

KEY ECONOMIC INDICATORS

UPDATE



P.O. Box 30014, Lansing, MI 48909-7514

Phone: 517-373-8080 FAX: 517-373-5874

Internet: www.house.state.mi.us/hfa

Mitchell E. Bean, Director; Rebecca Ross, Senior Economist

Economic Data Pertaining to
the U.S. and Michigan Economies
for Members of the Michigan Legislature

BI-MONTHLY PUBLICATION

May/June 2001

Volume 7, No. 2

In The News . . .

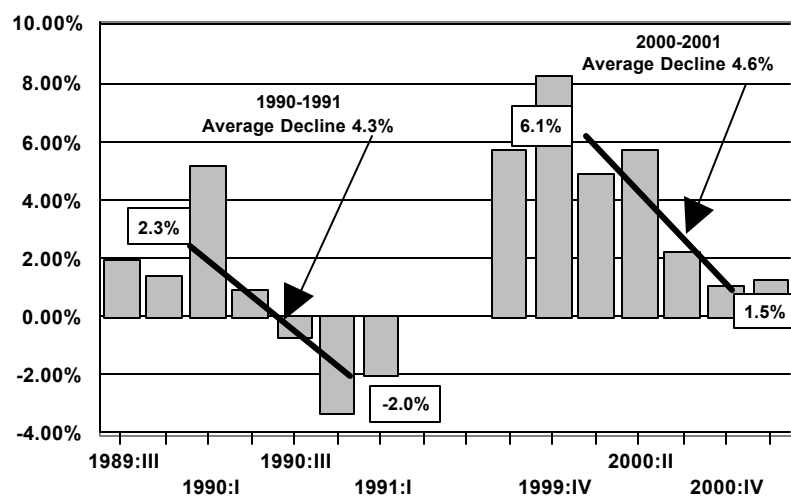
Although the current slowdown in U.S. economic activity does not meet the textbook definition of a recession (i.e., two consecutive quarters of negative real economic growth), the drop in real GDP growth has actually been greater than the decline during the 1990-1991 recession.

The chart below shows the growth rate of real GDP for the four quarters prior to and during the 1990-91 recession. It also shows the real GDP growth rates for the seven most recent quarters. Note that real GDP grew at an average annual rate of 2.3% in the four quarters *prior to* the 1990-91 contraction and posted an average decline of 2.0% *during* the 1990-91 recession. Thus, the average pace of growth between 1989:III-1990:II and 1990:III-1991:I declined by 4.3%. From the third quarter of 1999 through the second quarter of 2000, real GDP advanced at a very robust average annual rate of 6.1%. However, the three most recent quarters indicate that the pace of economic activity has slowed significantly to 1.5%—a decline of 4.6% from the 6.1% rate.

All of the major components of GDP posted weaker growth rates in the three most recent quarters (2000:III through 2001:I) than in the four quarters prior to the sharp slowdown in economic growth. Gross private domestic investment (which includes residential and nonresidential fixed investment and the change in private inventories) was the key component of this large deceleration. During the most recent three quarters, a decrease in investment resulted in a 1.1% average decline in the growth rate of real GDP. In fact, a decline in private inventories (from unsustainably high levels) subtracted an average of 1.3% from the GDP growth.

A return to the higher growth rates experienced during the mid- and late-1990s appears to hinge on an increase in investment, most notably in the business sector.

Annualized Real GDP Growth



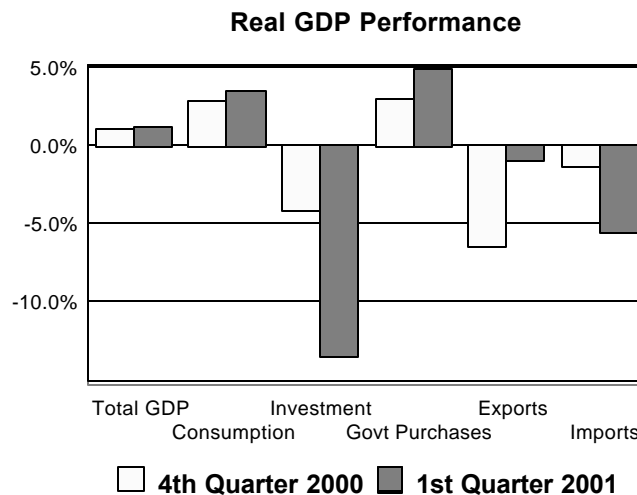
The U.S. Economy . . .

Gross Domestic Product

Gross domestic product (GDP) is the standard measure of the performance of the national economy. It has four main components: personal consumption expenditures, gross private domestic investment, government consumption expenditures and gross investment, and net exports (exports less imports) of goods and services. Real GDP grew at a seasonally adjusted annual rate of 1.2% during the first quarter of 2001 after posting an increase of 1.0% during the final quarter of 2000.¹

Personal consumption expenditures, which account for almost two-thirds of GDP, grew at a 3.4% rate during the first quarter of 2001, outpacing the 2.8% growth from the fourth quarter 2000 rate. However, gross private domestic investment, which declined 3.7% in the fourth quarter of 2000, continued its downward path and fell by 13.3% in the first quarter of 2001.

% Change from Prior Period at Annual Rate



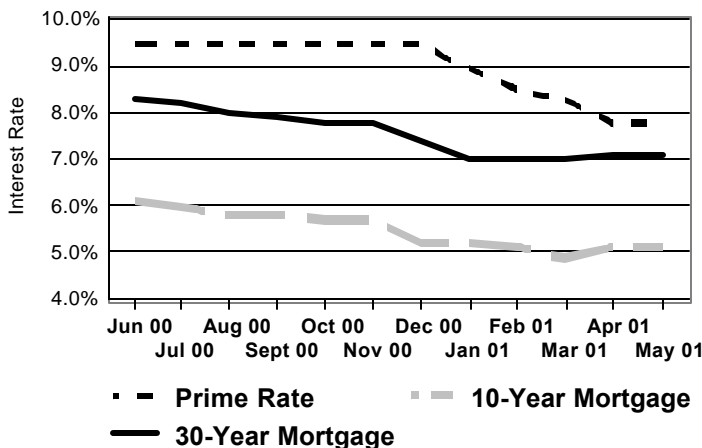
Key Interest Rates

Interest rates are based on Federal Reserve policy, duration (short-, medium-, or long-term), and perceived risk. Short-term interest rates, as measured by the prime rate, dropped steadily in response to the Fed's rate cuts before leveling out in May. Medium-term interest rates, as proxied by the rate on ten-year Treasury securities, have followed a similar path. Long-term rates, as measured by the 30-year conventional mortgage rate, rose slightly in April but remained constant in May.

Leading and Coincident Economic Indicators

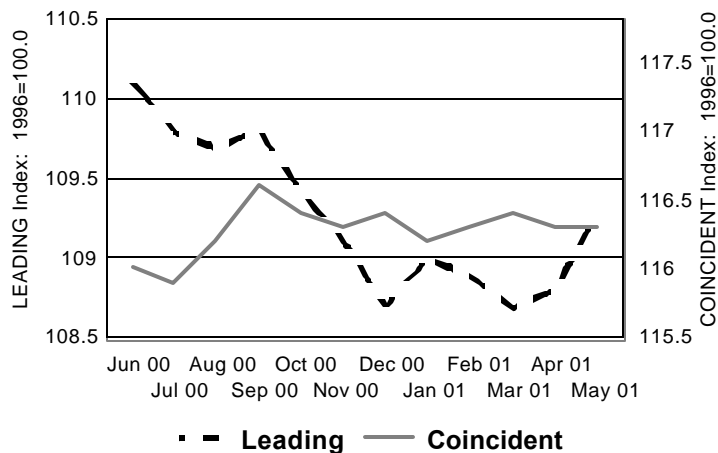
The composite index of leading economic indicators, which is used to predict the future path of the economy, jumped 0.5% in May, and has experienced a net gain of 0.2% over the past six months. In contrast, the index of coincident

Selected Interest Rates



economic indicators, which is used as a gauge of current economic conditions, remained flat in May, and is at the same level as it was six months ago. The increase in the leading index suggests that the pace of the economy should begin to pick up over the coming months.

Leading and Coincident Indicators



¹ Data on macroeconomic variables from the Survey of Current Business, U.S. Department of Commerce, Bureau of Economic Analysis. Interest rate data from the Federal Reserve Board. Data on the leading and coincident indexes from Business Cycle Indicators, The Conference Board.

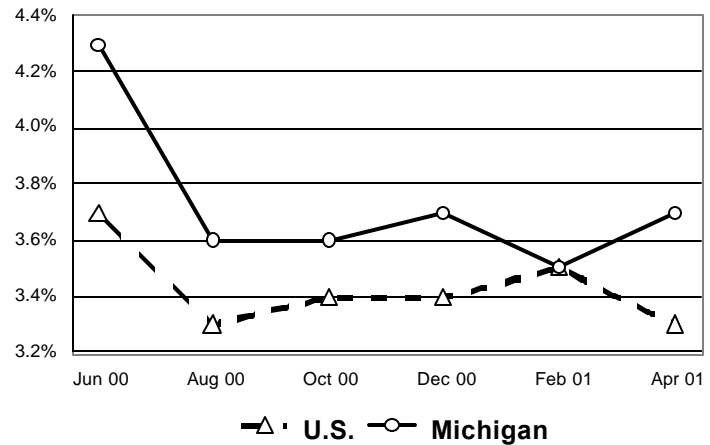
U.S. and Michigan Comparisons . . .

Inflation

Inflation measures the change in the general level of prices over time. One frequently-used gauge of inflation is the consumer price index (CPI), or for Michigan, the Detroit-Ann Arbor CPI (D-CPI). In April 2001, the CPI posted a 3.3% increase from a year ago while the April 2001 D-CPI advanced at a 3.7% pace.²

The inflation rate is influenced by a number of factors. Among the most significant are the producer price index (PPI), the employment cost indexes for total compensation and wages and salaries, and labor productivity.

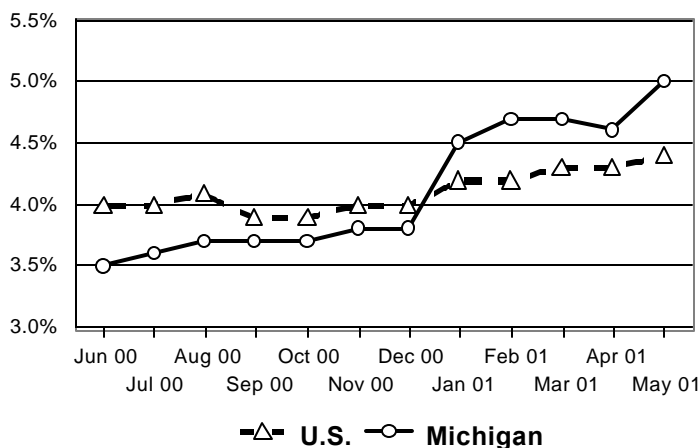
U.S. and Michigan Unemployment Rates



Economic Measures Key to Inflation

<u>Economic Measure</u>	<u>Time Period</u>	<u>Current Period</u>	<u>% Change from Previous Period at Annual Rate</u>	<u>% Change from Year Ago</u>
Producer Price Index	May 2001	142.5	7.0%	3.8%
Total Compensation Index	1st Quarter, 2001	153.0	5.7%	4.2%
Wage and Salary Index	1st Quarter, 2001	149.4	4.7%	3.8%
Labor Productivity Index	1st Quarter, 2001	119.1	-1.0%	2.5%

U.S. and Michigan Unemployment Rates



Unemployment

Between March 1995 and December 2000, the unemployment rate in Michigan remained below the U.S. level. Beginning in January 2001, Michigan's unemployment rate climbed above the U.S. rate, and has remained higher during the first five months of 2001. In May, the U.S. unemployment rate was 4.4% while Michigan's unemployment rate rose to 5.0%.

Employment

In May, total U.S. employment stood at just over 135 million workers, which represents a 0.2% increase relative to May 2000. For Michigan, total employment in May 2001 was just under five million workers, which translates to a 0.8% decline when compared to May 2000.

² Both consumer price indexes, the producer price index, both employment cost indexes, and the labor productivity index are calculated by the U.S. Bureau of Labor Statistics. U.S. and Michigan employment and unemployment data is provided by the Michigan Department of Career Development.

The Michigan Economy . . .

Total wage and salary employment in May fell by 0.2% relative to one year ago. The two largest industries—trade and services—saw modest employment increases, while the manufacturing sector, especially in durable goods experienced significant employment declines. Average weekly earnings for mining and construction, finance, insurance, real estate, and services increased from a year ago. The largest wage and salary decline occurred in the durable goods sector.

Michigan Labor Market Data

Industry Classification	Wage and Salary Employment (in Thousands)		Average Weekly Earnings (in Dollars)	
	May 2001	Percent Change from Prior Year	May 2001	Percent Change from Prior Year
Mining and Construction	229.1	2.0%	\$877.17	8.0%
Manufacturing	948.6	-3.8%	\$818.31	-2.6%
Durable Goods	720.7	-4.5%	\$875.65	-3.4%
Nondurable Goods	227.9	-1.5%	\$628.94	1.7%
Transportation and Public Utilities	181.0	-0.2%	\$669.60	-0.5%
Wholesale and Retail Trade	1,098.0	0.3%	\$413.31	1.4%
Finance, Insurance, and Real Estate	207.8	1.1%	\$534.38	3.3%
Services	1,337.9	1.1%	\$493.46	3.4%
Total Government	708.4	0.4%	N/A	N/A
TOTAL WAGE AND SALARY EMPLOYMENT	4,710.8	-0.2%	N/A	N/A

U.S.

Motor Vehicle Sales

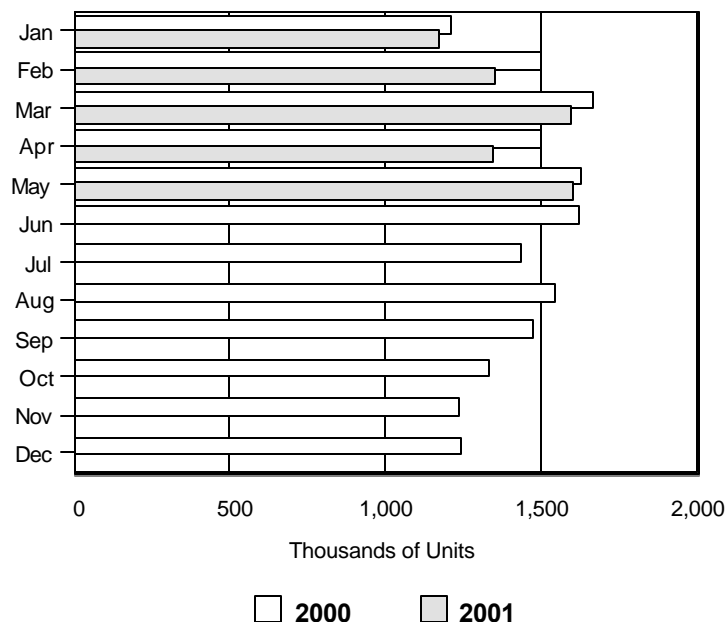
U.S. sales of cars and light trucks for the first five months of 2001 measured just over 7.0 million units, which represents a 5.6% decline from the more than 7.5 million units purchased during the same period last year. Although sales of light vehicles in May were 1.2% below the year-ago level, the 1.6 million vehicles sold represents an 18.8% increase relative to April.

Michigan

Motor Vehicle Production

Michigan light vehicle production in May stood at 262,466 units, which represents a 13.4% decline relative to May 2000. Compared with one year ago, auto production fell by 8.8% while light truck production dipped by 20.4%. Through the first five months of 2001, total light vehicle production is 18.3% lower than during the same period in 2000.³

U.S. Sales of Cars and Light Trucks



³ Michigan employment and wage data from the U.S. Bureau of Labor Statistics. Automotive figures are published in Automotive News; calculations by HFA. Michigan auto production data from the Office of Revenue and Tax Analysis, Michigan Department of Treasury.