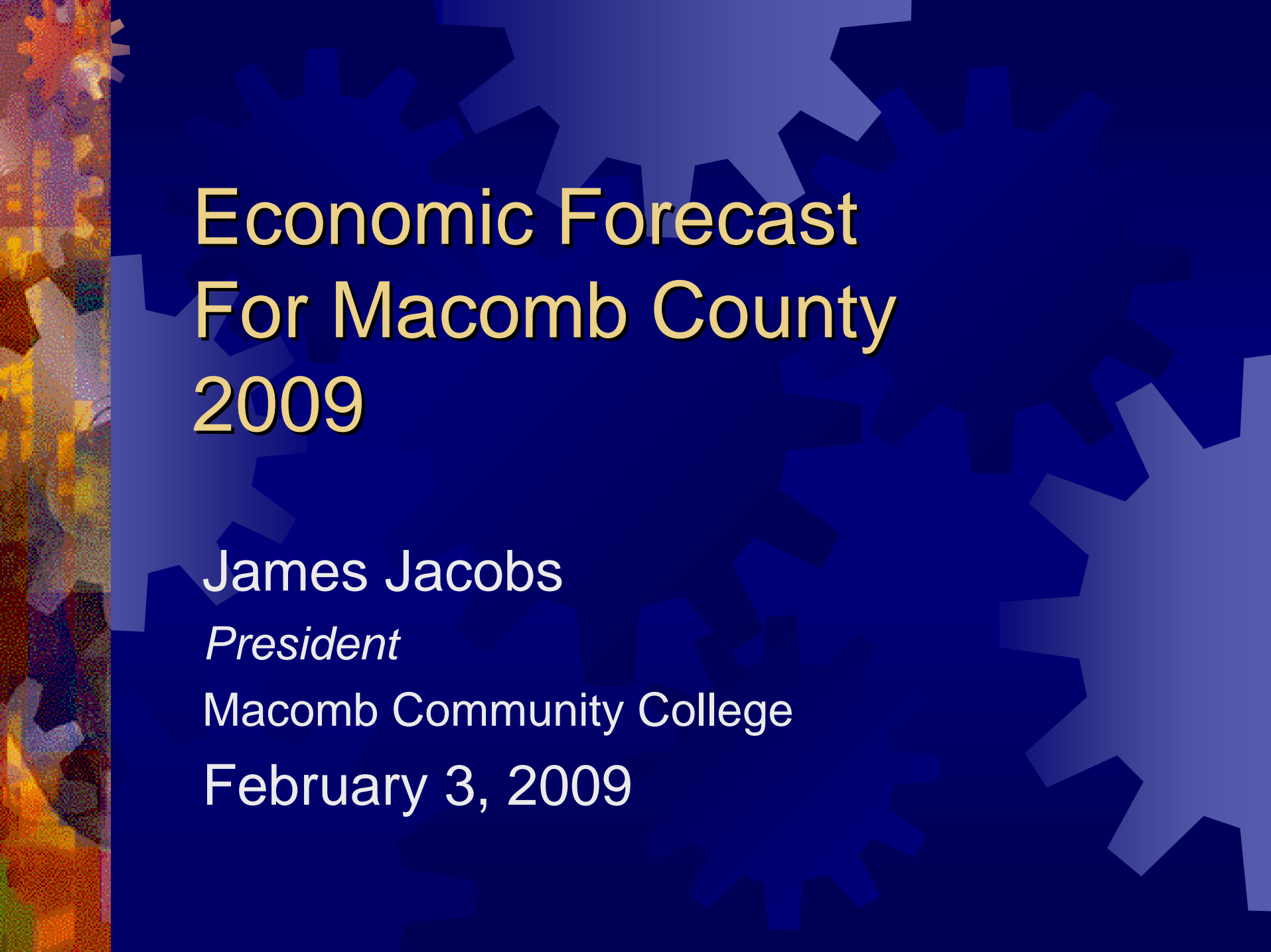


Economic Club Luncheon



**Welcome to the
“Economic Forecast of
Macomb County”**



Economic Forecast For Macomb County 2009

James Jacobs

President

Macomb Community College

February 3, 2009

Outline of Talk

- ★ National Picture
- ★ State and County Trends
- ★ Auto Industry
- ★ Macomb County Economic Issues
- ★ Forecast
- ★ Wildcards

2008 A Grim Economic Year

- ★ United States enters recession in early 2008
- ★ The worldwide financial system contracts as major banks experience huge losses from taking on risky investments.
- ★ Over 35% decline of stock market and substantial loss for most companies bring about rising lay-offs and instability
- ★ Despite massive government intervention the economic meltdown continues without a clear end in sight
- ★ A long, major recession is probable which will roll back any potential recovery in Michigan or Macomb County

Last Year's 2008 Forecast

- ✿ Annual growth less than 2% with no growth for first six months, with unemployment rising over 6%
- ✿ Fed will reduce interest rates twice before June and coupled with government stimulus should produce more positive results in late 2008; dollar decline will slow; inflation less than 3%
- ✿ Auto sales at 15.5 million, national housing prices will stabilize by the end of the year, energy prices will be moderate
- ✿ Macomb County will remain in recession until 2009
- ✿ Wildcard: “Impact of the financial/housing crisis on local institutions is unknown”

What Happened – 2008

- ★ Underestimated the ability of financial institutions to account for risk and speed at which the collapse occurred on a worldwide scale
- ★ Failed to appreciate the shortcomings of technical financial instruments to accurately predict risk
- ★ Believed that “self-interest” would produce solutions as opposed to uncertainty and paralysis

What Happened – 2008

- ★ Unprecedented series of leadership blunders: initial lack of action, then failure of Lehman, little oversight of TARP funds, and finally the debate over the auto industry indicates no clear consensus on what to do.
- ★ One “positive” sign: The world situation is worse in Europe and Asia than in the United States resulting in the relative strength of the US economy

National Economic Picture for 2009: Signs of Major Recession

- ✱ Without investment, the national economy stalled both on Main Street and on Wall Street
 - ✱ All major companies shedding workers to lower costs
 - ✱ Federal intervention has not yet stabilized the economy
 - ✱ Financial markets damaged and need to be rebuilt under new rules
- ✱ Whether domestic OEM's can survive without continuous federal support is open to question
- ✱ Significant international "blame" for recession on United States speculation activities

Housing Prices Continue to Decline

- ✦ More houses sold in 2008, but prices continue to decline over 15.5% in the past year
- ✦ New housing stalls as financing becomes even more difficult
- ✦ Sub-prime market foreclosures are overshadowed by general failure in the housing market
- ✦ Areas most effected are in the high growth regions of the United States

Unresolved National Issues

- ★ How to combat the downturn: stimulus or tax cuts?
 - ★ Government deficit rises to over 8% of the GDP
- ★ What is the role of government in the process?
- ★ What will or should be the international financial structure?
- ★ Should there be reform in the financial markets?

2009: Recession Deepens

- ★ 2009 promises to bring less national growth than 2008
- ★ The serious economic issues for Michigan ending any hope of immediate recovery
- ★ There is more convergence between the national recovery and the economic decline in Michigan as well as the County
- ★ At issue for Macomb County: how will all these national economic events impact the economic future of Macomb County?



State and Local Trends:

Recession still grips Michigan and
Macomb County

Michigan

Private Sector Employment Trends

2000-2008 (1st Quarter – Selected Sectors)

Industry	2000	2008	%Change
Construction	183,864	135,914	-26.0%
Manufacturing	885,814	595,367	-32.8%
Wholesale Trades	183,354	164,669	-10.2%
Retail Trade	539,823	471,116	-12.7%
Information Technology	75,204	61,266	-18.5%
Administrative Support	274,063	259,438	-5.3%
Education Services	41,399	62,956	+52.0%
Health Care & Social Service	444,536	518,848	+16.7%

Sources: MDCCD/Employment Service Agency

Michigan

Private Sector Employment Trends

2006-2008 (1st Quarter – Selected Sectors)

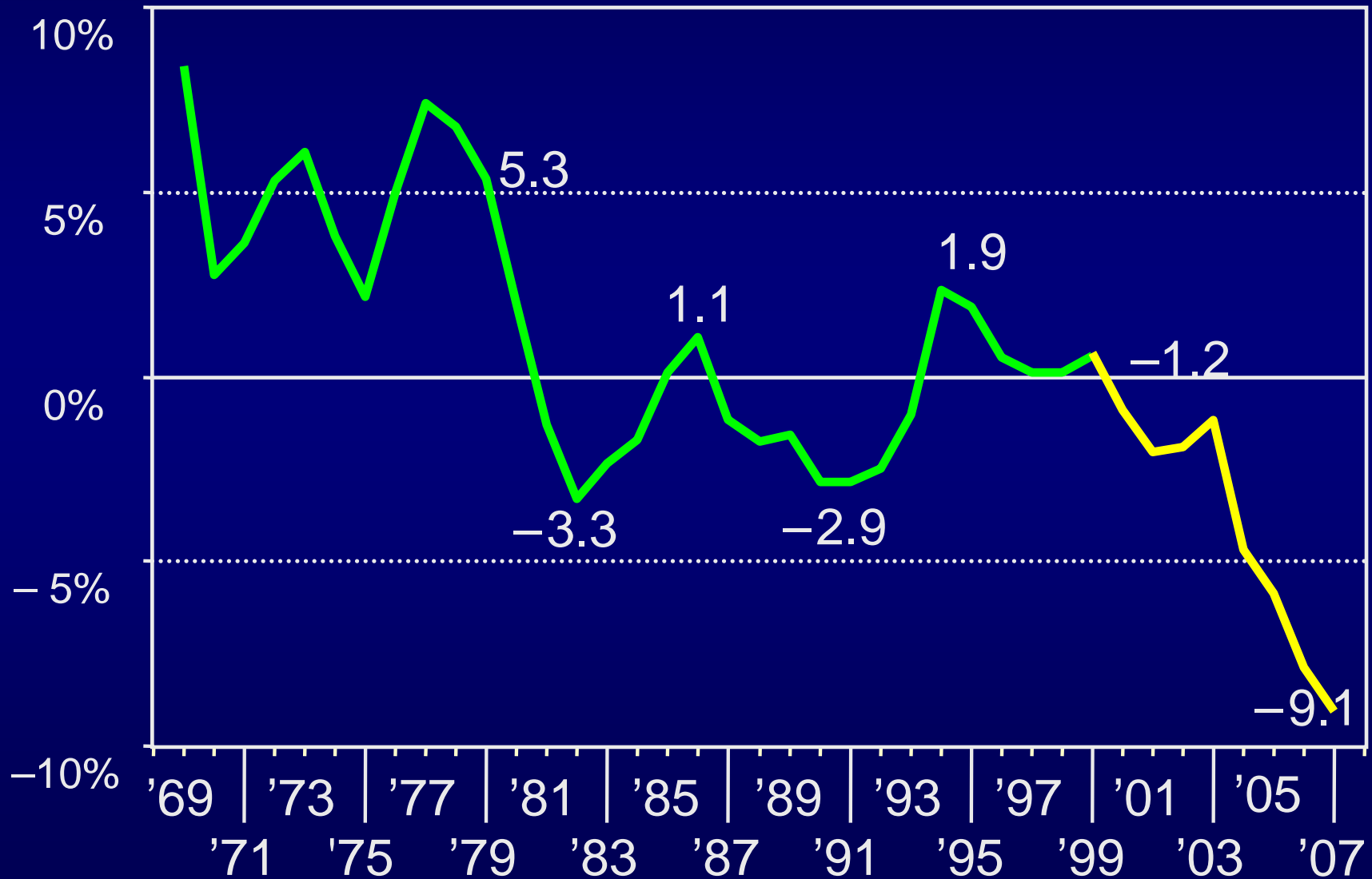
Industry	2006	2008	%Change
Construction	158,703	135,914	-14.3%
Manufacturing	658,295	595,367	-9.5%
Wholesale Trades	167,019	164,669	-1.5%
Retail Trade	483,063	471,116	-2.4%
Information	65,768	61,266	-6.8%
Administrative Support	245,079	259,438	+5.8%
Education Services	59,590	62,956	+5.6%
Health Care & Social Service	499,811	518,848	+3.8%

Sources: MDCCD/Employment Service Agency

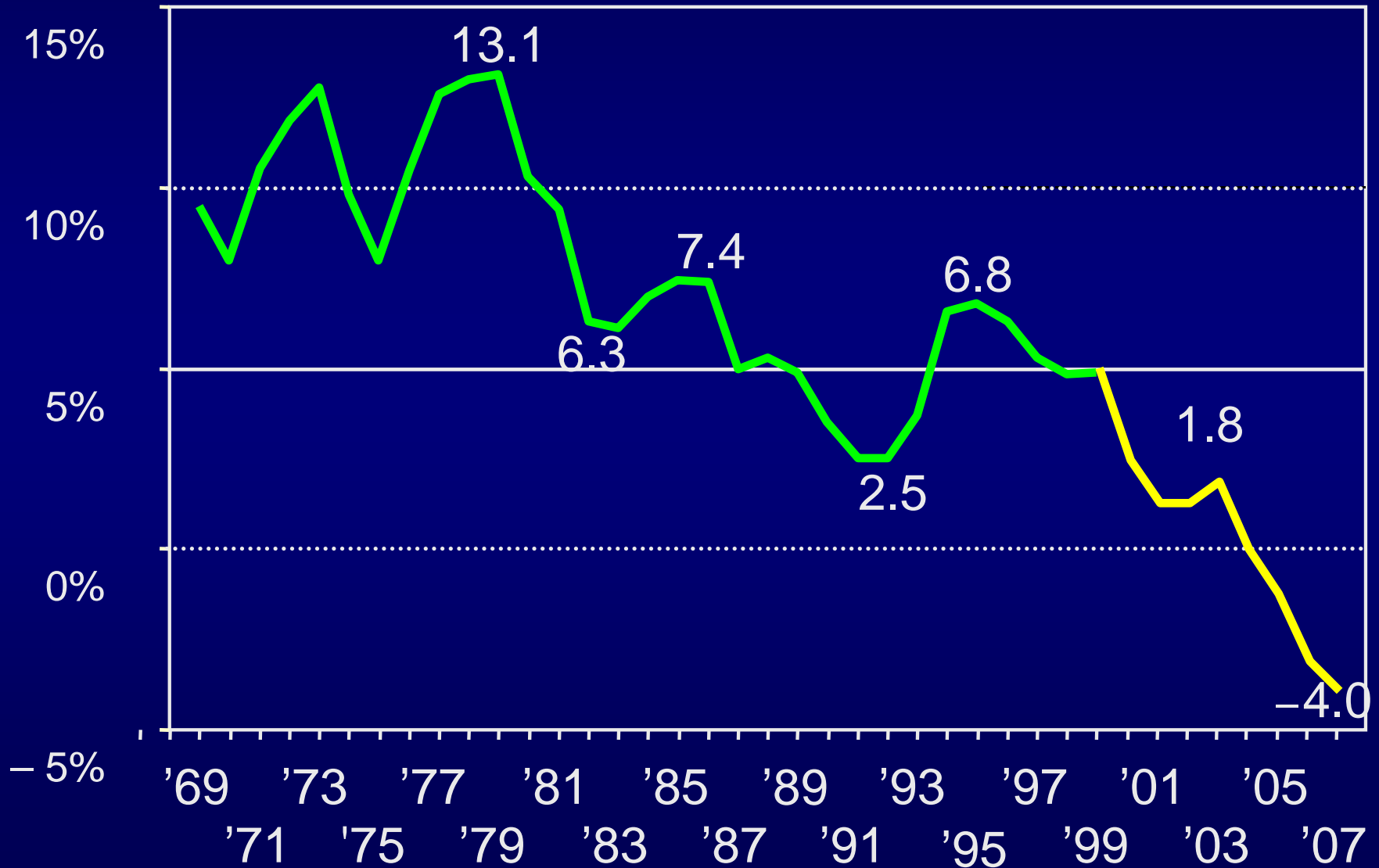
How Weak is the Michigan Economy?

- ★ Michigan's Recent Statistics:
 - ★ 50th in Unemployment Rate
 - ★ 44th in Migration from State
 - ★ 44th in Employment Growth
 - ★ 5th in Real Estate Foreclosures
 - ★ 2nd in percent Population Loss

Michigan Per Capita Income Deviation from National Average



Wages and Salaries per Job Deviation from National Average



State of Michigan

- ✱ Budget issues continue into 2009
 - ✱ Specific short fall less because of tax increase, FY2010 predicted to be \$1.4 billion
 - ✱ Significant issues for the next five years
 - ✱ Smallest state workforce since 1974; ranked 45th out of 50th for per capita state employees
- ✱ Health care costs outpacing revenue growth
 - ✱ 1 million residents receive health benefits, up 6% from last year
- ✱ New tax brings more revenue, but that cannot mitigate the structural issues of a state losing jobs and population

Auto Employment Cutbacks Continue

- ★ January 2009: Chrysler closes all assembly plants; GM lays-off 2,000 workers; Ford forced into more lay-offs
- ★ Major auto suppliers close to bankruptcy and their impact on supply chain management of all OEM's is significant
- ★ Industry may need to adjust to a long term smaller US market of less than 15 million units annually

Detroit Downtown Growth Slows

- ✦ Growth in downtown population, new hotel opened in late 2008
- ✦ New Investment in the Eastern Market, Woodward Corridor and continued growth of Mexican town
- ✦ Less attendance at downtown events and decline in business activity cuts into downtown development; DIA and DSO struggling

Worse...

- ★ Significant short-fall of Detroit budget will impact city services
- ★ Detroit Public Schools enrollment continues to fall as more students exit the system
- ★ Uncertain leadership situation continues

Some Bright Spots

- ★ Cobo Hall Expansion deal almost completed
- ★ Second new airport terminal opened; gets good reviews
- ★ Regional support for the Zoo signals a new form of cooperation
- ★ Northwest merger with Delta benefits Detroit

Gaming: A Growth Industry?

- ★ Casino tax revenues are the fourth largest share of income to the city of Detroit
- ★ Over 15,000 new jobs have been created within the city of Detroit
- ★ New MGM and Greektown expansions add significant new downtown employment and spin-off industries

Gross Revenue From Detroit Casinos

Year	Adjusted Gross Receipts	Percent Growth From Previous Year
2006	\$1.303 Billion	5.1%
2007	\$1.340 Billion	2.8%
2008	\$1.360 Billion	1.5%



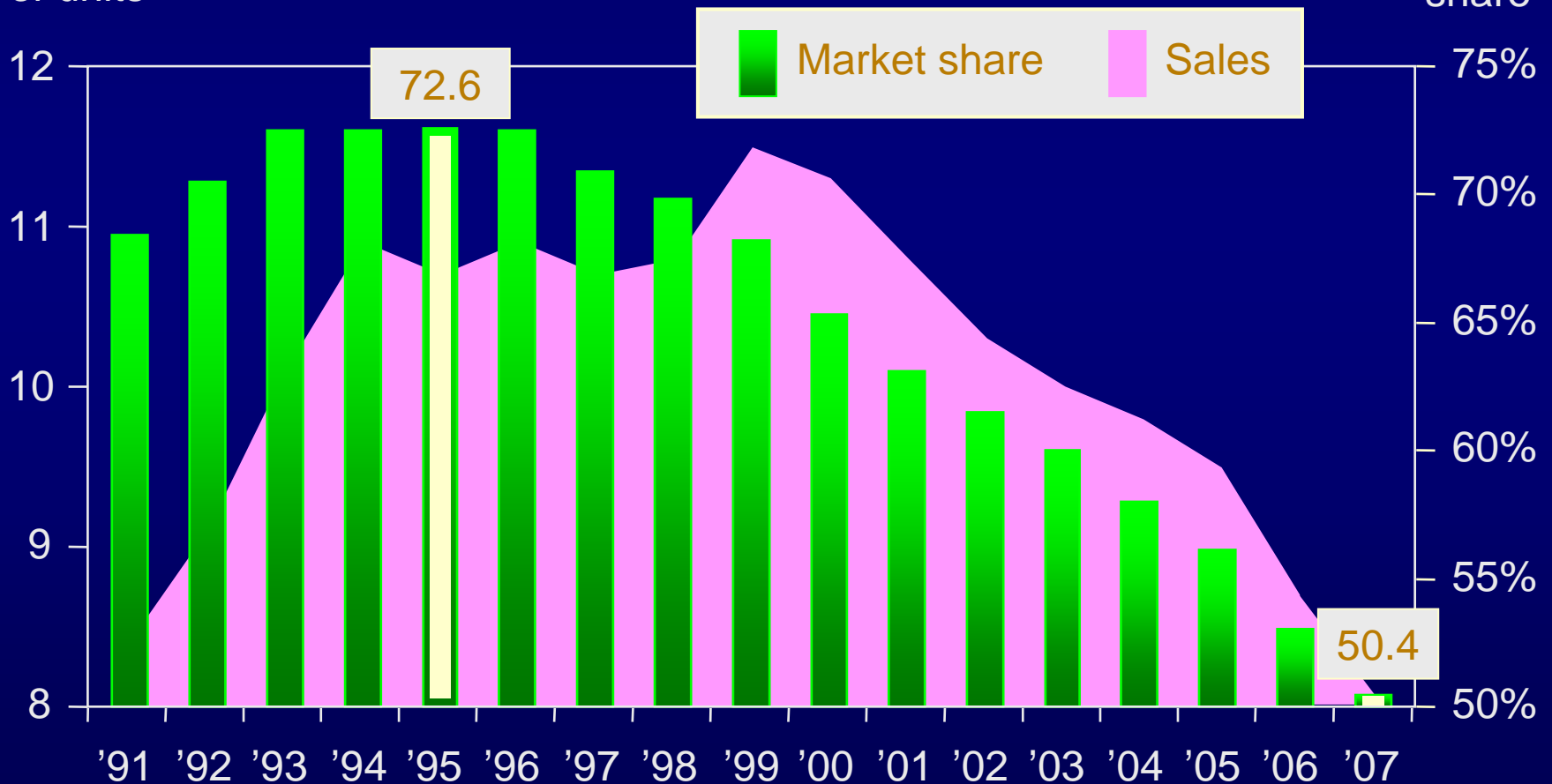
Auto Industry

Market Share of Domestic OEMs
Continues to Decline

Detroit Three: Sales of Light Vehicles and Market Share of Total Sales United States, 1991–2007

Sales
in millions
of units

Market
share



Bleeding Continues

- ✱ Market share of domestic OEMs continues to fall; now less than 47%
- ✱ Domestic OEM's suffered a combined \$65 billion in operating losses since 2002
- ✱ Since May 2005, domestic OEMs shed 132,000 jobs from 64 plants

Significance of the Electric Car

- ★ Major new product for GM in an uncertain market
- ★ Location of the battery plant makes Michigan and perhaps Macomb County a potential site
- ★ Strong federal support likely
- ★ Down side: changes in oil prices make market unpredictable.

Still...A Long Road Back

- ✱ Recovery for GM, new models and styles are present
- ✱ Ford's future still uncertain
- ✱ Chrysler even with a new partner is faced with challenges
- ✱ Are the TARP funds enough for the domestic auto industry?

Even if successful, the auto industry will be smaller and employ fewer Macomb County residents at a lower wage



Macomb County:

2008 was worse than 2007

Macomb County in 2008

- ★ Local economy declines as Michigan recession deepens
 - ★ Loss of manufacturing jobs and domestic auto industry shrinks
 - ★ New residential construction continues to decline significantly
 - ★ Significant growth of working poor population in Macomb County

Macomb County

Private Sector Trends

2000-2008 (1st Quarter – Selected Sectors)

	2000	2008	% Change
Construction	17,937	12,427	-30.7%
Manufacturing	106,415	70,216	-34.0%
Wholesale Trade	11,212	10,307	-8.0%
Retail Trade	42,933	38,602	-10.0%
Information	1,698	2,069	+21.8%
Administrative Support	21,194	22,104	+4.3%
Education Services	1,349	2,385	+76.8%
Health Care & Social Services	25,509	24,484	-4.0%

Sources: MDCD/Employment Service Agency

Macomb County

Private Sector Trends

2006-2008 (1st Quarter – Selected Sectors)

	2006	2008	% Change
Construction	15,418	12,427	-19.4%
Manufacturing	80,763	70,216	-13.0%
Wholesale Trade	11,197	10,307	-7.9%
Retail Trade	39,742	38,602	-2.8%
Information	1,896	2,069	+9.0%
Administrative Support	24,692	22,104	-10.4%
Education Services	2,323	2,385	+2.6%
Health Care & Social Services	32,648	24,484	-25.0%

Sources: MDCD/Employment Service Agency

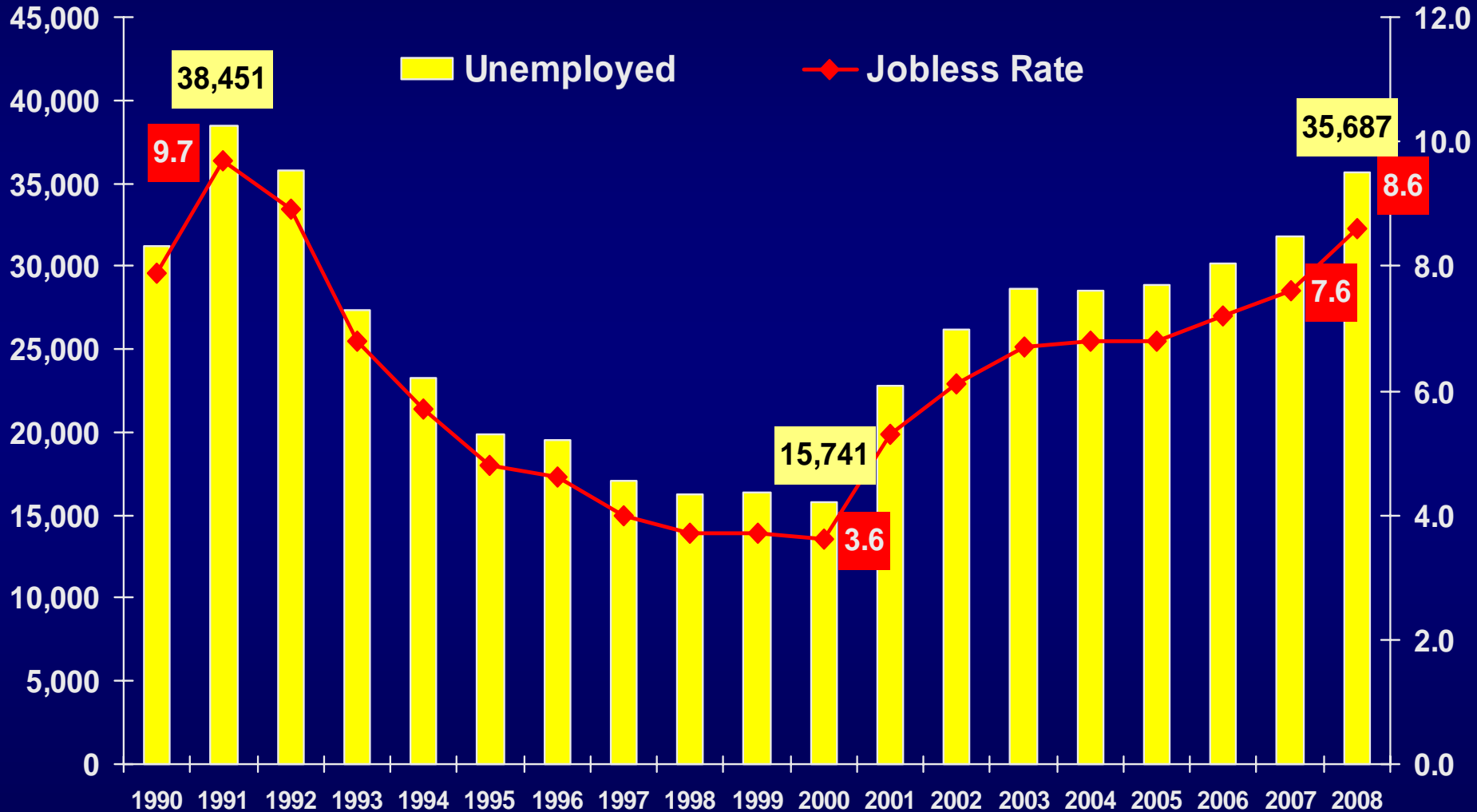
Local Business Investment Continues

- ✦ Investment continues
 - ✦ Reinvestment in major facilities by Chrysler and GM
 - ✦ Some companies take advantage of low real estate prices for relocation outside of Detroit
 - ✦ Foreign investment continues, but poor market conditions inhibit growth
- ✦ County initiates efforts at new targeted industries and Macomb playing a role in the Detroit region through Automation Alley
- ✦ Health care investment continues to be strong

Major New Developments

- ★ Smart-Zone development in Sterling Heights
- ★ Planned Convention Center and hotel at M-59 and I-94
- ★ New ties between the County and major companies as economic development becomes a greater priority

Macomb County's Labor Force Has Decreased By 6.3 Percent Since 1999 High – Employment Dropped By 11 Percent While the Number of Unemployed Grew By 118 Percent



Source: MI Labor Market Information

Macomb County Residential Sales & Construction

Year	Houses Sold	Average Selling Price	Residential Construction Permits	Condos Sold	Average Selling Price
2005	8,038	185,365	4,000	1,876	127,450
2006	6,718	169,294	2,514	1,597	116,398
2008	7,661	111,900	508	1731	68,047

Sources: Southeast Michigan Builders Association, Macomb Realtors, SEMCOG

2008 Property Tax Assessments

Community	Decrease
Armada Twp	-9.8%
Bruce Twp	-8.6%
Center Line	-17.0%
Chesterfield Twp	-11.3%
Clinton Twp	-11.5%
Eastpointe	-15.4%
Fraser	-16.6%
Harrison Twp	-14.0%
Lake Twp	-16.6%
Lenox Twp	-7.3%
Macomb Twp	-9.9%
Memphis	-3.7%

Community	Decrease
Mt. Clemens	-18.4%
New Baltimore	-10.5%
Ray Twp	-19.1%
Richmond	-9.4%
Richmond Twp	-2.2%
Roseville	-13.6%
Shelby Twp	-7.3%
St. Clair Shores	-9.5%
Sterling Heights	-9.2%
Utica	-14.3%
Warren	-13.6%
Washington Twp	-14.6%

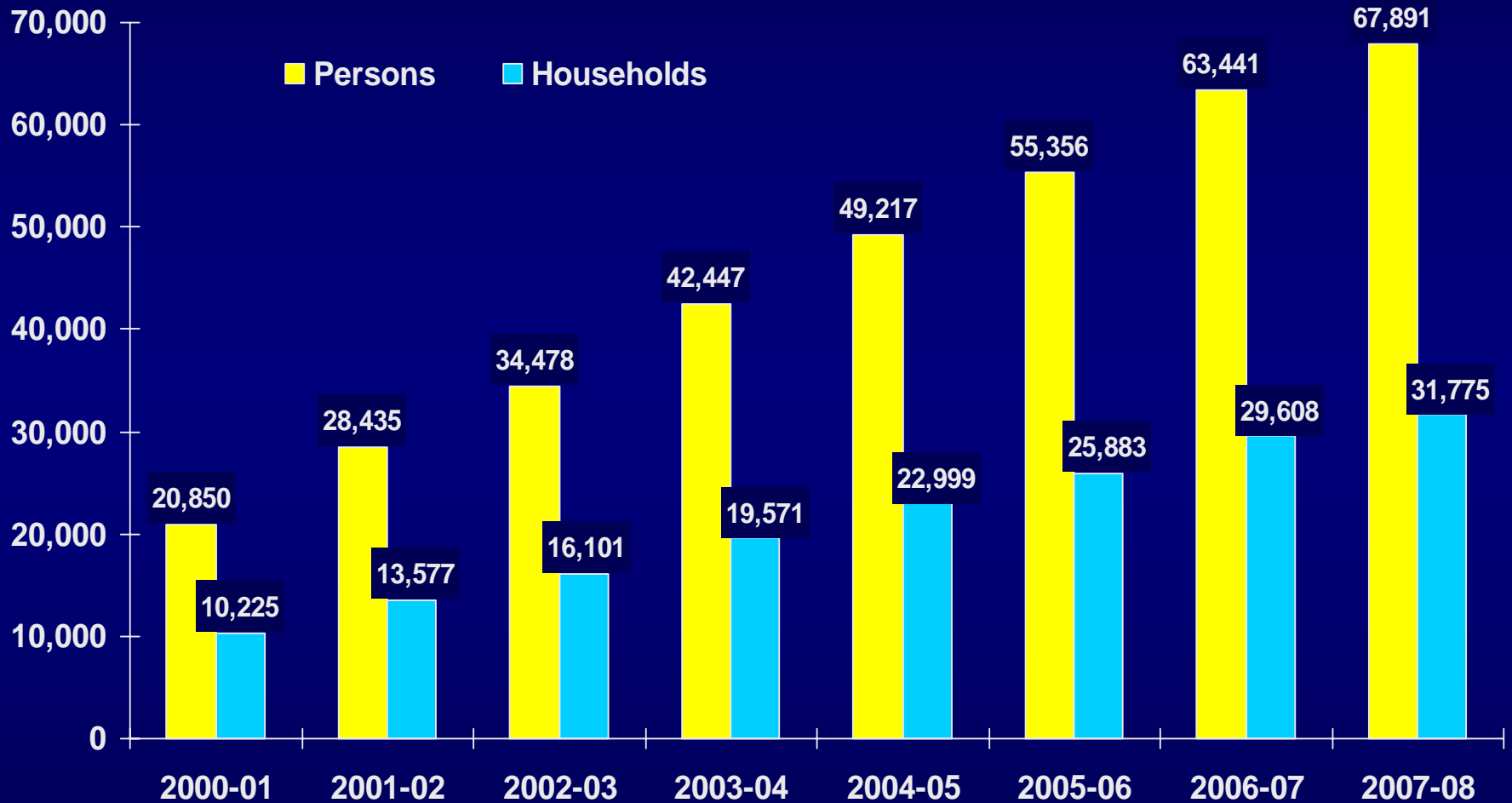
Source: Macomb County Equalization Dept

Impact of Economic Downturn Macomb County

	2006	2007	2008
CASE LOAD			
Families Independence Program	3,296	3,059	2929
Work First Program: Numbers and Placement Wage	4,916 \$7.47	4,819 \$8.18	5587 \$8.64
Michigan Works: Clients Served	48,347	49,185	77,158

Sources: Family Independent Agency, Macomb/St. Clair Workforce Development Board, MCREST

The Number of Macomb County Households Receiving Food Assistance Payments Has Increased by **211%** Since 2001 / Persons by **226%**



Source: MI Dept. of Human Services

Some Positive Signs

- ✦ Charter commission
- ✦ Unity on economic development
- ✦ Emphasis on international development, particularly in China
- ✦ Post-secondary education growth:
 - ✦ Wayne State University Building
 - ✦ Oakland University Expansion



Macomb County: Is There Any Hope?

Some steps to take

A Few Basic Assumptions

- ★ Without national recovery, Macomb County will not improve
- ★ However, recovery will not come because of federal action, we must take advantage of the federal role to continue the efforts of economic transformation
- ★ Assume there will be pain in the County on all levels, but make sure it is shared by all
- ★ There is no one strategy to realize, there are many smaller ones

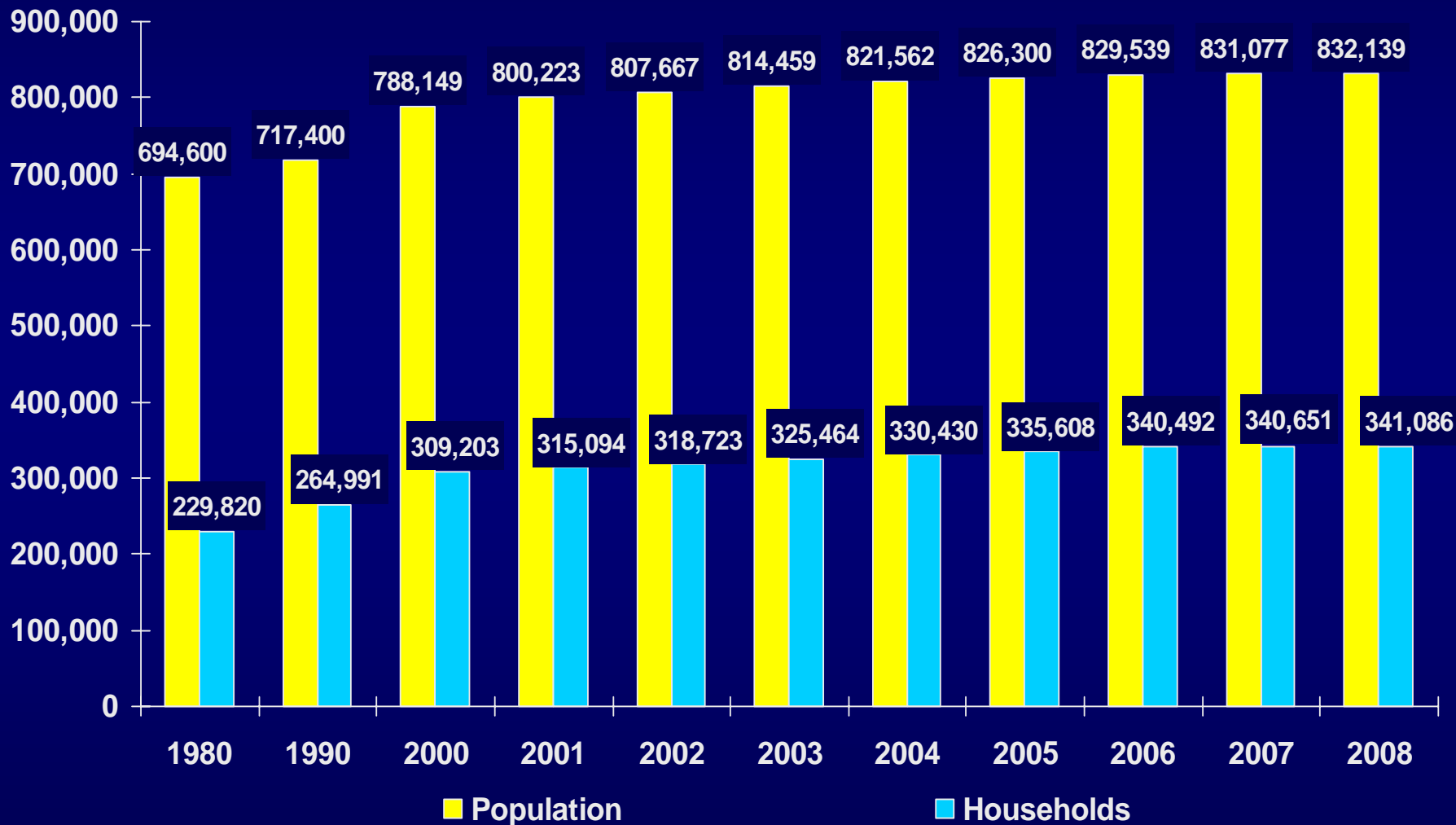
Macomb County Strengths

- ✦ A growing population of families attracted to living in the County
- ✦ A substantial technical skill base for advanced manufacturing
- ✦ A potential for green construction technologies
- ✦ Access to a significant resource — the water

Each of these strengths produces mini-strategies

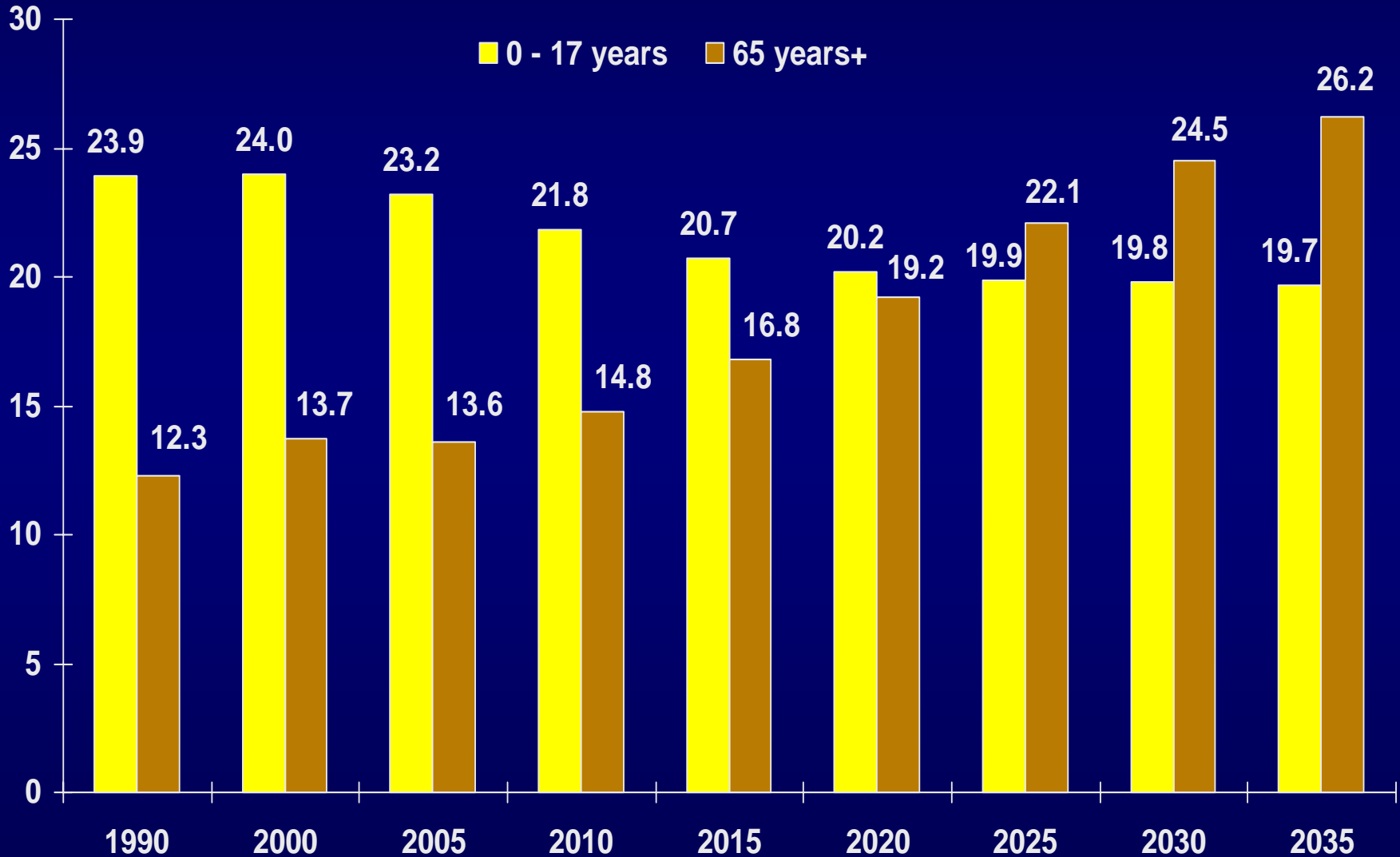
- ★ Services for younger working families, and expansion of entrepreneurial activities with new Americans
- ★ Emphasis on design and advanced fuel efficient automobiles and defense manufacturing
- ★ Incentives to local builders for energy efficiency production of materials and home construction
- ★ Development of new water technologies for sustainable living

Macomb County Has Shown Steady Population Increase and Has Led the State in Population Growth Since 2000



Source: Census Bureau / SEMCOG

Macomb County's Future Growth Will Be Heavily Concentrated in the Older Age Groups – Child Population Will Decrease By 10,000 Between 2008 and 2020



Source: Census Bureau / SEMCOG

Immigration Continues to Partially Stem the Tide of Population Losses Due To Domestic Out-Migration

County	Net Domestic Migration	International Migration	Net Migration
Michigan	-356,502	149,684	-206,818
Livingston	17,017	1,066	18,083
Macomb	6,703	13,547	20,250
Monroe	3,206	687	3,893
Oakland	-61,885	33,453	-28,432
Washtenaw	-3,575	14,262	10,687
Wayne	-227,272	41,374	-185,898

Macomb County Continues to Gain Residents (Net Migrants) From Its Larger Neighbors

County	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
NonMigrants	668,810	674,891	678,397	681,923	683,683	687,050
Oakland	2,399	2,058	1,450	1,425	889	356
Wayne	4,971	4,735	5,201	5,368	5,100	5,636
St. Clair	-1,214	-1,095	-927	-663	-687	-405
Lapeer	-455	-436	-575	-454	-427	-287
Genesee	-143	-51	-184	-210	305	-36
Washtenaw	-108	-61	-12	-123	-127	-56
Livingston	-174	-116	-138	-145	-184	-113

Source: IRS Special Migration Files

Emphasize Services

- ★ Health care and family services become important
- ★ Retail and local banking and credit structures
- ★ Build a county infrastructure around the growing population
- ★ Promote ethnic entrepreneurialism

Manufacturing Matters

- ★ Defense, especially technical defense applications, matter to boost knowledge economy
- ★ Supplier relationships outside of automobile industry must be developed, particularly in green applications
- ★ Inside of auto industry emphasis is on design, going beyond domestic OEM, and on networks of smaller firms

Residential Construction

- ★ Transcend the current sector business model and focus on “green” rebuilding and renovation
- ★ Link with green manufacturing and serve the local metropolitan market
- ★ New emphasis on electronic controls, heating and cooling

Water:

“The Next Hot Commodity”

- ★ Macomb Waterfront a hidden asset for County development as a tourist and recreational destination spot
- ★ Also a scarce resource as worldwide prices rise
- ★ Increasing demand for water in:
 - Expanding agricultural production
 - Water important in bio-fuel production
 - Climate changes produces demand for water

Forecast-2009

- ★ No recovery in 2009, the depth of the recession will be lessened if the stimulus package does produce local jobs
- ★ Continued growth in unemployment, low or negative inflation, and little gains in the stock market
- ★ The next year 2010 brings US out of recession, but Michigan will wait until 2011-2012

Short Term Recovery Benchmarks

- ★ April 1: whether there will be continued support for auto industry
- ★ June 30: first signs of stimulus package should be occurring
- ★ September 1: banking, finance and credit system should show signs of recovery
- ★ At the end of the year, the recession should not deepen

Wildcards

- ★ The depth of the financial crisis
- ★ The impact of stimulus and reform
- ★ Is there traction for a sustainable “green” economy?
- ★ What will survive in the automobile industry?
- ★ International reactions to the economic crisis, especially China

Conclusion- Back to Basics

- ✪ Macomb County faces a difficult period because we are not in control of our destiny
- ✪ We need to continue to change and develop and not just react
- ✪ We need to remain resolved in our approach and optimistic in its outcome



Thank You

*For a copy of the presentation
please email:
Jacobsj@macomb.edu*