The U.S. and Michigan Outlook for 2023–2025
Consensus Revenue Estimating Conference
Lansing, Michigan

May 19, 2023

Research Seminar in Quantitative Economics
Current State of the U.S. Economy
S&P 1500 Banking Indices

Index, Jan 8, 2006 = 100

- S&P 1500 Regional Banks Sub-Industry Index
- S&P 1500 Commercial Banks Industry Index

RSQE: May 2023
Bank Deposit Outflow

Percent

- Large Banks, Deposits as % Of Total Liabilities
- Small Banks, Deposits as % Of Total Liabilities


80 82 84 86 88 90 92 94 96
Risk Spreads
Core PCE Services excl. Housing
Wage Growth

Year-over-Year % Change

- Orange line: Atlanta Fed Median Wage Growth, NSA, 3-mo moving average
- Black dashed line: Employment Cost Index, Wages and Salaries, Civilian Workers

Graph shows the trend of wage growth over time, with notable increases in recent years.
Institute for Supply Management Diffusion Indices

>50 = Increasing

ISM Manufacturing Index
ISM Services Index
Monthly Payroll Job Gains
U.S. Credit Default Swaps
U.S. Forecast
Monetary Policy:

- Fed pause until early 2024 at the funds rate range of **5.0–5.25** percent.
- The Fed starts easing once PCE inflation forecasts show return to 2.0 percent inflation over 1–2 year horizon. Gradual fed funds rate range cuts through 2024–25.

Fiscal Policy:

- Divided government: more contentious fights
- Defense spending likely set for brisk growth
- Slow growth of discretionary nondefense spending likely
- Budget deficit of about 5.8 percent of GDP in fiscal 2023–25
Real GDP Growth

[Graph showing Real GDP Growth from 2001 to 2004 with quarterly and annual growth rates indicated.]
Unemployment Rate and Participation Rate

Percent

<table>
<thead>
<tr>
<th>Year/Quarter</th>
<th>Unemployment Rate (RH)</th>
<th>Labor Force Participation Rate (LH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001Q1</td>
<td>64.0</td>
<td>62.8</td>
</tr>
<tr>
<td>2001Q2</td>
<td>64.0</td>
<td>62.8</td>
</tr>
<tr>
<td>2001Q3</td>
<td>63.6</td>
<td>63.2</td>
</tr>
<tr>
<td>2001Q4</td>
<td>63.2</td>
<td>63.2</td>
</tr>
<tr>
<td>2002Q1</td>
<td>63.2</td>
<td>63.2</td>
</tr>
<tr>
<td>2002Q2</td>
<td>63.0</td>
<td>63.0</td>
</tr>
<tr>
<td>2002Q3</td>
<td>62.8</td>
<td>62.8</td>
</tr>
<tr>
<td>2002Q4</td>
<td>62.6</td>
<td>62.6</td>
</tr>
<tr>
<td>2003Q1</td>
<td>62.4</td>
<td>62.4</td>
</tr>
<tr>
<td>2003Q2</td>
<td>62.2</td>
<td>62.2</td>
</tr>
<tr>
<td>2003Q3</td>
<td>62.0</td>
<td>62.0</td>
</tr>
<tr>
<td>2003Q4</td>
<td>61.8</td>
<td>61.8</td>
</tr>
<tr>
<td>2004Q1</td>
<td>61.6</td>
<td>61.6</td>
</tr>
<tr>
<td>2004Q2</td>
<td>61.4</td>
<td>61.4</td>
</tr>
<tr>
<td>2004Q3</td>
<td>61.2</td>
<td>61.2</td>
</tr>
<tr>
<td>2004Q4</td>
<td>61.0</td>
<td>61.0</td>
</tr>
<tr>
<td>2005Q1</td>
<td>60.8</td>
<td>60.8</td>
</tr>
<tr>
<td>2005Q2</td>
<td>60.6</td>
<td>60.6</td>
</tr>
<tr>
<td>2005Q3</td>
<td>60.4</td>
<td>60.4</td>
</tr>
<tr>
<td>2005Q4</td>
<td>60.2</td>
<td>60.2</td>
</tr>
</tbody>
</table>

Forecast

RSQE: May 2023
Housing Starts

Millions of Units

- Total
- Singles
- Multis

Forecast

RSQE: May 2023
Risks

- Financial Stress
- Inflation Dynamics
- Monetary Policy
- Housing Sector
- Geopolitical Shocks
- Fiscal Path
The Michigan Economic Outlook
For 2023–2025

Consensus Revenue Estimating Conference
May 19, 2023

Research Seminar in Quantitative Economics
Michigan Economic Outlook
Michigan is Nearly Out of a Deep Jobs Hole

Index, 100 = February 2020

- Michigan Payroll Employment
- National Payroll Employment
Labor Demand Has Cooled Off, but Remains Solid

Index, February 1, 2020 = 100

- Total Job Posting in the Detroit Metro-Area
- Total Job Posting in the Grand-Rapids Metro-Area
- Total Job Posting in Michigan
- Total Job Posting in the U.S.

Source: Indeed
Quarterly Light Vehicle Sales: Choppy Recovery Ahead

Millions of units, annualized rate

- Total Light Vehicle Sales
- Detroit Three Sales

Forecast
Quarterly Michigan Payroll Employment: Full Recovery in Late 2023

RSQE: May 2023
Employment Outlook by Industry Group: Blue-Collar Industries Lead the Way

Index, 2020Q1=100

Forecast

Blue-Collar
Higher-Ed Services
Lower-Ed Services

RSQE: May 2023
Michigan’s Unemployment Rate Rises Temporarily

Percent

- National Unemployment Rate
- Michigan Unemployment Rate

Forecast

RSQE: May 2023
Labor Force Participation Recovers Modestly
Inflation Devours Michigan Personal Income Gains

Dollars

- Personal Income per Capita
- Real Disposable Income per Capita, 2021 dollars

RSQE: May 2023
Michigan’s Long-Run Outlook and Implications of Vehicle Electrification
U.S. Light Vehicle Fleet by Power Type: 50% Electric by 2050

RSQE: May 2023
Faster EV Adoption/Potential Loss of Detroit Three Share would Reduce Auto Manufacturing Employment in Michigan

RSQE: May 2023
We are forecasting a complete recovery in payroll employment by late 2023.

The unemployment rate rises to 4.5% in mid-2024 before declining.

Personal income per capita in 2025 is nearly 30% higher than in 2019.
• But inflation eats away all of those gains.

Major short-term risks are tilted to the downside, including:
• Inflation remaining elevated
• Demand for autos falling
• Job losses in construction
• Looming UAW Strike

Longer term, an unsuccessful transition to electric vehicles is a major risk.