Do 'mixed blessings' lie ahead?

Michigan's economy: Indicator of national growth

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Ferris works for the Michigan Senate Fiscal Agency. Here's his outlook for the year titled "The Economic and Budget Outlook for the State of Michigan: Prospects for Growth in the 1980s." The report was presented to the U of M Economic Outlook Conference.

Just as the U.S. economy has exhibited an uneven growth path as of late, the growth of the Michigan economy has been markedly more jagged.

Depending upon the industrial make-up of a particular state, a period of pronounced economic expansion or an economic recession can have profoundly different impacts nationwide.

As is well documented, recessions tend to postpone and in some cases, eliminate business and consumer spending on "big time" items. Consumer expenditures on durable goods and business fixed investment are the first items to be lopped from budgets in a deteriorating economy.

Thus, states such as Michigan, with an emphasis on durable goods manufacturing are characterized by a "feast or famine" economy.

Predictably, the states hit hardest by national recessions are in an industrial belt consisting of the Great Lake states, the Northeast and the Mid-Atlantic states.

Not only do these states have a preponderance of basic manufacturing activity, they are characterized by older, less-efficient plant and equipment as industrial expansion is increasingly concentrated in western and southern states.

Consequently, Michigan is an oft-noted casualty in a recession, and a severe recession such as 1973-75 can lead to "depression-like" developments for this state.

ALL OF THESE prefacatory remarks on the relation between the national business cycle and the Michigan economy are by way of saying that the most beneficial factor for the health of the Michigan economy in the next decade will be the relative health and stability of the U.S. economy.

No single other aspect can outweight the importance of sustained real growth, since to a large measure, sustainable and significant real growth can not take place without Michigan partaking of its fruits.

To dramatize this point, consider the wide difference in real economic growth we experienced in the past two decades.

The 60s were marked by an unprecedented 105 month expansion from 1961 to 1969 while the 70s, as previously noted, will have witnessed three recessions for Michigan, including the most severe economic downturn in nearly half a century.

The significance for Michigan of this variance in national growth is well summarized by data for average real weekly earnings in manufacturing, real wages and salaries, and wage and salary employment.

The lack of significant real growth in the '70s also impacted heavily on the characteristics of wage and salary employment in Michigan.

During the '60s, shares of employment by borad industrial classification remained relatively constant.

Over the last decade, however, major shifts have taken place. Manufacturing employment's share of the total has fallen a whopping 8 percent, while transportation, communications and utilities have come to comprise four percent less of the total.

Retail and wholesale trade, on the other hand, represent two percent more of the total, government 4 percent and services 6 percent. This trend toward increased employment in distributive and tertiary industries is expected to continue.

THE SCENARIO of national economic development which I previously outlined is consistent with a much improved Michigan economy in the 1980s. The presence of three Michigan recessions in the 1970s has severely limited real economic gains in our state.

As noted, by most any broad-based economic yardsticks workers in the Michigan economy are barely better off in 1979 than they were in 1973, or in many cases, 1969.

The presence in the 1980s, however, of declining and not accelerating inflation rates, of a business fixed investment "boom," and of a surge in household formations by consumers who are in their prime acquisition stage of life, bodes well for this state's economy and its workers.

There are other ingredients which may further impact favorably on our economy.

First, in order to comply with federal mandates and to meet consumer demands for more fuel efficient stock of motor vehicles, the auto manufacturers and their subsidiaries will be investing some $100 billion in plant equipment and research in 1980-84.

Despite the presence of any "sunbelt strategy" which may be advanced over this period, Michigan stands to garner a major piece of this investment, as one-third of all motor vehicle production takes place in Michigan.

Ironically, I expect that the federal mandates will causes more investment to take place in Michigan than would have otherwise occurred if a sunbelt strategy does indeed exist.

In effect, the feds have forced the manufacturerrs to make investment plans and expenditures earlier than they ordinarily would have, which often makes retooling and rehabilitation of existing facilities in Michigan more economically wise than new construction elsewhere.

In lieu of the mandates, the manufacturers may have chosen to phase out certain Michigan facilities over the remainder of the century. Investment in Michigan by auto manufacturers is also enhanced by the favorable treatment of capital outlays under Michigan's Single Business Tax as well as the high percentage of property tax abatement under Public Act 198 of 1974 which is accruing to auto companies.

SECOND, CONSTRUCTION activity may show even greater strength if the past weakness in several sectors is reversed. There are signs of an impending upsurge in multi-family units, commercial buildings and public works.

Third, due to the high technological requirements and the heavy machinery involved, Michigan stands to share in the benefits offered by the development of alternative energy sources.

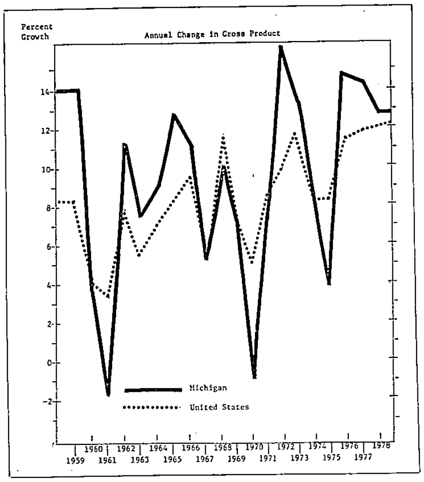
Our efforts to secure the Solar Energy Research Institute (formerly located in Colorado) recently established by Congress convinced us that Michigan has much to offer and gain from this and other alternative energy developments.

Fourth, higher transportation costs will combine with Michigan's unique geographical location within Great Lakes to ensure that Michigan's tourism industry will be among the most rapidly growing sectors of our economy.

Manufacturing and agriculture rank first and second. It is conceivable that tourism will overtake agriculture in the number two spot in the 80s.

High transportation costs will cause travelers to take vacations closer to home. Michigan's northern country, and our abundance of fresh water in the face of severe shortages in the fast growing southwest, should combine to make the two peninsulas increasingly attractive. The significance of our access to unlimited fresh water and its significance for industrial as well as commerical and residential growth should not be underestimated.

Nevertheless, they are in my judgement a reasonable approximation of the type of growth we will experience in the next decade — a little less inflation, slightly more real growth and further diversifications of our economy.



This graph shows the relationship between gross national product and gross state product with Michigan showing higher amplitudes of swings in annual growth versus national growth. The differences are most noticeable at business cycle peaks and troughs.