



MICHIGAN ECONOMIC UPDATE

Economic and Revenue Forecasting Division
Bureau of Tax and Economic Policy
Michigan Department of Treasury
<http://www.michigan.gov/treasury>

December 2005 Summary

U.S. Economy: December U.S. economic indicators were generally positive. The manufacturing ISM index fell but the non-manufacturing index rose. The index of leading economic indicators rose slightly. Consumer sentiment rose substantially. For the third straight month, industrial production increased significantly. Retail sales were up for the fourth straight month. Housing starts fell as did existing home sales, which fell for the third straight month. Overall durable goods orders rose for the third straight month. Fourth quarter real GDP rose at a 1.1 percent annual rate, its slowest growth rate in three years.

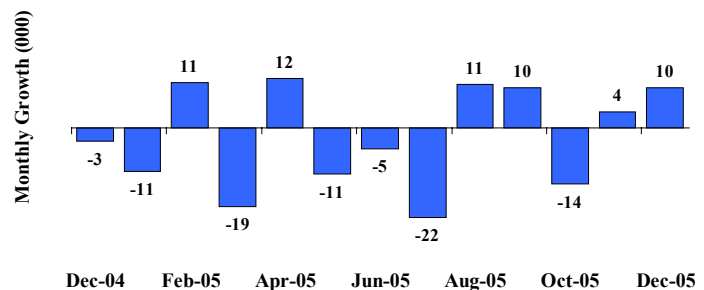
Employment: In December, Michigan's wage and salary employment rose for the fourth time in the last five months, increasing by 9,800 jobs. At 6.7 percent, December's state unemployment rate was 0.8 percentage points below a year ago. Nationally, payroll employment rose by 108,000 jobs. The U.S. unemployment rate fell 0.1 percentage point to 4.9 percent.

Auto Industry: December light vehicle sales rose to a 17.1 million unit annual rate. Compared to a year ago, the three-month average of State vehicle production fell 15.0 percent compared with a 1.1 percent decline nationally. Light vehicle inventories were down 6.5 percent from a year ago; days supply fell by two days to 65 days.

Inflation: Compared to a year ago, the U.S. consumer price index rose 3.4 percent. However, excluding food and energy, the core U.S. consumer price index was up only 2.2 percent. The Detroit CPI rose 3.8 percent. While overall producer prices rose by 5.4 percent, core producer prices increased by only 1.7 percent.

Michigan Metro Areas: From a year ago, the December unemployment rate fell in all of Michigan's 17 labor market areas with a median rate decline of 1.1 percentage point. Employment rose in all areas as well with a median increase of 2.6 percent. Unemployment rates ranged between 3.8 percent (Ann Arbor MSA) and 8.8 percent (Northeast Lower Michigan).

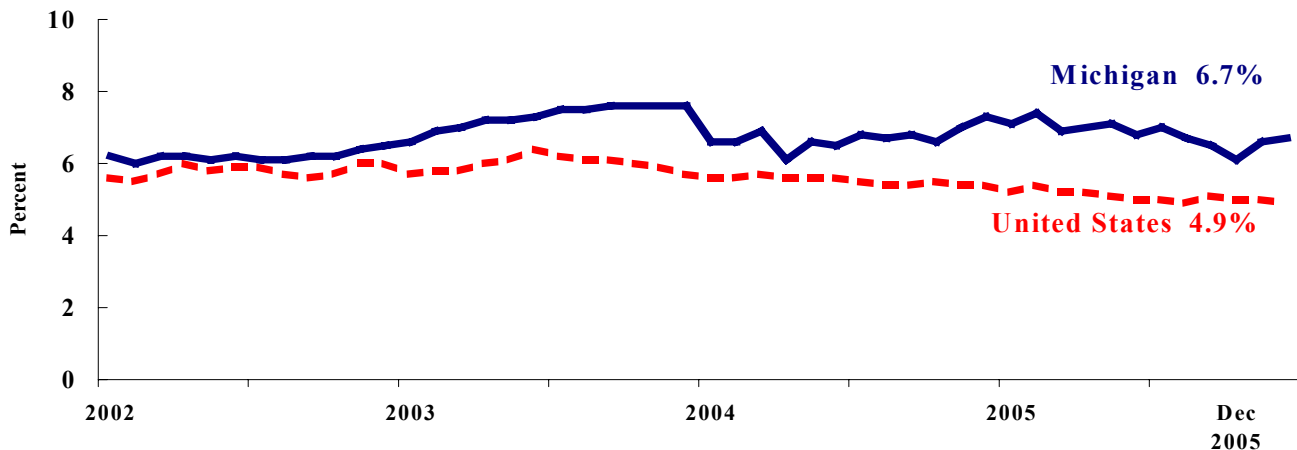
**Michigan Employment Increases ^(a)
Up Fourth Time in Past Five Months**



Labor Market Statistics

- Michigan's December monthly unemployment rate increased 0.1 percentage points to 6.7 percent from November and the current Michigan jobless rate is 0.8 percentage points below a year ago. The December U.S. unemployment rate decreased 0.1 percentage points to 4.9 percent and was 0.5 percentage points lower compared to a year ago. Monthly unemployment rates fluctuate due to statistical sampling errors and data revisions.

Michigan and U.S. Monthly Unemployment Rates 2002 to 2005



Source: Michigan Dept. of Labor and Economic Growth and Bureau of Labor Statistics, U.S. Dept. of Labor

- In December, the number of people employed in Michigan was 4,795,000, down 2,000 from last month, while the labor force increased by 5,000. The statewide total number of unemployed increased by 6,000 to 344,000.
- United States household employment totaled 142.8 million persons in December, up 168,000 from November. The labor force fell by 30,000 from last month, which meant that there were 197,000 fewer unemployed people nationally, compared to November.

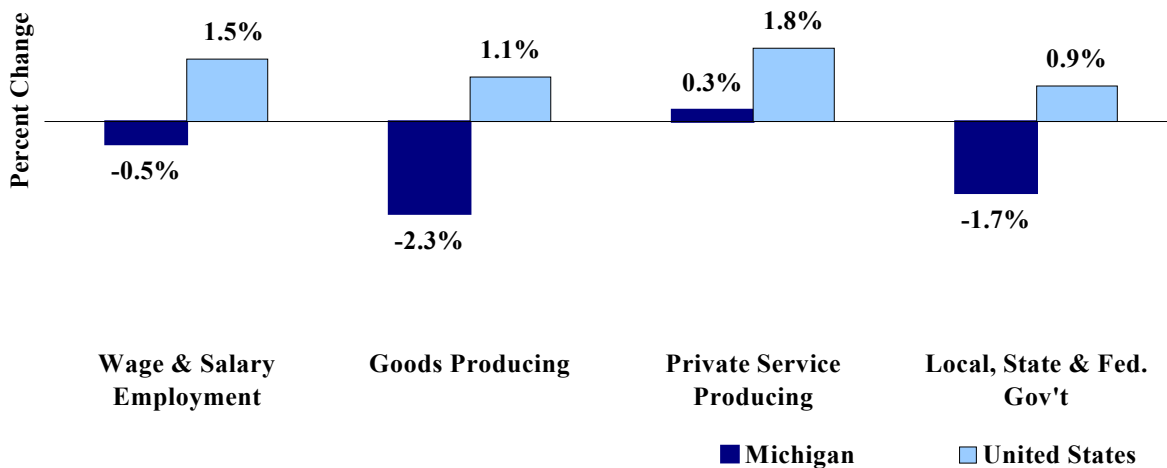
Employment by Place of Residence (in thousands)^(a)

| | 2004 Average | Oct 2005 | Nov 2005 | Dec 2005 | Change From | | | |
|----------------------|-----------------|-------------|-------------|-------------|-------------|-----------|-----------|--------|
| | | | | | Prior Month | | Last Year | |
| | | | | | Level | % | Level | % |
| Michigan | | | | | | | | |
| Labor Force | 5,079 | 5,101 | 5,134 | 5,139 | 5 | 0.1% | 46 | 0.9% |
| Employed | 4,719 | 4,792 | 4,797 | 4,795 | -2 | 0.0% | 87 | 1.8% |
| Unemployed | 360 | 309 | 338 | 344 | 6 | 1.8% | -40 | -10.4% |
| Unemployment Rate | 7.1% | 6.1% | 6.6% | 6.7% | n.a. | 0.1% pts | n.a. | -0.8% |
| United States | | | | | | | | |
| Labor Force | 147,401 | 150,043 | 150,183 | 150,153 | -30 | 0.0% | 1,950 | 1.3% |
| Employed | 139,252 | 142,625 | 142,611 | 142,779 | 168 | 0.1% | 2,623 | 1.9% |
| Unemployed | 8,149 | 7,418 | 7,572 | 7,375 | -197 | -2.6% | -672 | -8.4% |
| Unemployment Rate | 5.5% | 5.0% | 5.0% | 4.9% | n.a. | -0.1% pts | n.a. | -0.5% |

Employment by Place of Work

- From December 2004 to December 2005, Michigan wage and salary employment declined 24,000 (0.5 percent). State wage and salary employment increased 10,000 from November. Nationally, December 2005 wage and salary employment rose 2,019,000 (1.5 percent) from a year ago and was up 108,000 from last month.

Wage and Salary Employment Growth December 2004 to December 2005



Source: Bureau of Labor Statistics, Michigan Department of Labor and Economic Growth

- In the goods-producing sector, Michigan employment fell 2.3 percent from a year ago while private service-producing sector employment increased 0.3 percent compared to last year. From a year ago, December national employment in the goods-producing sector rose 1.1 percent and increased 1.8 percent in the private service-producing sector.
- Manufacturing weekly hours fell in Michigan by 0.3 hours compared to last year.

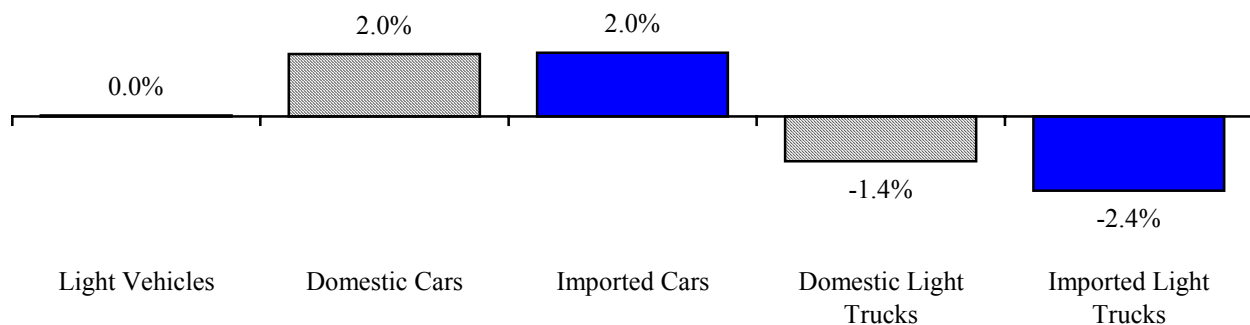
Establishment Employment (in thousands)^(b)

| | Michigan | | | | United States | | | |
|----------------------------|-----------------|-------------|-------------|-------------------|-----------------|-------------|-------------|-------------------|
| | 2004 Average | Dec 2004 | Dec 2005 | Percent Change | 2004 Average | Dec 2004 | Dec 2005 | Percent Change |
| Wage & Salary Employment | 4,391 | 4,387 | 4,363 | -0.5% | 131,481 | 132,449 | 134,468 | 1.5% |
| Goods Producing | 894 | 886 | 866 | -2.3% | 21,885 | 22,022 | 22,262 | 1.1% |
| Manufacturing | 696 | 690 | 670 | -2.9% | 14,329 | 14,334 | 14,283 | -0.4% |
| Private Service Producing | 2,815 | 2,814 | 2,822 | 0.3% | 87,978 | 88,727 | 90,318 | 1.8% |
| Trade, Trans. & Utilities | 810 | 809 | 801 | -1.0% | 25,511 | 25,620 | 25,880 | 1.0% |
| Services | 1,719 | 1,719 | 1,738 | 1.1% | 51,278 | 51,852 | 52,973 | 2.2% |
| Local, State & Fed. Gov't | 682 | 688 | 676 | -1.7% | 21,619 | 21,700 | 21,888 | 0.9% |
| Manufacturing Weekly Hours | 42.4 | 42.0 | 41.7 | -0.3 hrs | 40.8 | 40.5 | 40.7 | 0.2 hrs |

Motor Vehicle Industry Sales

- At a 16.9 million unit annual rate, 2005 light vehicle sales were flat compared to 2004. In December 2005, light vehicles sold at a 17.1 million unit rate.
- Compared to 2004, 2005 domestic sales were down 0.1 percent while foreign sales were up 0.4 percent. Auto sales rose 2.0 percent while light truck sales declined 1.6 percent. The calendar year average of light vehicle inventories was down 9.1 percent compared to 2004.
- In 2005, domestic light truck sales decreased 1.4 percent while imported light truck sales fell 2.4 percent. Imported and domestic car sales were both up 2.0 percent.

Light Vehicle Sales Flat in 2005 (Percent Change, 2004-2005)



Motor Vehicle Sales Statistics

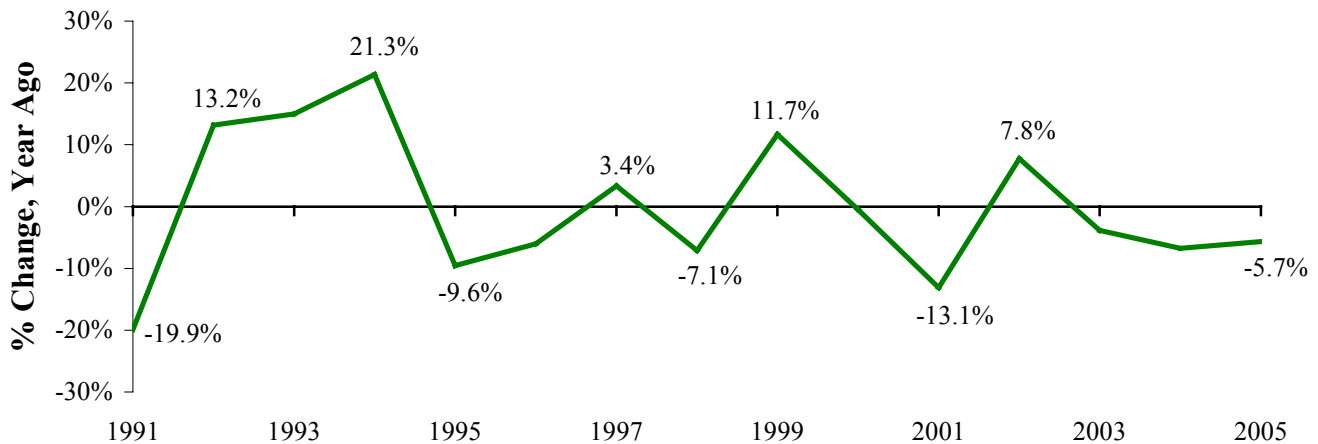
(Millions, unless otherwise specified)

| Motor Vehicle Sales ^(c) | 2005 Average | Oct 2005 | Nov 2005 | Dec 2005 | 3 Month Average | Change from Year Ago | |
|---|-----------------|---------------|---------------|---------------|--------------------|-------------------------|-------|
| | | | | | | Level | % |
| Autos | 7.7 | 7.3 | 7.6 | 7.6 | 7.5 | (0.4) | -5.4% |
| Domestics | 5.5 | 5.2 | 5.5 | 5.3 | 5.3 | (0.5) | -8.7% |
| Imports | 2.2 | 2.1 | 2.1 | 2.4 | 2.2 | 0.1 | 2.9% |
| Import Share | 28.7% | 29.2% | 27.1% | 30.9% | 29.0% | 2.5% pts | |
| Light Trucks | 9.2 | 7.4 | 8.1 | 9.5 | 8.3 | (0.3) | -3.4% |
| Domestics | 8.0 | 6.2 | 7.0 | 8.2 | 7.1 | (0.3) | -3.2% |
| Imports | 1.2 | 1.1 | 1.1 | 1.3 | 1.2 | (0.1) | -4.4% |
| Import Share | 13.2% | 15.4% | 14.0% | 13.6% | 14.3% | -0.1% pts | |
| Total Light Vehicles | 16.9 | 14.7 | 15.7 | 17.1 | 15.8 | (0.8) | -4.3% |
| Heavy Trucks | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.0 | 3.9% |
| Total Vehicles | 17.4 | 15.2 | 16.2 | 17.7 | 16.4 | (0.7) | -4.1% |
| U.S. Light Vehicle Inventories^(d) | | Oct-05 | Nov-05 | Dec-05 | 3 Month | Change | |
| Total Car | 1.284 | 1.131 | 1.244 | 1.271 | 1.215 | -0.153 | |
| Days Supply | 52 | 52 | 59 | 56 | 56 | -4 days | |
| Total Truck | 2.274 | 2.263 | 2.364 | 2.252 | 2.293 | -0.092 | |
| Days Supply | 78 | 101 | 96 | 71 | 89 | -1 day | |

Motor Vehicle Industry Production

- At 2,448,942 units, 2005 Michigan light vehicle production fell 5.7 percent from a year ago, compared with a 0.3 percent decline nationally. As a result, Michigan's share of national production fell 1.2 percentage points to 20.4 percent.
- Compared with a year ago, 2005 state car production fell 5.6 percent while state truck production declined 5.7 percent. Nationally, car production increased 1.5 percent while truck production fell 1.3 percent.
- Production varies substantially from month to month. Therefore, a three-month average may provide a clearer indication of vehicle production patterns. The Michigan three-month average was down 15.0 percent from a year ago, compared to a 1.1 percent decrease nationally.

Michigan Vehicle Production Down 5.7 Percent in 2005



Motor Vehicle Production Statistics

(Thousands, unless otherwise specified)

| | 2001 | 2002 | 2003 | 2004 | 2005 | Change 2004-2005 | |
|---|----------|----------|----------|----------|----------|---------------------|-------|
| | | | | | | Level | % |
| U.S. Production ^(e) | | | | | | | |
| Autos | 4,855.9 | 5,029.4 | 4,516.8 | 4,245.1 | 4,309.2 | 64.1 | 1.5% |
| Trucks | 6,644.2 | 7,261.5 | 7,614.9 | 7,773.4 | 7,676.2 | (97.3) | -1.3% |
| Total | 11,500.1 | 12,290.9 | 12,131.8 | 12,018.5 | 11,985.4 | (33.1) | -0.3% |
| Michigan Production ^(f) | | | | | | | |
| Autos | 1,663.9 | 1,792.3 | 1,526.7 | 1,257.8 | 1,187.0 | (70.8) | -5.6% |
| Trucks | 1,023.1 | 1,103.3 | 1,257.0 | 1,338.5 | 1,261.9 | (76.6) | -5.7% |
| Total | 2,687.0 | 2,895.5 | 2,783.7 | 2,596.3 | 2,448.9 | (147.4) | -5.7% |
| Michigan as % of U.S. | 23.4% | 23.6% | 22.9% | 21.6% | 20.4% | -1.2% pts | |

December 2005 Unemployment Rates Fell in All Labor Market Areas (Not Seasonally Adjusted)

Compared to a year ago, December 2005 unemployment rates fell in all 17 major labor market areas. The median unemployment rate decline was 1.1 percentage points.

Compared to a year ago, the Niles-Benton Harbor MSA and the Saginaw-Saginaw Township MSA reported a 1.5 percentage point decline, the largest decline among the state's 17 major labor market areas. The Upper Peninsula and Northeast Lower Michigan reported the second largest decline (1.4 percentage points). Northwest Lower Michigan reported the next largest decline of 1.3 percentage points. Thirteen areas reported declines of 1.0 percentage point or larger. Sixteen areas reported declines of 0.5 percentage points or larger.

From December 2004 to December 2005, employment increased in all major labor market areas. The median employment increase was 2.6 percent. Fourteen areas reported employment increases greater than 1.0 percent. Ten areas reported increases exceeding 2.0 percent.

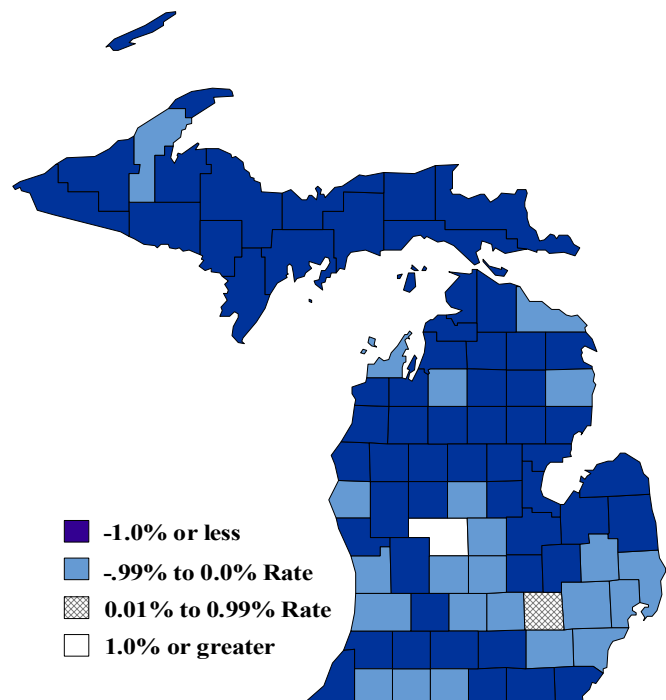
December 2005 unemployment rates ranged between 3.8 percent (Ann Arbor) and 8.8 percent (Northeast Lower Michigan). Compared to November unemployment rates, all areas reported higher non-seasonally adjusted unemployment rates. The median increase was 0.2 percentage points.

Compared to December 2004, unemployment rates declined in 81 counties and increased in two counties. The median decline was 1.1 percentage points.

Local Area Unemployment Rates^(g)

| <u>Local Area</u> | <u>Dec 2004 Rate</u> | <u>Nov 2005 Rate</u> | <u>Dec 2005 Rate</u> |
|--------------------------|------------------------------|------------------------------|------------------------------|
| Michigan | 7.1% | 6.2% | 6.4% |
| Ann Arbor | 4.4% | 3.8% | 3.8% |
| Battle Creek | 6.9% | 5.8% | 5.9% |
| Bay City | 7.5% | 5.9% | 6.4% |
| Detroit-Warren-Livonia | 7.0% | 6.8% | 6.8% |
| Flint | 8.1% | 6.8% | 7.0% |
| Grand Rapids-Wyoming | 6.7% | 5.3% | 5.5% |
| Holland-Grand Haven | 5.7% | 4.6% | 4.9% |
| Jackson | 7.2% | 5.9% | 6.1% |
| Kalamazoo-Portage | 6.4% | 4.9% | 5.2% |
| Lansing-East Lansing | 5.9% | 5.3% | 5.4% |
| Monroe | 6.3% | 5.2% | 5.3% |
| Muskegon-Norton Shores | 7.5% | 6.2% | 6.4% |
| Niles-Benton Harbor | 7.9% | 6.0% | 6.4% |
| Saginaw-Saginaw Township | 8.4% | 6.7% | 6.9% |
| Upper Peninsula | 8.3% | 6.0% | 6.9% |
| Northeast Lower Mich | 10.2% | 7.4% | 8.8% |
| Northwest Lower Mich. | 8.2% | 6.1% | 6.9% |

Unemployment Rate Change December 2005

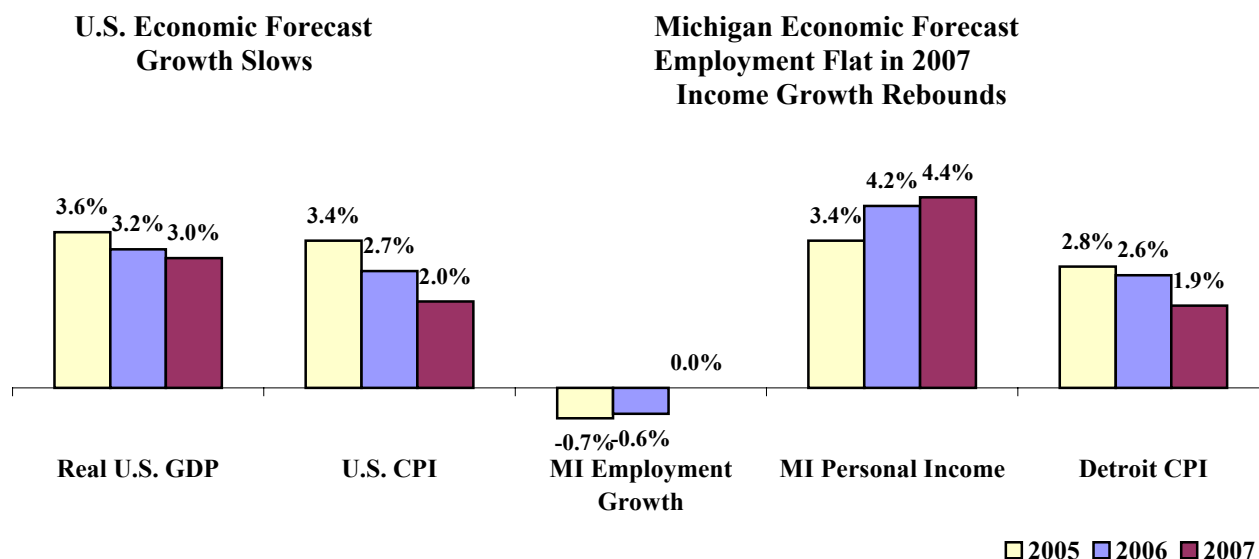


Source: Michigan Department of Labor and Economic Growth

Michigan Consensus Conference Economic Forecast U.S. Growth Slower, Michigan Economy Strengthens

At the Consensus Revenue Estimating Conference held January 12, 2006, the Michigan Department of Treasury, House Fiscal Agency (HFA) and Senate Fiscal Agency (SFA) agreed on economic forecasts for 2006 and 2007. The January 2006 Executive Summary is posted on the Michigan Department of Treasury's Web site at <http://www.michigan.gov/treasury>.

- After rising 3.6 percent in 2005, real GDP growth is forecast to slow to 3.2 percent and 3.0 percent in 2006 and 2007 respectively.
- The U.S. unemployment rate is forecast to average 4.9 percent in both 2006 and 2007. Inflation is expected to remain at moderate levels, increasing 2.7 percent in 2006 and 2.0 percent in 2007.
- Light vehicle sales are forecast to average 16.7 million units in 2006 and 16.8 million units in 2007.
- Michigan wage and salary employment is projected to decline 0.6 percent in 2006. In 2007, wage and salary employment is forecast to be flat. Michigan's unemployment rate is projected to average 7.1 percent in both 2006 and 2007.
- Michigan's personal income growth is projected to rise to 4.2 percent in 2006 and then increase to 4.4 percent growth in 2007. The Detroit CPI is forecast to rise 2.6 percent in 2006 and 1.9 percent in 2007. Thus real (inflation adjusted) personal income is forecast to increase 1.5 percent in 2006 and then increase 2.5 percent in 2007.



Source: January 12, 2006 Consensus Revenue Estimating Conference

U.S. Economic Conditions

| | <u>Sep-05</u> | <u>Oct-05</u> | <u>Nov-05</u> | <u>Dec-05</u> | <u>Change from Year Ago</u> |
|---|---------------|---------------|---------------|---------------|---|
| KEY ECONOMIC INDICATORS | | | | | |
| Consumer Sentiment ^(h) | 76.9 | 74.2 | 81.6 | 91.5 | -5.6 points |
| ISM Manufacturing Index ⁽ⁱ⁾ | 58.0 | 58.1 | 57.3 | 55.6 | -3.0 points |
| ISM Non Manufacturing Index ⁽ⁱ⁾ | 53.7 | 59.2 | 59.3 | 61.0 | -4.5 points |
| | <u>2005.1</u> | <u>2005.2</u> | <u>2005.3</u> | <u>2005.4</u> | |
| Business Executives' Confidence ⁽ⁱ⁾ | 62.0 | 55.0 | 50.0 | 56.0 | -5.0 points |
| INFLATION ^(k) | | | | | |
| 1982-84 = 100 | <u>Sep-05</u> | <u>Oct-05</u> | <u>Nov-05</u> | <u>Dec-05</u> | <u>Change from Year Ago</u> |
| U.S. Consumer Price Index | 198.8 | 199.2 | 197.6 | 196.8 | 3.4% |
| Detroit CPI | NA | 195.1 | NA | 192.4 | 3.8% |
| U.S. Producer Price Index | 158.9 | 161.0 | 158.4 | 158.8 | 5.4% |
| INTEREST RATES | | | | | |
| 90 Day T-Bill ^(l) | 3.47% | 3.70% | 3.90% | 3.89% | 1.69% points |
| Aaa Corporate Bonds ^(m) | 5.13% | 5.35% | 5.42% | 5.40% | -0.07% points |
| INDUSTRIAL PRODUCTION ^(m) | 107.2 | 108.2 | 109.1 | 109.8 | 2.8% |
| CAPACITY UTILIZATION ^(m) | 79.1% | 79.8% | 80.3% | 80.7% | 0.9% points |
| RETAIL SALES ⁽ⁿ⁾ | \$351.8 | \$352.5 | \$355.4 | \$357.8 | 6.4% |
| HOUSING STARTS and SALES | | | | | |
| (Millions Annual Rate) | <u>Sep-05</u> | <u>Oct-05</u> | <u>Nov-05</u> | <u>Dec-05</u> | <u>% Change From Year Ago</u> |
| Housing Starts ^(o) | 2.160 | 2.051 | 2.121 | 1.933 | -5.7% |
| Existing Home Sales ^(p) | 7.290 | 7.090 | 7.000 | 6.600 | -3.1% |
| DURABLE GOODS ORDERS ^(q) | \$207.4 | \$213.8 | \$225.3 | \$228.1 | 12.7% |
| PERSONAL INCOME ^(c) | | | | | |
| (Billions of Dollars) | <u>2004.4</u> | <u>2005.1</u> | <u>2005.2</u> | <u>2005.3</u> | <u>% Change From Year Ago</u> |
| Michigan | \$329.5 | \$329.9 | \$334.4 | \$336.4 | 3.6% |
| U.S. | \$10,015.1 | \$10,075.9 | \$10,186.6 | \$10,260.7 | 5.6% |
| GROSS DOMESTIC PRODUCT | | | | | |
| (Billions of Chained 2000 Dollars) ^(c) | <u>2005.1</u> | <u>2005.2</u> | <u>2005.3</u> | <u>2005.4</u> | <u>Annualized % Chg From Last Qtr</u> |
| | \$10,999.3 | \$11,089.2 | \$11,202.3 | \$11,233.5 | 1.1% |

SOURCES AND NOTES:

- (a) Seasonally adjusted. Sources: Bureau of Labor Statistics, U.S. Department of Labor and Michigan Dept. of Labor and Economic Growth, Employment Service Agency.
- (b) Bureau of Labor Statistics, U.S. Department of Labor (BLS 790).
- (c) Seasonally adjusted annual rates. Source: Bureau of Economic Analysis, U.S. Department of Commerce.
- (d) Ward's Automotive Reports.
- (e) Automotive News.
- (f) Michigan Department of Treasury.
- (g) Michigan Department of Labor and Economic Growth, Employment Service Agency.
- (h) University of Michigan Survey of Consumers.
- (i) Institute for Supply Management (ISM), formerly NAPM.
- (j) The Conference Board.
- (k) Bureau of Labor Statistics, U.S. Department of Labor.
- (l) U.S. Department of Treasury. Average of weekly averages.
- (m) Seasonally adjusted rates (except interest rates). Federal Reserve System Board of Governors. 2002 equals 100.
- (n) Retail and Food Services Sales. Bureau of the Census, U.S. Department of Commerce.
- (o) Bureau of the Census, U.S. Department of Commerce.
- (p) National Association of Realtors.
- (q) Bureau of the Census, U.S. Department of Commerce. Figures exclude semi conductors.