The U.S. and Michigan Economies

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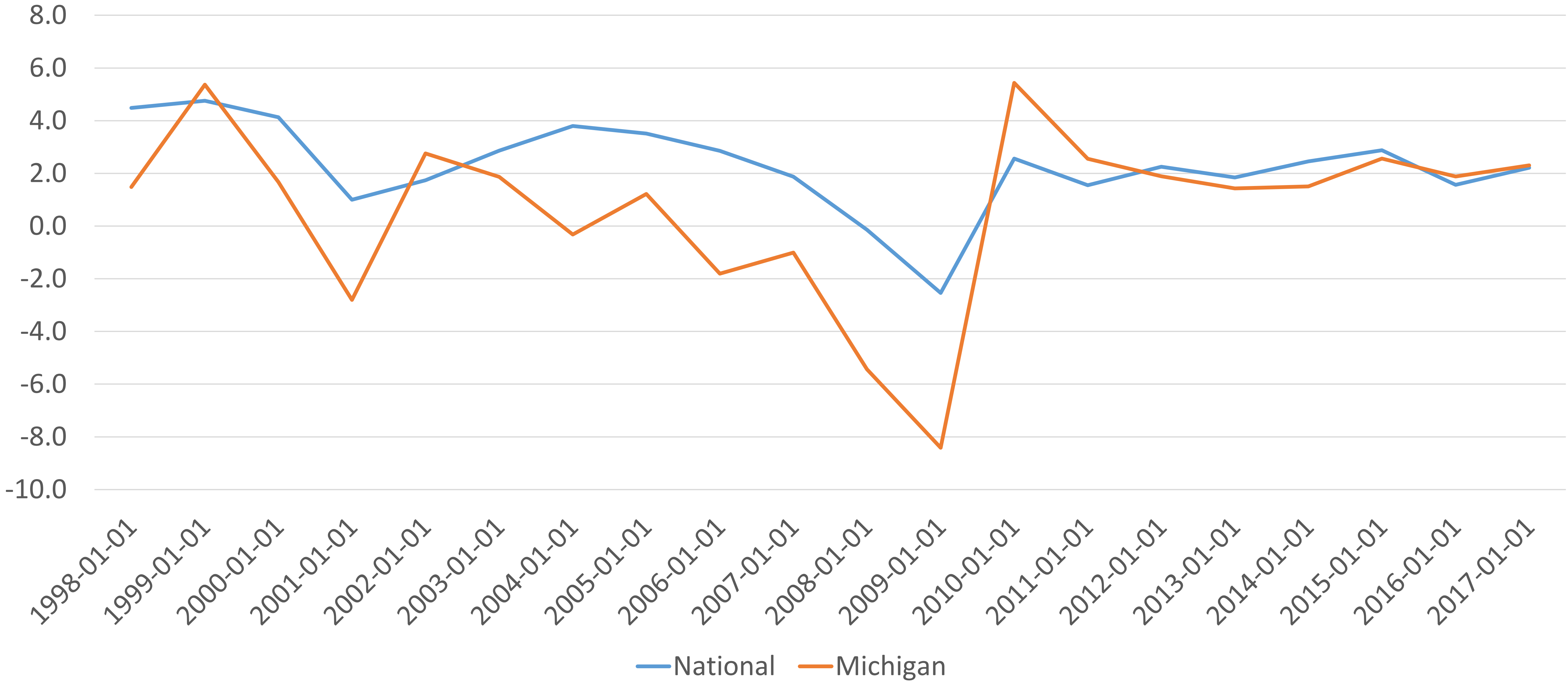
Outline

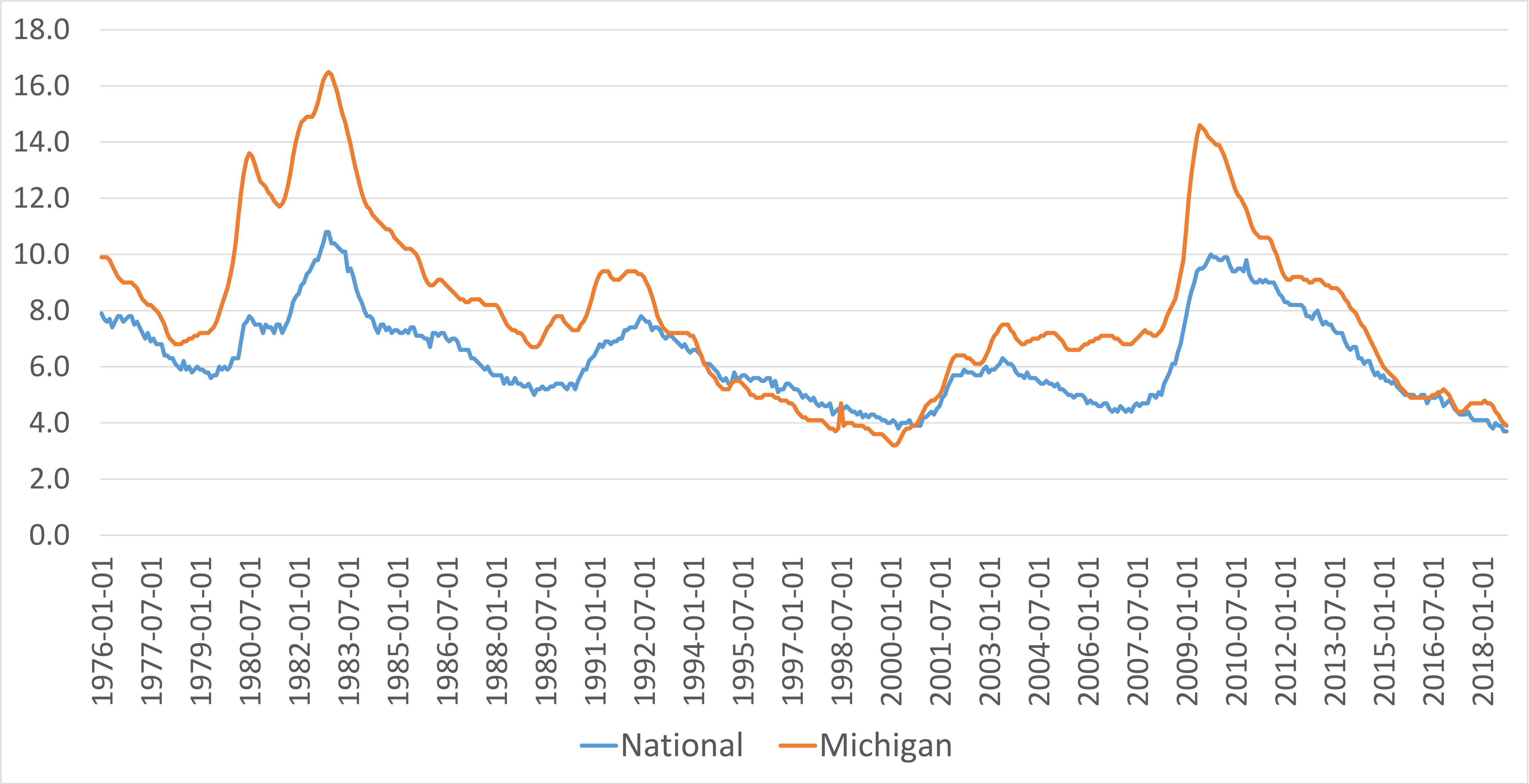
- How Michigan’s economy compares to the national economy
  - Michigan’s economy was significantly worse than the national economy in the 2000s and during the Great Recession.
  - Michigan’s recovery has not been noticeably better than the national recovery.
- Where will the next recession come from (and when?)
  - There have been 11 recessions, post WWII (one every 7 years)
  - Oil price increases are the most common cause
  - Unlikely to be the cause of the next one
  - Biggest risk to the economy is the federal government’s fiscal position

Economic Growth, National and Michigan



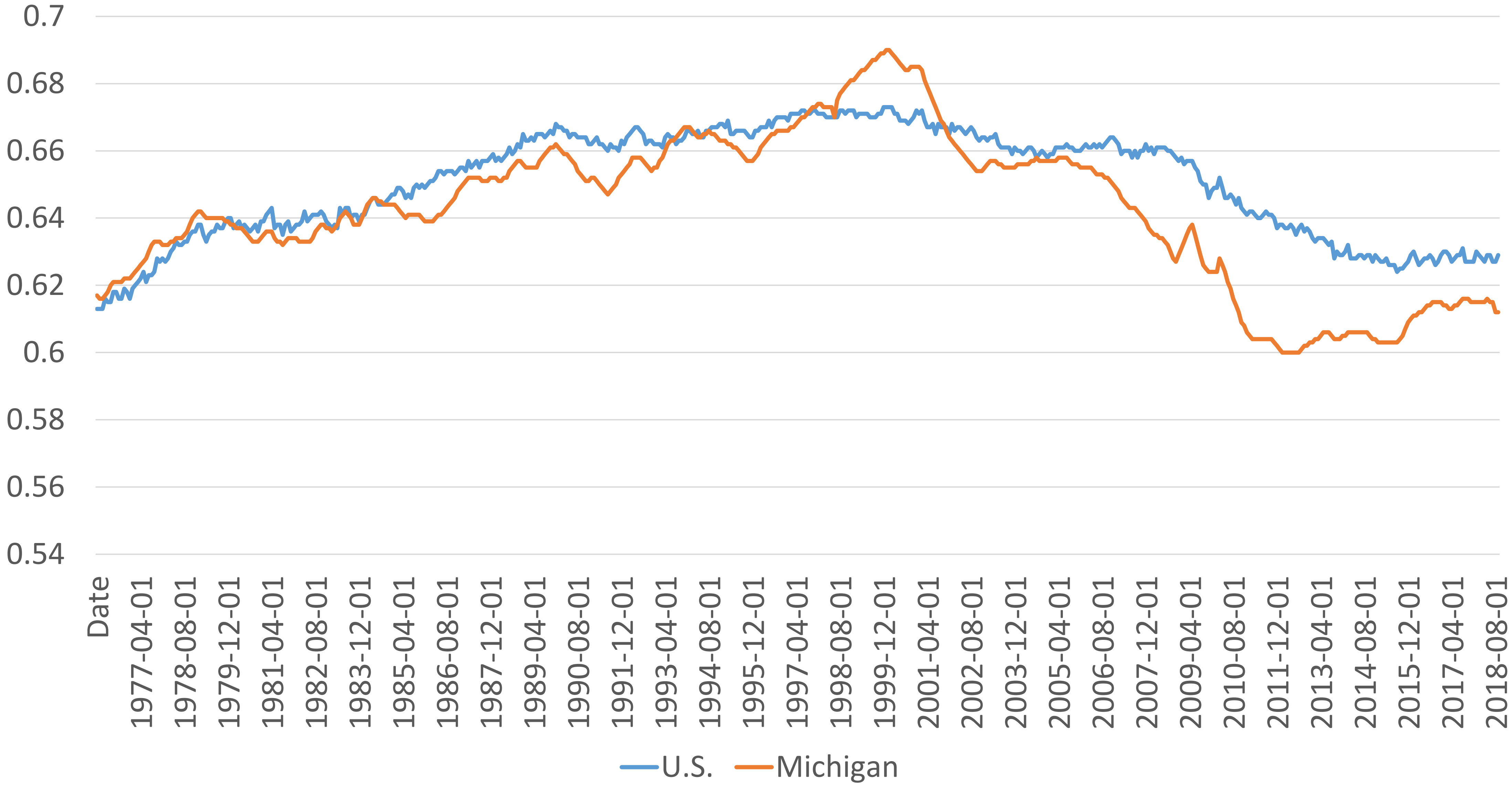
Source: U.S. Bureau of Economic Analysis

Unemployment Rate, National and Michigan

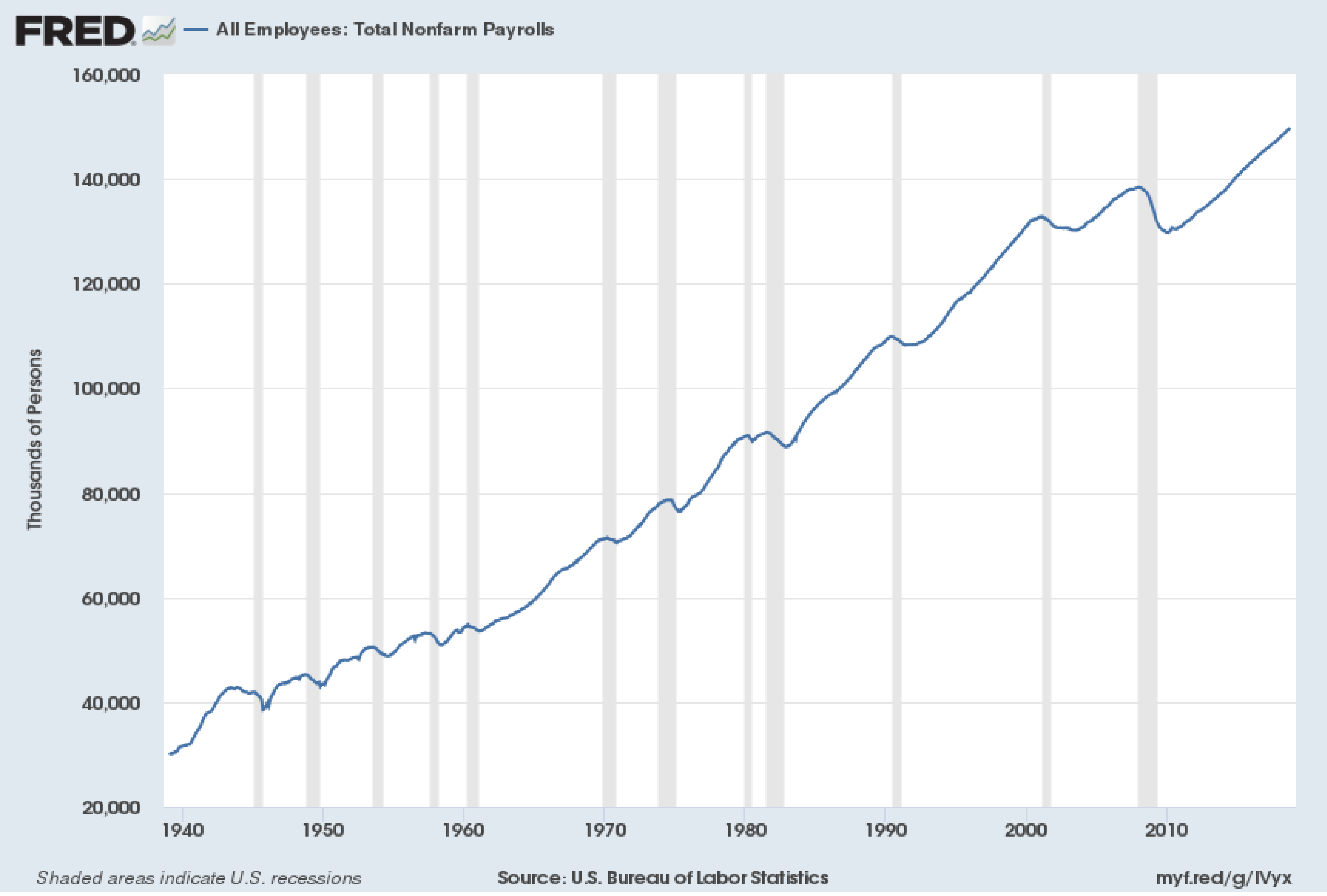


Source: Bureau of Labor Statistics

Labor Force Participation Rate, National and Michigan



Sources: Michigan Bureau of Labor Market Information and Strategic Initiatives and U.S. Bureau of Labor Statistics


FRED
All Employees: Total Nonfarm Payrolls
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
Thousands of Persons
1940
1950
1960
1970
1980
1990
2000
2010
Shaded areas indicate U.S. recessions
Source: U.S. Bureau of Labor Statistics
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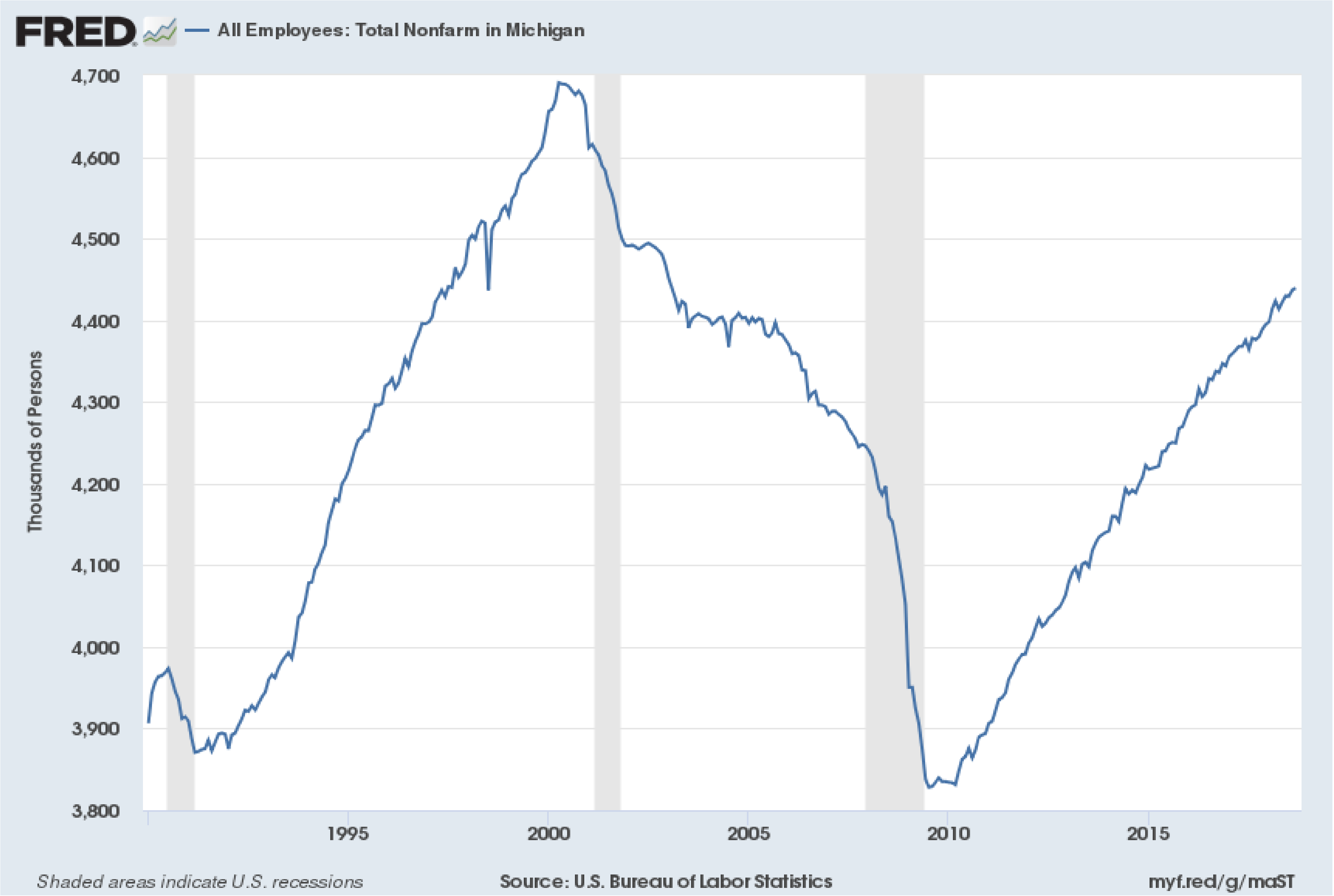

FRED
All Employees: Total Nonfarm in Michigan
Thousands of Persons
4,700
4,600
4,500
4,400
4,300
4,200
4,100
4,000
3,900
3,800
1995
2000
2005
2010
2015
Shaded areas indicate U.S. recessions
Source: U.S. Bureau of Labor Statistics
myf.red/g/maST

When is the next recession?

Post WWII Recessions

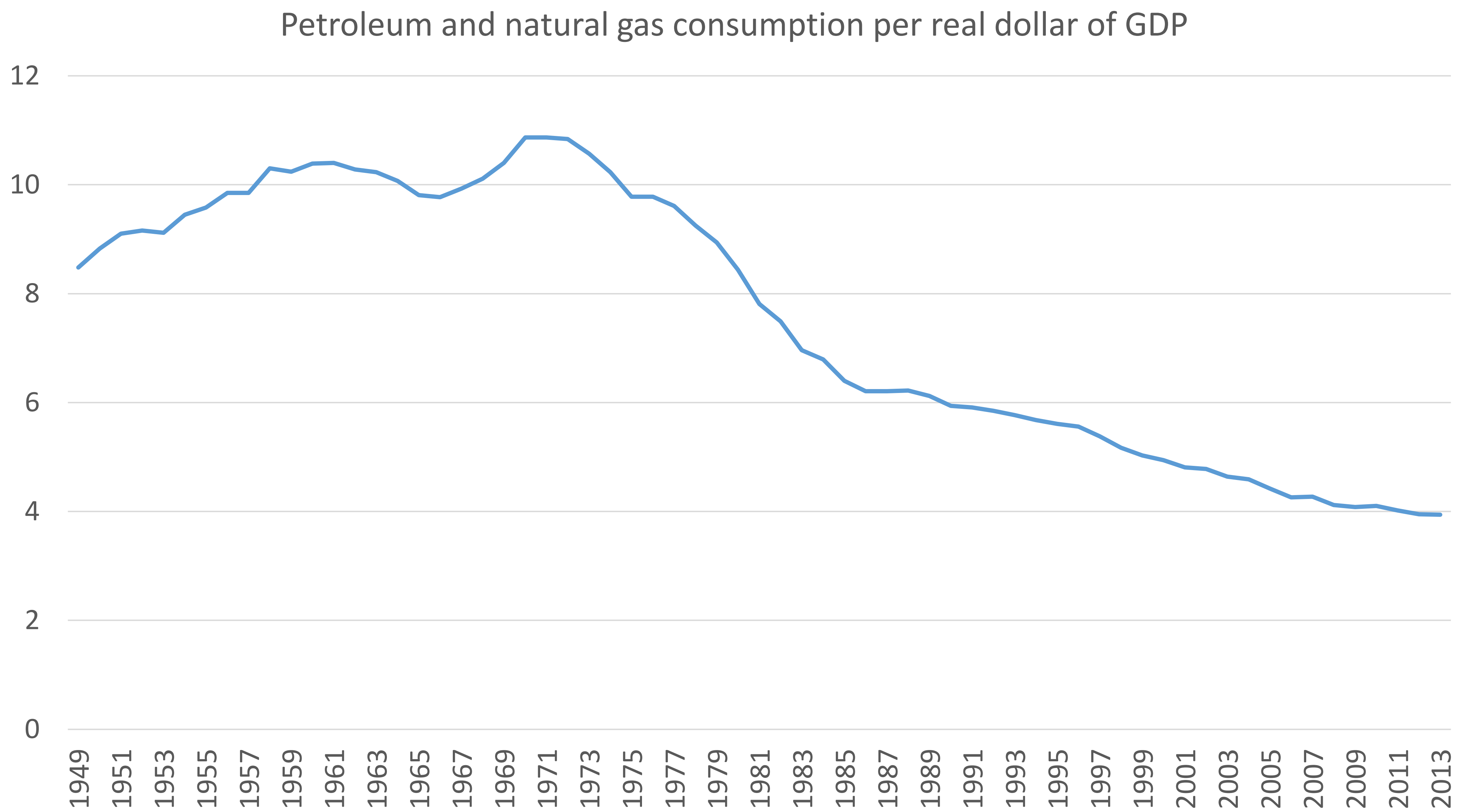
- November 1948-October 1949 **(37%)**
- July 1953-May 1954 **(10%)**
- August 1957-April 1958 **(9%)**
- April 1960-February 1961
- December 1969-November 1970 **(7%-8%)**
- November 1973-March 1975 **(51%)**
- January 1980-July 1980 **(57%)**
- July 1981-November 1982 **(45%)**
- July 1990-March 1991 **(93%)**
- March 2001-November 2001 **(38%)**
- December 2007-June 2009 **(145%)**
- **Average length of recession: 11 months**
- **Average length of expansion: (58 months, or 4.8 years)**
- **Average length of expansion, post-1982: 8 years**

Source for Oil Prices: "Historical Oil Shocks" by James D. Hamilton, Dept. of Economics, Univ. of California San Diego, 2011
Source for Recession Dates: National Bureau of Economic Research Business Cycle Dating Committee

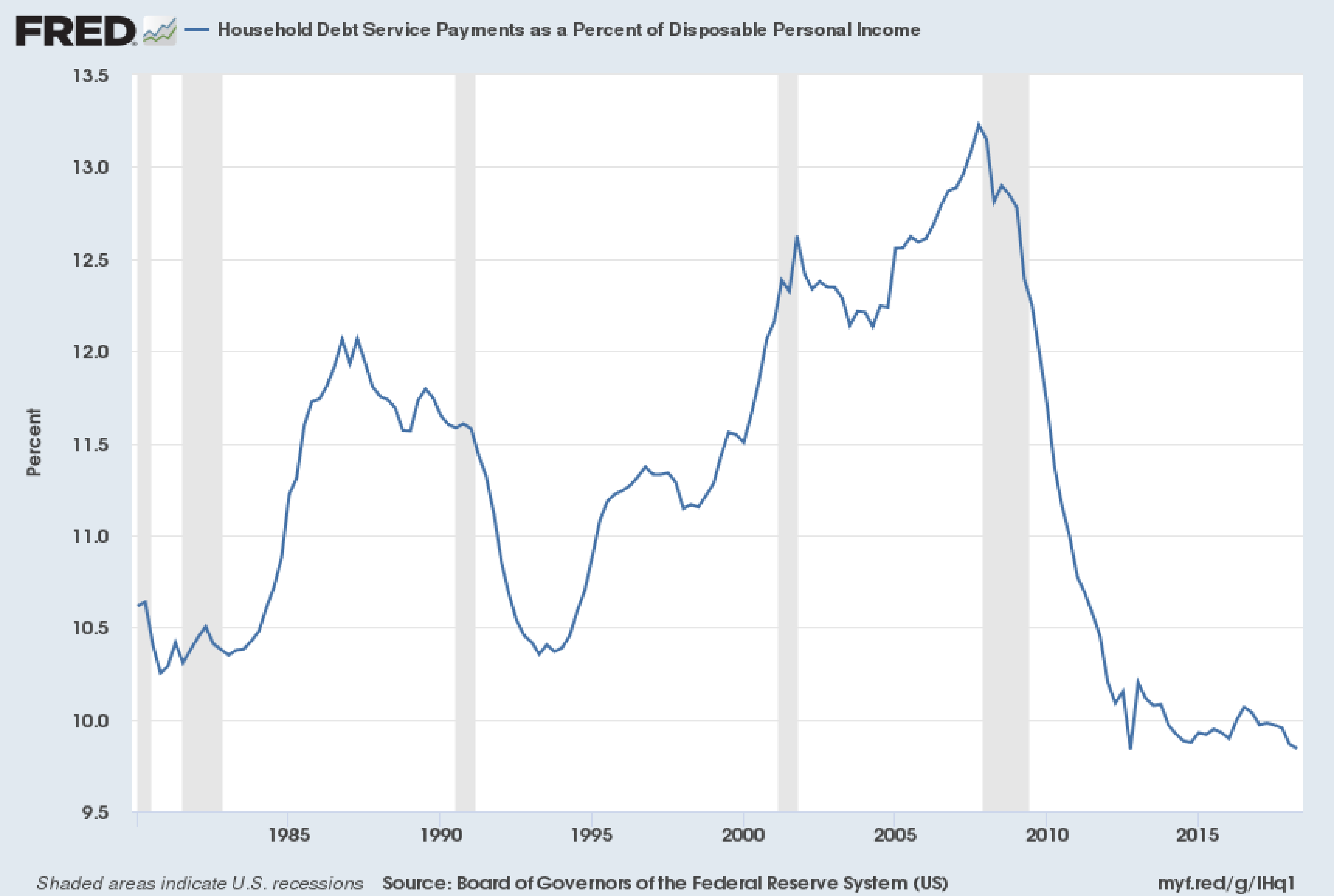
Recession Risks

- Increase in crude oil prices
- Financial market shenanigans
- Federal budget deficit

Why Oil Prices Are Unlikely to Cause the Next Recession



Thousands of BTUs and constant 2009 dollars. Source: Energy Information Administration


FRED
Household Debt Service Payments as a Percent of Disposable Personal Income
Percent
13.5
13.0
12.5
12.0
11.5
11.0
10.5
10.0
9.5
1985
1990
1995
2000
2005
2010
2015
Shaded areas indicate U.S. recessions
Source: Board of Governors of the Federal Reserve System (US)
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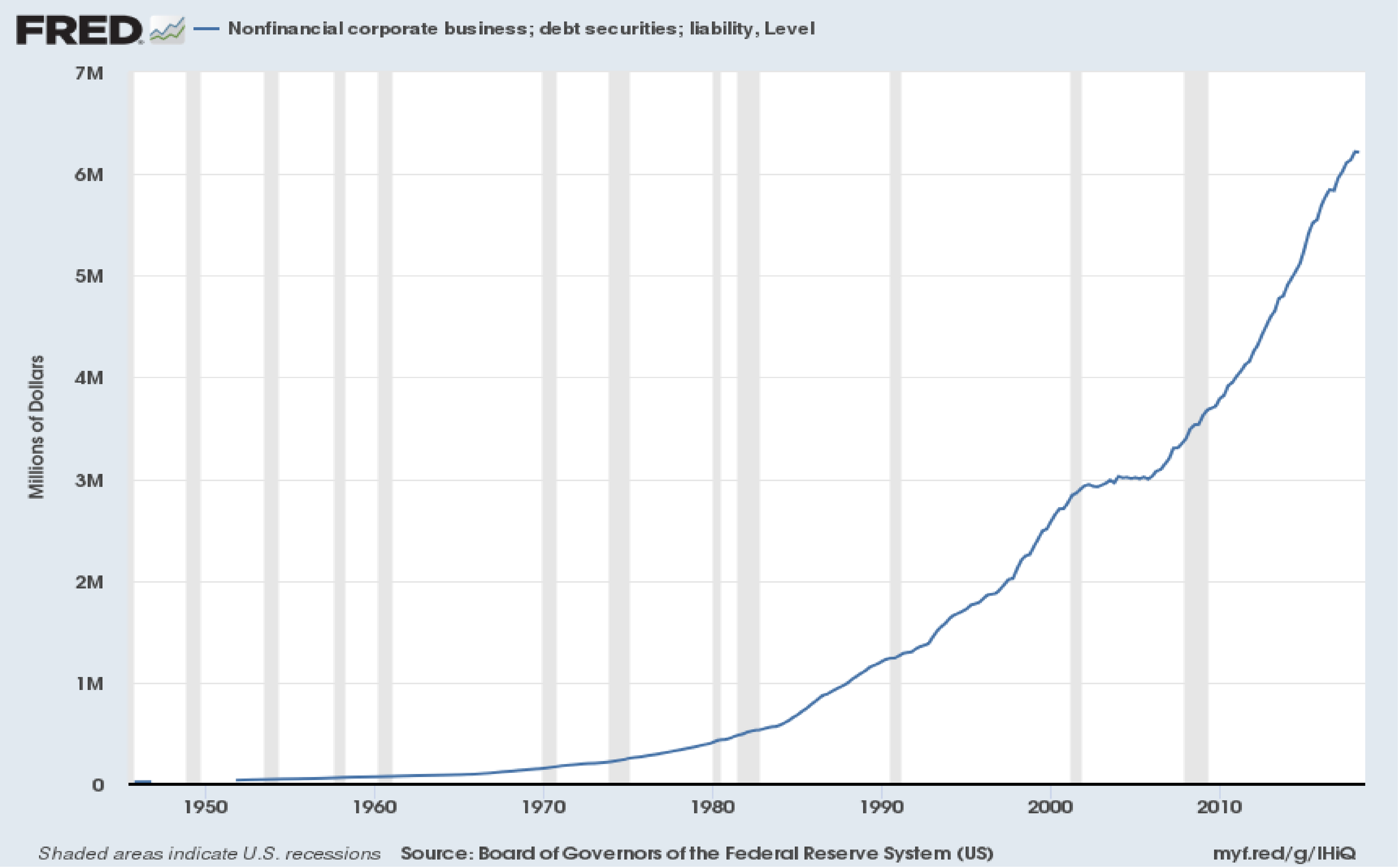
FRED
Nonfinancial corporate business; debt securities; liability, Level
7M
6M
5M
4M
3M
2M
1M
0
Millions of Dollars
1950
1960
1970
1980
1990
2000
2010
Shaded areas indicate U.S. recessions
Source: Board of Governors of the Federal Reserve System (US)
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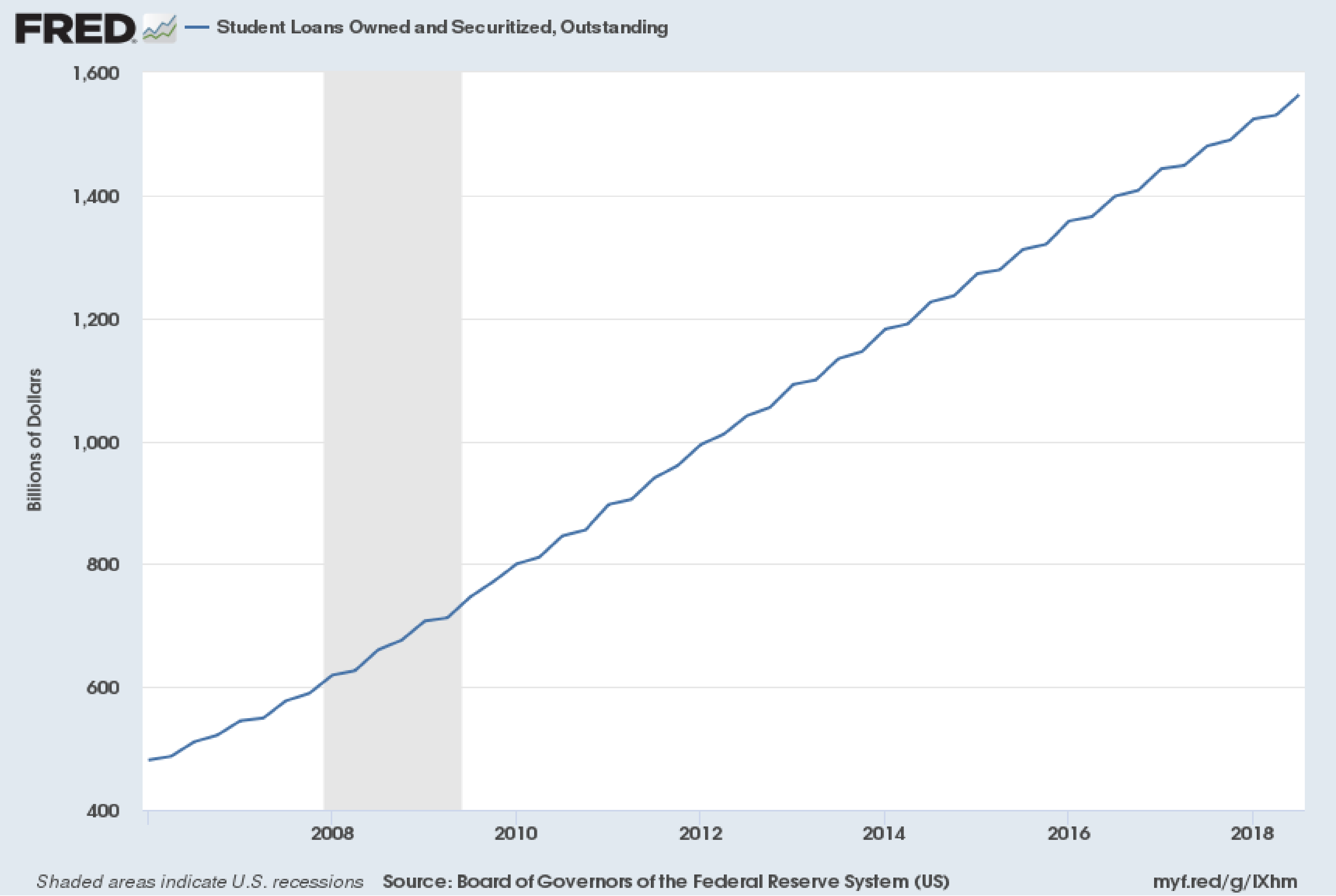
FRED
Student Loans Owned and Securitized, Outstanding
1,600
1,400
1,200
1,000
800
600
400
Billions of Dollars
2008
2010
2012
2014
2016
2018
Shaded areas indicate U.S. recessions
Source: Board of Governors of the Federal Reserve System (US)
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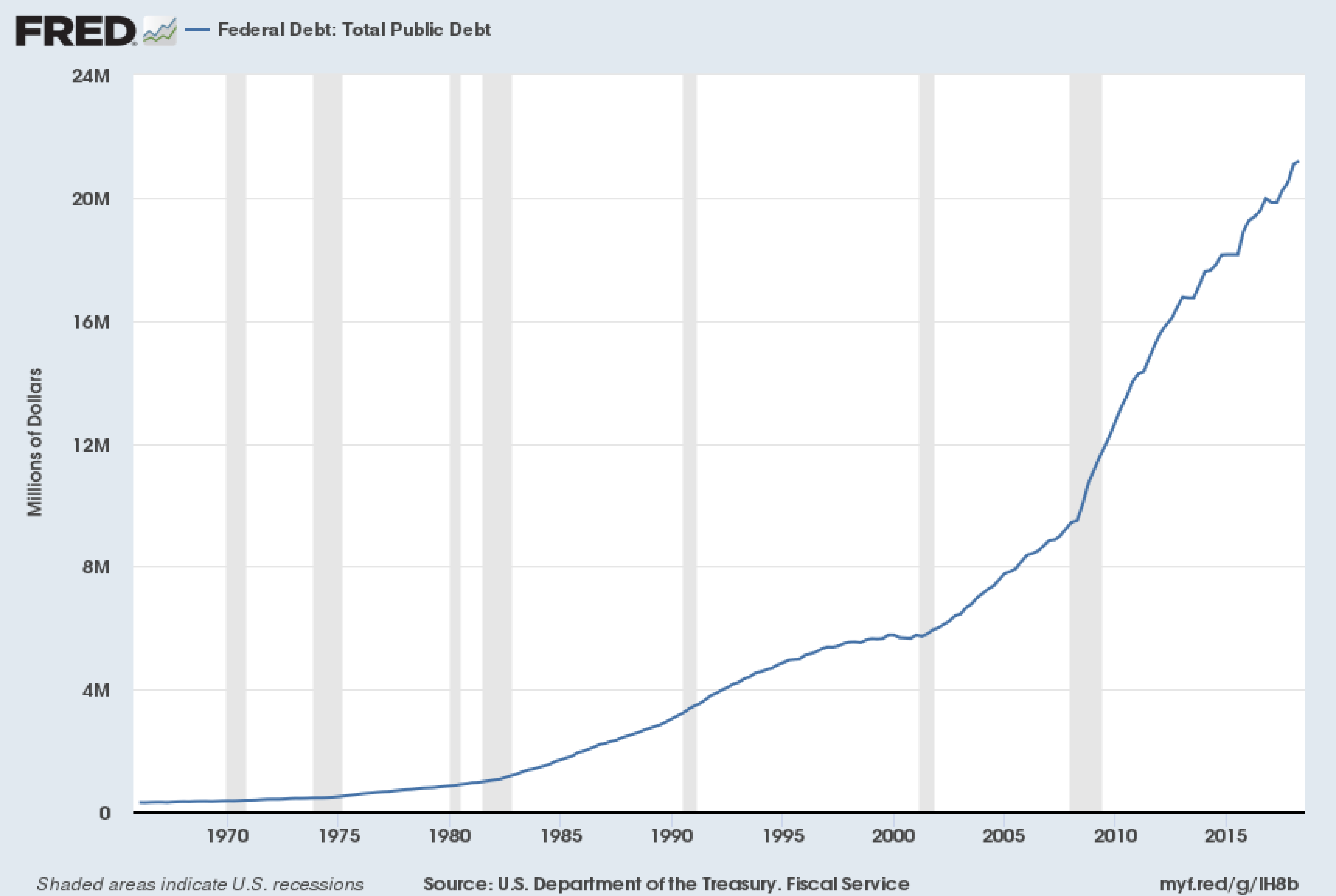
FRED
Federal Debt: Total Public Debt
24M
20M
16M
12M
8M
4M
0
Millions of Dollars
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
Shaded areas indicate U.S. recessions
Source: U.S. Department of the Treasury. Fiscal Service
myf.red/g/IH8b

More on Government Debt

- $800 billion deficit when economy is at full employment is beyond irresponsible.
- If the economy enters a downturn, the federal government will be in real trouble.
- What if government is unable to continue to borrow?
  - Interest rates instantly spike
  - The federal government instantly is in a state of default
  - The banking system collapses as banks become insolvent
  - The government instantly loses the $800 billion it was borrowing per year
    - Either the entire military shuts down
    - Social Security or Medicare payments stop being made
    - Everything else the government does shuts down
  - The economy enters into a massive recession. Tax revenues collapse
  - State and local governments become insolvent. No bailout is possible.
  - The government begins printing money to bridge the gap, unleashing massive inflation.

Conclusions

- Michigan’s economy has recovered, but still lags the broader national economy.
- Running $800 billion deficits while the national economy is at full employment is grossly irresponsible and sets the stage for the next recession.
- The federal government does not have the ability to balance the budget without massive entitlement reform or massive tax hikes.
- The federal government will have limited, if any, tools to fight the next recession.
- The federal government will have limited, if any, political capital for another round of bailouts