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## **THE U.S. AND MICHIGAN OUTLOOK FOR 2015-2017**

**PREPARED FOR PRESENTATION AT THE  
CONSENSUS REVENUE ESTIMATING CONFERENCE**

**LANSING, MICHIGAN  
MAY 15, 2015**

**BY**

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*"The Michigan Model"*



## Current State of the Economy

- 2015q1 GDP growth at a 0.2% annual rate
- Consumption added 1.3 percentage points
- Net exports subtracted 1.3 percentage points
- Oil and gas exploration investment knocked off 0.5 percentage points
- Some weather-related drag again

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## First quarters are “special”

During 2010-2014 expansion:

- Average growth in the first quarter  
**0.6 percent**
- Average growth during the rest of the year:  
**2.9 percent**
- Weakness concentrated in:
  - Net Exports
  - Business Fixed Investment
  - Government

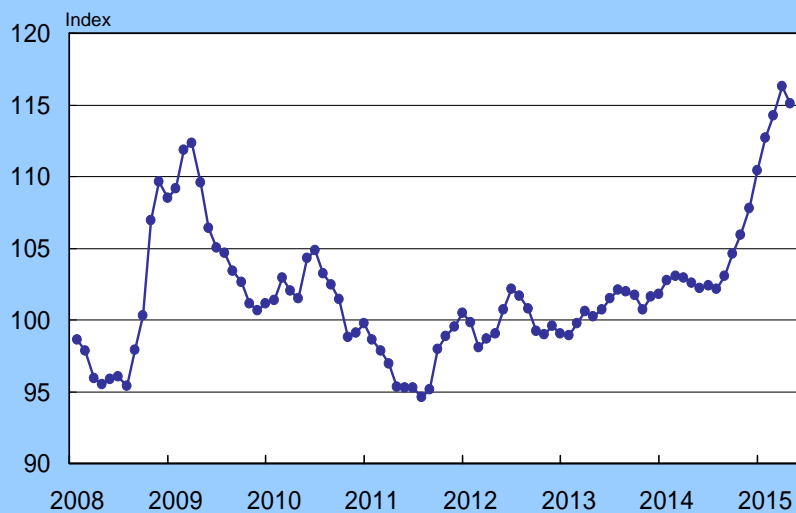
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## What is “special” this time?

- Severe winter weather
  - Impact on private and government construction
  - Maybe some deferred consumption
- West Coast ports slowdown
  - Disrupted import/export movements between November 2014 – May 2015
  - Recent large trade deficit widening may be overstated
- Next: some trade deficit widening reflects fundamentals

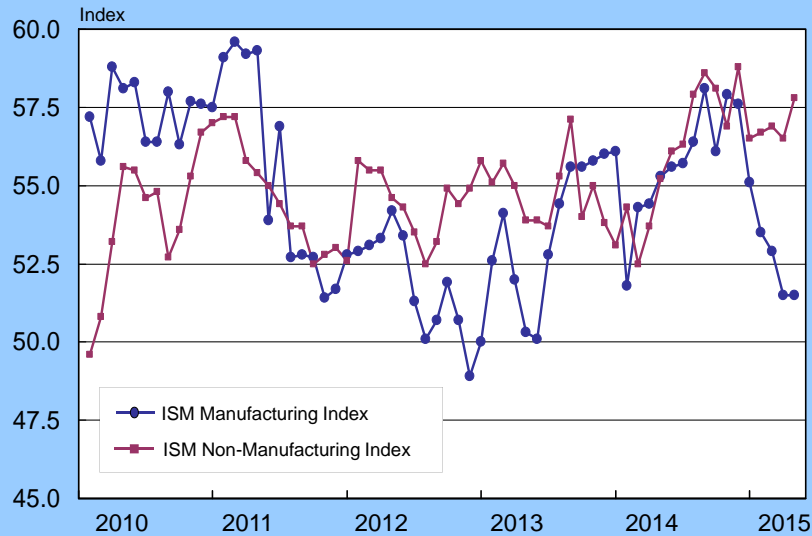
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### Trade-Weighted US Dollar Index: Broad



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## ISM Manufacturing and Non-Manufacturing Indices



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## Current State of the Economy

- Payroll job gains around 200,000/month in 2015
  - Slower than in 2014, on par with 2013
- Unemployment rate keeps sliding, at 5.4% now
  - Labor force participation rate stable, temporarily
- Conflicting data on consumers
  - U. Michigan Consumer Sentiment very upbeat
  - April vehicle sales up only 3% from 2014 (6% in 2015Q1)
  - Retail sales very weak in recent months

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## Fiscal Policy:

- Muddling through in the near term
  - Sequestration relief for fiscal 2016
- Less brinkmanship
  - Congress just passed permanent “doc fix”
  - “Cromnibus” passed quite early
- Medium-term path uncertain
- Assumption: the Supreme Court keeps ACA subsidies

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### Federal Budget, NIPA Basis

(Billions of Dollars)

	FY '13	FY '14	Forecast		
			FY '15	FY '16	FY '17
<b>Current receipts</b>	2993.9	3267.2	3427.9	3631.9	3860.9
<b>% change</b>	13.7	9.1	4.9	5.9	6.3
<b>Current expenditures</b>	3769.0	3844.5	3947.8	4135.9	4345.7
<b>% change</b>	0.5	2.0	2.7	4.8	5.1
<b>Consumption</b>	972.2	962.9	963.2	985.8	1018.1
<b>% change</b>	-3.4	-1.0	0.0	2.4	3.3
<b>Transfer payments</b>	2313.5	2384.7	2524.9	2648.6	2776.0
<b>% change</b>	2.0	3.1	5.9	4.9	4.8
<b>Surplus (+) or deficit (-)</b>	-775.1	-577.3	-519.8	-504.0	-484.7
<b>Percent of GDP</b>	-4.7	-3.3	-2.9	-2.7	-2.5

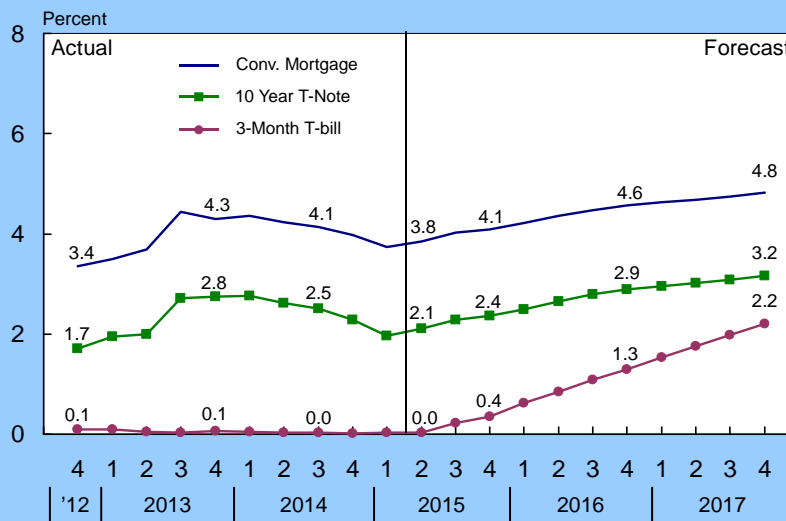
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# Monetary Policy

- Labor market progress has slowed
- Inflation forecasts under long-run target
- First rate increase in December
  - Unemployment rate approaching 5%
- Slow rate increases in 2016
  - Inflation trends still weak
  - Evidence for declining “natural” rate of unemployment

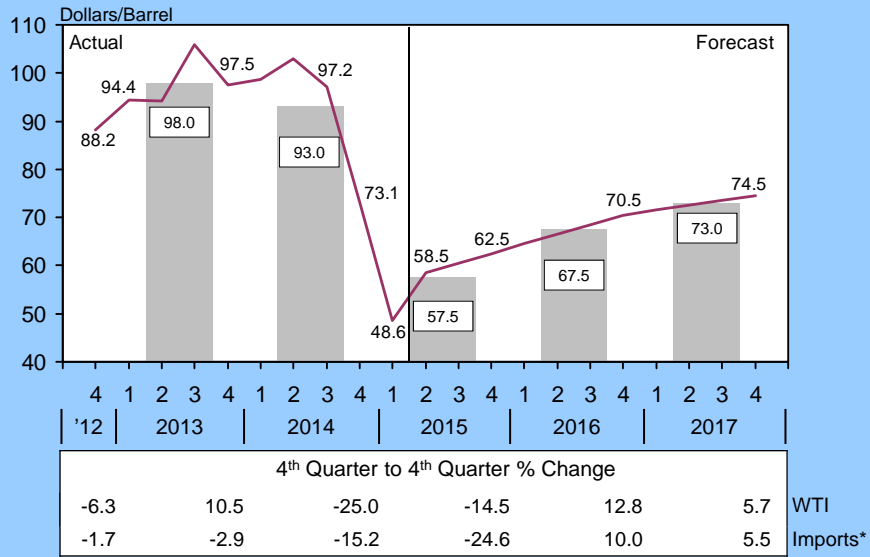
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# Market Interest Rates



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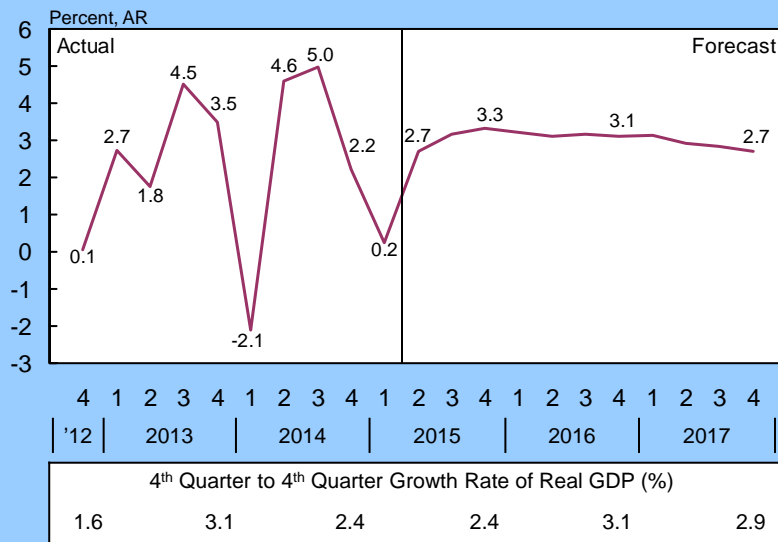
## Oil Prices (West Texas Intermediate Crude)



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\*Implicit deflator for petroleum & products

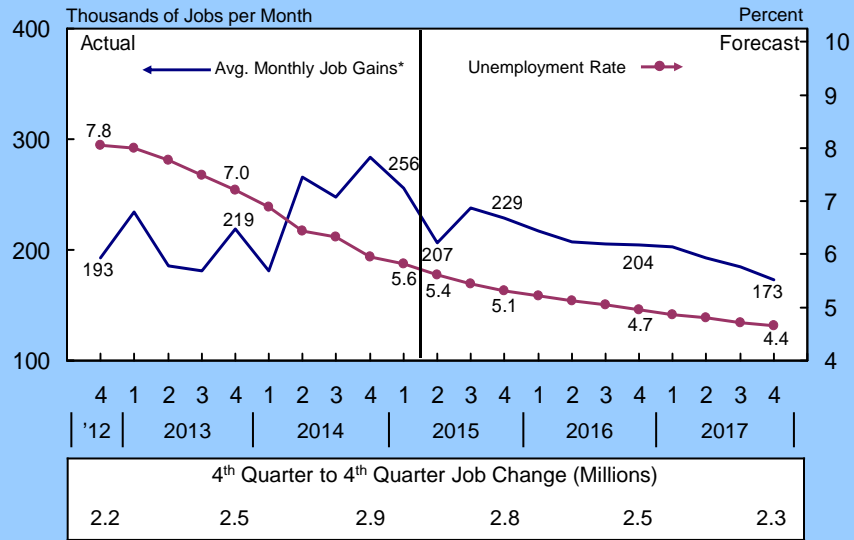
## Growth Rate of Real GDP



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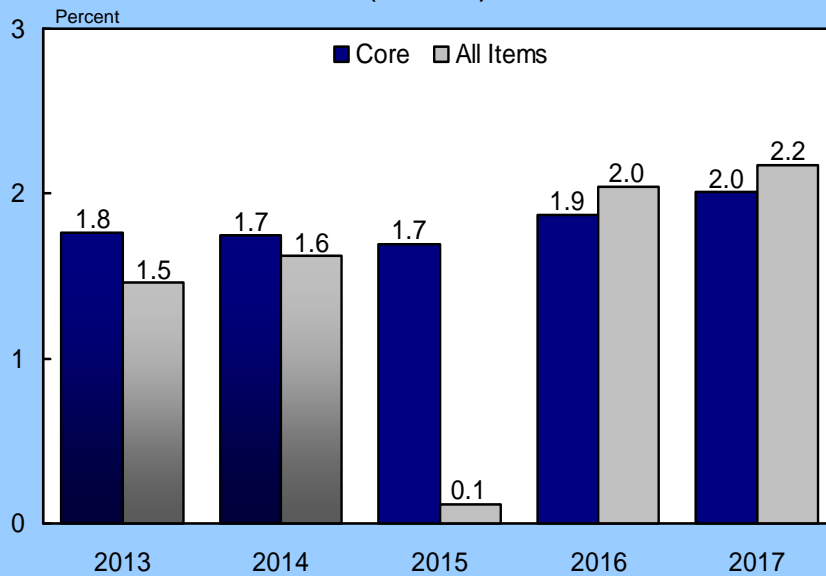
## Nonfarm Payroll Employment Gains and Unemployment Rate



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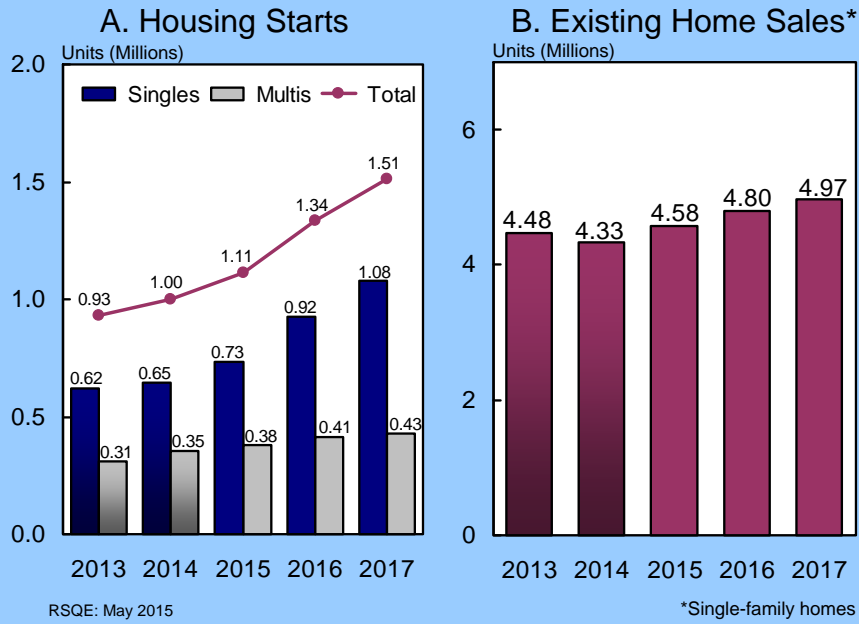
\* 1/3 the change in quarterly value

## Consumer Price Inflation (CPI-U)

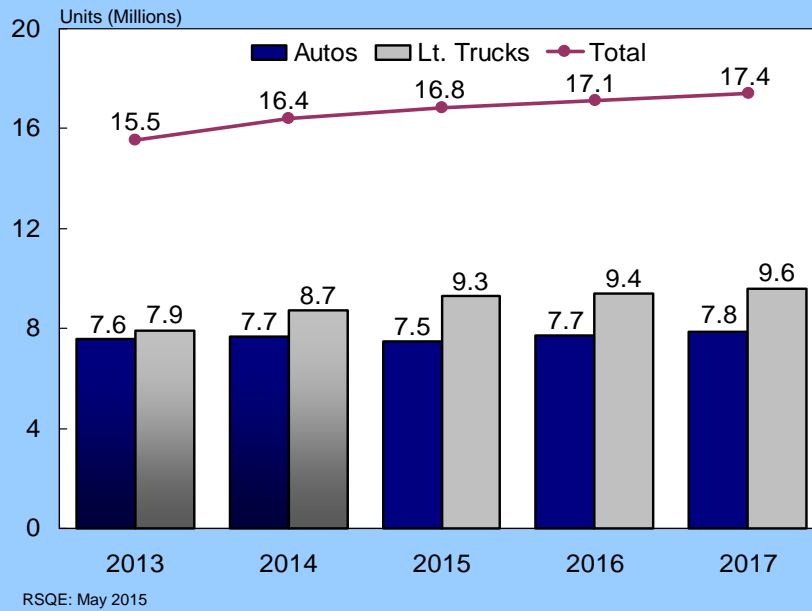


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## Housing Market



## Light Vehicle Sales



# Risks

- Monetary policy timing
- Fiscal policy
- Economic growth abroad
  - Long-term interest rate volatility
- Geopolitics
  - Oil prices
- Abnormal weather

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# THE MICHIGAN ECONOMIC OUTLOOK FOR 2015–2017

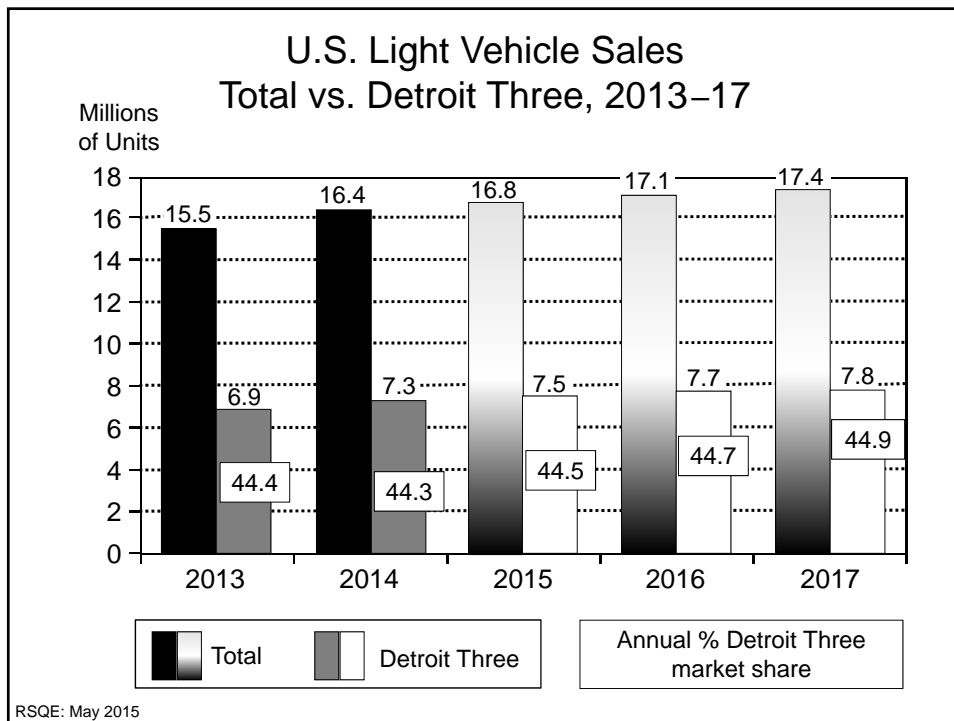
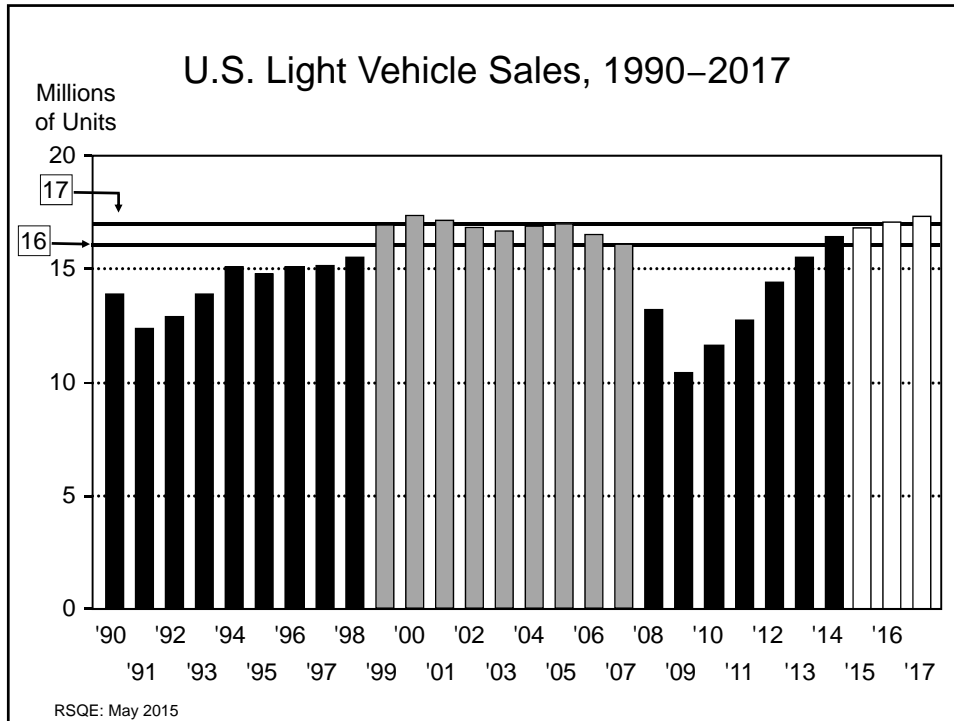


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## Motor Vehicle Industry Revisited



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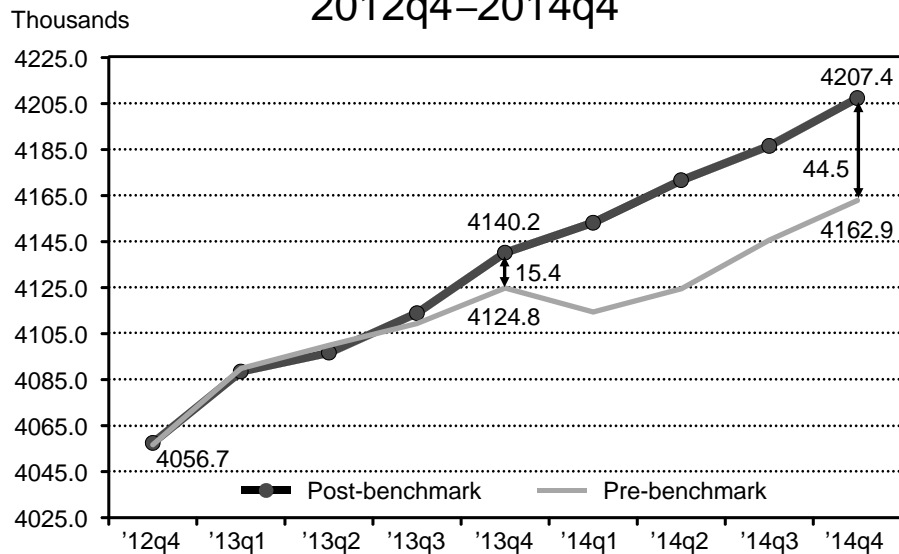


# Current State of Michigan's Economy



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## Michigan Payroll Employment 2012q4–2014q4



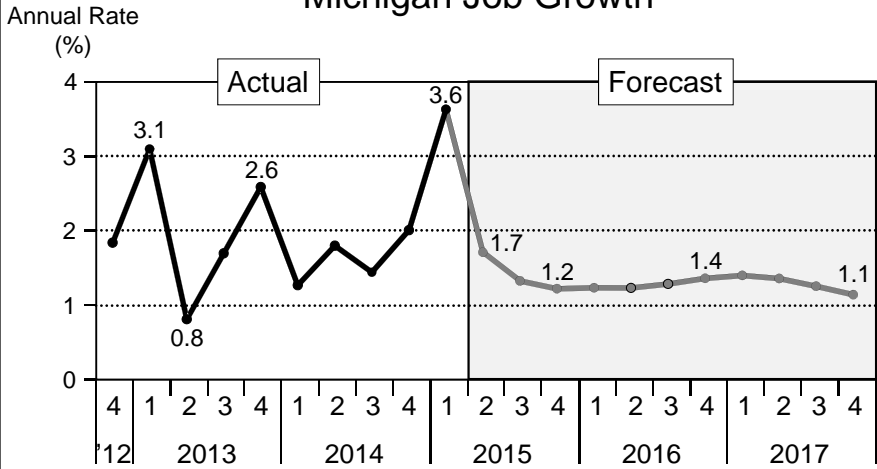
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# Michigan Outlook



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## Michigan Job Growth



4th Quarter to 4th Quarter Growth Rate (%)					
1.7	2.0	1.6	2.0	1.3	1.3
4th Quarter to 4th Quarter Change (Thousands)					
68.7	82.7	67.2	82.5	54.6	55.8

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### Change in Jobs by Industry Sector (Thousands of jobs)

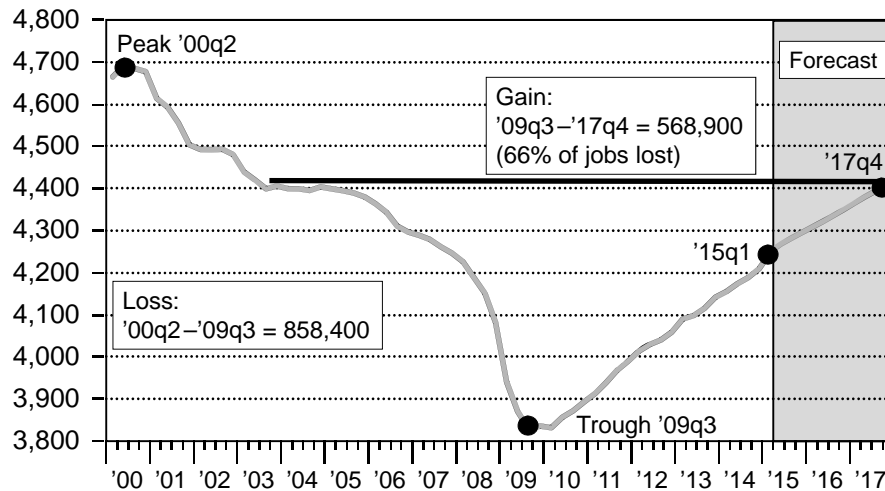
	2012q4 to 2013q4	2013q4 to 2014q4	2014q4 to 2015q4	2015q4 to 2016q4	2016q4 to 2017q4
Total jobs	83	67	83	55	56
Manufacturing	21	18	15	4	3
Construction	7	7	12	7	9
Prof. & bus. svcs.	22	17	20	15	15
Trade, trans., util.	15	12	10	9	9
Government	-7	-2	-1	1	1

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### Michigan Jobs

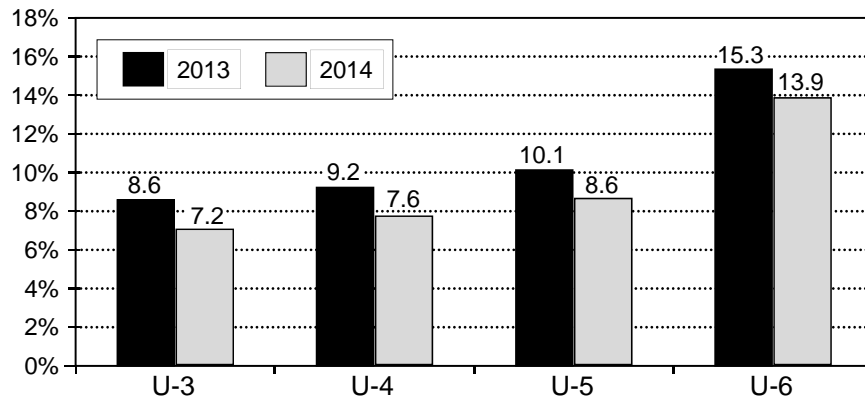
#### First Quarter of 2000 to Fourth Quarter of 2017

Thousands of jobs



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**Alternative Measures of Labor Underutilization  
Michigan, 2013 and 2014**



U-3: Comparable to the official unemployment rate (8.5% in 2013, 7.1% in 2014)

U-4: Unemployed (U-3) + discouraged workers

U-5: U-4 + all other marginally attached workers

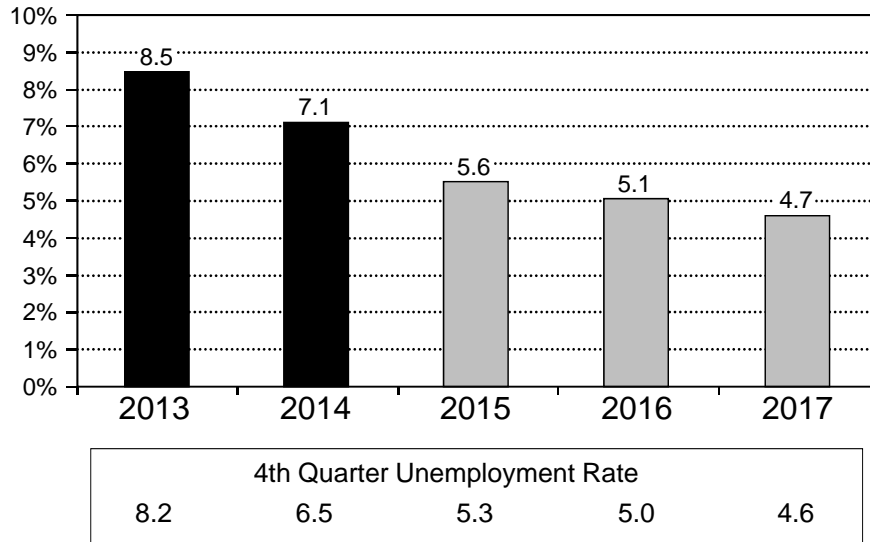
U-6: U-5 + employed part-time for economic reasons

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**Alternative Measures of Labor Underutilization  
Michigan vs. United States, 2010–14  
(Percentage)**

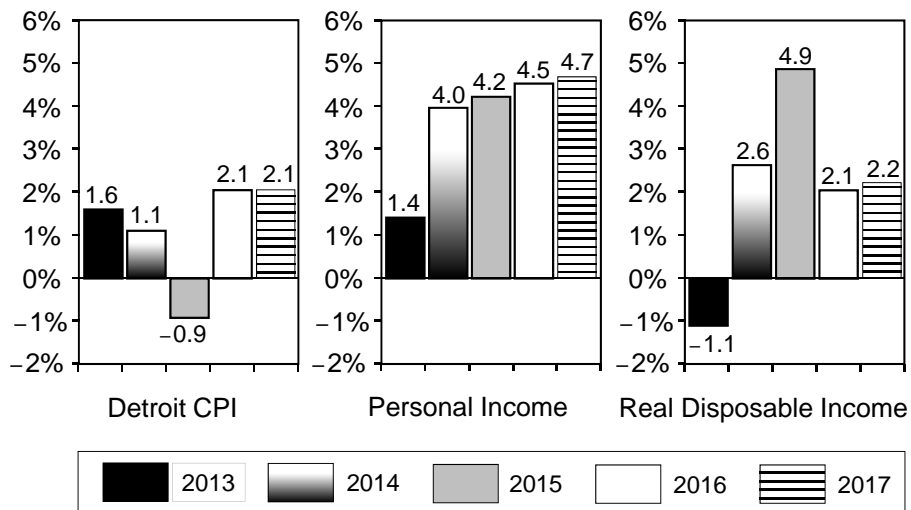
Michigan	U-3	U-4	U-5	U-6	Change				
					U-3	U-4	U-5	U-6	
2010	12.2	13.1	14.0	21.0					
2011	10.2	11.1	12.3	18.8	-2.0	-2.0	-1.7	-2.2	
2012	9.1	9.8	11.0	16.6	-1.1	-1.3	-1.3	-2.2	
2013	8.6	9.2	10.1	15.3	-0.5	-0.6	-0.9	-1.3	
2014	7.2	7.6	8.6	13.9	-1.4	-1.6	-1.5	-1.4	
2010–14					-5.0	-5.5	-5.4	-7.1	
<b>United States</b>									
2010	9.6	10.3	11.1	16.7					
2011	8.9	9.5	10.4	15.9	-0.7	-0.8	-0.7	-0.8	
2012	8.1	8.6	9.5	14.7	-0.8	-0.9	-0.9	-1.2	
2013	7.4	7.9	8.8	13.8	-0.7	-0.7	-0.7	-0.9	
2014	6.2	6.6	7.5	12.0	-1.2	-1.3	-1.3	-1.8	
2010–14					-3.4	-3.7	-3.6	-4.7	

## Michigan Unemployment Rate 2013-17



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## Michigan Inflation and Income Growth



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