RSQE FORECASTS

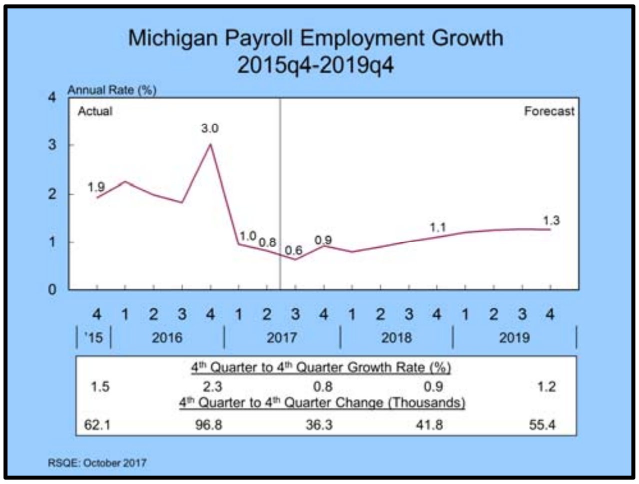
Research Seminar in Quantitative Economics
University of Michigan Ann Arbor, Michigan
734-764-2567

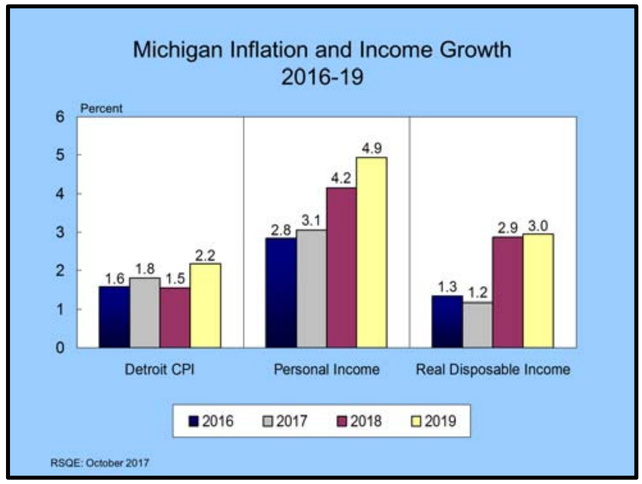
lsa.umich.edu/econ/rsqe

Gabriel M. Ehrlich, Director

George A. Fulton & Saul H. Hymans
Directors Emeriti

Some highlights from the most recent RSQE Michigan forecast, released on October 6, 2017:





The Michigan economy has just completed its eighth year of economic recovery, creating an average of 70,200 net job additions per year from the previous recession's low point in the summer quarter of 2009 to summer 2017—the longest period of sustained job growth since the nine-year interval that spanned the spring quarters of 1991 to 2000. The 1.7 percent annual growth rate over this period outpaced the nation's average rate of 1.5 percent. Last year's performance was even more impressive, with the addition of 96,800 jobs.

Since then, the Michigan economy has pumped its brakes. The first three quarters of 2017 have seen a marked slowdown, with job growth coming in at an annual rate of 0.8 percent.

We see job growth nudging up over the next two years, but its tempo remains muted, moving up from an annual rate of 0.8 percent during the first half of 2018 to 1.1 percent in the second half, and then ending 2019 at 1.3 percent. This path translates into gains of 36,300 jobs during 2017, inching up to 41,800 in 2018 and 55,400 in 2019.

Top job producers over the forecast period are: professional and business services; leisure and hospitality; trade, transportation, and utilities; and construction. The outlook extends the recovery period to ten years.

Local inflation—measured by the Detroit CPI—rose by 1.6 percent in 2016 following a decline in 2015. We see an increase to 1.8 percent in 2017, owing to a rebound in energy prices and an increase in Michigan's gasoline and diesel fuel taxes. As energy prices stabilize in 2018, local inflation recedes to 1.5 percent, then picks up to 2.2 percent in 2019 with increasing U.S. inflation and pressure from a tightening local labor market.

Personal income growth increases progressively over the forecast period, from 2.8 percent in 2016 to 3.1 percent in 2017, accelerating to 4.2 percent in 2018 and 4.9 percent in 2019. Growth picks up over the period in most major categories of nonwage income, including proprietors' income, property income, and transfer payments, as well as in wage and salary income in 2018 and 2019.

Growth in real disposable income fell back in 2016 to 1.3 percent with a rebound in inflation and slower growth in nominal income, and slows further to 1.2 percent in 2017 with the increase in inflation and a larger increase in federal taxes. It accelerates to 2.9 percent in 2018 with the strengthening growth of nominal income, the moderation in inflation, and a smaller increase in federal taxes. It then ticks up to 3 percent in 2019 with the more rapid growth in nominal income.