KEY ECONOMIC INDICATORS

UPDATE

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

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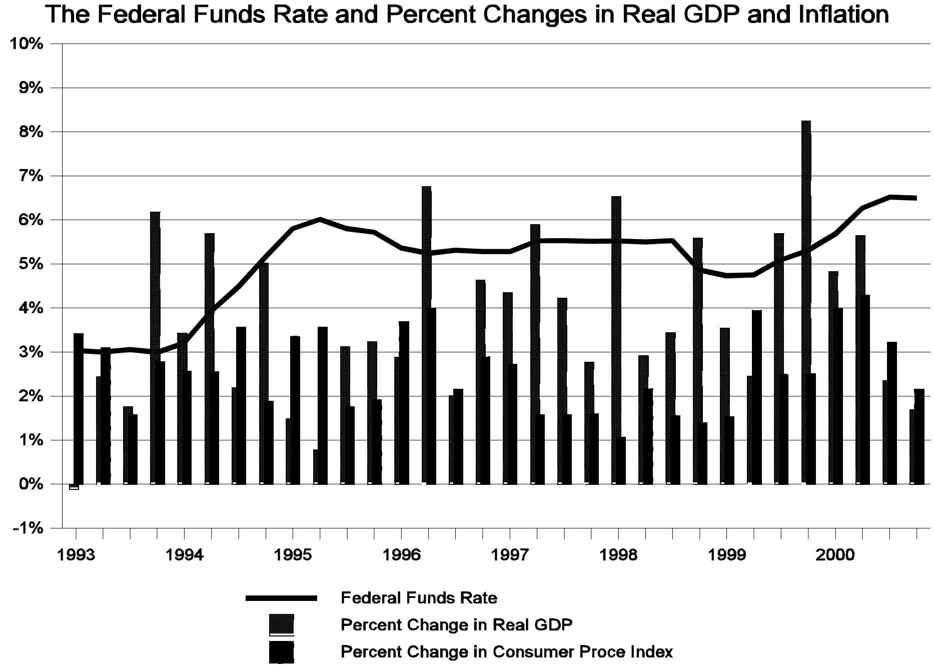
In The News . . .

In a surprise move, the Federal Reserve lowered both the discount rate and federal funds rate by 50 basis points during the first week of January 2001. Only two weeks before, the Federal Open Market Committee (FOMC) had decided to leave interest rates unchanged, leading to an emerging consensus that a rate cut would come at the FOMC's next scheduled meeting in late January. The Fed's sooner-than-expected move signifies a shift in focus from holding inflation in check to minimizing the impact of an economy that is experiencing slower growth. There is still widespread speculation that the Fed will further cut key interest rates later this month.

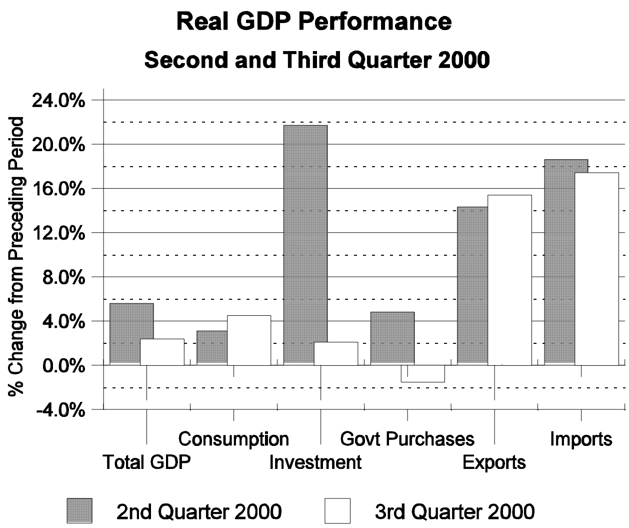
The chart below shows the growth rate in real GDP, the inflation rate, and the federal funds rate from 1993 (the beginning of the current economic expansion) to the end of 2000. Throughout most of this time period, the Fed's interest rate policy was aimed at maintaining low inflation rates. For example, when inflation began to increase in mid-1994, the Fed responded by almost doubling the federal funds rate in just over one year. Even as inflation began to abate in 1995, the federal funds rate remained at close to 6%. When inflation started to pick up again in 1998, the federal funds rate began its ascent to 6.5%, which remained in effect until the January 2001 cuts.

While the Fed stopped short of predicting a recession, the clear signal was that economic growth is slowing—due in part to higher energy costs, diminished corporate profits, and a reduction in consumer confidence. Because of the threat to the overall well-being of the economy, the Fed appears to have determined that for the immediate future, the risk of an economic downturn supercedes the risk of higher inflation.

The Federal Funds Rate and Percent Changes in Real GDP and Inflation



The U.S. Economy . . .



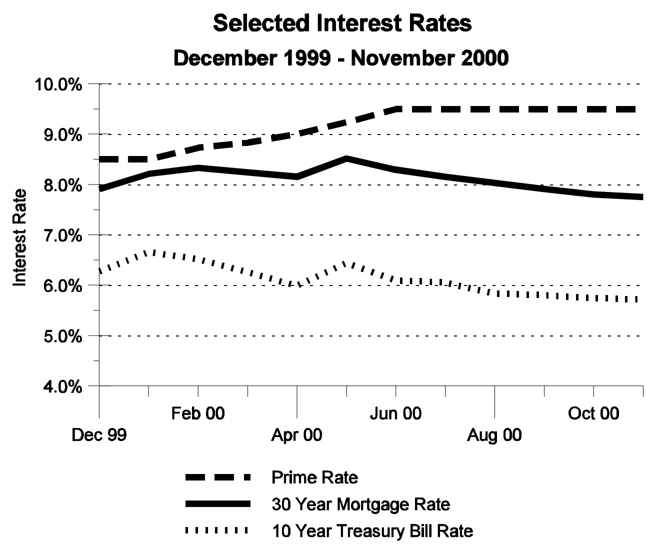
Gross Domestic Product

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 2.4% during the third quarter of 2000, down significantly from the 5.6% rate posted in the second quarter.[1]

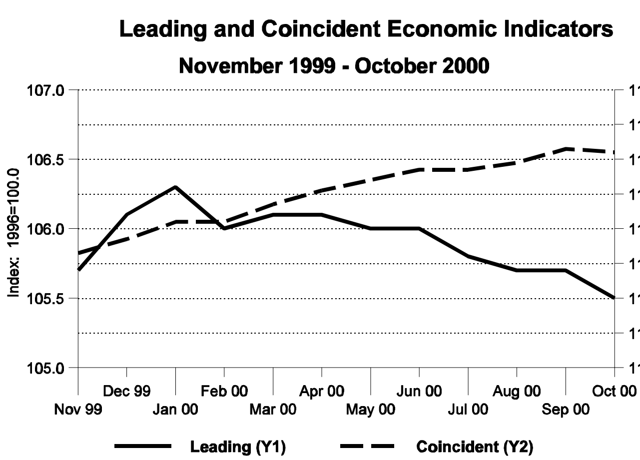
Personal consumption expenditures, which account for almost two-thirds of GDP, grew at a 4.5% rate during the third quarter, reflecting a modest increase over the 3.1% second quarter rate. However, gross private domestic investment, which had grown at a 21.7% rate during the second quarter, exhibited a third quarter growth rate of only 2.1%.

Key Interest Rates

Interest rates are based on Federal Reserve policy, duration (short-, medium-, or long-term), and perceived risk. Medium- and long-term interest rates, as measured by the 10-year Treasury Bill rate and 30-year conventional mortgage rate, dipped slightly in November from the October rates. Short-term rates, as measured by the prime rate, have remained flat at 9.5% since June.



Leading andCoincident



Economic Indicators

The composite index of leading economic indicators, which is used to predict the future path of the economy, declined 0.2% in October. Over the past six months, the index has dropped 0.6%, with only one of the ten components showing net increases. In contrast, the index of coincident economic indicators, which is used as a gauge of current economic conditions, remained essentially flat in October, and has risen by 1.0% over the past six months. The indexes suggest continued, albeit slower, economic growth.

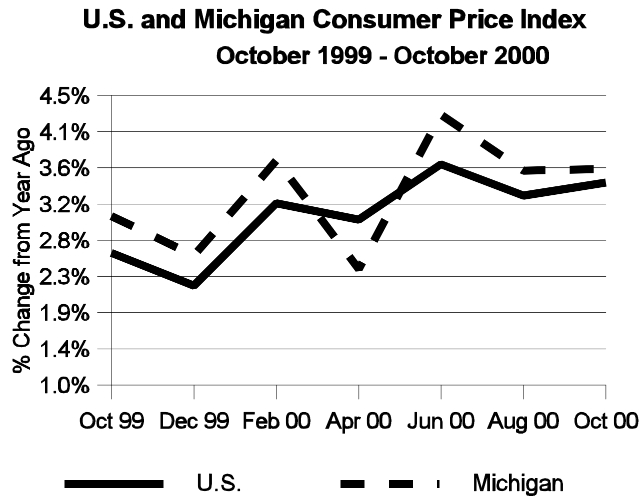
[1] Data on macroeconomic variables from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis. Interest rate data from the Federal Reserve Board. Data on the leading and coincident indexes from *Business Cycle Indicators,* The Conference Board.

U.S. and Michigan Comparisons . . .

Inflation

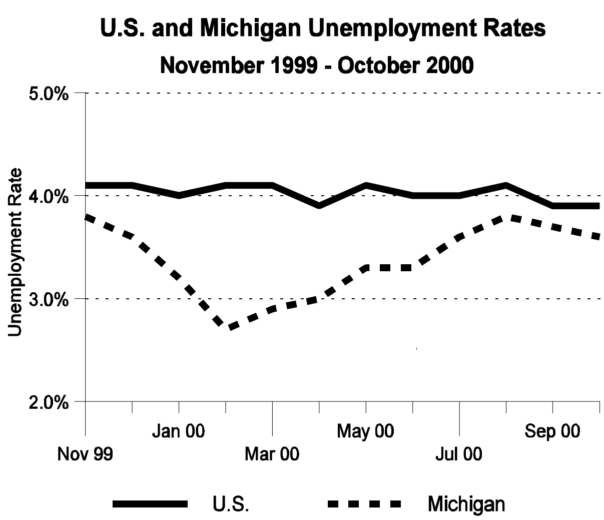
Inflation measures the change in the general level of prices over time. One frequently used gauge of inflation is the consumer price index (CPI), or for Michigan, the Detroit-Ann Arbor CPI (D-CPI). In October, the CPI posted a 3.4% increase from a year ago while the D-CPI advanced at a 3.6% pace.[2]

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.



Economic Measures Key to Inflation

Economic Measure	Time Period	Current Period	% Change from Previous Period at Annual Rate	% Change from Year Ago
Producer Price Index	November 2000	139.7	1.7%	3.7%
Total Compensation Index	3rd Quarter, 2000	149.7	4.1%	4.6%
Wage and Salary Index	3rd Quarter, 2000	146.7	3.6%	4.1%
Labor Productivity Index	3rd Quarter, 2000	119.1	3.4%	4.8%



Unemployment

Since March 1995, the unemployment rate in Michigan has remained below the U.S. level, although the gap narrowed somewhat between February and August of this year. Michigan's unemployment rate fell from 3.8% in August to 3.7% in September and 3.6% in October. The unemployment rate for the U.S. also dipped slightly from 4.1% in August to 3.9% in both September and October.

Employment

In October, total U.S. employment stood at just over 135 million workers, which represents a 0.9% increase relative to October 1999. Total employment in Michigan rose by 0.6% between October 2000 and October 1999, and is currently slightly above 4.97 million workers.

[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 October rose by almost 2% relative to one year ago. The two largest industries, trade and services, experienced very modest increases in weekly earnings. Mining, construction, and services posted the largest percentage gains, while manufacturing and finance-related industries posted the lowest percentage declines.

Michigan Labor Market Data

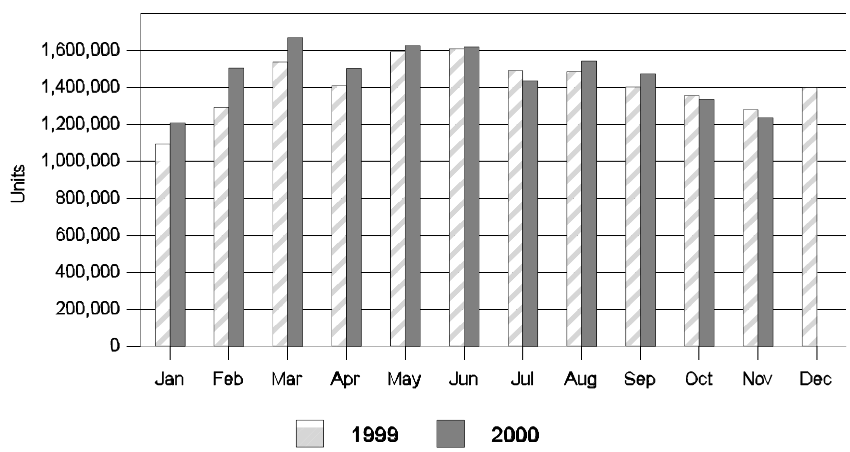
	Wage and Salary Employment (in Thousands)		Average Weekly Earnings (in Dollars)	
Industry Classification	**October 2000**	**Percent Change from Prior Year**	**October 2000**	**Percent Change from Prior Year**
Mining and Construction	216.0	3.2%	$904.94	4.9%
Manufacturing	964.4	-1.2%	$822.86	0.6%
Durable Goods	730.2	-1.2%	$885.64	0.6%
Nondurable Goods	234.2	-1.5%	$624.56	1.6%
Transportation and Public Utilities	178.8	0.4%	$760.88	-1.8%
Wholesale and Retail Trade	1,097.7	2.4%	$436.20	0.2%
Finance, Insurance, and Real Estate	208.0	0.3%	$516.18	5.2%
Services	1,304.2	3.7%	$484.16	2.8%
Total Government	699.7	1.5%	N/A	N/A
TOTAL WAGE AND SALARY EMPLOYMENT	**4,668.8**	**1.7%**	N/A	N/A

U.S. Motor Vehicle Sales

U.S. sales of cars and light trucks through November measured just under 16.2 million units, which represents a 3.9% increase from the pace of almost 15.6 million units for the same period last year. In November, U.S. sales of light vehicles were 3.4% below the year-ago level. Despite this modest dip in sales, sales of cars and light trucks in 2000 remain on pace to exceed 17.0 million for the year.

U.S. Sales of Cars and Light Trucks

Monthly Data for 1999 and 2000



Michigan Motor Vehicle Production

Total light vehicle production in Michigan in October stood at just below 272,000 units, which represents an 8.2% decline relative to one year ago. Compared with October 1999, auto production fell by 6.3% while light truck production dipped by 10.8%. Overall, year-to-date light vehicle production equaled 2.66 million units, which is about 2.5% ahead of last year's pace.[3]

[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.