

# 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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## In The News . . .

Almost two years after the official start of the current recession, Michigan's seasonally adjusted unemployment rate in December 2002 was 5.9%. In contrast, 22 months after the beginning of the 1990-91 recession, the unemployment rate in Michigan stood at 9.4%, almost 60% above the current level. One possible interpretation of this differential is that Michigan's labor market is faring better during the present economic downturn than in the previous recession.

A closer look at the data underlying the unemployment rate suggests a different conclusion. The table below compares several common labor market variables in Michigan from February 2001 (the last month before the current recession began) through December 2002 with an equivalent 22-month time period beginning in June 1990 (the last month before the start of the 1990-91 recession).

	1990-91 Recession			2001 Recession		
	<u>June 1990</u>	<u>April 1992</u>	<u>Change</u>	<u>February 2001</u>	<u>December 2002</u>	<u>Change</u>
Employment	4,271,850	4,242,373	-29,477	4,944,191	4,803,547	-140,644
Labor Force	4,618,579	4,675,521	56,942	5,183,691	5,105,150	-78,541
Unemployment Rate	7.5%	9.3%		4.6%	5.9%	

Although the unemployment rate is lower today than in the early 1990s, other labor market data indicate a much deeper impact on Michigan's labor market. More than 140,000 jobs have been lost during the past 22 months, almost five times the number lost during the 1990-91 recession. In addition, while the labor force actually grew by about 57,000 workers during the 1990-91 recession, more than 78,000 workers have left the labor force since February 2001.

The drop in the labor force from February 2001 through December 2002 indicates that some previously unemployed workers have given up looking for jobs and have left the labor force completely. When this happens, the unemployment rate tends to be understated and does not accurately reflect the number of jobless individuals. Viewed in this light, the current recession has had a more significant impact on Michigan's labor force than the unemployment rate by itself would suggest.

# 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 0.7% during the fourth quarter of 2002 after growing at a modest 4.0% rate during the third quarter. For calendar year 2002, real GDP grew 2.4%.<sup>1</sup>

Personal consumption expenditures (almost two-thirds of GDP) grew by only 1.0% during the fourth quarter after increasing at a 4.2% pace during the third quarter. Gross private domestic investment, which rose at a 3.6% rate during the third quarter, actually dropped by 0.7% in the fourth quarter. Most of this decline can be traced to inventory adjustments as firms tried to avoid ramping up production in the face of declining consumer demand.

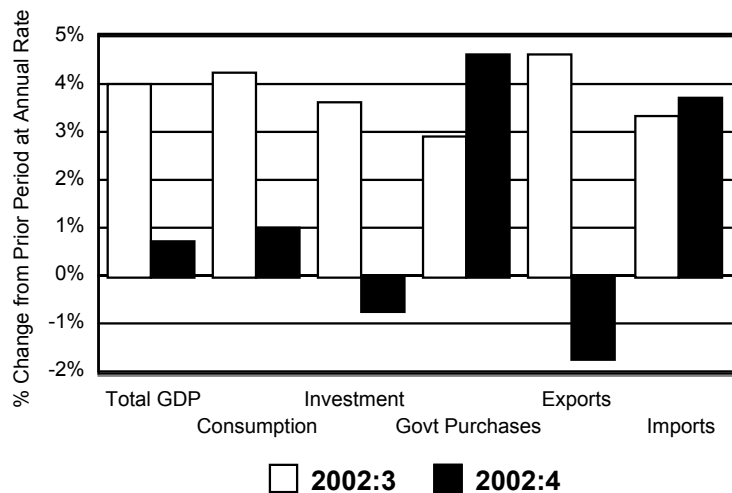
## Key Interest Rates

Interest rates are based on Federal Reserve policy, length of term, and perceived risk of future inflation. Both 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 deviated only slightly over the past three months. Short-term interest rates (as measured by the prime rate) dropped in November, primarily because of the Federal Reserve's 50 basis point cut in the federal funds rate.

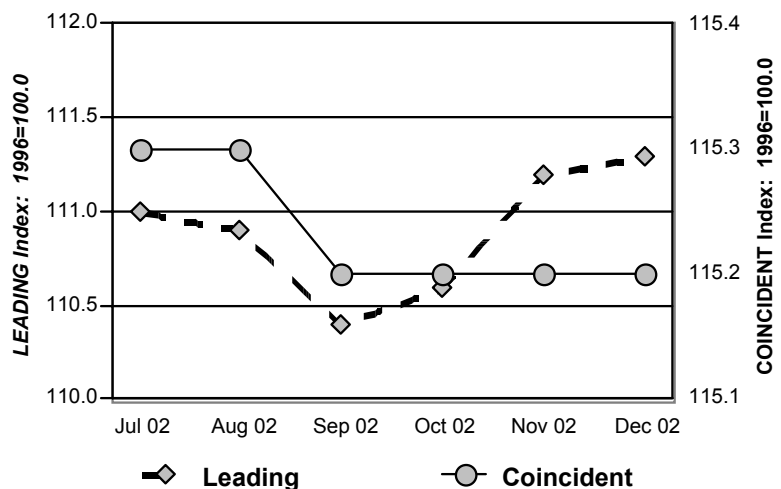
## Leading and Coincident Economic Indicators

The composite index of leading economic indicators (LEI), which is used to predict the future path of the economy, rose from 111.2 in November to 111.3 in December. The LEI has experienced a net increase of 0.1% over the past six months. In contrast, the index of coincident economic indicators, which is used as a gauge of current economic conditions, has remained constant at 115.2 for the past four months. Like the leading indicators, the index of coincident indicators has also increased by 0.1% over the past six months. The lack of any change since August suggests that the economy is unlikely to experience appreciable growth in the immediate future.

**Real GDP Performance**



**Leading and Coincident Indicators**



<sup>1</sup> 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 December 2002, the CPI posted a 2.4% increase from one year ago while the December 2002 D-CPI advanced at a brisker 3.6% pace.<sup>2</sup> When viewed from a historical perspective, these increases are small and suggest that inflation is currently not a significant concern.

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

<u>Economic Measure</u>	<u>Time Period</u>	<u>Current Value</u>	<u>% Change from Year Ago</u>
Producer Price Index	December 2002	139.1	1.2%
Total Compensation Index	4th Quarter, 2002	162.3	3.2%
Wage and Salary Index	4th Quarter, 2002	157.5	2.7%
Labor Productivity Index	4th Quarter, 2002	123.9	3.9%

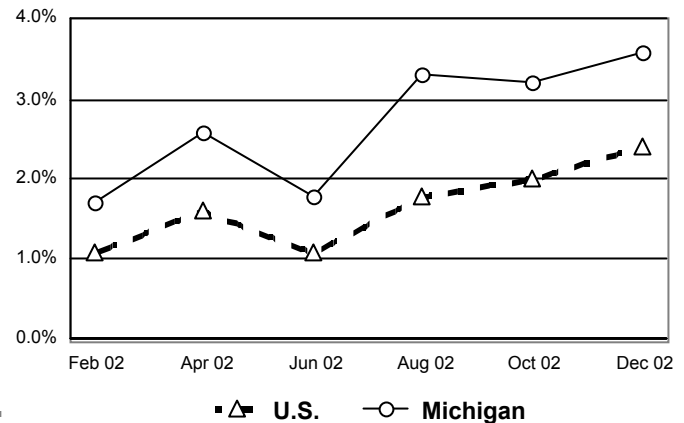
## Unemployment

Michigan's unemployment rate, which had been at or above the U.S. rate from January 2001 through October 2002, dipped below the U.S. rate in both November and December 2002. Michigan's unemployment rate rose to 5.9% in December from 5.7% in November. During the same time period, the U.S. rate remained constant at 6.0%.

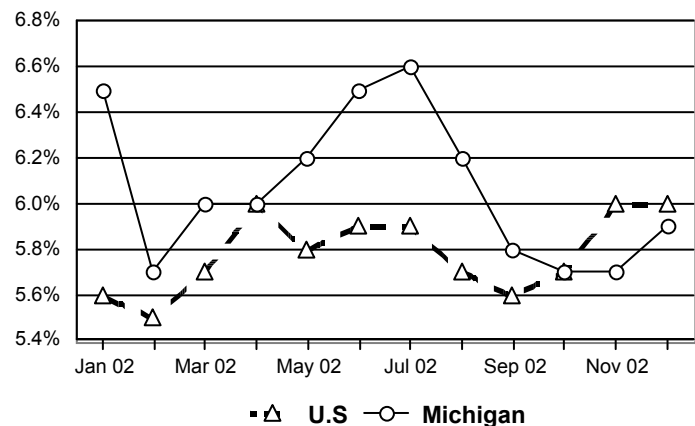
## Employment

In December 2002, total U.S. employment dropped to just over 133.9 million workers, about 100,000 fewer than in December 2001. For Michigan, total employment in December 2002 dipped to just above 4.8 million workers, which represents a 0.1% decline (or a loss of 54,650 jobs) when compared to one year ago.

U.S. and Michigan Inflation Rates



U.S. and Michigan Unemployment Rates



<sup>2</sup> 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 December 2002 fell by 0.9% relative to one year ago. Two (manufacturing and wholesale and retail trade) of the three largest sectors saw employment decreases. Changes in average weekly earnings were mixed, with workers in the service, nondurable goods manufacturing, and construction and mining sectors all realizing reductions relative to December 2001. Workers in the finance, insurance, and real estate sector and the durable goods component of the manufacturing sector saw the largest earnings gains.<sup>3</sup>

## Michigan Labor Market Data

Industry Classification	Wage and Salary Employment (in Thousands)		Average Weekly Earnings (in Dollars)	
	December 2002	Percent Change from Prior Year	December 2002	Percent Change from Prior Year
Mining and Construction	201.8	-2.2%	\$843.38	-2.8%
Manufacturing	907.3	-1.2%	\$898.99	4.2%
Durable Goods	686.8	-1.6%	\$986.12	5.9%
Nondurable Goods	220.5	0.0%	\$616.50	-3.1%
Transportation and Public Utilities	177.3	-1.6%	\$681.12	0.0%
Wholesale and Retail Trade	1,065.4	-2.2%	\$417.37	0.5%
Finance, Insurance, and Real Estate	212.6	1.2%	\$577.51	2.2%
Services	1,293.2	0.2%	\$522.44	-2.4%
Total Government	708.3	-0.7%	N/A	N/A
<b>TOTAL WAGE AND SALARY EMPLOYMENT</b>	<b>4,565.9</b>	<b>-0.9%</b>	N/A	N/A

## U.S.

### Motor Vehicle Sales

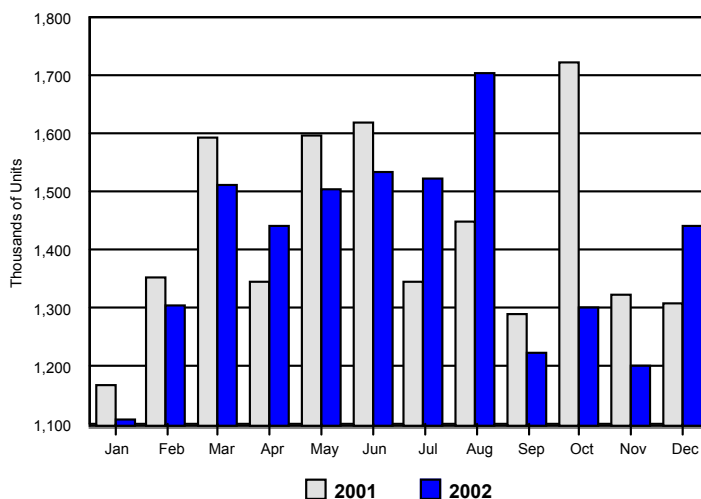
Monthly light vehicle sales exceeded 1.2 million units in November 2002 and 1.4 million units in December 2002. For all of 2002, light vehicle sales measured just over 16.8 million units, a 1.8% decline relative to 2001. Compared with 2001, sales of domestic light vehicles fell by 3.7% while sales of imports have increased at a 7.0% rate. Imports now constitute 19.6% of all light vehicle sales.

## Michigan

### Motor Vehicle Production

In December 2002, Michigan light motor vehicle production totaled 176,574 units, down 10.1% from last December. Auto production fell by 22.7% while light truck production rose by 10.9%. For the entire year, total light motor vehicle production in Michigan was about 7.8% ahead of last year's pace. This increase was split evenly between autos, which represented almost 62.2% of Michigan's light motor vehicle production, and light trucks.

U.S. Sales of Cars and Light Trucks



<sup>3</sup> 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.