KEY ECONOMIC INDICATORS

UPDATE

HOUSE FISCAL AGENCY

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

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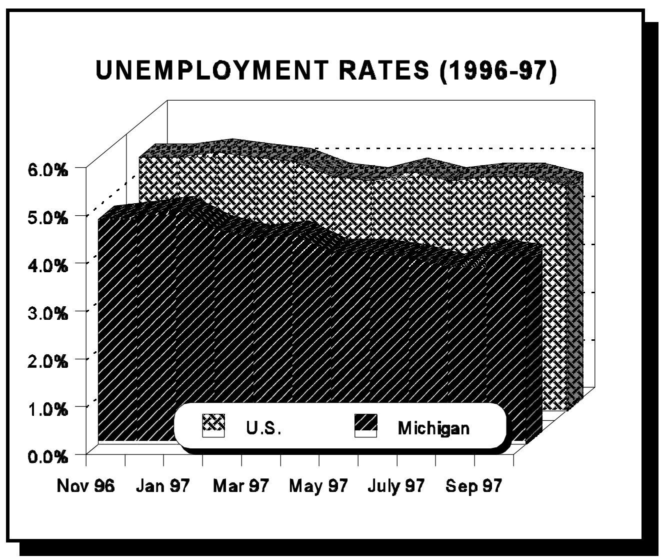
Employment

Trends in the Labor Market:[1] Michigan's unemployment rate dropped 0.1 percentage points in October, falling to 3.9%. This represents 192,000 unemployed workers in Michigan. Last year at this time the jobless rate stood at 4.8% with 232,000 unemployed workers. The gap between the average state and national unemployment rates narrowed for the second straight month—it now stands at 0.8 percentage points (the U.S. rate decreased 0.2 percentage points to 4.7%). The year-to-date average unemployment rate for Michigan is 4.2%, compared to a 4.7% average rate over the same period last year. The U.S. year-to-date average unemployment rate is 5.0%.



- Michigan added 15,000 jobs to its total workforce in October, swelling the employment level to 4.67 million. This represents an increase of 90,000 workers since a year ago.

- Michigan's unadjusted wage and salary employment level for October was 52,000 jobs higher than in October of last year. Increases were recorded in all sectors except manufacturing and government. Service industry employment is 33,000 jobs above its year ago level, boosted by the business services (14,000), professional services (7,000), and health services (5,000) industries. The construction and trade industries are 19,000 and 17,000 wage and salary jobs above their year ago level, respectively. In contrast, the manufacturing sector has lost 12,000 jobs since October of last year, with nearly all of it

[1] U.S. unemployment figures are supplied by the Bureau of Labor Statistics. Michigan employment figures are supplied by the Michigan Employment Security Agency. Data are seasonally adjusted at annual rates unless otherwise indicated.

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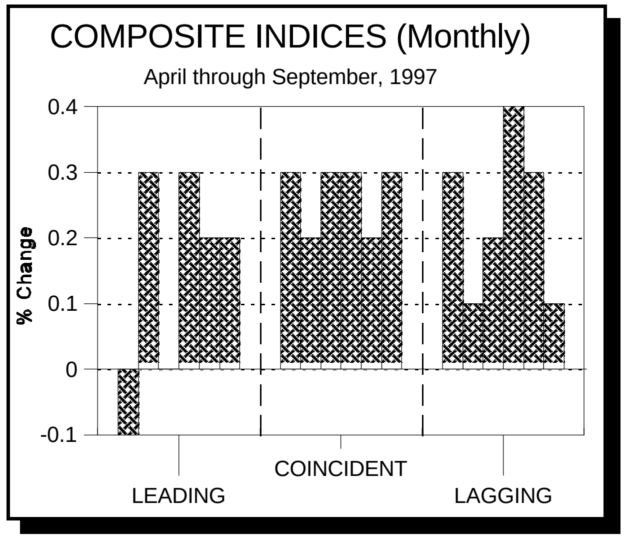
concentrated in the motor vehicle and equipment industry.

The National Economy

Composite Indices:[2] In predicting the future path of the economy, economists traditionally look at three types of indices: the composite index of *leading* economic indicators, the composite index of *coincident* economic indicators, and the composite index of *lagging* economic indicators. The value of each index is derived from several economic indicators and is calculated by The Conference Board, Inc., New York, N.Y.



- The **composite index of leading economic indicators**[3] increased each of the past three months, reaching 104.5 (100 in 1992) in September. Six of the ten leading indicators rose in September, with average weekly claims for state unemployment insurance and money supply being the largest positive contributors. The largest negative contributor was manufacturers' new orders of consumer goods and materials. The index has increased 0.9 percent during the past six months, representing a 1.8% annual growth rate. This suggests the economy should continue to grow at a relatively strong pace into the foreseeable future.

- The **composite index of coincident economic indicators** continued its ascent, reaching 117.0 in September, an increase of 0.3 percentage points over August. Over the past six months, the index increased 1.6 percent, a 3.2 percent annual growth rate.

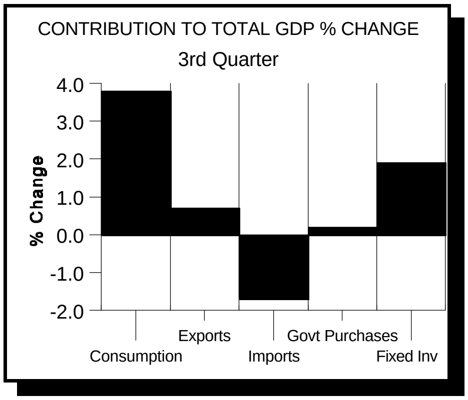
- The **composite index of lagging economic indicators** increased 0.1 percentage points in September, reaching 105.0. This confirms the solid economic growth experienced in the first half of 1997.

Components of Gross Domestic Product:[4] Gross domestic product (GDP) measures the total value of all final goods, services, and structures produced in the United States. Growth in GDP is the standard measure of the performance of the economy, and it has four main components: personal consumption expenditures, gross private domestic investment, government purchases of goods and services, and net exports (exports less imports) of goods

[2] Data on composite indices are seasonally adjusted and are published in *Business Cycle Indicators,* The Conference Board. The *leading index* is composed of: several employment measures, measures of new orders and contracts for various durable goods, measures of consumer expectations, and measures of several monetary variables. The composition of the leading index was changed effective December 30, 1996 to include a measure based on interest rates, and to exclude a measure of materials prices and a measure of demand for durable goods. The *coincident index* contains measures of employment, income, production, and manufacturing and trade sales. The components of the *lagging index* include measures of output and unemployment, the consumer price index for services, and various monetary indicators.

[3] Some of the past values of each index have changed since the last publication due to the revision of several components in each of the three indices.

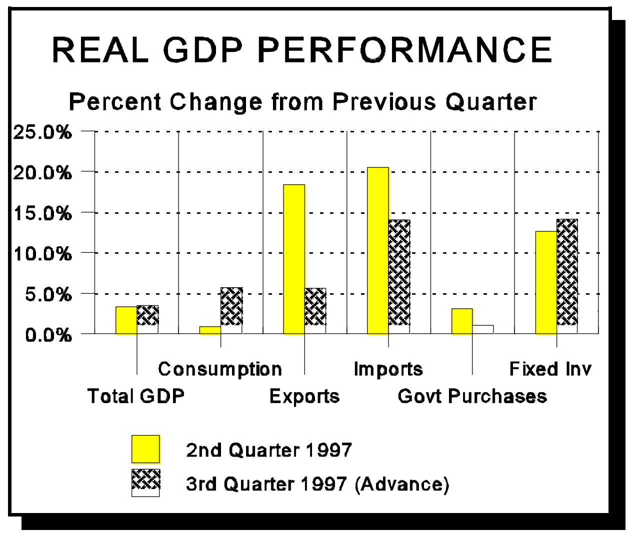
[4] Data on macroeconomic variables are expressed in chained 1992 dollars and are available from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis.



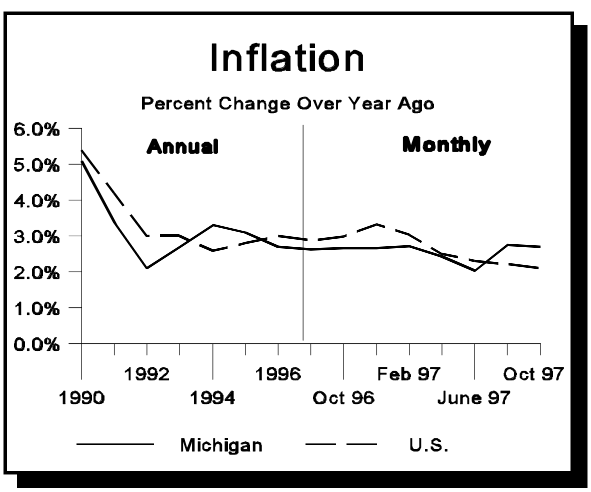
and services.

Advance estimates indicate **real GDP growth** for the third quarter 1997 reached 3.5% (SAAR),[5] 0.2 percentage points above the previous quarter. The strong growth can be attributed to an increase in consumption expenditures on durable goods and services, and an increase in fixed investment in durable goods.

- **Consumption expenditures** rose sharply, increasing from a weak second quarter 1997 growth rate of 0.9% (SAAR) to a robust growth rate of 5.7% in the third quarter of 1997.



- **Net exports** decreased from -$136.6 billion (SAAR) in the second quarter of 1997 to -$159.9 billion (advance) in the third quarter of 1997, despite the fact that both imports and exports recorded increases.



- **Total government expenditures** increased by 1.0% (SAAR) in the third quarter, fueled by state and local spending.

- **Fixed investment expenditures** grew by 14.1% (SAAR) in the third quarter of 1997.

Inflation: Increases in the **consumer price index (CPI)** remain moderate.[6] Despite strong economic growth in the first three quarters of 1997, the CPI only increased at an annual rate (AR) of 3.0% in October, the same as the previous month. Signs of future inflation are not overwhelming. Two common indicators used to predict future inflation, the **capacity utilization rate** and the **producer price index (PPI)**, have been relatively stable over the past year. However, other harbingers of inflation, such as **employment cost indices,** recently have grown faster than inflation. Any

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[5] Seasonally adjusted at annual rates (SAAR).

[6] U.S. inflation is measured by the rate of change in the consumer price index (CPI). Michigan inflation is measured by the rate of change of the Detroit-Ann Arbor CPI. Both are calculated by the Bureau of Labor Statistics.

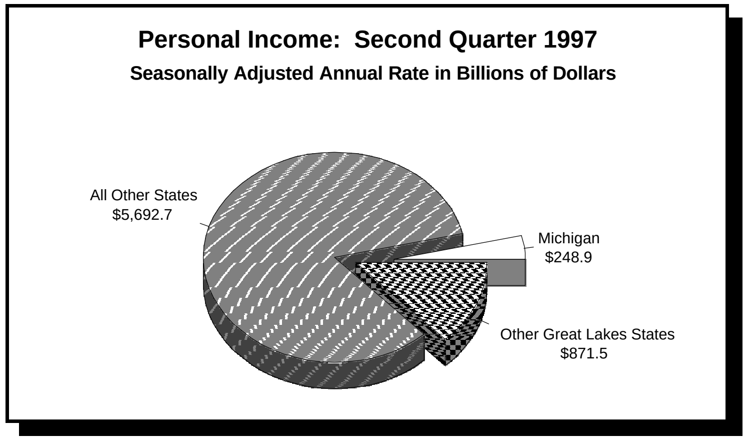
detrimental effect this may have on inflation so far has been offset by higher than usual **growth in labor productivity,**[7] which tends to deter inflation. Labor productivity growth jumped dramatically in the third quarter, increasing 4.5% (AR) from the previous quarter—the largest increase in nearly five years. Inflation in Michigan has also been moderate over the last year, increasing only 2.7% from its year ago level and 3.8% (AR) since August.

[7] Measured by nonfarm business output per hour. Productivity is calculated by the Bureau of Labor Statistics.

The Michigan Page

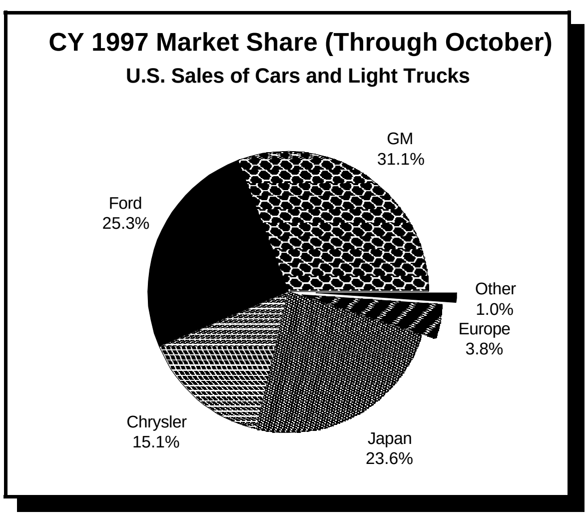
Personal Income:[8] Growth in state tax revenue is largely determined by growth in state personal income. Michigan's personal income growth in the second quarter of 1997 was, once again, below the U.S. average and was the forty-second slowest in the nation.

- The U.S. Department of Commerce reported that **Michigan's personal income** (preliminary) totaled $248.9 billion (SAAR) in the second quarter of 1997, an increase of 0.9% over the first quarter (the U.S. increased 1.2%). Personal income growth being at such a moderate level can be attributed primarily to a decrease in earnings in the manufacturing and mining sectors.



- **Real disposable income**[9] is an indicator of future expenditures in the durable goods sector. This sector, comprised of light vehicles and other goods, is an important contributor to the Michigan economy. Real disposable income for the U.S. increased only slightly in the second quarter of 1997, up a mere 0.1% (SAAR) from the first quarter. This is consistent with the slowdown in the consumption of durable goods in the second quarter, and suggests that spending on durable goods, despite a strong third quarter, may be sluggish in the future.

Auto Industry:[10] **Sales of U.S. cars and light trucks** are slightly behind last year's pace, totaling just under 12.8 million units in the first ten months of 1997. The decrease is due almost entirely to a decline of 6.9% in Big Three car sales. Both Japanese and European car sales are up. Because of this, total U.S. light vehicle sales are 0.8% behind last year's pace despite the fact that light truck sales increased by 3.0%. Total foreign sales in the U.S. are up, with Japanese vehicle sales climbing 3.8% and European sales climbing 10.5%. As a result, the foreign share of light vehicle sales increased 1.4 percentage points over the same period last year. Sales for the month of October were slightly behind October 1996 sales with Big Three vehicle sales accounting for all of the loss. Year-to-date 1997 **total U.S. production** is slightly ahead of last year's pace, totaling 10.3 million units. Light truck production has actually increased by 5.6%, whereas car production has declined by 3.9%.



[8] Personal Income data are reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Income figures are seasonally adjusted at annual rates (SAAR).

[9] Disposable income figures are chain weighted and seasonally adjusted at annual rates (SAAR).

[10] Automotive figures are published in *Automotive News*.