



**2010 Economic Competitiveness
Benchmarking Report:
Data Supporting the Michigan Turnaround Plan**

March, 2010

Introduction

Business Leaders for Michigan is a private, non-profit executive leadership organization whose mission is to develop, advocate and support high-impact strategies that will make Michigan a “Top Ten” state for job and economic growth. Our work is defined by the Michigan Turnaround Plan, a holistic, fact-based strategy we developed to get Michigan’s economy back on track.

This Economic Competitiveness Benchmarking Report provides a fact based assessment of Michigan’s economic competitiveness relative to other states. It will be shared with state leaders, economic development organizations, and the Michigan public. The objective is to educate these groups on the current competitiveness of the state and to share the data and research that was used to develop many of the proposals in the Michigan Turnaround Plan.

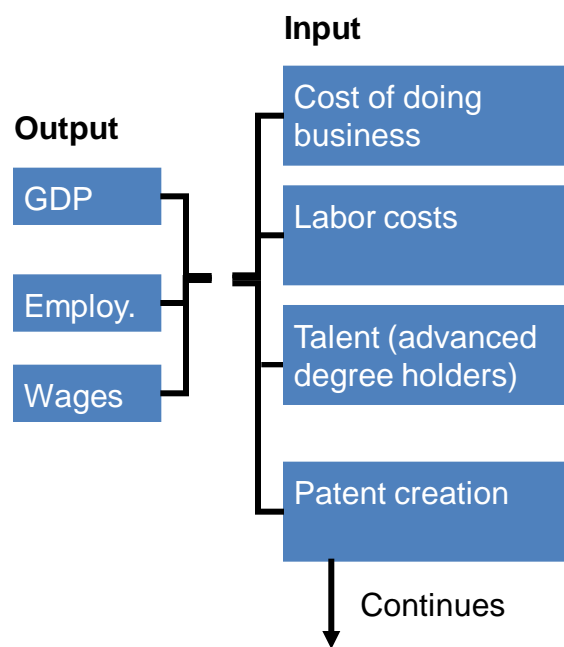
The benchmarking report compares Michigan’s performance on key output (e.g., GDP growth) and input (e.g., labor cost) metrics with other states. A set of peer and aspiration based benchmark states were selected for comparison, broken into “traditional industry states” (e.g., Ohio) and “new economy states” (e.g., California). In addition, a comparison with the “Top 10 States for Economic Growth” is used as a benchmark.

Findings presented in the benchmarking report support the need for the Michigan Turnaround Plan to improve Michigan’s competitiveness in order to create jobs and economic growth.

The fact-base analysis for this report was provided by McKinsey & Company, a global management consulting firm that is an advisor to the world’s leading corporations, governments and institutions.

Methodology: Input and output time series metrics benchmarked against relevant peers, building upon 2008 effort

Benchmarks were disaggregated in an input-output method



Changes in input and output metrics compared across states

Peers were selected based on objective (e.g., compare TN, OH for traditional industry; MA, TX for new economy)

Traditional industry peers, e.g.,

Ohio	Indiana
Illinois	Alabama
Tennessee	Georgia
North Carolina	

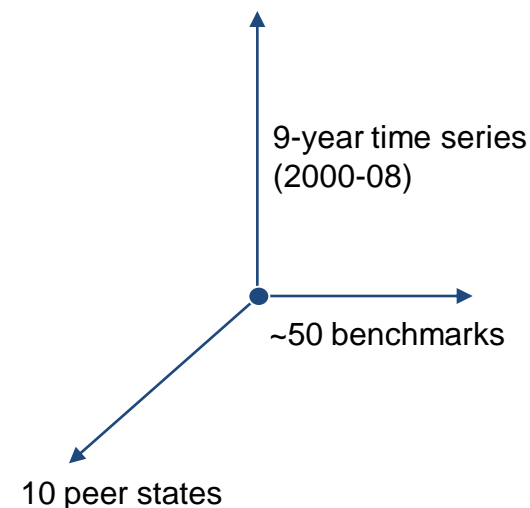
New economy peers, e.g.,

California	Texas
Mass.	Illinois
North Carolina	

Peers chosen considering manufacturing, knowledge and talent competitors, etc.

A 9-year (2000-2008+) time-series helped discern which input benchmark drove outputs

Time-series cube

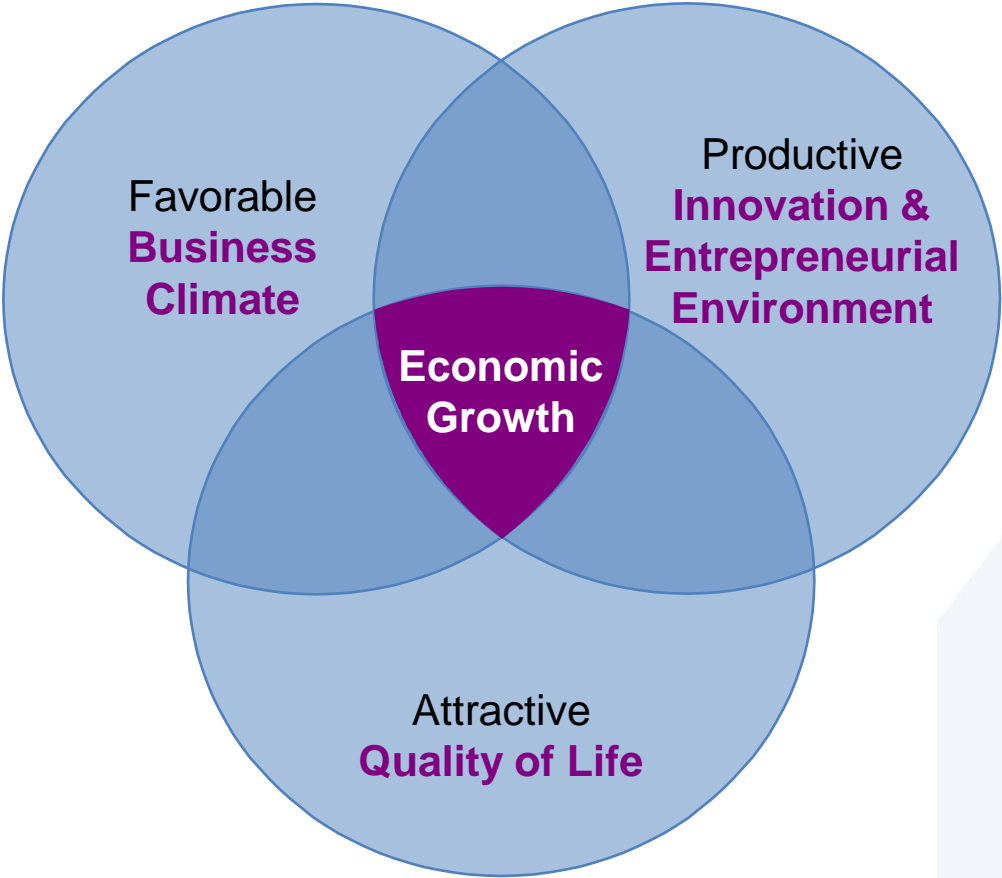


Estimate correlation between input metric changes and resulting in an output change

Key findings of 2009 benchmark report

- **Michigan's economic performance has eroded significantly, with GDP growth over past 18 months (-7.6%) and June 2009 unemployment (15.2%) last among all 50 US states**
 - Fundamental challenges observed from SE Michigan perspective in 2008 benchmarking report are consistent with those observed at the State of Michigan level in 2009 benchmarking report
- **Michigan's Business Climate fundamentals are uncompetitive**, although underlying strengths exist
 - Michigan's **cost of doing business is 4% above the national average, driven by corporate taxes and labor cost which are ranked 48th and 43rd in the nation, respectively**
 - However, a **strong flow of college students** (24% more than North Carolina in per capita terms), **and a high concentration of engineers (#1 among all states)** provide assets for business attraction and expansion
- Michigan's **Innovation & Entrepreneurial Environment has not yielded results comparable to leading states, although bright spots exist**
 - **Venture capital investment trails key new economy benchmark states substantially (15-19x vs. California and Massachusetts on per-capita basis)**
 - Michigan is efficient in converting patents from University research dollars, but lags behind top new economy benchmark states significantly in quantity of university patents generated (2.5x vs. Massachusetts)
- Michigan's quality of life maintains strong fundamentals, but has a very poor perception
 - **Michigan is at or above average in cost of living, healthcare and education**
 - In addition, the city of Detroit scores well in available arts, culture and recreation activities
 - **However, Michigan's (led by Detroit) crime rate and quality of life ratings are well behind comparable states' leading cities**

Economic growth benchmarks are supported by three key components of sustainable performance



Michigan ranks 50th in the nation in GDP growth; downward trend has accelerated in past 18 months

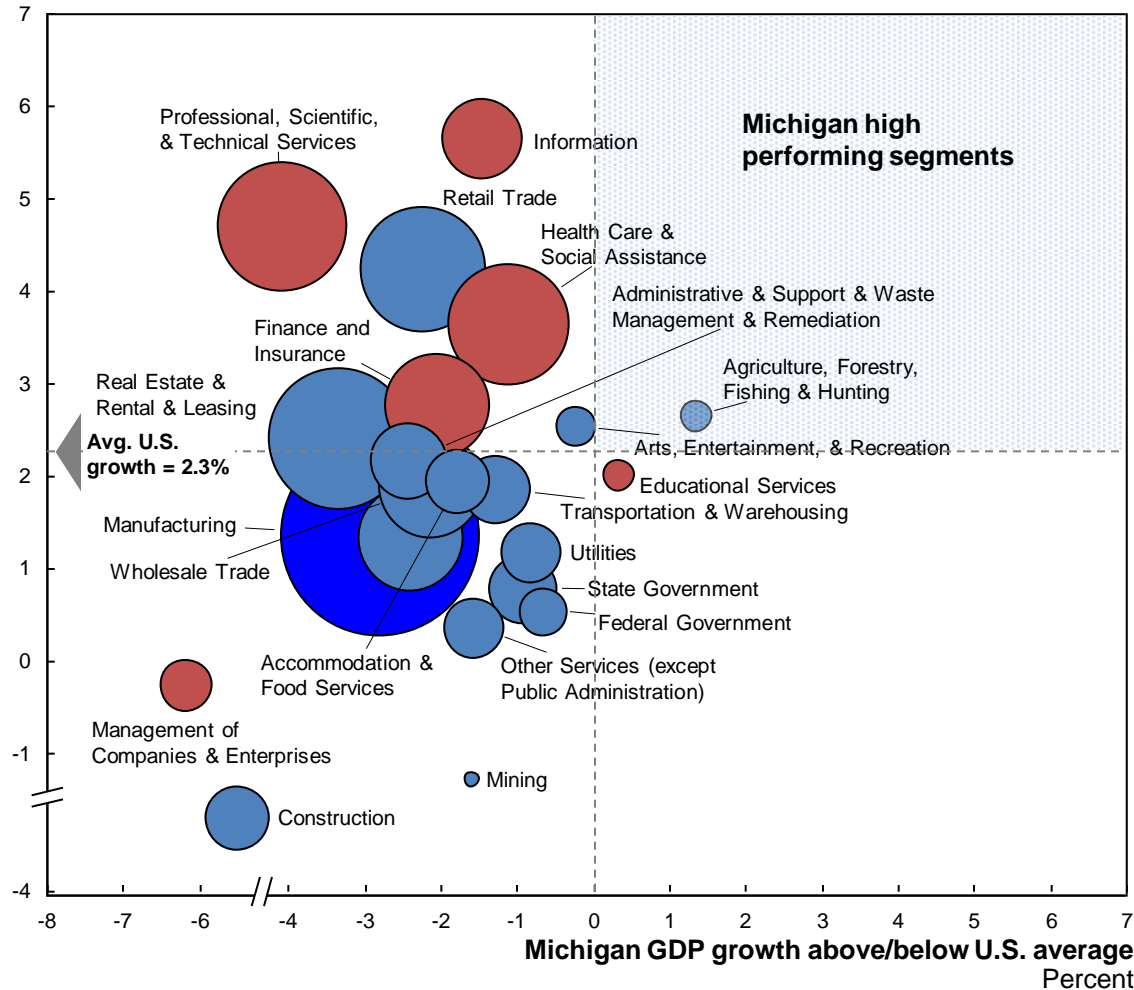
Michigan's GDP was nearly flat from 2000-2007, declining 7.6% from beginning of 2008 to June 2009

State	GDP CAGR, 2000-07 Percent	GDP growth 2008- 09(Q2) Percent	2008-09(Q2) Rank
MI	-0.1	-7.6	50
OH	0.7	-3.6	40
IN	1.3	-4.2	41
GA	2.0	-2.7	36
TN	2.7	-2.2	30
AL	2.7	-2.2	31
IL	1.6	-2.4	33
NC	2.8	-2.6	34
CA	2.7	-1.7	27
MA	1.7	-1.0	19
TX	3.4	-0.4	13
Top 10 ¹	3.2	-1.2	

- Michigan's GDP is \$382 billion as of June 2009²
- Since 2000, if Michigan's economy had grown at the average rate of the Top 10 states, Michigan would produce \$118B (31%) more²
- The difference translates to \$12,000 more per Michigan citizen²

GDP under-performance is consistent across sectors, with only 2 of 22 sectors outpacing US growth since 2001

U.S. GDP growth rate
Percent, 2003-08 CAGR



● Other ● Knowledge ● Manufacturing
Bubble area represents relative 2008 MI GDP
(legend bubbles = approximately \$5B)

- Only one of 22 industry groups had both positive Michigan growth, and grew ahead of US average pace
- All knowledge based industries trailed US average growth with exception of Educational Services

1 Sectors defined as 2 digit NAICS codes

SOURCE: U.S. Bureau of Economic Analysis; team analysis

Michigan ranks 50th in the nation in unemployment; only sectors to add jobs since 2007 are government, education and healthcare & services

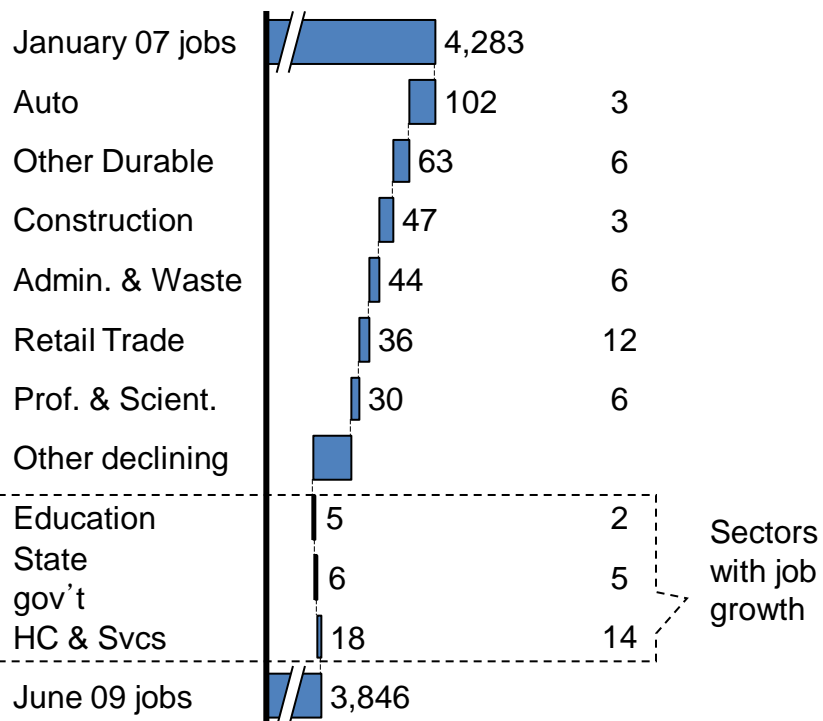
Michigan's unemployment rate is the highest among all states

State	Unemployment rate June 09, percent	June 09 Rank
MI	15.2	50
OH	11.1	44
IN	10.7	25
GA	7.4	47
TN	10.8	17
AL	10.1	36
IL	10.3	28
NC	11.0	40
CA	11.6	38
MA	8.6	42
TX	7.5	37
Top 10 ¹	6.8	N/A

Durable goods manufacturing contributed 35% of job loss; state government, healthcare & services only sectors with job growth

MI job loss by sector
January 2007- June 2009
Thousands of non-farm jobs

Percent of total empl't
June 2009

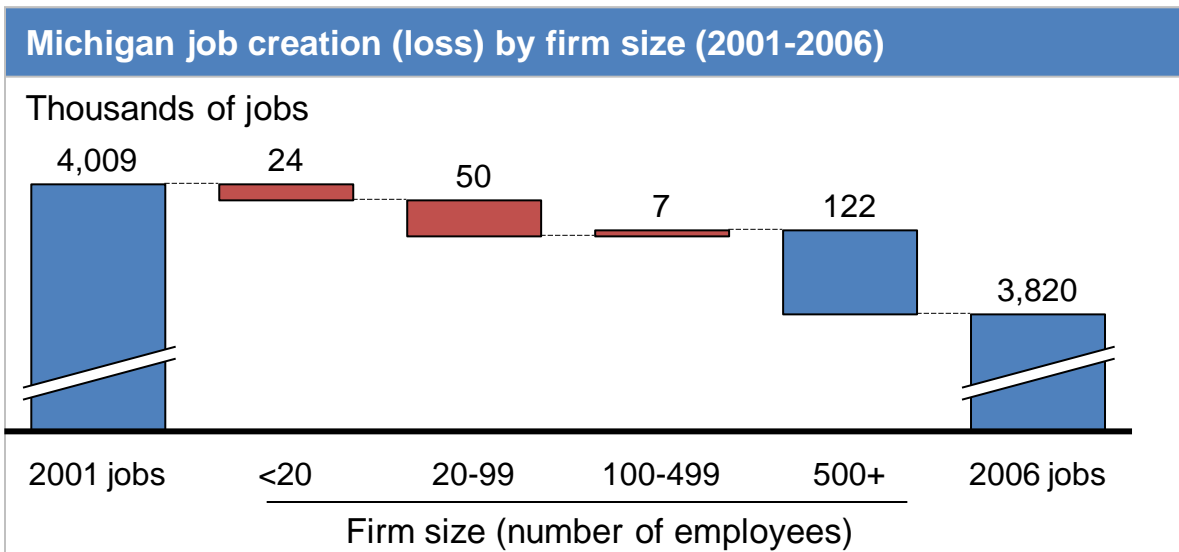
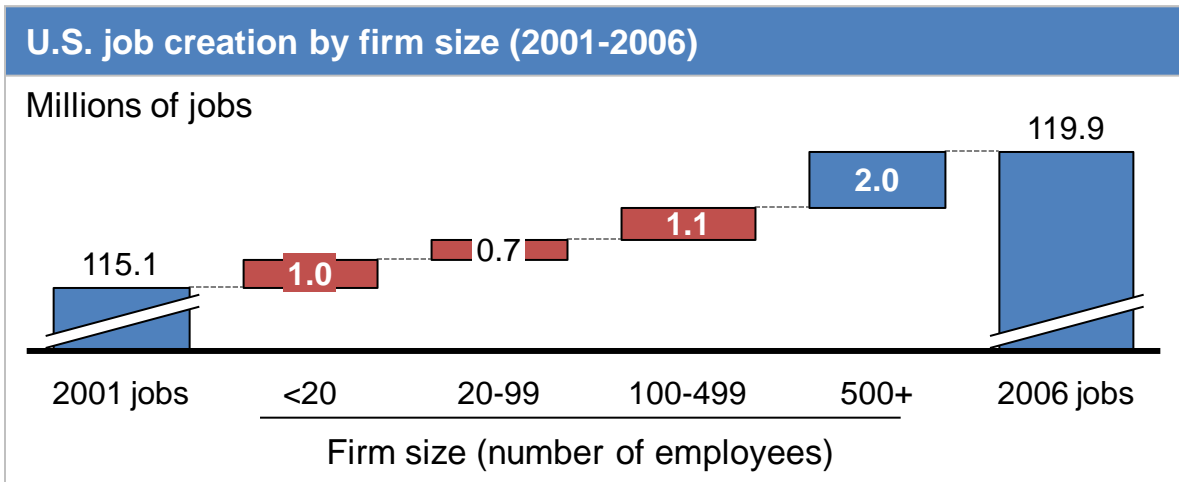


- 715,000 people in Michigan are unemployed
- If Michigan were Top 10¹, 395,000 more people would be working

1 Top 10 states in per capita GDP growth, 00-08: ND, OR, SD, NY, VT, IA, MT, WY, NE, MD

SOURCE: Bureau of Labor Statistics; Bureau of Economic Analysis; Moody's Economy.com

60% of US jobs came from companies with < 500 employees; 40% of Michigan job loss was from small and medium businesses



Michigan mid-size businesses (100-500 employees) were only sectors with net job creation from 2001-06

SOURCE: Bureau of Labor Statistics

Michigan's path forward will have significant economic implications for its citizens

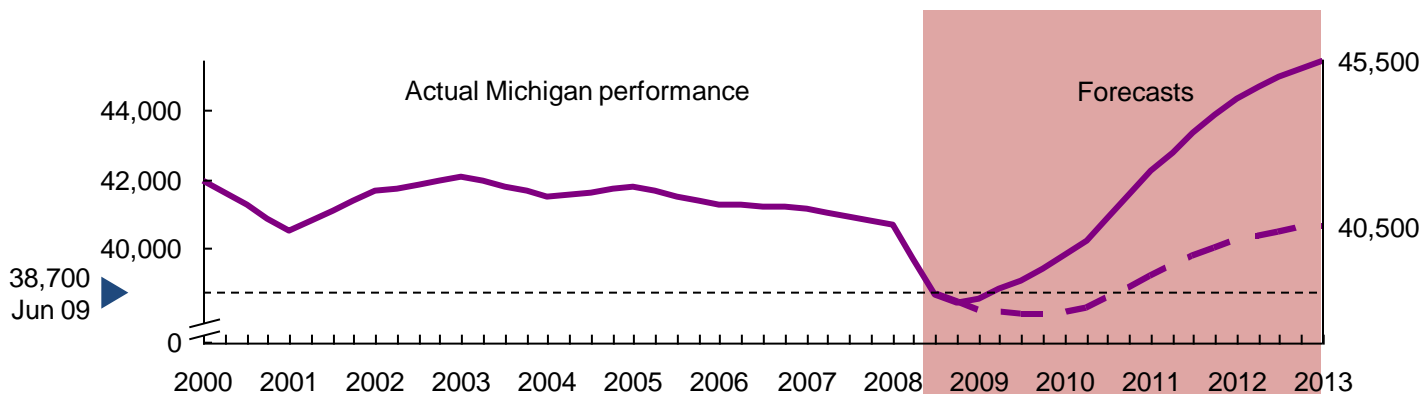
— Best¹
 - - - Worst¹

Historical and hypothetical output metric evolution

Michigan GDP per capita

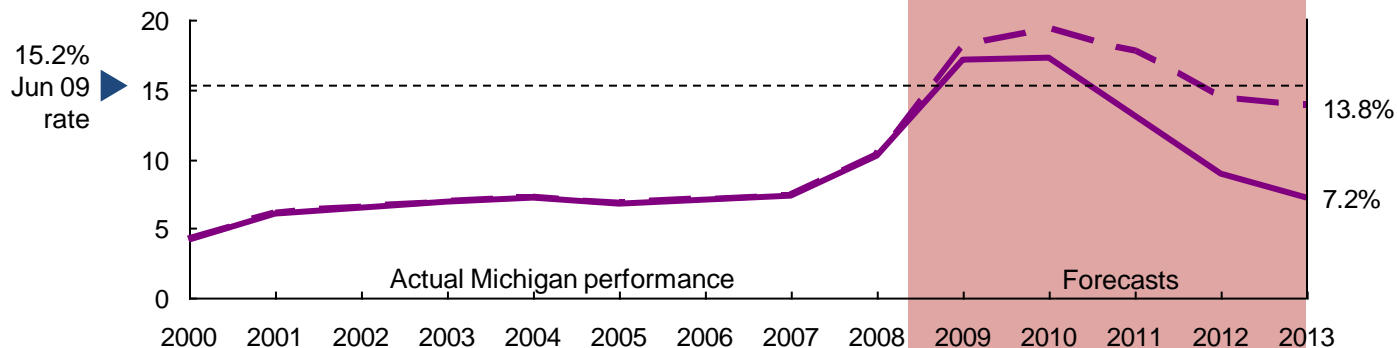
Dollars (Jun 2009 chained), 2000-13

Performing at bottom in next 4 years would mean ...



Unemployment rate

Percent, 2000-13

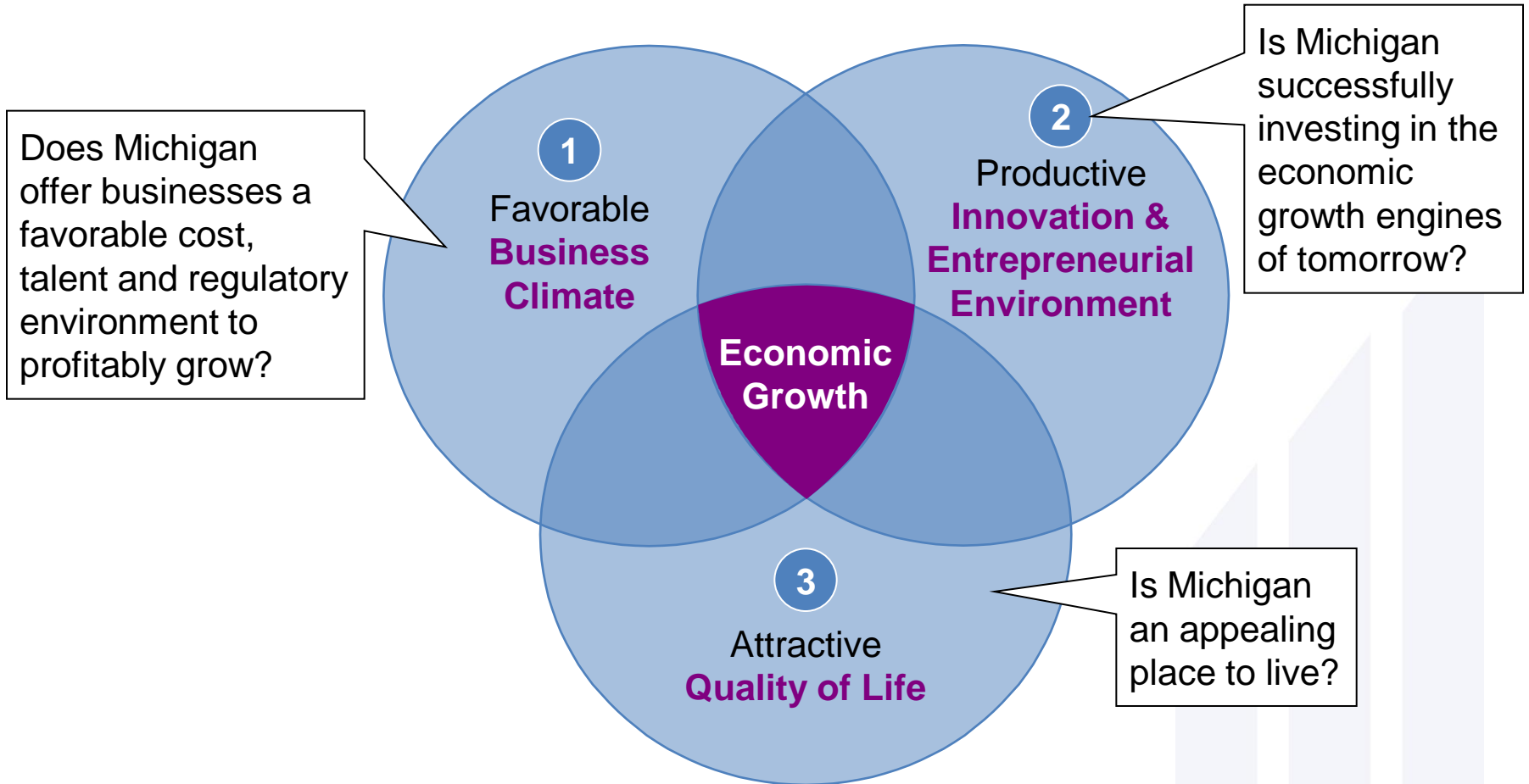


300,000 fewer Michigan people working vs. most improved state

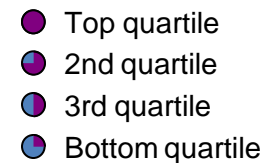
¹ Best (worst) represents state improvement from June 2009 levels, as forecasted by Moody's

SOURCE: Bureau of Labor Statistics; Bureau of Economic Analysis; Moody's Economy.com

Input benchmarks are organized around three key components of sustainable economic growth



Michigan is below average on most key site selection criteria



Transportation, financial & labor factors (10 of 25 most important factors)		Michigan performance on key filtering metrics	Quartile
State & local incentives	96.1	Ranking out of 50 states (1 = best) State & local incentives ²	25
Highway accessibility	95.8	Commute time	29
Availability of skilled labor	94.9	% of population 25+ yrs w/ a bachelor's degree or higher	34
Energy availability & costs	90.7	Electricity cost Natural gas cost	30 28
Tax exemptions	89.9	Number and amount of tax exemptions ²	25
Occupancy & construction costs	87.1	Property tax ranking	25
Corporate tax rate	86.8	Corporate tax ranking	48
Proximity to major markets	86.3	Proximity to major markets ²	25
Availability of land	85.6	Availability of land ²	39
Labor costs	82.8	Labor wages	43

1 The survey question asked respondents to either rate the factor as (1) very important (2) important (3) minor consideration (4) of no importance

2 No formal ranking. Represents middle (ranking = 25) or bottom (ranking = 39) quartile based on site consultant interviews

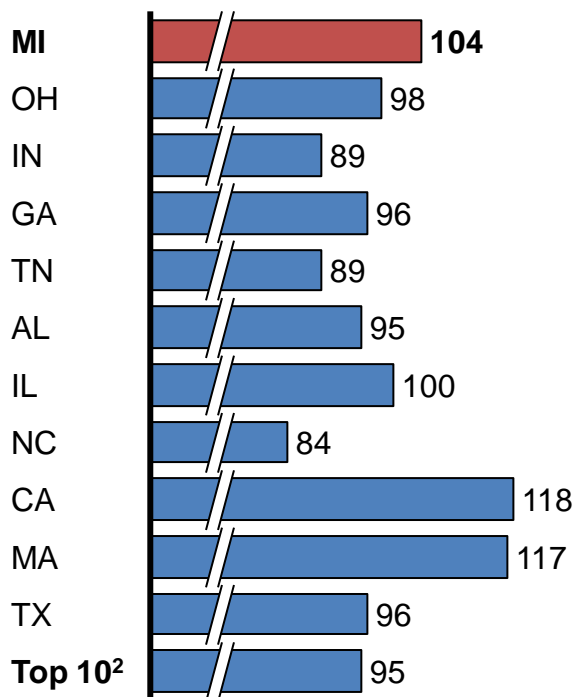
SOURCE: Area Development annual company and site selection survey (2008); BLS; ACCRA; NCES; Tax Foundation; Census; NSF; Site consultant interviews.

Michigan's cost of doing business creates disadvantage vs. traditional industry peers, and decision maker perceptions of Michigan are poor

■ Detail follows

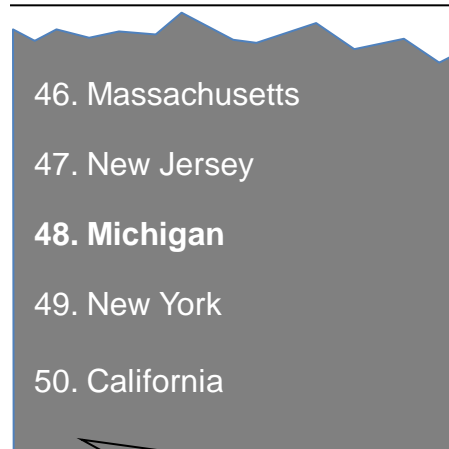
Michigan has a cost disadvantage compared with traditional industry states...

Cost of doing business index¹, 2006, US average = 100

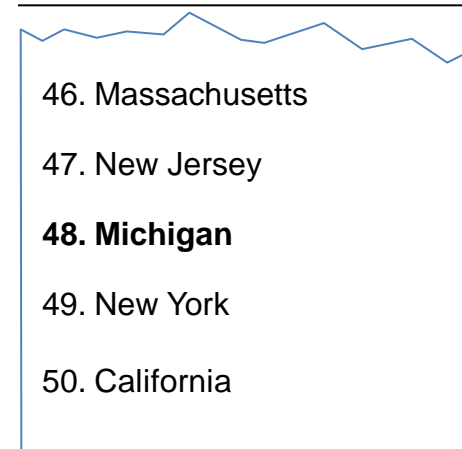


... and senior executives and site consultants view Michigan's business climate near bottom of all states

CEO state rankings for jobs and business growth 2009



Site consultant and executive state rankings for "perceived" business climate favorability 2009



"Michigan and California literally need to do a 180 if they are ever to become competitive again ... they are absolute regulatory and tax disasters" – CEO

1 Consists of 75% labor costs, 15% energy, 10% state/local taxes

2 Top 10 states in per capita GDP growth, 00-08: ND, OR, SD, NY, VT, IA, MT, WY, NE, MD

SOURCE: North American Business Cost Review 2006, Moody's Economy.com; Chief Executive Magazine; Site Selection magazine

Tax environment creates disadvantage for businesses, particularly medium and large businesses paying corporate taxes

Michigan's corporate and unemployment tax climates are in bottom five states in the country

Components of business tax climate

2009 state rankings, 1= best rank

	Corporate tax	Property tax ¹	Unemp. ins. tax	Sales tax	Personal income tax
MI	48	25	46	11	15
OH	33	46	15	36	47
IN	23	7	13	19	11
GA	8	36	20	16	30
TN	12	38	32	48	8
AL	21	13	14	33	17
IL	28	41	43	39	10
NC	26	37	6	38	37
CA	45	15	16	43	49
MA	47	44	49	9	16
TX	42	30	9	28	7

- Michigan's corporate tax climate among least attractive in country
- Businesses which pay tax through individuals (e.g., sole proprietorships) have more favorable environment

¹ Includes both real and personal property tax in Michigan

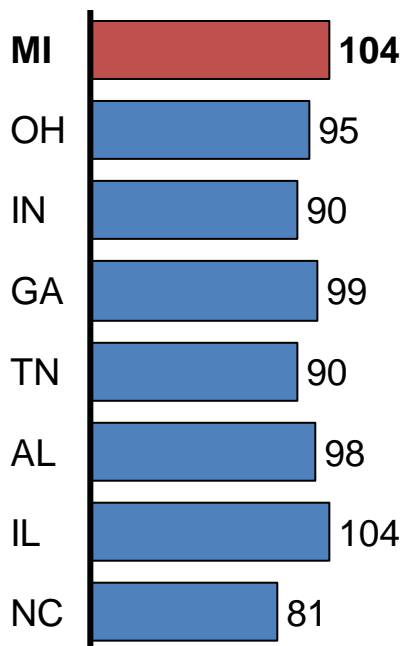
SOURCE: Tax Foundation 2009 Business Tax Climate Report

Per unit labor cost is high relative to traditional industry peers

Labor cost is higher than traditional industry competitors ...

Labor cost¹, 2007

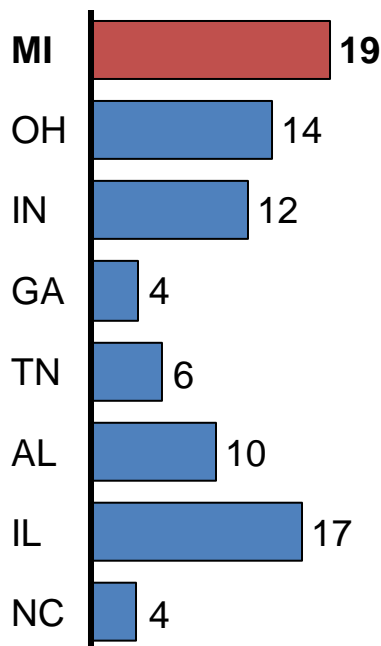
Index, 100 = U.S.



... and Michigan has the highest unionization rate of peer states

Unionization of workforce, 2008

Percent of employed with membership

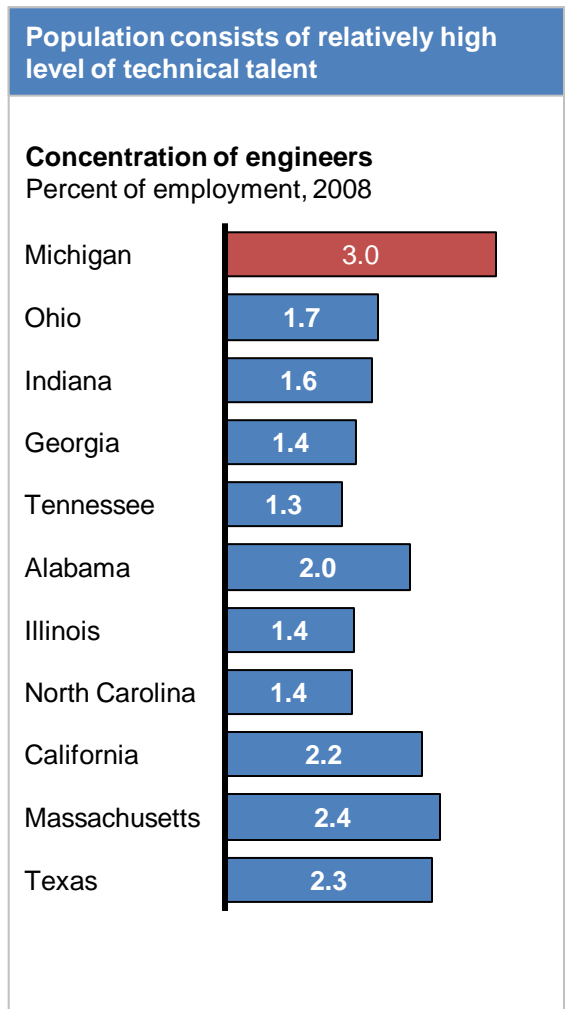
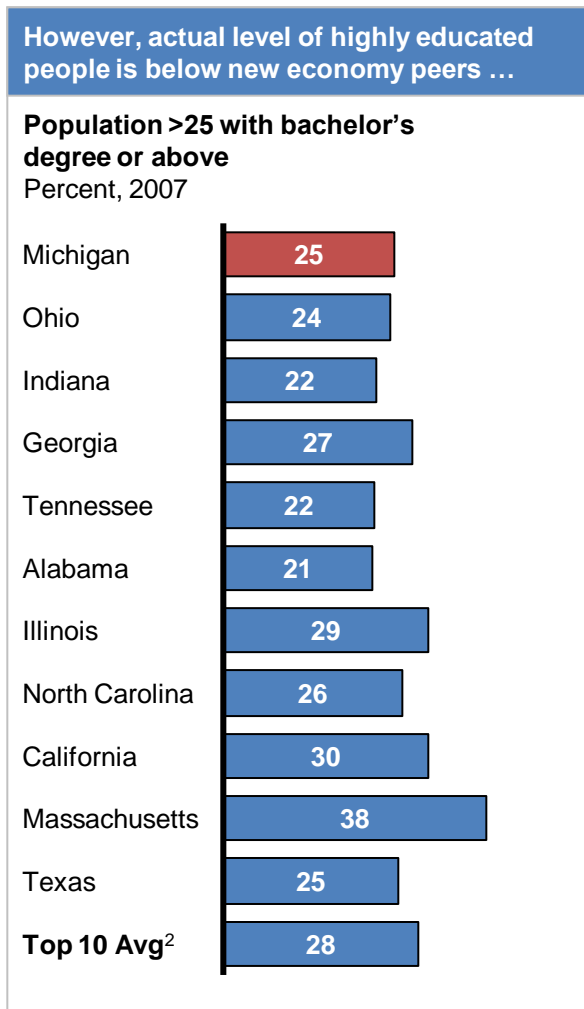
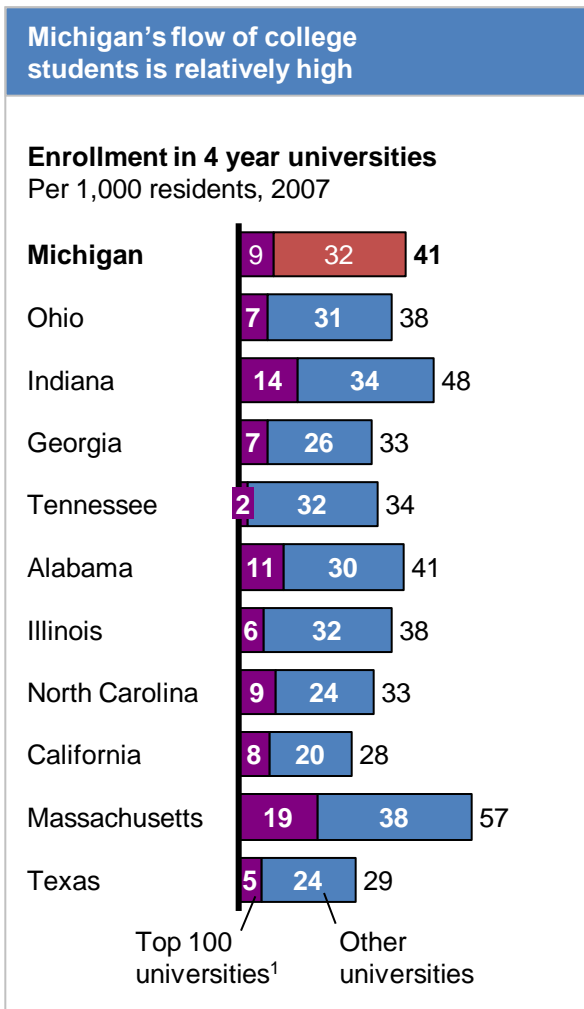


- Michigan has significantly higher labor unit cost than peer manufacturing states
- Unionization and “union stigma” drive negative perceptions of labor costs: many people believe cost to be higher than in reality

“Because of negative union perceptions, companies perceive labor costs higher than they are. Still, labor costs are 10-15% higher than for competing states.”
 – Site consultant

College enrollment in Michigan is strong, but actual level of graduates in population trails new economy peers

Other
Top 100



1 Universities that are Top 100 universities as defined by U.S. News & World Report

2 Average of the top 10 states in GDP per capita growth in 2000-2008 excluding HI (i.e., ND, OR, SD, NY, VT, IA, MT, WY, NE, MD)

SOURCE: University websites; Bureau of Labor Statistics; American Community Survey, US Census

CEO survey ranks Michigan 48th in nation, ratings generally consistent across both “fact oriented” & “judgment oriented” criteria

Michigan average or below across most criteria; bright spot is CEO perception on “*Technology & Innovation*”

Components of CEO “Best & Worst State” rankings

2009, 1= best rank

	<u>MI Rank</u>	
Overall	48	
<hr/>		
Economy	48	} “ <i>Fact Oriented</i> ¹ ”
Workforce	39	
Cost of Business	34	
Transportation	21	
<hr/>		
Business Friendliness	39	} “ <i>Judgment Oriented</i> ¹ ”
Education	28	
Access to Capital	24	
Quality of Life	23	
Technology & Innovation	8	

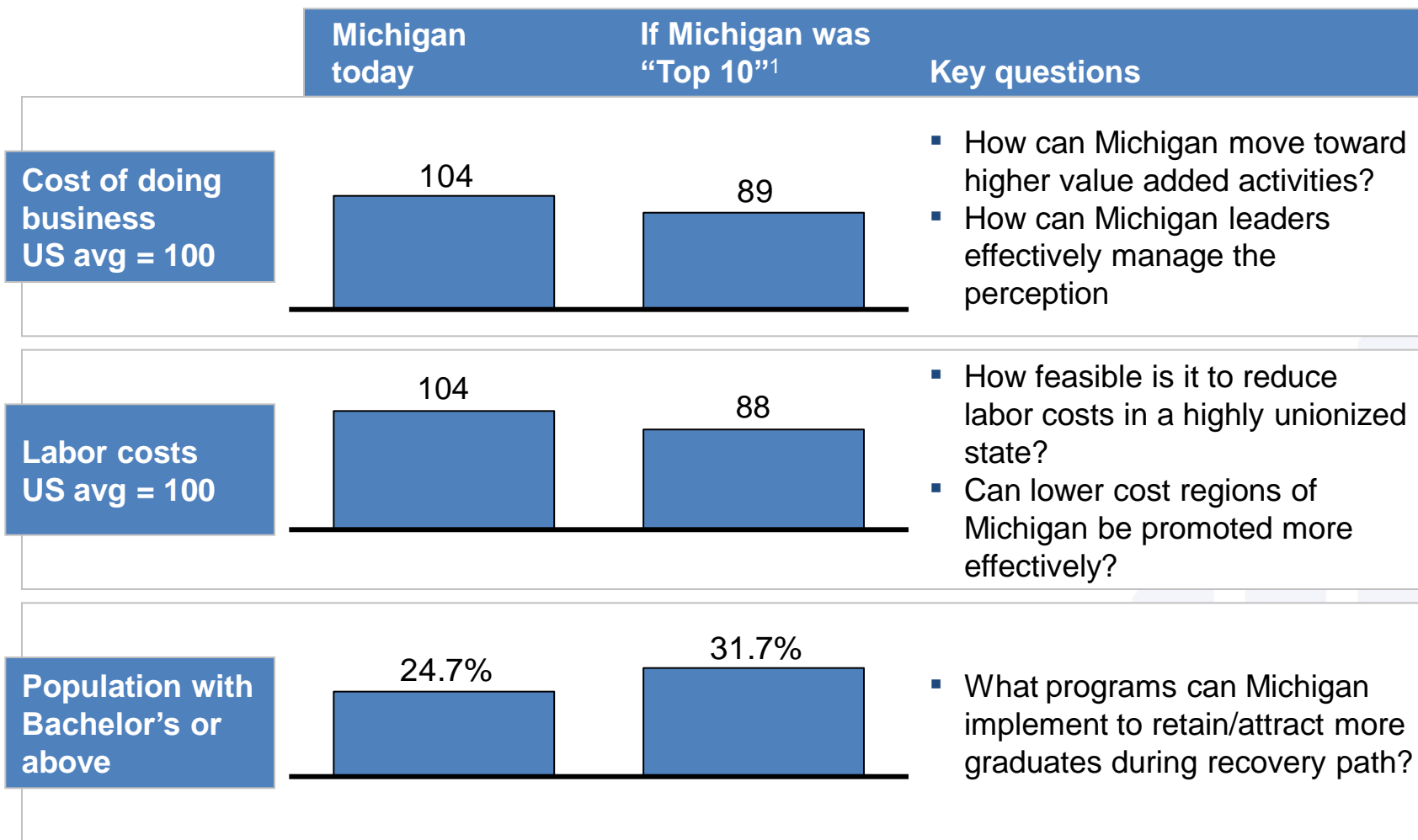
- Business leader perceptions generally lowest on core components of business growth (e.g. Workforce, Business Friendliness)

¹ Classifications assumed, not dictated by *Chief Executive Magazine* survey

SOURCE: *Chief Executive Magazine*; Team analysis

Improved cost and talent position would significantly impact Michigan's competitiveness

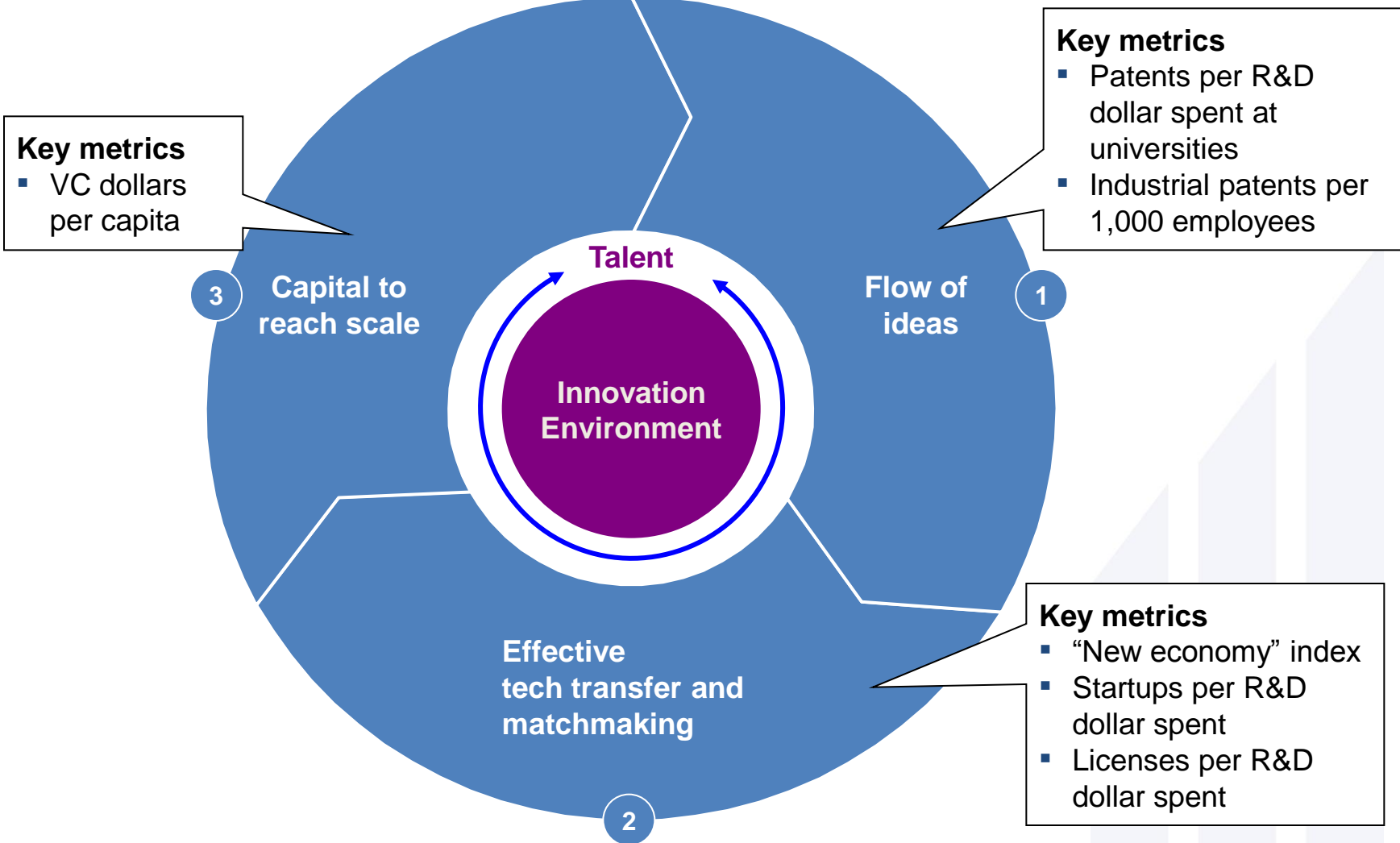
ESTIMATES



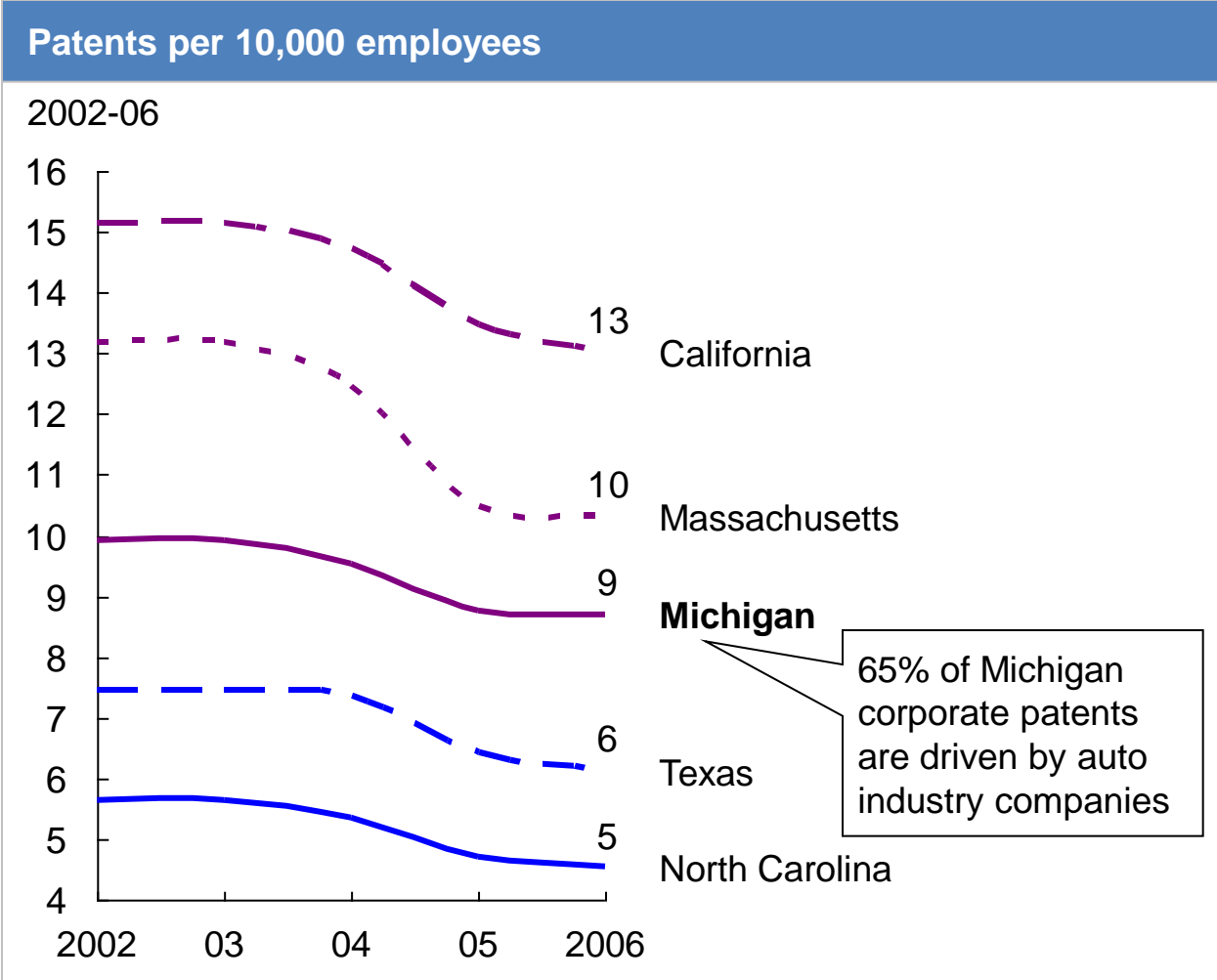
¹ Aspiration to be a Top 10 state for each individual metric

SOURCE: Moody's Economy.com; American Community Survey; US Census; North American Business Cost Review 2006; team analysis

A thriving Michigan Innovation & Entrepreneurial Environment requires 3 key components



Michigan is performing above many peers in industrial innovation

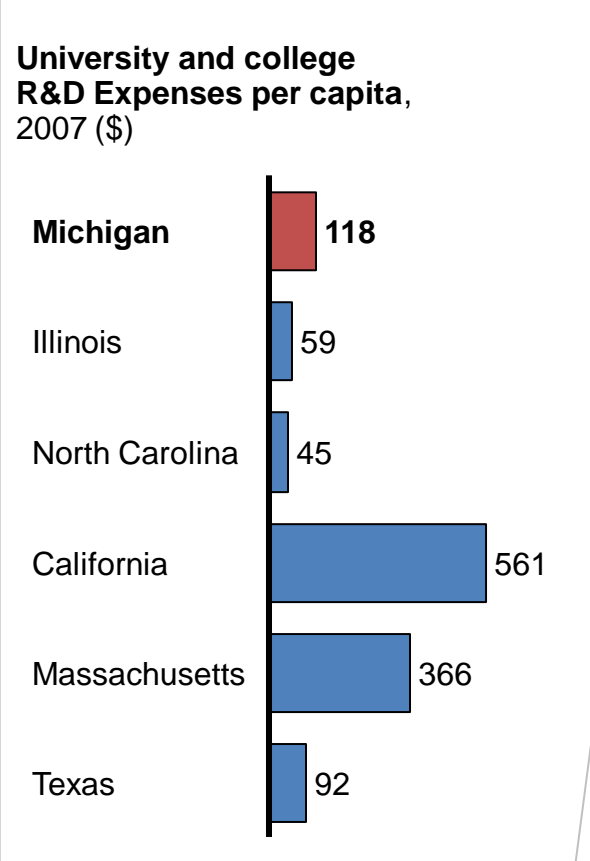


- Michigan is ranked 10th overall for number of patents per employee
- Rate of patents per employee is deteriorating across all states, and trend has continued through recession

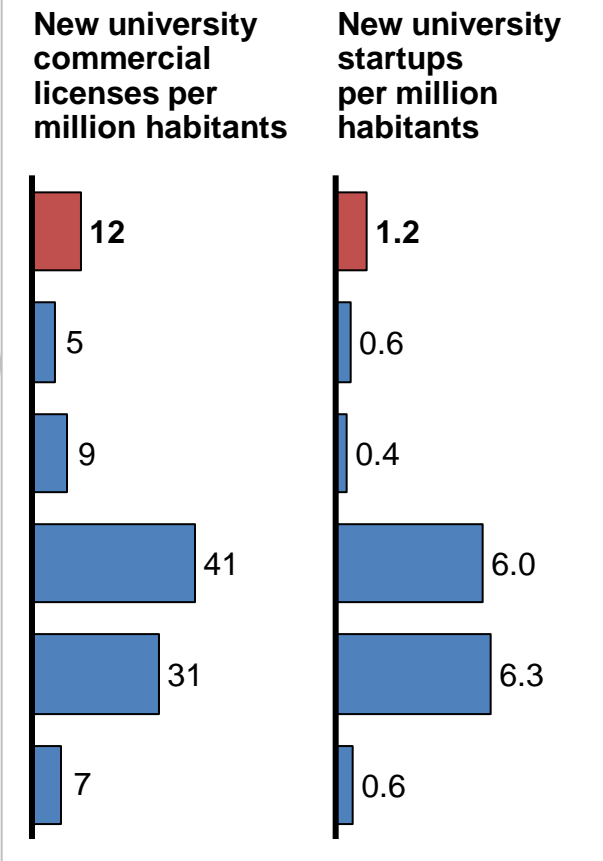
SOURCE: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; team analysis

Michigan universities outperform many peers in spend & idea commercialization, and rival MA and CA in activity per dollar

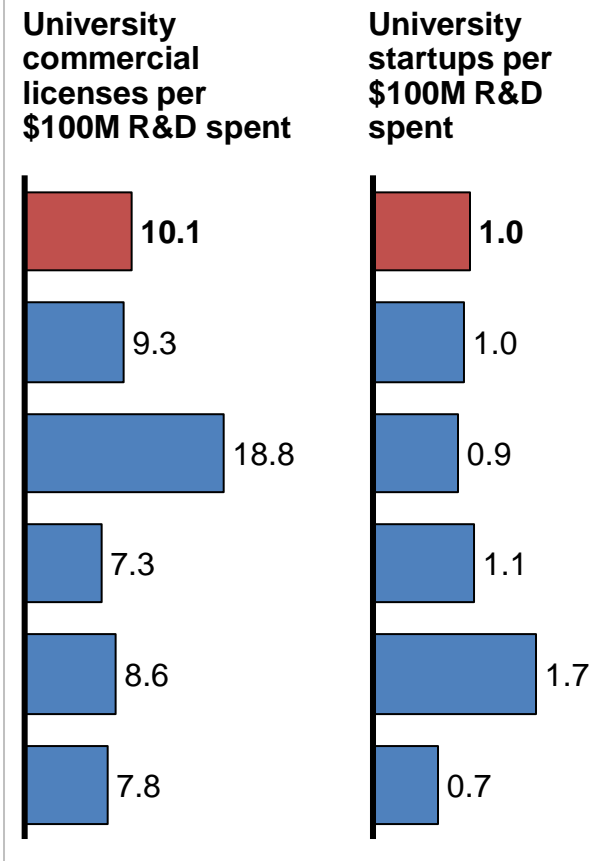
MI universities' R&D is above many peers, but still trails CA and MA



Idea commercialization and tech transfer above many peers as well...



... and rate of startups spun out of universities per \$ of R&D spent rivals CA and MA

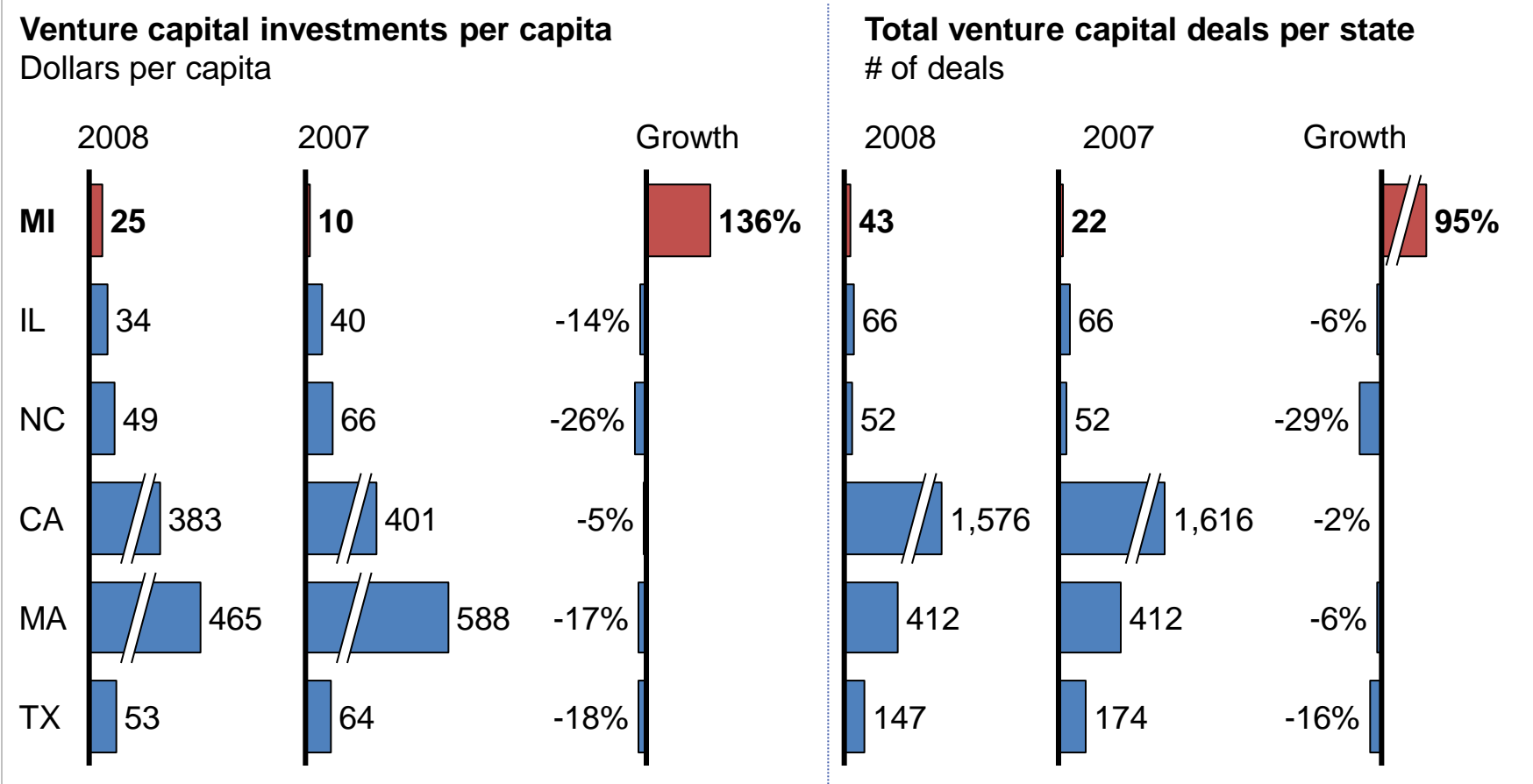


NOTE: Includes only Top 100 universities and colleges as defined by U.S. News & World Report
 SOURCE: AUTM University Licensing Survey (2007); U.S. News; team analysis



Limited availability of venture capital impedes ability of growth firms to reach scale & Michigan's ability to attract / retain entrepreneurs

Michigan's VC investment per capita jumped 135% in 2008 (driven by one \$160 million deal) but remains the lowest among peers and only a fraction of innovation hubs such as CA or MA



SOURCE: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report



Michigan shows some areas of strength in enabling entrepreneurship, but results have not yet materialized

Michigan's overall rank is 17 out of 50

The Information Technology & Innovation Foundation – State New Economy Rankings (2009)¹
Rank out of 50 (1 = best)

	Rank out of 50 1 = best		Rank out of 50 1 = best
E-Government	1	Broadband telecommunications	26
Industry investment in R&D	2	Migration of US knowledge workers	26
Health IT	5	Internet domain names	28
Immigration of knowledge workers	8	Workforce education	28
Job churning	10	Export focus of manuf. & services	29
Foreign direct investment	11	Online population	30
Managerial, prof., tech. jobs	13	Entrepreneurial activity	30
Inventor patents	17	High-wage traded services	31
Total patents	17	"Gazelle Jobs"	31
High-tech jobs	17	Non-industry investment in R&D	32
Alternative energy use	18	Fastest growing firms	32
Online agriculture	19	IPOs	32
Scientists & engineers	20	Technology in schools	33
IT professionals	22	Venture capital	38
Manufacturing value-added	26		

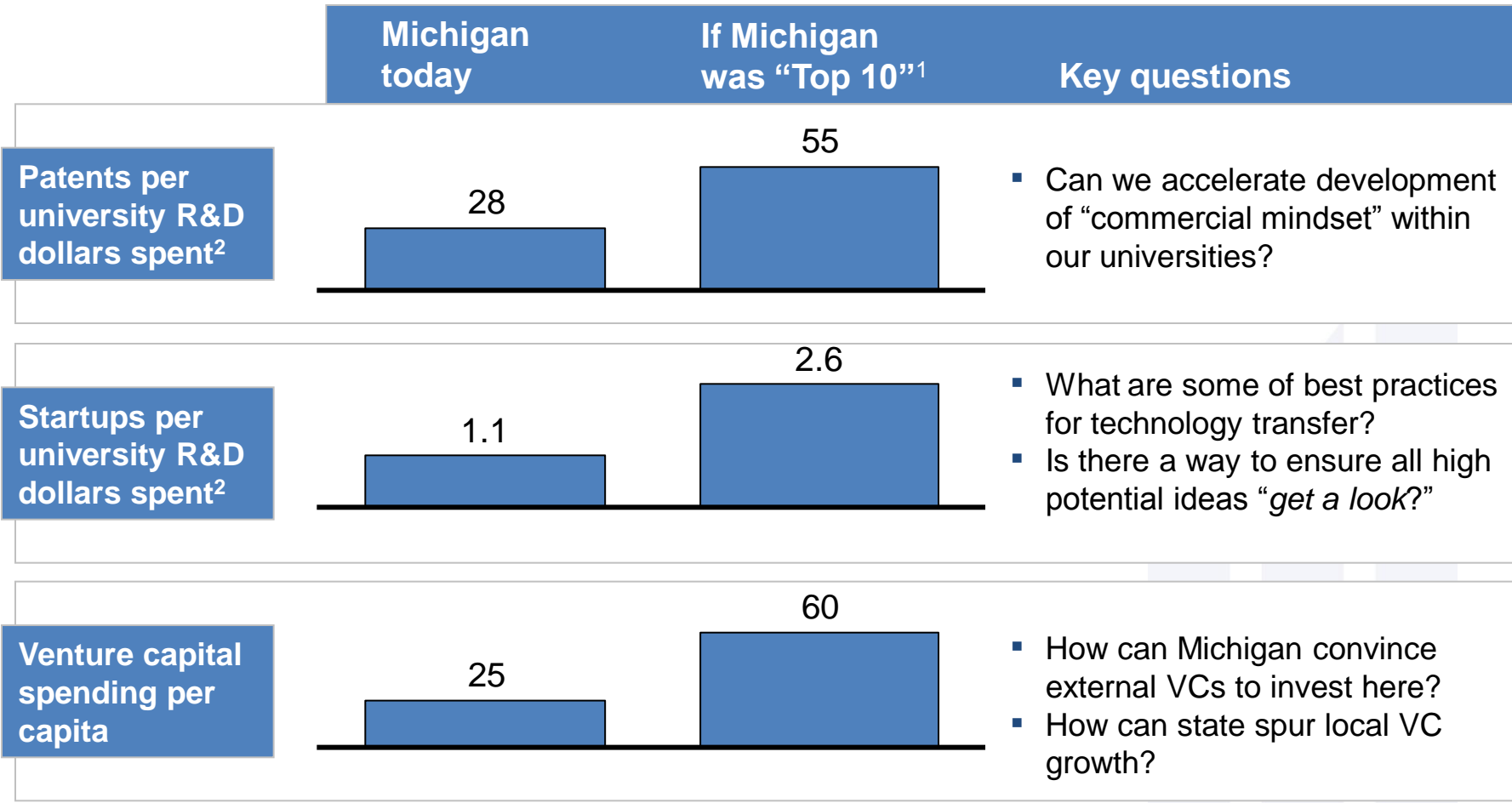
Michigan's strengths are around creating the right environment to spur hi-tech knowledge work...

... However, the friendly environment has not yet translated into entrepreneurial activity



¹ Purpose of index is to measure the economic structure of states. Unlike some reports, which measure state economic performance or state economic policies, this report focuses more narrowly on a simple question: To what degree does the structure of state economies match the ideal structure of the New Economy?

Moving to innovation & entrepreneurial environment leadership would entail significant increases in IP generated and venture capital investment



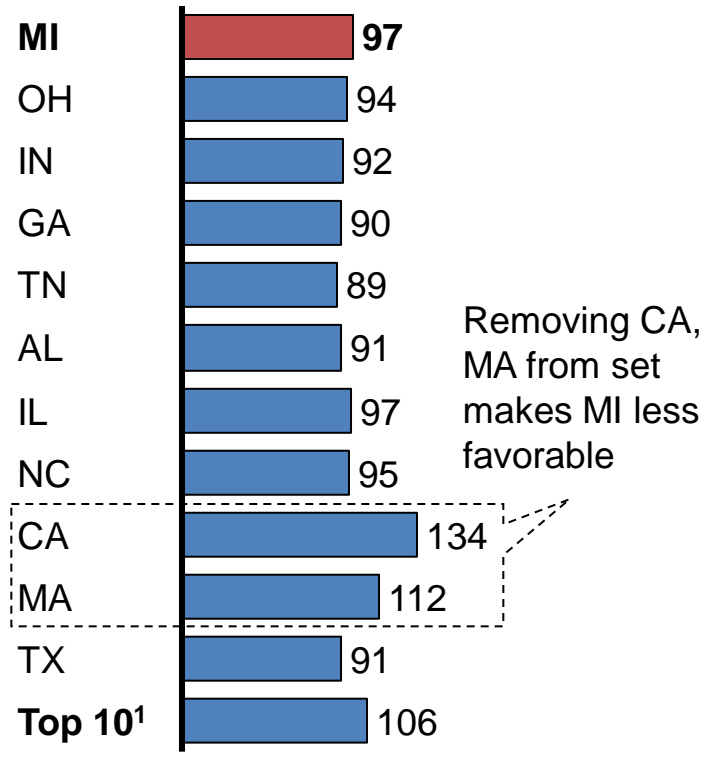
¹ Aspiration to be a Top 10 state; ² For Michigan U of M and MSU are considered and compared to other universities with more than \$100M spent on R&D in 2007

Michigan cost of living is favorable, especially compared to the “new economy” competitors

The overall cost of living is above the traditional industry competitors but in line or below the “new economy” benchmarks states

Cost of living index

100 = US average, 2009 (Q1)

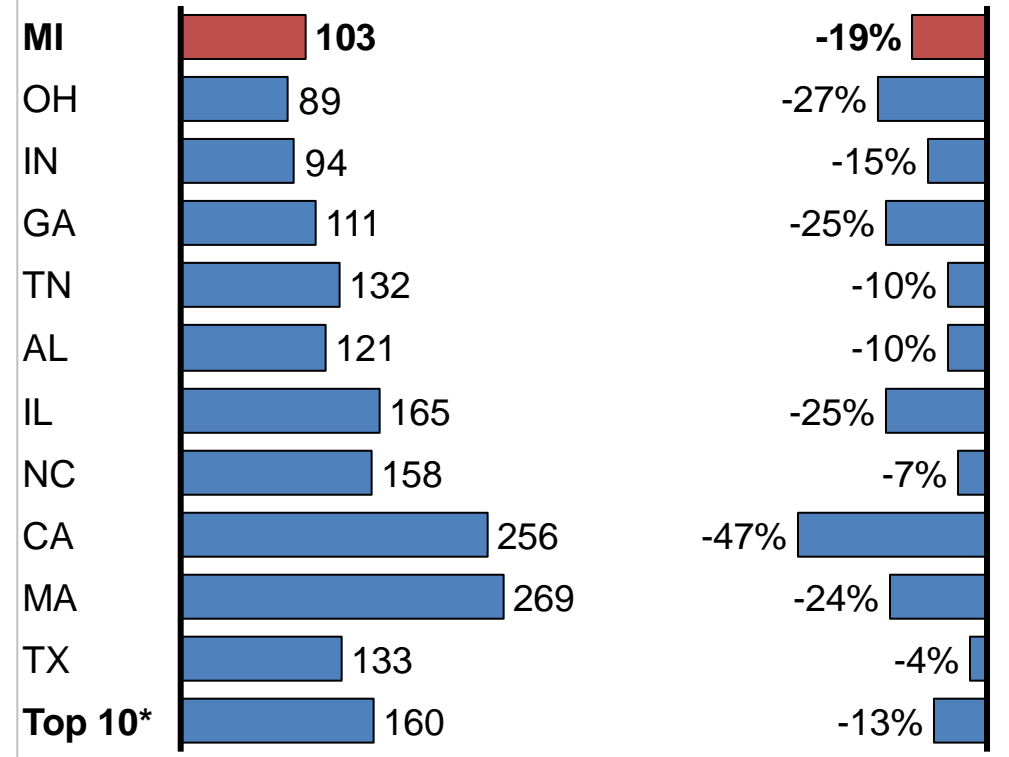


Housing prices are more affordable than in most competitor states and significantly cheaper than in the “new economy” competitors

Median existing home sales price

\$ Thousands, 2009 (Q1)

Percent change from 2007



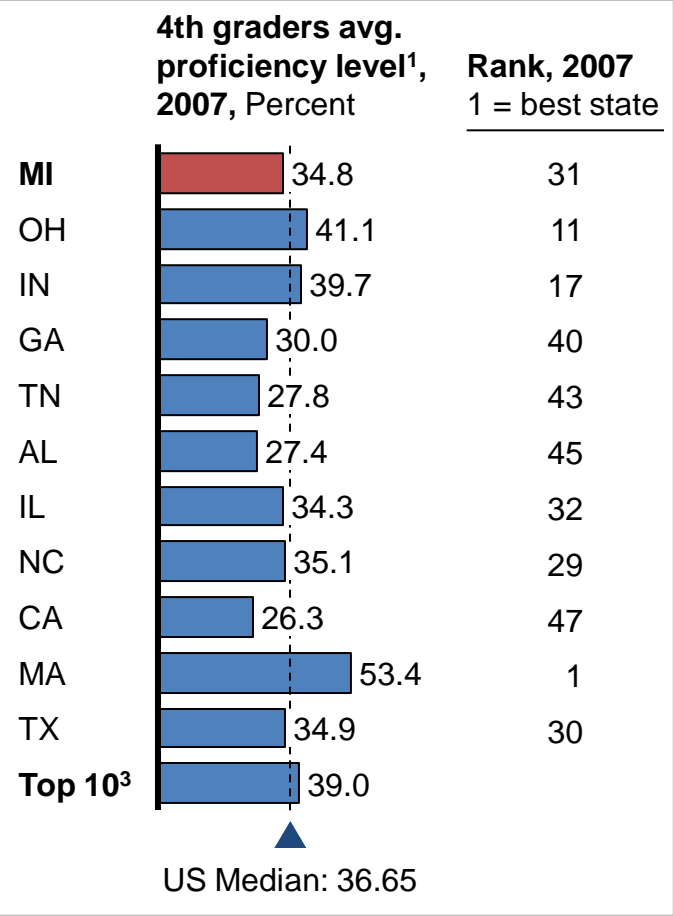
1 Average of the top 10 states in GDP per capita growth between 2000 and 2008 excluding HI (i.e., ND, OR, SD, NY, VT, IA, MT, WY, NE, MD)



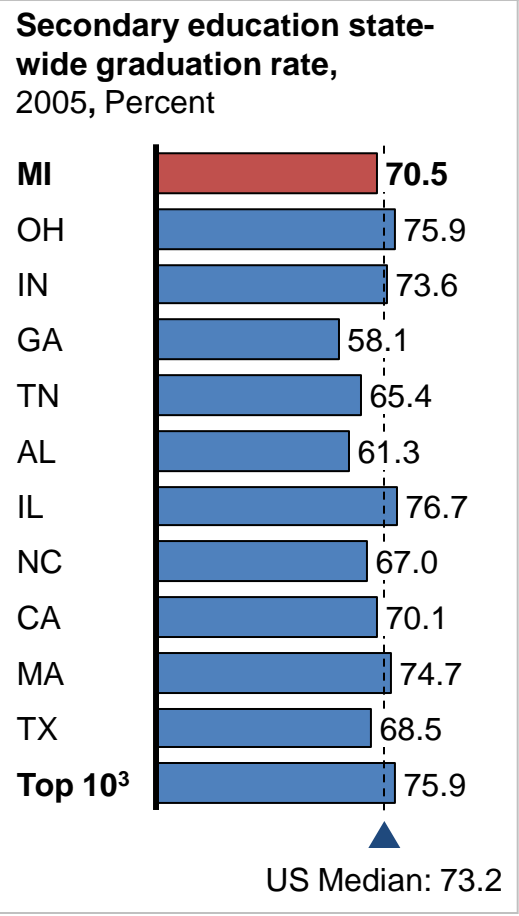
SOURCE: ACCRA; National Association of Realtors: Real Estate Outlook; Moody's Economy.com;

Michigan underperforms in education, but has healthcare system rating among nations best

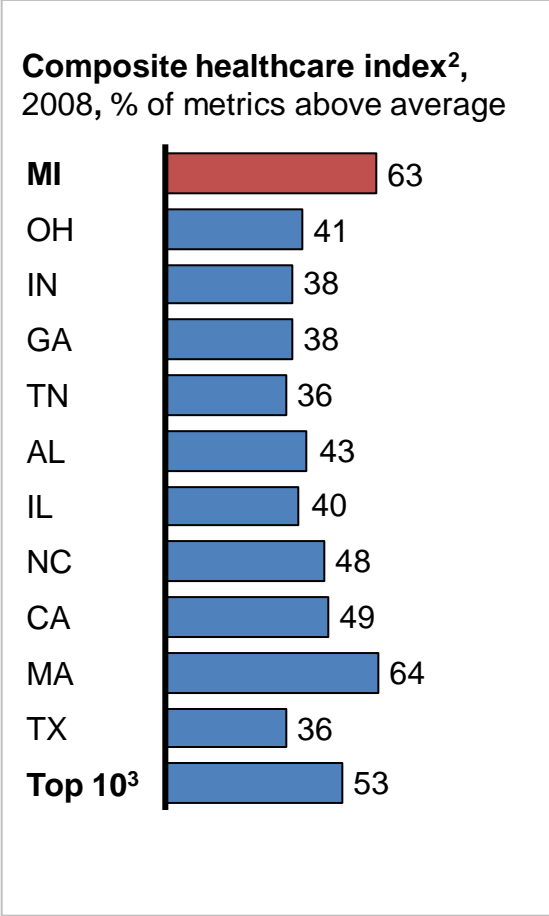
K-12 education is in the average of competitor states, but below the US median levels



Michigan's High School graduation rate also below US median



Michigan's healthcare system is top five in the country, indexing far above most competitors

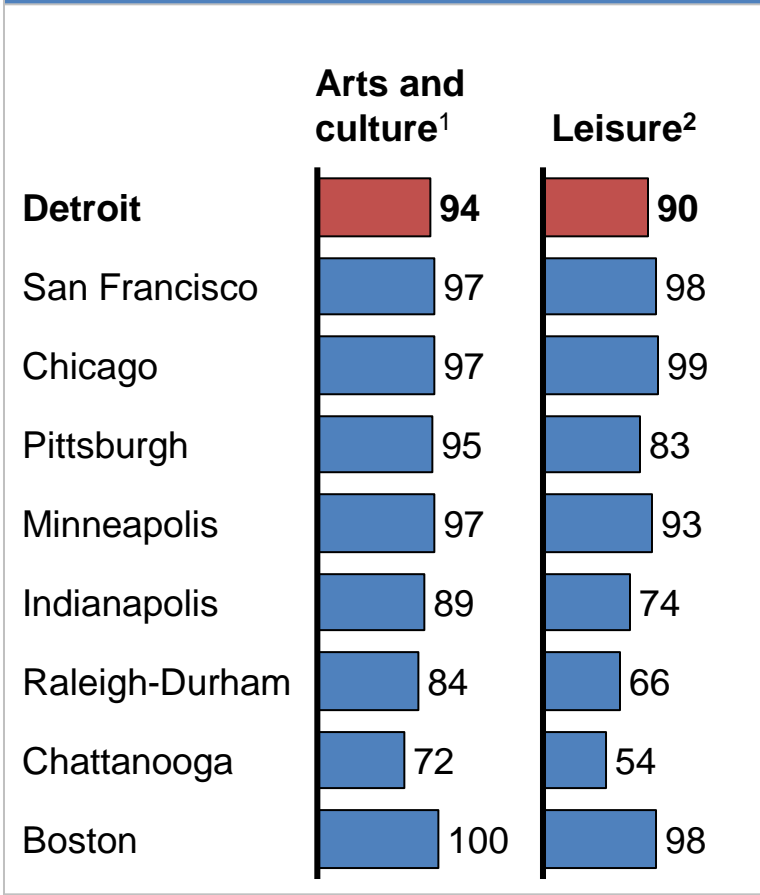


1 Defined as the average of 4th graders at or above proficiency in mathematics and in reading
 2 Healthcare performance index is an aggregated calculation based on effectiveness of care for diseases, patient safety, timeliness, and patient centeredness. The rating is the percentage of metrics where the state score was above the US average
 3 Average of the top 10 states in GDP per capita growth between 2000 and 2008 excluding HI (i.e., ND, OR, SD, NY, VT, IA, MT, WY, NE, MD)

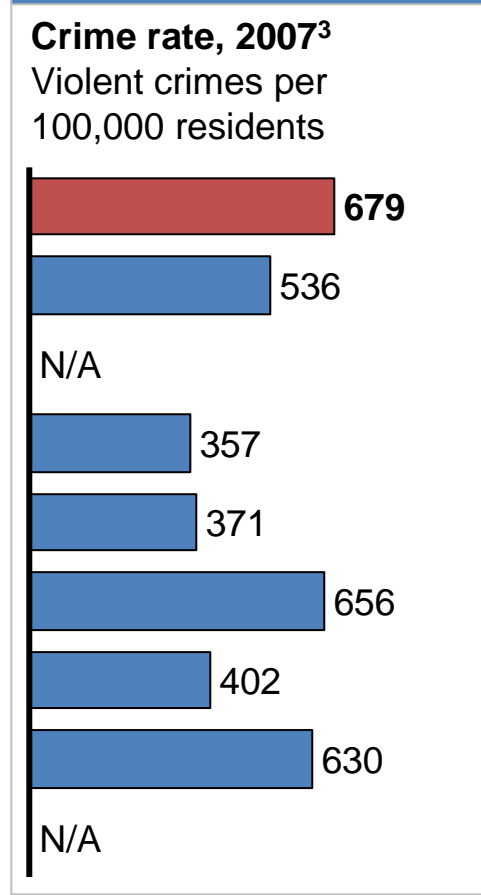
SOURCE: EdCounts database; NHQR State Snapshot

Although Detroit's cultural and leisure offering is comparable to top cities, crime rates and perceived quality of life limit attractiveness

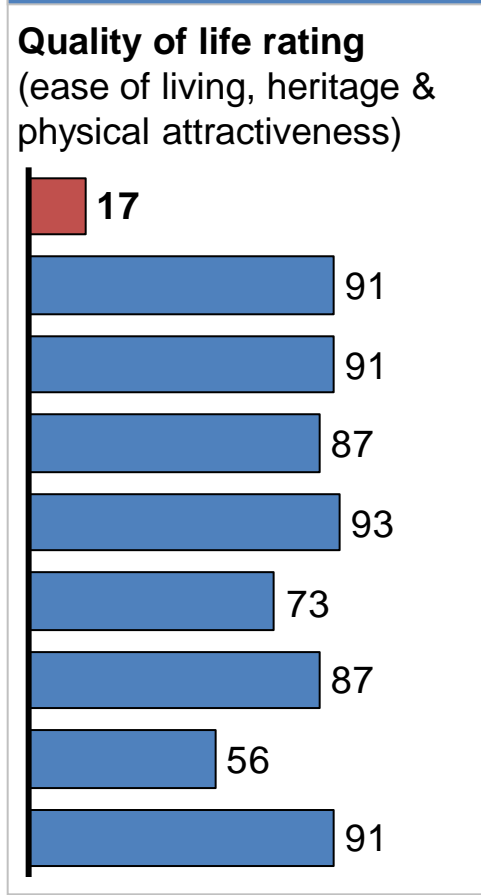
Detroit's scores in arts, culture and leisure in ranges of top US cities



Detroit's crime rate is high relative to most cities

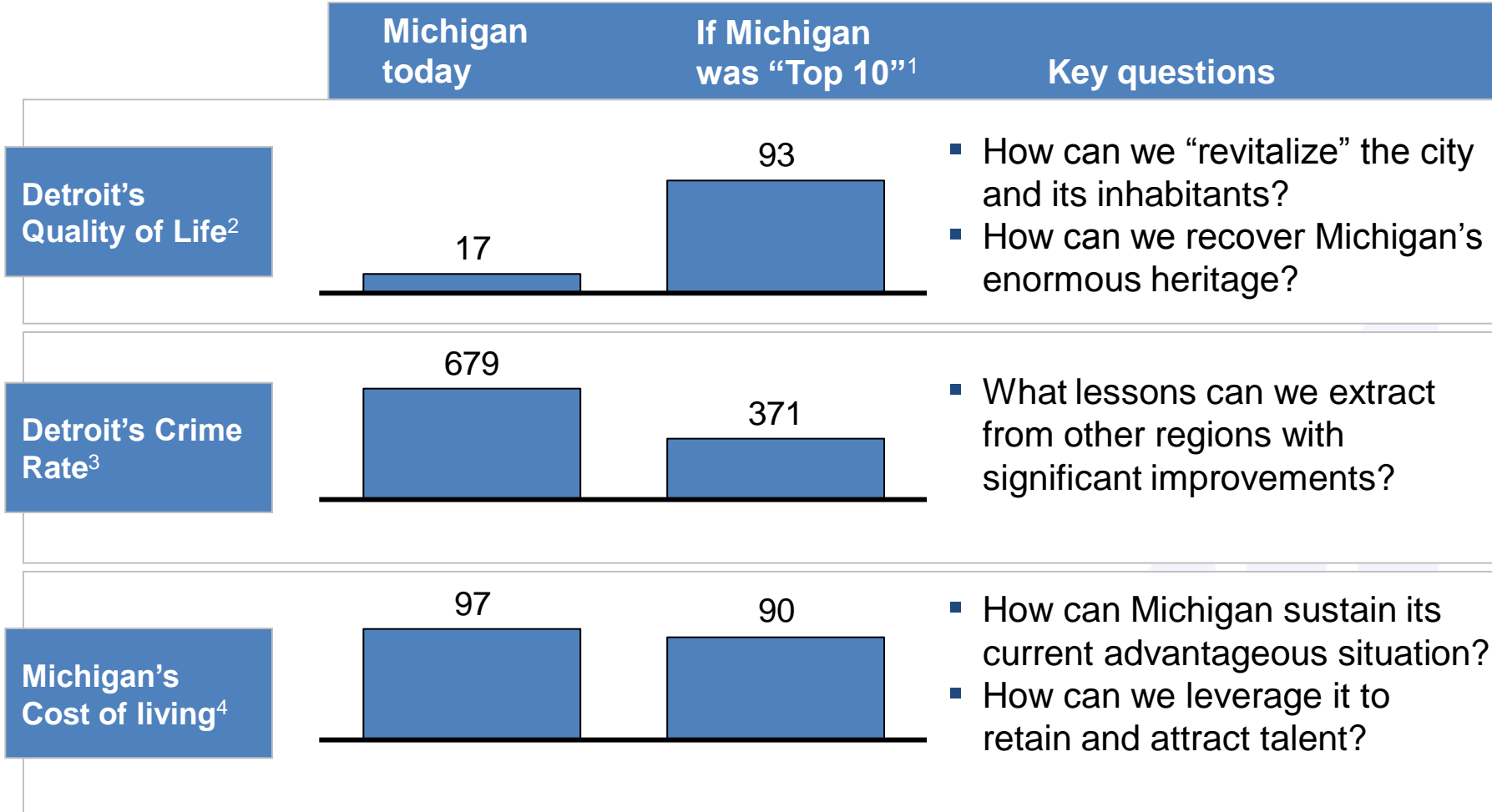


Detroit's quality of life rates very poor



¹ Score based on weighted scores of museum ratings, professional performing arts (e.g., classical music and theater) ratings, and library facilities ratings; ² Score based on weighted availability of outdoor sports, amusements (zoos, aquariums, amusement parks), national parks and coastline, professional or college-level spectator sports, and shopping; ³ The rate for Minneapolis is from 2006; Chicago is not included because the data is not at MSA level and, thus, difficult to compare
SOURCE: Cities Ranked and Rated, 2007; FBI Crime in the US 2007

Improving quality of life in Michigan and Detroit would have a significant impact on attracting and retaining talent



1 For quality of life and crime rate, Detroit's aspiration is to attain the levels of Minneapolis, the top Midwest city in these metrics and a top ten nationwide. For cost of living, the aspiration is to be a top 10 state; 2 Score based on ease of living, heritage, and physical attractiveness

3 Number of violent crimes per 100,000 residents; 4 As a percent of US average

SOURCE: Cities Ranked and Rated, 2007; FBI Crime in the US 2007; ACCRA; Missouri Dept. of Economic Development; team analysis



Business Leaders for Michigan: Board of Directors

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