

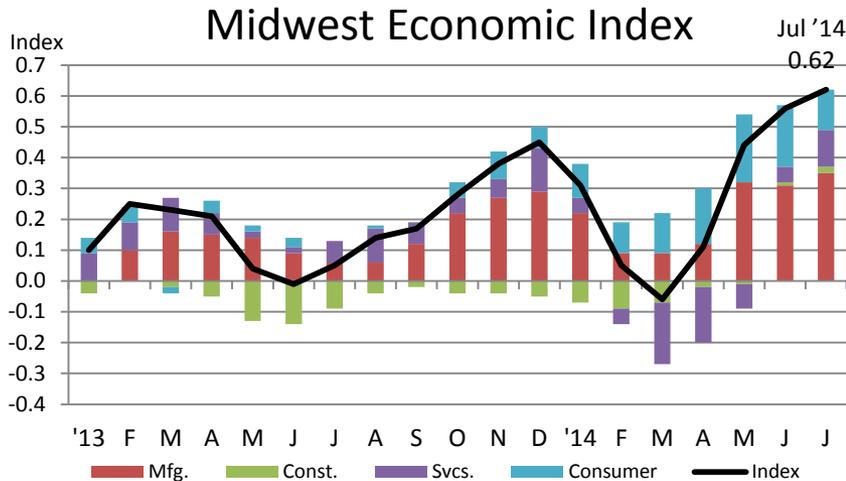
Michigan Economic Update

Federal Reserve Bank of Chicago
Detroit Branch
September 26, 2014

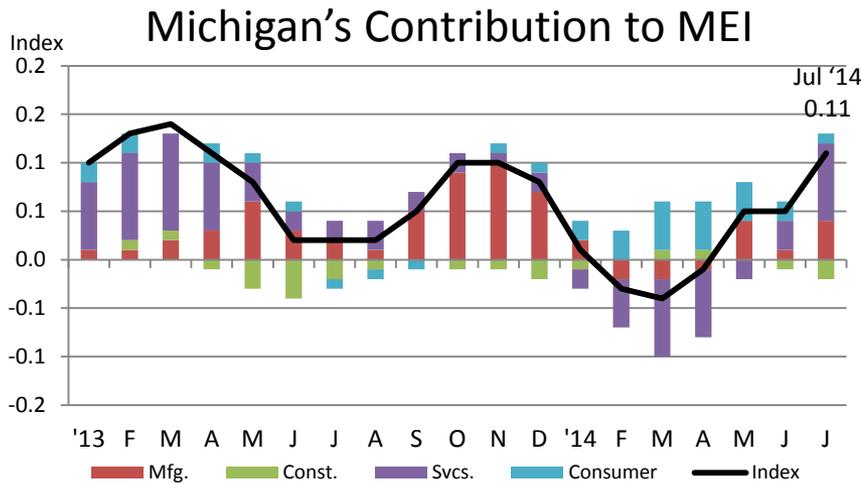
Paul Traub



The Midwest Economic Index increased in July to 0.62 from 0.56 in June as Michigan's contribution reached its highest level in 15 months



Economic growth for the Seventh District improved in July, according to the Federal Reserve Bank of Chicago's MEI. Manufacturing's contribution of 0.32 reached its highest level since May 2011. This is the second straight month that there were positive contribution from every sector—the first time since June 2006 that the construction sector for the District as a whole has had two consecutive months of positive contribution to the MEI.



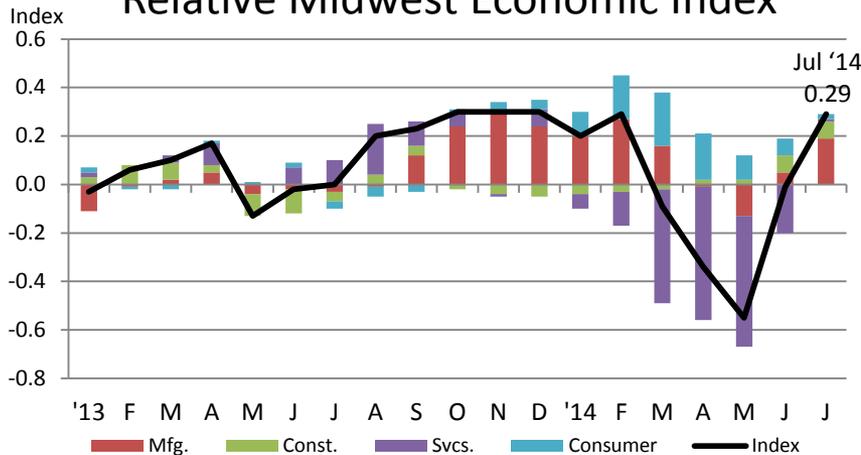
Michigan's contribution to the Seventh District's economic growth improved to 0.11 in July driven mostly by improvements in manufacturing and services. However unlike the region as a whole, Michigan's negative contribution from construction remains a problem. A zero value for an indicator indicates that the sector is expanding at its historical trend rate of growth; positive values indicate above-average growth; and negative values indicate below-average growth.

Source: FRB of Chicago

The Relative MEI improved in July to highest level since February as Michigan's contribution rebounded on strength in the services sector

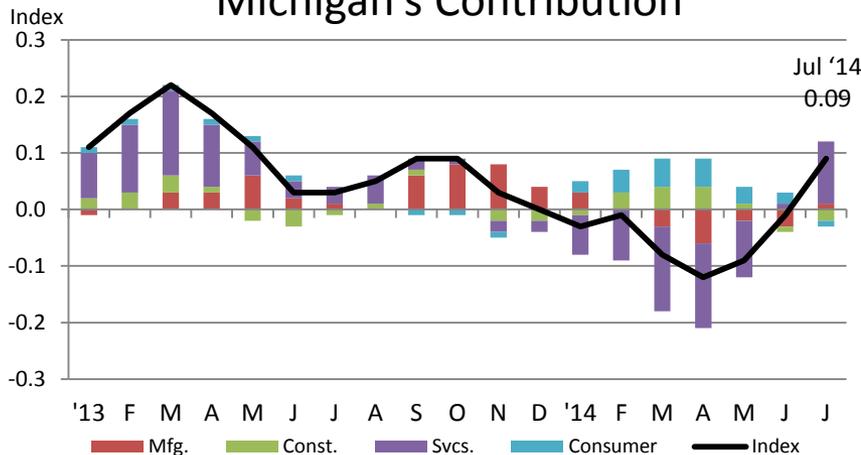


Relative Midwest Economic Index



Relative to the rest of the nation, economic activity in the Seventh District showed noticeable improvement in July as measured by the Midwest Relative MEI. The region's relative economic performance in July was helped by positive contributions from all four sectors, the first time this has happened in 15 months. The sector that showed the biggest improvement was manufacturing, which jumped 0.14 points in July to 0.19, following a 0.18 point jump in June.

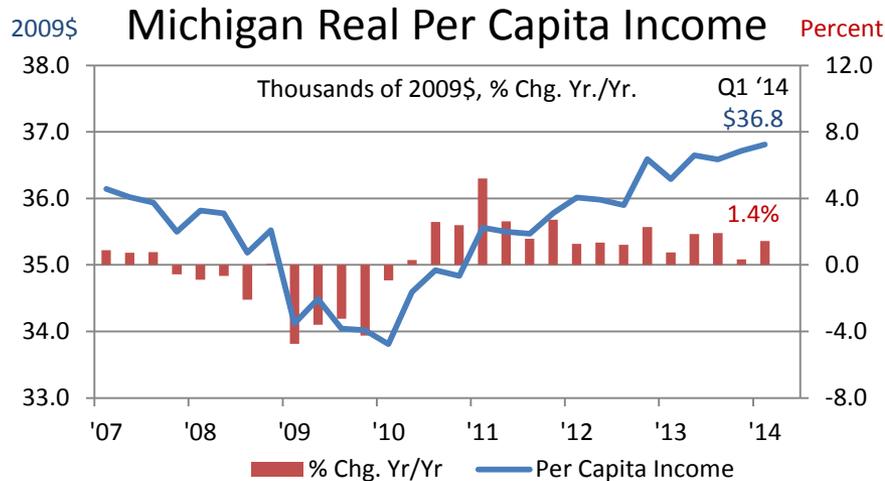
Michigan's Contribution



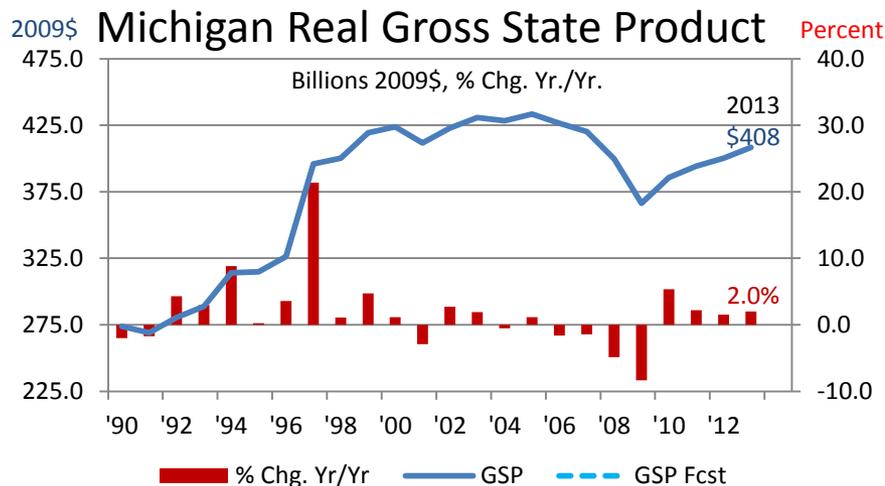
Michigan's contribution to the Seventh District's relative economic performance improved to 0.09, driven mostly by positive contributions from the services and manufacturing offset by negative contributions from construction and government. A zero value for the relative MEI indicates that the Midwest economy is growing consistently with the growth rate of the national economy; positive values indicate above-average, and negative values indicate below-average relative growth.

Source: FRB of Chicago

Michigan's Per Capita Income rose by 1.4 percent in the 1st Quarter following 2.0% economic growth for 2013



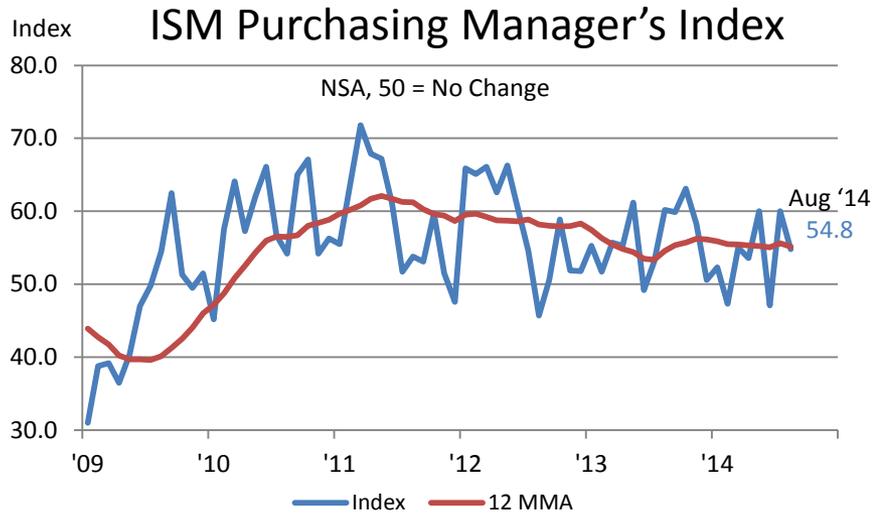
Real per capita income in Michigan registered continued improvement in Q1:2014, up 1.4% on a year-over-year basis versus 1.6% for the nation as a whole. Since 2009, Michigan's real per capita income has increased by 1.5% on a compound annual growth rate basis versus 0.9% for the nation. On another positive note, Michigan's real per capita income has reached a new high and, as of Q1:2014, is 1.5% above its previous peak reached in Q2:2000.



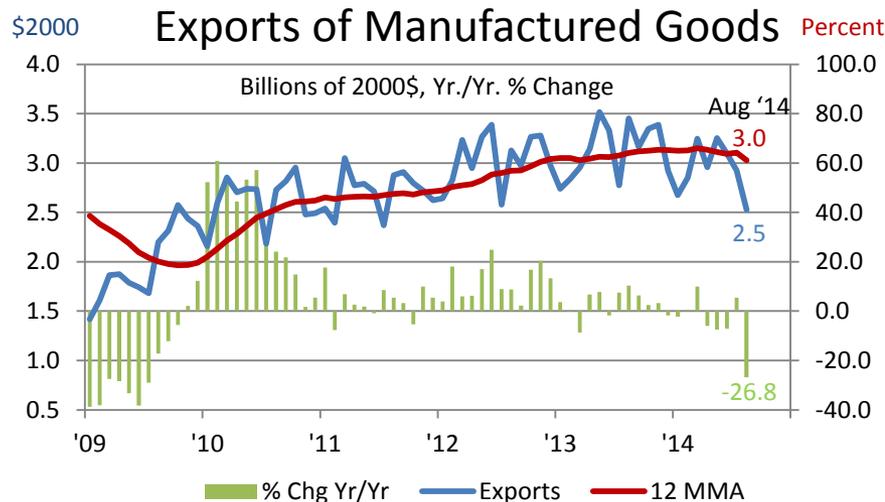
Michigan's GSP is estimated to have grown by 2.0% in calendar year 2013 compared with national GDP growth of 2.2%. Major contributors to Michigan's growth in 2013 were manufacturing (0.8%) followed by finance services (0.5%), education and health care services (0.2%), professional services (0.2%), and other (0.6%). Growth in those sectors were offset by a -0.3% contribution from government services, which was estimated to be down in total by 2.9% compared with 2012.

Source: Haver Analytics / FRB of Chicago

Michigan's ISM Purchasing Managers Index and Exports of Manufactured Goods provided continued evidence of slowing economic activity



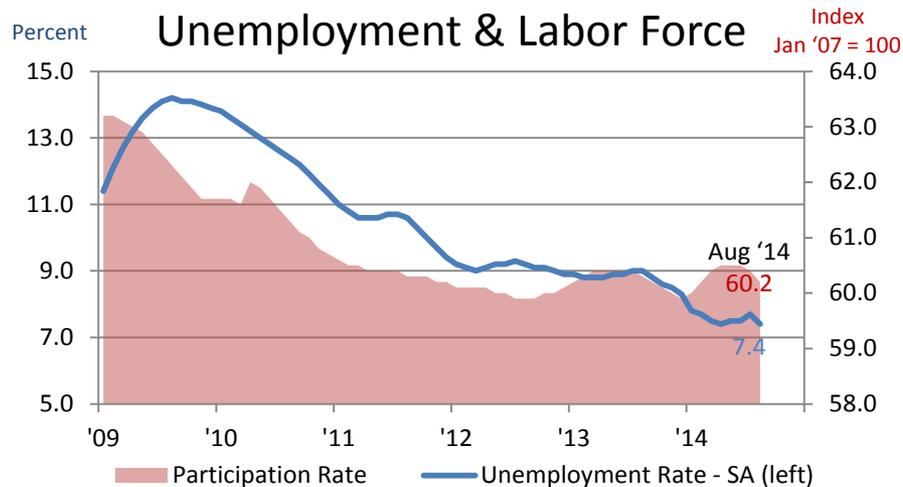
The ISM Purchasing Managers' Index fell in August to 54.8, but the 12-month moving average remained significantly above 50.0. A reading above 50 signifies expansion in manufacturing and the 12-month MMA has been above 50 consistently since March 2010. This is consistent with the GSP data, which showed the manufacturing sector as one of the state's strongest contributors to overall economic performance in 2013.



Exports of Michigan manufactured goods totaled \$2.5 billion in August 2014. Although Michigan manufacturing exports seem have tapered off in recent months, falling 26.8 percent from a year ago, the 12-month moving average, which reached a new historical high in March 2014, has remained above \$3.0 billion since November 2011.

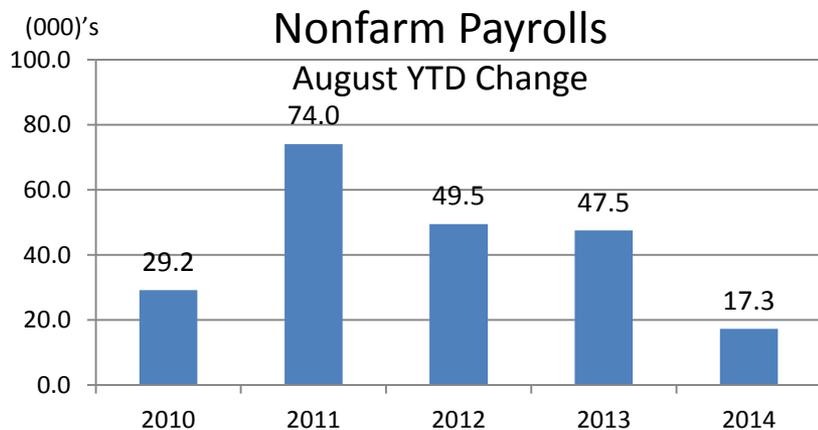
Source: ISM / Haver Analytics

Michigan's unemployment rate declines to 7.4 percent in August from 7.7 percent in August



Michigan's unemployment fell in August to 7.2%, recapturing its 72-month low first achieved in April. During the three months following April, the unemployment rate rose as the participation rate stabilized. However, August's decline was aided by a reduction in the labor force as the participation rate fell to 60.2%. August's unemployment rate decline reflects an increase in civilian employment of 3,993, accompanied by a 11,447 reduction of the labor force.

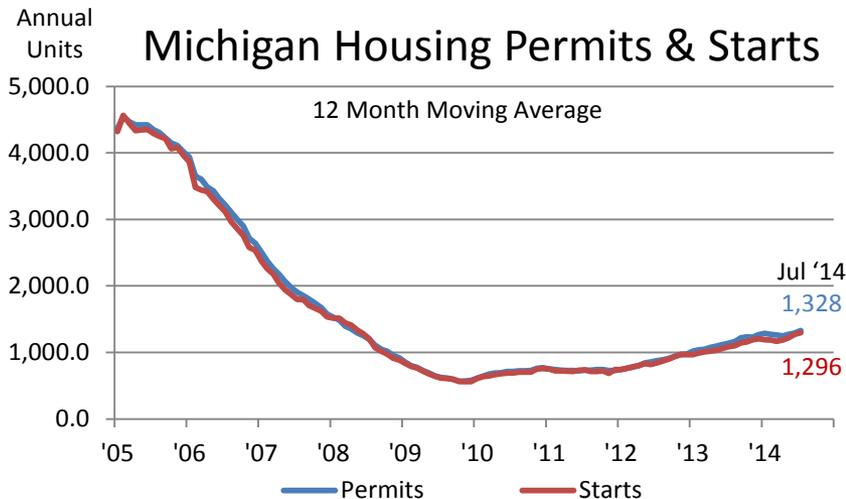
The picture for nonfarm payroll employment, which is based on a survey of businesses shows slowing job growth in Michigan through August relative to previous years. Based on the latest establishment survey data, Michigan lost 9,200 jobs in August but maintained positive year-to-date growth of 17,300 jobs. Note that both the household and establishment numbers are based on surveys and are subject to change throughout the year.



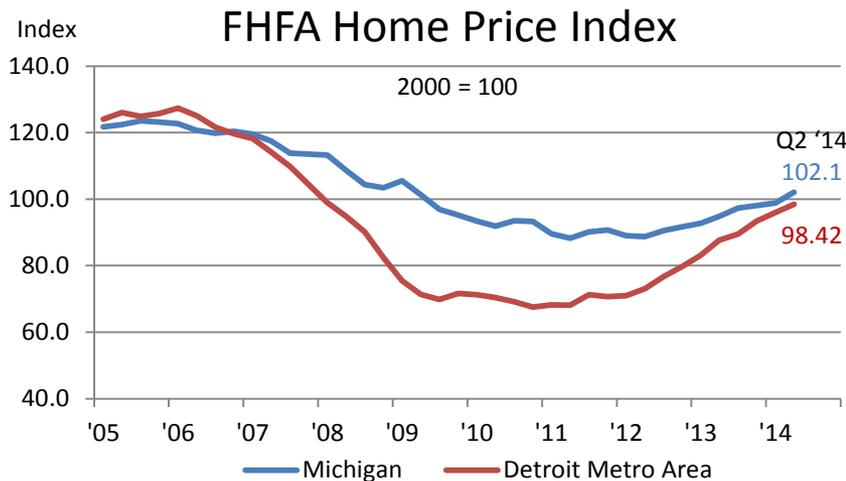
■ August YTD

Source: BLS / Haver Analytics

Michigan's housing market is showing some minor improvement which may be an indication that the housing sector is on the mend



Construction of privately owned homes in Michigan has seen some modest improvement since bottoming in 2009. The 12-month moving average for housing starts in November was estimated to be 967 units, which is a 41% improvement on a year-over-year basis. However, even with that improvement, privately owned housing starts are still only about 21% of what they were at their peak in 2005, when housing starts averaged over 4,560 per month.

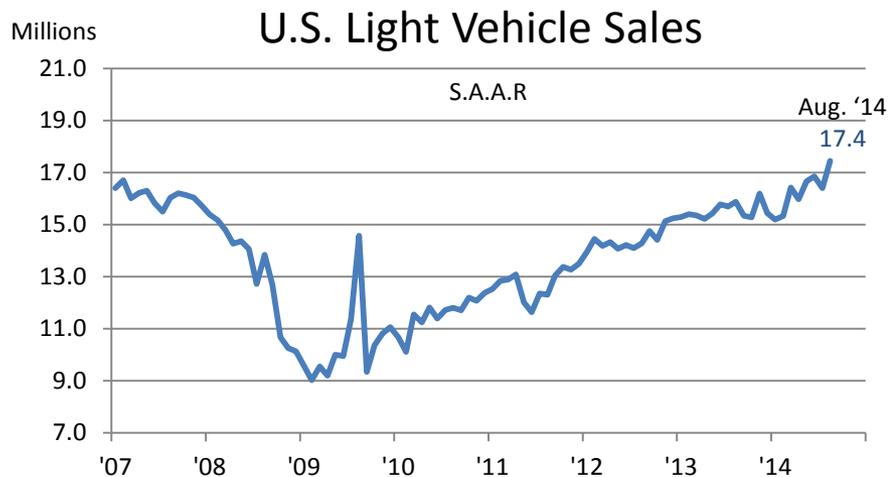


On average, home prices in Michigan were up 7.7% on a year-over-year basis Q2 2014. This is the first time in 5 years that the average home price in Michigan exceeded its 2000 level. In addition, home prices for the Detroit metropolitan area, which was harder hit than the state as a whole, were up 12.3% in Q2 2014 compared to a year ago. These home price gains mark the 9th quarter of year of year gains for the state and the 12th quarter of home price increases for the metro area.

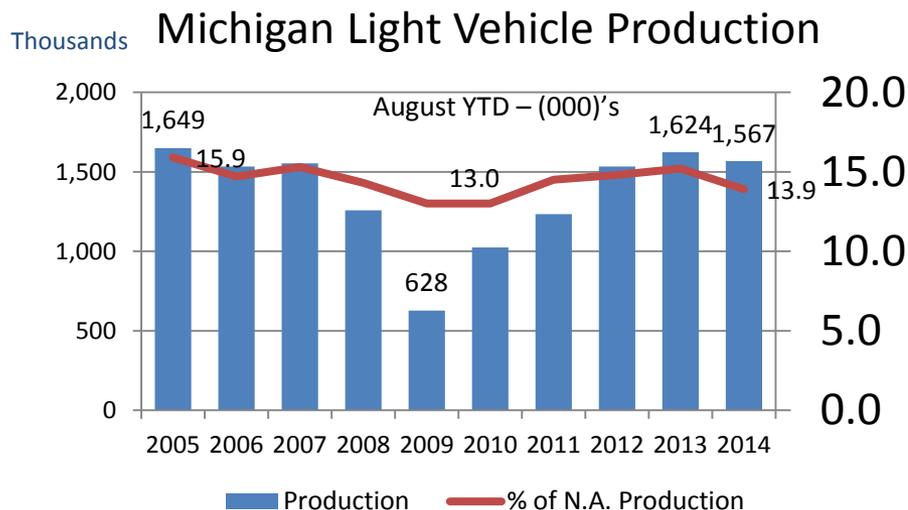
Source: U.S. Census / Haver Analytics



U.S. light vehicle sales August reached 8 year high while Michigan's production showed signs of slowing demand for locally produced products



U.S. light vehicle sales for August 2014 were reported to be 17.4 million units on a seasonally adjusted annual rate (SAAR). This was the highest light vehicle sales level since January 2006. According to the September 2014 Blue Chip consensus forecast, light vehicle sales for expected to be up 3.3% from 2013 to 16.4 million units in 2014 with an additional increase to 16.7 million units in 2015. If achieved, this would mark 6 consecutive years of increases in light vehicle sales.



Michigan's light vehicle production through August 2014 was estimated to be 1,567,064 units. This is a surprising 3.5% decline from the same period last year as Michigan's share of N.A. light vehicle production fell to 13.9% versus 15.2% in 2013. Reasons for the lower output include, plant shut downs for new vehicle changeover and plant reductions to offset higher than needed vehicle inventories do to changes in the sales mix away from product currently produced in Michigan.

The Midwest Economic Indicator

The MEI is a weighted average of 129 state and regional indicators measuring growth in nonfarm business activity from four broad sectors of the Midwest economy: 1) manufacturing, 2) construction and mining, 3) services, and 4) consumer spending. It encompasses the entirety of the five states in the Seventh Federal Reserve District (Illinois, Indiana, Iowa, Michigan, and Wisconsin).

The index is constructed to have an average value of zero and a standard deviation of one. Since Midwest economic activity tends toward trend growth rate over time, a positive index reading corresponds to growth in Midwest economic activity above trend, while a negative reading corresponds to growth below trend.

Over long periods, growth in Midwest economic activity has tended to coincide with growth in national economic activity. To highlight periods where differences arise, we construct two separate index values. The MEI captures both national and regional factors driving Midwest growth, and the relative MEI provides a picture of Midwest growth conditions relative to those of the nation.

Michigan MEI Data

<u>Description</u>	<u>Source</u>	<u>Sector</u>
All Employees: Construction, Michigan (SA, Thous)	BLS	Construction
All Employees: Mining & Logging, Michigan (SA, Thous)	BLS	Construction
Permits: New Pvt Housing Units, Michigan (SA, Units)	Census	Construction
Housing Starts: Michigan (SAAR, Thous.Units)	Commerce	Construction
Number Employed, Michigan (SA, Thous)	BLS	Consumer
Unemployment Rate, Michigan (SA, %)	BLS	Consumer
Per Capita Personal Income, Michigan (Chained.2005\$)	BEA	Consumer
Unemployment Insurance: Initial Claims Applications: Michigan (SA, Number)	DOL	Consumer
All Employees: Manufacturing, Michigan (SA, Thous)	BLS	Manufacturing
Origin of Movement: Exports of Manufactured Goods, Michigan (Mil. 2000\$)	Census	Manufacturing
ISM-Southeast Michigan: New Orders Index (NSA, 50=No Chg)	NAPM-D	Manufacturing
ISM-Southeast Michigan: Production Index (NSA, 50=No Chg)	NAPM-D	Manufacturing
ISM-Southeast Michigan: PMI (NSA, 50=No Chg)	NAPM-D	Manufacturing
ISM-Southeast Michigan: Employment Index (NSA, 50=No Chg)	NAPM-D	Manufacturing
ISM-Southeast Michigan: Vendor Deliveries Index (NSA, 50=No Chg)	NAPM-D	Manufacturing
ISM-Southeast Michigan: Finished Goods Inventory Index (NSA, 50=No Chg)	NAPM-D	Manufacturing
All Empl: Trade/Transportation/Utilities, Michigan (SA, Thous)	BLS	Services
All Employees: Finance, Insurance & Real Estate, Michigan (SA, Thous)	BLS	Services
All Employees: Total Government, Michigan (SA, Thous)	BLS	Services
All Employees: Information, Michigan (SA, Thous)	BLS	Services
All Empl: Professional & Business Svcs, Michigan (SA, Thous)	BLS	Services
All Employees: Educational & Health Svcs, Michigan (SA, Thous)	BLS	Services
All Employees: Leisure & Hospitality, Michigan (SA, Thous)	BLS	Services
All Employees: Other Services, Michigan (SA, Thous)	BLS	Services