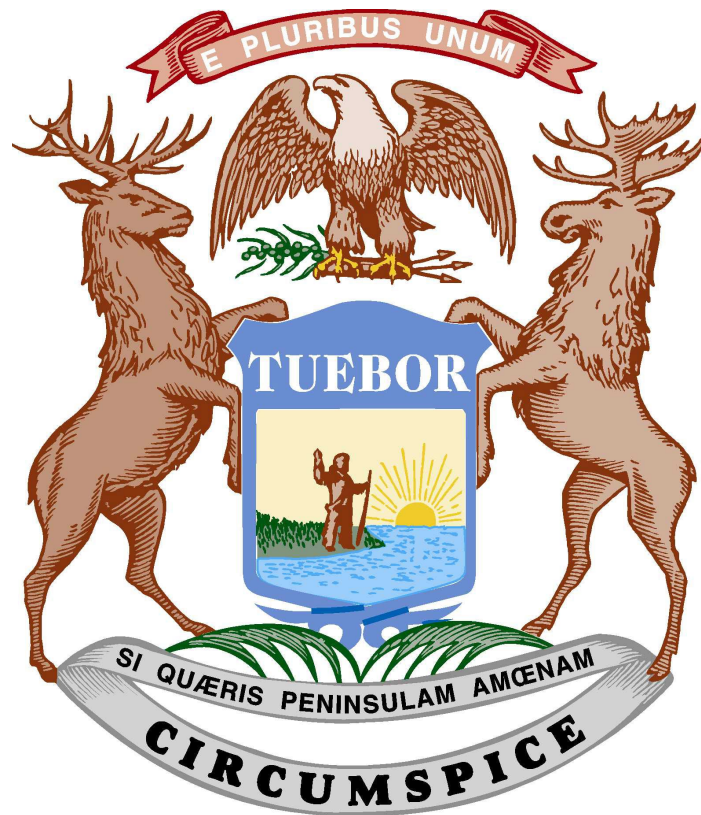


Economic and Revenue Outlook

FY 2023-24, FY 2024-25 and FY 2025-26

Michigan Department of Treasury



Rachael Eubanks, State Treasurer

Office of Revenue and Tax Analysis

Eric Bussis, Chief Economist and Director

Andrew Lockwood, Manager, Forecasting and Economic Analysis

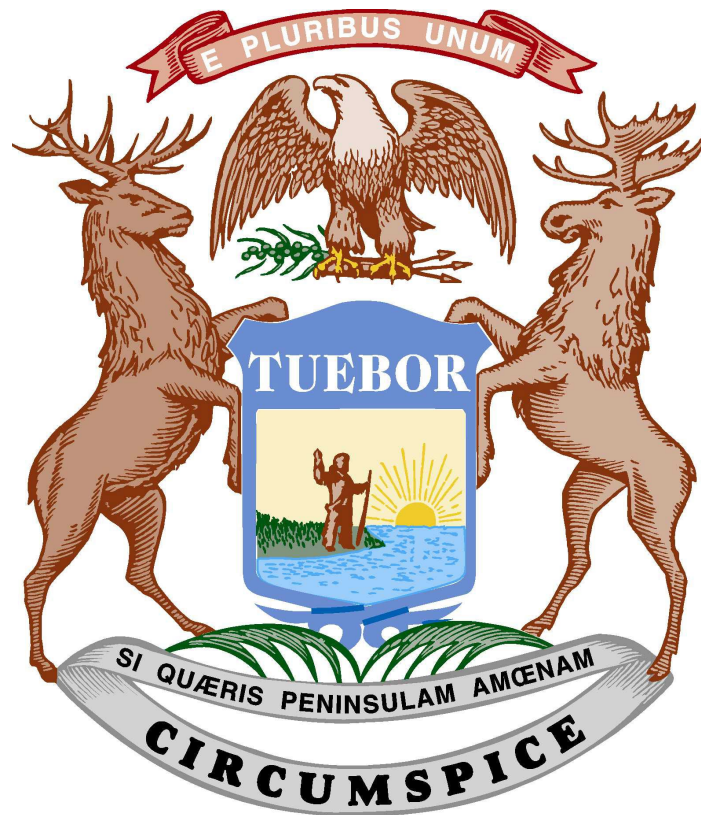
Denise Heidt, Economic Specialist

January 12, 2024

Economic and Revenue Outlook

FY 2023-24, FY 2024-25 and FY 2025-26

Michigan Department of Treasury



Acknowledgements

The Economic and Revenue Outlook was prepared by Eric Bussis, Director of the Office and Revenue and Tax Analysis (ORTA), Andrew Lockwood, and Denise Heidt of ORTA. ORTA economists Scott Darragh and Eric Krupka contributed to the estimates contained in the report.

Table of Contents

SECTION I: Administration Estimates – Executive Summary	1
<u>Administration Estimates – Executive Summary.....</u>	2
Revenue Review and Outlook	2
2024, 2025 and 2026 U.S. Economic Outlook	3
2024, 2025 and 2026 Michigan Economic Outlook	3
Forecast Risks.....	3
 SECTION II: Economic Review	 4
<u>Economic Review</u>	5
Current U.S. Economic Situation	5
Current Michigan Economic Conditions.....	11
 SECTION III: Administration Economic Forecast.....	 14
<u>Administration Economic Forecast.....</u>	15
Administration Economic Forecast Summary	15
2024, 2025 and 2026 U.S. Economic Outlook	15
2024, 2025 and 2026 Michigan Economic Outlook	17
Fiscal Year Economics.....	19
Forecast Risks.....	20

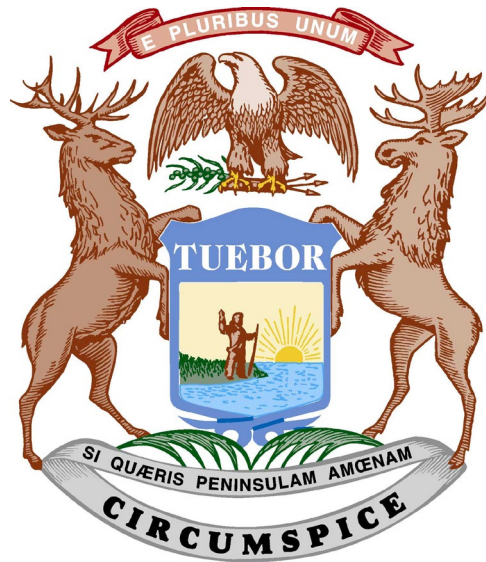
SECTION IV: Administration Revenue Estimates	21
<u>Administration Revenue Estimates</u>	22
Revenue Estimate Overview	22
FY 2023 Revenue Review	23
FY 2024 Revenue Outlook.....	24
FY 2025 Revenue Outlook.....	25
FY 2026 Revenue Outlook.....	26
Constitutional Revenue Limit.....	27
Budget Stabilization Fund Calculation.....	27
School Aid Fund Revenue Adjustment Factor.....	28
Revenue Detail.....	29

List of Tables

Table 1 Administration Economic Forecast	18
Table 2 FY 2022-23 Administration Revenue Estimates.....	23
Table 3 FY 2023-24 Administration Revenue Estimates.....	24
Table 4 FY 2024-25 Administration Revenue Estimates.....	25
Table 5 FY 2025-26 Administration Revenue Estimates.....	26
Table 6 Administration Revenue Limit Calculation	27
Table 7 Administration School Aid Revenue Adjustment Factor for FY 2025	28
Table 8 Administration School Aid Revenue Adjustment Factor for FY 2026	29
Table 9 Administration General Fund General Purpose Revenue Detail.....	30
Table 10 Administration School Aid Fund Revenue Detail.....	31
Table 11 Administration Major Tax Totals	31

SECTION I

Administration Estimates Executive Summary

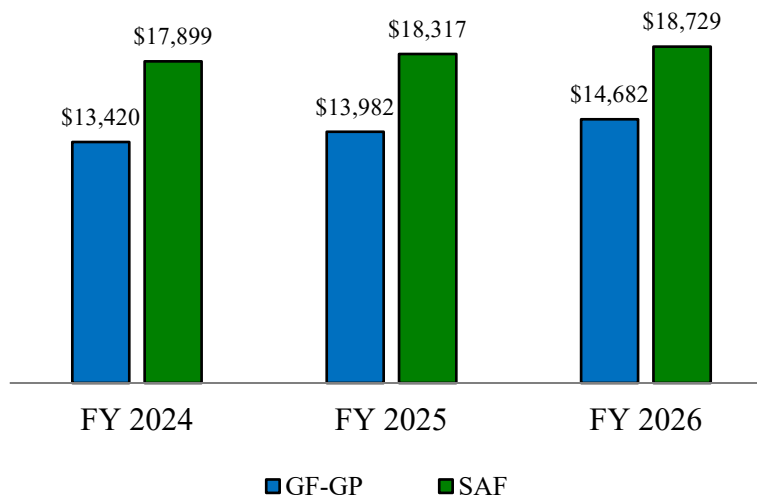


**Administration Estimates
Executive Summary
January 12, 2024**

Revenue Review and Outlook

- Preliminary FY 2023 GF-GP revenue is \$13,965.9 million, up \$177.9 million from the May 2023 Consensus estimate. Preliminary FY 2023 SAF revenue is \$17,859.4 million, up \$117.8 million from the May 2023 Consensus estimate.
- FY 2024 GF-GP revenue is forecast to decrease 2.5 percent to \$13,419.8 million, up \$181.6 million from the May 2023 Consensus estimate. FY 2024 SAF revenue is forecast to increase 0.2 percent to \$17,899.5 million, up \$11.3 million from the May 2023 Consensus estimate.
- FY 2025 GF-GP revenue is forecast to increase 4.2 percent to \$13,982.0 million, up \$65.6 million from the May 2023 Consensus estimate. FY 2025 SAF revenue is forecast to increase 2.3 percent to \$18,317.3 million, up \$51.4 million from the May 2023 Consensus estimate.
- FY 2026 GF-GP revenue is forecast to increase 5.0 percent to \$14,681.9 million. FY 2026 SAF revenue is forecast to increase 2.2 percent to \$18,728.5 million.

**Administration GF-GP and School Aid Fund
Revenue Estimates
(millions of dollars)**



Economic Outlook

- Real GDP is projected to increase 2.5 percent in 2023. Real GDP is forecast to rise 1.8 percent in 2024, 2.0 percent in 2025 and 2.2 percent in 2026. The U.S. economy is forecast to avoid a recession as interest rates and inflation are expected to subside from 2023 levels.
- U.S. employment is forecast to increase 2.4 percent in 2023, and is forecast to increase 1.1 percent in 2024, rise 0.7 percent in 2025 and then increase 0.9 percent in 2026.
- The national unemployment rate is forecast to be 3.7 percent in 2023. The U.S. unemployment rate is forecast to rise to 4.3 percent in 2024, remain at 4.3 percent in 2025 and then fall to 4.1 percent in 2026.
- Housing starts are projected to fall 11.4 percent in 2023. Starts are expected to drop 2.0 percent in 2024, then increase 3.7 percent in 2025 and rise 2.7 percent in 2026.
- In 2022, light vehicle sales fell to 13.8 million units. As supply constraints began to ease, light vehicle sales are forecast to finish at 15.5 million units in 2023. Sales are expected to increase to 16.1 million units in 2024 and increase to 16.3 million units in both 2025 and 2026.
- The U.S. CPI rose sharply by 8.0 percent in 2022. Inflation declined over the past year and is forecast to be 4.2 percent in 2023. Inflation is expected to increase 3.2 percent in 2024, rise 2.8 percent in 2025, and increase 2.6 percent in 2026.

Michigan Economic Outlook

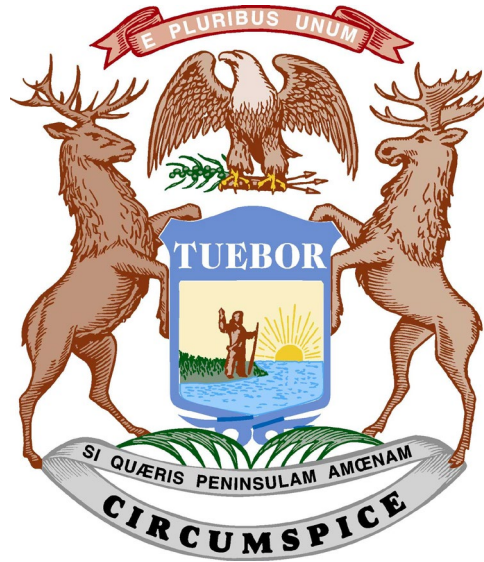
- In 2022, Michigan wage and salary employment rose 3.9 percent. State job growth grew more slowly in 2023 at a projected 1.5 percent. Michigan employment is expected to increase 0.7 percent in 2024 and 2025 and rise 0.5 percent in 2026.
- The Michigan unemployment rate was 4.2 percent in 2022 and is expected to fall to 3.9 percent in 2023. The Michigan unemployment rate is forecast to rise to 4.4 percent in 2024 and 2025, and then decline to 4.2 percent in 2026.
- Michigan wages and salaries rose 7.8 percent in 2022 and are expected to increase 5.4 percent in 2023. Wages and salaries are forecast to increase 4.1 percent in 2024, rise 3.7 percent in 2025, and increase 3.5 percent in 2026.
- Michigan personal income rose a slight 0.7 percent in 2022 and is forecast to rise 4.1 percent in 2023. Personal income is projected to increase 3.3 percent in 2024 and rise 3.8 percent in both 2025 and 2026.

Forecast Risks

- Interest rates remain a risk for business investment and consumer spending. Restrictive monetary policy coupled with unforeseen shocks could push the U.S. economy into a downturn.
- Higher than projected inflation could result in slower economic growth.
- A U.S. federal government shutdown could slow the U.S. and Michigan economies.
- Geopolitical conflicts could have a negative impact on domestic economic activity.
- A stronger than expected housing market could help sustain or increase economic growth.
- Demand for new vehicles is expected to increase, but higher than expected interest rates and continued supply chain issues could lower sales.

SECTION II

Economic Review



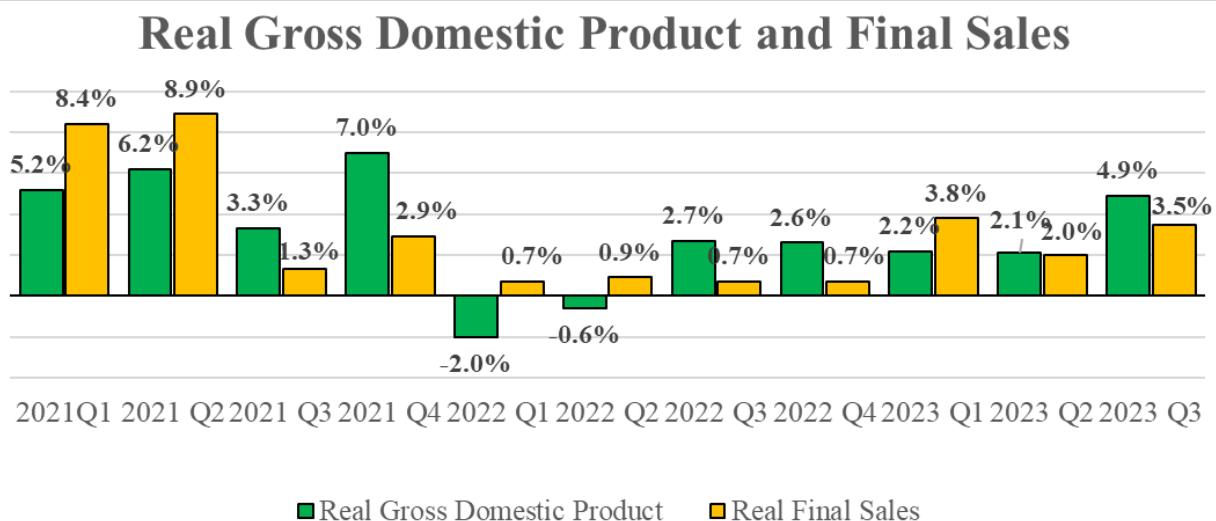
Economic Review January 12, 2024

Current U.S. Economic Situation

Current Economy

During 2023, the economy was resilient as interest rate increases and relatively high inflation did not tip the overall economy into recession. Strong employment growth, low unemployment rates and inflation falling from recent highs contributed to the positive economic growth in 2023. Real GDP declined slightly in the first half of 2022 due to inventory and trade fluctuations while the fundamentals of the economy continued modest growth. Since the third quarter of 2022, real GDP has grown at a solid rate. Real GDP growth accelerated in 2023Q3 to 4.9 percent boosted by consumption, inventory accumulation and government spending.

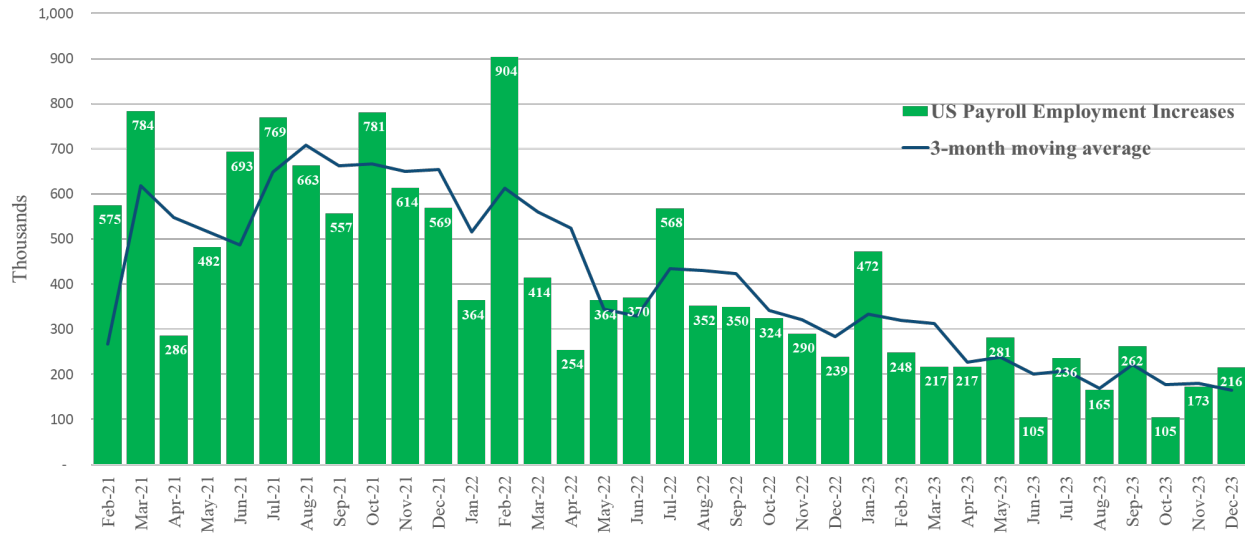
Real final sales, a measure of current domestic demand, which excludes inventory changes and exports but includes imports, grew a slight 0.7 percent annual rate in 2022Q4 before growing at a substantial 3.8 percent annual rate in 2023Q1. In 2023Q2 real final sales slowed slightly to 2.0 percent but rebounded in 2023Q3 – growing at a 3.5 percent annual rate.



Source: Bureau of Economic Analysis

While growing more slowly in 2023 compared with the prior year's rapid growth, U.S. employment growth remained at historically high rates in 2023. Averaging 492,000 jobs per month in FY 2022, monthly employment gains slowed to 266,000 in FY 2023. Job gains trended modestly slower across calendar year 2023. Monthly gains averaged 257,000 jobs per month over the first half of the calendar year before slowing to 193,000 jobs per month over the second half. In December 2023, wage and salary employment was 1.7 percent higher than a year ago. U.S. employment was 4.9 million jobs above its pre-pandemic peak level in December 2023.

Cumulative Change in U.S. Payroll Employment



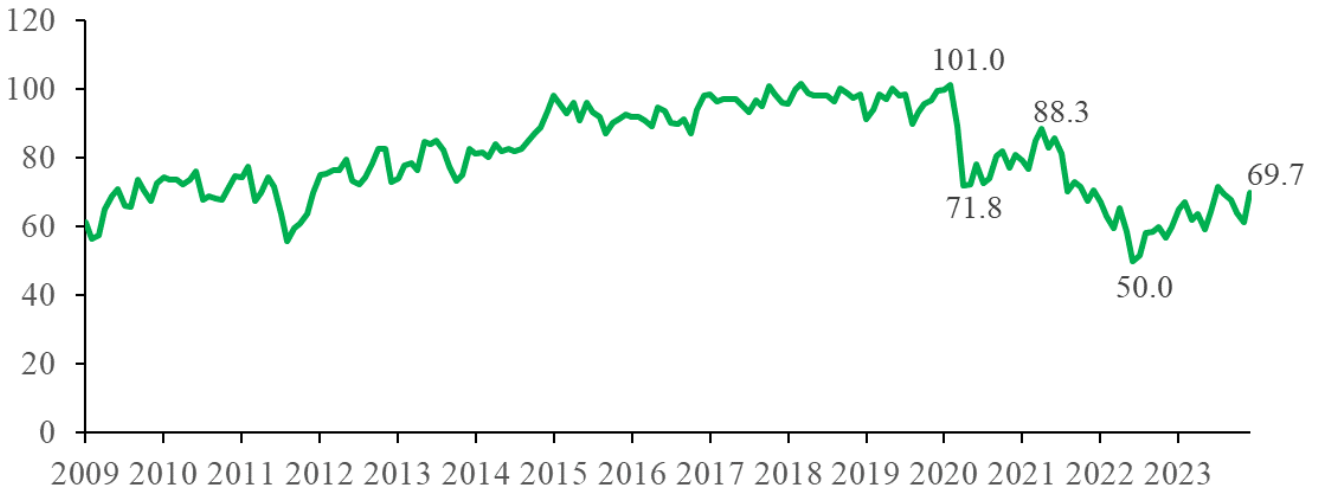
Source: Bureau of Labor Statistics

The U.S. unemployment rate remained historically low and was between 3.4 percent and 3.9 percent during 2023. Since 2022, the unemployment rate has not been above 4.0 percent. In December 2023, the rate stood at 3.7 percent.

Job openings, measured by JOLTS, remain well above pre-pandemic highs, but have declined from the record high 12.0 million openings in March 2022 – declining to 8.8 million in November 2023. Similarly, quits, which peaked at 4.5 million in November 2021, dropped to a still historically high 3.4 million in November 2023. The job openings rate (number of job openings divided by the sum of job openings and employment), which peaked in March 2022 at 7.4 percent, was down to 5.3 percent in November 2023 – but remained well above the pre-pandemic February 2020 rate of 4.4 percent.

Consumer sentiment began to recover in 2023 from the lows recorded in 2022 when high inflation was high. The index was up to 71.5 by July 2023, up significantly from the 50.0 recorded in June 2022 when inflation spiking severely affected consumers' purchasing power. The index had fallen to 61.3 by November due to the potential government shutdown and inflation persisting in some areas but increased to 69.7 in December.

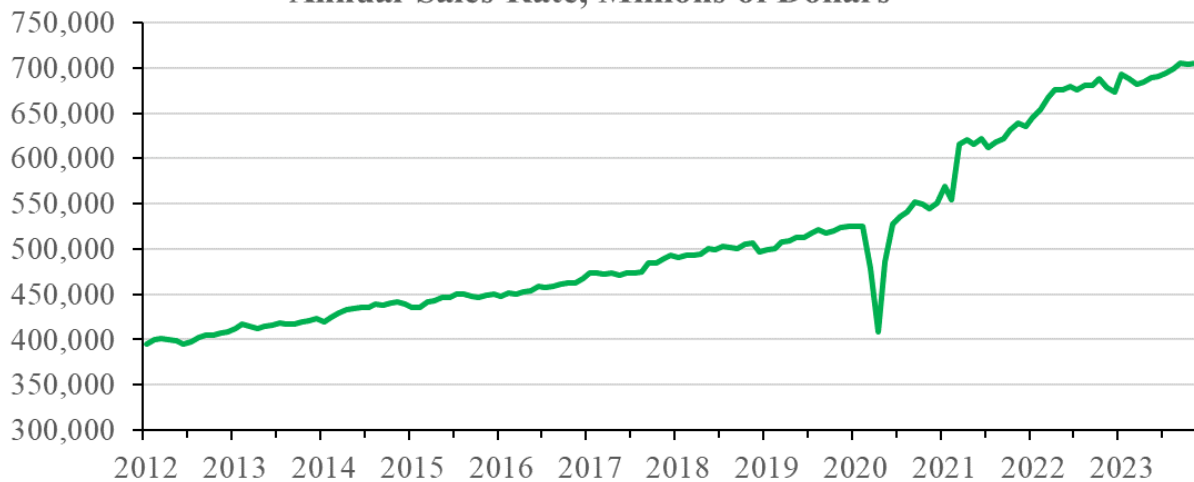
Index of Consumer Sentiment University of Michigan Consumer Survey



Source: University of Michigan Survey Research Center

In early 2023, retail sales were flattening out, but picked up over the summer months. November 2023 retail sales were up 4.1 percent from a year earlier. The outlook for retail sales is mixed as high interest rates continue to affect large purchases but low unemployment rates and income growth will support spending.

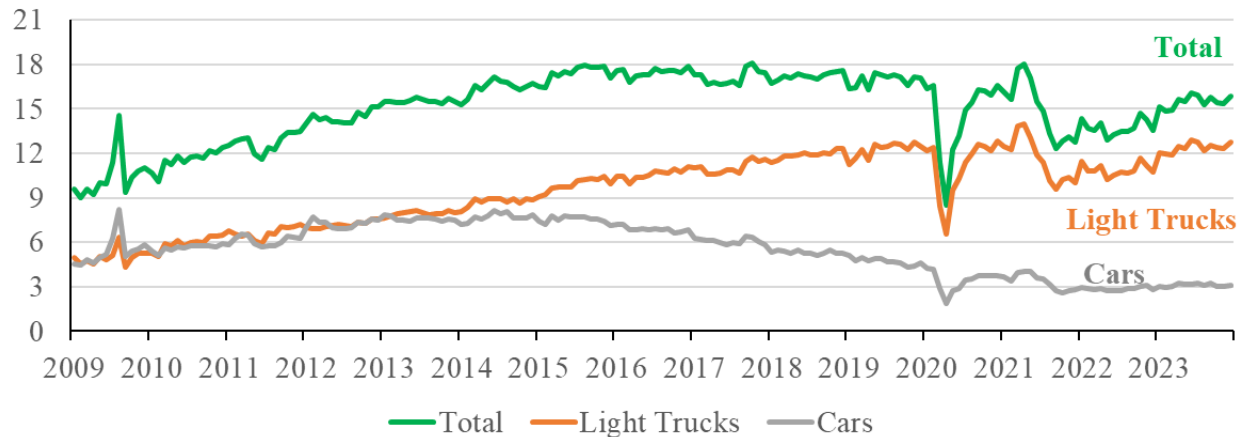
Retail Sales Increasing Annual Sales Rate, Millions of Dollars



Source: U.S. Census Bureau

As the auto industry adapted to manage production in an environment of supply chain constraints, light vehicle sales increased from 13.8 million units in 2022 to 15.5 million units in 2023. Light trucks sales grew to 12.4 million units in 2023 (an increase of 13.6 percent from 2022). Total light vehicle sales are expected to continue to be driven by light trucks sales in the coming years.

Light Vehicle Sales Slowly Increase Seasonally Adjusted Annual Rate (millions)



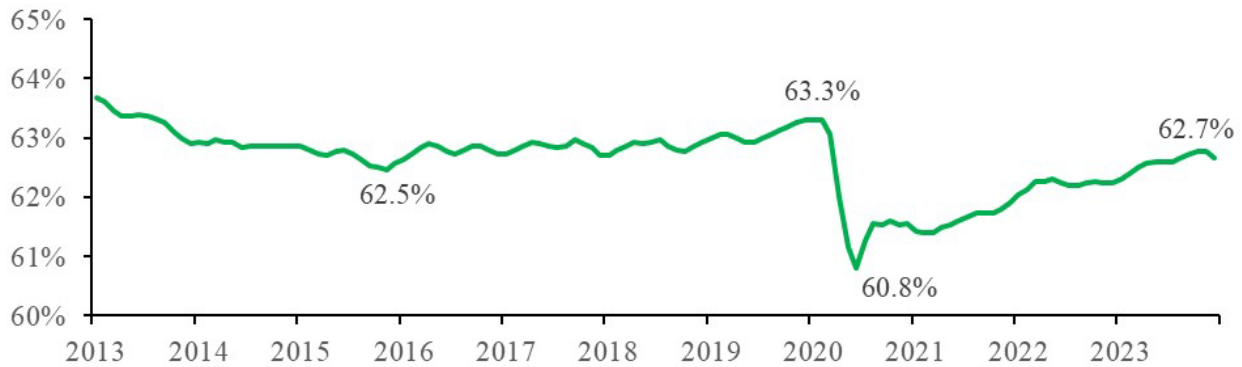
Source: Bureau of Economic Analysis

National motor vehicle production was up 4.6 percent in the first eight months of 2023 compared to the same period in 2022, as the semi-conductor shortage that had plagued the industry since 2021 was largely resolved by mid-2023. For the first eight months of 2023, car production was up 4.4 percent while light truck production was 4.7 percent higher than the same period in 2022. Production slipped in September and October of 2023 as the UAW went on strike between mid-September to the latter part of October, hitting light truck production harder than other vehicles production. Production rebounded in November bringing total national vehicle production up 2.2 percent from a year ago for the first 11 months of the year.

Housing starts were generally weak during 2023 as mortgage interest rates rose during the year. Mortgage rates have risen sharply since a low of 2.65 percent for a 30-year mortgage in January 2021 to a high of 7.79 percent in October 2023. The 30-year average mortgage rate has since fallen to 6.61 percent by the end of December 2023. The annual average rate for housing starts in 2023 averaged between 1.3 million to 1.4 million units during most months of the year. In November, the annual average rate for housing starts rose sharply to 1.56 million units at an annual rate as mortgage rates have stabilized and started to fall. Declining mortgage rates could help the housing market in 2024.

The labor force participation rate (the share of the working-age population who are in the labor force either working or actively looking for work) averaged 63.1 percent in 2019. However, with the onset of the pandemic, the participation rate fell sharply down. In calendar year 2020, the participation rate fell to 61.7 percent, where it remained in 2021. In calendar year 2022, the labor force participation rate rose to 62.2 percent but still nearly one percentage point below the pre-pandemic rate. In 2023, the labor force participation rate continued its slow increase. In January 2023 the labor force participation rate was 62.4 percent and has slowly inched up throughout the year but dipped to 62.5 percent in December 2023. The three-month average is at 62.7 percent and is approaching the levels seen right before the pandemic.

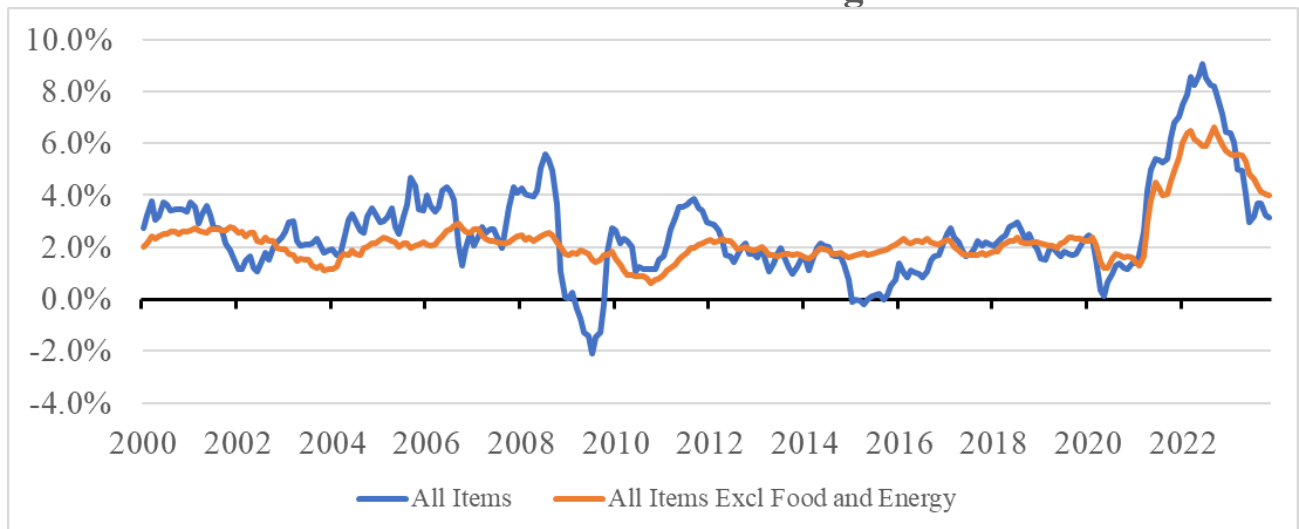
U.S. Labor Force Participation Rate October 2013 to December 2023 Three-Month Average



Source: Bureau of Labor Statistics

Price inflation slowed from its historic highs reached in 2022. Between October 2022 and June 2023, year-over-year increases in the U.S. consumer price index (CPI) decelerated from 7.7 percent to 3.0 percent. Year-over-year CPI increases accelerated to 3.7 percent in August, and also in September, until finally receding and dropping to 3.2 percent in October, and to 3.1 percent in November. The less volatile core U.S. CPI, which excludes food and energy, also moved at a slower pace in 2023 compared to last year's historically rapid rates. Year-over-year core CPI increases decelerated from 6.3 percent in October 2022 to 4.0 percent in November 2023. The personal consumption expenditure (PCE) deflator, the Federal Reserve's preferred inflation measure, slowed substantially in 2023. The year-over-year increase in the PCE deflator decelerated between October 2022 and November 2023 from 6.3 percent to 2.6 percent – the lowest year-over-year increase since February 2021 (1.9 percent).

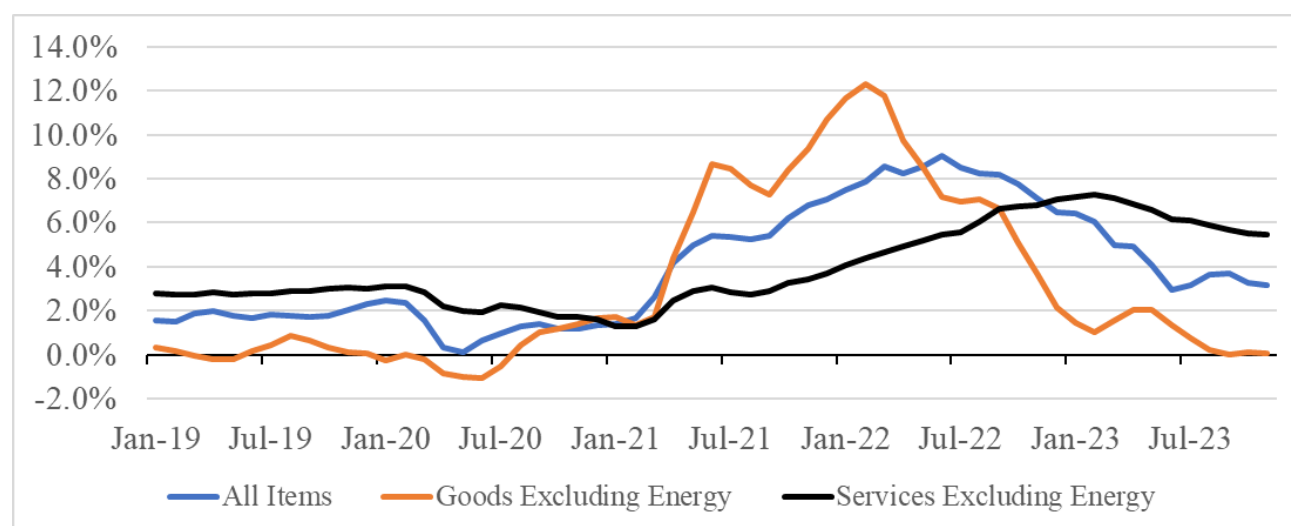
Overall Inflation Slows During 2023



Source: Bureau of Labor Statistics

While goods inflation continued to decelerate during 2023, service inflation accelerated through February, before gradually slowing in the following months of the year. The y-o-y increase in the goods CPI excluding energy and food peaked at 12.3 percent in February 2022. Goods inflation then gradually declined, unchanged year-over-year by November 2023. Conversely, services inflation excluding energy services trended faster between February 2021 and February 2023 – increasing from 1.3 percent to 7.3 percent. Since then, year-over-year services inflation excluding energy services has moderated, slowing to 5.5 percent in November.

Goods Inflation Slows While Services Inflation Accelerates



Source: Bureau of Labor Statistics

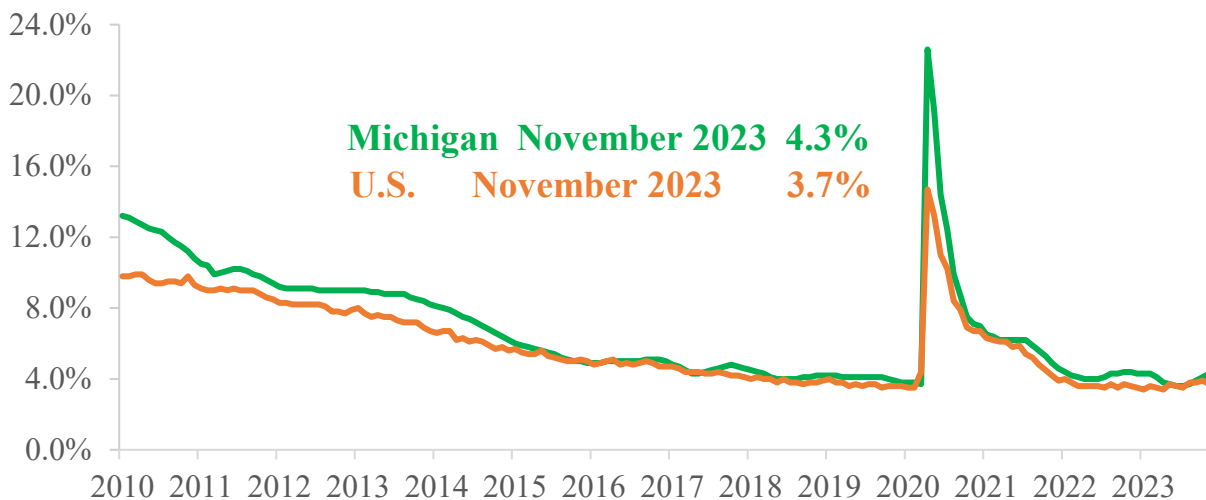
The Federal Reserve continued its shift to a more contractionary policy regime through 2023. After having raised the federal funds rate 4.25 percentage points in CY 2022, the Fed increased the rate an additional 1.00 percentage point in CY 2023 to a 22-year high range of 5.25-5.50 percent. Noting that the impact of the tightening remains uncertain, the Fed slowed its rate of increase over the calendar year and left the federal funds rate unchanged in its last three meetings in 2023. The Fed continued decreasing its asset holdings in calendar year 2023 – reducing its holdings by 9.9 percent from the end of 2023 compared to the end of 2022.

The U.S. federal budget deficit rose to \$1.695 trillion in FY 2023. Tax revenues fell and outlays for Social Security and Medicare rose. In addition, record high interest costs increased the federal deficit. The federal budget has remained a source of uncertainty. In 2023, a second Continuing Resolution (CR) was passed to keep the federal government open. The current CR passed funding under four appropriation bills until January 19, 2024, and funding for other agencies until February 2, 2024. There is potential for a federal government shutdown in 2024 if lawmakers do not agree on a budget or another CR.

Current Michigan Economic Situation

After raising an average of 7,300 net jobs per month during 2022, Michigan wage and salary employment decelerated in 2023, with an average net gain of 3,000 jobs per month for the first 11 months of the year. Employment losses in 2023 were concentrated on the second half of the year, notably in September and October, and largely reflect the temporary impact of the UAW strike during this period. In November 2023, Michigan wage and salary employment stood at 4.4 million, with a year-to-date net gain of 33,400 jobs.

Monthly Unemployment Rates Remain At Historic Low Levels



Source: Bureau of Labor Statistics.

The quiet resilience of the job market in Michigan resulted in a continued decline in the state unemployment rate in 2023. After the Michigan unemployment rate registered 4.0 in April 2022, it fell further to 3.8 percent a year later. The rate continued to decline to 3.6 percent in June 2023 – the lowest unemployment rate since June 2000. The rate remained under 4.0 percent for the coming months until it increased to 4.1 percent in October, and then to 4.3 percent in November.

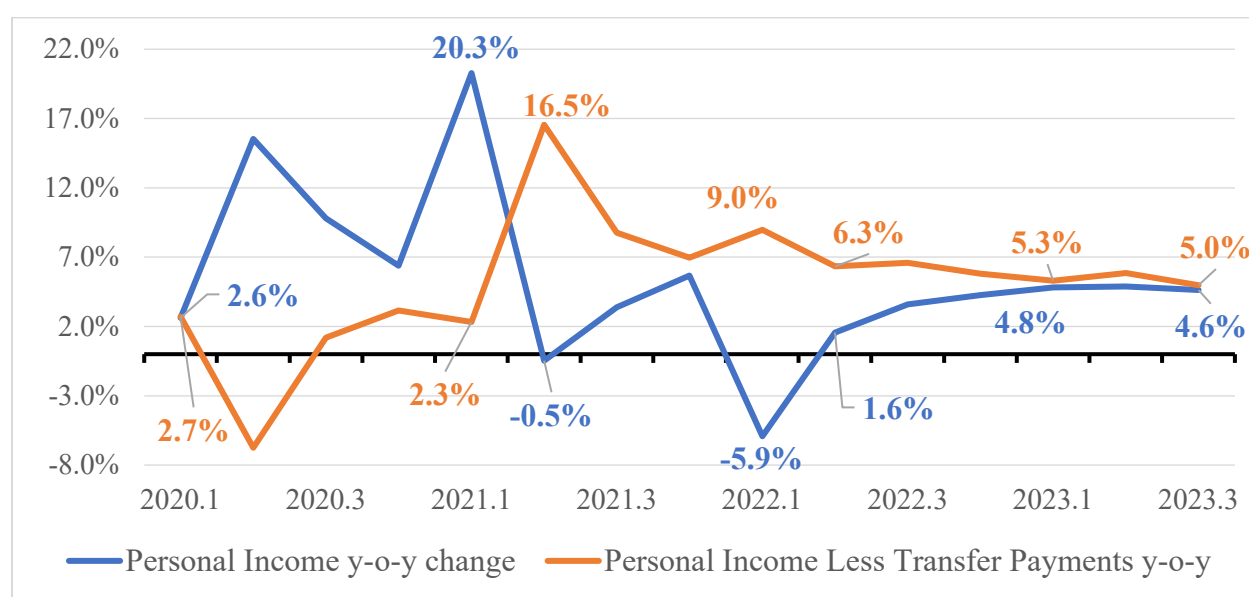
The Michigan's labor force participation rate increased steadily in 2023, after losing momentum in 2022. From the 2022 annual labor force participation rate of 59.9 percent, the Michigan rate climbed every month in 2023, reaching 61.8 in October 2023, and 62.1 percent in November 2023 (preliminary data). The average labor participation for the first 11 months of 2023 stands at 60.8 percent, nearly 1.0 percentage point above the 2022 annual rate, but still below the 2019 annual participation rate of 61.8 percent.

Compared to the prior year, Michigan personal income increased in all quarters from 2022Q2 through 2023Q3, reflecting the strength in earnings from work, and in dividends, interest and rent income during the period. Overall, Michigan personal income increased at a year-over-year rate of 3.6 percent in 2022Q3 and increased to 4.6 percent in 2023Q3.

Michigan transfer payments decreased more markedly than the national average during 2022 and increased at a slower rate than the U.S during 2023. By 2023Q3, Michigan transfer payments recovered, increasing 3.3 percent from the same period in the prior year, compared to the national year-over-year growth of 2.8 percent.

As a result, Michigan personal income less transfer payments increased year-over-year each quarter since 2022 – with growth rates ranging from 9.0 percent to 5.0 percent in the period. By 2023Q3, Michigan personal income less transfer payments growth rates returned to levels more in line with pre-pandemic growth rates – before the massive transfer payments in 2020 and 2021 were implemented to counter the substantial decline in economic activity brought by the pandemic.

Personal Income Year-over-Year Percent Changes



Source: Bureau of Economic Analysis.

Despite supply-chain disruptions and shortage of semi-conductor chips in the past two years, Michigan motor vehicle production increased at an impressive pace during the period, growing 16.9 percent in 2021, and 16.6 percent in 2022. These increases were largely due to the strong production of light trucks, which grew 21.3 percent in 2021, and 15.5 percent in 2022. Michigan car production, which has had negative growth rates since 2017, continued to decrease in 2021 at a negative 19.2 percent rate, only recovering in 2022, with an increase of 31.6 percent.

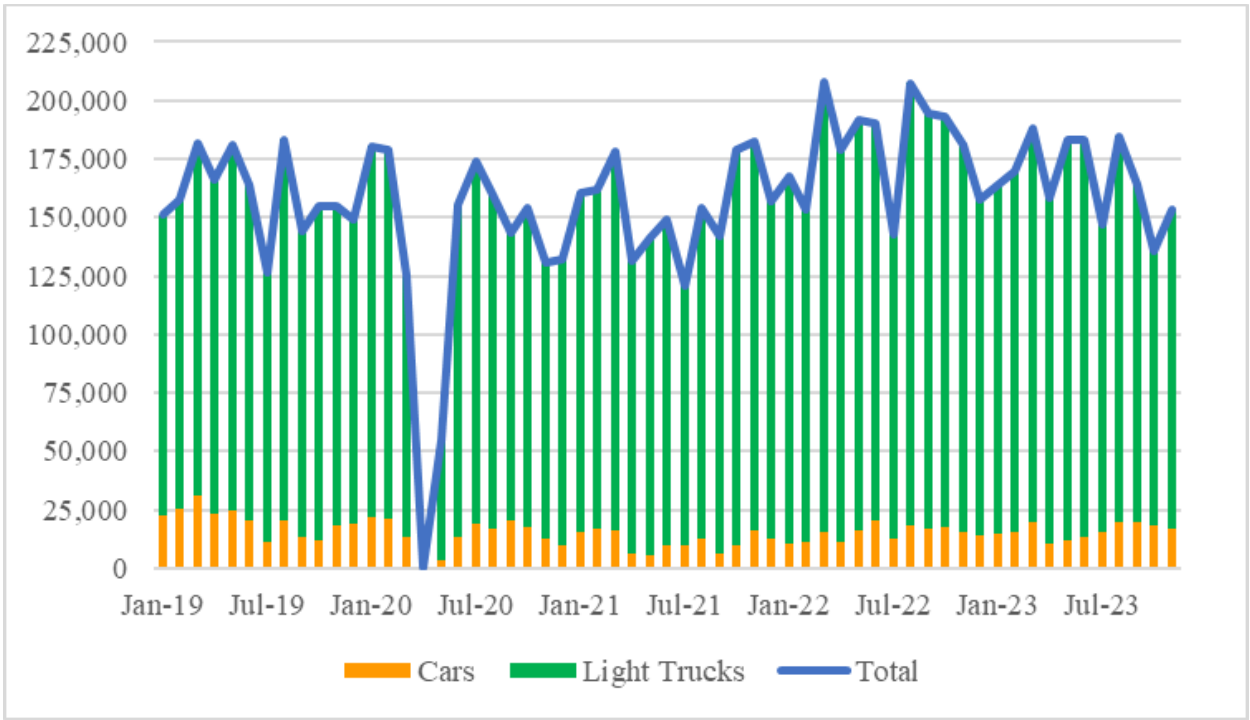
But 2023 marked a reversal for Michigan motor vehicle production. For the first 11 months of the year, total Michigan motor vehicle production of 1.8 million units was 8.8 percent lower than in 2022, reflecting the weaker light truck production in the period.

Michigan light trucks production was down 5.0 percent in the first 8 months of 2023 compared to the same period in 2022. The UAW went on strike at a few specific facilities and additional sites

were added as negotiations continued. By the time the strike was over in late October, Michigan light trucks production year-to-date had decreased 9.4 percent compared to 2022, and continued to slip in November, with a total production year-to-date decline of 10.1 percent from the prior year.

Michigan car production was the bright spot in 2023, continuing the growth that started in the prior year. Year-to-date car production grew 4.0 percent in August compared to the same period in 2022. Even after the UAW strike, Michigan car production continued to increase in the following months, finishing with November year-to-date production 5.7 percent above same period in 2022.

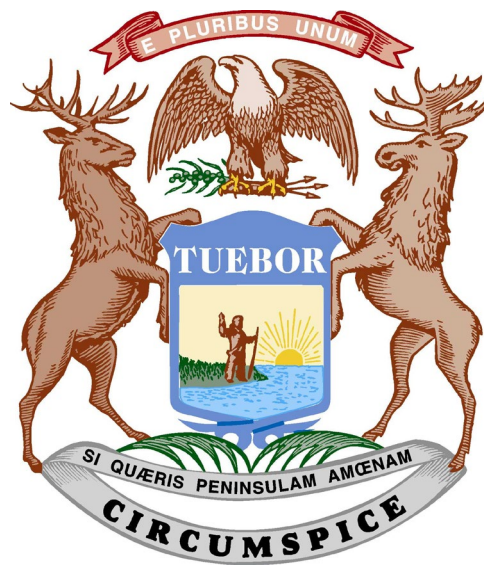
**Michigan Light Vehicle Production
Seasonally Adjusted**



Sources: Automotive News and Michigan Department of Treasury.

SECTION III

Administration Economic Forecast



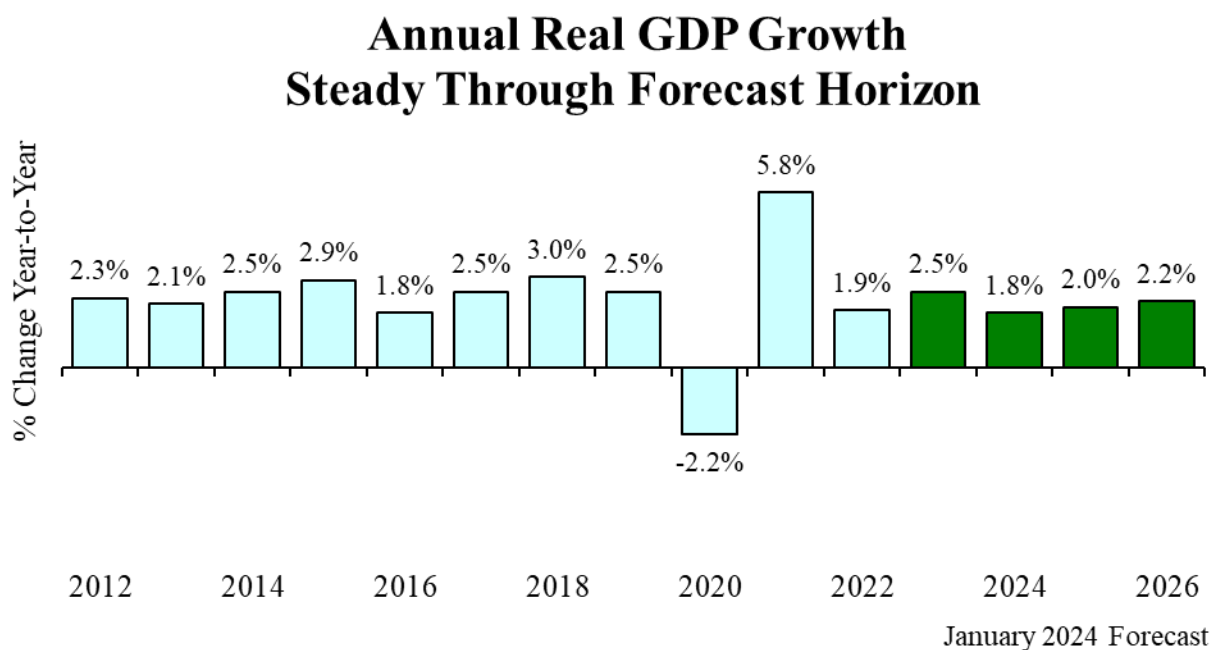
Administration Economic Forecast January 12, 2024

Administration Economic Forecast Summary

Table 1 provides a one-page summary table of the Administration forecast of the U.S. and Michigan economies.

2024, 2025 and 2026 U.S. Economic Outlook

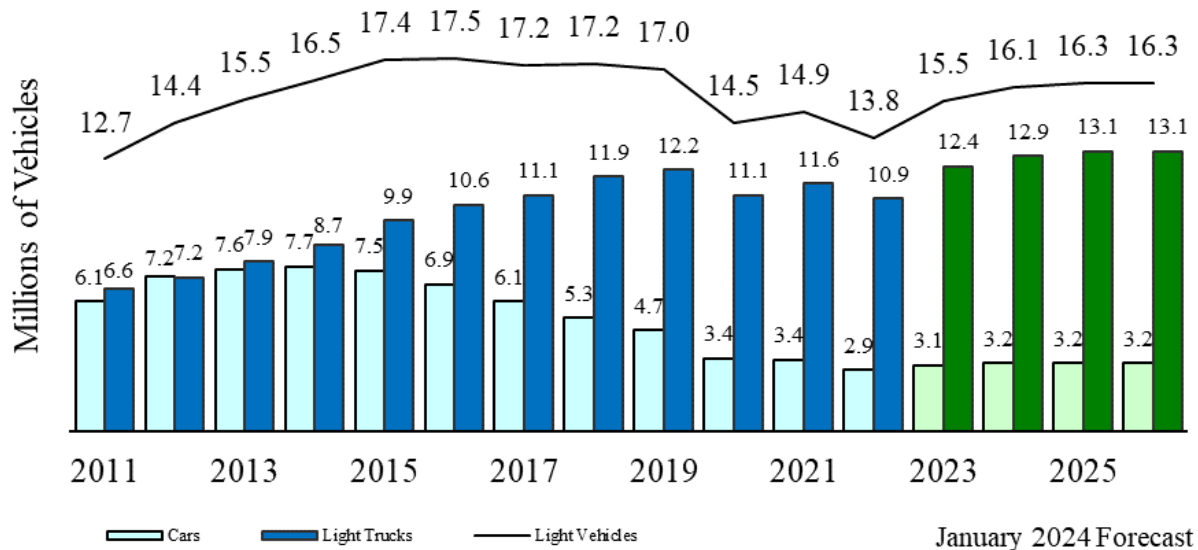
Real (inflation adjusted) annual GDP is expected to increase over the forecast horizon. After declining 2.2 percent in 2020 (the largest annual decline since 2009), real GDP rose 5.8 percent in calendar year 2021 – the fastest annual real GDP growth since 1984. Real GDP growth then slowed to 1.9 percent in 2022 but forecasted to increase to 2.5 percent in 2023. Real GDP is forecast to grow 1.8 percent in 2024, rise 2.0 percent in 2025 and increase 2.2 percent in 2026.



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, January 2024.

As a result of sharp declines over the first half of 2020, **light vehicle sales** declined from 17.0 million units in 2019 to 14.5 million units in 2020. In 2021, light vehicle sales rose modestly to 14.9 million units and then declined to 13.8 million units in 2022 but rebounded back to a projected 15.5 million units in 2023. Light vehicle sales are expected to increase gradually over the forecast horizon – rising to 16.1 million units in 2024 and increasing to 16.3 million units in 2025 and 2026. Light trucks continue to dominate the light vehicle market over the forecast horizon.

Vehicle Sales Rebound Over Forecast Horizon



Source Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, January 2024.

The **U.S. unemployment rate** dropped from 5.3 percent in 2021 to 3.6 percent in 2022 with the rate expected to be 3.7 percent in 2023. The national unemployment rate is forecast to rise to 4.3 percent in 2024 and 2025 before falling to 4.1 percent in 2026.

U.S. wage and salary employment rose a strong 4.3 percent in 2022 and forecast to increase 2.4 percent in 2023. Wage and salary employment is projected to increase 1.1 percent in 2024, rise 0.7 percent in 2025 and increase 0.9 percent in 2026.

The **U.S. consumer price index (CPI)** rose 8.0 percent in 2022 and expected to increase 4.2 percent in 2023. The CPI is forecast to increase 3.2 percent in 2024, increase 2.8 percent in 2025 and rise 2.6 percent in 2026. The personal consumption price deflator rate is projected to increase 3.9 percent in 2023, 2.8 percent in 2024, 2.7 percent in 2025, and rise 2.4 percent in 2026.

The **three-month Treasury bill rate** average was 5.1 percent in 2023. The Treasury bill rate is expected to average 5.2 percent in 2024, 4.6 percent in 2025 and 4.0 percent in 2026.

Housing starts fell 3.4 percent to 1.551 million in 2022. Due to higher mortgage rates, housing starts are forecast to drop 11.4 percent in 2023 to 1.376 million. Housing starts are predicted to fall an additional 2.0 percent in 2024 before rising 3.7 percent in 2025 and increasing 2.7 percent in 2026 to reach 1.436 million starts.

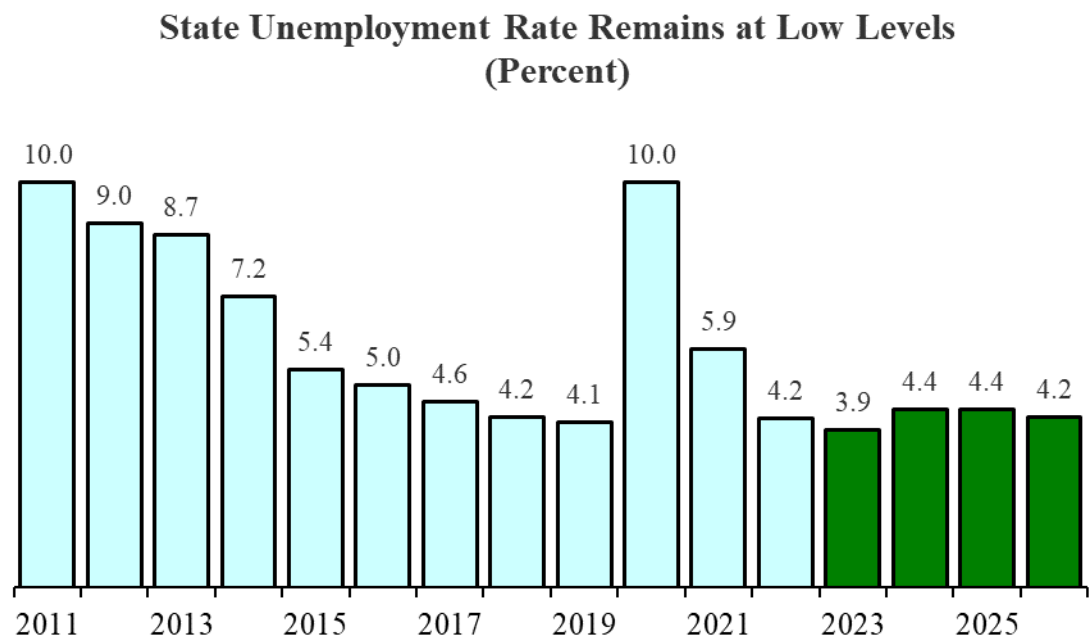
2024, 2025 and 2026 Michigan Economic Outlook

Michigan wage and salary employment exhibited strong growth since 2020. Wage and salary employment increased 4.0 percent in 2021 and 3.9 percent in 2022 after the steep decline of 9.1 percent in 2020 due to the pandemic. November 2023 wage and salary employment totals are slightly below the pre-pandemic at 99.4 percent of the February 2020 total.

In 2023, annual Michigan wage and salary employment is expected to increase 1.5 percent. Wage and salary employment is projected to increase over the forecast horizon at more moderate levels. State employment is forecast to rise 0.7 percent in 2024 and 2025 and increase 0.5 percent in 2026.

Michigan manufacturing employment dropped 11.1 percent in 2020 during the pandemic but increased 4.9 percent in 2021 and 3.3 percent in 2022. Michigan manufacturing employment is forecast to increase 0.4 percent in 2023. Manufacturing employment is forecast to increase over the forecast period increasing 0.9 percent in 2024, rising 1.0 percent in 2025, and rising 0.2 percent in 2026.

The **Michigan unemployment rate** declined to 4.2 percent in 2022 and is projected to fall to 3.9 percent in 2023. The state unemployment rate is projected to rise to 4.4 percent in both 2024 and 2025 and then fall to 4.2 percent in 2026.



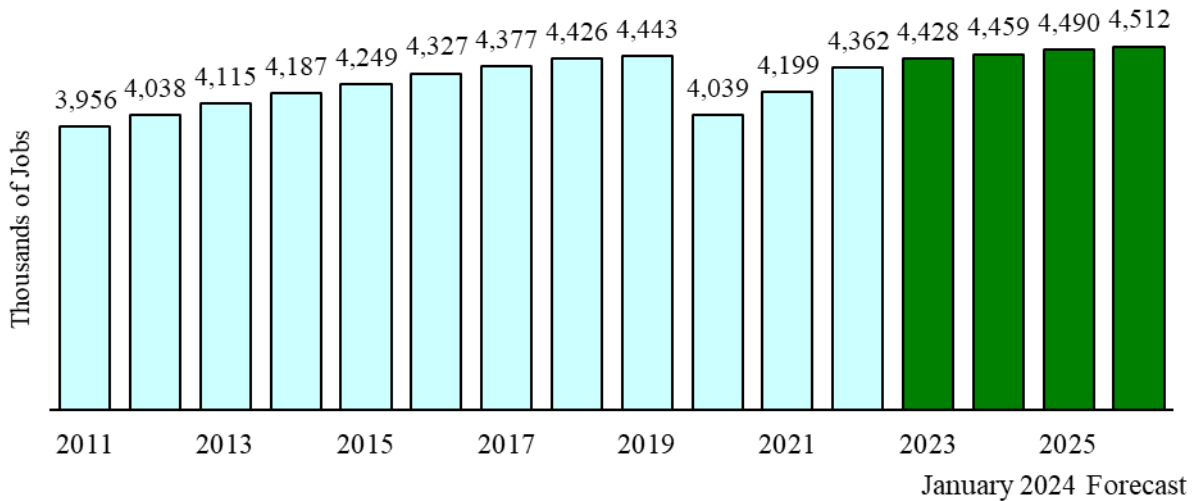
Source: Michigan Department of Technology, Management, & Budget, U.S. Bureau of Labor Statistics and January 2024 Administration Forecast.

Table 1
Administration Economic Forecast

January 2024								
	Calendar 2023 Forecast	Percent Change from Prior Year	Calendar 2024 Forecast	Percent Change from Prior Year	Calendar 2025 Forecast	Percent Change from Prior Year	Calendar 2026 Forecast	Percent Change from Prior Year
United States								
Real Gross Domestic Product (Billions of Chained 2012 Dollars)	\$22,368	2.5%	\$22,770	1.8%	\$23,226	2.0%	\$23,737	2.2%
Implicit Price Deflator GDP (2012 = 100)	132.1	3.8%	135.8	2.8%	139.3	2.6%	142.6	2.4%
Consumer Price Index (1982-84 = 100)	304.900	4.2%	314.571	3.2%	323.231	2.8%	331.670	2.6%
Consumer Price Index - Fiscal Year (1982-84 = 100)	302.281	5.1%	312.394	3.3%	321.065	2.8%	329.564	2.6%
Personal Consumption Deflator (2012 = 100)	127.6	3.9%	131.2	2.8%	134.7	2.7%	138.0	2.4%
3-month Treasury Bills Interest Rate (percent)	5.1		5.2		4.6		4.0	
Unemployment Rate - Civilian (percent)	3.7		4.3		4.3		4.1	
Wage and Salary Employment (millions)	156.237	2.4%	157.955	1.1%	159.061	0.7%	160.493	0.9%
Housing Starts (millions of starts)	1.376	-11.3%	1.349	-2.0%	1.398	3.7%	1.436	2.7%
Light Vehicle Sales (millions of units)	15.5	12.7%	16.1	3.9%	16.3	1.2%	16.3	0.0%
Passenger Car Sales (millions of units)	3.1	8.4%	3.2	3.2%	3.2	0.0%	3.2	0.0%
Light Truck Sales (millions of units)	12.4	13.8%	12.9	4.0%	13.1	1.6%	13.1	0.0%
Big 3 Share of Light Vehicles (percent)	36.8		36.0		35.3		34.5	
Michigan								
Wage and Salary Employment (thousands)	4,428	1.5%	4,459	0.7%	4,490	0.7%	4,512	0.5%
Unemployment Rate (percent)	3.9		4.4		4.4		4.2	
Personal Income (millions of dollars)	\$596,935	4.3%	\$619,022	3.7%	\$646,259	4.4%	\$669,524	3.6%
Real Personal Income (millions of 1982-84 dollars)	\$209,992	-1.6%	\$209,889	0.0%	\$213,204	1.6%	\$215,212	0.9%
Wages and Salaries (millions of dollars)	\$298,200	5.4%	\$310,426	4.1%	\$321,912	3.7%	\$333,179	3.5%
Detroit Consumer Price Index (1982-84 = 100)	284.265	6.0%	294.928	3.8%	303.118	2.8%	311.100	2.6%
Detroit CPI - Fiscal Year (1982-84 = 100)	281.054	6.7%	292.915	4.2%	301.055	2.8%	309.102	2.7%

Source: Michigan Department of Technology, Management, & Budget, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, U.S. Census Bureau, Federal Reserve and January 2024 Administration Forecast.

Michigan Wage and Salary Employment Increasing



Source: Michigan Department of Technology, Management, & Budget, U.S. Bureau of Labor Statistics and January 2024 Administration Forecast.

Michigan wages and salaries increased 9.0 percent in 2022 expected to increase 5.4 percent in 2023. Wages and salaries are forecast to increase 4.1 percent in 2024, 3.7 percent in 2025 and 3.5 percent in 2026.

Michigan personal income is expected to increase by 4.1 percent in 2023. Personal income is forecast to increase 3.3 percent in 2024 and is expected to rise 3.8 percent in both 2025 and 2026.

The **Detroit CPI** is forecast to increase 6.0 percent in 2023. Inflation is expected to moderate during the forecast period. The Detroit CPI is forecast to increase 3.8 percent in 2024, rise 2.8 percent in 2025, and 2.6 percent in 2026. After falling 1.8 percent in 2023, **real (inflation adjusted) Michigan personal income** is forecast to remain unchanged in 2024, but increase 1.6 percent in 2025 and then rise 0.9 percent in 2026.

Fiscal Year Economics

Michigan's largest taxes are the individual income tax (\$15.5 billion in FY 2023) and sales and use taxes (\$13.4 billion). Income tax withholding is the largest component of the income tax. Withholding (\$12.2 billion) is most affected by growth in wages and salaries. **Michigan wages and salaries** increased a projected 5.6 percent in FY 2023. Wages and salaries are projected to rise 4.4 percent in FY 2024, 3.8 percent in FY 2025 and 3.7 percent in FY 2026.

Sales and use taxes depend, in part, on **Michigan disposable (after tax) income** and inflation. In FY 2023, disposable income rose an estimated 6.1 percent and is projected to rise in each the next

three fiscal years – rising 4.2 percent in FY 2024, 4.1 percent in FY 2025 and 3.7 percent in FY 2026. Prices, as measured by the **Detroit CPI**, rose 6.3 percent in FY 2023. The Detroit CPI is forecast to increase 4.5 percent in FY 2024, 2.8 percent in FY 2025, and 2.7 percent in FY 2026.

Forecast Risks

- Interest rates remain a risk on the forecast horizon. Restrictive monetary policy coupled with unforeseen shocks could push the U.S. economy into a downturn.
- Higher than projected inflation could result in slower economic growth.
- A U.S. federal government shutdown could slow the U.S. and Michigan economies.
- Geopolitical conflicts could have a negative impact on domestic economic activity.
- A stronger than expected housing market could help sustain or increase economic growth.
- Demand for new vehicles is expected to increase, but higher than expected interest rates and continued supply chain issues could lower sales.

SECTION IV

Administration
Revenue Estimates



Administration Revenue Estimates

January 12, 2024

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 2023 is the base year. Any non-economic changes to the taxes occurring in FY 2024, FY 2025 and FY 2026 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 2023 Preliminary Revenue

FY 2023 GF-GP revenue is estimated to be \$13,965.9 million, an 8.2 percent decrease compared to FY 2022. The FY 2023 GF-GP revenue estimate is \$177.9 million above the May 2023 Consensus estimate. SAF revenue is forecast to be \$17,859.4 million, a 0.1 percent decrease compared to FY 2022. The FY 2023 SAF estimate is \$117.8 million above the May 2023 Consensus estimate (see Table 2).

Table 2
FY 2022-23 Preliminary Revenue
(millions)

	Administration January 12, 2024		Change from May 2023 Consensus
	Amount	Growth	
General Fund - General Purpose			
Baseline Revenue	\$16,908.5		---
Tax Cut Adjustments	(\$2,942.5)	---	---
Net Resources	\$13,965.9	-8.2%	\$177.9
School Aid Fund			
Baseline Revenue	\$17,908.5		---
Tax Cut Adjustments	(\$49.1)	---	---
Net Resources	\$17,859.4	-0.1%	\$117.8
Combined			
Baseline Revenue	\$34,817.0		---
Tax Cut Adjustments	(\$2,991.6)	---	---
Net Resources	\$31,825.4	-3.8%	\$295.7

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

FY 2024 Revenue Outlook

FY 2024 GF-GP revenue is forecast to decrease 3.9 percent to \$13,419.8 million from FY 2023. The FY 2024 GF-GP revenue estimate is \$181.6 million above the May 2023 Consensus estimate. FY 2024 SAF revenue is forecast to increase 0.2 percent to \$17,899.5 from FY 2023. The FY 2024 SAF estimate is \$11.3 million above the May 2023 Consensus estimate (see Table 3).

Table 3
FY 2023-24 Administration Revenue Estimates
(millions)

	Administration January 12, 2024		Change from May 2023 Consensus
	Amount	Growth	
General Fund - General Purpose			
Baseline Revenue	\$16,295.4	-3.5%	---
Tax Cut Adjustments	(\$2,875.6)	---	---
Net Resources	\$13,419.8	-3.9%	\$181.6
School Aid Fund			
Baseline Revenue	\$18,073.7	0.8%	---
Tax Cut Adjustments	(\$174.2)	---	---
Net Resources	\$17,899.5	0.2%	\$11.3
Combined			
Baseline Revenue	\$34,369.1	-1.3%	---
Tax Cut Adjustments	(\$3,049.8)	---	---
Net Resources	\$31,319.3	-1.6%	\$192.9

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

FY 2025 Revenue Outlook

FY 2025 GF-GP revenue is forecast to increase 4.2 percent to \$13,982.0 million from FY 2024. The FY 2025 GF-GP revenue estimate is \$65.6 million above the May 2023 Consensus estimate. FY 2025 SAF revenue is forecast to increase 2.3 percent to \$18,317.3 from FY 2025. The FY 2025 SAF revenue estimate is \$51.4 million above the May 2023 Consensus estimate. (see Table 4).

Table 4
FY 2024-25 Administration Revenue Estimates
(millions)

	Administration January 12, 2024		Change from May 2023 Consensus
	Amount	Growth	
General Fund - General Purpose			
Baseline Revenue	\$16,788.8	3.0%	---
Tax Cut Adjustments	(\$2,806.8)	---	---
Net Resources	\$13,982.0	4.2%	\$65.6
School Aid Fund			
Baseline Revenue	\$18,548.5	2.6%	---
Tax Cut Adjustments	(\$231.2)	---	---
Net Resources	\$18,317.3	2.3%	\$51.4
Combined			
Baseline Revenue	\$35,337.3	2.8%	---
Tax Cut Adjustments	(\$3,038.0)	---	---
Net Resources	\$32,299.3	3.1%	\$117.0

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

FY 2026 Revenue Outlook

FY 2026 GF-GP revenue is forecast to increase 5.0 percent to \$14,681.9 million from FY 2025. FY 2026 SAF revenue is forecast to increase 2.2 percent to \$18,728.6 from FY 2025 (see Table 5).

Table 5
2025-26 Administration Revenue Estimates
(millions)

	Administration January 12, 2024	
	Amount	Growth
General Fund - General Purpose		
Baseline Revenue	\$17,068.1	1.7%
Tax Cut Adjustments	(\$2,386.2)	---
Net Resources	\$14,681.9	5.0%
School Aid Fund		
Baseline Revenue	\$18,994.4	2.4%
Tax Cut Adjustments	(\$265.8)	---
Net Resources	\$18,728.6	2.2%
Combined		
Baseline Revenue	\$36,062.5	2.1%
Tax Cut Adjustments	(\$2,652.0)	---
Net Resources	\$33,410.5	3.4%

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 2022 revenue is compared to CY 2020 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 2022 revenues were \$7.4 billion below the revenue limit. State revenues will also be well below the limit for FY 2023 through FY 2026. FY 2023 revenues are expected to be about \$11.6 billion below the limit, FY 2024 revenues \$12.0 billion below the limit, FY 2025 revenues \$13.1 billion below the limit, and FY 2026 revenues \$14.0 billion below the limit (See Table 6).

Table 6
Administration Revenue Limit Calculation
(millions)

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
	<u>Actual</u>	<u>Admin</u>	<u>Admin</u>	<u>Admin</u>	<u>Admin</u>
	<u>June 2023</u>	<u>Jan 2024</u>	<u>Jan 2024</u>	<u>Jan 2024</u>	<u>Jan 2024</u>
Revenue Subject to Limit	\$42,937.4	\$42,306.7	\$42,295.8	\$43,538.9	\$44,788.5
<u>Revenue Limit</u>	<u>CY 2020</u>	<u>CY 2021</u>	<u>CY 2022</u>	<u>CY 2023</u>	<u>CY 2024</u>
Personal Income	\$530,809	\$567,807	\$572,325	\$596,935	\$619,022
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$50,373.8	\$53,884.9	\$54,313.6	\$56,649.1	\$58,745.2
<u>Amount Under (Over) Limit</u>	\$7,436.4	\$11,578.1	\$12,017.8	\$13,110.2	\$13,956.7

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 recommended. 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.

PA 613 of 2018 prohibits the legislature from appropriating money from the fund for a fiscal year when the annual growth rate of real personal income less transfer payments for the calendar year in which that fiscal year ends is estimated to be greater than 0% at the most recent consensus revenue estimating conference. When the annual growth rate is estimated to be less than 0% at the most recent consensus revenue estimating conference, the legislature may appropriate by law for the fiscal year ending in the current calendar year no more than 25% of the prior fiscal year ending

balance in the fund as reported in the comprehensive annual financial report. If personal income is forecast to be negative for subsequent fiscal years, the Legislature then could appropriate up to 25% of the available Fund balance in the first fiscal year for each subsequent fiscal year.

If real personal income less transfer payments 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.

Real calendar year personal income less transfer payments is projected to be between 0 and 2 percent in 2024 through 2026. Therefore, no pay-ins or pay-outs are projected through the forecast horizon.

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. 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 2025, the SAF revenue adjustment factor is calculated to be 1.0175 (See Table 7). For FY 2026, the SAF revenue adjustment factor is calculated to be 1.0255 (See Table 8).

Table 7
Administration School Aid Revenue Adjustment Factor
For Fiscal Year 2025

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Baseline SAF Revenue	\$17,908.5	\$18,073.7	\$18,548.5
Balance Sheet Adjustments	<u>(\$49.1)</u>	<u>(\$174.2)</u>	<u>(\$231.2)</u>
Net SAF Estimates	\$17,859.4	\$17,899.5	\$18,317.3
Subtotal Adjustments to FY 2025 Base	<u>(\$163.0)</u>	<u>(\$57.0)</u>	<u>\$0.0</u>
Baseline Revenue on a FY 2025 Base	\$17,696.4	\$17,842.5	\$18,317.3

School Aid Fund Revenue Adjustment Calculation for FY 2025

Sum of FY 2023 & FY 2024	\$17,696.4 + \$17,842.5 = \$35,538.9
Sum of FY 2024 & FY 2025	\$17,842.5 + \$18,317.3 = \$36,159.7

FY 2025 Revenue Adjustment Factor	1.0175
--	---------------

Note: Factor is calculated off a FY 2025 base year.

Table 8
Administration School Aid Revenue Adjustment Factor
For Fiscal Year 2026

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Baseline SAF Revenue	\$18,073.7	\$18,548.5	\$18,994.4
Balance Sheet Adjustments	<u>(\$174.2)</u>	<u>(\$231.2)</u>	<u>(\$265.8)</u>
Net SAF Estimates	\$17,899.5	\$18,317.3	\$18,728.6
Subtotal Adjustments to FY 2026 Base	<u>(\$91.6)</u>	<u>(\$34.6)</u>	<u>\$0.0</u>
Baseline Revenue on a FY 2026 Base	\$17,807.9	\$18,282.7	\$18,728.6

School Aid Fund Revenue Adjustment Calculation for FY 2025

Sum of FY 2024 & FY 2025	\$17,807.9 + \$18,282.7 = \$36,090.5
Sum of FY 2025 & FY 2026	\$18,282.7 + \$18,728.6 = \$37,011.2

FY 2026 Revenue Adjustment Factor	1.0255
--	---------------

Note: Factor is calculated off a FY 2026 base year.

Revenue Detail

The estimated tax and revenue totals include the effects of all enacted tax changes. The revenue totals by tax are presented separately for GF-GP and for the SAF (See Tables 9 and 10). Tax totals for the income, sales, use, CIT/MBT, tobacco and casino taxes for all funds are also included (See Table 11).

Table 9
Administration General Fund General Purpose Revenue Detail
(millions)

	FY 2024		FY 2025		FY 2026	
	Amount	Growth	Amount	Growth	Amount	Growth
GF-GP Tax Amounts						
Income Tax	\$7,790.0	3.1%	\$8,479.3	8.8%	\$8,680.4	2.4%
Sales	\$1,652.7	1.7%	\$1,669.7	1.0%	\$1,703.1	2.0%
Use	\$1,141.7	-8.6%	\$1,159.9	1.6%	\$1,194.3	3.0%
Cigarette	\$142.8	-0.6%	\$140.9	-1.3%	\$140.0	-0.6%
Beer & Wine	\$48.0	3.7%	\$49.0	2.1%	\$50.0	2.0%
Liquor Specific	\$65.3	-3.8%	\$65.7	0.6%	\$66.3	0.9%
Insurance Co. Premium	\$470.0	0.9%	\$479.5	2.0%	\$485.0	1.1%
CIT/MBT	\$1,005.4	150.6%	\$996.6	-0.9%	\$1,535.0	54.0%
Telephone & Telegraph	\$34.0	-5.3%	\$33.0	-2.9%	\$32.0	-3.0%
Oil & Gas Severance	\$28.0	3.3%	\$29.0	3.6%	\$30.0	3.4%
Essential Services Assess.	\$150.0	5.9%	\$156.0	4.0%	\$162.0	3.8%
Penalties and Interest	\$143.0	1.3%	\$146.0	2.1%	\$148.0	1.4%
Railroad/Car Loaning	\$3.0	0.0%	\$3.0	0.0%	\$3.0	0.0%
Enhanc. Enforce/ACS	(\$151.0)	3.7%	(\$152.0)	0.7%	(\$153.0)	0.7%
Total GF-GP Taxes	\$12,522.9	-0.3%	\$13,255.6	5.9%	\$14,076.1	6.2%
GF-GP Non-Tax Revenue						
Federal Aid	\$10.0	-28.1%	\$10.0	0.0%	\$10.0	0.0%
From Local Agencies	\$0.1	NA	\$0.1	0.0%	\$0.1	0.0%
From Services	\$7.0	79.5%	\$7.0	0.0%	\$7.0	0.0%
From Licenses & Permits	\$14.0	25.0%	\$14.0	0.0%	\$14.0	0.0%
Miscellaneous	\$20.0	-68.1%	\$20.0	0.0%	\$20.0	0.0%
Interfund Interest	\$400.0	-34.8%	\$225.0	-43.8%	\$100.0	-55.6%
Liquor Purchase	\$310.9	0.6%	\$315.3	1.4%	\$319.7	1.4%
Charitable Games	\$5.0	-33.3%	\$5.0	0.0%	\$5.0	0.0%
Transfer From Escheats	\$130.0	-26.3%	\$130.0	0.0%	\$130.0	0.0%
Other Non Tax	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%
Total Non Tax	\$897.0	-25.1%	\$726.4	-19.0%	\$605.8	-16.6%
Total GF-GP Revenue	\$13,419.9	-2.5%	\$13,982.0	4.2%	\$14,681.9	5.0%

Table 10
Administration School Aid Fund Revenue Detail

	FY 2024		FY 2025		FY 2026	
	Amount	Growth	Amount	Growth	Amount	Growth
School Aid Fund						
Income Tax	\$3,801.3	-2.8%	\$3,931.8	3.4%	\$4,056.6	3.2%
Sales Tax	\$7,898.2	1.3%	\$8,025.0	1.6%	\$8,169.4	1.8%
Use Tax	\$903.5	-0.2%	\$917.2	1.5%	\$935.5	2.0%
Liquor Excise Tax	\$76.8	2.4%	\$77.8	1.3%	\$78.8	1.3%
Cigarette & Tobacco	\$252.5	-0.7%	\$248.3	-1.7%	\$245.8	-1.0%
Marijuana Excise Tax	\$106.7	0.0%	\$109.8	2.9%	\$114.0	3.8%
State Education Tax	\$2,707.9	5.4%	\$2,801.9	3.5%	\$2,879.9	2.8%
Real Estate Transfer	\$380.0	-2.4%	\$396.0	4.2%	\$410.0	3.5%
Industrial Facilities Tax	\$42.5	-4.7%	\$43.0	1.2%	\$43.0	0.0%
Casino (45% of 18%)	\$104.8	2.0%	\$107.3	2.4%	\$108.8	1.4%
iGaming, Sports Betting	\$331.7	1.4%	\$341.2	2.9%	\$349.5	2.4%
Commercial Forest	\$4.0	0.0%	\$4.0	0.0%	\$4.0	0.0%
Other Spec Taxes	\$25.0	0.0%	\$25.0	0.0%	\$25.0	0.0%
Subtotal Taxes	\$16,635.0	0.8%	\$17,028.3	2.4%	\$17,420.3	2.3%
Lottery Transfer	\$1,264.5	-6.5%	\$1,289.0	1.9%	\$1,308.2	1.5%
Total SAF Revenue	\$17,899.5	0.2%	\$18,317.3	2.3%	\$18,728.5	2.2%

Table 11
Administration Major Tax Totals

	FY 2024		FY 2025		FY 2026	
	Amount	Growth	Amount	Growth	Amount	Growth
Major Tax Totals						
Income Tax	\$12,261.1	1.0%	\$13,080.9	6.7%	\$13,406.8	2.5%
Sales Tax	\$10,777.3	1.0%	\$10,950.9	1.6%	\$11,147.3	1.8%
Use Tax	\$2,606.9	41.4%	\$2,638.8	1.2%	\$2,802.0	6.2%
CIT/MBT (GF-GP)	\$1,005.4	150.6%	\$996.6	-0.9%	\$1,535.0	54.0%
Cigarette and Tobacco	\$718.0	-0.5%	\$709.0	-1.3%	\$704.0	-0.7%
Casino Tax	\$104.8	2.0%	\$107.3	2.4%	\$108.8	1.4%