Research Seminar in Quantitative Economics
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RSQE FORECASTS

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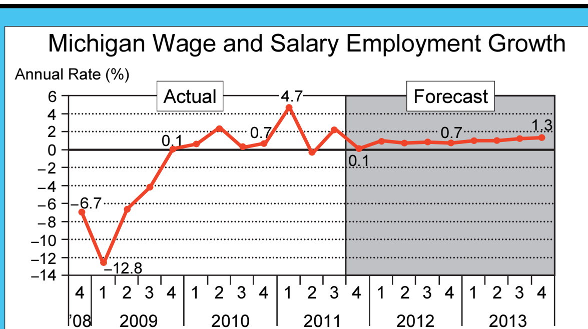
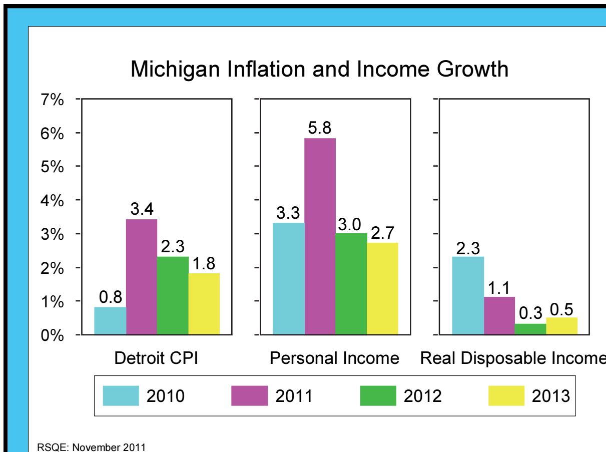
Some highlights from the most recent RSQE Michigan forecast, released on November 18, 2011:



4th Quarter to 4th Quarter Growth Rate (%)					
−3.9	−6.0	1.0	1.6	0.8	1.1
4th Quarter to 4th Quarter Change (Thousands)					
−167.7	−244.6	37.7	62.6	31.8	44.9

RSQE: November 2011



The Michigan economy is two years into a recovery, the strongest growth has come from the high-wage component of the work force during this recovery, and job growth up until now has outpaced the nation. This year has been one of solid growth, by our estimate a gain of 62,600 jobs, and we do see the recovery continuing at least through 2013.

We see a much more subdued pace of growth over the next two years. After a surge in job growth early in 2011, the pace has since moderated, and we are forecasting job gains during 2012 of 31,800, about half the number of jobs added this year, before ramping up a little to 45,000 job additions the following year. If our forecast is correct, the recovery period through 2013 would replenish only about 20 percent of the jobs lost from mid-2000 to the summer of 2009. So there is still a great deal of ground to make up.

The industries that are the dominant job providers are manufacturing, professional and business services (including temporary help), and health services. The government sector continues to be the big job loser, even as the economy as a whole recovers.

Local inflation spiked in the first half of 2011, but eases in the second half as oil prices return to a more stable path, yielding a rate of 3.4 percent for the calendar year. Local inflation is tame over the next two years, slowing to 2.3 percent in 2012 and braking further, to 1.8 percent, in 2013

Personal income swells by 5.8 percent in 2011, the highest rate since 2000, reflecting in part the considerably stronger labor market this year, including some of the higher-paid sectors. Income growth retreats to 3 percent in 2012, consistent with a softer labor market then and slower growth in nonwage income. In 2013, income growth backs off a little, to 2.7 percent.

Real disposable income growth slows to 1.1 percent in 2011, reflecting higher inflation and a greater increase in federal personal taxes in 2011, which dominate the growth in nominal income. Purchasing power growth slips to 0.3 percent in 2012 as slower nominal income growth and the scheduled increase in Michigan income taxes are only partially offset by lower inflation and a smaller increase in federal taxes. Growth in purchasing power then ticks up in 2013 to 0.5 percent.