

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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In The News . . .

Between 1995 and 1999, the major market indices—Standard and Poors (SP) 500, Dow Jones Industrial, and Nasdaq—posted gains of more than double the long-run market average. Stock market performance in 2000 and 2001 shows the aftermath of the mid- to late-1990s stock market bubble. Nasdaq stocks, which gained the most (42% on average) between 1995 and 1999, posted the biggest losses, while the SP 500 and the Dow showed more modest declines. As evidenced by the year-to-date percent changes in the major market indices, the enormous losses do not appear to be over.

Stock Market Performance

	2000		2001		June 13, 2002	
	<u>Level</u>	<u>% Change</u>	<u>Level</u>	<u>% Change</u>	<u>Level</u>	<u>% Change</u>
Dow Jones Industrial	10,786.8	-6.2%	10,021.5	-7.1%	9,502.8	-5.2%
Nasdaq	2,470.5	-39.3%	1,950.4	-21.1%	1,549.9	-23.3%
Standard and Poors 500	1,320.3	-10.1%	1,148.1	-13.0%	1,009.6	-12.1%

During mid-2000, the high-tech bubble burst as profit expectations began to significantly erode due to a weakened economy and disappointing profit reports. Key factors recently dominating the market are: 1) the underlying strength of the United States (U.S.) economy, 2) continued threats of terrorist attacks, 3) weak profits, and 4) a series of corporate earnings restatements and accounting irregularities following the Enron debacle.

Although the U.S. economy has performed better than expected during the last two quarters, much of this growth was due to a significant rebuilding of inventory rather than an increase in sales. The strength of final demand (GDP less inventories) is key to an uninterrupted expansion. Consumption must remain strong enough for long enough to encourage continued production.

Threats of future terrorist attacks aimed at the U.S. lead to uncertainty about profit potential and the economic outlook. Consumers and businesses typically hold off on major purchases or investment plans when faced with uncertainty. Also, corporate after-tax profits stabilized at around 4.2% of GDP over the last two quarters, but are low by historical standards. In light of several recent earnings restatements, the veracity and degree of disclosure of key financial data is of concern to investors.

Sustained economic growth will, to a large degree, determine whether profits remain modest or rise. Increasing investor confidence in corporate financial data will help encourage growth in the stock market.

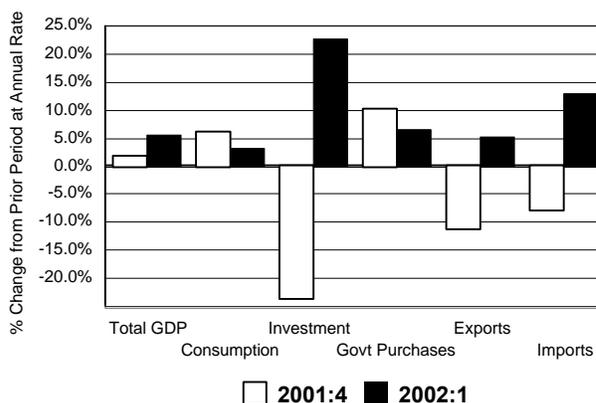
The U.S. Economy . . .

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 rose at a seasonally adjusted annual rate of 5.6% during the first quarter of 2002 after posting a more modest increase of 1.7% during the fourth quarter of 2001. For calendar year 2001, real GDP grew 1.2%.¹

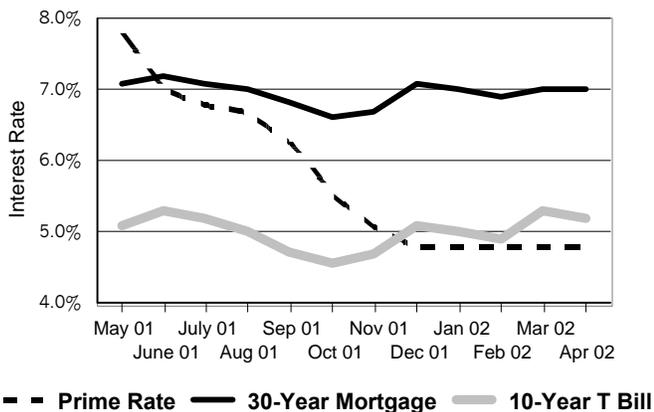
Personal consumption expenditures, which account for almost two-thirds of GDP, grew at 3.2% during the first quarter of 2002 after growing by 5.4% during the final quarter of 2001. Gross private domestic investment rebounded in the first quarter, growing at 22.8% after plummeting by 23.5% in the fourth quarter of 2001. Most of this increase, however, can be attributed to an inventory correction, and as such does not reflect new investment purchases.

Real GDP Performance



Key Interest Rates

Selected Interest Rates



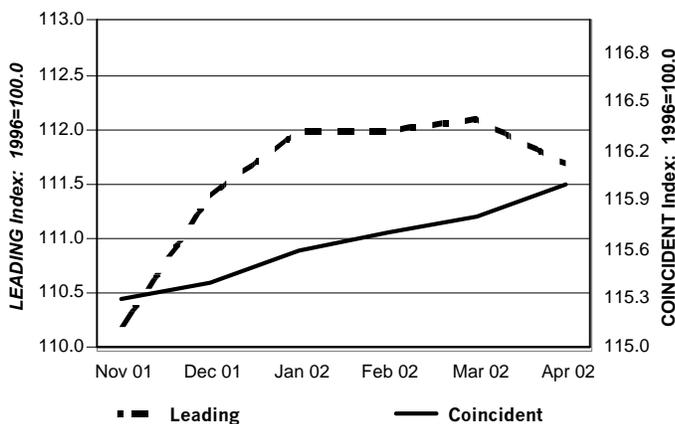
Interest rates are based on Federal Reserve policy, length of term, and perceived risk of future inflation. Short-term interest rates (as measured by the prime rate), medium-term interest rates (as proxied by the rate on ten-year Treasury securities), and long-term rates (as measured by the 30-year conventional mortgage rate) have all remained essentially constant over the last several months—primarily due to the lack of any additional rate cuts by the Federal Reserve. In addition, the lack of recent volatility suggests that, for the foreseeable future, lenders do not view inflation as a potential problem.

Leading and Coincident Economic Indicators

The composite index of leading economic indicators

(LEI), which is used to predict the future path of the economy, dipped slightly in April to 111.7 after registering 112.1 in March. The LEI has experienced a net gain of 2.2% since last October. In contrast, the index of coincident economic indicators, which is used as a gauge of current economic conditions, has risen by only 0.3% over the past six months, and stands at 116.0 in April.

Leading and Coincident Indicators



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.

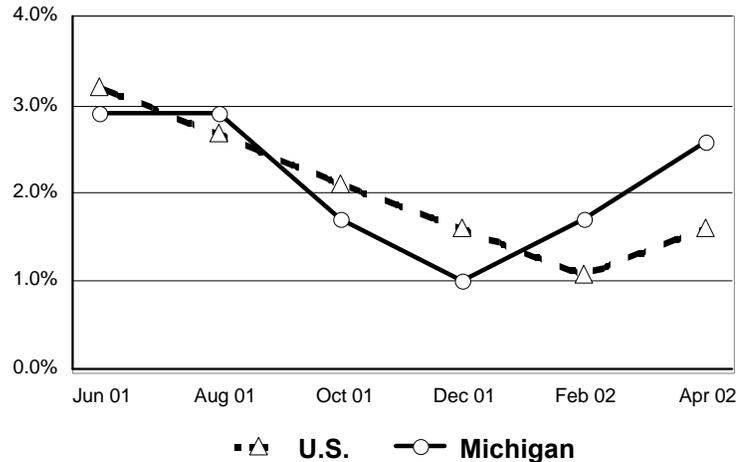
U.S. and Michigan Comparisons . . .

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 April 2002, the CPI posted a 1.6% increase from one year ago while the April 2002 D-CPI advanced at a brisker 2.6% 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.

U.S. and Michigan Inflation Rates



Economic Measures Key to Inflation

<u>Economic Measure</u>	<u>Time Period</u>	<u>Current Value</u>	<u>% Change from Year Ago</u>
Producer Price Index	April 2002	139.0	-2.0%
Total Compensation Index	1st Quarter, 2002	158.9	3.9%
Wage and Salary Index	1st Quarter, 2002	154.7	3.5%
Labor Productivity Index	1st Quarter, 2002	122.8	4.2%

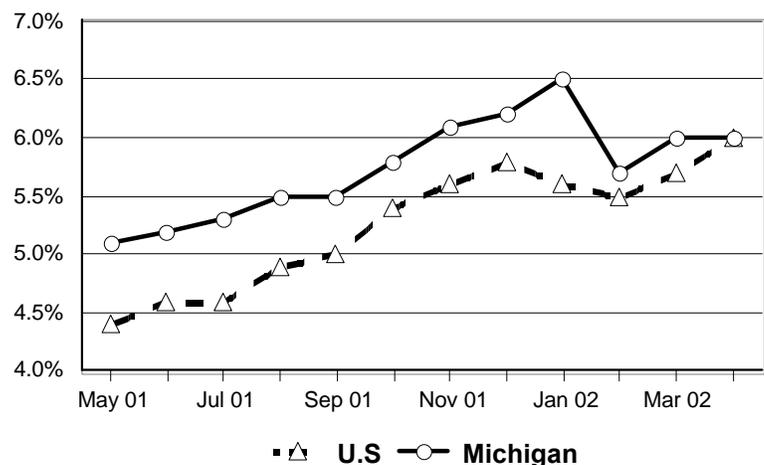
Unemployment

Michigan's unemployment rate was above the U.S. rate from January 2001 through March 2002. The Michigan unemployment rate climbed to 6.0% in March and remains at 6.0% in April, while the U.S. rate rose from 5.7% to 6.0% during the same period.

Employment

In April 2002, total U.S. employment dipped to just under 134.0 million workers, which represents a 1.5% decline relative to April 2001. For Michigan, total employment in April 2002 dropped below 4.9 million workers, which translates to a 1.2% decline (a loss of more than 60,000 jobs) when compared with one year ago.

U.S. and Michigan Unemployment Rates



² Both consumer price indexes, the producer price index, both employment cost indexes, the labor productivity index, and all labor force data from the U.S. Bureau of Labor Statistics.

The Michigan Economy . . .

Total wage and salary employment in April 2002 fell by 1.0% relative to one year ago. The three largest sectors (services, wholesale and retail trade, and manufacturing) all saw employment decreases. Conversely, with the exception of the finance, insurance, and real estate and mining sectors, average weekly earnings increased for workers in all other sectors relative to April 2001. Workers in the durable goods, manufacturing, and transportation and public utilities sectors saw the largest earnings gains.³

Michigan Labor Market Data

Industry Classification	Wage and Salary Employment (in Thousands)		Average Weekly Earnings (in Dollars)	
	April 2002	Percent Change from Prior Year	April 2002	Percent Change from Prior Year
Mining and Construction	197.5	-2.5%	\$817.88	-1.3%
Manufacturing	908.0	-2.6%	\$863.82	10.8%
Durable Goods	689.4	-3.3%	\$935.28	12.4%
Nondurable Goods	218.6	-0.5%	\$629.14	4.1%
Transportation and Public Utilities	178.5	-0.9%	\$676.26	9.5%
Wholesale and Retail Trade	1,044.8	-1.7%	\$409.61	1.0%
Finance, Insurance, and Real Estate	209.5	0.9%	\$544.15	-0.1%
Services	1,283.9	-0.9%	\$509.85	4.1%
Total Government	715.9	1.7%	N/A	N/A
TOTAL WAGE AND SALARY EMPLOYMENT	4,538.1	-1.0%	N/A	N/A

U.S.

Motor Vehicle Sales

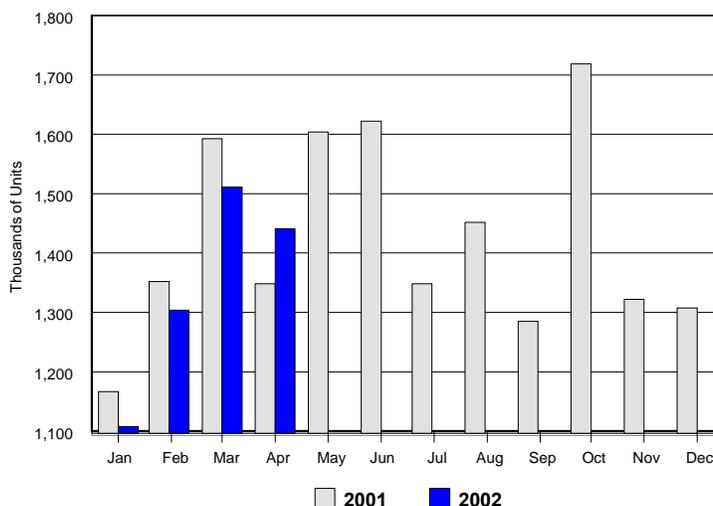
Although not quite as robust as during 2001, U.S. sales of cars and light trucks have remained relatively strong during the first four months of 2002. Monthly light vehicle sales dipped slightly in April to over 1.4 million units. Despite the decline, light vehicle sales were 7.1% higher than April 2001. Almost all of this rise can be attributed to increased sales of light trucks, which jumped by more than 10.4%. Year-to-date, light vehicle sales measure just under 5.4 million units, which represents a 2.6% decline relative to the first four months of 2001.

Michigan

Motor Vehicle Production

In April 2002, Michigan light motor vehicle production stood at 246,241 units, which represents a 9.9% increase relative to April 2001. Auto production jumped 28.4%, more than offsetting the 16.1% drop in light truck production. Through the first four months of 2002, total light motor vehicle production in Michigan is about 5.9% ahead of last year's pace.

U.S. Sales of Cars and Light Trucks



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.