

Economic Update

Michigan Bankers Association

**Federal Reserve Bank of Chicago
Detroit Branch**
December 1, 2011

Paul Traub



Major Events - 2011

Uncertainty is not good for the economy

- Arab Spring
- Fannie Mae and Freddie Mac Controversy
- Japan Earthquake and Tsunami
- Greece Financial Crisis
- U.S. Debt Crisis
- S&P Downgrade
- European Financial Crisis
- Occupy Wall Street Movement

Global Economic Data

Real GDP – Annual Percent Change

	Year over Year				Difference from June '11	
	<u>2009</u>	<u>2010</u>	September '11 Projections		WEO Projections	
			<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
World Output	-0.7	5.1	4.0	4.0	-0.3	-0.5
Advanced Economies	-3.7	3.1	1.6	1.9	-0.6	-0.7
U.S.	-3.5	3.0	1.5	1.8	-1.0	-0.9
European Area	-4.3	1.8	1.6	1.1	-0.4	-1.0
Japan	-6.3	4.0	-0.5	2.3	0.2	-0.6
United Kingdom	-4.9	1.4	1.1	1.6	-0.4	-0.7
Canada	-2.8	3.2	2.1	1.9	-0.8	-0.7
Emerging Economies	2.8	7.3	6.4	6.1	-0.2	-0.3
Russia	-7.8	4.0	4.3	4.1	-0.5	-0.4
China	9.2	10.3	9.5	9.0	-0.1	-0.5
India	6.8	10.1	7.8	7.5	-1.8	-2.0
Brazil	-0.6	7.5	3.8	3.6	-0.3	0.0
Mexico	-6.2	5.4	3.8	3.6	-0.9	-0.4

Source: IMF World Economic Outlook - June, 2011

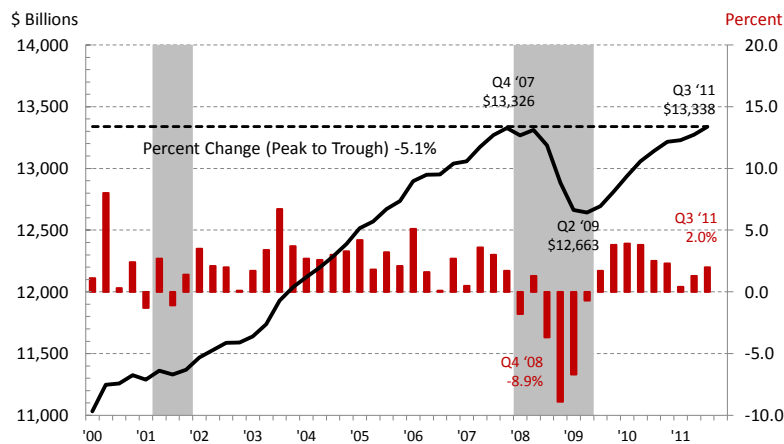
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U.S. Real GDP

Billions Chained \$2005, % Change Q/Q at SAAR



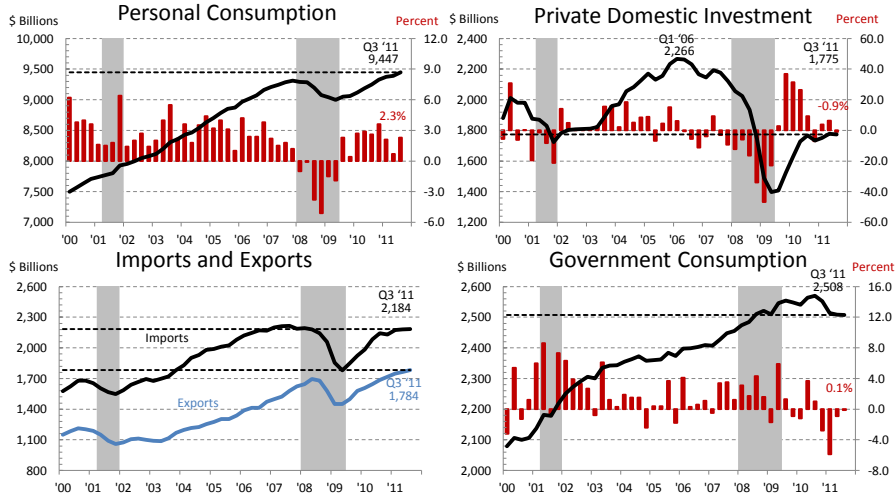
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U.S. Real GDP by Sector

Billions Chained \$2005, % Change Q/Q at SAAR

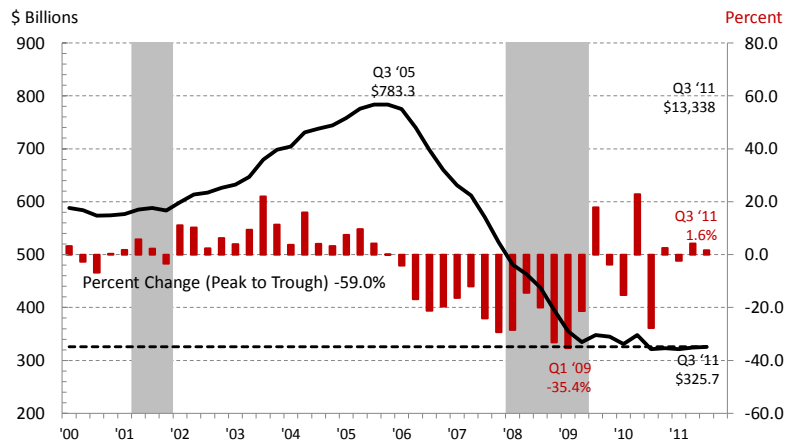


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U.S. Gross Private Domestic Investment - Residential

Billions Chained \$2005, % Change Q/Q at SAAR



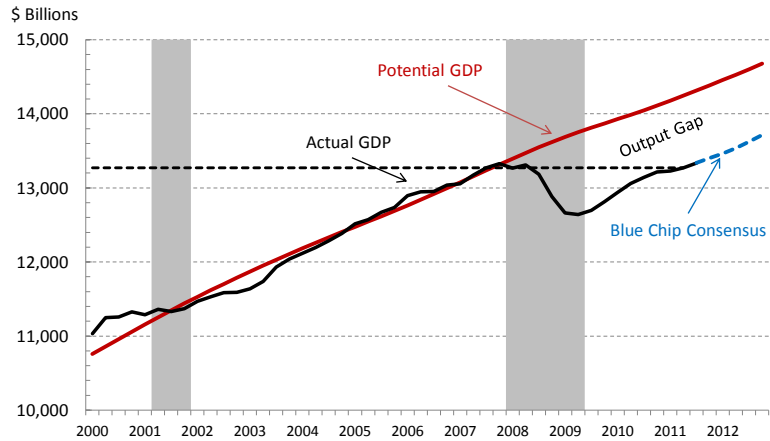
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Output Gap

Actual / Forecast GDP and Potential GDP



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U.S. Consumer

Ability and Willingness

- Consumer Sentiment
- Personal Income
- Inflation
- Household Debt
- Household Wealth
- Employment

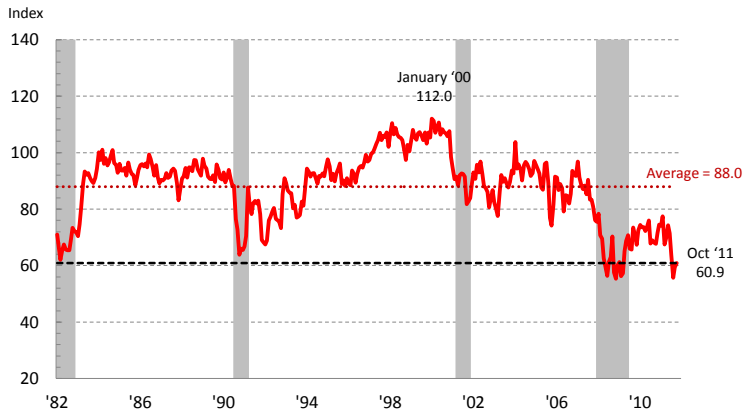
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Consumer Sentiment

University of Michigan



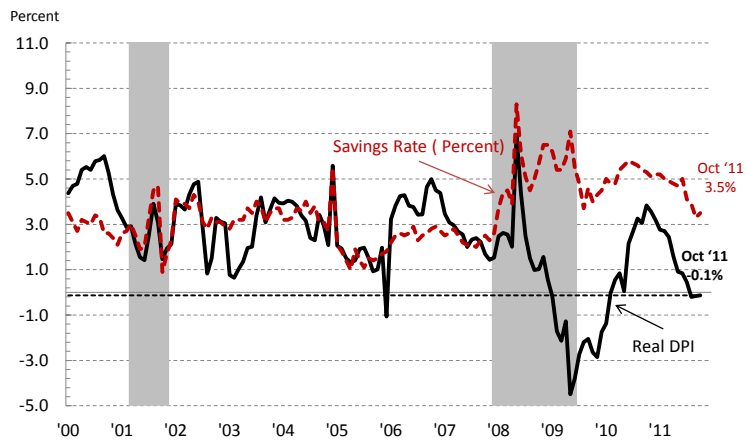
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Real Disposable Income and Savings Rate

Percent Change Year / Year



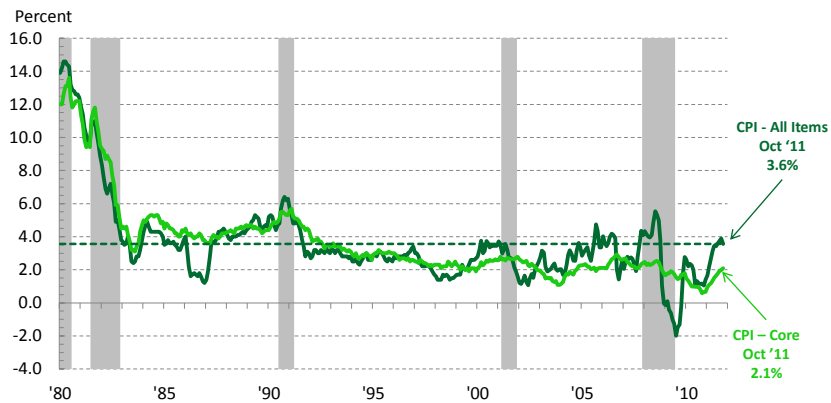
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Consumer Price Index

Percent Change Yr / Yr



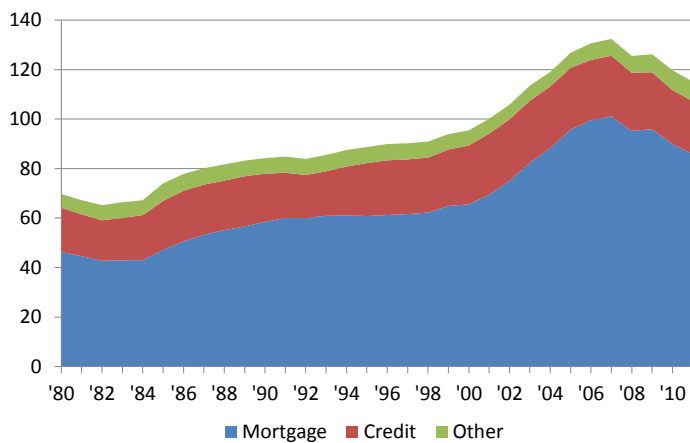
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Household Debt as Percent of DPI

Annual 1980 – 2010 and Q2, 2011



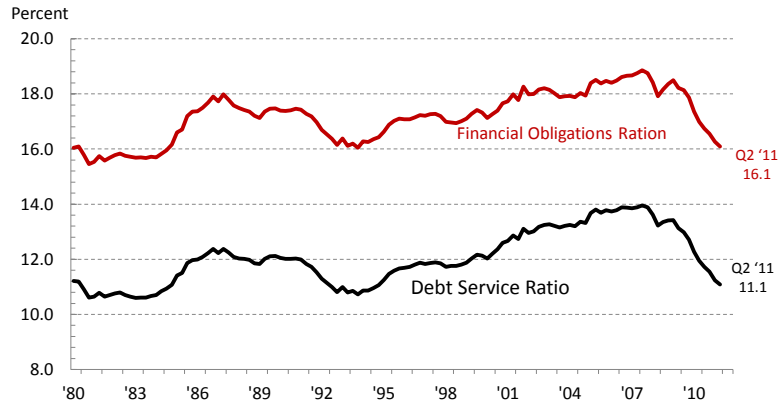
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House Debt Payments

Percent of Disposable Income



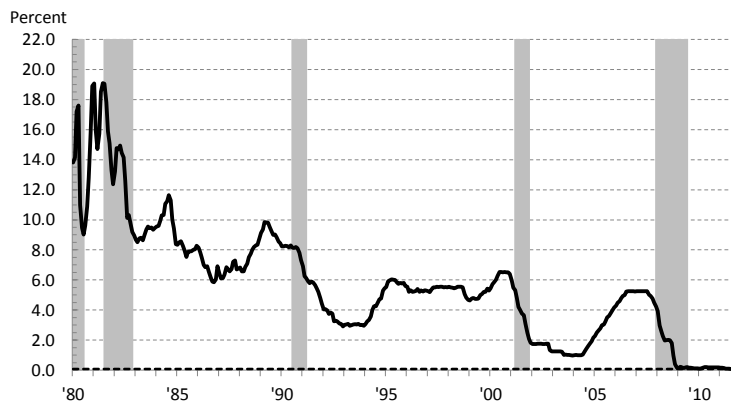
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Effective Federal Funds Rate

Monthly Average of Daily Figures



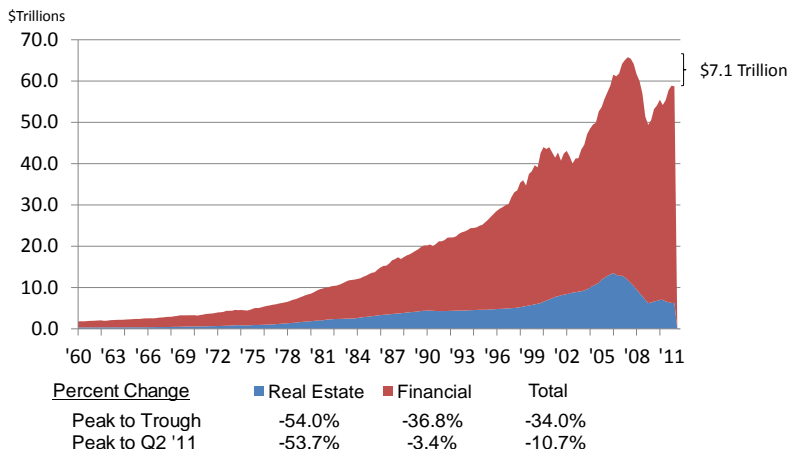
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Household Net Worth

Home Equity and Other – Quarterly, NSA



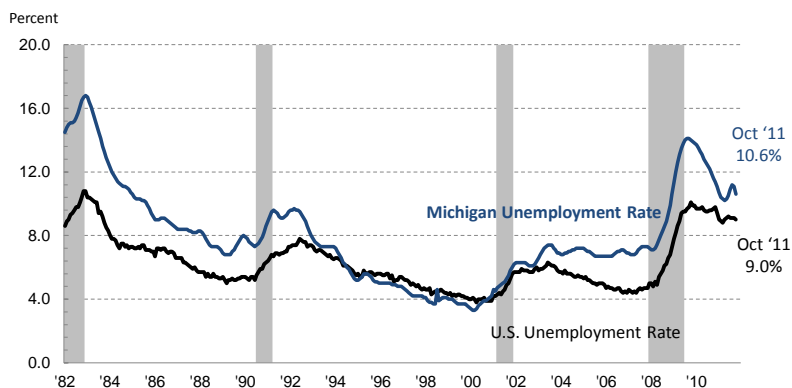
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Unemployment Rate

U.S. and Michigan



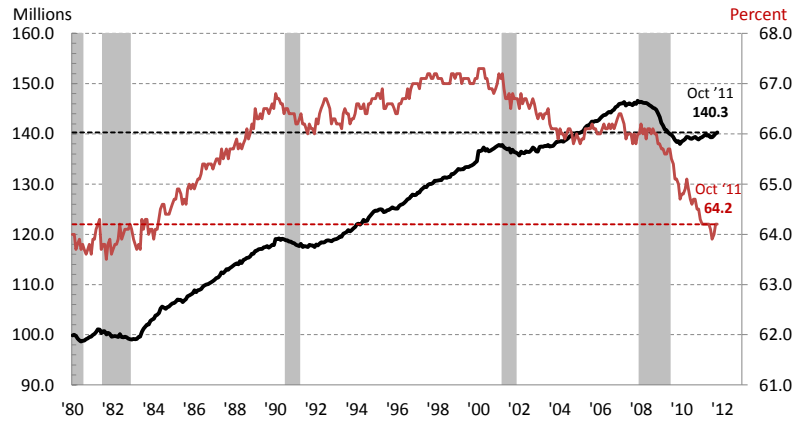
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Household Employment and Participation Rate

Total Household Employment



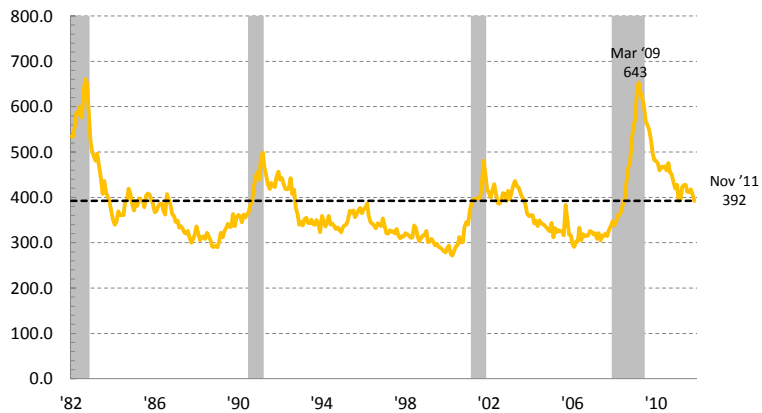
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Weekly Initial Unemployment Claims

Monthly Average – In Thousands



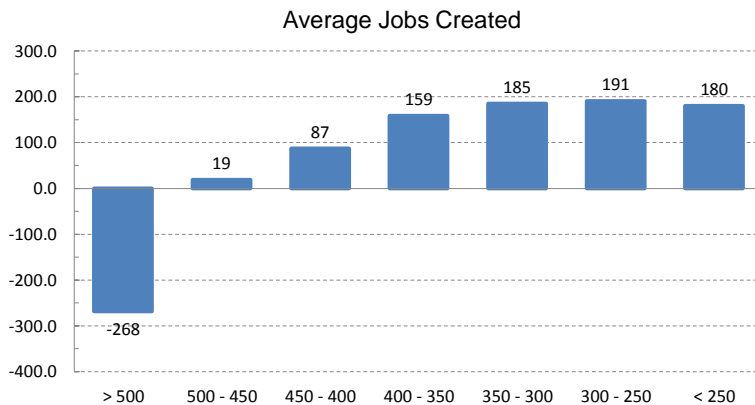
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Initial Unemployment Claims and Job Creation

Monthly Average – Initial Unemployment Claims and Change in Employment 1967 to Present - In Thousands



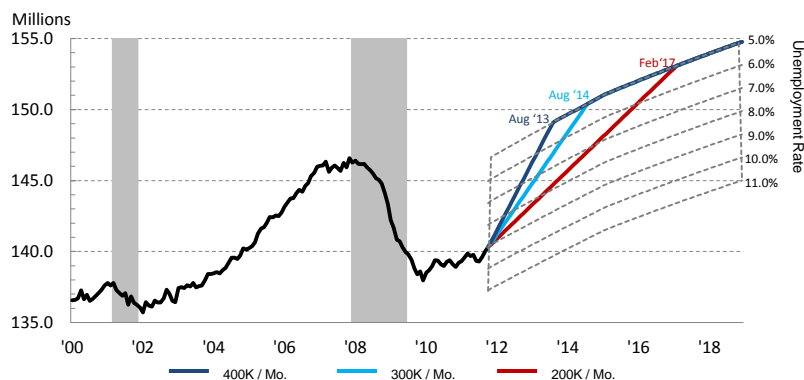
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Job creation must increase significantly from current levels if the U.S. is expected to reach full employment before 2017

Total Household Employment



Year End Unemployment at Different Rates of Job Growth

	2011	2012	2013	2014	2015	2016	2017	2018
200K Jobs Per Month	8.9	8.3	7.6	6.9	6.0	5.1	5.0	5.0
300K Jobs Per Month	8.8	7.4	5.9	5.0	5.0	5.0	5.0	5.0
400K Jobs Per Month	8.7	6.5	5.0	5.0	5.0	5.0	5.0	5.0

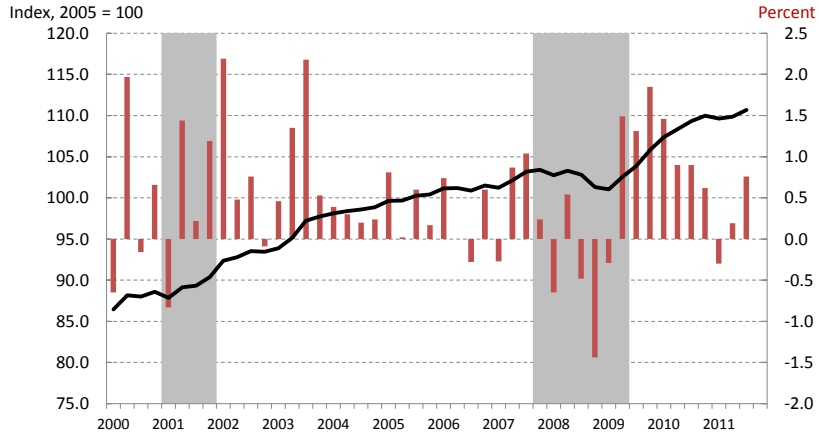
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Productivity – Nonfarm Business

Output Per Person - 2005 = 100, Percent Change Q/Q



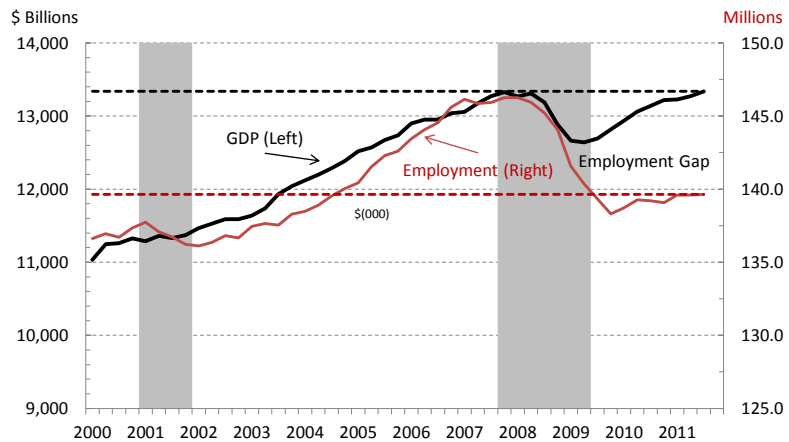
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Employment and Total Output

GDP and Household Employment



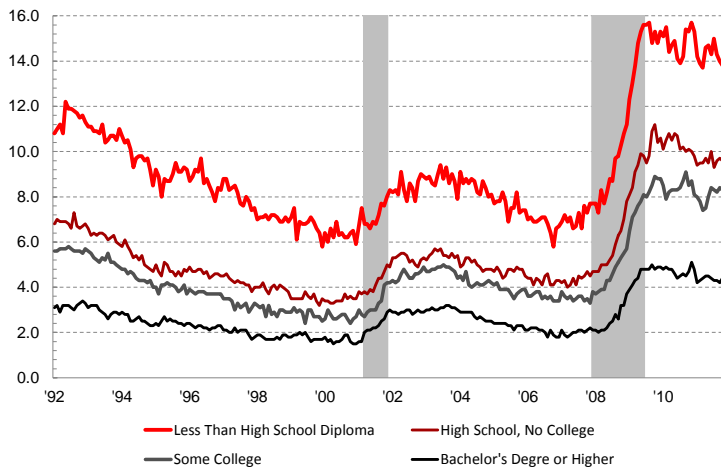
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Unemployment Rate by Educational Attainment

United States – 25 Years and Older



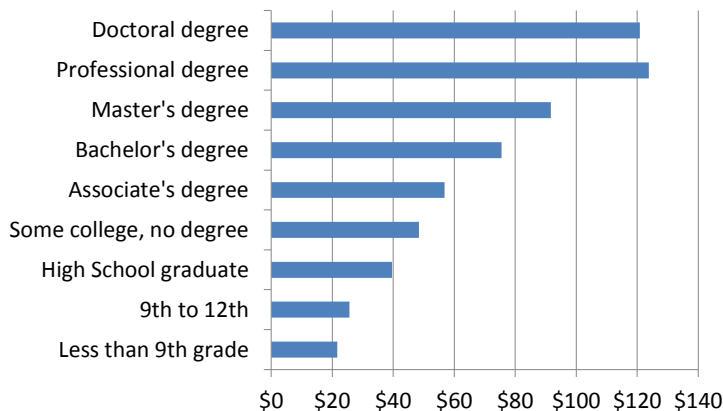
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Income by Educational Attainment - 2009

Annual Median Household Income - \$(000)'s



Source: BLS, People 25 Years and Older

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How Does Michigan Compare?

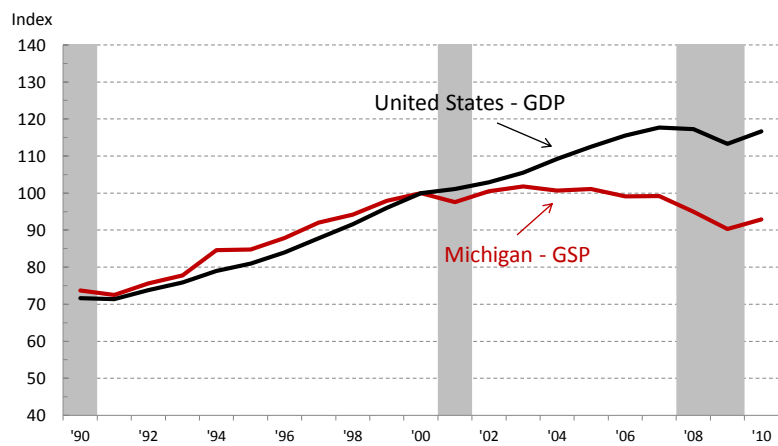
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U.S. GDP and Michigan GSP

Index, 2000 = 100



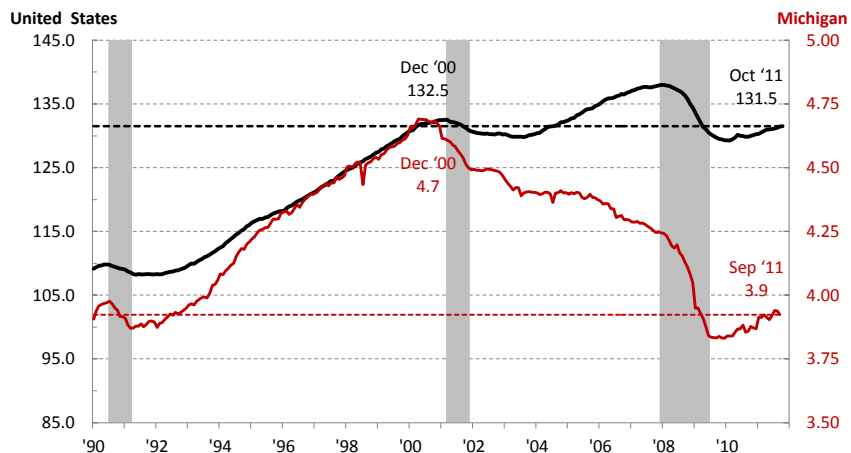
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Nonfarm Payroll Employment

Millions of Employees, SA



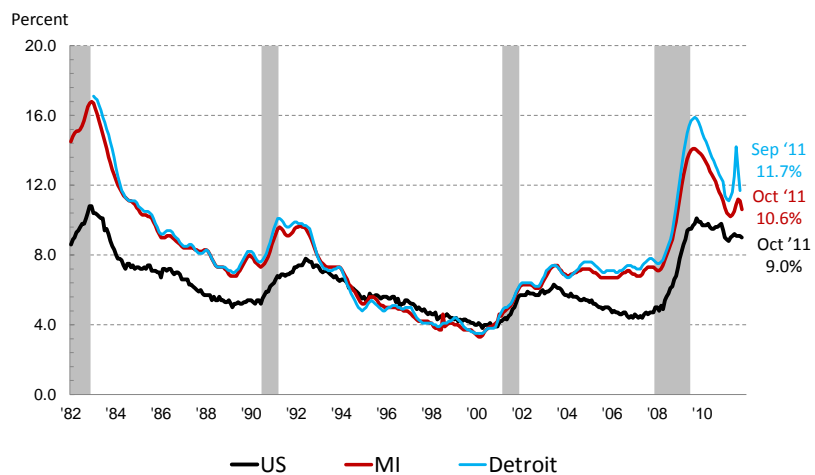
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Unemployment Rate

U.S., Michigan and Detroit



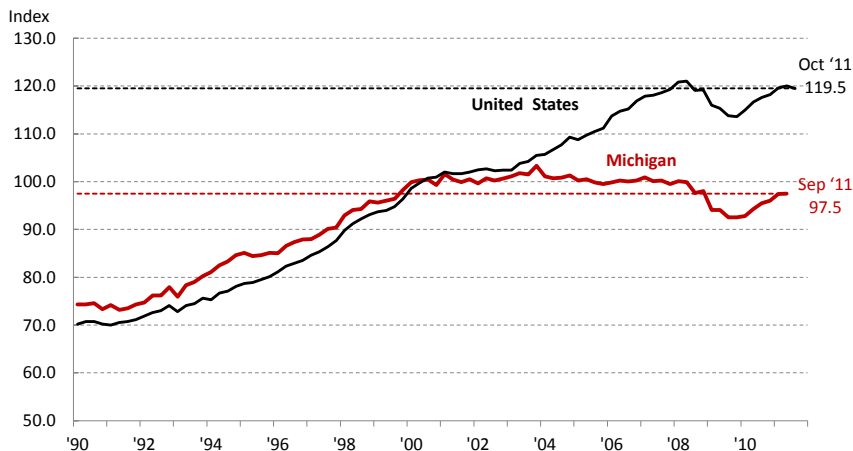
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Total Real Personal Income

Index – 2000 = 100



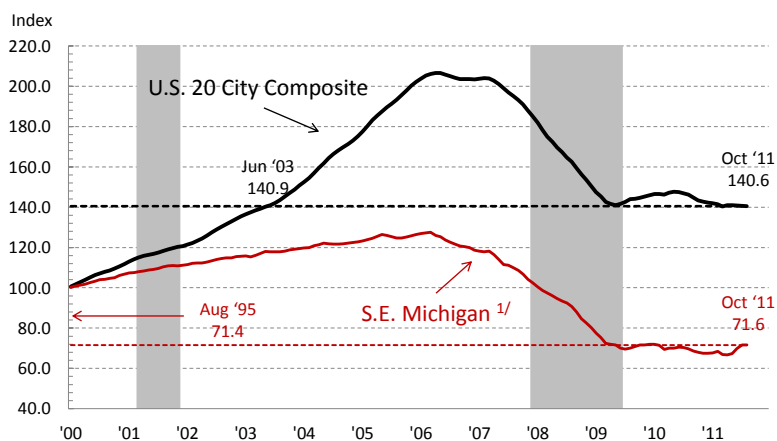
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Case-Shiller Home Price Index

Index: 2000 = 100



^{1/} Detroit-Warren-Livonia Metropolitan Statistical Area Includes Lapeer, Livingston, Macomb, Oakland, Saint Clair, Wayne Counties

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Not All Bad News

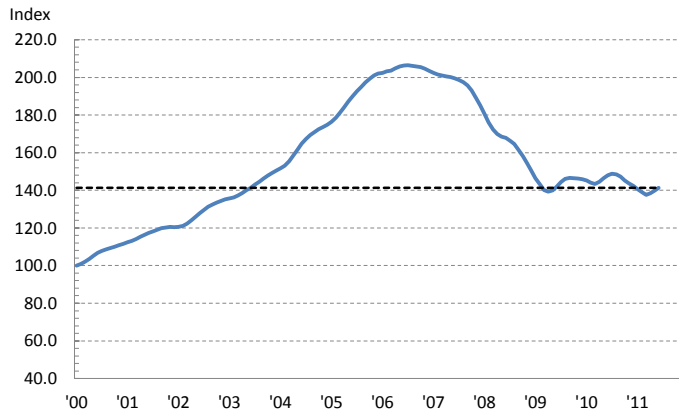
	<u>Percent Change</u>		<u>National Ranking</u>
	<u>United States</u>	<u>Michigan</u>	
<u>Economy</u>			
GDP / GSP - 2009 / 2010	3.0	2.9	15
<u>Employment - September Yr/Yr</u>			
Nonfarm Payroll Employment	1.2	1.7	12
<u>Income</u>			
Real Personal Income			
2011 Q2 Year/Year	2.8	3.4	13
Personal Income Per Capita			
2009 to 2010	2.8	3.5	7
<u>Home Prices</u>			
Case-Shille Index - Aug '11 YTD	(1.2)	6.1	1

- Bloomberg Economic Evaluation of the States (BEES) ranked Michigan Number 2 in the Country

Housing

Case-Shiller 20-City Index

Index: 2000 = 100



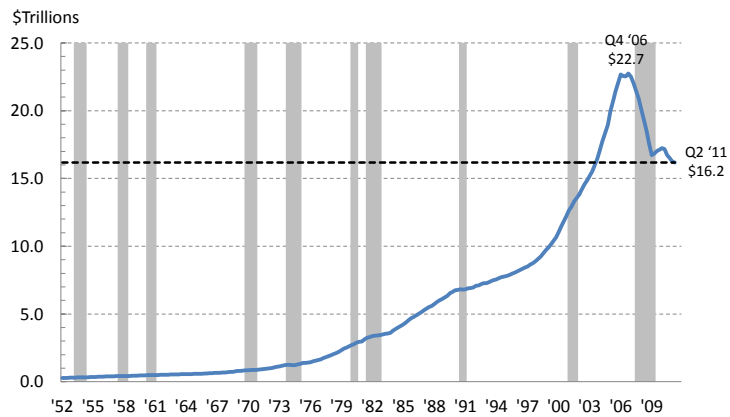
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Total Homeowner Real Estate Value

Homeowner Equity + Home Mortgages



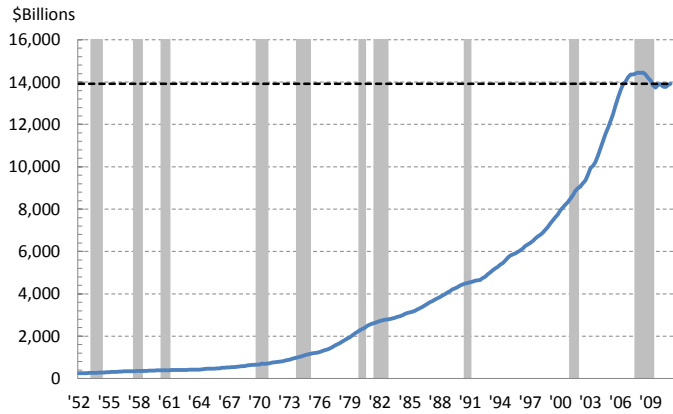
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Value of Structures

Household structures replacement cost at current cost basis

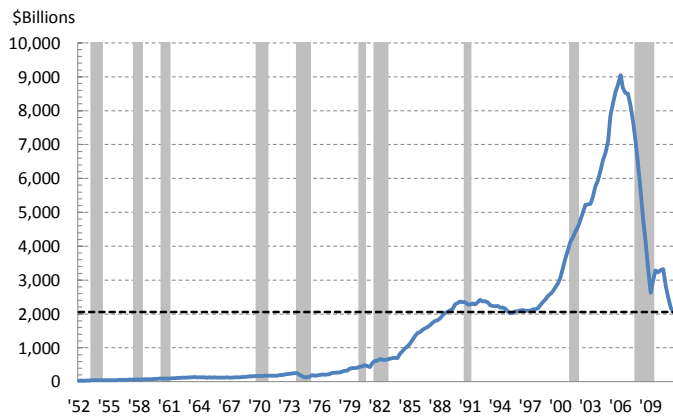


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Home Price Premium

Total Homeowner Value – Value of Structures



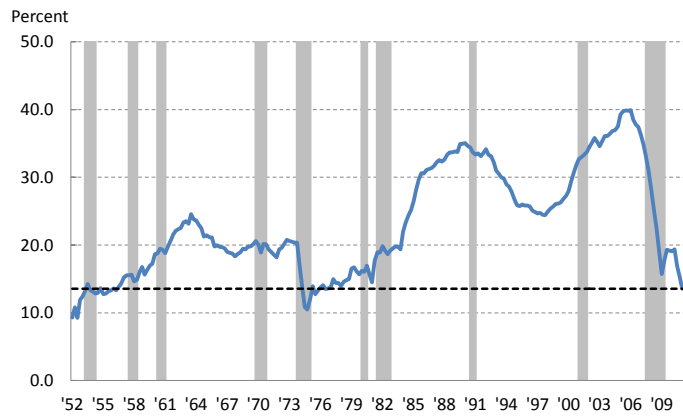
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Home Price Premium Ratio

Home Price Premium / Total Real Estate Value



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Automotive Industry

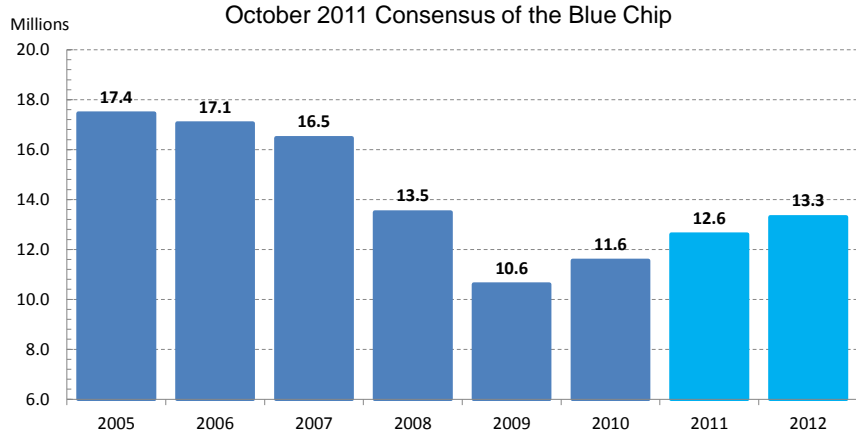
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U.S. Light Vehicle Forecast

Millions of Units, Calendar Year



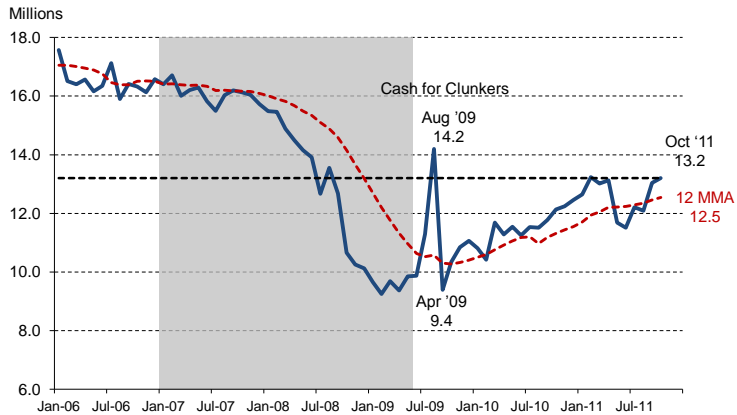
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U.S. Light Vehicle Sales

Seasonally Adjusted Annual Rate



Note: October YTD SAAR = 12.6 Million Units.

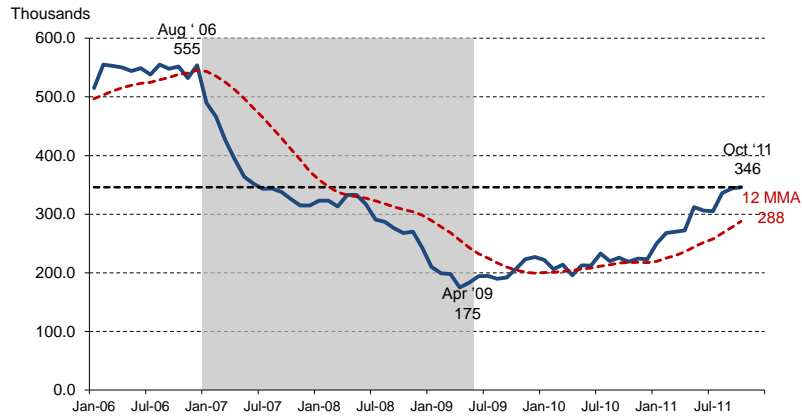
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U.S. Medium & Heavy Truck Sales

Seasonally Adjusted Annual Rate



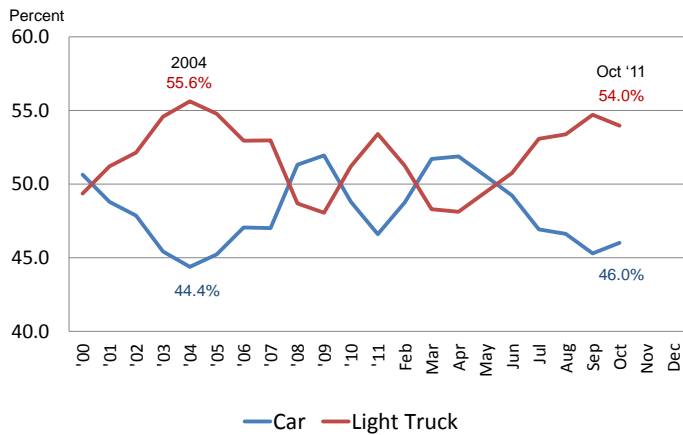
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U.S. Light Vehicle Mix

Percent of Total Light Vehicles



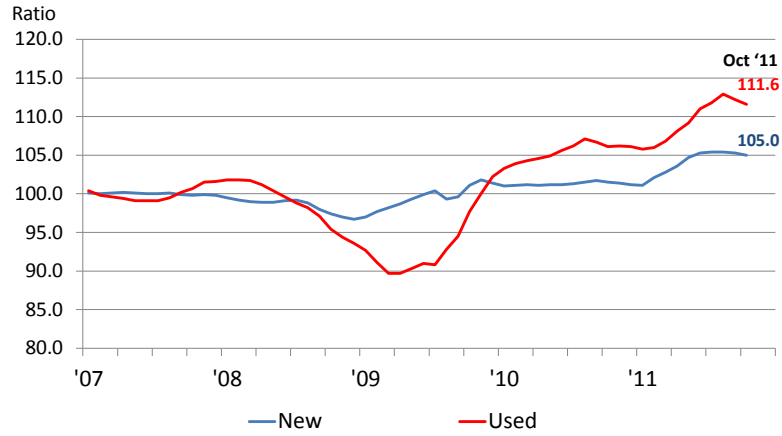
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CPI New and Used Autos

Indexed: 2007 = 100



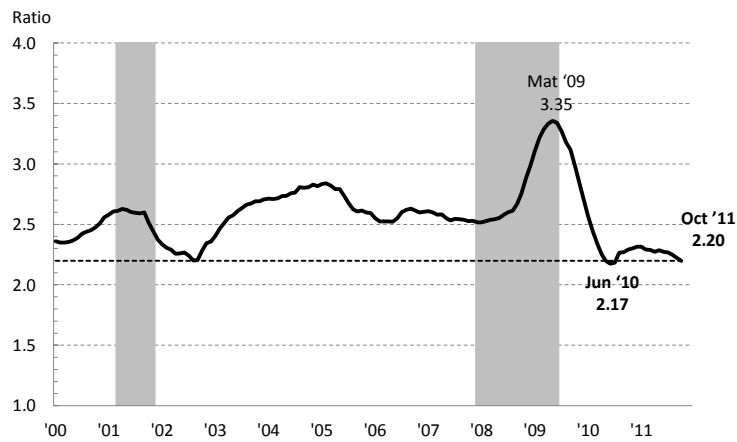
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Inventory to Sales Ratio

Light Vehicles – SA, 12 MMA



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United States Vehicle Production

Total Vehicles, Thousands of Units

	Actual		October Forecast		Year / Year Change		
	2009	2010	2011	2012	2010	2011	2012
United States	5,709	7,743	8,482	10,020	2,034	739	1,538
District							
Michigan	1,146	1,586	1,904	2,424	440	318	520
Illinois	175	309	511	564	134	202	53
Indiana	537	890	856	1,088	353	(33)	231
Total	1,858	2,785	3,271	4,076	927	487	805
Ohio	783	1,104	1,153	1,343	320	49	190

Source: Ward's Automotive

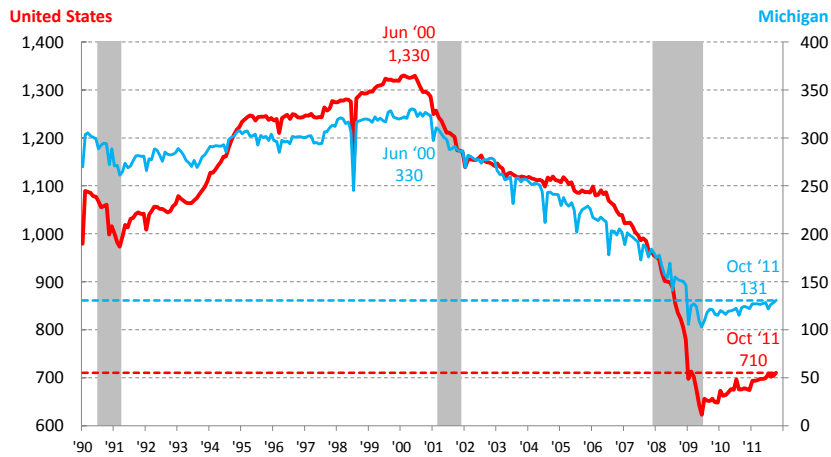
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Total Auto Related Employment

Thousands of Employees, SA



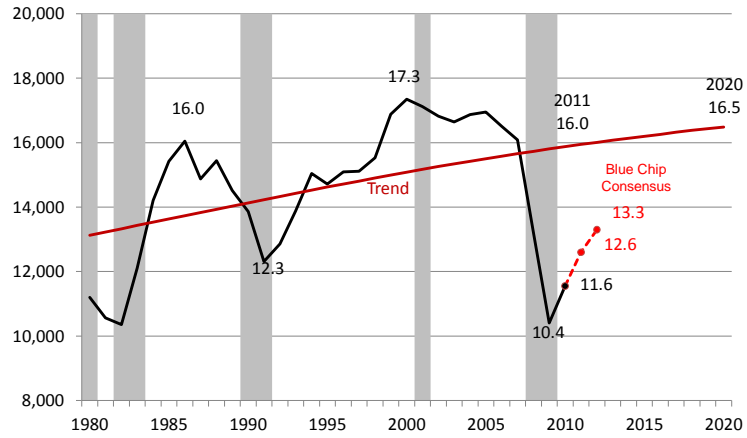
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U.S. Light Vehicle Industry

Thousands of Units



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Economic Projections of FRB November 2011

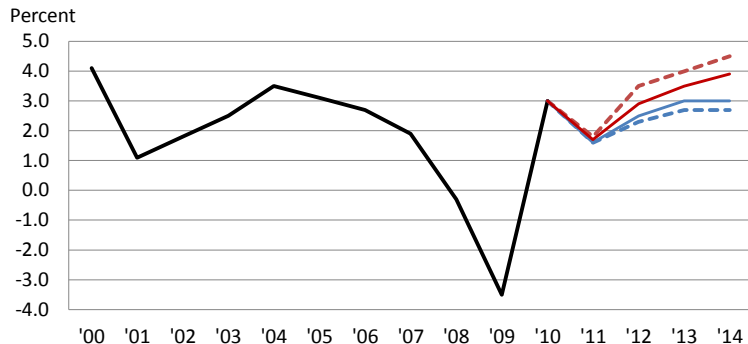
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Real GDP Percent Change

Recent FRB Members Forecast



Change in Real GDP	Central Tendency					Range				
	2011	2012	2013	2014	L.R.	2011	2012	2013	2014	L.R.
Low	1.6	2.5	3.0	3.0	2.4	1.6	2.3	2.7	2.7	2.2
High	1.7	2.9	3.5	3.9	2.7	1.8	3.5	4.0	4.5	3.0

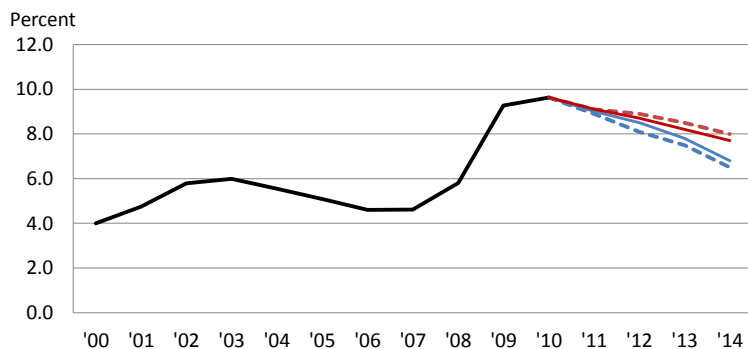
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Unemployment Rate

Recent FRB Members Forecast



Unemployment Rate	Central Tendency					Range				
	2011	2012	2013	2014	L.R.	2011	2012	2013	2014	L.R.
Low	9.0	8.5	7.8	6.8	5.2	8.9	8.1	7.5	6.5	5.0
High	9.1	8.7	8.2	7.7	6.0	9.1	8.9	8.4	8.0	6.0

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PCE Inflation

Recent FRB Members Forecast



PCE Inflation	Central Tendency					Range				
	2011	2012	2013	2014	L.R.	2011	2012	2013	2014	L.R.
Low	2.7	1.4	1.5	1.5	1.7	2.5	1.4	1.4	1.5	1.5
High	2.9	2.0	2.0	2.0	2.0	3.3	2.8	2.5	2.4	2.0

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Core PCE Inflation

Recent FRB Members Forecast



Core PCE Inflation	Central Tendency					Range				
	2011	2012	2013	2014	L.R.	2011	2012	2013	2014	L.R.
Low	1.8	1.5	1.4	1.5	N/A	1.7	1.3	1.4	1.4	N/A
High	1.9	2.0	1.9	2.0	N/A	2.0	2.1	2.1	2.2	N/A

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Thank You!

