

# KEY ECONOMIC INDICATORS

# UPDATE



309 N. Washington Square, Suite 12, Lansing, MI 48933  
Phone: 517-373-8080 FAX: 517-373-5874  
Internet: [www.house.state.mi.us/hfa](http://www.house.state.mi.us/hfa)  
James J. Haag, Director; Mitchell Bean, Senior Economist

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

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## Employment

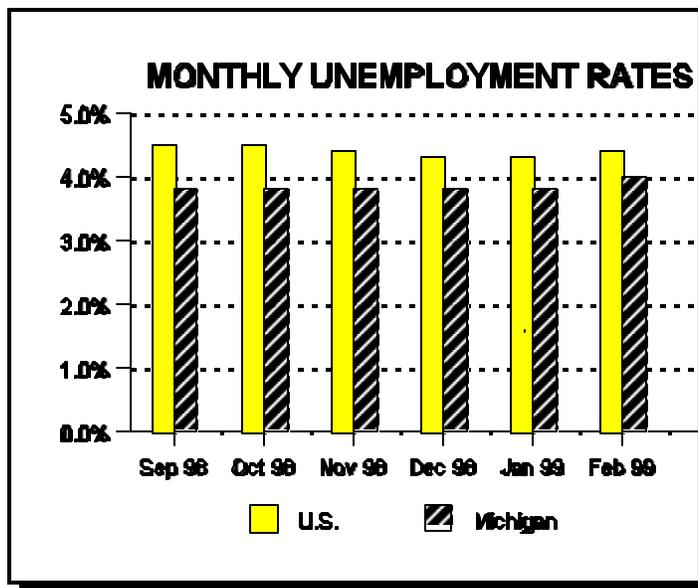
**Trends in the Labor Market:**<sup>1</sup> Michigan's seasonally adjusted (SA) unemployment rate rose slightly to 4.0% in February, up from 3.8% in January. Last year at this time, the unemployment rate stood at 3.9%. The increase in the unemployment rate can be attributed to an increase in the number of unemployed workers that exceeded a corresponding increase in the overall labor force. February saw the labor force grow by 10,000 workers while the number of unemployed workers rose by 14,000 to 204,000. In February of 1998, there were 198,000 unemployed workers.

! Like Michigan's unemployment rate, the U.S. unemployment rate rose in February (from 4.3% to 4.4%). As a result, the spread between the state and national unemployment rates fell to 0.4 percentage points.

! Michigan lost 3,000 seasonally-adjusted jobs in February, which dropped total employment to 4.87 million. Relative to last February, this still represents an increase of 51,000 jobs.

! Michigan's unadjusted wage and salary employment level for February 1999 was 18,000 jobs higher than for January. Almost all of this growth can be traced to seasonal employment effects in the government service sector which affected employment levels in the education sector.

In contrast, the manufacturing sector has lost 3,000 jobs since January.

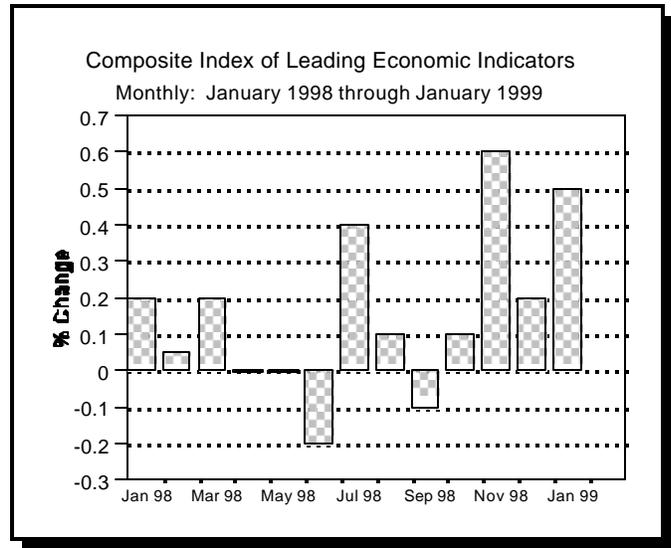


<sup>1</sup> U.S. unemployment figures are supplied by the Bureau of Labor Statistics. Michigan employment figures are supplied by the Michigan Employment Service Agency. Data are seasonally adjusted at annual rates (SAAR) unless otherwise indicated.

# The National Economy

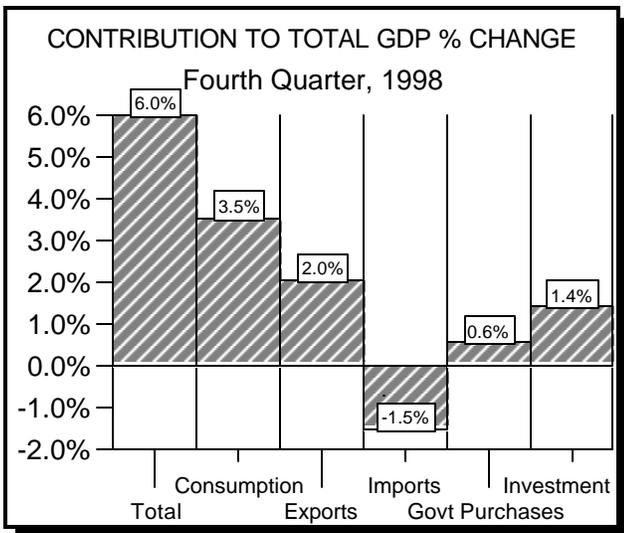
**Composite Index:**<sup>2</sup> In predicting the future path of the economy, economists traditionally look at the *composite index of leading economic indicators*. The value of the index is derived from several economic indicators and is calculated by The Conference Board, Inc., New York, N.Y.

The **composite index of leading economic indicators** rose 0.2% in December and 0.5% in January, reaching 106.9. On balance, seven of the ten component indicators that make up the index increased, with stock prices continuing to be the most significant factor. The only negative component was the length of the average factory workweek, which fell from 41.7 hours in December to 41.5 hours in January. Seven of the ten components have also increased on net over the past six months, contributing to a 1.2% increase in the index over this time span. This suggests the economy should continue to be healthy into the foreseeable future.



**Components of Gross Domestic Product:**<sup>3</sup> 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 and services.

Final fourth-quarter results for 1998 showed real GDP surging at an annual rate (AR) of 6.0%. Just as in the third quarter of 1998, this growth was fueled primarily by increases in consumer spending and investment. It was further enhanced by a large increase in exports of goods and services. For all of 1998, real GDP grew by 3.9%.



! **Consumption expenditures** continued to grow strongly, increasing at a rate of 5.0% (SAAR) in the fourth quarter and by 4.9% for the entire year. For both periods, large increases in durable goods consumption played an important role. Consumption accounted for 58.8% of the positive real GDP growth in the fourth quarter.

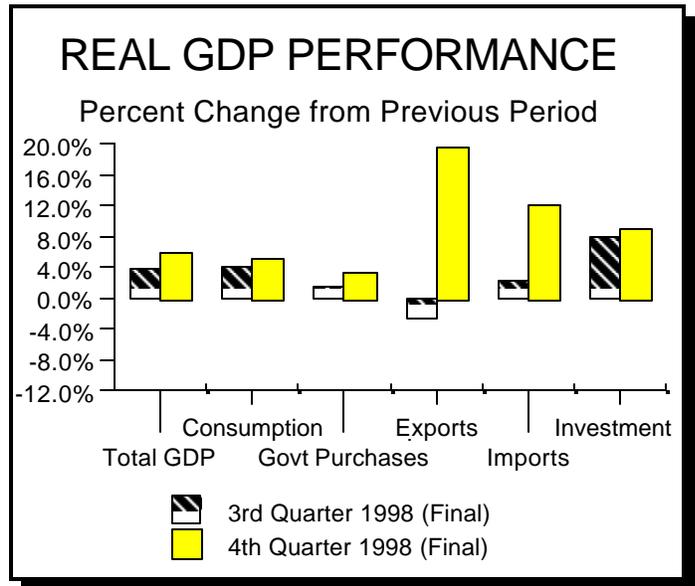
! **Total government expenditures** increased by 3.3% (SAAR) in the fourth quarter of 1998, primarily due to a jump in federal nondefense spending. State and local expenditures also rose slightly. The fourth quarter growth rate was significantly higher than the modest 0.9% rise for 1998 as a whole.

<sup>2</sup> Data on the leading index are seasonally adjusted and are published in *Business Cycle Indicators*, The Conference Board. The *leading index* is composed of several employment measures, measures on new orders and contracts for various durable goods, measures of consumer expectations, and measures of several monetary variables.

<sup>3</sup> 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.

! **Net exports** improved by \$9.0 billion as exports rose at an annual rate of 19.7% while imports rose by only 12.0%. On an annual basis, the fourth quarter trade deficit was \$250.0 billion. The overall trade deficit (\$238.2 billion in 1998) was reduced somewhat by the fourth-quarter jump in net exports.

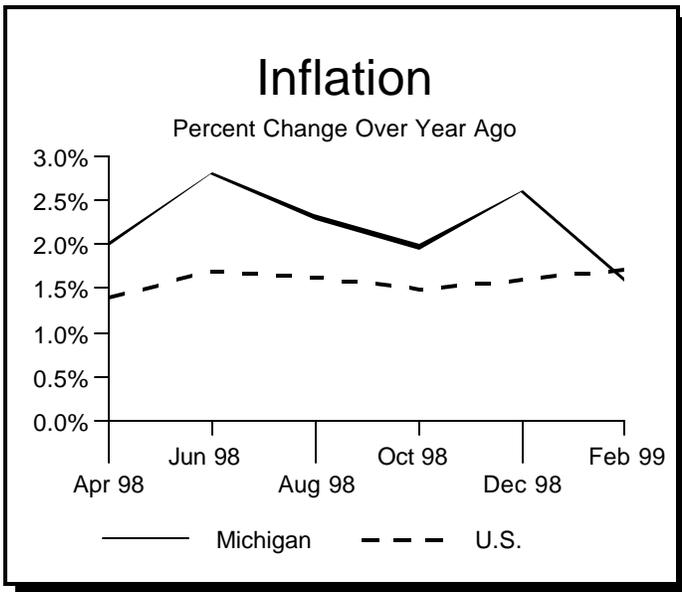
! Business inventory investment and residential fixed investment boosted **gross private investment expenditures** by 9.0% (SAAR) in the fourth quarter of 1998. These factors also played a major role in the 10.3% increase experienced for all of 1998.



**Inflation:** Inflation estimates the decline in the purchasing power of a dollar over time and is measured as the rate of change of the **consumer price index (CPI)**. Michigan inflation is measured as the rate of change of the **Detroit-Ann Arbor CPI (D-CPI)**. Both the CPI and the D-CPI are calculated by the Bureau of Labor Statistics.

Increases in the CPI remain small. Despite strong economic growth, the CPI increased at an annual rate (AR) of only 1.6% between February 1998 and February 1999. Inflation in Michigan was also quite modest with prices rising at only a 1.7% annual rate over the same time period. Inflation should remain modest for the near future.

! The **capacity utilization rate**,<sup>4</sup> an increase in which could signal higher future inflation, is below its 30-year average and is continuing to decline.



! The **producer price index (PPI)**, an increase in which also could signal higher future inflation, has risen by only 0.5% (AR) over the past year, and fell between January and February.

! **Labor productivity** growth, an increase of which tends to offset inflation, averaged 2.2% (AR) in 1998. In addition, manufacturing productivity growth averaged 4.2% (AR) over the same period.

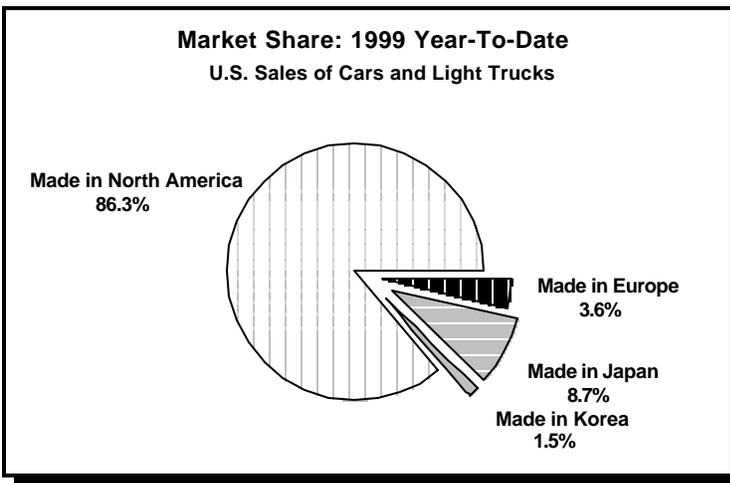
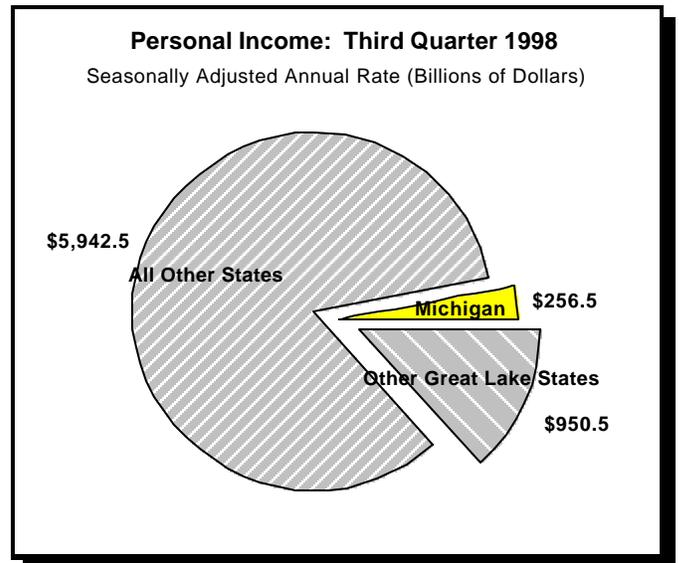
! **Employment cost indices** recently have grown faster than inflation. Total compensation costs rose at a 3.5% rate during 1998 while wages and salaries jumped by 3.8%. Increases in employers' costs tend to kindle inflation, but thus far these increases do not appear to be significant enough to alter the overall level of prices in the economy.

<sup>4</sup> The capacity utilization rate measures the ratio of output capacity used to total production capacity available, and is calculated by the Federal Reserve Board. The producer price index measures the average price of finished goods. Labor productivity measures nonfarm business output per hour. Employment cost indices measure the change over time in labor costs. All three are calculated by the Bureau of Labor Statistics.

## The Michigan Page

**Personal Income:**<sup>5</sup> Growth in state tax revenue is largely determined by growth in state personal income. Revised estimates indicate Michigan's personal income grew more slowly than the U.S. average in the third quarter of 1998. This marks the ninth consecutive quarter that the Michigan growth rate has been below the average national growth rate.

! The U.S. Department of Commerce reported that **Michigan's personal income** (preliminary) totaled \$256.5 billion (SAAR) in the third quarter of 1998, an increase of 0.7% over the second quarter (U.S. personal income increased 1.1%). A decline in the growth of earnings in the manufacturing sector was responsible for the slow growth.



! **Real disposable income**<sup>6</sup> 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 at a revised rate of 4.3% (SAAR) in the fourth quarter of 1998, exceeding the 3.2% growth rate exhibited during the third quarter. For the year as a whole, real disposable income grew at a 3.2% pace in 1998 as compared to 2.8% in 1997.

## **A**uto Industry:<sup>7</sup> U.S. sales of cars and light trucks

over the first two months of 1999 totaled just under 2.4 million units, which is a 10.1% jump over the first two months of 1998. Vehicles made in North America increased 9.0% over last year, and maintained a relatively constant market share compared to foreign-produced vehicles. Both North American-made cars and light trucks posted sales increases at 5.8% and 12.2%, respectively. The largest overall gain was posted by Japanese-made vehicles, which saw a 22.4% increase relative to the first two months of 1998. This translates to a modest increase in total market share to 8.7% overall.

From a production standpoint, year-to-date **U.S. car production** is up only slightly (less than 0.2%), although **U.S. truck production** has jumped by 6.9% to just under 1.25 million vehicles. Total U.S. car and

<sup>5</sup> 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).

<sup>6</sup> Disposable income figures are chain weighted and seasonally adjusted at annual rates (SAAR).

<sup>7</sup> Automotive figures are published in *Automotive News*. The end of the Big Three has necessitated a change in the automotive summary figures. Four general categories consisting of "Made in North America," "Made in Japan," "Made in Europe," and "Made in Korea" will now be used in place of the previous aggregation categories.

truck production so far in 1999 stands at slightly more than 2.25 million units. This translates into a 3.8% increase when compared to January and February of last year.