

The 2010 Columbus Blue Chip Economic Forecast

Columbus Metropolitan Club

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- Happy New Year! On behalf of the Columbus Chamber and my other panelists, thanks to my friends at CMC for having us back for a ninth year. And many thanks to SS & G Financial Services; Schottenstein, Zox & Dunn; and SZD Whiteboard for their generous sponsorship. Above all, thanks to all of you for being here.
- Well, it has been a year. But as bad things have been around here, they have been much worse in many other places.
 - The “here” I am talking about is, as usual, the eight-county Columbus Metropolitan Statistical Area, or MSA.
 - It looks like average Columbus MSA employment in 2009 will wind up down about 16,500 jobs – 1.75 percent – from 2008.
 - ◇ That is the biggest percentage decrease in our region’s employment in a generation; we lost 2.3 percent in 1982. It may well be the biggest numerical decrease in one year, ever.
 - But the year-over-year decline in U.S. employment should be about twice as bad as ours. It is looking like the U.S. will lose 3.7 percent – more than five million jobs.
 - And Ohio employment should be down about 245,000 – 4.6 percent.

- ◇ During the boom, Ohio had the second-worst job market in the nation. Only Michigan was worse, and we were one of only four states that ended the expansion in 2007 with fewer jobs than we had at the end of the previous expansion in 2001.
- ◇ But now, although Ohio is doing worse than average, there are 10 states that are doing worse than we are.
 - * Pity poor Arizona, which has managed to leave even Michigan in the dust. Arizona's employment will be down more than 7 percent this year. Since the recession began, they have lost 10 percent. And the Census Bureau reports that a large number of the people who at one point were moving into Arizona – and Nevada and the Carolinas – are now moving out.
- It is human nature to project your current state of affairs forever into the future. After all, that is what got us into this mess in the first place. “Of course this house's price will rise 12 percent this year and I can flip it! It rose 12 percent last year, didn't it?”
 - Now, of course, we are wondering if the Great Recession will ever end. In fact, it probably already has. And while it may be a little early to break out the champagne and the Gerald Ford quote – “Our long national nightmare is over” – things really will start to look and feel better in 2010.
 - We are now likely beginning our third quarter of economic expansion. Gross Domestic Product – the total value of goods and services

produced in the U.S. – rose in the third quarter and probably rose in the fourth quarter.

- And the typical national economic forecast is expecting the improvement to continue throughout 2010 – at a steady clip of around three percent, which is pretty good.
- The typical forecast also expects the labor market to turn and employment start to increase in 2010.
 - ◇ We got some good news on this front early last month: as far as we know now, U.S. employment declined by only 11,000 in November. That is little more than a rounding error and the best report we have had since the month before the recession began in December 2007.
 - ◇ Remember that this time last year, we were losing close to 700,000 jobs per month.
 - ◇ We will get a revision of that number on Friday. It may wind up better or worse, and we may have some months that are worse than November was, but over all, forecasts expect the trend to be slowly and steadily improving.
- But forecasts are not always right. The Columbus Chamber's forecast is now in its eleventh year. Believe it or not, it has generally done pretty well over the past ten years, but 2009 was not one of those years.

- There is no gentle way to put this. The 2009 forecast was wrong – vigorously, impressively, dramatically wrong.

- ◇ As I said, the estimate as of now is that our region suffered a net loss of 16,500 jobs in 2009. This time last year, I was sharing with you a forecast that was calling for a decline of 3,500 jobs.

- The obvious question is, What happened?
 - * The national forecasting community badly underpredicted the economic decline in late 2008 and early 2009 and the associated employment decline.
 - As late as December 2008, the typical forecast was calling for a first quarter GDP decline of 2.5 percent. We got 6.4 percent.
 - Employment usually reacts to output declines with a lag. There was no lag this time last year: output collapsed, employment collapsed.
 - The December 2009 unemployment rate was expected to be 8.1 percent. That sounded pretty brutal at the time, but not compared to the 10 percent we actually now have.
 - In fairness, this past year was absolutely unprecedented. Nobody knew what to expect.

- * Also, the preliminary estimate of 2008 Columbus MSA employment – that we used as a basis for our 2009 forecast – was way too high, so the employment trend going into 2009 looked much stronger than it really was.
 - The annual employment revision this past March cut estimated 2008 employment by a whopping 8,500 jobs. That dropped growth from a positive 0.6 percent to a negative 0.2 percent.
- Be all that as it may, we forged ahead and assembled a forecast for 2010. After all, economists in general – and we in particular – truly have no shame.
 - As always, the forecast is a collaborative effort, including Joe Mandeville, George Mokrzan of Huntington Bancshares, Jim Newton of Commerce National Bank, and me.
 - ◇ Each of us does an independent forecast; the Chamber’s forecast is the average of our individual forecasts.
 - ◇ Joe, George, and Jim are here, and as usual, will join me up on the stage for question time.
 - Our forecast for 2010 sounds a lot worse than it is. We are calling for a net gain in Columbus MSA employment of 0.1 percent, or 800 jobs.

- ◇ But that tiny gain masks the likelihood of growing employment later in the year mostly or completely offsetting the small declines we are likely to see early on.
- ◇ We all expect that: our four forecasts are really pretty consistent – much more so than last year, and much more so than I was expecting given the fact that we are forecasting into a turn.
 - * George Mokrzan expects a net gain of 3,600 jobs – 0.4 percent.
 - * Joe Mandeville is expecting a gain of 2,800 jobs – 0.3 percent.
 - * I expect a decline of 1,100 jobs – 0.1 percent.
 - * And Jim Newton expects a decline of 2,100 jobs – 0.2 percent.
- ◇ The sectors that should do the best include business and professional services, healthcare and private education, and transportation and utilities.
 - * Business services and healthcare in particular have been our shining stars in the recession. Business services employment here is 0.6 percent higher now than it was when the recession began; nationally, this sector is still off nearly 8 percent.
 - * Healthcare and private education have been growing both locally and nationally. We are up 5 percent versus 4.4 percent

at the national level. My numbers suggest that the real action in the Columbus MSA last year was in education.

- ◇ However, the improvement in the economy won't be strong enough to stem continued employment declines in manufacturing, retail, financial services, and construction – which has been particularly hard-hit. All of these will be off in 2010, but not nearly as much as they were last year.
- I have printed copies of the forecast for you, and the PDF will be available on our Web site, www.columbus.org.
- Now I am going to pull a bit of a bait-and-switch on you. I am going to talk about the regional economy – but not quite the region you were expecting. I want to share a few thoughts about the economy of the Midwest, and of Ohio.
 - We all know that our region is doing far better than either the Midwest or Ohio. So why should we care about these larger areas? We can just sit cozy and snug in our nice little bunker and watch our economy grow as residents of Cleveland, Toledo, and Detroit flee their collapsing economies for all the opportunities here.
 - On top of being really coldhearted, the real problem with that attitude is that in fact, there is no bunker. The economy of Ohio and the Midwest affects us in a couple of ways:

- ◇ In part because the state remains by far our largest employer, and if the state doesn't have the revenue to maintain all those jobs, our job market suffers. Ohio's total state employment peaked in May 2006. Since then, it has declined 8,500 jobs – 5 percent. Nationwide, state government employment is up 4.8 percent and has continued to grow through the recession.
- * We have fared better than Ohio as a whole because state government education – OSU, Columbus State, and the OSU and OU branch campuses – is a relatively large share of our total employment and it has added jobs. Other state government employment here in the MSA is off 3 percent.
- ◇ More important, many businesses in the region serve statewide and Midwestern markets. If businesses in those markets suffer, so do we.
- ◇ Analysis both by Community Research Partners and by me has shown that although we are doing well compared to other big Midwestern metros, metros in other parts of the country have done much better by various measures, especially broad economic growth – Austin, Raleigh, Seattle, and Portland, for instance.
- * We can't say for sure how much Ohio's and the Midwest's weakness is affecting us, but it certainly makes sense to think that it is.

- To a greater or lesser extent, all the Midwestern states that surround the Great Lakes and straddle the Mississippi are in the same boat that Ohio is – weak employment growth, weak output growth, weak population growth.
 - This is the point of a book that I want you all to read, if you haven't already: *Caught in the Middle: America's Heartland in the Age of Globalism*, by Richard Longworth. He is a native Midwesterner, senior fellow at the Chicago Council on Global Affairs and Distinguished Visiting Scholar at DePaul University.
 - ◇ He gave a lecture at Ohio Wesleyan last October, which is still available to view in their lectures and special events archive. I am hoping that we can have him here at CMC sometime.
 - Longworth traces the Midwest's troubles to two things:
 - ◇ The first is the decline of manufacturing employment. As I have pointed out here in previous years, this is due more to efficiency gains from retooling than it is to offshoring, but it has still resulted in significant income declines for many households that ripple through local economies as these households' spending declines.
 - ◇ The second is the decline of agricultural employment as farms achieve economies of scale by growing ever larger. The little farm towns that grew up to serve the farm households in the surrounding area lose their business base as well.

- ◇ Both these trends are ultimately caused by globalization and the need to remain competitive.
- Longworth's solution is not to fight against globalization – which is pointless – but rather to embrace it. He points to Chicago as one city that has reversed a death spiral and become successful by doing exactly that.
- Longworth argues that we in the Midwest need to think and behave more as a unified region as we compete globally. The key really involves both leveraging our strengths and celebrating our identity.
- ◇ We in Columbus need to recognize that our true rivals are not Indianapolis or Cincinnati or Minneapolis. They are Mumbai and Dublin and Shanghai. We need to attract the attention of these global markets by doing on a larger scale what we in the Columbus region are already successfully doing: We need to market our Midwestern natural resources, transportation network, workforce, and educational institutions globally and cooperatively.
- ◇ That collection of public and private universities, Longworth argues, is probably our greatest strength. He says that together these house the largest concentration of scholars in the world – the Ivy League included. To that you can add our medical, scientific, and industrial research centers – some university-affiliated, some not.

- ◇ Here is an interesting fact. If you Google “Midwestern studies” you will get a few literary sites and a couple focusing on Native American history. If you Google “Southern studies,” you will get the Center for the Study of the American South, the Institute for Southern Studies, the Center for the Study of Southern Culture, the Atlanta History Center, the Southern Growth Policies Board (which is a 15-state economic development organization) and on and on. Why, Longworth asks, aren’t we studying what makes the Midwest the Midwest? And I might add, why don’t we have something like a Midwestern Growth Policies Board?
- ◇ Studying the Midwest is much more than just a feel-good academic exercise. A serious, sustained study of our region will help us better network scholars and industry experts in order to identify strengths, weaknesses, and solutions. If Ohio’s problems mirror those of our neighbors, why aren’t we all solving them together?
 - * In a recent blog post, Longworth cites one model program that is starting at Monmouth College in Illinois. The Midwest Studies Initiative will include courses in the linkage between science and entrepreneurship; the social and economic history and current status of the Midwest; and the way that transportation has shaped, and will shape, the region.
 - * Clearly, this involves a focused, interdisciplinary effort. But isn’t it a great application of Gordon Gee’s drive for “one Ohio

State,” and isn’t it also something that would fit nicely with the collaborative atmosphere of the faculties at our smaller colleges and universities?

- One opportunity is to broaden the outstanding work that Ned Hill at Cleveland State has done in looking at the strengths, weaknesses and challenges of Ohio’s very different regional economies. This work shows that our state is not Columbus and everybody else, but that every region of our state has its own economy. One implication is that the gaps in one region can be filled by strengths in another – strengthening them both. Why not carry this sort of study beyond Ohio and gain insight into opportunities just beyond our borders – not to exploit, but to share for mutual benefit.
- The biggest barrier to making this idea work is the need for state and local governments to raise revenue. Locating businesses within their boundaries is an important way to do that.
 - ◇ Longworth rails against Midwestern state boundaries and the plethora of cities and villages and townships. He calls them an invention of the 18th Century that is totally unsuited for the 21st.
 - ◇ The fact is that they are what they are and we won’t repeal them. But here is a case where the whole is greater than the sum of its parts. Already we at the Chamber cite as a key advantage of the Columbus region its proximity to places like Pittsburgh and Indianapolis and Chicago. It follows that if those cities succeed, our proximity is a greater advantage and we benefit as they do.

- ◇ We in Ohio were disappointed when Honda decided to build its new plant in Greensburg, Indiana, not far from the Ohio line. But don't think for a minute that Ohio auto parts makers won't be among those supplying the plant. Don't think that folks in southwestern Ohio won't be among those working at the plant and bringing their earnings home. And don't think that the growth of support services in southeastern Indiana won't benefit Ohio businesses.
- Once again, the real point of all this is that if we can start to think and act more like a unified Midwest region, it will bring us all more attention and opportunity than we could ever expect acting on our own. We in Columbus will benefit as will all our neighbors.
- I invite you to make a New Year's resolution to read that book—*Caught in the Middle* by Richard Longworth. Let's have a conversation about the ideas that Longworth raises. And my best wishes for a bright and prosperous 2010.
- Thanks for listening! At this point, I will invite up my co-conspirators Joe Mandeville, George Mokrzan, and Jim Newton to take your questions. Please see your program for their bios.