

## Headwinds Ahead for Michigan's Auto Sector

We expect the Michigan economy to continue to grow through 2019, but we also expect the pace of growth to slow significantly as the year progresses. Michigan's important auto industry and related durable goods manufacturers are facing increasing headwinds. The global economy is decelerating in early 2019. Economic data from China has been weak and is consistent with cooler GDP growth in 2019. China is an important market for GM, which has reported weaker profits due to softer sales in China. GM has initiated its North American restructuring plan and will eliminate about 4,000 jobs and close 5 plants this year. Europe is also showing signs of cooler economic growth. Ford has announced a restructuring plan for their European division. A downshift in the global economy will be a factor in cooler U.S. economic growth in 2019, and by extension, weaker U.S. vehicle sales. Also, accelerated depreciation due to tax reform may have front-loaded commercial vehicle demand in 2018, thereby reducing demand in 2019. We expect to see U.S. light vehicle sales of about 16.6 million units in 2019, down from 17.2 million units in 2018. Dealer inventory was up by 3 percent at the end of 2018, compared with a year earlier. Inventory expansion could turn into a weight on production if sales drop off this year. While finances are in good shape for most U.S. households, consumer confidence fell in January as the longest federal government shutdown in history dragged on. Good news could come in the form of a trade deal with China that would at least remove the threat of increasing tariffs, and possibly lead to a reduction in trade tariffs. With cooler economic growth and higher mortgage rates, we expect Michigan's housing market to remain subdued in 2019.

### Michigan Economic Outlook

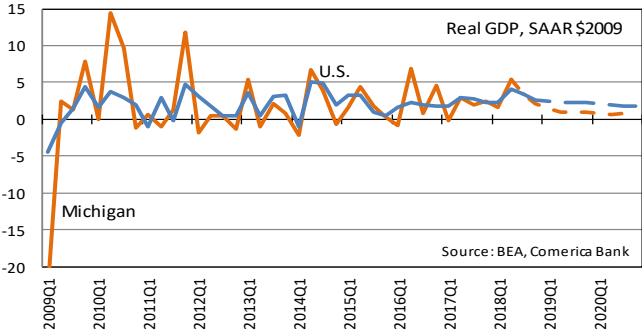
	2Q'18a	3Q'18a	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	1Q'20f	2017a	2018f	2019f
<b>State GDP</b>											
Real GDP (Chained 2009 Millions \$)	470909	474896	477314	479132	480301	481381	482558	483485	458813	471967	480843
<b>Percent Change Annualized</b>	<b>5.4</b>	<b>3.4</b>	<b>2.1</b>	<b>1.5</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>0.8</b>	<b>2.2</b>	<b>2.9</b>	<b>1.9</b>
<b>Labor and Demographics</b>											
Payroll Jobs (Thousands)	4422	4435	4445	4458	4470	4479	4489	4498	4373	4428	4474
<b>Percent Change Annualized</b>	<b>0.9</b>	<b>1.2</b>	<b>0.9</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>1.2</b>	<b>1.3</b>	<b>1.0</b>
Unemployment Rate (Percent)	4.6	4.1	3.9	3.8	3.7	3.6	3.4	3.3	4.6	4.3	3.6
Population (Thousands)	9996	9997	9999	10002	10004	10006	10007	10007	9979	9996	10004
<b>Percent Change Annualized</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>
Net Migration (Thousands)	0.5	0.4	0.5	0.5	0.1	-0.3	-0.7	-1.1	7.4	2.4	-0.5
<b>Personal Income</b>											
Total Personal Income (Nom., Millions \$)	472973	477895	483047	487920	492849	498042	503263	508380	460270	476289	495518
<b>Percent Change Annualized</b>	<b>1.5</b>	<b>4.2</b>	<b>4.4</b>	<b>4.1</b>	<b>4.1</b>	<b>4.3</b>	<b>4.3</b>	<b>4.1</b>	<b>3.5</b>	<b>3.5</b>	<b>4.0</b>
<b>Housing</b>											
Housing Starts (Total, Ann. Rate)	20008	18207	19162	19276	19363	19415	19457	19466	22500	19648	19378
<b>Percent Change Annualized</b>	<b>-20.9</b>	<b>-31.4</b>	<b>22.7</b>	<b>2.4</b>	<b>1.8</b>	<b>1.1</b>	<b>0.9</b>	<b>0.2</b>	<b>7.5</b>	<b>-12.7</b>	<b>-1.4</b>
SF Housing Starts (# of Units, Ann Rate)	17440	16011	16694	16788	16852	16885	16914	16915	17886	17097	16860
MF Housing Starts (# of Units, Ann Rate)	2568	2196	2467	2489	2510	2531	2544	2551	4615	2551	2518
Existing Home Sales (Ths. of Units, Ann Rate)	187	178	179	180	181	182	182	183	187	181	181
House Prices, FHFA (1991 Q1=100, SA)	226	230	233	236	239	241	244	246	212	228	240
<b>Year/Year Percent Change</b>	<b>7.9</b>	<b>7.6</b>	<b>7.1</b>	<b>6.1</b>	<b>5.6</b>	<b>5.0</b>	<b>4.5</b>	<b>4.3</b>	<b>8.1</b>	<b>7.7</b>	<b>5.3</b>
<b>Bankruptcies</b>											
Total Business (12 Months Ending)	398	402	409	405	404	406	409	412	498	400	406
Total Personal (12 Months Ending)	29762	29452	29277	29230	29249	29380	29472	29559	30098	29609	29333

a = actual f = forecast

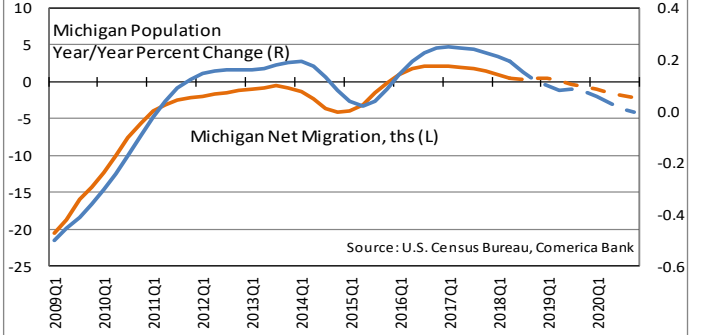
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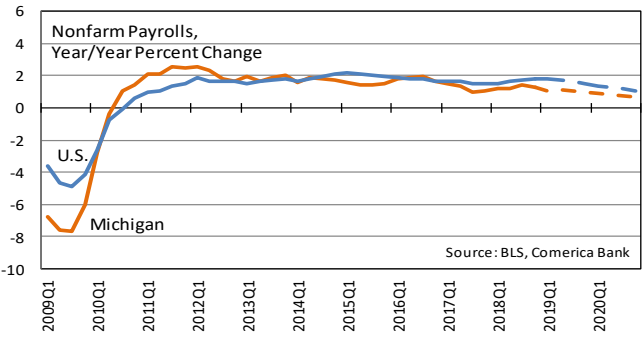
## Michigan GDP Growth to Ease



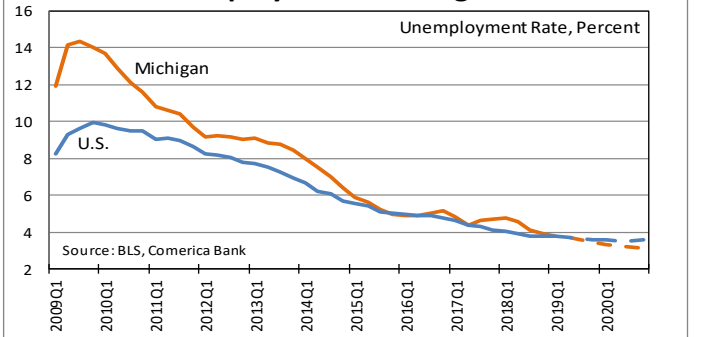
## An Older Population Adds to Out-flows



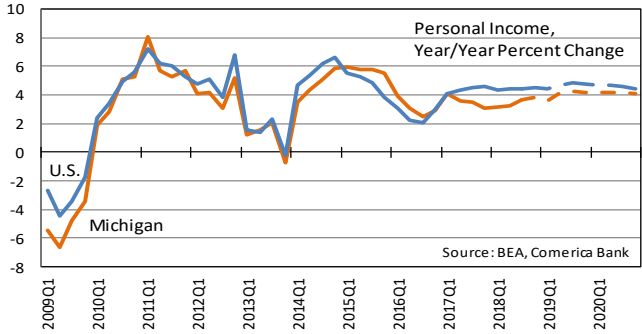
## Job Growth Winds Down



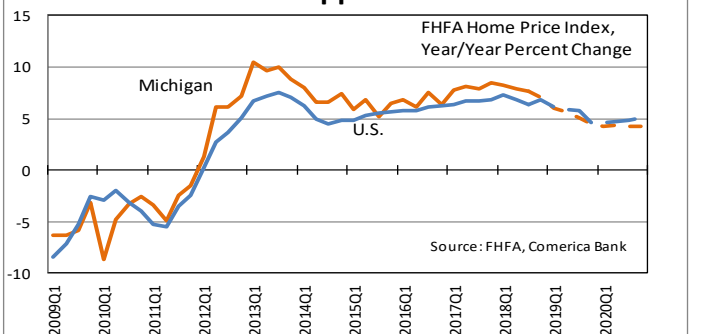
## Unemployment Rate Tightens



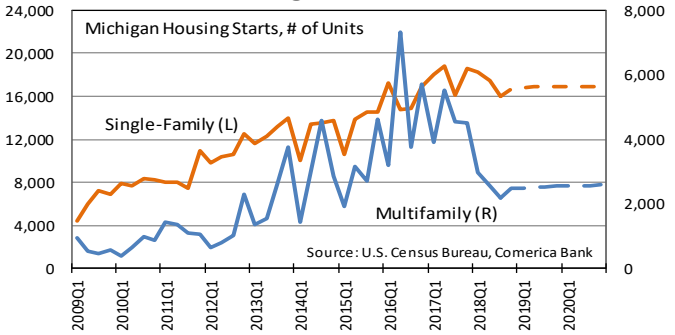
## Income Growth Underperforms



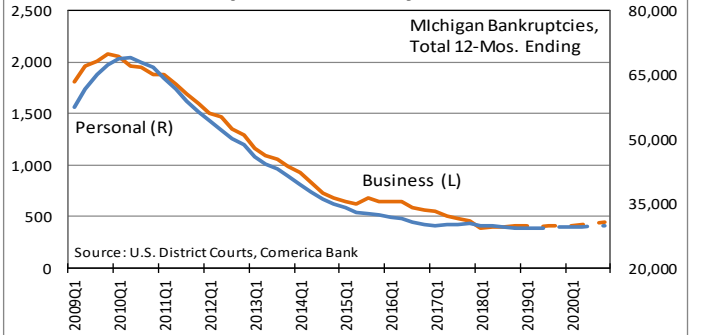
## House Price Appreciation Cools



## Housing Starts Stable



## Bankruptcies Near Cyclical Lows



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