

# KEY ECONOMIC INDICATORS

# UPDATE



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

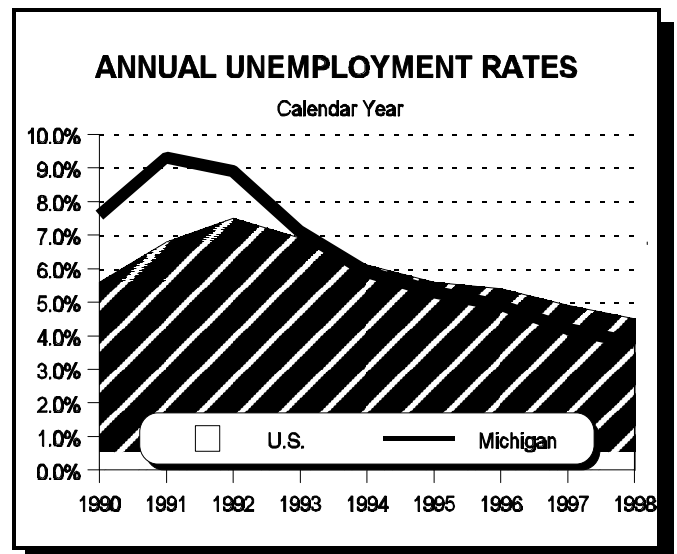
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## Employment

**Trends in the Labor Market:**<sup>1</sup> Michigan's unemployment rate declined for the seventh year in a row, reaching a record low of 3.8% in 1998. This is a 0.7 percentage point decline from the 4.5% unemployment rate recorded in 1997, and represents an annual average of 190,000 unemployed workers in Michigan. In December, Michigan's seasonally adjusted (SA) unemployment increased somewhat to 3.8%, up 0.2 percentage points from November. A monthly increase of 11,000 unemployed workers accounted for the higher unemployment rate, as the labor force remained at its previous level. Last year at this time, the jobless rate stood at 3.9% with 197,000 unemployed workers.

! Although the annual U.S. unemployment rate declined from 4.9% in 1997 to 4.5% in 1998, Michigan maintained the spread between the average annual state and national unemployment rates at 0.7 percentage points.

! Michigan's average wage and salary employment level for 1998 was 85,000 jobs higher than the 1997 average. Private nonmanufacturing industries accounted for 73,000 additional jobs, or 85.9% of the total. Particularly active were the business services, health care, construction, and professional services industries. Employment growth in manufacturing managed to come out on the positive side, reversing a two-year trend. The government sector contributed an additional



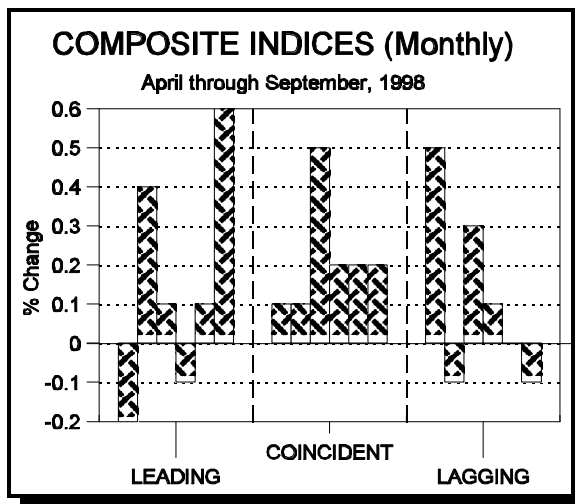
<sup>1</sup> U.S. unemployment figures are supplied by the Bureau of Labor Statistics. Michigan employment figures are supplied by the Michigan Employment Service Agency. Data are seasonally adjusted at annual rates (SAAR) unless otherwise indicated.

8,000 jobs.

## The National Economy

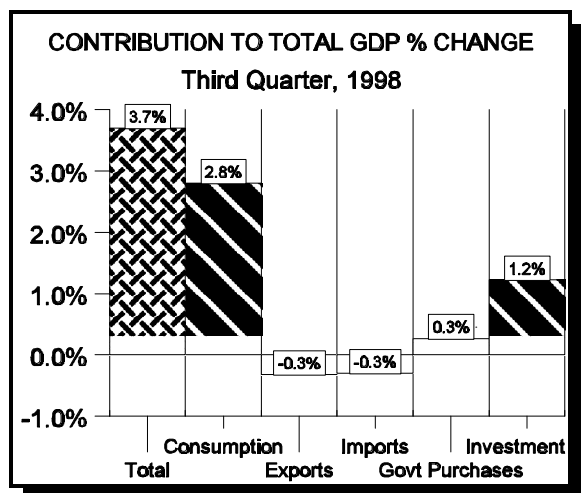
**Composite Indices:**<sup>2</sup> In predicting the future path of the economy, economists traditionally look at three types of indices: the composite index of *leading* economic indicators, the composite index of *coincident* economic indicators, and the composite index of *lagging* economic indicators. 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** jumped 0.6 percent in November, reaching 106.3. On balance, seven of the ten component indicators that make up the index increased, the most significant of these being stock prices. Initial claims for unemployment insurance were the largest negative contributor. Half of the ten components have increased on net over the past six months, contributing to a 0.9% increase in the index over this time span. This



suggests

the economy should continue to be healthy into the foreseeable future.



! The **composite index of coincident economic indicators** continued to be stable, maintaining a 2.0% growth rate for the third consecutive month. The coincident index has increased 1.2% over the past six months, indicating a healthy economy. The **lagging index** has been erratic and is difficult to interpret.

### Components of Gross Domestic Product:<sup>3</sup>

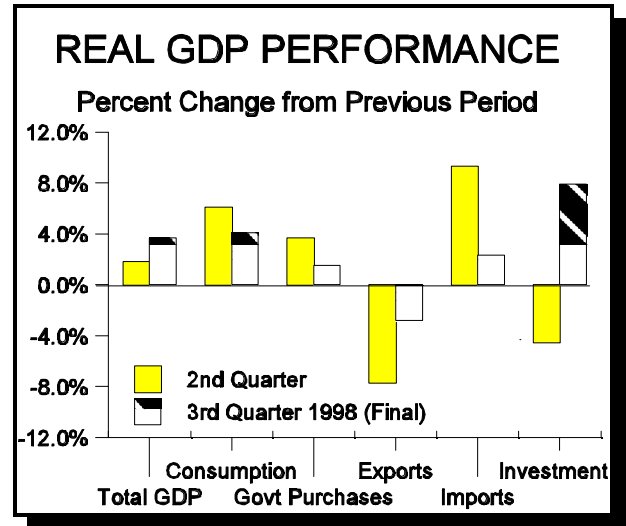
Gross domestic product (GDP) measures the total value of all final goods, services, and structures produced in the United States. Growth in GDP is the standard measure of the performance of the economy, and it has four main components: personal consumption expenditures, gross private domestic investment,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

<sup>2</sup> 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 on new orders and contracts for various durable goods, measures of consumer expectations, and measures of several monetary variables. 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.

<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.

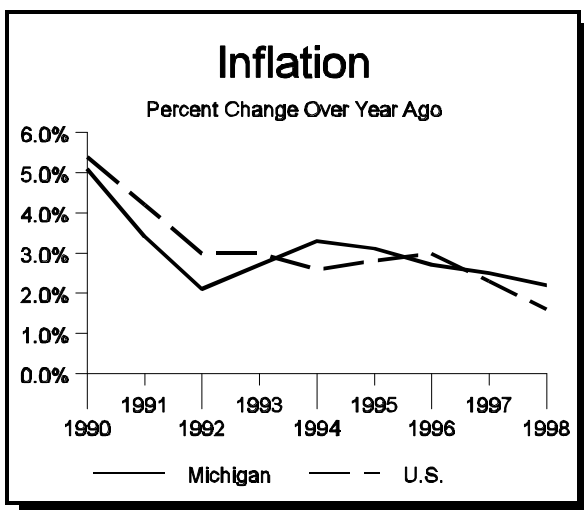
Final third quarter estimates for 1998 revised real GDP upward by 0.4 percentage points to 3.7% (AR). This growth was fueled primarily by increases in consumer spending and investment.

- ! **Consumption expenditures** continued to grow strongly, increasing at a rate of 4.1% (SAAR) in the third quarter reflecting increases in services consumption. Consumption accounted for approximately 65% of positive real GDP growth in the third quarter.
- ! **Total government expenditures** increased by 1.5% (SAAR) in the third quarter of 1998 fueled by state and local spending and expenditures for national defense.
- ! Exports of services and imports of goods contributed to a \$13.8 billion decline in **net exports**, which fell to \$259.0 billion in the third quarter of 1998.
- ! Business inventory investment and residential fixed investment boosted **gross private investment expenditures** by 7.9% (SAAR) in the third quarter 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 moderate. Despite strong economic growth, the CPI increased at only an annual rate (AR) of 1.6% in calendar year (CY) 1998. Inflation in Michigan also was restrained, increasing only 2.2% (AR) in 1998. Signs of future inflation generally look positive:<sup>4</sup>



- ! The **capacity utilization rate**, an increase of which could signal higher future inflation, is below its 30-year average and is continuing to decline.
- ! The **producer price index (PPI)**, an increase of which also could signal higher future inflation, actually declined by 0.9% (AR) in CY 1998.
- ! **Labor productivity** growth, an increase of which tends to offset inflation, averaged 2.3% (AR) over the first three quarters of 1998. Manufacturing productivity growth averaged 3.6% (AR).

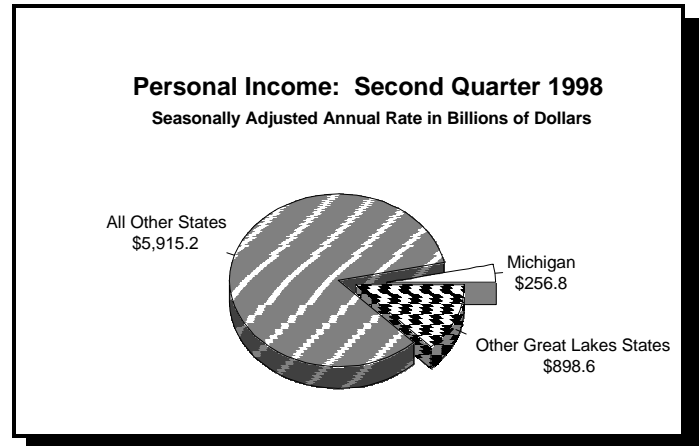
<sup>4</sup> The capacity utilization rate measures the ratio of output capacity used to total production capacity available, and is calculated by the Federal Reserve Board. The producer price index measures the average price of finished goods. Labor productivity measures nonfarm business output per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

! **Employment cost indices** recently have grown faster than inflation. Increases in employers' costs tend to kindle inflation, but thus far they have not had a significant adverse affect on inflation.

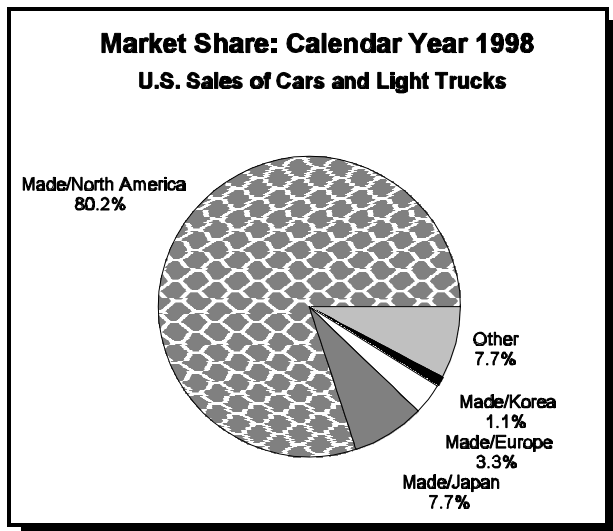
## The Michigan Page

**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 second quarter of 1998. This marks the eighth 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 \$256.8 billion (SAAR) in the second quarter of 1998, an increase of 0.6% over the first 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 3.2% (SAAR) the third quarter of 1998, increasing from a growth rate of 2.6% in the second quarter of 1998. Year-to-date growth in real disposable income is below last year's growth rate over the same time span, and this is reflected in the slowdown of durable goods consumption in the past few quarters.

**A**uto Industry:<sup>7</sup> U.S. sales of cars and light trucks in calendar year 1998 ended 2.9% higher than last year, coming in strong at 15.6 million units.

Vehicles made in North America were up 2.5% over last year, and retained market share relative to foreign-produced vehicles. Vehicles made in Europe showed the largest annual gain, increasing their sales by 18.7% and their market share by 0.5% percentage points to 3.6%. Total

<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. Five general categories consisting of "Made in North America," "made in Japan," "made in Europe," "made in Korea," and "other" will now be used in place of the previous aggregation categories.

North American car sales were down from last year (although imported cars sales increased) whereas light truck sales increased 7.9%. Calendar Year 1998 **total U.S. production** came in 1.4% below last year, totaling just over 15.7 million units. The composition of light vehicle production continued its shift toward light trucks with light truck production 2.0% ahead of last year's pace while car production was 6.1% behind last year's pace. Light truck production accounted for approximately 53.0% of total U.S. light vehicle production in 1998.