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The Michigan Economic Outlook for 2024–2025

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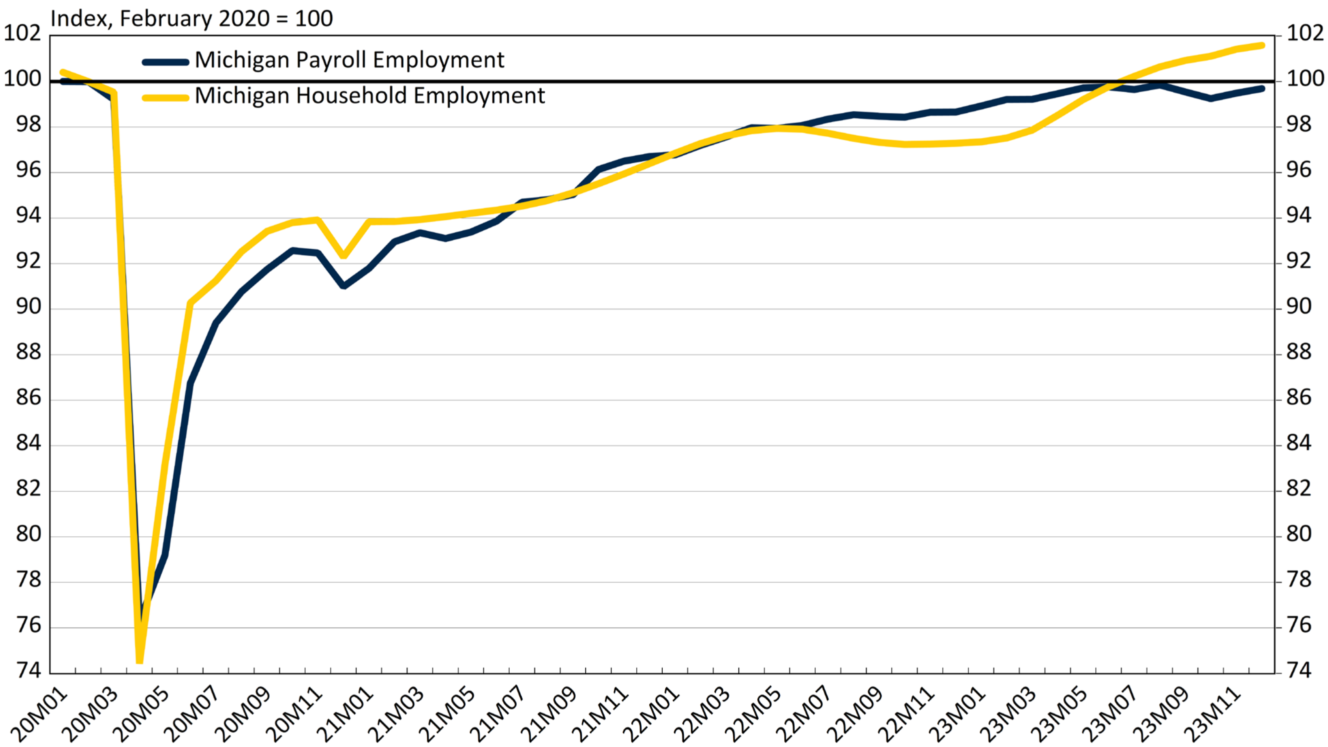
Introduction

The incoming data have been telling a conflicted story about Michigan's economy. On the one hand, the national economy has delivered a surprisingly strong performance recently, with real output growing above expectations in the second half of 2023 even as inflation has slowed considerably. On the other hand, employment growth in Michigan slowed down over the same period, and each of the Detroit Three automakers has recently announced layoffs in the state. We remain cautiously optimistic about Michigan's economic trajectory over the next two years, judging that an ongoing decline in interest rates coupled with a growing national economy should help Michigan to navigate through the wobbles in the auto industry.

Figure 1 shows that the count of employed Michigan residents made a full recovery from the pandemic last July, but we are still waiting for the state's payroll job count to do the same. The strikes in the auto industry and Detroit casinos last fall posed a noteworthy speedbump on the road to recovery, but Michigan's payroll job count began to dip prior to the strikes. We were encouraged to see the state add jobs at a healthy pace in November and December following the strike. We expect Michigan's payroll job count to recover to its pre-pandemic level early this year.

We are projecting Michigan to add 37,900 payroll jobs this year. The weak growth at the end of 2023 holds down calendar year growth in 2024. Without those calendar averaging effects at play, Michigan adds another 57,500 jobs in 2025. Michigan's payroll jobs count climbs to 2.2 percent higher than its pre-pandemic level by the end of 2025. Even our relatively upbeat forecast leaves Michigan about 3.4 percent below its all-time payroll employment peak from the second quarter of 2000.

Figure 1
Michigan's Employment Recovery



Michigan's unemployment rate crept up from a post-pandemic low of 3.6 percent last June and July to 4.3 percent in November and December. Strangely, the increase in the state's unemployment rate was mostly encouraging news from our perspective. It reflected a sharply rising labor force participation rate rather than a decline in the number of residents working. Michigan's labor force participation rate skyrocketed from 59.8 percent in January 2023 to 62.2 percent in December. That performance brought Michigan's participation rate to within 0.3 percentage points of the national rate, well under the average gap of 1.6 percentage points this millennium.[1]

Inflation has been slowing down as well, allowing growing incomes to translate into rising standards of living for state residents. The twelve-month rate of Detroit consumer price inflation slowed from a recent peak of 9.7 percent in June 2022 to 4.5 percent in December 2023. Based on that

[1] Unfortunately, we must acknowledge that these statistics have become harder to interpret in light of the declining response rates to the Current Population Survey on which they are based.

slowdown, we estimate that real disposable income per capita in Michigan rose by 1.6 percent last year after declining sharply in 2022.

We believe that Michigan is nearing a roughly neutral point in the economic cycle. We expect economic growth to slow down from the pace we have seen recently, but we project that the state will avoid a downturn over the next two years. Many risks remain to the economic outlook, but we believe that macroeconomic policy should become more supportive of growth moving forward. Michigan's economy has made painful strides toward becoming more diversified and less cyclical over the past two decades. Even though much work remains to restore Michigan's economy to a position of national leadership, the state's recent resilience in the face of a challenging environment has been encouraging to see.

Inputs to the Forecast

Major elements from our U.S. forecast dated February 16, 2024, include the following:

- Our forecast is consistent with a Fed that is done hiking during the current cycle, given that inflation has come down sharply while the labor market remains tight. We project the Fed to start cutting rates slowly by mid-2024. By that time, we expect unemployment to be on a gradual ascent with inflation running near the Fed's target. Once actual cuts begin, we expect the Fed to proceed slowly—by 25 basis points at roughly every other meeting. By the end of our forecast, we expect the target range for the federal funds rate to stand at 3.5–3.75 percent.

- Real GDP grew at an annualized pace of 3.3 percent in the fourth quarter of 2023. Although the pace of expansion cooled off from the red-hot 4.9 percent rate in the third quarter, it still surprised on the upside. The American consumer continues to defy predictions of imminent belt-tightening, with consumption adding 1.9 percentage points to real GDP growth in the third quarter of 2023. We anticipate that consumers will pull back on their spending as the unemployment rate creeps up slightly. Consequently, quarterly real GDP growth decelerates to a bit below trend during the final three quarters of 2024. We expect growth to rebound to a 2.0 percent pace by the first quarter of 2025 and stay in that range through year-end.

- Core PCE inflation, a key metric for forecasting future inflation, decelerated sharply during the second half of 2023, declining from 4.3 percent year over year in June to 2.9 percent in December. We expect PCE inflation to continue to converge towards the Fed's 2.0 percent goal over the next year (with CPI running slightly ahead), as shelter costs decelerate and consumer goods inflation stays muted. Core CPI inflation registers 3.4 percent year over year in the first quarter of 2024 before slowing to 2.4 percent by year-end, where it remains for the rest of the forecast. Core CPI inflation outpaces the headline throughout the forecast, as gasoline price increases remain subdued and food inflation slows.

- The labor market averaged 255,000 new jobs per month in 2023, less than 2022's average of 377,000, but much stronger than 2019's average of 166,000. After a brief upswing in the first quarter of 2024, the slowing trend in job gains continues in the forecast through the first quarter of 2025, then improves only modestly. On a calendar year basis, the economy adds 2.5 million jobs in 2024 and 1.3 million in 2025. The unemployment rate edges up from 3.7 percent in the first quarter of 2024 to 4.0 percent in the first quarter of 2025. It then ticks down slightly beginning in mid-2025 as monetary conditions ease.

- High prices, limited inventory, and ongoing declines in mortgage rates all help to spur activity in the residential construction market over our forecast period. Single-family housing starts take a breather to begin 2024 but then climb in every quarter of our forecast. They climb by 140,000 units from 2023 to 2024. Multi-family starts are forecast to grow modestly from their recent levels as a robust economy drives rental demand growth. A hefty decline during 2023, however, means that the 2025 calendar-year average remains 40,000 units lower than in 2023. Total housing starts climb from 1,415,000 units in 2023 to 1,439,000 this year and 1,516,000 in 2025.

- The federal deficit widened from 4.4 percent of GDP in fiscal 2022 to 5.8 percent in fiscal 2023. With elevated interest rates and no significant revenue-raising reforms in sight, the federal deficit hovers around 6.0 percent over our forecast horizon. The privately held debt-to-GDP ratio is poised to increase from 79.3 percent in the fourth quarter of 2023 to 86.1 percent in the fourth quarter of 2025.

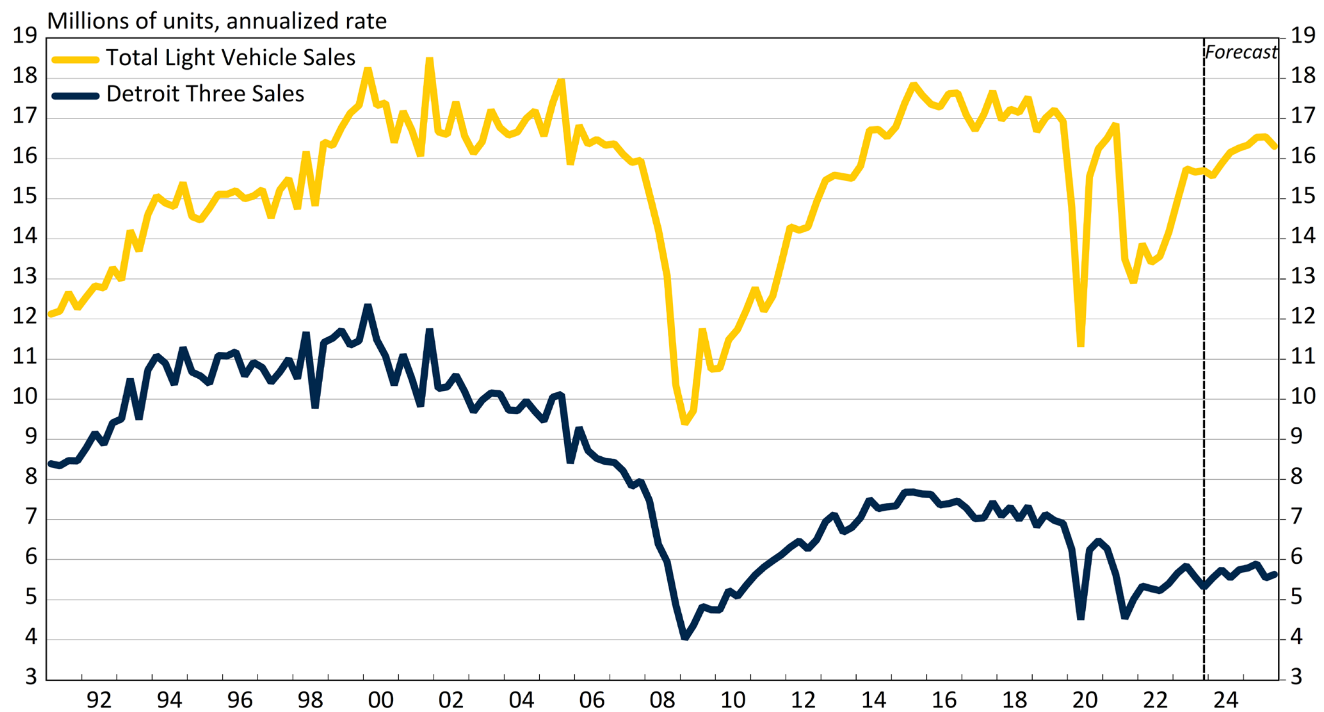
The Forecast of the State Economy

Detroit Three Light Vehicle Sales

Figure 2 shows our quarterly forecast for total U.S. and Detroit Three light vehicle sales. The annualized pace of light vehicle sales fell from 16.1 million units in December 2023 to 15 million units in January 2024. Despite stubbornly high vehicle financing rates, dealers remain focused on stocking higher-priced vehicles, exacerbating poor affordability and limited inventory levels. We expect light vehicle sales to recover from January's sluggish pace to reach an average of 16.2 million units in the second half of 2024, as financing rates retreat and income growth outpaces vehicle prices. As interest rates continue to decline, light vehicle sales are projected to reach 16.4 million units in 2025, with light trucks accounting for over 80 percent of total light vehicle sales. Car sales stall out during our forecast, however, as vehicle manufacturers continue to ditch low-profit-margin models in favor of light trucks, luxury sedans, sports cars, and electric vehicles.

The Detroit Three's share of U.S. light vehicle sales recovered from October's anemic 33 percent to roughly 35 percent in December 2023 and January 2024, as the impact of the auto strike moved into the rearview mirror. We expect light vehicle sales to normalize in the second quarter of 2024 after the cold start to the year. Market normalization should help bolster the Detroit Three's share to 36.2 percent during that time. Unfortunately, we anticipate that their market share will then resume its decade-long trend, declining to 34.5 percent by the end of 2025. That path would put the Detroit Three's market share roughly in line with its value at the beginning of 2024. When combined with our projection of increasing total light vehicle sales, our forecast for the Detroit Three's share of the market implies that Detroit Three vehicle sales will total 5.6 million units in 2024 and 5.7 million units in 2025, remaining nearly 20 percent below their sales pace in 2019.

Figure 2
Quarterly Light Vehicle Sales, Total U.S. vs. Detroit Three



The Detroit Three manufacturers' profits remained healthy despite the "Stand Up" strike and high vehicle financing rates. Based on last year's profits, eligible workers will receive profit-sharing checks of up to $12,250 at GM, $10,416 at Ford, and $13,860 at Stellantis. We expect profit-sharing checks to rise gradually from here, as income growth outpaces vehicle prices and the Detroit Three manufacturers continue to prioritize pricing discipline and profitability over market share.

Payroll Employment

Figure 3 shows our forecast of Michigan's quarterly payroll job count. Statewide employment fell by 9,200 jobs in the fourth quarter of 2023 amid the strike in the auto industry. Based on the strong job gains in November and December, we are forecasting that Michigan will add 14,600 jobs in the first quarter of 2024. Job growth continues at a healthy pace over the next two years, totaling 37,900 in 2024 and 57,500 in 2025. The acceleration next year reflects the calendar year gains in 2024 being held down by slow growth in the second half of 2023. On a fourth-quarter-to-fourth-quarter basis, job gains decelerate from 63,700 during 2024 to 45,100 during 2025.

Figure 3
Quarterly Michigan Payroll Employment

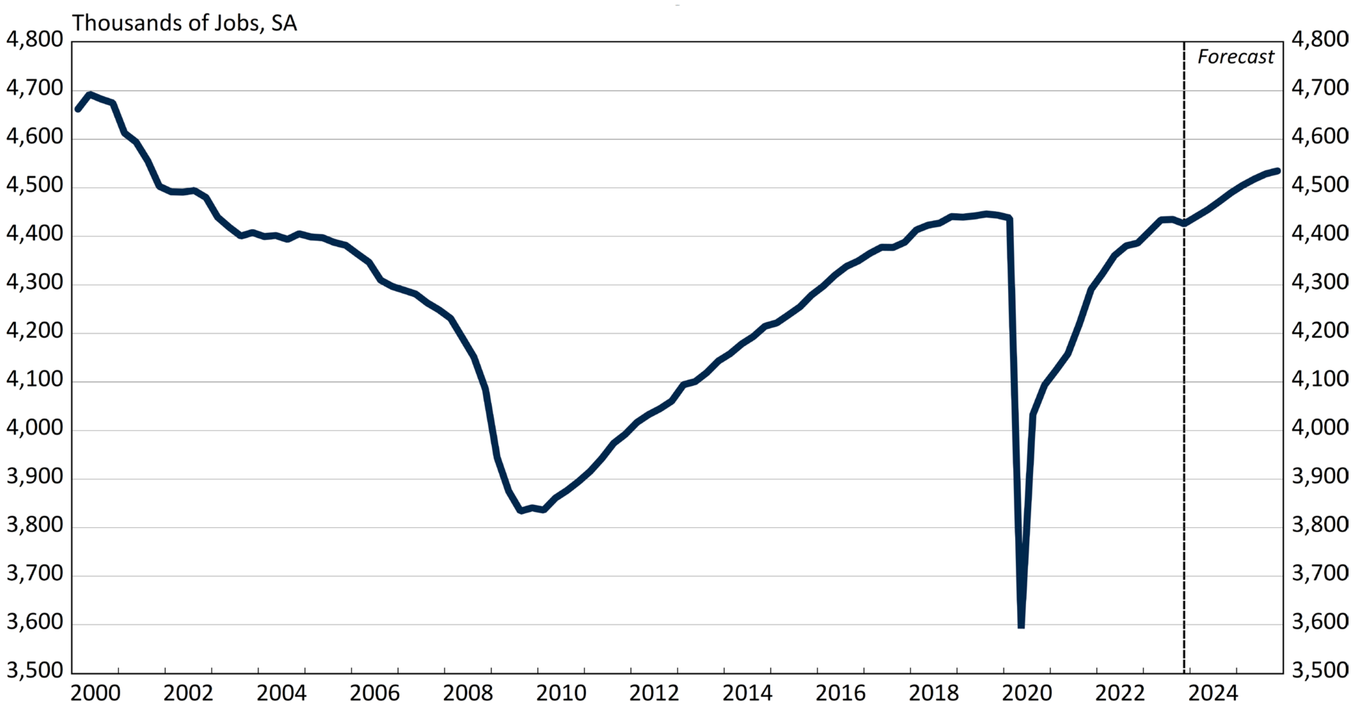


Table 1 below displays our forecast for annual job growth for Michigan's individual industries, while Figure 4 splits the state's industries into three groups: "Blue-Collar Industries," "Lower-Education Services Industries," and "Higher-Education Services Industries."[2] The figure plots the recent history and

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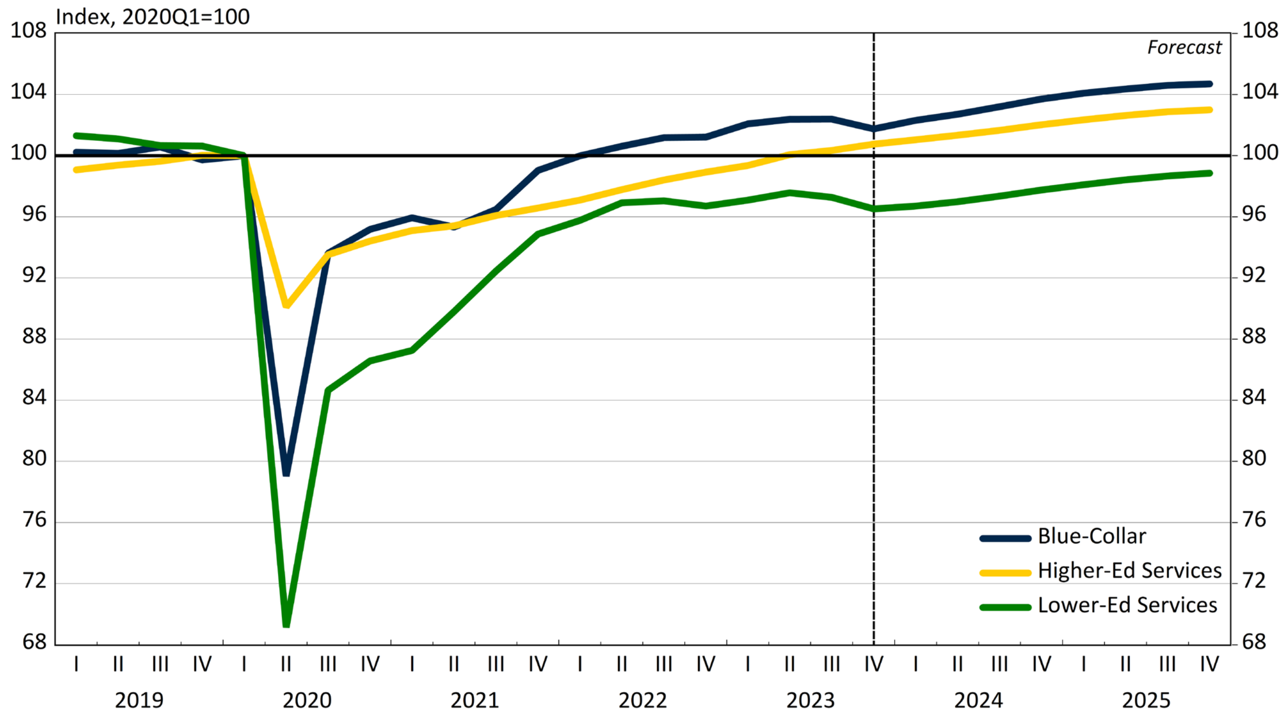
[2] The blue-collar industries comprise mining; construction; manufacturing; and wholesale trade, transportation, and utilities. The higher-education services industries (which generally require employees to hold a bachelor's degree or higher educational level) comprise information; finance; professional, scientific, and technical services; management of companies and enterprises; private education and health services; and government. The lower-education services industries (which typically do not require a college education) comprise retail trade; leisure and hospitality; administrative support services and waste management; and other services.

our quarterly forecast for each of these industry groups as index values, with the first quarter of 2020 normalized to a value of 100.

Figure 4
Job Growth in Michigan
Blue-Collar, Higher-Education Services, and Lower-Education Services Industries



Employment in Michigan's **blue-collar industries** dipped by 7,300 jobs in the fourth quarter of last year. The growth prospects from here are uncertain, but we tend toward the optimistic view. We project job gains to resume in the state's blue-collar industries following last fall's strike, bringing their employment level to over four percent higher than prior to the pandemic by the end of 2025.

We expect the transportation equipment manufacturing industry to lose 1,300 jobs this year before adding 3,200 in 2025. It is too early to tell precisely how many jobs will be lost amid the recently announced layoffs at the Detroit Three automakers. Stellantis has announced cuts of up to 2,455 workers at the Detroit Assembly Complex – Mack. The actual number of cuts is expected to be lower, though, and the cuts may prove to be temporary.[3] Ford has announced 1,400 job cuts at the Rouge Electric Vehicle Center. Due to relocations to other facilities in Michigan and production increases at the Michigan

[3] See, for instance, Eric D. Lawrence, "Stellantis temporarily cutting shift at Detroit Jeep plant," *Detroit Free Press*, December 7, 2023.

Assembly plant, however, the extent of any net job reductions this year is unclear.[4] Finally, General Motors has announced layoffs of just over 1,300 employees at its Orion Assembly and Lansing Grand River Assembly/Stamping plants.[5] Again, the ultimate number of job losses may be lower than that figure if workers are able to move to other facilities in the state. Against this challenging near-term news, we note that vehicle financing rates should begin to decline over the next two years, as described in our U.S. forecast dated February 16, 2024. Falling rates should provide a boost to vehicle production and employment in Michigan's transportation equipment manufacturing industry, leading to our forecast of a return to modest job growth in 2025.

Michigan's construction industry has withstood the increase in mortgage rates since the start of 2022 as well as we could have hoped. Still, employment in the industry slipped a bit toward the end of last year. We are projecting 1,500 job gains this year, a significantly slower pace than in recent years. Growth picks up to 3,700 jobs in 2025 as mortgage rates fall.

Employment in Michigan's transportation, warehousing, and utilities sector reached an all-time high in the third quarter of 2022. It has declined slightly since then. We expect the sector to hold roughly flat over the next two years but still at a high level. We expect job gains in the wholesale trade industry to average 2,200 per year in 2024–25, a solid growth rate but also a slowdown from the industry's pace over the past two years.

Michigan's **higher-education services industries** have been on a relatively smooth growth path since late 2020. We expect growth to moderate over the next two years as the government and health sectors recover to their pre-pandemic employment levels. We project job gains in the higher-education services industries to slow from 40,800 last year to 27,200 this year and 23,500 next year. These industries finish our forecast with an employment level 3.0 percent, or 59,000 jobs, higher than prior to the pandemic.

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[4] See Associated Press, "Ford cuts production of F-150 Lightning pickup on weaker-than-expected EV sales growth," Detroit Free Press, January 19, 2024.
[5] See Jamie L. LaReau, "GM to lay off 1,300 workers across two Michigan plants as vehicle production ends," *Detroit Free Press*, December 14, 2023.

Table 1
Forecast of Payroll Jobs in Michigan by Major Industry Division
(Thousands of Jobs)

		Forecast Employment Change		
	2023	'23–'24	'24–'25	'23–'25
Total Jobs	**4426.4**	**37.9**	**57.5**	**95.4**
Total Government	610.5	11.4	6.1	17.5
Total Private	3815.9	26.5	51.4	77.9
Natural resources and mining	7.5	0.1	-0.1	0.1
Construction	190.2	1.5	3.7	5.2
Manufacturing	606.5	5.8	10.1	15.9
Transportation equipment manufacturing	184.8	-1.3	3.2	1.9
Other manufacturing	421.7	7.1	6.9	14.0
Trade, transportation, and utilities	811.7	3.6	2.9	6.5
Retail trade	455.6	1.5	0.2	1.7
Transportation, Warehousing, and Utilities	176.1	-0.3	0.6	0.3
Wholesale trade	180.0	2.3	2.1	4.5
Information	57.1	1.2	0.0	1.2
Financial activities	228.5	0.3	2.0	2.3
Professional and business services	659.9	-4.2	9.4	5.2
Professional, scientific & technical services	319.5	1.4	3.3	4.7
Management of companies & enterprises	70.2	-0.4	1.6	1.2
Admin & support & waste mgmt.	270.2	-5.2	4.5	-0.7
Private education and health services	680.1	13.3	10.5	23.8
Leisure and hospitality	413.7	3.8	11.6	15.4
Other services	160.8	1.1	1.1	2.3
Addendum: Percent Change in Total Jobs	**1.5**	**0.9**	**1.3**	**2.2**

RSQE: February 2024

Michigan's finance sector lost 3,600 jobs last year amid the increase in mortgage rates. We are projecting 300 job gains this year and 2,000 in 2025, as declining rates drive some improvement in origination volumes. Still, we do not expect the finance sector to recover all of its recent job losses in our forecast period.

Michigan's government sector added a whopping 21,000 jobs last year, taking it to within sight of its pre-pandemic employment level. We expect it to make a full recovery early this year and continue to grow from there, but at a slower pace than recently. We project 11,400 job gains this year and 6,100 in 2025. Even so, government's share of Michigan's total employment over the next two years remains nearly a percentage point below its average so far in the millennium.

Michigan’s private education and health services sector added 18,500 jobs in 2023. We now expect it to recover to its pre-pandemic job count by mid-2024. Growth slows to an average of 11,900 jobs per year in 2024–25, taking the health services sector to a new all-time high employment level in Michigan at the end of 2025.

Michigan’s professional, scientific, and technical services sector experienced fewer spillovers than we had feared from the strike in the auto industry last fall. Growth totaled 4,800 jobs for the year. We are projecting an average pace of 2,300 job gains per year over the next two years. That would be slower growth than this sector has enjoyed recently, but it would also take this sector to a new all-time high employment level by the end of our forecast period as the Michigan economy continues to diversify.

Michigan’s **lower-education services industries** lost over 14,000 jobs in the second half of 2023. We expected some spillover job losses from the strike in the auto industry last fall, but the losses began even prior to the strike. The good news is that we expect growth to resume in these industries over the next two years. The bad news is that, even by the end of 2025, we do not expect them to recover to their pre-pandemic employment level.

The leisure and hospitality industry lost 5,300 jobs in the second half of last year. Some of those losses stemmed from the strike at the Detroit casinos, but the extent of the total losses was puzzling. We were encouraged to see some job gains in December following the end of the strike. We are forecasting the sector to add 3,800 jobs this year before growth picks up to 11,600 in 2025. Employment in leisure and hospitality recovers to its pre-pandemic level in the second half of 2025.

The retail trade sector added just 600 jobs last year, and we expect more of the same over the next two years. Job gains average 900 per year in 2024–25, as strong consumer spending helps to cushion the sector against the growth of online shopping.

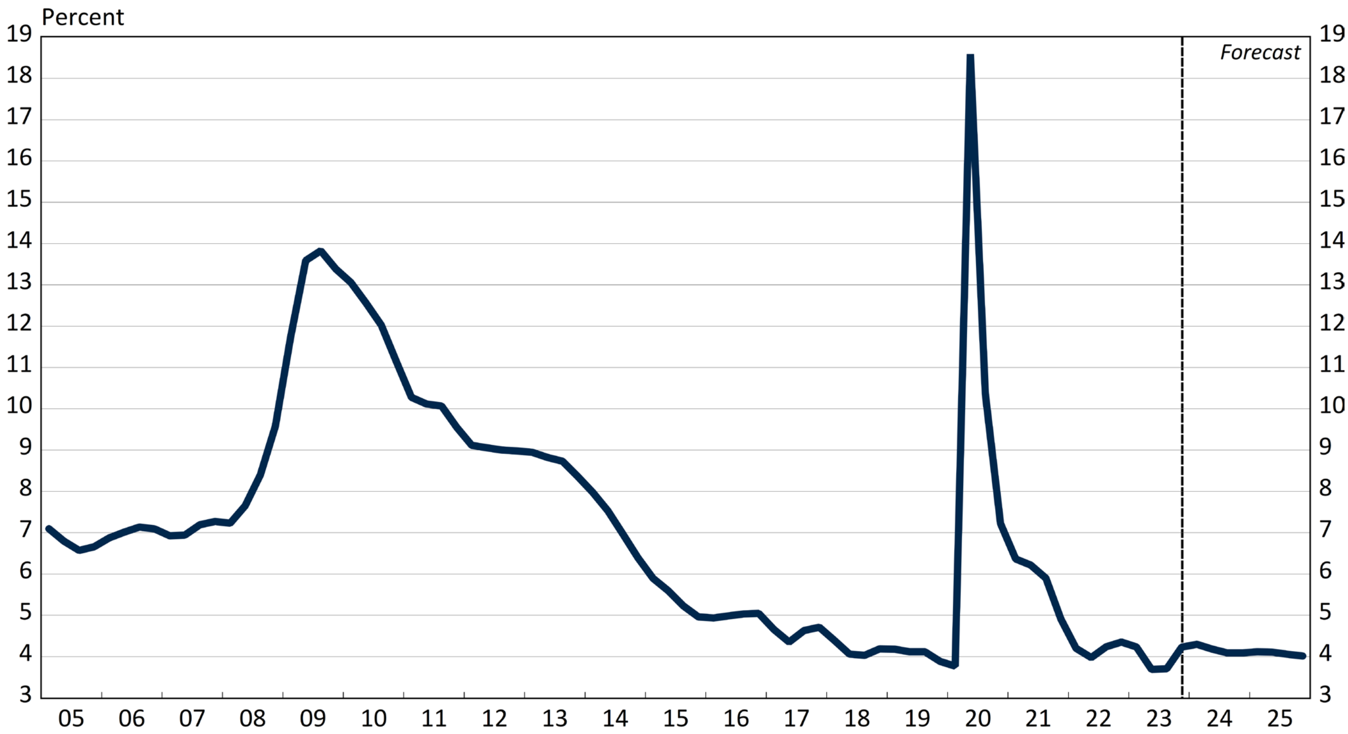
Administrative and support and waste management services lost 10,800 jobs in the second half of 2023. We did expect spillover job losses in this sector from the strike in the auto industry, but the sector’s weakness predated the strike. Furthermore, there has not been any recovery since the strike’s end. We expect administrative and support and waste management to lose 5,200 jobs this year before recovering 4,500 in 2025.

The other services industry lost 2,100 jobs in 2023. It adds 1,100 jobs in each of the next two years, but it does not return to its pre-pandemic employment level in our forecast period.

Unemployment and Labor Force Participation Rates

Figure 5 displays the historical data and our forecast for Michigan's quarterly unemployment rate. During 2023, the state's unemployment rate dipped to a low of 3.6 percent in June before increasing to 4.3 percent in December as residents flocked to the labor force. We expect the unemployment rate to hover around 4.3 percent during the first quarter of 2024 as Michigan keeps its newfound workforce. As interest rates decline and employment grows more quickly than the labor force, we expect Michigan's jobless rate to decline to 4.1 percent in the second half of 2024. We anticipate the unemployment rate to remain at that level until the final quarter of 2025 when it dips to 4.0 percent, slightly below Michigan's annual unemployment rate in 2019.

Figure 5
Quarterly Michigan Unemployment Rate



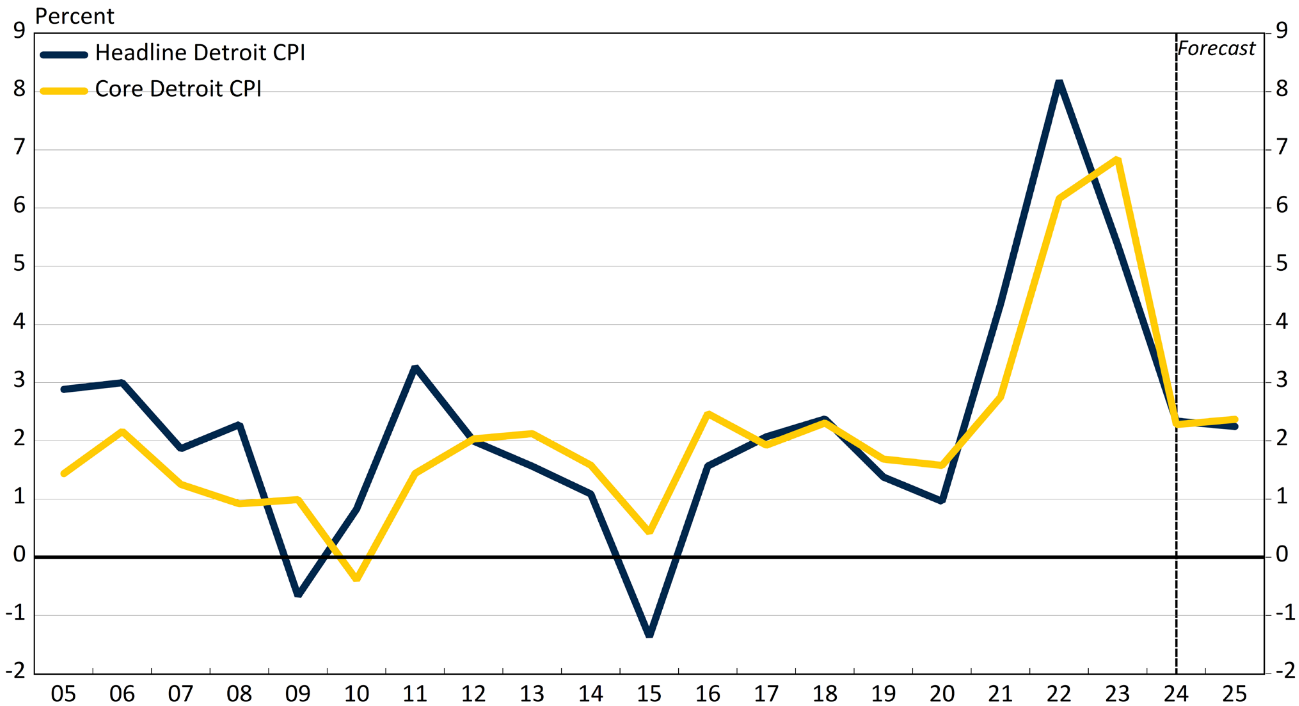
The state's labor force participation rate has been rising since the beginning of the year, defying the downward pressure from Michigan's aging populace. As of December 2023, Michigan's labor force participation rate stood at 62.2 percent, the highest level since August 2009. Unfortunately, since the beginning of the pandemic, many programs including the Current Population Survey have seen declining response rates. This has led many analysts, ourselves included, to wonder if the signals from those surveys are becoming noisier. Despite our concerns, Michigan's significant increase in labor force participation over the course of 2023 has been a pleasant surprise.

Despite the recent surge in labor force participation, Michigan's demographic trends indicate a less promising outlook for the future. We expect that Michigan's population 65 and older will account for 20 percent of its total population by the end of our forecast period, or nearly 2.5 percentage points higher than before the pandemic. We expect the aging of the population to hinder the state's labor force growth, which we expect to tick up to 62.3 percent by the first quarter of 2025 before flatlining for the remainder of the forecast.

Local Inflation

Figure 6 shows the history and our forecast of headline (all-item) and core (excluding food and energy) Detroit CPI inflation. Local headline inflation slowed from 8.2 percent in 2022 to 5.4 percent last year, with prices actually declining in the fourth quarter. We expect headline inflation to return to the positive side of the ledger in the first quarter of 2024, with an annualized pace of 3.2 percent as shelter inflation reaccelerates. Looking further ahead, we anticipate annual local inflation to stabilize around 2.2–2.3 percent annually in 2024 and 2025, reflecting the success of the Federal Reserve's monetary tightening campaign. Unfortunately, inflation remains significantly higher than the pace Michiganders became accustomed to prior to the pandemic. Local inflation averaged 1.2 percent per year from 2015 to 2019, a pace to which we do not expect to return during our forecast period.

Figure 6
Local Inflation, Headline and Core Detroit CPI



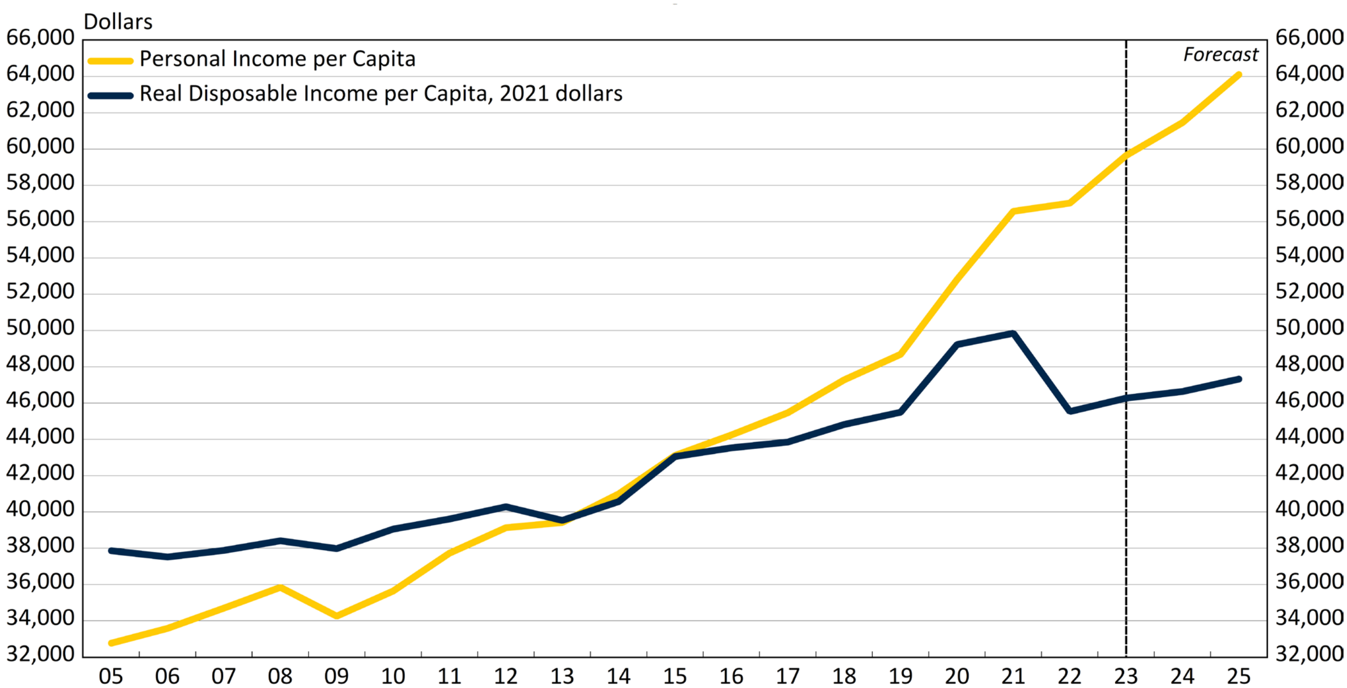
Local core inflation, on the other hand, accelerated from 6.2 percent in 2022 to 6.8 percent in 2023. Shelter cost inflation played an important role in the ramp up of local core inflation, but it has slowed considerably since mid-2023. We project local core inflation to register 2.3 percent in 2024, in keeping with the broad moderation of price pressures. Local core inflation then inches above the headline rate by one-tenth of a percentage point in 2025, as gasoline prices remain subdued and food inflation slows.

Personal Incomes

Figure 7 shows our forecast for Michigan personal income per capita, measured in nominal dollars, and real disposable income per capita, measured in 2021 dollars. Personal income per capita in Michigan held roughly steady at $57,000 in 2022. With income data through the third quarter of 2023, we expect Michigan's personal income per capita to increase by 4.6 percent on a calendar year basis in 2023 and 3.0 percent this year, as national growth moderates. As broad economic momentum picks back up, Michigan personal income per capita increases by 4.3 percent in 2025. As a result, income growth is expected to average 4.0 percent per year between 2023–25, surpassing the average pace of 3.5 percent from 2011–19 and bringing Michigan's personal income per capita to $64,100 in 2025.

Our forecast for real disposable income per capita in Michigan combines our forecast of nominal personal income with our forecasts for taxes and local inflation. Michigan's real disposable income per capita surged during the pandemic, but high inflation drove a decline of 8.7 percent in 2022, sending living standards back to 2019 levels. We estimate that Michigan's real disposable income clawed back some of that loss in 2023, with an increase of 1.6 percent. We project growth to slow to 0.8 percent in 2024 before rebounding to 1.5 percent in 2025 as the national economy heats up. That income growth would average 1.3 percent per year between 2023–25, or 0.4 percentage points slower than the average from 2011–19, as Michigan rebounded from the Great Recession. We forecast Michigan's real disposable income per capita to climb to 4.0 percent above the 2019 level in 2025.

Figure 7
Personal Income per Capita and Real Disposable Income per Capita in Michigan



The State Revenue Outlook

At January's Consensus Revenue Estimating Conference (CREC) in Lansing, state officials agreed on preliminary revenue forecasts for fiscal years 2024–26 while also presenting preliminary book closing figures for fiscal 2023.

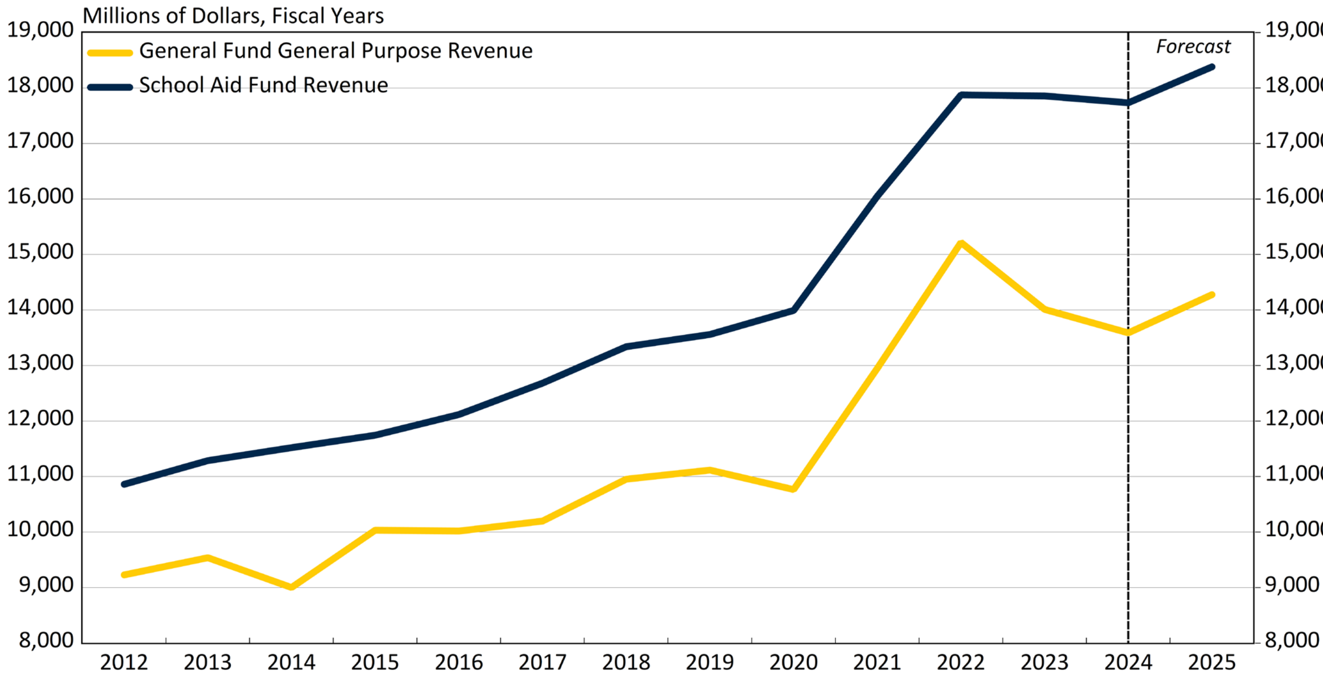
As shown in Figure 8, Michigan experienced explosive revenue growth in fiscal 2021 and 2022 due to several features of the pandemic and post-pandemic economy, most notably the emergency federal assistance and the shift in consumer spending from services to goods. The preliminary numbers for fiscal 2023 suggest a turning point. Combined General Fund General Purpose (GFGP) and School Aid Fund (SAF) revenues plunged by over $1.2 billion in fiscal 2023, with that decline largely coming from the General Fund. We have been expecting the pandemic-era revenue surge to moderate as consumer spending patterns shift back to services. Still, the dramatic fall of state tax revenue in fiscal 2023 was due mostly to a combination of factors related to the state's tax laws, which will continue to exert influence throughout our forecast period.[6]

The state government's official CREC projections call for combined GFGP and SAF revenues to fall by another $282 million in fiscal 2024 before gaining back $785 million in fiscal 2025 as the state's tax landscape stabilizes. RSQE's own revenue forecast is a bit more conservative for fiscal 2024 but substantially more optimistic for fiscal 2025. We forecast a combined GFGP and SAF revenue loss of $548 million in fiscal 2024, followed by a gain of over $1.3 billion in fiscal 2025.

As shown in Figure 8, even with the declines in fiscal 2023–2024, both GFGP and SAF revenues are projected to run above their historical trends throughout the forecast period. Our forecast puts combined GFGP and SAF tax revenues in fiscal 2025 nearly $8 billion, or 32 percent, higher than in fiscal 2019. While that number sounds impressive, it does not account for the elevated inflation of the past two years. After adjusting for local inflation, the cumulative growth of combined GFGP and SAF revenue is only 5.2 percent from fiscal 2019 to 2025.

[6] First, Public Act 4 of 2023, adopted in March 2023, expanded exemptions for certain retirement income as well as the state's earned income tax credit and adopted new earmarks to Michigan's corporate income tax rate. Second, Michigan's individual income tax rate was lowered from 4.25 percent to 4.05 percent for calendar year 2023 due to a provision associated with the state's 2015 road funding law. Third, Public Acts 20, 21, and 29 of 2023 provided new sales and use tax exemptions for most delivery and installation charges in Michigan. Fourth, the state's "flow-through entity tax", adopted in December 2021, experienced a one-time outsized level of returns in fiscal 2022 and has subsequently fallen to a more sustainable level. All together, these factors are estimated to have reduced combined fiscal 2023 revenues by over $1.8 billion in fiscal 2023, and they are expected to reduce fiscal 2024 and 2025 revenues by nearly $2 billion and $1.4 billion, respectively.

Figure 8
Michigan Tax Revenues, General and School Aid Funds



We now describe our forecast for state revenues in more detail. Table 2 breaks down fiscal 2022–23 revenues and our forecast for fiscal years 2024–25. The upper portion details GFGP revenues, and the lower portion summarizes SAF revenues.

Net Personal Income Tax Revenue

- Based on the preliminary book closing numbers from CREC, net personal income tax revenue declined by 11.5 percent in fiscal 2023, following two years of extraordinary growth during the pandemic.
- The fiscal 2023 contraction was due to an increase in refunds combined with substantial reductions in annual, quarterly, and flow-through entity tax revenue. Personal income tax withholding, on the other hand, saw an increase of 1.5 percent, bolstered by the ongoing jobs recovery and wage growth in the state, even with the temporary decline of the personal income tax rate to 4.05 percent.
- We forecast net personal income tax revenue to drop an additional 1.2 percent in fiscal 2024 due to the expansion of the EITC, the revised exemptions on retirement income, and an increase in refunds owing to last year's tax rate adjustment.
- Net personal income tax revenue rebounds by 8.4 percent in fiscal 2025, with contributions from all components of personal income tax revenue.

Consumption Tax Revenue

- GFGP consumption tax revenue in Michigan is driven by distributions from the sales and use taxes, with smaller contributions from excise taxes on cigarettes and alcohol.
- In fiscal 2021 and 2022, gross sales and use tax revenue showed remarkable growth due to the combination of resilient consumer demand during the pandemic, a shift in spending away from services to taxable goods, and inflationary pressures in goods markets.
- Gross sales and use tax revenue flattened in fiscal 2023 as economic growth softened, consumers felt the pinch of inflation, and spending began to shift back to services.
- We expect the transition of consumer spending back to services to continue in fiscal 2024, producing another flat year for gross sales and use tax revenue.
- As the state economy continues to expand in fiscal 2025, albeit at a slower pace than in the past two years, we project gross sales and use tax revenue to pick back up with growth of 2.7 percent.
- Combining the General Fund's share of gross sales and use tax revenue with the excise taxes on cigarettes and alcohol, we forecast GFGP consumption tax revenue to fall by 1.0 percent in fiscal 2024 before nudging up by 1.4 percent in fiscal 2025.

Business Tax Revenue

- Business tax revenue comes primarily from the state's corporate income tax (CIT), insurance company premiums, and oil and gas severance tax payments. Certain businesses continue to pay taxes and claim credits under the previously used Michigan Business Tax (MBT) instead of the CIT. Variability in the timing of when MBT refunds are claimed can lead to swings in the state's overall business tax revenue. All business tax revenue accrues to the General Fund.
- Business tax revenue saw impressive growth during the pandemic, most of which came from sharp rises in CIT payments in fiscal 2021 and fiscal 2022.
- Gross CIT collections remained strong in fiscal 2023, but the new earmarks adopted last year began to bite, leading GFGP business tax revenue to drop by 16.4 percent in the fiscal year.
- We expect GFGP business tax revenue to decline an additional 7.9 percent in fiscal 2024 before holding roughly flat in fiscal 2025.

Total General Fund Revenue

- After two years of exceptional growth, most of the GFGP's revenue sources declined in fiscal 2023, resulting in an overall loss of $1.2 billion, or 7.9 percent, as shown in Figure 8.
- Based on our projections of the individual components, we expect total GFGP revenue to drop another 3.0 percent in fiscal 2024 before rebounding with solid growth of 5.1 percent in fiscal 2025.
- While the above-trend revenue growth of fiscal 2021 and 2022 and the deceleration of job growth have led to us expect some degree of moderation in state revenue growth, the tax law changes that take effect during fiscal 2023–24 are largely responsible for the declines during that time.

- Even with the declines in fiscal 2023–24, our forecast puts total GFGP revenue almost $3.2 billion higher, or 28.4 percent, in fiscal 2025 than in fiscal 2019. After adjusting for inflation, however, the cumulative growth of General Fund revenues from fiscal 2019–25 is only 2.1 percent.

Total School Aid Fund Revenue

- About half of total SAF revenue comes from sales and use tax collections, while one-fifth derives from the personal income tax, and about one-seventh comes from the state education property tax. Other taxes, such as the real estate transfer tax, liquor tax, casino tax, and tobacco tax, as well as lottery transfers, all contribute smaller amounts.
- As shown in Figure 8, total SAF revenue managed to stay flat in fiscal 2023, as its allocations are generally based on gross revenue and were largely protected from the tax law changes that were adopted last year. That said, growth in fiscal 2023 was held back by the decline in gross personal income tax revenue that resulted from the tax rate adjustment to 4.05 percent and the drop in flow-through entity tax revenue, as discussed above.
- Revenues related to the housing market also limited SAF growth in fiscal 2023. State education property tax revenue (SEP) grew by 4.8 percent, but real estate transfer tax revenue fell by 28.8 percent as the housing market cooled and mortgage rates soared.
- We forecast total SAF revenue to nudge down by 0.7 percent in fiscal 2024 as gross sales and use tax revenue stays flat and personal income tax revenue continues to slide.
- We expect SAF revenue to begin expanding again in fiscal 2025, as growth in most major revenue components leads to total SAF growth of 3.7 percent.
- Total SAF revenue is forecast to finish fiscal 2025 over $4.8 billion, or 35.6 percent, higher than in fiscal 2019. After adjusting for inflation, that growth is reduced to 7.8 percent.

Table 2
State Revenues by Fiscal Year
(Millions of dollars, except as noted)

	Actual		RSQE Forecast	
	2022	2023	2024	2025
General Fund General Purpose				
Personal income tax	9,212	7,764	7,774	8,580
(% change)	(19.3)	(-15.7)	(0.1)	(10.4)
Consumption taxes	3,176	3,210	3,179	3,224
(% change)	(4.2)	(1.1)	(-1.0)	(1.4)
Sales	1,705	1,677	1,659	1,748
Use	1,192	1,272	1,266	1,224
Other consumption	279	261	254	252
Business taxes	1,993	1,665	1,534	1,531
(% change)	(25.7)	(-16.4)	(-7.9)	(-0.2)
MBT/SBT/Corporate income	1,531	1,172	1,030	1,017
Other business	462	493	504	514
Other GFGP taxes	182	177	191	202
GFGP tax revenue	14,563	12,816	12,678	13,537
(% change)	(16.3)	(-12.0)	(-1.1)	(6.8)
Nontax revenue	656	1,198	911	740
GFGP revenue	15,219	14,014	13,589	14,277
(% change)	(17.5)	(-7.9)	(-3.0)	(5.1)
School Aid Fund				
SAF taxes	16,628	16,505	16,435	17,093
(% change)	(13.6)	(-0.7)	(-0.4)	(4.0)
Lottery transfer	1,248	1,352	1,300	1,290
(% change)	(-12.1)	(8.3)	(-3.8)	(-0.8)
Earmarked state SAF revenue	17,876	17,857	17,735	18,383
(% change)	(11.4)	(-0.1)	(-0.7)	(3.7)
Addendum				
Combined GFGP and SAF revenue	33,096	31,871	31,324	32,660
(% change)	(14.1)	(-3.7)	(-1.7)	(4.3)
Gross sales and use taxes	13,358	13,419	13,402	13,768
(% change)	(11.0)	(0.5)	(-0.1)	(2.7)

RSQE: February 2024