

MICHIGAN ECONOMIC UPDATE

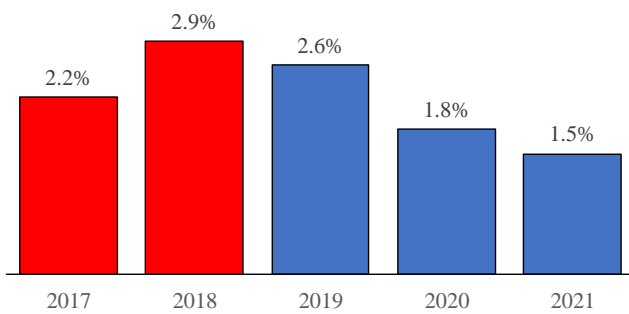
Office of Revenue and Tax Analysis
Michigan Department of Treasury

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

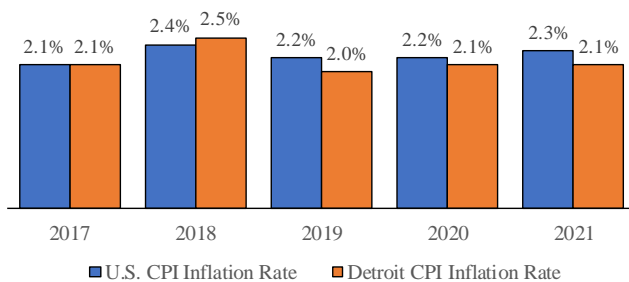
December 2018 Summary

On January 14, 2019, the Administration, House Fiscal Agency and Senate Fiscal Agency met and agreed to a consensus economic forecast for calendar year (CY) 2019, 2020 and 2021. Below are highlights of that consensus agreement:

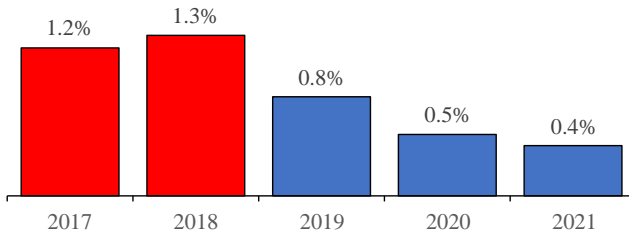
U.S. Real GDP Growth Forecast to Slow



Inflation Forecast To Remain Moderate



Michigan Employment Growth Forecast to Slow



U.S. Economy

- Real GDP growth is forecast to slow to 2.6 percent in 2019. Real GDP growth is expected to slow to 1.8 percent in 2020 and to 1.5 percent in 2021.
- In 2019, the U.S. unemployment rate is forecast to fall to 3.6 percent, remain unchanged at 3.6 percent in 2020 and then rise to 3.7 percent in 2021.
- The January 2019 Consensus forecasts light vehicle sales to drop to 16.8 million units in 2019, 16.6 million units in 2020 and 16.5 million units in 2021.

Inflation Rate

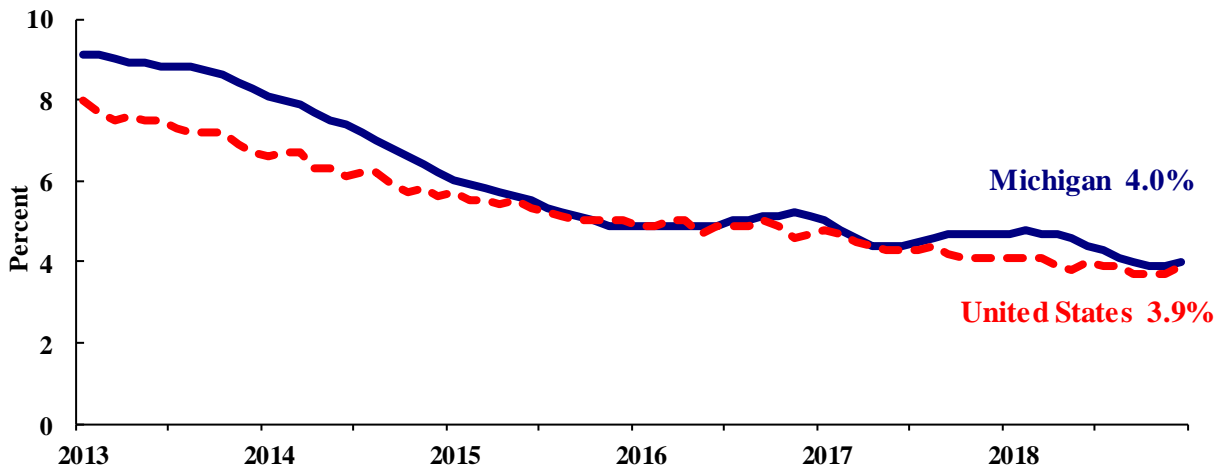
- U.S. Consumer Price Index (CPI) inflation rate is forecast to slow to 2.2 percent in 2019, remain unchanged at 2.2 percent in 2020 and then accelerate slightly to 2.3 percent in 2021.
- The Personal Consumption Deflator inflation rate is forecast to slow to 1.9 percent in 2019, accelerate slightly to 2.1 percent in both 2020 and 2021.
- The Detroit CPI inflation rate is expected to slow substantially from 2.5 percent in 2018 to 2.0 percent in 2019, before rising slightly in 2020 to 2.1 percent, where it is expected to remain in 2021.

Michigan Economy

- Michigan wage and salary employment is forecast to rise 0.8 percent in 2019, increase 0.5 percent in 2020 and rise 0.4 percent in 2021.
- Michigan's unemployment rate is forecast to drop from 4.4 percent in 2018 to 3.9 percent in 2019 and remain at 3.9 percent in both 2020 and 2021.
- Michigan personal income growth is forecast to change little over the forecast horizon with 3.8 percent growth in 2019 and 3.9 percent growth in both 2020 and 2021.

- In December 2018, the Michigan unemployment rate rose 0.1 of a percentage point from last month to 4.0 percent. In December 2018, the national unemployment rate was up 0.2 of a percentage point to 3.9 percent.
- In December 2018, Michigan’s unemployment rate was down 0.7 of a percentage point from a year ago. The December U.S. unemployment rate decreased 0.2 of a percentage point from a year ago. Monthly unemployment rates fluctuate in part due to statistical sampling errors and data revisions.

Michigan and U.S. Monthly Unemployment Rates December 2013 to December 2018



Source: Michigan Dept. of Technology, Management & Budget and Bureau of Labor Statistics, U.S. Dept. of Labor

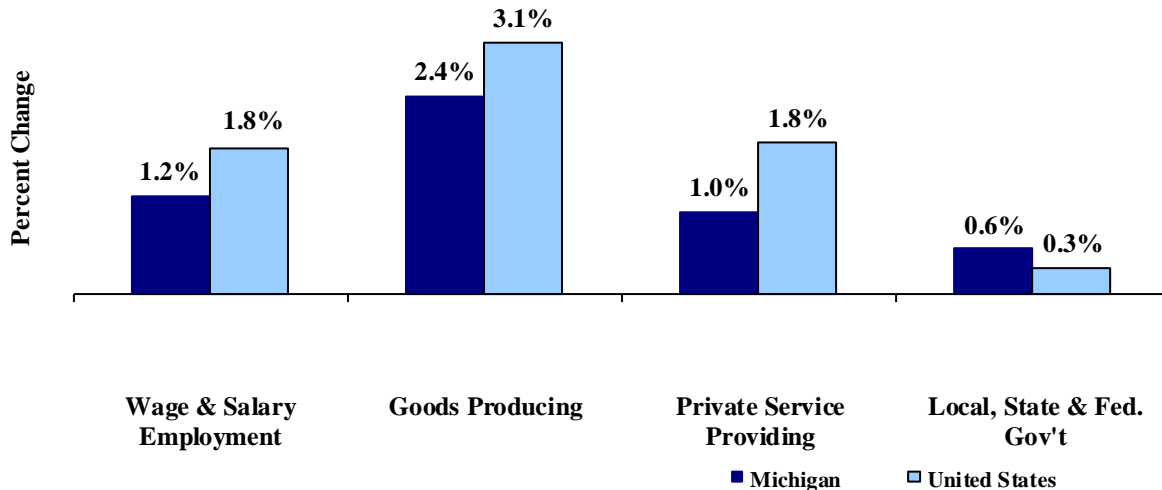
- In December, the total number of people employed in Michigan rose 1,000 persons to 4,702,000 persons. The labor force was up 5,000 persons. The statewide total number of unemployed workers rose 4,000 persons.
- United States employment totaled 156.9 million persons in December 2018. The labor force totaled 163.2 million and there were 6.3 million unemployed in December.

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

	<u>2017</u> <u>Average</u>	<u>Oct</u> <u>2018</u>	<u>Nov</u> <u>2018</u>	<u>Dec</u> <u>2018</u>	<u>Chg Fr</u> <u>Mo Ago</u> <u>Level</u>	<u>Chg Fr</u> <u>Mo Ago</u> <u>%</u>	<u>Chg Fr</u> <u>Yr Ago</u> <u>Level</u>	<u>Chg Fr</u> <u>Yr Ago</u> <u>%</u>	<u>Three</u> <u>Month</u> <u>Average</u>
Michigan									
Labor Force	4,884	4,892	4,893	4,898	5	0.1%	-2	0.0%	4,894
Employed	4,657	4,701	4,701	4,702	1	0.0%	33	0.7%	4,701
Unemployed	227	191	192	196	4	2.1%	-35	-15.1%	193
Unemployment Rate	4.6%	3.9%	3.9%	4.0%	n.a.	0.1% pts	n.a.	-0.7% pts	3.9%
United States									
Labor Force	160,320	162,694	162,821	163,240	419	0.3%	2,604	1.6%	162,918
Employed	153,337	156,582	156,803	156,945	142	0.1%	2,880	1.9%	156,777
Unemployed	6,982	6,112	6,018	6,294	276	4.6%	-278	-4.2%	6,141
Unemployment Rate	4.4%	3.8%	3.7%	3.9%	n.a.	0.2% pts	n.a.	-0.2% pts	3.8%

- From December 2017 to December 2018, Michigan payroll employment increased by 55,000 jobs (1.2 percent). State payroll employment rose by 7,500 jobs in December from November. Nationally, December 2018 payroll employment rose 2,600,000 (1.8 percent) from a year ago. National employment rose 312,000 jobs in December.

Payroll Employment Growth December 2017 to December 2018



Source: Bureau of Labor Statistics, Michigan Department of Technology, Management & Budget

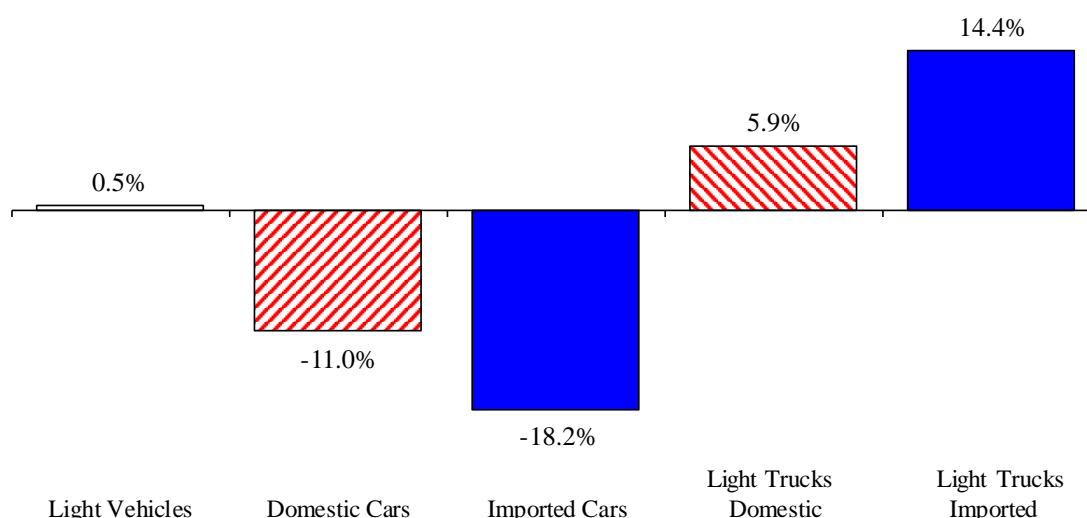
- In the goods-producing sector, Michigan payroll employment increased 2.4 percent in December from a year ago; employment in the private service-providing sector rose 1.0 percent. From a year ago, December national payroll employment rose 3.1 percent in the goods-producing sector and increased 1.8 percent in the private service-providing sector.
- At 42.8 hours, manufacturing weekly hours in Michigan were down 0.4 of an hour from last year.

Wage and Salary (Payroll) Employment (in thousands)^(b)

	MI				US			
	2017 Average	MI Dec 2017	MI Dec 2018	Percent Change	2017 Average	US Dec 2017	US Dec 2018	Percent Change
Wage & Salary Employment	4,371.3	4,389.3	4,442.3	1.2%	144,352	147,625	150,263	1.8%
Goods Producing	784.6	788.8	807.9	2.4%	19,750	20,328	20,952	3.1%
Manufacturing	614.7	616.4	624.2	1.3%	12,354	12,558	12,842	2.3%
Private Service Providing	2,982.7	2,991.1	3,021.6	1.0%	102,379	104,966	106,906	1.8%
Trade, Trans. & Utilities	788.1	788.5	791.2	0.3%	27,257	27,593	27,963	1.3%
Services	1,920.1	1,927.9	1,951.7	1.2%	64,042	66,086	67,562	2.2%
Local, State & Fed. Gov't	604.0	609.4	612.8	0.6%	22,224	22,331	22,405	0.3%
Manufacturing Weekly Hours	43.1	43.2	42.8	-0.4 hrs	41.9	41.8	42.0	0.2 hrs

- December 2018 U.S. light vehicle sales rose 0.3 percent from November 2018 and were up 0.9 percent from December 2017. December 2018 marked the 58th straight month that the light vehicle annualized sales rate exceeded 16.0 million units. In December 2018, the sales rate equaled 17.5 million units.
- U.S. sales of domestic light vehicles were up 1.7 percent between December 2017 and December 2018. Foreign sales fell 1.9 percent over the same period. As a result, the foreign share of U.S. light vehicle sales fell 0.7 of a percentage point to 22.6 percent in December 2018.
- Auto sales decreased 9.5 percent compared to last December, while light truck sales were up 6.0 percent from December 2017. As a result, December 2018 marked the 15th straight month in which the light truck share of total sales exceeded 65.0 percent. Year-over-year, heavy truck sales rose 10.2 percent in December 2018 -- the 16th double-digit heavy truck y-o-y percent increase in the past 17 months.

CY 2018 Car Sales Down Sharply, Light Truck Sales Up Substantially



Motor Vehicle Sales Statistics

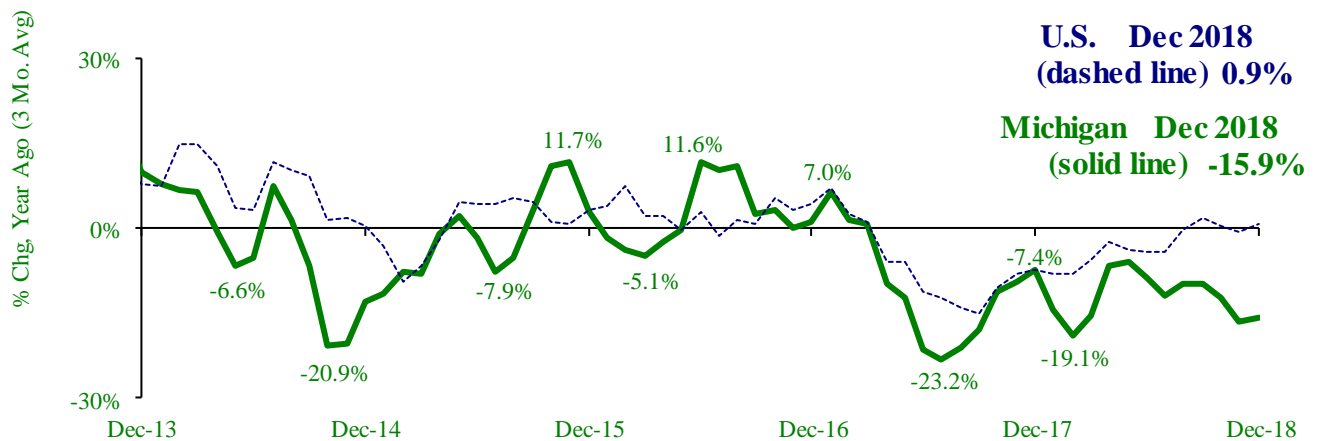
(Millions, Seasonally Adjusted Rates, unless otherwise specified)

Motor Vehicle Sales ^(c)	2018	Oct	Nov	Dec	3 Month	Dec	Dec
	Total	2018	2018	2018	Average	Chg fr Yr Ago Level	Chg fr Yr Ago %
Autos	5.3	5.6	5.2	5.2	5.3	(0.5)	-9.5%
Domestics	4.1	4.4	4.1	4.0	4.2	(0.2)	-5.5%
Imports	1.2	1.2	1.2	1.1	1.2	(0.3)	-21.4%
Import Share	22.9%	21.2%	22.4%	21.9%	21.8%	-3.3%	pts
Light Trucks	11.9	12.0	12.2	12.3	12.2	0.7	6.0%
Domestics	9.2	9.3	9.4	9.5	9.4	0.5	5.2%
Imports	2.8	2.7	2.8	2.8	2.8	0.2	8.8%
Import Share	23.1%	22.6%	22.8%	23.0%	22.8%	0.6%	pts
Total Light Vehicles	17.2	17.6	17.4	17.5	17.5	0.2	0.9%
Heavy Trucks	0.5	0.5	0.5	0.5	0.5	0.0	10.2%
Total Vehicles	17.7	18.1	17.9	18.0	18.0	0.2	1.1%

Retail Inventories, Motor Vehicle and Parts Dealers (billions of dollars) ^(d)	2017	Aug-18	Sep-18	Oct-18	3 Month	Chg fr	Chg fr
	Average	Aug-18	Sep-18	Oct-18	Average	Year Ago Level	Year Ago %
Inventories	\$221.3	\$233.9	\$235.1	\$237.7	\$235.6	\$17.6	8.0%
Inventory/Sales Ratio	2.22	2.29	2.31	2.30	2.30	0.17	

- At 123,552 units, December 2018 Michigan motor vehicle production was down 12.2 percent from December 2017. National production increased 2.4 percent from last December. The three-month average of vehicle production (October 2018-December 2018) was down 15.9 percent in Michigan and up 0.9 percent nationally, compared to a year ago.
- In December 2018, Michigan car production was down 42.5 percent from a year ago while State truck production fell 1.4 percent. A Ford Motor Company plant recently switched from car to light trucks and is currently ramping up production, which is one of the biggest reasons for the decline in Michigan’s motor vehicle production. Nationally, December car production decreased 1.2 percent while U.S. truck production was up 3.8 percent.
- Michigan’s share of national vehicle production fell 2.6 percentage points in December 2018 from its year-ago level to 15.6 percent. Michigan’s share of car production decreased 7.3 percentage points while the State’s share of truck production was down 0.9 of a percentage point.

Michigan Plant Change Over Pushing Michigan Vehicle Production Down



Motor Vehicle Production Statistics

(Thousands, unless otherwise specified)

	2017 Monthly Average	Oct 2018	Nov 2018	Dec 2018	3 Month Average	Dec Level Chg fr Yr Ago	Dec % Chg fr Yr Ago
U.S. Production ^(e)							
Autos	275.9	282.5	249.1	208.7	246.8	(2.5)	-1.2%
Trucks	664.8	776.1	666.7	583.1	675.3	21.4	3.8%
Total	940.7	1,058.7	915.8	791.8	922.1	18.9	2.4%
Michigan Production ^(f)							
Autos	52.7	28.1	23.4	21.4	24.3	(15.8)	-42.5%
Trucks	122.1	139.5	111.4	102.1	117.7	(1.4)	-1.4%
Total	174.9	167.6	134.8	123.6	142.0	(17.2)	-12.2%
Michigan as % of U.S.	18.6%	15.8%	14.7%	15.6%	15.4%	-2.6% pts	

	<u>Sep-18</u>	<u>Oct-18</u>	<u>Nov-18</u>	<u>Dec-18</u>	Change from Year Ago
KEY ECONOMIC INDICATORS					
Consumer Sentiment ^(h)	100.1	98.6	97.5	98.3	2.4 points
ISM Manufacturing Index ⁽ⁱ⁾	59.8	57.7	59.3	54.1	-5.2 points
ISM Non Manufacturing Index ⁽ⁱ⁾	61.6	60.3	60.7	57.6	1.6 points
	<u>2018.1</u>	<u>2018.2</u>	<u>2018.3</u>	<u>2018.4</u>	
Business Executives' Confidence ⁽ⁱ⁾	65.0	63.0	55.0	42.0	-21.0 points
INFLATION ^(k)					
1982-84 = 100 (CPI)	<u>Sep-18</u>	<u>Oct-18</u>	<u>Nov-18</u>	<u>Dec-18</u>	Change from Year Ago
Nov 2009 = 100 (PPI)					
U.S. Consumer Price Index	252.4	252.9	252.0	251.2	1.9%
Detroit CPI	NA	233.1	NA	231.7	1.2%
U.S. Producer Price Index	116.5	117.4	117.0	116.7	2.5%
INTEREST RATES					
90 Day T-Bill ^(l)	2.13%	2.25%	2.33%	2.37%	1.05% points
10 Year Treasury Securities ^(l)	3.00%	3.15%	3.12%	2.83%	0.43% points
INDUSTRIAL PRODUCTION ^(l)					
	108.9	109.1	109.6	109.9	4.0%
CAPACITY UTILIZATION ^(l)					
	78.4%	78.4%	78.6%	78.7%	1.4% points
RETAIL SALES ^(d)					
	\$506.7	\$512.4	\$513.5	#N/A	#N/A
HOUSING STARTS and SALES					
(Millions Annual Rate)	<u>Sep-18</u>	<u>Oct-18</u>	<u>Nov-18</u>	<u>Dec-18</u>	% Change From Year Ago
Housing Starts ^(d)	1.237	1.217	1.256	#N/A	#N/A
Existing Home Sales ^(m)	5.150	5.220	5.330	4.990	-10.3%
DURABLE GOODS ORDERS ^(p)					
	\$260.2	\$248.9	\$250.8	#N/A	#N/A
PERSONAL INCOME ^(c)					
(Billions of Dollars)	<u>2017.4</u>	<u>2018.1</u>	<u>2018.2</u>	<u>2018.3</u>	% Change From Year Ago
Michigan	\$465.2	\$471.2	\$473.0	\$477.9	3.6%
U.S.	\$17,090.7	\$17,308.2	\$17,455.2	\$17,627.7	4.4%
GROSS DOMESTIC PRODUCT					
(Billions of Chained 2012 Dollars) ^(c)	<u>2017.4</u>	<u>2018.1</u>	<u>2018.2</u>	<u>2018.3</u>	Annualized % Chg From Last Qtr
	\$18,223.8	\$18,324.0	\$18,511.6	\$18,665.0	3.4%

- (a) Seasonally adjusted. Sources: Bureau of Labor Statistics, U.S. Department of Labor and Michigan Department of Technology, Management and Budget.
- (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) Bureau of the Census, U.S. Department of Commerce
- (e) Automotive News.
- (f) Michigan Department of Treasury.
- (g) Michigan Department of Technology, Management and Budget.
- (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) Seasonally adjusted rates (except interest rates). Federal Reserve System Board of Governors. 2007 equals 100. Treasury bill rate (secondary market).
- (m) National Association of Realtors.