



U.S. Metro Economies Special Report:

Employment Update for the State of Michigan

Types of Jobs Lost and Gained 2001-2006

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Prepared for:
**The United States
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Investment in the
New American City**

Prepared by:
Global Insight, Inc.

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INTRODUCTION

Official GDP statistics for the second half of 2003 have indicated that the long-awaited economic recovery has begun. The third quarter jump started the economy with growth averaging 8.2%. The initial results for the fourth quarter showed that real GDP growth slowed to a more sustainable 4.0%. This growth was at last balanced across the major sectors of the economy. Export demand made a large contribution, as did business investment spending. As 2003 ended, the economy was no longer solely dependent upon robust spending by households and the federal government.

What to expect now: employment gains, which were very modest in the second half of 2003 will pick up significantly in 2004, expanding at a national rate of more than 2% by mid-year. The unemployment rate will slowly decline. Real GDP will expand by 4.7% in 2004, and 4.0% in 2005, as the US economy achieves its potential rate of expansion for the first time since 2000. This expansion will, at last, end the 'jobless recovery', with payroll growth of 1.5% in 2004 and over 2% in 2005.

Michigan, owing to its dependence on the manufacturing sector, entered the recession earlier, felt its impacts more deeply, and will return to economic health more slowly. Through December 2003 the state has lost 282,000 jobs since its peak employment in 2000. During 2003, while the rest of the nation was maintaining its level of employment, Michigan lost another 79,000 jobs, 30,000 of which were in manufacturing. Its nine metropolitan areas, the engines of the state's economic expansion of the 1990s, suffered mightily in the downturn (Detroit led the nation in 2002 with a job loss of 67,000), and were unable to generate gains in 2003. All nine metro areas lost jobs during the year. Detroit, which generates almost 50% of the economic activity of the state suffered the loss of another 24,000 jobs; and only Kalamazoo, at -0.5%, had a rate of loss less than 1%.

Global Insight expects employment in Michigan to follow the US economy and to finally expand by the middle of 2004. The state will add 39,000 jobs this year, and 128,000 over 2005-2006, finally recovering its recession losses in 2008.

ANALYSIS

In 2004, U.S. employment is expected to recoup the losses experienced over the previous three years. These losses totaled over 2 million jobs. These job gains, however, will not return in the same sectors where they were lost. Many of these sectors, such as manufacturing and information, have seen these jobs moved overseas due to outsourcing. The average annual wage of jobs in the sectors which lost jobs during the 2001-2003 period, \$43,629, will not be matched by the average wage of jobs in the growing sectors between now and 2005, \$35,855. Thus job gains will come in sectors whose wages average only 82% of those in the sectors hit hard by the recession. This gap reflects the higher than average wages paid in the declining manufacturing sectors. Over the 2001-2003 period, annual wages lost in the declining sectors totals \$182 billion. This is \$26 billion greater than the annual wages we project will be earned in the advancing sectors.

A similar wage gap will occur in Michigan, where \$13.2 billion in wages was lost in 2003 alone as a result of job cutbacks in 2001-2003. The average annual wage of jobs in the sectors which lost jobs during this period, \$46,696, will not be matched by the average wage of jobs in the growing sectors between now and 2006,

\$40,037. This wage gap of 14.3% implies that the long-awaited payroll expansion, while surely welcome, will bring income gains which average less than 86% of incomes lost due to the employment contraction. By 2006, the annual wage gap will cost the state \$1.1 billion.

Figure 1 below examines the composition of wages in the ten sectors that lost the most jobs during the downturn and the ten sectors that will lead the jobs recovery.

Figure 1

Michigan Jobs Quality Vs. Quantity: Analysis of Top Ten Sectors	
Total Jobs Lost (2001Q1 to 2003Q4)	313,944
Average Wage of Job Lost	\$46,502
Total Jobs Gained (2004Q1 to 2006Q4)	150,121
Average Wage of Jobs Gained	\$39,420

Figure 2

US Quality Vs. Quantity: Analysis of Top Ten Sectors	
Total Jobs Lost (2001Q1 to 2003Q2)	4,144,926
Average Wage of Job Lost	\$43,580
Total Jobs Gained (2003Q3 to 2005Q4)	3,877,226
Average Wage of Jobs Gained	\$35,091

MICHIGAN ANALYSIS: DECLINING SECTORS

The Manufacturing sector, 18% of the state of Michigan's employment, was the hardest hit in terms of lost jobs and wages. Indeed, many of these jobs are not expected to return during the recovery. The Non-Durables sector is expected to continue to lose jobs throughout the forecast period while expected job gains in Durables Manufacturing will be minimal. (see Figure 3)

Durables Manufacturing lost 144,000 jobs from the end of 2000 to the end of 2003. These jobs, which pay an average of \$56,500 annually, will continue to decline year-over-year until 2005. In 2003, Southern-based Toyota displaced Detroit-metro based Ford as the second largest auto manufacturer, and the trend of auto production to the South will continue. In the case of Non-Durables Manufacturing, production plants are moving to Mexico and Asia to take advantage of inexpensive labor. In Michigan, Non-Durables jobs pay an average of \$45,800 annually. The sector lost nearly 30,000 jobs from the beginning of 2001 to the end of 2003. Plastics and rubber manufacturing are the largest sectors affected in the state.

Job losses in the state's service producing sectors were similar to those in the rest of the nation. Reduced spending by households and businesses led to sharp cutbacks by the firms that supply both business and personal services. Administrative & Support Services, with an average salary of \$31,000, lost 36,000 jobs, second only to Durables Manufacturing. Retail Trade and the Professional, Scientific & Technical sectors each lost over 24,000 positions. The former were low paying, averaging \$23,300 in salary, while the latter were high-paying at almost \$65,000 per job. Accommodation and Food Services, Construction, Wholesale Trade, Transportation & Warehousing, and Real Estate Rental & Leasing rounded out the top ten losing sectors.

Figure 3

TOP 10 JOBS LOST (2001Q1 to 2003Q4)		
Employment Sector	Total Job Losses	Wage Per Job
Durable Manufacturing	-144,289	\$56,511.79
Administration & Support Services	-36,043	\$30,940.81
Non-durable Manufacturing	-29,044	\$45,753.03
Retail Trade	-28,316	\$23,326.85
Professional, Scientific & Tech.	-24,730	\$64,759.52
Accommodation & Food	-18,594	\$12,596.83
Construction	-11,160	\$43,804.69
Wholesale Trade	-10,586	\$54,738.89
Transportation & Warehousing	-7,102	\$42,388.41
Real Estate, Rental & Leasing	-4,081	\$33,136.01

MICHIGAN ANALYSIS: ADVANCING SECTORS

Compared to the wages of the jobs lost in 2001-2003, wages of those employment sectors forecast to add jobs is somewhat lower. The top 10 sectors expected to add over 150,000 jobs through 2006. These new jobs will have an average annual wage of \$39,400, considerably lower than the average wage of those jobs lost by the top 10 sectors to lose jobs between 2001 and 2003.

Figure 4

TOP 10 JOBS GAINED (2004Q1 to 2006Q4)		
Employment Sector	Total Job Gains	Wage Per Job
Professional, Scientific & Tech.	27,900	\$64,759.52
Health Care & Social Assistance.	22,560	\$38,484.63
Administration & Support Services	21,919	\$30,940.81
Accommodation & Food	16,632	\$12,596.83
Wholesale Trade	13,850	\$54,738.89
Transportation & Warehousing	13,000	\$42,388.41
Construction	11,219	\$43,804.69
Retail Trade	11,000	\$23,326.85
Other Services	6,700	\$24,648.59
Arts, Entertainment & Recreation	5,342	\$24,832.81

Professional, Scientific, and Technical Services, paying just under \$65,200 annually, lost almost 25,000 jobs from the beginning of 2001 through end of 2003. This sector is expected to gain more jobs through 2006 than it previously lost. The Professional, Scientific, and Technical sector is part of the professional and business services NAICS super-sector, encompassing accounting, architectural, computer systems design, management consulting, scientific research and development and advertising. The Ann Arbor, Saginaw, and Kalamazoo, high tech sectors will contribute significantly to this growth, particularly in the dynamic life sciences fields.

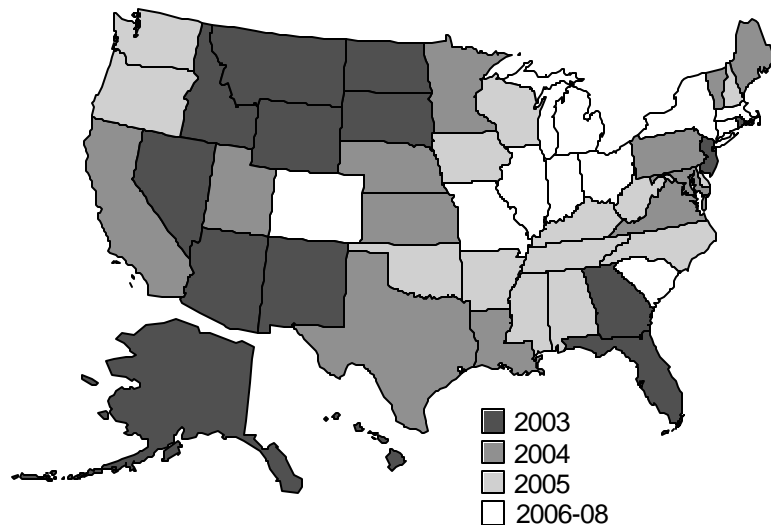
Employment growth in Administration and Support services is expected to far outreach total U.S. employment growth over the next two years. Job gains are expected to tally more than 21,000 jobs through 2006 and average wages in Administration and Support services are \$30,900 annually per job. Another big job gainer with relatively low wages is the Accommodation and Food Services sector. Wages in this sector, however, are the lowest of the top 10 employment gainers, with an average wage of slightly under \$13,000 annually per job. Retail trade, \$23,000 per job, also accounts for a significant fraction of the gains.

The downturn was remarkably broad-based by historical standards, with similar declines across the US. The jobs recovery will also be broad-based, though the Southern states of Florida and Georgia, and the Mountain states of Nevada and Arizona will lead the nation. The industrial Midwestern states, which have lost manufacturing jobs since 2000, will see the smallest gains. While 40 of 50 states will regain their pre-recession peak levels of employment by the end of 2005, Michigan

will not achieve its peak until 2008. The map (Figure 5) below contrasts its recovery with the rest of the nation.

Figure 5

RETURN TO EMPLOYMENT PEAK



CONCLUSION

This report has highlighted the National wage gap of 18% and the Michigan wage gap of over 15% between jobs lost and jobs gained in this business cycle. In the coming years, global competition will continue to exert wage pressures on American workers. While the economy is expected to continue growth, it will continue to transition away from the older manufacturing economy to one of a new, new economy. Intangibles will become of greater and greater importance in the composition of our output of goods and services. In this century, therefore, the education and training of the workforce in efforts to secure jobs and compete globally becomes of paramount importance. Increasing skill levels will lead directly to higher productivity and thence to higher wages.

The foundation of US economic growth is the ability of its metro area economies to generate an environment in which business and labor can productively provide services and goods to the nation and the world. Investment in training, education, and infrastructure will better enable us to increase productivity, wage levels, and long term growth, as well as provide jobs during this significant transition.

US TOP 10 JOBS LOST (2001Q1 to 2003Q2)		
Employment Sector	Total Job Losses	Wage Per Job
Durable Manufacturing	-1,675,219	\$45,292.62
Non-durable Manufacturing	-731,452	\$40,558.12
Administration and Support Services	-360,919	\$26,178.13
Information	-358,352	\$56,003.40
Transportation & Warehouse	-256,072	\$38,590.43
Retail Trade	-247,957	\$24,263.79
Professional, Scientific & Tech.	-191,282	\$63,196.60
Wholesale Trade	-138,953	\$50,600.46
Fed. Government	-103,863	\$48,099.67
Management Of Companies	-80,856	\$68,805.46

US TOP 10 JOBS GAINED (2003Q3 to 2005Q4)		
Employment Sector	Total Jobs Gained	Wage Per Job
Administration and Support	845,281	\$26,178.13
Health Care & Social Assistance	738,397	\$37,409.99
Accommodation & Food	477,242	\$14,744.86
Professional, Scientific & Tech.	422,056	\$63,196.60
Construction	332,701	\$41,576.80
Other Services	292,005	\$26,559.55
State Gov't	229,289	\$33,228.40
Transportation & Warehouse	202,143	\$38,590.43
Finance & Insurance	183,432	\$64,517.41
Retail Trade	154,678	\$24,263.79