'Slow growth' builds Michigan's prospects

By Tom Henderson

A year ago, most economists looked ahead to another year of recession and a lack of logical reasons for Michigan to make an economic rebound anytime soon.

While the state's economic recovery is by no means predicted as robust for next year — and job growth will still be hard to come by — nonetheless, things are far better-positioned for next year than expected.

Economists are now using such phrases as "slow growth" and pointing to economic bright spots in the way of company performance and an expected slowdown in the bleeding of jobs that has plagued the state for several years running.

A year ago, fresh off the collapse of credit markets and with the Dow in free fall, economists were worried about a potential Great Depression II. If the U.S. somehow avoided depression, fine, but there was nothing Michigan could do to come out of recession before 2011, maybe 2012.

Yet the U.S. officially ended its recession with 3.5 percent GDP growth in the third quarter, and most economists are now saying even Michigan could likely see modest growth in 2010.

"Slow growth is still better than standing at the edge of the abyss and wondering how far you're going to fall. A year ago, if you had said we'd have 4 percent growth in the U.S. in the first quarter of 2010, people would have wondered what you were smoking," said Mitch Stapley, chief fixed-income officer for Fifth Third Asset Management in Grand Rapids.

"A bit of recovery is beginning to form in Michigan already," said Dana Johnson, chief economist for Comerica Bank. He predicted economic growth for the state in 2010 of about 2 percent, perhaps half of the pace of percentage growth of the nation as a whole.

Johnson also predicted a modest decline in the current official unemployment rate in Michigan of 15.3 percent.

"It won't be an impressive decline, but it will come off its peaks," he said.

Though Michigan's recovery and the nation's will be modest by historical standards, Johnson gave it perspective.

"A year ago, we were all wondering about the collapse. Just how bad would it be? Now, we're wondering about the recovery." Other economists also pointed to a remarkable shift in perceptions.

"I don't want to sugarcoat what's taken place in Detroit, in Michigan and in the industrial Midwest. There have been unprecedented losses of jobs and wealth. And Detroit leads the nation in the decline in home value," said Craig Thomas, chief economist for Pittsburgh-based PNC Financial Services Group Inc. (NYSE: PNC), which operates under the National City brand in Michigan.
"But there's definitely a light at the end of the tunnel. Good news has come from this pain," he said.

Thomas said that while Michigan will lag the nation, the state should come out of recession in the second quarter next year and see job growth in the third.

Thomas said there are several things in Detroit's and Michigan's favor:

- The precipitous fall of housing prices creates an opportunity for buyers.
- A continued strong influx of immigrants will fill up many houses and create demand for goods and services.
- Wages are finally competitive with the national average.
- The state has been active in attracting new business.
- The quality of the state's research universities.

"The building blocks are there," said Thomas. "While we'll never see the auto industry be such a major supplier of jobs, at least it's stabilized. There isn't a hole in the bucket anymore."

Linda Wiechowski, chair of the finance and economics department at Walsh College, said that in the long term, the state will be helped by a smarter workforce, in large part by those laid off getting retrained for new-economy jobs.

"More and more people are going back to school and training for where the jobs are. Walsh has always had an older student population, but it's gotten older. I'm seeing a lot of that (adults returning to school) in my classes," she said.

Wiechowski said while she expects the state economy to lag behind the nation's, "next year we'll see things start to turn around."

Also expected to give the job market an assist is demographic trends. As baby boomers begin retiring, it opens up jobs for some of the young people who have been having trouble landing positions, she said.

Besides job trends, there are encouraging signs in company performance and the capital markets.

David Sowerby, chief market analyst in the Bloomfield Hills office of Loomis Sayles & Co. L.P., said a lower dollar value will help the state next year.

"We're still a state that benefits from exports," he said.

Sowerby said the state also benefits from public companies that are relatively vibrant. Through mid-October, the Standard & Poor's 500 was up 18 percent, while Sowerby's spreadsheet of state companies showed an increase of 23 percent.

The state's economy, Sowerby said, finally has at least gentle tailwinds instead of headwinds. Plus, federal stimulus money is still being spent.

"We're seeing real strong bounce-back right now as the federal stimulus money works through the economy," said Fifth Third's Stapley. "That will take us through the first quarter. For the rest of the year, that depends on consumers picking up the ball and running with it. That's problematic. Layoffs continue, job growth will be slow, there's a reluctance to spend."

Yet, during this rebuilding period, there is growing interest in merger and acquisition deals and
venture-capital opportunities in Michigan. (See story, Page 16.)

James Penman, managing director of the Grosse Pointe investment bank of Donnelly Penman & Partners, said it was a good time, for example, to be buying into the local auto supply chain.

"The biggest growth market in the world for automotive will be the North American market. Most people would say Asia, but it's North America," he said. He projects auto volume in the U.S. will grow at a compounded annual rate of 9.6 percent from 2009 to 2014, compared with 8 percent in Asia and 6.5 percent in Europe.

"There are better days ahead for Detroit than people think. There are tremendous opportunities," he said.

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