



MICHIGAN ECONOMIC UPDATE

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

August 2005 Summary

U.S. Economy: In August, U.S. economic indicators were mixed. The manufacturing ISM index declined while the non-manufacturing index rose. The index of leading economic indicators declined for the second straight month. Consumer sentiment fell substantially. Industrial production rose for the fourth straight month. As a result of cooling vehicle sales, retail sales fell sharply (2.1 percent); excluding vehicles and gasoline, retail sales rose 0.5 percent. For the fifth straight month, housing starts remained above a 2.0 million unit annual rate and existing home sales remained above a 7.0 million pace. Economic indicators will weaken in September as a result of recent Gulf Coast hurricanes and higher energy prices.

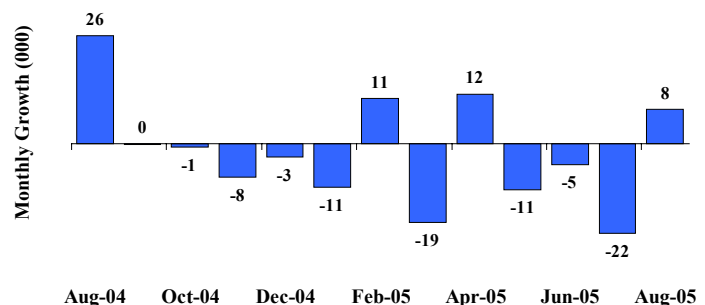
Employment: In August, Michigan's wage and salary employment rose by 8,300 jobs following a revised 21,700 decline in July. Michigan's unemployment rate fell to 6.7 percent, its lowest rate since April 2004. Nationally, payroll employment rose by 169,000 jobs. The U.S. unemployment rate fell to 4.9 percent.

Auto Industry: August light vehicle sales fell to a 16.8 million unit annual rate. Compared to a year ago, the three-month average of state vehicle production rose 1.9 percent compared with a 2.9 percent increase nationally. Light vehicle inventories were down 20.4 percent from a year ago; days supply decreased by 13 days to 50 days.

Inflation: In August the U.S. consumer price index rose 3.6 percent from a year ago. The Detroit CPI increased 2.9 percent from a year ago. U.S. producer prices rose by 5.1 percent. In August, oil prices averaged \$65 a barrel, up 44.6 percent from a year ago.

Michigan Metro Areas: From a year ago, the August unemployment rate fell in 14 of Michigan's 17 labor market areas, and rose in three areas. Fifteen of the 17 areas reported employment increases from a year ago, with a median increase of 1.4 percent.

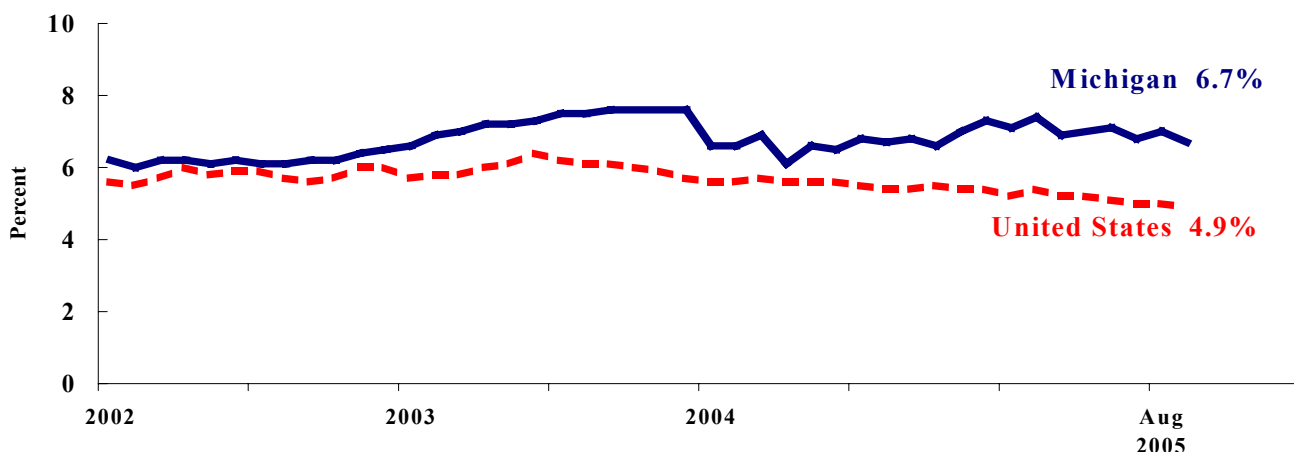
Michigan Employment Increases In August ^(a)



Labor Market Statistics

- Michigan's August monthly unemployment rate decreased 0.3 percentage points to 6.7 percent from July and the current Michigan jobless rate is 0.4 percentage points below a year ago. The August U.S. unemployment rate decreased 0.1 percent 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 August, the number of people employed in Michigan was 4,761,000, up 18,000 from last month, while the labor force increased by 5,000. The statewide total number of unemployed decreased by 12,000 to 344,000.
- United States household employment totaled 142.4 million persons in August, up 373,000 from July. The labor force rose by 268,000 from last month, which meant that there were 106,000 fewer unemployed people nationally, compared to July.

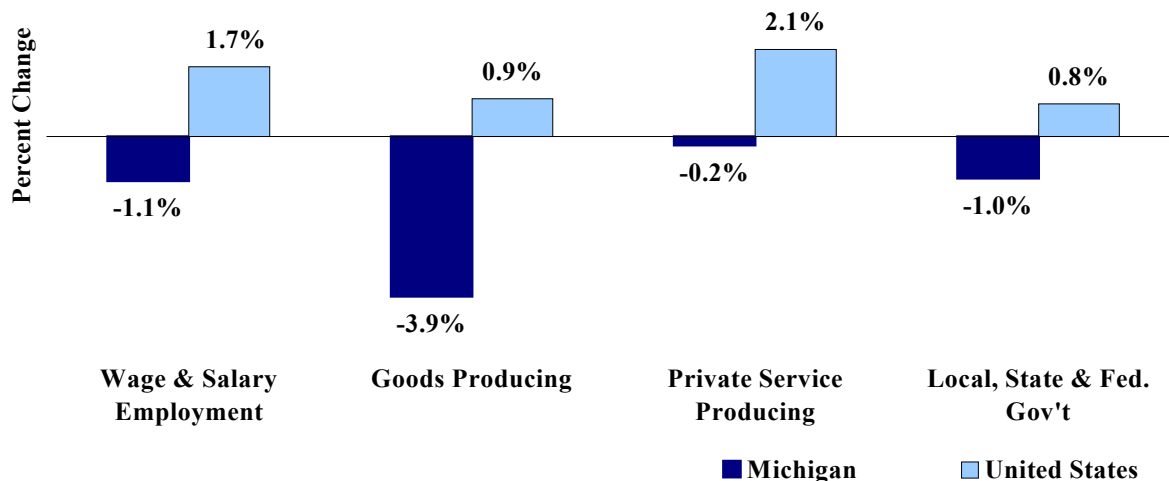
Employment by Place of Residence (in thousands)^(a)

	2004 Average	Jun 2005	Jul 2005	Aug 2005	Change From			
					Prior Month		Last Year	
					Level	%	Level	%
Michigan								
Labor Force	5,079	5,087	5,100	5,105	5	0.1%	26	0.5%
Employed	4,719	4,742	4,743	4,761	18	0.4%	42	0.9%
Unemployed	360	345	356	344	-12	-3.4%	-15	-4.2%
Unemployment Rate	7.1%	6.8%	7.0%	6.7%	n.a.	-0.3% pts	n.a.	-0.4%
United States								
Labor Force	147,401	149,123	149,573	149,841	268	0.2%	2,137	1.4%
Employed	139,252	141,638	142,076	142,449	373	0.3%	2,768	2.0%
Unemployed	8,149	7,486	7,497	7,391	-106	-1.4%	-631	-7.9%
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 August 2004 to August 2005, Michigan wage and salary employment declined 49,000 (1.1 percent). State wage and salary employment increased 8,000 from July. Nationally, August 2005 wage and salary employment rose 2,249,000 (1.7 percent) from a year ago and was up 169,000 from last month.

Wage and Salary Employment Growth August 2004 to August 2005



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

- In the goods producing sector, Michigan employment fell 3.9 percent from a year ago and private service-producing sector employment decreased 0.2 percent compared to last year. From a year ago, August national employment in the goods-producing sector rose 0.9 percent and increased 2.1 percent in the private service-producing sector.
- Manufacturing weekly hours declined in Michigan by 0.5 hours compared to last year.

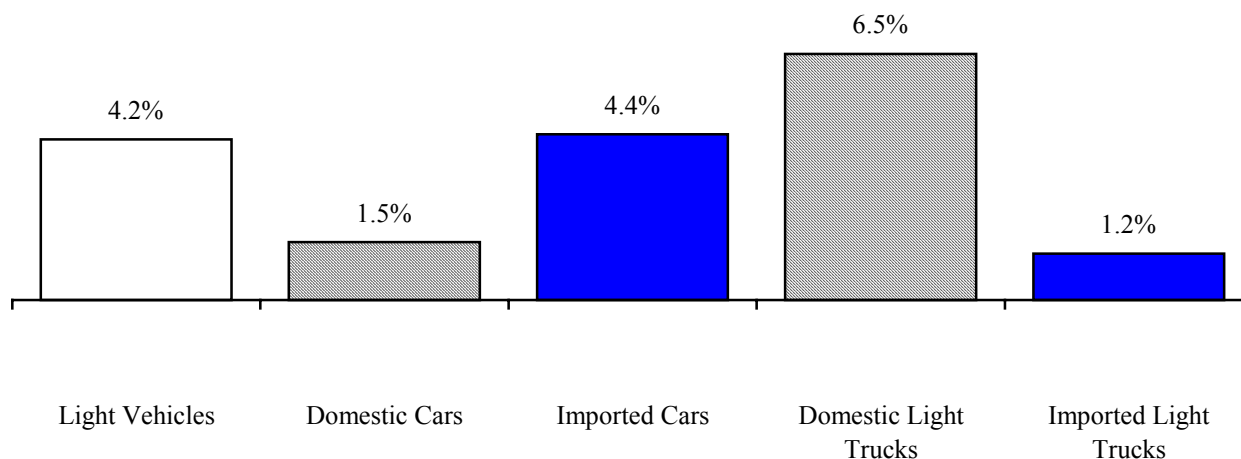
Establishment Employment (in thousands)^(b)

	Michigan				United States			
	2004 Average	Aug 2004	Aug 2005	Percent Change	2004 Average	Aug 2004	Aug 2005	Percent Change
Wage & Salary Employment	4,391	4,399	4,351	-1.1%	131,481	131,750	133,999	1.7%
Goods Producing	894	895	860	-3.9%	21,885	21,946	22,149	0.9%
Manufacturing	696	697	665	-4.6%	14,329	14,366	14,256	-0.8%
Private Service Producing	2,815	2,824	2,818	-0.2%	87,978	88,159	90,033	2.1%
Trade, Trans. & Utilities	810	811	808	-0.4%	25,511	25,537	25,946	1.6%
Services	1,719	1,727	1,726	-0.1%	51,278	51,429	52,697	2.5%
Local, State & Fed. Gov't	682	681	674	-1.0%	21,619	21,645	21,817	0.8%
Manufacturing Weekly Hours	42.4	41.8	41.3	-0.5 hrs	40.8	40.9	40.5	-0.4 hrs

Motor Vehicle Industry Sales

- At a 16.8 million unit annual rate, August 2005 light vehicle sales were down 19.0 percent from July and up 0.4 percent from a year ago. Cooling sales from the employee pricing promotions accounted for the large monthly decline.
- Compared to a year ago, domestic sales were down 0.4 percent while foreign sales increased 3.9 percent. Auto sales rose 6.8 percent while light truck sales fell 4.5 percent. Light vehicle inventories fell 20.4 percent while days supply declined by 13 days to 50 days.
- Year to date, domestic light truck sales increased 6.5 percent while imported light truck sales were up 1.2 percent. Imported car sales were up 4.4 percent while domestic car sales were up 1.5 percent. Overall, light vehicle sales are up 4.2 percentage through August.

Year to Date Light Vehicle Sales Up From Year Ago



Motor Vehicle Sales Statistics

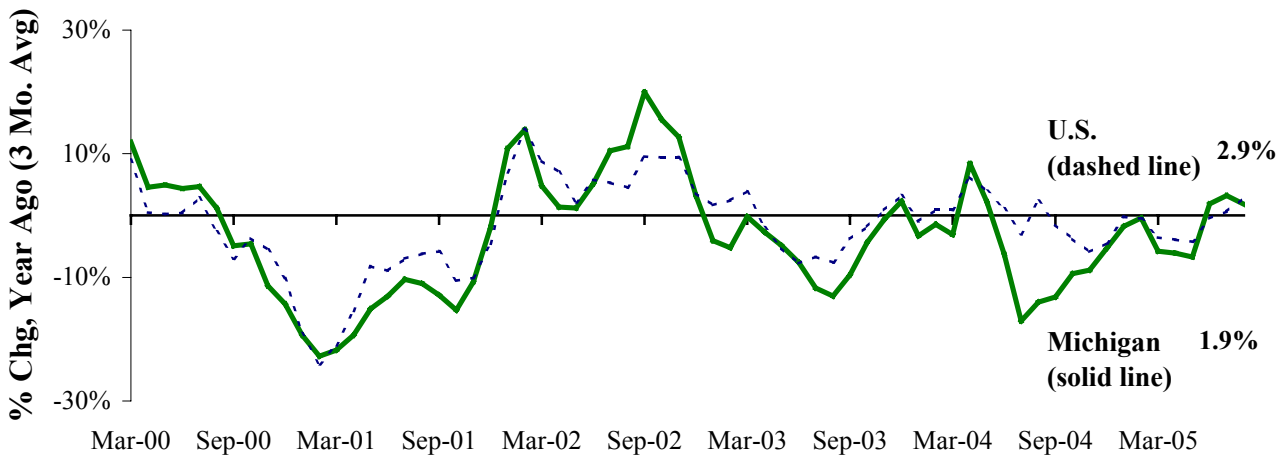
(Millions, unless otherwise specified)

Motor Vehicle Sales ^(c)	2004 Average	Jun 2005	Jul 2005	Aug 2005	3 Month Average	Change from Year Ago	
						Level	%
Autos	7.5	7.5	8.1	7.8	7.8	0.5	6.8%
Domestics	5.3	5.2	5.7	5.6	5.5	0.4	7.0%
Imports	2.2	2.2	2.4	2.2	2.3	0.1	6.4%
Import Share	28.7%	29.7%	29.2%	28.2%	29.0%	-0.1% pts	
Light Trucks	9.3	10.3	12.6	9.0	10.6	(0.4)	-4.5%
Domestics	8.1	9.1	11.3	7.8	9.4	(0.4)	-5.1%
Imports	1.2	1.3	1.3	1.2	1.3	(0.0)	-0.2%
Import Share	13.3%	12.2%	10.6%	13.4%	11.9%	0.6% pts	
Total Light Vehicles	16.8	17.8	20.7	16.8	18.4	0.1	0.4%
Heavy Trucks	0.4	0.5	0.5	0.5	0.5	0.1	11.7%
Total Vehicles	17.3	18.3	21.2	17.2	18.9	0.1	0.7%
U.S. Light Vehicle Inventories^(d)		Jun-05	Jul-05	Aug-05	3 Month	Change	
Total Car	1.502	1.331	1.074	1.051	1.152	-0.487	
Days Supply	62	49	39	39	42	-18 days	
Total Truck	2.411	2.380	1.781	1.813	1.992	-0.810	
Days Supply	80	64	42	60	55	-25 days	

Motor Vehicle Industry Production

- At 202,239 units, August 2005 Michigan light vehicle production fell 4.9 percent from a year ago, compared with a 6.5 percent increase nationally. As a result, Michigan’s share of national production fell 2.1 percentage points to 17.8 percent. Year-to-date Michigan production is down 2.2 percent compared with a year ago and U.S. production is down 0.7 percent.
- Compared with a year ago, state car production rose 3.1 percent while state truck production fell 12.6 percent. Nationally, car production increased 5.0 percent while truck production rose 7.3 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 up 1.9 percent from a year ago, compared to a 2.9 percent increase nationally.

Trend Michigan and National Light Vehicle Production Up from a Year Ago



Motor Vehicle Production Statistics

(Thousands, unless otherwise specified)

	2004 <u>Average</u>	Jun <u>2005</u>	Jul <u>2005</u>	Aug <u>2005</u>	3 Month <u>Average</u>	Change from Year Ago for the Month	
						<u>Level</u>	<u>%</u>
U.S. Production ^(e)							
Autos	353.8	393.0	234.9	405.1	344.3	19.3	5.0%
Trucks	647.8	673.6	400.5	733.7	602.6	50.2	7.3%
Total	1,001.5	1,066.6	635.4	1,138.8	946.9	69.4	6.5%
Michigan Production ^(f)							
Autos	104.8	117.2	41.3	108.2	88.9	3.2	3.1%
Trucks	111.5	114.7	60.4	94.1	89.7	(13.6)	-12.6%
Total	216.4	231.9	101.7	202.2	178.6	(10.4)	-4.9%
Michigan as % of U.S.	21.6%	21.7%	16.0%	17.8%	18.9%	-2.1% pts	

August 2005 Unemployment Rates Fell in Fourteen Labor Market Areas (Not Seasonally Adjusted)

Compared to a year ago, August 2005 unemployment rates fell in 14 major labor market areas. The median unemployment rate decline was a 0.7 percentage points. The unemployment rate rose in three areas.

Compared to a year ago, the Saginaw MSA reported a 1.0 percentage point decline, the largest decline among the state's 17 major labor market areas. The Muskegon MSA and Niles MSA both reported a 0.9 percentage point decline, followed by the Grand Rapids MSA (0.8 percentage points). Altogether, eight labor market areas reported an unemployment rate decline greater than 0.5 percentage points. The Monroe MSA reported a 0.3 percentage point increase from a year ago; both Ann Arbor and Lansing recorded a 0.1 percentage point increase. From August 2004 to August 2005, employment increased in 15 of the state's 17 major labor market areas. The median employment increase was 1.4 percent. Nine areas reported employment increases greater than 1.0 percent. Employment declined in the Bay City MSA and was unchanged in Holland MSA.

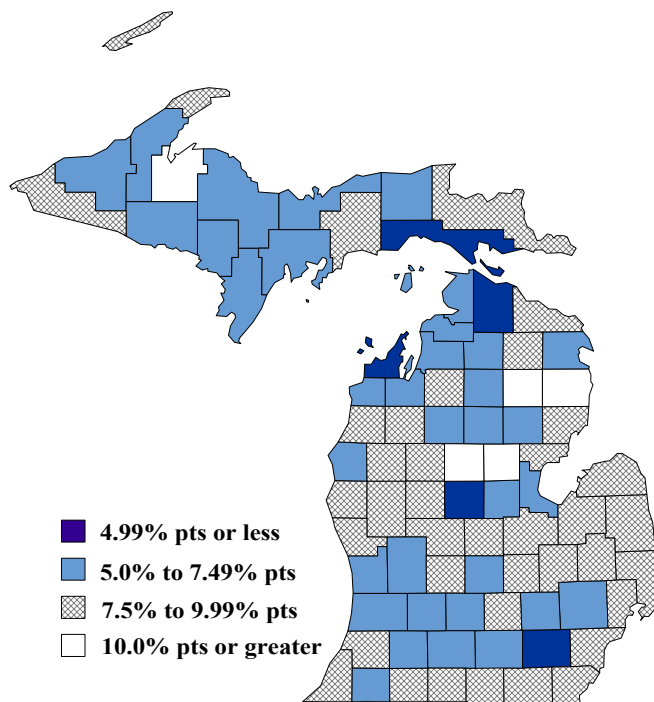
August 2005 unemployment rates ranged between 4.1 percent (Ann Arbor) and 7.3 percent (Flint MSA). Compared to July unemployment rates, all areas reported lower non-seasonally adjusted unemployment rates. The median decrease was 1.4 percentage points.

Compared to August 2004, unemployment rates declined in 69 counties, increased in eight counties and remained the same in six counties.

Local Area Unemployment Rates^(g)

<u>Local Area</u>	<u>Aug 2004 Rate</u>	<u>July 2005 Rate</u>	<u>Aug 2005 Rate</u>
Michigan	6.6%	7.6%	6.3%
Ann Arbor	4.0%	4.8%	4.1%
Battle Creek	6.1%	7.4%	5.8%
Bay City	6.7%	7.4%	6.0%
Detroit-Warren-Livonia	7.3%	8.1%	7.0%
Flint	7.6%	9.5%	7.3%
Grand Rapids-Wyoming	6.3%	6.8%	5.5%
Holland-Grand Haven	5.0%	5.9%	4.6%
Jackson	6.9%	7.4%	6.2%
Kalamazoo-Portage	5.6%	6.3%	5.0%
Lansing-East Lansing	5.4%	7.0%	5.5%
Monroe	5.7%	7.7%	6.0%
Muskegon-Norton Shores	7.1%	8.0%	6.2%
Niles-Benton Harbor	7.2%	7.8%	6.3%
Saginaw-Saginaw Township	7.8%	8.7%	6.8%
Upper Peninsula	5.8%	6.2%	5.4%
Northeast Lower Mich	6.7%	7.4%	6.0%
Northwest Lower Mich.	5.6%	6.2%	5.1%

Unemployment Rates August 2005



Source: Michigan Department of Labor and Economic Growth

U.S. Economic Conditions

	<u>May-05</u>	<u>Jun-05</u>	<u>Jul-05</u>	<u>Aug-05</u>	<u>Change from Year Ago</u>
KEY ECONOMIC INDICATORS					
Consumer Sentiment ^(h)	86.9	96.0	96.5	89.1	-6.8 points
ISM Manufacturing Index ⁽ⁱ⁾	51.4	53.8	56.6	53.6	-6.0 points
ISM Non Manufacturing Index ⁽ⁱ⁾	58.5	62.2	60.5	65.0	5.7 points
	<u>2004.3</u>	<u>2004.4</u>	<u>2005.1</u>	<u>2005.2</u>	
Business Executives' Confidence ⁽ⁱ⁾	63.0	61.0	62.0	55.0	-11.0 points
INFLATION ^(k)					
1982-84 = 100	<u>May-05</u>	<u>Jun-05</u>	<u>Jul-05</u>	<u>Aug-05</u>	<u>Change from Year Ago</u>
U.S. Consumer Price Index	194.4	194.5	195.4	196.4	3.6%
Detroit CPI	NA	189.6	NA	192.2	2.9%
U.S. Producer Price Index	154.1	154.0	155.4	156.1	5.1%
INTEREST RATES					
90 Day T-Bill ^(l)	2.86%	2.99%	3.22%	3.45%	1.97% points
Aaa Corporate Bonds ^(m)	5.15%	4.96%	5.06%	4.95%	-0.70% points
INDUSTRIAL PRODUCTION ^(m)	118.5	119.4	119.5	119.7	3.1%
CAPACITY UTILIZATION ^(m)	79.2%	79.8%	79.8%	79.8%	1.5% points
RETAIL SALES ⁽ⁿ⁾	\$344.9	\$351.3	\$357.6	\$350.1	7.9%
HOUSING STARTS and SALES					
(Millions Annual Rate)	<u>May-05</u>	<u>Jun-05</u>	<u>Jul-05</u>	<u>Aug-05</u>	<u>% Change From Year Ago</u>
Housing Starts ^(o)	2.041	2.065	2.035	2.009	-0.8%
Existing Home Sales ^(p)	7.140	7.350	7.150	7.290	7.8%
DURABLE GOODS ORDERS ^(q)	\$211.3	\$215.3	\$204.0	\$210.9	7.9%
PERSONAL INCOME ^(c)					
(Billions of Dollars)	<u>2004.3</u>	<u>2004.4</u>	<u>2005.1</u>	<u>2005.2</u>	<u>% Change From Year Ago</u>
Michigan	\$324.6	\$329.5	\$329.3	\$333.8	3.6%
U.S.	\$9,719.7	\$10,015.1	\$10,071.1	\$10,226.0	6.5%
GROSS DOMESTIC PRODUCT					
(Billions of Chained 2000 Dollars) ^(c)	<u>2004.3</u>	<u>2004.4</u>	<u>2005.1</u>	<u>2005.2</u>	<u>Annualized % Chg From Last Qtr</u>
	\$10,808.9	\$10,897.1	\$10,999.3	\$11,089.2	3.3%

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. 1997 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.