

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
James J. Haag, Director; Mitchell Bean, Senior Economist

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

BI-MONTHLY PUBLICATION
May 1999
Volume 5, No. 3

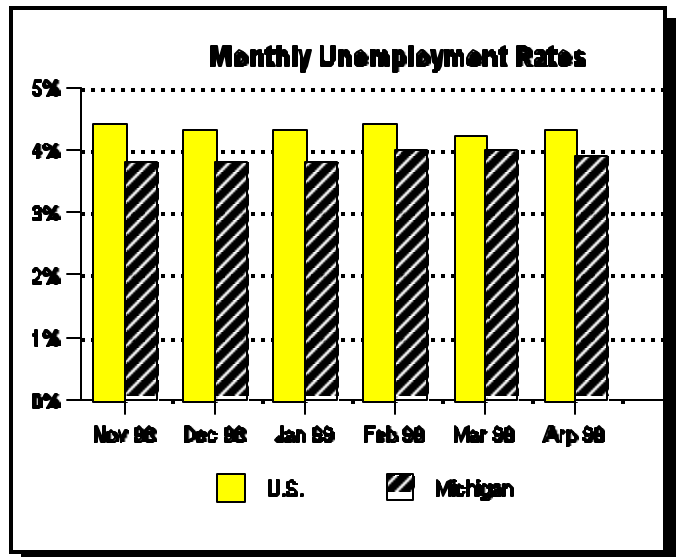
Employment

Trends in the Labor Market:¹ Michigan's seasonally adjusted (SA) unemployment rate dropped slightly in April to 3.9%, down from the 4.0% rate that persisted through February and March. One year ago, the unemployment rate was 3.7%. The decrease in April's unemployment rate was brought about by both an increase in the number of employed workers and a drop in the number of unemployed workers. As a result, the labor force grew to 5.08 million workers in April, which represents an increase of 5,000 workers from the previous month.²

! Since March 1995, the unemployment rate in Michigan has remained below the U.S. level. That trend continues as the unemployment rate for the country as a whole rose slightly in April to 4.3%, up from 4.2% in March.

! Total employment in Michigan grew to 4.88 million (SA) in April, an increase of 6,000 workers. Over the past year, total employment has grown by 45,000 workers.

! For the first four months of 1999, total unadjusted wage and salary employment in Michigan has grown to just under 4.6 million, an increase of 68,000 workers. During the month of April, Michigan's wage and salary employment rose by 33,000 workers. The majority of this growth can be attributed to seasonal employment effects in the construction sector (which gained 15,000 workers) and retail trade (which has seen an increase of 9,000 workers). The manufacturing sector, with an employment level of over



¹ 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.

² Labor force is defined as the number of employed workers plus the number of unemployed workers.

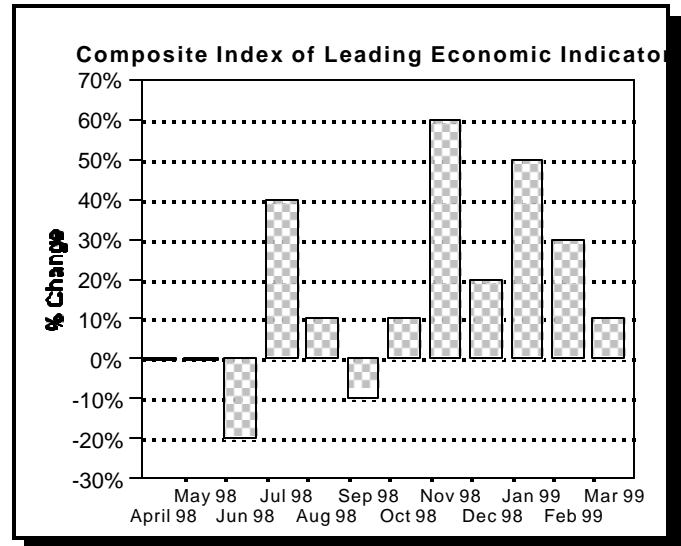
960,000 workers, has remained essentially flat in 1999. Government employment in Michigan has also stayed relatively constant — at approximately 677,000 workers — after an initial jump in February 1999.

The National Economy

Composite Index of Leading Economic Indicators:³ In predicting the future path of the economy, economists traditionally look at the *composite index of leading economic indicators*.

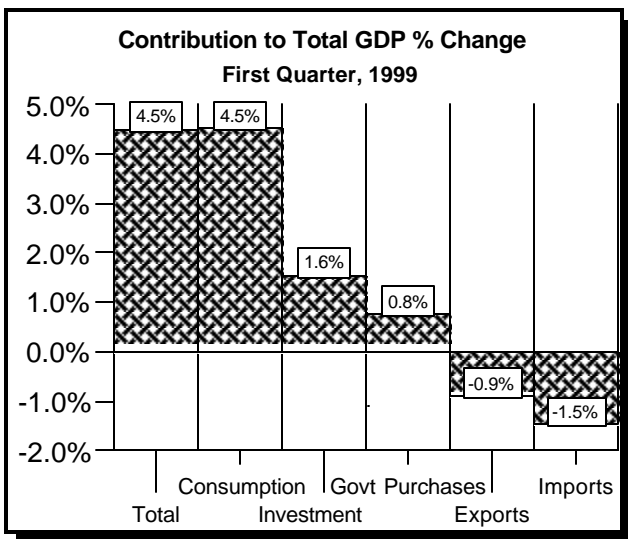
The value of the index is derived from several economic indicators and is calculated by The Conference Board, Inc., New York, N.Y.

The composite index of leading economic indicators rose 0.3% in February and 0.1% in March, reaching 107.3. On balance, one-half of the ten component indicators that make up the index increased, with stock prices continuing to be the most significant factor. Four of the components declined in April, the most significant of which were a decrease in the number building permits issued and a drop in the index of consumer expectations. Although eight of the ten components have shown overall increases over the past six months, the remaining two have stayed relatively constant. This implies that the economy should continue to grow for the next several months.



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 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.

Real GDP grew at an annual rate (AR) of 4.5% during the first quarter of 1999, slightly ahead of the 3.9% pace for 1998. Once again, increases in consumer spending and investment were the primary contributors. Contrary to the large increase seen in the fourth quarter of 1998, exports of goods and services dropped sharply, leading to a marked increase in the trade deficit.



! **Consumption expenditures** continued to grow strongly, increasing at a rate of 6.7% (SAAR) in the first quarter. Increases in nondurable goods and services consumption were the most important factors; the durable goods sector was the most important factor in the fourth quarter of 1998.

! First quarter 1999 **gross private investment expenditures** rose at a 10.0% (SAAR) rate, the third consecutive quarter of strong growth. Paving the way was a 15.6% increase in residential investment.

³ Data on the leading index are seasonally adjusted and are published in *Business Cycle Indicators*, The Conference Board. The *composite index of leading indicators* 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.

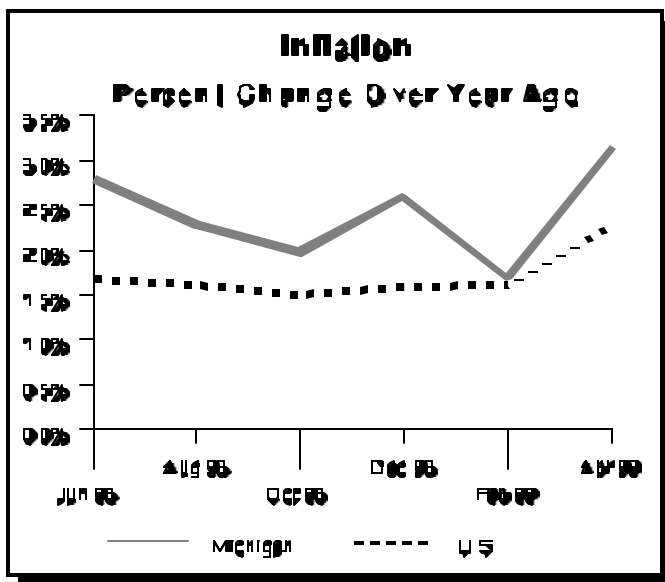
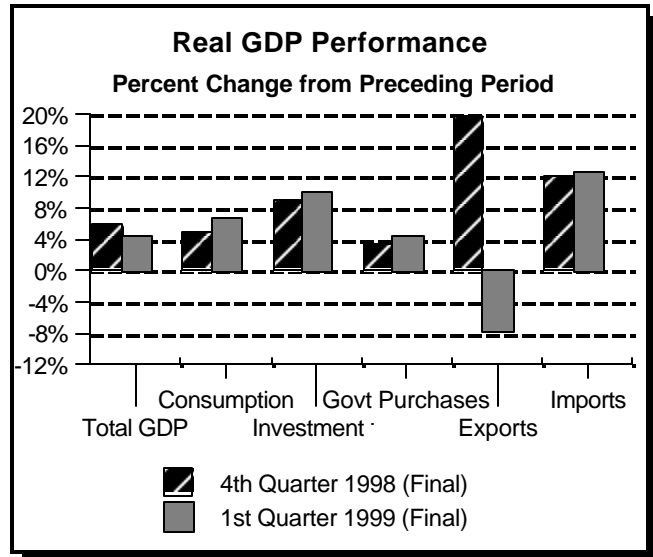
⁴ Data on macroeconomic variables are expressed in chained 1992 dollars and are available from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis.

- ! **Total government expenditures** jumped by 4.4% (SAAR) in the first quarter of 1999, primarily due to increases in state and local expenditures. Overall, increases in government expenditures were responsible for about 17% of the growth in real GDP.
- ! **Net exports** worsened in the first quarter of 1999 relative to the fourth quarter of 1998. Although imports rose slightly, it was a sharp drop in exports which caused net exports to fall. The result was a first quarter trade deficit of \$55.7 billion, which translates to an annual trade deficit of \$222.8 billion.

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.

Inflation rates for both the U.S. and Michigan increased somewhat over the past two months. Measured on an annual basis, the Michigan inflation rate was 3.1% between April 1998 and April 1999. For the U.S. over the same time period, the CPI rate was 2.3%. Despite the current increases, it seems unlikely that there will be a significant rise in long-term inflation.

- ! The **capacity utilization rate**⁵ remains well below its 30-year average, and has stayed almost constant throughout 1999. Given that capacity utilization in April 1999 is lower than a year before, this suggests that inflation should continue to be modest.



- ! The **producer price index (PPI)**, an increase in which also could signal higher future inflation, has risen by only 1.1% (AR) since April 1998 and has increased at an annual rate of less than 1% during 1999.
- ! **Labor productivity** growth, an increase of which tends to offset inflation, increased at a 4% annual rate during the first quarter of 1999 — sharply ahead of the 2.2% growth rate for all of 1998.
- ! **Employment cost indices** continue to increase faster than the rate of inflation. For the first quarter of 1999, total compensation costs have risen at an annual rate of 3.0% while wages and salaries have grown by 3.3%. Although increases in employers' costs can trigger inflation, the increases in labor

⁵ 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.

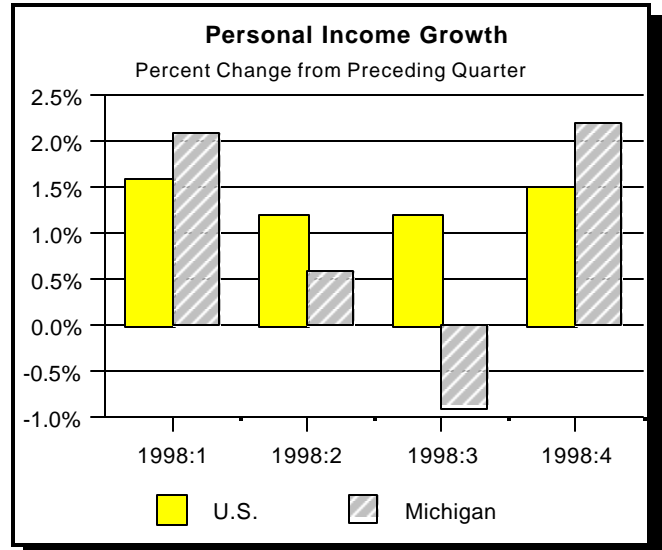
productivity will likely minimize any inflationary effects.

The Michigan Page

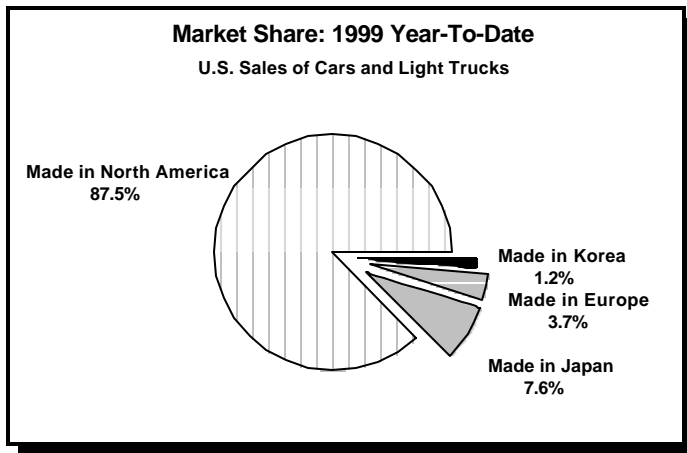
Personal Income:⁶ Growth in state tax revenue is largely determined by growth in state personal income. Revised estimates indicate Michigan's personal income grew at a slightly faster rate than the U.S. average in the fourth quarter of 1998.

! The U.S. Department of Commerce reported that **Michigan's personal income** (preliminary) totaled \$257.2 billion (SAAR) in the final quarter of 1998, an increase of 2.2% over the third quarter. For all of 1998, Michigan's personal income was \$253.8 billion, which represented a 4% increase over 1997. In comparison, U.S. personal income increased at a 1.5% rate during the fourth quarter, and by 5.4% for the year as a whole.

! **Real disposable income**⁷ 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 rate of 4.6% (SAAR) in the first quarter of 1999, exceeding the 4.3% growth rate exhibited during the fourth quarter of 1998.



Auto Industry:⁸ **U.S. sales of cars and light trucks** over the first four months of 1999 totaled just over 5.3 million units, which is a 6.8% rise over the first four months of 1998. The number of vehicles



made in North America increased at a 7.7% clip relative to 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 5.0% and 10.4%, respectively. Korean automakers saw sales in the U.S. jump by 33.3% compared to the first four months of 1998, although their market share climbed to only 1.6% of the total U.S. market.

From a production standpoint, year-to-date **U.S. car production** has decreased by about 4.2%, although **U.S. truck production** has jumped by 6.3% to just under 2.7 million vehicles. Total U.S. car and truck production to date in 1999 stands

at slightly more than 4.7 million units. This translates into a 1.5% increase when compared to the first four months of last year.

⁶ 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).

⁷ Disposable income figures are chain weighted and seasonally adjusted at annual rates (SAAR).

⁸ 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.