



# ECONOMIC FORECAST

## OVERVIEW

National economic growth in the second quarter of 1987 was below that of the first quarter but well above that of the second, third, and fourth quarters of 1986. Employment data for July 1987 suggest that third-quarter growth in gross national product (GNP) will exceed the sluggish second-quarter figure of 2.6 percent, although it seems unlikely it will surpass the first quarter's 4.4 percent. An indicator of probable improvement in the third quarter is the index of leading indicators, which was up during the first half of the year. An improvement in consumer income, attitudes, and buying plans also points to a buoyant national economy.

For Michigan the outlook is not as bright because of declining production levels in the automotive industry. The replacement of many high-paying manufacturing jobs with fewer, lower-paying service jobs continues to take a toll on personal income and employment in the state. Michigan's economy has not grown as fast as the U.S. economy since 1984; this trend will continue through the first half of 1988 even though Michigan's performance exceeds that of the nation in some industries.

Total economic output in Michigan will probably decline during the middle two quarters of 1987 and grow slowly during the last quarter. The full brunt of the latest round of auto-related factory closings will be felt during January, February, and March of 1988.

## NATIONAL ECONOMY

Revised figures put 1986 real GNP growth (nominal GNP adjusted for inflation) at 2.9 percent, compared with 3 percent during 1985 and 6.8 percent during 1984. During the first half of 1987, GNP grew at an annual rate of 3.5 percent. This rate of growth is likely to continue during the third quarter. The major contributing sectors to growth this year have been exports, state and local government spending, personal consumption expenditures, and the accumulation of business inventories. Federal spending and business and residential fixed investment have been down so far this year. Changes in real GNP are depicted in Exhibit 1.

If economic growth is maintained at about the level of the first half of the year, and if the federal government reduces spending, the federal budget could be in better shape this year than most economists had expected

at the end of 1986. A smaller federal deficit, among other things, would reduce pressure on interest rates. This, combined with the reduction in our international trade deficit since the third quarter of 1986 will give the Federal Reserve Board far more room to set monetary policy to meet other domestic needs.

A negative result of economic growth so far this year has been rising prices. The implicit price deflator for GNP (a broad gauge of national price changes) rose at an annual rate of 4 percent during the first half of 1987 compared with 2.6 percent for 1986, 3.2 percent for 1985, and 3.7 percent for 1984. Changes in prices are depicted in Exhibit 2.

## Fiscal Policy

The administration and the Congress have made very modest progress in reducing the federal budget deficit so far this year. The Gramm-Rudmann-Hollings targets are essentially being ignored, and there is little likelihood of deficits below \$150 billion for the foreseeable future. The large deficits have had an expansionary effect on the economy, but a reduction in the rate of increase in government spending will exert a dampening influence on the economy for at least the next two years.

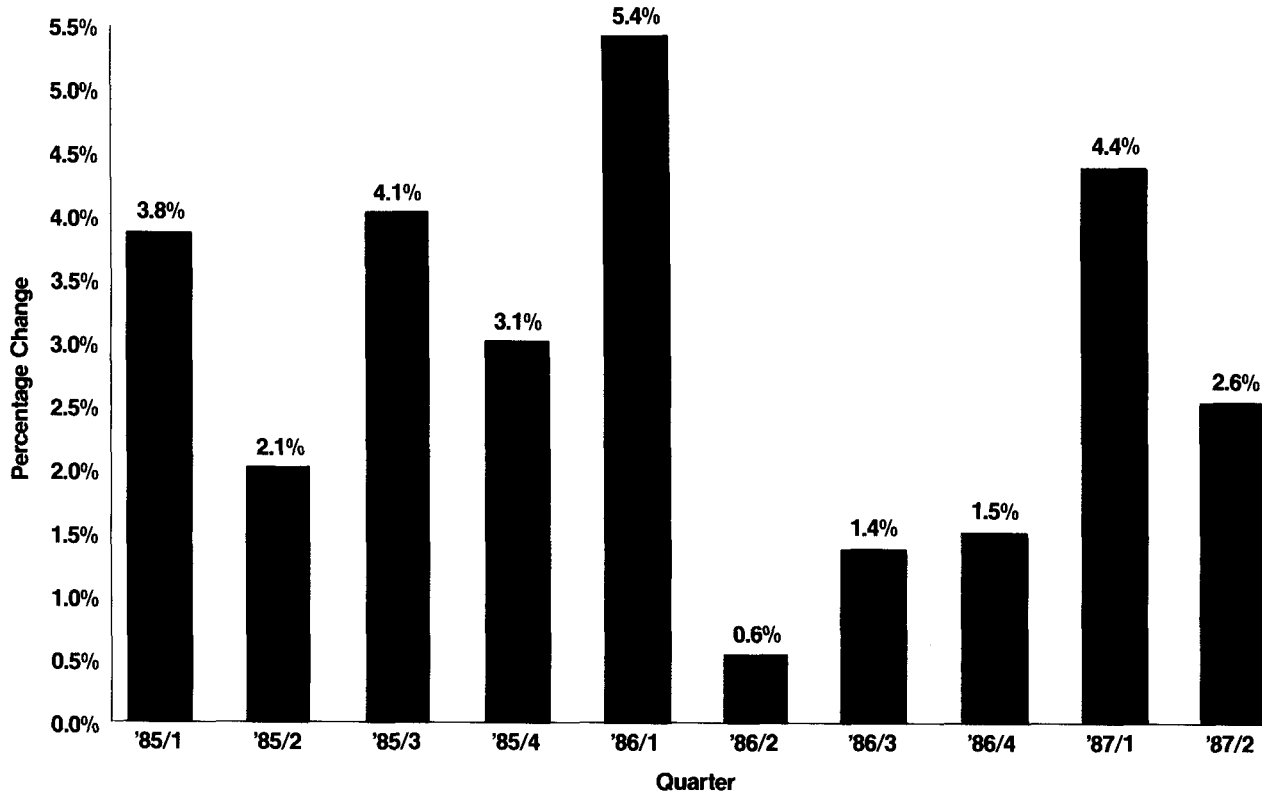
The economic implications of the 1986 Federal Tax Reform Act are not yet obvious. The short-run effect is an increase in disposable income, but the long-term effect could be less business investment due to the tax increases on business. However, this could be offset by increased economic efficiency as investment decisions will be based more on economic and less on tax considerations.

## Monetary Policy and International Trade

Federal Reserve Board policy has been relatively conservative this year compared with last, resulting in a decided slowdown in the rate of growth of the money supply. The federal reserve is wary of this year's rise in the level of prices for all goods and services and of rising petroleum prices that have been responding to the threat of disruption in the Middle East. Slower money supply growth is expected to counter the trend toward higher inflation.

The slower growth in the money supply has also resulted in higher interest rates. The prime bank loan rate (the rate banks charge to their best customers),

**EXHIBIT 1**  
**Percentage Change in Real GNP from the Preceding Quarter:**  
**First Quarter 1985 to Second Quarter 1987**  
**(annual rates)**



which had stabilized at 7.5 percent between early September 1986 and late March 1987, now stands at 8.25 percent. Five-year treasury securities yielded 6.79 percent in February and March of this year; during the week ending August 7, the yield was 8.34 percent. Interest rates on home mortgages and on a variety of other financial instruments have also risen in recent months.

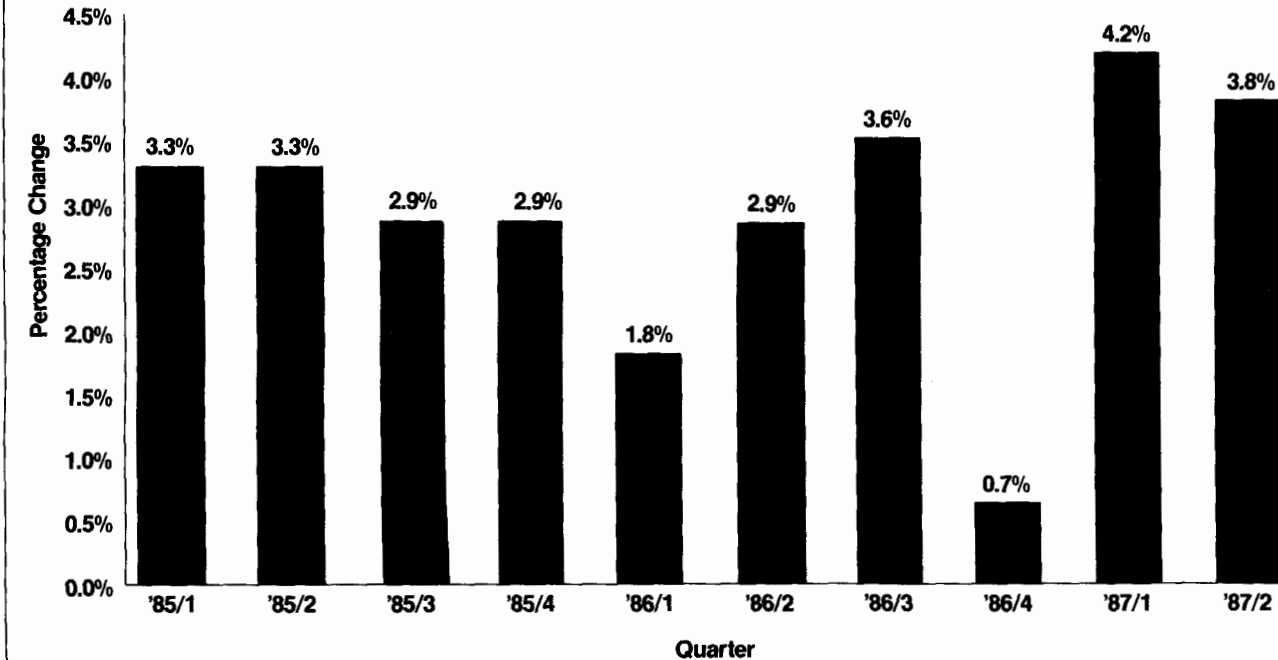
Predictions of disturbances in the Middle East have sent the dollar higher on foreign exchange markets as the dollar is regarded as a "safe haven" during periods of uncertainty and increased demand for U.S. dollars results in a highly valued dollar. For example, on August 7, one U.S. dollar would purchase 151.7 Japanese yen and 1.9 West German marks; during May, one dollar could buy, on average, only 140.5 yen or 1.8 deutsche marks. Maintaining confidence in our currency is important because much of our federal budget deficit is financed by foreign investment in U.S. capital markets.

The value of the dollar relative to foreign currencies is still low compared to December of last year. A low-valued dollar has positive and negative effects on the

economy. On the positive side, a cheap dollar makes U.S. goods and services inexpensive in comparison with those produced in other countries, increasing exports, improving the trade balance, and stimulating U.S. economic growth. The recent rise in the value of the dollar, and prospective increase in the months ahead, is unlikely to stop the improvement in our trade balance. On the negative side, a decline in the value of the dollar would reduce foreign investment in the United States and could lead to a recession if it became necessary to raise interest rates to finance the federal government deficit internally.

For Michigan, the key foreign currencies are those of countries that compete in the market for motor vehicles and those with a high volume of trade with the state. Since 1985, the dollar has declined by 36 percent with respect to the Japanese yen and the West German deutsche mark and by 6 percent with respect to the South Korean won. The lower-valued dollar with respect to currencies in other automobile-producing countries makes imported cars more expensive here. This should stimulate the demand for U.S. automobiles at home and abroad.

**EXHIBIT 2**  
**Percentage Change in GNP Implicit Price Deflator from Preceding Quarter:**  
**First Quarter 1985 to Second Quarter 1987**  
**(annual rates)**



Canada is Michigan's most important trading partner. The U.S. dollar is worth about 11 percent more relative to the Canadian dollar than it was in 1981, making imports from Canada cheaper and reducing Canada's demand for American-made products. A cheap U.S. dollar relative to the Canadian dollar benefits consumers who can substitute Canadian products for American ones, but harms producers of American products. This is particularly true for Michigan consumers and producers given the state's proximity to major Canadian markets.

### Leading Indicators

The federal government's composite index of leading indicators of economic activity increased by a healthy 0.8 percent in June compared with 0.5 percent in May and 0.2 percent in April. This is the eighth straight monthly increase for the index, portending continued growth in the American economy. The index has declined only five times during the past two and a half years.

June data were available for nine of the eleven individual indicators in the composite index. Positive contributors were sensitive materials prices, stock market prices, manufacturers' new orders for consumer goods and materials, and permits for new residential construction. Vendor performance, money supply, average weekly initial claims for unemployment insurance, and contracts and orders for plant and equipment made negative contributions. Average length of work week for production workers in manufacturing was unchanged. Not included in the preliminary June index were inventory change and change in consumer and business borrowing.

### Investment

Investment in nonresidential, privately owned structures peaked in the second quarter of 1985 and, with the exception of the fourth quarter of 1986, has declined since then. This investment was \$151.7 billion inflation-adjusted dollars in the April-June 1985 period, compared to \$120.2 billion in the same period in 1987.

Investment in producers' durable equipment peaked at \$318.6 billion during the last quarter of 1986, fell to \$305.6 billion during the first quarter of this year, and then increased to \$314.1 billion in the latest period. The previous peak of \$318.0 billion was reached in the last quarter of 1985. (These figures are also adjusted for inflation.)

Investment in financial assets is brisk. During the last five years, beginning in August 1982, the Dow Jones Industrial Average climbed from 776.92 to 2,669.32. The high level of investment activity is due, in part, to the fact that it is often more lucrative for companies to buy existing assets than to invest retained earnings in new assets. Some of the growth in the Dow Jones Average has come from Japanese investment of dollars earned through several years of trade surpluses with the United States.

Overcapacity in many industries, especially manufacturing, make prospects for an increase in capital spending unfavorable. Capital spending is far less important in the rapidly expanding service sector, which is, for the most part, labor, skill, or knowledge intensive.

According to the latest survey by the Bureau of Economic Analysis, business plans an increase of 3 percent for new plant and equipment during 1987. After adjustment for inflation, the 1987 level will be about 1.5 percent below that of 1985. Commercial and service industries plan a 5.6 percent increase between 1986 and 1987, and durable goods manufacturers plan a 1.3 percent increase. Plant and equipment expenditures in nondurable goods, mining, transportation, and public utilities are expected to decline.

Nonfarm business inventory investment increased by \$22.5 billion during the second quarter, a rate of gain about half that of the first quarter of this year. The index of vendor performance shows that goods are readily available from current production, making it unlikely that businesses will voluntarily increase inventories.

## Consumption

Personal consumption expenditures grew by an inflation-adjusted 2.1 percent in the second quarter of this year compared with a 0.7 percent decline during the first. Spending on nondurable goods dropped by 4.3 percent. Spending on consumer durables grew by 11.4 percent; on services, by 4 percent. About half of consumer outlays are on services.

Growth in disposable personal income was sluggish for most of last year. This has been caused by a basic change in the structure of the economy. Low-paying jobs in service industries are replacing better paying jobs in manufacturing industries. The condition of the U.S. work force improved in July, however, because of a large increase in manufacturing employment due

to the improvement in exports. Increased manufacturing activity will result in an increase in disposable personal income for the month of July.

According to the latest survey of consumer attitudes and buying plans conducted by The Conference Board, spirits were much improved in May.<sup>1</sup> Consumers planned to increase their spending for all major items covered in the survey. Expectations for the months ahead have also improved.

Finally, a survey conducted by Manpower presents an optimistic picture of the labor market this summer, which if accurate will result in higher consumer expenditures.<sup>2</sup> The strongest improvements in the employment picture during the months of July, August, and September were expected in manufacturing and services. The improvement is particularly noticeable in the Northeast and Midwest. These hiring plans mirror improved executives' expectations.

Executives' sentiments about current economic conditions and the outlook for the second half of the year improved in the first quarter of 1987. The Conference Board's *Measure of Business Confidence* increased to 55—from 51 in the fourth quarter—although it remained well below the level of 61 posted in the first half of 1986. Optimism increased in most manufacturing industries, but declined in several nonmanufacturing industries.<sup>3</sup>

The Conference Board's help-wanted advertising index stood at a seven-year high in June of this year, another indication of a strong labor market.

Everything considered, increases in consumer spending and continued reduction in the trade deficit are expected to lead the national economy to a 3.5 percent gain in GNP during the last half of 1987. One negative factor is that consumers are burdened by record levels of debt.

## MICHIGAN ECONOMY

### Personal Income and Earnings

The latest available data show that labor and proprietors' earnings in Michigan grew by 1.6 percent between the last quarter of 1986 and the first of 1987. The national figure was 1.9 percent (see Exhibit 3). After adjusting for inflation and annualizing, Michigan's growth was 2.2 percent compared with 3.4 percent nationally.

<sup>1</sup>The Conference Board is a private, nonprofit corporation that collects and disseminates data pertaining to the performance of this country's private sector.

<sup>2</sup>Manpower is a for-profit placement agency with offices nationwide.

<sup>3</sup>The Conference Board, *Business Executives' Expectations*, First Quarter 1987 (New York: 1987), p. 1.

Michigan personal income increased only two-thirds as fast as U.S. personal income from 1980 to 1986, due mainly to the severe effect on Michigan of the recessions of the early 1980s. Since 1982, Michigan has done better, as personal income in this state increased about 87 percent as fast as U.S. personal income. One result has been that Michigan per capita income has fallen from 102.6 percent of the U.S. average in 1980 to 97.3 percent in 1986, ranking Michigan twentieth among the states. Adjusted for inflation, Michigan personal income increased only 7.6 percent from 1980 to 1982 (5.4 percent). From 1982 to 1986, inflation-adjusted Michigan personal income increased 13.8 percent. Michigan personal income from 1981 to 1986 is depicted in Exhibit 4.

Earnings in durable goods manufacturing declined during the first quarter in this state and showed no growth nationally. This sector is important to Michigan, generating over 30 percent of Michigan earnings compared to about 13 percent nationally.

Earnings in nondurable goods manufacturing were strong compared to the state's overall earnings growth and to nondurable goods manufacturing in the nation. Earnings in mining and other resource-based industries also grew during the first quarter. Construction earnings in Michigan are up, although construction makes up less than 5 percent of total Michigan earnings

compared with more than 6.5 percent of national earnings.

Strength in home sales has resulted in earnings gains in the finance, insurance, and real estate sectors. Michigan also posted earnings gains above the U.S. average in wholesale and retail trade and in federal military payrolls. Earnings in the state grew more slowly than in the nation in transportation and public utilities, services, federal civilian payrolls, and state and local government payrolls.

Despite a relatively strong first quarter, Michigan personal income is expected to increase only 3 to 4 percent in 1987. The growth rate will slow further to 2.5 to 3.5 percent in 1988. In real terms, Michigan personal income is expected to decline in both years. Over the long term, personal income in Michigan will increase at a slightly slower rate than U.S. personal income.

## Employment

The Michigan unemployment rate has fallen from 15.5 percent in 1982 to an average of 8.4 percent for the first half of 1987. Exhibit 5 shows that the Michigan unemployment rate was seventh highest among all the states and 3.5 percentage points higher than the U.S. average in June of this year. Employment growth, however, is slowing due mainly to weakness in man-

**EXHIBIT 3**  
**Labor and Proprietors' Earnings in Michigan and the United States,**  
**By Broad Economic Sector: Fourth Quarter 1986 and First Quarter 1987**  
**(dollars in millions)**

Sector	Michigan			United States		
	Fourth Quarter	First Quarter	Percentage Change	Fourth Quarter	First Quarter	Percentage Change
Agriculture	\$ 370	\$ 553	49.5%	\$ 32,132	\$ 39,068	21.6%
Agricultural services, forestry, and fisheries	296	307	3.7	13,217	13,641	3.2
Mining	417	439	5.3	31,709	31,744	0.1
Construction	4,373	4,614	5.5	171,937	174,975	1.8
Nondurable goods manufacturing	6,190	6,436	4.0	200,846	203,475	1.3
Durable goods	30,155	29,962	-0.6	348,447	348,550	—
Transportation and public utilities	5,144	5,218	1.4	182,504	185,154	1.5
Wholesale trade	5,041	5,145	2.1	164,571	167,128	1.6
Retail trade	8,264	8,398	1.6	253,968	257,354	1.3
Finance, insurance, and real estate	4,234	4,400	3.9	193,975	198,809	2.5
Services	17,971	18,360	2.2	593,472	607,271	2.3
Federal civilian payrolls	1,633	1,663	1.8	88,224	90,280	2.3
Federal military payrolls	357	369	3.4	41,201	42,324	2.7
State and local government payrolls	10,821	10,927	1.0	289,941	295,458	1.9
<b>TOTAL EARNINGS</b>	<b>\$95,266</b>	<b>\$96,791</b>	<b>1.6%</b>	<b>\$2,606,143</b>	<b>\$2,655,230</b>	<b>1.9%</b>

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

**EXHIBIT 4**  
**Personal Income in Michigan,**  
**The Great Lakes Region, and the United States**  
**(dollars in millions)**

Year	Michigan Nominal <sup>a</sup> Personal Income	Annual Percentage Change in Nominal <sup>a</sup> Personal Income	Annual Percentage Change in Real <sup>b</sup> Personal Income	Nominal <sup>a</sup> Personal Income in Great Lakes States <sup>c</sup>	Nominal <sup>a</sup> Personal Income in the United States
1981	\$100,084	6.4%	-2.7%	\$456,183	\$2,512,300
1982	101,240	1.2	-2.8	468,950	2,660,900
1983	107,107	5.8	2.9	491,726	2,833,200
1984	117,661	9.9	6.1	538,438	3,101,400
1985	123,673	5.1	1.6	567,040	3,310,500
1986	128,693	4.0	2.6	591,882	3,486,200

<sup>a</sup>Income measured in current dollars.

<sup>b</sup>Change in income adjusted for inflation.

<sup>c</sup>Great Lakes states are Wisconsin, Illinois, Indiana, Ohio, and Michigan.

ufacturing. The only significant growth sectors in the past two years have been services, retail trade, finance, and construction. (See Exhibit 6.)

Within manufacturing in Michigan, industries closely associated with vehicle manufacture are the most depressed. These include basic steel, forgings, foundries and other primary metals, automotive stampings and other fabricated metals industries, and machinery. Employment in electronics and electrical equipment industries in this state is also slipping, but not at the national pace.

Michigan is posting sizeable gains in the manufacture of transportation equipment compared to the rest of the nation. The same is true in miscellaneous manufacturing industries. In contrast to the nation, Michigan is exhibiting growth in the manufacture of instruments and related products.

A stellar performer in manufacturing again this year is furniture and fixtures, which is centered in Grand Rapids. This growth is linked to the national boom in office building. Increased home construction has resulted in good growth in Michigan's lumber and wood production.

Michigan's best performer in nondurable goods continues to be the plastics industry. Automotive plastics are being developed to replace metal in smaller vehicles to reduce weight and cost. With its concentration of automotive assembly plants, Michigan has an advantage in attracting firms in this industry. Unfortunately, some of this growth has been at the expense of steel, iron castings, forgings, and stampings industries in this state. Wages in plastics manufacturing tend to be well below the levels paid in the metals industries.

Michigan's paper industry is somewhat depressed; however, on the whole, employment in nondurable goods manufacturing industries in this state is steady.

**EXHIBIT 5**  
**States with Highest Unemployment**  
**Rates, June 1987<sup>a</sup>**

State	Rate
Alaska	11.2
Louisiana	11.2
Mississippi	9.8
Texas	9.6
Kentucky	9.1
West Virginia	9.1
<b>Michigan</b>	<b>8.9</b>
Arkansas	8.1
Colorado	8.0
U.S.	6.3

SOURCE: Bureau of Labor Statistics, U.S. Department of Labor, Washington, D.C.

<sup>a</sup>Preliminary data.

The service sector is rapidly closing the gap on manufacturing as Michigan's largest employer. In 1978, the manufacturing sector provided 32.7 percent of Michigan wage and salary jobs compared with 16.7 percent for services. In the first half of 1987, manufacturing provided only 26.6 percent of all wage and salary jobs and services provided 21.7 percent. (See Exhibit 7.) The trend away from higher-paying manufacturing and toward lower-paying services is reflected in the relative decline in Michigan per capita income.

The employment outlook for the next two years is not bright. Michigan will lose an estimated 71,000 jobs by the third quarter of 1989 due to the plant closings announced by General Motors. With economic growth in general relatively weak, wage and salary employment is expected to increase only 1 to 1.5 percent in 1987

**EXHIBIT 6**  
**Michigan and United States Wage Employment,**  
**First and Second Quarter 1987**  
**(employment figures in thousands of jobs)**

Industry Group	Michigan			United States		
	First Quarter	Second Quarter	Percentage Change	First Quarter	Second Quarter	Percentage Change
Mining	10.7	10.8	0.9%	720	732	1.7%
Construction	126.3	131.3	4.0	5,035	5,007	-0.6
Nondurable goods	224.1	222.8	-0.6	7,808	7,843	0.4
Durable goods manufacturing	763.8	753.2	-1.4	11,171	11,179	0.1
Motor vehicles and equipment	327.3	321.5	-1.8	855	846	-1.1
Other durable goods	436.5	321.5	-1.1	10,316	10,333	0.2
Transportation, communication, and public utilities	150.8	150.3	-0.3	5,317	5,349	0.6
Wholesale trade	179.6	178.7	-0.5	5,755	5,774	0.3
Retail trade	659.0	659.7	0.1	18,119	18,209	0.5
Finance, insurance, and real estate	176.9	179.8	1.6	6,502	6,573	1.1
Services	803.6	801.8	-0.2	23,757	23,989	1.0
Government	595.9	609.0	2.2	16,949	17,031	0.5
<b>TOTAL</b>	<b>3,690.7</b>	<b>3,697.4</b>	<b>0.2%</b>	<b>101,133</b>	<b>101,686</b>	<b>0.5%</b>

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

**EXHIBIT 7**  
**Wage and Salary, Manufacturing,**  
**and Services Employment in Michigan**

Year	Percentage Change in Wage and Salary Employment	Percentage Change in Manufacturing Employment	Percentage Change in Services Employment	Unemployment Rate
1978	4.9%	4.6%	5.9%	6.9%
1979	0.8	-1.7	2.1	7.8
1980	-5.3	-13.9	2.8	12.4
1981	-2.3	-2.0	0.8	12.3
1982	-5.1	-10.6	0.1	15.5
1983	-6.1	0.4	3.8	14.2
1984	4.9	9.4	4.9	11.2
1985	3.7	2.2	5.3	10.0
1986	2.2	-0.4	3.3	8.8
1987 (Jan.-May)	1.7 <sup>a</sup>	-2.4 <sup>a</sup>	3.6	8.4

<sup>a</sup>Compared with the year-ago period.

and to decline as much as 1 percent in 1988. The unemployment rate is forecast at 8.5 to 9 percent in 1987 and 9.5 to 10 percent in 1988.

One bright spot for the longer term is that the number of 16-to-24-year-olds is expected to fall about 10 percent by 1995, exerting downward pressure on the unemployment rate.

### Automobile Sales and Production

After increasing for four consecutive years, auto sales have turned down in 1987. Total auto sales for the

first half of 1987 fell 12.1 percent below the year-ago level. Domestic passenger car sales fell an even sharper 14.6 percent. The share of sales captured by imports was 29.1 percent in the first half of 1987 compared with 27.9 percent in 1986. U.S. auto production fell 5.7 percent in the first half of 1987. Truck production increased 8.7 percent. Because auto sales have fallen faster than production, additional cutbacks in production will be necessary in the second half of the year.

Michigan has fared better than the nation as Michigan auto and trade production in the first half of the year increased 4.1 percent and 32.1 percent, respectively,

above the year-ago level. After dropping sharply in 1984, Michigan's share of auto production has rebounded and averaged more than 35 percent in the first half of 1987. Michigan truck production as a share of U.S. truck production fell from 32.9 percent in 1982 to 22.1 percent in 1986, but has rebounded to 25 percent in the first half of 1987. (See Exhibit 8.)

U.S. auto sales should improve slightly in the second half of the year but will fall far short of the incentive-stimulated sales in the second half of 1986. For calendar year 1987, U.S. auto sales are estimated at 10-10.2 million units, 12 to 14 percent below the 1986 level. Imports will capture about 30 percent of the market. Auto sales in 1988 are estimated at 9.7-10 million units, with the import share increasing slightly. Auto production will be off sharply in the second half of 1987, as high inventory levels are reduced. Truck production will increase slightly in 1987, the seventh consecutive increase. Both auto and truck production are expected to decline modestly in 1988. Because of the high inventory levels and the soft market, an auto strike of moderate duration this fall would be unlikely to have much effect on the industry or on the Michigan economy.

## Consumer Prices

The economy is entering its sixth year of moderate inflation, after the price explosion from 1973 to 1981. In 1986, the Detroit consumer price index (CPI), the best measure of inflation in Michigan, increased only 1.4 percent, due mainly to the sharp drop in petroleum prices. In the first six months of 1987, the Detroit CPI increased at an annual rate of 4 percent, as oil prices firmed up. In recent months, food and fuel prices have pushed up the rate of inflation. Medical care prices also continue to increase at above average rates. (See Exhibit 9.)

There is no reason to expect a resurgence of high rates of inflation in the near future. The weakness in

the dollar resulted in an increase in import prices, but the dollar is unlikely to go much lower. The moderate rate of economic growth in the last two and a half years has prevented demand pressures from developing and has contributed to stable prices. Economic growth is more likely to weaken than strengthen in the next two years. As a result, there is little likelihood of rapid price increases, unless another energy crisis is precipitated by unstable conditions in the Middle East or the Federal Reserve Board undertakes a sustained expansionary monetary policy. The Detroit CPI is expected to increase at a rate of about 3.5 to 4.5 percent over the next two years.

## Retail Sales

Among the nineteen large states for which retail sales data are prepared by the U.S. Bureau of the Census on a monthly basis, Michigan ranked thirteenth in sales growth during the first five months of 1987. Retailers in the state posted modest gains compared with the year-ago period and with the nation as a whole. (See Exhibit 10.) Wisconsin, Ohio, New York, Missouri, Minnesota, and Louisiana fared more poorly than Michigan. Indiana turned in the best performance; Tennessee was second.

## Tourism

Michigan restaurateurs are enjoying a banner year, with sales gains of about 8.5 percent during the last three months of 1986 and the first four months of 1987.<sup>4</sup> This growth is reflected in employment gains of better than 6 percent for this industry during the first half of 1987 compared with the same period in 1986. Michigan's growth is about double the national figure.

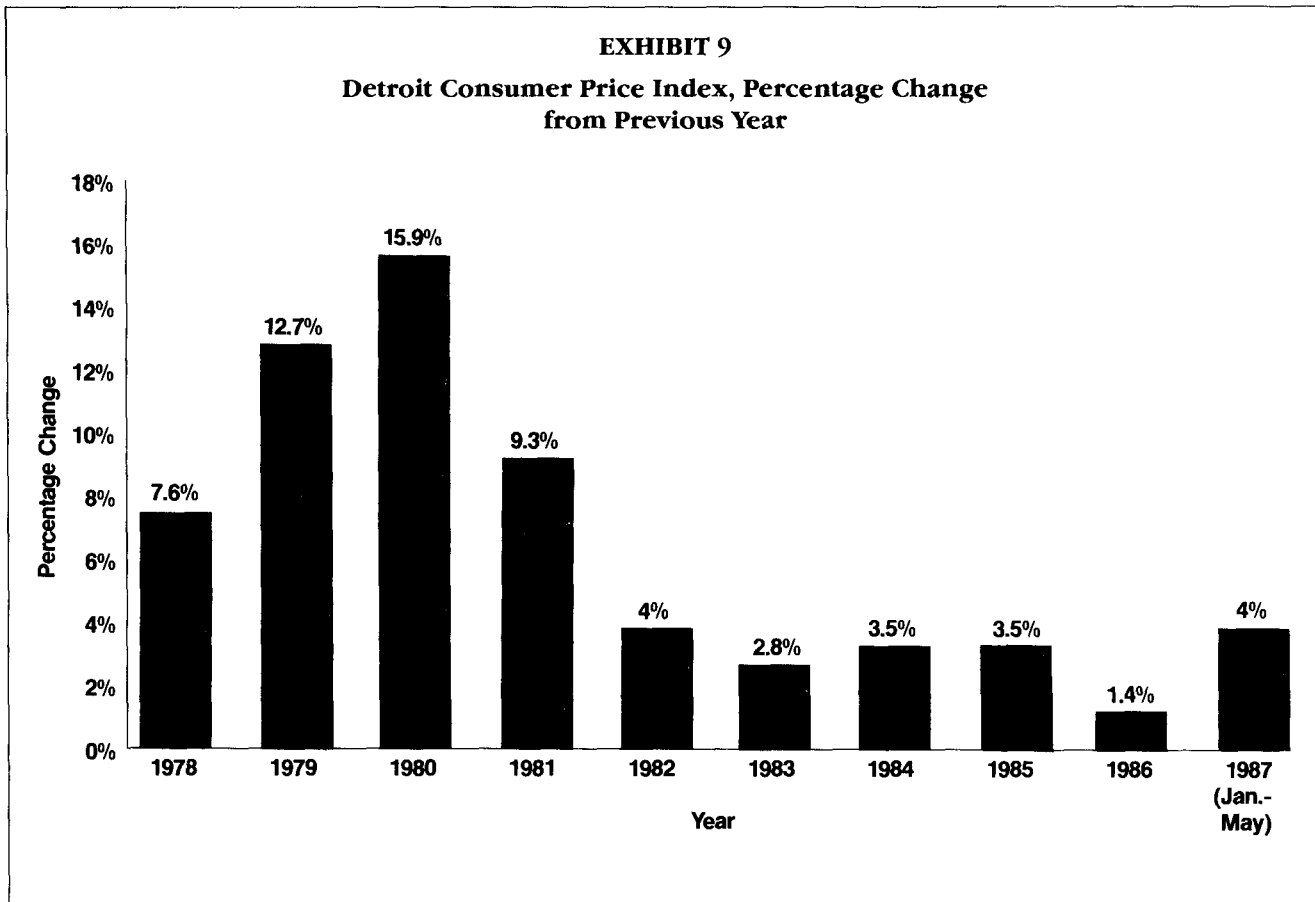
Hotels and other lodging places posted a sales gain of 16.5 percent according to Michigan Department of

<sup>4</sup>Michigan Department of Treasury, Sales Tax Division.

**EXHIBIT 8**  
**Auto Sales in the United States**

Year	U.S. Auto Sales (000)	Import Sales (000)	Import Share	Michigan Share	
				Auto Production	Truck Production
1978	11,280	2,245	17.9%	29.8%	35.9%
1979	10,950	2,234	20.4	28.8	28.7
1980	9,160	2,356	26.0	26.4	25.8
1981	8,970	2,377	26.5	30.6	26.3
1982	7,700	2,156	28.0	35.0	31.0
1983	8,820	2,346	26.6	33.9	32.9
1984	10,410	2,498	24.0	27.4	29.0
1985	11,070	2,679	24.2	29.8	26.5
1986	11,637	3,252	27.9	36.8	22.1
1987 (Jan.-June)	9,615	2,795	29.1	35.6	25.0





Treasury figures, while employment edged just ahead of last year's level. The 1987 occupancy rate in Michigan's lodgings industry has been below the 1986 level due to excess capacity as a result of the boom in hotel and motel construction.<sup>5</sup> Michigan State University's Travel, Tourism, and Recreation Resource Center reports that travel activity related to outdoor recreation and tourism was up during the first five months of 1987.

Overall, travel and tourism statistics indicate that Michigan's hospitality industries are experiencing a good year, mostly due to an increase in personal and family travel and tourism. Business-related travel is below 1986 levels.

### Construction

By every measure, Michigan's construction industry is a stellar performer this year, paving the way for high level activity in lumber and wood products, furniture and fixtures, appliances, building materials retailers, and real estate agencies.

For the first time since 1978, the number of building permits for new, residential units in Michigan will

exceed 50,000. The number of new stores and other mercantile buildings will set a new record of nearly 1,650 units. Industrial construction, office building, and nonresidential renovation also continue at a brisk pace, although the volume of such construction is below previous peak levels. (See Exhibit 11.) Current construction activity has resulted in a strong construction employment market. (See Exhibit 6.)

Oakland County leads in building activity, with over a third of office permit valuation, 26 percent of new residential permit valuation, 25 percent of industrial permit valuation, and 23 percent of nonresidential rehabilitation valuation.

Wayne County is the leader in nonresidential rehabilitation valuation, with nearly a third of the total. Wayne is second in industrial and mercantile permit valuation and third in new residential and in office permit valuation. Macomb County is first in mercantile, second in new residential, third in industrial, fourth in office, and fifth in nonresidential rehabilitation building permit valuation. Other leading counties in construction activity are Kent, Washtenaw, Ingham, Kalamazoo, Genesee, Ottawa, and St. Clair.

### Around the State

So far in 1987, Mecosta County, home of Ferris State

<sup>5</sup>Tabulations released by the accounting firms of Laventhol & Horwath, Southfield, Michigan.

**EXHIBIT 10**  
**Percentage Change in Retail Sales**  
**In Michigan and the United States, May 1986 to May 1987**

	Detroit <sup>a</sup>		Michigan		United States	
	May 1986- May 1987	1st 5 Months 1986- 1st 5 Months 1987	May 1986- May 1987	1st 5 Months 1986- 1st 5 Months 1987	May 1986- May 1987	1st 5 Months 1986- 1st 5 Months 1987
Durable goods, total	NA	NA	-7.0%	4.5%	1.1%	4.2%
Department stores	1.1%	3.9%	3.3	5.6	3.9	5.6
GAF <sup>b</sup> total	-4.3	1.2	-7.5	-1.1	4.5	7.4
Nondurable goods	5.0	2.2	3.2	2.3	3.1	3.8
<b>TOTAL</b>	<b>3.3%</b>	<b>7.5%</b>	<b>-1.5%</b>	<b>3.2%</b>	<b>2.3%</b>	<b>4.0%</b>

SOURCE: Bureau of the Census, *Monthly Retail Trade*, May 1987.

<sup>a</sup>The Detroit Metropolitan Statistical Area is comprised of Lapeer, Livingston, Macomb, Monroe, Oakland, St. Clair, and Wayne counties.

<sup>b</sup>GAF represents stores that specialize in department store types of merchandise, including furniture and apparel stores.

**EXHIBIT 11**  
**Valuation and Number of Residential and Nonresidential Units**  
**Authorized in Michigan Permit Issuing Places, by Category: 1979-86**

Category	1979	1980	1981	1982	1983	1984	1985	1986	1987 <sup>a</sup>	Percentage
										Change 1986/1987
<b>Valuation (millions)</b>										
Residential homes	1,899.9	1,164.1	821.8	593.2	1,015.9	1,324.2	1,833.7	2,440.5	2,840.9	16.4%
Transient hotels, motels, tourist courts, and cabins	43.1	51.8	19.6	8.6	12.7	86.9	130.9	101.6	60.7	-39.3
Industrial buildings	528.1	322.1	366.9	312.4	158.2	331.0	555.5	525.0	509.7	- 2.9
Office, bank, and professional buildings	222.6	260.8	211.9	121.0	209.5	353.9	408.0	512.5	484.8	- 5.4
Stores and other mercantile buildings	296.3	158.1	149.0	72.3	117.2	174.2	250.1	373.6	507.2	35.8
Additions, alterations, and conversions, except residential	189.1	537.3	412.7	349.9	432.7	600.3	702.9	859.1	836.4	- 2.6
<b>Number of Units</b>										
Residential homes	49,209	28,976	18,917	14,377	21,683	27,758	37,675	47,295	51,530	9.0
Transient hotels, motels, tourist courts, and cabins	2,204	1,629	724	859	1,018	1,869	5,149	3,857	3,482	- 9.7
Industrial buildings	1,450	789	634	479	630	857	1,149	1,315	1,150	-12.5
Office, bank, and professional buildings	739	542	459	310	438	531	627	626	576	- 7.9
Stores and other mercantile buildings	1,509	934	787	620	776	1,083	1,211	1,366	1,645	20.5
Additions, alterations, and conversions, except residential	12,805	12,714	12,511	11,491	13,519	14,518	15,068	15,589	12,798	-17.9

SOURCE: Bureau of the Census special release.

<sup>a</sup>Based on first six months.

College, is the leader in economic growth as measured by wage and salary employment. (See Exhibit 12.) Nearby Isabella, Clare, Gladwin, and Lake counties also posted good gains. Others among the top dozen growth counties are Baraga, Benzie, Charlevoix, Ionia, Sanilac, Cass, and Branch.

The second dozen labor markets ranked by growth in wage and salary employment between 1986 and 1987 are Schoolcraft, Luce, Mackinac, Chippewa, Emmet, Mason, and Allegan counties and the Ann Arbor, Detroit, Lansing, and Kalamazoo areas. (The Detroit labor market is defined as Lapeer, Livingston, Macomb, Monroe, Oakland, St. Clair, and Wayne counties. Lansing is comprised of Clinton, Eaton, and Ingham counties. Ann Arbor and Kalamazoo are single county, major markets.)

Areas with the greatest rates of decline are, for the most part, located in the northern Lower Peninsula. Iron and Ontonagon in the western Upper Peninsula, Manistee in the western Lower Peninsula, Gratiot, midstate, and the Flint area were also among the dozen weakest areas so far this year. Gratiot has been the victim of a prolonged labor dispute in Alma. Flint has been hard hit by the cutbacks at General Motors.

In general, the northeastern quadrant of the Lower Peninsula is faring worst in this year of slow state

growth. Aside from the Upper Peninsula, it is the most remote section of the state in terms of major highways and airports. The high-tech areas of Detroit, Ann Arbor, and Lansing are doing well because of the presence of major universities and the transformation of the automotive industry from business as usual to space-age design, engineering, and production technology.

## MICHIGAN IN TRANSITION

Michigan is the leading automotive state, indeed, the leading center for automotive production, research, and development in the world. Infrastructure, work force, and government institutions exist to support this industrial structure. The state prospered during the 1960s due to mass production and strong demand for large vehicles.

The 1979 energy crunch, the subsequent rise of petroleum prices, downsizing, outsourcing, materials substitution, imports, and difficulties with quality have taken a toll on the U.S. vehicle industry. Michigan, with its high proportion of older plants, bore the brunt of the 1979-82 skid in the fortunes of the auto industry. For months Michigan led the nation in job loss and unemployment. State government had to strain to maintain the safety nets for people crucial to the

### EXHIBIT 12

#### Michigan Labor Markets Ranked According to Projected Growth in Wage and Salary Employment: 1986-87

County or Major Market	Projected Growth Rate	County or Major Market	Projected Growth Rate	County or Major Market	Projected Growth Rate
Mecosta	7.4%	Hillsdale	1.9%	Newaygo	-0.7%
Cass	6.9	Delta	1.8	Muskegon	-0.7
Benzie	6.7	Battle Creek	1.8	Missaukee-	
Ionia	6.4	Kalkaska	1.7	Wexford	-1.3
Baraga	5.7	Barry	1.6	St. Joseph	-1.6
Clare	5.3	Arenac	1.6	Alcona-Iosco	-1.8
Branch	5.3	Van Buren	1.5	Ogemaw	-1.9
Charlevoix	4.8	Grand Rapids	1.4	Oscoda	-2.1
Lake	4.3	Jackson	1.4	Flint	-2.5
Isabella	3.8	Saginaw	1.3	Alpena	-2.9
Sanilac	3.8	Marquette	1.1	Ontonagon	-3.1
Gladwin	3.6	Dickinson	1.0	Manistee	-3.7
Schoolcraft	3.4	Benton Harbor	1.0	Otsego	-4.5
Mackinac	3.2	Huron	0.8	Crawford	-4.8
Allegan	3.1	Shiawassee	0.8	Montmorency	-4.8
Mason	3.0	Lenawee	0.1	Gratiot	-4.9
Ann Arbor	2.9	Menominee	0	Antrim	-5.1
Detroit	2.9	Roscommon	0	Cheboygan	-5.1
Emmet	2.8	Osceola	0	Presque Isle	-5.5
Kalamazoo	2.7	Alger	0	Iron	-7.4
Luce	2.6	Houghton-			
Grand Traverse-		Keweenaw	-0.2	Upper Peninsula	-0.1
Leelanau	2.3	Montcalm	-0.3	Michigan	1.7
Lansing	2.2	Gogebic	-0.5	United States	2.4
Chippewa	2.0	Oceana	-0.6		

automotive industry, while revenue was declining due to the recessions. Industries most affected were low-skill, high-labor content suppliers to vehicle manufacturers. Riverside Products of Coldwater, for example, owned and operated four wiring harness plants in rural Michigan, paying its workers at or slightly above the minimum wage. The company now is located in South Bend, Indiana, employs half a dozen people, and adds a plastic coating to toggle switches for military vehicles assembled nearby. Several other wiring harness plants also closed. Much of the production that has survived has moved to Mexico as manufacturers take advantage of cheap labor available in the Maquiladora program that has developed under the cooperative auspices of Mexico and the United States.

While Michigan has lost its attraction to some suppliers to the automotive industry, others find the climate here hospitable. General Motors has created two new assembly plants: in "Poletown" and Orion Township. "Buick City" was created on the site of the old Buick complex in Flint. The Oldsmobile assembly plant in Lansing was reequipped to produce the "N" car; in Willow Run, the "H" car. Factories in the Pontiac area have been rededicated to produce pick-up trucks. The Fiero is made in a former Fisher Body plant. Pontiac Main was brought back from the dead to assemble rear-wheel-drive cars that have regained some of their popularity. These cars are produced in the Fisher Body plant in Flint. Chrysler Corporation has expanded its assembly capacity at "Dodge City" in Warren. Since its near bankruptcy in 1979, Chrysler has opened new assembly capacity in Sterling Heights, and is committed to building a new plant in east Detroit. Mazda will open its new assembly plant in Flat Rock this year. Ford is currently planning to renovate and expand its Wayne assembly plant.

In general, modern, automated assembly plants are replacing outmoded ones in Michigan. Automobile manufacturing jobs are being lost in the process because of the greater efficiency of the new plants and systems. Although there will be losses in automotive employment, efficient plants will make Michigan automobile manufacturing more competitive nationally and internationally, preserving Michigan's role as the world leader in production of automobiles.

Large integrated steel mills are losing markets in Michigan and the United States while small specialty mills and steel service companies are growing. The market for castings from iron has shrunk while that

for plastics has grown rapidly since 1982. Southeast Michigan has become the hottest market for engineering plastics with automotive applications. Skilled labor and large assembly capacity make southeast Michigan is the best place to establish laboratories and applications centers for plastics for use in automobiles, trucks, and buses.

Michigan's reliance on automotive production makes our future uncertain. Our automotive skill and experience will attract new businesses, but plant closures—some announced, some still unknown—will increase unemployment in the short run. High-tech Michigan cannot absorb the labor discarded by the old-tech Michigan because the skills do not fit, the new jobs are not located in the same parts of the state as the old jobs, and productivity continues to reduce the demand for skilled labor. Unemployed Michiganians may have to settle for lower wages as our economy shifts from labor-intensive heavy manufacturing to automated production and increased service sector jobs.

A recent study, conducted by Stanford Research Institute for the Ameritrust Corporation of Cleveland contained the following conclusions about Michigan:

...the Michigan story is clearly mixed—revealing both strengths and weaknesses in the state's economic infrastructure. However, the Ameritrust/SRI indicators suggest that Michigan is better prepared than many states to meet the technology, labor, and capital needs of its economy.<sup>6</sup>

## OUTLOOK

The years ahead will be a trying for Michigan because our slowdown will occur when most states are posting good economic gains. We are going through a period not unlike that experienced in New England during the 1960s and early 1970s, when that area's declining industries dominated its growing ones. As in New England, unemployment will be higher in Michigan during this period of transition; but replacement of archaic manufacturing methods and equipment with efficient systems, retraining of the labor force, establishment of high-technology firms in the state, and a strong national economy will result in a growing, diversified Michigan economy.

<sup>6</sup>Ameritrust Corporation, "Indicators of Economic Capacity" (Cleveland, Ohio: 1986), p. 25.