A view of the Economic Road Ahead - 2018

Dr. Paul Isely
My Accuracy in Past Journeys

Annual Employment Growth West Michigan

vs

Forecast Range at Beginning of Year

Forecasted Range

2013 2014 2015 Actual... 2016 2017 2018
2017 YOY November
The smooth roads we’ll enjoy in 2018 will become bumpy, leading to new opportunities.
What are the indicators that show a smooth road in 2018?
CONFIDENCE

West Michigan Confidence Index Forecast 2018

Source: Seidman
EMPLOYMENT GROWTH

Smoothed Employment Growth Rates

Source: BLS and Isely

EMPLOYMENT GROWTH
Respondents' Anticipated Change in Employment

Source: Seidman
SALES GROWTH

PMI INDEX
New Orders

Source: Seidman and ISM
Respondents' Anticipated Change in Sales

Source: Seidman
What are the signs that the smooth road is ending?
FULL POTENTIAL

Source: BEA, CBO, and Isely
WAGE GROWTH

Average Wage Growth

Year over Year Percent Change

Average Inflation + Productivity

Source:
BLS and Isely
AVAILABLE LABOR

Pool of Potential Workers Not Working In Michigan

Source:
BEA, BLS, and Isely
RISING COMMODITY PRICES

Commodity Prices vs GDP

Source: BEA, BLS, and Isely
FLATTENING YIELD CURVE

TEN Year vs ONE Year Treasury Rates
(Yield Curve)

Source:
Federal Reserve
How is the Housing Journey Unique?
HOUSING PRICES

Source:
Seidman and Case Schiller

Remainder of Kent County — USA Case Schiller — Muskegon
NEW HOUSING

Building Permits by Year

Source: Census and Isely
VACANCY RATE

Source: Census and Isely
Young Workers

Change in Population by Age 2010 to 2016

- Allegan County, Michigan
- Kent County, Michigan
- Muskegon County, Michigan
- Ottawa County, Michigan
- Michigan

Source: On The Map

Legend: 25 to 35, Over 65
Wages

Average Weekly Wages

<table>
<thead>
<tr>
<th>Profession</th>
<th>Average KOMA</th>
</tr>
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<tbody>
<tr>
<td>Professional</td>
<td>$1,000</td>
</tr>
<tr>
<td>Manufacturing</td>
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<tr>
<td>Management</td>
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</tr>
<tr>
<td>Retail Trade</td>
<td>$0</td>
</tr>
</tbody>
</table>

Source: BLS
What are the important mile markers to watch?
THE NEW TAX LAW - STIMULUS

Deficit from Tax Law Change

Source:
Joint Commission on Taxation
THE NEW TAX LAW - DISTRIBUTION

Average Change in After-tax Income Resulting from Tax Law Change

- $1,000
- $0
- $1,000
- $2,000
- $3,000

2019 2021 2023 2025 2027

Low Income $20,000 to $30,000
Middle Income $50,000 to $75,000
High Income $100,000 to $200,000

Source:
Joint Commission on Taxation and Isely
Respondents' Anticipated Change in Exports

Source: Seidman
Source:
BEA and EIA
RESPONSES TO COMMODITY PRICES

Response to Oil Prices
(Why we have a cap on Oil Prices)

Year over Year % Change of Smoothed Index (2012 = 100)

Source:
Hughes Baker and EIA
Preparing for the Rough Road Ahead

Prepare for:

• Tougher borrowing conditions
• Accelerating compensation
• Smaller, less qualified worker pools

Plan for

• Taking advantage of a short, shallow recession