Fiscal Update: November 1996

Employment

Trends in the Labor Market

Trends in the Labor Market: Michigan's unemployment rate fell 0.3 percentage points to 4.5% in August, duplicating June's all-time low in the state of Michigan. There was a commensurate drop in the U.S. rate to 5.1%. Michigan's unemployment rate jumped 0.2 percentage points to 4.7% in September, remaining below the U.S. rate. The U.S. rate increased 0.1 percentage points to 5.2%. Despite the rise, the national unemployment rate has exhibited a steady downward trend in 1996, whereas Michigan's rate has remained more or less steady. Hence, although Michigan's rate has been below the national average, the gap has narrowed over the course of the year to one-half of a percentage point.

- Year-to-date average unadjusted wage and salary employment in Michigan is 46,000 jobs higher than the average employment level of 1995. The increase is primarily due to employment gains in the service and government sectors.

- Average wage and salary employment for the year has remained fairly steady in the manufacturing sector. Employment increases in the service sector can be partly attributed to the business services industry (reflecting an increase in the use of temporary employees and out-sourcing) and the retail trade industry. Employment in health-related services remained steady.

The National Economy

Composite Indices

In predicting the future path of the economy, economists traditionally look at three types of indices: the composite index of leading economic indicators, the composite index of coincident economic indicators, and the composite index of lagging economic indicators. The value of each index is derived from several economic indicators and is now calculated by The Conference Board, Inc., New York, N.Y.

- The composite index of leading economic indicators rose for the seventh consecutive month. It reached 103.3 in August. This is 0.2 percentage points above last month, and represents a 2.9 percent increase since the beginning of the year. Unfilled orders for durable goods have declined by over 28% during the last five months. The growth of the leading index has been stable the last six months, varying between 0.2 and 0.5 percentage points. This suggests the economy will continue to grow at a moderate rate during the next few months.

- The composite index of coincident economic indicators has been climbing steadily for the past seven months, and stood at 121.8 in August. This is 0.4 percentage points above July's figure, and reflects the fact that all four components posted increases in August. The coincident index is presently in the midst of its third longest expansion ever; however, the growth rate is below the historical average. This coincides with an economy that is in a sustained, yet relatively slow, growth phase.

- The composite index of lagging economic indicators, after downturns at the beginning of the year, increased in July by 0.3 percentage points and by another percentage point in August. This confirms the solid but unspectacular growth experienced in the first half of 1996.

Components of Gross Domestic Product

Gross domestic product (GDP) measures the total value of all final goods, services, and structures produced in the United States. GDP growth 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.

Advance estimates indicate GDP increased by a moderate 2.2% in the third quarter of 1996, down from the upbeat 4.7%

growth rate of the second quarter. Strong third-quarter growth in investment was tempered by modest growth in consumption expenditures, net exports, and government expenditures.

- Growth in investment expenditures rose by 22.5% in the third quarter. Growth in fixed investment increased by 8.5%, boosted by an 18.9% increase in investment in producers' durable equipment. Business inventory investment also increased, whereas residential investment declined.

- Total government expenditures decreased by 1.4% in the third quarter. Federal expenditures decreased 4.0% (primarily due to decreases in defense spending) and state and local spending rose by 0.2%. Net exports (exports minus imports) decreased from -$121.7 billion in the second quarter of 1996 to -$132.2 billion in the third quarter. Exports increased by a weak 0.6%, and imports rose by a strong 8.3%.

- Consumption expenditures remained more or less steady with a growth of only 0.4% in the third quarter-- the slowest growth rate in over a year and well below the average 3.5% growth rate of the previous two quarters. Both durable and nondurable goods expenditures decreased, which is not surprising considering the extent to which consumers are in debt. Although spending on services increased, it was unusually restrained (1.1%) and thus contributed to the limited growth of total consumption expenditures.

Consumer Expectations and Business Cycles

Consumer expectations and attitudes about the economy respond to current economic conditions. Furthermore, the evidence suggests that consumer expectations are an important indicator of the future performance of the economy. As such, the **index of consumer expectations** of the economy is one of the components of the leading index of economic indicators (see previous page).

- As the graph shows, consumer expectations are extremely volatile, but are a good indicator of recessions.

- The index of consumer expectations has been growing steadily since the start of the year, suggesting consumers are optimistic about the economy in the near future.

The Michigan Page

Personal Income and the Auto Industry

Growth in state tax revenue is largely determined by growth in state personal income. Michigan's personal income has outpaced the Great Lakes average growth rate in three of the last four quarters.

- The U.S. Department of Commerce reported that Michigan's personal income totaled $238.5 billion in the second quarter of 1996, an increase of 3.0% over the first quarter (the U.S. increased 1.6%), and a strong turnaround from the 1.0% decrease of the previous quarter.

- Real disposable income 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 for the U.S. increased by a revised 0.3% in the second quarter of 1996, falling from a 0.5% increase in the first quarter. This marks the second quarter in a row that growth in disposable personal income has declined and is well below the pace of the last half of 1995 when the average growth rate was 3.4%. This may indicate an imminent tightening of consumer spending on durable goods.

- Year-to-date 1996 U.S. car and light truck sales totaled over 11.6 million units, up 3.2% over 1995 levels. Light trucks were once again the primary engines of growth, posting a 7.5% gain over 1995 levels; cars were up only 0.3%. September 1996 car sales were 2.6% below September 1995 sales, while September 1996 light truck sales were 8.1% above September 1995 levels. So far this year, the proportion of imports to domestic auto sales has increased slightly in the light truck market, but decreased significantly in the car market (from 19.2% in 1995 to 16.1% in 1996). 1996 year-to-date U.S. production is below 1995 levels as plants are still making up for the GM brake plant strike in March. July production was 34.7% ahead of July 1995 levels.

For a copy of this report (with accompanying tables, graphics, and footnotes) prepared by Stephen Marasco under the direction of the HFA economist, please contact Mitch Bean or call the HFA office at 517.373.8080.

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