



Get a FREE RED WINGS CAP...
CLICK HERE for DETAILS!



SITE INDEX

- [Homepage](#)
- [Search](#)
- [CyberSurveys](#)
- ▶ [News Talk](#)
- ▶ [Sports Talk](#)
- ▶ [Lions Talk](#)
- ▶ [Tiger Talk](#)
- ▶ [Wings Talk](#)
- ▶ [Car Talk](#)
- ▶ [Tech Talk](#)
- [Horoscope](#)
- [Hot Sites](#)
- [Lottery](#)
- [Weather](#)
- [Staff](#)

NEWS

- [Autos](#)
- ▶ [Insider](#)
- ▶ [Auto Show](#)
- ▶ [Consumer](#)
- ▶ [Joyrides](#)
- [Business](#)
- [Careers](#)
- [Census](#)
- [Columnists](#)
- [Commuting](#)
- [Detroit History](#)
- [Editorials](#)
- [Health](#)
- [Metro / State](#)
- ▶ [Livingston](#)
- ▶ [Macomb](#)
- ▶ [Oakland](#)
- ▶ [Wayne](#)
- ▶ [On Detroit](#)
- [Nation / World](#)
- [Obituaries](#)
- ▶ [Death Notices](#)
- [Politics / Govt.](#)
- [Real Estate](#)
- [Religion](#)
- [Schools](#)
- [Special Reports](#)
- [Technology](#)

What is the economic outlook for Michigan?

By The Detroit News

The Detroit News asked a group of Michigan economic experts to assess the prospects for Michigan's economy this year and what policies could reverse the recession. The following are edited excerpts:

Q: How will Michigan's economy do in 2002?

Littmann: According to Comerica's Michigan Business Activity Index, Michigan's economy will have contracted just under 4 percent in 2001. Real Gross State Product in 2002 is likely to expand 4.5 percent. In part, this reflects growth from a shrunken base, but it also reflects what is likely to be the fourth or fifth best auto sales year in history with Ford, GM and DaimlerChrysler achieving better profits through cost cutting and better market focus.

Gregory: The Michigan economy will continue to be much under capacity in 2002, particularly in the first quarter or two. The unemployment rate will rise further. The upturn could be delayed by the zero-percent interest rates, which cannibalized future auto sales.

The national stimulus package, together with further interest rates cuts by the Federal Reserve, if they occur, could affect the economy after the upturn has begun and complicate economic policy decisions. Further, the neutralization of al-Qaida and no other terrorist attacks on the United States would help boost consumer and investor confidence, helping economic activity in Michigan.

Anderson: As long as the national economy pulls out of its slump, Michigan should do very well by its own historical standards. It's easy to forget that, 20 years ago, a severe U.S. recession put Michigan in a near-depression situation. We should be very pleased our unemployment rate right

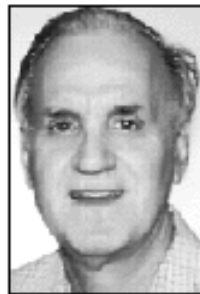
Michigan economics panel



Mustafa Mohatarem is chief economist for General Motors.



Karl Gregory is a retired economist from Oakland University.



Pete Eckstein is a retired economist for the Michigan AFL-CIO.



Diane Swonk is senior economist for Bank One in Chicago.



SPORTS

[Sports Home](#)

- ▶ [Lions/NFL](#)
- ▶ [Pistons/NBA](#)
- ▶ [Red Wings/NHL](#)
- ▶ [Shock/WNBA](#)
- ▶ [Tigers/Baseball](#)
- ▶ [MSU](#)
- ▶ [U-M](#)

[More Colleges](#)

[Golf Guide](#)

[High Schools](#)

[Motor Sports](#)

[Outdoors](#)

[More Sports](#)

[Scoreboards](#)

ENTERTAINMENT

[Entertainment](#)

▶ [Casino Guide](#)

▶ [Movie Finder](#)

▶ [TV Listings](#)

[Crossword](#)

HOMESTYLE

[Homestyle home](#)

▶ [Decorating](#)

▶ [Food](#)

▶ [Gardening](#)

▶ [Home](#)

[Improvement](#)

▶ [Home Life](#)

▶ [Home Tech](#)

▶ [Wine Report](#)

PHOTOS

[Sports](#)

[Red Wings](#)

[Lions](#)

[Autos](#)

[Joyrides](#)

[News](#)

[History](#)

Copyright 2002
The Detroit News.

Use of this site
indicates your
agreement to the
[Terms of Service](#)
(updated
08/09/2001).

now is just about at the national average. Twenty years ago, it would have already been in double digits.

Mohatarem: About as well as the national economy. While it is true that vehicle sales will likely be less than a year ago, vehicle production will be about the same or slightly higher. This is because of prudent inventory management by auto manufacturers and the successful "Keep America Rolling" program.

Eckstein: My sense is that the nation's economic downturn has bottomed out, but that recovery from the crash of the technology boom and the shocks and dislocations from September 11 will be slow during 2002.

Swonk: Michigan is well positioned to rebound quite nicely in 2002, despite an early in the year giveback to cut-rate financing deals in the auto industry. Inventories are so tight that production can increase (and is scheduled to increase) even if sales collapse at the start of the year.

Q:How well has the state diversified its job base to withstand a recession?

Anderson: Michigan has diversified its economy, but it's been good diversification. We've kept our high-paying automobile industry jobs and have increased our investment in the high-value-added jobs that make much of the automobile industry a high-tech industry today. A report BBK Ltd. did recently showed that 42 of the top 100 auto suppliers have their headquarters within 10 miles of "Automation Alley" in Oakland County, and that the automobile industry has actually been converging around Southeastern Michigan in recent years. Keeping those high-value-added, high-paying jobs is a lot smarter strategy than blindly pursuing "diversification."

Two years ago, in a study for the Michigan Economic Development Corp., we projected that the state would lose about 25,000 fewer jobs in a recession now than it would have lost in the 1970s. Although the slump thus far is milder than a "typical" recession, it is already clear that our state is suffering fewer job losses this time compared with two decades ago.

Swonk: Michigan is still highly dependent on the auto sector, even though its employment base is not. Much of the employment in the auto sector was outsourced during the last several decades and still is very closely tied to the fortunes of the automakers. With that said, there is an advantage that Michigan has this time around, that is its demographics. A record number of workers are retiring out of the ranks of the United Auto Workers. Given the golden handshakes that were provided by the last round of contract negotiations, that is not such a bad way to go.

Moreover, unusually mild winter weather, coupled with the events of 9/11, helped to ground more snowbirds than usual this winter, which means more wealth remained at home. This worked to the benefit of neighborhood restaurants and movie theaters, even as it left the parks and ski resorts suffering.

Eckstein: The Michigan economy has become significantly more diversified. There are major clusters of high technology, especially in Oakland and Washtenaw counties, that were only a hope two decades ago. Much of the new development, including biological and medical technology, is not auto-related-and some that is has applications to other industries as well.

Mohatarem: Michigan has diversified its economy during the last decade, but the state's economic health remains dependent on the auto industry. That is a good thing in this recession, which was triggered by a decline in investment, the so-called bursting of the Internet and telecommunications bubble. To offset the investment decline, the Federal Reserve has aggressively lowered interest rates, which is benefiting auto sales and housing;



Patrick Anderson is a principal in the consulting firm of BBK Ltd. with offices in Southfield and Lansing.



David Littmann is vice-president and chief economist for Comerica Bank in Detroit.

- ▶ [Comment on this story](#)
- ▶ [Send this story to a friend](#)
- ▶ [Get Home Delivery](#)

the two most interest rate-sensitive industries.

Gregory: Gains have been made in job diversity in Michigan. The administration in Lansing should get some credit for this. There has been an employment shift from manufacturing to services in the nation and in this state. However, a lot of the increase in services in Michigan results from the motor vehicle sector, which is becoming increasingly computerized. Michigan, despite some progress, remains highly dependent on the motor vehicle industry and still is among the leading states in its concentration in the durable goods industry.

Littmann: In four decades (1960 to 2000), the share of Michigan's wage and salary workforce devoted to overall manufacturing pursuits has risen from 34 percent to 50 percent above the national average share of workforce devoted that sector. However, Michigan has seen its manufacturing employment as a percent of total state wage and salary employment chopped in half, from 42 to 21 percent in 40 years. Most of the growth in share has come in business and health care services.

Interestingly, in strict transportation employment comparisons, Michigan's dedication has remained 4.5 times more heavily transportation-oriented than the U.S. average over the four decades. There is nothing wrong with this. After all, this is a high-productivity, high-income industry and has the potential for attracting retail, construction and other industries.

Q:What state or federal policies would aid Michigan's economic performance?

Mohatarem: At the state level, continuing to invest in education is essential for future prosperity and continuing the diversification of Michigan's economy. At both the federal and state levels, reducing taxes on business and personal income is important for promoting investment and higher standard of living. Most important, both the federal and state governments need to avoid imposing costly new regulations, such as Corporate Average Fuel Economy standards, that provide questionable benefits.

Eckstein: At the state level, the most urgent policy would be a tax freeze that would prevent further budget cuts resulting from phased-in tax cuts recklessly enacted during the economic euphoria of the 1990s. At the federal level, interest-rate cuts already enacted by the Federal Reserve should start showing major impacts by mid-year. Any congressional response should be focused sharply on increasing demand in the short run and not be an excuse to reward wealthy campaign contributors while undermining the long-run ability of the federal government to meet its responsibilities.

Major dislocations at the state and local level could be alleviated by a one-shot federal program of revenue sharing. This could prevent further layoffs, service cuts and tax increases by units of government that must balance their budgets even in recession.

Gregory: Delaying or relaxing increased auto fuel economy standards would help at the cost of increasing the already high dependence of the United States on Middle Eastern oil, with the resulting deep involvement of the U. S. in the quagmire of Middle Eastern politics.

Tax and spending initiatives could help in the short run. The mix of federal policy proposals, at this time, is not designed, despite the misleading rhetoric, primarily for this end. Continued easing by the Federal Reserve also could help. Policies leading to increased income for lower-income groups would have greater impact on spending decisions that generate output and employment.

Littmann: Michigan's economic performance is dependent on low inflation and affordable financing and on gains in purchasing power of at least 2.7 percent per year for the nation. The Federal Reserve's extraordinary money stimulation in 2001 threatens price stability and purchasing power in 2003, while pushing the economy up in 2002's election year. The one policy that would help Michigan the most over the short and long haul would be permanent income tax rate reductions across the board.

Swonk: Education has become especially hard hit because of a slowdown in state revenues, so anything to dampen the cost of college education or borrow to keep primary education funded would probably help. In terms of federal fiscal policy, the stimulus is already there because of earlier fiscal actions. Discretionary spending is expected to be particularly high this year, and anything more by Congress would probably now be too much too late, and put undo pressure on the federal budget deficit.

Anderson: The discussion in Washington about lowering taxes is on target. It's ridiculous for the federal government to tax people at a rate that exceeds its prodigious ability to spend. We also have to worry about our state policies. We've made extraordinary progress in the past decade and now have a competitive business climate and an unemployment rate that is close or below the national average, even during a slump. If we make the mistakes we made in the 1970s, escalating our taxing and spending, we'll be right back where we were in the early 1980s.

[▶ Comment on this story](#)

[▶ Previous story](#) [▶ Back to index](#) [▶ Next story](#)