

Prospects for the 1981 Michigan Economy

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The new year opens against the backdrop of an OPEC design to raise oil prices. Even so, notwithstanding the supply question posed by protracted hostilities between Iran and Iraq, a sharp runup in the price of gasoline is unlikely because, in the face of bloated worldwide stocks of petroleum and its derivatives, demand is declining. Holding inventories is expensive at today's interest rates.

Even if the new administration deregulates oil immediately rather than in September, as now scheduled, gasoline prices in this country are not likely to increase more than a few cents a gallon, say, 8 percent. Middle distillates will increase more rapidly because of a cold winter; these include home heating oil, jet fuel for airplanes, and diesel fuel for cars, trucks, and buses, among other end uses.

On 1 January 1981 the rate of Social Security contributions rises from 6.13 percent each for employer and employee on the first \$25,900 of each worker's earnings this year to 6.65 percent each on the first \$29,700. A general cut in tax rates on personal and corporate income, coming possibly as early as April, will neutralize the Social Security hike and then some. Likely, the tax cut will be retroactive, creating in effect, lump-sum rebates in the first paychecks affected.

The nation already is in the early stages of an inventory liquidation, evidenced by pre-Christmas sales, Chrysler rebates, and Ford sales incentives. Excepting food, interest rates, and energy, the dominant pressures on prices already point toward moderation in the rate of inflation. Even in food, there is some evidence that the upward forces on prices are going to be less intense than many, including this author, were predicting two months ago.

Barring a shock, such as another major war in the Middle East, the stage is set for a sharp decline in short-term interest rates in early 1981 and for some relief from price inflation. If this does occur, all of the fundamentals are in place for a shift in demand toward the larger and mid-size passenger cars and the vans and recreational vehicles that Michigan is well positioned to supply. The physical need for them is intensifying because of the drop in vehicle purchases since March 1979 by households that require larger vehicles and would like to replace their aging fleet of inefficient cars purchased during the early 1970's.

According to the scenario suggested by considerations such as these, Michigan faces another winter of rising unemployment and welfare rolls, fiscal crises in state and city governments, and loss of human capital as people seek work elsewhere. Even though Chrysler likely will survive with help from Washington, more of its plants will close, at least temporarily. Some supplier plants will close also.

The rate of unemployment will climb to over 14 percent (not seasonally adjusted) in February 1981 and end the year above 10 percent. Civilian employment, which reached its high point of 4,045,000 in July 1979, is expected to dip to 3,725,000 in February 1981. That represents a contraction of 320,000, peak to trough, or 8 percent. Those figures are seasonally adjusted. By December 1981, 220,000 of that deficit will have been eliminated as the recovery gains momentum.

Typically, the average length of workweek in factories lengthens more rapidly than the increase in number of jobs during the early stages of recovery. For many tasks that need to be performed, it is easier, less risky, and cheaper to extend

hours of those already in the plant than it is to recall those on layoff or to hire new workers. For 1980, the workweek will average around 40 hours in Michigan factories. It can be anticipated that the 1981 figure will be about 42 hours. Average weekly earnings of production workers in 1981 will climb to approximately \$440, compared with this year's \$375, estimated. The 1979 figure was \$360. The 17 percent gain forecast for 1981 may seem modest in light of the hike in overtime, premium pay, and today's wage escalation, but special dampening factors next yer include a wage freeze at Chrysler and the possibility of one at Ford.

During the calendar year, about 2.8 million motor vehicles will be assembled in Michigan, compared with 2.2 million estimated for 1980. For the United States as a whole, car, truck, and bus production will total 9.3 million, compared with 8.2 million estimated for 1980.

Michigan tourism should benefit from the rapidly rising costs of air travel and the inconvenience of service from medium sized metropolitan areas in Michigan, Ohio, and Indiana. These factors are making northern Michigan more competitive with the South and West in travel cost as well as accessibility. Detroit does a brisk convention business. On a lesser scale, several outstate Michigan cities are becoming known in the business travel and convention business. This is especially true of Grand Rapids, Traverse City, and Kalamazoo. Battle Creek is joining this market, and there is every reason to believe that Lansing will, too.

Developments already underway put Delta, Crawford, and Ontonagon counties in the top growth echelon. In Delta, the Mead expansion is gaining a momentum that will produce a construction peak next summer and have a large effect on the area through purchases from local suppliers and increased payrolls of construction workers. Crawford is slated for construction by Weyerhaeuser, which will be building a wafer board plant suited to mixed hardwood forests and a resin plant to supply the binding agent. In Ontonagon County, UPSCO will be employing additional workers as it reaches full capacity to produce barges, and a refining plant is to be built at White Pine to remove silver from copper.

Mackinac Island is expected to enjoy a very good summer tourist season, a big plus for Mackinac and Cheboygan counties. Several other vacation areas in the northern Lower Peninsula also can expect business to be much improved over 1980, offsetting sluggishness in manufacturing and mining activities.

In southern Michigan, St. Joseph County is growing rapidly because of the new General Motors Hydramatic plants in Three Rivers and Constantine. Flint should be the growth leader among Standard Metropolitan Statistical Areas. General Motors intends to build a new assembly plant in that area, creating construction jobs. Meanwhile, Buick assembly in the old plant should increase next spring to match the anticipated sales pace. The Chevrolet small truck plant also will have to add workers to satisfy demand, after the winter lull.

Several counties should experience employment increases in 1981 but still remain depressed. Charlevoix is perhaps the best example. Its 4 percent job gain, predicted on tourism stimulating an otherwise torpid economy, will not make up for the sharp downturn of 1980.

The above analysis of areas within the state was based on questionnaires returned from chambers of commerce and other local experts along with conversations with economists and planners in the various areas. Where local contacts could not be established, the 1974-1975 pattern of change, modified to suit current conditions, was used.

Questionnaires also were sent to all of the state's banks and savings and loan associations requesting them to express their judgements about their areas and Michigan's future in a very general way. On balance, these financial executives expected a worse fourth as compared to third quarter in 1980 in every region of Michigan. With the exception of the northeast, not much improvement is anticipated during the first quarter of 1981, but then the economy of the state

and of each of its regions is forecast to strengthen, entering 1982 on an upswing.

In answer to another set of questions, with the exception of southwest Michigan, these executives expect their areas to have an improved level of economic activity for 1981 as a whole over 1980. They also expect the state as a whole to experience less economic activity during the coming year. That seeming inconsistency can be explained by there being only five returns from Wayne County, an area which, like Berrien County in the southwest, might indeed suffer from declining activity through much of 1981. Nearly all of Chrysler's employment, it must be remembered, is in Wayne County.

Respondents expect good improvement during 1982 statewide and in their own areas, especially the latter. There is continued growth projected into 1983, slight growth in 1984, and none in 1985, if the responses are taken literally. Indeed, the answers seem to indicate a slight downturn for 1985. Because of the vagueness of the question, and the fact that various individuals attached different scales to the choices of economic change listed for them, perhaps only one definite conclusion should be attempted: The bankers and savings and loan executives who responded to the questionnaire (approximately 35 percent of those queried), anticipate a weak Michigan economy during 1981 and strength for 1982 and 1983. Focusing on 1982 alone, the northern lower peninsula expects to be the strongest section of the state, and, on average, respondents expect Wayne County to be the weakest.

For the construction industry as a whole, 1981 promises to be another very lean year. Interest rates for home mortgages will remain above 12 percent. The supply of mortgage money at savings and loan associations is being affected by deregulation of the nation's financial institutions. As many of you no doubt are aware, the S&Ls lose their advantage in being able to offer higher returns to small depositors than the banks have been able to offer. On the other hand, they will be able to compete with banks for NOW accounts. On balance the outcome is not clear. I expect that the residential market will be depressed by the money situation until mid-year and that then a modest recovery will begin.

During the first ten months of 1980, only Cass, Emmet, Houghton, and Shiawassee counties showed significant improvement in residential construction permits over the like 1979 period. Clinton County about held its own. Every other county experience a sharp decline, with Wayne County being one of the most severely impacted.

In office building permits, Eaton County had significant improvement over 1979 in both numbers and value. Oakland County showed improvement in number of office building permits issued, but their aggregate value declined sharply. Wayne County, on the other hand, had a sharp drop in number of office buildings for which permits were issued, but their aggregate value increased sharply.

Mercantile building permits showed improvement in both number and value in Ingham County. In Berrien, Charlevoix, and Kalamazoo counties numbers were up over 1979 but valuation declined. Ionia, St. Clair, and Sanilac counties had sharp increases in valuation but not numbers.

In industrial building permits, the numbers but not valuation increased in Eaton County. Both increased in St. Joseph County. Valuation was improved in Grand Traverse, Lenawee, Livingston, Ottawa, and St. Clair Counties.

With those few exceptions, the building permits data suggest a continued depressed construction industry in this state during the coming several months. My office has prepared the handout showing the F. W. Dodge building contracts series for Michigan's Standard Metropolitan Statistical Areas for the first eleven months of 1979 and 1980. They support the notion of a pervasive inactivity in this state compared with the national figures. The building contracts series are not the same as the permits data, I might point out. They represent a firmer commitment to build. However, they also do not provide the rich geographic data

that we have in permits figures. Nor is there a breakdown by number of units and by type of construction other than residential and nonresidential. Finally, you will notice in the F. W. Dodge contracts data that nonresidential activity will increase sharply in Ann Arbor, Bay City, and Jackson areas; and shows considerable improvement in the Lansing-East Lansing area. Another point worth mentioning is that both residential and nonresidential contracts still are at a very high level in the Grand Rapids area, although depressed from year-ago figures.

I also have F. W. Dodge figures for the first ten months for Ohio, Illinois, Indiana, and Wisconsin. Those states' construction sectors also are more depressed than the U.S., but not so much so as Michigan.

As a matter of fact, all of the data that I have examined indicated that Michigan is the most depressed state and that our four nearest neighbors are among the most depressed. The healthiest of the five is Wisconsin. Based on previous recoveries, I expect that Wisconsin will show the best overall improvement in 1981, Illinois next best, Ohio third, Indiana fourth, and Michigan least.