



The U.S. Commerce Department has released figures that reveal that **sales of existing homes** set a new record in July: a seasonally adjusted annual rate of 4.93 million units, up 4.0 percent from June's 4.74 million units. A good economy and low mortgage rates are credited for the July sales rate, which is the highest monthly rate ever recorded. Although existing home sales soared in July, **sales of new houses** fell 2 percent below the June rate of 900,000. This may be a sign of things to come—analysts are predicting a slowdown in the booming housing market in coming months.

◆ The U.S. Department of Labor announced that the **U.S. unemployment rate** remained at 4.5 percent in August despite the economic troubles overseas. The economy continued to create new jobs, adding 365,000 new positions last month. This job growth was spread across all sectors of the economy except manufacturing, which would have lost about 55,000 jobs if not for the 150,000 workers returning from the General Motors strike.

◆ The Bureau of Labor Statistics announced that the **producer price index (PPI)** fell 0.4 percent in July, the largest monthly decline since January. The index, which foretells price increases or decreases that producers may pass onto consumers in coming months, fell much more than the 0.1 percent decline predicted by economists. The drop is due mainly to falling commodity prices worldwide, including a 8.5 percent dip in gasoline prices. Excluding the volatile food and energy sectors, wholesale prices fell only 0.1 percent.

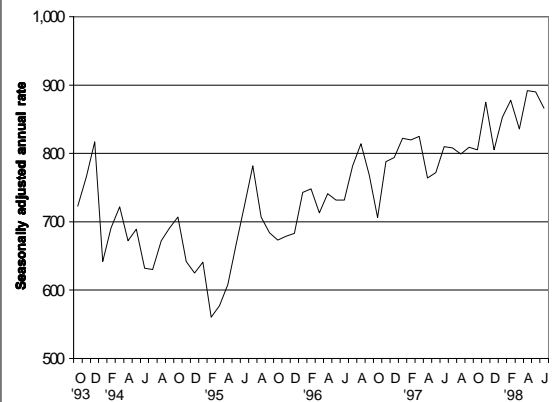
◆ The Michigan Jobs Commission reports that the **Michigan unemployment rate** dropped in August to 3.6 percent, 0.6 points under the July figure, as striking GM workers returned to their jobs. Manufacturing employment increased by 62,000 jobs, due, in part, to the end of the strikes. Since August 1997 the number of jobs in Michigan has grown 1.7 percent.



August **motor vehicle sales** fell 6.6 percent from the year-ago level, due mainly to the lingering effects of the strikes against General Motors. Excluding GM sales, which dropped 36.6 percent, motor ve-

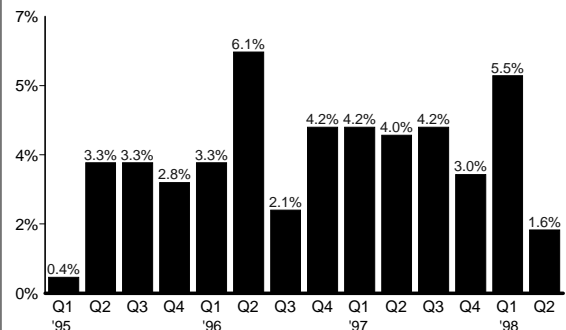
hicle sales increased 7.5 percent compared with a 4.8 percent gain in August (also excluding GM). As in July, passenger cars took the biggest hit, with sales down 8.6 percent from the year-ago level. Light truck sales declined only 3.9 percent. Sales for the Big Three fell 13.8 percent, with Ford and Chrysler sales up 8.1 percent and 3.5 percent, respectively. Light motor vehicle sales still are up 1.3 percent for the first eight months of the year, due largely to the incentive-driven surge in June sales.

New Home Sales, Third Quarter 1993–Second Quarter 1998 (thousands of units)



SOURCE: U.S. Bureau of Economic Analysis.

Percentage Change in Quarterly Gross Domestic Product, 1995–Second Quarter 1998



SOURCE: U.S. Department of Commerce.

IN THIS ISSUE

- Gaming Sector Remains Strong p. 2
- Information of Interest p. 3
- Michigan Revenue Report p. 4

MONTHLY FOCUS

GAMING SECTOR REMAINS STRONG

International Gaming and Wagering Business, a leading source of gambling news and statistics, recently released its annual statistics issue.¹ This publication contains some telling data about gambling in the United States and Michigan, some of which are depicted in the exhibits presented here. We also have included a brief glossary of gambling terms.

GLOSSARY

Charitable gaming Bingo and other forms of legal gambling used to raise money for charitable causes.

Gaming Gambling.

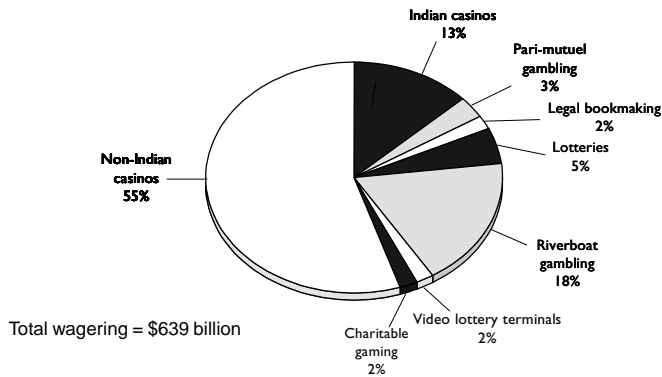
Indian Casinos Gambling establishments owned by Indian tribes under the Indian tribal gaming compacts; all others are categorized as non-Indian casinos. The two types typically are analyzed separately because they are taxed differently, information on their revenue and expenditures are reported separately, and they are regulated by different laws.

Pari-mutuel games A type of gambling in which a player bets against other players, not against the house (as at a casino); includes horse racing, greyhound racing, and jai alai.

Video lottery terminals Machines, similar to slot machines, that offer electronic versions of blackjack, poker, and other games of chance.

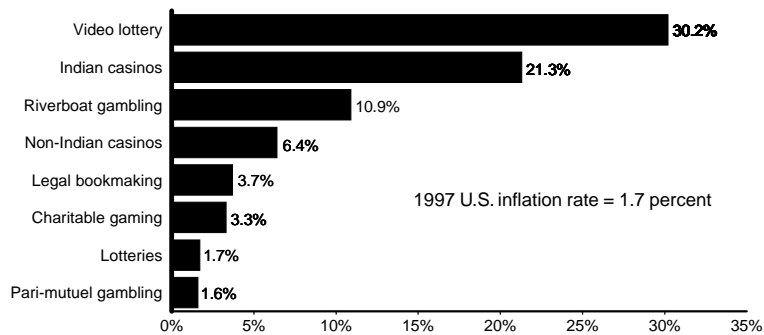
¹International Gaming & Wagering Business, "United States 1997 Gross Annual Wager," (New York, N.Y.), August 1998.

EXHIBIT 1 U.S. Wagering, 1997



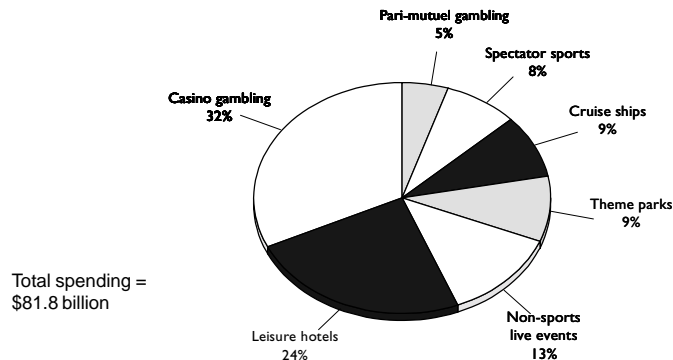
NOTE: This exhibit shows the amount wagered by Americans in 1997 on various types of gambling. Non-Indian casinos, such as those soon to open in Detroit, account by far for the largest share of gambling last year.

EXHIBIT 2 Growth in Wagering, 1996 to 1997



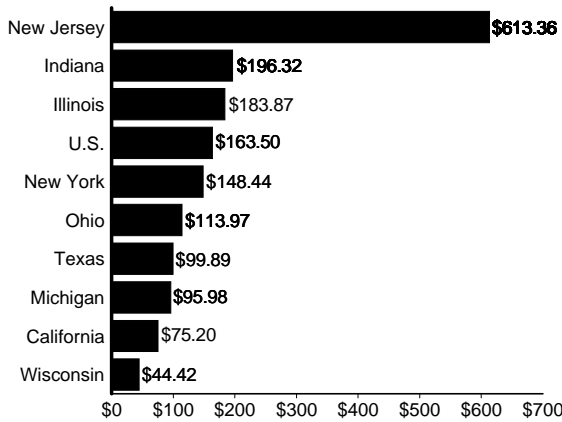
NOTE: Video lottery terminals, relatively new to the gambling industry, are the fastest growing form of legal gambling nationwide: In 1997 Americans dropped almost one-third more at lottery terminals than they did just one year earlier. Wagering at Indian casinos also grew at an eye-opening 21.3 percent rate last year.

EXHIBIT 3 U.S. Consumer Spending on Destination Entertainment, 1997



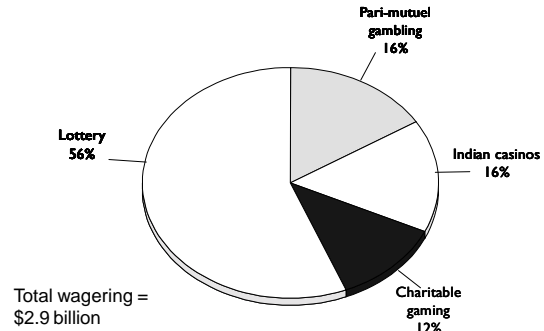
NOTE. Nationwide, consumers spent more on gambling in 1997 than on any other form of destination entertainment (that is, entertainment outside one's home). About one-third of these dollars were spent on casino gambling, and another 5 percent were spent on pari-mutuel gaming.

EXHIBIT 4
Per Capita Spending on Gambling,
Selected States and United States, 1997



NOTE: Spending on gaming nationwide was \$163.50 per capita in 1997. The Michigan figure (\$95.98 per capita) is less than the nationwide figure and also less than that of any other Great Lakes states except Wisconsin.

EXHIBIT 5
Michigan Wagering, 1997



NOTE: Currently, four forms of legal gambling are legal in Michigan: lottery, pari-mutuel horse racing, Indian casino, and charitable gaming. (The Detroit casinos will make five.) This exhibit shows that in 1997 the lottery was the most popular form of gambling among Michigianians. Unfortunately, however, we know only the *taxable* portion of wagering at Indian casinos—primarily that gambled at slot machines (Indian casino revenue from blackjack, poker, and other games is not subject to taxation)—thus, the above figure greatly understates the amount that Michigianians spend at these casinos.

NOTE: Due to the legislative recess, this month’s issue does not contain “News from the State Capitol.”

This month’s Economic Bulletin and Michigan Economic Forecast were written by Laurie A. Cummings, Senior Consultant for Economic and Education Policy, and Robert Kleine, Vice President and Senior Economist. The publications were edited by Wilma Harrison and formatted by Dyan Iansiti.

INFORMATION OF INTEREST

International Gaming and Wagering Business, *United States 1997 Gross Annual Wager*, (New York, N.Y.), August 1998. (800) 223-9638.

This 35-page publication discusses general trends in gambling in 1997 in the United States, with charts illustrating revenue and amounts wagered, by gaming industry. The document also examines trends in gambling from 1982 to 1997 and changes in gambling revenues by industry from 1996 to 1997. Other areas analyzed by the publication are the market share of each type of gambling within the entire gaming industry and trends in gross revenue listed by type of gambling from 1982 to 1997. There also is a discussion of supply and demand and the need for other forms of entertainment to be offered. The document concludes with a discussion and analysis of selected gaming industries.

Chronicle of Higher Education, 1998–1999 Almanac Issue, August 28, 1998, volume XLV, number 1. (202) 466-1005.

This document (120+ pages) about higher education shows state and national numbers for categories such as education attainment of adults, degrees awarded, enrollment, test scores, tuition and fees, state appropriations, expenditures, and research spending by universities. The report lists nine issues affecting higher education and illustrates which have been addressed by each state. Student data are presented by various demographic categories on test scores, financial aid, enrollment, and degrees. Faculty and staff data are presented on salaries, employment trends, characteristics of faculty and staff, and employment by race. Additional sections outline the varying monetary resources available to universities and a listing of all of the nation’s institutions of higher education. The publication concludes with a section on higher education in each state, looking at demographics, political leadership, colleges and universities, faculty members, students, and money.

MICHIGAN REVENUE REPORT

August state revenue collections are up a robust 11.9 percent over a year ago. Some of this strong performance may be credited to the end of the GM strikes, but vigor is evident across the board, indicating underlying strength in the Michigan economy.

Sales tax collections were most affected by the last month's strikes, but they rose 5.5 percent above the year-ago level despite a 10-percent fall in motor vehicle

sales. If motor vehicles sales are excluded, sales tax collections are up 8.4 percent over a year ago. Use tax revenue, which may vary widely from month to month, is up 8.2 percent over a year ago; August is the fifth consecutive month in which use tax collections have increased more than 7 percent.

Personal income tax withholding collections are 17.6 percent above a year ago. This surge may be attributed partly to the end of the strikes and a strong economy, but some of the strength likely is due to a change in the collection pattern—for example, there may have been more paydays this August than last.

Single business tax collections (excluding that from insurance

companies) also enjoyed an usually large increase for the third straight month: the August figure is 14.4 percent higher than in August 1997. Collections from insurers are even stronger, up 21.8 percent. A few months ago it appeared that collections would fall well short of estimates, but now it appears that they will exceed state officials' May estimate by as much as \$50 million.

Lottery sales rebounded in August (after falling in July), increasing 4.1 percent above a year ago.

Revenue growth is running about 1.6 percent above the May estimate. If this pattern holds for the next two months, total collections could exceed the estimate by as much as \$250 million.

August 1998 Revenue Collections (millions)

| Source | August Collections | Percentage Change, Year-ago | Percentage Change, Year-to-Date | August 1997 Actual | FY 1997-98 Consensus Est. Less Tax Cuts (% Change) |
|--|--------------------|-----------------------------|---------------------------------|--------------------|--|
| Income tax | | | | | |
| Withholding | \$508.5 | 17.3% | 7.4% | \$433.4 | 5.6% |
| Quarterly | 4.6 | -11.5 | 14.3 | 5.2 | 10.9 |
| Annual | 17.2 | 39.8 | 22.4 | 12.3 | 14.9 |
| <i>Subtotal: gross income tax</i> | 530.3 | 17.6 | 9.3 | 450.9 | 6.8 |
| Sales tax | 488.5 | 5.5 | 3.9 | 463.0 | 3.5 |
| Motor vehicles | 65.1 | -10.0 | 4.3 | 72.3 | — |
| Other | 423.4 | 8.4 | 3.8 | 390.7 | — |
| Use tax | 100.3 | 8.2 | 4.2 | 92.7 | 1.0 |
| <i>Subtotal: sales/use/withholding</i> | 1,097.3 | 10.9 | 5.6 | 989.1 | 4.3 |
| Tobacco tax | 56.6 | 9.3 | 90.0 | 51.8 | -4.0 |
| SBT | 210.1 | 14.4 | 5.3 | 183.6 | 2.2 |
| Insurance | 15.1 | 21.8 | -34.7 | 12.4 | -17.7 |
| <i>Subtotal: SBT + insurance</i> | 225.2 | 14.9 | 2.1 | 196.0 | 0.7 |
| State education property tax | 51.9 | 13.8 | 1.6 | 45.6 | 5.0 |
| Real estate transfer tax | 22.5 | 19.0 | 20.4 | 18.9 | 11.5 |
| Estate/inheritance tax | 8.8 | 17.3 | 38.4 | 7.5 | 13.2 |
| Intangibles tax | 0.6 | 100.0 | -42.9 | 0.3 | -46.2 |
| Severance tax | 2.1 | -16.0 | -18.8 | 2.5 | -12.6 |
| TOTAL | \$1,486.8 | 11.9% | 5.6% | \$1,329.2 | 4.0% |
| Gross lottery sales (prel.) | \$131.9 | 4.7% | 3.1% | \$126.0 | |

SOURCE: Senate Fiscal Agency.

NOTE: November is the first month of the new fiscal year for all revenue sources except the lottery.

Special Insert September 1998

MICHIGAN ECONOMIC FORECAST

INTRODUCTION

Although the economy continues to expand, it is beginning to show signs of weakness. Economic growth slowed in the second quarter of 1998 largely due to the fiscal crisis in Asia, and the additional problems in Russia and Latin America could further slow U.S. growth. Despite these signs, consumer spending, business investment, and housing investment remained strong through the second quarter.

HIGHLIGHTS

- \$ As of the end of the second quarter of 1998, the current economic expansion had reached 88 months. Now, however, there are indications that the second longest expansion since World War II could be coming to an end.
- \$ National economic growth rose at only a 1.6 percent annual rate (GDP) in the second quarter, down substantially from a 5.5 percent growth rate in the first.
- \$ Michigan and U.S. unemployment remain low, although job growth slowed somewhat in the second quarter from that of the first.
- \$ Automobile sales improved noticeably in the second quarter, increasing 5.7 percent from the second quarter of 1997.
- \$ Consumer prices remain well under control. Inflation in the second quarter rose at only a 2.1 percent annual rate from the first.

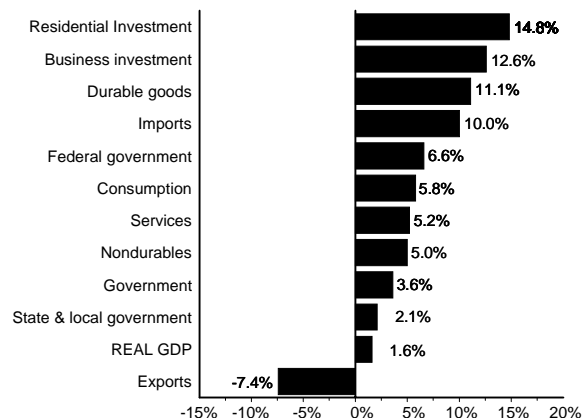
GROSS DOMESTIC PRODUCT

The economy is beginning to weaken: consumer confidence is falling, the stock market has dropped, and automobile sales are slowing. Although some of the weakness may be traced to the UAW strikes against General Motors, which ended in August, there are other serious long-term concerns. The fiscal crisis in Asia slowed growth in U.S. exports in the first two quarters, and now problems in Russia and Latin America could further slow U.S. growth. The Federal Reserve Board (Fed) continues to hold the line on interest rates, largely because inflation remains stagnant: The consumer price index increased at an annual rate of only 1.6 percent for the 12 months ending in August.

Gross domestic product (GDP), the primary measure of national economic growth, inched up at only a 1.6 percent annual rate in the second quarter of 1998, down substantially from a 5.5 percent rate in the first (see Exhibit 1). The slowdown is due largely to a 7.4 percent decline in exports, which account for approximately 13.0 percent of GDP. Economic activity in all other sectors increased in the second quarter, lead by a 14.8 percent expansion in housing investment. Business investment and durable goods also experienced double-digit increases, rising 12.6 percent and 11.1 percent, respectively. Unfortunately, imports

also increased 10 percent in the first quarter, a likely result of economic crises overseas. (The Asian and other crises have resulted in the currencies of affected nations being devalued relative to the U.S. dollar, making their goods cheaper for U.S. consumers to buy and increasing U.S. import purchases.)

EXHIBIT 1
Percentage Change in Selected Components of GDP, First Quarter 1998 to Second Quarter 1998



SOURCE: U.S. Department of Commerce.

Outlook

The current economic expansion has been going on for almost eight years, but for the first time there are indications that it could be coming to an end. Two factors could extend the life of the expansion: (1) Continued low inflation and the slowing economy could encourage the Federal Reserve Board to lower interest rates, spurring additional economic activity, and (2) the projected federal budget surpluses for the next decade will allow the federal government to stimulate the economy if signs of weakness appear.

In addition to the international financial turmoil, a major concern is that the sharp drop in the stock market will begin to dampen consumption, which has been the strongest part of the economy in recent quarters. If consumers pull back, there will be little left to sustain economic growth.

We expect continued economic expansion in the third quarter of 1998, but we expect it to continue to lag behind growth rates in the recent past. We predict GDP growth of 1.5–2.0 percent in the third and fourth quarters. For 1999 we expect growth of 1.0–2.0 percent.

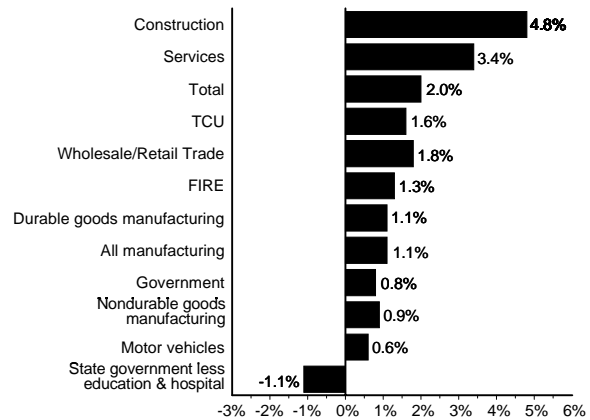
EMPLOYMENT AND INCOME

U.S. nonfarm payroll employment grew by 723,000 jobs in the second quarter, an annual rate of 2.4 percent, which is slightly slower than in the previous two quarters. The services sector led the way with 330,000 new jobs. Manufacturing employment rose by 17,000 jobs, considerably weaker than in the previous two quarters. Construction employment was up 49,000 jobs but well below the 120,000 increase in the first quarter (due largely to the unseasonably mild weather).

The **U.S. unemployment rate** averaged 4.4 percent (seasonally adjusted) in the second quarter of 1998, down from 4.7 percent in the first and 4.2 percent in the second quarter of 1997. In both July and August, the unemployment rate was 4.5 percent.

Michigan wage and salary employment growth slowed slightly. In the first quarter, employment increased 2.2 percent above the year-ago level, and in the second the increase was 2 percent above the year-ago level. As shown in Exhibit 2, the strongest major sector in the second quarter, as in previous quarters, was construction, up 4.8 percent. Employment in the services sector increased 3.4 percent, aided by a 7.2 percent gain in the personnel supply industry. Manufacturing employment increased 1.1 percent, with motor vehicle employment up only 0.6 percent. State government employment (excluding employees of state hospitals and public schools/universities) fell only 1.1 percent from the year-ago level, following sharp declines in the previous four quarters, which means

EXHIBIT 2 Michigan Wage and Salary Employment, Second Quarter 1998, Percentage Change from Year-Ago Quarter



SOURCE: Michigan Jobs Commission.

TCU = Telecommunications, communications, and utilities.

FIRE = Finance, insurance, and real estate.

the effect of state government's early retirement program in the spring of 1997 have about ended.

The **Michigan unemployment rate** averaged 3.6 percent (seasonally adjusted) in the second quarter, down 3.9 percent in the first and 4.2 percent from the second quarter of 1997. In July and August, unemployment rates were 4.2 percent and 3.6 percent, respectively.

U.S. personal income increased at an annual rate of 6.2 percent in the fourth quarter of 1997, down from 4.5 percent in the third. For all of 1997, personal income was up 5.8 percent, and wage and salary income increased 6.7 percent. The fastest growing component was dividend income, which jumped 10.4 percent; the slowest growing was rental income, which edged up 1.1 percent.

Michigan personal income grew at an annual rate of only 3.2 percent in the first quarter of 1998 (latest data available), down from an increase of 5.6 percent in the fourth quarter of 1997 (see Exhibit 3). This slowdown was due mainly to a 9.1 percent dip in manufacturing wages and salaries, following a 7.2 percent increase in the fourth quarter. Services wages continued strong, increasing at an annual rate of 10.1 percent. Transfer payments also recorded above-average growth at 6.3 percent (annual rate). Personal income was 4 percent above the year-ago level, and wages and salaries were up 4.8 percent. Personal income growth for 1997 has been revised from 4.4 percent to 4.9 percent.

EXHIBIT 3

Michigan Personal Income, Selected Components, 1990 to First Quarter 1998 (dollars in millions)

| Year | Total Personal Income | Wages & Salaries | Manufacturing Wages | Services Wages | Transfer Payments | Dividends, Interest, & Rent |
|--------------------------|-----------------------|------------------|---------------------|----------------|-------------------|-----------------------------|
| 1990 | \$174,388 | \$102,788 | \$34,170 | \$21,339 | \$25,991 | \$31,627 |
| 1991 | 179,165 | 103,718 | 33,395 | 22,037 | 29,303 | 32,331 |
| 1992 | 188,714 | 110,181 | 35,164 | 24,155 | 30,912 | 32,016 |
| 1993 | 200,671 | 115,411 | 37,051 | 25,663 | 33,081 | 32,697 |
| 1994 | 215,250 | 125,010 | 41,726 | 27,511 | 33,438 | 36,563 |
| 1995 | 229,474 | 133,075 | 44,474 | 30,197 | 35,183 | 40,244 |
| 1996 | 239,269 | 140,100 | 45,483 | 32,565 | 36,930 | 41,939 |
| 1997 | 250,880 | 147,199 | 46,668 | 34,664 | 38,483 | 43,824 |
| 1998i | 257,168 | 152,786 | 46,818 | 36,329 | 39,467 | 44,754 |
| % Change 1997i to 1998i | 4.0% | 4.8% | -0.7% | 7.5% | 3.6% | 3.6% |
| % Change 1997iv to 1998i | 3.2% | 3.2% | -9.1% | 10.1% | 6.3% | 3.4% |

Source: Bureau of Economic Analysis, U.S. Department of Commerce; calculations by Public Sector Consultants, Inc.

Outlook

We project that nationally, (1) U.S. payroll employment will increase 1.5–1.75 percent in 1998 and 1.25–1.5 percent in 1999; (2) wage and salary employment will grow about 1.75 percent in 1998 and 1.25 percent in 1999, compared with employment growth of 1.9 percent in 1997; and (3) unemployment will average about 4.5 percent in 1998 (this is down from our earlier estimate of 5.25 percent) and 5 percent in 1999. For Michigan, we expect unemployment to average 3.7 percent in 1998 (this is down from our earlier estimate of 4.25 percent) and 4.25 percent in 1999.

We project that nationally, personal income will increase 5.0–5.5 percent in both 1998 and 1999; we expect the economy to slow modestly in the second half of 1998 and in 1999 due to declining consumer confidence and the weakness in many foreign economies. In our last forecast we projected that Michigan personal income would increase about 4.0–4.5 percent in 1998 and 1999, but because the 1997 growth rate has been revised upward by 0.5 percent (from 4.9), we are raising our forecast to 4.25–4.75 percent for both 1998 and 1999. This modest slowdown from 1997 will be largely the result of the expected weakness in motor vehicle sales and slower growth in exports and business investment.

MOTOR VEHICLE SALES AND PRODUCTION

Light motor-vehicle sales improved markedly in the second quarter, increasing 5.7 percent from the year-ago level (in comparison, first quarter sales were 2.8

percent below the year-ago level). Most of the improvement was due to a 18.7 percent increase in June sales, which were driven in large part by generous incentives. Truck sales were up 11.3 percent in the second quarter, while car sales edged up 1.2 percent (they had dropped 7.6 percent in the first quarter). The Big Three gained market share again for the second consecutive quarter as their sales increased 5.6 percent, while sales of Japanese models increased only 2.6 percent. This reversed the trend of previous quarters.

Second quarter motor vehicle production was up 10.5 percent from the year-ago figure, almost double the first-quarter gain, as truck production surged 22.8 percent. Passenger car production fell 1.3 percent, the second consecutive quarterly decline.

Outlook

There has been no clear trend in motor vehicle sales this year. Sales were weaker in the first four months than expected but very strong in May and June, then—due mainly to the UAW strikes against GM—sales were down again in July and August. Excluding May and June, light motor vehicle sales are down 2.8 percent for the first eight months of 1998. One encouraging sign is that if GM's performance is excluded, July and August sales combined show a hike of 6.1 percent. The outlook for the remainder of the year is cloudy. Sales in the last four months provide some reason for optimism, but consumer confidence has been falling, and the overall economy is weakening.

In our last quarterly forecast we lowered our projection for 1998 motor vehicle sales from 15.4 million

units to 15.1 million units. If sales are flat for the last four months of 1998, sales will total 15.3 million units. Our best estimate now is that 1998 sales will be slightly above the 1997 figure of 15.2 million units. We forecast truck sales of 7.2 million units and car sales of about 8.1 million. We expect light motor vehicle sales in 1999 to be 14.9–15.1 million units.

MONETARY AND FISCAL POLICY

The Fed took no action on **interest rates** in the second quarter, and it left the target for the federal funds rate—the rate at which banks charge each other for overnight loans—at 5.5 percent. Long-term interest rates also stayed relatively low; the Moody's Corporate Aaa bond yield fell from an average of 6.67 percent in the first quarter to 6.59 percent in the second. Mortgage rates remained very low, falling to an average of 7.18 percent in the second quarter from 7.23 in the first (effective rate on newly built homes).

Despite the frenzy accompanying the release of the Kenneth Starr report, it is business as usual in the nation's capital in at least one respect—the president continues to spar with the GOP-controlled Congress over the budget surplus. House Republicans have introduced a five-year tax cut plan that would refund \$80 billion of the projected \$1.6 trillion surplus to taxpayers. President Clinton continues to argue that the surplus, which is projected to accumulate over the next ten years, should be used to bolster the Social Security fund. The Defense Department also is eyeing the prize—department officials plan to ask the president for an increase of up to \$15 billion annually over the next ten years to boost morale and military readiness and make other military improvements. The debate on whether to return the surplus to taxpayers or spend it (and on what) likely will continue during the coming months.

Outlook

The economy's recent slowing is causing the Fed to re-think its stance on interest rates. In its July meeting, it signaled that it may raise rates in order to slow the economy and head off inflation, but in early September, Chairman Alan Greenspan announced that

the Fed has abandoned this view. In explaining the decision, the chairman said that the U.S. economy cannot remain an "oasis of prosperity," implying that the financial troubles overseas are likely to dampen the U.S. economy in the future. We predict that the Fed will continue to hold the line on interest rates. However, if, as we expect, the economy continues to slow, the Fed may lower rates in the next quarter in order to stimulate the economy.

PRICES

The **U.S. consumer price index (CPI)** rose at a modest annual rate of 2.1 percent in the second quarter, following increases of 1.1 percent in the first and 1.6 percent in the fourth quarter of 1997. Nationwide, second-quarter prices were held down in part by gasoline, the price of which fell at a 17.1 percent annual rate. However, recent figures show that falling fuel prices may not be enough to keep inflation at bay: Excluding the volatile food and energy prices, the August CPI rose 2.5 percent (annual rate) due to increases in clothing and medical care costs.

In June, the **Detroit–Ann Arbor–Flint CPI** (produced bi-monthly and the latest data available) rose at an annual rate of 1.2 percent after rising 2.4 percent in April. Excluding food and energy, the June inflation rate was moderate—1.4 percent. Recently released data show that prices are rising in Michigan as well as nationwide: August's Detroit–Ann Arbor–Flint CPI was up 4.2 percent (annual rate).

Wholesale prices, as measured by the **producer price index (PPI)** rose at a moderate 1.2 percent annual rate in the second quarter, after dropping 3.2 percent in the first. Excluding food and energy, the index rose only slightly in the second quarter; first- and second-quarter PPI figures were 2.4 percent and 0.4 percent, respectively.

Outlook

The slowing of the U.S. economy will help keep inflation at bay, but it is unrealistic to expect fuel prices to continue to fall. We predict that the CPI will increase 2.5–2.8 percent in the third quarter, primarily because of higher gasoline prices.