

Michigan's Schumpeter Moment

Joseph Schumpeter was the Austrian economist who popularized the term “creative destruction.” Schumpeter used the term to describe how an economy evolves through the business cycle. Some parts of the economy are lost at the end of the old business cycle as new parts are created that propel the economy forward in the new expansion. Michigan’s automobile industry is in the midst of Schumpeterian creative destruction. As the auto industry evolves at an increasing pace, there will be significant churn in the Michigan economy. It is obvious that vehicle assemblers will need to change systems as automobile technology evolves away from its reliance on the internal combustion engine. The rise of China as a global economic power may also require the Detroit Big Three to evolve from industry leaders to industry followers in at least some aspects of automobile production and sales. As new vehicle platforms are developed, there will be a push to significantly reduce the labor-hours needed to assemble a vehicle and this will have implications for Michigan’s labor market. Workers will need to be nimble and trainable. Fortunately, new production, mechanical and software systems will also create new jobs for Michigan’s workforce. Parts suppliers will need to be nimble. If all electric vehicles end up dominating the market, entire systems, such as engine transmissions, will go the way of the horse and buggy. Michigan’s Schumpeter Moment will not hit all at once. But it is in fact already happening and it will continue to have a profound impact on the state for many years to come. It may be more accurate to say that many parts of the Michigan economy are at the start of a Schumpeter decade. The UAW contract negotiations this year may be particularly contentious as both sides try to navigate the churning environment.

Michigan Economic Outlook

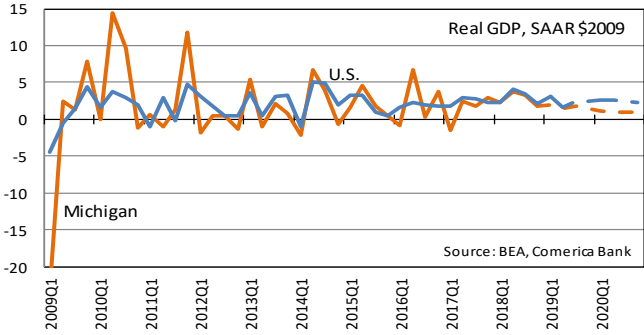
	4Q'18a	1Q'19a	2Q'19f	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	2018a	2019f	2020f
State GDP											
Real GDP (Chained 2009 Millions \$)	472933	475307	476979	479154	480848	482157	483296	484440	468387	478072	483863
Percent Change Annualized	1.8	2.0	1.4	1.8	1.4	1.1	0.9	1.0	2.7	2.1	1.2
Labor and Demographics											
Payroll Jobs (Thousands)	4429	4444	4457	4469	4480	4489	4499	4508	4419	4463	4503
Percent Change Annualized	0.4	1.3	1.2	1.1	0.9	0.9	0.8	0.8	1.1	1.0	0.9
Unemployment Rate (Percent)	4.0	4.0	3.8	3.7	3.6	3.5	3.4	3.3	4.1	3.8	3.4
Population (Thousands)	9999	10002	10004	10005	10006	10006	10006	10005	9996	10004	10005
Percent Change Annualized	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.2	0.1	0.0
Net Migration (Thousands)	0.5	0.3	-0.1	-0.5	-1.1	-1.6	-2.1	-2.6	2.6	-1.5	-9.4
Personal Income											
Total Personal Income (Nom., Millions \$)	482999	487073	492427	497624	502782	507822	512727	517818	475626	494976	515356
Percent Change Annualized	5.2	3.4	4.5	4.3	4.2	4.1	3.9	4.0	3.3	4.1	4.1
Housing											
Housing Starts (Total, Ann. Rate)	18591	18645	17918	18002	18093	18152	18237	18309	19397	18164	18271
Percent Change Annualized	12.4	1.2	-14.7	1.9	2.0	1.3	1.9	1.6	-13.8	-6.4	0.6
SF Housing Starts (# of Units, Ann Rate)	15518	13901	13995	14059	14129	14170	14245	14301	16788	14021	14269
MF Housing Starts (# of Units, Ann Rate)	3072	4744	3923	3943	3965	3981	3993	4008	2609	4144	4001
Existing Home Sales (Ths. of Units, Ann Rate)	166	167	168	168	168	168	168	168	176	168	168
House Prices, FHFA (1991 Q1=100, SA)	234	236	237	239	242	244	246	248	228	238	247
Year/Year Percent Change	7.4	6.0	5.0	4.3	3.5	3.4	3.8	3.8	7.8	4.7	3.7
Bankruptcies											
Total Business (12 Months Ending)	409	501	453	457	462	470	476	485	400	468	481
Total Personal (12 Months Ending)	29277	29272	29249	29428	29571	29708	29848	29952	29609	29380	29915

a = actual f = forecast

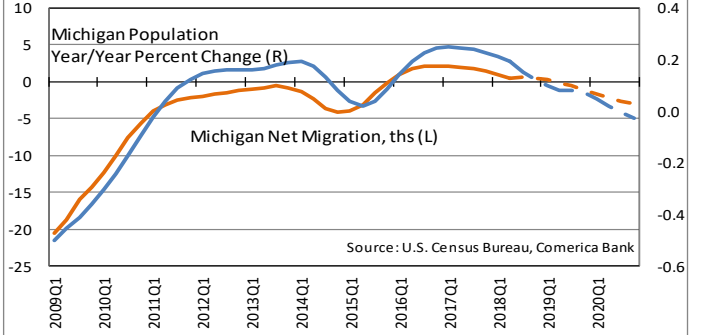
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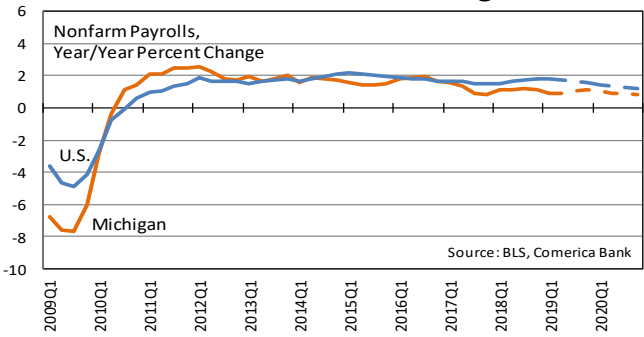
Michigan GDP Growth to Ease



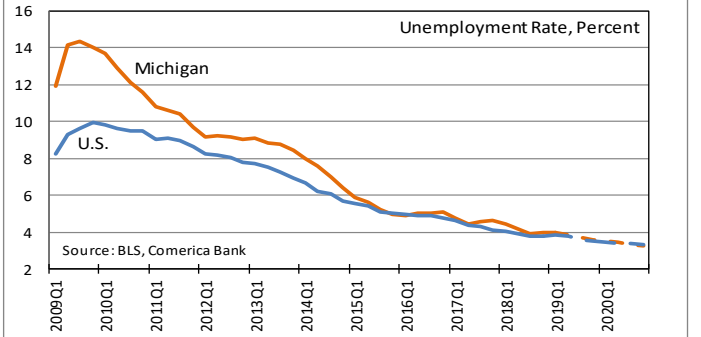
Net Migration to Turn Slightly Negative



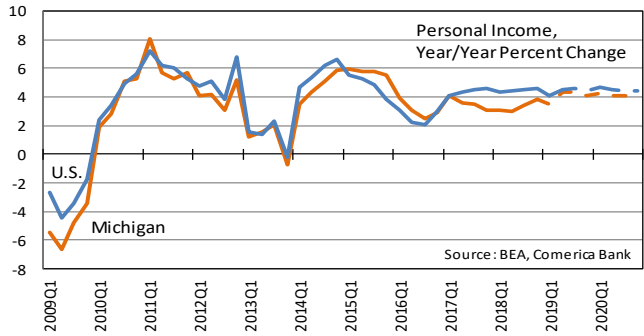
Job Growth Continues Through 2019



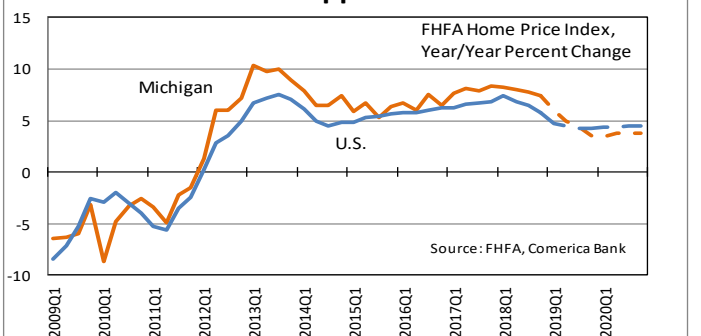
Labor is Scarce



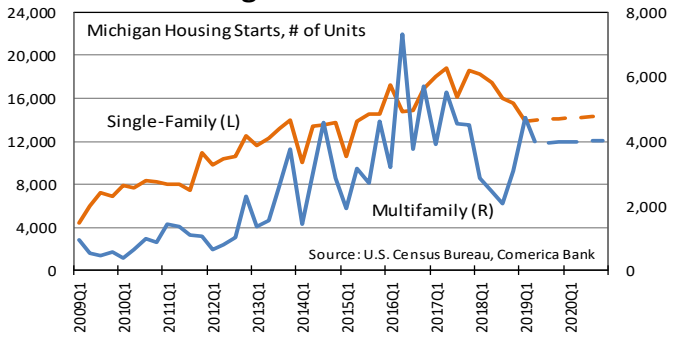
Income Growth Positive



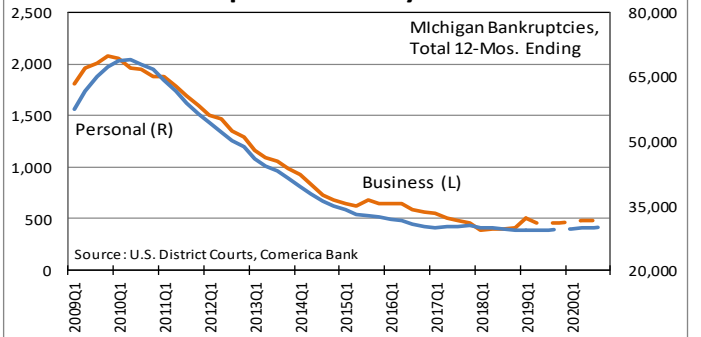
Home Price Appreciation Cools



Housing Starts Are Past Peak



Bankruptcies Near Cyclical Lows



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