

Economists predict more state joblessness...

Michigan's developing weakness in employment will continue next year, accompanied by a second consecutive year of steadily moderating growth of state personal income, a slight increase in the inflation rate, and some decline in the rate of growth of available state tax revenues, University of Michigan economists predict.

Prof. Saul H. Hymans and Harold T. Shapiro explained the details of their state economic forecast recently at the University's 28th annual Conference on the Economic Outlook.

Their control forecast, reflecting a state economy highly dependent on the level and distribution of national economic activity, assumes a declining rate of growth in gross national product (GNP), with a sharp rebound in 1980; declining expenditures on autos and parts through much of 1979; static real expenditures on other consumer durables; little rise in business fixed investment; inflation consumer durables; little rise in business fixed investment; inflation rates at 7 to 8 per cent throughout 1979; and rising national unemployment.

In addition, it is assumed that the restrictive monetary policy announced in Washington last month will be moderated after mid-1979, that there will be no changes in state tax rates nor major work stoppages during 1979 contract negotiations between the UAW and the automotive industry.

As compiled by the U-M Research Seminar in Quantitative Economics for the seventh consecutive year, the Michigan forecast predicts the following:

EMPLOYMENT: "The current developing weakness in employment will continue through 1979. The hardest hit sectors are manufacturing and construction. Manufacturing employment—which has never regained its 1973 peak levels is forecast to decline 4.6 per cent. This represents a loss of 40,000 jobs. Employment in construction is forecast to fall by 2.6 per cent next year.

"Although some substantial gains in employment are forecast in the services sector (27,000 jobs), other areas are characterized by very slow growth

in new employment opportunities, especially when compared to recent years. For 1979 as a whole, total employment declines slightly (by 0.2 per cent, or 9,000 jobs) to a level of 3.88 million."

UNEMPLOYMENT: The forecast is for an increase in the state's labor force of almost 40,000. This represents an increase of 0.9 of one per cent over the calendar 1978 labor force, and when combined with the expected small decline in total employment, results in a forecast of sharp increase in the state unemployment rate. Projected for 1979: an unemployment rate of 8 per cent, an increase of over 1 percentage point.

PERSONAL INCOME in Michigan is projected at \$2.7 billion for 1979, implying a second consecutive year of steadily moderating growth of state personal income. "In comparison with the 9.8 per cent increase now estimated for 1978, our forecast for 1979 involves an increase of only 8.3 per cent for state personal income."

INFLATION "The local inflation rate (as measured by Detroit CPI) is forecast to rise 8.2 per cent from the 7.4 per cent increase now estimated for 1978. Inflation rates are, however, expected to moderate somewhat throughout 1979, reaching a level of close to 7 per cent by year end. These forecast rates, along with the relatively modest growth expected in personal income produce a forecast increase of only 1.5 per cent in real disposable income in Michigan for calendar 1979."

TAX REVENUES "For fiscal 1979 we are forecasting personal income tax revenues—gross of distribution to local units of government—of \$1.977 billion. This represents an increase of \$163 million, or 8.5 per cent. This compares to an increase of \$241 million or 16.3 per cent that is now estimated for fiscal 1978. For fiscal 1980 we forecast a further increase in these revenues of \$192 million, or 10.2 per cent.

"Thus the rates of growth of these revenues over the next two fiscal years are forecast to be considerably

more modest than we have experienced over the two immediately preceding fiscal periods. We should also note that state tax revenues in fiscal 1979 will be a critical element in determining the nature of the fiscal restraint imposed on the state budget by passage of Proposal E (the Headlee Proposal).

Prof. Hymans and Shapiro explained that the assumed easing of economic policy beginning in mid-1979

would have a significant effect on national economic activity, with favorable effects particularly on the automotive sector, business fixed investment, and residential construction.

"A decision, therefore, to maintain the current, more restrictive policy stance would have serious impact on the Michigan economy, which is heavily dependent on national economic activity in these sectors," they said.

...and recession next year

University of Michigan economists predict nearly a "50-50" chance of a recession in 1979.

They predict a sharp decline in the economy's growth rate, a substantial increase in unemployment and a slow winding down of inflation.

This assessment was made by Prof. Saul H. Hymans and Harold T. Shapiro, who recently prepared a national economic forecast for the University's 28th annual Conference on the Economic Outlook. Hymans is chairman of the university's economics department. Shapiro is vice-president for academic affairs.

The control forecast for 1979 incorporates the restrictive monetary policy recently announced by President Jimmy Carter and tax cut effects, and assumes controlled Federal expenditures, a crude oil price rise, increased exports and farm price increases below those of last year.

"Compared with the 3.8 per cent rate of growth of real gross national product (GNP) now being estimated for 1978, we are forecasting a sharp decline to a 2 per cent growth rate for the year 1979—surely a growth recession at the very least," Hymans and Shapiro said.

They also predicted "a substantial increase in the unemployment rate to an average of 6.7 per cent for the year and 7.2 per cent for the fourth quarter of 1979. The aggregate price level is expected to be up by 7.7 per cent next year, compared with a 7.4 per cent increase for 1978."

The U-M economists noted that comparison of year-to-year economic changes may fail to reveal the "true nature of the underlying dynamic path of the economy," and offered a quarterly analysis of economic activity projected in the control forecast.

Characterizing 1979 as a 2 per cent

growth year is hiding a good deal of important detail," they explained. "Our forecast implies virtually no growth at all in the second and third quarters of 1979."

"But we are forecasting annual growth rates of 0.5 and 0.4 per cent in the two mid-year quarters, and that has to mean that the chances of a true recession developing after the early months of 1979 should be regarded as almost '50-50'."

"In other words, the chances of avoiding a recession in 1979 seem to be only slightly better than the chances of experiencing a recession."

Any moderation of inflation in the first half of next year is apt to be distinctly modest, according to Hymans and Shapiro, who note that "the OPEC price increase, the short-term outlook for fairly large growth in import

prices excluding oil, and the substantial hike in payroll taxes, pile a good deal of upward price pressure into the first half of 1979."

The U-M economists explained that the monetary restraint now in place can be expected to produce a substantial decline in residential building activity, with housing starts to "bottom out at about 1.6 million starts in the latter months of next year." Business capital formation is forecast to be on a downward trend, in real terms, throughout the forecast period. "The result both of high interest rates and the induced effects of the economic slowdown."

Concerning the President's wage and price guidelines program, the U-M economists said such "speed limits" should have been imposed on the economy 15 or 16 months ago.



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