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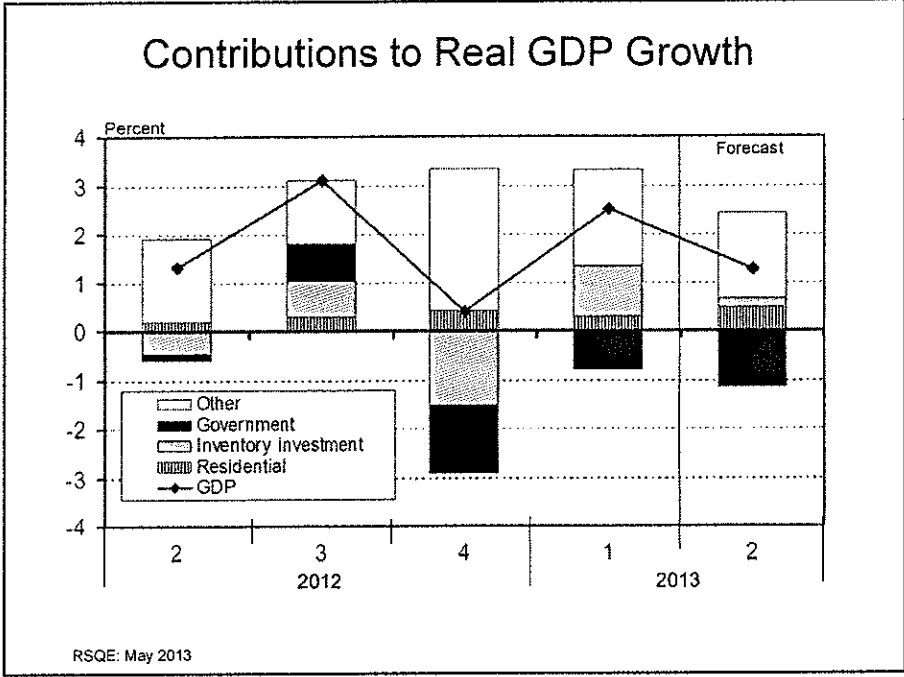
THE U.S. AND MICHIGAN OUTLOOK FOR 2013-2015

**PREPARED FOR PRESENTATION AT THE
CONSENSUS REVENUE ESTIMATING CONFERENCE**

**LANSING, MICHIGAN
MAY 15, 2013**

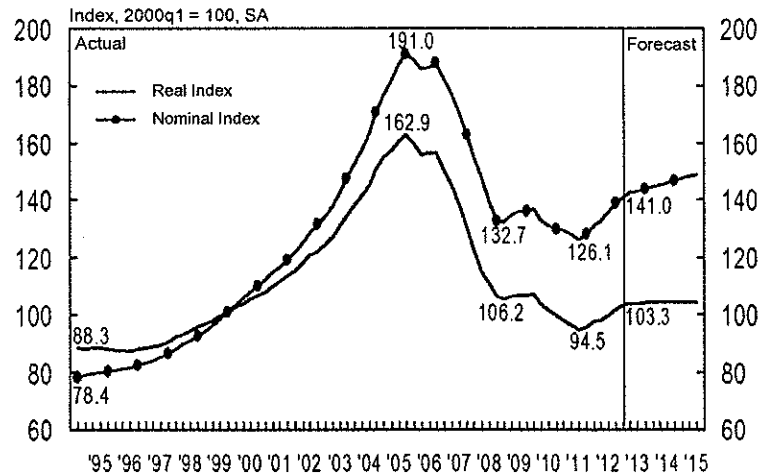
BY

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- ### The Housing Recovery
- Household formation has picked up
 - Mortgage rates near historic lows
 - 30-year mortgage rate hovering near 3½ percent
 - Sales of existing single-family homes up sharply during 2012
 - Housing starts approaching one million units
 - Inventories of homes for sale very lean
 - New & existing single-family homes about 4½ months supply
 - Housing prices rising at fastest rates since 2006
- RSQE: May 2013

Single-Family Home Prices (National Case-Shiller Index)



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Fiscal Policy Changes in Place

- End of the payroll tax break
- Higher tax rates for high-income taxpayers
- Expand hospital insurance tax & impose excise tax (ACA)
- \$85 billion in sequester cuts left largely intact for FY 2013
- Bonus depreciation & extended unemployment benefits through 2013

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Fiscal Policy Assumptions

- Debt ceiling increase approved
- ACA proceeds as scheduled
- No sequestration for fiscal 2014 and beyond
- Instead, lean spending and additional modest tax increases to help narrow the deficit

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Federal Budget, NIPA Basis (Billions of Dollars)

			Forecast		
	FY'11	FY'12	FY'13	FY'14	FY'15
Current receipts	2501.5	2633.0	2863.7	3141.0	3355.4
% change	6.5	5.3	8.8	9.7	6.8
Current expenditures	3766.8	3744.0	3741.2	3814.1	3955.7
% change	3.2	-0.6	-0.1	1.9	3.7
Consumption	1064.4	1062.2	1018.7	989.0	985.1
% change	2.0	-0.2	-4.1	-2.9	-0.4
Transfer payments	2322.4	2306.7	2353.6	2451.2	2590.3
% change	1.9	-0.7	2.0	4.1	5.7
Surplus (+) or deficit (-)	-1265.4	-1111.0	-877.5	-673.1	-600.2
Percent of GDP	-8.5	-7.1	-5.5	-4.0	-3.4

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Monetary Policy

- Federal funds rate target to remain in 0 to ¼ percent range ***at least as long as:***
 - Unemployment rate is above 6.5 percent
 - Inflation rate between one and two years ahead is ***projected*** to be under 2.5 percent
 - Longer-term inflation expectations remain well-anchored

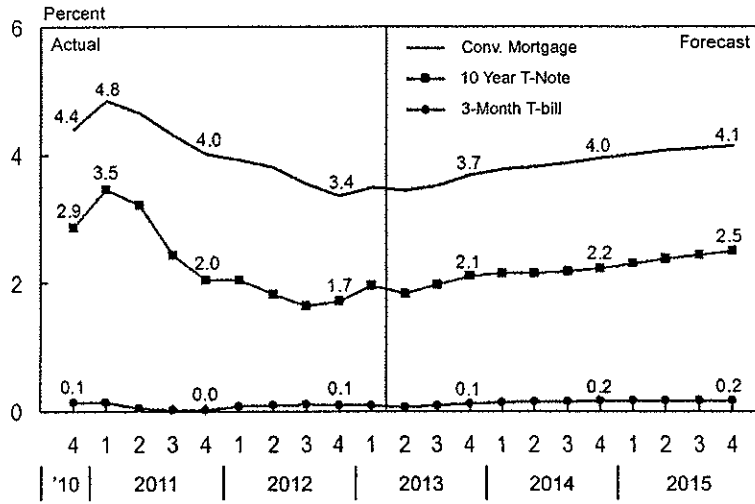
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Monetary Policy (cont.)

- Expansion of the Fed's balance sheet to continue through monthly purchases of
 - \$45 billion longer-term Treasury securities
 - \$40 billion mortgage-backed securities
- Assumptions
 - Securities purchases continue into 2014, but wind down by midyear
 - Fed funds rate target maintained through 2015

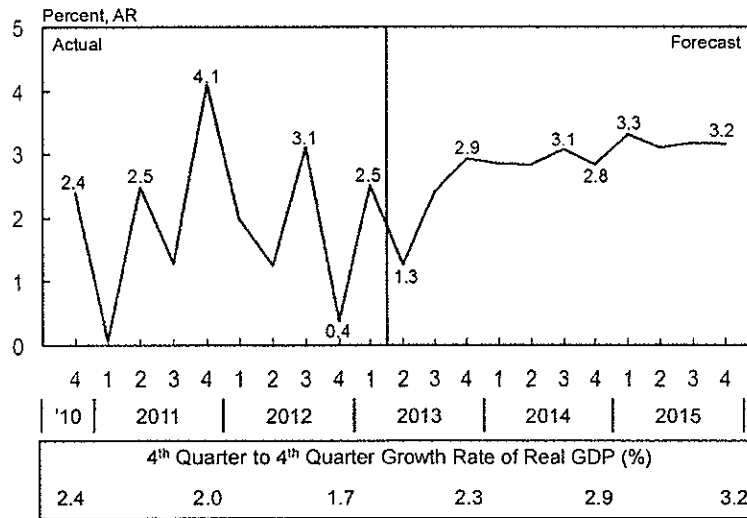
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Market Interest Rates



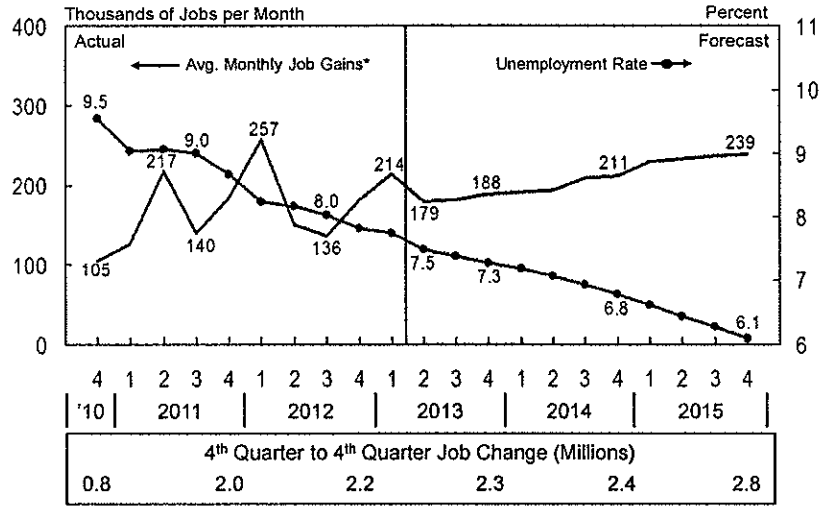
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Growth Rate of Real GDP



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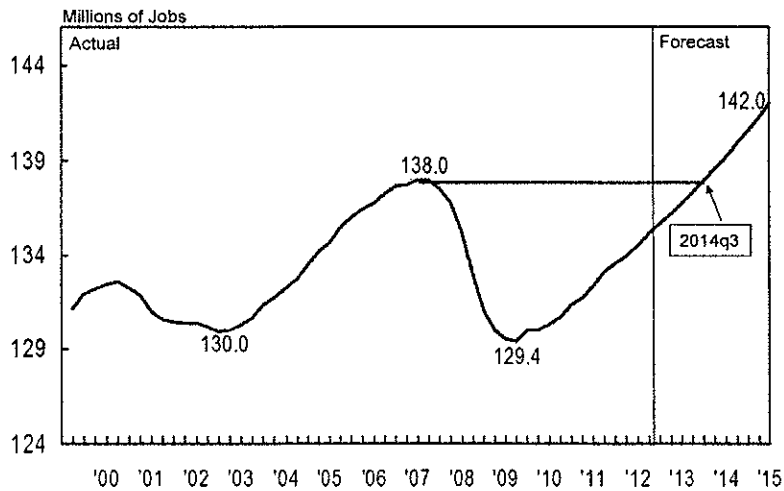
Nonfarm Payroll Employment Gains and Unemployment Rate



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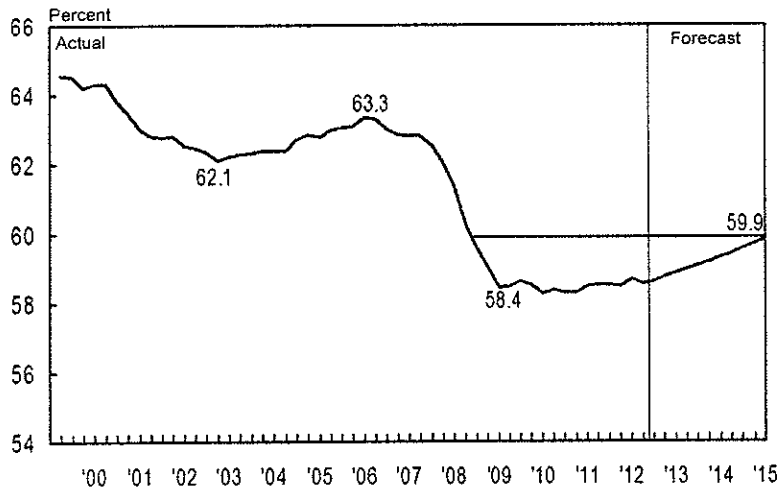
* 1/3 the change in quarterly value

Payroll Employment



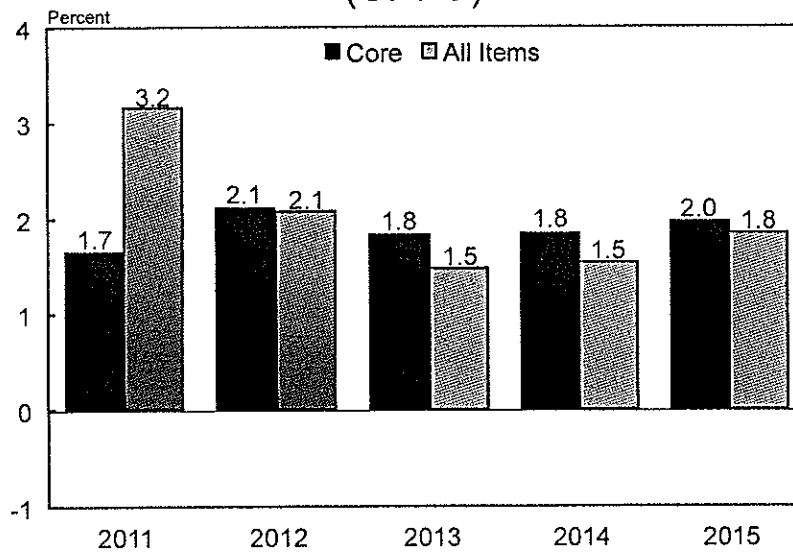
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Employment-Population Ratio



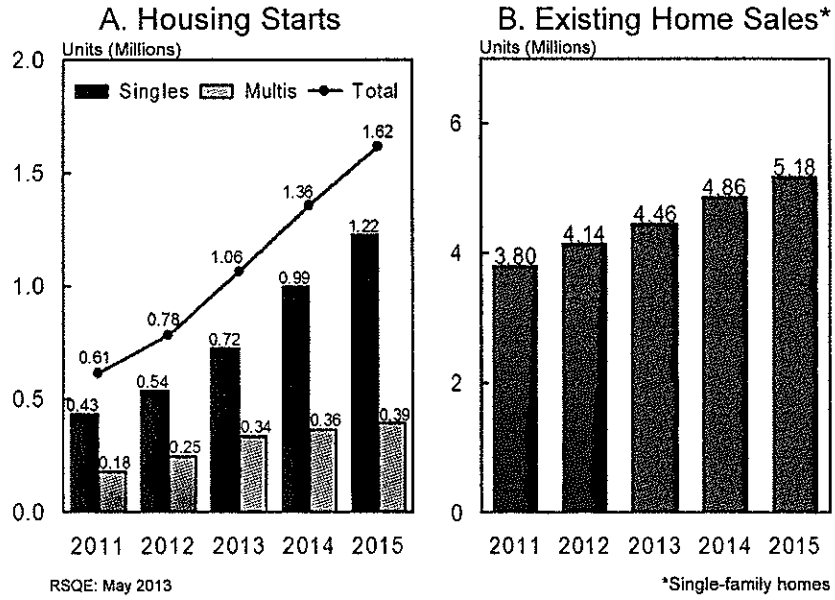
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Consumer Price Inflation (CPI-U)

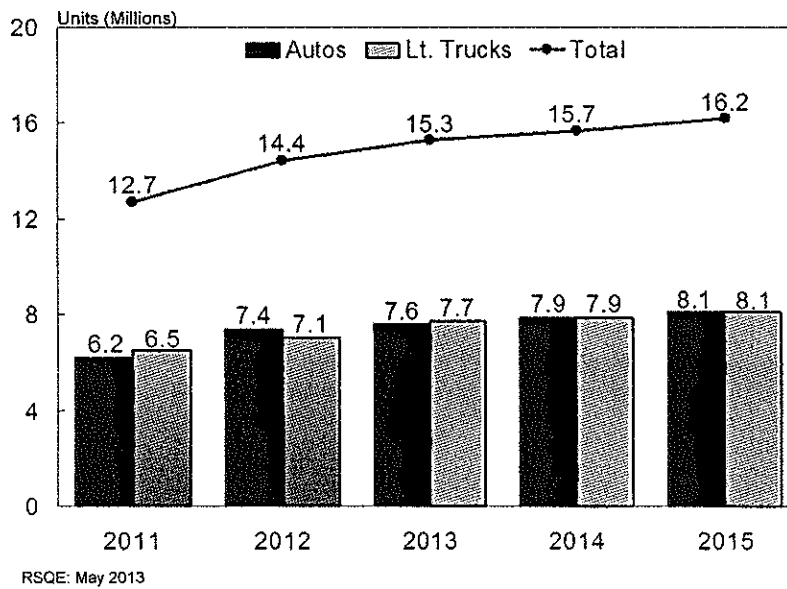


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Housing Market



Light Vehicle Sales



Risks to the Outlook

Negative

- Debt ceiling & further sequestration
- Eurozone crisis
- Oil prices
- Abnormal weather

Positive

- Housing prices rising faster
- Stronger home construction

THE MICHIGAN ECONOMIC OUTLOOK FOR 2013–2015



MAY 15, 2013

Where is the Michigan economy today?

- Michigan has moved into its fourth year of economic recovery since being clobbered by the Great Recession . . .
- . . . after posting another year of solid job growth during 2012—albeit at a much slower pace than during 2011, its strongest year of job creation since 1995.
- The government’s annual revision of the labor market data shows that employment grew significantly faster during each of the past two years than previously estimated.

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Where is the Michigan economy today?

- The recovery is becoming more broad-based, and one of the region’s weakest major sectors in recent years, housing, is turning around.
- The calendar-year unemployment rate fell by another 1.3 percentage points in 2012.
- Local inflation ratcheted down last year to subdued territory.
- What’s not to like?

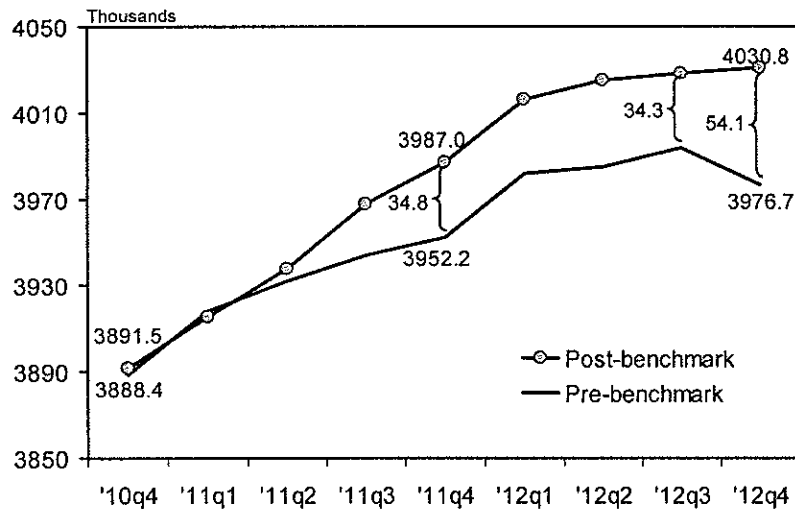
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The downside:

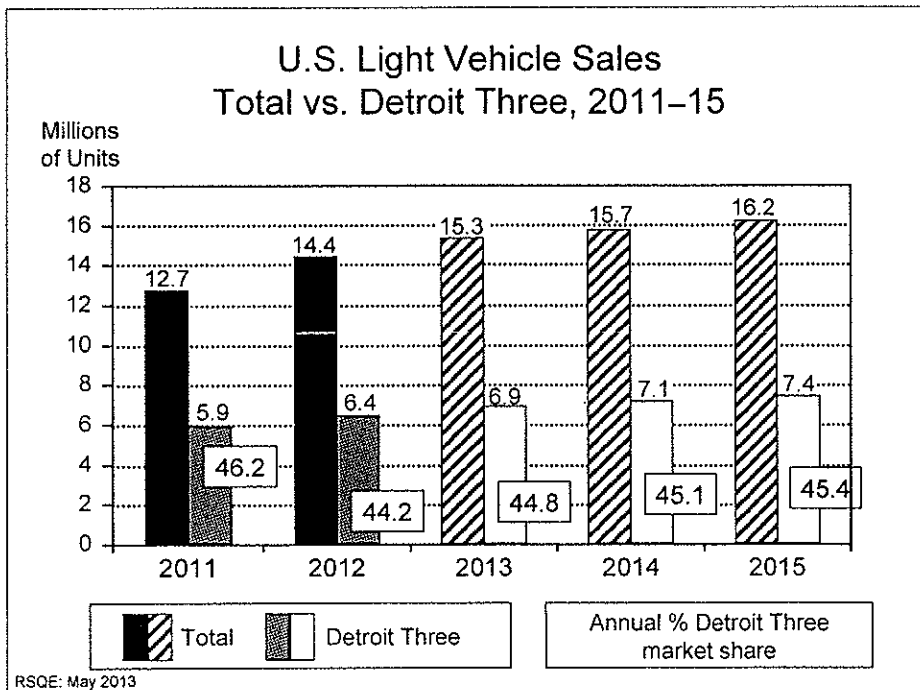
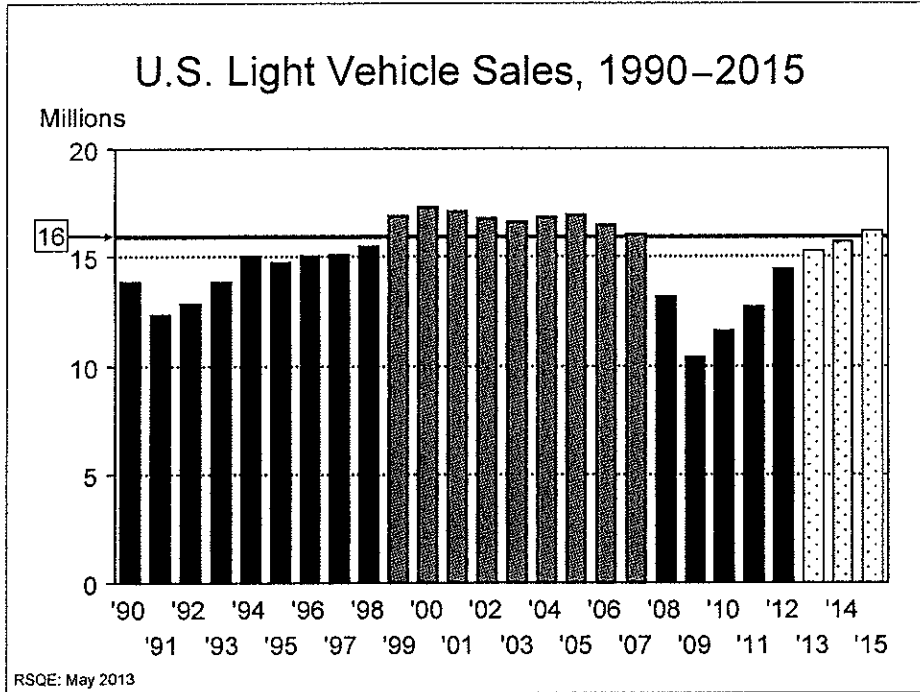
- The state unemployment rate is still too high, above the rates we saw prior to the Great Recession of 2008–09.
- Despite the solid recovery to date, there is still a fair amount of ground to be made up after the job loss suffered during the prolonged recession of the past decade.
- That said, Michigan does appear to be positioned for a longer run of economic prosperity.

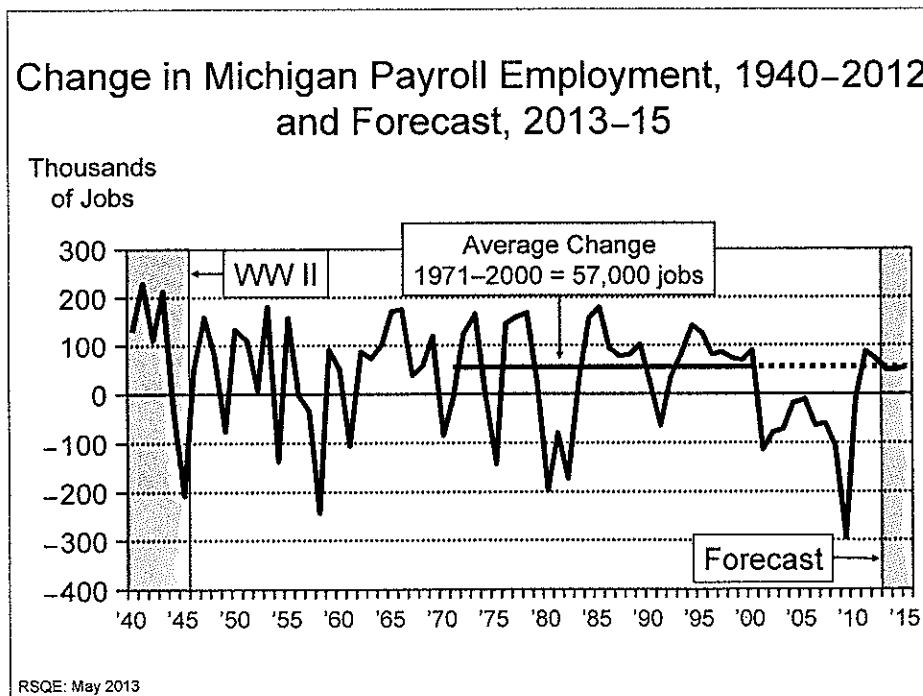
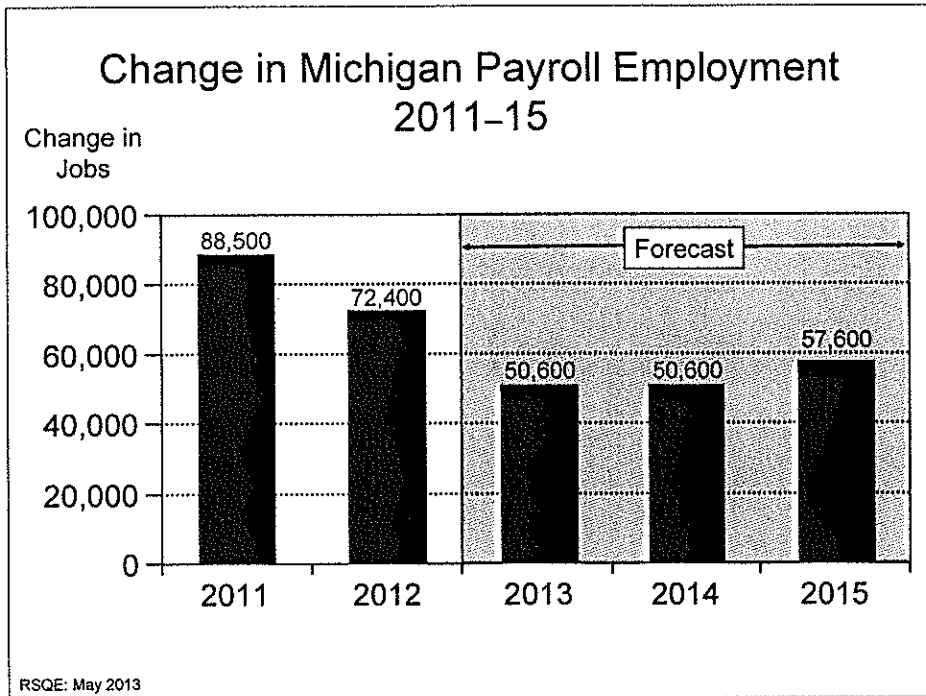
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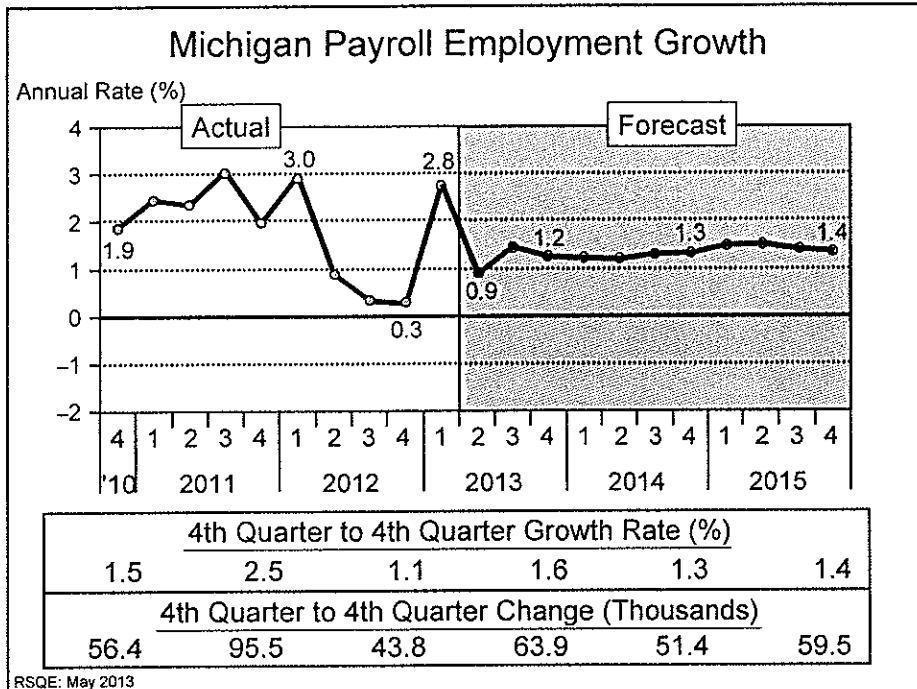
Michigan Payroll Employment 2010q4–2012q4



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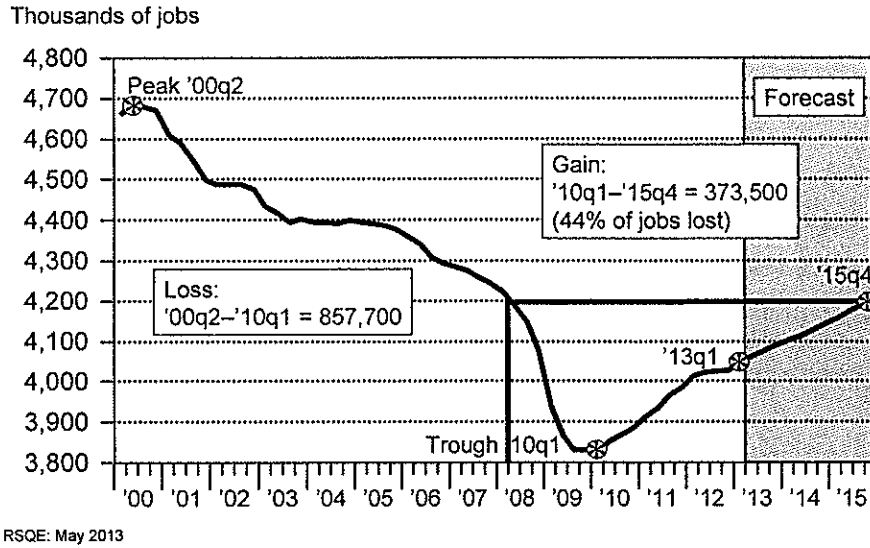


Change in Payroll Employment by Industry Sector (Thousands of jobs)

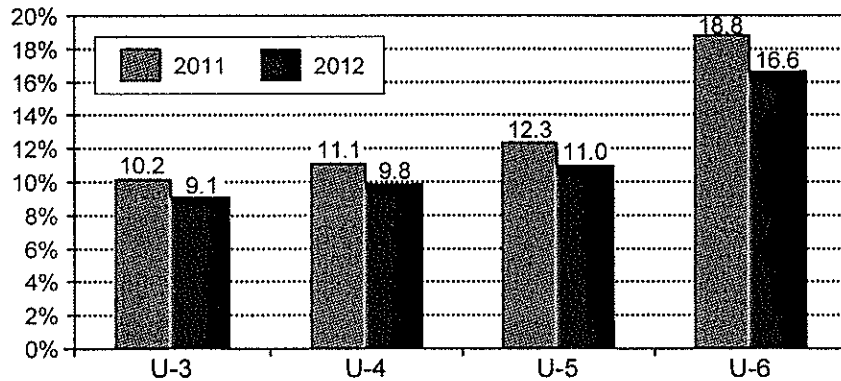
	2011q4 to 2012q4	2012q4 to 2013q4	2013q4 to 2014q4	2014q4 to 2015q4
Total jobs	44	64	51	59
Manufacturing	22	14	7	9
Construction	-2	6	12	8
Professional & business svcs.	11	16	10	13
Private educ. & health svcs.	8	10	6	7
Trade, transportation, utilities	4	16	13	12
Government	-5	-7	-3	0

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Michigan Payroll Employment First Quarter of 2000 to Fourth Quarter of 2015



Alternative Measures of Labor Underutilization Michigan, 2011 and 2012



U-3: Comparable to the official unemployment rate (10.4 % in 2011, 9.1% in 2012)

U-4: Unemployed (U-3) + discouraged workers

U-5: U-4 + all other marginally attached workers

U-6: U-5 + employed part-time for economic reasons

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Demographics of Labor Underutilization

Marginally Attached to the Labor Force*
(Incremental increase from U-3 to U-5)

Relative to cohort share of the population:

Overrepresented

Men
16-24 years old

Underrepresented

Women
55+ years old

*Searched for work in the past 12 months, but did not search in the 4 weeks prior to the survey week.

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Demographics of Labor Underutilization

Involuntary Part-Time Workers*
(Incremental increase from U-5 to U-6)

Relative to cohort share of the population:

Overrepresented

Women

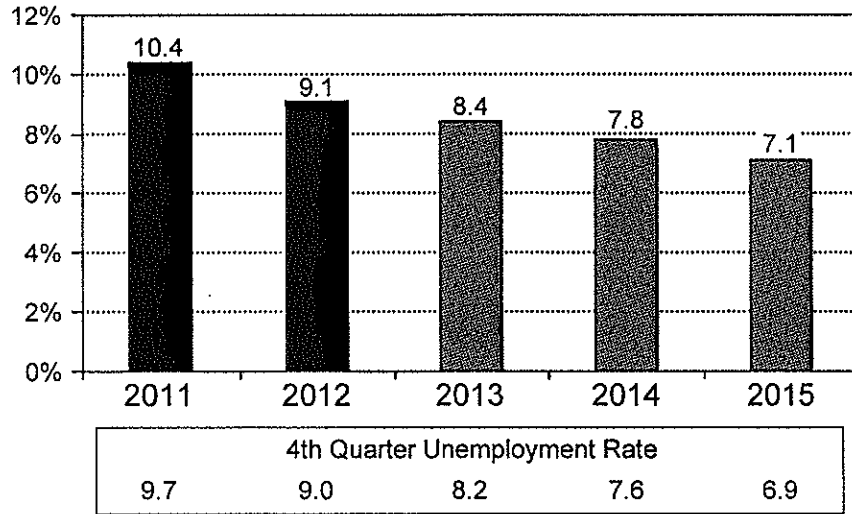
Underrepresented

Men
16-19 years old

*Could only find part-time work and wanted full-time, or hours were cut.

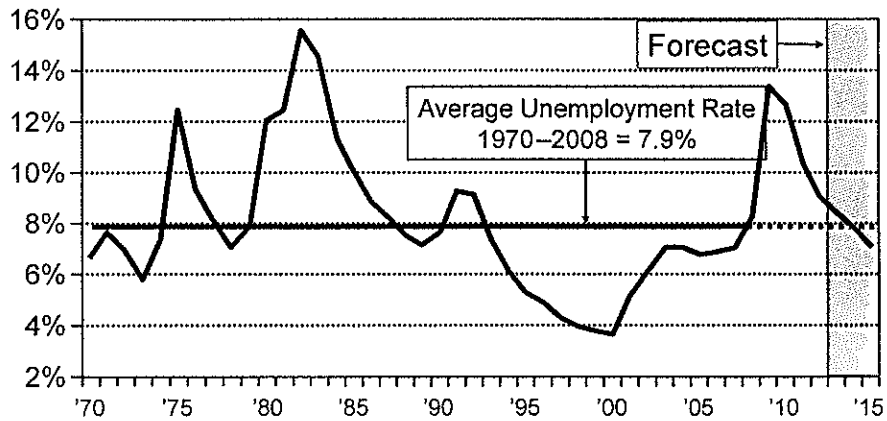
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Michigan Unemployment Rate 2011-15



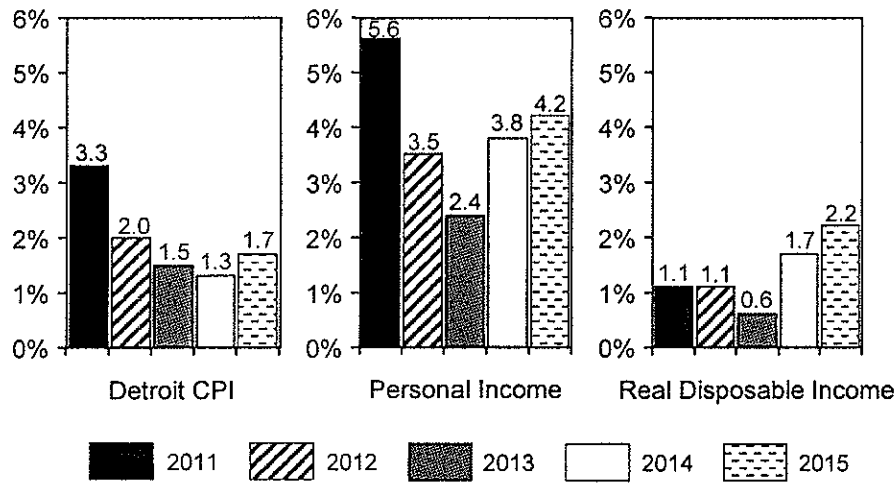
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Michigan Unemployment Rate, 1970-2012 and Forecast, 2013-15



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Michigan Inflation and Income Growth



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Michigan Outlook Summary

- The job recovery continues, adding another 175,000 jobs from the end of 2012 to the close of 2015—a little less than the 196,000 jobs gained over the prior three years.
- The sustained recovery through 2015 is consistent with an expanding U.S. economy, including a recovering housing sector and increasing vehicle sales, with the Detroit Three fully participating.
- The top job producers over the forecast period are professional and business services, the sizeable trade-transportation-utilities sector, and manufacturing.
- Job growth is accompanied by slowly declining unemployment and relatively tame price inflation.

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Michigan Outlook Summary

- The six-year recovery period through 2015 replenishes four of nine jobs lost from mid-2000 to early 2010.
- Thus, we have a ways to go, but we're seeing forward progress nonetheless.

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