

# KEY ECONOMIC INDICATORS

# UPDATE



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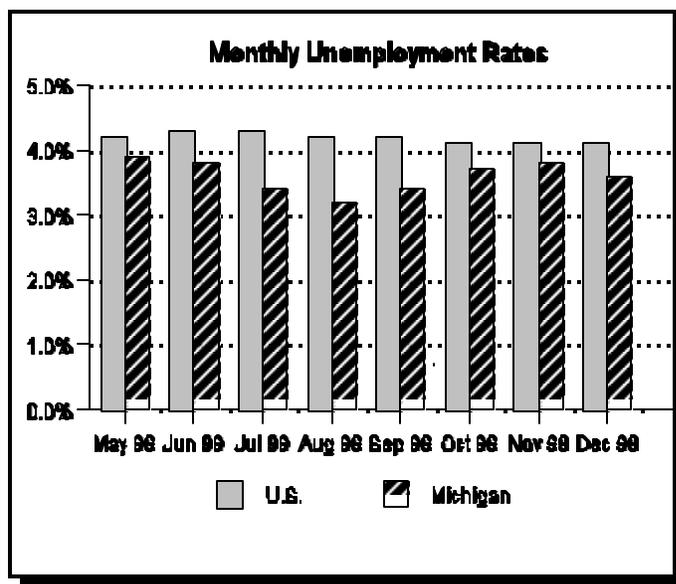
*Economic Data Pertaining to  
the U.S. and Michigan Economies  
for Members of the Michigan Legislature*

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## Employment

**Trends in the Labor Market:**<sup>1</sup> Michigan's seasonally adjusted (SA) unemployment rate dropped from 3.8% in November to 3.6% in December, which is slightly below the 3.8% rate that existed one year ago. A decrease of 11,000 in the number of unemployed workers combined with an increase in total employment of 10,000 was sufficient to yield a decrease in the unemployment rate.<sup>2</sup> Overall, the labor force fell by 1,000 workers between November and December, bringing the total to just under 5.12 million workers.

- ! Since March 1995, the unemployment rate in Michigan has remained below the U.S. level. That trend continues, although the gap has narrowed in recent months. The unemployment rate for the country as a whole has remained constant at 4.1% from October through December.
- ! Total employment in Michigan stands at just over 4.93 million after an increase of 10,000 workers between November and December. Total employment has grown by 68,000 workers (about 1.4%) when compared to December 1998.
- ! Total unadjusted wage and salary employment in Michigan exceeded 4.63 million at the end of December, a net gain of 6,000 workers since October. The retail trade sector grew by 11,000 workers in November and 16,000 workers in December as stores geared up for the annual holiday shopping



<sup>1</sup> 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.

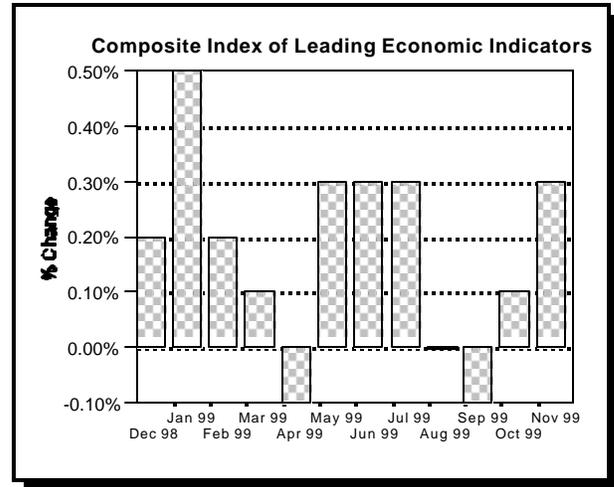
<sup>2</sup> Labor force is defined as the number of employed workers plus the number of unemployed workers.

rush. Much of the gain, however, was offset by a drop of 16,000 construction workers over the past two months. The number of manufacturing workers dropped by 1,000, and now stands at 959,000.

# ! *The National Economy*

**Composite Index of Leading Economic Indicators:**<sup>3</sup> 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.

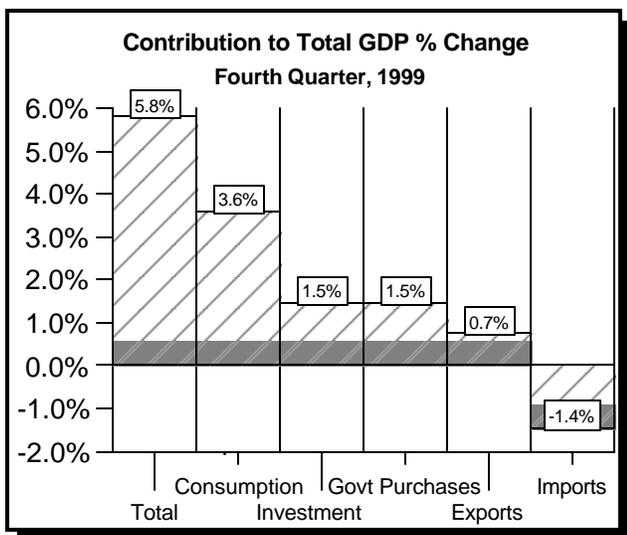
The composite index of leading economic indicators increased by 0.1% in October and 0.3% in November, and currently stands at 108.3. Six of the ten component indicators that make up the index increased in November, with the most significant impacts attributable to rising stock prices, increases in manufacturers' new orders of consumer goods, and an overall increase in the money supply. Of the four components that fell, the most significant was the interest rate spread between Treasury bonds and the federal funds rate. Over the past six months, the index has risen 0.8%, and eight of the ten components have shown net increases.



## **Components of Gross Domestic Product:**<sup>4</sup>

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 an annual rate (AR) of 5.8% during the fourth quarter of 1999, slightly ahead of the 5.7% rate posted in the third quarter. For 1999 as a whole, real GDP advanced at a 4.0% rate. The growth rate of gross private domestic investment was 8.5%, down from the 13.6% growth rate posted in the third quarter. This drop was reflected across all investment sectors.



! **Consumption expenditures** grew at a rate of 5.3% (SAAR) in the fourth quarter, up from the 4.9% third quarter growth rate. Both the durable and nondurable goods sectors witnessed increases in their fourth quarter growth rates (11.8% and 6.1%, respectively), although growth in the service sector dropped from 5.0% to 3.5% between the third and fourth quarters.

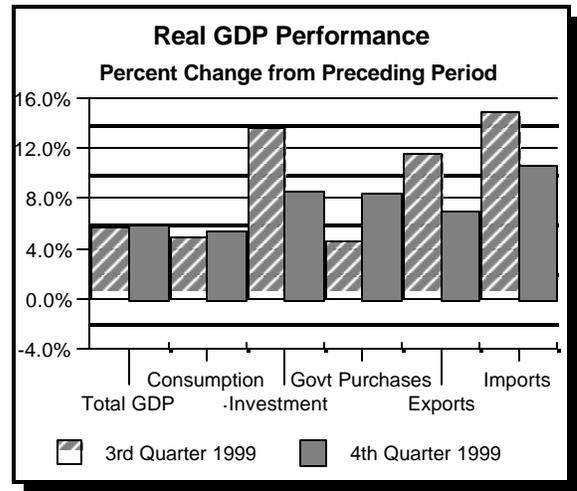
! **Gross private investment expenditures** grew at an 8.5% (SAAR) rate in the fourth quarter, down from the third quarter rate of 13.6%. Nonresidential investment in structures fell by 5.3%, and has now decreased for four

<sup>3</sup> 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.

<sup>4</sup> 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.

consecutive quarters. Residential investment in structures dropped by 1.2%, while the remaining investment sectors increased marginally.

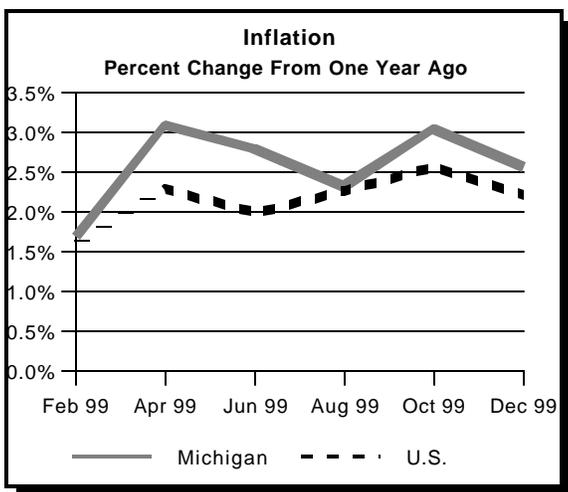
- ! **Total government expenditures** jumped by 8.4% (SAAR) in the fourth quarter, fueled by an 18.9% rise in federal defense spending and an 11.0% increase in nondefense expenditures. State and local government expenditures increased at a 4.4% rate during the same period.
- ! **Net exports** remained negative in the fourth quarter as imports continued to exceed exports. Imports of goods and services increased at a 10.6% rate while export growth lagged behind at 6.9%. For 1999 as a whole, the real trade balance finished with a deficit of \$356.1 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)**. Both the CPI and the D-CPI are calculated by the Bureau of Labor Statistics.

Inflation in the U.S. has remained low by historical standards. The CPI rose from 168.2 in October to 168.3 in November, and remained at that level in December. For 1999 as a whole, the CPI stood at 166.6, which translates to an annual inflation rate of 2.2%. For Michigan, D-CPI decreased from 165.9 in October to 165.6 in December. Measured on an annual basis, the Michigan inflation rate for all of 1999 is approximately 2.6%. Inflation rates for both the U.S. and Michigan increased slightly from their 1998 levels of 1.6% and 2.2%, respectively.

- ! The **capacity utilization rate**,<sup>5</sup> which continues to stay below its 30-year average of 82.1%, has risen very modestly throughout 1999. Capacity utilization in December 1999 stood at 81.3%. Considering that overall industrial capacity has grown by 4.1% during the past year, this suggests that inflation should continue to be modest.
- ! The **producer price index (PPI)**, an increase in which could signal higher future inflation, rose by 1.8% (AR) in 1999, well below the rate of consumer inflation.



- ! **Labor productivity** growth, an increase of which tends to offset inflation, increased at a 4.9% annual rate during the third quarter of 1999, up from the 0.6% increase in the second quarter. The third quarter increase exceeds the 3.1% jump posted in the third quarter of 1998.
- ! **Employment cost indices** continue to increase 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%. Although increases in employers' costs can trigger inflation, the increases in labor productivity will likely minimize any inflationary effects.

<sup>5</sup> 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 the change over time in labor costs. All three are calculated by the Bureau of Labor Statistics.

# The Michigan Page

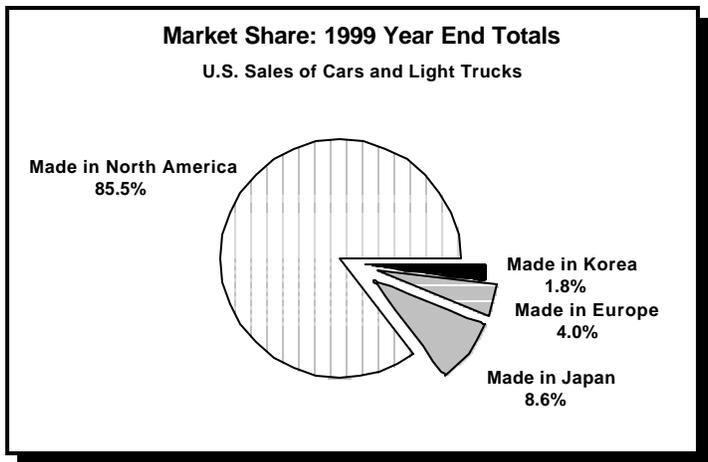
**Personal Income:**<sup>6</sup> Growth in state tax revenue is largely determined by growth in state personal income. The most current estimates indicate that personal incomes in both Michigan and the U.S. grew at the same rate during the third quarter of 1999.

! The U.S. Department of Commerce reported that **Michigan's personal income** (advance) grew to \$265.9 billion (SAAR) in the third quarter of 1999. This represents an increase of 1.3% over the second quarter and a 4.9% increase over the past year. In comparison, U.S. personal income also increased at 1.3% during the third quarter and by 5.6% since the third quarter of 1998.

! **Real disposable income**<sup>7</sup> 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. Real disposable income (advance) for the U.S. slowed somewhat to a growth rate of 4.6% (SAAR) in the fourth quarter of 1999 after growing by a robust 9.2% during the third quarter.



**Auto Industry:**<sup>8</sup> U.S. sales of cars and light trucks for all of 1999 totaled just over 16.9 million units to break the previous high of 16.3 million units sold in 1986. When compared to 1998, car and light truck sales increased by 8.7%. In conjunction with the record level of vehicle sales, the number of cars and light trucks made in North America during this period rose by 6.8%, which was enough to maintain the North American share of the overall market in excess of 85.0%. North American-made cars posted an overall sales increase of 3.4% in 1999 which was more than matched by a 10.1% rise in the number of North American-made light trucks. Although holding less than 2.0% of the overall market share, Korean automakers saw sales of cars and light trucks increase by almost 83.0% in 1999. Japanese and European automakers recorded sales increases of 13.1% and 22.3%,



respectively.

From a production standpoint, year-to-date **U.S. car production**, which totals slightly over 329,000 vehicles, has increased by more than 12.5% relative to the first three weeks of 1999. In contrast, **U.S. truck production** has jumped by 19.5% to more than 430,000 vehicles, bringing total U.S. car and truck

<sup>6</sup> 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).

<sup>7</sup> Disposable income figures are chain weighted and seasonally adjusted at annual rates (SAAR).

<sup>8</sup> 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.

production for the first three weeks of 2000 to over 759,000 units. Relative to the first three weeks of 1999, total U.S. car and truck production thus far in 2000 has risen by 16.3%.