THE ECONOMIC IMPACTS

OF county population changes in michigan

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summary report

NEW ECONOMY REPORT SERIES

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BY THE LAND POLICY INSTITUTE AT MICHIGAN STATE UNIVERSITY

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About Land Policy Research

Research and analysis is supported by the Land Policy Research (LPR) team at the Land Policy Institute. LPR constitutes the research arm of the Institute.

This report #2009-PD-03 of the LPI New Economy Report Series is the Summary Report. Its aim is to provide science-based information to local, regional, state and national policy and decision makers and others involved in place-based strategies for economic development.

Introduction

THE LOSS OF POPULATION TRANSLATES INTO THE LOSS OF ADDITIONAL ECONOMIC ACTIVITY. WHEN PEOPLE MOVE OUT OF TOWN, THE ANCILLARY SERVICES THEY USUALLY DEMAND ARE NO LONGER NEEDED, LEAVING THE COMMUNITY FURTHER COMPROMISED.

The state of Michigan faces significant economic challenges as a result of substantial losses in manufacturing jobs. Most Michigan counties have experienced economic stagnation or decline, and many have lost population due to dwindling job opportunities. In fact, Michigan, as a whole, lost 9,388 people between 2005 and 2006, 34,088 people between 2006 and 2007 and an additional 46,368 people between 2007 and 2008. Considering the current global and nationwide economic crises, these losses may continue to worsen.

The decline in population is expected to have further impacts on local economies through the erosion of demand for services that are an increasing part of the state's economy. These collateral economic impacts of population loss on local economies are not generally well-known and, hence, are the subject of this report.

Local economies have become increasingly dominated by service and other non-manufacturing activities in Michigan. Therefore, population loss now translates into a greater loss of subsequent service-related jobs. Today, a significant percentage of wages in Michigan is tied to the broader service sector. For the year 2007, while the manufacturing sector generated about $54.1 billion in wages and other income, the non-manufacturing sector—which includes services, government, utilities, etc.—contributed over $208.2 billion.

Within the broader area of services, retail and wholesale services generated about $29.1 billion in wages and other income; healthcare-related services generated about $27.5 billion; professional and technical services generated about $27.1 billion; finance and real estate services contributed about $18.9 billion; and information and transportation services generated about $12.5 billion (Bureau of Economic Analysis, 2007). Most of these services are local to the state, and many are locally delivered within a region, county or community. Therefore, a significant proportion of the spending of individuals or households that move out of a region moves out along with them, potentially creating a downward spiral in economic activity.

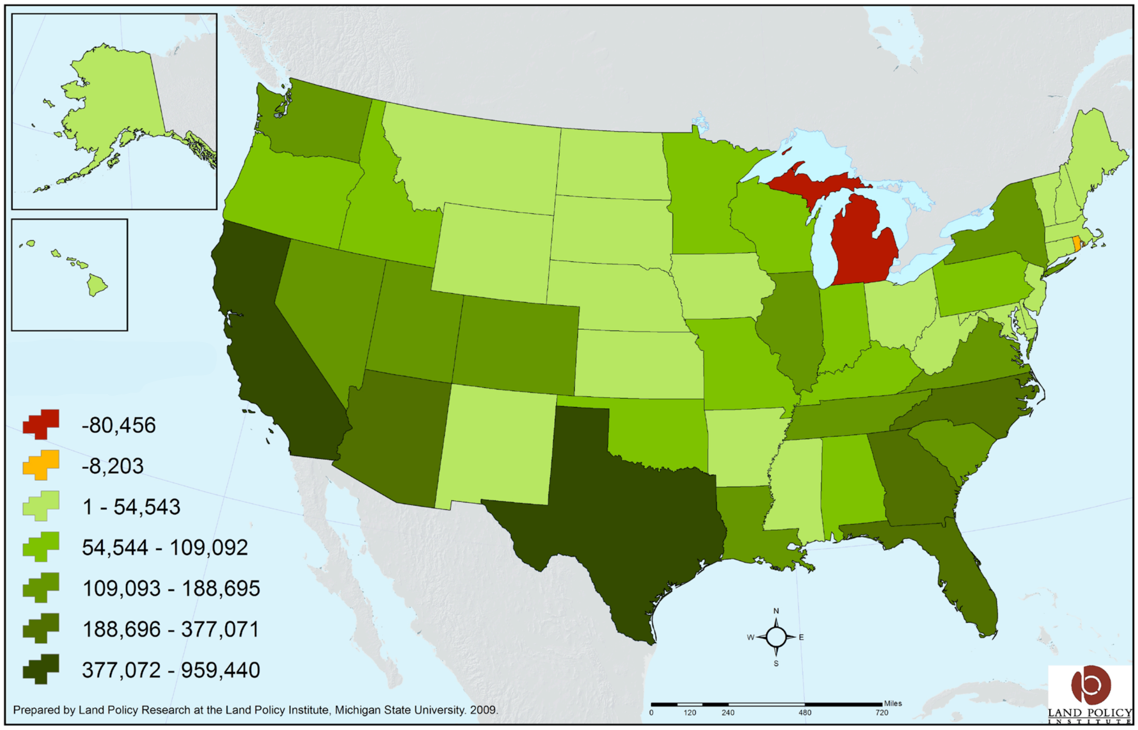
LOSING PEOPLE

As people rely more on services, their departure means that their economic impact reaches far deeper into the communities they left.

In the "Old Economy,"[1] which was manufacturing-dominated, the precursors to and primary determinants of economic success were largely traditional growth drivers, such as capital accumulation and fixed manufacturing assets, physical infrastructure to support a manufacturing-oriented economy, quality skill-based labor to maximize manufacturing productivity, managerial capacity to manage productivity and access to exhaustible natural resources to be transformed into durable and non-durable manufactured goods. These factors tended to be spatially fixed so that places pre-endowed with these assets had strong potential to achieve economic prosperity and retain economic activity. In the "New Economy," however, which is

1. LPI's *Chasing the Past* full report provides the descriptions of the "Old Economy" and the "New Economy."

County Average Population Change 2006-2008



increasingly service-oriented, economic success is driven primarily by knowledge and the ability to attract new growth (Florida, 2002). New Economy growth factors include venture capital, private equity and capital, entrepreneurship, talent and knowledge workers. These are increasingly concentrated at places with social, economic, creative and other alluring assets. More than ever before, imbalances in alluring assets drive population movement to and away from places as people seek a better quality of life.

In short, as this report and other research suggests, population growth is tied to economic growth. Thus, as is the case in Michigan, the loss in population is a major signal that prosperity is lacking in a place. Moreover, population loss in many Michigan counties in the face of growing national population is cause for concern. There is a need to better understand the sources of population dynamics, the reversibility of population shifts, and the optimal strategies for population attraction and retention.

LEAVING TOWN

Michigan is one of only two states to lose population between 2006-2008; Rhode Island is the other. Rhode Island lost 2,000 people, while Michigan lost 80,000 people.

Trends in Population Change in Michigan

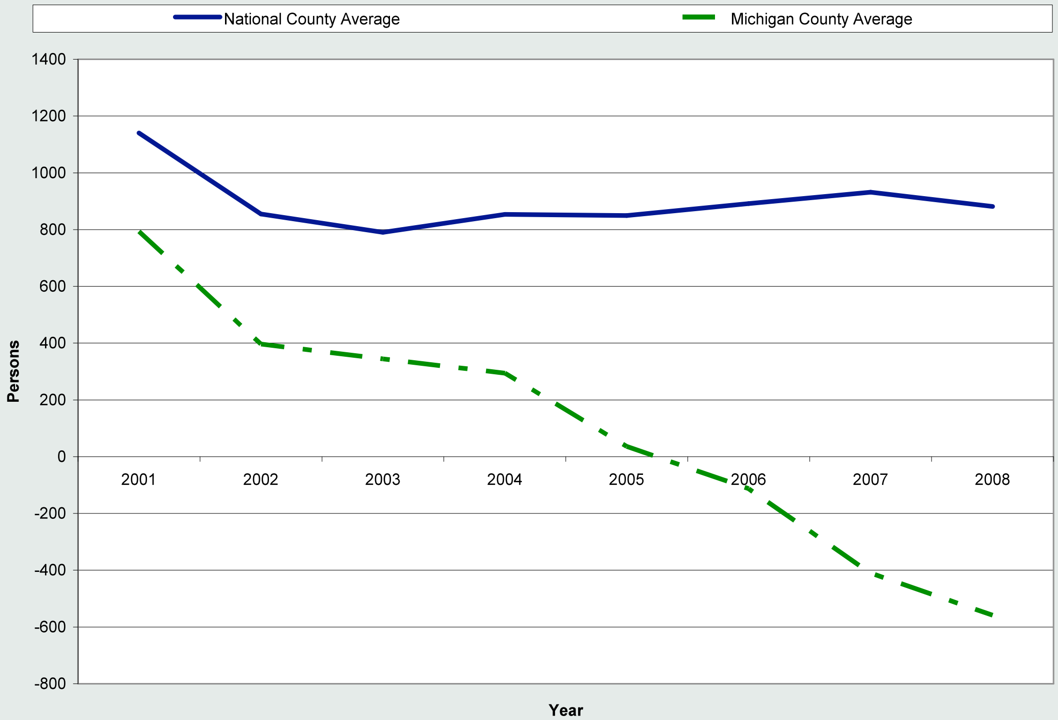
Between 2002 and 2008, the national average for county population change remained steady, with an average gain of 865 people per year (see below). However, Michigan's average county population change declined since 2001 (from about 795 in 2001 to a loss of nearly 560 people by 2008). Further, the gap between the national and Michigan averages is widening, suggesting a decrease in average county population in the state.

The average county net domestic migration is an indicator of the net changes between domestic in-migration and out-migration. With respect to county net migration, Michigan's average county net internal migration has increasingly become negative, from an average county net loss of nearly zero people in 2000 to net loss of 480 by 2004, and 981 people by the end of 2006, to an average county net loss of 1,316 people by 2008. In relative terms, Michigan has lost its population to counties in other states.

Net international migration, for the U.S. and Michigan, increased significantly from 2000-2001. United States counties peaked around 382 people and Michigan counties around 281 people. From 2001-2003, it declined to 262 people for U.S. counties and 226 people for Michigan counties. Since 2003, the net international migration has been fluctuating around 280 people for U.S. counties and about 213 people, dropping to 200 for 2007 and 2008 for Michigan counties. It, therefore, appears that Michigan has recently remained constant in attracting immigrants, but underperforms when compared to the county average for the rest of the nation.

While Michigan gained population between 2000 and 2005, 31 of its 83 counties actually lost population. More notably, Michigan itself experienced a declining population in the 2005-2008 time period, when 63 Michigan counties lost population. For the 2000-2005 period, counties with the greatest population losses were Wayne (-36,978), Saginaw (-3,585), Berrien (-2,421),

County Average Population Change



land policy institute

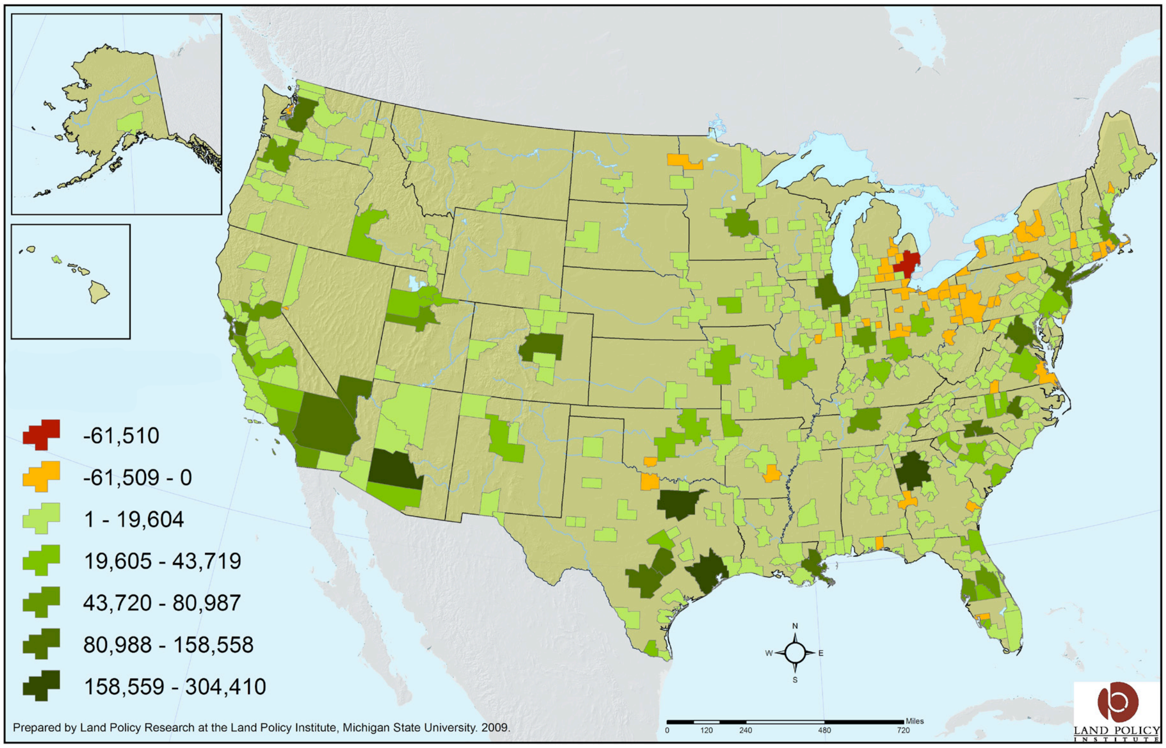
Huron (-1,996) and Bay (-1,626); and for the 2005-2008 period: Wayne (-74,254), Genesee (-10,323), Saginaw (-5,712), Oakland (-3,703) and Ingham (-2,806).

The fact that the counties that have lost population include such cities as Detroit, Saginaw, Flint, Benton Harbor and Bay City, suggests that urban Michigan will continue to face significant challenges as the ripple effects of population loss manifest themselves on the local economy. These urban areas—with manufacturing bases—have traditionally been the engines of state economic development. Cities losing population must grapple with maintaining service levels in the face of dwindling tax revenues. With depleted resources, their abilities to transform themselves to regain vitality become compromised.

Michigan's Ranking

- For the 2006-2007 period, three Michigan counties were in the top 25 for highest county population loss in the nation (Wayne, 1st, Genesee, 16th and Saginaw, 22nd).
- For 2005-2008 period, the same three counties were in the top 25.
- For the 2000-2007 period, two counties from Michigan were also in the top 25 in highest county population loss (Wayne, 4th and Saginaw, 25th).
- Wayne County led the nation in population loss in 2006 - 2007.
- 95% of population loss in the nation is from Michigan.

Population Change 2006-2008



When People Move, What Do They Take With Them?

THE LOSS OF JOBS TRANSLATES INTO SUBSEQUENT LOSSES IN SUPPORTIVE SERVICES AND RELATED ECONOMIC ACTIVITY. THE INCREASED MOBILITY OF JOBS, PEOPLE AND INCOME MEANS THAT PLACES THAT ARE ECONOMICALLY VULNERABLE ARE EVEN MORE EXPOSED WHEN THEY LOSE POPULATION.

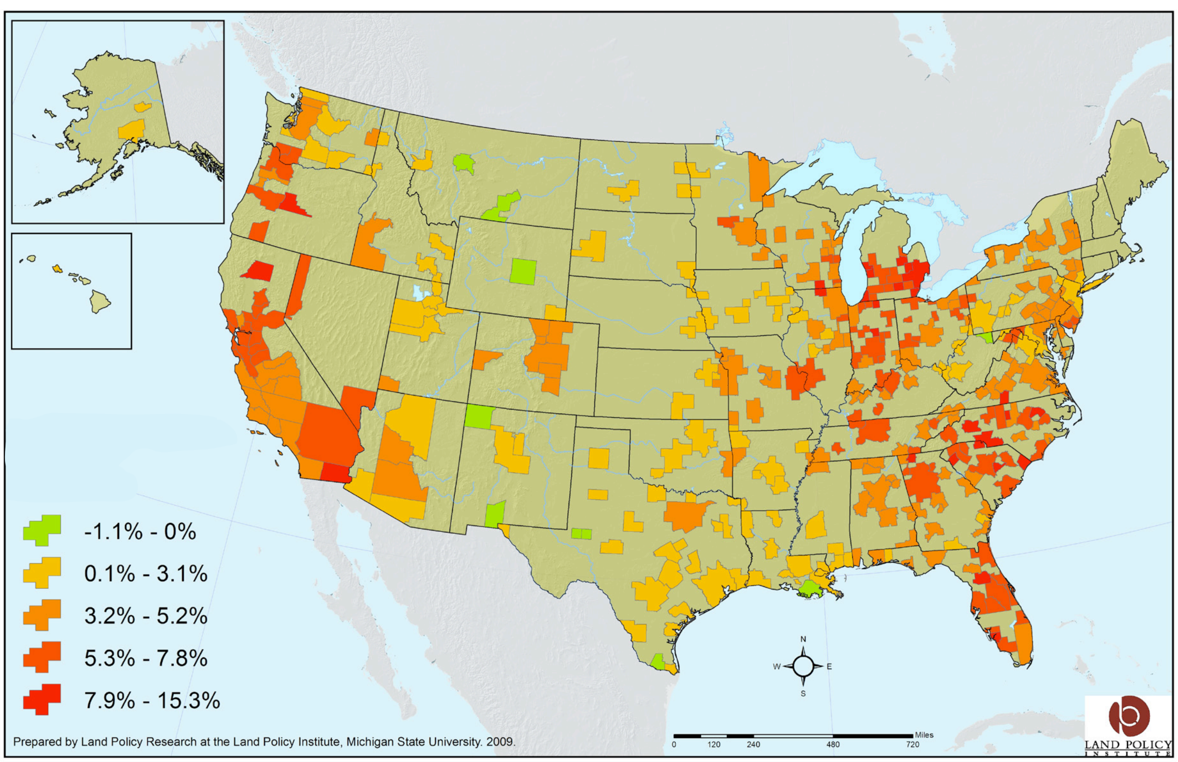
One important policy question that relates to population loss is: "When people move, what do they take with them?" When a person or family moves from one location to another, certain economic activities move along with them. Many towns were once largely defined by their manufacturing prowess, such as in nationally and internationally traded goods—autos, for example. Local economies enjoyed long-term stability as short-term instabilities eventually self-corrected. In the Old Economy, in a strong job market when a number of people moved away, others simply moved in to replace them, with perhaps little long-term losses to the local economy. If the job market was weak, the cyclicality of the economy allowed local communities to rebound.

JOB LOSS AT A GLANCE

Michigan leads the nation in unemployment rate: 15% and climbing. Some predict it may reach beyond 20%.

In the New Economy, where service activities have come to represent a larger share of the economy, job losses translates into subsequent losses in supportive services and related economic activity. The increased mobility

Unemployment Rate Change 2000-June 2009



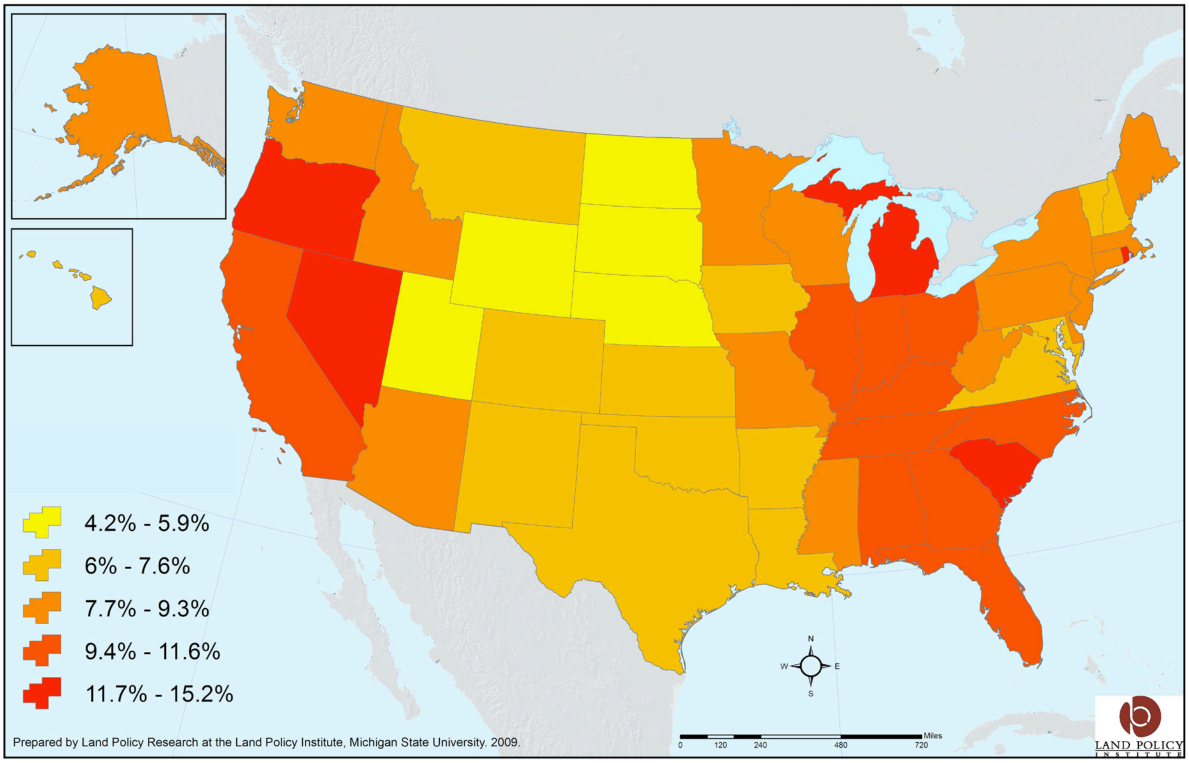
What Shrinks When a Community Loses People Due to Job Losses and Other Factors?

- Money spent on services and, therefore, associated service-related jobs, wages, rent, mortgage payments and economic output.
- Taxes related to these losses, including state income tax, local income and property taxes, sales taxes on those goods that will no longer be bought and sales taxes on those services that are taxable but that will no longer be taxed.

of jobs, people and income means that places that are economically vulnerable are even more exposed when they lose population. On the other hand, buoyant places have the benefit of being population attraction and destination points, and service jobs follow them. Indeed, the literature has shown that knowledge-jobs follow knowledge-workers who choose where they wish to live rather than just following jobs to places with little appeal (Florida, 2002).

Various sectors are particularly affected, including domestic trade, home construction, real estate rental, foreign trade, healthcare services, food services and drinking places, wholesale trade, insurance and financial services and entertainment activities, such as movie theatres. In a service-oriented economy in which people are more apt to move, these services are also more likely to move with them.

Unemployment Rate in June 2009



Objectives and Methodology

While many of the people who move out of a "people-exporting" county may have moved to nearby counties in-state, the losses in economic activity from the "exporting" location cannot be ignored. This report explores which economic activities are collaterally impacted by the movement of people, and generates estimates of the economic costs of population loss. It specifically focuses on selected Michigan counties that have lost significant population and all other counties that have lost some population.

Objectives

The main goals of this summary report are as follows:

- To inform policy makers at the state and local levels, and the public in general, about the costs and economic impacts of population loss to local economies in Michigan.
- To explore the magnitude of these impacts and the possible need for policies and strategies related to population retention and attraction, in addition to the currently utilized job attraction and retention strategies.

Economic and Tax-Based Impact Assessments Methodology

To assess the economic and tax impacts of population loss, an input-output methodological framework is utilized. This method allows for the estimation of economic output and tax impacts associated with population loss. To implement the methodology, we first assumed that the characteristics of people who move out of a county are similar to the average county resident. To the extent to which knowledge-workers who command higher pay and perhaps consume more services are more apt to move, the adverse effect of population loss could be higher. Communities should be concerned that the most talented, who also have the most options and opportunities to move, may leave places that do not afford them job opportunities and critical assets for quality of life.

Population loss was first converted to average households lost by utilizing the average county household size. The estimated average household size and U.S. Census Bureau figures on median household income were then used in calculating the household income lost as a result of population (household) loss. By utilizing the IMPLAN economic impact analysis tool (a recognized procedure in estimating the economic impacts as a result of an event, in this case population loss), the total economic impacts associated with lost population were estimated. These impacts were then traced through the effects of population loss on labor income, property-related income, employment and value of economic output in the county. They are decomposed into direct impacts (the first impacted sectors by population loss); indirect impacts (effects on other sectors, as a result of impacts on first-affected sectors); and induced effects (subsequent effects due to income and consumption changes in the local economy). The total economic impact traces all of these effects across interconnected sectors. In addition, federal, state and local tax impacts resulting from the population changes were identified through the IMPLAN process.

Home Value Impact Assessment Method

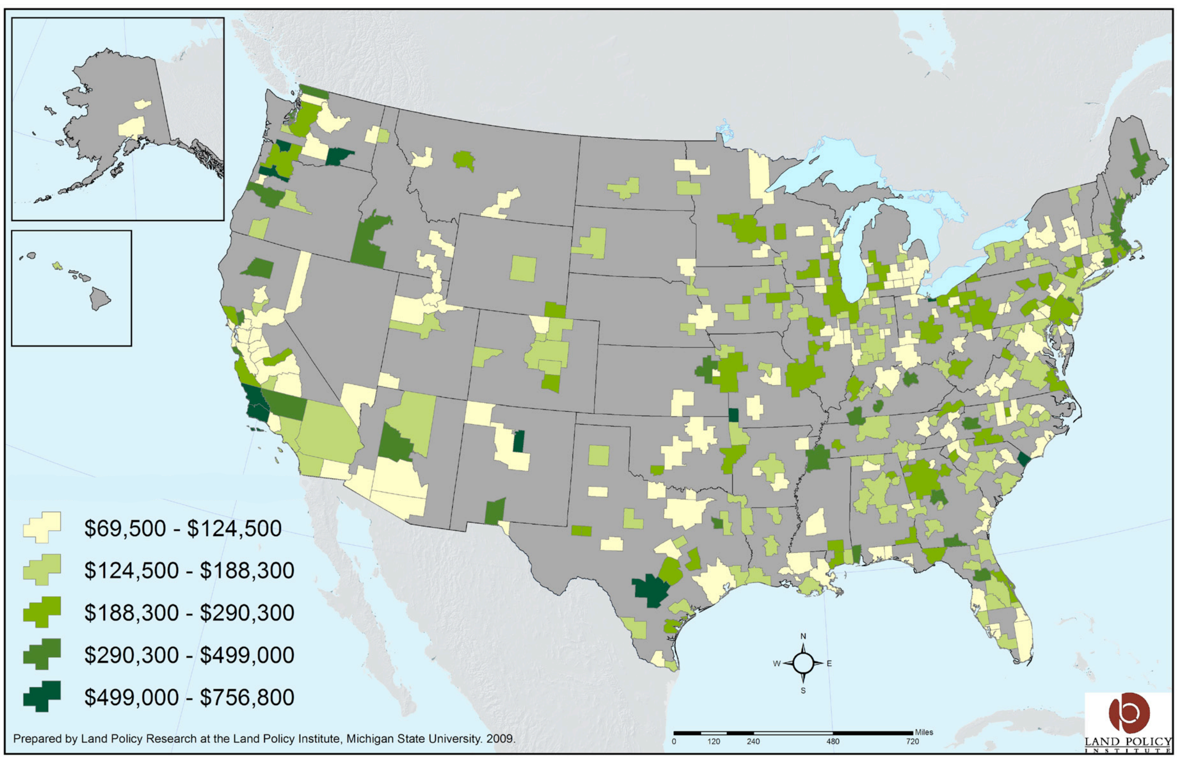
As a component of demand, migration has the potential to impact home value. Counties with a significant loss of population should experience sluggish growth or reductions in housing demand and, hence, a reduction in property values. On the other hand, counties with robust population growth should experience a strong demand for housing and, hence, an increased value of residential properties in the short-run and in the long-run.

To estimate the impact on home values, and for the purpose of this study, the elasticity estimate of 0.9731 by Goodman (2005) is utilized. This recent study was conducted with multiple cities, including Detroit, covering the period between 1990 and 2000 and provides a conservative elasticity estimate for home value impact estimation. When combined with the percentage of county population loss, and applied to the median home value, the result is an estimated impact of population change on the typical home. This value is multiplied by the total number of owner-occupied dwelling units in order to estimate the total loss in home values for a county or group of counties. It is important to note that Mankiw and Weil (1989) estimated a much larger elasticity of 5.3, which would result in far higher housing value impacts.

HOME VALUES PLUMMET

Michigan home values are below the national average by almost $100,000, and Detroit is below that.

Median Home Value in 2007



Findings

Estimated Effects of Population Loss on Income, Employment and Economic Output

Collateral losses in labor and property-type income, employment and the value of economic output to a community, as a result of population losses include the loss of money spent on services and, therefore, associated service-related jobs, wages, rent, mortgage payments and economic output.

In the 2000-2005 period, those 31 Michigan counties that lost population are estimated to have experienced losses of:

- $246 million in labor income,
- $164 million in property-type income,
- 7,327 jobs and
- $790 million in economic output.

The five counties with the highest population loss between 2000 and 2005 experienced losses of:

County	Impact Category	Total
Wayne	Labor Income	- $176,805,034
	Property-Type Income	- $113,358,562
	Employment (people)	- 4,666
	Value of Output	- $552,090,214
Saginaw	Labor Income	- $14,965,377
	Property-Type Income	- $10,249,509
	Employment (people)	-498
	Value of Output	- $47,992,047
Berrien	Labor Income	- $9,558,583
	Property-Type Income	- $6,988,353
	Employment (people)	- 344
	Value of Output	- $31,348,338
Huron	Labor Income	- $5,221,448
	Property-Type Income	- $4,600,195
	Employment (people)	- 233
	Value of Output	- $19,641,807
Bay	Labor Income	- $6,296,596
	Property-Type Income	- $4,588,897
	Employment (people)	- 229
	Value of Output	- $20,737,581

In the 2005-2008 period, those 63 Michigan counties that lost population are estimated to have experienced losses of:

- $585 million in labor income,
- $346 million in property-type income,
- 15,855 jobs and
- $1.9 billion in economic output.

The five counties with the highest population loss between 2005 and 2008 experienced losses of:

A COUNTY UNTO ITS OWN

Approximately 65% to 71% of the losses from 2000-2007 and around 57% to 89% of the losses from 2006-2007 in labor income, jobs and economic output came from Wayne County alone. These significant losses put pressure on local public officials.

County	Impact Category	Total
Wayne	Labor Income	- $359,548,593
	Property-Type Income	- $207,185,990
	Employment (people)	- 8,852
	Value of Output	- $1,110,216,496
Genesee	Labor Income	- $48,466,977
	Property-Type Income	- $27,819,031
	Employment (people)	- 1,436
	Value of Output	- $152,846,826
Saginaw	Labor Income	- $24,261,051
	Property-Type Income	- $13,985,170
	Employment (people)	- 736
	Value of Output	- $75,426,595
Oakland	Labor Income	- $29,328,910
	Property-Type Income	- $16,473,796
	Employment (people)	- 714
	Value of Output	- $87,099,130
Ingham	Labor Income	- $12,860,203
	Property-Type Income	- $7,366,701
	Employment (people)	- 367
	Value of Output	- $40,230,008

Estimated Effects of Population Loss on Property Values

Population losses are also expected to have property value (home equity) impacts, with implications for the wealth-base of communities. The departure of people translates into an excess supply of residential units (owned or rented), driving down the value of homes and eroding the net worth of families and businesses. The estimated losses in property values are provided below for those Michigan counties that lost population. These losses are in addition to income, indirect business taxes, employment and output losses.

Those 31 counties that lost population between 2000 and 2005 are estimated to have experienced a loss of $1.38 billion in home equity value.

The five counties with the greatest population loss between 2000 and 2005 are estimated to have experienced home equity value losses of:

- Wayne County, $889 million;
- Saginaw County, $84 million;
- Berrien County, $63 million;
- Huron County, $51 million and
- Bay County, $43 million.

Those 63 counties that lost population between 2005 and 2008 are expected to have experienced a loss of $2.49 billion in home equity value.

The five counties with the greatest population loss between 2005 and 2008 are expected to have experienced home equity value losses of:

- Wayne County, $1.8 billion;
- Genesee County, $270 million;
- Saginaw County, $136 million;
- Oakland County, $191 million and
- Ingham County, $63 million.

These property-value losses associated with population loss alone are quite substantial. Even accounting for population gains in some counties, a net of $2.42 billion was lost in property values in Michigan between 2005 and 2008. These losses add another layer of constraint on the financial health of property owners and on future prospects for economic growth.

Estimated Effects of Population Loss on Tax Revenues

The loss of population translates into lost service-related jobs and employment, resulting in lost federal, state and local taxes. The estimated losses are as follows:

For those 31 counties that lost population from 2000 to 2005, the estimated losses are:

- $60 million in federal tax revenues and
- $56 million in state and local tax revenues.

The five counties with the highest population loss between 2000 and 2005 experienced tax-base losses of:

County	Unit of Government	Tax Impact
Wayne	Federal Government	- $42,536,611
	State/Local Government	- $38,348,433
Saginaw	Federal Government	- $3,678,184
	State/Local Government	- $3,481,984
Berrien	Federal Government	- $2,560,848
	State/Local Government	- $2,352,332
Huron	Federal Government	- $1,371,896
	State/Local Government	- $1,460,874
Bay	Federal Government	- $1,609,677
	State/Local Government	- $1,615,225

For those 63 counties that lost population from 2005 to 2008, the estimated losses are:

- $142 million in federal tax revenues and
- $132 million in state and local tax revenues.

The five counties with the highest population loss between 2005 and 2008 experienced tax base losses of:

County	Unit of Government	Tax Impact
Wayne	Federal Government	- $85,796,491
	State/Local Government	- $76,757,350
Genesee	Federal Government	- $11,899,804
	State/Local Government	- $11,246,129
Saginaw	Federal Government	- $5,816,948
	State/Local Government	- $5,571,278
Oakland	Federal Government	- $7,435,887
	State/Local Government	- $6,370,594
Ingham	Federal Government	- $2,939,081
	State/Local Government	- $2,874,199

Overall, Michigan experienced a net loss of $90 million in federal taxes and $84 million in state and local taxes between 2005 and 2008. State and local tax losses could not be separated in the research. However, it appears that local units of government in those counties losing population lost non-real estate tax revenues from the local economy.

Estimated Sectoral Impacts of Population Loss

Service activities should dwindle when population is lost. Service is an important part of the Michigan economy, and local services tend to dominate service activities within a given community. Therefore, when population dwindles, local services dwindle. Those services that are provided locally are the most important. The sectors particularly affected for both the 2000-2005 and the 2005-2008 time periods are as follows below.

Output Loss for Impacted Service Sectors (2000-2005 and 2005-2008)

Output Loss	Impacted Sectors
Economic Value-Added	Owner-Occupied Dwellings
	Food Service and Drinking Places
	Real Estate Establishments
	Private Hospitals
	Offices of Physicians, Dentists and Other Healthcare Providers
	Wholesale Trade
	Monetary Authorities and Depository Credit Intermediaries
	Power Generation and Supply
	Motor Vehicle and Parts Dealers
	Insurance Carriers
Labor Income	Offices of Physicians, Dentists and Other Healthcare Providers
	Private Hospitals
	Food Service and Drinking Places
	Wholesale Trade
	Motor Vehicle and Parts Dealers
	Real Estate Establishments
	Food and Beverage Stores
	Legal Services
	Nursing and Residential Care Facilities
	Monetary Authorities and Depository Credit Intermediaries
Indirect Business Taxes	Owner-Occupied Dwellings
	Real Estate Establishments
	Wholesale Trade
	Motor Vehicle and Parts Dealers
	Food Service and Drinking Places
	Electric Power Generation and Supply
	General Merchandise Stores
	Food and Beverage Stores
	Building Material and Garden Supply Stores
	Clothing and Clothing Accessories Stores

Output Loss for Impacted Service Sectors (2000-2005 and 2005-2008) (Cont.)

Output Loss	Impacted Sectors
Employment	Food Services and Drinking Places
	Offices of Physicians, Dentists and Other Healthcare Providers
	Private Hospitals
	Food and Beverage Stores
	General Merchandise Stores
	Nursing and Residential Care Facilities
	Wholesale Trade
	Motor Vehicle and Parts Dealers
	Real Estate Establishments
	Non-Store Retailers

Much of the above losses are related to services that are provided in the local economy, as local residents consume many services that are collateral to their local existence (dining, housekeeper, lawn service, drycleaners, doctors, lawyers, etc.). In an increasingly service-oriented economy where people are more apt to move, these services are also more likely to move with them. The potential for population loss to further erode an economy should be cause for concern for economic development professionals.

Policy Implications

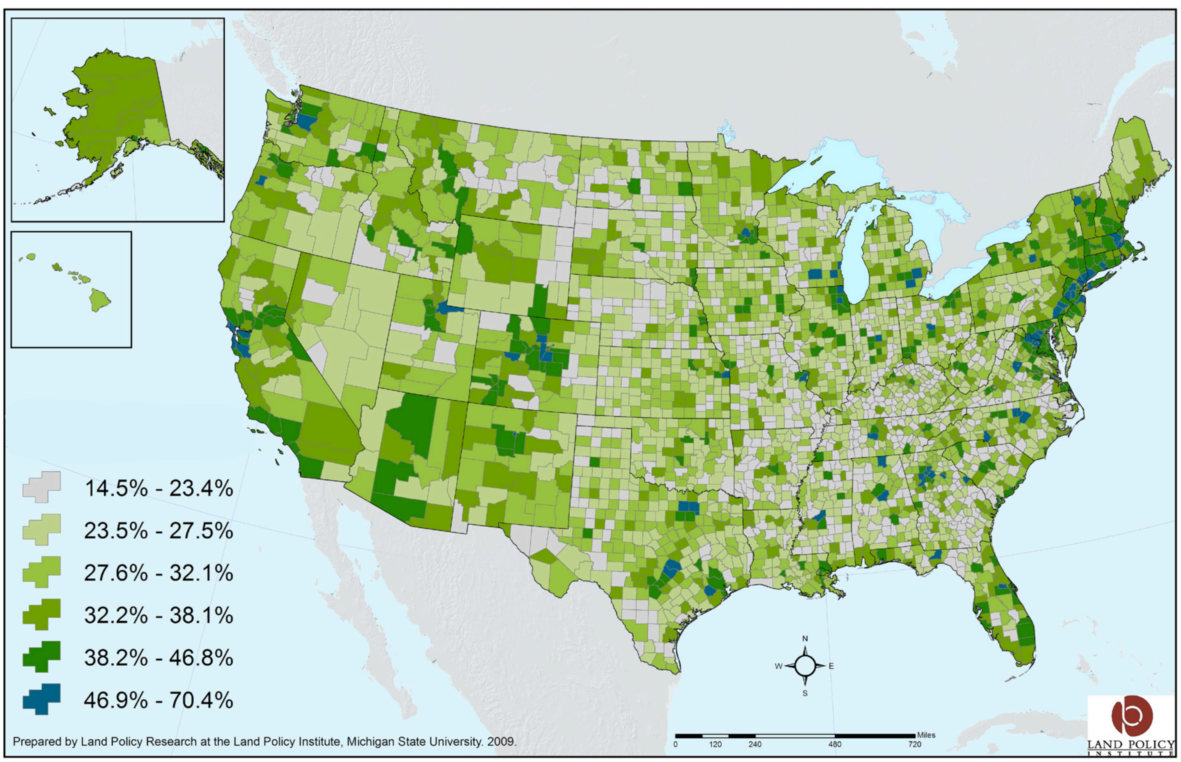
THE LOSS OF ECONOMIC ACTIVITY DUE TO POPULATION LOSS IS LIKELY TO BE AN INCREASINGLY IMPORTANT ISSUE AS THE ECONOMY TRANSITIONS FURTHER FROM A MANUFACTURING-BASED ECONOMY TO A SERVICE-BASED ONE.

Therefore, in order to mitigate population loss, the following strategies may be appropriate:

- Population attraction strategies.
- "Right-sizing" or "down-sizing."
- Policies targeted to enhance the stability of the service sector.
- Tourism-attraction strategies.
- Immigration-based strategies for economic development.
- The pursuit of federal resources to salvage Michigan's economy.

If jobs do follow people, as proponents of the New Economy concept propose, it makes sense to add to the retinue of existing strategies such policies that have the potential to attract population. Many states, including Michigan, continue to focus on the attraction of job-laden businesses. However, in states experiencing population losses, it may be prudent to also consider policies to attract population, especially people with greater tendency to create jobs by their presence in the local economy. Evidence from the literature suggests that the entrepreneurial class, the talented, the creative class and other knowledge-based workers are attracted to places that are rich in amenities and that offer a great quality of life (McGranahan and Wojan, 2007; Deller et al., 2001). Therefore, strategies to recruit people to an area may well be fruitful if they result in raising the demand for services and attracting knowledge-based workers.

Percentage of Employment in the Creative Class in 2000



Population groups who "create more than their jobs" are the ones to target. Population attraction and retention policy is particularly relevant in places that are losing significant population. The Land Policy Institute's Land Policy Research Team is currently completing research on drivers of population change and the most effective strategies for specific places. This research could provide useful insights on what works where in population attraction.

Based on this and other research by the Land Policy Institute and others across the country, the following policy considerations should be taken into account:

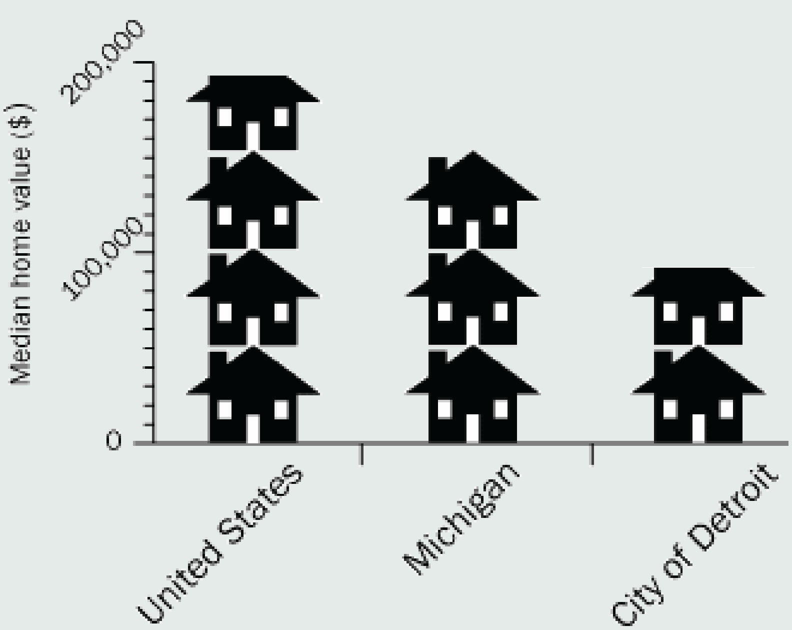
- *Population and growth:* Population growth is tied to economic growth. The loss in population is a major signal that prosperity is lacking in a place. A place can not be successful if its people are leaving. For example, Detroit, today, is 50% of its 1950 population and 25% of its 1950 economic activity. Other places with population growth thrived at the expense of Detroit.

- *Population dynamics:* Population loss in many Michigan counties in the face of growing national population is cause for concern. There is a need to better understand the sources of population dynamics, the reversibility of population shifts, and the optimal strategies for population attraction and retention.

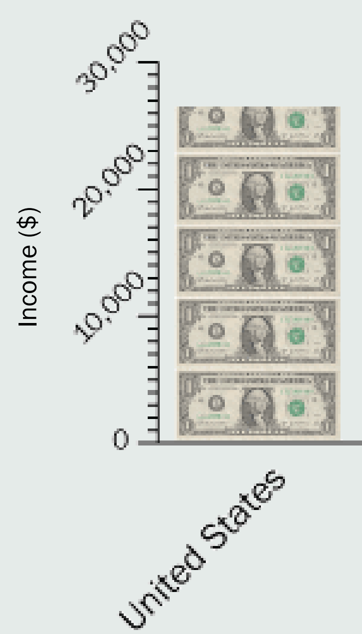
  To the extent to which we know how to manage population and can target economically beneficial people, population attraction can be a viable strategy. The alternative strategy is being talked about more seriously in the popular press today, and that is "right-sizing" or "down-sizing" cities to align the provision of services and thus, city service costs more in line with population.

- *The Service sector:* Since this sector is an important source of recent job growth in the nation, the impact of population loss on this sector needs to be carefully understood, and appropriate policies to sustain its growth need to be considered. The service sector, however, is growing.

Relative Home Values



Relative

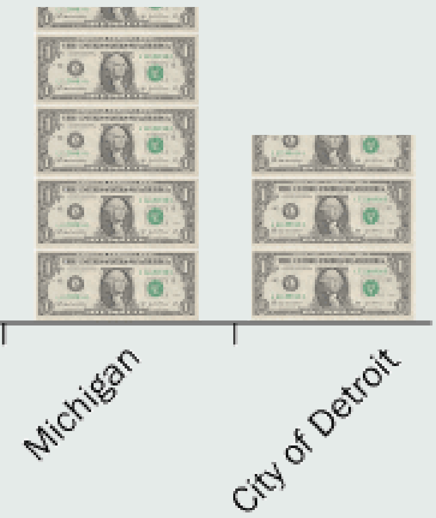


Sources: 2007 American Community Survey, U.S. Census, Bureau of Labor Statistics

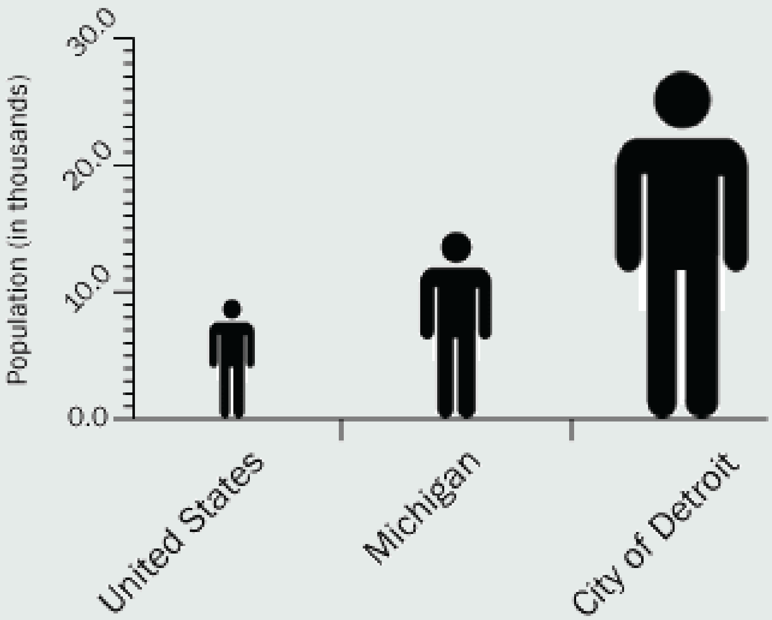
Our cities are far more versed in strategies to attract manufacturers, but much less versed in the attraction methods for service companies and how to maximize their economic impacts.

- *Tourism:* Tourism looks promising. The expansion of the tourism industry can provide relief to the service sector by attracting local spending by visitors that can mitigate the effect of demand reduction caused by population losses.
- *Immigration:* In some parts of the country, immigrants add more substantially to population growth than they do in Michigan. On average, immigrants also tend to be more prolific in creating jobs than their average non-immigrant counterparts. Michigan needs to consider its strategies to attract targeted immigrants. Special consideration may need to be given to attracting high-net-worth foreign investors by leveraging the EB-5 visa provision to recruit wealthy immigrants.
- *Stimulus package:* Given the dire economic situation in Michigan—and the persistence of unemployment, increasing poverty, a declining growth rate, home foreclosures, devaluation of property values and population losses—the economy needed the special boost (stimulus) that federal stimulus funds provided. However, more federal relief funds may well be needed to adequately revitalize Michigan's economy. Michigan has been strategic in making a case for federal dollars but can be ever more strategic and competitive by showing greater multiplier effects of federal dollars spent in the state. Funds must also be utilized in thoughtful, innovative ways to truly be transformational to Michigan's economy.

Per Capita Income



Relative Unemployment June 2009



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