



MICHIGAN ECONOMIC UPDATE

Office of Revenue and Tax Analysis
Michigan Department of Treasury

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

October 2012 Summary

U.S. Economy: Economic growth for 2012Q3 was revised upward from 2.01 percent to 2.67 percent. In October, the ISM manufacturing index remained above 50.0 (the expansion threshold) for the second straight month. The ISM non-manufacturing index signaled expansion for the 34th consecutive month. In October, the Consumer Sentiment Index rose 21.8 points from a year ago to 82.6 – a five year high. New durable goods orders were up 2.3 percent from October 2011. October 2012 year-over-year (y-o-y) industrial production growth (1.7 percent) represented the slowest y-o-y increase since February 2010. Similarly, capacity utilization was up 0.2 percentage point from last October -- the smallest y-o-y point change since December 2009. Existing home sales increased 10.9 percent to a 4.79 million unit annual sales rate. Housing starts rose 41.9 percent to an annualized 894,000 units in October – the highest annualized pace since mid-2008.

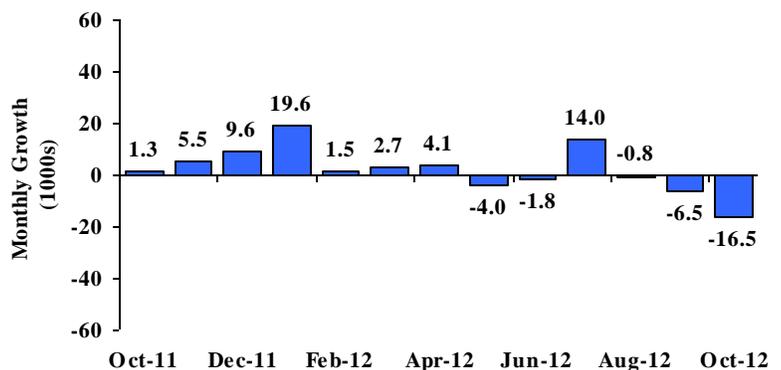
Employment: In October 2012, Michigan wage and salary employment was down 16,500 jobs (0.4 percent) compared to a month ago, but up 0.7 percent from a year ago. Nationally, wage and salary employment rose by 171,000 jobs between September and October. Between October 2011 and October 2012, U.S. employment increased 1.5 percent. Michigan's unemployment rate fell 0.2 percentage point in October from September to 9.1 percent. The State's October 2012 unemployment rate was 0.8 percentage point lower than a year earlier. The October 2012 U.S. unemployment rate (7.9 percent) was down 1.0 percentage point from a year ago.

Auto Industry: While falling from September's 54-month high, the October 2012 U.S. light vehicle annual sales rate (14.2 million units) was still up 0.9 million units from last October. Michigan vehicle production rose 12.7 percent compared to last October's production; U.S. vehicle production was up 18.9 percent.

Inflation: In October, the overall U.S. consumer price index (CPI) rose 2.2 percent compared to a year ago, while the Detroit CPI was up 2.4 percent from last year. At \$89.57 per barrel, oil prices were up \$3.16 from October 2011.

Michigan Metro Areas: Unemployment rates fell in all 17 major Michigan labor markets in October compared with each labor market's year-ago rate. Employment rose in all 17 areas and the median increase was 2.1 percent. Eighty-one of Michigan's 83 counties saw a year-over-year unemployment rate drop.

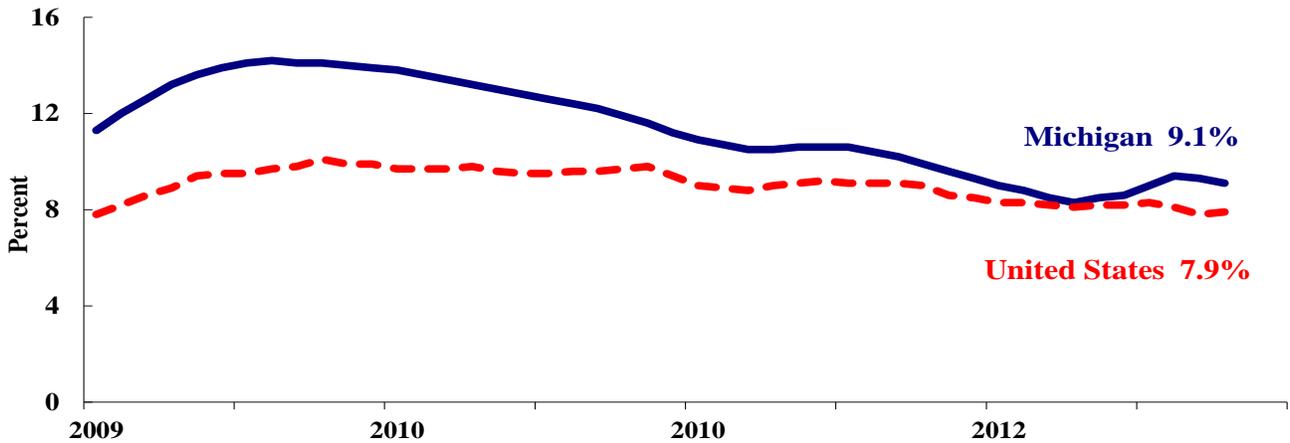
Michigan Employment Declines in October 2012^(a)



Labor Market Statistics

- Michigan’s October unemployment rate decreased 0.2 of a percentage point from last month to 9.1 percent, and was down 0.8 of a percentage point from a year ago. The October U.S. unemployment rate increased 0.1 of a percentage point from September to 7.9 percent and was down 1.0 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
2009 to 2012**



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

- In October, the number of people employed in Michigan was 4,247,000, up 13,000 from last month, while the labor force increased by 7,000. The statewide total number of unemployed decreased by 5,000 to 427,000.
- United States household employment totaled 143.4 million persons in October. The labor force totaled 155.6 million and there were 12.3 million unemployed in October 2012.

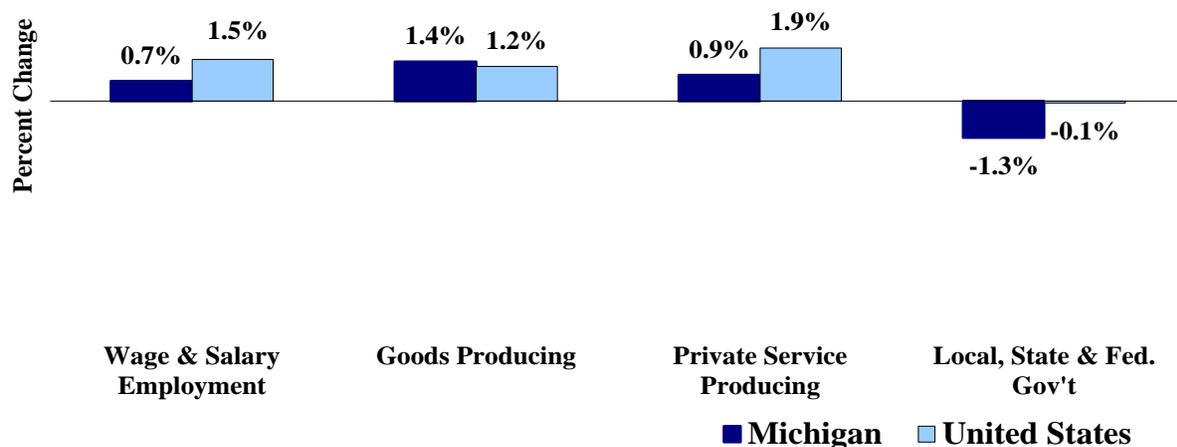
Employment by Place of Residence (in thousands)^(a)

	2011 Average	Aug 2012	Sep 2012	Oct 2012	Change From			
					Prior Month Level	%	Last Year Level	%
Michigan								
Labor Force	4,658	4,659	4,667	4,674	7	0.1%	32	0.7%
Employed	4,178	4,222	4,234	4,247	13	0.3%	64	1.5%
Unemployed	480	437	432	427	-5	-1.2%	-32	-7.0%
Unemployment Rate	10.3%	9.4%	9.3%	9.1%	n.a.	-0.2% pts	n.a.	-0.8%
United States								
Labor Force	153,617	154,645	155,063	155,641	578	0.4%	1,584	1.0%
Employed	139,869	142,101	142,974	143,384	410	0.3%	3,087	2.2%
Unemployed	13,747	12,544	12,088	12,258	170	1.4%	-1,501	-10.9%
Unemployment Rate	8.9%	8.1%	7.8%	7.9%	n.a.	0.1% pts	n.a.	-1.0%

Employment by Place of Work

- From October 2011 to October 2012, Michigan wage and salary employment increased 27,000 (0.7 percent). State wage and salary employment decreased 17,000 from September. Nationally, October 2012 wage and salary employment rose 1,949,000 (1.5 percent) from a year ago and was up 171,000 from last month.

Wage and Salary Employment Growth October 2011 to October 2012



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

- In the goods-producing sector, Michigan employment increased 1.4 percent from a year ago while private service-producing sector employment increased 0.9 percent compared to last year. From a year ago, October national employment in the goods-producing sector rose 1.2 percent and increased 1.9 percent in the private service-producing sector.
- Manufacturing weekly hours in Michigan increased 0.4 hours in October compared to last year.

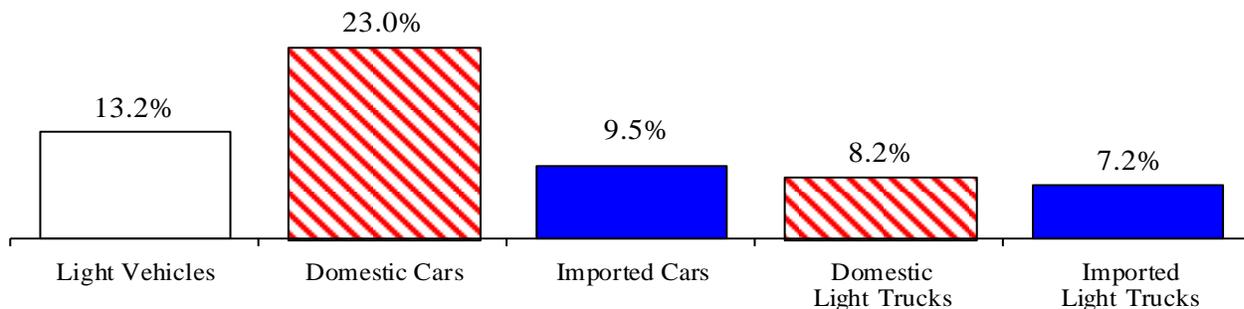
Wage and Salary (Payroll) Employment (in thousands)^(b)

	Michigan				United States			
	2011 Average	Oct 2011	Oct 2012	Percent Change	2011 Average	Oct 2011	Oct 2012	Percent Change
Wage & Salary Employment	3,936	3,945	3,973	0.7%	131,359	131,806	133,755	1.5%
Goods Producing	638	640	649	1.4%	18,021	18,106	18,330	1.2%
Manufacturing	506	508	524	3.1%	11,733	11,777	11,966	1.6%
Private Service Producing	2,679	2,692	2,717	0.9%	91,234	91,675	93,414	1.9%
Trade, Trans. & Utilities	720	722	715	-1.0%	25,019	25,102	25,447	1.4%
Services	1,713	1,721	1,750	1.7%	55,877	56,247	57,578	2.4%
Local, State & Fed. Gov't	619	615	607	-1.3%	22,104	22,025	22,011	-0.1%
Manufacturing Weekly Hours	41.4	43.3	43.7	0.4 hrs	40.5	40.6	40.5	-0.1 hrs

Motor Vehicle Industry Sales

- October 2012 U.S. light vehicle sales totaled 14.2 million units, at a seasonally adjusted annual rate, which was down 4.4 percent from September 2012, but up 7.0 percent from a year ago. The light vehicle sales rate has exceeded 14.0 million units in eight of the past nine months. Year-to-date (y-t-d), light vehicle sales are up 13.2 percent from last year while y-t-d heavy truck sales are 16.4 percent higher compared to the first 10 months of 2011.
- U.S. sales of domestic light vehicles decreased 3.3 percent in October 2012 compared with September, while foreign sales dropped 8.0 percent. Domestic sales rose 7.9 percent compared to a year ago while foreign sales increased 4.1 percent. Consequently, the foreign share of U.S. light vehicle sales decreased 0.6 percentage point from a year ago to 21.9 percent.
- Auto sales increased 13.9 percent compared to last October, while light truck sales were up 0.5 percent from October 2011. Through October 2012, year-to-date auto sales were up 18.7 percent and y-t-d light truck sales were 8.0 percent higher.

October 2012 Year-to-Date Domestic Car Sales Up Sharply from Year Ago



Motor Vehicle Sales Statistics

(Millions, unless otherwise specified)

Motor Vehicle Sales ^(c)	2011 Average	Aug 2012	Sep 2012	Oct 2012	3 Month Average	Change from Year Ago	
						Level	%
Autos	6.2	7.3	7.6	7.4	7.4	0.9	13.9%
Domestics	4.2	5.4	5.3	5.2	5.3	0.7	16.2%
Imports	1.9	2.0	2.3	2.2	2.1	0.2	8.5%
Import Share	31.4%	26.7%	30.0%	29.2%	28.7%	-1.4% pts	
Light Trucks	6.5	7.1	7.3	6.8	7.1	0.0	0.5%
Domestics	5.6	6.2	6.2	5.9	6.1	0.1	1.4%
Imports	1.0	1.0	1.1	1.0	1.0	(0.0)	-4.7%
Import Share	15.0%	13.6%	15.1%	14.0%	14.2%	-0.8% pts	
Total Light Vehicles	12.7	14.5	14.9	14.2	14.5	0.9	7.0%
Heavy Trucks	0.3	0.4	0.3	0.3	0.3	(0.0)	-10.0%
Total Vehicles	13.0	14.8	15.2	14.5	14.9	0.9	6.6%

Retail Inventories, Motor Vehicle and Parts Dealers^(d)

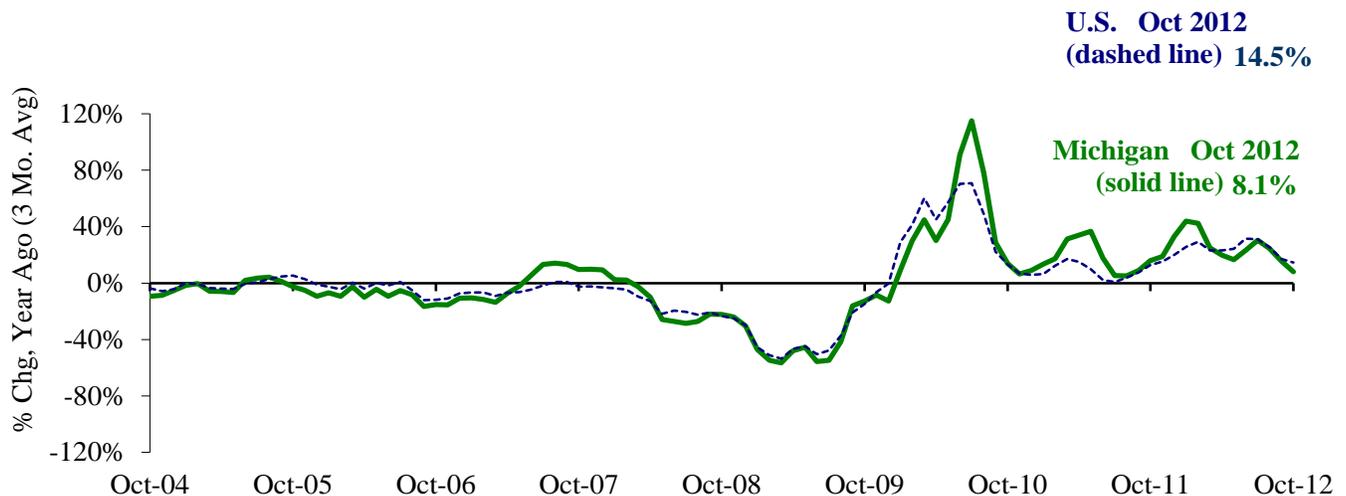
(billions of dollars)

	2011 Average	Jul-12	Aug-12	Sep-12	3 Month Average	Change from Year Ago	
						Level	%
Inventories	\$128.6	\$153.0	\$154.9	\$156.3	\$154.7	\$25.85	20.0%
Inventory/Sales Ratio	1.87	2.09	2.08	2.06	2.08	0.15	

Motor Vehicle Industry Production

- At 209,101 units, October 2012 Michigan motor vehicle production was 12.7 percent higher than October 2011. National production increased 18.9 percent from last October. The three-month average of Michigan production (August 2012-October 2012) was 8.1 percent higher than last year. Nationally, the August-October three month average was up 14.5 percent from last year.
- In October 2012, Michigan car production was up 31.7 percent from a year ago while State truck changed little (up 0.2 percent). Nationally, car production rose 34.3 percent while truck production increased 9.1 percent.
- From a year ago, Michigan's share of national production fell 1.2 percentage points to 21.2 percent.

Michigan and U.S. Motor Vehicle Production Three Month Average Up from Last Year ^(e,f)



Motor Vehicle Production Statistics

(Thousands, unless otherwise specified)

	2011 Monthly Average	Aug 2012	Sep 2012	Oct 2012	3 Month Average	Change from Year Ago for the Month	
						Level	%
U.S. Production ^(e)							
Autos	260.1	419.6	355.4	432.7	402.6	110.6	34.3%
Trucks	459.7	544.0	443.5	555.6	514.4	46.3	9.1%
Total	719.8	963.6	798.9	988.3	916.9	156.9	18.9%
Michigan Production ^(f)							
Autos	56.9	93.9	83.0	96.9	91.3	23.3	31.7%
Trucks	103.5	122.7	91.0	112.2	108.6	0.2	0.2%
Total	160.4	216.5	174.0	209.1	199.9	23.5	12.7%
Michigan as % of U.S.	22.3%	22.5%	21.8%	21.2%	21.8%	-1.2%	pts

Local Area Unemployment Rates Fall In All Seventeen Local Areas (Not Seasonally Adjusted)

October 2012 local area unemployment rates ranged between 4.6 percent (Ann Arbor MSA) and 10.5 percent (Detroit-Warren-Livonia MSA). The median October 2012 unemployment rate was 6.9 percent – this contrasts with an 8.2 percent median rate last October.

Compared to a year ago, the October unemployment rate fell in all 17 major Michigan labor market areas. The Detroit-Warren-Livonia MSA labor market area saw the smallest decline (-0.1 percentage point). The Grand Rapids-Wyoming MSA, Monroe MSA and Northwest Lower Michigan each reported the largest rate decline (-1.6 percentage points). The median rate decline was -1.3 percentage points.

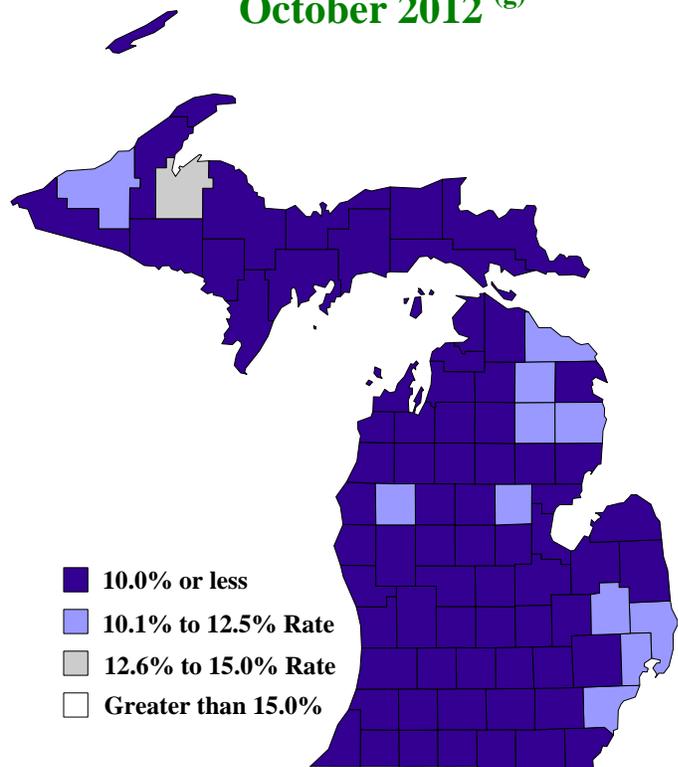
Between October 2011 and October 2012, all 17 labor market areas saw an employment increase. The median employment increase was 2.1 percent. Employment increases ranged between 0.4 percent in Detroit-Warren-Livonia MSA and 4.2 percent in Grand Rapids-Wyoming MSA. Compared to a year ago, the labor force fell in three of the State’s 17 areas while 14 areas saw a labor force increase. The Grand Rapids-Wyoming MSA experienced the largest labor force increase (2.5 percent), followed by the Flint MSA and Holland-Grand Haven MSA (2.3 percent). The Muskegon-Norton Shores MSA saw the greatest labor force decline (-0.9 percent).

Between October 2011 and October 2012, the unemployment rate fell in 81 Michigan counties, rose in Wayne County (0.2 percentage point) and was unchanged in Lapeer County. The median October 2012 rate decline was 1.5 percentage points. Ontonagon County posted the largest decline (-2.7 percentage points), followed by Baraga County (-2.6 percentage points). Seventy-one Michigan counties saw an October 2012 unemployment rate below 10.0 percent. Last October, 58 counties had an unemployment rate below 10.0 percent. In October 2012, no Michigan county reported a rate higher than 15.0 percent.

Local Area Unemployment Rates^(g)

<u>Local Area</u>	<u>Oct 2011 Rate</u>	<u>Sep 2012 Rate</u>	<u>Oct 2012 Rate</u>
Michigan	9.1%	8.2%	8.3%
Ann Arbor	5.7%	4.9%	4.6%
Battle Creek	7.6%	6.5%	6.1%
Bay City	8.2%	7.2%	6.9%
Detroit-Warren-Livonia	10.6%	10.0%	10.5%
Flint	9.4%	8.4%	8.1%
Grand Rapids-Wyoming	7.2%	6.0%	5.6%
Holland-Grand Haven	7.0%	5.8%	5.5%
Jackson	8.5%	7.4%	7.0%
Kalamazoo-Portage	7.6%	6.5%	6.2%
Lansing-East Lansing	6.9%	6.2%	5.9%
Monroe	8.2%	7.1%	6.6%
Muskegon-Norton Shores	9.0%	8.0%	7.5%
Niles-Benton Harbor	8.5%	7.8%	7.3%
Saginaw-Saginaw Township	8.3%	7.6%	7.3%
Upper Peninsula	8.1%	7.2%	6.8%
Northeast Lower Mich	10.1%	8.7%	8.6%
Northwest Lower Mich.	9.1%	7.8%	7.5%

County Unemployment Rates October 2012^(g)

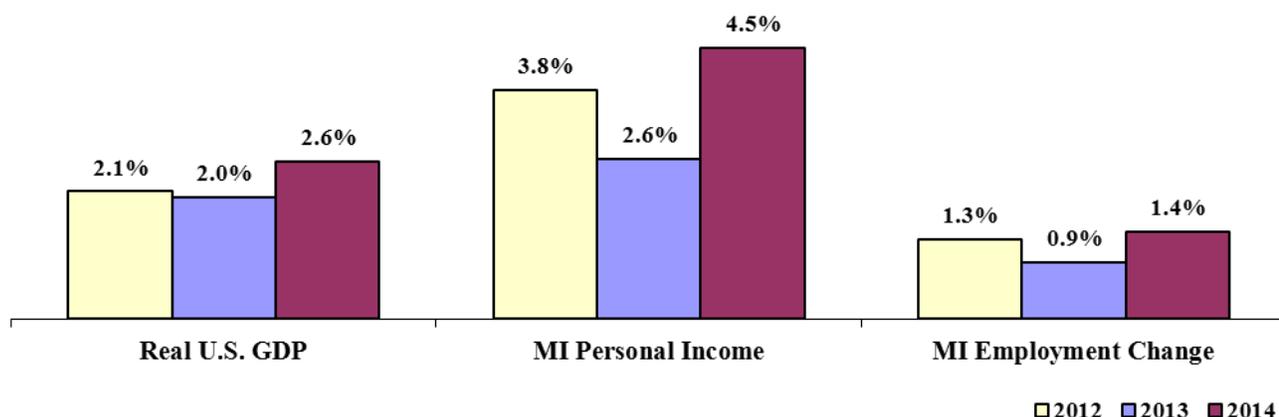


University of Michigan Economic Forecast Slowly Accelerating Growth

On November 15 and 16, 2012, the Research Seminar in Quantitative Economics (RSQE), University of Michigan released its forecast for the U.S. and Michigan economies for 2013 and 2014. Forecast highlights include:

- After growing an estimated 2.1 percent in CY 2012, real (inflation adjusted) GDP is forecast to rise 2.0 percent in CY 2013 and grow 2.6 percent in CY 2014. Real consumption is expected to rise over the forecast, but at a slower rate than overall real GDP. Real investment – particularly residential investment – is forecast to rise sharply between 2012 and 2014. Real government purchases are projected to decline each year between 2012 and 2014.
- U.S. wage and salary employment is expected to see modest growth over the forecast horizon. As a result, the U.S. unemployment rate is projected to fall slightly over the next two years from 8.1 percent in 2012 to 7.4 percent in 2014.
- Light vehicle sales are estimated to have risen from 12.7 million units in 2011 to 14.3 million units in 2012. Sales are forecast to rise to 15.0 million units in 2013 and to 15.6 million units in 2014.
- Michigan wage and salary employment rose an estimated 1.3 percent in 2012. Michigan employment growth is forecast to slow to 0.9 percent in 2013 before accelerating to 1.4 percent growth in 2014.
- The Michigan unemployment rate dropped substantially in 2012 – falling from 10.3 percent in 2011 to an estimated 8.9 percent. Michigan’s unemployment rate is forecast to drop slightly in 2013 to 8.7 percent before declining to 8.0 percent in 2014.
- After rising 5.6 percent in 2011, Michigan personal income increased an estimated 3.8 percent in 2012. Income growth is forecast to slow to 2.6 percent in 2013, but accelerate to 4.5 percent in 2014.

Modest GDP and Michigan Personal Income Growth Michigan Employment Increases



U.S. Economic Conditions

	<u>Jul-12</u>	<u>Aug-12</u>	<u>Sep-12</u>	<u>Oct-12</u>	<u>Change from Year Ago</u>
KEY ECONOMIC INDICATORS					
Consumer Sentiment ^(h)	72.3	74.3	78.3	82.6	21.8 points
ISM Manufacturing Index ⁽ⁱ⁾	49.8	49.6	51.5	51.7	-0.1 points
ISM Non Manufacturing Index ⁽ⁱ⁾	52.6	53.7	55.1	54.2	1.6 points
	<u>2011.4</u>	<u>2012.1</u>	<u>2012.2</u>	<u>2012.3</u>	
Business Executives' Confidence ^(j)	49.0	63.0	47.0	42.0	0.0 points
INFLATION ^(k)					
1982-84 = 100	<u>Jul-12</u>	<u>Aug-12</u>	<u>Sep-12</u>	<u>Oct-12</u>	<u>Change from Year Ago</u>
U.S. Consumer Price Index	229.1	230.4	231.4	231.3	2.2%
Detroit CPI	NA	217.1	NA	218.1	2.4%
U.S. Producer Price Index	193.1	195.5	196.7	196.3	2.3%
INTEREST RATES					
90 Day T-Bill ^(l)	0.10%	0.10%	0.11%	0.10%	0.08% points
Aaa Corporate Bonds ^(l)	3.40%	3.48%	3.49%	3.47%	-0.51% points
INDUSTRIAL PRODUCTION ^(l)					
	97.9	96.8	97.0	96.6	1.7%
CAPACITY UTILIZATION ^(l)					
	79.2%	78.2%	78.2%	77.8%	0.2% points
RETAIL SALES ^(d)					
	\$403.6	\$407.7	\$412.9	\$411.6	3.8%
HOUSING STARTS and SALES					
(Millions Annual Rate)	<u>Jul-12</u>	<u>Aug-12</u>	<u>Sep-12</u>	<u>Oct-12</u>	<u>% Change From Year Ago</u>
Housing Starts ^(d)	0.728	0.750	0.863	0.894	41.9%
Existing Home Sales ^(m)	4.470	4.830	4.690	4.790	10.9%
DURABLE GOODS ORDERS ^(p)					
	\$228.6	\$198.7	\$216.9	\$216.9	2.3%
PERSONAL INCOME ^(c)					
(Billions of Dollars)	<u>2011.3</u>	<u>2011.4</u>	<u>2012.1</u>	<u>2012.2</u>	<u>% Change From Year Ago</u>
Michigan	\$358.3	\$362.0	\$366.8	\$370.7	4.1%
U.S.	\$12,977.3	\$13,018.3	\$13,236.3	\$13,370.3	3.3%
GROSS DOMESTIC PRODUCT					
(Billions of Chained 2005 Dollars) ^(c)	<u>2011.4</u>	<u>2012.1</u>	<u>2012.2</u>	<u>2012.3</u>	<u>Annualized % Chg From Last Qtr</u>
	\$13,441.0	\$13,506.4	\$13,548.5	\$13,638.1	2.67%

SOURCES AND NOTES:

- (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.