Detroit Economic Indicators Report

Q2 2024 Release

This project is part of the City of Detroit University Economic Analysis Partnership between the City of Detroit Economics team, Wayne State University, Michigan State University, and the University of Michigan. The goal of this report is to summarize the most recent Detroit and Michigan employment statistics as well as current topics surrounding the field of Economics. Each quarter's report includes a recent topic of interest (housing, inflation, GDP, etc.). It also includes notice of relevant upcoming data releases.

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Executive Summary

- Detroit's unemployment rate averaged 9.0% in Q2 2024, an increase of one percentage point from the previous quarter, or 2.3 percentage points from one-year prior.
- Detroit's labor force grew slightly in Q2 2024, defying the typical seasonal decline seen during this period.
- The state's unemployment rate rose from 4.0% in January 2024 to 4.5% in August. This increase at the state level reflects a broader national trend, as the U.S. unemployment rate rose from 3.7% in January 2024 to 4.2% in August.
- The Survey of Working Arrangements and Attitudes (SWAA) provides insight into current remote work trends. The City of Detroit issues income tax refunds for days worked remotely, so the SWAA data can show if the national trends are signaling an increased risk for the City's refund liability.

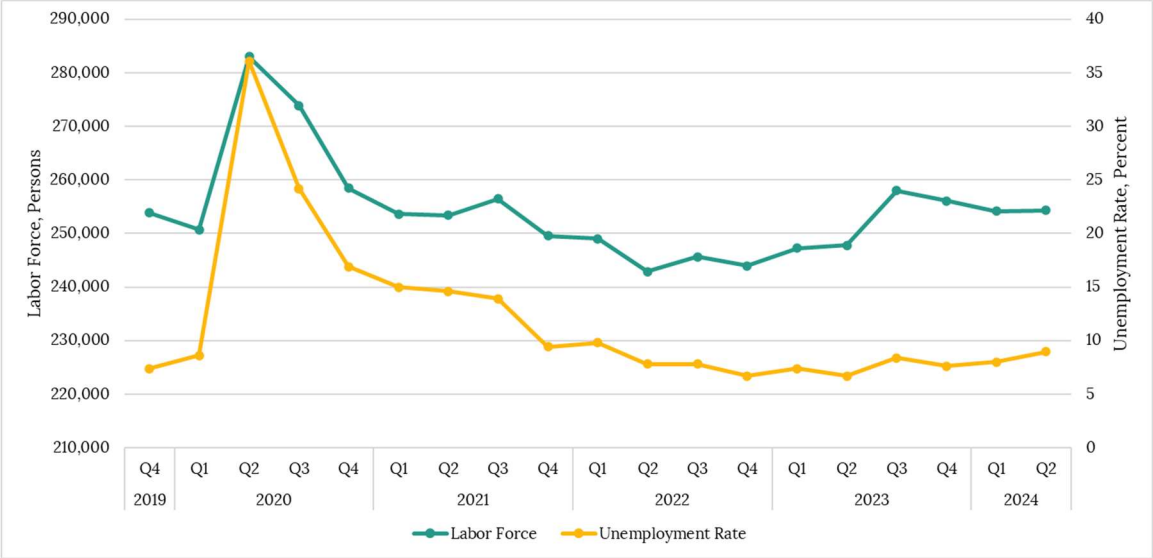
Detroit Employment

Figure 1 below shows Detroit's unemployment rate alongside the city's labor force. Detroit's unemployment rate averaged 9.0% in Q2 2024, an increase of one percentage point from the previous quarter, or 2.3 percentage points from one-year prior. The quarter-over-quarter increase is in stark contrast with Detroit's historical second quarter pattern, which typically sees the unemployment rate decrease by one percentage point rather than increase. Underlying that increase, the count of employed residents declined by almost 2,500, and the count of unemployed residents increased by about 2,700. Therefore, Detroit's labor force increased by roughly 200 residents in Q2 2024, bucking the historical trend of declining by almost 2,000 residents.

Although Detroit's weakening labor market is concerning, national and state-level data indicate that this trend is not unique to the city. At the national level, the unemployment rate rose from 3.7% in January 2024 to 4.3% in July and 4.2% in August. At the state level, Michigan's unemployment rate rose to 4.1% in June 2024, after remaining at 3.9% from February to May. Even in recent months, Michigan's unemployment rate has continued its climb, reaching 4.5% in August 2024.

We expect relief to come to national and local labor markets soon. At the September Federal Open Market Committee meeting, the Federal Reserve lowered the target range for the Federal Funds rate by 50 basis points in response to lower inflation and a weakening labor market. This should provide some relief to Detroit's cyclically sensitive industries such as financial services and automotive manufacturing.

Figure 1: Detroit Labor Force and Unemployment Rate



Source: Michigan Labor Market Information, not seasonally adjusted

Detroit Payroll Employment Data – Q4 2023

Figure 2 splits the city's payroll employment into three groups: blue-collar industries, lower-education services industries, and higher-education services industries. The data underlying this figure is produced by the Michigan Center for Data and Analytics as part of an agreement with RSQE. This data comes from the same underlying source as the Quarterly Census of Employment and Wages (QCEW), which has a substantial lag in its release even at the county level. The data presented is specifically for the city of Detroit and is compiled after the county data is released.

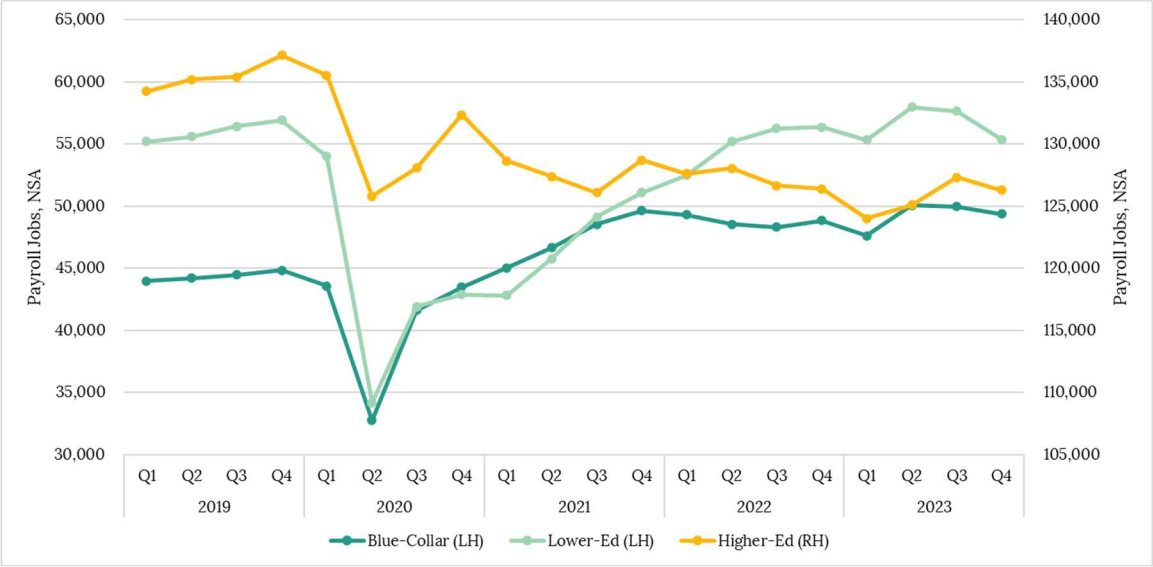
Employment in the blue-collar industries declined in Q4 2023, with a loss of 620 jobs, or 1.2%, for the quarter. Within this group, construction lost the third-quarter job gains but remains 34% above its 2019 employment level. Manufacturing also saw a slight decline due to spillover job losses from the UAW strike.

Employment in the lower-education services industries declined in Q4 2023, with a loss of 2,300 jobs, or 4.6%, for the quarter. Almost 60% of these job losses were in administrative and support services. The remaining 40% of job losses among lower-education services came from the accommodation and food services sector. These job losses were temporary and mostly returned in December 2023.

Employment in the higher-education services industries also decreased in Q4 2023, with a loss of just under 1,100 jobs, or 0.8%, for the quarter. Employment in health and social care services shed 1,300 jobs that quarter. This decline could reflect a potential data anomaly given that employment in this industry increased by 2,800 jobs in July and roughly maintained that employment level in August before declining back to its previous trend in September. Employment

in management of companies and enterprises also fell by 880 jobs. On a positive note, the financial services sector appears to have found its footing amid high interest rates. Additionally, private education services reversed three consecutive quarters of losses and gained 1,300 jobs in Q4 2023, pushing employment to just above its 2019 level.

Figure 2: Detroit Payroll Employment by Industry Group



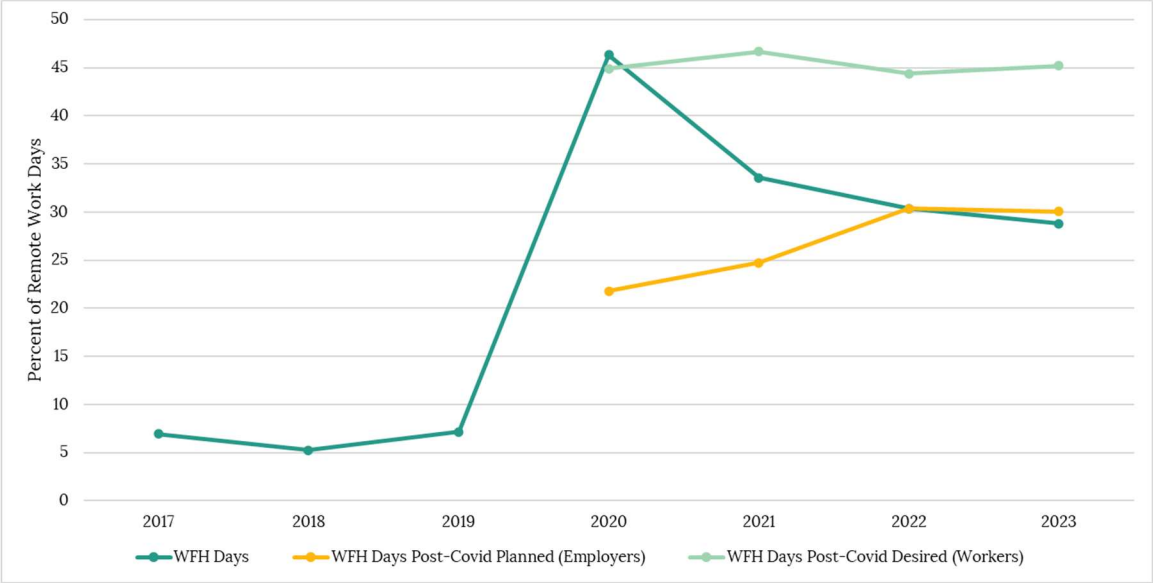
Source: Michigan Center for Data and Analytics

Remote Work and Income Tax Refund Activity: An Analysis of Detroit

Work From Home Research (WFH Research) and their Survey of Working Arrangements and Attitudes (SWAA) were founded in May 2020 in response to the dramatic impact of COVID-19 on working arrangements. The SWAA is a monthly online survey run jointly by the University of Chicago, Instituto Tecnológico Autónomo de México, MIT, and Stanford University. The first survey was conducted in May 2020 and continues on a monthly basis. Each survey has been comprised of 2,500 to 5,000 responses. The WFH Research team utilizes the SWAA to estimate work from home levels, employee preferences, and employer plans with regards to remote work. This also includes estimates of current levels of remote work by industry.

Since early 2021, the gap between workers' desired amount of remote work and employer plans has steadily narrowed, as employer plans have increased to align with the relatively stable number of observed work-from-home days. Figure 3 displays the average annual percent of days worked from home nationally from 2017 to 2023, based on the American Time Use Survey (ATUS) for pre-COVID estimates and the SWAA for subsequent estimates. The SWAA initial collection of employer and employee expectations started in 2020. WFH peaked in May 2020, with 61.5% of workdays being remote (about three days per week). Although WFH rates declined in the following years, they have since stabilized at around 30% of total workdays (about one to two days per week), remaining well above the pre-pandemic average.

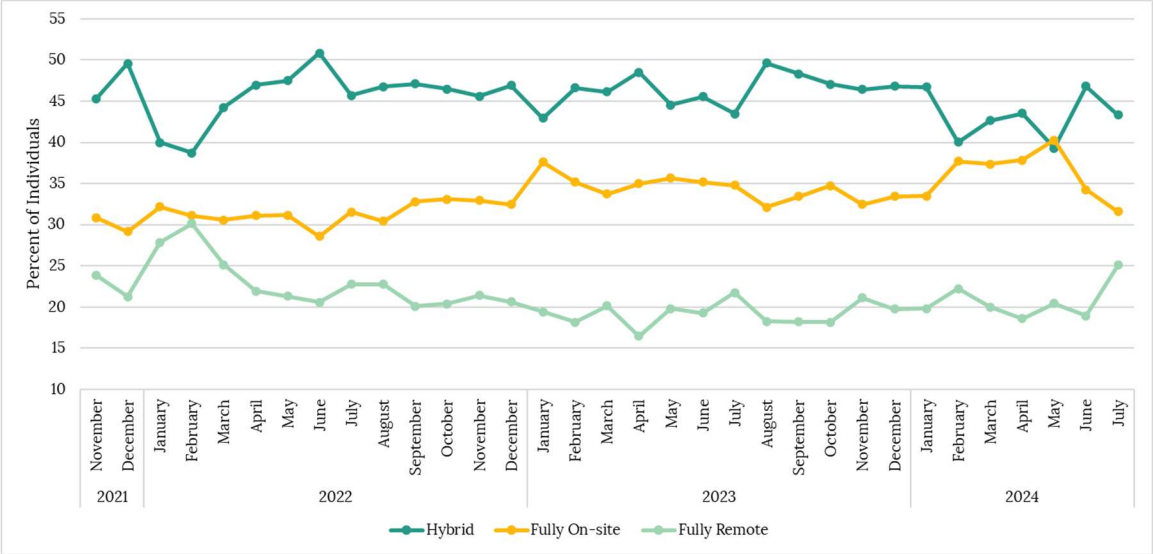
Figure 3: Average Annual Percent of Days Worked From Home, United States



Source: SWAA *and* ATUS

Figure 4 shows monthly individual work schedules from November 2021 to July 2024. Most individuals currently work in a hybrid arrangement or are fully on-site, with only about 20% working fully remote. On average, fully on-site work increased in 2023 compared to 2022. This upward trend intensified in the first five months of 2024, primarily at the expense of hybrid roles, before reversing in June and July. Fully remote work surged in mid-2024, and we will continue to monitor the data to determine whether this is a temporary fluctuation or a lasting trend.

Figure 4: Distribution of Individual Work Schedules, United States

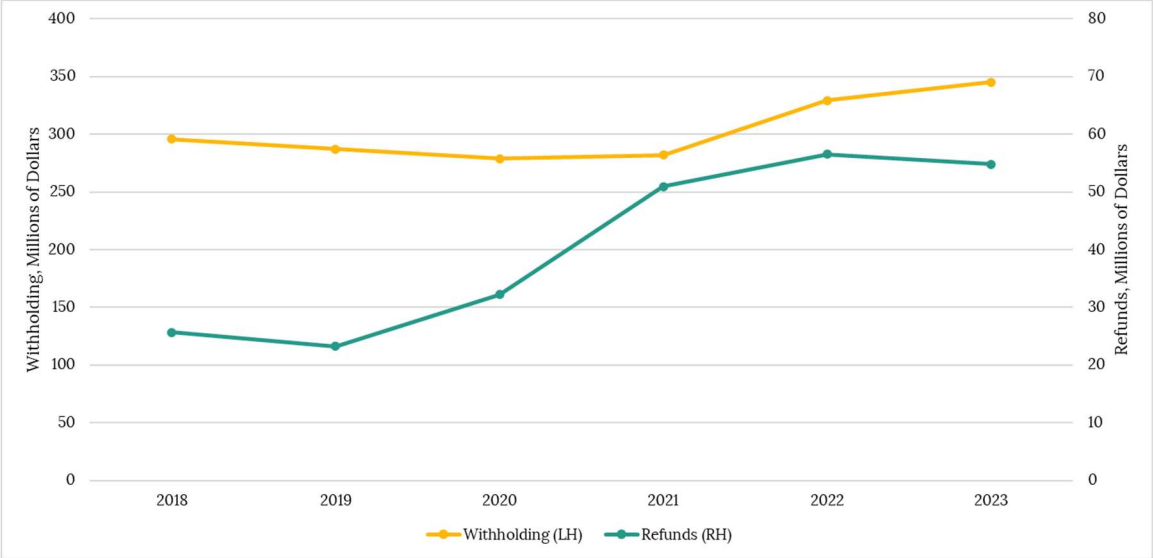


Source: SWAA

In the charts above, data is reported at the national level but there is an impact on the outlook at the local level. These trends can inform expectations for income tax refund activity, specifically whether there is a risk of the elevated levels observed after 2020 increasing further. Figure 5 shows income tax withholding and refund activity by calendar year for the City of Detroit.

Refund activity is reflective of the previous year's withholding revenue. Because of the pandemic, the largest increase in refund activity was observed between 2020 and 2021, an increase of 58%.

Figure 5: Income Tax Withholding and Refund Activity, City of Detroit



Source: City of Detroit

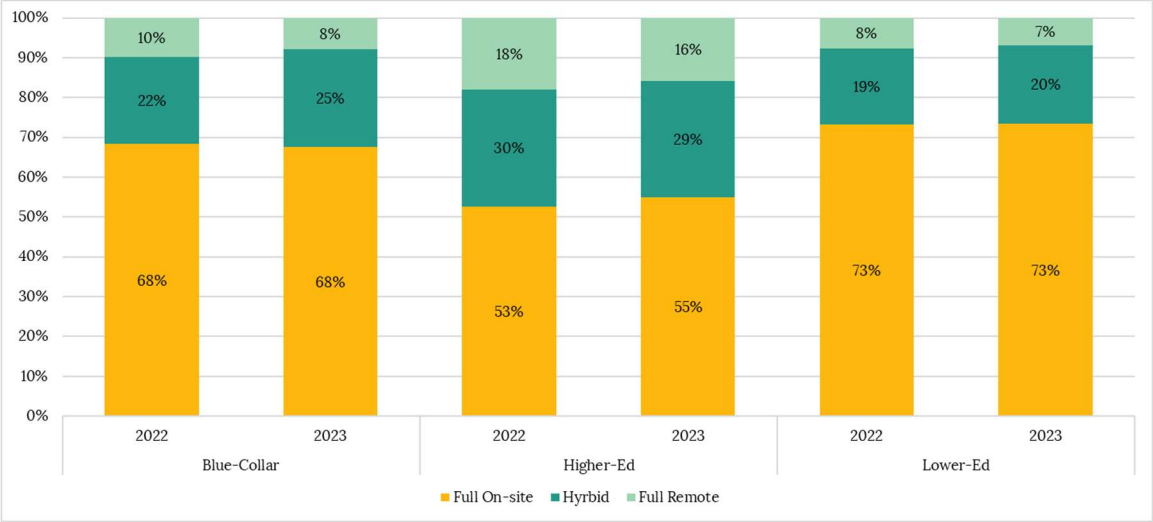
Figure 6 shows the estimated distribution of work arrangements for the city of Detroit, grouped by industry, using the same industry categories as in Figure 2. Nine groups are formed by categorizing industries in the same way as in Figure 2: fully remote, hybrid, and fully on-site for each of the higher-ed, lower-ed, and blue-collar groups. Although there is a lack of specific data for the city of Detroit, the estimates are derived by weighting the national SWAA WFH industry distribution by city of Detroit employment shares. Grouping work arrangements by the same industry categories as above offers some insight into the potential distribution of WFH by industry. This analysis was done using the SWAA percent of work arrangements by industry, but the values shown are independent of the SWAA.

Across all three industry groups, fully on-site was the most common estimated work arrangement followed by hybrid, while fully remote was the least common work arrangement. Roughly two-thirds of blue-collar and three-fourths of lower-ed work was done fully on-site, whereas just over half of higher-ed work was done fully on-site in 2023. One-quarter of blue-collar and one-fifth lower-ed work was done in a hybrid role, while 29% of higher-ed work was done in a hybrid role. Under 10% of blue-collar and lower-ed work was done fully remote, while about 16% of higher-ed work was done fully remote in 2023.

Figure 2 shows that the city's largest industry group is higher-ed, which means that most of the refund activity will be driven by jobs in higher-ed positions. These jobs are also the most likely to be performed remotely in some capacity, posing a risk to tax refunds if there is an increase in the number of employees who live outside the city and telecommute to their workplace. Although the proportion of fully remote work decreased between 2022 and 2023 in all three industry groups, it is not enough to expect large changes in refund activity. Some of the industries that the Michigan Center for Data and Analytics publishes for Detroit were not available in the

SWAA data: administrative and support services, construction, management of companies and enterprises, natural resources and mining, other services, and unclassified. These missing industries make up roughly 15% of payroll employment in the city of Detroit.

Figure 6: Estimated Work Arrangements by Industry Group, City of Detroit



Source: SWAA and Michigan Center for Data and Analytics, City of Detroit University Economic Analysis Partnership

Income tax refund activity remains a significant liability for the City as remote work continues to thrive. Although there is currently no city-level data that shows the number of remote payroll jobs, there are other sources like the SWAA that can provide some insight into remote work trends. The national trends show that there has been minimal change in work arrangements and the percent of days worked from home in the past two years, so there is not a strong signal as of now that refund activity will shift dramatically in the near future.

Other Events and Data Releases

- The Census Bureau released ACS 1-year estimates for 2023 on September 12.
- The Federal Open Market Committee (FOMC) meeting held on September 18 lowered the target range for the federal funds rate by half a percentage point to 4.75-5% “in light of the progress on inflation and the balance of risks” (Federal Reserve Board).
- August JOLTS data was released on October 1. Notable changes included an increase in the number of job openings for construction and state and local government jobs, while other services saw a decline.