Research Seminar in Quantitative Economics
University of Michigan Ann Arbor, Michigan

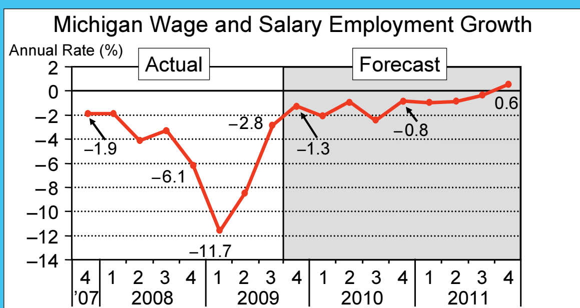
www.rsqe.econ.lsa.umich.edu
734-764-2567

RSQE FORECASTS

George A. Fulton, Director

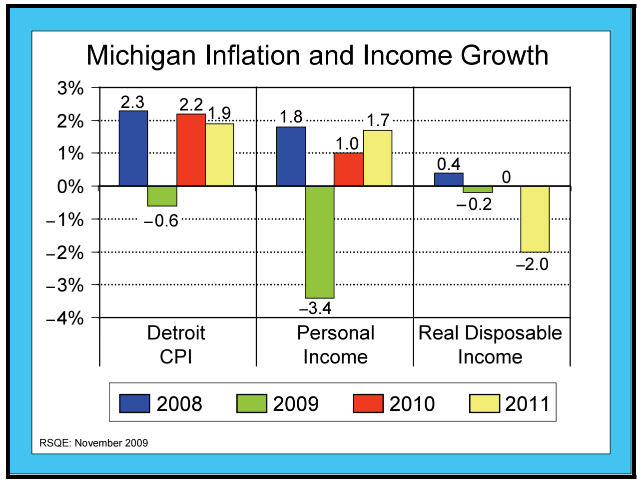
Saul H. Hymans, Director Emeritus

Some highlights from the most recent RSQE Michigan forecast, released on November 20, 2009:



4th Quarter to 4th Quarter Growth Rate (%)				
−1.1	−3.9	− 6.1	−1.6	− 0.4
4th Quarter to 4th Quarter Change (Thousands)				
−48.5	−163.8	− 250.2	− 60.3	−16.2

RSQE: November 2009



From 2000q2 to 2009q2, Michigan has lost 816,000 jobs, and over a quarter of those losses (210,000) occurred in the first half of 2009. The second half of 2009 is showing considerable improvement, with employment declining at a much reduced annual rate of 2 percent, after plunging at a 10 percent pace during the first half.

Progress is painfully slow, with employment declining by 2.1 percent at the beginning of 2010 and the losses decelerating to 0.9 percent in mid-2011, consistent with the U.S. economic recovery and the better-positioned auto companies.

The tide begins to turn in the second half of 2011, and we see modest job gains by the end of that year. An extrapolation of our forecast suggests continued job growth during 2012. If that proves correct, the job decline that started in 2000q2 would bottom out in 2011q3, with an aggregate job loss of 937,000 over that eleven-year period, or about one in every five jobs that existed at the beginning of the period.

The employment forecast cumulates to job losses of 250,200 during 2009, 60,300 during 2010, and 16,200 during 2011.

The weak local economic environment, a sharp drop in oil prices since mid-2008, and slower food price inflation all contribute to a decline of 0.6 percent in the price index for 2009. With some improvement in the state's economy and rising oil prices, local inflation climbs to still-tame rates of 2.2 percent for 2010 and 1.9 percent for 2011, similar to the range for 2007 and 2008.

Personal income shrinks by 3.4 percent in 2009, reflecting a very weak labor market and a drop in proprietors' income, dividends, interest, and rent. Personal income turns around to grow again in 2010 and 2011 as the economy improves, expanding modestly in 2010 by one percent before picking up to grow by 1.7 percent in 2011. Since at least 1970, 2009 is the only year of declining nominal personal income.

For 2009, we see a small dip in real disposable income, despite a large decline in nominal income, due to price deflation and a drop in federal personal taxes. In 2010, the rise in nominal income is offset by renewed inflation and less shrinkage in personal taxes. An increase in federal taxes in 2011 is behind the 2 percent decline in real disposable income for that year.