

Michigan Economy

Dr. Paul Isely

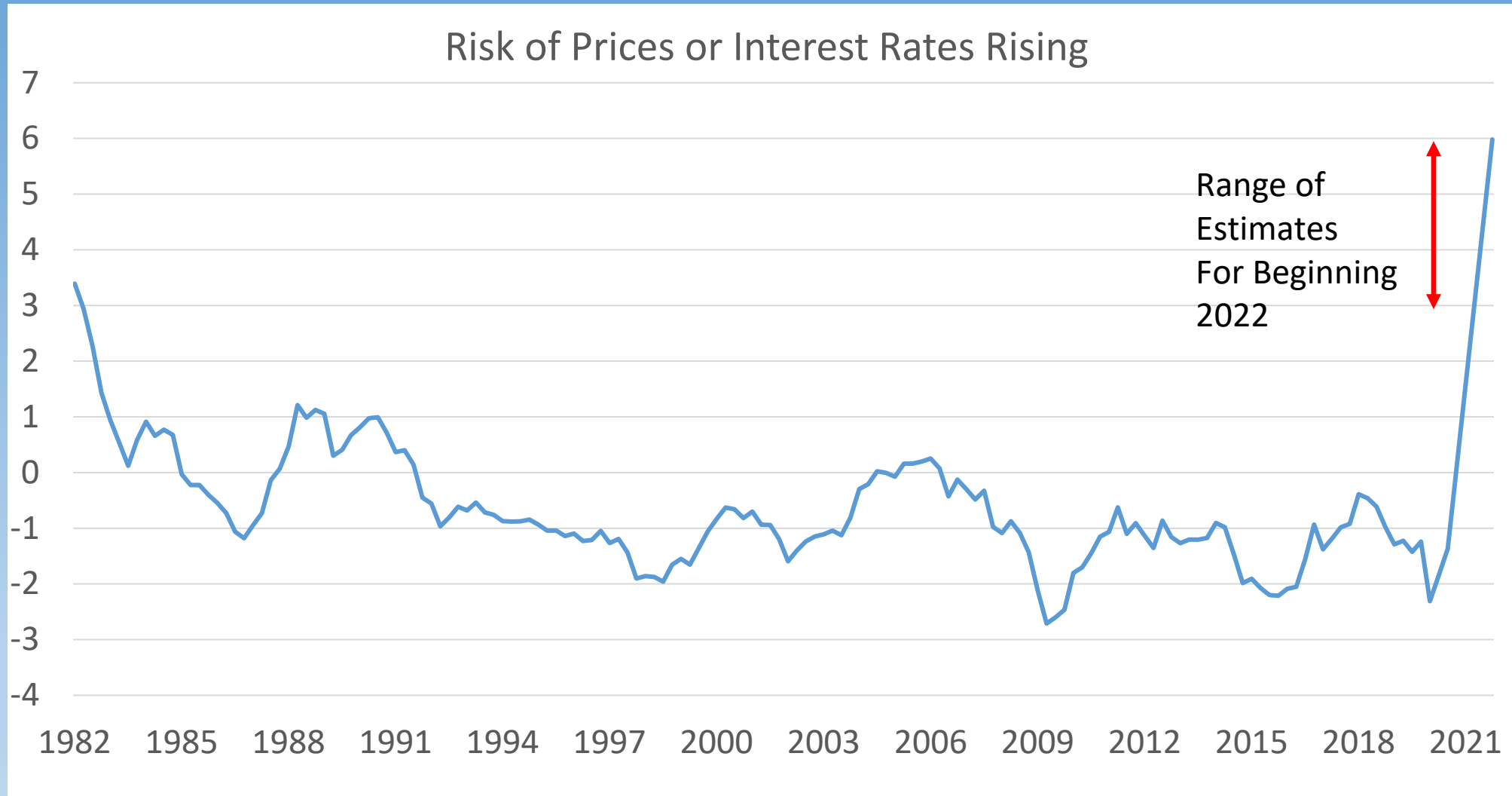
Seidman College of Business

Grand Valley State University



Begin With Last Year's Predictions

How Did I Do Last Year - Inflation?



Actual:

PCE Inflation 5-6%
CPI Inflation 6-7%

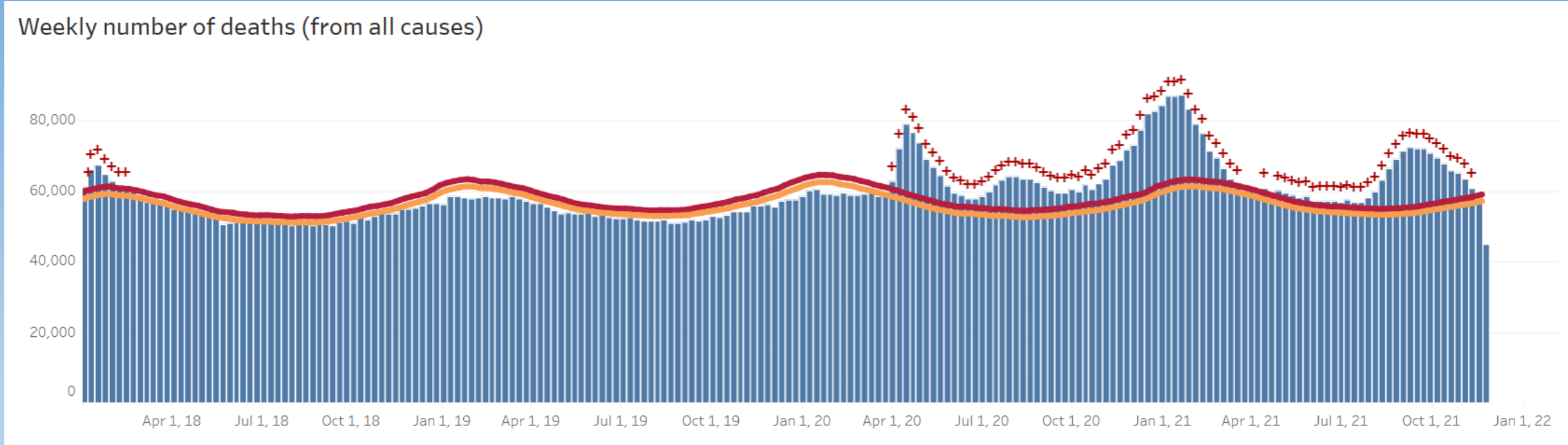
How Did I Do Last Year - Employment?

- Expected Employment Growth 3.1% for KOMA area
- Actual November to November 3.1% for Grand Rapids and Muskegon MSA combined
- But – Two surveys have diverged and there have been some data issues which makes the county level data suspect
- Still short of 2019 employment

The economy accelerated out of
the deep hole it fell into during
2021

Still A Virus and Public Health
Response Not a Broken Economy

The Pandemic

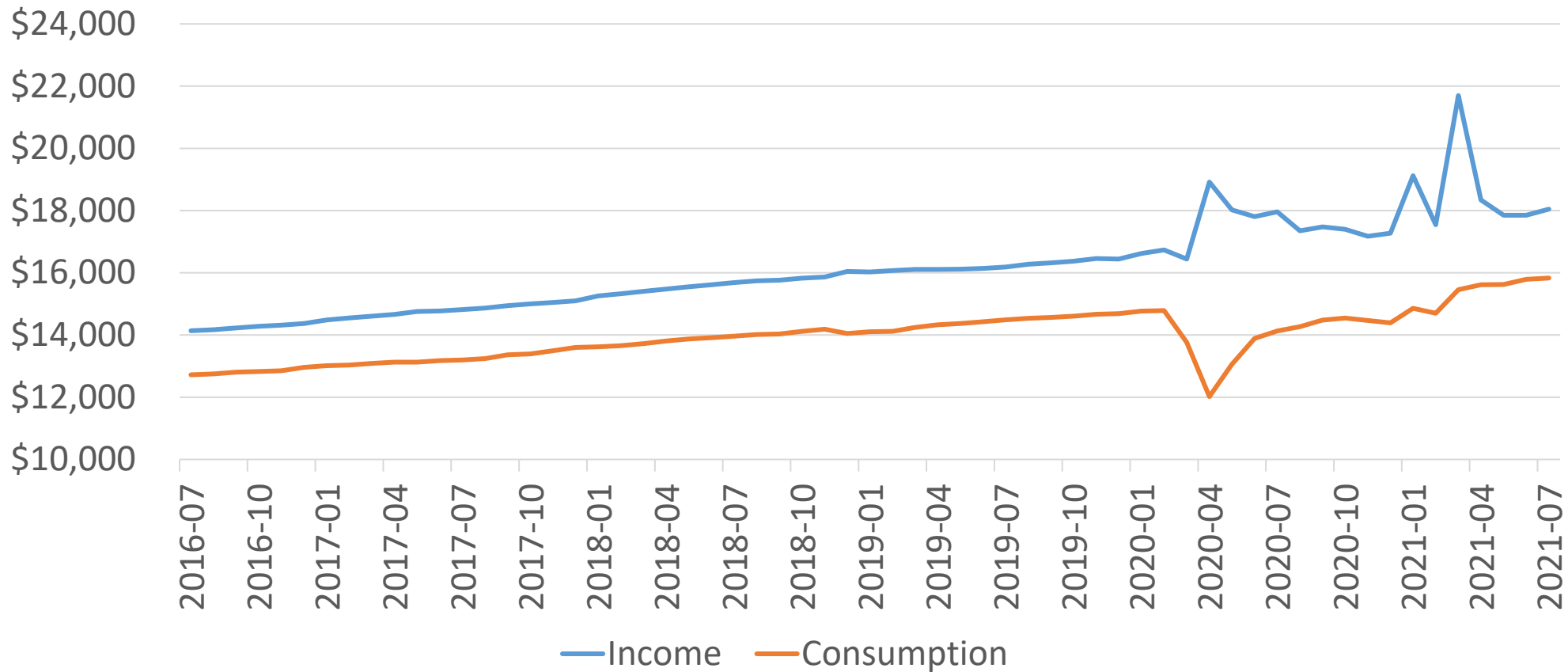


Source: CDC

Massive Government Stimulus

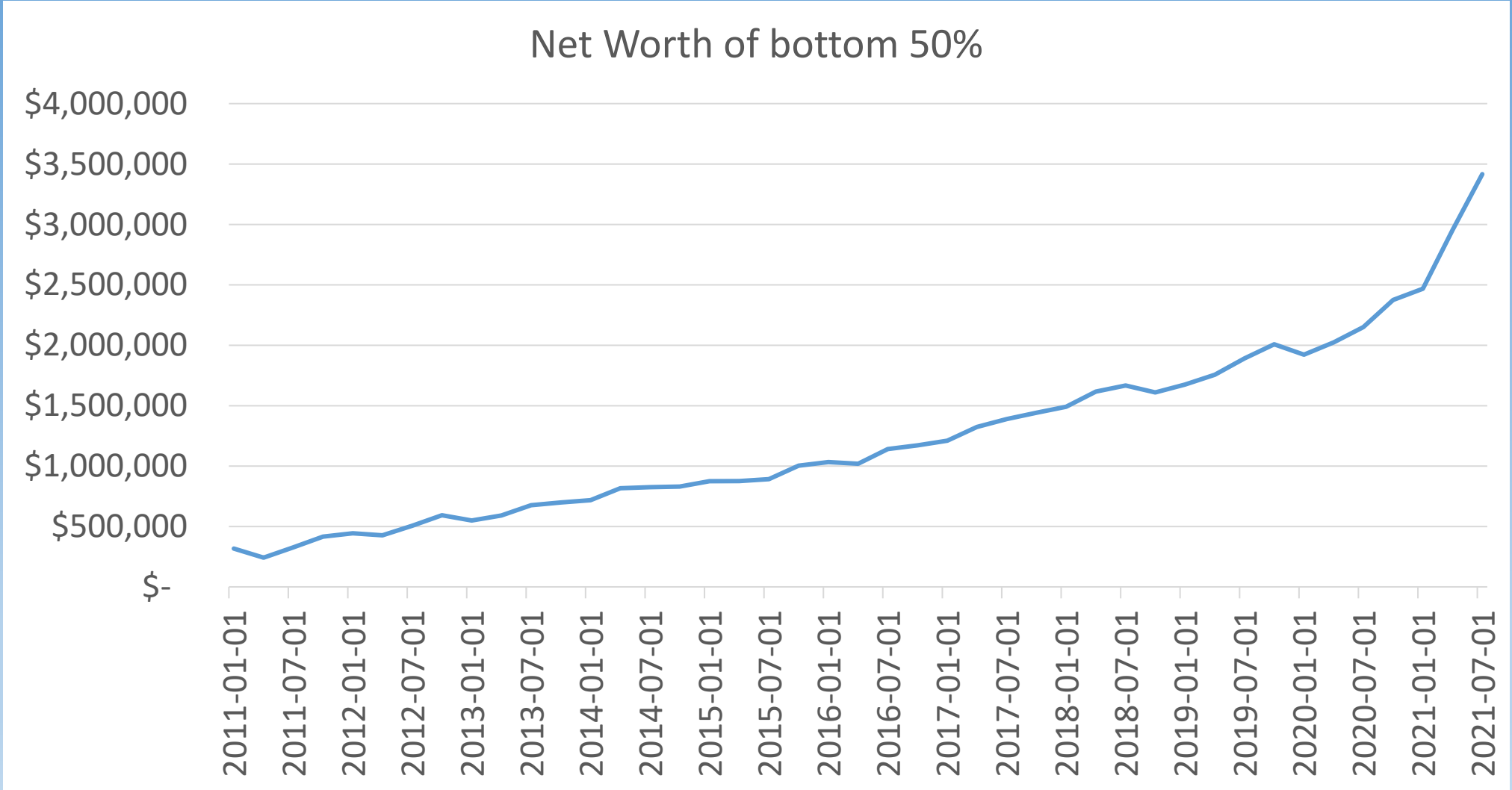
Federal Stimulus

Personal Disposable Income and Consumption
(Billions Annualized)

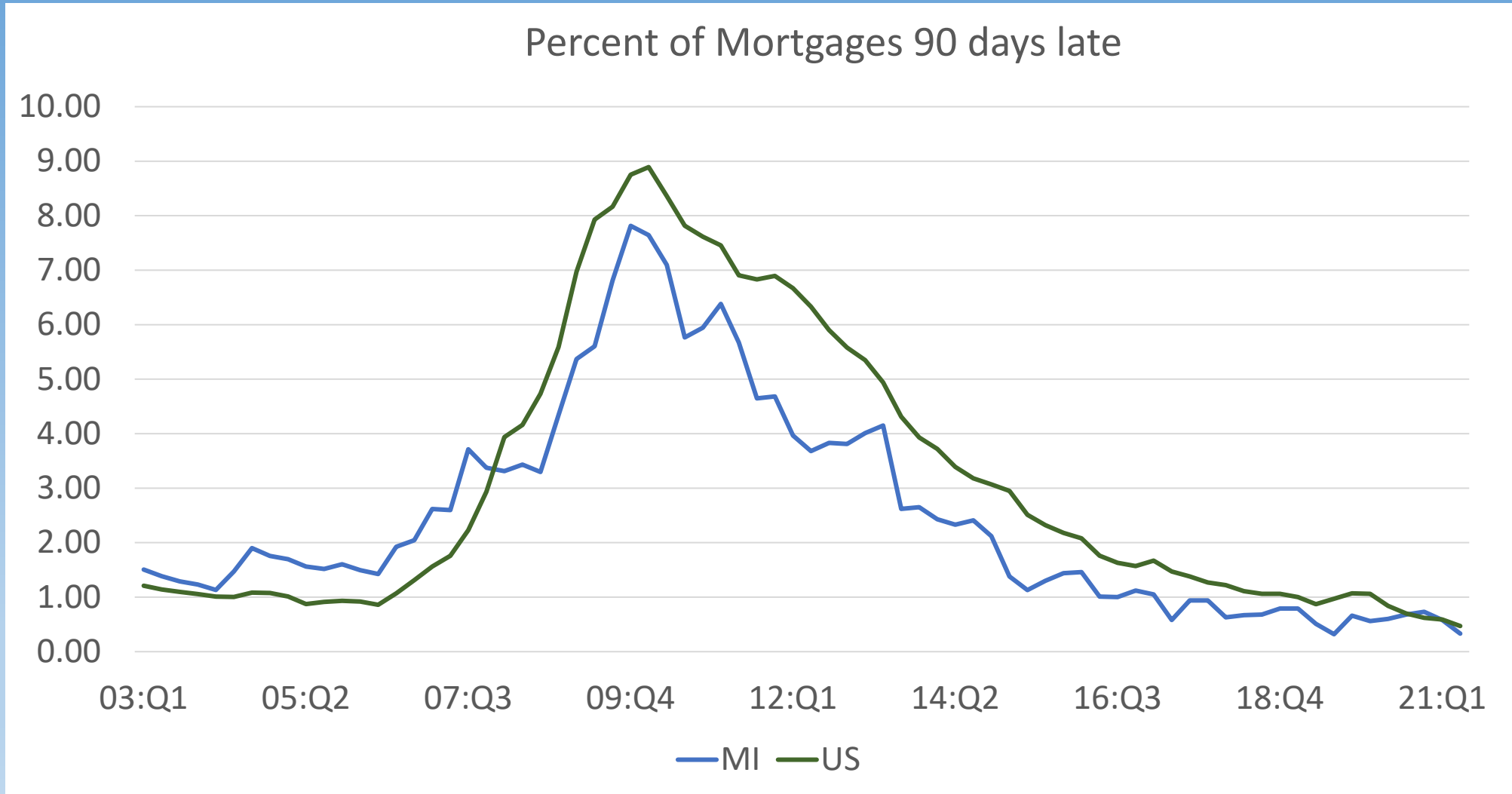


Source: BEA

Even those with less have more



Not 2008



Source: Consumer Credit Panel

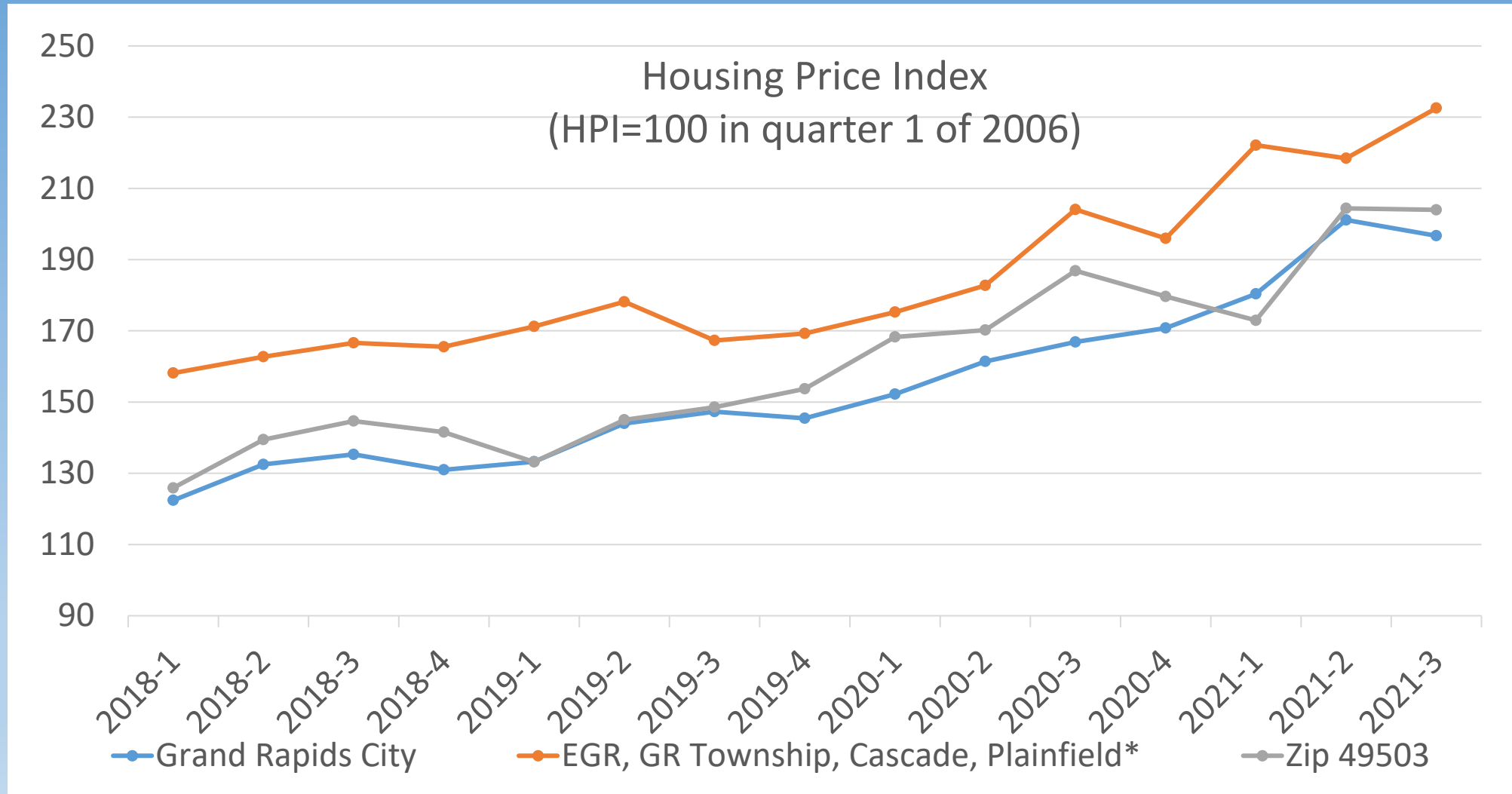
Residential Real Estate?

First Look from May 2021

The Doughnut Effect

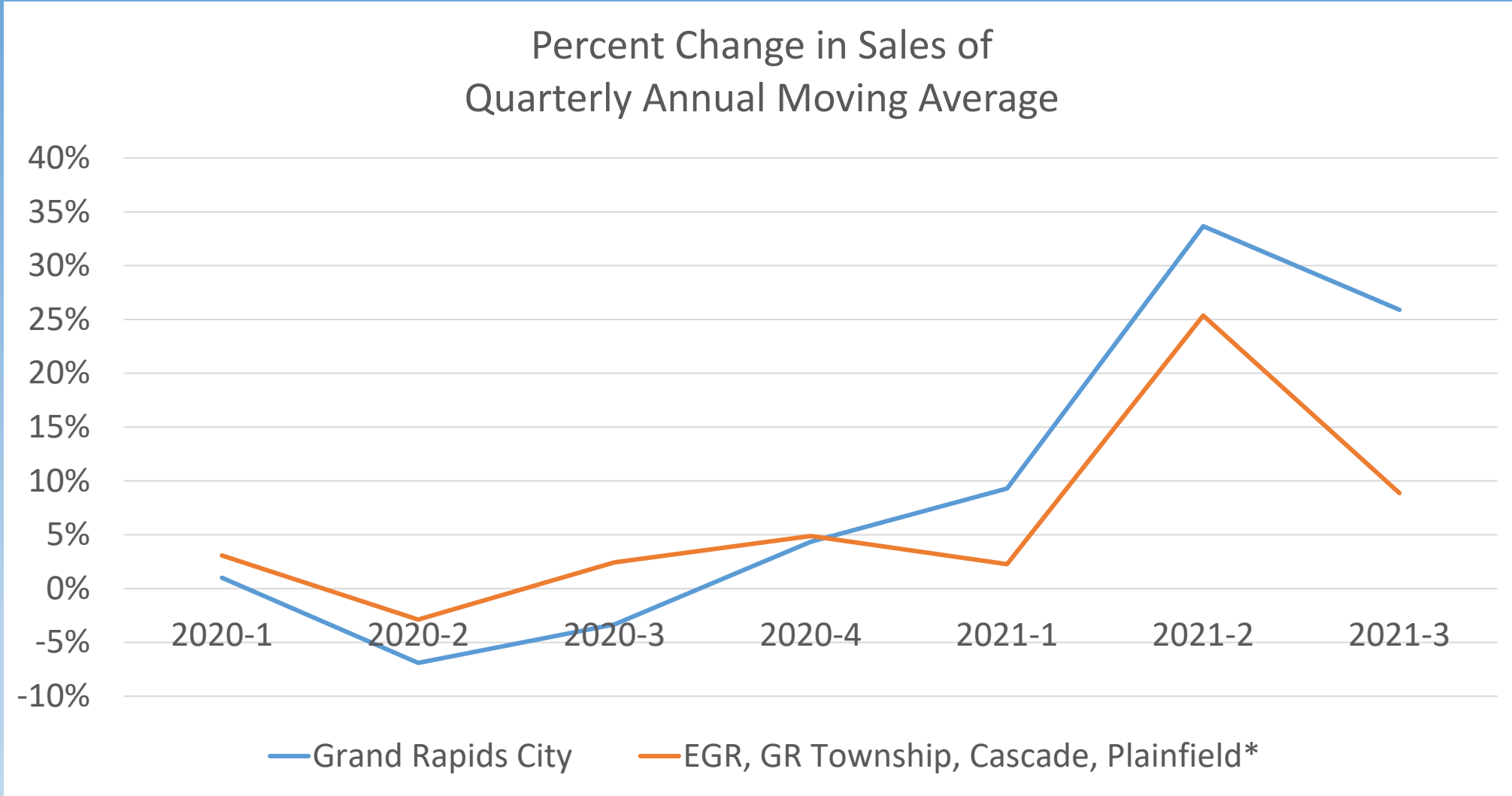
- About 15% of population and business establishments appear to have moved out of the centers of large cities over the first year
- Movement to the suburbs have seen a price growth divergence from their city centers of almost 15 percentage points
- There is clear evidence of a donut effect in the 12 largest US cities
- There is some evidence in the next 13 to 50 sized US cities
- There is no evidence in smaller cities beyond this
- The within-metro reallocation of economic activity, i.e. the donut effect, is stronger than the between-metro reallocation

Doughnut Effect Ending for Residential



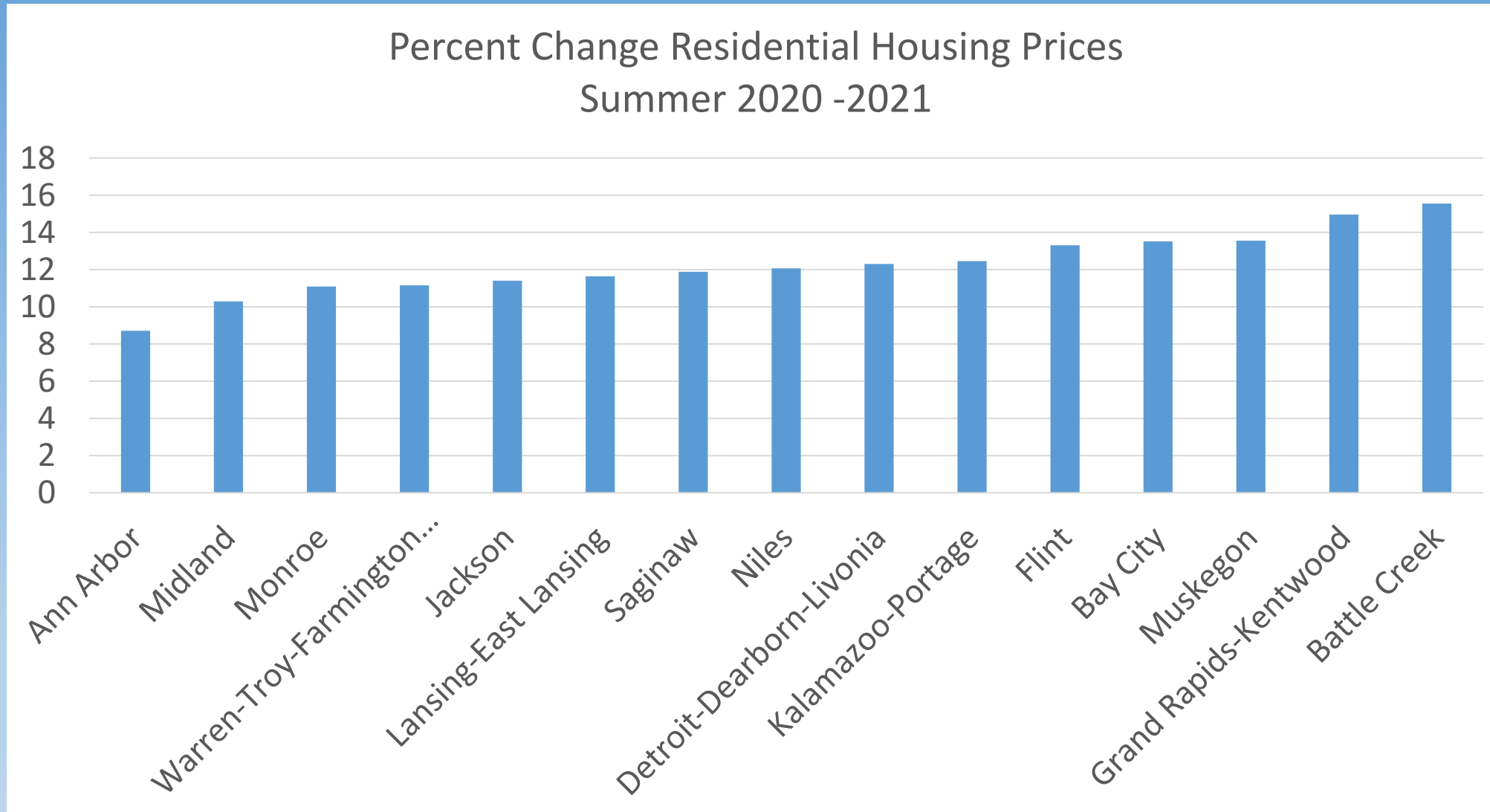
Source: Laudo Ogura

Doughnut Ending for Residential



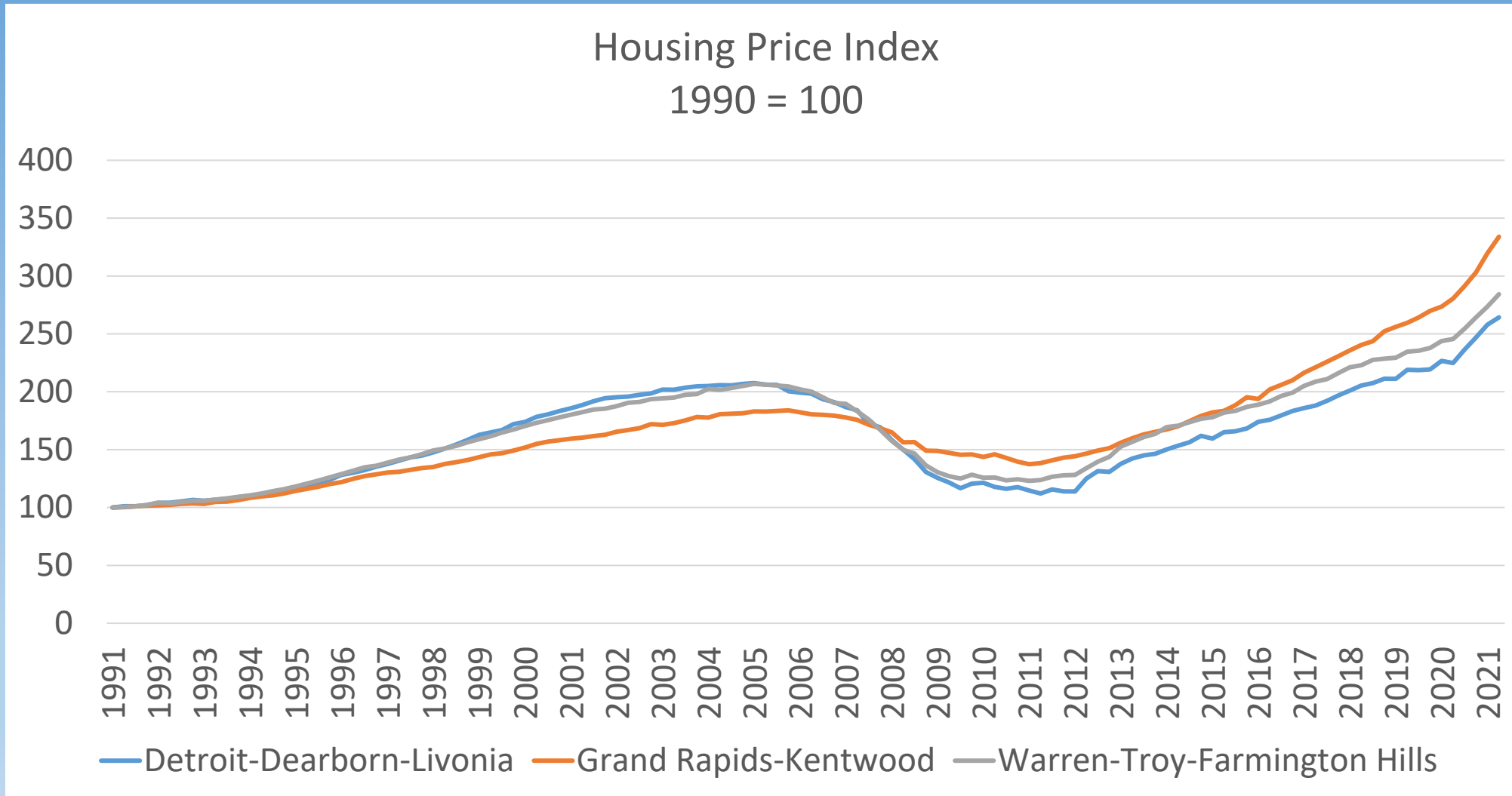
Source: Laudo Ogura with Calculations by Author

Less Dense Not Benefiting



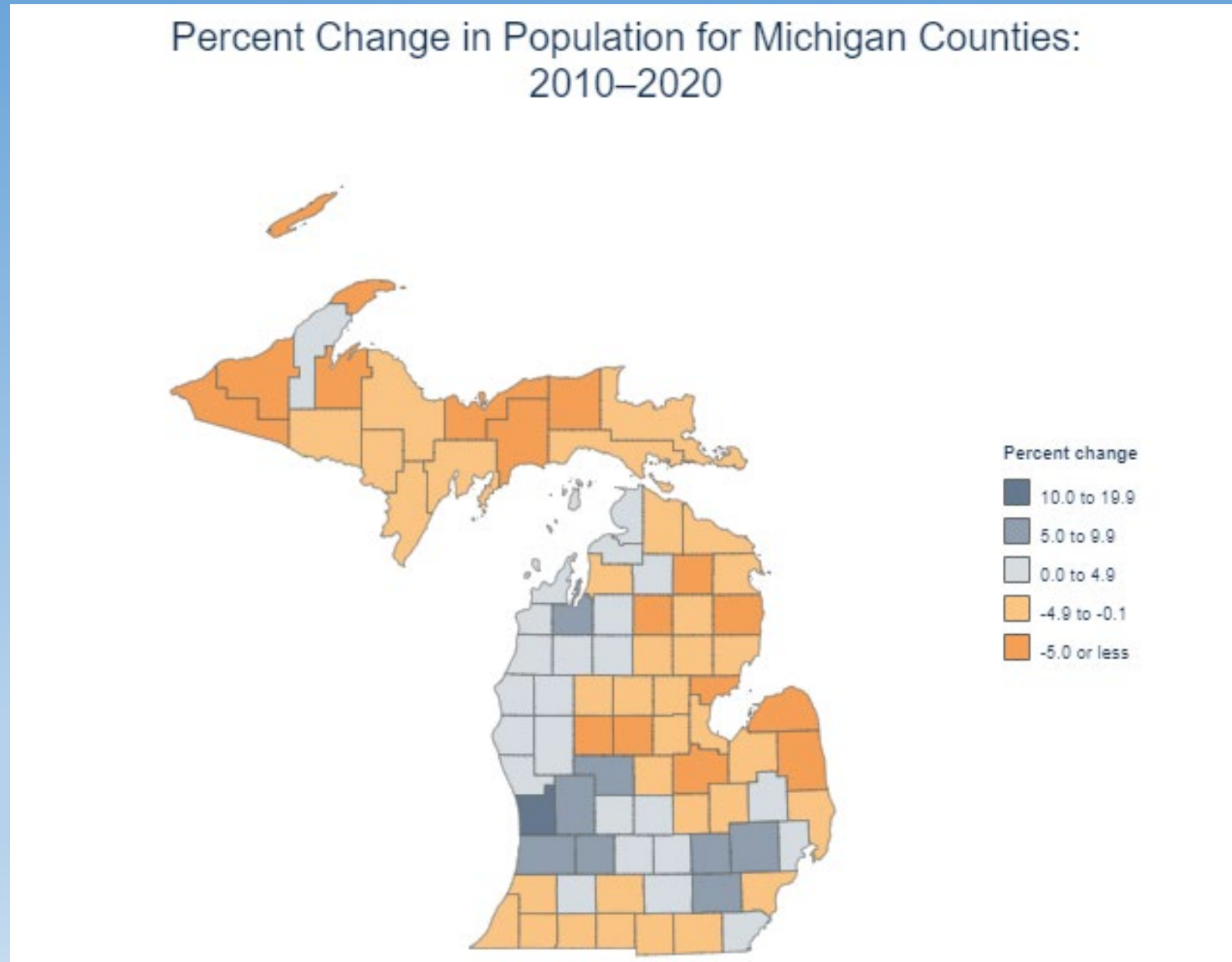
Source: FHFA

West Side Still Gaining



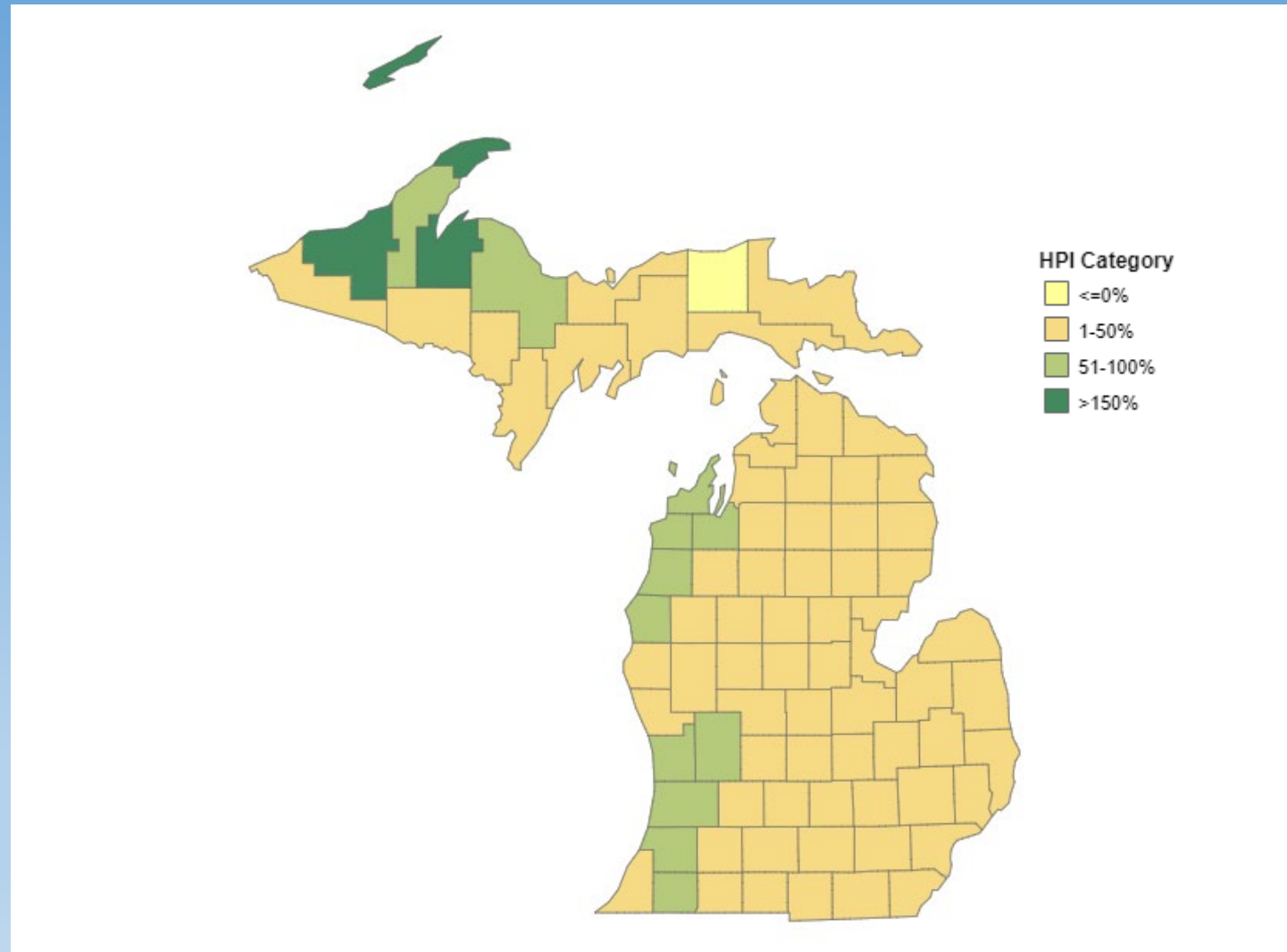
Source: FHFA

Population Growth Matters



Source: <https://www.census.gov/library/visualizations/interactive/2020-population-and-housing-state-data.html>

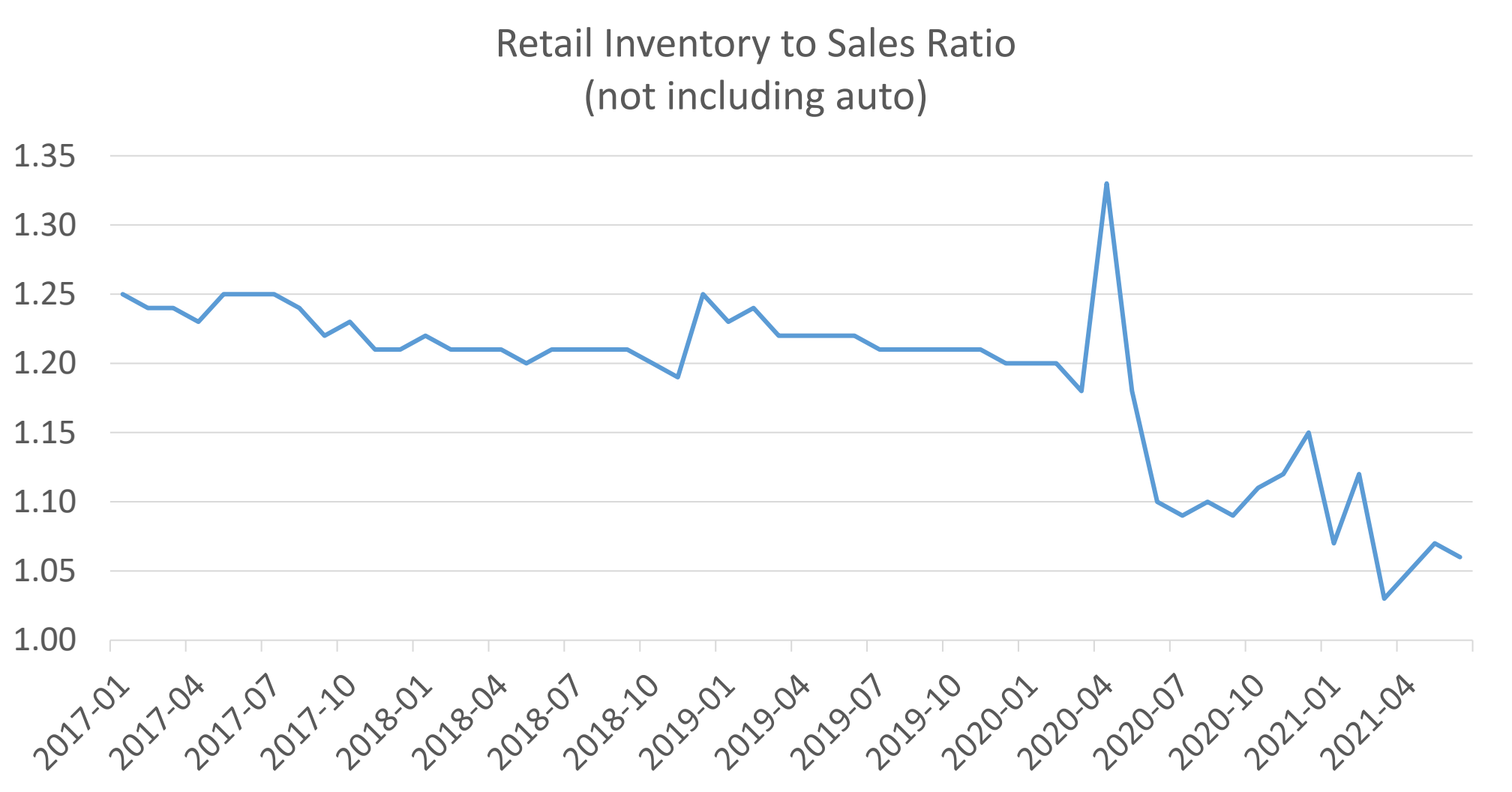
Housing Price Index Change Since 2000



Source: <https://www.fhfa.gov/DataTools/Tools/Pages/HPI-County-Map.aspx>

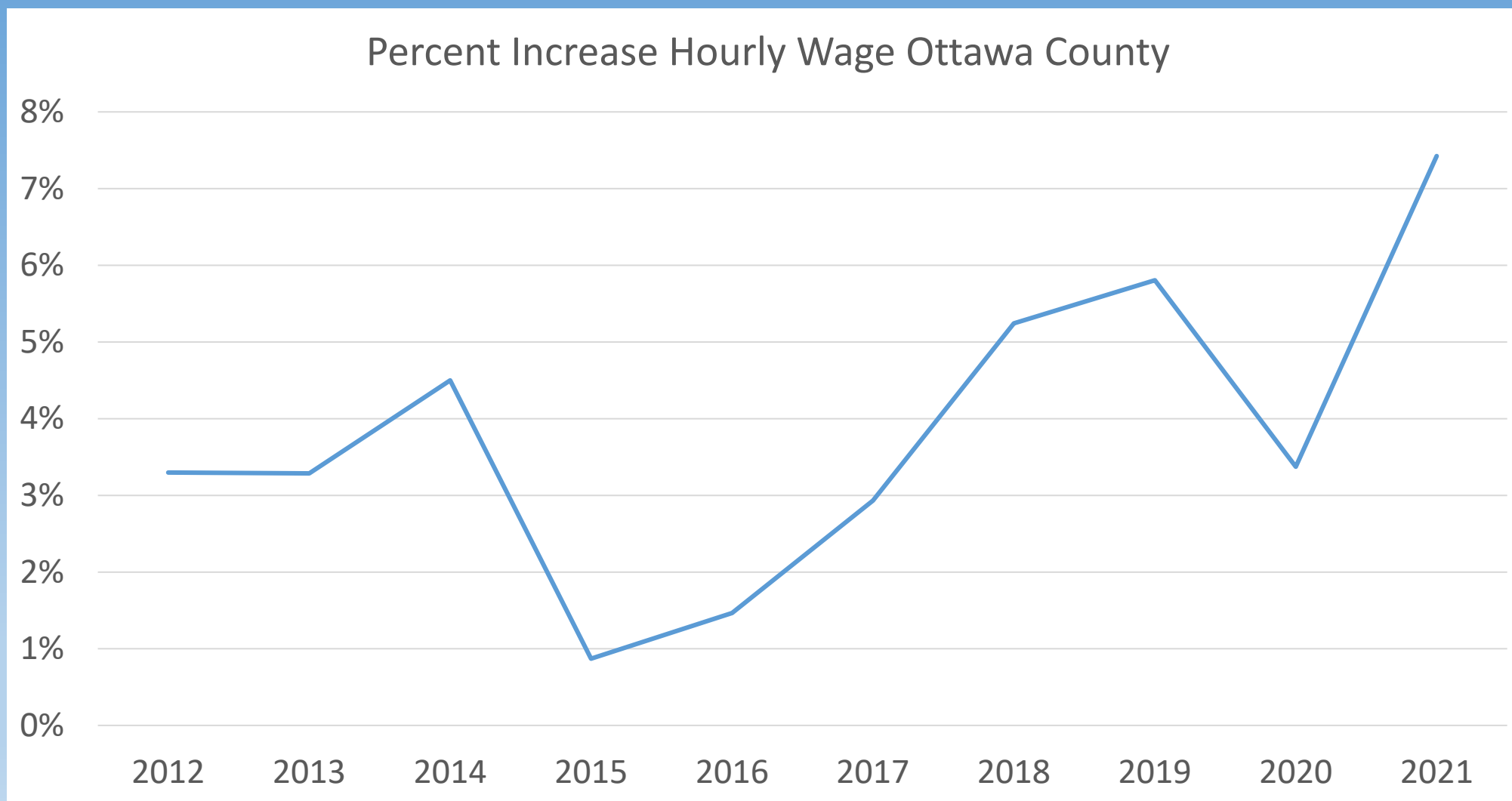
Inflation?

Inventory



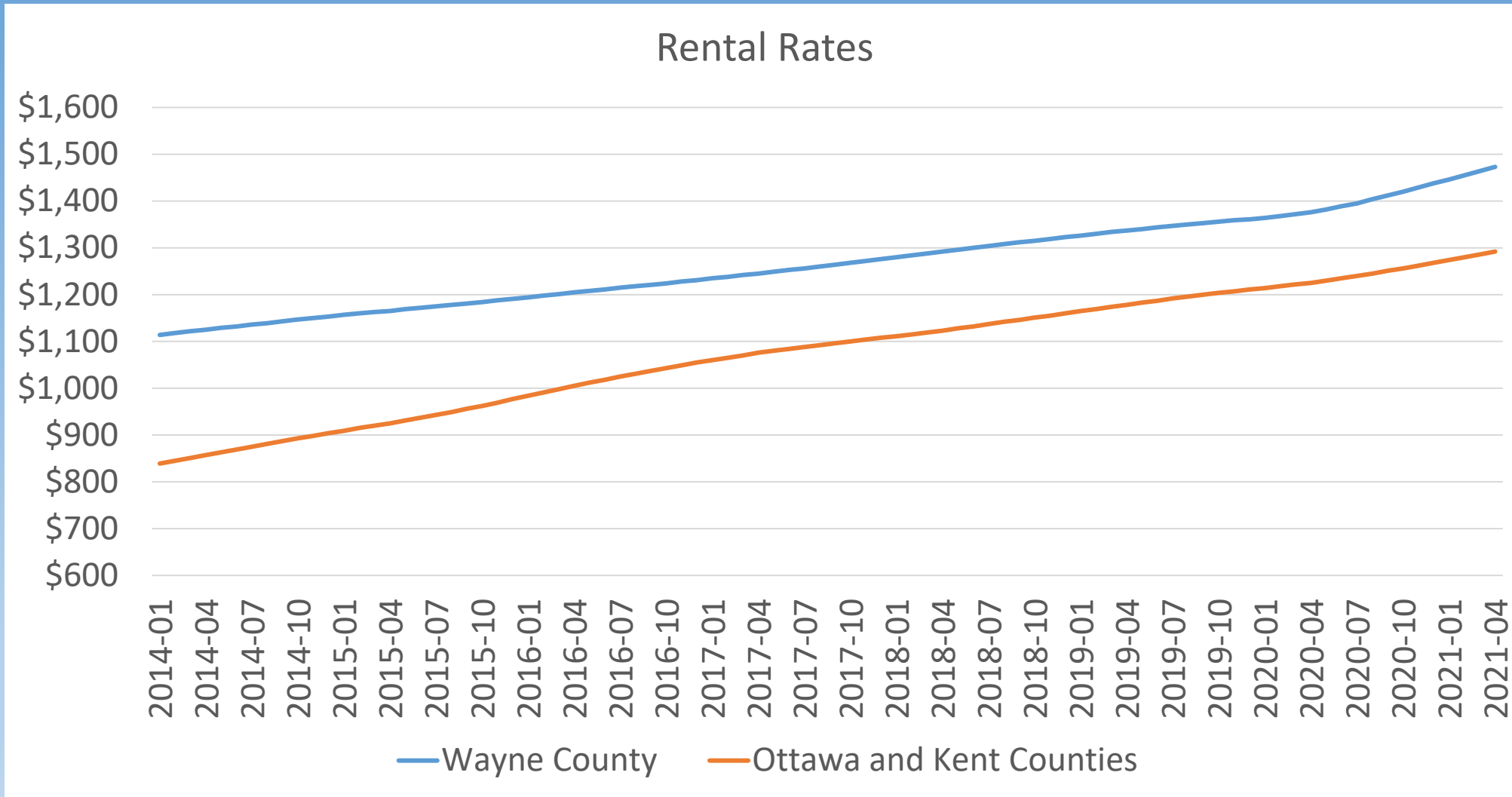
Source: Census

Increases In Wages



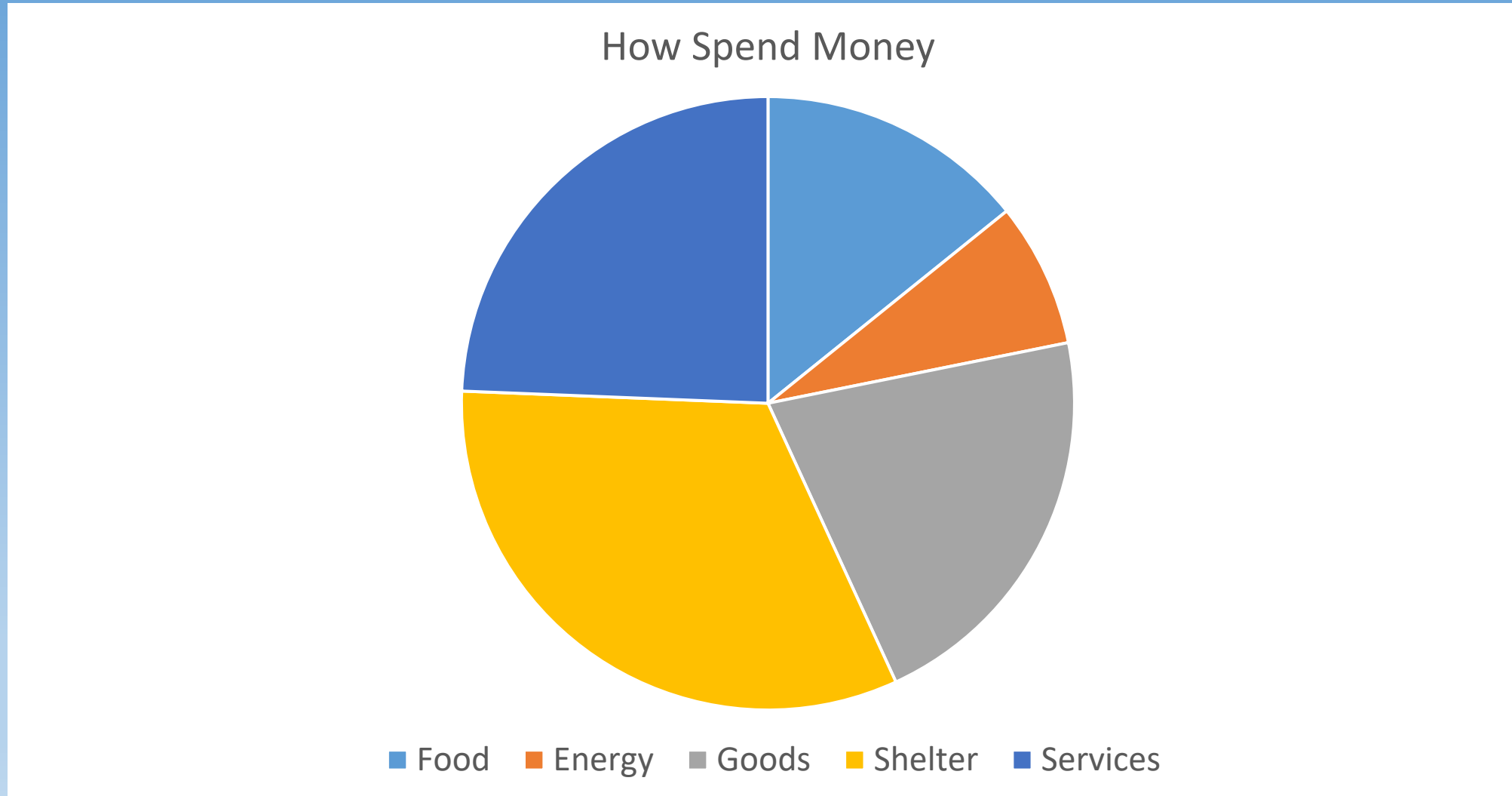
Source: BLS and Isely adjustment

Housing



Source: Zillo

Inflation Is Baked in for Next Year



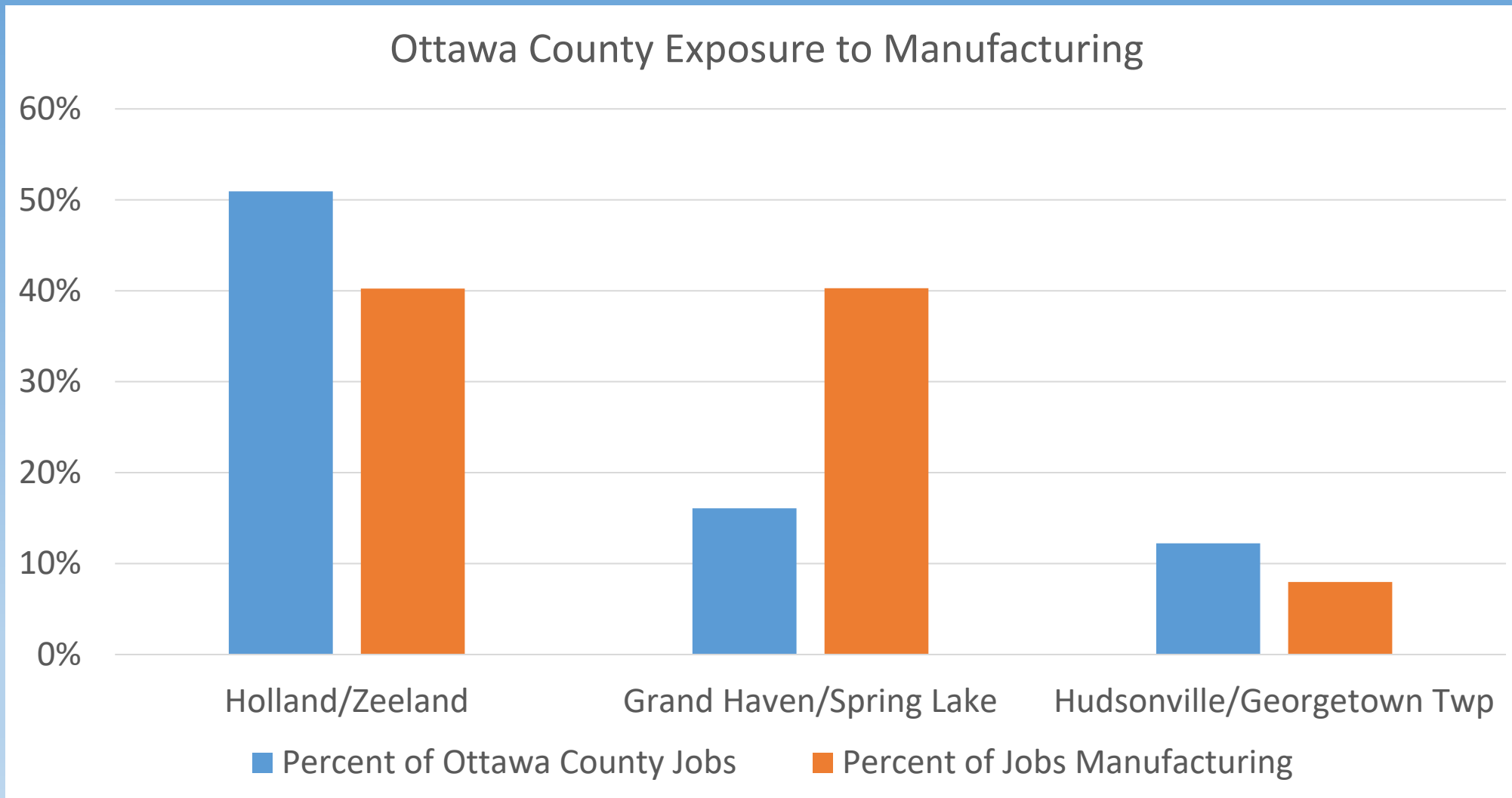
Source: BLS and Isely Calculations

Price Expectations

- Wages up 6% for the year on continued 3% employment growth
- Prices likely up 3.5-4.5% for the year
- Prices more upside risk – business owners across Ottawa County suggested inflation closer to 7% again in 2022
- 75 – 125 Basis point increase in short term interest rates will slow inflation some

Future

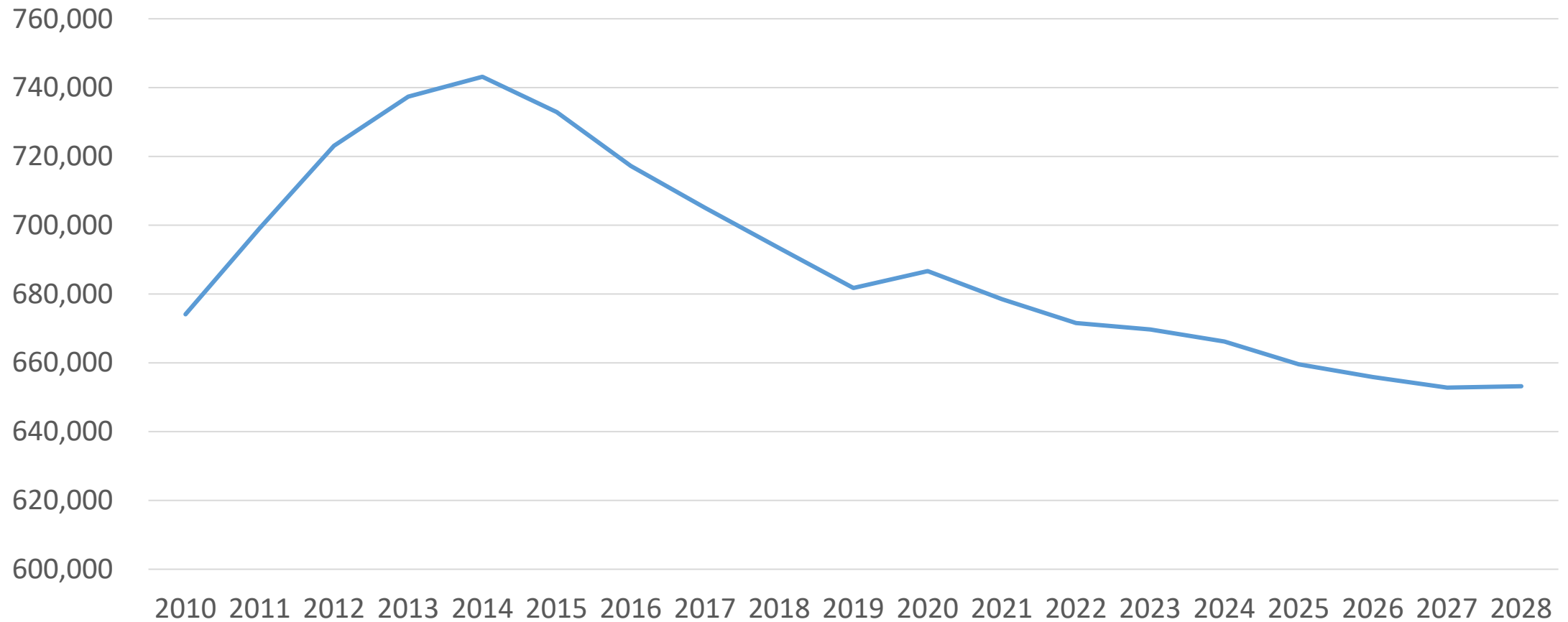
What is Happening?



Source:
On the Map

Michigan

All 20-24



What to Watch – Mostly Fear of Falling Again

- **DO NOT** watch unemployment
- **DO** watch excess deaths
- **DO** watch freight rates
- **DO** watch consumer consumption expenditures
- **DO** watch interest rates

Still a lot of pent up demand
for 2022 but continued
production disruptions will
keep prices high