

# Consensus Economic Outlook

The economic and revenue outlook were agreed to at the January 15, 2002 Consensus Revenue Estimating Conference by the Administration, House Fiscal Agency, and Senate Fiscal Agency. The current economic downturn and subsequent recovery are forecast to be mild compared to previous contractions and expansions.

## **2001 U.S. Economic Review**

The National Bureau of Economic Research declared that U.S. economy fell into recession in March 2001, ending the longest recorded U.S. economic expansion of ten years. Real GDP growth slowed by mid-2001 and then declined over the second half of the year. In 2001, real GDP rose only 1.0 percent, compared with growth exceeding 4.0 percent in the four previous years. Business fixed investment fell sharply, declining an estimated 3.6 percent in 2001 after eight straight years of growth above 8.0 percent. Real consumption grew 2.9 percent after three straight years of near 5.0 percent growth. The employment situation worsened in 2001. U.S. employment fell by 1.1 million jobs while the unemployment rate rose to 5.8 percent, its highest level in seven years. Automakers made the most aggressive production cuts in a decade and offered zero percent financing to boost sales and realign vehicle inventories. As a result 17.0 million light vehicles were sold in 2001 making it the second best year in history.

By December, many economic indicators suggested the economy was turning the corner toward recovery. New unemployment claims had fallen sharply and employment declines slowed.

## **2001 Michigan Economic Review**

The U.S. economic downturn affected Michigan causing wage and salary employment to decline 0.2 percent and manufacturing employment to decline 4.2 percent in 2001. The Michigan unemployment rate averaged 5.0 percent in 2001, up from 3.6 percent a year ago but substantially below previous recession peak rates. In the 1982 and 1990-1991 recessions, the Michigan unemployment rate rose to 15.5 percent and 9.3 percent, respectively.

## **2002 and 2003 U.S. Economic Outlook**

The U.S. economic recovery is forecast to begin in early 2002. Real GDP is projected to rise 0.4 percent in 2002, and accelerate to 3.1 percent growth in 2003. (See Table L-1). Light vehicle sales are forecast to decline to 15.3 million units in 2002, before rebounding to 16.4 million units in 2003.

Three factors softened the downturn and will help bring about recovery. The Federal Reserve cut the target federal funds interest rate 11 times in 2001, lowering the rate to 1.75 percent, its lowest level in 40 years. The federal government has enacted a massive multi-year tax cut and increase in spending. Oil prices have

fallen by one-third and natural gas prices by one-half compared with a year ago.

The 90-day Treasury bill rate is forecast to average 1.7 percent in 2002 before rising to 3.1 percent in 2003 while the AAA corporate bond rate is forecast to average 6.5 percent in 2002 and 6.8 percent in 2003. Consumer price inflation is forecast to slow to 1.9 percent in 2002 before rising to 3.0 percent in 2003. The unemployment rate is forecast to increase to 6.4 percent in 2002 and then decline to 6.2 percent in 2003.

### **2002 and 2003 Michigan Economic Outlook**

Michigan wage and salary employment is forecast to decline by 33,000 (0.7 percent) in 2002, and is forecast to rise by 79,000 (1.7 percent) in 2003. Michigan personal income growth is forecast to slow to 2.4 percent in 2002, and to post solid growth of 5.3 percent in 2003. Wage and salary income is projected to rise 1.9 percent in 2002 before accelerating to 5.9 percent growth in 2003.

Inflation, as measured by the Detroit CPI, is forecast to be a moderate 2.4 percent in 2002 and 3.0 percent in 2003. As a result, real Michigan personal income (inflation adjusted) is expected to remain unchanged in 2002 before rising a solid 2.2 percent in 2003. Michigan wages and salaries are expected to grow to 1.7 percent in 2002 and then accelerate to 4.9 percent in FY 2003. Disposable income is expected to rise 3.4 percent in FY 2002 before rising 5.0 percent in FY 2003. The inflation rate is expected to fall to 2.1 percent FY 2002 and then rise to 2.9 percent in FY 2003.

### **Forecast Risks**

There is a substantial amount of federal economic stimulus in the pipeline - a near zero percent federal funds interest rate and the sizeable tax cut package. These factors could accelerate economic growth faster than projected. Furthermore, the federal government could enact additional economic stimulus, which would accelerate growth. Stronger than expected stock market growth could improve both investors' and businesses' balance sheets and stimulate more economic growth. Stronger than expected growth abroad would boost U.S. economic growth.

The weakening employment situation, high debt loads or unexpected stock market declines could curb consumption more than expected. Excess capacity and greater business pessimism could restrain business spending and delay or weaken the recovery.

## Consensus Economic Forecast

January 2002

	Calendar 2000 Actual	Calendar 2001 Forecast	Percent Change from Prior Year	Calendar 2002 Forecast	Percent Change from Prior Year	Calendar 2003 Forecast	Percent Change from Prior Year
<b>United States</b>							
Real Gross Domestic Product (Billions of Chained 1996 Dollars)	\$9,224	\$9,318	1.0%	\$9,355	0.4%	\$9,645	3.1%
Implicit Price Deflator GDP (1996 = 100)	107.0	109.3	2.2%	110.7	1.2%	112.7	1.8%
Consumer Price Index (1982-84 = 100)	172.2	177.1	2.8%	180.5	1.9%	185.9	3.0%
3-month Treasury Bills Interest Rate (percent)	5.9	3.4		1.7		3.1	
Aaa Corporate Bonds Interest Rate (percent)	7.6	7.1		6.5		6.8	
Unemployment Rate - Civilian (percent)	4.0	4.8		6.4		6.2	
Light Vehicle Sales (millions of units)	17.2	17.0	-1.5%	15.3	-9.9%	16.4	7.3%
Passenger Car Sales (millions of units)	8.9	8.4	-4.6%	7.4	-12.4%	7.9	7.0%
Light Truck Sales (millions of units)	8.4	8.5	1.7%	7.9	-7.4%	8.5	7.6%
Import Share of Light Vehicles (percent)	16.6	18.0		18.3		17.6	
<b>Michigan</b>							
Wage and Salary Employment (thousands)	4,679	4,672	-0.2%	4,639	-0.7%	4,718	1.7%
Unemployment Rate (percent)	3.6	5.0		6.5		6.1	
Personal Income (millions of dollars)	\$289,390	\$297,782	2.9%	\$304,929	2.4%	\$321,090	5.3%
Real Personal Income (millions of 1982-84 dollars)	\$170,430	\$170,544	0.1%	\$170,544	0.0%	\$174,353	2.2%
Wages and Salaries (millions of dollars)	\$175,747	\$179,376	2.1%	\$182,784	1.9%	\$193,569	5.9%
Detroit Consumer Price Index (1982-84 = 100)	169.8	174.6	2.8%	178.8	2.4%	184.2	3.0%