APPENDIX C
Economic Outlook: 1998, 1999, and Beyond

TODAY'S ECONOMY

At this writing, the U.S. economy has expanded without interruption for more than seven years, the third longest economic expansion since World War II. In 1997 the economy continued to surprise, as real gross domestic product (GDP) increased 3.7 percent, the best performance since 1988, and the U.S. employment rate averaged 4.9 percent, a 25-year low. At the same time, inflation continued to recede. Consumer prices increased only 2.3 percent in 1997 (down from 3.0 percent in 1996), the smallest increase since 1986 and the second smallest since 1965.

Michigan has not only shared in the national economic expansion but from 1992 to 1996 outpaced national growth. In 1997 Michigan's economic growth slowed slightly more than national growth; Michigan wage and salary employment increased 2.0 percent, compared with the national rise of 2.3 percent. However, the Michigan unemployment rate, at 4.2 percent, remains well below the U.S. rate.

GLOSSARY

Federal Reserve Board (the Fed)
The body that supervises the Federal Reserve System (12 banks, each of which serves member banks in its own district) and has broad regulatory powers over the nation's money supply and credit structure.

Gross domestic product (GDP)
The total value of all goods and services produced in the country.

Real
Adjusted for inflation; e.g., if actual growth is 4 percent, and the inflation rate is 3 percent, real growth is one percent.

NATIONAL OUTLOOK

The outlook for 1998 and 1999 is for continued but more moderate economic growth. One risk is that an unexpected burst of inflation could cause the Federal Reserve Board (the Fed) to raise interest rates, which would slow economic growth.

- The U.S. gross domestic product is expected to grow about 2.5 percent in 1998 and 2.0 percent in 1999.
- The U.S. unemployment rate will remain at about 5 percent, and consumer prices will increase no more than 2.5 percent each year.

The positives for the national economic outlook are

- expectation of a further decline in interest rates, with the Fed likely to reduce the federal funds rate, a key short-term interest rate;
- near elimination of the federal budget deficit, which will help reduce interest rates and provide room for stimulative fiscal policies if the economy falters; and

- growing consumer confidence, which will translate into increased consumer spending.

The negatives are

- the Asian financial crisis, which likely will dampen the flow of U.S. exports, a major source of national economic growth in recent years; and
- high consumer debt, which will act as a brake on consumer spending.

MICHIGAN OUTLOOK

As mentioned, economic growth in Michigan exceeded that of the nation for several years but slowed—although continuing to grow—in 1997, dropping behind the national rate; this is likely to continue in 1998 and 1999.

- A major reason for the slower growth is stagnant motor-vehicle sales: From 1994 to 1997 national sales have varied little from the 15-million-unit level, and little change is expected in 1998 and 1999.
- Michigan personal income, which rose about 4.5 percent in 1997, is forecast to increase about 4.5–5.0 percent in 1998 and 1999; adjusted for inflation, income is projected to increase about 2.25 percent and 2.0 percent in 1998 and 1999, respectively.
- Employment, up 2.0 percent in Michigan in 1997, is predicted to expand only 1.25 percent and 1.0 percent in 1998 and 1999, respectively. Unemployment in the state was 4.2 percent in 1997 and will average about 4.3 percent in 1998 and 4.5 percent in 1999, still well below the U.S. average.

LONGER TERM

For 1998–2005 the U.S. Bureau of Economic Analysis forecasts more of the same—continued growth in both the state and national economies but at a slower rate for the state.

- Average annual increases are expected in Michigan employment of 0.8 percent and in real Michigan personal income of 1.3 percent.
- Average annual increases are expected in national employment of 1.3 percent and in real national personal income of 2.0 percent.