



ECONOMIC FORECAST

OVERVIEW

The gross national product (GNP) grew at an annual rate of 2.3 percent during the first quarter of 1988. The rise was broadly based, indicating that the national economy grew with a better balance during January, February, and March than it did during October, November, and December, when the growth rate was 4.7 percent.

The April level of employment in the nation was six hundred thousand above the March figure, a likely precursor of strong growth in the second quarter. The unemployment rate slipped to 5.4 percent, a level not seen since 1970. A labor market this tight raises fears of renewed inflation in the months ahead. The threat of price inflation, as suggested by the recent behavior of the consumer price index, may be more serious than the numbers in the GNP implicit price deflator index suggest.

The April employment data for Michigan suggest that this state's economy may do better than expected in 1988. Civilian employment set a new record. The unemployment rate, at 7.4 percent, matched that of October 1987. Prior to that, the last time the Michigan rate was this low was summer 1979, the beginning of the great automotive shakeout. Because of recent improvements in automotive sales, Michigan's outlook also is somewhat improved. However, the dislocations caused by recent plant closings and the continued reshaping of the automotive industry will slow economic growth through the remainder of this decade and into the early 1990s.

NATIONAL ECONOMY

First-quarter GNP for the nation stood at some \$3.9 trillion (1982 dollars), a gain of 2.3 percent (annual rate) from the fourth quarter of 1987. This is the slowest rate of gain since the fourth quarter of 1986, when GNP grew at a 1.5 percent annual rate (see Exhibit 1).

Investment in producers' durable equipment grew by nearly a third, or \$24.5 billion, from the fourth-quarter level of \$335.8 billion (1982 dollars). Nonresidential investment in structures declined by 5.1 percent; in residential structures, by 9.4 percent.

Consumers increased their purchases by 3.8 percent, or \$23.6 billion (1982 dollars), from the fourth-quarter

level of \$2,504.6 million. Consumer durables outlays jumped by 12.7 percent; services outlays, by 3.9 percent. Purchases of nondurables slipped by 0.2 percent.

The accumulation of nonfarm inventories of goods slid to \$38.3 billion in the first quarter from the fourth quarter level of \$51.5 billion. This is a healthy sign after the buildup during the fourth quarter. Inventories now are more manageable, meaning that inventory adjustments are less likely to become a drag on the economy during the remainder of 1988 than they were during the first quarter.

Also adding to GNP were state and local government purchases of goods and services, a category that gained by 1.5 percent at an annual rate. Federal purchases of goods and services declined to \$325.3 billion from a fourth-quarter level of \$347.6 billion. Military spending declined by \$5.9 billion; spending for other goods and services declined by \$15 billion.

As a result of a reduction in inventory levels, vehicle producers are scheduling increased assemblies during the second half of 1988. Thus, whereas assemblies of cars, trucks, and buses were off by more than 9 percent during the first three months compared with the same period of 1987, for the year as a whole, production is expected to inch ahead of the 1987 figure of 10.9 million units.

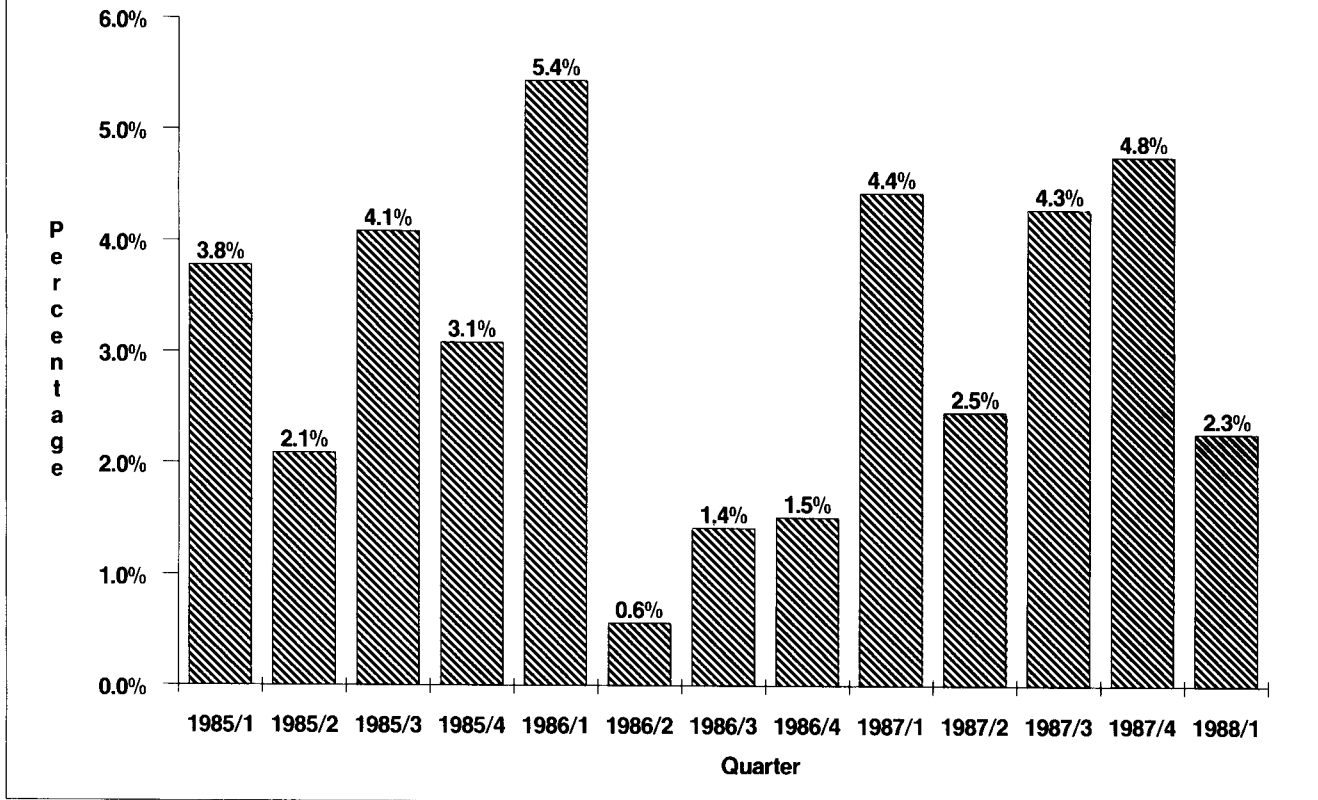
The implicit price deflator gained by 2.4 percent, at an annual rate, the slowest rate of increase since the fourth quarter of 1986 (see Exhibit 2). This development allows the Federal Reserve Board leeway to pursue an expansive policy. For 1988 as a whole, the implicit price deflator is expected to increase by 3 percent from the 1987 figure. GNP growth for the year also is projected at 3 percent. This compares with a rate of growth of 2.9 percent for 1987 over 1986.

International Trade

The foreign trade picture continued to improve during the first quarter. Exports grew by 10.2 percent, while imports gained by 5.2 percent. Nonetheless, the trade gap remained formidable, \$132.2 billion compared with \$135.8 billion in the fourth quarter of 1987. At its peak in the third quarter of 1986, the deficit stood at \$161.6 billion. (These figures are stated in constant 1982 dollars.)

The nation's problem is its inability to increase overseas exports of goods and services on a scale that

EXHIBIT 1
Percentage Change in Real GNP from the Preceding Quarter:
First Quarter 1985 to First Quarter 1988
(annual rates)



balances our overseas import bill. Even though U.S. currency declined by about a third in terms of its exchange value with other currencies between 1985 and 1987, the real volume of exports of goods and services grew by only 17 percent. In a sense, we cut our prices by a third to achieve this modest gain in exports. This occurred in a world where output grew by 6 percent during the two-year period. In other words, we had the twin advantages of an increasingly prosperous world and a sharp price reduction in the things we sell to outsiders and still managed only a 17 percent gain in real sales volume.

Between 1985 and 1987, the volume of real imports of goods and services grew by 19 percent, despite a rise of nearly 50 percent in the price that Americans had to pay to acquire foreign currencies to pay for foreign goods and services. In fact, import prices (for nonenergy commodities) increased by less than 20 percent, indicating that foreigners either reduced their profits on American sales or increased their productivity to help offset some of the disadvantages they experienced due to dollar devaluation.

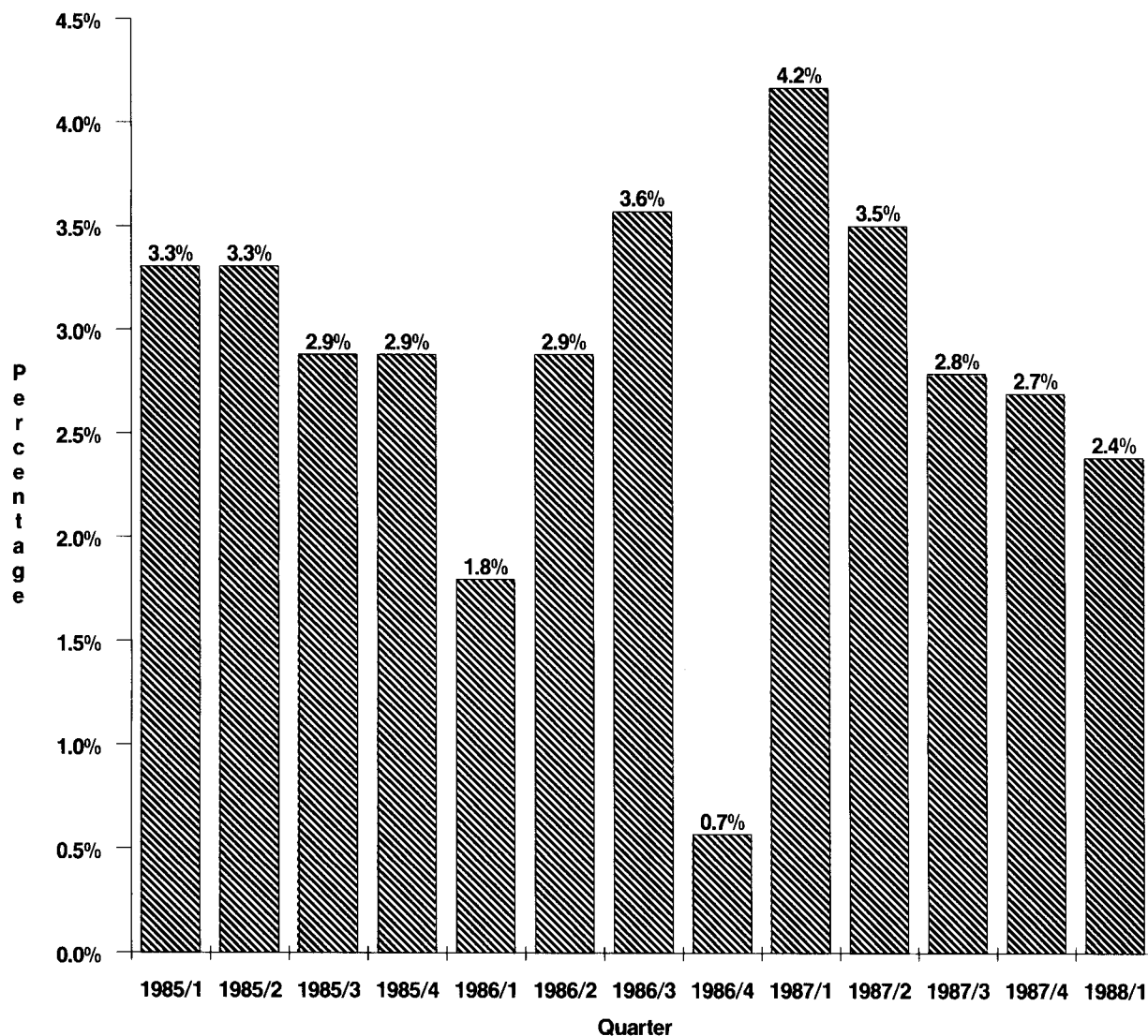
We have come to expect the quality of products and the associated after-purchase services that go with imports from Japan and a number of other countries.

These are products that are made overseas and marketed and serviced primarily by Americans. Many of the products, such as consumer electronics and captive automotive imports, bear American nameplates.¹ American companies that build foreign plants, or sign contracts with foreigners to supply them with manufactured items, have developed long-term global strategies that are relatively unresponsive to currency fluctuations. By some accounts, about 70 percent of our foreign trade is managed by U.S. and foreign multinational corporations. In this situation, the response time for a change in economic policy, such as dollar devaluation, is longer than it was during the 1950s and 1960s when trade flows tended to respond to growth rates, prices, and exchange rates and were less managed by multinational corporations with global strategies.

In today's world, Americans as producers simply must become more export oriented. Ironically, this is starting to occur among the so-called transplants: automotive assembly plants located in this country and owned by the Japanese. This year, Honda started

¹Automobiles manufactured outside the United States and bearing U.S. nameplates, for example, the Dodge Colt built for Chrysler Corporation by Mitsubishi of Japan.

EXHIBIT 2
Percentage Change in GNP Implicit Price Deflator from Preceding Quarter:
First Quarter 1985 to First Quarter 1988
(annual rates)



shipping vehicles from its Ohio assembly plant to Japan. Nissan (Tennessee) exports components to Japan and Mexico. Mazda (Flat Rock, Michigan) is planning to export vehicles. By the 1990s, most of the transplants will be sending vehicles to Europe, Japan, or other countries.

Trade with Canada

We can expect to increase the volume of our vehicle exports to and imports from Canada, our best trading partner, as a result of changes taking place in North America. By next year, with the likelihood that a new trade agreement with Canada will be ratified in Ottawa and Washington, trade between our two countries should begin to expand more rapidly. Both countries

will be allowed to keep trade barriers against third countries while removing those against each other. Currently, we run a small trade deficit with our northern neighbor.

Michigan already conducts more trade with Canada than with other states. In addition to automobiles, Michigan is the leading producer of office furniture, partitions, and other fixtures. Since Canadian tariffs against these products are formidable, free trade will improve our export prospects for them. Our steel industry is increasingly specialized in high value-added items. Plastics fabricators in this state also tend to be specialized. Canadians, on the other hand, are well positioned to ship more raw steel, plastic resin, and standardized manufactured items into this country. In

goods production generally, the elimination of trade barriers will promote exports of low-volume, high value-added items from Michigan in exchange for more routine, standardized items from Ontario.

In general, southeast Michigan has an advantage over other large population centers in either country by being the largest agglomeration of industry and commerce on the border. Therefore, it has the private and public infrastructures to take advantage of the agreement. Our small businesses have the easiest access to rapidly growing Ontario. Detroit advertisers, filmmakers, video production companies, architects, contractors, consultants, and other types of business services will benefit.

There is a basis for Wayne County-Essex County (Canada) cooperation in transportation, since Windsor has better uses for some of the land now devoted to rail yards. This presents an opportunity for Detroit to develop an integrated transportation system based on the vast railroad marshalling yards and track already located here.

With an open border, the geographic center of gravity for southeast Michigan is shifted eastward. The downtown business district appears to be more in the center of things. Promoting Detroit as the centerpiece of the Detroit-Windsor area puts Cobo Hall in the middle of the area in the minds of visitors. A major new hotel becomes more feasible and office buildings make more sense in the downtown area.

Astride an unfettered international border, Detroit is a logical center for legal, accounting, and other services that will come into being to interpret the agreement and to lobby in Ottawa, Toronto, Washington, and Lansing for legislation or for regulations that will diminish the paper barriers to trade. These barriers include differences in food purity laws, resolutions regarding labeling, and standards in mobile home construction.

Fiscal and Monetary Policy

The 1987 federal budget deficit stood at \$150 billion compared with \$221 billion in 1986. The administration's projections are \$146.7 billion for 1988 and \$129.5 billion for 1989. These projections are likely optimistic, particularly if economic growth slows in 1989 as expected. It will be left to the next administration and the next Congress to deal with the federal government deficit. Those decisions will have little effect in 1989.

Interest rates peaked last October. The recent lows were reached during February and March of this year. With the U.S. economy somewhat stronger than had been expected during the first quarter, and with signs of increasing strength during the months ahead, interest rates have started to creep up. Wall Street has inflation concerns that are shared by the Federal Reserve Board.

Although the GNP deflator was well behaved during the first quarter of this year, the consumer price index has been creeping up in response to consumer demand. There is likely to be upward pressure on interest rates in the months ahead.

Leading Indicators

The March composite index of leading economic indicators posted a gain of 0.8 percent over the February level. This was the second consecutive month of gain for the index. The February composite index increased by 1.3 percent over the January level. Losses were posted in January, November, and October. A major contributor to the increase was the index of five hundred common stocks listed on the New York Stock Exchange. The second most important component on the plus side was a decrease in average weekly initial claims for unemployment insurance.

A decline in the average work week of production workers in manufacturing was a drag on the overall index. Contracts and orders for new plant and equipment declined, as did new orders for manufacturers of consumer goods and materials.

Investment

Investment in producers' durable equipment soared to \$360.3 billion (1982 dollars) in the first quarter, up from the \$335.8 billion figure of the fourth quarter of 1987. For the year 1987 as a whole, this category gained by 3.3 percent from the 1986 level.

Because of the strength in manufacturing industries, due in part to the weaker dollar, the outlook for manufacturers has improved since the lean days of 1985. Manufacturing investment has been rising in order to replenish capacity, which was neglected during the earlier part of the decade when a strong dollar made life difficult for domestic producers.

In January, February, and March, the Bureau of Economic Analysis conducted a new survey of businesses regarding intentions for 1988. The results reveal that businesses intend to increase their real spending for new plant and equipment by 8 percent in 1988 over the 1987 figure. The boost is due, in part, to 1987 plans not being realized and being carried over into 1988.

Business executives were more confident in the first quarter of 1988 than they were in the aftermath of Wall Street's crash last October. A survey conducted by The Conference Board shows that the index rose to 51 in February after dropping to 47 in November. The August level was 59. Building contractors and manufacturers of machinery have the rosier expectations during the next six months.

Income, Savings, and Consumption

Personal income increased by 0.8 percent in March following a 0.6 percent gain in February. The January increase was a mere 0.3 percent. After taxes, the March gain was 0.6 percent; the February gain was 0.8 percent. Personal income after taxes is known as disposable personal income. Disposable personal income adjusted for inflation rose by 0.1 percent in March compared with 0.8 percent in February. January's gain was 0.3 percent.

The rate of personal saving, that is, personal saving as a percentage of disposable personal income, was 4.5 percent in March, slipping from 4.7 percent in February. During 1987, the saving rate was 3.7 percent, the lowest since 1947. In 1986 we saved 4.3 percent of take-home pay in the United States.

Personal consumption spending rose by 0.7 percent in March following gains of 0.8 percent in February and 0.1 percent in January. In 1987 personal consumption rose by 6 percent. Continued strength in the consumer sector is the principal reason for the expectation of continued growth in the national economy.

The Consumer Confidence Index stood at 114.6 in April compared with 112.7 in March. The November 1987 level was 100.8. Just prior to the Wall Street crash, the figure was 115.1. (The index is calculated on a base of 1985 = 100, from a survey of households

conducted each month by The Conference Board.) The March index was highest in the New England states and most depressed in the west south central region, which is comprised of Arkansas, Oklahoma, Louisiana, and Texas. The Plains, Great Lakes, and Rocky Mountain states also are relatively depressed in outlook, on the base of 1985, although there has been improvement in all U.S. regions since the November low point.

New car buying plans reached a low point in January. At the April reading, 5.4 percent of households stated their expectations of new car purchases compared with 5.3 percent in March and 4.7 percent in February. Last year's high level, 4.8 percent, was reached in July.

The consumer has buoyed the economy so far this year and will continue to increase purchases of big-ticket items other than homes. The automotive outlook is especially improved compared with the winter doldrums, causing manufacturers to revise their production schedules upward.

MICHIGAN ECONOMY

Personal Income

Labor and proprietors' earnings in Michigan grew by 3.6 percent between the third and fourth quarter of 1987. The national figure was 2.5 percent (see Exhibit 3). Nearly 40 percent of the dollar gain for Michigan was accounted for by a surge in durable goods manufacturing payrolls, which increased by 4.8 per-

EXHIBIT 3
Labor and Proprietors' Earnings in Michigan and the United States,
By Broad Economic Sector: Third and Fourth Quarters 1987
(dollars in millions)

Sector	Michigan			United States		
	Third Quarter	Fourth Quarter	Percentage Change	Third Quarter	Fourth Quarter	Percentage Change
Agriculture	\$562	\$1,242	121.0%	\$39,688	\$56,106	41.4%
Agricultural services, forestry, and fisheries	290	305	5.2	13,304	13,875	4.3
Mining	574	587	2.3	36,913	37,778	2.3
Construction	4,787	4,946	3.3	174,561	178,234	2.1
Nondurable goods manufacturing	6,704	6,983	4.2	208,621	211,900	1.6
Durable goods	29,693	31,113	4.8	354,284	361,591	2.1
Transportation and public utilities	5,602	5,630	0.5	188,623	192,373	2.0
Wholesale trade	5,780	5,858	1.3	173,784	176,736	1.7
Retail trade	9,398	9,556	1.7	270,109	272,039	0.7
Finance, insurance, and real estate	4,869	4,897	0.6	209,398	213,310	1.9
Services	21,026	21,503	2.3	641,929	659,315	2.7
Federal civilian payrolls	1,566	1,609	2.7	87,549	88,931	1.6
Federal military payrolls	376	372	-1.1	42,394	42,537	0.3
State and local government payrolls	12,145	12,506	3.0	306,010	311,670	1.8
TOTAL EARNINGS	\$103,372	\$107,106	3.6%	\$2,747,167	\$2,816,393	2.5%

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

cent. The national growth rate for durables was less than half the Michigan figure. Michigan posted a 4.2 percent gain in the face of a 1.6 percent gain nationally.

The construction and agricultural sectors here also are growing at faster than the national rate. In nongoods production, we surpassed the national rates of gain in retail trade, federal civilian payrolls, and state and local government payrolls. On the other hand, Michigan's transportation and public utilities group of industries increased their earnings by an anemic .05 percent, while the national figure was 2 percent. Finance, insurance, and real estate and military payrolls also performed poorly in the state. This is the first time since the second quarter of 1986 that Michigan's growth rate has exceeded that of the nation as a whole.

For 1987 Michigan's personal income grew by 4.2 percent compared with 6.2 percent for 1986. Nationally, the growth over the previous year's figures were 5.8 percent for 1987 and 6.3 percent for 1986. Eleven states grew more slowly than the Wolverine State last year.

Per capita personal income was just below the national average last year. In both 1985 and 1986 we were above the national figure. In 1987 we ranked eighteenth among the states in per capita personal income. Illinois was ninth, Wisconsin twenty-second, Ohio twenty-third, and Indiana thirty-first. Per capita income growth figures for Michigan and the United States for the last three years are as follows:

Year	Michigan	United States
1985	7.7%	6.1%
1986	5.5%	5.2%
1987	3.5%	4.8%

Employment

Total employment in Michigan averaged 4,095,000 during the first quarter of 1988 compared with 4,161,000 during the last three months of 1987. This represents a 1.6 percent decline. Nationally, the level increased by 0.6 percent to 114,214,000 from 113,486,000.²

Michigan wage and salary employment edged up during the first quarter of this year at about half the national rate (see Exhibit 4). A decline of nearly 18,000 automotive jobs from the fourth-quarter level was the major reason for Michigan's poor showing. For 1988 as a whole, automotive employment is expected to average 285,000 in this state, or 35 percent of the national figure. Last year we had 313,400 so employed, or 37 percent of the national level. In 1985, the recent peak, there were 341,100 (39 percent of the national figure), and in 1978, the all-time peak, 409,600 (41 percent).

²Estimates of total employment are developed from household surveys and are not as reliable as wage and salary employment estimates, which are based on reports submitted by employers. The decline in total employment may be due to a sampling error, as wage and salary employment, as discussed below, increased in the first quarter.

EXHIBIT 4
Michigan and United States Wage and Salary Employment,
by Broad Economic Sector: Fourth Quarter 1987 and First Quarter 1988
(employment figures in thousands of jobs)

Industry Group	Michigan			United States		
	Fourth Quarter	First Quarter	Percentage Change	Fourth Quarter	First Quarter	Percentage Change
Mining	9.9	10.0	1.0%	760	750	-1.3%
Construction	123.5	128.2	3.8	5,083	5,162	1.6
Nondurable goods	221.8	221.4	-0.2	7,959	8,002	0.5
Durable goods manufacturing	735.1	710.0	-3.4	11,363	11,419	0.4
Motor vehicles and equipment	301.4	283.7	-5.9	835	820	-1.8
Other durable goods	433.7	426.3	-1.7	10,528	10,590	0.6
Transportation, communication, and public utilities	148.8	150.9	1.4	5,464	5,504	0.9
Wholesale trade	187.4	189.2	1.0	5,851	5,902	0.9
Retail trade	678.2	691.3	1.9	18,436	18,688	1.4
Finance, insurance, and real estate	179.5	184.8	3.0	6,658	6,688	0.5
Services	821.4	830.6	1.1	24,504	24,845	1.4
Government	621.8	624.2	0.4	17,224	17,308	0.5
TOTAL	3,727.4	3,740.6	0.4%	103,294	104,259	0.9%

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

Compared with 1978, we have lost 125,000 automotive jobs in Michigan, one-third of the 1978 level. In 1988, the level of such employment in the state promises to be below the depressed 1982 figure of 286,500. The automotive job level is expected to decline during the next several years as a result of productivity gains and outsourcing. Since constantly increasing productivity is becoming the norm in this industry, employment growth is unlikely at any time in the foreseeable future, even if the market grows.

Because of the pervasiveness of vehicle production in this state, many other manufacturers also are affected by these adjustments, including steel mills, iron foundries, glass plants, forging plants, engine plants, automotive wiring and electrical plants, stampings plants, aluminum extruders, textile plants (interior automotive trim), and manufacturers of other parts and accessories. Between 1978 and 1988, employment in automotive stampings factories declined by 29 percent. The figure for steel plants is 41 percent; for foundries, 71 percent.

There are several growth industries in Michigan. The manufacture of office furniture and fixtures is one. Grand Rapids is the center for this activity. Plastics fabrication also is a growth industry as a result of materials substitution in vehicles as well as furniture and other products. Plastic also continues to displace paper in packaging. Chemical producers are expansive these days as a result of the depressed dollar, which makes these producers more competitive here and in other countries. Book and magazine publishers, newspapers, commercial printers, and similar establishments classified in manufacturing industries are adding workers with the result that printing and publishing industries as a group are growing.

Because of the emphasis on vehicle production, Michigan can expect to post a net decline of about thirty thousand jobs in manufacturing during 1988 (see Exhibit 5). Nationally, manufacturing employment is projected to grow by about three hundred thousand.

Among nonmanufacturing industries, Michigan's share of employment is likely to decline in department stores, nongovernment hospitals, automotive dealerships and service stations, and medical and health care establishments other than hospitals (see Exhibit 6).

Michigan's share of employment is likely to grow in construction, building materials dealers, appliance dealers, restaurants, real estate, finance, repair shops, and the lodgings industry. Overall, wage and salary employment in the state is forecast to grow by 1.3 percent in 1988, half the national rate. In 1987, Michigan grew by 1.5 percent; the nation, by 2.5 percent.

Exhibits 4, 5, and 6 show wage and salary job figures, based on reports from nonfarm employers. They do not include agricultural workers or domestics and the self-employed. Also, since individuals can work more

than one job, there may be some double counting in these data.

Detroit Employment

In 1987 the City of Detroit had 131,000 employed black men and 124,000 employed black women, according to the latest estimates released by the U.S. Bureau of the Census. These figures show continued employment gains among blacks since 1983. Four years ago the employment situation for blacks in Detroit was at its lowest in this decade. The 1987 employment level for this group was nearly 50 percent above the 1983 figure. The rate of unemployment among this group was about 23 percent last year, compared with 30 percent in 1983 (see Exhibit 7).

The 1987 Current Population Survey data suggest that employment among Detroit whites has continued to decline. About half as many white Detroiters are now employed as were at the depth of the national recession in 1982.

Census data also show that nearly three-quarters of the Detroit civilian population sixteen years old and older is black, compared with about 60 percent in 1981. Since 1981, the white population in this category has declined by nearly 40 percent, whereas the number of blacks so classified has gained by more than 20 percent. In sheer numbers, the city has lost about 125,000 whites while gaining about 100,000 blacks since 1981. If children under age sixteen were included in the count, the data likely would show a city that is nearly 80 percent black. The white population is aging rapidly as a result of selective migration and low birth rates.

Overall, the figures suggest that the number of adults in the city has stopped declining and that the unemployment situation has improved. However, the unemployment rate in the city is about triple the national rate and nearly 2.5 times the Michigan figure.

The figures do not reveal whether Detroit blacks are improving their prospects through better access to jobs in the city or in the suburbs. With a rapidly aging white work force, it seems likely that blacks are moving into jobs being vacated by whites through attrition. Because the unemployment rate in the suburbs averages around 6 percent, it also seems likely that some communities in Oakland, Macomb, and western Wayne counties are experiencing severe labor shortages and that blacks are being recruited from the inner city to fill those jobs.

Construction

Current construction activity in the state continues to exhibit great vigor, as measured by the number of people employed in the building industries. In building permits, on the other hand, a slowdown took place during the first quarter of 1988 in residential, industrial,

EXHIBIT 5
Michigan and United States Wage and Salary Employment in Manufacturing
by Industry Group: 1986-1988
(employment figures in thousands of jobs)

Industry	Michigan			United States		
	1986	1987	1988 ^a	1986	1987	1988 ^a
Lumber	13.2	13.5	13.2	710.5	739.0	751
Furniture and fixtures	28.2	31.2	33.0	497.1	513.6	531
Stone, clay, and glass products	17.5	17.3	17.6	585.8	584.8	587
Primary metals industries	49.9	48.7	48.2	752.5	750.6	769
Fabricated metal products	122.8	118.7	116.5	1,431.1	1,428.2	1,454
Machinery, except electrical	132.6	123.2	121.7	2,059.7	2,039.1	2,104
Electrical and electronic equipment	37.7	36.8	35.3	2,123.0	2,100.8	2,130
Motor vehicles and equipment	338.5	313.4	285.0	865.0	841.5	820
Other transportation equipment	21.2	22.1	21.8	1,150.1	1,173.8	1,182
Instruments and related products	14.6	14.6	14.3	706.8	695.8	703
Miscellaneous manufacturing industries	7.2	7.3	7.4	362.0	369.4	379
TOTAL DURABLE GOODS	783.4	746.8	714.0	11,244.0	11,237.0	11,410
Food and kindred products	45.5	45.1	45.0	1,616.9	1,636.1	1,660
Textiles and apparel	22.9	21.9	20.0	1,810.8	1,843.0	1,850
Paper and allied products	21.1	20.8	20.5	674.3	678.2	681
Printing and publishing	38.5	38.9	39.5	1,457.1	1,501.4	1,540
Chemical and allied products	39.9	41.0	42.5	1,022.6	1,026.6	1,050
Petroleum and coal products	2.4	2.3	2.3	168.8	164.8	166
Rubber and miscellaneous products	44.4	46.8	50.5	789.5	818.2	850
Leather and leather products	2.4	2.4	2.5	151.2	150.5	154
TOTAL NONDURABLE GOODS	217.1	219.2	222.8	7,750.0	7,875.0	8,000
TOTAL MANUFACTURING	1,000.5	966.0	936.8	18,994.0	19,112.0	19,410

SOURCE: Michigan Employment Security Commission special release.
^aAuthor's estimates.

office/commercial, and mercantile categories (see Exhibit 8). The lodgings industry in this state continues to increase its base by adding new rooms.

Activity in rehabilitation of existing buildings continued to surge. Michigan is rich in unused warehouses, factories, and large apartment buildings and hotels, and rehabilitation activity can be expected to provide employment in the construction industry as the economic transformation of the state continues to put pressure on new and existing structures.

Automotive Sales and Production

Chrysler has rescinded its decision to close its Kenosha, Wisconsin, body and assembly plants, largely because sales of K-cars and the Omni-Horizon, which are built there, have improved. Chrysler will keep production of the K-cars at its Jefferson Avenue, Detroit,

plant instead of shifting that output to Toluca, near Mexico City.

The cover story in the May 9, 1988, issue of *Business Week* is entitled "GM Faces Reality." According to the magazine's analysis, GM will shed 100,000 additional U.S. jobs and close at least another four of its remaining twenty-six assembly plants in North America.

In 1978, GM, Ford, and Chrysler accounted for 482,000 hourly and salaried jobs in the Wolverine State. By 1987, the figure was 364,000, a decline of nearly 25 percent. GM employed 235,000, Ford, 81,000, and Chrysler, 47,000. By 1992, GM will cut its work force to the same extent that Ford and Chrysler cut theirs during the late 1970s and early 1980s. GM's Michigan employment will fall below 200,000 in all likelihood. Whether or not there are additional GM plant closings in this state, productivity will have to improve in order to be competitive, not so much with the Japanese as with Ford and Chrysler.

EXHIBIT 6
Michigan's Share of Wage and Salary Employment
by Industry Group: 1987 and 1988

	Annual Employment (in thousands)				Michigan as Percentage of United States	
	Michigan		United States		1987	1988
	1987	1988 ^a	1987	1988 ^a		
Mining	9.8	10.0	741.0	760.0	1.3	1.3
Construction	121.2	127.0	5,031.0	5,170.0	2.4	2.5
Manufacturing						
Nondurable goods	746.8	714.0	11,237.0	11,410.0	6.6	6.3
Durable goods	219.2	222.8	7,875.0	8,000.0	2.8	2.8
Transportation and public utilities, excluding U.S. Post Office	150.3	150.0	5,378.0	5,500.0	2.8	2.7
Wholesale trade	186.1	189.0	5,797.0	5,900.0	3.2	3.2
Retail trade						
Building materials and garden supplies	27.3	30.0	722.1	740.0	3.8	4.1
Department stores	88.3	90.0	2,012.2	2,100.0	4.4	4.3
Other general merchandise stores	9.6	9.3	394.1	405.0	2.4	2.3
Food stores	95.6	100.0	2,959.1	3,100.0	3.2	3.2
Auto dealers and service stations	74.7	76.0	1,987.3	2,050.0	3.8	3.7
Apparel and accessory stores	40.0	41.2	1,100.7	1,110.0	3.6	3.7
Furniture and home furnishings stores	26.6	28.0	803.2	850.0	3.3	3.3
Eating and drinking places	227.7	235.0	5,993.6	6,150.0	3.8	3.8
Miscellaneous retail	79.2	86.0	2,291.9	2,375.0	3.5	3.6
TOTAL RETAIL TRADE	669.0	695.5	18,264.0	18,880.0	3.7	3.7
Finance, insurance and real estate						
Finance	82.5	85.3	3,278.0	3,300.0	2.5	2.6
Insurance	59.6	61.2	2,044.0	2,100.0	2.9	2.9
Real estate	30.5	34.6	1,255.0	1,300.0	2.4	2.7
TOTAL	179.1	188.0	6,589.0	6,700.0	2.7	2.8
Services						
Hotels and other lodgings places	31.2	35.0	1,447.4	1,490.0	2.1	2.3
Laundry, cleaning, and garment services	14.1	14.4	406.3	415.0	3.5	3.5
Other personal services	23.1	23.3	745.9	760.0	3.1	3.1
Business services	177.2	186.0	5,097.0	5,400.0	3.5	3.5
Auto repair, services, and garages	28.4	30.0	795.8	825.0	3.6	3.6
Miscellaneous repair services	13.0	13.5	322.2	330.0	4.0	4.1
Amusement and recreation services	27.2	29.0	986.2	1,020.0	2.8	2.8
Private hospitals	133.2	133.0	3,151.9	3,300.0	4.2	4.0
Other health services excluding hospitals	134.9	135.5	3,727.5	3,900.0	3.6	3.5
Legal services	23.1	24.0	792.0	820.0	2.9	2.9
Private educational services	33.7	33.7	1,426.1	1,420.0	2.4	2.4
Museums and membership organizations	65.2	65.0	1,586.8	1,590.0	4.1	4.1
Other services	108.0	112.0	3,651.9	3,790.0	3.0	3.0
TOTAL SERVICES	817.5	840.0	24,137.0	25,060.0	3.4	3.4
Government						
Federal	60.7	62.0	2,943.0	2,990.0	2.1	2.1
State	155.2	157.0	3,952.0	4,030.0	3.9	3.9
Local	398.1	406.0	10,167.0	10,400.0	3.9	3.9
TOTAL NONAGRICULTURAL EMPLOYMENT	3,713.2	3,761.3	102,112.0	104,800.0	3.64	3.59

SOURCES: Michigan Employment Commission special release and Bureau of Labor Statistics *Employment and Earnings*, March 1988.
^aAuthor's estimate.

The latest forecast from the U.S. Department of Commerce shows Ford, GM, and Chrysler holding 52 percent of the U.S. automobile market in 1991, compared with 64.2 percent last year. Japanese transplants

are projected to increase their share from 6 percent last year to 12.5 percent in 1991. Cars imported by Ford, GM, and Chrysler under their nameplates held 2.2 percent of the 1987 market and are projected to

EXHIBIT 7
Employment and Unemployment, Persons 16 Years Old and Older
Living in the Detroit Metropolitan Statistical Area: 1981-1987

	City of Detroit							Metropolitan Statistical Area						
	1981	1982	1983	1984	1985	1986	1987	1981	1982	1983	1984	1985	1986 ^a	1987 ^a
Employment (thousands)														
Black males	106	98	93	101	101	110	131	122	113	117	127	117	132	152
Black females	97	86	83	94	94	112	124	111	102	107	116	116	132	148
White males	92	80	72	78	71	54	39	897	840	815	871	917	928	897
White females	63	71	60	51	53	44	38	601	600	618	648	670	683	718
Total males	203	183	169	182	175	168	174	1,032	968	945	1,010	1,045	1,081	1,072
Total females	164	158	147	148	149	158	164	722	711	736	775	796	829	881
TOTAL	367	341	316	329	324	326	338	1,754	1,679	1,681	1,785	1,841	1,910	1,953
Unemployment (percentage)														
Black males	26.2	36.1	30.6	31.7	29.9	24.8	23.1	26.3	36.0	30.4	28.8	28.6	23.1	22.3
Black females	24.0	30.7	29.8	28.4	31.6	24.6	22.4	24.9	30.8	31.2	27.4	29.2	23.6	20.5
White males	14.5	19.7	18.4	11.0	15.9	16.7	17.2	9.5	12.9	12.8	7.0	6.1	6.6	6.1
White females	10.7	12.0	12.8	7.4	9.5	12.3	6.7	11.4	12.9	11.3	8.3	6.7	6.6	4.9
Total males	21.3	29.8	26.1	24.1	24.5	22.1	21.7	12.0	16.4	15.6	10.6	9.3	9.0	8.8
Total females	19.1	23.3	23.2	22.1	24.7	21.3	19.0	13.9	15.9	14.8	11.8	11.2	9.7	7.9
TOTAL	20.3	26.9	24.7	23.2	24.6	21.7	20.4	12.8	16.2	15.3	11.1	10.1	9.3	8.4

SOURCES: Bureau of Labor Statistics, *Geographic Profile and Employment and Unemployment* (Washington, D.C.: annual), and special release.

NOTE: The Detroit Standard Metropolitan Statistical Area consists of Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne counties. Data shown are annual averages.

^aMonroe County added in 1986.

EXHIBIT 8
Valuation and Number of Residential and Nonresidential Units Authorized
in Michigan Permit Issuing Places, by Category: 1981-1988

Category	1981	1982	1983	1984	1985	1986	1987	1st 3 months	
								1987	1988
Valuation (millions)									
Residential homes	821.8	593.2	1,015.9	1,324.2	1,833.7	2,440.5	2,628.5	440.1	405.6
Transient hotels, motels, tourist courts, and cabins	19.6	8.6	12.7	86.9	130.9	101.6	128.3	17.7	27.6
Industrial buildings	366.9	312.4	158.2	331.0	555.5	525.0	691.1	75.0	62.1
Office, bank, and professional buildings	211.9	121.0	209.5	353.9	408.0	512.5	422.9	93.0	90.3
Stores and other mercantile buildings	149.0	72.3	117.2	174.2	250.1	373.6	418.1	60.5	54.5
Additions, alterations, and conversions, except residential	412.7	349.9	432.7	600.3	702.9	859.1	786.5	140.8	191.8
Number of Units									
Residential homes	18,917	14,377	21,683	27,758	37,675	47,295	46,732	7,471	6,367
Transient hotels, motels, tourist courts, and cabins	724	859	1,018	1,869	5,149	3,857	5,561	844	1,141
Industrial buildings	634	479	630	857	1,149	1,315	966	158	108
Office, bank, and professional buildings	459	310	438	531	627	626	611	82	123
Stores and other mercantile buildings	787	620	776	1,083	1,211	1,366	1,508	217	200
Additions, alterations, and conversions, except residential	12,511	11,491	13,519	14,518	15,068	1,589	12,998	2,525	2,614

SOURCE: Bureau of the Census, special release.

take 4.4 percent of the 1991 market. Other imports also are projected to increase their market share.

The Commerce analysis of automobile sales concludes with the following comments:

These forecasts indicate that the traditional domestic manufacturers could lose some 2 million units of vehicle sales and 150,000 to 175,000 jobs between 1986 and the early 1990s. The job loss estimate may be conservative in view of the decrease in the degree of vertical integration

in the industry, plus intensified competition in the parts and supplier industries. However, the impact of lost sales should be mitigated by increasing numbers of foreign-designed, U.S.-produced vehicles and imports sold under traditional domestic nameplates.

The key to overall sales in the future will be the strength and duration of the near-record economic expansion currently under way. The next economic downturn may lead to significant changes in this industry. The fate of the traditional U.S. producers, in a highly competitive and changing environment, will depend on their ability to deliver high-quality products at competitive prices and on the public's perception of these quality improvements.³

A recent study from the General Accounting Office projects a job loss of 370,000 in the U.S. automotive industry (assembly plus components) between 1985 and 1990.⁴ More than a third of the loss is attributed to increased labor productivity. Another third stems from increased imports of completed vehicles. Twelve percent comes from increased use of foreign components by GM, Ford, and Chrysler. Fifteen percent is attributed to increased U.S. production of Japanese-affiliated companies such as Nissan, U.S.A., and Honda, U.S.A.

It is important to note that the so-called transplants have pay levels that match or are better than those in the traditional American plants. The transplant cost advantage is derived from the more flexible use of people, due to changes in management practices in the newer plants. For example, the Nissan plant in Smyrna, Tennessee, has four job classifications for hourly employees; Honda, in Marysville, Ohio, has three; and Mazda in Flat Rock, Michigan, has two. At a traditional U.S. assembly plant, there may be as many as ninety-five job classifications.

The American system grew out of the scientific management wave, born earlier in this century when specialization was the norm and the industry was production driven. Work rules were later developed in labor-management contracts. In today's increasingly brain-based, flexible, environment, work rules are an impediment to higher productivity.

Most workers in the transplants are young and have no prior experience in the industry. Old habits and attitudes do not have to be rolled back. Because of its youth, the work force in the transplants does not require the level of fringe benefits associated with an older work force. On the other hand, the older, more knowledgeable men and women that produce vehicles and components are probably capable of higher levels of personal productivity because of their acquaintance with the process.

³U.S. Department of Commerce, International Trade Administration, *1988 U.S. Industrial Outlook* (Washington, D.C.: January 1988), pp. 38-2 to 38-3.

⁴United States General Accounting Office, *Foreign Investment, Growing Japanese Presence in the U.S. Auto Industry*, GAO/NSIAD-88-111 (Washington, D.C.: March 1988), p. 27.

Sales of light trucks set new records almost monthly. This is the vehicle segment where GM, Ford, and Chrysler have proven to be most competitive. According to the Commerce Department forecast:

The domestic light truck market continues to be the strongest market segment for domestic vehicle manufacturers. The widespread acceptance of domestic compact light trucks has resulted in the import share of this market segment falling from its previous levels. In fact, sales of domestic compact light pickup trucks probably exceeded those of imports in 1987 for the first time since imports of Japanese makes created this market segment several years ago.⁵

In 1987, our automotive trade deficit with Canada declined to \$6.9 billion, from \$8.5 billion in 1985. The improvement came about as a result of a sharp increase in exports to Canada and a small decline in imports from our northern neighbor. Since 1986, the value of the U.S. dollar has declined by 12 percent against the Canadian dollar. The erosion is likely to continue, improving our ability to compete against Canadian manufacturers.

Around the State

Among the metropolitan areas, Ann Arbor was the fastest growing during 1987 and the first quarter of 1988. This is happening despite declining automotive employment. Growth in the private, nonmanufacturing sector is exceptionally high, especially in services, retailing, construction, financial services, transportation, and wholesale trade.

Our northernmost metropolitan area, comprised of Saginaw, Midland, and Bay counties, also is posting a good growth record, despite declining employment in durable and nondurable goods manufacturing. Retailing, services, construction, and the financial sectors are all growing. So far this year, the Saginaw area has the second fastest rate of growth in private, nonmanufacturing employment among Michigan's metropolitan areas.

Grand Rapids has the fourth highest growth rate in private, nonmanufacturing employment. Retailing, services, and wholesaling are rapid growth sectors in Flint. Overall employment in Flint declined by about 5 percent between March 1987 and March 1988.

During the same period, Kalamazoo had a private, nonmanufacturing job gain of 3.1 percent. Lansing had 2.9 percent; Detroit, 2.4 percent; Muskegon, 1.7 percent; and Jackson, 1.1 percent. The level of such employment was unchanged in Battle Creek. The Upper Peninsula showed an increase of 1.7 percent. Statewide the figure was 2.7 percent.

Between the first quarter of 1987 and that of 1988, eight of the state's metropolitan areas registered job

⁵1988 U.S. Industrial Outlook, p. 38-3.

gains and two registered declines. Detroit was unchanged.

OUTLOOK

The U.S. economy has continued to exhibit reasonably steady economic growth since the recovery from the 1982 recession. The risk of recession has diminished since December, when it appeared that excessive inventories would induce manufacturers to cut their production and thus cause a decline in GNP for at least one-quarter of this year. The major imbalances in the national economy continue to be the federal budget deficit and trade deficit. There also is a new worry that inflationary pressures are building.

For Michigan, the surprise is that the effects of last year's automotive plant closings have not had the severe overall effect that had been expected. The employment figures from the Current Population Survey show a decline of about sixty thousand in the number of people with jobs in the first quarter of 1988. That had been expected. The employer reports, however, show that wage and salary employment, which constitutes the bulk of total employment, has gained this year, despite a sharp drop in automotive employment.

Those in manufacturing that have jobs have not experienced income losses so far this year. Average weekly earnings among manufacturing blue collar workers stood at \$559 during the first quarter, the same level as during the fourth quarter of last year and 2 percent above that of the first quarter of 1987. Earnings

in construction are flat. In retail trade, there is evidence of slippage in average weekly earnings among hourly workers. During the first quarter, at least, Michigan earnings among workers, managers, and owners likely will be below the fourth-quarter 1987 level.

The April employment number for the state suggests that buoyancy in the national economy is having a more pronounced effect on Michigan than had been predicted three months ago. Given that the national projection of GNP has been raised, the Michigan outlook also is improved. No doubt, the improved health of the nation's automotive sector has ameliorated the effect of last year's automotive plant closings. Since the national automotive improvement looks like it will continue for the next few months, the Michigan outlook is improved as well.

Fewer automotive assemblies are expected in this state during 1988 than we had during 1987 because of the closed assembly plants. However, national automotive assembly should be slightly better than last year, indicating an improvement in Michigan's supplier industry compared with what appeared to be the case three months ago.

Extraordinary strength in our construction industries translate into future jobs in the offices, stores, factories, restaurants, and hotels being built now. The main reason for optimism that Michigan will weather the continued reduction in automotive employment is the vigor of our construction industries. (See Exhibit 9 for details of the forecast.)

EXHIBIT 9

Broad Economic Indicators, Michigan and the United States, Actual and Projections: 1986-1988

Indicator	1986	1987	1988	Percentage Change	
				1986-1987	1987-1988
Earnings (current \$ in millions)					
Michigan	\$100,335	\$104,000	\$104,000	3.7%	0.8%
United States	\$2,574,512	\$2,737,600	\$2,916,000	6.3	6.5
Earnings (1986 \$ in millions)					
Michigan	\$100,335	\$101,000	\$99,900	0.7	-1.1
United States	\$2,574,512	\$2,658,400	\$2,748,800	3.3	3.4
Civilian employment (thousands)					
Michigan	4,007	4,154	4,175	3.7	0.5
United States	109,597	112,440	114,900	2.6	2.2
Vehicle production (thousands)					
Michigan	3,408	3,402	3,100	-0.2	-8.9
United States	11,300	10,900	11,000	-3.5	-0.9
Unemployment rate (% of civilian work force)					
Michigan	8.8%	8.2%	8.7%	--	--
United States	7.0%	6.2%	5.7%	--	--

SOURCES: The 1986 and 1987 data on earnings are from Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C.; on civilian employment and unemployment rate from special release, Bureau of Labor Statistics, Department of Labor, Washington, D.C.; on vehicle production from special release, Motor Vehicle Manufacturers Association, Detroit.