Gerald Faverman, Ph.D. • *Chairman of the Board*
Robert J. Kleine • Editor
Frances Spring • Economist
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Public Sector Reports

ECONOMIC FORECAST

INTRODUCTION

National economic growth continued sluggish in the first quarter of 1990, although real gross national product (GNP) increased 2.1 percent (annual rate), compared with 1.1 percent in 1989 IV. The higher growth rate was mainly related to weather and does not indicate additional economic strength. One encouraging sign was a 2.5 percent increase in consumption expenditures, despite weakness in the motor vehicle sector.

The major concerns in 1990 I were inflation and interest rates. The U.S. consumer price index (CPI) grew at an annual rate of 8.5 percent in the first quarter, the largest quarterly increase since 1982 II. Again, however, much of the rise was related to the effect of cold weather on food and energy prices. Short-term interest rates remained relatively stable, as the Federal Reserve Board continues to expand the money supply at a rate of 5–6 percent, but long-term rates, which reflect future price expectations, rose significantly. For example, five-year Treasury securities rose from just under 8 percent at the beginning of the year to more than 9 percent in early May. Both inflation and interest rates have begun to moderate in recent weeks, however. The Producer Price Index (PPI), which foreshadows increases in consumer prices, was unchanged in February and declined in the next two months; the April CPI grew at an annual rate of only 0.2 percent. Both long- and short-term rates have declined moderately in the last few weeks.

In Michigan, economic growth continues slower than nationally due mainly to weakness in motor vehicle sales, which declined 12 percent in April. Employment in the state increased only 0.4 percent in 1990 I (above the year-ago level), despite mild weather in January and February, as temporary auto layoffs contributed to a 5.3 percent decline in manufacturing employment.

First-quarter economic data do not materially change our 1990 forecast. We continue to expect sluggish growth and a slowing rate of inflation. Our forecast for a stronger second half holds, but the improvement will be modest. We still expect an annual increase of about 2 percent in GNP and of 4.5–5 percent in inflation. The Michigan economy will continue to grow more slowly than the national economy, as we expect a decline of about 5 percent in motor vehicle sales. We are forecasting an increase of only 0.8 percent in employment, which will require some pickup in growth in the second half of 1990. The unemployment rate averaged 8.2 percent in the first quarter, and we are projecting an average of 8 percent for the year.

The U.S. and Michigan forecasts are summarized in Exhibit 1.

THE NATIONAL ECONOMY

GNP, Income, and Employment

Review

The national economy showed some improvement in the first quarter. As noted above, real GNP increased at a seasonally adjusted annual rate of 2.1 percent (see Exhibit 2), but the strength was more apparent than real; growth in 1989 IV was dampened by bitter cold in December and was boosted in 1990 I by mild weather in January and February. This was particularly evident in the 7.6 percent increase in fixed investment (spending on business investment and residential construction).

Consumption expenditures, which account for about 65 percent of GNP, jumped 2.5 percent in the first quarter, following a weak 0.5 percent increase in 1989 IV. Net exports contributed $6 billion to the $21.7 billion rise in real GNP; exports increased slightly, and imports declined almost 3 percent. The growth in GNP was held back by a decrease of $19.6 billion in business inventories; automotive inventories declined $21.5 billion. If inventories had remained unchanged from the 1989 IV level, real GNP would have been up 4 percent. The GNP price deflator, which measures inflation in the economy, increased at an annual rate of 6.5 percent, the largest gain since 1982 II.

U.S. personal income rose at an annual rate of 9.6 percent in the first quarter of 1990 (seasonally adjusted), compared with 7.1 percent in 1989 IV. Adjusted for inflation and taxes, the 1990 I increase was 3.6 percent (annual rate). Most income categories recorded robust gains, with the largest being in farm income and transfer payments. Earnings in manufacturing were up only 1.2 percent (annual rate).

MICHIGAN FORECAST AT A GLANCE

Employment—Flat
Unemployment—Up
Personal Income—Up
Prices—Stable
Auto Sales—Down
Auto Production—Down
Housing—Steady
Interest Rates—Stable to Down

Public Sector Consultants, Inc.
Knapp's Centre • 300 S. Washington Square
Suite 401 • Lansing, MI 48933 • (517) 484-4954

EXHIBIT 1

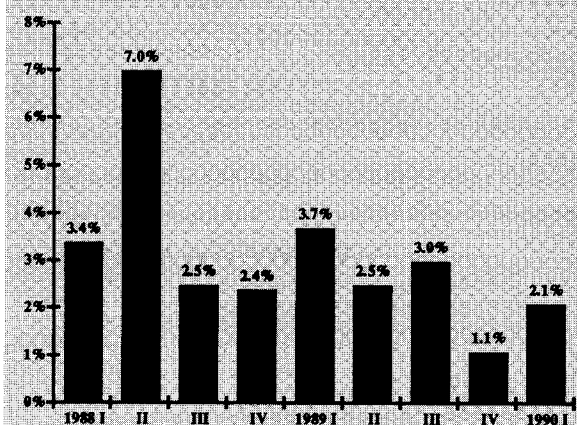
Summary Forecast

	1988 (actual)	1989 (actual)	1990 (actual)
U.S. GNP, 1982 $ (percentage change)	3.8%	2.9%	2.0%
U.S. motor vehicle sales (millions)	16.1	15.1	14.4
Michigan wage and salary employment (percentage change)	1.7%	1.7%	0.8%
Michigan unemployment rate (percentage)	7.6%	7.3%	8.0%
Michigan personal income (percentage change)	7.4%	7.6%	5.0%
Michigan motor vehicle production (millions)	3.2	3.3*	3.1
Detroit–Ann Arbor consumer price index (percentage change) (1982–1984=100)	4.0%	5.2%	4.0%

*Estimate

EXHIBIT 2

U.S. Gross National Product, Quarterly Changes at Annual Rates, 1988 I–1990 I



SOURCE: Council of Economic Advisors, *Economic Indicators*, selected issues.

U.S. wage and salary employment was surprisingly strong in the first quarter. The 743,000 jobs added compare to only 473,000 in 1989 IV. The growth continues to be in services, up 5.2 percent (annual rate). Other employment (mainly construction, but also transportation and public utilities) and government also made above-average gains, the latter due in part to hiring for the Census. Manufacturing employment continued weak, declining at an annual rate of 2 percent, but it rose in February for the first time since March 1989. A cautionary note: The March 1990 increase was only 26,000 (excluding government, employment fell by 49,000 jobs.), and employment declined 218,000 in April, a likely harbinger of slower growth. (see Exhibit 3).

The U.S. civilian unemployment rate averaged 5.2 percent in 1990 I, down from 5.3 percent in the previous quarter (see Exhibit 4). The rate for adult men, a leading indicator of changes in the economy, remained at 4.6 percent. The unemployment rates for minorities and teenagers declined significantly in the first quarter.

EXHIBIT 3

U.S. Wage and Salary Employment and Percentage Changes, 1990 I, April 1990, and 1989 (seasonally adjusted)

Sector	1990 I (thousands)	Percentage Change from 1989 IV (annual rate)	Percentage Change from 1989 I	April 1990 (thousands)	Change from March 1989 (thousands)
Manufacturing	19,409	–2.0%	1.9%	19,400	–22
Services	27,673	5.2	5.4	27,805	23
Retail and wholesale trade	26,129	2.0	0.6	26,170	49
Government	18,009	3.6	2.3	18,238	128
Other	18,957	5.4	1.5	18,858	–114
TOTAL	110,177	2.8%	1.7%	110,471	64

SOURCE: Bureau of Labor Statistics, U.S. Department of Labor, "The Employment Situation," *News*, selected issues.

Outlook

GNP growth in the first quarter was not as strong as it appeared and is likely to be slower in 1990 II. The motor vehicle and housing sectors will continue to be a drag on the economy until interest rates begin to decline; most long-term rates have increased nearly one percent in the last few months. Among the positive signs, the index of leading indicators rose 0.9 percent in March; U.S. personal income continued to record strong increases; and new factory orders were up sharply in March. We still anticipate a rise of 2 percent in GNP in 1990, but the expected gain in the second half may be threatened if interest rates move much higher.

The employment figures for 1990 I also were misleading, as aberrant weather and other factors contributed to the strong showing in January and February. The weakness in March employment likely foreshadows much slower growth in the second quarter. We forecast a rise in jobs of less than 2 percent in 1990, compared with 2.8 percent in 1989, and we believe the unemployment rate will average 5.6 percent, up from 5.3 percent in 1989.

Leading Indicators

The U.S. Department of Commerce index of leading indicators posted a third consecutive monthly increase in January (up 0.14 percent) before declining in February (by 0.96 percent). The rise of 0.9 percent in March, however, seems to demonstrate that the economy will continue to chug along through at least 1990 II, albeit slowly. The index is designed to forecast the direction of the economy over the next six to nine months.

The March increase was significant in that six of the index's eleven factors were positive, and two showed no change. Only three contributed negatively to the index during the final month of 1990 I, whereas the index had only four positive elements in January and just three in February. Unseasonably warm weather in January sparked a large rise in building permits (the primary factor in the index gain that month), but this sector always is volatile; its decline by an even greater amount in February largely accounts for the drop in the index that month.

Surprisingly, the index seems to indicate that the recent slump in manufacturing may be over. The average production workweek rose in January and remained steady during the rest of the quarter, manufacturers' orders increased in February and March, and slower vendor deliveries were experienced in two of the three months of 1990 I. Possibly the most favorable sign for this sector, however, was the healthy rise in orders for plant and equipment in March, following substantial declines in January and February.

Monetary Policy

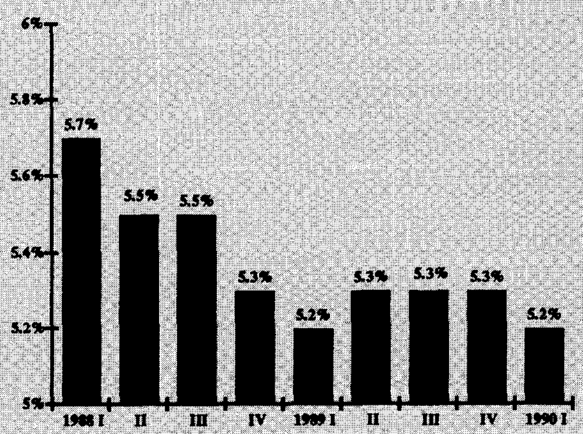
Review

Although the bellwether federal funds rate remained stable throughout the first quarter and into April, rising long-term interest rates (see Exhibit 5) have led many to conclude that the time is ripe for another round of monetary tightening.

The rise in long-term rates probably is due to a number of factors, including the economy's strong performance in 1990 I, higher than expected domestic inflation and fears of continued inflation abroad (see International Trade), rising defaults on long-term debt (primarily involving junk bonds used to finance corporate takeovers), and increasingly large issuances of long-term Treasury securities (more than $30 billion was slated for the May 7 auction alone).

EXHIBIT 4

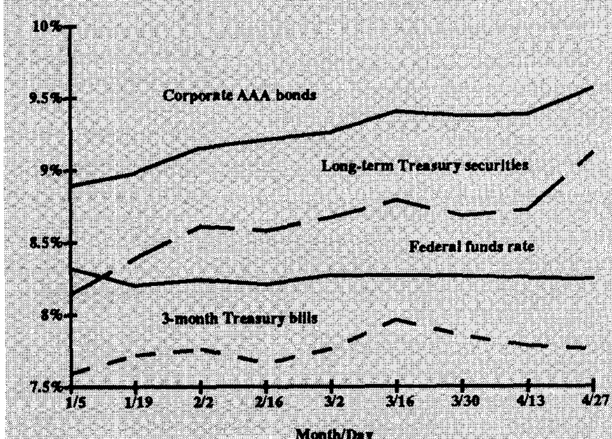
Quarterly U.S. Unemployment Rates, 1988 I–1990 I (seasonally adjusted)



SOURCE: Council of Economic Advisors, *Economic Indicators*, selected issues.

EXHIBIT 5

Selected Interest Rates and Yields on Securities (average daily rates)



SOURCE: Federal Reserve Bank of St. Louis, *U.S. Financial Data*, March 1, 1990, and April 26, 1990.

Why the distress over long-term rates? The Federal Reserve (Fed) usually is concerned with the federal funds rate (the interest member banks charge on overnight loans to one another), since it influences other short-term market rates. But it generally is thought that the Fed looks to long-term rates in evaluating inflationary expectations in the marketplace.[1] Indeed, attention began to focus on these (such as long-term Treasury securities) in late January, when they rose above short-term rates. Not until mid-March, when the spread between the federal funds rate and long-term rates began to widen rapidly, did expectations grow that the Fed would tighten credit. If this occurs during the second quarter, long-term rates likely will continue to increase, hampering growth in the already unsteady housing sector (because the mortgage rate is tied to that on long-term Treasury securities) as well as in manufacturing.

Outlook

Will they or won't they? Only the Fed knows for sure. It is possible that another round of credit tightening will depend on further economic data (such as May and June CPI statistics) indicating the strength of the inflationary trend and whether the economy has begun to cool after the expansion in 1990 I. It is likely that current price increases and the expectation of more will force the Fed to constrict credit gradually, although the administration and Congress probably will press for a delay until after the November elections.

Fiscal Policy

Review

In a recently released report, the General Accounting Office (GAO) revised its cost estimate of the 30-year bailout of the savings and loan industry from $257 billion to $325 billion. Reasons cited include more insolvencies, better information (based on current experience) on actual bailout costs, and higher interest and administrative expenses. The GAO projects a ten-year figure of $243 billion, which differs sharply from the administration's estimate of $166 billion[2]; the latter, according to the GAO, is based on such unrealistic assumptions as no inflation, no recession for the next ten years, and an expansion of 7 percent in savings and loan deposits at a time when they have been declining.

As a result of the economic slowdown in 1989 IV, the administration has revised its projection of the budget reduction necessary to meet the FY 1991 Gramm-Rudman target of $64 billion. Budget Director Richard Darman estimates that from $8.5 billion to $12 billion more in combined spending cuts and tax increases must be implemented in order to avoid the across-the-board cuts (referred to as sequester) mandated by the law. Congress and the administration are negotiating a package that probably will contain both tax increases and spending cuts.

Outlook

President "Read-My-Lips" Bush likely will have to accept higher taxes in return for a lower tax rate on capital gains and in order to restore some of the large cuts in defense spending proposed by the House and Senate. (Both chambers have suggested military outlays ranging from $6–7.5 billion less than proposed by the administration.) Budget maneuvering will intensify as the summer recess and the campaign season draw nearer. It remains to be seen, however, whether the savings and loan bailout will remain in the budget (the administration prefers that it be taken out).

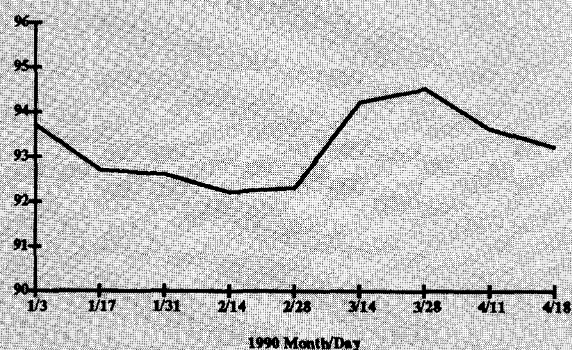
International Trade

Review

The dollar's value continued to decline through February but rose slightly in March (see Exhibit 6). The five consecutive months of decline for U.S. currency contributed greatly to improving the trade deficit over the last year.[3] Rising domestic long-term rates (which increase demand for U.S. interest-bearing securities) and climbing inflation in Japan may have renewed interest in the dollar briefly, as its value began to rise during March, but by late April it had returned to the pre-January level.

EXHIBIT 6

The Trade-Weighted Value of the Dollar, Biweekly, January–April, 1990



SOURCE: Federal Reserve Bank of St. Louis, *U.S. Financial Data*, various issues.

NOTE: Weekly data are averages of daily figures. Data are weighted averages of the foreign currency price of the U.S. dollar, computed using ten industrial country currencies.

[1] A rise in Long-term rates supposedly implies that inflation will continue; bonds therefore require a greater return (interest) in order to compensate holders for any loss on their investment caused by inflation.

[2] The administration generally cites only a ten-year estimate of bailout costs.

[3] When the dollar declines relative to other currencies, U.S. goods become less costly relative to those produced elsewhere.

Japan's recent inflation (which seemed to be peaking at quarter's end) has been exacerbated by the central bank's refusal to allow any corresponding increase in Japanese interest rates. These problems, coupled with the rise in U.S. long-term interest rates (see Monetary Policy), have permitted improvements in the U.S. current account status,[4] and foreign capital, needed to finance the national deficit, continues to be attracted.

The value of the dollar was not the only factor contributing to the merchandise trade deficit during 1990 I; the weather played a major role. The deep freeze in December 1989 resulted in record oil imports in January (291.3 million barrels), as providers scurried to top up supplies. Milder weather and slightly lower prices ($19.39 per barrel versus $20.19 per barrel in January) reduced oil imports in February (243 million barrels, a decline of 16.6 percent). In March, the value of oil imports remained unchanged from February levels ($4.7 billion); 261 million barrels were imported at an average price of $18.18 per barrel.

The 44 percent rise in oil imports in January was the predominant reason for the $1.64 billion expansion in the trade deficit that month, to a revised $9.32 billion, up from $7.68 billion in December 1989 (both figures are seasonally adjusted). Otherwise, the trade figures were very encouraging; exports of consumer goods, food, manufacturing materials, and capital equipment increased. The picture was reversed in February; although the trade deficit was the lowest monthly figure posted since 1983 ($6.49 billion, a decline of 30.4 percent) and oil imports fell, the figures were viewed with mixed feelings at best. The January gains were nearly erased, as exports declined by one percent. Only aircraft continued to sell well, due solely to Boeing catching up on backorders created by last year's strike. The pessimism stemmed from February's drastic across-the-board drop in imports, viewed as evidence of a slowing U.S. economy. But these fears abated with the March figures, which showed increases in both imports and exports, with the rise in imports sufficient to raise the deficit to a seasonally adjusted $8.4 billion, for a 1990 I total of $23.9 billion. Also posting increases in the last month of the quarter were exports and imports of automotive vehicles, parts, and engines; industrial supplies and materials; food; and other materials. Imports of capital goods and consumer goods also rose during the month.

Outlook

Despite gloom in some quarters, the trade picture is not all bad; the figures for each month of 1990 I were better than those recorded a year ago. Whether the situation continues to improve depends on several factors. One is the extent to which U.S. dependence on foreign oil increases (currently, we import more than half the total oil we consume) and how well OPEC can control prices; more imports at high prices could cause the total value of oil imports (and therefore total U.S. imports) to continue to swell. Another factor is the economic strength of both the United States and our various trading partners; a slowdown overseas could mean less demand for U.S. goods and services, which would reduce exports.

Motor Vehicle Sales and Production

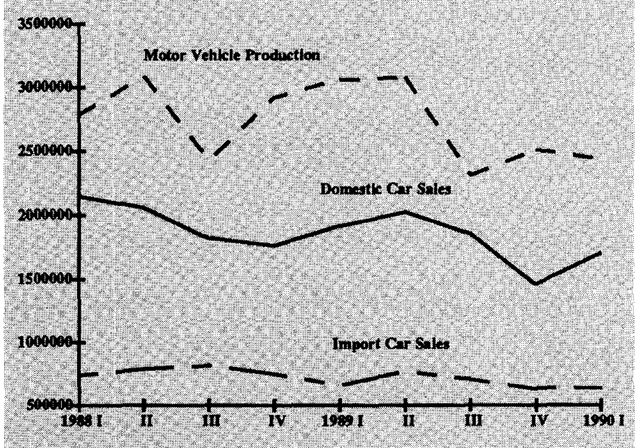
Review

Motor vehicle sales in 1990 I showed marked improvement over the sharp decline in 1989 IV but still fell 0.4 percent below the year-ago quarter. Passenger car sales dropped one percent; domestics gained 0.4 percent, and imports fell 4.2 percent. In 1990 I the import share was 27.1 percent, compared with 28 percent a year ago. Truck sales increased 0.5 percent in the first quarter (see Exhibit 7). As shown in Exhibit 8, the winners among all types of domestic passenger cars in the first quarter were Lincoln and Chevrolet. The big losers were Chrysler, Mercury, Dodge, Pontiac, Oldsmobile, and Ford. Among imports, market share gains were registered by Mitsubshi (which more than doubled sales), Toyota, and Honda. Those losing share were Subaru, Hyundai, and Nissan.

Motor vehicle production slumped 20.5 percent in 1990 I from the year-ago level, as manufacturers reduced excess inventories. There was a 64-day supply of domestic passenger cars on hand as of April 1, compared with 92 days on January 1, 1990, and 77 days on April 1, 1989. Passenger car production was off 22.5 percent, and truck production was down 17.1 percent.

EXHIBIT 7

Motor Vehicle Production and Sales of Domestics and Imports, Quarterly, 1988 I–1990 I



SOURCE: Automotive News, various issues.
Import Share: 1990 I – 28.1%; 1989 I – 28.0%.
% change between 1989 I and 1990 I. Production, –20.5%; Domestic car sales, 0.4%, Import car sales, –4.2%.

[4] The current account measures exports of goods and services relative to imports. The merchandise trade deficit measures goods imports and exports only.

EXHIBIT 8

U.S. Passenger Car Sales, Market Share, Largest Gains and Losses, 1990 I and 1989 (more than 1% of 1990 market)

Marketing Unit	Percentage Share, 1989 I	Percentage Share, 1990 I	Percentage Change
Mitsubishi	0.9%	2.0%	120.0%
Toyota	5.8	8.1	36.6
Lincoln	2.0	2.7	34.8
Honda	7.0	8.2	16.6
Chevrolet	13.5	15.2	11.7
Ford	16.3	14.8	–10.4
Nissan	5.3	4.8	–13.0
Oldsmobile	6.5	5.7	–13.2
Pontiac	7.4	6.3	–15.1
Dodge	4.7	3.8	–20.4
Mercury	5.3	4.2	–22.0
Chrysler	2.3	1.8	–22.2
Hyundai	2.1	1.5	–31.2
Subaru	1.6	1.1	–35.2
TOTAL PASSENGER CARS	100.0%	100.0%	–1.4%

SOURCE: *Automotive News*, April 16, 1990. Calculations by Public Sector Consultants, Inc.

Outlook

Although motor vehicle sales were stronger than we expected in the first quarter, they are likely to be weak throughout 1990; April sales fell 12 percent below a year ago. We are revising our annual projection from a decline of 5 percent to 3 percent, and we forecast a total of 14.45 million vehicles. Passenger car sales are estimated at 9.45 million units (compared to 9.9 million in 1989), and truck sales are projected at 4.9 million units (5 million in 1989). The import share for passenger cars is likely to increase from 28 percent in 1989 to 28.5 percent in 1990. Passenger car production probably will decline more than sales this year, as inventories were very high in January.

Housing and Construction

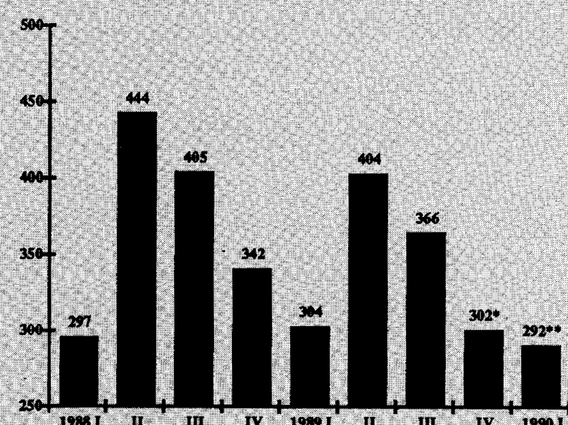
Review

Stimulated by the early mild weather, the housing market experienced gains in January, but rising long-term interest rates and a slowing economy began to take their toll by the end of 1990 I. Total starts of new, privately owned housing units rose in January to a seasonally adjusted 1.568 million units, up 23.2 percent from December 1989 (1.273 million). Starts declined in February (to 1.457 million units, a drop of 7.1 percent) and again in March (to 1.321 million units), for an average of 1.449 million starts in 1990 I, up 7.5 percent from the revised figures for 1989 IV. There were 292,400 actual starts during the first quarter, a 3.3 percent decline from the previous quarter and 3.7 percent less than in 1989 I (see Exhibit 9).

Authorizations for privately owned housing units followed the same pattern as for starts. In January, 1.745 million permits (annual rate, seasonally adjusted) were issued, up 21

EXHIBIT 9

New Privately Owned U.S. Housing Units Started, 1987 IV–1989 IV (in thousands)



SOURCE: Bureau of the Census, U.S. Department of Commerce, "Housing Starts," *Current Construction Reports*, various issues.

*Revised
**Preliminary

percent from the previous month, but this gain was counteracted by corresponding declines in February (1.305 million permits) and March (1.206 million permits). Unadjusted for seasonal variations, 299,200 permits were authorized during 1990 I, compared to 291,800 in 1989 I, an increase of 3 percent.

Construction data were somewhat more encouraging than the housing figures. The value of new construction put into place in January was $425 billion, up $9.9 billion (2.4 percent) from December's revised figures, and there was another rise in February, to $438.6 billion (up 3.2 percent). In March, construction dropped slightly, by $6.1 billion (1.4 percent), to $432.5 billion. The latter showing was not too discouraging, however, as the decline was small, and after adjusting for price variations the figure was 3.6 percent above the March 1989 posting.

Most of the first-quarter construction gains were attributable to the residential housing market. February gains were stimulated by private nonresidential commercial building and by public construction of highways and streets.

Outlook

The unseasonably warm weather accounts for much of any gain in the housing and construction sector. Another reason may be expectations that long-term rates will continue to rise through the next two quarters, taking mortgage rates along with them. The good news is that the Fed has not considered inflation sufficiently threatening to implement policy aimed at squeezing credit, which could raise both long-term and mortgage rates. If no such move occurs, the housing market, already suffering from general cooling of the economy, should remain weak but stable through mid-year.

Prices

Review

U.S. consumer prices increased at an annual rate of 8.5 percent in 1990 I, the highest quarterly rate since spring 1982 (see Exhibit 10). Most of the surge can be attributed to the bitter cold in December 1989, which ruined crops and created fuel shortages, pushing the annual rate to 13.2 percent in January. In February and March prices increased at a more moderate, but still disturbing, 6 percent. The components contributing most to the sharp runup in first-quarter prices were apparel, 19.6 percent; food and beverages, 10.8 percent; transportation, 9.2 percent; and medical care, 8.8 percent. Housing, which comprises about 42 percent of the index, grew at a relatively modest 5.6 percent. The 1990 I CPI was 5.2 percent above a year ago; medical care (8.6 percent), food and beverages(6.5 percent), and other goods and services (7.4 percent) rose at rates above average.

The Producer Price Index (PPI), which foreshadows increases in the CPI, grew at an annual rate of 6.4 percent (seasonally adjusted) in the first quarter. Excluding food and energy goods, which experienced sharp price rises in January, the PPI increased at an annual rate of 3.2 percent. Unchanged in February, the PPI declined 0.2 percent in March and 0.3 percent in April; excluding food and energy prices,

EXHIBIT 10

U.S. Consumer Price Index and Percentage Changes, by Major Component, 1990 I, 1989, and 1979–89

Component	Relative Importance (December 1988)*	1989 IV	Percentage Change, 1989 IV from 1989 III (seasonally adjusted annual rate)	Percentage Change from 1989 I	Percentage Change, 1989 Average over 1988 Average	Percentage Change, 1979–89 (annual rate)
Food and beverages	16.2%	130.3	10.8%	6.5%	5.7%	5.6%
Housing	42.3	124.4	5.6	4.3	3.8	5.8
Apparel and upkeep	6.4	121.0	19.6	3.6	2.8	3.4
Transportation	17.2	117.1	9.2	4.9	5.0	4.9
Motor fuel	3.1	93.3	27.6	12.3	9.4	NA
Medical care	6.0	157.4	8.8	8.6	7.7	8.3
Entertainment }	11.9	129.5	5.6	4.9	5.2	5.1
Other goods and services }		154.7	8.0	7.4	7.9	7.9
All items	100.0	128.0	8.5	5.2	4.8	5.5
Special Indices:						
Energy	7.3	97.9	14.4	7.9	5.6	3.7
All items less energy	92.7	131.0	7.6	5.0		

the index was up 0.4 percent in February, 0.3 percent in March, and 0.2 percent in April.

Outlook

The rate of inflation is almost certain to slow from the first quarter pace, due mainly to moderating price increases for food and fuel, and the continued weakness of the economy. One positive sign is the slowdown in the PPI in February and March. We project that prices will rise at an annual rate of 4 percent for the remainder of the year, resulting in average annual increase for 1990 of 4.8 percent (up from our previous estimate of 4.5 percent).

THE MICHIGAN ECONOMY

Employment and Income

Review

Michigan nonagricultural wage and salary employment continued to slow in 1990 I, increasing only 0.4 percent above a year ago. As Exhibit 11 shows, the first quarter was even weaker than appears, as relatively mild weather in January and February boosted employment, particularly in construction (up 4.2 percent). Above-average growth also was recorded in the services (2.8 percent) and the finance, insurance, and real estate (2.5 percent) sectors. Services continued to lead despite slower growth in the business services category. The manufacturing sector weakened even further (see Exhibit 12), due mainly to temporary layoffs in the automobile industry in order to reduce excess inventories. Manufacturing employment fell 5.3 percent below the year-ago level; for motor vehicles the drop was a sharp 11.5 percent, and the only large manufacturing category to record an increase was printing and publishing.

The Michigan unemployment rate averaged 8.2 percent in the first quarter, up from 7.2 percent in 1989 I, although the rate declined to 7.2 percent in March. The figure for April was 7.3 percent, as autoworkers returned to the job. Michigan had the highest unemployment rate among 11 large states in 1990 I (see Exhibit 13).

Michigan personal income (seasonally adjusted) rose one percent between the third and fourth quarters of 1989 (the

EXHIBIT 11

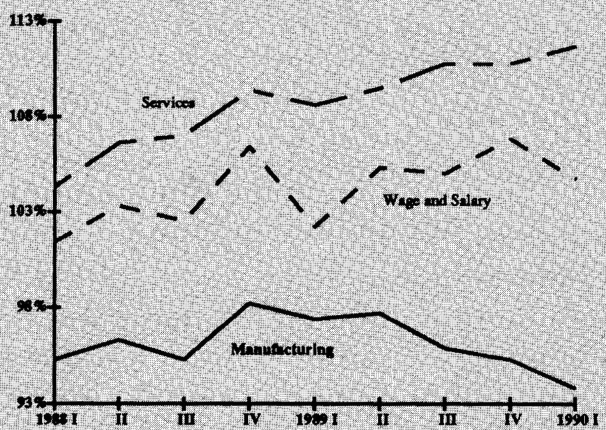
Michigan Wage and Salary Employment, by Sector, 1989 I, 1990 I, and 1989 and Five-Year Growth Rate

Sector	1989 I (thousands)	1990 I (thousands)	Percentage Change	1989 Average	Percentage Change, 1989 from 1988	Average Annual Growth Rate, 1983–88
Mining	9.9	10.0	0.3%	11.0	4.8%	3.1%
Construction	116.5	121.4	4.2	136.0	1.9	9.1
Manufacturing	969.9	918.0	5.3	943.0	–0.4	1.5
Durable	736.4	687.7	–6.6	720.0	–0.5	1.1
Furniture and fixtures	35.1	34.7	–1.1	34.0	0.9	8.7
Industrial machinery	126.5	122.8	–2.9	123.0	3.1	0.4
Fabricated metal products	125.6	119.9	–4.5	118.0	0.5	1.7
Motor vehicles and equipment	292.3	258.5	–11.5	288.0	–2.4	–0.3
Nondurable	233.4	230.4	–1.3	233.0	–0.4	–2.8
Food and kindred products	43.3	43.3	0.0	43.0	–4.0	–0.3
Chemical and allied products	43.7	45.0	2.8	42.7	2.9	0.8
Printing and publishing	43.9	45.3	3.2	43.0	1.7	4.5
Rubber and miscellaneous plastic products	51.7	49.7	–4.0	48.0	1.1	9.3
Transportation, communications, and public utilities	149.1	148.4	–0.5	154.0	–0.5	2.1
Wholesale and retail trade	890.4	903.6	1.5	915.0	3.0	4.4
Eating and drinking places	233.5	238.1	2.0			
Finance, insurance, and real estate	185.4	189.9	2.5	43.0	3.1	4.7
Services	874.4	899.0	2.8	882.0	3.4	4.8
Personal	40.1	41.1	2.5	43.0	3.1	4.7
Business	165.6	169.3	2.2	194.0	4.1	12.4
Health	282.5	291.2	3.1	283.0	1.6	1.6
Other	386.1	397.4	2.9	133.6	10.2	8.8
Government	637.6	647.3	1.5	633.0	1.2	1.9
Total nonagricultural employment	3,820.5	3,835.8	0.4%	3,862.0	1.7%	3.3%

SOURCE: Michigan Employment Security Commission, *Monthly Report on Employment, Hours, and Earnings*, various issues.

EXHIBIT 12

Michigan Employment, Percentage Change, 1988 I–1990 I (1987 I=100)



SOURCE: Michigan Employment Security Commission, *Monthly Report on Employment, Hours and Earnings*, various issues.

EXHIBIT 13

Unemployment Rates for Eleven Large States, 1989 IV and 1990 I (seasonally adjusted)

	1989 IV	1990 I
Michigan	7.6	7.8
Ohio	6.2	6.0
Illinois	6.6	5.9
United States	5.3	5.7
Texas	6.7	5.7
Florida	5.7	5.6
Pennsylvania	5.1	5.4
California	5.0	5.1
Massachusetts	4.5	5.1
New York	5.2	4.9
New Jersey	4.6	4.6
North Carolina	3.0	3.6

SOURCE: Bureau of Labor Statistics, U.S. Department of Labor, *News*, various issues.

latest data available), down from a revised 2.3 percent gain between 1989 II and III (see Exhibit 14). The national increase was 2 percent. The U.S. Department of Commerce revised 1989 III personal income in Michigan from $165,919 million to $166,608 million. The fastest growing sectors in 1989 IV were finance, insurance, and real estate (3.9 percent) and services (1.8 percent). Earnings in manufacturing declined 1.1 percent and rose only 0.1 percent in construction, which was a strong growth sector until recently. Wages and salaries in Michigan were up only 0.4 percent during this period, compared with 1.7 percent nationally. Personal income in 1989 IV was 7.2 percent above a year ago, and wages and salaries were 5.4 percent higher than the previous year.

EXHIBIT 14

Michigan and U.S. Personal Income and Changes from Previous Period, 1989 III and 1989 IV (dollars in millions at seasonally adjusted annual rates)

	Michigan		United States		Percentage Change, 1989 III to 1989 IV	
	1989 III	1989 IV	1989 III[a]	1989 IV[b]	Michigan	United States
Earnings	$120,761	$121,480	$3,174,050	$3,239,590	0.6%	2.1%
Construction	5,741	5,744	194,792	197,077	0.1	1.2
Manufacturing	41,025	40,558	628,117	630,256	–1.1	0.3
Transportation and public utilities	6,162	6,239	211,474	215,046	1.2	1.7
Wholesale and retail trade	17,311	17,459	511,610	519,425	0.9	1.5
Finance, insurance, and real estate	5,322	5,529	229,304	237,767	3.9	3.7
Services	26,557	27,048	809,209	829,827	1.8	2.5
Government	17,073	17,260	503,232	510,837	1.1	1.5
Other	1,569	1,642	86,313	99,355	4.7	15.1
Other labor and proprietor's income	20,310	20,589	584,819	606,281	1.4	3.7
Dividends, interest, and rent	27,993	28,557	799,551	776,314	2.0	–2.9
Transfer payments	25,297	25,623	636,723	649,828	1.3	2.1
Total personal income	$166,608	$168,245	$4,381,863	$4,470,967	1.0%	2.0%
Addendum:						
Wages and salaries	$100,451	$100,890	$2,589,231	$2,633,309	0.4%	1.7%

SOURCE: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, April 1990.
[a]Revised
[b]Preliminary

For all of 1989, the growth in Michigan personal income was 7.6 percent and in wages and salaries was 6 percent. These numbers compare with gains of 6.6 percent and 7.3 percent, respectively, in 1988.

Outlook

Employment in 1990 II may be somewhat stronger than in the first quarter, despite a return to more normal weather, since motor vehicle employment will not be as depressed. Although sales continue weak, inventories are under control, and significant layoffs are not likely. We still expect a slow year for employment, with job growth of less than one percent and an average unemployment rate of 8 percent.

Personal income may not reach our forecast growth of 5 percent. Based on first-quarter income tax collections, it appears that wages and salaries did not increase above 1989 I, and total income growth in 1990 I probably will be less than 2 percent. We will not adjust our forecast until actual data become available, but a downward revision is likely.

Consumer Prices

Review

Michigan consumer prices (as measured by the Detroit–Ann Arbor CPI, released every two months) surged in February after declining in December. The February index was 8.4 percent above the December 1989 figure and 5 percent higher than a year ago (see Exhibit 15). There were large increases in almost every major category, with entertainment, apparel, medical care, and transportation rising at double-digit rates. Motor fuel prices grew at an annual rate of 40.1 percent. The overall price increase was held back by a rise of only 1.5 percent in housing, which comprises more than 40 percent of the computation.

Outlook

The recent price surge has caused concern, but the large increases are likely to be temporary. Energy prices already are falling, and food prices should moderate by summer. Some of the other increases, such as for apparel, are seasonal and also should slow in the next few months. The economy is still too weak to support high prices for an extended period. We continue to forecast an inflation rate of about 4 percent in 1990, slightly lower than expected nationally.

Housing and Construction

Review

Construction activity was up in the first quarter, due in large part to mild weather. Relatively low mortgage rates contributed to an upswing in planned housing (measured by the number of residential permits), as prospective home builders rushed to lock in rates before any increase might occur. The effective mortgage rate posted for Michigan in January (10.27 percent) was the lowest since April 1987.[5] The rate—which has declined every month except one since April 1989—rose in both February (to 10.63 percent) and March (to 10.7 percent), reaching its highest level since June 1989. In April 1990 the rate declined to 10.6 percent.

Residential building permits issued in January, both in Detroit and statewide, were above the levels posted the previous year. Permits fell along with temperatures in February but rose again in March, ending the quarter above the 1989 I

[5] Industry Analysis Department, Federal Home Loan Bank of Indianapolis, "Michigan and Indiana Effective Mortgage Rates" (Indianapolis: April 1990). Data are from a Bank Board survey of 6th District savings and loan institutions regarding mortgage activity during the first five business days of the month. Rates are on 25-year maturity loans with a 75 percent loan-to-value ratio.

EXHIBIT 15

Detroit–Ann Arbor Consumer Price Index and Percentage Changes, by Major Component, February 1990, 1989, and 1979–89

Component	February 1990	Percentage Change from December 1989 (annual rate)	Percentage Change from February 1989	Percentage Change, 1989 average over 1988 average	Percentage Change, 1979–89
Food and beverages	125.3	11.2%	4.9%	5.2%	47.2%
Housing	123.8	1.5	3.5	4.5	72.8
Apparel and upkeep	126.7	19.1	5.9	6.4	37.0
Transportation	120.5	11.2	6.0	6.8	66.5
Motor fuel	92.4	40.1	14.4	10.4	NA
Medical care	154.7	15.5	8.3	4.9	99.6
Entertainment	128.2	19.8	7.9	5.2	45.9
Other goods and services	144.0	8.4	6.4	5.9	96.9
All items	126.1	8.2	5.0	5.3	71.3
Addendum:					
All items less energy	130.1	7.5%	4.8%	5.2%	69.0%

SOURCE: Bureau of Labor Statistics, U.S. Department of Labor, *News*, selected issues. Calculations by Public Sector Consultants, Inc.

level. In the Detroit area, 1,539 permits were issued in January, up 52.4 percent from the previous month and 101 percent above the previous year. Detroit area permits declined by 44 percent in February (to 859) but ended the quarter on a high note, rising 83.6 percent in March (to 1,577). The first-quarter total was 3,975 permits for the metro area, 20.7 percent above 1989 I. A similar pattern was experienced statewide: Residential building permits issued in January totalled 2,823, up 19 percent from December; there was a drop of 30.1 percent in February (to 1,972), then a rise of 77.6 percent in March (3,502 permits). Residential permits issued statewide in 1990 I amounted to 8,297, up 24.6 percent from 1989 I.

The mild weather spurred not only early planned starts but also actual construction, especially in the metro Detroit area. The value of residential construction put into place in metro Detroit through February 1990 (the latest data available) totalled $273 million, 59.9 percent more than the same period in 1989. Nonresidential construction amounted to $199.1 million, 14.7 percent above the period a year ago. Statewide residential construction during the first two months of the year was up 38.7 percent from 1989, to $472 million. Nonresidential construction was the only category experiencing a decline from last year, amounting to $418.7 million, 5.4 percent below the year-ago level.

Outlook

The February and March climb in mortgage rates was likely in response to higher rates on long-term government securities (see Monetary Policy), but unless the Fed tightens credit in the near future, housing (at least in the residential market) should remain stable through the second quarter. Strength in public sector construction also should help keep the construction industry on an even keel.

Regional Economies

Review

First-quarter employment growth was slow in most of the state's major labor markets. The Upper Peninsula continues to buck the trend, posting an employment increase 4.3 percent higher than 1989 I. The main growth sectors there have been construction and services. The metropolitan areas recording the fastest job growth were those less dependent on the automobile industry, such as Grand Rapids and Battle Creek. The three most dependent—Flint, Detroit, and Saginaw-Bay-Midland—all recorded employment declines. In 1990 I the automotive sector in Detroit declined by 18,800 jobs (down 10.3 percent from 1989 I) and in Flint by 3,300 jobs (9.3 percent less than 1989 I).

Unemployment rates in 1990 I increased above the year-ago quarter in all labor markets except the U.P., where the rate declined 0.7 percent (see Exhibit 16). The largest jumps were 2.5 percent in Saginaw-Bay-Midland and 2.1 percent in Lansing and East Lansing; the range was from 12.1 percent in Flint to 5 percent in Ann Arbor. Auto layoffs in January skewed the first-quarter average for some labor markets, however. For example, the rate in Flint was 17.9 percent in January and only 8.9 percent in March. In Saginaw-Bay-Midland the rate fell from 13.3 percent in January to 7.7 percent in March.

EXHIBIT 16

Wage and Salary Employment, Unemployment, and Percentage Changes, Major Michigan Labor Markets, 1989 I, 1990 I, and 1989 (employment in thousands)

	Employment					Unemployment		
Labor Market	1989 I	1990 I	Percent Change	1989	Percentage Change from 1988	1990 I Rate	Percentage Point Change from 1989 I	1989 Rate
Upper Peninsula	104.0	108.9	4.3%	108.0	5.4%	9.9%	–0.7%	8.2%
Grand Rapids	338.9	344.9	1.8	340.1	5.2	6.3	1.2	5.3
Battle Creek	58.9	59.9	1.7	59.3	2.1	8.7	1.7	7.4
Muskegon	57.2	58.0	1.4	57.7	1.4	9.5	0.6	8.9
Lansing-East Lansing	209.4	210.4	1.1	214.2	4.3	7.7	2.1	5.6
Kalamazoo	110.7	111.6	0.8	110.7	4.0	5.4	0.6	5.0
Jackson	53.2	53.5	0.6	54.6	6.2	8.3	1.3	6.8
Ann Arbor	173.1	173.9	0.5	175.3	2.7	5.0	1.2	4.1
Benton Harbor	65.4	65.5	0.2	66.7	2.9	8.4	1.0	7.4
Saginaw-Bay-Midland	155.7	155.6	–0.1	158.8	1.0	9.7	2.5	7.0
Detroit	1,899.5	1,892.2	–0.1	1,938.0	3.7	7.9	1.0	7.0
Flint	162.7	162.1	–0.4	168.4	0.9	12.1	1.4	10.4
Michigan	3,833.1	3,837.5	0.1%	3,904.5	2.2%	7.6%	0.4%	7.1%

SOURCE: Calculated by Public Sector Consultants, Inc., from data supplied by Bureau of Research and Statistics, Michigan Employment Security Commission.

Outlook

The pattern of regional economic growth is likely to favor automobile-dependent labor markets (Flint, Detroit, and Saginaw-Bay-Midland) in 1990 II as workers return from first-quarter layoffs intended to bring inventories into line. For all of 1990, however, these labor markets will experience the slowest employment growth. The Upper Peninsula should continue to do well, although the pace will slow. Above-average growth in Grand Rapids and Battle Creek should continue, and the rate of growth in Ann Arbor should increase from current levels.

ROBERT KLEINE, Senior Economist and editor of PSC's ***Public Sector Reports***, formerly was senior analyst in public finance at the Advisory Commission on Intergovernmental Relations in Washington, D.C., and director of Michigan's Office of Revenue and Tax Analysis.

FRANCES SPRING, Economist, assists in preparing PSC's revenue and economic forecasts as well as issue papers on tax and economic matters. She is the co-author, with Mr. Kleine, of PSC's recently published study on K–12 education, *Profiling Michigan's School Districts*.

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