The U.S. and Michigan Economies

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August 18, 2011 Michigan Family Business Seminar
NATIONAL ECONOMY
Change in Employment-Current and Past Recessions

Source: Minneapolis Federal Reserve Branch
Change in GDP: Current and Past Recessions

Source: Bureau of Labor Statistics
Short-Term Growth Forecast

Source: Federal Reserve Bank of Philadelphia Survey of Professional Forecasters
Short-Term Unemployment and Jobs Forecast

Source: Federal Reserve Bank of Philadelphia Survey of Professional Forecasters
 Longer-Term Recovery Picture

Source: Bureau of Labor Statistics
Economic Growth During Recessions and Recoveries

Source: Bureau of Economic Analysis
Why Higher than Normal Growth is Important During a Recovery

Real Gross Domestic Product, 1 Decimal (GDPC1)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Shaded areas indicate US recessions.
2011 research.stlouisfed.org

Source: Bureau of Economic Analysis
Why Higher than Normal Growth is Important During a Recovery

Civilian Employment (CE160V)

Shaded areas indicate US recessions.
2011 research.stlouisfed.org

Source: Bureau of Labor Statistics
Core Inflation During Recessions and Recoveries

Early 1980s Recession and Recovery

Current Recession and Recovery

U.S. Bureau of Labor Statistics
Market Inflation Forecast Over a Ten Year Horizon-TIPS Spread

Source: Federal Reserve
Why Low Inflation Expectations?

Excess Reserves of Depository Institutions (EXCRESNS)
Source: Board of Governors of the Federal Reserve System

Source: Federal Reserve
Why the Increase in Excess Reserves?

Interest Rate Paid on Excess Reserve Balances (Institutions with 1-Week Maintenance Period) (INTEXC1)
Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions.
2011 research.stlouisfed.org

Source: Federal Reserve
Current Growth and Unemployment Numbers

• 2\textsuperscript{nd} quarter 2011: GDP grew at an annualized rate of 1.3%.
  – Better than 1\textsuperscript{st} quarter 2011: 0.4% increase

• Increase came from nonresidential fixed investment, increase in federal government spending, and a decrease in imports.

• Consumption spending and confidence are weak.

• Total Employment grew by 117,000 in July (154,000 in private sector).
  – Better than June (+46,000)
Some Important Unemployment Definitions...

\[ U_{3\, unemp.} = \frac{\# \text{ unemployed}}{\# \text{ in labor force}} \]

\[ U_{6\, unemp.} = \frac{\# \text{ unemployed}}{\# \text{ in labor force} + \# \text{ marginally attached} + \# \text{ parttime but want full time}} \]

employment – to – population ratio = \[ \frac{\# \text{ employed}}{\text{population (16 and over)}} \]

labor force participation rate = \[ \frac{\# \text{ in labor force}}{\text{population (16 and over)}} \]
U6 Unemployment

Source: Bureau of Labor Statistics
Employment-to-Population Ratio

Civilian Employment-Population Ratio (EMRATIO)

Shaded areas indicate US recessions.
2011 research.stlouisfed.org

Source: Bureau of Labor Statistics
Labor Force Participation Rate

Source: Bureau of Labor Statistics
Dark Clouds on the Horizon

• The Eurozone is falling apart:
  – Greece: Debt/GDP = 140%
    • To bring debt/gdp ratio to 90%: 52% “haircut” now, 63% haircut in 2012, 68% in 2013, 70% in 2014.
  – Ireland: Debt/GDP ratio = 94% now, 140% by 2014. Italy, 119%, Portugal, 93%; Spain, 60%, U.S.; 100%
  – All need to roll over debt equal to 30%-40% of GDP between 2011-2012.

Sources: Zerohedge.com, cnn.com, IMF
Both indices are back to their summer 2003 levels.

Source: S&P
The Housing Market

• Usually leads recoveries.

• June sales: down 0.8% to 4.77 million homes
  – 6 million needed for healthy market
  – First time homebuyers made up only 31% of new sales.
  – 16% of home sales were canceled (4x usual)

• Foreclosure backlog?

• Fannie/Freddie and FHA/VA account for nearly 90% of mortgage originations

• Housing construction down 66% (compared to 10 year average, 587k vs. 1.7 million), new household formation down 76% (compared to 2006, 1.6 million vs. 357k)
U.S. Budget Deficit Deal—We Blew It

Source: CBO
Figure 2.
Total Federal Spending for Medicare and Medicaid Under Assumptions About the Health Cost Growth Differential

(Percentage of gross domestic product)

Source: Congressional Budget Office.

Note: The health cost growth differential refers to the number of percentage points by which the growth of annual health care spending per beneficiary is assumed to exceed the growth of nominal gross domestic product per capita, after an adjustment for the growth and aging of the Medicare and Medicaid populations.
State Pensions-The Next Bailout?

• State and local pensions are $2 trillion underfunded.

• Nearly no state retiree health care costs are currently funded.

• How will this play out?

• Will the federal government continue to be able to borrow in unlimited amounts?
Reports of the U.S. Manufacturing Base’s Demise are Greatly Exaggerated

Industrial Production Index (INDPRO)
Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions.
2011 research.stlouisfed.org

Source: Federal Reserve
GDP of five largest countries compared with U.S. manufacturing output (trillions of $)

Source: Mark Perry (http://blog.american.com/?p=8593)
What About Manufacturing Jobs?

Source: Bureau of Labor Statistics
But, This Is Not a New Trend

Manufacturing Employment as a % of Private Employment

Source: Bureau of Labor Statistics
What Is Responsible for a Decline in Manufacturing Employment

Source: Federal Reserve Board of Governors
It is a myth that the U.S. imports but does not export

Source: Bureau of Labor Statistics
Recommendations

• The Fed can do more: QE3 and removing the interest rate on excess reserves.
• Stop prolonging the inevitable and let the housing market find a bottom.
• Wind down mortgage subsidies and require down payments.
• Stop adding uncertainty to the economy.
• Address long-term fiscal issues (Medicare, public pensions, the deficit). Bi-partisan “supercommittee”-zzzzzzzzzzzzzzzzzzzzz........
• Health reform that actually controls costs.
THE MICHIGAN ECONOMY
Change in Employment in Michigan-Current and Previous Recessions

Source: Federal Reserve Bank of Minneapolis
Summary Statistics for the U.S. and Michigan Unemployment Rates

- Average U.S. unemployment rate (1948-2011): 5.7%
- Average U.S. unemployment rate during recessions (1948-2011): 7.1%
- Average U.S. unemployment rate during expansions (1948-2011): 4.6%
- Average difference between U.S. and Michigan unemployment rate (1976-2011): +1.9%
- Average difference between U.S. and Michigan unemployment rate (1985-2011): +1.4%
- Average difference between U.S. and Michigan unemployment rate (2001-2007): +1.5%
- Average difference between U.S. and Michigan unemployment rate (1994-2001): -0.3%
- Current Difference: +1.3% (MI: 10.5%, U.S.: 9.2%)
<table>
<thead>
<tr>
<th>Industry</th>
<th>United States</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>11.31%</td>
<td>15.73%</td>
</tr>
<tr>
<td>Durable Goods</td>
<td>6.19%</td>
<td>12.01%</td>
</tr>
<tr>
<td>Motor Vehicle and Parts</td>
<td>0.56%</td>
<td>5.85%</td>
</tr>
<tr>
<td>Nondurable Goods</td>
<td>5.12%</td>
<td>3.72%</td>
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<tr>
<td>All services</td>
<td>70.30%</td>
<td>70.70%</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>11.42%</td>
<td>12.63%</td>
</tr>
<tr>
<td>Real Estate, Rental, and Leasing</td>
<td>13.33%</td>
<td>12.12%</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>8.36%</td>
<td>7.37%</td>
</tr>
<tr>
<td>Health Care</td>
<td>7.55%</td>
<td>8.82%</td>
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<tr>
<td>Information</td>
<td>4.56%</td>
<td>2.80%</td>
</tr>
<tr>
<td>Construction</td>
<td>3.83%</td>
<td>3.09%</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>2.78%</td>
<td>2.29%</td>
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<tr>
<td>Utilities</td>
<td>1.91%</td>
<td>2.54%</td>
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<tr>
<td>Education</td>
<td>1.11%</td>
<td>0.80%</td>
</tr>
<tr>
<td>Agriculture, Forestry, Fishing, and Hunting</td>
<td>0.95%</td>
<td>0.70%</td>
</tr>
<tr>
<td>Mining</td>
<td>1.72%</td>
<td>0.28%</td>
</tr>
<tr>
<td>Federal Civilian Government</td>
<td>2.27%</td>
<td>1.46%</td>
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<tr>
<td>Federal Military</td>
<td>1.72%</td>
<td>0.36%</td>
</tr>
<tr>
<td>State and Local Government</td>
<td>9.35%</td>
<td>10.78%</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis
Michigan’s Economic Troubles Explained by Just One Graph!

Source: Yahoo Finance
Auto Company Market Share

Source: Wards Auto Data
GM Stock Price-Post IPO

IPO: 11/18/11: $33/share

Post IPO Peak: 1/6/11
$38.90/share

8/10/11: $23.92/share

Source: Yahoo Finance
Customer complaints per 100 new vehicles

Labor hours required to assemble a car

Sources: 2008 Harbour Report and Lippert article
MICHIGAN ECONOMIC ACTIVITY INDEX

2004 = 100

Source: Comerica Bank
Michigan Forecast (my best guess)

• Best case scenario:
  – SUV craze part 2, or
  – Sudden emergence of new industry
  – Structural reforms to Michigan government to prevent yearly budget crisis

• Most likely best case scenario
  – Auto industry muddles through downturn, sales pick up when economy recovers, unemployment rate falls to +2 percentage points or so above national average
  – Michigan government muddles through without structural reforms. Budget crises diminish in severity as economic slides subsides.
  – State economy diversifies over time, new industries enter

• Worst case scenario
  – Bankruptcy of Chrysler or GM, state government implodes, financial crisis #2.
Recommendations

• Short run: so goes the national economy, so goes Michigan.
  – The auto companies stabilizing will go a long way in helping Michigan. Recent GM stock price decrease is disconcerting.

• Reforms (that can be implemented fairly easily):
  – Taxes: eliminate MBT and personal property tax. Raise revenue via income and sales tax (extended to services).
  – Don’t pick winners or losers. Make overall climate business friendly. Dump the film tax “credits.”
  – Stop the disinvestment in education, especially higher education.
  – Fix the structural budget deficit to give some predictability.
  – Repeal the Michigan smoking ban.
QUESTIONS?