KEY ECONOMIC INDICATORS UPDATE

HOUSE FISCAL AGENCY

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

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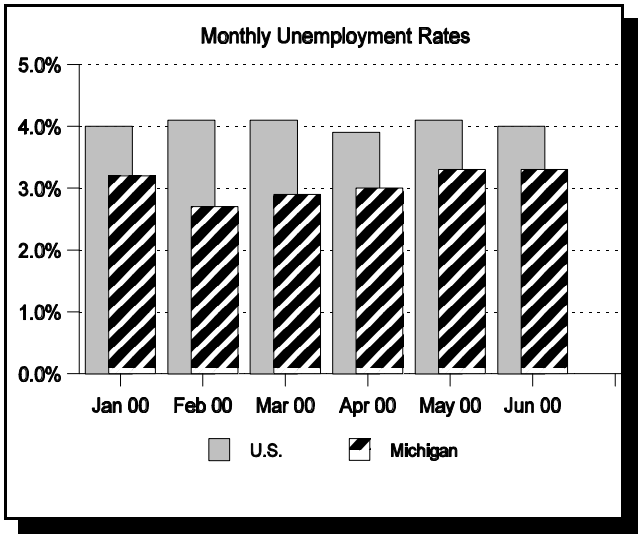
Employment

Trends in the Labor Market:[1] Michigan's seasonally adjusted (SA) unemployment rate, which reached an all-time low of 2.7% in February 2000, has been steadily creeping upward and now stands at 3.3% as of June. In contrast, the unemployment rate was 3.8% in June of 1999. The labor force increased by about 26,000 workers between May 2000 and June 2000 as total employment rose by 24,000 workers while the number of unemployed workers grew by 2,000.[2] Overall, the labor force increased to slightly more than 5.12 million workers.

- Since March 1995, the unemployment rate in Michigan has remained below the U.S. level, although the gap has been narrowing somewhat since February of this year. The unemployment rate for the country as a whole dipped from 4.1% in May to 4.0% in June.

- Total employment in Michigan stood just below 5,000,000 workers for both May and June. Total employment for June 2000 was down by about 8,000 workers when compared to June 1999.

- Total Michigan wage and salary employment (not adjusted for seasonal variations) exceeded 4.63 million after increases of 57,000 workers in May and 15,000 workers in June.



- The majority of the gains in Michigan's wage and salary employment in June were in goods producing industries, and were led by the construction sector which gained 8,000 workers. In addition, manufacturing employment rose by 5,000 workers. The service sector saw large employment gains in retail and wholesale trade which were almost completely offset by seasonal job losses in both state and local education.

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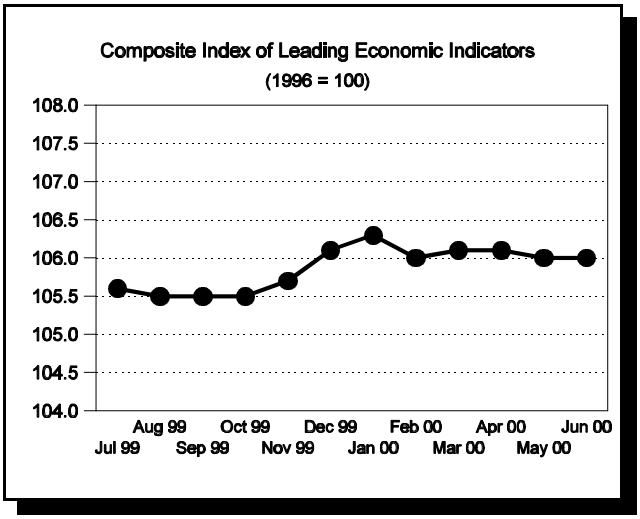
[1] U.S. unemployment figures are supplied by the Bureau of Labor Statistics. Michigan employment figures are supplied by the Michigan Employment Service Agency. Data are seasonally adjusted at annual rates (SAAR) unless otherwise indicated.

[2] Labor force is defined as the number of employed workers plus the number of unemployed workers.

This update was prepared by Jim Stansell, HFA Economist.

The National Economy

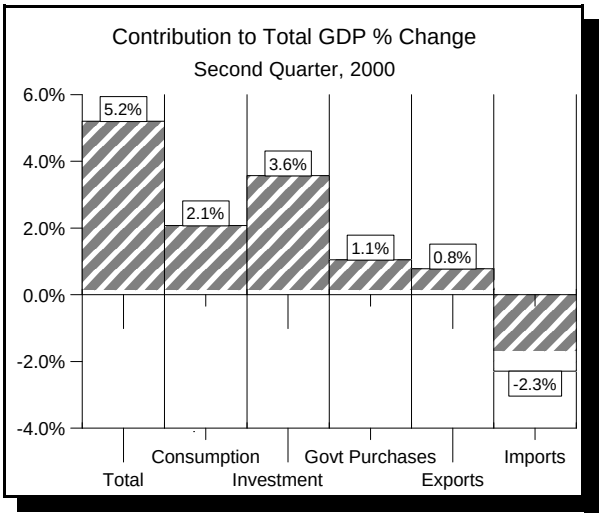
Composite Index of Leading Economic Indicators:[3] In predicting the future path of the economy, economists traditionally look at the composite index of leading economic indicators. The value of the index is derived from several economic indicators and is calculated by The Conference Board, Inc., New York, N.Y.



The composite index of leading economic indicators for 2000 remains at 106.0 in June after dipping slightly from 106.1 in April to 106.0 in May. Four of the ten component indicators that make up the index increased in June, with the largest impacts attributable to increases in manufacturers' new orders for non-defense capital goods, stock prices, and average weekly manufacturing hours worked. Of those components that fell, some of the most significant declines were in consumer expectations and manufacturers' new orders for consumer goods. Over the past six months, the index has dropped 0.1%, with six of the ten components showing net decreases.

Components of Gross Domestic Product:[4] Gross domestic product (GDP) measures the total value of all final goods, services, and structures produced in the United States. Growth in GDP is the standard measure of the performance of the economy and has four main components: personal consumption expenditures, gross private domestic investment, government purchases of goods and services, and net exports (exports less imports) of goods and services.

Real GDP (advance) grew at a seasonally adjusted annual rate (SAAR) of 5.2% during the second quarter of 2000, surpassing the 4.8% rate posted in the first quarter. The most significant contributor to this continued growth was a 21.2% increase in gross private domestic investment.



- **Consumption expenditures** grew 3.0% (SAAR) in the second quarter, down from the 7.6% first quarter rate. The durable goods sector actually fell by 3.9% after an astounding 23.6% first quarter growth rate. However, modest increases in the nondurable and service sectors offset the decline in durable goods consumption.

- **Gross private investment expenditures** experienced a second quarter growth rate of 21.2% (SAAR), up substantially from the first quarter growth rate of 5.1%. Nonresidential investment grew by 19.1% as investment in structures climbed by 13.0% while equipment and software expenditures jumped by 21.0%. Residential investment in structures rose by 3.9%.

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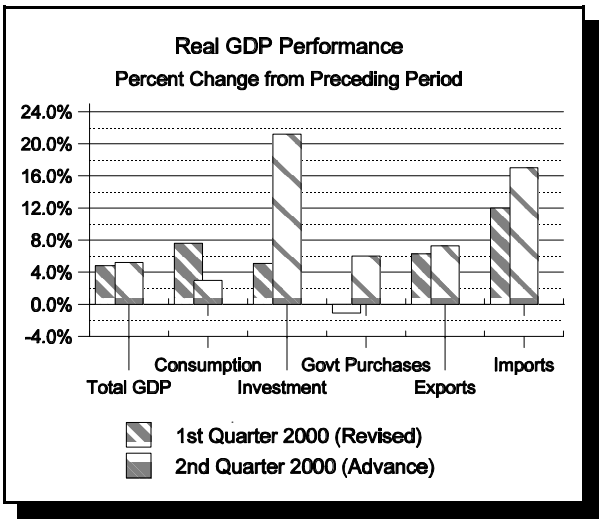
[3] Data on the leading index are seasonally adjusted and are published in *Business Cycle Indicators,* The Conference Board. The *composite index of leading indicators* is composed of several employment measures, measures on new orders and contracts for various durable goods, measures of consumer expectations, and measures of several monetary variables.

[4] Data on macroeconomic variables are expressed in chained 1996 dollars and are available from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis.

- **Total government expenditures** rose by 6.0% (SAAR) during the second quarter; federal spending grew by 17.5%, while state and local government expenditures grew by only 0.5%

- **Net exports** remained negative in the second quarter as imports continued to exceed exports. Although exports of goods and services increased at a 10.3% rate, this increase was more than offset by the 17.0% jump in imports. Through the second quarter of 2000, the annualized real trade balance finished with a deficit of $416.1 billion.

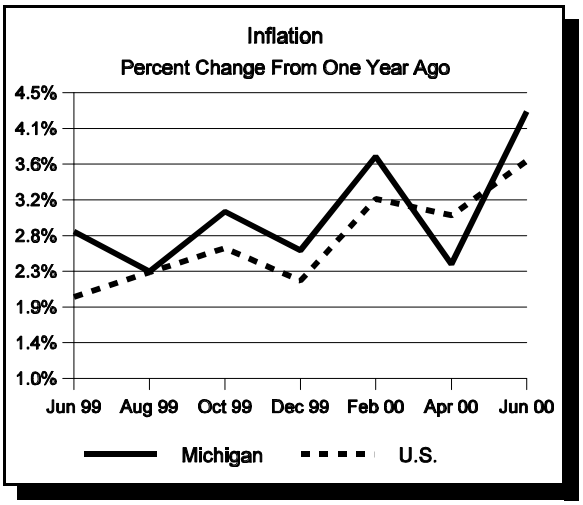


Inflation: Inflation estimates the decline in the purchasing power of a dollar over time and is measured as the rate of change of the **consumer price index** (CPI). Michigan inflation is measured as the rate of change of the **Detroit-Ann Arbor CPI** (D-CPI).

Although inflation in the U.S. has remained low by historical standards, there are indications that it may continue drifting upwards in the coming months. The CPI rose 3.7% in June 2000, compared with one year ago. Almost three-fourths of this increase was due to higher energy prices. In Michigan, the 2000 D-CPI increased from 168.1 in April to 170.8 in June. Relative to June 1999, the inflation rate in Michigan has been about 4.3%. For all of 1999, the inflation rate for the U.S. was 2.2%, which was slightly below Michigan's 2.6% inflation rate.

- The **capacity utilization rate**,[5] fell slightly from 82.2% in May to 82.1% in June. Although capacity utilization has remained relatively constant over the past several months, overall industrial capacity has grown by 3.8% in the past twelve months. This increase in output capacity should assist in offsetting inflationary pressures.

- The **producer price index (PPI)**, an increase in which could signal higher future inflation, has risen by 4.3% (AR) between June 1999 and June 2000. For all of 1999, the PPI increased at a 1.8% rate. To the extent that higher producer prices translate into higher consumer prices, this indicates that an increase in the CPI may be on the horizon.



- **Labor productivity** growth, an increase of which tends to restrain inflationary pressures, increased by 3.0% for all of 1999, but grew by only 2.4% during the first quarter of 2000.

- **Employment cost indices** have increased slightly faster than the rate of inflation. For all of 1999, total compensation costs have risen at an annual rate of 3.2% while wages and salaries have grown by 3.4%. Relative to the first quarter of 1999, total compensation costs rose at a 4.6% pace in the first quarter of 2000, while wages and salaries have grown at a 4.2% clip during the same time period. Although increases in employers' costs can trigger inflation, the increases in labor productivity can help to moderate any inflationary effects.

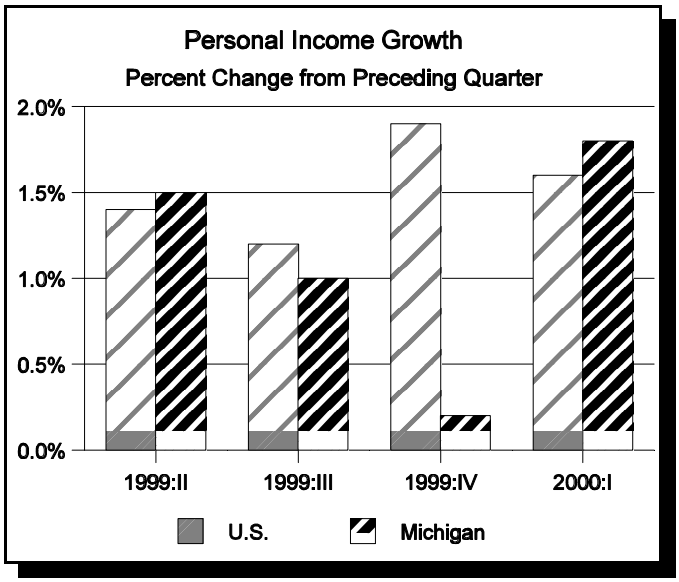
[5] The capacity utilization rate measures the ratio of output capacity used to total production capacity available, and is calculated by the Federal Reserve Board. The producer price index measures the average price of finished goods. Labor productivity measures nonfarm business output per hour. Employment cost indices measure labor costs. All three are calculated by the Bureau of Labor Statistics, as are the CPI and the D-CPI.

The Michigan Page

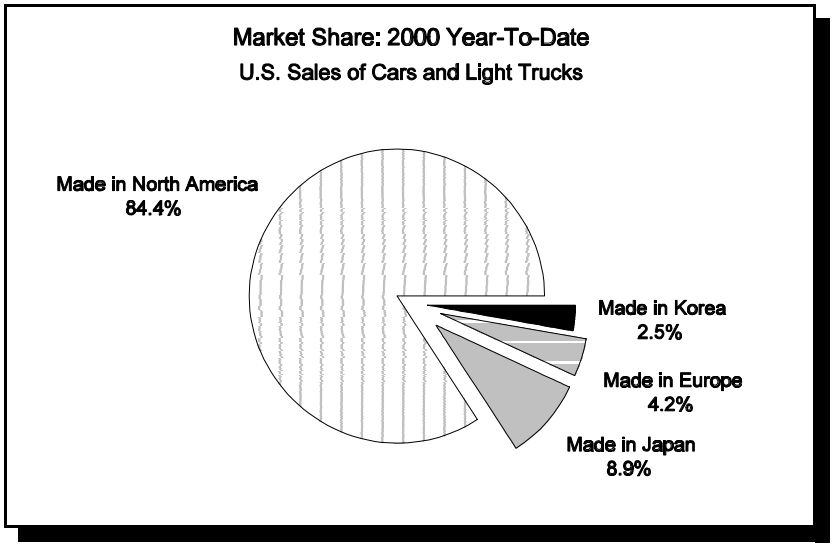
Personal Income:[6] Growth in state tax revenue is largely determined by growth in state personal income. The most current estimates indicate that personal incomes in Michigan grew at a 1.8% rate during the first quarter of 2000, slightly ahead of the 1.6% increase for the U.S. as a whole.

! The U.S. Department of Commerce reported that **Michigan's personal income** grew to $283.7 billion in during the first quarter of 2000. This represents an increase of 4.6% relative to the first quarter of 1999. In comparison, U.S. personal income increased at a 6.2% rate during this period.

! **Real disposable income**[7] is an indicator of future expenditures in the durable goods sector. This sector, comprised of light vehicles and other goods, is an important contributor to the Michigan economy. The growth rate of real disposable income for the U.S. increased 3.4% (SAAR) during the second quarter of 2000 after growing at a 1.9% rate during the first quarter.



Auto Industry:[8] **U.S. sales of cars and light trucks** through the first half of 2000 stands at just over 9.1 million units, which represents a 7.0% increase from last year's record-breaking pace. The number of cars and light trucks made in North America during this period rose by 4.4% relative to 1999. Overall, the North American share of the total market stands at 84.4%. Sales of North American-made cars are running at only 2.4% ahead of last year's output during the first six months, while sales of North American-made light trucks have jumped by 6.4% when compared to the first six months of 1999. Korean automakers have seen sales of cars and light trucks increase by 58.1% during the same time period. As a result, the Korean share of the world market has risen from 1.6% one year ago to 2.5% today.



Total year-to-date **U.S. car production** exceeds last year's output at this point by 1.6%, and stands at over 3.05 million vehicles. In contrast, **U.S. truck production** is about 3.2% ahead of last year's output. Overall, year-to-date U.S. car and truck production is running 2.6% ahead of 1999 with a total output of almost 7.2 million vehicles.

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[6] Personal Income data are reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Income figures are seasonally adjusted at annual rates (SAAR).

[7] Disposable income figures are chain weighted and seasonally adjusted at annual rates (SAAR).

[8] Automotive figures are published in *Automotive News*. The end of the Big Three has necessitated a change in the automotive summary figures. Four general categories consisting of "Made in North America," "Made in Japan," "Made in Europe," and "Made in Korea" will now be used in place of the previous aggregation categories.