Webinar/Podcast Title

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| Speaker 1: | Good morning. Welcome back to the Inside Outside Guys with Chuck and Ken. We have a special treat for you today. We are sitting with Jim Baird, partner with Plante Moran Financial Advisors and Chief Investment Officer and Investment Committee chair. Also with us is Eric Bufus, State of Michigan Chief Economist and director of the Office of Revenue and Tax Analysis in the Michigan Department of Treasury. |
|  | Guys, the overall economy is quite strong. Growth in the first quarter slowed but the reason for the slow down and should be taken with a grain of salt. Can you tell us why? |
| Jim: | Absolutely. I think that's absolutely the case. And when we say it's slowed — it's slowed modestly from the prior year. But there's been an anomaly that's really been in place dating back the past few decades. You would expect that the Congress in Washington would figure out a way to adjust for this but thus far, it remains a little bit of a mystery as to what the cause is. Nonetheless, if you look back over the past few decades, the first quarter of the year, the growth has typically lagged the remainder of the year by about 1.2%. So, even when we see a first quarter turn of about 2.2%, if the rest of the year picks up as I would anticipate, I think we're still headed towards a pretty good growth this year. |
| Speaker 1: | I like that. Eric, where do see that specific to the state of Michigan? |
| Eric: | Yeah for the state of Michigan we have a very positive forecast for the rest of the fiscal year. We have a seen a little bit of a slowdown in our unemployment rate. Mostly, like Jim said, related to some of the seasonal adjustments and some of the ways that the statistics are gathered. So, we have our unemployment rate is slightly above the national rate right now. But, that's not for bad reasons. We've seen the labor supply continue to grow in Michigan, and we are very historically low levels. |
| Speaker 2: | So, the jobs market is doing well but it's getting harder to find qualified candidates. We all agree on that? |
| Eric: | Absolutely. |
| Speaker 2: | How's the outlook from your perspective nationally and then maybe at the micro, or macro I should say, Michigan? |
| Speaker 1: | You know I would echo Eric's thoughts there. I mean, I think the outlook is very good. Nationally, the unemployment rate down to 8.3%. Quite low by historical standards. I think you have to go back 17 years to see that the last time. If you get much below that, you're really looking back much further than that I think into the 1960s. So, job creation has remained quite robust, and certainly we've seen it across the country; and it varies by region; it varies by industry. But it's been building for a little bit of time here that it's becoming harder to find qualified workers. And if anything that could become more of a challenge in terms of continuing to see the jobless rate come down. What it speaks to is perhaps the need for some additional training to get those other workers into the work force. And then, one other thing I would note there is, I think going back to 2008, and the aftermath, there was a number of people that left the workforce just because it becomes so difficult to find a job. |
|  | There's a potential that you could see some of the people start to re-enter the workforce. And that could provide and additional pool of labor for employers moving forward. But again, the problem was the training requirement. |
| Speaker 2: | Eric, would you say the same thing is mirrored in Michigan? |
| Eric: | Yeah, we definitely see that same situation here in Michigan. Specifically in the southeast Michigan area. We've seen strong job growth specifically in the construction industry. We added 8,000 new jobs last year. So, we've seen really good growth but in talking to a lot of the people that are doing this work, they have a lot more room to hire but they just can't find the right people and the right skills available. That is something in Lansing they're trying to work on with the Marshall Plan for Talent. In dedicating additional resources to closing that skills gap. |
| Speaker 1: | Now, Jim we have a lot of good news out there. Inflation is likely to heat up, but it's been at a gradual pace. I'm guessing that's a good thing? |
| Jim: | I think it is, absolutely. And, it's been building slowly over the last few years. You think back a few years ago and there was a discussion around deflation and the concerns around that. And, I think that is clearly in the rear-view mirror now. That is not a concern. |
| Speaker 2: | We've been blaming the economists for the inflation. How do you see that? |
| Eric: | No, we definitely see that same situation in the southeast Michigan region. The Detroit Consumer Price Index has slow modest inflation growth, which is healthy for the economy and not a reason for concern. |
| Speaker 1: | So, the higher commodity cost of labor costs right now are not a major concern? |
| Eric: | Not a major concern [crosstalk 00:04:35]. |
| Speaker 2: | I mean, all the consumables in the construction industry have been going up in price so that's got to be one of the parts of the bow of the ship on that, right? |
| Jim: | It is, and I do think that those issues in particular are ones to watch in the quarters in the next few years. We talked about the tightness of the labor market, and I think you're starting to see wage pressures start to build. That's been one of the weak spots in the labor economy for the past decade. Even if job creation is strong, wage growth has been pretty lackluster. And there's a number of indicators now that that is starting to turn. |
|  | Anecdotally, I had the opportunity to speak a couple days ago with a gentleman who runs a manufacturing company on the other side of the state. And he pointed to that specifically as one of the biggest challenges they're facing right now. The need to go and raise wages not by a small amount but by a meaningful amount to keep their current talent. Anecdotally, you hear it elsewhere as well. So, I think both in terms of the numbers and the stories we hear, that is one thing that labor market perspective is changing. And I absolutely think it will filter through to inflation over the next several quarters and probably well into 2019. |
| Speaker 2: | So would you both agree that the outlook in the immediate future and on into the next few years is great for the construction industry? |
| Eric: | I think especially here in the Detroit region we're expecting continued growth or a number of large-scale projects that are just getting under way locally. Specifically a number of the projects in downtown Detroit with some additional funding from the transformational Brownfield incentives at the state level. Those are really picking up, and we expect that to continue over the next two years. |
| Speaker 1: | So, it's really good to see, not just the residential market picking up, but the commercial markets picking up at maybe even a faster pace? |
| Eric: | I think so. In the data I look at it certainly seems like the commercial market is really taking off in the city. |
| Speaker 1: | If I'm someone out there trying to think of a career, why would I want to get into the housing or the building business? |
| Eric: | I think looking at the numbers it's a really great profession to have. The earnings potential quickly without incurring it all that student debt is something that really should be attractive to recent high school graduates. There are a lot of great careers and professions that you can have in the building and trades. |
| Speaker 2: | Absolutely. Do you say the same thing Jim? |
| Jim: | I couldn't agree more. And it's interesting, I've had this discussion with a number of folks recently. I certainly am pro-education and love to see kids that are appropriate to go to college and who want to pursue a degree in a field that will allow them to make a living to do so. The flip side of that is that you see all too often somebody coming out of school with a degree but a mountain of debt that they can't in turn earn a living [crosstalk 00:07:34]. I was fortunate enough to be here three years ago and discuss even then with a number of the folks that were here the challenges that they were finding to find qualified workers in the trades. It is great opportunity for skilled workers coming into the workforce today to learn a trade that will allow them to make good living for decades to come. Going back to the aftermath of the housing crisis, when you saw the implosion in the industry, anything after that, there were so many that left the industry that's left this void today. I really do see it as a great opportunity for somebody who has an interest, who has the skills to make a good living for themselves. |
| Speaker 2: | Well, maybe the Inside Outside Guys can partner with you guys to get the word out over the next few years to all these young people that might be able to step into a great career and a great living. |
| Jim: | Absolutely, no question. |
| Speaker 1: | Yeah, whatever we can do to maybe to bring more of the skill trades back to the schools and get these kids started younger would be better okay. [crosstalk 00:08:29] |
|  | Jim Baird, partner with Plante Moran and Eric Bufus from the State of Michigan we greatly appreciate you guys sitting down with us today. You guys have a great day. Enjoy your breakfast. |
| Jim: | Thanks gentlemen, we'll be in touch. |