



Research Seminar in Quantitative Economics
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THE U.S. AND MICHIGAN OUTLOOK FOR 2017-2019

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

**LANSING, MICHIGAN
MAY 17, 2017**

BY

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"The Michigan Model"

Latest Data

- 2017q1 real GDP growth at only 0.7 percent pace
 - 0.9 percentage point drag due to inventories
 - Weakest consumption growth since 2009q4
- Rebound likely, fundamentals are solid
- Four-quarter final sales growth stable
 - At 2.1 percent in 2017q1
 - Averaged 2.0 percent during 2016
- Basic GDP forecast story:
near-term rebound followed by near 2% trend growth

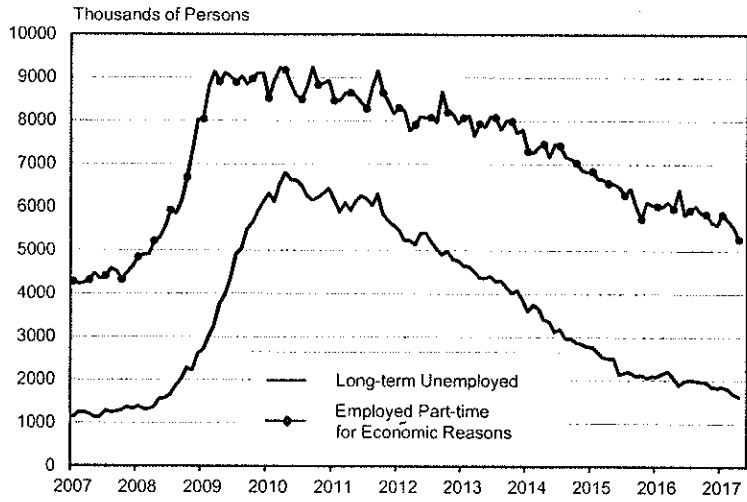
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Labor Market

- April unemployment rate at 4.4 percent
 - The lowest since May 2007, matches prior cyclical minimum
- Payroll job gains 185,000 per month so far in 2017
 - On par with 2016, slightly behind the 2011–15 average of 204,000 jobs/month.
- Labor force participation rate flat despite demographics
- Job openings rate far exceeds prior business cycle peak
- Bucking the trend, hourly compensation is growing slower
- Broader measures of labor underutilization improving faster in 2017, after a slowdown in 2016

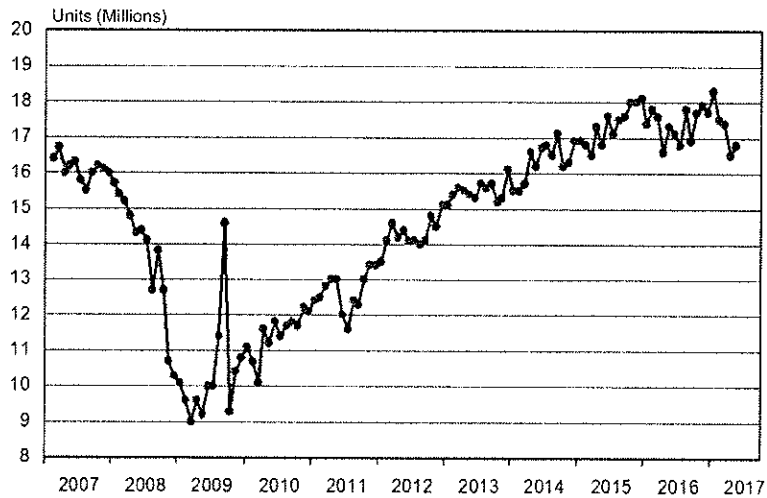
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Underemployed and Long-term Unemployed



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Light Vehicle Sales



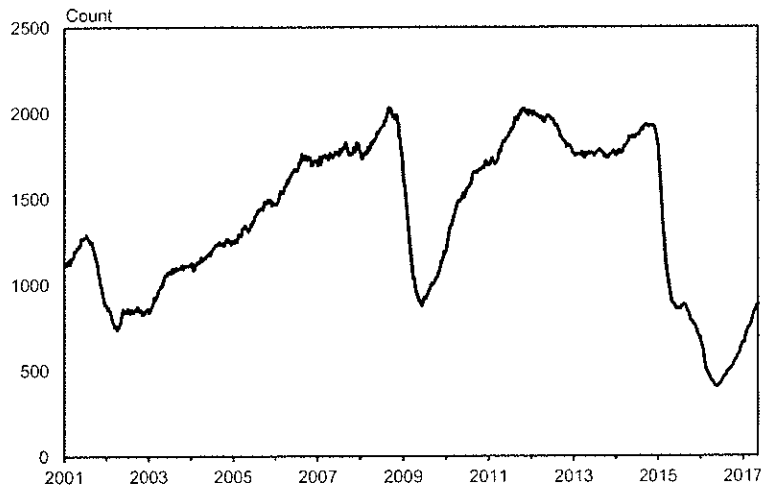
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Latest Data

- Light vehicle sales set a new record in 2016, but have lost a gear in 2017 so far
- Onshore oil production growing fast again
- Long-term interest rates shot up after November election, have backed off a little lately
- The value of the dollar jumped late in 2016, has slowly declined during 2017 so far
- Key sentiment indexes rose sharply late in 2016, and seem to be holding up
 - No noticeable effect on economic growth so far

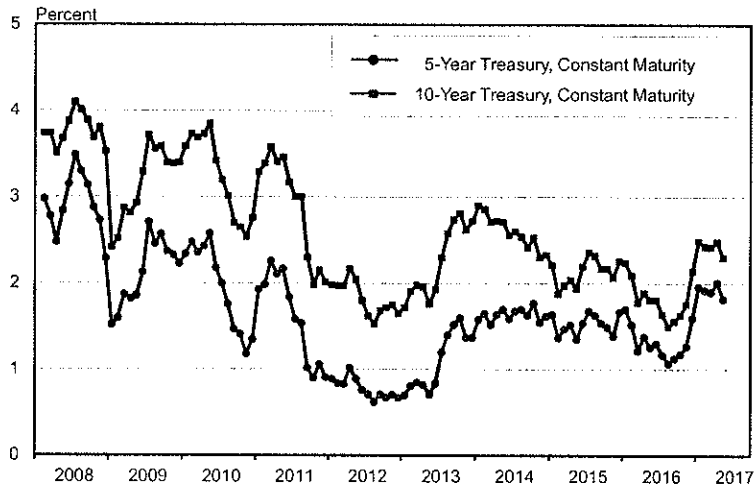
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Active U.S. Oil and Gas Drilling Rig Count



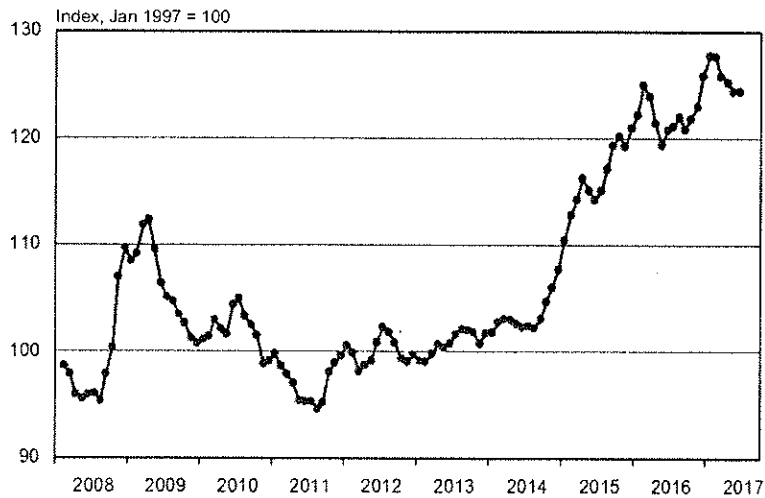
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Interest Rates



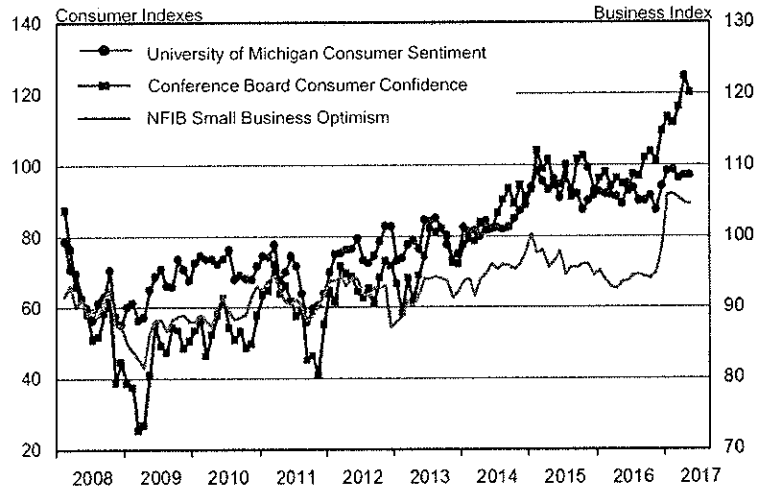
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Trade-Weighted Value of the Dollar



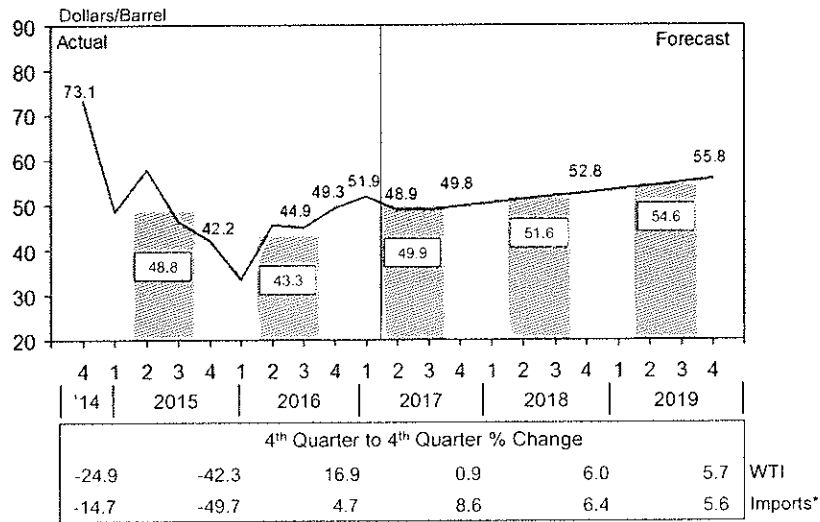
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Sentiment Indexes



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Oil Prices (West Texas Intermediate Crude)



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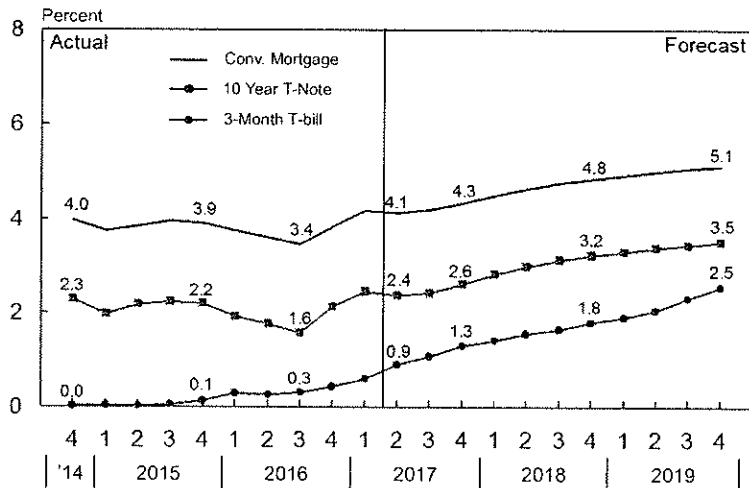
*Implicit deflator for petroleum & products

Monetary Policy

- June rate hike odds over 70%
 - Fed funds rate range will be 100-125 basis points
- Motivation:
 - Labor market near full employment
- Cause for concern:
 - Core inflation fell in March (and in April in CPI data)
- Path most consistent with our outlook:
 - June & December 2017 25 basis points rate range hikes
 - Two and three hikes in 2018 and 2019, respectively

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Market Interest Rates



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Fiscal Policy

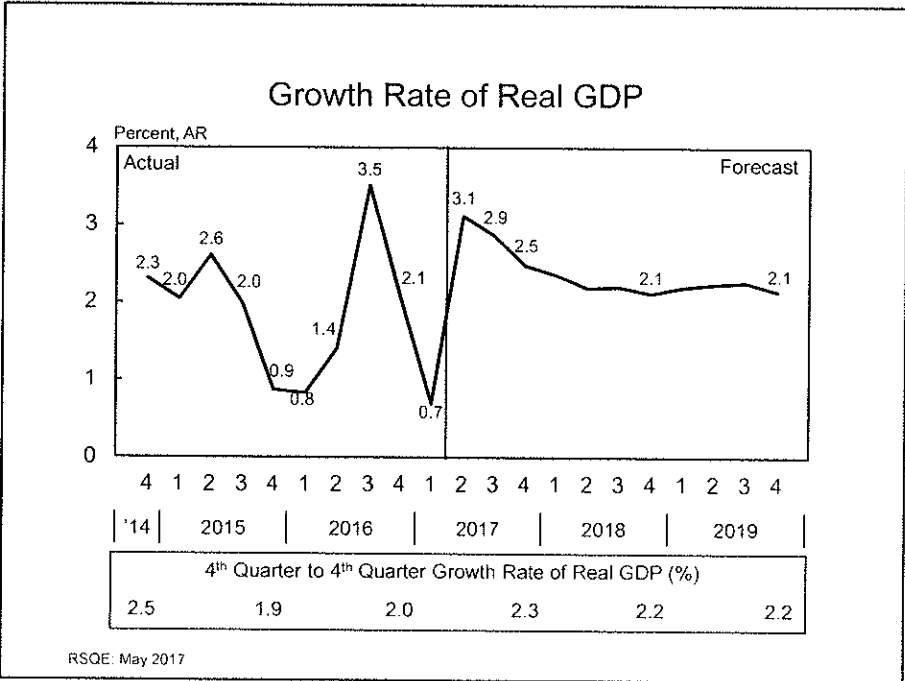
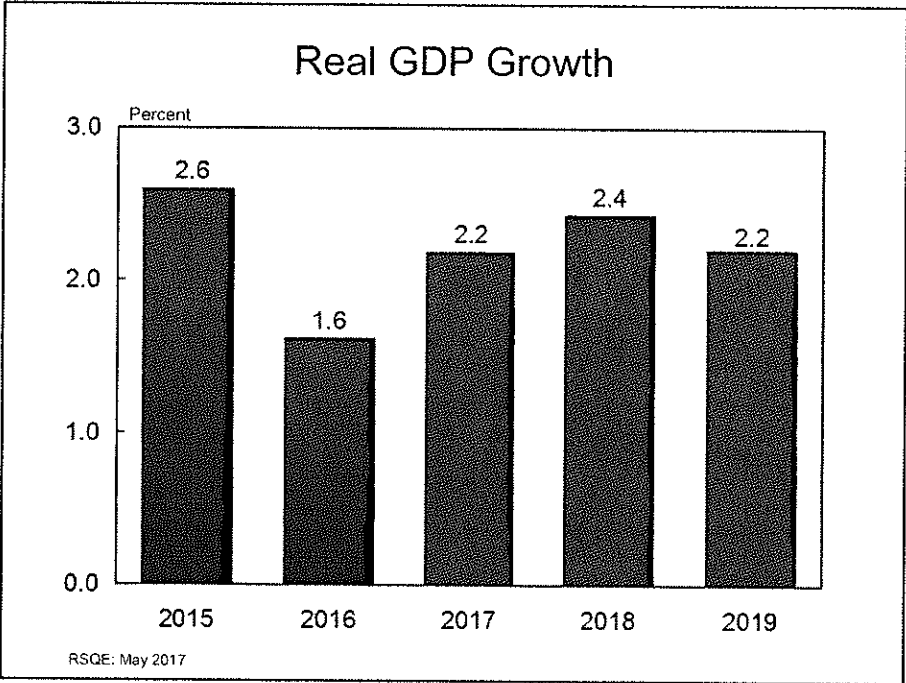
- President and Congress still learning to work together
 - Fiscal 2017 omnibus – no large deviations from prior path
- AHCA – Obamacare repeal and replace legislation passed the House
 - Fate in the Senate uncertain
 - Little spending impact within our forecast horizon
- Administration tax reform blueprint:
 - Larger corporate tax cuts
 - Smaller personal tax cuts
- Federal deficit widens by about 1% of GDP by 2019

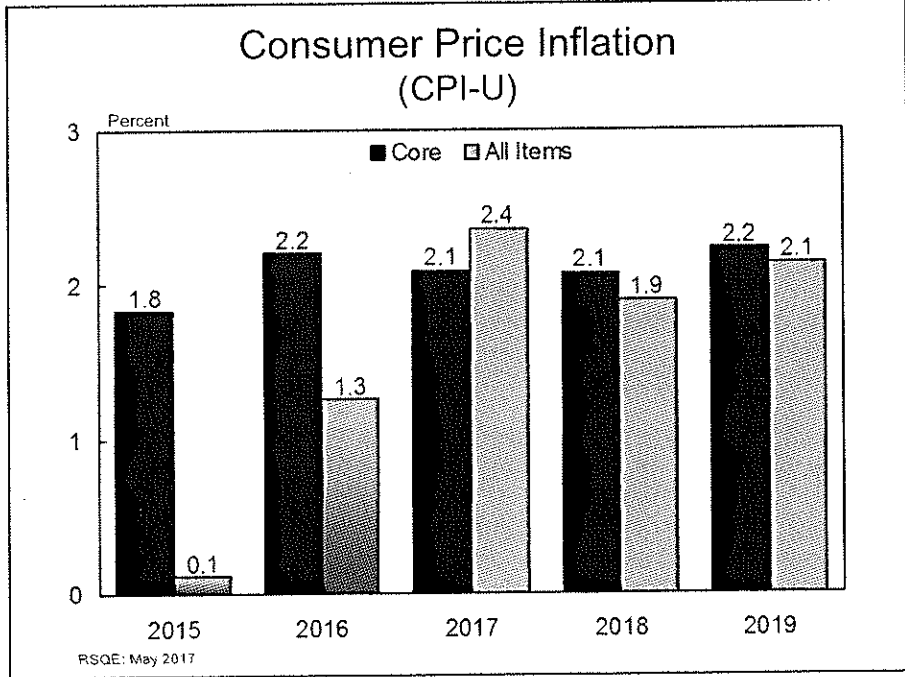
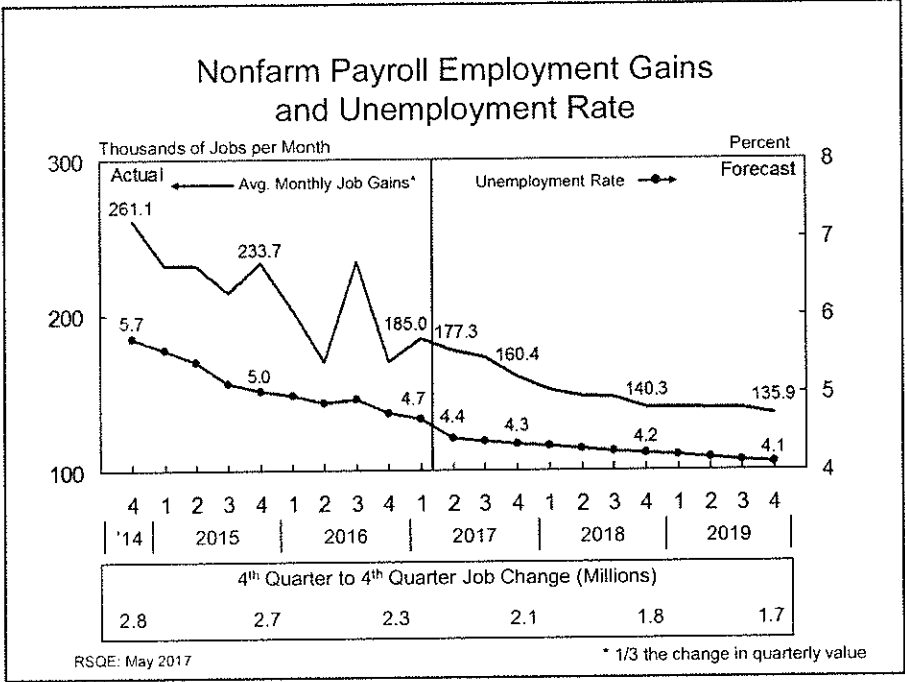
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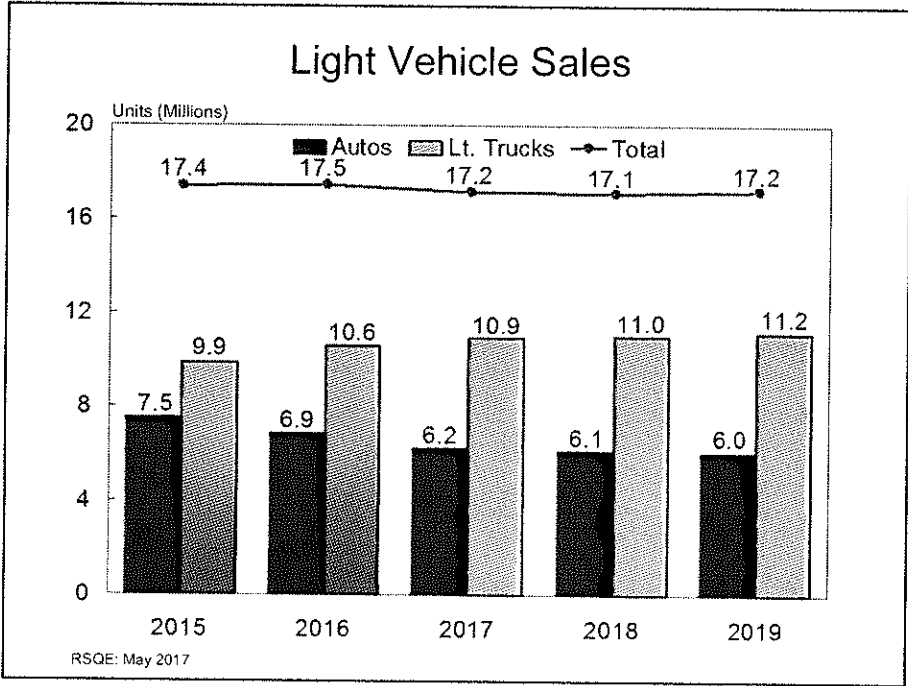
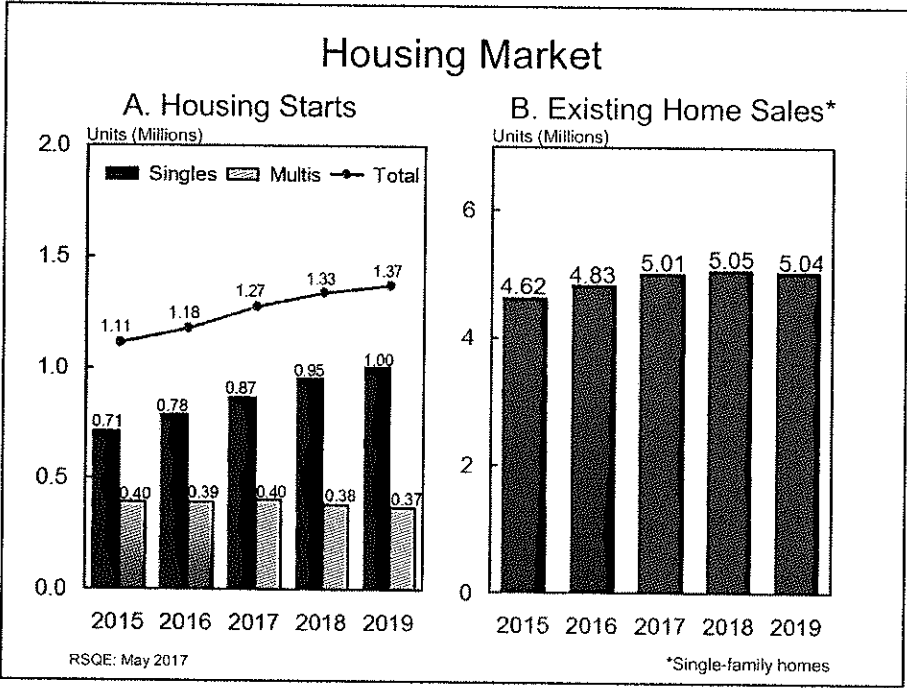
Federal Budget, NIPA Basis (Billions of Dollars)

	FY '16	Forecast		
		FY '17	FY '18	FY '19
Current receipts	3494.9	3635.0	3697.2	3773.0
% change	2.8	4.0	1.7	2.1
Current expenditures	4124.0	4296.8	4501.5	4719.5
% change	3.4	4.2	4.8	4.8
Consumption	974.2	993.9	1029.3	1064.8
% change	1.6	2.0	3.6	3.4
Transfer payments	2630.9	2727.8	2831.8	2942.9
% change	3.6	3.7	3.8	3.9
Surplus (+) or deficit (-)	-629.1	-661.8	-804.4	-946.5
Percent of GDP	-3.4	-3.5	-4.0	-4.5

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Risks to the Outlook

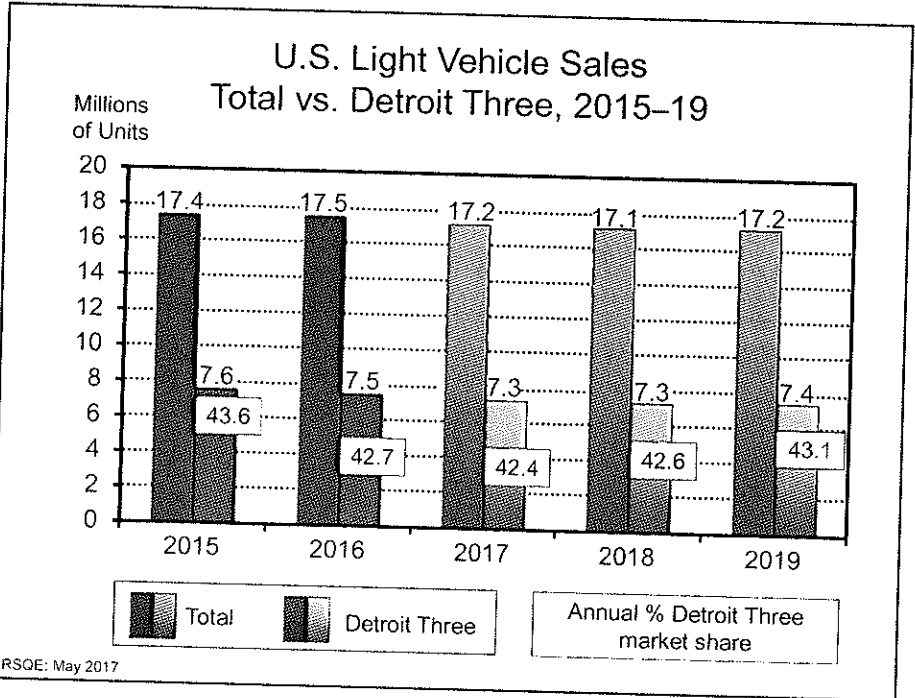
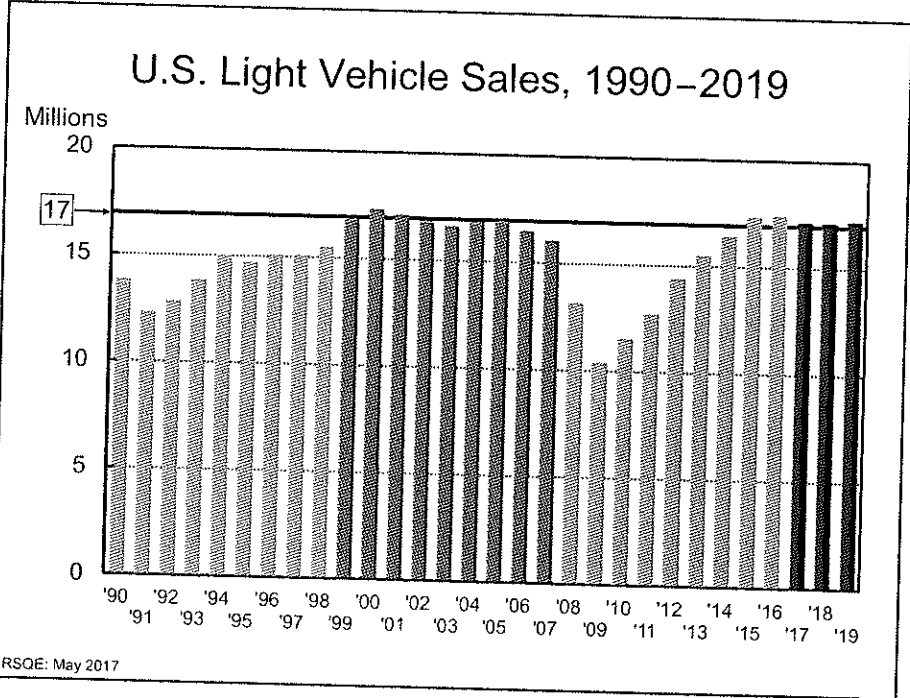
- Fiscal path quite uncertain
 - Tax reform, infrastructure, ACA, AHCA
- Monetary policy
 - Janet Yellen's term up in January 2018
- Trade policy
- World economic growth
- Commodity prices
- Abnormal weather

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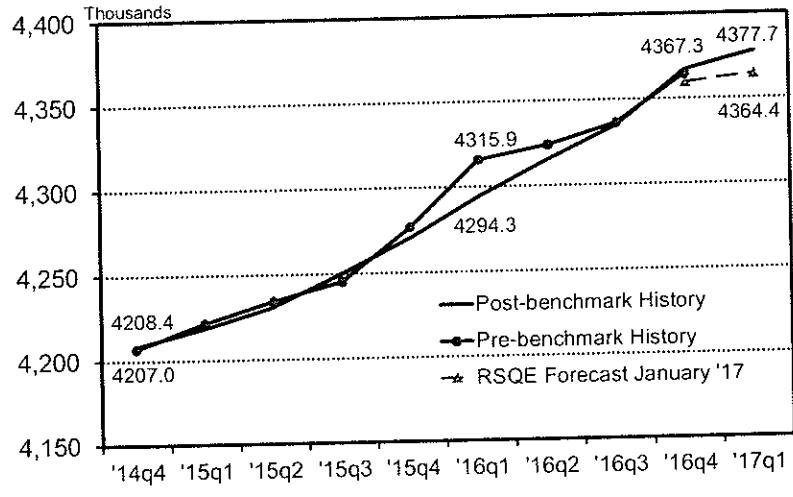
THE MICHIGAN ECONOMIC OUTLOOK FOR 2017–2019



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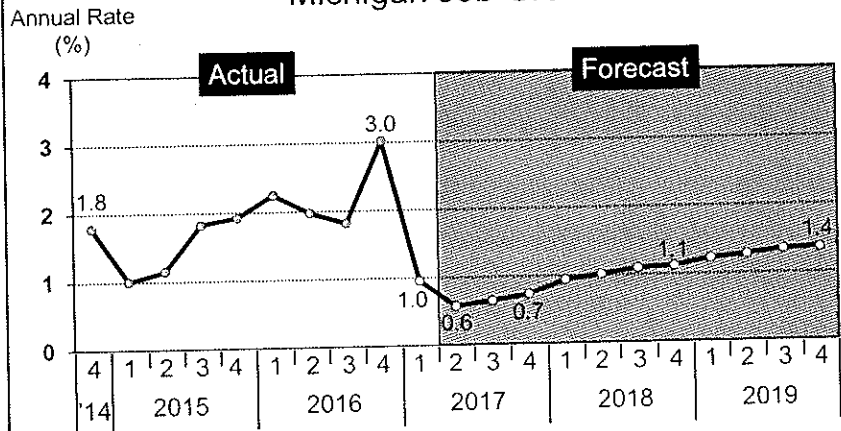


Michigan Payroll Employment 2014q4–2017q1



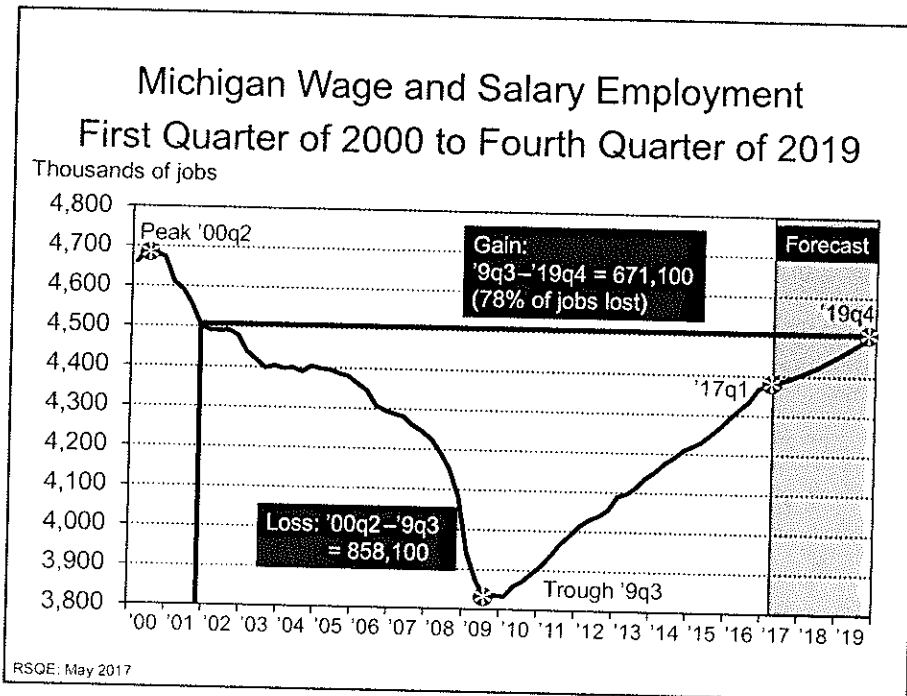
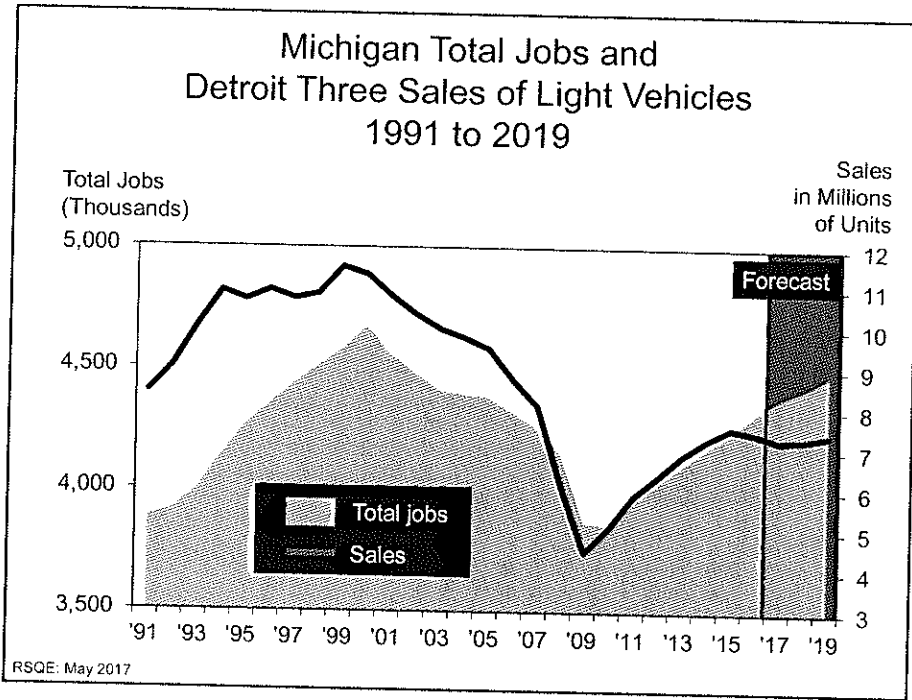
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Michigan Job Growth

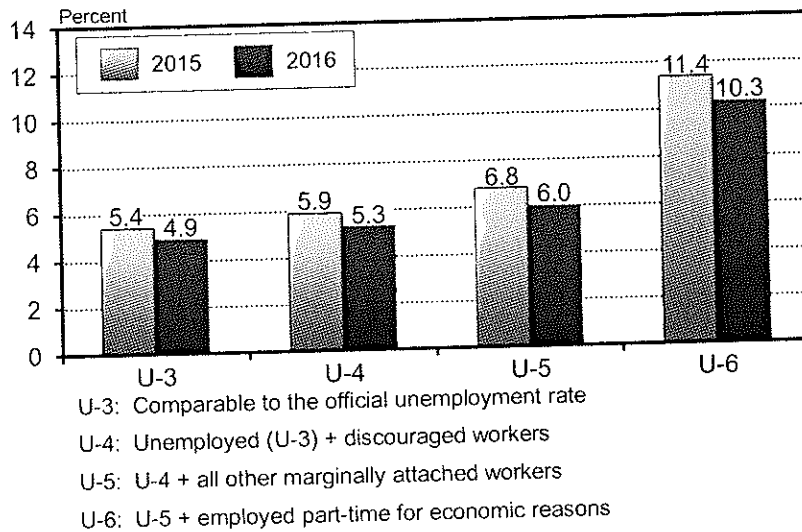


4th Quarter to 4th Quarter Growth Rate (%)					
1.7	1.5	2.3	0.7	1.0	1.3
4th Quarter to 4th Quarter Change (Thousands)					
70.7	62.1	96.8	31.9	45.8	58.0

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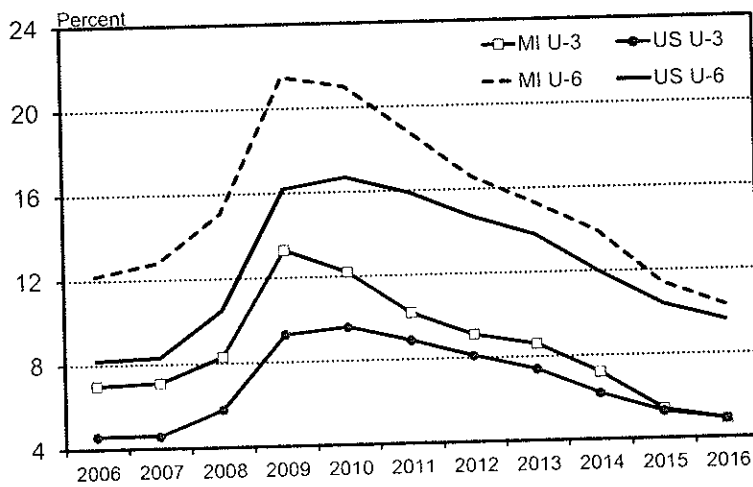


Alternative Measures of Labor Underutilization Michigan, 2015 and 2016



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Alternative Measures of Labor Underutilization Michigan vs. United States, 2006-16



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