Mich. economy 'stuck in reverse,' forecast says

2010 expected to be 'better;' jobs to increase in '11

KATHY BARKS HOFFMAN
Associated Press

ANN ARBOR — Gov. Jennifer Granholm said Friday that a University of Michigan forecast showing more job losses through the next two years is "troubling."

Dragged down by the domestic auto industry's woes and a weak housing market, the state economy will remain "stuck in reverse" through 2010, the economists said Friday in their annual state economic forecast.

But the news isn't all bad. The economists expect 2010 will be "much better" than 2009, even though they don't see the state having a net job increase until 2011. And they see a number of increases in businesses making plastics and resins, breakfast cereals and surgical and medical instruments, along with machine shops.

Drop in revenues

The effect of the continued job losses could mean the biggest drop percentage-wise in state revenues since the recession of the early 1980s. The forecast sees general fund revenue falling 7.8 percent this budget year compared to revenues for the past fiscal year.

Granholm told reporters Friday that she plans to make budget cuts within the next couple of weeks through an executive order after negotiating with House and Senate leaders.

"There are going to have to be cuts," she said. She added that "we want to protect school funding as much as we possibly can," and she'll also try to keep Medicaid health care coverage for seniors, children and the disabled in place.

Granholm

The university forecast shows school aid fund revenue could increase slightly this budget year over the last fiscal year, to $11.5 billion. But that's below the $11.7 billion state economists predicted in May.

$730 million less

The biggest hit from the downward-sliding national economy will be to the state's general fund, which the forecast said could take in about $730 million less than the $9.4 billion it received in the past fiscal year.

Some of the general fund shortfall could be covered by $400 million carried over from the past fiscal year, which ended Sept. 30. The state also might get $650 million from a stimulus package Congress is expected to pass after Barack Obama becomes president in January.

But some state economists say Michigan government shouldn't rely on those one-time fixes. It would be more prudent to make cuts or raise taxes this year to avoid dealing with a large shortfall in next year's budget that could easily top $1 billion. The university forecast expects tax revenues to fall further in the fiscal year that starts Oct. 1 as job losses continue.

"Most of our current problems persist during 2009, particularly those related to the auto, construction and retail industries," University of Michigan economist George Fulton said. "It will be a rough year, particularly in the first half, but ... we see the situation improving over the year."

JOB LOSSES

A look at annual job losses in Michigan since 2000, including University of Michigan estimates for 2008 and forecasts for 2009 and 2010. Michigan added an average of 88,000 jobs annually between 1991 and 2000.

2001	112,200
2002	76,900
2003	70,900
2004	16,700
2005	9,100
2006	63,100
2007	66,000
2008	81,000
2009	108,000
2010	24,000

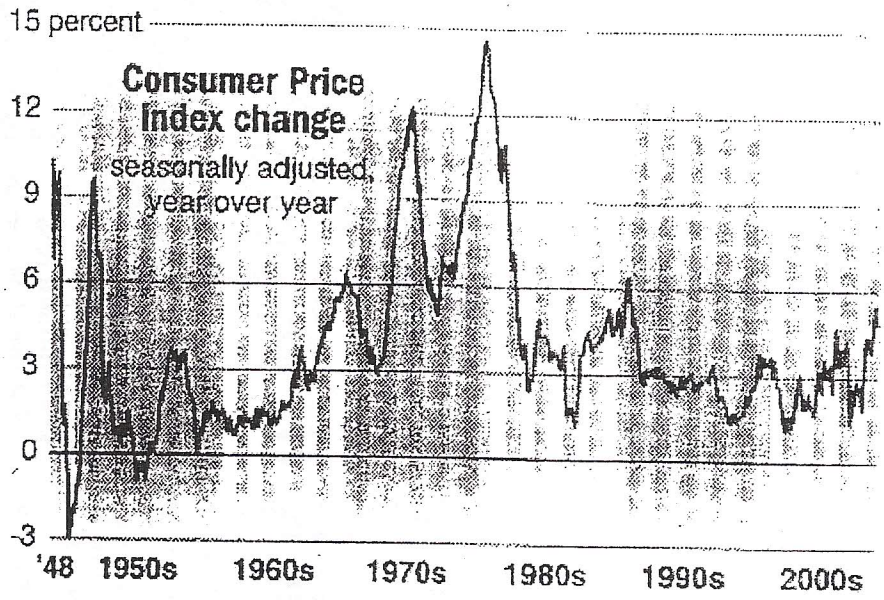
Source: University of Michigan Research Seminar in Quantitative Economics

Why lower prices hurt

In the past year, soaring commodity prices fueled worries about runaway inflation. Now, concerns are shifting to the other extreme: deflation, which may be worse.

What is deflation?

"Deflation is a state of recurring decline in the overall price level," says JPMorgan economist Michael Feroli. He says it's a "legitimate concern." Yet the U.S. hasn't seen year-over-year declines in the Consumer Price Index in 50 years, not even during bear markets. Merrill Lynch economist David Rosenberg says deflation is in its "infancy stages" but expects it to take hold within a year. "We are going to live through an event that most of us in the financial business have never dealt with," he says. Japan has struggled with deflation for most of the 2000s.



What causes deflation?

Prices for homes and commodities, from oil to metals to crops, are already falling amid **waning demand.** Rising unemployment, weak consumer spending and a lack of available credit could worsen the declines. While government policies to ease tight credit markets are putting more money in the system, prices won't "reflate" until banks start lending again, notes Rosenberg.

Why is deflation bad?

Deflation can do more damage than inflation because **it's harder to reverse.** While the Federal Reserve can hike interest rates as much as it likes to stem inflation, it can only cut rates to zero to reflate the economy, notes Feroli. The pattern of falling prices feeds on itself. As prices decline, consumers put off purchases in hopes of getting lower prices later. Companies deal with lower revenue by cutting jobs, further pressuring demand.

What investors can do

In a deflationary environment, **bonds with safe yields are a particularly good bet.** There's no risk their steady income will be eroded by inflation. Choosing stocks is trickier. Rosenberg says to favor companies with healthy balance sheets in defensive sectors such as consumer staples, health care and utilities as opposed to financial services and retail.

SOURCE: Bureau of Labor Statistics

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Shaila Dani, Elizabeth Gramling • AP

Americans anxious about work

Many concerned about jobs being shipped overseas

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RAJU CHEBIUM
Gannett News Service

WASHINGTON — American workers are worried about job security and want the government to help them gain new skills and prevent jobs from being shipped overseas, according to a national survey.

The survey, which Rutgers University released Thursday, shows workers are as anxious now as they were during the 2001 recession, and their worries have persisted despite economic gains after the 2001 terrorist attacks.

Co-author Carl Van Horn said workers are gloomier these days due to tighter credit, falling house prices, rising costs for health care, food and gasoline, and layoffs in some industries.

"That's just the new normal, and people don't like the new normal," Van Horn said. "There's just a lot of bad news out there, and the workplace is just one of the weak spots."

Timed to coincide with Monday's observance of Labor Day, the survey polled 1,000 working and unemployed people nationally. That includes 587 currently employed male and female workers of varying ages and ethnicities drawn from blue- and white-collar professions. The survey has a margin of error of plus or minus 3.1 percent.

It found that, of those surveyed:

- 32 percent were "very" concerned about job security and 43 percent were "somewhat" concerned.
- 80 percent want the government to prevent jobs from moving overseas.
- 73 percent want the government to pay for job retraining programs.
- 43 percent don't think they will have enough money to retire.
- 53 percent said they are "very" satisfied with their jobs, and 38 percent were "somewhat" satisfied.