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Public Sector Reports

ECONOMIC FORECAST

This forecast reviews recent economic trends in the United States and Michigan and discusses the implications second-quarter economic data have for economic growth in the last half of 1988. Renewed inflation, rising interest rates, and changes in monetary policy are given particular attention. (A glossary of key terms appears on page 12.)

OVERVIEW

On an annual basis, economic growth has been remarkably consistent for 3 1/2 years. In 1985 the gross national product (GNP) grew 3.4 percent, in 1986 it increased 2.8 percent, and in 1987 it rose 3.4 percent (revised data). For 1988 the preliminary figures show it is again growing at about 3.4 percent; the rate for the first quarter was 3.4 percent (revised upward from the initial estimate of 2.3 percent) and for the second quarter was gauged to be 3.3 percent. The 1988 rate is better than was anticipated by many economists and financial experts.

The unemployment rate has also improved steadily. In 1985 the national unemployment rate was 7.1 percent, in 1986 it was 6.9 percent, and in 1987 it was 6.1 percent. In 1988 the annualized rate during the first six months was 5.4 percent.

The faster-than-expected GNP growth and low unemployment have kindled inflation fears on Wall Street. Investors are demanding higher interest rates to compensate for the risk of shrinkage in their real return on investment due to higher inflation. The Federal Reserve Board raised its discount rate—the rate it charges commercial banks—in the wake of the recent good news about continued economic growth. Commercial banks have raised their prime rates—the rates they charge prime customers—to 10 percent, the highest level in three years. Mortgage rates also have escalated. All these increases have attracted foreign purchasers of U.S. debt instruments, thus bidding up the price of the U.S. dollar in international currency markets.

Recovery continues in Michigan, but the economy is not growing at the same rate as the national economy, and the unemployment rate, although improving, is higher.

The Michigan unemployment rate during the first quarter of 1988 was 9 percent. By June it was down to 6.6 percent, but it rose to 7.3 percent in July and 7.4 percent in August. Employment (4.25 million in July) is expected to creep up during the second half of 1988, but the unemployment rate will remain above the U.S. average in the foreseeable future. Complicating Michigan's recovery are rising interest rates and price increases on 1989 model cars.

THE NATIONAL ECONOMY

Second-quarter national economic growth, although respectable, was the slowest since the fourth quarter of 1986, when constant-dollar (adjusted for inflation) GNP increased by 1.4 percent. Growth in 1988 has been modest compared with the quarter-to-quarter growth rates in 1987. Growth for the last thirteen quarters is depicted in Exhibit 1. (These figures recently were revised; several are significantly different than indicated by earlier data.)

Second-quarter nonresidential, fixed investment was up by 14 percent (annual rate) over the previous quarter. Residential construction posted a modest 2.8 percent gain, but the level remained below that for 1987, and both farm and nonfarm inventory accumulation slowed. Thus, overall investment, including inventories, decreased by 2.1 percent.

Consumer spending increased overall by 2.3 percent. Spending on durable goods rose by 7.2 percent, more than half of which was for motor vehicles; purchases of services increased by 3.9 percent; and outlays for nondurable goods declined by 2 percent.

U.S. government military spending declined for the third quarter in a row, and nonmilitary purchases of goods and services also has been depressed. State and local governments posted modest spending gains with the result that overall government outlays during the second quarter were 0.4 percent above the first.

Exports of goods and services increased by 8 percent. Imports declined by 6.2 percent. Improvement in the trade balance accounted for 62 percent of GNP growth during the second quarter.

The implicit price deflator rose by a worrisome 5.1 percent during the second quarter. As Exhibit 2 illustrates, this is the largest jump since the third quarter of 1986, when the increase was 4.7 percent. (These figures also have recently been revised; some are significantly different from earlier data.) Rising prices of nondurable goods and services purchased by households are primarily responsible for the overall price increase.

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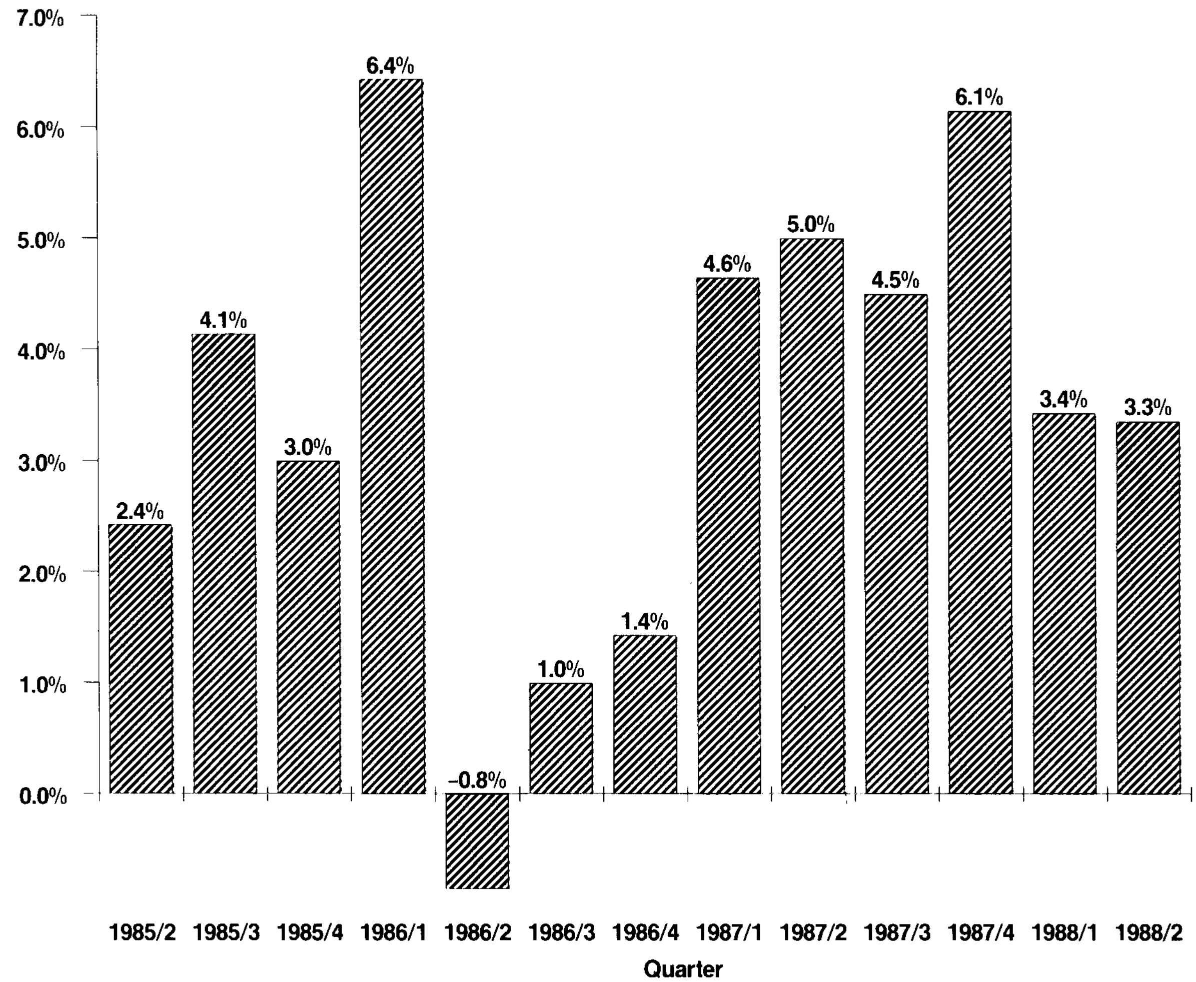
EXHIBIT 1

Percentage Change in Real GNP from the Preceding Quarter: Second Quarter 1985 to Second Quarter 1988 (revised annual rates)



International Trade

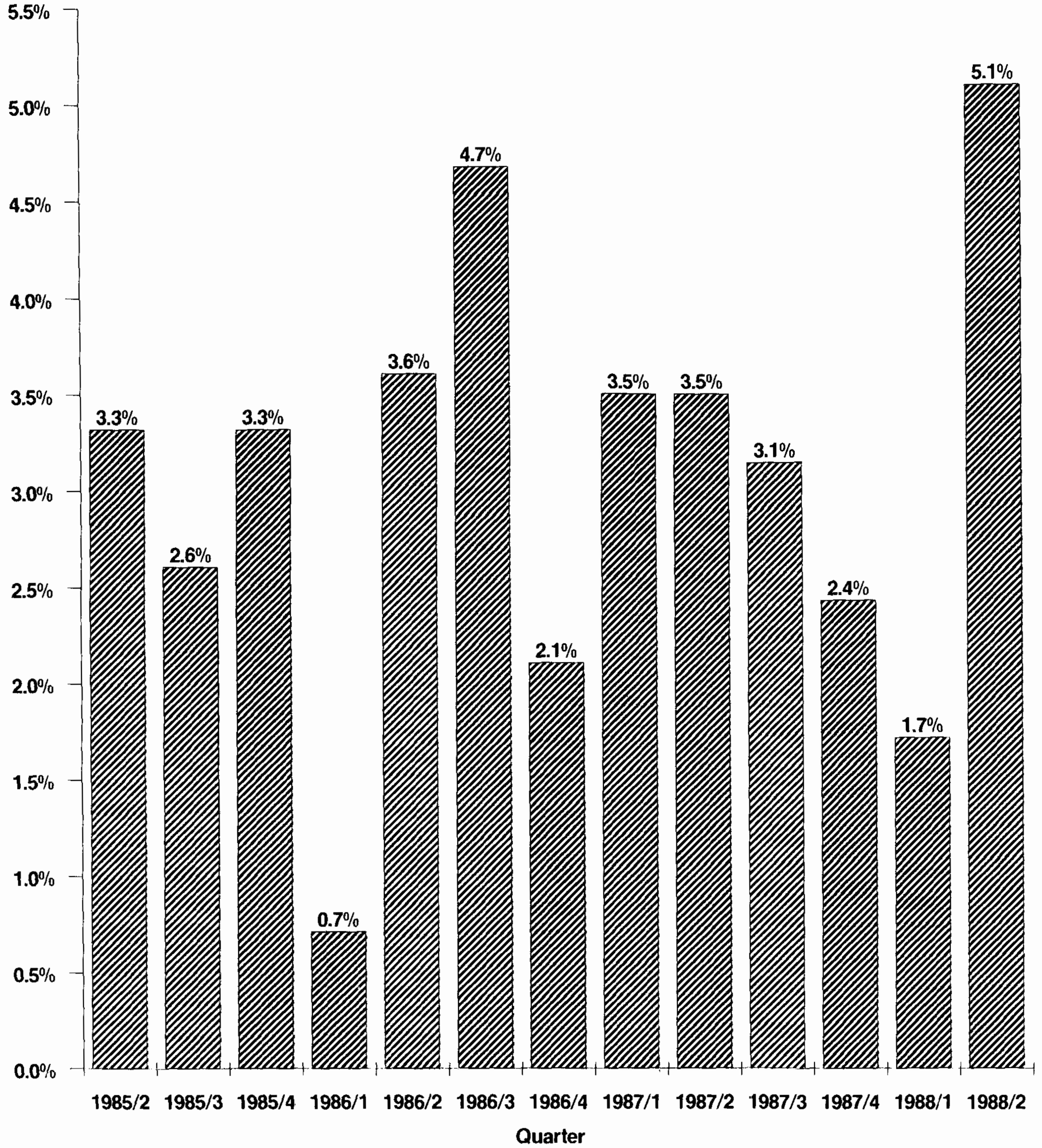
Our trade deficit is narrowing somewhat. For 1987 the deficit was $128.9 billion, down from $137.5 billion in 1986. In 1988 it dropped again, to $109.0 billion (at annual rates) during the first quarter and to $90.1 billion in the second.

- The second-quarter automotive trade deficit was $35.7 billion. In the first quarter it was $39.8 billion, below $40 billion for the first time since the third quarter of 1985. The improvement this year is the result of declining automotive imports as well as gains in exports.
- The deficit for consumer durable goods other than vehicles continued to show modest improvement during the second quarter, primarily because of declining imports. (The export of consumer durable goods is one of the most underdeveloped sectors of the U.S. economy.) The consumer nondurables deficit also is diminishing through declining imports.
- The nation's petroleum deficit increased for the second consecutive quarter, and by all indications the 1988 figure will exceed the 1987 figure. Since 1985 this deficit has increased nearly 50 percent in terms of constant 1982 dollars.
- In other international trade sectors, the United States has a growing surplus in the export of capital goods other than vehicles, a surplus in the export of services which is sizable but diminishing, and (just during the second quarter) a slight surplus in the export of industrial supplies and materials.

In its latest projections the International Monetary Fund predicts a world economic growth rate somewhat

EXHIBIT 2

Percentage Change in GNP Implicit Price Deflator from Preceding Quarter: Second Quarter 1985 to Second Quarter 1988 (revised annual rates)



in excess of that for the United States. Japan and Canada both are expected to show faster growth than the United States, Japan at a fast rate and Canada at a more modest pace. In 1988 and 1989, U.S. growth is expected to be driven by foreign trade and domestic investment. Growth in the other industrialized nations is driven primarily by consumption and investment. This means that the United States could make sharp inroads in its trade deficit during the next eighteen months. Even a modest improvement in the value of the U.S. dollar on international exchanges would not seriously erode the present U.S. trade balance. Indeed, modest increases in export prices will help improve the trade balance by producing more revenue per unit of export, and the stronger dollar will reduce the dollar value of imports.

Beyond 1989 the international competitive position of the United States will depend very much on the extent to which fundamental improvements are made in manufacturing productivity and in the ability and willingness to market goods and services—especially the latter—in foreign cultures. In the short term, the economic fundamentals are working in our favor, but over the longer term, more effort must be made to take advantage of the external opportunities.

Fiscal and Monetary Policy

Better-than-forecast economic growth will result in a lower-than-projected federal budget deficit in the current and the next fiscal year. The problem of funding the deficits still is acute, however, because the U.S. economy produces less than is consumed within the country. Because of the low U.S. savings rate, foreigners who buy government notes and bonds fund part of the federal deficit.

The Federal Reserve Board (FRB) is charged with maintaining order in financial markets and the banking system. As a practical matter, it also must accommodate the needs of the U.S. Treasury Department in financing the annual budget deficits and in refinancing the accumulated national debt as issues of bonds, notes, and bills mature.

The FRB also bears the brunt of managing the value of the U.S. dollar against foreign currencies insofar as possible. During the summer this body worked with authorities in other countries to maintain the dollar at approximately its current level so as to sustain the improvement in the U.S. trade balance.

The great fear in Washington and on Wall Street, however, has been that inflation will increase as a result of rising demand for U.S. goods and services. On August 10 the FRB raised its discount rate from 6 percent to 6.5 percent. By doing so, it hopes to head off higher inflation and avoid the necessity for an extremely tight monetary policy. The intention is to balance the various forces operating in the U.S. economy so as to maintain orderly economic growth without high rates of inflation.

Generally, interest rates have been rising since March, following declines that began after the sharp sell-off on Wall Street that began last October and continued through the winter. In March, as it became evident that the U.S. economy would grow at a rate of 3 percent or better this year, interest rates started to go up. While it seems unlikely that this will significantly raise the value of the dollar abroad and thus sidetrack the improving trade balance by pushing up the prices of U.S. goods and services, it could create tougher sledding for U.S. exports. The United States has been urging its trading partners to adopt expansionary monetary policies in order to stimulate their economies, but if they follow the U.S. example and tighten monetary policy, the result may be slower economic growth everywhere.

Leading Indicators

The July composite index of leading indicators fell 0.8 percent, following a 1.4 percent drop in July. A poor showing in seven categories—unemployment claims, orders for consumer goods, speed of deliveries of orders, plant and equipment orders, building permits, stock prices, and the money supply—contributed to the decline. Only one component, prices of sensitive materials, increased. The average work week was unchanged, and data were unavailable for consumer credit and business inventories.

After modest gains in March and April, the index declined by 0.8 percent in May. For the full second quarter, the index of leading indicators gained 0.7 percent, compared with 0.2 percent during the first quarter; during the first three quarters of 1987 the index rose by 1.6, 1.3, and 1.4 percent, respectively. Thus, despite the July decline, the index seems to be predicting that the U.S. economy will continue to grow in the months ahead but not with the exuberance of 1987.

Investment

Business investment continued strong in the second quarter. Investment in structures grew by 11.8 percent and in equipment by 14.8 percent; nearly 80 percent of the surge in the latter is accounted for by outlays for information processing and related equipment. Investment in transportation equipment and in fixed industrial equipment increased at modest rates in comparison. From the second quarter of 1987 through the second quarter of 1988, investment in transportation and related equipment increased by 7 percent, in fixed industrial equipment it went up 11 percent, and in information processing and related equipment investment rose 23 percent. Michigan's specialty, of course, is in the transportation category. The state also is strong in fixed industrial equipment manufacturing but weak in the production of hardware for information processing.

In its most recent survey of chief executives of U.S. companies, the Conference Board found that

> Business executives' confidence rebounded sharply in the spring, despite lingering reservations about the U.S. economic outlook. The Conference Board's Measure of Business Confidence climbed to 58 in the second quarter, up from 51 in the previous quarter and from 47, the five-year low, in the fourth quarter of 1987. With the strong second quarter gain, the confidence measure approximates its mildly optimistic pre-crash level of 59. Most surveyed executives, particularly in manufacturing, believe that the economy and their own industries are stronger now than before last October's turmoil. However,

heightened sensitivity to economic and financial fluctuations continues to dampen enthusiasm about the prospects for the second half of 1988.[1]

The restoration of confidence in the economy was confirmed by the Conference Board's survey of capital appropriations and expenditures, conducted during the fourth quarter of 1987, which revealed a backlog of capital projects and a sharp increase in appropriations for future investment. In April and May 1988 this renewed confidence was confirmed by the U.S. Department of Commerce survey of business plans. In the latter, businesses revealed intentions to increase their real spending for new plant and equipment by 11.9 percent over the 1987 level. (Real spending represents the dollar volume of outlays adjusted for price inflation.) Real spending for these purposes gained a mere 1.7 percent in 1987, and in 1986 there had been a 2.6 percent decline.

All major industrial categories of business except motor vehicles foresee increases. The largest are planned by paper producers and by blast furnaces and steel works. Nonferrous metals and electrical machinery industries also are expected to make hefty new investments in plant and equipment during 1988.

Income, Consumption, and Savings

In June U.S. personal income increased 0.7 percent (unadjusted for inflation) above the May level, the best gain since March. When adjusted for inflation, disposable (after taxes) personal income increased by 0.5 percent in June after a 2 percent gain in May and a 2.2 percent decline in April.

Personal consumption expenditures, unadjusted for inflation, rose by one percent in June, 0.6 percent in May, and 0.5 percent in April. In constant dollars, the gains were 0.7, 0.1, and -0.1 percent, respectively. Consumers have been cutting back on purchases of food and clothing while increasing outlays for gasoline, furniture and household equipment, and motor vehicles and parts. Although the latter category showed sizable gains, it still is well below the peak levels of summer 1986.

Personal saving as a percentage of personal income was 3.8 percent in the second quarter. The year-ago figure was only 2.2 percent, the lowest in recent memory. There were increases in the third and fourth quarters of 1987, and by the first quarter this year the figure was 4.4 percent, the highest level in almost two years.

Consumer confidence in the future was down a little in June and July. The high in the consumer expectations index for the last fourteen months was in May. Consumers now foresee higher interest rates and a higher rate of inflation, which means they can be expected to increase their rate of saving and slow their rate of spending. This is borne out in the fact that the percentage of people planning to buy new cars within the next six months has declined from the April peak. Higher savings and slower spending not only will alleviate some of the pressure on interest rates, but also will mean less reliance on foreign capital to finance the federal deficit and capital needs in the private sector.

THE MICHIGAN ECONOMY

Personal Income

In Michigan, labor and proprietors' earnings grew at a rate of 1.1 percent from the fourth quarter of 1987 through the first quarter of 1988. Nationally, the growth was 0.7 percent (see Exhibit 3). These rates are expressed as quarterly, not annual, changes.

Heavy overtime in durable goods manufacturing was primarily responsible for both increases. Michigan's finance, insurance, and real estate industries also were expansive during the January-March period. State construction industries continue to be a significant force in economic growth. Transportation and public utilities, wholesalers, and retailers posted good gains, while nondurable goods and service industries showed declines. Michigan farmers are hard pressed, as are farmers nationwide.

Fourth-quarter 1987 figures have been revised downward for Michigan, rather sharply, and for the nation, only slightly. Thus, the fourth-quarter growth rate for the state was below the national average, not above it, as we reported in June 1988.

Employment

Michigan wage and salary employment increased during the second quarter of 1988 at the same rate as during the first quarter. Michigan's rate of gain was half that for the nation, much like the first-quarter comparison.

Vehicle manufacturers increased employment from the depressed first quarter. A modest gain took place in nondurable goods manufacturing. Construction employment continued to grow but not as rapidly as in the first quarter. The transportation, communication, and public utilities sector showed good growth. Finance, insurance, and real estate, along with service industries, gained modestly. Employment in wholesale trade, retail trade, and mining declined.

Within the broad services category, growth is most pronounced in the lodgings industry and in amusements and recreation services. There also has been

[1] "Business Executives' Expectations, Second Quarter 1988," *The Conference Board,* 12, No. 2.

EXHIBIT 3

Labor and Proprietors' Earnings in Michigan and the United States, By Broad Economic Sector: Fourth Quarter 1987 and First Quarter 1988 (dollars in millions)

	Michigan			United States		
Sector	Fourth Quarter 1987	First Quarter 1988	Percentage Change	Fourth Quarter 1987	First Quarter 1988	Percentage Change
Agriculture	$1,242	$797	-35.8%	$56,104	$47,656	-15.1%
Agricultural services, forestry, and fisheries	298	321	7.7	13,872	14,838	7.0
Mining	583	583	-0-	37,773	37,496	-0.7
Construction	4,915	5,006	1.9	178,184	179,734	0.9
Nondurable goods manufacturing	6,971	6,955	-0.2	211,824	213,633	0.9
Durable goods manufacturing	29,707	30,682	3.3	361,402	367,094	1.6
Transportation and public utilities	5,486	5,589	1.9	192,290	194,485	1.1
Wholesale trade	5,979	6,090	1.9	176,696	179,815	1.8
Retail trade	9,489	9,633	1.5	271,986	276,450	1.6
Finance, insurance, and real estate	4,901	5,053	3.1	213,239	216,279	1.4
Services	21,830	21,673	-0.7	670,350	669,187	-0.2
Federal civilian payrolls	1,609	1,650	2.5	88,917	90,423	1.7
Federal military payrolls	372	378	1.6	42,537	43,412	2.1
State and local government payrolls	11,656	11,833	1.5	311,618	317,219	1.8
TOTAL EARNINGS	$105,038	$106,243	1.1%	$2,826,793	$2,847,720	0.7%

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

growth in repair services, health care, and business services.

Within government, public education shows no growth, but other local government does. State universities as well as state government recorded employment gains from June 1987 through June 1988. The U.S. Postal Service and other units of the federal government, except veterans' hospitals, also added employees between 1987 and 1988.

The data in exhibits 3 and 4 are seasonally adjusted and give a broad view of the Michigan and U.S. economies compared with the previous quarter. Exhibit 5 presents detail about the manufacturing sector and compares the latest statistics with 1987. Among durable goods manufacturing industries, furniture and fixtures along with stone, clay, and glass products are performing well and adding jobs to the Michigan economy. Both industries are associated with construction, providing building materials or items that go into completed structures. There also has been some growth in primary metals, essentially a result of callbacks in Michigan's foundries. In fabricated metals, the Michigan steel industry is reducing employment, whereas nationally there has been some recovery.

The cutbacks occurring in the vehicle manufacturing sector are reflected in the year-to-year decline in employment in motor vehicles, machinery, fabricated metal products, and other transportation equipment.

Among nondurable goods, the leading growth industry is plastics. Michigan is at the heart of the specialty plastics industry associated with the automotive industry. Also doing well is leather and leather products manufacturing, a small Michigan industry associated with the luxury cars made here.

Retail Trade

Retail sales in Michigan grew at about half the national rate during the first five months of 1988 compared with the like period in 1987. In the Detroit area, the sales gain was slightly below that for the state (see Exhibit 6). During 1987, sales grew by 3.1 percent over the 1986 level, compared with 5.1 percent nationally.

Durable goods retailers in the state appear to be having a poor year. Michigan Department of Treasury data on sales tax collections for the first six months (October through March) of the current fiscal year show a decline in sales by new and used car dealers. However, construction related businesses are doing well. Furniture stores reported sales gains of 13 percent. Building materials and hardware stores showed a 5.1 percent increase over the same period of the previous fiscal year. In the nondurable goods areas, food merchants and restaurateurs are having a good year. Substantial increases in tax collections from hotels and motels also were reported.

EXHIBIT 4

Wage and Salary Employment in Michigan and the United States by Broad Economic Sector: First Quarter and Second Quarter 1988 (employment figures in thousands of jobs)

	Michigan			United States		
Industry Group	First Quarter	Second Quarter	Percentage Change	First Quarter	Second Quarter	Percentage Change
Mining	10.0	9.8	-2.0%	731	738	1.0%
Construction	128.6	129.1	0.4	5,142	5,257	2.2
Nondurable goods manufacturing	221.4	222.6	0.5	7,985	8,014	0.4
Durable goods manufacturing						
Motor vehicles and equipment	283.5	288.2	1.6	837	850	1.6
Other durable goods	426.3	425.7	-0.1	10,566	10,631	0.6
Transportation, communication, and public utilities	150.9	152.8	1.3	5,514	5,561	0.9
Wholesale trade	189.2	188.7	-0.3	6,035	6,116	1.3
Retail trade	690.3	687.2	-0.4	19,007	19,139	0.7
Finance, insurance, and real estate	184.8	185.6	0.4	6,640	6,655	0.2
Services	831.0	834.8	0.5	24,949	25,262	1.3
Government	623.5	628.4	0.8	17,264	17,322	0.3
TOTAL	3,739.6	3,753.0	0.4%	104,670	105,545	0.8%

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

Construction

As shown in exhibits 3 and 4, there was continued growth in the Michigan construction industry during the first part of this year, but not with the same exuberance as last year. Employment growth in this category will be modest at best during the remainder of 1988.

Based on the latest data from the Bureau of the Census (see Exhibit 7), the number of building permits issued for residential dwellings is expected to decline during 1988 compared with 1987. The number of permits for factories also shows a decline, along with mercantile buildings and rehabilitation of existing buildings. The construction of new offices and of new motels and hotels, however, continues at a record level.

Twenty-five percent of all permits issued for new residential units during the first six months of 1988 were in Oakland County. Macomb and Wayne counties had 11 percent each, and Kent had 8 percent.

Sixty percent of the new offices authorized were in Oakland County. Joel I. Feldman, brokerage division vice president at The Hayman Company of Southfield, is an expert on the metropolitan Detroit office market. In July he sounded a cautionary note about the rate of construction versus occupancy in some areas.

> At the commencement of this calendar year, the Greater Detroit office market was, overall, probably in its best condition ever. Today, half-way through the year, the initial indicators that the gap between supply and demand is gradually, but persistently widening, are being seen in some areas of town such as Troy and the I-75 corridor. Additionally, leasing continues to be disappointingly slow relative to new multi-tenant projects in Auburn Hills. This growing disparity caused by continued, unprecedented construction in tandem with reasonable, but unspectacular leasing, could, by year's end, cause some serious problems in some communities. On the other hand, such local office markets as northern Southfield, Farmington Hills, Bloomfield Hills and the Dearborn area are generally enjoying high occupancy rates and persistent demand with respect to both existing Class A office buildings and new office developments.[2]

Oakland, Wayne, and Macomb counties accounted for about half the permits for mercantile buildings, and about 60 percent of valuation for new factories is accounted for by permits in Wayne, Oakland, and Macomb counties. Expansion of the lodgings industry is concentrated in Wayne, Washtenaw, and Oakland counties. Exhibit 8 shows the counties that, based on data for the first six months, will have more than $20 million in permit valuations in the various building categories in 1988.

Around the State

Michigan as a whole had an employment gain of 0.8 percent during the first 6 months of 1988. (See Exhibit 9.) The figure for the upper peninsula was 2.4 percent.

[2]Joel I. Feldman, "The Hayman Report," *The Metropolitan Detroit Office Market Summary* (Southfield, Michigan: The Hayman Company, July 1988), p. 3.

EXHIBIT 5

Wage and Salary Employment in Manufacturing in Michigan and the United States by Industry Group (employment figures in thousands of jobs)

Industry	Michigan 1987	Michigan 1988	Michigan % Change	United States 1987	United States 1988	United States % Change
Lumber	13.8	13.3	-3.6%	753.9	773.8	2.6%
Furniture and fixtures	31.3	33.4	6.7	514.8	537.1	4.3
Stone, clay, and glass products	17.6	19.1	8.5	592.4	599.1	1.1
Primary metals industries	48.4	49.8	2.9	750.8	786.1	4.7
Fabricated metal products	119.0	118.1	-0.8	1,406.6	1,462.0	3.9
Machinery, except electrical	123.8	118.9	-4.0	2,022.8	2,142.7	5.9
Electrical and electronic equipment	36.5	34.3	-6.0	2,071.9	2,124.1	2.5
Motor vehicles and equipment	321.3	289.1	-10.0	875.4	858.8	-1.9
Other transportation equipment	22.4	21.0	-6.2	1,177.1	1,196.2	1.6
Instruments and related products	14.6	14.7	0.7	696.9	711.1	2.0
Miscellaneous manufacturing industries	7.0	7.4	5.7	371.0	384.1	3.5
TOTAL DURABLE GOODS	755.9	719.2	-4.9	11,234.0	11,575.0	3.0
Food and kindred products	45.3	45.4	0.2	1,624.2	1,652.5	1.7
Textiles and apparel	21.5	21.4	-0.5	1,836.7	1,836.4	--
Paper and allied products	20.8	20.7	-0.5	683.5	695.3	1.7
Printing and publishing	39.0	39.4	1.0	1,506.6	1,566.0	3.9
Chemical and allied products	41.2	42.4	2.9	1,020.7	1,070.5	4.9
Petroleum and coal products	2.4	2.3	-4.2	167.8	168.3	0.3
Rubber and miscellaneous plastic products	46.4	50.8	9.5	821.2	879.2	7.1
Leather and leather products	2.2	2.4	9.1	144.4	148.7	3.0
TOTAL NONDURABLE GOODS	218.8	224.8	2.7	7,857.0	8,067.0	2.7
TOTAL MANUFACTURING	974.7	944.0	-3.1%	19,091.0	19,642.0	2.9%

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

EXHIBIT 6

Percentage Change in Retail Sales in Michigan and the United States, May 1987-May 1988

	Detroit[a]		Michigan		United States	
	May 1987-May 1988	1st five months 1987-1988	May 1987-May 1988	1st five months 1987-1988	May 1987-May 1988	1st five months 1987-1988
Durable goods, total	NA	NA	3.7	1.2	10.4	12.2
Department stores	5.4	5.2	6.0	6.2	0.9	4.1
GAF,[b] total	1.2	2.1	2.5	1.7	3.1	5.3
Nondurable goods	6.4	6.4	4.5	5.2	1.7	4.4
TOTAL	5.7	3.2	4.1	3.5	5.0	7.3

SOURCE: Bureau of the Census, *Monthly Retail Trade*, May 1988.

NA = Not available.
[a]The Detroit Metropolitan Statistical Area is comprised of Lapeer, Livingston, Macomb, Monroe, Oakland, St. Clair, and Wayne counties.
[b]GAF represents stores that specialize in general, department-store types of merchandise. Apparel and furniture stores are included.

EXHIBIT 7

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

Category	1981	1982	1983	1984	1985	1986	1987	1988[a]	Percentage Change 1987-1988[a]
					Valuation (millions)				
Residential homes	$821.8	$593.2	$1,015.9	$1,324.2	$1,833.7	$2,440.5	$2,628.5	$2,750.1	4.6%
Transient hotels, motels, tourist courts, and cabins	19.6	8.6	12.7	86.9	130.9	101.6	128.3	205.2	59.9
Industrial buildings	366.9	312.4	158.2	331.0	555.5	525.0	691.1	750.5	8.6
Office, bank, and professional buildings	211.9	121.0	209.5	353.9	408.0	512.5	422.9	596.9	41.1
Stores and other mercantile buildings	149.0	72.3	117.2	174.2	250.1	373.6	418.1	435.1	4.1
Additions, alterations, and conversions, except residential	412.7	349.9	432.7	600.3	702.9	859.1	786.5	967.0	22.9
					Number of units				
Residential homes	18,917	14,377	21,683	27,758	37,675	47,295	46,732	45,379	-2.9%
Transient hotels, motels, tourist courts, and cabins	724	859	1,018	1,869	5,149	3,857	5,561	8,092	45.5
Industrial buildings	634	479	630	857	1,149	1,315	966	742	-23.2
Office, bank, and professional buildings	459	310	438	531	627	626	611	783	28.2
Stores and other mercantile buildings	787	620	776	1,083	1,211	1,366	1,508	1,381	-8.4
Additions, alterations, and conversions, except residential	12,511	11,491	13,519	14,518	15,068	1,589	12,998	12,600	-3.1

SOURCE: Bureau of the Census, special release.

[a]First six months, annualized.

EXHIBIT 8

Michigan Counties Projected to Have Building Permit Valuations Exceeding $20 Million in 1988, by Building Category

	Residential	Office	Mercantile	Factories	Nonresidential Rehabilitation
Eaton	X				
Genesee			X		
Grand Traverse	X				
Ingham	X				X
Kalamazoo	X				X
Kent	X	X	X	X	X
Lapeer	X				
Livingston	X				
Macomb			X	X	X
Midland	X				
Monroe	X				
Oakland	X	X	X	X	X
Ottawa			X	X	X
St. Clair	X				
Washtenaw	X				X
Wayne	X	X	X	X	X

SOURCE: Calculated by the author from U.S. Bureau of the Census data.

Among the 68 labor market areas in Michigan, Arenac County experienced the most rapid growth. This is a result of gains in retailing, services, government, and construction, and despite a decline in machinery manufacturing, the principal manufacturing activity in that small, rural economy. Mackinac County, second fastest in employment growth, has expansive retail and service sectors, based mostly on tourism. Construction activity also contributed, as did government.

Montmorency County showed increased employment in retailing, construction, services, and government. Clare County gained based on retailing, services,

EXHIBIT 9

Michigan Labor Markets Ranked According to Percentage Growth in Wage and Salary Employment: 1987-1988

County or Major Market[a]	Growth	County or Major Market	Growth
Arenac	8.0%	Mason	3.0%
Mackinac	6.8	Luce	2.6
Montmorency	6.5	**Kalamazoo**	**2.5**
Clare	6.0	**Benton Harbor**	**2.3**
Charlevoix	6.0	Schoolcraft	2.2
Chippewa	5.8	Oscoda	2.1
Baraga	5.7	Hillsdale	2.0
Alcona-Iosco	5.2	Houghton-Keweenaw	1.8
Shiawassee	5.2	Marquette	1.6
Missaukee-Wexford	4.9	Manistee	1.6
Iron	4.7	Ontonagon	1.6
Benzie	4.5	**Battle Creek**	**1.3**
Ann Arbor	**4.5**	Delta	1.3
Gratiot	4.4	Menominee	1.3
Lake	4.3	Newaygo	1.3
Tuscola	4.3	Oceana	1.3
Alpena	4.2	Mecosta	1.2
Gladwin	4.2	**Muskegon**	**1.1**
Grand Traverse-Leelanau	4.1	Barry	1.1
Osceola	4.0	Montcalm	1.1
Emmet	3.8	Cheboygan	0.9
Gogebic	3.8	**Jackson**	**0.8**
Ogemaw	3.7	Crawford	0.7
Sanilac	3.7	Dickinson	0.7
Allegan	3.5	**Lansing**	**0.6**
Otsego	3.5	**Detroit**	**0.0**
Van Buren	3.4	Branch	-0.2
Saginaw-Bay-Midland	**3.3**	Lenawee	-0.6
Isabella	3.3	Huron	-0.8
Presque Isle	3.3	Ionia	-1.3
Roscommon	3.3	St. Joseph	-1.6
Alger	3.3	Kalkaska	-2.5
Antrim	3.2	**Flint**	**-4.1**
Cass	3.1	Upper Peninsula	2.4
Grand Rapids	**3.1**	MICHIGAN	0.8

SOURCE: Developed from Michigan Employment Security Commission, special release.

NOTE: Annual projections are based on data for the first six months.
[a]Michigan's eleven major labor markets are printed in boldface.

finance, communication, and the manufacture of both durable and nondurable goods. In Charlevoix County, growth in durable goods manufacturing, retailing, services, construction, communication, and government provided a broadly based overall employment gain. In Chippewa County, a sizable increase in state government employment provided an impetus, along with good gains in construction, retailing, and services; durable goods manufacturing employment slipped a bit. Baraga County is experiencing substantial gains in durable goods manufacturing, along with growth in government, retailing, and services. The Alcona-Iosco area had growth in durable goods manufacturing, retailing, services, construction, mining, and government. Shiawassee County—the only high-growth county located in the southern part of the state—experienced gains in durable and nondurable goods manufacturing, retailing, services, and communication.

These nine areas grew by 5 percent or more. Collectively, they experienced a job growth rate of 5.7 percent. These are small, rural counties, however, meaning that the percentage gain is based on a relatively modest increase in the number of jobs: 3,250. Total wage and salary employment in these areas was 60,000 during the first half of 1988, less than 2 percent of the statewide total. Thus, while economic growth has meant new opportunity for residents in these areas, statewide the effect has been minor.

Eleven of the state's labor markets posted employment gains of 4 percent to 5 percent. Eight are in northern Michigan. Of the three in southern Michigan, two are rural (Gratiot and Tuscola); the other, Ann Arbor, is the fastest growing metropolitan area in the state.

Sixteen areas grew by 3 percent to 4 percent. Nine are in northern Michigan. Of the remainder, two (the Saginaw-Bay-Midland area and Isabella County) are in mid-Michigan; four (the Grand Rapids area and Allegan, Van Buren, and Cass counties) are in western Michigan; and one (Sanilac County) is in the Thumb.

Twenty-four areas had growth of less than 3 percent. Eight are in the Upper Peninsula; four are in the northern lower peninsula. Of the state's eleven metropolitan areas, eight fall in this slow-growth category.

The Detroit area, comprised of seven counties, experienced no job growth during the first six months of 1988 compared with the same period in 1987; a contributing factor was the August closure of the GM Fiero plant in Pontiac. Seven areas, including Flint, had declining employment; Flint, along with Detroit, bore the brunt of last year's GM plant closings. Other areas with declining employment were Huron, Kalkaska, Ionia, St. Joseph, Branch, and Lenawee counties.

These data are based on nonagricultural wage and salary employment only. The supporting statistics are based on reports from nonfarm employers regarding the number of people currently on their payrolls. They are different from reports by the Bureau of Census, which are based on household surveys and include the self-employed and agricultural employees along with wage and salary workers.

OUTLOOK

The U.S. economy is expected to continue to grow at a rate of about 3 percent during the rest of 1988. Exports and capital investment will be the strongest sectors. Business inventories are well balanced, meaning that a downward adjustment in inventories is not in the immediate offing. Because manufacturers are operating close to their optimum levels, there is some concern in Washington and on Wall Street that inflation will become a serious problem in the months ahead. This has led to a rise in interest rates in recent weeks. The rise in interest rates is not likely to pinch off economic growth, however; it mostly will prevent economic growth from exceeding the current, sustainable level.

The Michigan economy is behaving well, considering the job losses entailed by last year's plant closings in the automotive industry. The areas most affected by the closures have been the seven-county southeast Michigan region and three additional southernmost counties. Ann Arbor, in the midst of the affected area, seems untouched. If separate data were available for Oakland County, it also would stand out from the others. George Fulton, associate research scientist at the University of Michigan's Institute of Labor and Industrial Relations, forecasts wage and salary employment growth for Oakland County at 1.3 percent for 1988 compared with 1987, despite the GM closings in Pontiac.[3] Ann Arbor and Oakland County have the advantage of a concentration of high technology growth.

Average weekly hours among manufacturing production workers were 43.7 during the second quarter compared with 41.9 during the first. Average weekly earnings of these workers jumped 5 percent from the first to the second quarter. These gains represent the heavy overtime being scheduled at the Ford Motor Company and, to a lesser extent, at Chrysler to meet demand for their products. Thus, while manufacturing employment overall is declining, those who are fortunate to have jobs are enjoying sizable gains in their paychecks. Overtime in the construction industries also has increased.

Because of higher-than-expected weekly earnings, the earnings level for the state as a whole is projected to rise to better than $106 billion during 1988, or 2.2 percent above the 1987 level. Real (inflation adjusted) earnings are expected to decline by 0.7 percent. In civilian employment, a gain of 1.1 percent, or about 50,000, is projected, and the unemployment rate is expected to slip to 8.1 percent for 1988, down from 8.2 percent in 1987. Michigan vehicle production projections have been adjusted downward, to 3 million units (3.1 million were projected three months ago).

Michigan's improved economic outlook is a result of better-than-expected activity at automotive supplier plants and of a rosier outlook for the outstate areas. Northern Michigan has benefited by rising incomes in the south, even in the face of a stagnant job level in the Detroit area. Because western Michigan's economy is different from that of southeastern Michigan, it has been far less affected by automotive plant closings. In the Saginaw-Bay-Midland area, which normally experiences the downturns of GM, the service sector is booming, local government is expanding, and there is some growth in nondurable goods manufacturing, construction, public utilities, wholesale trade, retail trade, and real estate.

The worst of the aftermath of the GM plant closings is behind us. By the last quarter of 1988, Michigan

[3] *Oakland Focus*, April 1988, p. 1.

employment data will begin to reflect the nationwide gains in goods manufactured for export. This development comes just as the Michigan construction boom will be leveling off. Although there will be some job shifting out of older structures, there will be new jobs as the offices, factories, and stores now being built are completed and occupied.

As the effects of shifts in the manufacturing base fade, both earnings and employment growth in 1989 should exceed 1988. Economic performance in the Detroit region should be much improved next year.

The forecast for the United States and Michigan is summarized in Exhibit 10.

EXHIBIT 10

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

Indicator	1986	1987	1988 (Estimate)	Percentage Change 1986-1987	1987-1988
Earnings (current $ in millions)					
Michigan	$100,335	$104,000	$106,300	3.7%	2.2%
United States	$2,574,512	$2,737,600	$2,916,000	6.3	6.5
Earnings (1986 $ in millions)					
Michigan	$100,335	$101,000	$100,300	0.7	-0.7
United States	$2,574,512	$2,658,400	$2,748,800	3.3	3.4
Civilian employment (thousands)					
Michigan	4,007	4,154	4,200	3.7	1.1
United States	109,597	112,440	114,900	2.6	2.2
Vehicle production (thousands)					
Michigan	3,408	3,402	3,000	-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%	8.1%	--	--
United States	7.0%	6.2%	5.7%	--	--

SOURCES: The 1986 and 1987 data on earnings are from the 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.

GLOSSARY

Conference Board: A management information service for business executives that compiles data, conducts surveys and research, and analyzes trends.

Durable Goods: A product with an expected life of more than one year.

Expansionary Monetary Policy: Actions by the Federal Reserve Board to increase the money supply and/or reduce interest rates in order to stimulate the economy.

Gross National Product (GNP): The total market value of all final goods and services produced in the economy during one year.

GNP Implicit Price Deflator: A comprehensive index of inflation used to adjust economic data to remove effects of inflation.

Index of Leading Indicators: Eleven categories of data compiled monthly by the Bureau of Economic Analysis in the U.S. Department of Commerce. The data are used to predict future economic activity.

Personal Income: Earnings, dividends, interest, rent, and transfer payments received by households.

Tight Monetary Policy: A reduction in the supply of money and a rise in interest rates. The goal is to relieve inflation that results when the demand for goods and services exceeds supply.