

# ECONOMIC FORECAST

## OVERVIEW

Economic growth in the third quarter of 1988 was below the second-quarter figure and represents the third consecutive period of slowdown. Employment and earnings data, along with industrial production figures for October, suggest that fourth-quarter growth will exceed the sluggish third-quarter figure of 2.2 percent, although it seems unlikely to surpass the 3 percent increase in the second quarter. The recent modest rise in the index of leading indicators and the weakness in consumer buying plans point to continued slow economic growth.

For Michigan the outlook for 1989 is relatively bright because of expected increases in motor vehicle production and due to the transformation of the state's economic base during the past few years.

## THE NATIONAL ECONOMY

For 1988, growth [as measured by gross national product (GNP)] should exceed the 1987 level. According to advance estimates from the Bureau of Economic Analysis, economic growth in the third quarter stood at 2.2 percent. This was the slowest quarterly rate of growth in the national economy since the fourth quarter of 1986, when the rate was 1.4 percent. The third-quarter figure compares with 3 percent in the second quarter of 1988 and 3.4 percent in the first. Growth for the last fourteen quarters is depicted in Exhibit 1.

Consumers provided the main impetus for the third-quarter results. Spending on consumer services grew by 4.4 percent between the second and third quarters. Nondurable goods purchases gained by 3.7 percent, and durable goods outlays inched ahead by 0.4 percent.

Led by equipment purchases by producers, nonresidential fixed investment also was a positive force in the nation's economy during the third quarter. Investment in producers' structures posted a modest gain, as did residential fixed investment.

Nonfarm business inventories were up slightly. This represents a turnaround from the first and second quarters, when business was sharply reducing its level of inventory.

Inventories of farm commodities continued to slide. In fact, problems on the farm have been responsible for a significant cut in the nation's GNP this year. Excluding the farm sector, overall GNP growth for 1988

would have been 4.2 percent above the 1987 level. Including that sector, the figure will be about 3.9 percent.

Imports of goods and services rose sharply, following a decline in the second quarter. Exports of goods and services continued to rise, although growth in exports diminished considerably from the gains during 1987 and the first quarter of 1988. The net result on the foreign trade side of the GNP was a third-quarter deficit in goods and services.

There was some growth in purchases of goods and services by state and local government. At the federal level these declined as a result of substantial reductions in military outlays. Overall, government purchases of goods and services were reduced.

The implicit price deflator for GNP rose by 4.4 percent during the third quarter, an improvement compared with the second-quarter figure of 5.5 percent. (See Exhibit 2.) Rising export prices, along with higher prices for consumer services and nondurable goods, provided the main impetus for the increase in the price deflator. Price hikes on imported goods and services were exceptionally modest.

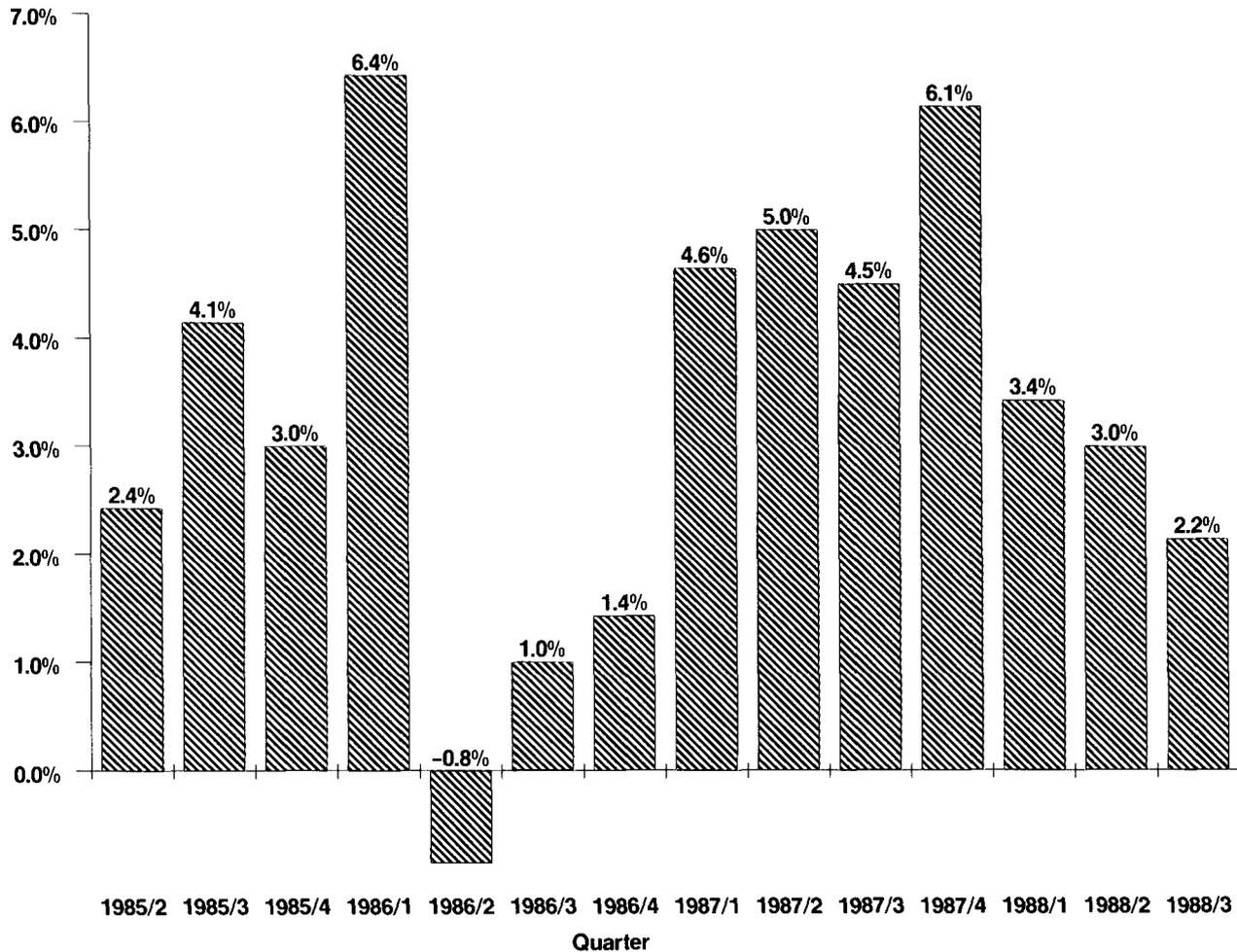
## International Trade

The automotive trade deficit in the third quarter was \$36.2 billion, compared with \$36.5 billion in the previous quarter. The first-quarter gap was \$39.8 billion. (These figures are stated in 1982 dollars and at annual rates.) For all of 1987 this deficit stood at \$44.9 billion, and for 1986 at \$43.7 billion. In 1988 the deficit will be approximately \$37 billion. Most of the improvement has come about on the export side. U.S. automotive exports rose by about \$5 billion between 1987 and 1988, whereas imports declined by about \$3 billion.

The automotive trade deficit with Canada shrank as 1987 progressed, and overall it amounted to about \$5.2 billion, not adjusted for inflation. This year, if the trend in the first half continues, the deficit will be about \$7 billion. The automotive trade deficit with countries other than Canada rose during 1987 to \$53.6 billion. This year, if the trend in the first half continues, it will fall to \$44 billion. These figures are not comparable with those in the preceding paragraph because they are not adjusted for inflation.

U.S. vehicles are becoming increasingly competitive with those of foreign producers, but Canada continues

**EXHIBIT 1**  
**Percentage Change in Real GNP from the Preceding Quarter:**  
**Second Quarter 1985 to Third Quarter 1988**  
 (revised annual rates)



to make substantial inroads in the U.S. market. Data still are insufficient to distinguish between Japanese transplants in Canada that ship to the United States as opposed to other producers, mostly U.S.-based firms that are expanding their Canadian activities at the expense of domestic operations.

The trade data also show a rising volume of imported components for vehicles produced in the United States by the transplants as well as by domestic manufacturers. The dollar value of engines brought in from countries other than Canada should increase by \$1 billion during 1988; the figure for other vehicle components should be \$3 billion. Meanwhile, the value of completed passenger car imports should decline by about \$7 billion, and the value of trucks by \$1.5 billion.

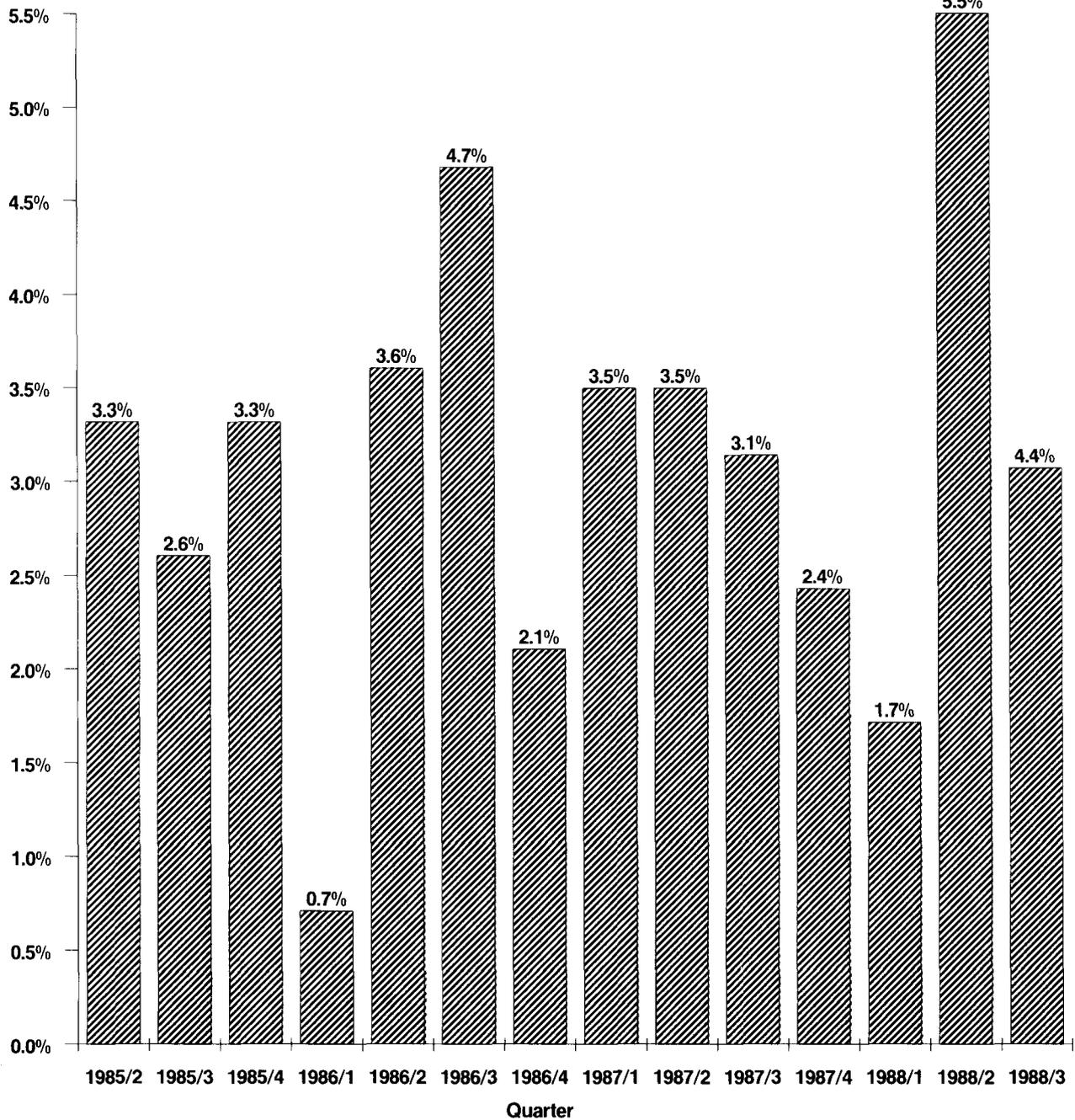
There is evidence in the data of another trend. U.S. exports of automotive products to countries other than

Canada are on the rise. From approximately \$7 billion in 1987, this volume is expected to climb to about \$10 billion in 1988. U.S. exports of cars, trucks, engines, and other automotive components to destinations other than Canada are rising rapidly, although from a small initial base.

There has been a continued decline in the U.S. trade deficit in consumer durable goods, other than vehicles and parts, as a result of the \$0.9 billion gain in exports likely to be registered this year. Imports also have increased, but only by about \$0.7 billion. The consumer durables deficit was running at an annual rate of roughly \$33 billion in the third quarter (1982 dollars), compared with \$36 billion in automotive products (also in 1982 dollars).

A major factor in the U.S. trade imbalance is this country's appetite for petroleum and its products. In

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



1985, U.S. imports in this category amounted to slightly more than \$60 billion, compared with \$64 billion in 1984. The totals for 1986 and 1987 were \$75 billion and \$78 billion, respectively, and this year's level should exceed \$85 billion. By 1990 the United States is very likely to be importing about \$90 billion worth of petroleum products.

In several broad categories of merchandise the trade news is favorable. In nondurable consumer goods, the U.S. deficit should decline to \$22 billion in 1988, down from \$24 billion in 1987. The country's export surplus in foods, feeds, and beverages, which was \$6 billion in 1987, should grow to \$13 billion in 1988. The surplus in capital goods, other than automotive products,

should jump to \$22 billion in 1988, up from \$10 billion in 1987. The surplus in all other categories of merchandise, which was \$13 billion in 1987, should grow to \$17 billion in 1988.

Trade in services still is heavily in favor of the United States, but a disturbing trend is emerging. The U.S. surplus in this trade was \$31 billion in 1986, slipping to \$30 billion in 1987 and to around \$27 billion in 1988. These figures suggest a deterioration in the area of greatest comparative advantage for the United States, and at a time when sharp downward adjustments in the dollar should have enhanced competitiveness.

Much of the world's trade flow is managed by multinational corporations. A large part of this country's trade deficit in goods and services stems from the perception of U.S. multinationals that it is easier for them to import than to grapple with inefficiencies in their own organizations. We can expect transplanted Japanese firms to assume an increasing responsibility for identifying and pursuing foreign markets for U.S. goods and services. For example, besides shipping U.S.-made cars to Japan, Honda is a major exporter of U.S. beef to that country.

Earlier this year, Canada and the United States signed a free trade agreement, subject to ratification in both countries. Congress has approved the pact, and it has been signed by President Reagan. In Canada, the agreement will be ratified in December by the recently reelected conservative government of Prime Minister Brian Mulroney. Freer trade with Canada will benefit Michigan because of the state's access to the nearby markets in Ontario and Quebec. Canadians also will profit from the agreement, but mostly at the expense of producers in the U.S. South and West.

## Fiscal and Monetary Policy

On Wall Street, third-quarter GNP figures were good news. A sluggish economy means that money managers do not have to tighten monetary policy as a means of keeping the lid on inflation. The October labor reports were not such good news, however, as the large employment gain indicates the economy is growing much faster than suggested by the GNP data released earlier.

The U.S. trade deficit also has an unsettling effect on Wall Street, since the confidence of foreign investors is vital in meeting U.S. credit requirements. Americans do not save enough to provide for the nation's investment needs and to fund the federal budget deficit, which will widen if economic growth is slower than anticipated. The Federal Reserve Board, which controls the U.S. money supply, is under increasing pressure to restrict money so as to raise interest rates, thereby making this country attractive for foreign funds. The danger is that too much tightening will produce a

recession. For now, more rather than less monetary restraint seems to be favored, and interest rates are likely to continue strong in the foreseeable future.

The president-elect and Congress will be faced with a rising budget deficit. A remedy is made more difficult by the decline in federal purchases of goods and services since the fourth quarter of 1987. Reduced outlays for military hardware plus a liquidation of agricultural commodities have trimmed federal contributions to GNP. The widening deficit means that a larger proportion of the U.S. budget goes for interest payments on debt rather than for other purposes.

One area that requires more money and attention is America's youth. The legacy of a decade of improving entitlement programs for senior citizens but not young people is becoming more apparent with each year's statistics. A recent issue of *Forbes* carried a cover story entitled "Consuming Our Children?" The article pointed out that the United States "spends 27 percent of the federal budget on the 12 percent of the population over 65."<sup>1</sup> According to the authors, the sharp reduction in poverty among the elderly has been accomplished largely at the expense of the younger generation. Given the need to remedy this distortion and in view of the already tight budget in Washington, a tax increase is likely for fiscal 1990, which begins on October 1, 1989. Further economic stimulus from Washington is not even a remote possibility.

## Leading Indicators

In September the composite index of leading indicators of U.S. economic activity slipped by 0.1 percent from the August level, following a gain of 0.5 percent in August. For the third quarter as a whole, the index was up by 0.4 percent. The second-quarter gain was 0.7 percent. There was no change between the last quarter in 1987 and the first in 1988.

The September decline was led by a drop in contracts and orders for new plants and equipment. Other contributing factors were fewer building permits, changes in prices of raw materials sensitive to business cycles, and a tightening of the money supply. On the positive side, the average production workweek in manufacturing increased, the average weekly initial claims for state unemployment insurance declined, prices of 500 common stocks on the New York Stock Exchange rose, the percentage of companies receiving slower deliveries from their vendors grew, and new orders for consumer goods increased. The index could change when data on business and consumer borrowing and on business inventories become available.

The index of leading indicators is signaling slow economic growth during the next few months.

<sup>1</sup>Subrata N. Chakravarty and Katherine Weisman, "Consuming Our Children?" *Forbes*, November 14, 1988, p. 223.

## Investment

Investment in producers' durable equipment increased by 5.8 percent in the third quarter, compared with 19.2 percent in the second and 21.6 percent in the first. This component of GNP is extremely volatile, as evidenced by the 2.4 percent decline during the last quarter of 1987.

Investment in nonresidential structures grew by 1.6 percent in the third quarter, after a gain of 3.3 percent in the second. This component declined by 22.4 percent in the first quarter.

Capital spending is projected to increase 11.6 percent in 1988, after adjustment for inflation. In 1987 there was a real increase of 2.3 percent in such outlays. A decline of 3.9 percent occurred in 1986.

According to the latest *Manufacturing Investment Outlook*, published by The Conference Board,

U.S. capital investment remains on an upward trend. Plant and equipment spending continues to rise as capacity use is at its highest level in eight years. Moreover, the average age of capital climbed steadily through the 1980s and business is attempting to modernize its aging stock. This strong investment trend continues to run its course notwithstanding interest rate hikes. Strong profit growth has generated the wherewithal to fund an unusually large share of the ongoing investment.<sup>2</sup>

## Income, Consumption, and Saving

Personal income received by U.S. households increased by 0.5 percent in September. This compares with gains of 0.3 percent in August and 0.7 percent in July. Disposable personal income, adjusted for inflation, was unchanged in September and August. The July gain in real disposable income was 0.2 percent.

Personal consumption expenditures, not adjusted for inflation, were unchanged in September from the August level. Consumption expenditures adjusted for inflation rose by 0.6 percent in August and by 0.4 percent in July. The largest gain in consumer spending during the third quarter took place in the medical care category. Expenditures for clothing and shoes, housing, and food also posted sizable gains. When adjusted for inflation, however, food expenditures declined.

Spending for motor vehicles and parts rose by 4.5 percent, on an annual basis, before the inflation adjustment. In real terms, the gain was slightly more than one percent.

In August consumers were fairly confident, but The Conference Board's consumer confidence index in September was at its lowest level since December 1987. Consumers apparently felt that business conditions had

deteriorated and that jobs were less plentiful than in August.

Consumers' expectations for conditions six months hence also took a turn for the worse in September. Decidedly fewer households plan to purchase a new car or a house than was the case last spring. There is also less inclination to purchase major home appliances. A larger proportion of consumers expect higher interest rates than was the case last spring.

Compared with a year ago, consumer confidence has sagged most in the Rocky Mountain region and in New England. The greatest improvement has occurred in the Middle Atlantic states, followed by the midcontinent, including Michigan.

## THE MICHIGAN ECONOMY

### Personal Income

Labor and proprietors' earnings in Michigan grew at a rate of 2.3 percent between the first and second quarter of 1988, matching the rate of change nationally. The first-quarter figure for Michigan has been revised upward, to 1.8 percent, from the 1.1 percent reported three months ago. The same statistic for the nation was revised downward, from 0.7 to 0.4 percent.

Nondurable goods manufacturing, services, construction, and transportation industries were at the forefront of Michigan's growth during the second quarter. Durable goods manufacturers showed a small earnings gain during the second quarter but had led the state's growth during the first. These employers have been scheduling substantial overtime, especially at Ford Motor Company plants. Earnings data for Michigan and the United States are shown in Exhibit 3.

### Employment

During the third quarter of 1988, Michigan wage and salary employment declined by roughly 20,000. Nationally, there was an increase of about 850,000, and the percentage gain was about the same in the third quarter as in the second. For Michigan, the loss in the third quarter more than wiped out the gain in the second.

Government employment in the state declined by about 10,000. Employment in motor vehicle manufacturing dropped by nearly 7,000. There also were declines in nondurable goods manufacturing; transportation, communication, and public utilities; finance, insurance, and real estate; and services.

Construction stands out as the major positive contributor to the Michigan economy during the third quarter. The mining sector also performed well, but its employment base is quite small.

<sup>2</sup>The Conference Board, *Manufacturing Investment Outlook* 2 (Summer 1988):1.

**EXHIBIT 3**  
**Labor and Proprietors' Earnings in Michigan and the United States,**  
**By Broad Economic Sector: First and Second Quarters 1988**  
**(dollars in millions)**

Sector	Michigan			United States		
	First Quarter	Second Quarter	Percentage Change	First Quarter	Second Quarter	Percentage Change
Agriculture	\$755	\$600	-20.5%	\$51,543	\$50,319	-2.4%
Agricultural services, forestry, and fisheries	308	311	1.0	14,682	14,787	0.7
Mining	360	366	1.7	29,640	30,202	1.9
Construction	5,190	5,404	4.1	182,983	187,399	2.4
Nondurable goods manufacturing	7,120	7,468	4.9	215,431	218,441	1.4
Durable goods manufacturing	31,274	31,503	0.7	368,659	373,567	1.3
Transportation and public utilities	5,961	6,189	3.8	196,084	200,946	2.5
Wholesale trade	6,156	6,293	2.2	184,834	189,612	2.8
Retail trade	9,744	9,917	1.8	283,538	289,090	2.0
Finance, insurance, and real estate	4,876	4,965	1.8	209,482	213,345	1.8
Services	22,304	23,302	4.5	681,294	711,601	4.4
Federal civilian payrolls	1,784	1,811	1.5	93,448	94,172	0.8
Federal military payrolls	380	379	-0.3	43,345	43,306	-0.1
State and local government payrolls	12,256	12,489	1.9	314,398	319,600	1.7
<b>TOTAL EARNINGS</b>	<b>\$108,470</b>	<b>\$110,994</b>	<b>2.3%</b>	<b>\$2,869,361</b>	<b>\$2,936,386</b>	<b>2.3%</b>

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

Within the categories shown in Exhibit 4, the industries associated with construction show employment increases. This is true for concrete, plumbing, and construction machinery manufacturing in Michigan as well as for producers of office furniture and fixtures. Retailers of building materials and furniture and home fixtures also are doing well.

Large department stores have fared poorly this year, but restaurants, food stores, apparel stores, and catalog merchandisers are doing well. Providers of repair services and recreation also show employment gains in Michigan, as do newspaper and other publishers as well as beverage bottlers. The plastics industry continues to exhibit growth. Employment in the foundry industry has bottomed out and shows some gain compared with 1987.

Perhaps due to the depressed dollar, pharmaceutical, instrument, and metalworking machine manufacturers are registering increased employment. The same is true of makers of paperboard containers.

Within the broad category of transportation, communication, and public utilities, the latter two sectors show declining employment compared with 1987. Truckers are having a banner year. Airline transportation also continues its growth in the state.

Other sectors making gains are banking, insurance, hospitals, other health care, local government, and federal government. State government employment is declining.

## Retail Trade

Michigan retailing has improved in recent months but still lags the nation. Retail sales increased 4.1 percent in the first eight months of 1988, compared with a 6.5 percent increase nationally. During the first five months of the year, gains in the state were about half the national figure.

In the retail survey conducted by the Bureau of the Census (see Exhibit 5), department stores appear to be having a better year than retailers generally. These data contradict those from a survey by the Michigan Employment Security Commission and information from the Michigan Department of Treasury. The latter categorizes sales tax collections by store type, and indications are that department stores are not doing well this year.

State treasury data do show that building, lumber, and hardware dealers have posted improvements, as have furniture dealers. Other notable gainers are apparel shops, grocery stores, gasoline service stations, restaurants, book and stationery stores, sporting goods shops, and nonstore retailers (such as catalog sales).

Collections from automobile dealers are down slightly for the period October 1987 through June 1988 as compared with the like period twelve months earlier. MESC employment data also reveal a downturn in this industry.

**EXHIBIT 4**  
**Wage and Salary Employment in Michigan and the United States**  
**By Broad Economic Sector: Second and Third Quarter 1988**  
**(employment figures in thousands of jobs)**

Industry Group	Michigan			United States		
	Second Quarter	Third Quarter	Percentage Change	Second Quarter	Third Quarter	Percentage Change
Mining	9.8	10.2	-4.1%	739	736	-0.4%
Construction	129.4	132.2	2.2	5,261	5,339	1.5
Nondurable goods manufacturing	222.9	221.2	-0.8	8,014	8,018	—
Durable goods manufacturing						
Motor vehicles and equipment	288.1	281.4	-2.3	850	858	0.9
Other durable goods	425.9	425.4	-0.1	10,634	10,698	0.6
Transportation, communication, and public utilities	152.7	152.5	-0.1	5,560	5,608	0.9
Wholesale trade	188.8	189.4	0.3	6,117	6,195	1.3
Retail trade	687.7	687.5	—	19,143	19,281	0.7
Finance, insurance, and real estate	185.2	184.2	-0.5	6,662	6,688	0.4
Services	835.1	834.1	-0.1	25,284	25,630	1.4
Government	626.4	616.3	-1.6	17,346	17,418	0.4
<b>TOTAL</b>	<b>3,752.0</b>	<b>3,734.4</b>	<b>-0.5%</b>	<b>105,610</b>	<b>106,469</b>	<b>0.8%</b>

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

Public Sector Consultants' *Michigan Revenue Report* also has shown gradual improvement in the retailing sector as 1988 has progressed.

### Construction

During the second and third quarters of 1988, construction in Michigan strengthened (see exhibits 3 and 4). This was contrary to earlier expectations based on building permit data, which had suggested a slackening. Evidently, the backlog of planned construction was so great that activity increased despite the slippage in permits for future building.

The last two columns in Exhibit 6 are based on six-month and nine-month building permit data for both 1987 and 1988. The comparisons allow an evaluation of changes in activity between the third quarters of these two years.

Residential permits show a marginal gain in valuation in the nine-month figures compared with those for the first six months. There also was a slight gain in the number of units in this category, as the negative number is smaller under the nine-month column than under the six-month column. This indicates some improvement in the outlook for residential building in Michigan, which is consistent with demographic data showing that the state is gaining population through migration. Also, the long slump during the earlier part of the decade created pent-up demand for new housing.

Consistent with the low occupancy rates in the lodgings industry in recent months, permits to build

new motel and hotel units have fallen sharply since midsummer. Lodgings were overbuilt in the boom period 1985-87, and the market simply has not been sufficient to absorb those units.

Industrial building permit valuation has improved from an already favorable outlook. The number of permits still is down but not as much as during the first half of 1988. These data suggest a heavier emphasis on large projects during the first half, compared with 1987, but a shift toward smaller factories during the third quarter.

The office building boom continues strong but is diminishing, no doubt due to temporary market saturation. In southeastern Michigan, especially around Detroit, office vacancy rates are rising. As is the case for residential and lodgings construction, a leveling off in office building sometime next year seems likely.

Permit activity for mercantile building has deteriorated from an already depressed level. Conversion activity also shows signs of slackening.

In sum, the impetus in construction in the months ahead will come from factory building and not from the residential, office, and mercantile categories. (These data exclude highways, bridges, airports, utilities, and other infrastructure.)

### OUTLOOK

The latest *World Economic Outlook* from the International Monetary Fund estimates world economic growth at 3.1 percent during 1989. In developing

**EXHIBIT 5**  
**Percentage Change in Retail Sales**  
**in Michigan and the United States, August 1987-August 1988**

	Detroit <sup>a</sup>		Michigan		United States	
	August 1987- August 1988	1st eight months 1987-88	August 1987- August 1988	1st eight months 1987-88	August 1987- August 1988	1st eight months 1987-88
Durable goods, total	NA	NA	5.2	2.5	4.9	9.5
Department stores	9.2	6.9	8.9	7.4	2.2	4.2
GAF <sup>b</sup> total	8.7	3.6	8.4	3.6	4.3	5.4
Nondurable goods	6.4	5.4	7.0	5.3	5.0	4.7
TOTAL	2.7	3.7	6.3	4.1	5.0	6.5

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

NA = Not available.

<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 specializing in types of merchandise found in department stores and includes furniture and apparel stores.

countries it is projected at 4 percent, for industrial countries at 2.8 percent. That figure is in line with our expectations for the United States.

U.S. GNP this year will be about 3.8 percent above the 1987 level. Even if the farm economy is a positive force during 1989 instead of the drag it was in 1988, economic growth next year promises to be less than 3 percent. Consumers are very cautious, despite an unemployment rate dropping toward 5 percent. Growth in capital goods spending also looks less robust

for next year than this. Further improvement in foreign trade can be expected because of productivity gains in manufacturing and because world growth will be greater than our own. Finally, government outlays for goods and services seem unlikely to provide much new stimulus in 1989.

Growth in this country is focused on investment and on exports, the latter directly related to manufacturing. The midcontinent region still is the nation's manufacturing heartland, and despite the ravages of

**EXHIBIT 6**  
**Valuation and Number of Residential and Nonresidential Units**  
**Authorized Permit Issuing Places in Michigan, by Category: 1981-87,**  
**and Percentage Change 1987-88**

Category	1981	1982	1983	1984	1985	1986	1987	Percentage Change 1987-88	
								6 months	9 months
Valuation (millions)									
Residential homes	\$821.8	\$593.2	\$1,015.9	\$1,324.2	\$1,833.7	\$2,440.5	\$2,628.5	4.6%	5.3%
Transient hotels, motels, tourist courts, and cabins	19.6	8.6	12.7	86.9	130.9	101.6	128.3	59.9	-9.3
Industrial buildings	366.9	312.4	158.2	331.0	555.5	525.0	691.1	8.6	16.1
Office, bank, and professional buildings	211.9	121.0	209.5	353.9	408.0	512.5	422.9	41.1	29.7
Stores and other mercantile buildings	149.0	72.3	117.2	174.2	250.1	373.6	418.1	4.1	-6.6
Additions, alterations, and conversions, except residential	412.7	349.9	432.7	600.3	702.9	859.1	786.5	22.9	20.5
Number of units									
Residential homes	18,917	14,377	21,683	27,758	37,675	47,295	46,732	-2.9%	-2.3%
Transient hotels, motels, tourist courts, and cabins	724	859	1,018	1,869	5,149	3,857	5,561	45.5	3.5
Industrial buildings	634	479	630	857	1,149	1,315	966	-23.2	-16.2
Office, bank, and professional buildings	459	310	438	531	627	626	611	28.2	16.1
Stores and other mercantile buildings	787	620	776	1,083	1,211	1,366	1,508	-8.4	-11.5
Additions, alterations, and conversions, except residential	12,511	11,491	13,519	14,518	15,068	1,589	12,998	-3.1	-6.3

SOURCE: Bureau of the Census, special release.

the 1979-83 period, Michigan remains a major producer and the center of the vehicle industry. The midcontinent also is the strongest market for vehicles with domestic nameplates.

A revitalized Michigan economy promises to exhibit more economic strength next year than this. Real earnings, the growth measure used here for lack of a more comprehensive yardstick, are expected to grow by 3 percent in 1989 compared with 2.9 percent this year (see Exhibit 7). National earnings growth is projected at 3 percent, compared with 3.2 percent for 1988.

The state's structural adjustment from an antiquated, overstuffed automotive sector is in its tenth year. Because of this transformation, Michigan is far less reliant on vehicle production than it was a decade ago. By the same token, the automotive industry is far less dependent on this state than it once was. Both Michigan and the automotive industry are far more agile, able to take advantage of developing markets, and can react favorably to change. Michigan is nearing the end of this transition, which involved the closure of many factories. Reductions in the automotive work force will continue but will be more gradual.

Three months ago, the estimate of annual vehicle production for the nation was 11 million units. It now appears that 11.2 million units will be assembled in 1988. Based on present scheduling, the projection for 1989 is 11.7 million units. Michigan produced 28 percent of the vehicles made in this country in 1988, and its share probably will fall to 27 percent in 1989.

A considerable proportion of the national increase will occur among the foreign firms producing in the United States, most of which are not located in this state, although they count Michigan companies among their suppliers.

Growth will be uneven throughout the state, but southeast Michigan will do well despite weakness in manufacturing. The manufacturing decline in 1988 has affected southeastern Michigan more than the rest of the state because that area relies heavily on automotive manufacturing and because there is a greater outstate concentration of growth industries, such as office furniture and chemicals. Government activity, which is relatively more important in western and northern Michigan, is declining in the southeast while making a modest gain elsewhere in the state.

Other than in manufacturing and government, southeastern Michigan is outperforming the rest of the state. The gap is most noticeable in construction; finance, insurance, and real estate; and transportation, communication, and public utilities. The southeastern area also leads the state in growth in services and in retailing.

Construction not only is an important activity in itself but also creates employment in the steel, lumber, and cement industries as well as in a host of others, such as appliances, furniture, office fixtures, and carpeting. The implications of strong construction activity, other than in residential building, are new jobs in the factories, offices, stores, and hotels once they are built. Michigan's boom in nonresidential construction is in its fifth year and is producing thousands of new jobs

**EXHIBIT 7**  
**Broad Economic Indicators, Michigan and the United States,**  
**Actual and Projected: 1987-89**

Indicator	1987	1988	1989 (Estimate)	Percentage Change	
				1987-88	1988-89
Earnings (current \$ in millions)					
Michigan	\$104,130	\$110,700	\$117,900	6.3%	6.3%
United States	\$2,757,287	\$2,940,000	\$3,126,600	6.6	6.3
Earnings (1987 \$ in millions)					
Michigan	\$104,130	\$107,200	\$110,500	2.9	3.0
United States	\$2,757,287	\$2,846,000	\$2,930,000	3.2	3.0
Civilian employment (thousands)					
Michigan	4,154	4,200	4,270	1.1	1.7
United States	112,440	114,900	117,000	2.2	1.8
Vehicle production (thousands)					
Michigan	3,402	3,100	3,200	-8.9	3.2
United States	10,900	11,200	11,700	2.8	4.5
Unemployment rate (% of civilian work force)					
Michigan	8.2%	7.5%	6.8%	--	--
United States	6.2%	5.5%	5.3%	--	--

SOURCES: The 1987 and 1988 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 a special release, Bureau of Labor Statistics, Department of Labor, Washington, D.C.; on vehicle production from a special release, Motor Vehicle Manufacturers Association, Detroit.

in Oakland, Macomb, western Wayne, and Washtenaw counties.

Meanwhile, a high technology economy is gaining size and momentum, especially in the southeastern part of the state. Even Detroit residents seem to be experiencing some job gains in the last half of this decade. Employment in Michigan in 1989 is expected to grow marginally slower than the national figure, perhaps slightly faster in southeastern Michigan than elsewhere in the state. Michigan still has a large pool of jobless, and the unemployment rate will decline but will remain significantly above the U.S. figure.

Beyond 1989, the general outlook is for more of the same: undramatic but steady growth. According to 26 senior financial executives who participated in

the October 1988 Conference Board survey:

- The U.S. economy will continue to grow, albeit more slowly, in 1989 and 1990.
- Inflation will average 4.4 and 4.5 percent respectively in those years, but interest rates in 1990 will be lower due to slower real growth.
- Corporate before-tax profits are expected to rise by an average of 8.6 percent in the next 12 months.
- The German mark and the Japanese yen will strengthen slightly against the U.S. dollar in the coming six months.<sup>3</sup>

<sup>3</sup>The Conference Board, *Survey of Financial Indicators 1* (October 1988):1.

#### 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.

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