

Michigan's Manufacturers Wait for NAFTA News

The Michigan economy expanded at a modest 1.6 percent annualized rate in the first quarter, below the U.S. average of 2.1 percent. In Q2, U.S. real GDP growth accelerated at a 4.1 percent annualized rate. We expect that Michigan real GDP growth accelerated also, to about a 3 percent annualized rate in Q2. Given tight labor market conditions, including limited potential for labor force expansion, we believe that the moderately strong Q2 performance will not be sustained. At 3.8 percent in May, Michigan's unemployment rate was the lowest since April 2000. We see a mix of positives and negatives for Michigan's vital manufacturing sector going forward. Demand for heavy duty vehicles is very strong. Overall vehicle production is expected to increase in the third quarter. However, demand for light duty vehicles is being hindered by low real wage growth, higher production costs, higher financing costs, and signs of a cooler housing market. Manufacturers in Michigan and elsewhere are also subject to increasing uncertainty about U.S. trade policy. The Trump Administration continues to ratchet up pressure on China, and China continues to retaliate, making imports more expensive and reducing the demand for U.S. exports. To date, there is little evidence in the economic data that trade uncertainties are a serious impediment to U.S. economic growth. However, there are numerous anecdotal comments suggesting that business investment is being held back. News about the NAFTA negotiation process is conspicuous in its absence. The Trump Administration appears to be favoring bilateral talks with Canada and Mexico. Mexican President-elect Andres Manuel Lopez Obrador has been publicly supportive of a quick resolution to NAFTA negotiations. The U.S. and Mexico are reported to be close to a deal on auto production.

Michigan Economic Outlook

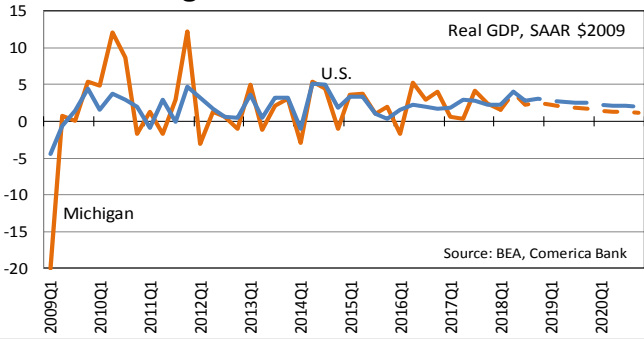
| | 1Q'18a | 2Q'18a | 3Q'18f | 4Q'18f | 1Q'19f | 2Q'19f | 3Q'19f | 4Q'19f | 2017a | 2018f | 2019f |
|---|--------------|--------------|-------------|-------------|-------------|------------|------------|------------|------------|-------------|------------|
| State GDP | | | | | | | | | | | |
| Real GDP (Chained 2009 Millions \$) | 446410 | 450641 | 453146 | 455939 | 458429 | 460689 | 462840 | 464821 | 440341 | 451534 | 461695 |
| Percent Change Annualized | 1.6 | 3.8 | 2.2 | 2.5 | 2.2 | 2.0 | 1.9 | 1.7 | 2.3 | 2.5 | 2.3 |
| Labor and Demographics | | | | | | | | | | | |
| Payroll Jobs (Thousands) | 4412 | 4421 | 4437 | 4451 | 4463 | 4473 | 4483 | 4492 | 4373 | 4430 | 4478 |
| Percent Change Annualized | 2.2 | 0.8 | 1.4 | 1.3 | 1.1 | 0.9 | 0.9 | 0.8 | 1.2 | 1.3 | 1.1 |
| Unemployment Rate (Percent) | 4.7 | 4.6 | 4.3 | 4.2 | 4.0 | 3.9 | 3.8 | 3.7 | 4.6 | 4.5 | 3.9 |
| Population (Thousands) | 9974 | 9977 | 9979 | 9980 | 9982 | 9983 | 9984 | 9985 | 9964 | 9978 | 9984 |
| Percent Change Annualized | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.3 | 0.1 | 0.1 |
| Net Migration (Thousands) | 1.0 | 0.6 | 0.2 | 0.2 | 0.1 | 0.1 | 0.0 | -0.1 | 10.9 | 2.0 | 0.1 |
| Personal Income | | | | | | | | | | | |
| Total Personal Income (Nom., Millions \$) | 461847 | 466543 | 472362 | 477979 | 483519 | 488820 | 494248 | 499619 | 450833 | 469683 | 491552 |
| Percent Change Annualized | 5.4 | 4.1 | 5.1 | 4.8 | 4.7 | 4.5 | 4.5 | 4.4 | 2.6 | 4.2 | 4.7 |
| Housing | | | | | | | | | | | |
| Housing Starts (Total, Ann. Rate) | 21354 | 20105 | 21204 | 22115 | 22799 | 22830 | 22847 | 22944 | 22500 | 21194 | 22855 |
| Percent Change Annualized | -27.3 | -21.4 | 23.7 | 18.3 | 13.0 | 0.5 | 0.3 | 1.7 | 7.5 | -5.8 | 7.8 |
| SF Housing Starts (# of Units, Ann Rate) | 18469 | 17650 | 18387 | 18535 | 18673 | 18772 | 18865 | 18925 | 17886 | 18260 | 18809 |
| MF Housing Starts (# of Units, Ann Rate) | 2885 | 2454 | 2816 | 3580 | 4126 | 4058 | 3983 | 4019 | 4615 | 2934 | 4047 |
| Existing Home Sales (Ths. of Units, Ann Rate) | 175 | 178 | 181 | 183 | 185 | 185 | 186 | 186 | 185 | 180 | 186 |
| House Prices, FHFA (1991 Q1=100, SA) | 223 | 228 | 231 | 234 | 238 | 241 | 244 | 247 | 213 | 229 | 242 |
| Year/Year Percent Change | 7.8 | 8.3 | 7.8 | 7.1 | 6.4 | 5.7 | 5.4 | 5.2 | 8.2 | 7.7 | 5.7 |
| Bankruptcies | | | | | | | | | | | |
| Total Business (12 Months Ending) | 391 | 398 | 394 | 391 | 391 | 394 | 397 | 401 | 498 | 393 | 396 |
| Total Personal (12 Months Ending) | 29945 | 29762 | 29643 | 29610 | 29560 | 29545 | 29642 | 29739 | 30098 | 29740 | 29622 |

a = actual f = forecast

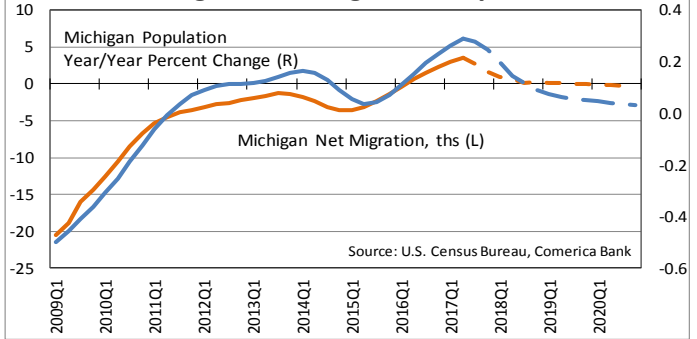
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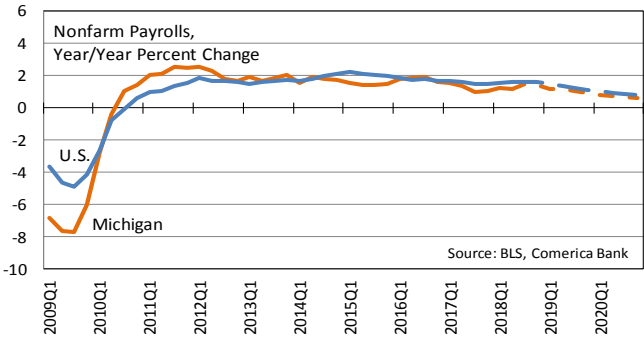
Michigan GDP Growth to Moderate



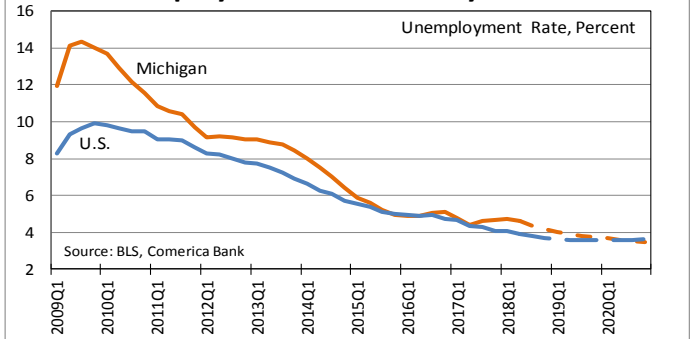
Outmigration Weighs on Population



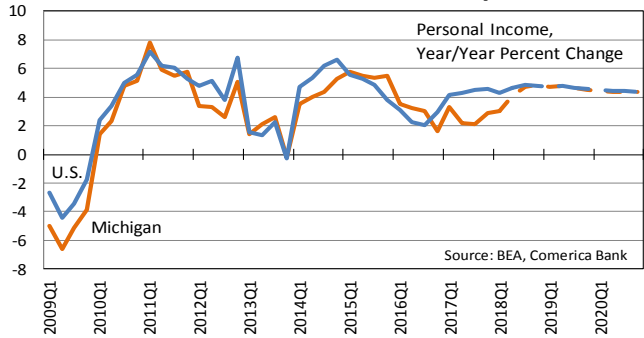
Job Growth to Wind Down



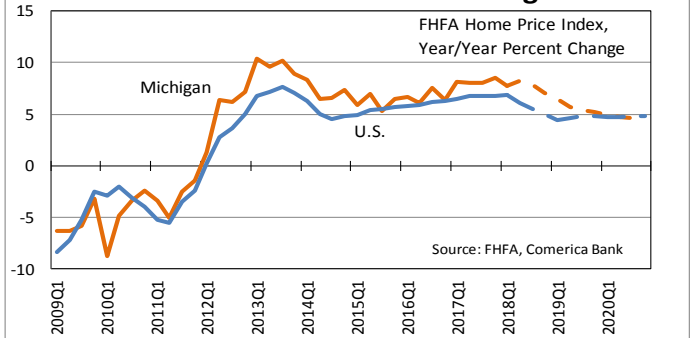
Unemployment Rate Near Cyclical Low



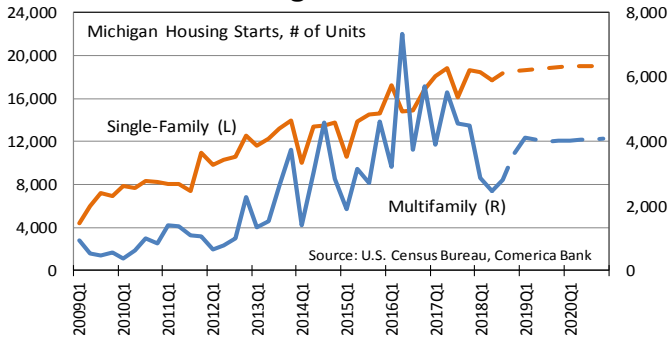
Income Growth Picks Up



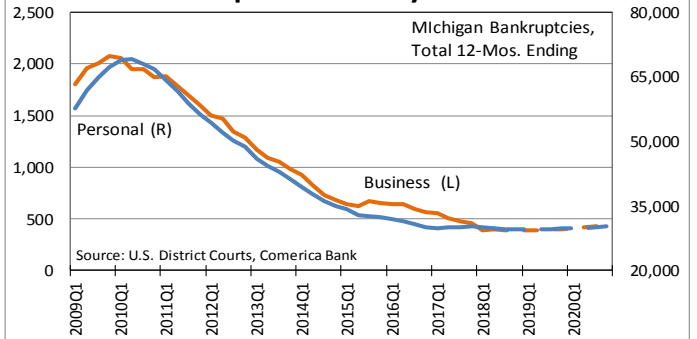
Home Price Growth Is Easing



Housing Starts Stable



Bankruptcies Near Cyclical Low



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