MICHIGAN RETAILER

Five economic signals to watch for in a better 2010

by Scott Watkins, Anderson Economic Group

With 2009 and the entire “aughts” decade now in the rearview mirror, there seems to be a fresh sense of optimism that better things are to come, both in 2010 and over the entire next decade. And why shouldn’t there be? There is good reason to reference the past 10 years as the forgotten decade and to assume that a recovery is inevitable.

So what are some signs to watch for in 2010 to determine if we are moving in the right direction?

Here are five things I will be watching in Michigan during the coming year.

1. The employment picture. A jobless economic recovery is simply not a possibility in Michigan. Our decade-long recession has decimated our employment ranks, impacting families, government revenues, property values, our businesses, and nearly every other aspect of the economy. As a result, we can only truly point to significant economic improvements if our employment levels notably increase, and those who are working see earnings rise.

The U.S. Bureau of Labor Statistics publishes monthly labor force statistics for the state and its 17 largest metro areas. The data -— which can be found at www.bls.gov/eag — illustrate not only the rate of unemployment, but also the total number of people actively seeking and being able to find work. Evidence of more people being confident enough to look for work, followed by signs that they are finding employment, will be early indicators that a recovery is underway, and that people will again start spending more, both on necessities and luxuries.

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2. The real estate market. The price of real estate is a good measure of the level of interest that people have in living or doing business in an area. There are, of course, many other variables impacting real estate today, such as interest rates, credit availability, and the still-significant fallout from the sub-prime lending crisis. But the main factor that will result in more home sales, higher property values, and increased commercial rents is a demand for the space.

So, as 2010 progresses we can watch Michigan’s real estate market and hope to see increases in both sales volume and prices. This will signal not only a continued availability of credit, but also provide a sign that investors see value in the state and are interested in coming (or staying) here to live and work. In addition, real estate activity will provide a key measure of the nation's economic stability. This may prove especially tedious later this spring as homebuyer tax credits expire, and pressures mount to raise interest rates.

3. Structural reform of Michigan's state government. Lansing has a problem, and it centers on not being able to adapt to the reality that we are no longer a rich and growing state. It is a tough but necessary truth to swallow. State spending is still set using a top-down approach, whereby what was spent in prior years is the primary driver of what will be spent today.

Unfortunately, the strong economic picture that drove yesterday's spending has not been with us for quite some time, and the failure to address the resulting structural deficit becomes more apparent with every budget process. Moving past this requires making tough calls to end or completely transform many government programs. When a strong leader prevails with the willpower to champion this process, we will have tangible proof that the tide is turning in Michigan.

4. Coherent economic development strategy. What industry is key to the state's future and worth spending millions for economic development incentives? A look back at recent economic development strategies in Michigan reveals a long and scattered list: biotechnology, film production, tourism, non-automotive manufacturing, battery production, "green power," homeland security and military-focused manufacturing, among others.

Despite billions in tax incentives to attract and build these industries, the majority of Michigan's businesses have actually seen their tax liabilities go up in recent years, while the state's revenue from business taxes declines. There can be no clearer evidence that our recent economic development strategies are failing, and a more coherent plan is needed. Strategic moves to focus on reducing the tax burden faced by all business, not just the industry du jour, will offer a good sign that Michigan's economic development strategy is back on track.

Also notable would be a focus on our state's many hard-to-duplicate assets, like our one-of-a-kind water resources, tremendous universities, some of the world's greatest automotive engineers, and valuable base of agriculture and tourism. Other states cannot easily compete with Michigan in these areas, and will not be able to, unless we neglect them and lose our competitive advantage.

5. Message from voters this fall. Michigan's gubernatorial election this fall will offer a measuring stick of the public's sentiment. The first signs will likely come in the Democratic primary, where the party will be tasked with choosing between more traditional, labor-friendly and strongly liberal candidates and those who are more fiscally conservative, reform minded, and farther from the party's traditional views.

Should the latter type of candidate prevail, it may widely be read as a mandate for reform throughout the state, regardless of which party prevails in November's election. If a strong liberal carries the nomination, we will have to wait until the general election to see if

Michigan voters see a need for a significantly new policy direction in the state.

The outcome will also be carefully watched in Washington, where President Obama will be determining whether to hold course or change his political strategy in advance of the 2012 presidential election.

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Return to February 10 Michigan Retailer page one • **MRA home**

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