

# Economic Update

## Michigan Revenue Estimating Conference

Federal Reserve Bank of Chicago  
January 10, 2014

Paul Traub



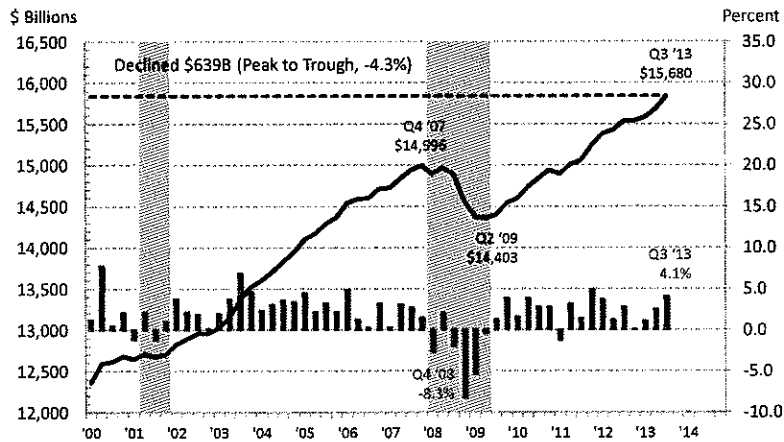
### Overview

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1. Economic growth looks to be continuing at a moderate pace
2. GDP growth for the 3<sup>rd</sup> quarter of 2013 was revised up to 4.1% following the BEA's 2<sup>nd</sup> revision
3. Improvement in economic activity and labor market conditions is consistent with growing underlying strength in the broader economy.
4. Even as risks to the outlook for the economy and the labor markets have become more balanced, inflation persistently below its 2 percent objective remains a concern as it could pose risks to future economic performance.
5. At its December meeting the FOMC voted to modestly reduce the pace of its purchases. Beginning in January, the purchase pace of mortgage-backed securities will be reduced to \$35 billion from \$40 billion per month and the pace of longer-term Treasury securities will be reduced to \$40 billion rather than \$45 billion per month.

# U.S. Real GDP

Billions Chained \$2009, % Change Q/Q at SAAR



Source: U.S. Bureau of Economic Analysis

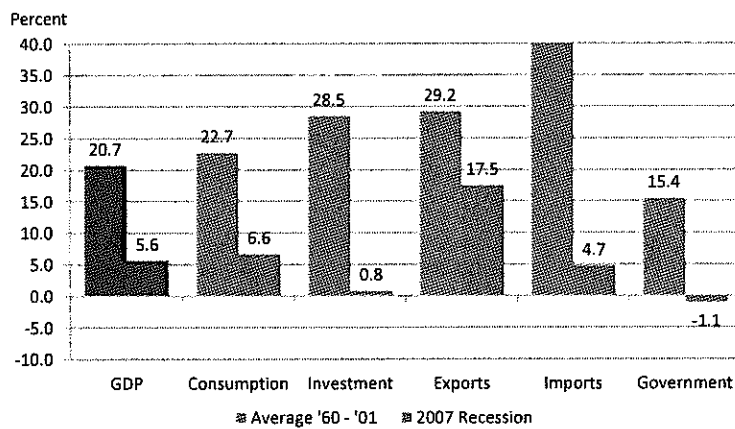
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# Recession Comparisons

Percent Change 23 Quarters After the Start of the Recession



Source: Author's calculations using data from the BEA

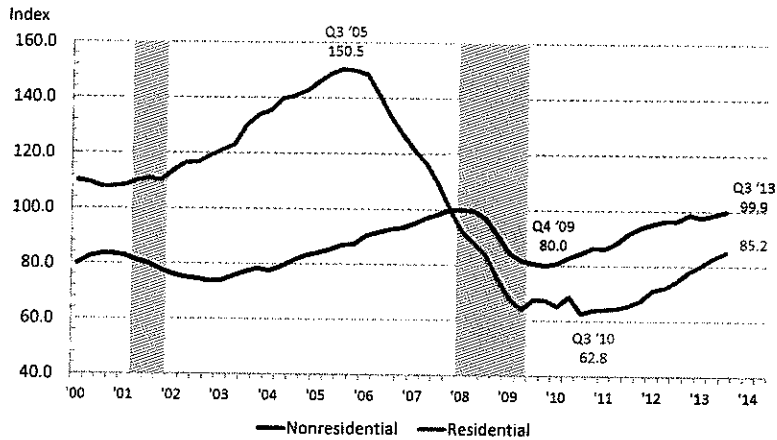
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# Private Domestic Investment

Index, 2007 Q4 = 100



Source: U.S. Bureau of Economic Analysis

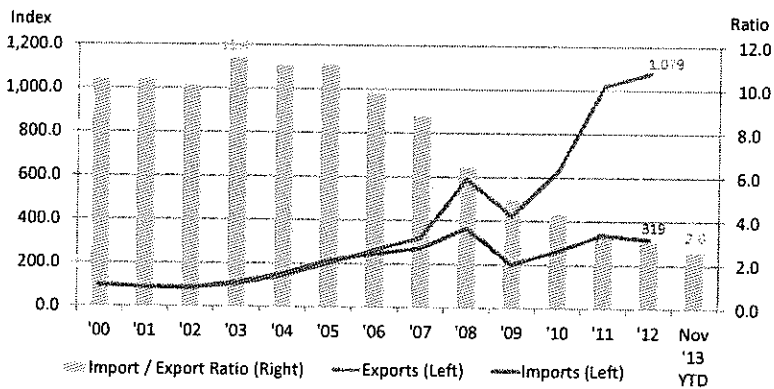
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# Energy Trade by Select Items

Index, 2000 = 100



Includes: Crude Petroleum, Natural Gas, Liquid Natural Gas, Coal (Excluding Anthracite & Petro Gases) and Petroleum Refinery Products.

Source: U.S. Census Bureau / Haver Analytics

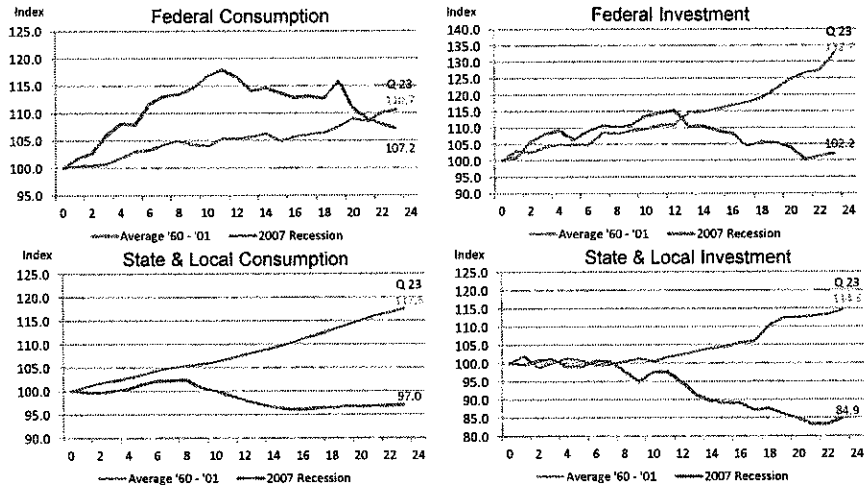
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# Real Government Investment & Consumption

23 Quarters After the Start of Recession - Index, Q1 of Recession = 100



Source: Author's calculations using data from the BEA

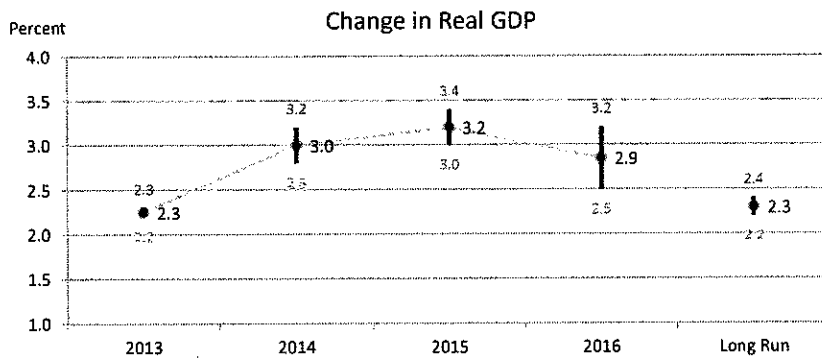
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# F.O.M.C. Real GDP Projections

Percent Change Q4/Q4 in \$2009 - SAAR



Note: Central tendency projections exclude three highest and three lowest projections.

Source: Federal Reserve Board Members and Federal Reserve Bank Presidents, December 2013

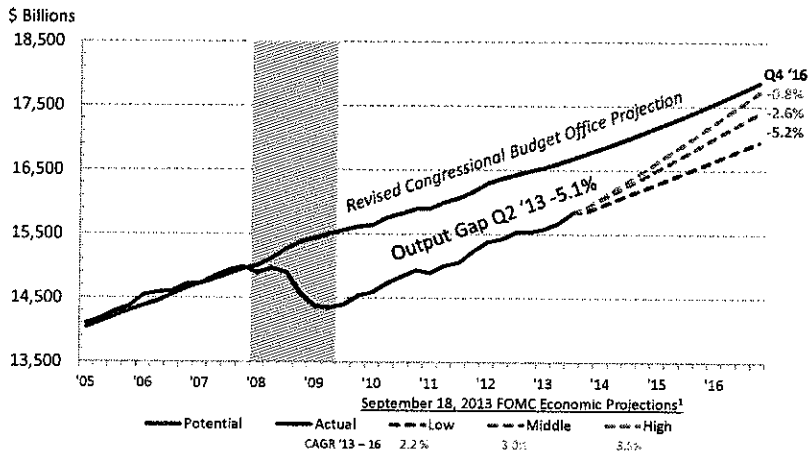
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## Closing the Output Gap

### Actual / Projected Growth Rate Scenarios



1. Projections based on Federal Reserve Board Members and Presidents range of forecasts.

Source: Author's calculations using data from the BEA, FOMC, and CBO

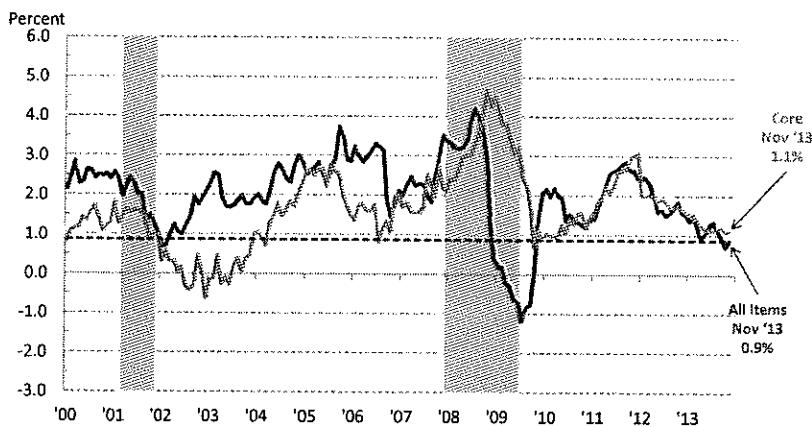
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## Inflation – PCE Price Index

### Percent Change Yr. / Yr. – 2009 = 100



Source: U.S. Department of Labor; Bureau of Labor Statistics

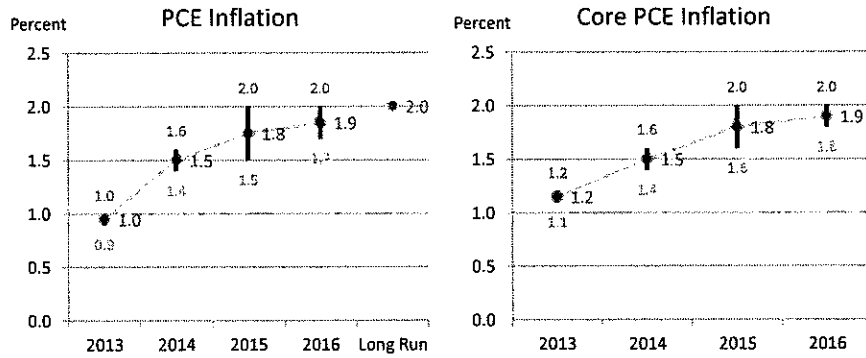
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# F.O.M.C. Inflation Projections

Percent Change Yr./Yr. – 2009 = 100



Note: Central tendency projections exclude three highest and three lowest projections.

Source: Federal Reserve Board Members and Federal Reserve Bank Presidents, December 2013

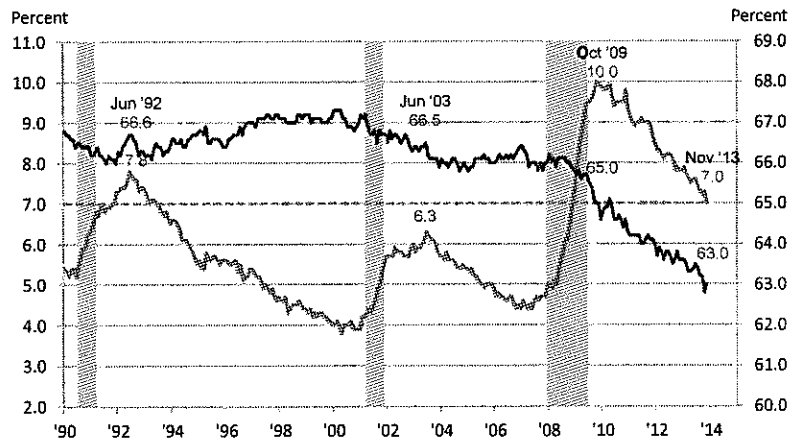
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# U.S. Employment

Unemployment Rate and Participation Rate



Source: U.S. Department of Labor: Bureau of Labor Statistics

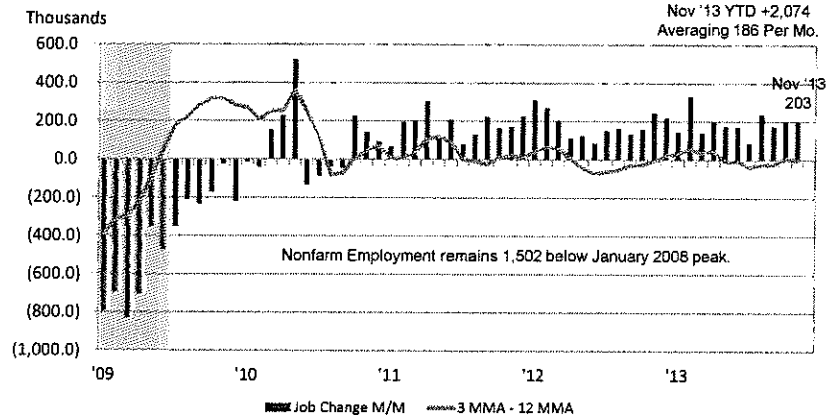
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# Job Growth

## Nonfarm Payroll, Monthly Job Change, 3 – 12 MMA



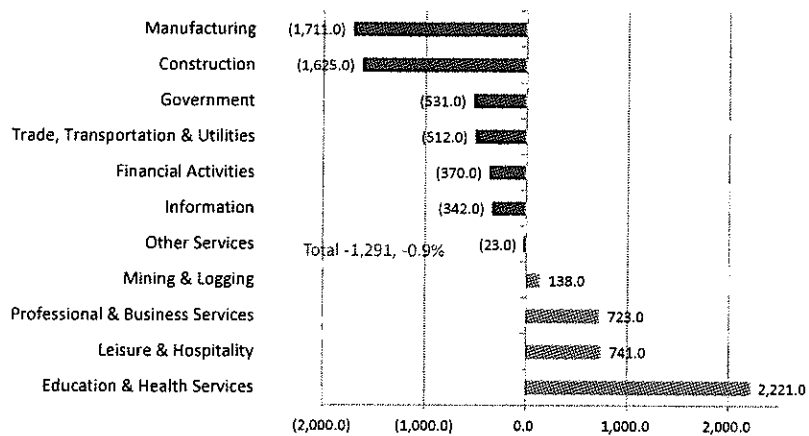
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# U.S. Nonfarm Payroll Employment by Sector

## Employment Change Jan '08 – Nov '13, Thousands of Jobs



Source: U.S. Department of Labor

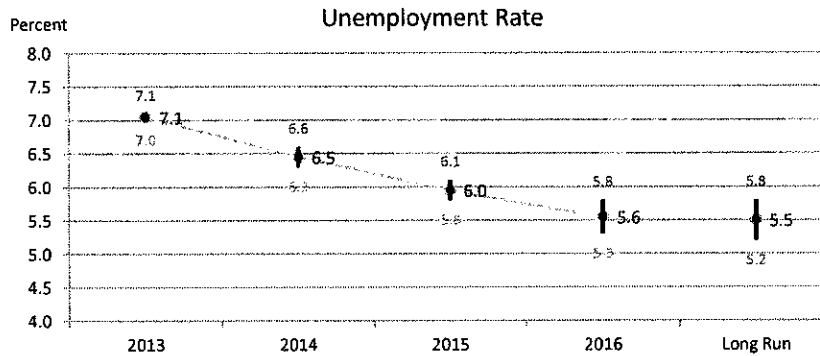
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## F.O.M.C. Unemployment Projections

### Percent Change Yr./Yr.



Note: Central tendency projections exclude three highest and three lowest projections.

Source: Federal Reserve Board Members and Federal Reserve Bank Presidents, December 2013

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## Emergency Unemployment Compensation

### Potential Impact of Expiration

- There are reported to currently be 1.37 million people receiving emergency unemployment compensation (EUC).
- The cost of the EUC program is estimated to be \$26 billion which is equivalent to 0.2% of nominal GDP.
- There are approximately 47,000 people in Michigan receiving EUC which is equal to 1.0% percent of Michigan's total workforce.
- New Jersey and Massachusetts will be the most hurt by allowing EUC to expire since they currently have 1.84% and 1.58% of their workforce current collecting EUC benefits.

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# Manufacturing Activity

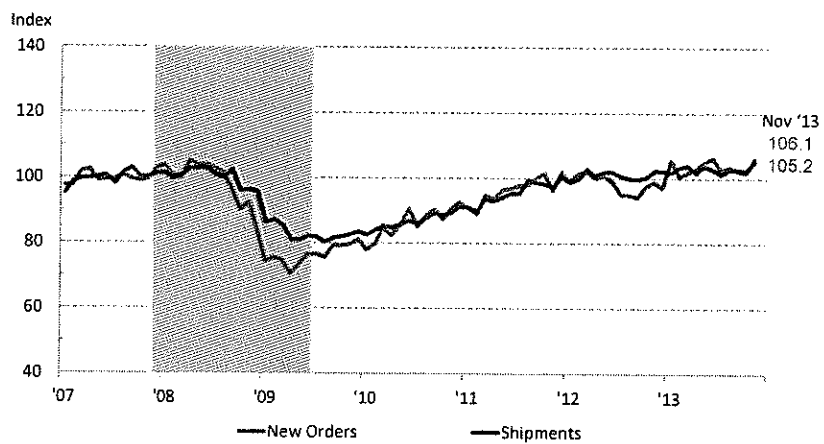
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## New Orders and Shipments

Nondefense Capital Goods Excluding Aircraft - Index, 2007 = 100



Source: Calculations done using data from Department of Commerce - Census Bureau

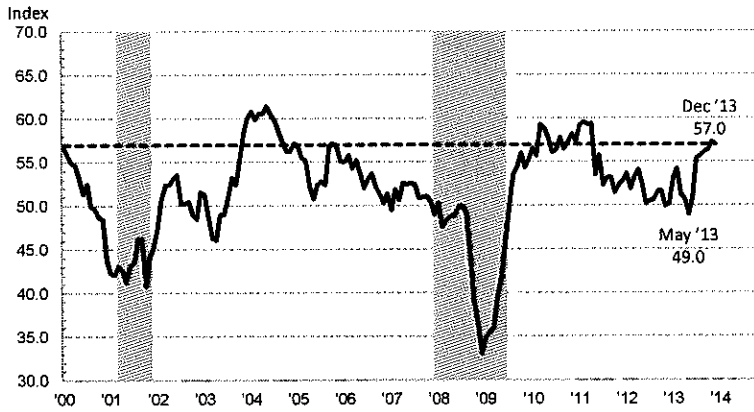
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# ISM Manufacturing

## PMI Composite Index



Source: Institute for Supply Management

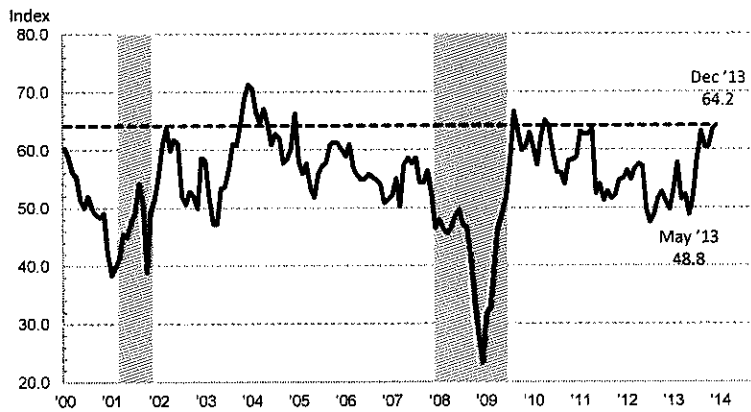
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# ISM Manufacturing

## New Orders Index



Source: Institute for Supply Management

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# U.S. Consumer

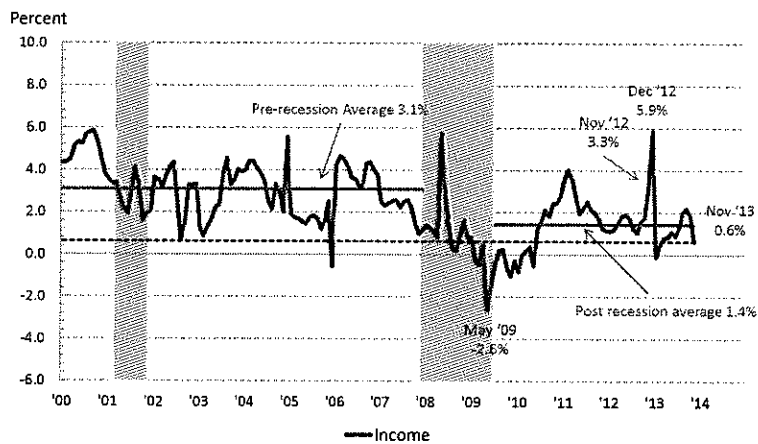
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## Real Disposable Personal Income

Percent Change Year/Year - \$2009



Source: U.S. Bureau of Economic Analysis

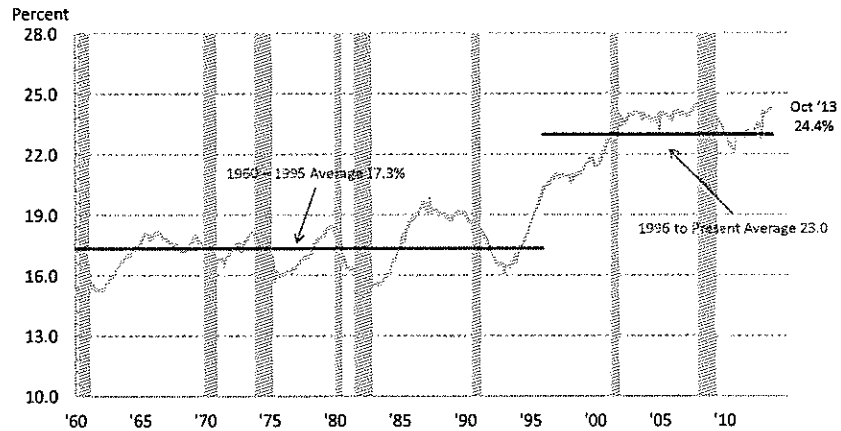
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## Total Consumer Credit

### Revolving and Non-revolving Credit as % of DPI



Source: Board of Governors of the Federal Reserve System

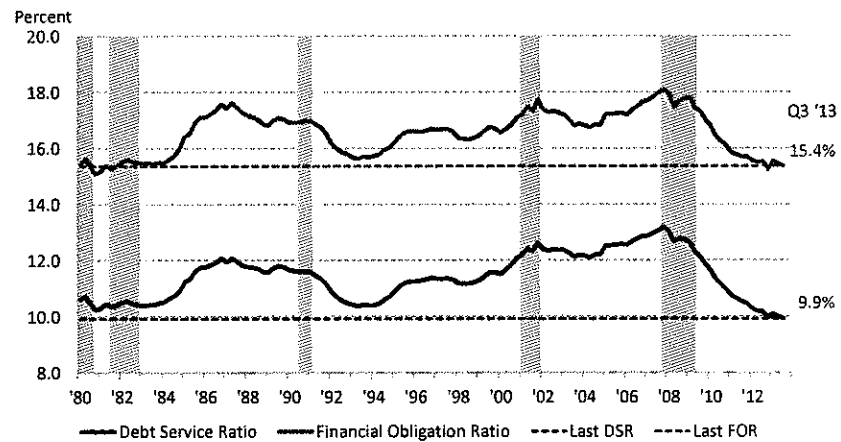
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## Debt Service & Financial Obligation Ratios

### Percent of Disposable Personal Income



Source: Federal Reserve Bank of St. Louis

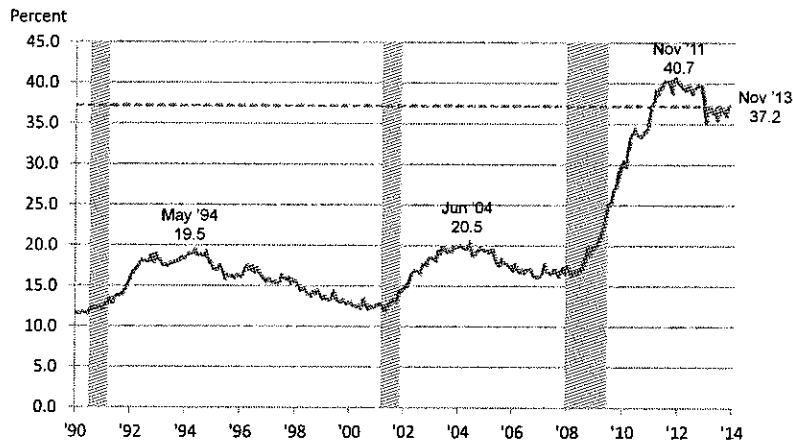
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## Duration of Unemployment

Average (Mean) Duration of Unemployment in Weeks



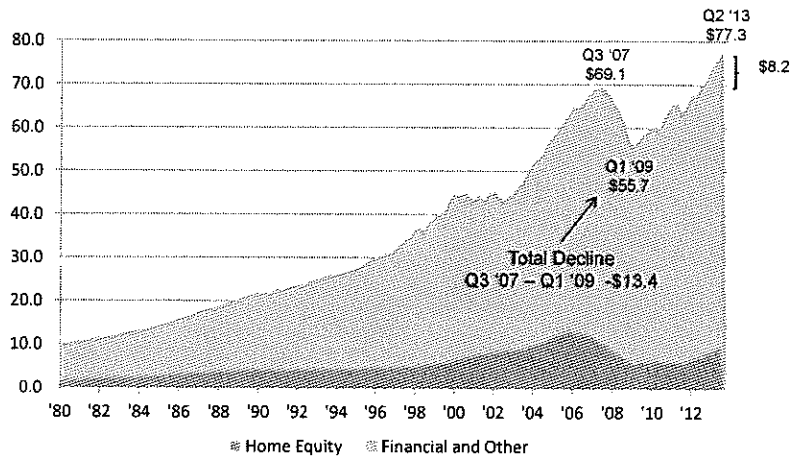
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## Household Net Worth

Trillions of Dollars, Q1 '80 to Q2 '13



Source: Federal Reserve Z.1 Statistical Release, Table B100, Households and Nonprofit Organizations

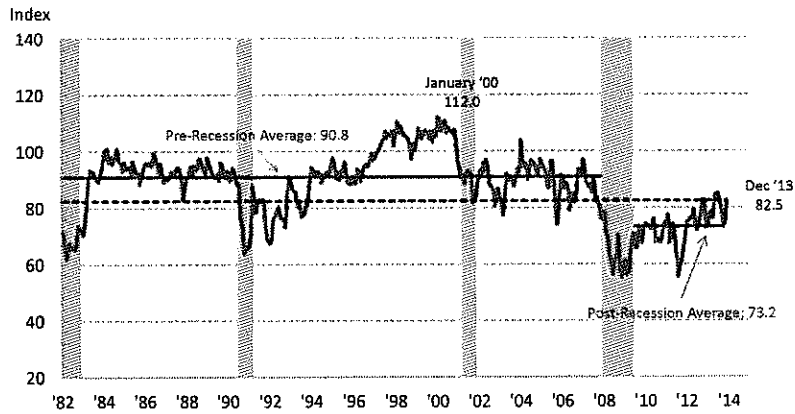
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# Consumer Sentiment

University of Michigan



Source: Thomson Reuters / University of Michigan

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# Interest Rates

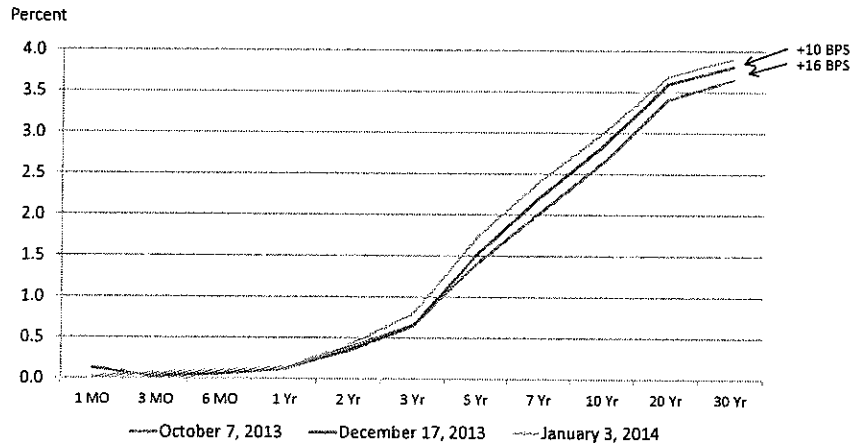
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# Yield Curve

## Treasury Bills - Constant Maturity Rate, Varying Durations



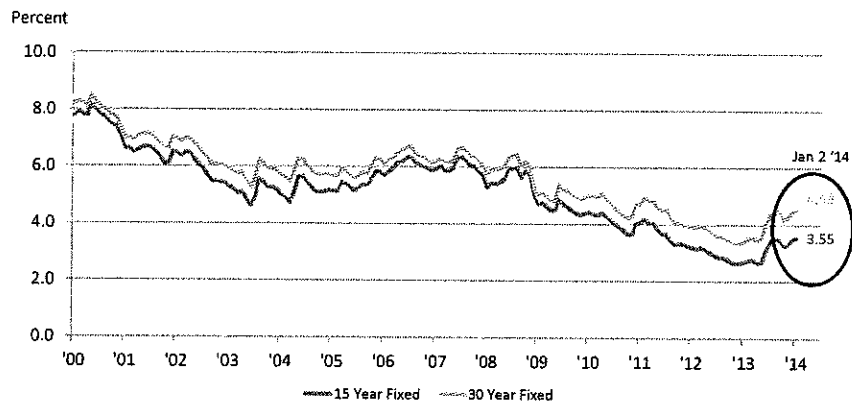
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# Home Mortgage Rates

## 15 Year and 30 Year Fixed



Source: Freddie Mac

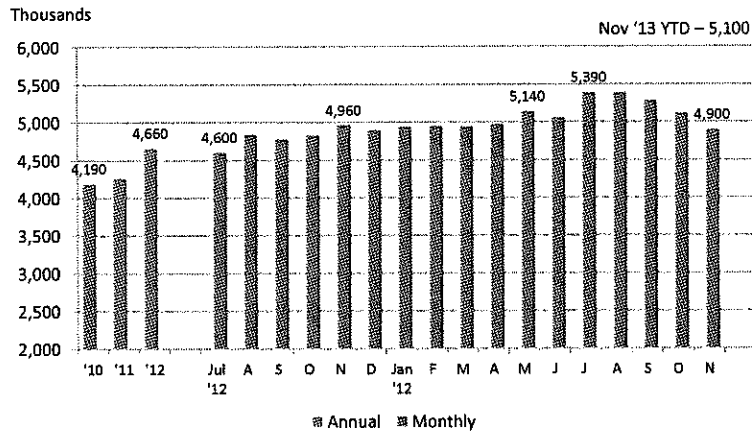
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## Existing Home Sales

Thousands of Units, SAAR



Source: National Association of REALTORS®

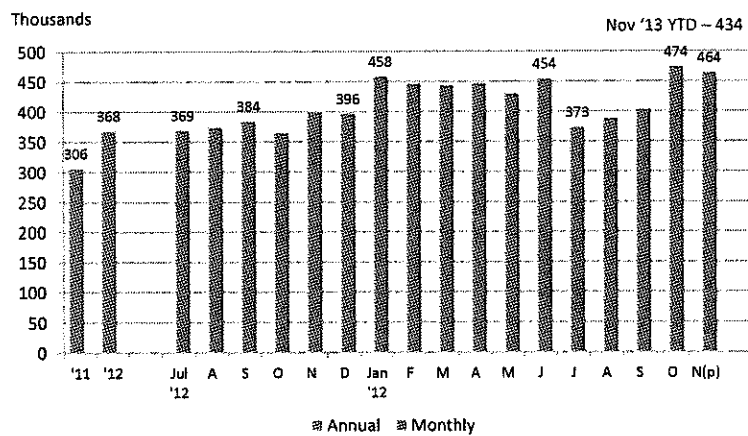
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## New Single Family Home Sales

Thousands of Units, SAAR



Source: U.S. Census Bureau

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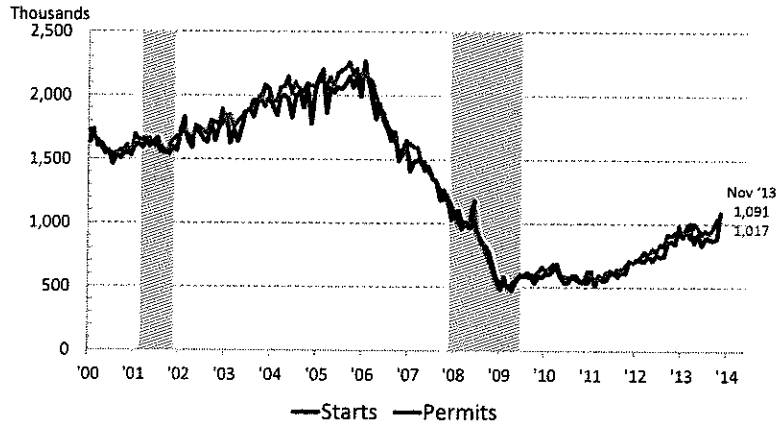
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# U.S. Housing Starts and Building Permits

Thousands of Units Annualized, SA



Source: U.S. Census Bureau

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# Michigan Economy

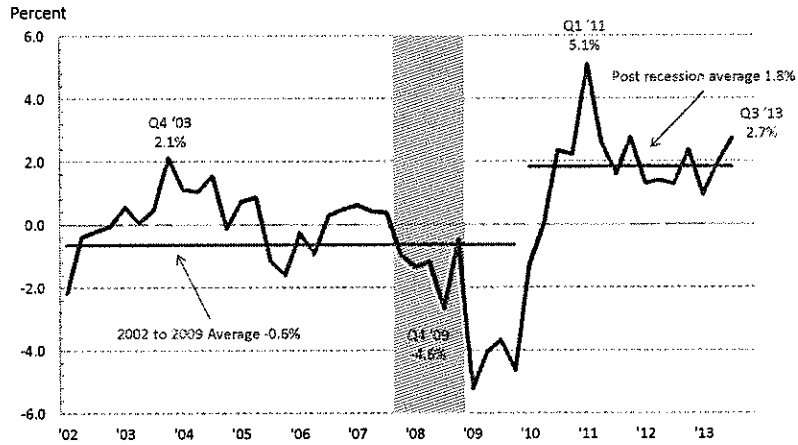
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## Michigan Real Personal Income

Percent Change Year/Year - \$2009



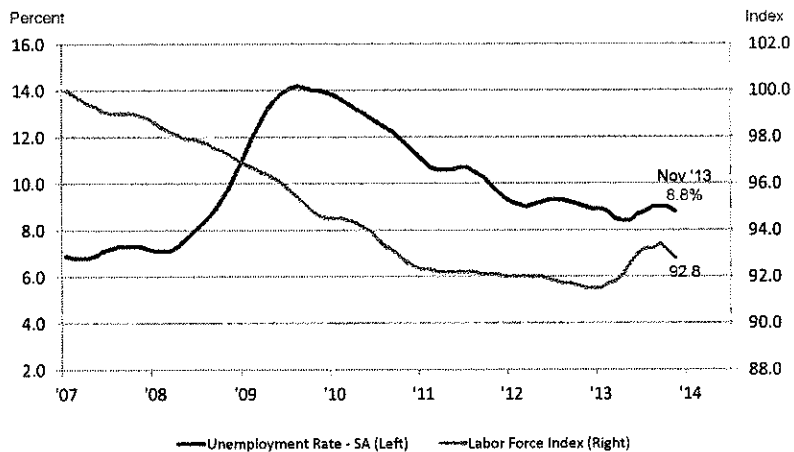
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## Michigan Employment

Unemployment Rate & Labor Force Index, Jan '07 = 100 - S.A.



Source: BLS

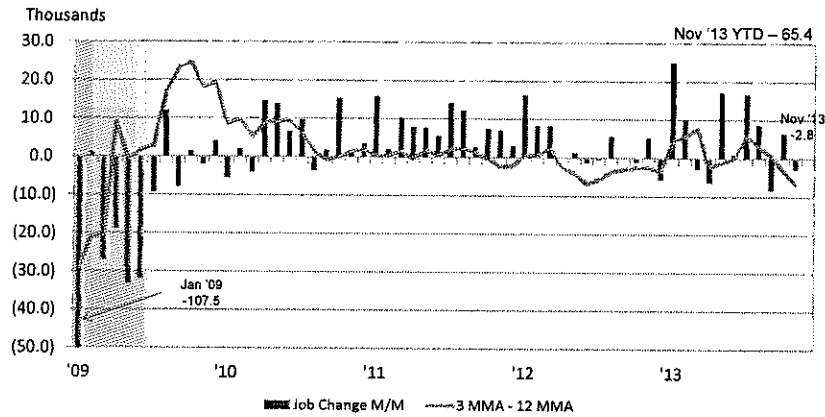
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# Michigan Job Growth

## Nonfarm Payroll, Monthly Job Change, 3 – 12 MMA



Source: U.S. Department of Labor: Bureau of Labor Statistics

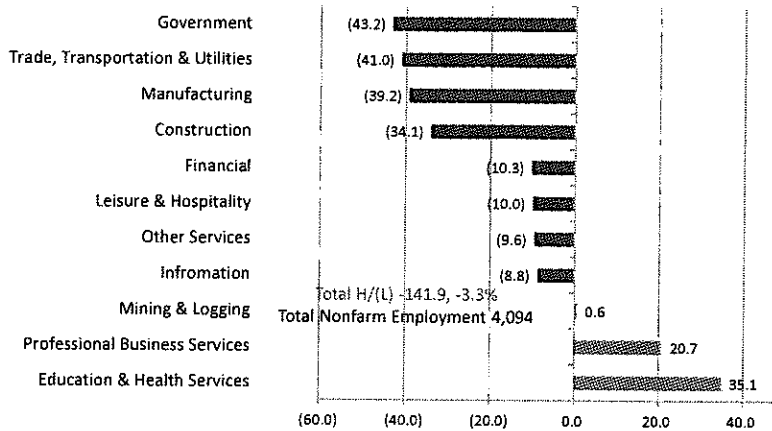
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# Michigan Nonfarm Payroll Employment by Sector

## Employment Change Jan '08 – Nov '13, Thousands of Jobs



Source: Author's calculations using data from U.S. Department of Labor

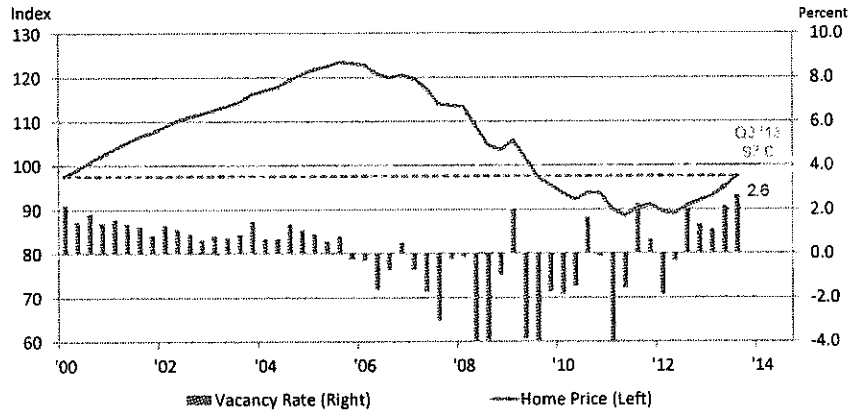
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## Michigan Home Prices

Index - 2000 = 100, Percent Change M/M



Source: Author's calculations using U.S. Census Bureau and FHFA Data.

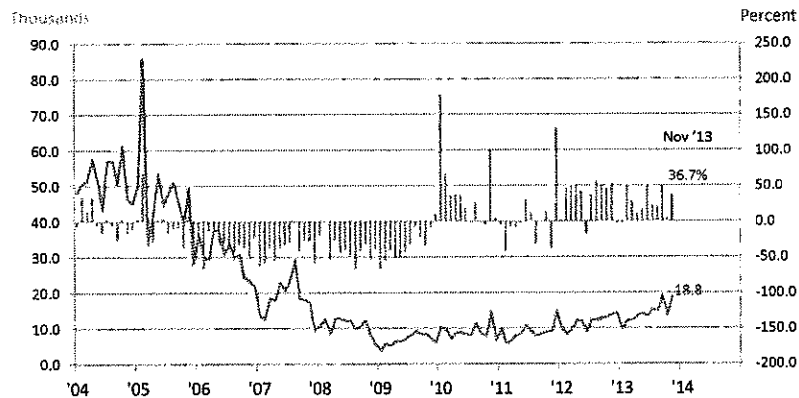
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## Michigan Housing Starts

Units and Percent Change Yr./Yr. - SAAR



Source: U.S. Census / Haver Analytics

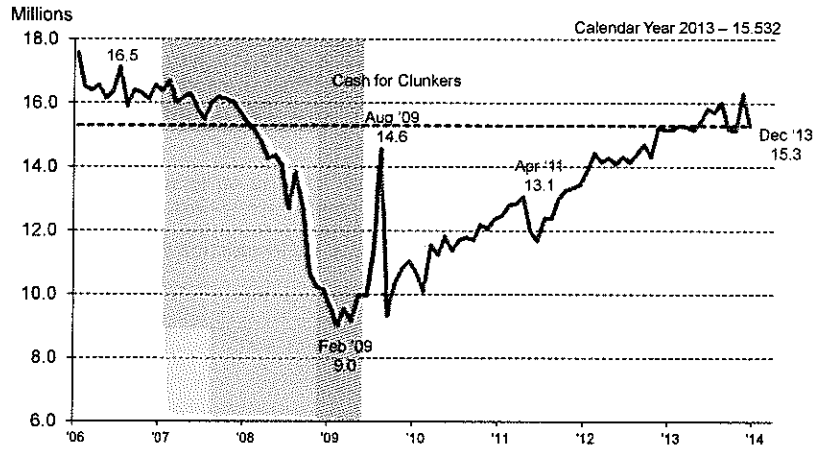
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# U.S. Light Vehicle Sales

## SAAR and Annual Sales



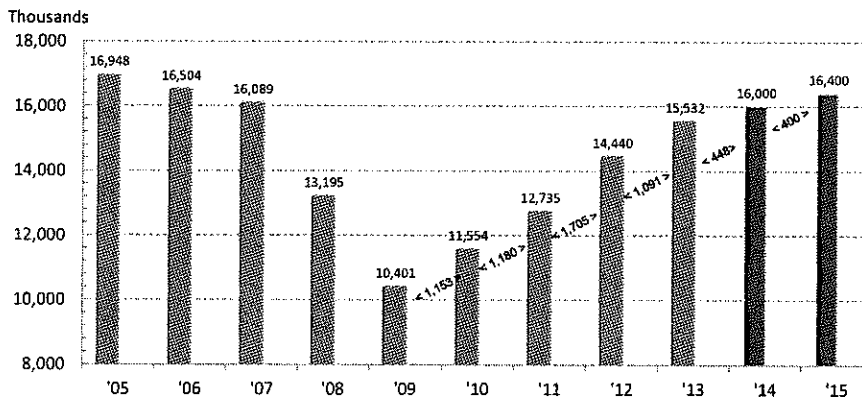
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# U.S. Light Vehicle Sales

## Thousands of Units – Calendar Year



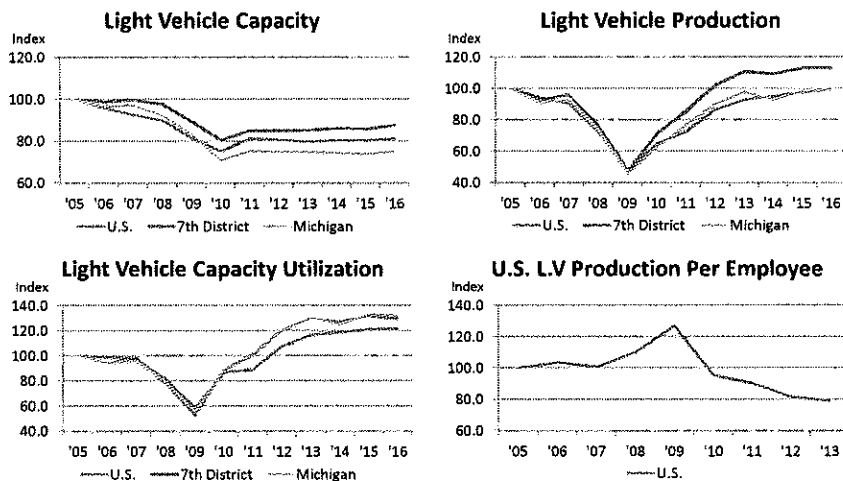
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## U.S. Light Vehicle Industry

Capacity, Production, Utilization and Employment – Index 2005 = 100



Source: Author's calculations using Wards Automotive and BLS data.

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## Michigan Update

### General Business Conditions

1. State economic growth increased slightly at the end of 2013.
  - a) Durable Goods Manufacturing remained strong
  - b) Commercial real estate more active
  - c) Retail sales growth more inconsistent across sectors
2. Michigan's economy is growing at a slower pace relative to the District and the US.
  - a) Unemployment rate is one of the 5 highest among states
  - b) MEI and relative MEI readings less positive
  - c) Slightly lower personal income growth in 2013
3. Slight to modest employment growth
  - a) Manufacturing: Looking for engineers and technicians to satisfy the demand for increased capacity
  - b) Real Estate: Some layoffs with the slowing of residential real estate-related activity
  - c) General Services: Some problems retaining workers as more lucrative opportunities start to become available
  - d) Part-time seasonal help will be mostly let go

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## Michigan Update

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### General Business Conditions

4. Wages & Prices
  - a) Wage pressures in targeted fields like middle management and engineering
  - b) Modest price pressures: industrial property, steel, professional services
  - c) Less intense price pressures: food & energy
  - d) Cost pressures still absorbed internally
5. Labor market outlook
  - a) Technological use is becoming more prevalent making some firms' services now obsolete
  - b) Greater focus on recruitment of recent graduates through partnerships with higher educational institutions
  - c) Energy sector job creation will proceed but at a slower pace than previous emerging sectors
6. 2014 Outlook Uncertainties
  - a) Manufacturing: How much more growth can be realistically expected?
  - b) Residential Real Estate: A lull or a leveling off?
  - c) Commercial Real Estate: A continuation in the rebound?

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*Thank You!*

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