KEY ECONOMIC INDICATORS

UPDATE

HOUSE FISCAL AGENCY

P.O. Box 30014, Lansing, MI 48909-7514
Phone: 517-373-8080 FAX: 517-373-5874
Internet: www.house.state.mi.us/hfa
Mitchell E. Bean, Director; Rebecca Ross, Senior Economist

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

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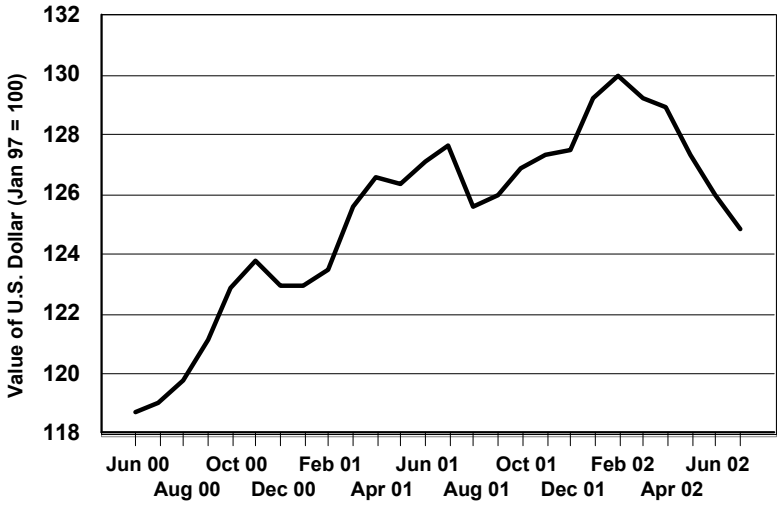
In The News . . .

Exports of manufactured goods are an important part of Michigan's economy. Because a weak dollar tends to increase exports, Michigan's manufacturing sector may benefit from the decline in the value of the U.S. dollar.

When compared to the currencies of major U.S. trading partners, the value of the U.S. dollar increased through 2000 and 2001, but has fallen about 4% since the beginning of 2002 (see graph). A weaker dollar increases the cost of imported goods for U.S. producers and consumers; it can also create a favorable environment for U.S. exports. As long as the decline in the value of the U.S. dollar moderates and a steeper decline does not occur as a result of consumer/investor pessimism, the Michigan manufacturing sector could benefit from a weaker dollar.

When the value of the U.S. dollar declines, the foreign demand for U.S. exports rises because the cost of domestically-produced goods falls in terms of other currencies. Michigan, a manufacturing intensive state, exported $49.8 billion worth of manufactured goods in 2001—roughly 15% of the gross state product.

Nominal Broad Dollar Index*



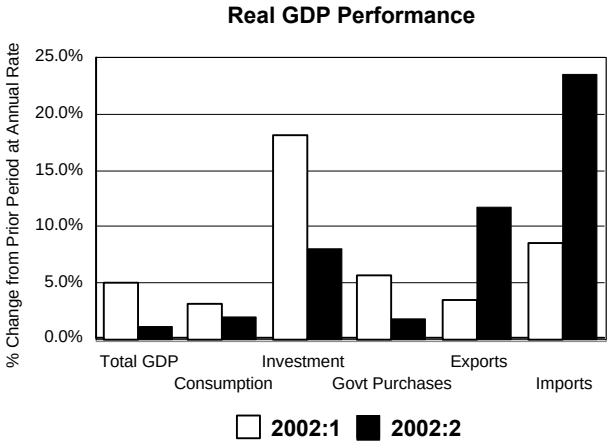
A broad index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners.

Michigan ranks among the top four states in number of jobs tied to manufacturing exports. The U.S. Department of Commerce (*U.S. Jobs From Exports: A 1997 Benchmark Study of Employment Generated by Exports of Manufactured Goods*) reports that almost 20% of Michigan's manufacturing jobs are tied to exports of manufactured goods. In Michigan, 18.8% of workers are employed in the manufacturing sector. In comparison, 13.6% of workers in the U.S. are employed in manufacturing.

The U.S. Economy . . .

Gross Domestic Product

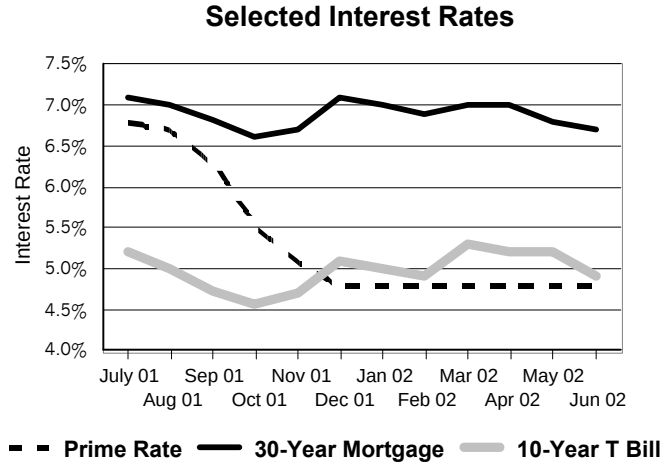
Gross domestic product (GDP) is the standard measure of the performance of the national economy. It has four main components: personal consumption expenditures, gross private domestic investment, government consumption expenditures and gross investment, and net exports (exports less imports) of goods and services. Real GDP rose at a seasonally adjusted annual rate of 1.1% during the second quarter of 2002 after growing 5.0% during the first quarter of 2002. For calendar year 2001, real GDP grew 0.3%.[1]



Personal consumption expenditures (almost two-thirds of GDP) grew 1.9% during the second quarter of 2002 after increasing by 3.1% during the first quarter. Following an 18.2% jump during the first quarter, gross private domestic investment rose at a slower 8.1% rate during the second quarter. As in the case of the first quarter, most of this increase can be attributed to an inventory correction, and thus does not reflect new investment purchases.

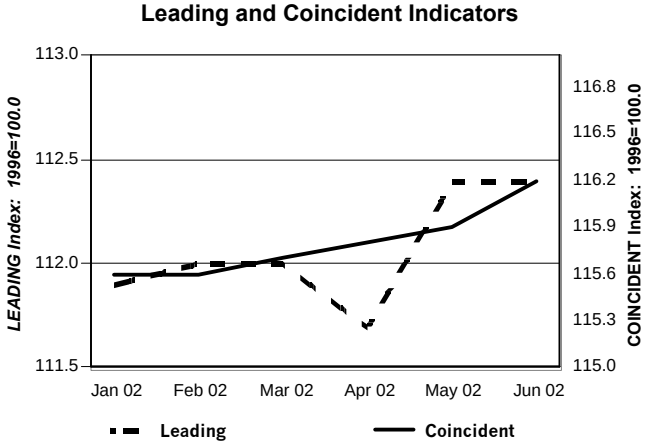
Key Interest Rates

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 nearly 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, rose modestly in May to 112.4, and remained at that level in June. The LEI has experienced a net gain of 0.9% since last December. Similarly, the index of coincident economic indicators, which is used as a gauge of current economic conditions, has risen by 0.8% over the past six months, and stands at 116.2 in June. Although the upward trend of both indices is encouraging for the economy, the changes are relatively small and do not signal a dramatic turnaround in the immediate future.



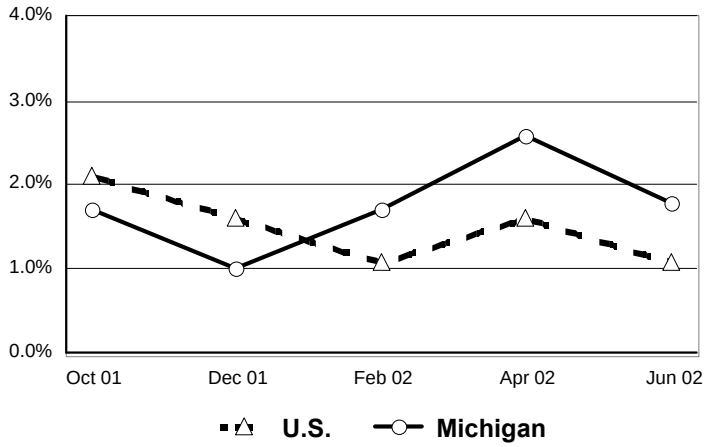
[1] Data on macroeconomic variables from the Survey of Current Business, U.S. Department of Commerce, Bureau of Economic Analysis. Interest rate data from the Federal Reserve Board. Data on the leading and coincident indexes from Business Cycle Indicators, The Conference Board.

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 June 2002, the CPI posted a 1.1% increase from one year ago while the June 2002 D-CPI advanced at a brisker 1.8% pace.[2] When viewed from a historical perspective, these increases are small and suggest that inflation is currently not a significant concern.

U.S. and Michigan Inflation Rates



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. Increases in producer prices, wages and salaries paid, and total compensation will tend to cause higher prices at the consumer level. In contrast, increases in labor productivity will help offset rising wages, salaries, and compensation and thus moderate the impacts of these factors.

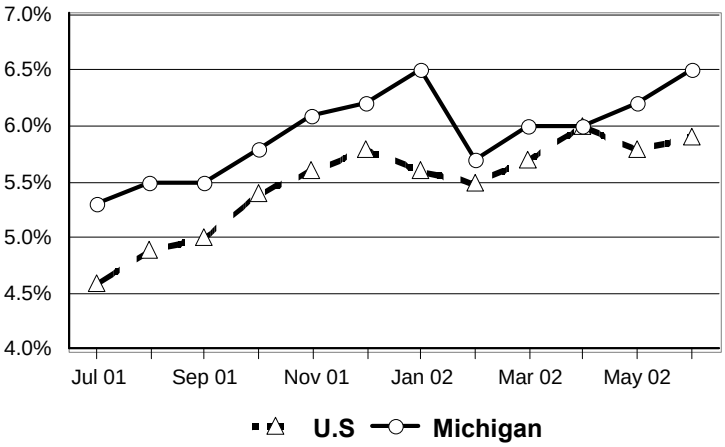
Economic Measures Key to Inflation

Economic Measure	Time Period	Current Value	% Change from Year Ago
Producer Price Index	June 2002	139.2	-2.1%
Total Compensation Index	2nd Quarter, 2002	160.7	4.0%
Wage and Salary Index	2nd Quarter, 2002	156.3	3.6%
Labor Productivity Index	1st Quarter, 2002	122.8	4.2%

Unemployment

Michigan's unemployment rate has been at or above the U.S. rate from January 2001 through June 2002. The unemployment rate in Michigan climbed to 6.2% in May and increased further to 6.5% in June, while the U.S. rate rose from 5.8% to 5.9% during the same period.

U.S. and Michigan Unemployment Rates



Employment

In June 2002, total U.S. employment dipped to just over 134.0 million workers, which represents a 0.7% decline relative to June 2001. For Michigan, total employment in June 2002 remained below 4.9 million workers, which translates to a 1.2% decline (a loss of almost 59,000 jobs) when compared with one year ago.

[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 . . .

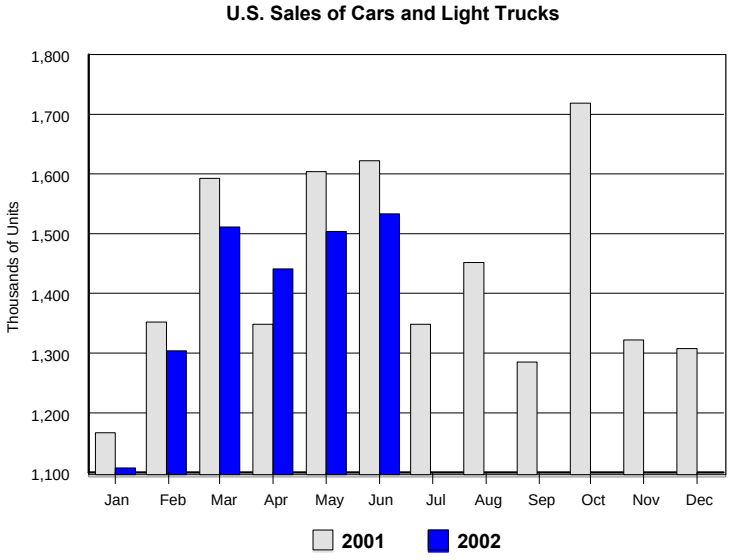
Total wage and salary employment in June 2002 fell by 0.9% relative to one year ago. The three largest sectors (services, wholesale and retail trade, and manufacturing) all saw employment decreases. With the exception of non-durable goods and mining sectors, average weekly earnings increased for workers in all other sectors relative to June 2001. Workers in the transportation and public utilities, durable goods, and services sectors saw the largest earnings gains.[3]

Michigan Labor Market Data

	Wage and Salary Employment (in Thousands)		Average Weekly Earnings (in Dollars)	
Industry Classification	June 2002	Percent Change from Prior Year	June 2002	Percent Change from Prior Year
Mining and Construction	221.5	0.0%	$868.10	-1.4%
Manufacturing	918.5	-1.6%	$855.53	3.7%
Durable Goods	696.4	-2.0%	$923.21	4.5%
Nondurable Goods	222.1	-0.4%	$630.44	-0.1%
Transportation and Public Utilities	182.0	0.0%	$702.52	4.8%
Wholesale and Retail Trade	1,063.7	-1.6%	$417.84	2.3%
Finance, Insurance, and Real Estate	213.2	0.8%	$555.45	2.3%
Services	1,310.5	-1.0%	$513.62	4.3%
Total Government	679.2	0.9%	N/A	N/A
TOTAL WAGE AND SALARY EMPLOYMENT	**4,588.6**	**-0.9%**	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 reasonably strong during the first six months of 2002. Monthly light vehicle sales exceeded 1.5 million units in both May and June, although each of these totals represented declines from one year ago. In addition, sales of domestic light vehicles fell by 7.9% in May and 3.9% in June, relative to the same months in 2001. Year-to-date, light vehicle sales measure just under 8.7 million units, which represents a 3.1% decline relative to the first six months of 2001.



Michigan
Motor Vehicle Production

In June 2002, Michigan light motor vehicle production stood at 256,176 units—almost exactly the same level as one year ago. Auto production dipped 0.8%, but was offset by a 1.4% increase in light truck production. Through the first six months of 2002, total light motor vehicle production in Michigan is about 5.2% ahead of last year's pace.

[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.