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5 trends to watch in Michigan's economy

Matthew Dolan, Detroit Free Press January 2, 2016

U-M forecast extends Michigan's economic growth through at least 2017 with 61,100 jobs in 2016 and 64,800 the following year.

If the prognosticators are right, Michigan's still recovering economy is poised for another round of substantial growth by riding an expected banner year for auto sales.

The nation's 10th largest state by population is still making up ground on real estate prices, average personal income and the level of education afforded to its key group of young workers.

But the spillover effects of record annual auto sales should continue to boost jobs, especially for those who build homes, serve popular tourist communities and keep government offices running, according to state, business and academic experts.

The state's unemployment rate — once the nation's worst — actually bested the nation's rate in 2015 and is expected to keep falling in 2016 and 2017, according to a University of Michigan forecast.

Rip-roaring auto sales will continue to soar to at least 18 million a year in the U.S for the next two years, forecasters from the U-M Research Seminar in Quantitative Economics say. And declining gasoline prices are expected to pump sales of fuel-thirsty SUVs and trucks, further boosting the profit margins for the Detroit Three automakers.



**University of Michigan
professor George Fulton**

University of Michigan professor George Fulton Michigan has just completed its sixth year of economic recovery, averaging 74,200 new jobs a year. U-M's forecasted growth extends the streak through at least 2017 with 61,100 jobs in 2016 and 64,800 the following year.

The state unemployment rate fell to 5.1% from 6.5%, as of November 2015. More progress is expected in 2016 when the rate is expected to drop to 4.8%.

But who will produce the state's new jobs? Those who employ professionals, construction workers and people involved in trade, transportation and utilities are expected to lead the pack.

But then by the end of 2016, the overall rate of economic growth is expected to start to slow compared with recent years. Exactly when that happens may depend on when the auto industry takes its foot off the gas, experts say.

"The boom is ending," U-M senior research specialist Donald Grimes, one of the authors of the annual state economic forecast, said of auto sales, which are cyclical and expected to max out by 2017. "The real test of the Michigan economy is how sustainable is economic growth going to be in 2016 and beyond."

Need to diversify

Efforts in Michigan at diversifying the economy appear to be paying some dividends.

In Grand Rapids, where unemployment is 3.3%, economic growth is so strong even when compared to other metro areas nationally that George A. Erickcek and Brian Pittelko at W.E. Upjohn Institute for Employment Research concluded in a December presentation "it may not get any better than this."

Another economic bright spot has been Ann Arbor, home to U-M and several technology companies. In 2015, LLamasoft, founded in 2003 by U-M graduates to design supply chain software, scored a recent \$50-million investment by affiliates of the investment bank Goldman Sachs and acquired a major competitor.

In an interview, Ginger Stegmier, vice president of global marketing, said the company hired 58 people for its Ann Arbor operations and expected a similar pace in 2016. Still, luring qualified employees to Michigan can be a challenge, especially for tech jobs.

"We really have to step up our game to compete for talent in this market," LLamasoft human resources manager Maureen Putnam said, according to a follow-up e-mail.

Global economy factors

It's possible of course that a number of different factors local and global could ding the rosy outlook.

Michigan is a major exporter, tying the state to swings in the global economy. Chicago only recently surpassed the Detroit region as the No. 1 exporter to Canada in 2014. The state's economy also is especially sensitive to interest rates because of its high concentration in big-ticket consumer goods such as cars.

The Federal Open Market Committee, chaired by Janet Yellen, voted to increase the near-zero overnight lending rate to banks by 0.25 basis points in late 2015 for the first time in years. The committee is the policy making arm of the U.S. Federal Reserve.

Uncertainty around growth in China and in the rest of the developing world could be a concern. A stronger U.S. dollar could also make it harder for Michigan manufacturers to compete abroad. Already, the head of the International Monetary Fund is warning that global economic growth could be disappointing next year.

Michigan still relies heavily on its Big Three automakers. Auto industry employment should continue growing in 2016, albeit more moderately. But the industry could underperform if vehicle sales slow unexpectedly. Also, hiring could simmer down more naturally after several years of expansion and productivity gains.



Ford and UAW marks the official start of contract talks with a group handshake with UAW Vice President Jimmy Settles, left, UAW President Dennis Williams, Executive Chairman of Ford Bill Ford Jr. and Chief Executive Officer of Ford Mark Fields today at Cass Technical High School in Detroit on Thursday, July 23, 2015. (Photo: Regina H. Boone Detroit Free Press)

Some local economies could be helped or hurt by corporate machinations. Questions still swirl about the future of jobs in Michigan after Midland-based Dow Chemical announced it would combine with its rival DuPont by the end of 2016 in a \$130-billion deal and subsequently spin off tax-free into three independent, publicly traded companies. DuPont said in December it would cut 1,700 jobs in Delaware.

The Detroit effect

Detroit continues to enjoy a successful exit from the bankruptcy process and also is enjoying a halo effect nationally from those who see the city as a value investment. But businesses looking to come into the city could step back if Detroit is seen as returning to its old ways, including new evidence of political corruption or unsustainable fiscal practice that led to ballooning costs.

John Boyd, a consultant who helps companies select sites for their businesses, said that in recent years Michigan smartly eliminated right-to-work union protections and reduced corporate taxes in an effort to make the state more attractive to new companies. The state was

among the top 10 pro-business states in 2015, according to a study by the Pollina Corp., a real estate firm specializing in selecting sites for international clients.

"It's been a sea-change in term of the business climate," said Boyd, who has been in business from his New Jersey headquarters for 40 years.

He also lauded the state for lowering taxes this year for data centers, whom he has represented before in looking for new locations. Gov. Rick Snyder in late December signed into law measures that give tax breaks to data centers and are expected to draw what's been touted as a \$5-billion investment in western Michigan by Nevada-based Switch Corp.



Gov. Rick Snyder in late December signed into law measures that give tax breaks to data centers and are expected to draw what's been touted as a \$5-billion investment in western Michigan by Nevada-based Switch Corp. A rendering of the building complex is pictured here. (Photo: Switch)

Five key trends predicted for 2016

- **Michigan still lags many states on key indicators.**

Michigan is entering its seventh year of economic recovery, having created 445,400 payroll jobs from the recession's low point in summer 2009 through mid-2015. The continuing recovery in Michigan depends on the sustained expansion of the U.S. economy, a improved housing sector in Michigan and rising vehicle sales.

The next few years could test whether the state's economy has diversified enough to thrive even as auto sales level off, or even decline.

But the state still has a hole to dig out of compared with other states, especially as its population ages. Among the areas where Michigan lags: the number of people in their 20s and 30s with a college education and the income level of all residents.

- **Construction is coming back.**

The construction industry has picked up in recent years, contributing about 7,000 jobs per year during each of 2013 and 2014. That was compared to paltry gains of a little less than 3,000 per year in 2010, 2011 and 2012.

Now, the sector is expected to grow more substantially to 10,000 jobs per year from the end of 2014 through 2017.

- **Tourism continues to contribute.**

When people had little extra money to spend on vacations, the travel industry slumped and job growth in the sector slipped to 5,000 new jobs in Michigan in 2014. But the leisure and hospitality sector rebounded in 2015 to add about 11,000 jobs. More growth is on the horizon, with an additional 20,000 jobs expected to be filled through 2017.

- **Government jobs finally turn positive.**

The government sector in Michigan lost 96,000 jobs in the 13-year span from the end of 2002 to the end of 2015 as property values plummeted and tax revenues dried up. But thanks in part to rising real estate sales and prices, the public sector could finally turn around in 2016, which is expected to see a modest, but important breakthrough in net job gains of 600.

- **Manufacturers won't add as many jobs.**

Manufacturing contributed about 20,000 jobs per year during the past three years. But forecasters at the University of Michigan see the pace of growth for the sector slowing to 5,000 new jobs per year during each of 2016 and 2017. The deceleration could be evidence of a more mature economy and slower, but more sustainable growth in vehicle production compared with today.