



MICHIGAN ECONOMIC UPDATE

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

December 2006 Summary

U.S. Economy: December U.S. economic indicators were mixed. The manufacturing ISM index rose slightly above 50.0 but was down 4.1 percentage points from a year ago. The non-manufacturing ISM index remained above 50.0 but was down 3.9 percentage points from December 2005. After having been essentially flat for two months, the index of leading economic indicators rose 0.3 percent. Consumer sentiment was roughly unchanged from a year ago. Housing starts were down 18.0 percent from a year ago while existing home sales fell 7.9 percent. Excluding vehicles and gasoline, retail sales were up 5.6 percent compared to a year ago (three-month average). New durable goods orders, excluding defense and aircraft, rose 7.0 percent compared to a year ago (three-month average) -- their slowest growth in two years.

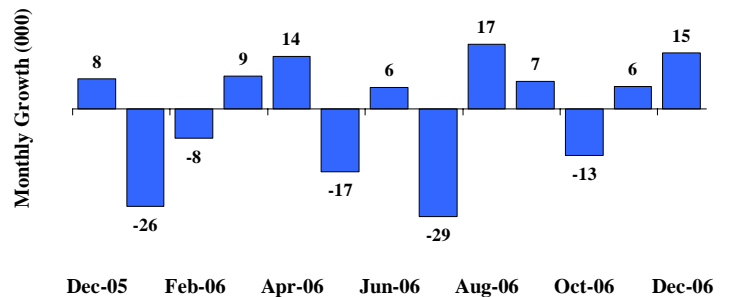
Employment: Michigan's payroll employment rose by 14,900 jobs and recorded its fourth increase in the past five months. The State unemployment rate rose to 7.1 percent. Nationally, payroll employment increased by 167,000 jobs. The U.S. unemployment rate remained at 4.5 percent.

Auto Industry: December light vehicle sales rose to a 16.7 million unit annual rate. Compared to a year ago, the three-month average of State vehicle production fell 10.7 percent compared with a 7.4 percent decline nationally. Light vehicle inventories fell 1.7 percent while days supply declined by 1 day.

Inflation: Compared to a year ago, the U.S. consumer price index (CPI) rose 2.5 percent. Excluding food and energy, the CPI increased 2.6 percent. The Detroit CPI rose 2.1 percent. Overall producer prices rose 1.1 percent while the core PPI increased 2.0 percent.

Michigan Metro Areas: Compared to a year ago, December 2006 unemployment rates rose in all major labor market areas, with a median increase of 0.6 of a percentage point. Employment fell in 14 labor market areas with a median decline of 0.8 percent. Unemployment rates ranged between 4.4 percent (Ann Arbor MSA) and 10.0 percent (Northeast Lower Michigan).

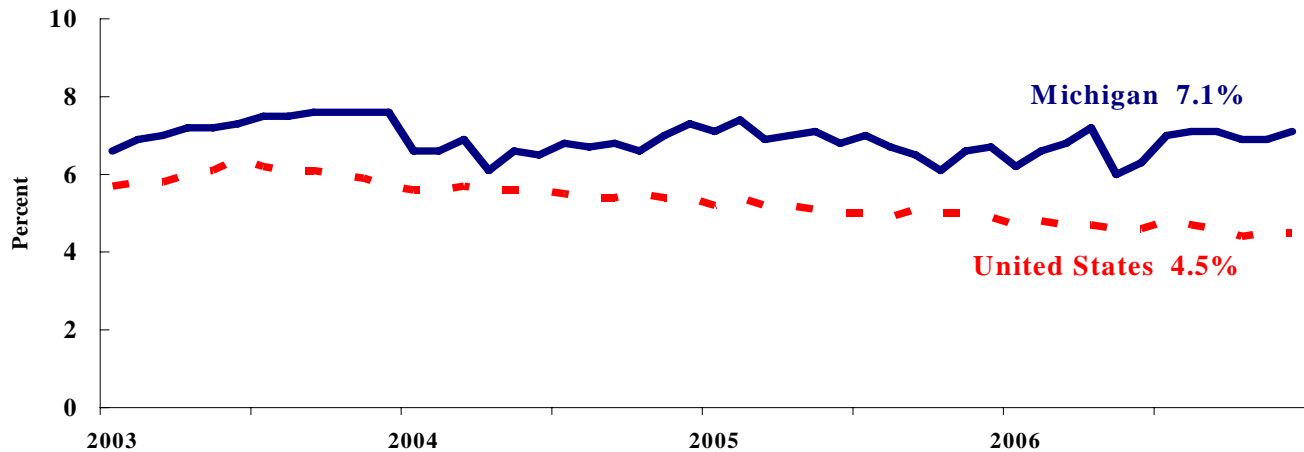
Michigan Employment Rises Fourth Month out of Last Five^(a)



Labor Market Statistics

- Michigan's December monthly unemployment rate increased 0.2 percentage points to 7.1 percent from last month and the current Michigan jobless rate is 0.4 percentage points above a year ago. The December U.S. unemployment rate remained unchanged at 4.5 percent and was 0.4 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 2003 to 2006



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 4,756,000, up 25,000 from last month, while the labor force increased by 42,000. The statewide total number of unemployed increased by 16,000 to 366,000.
- United States household employment totaled 145.9 million persons in December, up 303,000 from November. The labor force rose by 326,000 from last month, which meant that there were 32,000 more unemployed people nationally, compared to November.

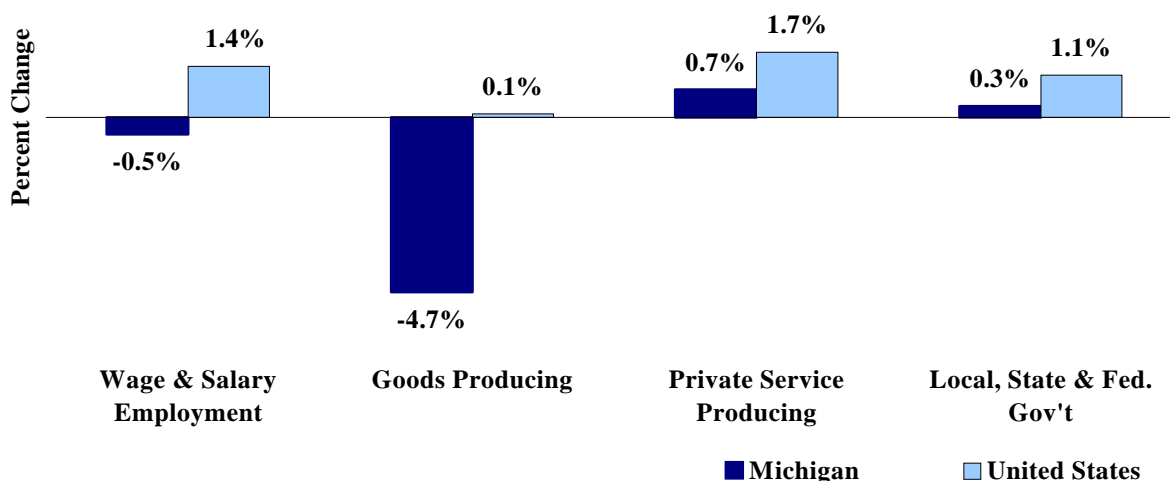
Employment by Place of Residence (in thousands)^(a)

	2006				Change From			
	Preliminary Average	Oct 2006	Nov 2006	Dec 2006	Prior Month Level	%	Last Year Level	%
Michigan								
Labor Force	5,110	5,110	5,080	5,122	42	0.8%	16	0.3%
Employed	4,764	4,759	4,731	4,756	25	0.5%	-8	-0.2%
Unemployed	346	351	350	366	16	4.6%	24	7.0%
Unemployment Rate	6.8%	6.9%	6.9%	7.1%	n.a.	0.2% pts	n.a.	0.4%
United States								
Labor Force	151,428	151,998	152,449	152,775	326	0.2%	2,622	1.7%
Employed	144,427	145,287	145,623	145,926	303	0.2%	3,147	2.2%
Unemployed	7,001	6,711	6,817	6,849	32	0.5%	-526	-7.1%
Unemployment Rate	4.6%	4.4%	4.5%	4.5%	n.a.	0.0% pts	n.a.	-0.4%

Employment by Place of Work

- From December 2005 to December 2006, Michigan wage and salary employment decreased 20,000 (0.5 percent). State wage and salary employment increased 15,000 from November. Nationally, December 2006 wage and salary employment rose 1,838,000 (1.4 percent) from a year ago and was up 167,000 from last month.

Wage and Salary Employment Growth December 2005 to December 2006



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

- In the goods-producing sector, Michigan employment fell 4.7 percent from a year ago while private service-producing sector employment increased 0.7 percent compared to last year. From a year ago, December national employment in the goods-producing sector rose 0.1 percent and increased 1.7 percent in the private service-producing sector.
- Manufacturing weekly hours increased 0.7 hours in Michigan compared to last year.

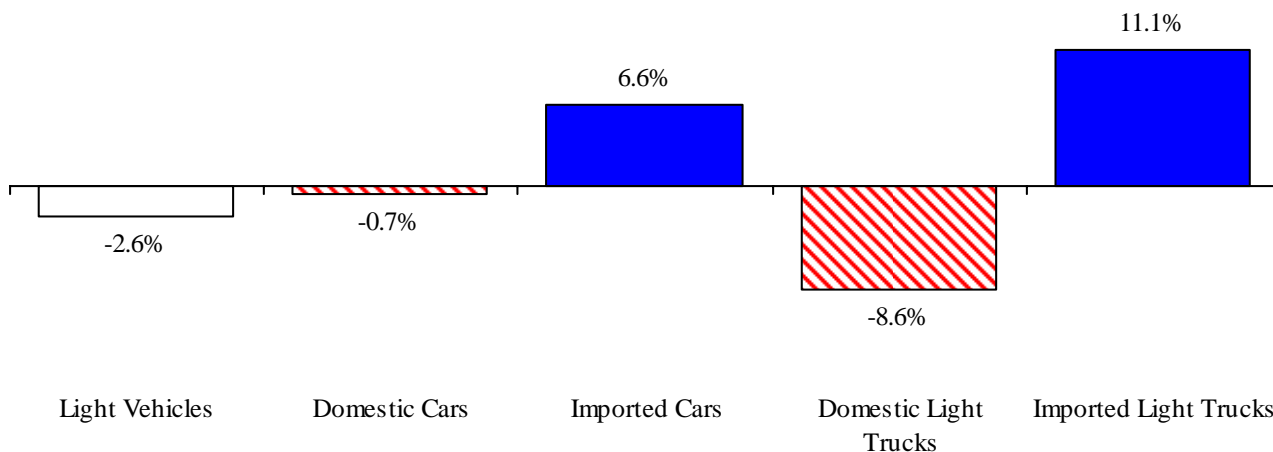
Establishment Employment (in thousands)^(b)

	Michigan				United States			
	2005 Average	Dec 2005	Dec 2006	Percent Change	2005 Average	Dec 2005	Dec 2006	Percent Change
Wage & Salary Employment	4,384	4,397	4,377	-0.5%	133,463	134,376	136,214	1.4%
Goods Producing	879	878	837	-4.7%	22,133	22,282	22,303	0.1%
Manufacturing	679	677	638	-5.8%	14,232	14,222	14,150	-0.5%
Private Service Producing	2,832	2,844	2,865	0.7%	89,527	90,216	91,786	1.7%
Trade, Trans. & Utilities	804	804	793	-1.4%	25,909	26,015	26,167	0.6%
Services	1,742	1,754	1,786	1.8%	52,412	52,912	54,172	2.4%
Local, State & Fed. Gov't	674	673	675	0.3%	21,803	21,878	22,125	1.1%
Manufacturing Weekly Hours	41.7	41.5	42.2	0.7 hrs	40.7	40.8	41.0	0.2 hrs

Motor Vehicle Industry Sales

- At 16.5 million units, calendar year (CY) 2006 light vehicle sales were down by 450,000 units. CY 2006 domestic sales were off 5.4 percent while foreign sales rose 8.2 percent compared to CY 2005. As a result, the foreign share of U.S. vehicle sales increased 2.2 percentage points to 22.3 percent.
- CY light truck sales fell by 6.0 percent; auto sales rose 1.4 percent. Domestic car sales declined slightly while foreign car sales increased 6.6 percent. Domestic light truck sales were off sharply (8.6 percent) while foreign light truck sales rose steeply (11.1 percent).
- December 2006 light vehicle sales at a 16.7 million unit rate were 2.3 percent down from a year ago and up 4.4 percent from November 2006. Compared to a year earlier, December 2006 domestic sales were down 7.1 percent while foreign sales were up 17.5 percent. Auto sales rose 5.2 percent while light truck sales were down 8.4 percent.

CY 2006 Vehicle Sales Down Compared to a 2005^(c)



Motor Vehicle Sales Statistics

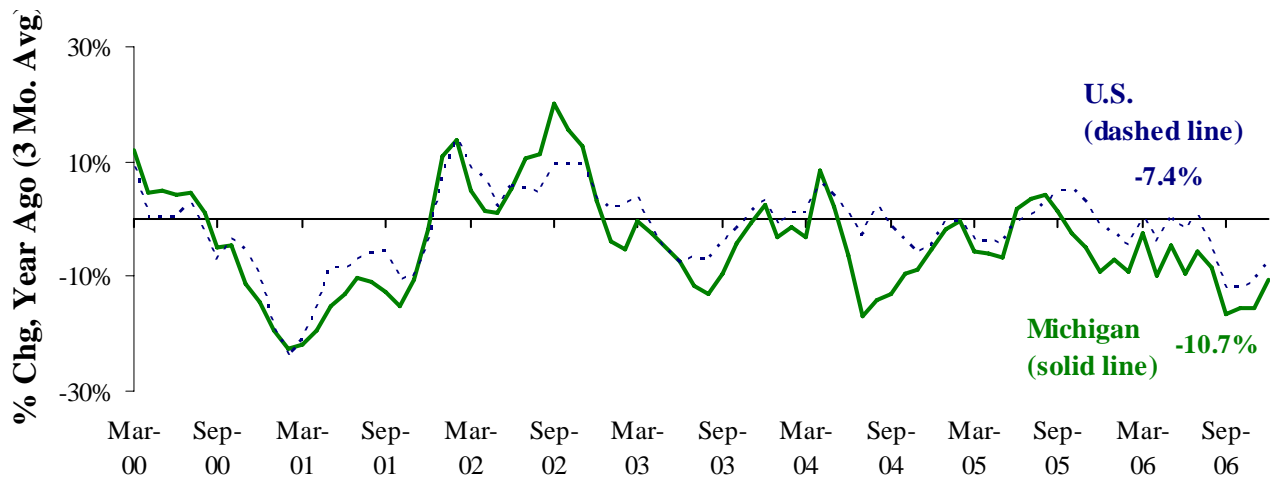
(Millions, unless otherwise specified)

Motor Vehicle Sales ^(c)	2005	Oct	Nov	Dec	3 Month	Change from	
	Average	2006	2006	2006	Average	Level	%
Autos	7.7	7.3	7.4	8.1	7.6	0.4	5.2%
Domestics	5.5	5.1	5.1	5.6	5.2	0.0	0.1%
Imports	2.2	2.2	2.3	2.5	2.4	0.4	18.3%
Import Share	28.7%	30.7%	31.4%	31.3%	31.1%	3.5% pts	
Light Trucks	9.2	8.8	8.6	8.6	8.7	(0.8)	-8.4%
Domestics	8.0	7.3	7.2	7.2	7.2	(1.0)	-12.1%
Imports	1.2	1.5	1.4	1.4	1.5	0.2	16.1%
Import Share	13.2%	17.4%	16.7%	16.6%	16.9%	3.5% pts	
Total Light Vehicles	16.9	16.1	16.0	16.7	16.3	(0.4)	-2.3%
Heavy Trucks	0.5	0.6	0.5	0.6	0.6	(0.1)	13.3%
Total Vehicles	17.4	16.7	16.5	17.3	16.8	(0.3)	-1.8%
U.S. Light Vehicle Inventories^(d)		Oct-06	Nov-06	Dec-06	3 Month	Change	
Total Car	1.284	1.305	1.423	1.459	1.396	0.189	
Days Supply	52	60	66	59	62	4 days	
Total Truck	2.274	2.074	2.059	2.006	2.046	-0.248	
Days Supply	78	78	78	67	74	-4 days	

Motor Vehicle Industry Production

- At 161,933 units, December 2006 Michigan light vehicle production fell 13.2 percent from a year ago, compared with a 5.5 percent decline nationally. As a result, Michigan’s share of national production declined 1.8 percentage points to 20.7 percent. Calendar year 2006 Michigan vehicle production was down 9.5 percent, compared to a 5.0 percent decline nationally.
- Compared with a year ago, state car production declined 11.5 percent while state truck production fell 14.6 percent. Nationally, car production was down 2.7 percent while truck production declined 7.2 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 of vehicle production was down 10.7 percent from a year ago, compared to a 7.4 percent decline nationally.

**Trend Light Vehicle Production
Down in Michigan and Nationally (e,f)**



Motor Vehicle Production Statistics

(Thousands, unless otherwise specified)

	2005 Average	Oct 2006	Nov 2006	Dec 2006	3 Month Average	Change from Year Ago for the Month	
						Level	%
U.S. Production (e)							
Autos	359.1	401.9	336.6	298.2	345.6	(8.3)	-2.7%
Trucks	639.7	591.7	543.7	484.0	539.8	(37.3)	-7.2%
Total	998.8	993.6	880.3	782.2	885.3	(45.6)	-5.5%
Michigan Production (f)							
Autos	98.9	101.7	87.7	76.3	88.6	(9.9)	-11.5%
Trucks	105.2	87.0	96.1	85.7	89.6	(14.7)	-14.6%
Total	204.1	188.7	183.8	161.9	178.1	(24.6)	-13.2%
Michigan as % of U.S.	20.4%	19.0%	20.9%	20.7%	20.1%	-1.8%	pts

December 2006 Unemployment Rates Rose in Fourteen Major Labor Market Areas (Not Seasonally Adjusted)

Between calendar years (CY) 2005 and 2006, unemployment rate rose in 12 major labor market areas with a median unemployment increase of a 0.3 of a percentage point. Unemployment rates declined in two labor market areas and were unchanged in three areas. CY 2006 unemployment rates ranged between 4.4 percent (Ann Arbor MSA) and 8.7 percent (Northeast Lower Michigan area).

From December 2005 to December 2006, unemployment rates rose in all 17 major labor market areas. The median unemployment rate increase was 0.6 of a percentage point.

Compared to a year ago, employment fell in 14 major labor market areas. The median employment decrease was 0.8 percent. Employment decreased by more than 1.5 percent in two labor market areas.

The Jackson MSA reported the largest unemployment rate increase compared to a year ago (1.2 percentage points). The Northeast Michigan area recorded the second largest rate increase (1.1 percentage points), followed by the Flint MSA and Northwest Lower Michigan area (0.9 of a percentage point).

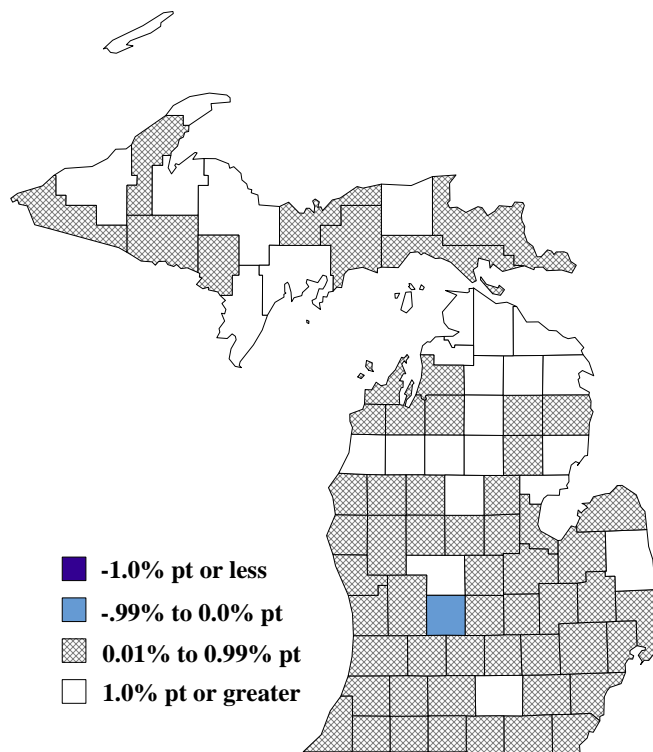
Compared to November 2006, unemployment rates rose in 16 major labor market areas. The median rate increase was 0.4 of a percentage point. December 2006 unemployment rates ranged between 4.4 percent (Ann Arbor MSA) and 10.0 percent (Northeast Lower Michigan).

Compared to December 2005, the unemployment rate rose in 82 counties and fell in one county.

Local Area Unemployment Rates^(g)

<u>Local Area</u>	<u>Dec 2005 Rate</u>	<u>Nov 2006 Rate</u>	<u>Dec 2006 Rate</u>
Michigan	6.3%	6.5%	6.9%
Ann Arbor	3.8%	4.2%	4.4%
Battle Creek	5.9%	6.3%	6.5%
Bay City	6.3%	6.2%	6.8%
Detroit-Warren-Livonia	6.7%	6.8%	7.2%
Flint	6.9%	7.7%	7.8%
Grand Rapids-Wyoming	5.3%	5.6%	5.8%
Holland-Grand Haven	4.7%	5.0%	5.3%
Jackson	6.1%	6.9%	7.3%
Kalamazoo-Portage	5.2%	5.2%	5.6%
Lansing-East Lansing	5.4%	5.2%	5.6%
Monroe	5.2%	5.9%	6.0%
Muskegon-Norton Shores	6.2%	6.6%	6.6%
Niles-Benton Harbor	6.3%	6.5%	7.0%
Saginaw-Saginaw Township	6.8%	6.7%	7.0%
Upper Peninsula	6.9%	6.7%	7.7%
Northeast Lower Mich	8.9%	8.6%	10.0%
Northwest Lower Mich.	6.9%	7.0%	7.8%

Unemployment Rate Change December 2006^(g)



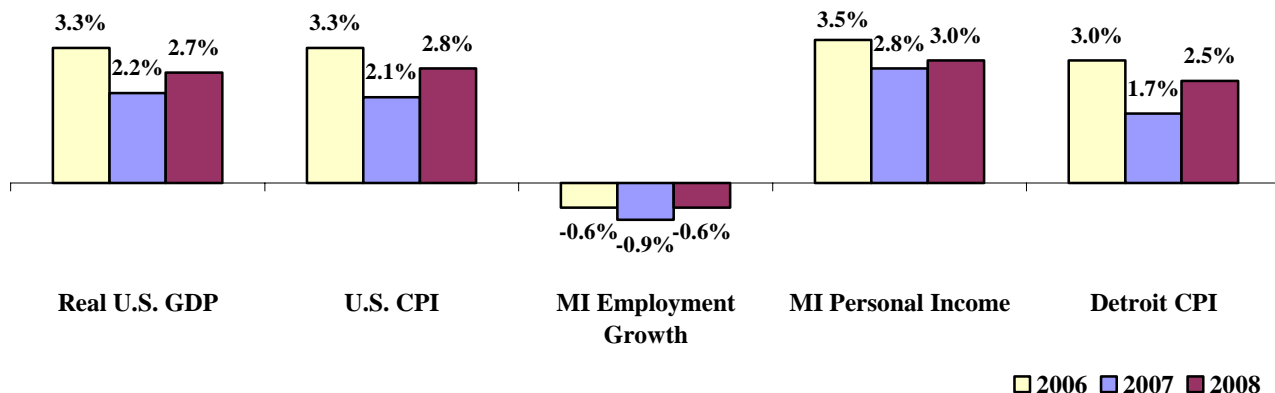
Consensus Economic Forecast Moderating Economic Growth

On January 18, 2007 the Administration, House Fiscal Agency and Senate Fiscal Agency met and agreed to a consensus economic forecast for 2007 and 2008. Below are highlights of that consensus agreement:

- After growing 3.3 percent in 2006, real GDP is forecast to rise 2.2 percent in 2007 and increase 2.7 percent in 2008. The U.S. unemployment rate is projected to remain flat at 4.6 percent in 2007 before rising slightly to 4.7 percent in 2008.
- Light vehicle sales are projected to be relatively flat in with 2007 sales of 16.3 million units and 2008 sales of 16.5 million units in 2008.
- After declining 0.6 percent in 2006, Michigan wage and salary employment is forecast to fall 0.9 percent in 2007 and decline 0.6 percent in 2008.
- Michigan's unemployment rate is forecast to average 7.4 percent in 2007 and 7.7 percent in 2008.
- After growing 3.5 percent in 2006, Michigan's personal income is expected to rise 2.8 percent in 2007 and 3.0 percent in 2008. Michigan wages and salaries income is forecast to report slow growth, rising 1.0 percent in 2007 and 1.6 percent in 2008.
- With Detroit CPI inflation of 1.7 percent in 2007 and 2.5 percent in 2008, real (inflation adjusted) Michigan personal income is forecasted to increase 1.1 percent in 2007 and 0.5 percent in 2008.

U.S. Economic Forecast Slower Growth

Michigan Economic Forecast Slower Employment Decline in 2008



U.S. Economic Conditions

	<u>Sep-06</u>	<u>Oct-06</u>	<u>Nov-06</u>	<u>Dec-06</u>	<u>Change from Year Ago</u>
KEY ECONOMIC INDICATORS					
Consumer Sentiment ^(h)	85.4	93.6	92.1	91.7	0.2 points
ISM Manufacturing Index ⁽ⁱ⁾	52.7	51.5	49.9	51.4	-4.1 points
ISM Non Manufacturing Index ⁽ⁱ⁾	54.6	57.4	58.3	56.7	-3.9 points
	<u>2006.1</u>	<u>2006.2</u>	<u>2006.3</u>	<u>2006.4</u>	
Business Executives' Confidence ^(j)	57.0	50.0	44.0	50.0	-6.0 points
INFLATION ^(k)					
1982-84 = 100	<u>Sep-06</u>	<u>Oct-06</u>	<u>Nov-06</u>	<u>Dec-06</u>	<u>Change from Year Ago</u>
U.S. Consumer Price Index	202.9	201.8	201.5	201.8	2.5%
Detroit CPI	NA	196.6	NA	196.4	2.1%
U.S. Producer Price Index	160.3	158.4	159.7	160.5	1.1%
INTEREST RATES					
90 Day T-Bill ^(l)	4.82%	4.89%	4.95%	4.85%	0.96% points
Aaa Corporate Bonds ^(m)	5.51%	5.51%	5.33%	5.29%	-0.08% points
INDUSTRIAL PRODUCTION ^(m)					
	112.2	112.1	112.0	112.4	3.0%
CAPACITY UTILIZATION ^(m)					
	82.0%	81.8%	81.6%	81.8%	0.5% points
RETAIL SALES ⁽ⁿ⁾					
	\$365.3	\$364.5	\$366.6	\$369.9	5.4%
HOUSING STARTS and SALES					
(Millions Annual Rate)	<u>Sep-06</u>	<u>Oct-06</u>	<u>Nov-06</u>	<u>Dec-06</u>	<u>% Change From Year Ago</u>
Housing Starts ^(o)	1.724	1.478	1.572	1.642	-18.0%
Existing Home Sales ^(p)	6.210	6.240	6.280	6.220	-7.9%
DURABLE GOODS ORDERS ^(q)					
	\$229.0	\$210.5	\$215.1	\$221.3	2.4%
PERSONAL INCOME ^(c)					
(Billions of Dollars)	<u>2005.4</u>	<u>2006.1</u>	<u>2006.2</u>	<u>2006.3</u>	<u>% Change From Year Ago</u>
Michigan	\$335.3	\$337.3	\$340.3	\$345.3	3.7%
U.S.	\$10,469.6	\$10,700.9	\$10,788.2	\$10,938.1	6.7%
GROSS DOMESTIC PRODUCT					
(Billions of Chained 2000 Dollars) ^(c)	<u>2006.1</u>	<u>2006.2</u>	<u>2006.3</u>	<u>2006.4</u>	<u>Annualized % Chg From Last Qtr</u>
	\$11,316.4	\$11,388.1	\$11,443.5	\$11,541.6	3.5%

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.