

ECONOMIC FORECAST

OVERVIEW

Preliminary estimates of gross national product (GNP) put the nation's economic growth at 2 percent during the last quarter of 1988. The third-quarter figure was 2.5 percent. These percentages are lower than those for the second (3 percent) and first (3.4 percent) quarters of 1988 and the fourth quarter of 1987 (6.1 percent), but the last half of 1988 was a period of deep distress for U.S. agriculture. Losses resulting from the drought reduced GNP growth by 0.5 and 1.1 percentage points, respectively, in the third and fourth quarters. Without the drought, U.S. GNP would have grown by 3 percent in the fall quarter and by 3.1 percent in the last three months of 1988. Increases of this level are regarded as unsustainable by the Federal Reserve Board, which moved to tighten money early this year.

Inflation fears were fanned by the large producer price index increases the first two months of this year and by the February 1989 employment report, which showed continued strong growth for the nation as well as for Michigan. Employment has gained in the state at more than twice the national rate so far this year, and Michigan's unemployment rate is now at the lowest level since fall 1973.

THE NATIONAL ECONOMY

For 1988 as a whole, GNP grew by 3.8 percent, up from 3.4 percent for 1987 and 2.8 percent for 1986. The main impetus came from exports, which rose by 18.1 percent, after the 13.1 percent hike in 1987. New investment in producer equipment grew by 13.2 percent in 1988, compared with 5.2 percent in 1987. Consumer purchases of durable goods rose by 4.8 percent; an anemic 1.5 percent gain was posted in 1987. Consumers also bought 3.5 percent more services (4.1 percent in 1987) and 1.1 percent more nondurable goods (1.3 percent in 1987). Overall, personal consumption expenditures rose by 2.8 percent, slightly better than the 2.7 percent gain for 1987 but well below the 4.3 percent increase in 1986.

Both farm and nonfarm inventories grew slightly as a result of buildups earlier in 1988.

Residential construction declined by 1.7 percent last year, after a flat performance in 1987 and a gain of 11.8 percent in 1986. Nonresidential construction

slipped by 0.3 percent, compared with declines of 2.9 percent in 1987 and 13.5 percent in 1986.

Federal spending on the military declined by 1.3 percent in 1988, compared to a drop of 10.1 percent in other areas. Nondefense outlays also declined substantially in both 1987 and 1986, but there were sharp increases for the military in those years. State and local government outlays grew by 2.7 percent in 1988, compared with gains of 3.3 percent and 5.4 percent in 1987 and 1986, respectively.

For the nation's money managers, the bad news was the performance of the implicit price deflator for GNP. It rose by 5.3 percent in the last quarter of 1988, compared with 4.7 percent in the third quarter, 5.5 percent in the second, and 1.7 percent in the first. For the year as a whole, the GNP implicit deflator gained by 3.4 percent, only a small rise over the increases in 1987 (3.3 percent) and 1986 (2.7 percent). Inflationary pressure is growing at the wholesale level, as was evidenced by consecutive one percent increases in the producer price index (PPI) in January and February 1989. The February rise translates into a 12.7 percent annual rate of inflation and is especially worrisome because it was broadly based. Although consumer prices have not yet risen as dramatically as at the wholesale level, the January figure of 0.6 percent was the largest monthly jump in two years, but February's 0.4 percent increase (a 4.8 percent annual rate) has temporarily eased concern.

International Trade

Exports of goods and services grew by 7.7 percent during the fourth quarter of 1988, but the trade deficit was up \$9.4 billion, rising to \$103.3 billion, as imports increased by 13 percent.

Imports of services rose by 4.2 percent, in real terms, while exports of services were up by only 1.1 percent. The United States still has a trade surplus in this area, but it is shrinking, standing at \$31.1 billion in the third quarter of 1988 and at \$27.2 billion for the last quarter.

Imports of petroleum products grew by 3.4 percent in the last three months of 1988, compared with 2 percent for the quarter before. Since world oil prices are rising, the U.S. petroleum deficit could become more troublesome in the months ahead, especially with domestic oil production declining in the face of greater demand for gasoline, fuel oil, and jet fuel.

The automotive trade deficit worsened again in the fourth quarter of 1988, after showing considerable improvement during 1987 and the first half of 1988. Since last spring, U.S. imports of automotive products from Canada have grown substantially faster than U.S. exports of these products. Automotive trade with Japan has improved as a result of transplant production, which is substituting for goods that previously came from overseas.¹ Imported components from Japan have risen, however, as domestic suppliers have not been as successful at doing business with the Japanese carmakers as had been hoped when the transplants were recruited. Yet, these transplants are a factor in the rising volume of completed vehicle exports from the United States to countries other than Canada and Mexico. For 1988 as a whole, the U.S. automotive trade deficit was \$54.3 billion, down from \$58.9 billion for 1987.

Fiscal and Monetary Policy

The news from Washington is mixed, for while it appears that the FY 1989 federal budget deficit will be larger than forecast a year ago, it probably will be smaller than projections made in early 1989. Federal outlays are not rising as rapidly as anticipated, and revenues are unexpectedly brisk; the strong economy has produced higher levels of household income and corporate profits than were foreseen, and thus tax revenue from both sources is up.

Assuming no significant reduction in the federal deficit, the responsibility for restraining inflation falls on the Federal Reserve Board (the Fed). It has moved to tighten the money supply (the sum of currency held by the nonbank public, demand deposits, other checkable deposits, and travelers' checks), which has declined since December. Despite some increases in other components of the money supply since early February, however, the overall result of the tight money policy has been higher interest rates. In fact, the prime lending rate, short-term rates on Treasury bills, and the rate on certificates of deposit (a yardstick of the cost of borrowing for banks themselves) have been rising for the past year. The latter rate is around 10 percent, compared with less than 7 percent in the early months of 1988, and in late February the Fed increased the discount rate—charged to banks on borrowed funds—from 6.5 to 7 percent, the first increase since August 1988.

The economy has shown little sign of cooling in response to higher interest rates, however, and there is likely to be continued strong pressure on labor markets. According to a recent survey by Manpower, Inc., firms expect to hire more workers in the second

quarter of 1989.² These expansion plans are strongest in the Midwest, where the pool of unemployed still is relatively large compared with the rest of the country. This activity in the industrial heartland reflects the nation's improved balance of trade in manufactured goods.

Leading Indicators

The composite index of leading indicators, released each month by the U.S. Department of Commerce, signals a strong national economy. The index rose 0.7 percent in December 1988 and 0.6 percent in January 1989. The largest contributor to the January increase was consumer expectations, an addition to the index this year. Using the new indicator, the January figure was 5 percent higher than in January 1988, but only 2 percent above the previous year as measured by the old index. The consumer expectations measure used in the composite index is prepared by the University of Michigan's Survey Research Center.

Also strong among the leading indicators were prices in the stock market and of goods and materials sensitive to demand pressures. Other positive factors were a longer workweek in manufacturing, more companies reporting slower deliveries from vendors, fewer new claims for unemployment insurance, higher durable goods order backlogs, and more orders for plant and equipment. In decline were money supply, orders for consumer goods, and residential building permits.

Investment

The latest survey by the Bureau of the Census of plant and equipment expenditures and plans reveals an anticipated increase of 6 percent for 1989 over last year. According to the latest revised estimate from the U.S. Department of Commerce, 1988 registered an increase of 10.7 percent over 1987. (The survey was conducted in November and December of last year.) Year-end figures are not yet available, but manufacturing industries expect their investment to be 12.8 percent more in 1988 than in 1987, and they project another 4.3 percent gain for 1989. Motor vehicle and equipment producers plan a 7.8 percent increase for 1989, compared with a decline of an estimated 8.6 percent for 1988. Blast furnaces and steel works anticipate a 5.8 percent gain, compared with about 29 percent last year. Chemicals and food producers also expect to invest more again this year, while textiles, machinery, and petroleum refiners project decreases. In the nonmanufacturing sector, air carriers and railroads anticipate sizable investment increases in 1989.

¹Transplants are motor vehicle operations in the United States owned by foreign manufacturers, such as Honda and Mazda.

²The Milwaukee branch of Manpower, Inc., a temporary employment supplier, prepares a quarterly survey of the employment needs of nearly 14,000 firms.

The Conference Board's most recent survey of chief executives' expectations reveals diminished optimism. Conditions are perceived as softening, while price inflation is seen as likely to accelerate. Apparel and textile producers appear most pessimistic, along with producers of stone, clay, and glass products. Furniture makers and food processors are relatively positive, and machinery makers and executives in retail and wholesale trade are just slightly less so. Transportation equipment producers give the current situation a better assessment than do all executives combined, but they are somewhat negative about conditions in their own industry during the next six months.

Income, Consumption, and Saving

The Bureau of Economic Analysis reported a 1.8 percent increase in income received by U.S. households in January 1989, or about double the December 1988 gain. The fast pace of recovery in farm income, which doubled, accounted for nearly one-third of the personal income rise. The wage and salary component of total personal income grew by 1.2 percent, which is a good gain compared with the December figure of 0.6 percent. Wages and salaries account for about three-fifths of total personal income. Real disposable personal income rose by 1.1 percent in January 1989, following an increase of 0.7 percent in December. Personal saving as a percentage of disposable personal income rose to 4.8 percent in December 1988, compared with 4.5 percent for November. For that year as a whole, the saving rate was 4.2 percent, in comparison with 3.2 percent of 1987.

The combination of more personal income and a higher saving rate produced a very modest rise in consumption spending for the first month of this year—less than 0.2 percent. Durable good outlays declined sharply, while spending on nondurables grew by 0.9 percent. Spending on services gained by 0.5 percent.

Consumer expectations rose from an index figure of 102.2 in November 1988 to 105.6 for December but slid in January 1989 to 103.3. The most recent high was the May 1988 index of 114.4. According to The Conference Board, which conducts the survey,

the moderate decline in confidence in January reflects some cooling of the enthusiasm registered in December. Still, while recent readings represent some retreat, they remain comfortably strong. A sturdy proportion of people continue to be secure with the job situation. Job security is most soothing to the consumer's spirits. However, there apparently is still some apprehension about the future as the nation's prime economic problems—the two deficits and the Savings and Loans crisis—increasingly become major issues in the public debate.³

³The Conference Board, "Consumer Confidence Survey," February 1989, p. 1

The East North Central region, which includes Michigan, showed more improvement than any region in the country in 1988 regarding both its expectations and its assessment of present conditions.

THE MICHIGAN ECONOMY

Personal Income

Reflecting the weakness in the Michigan economy, labor and proprietors' earnings grew by 0.6 percent between the second and third quarter of 1988, well below the 1.6 percent national figure. This state is bedeviled by the continued adjustment in its automotive sector, but in the last half of 1988 nondurable goods manufacturing led the decline, followed by durable goods, state and local government, and mining (see Exhibit 1).

Employment

Employment data for the last three months of 1988 show a reversal of the setbacks in the previous quarter (see Exhibit 2). In most of the broad economic sectors, Michigan exhibited more growth than the nation as a whole. This is particularly true in the crucial motor vehicles industry, where Michigan employment rose 1.4 percent during the last quarter of 1988, compared with 0.2 percent nationally. The state's employment growth in services, government, retail and wholesale trade, construction, and nondurable goods manufacturing also exceeded the national rate.

Largely as a result of declines in the motor vehicle sector, Michigan manufacturing employment in 1988 dropped by 3 percent from the 1987 level, but the data for January 1989 indicate that vehicle producers have added jobs. In both the durable and nondurable goods sectors, employment in January was one percent above the figure of a year ago. In 1988, employment rose in several sectors: real estate alone (11 percent); furniture retailing (9.3 percent); construction (8.2 percent); furniture manufacturing (7.7 percent); building and hardware merchants (6.3 percent); retailing (3.8 percent); lumber manufacturing (3.5 percent); services (3.3 percent); finance, insurance, and real estate (3.3 percent); transportation (1.6 percent); and wholesaling (1.0 percent).

Construction

Preliminary data for 1988 on building permits show that construction intentions continued strong through the end of the year (Exhibit 3). To give some sense of where construction seems to be headed in 1989,

EXHIBIT 1

**Labor and Proprietors' Earnings in Michigan and the United States,
by Broad Economic Sector, Second and Third Quarter 1988
(dollars in millions)**

Sector	Michigan			United States		
	Second Quarter	Third Quarter	Percentage Change	Second Quarter	Third Quarter	Percentage Change
Agriculture	\$589	\$356	-39.6%	\$50,319	\$37,872	-24.7%
Agricultural services, forestry, and fisheries	322	321	-0.3	14,788	14,695	-0.6
Mining	388	405	4.4	30,181	30,496	1.0
Construction	5,372	5,567	3.6	187,383	190,733	1.8
Nondurable goods manufacturing	7,323	7,242	-1.1	218,470	221,399	1.3
Durable goods	31,136	30,951	-0.6	373,566	379,812	1.7
Transportation and public utilities	5,840	5,920	1.4	200,954	204,954	2.0
Wholesale trade	6,255	6,420	2.6	189,613	194,820	2.7
Retail trade	10,082	10,255	1.7	289,088	295,145	2.1
Finance, insurance, and real estate	5,018	5,056	0.8	213,352	217,521	2.0
Services	23,390	23,914	2.2	711,603	733,121	3.0
Federal civilian payrolls	1,811	1,823	0.7	94,171	95,022	0.9
Federal military payrolls	379	381	0.5	43,306	43,433	0.3
State and local government payrolls	11,643	11,599	-0.4	319,591	324,976	1.7
TOTAL EARNINGS	\$109,548	\$110,210	0.6%	\$2,936,386	\$2,984,000	1.6%

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

EXHIBIT 2

**Wage and Salary Employment in Michigan and the United States,
by Broad Economic Sector, Third and Fourth Quarter 1988
(jobs in thousands)**

Industry Group	Michigan			United States		
	Third Quarter	Fourth Quarter	Percentage Change	Third Quarter	Fourth Quarter	Percentage Change
Mining	10.2	10.1	-0.8%	736	724	-1.6%
Construction	132.3	134.3	1.5	5,339	5,400	1.1
Nondurable goods	221.2	223.5	1.0	8,018	8,082	0.8
Durable goods manufacturing						
Motor vehicles and equipment	281.5	285.5	1.4	858	860	0.2
Other durable goods	425.1	433.1	1.9	10,698	10,774	0.7
Transportation, communication, and public utilities	152.9	151.8	-0.7	5,608	5,643	0.6
Wholesale trade	189.2	192.2	1.6	6,195	6,275	1.3
Retail trade	686.8	688.7	0.7	19,281	19,384	0.5
Finance, insurance, and real estate	184.2	184.7	0.3	6,688	6,722	0.5
Services	834.5	847.0	1.5	25,630	25,943	1.2
Government	617.5	631.6	2.3	17,418	17,542	0.7
TOTAL	3,735.3	3,782.5	1.3%	106,469	107,335	0.8%

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

EXHIBIT 3
Valuation and Number of Residential and Nonresidential Units
Authorized in Permit Issuing Places in Michigan, by Category for 1981-88
and Percentage Change for 1987-88

Category	1981	1982	1983	1984	1985	1986	1987	1988 ^a	Percentage Change 1987-88
	Number of Units								
Residential homes	\$821.8	\$593.2	\$1,015.9	\$1,324.2	\$1,833.7	\$2,440.5	\$2,628.5	\$2,544.7	-3.2%
Transient hotels, motels, tourist courts, and cabins	19.6	8.6	12.7	86.9	130.9	101.6	128.3	130.9	2.0
Industrial buildings	366.9	312.4	158.2	331.0	555.5	525.0	691.1	559.8	-19.0
Office, bank, and professional buildings	211.9	121.0	209.5	353.9	408.0	512.5	422.9	525.2	24.2
Stores and other mercantile buildings	149.0	72.3	117.2	174.2	250.1	373.6	418.1	382.6	-8.5
Additions, alterations, and conversions, except residential	412.7	349.9	432.7	600.3	702.9	859.1	786.5	860.4	9.4
	Valuation (millions)								
Residential homes	18,917	14,377	21,683	27,758	37,675	47,295	46,732	40,379	-13.6
Transient hotels, motels, tourist courts, and cabins	724	859	1,018	1,869	5,149	3,857	5,561	5,151	-7.4
Industrial buildings	634	479	630	857	1,149	1,315	966	735	-23.9
Office, bank, and professional buildings	459	310	438	531	627	626	611	623	2.0
Stores and other mercantile buildings	787	620	776	1,083	1,211	1,366	1,508	1,152	-23.6
Additions, alterations, and conversions, except residential	12,511	11,491	13,519	14,518	15,068	1,589	12,998	11,572	-11.0

SOURCE: Bureau of the Census, special release.

^aPreliminary.

data for January were combined with those from November and December 1988 for comparison with the like period a year ago. These data (not shown in Exhibit 3) indicate that building permit valuation activity was increasing at year's end, up 8 percent for the three months in 1988-89 compared to the 1987-88 period. For industrial structures the increase was 114 percent; offices, 92 percent; transient hotels, 46 percent; and nonresidential rehabilitation, 2 percent. The 1988-89 three-month total for mercantile building permits was one percent below the like period in 1987-88.

Exhibits 4-8 show the geographic distribution of construction permit activity across the state between 1983-85 and 1986-88. In the earlier period, slightly more than \$1 billion in factory building permits were issued, compared to the more recent period figure of \$1.8 billion. Wayne County attracts more new factories than any other in the state, no doubt because it is close to suppliers and markets, and most of this activity is

taking place in western Wayne. Oakland County is second and Macomb third.

In the western part of the state construction activity is strong in Kent and Ottawa counties, due partly to high production of office furniture and fixtures, and in the Battle Creek area. Kalamazoo is second to Grand Rapids in economic development, and significant building investments also are being made in Muskegon and Benton Harbor.

St. Clair County is one of the fastest developing areas in the state due to its proximity to Canada and its location at the terminus of three major freeways: U.S. I-69, U.S. I-94, and, across the river in Sarnia, the 402 in Ontario. Port Huron thus offers easy access and an alternative to Detroit for midcontinent U.S.-Toronto highway traffic. Lapeer County also is among the top Michigan areas in industrial building. Activity in these two counties and, perhaps, Genesee may reflect the northern spread of economic development from Detroit.

EXHIBIT 4

**Top Michigan Counties in Industrial Building Permit Valuations,
1983-85 and 1986-88
(millions of dollars)**

County	Three-year Total		County	Three-year Total	
	1983-85	1986-88		1983-85	1986-88
Wayne	\$228.4	\$461.8	Muskegon	\$6.6	\$15.0
Oakland	218.3	358.9	Kalamazoo	16.4	14.5
Macomb	158.7	170.7	Lapeer	2.1	14.3
Kent	84.4	154.2	Berrien	5.8	11.8
Ottawa	44.9	84.3	Ingham	9.5	10.5
St. Clair	8.1	76.8	Livingston	31.8	10.0
Calhoun	15.3	62.3			
Washtenaw	42.5	37.3	Total 16 counties	\$933.3	\$1,545.7
Genesee	47.1	33.8	State total	\$1,049.7	\$1,775.9
Bay	13.4	28.7			

SOURCE: Bureau of the Census, special release.

EXHIBIT 5

**Top Michigan Counties in Office Building Permit Valuations,
1983-85 and 1986-88
(millions of dollars)**

County	Three-year Total		County	Three-year Total	
	1983-85	1986-88		1983-85	1986-88
Oakland	\$524.7	\$721.7	Ottawa	\$7.5	\$7.9
Wayne	109.6	260.8	Eaton	6.7	7.7
Ingham	36.6	78.8	Midland	6.2	7.3
Kent	57.9	68.6	Livingston	3.7	5.7
Macomb	13.2	63.3	Saginaw	4.4	5.2
Kalamazoo	50.4	56.9	St. Clair	4.2	4.5
Washtenaw	50.3	44.0	Berrien	5.6	4.5
Genesee	30.4	29.9			
Muskegon	3.2	12.6	Total 18 counties	\$942.1	\$1,398.0
Grand Traverse	3.5	10.0	State total	\$971.4	\$1,460.6
Calhoun	24.0	8.6			

SOURCE: Bureau of the Census, special release.

To the west, Washtenaw County is among the most active in factory, office, mercantile, commercial-industrial rehabilitation, and new residential building. Washtenaw is at one end of the high technology corridor that is attracting new investment in Oakland, western Wayne, and Macomb counties. Livingston County also is starting to benefit from some of this spread but still is primarily a bedroom community.

Elsewhere in the state, Ingham County is the stand-out in the central area. In the east central region, Bay City and Midland-Saginaw are attracting some new

investment. The focal point in northern Michigan is around Traverse City, which makes the top list in office, mercantile, and residential building. Traverse City is northern Michigan's high tech corridor as well as the financial and commercial hub of that region.

In 1988 Michigan added more than 5,000 new rooms for transients, more than 25 percent of these in Oakland County and 24 percent in Wayne County. Grand Traverse was third (17 percent) and Washtenaw fourth (11 percent). These four accounted for more than 80 percent of building permits for transient units last year.

EXHIBIT 6

**Top Michigan Counties in Nonresidential, Rehabilitation
Permit Valuations, 1986-88
(millions of dollars)**

County	Three-year Total 1986-88	County	Three-year Total 1986-88
Wayne	\$688.5	Saginaw	\$48.2
Oakland	460.2	Muskegon	38.0
Kent	307.2	Calhoun	26.9
Macomb	153.8	Berrien	23.7
Ingham	91.7	Eaton	20.8
Kalamazoo	82.7	St. Clair	18.3
Washtenaw	79.3	Monroe	18.0
Ottawa	79.2		
Genesee	78.3	Total 17 counties	\$2,269.5
Dickinson	54.7	State total	\$2,506.0

SOURCE: Bureau of the Census, special release.

EXHIBIT 7

**Top Michigan Counties in Mercantile Building Permit Valuations, 1986-88
(millions of dollars)**

County	Three-year Total 1986-88	County	Three-year Total 1986-88
Wayne	\$242.8	Livingston	\$10.6
Oakland	212.8	St. Clair	9.7
Macomb	164.2	Lenawee	9.4
Kent	95.3	Calhoun	8.8
Ottawa	57.6	Jackson	8.7
Washtenaw	54.3	Muskegon	8.7
Genesee	46.4	Berrien	8.6
Ingham	39.8	Grand Traverse	8.6
Kalamazoo	35.4	Midland	8.6
Monroe	18.9		
Eaton	13.7	Total 21 counties	\$1,074.0
Saginaw	11.1	State total	\$1,174.3

SOURCE: Bureau of the Census, special release.

Exhibits 4-8 do not show building permit data for the lodgings industry.

In construction employment, there was a rise of 8.2 percent in 1988. The increase for January 1989 was 12 percent compared with that month a year ago. Among the major labor markets, construction employment soared in 1988 by 17 percent in Ann Arbor; by 14 percent each in Lansing, Grand Rapids, and Saginaw; and by 11 percent in Flint. The largest January-January changes were Lansing (22 percent), Grand Rapids (13 percent), Detroit (10 percent), and Kalamazoo (10 percent).

Automotive

The vehicle forecast combines optimism for the year ahead and realism regarding current production plans. If the latter hold, the industry will turn out about 12 million cars, trucks, and buses in U.S. assembly plants during 1989. GM is particularly aggressive and is building at a rate of about 300,000 units above the 1988 level, whereas the rates at Ford and Chrysler are below those of the first half of 1988. With the exception of Volkswagen, which closed down production in Pennsylvania last year, the transplants foresee increased output and anticipate 400,000 units more this year than last.

EXHIBIT 8
Top Michigan Counties in Residential Permit Valuations, 1986-88
 (millions of dollars)

County	Three-year Total 1986-88	County	Three-year Total 1986-88
Oakland	\$28,473	Grand Traverse	\$1,763
Macomb	18,151	Monroe	1,624
Kent	12,216	Lapeer	1,545
Wayne	11,010	Saginaw	1,145
Washtenaw	6,525	Allegan	1,103
Ottawa	5,452	Jackson	1,081
Kalamazoo	4,880	Muskegon	1,086
Ingham	4,117	Berrien	946
Livingston	3,767		
Genesee	3,505	Total 20 counties	\$113,089
St. Clair	2,881	State total	\$134,406
Eaton	1,819		

SOURCE: Bureau of the Census, special release.

As matters now stand, U.S. automotive dealers will do well to limit the sales decline to 300,000 fewer units than the 15.8 million cars, trucks, and buses sold in 1988. Dealer inventories for virtually every make, both foreign and domestic, are on the rise. This combination of sluggish sales and high inventory probably means buyer incentives will be offered on a scale not previously seen.

The following forecast is premised on the industry regaining some, but not all, of its 1988 momentum.

Hardest hit by the aggressive plans of domestic producers will be imports from countries other than Canada and Mexico, although the Korean producer, Hyundai, is aggressively penetrating new U.S. markets. Net imports from Canada rose by about 200,000 units in 1988, but the gain is likely to be about half that this year. Other captive imports (from U.S. subsidiaries or joint ventures abroad) rose last year by about 35,000 units, or 8.5 percent, and another increase is likely in 1989, largely as a result of more imports from Mexico.

Since transplants seem likely to continue to replace imports of completed vehicles with those assembled here, the flow of cars and light trucks from Japan probably will diminish more, after declining 10 percent last year. Compared to 1987, there were 275,000 fewer Japanese-made vehicles in 1988, and another drop of 500,000 in 1989 seems likely as domestic production by transplants increases, although imported parts will rise, of course. The number of vehicles coming from Europe fell by about 90,000 in 1988, or approximately 14 percent, and further erosion seems likely, perhaps by as many as 100,000 units.

All told, it appears that the United States will be importing about 600,000 fewer vehicles from abroad (net for Canada) than last year. Furthermore, it should be noted that in 1988, for the first time since 1986, the United States exported more than 100,000 passenger cars to countries other than Canada, doubling the 1987 level. Exports of trucks also rose. Further gains are probable this year, perhaps as many as 100,000 more vehicles.

On the basis of the above scenario, domestic sales should approximate 15.5 million units during calendar 1989, of which about 11.7 million will be produced in this country. For nontransplants, little or no gain is expected in the U.S. market.

In 1988 Michigan produced 3.2 million vehicles, a decline of 5.6 percent from the 3.4 million produced the year before. Mazda will increase output at Flat Rock in 1989, and selected other plants in the state also are expected to produce more vehicles than they did in 1988. The increase in total units will be modest, however, since the Willow Run plant will be idled in March for conversion to produce rear drive Caprice Chevrolets. The 1989 total for Michigan will be about 3.3 million, or 28.2 percent of the U.S. figure, compared with 28.7 percent in 1988.

Facility plans among the Big Three should have minor effects in Michigan. GM has announced that Reatta production in Lansing is being trimmed, but workers are being added in Flint to boost Olds 88 production. GM will be refurbishing the truck facility in Flint and still maintains that it has plans for the Fiero plant in Pontiac. Ford is expanding its Wayne assembly plant for the new Escort and is finalizing plans to expand

the nearby truck plant. Also in the offing is the new Chrysler facility on Detroit's east side. Overall, Michigan's role as the premier production center for motor vehicles is secure, although employment should continue to decline due to productivity gains.

Around the State

Between 1987 and 1988 the number of nonfarm wage and salary jobs in Michigan rose by 1.7 percent. For January 1989, the number of such jobs rose by about 3 percent compared with January 1988.

The fastest growth among the state's major labor markets in 1988 occurred in Grand Rapids (4.8 percent) and Ann Arbor (4.4 percent), the slowest in Detroit (1.3 percent) and Battle Creek (1.0 percent). Employment declined 4.2 percent in Flint last year. If manufacturing and government employment are removed from the equation, Ann Arbor (9 percent) and Grand Rapids (6.1 percent) still top the list. If the early 1989 pattern holds, however, Lansing will displace Grand Rapids for second place in the 1989 rankings. Kalamazoo (4.2 percent) and Benton Harbor (3.6 percent) also exhibit sustained growth. Battle Creek (0.3 percent), Flint (1.6 percent), and Jackson (1.7 percent) are performing least well, and Detroit (2.9 percent) is growing at the statewide average. Since 1986 Flint and Detroit have experienced closures in the motor vehicle sector, and it is surprising that both, particularly Flint, have done so well in sectors other

than manufacturing. These two areas—and Ann Arbor—are attracting companies with a high technology focus related to the automotive industry.

Exhibit 9, based on preliminary data from the Michigan Employment Security Commission, suggests the pattern around the state, assuming overall job growth of 2 percent for Michigan in 1989. The fastest growing area is expected to be the northeastern part of the lower peninsula, followed closely by the northwestern portion (Traverse City) and the central portion (Grand Rapids and Muskegon). The U.P. should be fourth among the seven broad regions, the southwest (Benton Harbor and Kalamazoo) fifth, and the mideast (Lansing, Saginaw, Flint, and the Thumb) tied with Detroit for sixth and seventh place. In a still broader aggregation, the 42 counties of northern Michigan are expected to grow by 3.6 percent, the 18 counties of western Michigan by 3.1 percent, and the 23 counties of southeastern Michigan by 1.6 percent.

OUTLOOK

In 1988 exports and domestic investment provided the main impetus for U.S. economic growth, but this is not likely to occur in 1989. Export growth for the nation probably cannot be sustained for one or both of two reasons: U.S. manufacturing capacity is a limiting factor, but even if it were sufficient, world economic conditions are unlikely to support large increases in U.S. exports.

EXHIBIT 9

Percentage Growth in Wage and Salary Jobs in Michigan Regions, 1984-89 and 1988-89

Region	Growth	
	1984-89	1988-89
Upper Peninsula (15 counties)	11.1%	3.2%
Northern Michigan (42 counties)	17.4	3.6
Northeastern Lower Peninsula (13 counties)	20.3	4.4
Northwestern Lower Peninsula (14 counties)	22.2	3.4
Western Michigan (18 counties)	16.3	3.1
Midwest (11 counties)	17.6	3.4
Southwest (7 counties)	14.0	2.7
Eastern Michigan (23 counties)	12.6	1.6
Mideast (12 counties)	9.2	1.6
Southeast (11 counties)	13.6	1.6
MICHIGAN	13.7%	2.0%

SOURCE: Developed from Michigan Employment Security Commission, special release. The 1989 projections were made by the author. Michigan totals were derived by adding the regional totals.

Domestic investment plans are considerably subdued compared with a year ago. Consumers also are signaling restraint. Washington and most statehouses are not in a spending mood, which means that a strong stimulus from the government sector cannot be expected. Residential construction will remain in the doldrums due to rising interest rates and conservative spending by consumers. The tight monetary policy that has driven up short-term interest rates will have a dampening effect on most sectors of the economy, including the auto industry. On the positive side, recovery in the farm belt will augment GNP during the first half of 1989. Everything considered, GNP growth probably will be only 2.8 percent in 1989, well below the 1988 rate of 3.8 percent.

Manufacturing should continue to be a source of strength in the U.S. economy, which bodes well for the midcontinent, especially Michigan. Five years of heavy investment in new plant and equipment have

created job opportunities that more than offset losses. Indeed, the numbers of older facilities at risk in this era of high technology have diminished considerably as a result of closures and rehabilitations. The chance of additional permanent loss to the job base is much less than a few years ago, and prospects for gains from the modernization are greater. Moreover, with an unemployment rate that still exceeds the national average, Michigan offers a better supply of labor than do a number of states outside the Midwest, and the tremendous investment boom in the southern part of the state is having a strong effect on the northern regions.

For 1989 Michigan can anticipate job growth slightly in excess of the national average, even though this state's share of vehicle production is declining. The unemployment rate also is dropping, although Michigan can expect to remain above the national average in the foreseeable future (see Exhibit 10).

EXHIBIT 10

Broad Economic Indicators, Actual and Projected, for Michigan and the United States, 1987-89

Indicator	1987	1988	1989 (estimate)	Percentage Change	
				1987-88	1988-89
Earnings (current \$ in millions)					
Michigan	\$104,130	\$110,380	\$117,700	6.0%	6.6%
United States	\$2,757,287	\$2,950,000	\$3,148,000	7.0	6.7
Earnings (1987 \$ in millions)					
Michigan	\$104,130	\$106,750	\$109,600	2.5	2.7
United States	\$2,757,287	\$2,853,000	\$2,930,000	2.7	2.7
Civilian employment (thousands)					
Michigan	4,159	4,232	4,300	1.8	1.6
United States	112,440	114,968	116,900	2.2	1.7
Vehicle production (thousands)					
Michigan	3,402	3,212	3,300	-5.6	2.7
United States	10,900	11,200	11,700	2.8	4.5
Unemployment rate (% of civilian work force)					
Michigan	8.2%	7.6%	6.9%	—	—
United States	6.2%	5.5%	5.3%	—	—

SOURCE: The 1987 and 1988 data on earnings are from the Bureau of Economic Analysis, U.S. Department of Commerce; on civilian employment and the unemployment rate from a special release, Bureau of Labor Statistics, U.S. Department of Labor; and on vehicle production from a special release, Motor Vehicle Manufacturers Association, Detroit. The 1989 estimates were made by the author.

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Its principal consultants are

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

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

William R. Rustem, M.S., *Vice President and Senior Consultant for Environmental Policy and Economic Development*

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