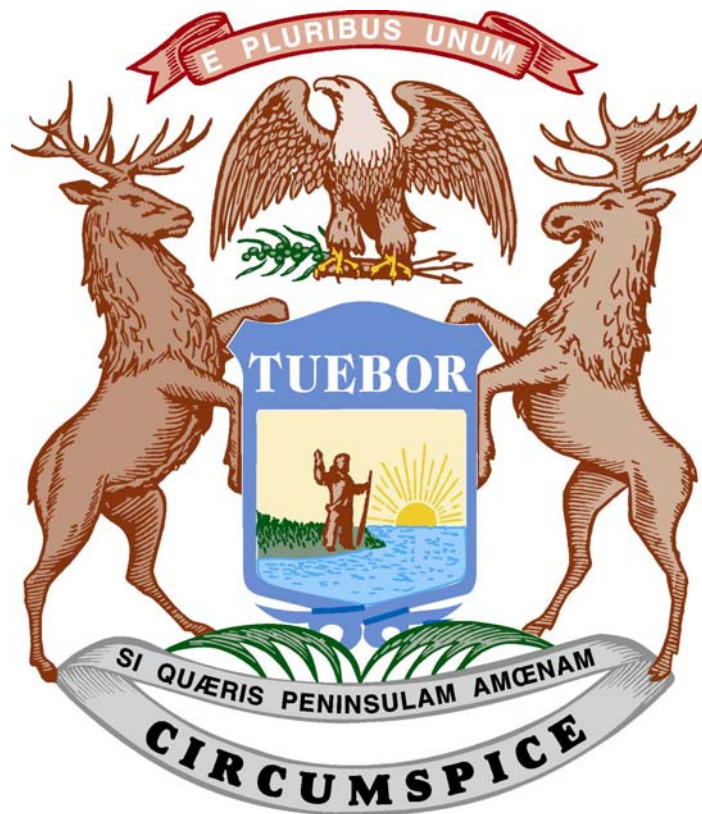


# Administration Estimates Michigan Economic and Revenue Outlook



**FY 2011-12, FY 2012-13 and FY 2013-14**

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**ADMINISTRATION ESTIMATES**  
**EXECUTIVE SUMMARY**  
May 16, 2012

**Revenue Review and Outlook**

- FY 2012 GF-GP revenue is forecast to increase 2.7 percent to \$9,049.8 million, up \$19.3 million from the January 2012 Consensus estimate. FY 2012 SAF revenue is forecast to decrease 3.9 percent to \$10,805.0 million, which is \$41.4 million above the January 2012 Consensus estimate. Tax restructuring and elimination of the Michigan Business Tax earmarking to the School Aid Fund is the primary reason for the decline in revenue.
- FY 2013 GF-GP revenue is forecast to decrease 0.4 percent to \$9,012.0 million, down \$22.6 million from the January 2012 Consensus estimate. FY 2013 SAF revenue is forecast to increase 3.2 percent to \$11,152.4 million, up \$97.5 million from the January 2012 Consensus estimate.
- FY 2014 GF-GP revenue is forecast to increase 3.5 percent to \$9,323.6 million, up 87.6 million from the January 2012 Consensus estimate. FY 2014 SAF revenue is forecast to increase 2.9 percent to \$11,476.9 million, up 117.3 million from the January 2012 Consensus estimate.

**2012, 2013 and 2014 U.S. Economic Outlook**

- After increasing 1.7 percent in 2011, real gross domestic product will accelerate gradually over the forecast period with 2.4 percent growth in 2012, a 2.9 increase in 2013 and a 3.2 percent increase in 2014.
- In 2011, U.S. wage and salary employment rose 1.1 percent. Employment is forecast to increase 1.8 percent in 2012, 2.0 percent in 2013 and 2.2 percent in 2014. The national labor market is expected to regain 8.6 million jobs between the end of 2011 and the end of 2014.
- The U.S. unemployment rate is forecast to decline each quarter over the forecast horizon. The unemployment rate is expected to average 8.1 percent in 2012. In 2013, the unemployment rate is projected to fall to 7.7 percent and then decrease to 7.2 percent in 2014.
- In 2009, housing starts fell to a 50-year low (554,000 units) and then rose modestly in 2010 (5.9 percent) and in 2011 (3.7 percent). Starts are expected to grow sharply in 2012 (23.4 percent) and in 2013 (22.2 percent) but still remain at historical low levels. In 2014, starts are forecast to rise 14.3 percent to 1.1 million units, the first year of starts over 1.0 million since 2007.

- Light vehicle sales are expected to post significant growth across the forecast. In 2012, sales are forecast to rise to 14.4 million units from 12.7 million units in 2011. Sales in 2013 are expected to increase to 15.3 million units, marking the first year that sales would top 15.0 million units since 2007. Vehicle sales are expected to post further gains in 2014, rising to 15.9 million units.
- In 2011, consumer prices rose 3.2 percent. Prices are expected to increase 2.4 percent in 2012. Inflation is expected to slow to 2.2 percent in 2013 before rising to 2.4 percent in 2014.

### **2012, 2013 and 2014 Michigan Economic Outlook**

- In 2009, Michigan wage and salary employment plummeted 7.0 percent – the largest drop in over 50 years. After declining just 0.2 percent in 2010, employment posted a 1.9 increase, an increase of 72,300 jobs, in 2011 – marking the first increase since 2000. Employment is forecast to grow 1.6 percent in 2012, 1.4 percent in 2013 and 1.6 percent in 2014.
- The Michigan unemployment rate dropped from 12.7 percent in 2010 to 10.3 percent in 2011. The rate is expected to decline to 8.5 percent in 2012, to 7.9 percent in 2013 and to 7.4 percent in 2014.
- After dropping 8.2 percent in 2009 (the largest percent decline since 1945), wages and salaries increased 1.7 percent in 2010 and rose 5.2 percent in 2011. Wages are expected to grow 4.3 percent in 2012, 4.4 percent in 2013 and 4.0 percent in 2014.
- Michigan personal income fell 5.4 percent in 2009 – marking the first annual Michigan income drop since 1958 and the largest annual decline since 1938. Income increased 3.3 percent in 2010 and rose 5.2 percent in 2011. Personal income is forecast to grow 3.4 percent in 2012, rise 3.3 percent in 2013 and then increase 4.5 percent in 2014.
- On a fiscal year basis, disposable income is forecast to rise 2.9 percent in FY 2012, 2.8 percent in FY 2013 and 3.5 percent in FY 2014 and wages and salaries are expected to increase 4.6 percent in FY 2012, 4.3 percent in FY 2013 and 4.2 percent in FY 2014.

### **Forecast Risks**

- Unrest throughout the Middle East would seriously curtail world oil supplies, which, in turn, would dramatically raise oil and gasoline prices. Higher than forecast oil prices would lower consumers' discretionary income, increase many businesses' costs and depress economic activity. Growing tensions between the West and Iran could escalate – resulting in a severe oil shortage.
- Europe's widening financial crises may severely weaken the continent's economic growth and have negative financial and economic impacts on the U.S. economy.

- Continued and greater division among federal policymakers could substantially weaken consumer and investor confidence. Increased polarization also substantially limits the federal government's ability to respond to negative financial and macroeconomic shocks.
- The Federal Reserve has moved to less aggressive policies – reducing the Fed's effectiveness to address financial crises. On the other hand, the Fed may respond with more aggressive policies such as a third round of quantitative easing.
- Substantially faster than forecast inflation would increase the likelihood of anti-inflation monetary policy, which would curtail economic growth.
- A stronger (weaker) housing market would boost (depress) the economy more than forecast.
- Continued and strong job growth remains central to sustaining recent gains across the economy and to combating dampening factors such as weak consumer confidence.
- The Great Recession may have a longer term negative effect on confidence than assumed.
- Geopolitical factors, such as a domestic terrorist attack, would depress economic activity.

# ECONOMIC REVIEW AND OUTLOOK

## May 16, 2012

### Current U.S. Economic Situation

#### Summary

In June 2009 (2009Q2), the longest economic downturn (18 months/6 quarters) since the Depression ended – as determined by the National Bureau of Economic Research. Over the recession's six quarters, real GDP fell 5.1 percent – the greatest recessionary decline on record (dating back to 1948).

**Real Gross Domestic Product (GDP)** has grown each quarter since the recession's end (2009Q3 – 2012Q1). After reporting modest growth in 2009Q3, the U.S. economy reported strong growth over the following three quarters with annualized growth averaging 3.8 percent. The growth rate averaged 2.4 percent over the second half of 2010. Growth then slowed substantially to a 0.4 percent annual rate in 2011Q1. While growth accelerated over the next two quarters, the economy registered just 1.8 percent growth in 2011Q3. Consequently, it required nine quarters into the recovery before the U.S. economy grew larger than at the beginning of the Great Recession. In the previous ten recessions, it had taken no more than three quarters for post-recession real GDP to exceed real GDP at the recession's outset. Real GDP growth accelerated to a 3.0 percent annual rate in 2011Q4 but then slowed to 2.2 percent in 2012Q1. Real GDP in 2012Q1 was 6.8 percent larger than at the end of the Great Recession (2009Q2).

Over the course of the recession, **U.S. wage and salary employment** shrank by 5.4 percent – the greatest recessionary employment decline since 1945. In addition, employment declined in the first eight months of the current recovery. As a result, between December 2007 and February 2010, the U.S. lost a net 8.7 million jobs (-6.3 percent). In early 2010, wage and salary employment recorded substantial gains between March and May (totaling 944,000 jobs) -- boosted significantly by temporary Census worker hiring. However, in part depressed by the end of many temporary Census jobs, the economy lost a net 303,000 jobs between June and September.

Employment has risen each month since October 2010 with a cumulative gain of 3.1 million jobs. In sharp contrast to a 5.1 million jobs decline in 2009, employment rose 1.0 million jobs in 2010 and added another 1.8 million jobs in 2011. In the first four months of 2012, employment has increased by 803,000 jobs. Consequently, the U.S. labor market has gained a net 2.5 million jobs since the Great Recession ended. However, April 2012 jobs still remain 5.0 million lower than at the beginning of the recession.



## Housing Market

### *House Construction and Sales*

In calendar year 2011, **housing starts** rose only slightly (3.7 percent) from 2010. Furthermore, at 608,800 units in 2011, starts remained below 1.0 million units for the fourth consecutive year. Prior to 2008, starts had never fallen below 1.0 million since at least 1959. Performance over the past four years stands in sharp contrast to the 2.1 million units pace in 2005 or even the 1.8 million units and 1.4 million units in 2006 and 2007, respectively. In the first quarter of 2012, housing starts averaged a 687,000 units annual pace. While still historically very low, 2012Q1 starts represented the best quarterly performance since 2008Q3. (U.S. Census Bureau)

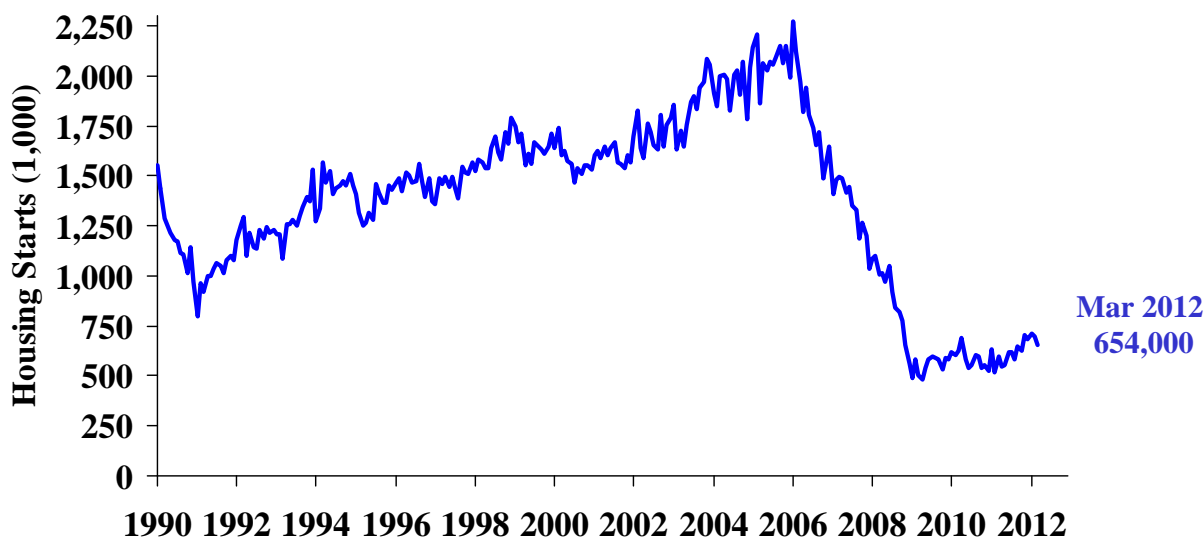
In April 2012, the **National Association of Home Builders (NAHB) sentiment index** fell for the first month since September 2011 – dropping 3 points from March 2012. The April 2012 reading is up nine points from last April. However, the April reading remains well below 50.0 – indicating substantial and widespread builder pessimism. The index has been more than twenty points below the 50.0 point threshold every month for the past five years.

In 2011, **new home sales** fell for the sixth straight calendar year. In each of the past three years, new home sales have fallen to a new record low since at least 1963. At 306,000 units, CY 2011 new home sales were down 5.3 percent from 2010 and down 76.1 percent from 2005's record high. However, quarterly sales (seasonally adjusted annual rate) have risen in each of the past two quarters. In addition, the 2012Q1 rate (337,000 units rate) was up 12.7 percent from a year ago and represented the highest sales rate in two years. (U.S. Census Bureau)

Calendar year **existing home sales** have changed little over the past three years. 2011 sales (4.26 million units) were up slightly from 2010 (1.7 percent) but down somewhat (-1.8 percent) from 2009. Over the first three months of 2012, sales averaged a 4.57 million units annual pace – up 5.3 percent compared to a year earlier and the highest sales pace since 2010Q2. In each of the past nine months, monthly sales were up compared to a year earlier. (National Association of Realtors)

At its April 25, 2012 meeting, the Federal Open Market Committee summed up the housing market's condition well: “Despite some signs of improvement, the housing sector remains depressed.”

## Housing Starts Remain Little Changed from Record Low



Source: U.S. Census Bureau. Seasonally adjusted annual rate.

### House Prices

House price data has been mixed:

- In December 2011, the **Freddie Mac Home Price monthly index** dropped to its lowest reading since March 2003. The December 2012 index is down 3.0 percent from a year earlier and 27.0 percent lower than the index's record high set in July 2006. Furthermore, the index declined from the prior month in each of the last six months of 2011.
- In February 2012, the **Core Logic Home Price Index** fell to its lowest level since December 2002. The February 2012 index is down 2.0 percent from a year ago and 34.4 percent lower than the index's record high set in April 2006.
- In the four months reported since the January 2012 Conference (November 2011-February 2012), the **Federal Housing Finance Agency's (FHFA) purchase-only home price index (HPI)** saw monthly increases in three months. In addition, between February 2011 and February 2012, the index rose 0.4 percent – the first year-over-year increase since July 2007. However, compared to the index's all-time peak (April 2007), the February 2012 reading is down 19.4 percent.
- The **Census Bureau's March 2012 median new home sales price** was up 6.3 percent from a year ago. In comparison, the median price fell 2.4 percent between November 2010 and November 2011 (the last month available prior to the January Conference). Nevertheless, the March 2012 median new home price remained 10.7 percent below its record high set five years earlier.

- According to the **National Association of Realtors**, the **median existing-house price** was up 2.5 percent between March 2011 and March 2012 compared to a 6.5 percent year-over-year decrease in November 2011.
- In February 2012, the **S&P/Case Shiller 20-city home price index** (seasonally adjusted) reported its first month-over-month increase since April 2011. However, the February 2012 reading remains 33.9 percent below the index's peak reading (April 2006). In addition, February 2012 marked the 17<sup>th</sup> straight month of year-over-year declines (non-seasonally adjusted).

### Repercussions

The depressed housing market and concomitant home price declines -- along with a weak jobs market -- have had serious repercussions including high delinquency and foreclosure rates, sharp drops in homeowner equity and consumer net worth and lower stock prices. While most factors are still poor, some have recently improved.

The most recent **Mortgage Bankers Association's (MBA) National Delinquency Survey** released in February 2012 showed substantial improvements from early 2010 but delinquency rates remain significantly higher than pre-recession levels. MBA reported that the mortgage delinquency rate for mortgage loans decreased to a seasonally adjusted rate of 7.58 percent of all loans outstanding in 2011Q4. Compared to a year ago, the rate was down 67 basis points. The 7.58 percent rate is halfway between the rate's peak in 2010Q1 (10.1 percent) and the pre-recession rate (roughly 5.0 percent).

**Foreclosures** in 2012Q1 were down two percent from 2011Q4 and were 16 percent lower than 2011Q1. (RealtyTrac) Still more, in 2012Q1, foreclosures fell to their lowest level since 2007Q4. However, the reduction in foreclosures may largely be due to a sizeable number of potential foreclosures that were on hold pending a settlement surrounding questionable foreclosure methods employed by many financial institutions. A settlement was reached in February 2012.

2011Q4 **homeowner real estate equity** was down \$7.4 trillion from its 2006Q1 peak. At 38.4 points, the 2011Q4 homeowner equity rate was off 21.2 percentage points from 2006Q1 and only 1.1 point higher than its all-time low (2009Q1). Over the past year, homeowner equity declined \$396.8 billion and the equity rate fell by 1.0 point. (Federal Reserve Bank, *Flow of Funds Accounts of the United States*).

During the Great Recession, **household net worth** dropped by \$13.6 trillion (-20.4 percent). Thus far, during the subsequent economic recovery, household net worth has regained a net \$6.8 trillion. Over the past year, household net worth has, on net, changed relatively little (-\$339.0 billion, -0.6 percent). (Federal Reserve, *Flow of Funds Accounts of the United States*)

One positive repercussion from lower housing prices is that overall housing affordability has improved to record levels. In January 2012, the **National Association of Realtors housing affordability index** rose to its highest level since the NAR began calculating the index (1970).

January 2012 marked the first time in the affordability index's history that the typical family has roughly double the income needed to purchase a median-priced home.

Between early July 2010 and late April 2011, **the stock market (Wilshire 5000)** rose 35.2 percent. After stumbling over the next few months and recording substantial losses between late July and mid-August, the market hit its trough for 2011 in early. However, the market recouped most of its losses for 2011 and ended the year down 1.3 percent from the end of 2010. The Wilshire 5000 then trended upward through very early April 2012 at which point the index was up 13.1 percent from the end of 2011. The market lost substantial ground over the next week in April, but has regained most its early April losses. By the end of April, the Wilshire 5000 was up 11.4 percent from the end of 2011.

## Monetary Policy

### Interest Rates

At its December 16, 2008 meeting, the Federal Open Market Committee (FOMC) took an unprecedented step and lowered the **target federal funds rate** range to 0.00 percent to 0.25 percent. At the same time, the FOMC cut the **discount rate** to 0.50 percent, its lowest level since the 1940s. Between September 2007 and December 2008, the Federal Reserve cut the target federal funds rate ten times and the discount rate eleven times. As a result, the target federal funds rate was cut a total of 500-525 basis points and the discount rate was cut 525 basis points.

Over the second half of 2011, the FOMC stated that it would leave rates low at least through mid-2013. However, since its January 25, 2012 meeting, the FOMC has stated that it would keep rates low at least through late-2014.

### Additional Recent Federal Reserve Bank Actions

In addition to dramatically lowering its key interest rates to record low levels, the Federal Reserve (Fed) also addressed the financial and economic crises by injecting substantial liquidity into financial markets. Between mid-September 2008 and mid-December 2008, Federal Reserve Bank credit more than doubled from \$891.5 billion to \$2,236.9 billion.

In a second round of **quantitative easing (QE2)**, The Fed purchased an additional \$600 billion of longer-term Treasuries between November 2010 and June 2011. As a result, Federal Reserve Bank credit rose to \$2,843.2 billion – then a record high and more than three times its mid-September 2008 level. In late December 2011, Federal Reserve Bank credit stood at \$2,920.2 billion – more than three times Fed credit in mid-2008 and an all-time record high. Since late December 2011, Fed credit has fluctuated and dropped slightly. Mid-April 2012 Fed credit totaled \$2,865.9 billion – only 1.9 percent lower than the record level set late-December 2011.

At its September 2011 meeting, the Fed announced that, by June 2012, it would purchase \$400 billion of longer-term Treasuries while selling \$400 billion in shorter-term Treasuries (**Operation**

**Twist**) over the same time period. In doing so, the Fed is aiming to depress longer-term interest rates and, thus “contribute to a broad easing in financial market conditions that will provide additional stimulus to support the economic recovery.” At its late April 2012 meeting, the Fed reaffirmed its pursuit of Operation Twist.

### Fiscal Policy

The payroll tax credit and Bush tax cuts are due to expire at the end of 2012. Uncertainty surrounds what action the federal government will take regarding these tax cuts.

In 2011, federal policymakers frequently engaged in political brinkmanship highlighted by the federal government narrowly averting a government shutdown in April, summer’s near-default of the U.S. government and another narrowly missed government shutdown in December. The events’ impact is highlighted by the federal government credit downgrade, a highly volatile stock market and the federal policymakers’ record low approval ratings. If the fierce partisanship which characterized 2011 continues, the resultant rancor, paralysis and pessimism will very likely have an even greater negative economic and financial impact.

The U.S. military’s withdrawal from Iraq and troop scale back in Afghanistan will significantly reduce federal spending. The winding down of various ARRA spending programs will also lower federal spending compared with earlier years.

In late December 2009, the U.S. Treasury said it would cover an unlimited amount of losses at mortgage giants Fannie Mae and Freddie Mac through 2012. The U.S. government now, directly or indirectly, underwrites nine of every 10 new residential mortgages, nearly twice the percentage before the crisis.

### Inflation

In March 2011, **oil prices** rose above \$100 per barrel for the first time since 2008 – rising to \$102.94. Oil prices rose further in April – increasing to \$110.04. Between May and October, oil prices trended downward – falling to \$86.41 per barrel by October. However, oil prices rose each month between November 2011 and March 2012 (\$106.19) before falling to \$103.33 in April. (Federal Reserve Bank of St. Louis).

Between late December 2008 and May 2011, **gasoline prices** rose from \$1.59 a gallon to \$3.91 a gallon. (Energy Information Administration, conventional regular U.S. average). Gasoline prices then trended downward through mid December 2011 – dropping to \$3.18 a gallon. However, gasoline prices then trended upward and rose to \$3.88 a gallon by early April 2012. In recent weeks, gasoline prices have fallen slightly with the price per gallon dropping to \$3.72 in early May.

In calendar year (CY) 2011, **consumer prices** increased 3.2 percent. The increase follows a 0.4 percent decline in CY 2009 and a 1.6 increase in CY 2010. Between 2011Q1 and 2012Q1,

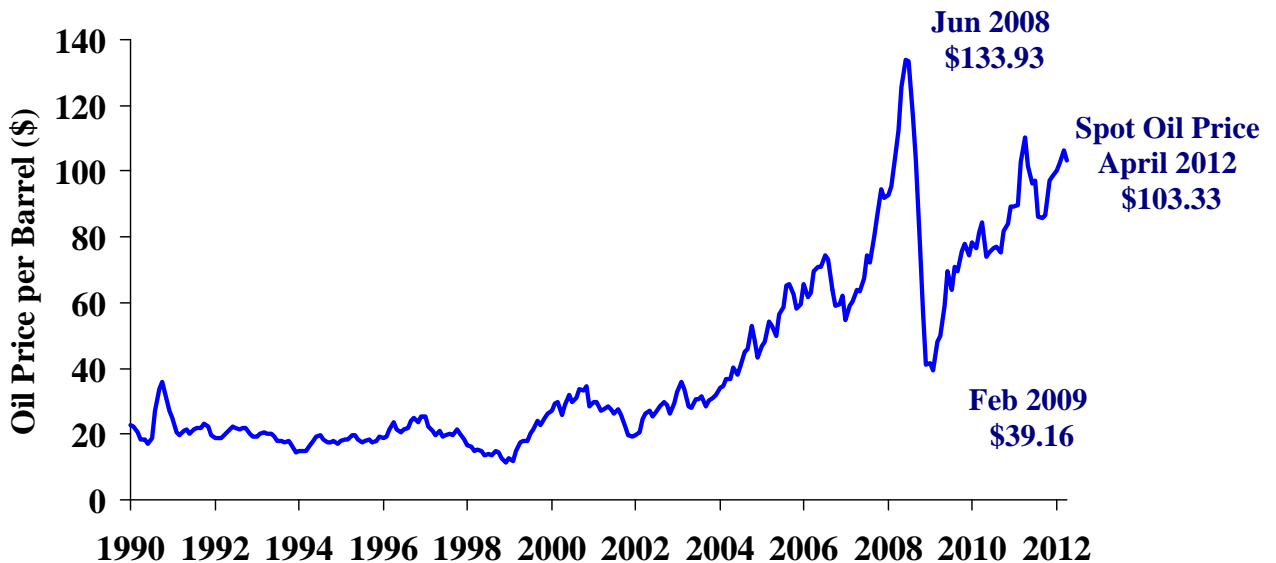
consumer prices have risen 2.8 percent. Core consumer price inflation (excluding food and energy) has remained relatively tame over the past three years with core prices rising 1.7 percent in 2011 following core inflation of 1.7 percent in 2009 and 1.0 percent in 2010. Between 2011Q1 and 2012Q1, core prices were up 2.2 percent.

Fuel prices substantially accelerated **producer prices** with prices rising 6.0 percent in CY 2011. In contrast, core producer prices (excluding food and energy) were up only 2.4 percent. Overall producer prices increased 3.4 percent between 2011Q1 and 2012Q1 while core producer prices were up 2.9 percent.

The **Economic Cycle Research Institute's (ECRI) future inflation gauge (FIG)** dropped slightly from 101.5 to 101.2 in April 2012. The index's April 2012 reading is 1.9 points below its April 2011 level. Still more the gauge remains substantially below its average reading since 2000 (109.6).

At its April 25, 2012 meeting, the FOMC stated, "Inflation has picked up somewhat, mainly reflecting higher prices of crude oil and gasoline. However, longer-term inflation expectations have remained stable."

### Oil Prices Up Sharply from Early 2009



Source: Federal Reserve Bank of St. Louis.

## Major Economic Indicators

Recent trends in many major economic indicators point to future continued growth. However, many key indicators remain near historically low levels -- pointing to significant downward risks to the economy and financial markets.

In the heart of the Great Recession (December 2008), the **ISM manufacturing index (PMI)** fell to 33.1 – the index’s lowest reading since June 1980. However, by August 2009, the PMI had risen above the key 50.0 threshold (readings over 50.0 indicate sector expansion). The index has remained above 50.0 in every month since August 2009 with April 2012 marking the 33<sup>rd</sup> straight month over 50.0. Over these 33 months, the PMI peaked at 59.9 – the index’s highest reading since June 2004. With substantial monthly declines in mid-2011, the PMI dropped to 51.4. Increases in five of the past six months pushed the index up to 54.8 in April 2012. However, the April 2012 reading was still 4.9 points below April 2011.

Midway through the 2007-2009 recession, in November 2008, the **ISM non-manufacturing index (NMI)** fell to 37.6 -- its lowest reading in at least 11 years. Then – albeit haltingly – the NMI increased to 50.1 by September 2009. September 2009 marked the first month that the index signaled sector growth in just over a year. Between September 2009 and April 2012, the index has signaled growth in all but two months (November and December 2009) when the index fell slightly below 50.0. In February 2011, the NMI rose to 59.0 – the index’s highest published or calculated value since November 2005. However, by September 2011, the index had dropped to 52.6, where it stayed over the following two months. The index then rose each month through February 2012 – increasing to 57.3. The NMI fell over the next two months resulting in an April 2012 reading of 53.5.

Compared to a year ago, the three-month average of **industrial production** rose each month between March 2010 and March 2012. Still more, recent year-over-year increases stand in sharp contrast to dramatic declines in the Great Recession during which the average dropped 14.9 percent between June 2008 and June 2009 -- the largest decline since 1946. However, after accelerating to 7.8 percent in July 2010, increases slowed through July 2011 when the year-over-year gain slowed to 3.2 percent. Since July 2011, gains have grown slightly larger with the average rising 4.3 percent between March 2011 and March 2012.

Between February 2008 and July 2009, the three-month average of **capacity utilization** fell every month compared to the prior month. As a result, the average fell to a record low (67.1 percent) for the series which dates back to 1967. Between August 2009 and March 2012, the average rose in all but one month with a net increase totaling 11.5 points. The March 2012 average was up 1.9 points from a year earlier and was 11.5 points higher than the July 2009 record low. However, the March 2012 average remains 1.8 points lower than the average in December 2007 (the first month of the Great Recession).

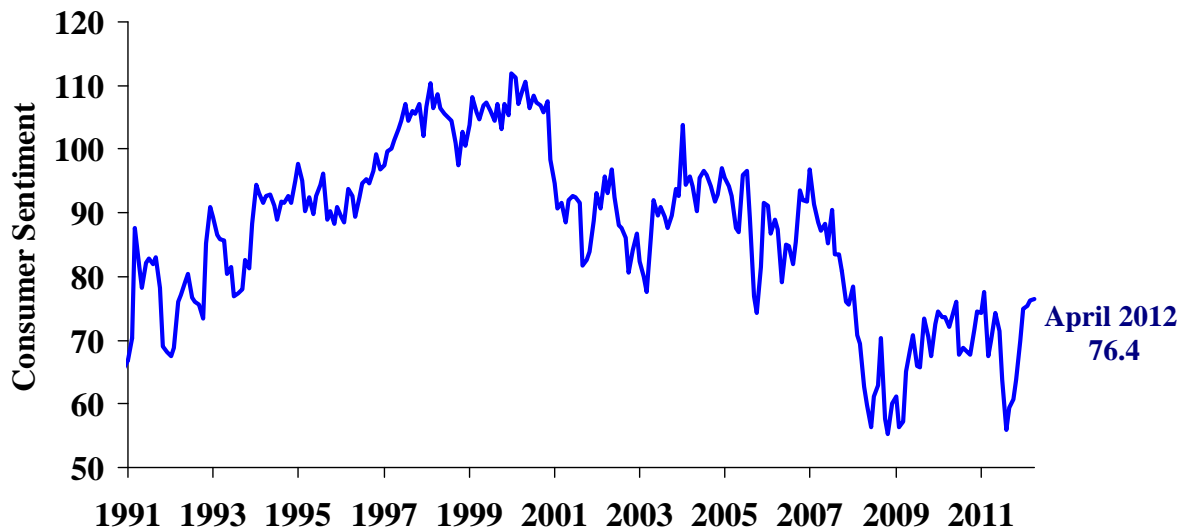
Calendar year 2009 saw double-digit percentage year-over-year declines in the three-month average of **new durable goods orders** in every month. In sharp contrast, the average has risen each month since February 2010. In March 2012, the average was up 7.7 percent from a year earlier. Similarly, the core new capital goods orders average has increased in each of the past 26

months. However, year-over-year increases have slowed. While year-over-year increases had exceeded 15.0 percent each month between May 2010 and February 2011, increases have slowed to 7.1 percent in March 2012.

In October 2008, the three-month average of **retail sales** fell compared to a year ago for the first time in a history extending back to 1992. Each month between October 2008 and November 2009, the average fell compared to a year ago. However, declines lessened beginning in the second half of 2009. As a result, while the May 2009 average was down 11.0 percent from a year earlier, the average dropped just 2.9 percent between November 2008 and November 2009. Throughout 2010, year-over-year increases trended upward so that by December 2010, the average was up 7.6 percent from the prior December. However, year-over-year increases have slowed over the past year. While the average increased 8.1 percent between March 2010 and March 2011, the average rose 6.4 percent between March 2011 and March 2012.

In October 2008, the **University of Michigan index of consumer sentiment** fell to 55.3 – a 28-year record low. The index then haltingly trended upward through June 2010 with sentiment rising to 76.0. Over the past 22 months, the index has struggled to return to readings around its mid 2010 level. In July 2010 the index fell sharply – dropping to 67.8 before trending upward into February 2011 when sentiment rose slightly above its mid-2010 level to a three-year high (77.5). However, the index then trended downward through August 2011 when the index fell to 55.8 – a 33-month low. Over the last eight months, the index has risen each month. In April 2012, the index increased to 76.4 – 0.9 point shy of its early 2011 three-year high. Nonetheless, the index remains at historically low levels. The March 2012 reading is 17.9 points lower than the index’s average over the ten years directly prior to the Great Recession.

### Consumer Sentiment Up from 28 Year Low But Still At Historically Low Levels



Source: University of Michigan Survey of Consumers.



Between 2009Q2 and 2011Q2, the **Conference Board Measure of CEO Confidence** stood at or above 50.0 each quarter – peaking in 2011Q1 at 67.0 (a reading of more than 50 points reflects more positive than negative responses). The measure fell to 42.0 in 2011Q3 before rising to 49.0 in the fourth quarter. In 2012Q1, CEO Confidence then increased dramatically to 62.0. According to the Conference Board: “CEOs’ confidence has rebounded from rather dismal readings in the latter half of 2011. Looking ahead, chief executives are optimistic about growth prospects, with about the same percentage as last year expecting to hire new workers.”

The **Conference Board index of leading economic indicators (LEI)** reported monthly increases each month between October 2011 and March 2012. Consequently, over the past six months, the LEI has grown at a 5.4 percent annualized rate – up significantly from a 3.7 percent rate in February 2012.

The **Economic Cycle Research Institute (ECRI) weekly leading index growth rate** indicated worsening conditions from mid-April 2011 through late October 2011. By mid-August 2011, the growth rate had turned negative pointing toward a contracting economy. The growth rate continued to worsen until late October 2011. Fluctuating through the end of the year, the rate had only slightly improved by late December. In early 2012, the index saw substantive improvements each week through the first week of April. The growth rate turned positive in late March (indicating a growing economy). However, the rate slowed over the balance of April with growth turning flat by the end of April.

### Employment

Since the January 2012 Consensus Conference, most employment data point to an improved labor market – albeit one still significantly smaller than prior to the Great Recession.

At the end of the Great Recession, the four-week average of initial unemployment claims stood at 601,000 – dramatically above the key 400,000 threshold. In mid-October 2011, the average fell below 400,000 for the first time since the recession’s end. Since late-October, the average has stayed below 400,000. Since late October 2011 and March 2012, the average trended downward -- dropping from 399,750 at the end of October 2011 to 363,000 by the end of March 2012. The 363,000 average represented the lowest four-week average of initial claims in nearly four years. However, the average rose sharply throughout April 2012. As a result, the average increased to 383,500 by the end of April – the highest average since mid-December 2011.

The **U.S. unemployment rate** rose sharply between April 2008 and October 2009. Over this period, the unemployment rate doubled, rising from 5.0 percent to 10.0 percent – the highest monthly rate June 1983. Between October 2009 and October 2011, the rate trended downward – although haltingly. By October 2011, the rate had fallen to 8.9 percent. Since November, the unemployment rate has continued to decline. In April 2012, the unemployment rate stood at 8.1 percent – the lowest rate since January 2009.

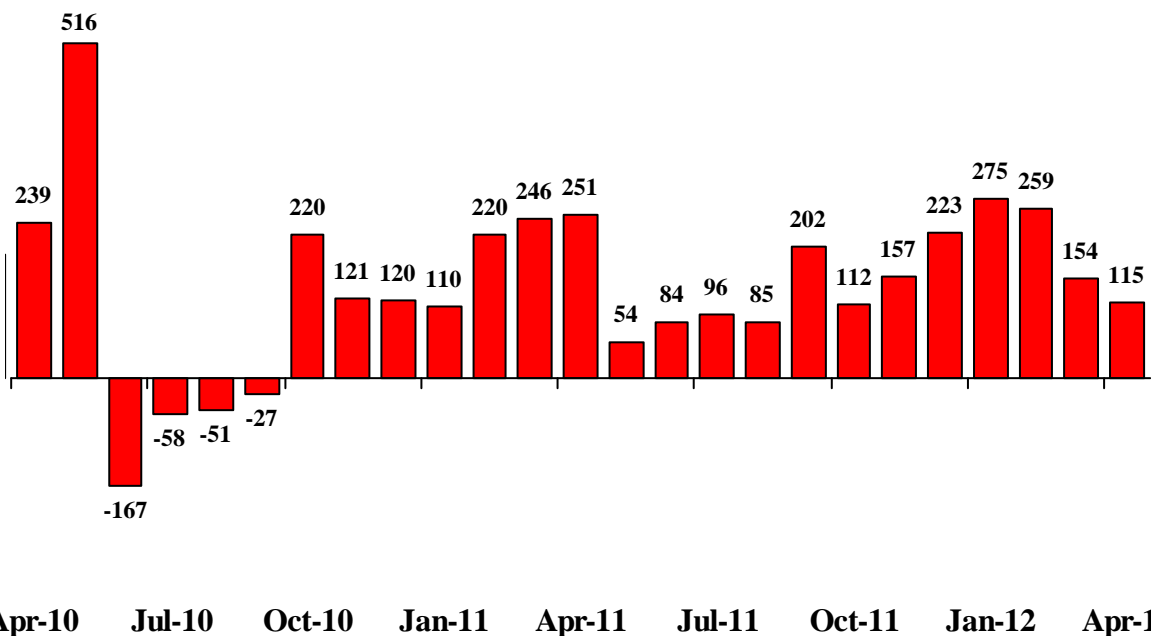
April 2012 marked the 20<sup>th</sup> straight month in which **household employment** was higher than a year earlier. The April 2012 employment level was 2.2 million persons above a year earlier and

was 1.9 million persons higher than June 2009 (the last month of the recession). However, the April 2011 employment level was 4.4 million persons lower than December 2007 (first month of the Great Recession). In April 2012, 2.2 million fewer persons were classified as unemployed than in June 2009. Of the 2.2 million drop, a 365,000 decline in labor force over this period accounted for approximately one-sixth.

Between February 2008 and February 2010, **wage and salary employment** fell every month, declining 8.8 million jobs to its lowest level since July 1999. With the exception of the months June 2010 through September 2010, wage and salary employment has risen each month since March 2010. On net, employment has risen by 3.7 million jobs between March 2010 and April 2012. Compared to a year ago, April 2012 employment is up by 1.8 million jobs. In 2011, gains averaged 153,000 jobs per month. Through the first four months of 2012, increases have averaged 201,000 per month. The labor market reported strong jobs increases in January and February totaling 534,000 jobs. However, in March and April, employment rose by only 269,000 jobs.

Compared to June 2009 (the last month of the recession), April 2012 wage and salary employment is up by 2.5 million jobs. Nevertheless, April 2012 employment remains 5.0 million jobs below employment in December 2007 (the recession’s first month).

**U.S. Payroll Employment  
1.8 Million Jobs Added in Past Year  
(Monthly Change in Thousands)**



Source: Bureau of Labor Statistics, U.S. Department of Labor.

Between July 2006 and January 2010, **manufacturing sector employment** fell every month. Over this period, the sector lost 2.7 million jobs. Manufacturing employment job losses were particularly severe between late 2008 and the first half of 2009. Between February 2010 and April 2012, manufacturing employment has increased in 24 of 28 months. On net, the sector gained 489,000 jobs over this period. In the past year, manufacturing employment has risen by 229,000. While sector employment is up by 222,000 jobs compared to the end of the Great Recession, manufacturing employment is still down by 1.8 million jobs compared to the start of the recession. In the first four months of 2012, manufacturing employment has risen by 139,000 jobs with April 2012 reporting the smallest gain (16,000 jobs).

Since the end of the recession (June 2009), **construction employment** is *down* by 449,000 jobs. Still more, construction employment is off by 1.9 million jobs (-25.8 percent) compared to December 2007. Over the past year, sector employment is up by 63,000 jobs. After reporting an 18,000 jobs gain in January 2012, construction employment has dropped slightly each month between February 2012 and April 2012 with a cumulative 6,000 jobs decline.

The **ISM manufacturing employment index** has improved dramatically from early 2009. In 2009Q1, the index averaged 27.6 (a record low for a series that dates back to 1948). In 2011Q1, the index averaged 63.1 – the highest quarterly reading since 1973Q1. Furthermore, the index has signaled an improving sector employment picture every month since October 2009. In the first half of 2011, the index averaged 60.6 with five of the six monthly readings above 60. However, the average fell to 54.2 in 2011H2. In 2012, the index fell from the prior month in both January and February, but rose in both March and April. The April 2012 reading (57.3) represented the highest monthly reading since mid-2011, but was down 3.3 points from April 2011.

In 18 of the past 20 months (September 2010 and April 2012), the ISM non-manufacturing employment index has signaled growing sector employment (reading above 50.0) Through the first four months of 2012, the index has remained solidly over 50.0 each month with a year-to-date 56.0 average reading. In April 2012, the index level (54.2) was 0.9 point above its April 2011 reading.

In November 2011 (the last month for which data were available prior to the January 2012 Consensus Conference) the **National Federation of Independent Business net percent of small businesses planning to increase employment** rose to seven percent (percent planning to expand minus percent planning to scale back) – the highest level since late 2008. However, the net percent fell each month between December 2011 and March 2012. In March 2012, the net percent fell to 0 -- the lowest net percent since May 2011. In April 2012, the net percent rose to five percent. However, according to NFIB, the net percent should be in double digits during an expansion.

## Vehicle Sales and Production

Calendar year (CY) 2009 **light vehicle sales** totaled slightly over 10.4 million units – the worst annual sales year since 1982 when sales came in just under 10.4 million units. In 2010, sales rose to 11.6 million units. In 2011, light vehicle sales increased to 12.7 million units. Nevertheless, 2011 sales were below the 13.2 million units sold in 2008 and substantially less than the 16.1 million unit sales in 2007. Further, 2011 marked the fourth year of sub-10 million unit sales of domestically made vehicles – the first such string since the early 1980s.

In 2012Q1, the annualized light vehicle sales rate (14.5 million units) was up 7.9 percent from the prior quarter's rate and 11.8 percent above the 2011Q1 rate. The 2012Q1 rate represented a four-year quarterly high. In February 2012, the monthly annualized rate rose above 15.0 million units for the first month in four years. However, sales fell to a 14.3 million unit rate in March 2012 before rising slightly in April 2012 to a 14.4 million rate. The April overall sales rate was 9.4 percent higher than the April 2011 rate with domestic made sales up 10.9 percent and foreign make sales up 4.9 percent.

In calendar year 2011, **U.S. vehicle production** rose 11.5 percent from 2010 -- increasing to 8.6 million units (the highest level since 2007). CY 2011 production was 50.1 percent higher than CY 2009 production but 20.7 percent lower than in 2007. Between 2011Q1 and 2012Q1, national production rose 23.2 percent to its highest quarterly total since 2007Q2. March 2012 marked the eighth straight increase from a year ago.

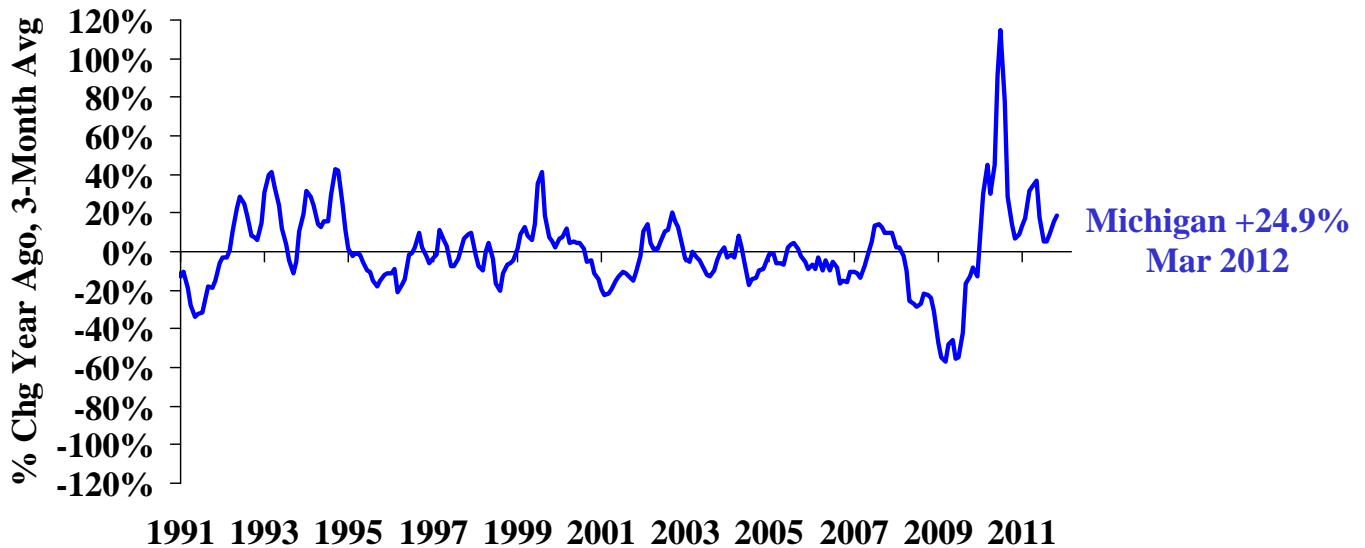
## Current Michigan Economic Conditions

### Vehicle Production

Following national trends, **Michigan vehicle production** fell 20.9 percent in 2008 and dropped 37.9 percent in 2009. Consequently, annual Michigan vehicle production fell by 1.2 million units between 2007 and 2009. In 2010, Michigan production regained 36.4 percent of its total losses from the two prior years. In 2011, production regained another 29.3 percent of combined 2008 and 2009 losses. As a result, 2011 production, at 1.9 million units, was 68.0 percent higher than in 2009 but 17.5 percent lower than in 2007.

CY 2011 Michigan production was 22.0 percent higher than in 2010. Most recently, between 2011Q1 and 2012Q1, production rose 24.9 percent with March 2012 production up 6.9 percent from a year ago. March 2012 marked the eighth straight monthly year-over-year Michigan production increase and the 25<sup>th</sup> year-over-year production increase in the last 27 months. In 2011, Michigan car production rose 27.5 percent from 2010 while State truck production was up 19.2 percent. Between 2010 and 2011, Michigan's share of national vehicle production rose from 20.4 percent to 22.3 percent. Michigan's share of national production in 2012Q1 (20.8) was up slightly (+0.3 percentage point) from 2011Q1.

## Michigan Vehicle Production Increases Fluctuate in 2011



Source: Automotive News and Michigan Department of Treasury.

### Employment

Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Most of the past decade has been marked by weak manufacturing employment performance, declining vehicle production, continued declines in Big Three market share and continued supply rationalization among vehicle suppliers. As a result, Michigan's employment performance has been below the national average. However, recently, Michigan's labor market has improved somewhat.

From **Michigan's employment** peak in April 2000 to the most recent data available (March 2012), Michigan's employment is down 709,100 jobs (-15.1 percent). Since April 2000, Michigan manufacturing employment is down by 377,700 jobs, a loss of 41.7 percent. The manufacturing employment drop accounted for 53.3 percent of the State's overall net employment loss between April 2000 and March 2012.

In 2009, Michigan lost 7.0 percent (291,600) of its wage and salary jobs. The 7.0 percent decline represented Michigan's sharpest annual employment drop in over 50 years. In 2009, Michigan manufacturing employment plummeted 14.9 percent. Construction employment declined 16.9 percent. In contrast, in 2010, overall Michigan employment fell by only 7,200 jobs (-0.2 percent) with construction employment dropping by 6,000 jobs (-4.7 percent) and manufacturing employment *increasing* by 10,900 jobs (2.3 percent).

In 2011, overall State employment rose 72,300 jobs (1.9 percent) -- marking Michigan's first calendar year jobs increase since 2000. Construction employment rose 2.5 percent.

Manufacturing employment increased 6.4 percent. Increasing by 30,400 jobs, the manufacturing sector accounted for 42.0 percent of the overall Michigan employment increase while the construction sector accounted for an additional 4.3 percent.

In 2009, **Michigan's unemployment rate** rose to 13.4 percent – the State's highest rate since 1983 when the rate stood at 14.6 percent. However, over the past two years, the State's unemployment rate has fallen a combined 3.1 percentage points with the majority of the decline (-2.4 points) occurring in 2011. Michigan's 2011 unemployment rate stood at 10.3 percent.

Between December 2008 and September 2011, Michigan's unemployment rate remained in double-digits. Over this time, the State's unemployment rate peaked in August 2009 at 14.2 percent – the State's highest rate since July 1983. However, between September 2009 and March 2012, the State's unemployment rate has declined in 26 months, remained unchanged in four months and increased in only one month. As a result, in March 2012, the State's unemployment rate dropped to 8.5 percent – 2.0 points down from a year earlier and 5.7 points lower than the August 2009 high.

Between April 2011 and July 2011, **Michigan household employment** fell each month – dropping a cumulative 16,200 persons. However, between August 2011 and March 2012, employment increased each month with the overall total rising by 95,000 persons. Increases over the past three months (January 2012 through March 2012) accounted for 63.1 percent of the employment increase since August 2011. Compared to a year ago, March 2012 household employment was up 1.9 percent.

The State's labor market has seen significant improvement since November 2011 (the last month reported before the January Consensus Conference). Compared to November 2011, the March 2012 Michigan unemployment rate is down 1.1 percentage points and wage and salary employment is up 0.8 percent.

### Housing Market

Despite not being one of the major participants in the housing boom, Michigan was hit disproportionately hard by the housing bust due to sharply declining employment. Nevertheless, the State's housing market has recently seen some signs of improvement.

Between 2005 and 2009, **Michigan housing unit authorizations** fell 84.8 percent, declining from 45,328 units to 6,884 units. Nationally, authorizations dropped 73.0 percent over this period. In 2010 Michigan authorizations rose 31.8 percent from 2009. Nevertheless, 2010 Michigan authorizations were 82.0 percent below the State's 1996-2005 average (51,688 units). In 2011, Michigan authorizations (9,341 units) were up 2.9 percent from 2010, while U.S. authorizations were up 3.2 percent (based on U.S. Census Bureau data). In the first quarter of 2012, Michigan authorizations were up 9.7 percent compared to 2011Q1.

In February 2012, according to **Case-Shiller house price measures** (seasonally adjusted), the Detroit MSA recorded a 1.5 percent year-over-year house price increase, compared to a 3.4

percent average decline for the twenty U.S. metro areas surveyed for the measure. However, the February 2012 Detroit price measure was 45.6 percent below Detroit's peak measure (March 2006). In comparison, the 20-city reading was 33.9 percent below its peak reading (April 2006).

Between 2010Q4 and 2011Q4, the Michigan **FHFA Purchase-Only House Price Index** fell 1.4 percent compared to a 2.4 percent decline nationally. However, the Michigan index is off 30.1 percent compared to its 2005Q3 peak.

In December 2012, the **Michigan Freddie Mac Home Price monthly index** was up 1.0 percent from a year ago – compared to a 3.0 percent year-over-year decline nationally. However, the December Michigan index was still down 38.7 percent from its peak (July 2005). Nationally, the December 2012 reading was down 27.0 percent from its peak (July 2006). The **Core Logic Home Price Index** for Michigan rose 2.4 percent from a year ago

In 2012Q1, Michigan had the seventh worse **foreclosure sales** rate among the states with one foreclosure for each 162 households. In addition, Michigan's 2012Q1 number of foreclosures ranked fifth with 27,934 foreclosures. In March 2012, Michigan foreclosure sales were 36.6 percent lower than the State's March 2011 foreclosure sales; nationally, foreclosure sales were down 17.1 percent. However, as is the case nationally, the recent February 2012 settlement surrounding questionable foreclosure methods should significantly increase Michigan foreclosures going forward.

The **share of mortgage properties underwater (negative equity)** in Michigan is substantially higher than the national average. In 2011Q4, 22.8 percent of residential properties with mortgages were underwater nationally. In Michigan, 34.7 percent of such properties were underwater – placing Michigan fourth among the fifty states behind Nevada (61.1 percent), Arizona (48.3 percent) and Florida (44.2 percent).

### Personal Income

In 2009, **Michigan personal income** fell in every quarter compared to a year earlier. In the first three quarters of 2009, the declines ranged narrowly from 5.6 percent to 6.0 percent. In 2009Q4, the decline shrank to 4.2 percent. Michigan personal income has grown in every quarter between 2010Q1 and 2011Q4 (the latest quarter released). Year-over-year increases accelerated between 2010Q1 (1.0 percent) and 2011Q1 (7.0 percent). Increases have slowed over the past three quarters with 2011Q4 reporting 4.3 percent growth-- slightly slower than national income (4.6 percent) and ranking 31<sup>st</sup> among the fifty states. During CY 2011, Michigan's personal income increased 5.2 percent, its strongest increase since 2000 and it ranked 15<sup>th</sup> strongest among the states.

In each of the quarters between 2008Q3 and 2009Q4, **Michigan wage and salary income** fell compared to a year ago and all six quarterly declines were sizeable – ranging between -6.6 percent and -9.6 percent. Wages and salaries fell slightly (-1.4 percent) in 2010Q1 and have risen every quarter between 2010Q2 and 2011Q4. Between 2010Q3 and 2011Q4, year-over-year increases ranged between 3.2 percent (2010Q4) and 7.5 percent (2011Q1). In 2011Q4, Michigan

wages and salaries rose 5.3 percent compared to a year ago – slightly faster than a 5.2 growth rate nationally.

**Michigan manufacturing wages and salaries** reported declines compared to year-ago levels in twelve straight quarters between 2007Q2 and 2010Q1. As with overall wages and salaries, 2009 saw the four largest sector drops – ranging between -16.0 percent and -23.3 percent. In 2010Q1 sector wages and salaries declined 2.7 percent.

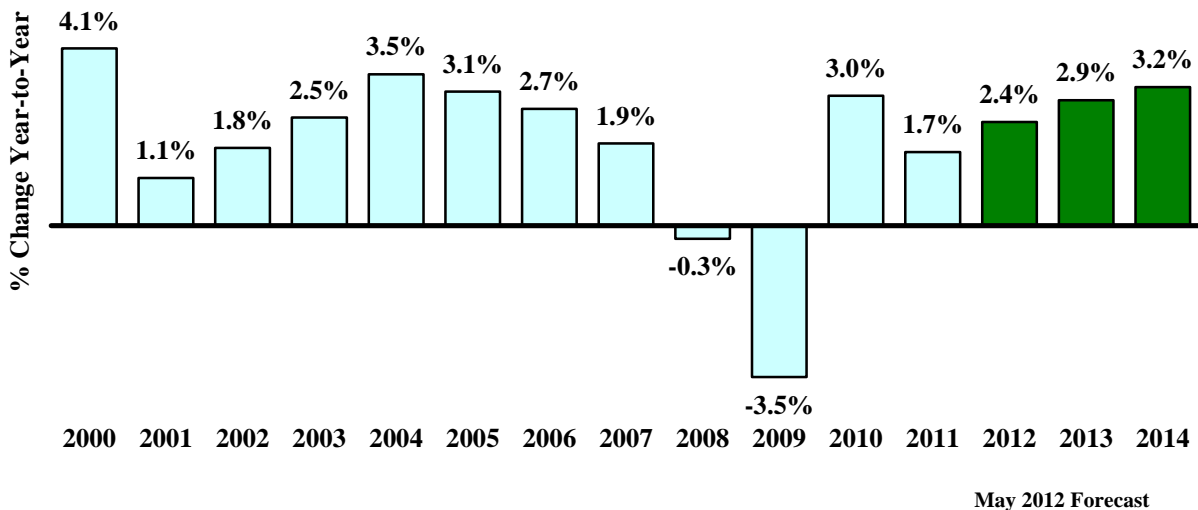
Michigan manufacturing wages and salaries have increased in the last seven reported quarters. Growth peaked in 2011Q1 (18.3 percent) and then slowed over the next two quarters to 7.8 percent and 5.6 percent in the second and third quarter, respectively. However, in 2011Q4, the Michigan manufacturing wage increase accelerated to 9.3 percent – considerably faster than 4.7 percent growth nationally. While comprising 16.5 percent of 2010Q4 overall Michigan wages, the manufacturing sector accounted for 29.0 percent of the overall Michigan wage increase between 2010Q4 and 2011Q4.

## 2012, 2013 and 2014 U.S. Economic Outlook

### Summary

After declining 3.5 percent in 2009, real GDP rose 3.0 percent in 2010. After slowing in 2011, economic growth is expected to accelerate gradually over the forecast horizon with 2.4 percent growth in 2012, 2.9 percent growth in 2013 and 3.2 percent growth in 2014.

### **Real GDP Accelerates Gradually Throughout Forecast**

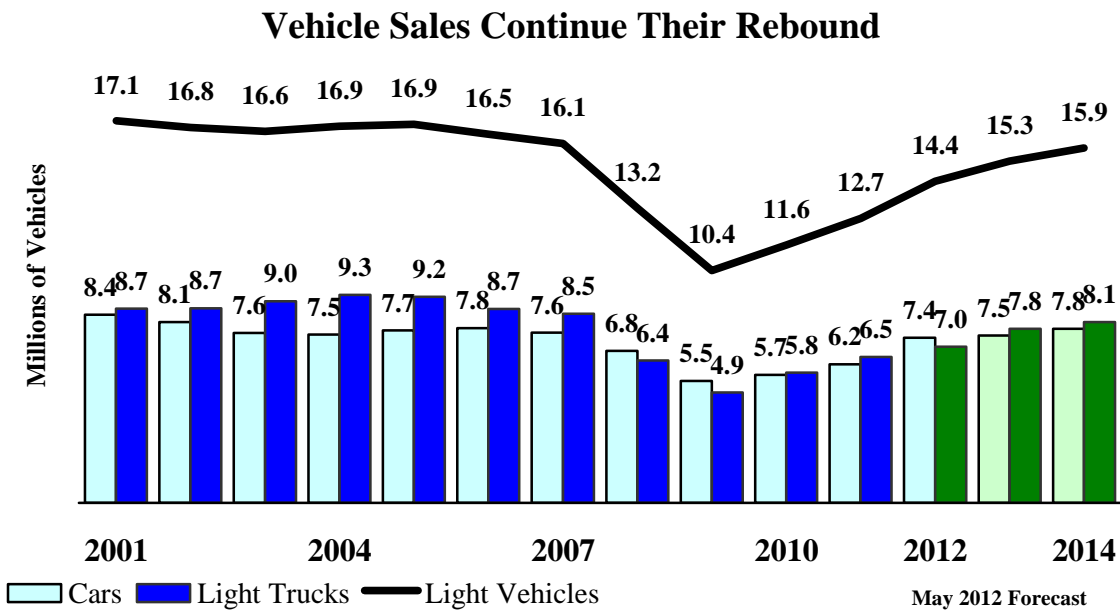


Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2012.



In 2012 and 2013, real GDP growth is expected to fluctuate between 1.8 percent and 3.4 percent. The economy is forecast to strengthen in 2014 with growth exceeding a 3.0 percent rate each quarter between 2014Q2 and 2014Q4.

Light vehicle sales totaled 12.7 million units in 2011. Light vehicle sales are forecast to increase in each year of the forecast. Vehicle sales are projected to total 14.4 million units in 2012, 15.3 million units in 2013 and 15.9 million units in 2014.



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2012.

The U.S. unemployment rate rose to a 9.6 percent rate in 2010 – just below the record high 9.7 percent rate set in 1982 (going back to 1947). In 2011, the U.S. unemployment rate fell to 8.9 percent. The rate is expected to be 8.1 percent in 2012, 7.7 percent in 2013 and 7.2 percent in 2014.

After falling 4.4 percent in 2009, at its fastest rate of decline since at least 1940, U.S. wage and salary employment fell modestly in 2010 (-0.7 percent). In 2011, employment rose 1.1 percent. Employment is forecast to accelerate to 1.8 percent growth before rising 2.0 percent in 2013 and 2.2 percent in 2014. After accelerating to 3.2 percent in 2011, inflation is expected to moderate over the forecast horizon with price increases ranging between 2.2 percent and 2.4 percent.

In 2009, the short-term Treasury bill rate averaged 0.2 percent – down substantially from 1.4 percent reported in 2008. The rate averaged 0.1 percent in both 2010 and 2011. The Treasury bill rate is expected to average 0.1 percent in 2012 also before rising to 0.2 percent in 2013 and in 2014. After falling from 4.6 percent in 2011 to 3.9 percent in 2012, corporate interest rates are forecast to change slightly over the balance of the forecast horizon. The rate will rise to 4.1 percent in 2013 before increasing to 4.3 percent in 2014. Down from 5.0 percent in 2009,

mortgage rates averaged 4.7 percent in 2010 and 4.5 percent in 2011. Mortgage rates are expected to fall to 4.0 percent in 2012 before rising to 4.3 percent in 2013 and to 4.6 percent in 2014.

**Table 1**  
**Administration Economic Forecast**

May 2012

	Calendar 2011 Actual	Percent Change from Prior Year	Calendar 2012 Forecast	Percent Change from Prior Year	Calendar 2013 Forecast	Percent Change from Prior Year	Calendar 2014 Forecast	Percent Change from Prior Year
<b>United States</b>								
Real Gross Domestic Product (Billions of Chained 2005 Dollars)	13,315	1.7%	\$13,635	2.4%	\$14,030	2.9%	\$14,479	3.2%
Implicit Price Deflator GDP (2005 = 100)	113.4	2.2%	115.2	1.6%	117.5	2.0%	119.9	2.0%
Consumer Price Index (1982-84 = 100)	224.9	3.2%	230.3	2.4%	235.4	2.2%	241.0	2.4%
Consumer Price Index - Fiscal Year (1982-84 = 100)	223.1	2.7%	228.9	2.6%	233.9	2.2%	239.3	2.3%
Personal Consumption Deflator (2005 = 100)	113.8	2.4%	116.1	2.0%	118.2	1.8%	120.4	1.9%
3-month Treasury Bills Interest Rate (percent)	0.1		0.1		0.2		0.2	
Aaa Corporate Bonds Interest Rate (percent)	4.6		3.9		4.1		4.3	
Unemployment Rate - Civilian (percent)	8.9		8.1		7.7		7.2	
Housing Starts (millions of starts)	0.609	3.7%	0.754	23.8%	0.921	22.2%	1.053	14.3%
Light Vehicle Sales (millions of units)	12.7	9.5%	14.4	13.4%	15.3	6.3%	15.9	3.9%
Passenger Car Sales (millions of units)	6.2	8.8%	7.4	19.4%	7.5	1.4%	7.8	4.0%
Light Truck Sales (millions of units)	6.5	12.1%	7.0	7.7%	7.8	11.4%	8.1	3.8%
Big 3 Share of Light Vehicles (percent)	46.2		45.0		44.9		44.7	
<b>Michigan</b>								
Wage and Salary Employment (thousands)	3,936	1.9%	3,999	1.6%	4,055	1.4%	4,120	1.6%
Unemployment Rate (percent)	10.3		8.5		7.9		7.4	
Personal Income (millions of dollars)	\$360,806	5.2%	\$373,073	3.4%	\$385,385	3.3%	\$402,727	4.5%
Real Personal Income (millions of 1982-84 dollars)	\$170,384	1.9%	\$171,607	0.7%	\$173,519	1.1%	\$176,945	2.0%
Wages and Salaries (millions of dollars)	\$182,600	5.2%	\$190,452	4.3%	\$198,832	4.4%	\$206,785	4.0%
Detroit Consumer Price Index (1982-84 = 100)	211.8	3.3%	217.4	2.7%	222.1	2.2%	227.6	2.5%

## Assumptions

For the most part, oil prices per barrel are expected to continue to rise – increasing from \$94 at the end of 2011 to \$118 at the end of 2014. Natural gas prices are expected to drop 5.9 percent in 2012. Natural gas prices are expected to rise substantially in 2013 (7.4 percent) before slowing to 3.0 percent growth in 2014.

Throughout the forecast horizon, the housing market is expected to strengthen but still remain historically weak. Starts are forecast to increase each year. Consequently, housing starts in 2014 (1.1 million units) will be 73.0 percent higher than 2011 starts. Nevertheless, 2014 starts will remain well below the average 1.7 million annual starts in the ten years before the housing bust.

Consistent with recent FOMC statements, the Fed is expected to keep the federal funds rate within the record low 0.00-0.25 percent range through the end of 2014.

The forecast assumes that the payroll tax credit will not be extended past the end of 2012 and that only a portion of the amount of Bush tax cuts due to expire at the end of this year will be extended.

Economic growth among major U.S. trading partners is expected to slow in 2012 to 2.0 percent before accelerating to 2.6 percent in 2013 and 2.7 percent in 2014.

The savings rate is assumed to fluctuate within a very narrow range in 2012 (4.3 percent to 4.4 percent). The rate is then expected to drop to an average 3.5 percent in 2013 before rising to 3.7 percent in 2014.

## Forecast Risks

The economic recovery continues to face significant challenges.

**Oil Prices.** Geopolitical concerns, increased demand, or a major supply disruption could raise oil prices well above the assumed range (\$108-\$118 a barrel). Still higher oil prices (and consequently higher gasoline prices) would retard domestic growth by depressing consumer sentiment, reducing households' discretionary income and increasing input costs to businesses. This risk is heightened as many other countries around the world recover and thus boost demand. Alternatively, if Asian oil demand decreases due to lower and more sustainable growth rates in China or European demand weakens as a result of financial crises, prices could be lower than assumed.

**Europe Debt Crisis.** Europe is in the midst of a credit crisis spurred by the need for European banks and governments to refinance or sell substantial amount of debt – raising serious concerns that there will not be enough demand to buy such a tremendously large amount of debt. Depending upon the eventual magnitude and severity of the credit problems, these strains could spread to other nations' financial markets and economies including the U.S. A flight to safety would raise the value of the dollar – making U.S. exports more costly.

Complicating the crisis, austerity measures (spending cuts, tax hikes) represent a major tool being employed by several European countries to address their debt problems. However, austerity measures hamper a nation's economic growth. Given the ill effects of massive indebtedness on the one hand and of austerity measures on the other, the forecast's assumed modest growth among the United States' major trading partners may be too optimistic. In addition, there is growing dissatisfaction among electorates in many European nations with the depressing impacts of austerity measures. Social and political opposition to austerity measures heightens growing uncertainty. Greece, Italy, Spain and Portugal – who have adopted austerity measures to combat financial instability – have seen dramatic economic declines. Recent elections in Greece and France underline the growing opposition to austerity measures among electorates.

**Fiscal Policy.** There remains a growing risk of a federal stalemate. Greater polarization among federal policy makers would worsen consumer and investor confidence and, hence, have substantially negative impacts on financial markets and the overall economy. In addition, the substantial divisions among the House, Senate and President reduce the federal government's ability to counter negative financial and macroeconomic shocks to the economy. Uncertainty surrounding the upcoming November elections further complicates the outlook.

The forecast assumes moderate and slowing federal government spending declines across the forecast horizon with annual declines of 2.0 percent (2012), 1.1 percent (2013) and 0.6 percent (2014). The impact of greater (or smaller) cuts remains uncertain. Extremely greater cuts would likely curtail economic growth below forecasted levels. At the same time -- though more a far term risk -- failure to agree to cut spending sufficiently could impair the federal government's credit rating with negative impacts for the broader economy (including higher interest rates and a lower value of the dollar).

**Monetary Policy.** The Federal Reserve completed its second round of quantitative easing in June 2011. The Fed is now engaged in Operation Twist designed to increase the average maturity of its portfolio. Given that Operation Twist is designed to leave the size of the Fed's portfolio essentially unchanged (unlike quantitative easing), the Operation will likely be less effective than the Fed's two rounds of quantitative easing. On the other hand, more severe crises may lead the Fed to implement a third round of quantitative easing. Furthermore, the FOMC has now explicitly stated that it will maintain its historically low interest rates at least through the end of 2014 -- providing greater certainty for financial markets.

**Housing Market.** Projected 2014 starts are substantially higher than in 2010 (79.5 percent). If the housing market fails to pick up as forecasted, the U.S. and Michigan economies would be weaker than expected. However, despite the large projected increases, forecasted 2014 starts total 1.1 million units – substantially below average starts in the ten years prior to the housing bust (1.7 million units). In addition, only one year between 1959 and 2007 saw lower housing starts than projected 2014 starts. A stronger than forecasted housing market would boost the overall economy. Historically low mortgage interest rates and record high overall affordability support prospects for a stronger than forecasted housing market. The average 30-year mortgage rate fell to a record low (3.89 percent) in February 2012 and has risen only slightly in subsequent

months. In January 2012 (the most recent month of data available), the National Association of Realtors housing affordability index rose to a record high.

**Great Recession.** The Great Recession did serious damage to household balance sheets and psyches, and significantly tightened credit conditions. Recent economic data suggest that the Great Recession's negative impacts are softening in most respects. Nevertheless, substantial uncertainty surrounds the recession's negative impact on consumer and investor sentiment. Recent employment gains are encouraging, but the labor market remains at risk of being significantly harmed by a negative economic shock.

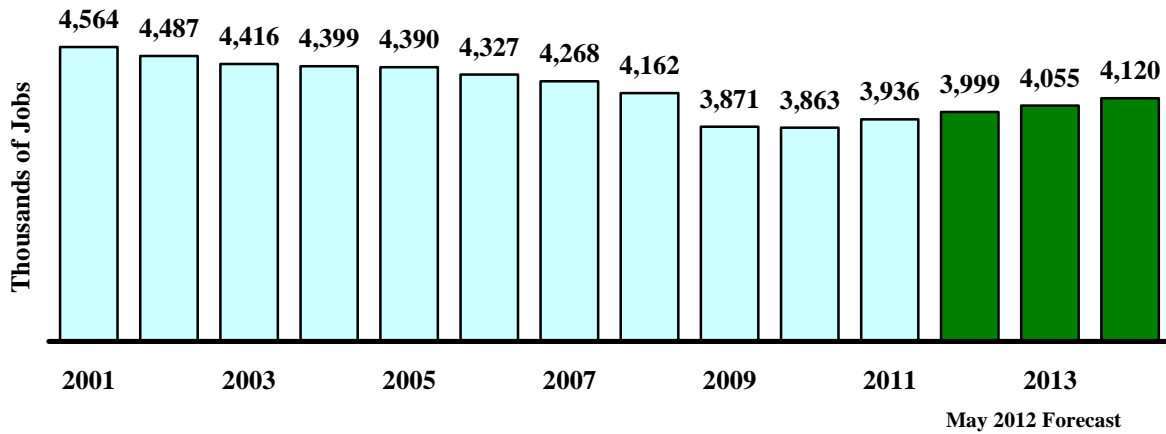
**Other Factors.** Geopolitical factors (such as a domestic terrorist attack) remain a downside risk to the baseline forecast.

### **2012, 2013 and 2014 Michigan Economic Outlook**

Michigan employment fell 7.0 percent in 2009 – its sharpest decline since 1958. State employment dropped another 0.2 percent in 2010, but increased 1.9 percent in 2011 – marking the first calendar year Michigan employment increase since 2000. State employment is then projected to rise 1.6 percent in 2012, to increase 1.4 percent in 2013 and to grow 1.6 percent in 2014. Compared to 2000, forecasted 2014 employment is down by 556,400 jobs (-11.9 percent).

Private non-manufacturing employment rose by 59,000 jobs in 2011. The sector is projected to grow by 48,700 jobs in calendar year 2012, by 49,000 jobs in 2013 and by 55,200 jobs in 2014. After rising 6.4 percent in 2011, manufacturing employment growth is forecast to slow to 4.7 percent in 2012. Manufacturing employment growth is expected to slow further over the balance of the forecast horizon with a 2.7 percent increase in both 2013 and 2014. Between CY 2011 and CY 2014, manufacturing employment is projected to rise by 52,500 jobs.

## Michigan Wage and Salary Employment Rises Slightly



Source: Michigan Department of Labor and Economic Growth, U.S. Bureau of Labor Statistics, and May 2012 Administration Forecast.

Michigan transportation equipment employment rose 7.2 percent in 2011. The sector is expected to increase each year between 2012 and 2014 with increases slowing over the forecast horizon: 5.1 percent (2012), 3.0 percent (2013) and 2.8 percent (2014). Despite the increases, forecasted 2014 transportation equipment employment (156,200 jobs) is down 54.9 percent from the sector's 2000 employment (346,100 jobs).

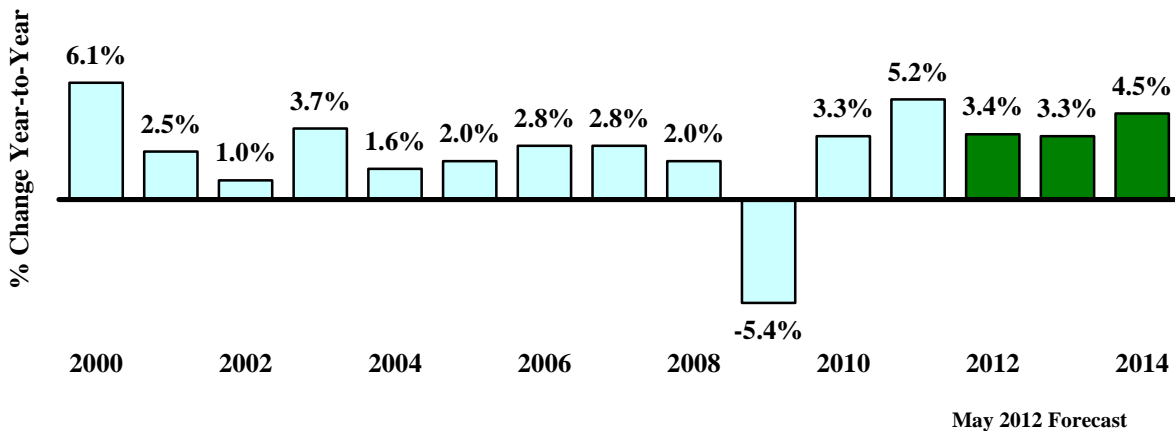
State household employment is forecast to rise each quarter of the forecast horizon. After soaring from 8.3 percent to 13.4 percent in 2009 (highest rate since 1983), Michigan's unemployment rate declined to 12.7 percent in 2010 and to 10.3 percent in 2011. Michigan's unemployment rate is expected to fall further over the forecast horizon with the rate dropping to 8.5 percent in 2012, 7.9 percent in 2013 and 7.4 percent in 2014.

After falling 8.2 percent in 2009 (the greatest decline since 1945), Michigan wages and salaries rose 1.7 percent in 2010 and increased 5.2 percent in 2011. Wage growth is expected to fluctuate very slightly with wages growing 4.3 percent in 2012, 4.4 percent in 2013 and 4.0 percent in 2014.

In 2009, overall Michigan personal income declined 5.4 percent – the largest Michigan personal income decline since 1938. Personal income rose 3.3 percent in 2010 and increased 5.2 percent in 2011. Income is forecast to rise 3.4 percent in 2012 and 3.3 percent in 2013. In 2014, personal income is expected to rise 4.5 percent.

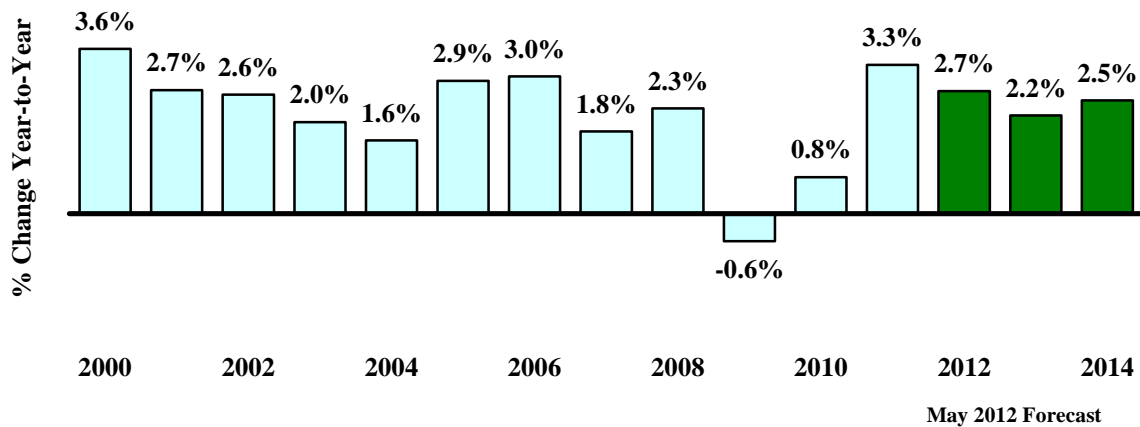
The overall CY price level, as measured by the Detroit CPI, increased 3.3 percent in 2011. Detroit CPI inflation is expected to be 2.7 percent in 2012, 2.2 percent in 2013 and 2.5 percent in 2014. Real (inflation adjusted) Michigan personal income is forecast to rise 0.7 percent in 2012, increase 1.1 percent in 2013 and grow 2.0 percent in 2014.

## Michigan Personal Income Reports Solid Growth



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2012.

## Overall Price Level Rises Moderately Detroit CPI



Source: U.S. Bureau of Labor Statistics and Administration Forecast, May 2012.

## Fiscal Year Economics

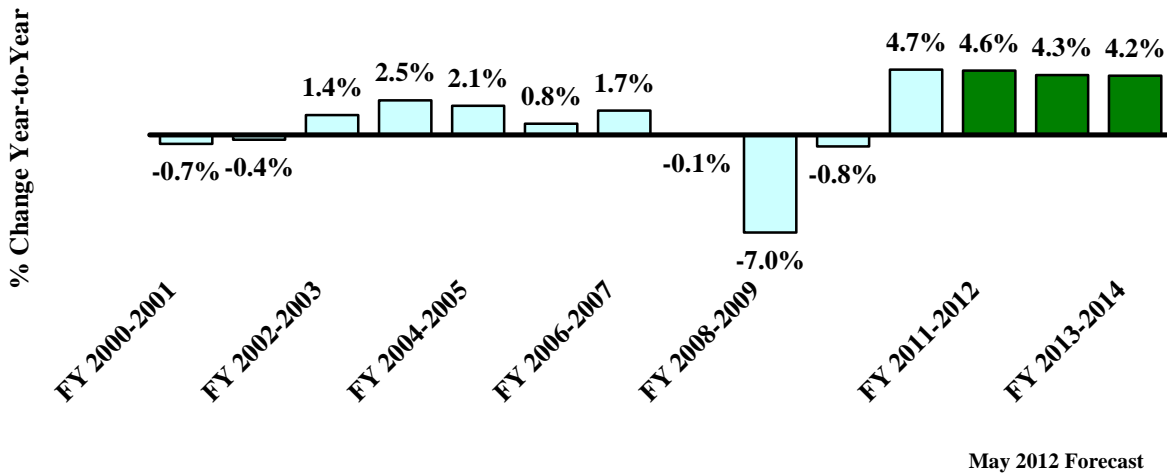
Michigan's largest taxes are the individual income tax (\$6.4 billion in FY 2011), which includes refunds, and sales and use taxes (\$7.8 billion). Income tax withholding is the largest income tax



component. Withholding (\$7.2 billion) is most affected by growth in wages and salaries. Michigan wages and salaries are expected to rise 4.6 percent in FY 2012, to increase 4.3 percent in 2013 and grow 4.2 percent in FY 2014.

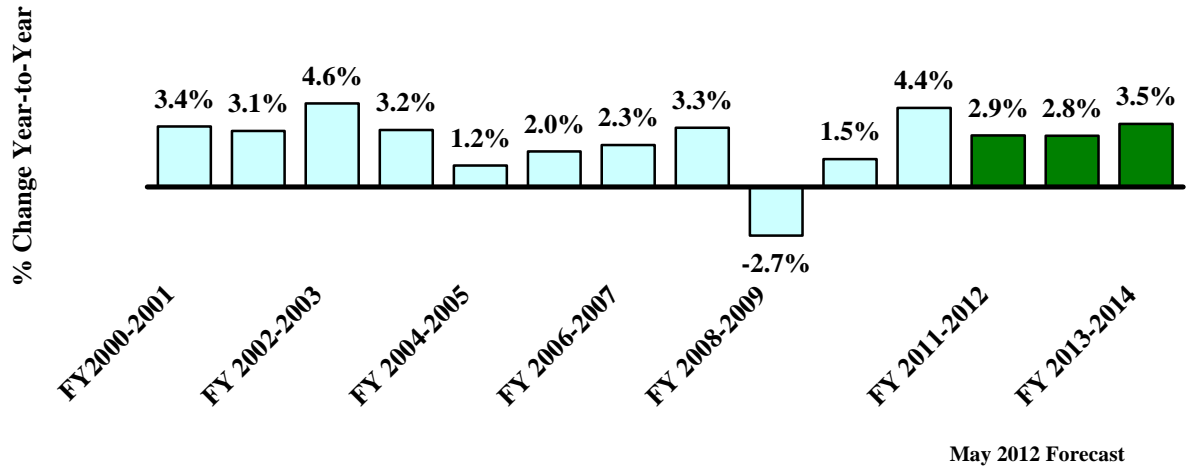
Sales and use taxes depend primarily on Michigan disposable (after tax) income and inflation. Disposable income is expected to rise 2.9 percent in FY 2012, 2.8 percent in FY 2013 and 3.5 percent in FY 2014. Prices, as measured by the Detroit CPI, are forecast to increase 3.0 percent in FY 2012, rise 2.2 percent in FY 2013 and grow 2.4 percent in FY 2014.

### Michigan Wages and Salaries Rise Throughout Forecast Basis for Income Tax Withholding Collections



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2012.

## Michigan Disposable Income Increases Basis for Sales and Use Tax Collections



Source: Research Seminar in Quantitative Economics, University of Michigan, and Administration Forecast, May 2012.

## **ADMINISTRATION REVENUE ESTIMATES**

**May 16, 2012**

### **Revenue Estimate Overview**

The revenue estimates presented in this section consist of baseline revenues, revenue adjustments, and net revenues. Baseline revenues provide an estimate of the effects of the economy on tax revenues. For these estimates, FY 2011 is the base year. Any non-economic changes to the taxes occurring in FY 2012, FY 2013 and FY 2014 are not included in the baseline estimates. Non-economic changes are referred to in the tables as "tax adjustments". The net revenue estimates are the baseline revenues adjusted for tax adjustments.

This treatment of revenue is best illustrated with an example. Suppose tax revenues are \$10.0 billion in a given year, and that based on the economic forecast, revenues are expected to grow by 5.0 percent per year. Baseline revenue would be \$10.0 billion in Year 1, \$10.5 billion in Year 2, and \$11.0 billion in Year 3. Assume a tax rate cut is in place that would reduce revenues by \$100 million in Year 1, \$200 million in Year 2, and \$300 million in Year 3. If Year 1 is the base year, the revenue adjustments for Year 1 would be \$0 since the tax cut for this year is included in the base. The revenue adjustments for Year 2 would be \$100 million, and the revenue adjustments for Year 3 would be \$200 million, since the revenue adjustments are compared to the base year.

In the example above, the baseline revenues would be \$10.0 billion, \$10.5 billion, and \$11.0 billion, for Years 1 through 3, respectively. The revenue adjustments would be \$0 in Year 1, \$100 million in Year 2, and \$200 million in Year 3. The \$200 million in Year 3 represents the tax cuts since Year 1. Net revenue would be \$10.0 billion in Year 1, \$10.4 billion in Year 2, and \$10.8 billion in Year 3.

The following revenue figures are presented on a Consensus basis. Generally speaking, the Consensus estimates do not include certain one-time budget measures, such as withdrawals from the Budget Stabilization Fund, the sale of buildings, and so on. The figures also do not include constitutional revenue sharing payments to local governments from the sales tax. In addition, the estimates only include enacted legislation and do not include the effects of any proposed changes. The School Aid Fund estimates consist of taxes plus the transfer from the State Lottery Fund.

## **FY 2012 Revenue Outlook**

FY 2012 GF-GP revenue is forecast to be \$9,049.8 million, a 2.7 percent increase compared to FY 2011. The FY 2012 estimate is \$19.3 million above the January 2012 Consensus estimate.

SAF revenue is forecast to be \$10,805.0 million, representing a 3.9 percent decline compared to FY 2011. The FY 2012 SAF estimate is \$41.4 million above the January 2012 Consensus estimate (See Table 2).

**Table 2**  
**FY 2011-12 Administration Revenue Estimates**  
(millions)

	<b>FY 2011</b> <b>Amount</b>	<b>Consensus</b> <b>Jan 13, 2012</b>		<b>Administration</b> <b>May 16, 2012</b>		<b>Change</b>
		<b>Amount</b>	<b>Growth</b>	<b>Amount</b>	<b>Growth</b>	
<b>General Fund - General Purpose</b>						
Baseline Revenue		\$8,087.4	5.6%	\$8,101.0	5.8%	
Tax Cut Adjustments		\$943.0		\$948.7		
Net Resources	\$8,813.1	\$9,030.5	2.5%	\$9,049.8	2.7%	\$19.3
<b>School Aid Fund</b>						
Baseline Revenue		\$11,492.6	2.1%	\$11,533.9	2.4%	
Tax Cut Adjustments		(\$729.0)		(\$728.9)		
Net Resources	\$11,248.2	\$10,763.6	-4.3%	\$10,805.0	-3.9%	\$41.4
<b>Combined</b>						
Baseline Revenue		\$19,580.0	3.5%	\$19,634.9	3.8%	
Tax Cut Adjustments		\$214.0		\$219.8		
Net Resources	\$20,061.3	\$19,794.1	-1.3%	\$19,854.8	-1.0%	\$60.7

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

## **FY 2013 Revenue Outlook**

FY 2013 GF-GP revenue is estimated to be \$9,012.0 million, a 0.4 percent decrease compared to FY 2012. The FY 2014 GF-GP revenue estimate is down \$22.6 million from the January 2012 Consensus estimate. SAF revenue is forecast to be \$11,152.4 million; representing a 3.2 percent increase compared to FY 2012. The FY 2013 SAF estimate is \$97.5 million above the January 2012 Consensus estimate (see Table 3).

**Table 3**  
**FY 2012-13 Administration Revenue Estimates**  
(millions)

	<b>Consensus Jan 13, 2012</b>		<b>Administration May 16, 2012</b>		<b>Change</b>
	<b>Amount</b>	<b>Growth</b>	<b>Amount</b>	<b>Growth</b>	
General Fund - General Purpose					
Baseline Revenue	\$8,429.8	4.2%	\$8,394.9	3.6%	
Tax Cut Adjustments	\$604.8		\$617.1		
Net Resources	<u>\$9,034.6</u>	<u>0.0%</u>	<u>\$9,012.0</u>	<u>-0.4%</u>	<u>(\$22.6)</u>
School Aid Fund					
Baseline Revenue	\$11,769.8	2.4%	\$11,866.9	2.9%	
Tax Cut Adjustments	(\$714.9)		(\$714.5)		
Net Resources	<u>\$11,054.9</u>	<u>2.7%</u>	<u>\$11,152.4</u>	<u>3.2%</u>	<u>\$97.5</u>
Combined					
Baseline Revenue	\$20,199.6	3.2%	\$20,261.8	3.2%	
Tax Cut Adjustments	(\$110.1)		(\$97.4)		
Net Resources	<u>\$20,089.5</u>	<u>1.5%</u>	<u>\$20,164.4</u>	<u>1.6%</u>	<u>\$74.9</u>

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

## **FY 2014 Revenue Outlook**

FY 2014 GF-GP revenue is estimated to be \$9,323.6 million, a 3.5 percent increase compared to FY 2013. The FY 2014 GF-GP revenue estimate is \$87.6 million above the January 2012 Consensus estimate. SAF revenue is forecast to be \$11,476.9 million; representing a 2.9 percent increase compared to FY 2013. The FY 2014 SAF estimate is \$117.3 million above the current FY 2013 SAF estimate (see Table 4).

**Table 4**  
**FY 2013-14 Administration Revenue Estimates**  
(millions)

	Consensus Jan 13, 2012		Administration May 16, 2012		Change
	Amount	Growth	Amount	Growth	
General Fund - General Purpose					
Baseline Revenue	\$8,732.8	3.6%	\$8,803.9	4.9%	
Tax Cut Adjustments	\$503.1		\$519.6		
Net Resources	<u>\$9,236.0</u>	2.2%	<u>\$9,323.6</u>	3.5%	\$87.6
School Aid Fund					
Baseline Revenue	\$12,074.0	2.6%	\$12,191.0	2.7%	
Tax Cut Adjustments	(\$714.4)		(\$714.0)		
Net Resources	<u>\$11,359.6</u>	2.8%	<u>\$11,476.9</u>	2.9%	\$117.3
Combined					
Baseline Revenue	\$20,806.9	3.0%	\$20,994.9	3.6%	
Tax Cut Adjustments	(\$211.3)		(\$194.4)		
Net Resources	<u>\$20,595.6</u>	2.5%	<u>\$20,800.5</u>	3.2%	\$204.9

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

## Constitutional Revenue Limit

Article IX, Section 26, of the Michigan Constitution establishes a limit on the amount of revenue State government can collect in any given fiscal year. The revenue limit for a given fiscal year is equal to 9.49 percent of the State's personal income for the calendar year prior to the year in which the fiscal year begins. For example, FY 2010 revenue is compared to CY 2008 personal income. If revenues exceed the limit by less than 1 percent, the State may deposit the excess into the Budget Stabilization Fund (BSF). If the revenues exceed the limit by more than 1 percent, the excess revenue is refunded to taxpayers.

FY 2010 revenues were \$7.6 billion below the revenue limit. State revenues will also be well below the limit for FY 2011 through FY 2014. FY 2011 revenues are expected to be \$6.2 billion below the limit, FY 2012 revenues \$6.1 billion below the limit, FY 2013 revenues \$7.3 billion below the limit, and FY 2014 revenues \$7.6 billion below the limit (See Table 5).

**Table 5**  
**Administration Revenue Limit Calculation**  
(millions)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
	<u>Final</u>	<u>Admin</u>	<u>Admin</u>	<u>Admin</u>	<u>Admin</u>
	<u>June 2011</u>	<u>May 2012</u>	<u>May 2012</u>	<u>May 2012</u>	<u>May 2012</u>
<b>Revenue Subject to Limit</b>	\$25,572.6	\$26,333.5	\$26,415.5	\$26,917.0	\$27,786.5
<b>Revenue Limit</b>	<b>CY 2008</b>	<b>CY 2009</b>	<b>CY 2010</b>	<b>CY 2011</b>	<b>CY 2012</b>
Personal Income	\$349,612	\$342,302	\$342,663	\$360,482	\$373,073
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$33,178.2	\$32,484.5	\$32,518.7	\$34,209.7	\$35,404.6
<b><u>Amount Under (Over) Limit</u></b>	<b>\$7,605.6</b>	<b>\$6,151.0</b>	<b>\$6,103.2</b>	<b>\$7,292.8</b>	<b>\$7,618.1</b>

## Budget Stabilization Fund Calculation

The Management and Budget Act contains provisions for calculating a recommended deposit or withdrawal from the BSF. The calculation looks at personal income net of transfer payments. The net personal income figure is adjusted for inflation. The change in this figure for the calendar year determines whether a pay-in or pay-out is dictated. If the formula calls for a deposit into the BSF, the deposit is made in the next fiscal year. If the formula calls for a withdrawal, the withdrawal is made during the current fiscal year.

If real personal income grows by more than 2 percent in a given calendar year, the fraction of income growth over 2 percent is multiplied by the current fiscal year's GF-GP revenue to determine the pay-in for the next fiscal year. If real personal income declines, the percentage

deficiency under zero is multiplied by the current fiscal year's GF-GP revenue to determine the withdrawal available for the current fiscal year. If the change in real personal income is between 0 and 2 percent, no pay-in or withdrawal is indicated.

Real calendar year personal income for Michigan is expected to increase 0.5 percent in 2012. Thus, the formula has no pay-in or pay-out for FY 2012. In 2013, real calendar year personal income for Michigan is forecast to increase 1.3 percent, so the formula calls for no pay-in or pay-out for FY 2013 (See Table 7). In 2014, real calendar year personal income for Michigan is forecast to increase 1.8 percent, so the formula calls for no pay-in or pay-out for FY 2014 (See Table 8).

**Table 6**  
**Budget and Economic Stabilization Fund Calculation**  
**Based on CY 2012 Personal Income Growth**  
**Administration Calculation**

	CY 2011	CY 2012
Michigan Personal Income	\$ 360,482 <sup>(1)</sup>	\$ 372,738 <sup>(1)</sup>
less Transfer Payments	<u>\$ 82,230 <sup>(1)</sup></u>	<u>\$ 83,406 <sup>(1)</sup></u>
Income Net of Transfers	\$ 278,252	\$ 289,332
Detroit CPI	2.080 <sup>(2)</sup>	2.152 <sup>(3)</sup>
for 12 months ending	(June 2011)	(June 2012)
Real Adjusted Michigan Personal Income	\$ 133,775	\$ 134,463
Change in Real Adjusted Personal Income		0.5%
Between 0 and 2%		0.0%
GF-GP Revenue Fiscal Year 2011-2012		\$ 9,049.8
		<u>FY 2011-2012</u>
BSF Pay-Out Calculated for FY 2012		NO PAY-OUT
BSF Pay-In Calculated for FY 2013		NO PAY-IN

Notes:

<sup>(1)</sup> Personal Income and Transfer Payments, Administration Forecast, May 2012.

<sup>(2)</sup> Detroit Consumer Price Index, Average of 6 monthly values reported by BLS for each 12-month period.



**Table 7**  
**Budget and Economic Stabilization Fund Calculation**  
**Based on CY 2013 Personal Income Growth**  
**Administration Calculation**

	<u>CY 2012</u>	<u>CY 2013</u>
Michigan Personal Income	\$372,738 <sup>(1)</sup>	\$385,038 <sup>(1)</sup>
less Transfer Payments	<u>\$ 83,406 <sup>(1)</sup></u>	<u>\$ 85,683 <sup>(1)</sup></u>
Income Net of Transfers	\$ 289,332	\$ 299,355
Detroit CPI	2.152 <sup>(2)</sup>	2.198 <sup>(2)</sup>
for 12 months ending	(June 2012)	(June 2013)
Real Adjusted Michigan Personal Income	\$ 134,463	\$ 136,166
Change in Real Adjusted Personal Income		1.3%
Between 0 and 2%		0.0%
GF-GP Revenue Fiscal Year 2012-2013		\$ 9,012.0
BSF Pay-Out Calculated for FY 2013		<u>FY 2012-2013</u> NO PAY-OUT
BSF Pay-In Calculated for FY 2014		NO PAY-IN

Notes:

<sup>(1)</sup> Personal Income and Transfer Payments, Administration Forecast, May 2012.

**Table 8**  
**Budget and Economic Stabilization Fund Calculation**  
**Based on CY 2014 Personal Income Growth**  
**Administration Calculation**

	CY 2013	CY 2014
Michigan Personal Income	\$ 385,038 <sup>(1)</sup>	\$ 402,365 <sup>(1)</sup>
less Transfer Payments	<u>\$ 85,683 <sup>(1)</sup></u>	<u>\$ 90,438 <sup>(1)</sup></u>
Income Net of Transfers	\$ 299,355	\$ 311,927
Detroit CPI	2.198 <sup>(2)</sup>	2.250 <sup>(2)</sup>
for 12 months ending	(June 2013)	(June 2014)
Real Adjusted Michigan Personal Income	\$ 136,166	\$ 138,654
Change in Real Adjusted Personal Income		1.8%
Between 0 and 2%		0.0%
GF-GP Revenue Fiscal Year 2013-2014		\$ 9,323.6
BSF Pay-Out Calculated for FY 2014		<u>FY 2013-2014</u> NO PAY-OUT

Notes:

<sup>(1)</sup> Personal Income and Transfer Payments, Administration Forecast, May 2012.

<sup>(2)</sup> Detroit Consumer Price Index, Administration Forecast, May 2012.

**School Aid Fund Revenue Adjustment Factor**

The School Aid Fund (SAF) revenue adjustment factor for the next fiscal year is calculated by dividing the sum of current year and subsequent year SAF revenue by the sum of current year and prior year SAF revenue. For example, the FY 2013 SAF revenue adjustment factor is calculated by dividing the sum of FY 2012 and FY 2013 SAF revenue by the sum of FY 2011 and FY 2012 SAF revenue. The SAF revenue totals are adjusted for any change in the rate and base of the SAF taxes. The year for which the adjustment factor is being calculated is used as the base year for any tax adjustments. For FY 2013, the SAF revenue adjustment factor is calculated to be 1.0284 (See Table 9). For FY 2014, the SAF revenue adjustment factor is calculated to be 1.0299 (See Table 10).

**Table 9**  
**Administration School Aid Revenue Adjustment Factor**  
**For Fiscal Year 2013**

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Baseline SAF Revenue	\$11,260.6	\$11,534.1	\$11,866.9
Balance Sheet Adjustments	(\$12.3)	(\$729.0)	(\$714.4)
Net SAF Estimates	<u>\$11,248.3</u>	<u>\$10,805.1</u>	<u>\$11,152.5</u>
Subtotal Adjustments to FY 2013 Base	<u>(\$702.1)</u>	<u>\$14.6</u>	<u>\$0.0</u>
Baseline Revenue on a FY 2013 Base	\$10,546.2	\$10,819.7	\$11,152.5

School Aid Fund Revenue Adjustment Calculation for FY 2013

Sum of FY 2011 & FY 2012	\$10,546.2	+	\$10,819.7	=	\$21,365.9
Sum of FY 2012 & FY 2013	\$10,819.7	+	\$11,152.5	=	\$21,972.3

<b>FY 2013 Revenue Adjustment Factor</b>	<b>1.0284</b>
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Note: Factor is calculated off a FY 2013 base year.

**Table 10**  
**Administration School Aid Revenue Adjustment Factor**  
**For Fiscal Year 2014**

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Baseline SAF Revenue	\$11,534.1	\$11,866.9	\$12,191.0
Balance Sheet Adjustments	(\$729.0)	(\$714.4)	(\$714.1)
Net SAF Estimates	<u>\$10,805.1</u>	<u>\$11,152.5</u>	<u>\$11,476.9</u>
Subtotal Adjustments to FY 2014 Base	<u>\$14.9</u>	<u>\$0.3</u>	<u>\$0.0</u>
Baseline Revenue on a FY 2014 Base	\$10,820.0	\$11,152.8	\$11,476.9

School Aid Fund Revenue Adjustment Calculation for FY 2014

Sum of FY 2012 & FY 2013	\$10,820.0	+	\$11,152.8	=	\$21,972.8
Sum of FY 2013 & FY 2014	\$11,152.8	+	\$11,476.9	=	\$22,629.7

<b>FY 2014 Revenue Adjustment Factor</b>	<b>1.0299</b>
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Note: Factor is calculated off a FY 2014 base year.

## **Revenue Detail**

The estimated tax and revenue totals include the effects of all enacted tax changes except sales tax savings resulting from reductions in revenue sharing payments to local units. The revenue totals by tax are presented separately for GF-GP and for the SAF (See Tables 11 and 12). Tax totals for the income, sales, use, tobacco and casino taxes for all funds are also included (See Table 13).

**Table 11**  
**Administration General Fund General Purpose Revenue Detail**  
(millions)

	FY 2012		FY 2013		FY 2014	
	Amount	Growth	Amount	Growth	Amount	Growth
<b>GF-GP Tax Amounts</b>						
Income Tax	\$4,884.2	9.9%	\$5,726.9	17.3%	\$5,917.0	3.3%
Sales	\$1,092.8	2.4%	\$1,131.4	3.5%	\$1,169.3	3.3%
Use	\$779.4	6.2%	\$834.7	7.1%	\$864.7	3.6%
Cigarette	\$193.9	-0.9%	\$189.5	-2.3%	\$184.6	-2.6%
Beer & Wine	\$50.0	6.2%	\$50.8	1.6%	\$51.8	2.0%
Liquor Specific	\$40.8	3.3%	\$41.7	2.2%	\$42.4	1.7%
Single Business Tax	(\$2.3)	NA	\$0.0	NA	\$0.0	NA
Insurance Co. Premium	\$292.0	7.7%	\$298.9	2.4%	\$304.4	1.8%
CIT/MBT	\$1,172.9	-43.7%	\$271.9	-76.8%	\$323.9	19.1%
Telephone & Telegraph	\$57.0	1.6%	\$57.3	0.5%	\$57.3	0.0%
Oil & Gas Severance	\$61.2	2.3%	\$64.5	5.4%	\$68.0	5.4%
GF-GP Other Taxes	(\$2.3)	-109.5%	\$6.0	-360.9%	\$9.3	55.0%
<b>Total GF-GP Taxes</b>	<b>\$8,619.7</b>	<b>4.2%</b>	<b>\$8,673.6</b>	<b>0.6%</b>	<b>\$8,992.6</b>	<b>3.7%</b>
<b>GF-GP Non-Tax Revenue</b>						
Federal Aid	\$20.0	15.6%	\$20.0	0.0%	\$20.0	0.0%
From Local Agencies	\$1.0	-58.3%	\$1.0	0.0%	\$1.0	0.0%
From Services	\$11.0	-7.6%	\$11.0	0.0%	\$11.0	0.0%
From Licenses & Permits	\$20.0	29.9%	\$20.0	0.0%	\$20.0	0.0%
Miscellaneous	\$25.0	247.2%	\$27.0	8.0%	\$28.0	3.7%
Driver Responsibility Fees	\$103.0	1.0%	\$91.0	-11.7%	\$81.0	-11.0%
Interfund Interest	(\$2.1)	-67.7%	(\$3.2)	52.4%	(\$3.6)	12.5%
Liquor Purchase	\$169.2	3.0%	\$159.2	-5.9%	\$161.0	1.1%
Charitable Games	\$10.0	7.5%	\$10.5	5.0%	\$10.5	0.0%
Transfer From Escheats	\$73.0	-66.1%	\$2.0	-97.3%	\$2.0	0.0%
Other Non Tax	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%
<b>Total Non Tax</b>	<b>\$430.1</b>	<b>-20.2%</b>	<b>\$338.5</b>	<b>-21.3%</b>	<b>\$330.9</b>	<b>-2.2%</b>
<b>Total GF-GP Revenue</b>	<b>\$9,049.8</b>	<b>2.7%</b>	<b>\$9,012.0</b>	<b>-0.4%</b>	<b>\$9,323.6</b>	<b>3.5%</b>

**Table 12**  
**Administration School Aid Fund Revenue Detail**

	FY 2012		FY 2013		FY 2014	
	Amount	Growth	Amount	Growth	Amount	Growth
<b>School Aid Fund</b>						
Income Tax	\$2,106.7	6.8%	\$2,248.6	6.7%	\$2,341.6	4.1%
Sales Tax	\$5,045.1	3.4%	\$5,200.9	3.1%	\$5,365.6	3.2%
Use Tax	\$389.7	6.2%	\$417.3	7.1%	\$432.3	3.6%
Liquor Excise Tax	\$40.8	4.3%	\$41.7	2.2%	\$42.4	1.7%
Cigarette & Tobacco	\$375.7	-0.1%	\$364.8	-2.9%	\$353.8	-3.0%
State Education Tax	\$1,800.1	-2.4%	\$1,821.4	1.2%	\$1,857.9	2.0%
Real Estate Transfer	\$127.9	3.8%	\$138.6	8.4%	\$153.0	10.4%
CIT/MBT	\$0.0	-100.0%	\$0.0	NA	\$0.0	NA
Industrial Facilities Tax	\$44.9	3.0%	\$46.2	2.9%	\$47.9	3.7%
Casino (45% of 18%)	\$114.5	0.4%	\$105.5	-7.9%	\$108.2	2.6%
Commercial Forest	\$3.1	3.3%	\$3.1	0.0%	\$3.1	0.0%
Other Spec Taxes	\$14.0	-28.2%	\$14.0	0.0%	\$14.0	0.0%
<b>Subtotal Taxes</b>	\$10,062.4	-4.4%	\$10,402.1	3.4%	\$10,719.9	3.1%
Lottery Transfer	\$742.8	2.1%	\$750.3	1.0%	\$757.0	0.9%
<b>Total SAF Revenue</b>	\$10,805.0	-3.9%	\$11,152.4	3.2%	\$11,476.9	2.9%

**Table 13**  
**Administration Major Tax Totals**

	FY 2012		FY 2013		FY 2014	
	Amount	Growth	Amount	Growth	Amount	Growth
<b>Major Tax Totals (Includes all Funds)</b>						
Income Tax	\$6,991.9	8.9%	\$7,976.5	14.1%	\$8,259.6	3.5%
Sales Tax	\$6,938.9	3.4%	\$7,152.1	3.1%	\$7,377.1	3.1%
Use Tax	\$1,169.1	6.2%	\$1,252.0	7.1%	\$1,297.0	3.6%
CIT/MBT	\$1,172.9	-43.7%	\$271.9	-76.8%	\$323.9	19.1%
Cigarette and Tobacco	\$964.7	-0.4%	\$941.6	-2.4%	\$916.4	-2.7%
Casino Tax	\$114.5	0.4%	\$105.5	-7.9%	\$108.2	2.6%