RESEARCH SEMINAR IN QUANTITATIVE ECONOMICS
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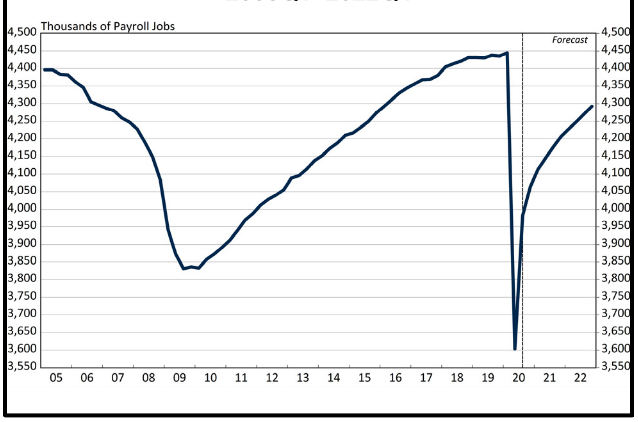
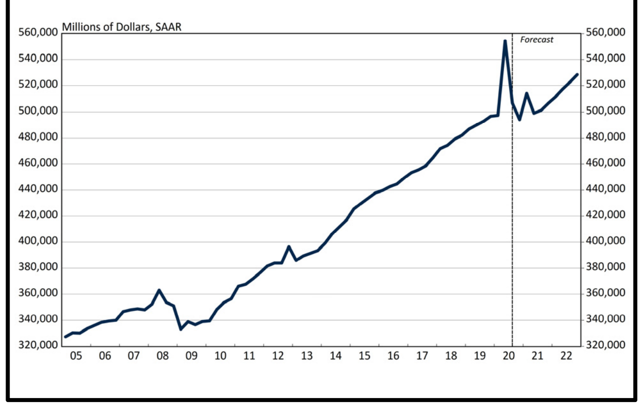
Some highlights from the most recent RSQE Michigan forecast, released on November 20, 2020:



Michigan Payroll Employment, 2005Q1–2022Q4



Michigan Personal Income, 2005Q1–2022Q4

In response to Michigan's second wave of COVID-19, Governor Whitmer recently announced new restrictions temporarily prohibiting indoor dining and drinking, some other recreational activities, and in-person high school, college, and university instruction. We estimate that the restrictions will reduce the state's payroll job count by about 50,000 jobs, but our best guess is that very few of those job losses will appear in the reported monthly job count due to a quirk in the procedure for estimating payroll employment.

Even prior to the new restrictions, we expected the second wave of the pandemic to inhibit Michigan's economic recovery this winter. Our provisional assessment of the available evidence is that private precautions are likely to drive substantial short-term weakness in the leisure and hospitality sector, regardless of official mandates.

We expect the state's economic recovery to benefit from the wide rollout of a vaccine by mid-2021 and passage of a modest fiscal stimulus package. Payroll employment ends 2022 152,000 jobs, or 3.4 percent, short of its pre-pandemic level in the first quarter of 2020.

Personal income in Michigan has decoupled from employment during the pandemic because of massive federal income support, but the boost from Uncle Sam is fading fast. We estimate that personal income fell 8.6 percent from the second quarter to the third, but the third quarter level was still a bit higher than prior to the pandemic.

Personal income falls a bit further in the fourth quarter with very limited federal support, then takes a jagged-tooth path in the first half of 2021. Additional stimulus in the first quarter leads to 4.0 percent growth, which is followed by a 2.9 percent decline as the stimulus fades. Personal income growth returns to a smoother path in the fourth quarter of 2021 and stays there in 2022, with annualized growth rates hovering between 3.9 and 4.7 percent.

That path for total personal income hides a more worrisome trend: employment has held up much better in higher-wage industries than in lower-wage industries, and we expect the recovery to be faster in higher-wage industries as well. The COVID-19 recession thus appears to be driving a substantial increase in income inequality.