

A Pivotal Year for Michigan

Manufacturing conditions in Michigan remain positive, but we expect to see indicators easing through this year as auto production tapers. Our U.S. auto sales forecast falls from the 17.2 million unit rate of 2018Q1 to 16.6 million in 2018Q4. This is not a drastic decline, but we expect it to lead to reduced domestic production. U.S. vehicle production is highly correlated with state GDP growth for Michigan. Lower auto sales and lower vehicle assemblies by yearend are key factors in our expectation for reduced real GDP growth for the state in the second half of this year. We also expect job growth to ease in line with reduced state GDP growth. Reduced job growth will lead to lower income growth, with spillover to the state service sector and housing markets. Recent estimates for net-migration into Michigan have been slightly positive, after years of drag from persistent net out-migration. Our forecast calls for a reduced in-migration due to cooler job growth, and increased out-migration due to baby boomer retirement, the result of which will be a return to net out-migration by 2019. The net outflow of people from Michigan will keep overall population growth subdued. It is next to impossible for a state to be a strong economic performer with that kind of demographic profile. Growth would have to come from exceptional productivity gains. NAFTA renegotiations are also an ongoing risk factor. We look for a positive outcome for Michigan. However, it looks like it will take a strong effort to resolve NAFTA by the Trump Administration's self-imposed end-of-May deadline. President Trump said today that he would like to shape NAFTA so that more cars are made in the U.S. However, Ford has announced that it will phase out most of its sedan production in North America.

Michigan Economic Outlook

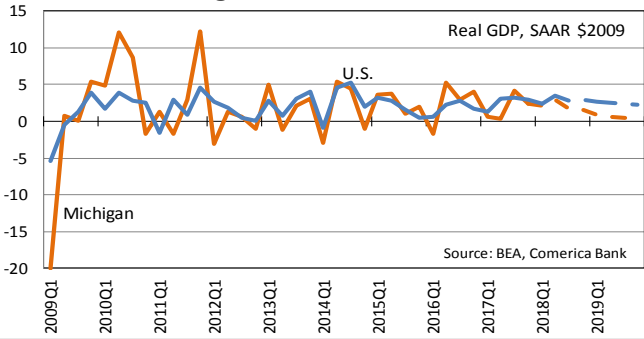
	4Q'17a	1Q'18a	2Q'18f	3Q'18f	4Q'18f	1Q'19f	2Q'19f	3Q'19f	2017a	2018f	2019f
State GDP											
Real GDP (Chained 2009 Millions \$)	444681	446958	450140	451971	453704	454701	455390	455917	440341	450693	455560
Percent Change Annualized	2.4	2.1	2.9	1.6	1.5	0.9	0.6	0.5	2.3	2.4	1.1
Labor and Demographics											
Payroll Jobs (Thousands)	4388	4412	4428	4441	4452	4461	4468	4474	4373	4433	4471
Percent Change Annualized	1.4	2.2	1.4	1.2	1.0	0.8	0.6	0.6	1.2	1.4	0.8
Unemployment Rate (Percent)	4.7	4.7	4.5	4.3	4.3	4.2	4.1	4.1	4.6	4.5	4.1
Population (Thousands)	9975	9980	9985	9989	9993	9996	10000	10003	9965	9987	10001
Percent Change Annualized	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.3	0.2	0.1
Net Migration (Thousands)	1.7	1.0	0.6	0.5	0.4	0.2	0.0	-0.3	10.9	2.5	-0.7
Personal Income											
Total Personal Income (Nom., Millions \$)	455747	460506	464986	469480	473895	478171	482278	486409	450847	467217	484327
Percent Change Annualized	4.2	4.2	3.9	3.9	3.8	3.7	3.5	3.5	2.6	3.6	3.7
Housing											
Housing Starts (Total, Ann. Rate)	22367	21176	21592	21789	21925	22003	22067	22121	21805	21621	22089
Percent Change Annualized	75.7	-19.6	8.1	3.7	2.5	1.4	1.2	1.0	3.4	-0.8	2.2
SF Housing Starts (# of Units, Ann Rate)	17972	18847	18129	18255	18351	18396	18434	18470	17476	18395	18449
MF Housing Starts (# of Units, Ann Rate)	4394	2329	3463	3534	3574	3607	3633	3651	4330	3225	3639
Existing Home Sales (Ths. of Units, Ann Rate)	171	177	180	182	184	185	185	186	184	181	186
House Prices, FHFA (1991 Q1=100, SA)	219	224	228	231	235	238	242	245	213	229	243
Year/Year Percent Change	8.6	7.5	8.0	7.7	7.0	6.5	6.1	5.9	8.2	7.6	6.0
Bankruptcies											
Total Business (12 Months Ending)	456	391	396	398	398	403	410	417	498	396	413
Total Personal (12 Months Ending)	30319	29945	29927	29899	29941	30002	30086	30167	30098	29928	30120

a = actual f = forecast

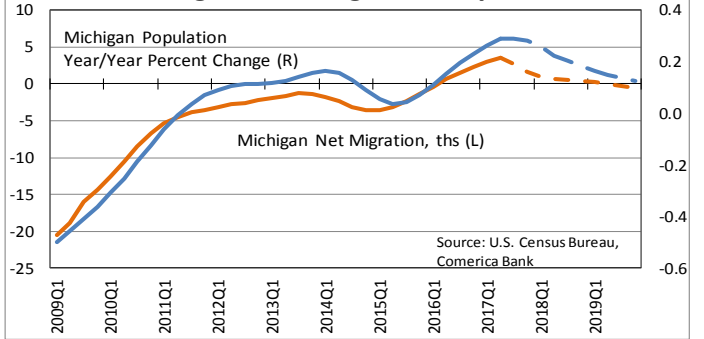
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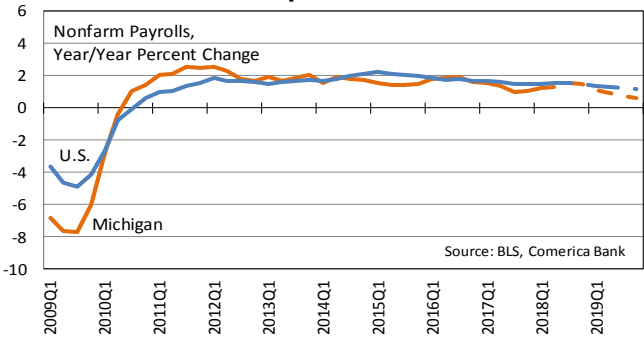
Michigan GDP Growth to Ease



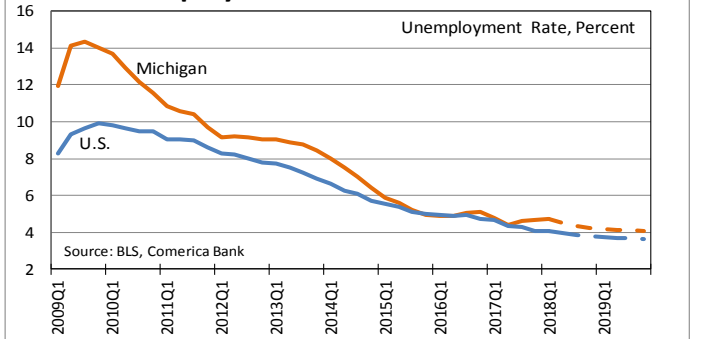
Outmigration Weighs on Population



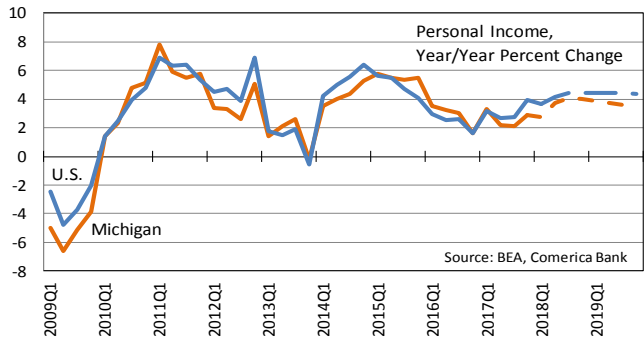
Job Growth Expected to Cool in 2018



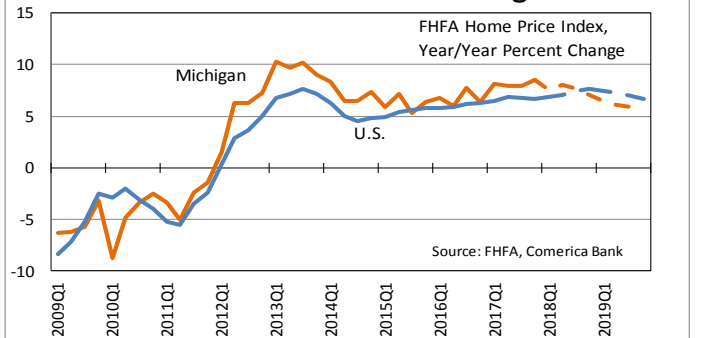
Unemployment Rate Is Close to Nadir



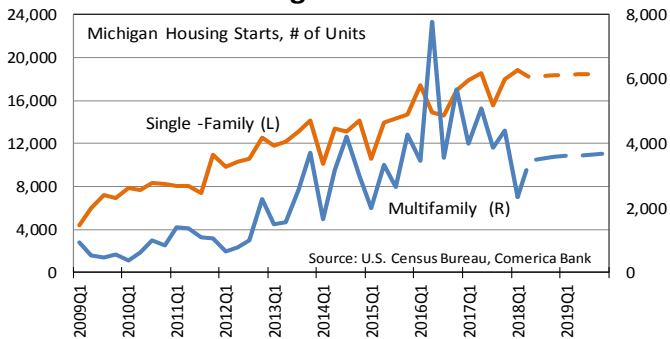
Income Growth To Moderate



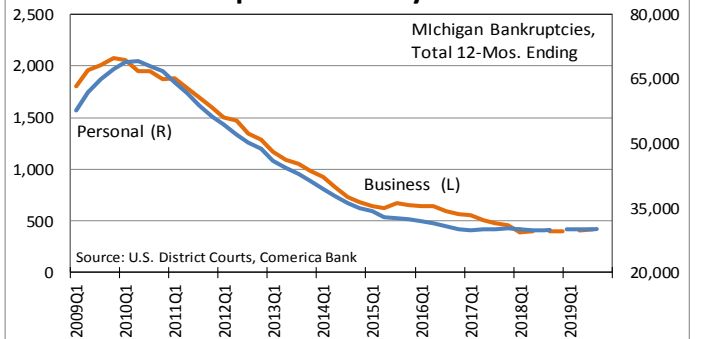
Home Prices Are Increasing



Housing Starts Stable



Bankruptcies Near Cyclical Low



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