

Michigan Economic Update

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The comments and opinions that I will be expressing are my own and do not reflect the thinking or policy posture of the Federal Reserve System nor of the Federal Reserve Bank Of Chicago, (7th District).

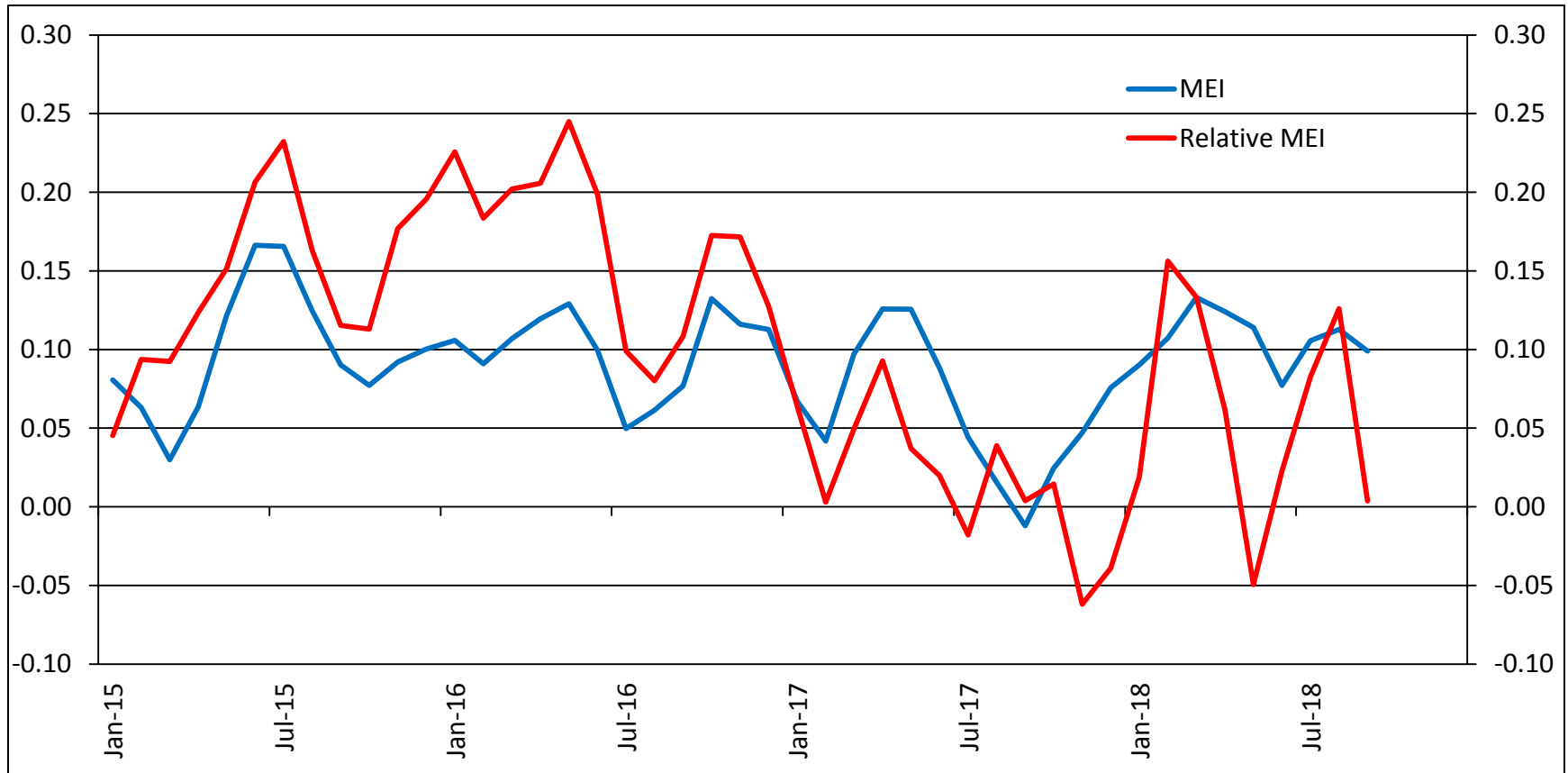
Presentation Outline

- Headline growth
- Consumer spending
- Investment spending
- A little bit on trade
- Labor market
- Closing thoughts

Michigan Economic Outlook

- Short-run: Growth will be modestly above trend
 - Healthy consumer
 - Above trend light vehicle sales as long as tariff impacts are muted
 - Housing won't help much
 - Optimistic state and local governments
 - Hopeful on trade
- Long-run: Well.....

Michigan Economy Indexes: Pace of growth has remained steady, benefiting somewhat from national tailwinds.



A zero value for the index indicates that the Michigan economy is expanding at its historical trend rate of growth; negative values indicate below-average growth; and positive values indicate above-average growth. A zero value for the Relative MEI indicates that the Michigan economy is growing at a rate historically consistent with the growth of the national economy; positive values indicate above-average relative growth; and negative values indicate below-average relative growth.

Michigan Retail Sales

(12 Month Moving Average, 2012-present)



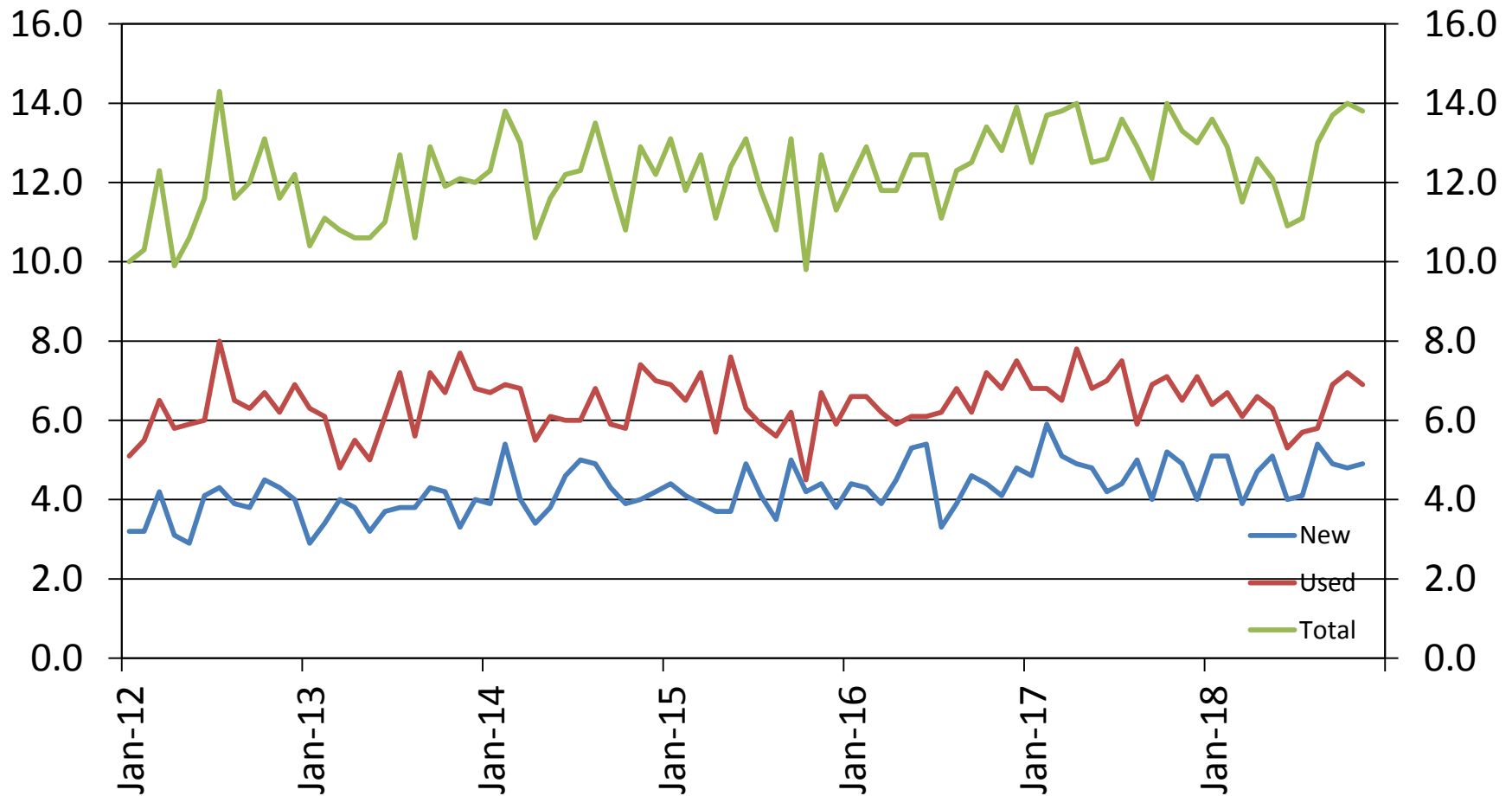
Source: Author's Calculations Using Data From the Michigan Retail Index

Strengthening Michigan Tourism Sector an Indicator of Consumer Health

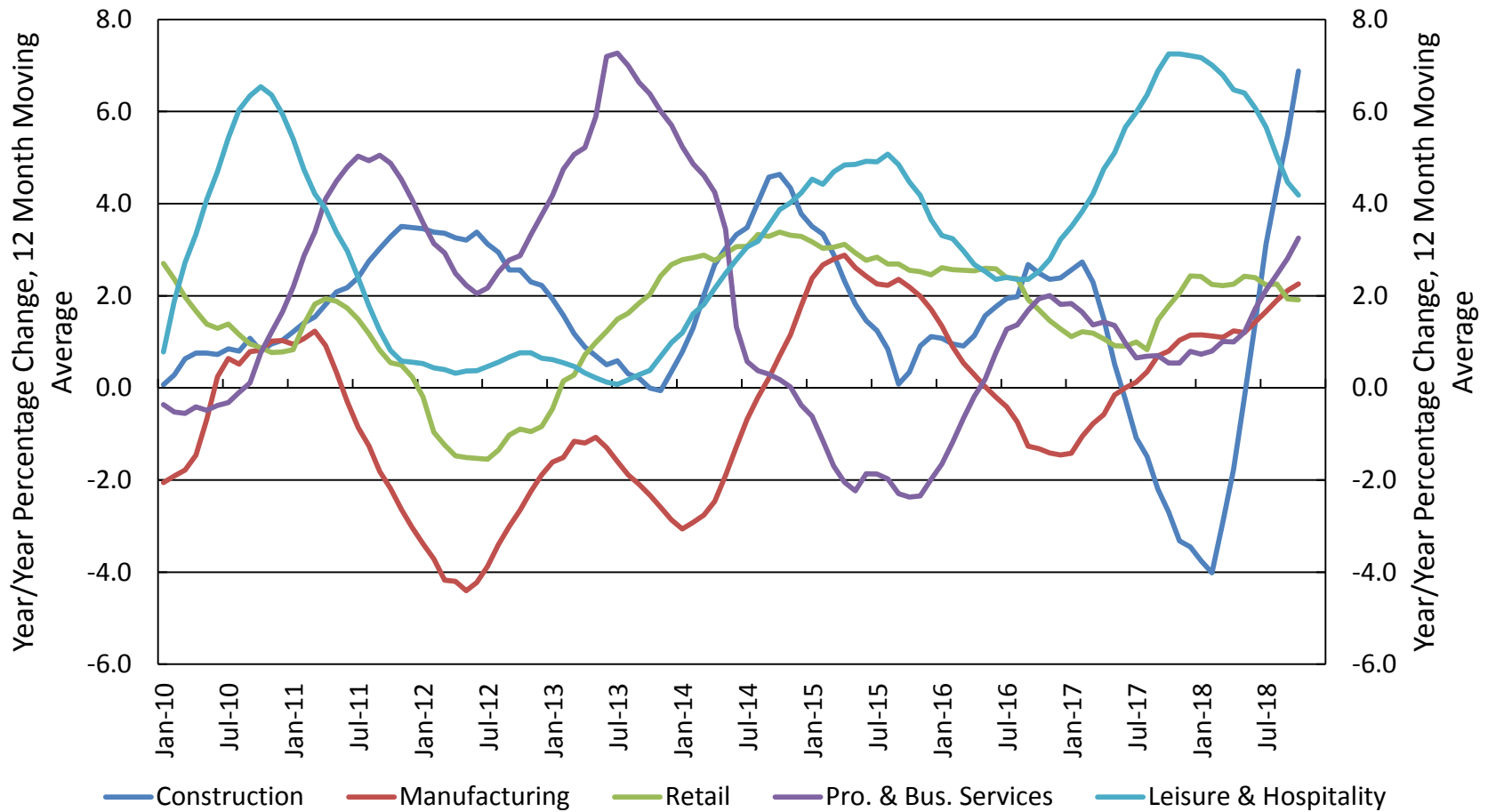
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Occupancy Rate	47.5	51.5	55.2	56.7	57.4	58.5	59.8	60.4	61.5	63.1
Average Daily Rate	77.97	76.90	79.48	82.64	86.58	90.80	95.79	100.07	101.87	106.11
Revenue Per Room	37.26	40.04	44.24	47.25	50.07	53.64	57.92	62.51	67.87	68.09

*2018 not complete. Sources: STR.com and Hotel News Now

Interest in buying vehicles is firm.

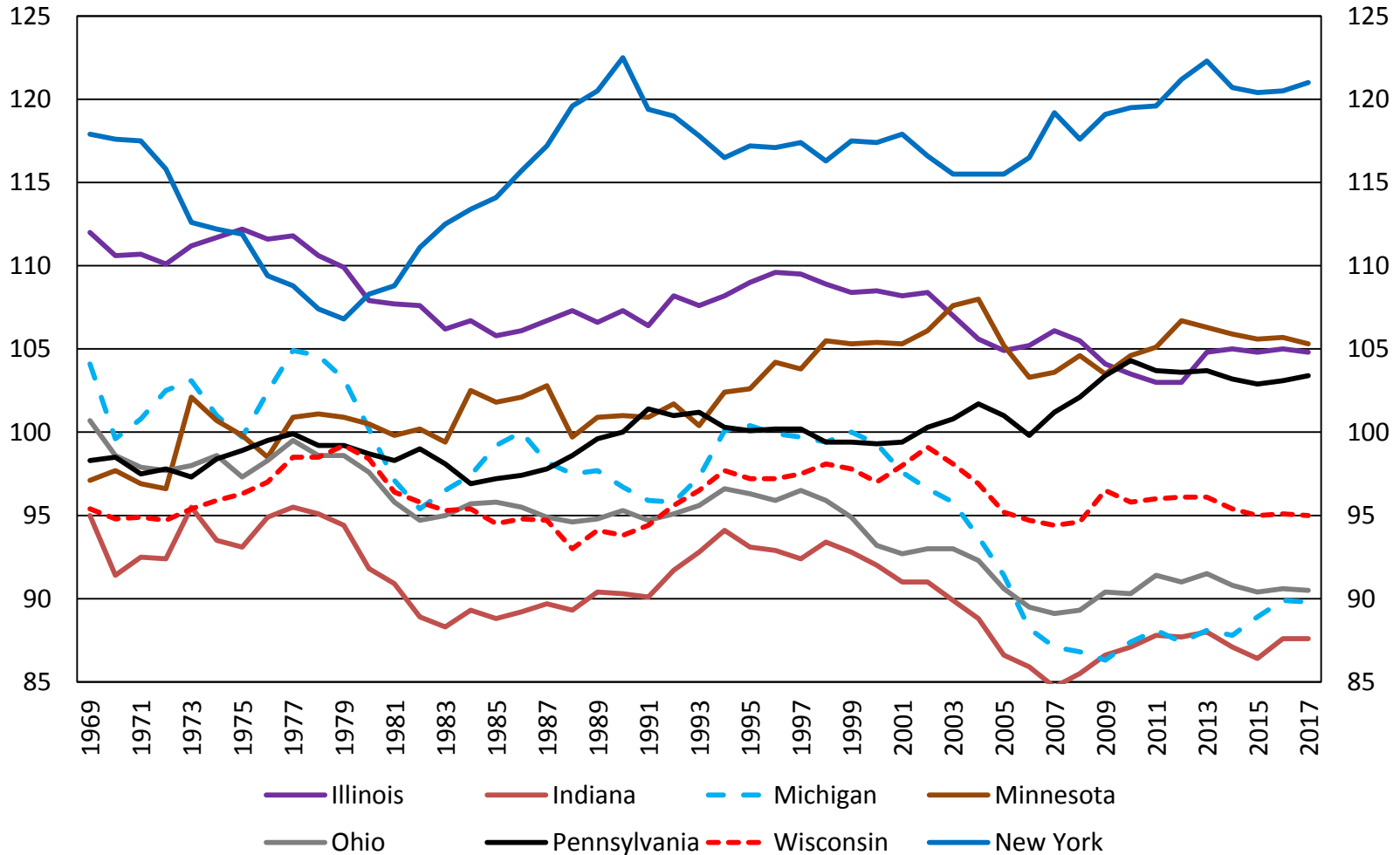


Wage growth has become more widespread in Michigan



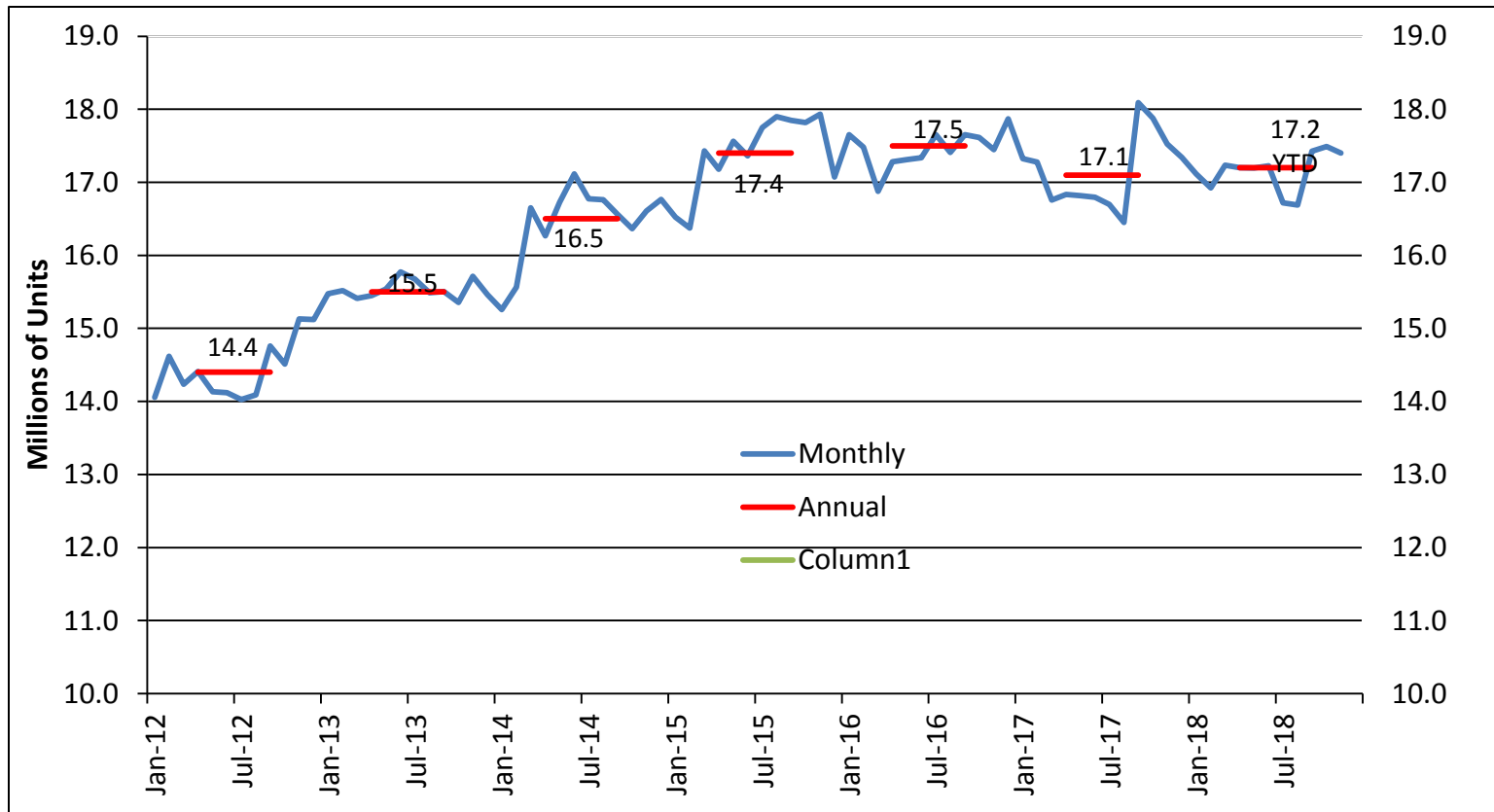
Source: Author's calculations using data from the Bureau of Labor Statistics

Per Capita Personal Income Relative to the U.S.

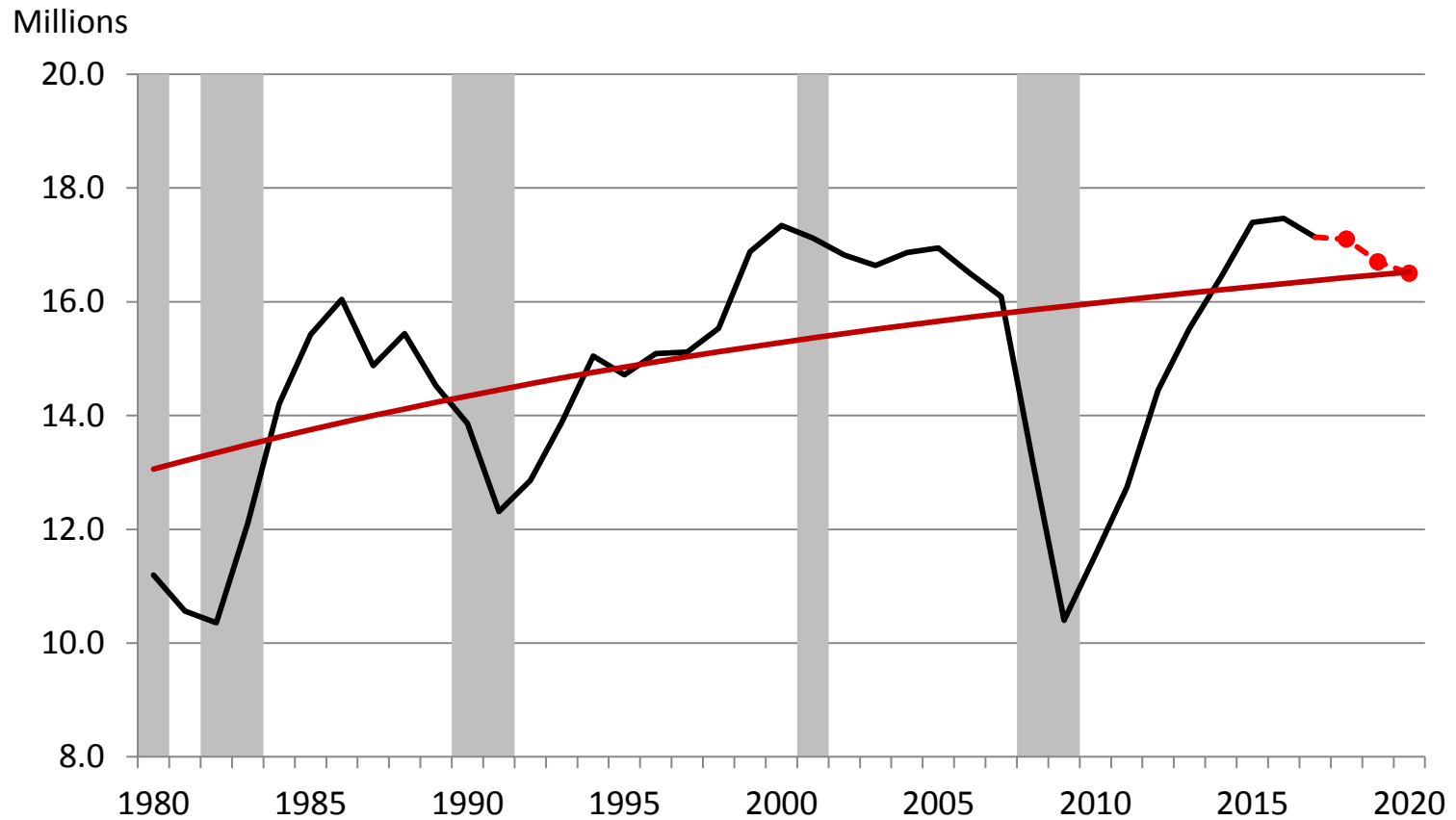


Source: Bureau of Economic Analysis

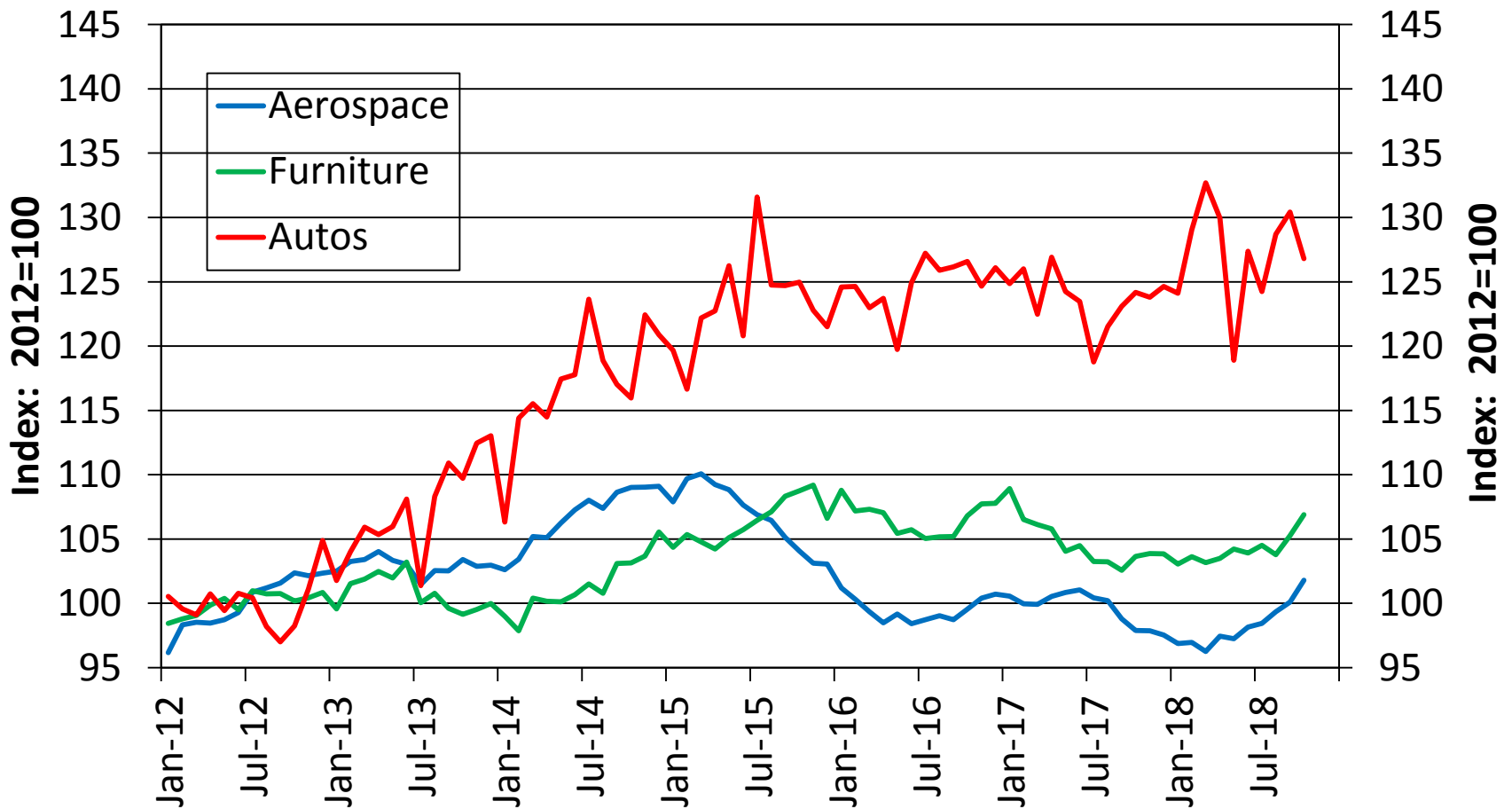
Year-to-date, light vehicle sales have edged higher versus last year. The majority of forecasters originally expected 2018 light vehicle sales to total fewer than 17 million units.



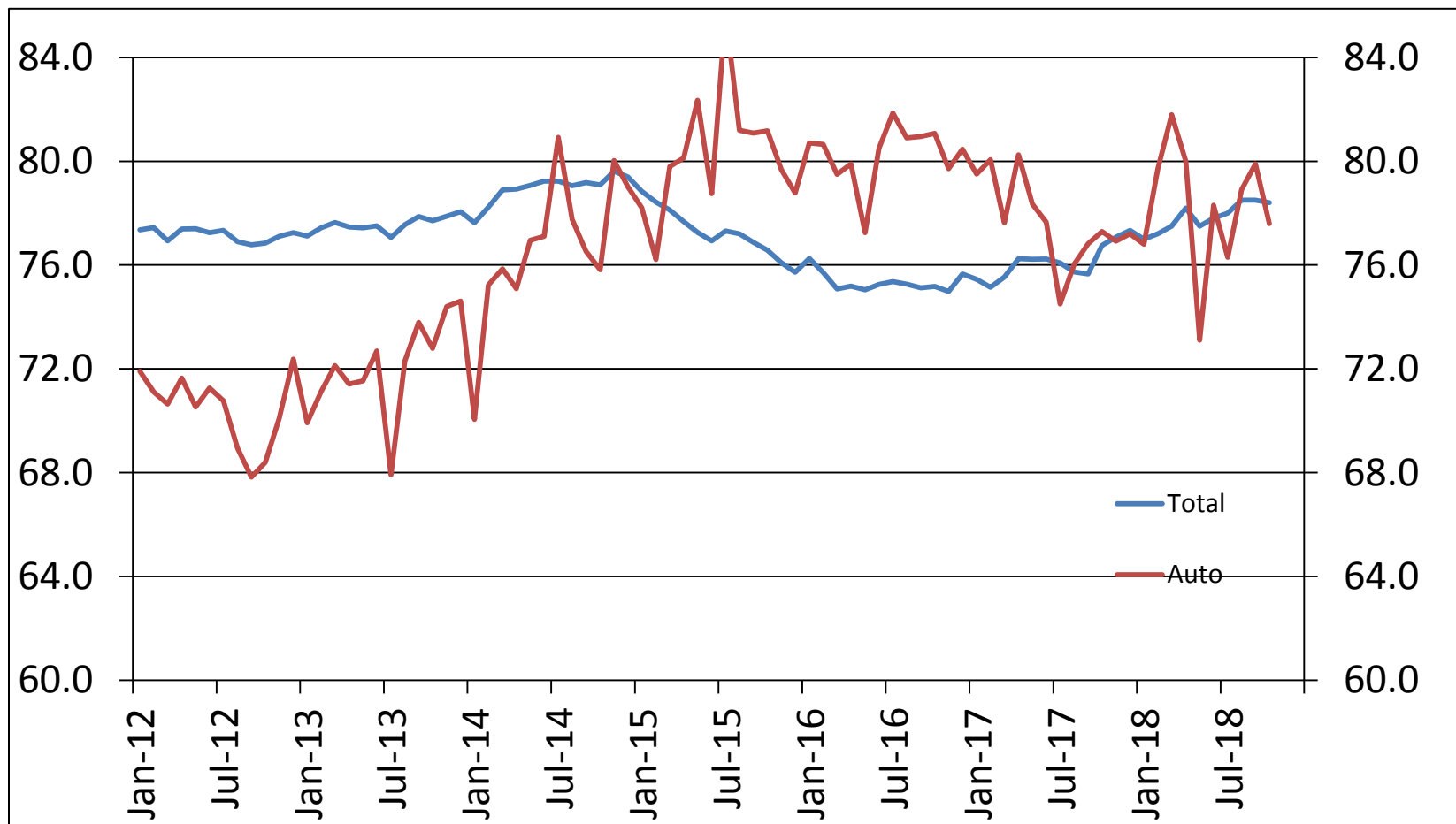
Above trend light vehicle sales bode well for Michigan



Michigan Durable Good Manufacturing Activity Ticked Higher in Recent Months

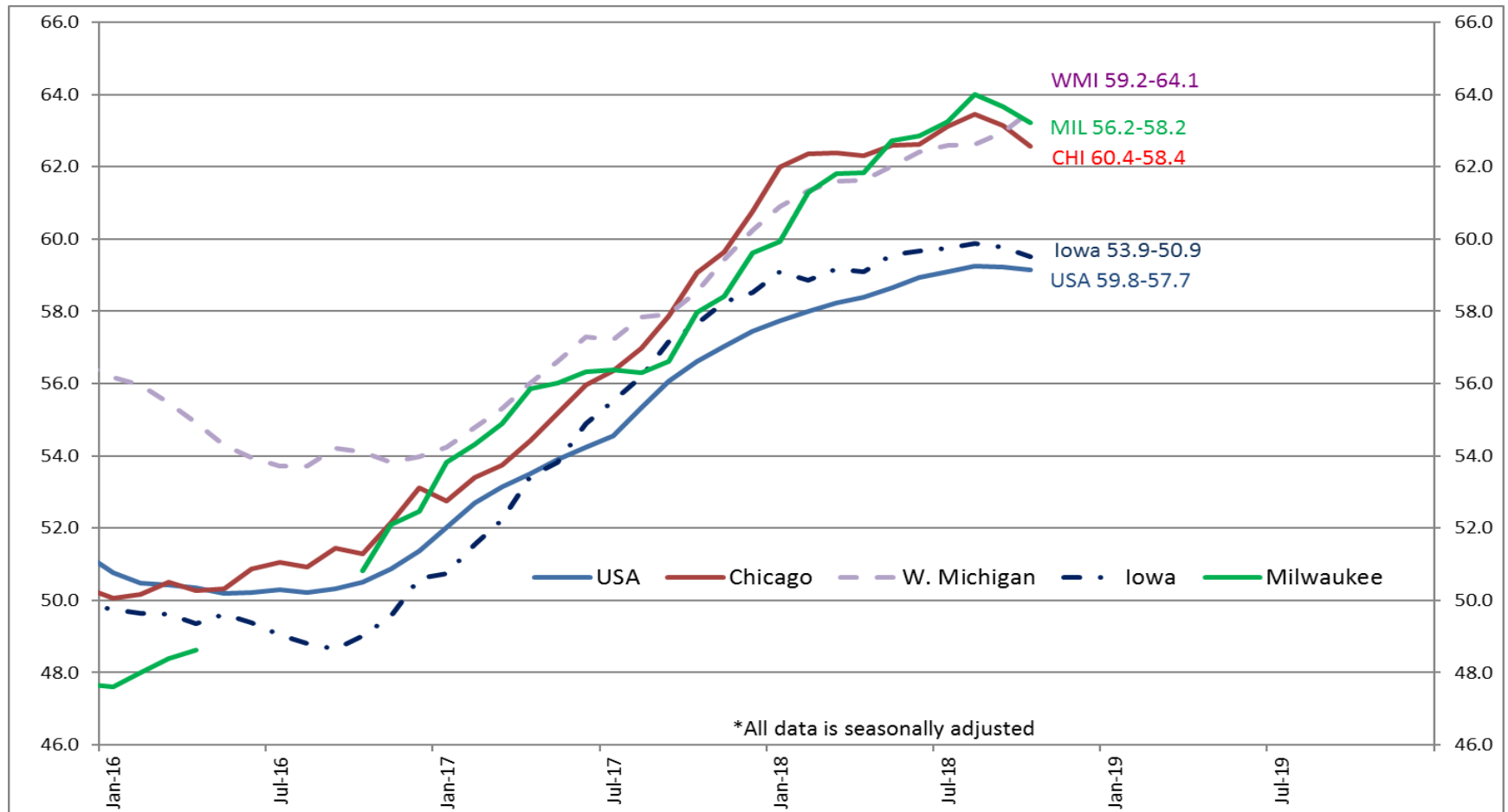


Capacity Utilization Rates (Total, Auto)



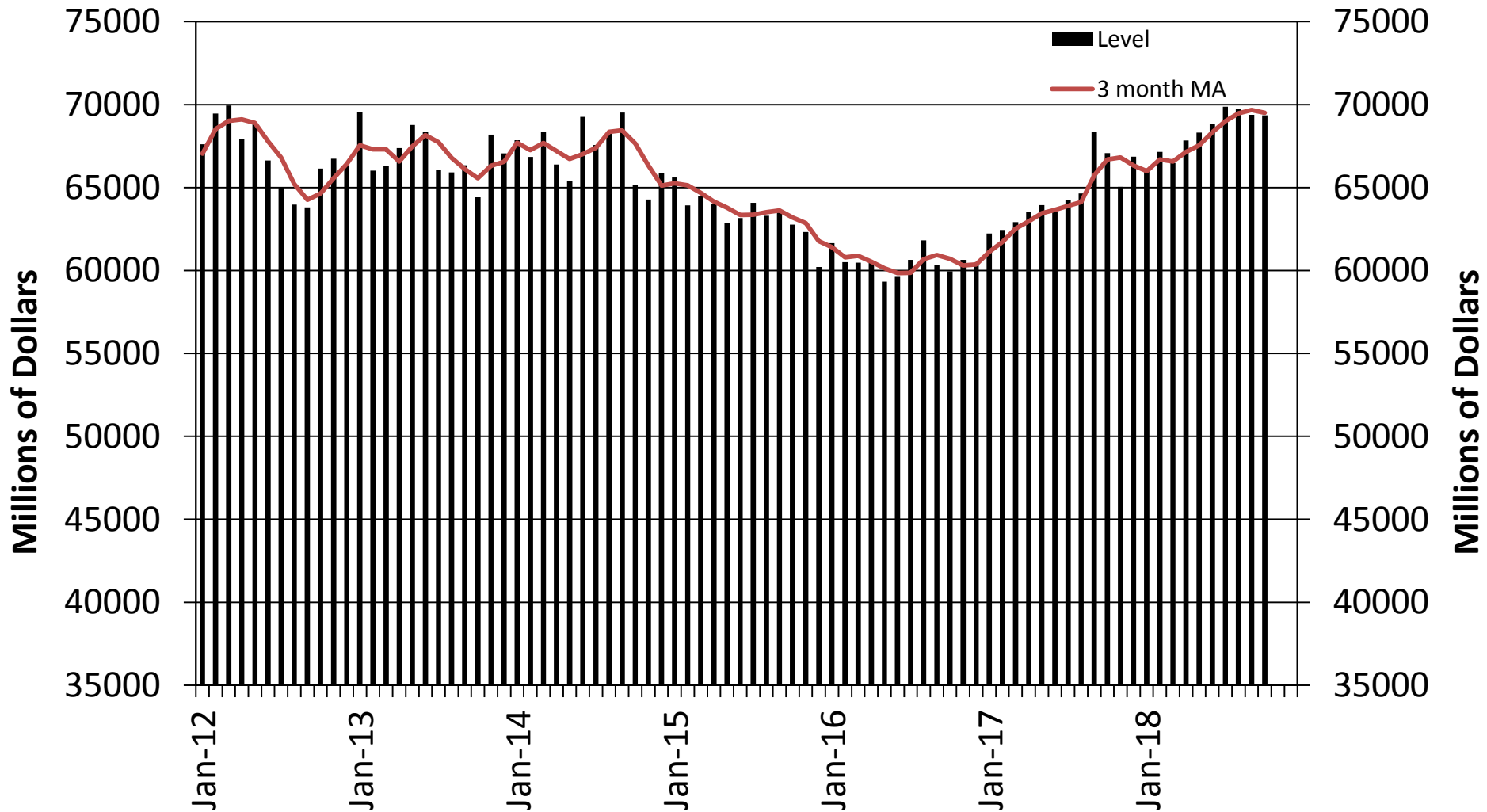
Purchasing Managers' Indexes

(US, 7th District)



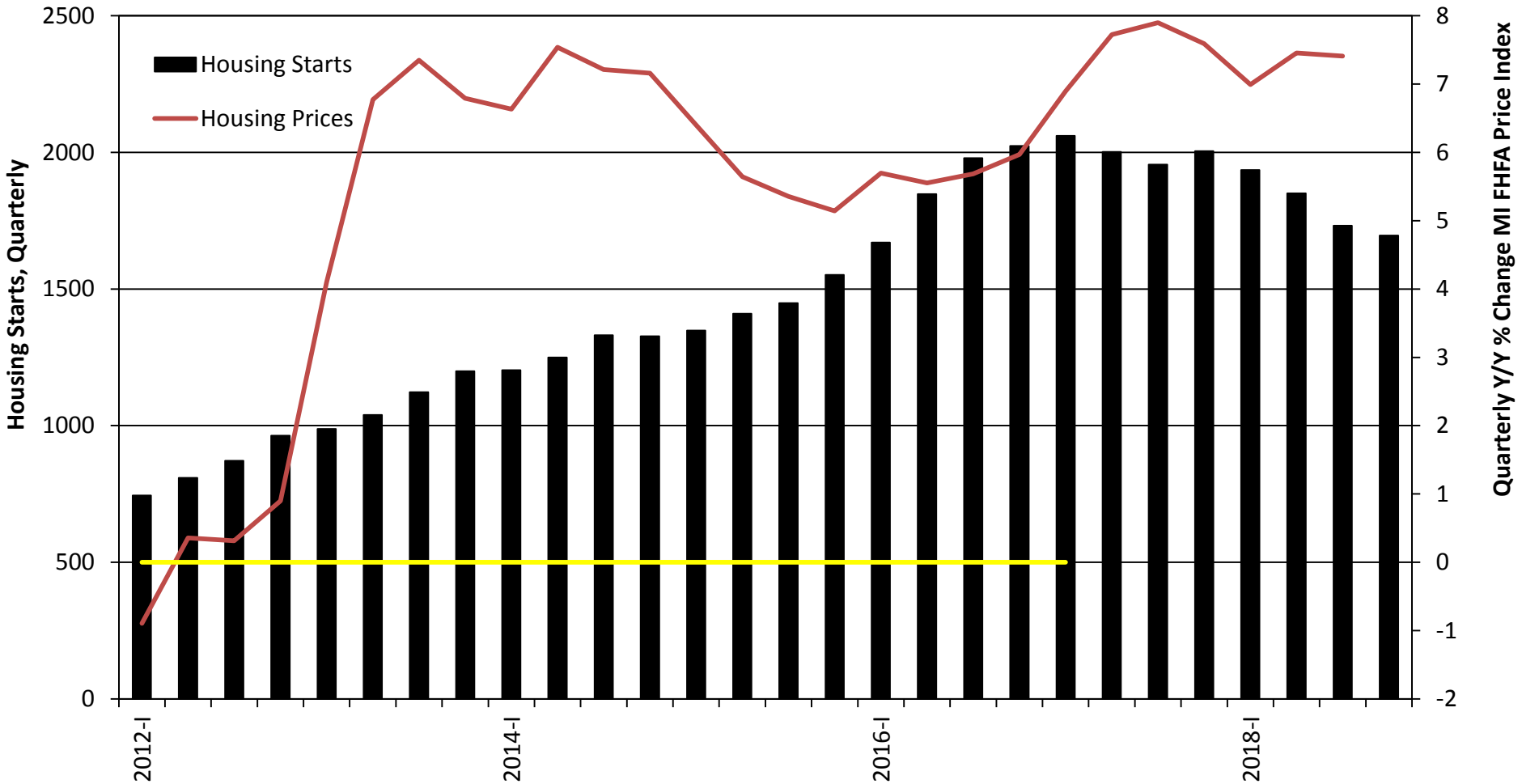
Values above 50 indicate expansion; values below 50 indicate contraction. The chart shows each PMI's 12 month moving average.

Nondefense Capital Goods Excl. Aircraft (Level, 3 month MA, 2012-present) Order boards have looked healthier since 2016.



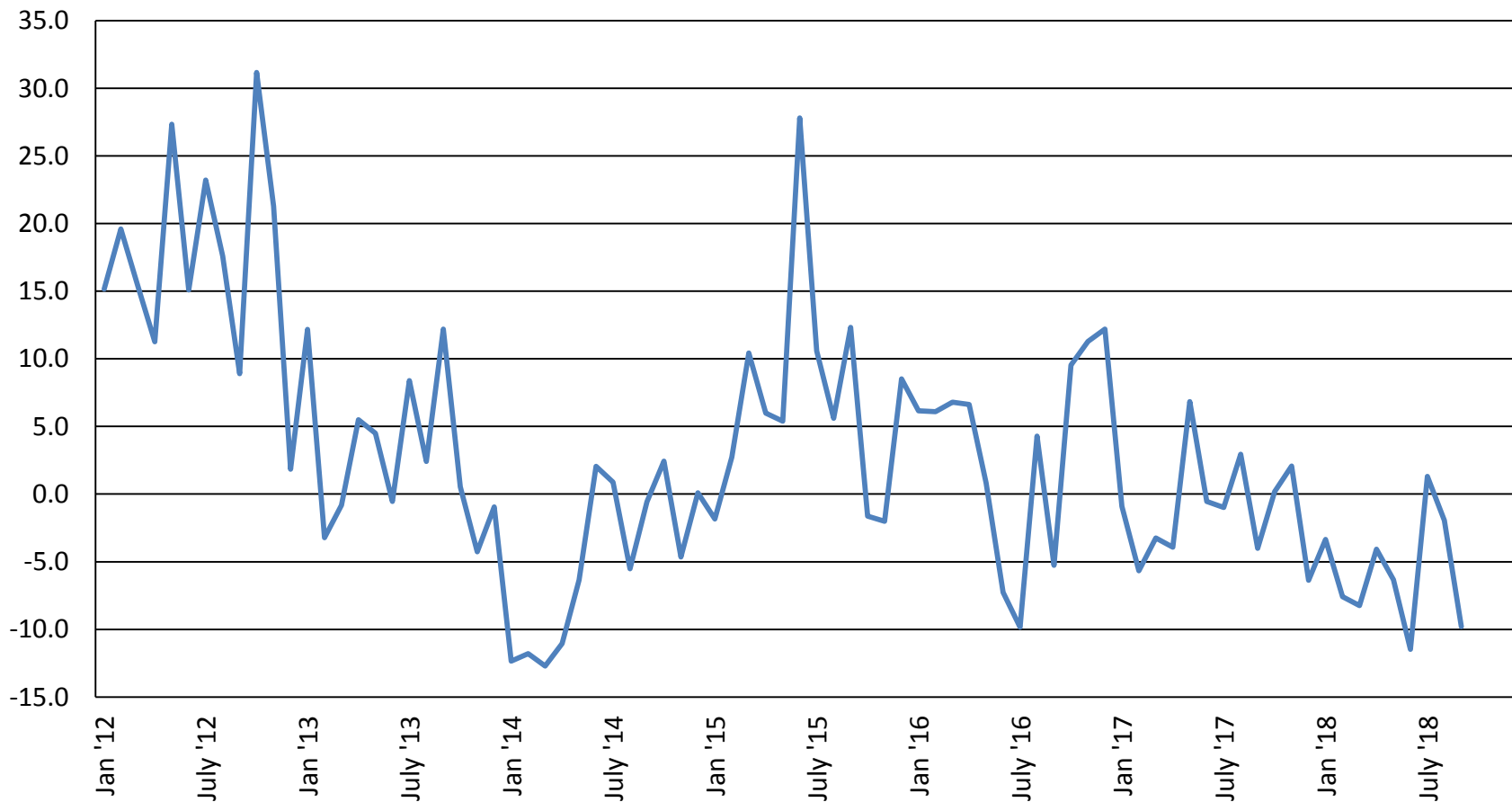
Source: Census Bureau

Home price appreciation in Michigan is outperforming the U.S. However, new home construction has now fallen for almost 2 years.



Source: Haver Analytics, FHFA

Michigan home sales have slowed over the last 2 years



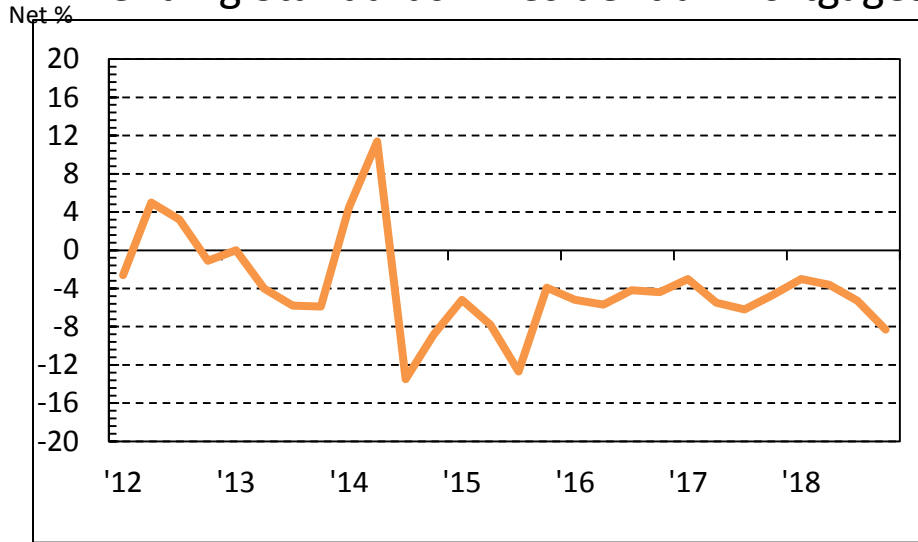
Source: Author's calculations using data from mirealtors.com

In some Michigan Counties, it's hard to find starter-priced homes

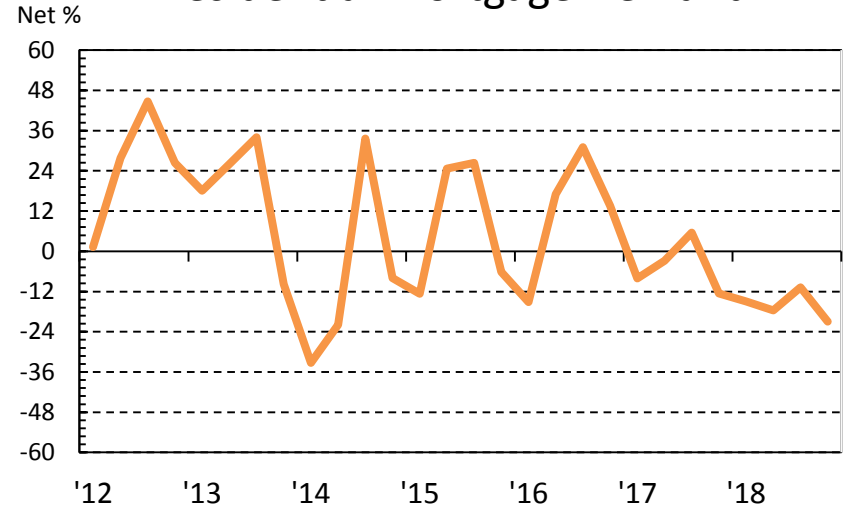
	Amount of entry-level housing in jurisdiction			
	Too much	The right amount	Too little	Don't Know
CALHOUN	6.35	24.02	44.11	25.52
GENESEE	15.29	66.77	14.15	3.8
GRAND TRAVERSE	0	29.64	58.17	12.19
INGHAM	0	44.97	55.03	0
KALAMAZOO	0	54.27	40.24	5.49
KENT	0	44.14	51.32	4.54
LIVINGSTON	0	32.47	62.75	4.78
MACOMB	13.52	57.6	28.88	0
OAKLAND	4	45.55	50.44	0
OTTAWA	0	45.97	54.03	0
SAGINAW	7.84	60.15	20.11	11.9
WASHTENAW	0	39.11	60.89	0
WAYNE	18.25	54.92	18.83	8
TOTAL	4.67	50.48	34.31	10.54

Senior Loan Officer Survey

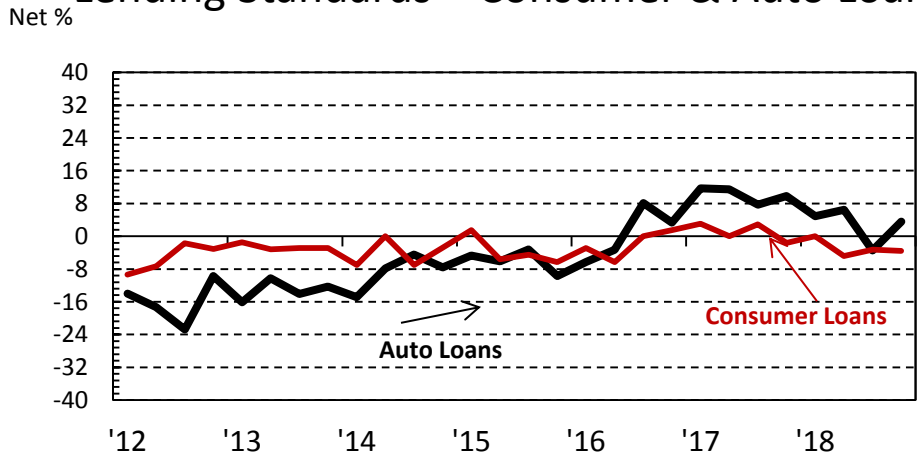
Lending Standards – Residential Mortgages



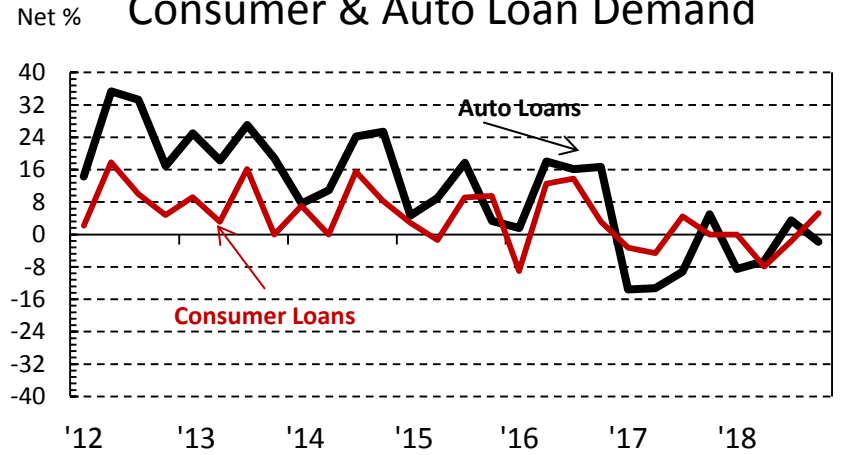
Residential Mortgage Demand



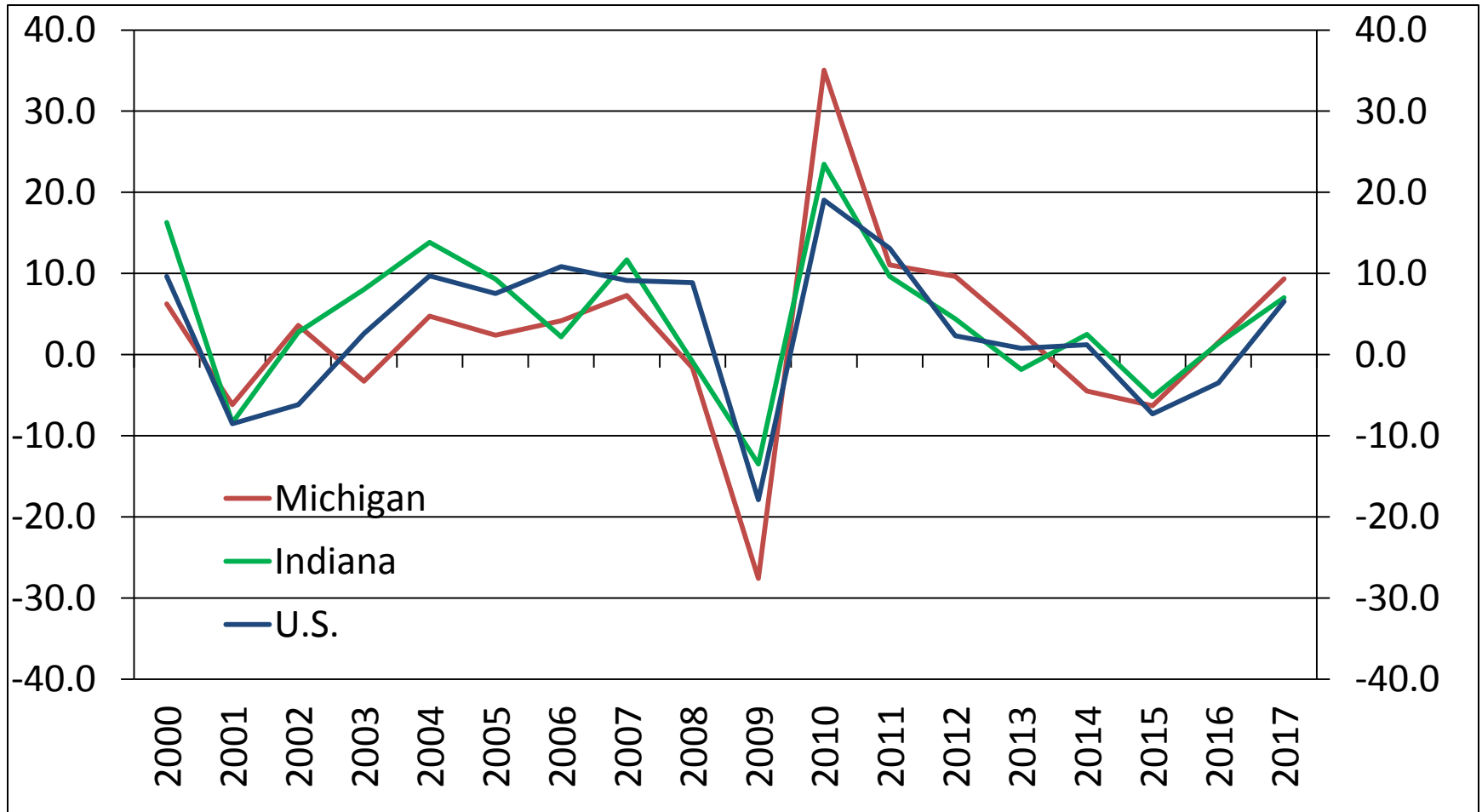
Lending Standards – Consumer & Auto Loans



Consumer & Auto Loan Demand

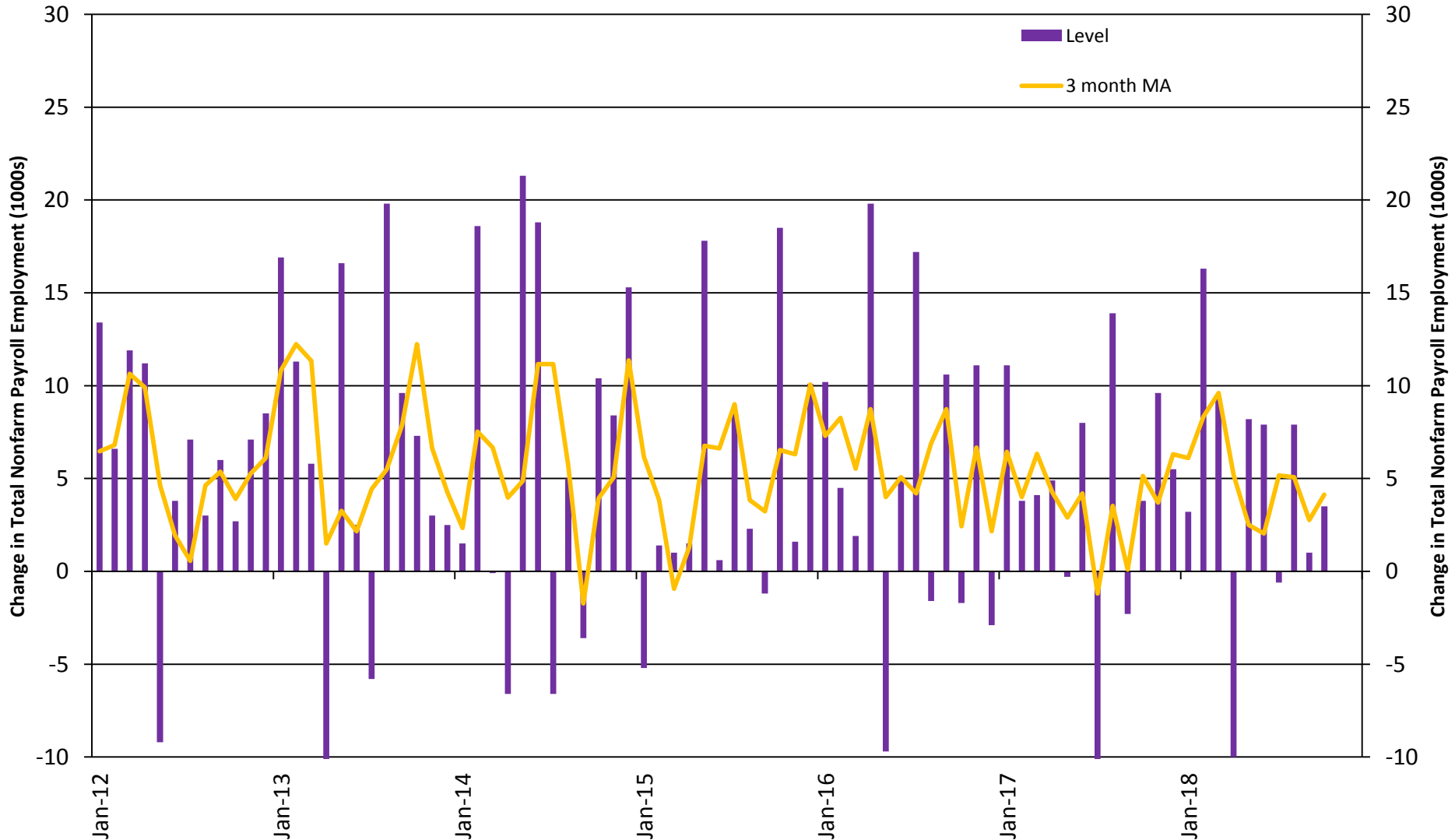


Real Export Growth



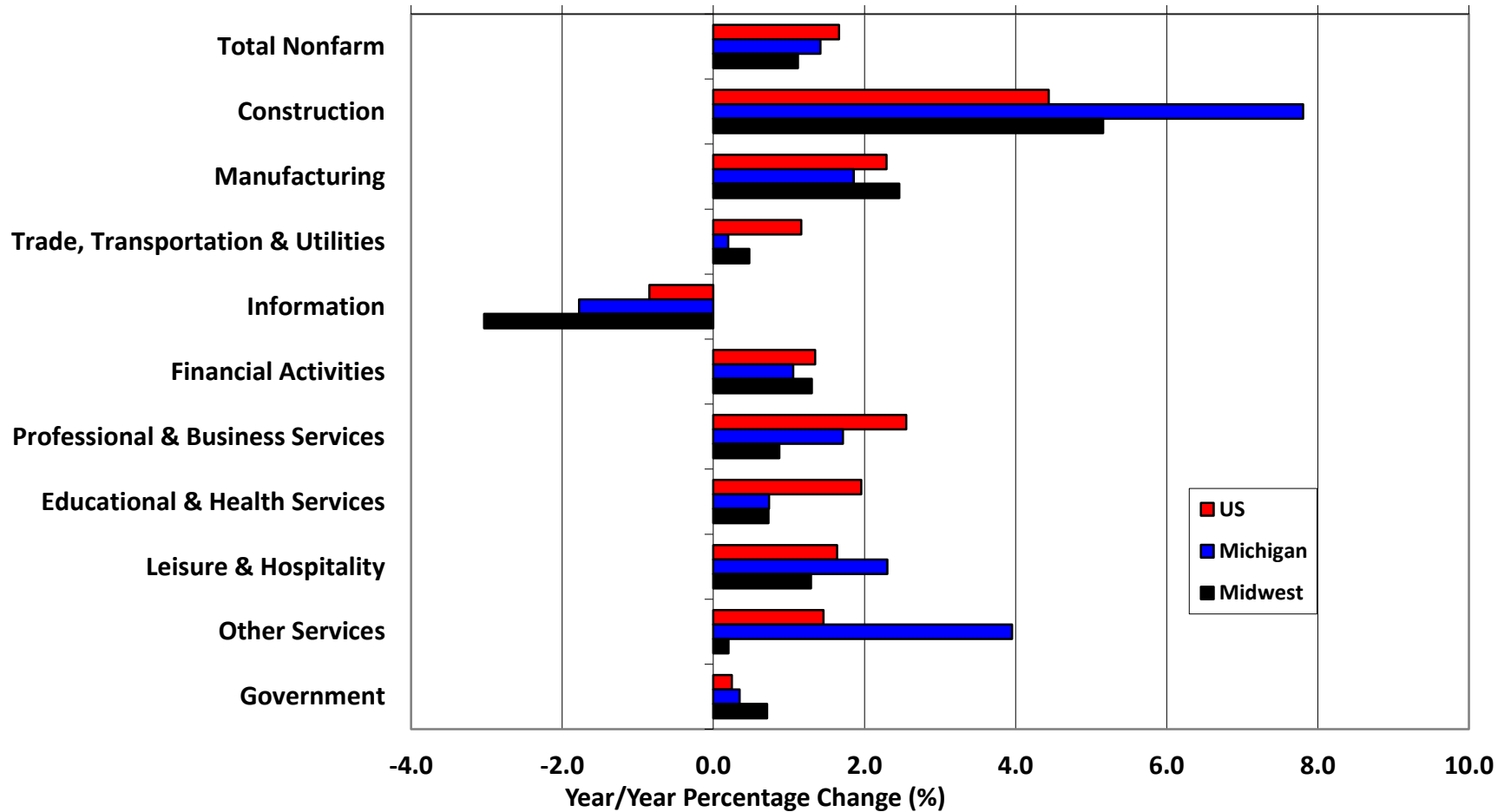
Source: Author's Calculations using data from TradeStats Express

Michigan nonfarm payroll employment growth has slowed since the beginning of the year.

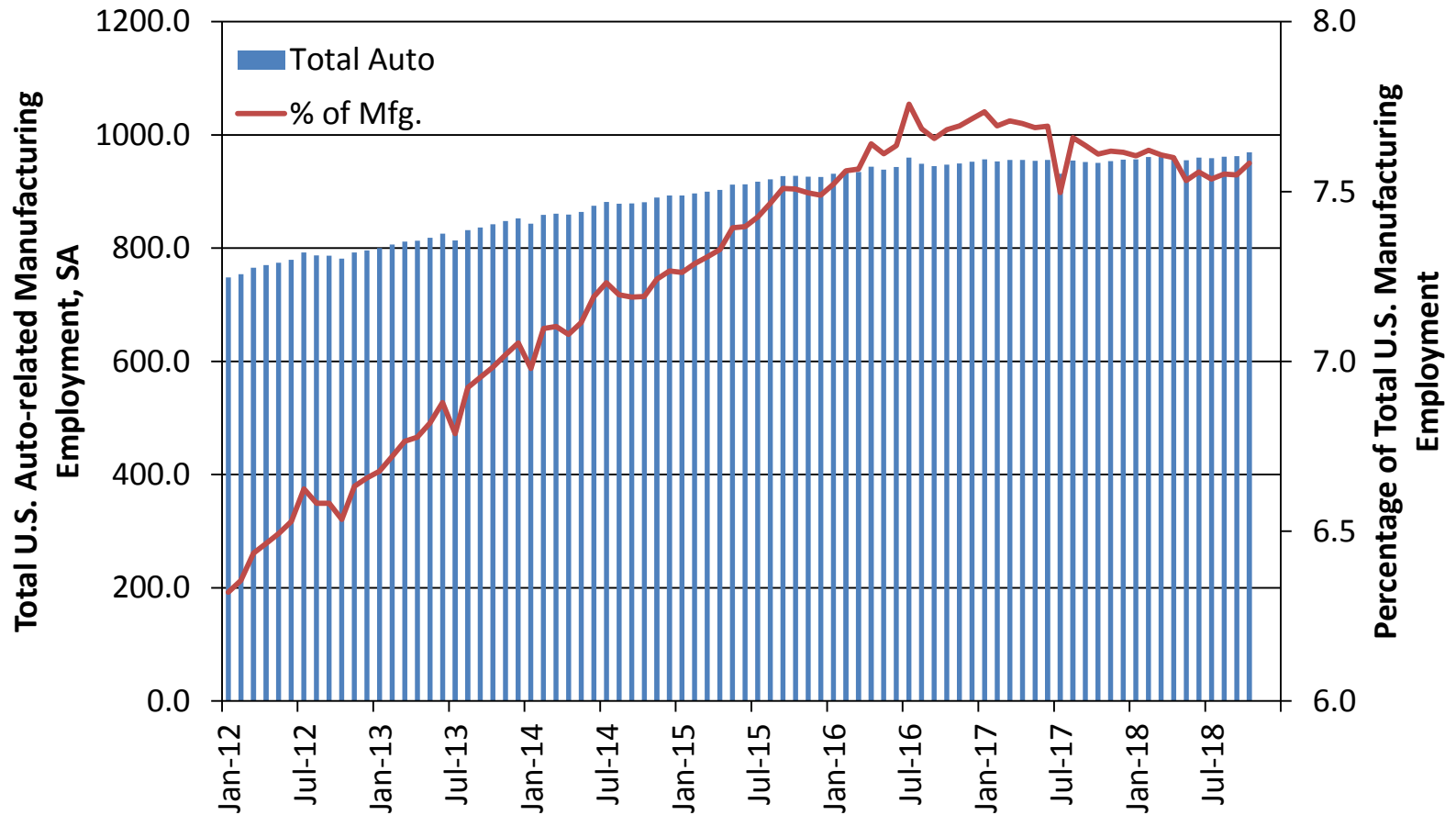


Nonfarm Payroll Employment Growth

(US, Michigan, 7th District; 2018Q3/2017Q3)



Auto-related manufacturing employment has leveled off



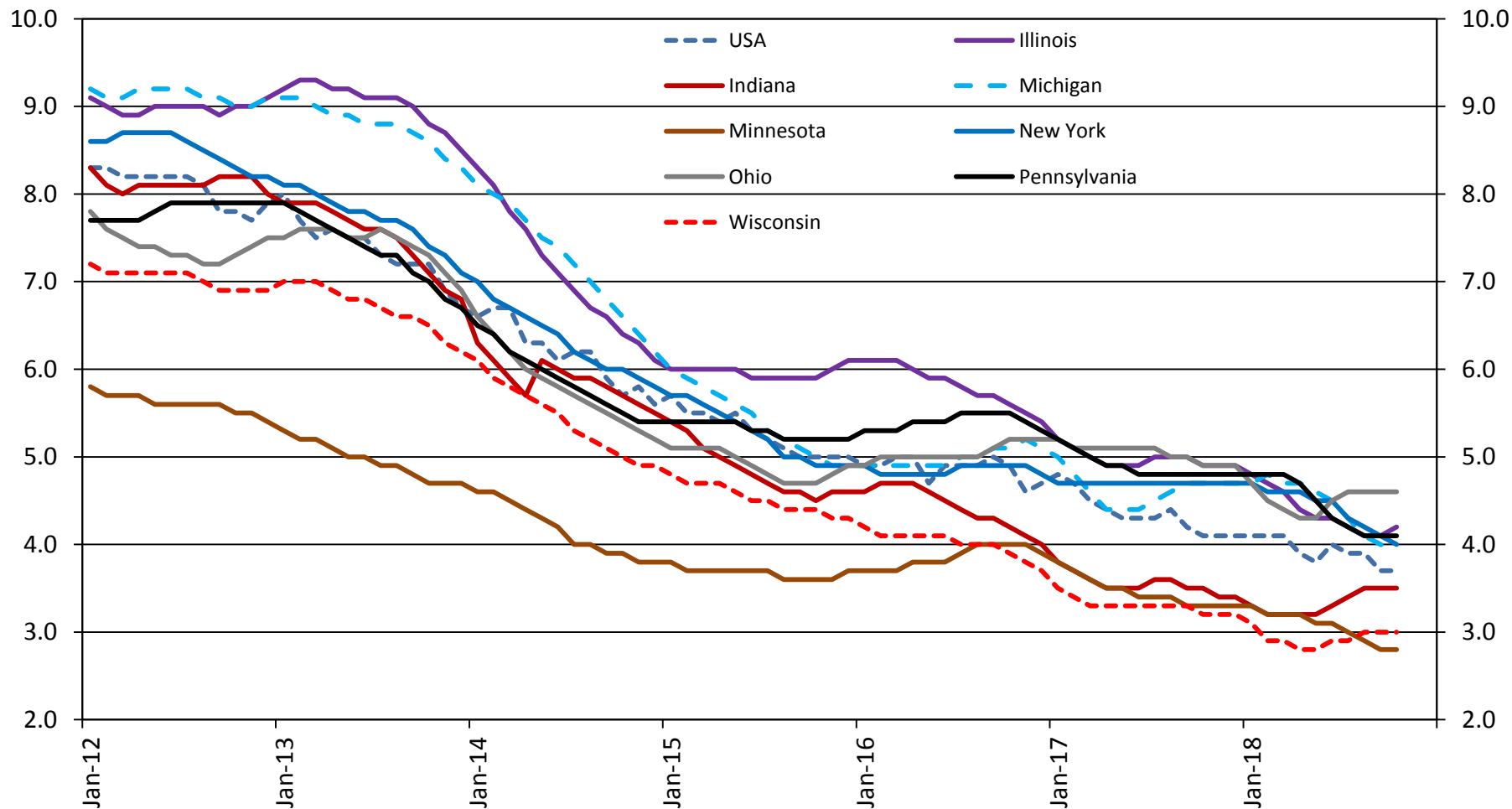
Source: Author's calculations using data from the BLS

GM's Recent Layoff Announcements

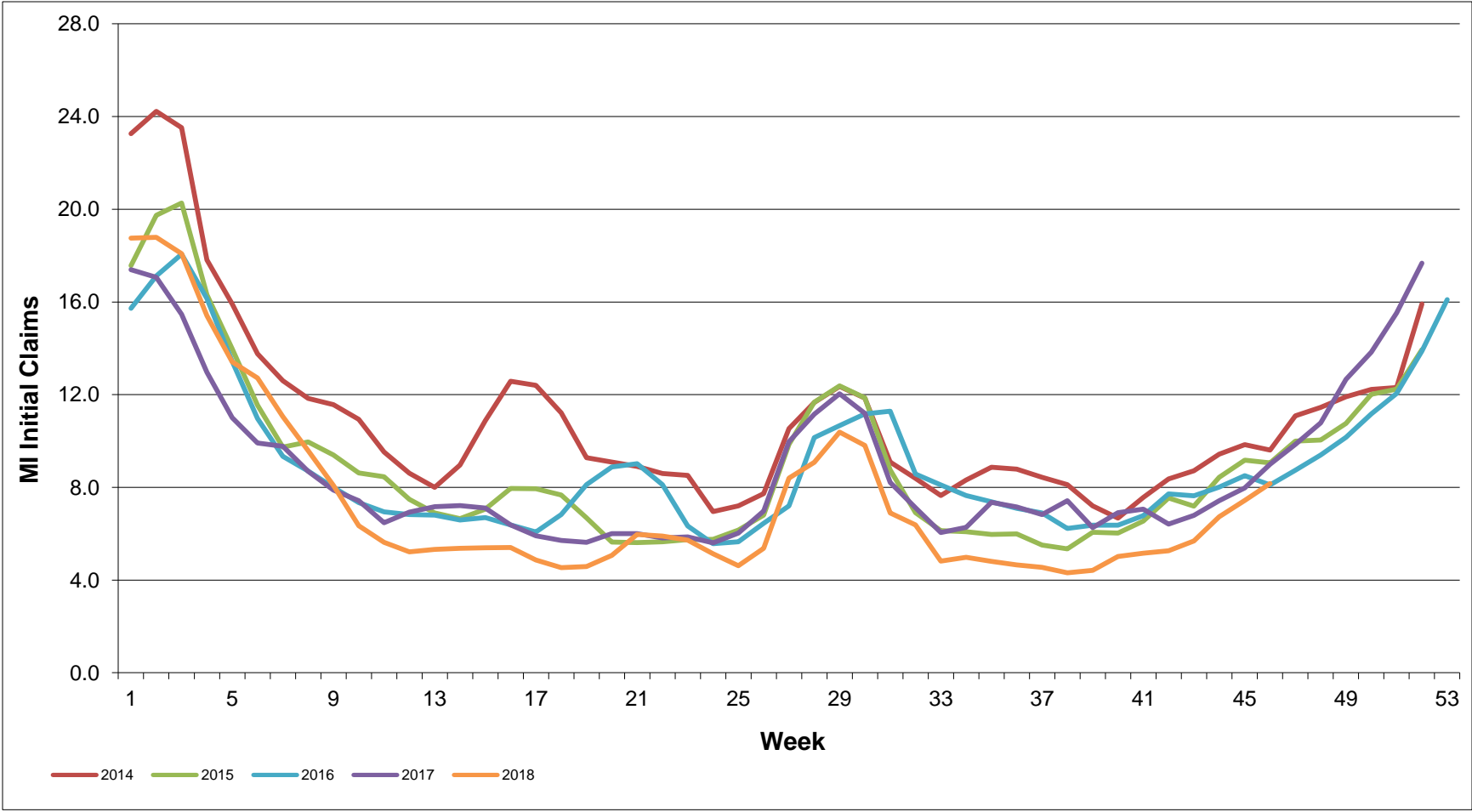
- Detroit/Hamtramck: 1500 jobs
- Buyout Offerings: 7000 jobs
- 8500 jobs X CAR's multiplier of 6.6 =

56,100 jobs

Unemployment rates are at or near levels deemed 'full employment'.

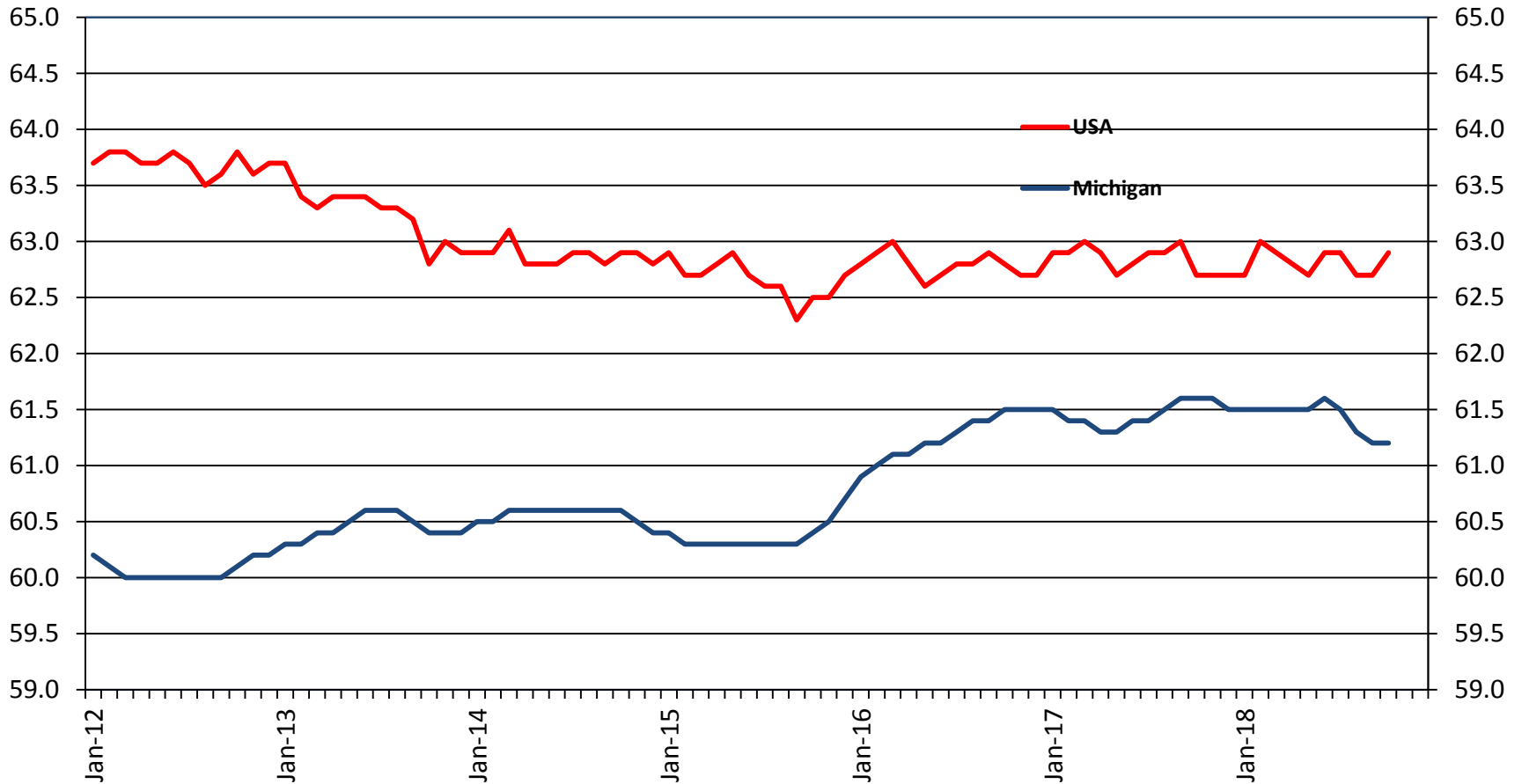


Initial Claims Remain Low



Source: Author's calculations based on data from the Department of Labor

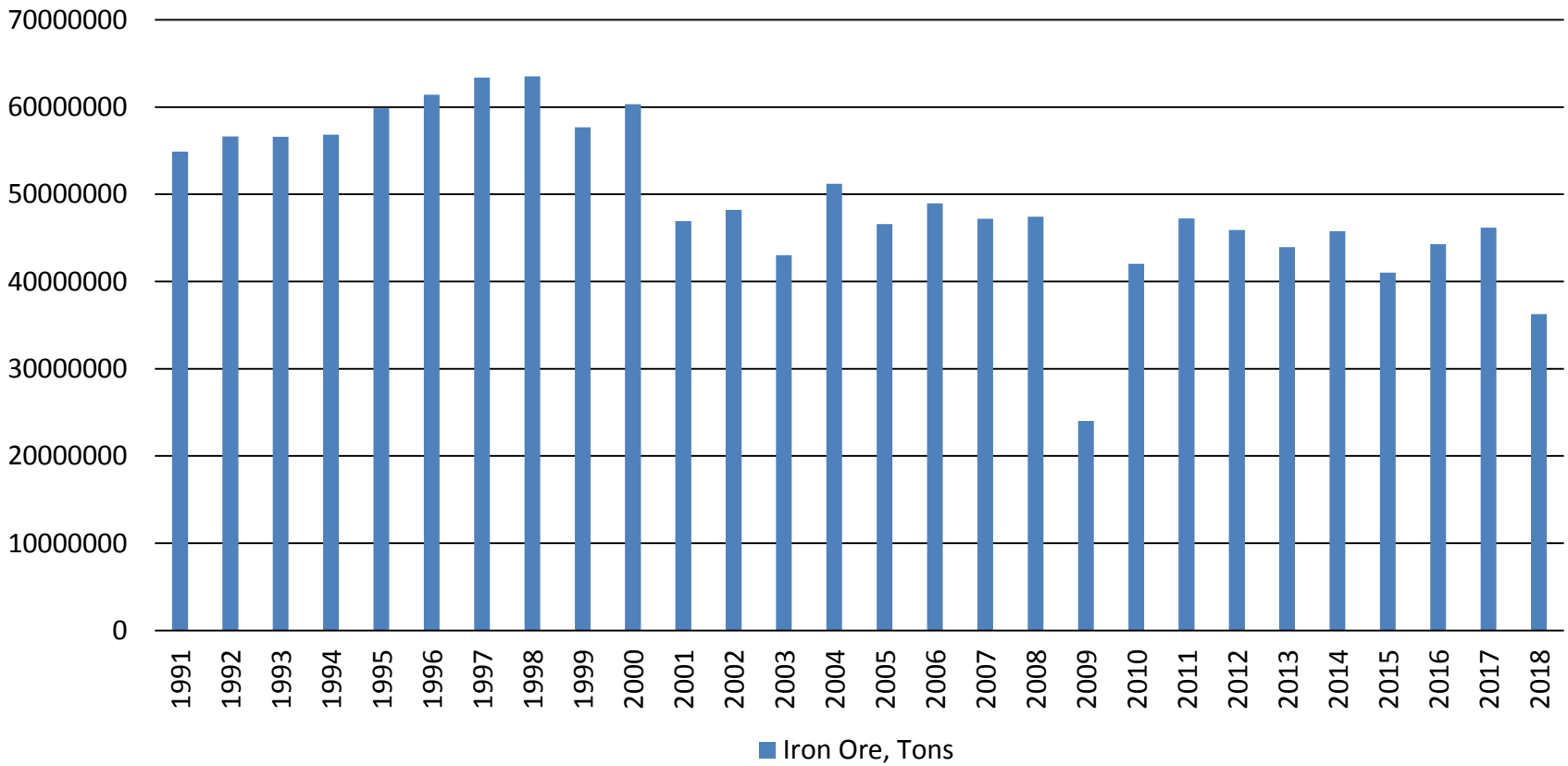
Labor Force Participation Rates: People are reentering the labor force because they're optimistic about finding work.



Labor Force Participation Rates by Region

	2000	2010	2017
Michigan	68.7	62.0	61.5
Flint/Tri-Cities	58.7	52.3	51.0
Mid-Michigan	67.7	61.6	60.2
Northern Michigan	68.6	62.9	60.8
Southeast Michigan	70.2	63.4	63.2
Upper Peninsula	63.8	60.5	56.7
Western Michigan	71.5	64.9	64.8

U.S. Iron Ore Cargo on the Great Lakes



Source: Lake Carriers' Association

Domestic Net Migration Rate

(2011-17; By State, per 1000 people)

Rank	State	Net Migration Rate
1	North Dakota	8.1
2	South Carolina	8.0
3	Nevada	7.8
4	Florida	7.7
5	Colorado	7.6
28	Indiana	-1.2
41	Michigan	-3.0
46	Connecticut	-6.1
47	New Jersey	-6.3
48	Illinois	-7.0
49	New York	-7.4
50	Alaska	-7.7

Source: Author's calculations using data from census.gov

Domestic Net Migration Rate

(2011-17; By Michigan MSA, per 1000 people)

Source: Author's calculations using data from census.gov

Rank	State	Net Migration Rate
1	Grand Rapids-Wyoming	2.0
2	Warren-Troy-Farmington Hills	-0.1
3	Kalamazoo-Portage	-0.5
4	Ann Arbor	-1.2
5	Muskegon-Norton Shores	-1.3
6	Jackson	-2.7
7	Monroe	-3.4
8	Lansing-East Lansing	-3.6
9	Bay City	-3.6
10	Battle Creek	-5.4
11	Niles-Benton Harbor	-5.4
12	Saginaw	-7.6
13	Flint	-7.6
14	Detroit-Livonia-Dearborn	-10.1

Source: Author's calculations using data from census.gov

Highlighted Results of UM's Annual Public Policy Survey

- 37% of local governments able to meet their fiscal needs
- 61% of jurisdictions plan to increase employee pay
- 62% of local governments rate their level of fiscal stress as relatively low
 - Lowest stress in townships
 - Highest stress in Northern Lower Michigan
- 55% of local officials expect “good times” this year

The 1st half of 2019 could get interesting

- Since the Great Recession, the 1st quarter was the weakest growth-wise in 6 of the 9 years
- Tariff impacts will hit the peak of a crescendo
 - Any pricing contract between suppliers and original manufacturers will have been renegotiated with steel and aluminum tariff impacts
 - The 25% tariff on Chinese imports would impact somewhere between 6-10% of your shopping cart
 - How much pull-ahead activity ahead of tariff implementation took place?
 - 25% tariffs on imported auto vehicles and vehicle parts would be a hurricane-force headwind for the Michigan economy
- Freight carriers could experience a noticeable slowdown in activity if these events come together
- Lower oil prices = global economic slowdown?
- Interest rate movement

Longer-Run Concerns: Human Infrastructure

- General Population
 - Slow population growth
 - Older state
 - Net negative domestic migration
 - Restrictive immigration policy
- Low State Funding levels (in real terms)
 - State general fund at its lowest since 1968
 - School aid fund at its lowest since 1995

Longer-Run Concerns: Physical Infrastructure

- American Society of Civil Engineers 2018 Report Card
 - Michigan infrastructure: D+
 - Bridges C-
 - Drinking Water D
 - Roads D-
 - Schools D+
 - Storm water D-
 - Transit C-
 - C = Mediocre: Requires Attention
 - D = Poor: At Risk
- 21st Century Infrastructure Commission (2015): \$4 billion must be spent annually to bring infrastructure up-to-date

Detroit 2024

- Gordie Howe Bridge
- Hudson Tower
- Riverfront Development
- Ford in Corktown
- Fitzgerald neighborhood

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- Long-run: Well.....

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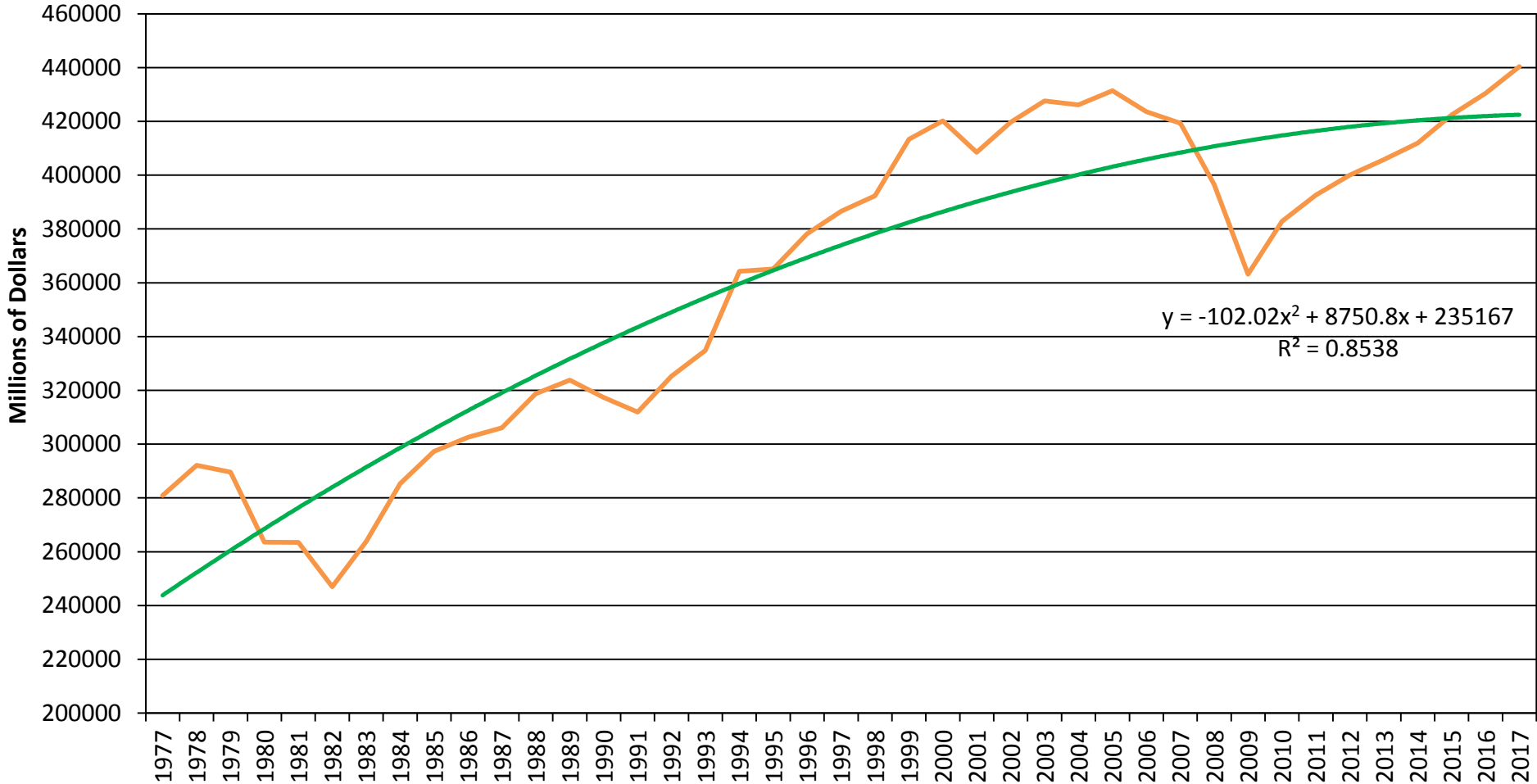
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Michigan Real GSP Growth Actual vs. Trend



Source: Author's calculations and www.bea.gov