

Economic Assessment & Overview of Bay County, Michigan

Completed for



Bay County, Michigan

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Submitted by

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I. INTRODUCTION

This economic assessment report of Bay County, Michigan provides an objective evaluation of the area's current economic trends and dynamics. The report relies heavily on accepted measures of economic well-being, such as employment growth and relative wages. Critical to a comprehensive assessment are comparisons to benchmarks. Throughout this report economic activity in Bay County is measured against time, the nation, the state of Michigan, Saginaw County, Michigan and Racine County, Wisconsin. Racine and Saginaw were selected by the client. Because of data limitations at the county-level, at times the Saginaw-Bay City-Midland Metropolitan Statistical Area (MSA) is used as a proxy for Bay County¹.

¹ In June 2003, the Office of Management and Budget announced new metropolitan statistical area designations for the nation. Under the new designations, Bay County is a one-county, stand-alone MSA, no longer part of the previous three-county Saginaw-Bay City-Midland MSA, of which it accounted for roughly 30 percent of the total MSA population. At this writing, insufficient data has been released to allow an assessment based on the new designations.

II. POPULATION TRENDS

In 2002, the population of Bay County, Michigan is estimated to be 109,672. The county has experienced annual declines in population since 1980, except for a two-year period between 1990 and 1992 (see Chart 1). Over the last ten years the average annual rate of decline has been -0.2 percent, or about 250 less persons per year. The rate of population decline in Bay County has roughly mirrored that of Saginaw County, whose decline has averaged -0.1 percent over the last ten years. Population growth for the state of Michigan has remained positive. Statewide, the average annual rate of population growth has been 0.6 percent per year. Nationally, the average annual rate of population growth is 1.1 percent.

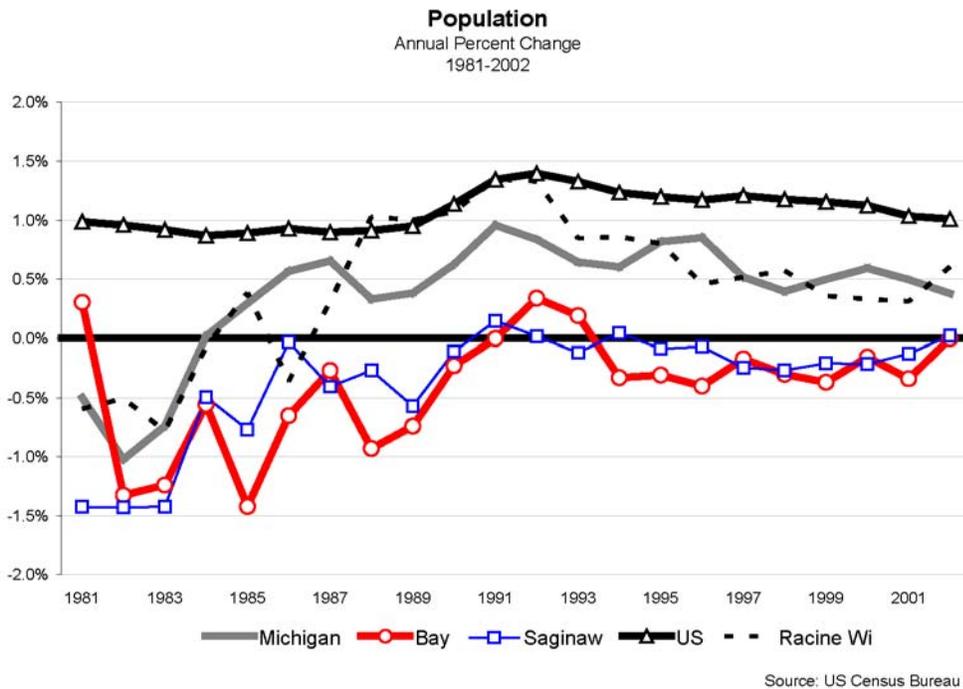
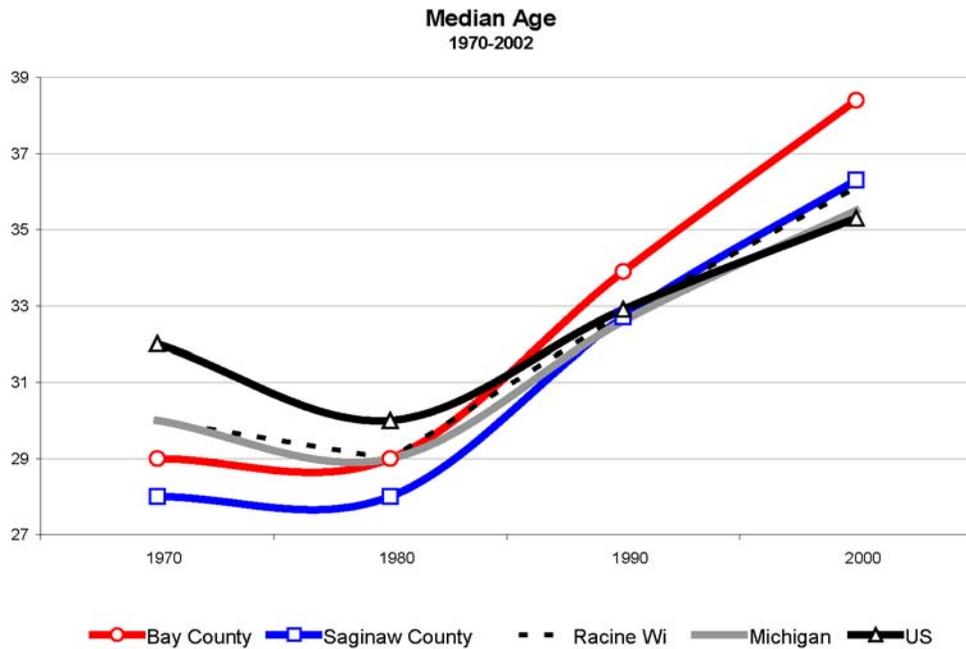


Chart 1

Relative to other selected geographies; a rapidly aging population marks Bay County. Over the last 30 years, the median age in Bay County has gone from 29, a figure four years below the national mean, to 38.4, a figure three years over the national mean (see Chart 2). A major consideration in determining the cause of this shift is that even though natural population growth (births over deaths) is positive in Bay County, net out-migration outpaces natural growth by a factor of about two-to-one².



Source: U.S. Census Bureau

Chart 2

² The U.S. Census Bureau estimates that from 2000 to 2003, Bay County experienced a net natural population increase of 638 persons and a net out-migration of 1,261 persons.

III. WAGES AND INCOME

Overall, wages in Bay County are below wages in the nation, state, and the selected comparable geographies (see Chart 3). Average wage per job is a standard measure of relative local wages calculated annually by the U.S. Bureau of Economic Analysis. The average wage per job is computed per job, not per person, with both full- and part-time jobs included. Average wage per job figures cover only jobs in that particular geography, and do not measure wages for workers who commute-out for employment. In 2002 the average wage per job was \$31,051 in Bay County. The figure is 14 percent below the national average, 17 percent below the statewide average, 10 percent below Saginaw County, and 8 percent below Racine County, Wisconsin. Except for Saginaw County, the spread between the average wage per job in Bay County and the nation, state, and Racine County, has been steadily widening since the data has been published (the U.S. Bureau of Economic Analysis publishes average wage data for the last 33 years, 1969-2002). As a benchmark, the last year in which the average wage per job in Bay County equaled the national figure was 1984.

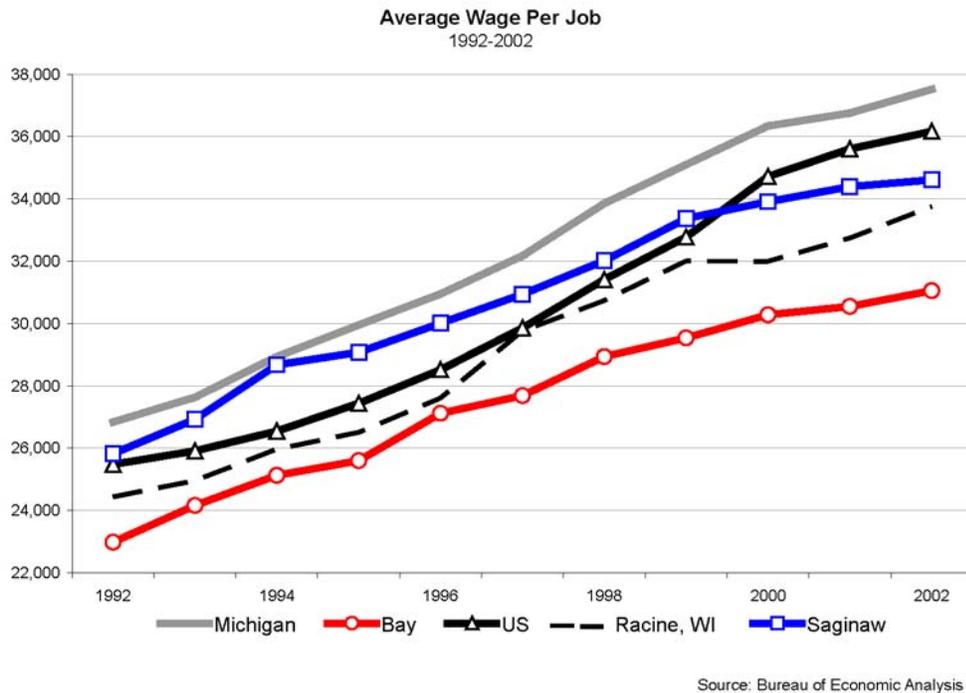


Chart 3

A measure broader than average wages per job is per capita income³. In 2002, the most current figure available, per capita income in Bay County equaled \$26,067. In a pattern similar to the average wage per job, Bay County is below the nation and state (see Chart 4). Per capita income in Bay County is 16 percent below the nation, 13 percent below the state, and 14 percent below Racine County. Per capita income in Bay County is 3 percent above Saginaw County, and has historically been narrowly higher.

A close examination reveals that the notable slow down in per capita income growth in 2001 and 2002 is caused by a stagnation of earnings growth. Saginaw County exhibits the same trend, and as this measure does account for commuting (unlike the average wage per job), this slowdown would indicate the direct impact of the 2001 recession and the close economic interaction with Saginaw County.

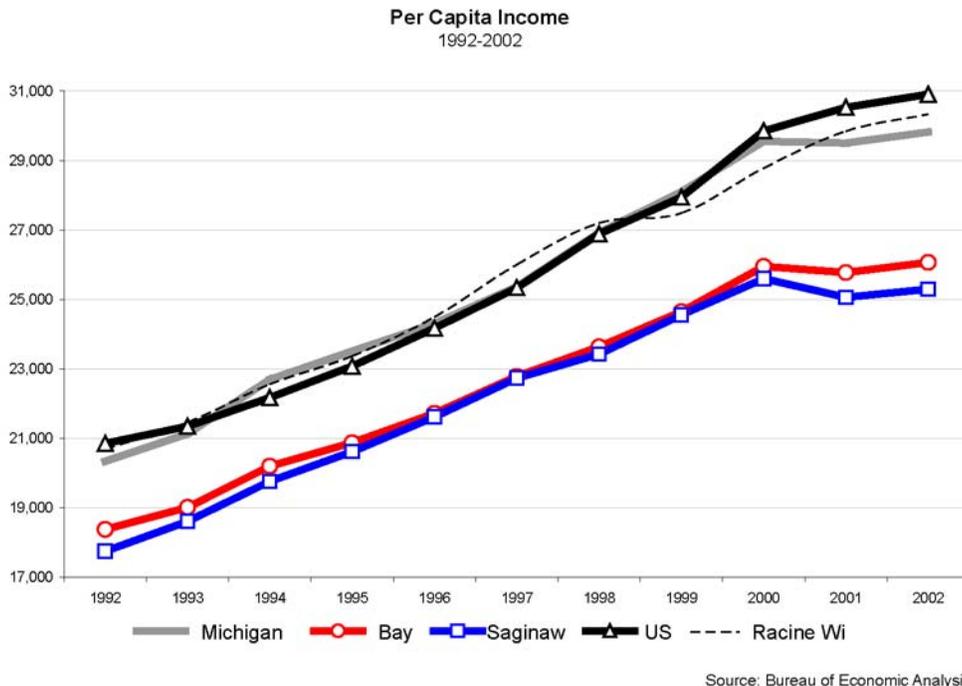


Chart 4

³ Per capita income is calculated as the total personal income of the residents of an area (including those commuting-out for employment) divided by the population of the area. In addition to wages (earnings), personal income also includes employer contributions to private health and pension funds, government employee retirement plans, lump-sum payments not received as part of earnings, transfer payments, certain in-kind transfer payments such as Medicaid, Medicare, and food stamps and all interest received by individuals

IV. CROSS-COUNTY EMPLOYMENT COMMUTING

An objective economic assessment of Bay County must address the role of cross-county employment commuting. All counties experience some amount of nonresident cross-county workforce activity, whether in-commuting or out-commuting. Cross-county workforce commuting is important because it establishes a direct link between the well-being of both counties. Economic change in one county directly flows over into the other county. Bay County has significant employment interactions with two counties; Saginaw County and Midland County (see table below). In the year 2000, 14,305 Bay County residences were commuting into Saginaw County and Midland County, presenting nine percent of their employment totals. Likewise, workforce in-commuting from Saginaw County and Midland County into Bay County totaled 6,029 in 2000, or about twelve percent of its total employment. Of significance, the degree of interaction between Bay County and the two neighboring counties has held or increased in each period from 1970 to 2000.

Bay County Cross-County Employment Commuting Saginaw County and Midland County ⁴

Out-Commuting	1970	1980	1990	2000
To Saginaw County	4,937	8,261	9,177	10,134
% Saginaw's Employment	6%	8%	9%	9%
To Midland County	2,639	2,903	4,045	4,171
% Midland's Employment	9%	8%	10%	9%

In-Commuting	1970	1980	1990	2000
From Saginaw County	1,672	1,417	2,187	3,568
% Bay's Employment	4%	3%	5%	7%
From Midland County	805	1,117	1,582	2,461
% Bay's Employment	2%	3%	3%	5%

⁴ Cross-county commuting is based on information collected from the decennial census and represents the respondent's activity only at the time of the census. Bay County residents identified employment counties other than Saginaw County and Midland County, however their amounts were not nearly as significant or consistent. For county employment totals, the U.S. Bureau of Economic Analysis's annual estimates of "place of work" employment totals were utilized.

V. TOTAL EMPLOYMENT

According to the U.S. Bureau of Labor Statistics, total employment in Bay County declined by 2,066 employees, or five percent of the total, between the period of 1997 and 2002. Bay County was particularly hard hit during the recession period beginning 2000-2001⁵, losing 1,259 jobs or more than one-half of the total net losses within this relatively brief time (see Chart 5). While these losses were large and surely caused considerable dislocation of labor, they were not unusual for the period. All geographies examined suffered sizeable losses during the episode.

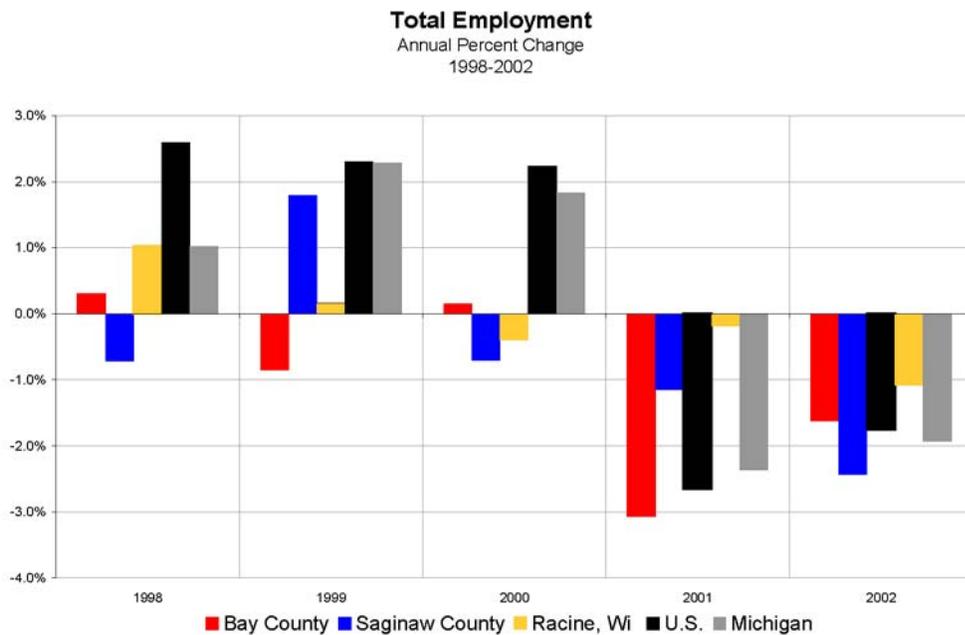


Chart 5

Of additional concern was Bay County’s lack of growth preceding the recession period, a time of relatively solid employment growth nationwide. Healthy year-to-year employment growth rates averaging 2.4 percent nationally, and 1.7 percent statewide occurred between 1997-2000. By contrast, Bay County averaged a -0.1 percent

⁵ The Business Cycle Dating Committee of the National Bureau of Economic Research dated the recession to have begun in March 2001 and end in November 2001, however a continued downturn in regional employment activity was widespread.

employment rate over the same timeframe, with the losses between 1998-1999 surpassing the small gains made in 1997-1998 and 1999-2000.

More current data reveals continuing stagnant total employment activity in Bay County. Although reliable *annual* employment figures at the county-level for 2003 are unavailable, monthly data exists through the third-quarter of that year. A comparison of October 2002-September 2003 year-to-year percent change in total employment shows that the pattern of negative employment activity is sustained (see Chart 6).

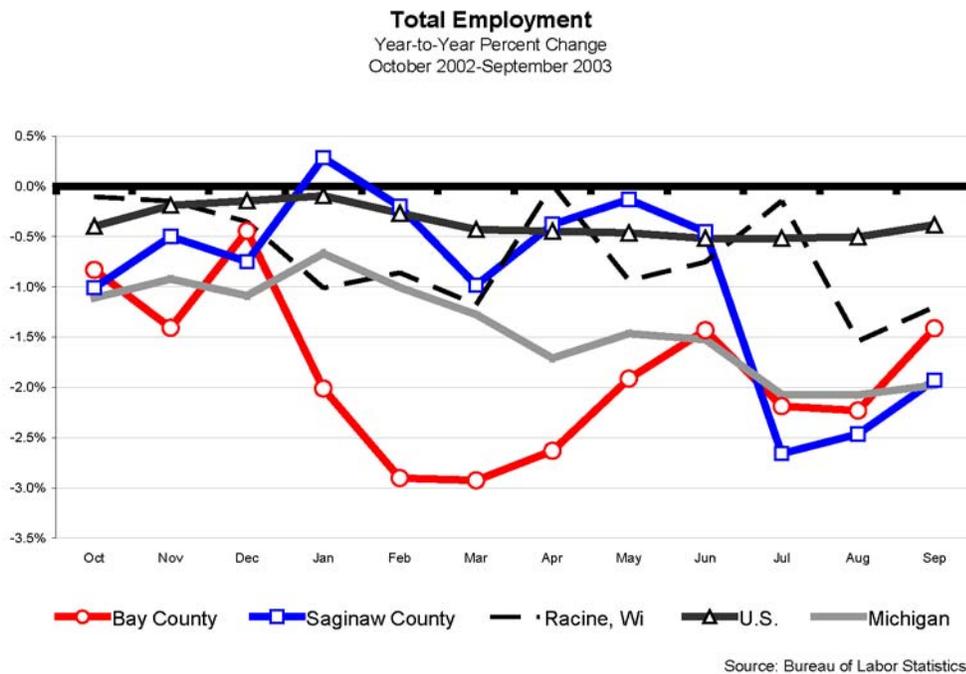


Chart 6

Finally, monthly labor force figures used to generate unemployment rates provide the most current view of total employment activity, with data published through February 2004 at time of this writing. Although the information is based on a very limited sample and subject to future revisions, employment change is still negative in Bay County for the most recent months, averaging -1.2 percent over the last 6 months.

VI. INDUSTRY EMPLOYMENT COMPOSITION

Private industry employment composition (percent of total employment in 2002) is presented to gauge economic diversity and note significant structural disparities (see table below). Overall, among major industry sectors, Bay County employment composition is by and large similar to the other geographies. One sector, retail, shows a notable disparity, with employment totals four percent above the Saginaw-Bay City-Midland MSA, and seven percent above the nation, state, and Racine County, Wisconsin. Although manufacturing, at 16 percent of total employment, is relatively high compared to the nation, it is well within line for the region.

Industry Composition (Percent Total Private Employment 2002)⁶

	Bay	Michigan	U.S.	Saginaw- Bay City- Midland MSA	Racine, WI
Construction	5%	5%	6%	6%	6%
Manufacturing	16%	20%	14%	17%	30%
Wholesale Trade	4%	5%	5%	3%	5%
Retail	21%	14%	14%	17%	14%
Transportation & Utilities	3%	3%	4%	5%	3%
Information	2%	2%	3%	2%	1%
Financial Activities	5%	6%	7%	5%	4%
Professional and Business Services	10%	16%	15%	6%	9%
Health and Private Educational Services	16%	14%	14%	17%	15%
Leisure and Hospitality	13%	11%	11%	11%	9%

Source: Bureau of Labor Statistics

⁶ Because of unclassified firms, undisclosed sectors such as agriculture, and rounding, percentages do total 100 percent.

VII. INDUSTRY EMPLOYMENT TRENDS

Industry employment trends are accurately gauged by examining net job gains and losses in the Saginaw-Bay City-Midland MSA (see Chart 7). The striking feature over the 1998-2003 period is the abrupt and heavy losses in manufacturing employment, beginning at the 2001 recession. A significant loss of well-paying manufacturing jobs typically causes a notable ripple effect throughout a regional economy. This ripple effect can be observed in the loss of jobs in the retail and construction sectors, coinciding directly with the manufacturing losses. The loss in manufacturing jobs, plus the corresponding losses in retail and construction mirror the losses observed in the total employment figures.

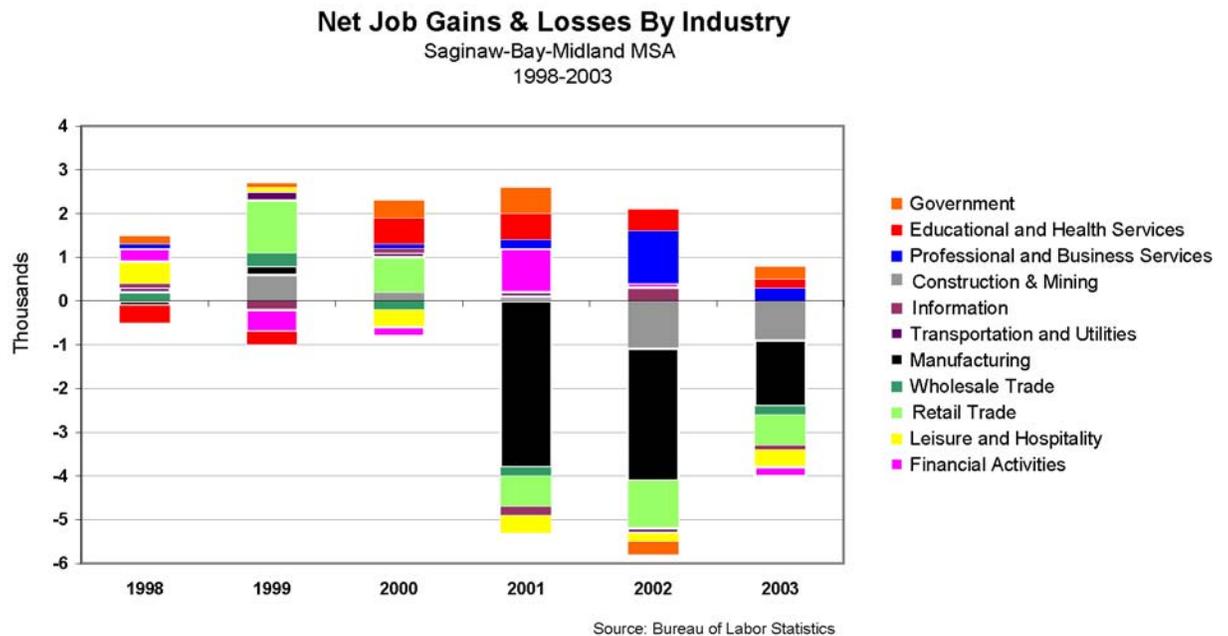
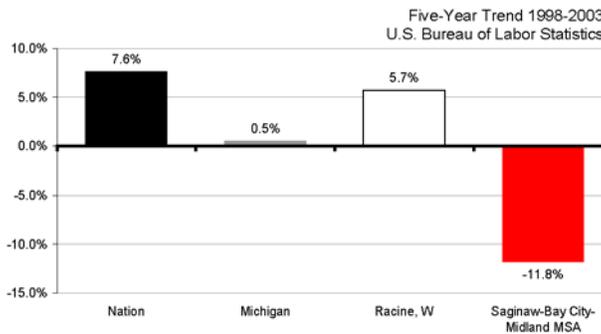


Chart 7

VIII. INDUSTRY SECTOR DETAIL

Below are eleven industry snapshots portraying general employment trends among major industry sectors over the period of 1998-2003. The snapshots are meant to provide relative comparisons with the Bay County region, the nation, state, and Racine County, Wisconsin⁷. Because of the close economic ties with the Saginaw-Bay City-Midland MSA, and the higher level of industry information available at the MSA level, it is suggested to view trends in that geography as the best proxy for Bay County. Specific Bay County detail is provided to offer detailed industry analysis over a slightly smaller timeframe, 2000-2002.

Construction



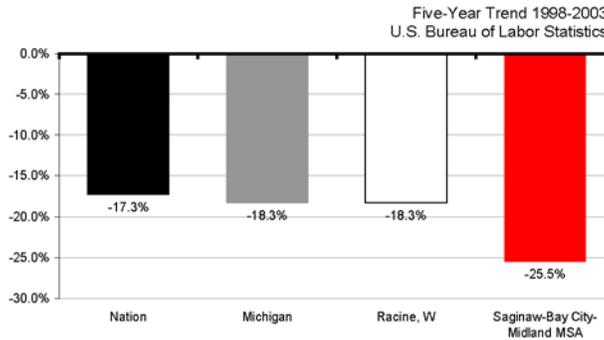
Bay County Detail (2000-2002)

Down 15% overall, construction losses have been concentrated among heavy and civil engineering construction (down 26.6%, 101 less jobs), and specialty trade contractors (down 15.7%, 186 less jobs) Construction wages are 2.5% above average wages.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, W	Saginaw-Bay City-Midland MSA	Bay County
	6%	5%	6%	6%	6%

⁷ Reporting detailed historical, yet current, industry activity at the county level can be challenging for several reasons. Because of the switch to a new NAICS industry coding hierarchy, county level reporting is only available beginning in 2000. Also because of privacy concerns, some data is unpublished at the county level. Industry information at the metropolitan statistical area level however is more complete, with some historical databases revised to NAICS groupings back to 1990. To enable an in-depth analysis of detailed industry activity for Bay County, over time and in comparison to other areas, two databases are utilized. For five-year industry trends (1998-2003), the U.S. Bureau of Labor Statistic's *Current Employment Statistics* survey was analyzed, the Saginaw-Bay-Midland MSA being a close proxy for Bay County activity. For specific county level information, the Michigan Department of Career Development - Employment Service Agency's *Covered Employment and Wages Census* from 2000 to 2002 for Bay County was analyzed. Together these sources provide an accurate and reliable overview of recent industrial activity for the Bay County area.

Manufacturing

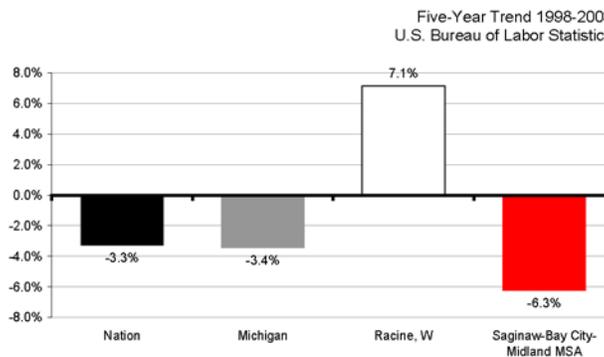


Bay County Detail (2000-2002)

Down 16% overall, the majority of manufacturing loses have been from transportation equipment manufacturing (down 19.6% or 399 less jobs), and machinery manufacturing (down -31.8 percent or 320 less jobs). Manufacturing wages are 68.6% above average wages.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, W	Saginaw-Bay City-Midland MSA	Bay County
	14%	20%	30%	17%	16%

Wholesale Trade

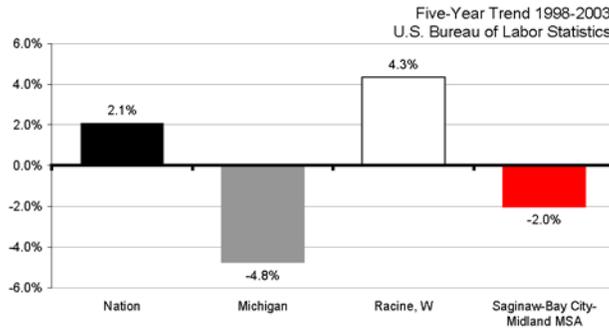


Bay County Detail (2000-2002)

Down 8.1% overall, wholesale trade's heaviest loses have been from merchant wholesalers of nondurable goods (down 16.9%, or 74 less jobs). Wholesale trade wages are 14.4% above average wages.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, W	Saginaw-Bay City-Midland MSA	Bay County
	5%	5%	5%	3%	4%

Retail

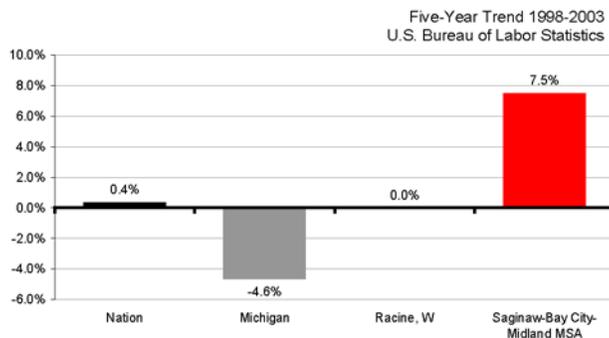


Bay County Detail (2000-2002)

Down 6.4% overall, the majority of losses in retail have been from general merchandise stores (down 9% or 204 less jobs), and food and beverage stores (down 8.4% or 115 less jobs). Retail wages are 34% below average wages.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, W	Saginaw-Bay City-Midland MSA	Bay County
	14%	14%	14%	17%	21%

Transportation & Utilities

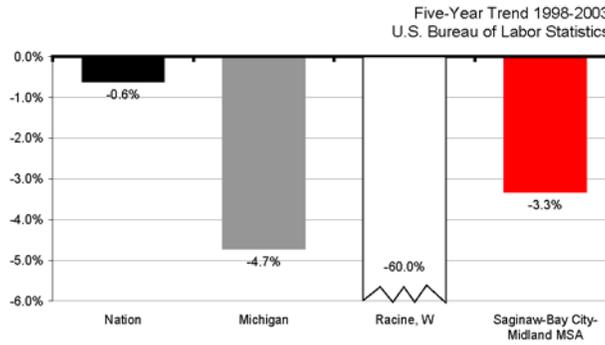


Bay County Detail (2000-2003)

Overall, transportation was up 2.8%, the largest gains from transit and ground passenger transportation (up 45.2% or 10 more jobs) Transportation sector wages are 6% below average wages. Wages and employment information for the utilities group is unpublished.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, W	Saginaw-Bay City-Midland MSA	Bay County
	4%	3%	3%	5%	3%

Information

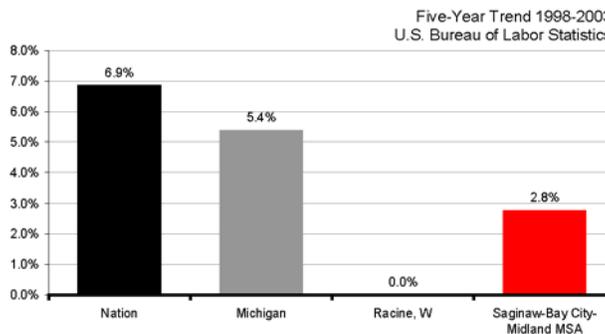


Bay County Detail (2000-2002)

Overall, information sector employment was up 2% or 87 more jobs. Information sector wages are 2% above average wages.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, WI	Saginaw-Bay City-Midland MSA	Bay County
	3%	2%	1%	2%	2%

Financial Activities

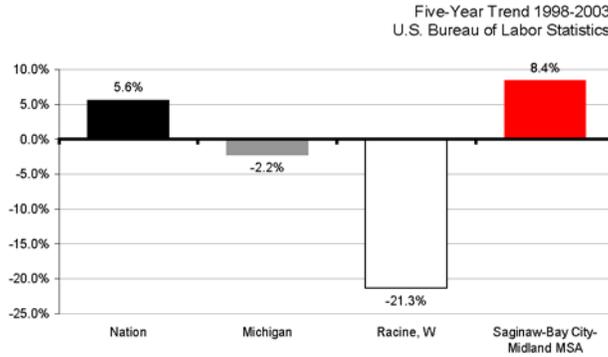


Bay County Detail (2000-2002)

Overall, financial activity employment was up 3.5% or 397 more jobs. Most employment growth was in real estate and rental/leasing (up 112.8% or 212 more jobs) Wages are at par with average wages.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, WI	Saginaw-Bay City-Midland MSA	Bay County
	7%	6%	4%	6%	5%

Professional and Business Services

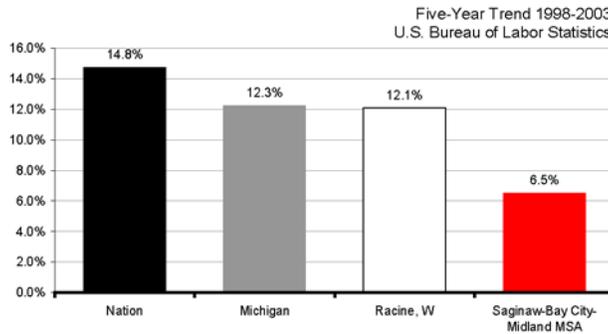


Bay County Detail (2000-2002)

Overall, professional and business service employment was down 9.7% or 224 less jobs. Information sector wages are twice that of average wages.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, W	Saginaw-Bay City-Midland MSA	Bay County
	16%	16%	9%	6%	10%

Health and Private Educational Services

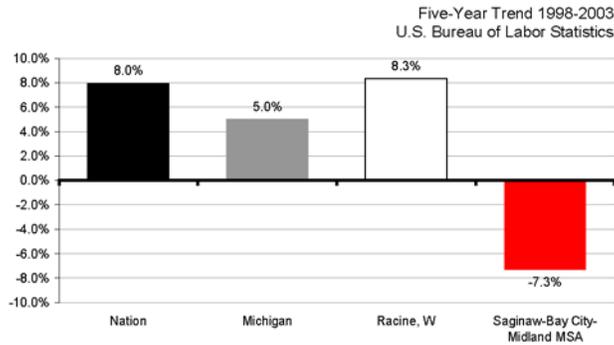


Bay County Detail (2000-2002)

Health services employment makes up 95 percent of this sector. Overall, health services employment was down 3.2% or 164 less jobs. Health services wages are 4 percent above average wages. Private educational services wages are one-half that of average wages, and saw a 27% increase, or 50 more jobs.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, W	Saginaw-Bay City-Midland MSA	Bay County
	14%	14%	15%	17%	16%

Leisure and Hospitality

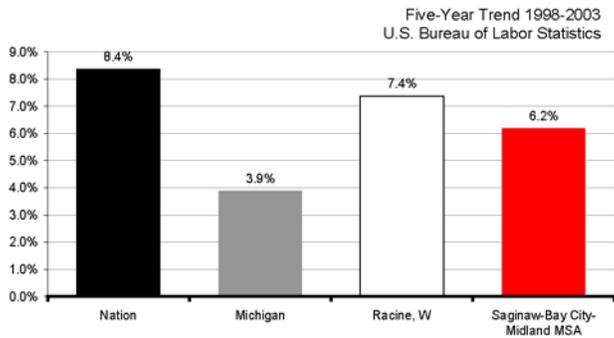


Bay County Detail (2000-2002)

Overall, leisure and hospitality employment was up 1.6% or 71 more jobs. Most employment growth was in food services and drinking places (up 29.2% or 127 more jobs). Wages in leisure and hospitality are about one-half that of average wages.

Percent Total Private Employment (2002)	Nation	Michigan	Racine, W	Saginaw-Bay City-Midland MSA	Bay County
	11%	11%	9%	11%	13%

Government



Bay County Detail (2000-2002)

County-level government employment information is unavailable.

Percent Total Employment (2002)	Nation	Michigan	Racine, W	Saginaw-Bay City-Midland MSA	Bay County
	16%	15%	13%	13%	15%

IX. SUMMARY

An aging and narrowly declining population underpins the economy of Bay County. Net out-migration is a significant feature of the area, resulting in the net loss of about 250 persons annually. Wages and income remain historically below the nation and state.

The impact of the recession of 2001 is the defining event in Bay County's current economy. Although mild growth was preexisting, the abrupt losses in 2001 have shifted the economy into a local slump, which persists today. Overall changes in total employment are negative. Relatively high out-commuting to Saginaw County and the heavy concentration of manufacturing job losses in both Bay and Saginaw Counties has led to stagnation in earnings, and a decline in the construction and retail sectors.

Despite overall losses, several industry sectors have done well over the most recent period. Bay County has experienced relatively strong gains in financial activities, as well as moderate gains in the information, transportation, and leisure and hospitality sectors.

X. Bio of Tom Tveidt, CSG research economist

Tom Tveidt is the research economist for the CSG, and President and Founder of Clear Economics, LLC, a firm dedicated to the collection, analysis and presentation of accurate regional economic and demographic information. Clear Economics, LLC is unique in its commitment to making complex economic issues understandable to the general public. Clear Economics, LLC is a strategic affiliate of the Competitive Strategies Group.

Tom also serves as the Director of the Asheville Metro Business Research Center in Asheville, North Carolina, where his publications on regional economics enjoy a monthly readership of about 13,000 persons. He regularly speaks before business groups, government organizations and public groups, detailing regional economic trends and issues. Mr. Tveidt is frequently quoted in newspapers, business journals, and TV news programs.

Tom has been an invited instructor for both the National Association of State Development Agencies (NASDA), and the American Chamber of Commerce Researchers Association (ACCRA). His courses focus on the accurate and effective presentation of economic data.

Currently Mr. Tveidt sits on the Editorial Review Board for the journal *Applied Research in Economic Development*, published by Georgia Southern University's Bureau of Business Research. Tom is an active member of ACCRA and the National Association of Business Economics.

Mr. Tveidt has a BA in Economics from the University of California, Santa Barbara, California and an MBA in Finance from California Lutheran University in Thousand Oaks, California.