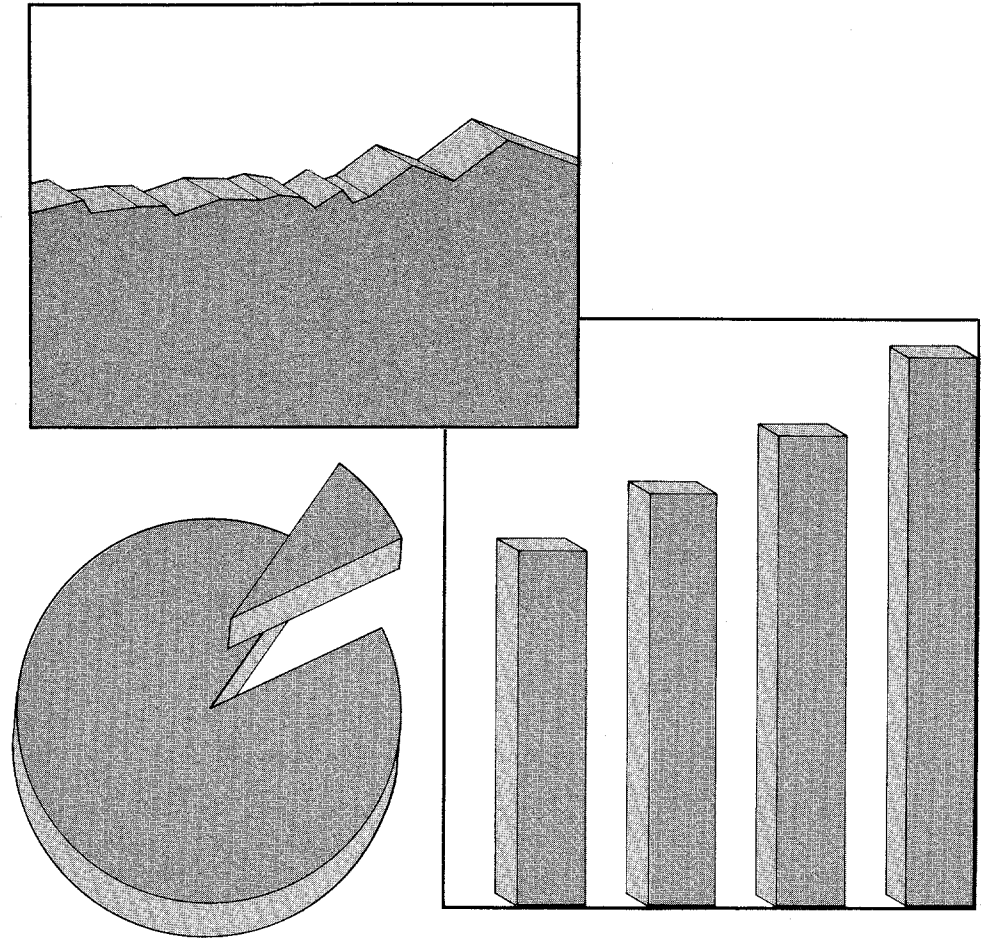


Spring Quarter

Economic Forecast



Prepared by
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Economic Forecast—Spring Quarter 1986

OVERVIEW

First quarter 1986 vehicle production in Michigan was 4 percent above the 1985 figure for the same period, compared with a slippage of about .8 percent in assemblies nationally. In the nation as a whole, employment in the broad group of industries classified as motor vehicle and equipment manufacturing was 1.9 percent below the first quarter 1985 level; in Michigan, employment was the same in both quarters.

Second quarter data, when they become available this summer, are likely to reveal further cutbacks in production for the nation's assembly plants, with Michigan continuing to run counter to the industry trend. Assembly plants in this state can be expected to maintain stable employment during the second quarter; but overall automotive-related employment in the state is expected to slip as a sizeable proportion of Michigan-made engines, stampings, steering assemblies, and other components are sent to assembly plants in other states.

Since this state's economic fortunes are still determined largely by what happens in the North American motor vehicle market, we can anticipate a relatively weak second quarter in comparison with the first. When the figures are released in about three months, our rate of earnings growth during the first quarter of 1986 will prove to have been very close to the national average. During the second three months, the Michigan growth rate will lag behind the nation's. While this projection may seem incongruent with the statement that our share of automotive employment and earnings is increasing, it must be remembered that automotive production does not have the predominance nationally that it does here. The national economy is more heavily weighted with industries that are fast growing. The industries that are most important in Michigan are expected to grow at below average rates.

Sales incentives plus selective production cuts will better balance vehicle supply and demand by the end of this model year. It seems unlikely that domestic manufacturers will opt to have on hand a sizeable inventory of 1986 models at the beginning of the 1987

model year. Consequently, the last quarter of 1986 should be one of robust vehicle manufacturing activity.

Lower interest rates, low energy prices, and a devalued dollar in terms of key foreign currencies are reasons to be optimistic that the U.S. economy will be well balanced by the end of this year with respect to supply on hand, demand for goods and services, and capacity to produce. As a whole, it seems likely that in 1986, the total national production of goods and services will be about 3 percent above that for 1985. In 1985, the Gross National Product (GNP) increased by 2.2 percent over 1984. The 1987 level of GNP is forecast to be above that for this year by 4 to 5 percent.

Gross product data are not available for Michigan on a systematic quarter-by-quarter or year-by-year basis as they are for the nation. But the best substitute for these data, labor and proprietors' earnings (adjusted for changes in prices), are expected to exhibit 1986 growth of about 4.2 percent nationally and 4.0 percent in Michigan. Michigan's real earnings are projected to grow at a rate of 4.5 percent compared with 4.0 percent nationally; this assumes that cars will roll from Chrysler Corporation's Jefferson Avenue assembly line throughout 1987.

LEADING INDICATORS

In March, the composite index of leading indicators of the nation's economy increased by one-half of one percent, according to the preliminary tabulations by the Bureau of Economic Analysis in Washington, D.C. Increases in common stock prices, the money supply, the proportion of companies having to wait longer for deliveries from busy vendors, the average length of the workweek, and credit outstanding all made positive contributions to the index of leading indicators. Four negative contributors were decreases in new orders by manufacturers for consumer goods and materials, contracts and orders for plant and equipment, prices of sensitive materials, and net business information; a fifth negative contributor was a jump in the average initial weekly claims for state unemployment insurance.

The February revised index was .9 percent above the January figure; January was unchanged from December. The sluggish but positive behavior of the index for the past several months suggests that the U.S. economy will continue to grow at a leisurely pace.

This portent is corroborated by a survey of businesses about their investment plans. The survey, conducted during January through March by the U.S. Department of Commerce, reveals that businesses plan to spend an average of 2.3 percent more for new plants and equipment during 1986 than they did during 1985. This is compared with an increase of 9 percent between 1984 and 1985. According to the survey, capital spending, after adjustment for price change, will rise by only .9 percent, compared with 7.5 percent last year.

Modest investment increases are anticipated by manufacturers of transportation equipment and producers of nondurable goods. The airlines are planning substantial increases in purchases of equipment. Among those showing up in the minus column are steel and petroleum companies, electric utilities, and railroads.

EXPECTATIONS SURVEYS

Business confidence has shown some improvement since last summer's doldrums, when it appeared that the greater likelihood for 1986 was recession. Business is positive about the current condition of the U.S. economy and also about the next six months. However, among those surveyed, the outlook was for relatively weak employment growth. These findings are the result of a survey of chief executives conducted in February, May, August, and November of each year by The Conference Board, Inc., a nonprofit research organization in New York City.

The Conference Board also conducts a monthly survey of consumer attitudes and buying plans; responses suggest that current attitudes are moderately optimistic and holding. This is corroborated by a quarterly consumer survey conducted by the University of Michigan's Institute for Social Research.

MONETARY POLICY

The Federal Reserve System reduced the discount rate to 6.5 percent on April 21, the lowest level since

May 1978. The discount rate is a signal of the direction of Reserve policy, since it is the interest rate that the system itself charges its customers (commercial banks and other financial institutions) for funds they must borrow to satisfy reserve requirements. Reserves are the liquid assets that banks must maintain against liabilities.

The nation's money stock has been rising vigorously as a result of the expansionary policy of the Federal Reserve Board, the governing body of the Federal Reserve System. Consequently, interest rates have declined, not just in recent months, but for the past year and a half.

Stable energy prices, along with declining unit labor costs and a promise of more fiscal responsibility in Washington, D.C., enable the Federal Reserve System to pursue an expansionary monetary policy with little fear of triggering price inflation.

PRICES

Congress seems determined to reduce the size of the federal budget deficit; this encourages Wall Street to lower its inflationary expectations and to reduce the inflation premium that bankers add to interest rates. Low prices for petroleum and natural gas also have contributed to price stability.

Low energy prices, low interest rates, and the current torpor in the nation's economy will exert enough downward pressure on prices in the months immediately ahead to counter the effects of rising prices for imports; but as the economy becomes more buoyant later this year, the Consumer Price Index will break out of its narrow range of plus or minus 2 percent.

Import prices reflect the value of the U.S. dollar, which, these days, is low in terms of the Japanese yen, the German mark, and other leading currencies. As producers, the lower value of the dollar benefits American manufacturers because their products are more competitive overseas; but, it means American consumers pay more for imported goods and foreign travel. It also means manufacturers of domestic goods and services have more latitude to increase prices.

The dollar has not declined in terms of the currencies of a number of other countries, such as Canada, however. Consequently, the import picture

across the board does not translate into good news for producers and bad news for consumers. Mexican and Canadian goods and services, for example, continue to be inexpensive in comparison with those produced here.

PRODUCTIVITY

Other good news for Americans is the 2.3 percent productivity rebound during this year's first quarter. During the fourth quarter of last year, productivity declined by 3.9 percent.

Productivity is measured as the difference between labor input and product output in the business sector of the nation's economy. Between the last quarter of 1985 and the first of 1986, output in the business sector rose by 3.8 percent. (This is not the same as the rise in the GNP.) Hours worked per week increased by 1.4 percent.

Compensation of employees increased by a mere 1.7 percent during the recent quarter, which means that labor costs per unit of output in the business

sector declined by .6 percent. In the nonfarm business sector, unit labor costs declined by 1.0 percent, whereas during the last quarter of 1985, they soared by 7.6 percent.

REVIEW OF 1985 EARNINGS DATA

Preliminary data from the Bureau of Economic Analysis (BEA) reveal surprising strength in Michigan agriculture.¹ Farmers and their workers posted an earnings gain of over 20 percent here in the face of a 2 percent decline at the national level. (See Table 1.) Forestry, fisheries, and industries that provide

¹BEA earnings estimates are developed in Washington, D.C. based on reports from state employment agencies such as the Michigan Employment Security Commission (MESC). The MESC collects employment and earnings data from establishments that are required to pay unemployment insurance.

Since gross state product data are not available on a regular basis, BEA earnings figures are used in their stead as a basis of comparing our economic activity with that of the nation and other states. Earnings data reflect employment patterns as well as differences in wage rates and in the length of the workweek. They are, in other words, the best available measure of economic performance for Michigan, the other 49 states, and the District of Columbia.

TABLE 1
Labor and Proprietors' Earnings in Michigan and the United States
by Broad Economic Sector: 1984 and 1985
(in millions)

Sector	Michigan			United States		
	1984	1985	Percentage Change	1984	1985	Percentage Change
Agriculture	\$ 794	\$ 956	+20.4	\$ 39,464	\$ 38,656	-2.0
Agricultural services, forestry, and fisheries	178	199	+11.8	9,111	10,510	+15.4
Mining	301	326	+8.3	34,753	35,693	+2.7
Construction	2,644	2,891	+9.3	116,946	127,549	+9.1
Non-durable goods manufacturing	5,774	6,005	+4.0	187,494	194,225	+3.6
Durable goods manufacturing	27,352	29,290	+7.1	325,847	341,478	+4.8
Transportation and public utilities	4,638	4,915	+6.0	162,708	171,659	+5.5
Wholesale trade	4,583	4,978	+8.6	144,799	156,793	+8.3
Retail trade	7,052	7,301	+3.5	206,554	219,966	+6.5
Finance, insurance, and real estate	3,315	3,403	+2.7	139,177	151,062	+8.5
Services	14,430	15,424	+6.9	437,769	483,568	+10.5
Federal civilian payrolls	1,482	1,577	+6.4	79,623	84,513	+6.1
Federal military payrolls	318	332	+4.4	36,825	38,903	+5.6
State and local government payrolls	9,503	9,810	+3.2	237,031	254,978	+7.6
TOTAL EARNINGS	\$82,364	\$87,406	+6.1	\$2,158,101	\$2,309,553	+7.0

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

various agricultural services also were buoyant in Michigan, although growth occurred at a below-national-level rate. Mining in Michigan also posted a substantial earnings gain compared with a weak gain nationally. Construction is robust both in Michigan and the nation.

Michigan's durable goods industries reported earnings growth of 7 percent between 1984 and 1985, compared with less than 5 percent for the nation as a whole. Although the importance of these industries here have declined, they still dominate the state economy. Fully a third of this state's labor and proprietors' earnings are derived from durable goods production, compared with less than 15 percent nationally. During 1985, the importance of durable goods actually increased in this state because of more rapid growth in this sector of the economy than in the nondurable goods-producing sectors. In the country as a whole, durable goods industries have been, by and large, growing more slowly than those that do not produce goods; consequently, the importance of manufacturing is declining in the United States. Between 1984 and 1985, nondurable goods production grew slowly both here and nationally.

Wholesale trade industries posted substantial earnings gains in Michigan and nationally. Services, an exceptionally rapid growth category in the country as a whole (10.5 percent), posted a more modest gain here (6.9 percent).

The growth in the earnings of federal civilian employees was slightly ahead of the national average; however, this component accounted for only 1.8 percent of total earnings here, compared with 3.7 percent nationally. Our share of federal civilian and military employment, like our share of the federal procurement dollar for the purchase of goods and services from the private sector, is exceptionally low compared with other states.

Earnings in state and local government; retail trade; and finance, insurance, and real estate grew very slowly in Michigan compared with their national counterparts and with other industrial groupings here. Transportation and public utilities grew modestly both here and in the U.S. as a whole.

Total personal income—which includes the earnings of wage and salary workers and proprietors—as well as interest, dividends, pensions, retirement

and unemployment benefits, food stamps and other welfare benefits, and other so-called transfer payments, went up by 5.7 percent in Michigan, 5.2 percent in Illinois, 4.8 percent in Indiana, 5.3 percent in Ohio, and 4.4 percent in Wisconsin, according to BEA data. In other words, our growth exceeded that of our closest neighbors; however we lagged behind the national figure of 6.3 percent.

We led the region in the growth of personal income per capita as well, with an increase of 5.4 percent compared with 5.0, 4.7, 5.3, 4.1 percent increases for our neighbors. The national gain, at 5.3 percent, in per capita income growth was marginally below ours.

At \$13,298, Michigan's level of per capita income was 1 percent below the nation's \$13,451 average. The Illinois figure was 7 percent above the nation's; the figures for Indiana, Ohio, and Wisconsin were below ours.

Until 1981, per capita income levels in Michigan had been consistently higher than the national average. Since 1981, Michigan's per capita income has been lower than the U.S. average.

REVIEW OF RECENT EMPLOYMENT DATA

While earnings data are comprehensive measurements of economic activity, the production, wage, and salary employment figures issued by the MESC are both more current and more detailed. (See Table 2.)

Manufacturing

Data show that as a consequence of a strong performance last year from Michigan's vehicle assembly plants, suppliers benefitted as well. According to data released by the MESC in Detroit and the Bureau of Labor Statistics in Washington, D.C., employment in our automotive stampings industry grew 4.9 percent during 1985, compared with 3.2 percent nationally. Metal forgers in this state added to their payrolls at a rate of 4.8 percent, compared with 2.4 percent nationally. A host of other auto-related industries, such as plastics and automotive textiles, also grew more rapidly in Michigan than nationally as a consequence of a vehicle production shift to this state.

The basic steel industry is shrinking almost everywhere in the nation. Michigan is no exception; how-

TABLE 2
Michigan's Share of Wage and Salary Employment by Industry Group,
and First Quarter Employment Growth: 1985-1986
(in thousands)

Industry Group	1985 Annual Employment			First Quarter Percentage Growth 1985-86	
	Michigan	U.S.	Michigan as % of U.S.	Michigan	U.S.
Mining	10.3	969	1.1	+5.5	-5.2
Construction	98.7	4,662	2.1	+15.3	+7.6
Manufacturing					
Nondurable goods	213.9	7,860	2.7	+1.9	+3
Durable goods	770.3	11,566	6.7	-8	-1.4
Transportation and public utilities, excluding U.S. Post Office	142.2	5,300	2.7	+3.3	+1.6
Wholesale trade	174.9	5,769	3.0	+2.7	-3.3
Retail Trade					
Building materials and garden supplies	21.4	671	3.2	+4.1	+1. ^a
Department stores	80.7	1,987	4.1	-4.8	+1.2 ^b
Other general merchandise stores	9.0	367	2.5	+3.4	N.A.
Food stores	85.5	2,827	3.0	+6.9	+5.7
Auto dealers and service stations	71.0	1,892	3.8	+6.8	+3.9
Apparel and accessory stores	38.0	1,031	3.7	+3.0	+4.8 ^a
Furniture and home furnishings stores	22.6	735	3.1	+6.0	+6.2 ^a
Eating and drinking places	205.3	5,692	3.6	+2.9	+4.8
Miscellaneous retail	74.9	2,222	3.4	+5.1	+4.4 ^a
TOTAL RETAIL TRADE	608.3	17,425	3.5	+3.3	+4.3
Finance, Insurance, and Real Estate					
Finance	81.9	2,978	2.8	+4.2	+5.5
Insurance	54.2	1,816	3.0	+3.3	+4.8
Real Estate	25.2	1,130	2.2	+5.2	+6.3
TOTAL	161.3	5,924	2.7	+4.0	+5.4
Services					
Hotels and other lodging places	27.7	1,368	2.2	+12.3	+5.0 ^a
Laundry, cleaning, and garment services	12.7	384	3.3	0	+4.6 ^a
Other personal services	21.3	741	2.9	+6.0	+8.5 ^a
Business services	145.6	4,453	3.3	+16.9	+7.4
Auto repair, services, and garages	25.3	730	3.5	+11.2	+5.8 ^a
Miscellaneous repair services	11.6	336	3.6	+9.0	+5.8 ^a
Motion pictures	5.1	220	2.3	N.A.	-3.6 ^a
Amusement and recreation services	26.6	847	3.1	+1.3	+4.0 ^a
Private hospitals	132.0	2,694	4.9	-6	+5 ^a
Other health services excluding hospitals	128.1	3,303	3.9	+2.1	+6.9 ^a
Legal services	20.6	702	2.9	+6	+7.4 ^a
Private educational services	33.7	1,273	2.6	+2.7	+4.0 ^a
Museums and membership organizations	62.6	1,551	4.0	-1.0	+7 ^a
Other Services	92.4	2,591	3.6	+3.0	+8.4 ^a
TOTAL SERVICES	745.3	21,930	3.4	+5.0	+5.2
Government					
Federal	57.6	2,875	2.0	+3.9	+2.6
State	143.1	3,780	3.8	+4.2	+3.2
Local	379.2	9,640	3.9	+1.8	+2.3
TOTAL NON-AGRICULTURAL EMPLOYMENT	3,505.2	97,699	3.6	+2.8	+3.1

SOURCES: Michigan Employment Security Commission, special release; Bureau of Labor Statistics, *Employment Earnings*, March 1986; *The Employment Situation*, March 1986.

^aJanuary 1985 to January 1986.

N.A.=Not available.

^bIncludes other general merchandise stores.

ever, our rate of employment decline, 5.1 percent, was appreciably less than the national figure of 9.2 percent. Our major steel producers have striven to keep abreast of technology changes, assuring Michigan a place in the future of this industry, although at a level of employment much diminished from the job levels during the "good times." During the three months for which we have data in 1986, our share of the basic steel industry continued to increase.²

With a few notable exceptions, Michigan's foundries have lost out in the technology race. Once one of the nation's leaders, we now are an also-ran in the production of iron and steel castings. In 1985, employment in Michigan's foundries declined by 7.1 percent, compared with a 3 percent decline nationally. Data for this year's first quarter show that this industry continues to sag, especially in Michigan.

Machinery manufacturers in this state added employees at a rate of 1.9 percent during 1985, compared with a .7 percent decline nationally. So far this year, employment in these industries in Michigan has slipped by only .6 percent compared with 4.6 percent nationally.

In the category of electrical and electronic equipment, employment nationwide was flat during 1985, whereas we posted a 5 percent gain. So far in 1986, national employment in these industries has declined by 2.6 percent, while the Michigan figure has crept ahead by .5 percent.

Furniture, fixtures, and related industries in Michigan experienced employment gains of 3.0 percent for 1985 and 5.2 percent thus far in 1986. Nationally, the numbers are up 1.9 percent (1985) and down .2 percent (March 1985-March 1986).

Overall, in durable goods manufacturing during the first three months of 1986, Michigan's share of the U.S. total has continued to increase, although the level of employment has slipped. In nondurable goods manufacturing, in which the level of employment has increased, our share also has increased. In other words, Michigan's performance in maintaining manufacturing activity in an extremely competitive world has been significantly better than the nation's. In the

²1986 references are based on a comparison of the March 1985 and March 1986 figures from the MESAC and the Bureau of Labor Statistics.

months ahead, our state stands to gain substantially from a weakening dollar, which will improve the markets for goods producers.

The rebuilding of our manufacturing base still is far from complete, however. For example, production of K-cars at Chrysler Corporation's Jefferson Avenue plant will be terminated about a year from now, leaving the plant without a product. Conceivably, Chrysler could retool the facility to make large, rear-drive cars, giving it a lease on life until at least the end of this decade. Chrysler soon will not have a home for the manufacture of rear-drive vehicles, inasmuch as the St. Louis, Missouri plant where they are currently built will be converted to van production. Another option for Chrysler is replacement of the ancient Jefferson assembly plant with a new, efficient factory, probably on the east side of Detroit. Chrysler has other choices, too, such as building a plant somewhere else in North America or buying completed vehicles from another manufacturer. Chrysler intends to increase its share of sales in North America and must have additional production capacity to make this possible. Whether it maintains, increases, or reduces its presence in Detroit depends on discussions taking place among Chrysler, the U.A.W., the State of Michigan, and the City of Detroit.

If the Jefferson Avenue plant remains pretty much as is except for being retooled to produce the Chrysler Fifth Avenue, Dodge Diplomat, and Plymouth Fury instead of the K-Car, the facility will have a strong lease on life for a few more years. If it is closed in favor of a new Detroit assembly plant, the manufacturing life of Detroit's east side seems safe until the end of this century and beyond. If it is simply closed, Detroit will suffer from the loss of the plant jobs, the loss of other inner-city employment at supplier plants, and the spin-off effects, such as fewer dollars to be spent at the shops of local merchants.

Mining and Construction

Mining industries, which include metal and coal as well as petroleum extraction, remain depressed both here and almost everywhere else; however, Michigan's share of the national total of mining employment has crept up as a result of production increases here and declines in the rest of the country. Declining employment can be anticipated, however, as a result of imminent layoffs at the Cleveland Cliffs mines near Marquette.

The increase in construction activity in this state continues its feverish pace, with an employment gain of 15.2 percent between March 1985 and March 1986. The national rate of employment gain in construction industries was 6.9 percent. Permit statistics for the first three months show the building picture for Michigan continues to be dominated by new residential construction and by nonresidential rehabilitation. (See Table 3.) Permits for new offices and stores indicate a continuation of a high level of activity in these categories, whereas factory building appears to be headed for a slowdown. The slowdown is not likely to occur in the months immediately ahead, however, because of the backlog of incomplete projects. Michigan has a shortage of skilled trades workers, because the long slump in building activity caused many to move out of the state between 1979 and 1983. No doubt the dearth of opportunity in Texas, Louisiana, and Oklahoma has reversed some of that flow.

Retail Trade

After a banner year in 1985, Michigan retailers are reporting record sales levels during the early part

of 1986.³ For the first two months of 1986, retail sales gained 9.8 percent over the same period of 1985, whereas nationally there was an increase of 6.0 percent. (See Table 4.)

In retail trade wage and salary employment, on the other hand, Michigan's growth lags behind the nation as a whole. Evidently we still are working off excess capacity in some areas of retailing. Department store sales have been less than buoyant, and 1986 employment in Michigan department stores has actually declined below the levels of a year ago. Another factor in the Michigan retail picture may be a shift away from the larger stores in favor of family-run boutiques and restaurants.

Finance and Services

Business services is one of this state's most promising growth industries because it represents the nonmanufacturing, high-technology component of

³Retail sales data are developed from a sample conducted by the Bureau of the Census in Washington, D.C. Among 19 large states for which monthly retail trade sales data are estimated by the Census Bureau, Michigan was third, following Tennessee and Massachusetts.

TABLE 3
Valuation and Number of Residential and Nonresidential Units
Authorized in Michigan Permit Issuing Places,
by Category, First Three Months: 1985 and 1986

Category	Valuation (millions)			Number of Units		
	1985	1986	Percentage Change	1985	1986	Percentage Change
Residential homes	\$216.9	\$328.2	51.3%	4,395	6,042	37.4%
Transient hotels, motels, tourist courts, and cabins	25.3	27.6	9.0	663	794	19.7
Industrial buildings	138.3	50.2	-63.8	129	145	12.4
Office, bank, and professional buildings	66.4	72.1	8.5	70	95	35.7
Stores and other mercantile buildings	31.7	34.0	7.2	134	153	14.1
Additions, alterations, and conversions						
Housekeeping residential buildings	37.4	38.8	3.7	4,988	5,360	7.4
All other building structures	132.1	144.3	9.2	2,379	2,494	4.8

SOURCE: Bureau of the Census, special release.

TABLE 4
Percentage Change in Retail Sales in Michigan
and the United States: 1984-1986

Category	Detroit ^a		Michigan		United States	
	1984-85	1985-86 ^b	1984-85	1985-86 ^b	1984-85	1985-86 ^b
Durable goods	N.A.	N.A.	+18.7	+8.8	+10.4	+7.8
GAF, total ^c	+10.3	+10.0	+11.8	+10.2	+6.3	+5.6
Department stores	N.A.	N.A.	+6.7	+4.7	+4.4	+3.3
Nondurable goods	+4.5	+9.7	+6.4	+10.3	+3.9	+5.0
TOTAL	+9.2	+9.8	+10.7	+9.8	+6.3	+6.0

SOURCE: Bureau of the Census, *Monthly Retail Trade*, February 1986.

^aThe Detroit Metropolitan Statistical Area comprises Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne counties.

^bFirst two months.

^cGAF represents stores that specialize in department-store types of general merchandise, apparel, and furniture.

N.A.=Not available.

automotive-related growth here. This group of industries includes research and development laboratories, computer programming and software, data processing services, and management consulting, as well as advertising, services to buildings (housekeeping), private protective services, and other activities. Employment growth in this group was spectacular during all of 1985, increasing by 17 percent from the first quarter of 1985 through the first quarter of 1986. This sector of the state's economy is growing considerably more rapidly than its national counterpart.

The state's lodging industry also is growing rapidly, and at a rate well in excess of the national figure. Lodging is one of the industries in which Michigan is underrepresented by a wide margin. In 1985, Michigan had only 2.2 percent of the total national employment in lodging establishments, a figure well below our share of population and recreational attractions. Michigan's specialty has tended to be outdoor recreation, with the emphasis on campground and forest activities. The travel industry here is changing, however, as evidenced by construction of new commercial lodgings and by the rapid employment growth in the lodging industry.

In most service industries other than business and lodging, national growth has exceeded that for this

state, a situation that continues into 1986. The state's overcapacity is particularly troublesome in the hospital industry and in personal services. The latter include laundry, cleaning, and other garment services; photographic studios; barber and beauty shops, and funeral services.

We have an economy of exceptional competitive strength in some sectors and exceptional competitive weakness in others. During the 1970s, excess capacity was created in hospitals, in department stores, and in state and local governments (including degree-granting institutions of higher education). We also failed to stay at the cutting edge in vehicle production. Much has been accomplished by way of discarding worn-out and obsolete plants and equipment, renovating, and new investment; however, we still have a way to go to correct the imbalances and excesses of the 1970s. Perhaps by 1990, we will regain the competitive position we held before the last two recessions.

AROUND THE STATE

Revised 1984 and new 1985 annual wage and salary employment data by area have been released by the Michigan Employment Commission. (See Table 5.) They reveal a spotty state growth record, ranging

TABLE 5
Percentage Change in Wage and Salary Employment
in Michigan Labor Markets: 1984-1985

Counties in Area	Percentage Change	Counties in Area	Percentage Change
Alcona/Iosco	+3.6	Kalamazoo	+3.1
Alger	+1.1	Kent/Ottawa	+5.0
Allegan	-3.0	Lake	+2.2
Alpena	+1.5	Wayne/Oakland/Macomb/Livingston/ Lapeer/St. Clair/Monroe	+5.1
Antrim	+6.7	Lenawee	+6.2
Arenac	+4.1	Luce	+4.1
Baraga	+2.4	Mackinac	+2.3
Barry	+3.5	Manistee	-2.0
Saginaw/Bay City/Midland	+1.3	Marquette	-3
Benzie	-1.8	Mason	+2.0
Berrien	+2.6	Mecosta	+5
Branch	+7.3	Menominee	0
Calhoun	+2.8	Missaukee/Wexford	+5.1
Cass	-3.7	Montcalm	+1.4
Charlevoix	+6.5	Montmorency	+13.5
Cheboygan	-4	Muskegon	+3.4
Chippewa	+3.0	Newaygo	+2.8
Clare	+3.0	Oceana	+1.4
Clinton/Eaton/Ingham	+4.6	Ogemaw	-4.3
Crawford	+2.6	Ontonagon	-1.0
Delta	+7	Osceola	+5
Dickinson	+2	Oscoda	-2.2
Emmet	+4.8	Otsego	+4.9
Genesee	+1.8	Presque Isle	-1.7
Gladwin	+7.8	Roscommon	-1.3
Gogebic	0	St. Joseph	+3.6
Grand Traverse/Kalkaska/ Leelanau	+1.2	Sanilac	+8.1
Gratiot	+2.6	Schoolcraft	+1.1
Hillsdale	+5.4	Shiawassee	+3.0
Houghton/Keweenaw	+1.8	Tuscola	-2.3
Huron	+5.2	Van Buren	+1.8
Ionia	+1.4	Washtenaw	+4.4
Iron	-7	Upper Peninsula (15 counties)	+8
Isabella	+2.6	MICHIGAN AVERAGE	+4.8
Jackson	+2.6		

SOURCE: Michigan Employment Security Commission, special release.

from a 13.5 percent job gain for Montmorency County in the northern Lower Peninsula to a 4.3 percent job loss for Ogemaw County, a few miles south of Montmorency. The largest labor market, the six-county Detroit area, exhibited job growth above the

statewide average, as did the Grand Rapids area (Kent and Ottawa counties) in western Michigan. The Lansing and Ann Arbor areas also posted good gains, although they were slightly less than the statewide average. Muskegon and Kalamazoo employment

grew more modestly. Battle Creek, Jackson, Benton Harbor, Saginaw, and Flint employment grew slowly.

Among the smaller areas, Traverse City, usually a high-growth area, posted a gain of only 1.3 percent in wage and salary job growth between 1984 and 1985. The growth record was exceptionally disparate in northern Michigan and in the Thumb area. Except for Cass, Van Buren, and Allegan counties in the southwest Lower Peninsula, the growth pattern for rural counties in southern Michigan was favorable.

OUTLOOK

New data for 1984 and 1985 reveal that Michigan's economy has been considerably less buoyant than original earnings estimates had indicated. Structural adjustments to correct for the excesses of the 1970s still encumber economic growth in this state. The forecast is for a continuation of employment and earnings growth at rates below the national average.

The expected behavior of the broad economic indicators is shown in Table 6.

TABLE 6
Projections of Michigan and the United States
Broad Economic Indicators: 1985 and 1986

	1984	1985	1986	Percentage Change	
				1984-85	1985-86
Earnings (current \$ in millions)					
Michigan	82,364	87,406	93,175	6.1	6.6
United States	2,158,000	2,310,000	2,470,000	7.0	6.8
Earnings (1984 \$ in millions)					
Michigan	82,364	84,370	87,750	2.4	4.0
United States	2,158,000	2,230,000	2,324,000	3.3	4.2
Civilian employment (thousands)					
Michigan	3,871	3,930	3,975	1.5	1.1
United States	105,005	107,150	109,300	2.0	1.6
Vehicle production (thousands)					
Michigan	3,000	3,400	3,300	13.0	-2.9
United States	10,900	11,700	11,000	6.5	-6.0
Unemployment rate (% of civilian work force)					
Michigan	11.2%	9.9%	9.3%	—	—
United States	7.5%	7.2%	7.2%	—	—

SOURCES: 1984 data on earnings from *Regional Economic Analysis*, U.S. Department of Commerce, Washington, D.C.; on civilian employment rate from special release, Bureau of Labor Statistics, Department of Labor, Washington, D.C.; on vehicle production from special release, Motor Vehicle Association, Detroit.

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