

## ECONOMIC FORECAST

### OVERVIEW

The early returns on the 1987 U.S. economy show increasing employment, a longer workweek, and an upsurge in the index of leading indicators. The number of people holding jobs in Michigan grew even more rapidly between December 1986 and January 1987 than the national averages. Over 7 percent of the job increase for the nation took place in Michigan. The state unemployment rate declined from December's 8.0 percent to 7.4 percent in January. The February unemployment rate for Michigan was reported at 8.5 percent. Moreover, Michigan's employment growth has been favorable for several months.

Will it last? For Michigan, the difference between a good year and a poor one depends largely on what happens in the nation's automotive sector. Recent and projected sales figures for domestically produced vehicles are not encouraging. In response, Detroit has resumed incentives to move cars. Even the Japanese are offering incentives to their dealers to prevent a pileup of inventory. Michigan's largest employer, General Motors, is also cutting production schedules to help avoid excessive inventories. GM is trimming its work force as well, especially white collar, to cut costs per vehicle. Finally, GM is turning more to independent suppliers for components as a means of avoiding the high wages it pays its own workers. This means shifting from higher-paying jobs to lower-paying jobs in this state or shifting jobs to other states or countries.

So, despite the spate of good news on the national economy and the upbeat January employment report for Michigan, this state faces a lean year in economic and job growth. For the year as a whole, civilian job growth will fall far short of the January showing. In earnings growth, we will do well to match the 1986 performance level.

Michigan is the major components source for cars built not just in this state but elsewhere in the country. As matters now stand, about one million fewer cars, trucks, and buses will be assembled in this country in 1987 than were made here in 1986. This means less work for Michigan suppliers.

One other sign of leaner times to come is that claims on the unemployment compensation fund administered by the Michigan Employment Security Commission increased about 6 percent in January over the previous year's figure.

### NATIONAL ECONOMY

Gross national product (GNP) for 1986 was up, but only by 2.5 percent, according to figures recently released by the Bureau of Economic Analysis (BEA). This was the slowest growth rate since the recovery started in 1983. By comparison, GNP increased 2.7 percent in 1985, 6.4 percent in 1984, and 3.6 percent in 1983. Quarterly GNP growth figures since the last quarter of 1984 are shown in Exhibit 1.

The economy has been stimulated by an expansive monetary policy and the large federal budget deficit. As matters now stand, the federal deficit will exceed the Gramm-Rudman-Hollings target of \$144 billion in 1987 and the \$108 billion target for 1988. However, the fiscal year 1987 deficit should fall about \$40 billion short of the \$221 billion deficit for fiscal year 1986. In fiscal year 1985, the federal deficit was \$212 billion.

Because the U.S. economy appears to be stronger than seemed likely toward the close of 1986, the Federal Reserve Board will likely be less prone to provide stimulus than it was late last year. Thus, if the U.S. economy is as strong as recently released data suggest, interest rates can be expected to move slightly upward during the next few months.

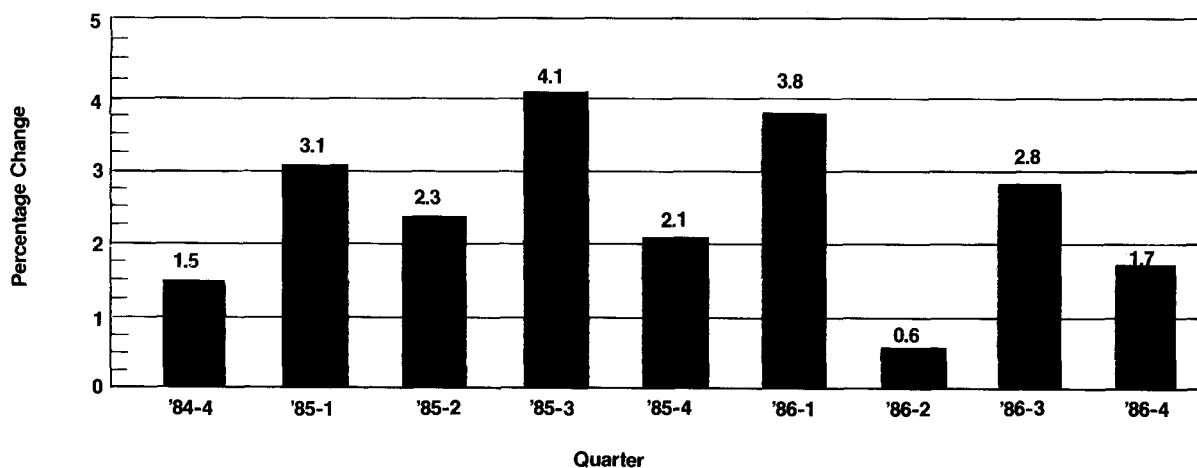
Prices, which have been well behaved from the perspective of the American consumer (Exhibit 2), will start to rise during 1987 because prices of imported goods are climbing, and this allows U.S. producers greater latitude in their decisions on price adjustments.

### International Trade

The nation's trade deficit made dismal reading for most of 1986, as much too much of the stimulus from the federal deficit and from strong money growth went to fuel our import binge. According to preliminary figures, imports of goods and services grew by about \$30 billion, to a level of \$478.7 billion in 1986. Meanwhile, exports grew only by slightly over \$3 billion, to a level of \$373 billion, leaving a trade deficit of nearly \$115 billion. The 1985 deficit was \$78.8 billion; for 1984 it was \$58.7 billion. The merchandise trade deficit, that is, the deficit excluding services, totaled nearly \$170 billion in 1986 compared with \$140 billion in 1985. The 1986 figure would have been higher but for a large improvement in December, when imports dropped sharply. U.S. exports edged downward

EXHIBIT 1

Real GNP—Percentage Change at Annual Rates from Previous Quarter,  
Fourth Quarter 1984 to Fourth Quarter 1986



in 1986, partly as a result of weak economies among most of our major trading partners.

It should be borne in mind that we have incurred sharply increased trade deficits during recent years despite low prices for imported oil. With domestic oil production declining and imports rising, we are again becoming vulnerable to price run-ups by OPEC.

### Investment

Nonresidential fixed investment also made a negative contribution to 1986 GNP. There was a \$6.4 billion, or 1.4 percent, decline in this category of output.

Inventory investment was positive, growing by \$1.8 billion, or 2.5 percent, from the 1985 level.

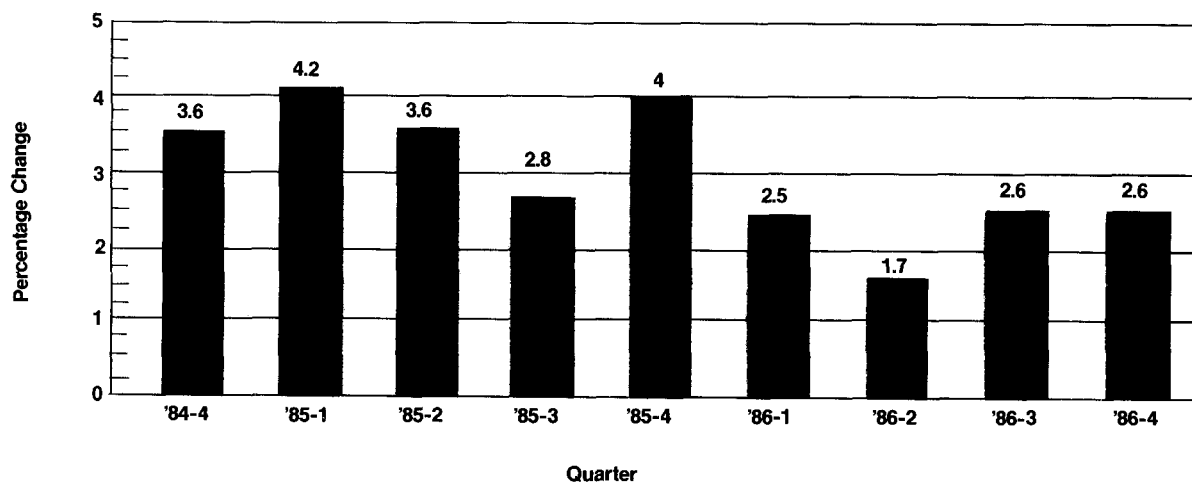
Business investment plans for 1987 are not expansive. With substantial unused capacity, businesspeople have little incentive for increased capital or inventory investment. Motor vehicle manufacturers expect to reduce capital outlays by 8.5 percent.

### Consumption and Government

The 1986 economic growth came from the consumer for the most part. Expenditures on durable goods, other than housing, increased by \$25 billion,

EXHIBIT 2

U.S. Consumer Prices—Percentage Change  
At Annual Rates from Previous Quarter,  
Fourth Quarter 1984 to Fourth Quarter 1986



the same gain as in 1985; on nondurable goods, expenditures increased by \$30.8 billion (compared with \$13 billion in 1985); and on services, expenditures increased by \$38.3 billion (\$40.3 billion in 1985). Residential fixed investment grew by \$16.7 billion.

The federal government increased its purchases of goods and services in 1986 by \$9.8 billion; state and local governments by \$16.9 billion. Government spending increases promise to be modest again this year.

### Leading Indicators

The December figure for the composite index of leading economic indicators posted a 2.1 percent gain from the November figure, according to the Bureau of Economic Analysis. This followed a gain of 0.9 percent for November, 0.7 percent for October, and 0.2 percent for September. The index declined in August. It has not been as strong as the December showing since January 1983, when it rose 3.1 percent from the December 1982 level.

There are eleven leading indicators. The largest contributor to the December gain was building permits, followed by new orders to manufacturers of consumer goods and materials; change in credit outstanding; change in sensitive materials prices; money supply; contracts and orders for plant and equipment; common stock prices; and average length of workweek for production workers in manufacturing. A decline in business formation and an increase in initial claims for unemployment insurance dampened the index. There was no change in the proportion of vendors receiving slower deliveries.

### Expectations

National consumer confidence rebounded in December after drifting downward through most of 1986. The index number, based on 1985 = 100, stood at 94.0 in December compared with 90.3 in November and 89.2 in October. In December 1985, the figure was 99.8. In appraising the employment situation, 22.1 percent perceive jobs as being plentiful. This figure is extraordinarily high by historical standards. Only 15 percent, however, expect that there will be more jobs in six months, a figure that is relatively pessimistic by historical standards. Only 8 percent expect to purchase a new or used car within six months, and 3.9 percent expect to buy a house. Both figures suggest some retrenchment by consumers. Overall, consumers seem to be saying that conditions are relatively favorable now but are likely to worsen somewhat as the year wears on. These figures were compiled by the Conference Board, a New York-based nonprofit institution that monitors economic trends, conducts surveys, and makes forecasts, among its other activities.

A Conference Board survey of business executives' expectations shows manufacturing executives were

more optimistic in November than they were in August. This frame of mind is a result of improving expectations for international trade. In most industries outside of manufacturing, executives are bearish, especially in construction, suggesting that the building boom has about run its course. Optimism was expressed in business services industries, insurance, and in finance, other than banking.

## MICHIGAN ECONOMY

### Personal Income

Labor and proprietors earnings in this state grew by 0.6 percent between the second and third quarters of 1986, matching the national figure. Revised data put Michigan's second-quarter growth at zero compared with a national rate of gain of 1.6 percent. First-quarter figures were 2.5 percent (Michigan) and 1.5 percent (United States) and last quarter 1985 figures were 1.6 percent and 2.2 percent, respectively. Accordingly, for the year ending with the third quarter of 1986, Michigan earnings grew by 4.6 percent in the face of the nation's 6.0 percent growth.

Durable goods (goods designed to last more than three years) manufacturing is primarily responsible for the economic torpor in this state because it constitutes over 31 percent of our economy compared with 13 percent nationally. Underlying our poor performance in durables is the troubled automotive sector. Mining and agricultural services, forestry, and fisheries also are depressed, but more so nationally than here. Farmers both here and nationally experienced an extremely depressed third quarter (see Exhibit 3). Until recently, Michigan farmers were faring relatively well in comparison with those in the rest of the nation. Agriculture here was affected by crop losses due to weather conditions, whereas nationally, the farm picture has been gloomy because of depressed commodity prices.

Third-quarter earnings in construction industries posted another strong gain in Michigan, reflecting the residential building boom as well as the creation of new offices, stores, and factories. An exceptionally rapid growth rate in the finance, insurance, and real estate industry group resulted, no doubt, from the buoyancy of new and used home sales in this state. Retail trade and transportation and public utilities also are more positive here than nationally. Michigan's nondurable goods manufacturing sector posted an earnings gain of nearly double the national rate during the third quarter. Federal military payrolls, though minuscule in this state, also grew more rapidly here than nationally.

Federal civilian payrolls grew less rapidly here. State and local government was an exceptionally slow growth sector compared with the rest of the country. Wholesale trade and services also turned in growth rates

**EXHIBIT 3**  
**Labor and Proprietors' Earnings in Michigan and the United States,**  
**By Broad Economic Sector: Second and Third Quarters, 1986**  
**(dollars in millions)**

Sector	Michigan			United States		
	Second Quarter	Third Quarter	Percentage Change	Second Quarter	Third Quarter	Percentage Change
Agriculture	1,028	605	-41.1	45,084	27,084	-39.9
Agricultural services, forestry, and fisheries	274	272	-0.7	13,367	13,218	-1.1
Mining	440	429	-2.5	33,477	32,120	-4.1
Construction	4,279	4,392	2.6	166,826	170,597	2.2
Nondurable goods manufacturing	6,164	6,258	1.5	196,858	198,356	0.8
Durable goods	30,009	29,854	-0.5	344,392	344,660	0.1
Transportation and public utilities	4,855	4,983	2.6	177,983	180,238	1.2
Wholesale trade	4,976	5,010	0.7	161,728	163,078	0.8
Retail trade	7,987	8,197	2.6	247,660	251,407	1.5
Finance, insurance, and real estate	4,089	4,262	4.2	183,310	189,093	3.2
Services	18,021	18,294	1.5	572,588	582,912	1.8
Federal civilian payrolls	1,607	1,621	0.9	86,627	87,583	1.1
Federal military payrolls	348	352	1.1	40,777	40,901	0.3
State and local government payrolls	10,417	10,496	0.8	279,237	284,530	1.9
<b>TOTAL EARNINGS</b>	<b>94,493</b>	<b>95,025</b>	<b>0.6</b>	<b>2,549,912</b>	<b>2,565,776</b>	<b>0.6</b>

SOURCE: Bureau of Economic Analysis, Regional Economic Information System.

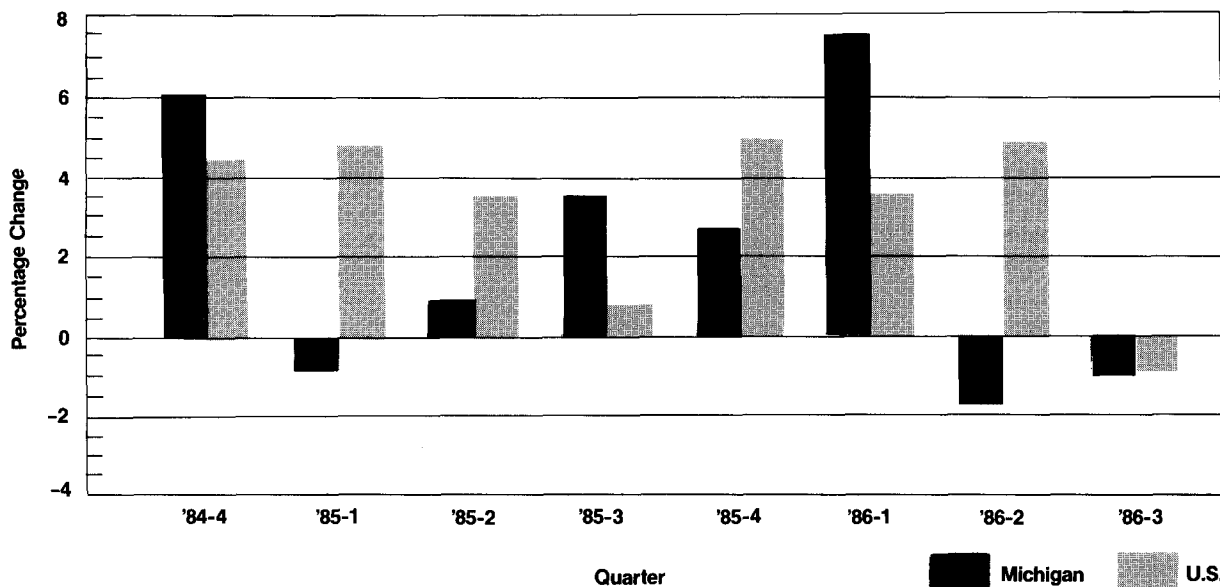
below the national figures during the third quarter of 1986.

The extreme volatility of the Michigan economy is depicted in Exhibit 4, which shows real economic change, quarter by quarter, since mid-1984. These data

were developed from BEA earnings data adjusted for inflation.

In total personal income, which encompasses earnings as well as dividends, interest, rent, and transfer payments received by households, Michigan's 0.6 per-

**EXHIBIT 4**  
**Real Earnings, Michigan and United States—**  
**Percentage Change from Previous Quarter,**  
**Fourth Quarter 1984 to Third Quarter 1986**



cent gain during the third quarter was marginally ahead of the 0.5 percent national figure. Ohio also had a 0.6 percent gain, whereas Indiana, Illinois, and Wisconsin experienced losses. Total personal income also declined in Iowa, Kansas, Minnesota, Nebraska, and the Dakotas. Among the plains states, only Missouri showed a gain, of 0.7 percent.

Overall, the data suggest that Michigan's performance in its nonautomotive sectors prevented an economic rout in the troubled third quarter of last year.

## Retail Sales

Michigan retailers experienced sales gains of 7.2 percent during the first eleven months of 1986 compared with the same period in 1985, according to estimates by the U.S. Bureau of the Census. The national gain was 4.8 percent. Ohio recorded a gain of 3.0 percent; Illinois, 3.9 percent; Indiana, 3.4 percent; and Wisconsin, 1.2 percent. Among 19 large states, Michigan was seventh in rate of growth in retail sales during 1986. Among 23 large metropolitan areas, Detroit was fifth. Retail sales in the six-county Detroit area grew by 9.1 percent.

An analysis by the Michigan Department of Treasury reveals that sales tax collections from building and materials dealers grew by 14 percent during fiscal year 1986.<sup>1</sup> For furniture stores, the gain was 12 percent and for car dealers, 11 percent. Apparel stores posted a gain of 8 percent and grocery stores, 5 percent. For restaurants the figure was 7 percent and for hotels and

motels, 11 percent. In the general merchandise group, which includes the large department stores, sales tax collections declined. Sporting goods merchants showed a gain of 20 percent, beer and liquor stores, 14 percent, and jewelry stores, 10 percent. The retail sales figures suggest that income gains were more pronounced among consumers who have the wherewithal to spend above-average amounts on luxury items; this indicates a further widening in the gap between the haves and the have-nots in Michigan. In this regard, we reflect the national trend. According to a recent analysis from the Conference Board, "since the early 1970s inequality has been growing, and the trend has become more pronounced in the 1980s."<sup>2</sup>

## Employment

Fourth-quarter employment figures from the Michigan Employment Security Commission and from the U.S. Bureau of Labor Statistics indicate that durable goods manufacturing in Michigan posted a 0.3 percent gain during the last three months of 1986, whereas nationally the level of employment was flat. In this state, the durable goods jobs were added in the motor vehicles industry. Lumber and wood products, office systems, and electrical and electronics industries also were growing more rapidly in this state.

Nondurable goods employment in Michigan grew at triple the national rate. Food processors, automotive trim plants, and plastics producers were responsible

<sup>2</sup>Richard Belous, "Income Inequality in the U.S.," in *Perspectives*, a special publication of The Conference Board (New York, N.Y.: January 1987).

<sup>1</sup>The State's fiscal year ends September 30.

**EXHIBIT 5**  
**Michigan and United States Wage and Salary Employment,**  
**Third and Fourth Quarter Averages: 1986**  
**(Employment figures in thousands of jobs)**

Industry Group	Michigan			United States		
	Third Quarter	Fourth Quarter	Percentage Change	Third Quarter	Fourth Quarter	Percentage Change
Mining	10.6	10.6	0	755	742	-1.7
Construction	113.3	113.5	0.2	5,001	4,999	-
Nondurable goods	217.6	221.7	1.9	7,827	7,873	0.6
Durable goods manufacturing	745.8	747.9	0.3	11,289	11,282	-0.1
Motor vehicles and equipment	319.4	321.8	0.8	832	832	0
Other durable goods	426.4	426.1	-0.1	10,457	10,450	-0.1
Transportation, communication, and public utilities	147.6	146.1	-1.0	5,286	5,341	1.0
Wholesale trade	179.8	180.7	0.5	5,857	5,861	0.1
Retail trade	630.5	634.4	0.6	18,029	18,172	0.8
Finance, insurance, and real estate	170.7	171.3	0.4	6,362	6,435	1.1
Services	776.4	785.3	1.1	23,244	23,463	0.9
Government	586.6	587.7	0.2	16,666	16,906	1.4
<b>TOTAL</b>	<b>3,578.8</b>	<b>3,599.3</b>	<b>0.6</b>	<b>100,316</b>	<b>101,075</b>	<b>0.8</b>

SOURCE: Michigan Employment Security Commission special release and Bureau of Labor Statistics special release.

**EXHIBIT 6**  
**Michigan's Share of Wage and Salary Employment By Industry Group, 1985,**  
**And Employment Growth, November 1985-86**

Industry Group	1985 Annual Employment			Percentage Growth, November 1985-86	
	Michigan (thousands)	United States (thousands)	Michigan as % of United States	Michigan	United States
Mining	10.3	930	1.1	.0	-18.2
Construction	98.7	4,687	2.1	7.6	5.1
Manufacturing					
Nondurable goods	213.9	7,789	2.7	3.8	0.9
Durable goods	770.3	11,516	6.7	-2.4	-1.4
Transportation and public utilities, excluding U.S. Post Office	142.2	5,242	2.7	2.5	1.4
Wholesale trade	174.9	5,740	3.0	2.7	1.4
Retail trade					
Building materials and garden supplies	21.4	684	3.1	1.8	1.1 <sup>a</sup>
Department stores	80.7	1,950	4.1	3.2	2.9 <sup>a</sup>
Other general merchandise stores	9.0	370	2.4	2.2	-1.8 <sup>a</sup>
Food stores	85.5	2,779	3.1	1.0	5.3
Auto dealers and service stations	71.0	1,892	3.8	3.6	3.0
Apparel and accessory stores	38.0	1,042	3.6	6.4	3.4 <sup>a</sup>
Furniture and home furnishings stores	22.6	736	3.1	5.2	5.8 <sup>a</sup>
Eating and drinking places	205.3	5,715	3.6	4.9	3.8
Miscellaneous retail	74.9	2,191	3.4	4.0	2.7 <sup>a</sup>
TOTAL RETAIL TRADE	608.3	17,360	3.5	3.8	3.2
Finance, Insurance and Real Estate					
Finance	81.9	2,979	2.7	2.7	6.2
Insurance	54.2	1,830	3.0	4.0	6.2
Real Estate	25.2	1,130	2.2	8.7	5.5
TOTAL	161.3	5,953	2.7	4.4	6.1
Services					
Hotels and other lodgings places	27.7	1,339	2.1	3.8	1.7 <sup>a</sup>
Laundry, cleaning, and garment services	12.7	380	3.3	1.6	4.2 <sup>a</sup>
Other personal services	21.3	676	3.2	2.8	6.5 <sup>a</sup>
Business services	145.6	4,452	3.3	8.1	7.3
Auto repair, services, and garages	25.3	730	3.5	5.2	4.9 <sup>a</sup>
Miscellaneous repair services	11.6	322	3.6	6.7	0.4 <sup>a</sup>
Motion pictures	5.1	218	2.3	N.A.	1.8 <sup>a</sup>
Amusement and recreation services	26.6	838	3.2	11.3	9.3 <sup>a</sup>
Private hospitals	132.0	2,999	4.4	2.7	2.1 <sup>a</sup>
Other health services excl. hospitals	128.1	3,311	3.9	1.9	7.2 <sup>a</sup>
Legal services	20.6	639	3.0	5.4	7.1 <sup>a</sup>
Private educational services	33.7	1,344	2.5	3.8	1.3 <sup>a</sup>
Museums and membership organizations	62.6	1,558	4.0	-1.1	-0.8 <sup>a</sup>
Other services	92.4	2,565	3.6	4.1	4.6 <sup>a</sup>
TOTAL SERVICES	745.3	21,974	3.4	4.2	4.8
Government					
Federal	57.6	2,875	2.0	3.1	-0.5
State	143.1	3,780	3.8	1.5	1.7
Local	379.2	9,640	3.9	0.2	2.4
TOTAL NONAGRICULTURAL EMPLOYMENT	3,505.2	97,614	3.6	2.1	2.5

SOURCES: Michigan Employment Commission special release; Bureau of Labor Statistics, *Supplement to Employment Earnings* (Washington, D.C.: June 1986).

<sup>a</sup>October 1985 to October 1986.

N.A. = Not available.

for the strong Michigan showing. We also performed above the national average in services, wholesale trade, construction, and mining. The transportation, communication, and public utilities industries posted losses here in the face of good gains nationally. Government in this state is growing at a rate well below that for the nation as a whole. Overall, total wage and salary employment for Michigan grew at less than the national average during the last quarter of 1986 (Exhibit 5).

The figures shown in exhibits 3 and 5 are seasonally adjusted. Those in Exhibit 6 are not, because seasonally adjusted figures are not prepared at the level of detail shown there. Exhibit 6 is included to illustrate Michigan's strengths and weaknesses. November to November figures are presented because December data for the United States are not available at this writing.

As Exhibit 6 indicates, Michigan's nonagricultural job growth is slightly below the national figure. Because of a heavy commitment to the shrinking automotive job base, we are losing durable goods manufacturing jobs at a faster pace than the nation. We also have more than our share (based on our share of national population) in department stores, automotive dealerships, and private hospitals, sectors where growth has benefited the state. Our heavy commitment in department stores and in private hospitals may be another Achilles' heel inasmuch as both sectors likely will eventually lose out to smaller, more flexible types of organizations. In the health area, hospices, home care services, clinics, and a variety of other mechanisms are substituting for hospitals. In retailing, small merchants have the advantage these days.

Michigan also has more than its share in state and local government, but our share is declining because of slower growth of government here. Recent and impending tax cuts at the state level, along with peculiarities of tax laws at the local level, will continue to slow growth of government in this state relative to the nation as a whole.

Overall, the industrial makeup of the Wolverine State is becoming more like that of the nation. Some of the adjustments have been under way for several years, particularly in durable goods manufacturing where employment is about 200,000 below the 1978 peak. By the end of this decade, another 25,000 to 50,000 durable goods manufacturing jobs will have left Michigan. In the changing world of automotive production, some of these jobs will be replaced by the rapidly expanding plastics manufacturers and research and development, consulting, and other quickly growing sectors that sell goods and services to the automotive industry. The problem for Michigan is that plastics is relatively low paying among manufacturing industries and is growing most rapidly outside of the areas of greatest unemployment. Unemployed production workers from the assembly lines, foundries, and steel mills are not qualified for jobs in the rapidly growing business

service industries, which, in any case, are locating outside the areas of greatest unemployment.

## Building Permits

Provisional data for 1986 portend a slowdown in the growth rate for construction industries in Michigan. Permits for residential units grew by 14 percent in 1986 compared with 36 percent in 1985. Not apparent in Exhibit 7 is the fact that most of the 1986 residential growth occurred in the first half. Permits for new units in the lodgings industry also declined during the second half as did those for factory construction, offices, and stores. In valuation, however, there was a pickup during the second half in permits for new factories and offices and in permits for nonresidential rehabilitation. Evidently, there was an increase in the average size of factory and office buildings being planned during the second half.

In terms of the kinds of activity outlined in Exhibit 7, Oakland County is far and away the Michigan leader, with nearly a third of the state total valuation for new residential, office, lodgings, industrial, and mercantile buildings and for nonresidential rehabilitation. Wayne County is second with 15 percent, and Macomb County third with 12 percent. Other counties in the top eight are Kent, Washtenaw, Ingham, Genesee, and Ottawa, in that order. These eight counties accounted for over 80 percent of permit valuation.

Oakland County is the leader in value of permits issued for new residential, industrial, office, and lodgings structures. Wayne County leads in value of permits for new mercantile buildings and nonresidential rehabilitation. Nearly half of nonresidential rehabilitation in Wayne County occurred in the City of Detroit. Other than that, most building activity takes place in western Wayne County.

It seems worth mentioning that Genesee County is experiencing a fair amount of new building activity in all categories, suggesting that it has advantages to offer certain kinds of expanding industries. Genesee County's problem is that the downsizing of General Motors will have an extraordinary negative economic effect because of the sheer size of GM activities in the Flint area. Perhaps more than any other mid-size city in the nation, Flint is dominated by GM.

Also noteworthy are the growth prospects for St. Clair County, as suggested by permit data. Port Huron is the terminus of recently completed I-69, and therefore it lies astride the newest freeway linking the American Midwest with the Canadian industrial heartland. Port Huron also is the terminus of I-94. Just across the St. Clair River from Port Huron, in Sarnia, Ontario, lies a great petrochemicals complex, providing raw material for the plastics industries, among others.

**EXHIBIT 7**  
**Valuation and Number of Residential and Nonresidential Units**  
**Authorized in Michigan Permit Issuing Place, By Category:**  
**1979-86**

Category	1979	1980	1981	1982	1983	1984	1985	1986
<b>Valuation (millions)</b>								
Residential homes	1,899.9	1,164.1	821.8	593.2	1,015.9	1,324.2	1,833.7	2,271.3
Transient hotels, motels, tourist courts, and cabins	43.1	51.8	19.6	8.6	12.7	86.9	130.9	112.4
Industrial buildings	528.1	322.1	366.9	312.4	158.2	331.0	555.5	497.7
Office, bank, and professional buildings	222.6	260.8	211.9	121.0	209.5	353.9	408.0	490.1
Stores and other merchantile buildings	296.3	158.1	149.0	72.3	117.2	174.2	250.1	338.8
Additions, alterations, and conversions, except residential	189.1	537.3	412.7	349.9	432.7	600.3	702.9	756.2
<b>Number of Units</b>								
Residential homes	49,209	28,976	18,917	14,377	21,683	27,758	37,675	43,122
Transient hotels, motels, tourist courts, and cabins	2,204	1,629	724	859	1,018	1,869	5,149	3,721
Industrial buildings	1,450	789	634	479	630	857	1,149	1,138
Office, bank, and professional buildings	739	542	459	310	438	531	627	555
Stores and other merchantile buildings	1,509	934	787	620	776	1,083	1,211	1,137
Additions, alterations, and conversions, except residential	12,805	12,714	12,511	11,491	13,519	14,518	15,068	14,203

SOURCE: Bureau of the Census special release.

## Around the State

Exhibit 8 is an update on job growth in the state's labor markets. The labor markets are shown according to their rankings in job growth between 1985 and 1986. The data are based on Michigan Employment Security Commission annual averages of nonagricultural wage and salary growth between the two years.

Of the 20 labor markets with no growth or a decline between 1985 and 1986, 16 are north of the Muskegon-Saginaw line. Of the 34 areas with less than 1.5 percent job growth, or decline, only 2 are in southeast Michigan: Genesee and Lenawee. The Grand Rapids and Muskegon areas also experienced growth rates of less than 1.5 percent.

The 13 areas with job growth of 3.5 percent or more are widely scattered. Only one major MSA, Lansing, fits this category.

Most of the major labor markets experienced modest to fair growth (1.5 percent to 3.2 percent). Among the southern two tiers of counties, only two, Lenawee and St. Joseph, showed declines or slow growth. However, the southern tier includes Wayne and Monroe counties, which are part of the Detroit labor market. Separate data for these two counties would probably put Wayne in the slow growth category and Monroe in the modest growth category. Oakland and Macomb counties would show exceptional growth.

As matters now stand, the Upper Peninsula and northern Lower Peninsula can expect a lean 1987. In

the southern or central Lower Peninsula, the Saginaw area is likely to have slow growth while Flint will experience job losses. Jackson, Muskegon, and Benton Harbor will do well to hold the gains made during 1986. Whirlpool Corporation, headquartered in Benton Harbor, has announced plans to begin a phaseout of a substantial portion of its Michigan production. Because of automotive slowdowns, Cass, St. Joseph, Branch, Hillsdale, and Lenawee counties also could face employment losses.

The Battle Creek, Kalamazoo, Grand Rapids, Detroit, and Traverse City areas should post modest employment gains because of new job growth. Within the Detroit area, eastern Wayne County faces a troubled year whereas Oakland and Macomb counties are likely to experience a year of modest growth.

Growth prospects are best for the Lansing and Ann Arbor areas. These areas are attractive to high technology firms that need to locate near the expertise available at the University of Michigan and Michigan State University.

## OUTLOOK

The restructuring taking place in the automotive industry promises to affect the Michigan economy through the rest of this decade. During the early 1980s, the shock of downsizing had a profound effect on this state. That change was delayed at General Motors means that the earlier shocks were not as severe as they could



## EXHIBIT 8

**Michigan Labor Markets Ranked According to Annual Average Growth  
In Wage and Salary Employment: 1985-86**

County or Major Market	Annual Average		County or Major Market	Annual Average		County or Major Market	Annual Average	
	1984-85	1985-86		1984-85	1985-86		1984-85	1985-86
Ontonagon	0.0	29.0	Kalamazoo	2.5	2.2	Benzie	-0.9	0.0
Gladwin	6.1	7.2	Lake	2.2	2.1	Mackinac	1.5	0.0
Chippewa	2.1	5.9	Gogebic	-0.5	2.0	Montmorency	5.4	0.0
Ogemaw	-1.3	5.8	G. Traverse-Leelanau	3.6	2.0	Presque Isle	0.0	0.0
Barry	2.1	5.4	Roscommon	-0.7	2.0	Houghton-Keweenaw	1.1	-0.2
Hillsdale	5.0	5.2	Jackson <sup>a</sup>	1.9	1.9	Isabella	3.2	-0.4
Cheboygan	-2.6	4.0	Saginaw <sup>a</sup>	1.5	1.9	Mecosta	0.3	-0.5
Luce	1.3	3.9	Newaygo	2.1	1.7	Gratiot	2.1	-0.7
Cass	-0.8	3.8	Van Buren	1.2	1.6	Mason	0.7	-0.7
Lansing <sup>a</sup>	4.1	3.7	Charlevoix	4.8	1.5	Kalkaska	7.3	-0.8
Branch	4.3	3.5	Flint <sup>a</sup>	0.5	1.2	Allegan	-1.3	-1.1
Emmet	1.4	3.5	Tuscola	-0.7	1.2	Antrim	5.3	-1.3
Sanilac	3.9	3.5	Alger	-1.1	1.1	Missaukee-Wexford	4.4	-1.5
Detroit	4.2	3.2	Delta	-0.5	1.1	Ionia	2.4	-2.2
Arenac	-0.8	3.1	Schoolcraft	1.1	1.1	Lenawee	3.6	-2.3
Ann Arbor <sup>a</sup>	4.0	3.0	Menominee	0.0	1.0	Manistee	-2.4	-2.9
Battle Creek <sup>a</sup>	2.3	3.0	Alcona-Iosco	2.5	0.9	Otsego	-0.5	-3.0
Clare	6.1	2.9	Alpena	2.0	0.9	Osceola	3.5	-3.0
Benton Harbor <sup>a</sup>	2.3	2.7	Grand Rapids <sup>a</sup>	3.6	0.9	Dickinson	1.1	-7.8
Crawford	4.5	2.6	Oceana	0.7	0.7	Iron	-1.4	-9.0
Huron	2.9	2.6	Muskegon	2.8	0.5			
Shiawassee	2.2	2.5	St. Joseph	1.9	0.5	Upper Peninsula	0.5	0.6
Baraga	2.4	2.4	Marquette	0.1	0.4	Michigan	3.7	2.1
Oscoda	2.3	2.3	Montcalm	2.6	0.2	United States	3.3	2.6

SOURCE: Developed from Michigan Employment Security Commission special release.

<sup>a</sup>Major labor market.

## EXHIBIT 9

**Economic Indicators, Michigan and the United States,  
1985-87**

Indicator	1985	1986	1987 (est.)	Percentage Change	
				1985-86	1986-87
Earnings (current \$ in millions)					
Michigan	\$90,263	\$995,110	\$99,900	5.4	5.0
United States	\$2,412,650	\$2,560,000	\$2,735,000	6.1	7.8
Earnings (1985 \$ in millions)					
Michigan	\$90,263	\$92,600	\$96,250	2.6	1.8
United States	\$2,412,650	\$2,493,000	\$2,590,000	3.3	3.9
Civilian employment (thousands)					
Michigan	3,920	4,002	4,075	2.1	1.8
United States	107,150	109,600	112,500	2.3	2.6
Vehicle production (thousands)					
Michigan	3,400	3,400	3,200	—	-5.9
United States	11,700	11,300	10,500	-3.4	-7.1
Unemployment rate (% of civilian work force)					
Michigan	9.9%	8.8%	8.0%	—	—
United States	7.2%	7.0%	6.8%	—	—

SOURCE: The 1985 data on earnings are from *Regional Economic Analysis*, U.S. Department of Commerce, Washington, D.C.; on civilian employment rate from special release, Bureau of Labor Statistics, Department of Labor, Washington, D.C.; on vehicle production from special release, Motor Vehicle Association, Detroit.

have been. It also means that the effect will be more drawn out than it would have been had GM bitten the bullet earlier.

As a result, growth in the "new" Michigan economy will be obscured by what is happening in the "old." Rapid growth in high technology; the development and manufacture of lighter materials; office systems research, development, and manufacturing in western Michigan; business travel; conventions; and several other sectors is not sufficient to absorb the slack caused by automotive plant closures in Flint, Pontiac, and Detroit and reduced job totals in a host of factories throughout the state.

Vehicle production for the nation is expected to total

10.5 million for 1987, a decline of 7.1 percent from the 1986 level. Assemblies in this state will total about 3,200,000, or 200,000 less than in 1986 (Exhibit 9).

Civilian employment will increase by 1.8 percent here, the same rate as real earnings, implying no earnings growth per worker in the Wolverine State. Nationally, civilian employment is expected to grow by 2.6 percent and earnings by 3.9 percent, implying earnings growth of about 1.3 percent per worker.

Because Michigan's work force is growing slowly, the relatively modest gain of 1.8 percent in employment will be more than sufficient to offset it. Consequently, the unemployment rate will average about 8.0 percent compared with 6.8 percent for the nation as a whole.

© 1987 Public Sector Consultants, Inc.

**PUBLIC SECTOR CONSULTANTS** publishes PUBLIC SECTOR REPORTS; provides the BILL ANALYSIS SERVICE for HEALTH; offers strategic and tactical counsel and issue management for retainer clients; and undertakes specialized research studies.

Its senior consultants are

Gerald A. Faverman, Ph.D., *Chairman and Senior Consultant for Public Policy*

Craig Ruff, M.P.P., *President and Senior Consultant for Health Policy*

Robert J. Kleine, M.B.A., *Senior Economist and Editor of PUBLIC SECTOR REPORTS*

Christine F. Fedewa, *Director of Policy and Senior Consultant for Public Policy*

William R. Rustem, M.S. *Director of Client Liaison and Senior Consultant for Environmental Policy and Economic Development*

Gerrit Van Coevering, *Senior Consultant for Taxation and Revenue Policy*

Robert W. Leader, D.V.M., *Senior Consultant for Environmental Policy*

Michael French Smith, Ph.D., *Senior Consultant for Marketing and Economic Development*