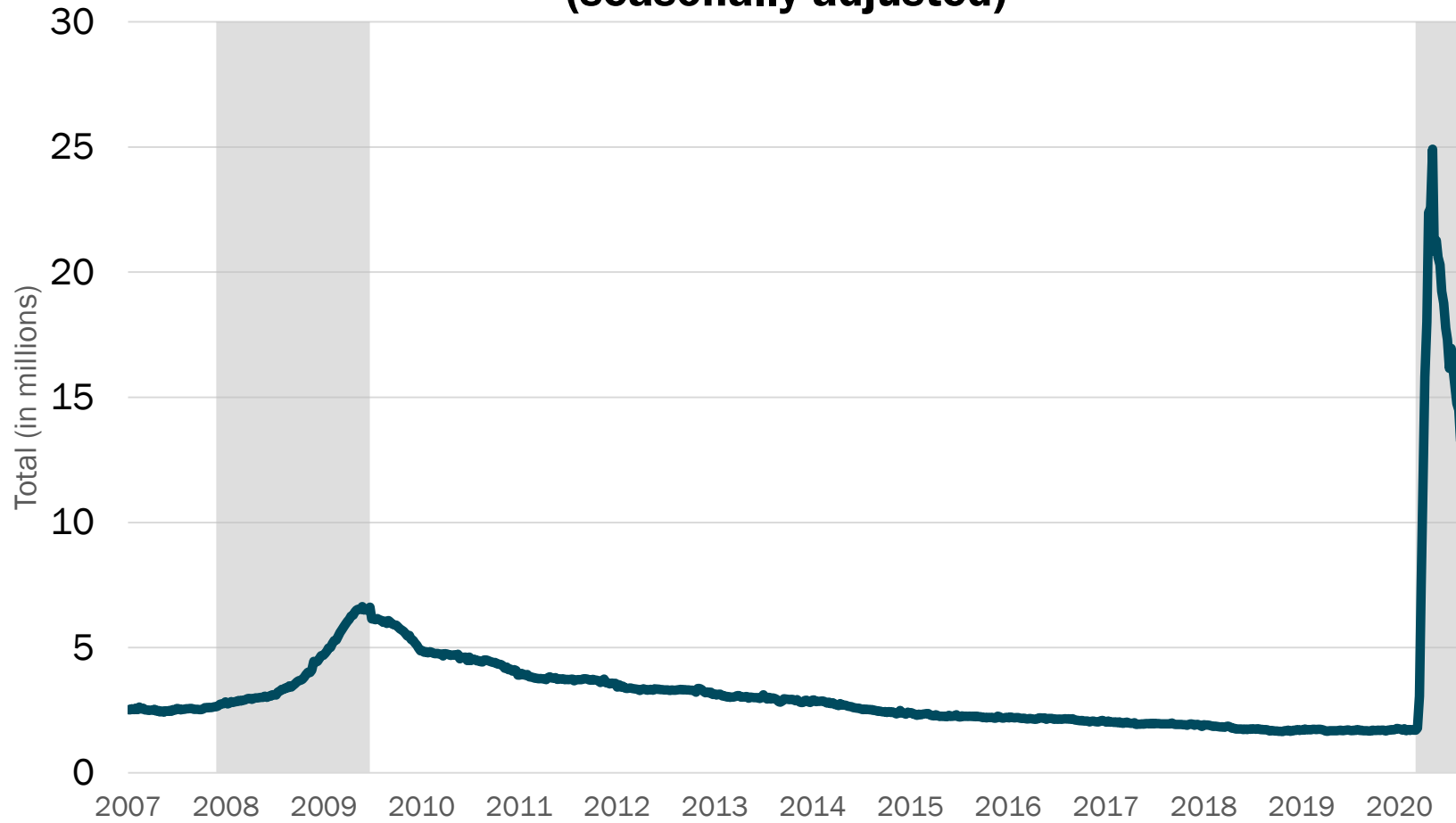
\* Based on percentage employment changes of 3- or 4-digit NAICS industries using seasonally adjusted data. Low, medium, and high wage industries based on average Q1 2020 (QCEW) weekly wages. Thresholds based on industry percentages of the overall average weekly wage (Low < .67, .67 ≤ Medium < 1.8, High ≥ 1.8).

# CARES Act (Signed March 27, 2020)

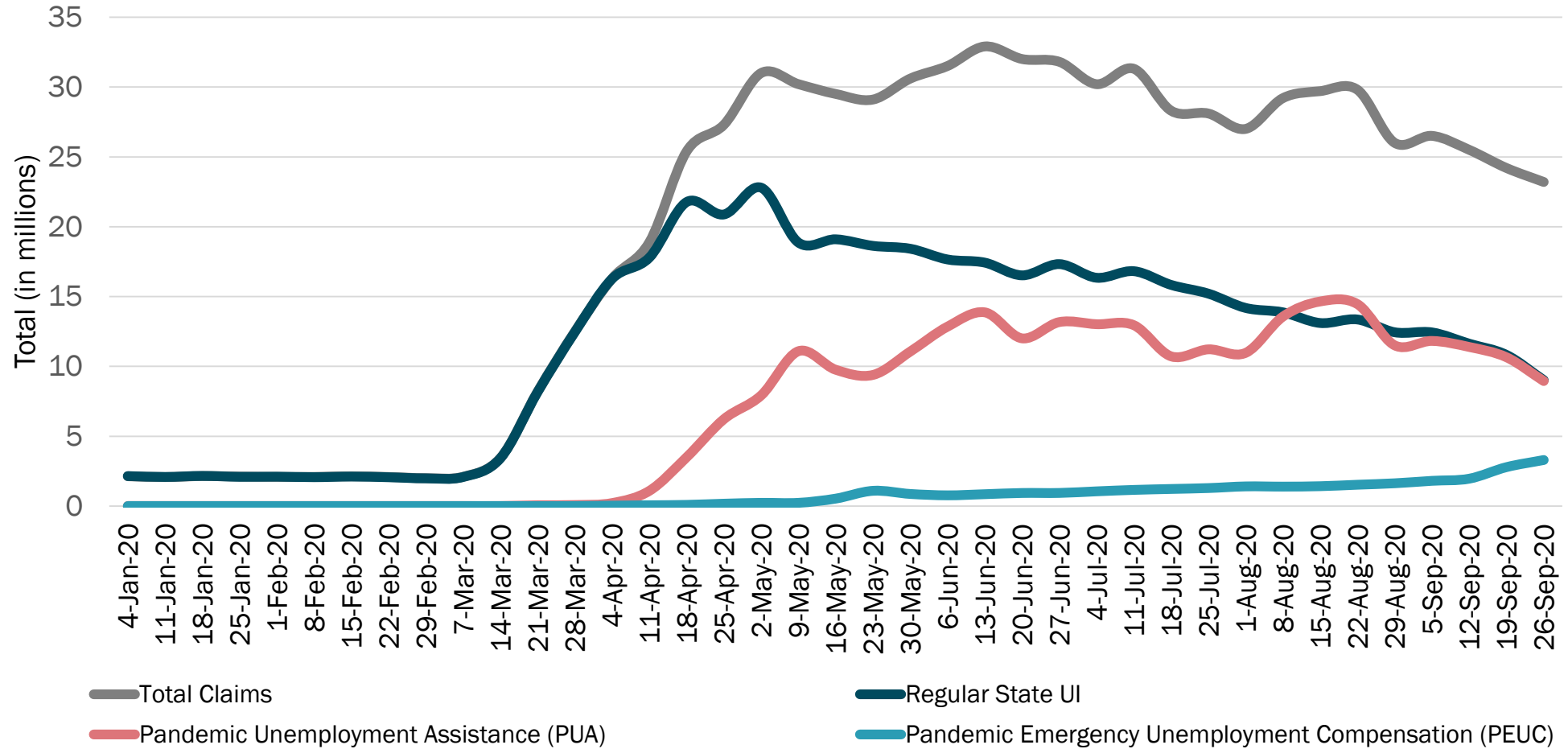
- Business: \$2.4 trillion (PPP)
- Individuals: \$853 billion (PUA, PEUC)
- Governments: \$428 billion (fund response to pandemic)
- Medicine (hospitals, healthcare providers): \$620 billion
  
- Total: \$4.2 trillion



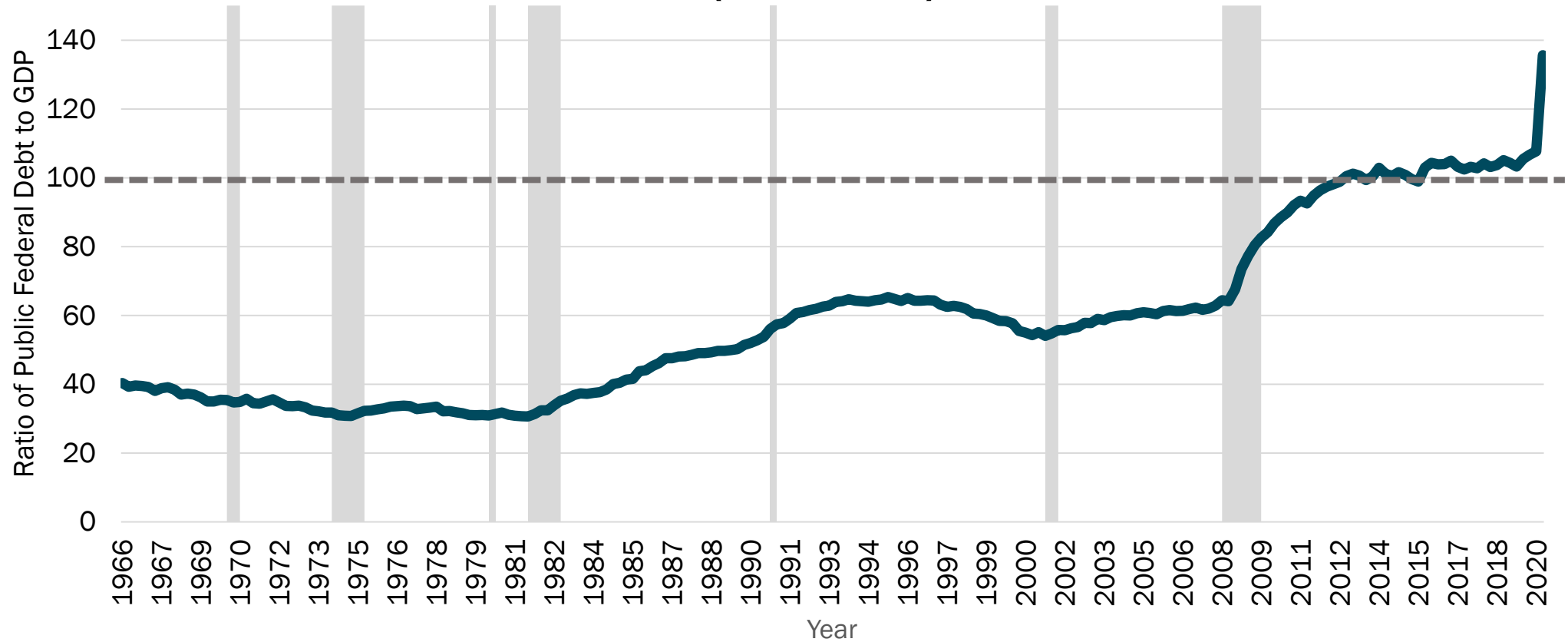
## National number filing unemployment insurance benefits (2007-2020) (seasonally adjusted)



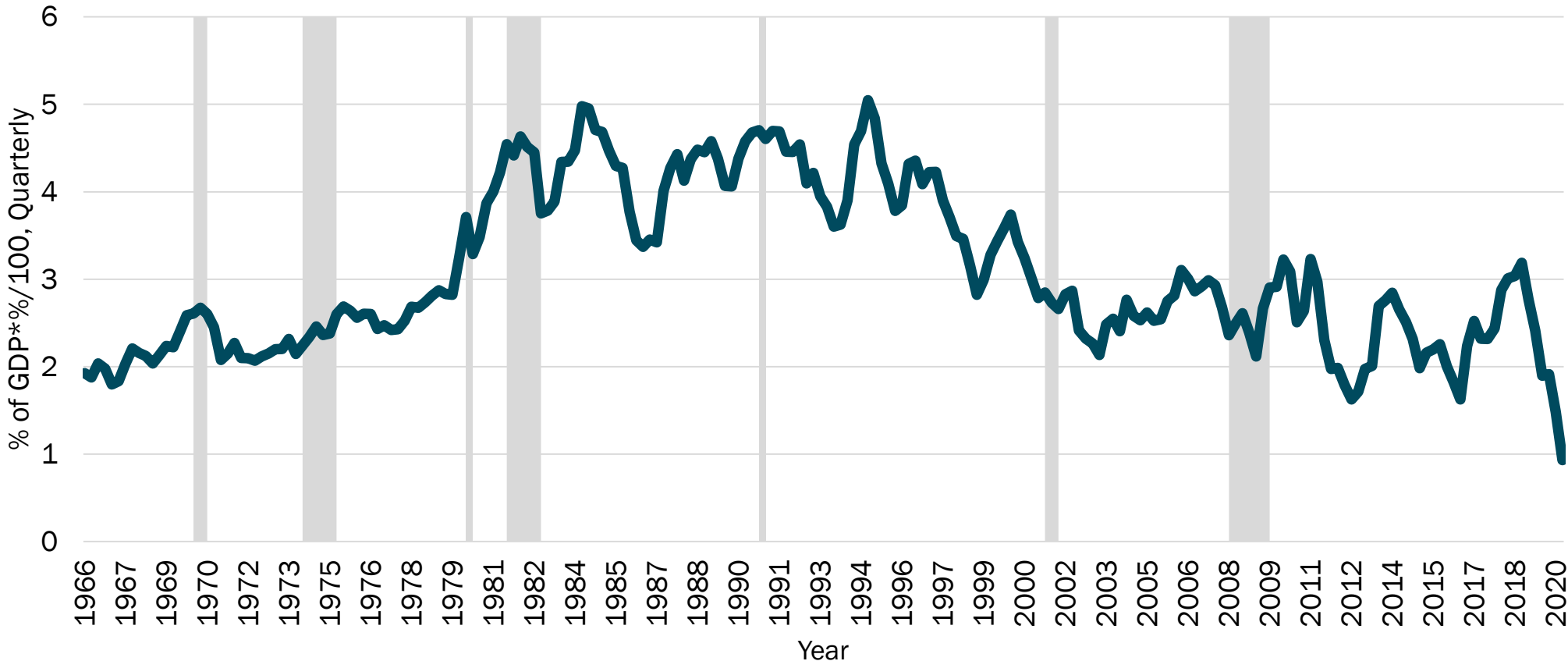
## National total claiming unemployment insurance benefits and component programs (seasonally adjusted)



## Federal debt: Total debt as a percentage of gross domestic product (1966-2020)

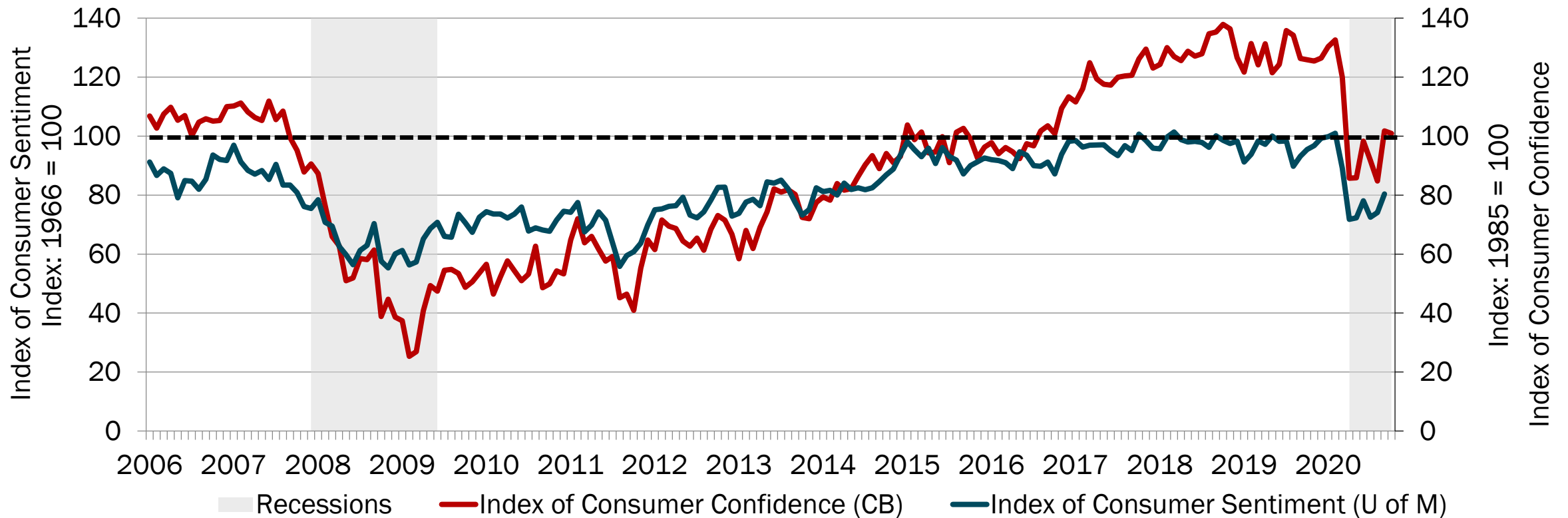


# Federal debt: Total debt as percent of gross domestic product\* 10-year treasury constant maturity rate/100 (1966-2020)

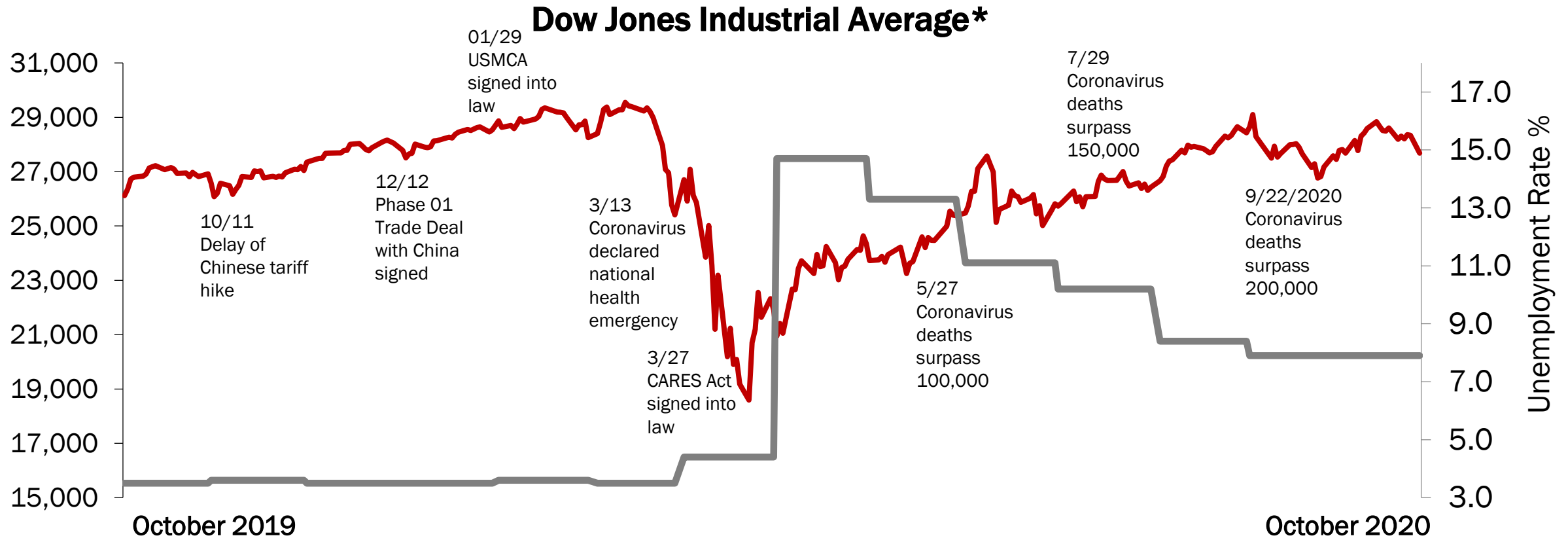


# Consumer confidence and sentiment are bouncing around, after falling precipitously between February and April

## Consumer Confidence

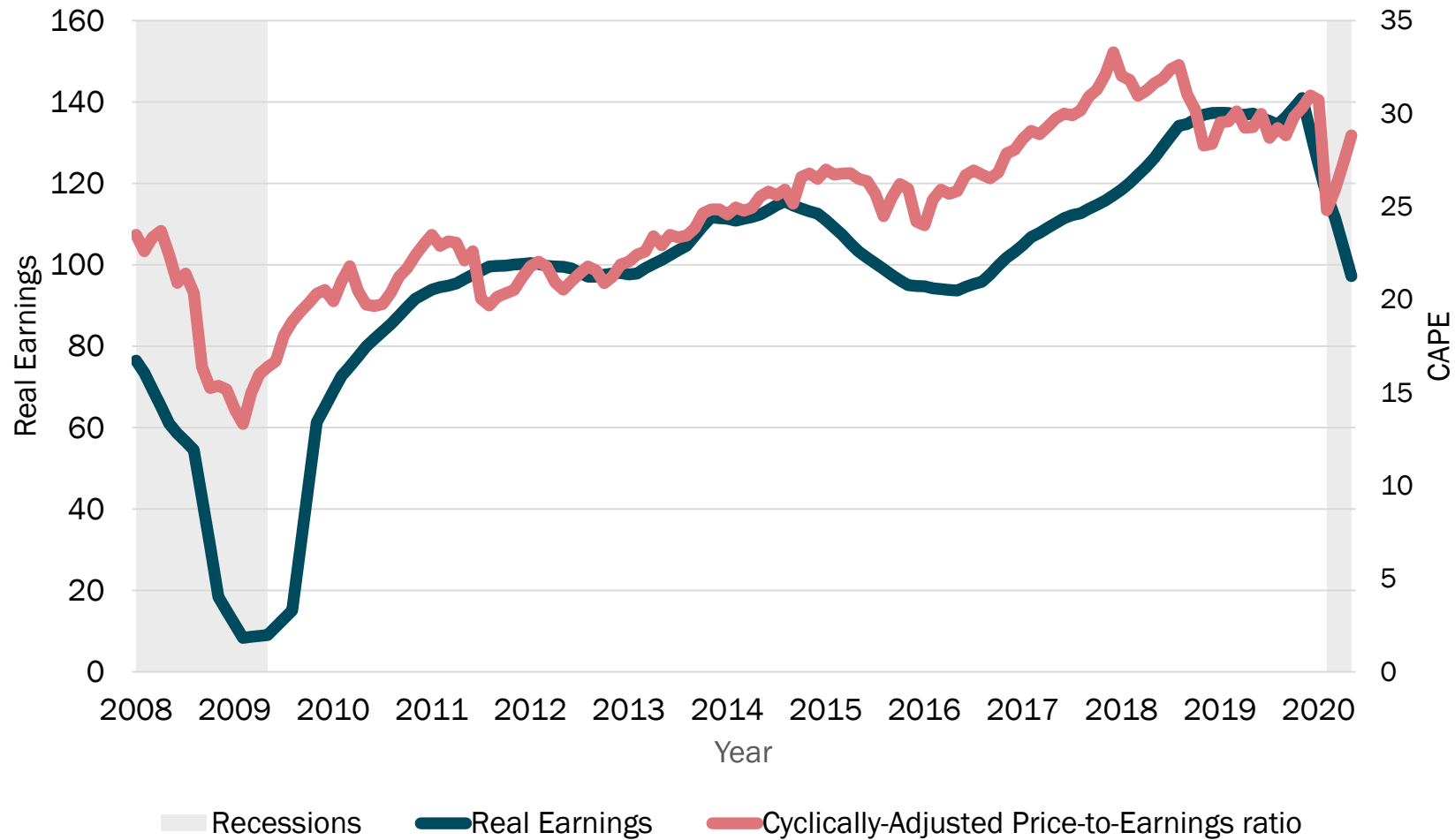


# The stock market has reacted to various events this year, and the recent ride has been surprisingly good

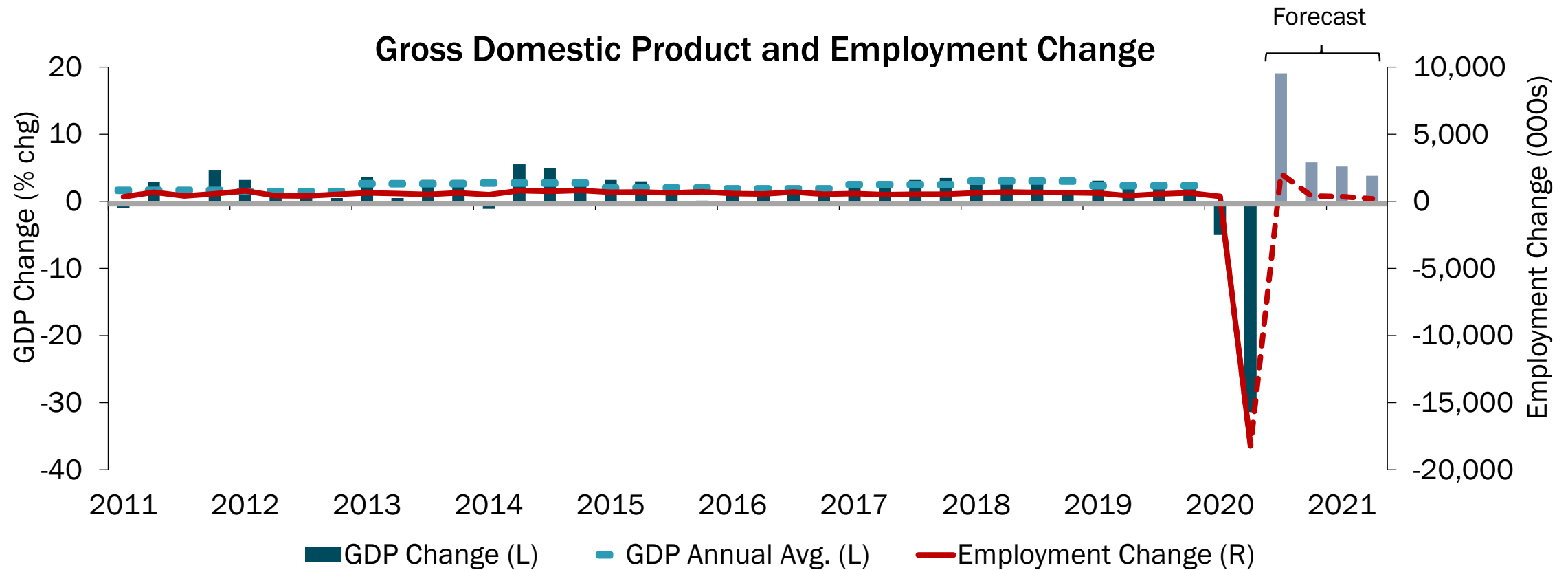


\*As of 10/27/2020

## National Real Earnings and Cyclically-Adjusted Price-to-Earnings Ratio (2008-2020)



**GDP fell 31.7% in the second quarter and 5% in the first quarter. We'll likely see a sharp upturn in 3<sup>rd</sup> quarter GDP, then return to trend. Employment change closely follows this pattern.**





# Moody's predictions of a recession are trending downward: 41% in July after reaching 90% in April



# National Economy REMI Forecasts

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# University of Michigan RSQE current\* national forecast:

**Note that these estimates are annualized**

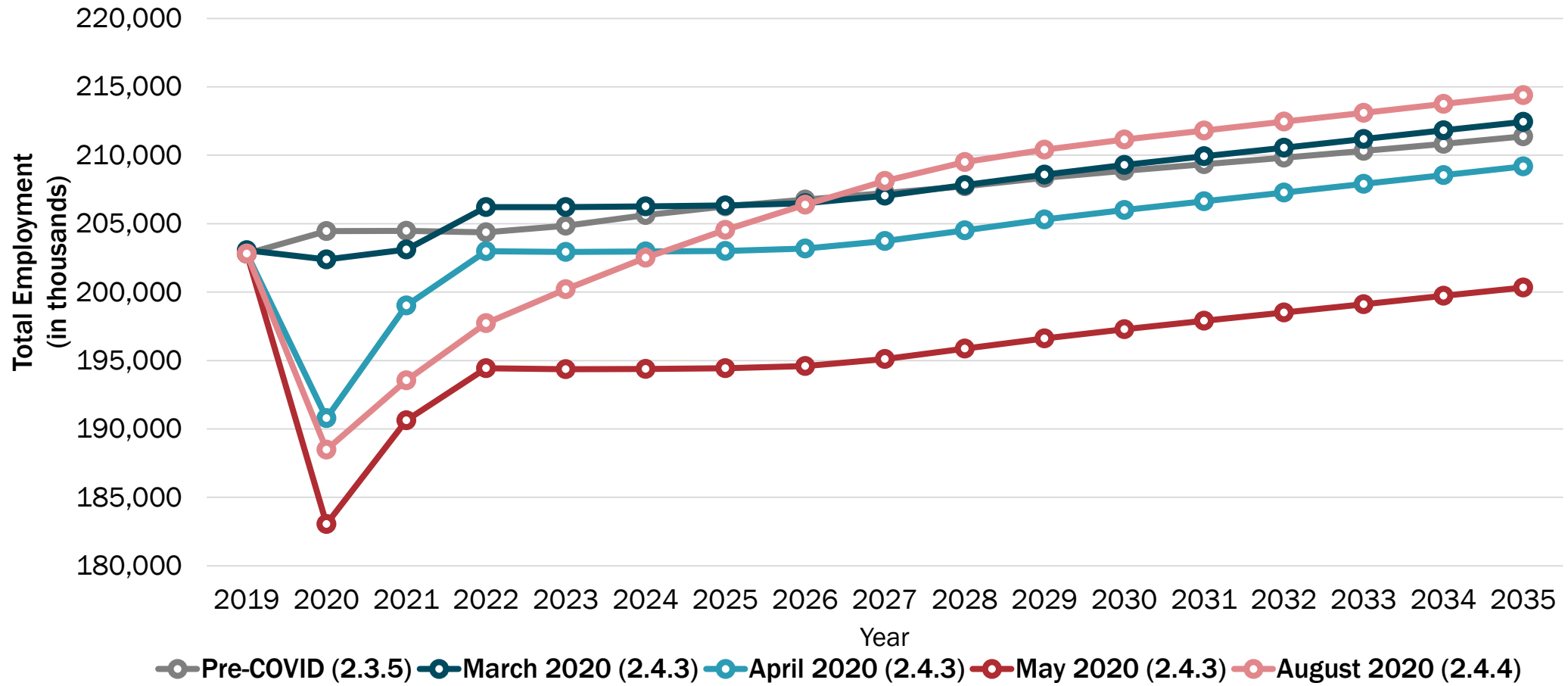
	2019	2020 (Forecast)	2021 (Forecast)
GDP	2.3%	-4.9%	3.6%
Employment	1.3%	-5.8%	2.1%
Light Vehicle Sales (Millions)	16.9	13.8	15.0
Unemployment Rate	3.7%	9.2%	8.1%
Housing Starts (Millions)	1.30	1.18	1.08
CPI/Inflation	1.8%	0.7%	1.2%

\* August 2020 forecast

# Methodology

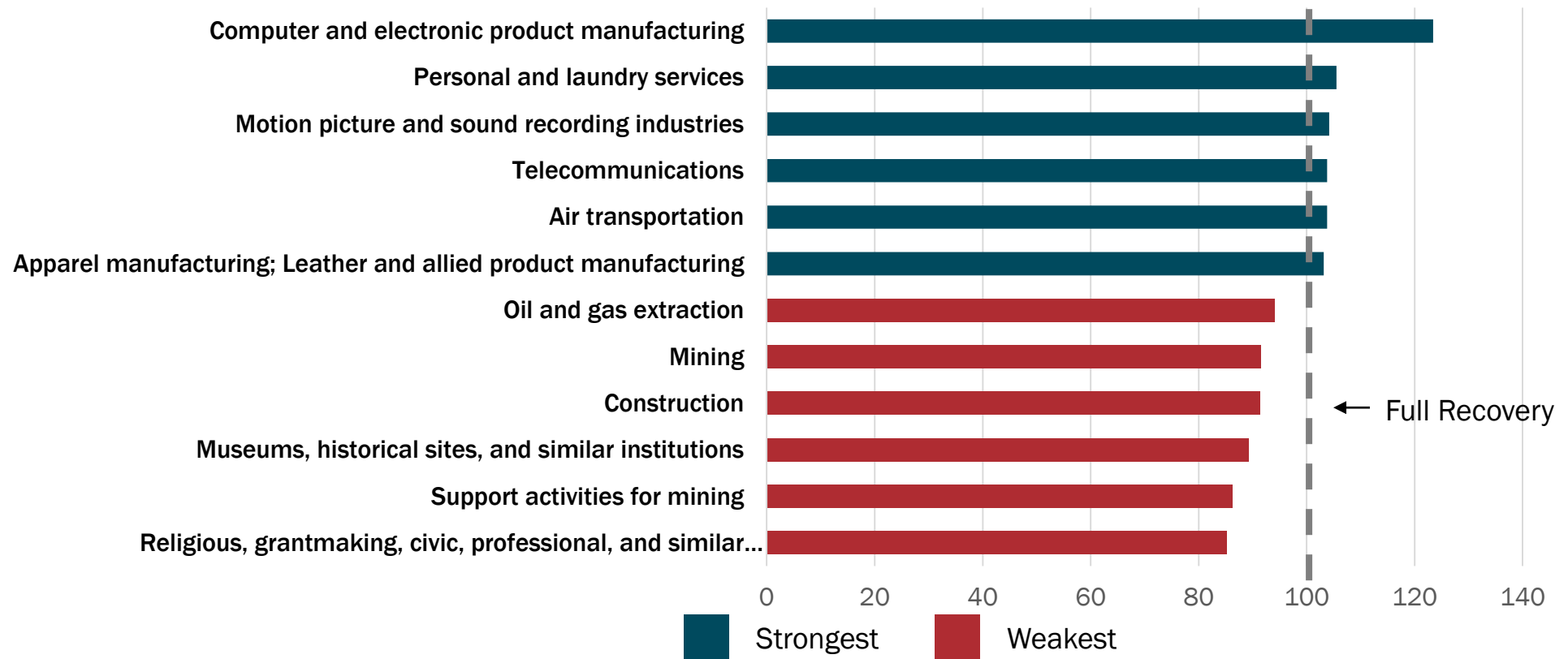
- Upjohn uses a REMI model ([www.REMI.com](http://www.REMI.com))
  - To estimate economic impacts from projects and events
  - Forecast regional changes in trends
- Pre-COVID baseline using a prior version of REMI (version 2.3.5)
- As new forecasts were produced the latest REMI model was updated (2.4.3)
  - National forecast is updated
  - Regional forecasts are updated
  - Revised forecasts come from:
    - Research Seminar in Quantitative Economics at UofM
    - Congressional Budget Office

# Total Projected National Employment



# Industry Recovery

Selected sectors and subsectors with the strongest and weakest projected recoveries nationally by 2025



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# Michigan Economy

# University of Michigan RSQE current\* state forecast

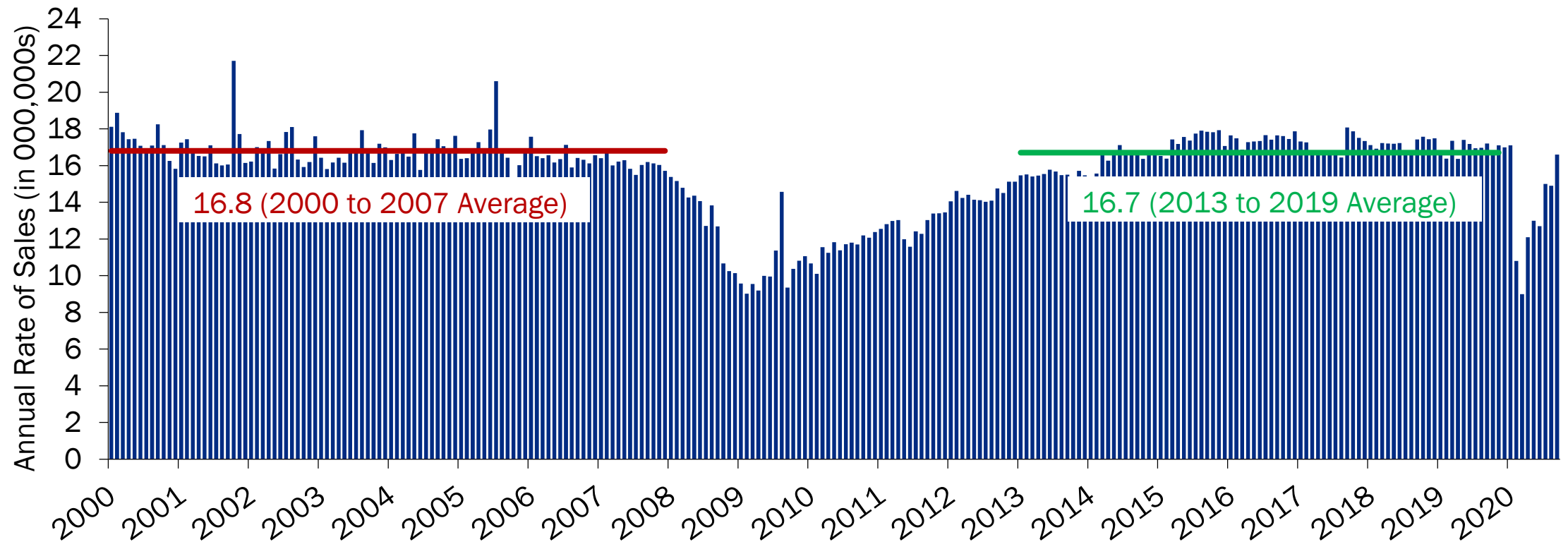
	2019	2020 (Forecast)	2021 (Forecast)
Employment Change (thousands)	36.7 (+.08%)	-384.1 (-8.1%)	169.3 (+1.1%)
Manufacturing Employment Change (thousands)	-2.1 (-.03%)	-60.1 (-9.6%)	38.6 (+6.8)
Unemployment Rate	4.1%	10.6%	7.6%
Labor Force Participation Rate	61.8%	60.4%	60.7%

\* September 2020 forecast



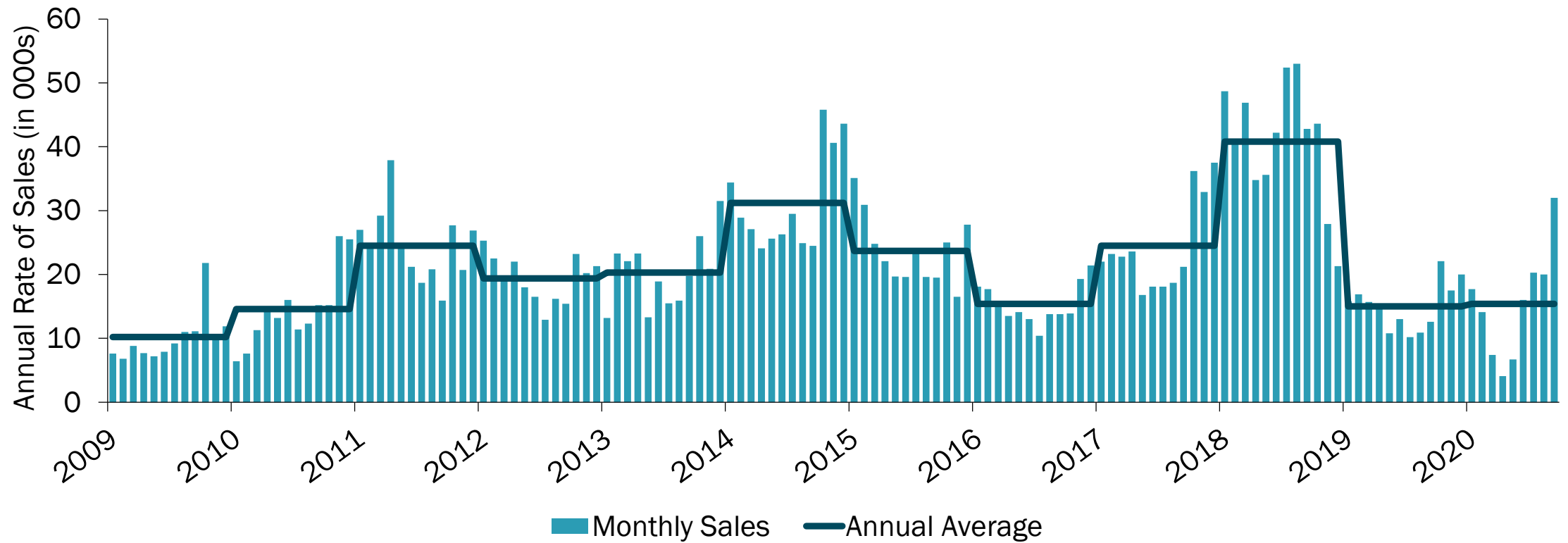
# New light vehicle sales are rebounding; will work from home change consumption patterns?

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



# Class 8 Truck Orders reach highest level since 2018

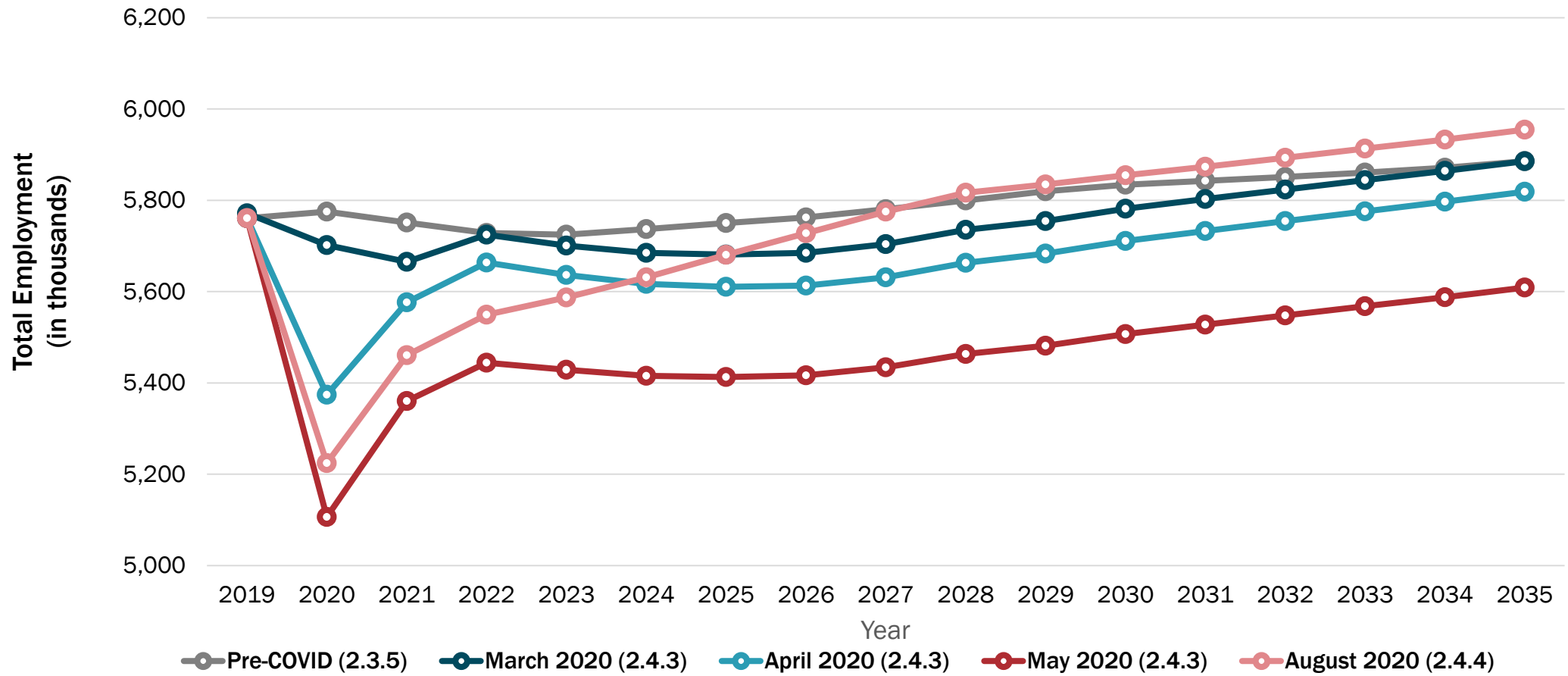
## Class 8 Truck Orders



# Michigan Economy REMI Forecasts

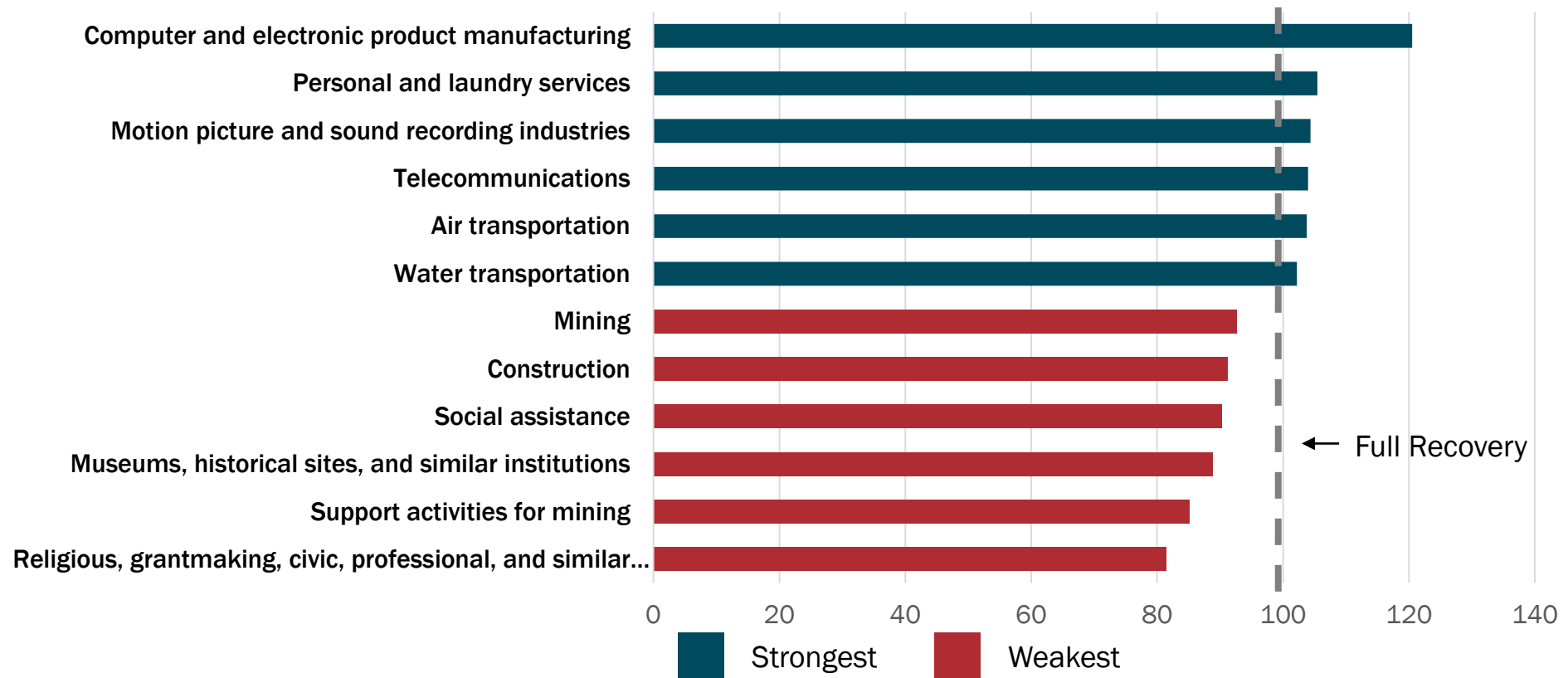


# Total Projected Employment in Michigan



# Industry Recovery

Selected sectors and subsectors with the strongest and weakest projected recoveries in Michigan by 2025



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# West Michigan Economy

# Unemployment Rate in West Michigan by County

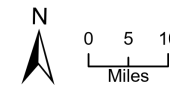
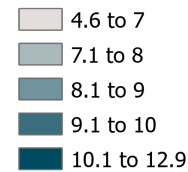
Unemployment rates are between 6% and 10% for most counties in West Michigan.

Michigan's rate is 8.5%.

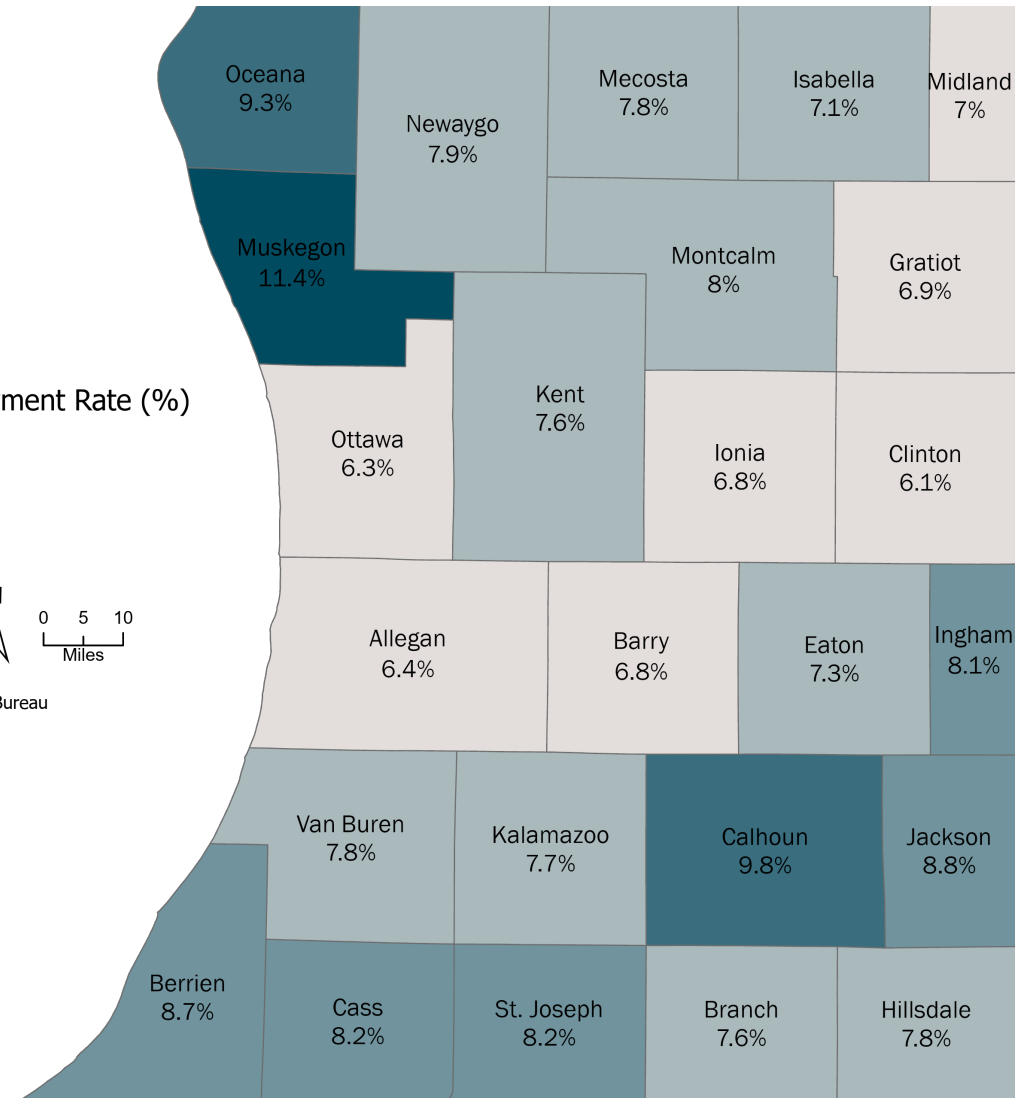
The national rate is 7.9%.

Southwest Michigan Unemployment Rate (%)

August 2020



Source: Bureau of Labor Statistics, U.S. Census Bureau



# Employment to Population Ratio in West Michigan by County

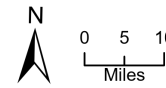
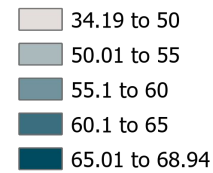
The employment to population ratio is between 51% and 69% for most counties in West Michigan.

Michigan's rate is 54.9%.

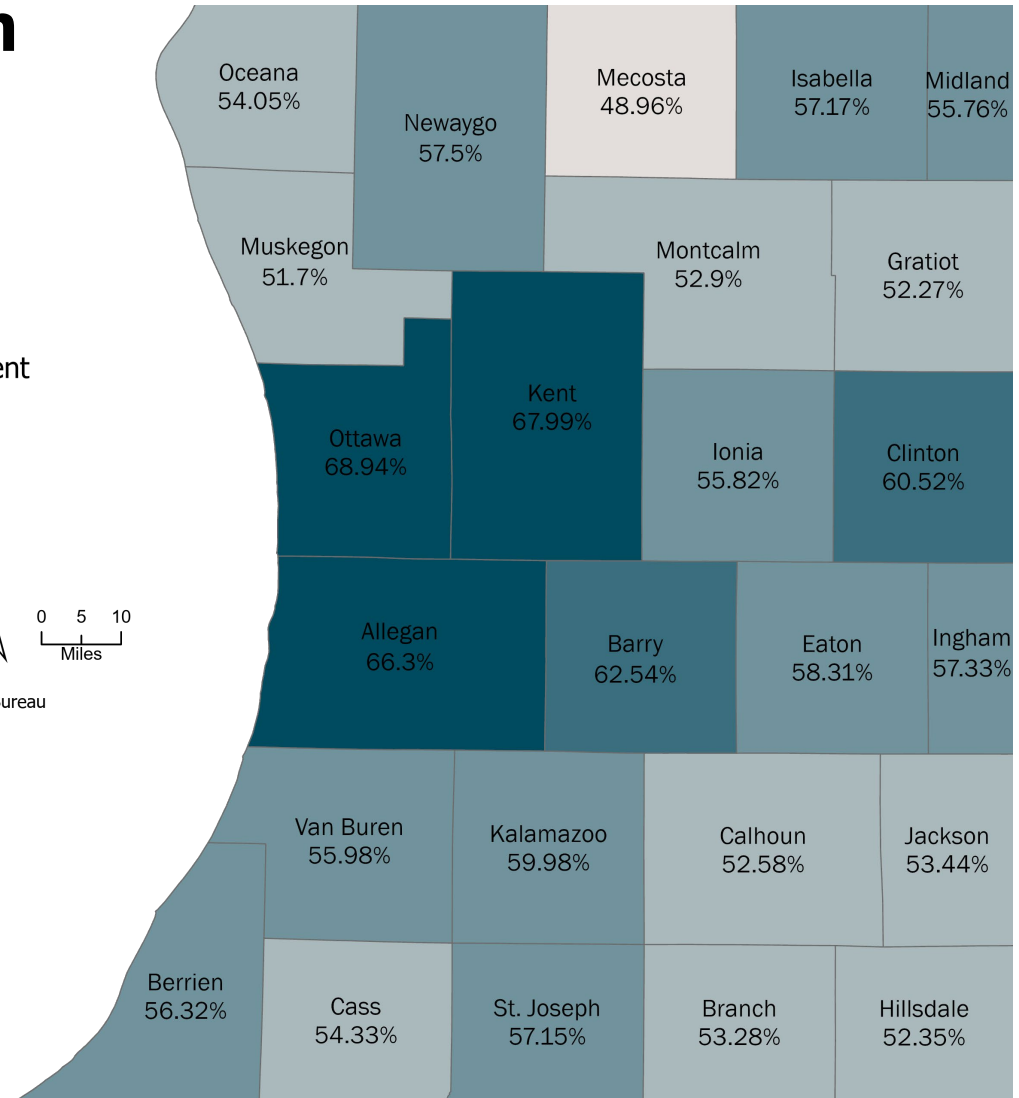
The national rate is 54.6%.

Southwest Michigan Employment to Population Ratio (%)

August 2020



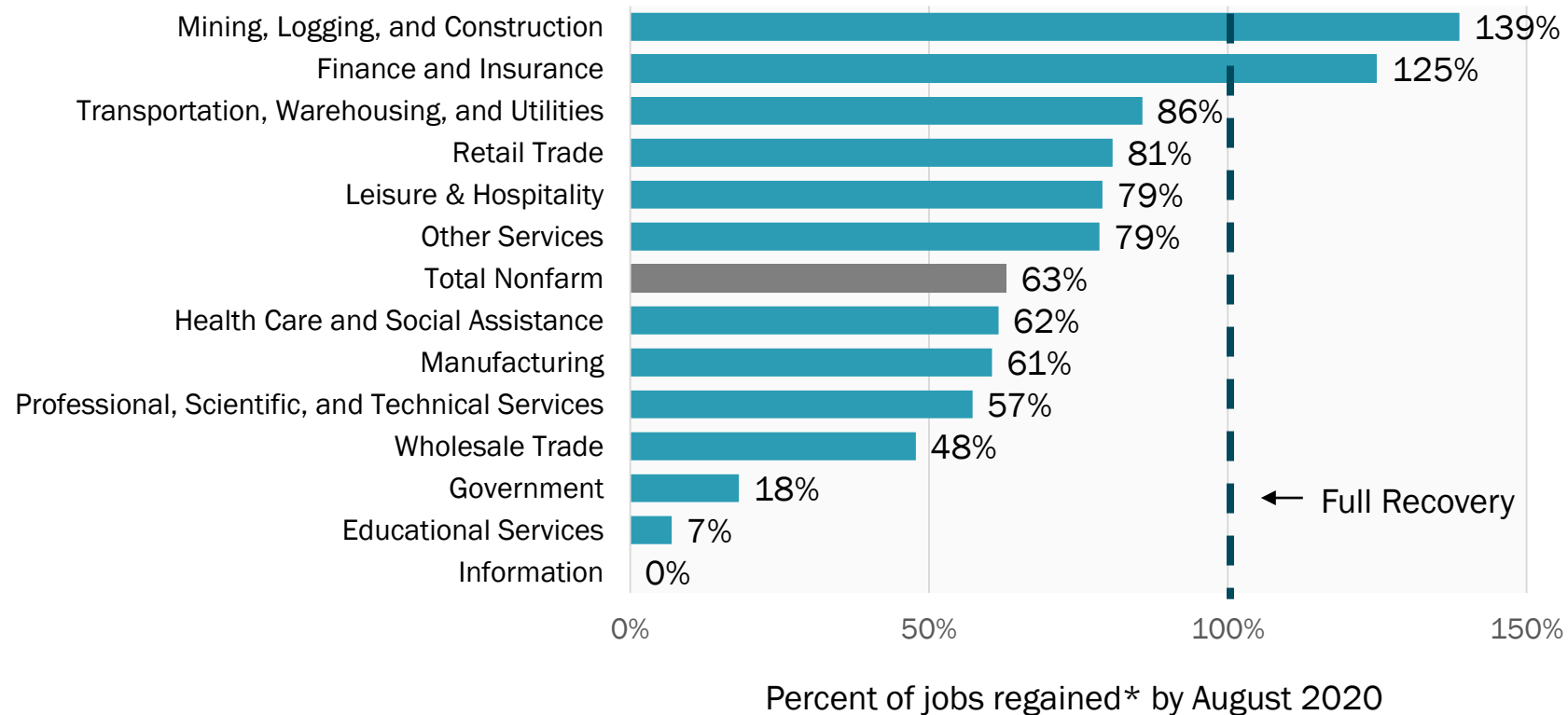
Source: Bureau of Labor Statistics, U.S. Census Bureau





# Employment Recovery

Percent of jobs regained\* by August 2020 following employment losses beginning in March in West Michigan by major sector

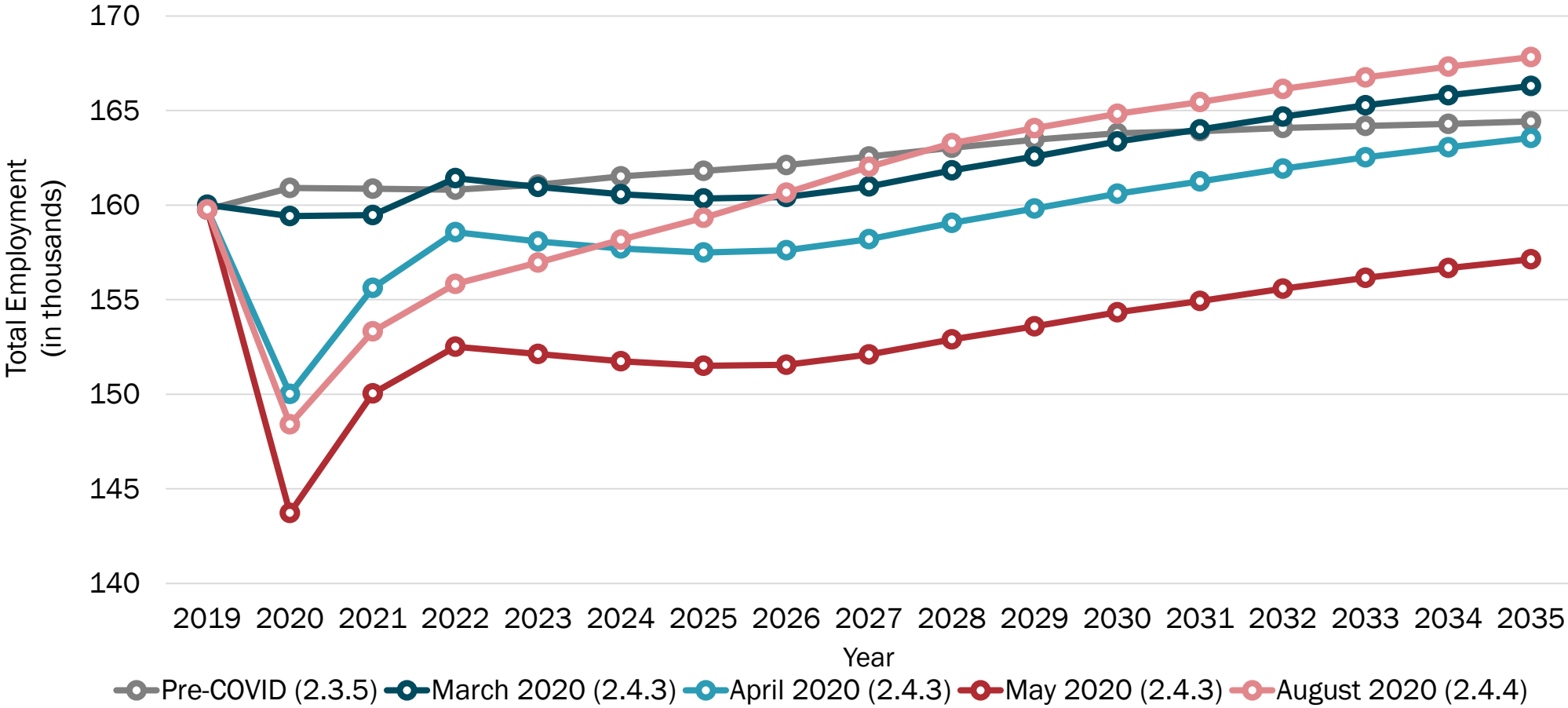


\*Data not seasonally adjusted

# Kalamazoo Economy REMI Forecasts

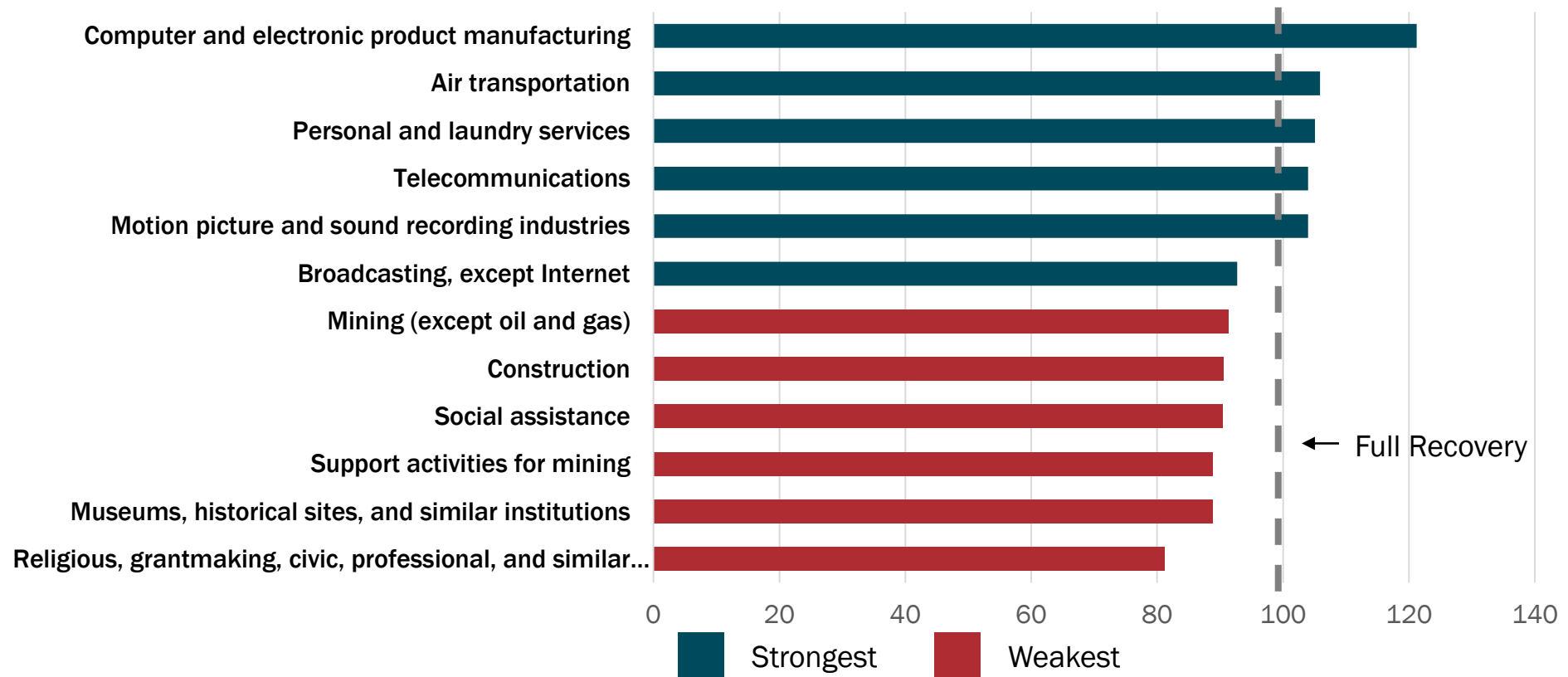


# Total Projected Employment in Kalamazoo County



# Industry Recovery

Selected sectors and subsectors with the strongest and weakest projected recoveries in Kalamazoo by 2025



**Moving Forward**

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# Considerations for the Economy

- The shape of the recovery curve?
- What will be the impact of a second wave?
- Supply versus demand?
  - How have and will SMEs fare?
- Is re-shoring real?
  - Supply chain issues
- How will technology impact employment?
- Will people go back to work?
  - Fear of illness
  - Barriers, notably childcare, in returning
  - Uncertainty around unemployment benefits

# Questions?

- Randall Eberts, PhD
  - Email: [eberts@upjohn.org](mailto:eberts@upjohn.org)
  - Phone: 269-343-5541
- Jim Robey, PhD
  - Email: [jrobey@upjohn.org](mailto:jrobey@upjohn.org)
  - Phone: 269-385-0450