

# Michigan Economic Update

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The comments and opinions that I will be expressing are my own and do not reflect the thinking or policy posture of the Federal Reserve System nor of the Federal Reserve Bank Of Chicago, (7th District).

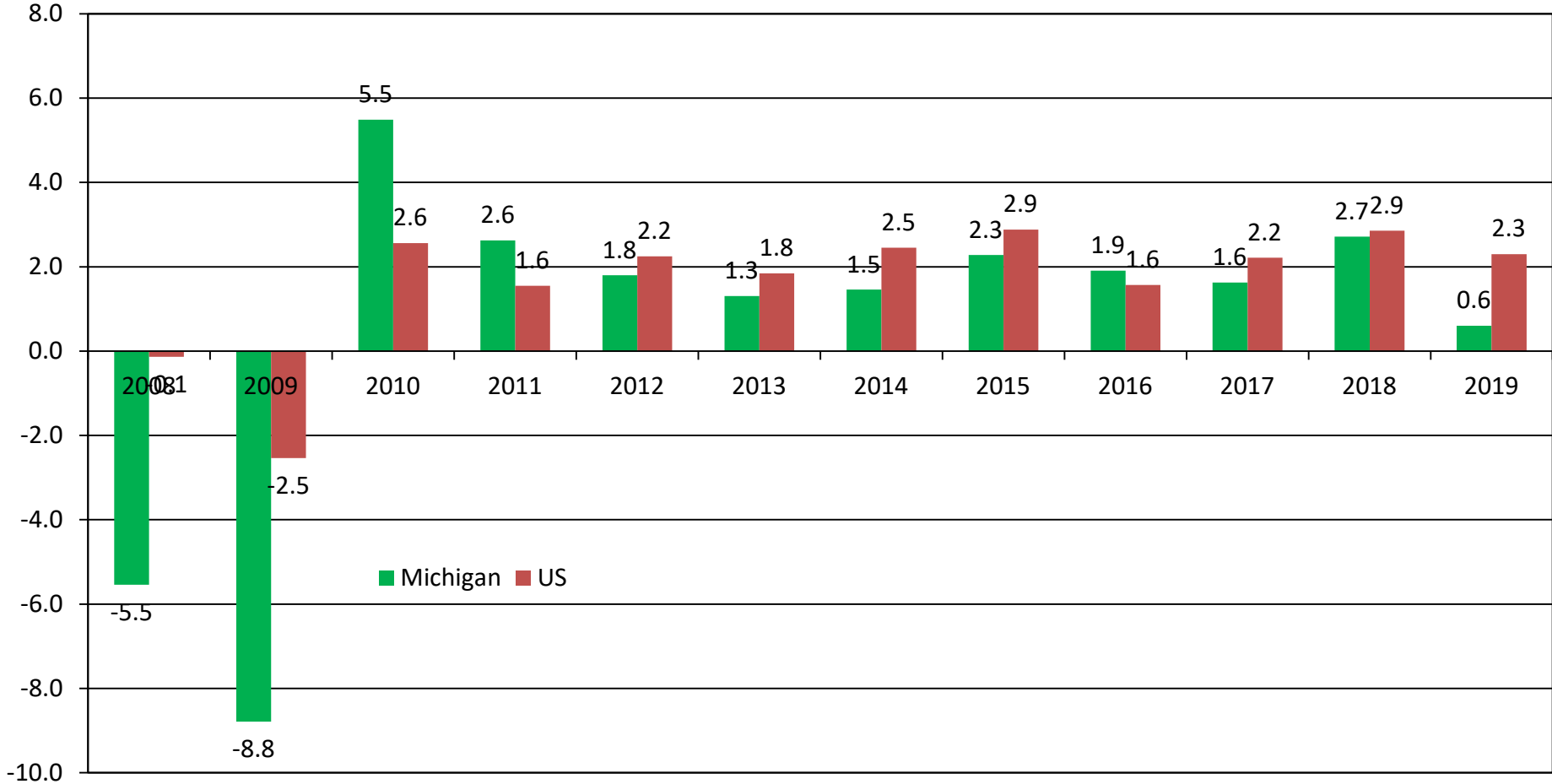
# Upcoming Conference!

- **Creating Conversations on the Challenges and Opportunities Facing Rural Economic Development**
- May 20-21, 2020
- L.V. Eberhard Center, Pew Campus-Grand Valley State University; 301 West Fulton St., Grand Rapids, MI 49504
- Co-hosted by the Federal Reserve Bank of Chicago, the W.E. Upjohn Institute for Employment Research, and the Michigan Citizens Research Council

# Presentation Outline

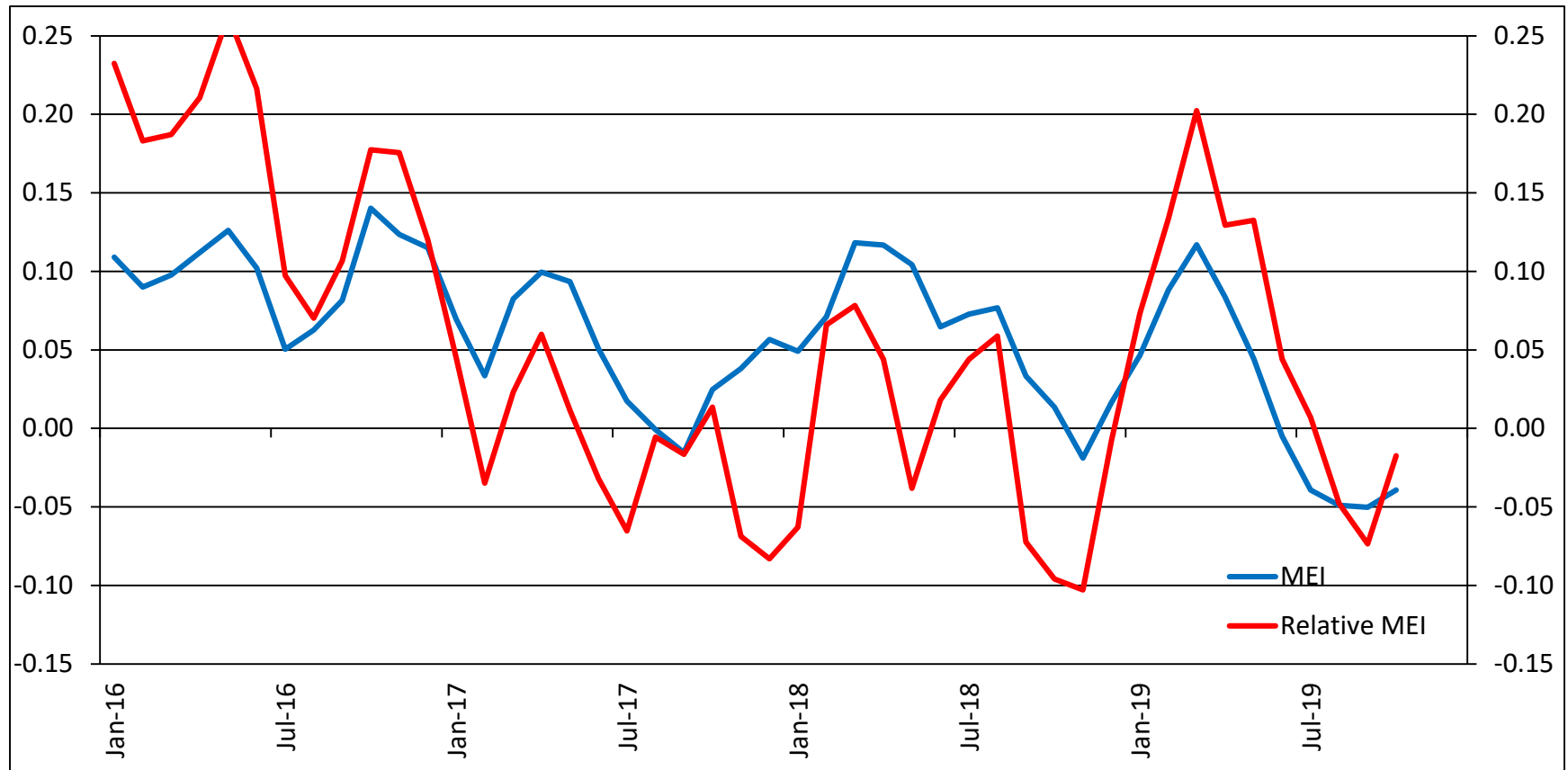
- Economic background
  - Current fundamentals: overall growth is trending lower
  - Consumers: we're not worried
  - Labor market: a worker's labor market
- Leading Michigan economic indicators
- Conclusion
  - Expectations
  - Things to look out for

# Real GDP Growth Michigan vs. U.S.



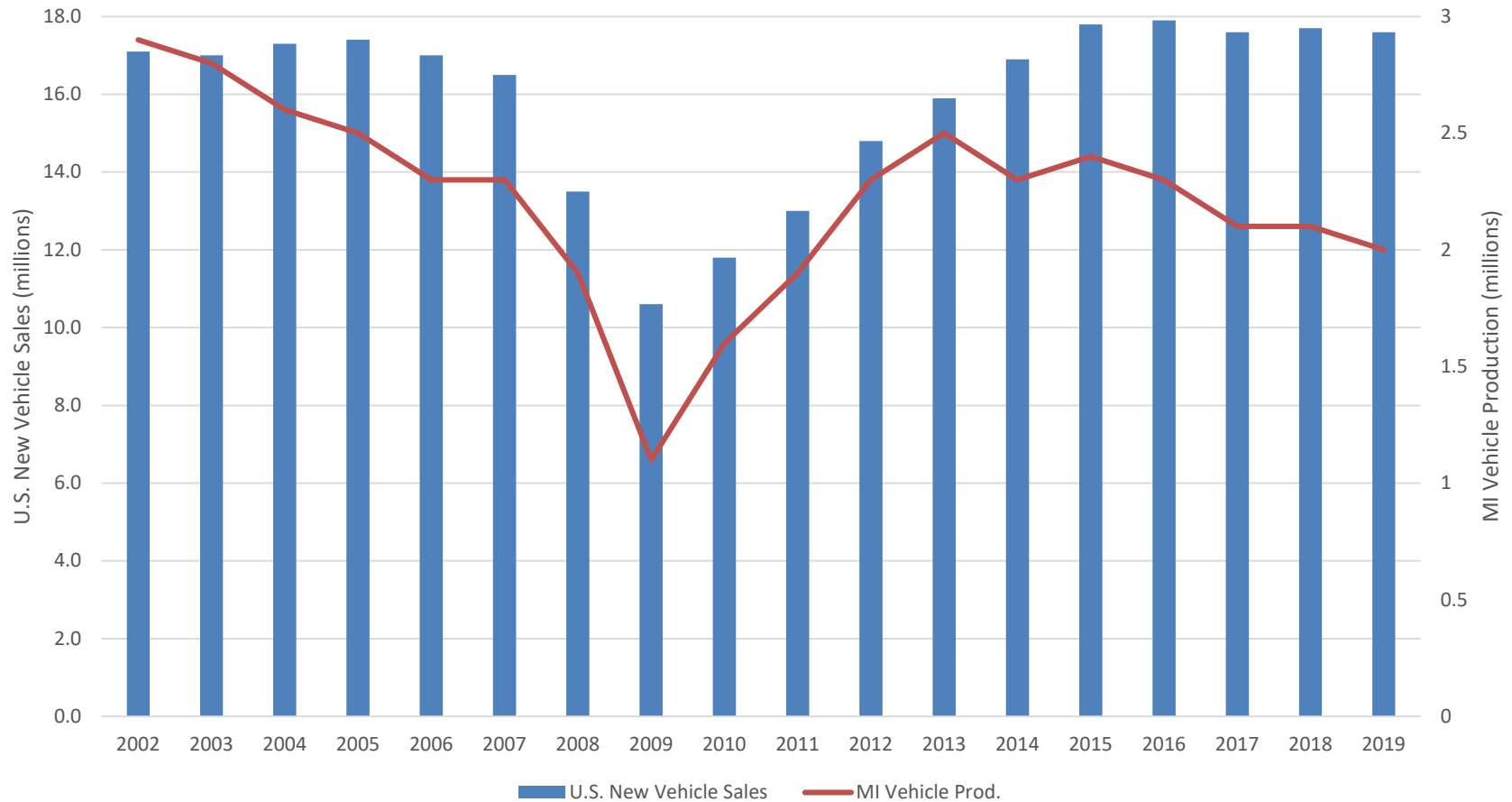
Source: BEA

# Michigan Economy Indexes: Growth has fallen slightly below trend in recent months.



A zero value for the index indicates that the Michigan economy is expanding at its historical trend rate of growth; negative values indicate below-average growth; and positive values indicate above-average growth. A zero value for the Relative MEI indicates that the Michigan economy is growing at a rate historically consistent with the growth of the national economy; positive values indicate above-average relative growth; and negative values indicate below-average relative growth.

In 2019, vehicle sales topped 17.5 million units for the 5<sup>th</sup> consecutive year, defying expectations. The majority of forecasters expect 2020 vehicle sales to total around 17 million units.



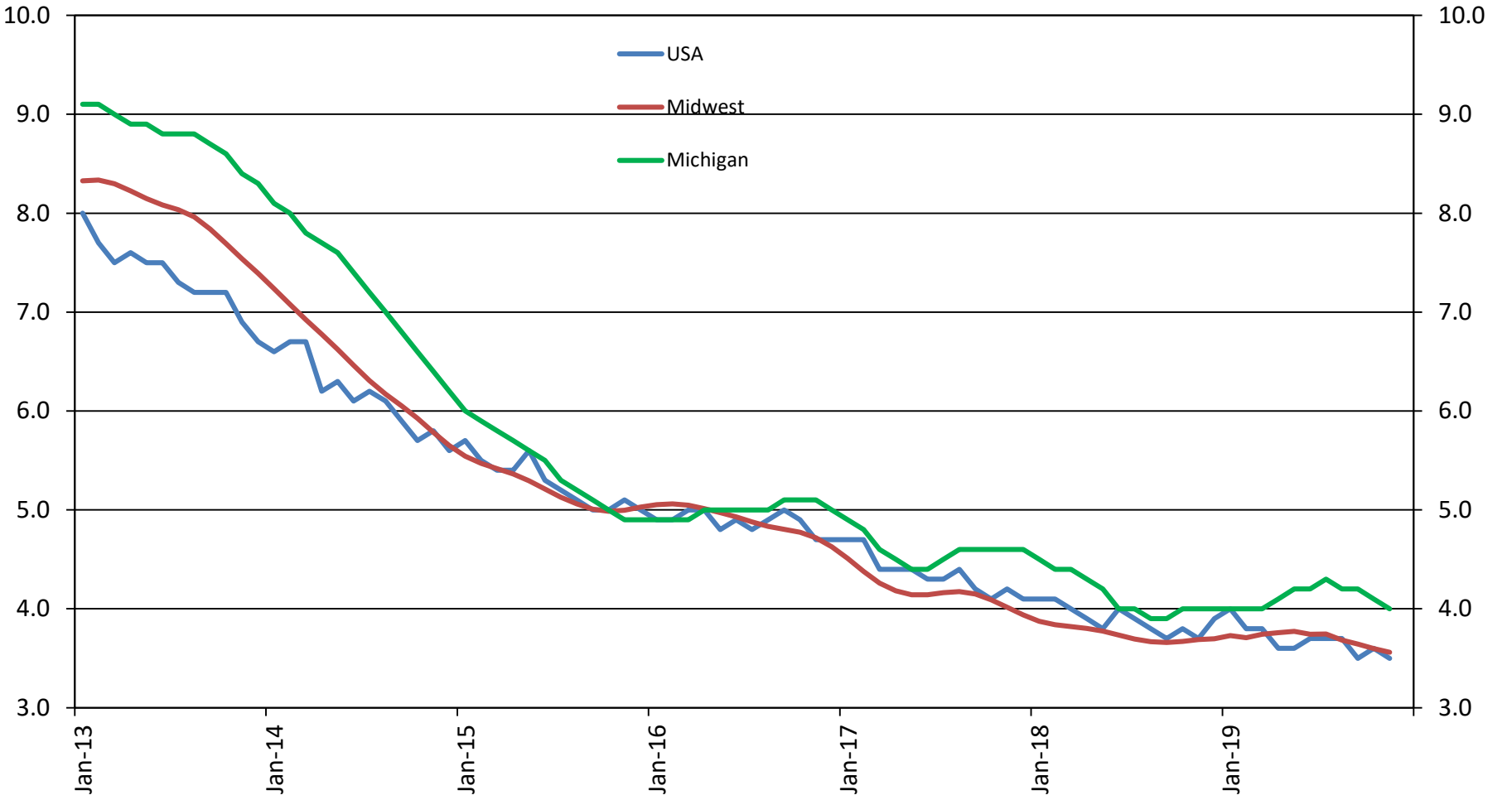
Sources: FRED, Ward's Intelligence

# The structure of Michigan's economy has changed somewhat

Category	2000	2008	2019 YTD
Natural Resources & Mining	1.0	1.2	1.4
Construction	6.2	3.4	3.4
Manufacturing	18.9	17.8	18.7
Trade, Transportation, Utilities	17.1	17.8	18.0
Information	1.8	2.6	3.1
Financial Activities	15.9	16.1	16.4
Professional & Business Services	13.0	12.8	13.9
Education & Health Care	7.4	9.7	9.6
Leisure & Hospitality	3.3	3.4	3.3
Other Services	3.0	2.6	2.1
Government	12.8	12.6	10.1

Source: Author's calculations (percentage of Real GSP) using data from the Bureau of Economic Analysis

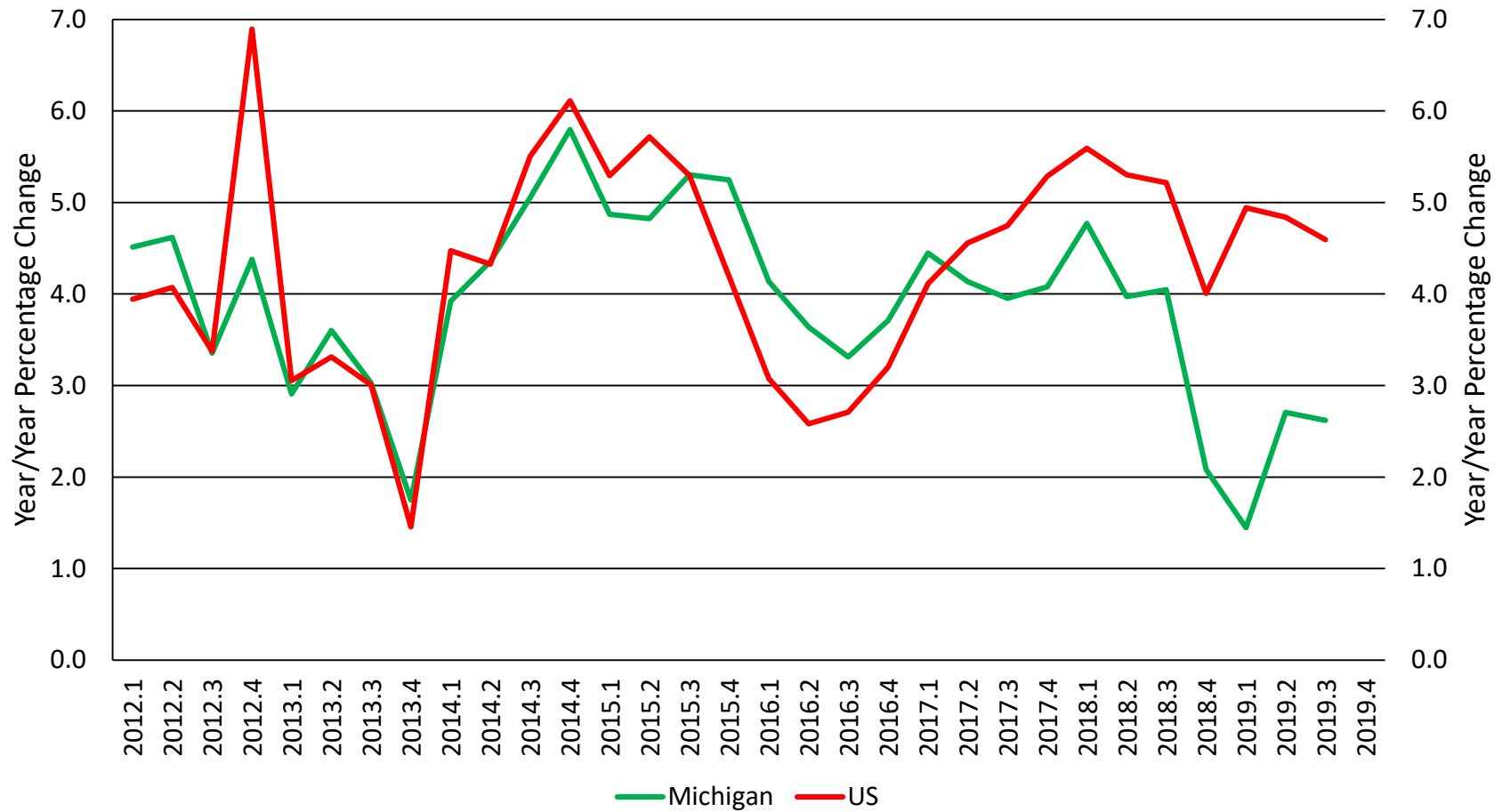
# Unemployment rates are at or near levels deemed 'full employment'.



Source: BLS

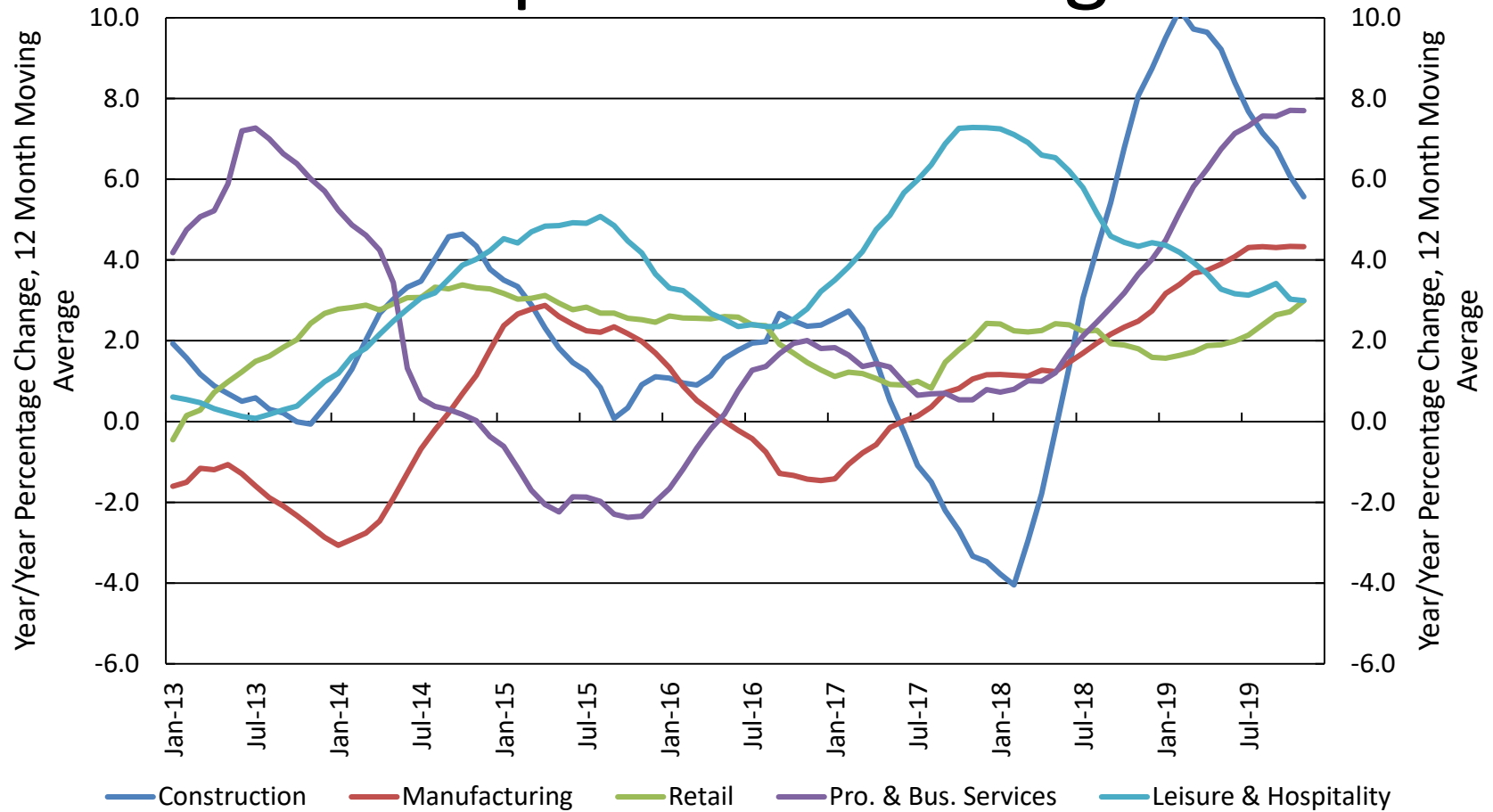


# Growth in wages & salaries has decelerated relative to the U.S.



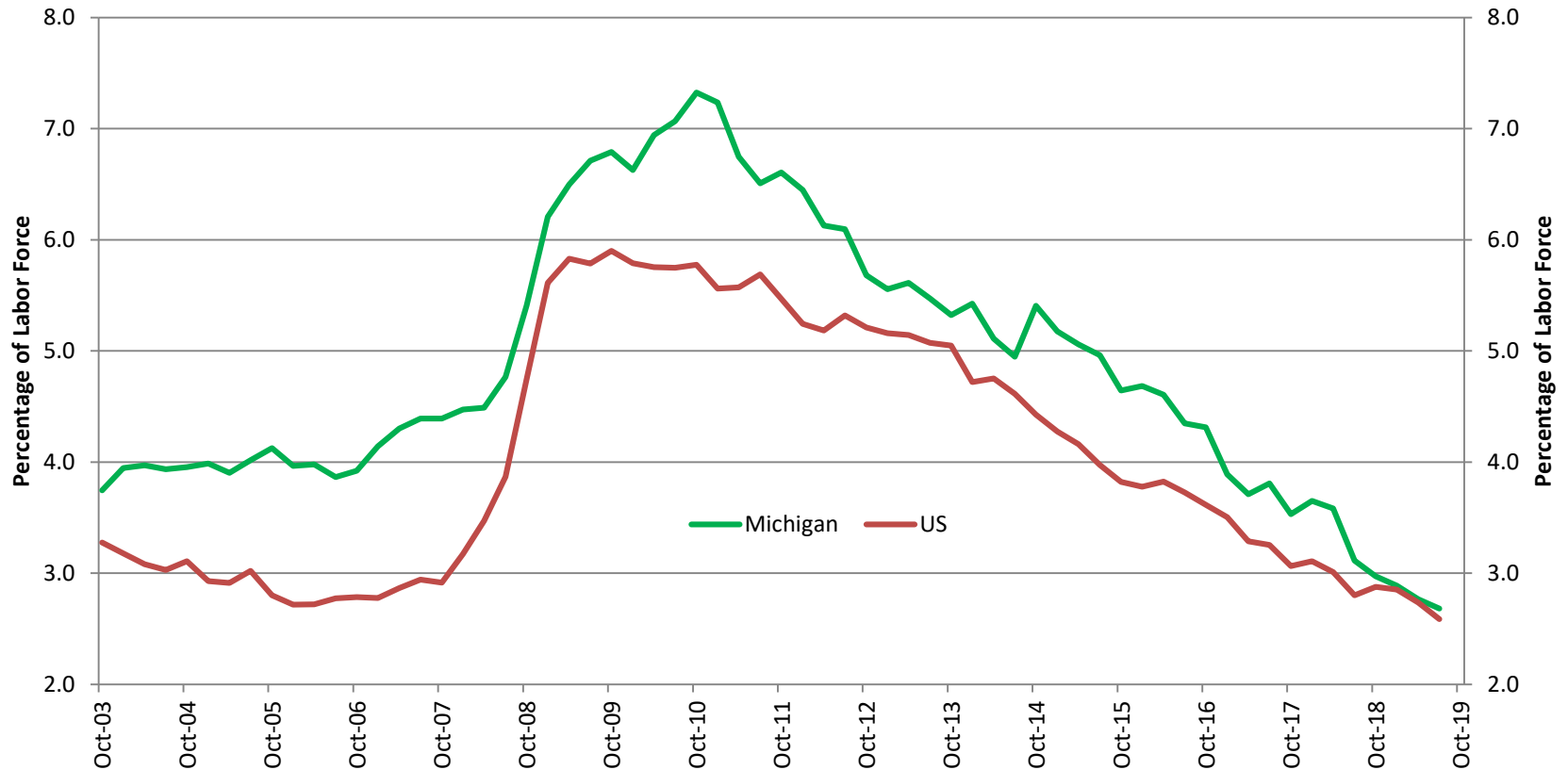
Source: Author's calculations using data from the Bureau of Labor Statistics

# However, for production workers, wage growth has become more widespread in Michigan



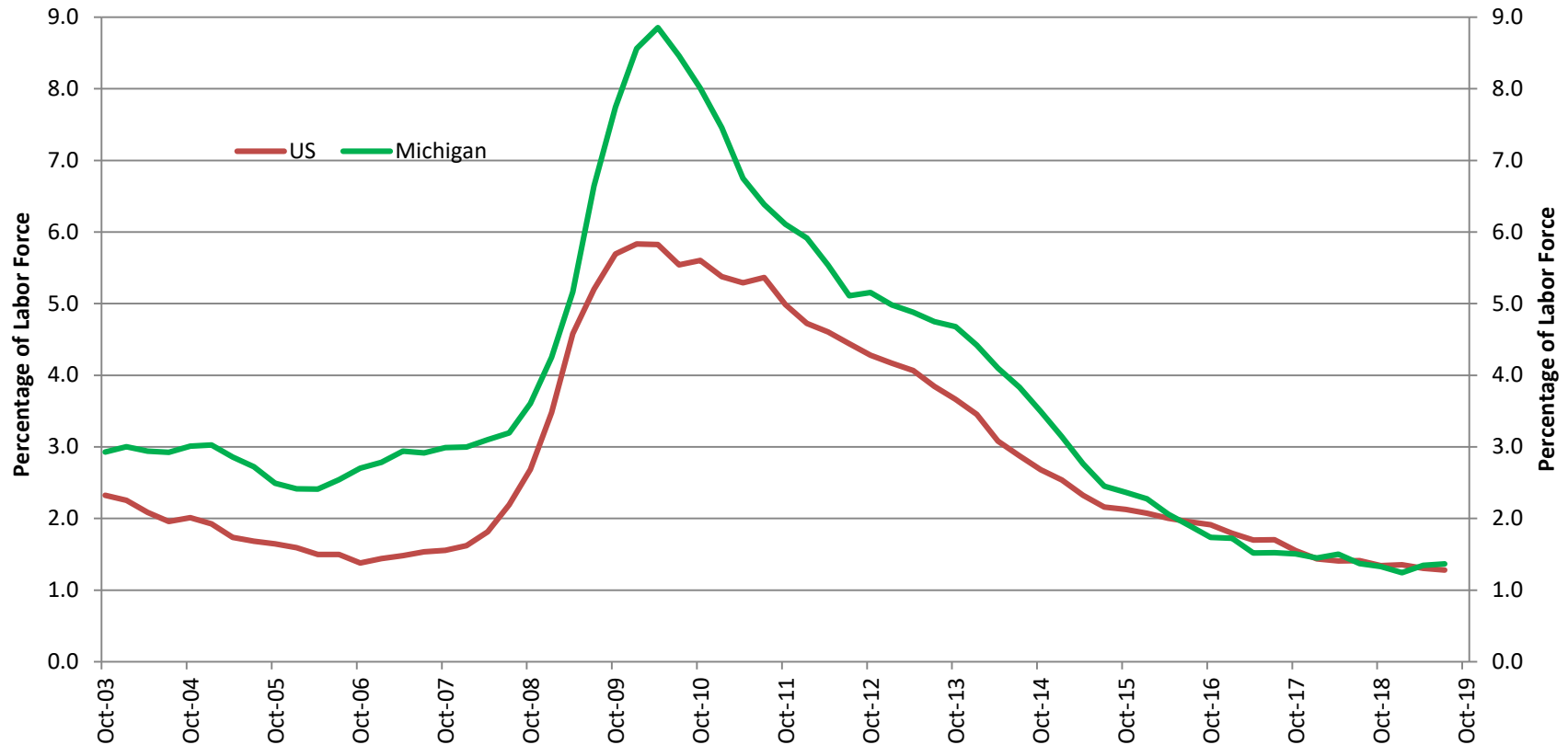
Source: Author's calculations using data from the Bureau of Labor Statistics

# Involuntary Part-Time Employment has decreased to very low levels



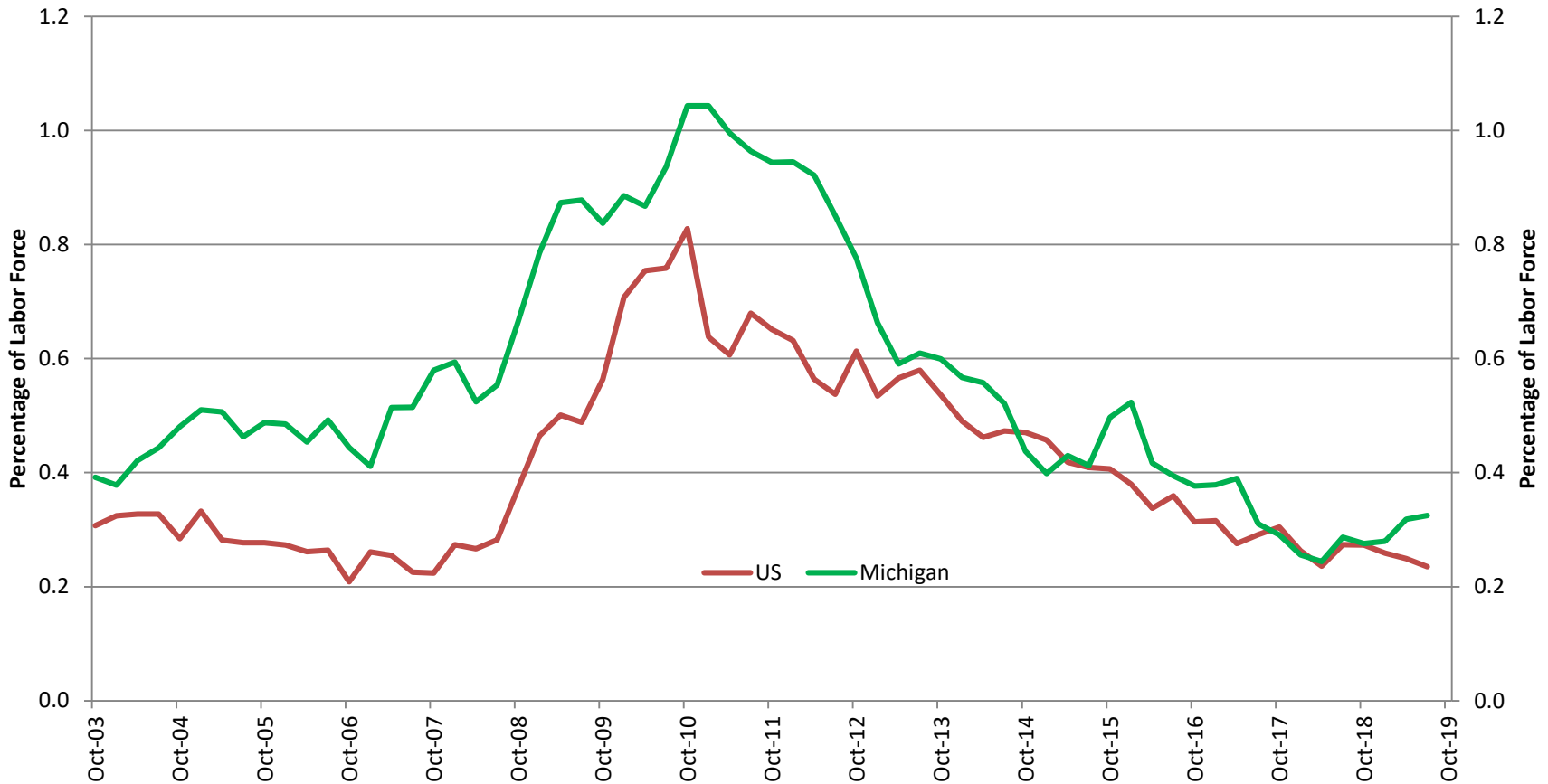
Sources: Author's calculations using data from the Bureau of Labor Statistics.

# The Percentage of Long-Term Unemployed Workers has also dropped sharply



Sources: Author's calculations using data from the Bureau of Labor Statistics.

# The percentage of discouraged workers has fallen as well



Sources: Author's calculations using data from the Bureau of Labor Statistics.



# Labor Force Participation Rates by Region

	2000	2010	2018
Michigan	68.7	62.0	61.7
Flint/Tri-Cities	58.7	52.3	50.8
Mid-Michigan	67.7	61.6	59.7
Northern Michigan	68.6	62.9	60.1
Southeast Michigan	70.2	63.4	63.4
Upper Peninsula	63.8	60.5	56.3
Western Michigan	71.5	64.9	64.7

# Domestic Net Migration Rate

(2011-18; By State, per 1000 people)

Rank	State	Net Migration Rate
1	Nevada	9.0
2	South Carolina	8.3
3	Colorado	7.8
4	Florida	7.6
5	Arizona	7.0
41	Michigan	-2.8
46	Connecticut	-6.1
47	New Jersey	-6.2
48	Illinois	-7.3
49	New York	-7.6
50	Alaska	-8.7

Source: Author's calculations using data from census.gov

# Domestic Net Migration Rate

## (2011-18; By Michigan MSA, per 1000 people)

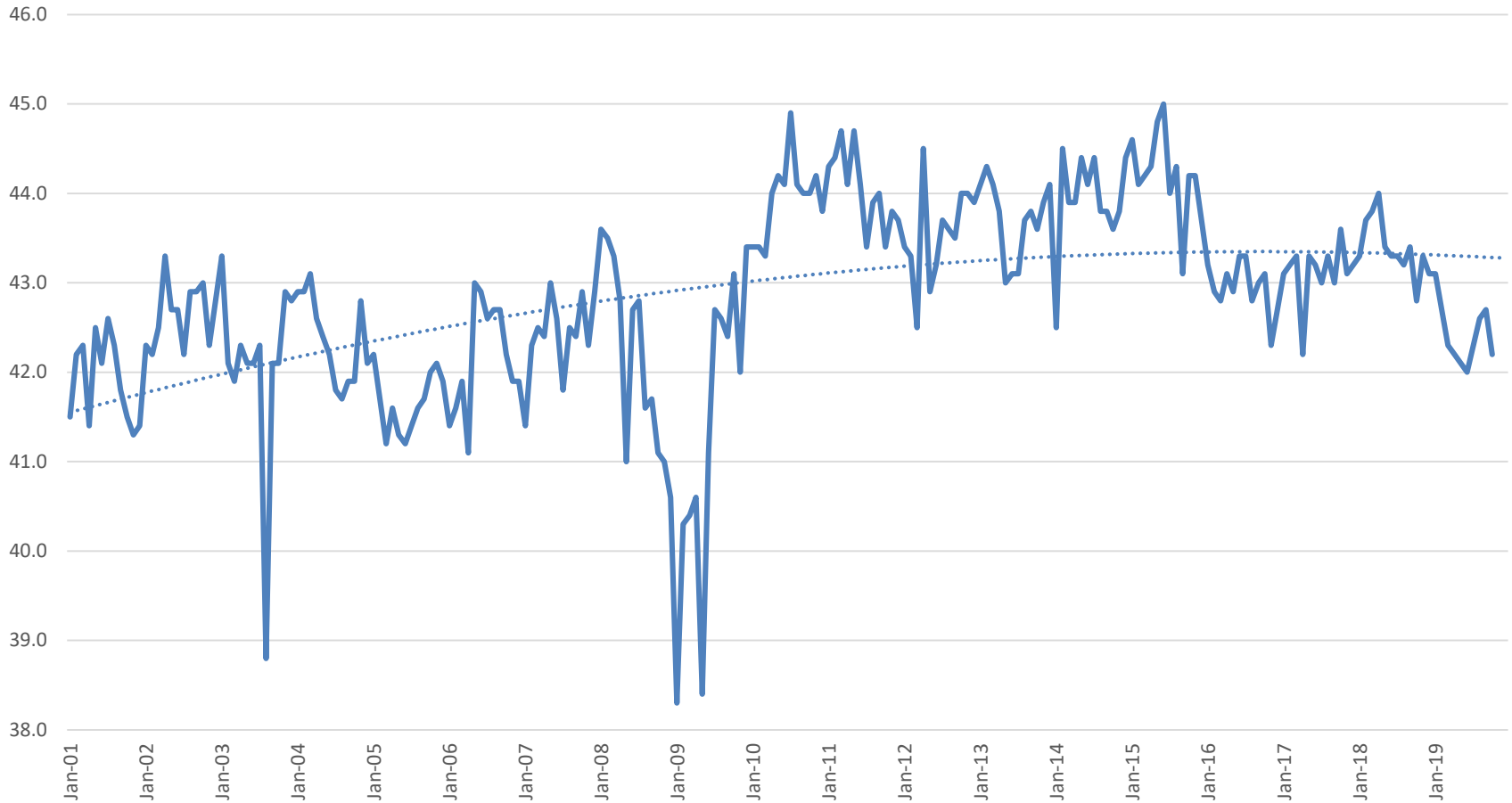
Source: Author's calculations using data from census.gov

Rank	State	Net Migration Rate
1	Grand Rapids-Wyoming	2.0
2	Kalamazoo-Portage	-0.2
3	Warren-Troy-Farmington Hills	-0.3
4	Muskegon-Norton Shores	-1.6
5	Ann Arbor	-1.7
6	Monroe	-2.3
7	Jackson	-2.4
8	Bay City	-3.4
9	Lansing-East Lansing	-3.8
10	Battle Creek	-5.0
11	Niles-Benton Harbor	-5.2
12	Flint	-7.0
13	Saginaw	-7.6
14	Detroit-Livonia-Dearborn	-9.6

Source: Author's calculations using data from census.gov



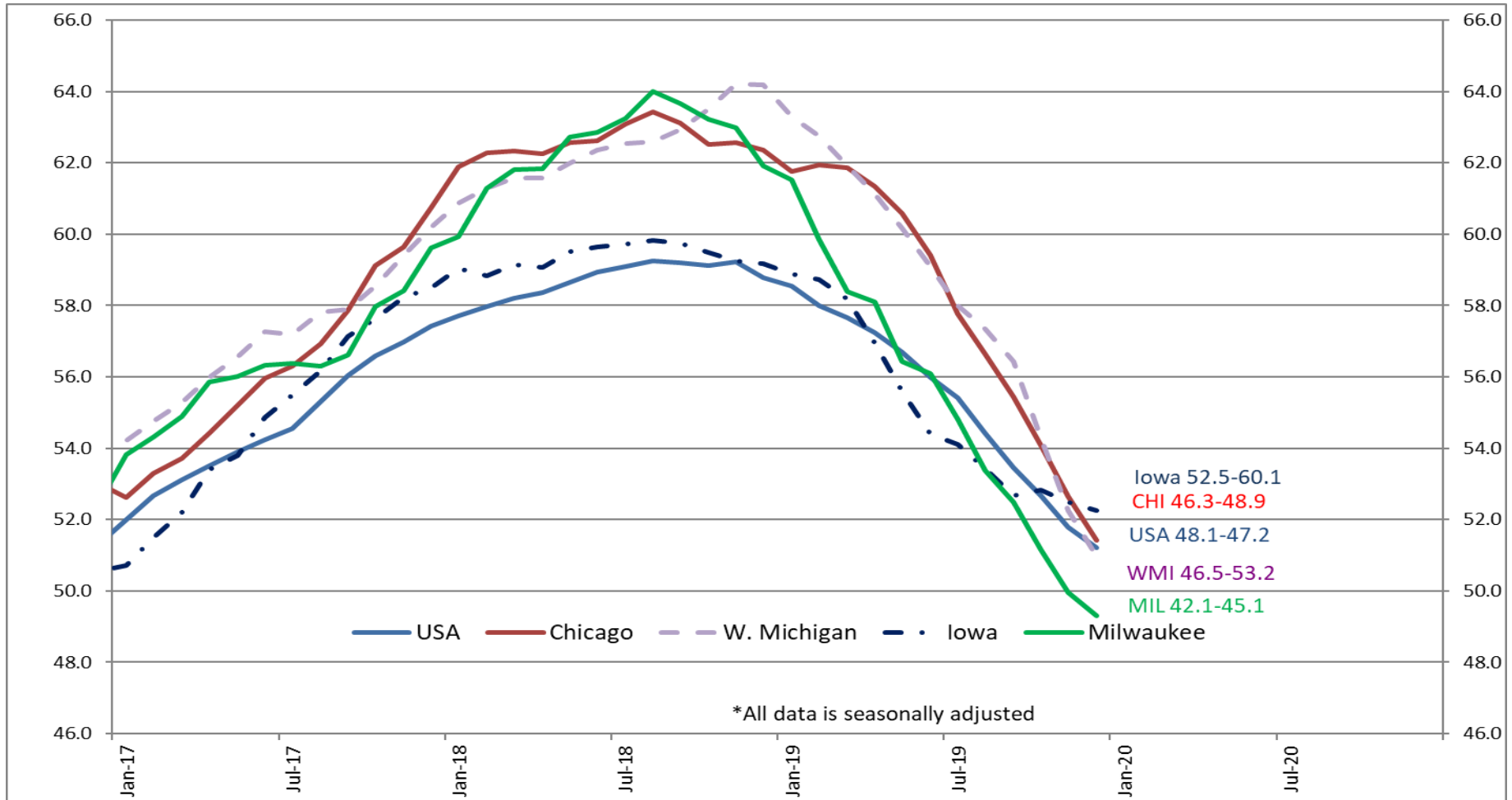
# Manufacturing hours are trending lower



Source: Bureau of Labor Statistics/Haver Analytics

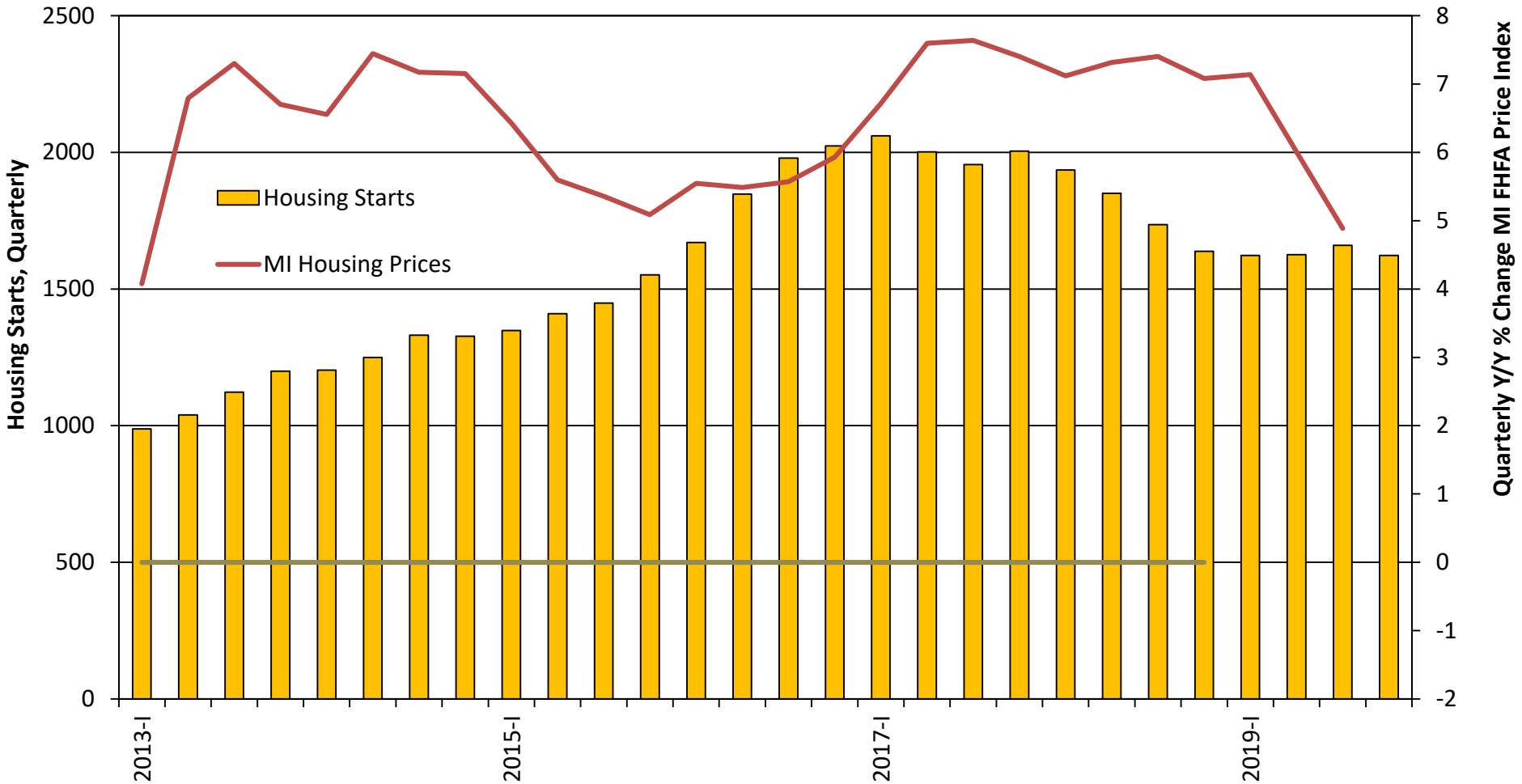
# Purchasing Managers' Indexes

## (US, 7<sup>th</sup> District)



Values above 50 indicate expansion; values below 50 indicate contraction. The chart shows each PMI's 12 month moving average.

# Home price appreciation in Michigan is outperforming the U.S. However, new home construction has now fallen for almost 3 years.

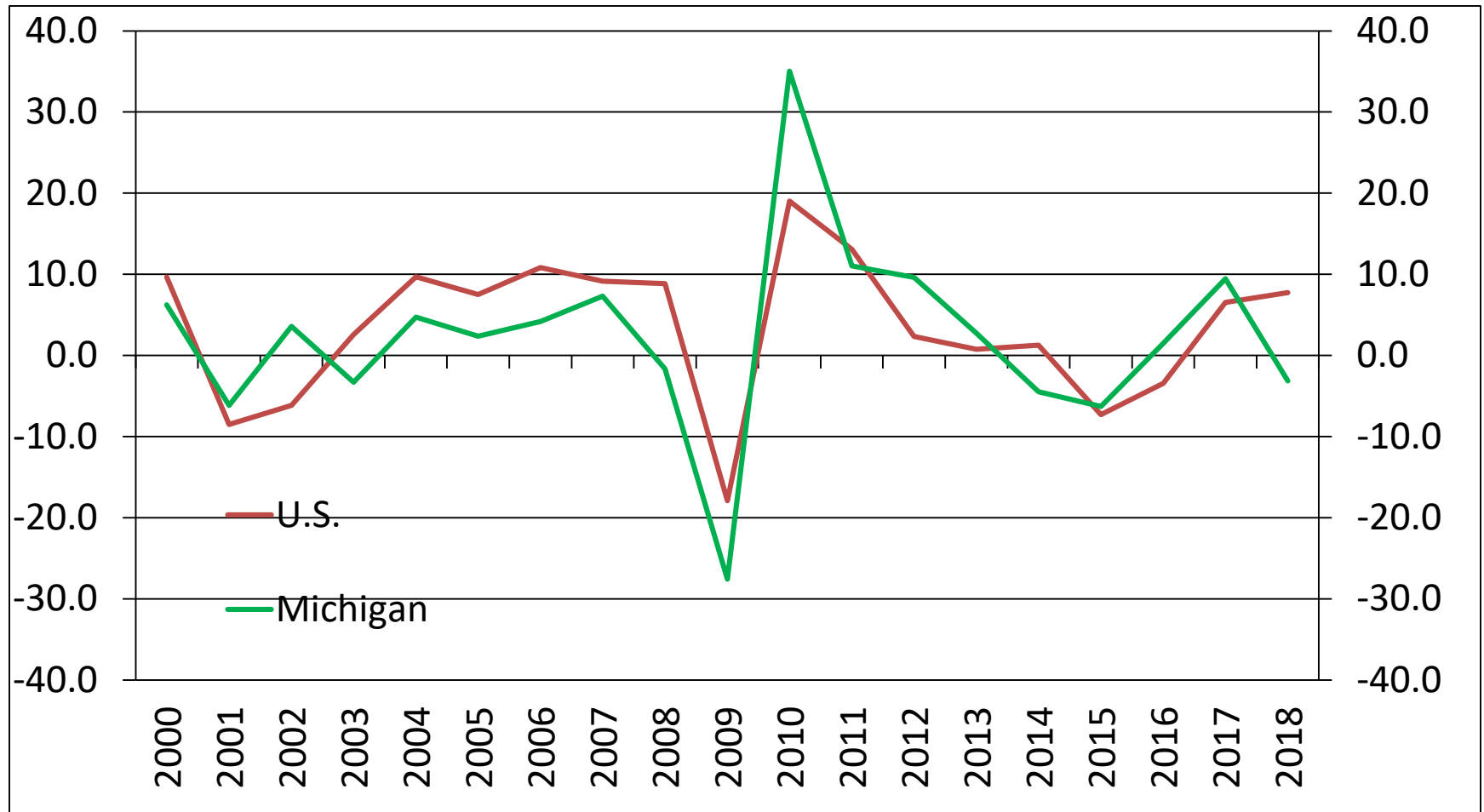


Source: Haver Analytics, FHFA

# In many Michigan Counties, it's hard to find starter-priced homes

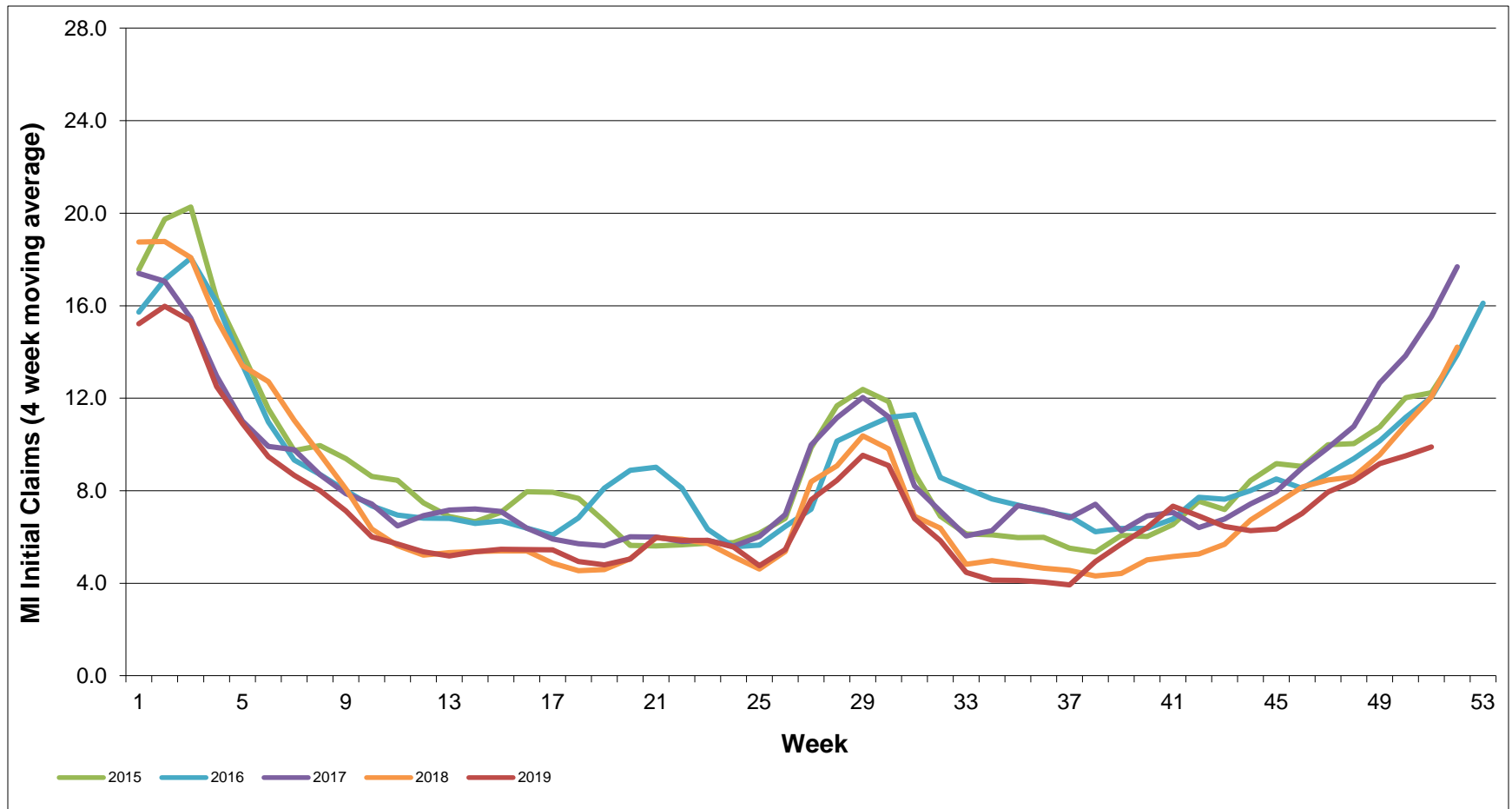
	Amount of entry-level housing in jurisdiction			
	Too much	The right amount	Too little	Don't Know
CALHOUN	6.35	24.02	44.11	25.52
GENESEE	15.29	66.77	14.15	3.8
GRAND TRAVERSE	0	29.64	58.17	12.19
INGHAM	0	44.97	55.03	0
KALAMAZOO	0	54.27	40.24	5.49
KENT	0	44.14	51.32	4.54
LIVINGSTON	0	32.47	62.75	4.78
MACOMB	13.52	57.6	28.88	0
OAKLAND	4	45.55	50.44	0
OTTAWA	0	45.97	54.03	0
SAGINAW	7.84	60.15	20.11	11.9
WASHTENAW	0	39.11	60.89	0
WAYNE	18.25	54.92	18.83	8
TOTAL	4.67	50.48	34.31	10.54

# Real Merchandise Export Growth has diverged recently between Michigan and the U.S.



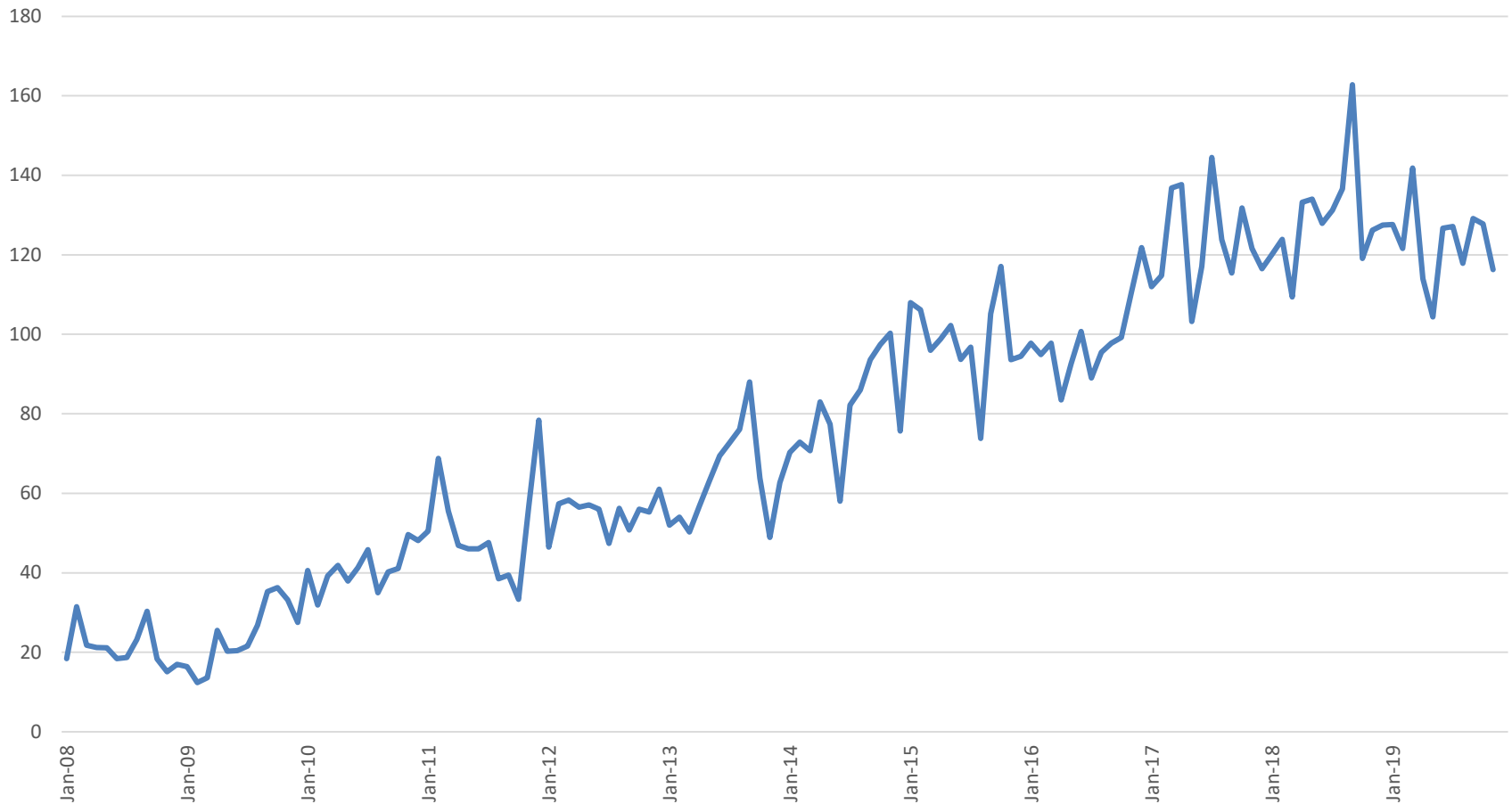
Source: Author's Calculations using data from TradeStats Express

# Initial unemployment claims continue to move lower



Source: Author's calculations based on data from the Department of Labor

# Consumer confidence is mostly unshaken



Source: The Conference Board, Haver Analytics

# Has Michigan's Hospitality Sector Plateaued?

(But at strong levels...)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
Occupancy Rate	51.5	55.2	56.7	57.4	58.5	59.8	60.4	61.5	62.0	61.4
Average Daily Rate	76.90	79.48	82.64	86.58	90.80	95.79	100.07	101.87	107.10	107.71
Revenue Per Room	40.04	44.24	47.25	50.07	53.64	57.92	62.51	67.87	66.44	66.72

\*2019 not complete. Sources: STR.com and Hotel News Now



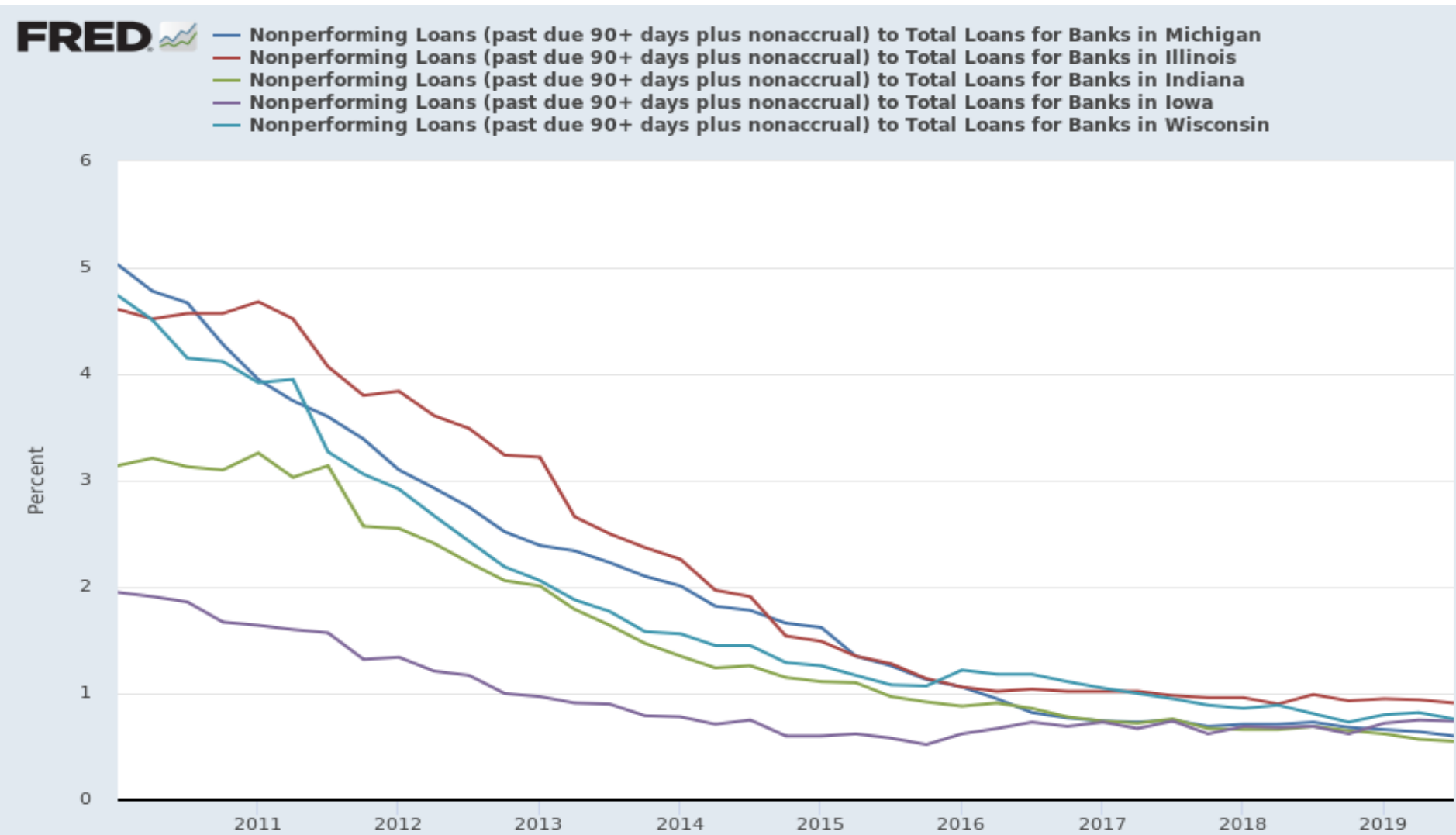
# Net Interest Margin

FRED

- Net Interest Margin for Banks in Michigan
- Net Interest Margin for Banks in Illinois
- Net Interest Margin for Banks in Indiana
- Net Interest Margin for Banks in Iowa
- Net Interest Margin for Banks in Wisconsin
- Net Interest Margin for all U.S. Banks

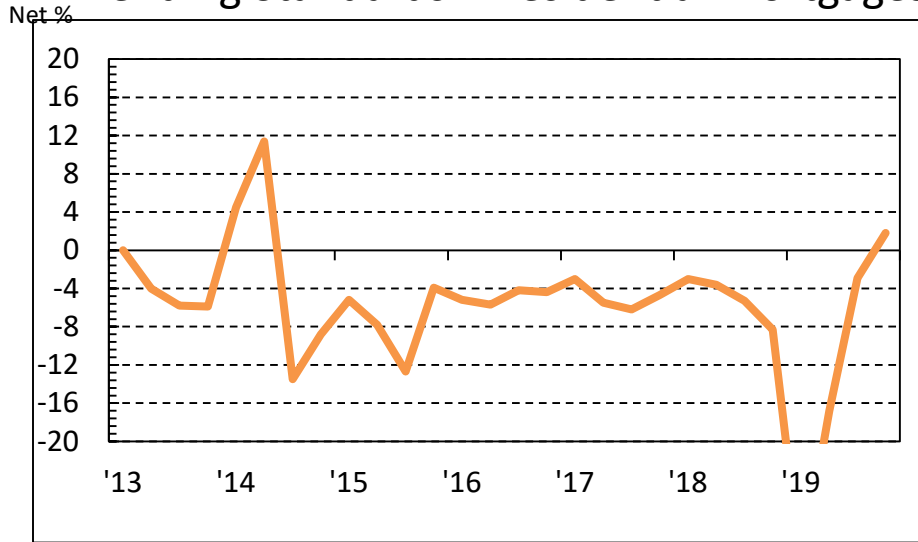


# Nonperforming Loans

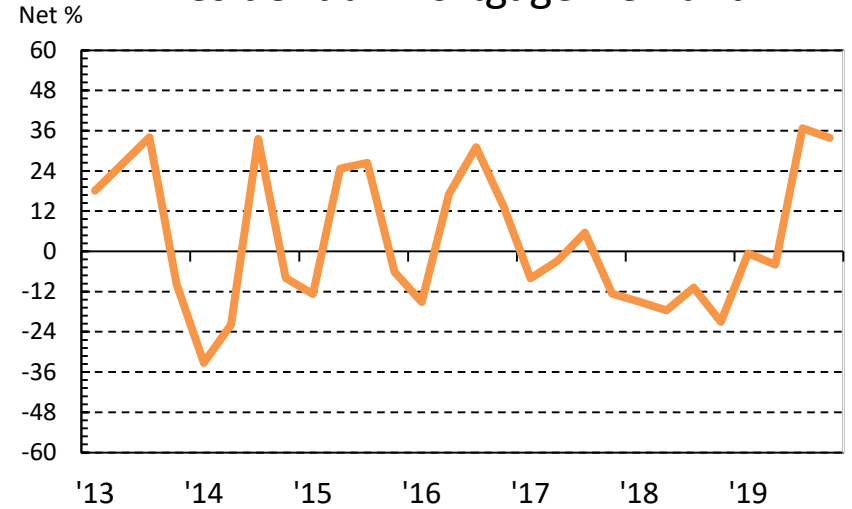


# Senior Loan Officer Survey

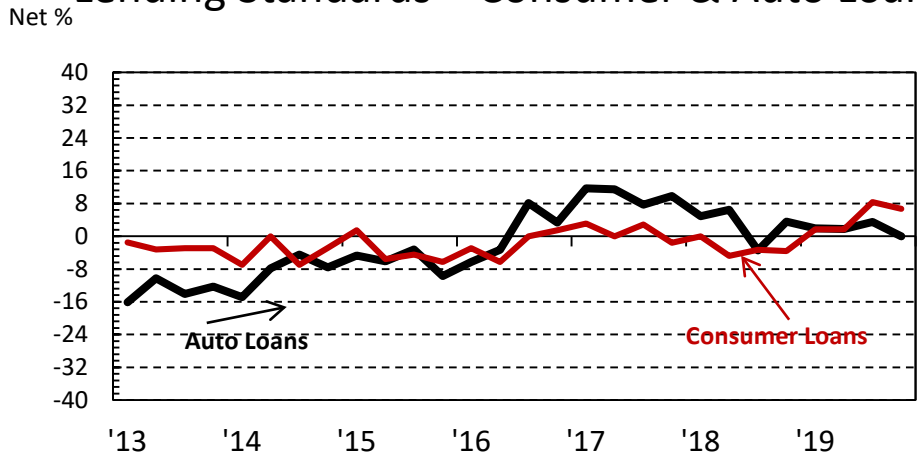
## Lending Standards – Residential Mortgages



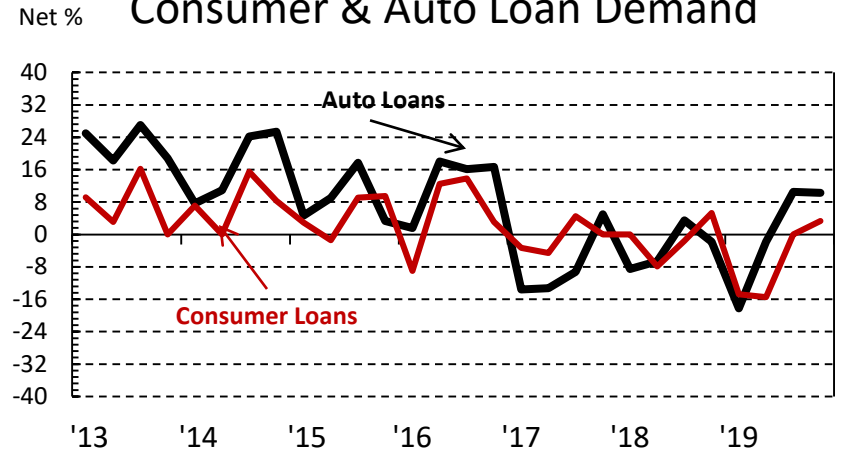
## Residential Mortgage Demand



## Lending Standards – Consumer & Auto Loans



## Consumer & Auto Loan Demand





# Highlighted Results of UM's Annual Public Policy Survey

- 36% of local governments able to meet their fiscal needs
- 63% of jurisdictions plan to increase employee pay
- 69% of local governments rate their level of fiscal stress as relatively low
- 49% of local officials expect “good times” this year

# Small & medium-sized businesses continue to experience solid growth

- Michigan Future Business Index
  - Survey of 480 small to medium-sized businesses
  - Fall 2019 Index
- Expect the next 6 months to look like the last 6 months
- Talent remains the most challenging issue
- 44% of those surveyed were negatively impacted by tariffs

# Michigan Economic Outlook

- Looking for growth at or slightly below trend
  - A muted manufacturing sector
  - More uncertain capital investment plans
  - Housing's positive contribution remains limited
- But unless there's a negative shock, we should avoid recession
  - No significant job losses + continued, consistent wage gains = persistent consumer spending growth
  - Lower, but still above trend light vehicle sales
  - A more prudent financial sector
  - Low interest rates
  - Some trade certainty?

# 2020 Forecast Risks

- There are upside risks!
  - None of the downside risks materialize
  - Manufacturing's contraction was only trade-related
  - Housing breaks out
- But of course, there are probably more downside risks
  - Especially if manufacturing remains on its present course
    - Lower sales volumes
    - Layoffs?
  - Iran: now what?
  - China: a new Cold War?

# Michigan Economic Outlook

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