

Where are the Workers?



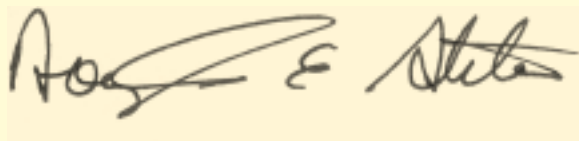
Dear Colleague:

We ask the question "Where Are the Workers?" Our aim is to prompt community leaders to generate public forums on the profound workforce development challenges that are contained in this report.

We believe it is imperative that business, education, and labor leaders begin dialog to examine the startling trends affecting the future workforce of the community. When we became aware of demographic trends that raise serious issues about the area's workforce, we commissioned a study on future worker availability. We found the data on workforce trends and projections for the future thought-provoking. The findings illustrated that the economic future of our community is at risk.

Please contact us if you have questions about the study or have suggestions related to the issues raised by the report. Thank you for your interest.

Sincerely,

A handwritten signature in black ink on a light pink background. The signature is cursive and reads "Douglas E. Stites".

Douglas E. Stites
Chief Executive Officer
Capital Area Michigan Works!

Where are the Workers?



Introduction

A chronic shortage of workers is just around the corner for the Capital Area. This shortfall in the number of workers available is likely to persist for the foreseeable future. The scarcity of workers will result from -

...the Capital Area will fall more than 8,000 short of the number of workers needed to avoid significant worker shortages by the year 2010.

There is a relative shortage of young people and, consequently, young workers, to replace those who will be retiring soon.

- 1. Economic Recovery:** For the short-term, there is a general consensus that an economic recovery will commence during 2003. The economic impact of the current downturn on the Capital Area is two consecutive years of employment decline. During these two years, the local jobless rate "jumped" from 2.5% in 2000 to 3.4% in 2001 and 4% in 2002. An economic recovery, even if delayed until 2004, could easily push the unemployment rate below three percent in the very near future.
- 2. Slow Population Growth:** The population for the Capital Area is expanding at a very modest rate - 3.5% between 1990 and 2000. This is about one-half the rate of population growth for Michigan. Based on continued limited population growth and labor market projections, the Capital Area will fall more than 8,000 short of the number of workers needed to avoid significant worker shortages by the year 2010. Factors limiting population expansion in the Capital Area include:
 - The number of births is declining and approaching the number of deaths.
 - More people are moving away from the region than are moving to the region.
- 3. A Retirement Tidal Wave:** The initial wave of the "baby boom" generation attains the age of 57 during 2003 and, therefore, is reaching the retirement age for many workers. However, this generation spans more than fifteen years and so the number of people reaching retirement age grows dramatically through the year 2015 and continues to have an impact through 2020. This retirement tidal wave significantly slows workforce expansion between 2010 and 2015 and then causes a decline in the Capital Area workforce during the following five years.

There is a unique twist to the demographics for the Capital Area. There is a relative shortage of young people and, consequently, young workers, to replace those who will be retiring soon. Evidence of this shortfall comes from the Capital Area's "replacement gap" index, which is extremely high relative to other areas. This unique demographic factor will have an impact on the area for years to come.

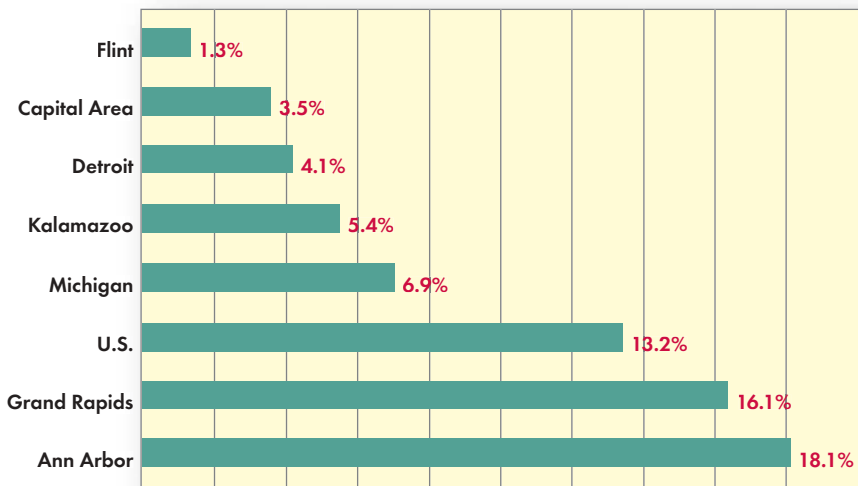
Capital Area Population Growth - Boom or Bust?

The Capital Area region has much to offer. Those who live here are pleased with its high quality of life and appeal for raising a family. The economy is healthy too. Jobs are relatively plentiful when the national economy is growing and the labor market is stable when an economic downturn hits.

As a consequence of its appealing features, many parts of the region are growing. The population in Clinton and Eaton Counties is expanding and there are pockets of growth in Ingham County. Williamston, Holt and other areas are constructing new schools. For many who live here, there is a perception that the area's population is growing adequately.

When you analyze the area regionally, a different picture emerges. The local population is actually growing very slowly. The number of people in the Capital Area increased by only 3.5% between 1990 and 2000. This is half the rate of population gain for all of Michigan and about one-fourth the rate of growth for the United States. Among selected metropolitan areas in Michigan, population gains in the Capital Area exceed only those of the Flint metropolitan area and are just below the growth rate for the Detroit metro region. Population expansion here lags significantly behind growth in the Ann Arbor and Grand Rapids metropolitan areas. Continued slow population growth for the Capital Area will ultimately affect worker availability for the region.

Population Growth in Capital Area Below Other Regions
U.S., Michigan, and Selected Michigan Metro Areas



1990 - 2000 Population Change



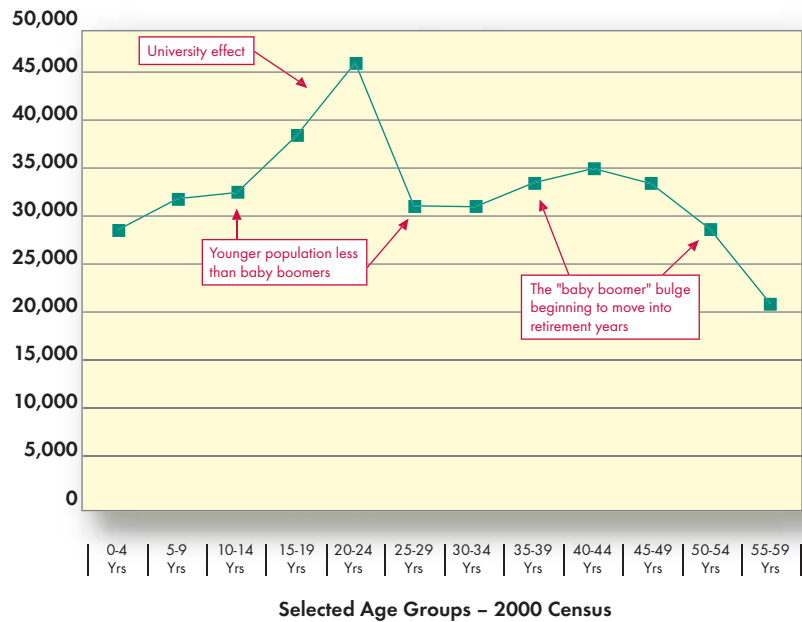


Retirement Wave in Capital Area Just Beginning

Another population fact confronting the Capital Area is the impending retirement tidal wave. The demographic pattern of the Baby Boom (those born between 1946 and 1963) is well documented. The oldest of this group is reaching early retirement age now. Those born in 1946 were 54 years of age during 2000. As a consequence, retirements in the Capital Area will grow significantly over the next 15-20 years. The younger population that follows them is smaller. These events will depress workforce growth in the region.

Data on age patterns from the 2000 Census (chart following) documents the retirement pipeline that is beginning to flow. The "boomer bulge" spans the 35-39 year old age group to the 50-54 group. These are the groups who will be retiring in the relatively near future. The population of the age group ahead of the Baby Boom - the 55-59 age group - is significantly smaller. Groups younger than the Baby Boom are generally less populous also (ignoring the "University effect"). The most striking feature of this age pattern is that the population of the younger age groups is not sufficient to offset the retirement trend of the next 15-20 years.

"Boomer Bulge" Nearing Retirement Age



Young People Declining in Capital Area

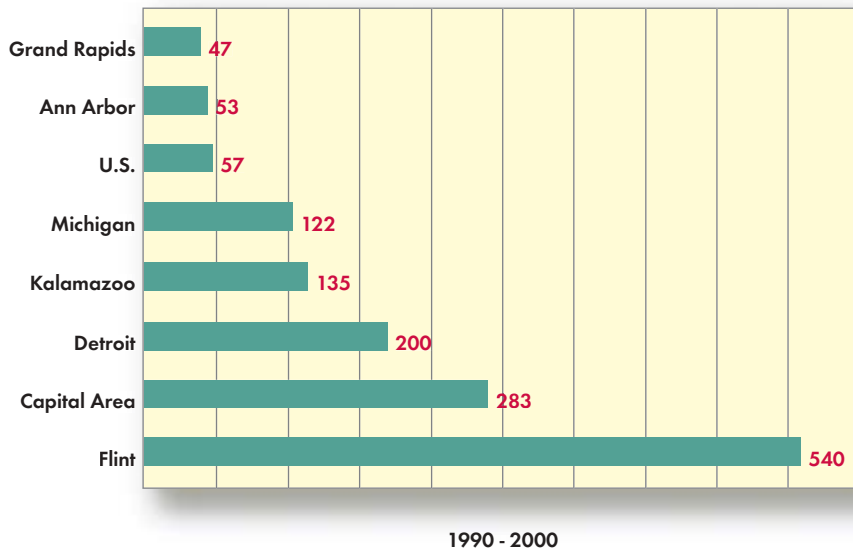
Fewer young people relative to older “boomers” is common around the country. However, the Capital Area’s inability to replace aging workers with younger ones is particularly acute. During the 1990-2000 period:

- The number of people 45-59 years of age increased by 25,200.
- The population 20-34 years of age declined by 17,300.

The magnitude of this imbalance in replacing older workers with younger ones may be measured by a “replacement gap” index. It assesses an area’s ability to make up for the large number of workers nearing retirement age (45-59 years old) with those in the prime labor force entry age categories (20-34 years old). As the following chart demonstrates:

- The Capital Area has an extremely high replacement gap with an index of 283;
- This is nearly five times the index for the U.S. and Ann Arbor and six times higher than index for Grand Rapids; and
- The Capital Area ranks with the Detroit and Flint metro regions as the only areas at 200 or higher.

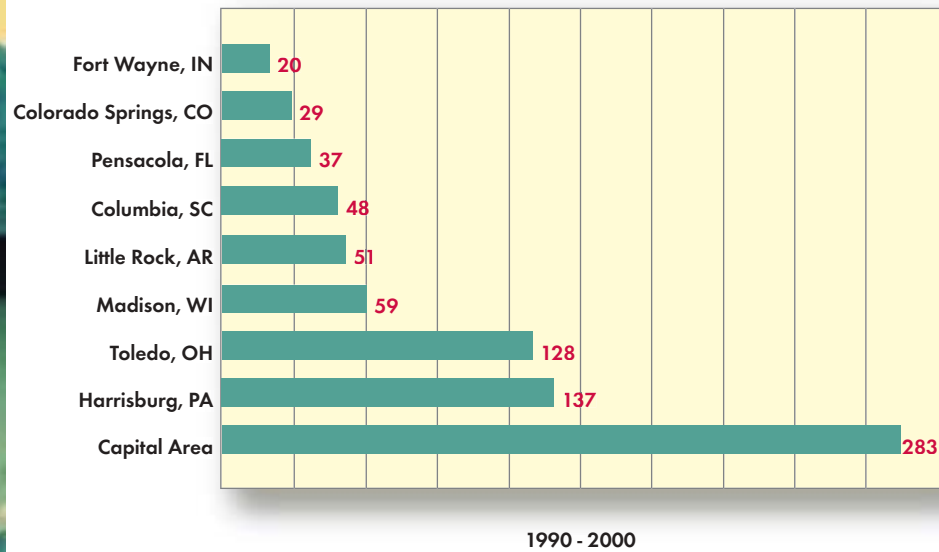
Capital Area Replacement Gap Index Extremely High





The Capital Area's replacement index is not just higher relative to other metro areas in Michigan. The following chart shows data for eight other metropolitan areas of comparable population size. None of the eight areas has an index that is as high as the Capital Area. A high replacement gap is avoided through population growth. Consequently, the Capital Area is relatively unique in its inability to replace older people with younger ones. Slow population growth in the region is the cause.

Replacement Gap Index – Capital Area Higher than Other Metro Areas of Comparable Size

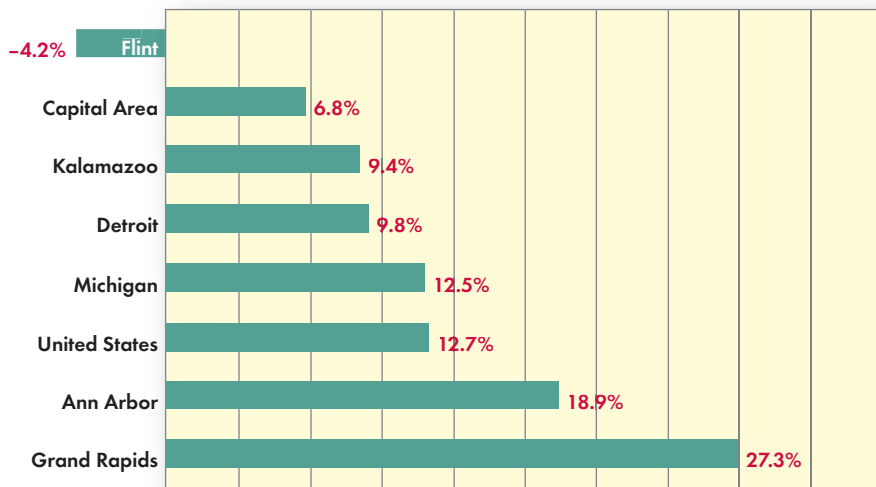


Workforce Growth for the Capital Area Slow

Workforce trends for the Capital Area reflect a pattern similar to the slow-growth population situation. Overall worker availability locally grew by 6.8% during the most recent national business cycle (1990 to 2001), well below national and statewide growth rates of about 13%. As the following chart demonstrates, only the Flint metropolitan area recorded a change below the Capital Area. As with population gains, the Ann Arbor and Grand Rapids metropolitan regions are expanding much more rapidly. While regions with populations and workforces growing at above average rates have their own challenges to confront, such as transportation issues, insufficient school capacity, demand for English as a Second Language programs, slow growth areas such as the Capital Area will realize that worker scarcity may become their leading challenge.

Workforce Growth in Capital Area Not Keeping Pace

1990 – 2001, Percent Change



...the Ann Arbor and Grand Rapids metropolitan regions are expanding much more rapidly than the Capital Area.

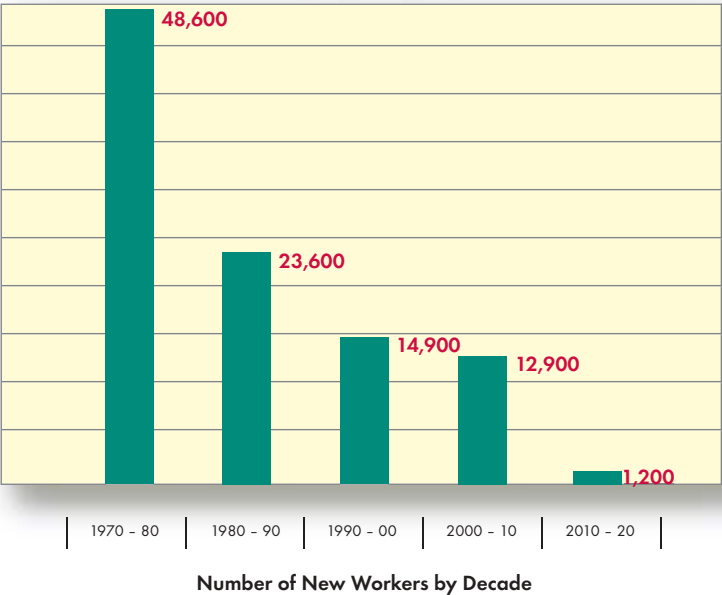




New Workers Difficult to Find

A comparison between historical workforce growth and projected change presents a marked contrast. Large numbers of new workers will no longer be added to the local labor market. While workforce growth began to moderate significantly during the 1990s, and a further moderation will occur from 2000 to 2010, new worker additions almost completely disappear during 2010-20. Only 1,200 new workers will be added to the workforce over this ten-year span.

New Workers on the Decline – Stall Between 2010 and 2020



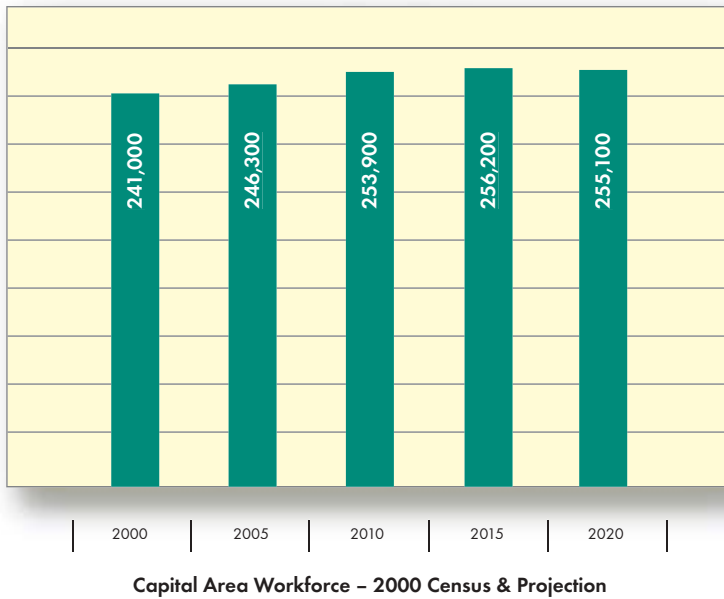
Decline in Workforce Coming

A more in-depth look at workforce trends anticipated over the 2000-2020 period indicates an even greater challenge for the Capital Area region.

An outright decline in the workforce will emerge between 2015 and 2020.

This represents the cumulative effect of the baby boomer retirements and a lack of young workers to replace them. This scenario poses a significant challenge for the region. Employment cannot expand if workers are not available.

Capital Area Worker Availability to Decline During 2015 - 20



Worker Shortage in Excess of 8,000 Possible by 2010

Although difficult to make projections of the future with great precision, it is important to try to anticipate the future in case some "call for action" may be warranted. It is possible to explore the adequacy of worker availability for 2010 through workforce projections, projected employment growth for the period, and a "target" unemployment rate of 5%. The jobless rate at this level represents the mid-point of the 4-6 percent unemployment range typically deemed "full employment."

The evidence suggests that more workers are needed. To achieve an unemployment rate of 5% requires 8,400 more workers. In other words, Capital Area needs this number of additional workers to avoid a severe worker shortage (unemployment under 2%) and possess a labor market still in the full employment range.





This look ahead to 2010 is truly exploratory - some speculation about what it might take to move out of a worker scarcity environment. There is another consideration, however. The local economy may not be able to achieve the projected 9% employment growth (only about 1% per year). A sufficient number of workers must be available to achieve these employment gains.

Projections from 2000 to 2010 – Capital Area

	Severe Shortage 9% Employment Growth	Avoid Severe Shortage 9% Employment Growth	Worker Shortage
Workforce	253,900	253,900	
Employment	249,600	241,200	8,400
Unemployment	4,300	12,700	
Rate	1.7%	5.0%	

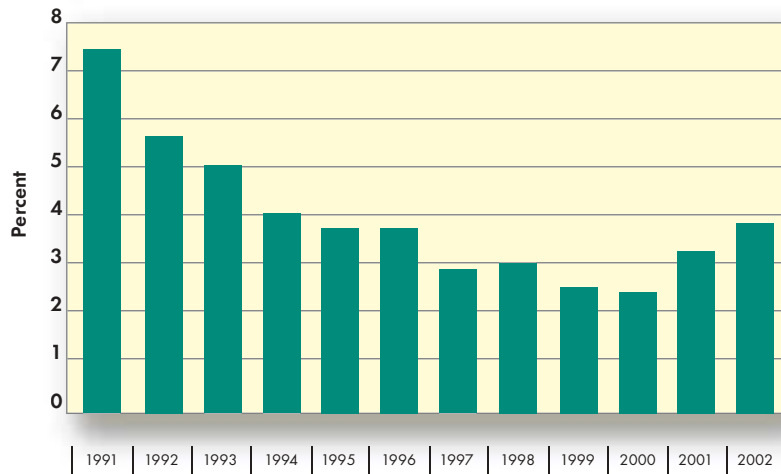
Workers Already Scarce in the Capital Area

Although many workers have lost their jobs during the current economic slump, workers remain relatively scarce in the Capital Area. The unemployment rate has been below 5% since 1995. After jobless rates below 3% percent in 1999 and 2000, and the onset of an economic slowdown, unemployment rose to only 3.4% and 4.0% for 2001 and 2002. While low unemployment is typically viewed as a result of an employment boom, the underlying dynamic of slow population growth is an important factor contributing to low unemployment rates in the Capital Area. Further, economic turnaround is likely near. Recovery of recent job losses will push the jobless rate below 4% very quickly and a robust recovery would drive joblessness back below three percent very soon.

Michigan's 83 counties ranked by lowest unemployment rates – December 2002:

- 2. Clinton (3.3%) • 3. Eaton (3.4%) • 6. Ingham (4.0%)

Capital Area Jobless Rate Below 5% Since 1995



Few Options to Grow Workforce

Options to expand the workforce are few in number. They include:

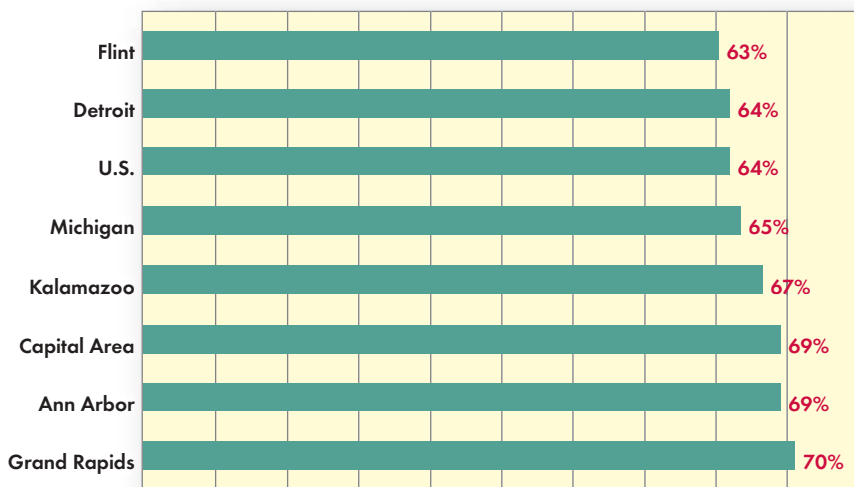
- Increased participation in the job market;
- Population gains through natural increase (births exceed deaths); and
- More movement into the area.

Capital Area Worker Participation Already High

One option to increase worker availability is to bring more area residents into the workforce. There are some people who choose not to work who might be induced to work. Still others are out of the labor market because they do not have the skills to participate, or face other barriers to employment. High school dropouts, welfare recipients, and the disabled are some of the main groups of workers who do not fully participate in the job market. Special programs could be developed to assist these individuals to join the labor force.

As the following chart indicates, however, bringing more local residents into the workforce will be a challenge. Workforce utilization (i.e., labor force participation) is already very high. The participation rate for the Capital Area is 69%, well above the rate for the U.S. and Michigan. Furthermore, it is comparable to Ann Arbor and only a percentage point below Grand Rapids areas. Nevertheless, increasing participation in the Capital Area one percentage point would add about 3,500 to 4,000 workers, a number that would grow as the workforce expands over the next few years.

Capital Area Population in Workforce at High Levels



Workforce Participation Rates

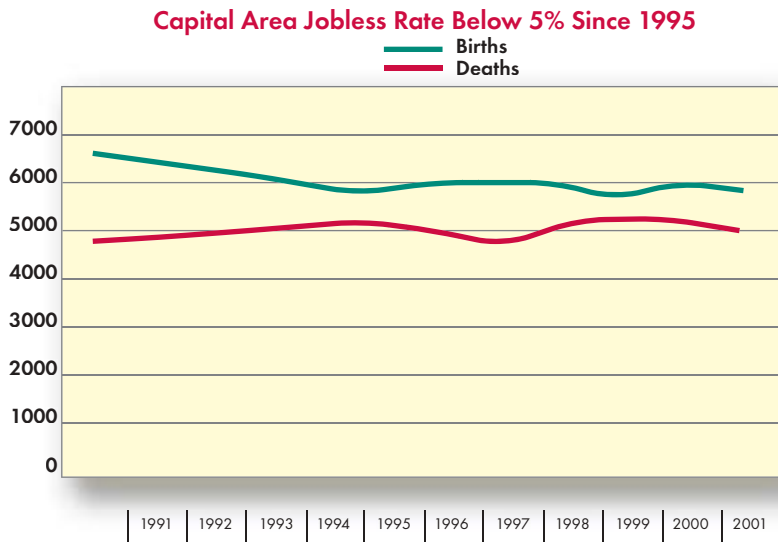




Capital Area Births Declining and Heading toward Zero Population Growth

Little population growth will come from natural increases if present trends continue. Births in the Capital Area are dropping and approaching the number of deaths:

- In the early 1990s, births exceeded deaths in a range of 1100-1800.
- By the end of the decade, the excess ranged from 440 to 700, a decline of more than fifty percent.



People Are Leaving the Capital Area

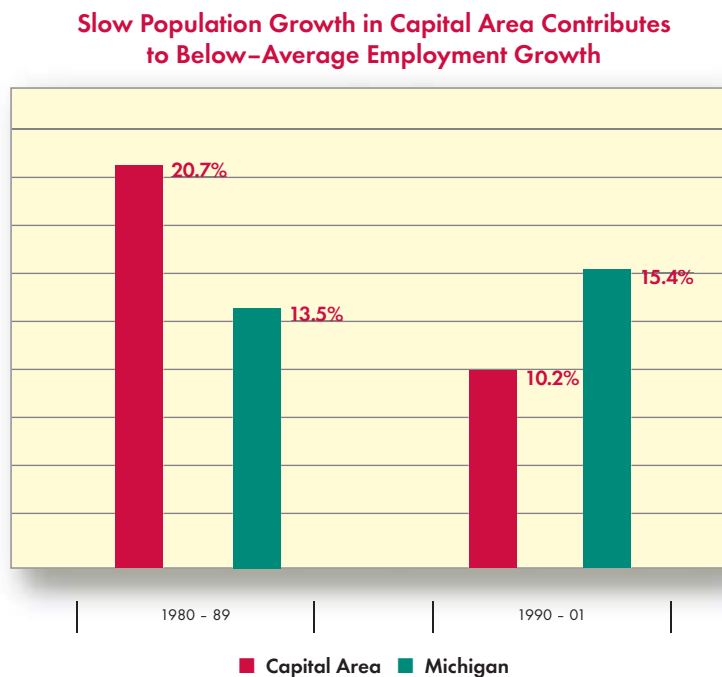
Attracting people to the region and retaining those already here are other ways to expand the local population and worker availability. However, several hundred people are currently leaving the region each year. The following table shows "net" population outflow, or migration, for the Capital Area metropolitan area between 1991 and 1999. On average, there was net movement away from the area of 2400 people per year. More people actually leave each year, since "net" migration takes into account those who move into the area. On the positive side, the data include an annual average of 500 people who move here from a foreign country. (Note: Birth and death data are excluded here.)

Conclusion

Extended periods of low jobless rates are usually deemed positive. They are common to rapidly growing areas in the Sun Belt where employment is growing faster than the workforce. Typically, more workers eventually are drawn to the area and the labor shortage situation is eased.

In other regions, notably the Plains States, low unemployment rates are symptomatic of population and employment stagnation. Capital investment in jobs is not rewarding because too few workers are available to fill them. Population growth no longer fuels job growth in the region. The economies of such areas are essentially frozen in time.

Neither of these scenarios applies to the Capital Area. However, there is cause for concern about slow population growth and its impact on the local economy and worker availability. The regional economy in the past has been an above-average employment growth center. However, the fortunes have turned. As the following chart indicates, the above-average employment growth rates of the 1980s have given way to below-average rates.



The shortage of young people handicaps the region in several ways. Young people have unique characteristics. Attracting young adults to the region is important because -

- Population growth comes from the children of young adults;
- Younger workers are newly educated and trained and, therefore, possess the high-tech and current skills of the "knowledge economy."
- They are the demographic group we are trying to attract our urban core to help us revitalize it.

The impact of worker shortages will be felt across all occupations and skill levels. Although it will still be possible to recruit some business executives, engineers, and IT professionals from outside the area, the magnitude of worker scarcity anticipated suggests this recruitment will have to occur at an unprecedented level to meet all the needs of employers in the region. Particularly hard hit will be mid-level jobs, which typically draw from the local population. So will entry-level and lesser-skilled jobs in malls and service outlets. Further, the basic skills mismatch, where workers lack adequate academic and employability skills, will worsen unless overall skill levels in the region are raised. There will simply be too few workers relative to the jobs available. Employers will be the first to recognize this trend.

There are no easy solutions to boost the population for the region. It is hard to imagine any campaign to increase average family size and births in the region. So only two options are available:

1. Increase participation in the job market among those who already live here; and
2. Draw more people and more workers to the region, including efforts to encourage people to stay here.

Employment-related programs to improve the labor market status of non-participants are well-known and fairly widespread. It is possible to identify what groups might not be fully participating. Resources to support such programs at a high level may be lacking, however.

Economic attraction and retention programs work for businesses. Whether or not such programs work for people is not clear. However, the worker availability challenge is not unique to the Capital Area. There is strong evidence that many communities in the Great Lakes and Northeast have similar concerns. It is possible to find out if any are succeeding.

The Capital Area has tackled challenging issues regionally before. The "Keep GM" effort is an example where leaders from around the region came together to get a job done. A similar effort to boost the number of workers for the region may succeed. It must include broad representation from across the region.

Unlike economic development efforts and the "Keep GM" initiative, there is no track record on what to do. Further, most workforce development initiatives are concerned with implementing a new program or expanding something that already exists. A worker attraction and retention campaign is completely different. Expect to struggle in the search for solutions and an action plan.

Notes

1. The U.S. Bureau of the Census (www.census.gov) is the source of population data (1990 and 2000 Census). Much of the data was provided by the Office of Labor Market Information, Michigan Department of Career Development.

2. The replacement gap index is developed from "Preparing St. Louis for Leadership in the 21st Century Economy," Focus St. Louis, St. Louis, Missouri, July 2002. It is calculated from the percentage change between 1990 and 2000 for the total population, the 20-34 age group, and the 45-59 age group. The percentage change for each age group is calculated as a ratio relative to the percentage change for the total population. The difference between the two ratios is the replacement gap. See www.focus-stl.org.

3. Metropolitan areas outside of Michigan chosen for the replacement gap comparison come from the U.S. Census Bureau's population rankings. Areas selected are of comparable size. The Capital Area ranks as the Nation's 93rd largest metro area. The rankings from number 60 to 120 were reviewed. A mix of state capitals, growth regions and locations in close proximity to Michigan were selected.

4. Non-census based workforce data, including unemployment rates, come from the Office of Labor Market Information, Michigan Department of Career Development (www.michlmi.org) and the U.S. Bureau of Labor Statistics (www.bls.gov).

5. The workforce projections for the Capital Area were developed using 2000 Census data on the population as the base. Younger age groups were simply aged every 5 years to produce age-specific projections for 2005, 2010, 2015 and 2020. When there was no population to age to reach 2020, data for the year 2015 was used. Since labor force projections were the goal, this use of constant data (from 2015) only affected the youngest ages of the 16+ population (i.e., the labor force age population). Adjustments were made to account for the large number of university students in the area to avoid aging, or "surviving," populations that move away from the area after completing college. Age-specific labor force participation rates were applied to the aged, or survived, population data to produce each year's preliminary workforce data. The source of the labor force participation rates is the 2000 Census for the Capital Area. The average level of net out-migration for the 1990s was subtracted from the projected labor force data after adjustment for workforce participation.

6. The projections to 2010 disclosing the 8,400 worker shortage use the 2000 Census labor force data as their base. The 9% employment growth rate was selected as follows: Employment in the Capital Area rose about 12% from 1991-2001 during a robust economy. A projected growth rate of 12% for 2000 to 2010 is optimistic. One-half this rate of growth - 6% - is pessimistic. The mid-point of 9% was selected.

7. Data on workforce participation rates (the comparison chart) is from the 2000 Census.

8. Birth and death data are from the Michigan Department of Community Health (www.michigan.gov/mdch).

9. Migration data is from the U.S. Bureau of the Census and obtained from Texas A & M University, Real Estate Center (www.recenter.tamu.edu).



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