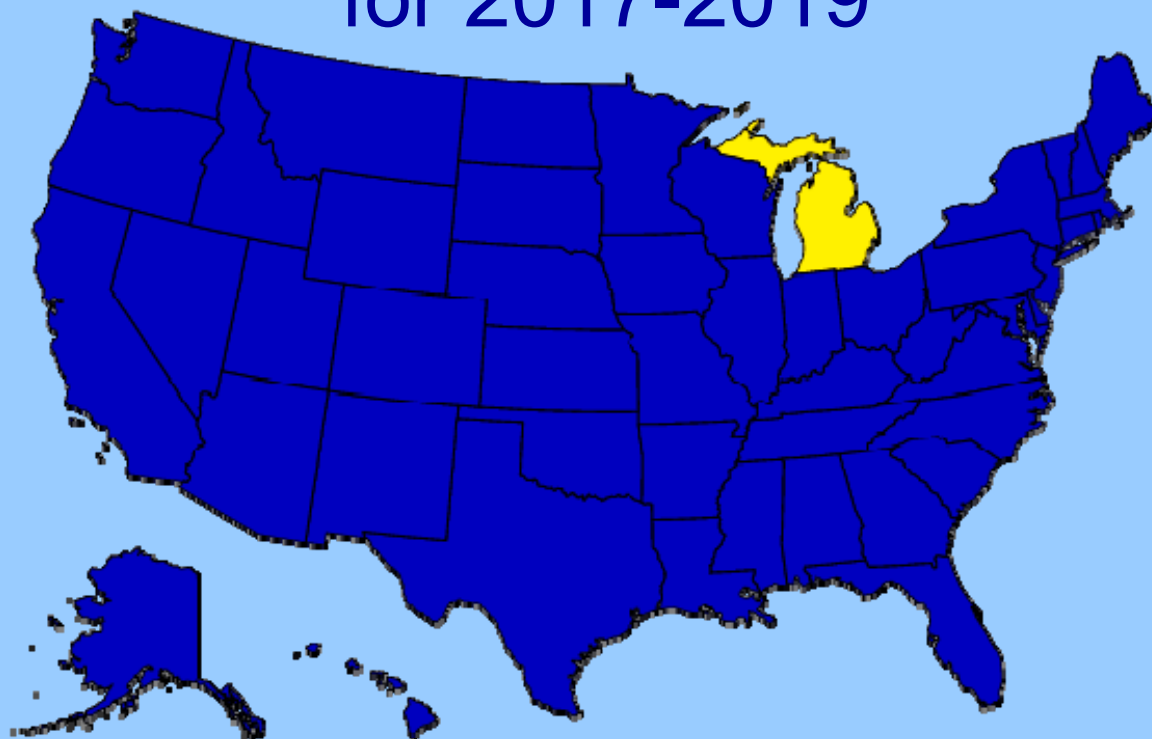


# The U.S. and Michigan Outlook for 2017-2019



Consensus Revenue Estimating Conference  
Lansing, Michigan  
May 17, 2017

RSQE

University of Michigan

# The Current State of the Economy

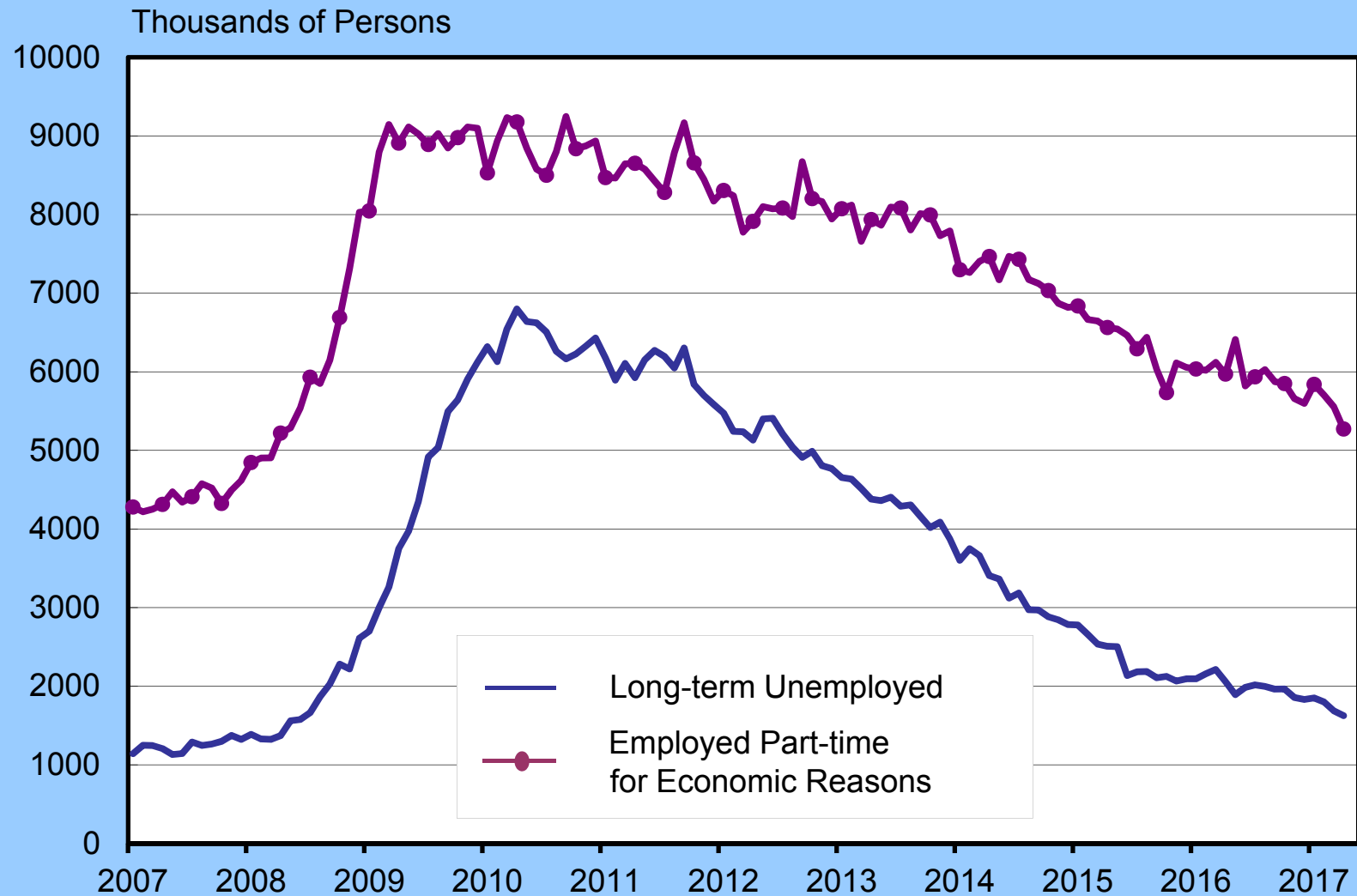
# Latest Data

- 2017q1 real GDP growth at only 0.7 percent pace
  - 0.9 percentage point drag due to inventories
  - Weakest consumption growth since 2009q4
- Rebound likely, fundamentals are solid
- Four-quarter final sales growth stable
  - At 2.1 percent in 2017q1
  - Averaged 2.0 percent during 2016
- Basic GDP forecast story:  
near-term rebound followed by near 2% trend growth

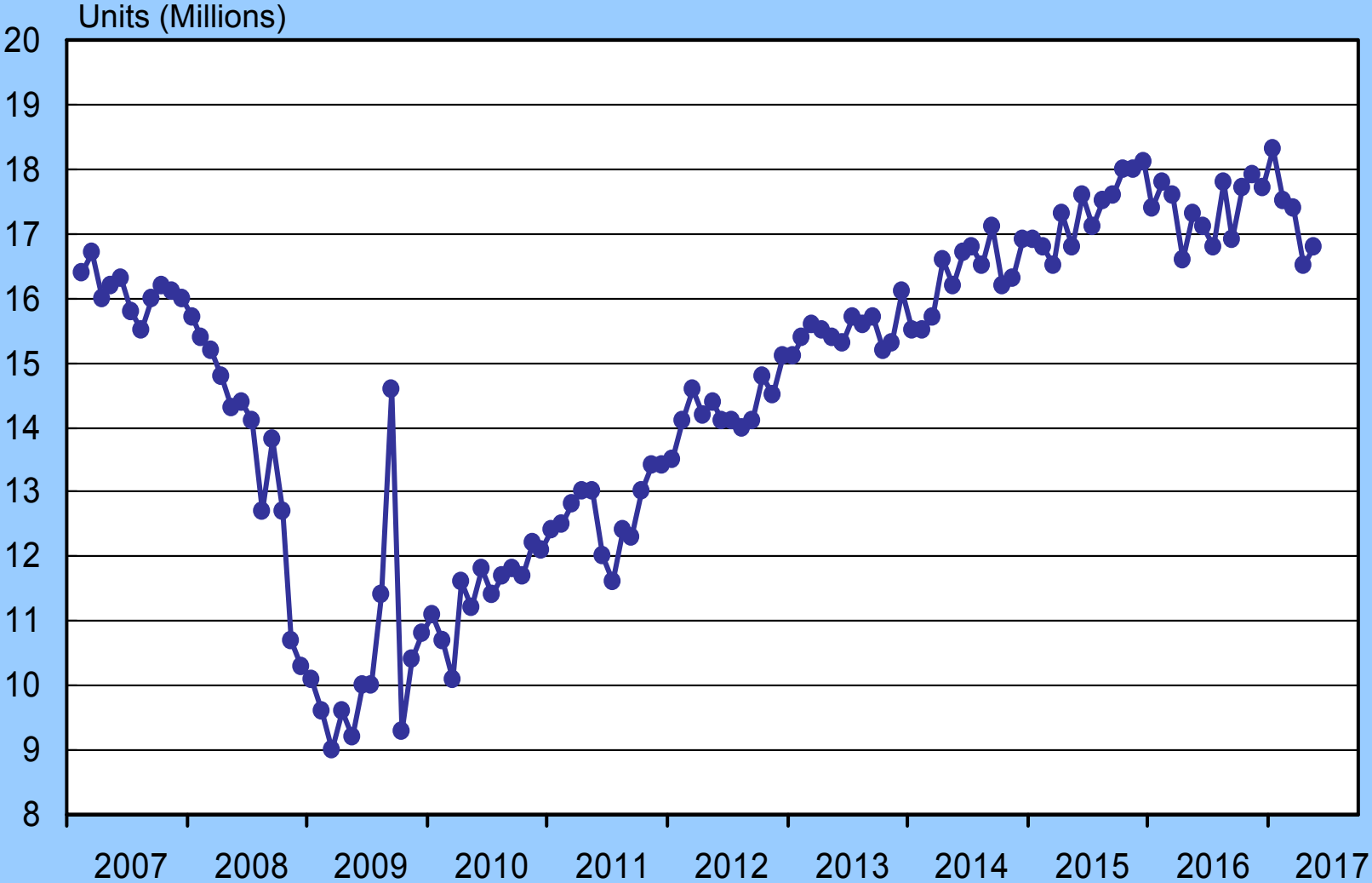
# Labor Market

- April unemployment rate at 4.4 percent
  - The lowest since May 2007, matches prior cyclical minimum
- Payroll job gains 185,000 per month so far in 2017
  - On par with 2016, slightly behind the 2011–15 average of 204,000 jobs/month.
- Labor force participation rate flat despite demographics
- Job openings rate far exceeds prior business cycle peak
- Bucking the trend, hourly compensation is growing slower
- Broader measures of labor underutilization improving faster in 2017, after a slowdown in 2016

# Underemployed and Long-term Unemployed



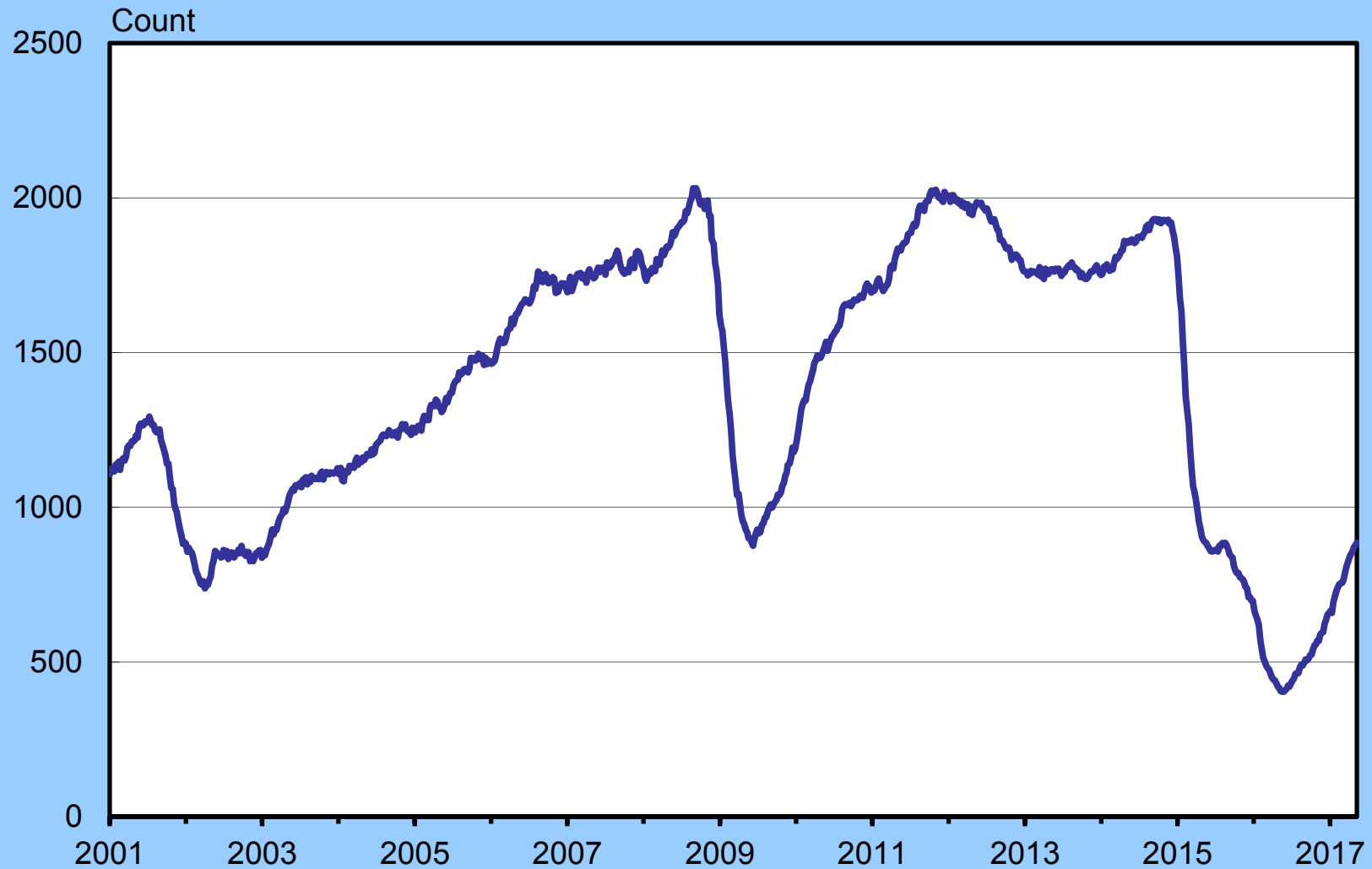
# Light Vehicle Sales



# Latest Data

- Light vehicle sales set a new record in 2016, but have lost a gear in 2017 so far
- Onshore oil production growing fast again
- Long-term interest rates shot up after November election, have backed off a little lately
- The value of the dollar jumped late in 2016, has slowly declined during 2017 so far
- Key sentiment indexes rose sharply late in 2016, and seem to be holding up
  - No noticeable effect on economic growth so far

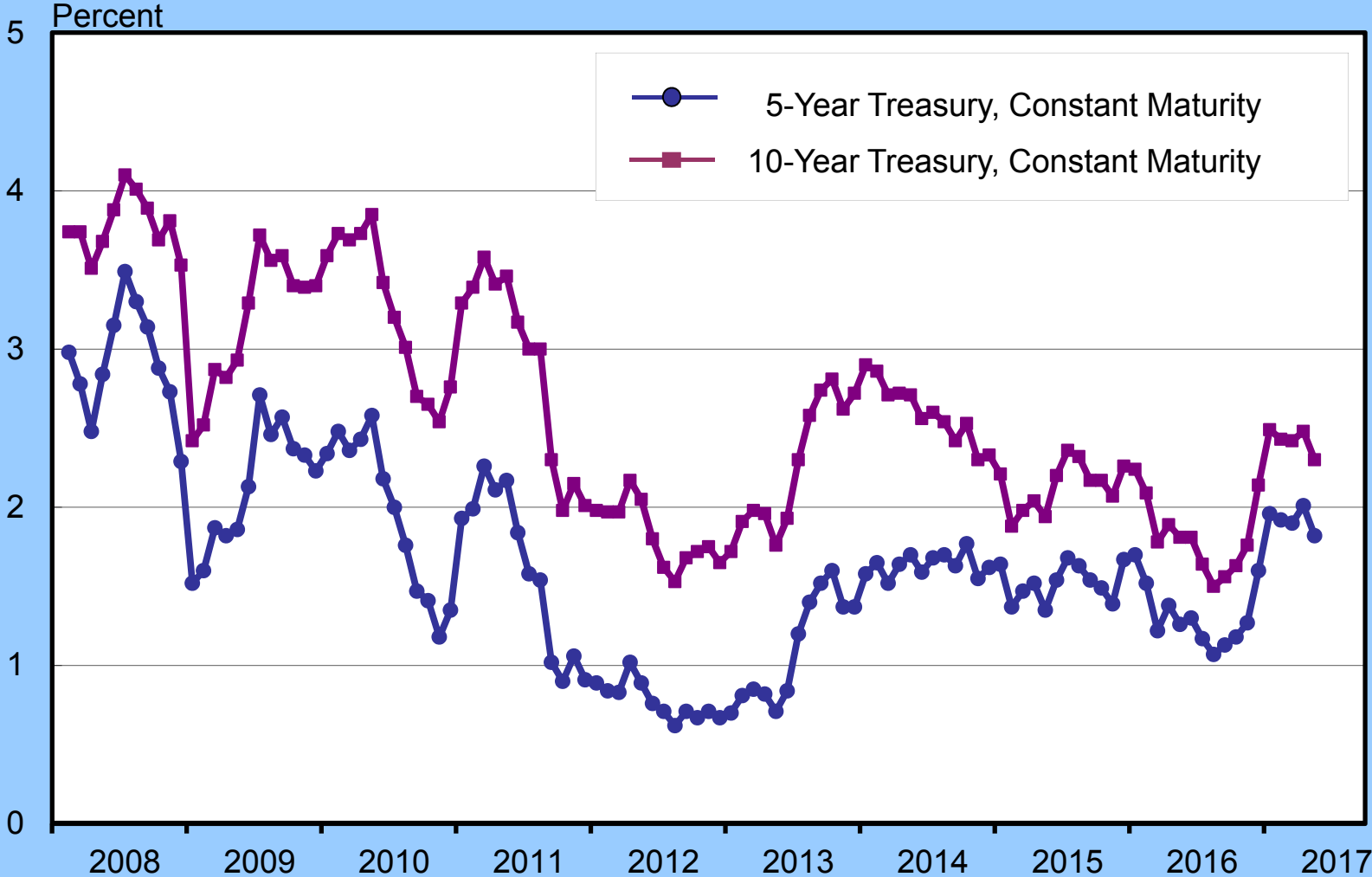
# Active U.S. Oil and Gas Drilling Rig Count



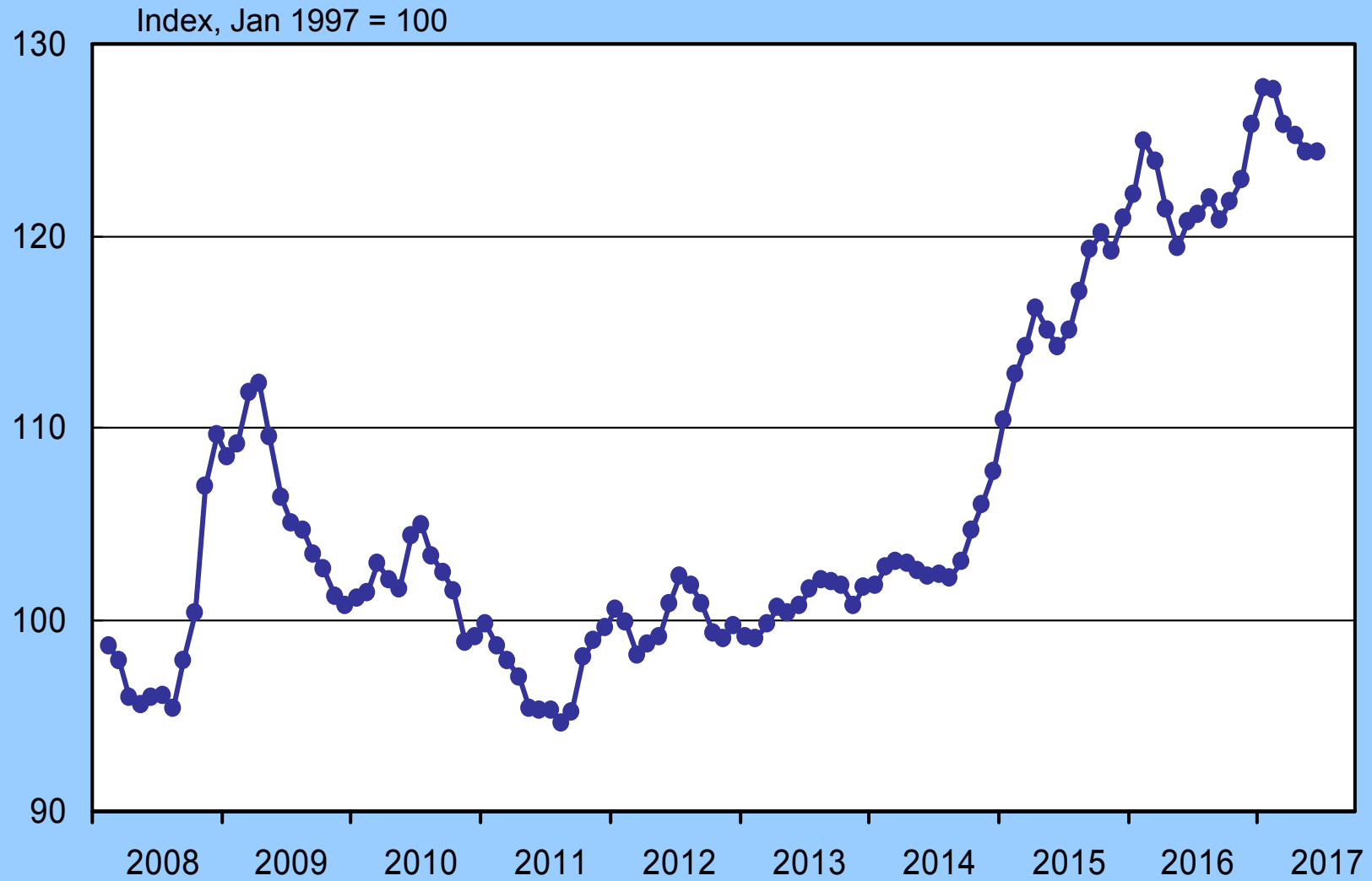
RSQE: May 2017



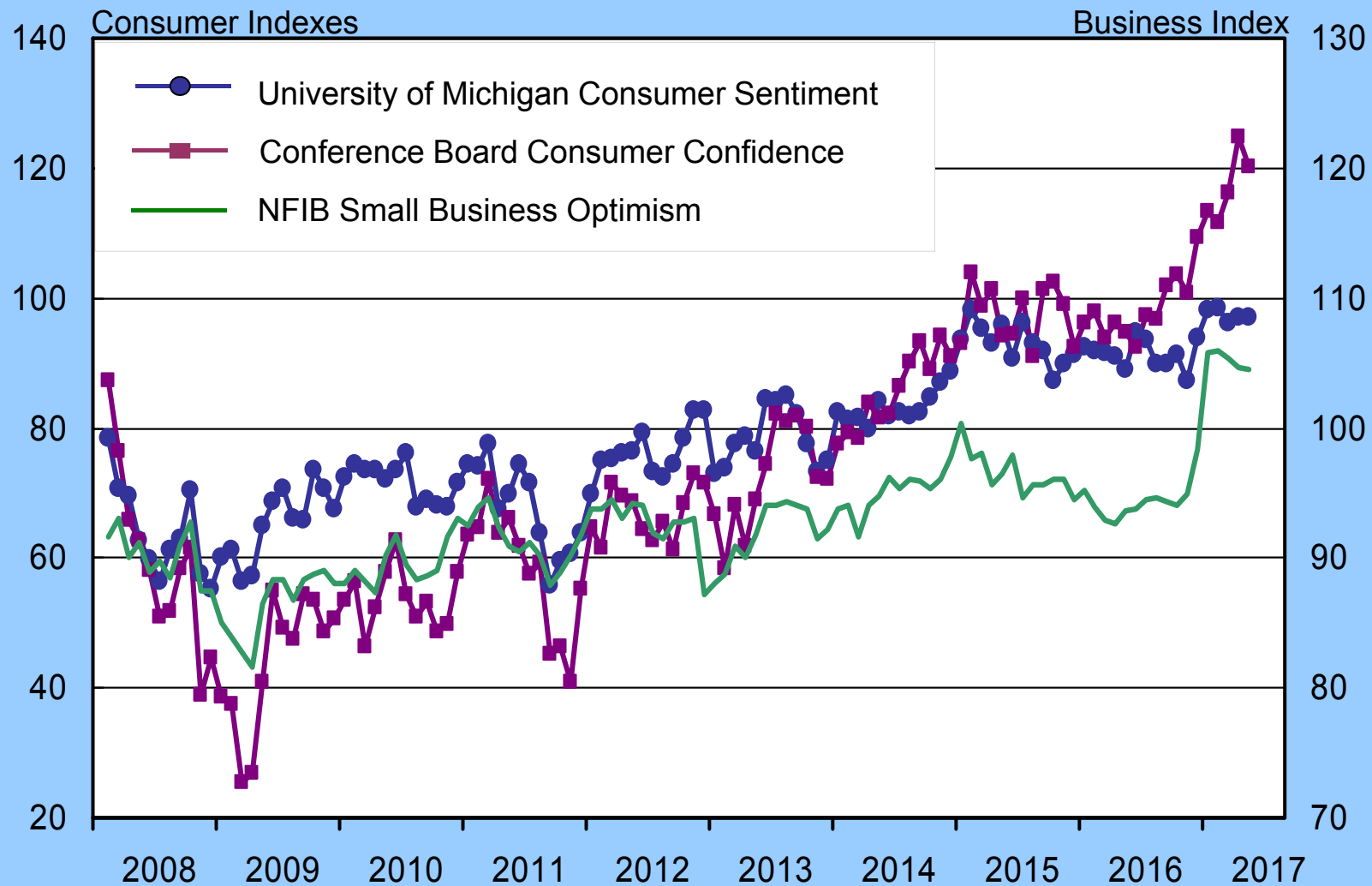
# Interest Rates



# Trade-Weighted Value of the Dollar



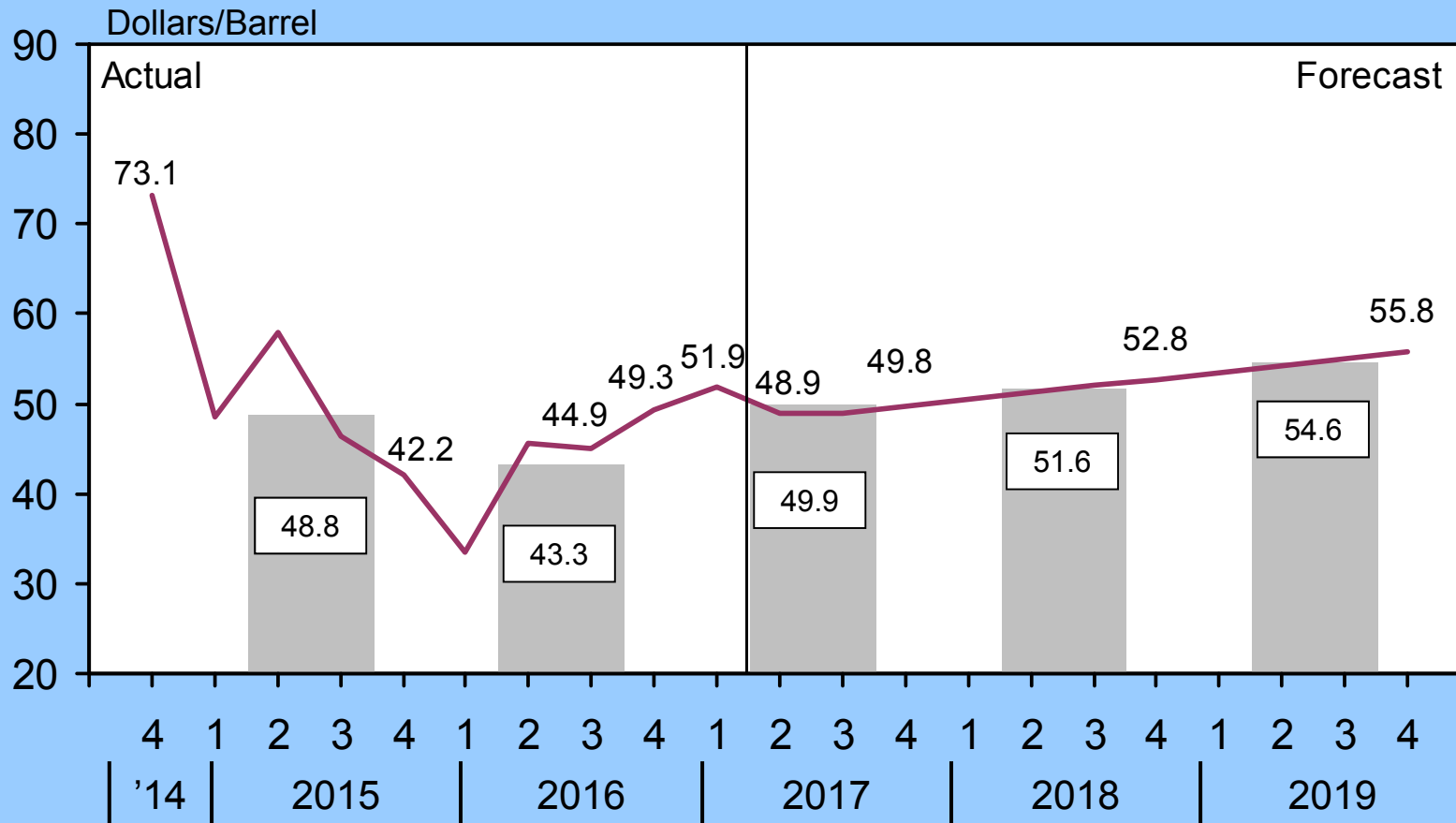
# Sentiment Indexes



# Key Inputs

# Oil Prices

## (West Texas Intermediate Crude)

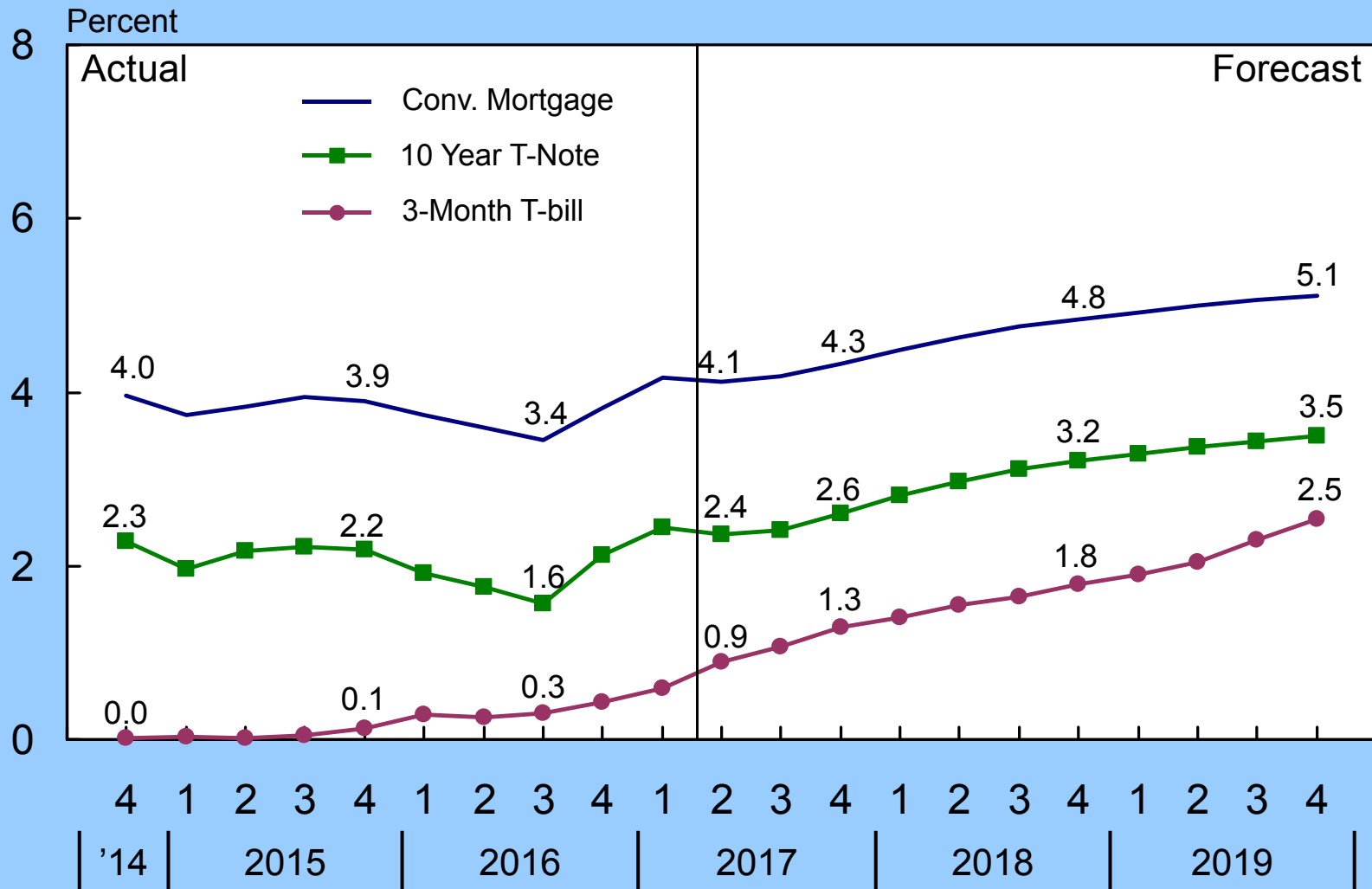


4 <sup>th</sup> Quarter to 4 <sup>th</sup> Quarter % Change						
-24.9	-42.3	16.9	0.9	6.0	5.7	WTI
-14.7	-49.7	4.7	8.6	6.4	5.6	Imports*

# Monetary Policy

- June rate hike odds over 70%
  - Fed funds rate range will be 100-125 basis points
- Motivation:
  - Labor market near full employment
- Cause for concern:
  - Core inflation fell in March (and in April in CPI data)
- Path most consistent with our outlook:
  - June & December 2017 25 basis points rate range hikes
  - Two and three hikes in 2018 and 2019, respectively

# Market Interest Rates



# Fiscal Policy

- President and Congress still learning to work together
  - Fiscal 2017 omnibus – no large deviations from prior path
- AHCA – Obamacare repeal and replace legislation passed the House
  - Fate in the Senate uncertain
  - Little spending impact within our forecast horizon
- Administration tax reform blueprint:
  - Larger corporate tax cuts
  - Smaller personal tax cuts
- Federal deficit widens by about 1% of GDP by 2019



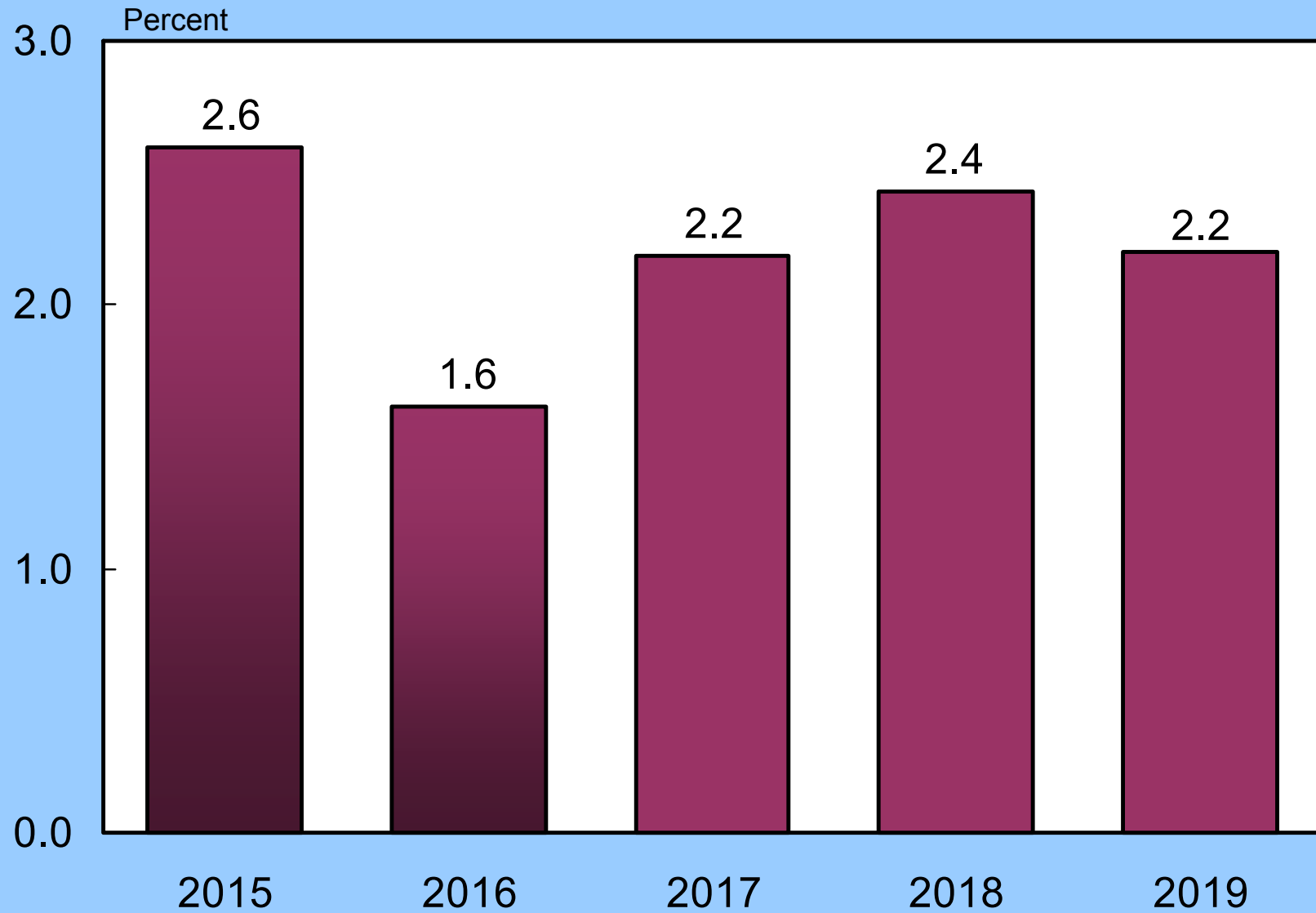
# Federal Budget, NIPA Basis

(Billions of Dollars)

		Forecast		
	FY '16	FY '17	FY '18	FY '19
<b>Current receipts</b>	<b>3494.9</b>	<b>3635.0</b>	<b>3697.2</b>	<b>3773.0</b>
<b>% change</b>	<b>2.8</b>	<b>4.0</b>	<b>1.7</b>	<b>2.1</b>
<b>Current expenditures</b>	<b>4124.0</b>	<b>4296.8</b>	<b>4501.5</b>	<b>4719.5</b>
<b>% change</b>	<b>3.4</b>	<b>4.2</b>	<b>4.8</b>	<b>4.8</b>
<b>Consumption</b>	<b>974.2</b>	<b>993.9</b>	<b>1029.3</b>	<b>1064.8</b>
<b>% change</b>	<b>1.6</b>	<b>2.0</b>	<b>3.6</b>	<b>3.4</b>
<b>Transfer payments</b>	<b>2630.9</b>	<b>2727.8</b>	<b>2831.8</b>	<b>2942.9</b>
<b>% change</b>	<b>3.6</b>	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>
<b>Surplus (+) or deficit (-)</b>	<b>-629.1</b>	<b>-661.8</b>	<b>-804.4</b>	<b>-946.5</b>
<b>Percent of GDP</b>	<b>-3.4</b>	<b>-3.5</b>	<b>-4.0</b>	<b>-4.5</b>

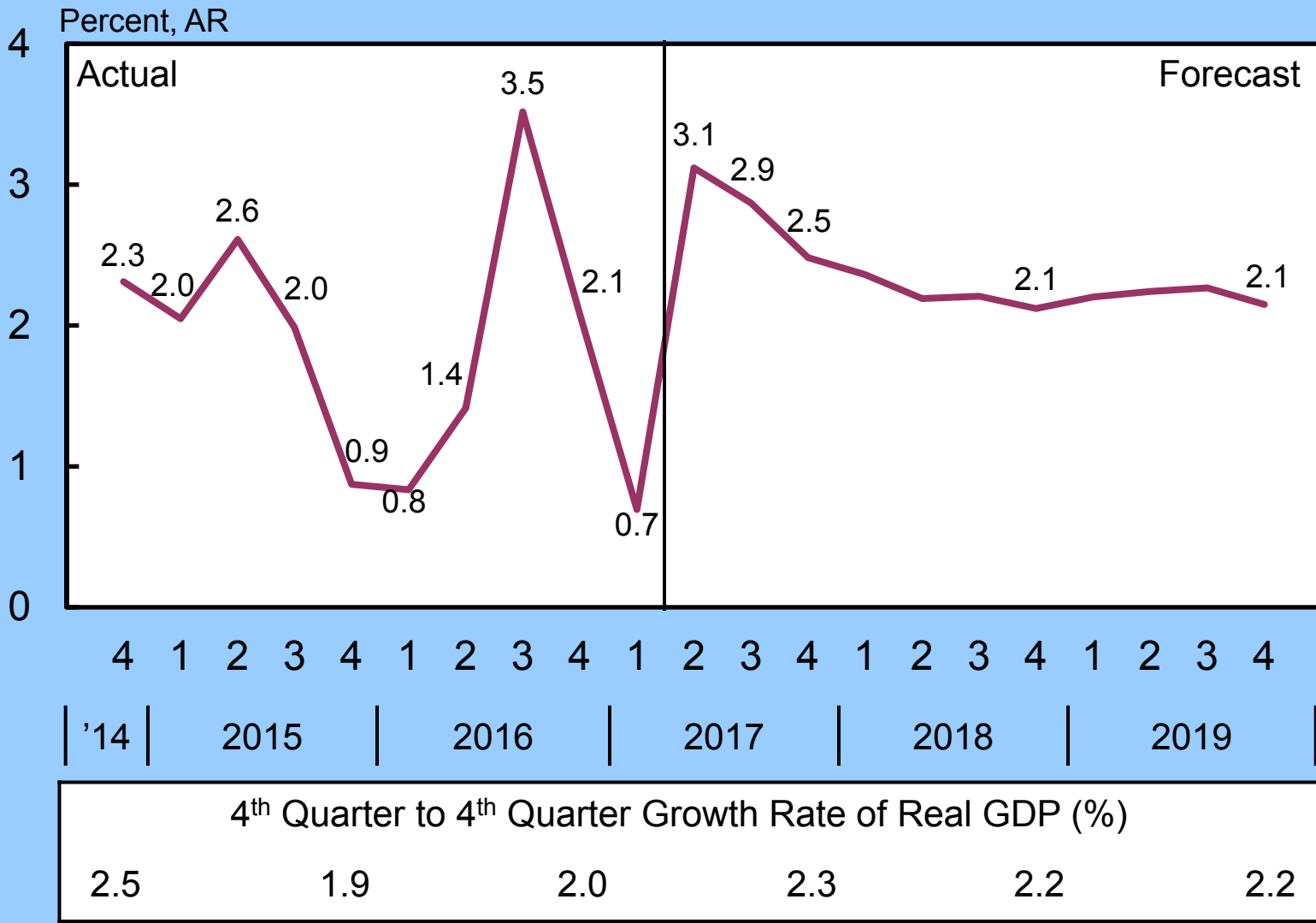
# RSQE Forecast

# Real GDP Growth

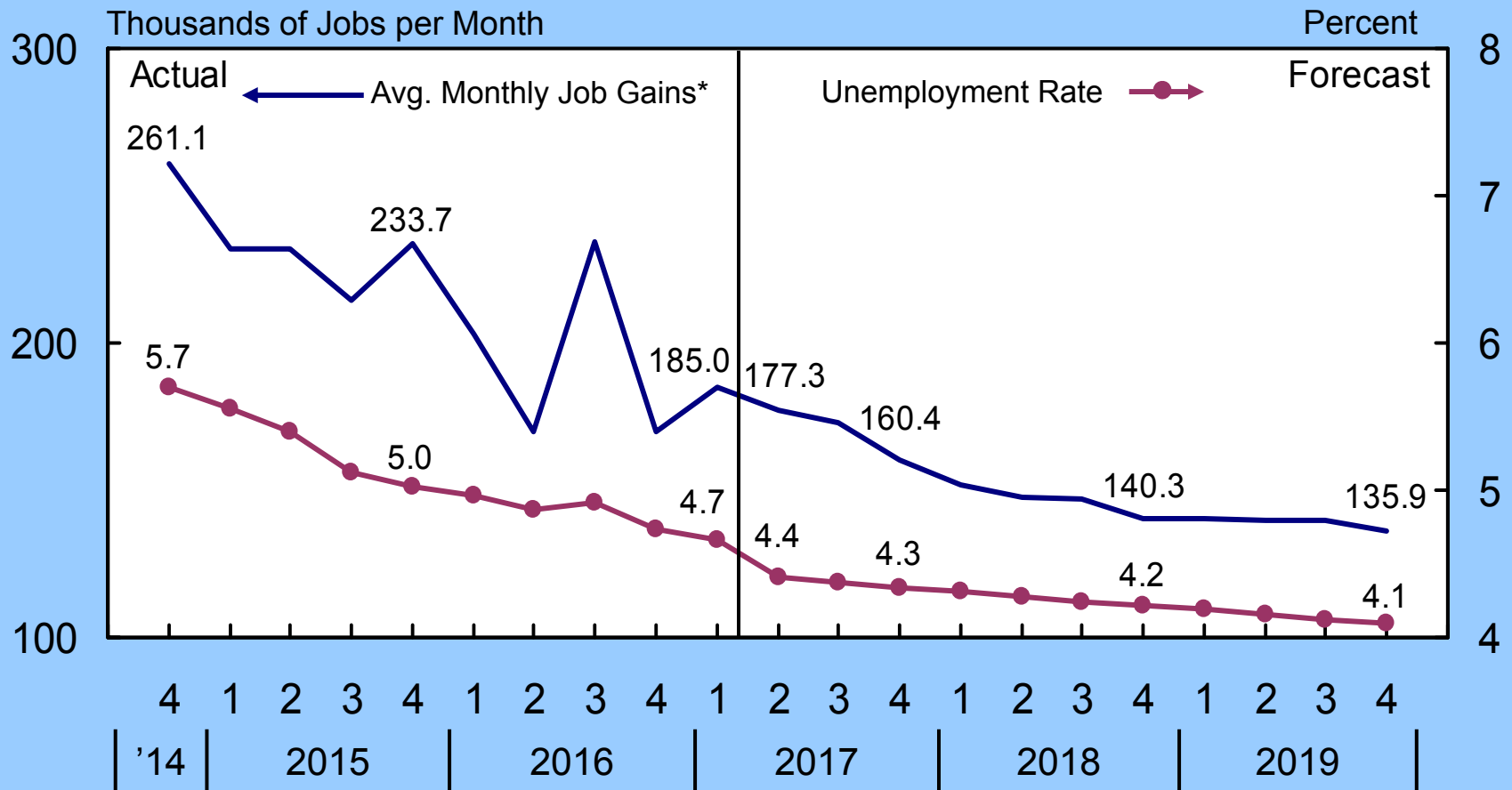


RSQE: May 2017

# Growth Rate of Real GDP

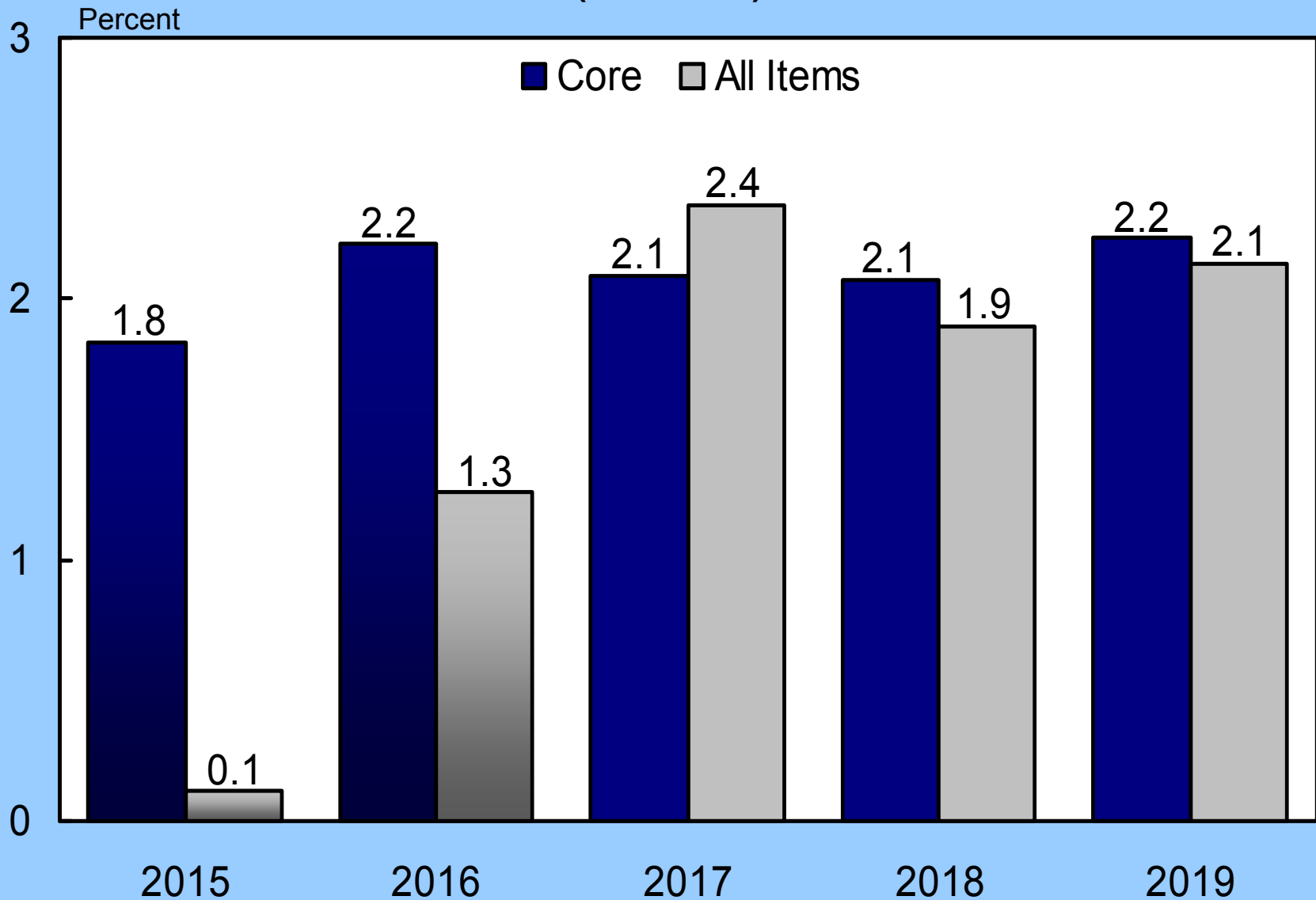


# Nonfarm Payroll Employment Gains and Unemployment Rate



4 <sup>th</sup> Quarter to 4 <sup>th</sup> Quarter Job Change (Millions)					
2.8	2.7	2.3	2.1	1.8	1.7

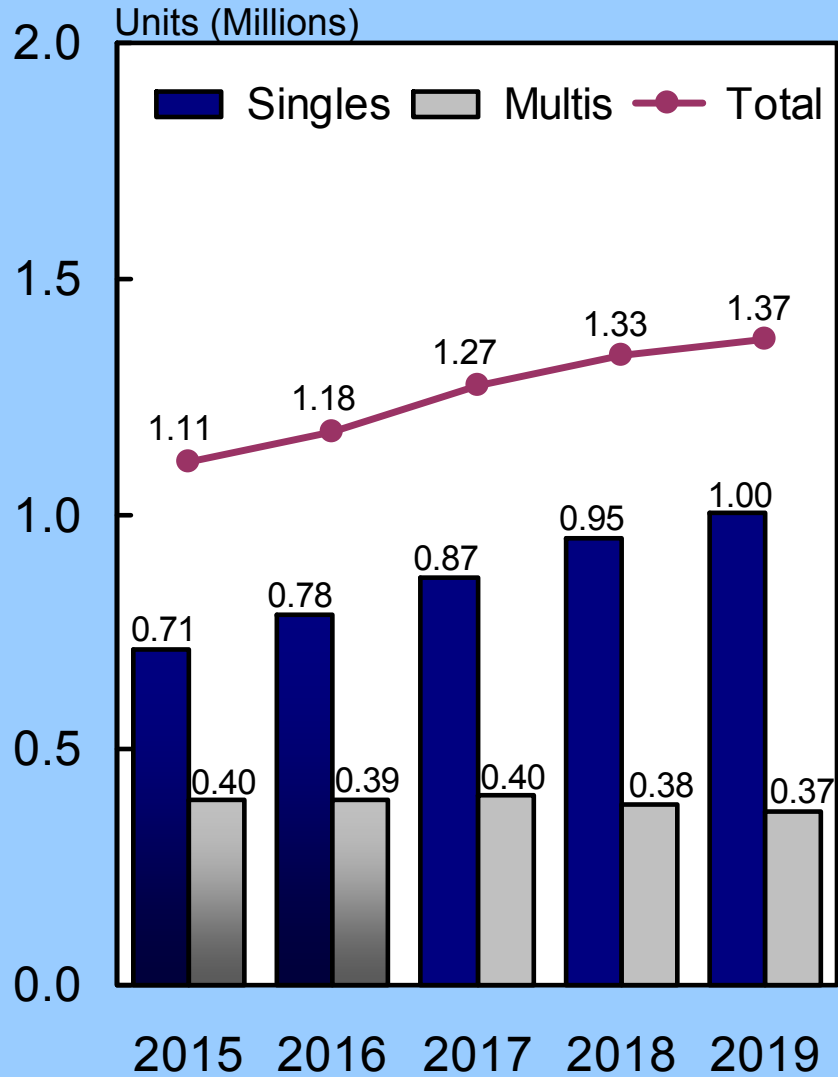
# Consumer Price Inflation (CPI-U)



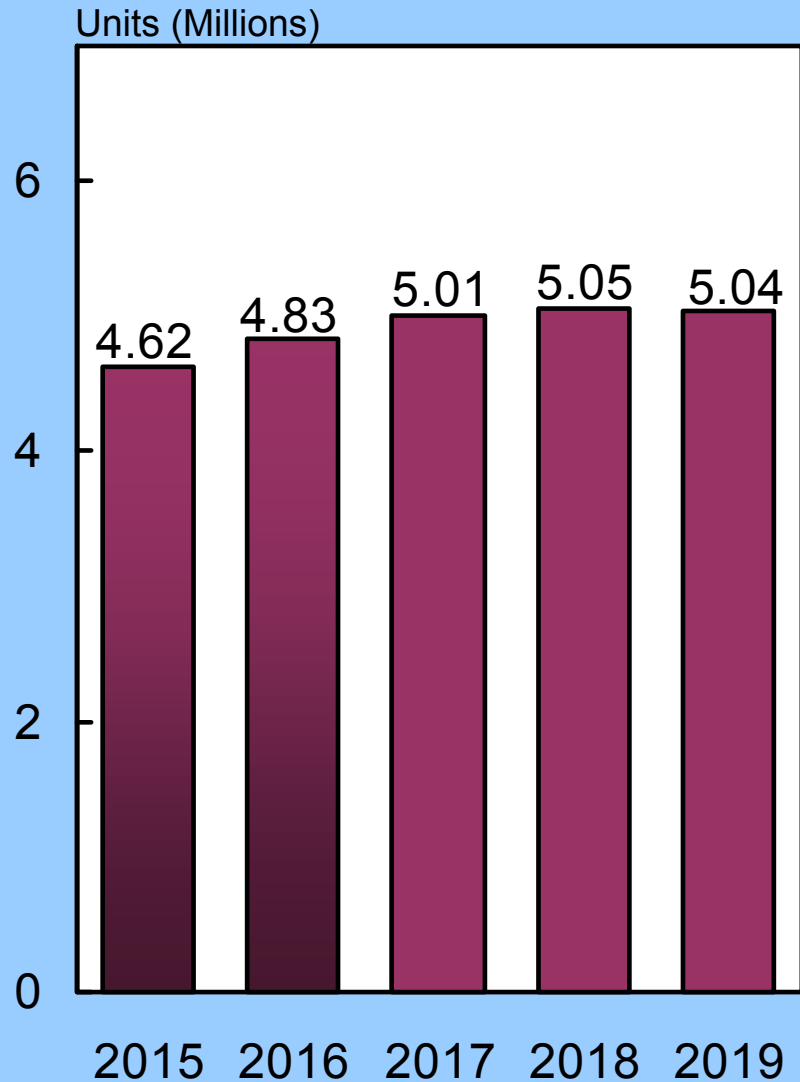
RSQE: May 2017

# Housing Market

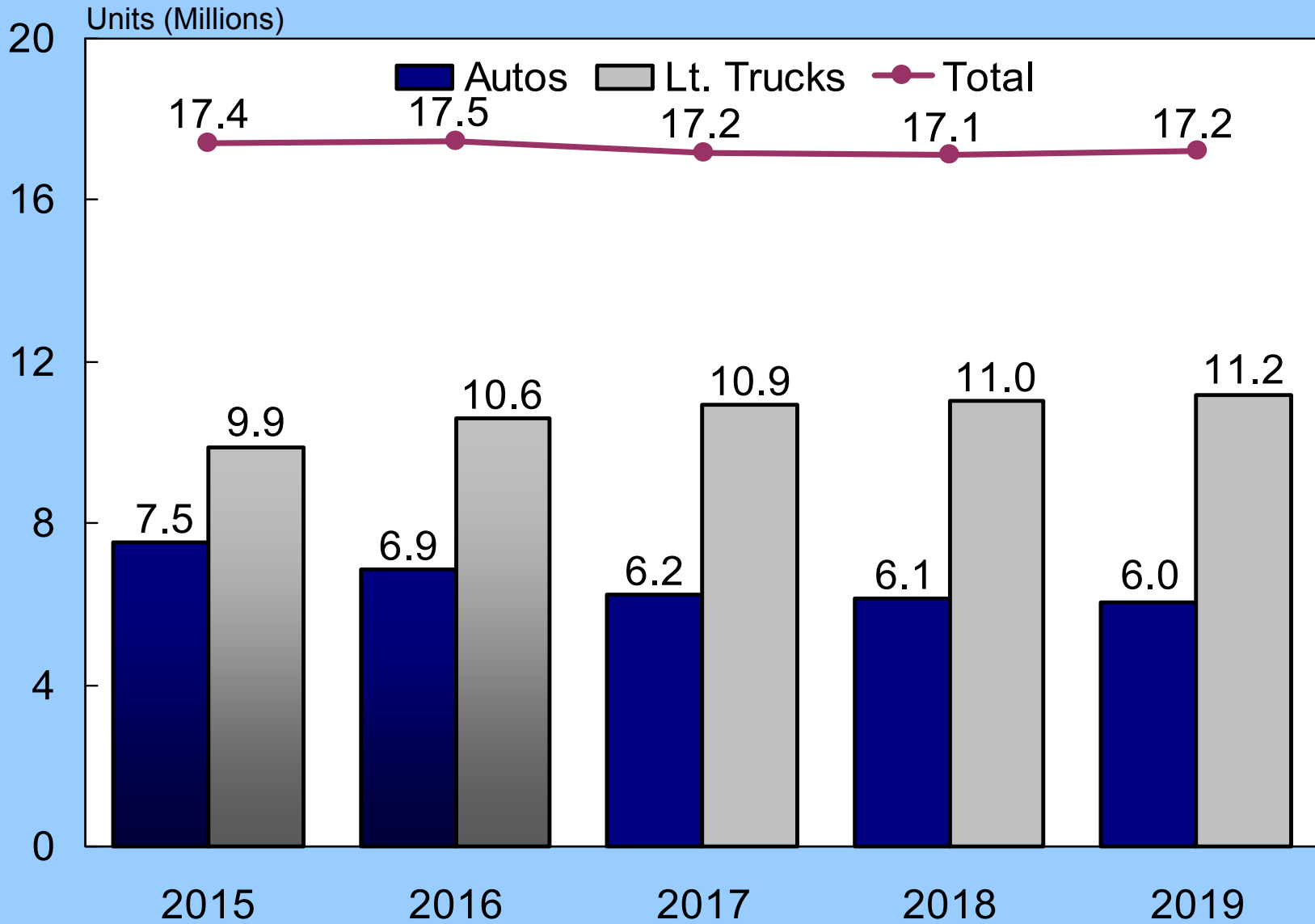
## A. Housing Starts



## B. Existing Home Sales\*



# Light Vehicle Sales

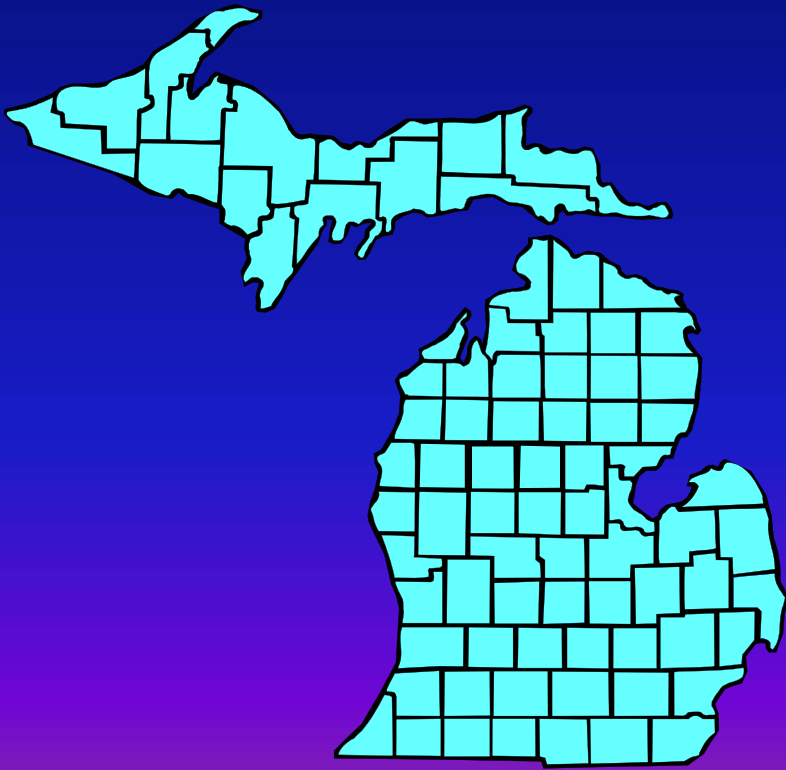




# Risks to the Outlook

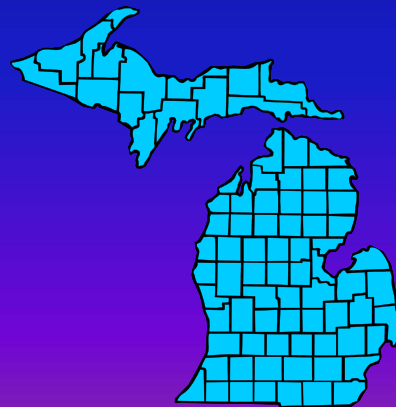
- Fiscal path quite uncertain
  - Tax reform, infrastructure, ACA, AHCA
- Monetary policy
  - Janet Yellen's term up in January 2018
- Trade policy
- World economic growth
- Commodity prices
- Abnormal weather

# THE MICHIGAN ECONOMIC OUTLOOK FOR 2017–2019



May 17, 2017

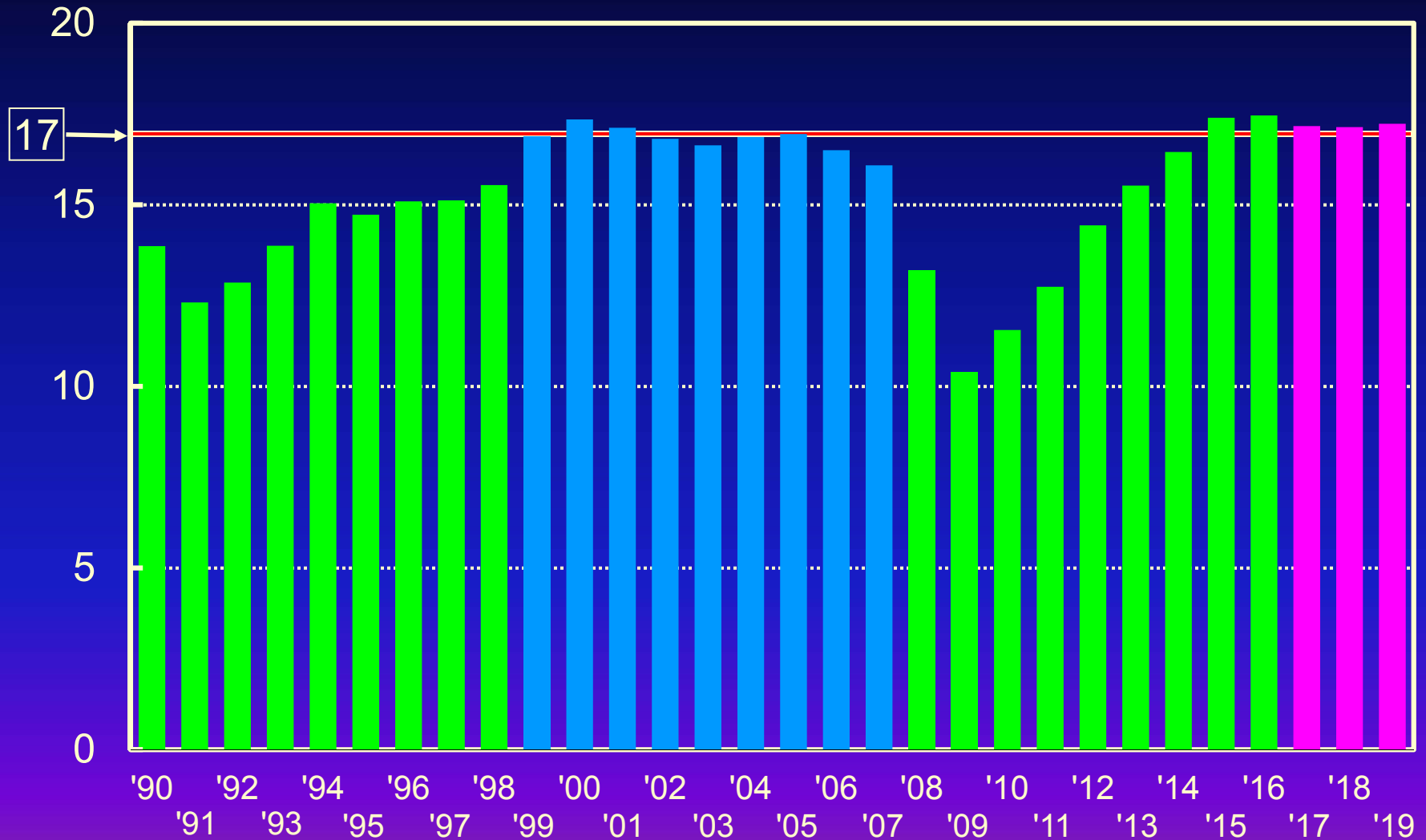
# Motor Vehicle Industry Revisited



With data

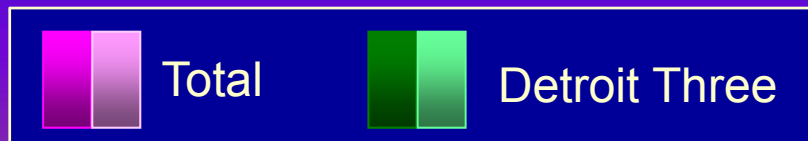
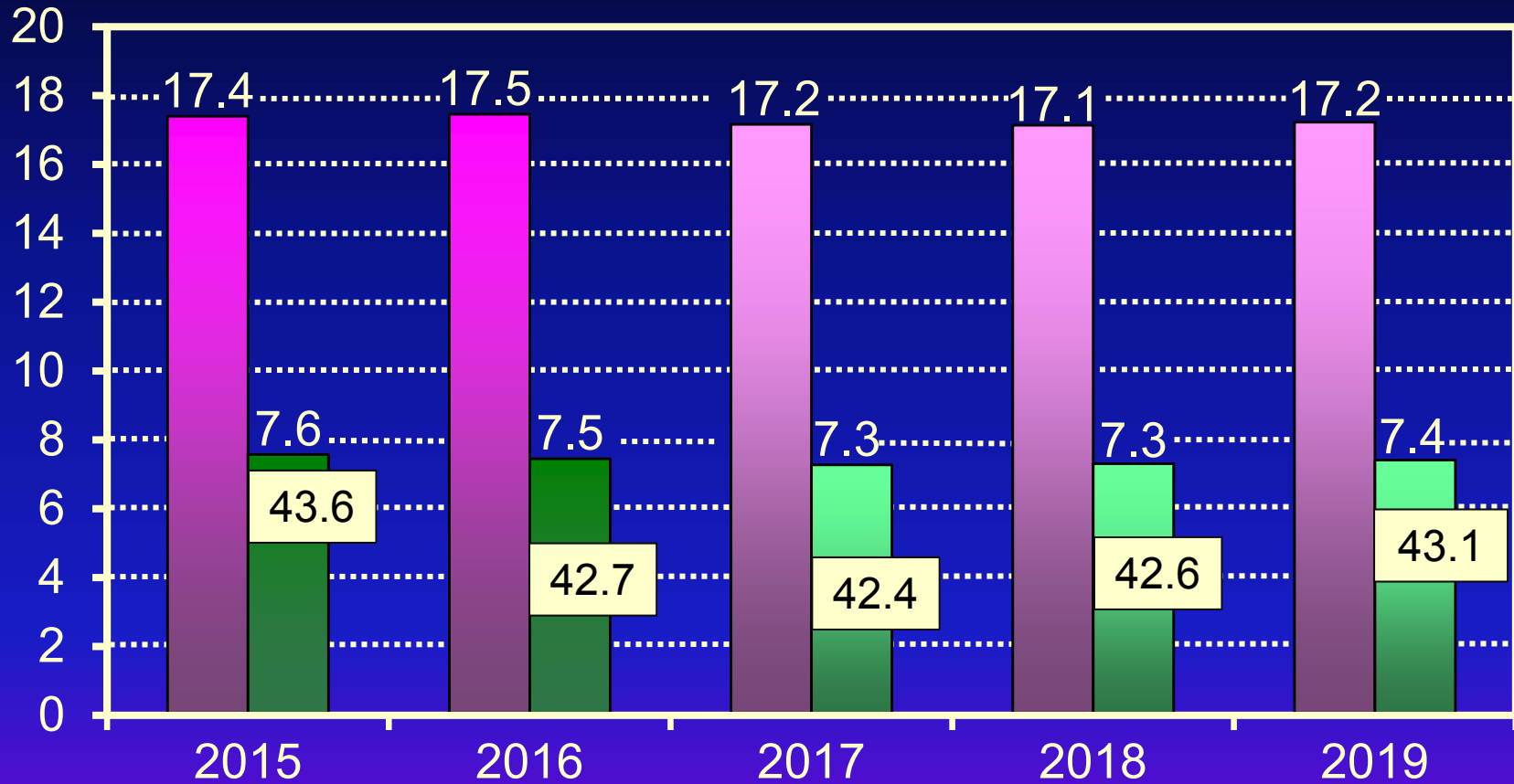
# U.S. Light Vehicle Sales, 1990–2019

Millions



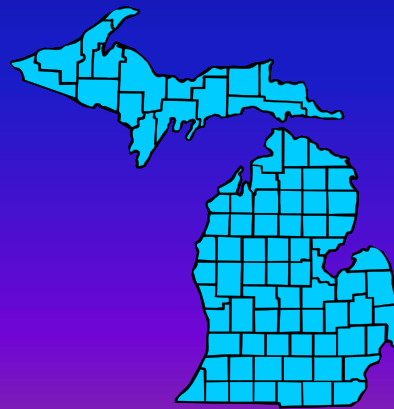
# U.S. Light Vehicle Sales Total vs. Detroit Three, 2015–19

Millions  
of Units

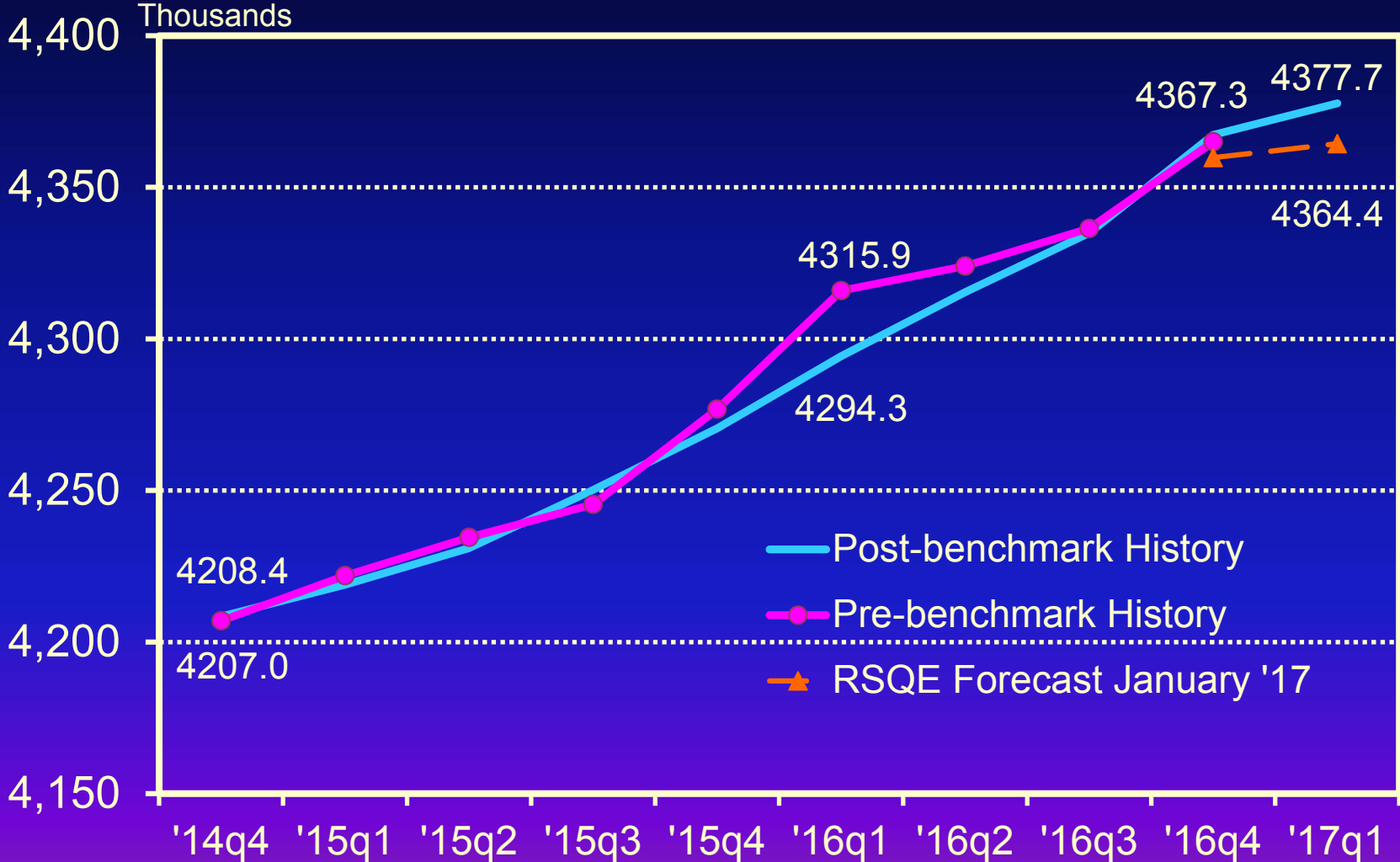


Annual % Detroit Three  
market share

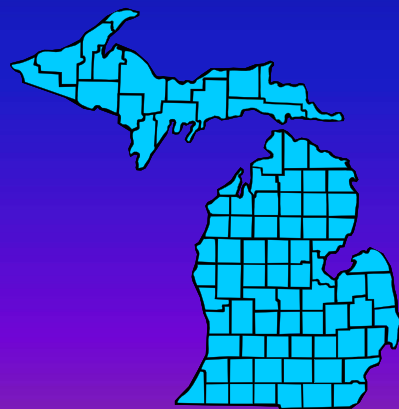
# Current State of Michigan's Economy



# Michigan Payroll Employment 2014q4–2017q1



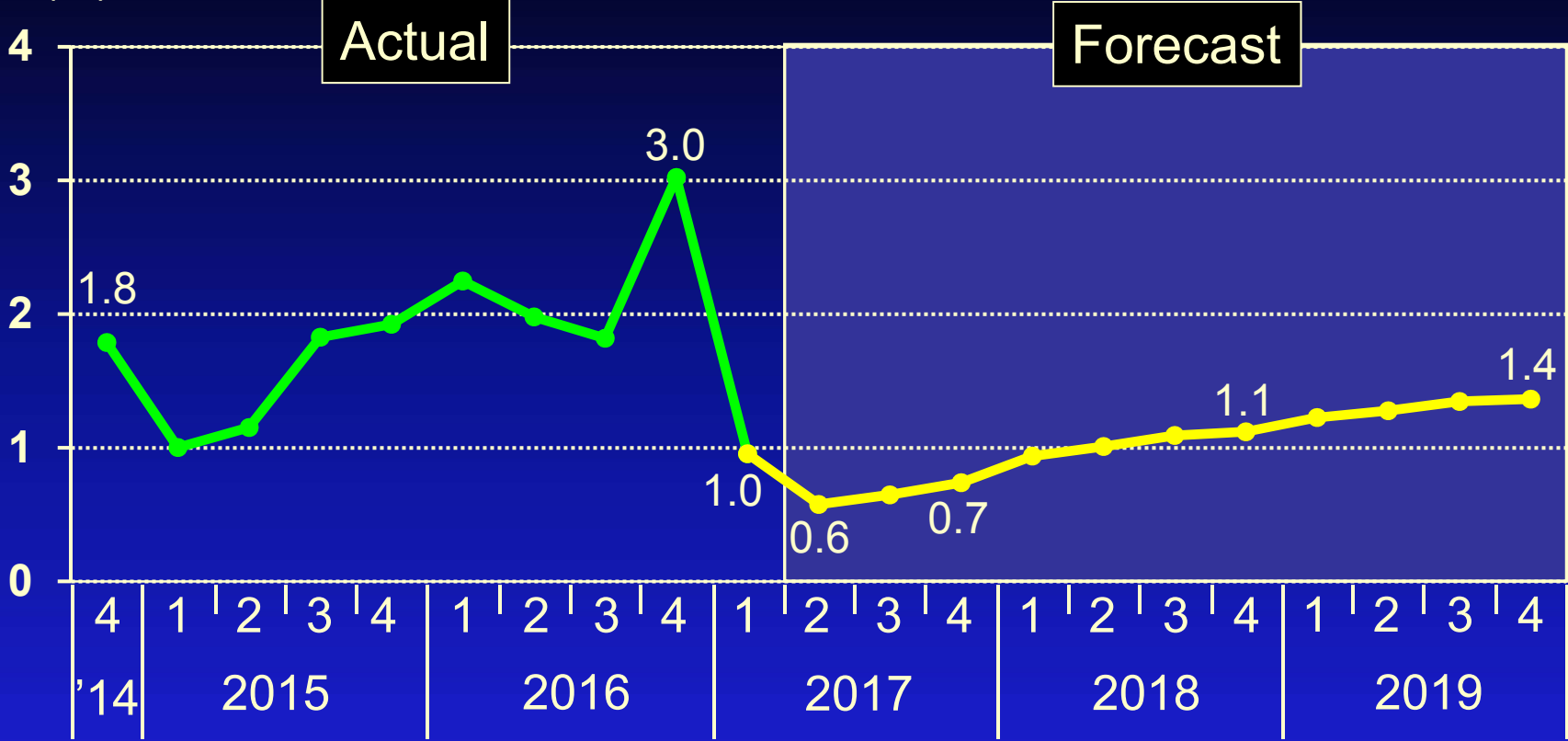
# Michigan Outlook





# Michigan Job Growth

Annual Rate (%)

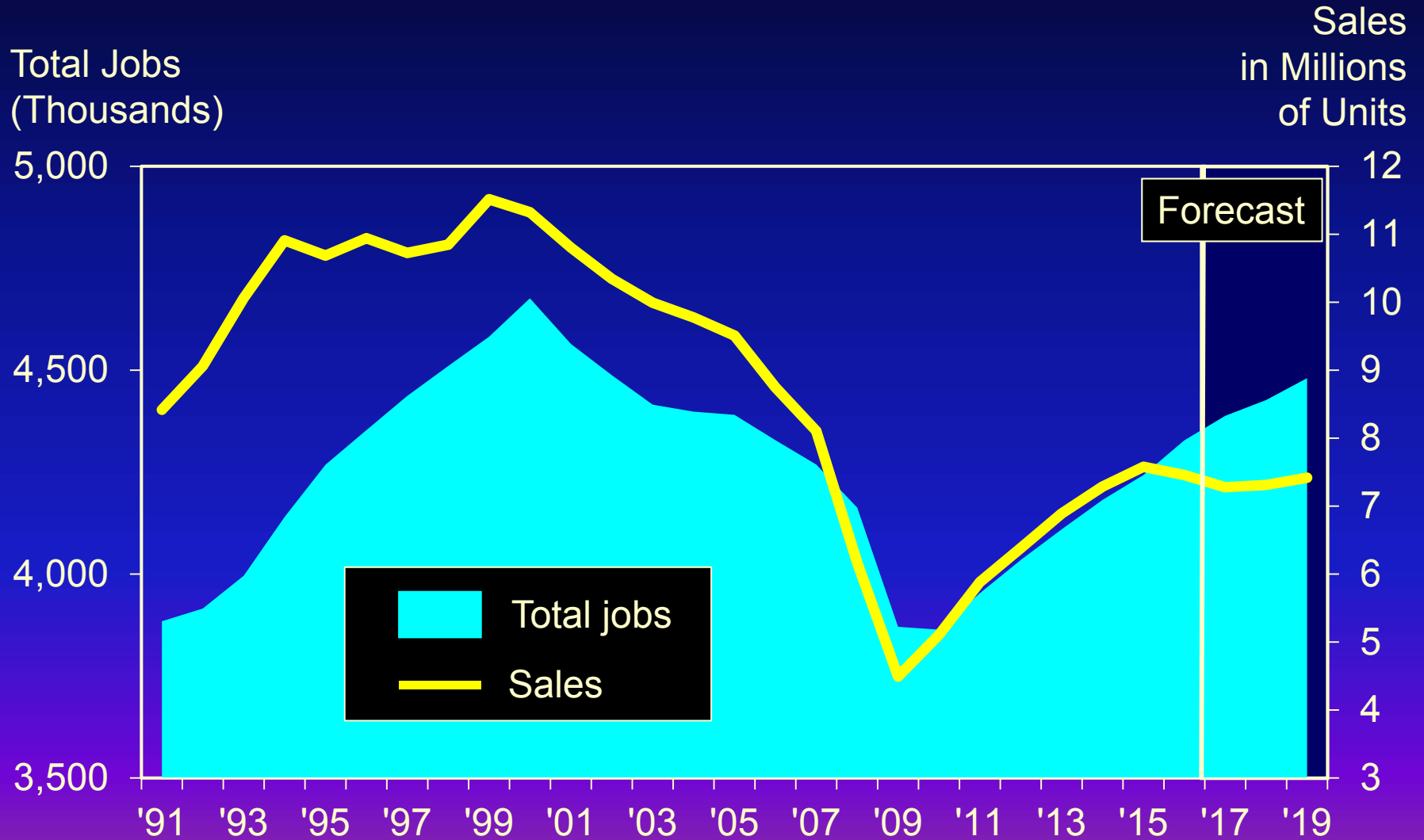


4th Quarter to 4th Quarter Growth Rate (%)					
1.7	1.5	2.3	0.7	1.0	1.3
4th Quarter to 4th Quarter Change (Thousands)					
70.7	62.1	96.8	31.9	45.8	58.0

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

	2014q4 to <u>2015q4</u>	2015q4 to <u>2016q4</u>	2016q4 to <u>2017q4</u>	2017q4 to <u>2018q4</u>	2018q4 to <u>2019q4</u>
<b>Total jobs</b>	62	97	32	46	58
<b>Manufacturing</b>	13	9	-7	-3	1
<b>Construction</b>	5	8	10	6	7
<b>Prof. &amp; bus. svcs.</b>	9	22	8	16	18
<b>Trade, trans., util.</b>	10	8	-1	8	12
<b>Government</b>	-1	15	2	3	3

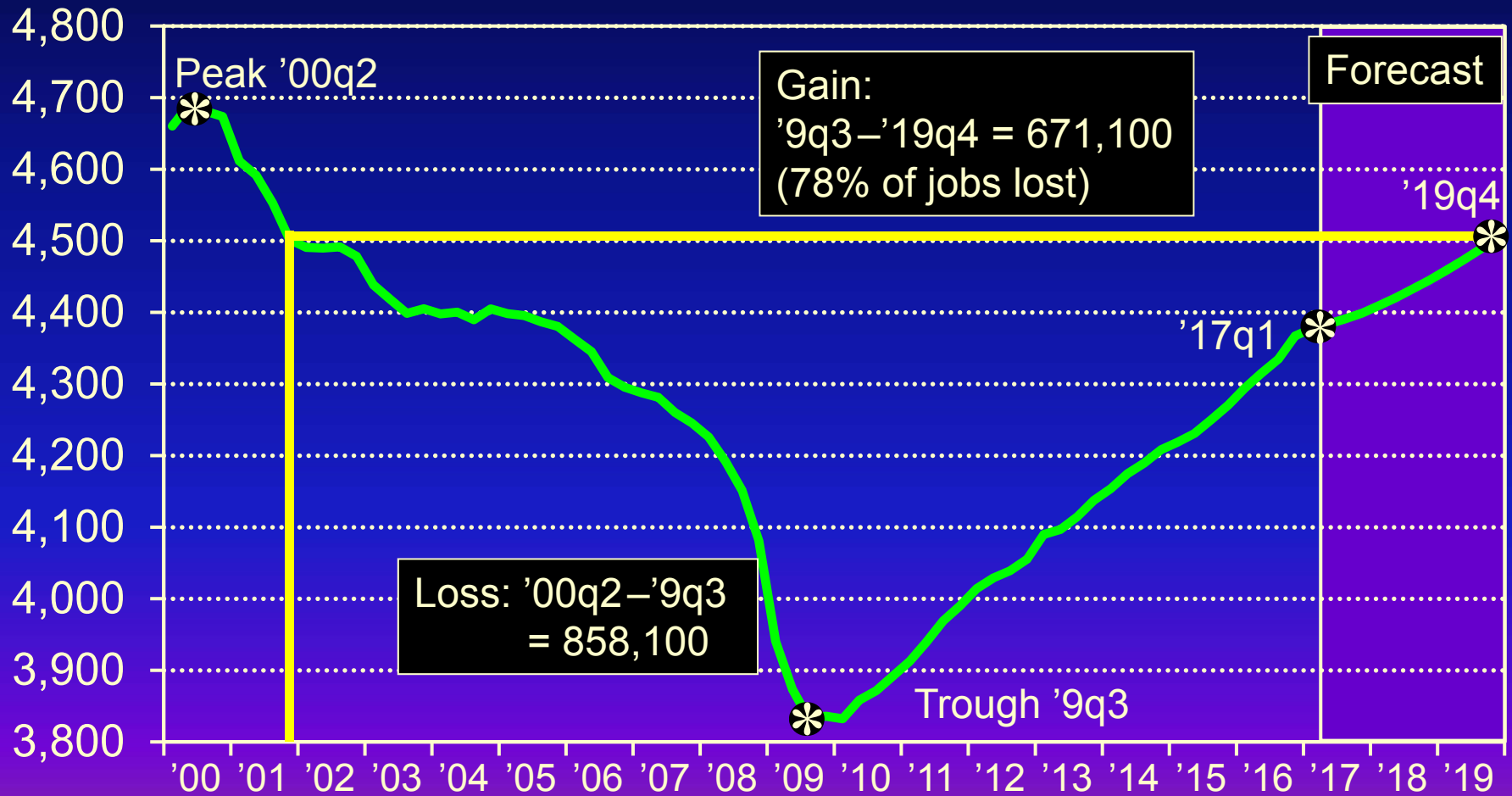
# Michigan Total Jobs and Detroit Three Sales of Light Vehicles 1991 to 2019



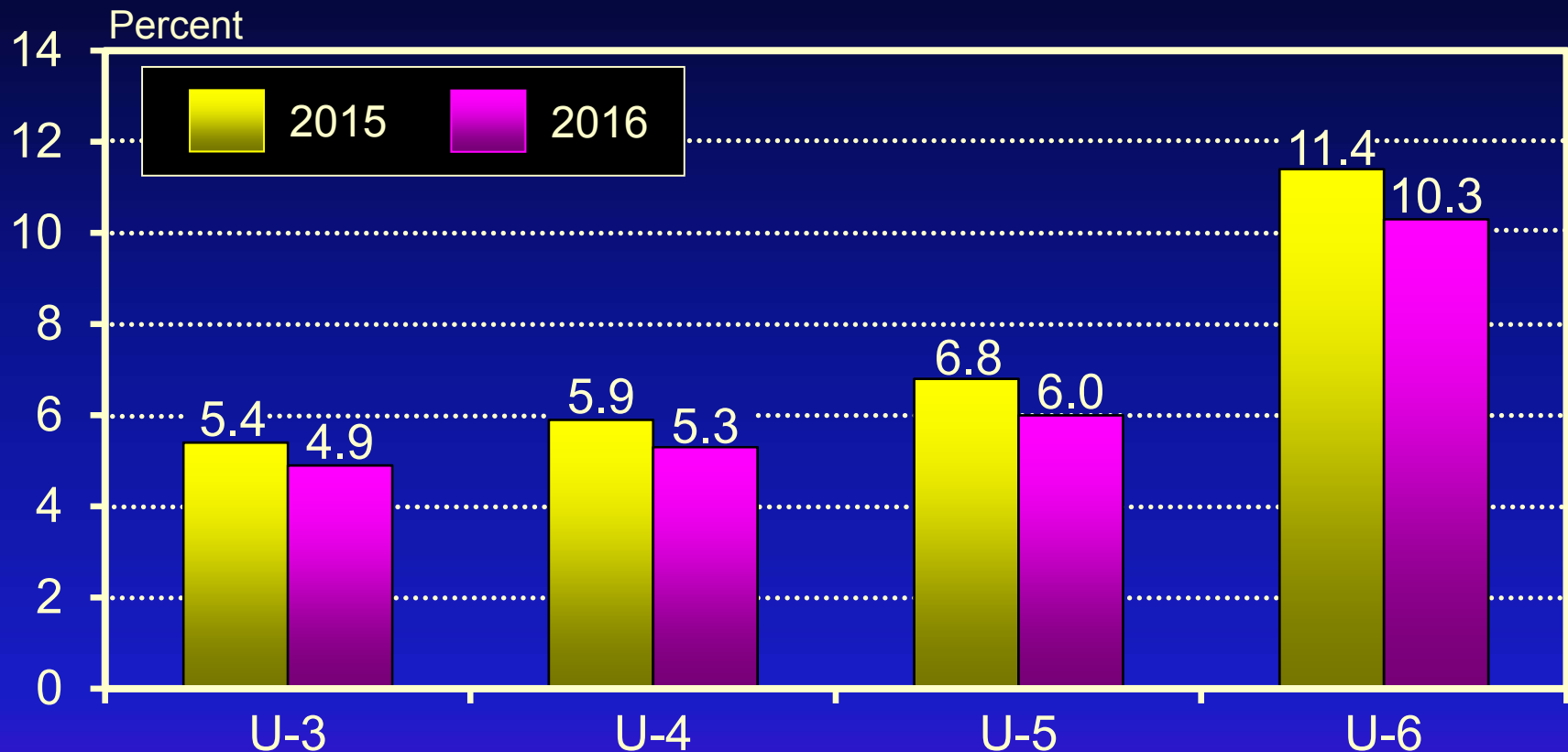
With data

# Michigan Wage and Salary Employment First Quarter of 2000 to Fourth Quarter of 2019

Thousands of jobs



# Alternative Measures of Labor Underutilization Michigan, 2015 and 2016



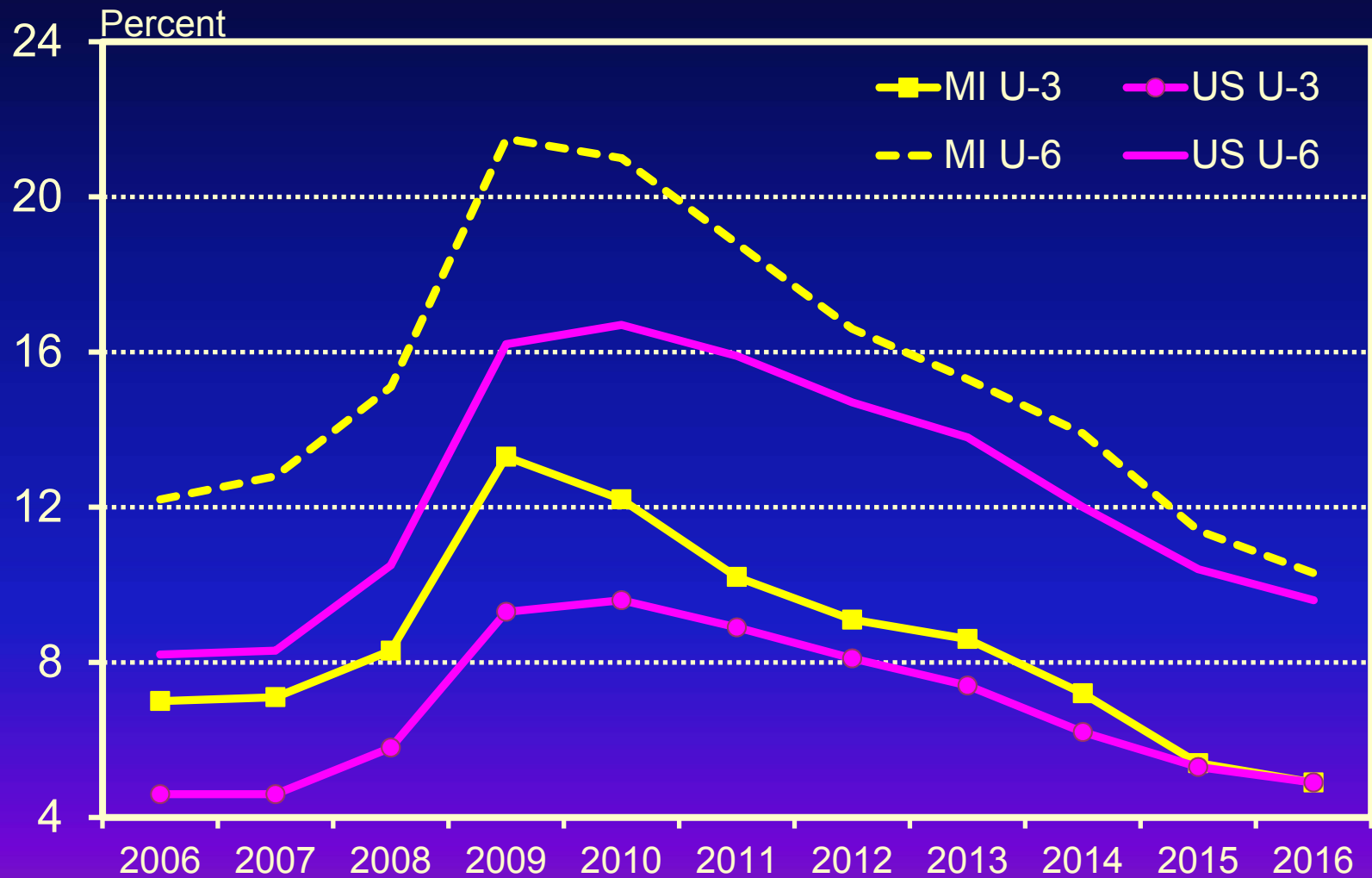
U-3: Comparable to the official unemployment rate

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

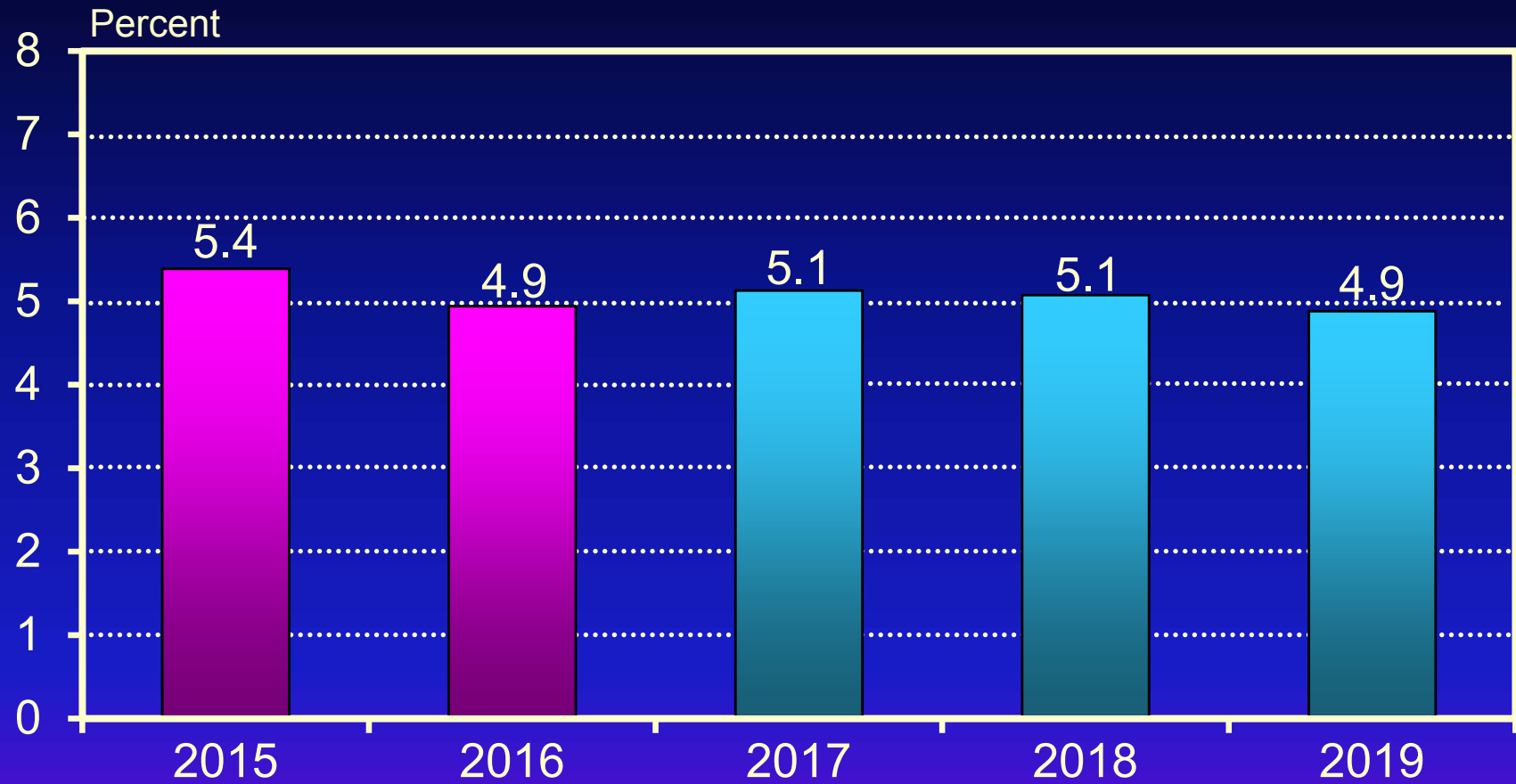
U-5: U-4 + all other marginally attached workers

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

# Alternative Measures of Labor Underutilization Michigan vs. United States, 2006–16



# Michigan Unemployment Rate 2015–19



## 4th Quarter Unemployment Rate

5.0

5.0

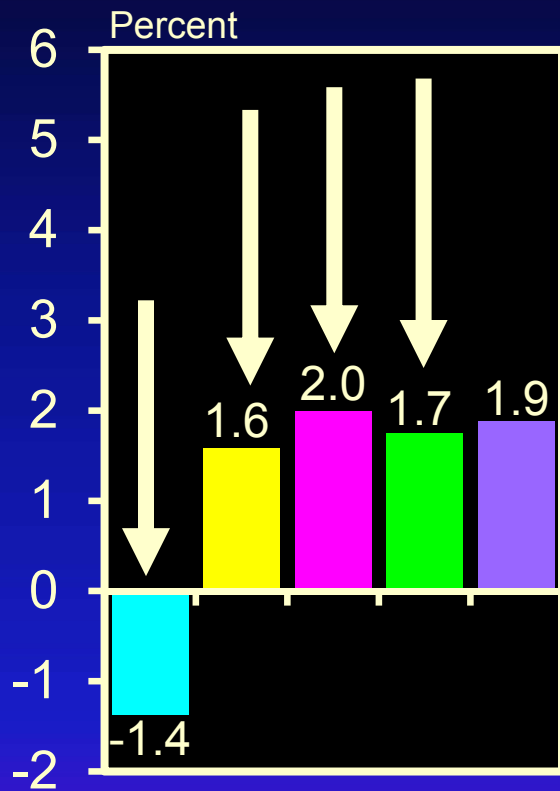
5.1

5.0

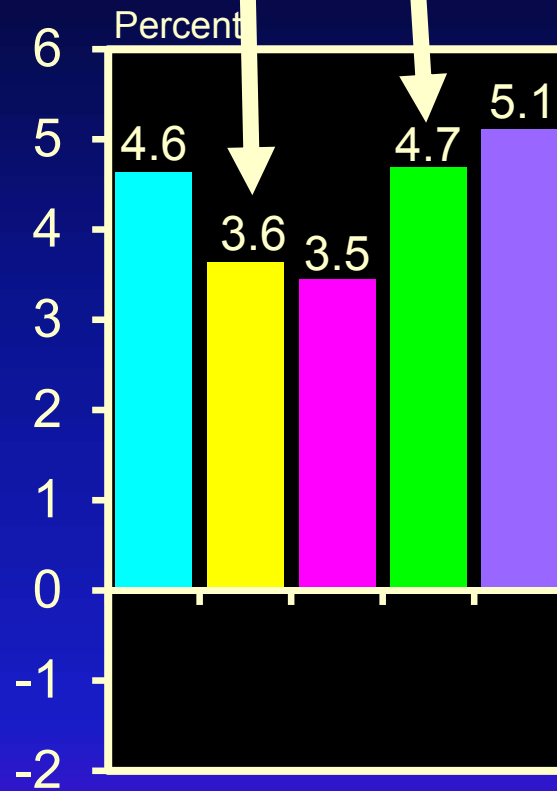
4.8

With data

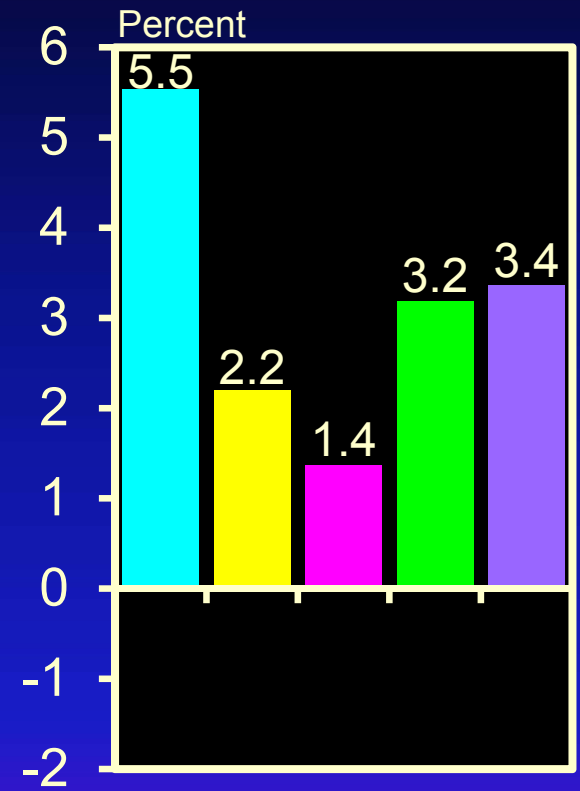
# Michigan Inflation and Income Growth



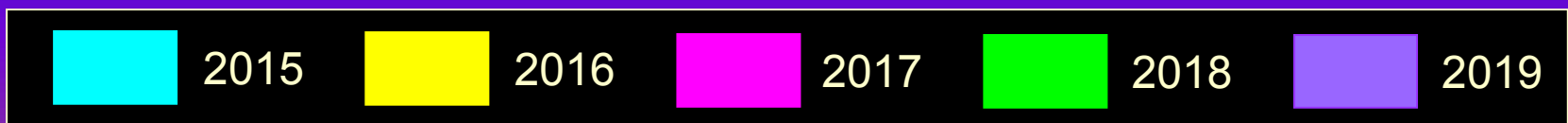
Detroit CPI



Personal Income



Real Disposable Income







[lsa.umich.edu/econ/rsqe.html](http://lsa.umich.edu/econ/rsqe.html)