



# MICHIGAN ECONOMIC UPDATE

Office of Revenue and Tax Analysis  
Michigan Department of Treasury

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

## October 2008 Summary

**U.S. Economy:** The U.S. economy continued to worsen. Real gross domestic product fell at a 0.5 percent annualized rate in the third quarter. Down 38.0 percent from a year ago, housing starts fell to their lowest level on record. Industrial production declined sharply. The ISM manufacturing index fell to a 26-year low. Compared with September, core durable goods orders declined 3.2 percent. Falling for the third straight month, core retail sales declined 0.5 percent from September. (three-month moving averages). Consumer sentiment declined sharply both from a year ago and from September 2008. The index of leading economic indicators (LEI) fell sharply for the third time in the last four months. As a result, the LEI are down 4.9 percent from their January 2006 cyclical peak, substantially greater than the 3.6 percentage point peak-to-trough decline in the 2001 recession.

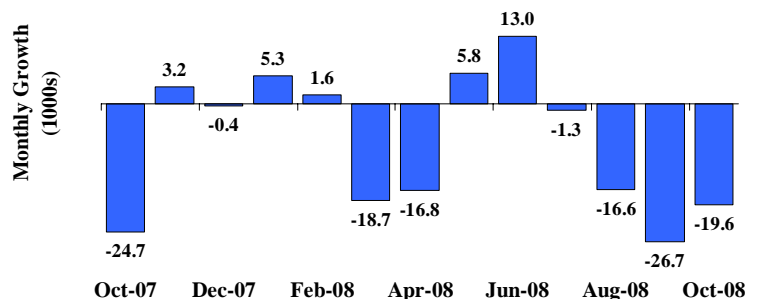
**Employment:** In October, Michigan's unemployment rate rose to 9.3 percent. State payroll employment fell by 19,600 jobs compared to September. The U.S. unemployment rate rose to 6.5 percent while U.S. payroll employment fell by 240,000 jobs, declining for the tenth straight month.

**Auto Industry:** Light vehicle sales fell 34.2 percent from a year ago to their lowest level in over 25 years. Compared to a year ago, the three-month average of State vehicle production fell 22.3 percent compared with a 23.3 percent decline nationally.

**Inflation:** Compared to a year ago, the U.S. consumer price index (CPI) rose 3.7 percent; the core CPI increased 2.2 percent. Overall producer prices rose 5.2 percent; core producer prices increased 4.4 percent. Oil prices fell \$27.25 a barrel to \$76.75 from a month ago.

**Michigan Metro Areas:** From October 2007, unemployment rates rose sharply across all of Michigan's 17 major labor market areas with a median increase of 2.2 percentage points. Employment fell in all 17 labor market areas with an extremely large median decline of 4.3 percent

**Michigan Payroll Employment Falls Sharply for Third Straight Month<sup>(a)</sup>**



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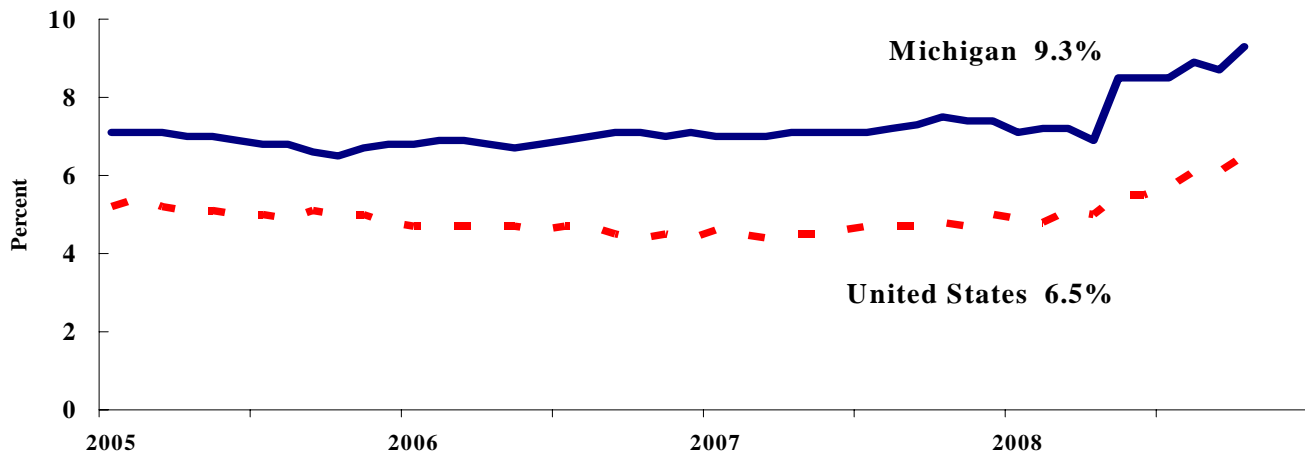
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## Labor Market Statistics

- Michigan's October monthly unemployment rate increased by 0.6 percentage points from last month to 9.3 percent and the current Michigan jobless rate is 1.8 percentage points above a year ago. The October U.S. unemployment rate increased 0.4 percentage points to 6.5 percent and was 1.8 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 October, the number of people employed in Michigan was 4,474,000, down 22,000 from last month, while the labor force increased by 4,000. The statewide total number of unemployed increased by 27,000 to 457,000.
- United States household employment totaled 145.0 million persons in October, down 297,000 from September. The labor force rose by 306,000 from last month, which meant that there were 603,000 more unemployed people nationally, compared to September.

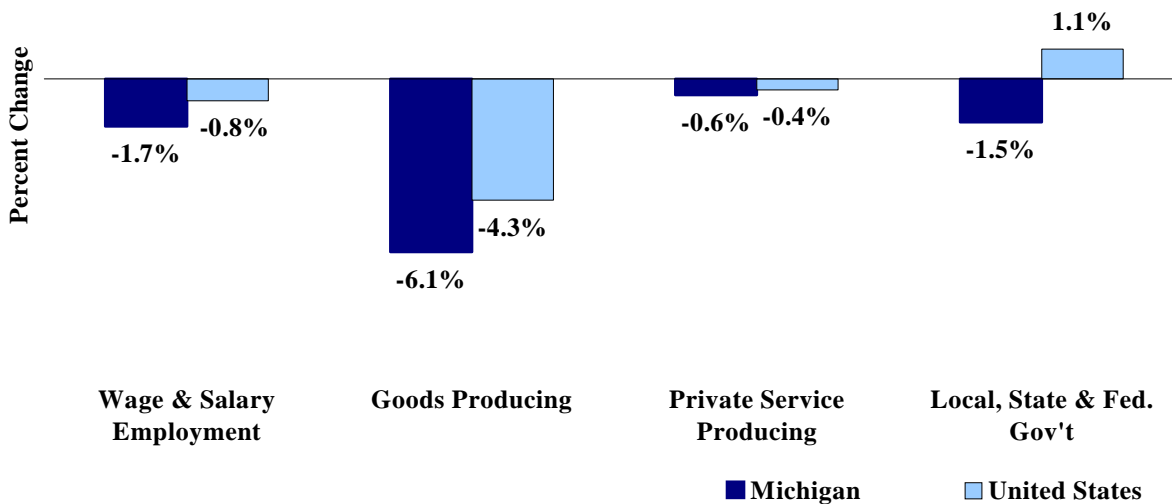
### Employment by Place of Residence (in thousands)<sup>(a)</sup>

	2007 Average	Aug 2008	Sep 2008	Oct 2008	Change From			
					Prior Month		Last Year	
					Level	%	Level	%
<b>Michigan</b>								
Labor Force	5,020	4,943	4,927	4,931	4	0.1%	-74	-1.5%
Employed	4,660	4,504	4,496	4,474	-22	-0.5%	-158	-3.4%
Unemployed	360	439	430	457	27	6.3%	84	22.6%
Unemployment Rate	7.2%	8.9%	8.7%	9.3%	n.a.	0.6% pts	n.a.	1.8%
<b>United States</b>								
Labor Force	153,124	154,853	154,732	155,038	306	0.2%	3,340	2.2%
Employed	146,047	145,477	145,255	144,958	-297	-0.2%	379	0.3%
Unemployed	7,078	9,376	9,477	10,080	603	6.4%	2,961	41.6%
Unemployment Rate	4.6%	6.1%	6.1%	6.5%	n.a.	0.4% pts	n.a.	1.8%

### Employment by Place of Work

- From October 2007 to October 2008, Michigan wage and salary employment decreased 71,000 (1.7 percent). State wage and salary employment decreased 20,000 from September. Nationally, October 2008 wage and salary employment fell 519,000 (0.8 percent) from a year ago and was down 240,000 from last month.

### Wage and Salary Employment Growth October 2007 to October 2008



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

- In the goods-producing sector, Michigan employment fell 6.1 percent from a year ago while private service-producing sector employment decreased 0.6 percent compared to last year. From a year ago, October national employment in the goods-producing sector fell 4.3 percent and decreased 0.4 percent in the private service-producing sector.
- Manufacturing weekly hours decreased by 1.6 hours in Michigan compared to last year.

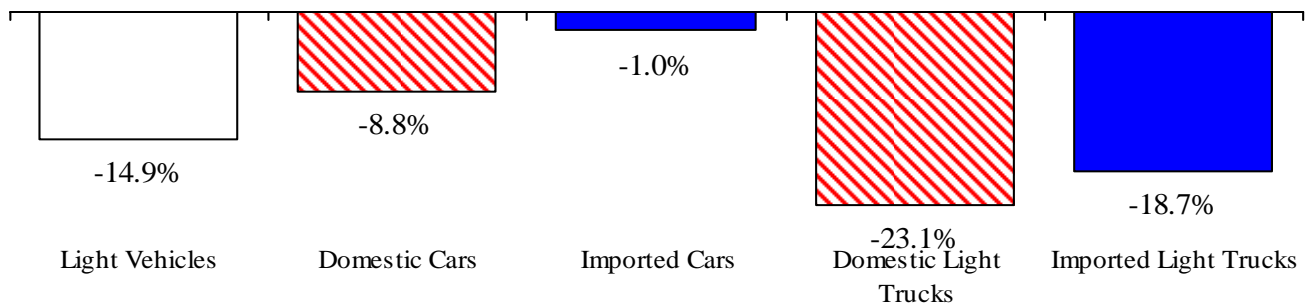
### Establishment Employment (in thousands)<sup>(b)</sup>

	Michigan				United States			
	2007 Average	Oct 2007	Oct 2008	Percent Change	2007 Average	Oct 2007	Oct 2008	Percent Change
Wage & Salary Employment	4,262	4,225	4,154	-1.7%	137,623	137,977	136,899	-0.8%
Goods Producing	791	767	720	-6.1%	22,221	22,101	21,152	-4.3%
Manufacturing	617	596	566	-5.0%	13,884	13,797	13,280	-3.7%
Private Service Producing	2,814	2,807	2,791	-0.6%	93,199	93,614	93,251	-0.4%
Trade, Trans. & Utilities	788	787	773	-1.8%	26,608	26,644	26,211	-1.6%
Services	1,750	1,745	1,750	0.3%	55,254	55,660	55,903	0.4%
Local, State & Fed. Gov't	657	653	643	-1.5%	22,203	22,262	22,496	1.1%
Manufacturing Weekly Hours	42.5	42.8	41.2	-1.6 hrs	41.2	41.2	40.6	-0.6 hrs

## Motor Vehicle Industry Sales

- At a 10.5 million unit annual rate, the October 2008 light vehicle sales rate plummeted to its lowest monthly sales rate in over 25 years. Vehicle sales were down 15.6 percent compared to September and declined by more than a third from a year ago (-34.2 percent). Compared to October 2007, domestic sales were down 36.6 percent while foreign sales fell 26.2 percent. Light truck sales fell 41.5 percent, while autos declined by 25.9 percent.
- Year-to-date, light vehicle were down 14.9 percent with domestic sales declining 17.1 percent and foreign sales falling 7.6 percent. As a result, the foreign share of U.S. vehicle sales increased by 2.0 percentage points to 25.3 percent. Overall year-to-date auto sales were down 6.4 percent; light truck sales have declined sharply (-22.4 percent). Heavy truck sales were down 20.2 percent through October.
- Due to a sharply declining sales rate, October 2008 days' supply of light vehicles rose by 32 days from a year ago to 101 days even while inventories declined by 4.4 percent.

### Year-to-Date Truck Sales Down Sharply Compared to a Year Ago



### Motor Vehicle Sales Statistics

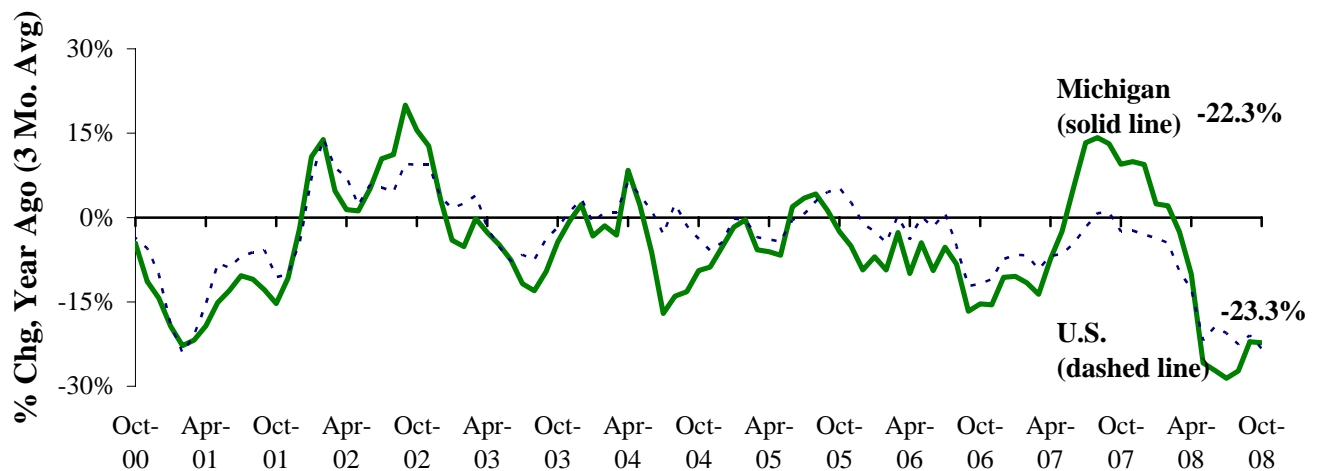
(Millions, unless otherwise specified)

Motor Vehicle Sales <sup>(c)</sup>	2007	Aug	Sep	Oct	3 Month	Change from	
	Average	2008	2008	2008	Average	Level	%
Autos	7.6	6.8	6.2	5.6	6.2	(1.9)	-25.9%
Domestics	5.2	4.5	4.3	3.7	4.2	(1.5)	-28.7%
Imports	2.4	2.3	1.9	1.9	2.0	(0.5)	-19.7%
Import Share	31.2%	33.6%	30.4%	33.9%	32.6%	2.6% pts	
Light Trucks	8.5	6.9	6.3	4.9	6.0	(3.5)	-41.5%
Domestics	7.1	5.9	5.2	4.0	5.1	(3.0)	-42.5%
Imports	1.4	1.0	1.0	0.9	1.0	(0.5)	-36.9%
Import Share	16.3%	14.4%	16.7%	18.3%	16.2%	1.4% pts	
Total Light Vehicles	16.1	13.7	12.5	10.5	12.2	(5.5)	-34.2%
Heavy Trucks	0.4	0.3	0.3	0.3	0.3	(0.1)	-16.4%
Total Vehicles	16.5	14.0	12.7	10.8	12.5	(5.5)	-33.8%
<b>U.S. Light Vehicle Inventories<sup>(d)</sup></b>		<b>Aug-08</b>	<b>Sep-08</b>	<b>Oct-08</b>	<b>3 Month</b>	<b>Change</b>	
Total Car	1.374	1.092	1.228	1.466	1.262	0.134	
Days Supply	56	47	61	92	67	31 days	
Total Truck	1.957	1.669	1.646	1.667	1.661	-0.277	
Days Supply	71	73	82	111	89	35 days	

### Motor Vehicle Industry Production

- At 175,979 units, October 2008 Michigan motor vehicle production fell sharply from a year ago (-23.5 percent) from a year ago as did national production (-22.7 percent). Michigan's share of national production fell slightly (-0.2 of a percentage point) to 22.9 percent.
- Compared with a year ago, Michigan car production was down 13.1 percent while State truck production was down by nearly a third (-31.7 percent). Nationally, car production was up 2.4 percent and truck production decreased by 37.3 percent.
- The three-month moving average of Michigan vehicle production was down 22.3 percent from a year ago; national production fell 23.3 percent. Year-to-date, Michigan has comprised 20.9 percent of U.S. vehicle production.

### Michigan and U.S. Vehicle Production Down Sharply<sup>(e,f)</sup>



### Motor Vehicle Production Statistics

(Thousands, unless otherwise specified)

	2007 <u>Average</u>	Aug <u>2008</u>	Sep <u>2008</u>	Oct <u>2008</u>	3 Month <u>Average</u>	Change from Year Ago for the Month	
						<u>Level</u>	<u>%</u>
<b>U.S. Production<sup>(e)</sup></b>							
Autos	325.2	347.2	350.3	372.8	356.8	8.6	2.4%
Trucks	582.8	347.8	392.9	394.8	378.5	(234.6)	-37.3%
Total	908.0	695.0	743.2	767.6	735.3	(226.0)	-22.7%
<b>Michigan Production<sup>(f)</sup></b>							
Autos	84.1	93.8	95.6	88.7	92.7	(13.4)	-13.1%
Trucks	110.2	50.5	66.1	87.3	68.0	(40.6)	-31.7%
Total	194.3	144.3	161.7	176.0	160.6	(54.0)	-23.5%
Michigan as % of U.S.	21.4%	20.8%	21.8%	22.9%	21.8%	-0.2% pts	

## October Unemployment Rates Rose Significantly 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 2.2 percentage points. Thirteen areas saw rate increases exceeding 2.0 percentage points. Four areas saw increases equal to or greater than 3.0 percentage points: Flint MSA (3.4 percentage points), Muskegon-Norton Shores MSA (3.1 percentage points), Northeast Lower Michigan and Northwest Lower Michigan (3.0 percentage points).

Between October 2007 and October 2008, employment fell in all 17 major labor market areas with declines exceeding 2.0 percent in 16 areas and a median employment decline of 4.3 percent. Eleven areas saw declines greater than 4.0 percent. Two areas experienced declines exceeding 5.0 percent: Flint MSA (-7.7 percent) and Saginaw-Saginaw Township MSA (-5.8 percent). All 17 areas saw a labor force decline with a median reduction of 1.6 percent. Two areas saw more than a 3.0 percent labor force reduction: Flint MSA (-4.2 percent) and Monroe MSA (-3.2 percent).

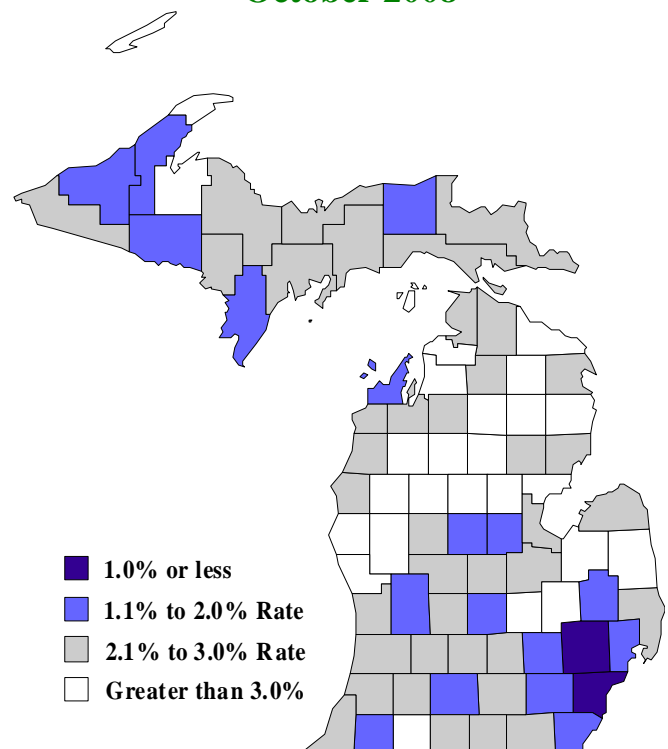
Compared to September 2008, non-seasonally adjusted unemployment rates rose in eight areas, but with the median area seeing no change. September 2008 unemployment rates ranged between 6.1 percent (Ann Arbor MSA) to 10.9 percent (Flint MSA).

Between October 2007 and October 2008, the unemployment rate rose in all 83 Michigan counties. Twenty-five counties saw greater than a 3.0 percentage point increase with a median county unemployment rate increase of 2.6 percentage points. Non-seasonally adjusted county unemployment rates ranged between 5.9 percent (Isabella and Leelanau) and 14.2 percent (Baraga).

### Local Area Unemployment Rates<sup>(g)</sup>

<u>Local Area</u>	<u>Oct 2007 Rate</u>	<u>Sep 2008 Rate</u>	<u>Oct 2008 Rate</u>
Michigan	6.7%	8.3%	8.6%
Ann Arbor	4.4%	6.5%	6.1%
Battle Creek	6.2%	8.2%	8.2%
Bay City	5.7%	7.8%	7.8%
Detroit-Warren-Livonia	7.8%	8.3%	8.8%
Flint	7.5%	10.9%	10.9%
Grand Rapids-Wyoming	5.3%	7.5%	7.5%
Holland-Grand Haven	5.2%	7.3%	7.5%
Jackson	6.8%	9.3%	9.4%
Kalamazoo-Portage	4.9%	7.2%	7.1%
Lansing-East Lansing	5.0%	7.1%	7.2%
Monroe	7.7%	9.5%	9.1%
Muskegon-Norton Shores	6.7%	9.3%	9.8%
Niles-Benton Harbor	6.0%	8.5%	8.4%
Saginaw-Saginaw Township	6.2%	8.9%	8.8%
Upper Peninsula	5.6%	7.5%	7.8%
Northeast Lower Mich	7.3%	9.5%	10.3%
Northwest Lower Mich.	6.2%	8.4%	9.2%

### Unemployment Rate Change October 2008<sup>(g)</sup>



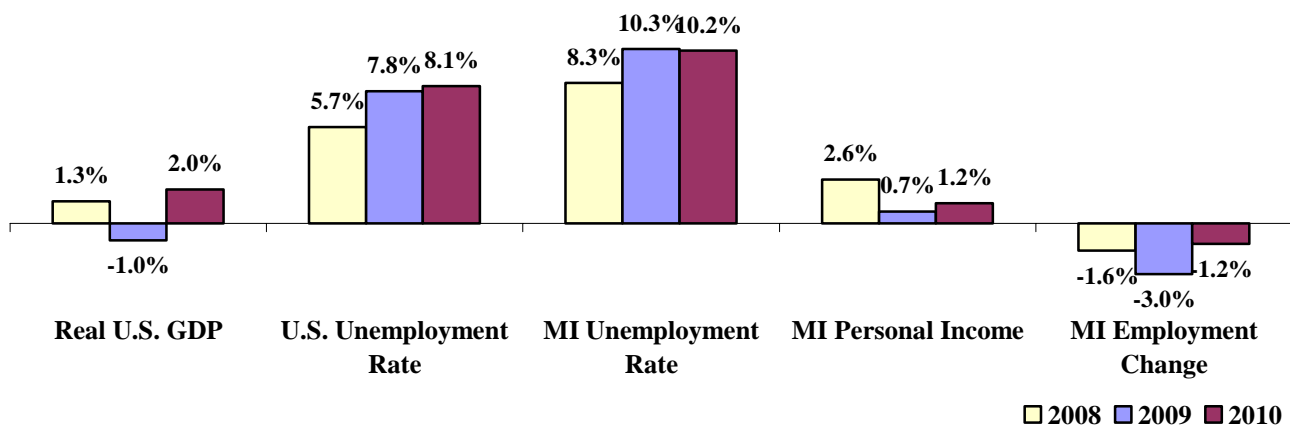
## University of Michigan Economic Forecast Severe National and Michigan Declines

On November 20 and 21, 2008, the Research Seminar in Quantitative Economics (RSQE), University of Michigan released its forecast for the U.S. and Michigan economies for 2009 and 2010. Forecast highlights include:

- Real GDP is projected to decline substantially in the current quarter and 2009Q1 and then record no or only anemic growth the remainder of the 2009. Consequently, CY 2009 real GDP is projected to fall 1.0 percent before accelerating to 2.0 percent growth in CY 2010.
- The U.S. unemployment rate is projected to rise sharply from 5.7 percent in 2008 to 7.8 percent in 2009 before increasing still further to 8.1 percent in 2010.
- After having fallen from 16.1 million units to 13.3 million units in 2008, light vehicles are forecast to decline to 12.2 million units in 2009 (a 26-year low). Sales are then expected to rise to 13.6 million units in 2010.
- Michigan wage and salary employment is forecast to plummet 3.0 percent in 2009 (the steepest annual Michigan employment decline since 1982). Then, recording its tenth straight annual decline, 2010 State employment is expected to fall by 1.2 percent.
- In 2009, Michigan’s unemployment rate is forecast to increase 2.0 percentage points to 10.3 percent (a 25-year high) and then fall slightly in 2010 to 10.2 percent.
- After growing 2.6 percent in 2008, Michigan’s personal income growth is expected to slow to 0.7 percent in 2009 before accelerating to 1.2 percent in 2010. Michigan wages and salaries income is forecast to decline 0.8 percent in 2009 before rising 1.2 percent in 2010.

**U.S. Economic Forecast  
Recession**

**Michigan Economic Forecast  
Sharp Employment Declines**



## U.S. Economic Conditions

	<u>Jul-08</u>	<u>Aug-08</u>	<u>Sep-08</u>	<u>Oct-08</u>	<u>Change from Year Ago</u>
<b>KEY ECONOMIC INDICATORS</b>					
Consumer Sentiment <sup>(h)</sup>	61.2	63.0	70.3	57.6	-23.3 points
ISM Manufacturing Index <sup>(i)</sup>	50.0	49.9	43.5	38.9	-11.5 points
ISM Non Manufacturing Index <sup>(i)</sup>	49.6	51.6	52.1	44.2	-11.3 points
	<u>2007.4</u>	<u>2008.1</u>	<u>2008.2</u>	<u>2008.3</u>	
Business Executives' Confidence <sup>(j)</sup>	39.0	38.0	39.0	40.0	-4.0 points
<b>INFLATION <sup>(k)</sup></b>					
<b>1982-84 = 100</b>	<u>Jul-08</u>	<u>Aug-08</u>	<u>Sep-08</u>	<u>Oct-08</u>	<u>Change from Year Ago</u>
U.S. Consumer Price Index	220.0	219.1	218.8	216.6	3.7%
Detroit CPI	NA	209.5	NA	205.2	1.7%
U.S. Producer Price Index	185.0	182.1	182.0	177.3	5.2%
<b>INTEREST RATES</b>					
90 Day T-Bill <sup>(l)</sup>	1.72%	1.79%	1.46%	0.84%	-3.13% points
Aaa Corporate Bonds <sup>(m)</sup>	5.67%	5.64%	5.65%	6.28%	0.62% points
<b>INDUSTRIAL PRODUCTION <sup>(m)</sup></b>					
	111.4	110.1	105.9	107.3	-4.1%
<b>CAPACITY UTILIZATION <sup>(m)</sup></b>					
	79.6%	78.5%	75.5%	76.4%	-4.5% points
<b>RETAIL SALES <sup>(n)</sup></b>					
	\$381.6	\$379.0	\$374.1	\$363.7	-4.1%
<b>HOUSING STARTS and SALES</b>					
(Millions Annual Rate)	<u>Jul-08</u>	<u>Aug-08</u>	<u>Sep-08</u>	<u>Oct-08</u>	<u>% Change From Year Ago</u>
Housing Starts <sup>(o)</sup>	0.949	0.854	0.828	0.791	-38.0%
Existing Home Sales <sup>(p)</sup>	5.020	4.910	5.140	4.980	-1.6%
<b>DURABLE GOODS ORDERS <sup>(q)</sup></b>					
	\$218.2	\$206.1	\$205.7	\$193.0	-10.6%
<b>PERSONAL INCOME <sup>(c)</sup></b>					
(Billions of Dollars)	<u>2007.3</u>	<u>2007.4</u>	<u>2008.1</u>	<u>2008.2</u>	<u>% Change From Year Ago</u>
Michigan	\$347.5	\$347.9	\$350.3	\$356.1	3.5%
U.S.	\$11,699.8	\$11,839.4	\$11,933.1	\$12,146.9	5.2%
<b>GROSS DOMESTIC PRODUCT</b>					
(Billions of Chained 2000 Dollars) <sup>(c)</sup>	<u>2007.4</u>	<u>2008.1</u>	<u>2008.2</u>	<u>2008.3</u>	<u>Annualized % Chg From Last Qtr</u>
	\$11,620.7	\$11,646.0	\$11,727.4	\$11,712.3	-0.5%



**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. 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.