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The Michigan Economic Outlook for 2024–2026

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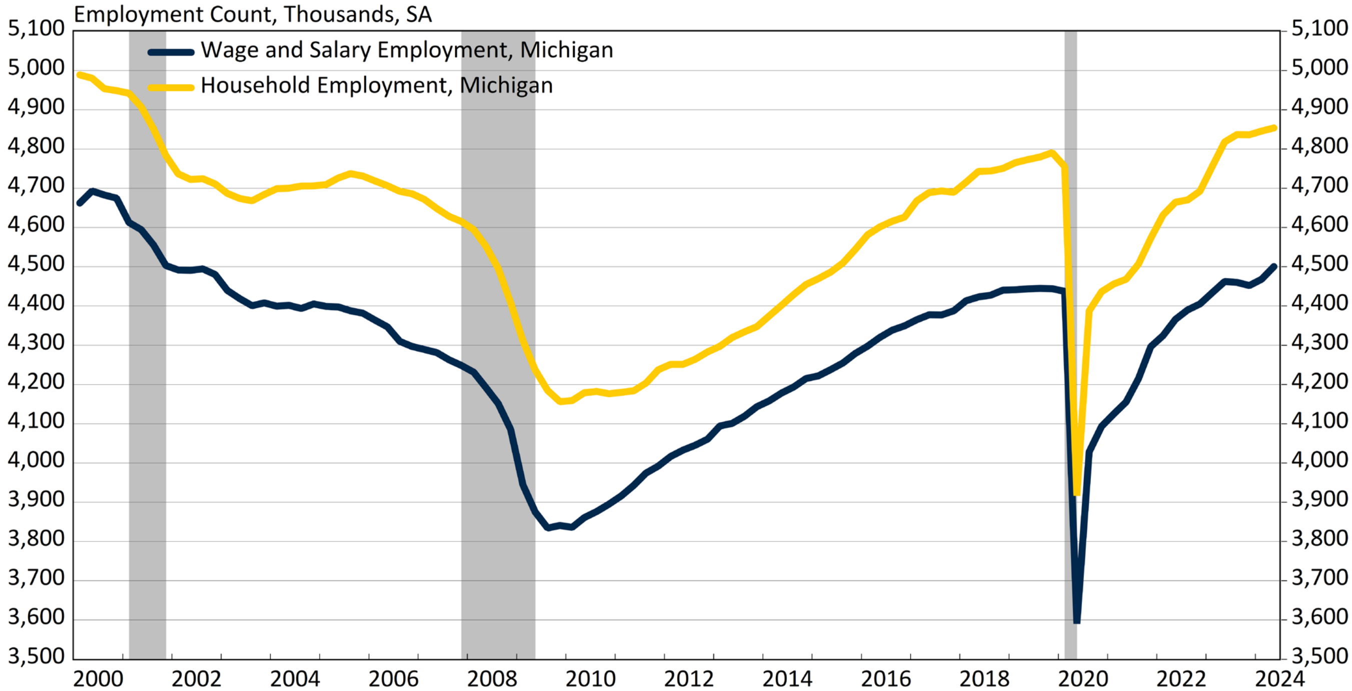
Introduction

Cracks have started to show recently in the foundation of Michigan's previously vigorous economic recovery from the COVID-19 pandemic and subsequent expansion. These fissures simply reflect the national pattern, in which recession fears have recently revived following signs of a cooldown in the labor market. We continue to believe that clear progress on disinflation will allow the Federal Reserve to pivot to interest rate cuts in time to prevent a recession, although we project a period of slower national growth ahead. Our forecast for Michigan's economy follows those same contours, with job growth slowing substantially, yet staying in positive territory on an annual basis through 2026.

Figure 1 shows the quarterly paths of Michigan's payroll and household employment counts from the first quarter of 2000 through the second quarter of 2024. Payroll employment in Michigan reached its all-time peak in the second quarter of 2000, while household employment did so one quarter earlier. Fast-forwarding to the present day, Figure 1 shows that Michigan enjoyed very strong growth in its household employment count in the first half of 2023 before growth cooled considerably over the subsequent four quarters. Still, household employment in Michigan currently sits just 2.7 percent below its all-time high. Payroll employment in Michigan dipped in the second half of 2023 amid strikes in several industries, most prominently transportation equipment manufacturing. The state recovered those job losses in a strong start to 2024, but payroll employment remains 4.1 percent below its all-time high.

Figure 1
Payroll and Household Employment in Michigan, 2000Q1–2024Q2



Although Figure 1 paints an optimistic picture of Michigan's employment trends, there is cause for concern in the monthly data for June and July. Household employment declined by 15,800 residents over those two months, bringing it to its lowest level since January. Payroll employment dipped by 9,800 jobs during that time, taking it to its lowest level since April. Meanwhile, the state's unemployment rate, which sat at 3.9 percent from February through May, climbed to 4.4 percent by July.

We are not hitting the panic button just yet. Our view is that inflation has retreated decisively enough for the Fed to deliver significant relief on interest rates soon.[1] Disinflation in the Detroit area has proceeded fitfully, but year-over-year all-items Detroit consumer price inflation decelerated to 3.4 percent in the second quarter of 2024, down from 5.7 percent one year previously. Local year-over-year core inflation slowed from 7.8 percent to 3.9 percent in that time, still substantially faster than the trend prior to the pandemic but important progress, nonetheless. Unfortunately, the local price index for shelter, which unlike the overall index is published monthly, has risen over 6 percent from April to July.[2] We saw

[1] Our forecast for the Michigan economy is based on our U.S. forecast dated August 16th.
[2] That 6 percent increase would translate into a 27 percent annualized inflation rate if it were sustained for an entire year.

an even larger spike last July, but shelter prices in the area subsequently reversed themselves. We are hoping that this year's sharp increase in local shelter costs proves to be another such anomaly.

Looking forward, we project Michigan's economic growth to take a bit of a breather in the short term, reflecting the accumulated strain of high interest rates. Payroll job growth slows from 80,600 in 2023 to 36,800 this year and an average of 14,900 per year in 2025–26. Michigan's unemployment rate rises from an average of 3.9 percent in 2023 to 4.2 percent this year and 4.7 percent next year before edging back down to 4.6 percent in 2026. Statewide real disposable income per capita continues its sluggish performance from the past few years, dipping by 1.1 percent this year and 0.1 percent next year before returning to growth of 1.3 percent in 2026.

We believe there are two ways of interpreting our forecast. The first paints a challenging picture, with slowing job growth, rising unemployment, and hardly any growth in real disposable incomes. The second offers a more optimistic outlook, with statewide growth persisting through a period of high inflation and interest rates, and a subsequent slowdown in national economic growth. We incline toward the second interpretation, noting that, if our forecast proves accurate, Michigan will have added jobs in every year but one in the 16 years from 2011–2026. The exception, of course, was 2020, the first year of the COVID-19 pandemic. In contrast, Michigan lost jobs in 10 out of the 16 years from 1995–2010 and in 21 out of the 54 years from 1957–2010.[3] We interpret our forecast of continued job growth as a testament to the ongoing diversification and growing resilience of Michigan's economy, even in the face of a tough external environment.

The Forecast of the State Economy

Detroit Three Light Vehicle Sales

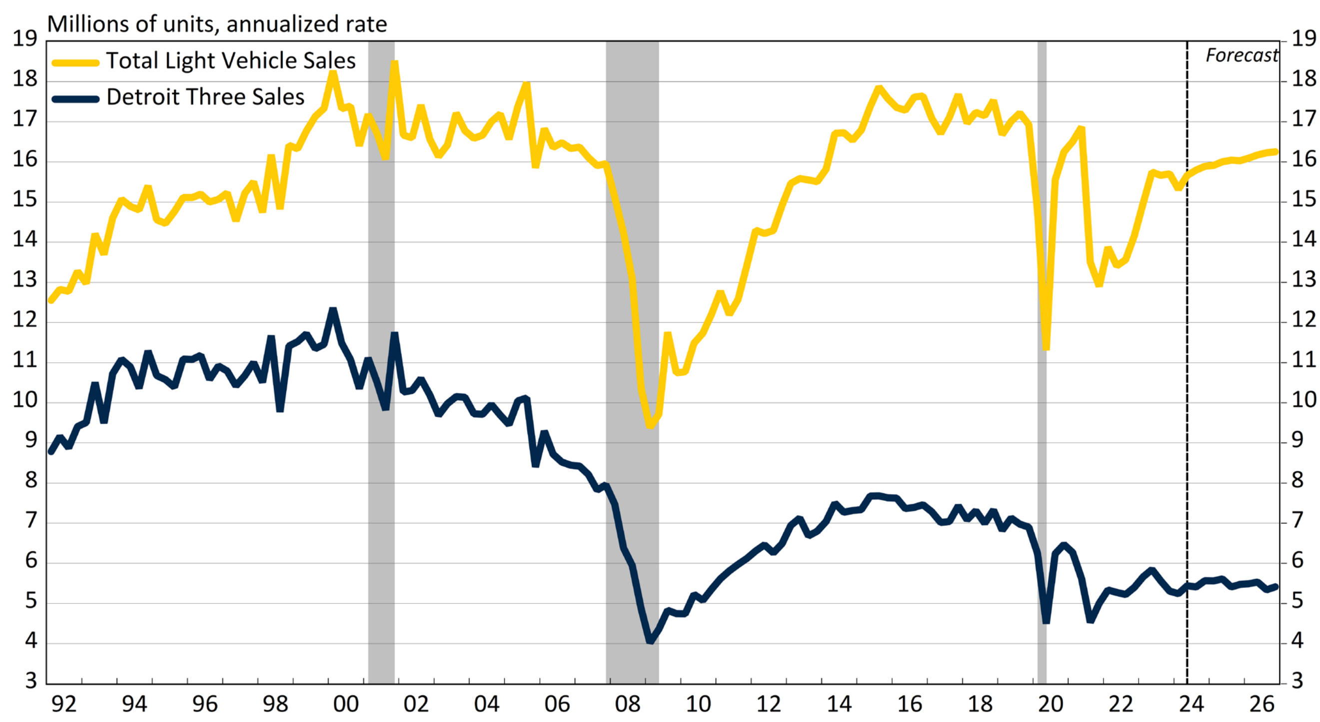
Figure 2 shows our quarterly forecast for total U.S. and Detroit Three light vehicle sales. The annualized pace of light vehicle sales rebounded to 15.8 million units in July, following a cyberattack that caused a temporary dip in June. Sales have remained sluggish, however, averaging 15.6 million units since April 2023, as high financing costs and the limited availability of cheaper trim levels continue to

[3] The current data series for statewide employment begins in 1956, so the first year in which we can calculate annual job growth is 1957.

hinder growth. In contrast, the rate of domestic light vehicle assemblies has been trending upward since the first half of 2021, reaching an annualized level of 10.8 million units in June before dipping to 9.6 million units in July. With ample, albeit expensive, inventory and manufacturer incentives, the potential for vehicle prices to increase is limited, even with expected lower financing rates ahead.

We project that the pace of sales will rise to 15.9 million units by the fourth quarter of 2024 and edge up to 16.3 million units by the end of 2026, with all of the gains expected in the light truck category, which includes pickups, SUVs, and crossovers. As manufacturers increase incentives and consumers opt for cheaper vehicle trims, the contribution of vehicle sales to real GDP will decrease, even with the same number of units sold.

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



The Detroit Three's share of U.S. light truck sales averaged nearly 40 percent in July 2024, but they captured only 6.5 percent of auto sales. Overall, the Detroit Three accounted for one-third of the light vehicle market in July. We anticipate that the new model year trims, along with cheaper trims being stocked, will boost the Detroit Three's market share to 35 percent by the end of 2024. We then expect the Detroit Three’s share of the market to resume a gradual decline in 2025 and 2026. Even so, Detroit

Three light vehicle sales are projected to remain steady, close to their pace of 5.6 million units in 2023, with an average of 5.5 million units per year throughout the forecast.

Payroll Employment

Figure 3 shows our forecast of Michigan's quarterly payroll job count. We are projecting that, after posting a total of 48,100 job gains in the first and second quarters of this year, Michigan will give back 5,900 jobs in the third quarter and another 900 in the fourth. Growth returns in the first quarter of 2025, as the state begins to feel relief from falling interest rates. Michigan adds jobs at a moderate pace in every quarter from 2025Q1–2026Q4 in our forecast. The annual pace of job gains slows from 80,600 in 2023 to 36,800 this year and 13,000 in 2025 before picking up slightly to 16,800 in 2026. Our forecast takes Michigan's payroll jobs count to 2.0 percent higher than its pre-pandemic level by the fourth quarter of 2026, but nonetheless leaves the state 3.6 percent below its all-time peak from the second quarter of 2000.

Figure 3
Quarterly Michigan Payroll Employment

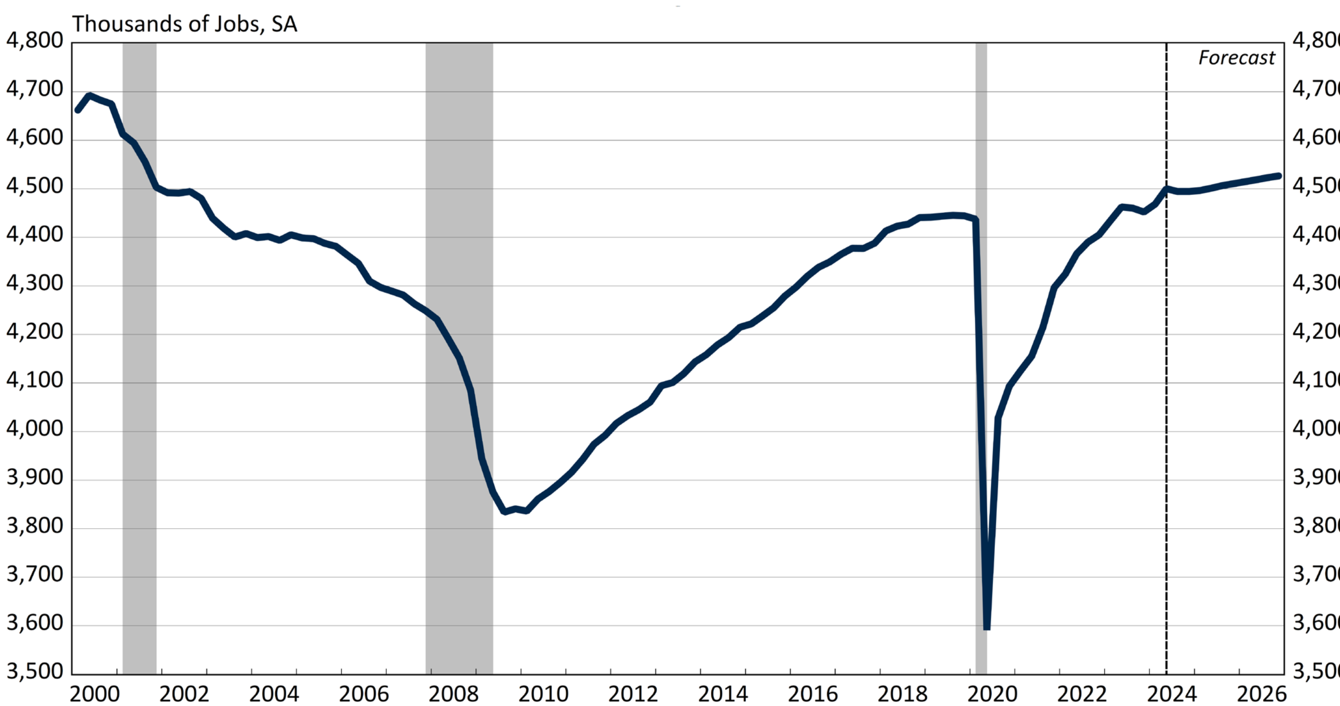
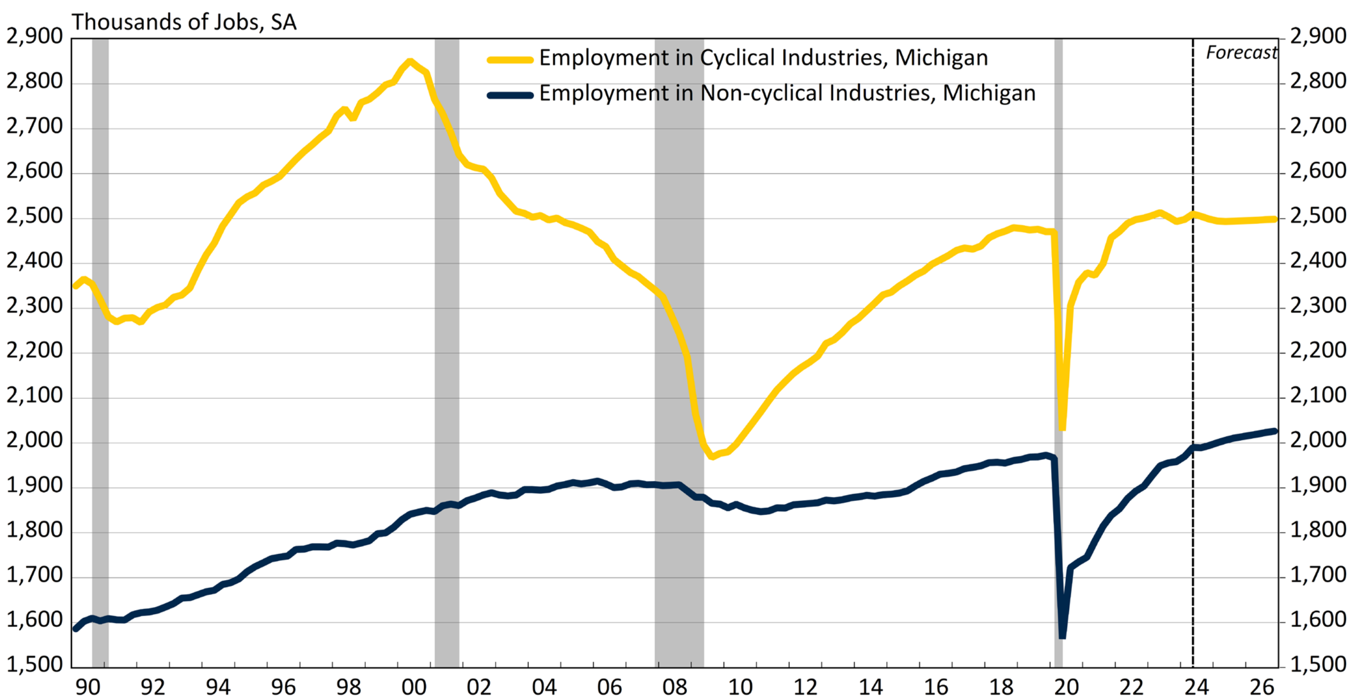


Table 1 below displays our forecast for annual job growth for Michigan's individual industries, while Figure 4 splits the state's industries into two groups: "Cyclical Industries" and "Non-cyclical

Industries."[4] As Figure 4 shows, with the exception of the COVID-19 pandemic and its aftermath, the non-cyclical industries have displayed much less volatile employment than the cyclical industries.

Figure 4
Job Growth in Michigan
Cyclical and Non-cyclical Industries



Employment in Michigan's **cyclical industries** climbed by 16,700 jobs in the first half of 2024, but we are projecting that trend to reverse course over the next four quarters, with a total of 17,000 job losses from 2024Q3–2025Q2. Modest growth then resumes in the cyclical industries, with a total of 5,000 job gains from 2025Q3–2026Q4.

Michigan's **construction** industry has been defying gravity so far in 2024, adding 14,700 jobs in the first two quarters despite high mortgage rates and flatlining residential building permits. We think the decline in mortgage rates we are projecting will come just in time to prevent a significant downturn in this sector. Although the sector loses 2,200 total jobs from 2024Q3–25Q1, measured growth resumes in the

[4] 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.

second half of 2025. On an annual basis Michigan's construction sector adds 12,400 jobs this year and an average of 700 jobs per year in 2025–26.

Michigan's **transportation equipment manufacturing** industry is projected to lose 3,800 jobs this year, 1,000 in 2025, and another 600 in 2026. Stellantis' recent announcement that it will lay off up to 2,450 workers at its Warren Truck Assembly plant is emblematic of the industry's challenges in Michigan, which include high vehicle financing rates and unit sales that run below the pre-pandemic pace throughout our forecast period.[5]

We are also projecting Michigan's **non-automotive manufacturing** sector to lose jobs over our forecast period. The sector loses 3,900 jobs this year and another 3,000 in 2025 before recovering 1,000 jobs in 2026. The slowdown we are projecting in national economic growth through the middle of next year weighs on the prospects for this sector.

Michigan's **professional and business services** supersector has historically been closely tied to its auto sector. We expect that pattern to continue over our forecast, with professional and business services losing a total of 5,200 jobs from 2024Q3–25Q3 before slow growth resumes as the U.S. economy picks up speed. On an annual basis, Michigan's professional and business services industries lose 7,300 jobs this year and 3,100 in 2025 before recovering 200 jobs in 2026. All three sectors within professional and business services—professional, scientific & technical services, management of companies and enterprises, and administrative and support and waste management services—lose jobs in 2024 and 2025. Professional, scientific & technical services and management of companies and enterprises eke out small job gains in 2026, while administrative and support and waste management continues to lose jobs, albeit at a slower pace.

The **trade, transportation, and utilities** supersector has added jobs at a moderate pace in the first half of this year, but we expect that trend to reverse as national economic growth slows down in the near term. The major trouble spot in this supersector is retail trade, which we expect to continue to lose ground to online retail. Rite Aid's recent announcement that it will close all of its stores in Michigan

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[5] See, for instance, Eric D. Lawrence, "Warren Truck to lose shift as Ram 1500 Classic production ends; UAW's Fain blasts cuts," *Detroit Free Press*, August 9, 2024.

provides one example of the headwinds facing this industry.[6] Taken together, trade, transportation, and utilities add 4,700 jobs in Michigan this year but lose 2,800 in 2025 and another 100 in 2026.

In more cheerful news, we believe the worst of this cycle is now behind Michigan's **finance** sector. It has lost a total of 7,000 jobs from the start of 2022 to the middle of 2024 as mortgage rates have skyrocketed. We project finance to add a total of 400 jobs in a choppy second half of this year before growing at a tempered but positive pace in every quarter in 2025 and 2026. Calendar year job losses come to 3,500 in 2024, but finance adds 400 jobs in 2025 and 1,500 in 2026 as falling mortgage rates give a boost to the mortgage industry.

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

		Forecast Employment Change			
	2023	'23–'24	'24–'25	'25–'26	'23–'26
Total Jobs	**4452.5**	**36.8**	**13.0**	**16.8**	**66.7**
Total Government	601.9	20.1	8.0	3.1	31.3
Total Private	3850.6	16.8	5.0	13.6	35.4
Natural resources and mining	7.3	0.1	-0.1	-0.1	0.0
Construction	189.0	12.4	0.6	0.8	13.9
Manufacturing	615.0	-7.7	-4.0	0.4	-11.3
Transportation equipment manufacturing	188.0	-3.8	-1.0	-0.6	-5.4
Other manufacturing	427.0	-3.9	-3.0	1.0	-5.9
Trade, transportation, and utilities	814.6	4.7	-2.8	-0.1	1.8
Retail trade	457.7	-2.2	-4.7	-2.1	-9.0
Transportation, Warehousing, and Utilities	178.6	3.5	0.8	0.7	5.1
Wholesale trade	178.3	3.4	1.1	1.3	5.8
Information	57.9	0.0	-0.2	-0.3	-0.5
Financial activities	231.3	-3.5	0.4	1.5	-1.6
Professional and business services	654.7	-7.3	-3.1	0.2	-10.1
Professional, scientific & technical services	317.7	-1.7	-1.7	0.7	-2.7
Management of companies & enterprises	69.3	-0.7	-0.2	0.3	-0.7
Admin & support & waste mgmt.	267.8	-4.9	-1.2	-0.8	-6.8
Private education and health services	688.5	15.1	7.8	2.5	25.4
Leisure and hospitality	422.5	3.5	5.8	8.1	17.3
Other services	169.8	-0.6	0.6	0.5	0.5
Addendum: Percent Change in Total Jobs	**1.8**	**0.8**	**0.3**	**0.4**	**1.5**

RSQE: September 2024

Michigan's **non-cyclical industries** have been growing at a white-hot clip in the first half of 2024, boosted by vigorous hiring in the government sector. Based on the June and July jobs reports, we expect

[6] See, for example, Candice Williams, "All Rite Aid stores in Michigan to close, pharmacy chain confirms," *Detroit News*, August 13, 2024.

the non-cyclical industries to shed jobs in the third quarter of the year before returning to a more sustainable pace of growth from the end of 2024 through the end of 2026. Annual job gains in these industries total 38,300 this year, 21,900 next year, and 13,900 in 2026. The near-term momentum in Michigan's non-cyclical industries cushions the state against the downturn we are projecting in the cyclical industries through the middle of next year.

Michigan's **private education and health services** sector, which is predominantly health services, added a whopping 8,200 jobs in the second quarter of the year. Although we do not expect that pace to persist, we do project the sector to continue expanding. Private education and health services adds 15,100 jobs this year, followed by 7,800 next year and 2,500 in 2026.

The **leisure and hospitality** industry added 7,600 jobs in the first half of 2024, but we expect it to give back 3,600 jobs in the third quarter based on the latest monthly jobs reports. Growth resumes at an average pace of 2,000 job gains per quarter from the end of 2024 through the end of 2026. On a calendar year basis, growth picks up from 3,500 jobs this year to 5,800 in 2025 and 8,100 in 2026. It is important to keep in mind that even with the growth we are forecasting, leisure and hospitality does not recover to its employment level from the fourth quarter of 2019 until the first quarter of 2026. One wild card for employment in this sector is the path of the minimum wage. We have not adjusted our forecast for the recent decision by the Michigan Supreme Court raising the minimum wage and phasing out the separate tipped minimum wage pending further study of the Court's decision and its implications.[7]

Michigan's **other private services** sector has delivered an uneven performance so far this year. It lost 1,900 jobs in the first quarter before recovering 1,000 in the second quarter. We expect employment in this sector to tread water over the second half of the year and then grow modestly over the next two years. The other services sector loses 600 jobs this year before adding the same number in 2025 and another 500 in 2026.

The **government** sector added 16,200 jobs in 2023, and it has already added another 15,100 in the first half of 2024. Even so, it took until the second quarter of this year for Michigan's government

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[7] See, for instance, Talmon Joseph Smith, "Michigan Court Clears Way for Higher Wages, Overruling Legislature," *New York Times*, July 31, 2024.

sector to recover its pre-pandemic employment level from the first quarter of 2020. As the pandemic-era federal funding available to state and local governments fades, we expect that pace to slow to an average of 1,200 job additions per quarter from the second half of this year through the end of 2026. Government thus adds 20,100 jobs in 2024, 8,000 in 2025, and 3,100 in 2026. Government's share of total employment in Michigan edges up from 13.9 percent in 2024 to 14.0 percent in 2025–26.

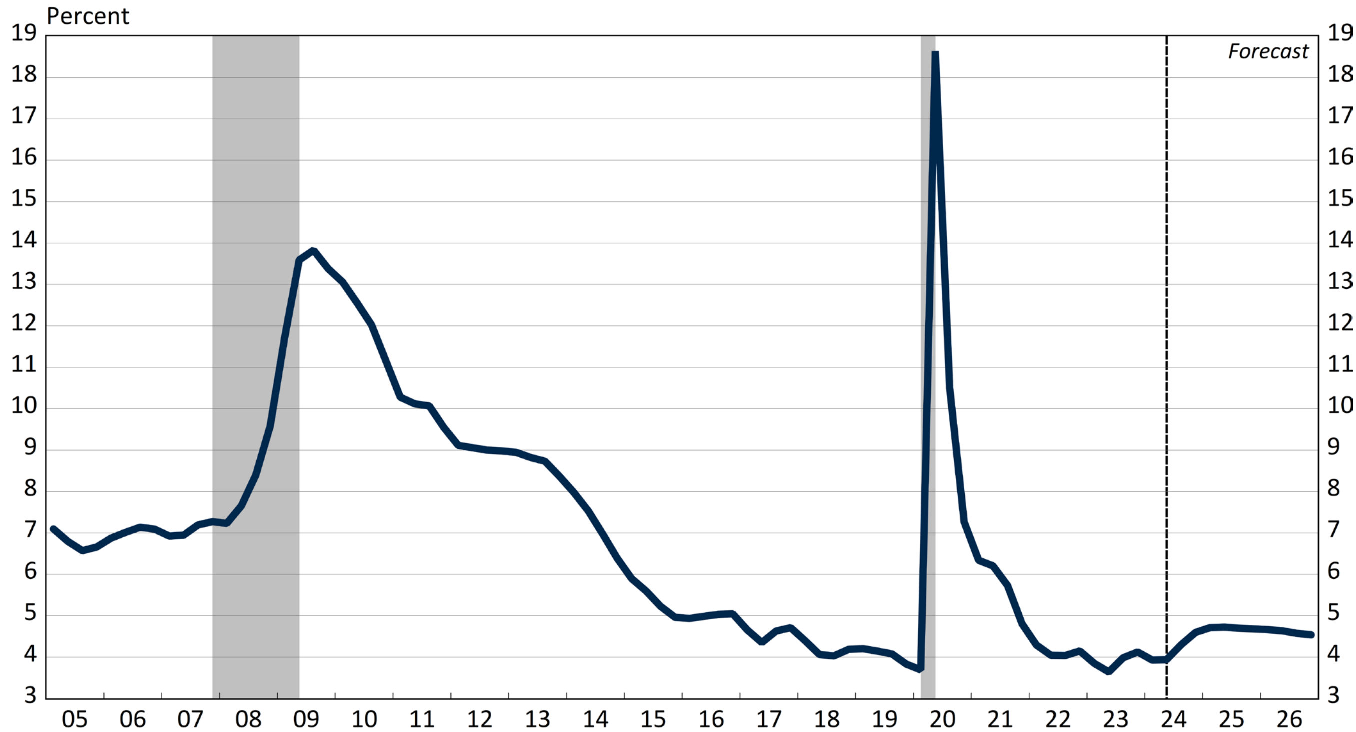
Unemployment and Labor Force Participation Rates

Figure 5 displays the historical data and our forecast for Michigan's quarterly unemployment rate. After sitting at 3.9 percent for five months, the state's unemployment rate rose to 4.1 percent in June 2024 and 4.4 percent in July. This notable uptick resulted from an increase in both unemployment and the labor force, along with a decline in the number of employed residents. Although we are pleased to see growth in the state's labor force, it is somewhat troubling that the count of employed residents has decreased by nearly 16,000 in June and July, reaching its lowest point since January. Our concerns about Michigan's softening labor market are partially allayed by our belief that inflation has eased sufficiently to give the Fed the confidence to begin lowering interest rates.

We anticipate that Michigan's cyclical labor market will stabilize before too much more deterioration occurs. We forecast that the state's unemployment rate will rise to 4.7 percent in 2025 as the accumulated strain from high interest rates collects its toll. As the economy begins to recover amid lower inflation and lower interest rates, we expect Michigan's unemployment rate to decrease to 4.5 percent by the end of 2026.

The state's labor force participation rate has been a significant highlight in Michigan's economic recovery from the COVID-19 pandemic recession. Michigan's participation rate has risen from 59.2 percent in January 2021 to 62.4 percent in July 2024. This growing labor supply has brought the state's participation rate to just three-tenths of a percentage point below the national rate. For comparison, the last time Michigan's unemployment rate consistently stayed below 5 percent, from 2016 to 2019, that gap averaged 1.4 percentage points. One possible explanation for the labor force's recent strength is the recent surge in immigration, although the surge's interaction with the official statistics is complex.

Figure 5
Quarterly Michigan Unemployment Rate



Although we do not expect the labor force's sharp growth to persist during the forecast period, we also do not expect it to give back a significant share of its recent gains. We anticipate Michigan's labor force participation rate will increase from 62.3 percent this year to 62.5 percent in 2025 before easing to 62.4 percent in 2026. Despite the surprising strength of Michigan's labor force recently and our relatively optimistic outlook in the near term, we anticipate that the aging workforce will present an increasingly tight constraint on the state's labor force.

Local Inflation

Local inflation, as measured, has been gyrating wildly lately. The annualized rate of headline (all-item) inflation in the Detroit CPI jumped from 4.0 percent in the fourth quarter of 2022 to 8.8 percent in the second quarter of 2023, then dropped to negative 1.7 percent in the fourth quarter, only to climb back to 9.8 percent by the second quarter of 2024. Local core inflation (excluding food and energy) has followed a similar path. Although we believe many of the recent gyrations track genuine changes in the local cost of living, we are puzzled by the behavior of some local CPI components, particularly the shelter component. The local price index for shelter has risen 12.2 percent from January to July 2024, driving up both headline and core inflation. Last year, we saw an even larger spike, with a 21.2 percent increase from January to July 2023, but local shelter prices largely reversed during the remainder of 2023. We hope this year's sharp increase in local shelter costs will prove to be another anomaly, followed by a similar decline.

Figure 6
Local Inflation, Headline and Core Detroit CPI

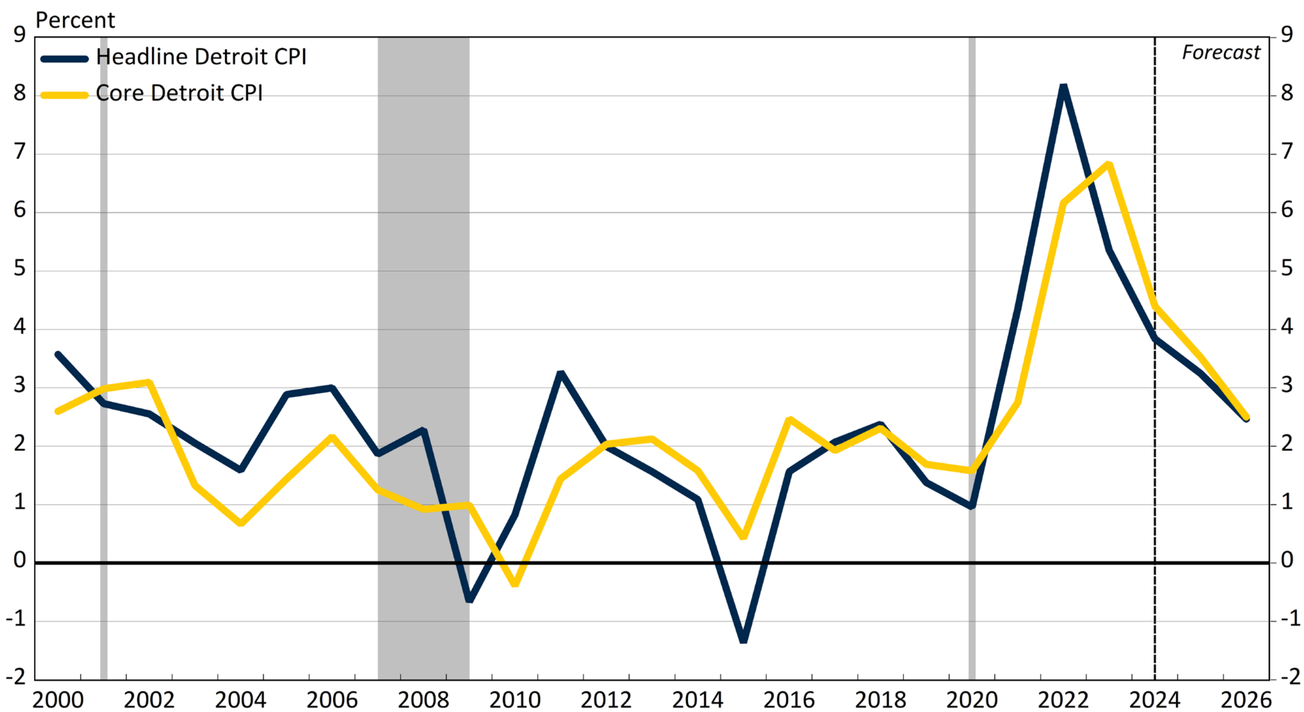


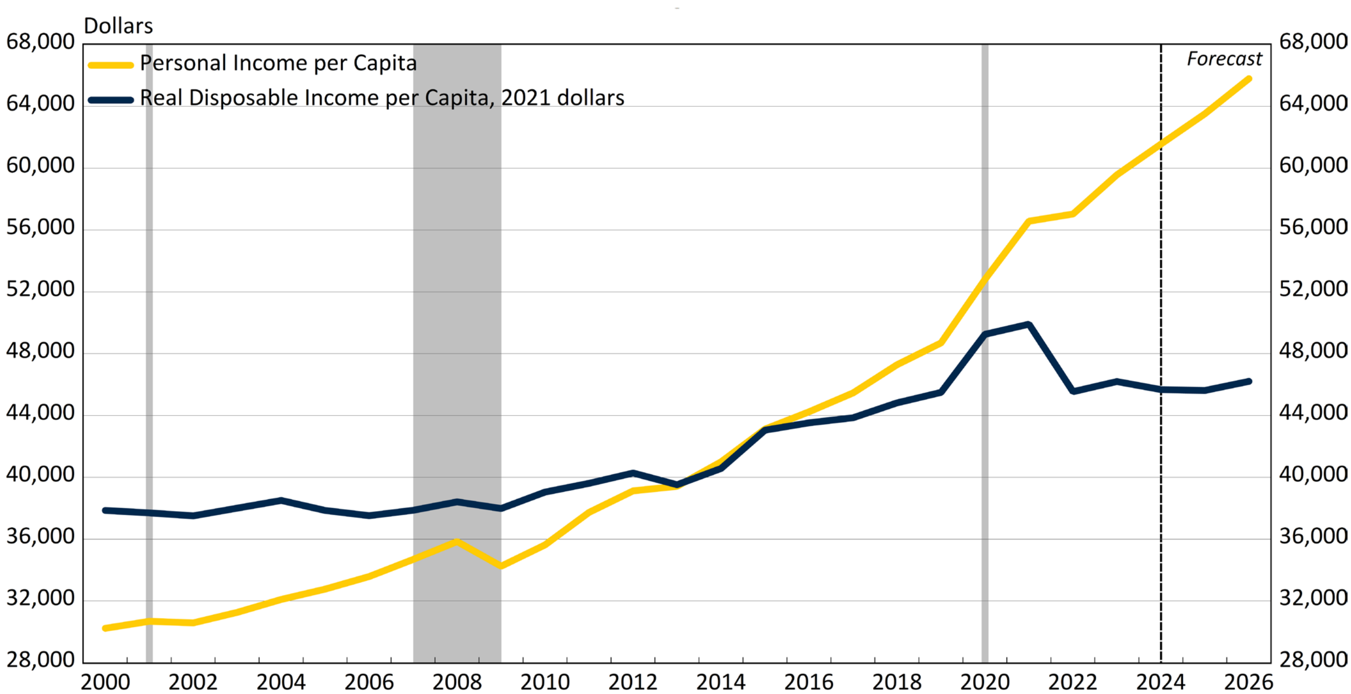
Figure 6 shows the history and our forecast of headline and core Detroit CPI inflation. On an annual basis, local headline inflation peaked at 8.2 percent in 2022 and fell to 5.4 percent last year, largely due to declines in energy prices. Despite this moderation, inflation has remained significantly higher than the pre-pandemic norm for Michiganders, and rising local shelter costs are making recent data difficult to interpret. We expect local inflation to remain outside of Michiganders' comfort zones for some time, even as it continues to cool. We forecast annual local inflation to slow to 3.8 percent in 2024 and 3.2 percent in 2025, before finally dipping to 2.5 percent in 2026.

Local core inflation accelerated from 6.2 percent in 2022 to 6.8 percent in 2023, despite the moderation in the headline measure. The gap between headline and core inflation was primarily due to the decline in energy prices from 2022 to 2023. In line with our forecast for a broader easing of price pressures, we project local core inflation to decelerate to 4.4 percent in 2024. Local core inflation is then expected to slow to just three-tenths of a percentage point above the headline rate in 2025, before closing that gap entirely in 2026.

Personal Incomes

Figure 7 shows our forecast for Michigan personal income per capita, measured in nominal dollars, and real disposable income per capita, adjusted for Detroit CPI inflation to be measured in 2021 dollars. Michigan's personal income per capita rose by 4.5 percent in 2023 after holding fairly steady in 2022. However, we anticipate nominal income growth to decelerate to 3.3 percent in 2024 and 3.2 percent in 2025 as job growth slows across the state. In 2026, Michigan's personal income per capita is projected to increase by 3.6 percent as the broader economy picks up speed. Overall, income growth is expected to average 3.4 percent annually between 2024–26, slightly below the average rate of 3.5 percent from 2011–19. Our forecast brings Michigan's personal income per capita to approximately $65,800 in 2026, or 35 percent higher than in 2019.

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



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. Although Michigan's real disposable income per capita surged during the pandemic, high inflation caused an 8.8 percent decline in 2022, bringing living standards back to 2019 levels. The state regained some ground in 2023 with a 1.4 percent increase, but we expect a slight setback in 2024. Persistent inflation, owing to perplexing local shelter costs, reduces real disposable income per capita by 1.1 percent this year. As the economy cools further and inflation remains above target, real disposable income dips another 0.1 percent in 2025. We project growth to return in 2026 as broad economic momentum picks up and inflation drops below 3 percent. By 2026, Michigan's real disposable income per capita is expected to be 1.6 percent above its 2019 level, hopefully with a more stable future path in sight.

The State Revenue Outlook

Total state tax revenue collection over the summer has come in slightly above our previous forecast from May, established following the state's Consensus Revenue Estimating Conference (CREC). After soaring by $8.4 billion from fiscal year 2019 to fiscal year 2022, combined General Fund General Purpose (GFGP) and School Aid Fund (SAF) revenues fell by $1.2 billion in fiscal 2023, due mostly to a combination of factors related to the state's tax laws.[8] We had previously forecast combined revenues to nudge up by $75 million in fiscal 2024 before adding back $1 billion in fiscal 2025. We now project a gain of $420 million in fiscal 2024, due largely to stronger than expected growth in personal income tax withholding, sales and use tax revenue, and the State Education Property tax.

We continue to forecast a strong resurgence in fiscal 2025, with the state gaining $910 million in combined GFGP and SAF revenue. That performance is followed by an even larger gain of $1.4 billion in fiscal 2026. The state's expanding labor market continues to elicit healthy gains in net personal income tax revenue in both years, especially withholding. Sales tax revenue, which skyrocketed during the

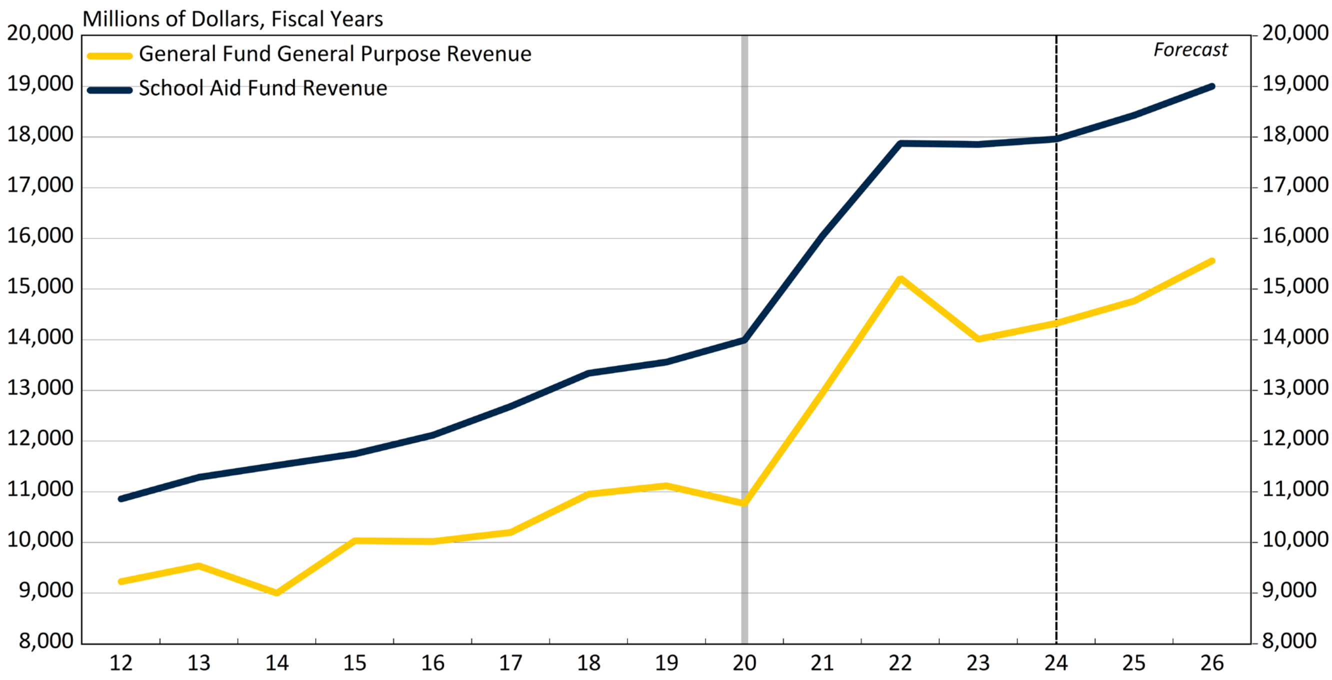
[8] First, Public Act 4 of 2023, adopted in March 2023, expanded exemptions for certain retirement income as well as the state's earned income tax credit and adopted new earmarks to Michigan's corporate income tax rate. Second, Michigan's individual income tax rate was lowered from 4.25 percent to 4.05 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. Altogether, 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.

consumer spending spree in fiscal years 2021 and 2022, pulled back slightly in fiscal 2023 and 2024 as spending patterns began to shift back to services. We expect sales tax revenue to resume a more sustainable path moving forward along with a continued expansion of use tax revenue.

Our forecast puts total state tax revenue nearly $9.9 billion, or 40 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 6.1 percent.

We now describe our forecast of state revenues in more detail. Table 2 breaks down the recent history as well as our forecast for fiscal years 2024–26. The upper portion details GFGP revenues, and the lower portion summarizes SAF revenues.

Figure 8
Michigan Tax Revenues, General and School Aid Funds



Net Personal Income Tax Revenue

- 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, bolstered by the ongoing jobs recovery and wage growth in the state.
- We forecast another year of declining revenue from annual, quarterly, and flow-through returns, but withholding more than makes up for that loss. Altogether, net personal income tax revenue rises 3.2 percent in fiscal 2024.
- We expect all components of personal income tax revenue to improve in fiscal 2025, as the new tax legislation is mostly phased in and the economy continues to expand, followed by an across-the-board moderation the next year. Net personal income tax revenue grows by 6.5 percent in fiscal 2025 and 3.4 percent in fiscal 2026.

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 2023, sales tax revenue pulled back from its pandemic-era highs as consumers felt the pinch of inflation and spending began to shift back to services. Use tax revenue, on the other hand, grew rapidly in fiscal 2023, which may partly reflect increased consumer spending in the accommodations sector. Gross sales and use tax revenue ticked up 0.5 percent as a result.
- The ongoing transition of consumer spending back to services has led to another small decline in sales tax revenue in fiscal 2024, even as use tax revenue has continued to make moderate gains. We project gross sales and use tax revenue to tick down 0.1 percent for the fiscal year.
- We expect sales tax revenue to resume its growth in fiscal 2025 and 2026 as the state economy continues to expand. We project gross sales and use tax revenue to increase 1.7 percent in fiscal 2025 and 2.6 percent 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 edge down by 0.2 percent in fiscal 2024. GFGP consumption tax revenue then climbs back by 2.4 percent in fiscal 2025, before growth accelerates to 3.6 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 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.
- After impressive growth during the pandemic, gross CIT collections remained strong in fiscal 2023. The new earmarks adopted last year, though, subtracted from the share accruing to the General Fund, leading GFGP business tax revenue to drop 16.4 percent for the fiscal year.
- We expect CIT collections to hold relatively flat this year and next, before rising by over 30 percent in fiscal 2026 as the earmarks are relaxed. GFGP business tax revenue follows suit, eking out growth of 0.7 percent in fiscal 2024, falling by 1.2 percent in fiscal 2025, and rebounding by 30.7 percent in fiscal 2026.

Total General Fund Revenue

- 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. The decline came after two years of exceptional growth during the pandemic. Although some softening was expected based on economic trends, the decline in fiscal 2023 was due mostly to changes in the state's tax laws, as discussed above.

- Based on our projections of the individual components, we expect total GFGP revenue to grow by 2.2 percent in fiscal 2024 before accelerating to growth of 3.1 percent in fiscal 2025 and 5.4 percent in fiscal 2026. That growth is largely attributable to the growth of personal income tax withholding across the three years, along with strong sales and use tax growth in fiscal years 2025 and 2026, and the rebound in business tax revenue in fiscal 2026.

- Our forecast puts total GFGP revenue over $4.4 billion, or 40.0 percent, higher in fiscal 2026 than in fiscal 2019. After adjusting for inflation, however, the growth of General Fund revenues from fiscal 2019–26 is only 6.0 percent, resulting in average real growth of just 0.8 percent per year.

Total School Aid Fund Revenue

- About one-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.

- Despite a sizeable loss in GFGP revenue, total SAF revenue managed to hold flat in fiscal 2023, as its allocations are generally based off gross revenue and are largely protected from the tax law changes that were adopted last year.

- That said, SAF growth in fiscal 2023 was limited by the overall decline in gross personal income tax revenue and revenues related to the housing market. Real estate transfer tax revenue fell by 28.8 percent in fiscal 2023 as mortgage rates soared and home sales cooled. We expect real estate transfer tax revenue to stay relatively flat in fiscals 2024 and 2025 before springing back in fiscal 2026 as lower mortgage rates help to kickstart the housing market.

- We forecast total SAF revenue to gradually pick up over the next three fiscal years, on par with our expectations for the General Fund. We project gains of 0.6 percent in fiscal 2024, 2.6 percent in fiscal 2025, and 3.1 percent in fiscal 2026.

- Total SAF revenue is forecast to finish fiscal 2026 over $5.4 billion, or 40.1 percent, higher than in fiscal 2019. After adjusting for inflation, that growth is reduced to 6.2 percent, translating to average real growth of just 0.9 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	2025	2026
General Fund General Purpose				
Personal income tax	7,764	8,208	8,850	9,142
(% change)	(-15.7)	(5.7)	(7.8)	(3.3)
Consumption taxes	3,207	3,202	3,280	3,397
(% change)	(1.1)	(-0.2)	(2.4)	(3.6)
Sales	1,674	1,649	1,692	1,736
Use	1,272	1,296	1,333	1,405
Other consumption	261	257	255	256
Business taxes	1,665	1,678	1,658	2,167
(% change)	(-16.4)	(0.7)	(-1.2)	(30.7)
MBT/SBT/Corporate income	1,172	1,130	1,095	1,592
Other business	493	547	563	576
Other GFGP taxes	177	191	202	209
GFGP tax revenue	12,813	13,278	13,990	14,915
(% change)	(-12.0)	(3.6)	(5.4)	(6.6)
Nontax revenue	1,198	1,048	778	645
GFGP revenue	14,011	14,326	14,768	15,560
(% change)	(-7.9)	(2.2)	(3.1)	(5.4)
School Aid Fund				
SAF taxes	16,505	16,694	17,161	17,722
(% change)	(-0.7)	(1.1)	(2.8)	(3.3)
Lottery transfer	1,352	1,270	1,270	1,280
(% change)	(8.3)	(-6.1)	(0.0)	(0.8)
Earmarked state SAF revenue	17,857	17,964	18,431	19,002
(% change)	(-0.1)	(0.6)	(2.6)	(3.1)
Addendum				
Combined GFGP and SAF revenue	31,868	32,290	33,199	34,562
(% change)	(-3.7)	(1.3)	(2.8)	(4.1)
Gross sales and use taxes	13,419	13,401	13,634	13,983
(% change)	(0.5)	(-0.1)	(1.7)	(2.6)

RSQE: September 2024