



MICHIGAN ECONOMIC UPDATE

Office of Revenue and Tax Analysis
Michigan Department of Treasury

<http://www.michigan.gov/treasury>

December 2008 Summary

U.S. Economy: The U.S. economy is in the midst of a deep recession. Real GDP reported its greatest quarterly decline (-3.8 percent annual rate) since early 1982. Down by almost half from last year, housing starts fell to a new record low for the third straight month. Capacity utilization reported its largest year-ago point decline (-7.4 percentage points) since 1982 as industrial production reported its greatest percent decline (-7.8 percent) since 1976. Durable goods orders, excluding defense and aircraft, (three month average) fell 7.3 percent from a year ago. Retail sales, excluding vehicles and gasoline, (three-month average) reported their first decline (-1.1 percent) in at least 15 years. The Conference Board's CEO confidence index fell to its lowest reading in the series' thirty-plus year history.

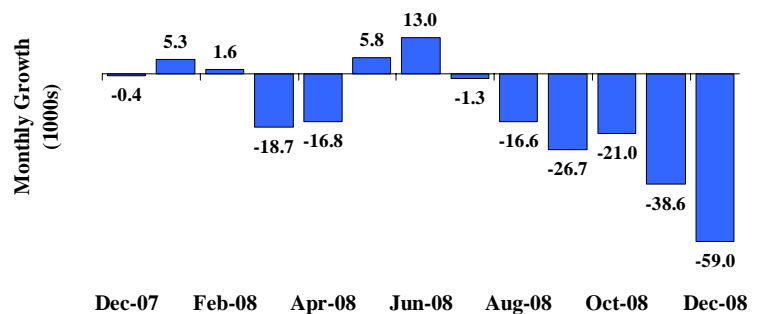
Employment: Employment plummeted both in Michigan and nationally with State employment falling by 59,000 jobs and U.S. employment dropping by 524,000 jobs. Michigan's unemployment rate rose to 10.6 percent, while the U.S. rate increased to 7.2 percent.

Auto Industry: Light vehicle sales fell 35.6 percent from a year ago to a 10.3 million unit rate. Compared to a year ago, the three-month average of State vehicle production fell 30.5 percent compared with a 30.0 percent decline nationally.

Inflation: Compared to a year ago, the U.S. consumer price index (CPI) rose only 0.1 percent; the core CPI increased 1.8 percent. Overall producer prices declined 0.9 percent, but core producer prices rose 4.3 percent. Oil prices fell \$16.42 a barrel from a month ago to \$41.02.

Michigan Metro Areas: From December 2007, unemployment rates rose sharply across all of Michigan's 17 major labor market areas with a median increase of 3.1 percentage points. Employment fell in all 17 labor market areas with an extremely large median decline of 5.2 percent. Unemployment rates ranged between 6.9 percent (Ann Arbor MSA) and 15.0 percent (Northeast Lower Michigan).

**Michigan Economy
Sheds 145,300 Jobs in Past Four Months^(a)**



Jeff Guilfoyle
Director

Thomas Patchak-Schuster
Senior Economist

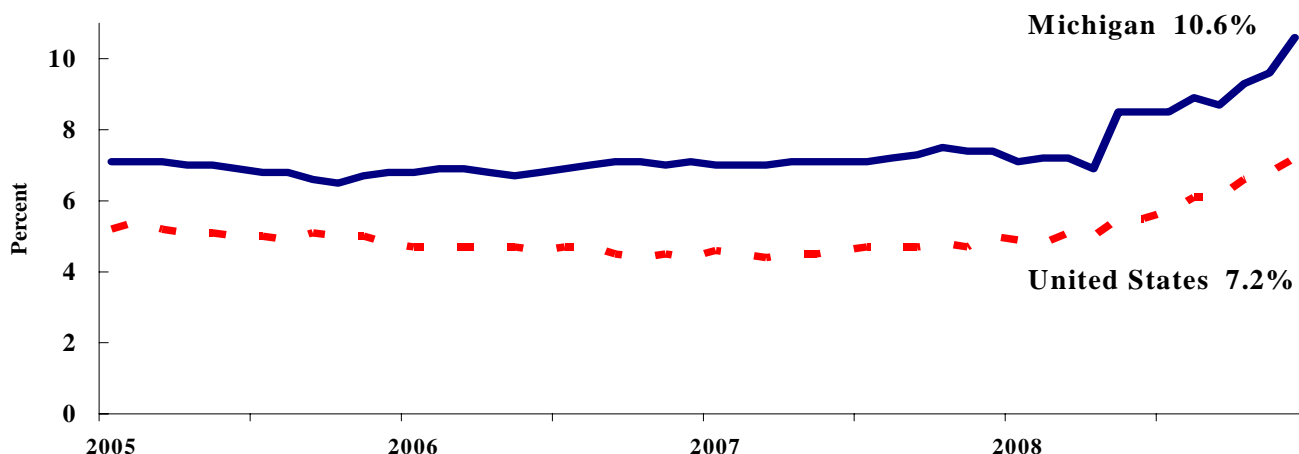
Andrew Lockwood
Economist

Diane Burton
Secretary

Labor Market Statistics

- Michigan’s December monthly unemployment rate increased by 1.0 percentage point from last month to 10.6 percent and the current Michigan jobless rate is 3.2 percentage points above a year ago. The December U.S. unemployment rate increased 0.4 percentage points to 7.2 percent and was 2.3 percentage points above a year ago. Monthly unemployment rates fluctuate due to statistical sampling errors and data revisions.

**Michigan and U.S. Monthly Unemployment Rates
2005 to 2008**



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 4,375,000, down 68,000 from last month, while the labor force decreased by 21,000. The statewide total number of unemployed increased by 47,000 to 519,000.
- United States household employment totaled 143.3 million persons in December, down 806,000 from November. The labor force fell by 173,000 from last month, which meant that there were 632,000 more unemployed people nationally, compared to November.

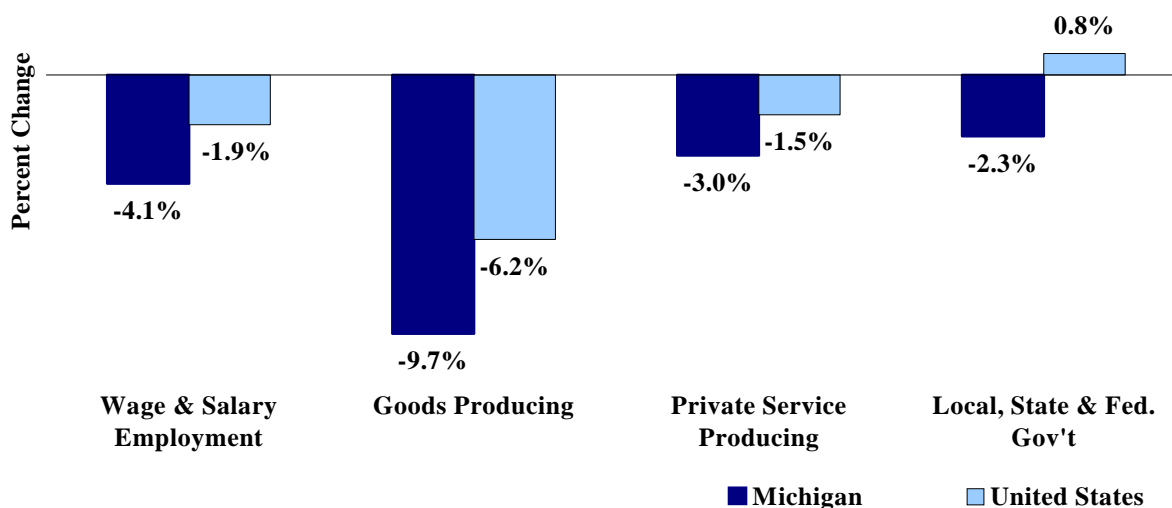
Employment by Place of Residence (in thousands)^(a)

	2007 Average	Oct 2008	Nov 2008	Dec 2008	Change From			
					Prior Month		Last Year	
					Level	%	Level	%
Michigan								
Labor Force	5,020	4,930	4,915	4,894	-21	-0.4%	-100	-2.0%
Employed	4,660	4,474	4,443	4,375	-68	-1.5%	-249	-5.4%
Unemployed	360	457	472	519	47	10.0%	149	40.3%
Unemployment Rate	7.2%	9.3%	9.6%	10.6%	n.a.	1.0% pts	n.a.	3.2%
United States								
Labor Force	153,124	154,878	154,620	154,447	-173	-0.1%	611	0.4%
Employed	146,047	144,657	144,144	143,338	-806	-0.6%	-2,956	-2.0%
Unemployed	7,078	10,221	10,476	11,108	632	6.0%	3,567	47.3%
Unemployment Rate	4.6%	6.6%	6.8%	7.2%	n.a.	0.4% pts	n.a.	2.3%

Employment by Place of Work

- From December 2007 to December 2008, Michigan wage and salary employment decreased 173,000 (4.1 percent). State wage and salary employment decreased 59,000 from November. Nationally, December 2008 wage and salary employment fell 2,589,000 (1.9 percent) from a year ago and was down 524,000 from last month.

Wage and Salary Employment Growth December 2007 to December 2008



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

- In the goods-producing sector, Michigan employment fell 9.7 percent from a year ago while private service-producing sector employment decreased 3.0 percent compared to last year. From a year ago, December national employment in the goods-producing sector fell 6.2 percent and decreased 1.5 percent in the private service-producing sector.
- Manufacturing weekly hours decreased by 3.3 hours in Michigan compared to last year.

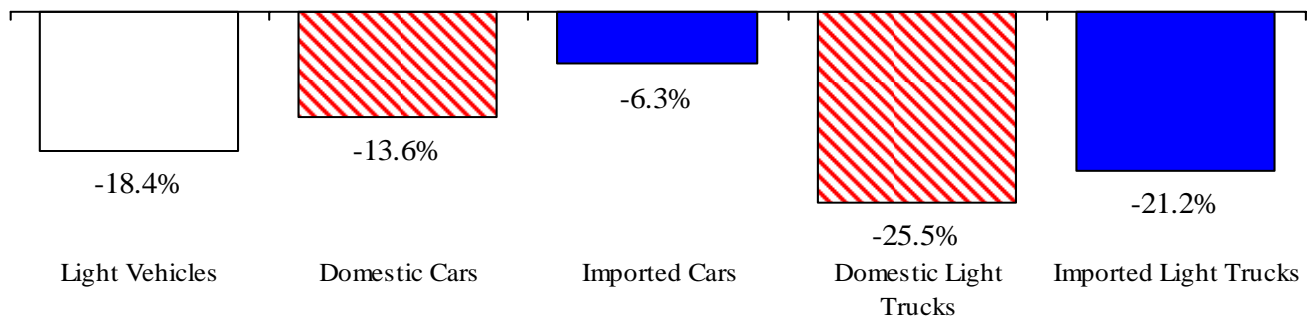
Establishment Employment (in thousands)^(b)

	Michigan				United States			
	2007 Average	Dec 2007	Dec 2008	Percent Change	2007 Average	Dec 2007	Dec 2008	Percent Change
Wage & Salary Employment	4,262	4,228	4,055	-4.1%	137,623	138,078	135,489	-1.9%
Goods Producing	791	770	695	-9.7%	22,221	21,976	20,616	-6.2%
Manufacturing	617	601	552	-8.2%	13,884	13,772	12,981	-5.7%
Private Service Producing	2,814	2,807	2,722	-3.0%	93,199	93,769	92,359	-1.5%
Trade, Trans. & Utilities	788	784	754	-3.8%	26,608	26,658	25,833	-3.1%
Services	1,750	1,749	1,706	-2.5%	55,254	55,841	55,489	-0.6%
Local, State & Fed. Gov't	657	651	636	-2.3%	22,203	22,333	22,514	0.8%
Manufacturing Weekly Hours	42.5	42.8	39.5	-3.3 hrs	41.2	41.1	39.9	-1.2 hrs

Motor Vehicle Industry Sales

- At a 10.3 million unit annual rate, the December 2008 light vehicle sales rate rose 1.3 percent from November. Vehicle sales declined by more than a third from a year ago (-35.6 percent). Compared to December 2007, domestic sales were down 36.5 percent while foreign sales fell 33.0 percent. Light truck sales fell 38.2 percent, while autos declined by 33.0 percent.
- CY 2008 light vehicle sales (13.1 million units) were the lowest annual sales since 1992. The 2008Q4 light vehicle sales rate (10.3 million unit annual rate) was the lowest quarterly rate in 26 years.
- In CY 2008, light vehicle sales were down 18.4 percent with domestic sales declining 20.4 percent and foreign sales falling 11.8 percent. As a result, the foreign share of U.S. light vehicle sales rose by 1.9 percentage points to 25.2 percent. Auto sales were down 11.3 percent; light truck sales declined sharply (-24.8 percent). Heavy truck sales were down 20.5 percent.
- Due to a sharply declining sales rate, December 2008 days' supply of light vehicles rose by 33 days from a year ago to 93 days even while inventories rose only 0.4 percent.

CY 2008 Truck Sales Down Sharply Compared to CY 2007



Motor Vehicle Sales Statistics

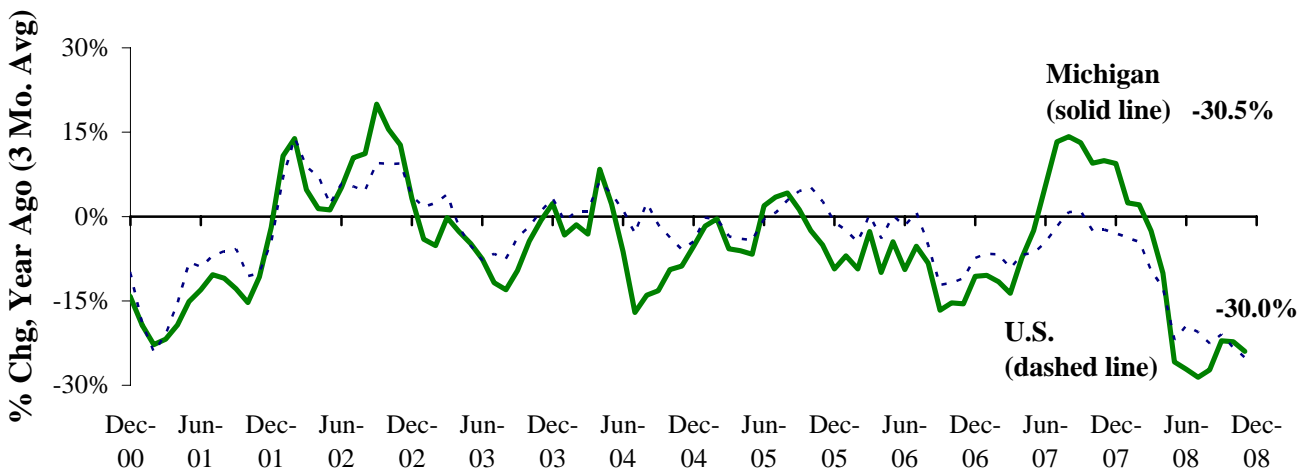
(Millions, unless otherwise specified)

	2007 Average	Oct 2008	Nov 2008	Dec 2008	3 Month Average	Change from Year Ago	
						Level	%
Motor Vehicle Sales^(c)							
Autos	7.6	5.6	5.0	5.2	5.2	(2.6)	-33.0%
Domestics	5.2	3.8	3.3	3.6	3.6	(1.8)	-33.0%
Imports	2.4	1.8	1.7	1.6	1.7	(0.8)	-32.9%
Import Share	31.2%	32.4%	33.8%	30.4%	32.2%	0.1% pts	
Light Trucks	8.5	4.9	5.2	5.1	5.1	(3.1)	-38.2%
Domestics	7.1	4.0	4.3	4.1	4.1	(2.7)	-39.2%
Imports	1.4	0.9	0.9	0.9	0.9	(0.5)	-33.1%
Import Share	16.3%	18.3%	17.6%	18.3%	18.1%	1.4% pts	
Total Light Vehicles	16.1	10.5	10.1	10.3	10.3	(5.7)	-35.6%
Heavy Trucks	0.4	0.3	0.3	0.2	0.3	(0.1)	-28.2%
Total Vehicles	16.5	10.8	10.4	10.5	10.6	(5.8)	-35.5%
U.S. Light Vehicle Inventories^(d)		Oct-08	Nov-08	Dec-08	3 Month	Change	
Total Car	1.374	1.466	1.624	1.643	1.578	0.333	
Days Supply	56	92	113	101	102	47 days	
Total Truck	1.957	1.668	1.659	1.552	1.627	-0.320	
Days Supply	71	111	108	86	102	21 days	

Motor Vehicle Industry Production

- At 112,105 units, December 2008 Michigan motor vehicle production fell sharply from a year ago (-26.3 percent) as did national production (-27.6 percent). Michigan's share of national production rose slightly (0.4 of a percentage point) to 22.6 percent. Truck production fell much more steeply than car production both in Michigan and nationally.
- Calendar year 2008 Michigan vehicle production totaled 1,843,857 units, down 20.9 percent from 2007. Nationally, CY 2008 vehicle production totaled 8,742,237 units, down 19.8 percent. Michigan comprised 21.1 percent of CY 2008 national vehicle production.

Michigan and U.S. Vehicle Production Down Sharply ^(e,f)



Motor Vehicle Production Statistics

(Thousands, unless otherwise specified)

	2008 Average	Oct 2008	Nov 2008	Dec 2008	3 Month Average	Change from Year Ago for the Month	
						Level	%
U.S. Production ^(e)							
Autos	314.0	372.8	241.5	212.9	275.7	(45.1)	-17.5%
Trucks	414.5	394.8	299.1	282.3	325.4	(143.4)	-33.7%
Total	728.5	767.6	540.5	495.3	601.1	(188.5)	-27.6%
Michigan Production ^(f)							
Autos	83.7	88.7	60.8	59.3	69.6	(10.4)	-14.9%
Trucks	70.0	87.3	57.6	52.8	65.9	(29.6)	-35.9%
Total	153.7	176.0	118.4	112.1	135.5	(40.0)	-26.3%
Michigan as % of U.S.	21.1%	22.9%	21.9%	22.6%	22.5%	0.4% pts	

December Unemployment Rates

Rose Substantially in All Major Michigan Labor Market Areas

(Not Seasonally Adjusted)

Compared to a year ago, unemployment rates rose in all 17 major Michigan labor market areas. The median unemployment rate increase was 3.1 percentage points. Nine areas saw rate increases exceeding 3.0 percentage points. Three areas saw increases greater than 4.0 percentage points: Monroe MSA (4.7 percentage points), Muskegon-Norton Shores MSA (4.5 percentage points), and Flint MSA (4.1 percentage points).

Between December 2007 and December 2008, employment fell sharply in all 17 major labor market areas with declines exceeding 3.0 percent in all 17 areas and a median employment decline of 5.2 percent. Five areas saw declines greater than 6.0 percent: Flint MSA (-9.6 percent), Saginaw-Saginaw Township MSA (-7.1 percent), Lansing-East Lansing MSA (-6.3 percent), Battle Creek MSA (-6.2 percent) and Monroe (-6.2 percent). All 17 areas saw a labor force decline with a median reduction of 1.5 percent. Five areas saw more than a 3.0 percent labor force reduction: Flint MSA (-5.4 percent), Saginaw-Saginaw Township MSA (-4.0 percent), Battle Creek MSA (-3.2 percent), Lansing-East Lansing MSA (-3.2 percent) and Ann Arbor (-3.1 percent).

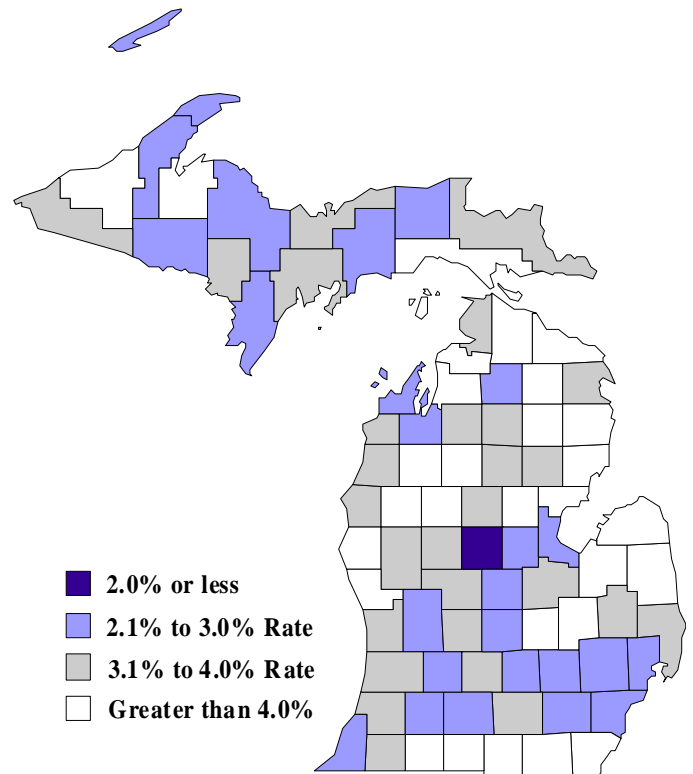
Compared to November 2008, non-seasonally adjusted unemployment rates rose in all 17 areas, with a median increase of 1.4 percentage points. December 2008 unemployment rates ranged between 6.9 percent (Ann Arbor MSA) to 15.0 percent (Northeast Lower Peninsula).

Between December 2007 and December 2008, the unemployment rate rose in all 83 Michigan counties with a median county unemployment rate increase of 3.6 percentage points. Fifty-seven counties saw greater than a 3.0 percentage point increase. Non-seasonally adjusted county unemployment rates ranged between 6.9 percent (Washtenaw) and 24.2 percent (Mackinac).

Local Area Unemployment Rates^(g)

<u>Local Area</u>	<u>Dec 2007 Rate</u>	<u>Nov 2008 Rate</u>	<u>Dec 2008 Rate</u>
Michigan	7.4%	9.1%	10.4%
Ann Arbor	4.7%	6.0%	6.9%
Battle Creek	6.8%	8.4%	9.7%
Bay City	7.0%	8.4%	9.9%
Detroit-Warren-Livonia	8.0%	9.5%	10.6%
Flint	8.2%	11.6%	12.3%
Grand Rapids-Wyoming	5.9%	7.7%	8.8%
Holland-Grand Haven	5.8%	7.7%	9.2%
Jackson	7.6%	9.6%	11.1%
Kalamazoo-Portage	5.7%	7.3%	8.7%
Lansing-East Lansing	5.7%	7.4%	8.6%
Monroe	6.6%	9.6%	11.3%
Muskegon-Norton Shores	7.0%	10.0%	11.5%
Niles-Benton Harbor	7.2%	8.8%	10.1%
Saginaw-Saginaw Township	7.3%	9.1%	10.4%
Upper Peninsula	8.1%	9.4%	11.4%
Northeast Lower Mich	11.1%	12.2%	15.0%
Northwest Lower Mich.	8.5%	10.4%	12.2%

Unemployment Rate Change December 2008^(g)

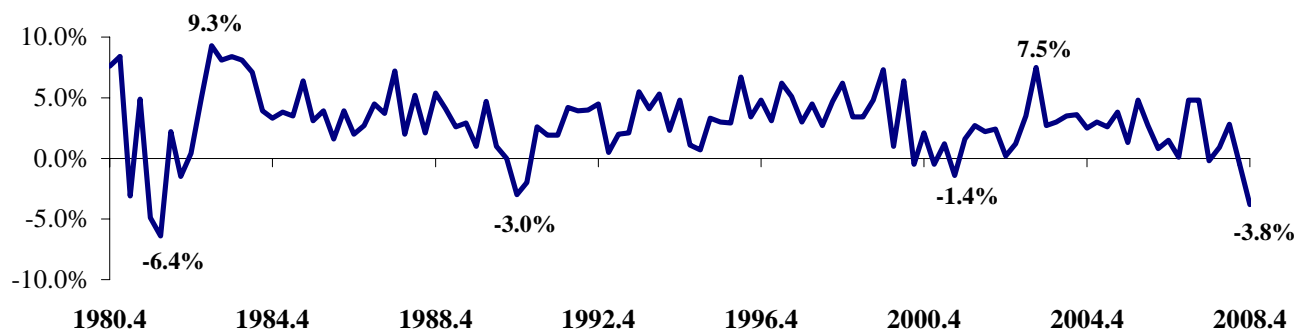


Fourth Quarter 2008 Real GDP Reports Greatest Decline since Early 1982

On January 30, 2009, the Bureau of Economic Analysis (BEA) reported its *advance* GDP estimates for the fourth quarter of 2008 (2008Q4). Below are some 2008Q4 highlights from that release:

- Real (inflation adjusted) GDP reported its largest quarterly decline (-3.8 percent annual rate) since 1982Q1 when real GDP fell at a 6.4 percent rate.
- The GDP price deflator fell at a 0.1 percent annual rate, marking the first quarterly overall price decrease since 1954Q3 when the deflator fell at a 0.2 percent rate.
- Nominal (non-inflation adjusted) GDP fell at a 4.1 percent pace, the largest nominal GDP decline since 1958Q1, which posted a 6.3 percent decline.
- A substantial build-up in inventories added 1.3 percentage points to real GDP growth. Recent substantial inventory increases imply worsening economic conditions in early 2009.
- Falling at a 3.5 percent annual rate, real consumption expenditures accounted for 2.5 percentage points of the overall 3.8 percentage point real GDP decline.
- Equipment and software comprised 2.2 percentage points of the overall real GDP decline.
- Exports, which had served as a major prop to real GDP growth in recent quarters, subtracted 2.8 percentage points from real GDP in the fourth quarter.
- BEA will release preliminary estimates for 2008Q4 on February 27.

Real GDP Declines at Fastest Rate since 1982 Q1



U.S. Economic Conditions

	<u>Sep-08</u>	<u>Oct-08</u>	<u>Nov-08</u>	<u>Dec-08</u>	<u>Change from Year Ago</u>
KEY ECONOMIC INDICATORS					
Consumer Sentiment ^(h)	70.3	57.6	55.3	60.1	-15.4 points
ISM Manufacturing Index ⁽ⁱ⁾	43.5	38.9	36.2	32.4	-16.0 points
ISM Non Manufacturing Index ⁽ⁱ⁾	52.1	44.2	33.0	39.6	-14.8 points
	<u>2008.1</u>	<u>2008.2</u>	<u>2008.3</u>	<u>2008.4</u>	
Business Executives' Confidence ^(j)	38.0	39.0	40.0	24.0	-15.0 points
INFLATION ^(k)					
1982-84 = 100	<u>Sep-08</u>	<u>Oct-08</u>	<u>Nov-08</u>	<u>Dec-08</u>	<u>Change from Year Ago</u>
U.S. Consumer Price Index	218.8	216.6	212.4	210.2	0.1%
Detroit CPI	NA	205.2	NA	198.0	-1.1%
U.S. Producer Price Index	182.0	177.3	172.1	168.8	-0.9%
INTEREST RATES					
90 Day T-Bill ^(l)	1.46%	0.84%	0.30%	0.04%	-3.04% points
Aaa Corporate Bonds ^(m)	5.65%	6.28%	6.15%	5.08%	-0.41% points
INDUSTRIAL PRODUCTION ^(m)					
	105.2	107.1	105.7	103.6	-7.8%
CAPACITY UTILIZATION ^(m)					
	75.0%	76.3%	75.2%	73.6%	-7.4% points
RETAIL SALES ⁽ⁿ⁾					
	\$373.0	\$360.3	\$352.6	\$343.2	-9.8%
HOUSING STARTS and SALES					
(Millions Annual Rate)	<u>Sep-08</u>	<u>Oct-08</u>	<u>Nov-08</u>	<u>Dec-08</u>	<u>% Change From Year Ago</u>
Housing Starts ^(o)	0.824	0.767	0.651	0.550	-45.0%
Existing Home Sales ^(p)	5.140	4.910	4.450	4.740	-3.5%
DURABLE GOODS ORDERS ^(q)					
	\$206.0	\$188.5	\$181.5	\$176.8	-21.1%
PERSONAL INCOME ^(c)					
(Billions of Dollars)	<u>2007.4</u>	<u>2008.1</u>	<u>2008.2</u>	<u>2008.3</u>	<u>% Change From Year Ago</u>
Michigan	\$347.9	\$350.2	\$355.6	\$355.8	2.4%
U.S.	\$11,839.4	\$11,933.7	\$12,125.3	\$12,131.2	3.7%
GROSS DOMESTIC PRODUCT					
(Billions of Chained 2000 Dollars) ^(c)	<u>2008.1</u>	<u>2008.2</u>	<u>2008.3</u>	<u>2008.4</u>	<u>Annualized % Chg From Last Qtr</u>
	\$11,646.0	\$11,727.4	\$11,712.4	\$11,599.4	-3.8%

SOURCES AND NOTES:

- (a) Seasonally adjusted. Sources: Bureau of Labor Statistics, U.S. Department of Labor and Michigan Dept. of Energy, 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 Energy, Labor and Economic Growth, Employment Service Agency.
- (h) University of Michigan Survey of Consumers.
- (i) Institute for Supply Management (ISM), formerly NAPM. Non-manufacturing index is the business activity index.
- (j) The Conference Board.
- (k) Bureau of Labor Statistics, U.S. Department of Labor.
- (l) Economic Indicators, Council of Economic Advisors.
- (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.