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Summer Quarter
Economic Forecast

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Economic Forecast—Summer Quarter 1986

OVERVIEW

Michigan posted a 1.7 percent gain in total personal income in this year's first quarter according to recently released figures from the Bureau of Economic Analysis. Only twelve other states, none in the Midwest, experienced faster growth. U.S. personal income increased 1.1 percent.

The principal reason for this above-average performance is a buoyant automotive sector. During the first half of this year, Michigan produced 6.6 percent more vehicles than during the first six months of 1985. Nationally, there were 1.2 percent fewer assemblies during this period.

Michigan supplies stampings, forgings, interior trim, and other components to its own assembly plants. Plants in other states and Canada are also essential markets. Consequently, a national economic slowdown caused automotive-related employment in this state to slip during the second quarter. From June 1985 to June 1986, Michigan employment in motor vehicles and equipment industries fell 1.5 percent; nationally, employment in these industries was down 4.9 percent.

Overcapacity, a problem in a number of Michigan retail and service businesses, translates into slow economic growth in these industries compared with national figures. This factor, combined with our heavy reliance on durable goods production, has meant that employment gains have failed to match national increases. The number of nonfarm wage and salary workers in June 1986 was 2.1 percent above the figure for June 1985 compared with a national gain of 2.5 percent over the same period. All things considered, Michigan's personal income growth during the second quarter likely will lag behind the national figure.

Production schedules for this year's third quarter indicate continued sluggishness for the automotive industry. Reduced output along with sales incentives will improve the supply-demand balance by the end of this model year, resulting in much-improved production schedules for the fourth quarter. Current plans call for more vehicle assemblies

during October, November, and December than the industry produced during the same period in 1985.

Gross national product (GNP) increased at an annual rate of 0.6 percent during the second quarter compared with 3.8 percent during the first. Third-quarter growth is also likely to be sluggish, but a rebound is expected in the fourth quarter as a result of lower interest rates, low energy prices, an improved balance of trade with other countries, and a pickup in automotive production. For 1986 as a whole, GNP growth is forecast at 2.5 percent. In 1987, GNP is expected to increase about 4 percent.

Labor and proprietors' earnings are expected to post real gains of 4 percent in 1986 both in Michigan and nationally. For 1987, the Michigan figure is projected to grow by 5 percent compared with 4.5 percent nationally. Labor and proprietors' earnings are used here to measure Michigan's economic performance since gross product data are not available on a regular basis for states.

MONETARY POLICY

The Federal Reserve Board reduced the discount rate to 6 percent in July and 5.5 percent in late August, the lowest level in nearly a decade. The discount rate signals the direction of Federal Reserve policy. It is the rate that the central bank charges its customers for funds borrowed to satisfy reserve requirements. Reserves are the liquid assets that commercial banks must maintain against liabilities. While there is concern that low interest rates will lead to a further decline in the value of the dollar, internationally there is greater concern about the sluggish condition of the U.S. economy.

The other great fear, that the Federal Reserve Board will trigger price inflation with loose money, has no basis in today's economy because of falling energy prices, relatively stable unit labor costs, and considerable slack in America's ability to produce goods and services.

Because of its concern about slow economic growth, the board may further reduce the discount rate and accelerate growth in the monetary base. The

availability of money and downside pressure on interest rates are intended to stimulate the economy. Nonresidential investment, in particular, needs a shot in the arm. Between the first and second quarters of this year, this component of GNP declined at an annual rate of 2.6 percent.

INTERNATIONAL TRADE

Easy money depresses the value of the U.S. dollar on international currency exchanges, making imports more costly. It also makes American exports cheaper in countries whose currencies have appreciated relative to ours. In recent months, the dollar has been exceptionally weak against the Japanese yen and major European currencies.

The effect of currency devaluation is not immediate, however, because goods already in the pipeline and on order must still be delivered, even at higher prices. There also is a lag between lowering of the prices of American goods and increases in orders from overseas. These two lags produce what is known as the "J curve effect": a temporary worsening in the trade balance after a devaluation. The erosion in trade balance in recent months is largely a product of the J curve effect.

A more disturbing phenomenon is the reluctance of Japanese and European producers to raise prices commensurate with the increased values of their currencies. Evidently, they are willing to accept thinner profit margins, or even take losses, in order to maintain market share in this country. Because of sluggish markets in their own countries, these producers have excess capacity, and it makes economic sense for them to continue this practice so long as they can recover variable costs of production and cover some of their fixed cost.

In Germany and Japan, the pressure to export goods can be expected to intensify because those economies are weakening in the face of already excessive capacity to produce. According to the latest International Economic Scoreboard from The Conference Board, the leading indicators of economic activity for these two countries are negative, although both countries continue to experience moderate growth rates in GNP.¹

¹The Conference Board is a New York-based nonprofit institution that monitors economic trends, conducts surveys, and makes forecasts, among its other activities.

The International Monetary Fund (IMF) in Washington, D.C., also reviews economic tendencies in the United States and other countries. The latest IMF forecast puts the United States ahead of six other major capitalist industrial nations with a 3.6 percent GNP growth forecast for 1987. Forecast figures for the other countries are Canada, 3.3 percent; Japan, 3.2 percent; Germany, 2.7 percent; France, 2.3 percent; Italy, 2.3 percent; and the United Kingdom, 2.1 percent.

A rising proportion of our imports originate in developing countries. Korea, Taiwan, Mexico, and Brazil, in particular, are making inroads on U.S. markets. The currencies of these countries have not appreciated much with respect to the U.S. dollar. Indeed, those of Brazil and Mexico are falling.

Overall, then, the short-term prospects are poor for massive relief from the pressure of overseas competition on U.S. manufacturers. The need to compete on the basis of improved productivity will not soon diminish.

The attention given to America's monumental deficit in merchandise trade with other countries has obscured another important development. In services, other than travel and transportation, we enjoy a positive balance. Our imports of these services of about \$5.5 billion during 1985 pale in comparison with exports of \$15.6 billion. This favorable balance of \$10 billion in nontravel/transportation services in the private sector represents a 12.6 percent gain from the 1982 figure of just under \$9 billion. The gain for 1985 was 2.6 percent.

Increasingly, the U.S. and world economies are becoming more service oriented. U.S. production of services, other than travel and transportation, has long given us a competitive advantage. It remains in our best interest to foster greater freedom in trade among nations so as to capitalize on our advantage, even at the expense of some dislocation in goods production. Another benefit of free trade in goods and services is the competition it creates in our own markets, forcing U.S. producers to become more efficient. Between 1981 and 1985, for example, output per hour of all persons employed in U.S. durable goods manufacturing establishments rose by 4.7 percent annually, on the average. Between 1973 and 1981, when foreign competition was less intense,

productivity in durables manufacture rose by an average 1.1 percent annually.

LEADING INDICATORS

For June, the index of leading indicators posted a torpid .3 percent gain. The May index dipped by .1 percent. The index had been much stronger earlier in the year, increasing 1.3 percent in April, .7 percent in March, and .8 percent in February, largely due to gains in building permits, money supply, common stock prices, prices of sensitive materials, new orders for consumer goods, and contracts and orders for new plant and equipment. Declining indicators were average length of workweek in manufacturing, percentage of companies receiving slower deliveries from vendors, and change in business and consumer borrowing. No change took place in net business formation and average initial weekly claims against state unemployment insurance funds.

Usually, several months lapse before the changes signaled by leading indicators take place. In reading the numbers, it should be borne in mind that two months is not a sustained trend, particularly inasmuch as the first three months of this year were relatively robust. It is unfortunate that the index does not provide a focus on services, the mainstay of our recent increase in GNP.

The leading indicators appear to be signaling, more than anything else, continued torpor in mining, farm production, and manufacturing. If this is the case, the portent is for continued sluggishness in most of the Plains and Great Lakes states because of their heavier reliance on agriculture and manufacturing. The exceptions are Michigan, Ohio, and Missouri, because of their greater involvement in the revitalizing U.S. automotive industry.

ENERGY

The initial economic reaction to the sharp drop in oil prices has been negative because of the setbacks experienced by the oil-producing states. Nonfarm employment has declined in Oklahoma, Louisiana, Texas, and Wyoming, but there have not been commensurate increases in other states.

The period of adjustment to lower petroleum prices simply has taken longer than most experts

had anticipated. Aside from its effect on the budgets of consumers and businesses that consume petroleum products, the major benefits of lower oil prices have been the favorable effect on overall inflation and the increased freedom of monetary authorities to pursue an expansionist policy.

The recent agreement by the Organization of Petroleum Exporting Countries (OPEC) to reduce production might stabilize prices at current levels, but it seems unlikely to cause a significant turnaround. There is too much production available beyond OPEC and, for a number of hard-pressed governments, too much pressure to keep the wells pumping to maintain cash flow.

EXPECTATIONS

The Conference Board's monthly survey of consumer attitudes and buying plans in June signaled a continuation of fence-sitting by consumers; that is, confidence and buying plans were about what they were in May. The May survey had indicated a cooling in consumers' plans and attitudes. Plans to purchase automobiles were unchanged from May but above the year-ago figure. In June, 9.4 percent of those responding to the survey reported an intention to purchase a car compared with 9.6 percent in May and 8.2 percent in June of 1985. The April 1986 figure was 11.4 percent, the highest it has been during the last year.

Planning for domestic vacations has increased from 44.1 percent of those surveyed in April to 46.2 percent of those surveyed during June. The June 1985 figure was 43.4 percent. Plans to visit a foreign country within the next six months are down sharply; 5.1 percent in the June 1986 survey compared with 7.1 percent in April and 6.9 percent in June 1985. This has benefitted domestic vacation destinations like Michigan.

The Conference Board also queries business executives regarding expectations. In general, this quarterly survey indicates that business is moderately optimistic about the outlook for the rest of this year and believes that conditions were stronger during the first half of 1986 than they were last year. Capital spending plans, however, portend continued weakness in capital goods production.

The Bureau of Economic Analysis (BEA) in the U.S. Department of Commerce also polls business regarding capital spending plans. As of April and May, business planned to spend 1.3 percent less (adjusted for inflation) for new plants and equipment during 1986 than it did during 1985.

FIRST-QUARTER EARNINGS

Michigan's above-average rate of gain in personal income during the first quarter of this year was based largely on superior growth of earnings in manufacturing. Forty-one other states, and the District of Columbia, experienced manufacturing growth below Michigan's 2.1 percent. Nationally, the rate of growth in earnings from factory employment inched ahead by .3 percent. The figures for durable goods manufacturing are 1.8 percent (Michigan) and zero (United States); for nondurable goods, 3.3 percent (Michigan) and .9 percent (United States).

Michigan also posted above-average gains in services, wholesale trade, transportation and public utilities, and mining. Agricultural earnings in Michigan declined, but at a rate below the national average. Although agriculture is an important industry in Michigan, it comprises a smaller share of the economy than in other midwestern states. Less than 2 percent of Michigan's population is involved in agriculture compared with 2.5 to 16 percent in other midwestern states. As a result, the Michigan economy has not been seriously affected by the slump in agriculture.

State and local government payrolls are growing very slowly in Michigan these days, but federal civilian payrolls are increasing here at a faster pace. Overall earnings for government employees, including military, grew by 1 percent in Michigan and by 1.4 percent nationally.

Agricultural services, construction, retail trade, and the finance, insurance, and real estate group grew at below national rates during the first quarter of this year.

Personal income, which includes the earnings of wage and salary workers and proprietors (see Table 1) as well as interest, dividends, retirement and unemployment benefits, welfare benefits, and other payments to individuals, grew by 1.7 percent in Michigan compared with 1.4 percent in Ohio, .8 percent in Wisconsin, and .7 percent in Indiana.

Illinois personal income declined by .4 percent between 1985's last quarter and 1986's first.

Among the Plains states, all but Missouri posted losses in personal income. First-quarter gains were above the national average in the Northeast, the Midwest, and the Southeast, as well as in Arizona, Montana, California, and Nevada.²

EMPLOYMENT

Manufacturing

Michigan's vehicle manufacturing continues to exhibit strength in the otherwise sluggish industry. Thus, although employment in this sector has slipped from year-ago levels, the job losses here have not been as serious as they have been nationwide. This is also the case with basic steel, plastics, automotive stampings, automotive electrical equipment, automotive textiles (soft, interior trim), fasteners, engines, forgings, and so forth. In other words, as a consequence of Michigan's advantage in vehicle and components production, we have not been as heavily affected by sluggishness in durable goods manufacturing as other states. Michigan's machine tool industry is far healthier than the rest of the nation's, showing small employment gains in the face of a nationwide decline. Construction machinery manufacturers also are doing exceptionally well here. Michigan's hand tool manufacturers, however, are extremely hard-pressed, as are manufacturers of glass products.

Nondurable goods manufacturing includes automotive textiles, plastics, and rubber products; here, too, Michigan's performance is better than the national average. In other nondurable goods, cereal and beverage manufacturers along with bakers are responsible for our favorable showing in food processing industries overall between June 1985 and June 1986.

²The above BEA earnings estimates are based on reports from state employment agencies such as the Michigan Employment Security Commission, which collect 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 instead as a basis of comparing our economic activity with that of the nation and other states. These earnings data reflect employment patterns as well as differences in wage rates and in the length of the workweek, and they provide the most comprehensive guide to 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: Last Quarter of 1985 and First Quarter of 1986
(dollars in millions)

Sector	Michigan			United States		
	Last Quarter 1985	First Quarter 1986	Percentage Change	Last Quarter 1985	First Quarter 1986	Percentage Change
Agriculture	\$ 1,168	\$ 938	-19.7%	\$ 45,168	\$ 34,807	-23.0%
Agricultural services, forestry, and fisheries	205	210	+2.4	10,922	11,304	+3.5
Mining	329	352	+7.0	35,499	34,790	-2.2
Construction	2,994	3,041	+1.6	130,400	133,963	+2.7
Nondurable goods manufacturing	6,077	6,280	+3.3	197,211	198,965	+ .9
Durable goods	29,592	30,138	+1.8	347,044	347,130	—
Transportation and public utilities	5,116	5,221	+2.1	175,285	176,516	+ .7
Wholesale trade	5,037	5,153	+2.3	159,641	162,231	+1.6
Retail trade	7,272	7,377	+1.4	222,081	225,724	+1.6
Finance, insurance, and real estate	3,461	3,603	+4.1	156,918	163,992	+4.5
Services	15,914	16,379	+2.9	502,438	514,126	+2.3
Federal civilian payrolls	1,595	1,629	+2.1	85,243	85,853	+ .7
Federal military payrolls	338	338	—	40,301	40,489	+ .5
State and local government payrolls	9,810	9,896	+ .9	261,871	266,503	+1.7
TOTAL EARNINGS	\$38,908	\$90,666	+1.9%	\$2,370,022	\$2,396,383	+1.1%

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

In contrast, our paper goods and leather fabricators are trimming employment rolls. Printing and publishing are growth industries here but are growing more rapidly nationally (see Table 2).

Other Industries

Between June 1985 and June 1986, Michigan truckers increased their job rolls by 5.4 percent, double the national rate for that period. Railroad employment is declining both here and nationally, but at a slower rate in this state. Trucking firms are beneficiaries of the switch from rail to trucks engendered by the new manufacturing philosophy of "just-in-time" parts inventories. Trucks have an advantage in their ability to deliver small shipments at short, regular intervals. Manufacturers are finding it easier to control quality by operating with lean inventories of raw materials and work in progress. Also, the savings in working capital costs to finance inventories are substantial.

Employment in business services increased 8.4 percent both here and nationally. Business services include research and development laboratories, management, advertising, public relations, computer and data processing services, building maintenance, protective services, employment agencies, credit agencies, equipment leasing companies, and photofinishing laboratories. This group of industries has grown much more rapidly here than nationally in recent years. In 1983, Michigan establishments employed less than 3 percent of the national total for this industry group. In June 1986, our share of national employment in business services was 3.3 percent.

Real estate employment is a rapidly growing industry here compared with the nation, but insurance and banking are not faring as well.

Health services are exceptionally slow-growing in this state, compared with these same industries nationally as well as with other Michigan industries.

TABLE 2
Michigan and U.S. Wage and Salary Employment
in Manufacturing, June: 1985-1986

Industry	June 1986 Employment (thousands)		June 1985-June 1986 Percentage Change	
	Michigan	United States	Michigan	United States
Lumber	12.5	741.2	+2.5	+3.8
Furniture and fixtures	26.2	494.8	+2.7	+9
Stone, clay, and glass products	17.9	611.5	-3.8	+1.6
Basic steel products	18.2	293.7	-1.1	-6.0
Other primary metals industries	33.2	477.5	-2.4	-6.5
Fabricated metal products	118.0	1,449.3	-2.4	-1.8
Machinery, except electrical	129.9	2,097.2	-2.2	-4.7
Electrical and electronic equipment	37.9	2,156.3	+5.9	-2.7
Motor vehicles and equipment	328.5	845.3	-1.5	-4.8
Other transportation equipment	21.4	1,135.9	+8.6	+4.1
Instruments and related products	13.5	724.1	-2.9	-5
Miscellaneous manufacturing industries	7.4	369.4	+2.8	-1
Total durable goods	764.6	11,396.0	-1.0	-1.8
Food and kindred products	48.0	1,649.9	+4.3	+2.5
Textiles and apparel	21.4	1,831.8	+5	+1
Paper and allied products	20.9	695.4	+5	+1.1
Printing and publishing	39.4	1,479.2	+1.3	+3.1
Chemical and allied products	40.9	1,030.8	-1.0	-2.2
Petroleum and coal products	2.4	167.7	+4.3	-8.2
Rubber and miscellaneous products	43.6	805.0	+5.1	+1.6
Leather and leather products	2.4	154.8	-17.2	-7.8
Total nondurable goods	219.1	7,873.0*	+1.8	+7
TOTAL MANUFACTURING	983.6	19,269.0*	-4	-8

SOURCE: Michigan Employment Security Commission, special release.
 *Includes tobacco manufacturers.

In general, we developed overcapacity in this industry during the 1970's boom; that is, before the automotive industry was refashioned to meet the American market demand as well as the competition from Japan. The state still has excess capacity to provide for the health of its citizens, especially in the relationship between demand for and supply of hospital beds. The slow growth in health services, banking, insurance, and retail trade overall will continue to be an impediment to total earnings growth, even during the fourth quarter of this year when the automotive sector is expected to be buoyant.

Michigan local government employment growth has been exceptionally sluggish so far during 1986. This is true in both local schools and general government administration. At the state level, insti-

tutions of higher education exhibited job growth of better than 4 percent compared with 2.4 percent nationally (May to May). More than anything else this differential gain represents catching up. Michigan's colleges grew little if at all during the 1979-1982 adjustment period, whereas nationally these institutions continued to expand. In this sector, as in retailing and some services, we developed more capacity during the 1970s than could be sustained after the downsizing of the automotive work force.

Employment in state government administrative offices also grew much more rapidly than private employment during the 1970s. State employment fell from 67,000 in 1980 to 56,400 in 1984, and has increased to 58,400 in 1986. Michigan continues to be one of the laggards in growth of state payrolls

other than higher education. Federal government employment at post offices is rising rapidly in this state, but other federal government employment is declining.

All in all, the outlook for government employment and earnings is modest gains compared with the nation and with the state's private sector.

CONSTRUCTION

Builders in this state employed 120,100 wage and salary workers in June, the latest month for which Michigan data are available. That figure represents a 17 percent increase over the June 1985 figure; the U.S. rate of gain during this period was 5.9 percent.

This year Michigan will set a new record in valuation of building permits for offices. The same is true for stores and other mercantile buildings. The value of permits for factory building is off the pace of 1985, a record year. The number of new factories, offices, and stores is below levels of the late 1970s, when we were busily adding excess capacity to our economic base.

Nonresidential rehabilitation activity is feverish. Motel and hotel construction also is taking place at record levels, although expansion of the lodgings industry pales in comparison to commercial and industrial activity. Michigan will add about 5,400 rooms during 1986 compared with about 5,100 in 1985 (see Table 3). The number of rooms added

TABLE 3
Valuation and Number of Residential and Nonresidential Units
Authorized in Michigan Permit Issuing Place, by Category:
1979-1986

Category	1979	1980	1981	1982	1983	1984	1985	1986*
	Valuation (millions)							
Residential homes	\$1,899.9	\$1,164.1	\$821.8	\$593.2	\$1,015.9	\$1,324.2	\$1,833.7	\$2,500.0
Transient hotels, motels, tourist courts and cabins	43.1	51.8	19.6	8.6	12.7	86.9	130.9	150.0
Industrial buildings	528.1	322.1	366.9	312.4	158.2	331.0	555.5	415.0
Office, bank, and professional buildings	222.6	260.8	211.9	121.0	209.5	353.9	408.0	420.0
Stores and other mercantile buildings	296.3	158.1	149.0	72.3	117.2	174.2	250.1	340.0
Additions, alterations, and conversions								
Housekeeping residential buildings	233.1	240.9	235.1	204.8	266.3	256.8	296.2	310.0
All other building structures	189.1	537.3	412.7	349.9	432.7	600.3	702.9	700.0
	Number of Units							
Residential homes	49,209	28,976	18,917	14,377	21,683	27,758	37,675	74,300
Transient hotels, motels, tourist courts and cabins	2,204	1,629	724	859	1,018	1,869	5,149	5,400
Industrial buildings	1,450	789	634	479	630	857	1,149	1,350
Office, bank, and professional buildings	739	542	459	310	438	531	627	650
Stores and other mercantile buildings	1,509	934	787	620	776	1,083	1,211	1,350
Additions, alterations, and conversions								
Housekeeping residential buildings	56,519	50,793	52,398	42,583	45,158	44,471	48,387	49,250
All other building structures	12,805	12,714	12,511	11,491	13,519	14,518	15,068	16,150

SOURCE: Bureau of the Census, special release.

*Projections based on six months' data.

during 1985 and 1986 will be about the same as the total number added during the previous seven years.

Residential construction is also booming. This year, about 74,000 permits will be issued with a valuation of \$2.5 billion, both figures representing new records for the state. The volume and valuation of residential rehabilitation are also setting new records. The residential construction boom represents pent-up demand more than anything else, inasmuch as the population loss of the 1980-1983 period has not been recovered. As of mid-1985, Michigan's population was still about 150,000 shy of the 1980 level.

Nearly one-quarter of the building permits for residential units were issued in Oakland County. Macomb County accounted for 16 percent and Wayne County for 10 percent. Most of the activity in Wayne County was west of Detroit. Other counties with high level residential permit activity are Kent (9.8 percent of the Michigan total), Ingham and Ottawa (4.6 percent each), Washtenaw (3.2 percent), Livingston (2.9 percent), and Genesee (2.6 percent).

Almost one-quarter of 1986 industrial construction activity is taking place in Oakland County; Wayne County follows with 19 percent; and Macomb

County is third with 16 percent. Calhoun, Kent, Genesee, Ottawa, Washtenaw, and Ingham counties also have substantial industrial building activity.

Oakland County also leads in valuation of building permits for offices (two-thirds of the Michigan total) and lodgings (53 percent). Wayne County leads in residential rehabilitation activity (24 percent of statewide valuation of building permits) and nonresidential rehabilitation (24 percent). The top three counties in new mercantile building activity are Macomb, Wayne, and Oakland, in that order.

In total building activity, the four most active counties are Oakland, the clear leader, Macomb, Wayne, and Kent.

RETAILING AND LODGINGS

Retailers here report gains of nearly 9 percent during the first five months of 1986 compared with the same period in 1985, about double the national figures (see Table 4). Durable goods retailers are experiencing somewhat faster growth than nondurable goods retailers. Sales tax data reported by the Michigan Department of Treasury show that new car dealers as well as furniture and home appliance outlets are having a good year. Considering the

TABLE 4
Percentage Change in Retail Sales in Michigan
and the United States, May: 1985-1986

Category	Detroit ^a		Michigan		United States	
	May 1985- May 1986	First Five Months 1985/1986	May 1985- May 1986	First Five Months 1985/1986	May 1985- May 1986	First Five Months 1985/1986
Durable goods, total	NA	NA	+8.6	+9.3	+4.9	+5.7
Department stores	NA	NA	+9.4	+6.8	+7.1	+5.1
General merchandise, apparel, and furniture (GAP), total ^b	+11.6	+12.0	+13.3	+11.8	+7.5	+6.3
Nondurable goods	+9.7	+9.9	+10.6	+8.5	+3.6	+3.6
TOTAL	+8.0	+9.9	+9.7	+8.8	+4.1	+4.4

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

NA=Not available.

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

^bRepresents stores that specialize in department store types of merchandise, including furniture and apparel.

residential building boom in this state and the generally optimistic outlook, furniture, home appliance, and car dealers can expect a continuation of the current buoyancy. Building materials dealers and hardware and food stores also have enjoyed good growth this year, a condition that promises to hold for the foreseeable future.

Michigan's lodgings industry shows substantial growth in both receipts and employment, but the restaurant and amusement industries do not. The state's air transportation industry is one of the nation's fastest growing. Overall, the data suggest that the segments of our economy that deal with conventions and business travel are enjoying exceptional prosperity this year, whereas those that cater more to family vacationers are not fairing as well, although they are by no means slumping.

OUTLOOK

On the basis of the most recent scheduling plans from Detroit, it appears that vehicle production in this country will total 11.6 million units during 1986,

just a shade less than the 1985 figure. The new forecast is 600,000 units above that published three months ago. Michigan is expected to account for half of that improvement in the total, resulting in the production of 3,600,000 units for the year, nearly a 6 percent improvement over the 1985 level of vehicle production in this state.

Because of overcapacity in a number of Michigan industries, our earnings gain is not expected to exceed that for the nation. The national figure is now forecast at 4 percent, a bit less than the 4.2 percent forecast three months ago, because of sluggishness in manufacturing other than vehicles.

The employment picture for Michigan has not changed since our spring forecast. However, because of slower than expected labor force growth, the unemployment rate now is projected to average 9 percent for 1986, compared with a national figure of 7.2 percent (see Table 5). As matters now stand, the 1987 forecast for Michigan is for an acceleration of economic growth at a rate faster than the nation's. Details of the 1987 forecast will appear in the fall issue of the *Economic Forecast*.

TABLE 5
Projections of Michigan and the United States
Broad Economic Indicators, 1985 and 1986

Indicator	1984	1985	1986	Percentage Change	
				1984-1985	1985-1986
Earnings (current \$ in millions)					
Michigan	\$ 82,364	\$ 97,406	\$ 93,175	6.1	6.6
United States	\$2,158,000	\$2,310,000	\$2,470,000	7.0	6.6
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	4.0
Civilian employment (thousands)					
Michigan	3,871	3,980	3,975	1.5	1.1
United States	105,005	107,150	109,300	2.0	2.0
Vehicle production (thousands)					
Michigan	3,000	3,400	3,600	13.0	5.9
United States	10,900	11,700	11,600	6.5	-9
Unemployment rate (% of civilian work force)					
Michigan	11.2%	9.9%	9.0%	—	—
United States	7.5%	7.2%	7.2%	—	—

SOURCE: The 1984 data on earnings are 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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