

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

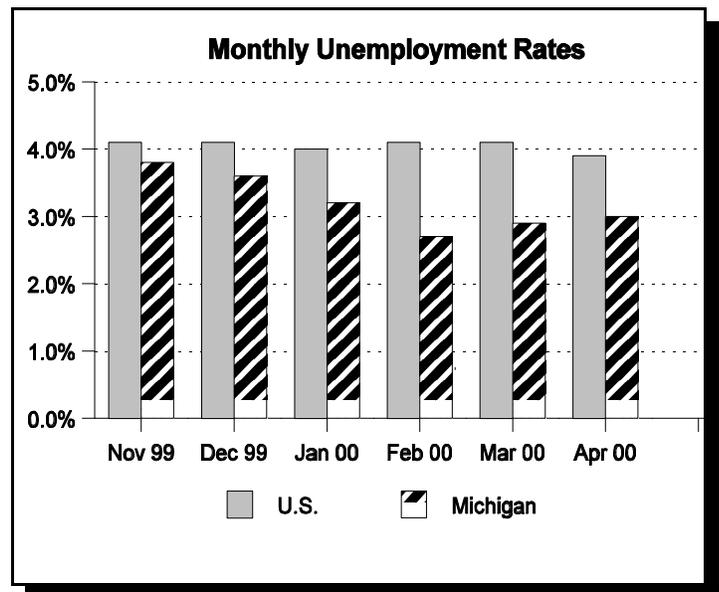
Trends in the Labor Market:¹ Michigan's seasonally adjusted (SA) unemployment rate reached an all-time low of 2.7% in February 2000 before rising to 2.9% in March and 3.0% in April. One year ago, the unemployment rate stood at 3.8%. Between March and April of this year, total employment grew by 12,000 workers while the number of unemployed rose by just 6,000.² As a result, the labor force increased by 18,000 workers, bringing the total to just under 5.1 million.

! 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 March to 3.9% in April.

! Total employment in Michigan stands at just over five million workers between March and April. Total employment for April 2000 dropped by 7,000 workers when compared to April 1999.

! Total Michigan wage and salary employment (not adjusted for seasonal variations) rose above 4.5 million at the end of April, a net gain of 38,000 workers relative to March.

! The majority of the gains in Michigan's wage and salary employment in April were in the service sector, which jumped by 23,000 workers. In addition, employment in the construction sector rose by 15,000 workers as post-winter construction resumed.

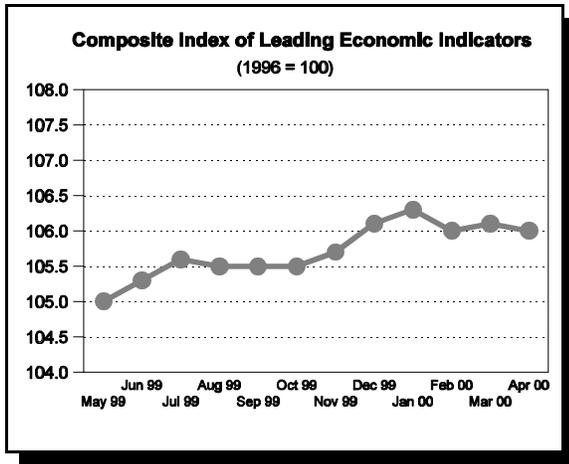


¹ U.S. unemployment figures are supplied by the Bureau of Labor Statistics. Michigan employment figures are supplied by the Michigan Employment Service Agency. Data are seasonally adjusted at annual rates (SAAR) unless otherwise indicated.

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

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.



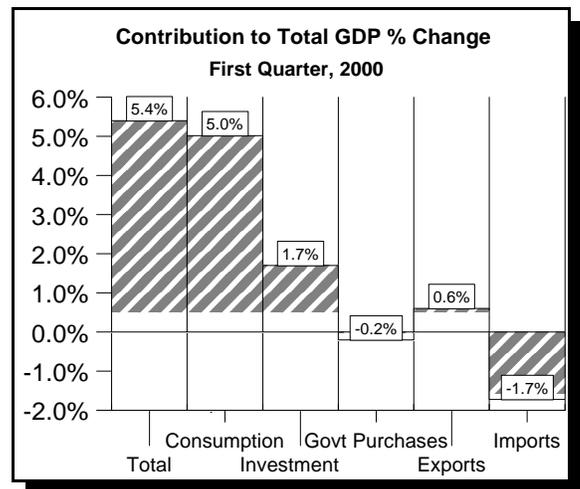
The composite index of leading economic indicators for 2000 dipped slightly from 106.1 in March to 106.0 in April. One-half of the ten component indicators that make up the index increased in April, with the largest impacts attributable to increases in the money supply and the number of average weekly manufacturing hours. Of those components that fell, the most significant declines were the number of manufacturers' new orders of consumer goods and the number of building permits issued. Over the past six months, the index has risen 0.5%, and six of the ten components have shown net increases.

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 (preliminary) grew at an annual rate (AR) of 5.4% during the first quarter of 2000, down from the 7.3% rate posted in the fourth quarter of 1999, but well ahead of the 4.2% growth rate for 1999 as a whole. Personal consumption expenditures and gross private domestic investment grew at annual rates of 7.5% and 9.9%, respectively, in the first quarter.

! **Consumption expenditures** grew at an annual rate of 7.5% (SAAR) in the first quarter of 2000. For all of 1999, consumption grew at a 5.3% rate. The durable goods sector grew at an astounding rate of 22.4% in the first quarter, while the nondurable and service sectors each witnessed first quarter growth rates of 5.6%.

! **Gross private investment expenditures** experienced a first-quarter growth rate of 9.9% (SAAR), up from the growth rate of 5.8% for all of 1999. Nonresidential investment in structures jumped by 20.7% after decreasing in all four quarters of 1999. Investment in equipment and software, which increased at a rate of 12.0% for all of 1999, posted a much higher first quarter growth rate of 22.6%. Residential investment in structures rose by 5.2%.



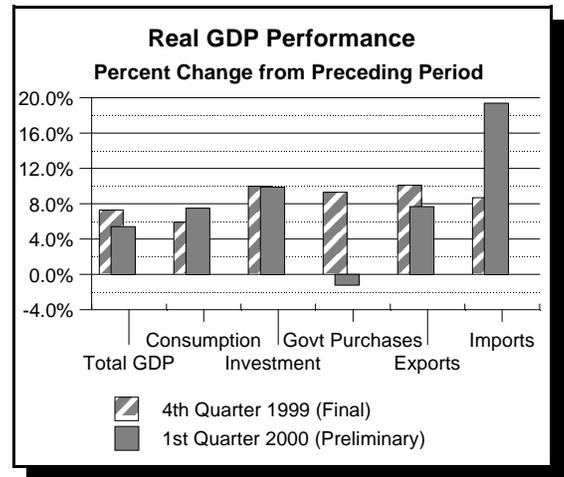
³ Data on the leading index are seasonally adjusted and are published in *Business Cycle Indicators*, The Conference Board. The composite index of leading indicators is composed of several employment measures, measures on new orders and contracts for various durable goods, measures of consumer expectations, 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** declined by 1.2% (SAAR) in the first quarter, primarily due to a 22.3% decrease in federal defense spending. State and local government expenditures rose at a 7.0% rate during the same period.

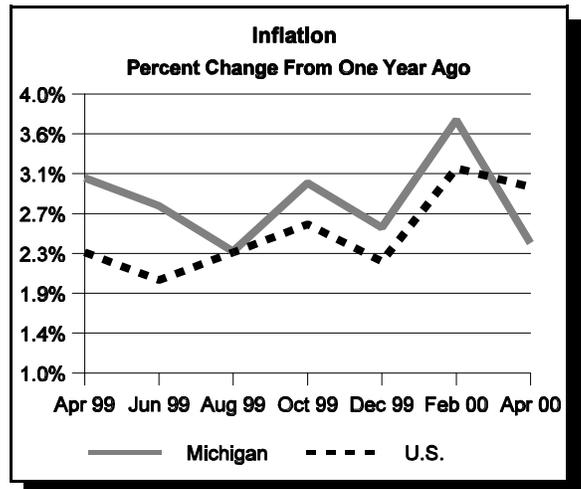
! **Net exports** remained negative in the first quarter as imports continued to exceed exports. Although exports of goods and services increased at a 5.5% rate, this increase was more than offset by the 12.7% jump in imports. For the first quarter of 2000, the annualized real trade balance finished with a deficit of \$330.9 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.



Although inflation in the U.S. has remained low by historical standards, there are indications that the rate could increase somewhat in the foreseeable future. In 2000, the CPI rose from 171.1 in March to 171.2 in April; in April 1999, the CPI stood at 166.2. This translates to an annual inflation rate of 3.0%. In Michigan, the 2000 D-CPI increased from 167.2 in February to 168.1 in April. Relative to April 1999, the inflation rate in Michigan has been about 2.3%. 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 which continues to stay near its 30-year average of 82.0%, has risen very modestly throughout 1999 and into 2000. Capacity utilization for March was 81.7%; this increased to 82.1% in April. Although capacity utilization has remained relatively constant over the past several months, overall industrial capacity has grown by 3.8% since April 1999. This increase should assist in offsetting inflationary pressures.



! The **producer price index (PPI)**, an increase in which could signal higher future inflation, has risen by 3.9% (AR) from April 1999 to April 2000. For all of 1999, the PPI increased at a 1.8% rate. To the extent that higher producer prices are transformed into higher consumer prices, this indicates that a modest increase in the CPI may be on the horizon.

! **Labor productivity** growth, an increase of which tends to offset inflation, 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 will help to moderate any inflationary effects.

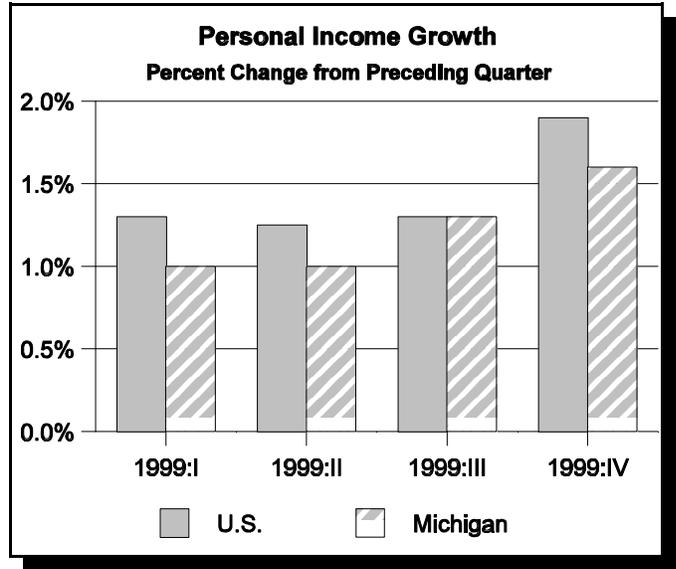
⁵ The capacity utilization rate measures the ratio of output capacity used to total production capacity available, and is calculated by the Federal Reserve Board. The producer price index measures the average price of finished goods. Labor productivity measures nonfarm business output per hour. Employment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

The Michigan Page

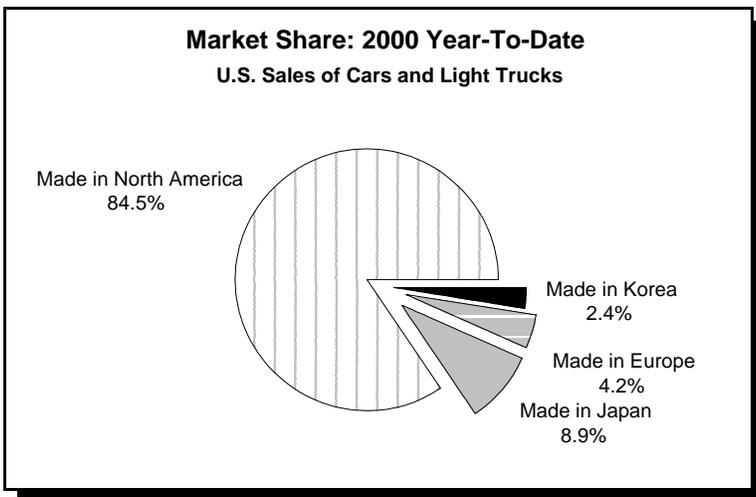
Personal Income:⁶ Growth in state tax revenue is largely determined by growth in state personal income. The most current estimates indicate that personal incomes in Michigan grew at a 1.6% rate during the fourth quarter of 1999. The corresponding growth rate for the U.S. was 1.9% for the fourth quarter.

! The U.S. Department of Commerce reported that **Michigan's personal income** grew to \$274.6 billion in 1999. This represents an increase of 2.5% relative to 1998. In comparison, U.S. personal income increased at a 3.3% rate during 1999.

! **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 2.2% (SAAR) in the first quarter of 2000 after growing at a 4.0% rate for all of 1999.



Auto Industry:⁸ **U.S. sales of cars and light trucks** for the first four months of 2000 totaled just under 5.9 million units, more than 10% ahead of last year's record-breaking pace. The number of cars and light trucks made in North America during this period rose by 7.8% relative to 1999. Overall, the North American share of the total market stands at 84.5%. Sales of North American-made cars are running 5.0% ahead of last year's output during the first four months, while sales of North American-made light trucks jumped by 10.5% when compared to the first four months of 1999. Korean automakers saw sales of cars and light trucks increase by 71.2% during the same time period, which was enough to increase their share of the world market to 2.4%.



Total year-to-date **U.S. car production** amounts to slightly less than 2.4 million vehicles, matching the output during the

same period in 1999. In contrast, **U.S. truck production** stands in excess of 3.2 million vehicles, about 2.1% ahead of last year's output. Overall, year-to-date total U.S. car and truck production is running 1.2% ahead of 1999.

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.