KEY ECONOMIC INDICATORS UPDATE

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

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In The News . . .

The previous *Update* was released shortly after the September 11 attacks—well before the full extent of the destruction was known. According to the National Bureau of Economic Research (NBER), the U.S. economic expansion of the 1990s peaked in March 2001, after growing for 120 consecutive months. Even though the economy had begun to contract several months before the September 11 attacks occurred, there was still hope that a recession could have been avoided. In retrospect, the events of September 11 appear to have played a significant role in pushing the economy into a recession.

A review of the previous nine recessions (dating back to 1945), shows that the average recession duration was 11 months—only two downturns lasted as long as 16 months. Based on recent history, it is entirely possible that the economy could resume an expansionary path as early as the first quarter of 2002. While it is likely that the events of September 11 exacerbated the downturn, the response to the attacks, in itself, may provide enough economic stimulus to somewhat offset the impacts of the contraction.

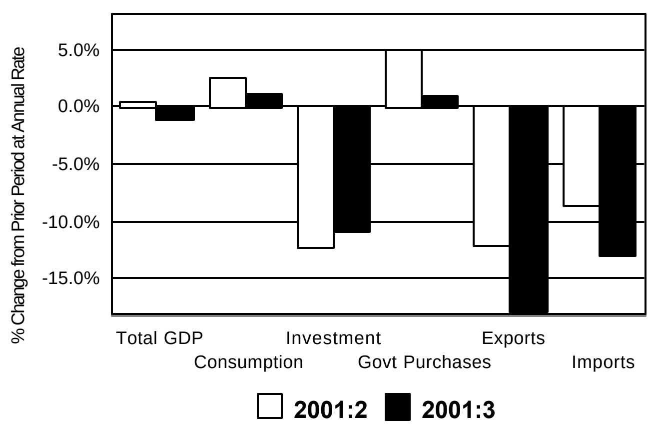
Less than a week after the attacks, the Federal Reserve cut the discount rate from 3.0% to 2.5%. A second cut followed in early October; a subsequent reduction in early November dropped the discount rate to 1.5%. In addition, Congress, which had already passed an economic stimulus package that included almost $40 billion in tax rebate checks, authorized an additional $40 billion to provide aid to New York City and increase national security. Currently, there is debate in Congress over another plan to provide even more relief to the troubled economy. What form this relief will take has yet to be determined, but there appears to be little doubt that additional federal spending and tax cuts are on the way.

It is apparent that certain sectors of the economy, such as travel and tourism, have been disproportionately affected by the events of September 11. Heightened security measures have made airline travel less convenient, and hotel occupancy rates are significantly below their levels just one year ago. Conversely, consumers responded to 0% financing by purchasing new vehicles in October and November in quantities that exceeded last year's record rates. Based on available information, there appears to be no way to completely isolate the impacts of the attacks and no way to know, with any certainty, whether a recession would have developed in absence of the terrorist attacks.

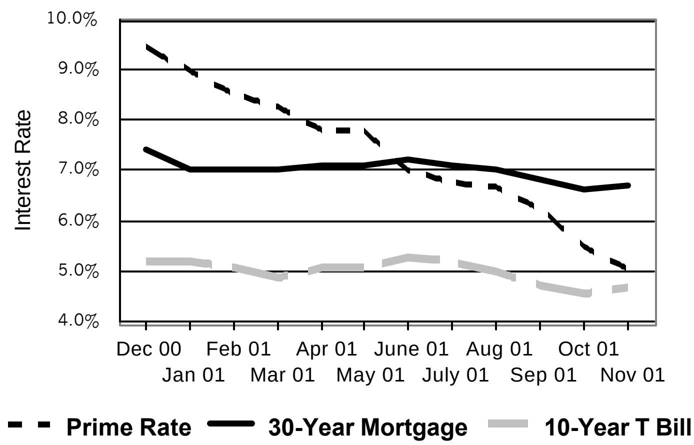
> More than three months after September 11, the overall economic fallout from the attacks is still unclear.
>
> At some point in the future it may be possible to quantify the economic impact of September 11, but for now, the attacks represent one more uncertainty on a clouded economic horizon.

The U.S. Economy . . .

Real GDP Performance



Selected Interest Rates



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 fell at a seasonally adjusted annual rate of 1.1% during the third quarter of 2001 after posting an increase of 0.3% during the second quarter of 2001.[1]

Personal consumption expenditures, which account for almost two-thirds of GDP, grew at a 1.1% rate during the third quarter of 2001, less than half of the 2.5% growth rate experienced during the second quarter 2001. Gross private domestic investment declined 12.3% in both the second and third quarters of 2001. After falling at a 1.2% rate in second quarter 2001, exports declined by 12.2% in the third quarter.

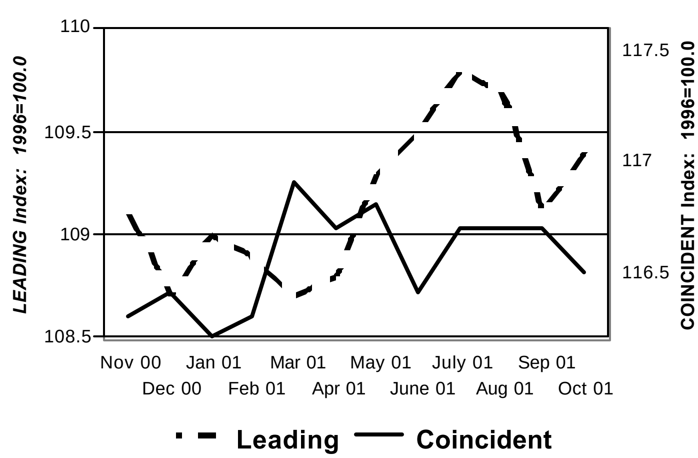
Key Interest Rates

Interest rates are based on Federal Reserve policy, duration (short-, medium-, or long-term), and perceived risk of future inflation. Short-term interest rates, as measured by the prime rate, continued to drop in response to the Fed's rate cuts. 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, both rose slightly in November.

Leading and Coincident Economic Indicators

The composite index of leading economic indicators, which is used to predict the future path of the economy, rose to 109.4 in October after dropping to 109.1 in September—and has experienced a net gain 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, dipped to 116.5 in October after holding steady in September at 116.7. The increase in the leading index is a hopeful sign that the economy should begin to pick up over the coming months.

Leading and Coincident Indicators



[1] 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.

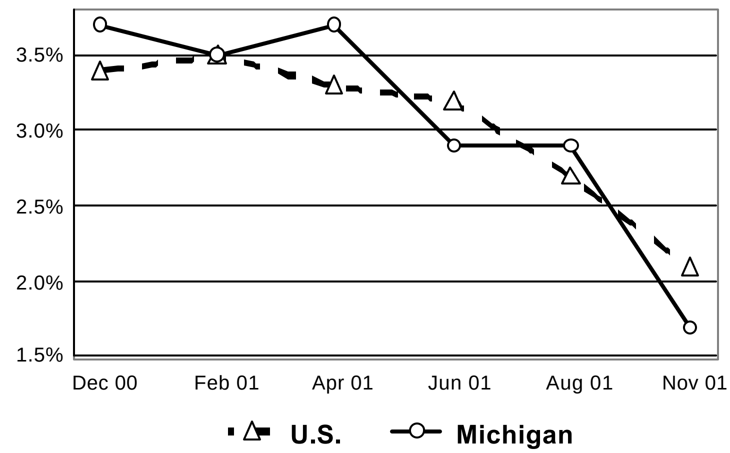
U.S. and Michigan Comparisons . . .

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 October 2001, the CPI posted a 2.1% increase from a year ago while the October 2001 D-CPI advanced at a slower, 1.7% pace.[2]

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.

U.S. and Michigan Inflation Rates



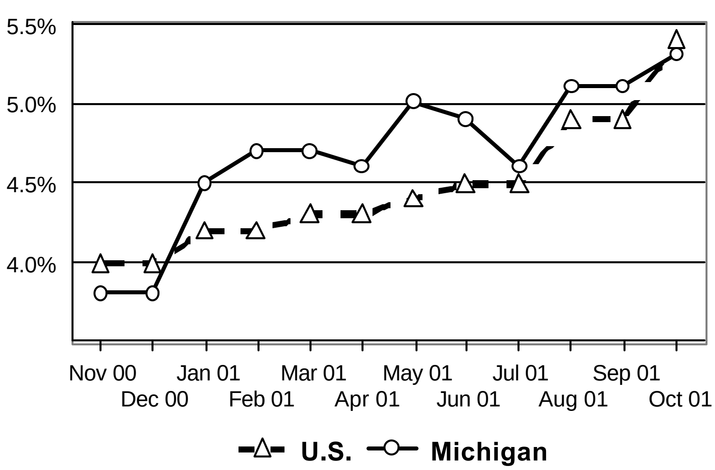
Economic Measures Key to Inflation

Economic Measure	Time Period	Current Period	% Change from Year Ago
Producer Price Index	October 2001	139.6	-0.4%
Total Compensation Index	3rd Quarter, 2001	155.9	4.0%
Wage and Salary Index	3rd Quarter, 2001	152.1	3.6%
Labor Productivity Index	3rd Quarter, 2001	118.8	1.8%

Unemployment

Between March 1995 and December 2000, the unemployment rate in Michigan remained below the U.S. level. Beginning in January 2001, Michigan's unemployment rate climbed above the U.S. rate, and remained higher during the first nine months of 2001. In October, the trend reversed itself as the U.S. unemployment rate climbed to 5.4% while Michigan's unemployment rate rose to 5.3%.

U.S. and Michigan Unemployment Rates



Employment

In October 2001, total U.S. employment dipped to 134.5 million workers, which represents a 0.7% decline relative to October 2000. For Michigan, total employment in October 2001 was just under five million workers, which translates to a 1.1% decline when compared to one year ago.

[2] 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 October fell by 0.8% relative to one year ago. Wholesale and retail trade, one of the two largest industries, saw modest employment decreases while the manufacturing sector, especially in durable goods, experienced significant employment declines. Average weekly earnings for workers in the manufacturing, transportation and public utilities, and mining and construction sectors posted a sharp decline relative to a year ago.

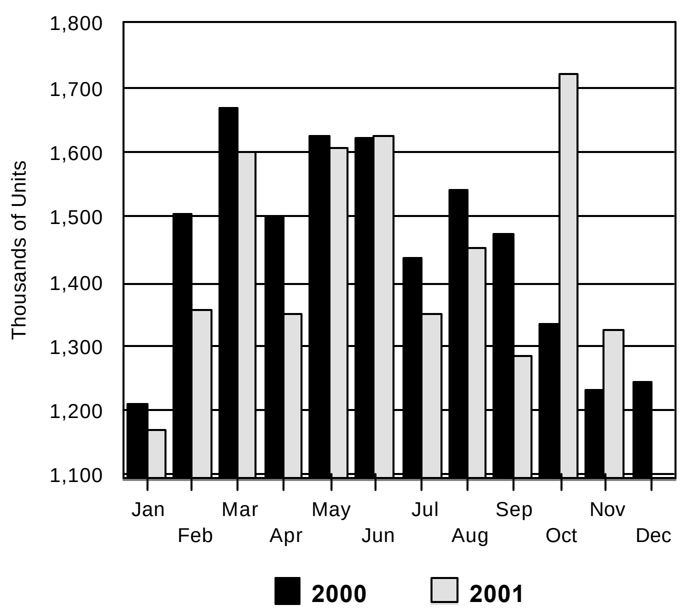
Michigan Labor Market Data

	Wage and Salary Employment (in Thousands)		Average Weekly Earnings (in Dollars)	
Industry Classification	**October 2001**	**Percent Change from Prior Year**	**October 2001**	**Percent Change from Prior Year**
Mining and Construction	235.2	0.0%	$853.90	-5.6%
Manufacturing	927.0	-5.0%	$818.69	-4.4%
Durable Goods	698.6	-6.1%	$881.58	-4.6%
Nondurable Goods	228.4	-1.7%	$618.23	-2.5%
Transportation and Public Utilities	179.8	-1.3%	$622.05	-8.4%
Wholesale and Retail Trade	1,102.1	-0.6%	$412.21	0.6%
Finance, Insurance, and Real Estate	209.3	2.1%	$549.70	6.1%
Services	1,333.1	0.0%	$493.64	1.8%
Total Government	722.0	2.3%	N/A	N/A
TOTAL WAGE AND SALARY EMPLOYMENT	**4,708.5**	**-0.8%**	N/A	N/A

U.S.
Motor Vehicle Sales

U.S. sales of cars and light trucks, bolstered by the wide availability of 0% financing, jumped to over 1.7 million units in October 2001, up 29.1% from the previous year. November 2001 sales increased by 7.5% relative to one year ago, and totaled more than 1.3 million units. Almost all of this rise can be attributed to increased sales of domestically produced light trucks. For the first eleven months of 2001, light vehicle sales measured just over 15.8 million units, which represents a 1.8% decline from the almost 16.1 million units purchased during the same period last year.

U.S. Sales of Cars and Light Trucks



Michigan
Motor Vehicle Production

Michigan light vehicle production in October stood at 239,920 units, 11.7% lower then October 2000. Compared with one year ago, auto production fell by 10.3% while light truck production dipped by 13.8%. Through the first ten months of 2001, total light vehicle production was 19.7% lower than during the same period in 2000.[3]

[3] 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.