

State of the Economy

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State Treasurer

Michigan Bankers Association
Legislators and Lending Day
March 20, 2008

1

Overview of Economy

National Outlook

- Housing is having a major effect
 - Reduced construction has a direct effect
 - Reduced prices have an indirect effect on consumption
 - Bad mortgages are a major problem for financial institutions – may lead to substantial credit tightening
- Oil Price Increases also having an effect
 - Price from \$65 per barrel to over \$100 since May (U.S. consumes roughly 20 million barrels per day)

Michigan Outlook

- Continued auto restructuring
- Slowdown in national economy affects Michigan

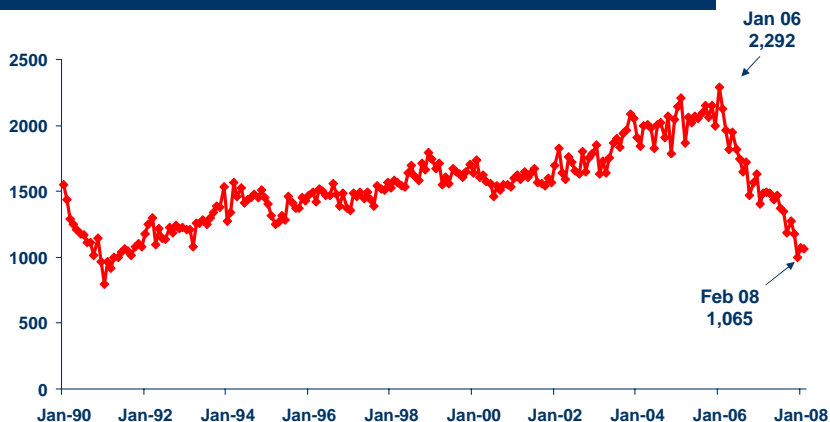
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How Bad is it?

- Economy most troubled since WWII - Greenspan
- “Biggest Financial Crisis Ever” ISI Group
- “We probably have \$6 or \$7 trillion capital losses in housing” Paul Krugman
- 74% of Americans and 71% of economists think economy is in a recession
- Bear Stearns stock trades at \$170 per share in January 2007, sold for \$2 per share in March 2008
- Household net worth declines \$500 billion in 2007Q4
- Homeowner equity below 50% for first time since 1945

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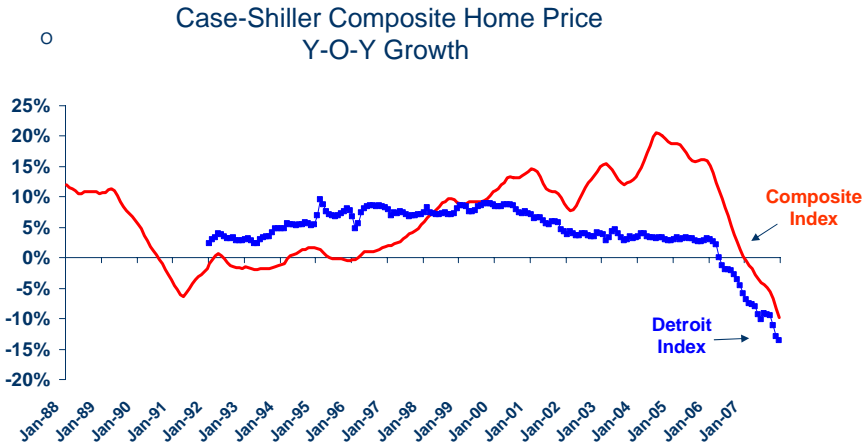
Housing Starts Down 54 Percent From January 2006



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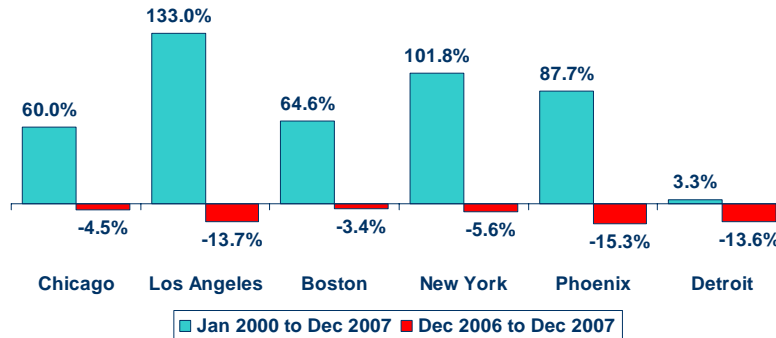
Source: New Privately Owned Housing Units Started, U.S. Dept of Commerce

Home Prices Are Falling



5

Prices Up Since 2000 But Down From 2006



6

Source: Case Shiller Index and Department of Treasury Calculations

Detroit MSA First in Nation in Foreclosure Filings

Foreclosure Activity for 2007

<u>Rank</u>	<u>MSA</u>	<u>% of Households</u>	<u>Total Filings</u>	<u>Properties With Filings</u>
1	Detroit/Livonia/Dearborn	4.9%	72,616	41,273
2	Stockton, CA	4.9%	22,184	10,608
3	Las Vegas/Paradise, NV	4.2%	59,983	30,375
17	Warren/Farmington Hills	2.1%	30,378	21,607
	U.S. Total	1.0%	2,203,295	1,285,873

7

Source: RealtyTrac Inc.

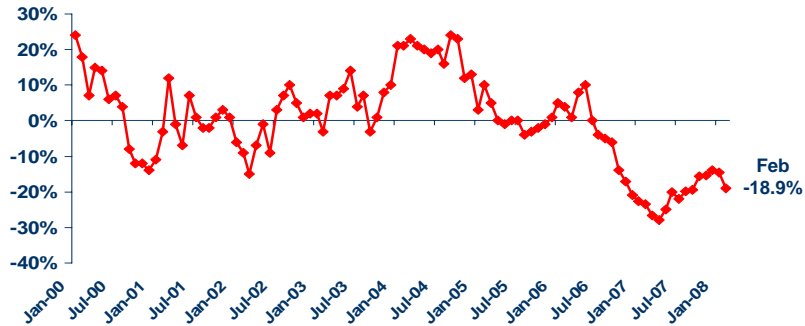
Detroit Area May be Hitting the Bottom

- Home sales in metro Detroit have risen 3 months in a row after falling 14 percent in 2007
- High percentage of sales are distressed
 - 49% of City of Detroit Feb sales were foreclosure sales
 - 35% of Oakland County Sales were foreclosure sales
- Prices are down significantly
 - Median Oakland Co. price for Feb foreclosure sales was \$91,395 down from \$123,000 last year
 - Median City of Detroit price for Feb foreclosure sale was \$10,000 down from \$27,000 last year

8

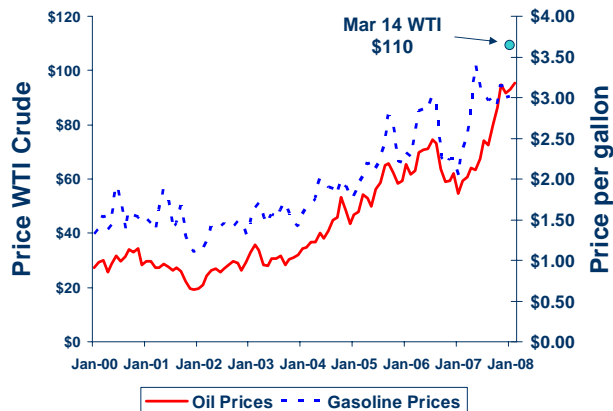
RETT Drop Shows Michigan Housing Weakness

Year Over Year Change in 6 Month Trailing Average



9

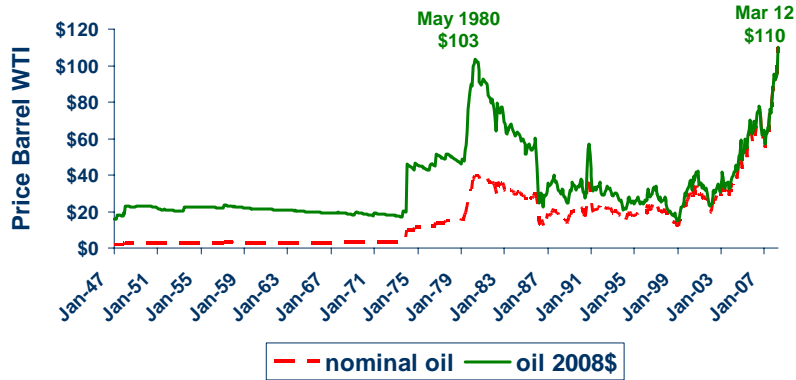
Oil Prices Are Rising Rapidly



10

Source: Oil – St. Louis Fed; Gasoline – BLS price for regular unleaded Detroit-Ann Arbor-Flint Area

Real Oil Prices at Record High



11

Source: Oil prices St. Louis Fed; CPI, BLS. Data series runs through February, March 12th oil price from CNNMoney.com

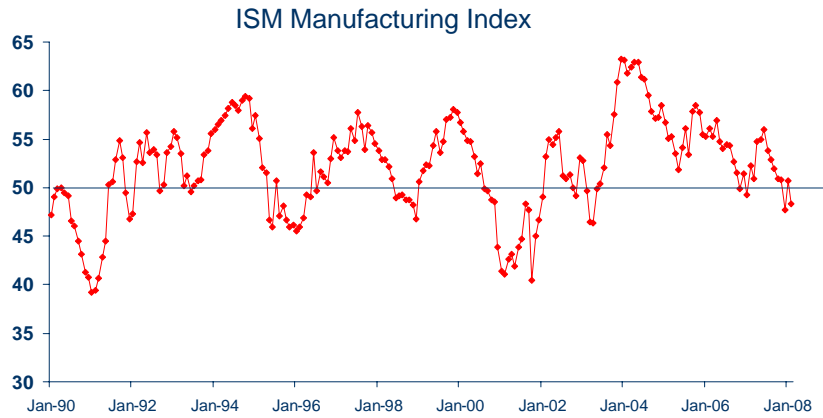
Consumer Sentiment Down



12

Source: University of Michigan, Survey Research Center

ISM Manufacturing Index Falls Below 50



13

Source: Institute for Supply Management

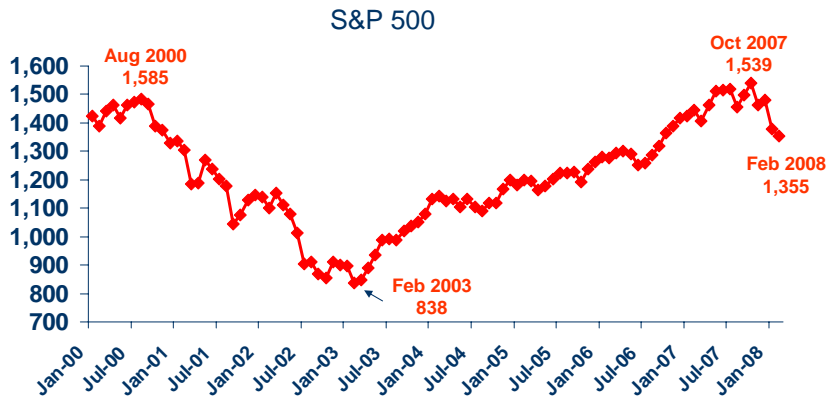
ISM Non-Manufacturing Index Also Below 50



14

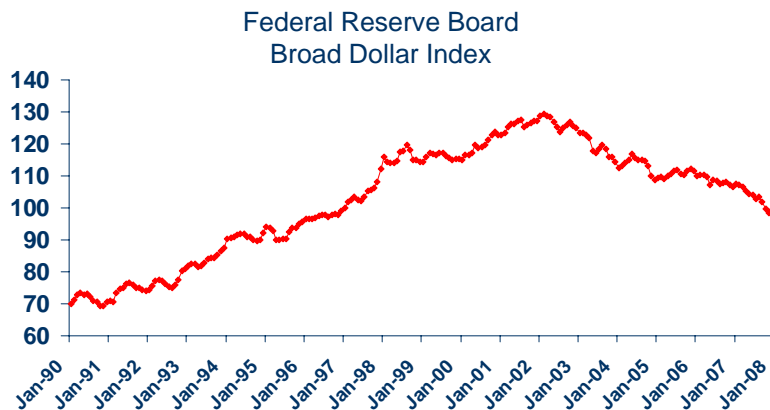
Source: Institute for Supply Management

Stocks Have Fallen But By Less Than Last Recession



15

Dollar Has Declined 24 Percent From Its Peak Value



16

Exports Providing Support to GDP

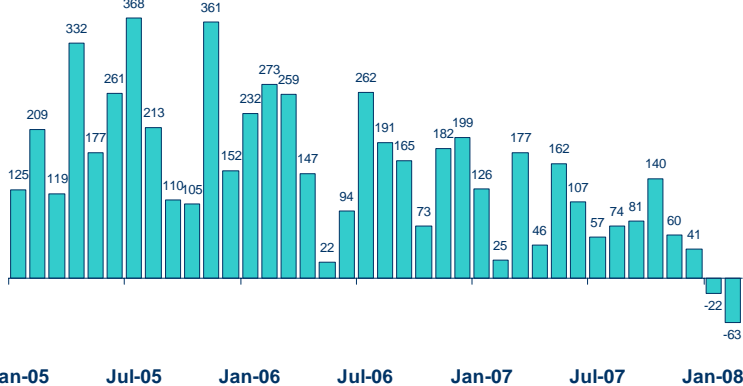
Contributions To Percent Change In Real GDP

	<u>2006 Q2</u>	<u>2006 Q3</u>	<u>2006 Q4</u>	<u>2007 Q1</u>	<u>2007 Q2</u>	<u>2007 Q3</u>	<u>2007 Q4</u>
Consumption	1.6%	1.9%	2.7%	2.6%	1.0%	2.0%	1.3%
Investment	0.1%	-0.7%	-2.5%	-1.4%	0.7%	0.8%	-2.0%
Imports	-0.1%	-0.9%	-0.3%	-0.6%	0.5%	-0.7%	0.3%
Exports	0.6%	0.6%	1.5%	0.1%	0.9%	2.1%	0.6%
Government	0.2%	0.1%	0.7%	-0.1%	0.8%	0.7%	0.4%
GDP Growth	2.4%	1.1%	2.1%	0.6%	3.8%	4.9%	0.6%
GDP w/o Exports	1.8%	0.5%	0.6%	0.5%	2.9%	2.8%	0.0%

17

Employment Falls for First Time Since 2003

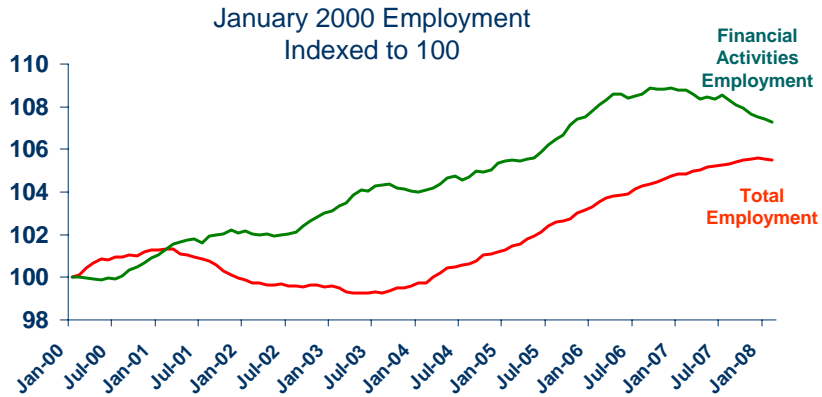
Monthly Change in Payroll Employment



18

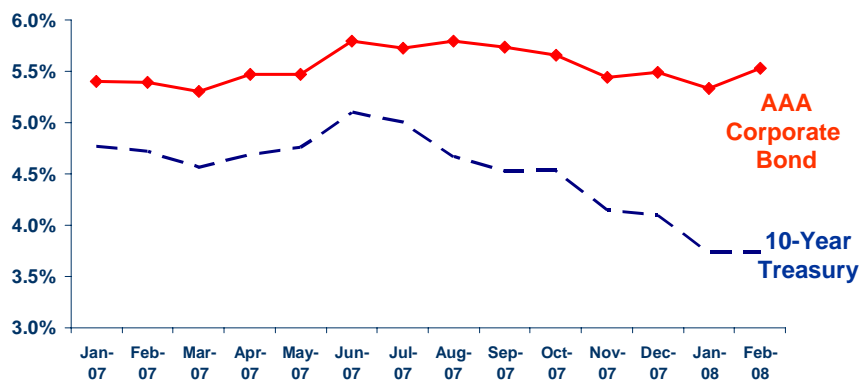
Source: U.S. Bureau of Labor Statistics

Financial Employment Grew Rapidly But is Now Declining



19

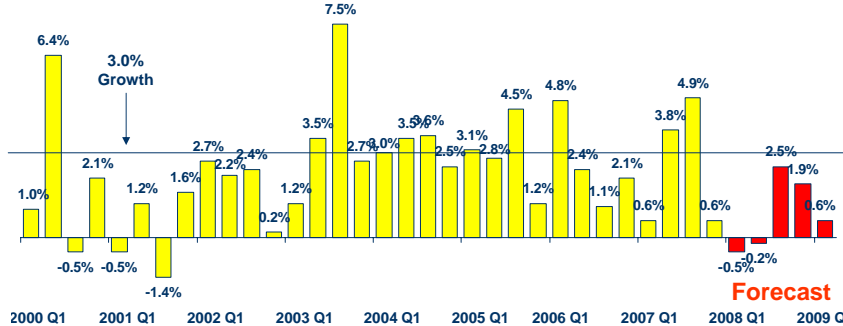
Financial Crisis Leads to Flight to Quality



20

U.S. Economy Is Slowing

Real GDP Growth

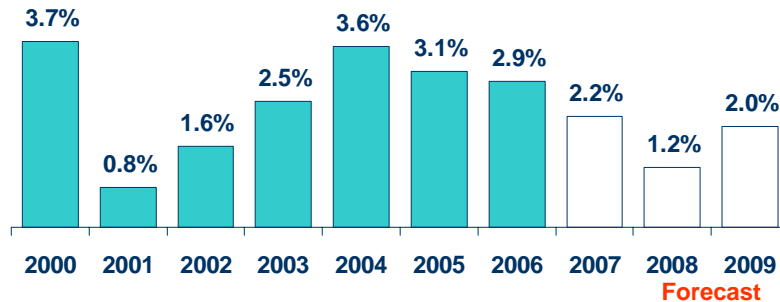


Figures are annualized percent change from preceding quarter in 2000 chained dollars.

Source: Bureau of Economic Analysis. Forecast is March 2008 Global Insight Forecast.

GDP Slowing in 2008

Real GDP Growth



Source: Bureau of Economic Analysis. Forecast is March 2008 Global Insight. January Consensus GDP: 2008 1.8%; 2009 2.6%

Length of U.S. Expansions

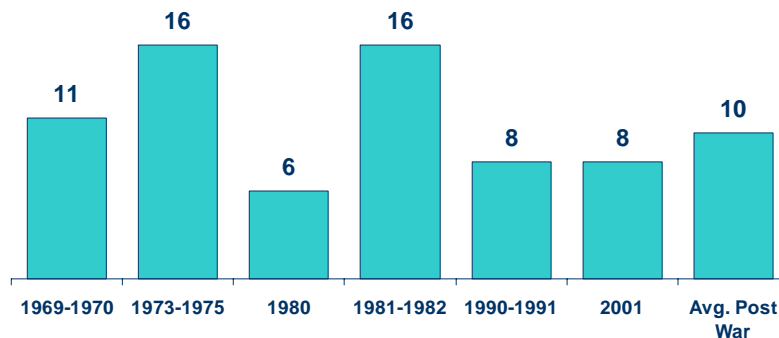
<u>Month of Trough</u>	<u>Length of Expansion (Months)</u>
Oct 1949	45
May 1954	39
Apr 1958	24
Feb. 1961	106
Nov. 1970	36
Mar. 1975	58
Jul. 1980	12
Nov. 1982	92
Mar. 1991	120
Nov. 2001	>76

23

Source: NBER

Length of U.S. Recessions

Number of Months from Peak to Trough
U.S. Recessions



24

Source: NBER

Unemployment Rate Increases Precede Recessions

December 2007 Unemployment Rate Up
0.6 Percentage Points From Cyclical Low

Cycle Low Point		Recession Begins		Pct. Pt. Dif In Rate
U Rate	Month	U Rate	Month	
3.4%	Jan-48	3.8%	Nov-48	0.4%
2.5%	Jun-53	2.6%	Jul-53	0.1%
3.7%	Mar-57	4.1%	Aug-57	0.4%
4.8%	Feb-60	5.2%	Apr-60	0.4%
3.4%	May-69	3.5%	Dec-69	0.1%
4.6%	Oct-73	4.8%	Nov-73	0.2%
5.6%	May-79	6.3%	Jan-80	0.7%
7.2%	Dec-80	7.2%	Jul-81	0.0%
5.0%	Mar-89	5.5%	Jul-90	0.5%
3.8%	Apr-00	4.3%	Mar-01	0.5%

25

Most Forecasters Think Economy is in Recession

Forecaster	Believes Economy In Recession
Global Insight	Yes
Economy.Com	Yes
RSQE	Yes
UBS	Yes
Lehman Brothers	Yes
Morgan Stanley	Yes

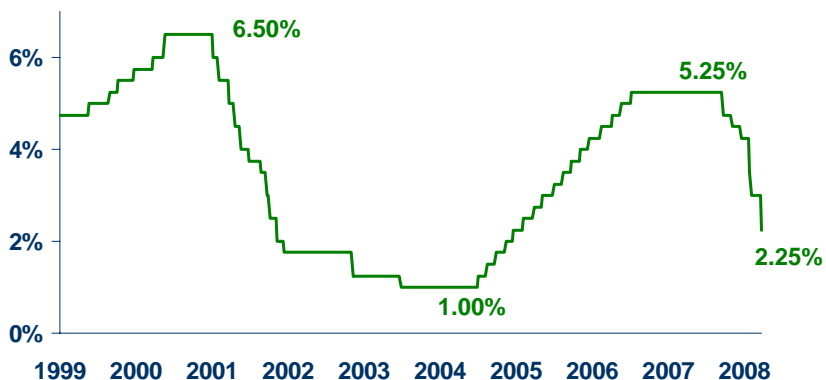
26

Economic Changes in Past Two Recessions

Category	U.S.	
	1990-91	2001
Employment decline	-1.3%	-2.0%
Months to jobs recovery	32	48
Peak unemployment rate	7.8%	6.3%
Gain in unemployment rate	2.6%	2.4%
Industrial Production	-4.2%	-6.3%
Housing starts	-15.0%	2.2%
Light vehicle sales (%)	-15.3%	-4.0%
Light vehicle sales (millions)	-2.2	-0.7

27

Fed Cutting Rates to Help Boost Slowing Economy



Source: Federal Reserve Bank

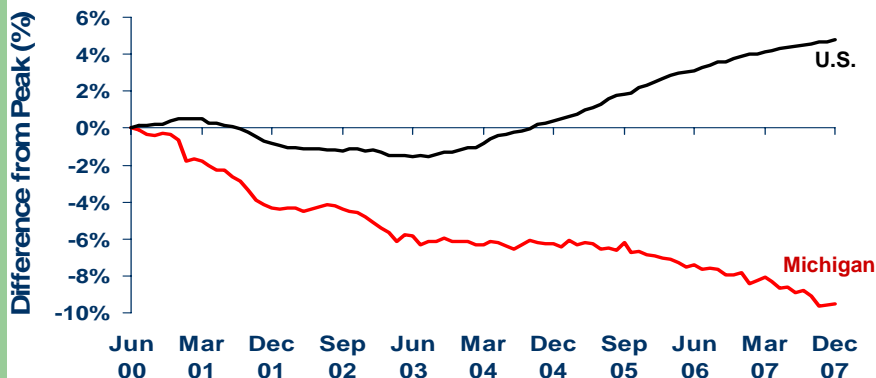
28

Federal Stimulus Package

- Package totals \$152 billion – about 1 percent of GDP
- Rebates \$600 individuals; \$1,200 married; children \$300 each
- Michigan share of rebates total \$3.8 billion
- 50% bonus depreciation and expanded Section 179 expensing
- Net effect on combined FY 2008 and FY 2009 state revenues roughly \$0

29

Michigan Employment Did Not Recover During This Expansion



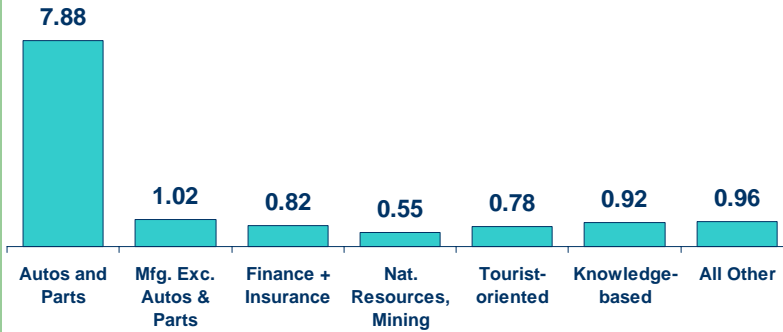
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Note: Peak is calculated from Michigan's June 2000 Peak.

Source: Bureau of Labor Statistics

Michigan Still Dependent on Autos

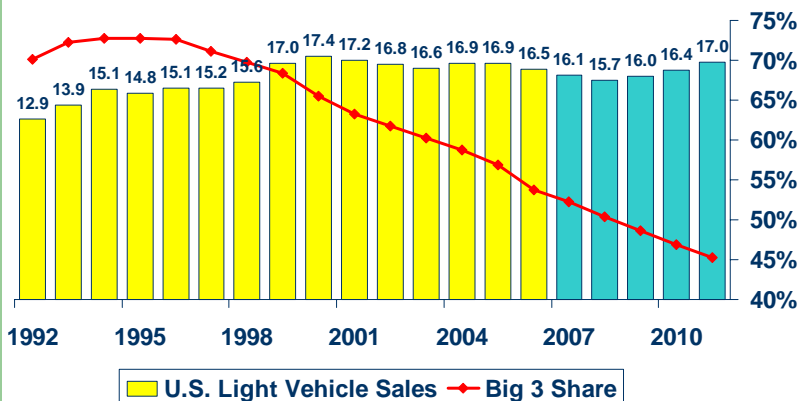
*Location Quotient in Michigan
(% of Michigan Employment over Percentage U.S.)*



31

Source: George Fulton, University of Michigan, except Finance + Insurance calculated by Department of Treasury.

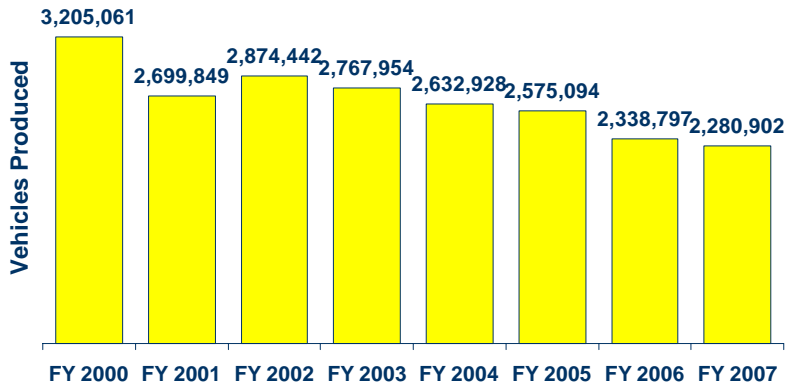
Big 3 Auto Companies Losing Market Share



32

Source: History Automotive News, vehicle sales 2007-2009 Jan Cons. Forecast, 2010 -2011 Global Insight

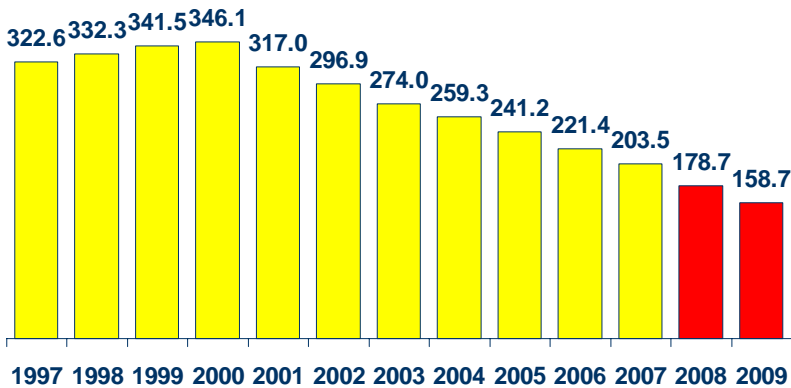
Michigan Vehicle Production Down 29% from 2000 to 2007



33

Source: Michigan Department of Treasury

Michigan Vehicle Employment Drops 54% from 2000 to 2009

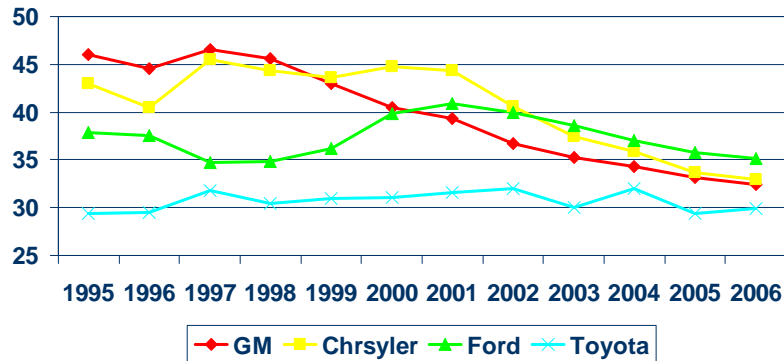


Forecast

34

Source: Bureau of Labor Statistics for history; Michigan Department of Treasury for Forecast

Productivity Gap Has Narrowed



35

Source: Center for Automotive Research using Harbour productivity estimates.

Auto Contracts

- Companies fund voluntary employee beneficiary associations (VEBA) controlled by UAW and removes retiree healthcare liability from books
- Signing bonus and annual bonuses for life of contract in place of base raises
- Two tiered wages for new employees with non-core jobs paying a significantly lower wage
- COLA increases diverted to healthcare costs
- CAR estimates cost disadvantage with Toyota will fall from \$4,000 to \$800 per car for GM

36

New Tier II Package for GM

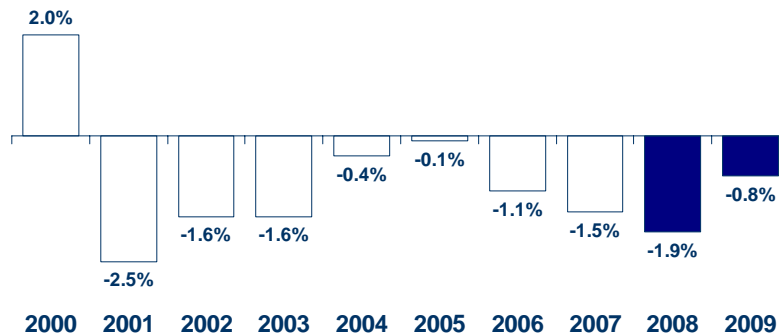
	<u>New Core Rate</u>	<u>Existing GM Employees</u>
Base Wage	\$15.30 Base* (\$14.00 Start)	\$28.12 Base
Active Health Care	15% employee cost share + \$600 Flex Spending Account	5% employee cost share
Retiree Health Care	In lieu of, \$1.00/hr 401. contribution**	Future VEBA Trust
Pension	Cash Balance Plan at 6.4%**	Traditional Pension
2008 All-in Cost/Hr		
	\$25.65	\$78.21 (incl OPEB) Memo: \$60 excl. OPEB

37

Source: Center for Automotive Research

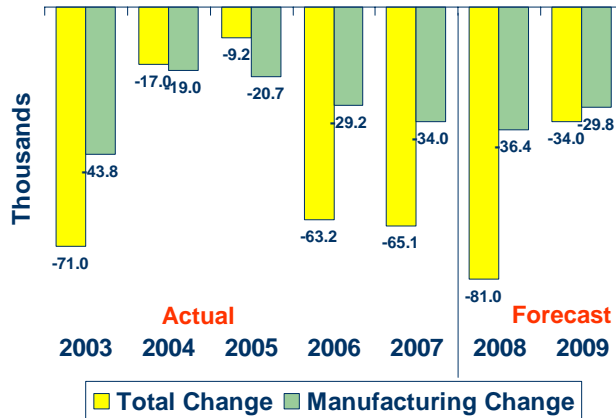
Consensus Forecast

Michigan Wage and Salary Employment – Y-O-Y



38

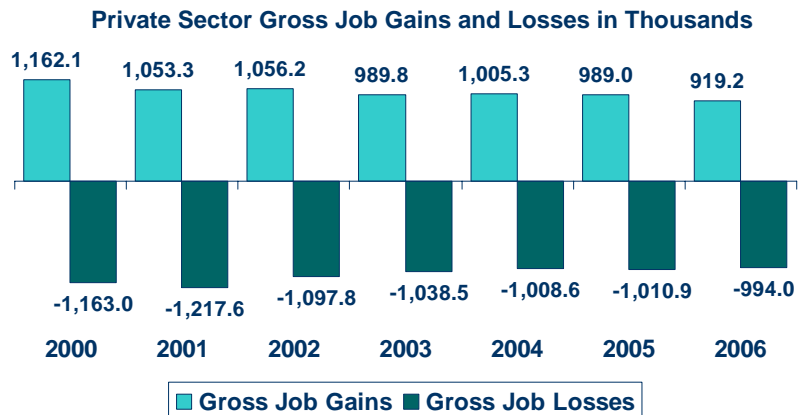
Michigan Job Losses Forecast To Continue



39

Source: Bureau of Labor Statistics; 2007-2009 January Cons for total employment change Admin forecast for manufacturing change

Michigan's Economy Has Been Adding Jobs

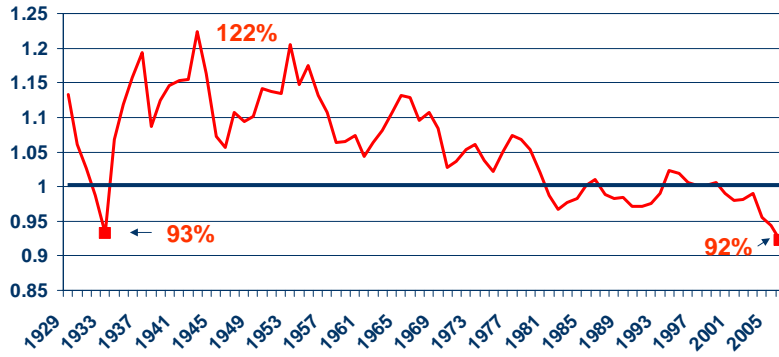


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Source: Bureau of Labor Statistics

Michigan Personal Income Falling Relative to U.S.

Michigan per Capita Income as a Percent of U.S. Per Capita Income

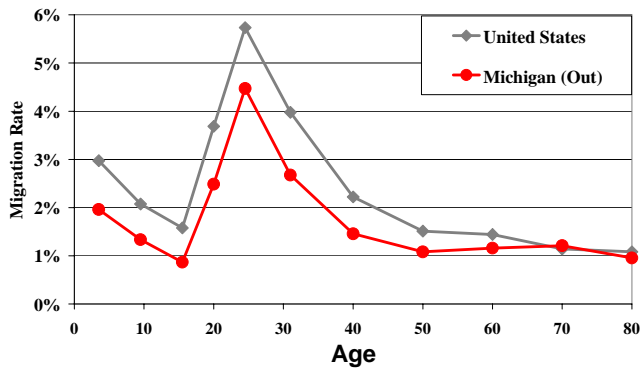


41

Source: Department of Treasury calculations from Bureau of Economic Analysis data.

Out Migration From Michigan Similar to Other States

Data are For 2006



42

Source: Ken Darga, HAL.

Fewer People Leave Michigan Than Other States

Average of Annual Rates from 2000-2005

<u>State</u>	<u>Rate of Out-Migration To Other States</u>	<u>Rank</u>
United States	2.4%	
District of Columbia	8.1%	1
Alaska	7.0%	2
Wyoming	4.9%	3
Hawaii	4.4%	4
Nevada	4.3%	5
California	1.8%	46
Ohio	1.8%	47
Pennsylvania	1.8%	48
Wisconsin	1.8%	49
Texas	1.8%	50
Michigan	1.6%	51

43

Source: Michigan Department of History, Arts, and Library using U.S. Census data.

Fewer People Migrate to Michigan

Average of Annual Rates from 2000-2005

<u>State</u>	<u>Rate of In-Migration From Other States</u>	<u>Rank</u>
United States	2.4%	
District of Columbia	6.3%	1
Nevada	6.1%	2
Alaska	5.1%	3
Wyoming	5.0%	4
Arizona	4.8%	5
Idaho	4.5%	6
Illinois	1.7%	47
Ohio	1.6%	48
Michigan	1.4%	49
California	1.4%	50
New York	1.1%	51

44

Source: Michigan Department of History, Arts, and Library using U.S. Census data.

Michigan Near National Average in Foreign In-Migration

Average of Annual Rates from 2000-2005

State	Rate of In-Migration From Other Countries	Rank
United States	0.65%	
District of Columbia	1.50%	1
Florida	1.10%	2
Arizona	0.99%	3
Hawaii	0.98%	4
South Carolina	0.45%	29
Minnesota	0.45%	30
Michigan	0.45%	31
Indiana	0.43%	32
Wisconsin	0.41%	33
Maine	0.27%	48
Vermont	0.24%	49
Mississippi	0.23%	50
West Virginia	0.15%	51

45

Source: Michigan Department of History, Arts, and Library using U.S. Census data.

Michigan's Population Growth Has Been Slow

Annual Growth in Michigan Population



46

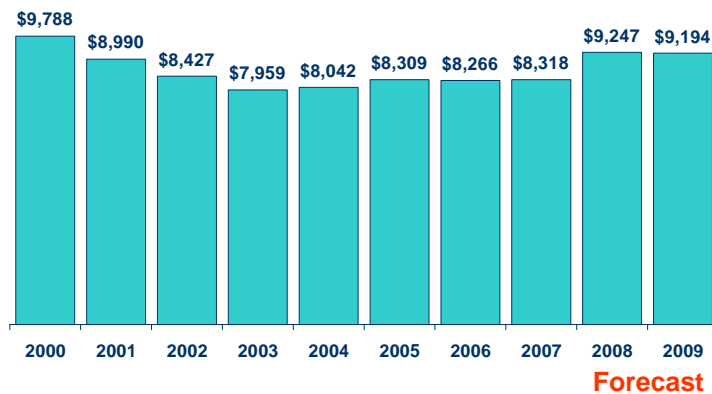
Source: U.S. Census Bureau.

Major Taxes Perform Poorly

	<u>Amount FY 2000</u>	<u>Amount FY 2007</u>	<u>Over 7 Years</u>
Income	\$7,136	\$6,442	-9.7%
Sales	\$6,278	\$6,552	4.4%
SBT	\$2,324	\$1,816	-21.9%
GF-GP	\$9,788	\$8,318	-15.0%

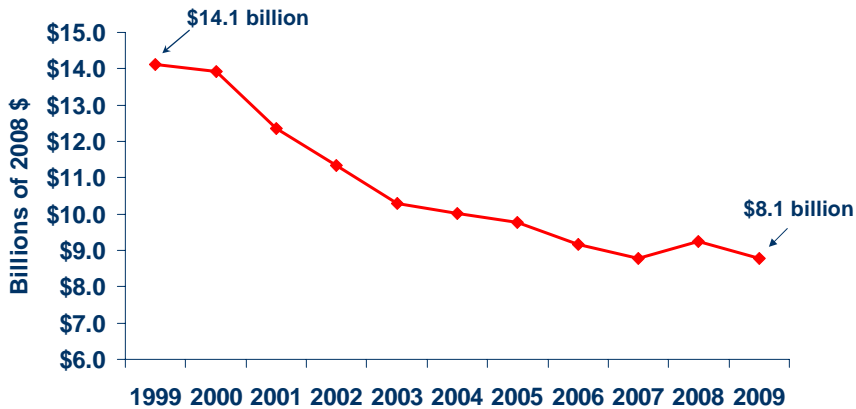
47

GF-GP Revenues Below 2000 Level



48

Inflation Adjusted GF-GP Down 38% Since 1999



49

Totals exclude transfers and are adjusted to 2008 dollars using Government Price Deflator. FY 2008 and FY 2009 are the Jan 08 Cons. Estimates.

FY 2007 Finishes With a Surplus

	<u>FY 2007</u>
<u>GF-GP</u>	
Revenues Above May Estimates	\$133.4
Other Budget Adjustments/Lapses	<u>\$125.7</u>
Total GF-GP Surplus	\$259.1
<u>SAF</u>	
Revenues Above Target	\$76.0
Other Budget Adjustments/Lapses	<u>\$6.4</u>
	\$82.4
Combined Surplus	<u>\$341.5</u>

50

Revenue Revisions

January Consensus Estimates

	<u>FY 2007</u>	<u>FY 2008</u>	<u>Combined</u>
GF-GP			
Forecast Changes	\$133.3	(\$118.4)	\$14.9
Service Tax Repeal	\$0.0	(\$115.7)	(\$115.7)
Total GF-GP	<u>\$133.3</u>	<u>(\$234.1)</u>	<u>(\$100.8)</u>
SAF	\$76.0	(\$135.8)	(\$59.8)
Combined Impact	\$209.3	(\$369.9)	(\$160.6)

51

Totals are differences from estimates budget is based on in millions of \$

Property Value Declines Will Affect Property Taxes

- FY 2007 SET up 3.9%
- Based on preliminary numbers for 2008
 - Oakland County taxable value down 0.4 percent
 - Wayne County taxable value flat
 - Macomb County taxable value up 0.75% to 1.5%
 - City of Warren taxable value down 1%
 - Livonia taxable value down 1%
 - Lansing taxable value up 1.8%
 - Kalamazoo up 2.2%

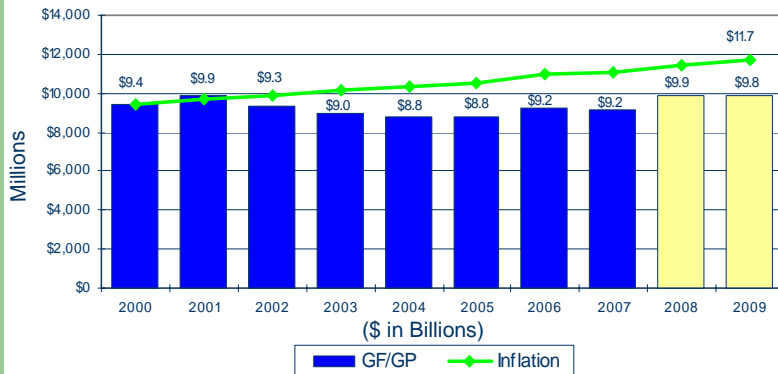
52

Inflation Adjusted Spending Falls

	FY 2007	FY 2008	Change 07 to 08	
			Amount	Percent
Expenditure Base	\$9,110.7	\$9,856.3	\$745.6	8.2%
Adjustments				
Higher Ed Payment Delay	\$138.8	(\$138.8)		
Comm Col Payment Delay	\$25.8	(\$25.8)		
Comm Col Pension Shift	\$16.0	\$0.0		
Higher Ed Authority Shift	\$90.0	\$0.0		
Refined Petroleum to Debt Service	\$70.0	\$0.0		
Subtotal Adjustments	\$340.6	(\$164.6)		
Adjusted Expenditures	\$9,451.3	\$9,691.7	\$240.4	2.5%
Projected S&L Gov price deflator	133.3	140.7		5.6%
Adj Expenditures FY 07 Dollars	\$9,451.3	\$9,182.0	(\$269.3)	-2.8%

53

Since 2000 GF/GP Expenditures 16 Percent Below Inflation



54

Source: State Budget Office

Summary

- Housing and oil will slow U.S. economy in coming quarters
- Recession is underway
- Michigan has struggled due to auto restructuring
- Near term outlook difficult for Michigan due to auto-restructuring and U.S. slowdown
- Auto restructuring is near completion
- Economy expected to recover in 2010