



# MICHIGAN ECONOMIC UPDATE

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

## October 2005 Summary

**U.S. Economy:** October U.S. economic indicators were generally positive. The non-manufacturing ISM index rose substantially while the manufacturing index was essentially unchanged. The index of leading economic indicators rebounded. Consumer sentiment fell, while industrial production rose. Overall retail sales were roughly flat; excluding vehicles and gasoline, retail sales rose 1.1 percent. For the seventh straight month, housing starts remained above a 2.0 million unit annual rate – the first time for such a streak in over thirty years. The three-month average of new durable goods orders rose 8.6 percent from a year ago. In early November, the Federal Reserve increased the federal funds rate for the twelfth consecutive time, increasing the rate to 4.0 percent.

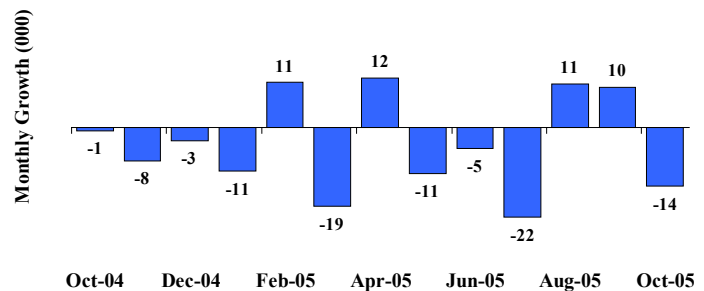
**Employment:** In October, Michigan's wage and salary employment fell by 14,100 jobs. Michigan's unemployment rate fell to 6.1 percent, its lowest rate in three years. Nationally, payroll employment rose by 56,000 jobs. The U.S. unemployment rate fell to 5.0 percent.

**Auto Industry:** October light vehicle sales fell to a 14.7 million unit annual rate, their lowest level in seven years. Compared to a year ago, the three-month average of state vehicle production declined 8.4 percent compared with a 5.2 percent increase nationally. Light vehicle inventories were down 10.8 percent from a year ago; days supply was unchanged at 77 days.

**Inflation:** In October, the U.S. and Detroit consumer price indices rose sharply, rising 4.3 percent and 4.0 percent from a year ago. However, excluding food and energy, the core U.S. consumer price index was up only 2.1 percent. U.S. producer prices rose by 5.9 percent compared to a year ago.

**Michigan Metro Areas:** From a year ago, the October unemployment rate fell in all of Michigan's 17 labor market areas. Employment increased in 16 areas with a median increase of 2.2 percent. Unemployment rates ranged between 3.3 percent (Ann Arbor MSA) and 6.0 percent (Detroit MSA and Flint MSA).

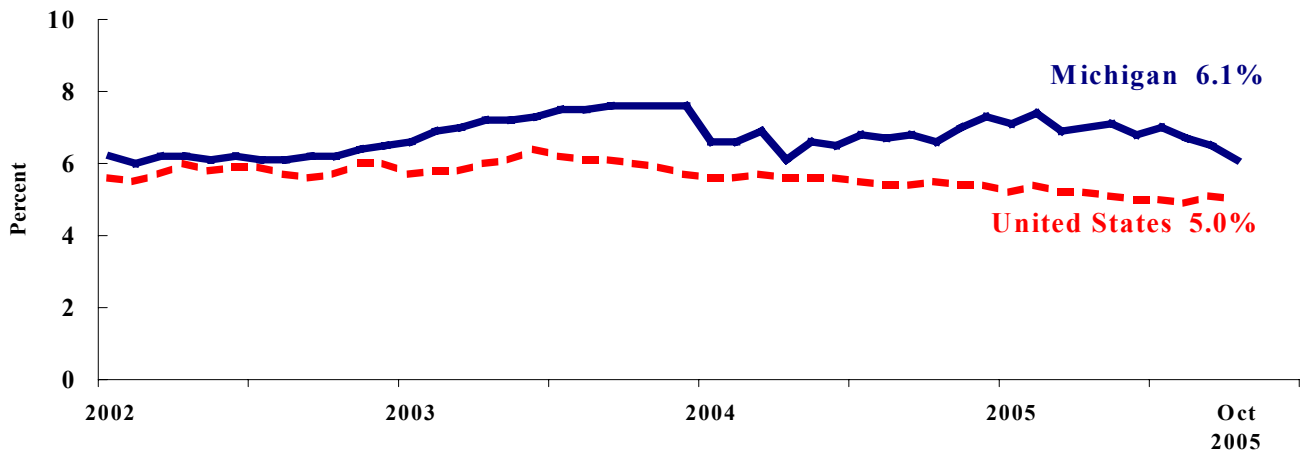
### Michigan Employment Declines <sup>(a)</sup>



## Labor Market Statistics

- Michigan's October monthly unemployment rate decreased 0.4 percentage points to 6.1 percent from September and the current Michigan jobless rate is 1.1 percentage points below a year ago. The October U.S. unemployment rate decreased 0.1 percentage points to 5.0 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 October, the number of people employed in Michigan was 4,792,000, down 2,000 from last month, while the labor force decreased by 26,000. The statewide total number of unemployed decreased by 24,000 to 309,000.
- United States household employment totaled 142.6 million persons in October, up 214,000 from September. The labor force declined by 14,000 from last month, which meant that there were 228,000 less unemployed people nationally, compared to September.

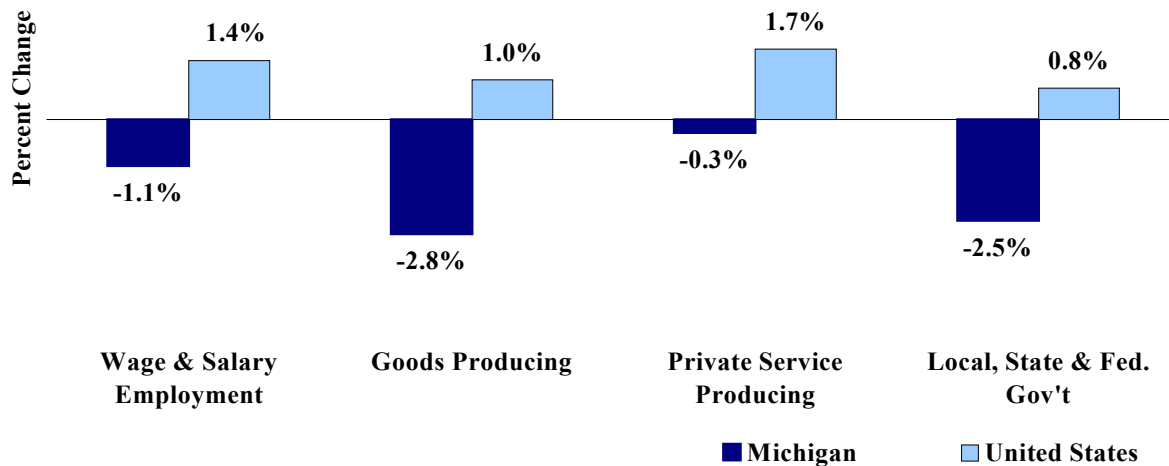
### Employment by Place of Residence (in thousands)<sup>(a)</sup>

	2004 Average	Aug 2005	Sep 2005	Oct 2005	Change From			
					Prior Month		Last Year	
					Level	%	Level	%
<b>Michigan</b>								
Labor Force	5,079	5,106	5,127	5,101	-26	-0.5%	6	0.1%
Employed	4,719	4,762	4,794	4,792	-2	0.0%	62	1.3%
Unemployed	360	345	333	309	-24	-7.2%	-55	-15.1%
Unemployment Rate	7.1%	6.7%	6.5%	6.1%	n.a.	-0.4% pts	n.a.	-1.1%
<b>United States</b>								
Labor Force	147,401	149,841	150,093	150,079	-14	0.0%	2,186	1.5%
Employed	139,252	142,449	142,432	142,646	214	0.2%	2,819	2.0%
Unemployed	8,149	7,391	7,661	7,433	-228	-3.0%	-633	-7.8%
Unemployment Rate	5.5%	4.9%	5.1%	5.0%	n.a.	-0.1% pts	n.a.	-0.5%

## Employment by Place of Work

- From October 2004 to October 2005, Michigan wage and salary employment declined 50,000 (1.1 percent). State wage and salary employment decreased 14,000 from September. Nationally, October 2005 wage and salary employment rose 1,899,000 (1.4 percent) from a year ago and was up 56,000 from last month with the aftermath Hurricane Katrina depressing job growth.

### Wage and Salary Employment Growth October 2004 to October 2005



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

- In the goods producing sector, Michigan employment fell 2.8 percent from a year ago and private service-producing sector employment decreased 0.3 percent compared to last year. From a year ago, October national employment in the goods-producing sector rose 1.0 percent and increased 1.7 percent in the private service-producing sector.
- Manufacturing weekly hours rose in Michigan by 0.2 hours compared to last year.

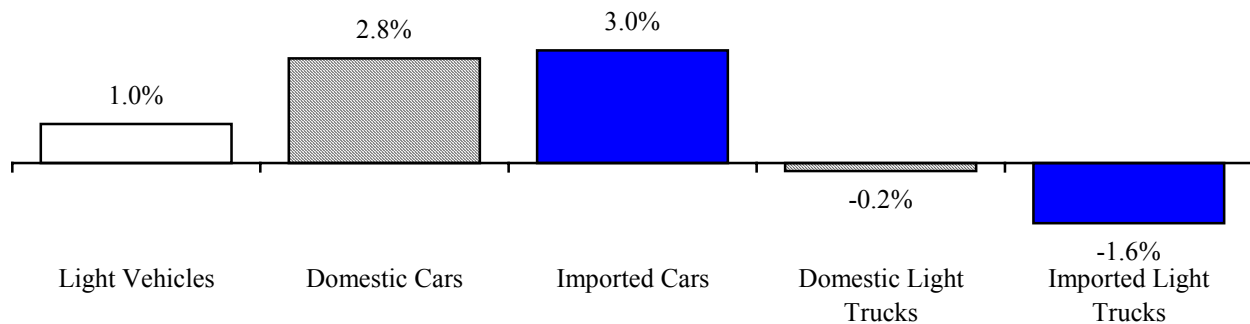
### Establishment Employment (in thousands)<sup>(b)</sup>

	Michigan				United States			
	2004 Average	Oct 2004	Oct 2005	Percent Change	2004 Average	Oct 2004	Oct 2005	Percent Change
Wage & Salary Employment	4,391	4,398	4,348	-1.1%	131,481	132,162	134,061	1.4%
Goods Producing	894	892	867	-2.8%	21,885	21,982	22,195	1.0%
Manufacturing	696	693	671	-3.2%	14,329	14,344	14,244	-0.7%
Private Service Producing	2,815	2,818	2,809	-0.3%	87,978	88,480	89,999	1.7%
Trade, Trans. & Utilities	810	807	798	-1.1%	25,511	25,581	25,855	1.1%
Services	1,719	1,726	1,727	0.1%	51,278	51,675	52,719	2.0%
Local, State & Fed. Gov't	682	688	671	-2.5%	21,619	21,700	21,867	0.8%
Manufacturing Weekly Hours	42.4	42.1	42.3	0.2 hrs	40.8	40.7	41.0	0.3 hrs

## Motor Vehicle Industry Sales

- At a 14.7 million unit annual rate, October 2005 light vehicle sales were down 10.1 percent from September and down 13.1 percent from a year ago. October's sales rate was the lowest in over seven years.
- Compared to a year ago, domestic sales were down 13.8 percent while foreign sales were down 10.6 percent. Auto sales fell 2.6 percent while light truck sales declined 21.6 percent. Light vehicle inventories fell 10.8 percent while days supply was unchanged at 77 days.
- Year to date, domestic light truck sales decreased 0.2 percent while imported light truck sales fell 1.6 percent. Imported car sales were up 3.0 percent while domestic car sales were up 2.8 percent. Overall, light vehicle sales are up 1.0 percent through October.

### Year to Date Light Vehicle Sales Up From Year Ago



### Motor Vehicle Sales Statistics

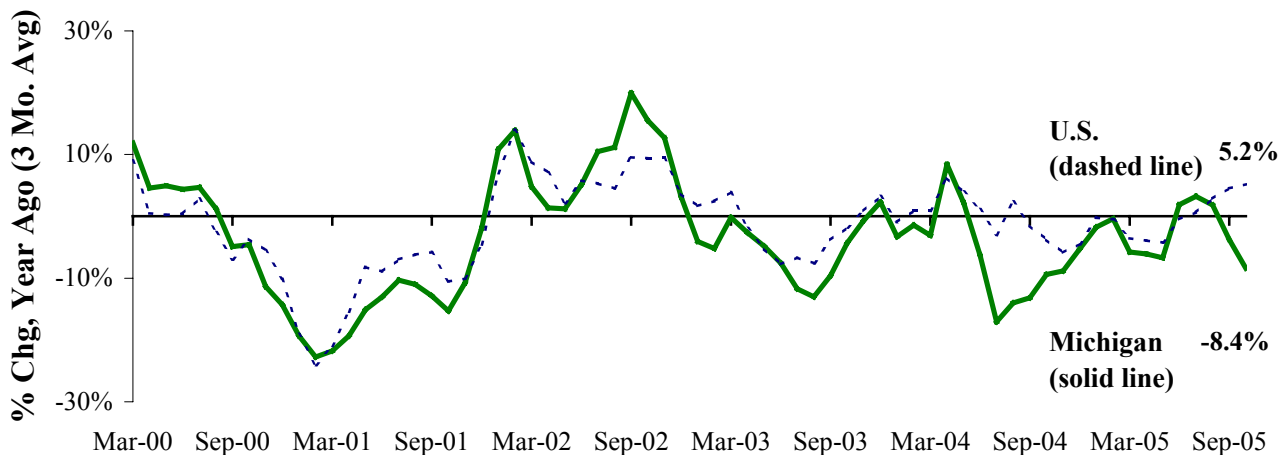
(Millions, unless otherwise specified)

Motor Vehicle Sales <sup>(c)</sup>	2004 Average	Aug 2005	Sep 2005	Oct 2005	3 Month Average	Change from Year Ago	
						Level	%
Autos	7.5	7.8	8.0	7.3	7.7	(0.2)	-2.6%
Domestics	5.3	5.6	5.7	5.2	5.5	0.0	0.8%
Imports	2.2	2.2	2.3	2.1	2.2	(0.2)	-9.9%
Import Share	28.7%	28.2%	28.2%	29.2%	28.5%	-2.4% pts	
Light Trucks	9.3	9.0	8.4	7.4	8.2	(2.0)	-21.6%
Domestics	8.1	7.8	7.3	6.2	7.1	(1.9)	-23.1%
Imports	1.2	1.2	1.1	1.1	1.1	(0.2)	-11.9%
Import Share	13.3%	13.4%	13.0%	15.4%	13.9%	1.7% pts	
Total Light Vehicles	16.8	16.8	16.3	14.7	15.9	(2.2)	-13.1%
Heavy Trucks	0.4	0.5	0.5	0.5	0.5	0.0	6.8%
Total Vehicles	17.3	17.2	16.8	15.2	16.4	(2.2)	-12.6%
<b>U.S. Light Vehicle Inventories<sup>(d)</sup></b>		<b>Aug-05</b>	<b>Sep-05</b>	<b>Oct-05</b>	<b>3 Month</b>	<b>Change</b>	
Total Car	1.502	1.051	1.041	1.131	1.074	-0.303	
Days Supply	62	39	40	52	44	-14 days	
Total Truck	2.411	1.812	1.992	2.261	2.021	-0.108	
Days Supply	80	60	73	101	78	15 days	

## Motor Vehicle Industry Production

- At 206,275 units, October 2005 Michigan light vehicle production fell 15.0 percent from a year ago, compared with a 3.7 percent increase nationally. As a result, Michigan's share of national production fell 4.1 percentage points to 18.8 percent. Year-to-date Michigan production is down 3.9 percent compared with a year ago and U.S. production is up slightly (0.4 percent).
- Compared with a year ago, state car production fell 3.2 percent while state truck production declined 24.5 percent. Nationally, car production increased 6.3 percent while truck production rose 2.4 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 down 8.4 percent from a year ago, compared to a 5.2 percent increase nationally.

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



### Motor Vehicle Production Statistics

(Thousands, unless otherwise specified)

	2004 <u>Average</u>	Aug <u>2005</u>	Sep <u>2005</u>	Oct <u>2005</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	353.8	405.1	382.7	379.8	389.2	22.5	6.3%
Trucks	647.8	733.7	726.0	719.8	726.5	17.2	2.4%
Total	1,001.5	1,138.8	1,108.8	1,099.6	1,115.7	39.7	3.7%
<b>Michigan Production <sup>(f)</sup></b>							
Autos	104.8	108.2	104.8	104.2	105.7	(3.4)	-3.2%
Trucks	111.5	94.1	114.9	102.0	103.7	(33.0)	-24.5%
Total	216.4	202.2	219.7	206.3	209.4	(36.5)	-15.0%
Michigan as % of U.S.	21.6%	17.8%	19.8%	18.8%	18.8%	-4.1% pts	

## October 2005 Unemployment Rates Fell in All Labor Market Areas (Not Seasonally Adjusted)

Compared to a year ago, October 2005 unemployment rates fell in all 17 major labor market areas. The median unemployment rate decline was a 1.0 percentage point.

Compared to a year ago, the Saginaw-Saginaw Township MSA reported a 1.5 percentage point decline, the largest decline among the state's 17 major labor market areas. The Detroit-Warren-Livonia MSA reported the second largest decline (1.4 percentage points) followed by the Bay City MSA (1.2 percentage points). Eleven areas reported declines of 1.0 percentage point or larger. All areas reported declines of 0.5 percentage points or larger.

From October 2004 to October 2005, employment increased in 16 major labor market areas. The median employment increase was 2.2 percent. Eleven areas reported employment increases greater than 1.0 percent.

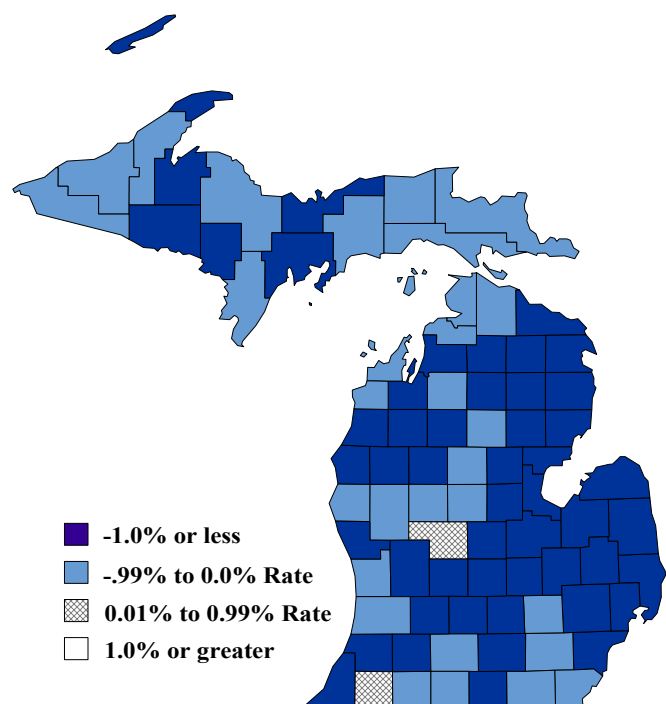
October 2005 unemployment rates ranged between 3.3 percent (Ann Arbor) and 6.0 percent (Detroit MSA and Flint MSA). Compared to September unemployment rates, all areas reported lower non-seasonally adjusted unemployment rates. The median decrease was 0.7 percentage points.

Compared to October 2004, unemployment rates declined in 81 counties and increased slightly in two counties.

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

<u>Local Area</u>	<u>Oct 2004 Rate</u>	<u>Sep 2005 Rate</u>	<u>Oct 2005 Rate</u>
Michigan	6.6%	6.0%	5.4%
Ann Arbor	3.8%	4.1%	3.3%
Battle Creek	5.9%	6.0%	5.2%
Bay City	6.3%	5.9%	5.1%
Detroit-Warren-Livonia	7.4%	6.4%	6.0%
Flint	7.0%	7.0%	6.0%
Grand Rapids-Wyoming	5.9%	5.4%	4.7%
Holland-Grand Haven	4.8%	4.6%	4.0%
Jackson	6.3%	6.0%	5.2%
Kalamazoo-Portage	5.3%	5.0%	4.3%
Lansing-East Lansing	6.0%	5.5%	4.8%
Monroe	5.3%	5.6%	4.7%
Muskegon-Norton Shores	6.6%	6.1%	5.6%
Niles-Benton Harbor	6.5%	6.2%	5.3%
Saginaw-Saginaw Township	7.4%	6.9%	5.9%
Upper Peninsula	5.4%	5.2%	4.5%
Northeast Lower Mich	6.5%	5.9%	5.4%
Northwest Lower Mich.	5.6%	5.2%	4.7%

### Unemployment Rate Change October 2004 to October 2005



Source: Michigan Department of Labor and Economic Growth

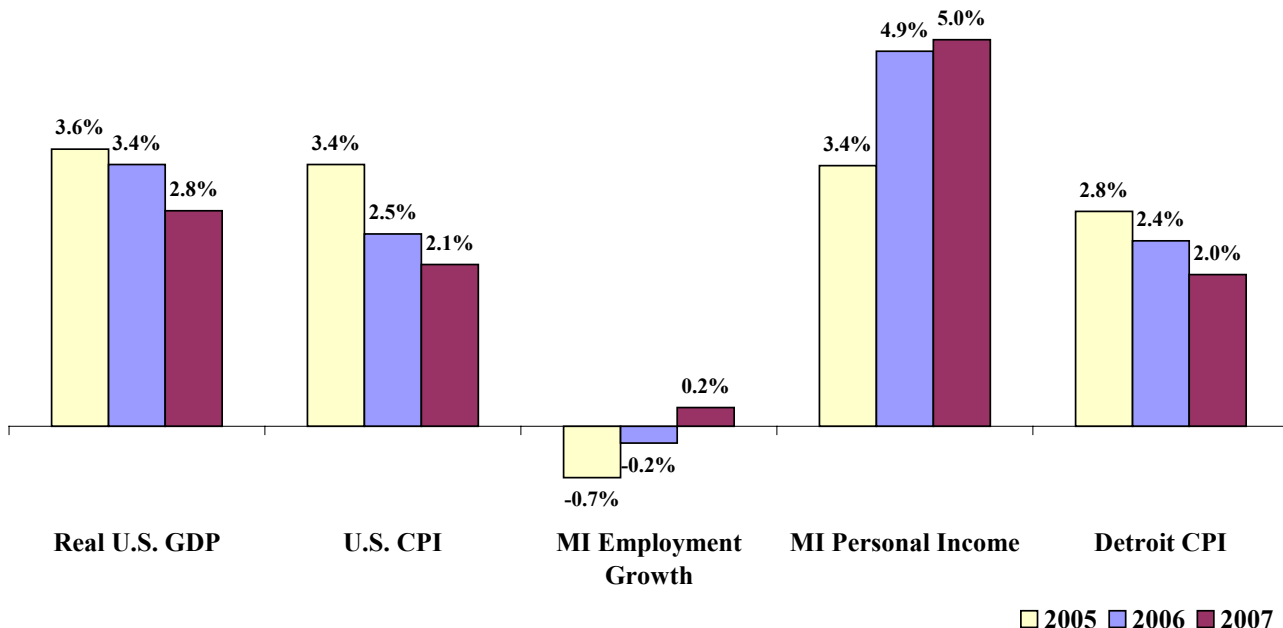
**University of Michigan Forecasts  
Stronger U.S. and Michigan Economies**

On November 17 and 18, 2005, the Research Seminar in Quantitative Economics (RSQE), University of Michigan released its forecast for the U.S. and Michigan economies for 2006 and 2007. Forecast highlights include:

- After growing 3.6 percent this year, real GDP is forecast to grow 3.4 percent next year before slowing to 2.8 percent in 2007. The U.S. unemployment rate declines to 4.8 percent in both 2005 and 2006. Payroll jobs are expected to grow by 2.1 million jobs in 2006 and 1.8 million in 2007.
- Light vehicle sales are projected to rise from 16.9 million units in 2005 to 17.0 million units in 2006 and 17.1 million units in 2007. Housing starts are projected to moderate but remain strong with 1.92 million units in 2006 and 1.79 million units in 2007.
- After declining 0.7 percent this year, Michigan wage and salary employment is forecast to fall 0.2 percent in 2006 before rising 0.2 percent in 2007. Manufacturing employment, estimated to decline 3.1 percent this year, is projected to fall by 1.8 percent in 2006 and 2.5 percent in 2007.
- Michigan’s unemployment rate is forecast to average 6.9 percent in 2006 and 7.4 percent in 2007.
- After growing 3.4 percent this year, Michigan’s personal income is expected to rise 4.9 percent in 2006 and 5.0 percent in 2007. Wage and salary income is forecast to grow 3.2 percent in 2006 and 3.7 percent in 2007.

**U.S. Economic Forecast  
Continued Growth**

**Michigan Economic Forecast  
Stronger Employment and Income**



## U.S. Economic Conditions

	<u>Jul-05</u>	<u>Aug-05</u>	<u>Sep-05</u>	<u>Oct-05</u>	<u>Change from Year Ago</u>
<b>KEY ECONOMIC INDICATORS</b>					
Consumer Sentiment <sup>(h)</sup>	96.5	89.1	76.9	74.2	-17.5 points
ISM Manufacturing Index <sup>(i)</sup>	56.6	53.6	59.4	59.1	1.6 points
ISM Non Manufacturing Index <sup>(i)</sup>	60.5	65.0	53.3	60.0	-1.5 points
	<u>2004.4</u>	<u>2005.1</u>	<u>2005.2</u>	<u>2005.3</u>	
Business Executives' Confidence <sup>(i)</sup>	61.0	62.0	55.0	50.0	-16.0 points
<b>INFLATION <sup>(k)</sup></b>					
<b>1982-84 = 100</b>	<u>Jul-05</u>	<u>Aug-05</u>	<u>Sep-05</u>	<u>Oct-05</u>	<u>Change from Year Ago</u>
U.S. Consumer Price Index	195.4	196.4	198.8	199.2	4.3%
Detroit CPI	NA	192.2	NA	195.1	4.0%
U.S. Producer Price Index	155.4	156.1	158.9	161.0	5.9%
<b>INTEREST RATES</b>					
90 Day T-Bill <sup>(l)</sup>	3.22%	3.45%	3.47%	3.70%	1.95% points
Aaa Corporate Bonds <sup>(m)</sup>	5.06%	5.09%	5.13%	5.35%	-0.12% points
<b>INDUSTRIAL PRODUCTION <sup>(m)</sup></b>	108.3	108.5	106.9	107.9	1.9%
<b>CAPACITY UTILIZATION <sup>(m)</sup></b>	80.2%	80.2%	78.9%	79.5%	0.3% points
<b>RETAIL SALES <sup>(n)</sup></b>	\$357.3	\$350.7	\$351.8	\$351.6	5.7%
<b>HOUSING STARTS and SALES</b>					
(Millions Annual Rate)	<u>Jul-05</u>	<u>Aug-05</u>	<u>Sep-05</u>	<u>Oct-05</u>	<u>% Change From Year Ago</u>
Housing Starts <sup>(o)</sup>	2.062	2.081	2.134	2.014	-2.3%
Existing Home Sales <sup>(p)</sup>	7.150	7.280	7.290	7.090	3.7%
<b>DURABLE GOODS ORDERS <sup>(q)</sup></b>	\$203.7	\$211.6	\$207.3	\$214.4	11.4%
<b>PERSONAL INCOME <sup>(c)</sup></b>					
(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%
<b>GROSS DOMESTIC PRODUCT</b>					
(Billions of Chained 2000 Dollars) <sup>(c)</sup>	<u>2004.4</u>	<u>2005.1</u>	<u>2005.2</u>	<u>2005.3</u>	<u>Annualized % Chg From Last Qtr</u>
	\$10,897.1	\$10,999.3	\$11,089.2	\$11,206.1	4.3%



**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. 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.