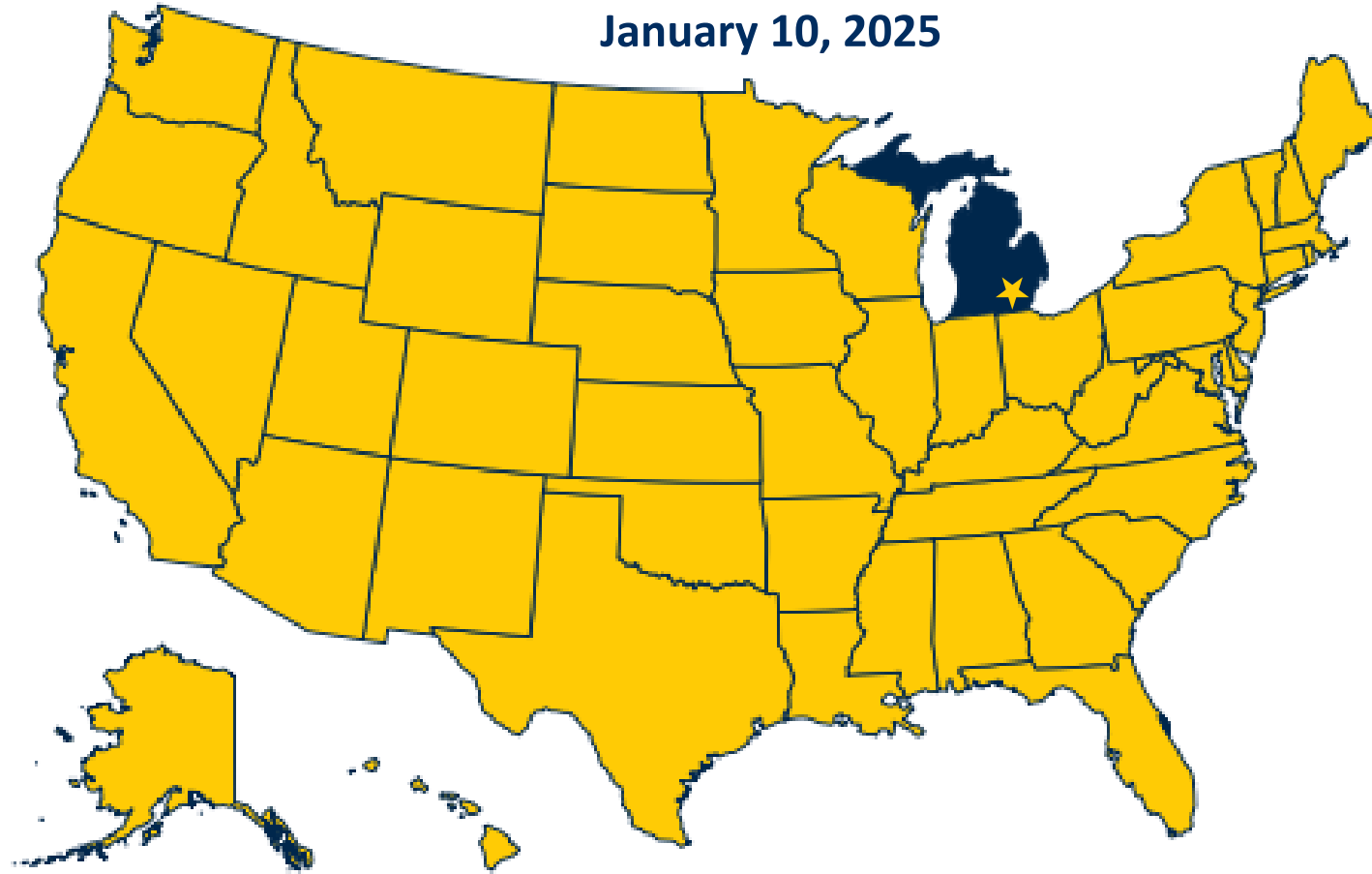


The U.S. and Michigan Outlook for 2025–2027
Consensus Revenue Estimating Conference
Lansing, Michigan
January 10, 2025

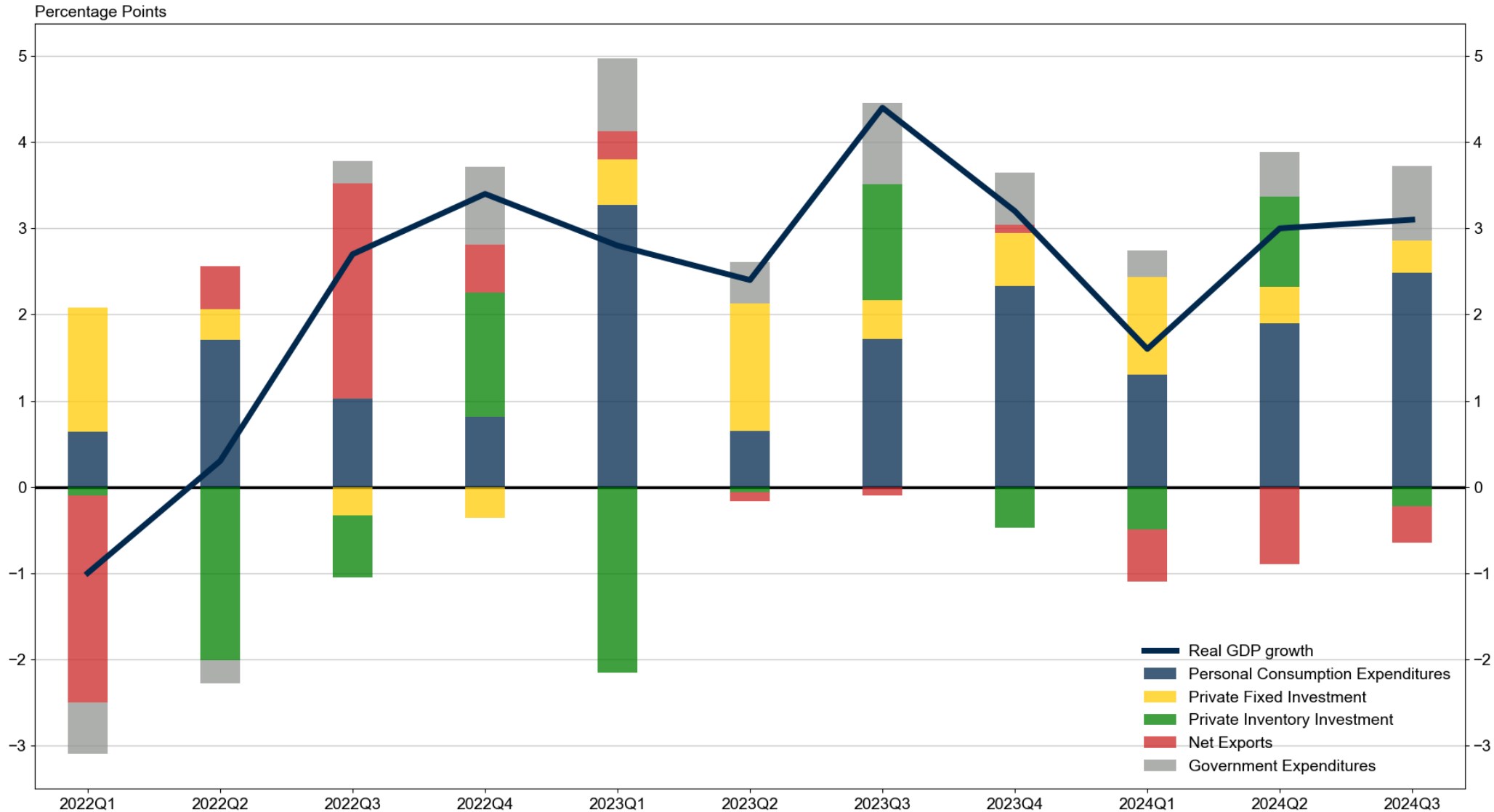


Research Seminar in Quantitative Economics

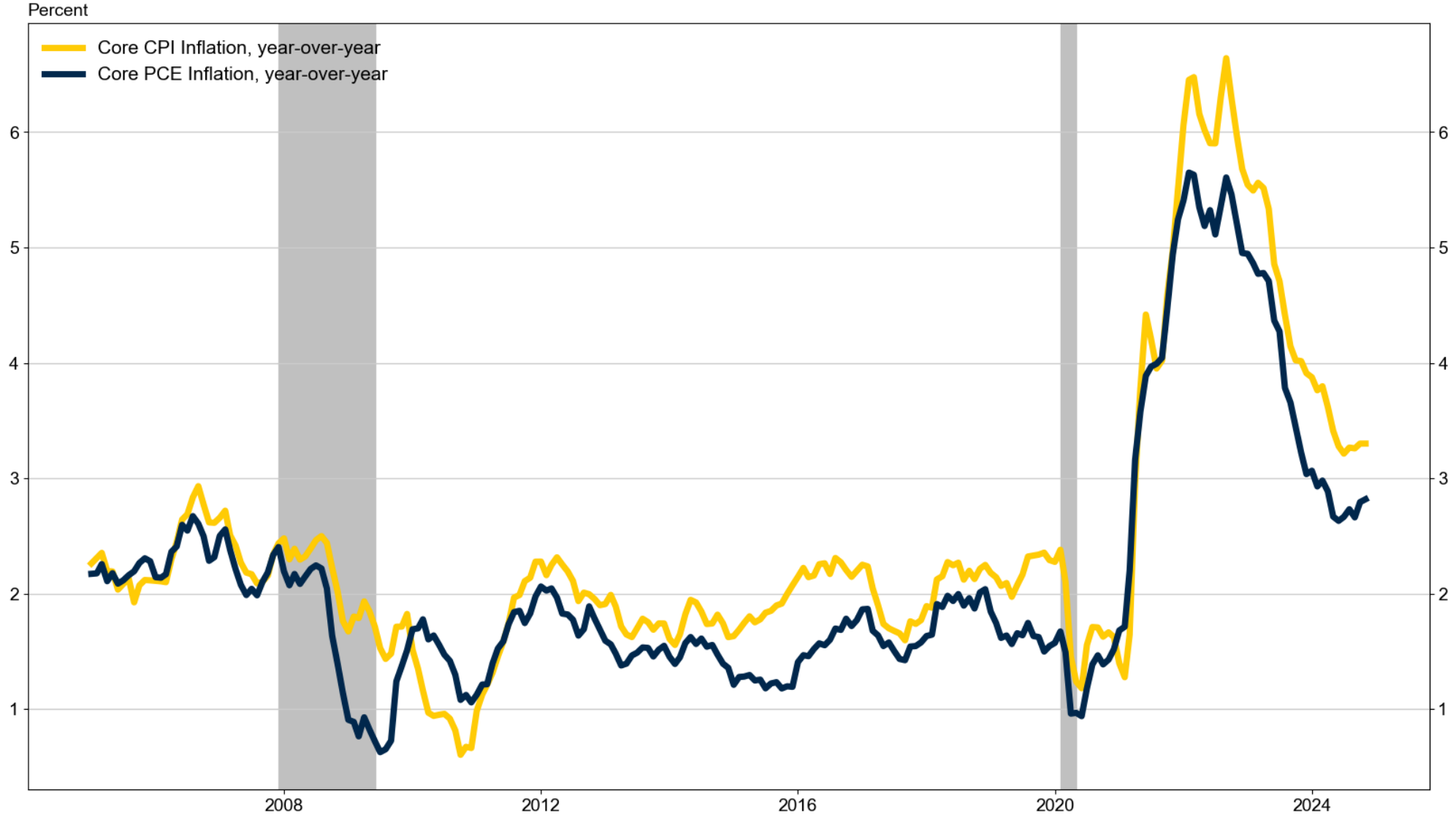


Current State of the U.S. Economy

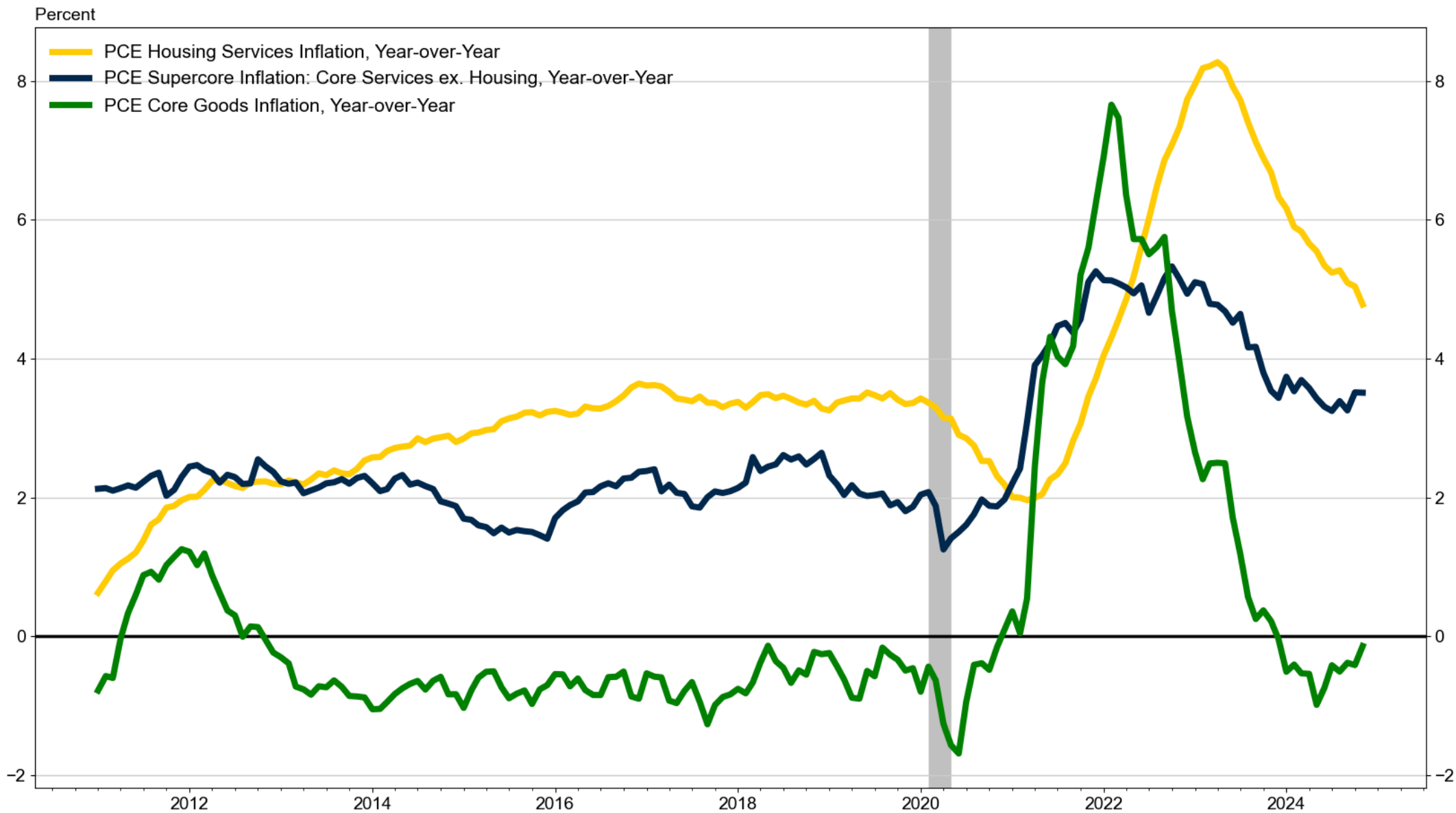
Real GDP Growth Composition



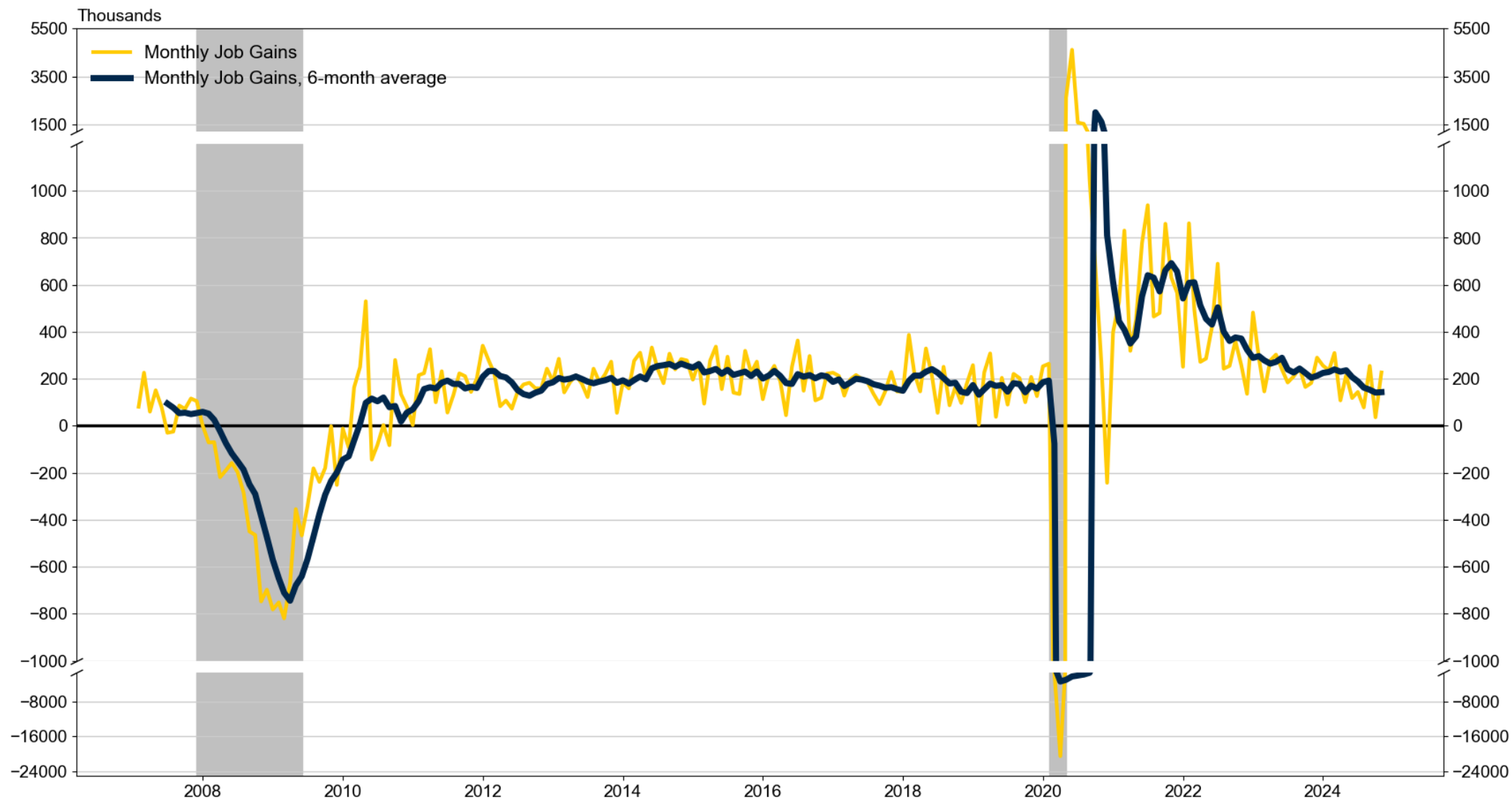
Recent Core Inflation



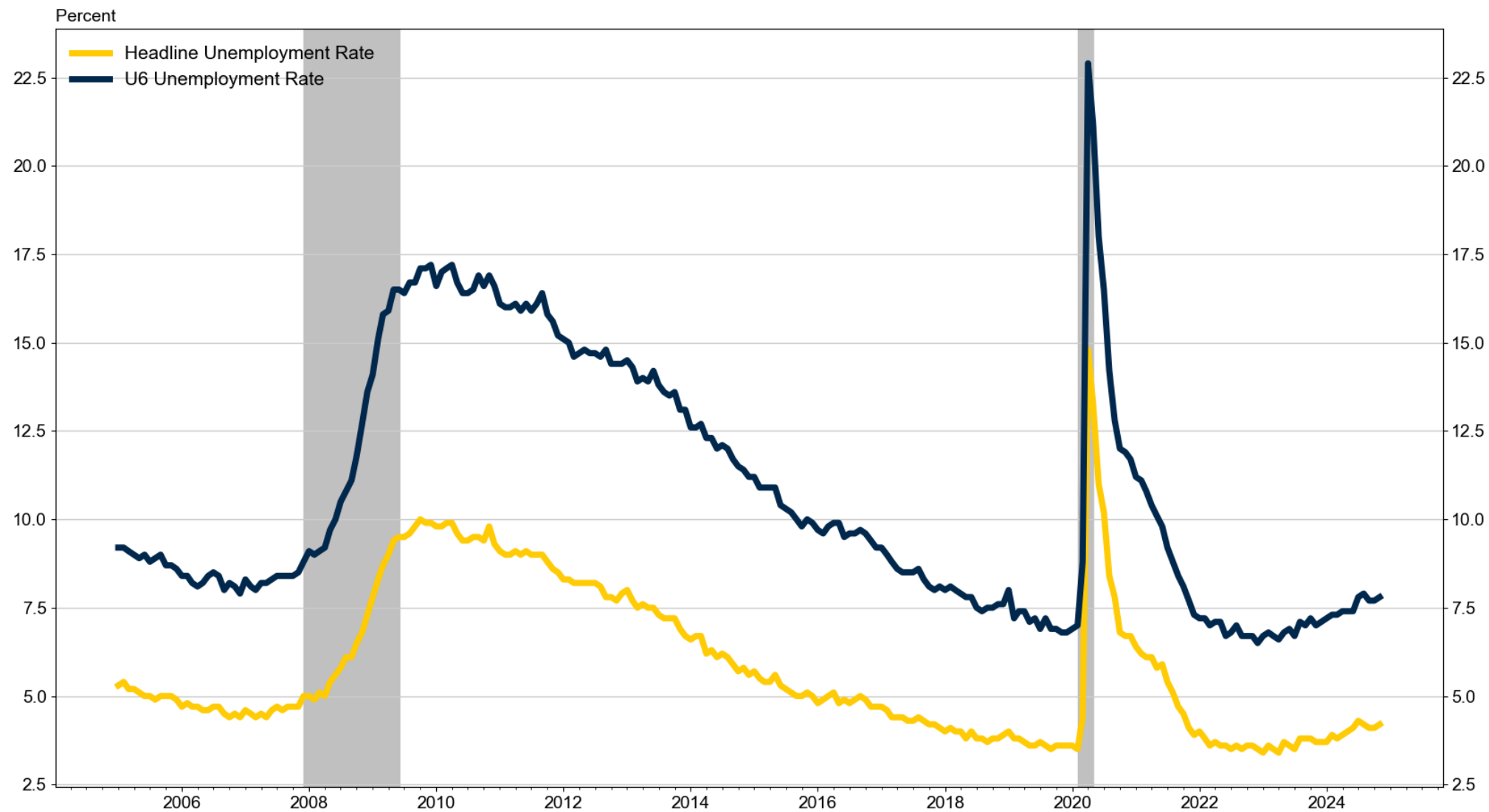
PCE Core Inflation Composition



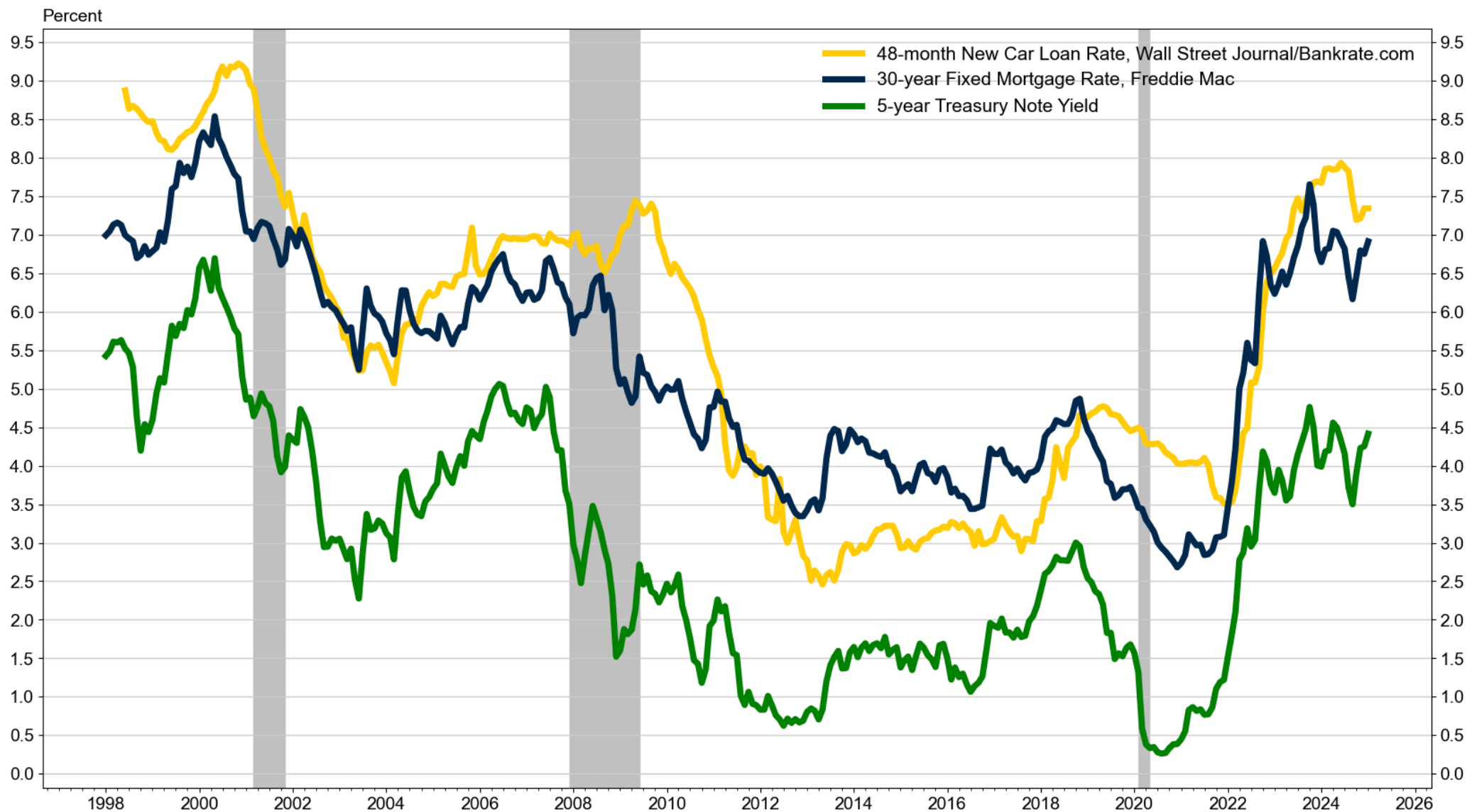
Job Market Cooling



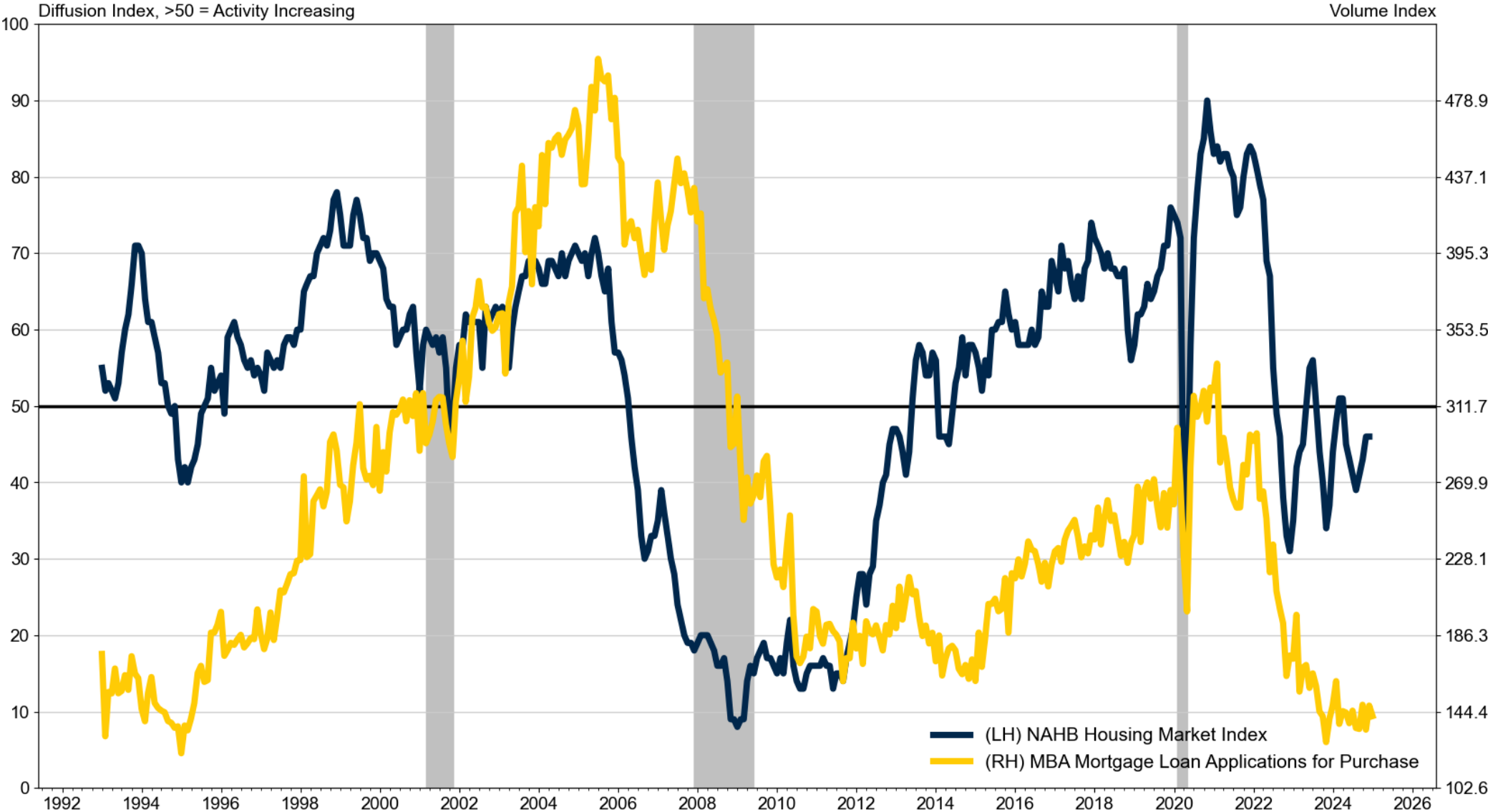
Unemployment Rates Inching Up



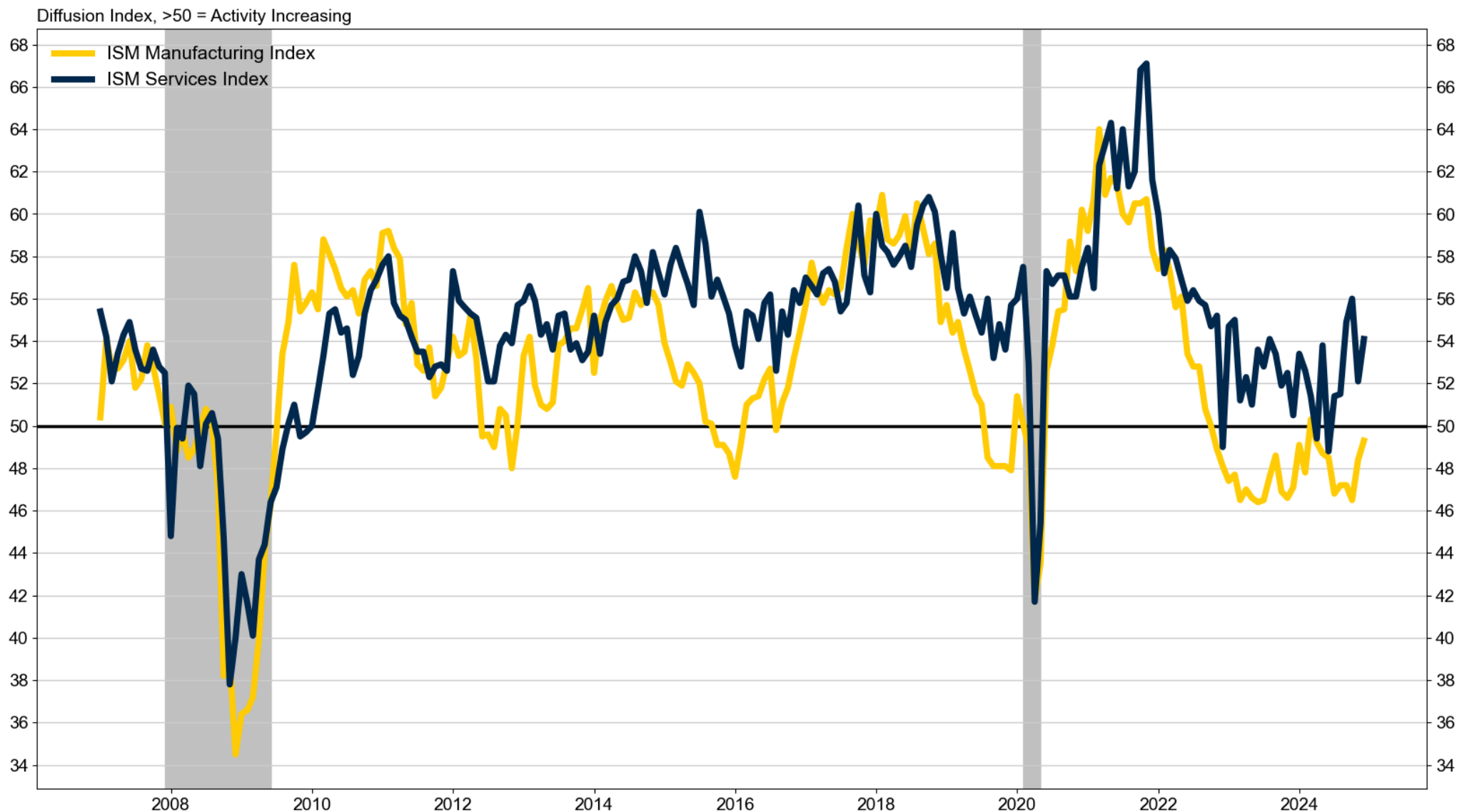
Key Interest Rates Remain High



Residential Housing Market Metrics



Institute for Supply Management Diffusion Indices



Inputs

Key Policy Implications of the Federal Elections

- TCJA largely extended (was our baseline already)
- Higher SALT deduction cap
- 15% Corporate rate for domestic manufacturing
- Sizeable tax cut on Social Security benefits, tips, and overtime income
- \$7,500 EV tax credit gone soon, most IRA provisions expire on schedule
- Tariffs on imports from China will jump in 2026, eventually ~triple
 - Limited retaliation from China through 2026
 - No significant/lasting new tariffs on the rest of the world
- A deportation program of limited scope

Monetary Policy

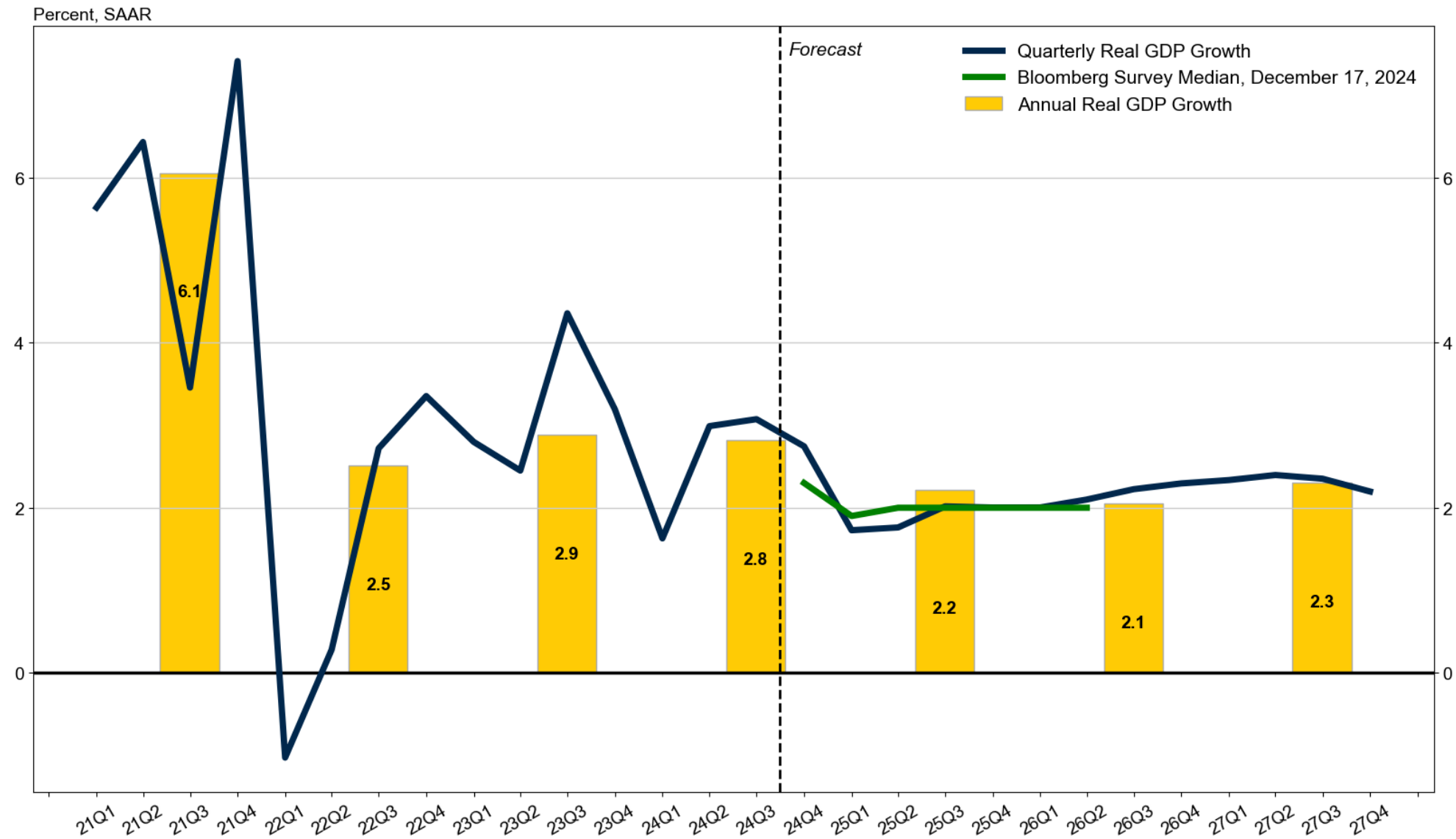
- Inflation stopped declining, but downward pressures remain significant
- Labor market likely still softening gradually
- Fed funds rate range lowered by 100bps since mid-September,
 - Long-term interest rates up considerably since then, however
- In December, FOMC signaled a slower pace of cuts going forward
 - We project the terminal rate range 3.25–3.5%, the Fed gets there by mid-2026
- Uptick of inflation in 2026 due to tariffs/tax cuts, but no Fed action
 - One-time effects
 - Concerns about negative growth effects of tariffs were important for 2019 rate cuts

Fiscal Policy

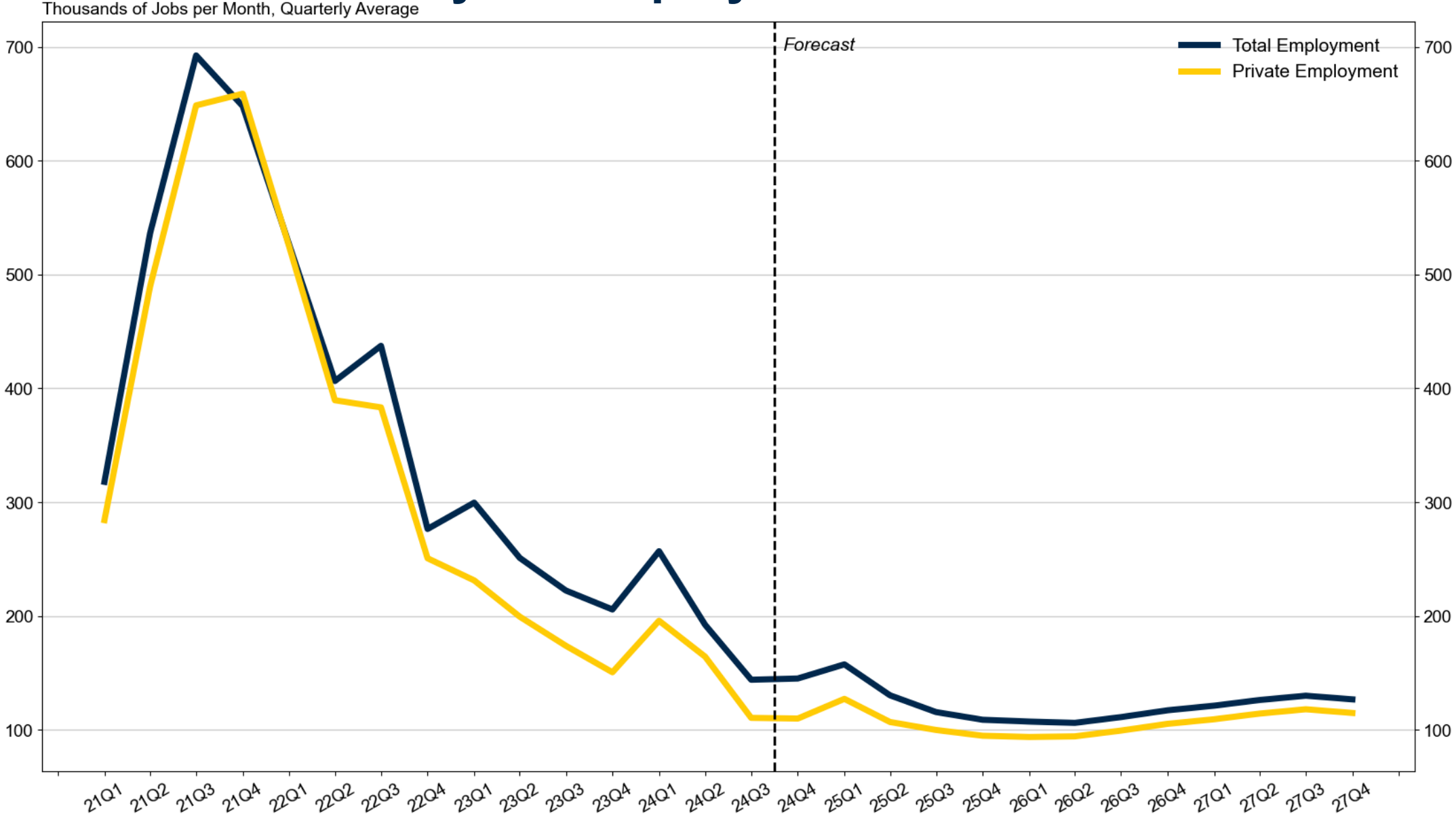
- Slim House majority will prevent major cuts to spending
- About \$200 billion/year of personal and corporate tax cuts starting in 2026
- Tariff revenues rise by annualized \$86bln between 2026Q1 and 2026Q4
- Strong growth of federal defense expenditures continues
- Historic deficits outside of the recent pandemic, World War II, the Great Recession
 - Federal NIPA deficit widens to 6.8 percent of GDP in fiscal 2026 and 2027
 - Primary NIPA deficit near 3 percent of GDP

U.S. Forecast

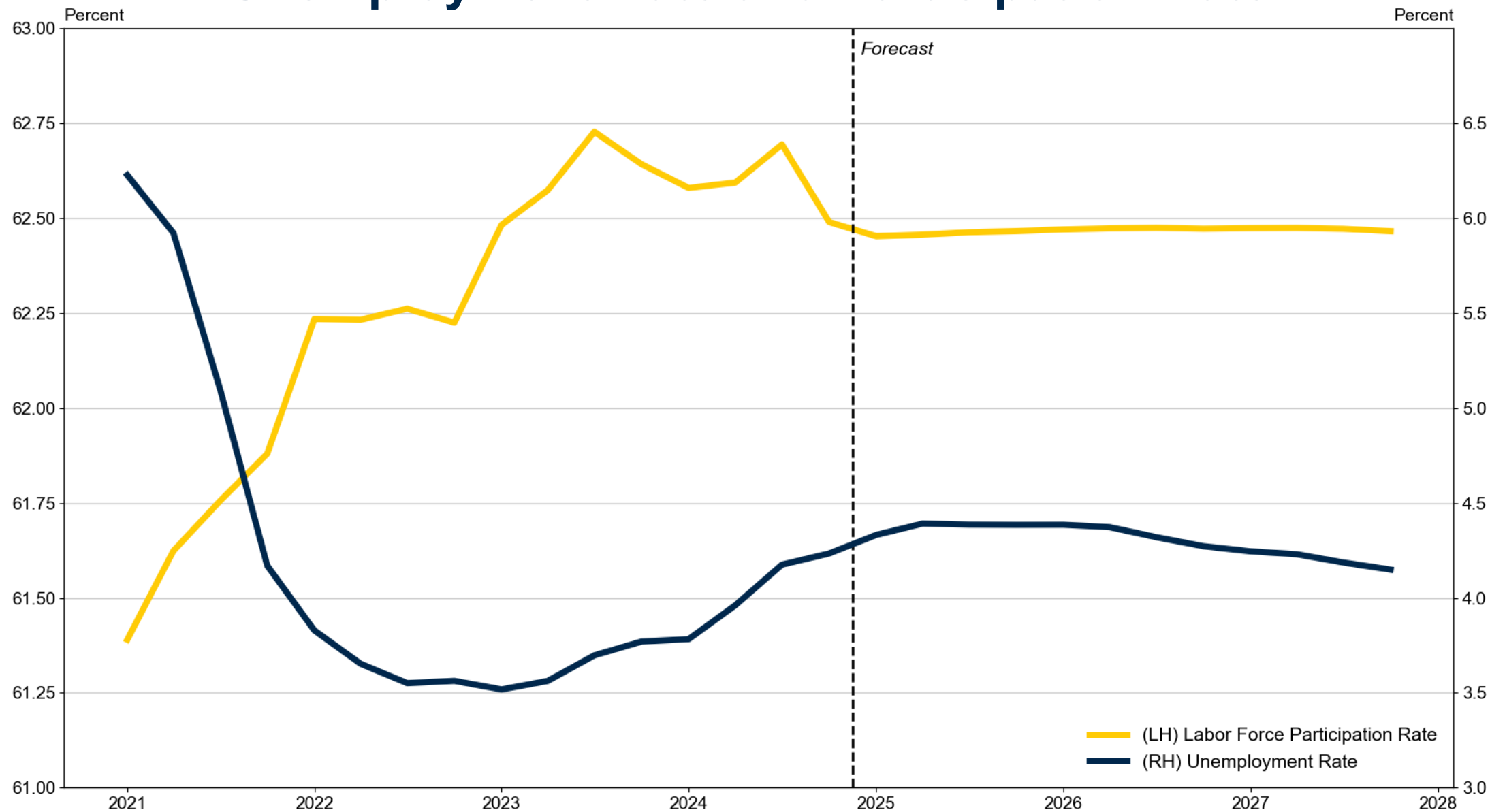
Real GDP Growth



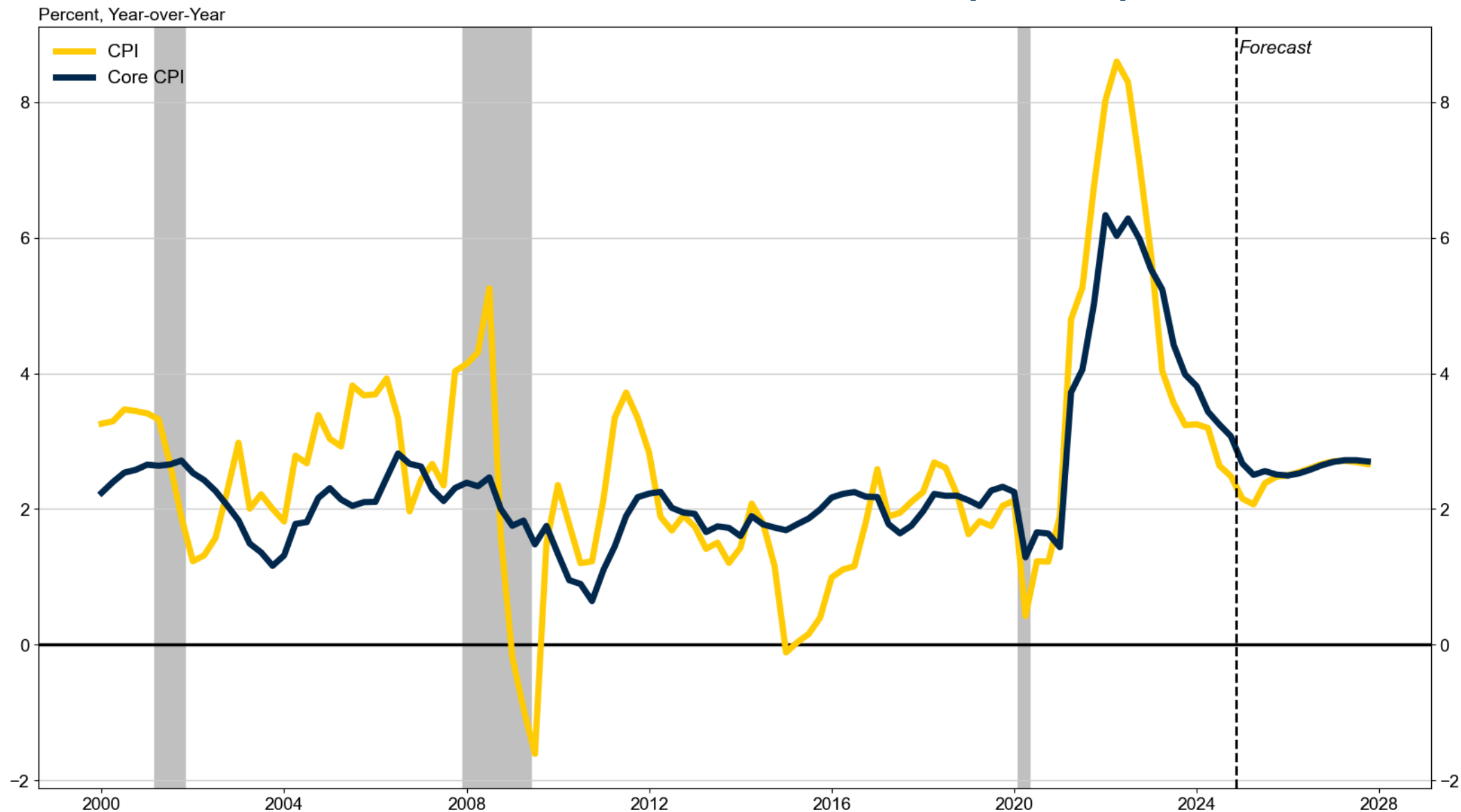
Payroll Employment Growth



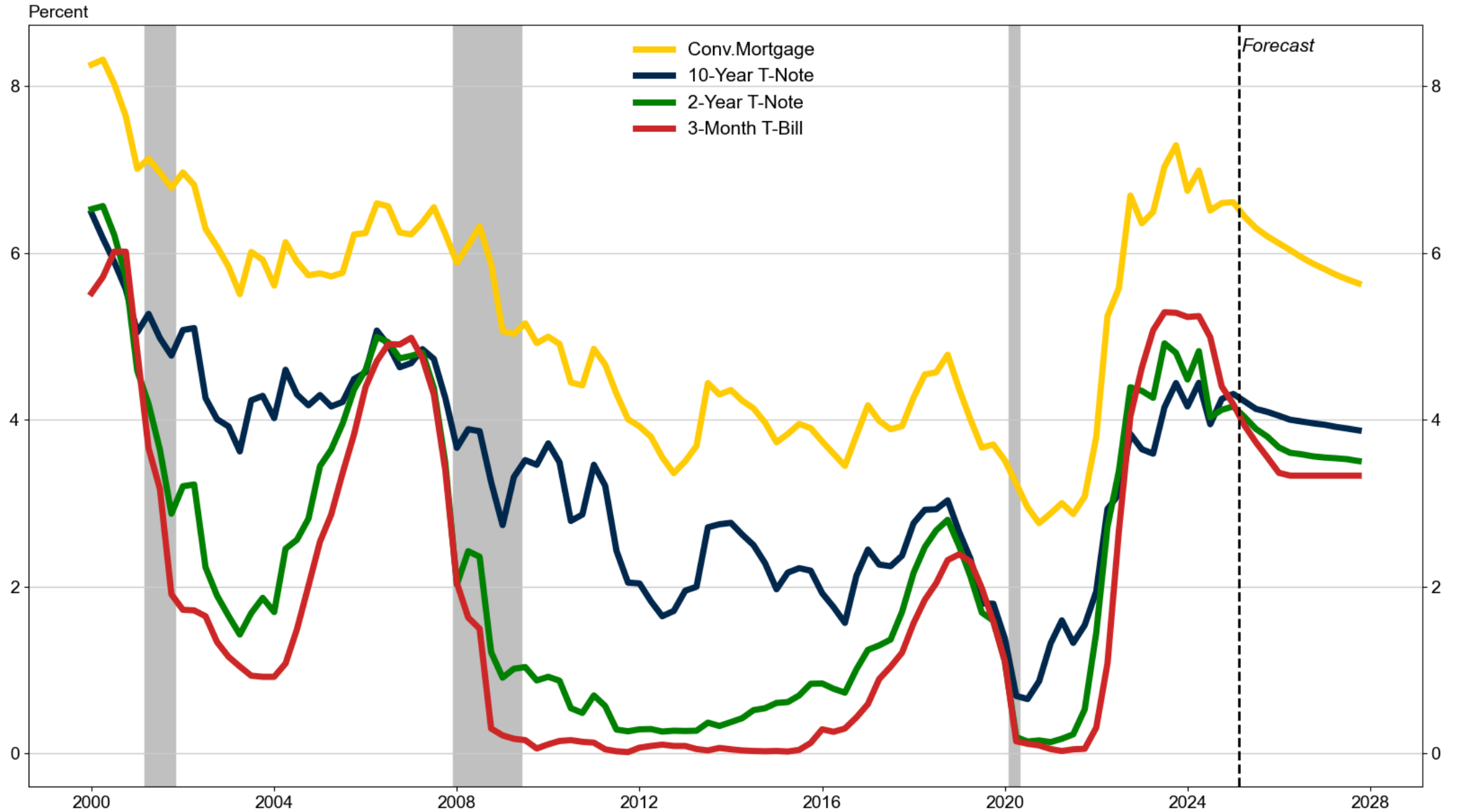
Unemployment Rate and Participation Rate



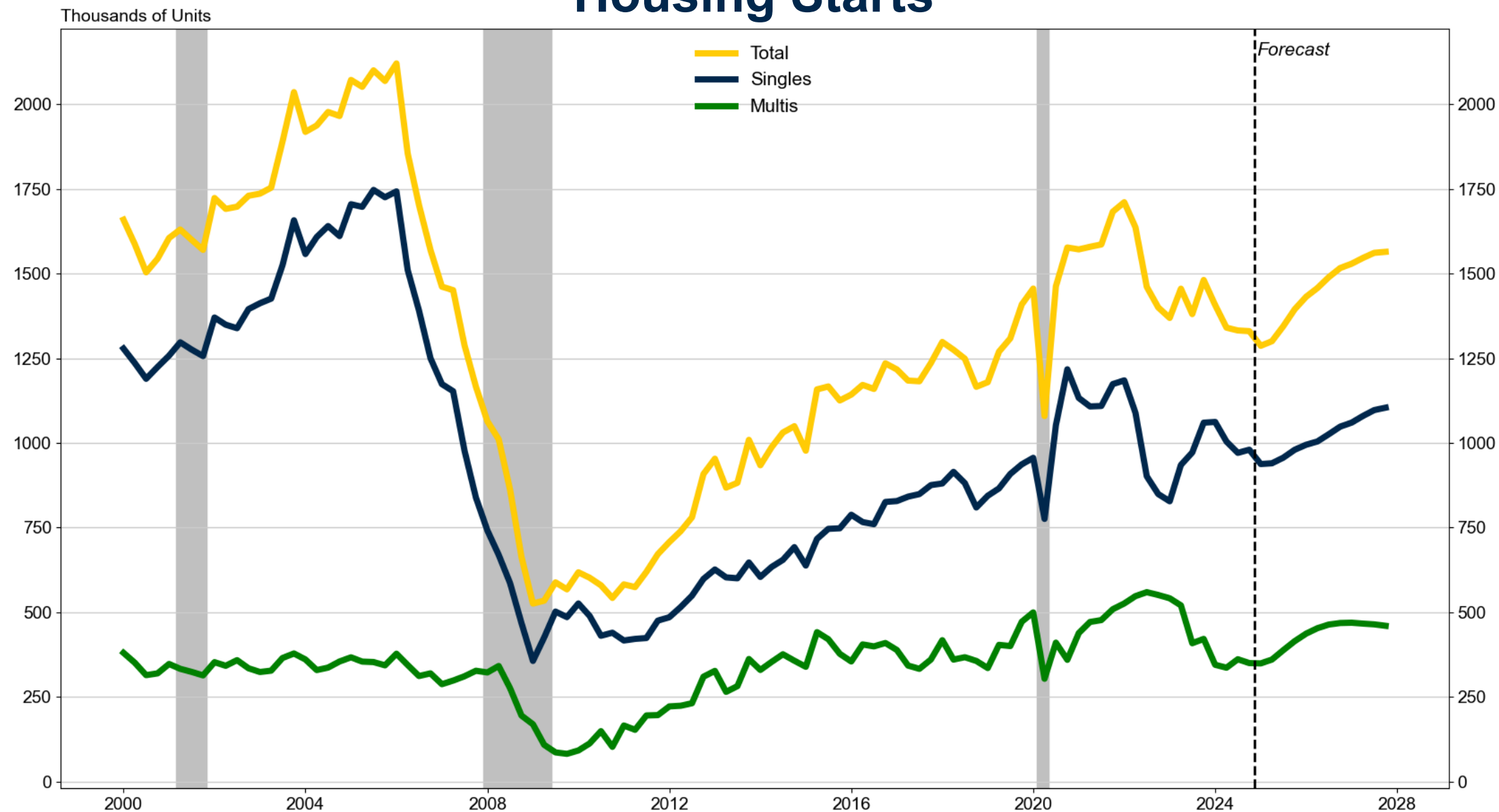
Consumer Price Inflation (CPI-U)



Interest Rates



Housing Starts



Risks

- Economic Momentum Evaporating
- Policy
 - Fiscal, Monetary, Foreign/Trade, Immigration, Regulatory
- Geopolitical Situation
- Population Growth
- Productivity

The Michigan Economic Outlook for 2025–2027



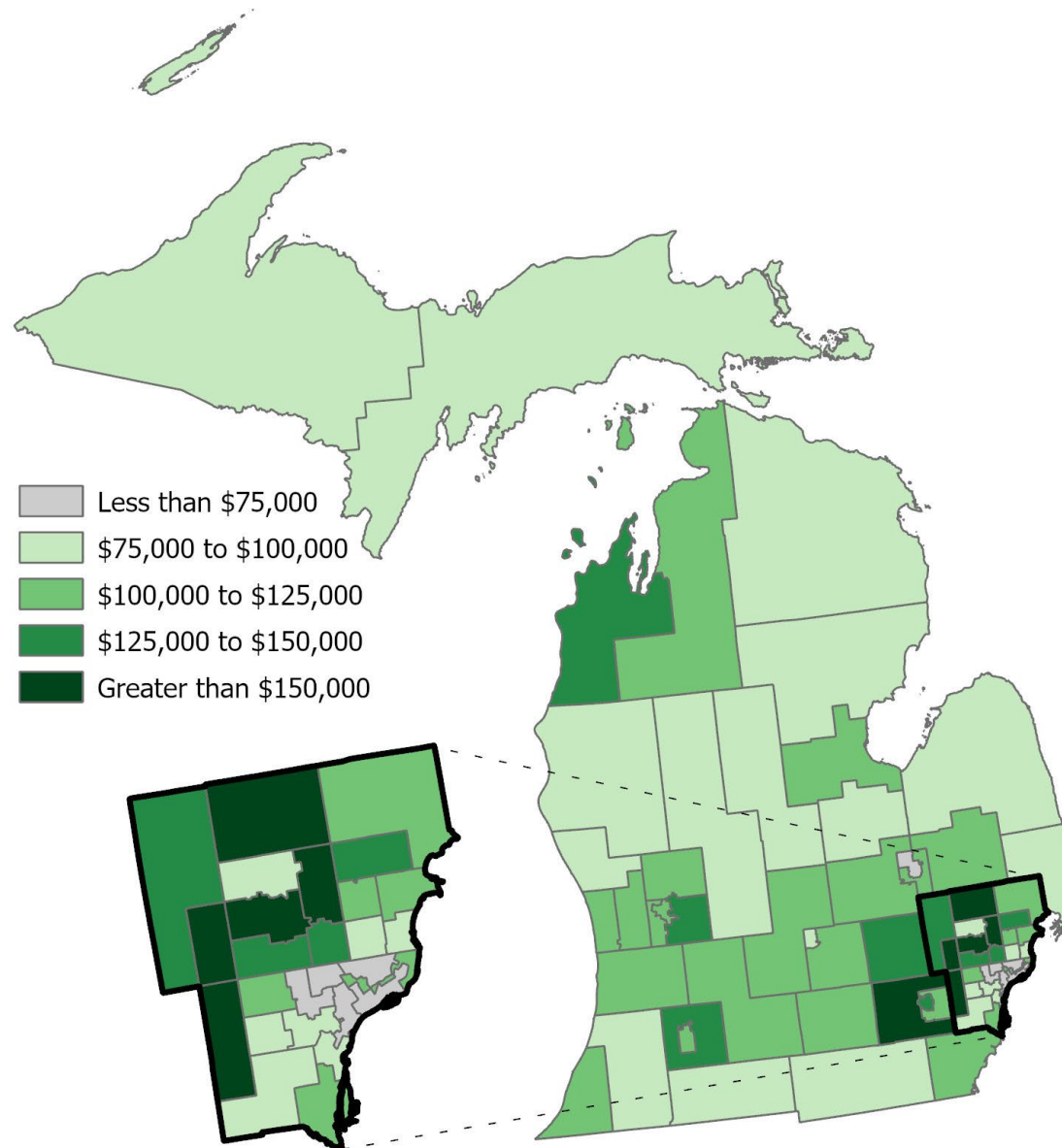
Consensus Revenue Estimating Conference

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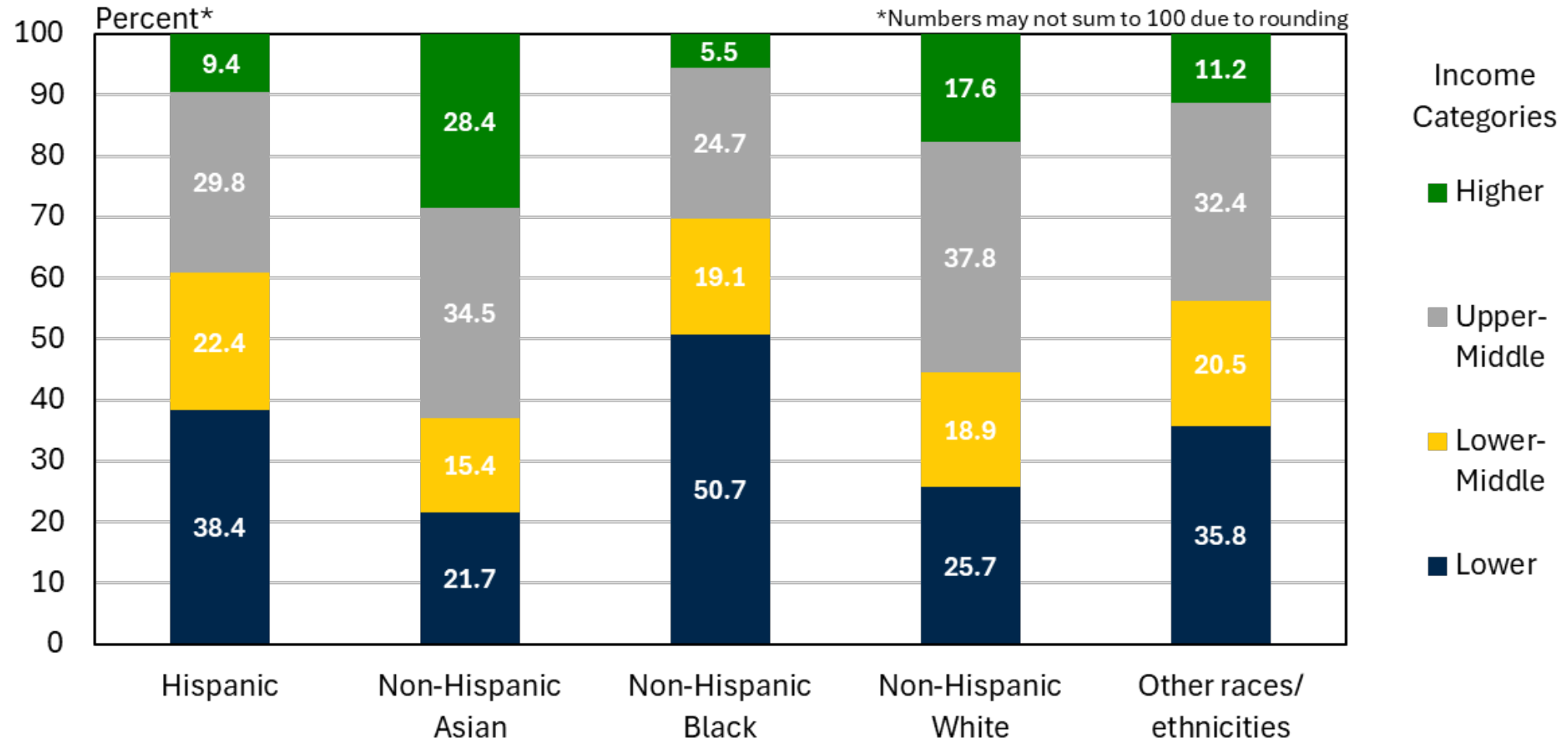
Research Seminar in Quantitative Economics

Shared Prosperity in Michigan

Average Three-Person Equivalent Household Incomes in Michigan by PUMA Region, 2022

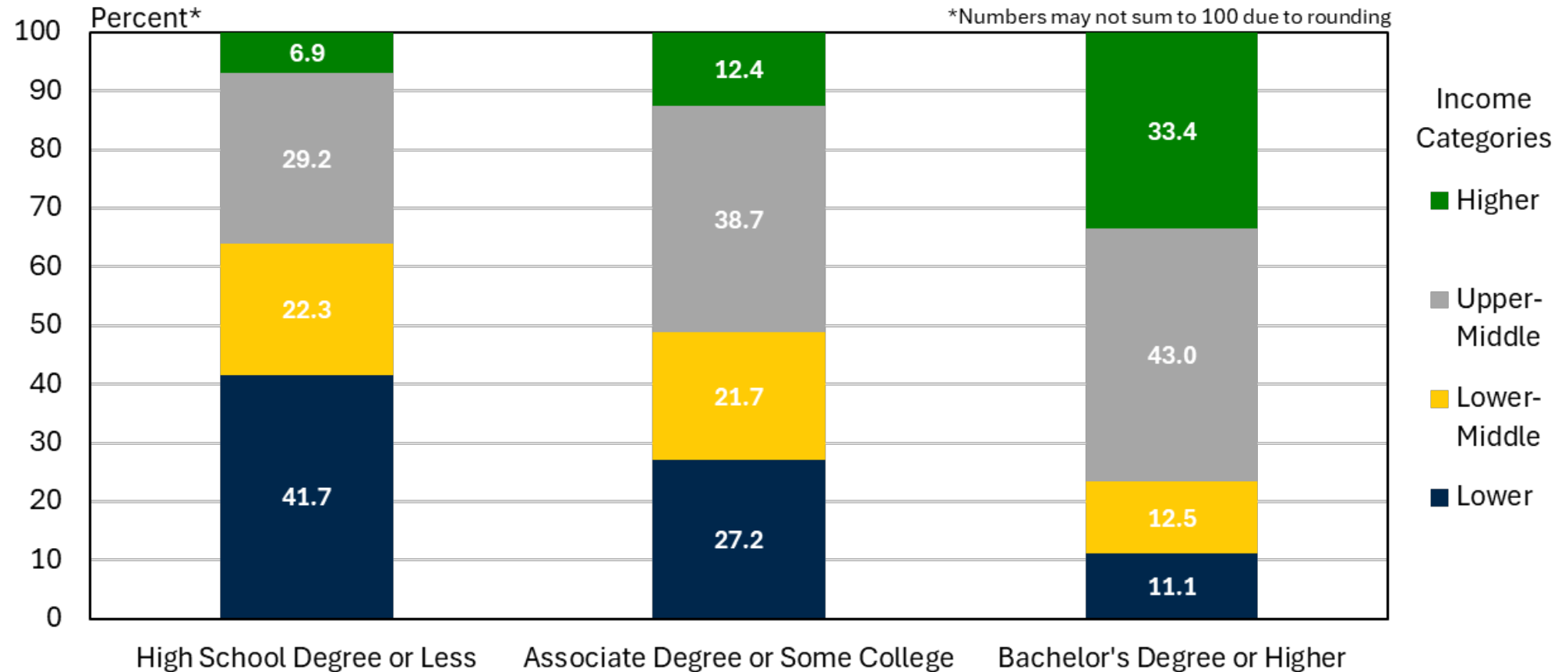


Distribution of Michigan's Population by Household Income and Race/Ethnicity, 2022



Lower-middle income range is \$57,525–\$86,287; upper-middle income range is \$86,287–\$172,575.

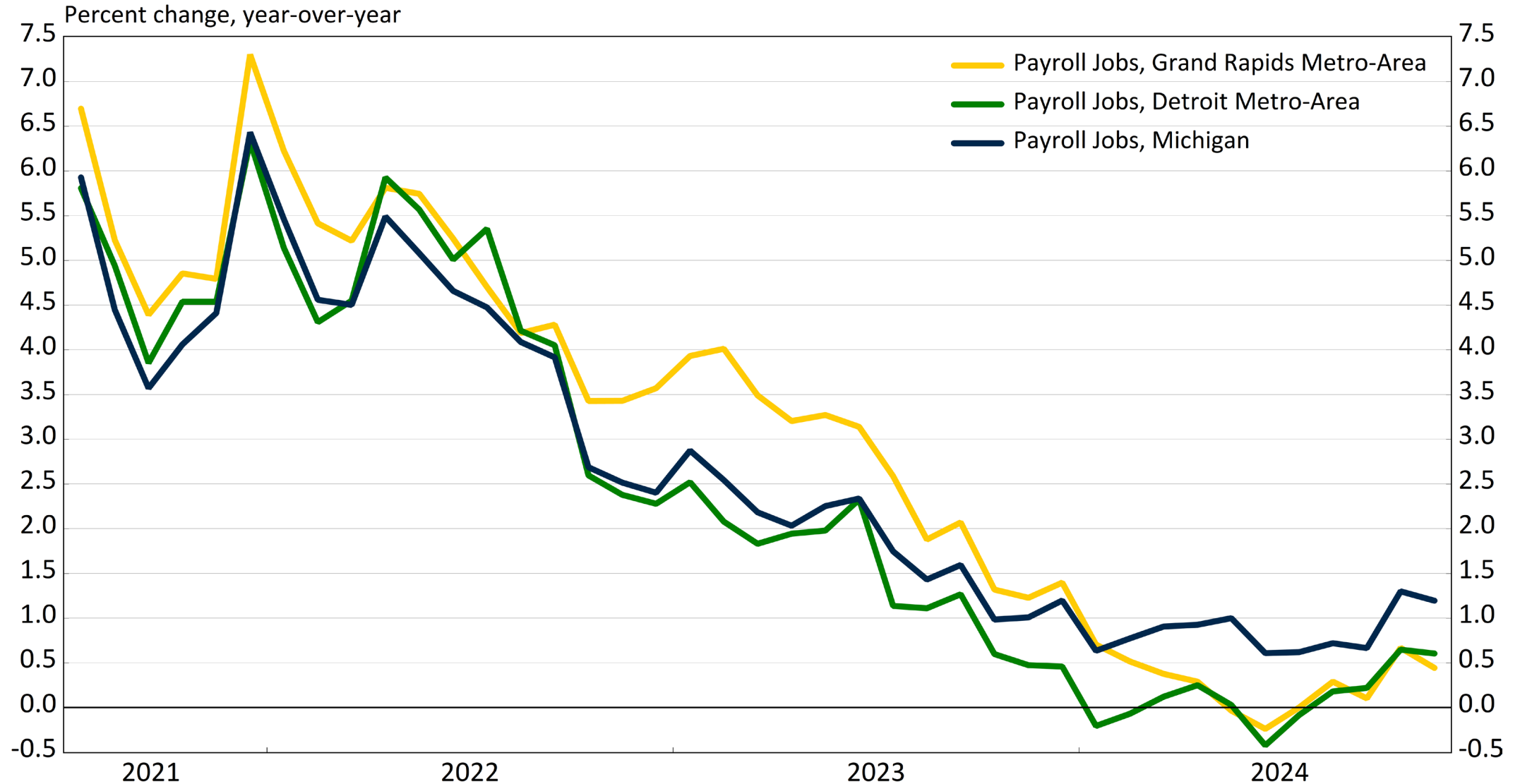
Distribution of Michigan's Population Aged 25-and-older by Household Income and Education, 2022



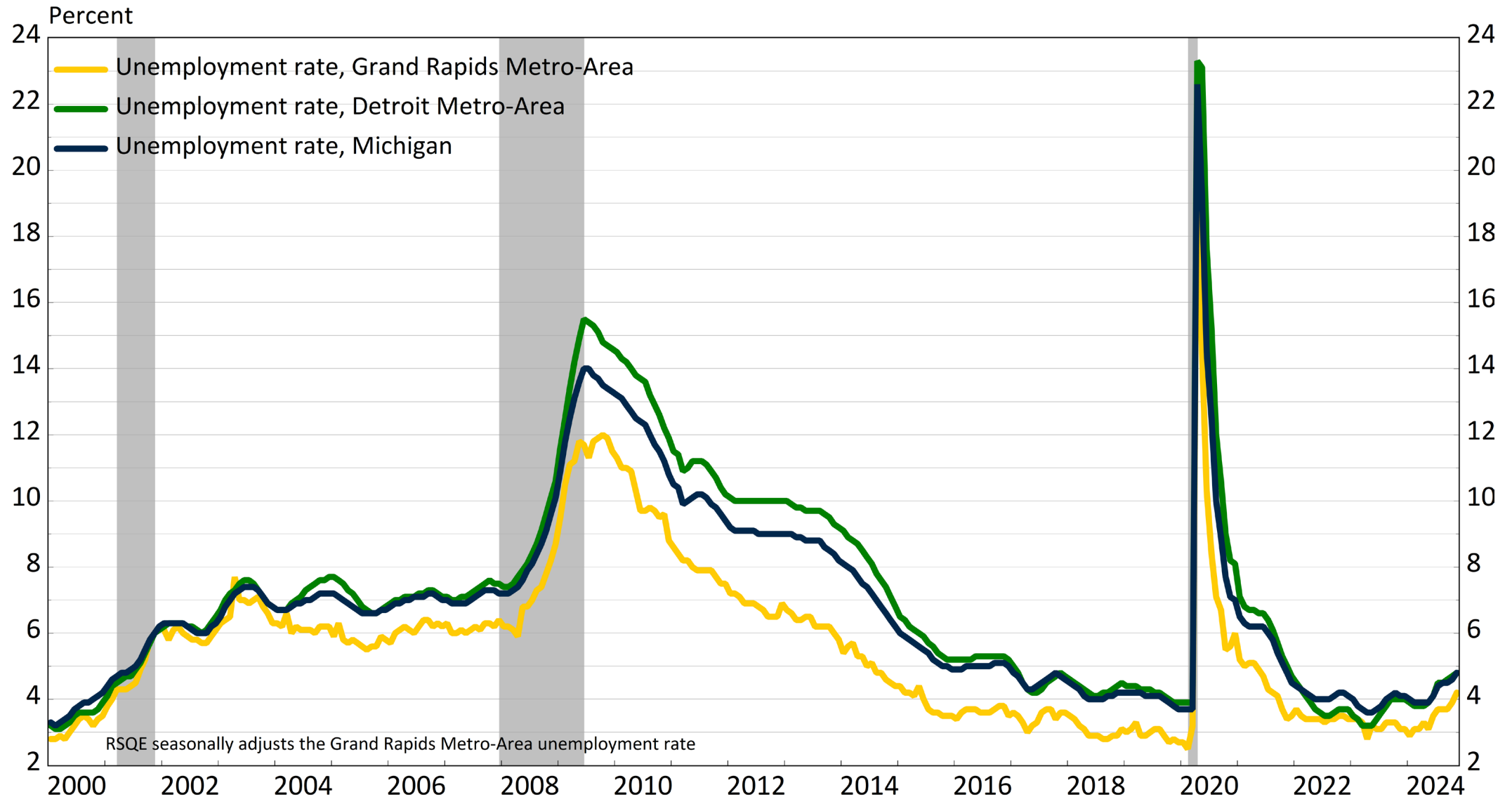
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Current State of the Michigan Economy

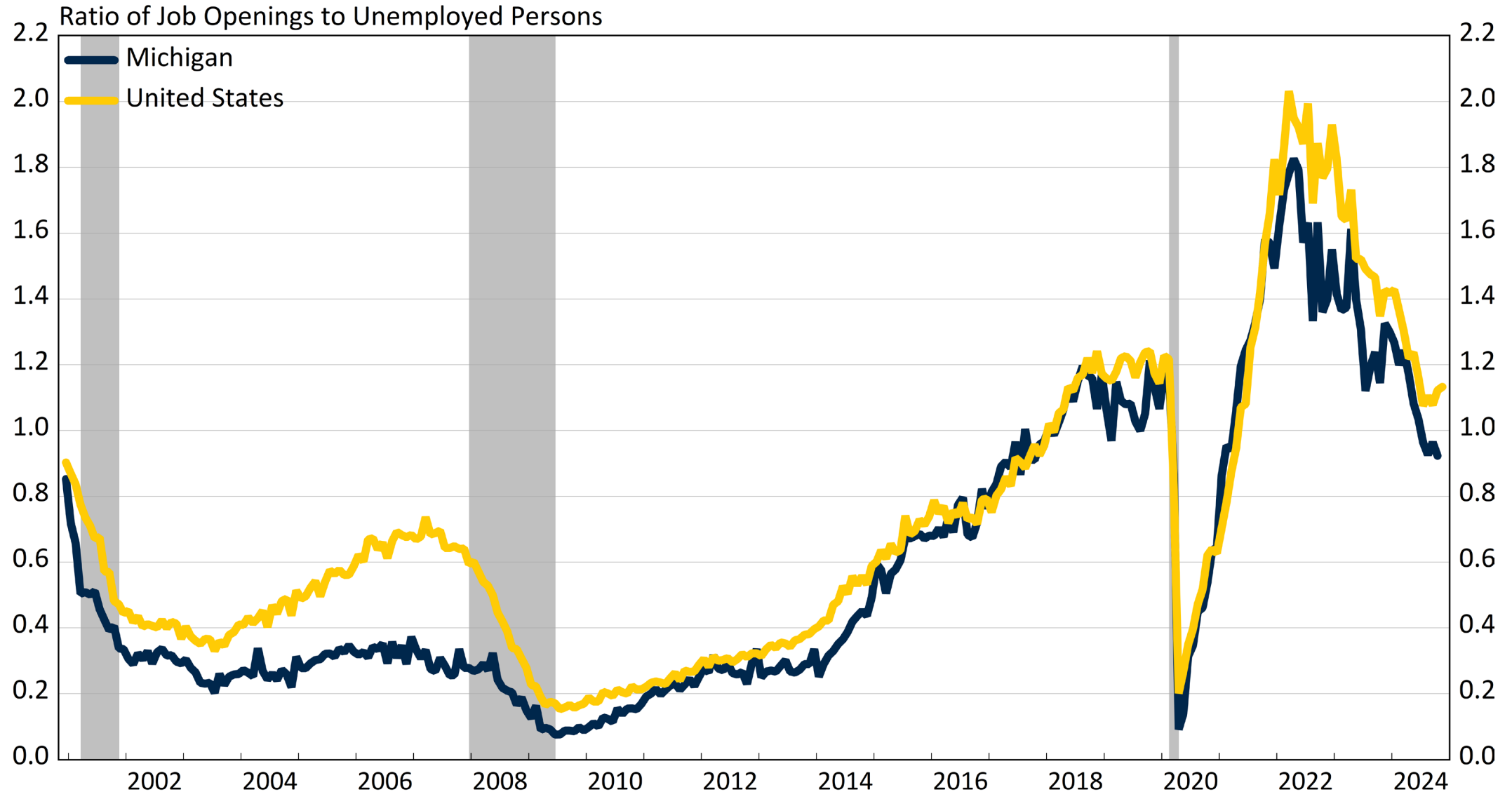
Local Job Gains Rebounded Last Fall...



... But Local Unemployment Rates Are Rising

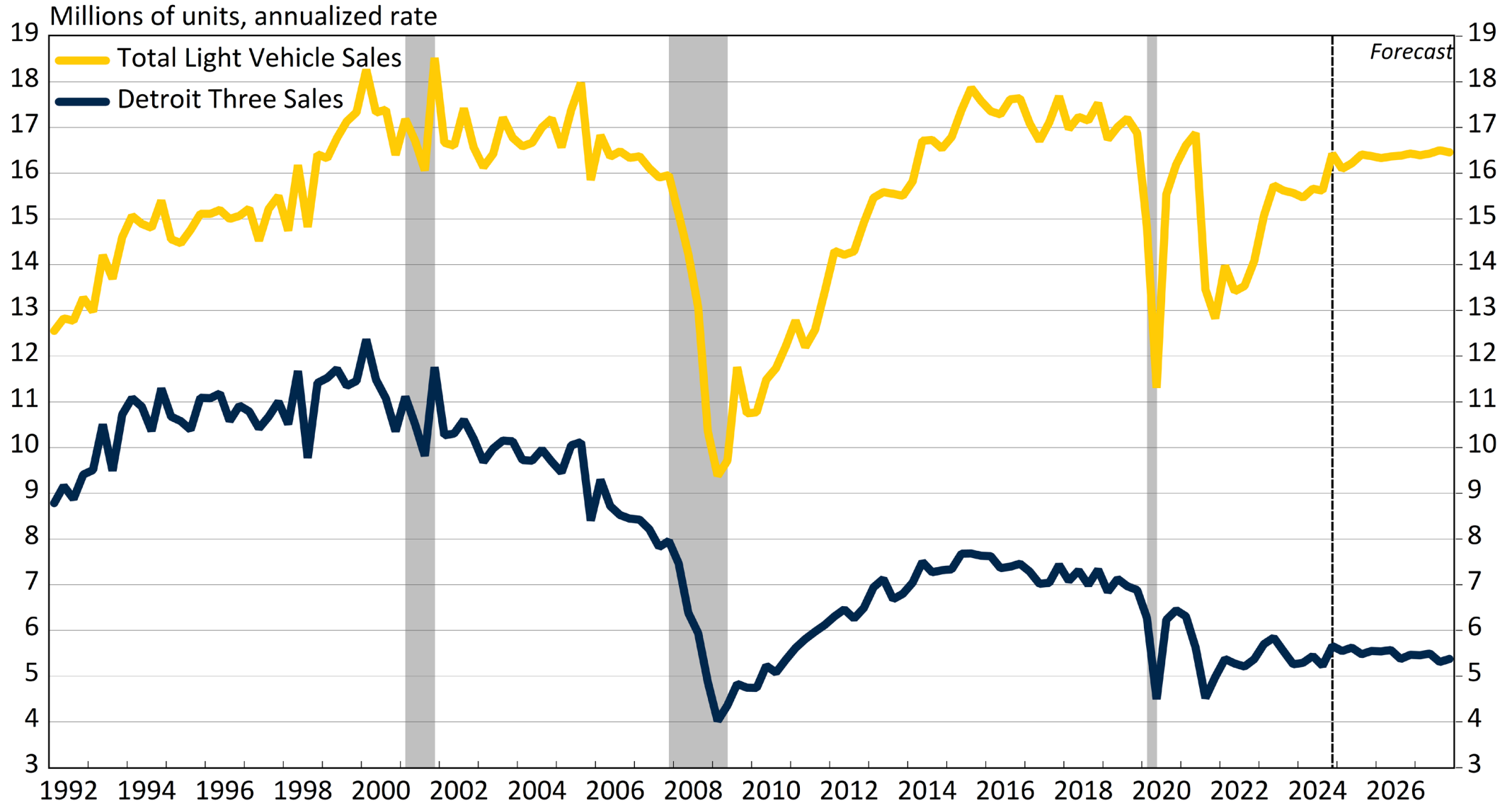


Labor Demand Has Returned to Pre-Pandemic Levels

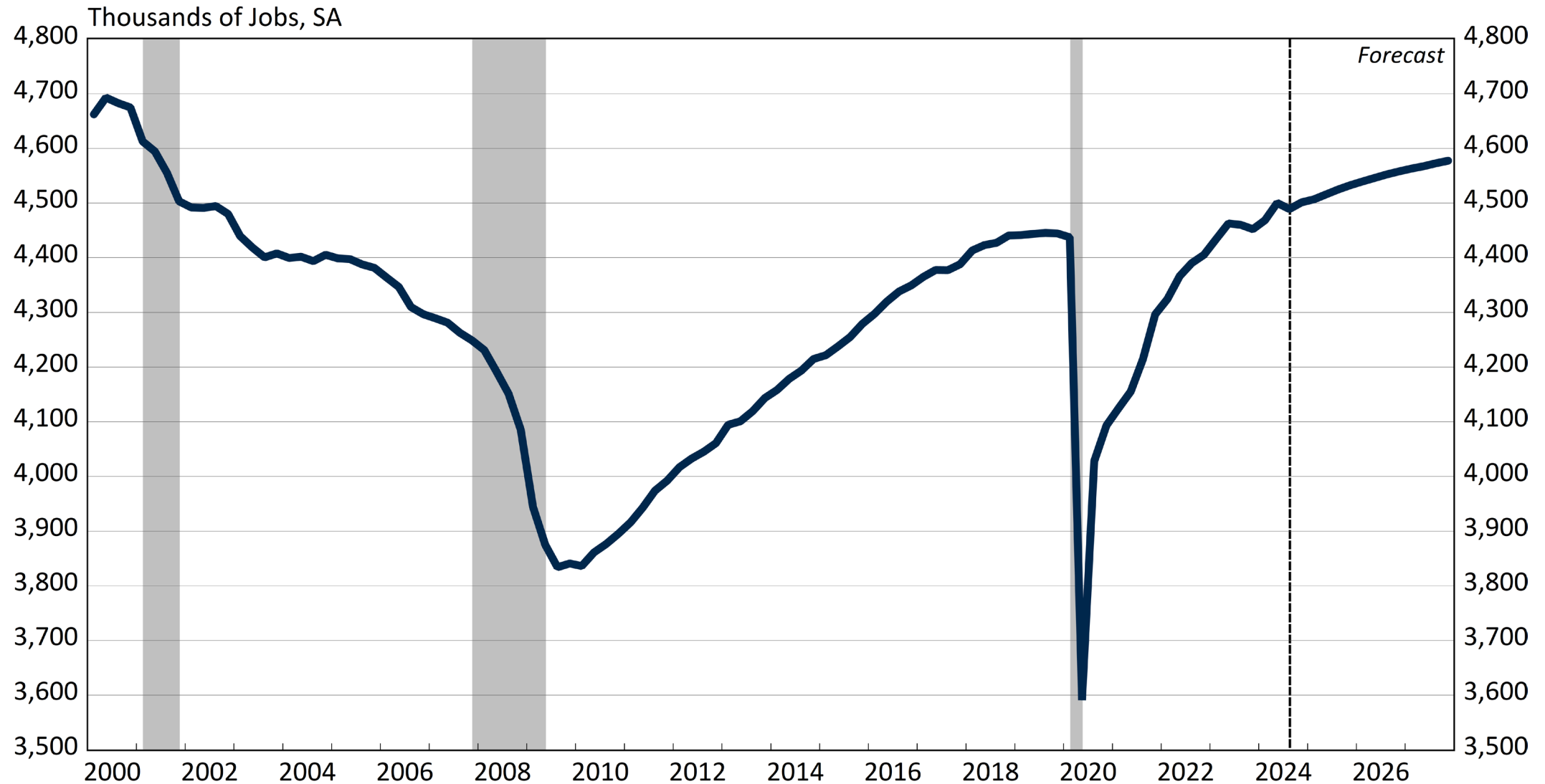


Michigan Economic Outlook

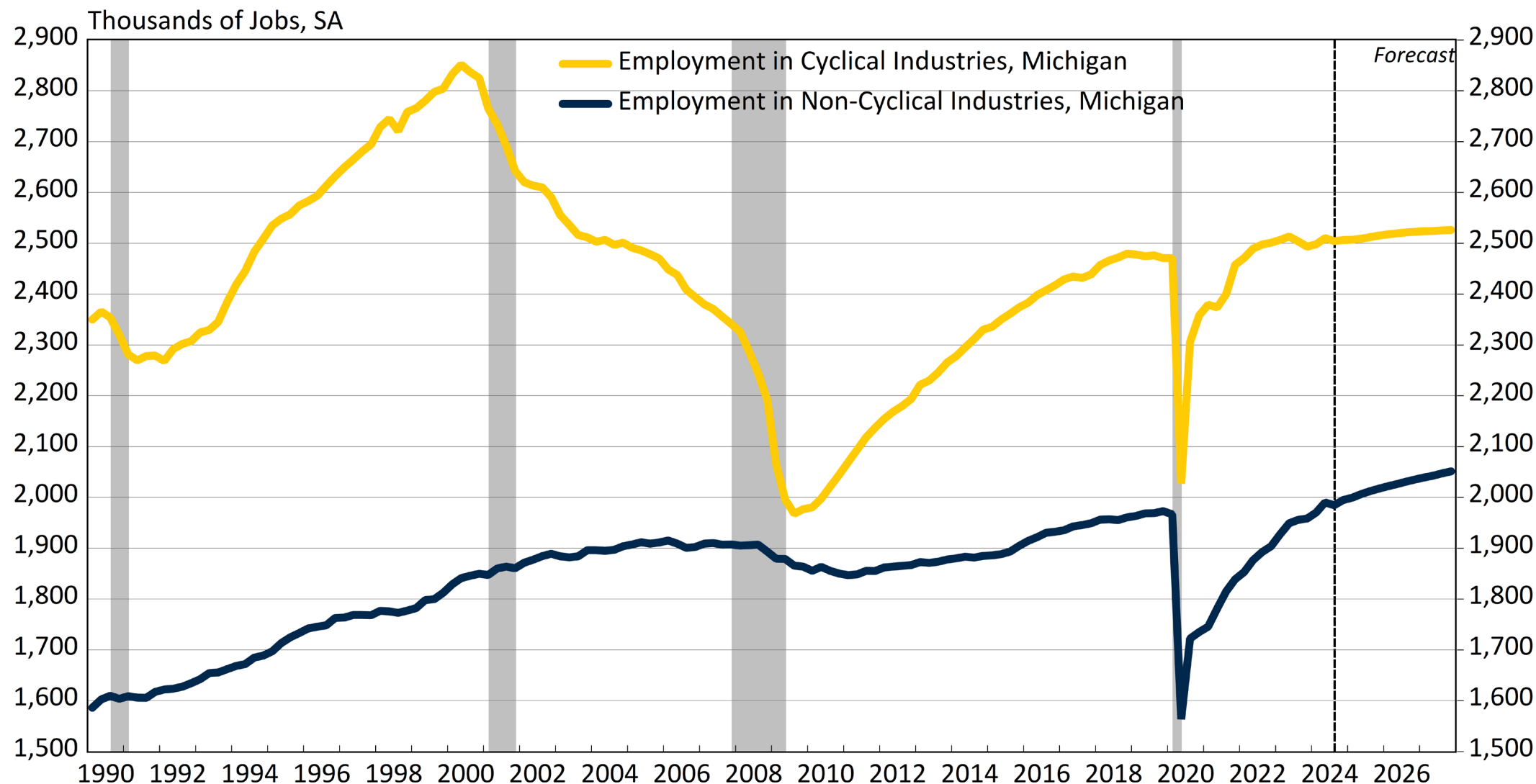
Light Vehicle Sales Near Cruising Speed



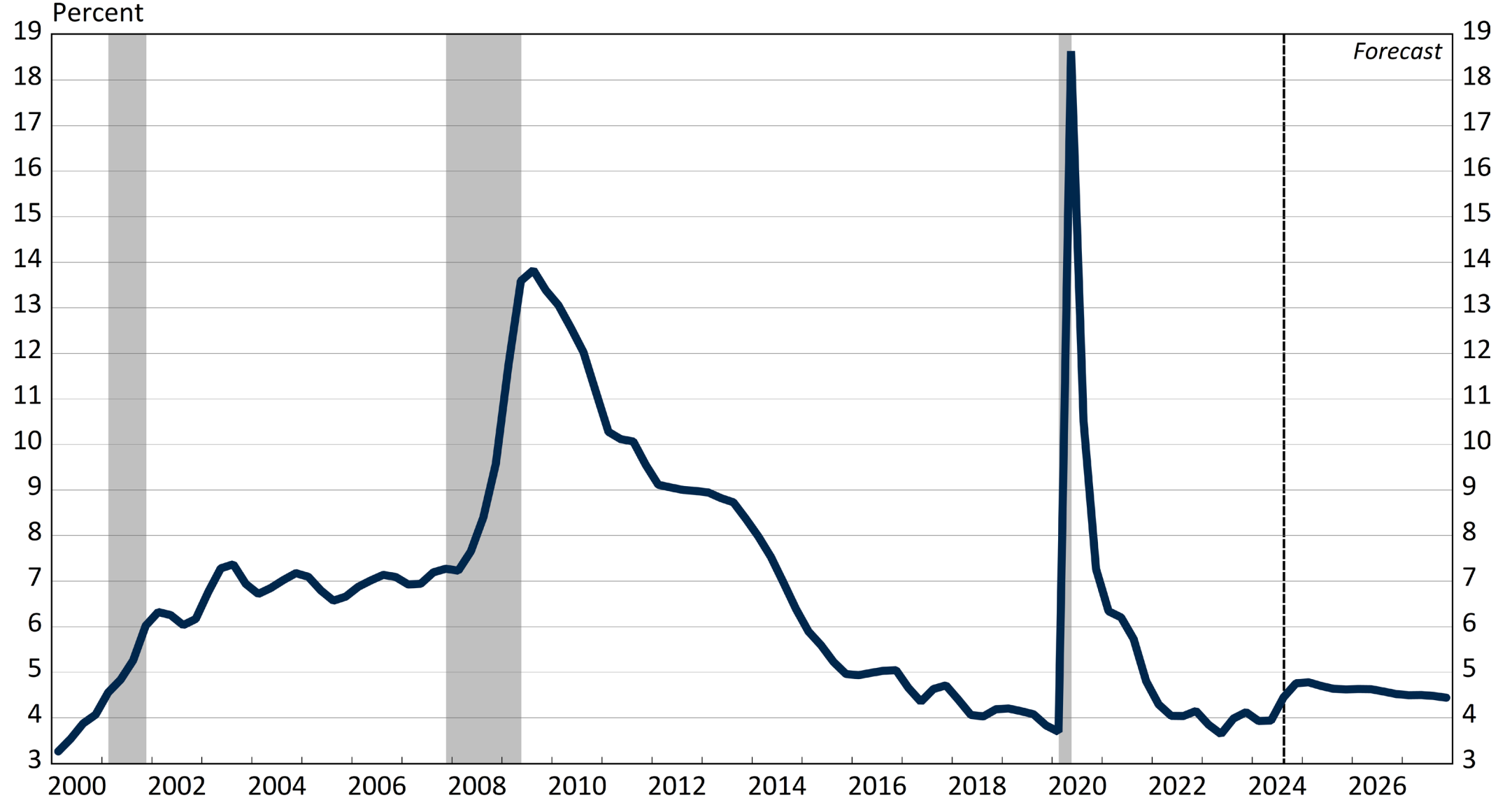
Michigan Employment Grows at a Moderate Pace



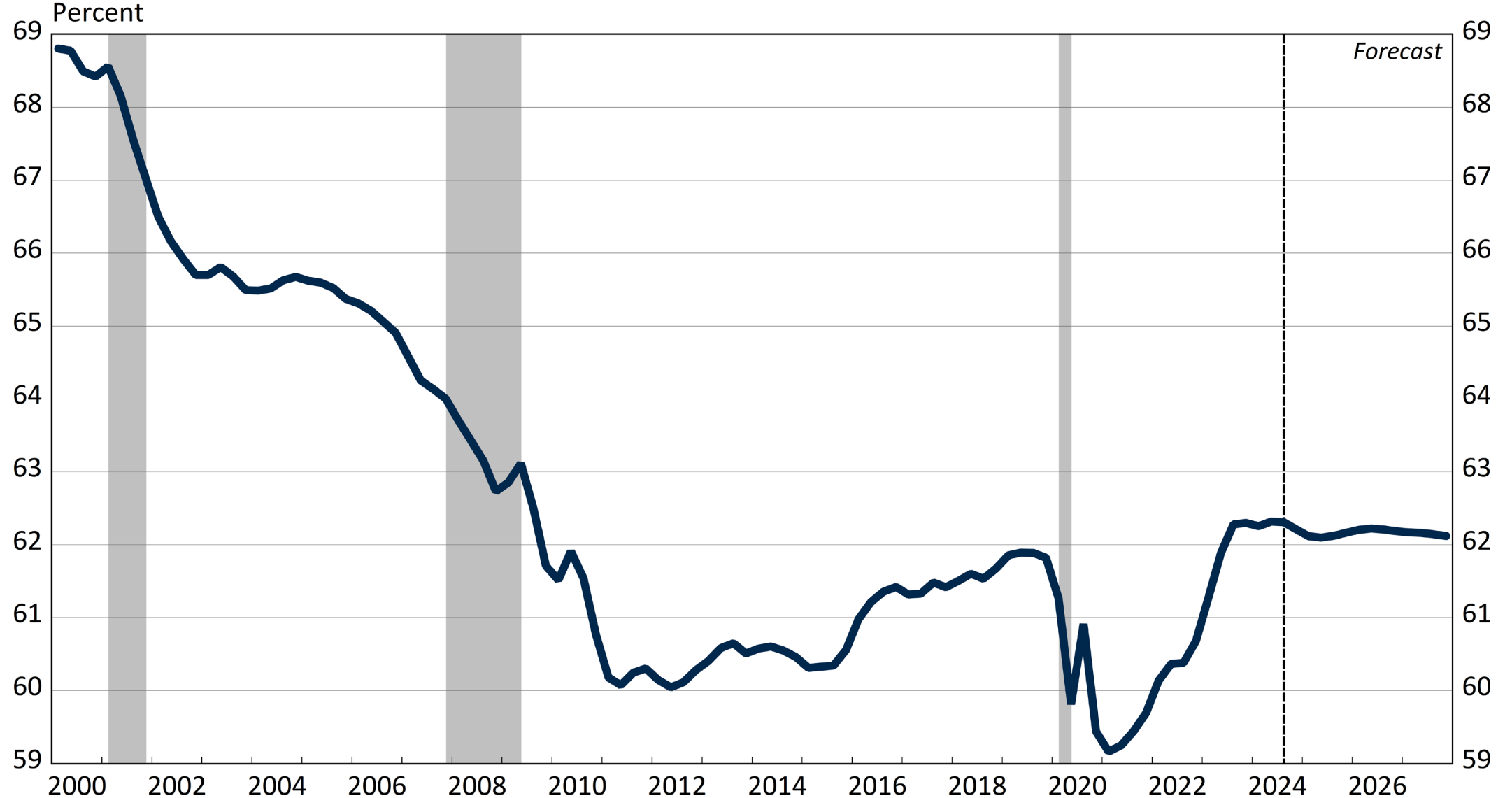
Non-Cyclical Industries Drive Employment Gains



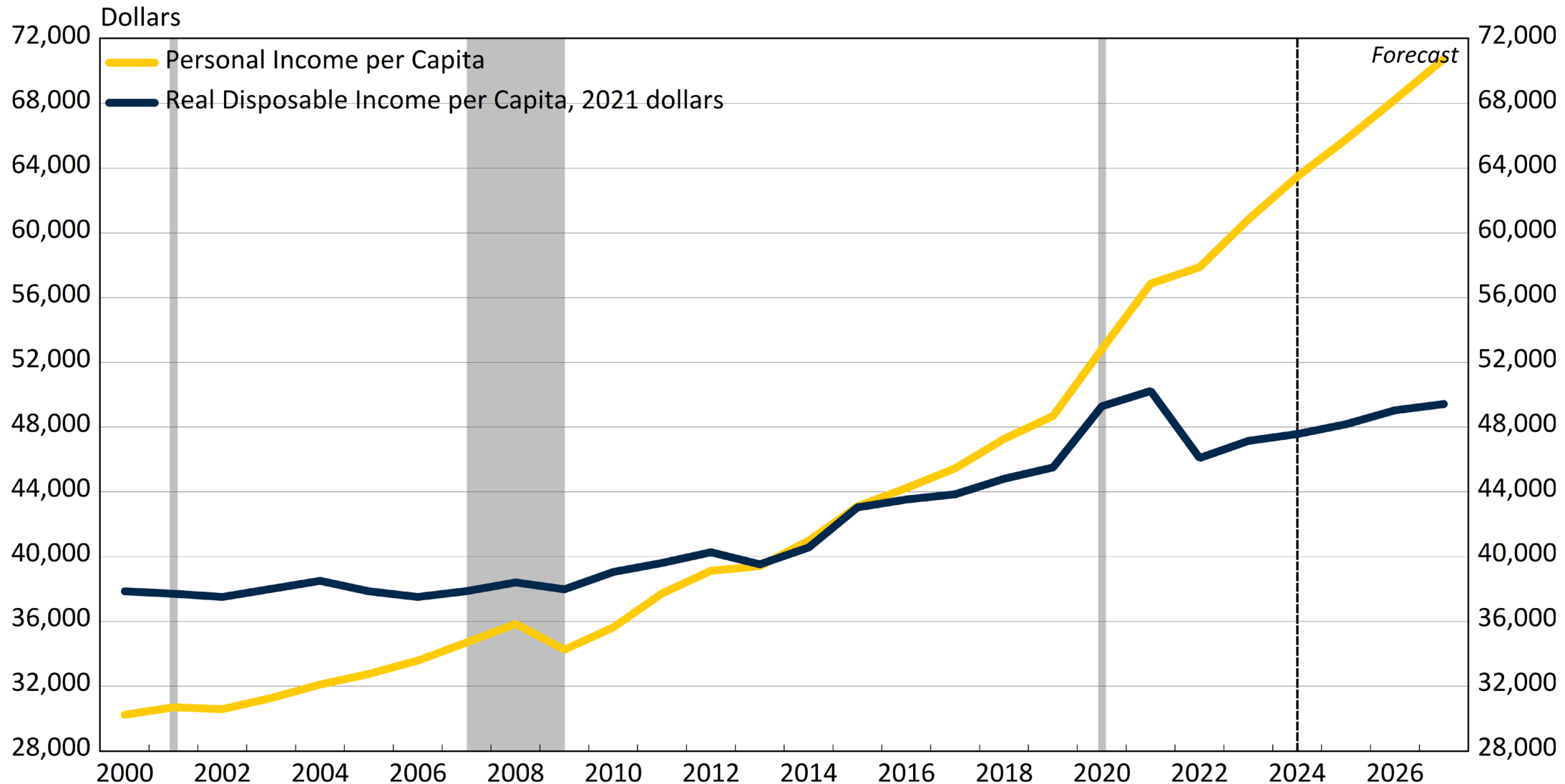
Michigan's Unemployment Rate Holds Roughly Flat



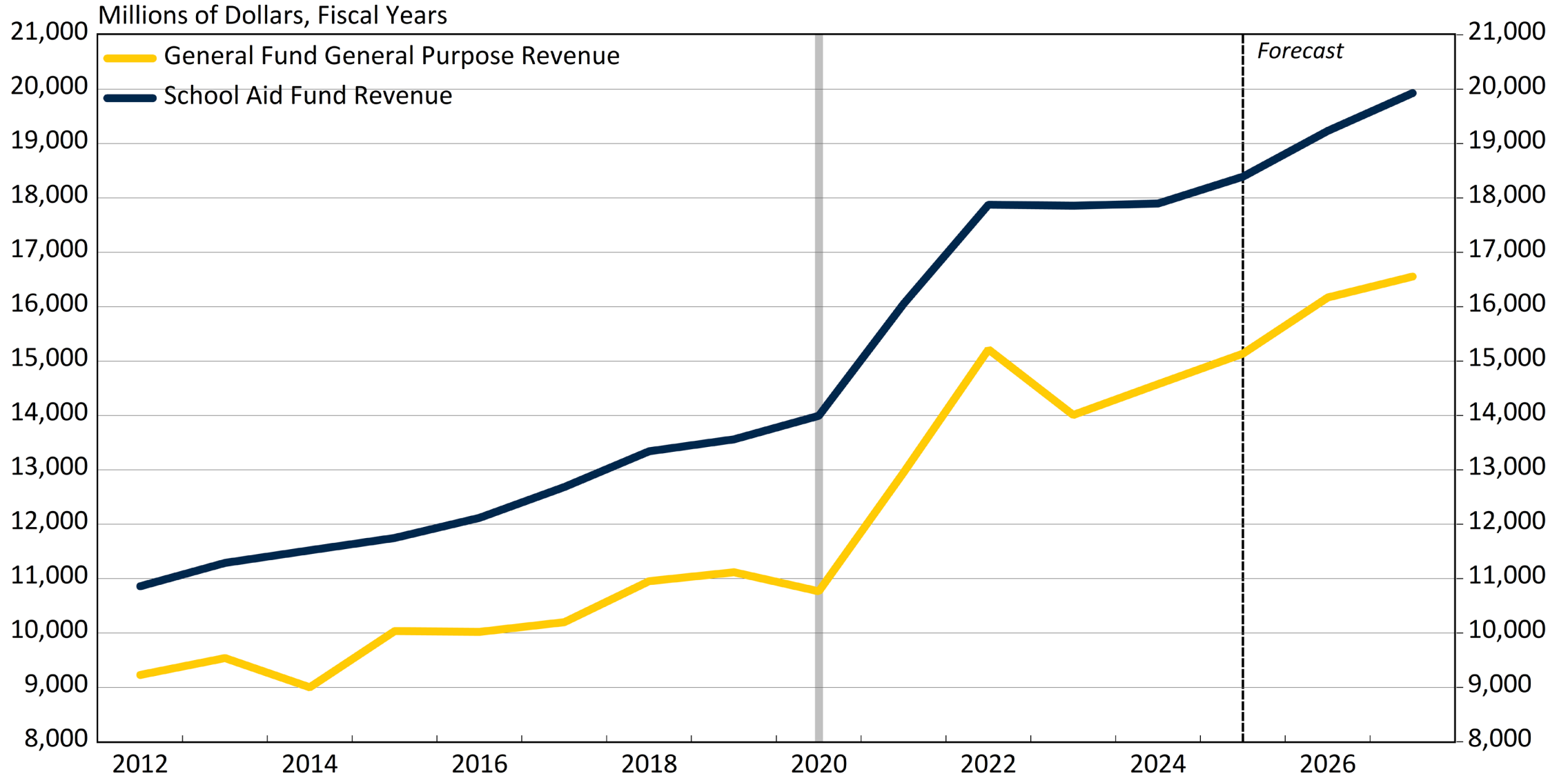
Michigan's Labor Force Participation Fights with Demographics



Michigan Real Disposable Income: New Data Paints a Prettier Picture



State Tax Revenues Grow at a Steadier Pace



Risks and Concluding Thoughts

- Largely a “soft landing” outlook for the Michigan economy
 - Moderate employment growth, rising real incomes, and growing tax revenues
- But many risks, including:
 - Changes to the state minimum wage and sick leave policies
 - Trade and tariff policy
 - The path of vehicle electrification
 - ... in addition to national economic risks



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