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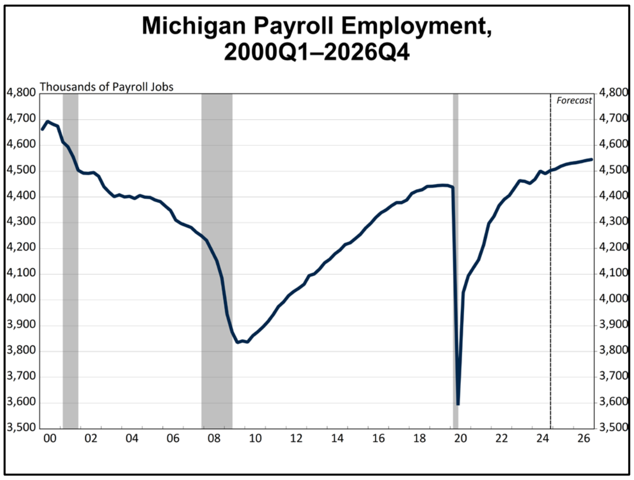
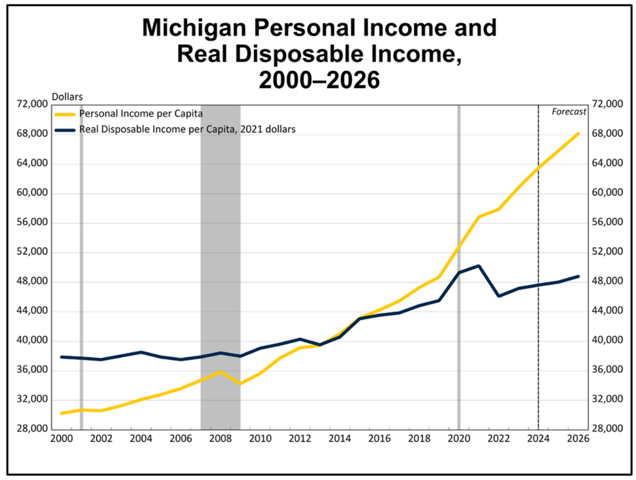
The Michigan Economic Outlook for 2025–2026: Executive Summary





Job growth in Michigan downshifted substantially last year, slowing from 80,600 jobs in 2023 to 38,100 in 2024. We expect growth to continue decelerating over the next two years, with 30,200 job gains this year and 18,500 in 2026.

We expect the new tariffs on steel and aluminum imports to reduce Michigan's employment in transportation equipment manufacturing by about 600 jobs by 2026. Because we estimate that each lost job in the industry results in almost three additional job losses statewide, we expect the tariffs to reduce growth by about 2,300 total jobs next year, although we caution that there is substantial uncertainty surrounding both of those estimates.

Job growth is concentrated in non-cyclical industries such as healthcare, leisure and hospitality, and government, despite potential cuts to federal funding. Manufacturing, professional and business services, and trade, transportation, and utilities largely tread water over the next two years. The unemployment rate edges down from 5.0 percent in the first quarter of 2025 to 4.8 percent by the end of 2026.

The latest readings for both headline and core Detroit CPI inflation suggest an ongoing moderation in inflation. Unfortunately, higher tariffs and slower growth of the labor force will put upward pressure on prices across the economy, but we expect those factors to be largely offset by disinflationary pressures in services. We expect local headline inflation to slow to 2.6 percent in each of the next two years.

We estimate that Michigan's personal income per capita increased by 4.4 percent, or $2,700, last year, bringing it to $63,500. As broad economic momentum nears cruising speed, growth of Michigan personal income per capita averages 3.6 percent per year between 2025–26, even with the average pace from 2010–19. That trajectory would bring Michigan's personal income per capita to $68,200 in 2026. Michigan's real disposable income per capita growth holds steady at 0.9 percent in 2025 and jumps to 1.6 percent next year with lower personal taxes. Real disposable income per capita climbs to 7.2 percent above the 2019 level in 2026, close to the pre-pandemic trend.

The Michigan Economic Outlook for 2025–2026

Jacob T. Burton, Gabriel M. Ehrlich, and Michael R. McWilliams
University of Michigan

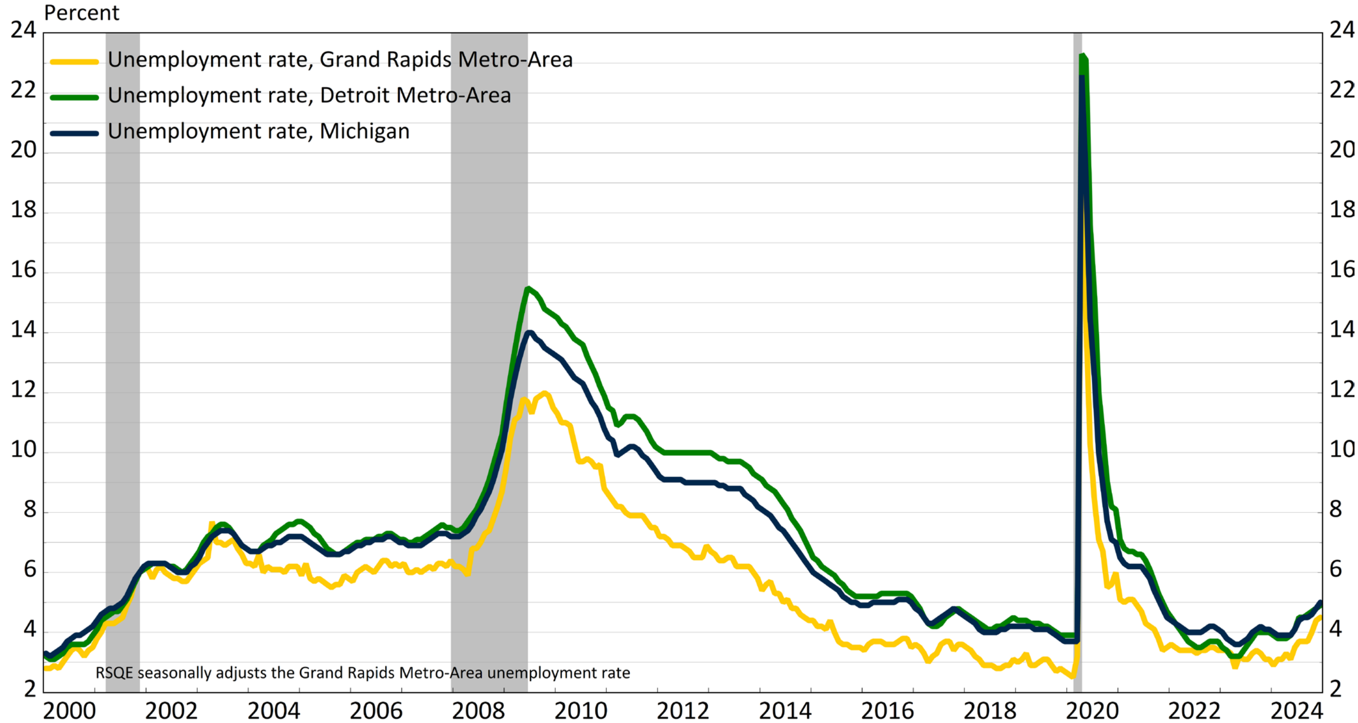
Introduction

Michigan's economy had an up-and-down year in 2024. The payroll job count grew by 41,000 in the first five months before dropping by 20,300 over the next three and then recovering all of those losses by December. The unemployment rate, meanwhile, rose from just under 4.0 percent early in the year to 5.0 percent by yearend. Last year's seesaw performance does not provide much guidance on the economic outlook going forward, and the picture is further clouded by the uncertain path of federal economic policy. We are projecting Michigan's economic growth to slow substantially over the next two years, but we are not projecting an outright downturn.

Figure 1 illustrates the path of the unemployment rate in Michigan and its two largest metro areas since the year 2000. The Detroit area's unemployment rate has moved closely with the state's recently, a welcome contrast to the 2010s, when it tended to run higher. Unemployment in the Grand Rapids area typically runs lower than the statewide rate: it began 2024 at just 2.9 percent after we seasonally adjust the data, more than a percentage point lower than the state average. Unfortunately, the Grand Rapids area unemployment rate has ticked up further than Michigan's over the past year. It reached 4.5 percent in December 2024, only half a percentage point below the state's. Excluding the pandemic-affected years of 2020 and 2021, December's unemployment rate in the Grand Rapids area was the highest since 2014.

We have consistently pointed to high inflation and correspondingly high interest rates as the root cause of Michigan's economic wobbles last year, but the focus this year has shifted to trade policy. We continue to believe that long-lasting, broad-based tariffs on Mexico and Canada will be avoided, but we expect the recently announced tariffs on steel and aluminum imports to persist and the new tariffs on China to grow from their current levels. We estimate that the steel and aluminum tariffs will cost Michigan about 2,300 payroll jobs in 2026, although we emphasize that there is considerable uncertainty around that estimate.

Figure 1
Michigan and Selected Unemployment Rates



Our projection that Michigan's economy will continue growing requires the state to withstand the headwinds from trade policy over the next two years. That relative optimism stems from our assessment of industries such as health services and leisure and hospitality. Historically, these industries have been relatively insensitive to the state of the macroeconomy, and we believe they have room to grow even as more cyclically sensitive industries take a breather. Additionally, our forecast calls for rising light vehicle sales, which should help to cushion Michigan's manufacturing sector from the uncertainty surrounding tariffs.

Overall, we consider our outlook for the next two years to be a positive one for Michigan, with moderately rising employment, unemployment that remains at a low level, and rising real incomes. We judge that the risks to our outlook are tilted toward the downside, but we believe the path of economic policy will ultimately feature more continuity than news headlines and social media posts might suggest. We believe Michigan's economy can continue to succeed in that scenario.

The Forecast of the State Economy

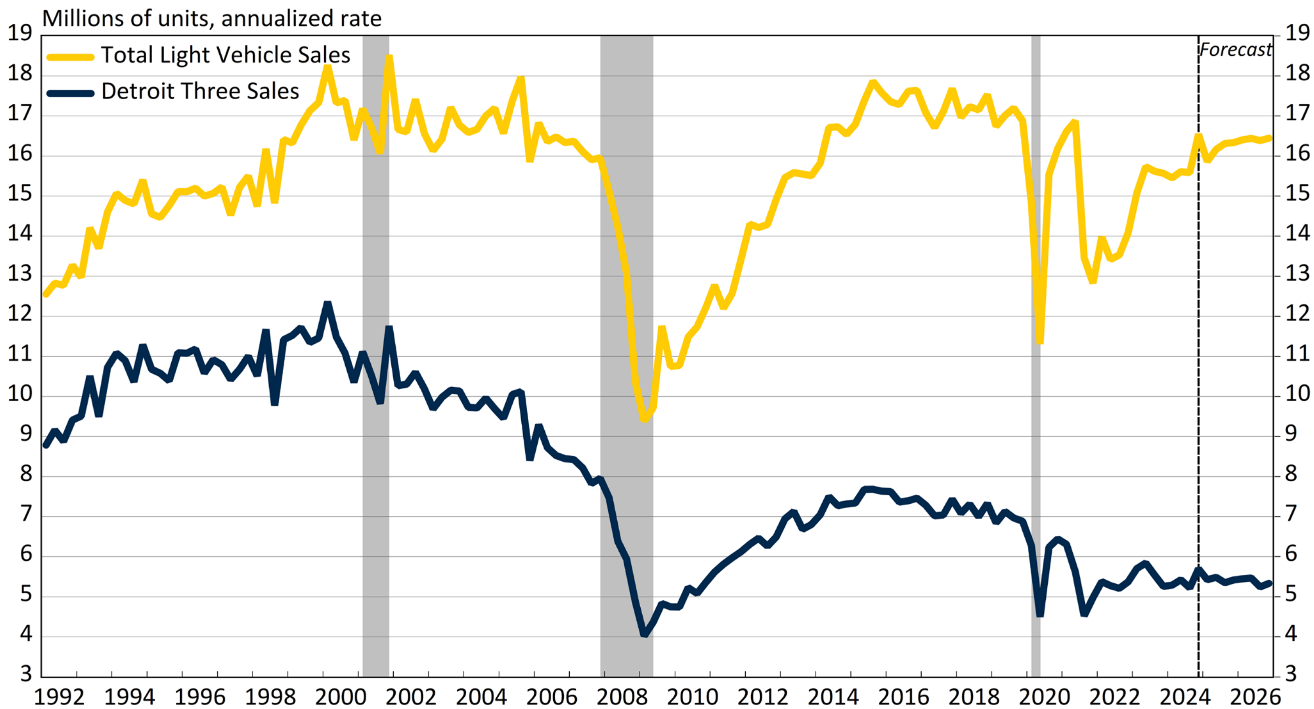
Detroit Three Light Vehicle Sales

Figure 2 shows our quarterly forecast for total U.S. and Detroit Three light vehicle sales. The seasonally adjusted annualized sales pace declined from 16.9 million in December to 15.6 million in January 2025. December's surge likely resulted from consumers front-loading purchases due to concerns over EV credit changes, potential tariffs, and rising retail incentives. Moving forward, we expect light vehicle sales to stabilize around an annualized pace of 16.3 million units by the end of 2025 and gradually rise to 16.5 million by late 2026, with growth concentrated in light trucks. The broad tariffs on steel and aluminum pose a significant near-term risk to our outlook for the auto industry. The possibilities that the currently paused tariffs on Mexico and Canada will be reinstated, or that reciprocal tariffs on all of our trading partners will be implemented, pose even larger risks. We have assumed that the steel and aluminum tariffs will persist, but that broader tariffs will ultimately be avoided or short-lived.

We expect the tariffs on steel and aluminum imports to raise production costs in the automotive supply chain without offering meaningful protection to Michigan's broader manufacturing industry. We estimate that the 25 percent import tariffs on steel and aluminum will reduce Michigan's light vehicle production by roughly 1.6 percent, or more than 26,000 units in 2026, as additional price increases on top of already record-high transaction prices deter consumers. Rigorous empirical studies such as Cox (2023) and Flaaen and Pierce (2024) document that previous impositions of steel and aluminum tariffs led to employment losses despite their intended protective effects.[1] We emphasize that our estimate of the tariffs' effects depends on several key assumptions, including the ability of consumers and producers to find substitutes, the overall effect of domestic price increases, and the potential for retaliatory tariffs from other countries, all of which are uncertain. We do not currently include retaliatory tariffs in our estimates.

[1] Aaron Flaaen, Justin Pierce; Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector. *The Review of Economics and Statistics* 2024; doi: https://doi.org/10.1162/rest_a_01498.
Cox, Lydia. "The Long-Term Impact of Steel Tariffs on US Manufacturing." (2023); url: https://coxlydia.com/papers/cox_steel_tariffs.pdf

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



We remain cautiously optimistic that the Detroit Three automakers will navigate the evolving trade situation successfully, having faced similar challenges during the first Trump Administration's "trade war" in 2018 and 2019. Their recent profits should also provide a buffer against some of the near-term effects of tariffs, allowing them to absorb some of the strain while making strategic adjustments to their operations, supply chains, and pricing strategies. Based on last year's profits, eligible workers will receive profit-sharing checks of up to $14,500 at GM and $10,208 at Ford, but only $3,780 at Stellantis, which suffered from a sharp decline in market share last year. From December 2023 to December 2024, GM's market share increased by 1.6 percentage points, while Ford and Stellantis saw declines of 0.5 and 1.0 percentage points, respectively.

Although Stellantis's performance last year was concerning, the company has recently made several encouraging announcements regarding its presence in Michigan and the broader region. After CEO Carlos Tavares's unexpected resignation in December, the company pledged to restore confidence in the brand by introducing additional Jeep nameplates, a gas-powered Dodge Charger, an affordable midsize pickup, and several recommitments to manufacturing in Detroit and its previously shuttered Belvidere plant. Although some of these announcements may ultimately prove to be optimistic, we are hopeful about Stellantis's continued investment in North America.

The Detroit Three's share of U.S. light vehicle sales registered 34.2 percent in 2024, down from 36.1 percent in 2023. Looking ahead, we expect the Detroit Three's market share to continue its decade-long contraction, dropping to 33.5 percent in 2025 and 32.7 percent in 2026. However, that decline is further exacerbated by the ongoing steel and aluminum tariffs, which we estimate will account for nearly two-fifths of the decrease this year. Combined with our projection of increasing total light vehicle sales, our forecast for the Detroit Three's market share suggests that their vehicle sales will total 5.4 million units in each of 2025 and 2026. While that would be on par with their 2024 sales pace, it remains 20 percent below their 2019 sales of 7 million units, as the Detroit Three continue to prioritize profitability over market share. Although the automakers are likely to feel the strain of the new tariffs and ongoing trade tensions, we expect profits to remain respectable given a growing market, falling financing rates, and less regulatory pressure to transition quickly toward EVs.

Payroll Employment

Figure 3 shows our forecast of Michigan's quarterly payroll job count. The state added 38,100 jobs in 2024, a solid performance given the ups and downs during the course of the year. We are projecting growth to slow to 30,200 jobs this year and to 18,500 in 2026. The pace of growth we are projecting in 2026 would be roughly in line with the 17,400 job gains in 2019, which also came during a period of near-full employment and international trade tensions. Our forecast takes Michigan's payroll job count to 2.4 percent above its pre-pandemic level by the end of 2026, but it remains 3.2 percent below its all-time peak from the second quarter of 2000.

Figure 3
Quarterly Michigan Payroll Employment

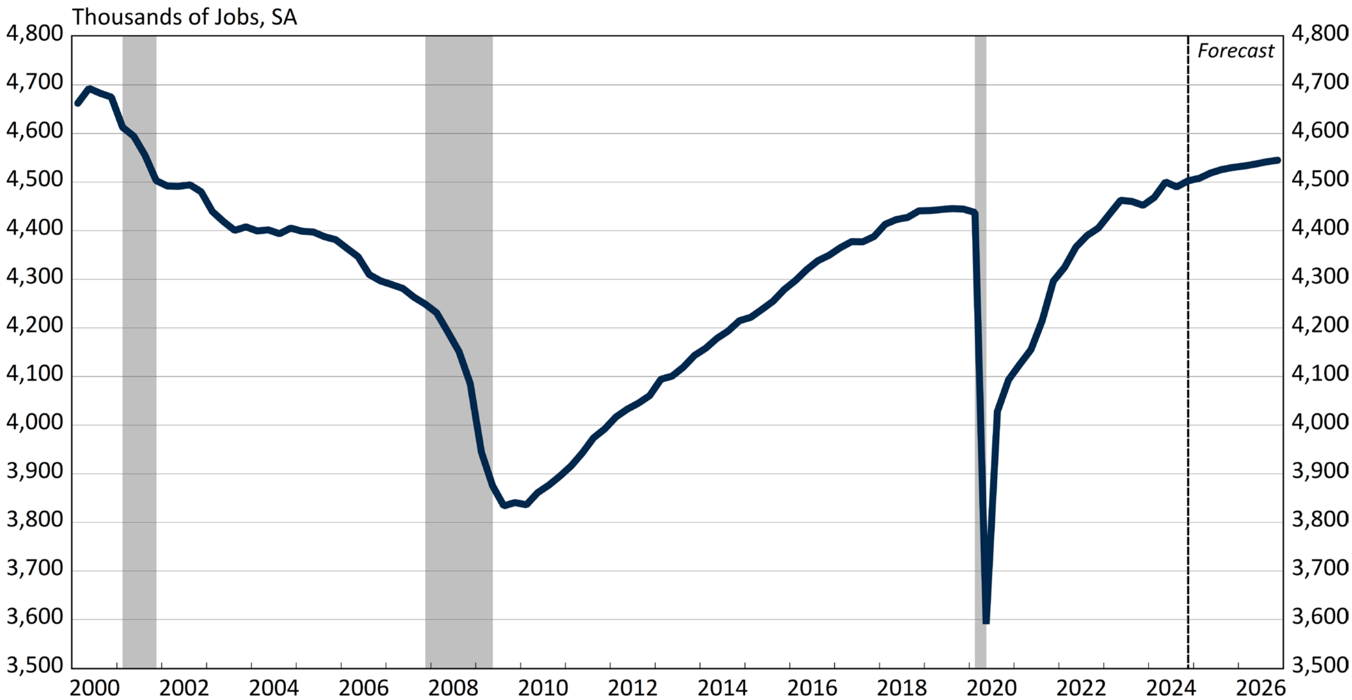


Table 1 below displays our forecast for Michigan's annual job growth by industry, while Figure 4 divides our industries into two groups: "Cyclical Industries" and "Non-cyclical Industries."[2] The non-cyclical industries typically display much less volatile employment patterns than the cyclical industries, with the exception of the COVID-19 pandemic and recovery period. We are projecting about 80 percent of the job growth in Michigan in 2025 and 2026 to occur in the state's non-cyclical industries.

Employment in Michigan's **cyclical industries** held essentially flat last year, losing 100 jobs on an annual average basis. We project these industries to add 3,700 jobs this year before growth picks up to 6,400 jobs in 2026.

The state's **construction** industry added a surprising 13,000 jobs last year in the face of high mortgage rates, but we do not think that performance will continue. We are projecting growth to average 2,100 jobs per year over the next two years as mortgage rates are slow to decline. One reason for our relatively modest outlook for construction is that in 2024, the sector already stood near its all-time high

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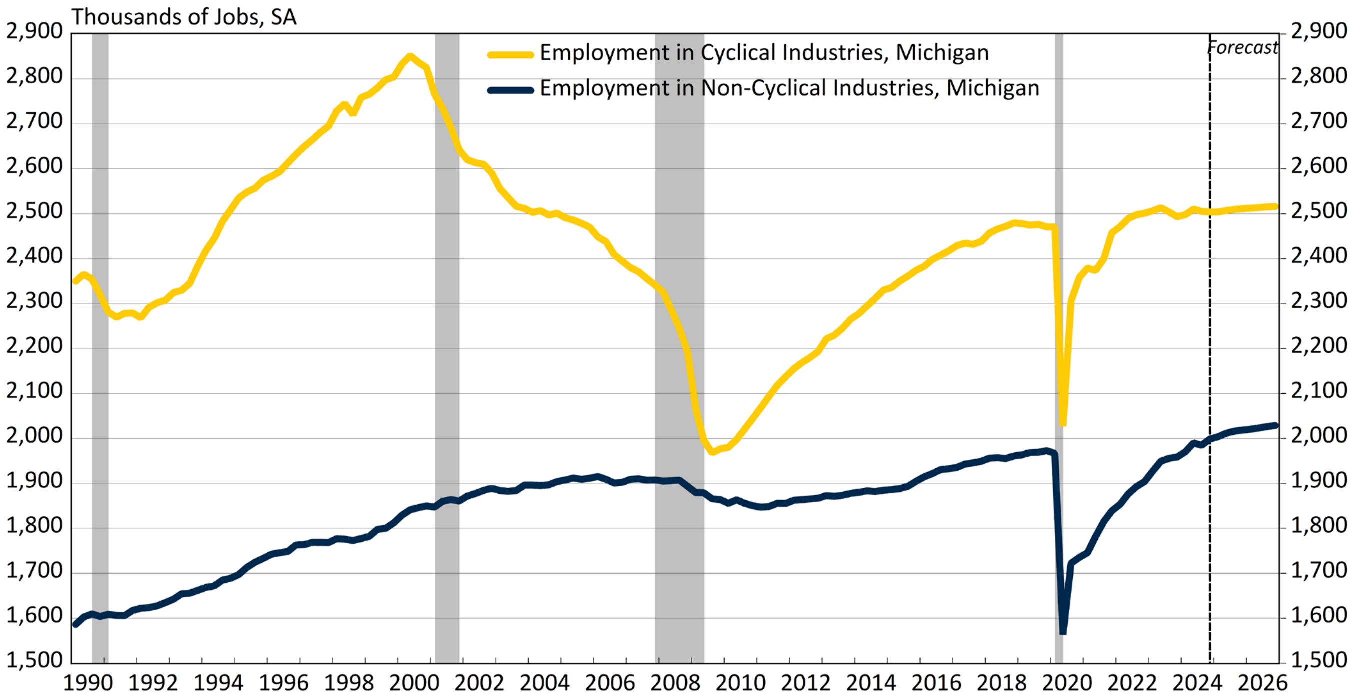
[2] The cyclical industries comprise manufacturing, construction, trade, transportation, and utilities, professional and business services, and financial activities. The non-cyclical industries comprise all other industries. The cyclical industries accounted for 56.3 percent of nonfarm payroll employment in Michigan in 2023.

as a share of statewide employment since the industry data begin in 1990. As we have discussed previously, we consider the risk of large-scale deportations to be a less acute threat to the construction industry in Michigan than nationally.

Figure 4
Payroll Employment in Michigan's Cyclical and Non-cyclical Industries



Employment in Michigan's **manufacturing** sector lost 8,700 jobs last year, with 4,700 job losses in transportation equipment manufacturing and 4,100 in other manufacturing. A tough sales environment and high vehicle financing rates both weighed on the local auto industry. We expect the recently imposed tariffs on steel and aluminum imports to cost Michigan's transportation equipment manufacturing industry 600 jobs by next year, although there is a high degree of uncertainty around that estimate. Those job losses have a multiplier effect on Michigan's broader economy: we estimate that each job lost in the transportation equipment manufacturing industry leads to nearly three additional job losses statewide, so that the tariffs reduce the growth of statewide employment by approximately 2,300 jobs next year. Overall, we are projecting 1,400 job losses in the manufacturing sector this year, with 800 of them in transportation equipment. In total, the manufacturing sector adds back 2,000 jobs next year, even as employment in transportation equipment manufacturing equipment slips by another 100 jobs. We continue to see potential upsides in the policy landscape for Michigan's manufacturing sector, including less regulatory pressure to increase light vehicle fuel economy, potentially lower tax rates for domestic manufacturing, and the possibility for targeted industrial support.

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

		Forecast Employment Change		
	2024	'24–'25	'25–'26	'24–'26
Total Jobs	**4490.6**	**30.2**	**18.5**	**48.7**
Total Government	622.0	6.5	2.4	8.8
Total Private	3868.5	23.8	16.1	39.9
Natural resources and mining	7.4	0.0	-0.1	-0.1
Construction	202.1	2.3	1.9	4.1
Manufacturing	606.3	-1.4	2.0	0.6
Transportation equipment manufacturing	183.4	-0.8	-0.1	-0.8
Other manufacturing	422.9	-0.6	2.0	1.4
Trade, transportation, and utilities	820.4	0.2	0.4	0.5
Retail trade	455.7	-3.3	-2.4	-5.6
Transportation, Warehousing, and Utilities	181.9	1.1	1.3	2.4
Wholesale trade	182.7	2.3	1.5	3.8
Information	57.5	-0.5	-0.2	-0.7
Financial activities	229.3	3.8	1.8	5.6
Professional and business services	646.5	-1.2	0.4	-0.8
Professional, scientific & technical services	316.6	-1.5	0.7	-0.7
Management of companies & enterprises	68.9	0.5	0.4	0.9
Admin & support & waste mgmt.	261.0	-0.2	-0.8	-1.0
Private education and health services	702.5	9.1	3.8	12.9
Leisure and hospitality	426.3	7.3	6.1	13.5
Other services	170.3	4.1	0.1	4.2
Addendum: Percent Change in Total Jobs	**0.9**	**0.7**	**0.4**	**1.1**

RSQE: February 2025

Michigan's **professional and business services** supersector lost 8,300 jobs last year following 4,700 job losses in 2023. The bulk of the losses over the past two years have been concentrated in the administrative and support and waste management sector, which includes temporary help services. That said, all three sectors in professional and business services—professional, scientific, and technical services; management of companies and enterprises; and administrative support and waste management and remediation services—lost jobs last year. Employment in Michigan's professional and business services industries tends to follow employment in the state's manufacturing sector. We project these sectors to lose another 1,200 jobs this year before recovering 400 in 2026.

The **trade, transportation, and utilities** supersector added 5,700 jobs in 2024, though job gains turned to losses in the final quarter of the year. We expect these industries' job count largely to tread water over the next two years, with 200 job gains this year followed by 400 next year. Growth is weighed down by ongoing losses in the retail trade sector, but the wholesale trade sector gains jobs amid the continuing shift to e-commerce.

Michigan's **financial services** industry enjoyed a very strong second half of 2024, adding 5,400 jobs after losing 4,000 in the first half of the year. That growth pattern in the latter half of the year will tend to mechanically result in higher job numbers for the following year when measured on a calendar year average basis. Indeed, we are projecting the finance industry to add 3,800 jobs in 2025. Growth moderates to 1,800 jobs in 2026, supported by the gradual decline in mortgage rates.

Michigan's **non-cyclical industries** displayed a steadier growth path last year than its cyclical industries, but they also experienced a wobble in the third quarter. We are projecting these industries to power most of Michigan's job growth over the next two years, with 26,600 job gains this year and 12,100 next year.

The **private education and health services** sector, which is dominated by health services, added 14,000 jobs last year. We are projecting the pace of growth to moderate to 9,100 jobs this year and 3,800 in 2026. The possibility of substantial reductions in federal healthcare spending poses an important risk, but we believe Michigan's aging population will continue to support growth in this sector.

The **leisure and hospitality** industry added a disappointing 3,800 jobs last year, but that topline number was held back in part by the quirks of calendar year averaging. On a fourth-quarter-to-fourth-quarter basis, leisure and hospitality added 7,400 jobs in 2024. We project that it will maintain a similar pace this year with 7,300 annual job gains before moderating slightly to 6,100 job gains in 2026. Even with the growth we are projecting, Michigan's leisure and hospitality sector remains shy of its pre-pandemic share of total employment in 2026.

The **other private services** sector added 500 jobs last year, as a disappointing performance in the first quarter gave way to a surprising burst in job growth in the fourth quarter. Last year's late spurt of job growth translates into 4,100 job gains this year, but we see other services holding roughly steady after that with 100 job gains in 2026.

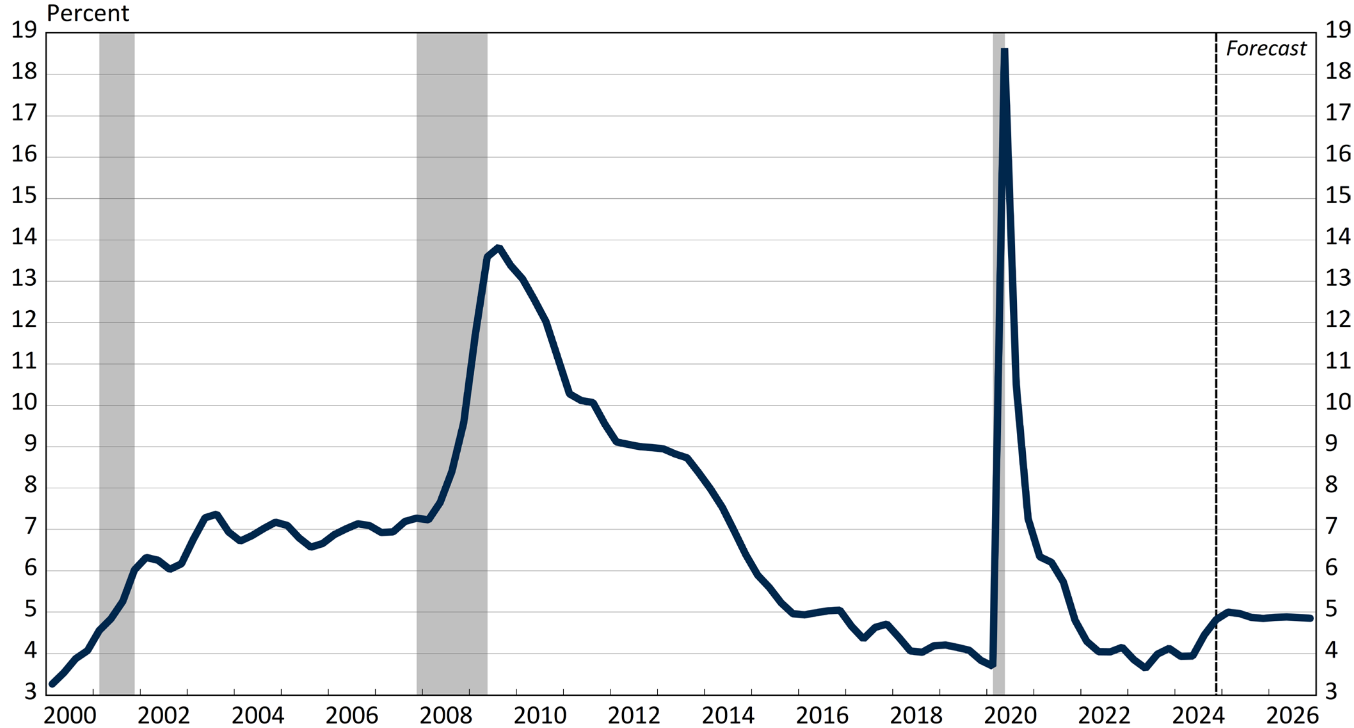
Michigan's **government** sector was slow to recover from the COVID-19 pandemic, but it finally made a complete recovery in the second quarter of last year. Overall, government added 20,100 jobs in 2024. We are projecting growth in government employment to slow substantially over the next two years, to 6,500 job gains this year and just 2,400 next year. We are projecting roughly 1,600 federal government layoffs in Michigan as part of the Trump administration's efforts to reduce the size of the federal workforce. The end of pandemic-era federal aid for state and local governments and the potential reductions in federal funding for health and education also weigh on government employment over the next two years.

Unemployment and Labor Force Participation Rates

Figure 5 displays the historical data and our forecast for Michigan's quarterly unemployment rate. Michigan's labor market delivered a largely disappointing performance in the second half of 2024 after posting solid gains in the first half. From December 2023 to December 2024, the state's labor force grew by 0.3 percent, household employment declined by 0.8 percent, and the unemployment rate rose by 0.9 percentage points. That performance brought Michigan's unemployment rate to 5.0 percent in December 2024, which was 0.9 percentage points above the national rate. While that unemployment gap is below the 1.1 percentage point average difference so far in the 2000s, it is three times as large as in 2018 and 2019, just before the pandemic.

We expect Michigan's cyclical labor market to stabilize during the first half of 2025, as the broader economy adjusts to lower interest rates and rising tariffs, while the previous influx of international migrants continues to find work. However, we do not anticipate significant improvement beyond the first half of the year. Michigan's unemployment rate is projected to hover in the 4.8–4.9 percent range through the second half of 2025 and throughout 2026, as federal tax cuts help to stimulate economic activity. We also expect household employment to return to moderate growth. Still, by the end of 2026, it will remain 3,800 residents (0.1 percent) below its recent peak from the second quarter of 2024.

Figure 5
Quarterly Michigan Unemployment Rate



The state's labor force participation rate has hovered between 62.2 and 62.4 percent from July 2023 to December 2024. We expect it to edge down from its current range to 62.1–62.2 percent during the forecast, as Michigan's labor market continues to draw down its pool of unemployed residents while struggling to attract more people into the workforce.

Local Inflation

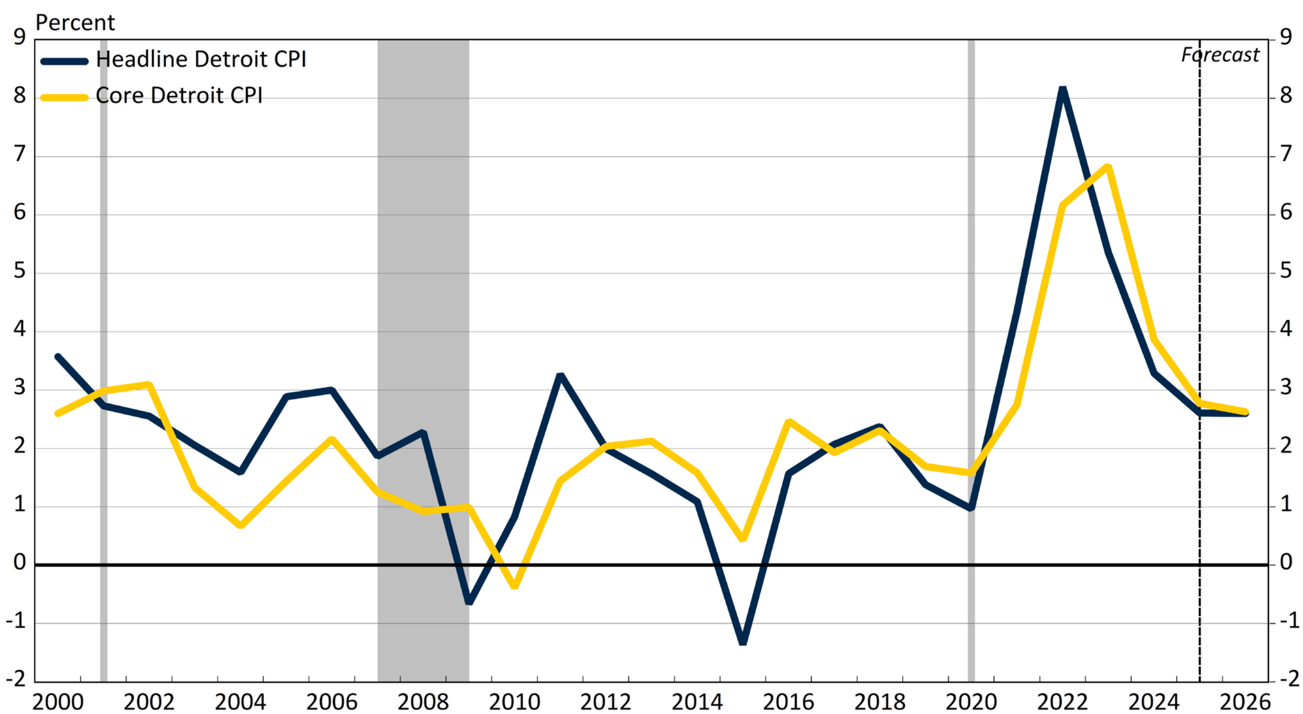
Figure 6 shows the history and our forecast of headline (all-item) and core (excluding food and energy) Detroit CPI inflation on an annual basis. The annual chart paints a picture of a smooth retreat from recent inflationary highs, but a look at the underlying monthly data reveals a much bumpier path. In the Detroit CPI, the annualized rate of headline (all-item) inflation surged from negative 1.6 percent in the fourth quarter of 2023 to 9.8 percent in the second quarter of 2024, then fell to negative 3.4 percent by the fourth quarter—closely mirroring its pattern from 2023.[3] While we believe the broader trend in local

[3] The Bureau of Labor Statistics does not seasonally adjust the local price indices. We seasonally adjust the headline and core measures of the Detroit CPI ourselves, and all the numbers presented in this report for local headline and core inflation have been seasonally adjusted.

inflation is one of moderation, some local CPI components, particularly shelter, continue to behave unpredictably. Unfortunately, it is too early to determine whether Detroit's shelter inflation is returning to normal, but we will continue to monitor the data closely.

Despite the recent choppiness, the latest readings for both headline and core Detroit CPI inflation are consistent with the ongoing moderation in inflation, as shown in Figure 6. Unfortunately, we expect that progress to be limited in the short term as features of President Trump's second term agenda take hold. Higher tariffs and slower growth of the labor force from lower immigration and deportations will exert upward pressure on prices across the economy. We expect that the resulting temporary inflation in goods will largely be offset by disinflationary pressures in services, which should help mitigate the effects of tariffs.

Figure 6
Local Inflation, Headline and Core Detroit CPI



On an annual basis, we expect local headline inflation to slow to 2.6 percent this year, down from 3.3 percent in 2024 and 5.4 percent in 2023. We expect inflation to hold steady at 2.6 percent next year before inching down to 2.5 percent on a year-over-year basis by the end of 2026. Even so, inflation remains significantly higher than the pre-pandemic norm for Michiganders and stays one percentage point above the average pace from the decade (2010–19) following the Great Recession.

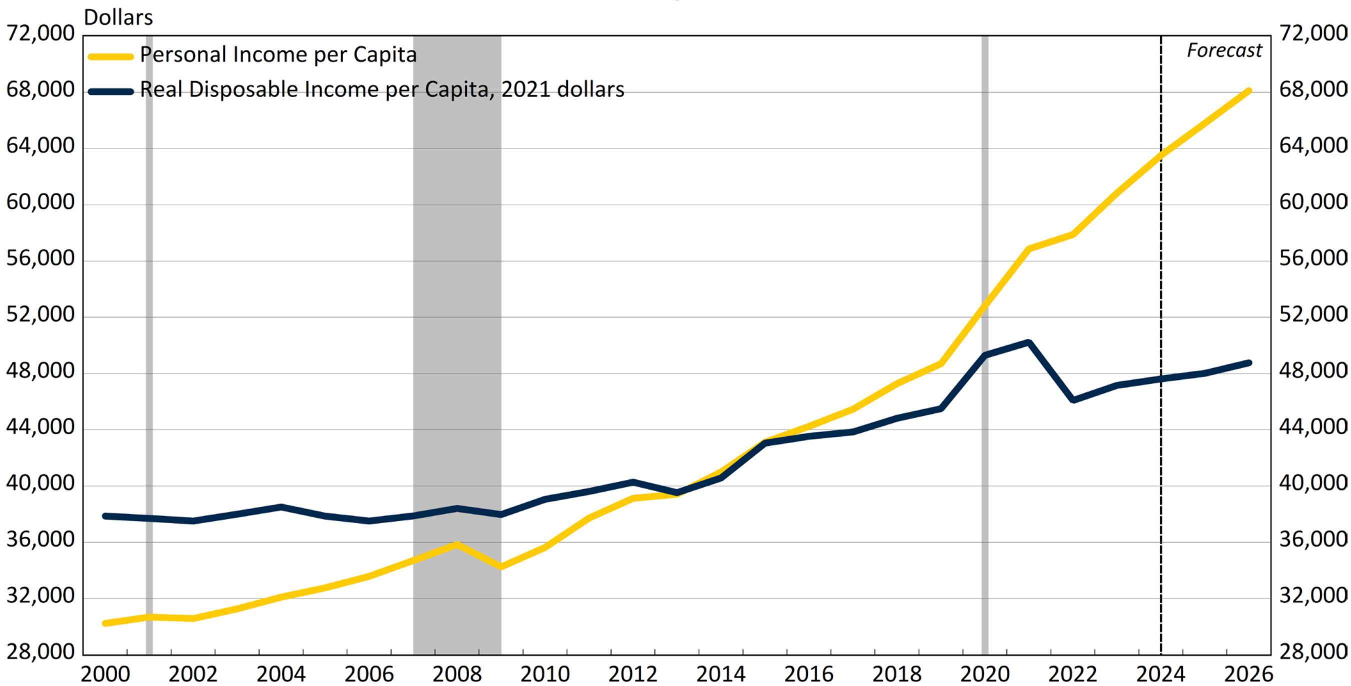
Our forecast for local core inflation closely aligns with our expectations for the headline measure. In 2023, local core inflation outpaced headline inflation, as falling energy prices helped offset the sharp rise in shelter costs reflected in the headline measure. Since the core measure excludes food and energy prices, it did not benefit directly from declining energy prices. Thankfully, the situation improved in 2024. Local core inflation decreased significantly from 6.8 percent in 2023 to 3.9 percent in 2024, reducing the gap between the headline and core measures from 1.5 percentage points in 2023 to 0.6 percentage points in 2024. We expect this gap to continue narrowing over the next two years, with local core inflation falling to 2.8 percent this year and 2.6 percent next year, on par with headline inflation.

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 surged by 5.1 percent, or $3,000, in 2023. With income data available through the third quarter of 2024, we estimate that Michigan's personal income per capita increased by 4.4 percent, or $2,700, last year, bringing it to $63,500. As broad economic momentum nears cruising speed, Michigan personal income per capita growth is projected to average 3.6 percent per year between 2025–26, even with the average pace from 2010–19. That trajectory would bring Michigan's personal income per capita to $68,200 in 2026.

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. After surging during the pandemic, real disposable income per capita fell by 8.3 percent in 2022 due to high inflation, pushing living standards back to 2019 levels. As headline inflation retreated, real disposable income increased by 2.3 percent in 2023. We estimate that growth decelerated to 1.0 percent in 2024, as nominal income growth slowed and inflation remained elevated. Michigan's real disposable income per capita growth is expected to hold steady at 0.9 percent in 2025, as local inflation finally falls below 3.0 percent. We forecast that Michigan's real disposable income per capita will climb to 7.2 percent above the 2019 level in 2026, returning living standards to roughly their pre-pandemic trend.

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



The State Revenue Outlook

While the official books are still being settled for fiscal 2024, the initial data suggest a return to modest growth after combined General Fund General Purpose (GFGP) and School Aid Fund (SAF) revenues fell by $1.2 billion in fiscal 2023. We estimate that combined revenues gained back $520 million, or 1.6 percent, in fiscal 2024, which was not enough to surpass their peak in fiscal 2022. That growth, although tempered, follows several years of turbulent returns during the pandemic and post-pandemic economies, as shown in Figure 8.

After two years of soaring revenue growth in fiscal 2021 and 2022, the contraction in fiscal 2023 was due mostly to a combination of factors related to the state's tax laws.[4] Altogether, these factors are

[4] 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

estimated to have reduced combined revenues in fiscal years 2023 and 2024 by $1.8 billion and $2.0 billion, respectively. The changes will continue to impact revenue collections in the coming years, albeit by diminishing amounts. As a result, swings in the bottom-line tallies of tax revenue from one year to the next have been, and will continue to be, less connected to economics than previous years. We estimate that Michigan's tax revenue growth would have stabilized between 1.8–2.1 percent during fiscal 2023 and 2024 in the absence of new tax legislation. By the same token, as the impacts of the changes wear off, our combined revenue forecasts for fiscal 2025 and 2026 appear stronger than they would without the tax changes.

Overall, we expect combined revenue growth of $920 million, or 2.9 percent, in fiscal 2025, led by contributions from the personal income tax, sales tax, and State Education Property tax. We project combined revenues to rise another $1.6 billion, or 4.8 percent, in fiscal 2026 as the trends from the previous year continue along with a rebound in use tax revenue and the relaxation of most of the new earmarks to the Corporate Income Tax. Absent the new tax measures, we would be forecasting more modest growth of 0.9 percent in fiscal 2025 and 3.4 percent in fiscal 2026.

Even so, our forecast is a bit stronger than the revenue projections established at January's Consensus Revenue Estimating Conference (CREC) in Lansing, where state officials agreed on preliminary forecasts for fiscal years 2025–27. Compared to CREC, we project revenues to be $140 million higher in fiscal 2025 and $540 million higher in fiscal 2026, primarily due to stronger anticipated income and sales tax collections.

Our forecast puts total state tax revenue $10.2 billion, or 41 percent, higher in fiscal 2026 than in fiscal 2019, well above the pre-pandemic trend. Still, much of that growth has occurred in tandem with high inflation. After adjusting for inflation, cumulative state revenue growth between 2019 and 2026 is only 8.3 percent, resulting in average real growth of 1.1 percent per year.

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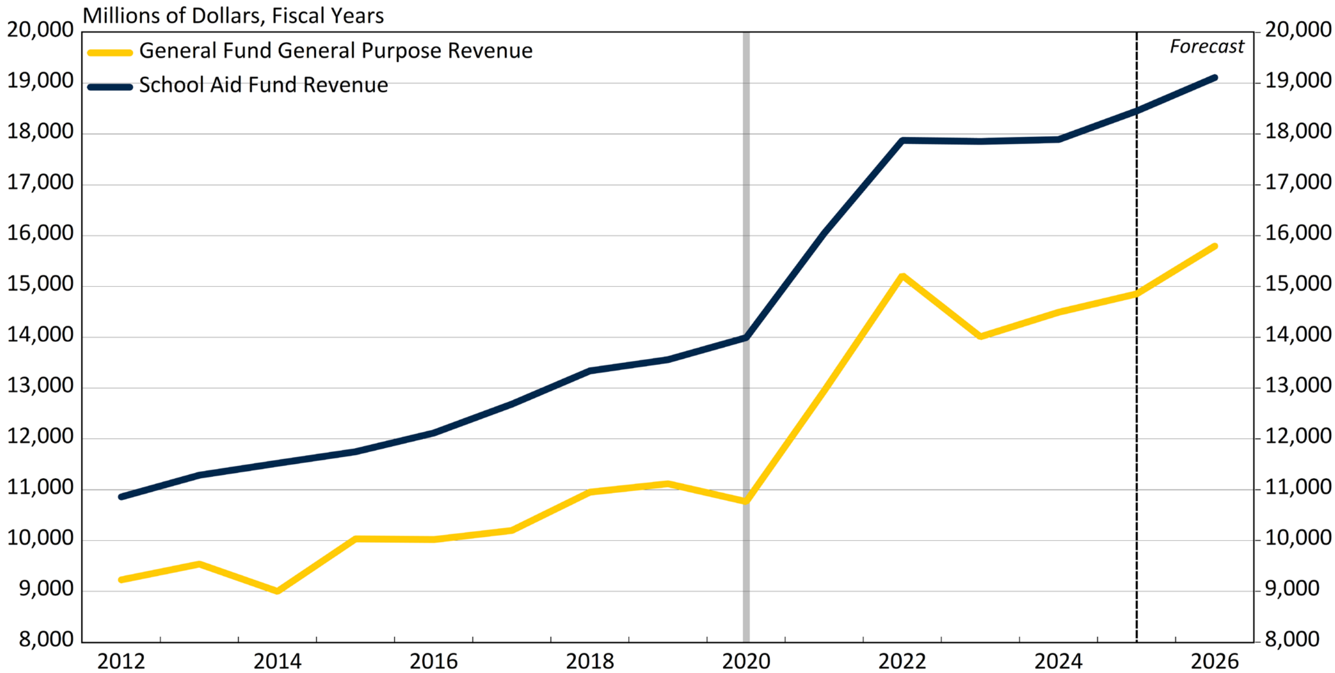
delivery and installation charges in Michigan. Fourth, the state's "flow-through entity tax", adopted in December 2021, experienced a one-time outsized level of returns in fiscal 2022 and has subsequently fallen to a more sustainable level. Fifth, Public Act 175 of 2023 distributes $75.0 million from GFGP use tax revenue to the Local Community Stabilization Authority to compensate for expanded small taxpayer exemptions with the personal property tax.

Figure 8
Michigan Tax Revenues, General and School Aid Funds



We now describe our forecast of state tax revenues in more detail. Table 2 breaks down the recent history, as well as our forecast for fiscal years 2025–26. The upper portion details GFGP revenues, and the lower portion summarizes SAF revenues.

Net Personal Income Tax Revenue

- Net personal income tax revenue accounts for about 40 percent of Michigan's total GFGP and SAF tax revenue, just shy of the combined contributions from the sales and use taxes.
- Following two years of extraordinary growth during the pandemic, net personal income tax revenue declined by 11.5 percent in fiscal 2023 due to an increase in refunds and substantial reductions in annual, quarterly, and flow-through entity tax revenue. The reduction in flow-through entity tax revenue accounted for over half of the decline and represented a transition from outsized returns in its first year of existence to a more sustainable level. Personal income tax withholding, on the other hand, saw a gain of 1.5 percent in fiscal 2023, despite the tax rate adjustment to 4.05 percent.
- Growth bounced back in fiscal 2024 as withholding and quarterly payments led net personal income tax revenue to a gain of 5.7 percent. Flow-through entity tax payments stabilized while annual payments fell on the year.
- We forecast the recent strength of net personal income tax revenue to continue in fiscal 2025, with growth of 5.5 percent on the year. We expect all components to improve, except for flow-through revenue and refunds, which remain flat. This improvement reflects healthy personal income growth, the continued upward trend in payroll jobs, and the largely completed phase-in of the new tax legislation.

- Net personal income tax revenue growth moderates to 3.8 percent in fiscal 2026 as withholding and quarterly payments cool.

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. Altogether, consumption tax revenue accounts for just over one fifth of total General Fund revenue.
- Following its pandemic highs, sales tax revenue fell in fiscal years 2023 and 2024 as consumers felt the pinch of inflation and spending shifted to services. Meanwhile, use tax revenue grew rapidly in fiscal 2023, partly from increased accommodations spending, before moderating in fiscal 2024. This resulted in gross sales and use tax revenue rising 0.5 percent in fiscal 2023 before declining 0.5 percent in fiscal 2024.
- Overall GFGP consumption tax revenue followed a similar pattern, rising 1.1 percent in fiscal 2023 before falling 3.6 percent in fiscal 2024, partly due to implications of the tax revenue changes referenced above.
- Based on the incoming data, we forecast a resurgence of sales tax revenue growth in fiscal 2025, while use tax revenue is projected to decline. We expect growth to accelerate for both sales and use tax revenue in fiscal 2026.
- 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 nudge up 0.9 percent in fiscal 2025, before growth accelerates to 3.7 percent in fiscal 2026.

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 previous 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.
- After impressive growth in 2021 and 2022, gross CIT collections remained strong in fiscal 2023. The new earmarks adopted last year, though, subtracted $600 million from the share accruing to the General Fund, leading GFGP business tax revenue to drop 16.4 percent for the fiscal year.
- CIT collections stabilized in fiscal 2024, while rapid growth of insurance company premiums outweighed an increase in MBT refunds and a small decline in oil and gas severance payments. Overall, GFGP business tax revenue rose 1.5 percent for the fiscal year.
- We expect CIT payments to decline slightly in fiscal 2025 and be offset by insurance company premium gains, leading total GFGP business tax revenue to nudge up 0.9 percent. CIT payments rise sharply by nearly 40 percent in fiscal 2026 as earmarks are relaxed, causing GFGP business tax revenue growth to accelerate to roughly 36 percent.

Total General Fund Revenue

- After two years of exceptional growth, most of the General Fund'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. Although some softening was expected based on economic trends, the declines in fiscal 2023 were mostly due to changes in the state's tax laws, as discussed above.

- General Fund revenue rebounded with growth of $480 million (3.4 percent) in fiscal 2024, thanks to healthy gains from net personal income tax revenue and added help from business taxes, as most consumption taxes declined.

- We forecast growth to continue over the next two years, in part due to the moderating impact of changes to the state's tax legislation. The continued strength of personal income tax withholding combined with rebounding sales tax revenue leads the General Fund to expand by $360 million (2.5 percent) in fiscal 2025. Growth accelerates in fiscal 2026 with the increase of business tax revenue and contributions from most major revenue sources—GFGP revenue grows by $940 million (6.3 percent).

- Our forecast puts total GFGP revenue nearly $4.7 billion, or 42.1 percent, higher in fiscal 2026 than in fiscal 2019. After adjusting for inflation, however, the growth from fiscal 2019–26 is only 8.8 percent, producing average real growth of just 1.2 percent per year.

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. Even so, growth was held back by the fall in gross personal income tax revenue that resulted from the tax rate adjustment to 4.05 percent, combined with the drop in flow-through entity tax revenue, as discussed above. A decline in sales tax revenue also put downward pressure on SAF revenues in fiscal 2023.

- We estimate that SAF revenue held mostly flat again in fiscal 2024, ticking up by just 0.2 percent. A second consecutive year of falling sales tax revenue combined with a drop in lottery transfers were just outweighed by revenue growth from the state education property tax, the casino tax, and the use tax.

- The incoming data for fiscal 2025 has been mixed, with sales tax revenue showing signs of improvement while fiscal year-to-date use tax revenue is running below year-ago levels. We expect the rebound in sales tax revenue, along with vigorous gains from the state education property tax and contributions from the personal income tax, to propel total SAF revenue growth to 3.1 percent on the fiscal year.

- We forecast total SAF revenue growth to accelerate to 3.6 percent in fiscal 2026, with healthy gains from sales, use, income, and state property tax revenue.

- Total SAF revenue is forecast to finish fiscal 2026 nearly $5.6 billion, or 41.0 percent, higher than in fiscal 2019. After adjusting for inflation, that growth is reduced to 7.9 percent, translating to average real growth of just 1.1 percent per year from fiscal 2019 to 2026.

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

	Actual		RSQE Forecast	
	2023	2024^P	2025	2026
General Fund General Purpose				
Personal income tax	7,764	8,471	9,029	9,358
(% change)	(-15.7)	(9.1)	(6.6)	(3.6)
Consumption taxes	3,207	3,092	3,119	3,234
(% change)	(1.1)	(-3.6)	(0.9)	(3.7)
Sales	1,674	1,636	1,704	1,764
Use	1,272	1,204	1,168	1,224
Other consumption	261	252	247	246
Business taxes	1,665	1,691	1,705	2,317
(% change)	(-16.4)	(1.5)	(0.8)	(35.9)
MBT/SBT/Corporate income	1,172	1,130	1,123	1,718
Other business	493	561	582	599
Other GFGP taxes	177	191	214	219
GFGP tax revenue	12,813	13,445	14,067	15,128
(% change)	(-12.0)	(4.9)	(4.6)	(7.5)
Nontax revenue	1,198	1,048	789	668
GFGP revenue	14,011	14,493	14,856	15,796
(% change)	(-7.9)	(3.4)	(2.5)	(6.3)
School Aid Fund				
SAF taxes	16,505	16,645	17,202	17,858
(% change)	(-0.7)	(0.8)	(3.3)	(3.8)
Lottery transfer	1,352	1,249	1,255	1,255
(% change)	(8.3)	(-7.6)	(0.5)	(0.0)
Earmarked state SAF revenue	17,857	17,894	18,457	19,113
(% change)	(-0.1)	(0.2)	(3.1)	(3.6)
Addendum				
Combined GFGP and SAF revenue	31,868	32,388	33,313	34,909
(% change)	(-3.7)	(1.6)	(2.9)	(4.8)
Gross sales and use taxes	13,419	13,356	13,534	13,990
(% change)	(0.5)	(-0.5)	(1.3)	(3.4)

[P] *Preliminary*

RSQE: February 2025