

# McHenry County ED Discussion

David T. Flynn, Ph.D.

Director, Bureau of Business & Economic Research  
Associate Director for Research, Small Business Development Center

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# My affiliations



BUREAU OF  
BUSINESS AND ECONOMIC RESEARCH  
COLLEGE OF BUSINESS AND PUBLIC ADMINISTRATION



# Disclaimers

- These are the standard ones economists tell you.
- My analysis is my own & does not necessarily reflect the opinion of any affiliated organization.
- Just the usual caveat & formality before we get going.
- It is a pleasure to be here, and I will start now.

# US Outlook - Growth

- Advanced growth for Q4 was 5.7%.
- I expect this number will be revised downward.
- **Autos output added 0.61%to Q4 real GDP & 1.45% in Q3.**
- Housing numbers have recently turned sour.
- We have engaged in policies to improve these sectors but may have failed.

# Housing & Autos

- There are serious questions about sustained growth in these sectors.
- Have the policies actually gained us anything?
- More likely that we accelerated future sales to the present.
- Raises the prospect of problems for these sectors in the future.
- Questions abound regarding a second wave of foreclosures and problems in commercial real estate.

# International

- Real exports increased 18%.
- There is an uncertain dynamic facing us as far as international value of the dollar.
- Fiscal stability in the U.S. is, at times, an open question.
- Our analysis indicates some positive offsets from a weakening dollar for local economies in ND.
- Local area tax revenues, particularly on the East side of the state, seem to benefit.

# Energy economy

- On balance, energy issues represent a gain for the North Dakota economy.
- Research & development dollars, as well as transmission infrastructure funding.
- Generally well-positioned to exploit such programs in this state.
- Oil prices have not been as good lately.
- Energy investments lead to early job gains that are reduced over time, but typically do not go to zero.

# Unemployment

- U.S. will not get much worse, but it will be some time before it gets better.
- North Dakota set to see some increase in unemployment.
- Persistent weakness in consumer confidence making businesses cautious.
- Connection between confidence & wages is a current problem.
- Where we go depends on stimulus expenditures & a new jobs programs.
- Not clear government programs can do much directly at this point.

# Current policy discussions

- Policy initiatives are in limbo.
- Makes predictions of future spending paths difficult at best.
- “Jobs” bill is still too nebulous to determine what will happen.
- Health insurance, financial reform legislation may completely remake these industries.
- Cap & trade is still up in the air too.

# Financial market volatility

- Shadow bank run has almost run its course.
- Most of the fallout is due to markets revisiting “too big to fail” in the wake of Lehman Bros. collapse.
- US government demonstrated a willingness to salvage credit markets no matter the cost.
- Further volatility likely with attempts to reduce governments role in the economy.
- A crucial situation is with the Fed withdrawing from mortgage markets.
- This creates an uncertain outlook for interest rates, inflation & growth.

# North Dakota's situation

- North Dakota may succumb to the US trend finally.
- Unemployment has increased slightly, but may continue to rise.
- Output growth may be ready for a pause, but there are many issues.
- In the last few years state leveraged commodity price booms into extensive & intensive growth.
- Economic development professionals around the state deserve all the credit in the world for this.
- Legislature & executive branch deserve credit as well.

# North Dakota Outlook

- The key variables are unemployment and income.
- Unemployment is a key concern nationally and is occupying many individuals locally right now.
- This is where economic development has been so successful lately.
- Job opportunities abound in ND.
- We have just not been able to get people to relocate here.

# Unemployment outlook

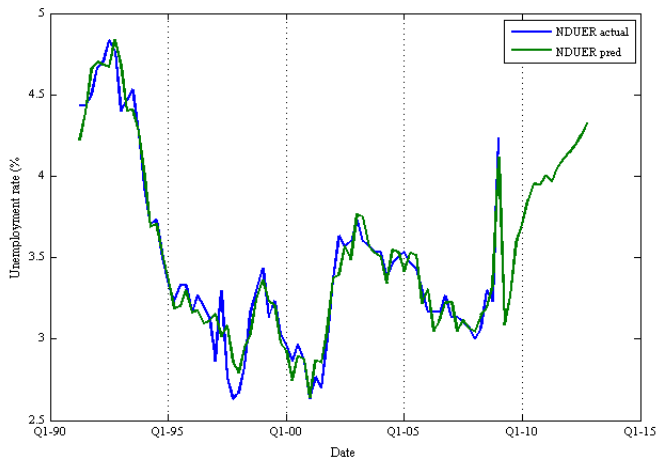


Figure: ND UER, actual & predicted

# Unemployment numbers

- Year-over-year performance shows some declines in employment.
- Natural given what we see from the business response to consumer hesitancy.
- Unemployment in ND has been so low it makes attracting new businesses difficult.
- For ND the duration of unemployment is not going to be as long as in some other states.

# ND Growth

- North Dakota has had a phenomenal growth performance in the last 3 years.
- Growth has been at the top of the list in that time, but we may be reaching a pause.
- Well, we hope it is a pause & not a downturn.
- The question persists: Can this be leveraged into continued and more labor in-migration?
- This is where most efforts are now centered.

# Income growth outlook

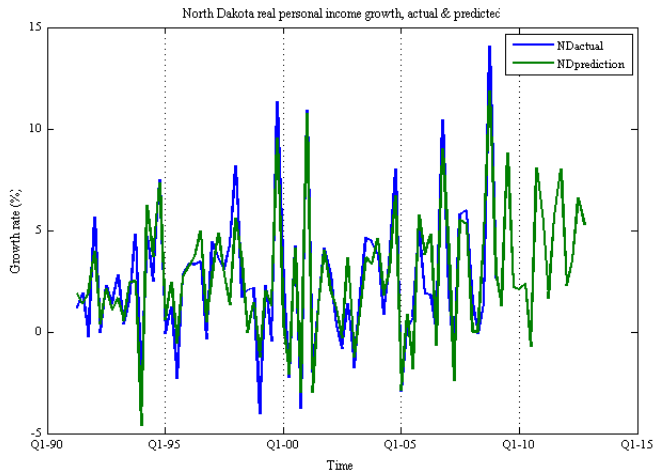


Figure: ND income growth, actual & predicted

# Earnings growth outlook

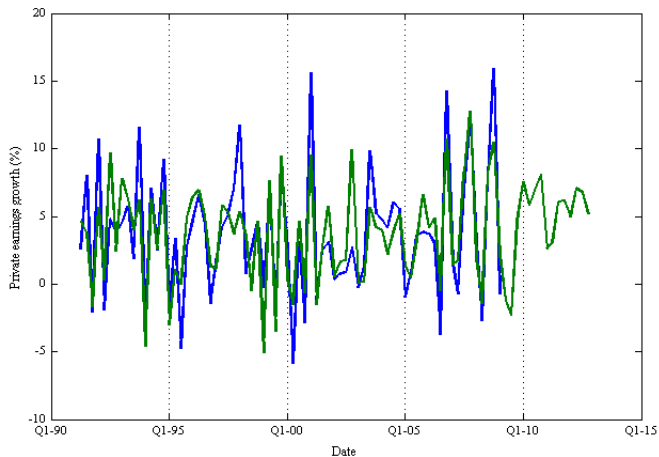


Figure: ND earnings growth, actual & predicted

# Earnings & Income Growth

- Income includes all revenues: wage, dividends, interests, rents, etc.
- Earnings is compensation from labor.
- The forecast indicates low wage growth into early next year which will drive down nominal earnings and real income growth.
- Inflation is not a factor at this point.
- After this, the picture for North Dakota shows a sharp upturn for both real income & earnings.

# Forecast by the numbers

- For 2010 we look for income growth of 3%.
- There is a chance for some negative numbers this year.
- Earnings growth stagnates, though does not go negative.
- Compared to the outlook for the country and other states, this is phenomenal performance.

# North Dakota & bias

- There is minimal downward bias in the forecast.
- A commodity price collapse would be a significant negative event.
- Weaker dollar drives up price and encourages tourism.
- State policies have reduced tax burdens and encouraged growth in other industries.
- Overall this created a very positive outlook for the business climate in North Dakota.

# McHenry County, ND

- Retail pull factors indicate a significant leakage out of the county.
- Competition is tough & locational issues may be difficult to overcome.
- Retention of dollars in the local economy is critical.
- Viewing other areas as complements may provide strategies.

# McHenry County strategies

- Already engaged in ag & value added ag
- Continued examination of retail opportunities.
- Alternative energy generation such as ethanol.
- More than just an ethanol plant though: research is vital.
- Let county goals guide strategy.

## Other experiences

- We have experiences in several cities in ND.
- Northwood
- Dickinson
- There are great things going on in ND and McHenry county can position itself to benefit.

# Factors for ND to leverage

- Continued leveraging of commodity sector is a must.
- Education sector and its research & development output.
- Improving manufacturing base, extensively and intensively.
- Small business sector as a support/supplier for other businesses.
- Example: Keep more dollars from federal contract opportunities in state.

# Conclusions

- There will be increased volatility in the North Dakota economy in the next year.
- Productivity growth remains the most important factor for growth prospects 3 years out and beyond.
- Further government spending will likely only be quick & temporary fixes.
- These same fixes likely augment the difficulties in economic policy for ND.
- Getting people & businesses to relocate here.

Questions?



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