The Rotary Club of Flint & UM-Flint’s School of Management welcome you to

The Economic Forum

December 12, 2014
The Economic Forum
Quick and Dirty Overview

• Average 2014 net new job creation: 241,000/month
  – 2013: 194,000/month
• Average 2014 economic growth: 4% for q2 and q3
  – Last two quarters of 2013: just under 3%
• November 2014 unemployment rate: 5.8%
  – November 2013 unemployment rate: 7.0%
• Economic indicators have improved from the previous year, but...
• Summer 2014 NBC/WSJ poll: 49% of Americans believe the economy is currently in a recession.

Change in GDP in Recessions and Recoveries

Source: Minneapolis Federal Reserve District Bank
Change in Employment in Recessions and Recoveries

Source: Minneapolis Federal Reserve District Bank
U3 if no labor force exit

U3

U6

5.8%

10.3%

11.4%
Civilian Employment-Population Ratio

Source: US. Bureau of Labor Statistics
Shaded areas indicate US recessions - 2014 research.stlouisfed.org
An Unbalanced Recovery

Most of the jobs added during the recovery have been in lower-wage industries.

Jobs lost
From employment peak (Jan. '08) to low (Feb. '10)

Jobs gained
From employment low (Feb. '10) through Feb. '14

MILLIONS OF JOBS

LOWER-WAGE JOBS
Median hourly wage
$9.48 – $13.33

MIDWAGE JOBS
$13.73 – $20.00

HIGHER-WAGE JOBS
$20.03 – $32.62

Source: National Employment Law Project

Source: “Recovery has created far more low wage jobs than better paid ones,” New York Times, 4/27/14
Annual Auto Sales (millions of units)

Source: Wards Auto Data
Sectors as shares of the U.S. and Michigan economies (data is from 2012)

- Durable Goods Manufacturing:
  - United States: 6.6%
  - Michigan: 14.3%

- Automotive Manufacturing:
  - United States: 0.8%
  - Michigan: 7.6%
Break-Even Price of Oil $/barrel

- Saudi Arabia: $99.20
- Bahrain: $136.20
- Oman: $100.70
- Nigeria: $126.20
- Russia: $100.10
- Venezuela: $162.00
- Iran: $126.00
- Iraq: $103.00
- Kuwait: $54.00
- UAE: $89.00
- All (OPEC): $110.00
- Current Price (12/5): $66.06
Conclusion

• Expect similar performance for employment and GDP going into 2015 (absent some external shock)

• The budget deficit and entitlement spending continue to be problems.
  – SSDI trust fund depleted by 2016, OASI trust fund depleted by 2033, and Medicare hospitalization trust fund depleted by 2030

• Oil prices will be beneficial for the U.S. consumer and will make the 2015 geopolitical scene very interesting.
Global Outlook and the Impact on the US Economy

2014 GDP Growth Forecasts

- Greater than or equal to 6%
- Between 4% and 6%
- Between 2% and 4%
- Between 1% and 2%
- Between 0 and 1%
- Less than 0
- Insufficient data

[Map showing global GDP growth forecasts]
Global Outlook and the Impact on the US Economy

Emerging Market Private Capital Inflows, Net
percent of EM GDP

- EM Europe
- Latin America
- MENA
- EM Asia ex. China
- China

Source: IIF.
Global Outlook and the Impact on the US Economy

Seven Euro-Area Member States Are in Deflation

Percent, year/year

NOTE: Euro area harmonized CPI as of September 2014.
SOURCE: Haver Analytics.
Global Outlook and the Impact on the US Economy

Japan’s growth experience and projections

[Graph showing World Bank (WB) Forecast for Real GDP (at 2005 Prices) Growth (% Change) from 2008 to 2015.]
Global Outlook and the Impact on the US Economy

Top 10 emerging markets with largest middle class

<table>
<thead>
<tr>
<th>Country</th>
<th>Middle class population</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>230 million</td>
</tr>
<tr>
<td>Russia</td>
<td>80 million</td>
</tr>
<tr>
<td>Brazil</td>
<td>70 million</td>
</tr>
<tr>
<td>Mexico</td>
<td>40 million</td>
</tr>
<tr>
<td>Argentina</td>
<td>30 million</td>
</tr>
<tr>
<td>Turkey</td>
<td>25 million</td>
</tr>
<tr>
<td>Ukraine</td>
<td>20 million</td>
</tr>
<tr>
<td>Poland</td>
<td>20 million</td>
</tr>
<tr>
<td>India</td>
<td>20 million</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15 million</td>
</tr>
</tbody>
</table>

Source: Kandogan & Johnson (2014)
Global Outlook and the Impact on the US Economy

Opportunity: Free trade agreements

TTIP - Transatlantic Trade and Investment Partnership (EU-US free trade agreement)

TPP - Trans-Pacific Partnership (Japan, Malaysia, New Zealand, Vietnam)

Others?
Bill Bergman
Government Financial Conditions:

What Do We Know, and When Do We Know It?

Bill Bergman
Truth in Accounting
Flint Economic Forum
December 12, 2014
Truth in Accounting

• Mission – to educate and empower citizens with understandable, reliable, and transparent government financial information

• Founded by Sheila Weinberg in 2002. A CPA, initial concern with quality/truthfulness of federal government financial reporting.

• Main growth in recent years – analysis of 50 state governments

• New initiatives -- federal, as well as local, government financial reporting
Why do we see a need for this?

• Citizens not getting truthful or timely government financial reports

• Government reports are underreporting expenses, and debt

• Tax burden being shifted to future generations, as government leaders buy current electoral success without current taxes
“the ability to run deficits lets politicians have the pleasure of spending (getting votes) without the pain of taxing (losing votes)”

– Francis X. Cavanaugh
Balanced budget requirements – a solution?

• Theory vs. reality

• There are words, and there are deeds
Why Are Balanced Budgets Unbalanced?

• Budgets cover a subset of all government activity

• Cash vs. accrual-basis accounting

• Debt proceeds sometimes treated as “revenue”, or “funds expected to be available”

• Promises/projections vs. results. There are words, and deeds.
So, how do we go about our mission?

• Financial State of the States
• State Data Lab
• New Federal Project
• Morning Call
• Reports / Articles / Outreach
State Data Lab

- Provides economic, demographic context for state government financial conditions
- Charting, data tools helping you compare, contrast your state with others
- 150+ data series, examples include population, migration patterns, labor market, GDP, legal environment, housing, employment
TIA State Finance Methodology

- Bottom line “Taxpayer Burden” – “holistic approach” considers:
  - Start with reported debt on balance sheet
  - Subtract debt related to capital assets
  - Add off-balance sheet obligations (a lot of legwork)
  - Subtract assets available to pay bills (assets less capital, restricted assets)
  - On a per-taxpayer basis – yields “Taxpayer Burden”
• Taxpayer Burden – the amount of money future taxpayers will have to pay for prior bills – without corresponding benefits.
Taxpayer Burden -- Drivers

- Age of the state
- Share of public sector workers covered by collective bargaining agreements
- Medicaid enrollment share of population
- Lawyers per capita
- Timeliness of financial report
- Voter participation
- Balanced budget discipline
Taxpayer Burden – Effects

- Liquidity impairment in Great Recession
- Share of doctors taking new Medicaid patients
- % of nonprofits reporting late payment problems
- Change in Ballotpedia “Quality of Life” index
- Trust in state government
- Outmigration
- Credit ratings
Illinois, Michigan & Indiana
Taxpayer Burden

![Bar chart showing Taxpayer Burden (Surplus) from 2009 to 2013.](chart.png)

Source: TIA and outside sources

Make charts and graphs like this to share with your friends at statedatalab.org
Interest on Debt (2005 = 1.0)
Trust in State Government – Moody’s Poll 2014
% Nonprofits Reporting Late Payments Problem

![Bar chart showing % Nonprofits Reporting Late Payments Problem]

Source: TIA and outside sources

Make charts and graphs like this to share with your friends at
statedatalab.org
Outmigration trends

United Van Lines % Outbound Shipments

Source: TIA and outside sources

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Timeliness of Annual Financial Report

![Bar Chart](image-url)
Rankings – SBEC Business Policy Index
What Do We Know?

- States systematically build taxpayer exposure, despite balanced budget requirements.

- Illinois and Michigan, particularly Illinois, rank poorly.

- Indiana a good example? Michigan moving in right direction?

- Are you this good, or just this lucky? Always a good question.
Larger cities and “Balanced Budgets”

- Indianapolis
- Detroit
- Chicago
Net Revenue -- Indianapolis

$\text{\$ in millions}$

2005 2006 2007 2008 2009 2010 2011 2012 2013

-$160$ -$140$ -$120$ -$100$ -$80$ -$60$ -$40$ -$20$ $0$ $20$
Net Revenue: Indianapolis + Detroit


Revenue in millions:
- 2005: -500
- 2006: -400
- 2007: -300
- 2008: -200
- 2009: -100
- 2010: 0
- 2011: 100
- 2012: 200
- 2013: 300
Unemployment & Real Price of Gas
Michigan vs. Texas

UR difference (right axis)
Real Price of Gas (left axis)
When do we know it?

Days to File -- Flint vs. Michigan

- Flint
- Michigan
Per-Taxpayer Burden
10 Michigan Cities

Holland
Kalamazoo
Grand Rapids
Midland
Battle Creek
Jackson
Lansing
Saginaw
Flint
Detroit
Estimated Actual Value of Taxable Property
2006 = 1.0

- Saginaw
- Holland
- Battle Creek
- Kalamazoo
- Lansing
- Midland
- Flint
- Jackson
- Series9
Unrestricted Net Position -- Flint
$ in millions
Change in Net Position
Flint vs. 8 MI City Average ($$ in millions)
Connect with us!

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