

# KEY ECONOMIC INDICATORS

# UPDATE



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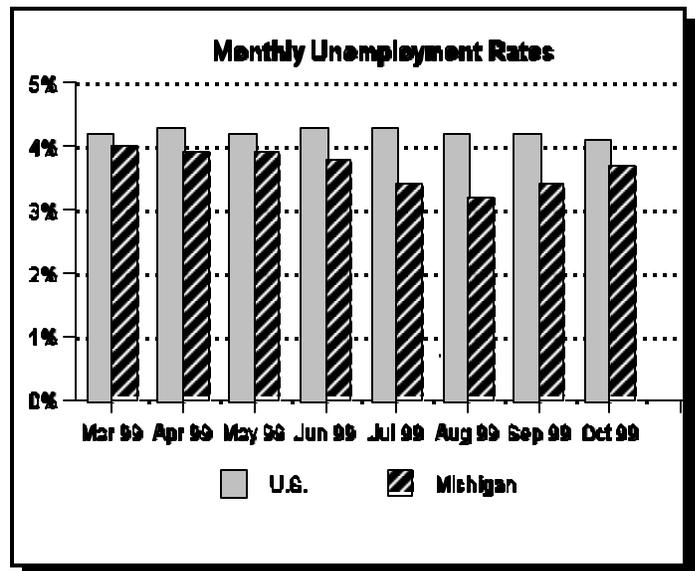
*Economic Data Pertaining to  
the U.S. and Michigan Economies  
for Members of the Michigan Legislature*

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## Employment

**Trends in the Labor Market:**<sup>1</sup> Although Michigan's seasonally adjusted (SA) unemployment rate rose from 3.4% in September to 3.7% in October, it is still slightly below the 3.8% rate that existed one year ago. An increase in both the number of unemployed and the labor force, combined with a slight decrease in total employment, was sufficient to generate an increase in the unemployment rate for a second consecutive month.<sup>2</sup> Overall, the labor force increased by 15,000 workers between September and October, bringing the total to 5.09 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 recently. The unemployment rate for the country as a whole dropped from 4.2% in September to 4.1% in October.
- ! Total employment in Michigan stands at just over 4.9 million, even after a decrease of 1,000 workers between September and October. Relative to a year ago, however, total employment has grown by 41,000 workers.



- ! Fueled by an increase of 70,000 workers during the past two months, total unadjusted wage and salary employment in Michigan exceeded 4.6 million at the end of October. The entire gain can be attributed to the state and local education sectors of government employment as schools and universities increased their staffs by more than 90,000 workers in preparation for a new school year. However, this

<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.

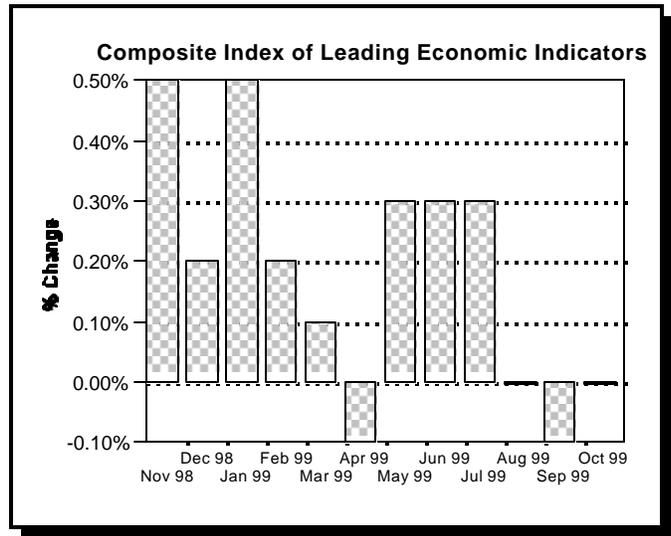
rise was somewhat offset by decreases of about 6,000 workers in manufacturing employment, 7,000 workers in the construction industry, and 9,000 workers in the private service sector.

# The National Economy

## Composite Index of Leading Economic Indicators:<sup>3</sup> In predicting the future path

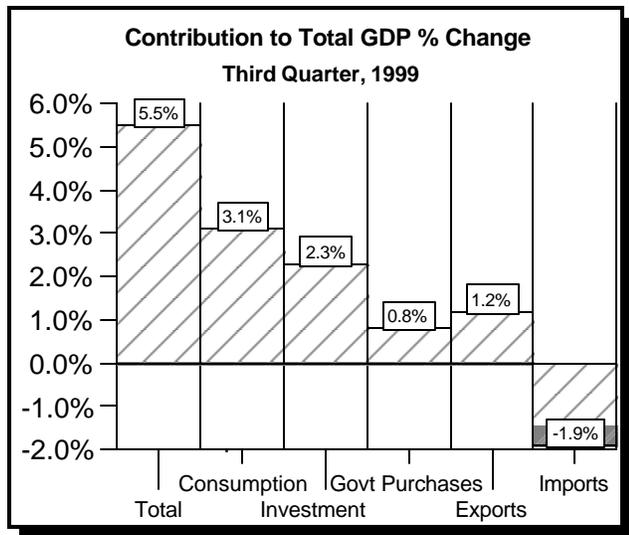
of the economy, economists traditionally look at the composite index of leading economic indicators. The value of the index is derived from several economic indicators and is calculated by The Conference Board, Inc., New York, N.Y.

The composite index of leading economic indicators stands at 107.9 after dropping 0.1% in September then holding steady in October. Only five of the ten component indicators that make up the index increased in October. Increases in the money supply and the number of building permits were essentially offset by a decrease in stock prices and lower consumer expectations. Over the past six months, the index has risen 0.7% and seven 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 (preliminary) grew at an annual rate (AR) of 5.5% during the third quarter of 1999, up sharply from the 1.9% second quarter growth rate. Gross private domestic investment rebounded from its -2.1% second quarter growth rate and posted a 14.0% growth rate in the third quarter, primarily due to a 13.3% increase in nonresidential investment. In addition, private inventories, which had fallen by 72% in the second quarter, more than doubled in the third quarter. Exports of goods and services also grew rapidly in the third quarter.



! **Consumption expenditures** grew at a rate of 4.6% (SAAR) in the third quarter, slightly below the 5.1% second quarter growth rate. The decrease in the growth rate was evenly split across the durable goods, nondurable goods, and service sectors.

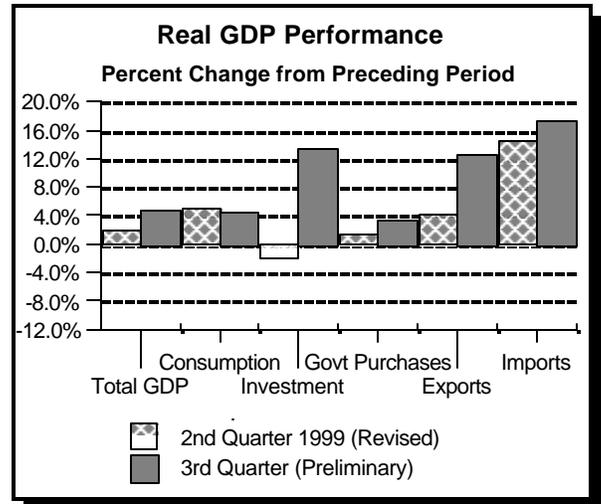
! **Gross private investment expenditures** increased at a 14.0% (SAAR) rate during the third quarter, primarily due to an 18.2% increase in

<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 1992 dollars and are available from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis.

nonresidential equipment and software purchases. Residential and nonresidential investment in structures both experienced downturns and fell at rates of 4.8% and 1.5%, respectively.

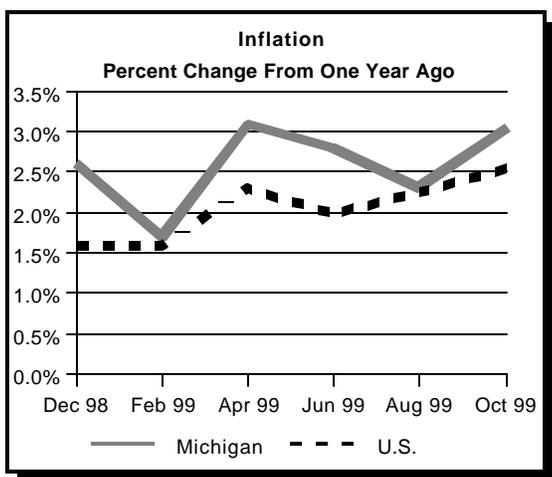
- ! **Total government expenditures** rose by 4.2% (SAAR) in the third quarter, fueled by an 11.4% jump in federal defense spending that was partially offset by an 8.1% decline in nondefense expenditures. State and local government expenditures increased at a 4.4% rate during the same period.
- ! **Net exports** remained negative in the third quarter as imports exceeded exports. Imports of goods and services increased at a 14.6% rate while export growth was 11.7%. The real trade balance, which stands at -\$336.7 billion through the three quarters of 1999, fell by 5.5%.



**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 modestly to 168.2 in October; this translates to an annual inflation rate, year-to-date, of 2.0%. For Michigan, D-CPI increased to 165.9 in October, up from 164.2 in August. Measured on an annual basis, the Michigan inflation rate in 1999 is approximately 2.5%. When compared to October 1998, the inflation rates for Michigan and the U.S. are 3.0% and 2.6%, respectively.

- ! The **capacity utilization rate**<sup>5</sup> continues to stay well below its 30-year average; it has remained almost constant at about 80.5% throughout 1999. Capacity utilization in October 1999 rose slightly, but remained approximately 0.5% lower than one year before, suggesting that inflation should continue to be modest.
- ! The **producer price index (PPI)**, an increase in which could signal higher future inflation, has risen by only 1.5% (AR) thus far in 1999, and has increased at a modest 2.7% rate relative to October 1998.



! **Labor productivity** growth, an increase of which tends to offset inflation, increased at a 4.2% 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. Through the first three quarters of 1999, total compensation costs have risen at an annual rate of 2.7% while wages and salaries have grown by 2.9%. Although increases in employers' costs can trigger inflation, the increases in labor productivity will likely minimize any inflationary effects.

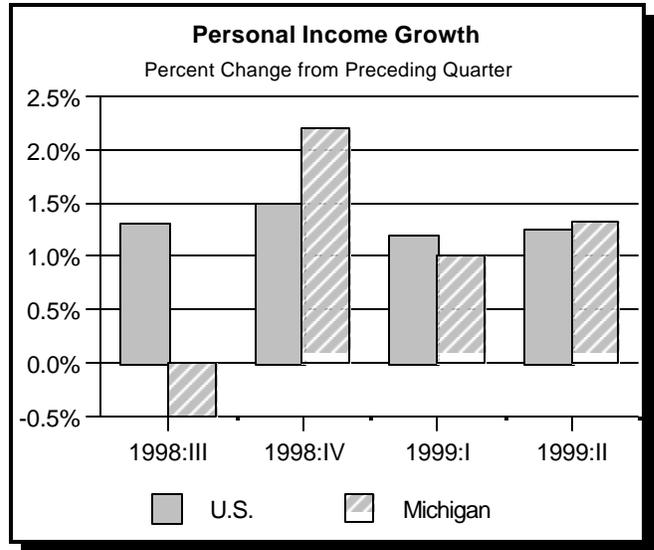
<sup>5</sup> The capacity utilization rate measures the ratio of output capacity used to total production capacity available, and is calculated by the Federal Reserve Board. The producer price index measures the average price of finished goods. Labor productivity measures nonfarm business output per 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

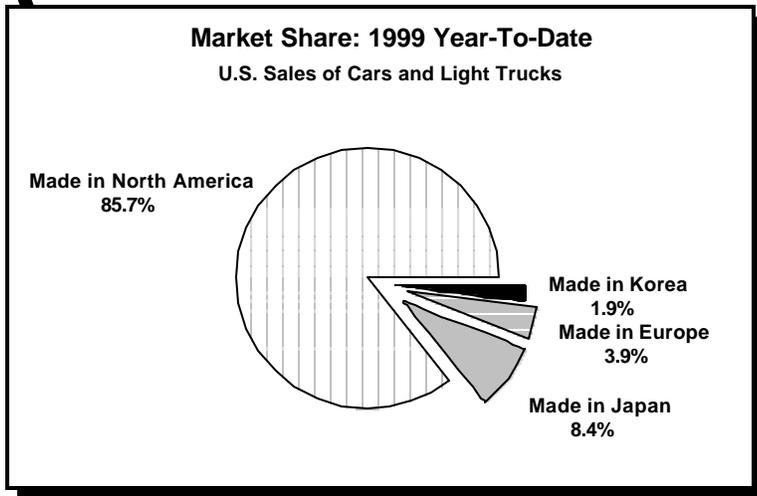
**Personal Income:**<sup>6</sup> Growth in state tax revenue is largely determined by growth in state personal income. The most current estimates indicate Michigan's personal income grew at a slightly faster rate than the U.S. average in the second quarter of 1999.

! The U.S. Department of Commerce reported that **Michigan's personal income** (revised) grew to \$262.8 billion (SAAR) in the second quarter of 1999. This represents an increase of 1.3% over the first quarter and a 3.2% increase over the past year. In comparison, U.S. personal income increased at 1.2% during the second quarter and by 5.4% since the second 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 (revised) for the U.S. increased at a rate of 2.7% (SAAR) in the third quarter of 1999 after growing by 3.2% during the second quarter.



**Auto Industry:**<sup>8</sup> U.S. sales of cars and light trucks through October of 1999 totaled just under 14.3 million units; this represents an 8.9% rise over the first ten months of 1998. The number of cars and light trucks made in North America during this period jumped by 7.1% compared to last year, and maintained a relatively constant market share when compared to foreign-produced vehicles. North American-made cars and light trucks posted sales increases of 7.7% and 10.5%, respectively. Korean automakers have seen sales in the U.S. increase by almost 75% compared to the first ten months of 1998. Despite this increase, the total share attributable to Korean automakers represents only about 1.9% of the overall U.S. market.



From a production standpoint, year-to-date **U.S. car production**, which totals slightly over 4.8 million, has increased by less than 1.0% relative to the first ten months of 1998. In contrast, **U.S. truck production** has jumped by 16.3% to more than 6.4 million vehicles, bringing total U.S. car and truck production through

<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.

October 1999 to 11.2 million units. Relative to the first ten months of 1998, total U.S. car and truck production has risen by 9.1% thus far in 1999.