Research Seminar in Quantitative Economics
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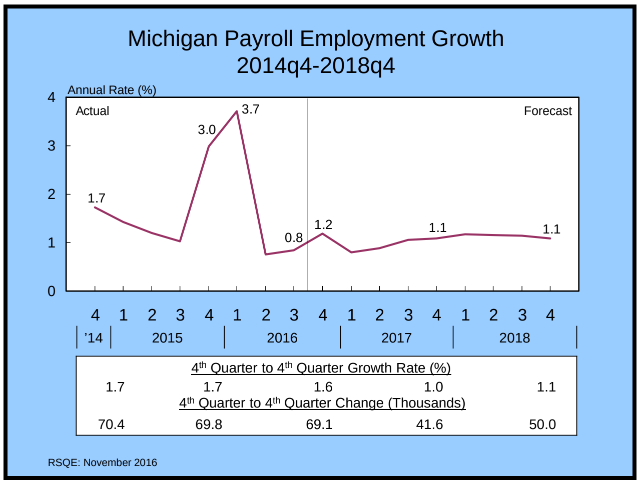
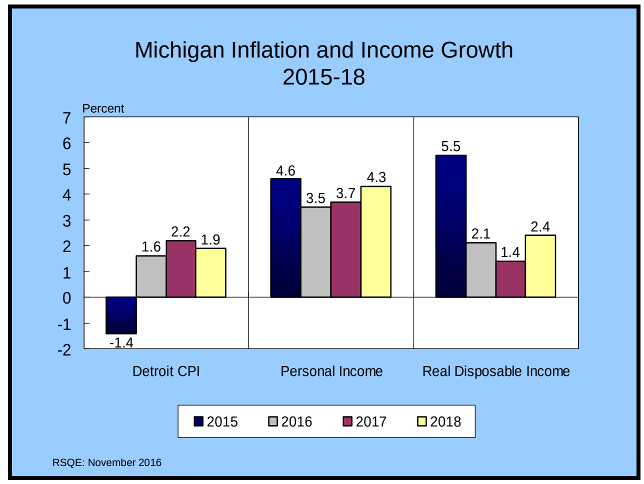
Some highlights from the most recent RSQE Michigan forecast, released on November 18, 2016:





Michigan is entering its eighth year of economic recovery, having created an average of 71,600 net job additions per year from the previous recession's low point in the summer quarter of 2009 to the summer of 2016. This includes comparable gains of about 70,000 jobs per year during each of 2014 and 2015. Job creation is on pace for a similar gain of 69,000 in 2016. The majority of the job gains for 2016 resulted from an unsustainable surge in the first quarter.

Job growth then decelerates to an average annual rate of 0.9 percent for the last three quarters of 2016, and we see that pace extending into the first half of 2017. The tempo of job growth then creeps up to a fairly steady, moderate pace of 1.1–1.2 percent during the second half of 2017 and during 2018. The growth we foresee moving forward translates into gains of 41,600 jobs during 2017 and 50,000 in 2018. Those are smaller job additions than we have seen in recent years, consistent with a tightening labor market.

The top job producers over the next two years are professional and business services; construction; trade, transportation, and utilities; and leisure and hospitality. We see a small decline in jobs in the manufacturing sector over the forecast period. The outlook extends the recovery period to nine years.

Local inflation, measured by the Detroit CPI, registered negative 1.4 percent in 2015, reflecting the sharp drop in energy prices that began in late 2014 and little to no increase in core prices. Local inflation is forecast to move back up to 1.6 percent in 2016 and then to accelerate to 2.2 percent a year later, before notching down to 1.9 percent in 2018. The local rate is three- to four-tenths of a percentage point above the U.S. rate for 2016 and 2017, converging to the U.S. rate in 2018.

Personal income growth softens from 4.6 percent in 2015 to 3.5 percent in 2016, with weaker growth in wages and salaries and all of the major components of nonwage income. Personal income growth holds roughly in place in 2017 before moving up to 4.3 percent in 2018, when, in contrast to 2016, growth accelerates in wages and salaries plus almost all major elements of nonwage income.

Real disposable income growth surged to 5.5 percent in 2015 with the drop in local prices. Real income growth retreats in 2016 to 2.1 percent with the return to moderate inflation and slower nominal income growth. It slows further to 1.4 percent in 2017 with accelerating inflation and a larger increase in federal personal taxes. Real income growth rebounds to 2.4 percent in 2018 with faster growth of nominal income and lower inflation.