



# Michigan Economic Outlook

2026–2027

March 2026



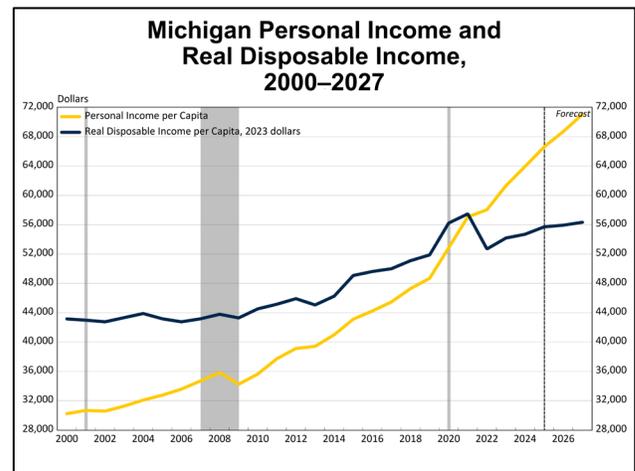
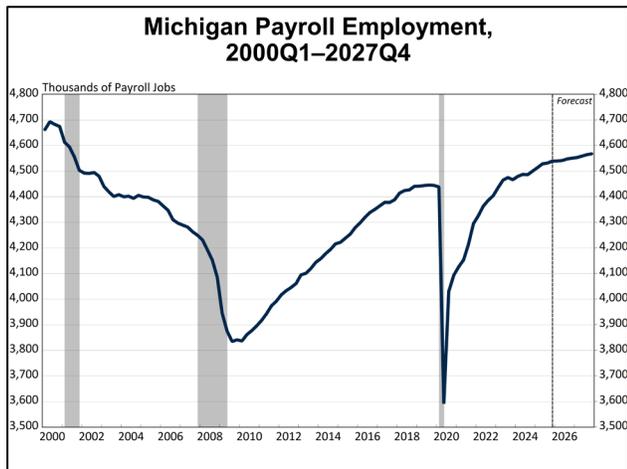
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## The Michigan Economic Outlook for 2026–2027: Executive Summary



Michigan’s economy displayed a confusing mix of signals through the end of last year. The currently published data indicates that the state added 39,900 jobs in 2025, even while resident employment fell by 18,000. We expect downward revisions to the payroll data to bring these measures closer in line, but not to close the gap completely. We expect resident employment to hit its cyclical bottom in the first quarter of this year before returning to moderate growth. Payroll job growth slows to 16,700 this year and 16,200 in 2027. The unemployment rate rises from 5.0 percent currently to 5.2 percent by the second half of the year, edging down to 5.1 percent in late 2027.

We continue to expect growth to be concentrated in industries that are not generally sensitive to the state of the business cycle, such as government and leisure and hospitality. Healthcare, historically a major driver of job growth, slows substantially through 2027 in the face of a tough funding landscape. After two years of losses, manufacturing employment dips a bit further this year before returning to growth in 2027.

Local headline inflation fell from its COVID-era peak of 8.2 percent in 2022 to 1.9 percent in 2025. Amid ongoing tariff pressures, we forecast local inflation to rise to 2.8 percent in both 2026 and 2027. The ongoing hostilities in Iran have the potential to lead to significantly higher inflation if they do not de-escalate soon.

We estimate that personal income per capita in Michigan rose 4.2 percent in 2025. We are forecasting slower growth over the next two years, at 3.1 percent in 2026 and 3.4 percent in 2027. Our forecast brings Michigan’s personal income per capita to \$71,100 in 2027, more than double its level in 2000.

Real disposable income per capita grew 1.8 percent in 2025, well above the average annual growth of 1.0 percent since 2000. We project growth of real disposable income to moderate in 2026 as inflation picks back up. On an annual basis, we forecast growth of 0.4 percent in 2026 and 0.7 percent in 2027. Michigan’s real disposable income per capita in 2027 is projected to stand 8.6 percent above its 2019 level.

# The Michigan Economic Outlook for 2026–2027

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## Introduction

Michigan’s economy continues to exhibit contradictory patterns in the incoming data. As of December 2025, the currently published data suggests that Michigan’s payroll jobs count stands at its highest level since August 2001, while the count of employed state residents stands at its lowest since March 2023. We suspect that this spring’s upcoming annual benchmark revisions will indicate that payroll employment has been faring worse than the published data currently indicates. A substantial downward revision would bring Michigan’s payrolls more closely in line with the household survey, which shows 36,700 fewer Michigan residents were employed in December 2025 than a year previously. It would also bring the payrolls data into better alignment with the data on labor demand in Michigan, which is shown in Figure 1.

**Figure 1**  
**Labor Demand in Michigan is Cooling Off**

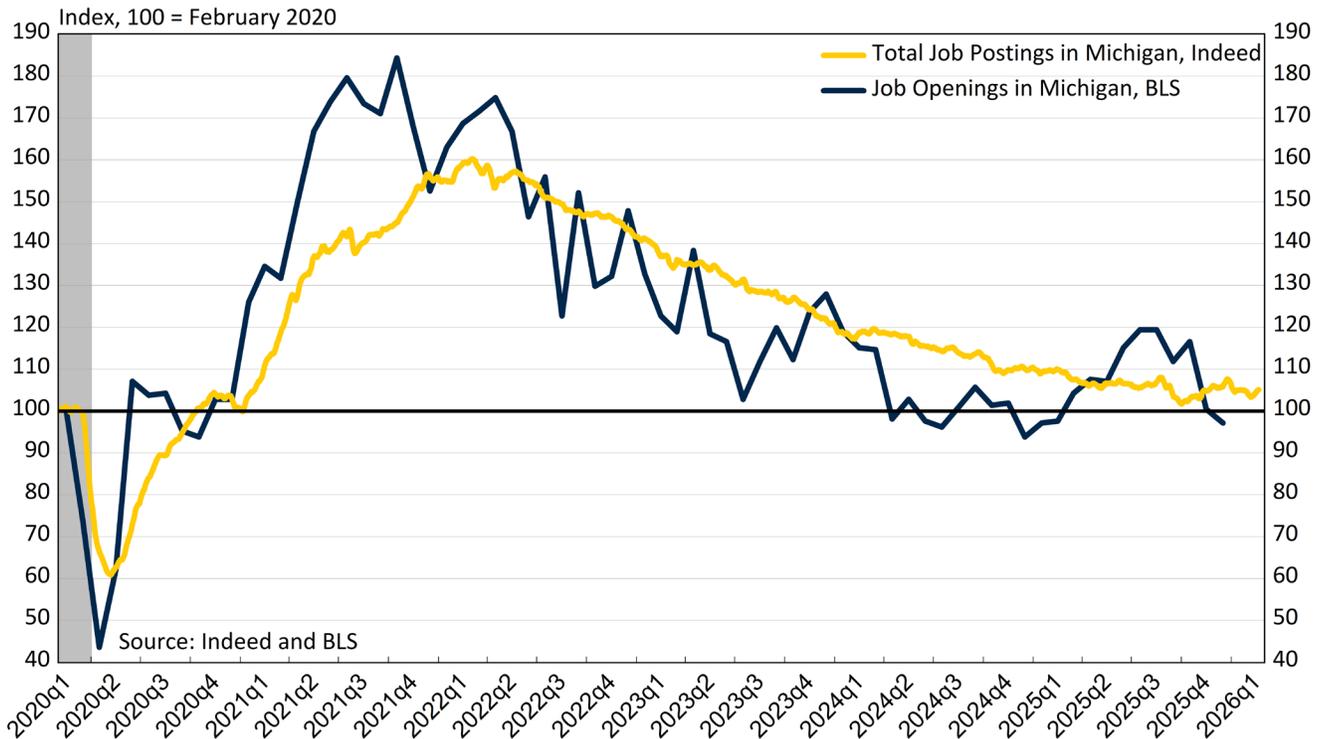


Figure 1 displays two measures of labor demand in Michigan. The first is the measure of job openings in Michigan as measured in the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS), while the second is the number of job listings in Michigan as measured by the online jobs board Indeed. The JOLTS measure currently extends through December 2025, and it will no longer be updated on a monthly basis going forward. The Indeed data currently extends through mid-February. Both series have been indexed to a value of 100 in February 2020. The JOLTS data indicate a sharp decline in Michigan labor demand in late 2025, with the number of job openings falling below its pre-pandemic level by year-end. The Indeed data paints a slightly rosier picture, but it nonetheless suggests that labor demand has flatlined at a relatively low level since last fall.

Michigan's unemployment rate may seem to offer encouragement, as it has dipped from 5.5 percent last spring to 5.0 percent in December. Yet this resilience stems from a steep fall in the state's labor force participation rate, which has declined a whole percentage point in that time.

Fortunately, we expect the picture to get a little brighter from here, with payroll employment growing at a moderate pace and resident employment beginning to inch upward as well, even in the face of Michigan's demographic headwinds. We are projecting Michigan to add an average of 16,400 jobs per year over the next two years, while resident employment declines by 17,600 on a calendar year basis this year before climbing by 10,000 in 2027. The unemployment rate inches up to 5.2 percent in the second half of this year before edging down to 5.1 percent late next year.

We continue to hold divergent views on Michigan's cyclical versus non-cyclical industries, the latter of which drive the bulk of employment gains in our forecast. Recent events have injected a new round of uncertainty into the tariff and trade situation, with an upcoming review of the United States-Mexico-Canada Agreement (USMCA) due later this year as well. The recent attack on Iran has led to a surge in energy prices that is far larger than we contemplated when we produced the numerical portion of this forecast, which poses an additional risk to Michigan's manufacturing industry.

Nonetheless, it is important to recall that the economy always faces risks and external shocks. Although we believe the risks are currently tilted to the downside for this forecast, we continue to believe the most likely outcome is for Michigan's economy to grow at a moderate pace over the next two years.

## **The Forecast of the State Economy**

### ***Detroit Three Light Vehicle Sales***

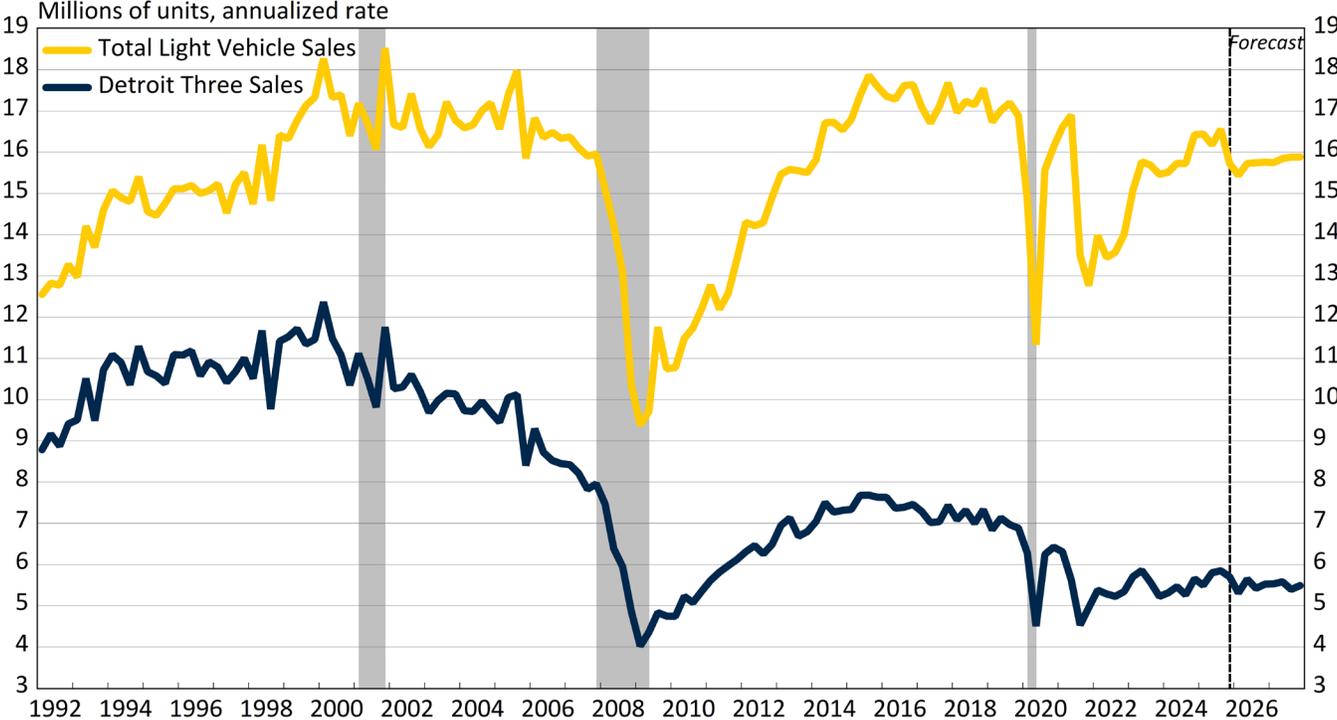
Michigan's economy is highly sensitive to international trade policy due to the critical role of the local auto industry. Our March [U.S. forecast report](#) explains the current state of tariffs and how they may change over the forecast. The tariff and international trade landscape remains in flux following the Supreme Court's decision to strike down tariffs imposed under the International Emergency Economic Powers Act (IEEPA). We do not expect the decision to have an overwhelming effect on the auto industry, both because many auto-related tariffs were imposed via other authorities, and because we expect the Administration to find other mechanisms to keep broad tariff rates near the pre-decision levels. At this time, we estimate that the auto-related tariffs will result in a small increase in national domestic auto production in the medium term, following a difficult transition away from electric vehicles (EVs) amid softer demand and shifting federal policies.

Figure 2 shows our quarterly forecast for total U.S. and Detroit Three light vehicle sales. The annual sales pace declined from 16.6 million units in the third quarter of 2025 to 15.7 million units in the fourth quarter, following the expiration of EV tax credits in September. Sales then fell sharply to 14.8 million units in January 2026 and 15.8 million units in February, likely reflecting the effects of the harsh winter and the reversal of the earlier pull-forward demand. Ultimately, we expect automakers to take a cautious approach to vehicle production amid the renewed trade uncertainty. As the industry adapts to evolving conditions, we anticipate light vehicle sales will hover between 15.7–15.9 million units in 2026 and 2027.

The Detroit Three automakers faced a challenging environment last year as trade uncertainty and the expiration of EV tax credits reshaped the industry. Based on last year's profits, eligible workers will receive profit-sharing checks of up to \$10,500 at GM and \$6,780 at Ford. Stellantis workers, however, will not receive a profit-sharing check for the first time since 2011, as the company posted losses while working to correct past decisions that contributed to a weak sales pace. In 2025, GM's market share increased by 0.7 percentage points and Ford's rose by 0.6 percentage points, while Stellantis experienced a 0.2 percentage point decline. Overall, profitability has moderated from its post-pandemic peak,

limiting the financial cushion available to absorb new cost pressures. We believe the next few years will be challenging for the auto industry as companies adjust their operations, supply chains, and pricing strategies in response to tariffs and consumers' concerns about affordability.

**Figure 2  
Light Vehicle Sales Idle at Trend**



The Detroit Three's share of U.S. light vehicle sales increased from 34.2 percent in 2024 to 35.2 percent in 2025. This marks the first annual increase in their market share since 2013, excluding the rebound in 2022 from microchip-related losses. Despite more favorable tariff policy and the absence of fines for not meeting Corporate Average Fuel Economy standards, we expect the longer-term downward trend to resume in 2026 and 2027, though with more muted declines than in the past. We project the Detroit Three's market share will fall by 0.2 percentage points in each of 2026 and 2027, well below the average 0.6 percentage point annual decline during the first Trump administration. By 2027, their share of the market is expected to reach 34.7 percent. In unit terms, sales are projected to ease modestly from 5.7 million vehicles in 2025 to 5.5 million in 2027.

## ***Payroll Employment***

Figure 3 shows the historical data and our forecast of Michigan's quarterly payroll job count. The currently published data indicates that Michigan added 39,900 jobs in 2025, an acceleration relative to the 27,600 jobs the state gained in 2024. Yet the Bureau of Labor Statistics released preliminary benchmark estimates suggesting that Michigan's payroll jobs count will be revised downward by 39,700 as of March 2025. Although the actual benchmark revision may differ, taking the preliminary estimate literally would imply that Michigan did not add any payroll jobs in the twelve months to March 2025. Currently, we assess Michigan's underlying growth trend as being one of modest but positive job gains. We are projecting the state to add 16,700 jobs this year and 16,200 in 2027, a growth rate of around 0.4 percent per year. Our forecast takes Michigan's payroll job count to 2.9 percent above its pre-pandemic level by the end of 2027, but it remains 2.7 percent below its all-time peak from the second quarter of 2000.

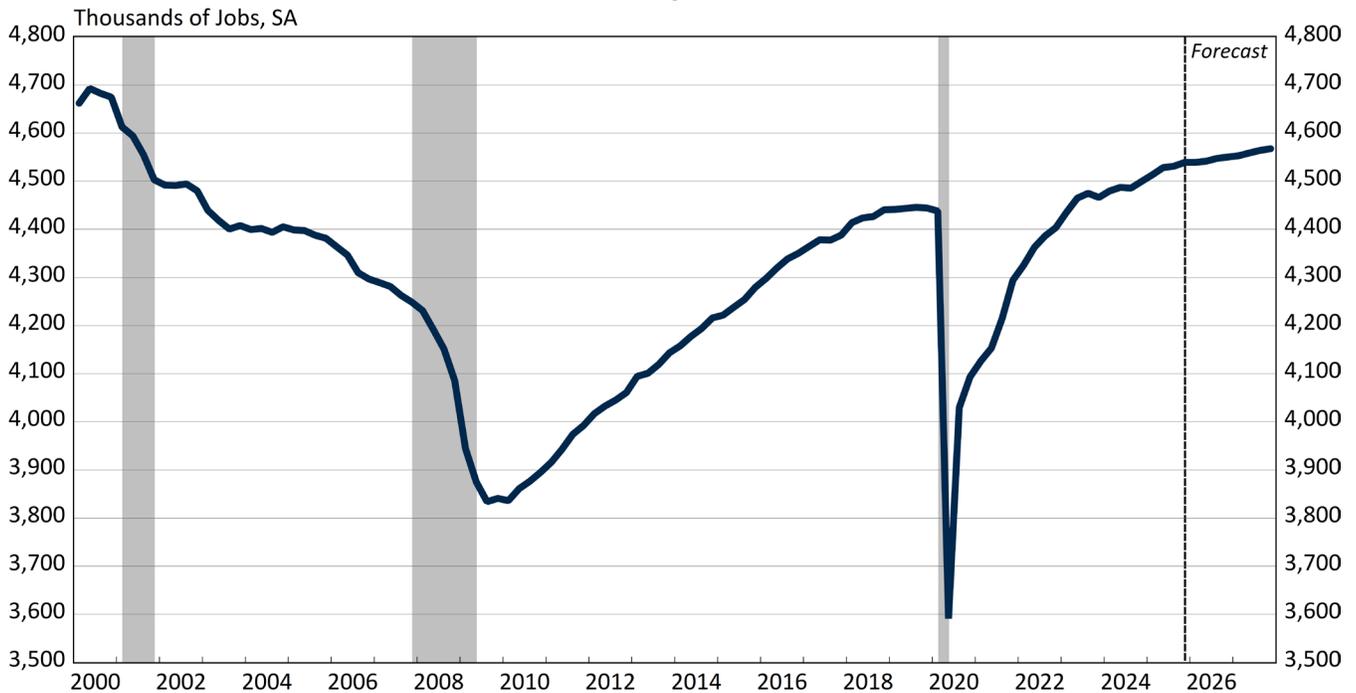
Table 1 below displays our forecast for Michigan's annual job growth by industry, while Figure 4 divides our industries into two groups: "Cyclical Industries" and "Non-cyclical Industries."<sup>1</sup> The non-cyclical industries typically display much less volatile employment patterns than the cyclical industries, with the exception of the COVID-19 pandemic and recovery period. We are projecting job growth in Michigan to be concentrated in the non-cyclical industries this year, with growth transitioning toward a more even mix next year.

Michigan's **construction** industry shrugged off high mortgage rates and a challenging market for single-family homes in 2025, adding 8,000 jobs. We are skeptical that the industry can continue to grow at that pace, despite the moderation in mortgage rates that we are forecasting. We project growth to slow to 2,000 jobs this year and 1,600 in 2027. That growth would nonetheless take employment in Michigan's construction sector to its highest level since the year 2000 by the end of our forecast.

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<sup>1</sup> 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 55 percent of nonfarm payroll employment in Michigan in 2025.

**Figure 3**  
**Michigan Payroll Employment Grows at a Steady but Moderate Pace**

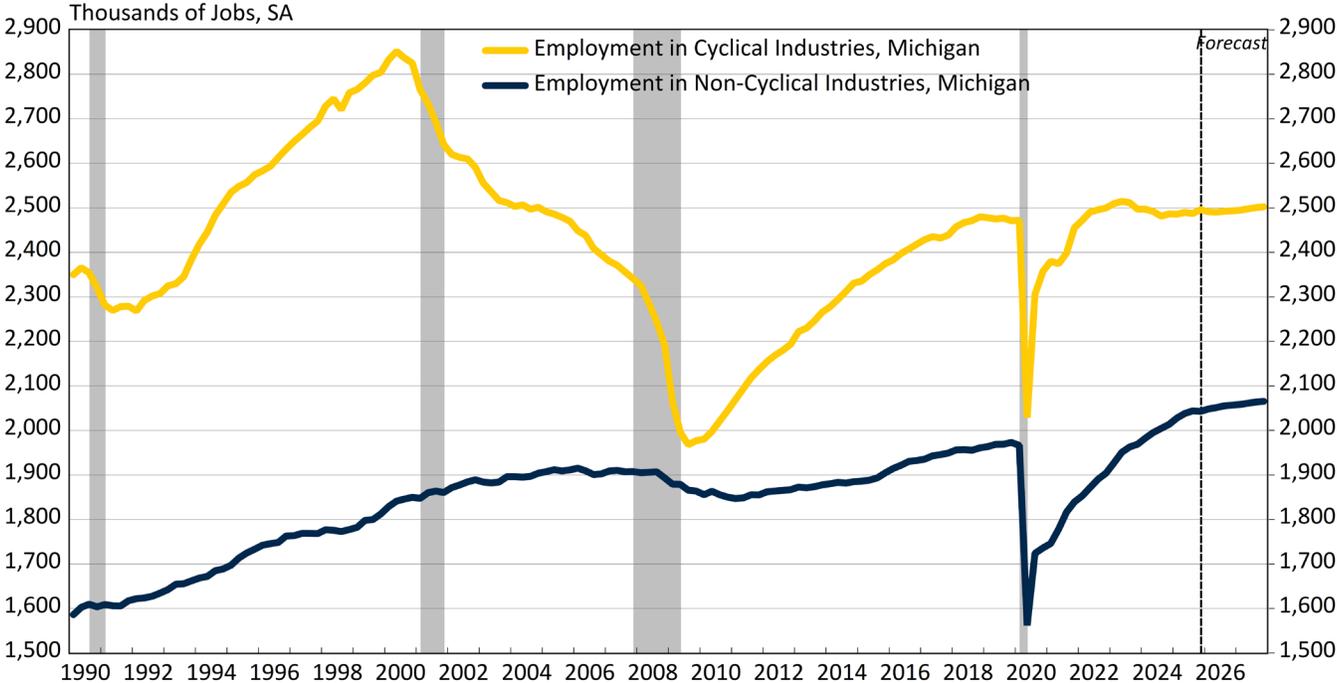


Employment in Michigan’s **manufacturing** sector has lost more than 20,000 jobs over the past two years. General Motors recently announced approximately 1,200 layoffs at its Factory Zero plant in Detroit-Hamtramck, auguring a rough start to this year. Yet we believe that the worst of the recent job losses are now behind us. We are projecting Michigan’s manufacturing sector to lose 2,100 jobs this year before adding 4,900 next year, as lower interest rates and the effective elimination of vehicle mileage standards both spur growth. Following the Supreme Court’s recent decision on the IEEPA tariffs, we see two major wildcards facing the manufacturing sector this year. The first is the war in Iran, which has sent energy prices skyrocketing, and the second is the upcoming review of the USMCA. Our forecast is effectively predicated on hostilities in Iran de-escalating promptly without too much damage to energy infrastructure, alongside no major changes in the USMCA being enacted over the next two years.

Michigan’s **professional and business services** supersector has tended to move in tandem with its manufacturing sector since the start of the millennium, and, like manufacturing, it has also lost nearly 20,000 jobs over the past two years. We expect professional and business services to continue to follow alongside manufacturing this year, with 800 job losses. Yet we are not as optimistic about these industries

as we head into next year, projecting only 100 job gains. Thus, employment in Michigan’s professional and business services industries roughly flatlines over our forecast.

**Figure 4  
Non-Cyclical Industries Drive Employment Gains**



Michigan’s **trade, transportation, and utilities** supersector added 1,800 jobs last year after losing 3,200 in 2024. Solid job gains in transportation, warehousing, and utilities offset losses in retail trade last year, while employment in wholesale trade held roughly flat. We expect job losses in retail trade to reaccelerate from 1,000 last year to an average of 3,900 per year over the next two years. Those losses tip the larger trade, transportation, and utilities supersector into overall job declines, which total 400 this year and 1,500 in 2027.

Last year, Michigan’s **financial services** industry delivered its strongest performance since 2021, adding 6,700 jobs. The industry now boasts its all-time highest employment level in Michigan.<sup>2</sup> We believe gains will continue at a more sustainable pace over the next two years, with substantial relief from lower mortgage rates. We project 3,400 job gains this year and another 1,900 in 2027.

<sup>2</sup> This statement comes with the caveat that the modern industry employment data extends back only to 1990.

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

	2025	Forecast Employment Change		
		'25-'26	'26-'27	'25-'27
<b>Total Jobs</b>	<b>4528.3</b>	<b>16.7</b>	<b>16.2</b>	<b>32.9</b>
Total Government	628.2	8.2	5.2	13.4
Total Private	3900.0	8.5	11.0	19.5
Natural resources and mining	7.3	0.0	-0.1	-0.1
Construction	204.6	2.0	1.6	3.5
Manufacturing	596.8	-2.1	4.9	2.8
Transportation equipment manufacturing	178.6	-1.6	3.3	1.7
Other manufacturing	418.2	-0.5	1.6	1.1
Trade, transportation, and utilities	812.3	-0.4	-1.5	-1.9
Retail trade	452.9	-3.8	-4.0	-7.8
Transportation, Warehousing, and Utilities	181.7	3.8	1.6	5.4
Wholesale trade	177.7	-0.4	1.0	0.5
Information	56.5	-0.2	-0.3	-0.5
Financial activities	241.3	3.4	1.9	5.2
Professional and business services	635.0	-0.8	0.1	-0.7
Professional, scientific & technical services	311.2	-1.0	0.2	-0.8
Management of companies & enterprises	66.2	-0.6	0.3	-0.4
Admin & support & waste mgmt.	257.6	0.8	-0.3	0.5
Private education and health services	734.0	3.8	0.1	4.0
Leisure and hospitality	433.9	2.3	3.1	5.5
Other services	178.5	0.5	1.1	1.6
<b>Addendum: Percent Change in Total Jobs</b>	<b>0.9</b>	<b>0.4</b>	<b>0.4</b>	<b>0.7</b>

RSQE: March 2026

Michigan's **non-cyclical industries** tend to be less sensitive to the behavior of the business cycle than its cyclical industries. As a whole, the non-cyclical industries added jobs every quarter from the second quarter of 2020 through the third quarter of 2025 before losing 1,400 jobs in the final quarter of the year. We believe that performance was an anomaly and that employment in these industries will continue growing over the next two years, although at a slower pace than over the past five years. We are projecting the non-cyclical industries to add 14,600 jobs this year and 9,200 in 2027.

Michigan's **private education and health services** sector, which is dominated by health services, has historically been one of the state's most reliable engines of job growth. We were therefore surprised to see it lose 1,400 jobs in the fourth quarter of 2025. We expect job growth to return this year, with 3,800 additions on an annual basis. That modest growth pace slows to only 100 job gains next year.

The healthcare sector is already facing a tough funding situation, with cuts to tax credits for purchasing health insurance through the Affordable Care Act exchanges that took effect this year. Cuts to federal funding for Medicaid loom on the horizon as well. Our concerns were not allayed by the recent dispute between Blue Cross Blue Shield of Michigan and Michigan Medicine (the University of Michigan health system), which we see as a symptom of the harsh new funding reality.<sup>3</sup>

The **leisure and hospitality** industry added 5,300 jobs last year, in line with 2024's pace. We expect growth to slow to 2,300 jobs this year and 3,100 in 2027, as this sector recovers to near its pre-pandemic share of total employment.

The **other private services** sector added 5,000 jobs last year, but those gains were front-loaded in the first half of the year. The sector actually lost 1,000 jobs in the second half of the year. We believe that those losses should give way to modest gains going forward. Annual growth comes to 500 jobs this year and 1,100 in 2027.

Michigan's **government** sector added 10,400 jobs last year, despite the end of pandemic-era federal support for state and local governments. Growth faltered in the fourth quarter, with 300 job losses amid the separations of federal employees who accepted the deferred resignation program. We are projecting Michigan's government sector to return to growth over the next two years, although at a slower pace than recently. Government adds 8,200 jobs this year and 5,200 in 2027. As it does for healthcare, the federal funding situation for Medicaid and other social assistance programs poses a downside risk to our forecast for government employment, although on current policy, we expect these cuts to be felt more acutely beyond our forecast horizon.

### ***Unemployment and Labor Force Participation Rates***

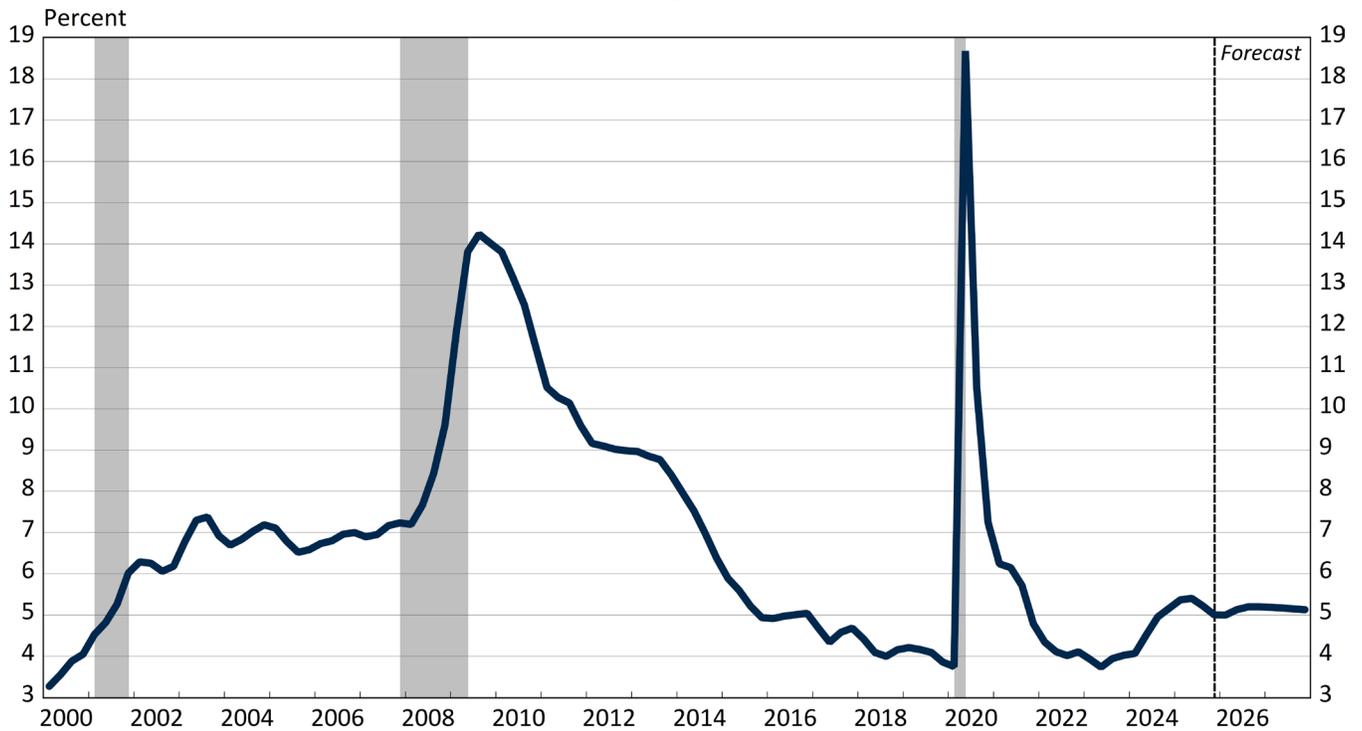
Figure 5 displays the historical data and our forecast for Michigan's quarterly unemployment rate. As we have already discussed, Michigan faced a challenging external environment in 2025, amid higher interest rates and a volatile international trade policy. During the year, the state's unemployment rate peaked at 5.5 percent in March before declining to 5.0 percent in November and December. While that

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<sup>3</sup> See, for instance, Eli Newman, "[Blue Cross, Michigan Medicine dispute leaves 300,000 patients in lurch](#)," *Bridge Michigan*, March 4, 2026.

may appear to be positive news, the broader picture is less encouraging. Over that same period, the number of employed Michiganders declined by 0.8 percent and the state’s labor force participation rate fell by 1.1 percentage points. In other words, by the end of 2025, Michigan had fewer residents employed and a smaller share of its population engaged in the labor market than at the end of 2024.

**Figure 5**  
**Michigan’s Unemployment Rate Ticks Up Slightly**



We expect Michigan’s labor market to start heading in the right direction by the end of the forecast as a more favorable federal policy mix begins to bolster the manufacturing sector. The state’s unemployment rate is projected to tick up to 5.2 percent in the second half of 2026, as Michigan’s labor force returns to growth. We expect Michigan’s unemployment rate to inch down to 5.1 percent in late 2027, as muted employment growth outpaces labor force growth.

Michigan’s labor force participation rate edged down from 62.0 percent in the first quarter of 2025 to 61.0 percent in the fourth quarter. We forecast only a modest rebound, with the participation rate rising to 61.1 percent by the third quarter of 2026, as the state contends with limited population and labor force growth over the next couple of years.

More concerning, we expect Michigan's working-age population (ages 16 to 64) to decline by 0.7 percent from the end of 2025 to the end of 2027, while the state's population aged 65 and older is projected to increase by 4 percent over the same period. Historically, Michigan has relied heavily on international migration to support population and workforce growth. An aging population combined with reduced immigration will place additional strain on the state's labor supply in the years ahead.

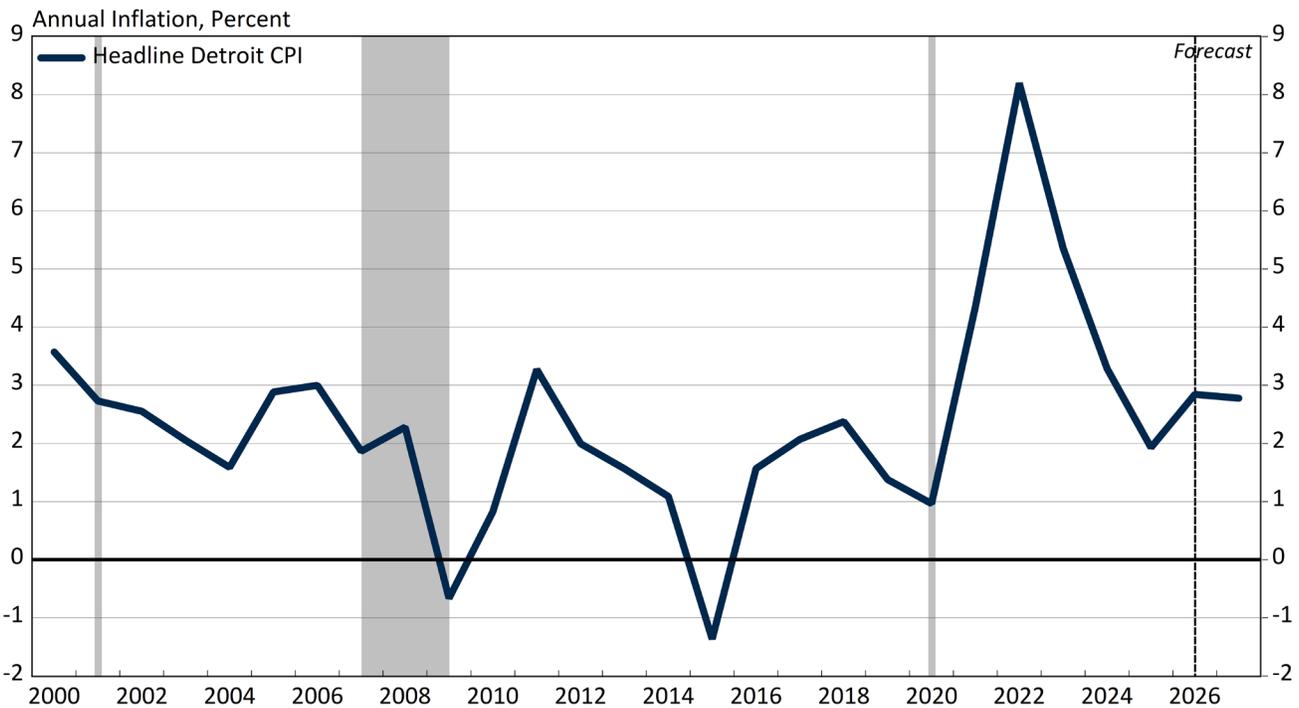
### ***Local Inflation***

Figure 6 shows the history and our forecast of headline (all-item) Detroit CPI inflation on an annual basis. Measures of both local and national headline inflation have slowed significantly over the past three years following the Fed's policy of monetary tightening. Local headline inflation fell from its COVID-era peak of 8.2 percent in 2022 to 1.9 percent in 2025, compared to 8.0 percent and 2.7 percent nationally. While the gap last year may seem large, the primary difference between national and local inflation in recent years has been shelter costs. The shelter component of CPI surged in 2022 both locally and nationally but ultimately slowed more quickly in the Detroit area, which has put additional downward pressure on headline local inflation.

After the Supreme Court struck down the IEEPA tariffs, the Trump Administration implemented a temporary universal tariff under Section 122, which is set to remain in place for up to 150 days. As such, overall trade policy remains unsettled. We continue to expect the Federal Reserve to largely look through the tariffs and treat them as a one-time increase in the price level; however, the start-stop nature of the Administration's trade actions raises the risk of more frequent price adjustments, leading to a more prolonged inflationary environment.

The ongoing hostilities with Iran pose another risk to our inflation forecast. The price of oil has already climbed substantially since the initial strike in late February. Higher oil prices have led to higher gasoline prices and increased transportation costs, which could eventually feed through to broader consumer prices. The war poses a significant risk to inflation normalization and further rate cuts by the FOMC.

**Figure 6**  
**Local Inflation Heats Back Up Under Pressure**



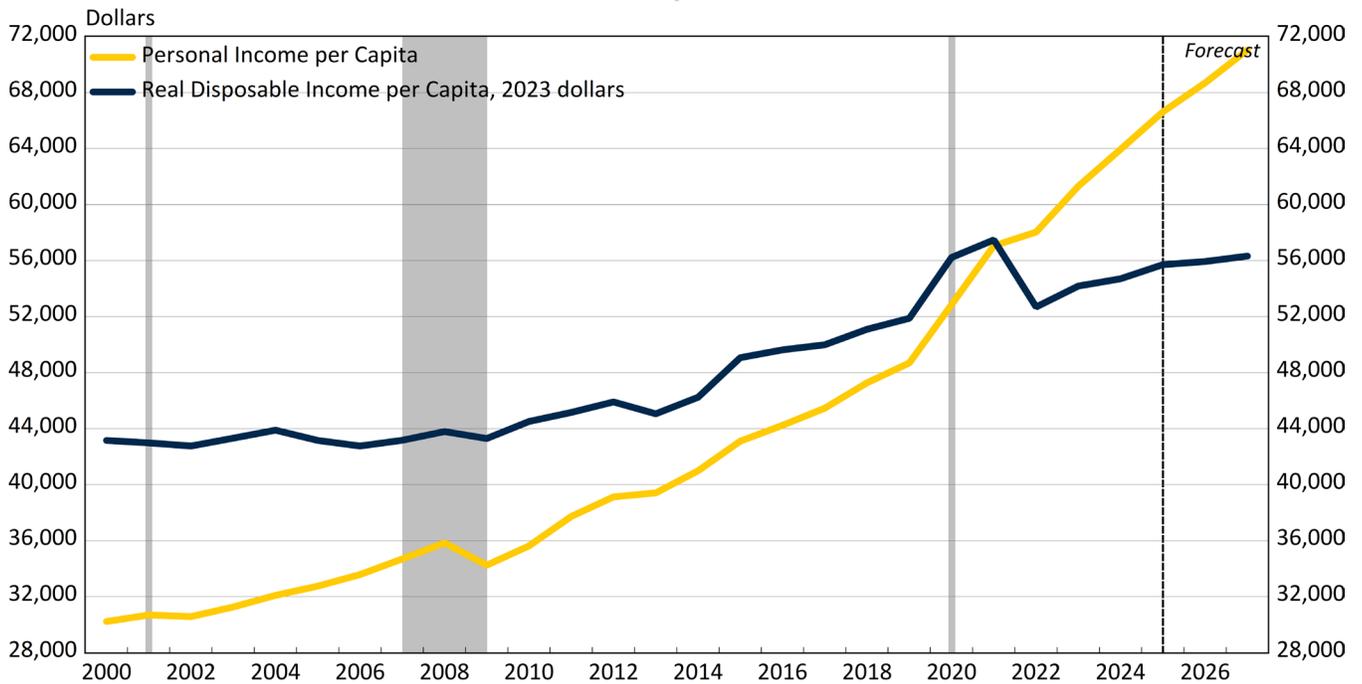
Inflation data for early 2026 will likely remain somewhat noisy as the BLS works through gaps in collection during the federal government shutdown, but Figure 7 presents the annual inflation rate, which should help smooth some of that volatility. Amid ongoing tariff pressures and a more normalized pace of shelter inflation, we expect year-over-year local headline inflation to reach 3.1 percent by the end of 2026, before easing to 2.7 percent by the end of 2027. On a calendar year basis, we forecast local headline inflation to register 2.8 percent in both 2026 and 2027. Although tariffs are expected to add meaningfully to inflation over the next few years, we do not anticipate that current price pressures will prevent the Federal Reserve from continuing to lower interest rates, as we judge that downside risks to the economy are likely to carry greater weight in policy deliberations.

***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 2023 dollars. By our estimate, personal income per capita in Michigan rose from \$63,955 in 2024 to \$66,625 in 2025, an increase of 4.2 percent. That was a touch slower than the growth of the previous two years, but still faster than the 3.2 percent average

since 2000. Altogether, personal income growth has been more than twice as strong since 2019 as during the preceding two decades; growth averaged 5.4 percent from 2019 to 2025, compared with 2.5 percent from 2000 to 2019. The growth of personal income per capita tends to align closely with the trajectory of wages and salaries in the state, a pattern we expect to continue over the next two years.

**Figure 7**  
**Michigan Real Disposable Income Growth Slows as Inflation Creeps up**



We project growth of nominal personal income per capita to slow in the first half of 2026 as the labor market cools, before ticking up in 2027. On an annual basis, we forecast growth of 3.1 percent in 2026 and 3.4 percent in 2027. Our forecast brings Michigan’s personal income per capita to \$71,100 in 2027, more than double its level in 2000.

Our forecast for real disposable income per capita in Michigan combines our projections for nominal personal income with forecasts for taxes and local inflation. Measured in 2023 dollars, real disposable income has grown much more slowly than its nominal counterpart. Low inflation early in the pandemic period, together with substantial federal assistance, initially led to sharp gains in real disposable income, but the gains were erased in 2022 as those supporting factors reversed. More recently, the easing of local price pressures has provided some relief. Real disposable income per capita grew 1.8 percent in 2025, well above the average annual growth of 1.0 percent since 2000.

We project growth of real disposable income to moderate in 2026 as inflation rises back above 3 percent. On an annual basis, we forecast growth of 0.4 percent in 2026 and 0.7 percent in 2027. Although still below the temporary highs reached in 2020 and 2021, Michigan's real disposable income per capita in 2027 is projected to stand 8.6 percent above its 2019 level.

### **The State Revenue Outlook**

The official books are still being settled for fiscal 2025, but the initial data suggest moderating growth for combined General Fund General Purpose (GFGP) and School Aid Fund (SAF) revenues. We estimate that combined revenue growth decelerated from 2.4 percent in fiscal 2024 to 1.9 percent in fiscal 2025. The majority of the growth in fiscal 2025 accrued to the SAF, which saw revenues rise 2.7 percent, while the General Fund gained only 0.9 percent, as larger than expected personal income tax refunds took a hefty bite.

Looking ahead, we forecast another year of moderating revenue growth followed by a partial rebound. Specifically, we project combined revenue growth of 0.9 percent in fiscal 2026 and 1.4 percent in fiscal 2027. Our forecast is a touch 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 2026–28. Compared to the CREC estimates, we project combined revenues to be \$250 million higher in fiscal 2026 and \$350 million higher in fiscal 2027, primarily due to stronger anticipated income tax collections.

As shown in Figure 8, GFGP and SAF revenues are projected to take diverging paths over the next two years. While the School Aid Fund is expected to continue making steady gains, General Fund revenues are forecast to fall in 2026 and then stay flat in 2027. The differing outlooks are the result of a suite of legislative changes at both the federal and state levels, the most significant of which are outlined in the following list.

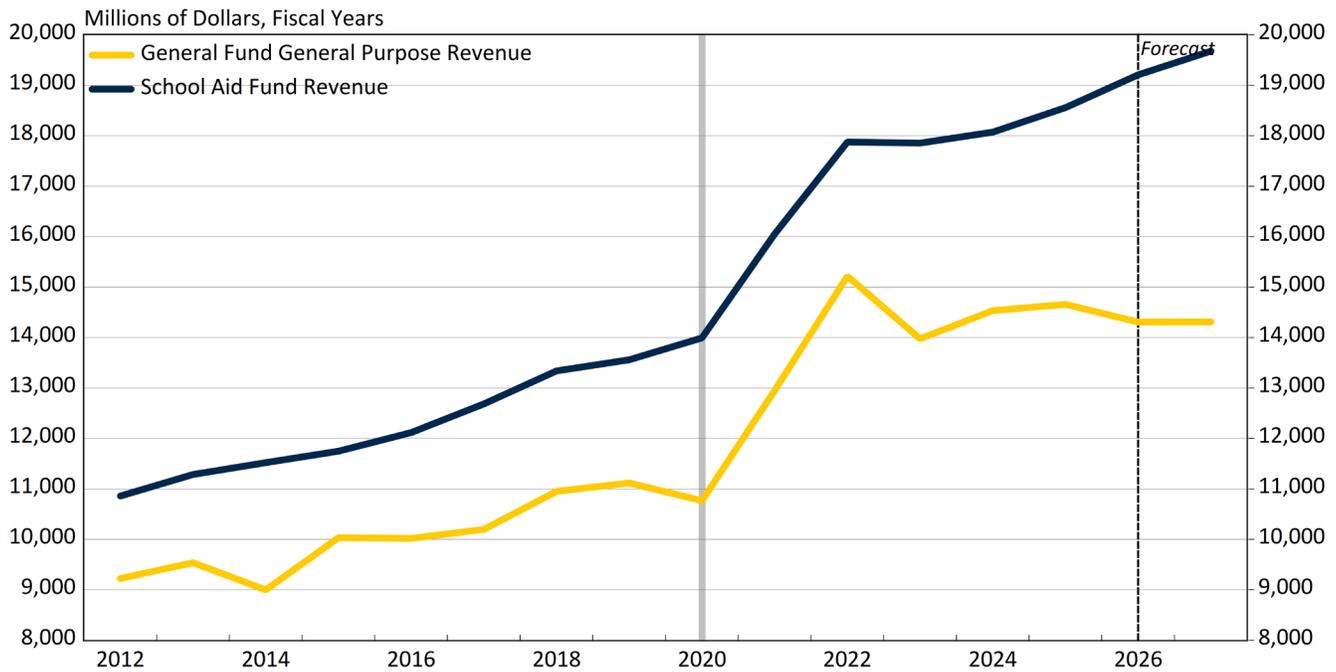
- **Sales Tax on Motor Fuels.** As part of the state's new road funding deal, sales of motor fuel are now exempt from the state's sales and use taxes, effective January 1, 2026 (House Bills 4180 and 4182). The sales tax was replaced with a new 20 cent per gallon excise tax, with the proceeds going to the Michigan Transportation Fund (House Bill 4183). The bills also stipulate that the School Aid Fund will be held harmless for lost revenue from the exemptions and will receive corresponding deposits from the General Fund. As a result, the School Aid Fund is not affected by

the change, but the General Fund effectively loses both its and the SAF's portion of sales tax revenue from motor fuel purchases. We estimate a total GFGP impact of \$676 million in fiscal 2026 and \$856 million in fiscal 2027.

- **Qualified Tips and Overtime Deductions.** For tax years 2026–2028, taxpayers are permitted to deduct qualified tips and overtime from their adjusted gross income, matching the deductions allowed at the federal level (House Bill 4961). This is expected to reduce GFGP revenue by \$137.1 million in fiscal 2026 and \$155.1 million in fiscal 2027; the SAF is projected to lose \$20.5 million and \$23.2 million in the two fiscal years, respectively.
- **Tier 3 Retirement Income.** The rules governing the treatment of retirement income for Tier 3 taxpayers (those born after 1952) were modified for fiscal years 2026-2028 to allow the deduction of Social Security income in addition to other permissible deduction options (House Bill 4961). The changes are expected to flow primarily through refunds, thereby insulating the SAF from impacts. The changes are expected to reduce General Fund revenue by \$16.5 million in fiscal 2026 and \$22.9 million in fiscal 2027.
- **Repeal of the Personal Income Tax Earmark to the Michigan Transportation Fund.** The \$600 million earmark from personal income tax revenue to the Michigan Transportation Fund has been repealed for fiscal 2026 and after (House Bill 4961). The General Fund will retain the entire \$600 million per year.
- **Distribution of Corporate Income Tax Revenue.** Several changes were made to the distribution of Corporate Income Tax revenue (House Bill 4961). First, the \$500 million distribution to the Strategic Outreach and Attraction Reserve Fund was eliminated for FY2025. Second, a new \$250 million distribution to the Healthy Michigan Fund was added for FY2025. Third, annual distributions to the newly created Neighborhood Roads Fund were added beginning with \$688 million in fiscal 2026, \$776 million in fiscal 2027, and rising to \$1.04 billion in fiscal 2030. These changes allowed the General Fund to retain an additional \$250 million in fiscal 2025, before reducing GFGP revenue by \$688 million in fiscal 2026 and \$776 million in fiscal 2027.
- **Decoupling of Business Income from the OBBBA Provisions.** The One Big Beautiful Bill Act (OBBBA) created new deduction and depreciation rules that would have automatically carried over to the state and were expected to reduce GFGP revenues by \$400–\$600 million per year. House Bill 4961 effectively decoupled from the federal treatment of business income, reverting to the pre-OBBBA tax base. As a result, no impacts are expected on state tax revenue from the new business income rules.

Altogether, we expect the provisions associated with the state budget package to reduce General Fund revenue by approximately \$920 million in fiscal 2026 and \$1.21 billion in fiscal 2027. School Aid Fund revenue, on the other hand, decreases by only \$20.5 million in fiscal 2026 and \$23.2 million in fiscal 2027. In the absence of those changes, we would have projected combined revenue growth of 4.5 percent in fiscal 2026 and 2.2 percent in fiscal 2027. To us, those figures reflect healthy underlying growth in an economy that is otherwise moderating.

**Figure 8**  
**Michigan Tax Revenues:**  
**Legislative Changes Weigh on the General Fund**



Our forecast puts total state tax revenue \$9.3 billion, or 37.7 percent, higher in fiscal 2027 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 2027 is only 3.1 percent, with average real growth of only 0.4 percent per year.

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 2026–27. The upper portion details GFGP revenues, and the lower portion summarizes SAF revenues.

**Net Personal Income Tax Revenue**

- Following several volatile years after the pandemic, net personal income tax revenue is estimated to have grown at a moderate pace of 3.4 percent in fiscal 2025, down from 5.1 percent the year before. All components of income tax collections posted strong growth, but an unexpected rise in refunds held back overall growth.
- We forecast net personal income tax growth to strengthen to 4.4 percent in fiscal 2026 before relaxing to 1.9 percent in fiscal 2027 as the labor market cools. All components of the income tax grow at a slower pace over the next two years. The boost in fiscal 2026 is aided by a slight decline in projected refunds.

- The new exemptions on qualified tips and overtime reduce the SAF's distribution from the personal income tax by \$20.5 million in fiscal 2026 and \$23.2 million in fiscal 2027, or about 0.5 percent. Because the contribution to the SAF is calculated before refunds, the SAF's share of personal income tax revenue grows at a healthy 4.1 percent rate in fiscal 2026 and by 3.1 percent in fiscal 2027.
- The General Fund's distribution is reduced by \$153.3 million in fiscal 2026 and \$178.0 million in fiscal 2027 from the combined changes for retirement income, qualified tips, and qualified overtime. The repeal of the earmark to the MTF, however, increases the General Fund's share by \$600 million per year. As a result, GFGP net personal income tax grows by 10.2 percent in fiscal 2026 before settling to 2.9 percent growth in fiscal 2027 as the changes become phased in.

### ***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.
- The preliminary data for fiscal 2025 suggest rebounding growth of 3.5 percent for GFGP consumption tax revenue after a 4.8 percent decline the year before. Healthy growth for sales tax revenue, which fell in fiscal 2024, outweighed small declines in use tax and cigarette tax revenues.
- We expect gross sales and use tax revenue to fall by 3.2 percent in fiscal 2026 and then another half a percent in fiscal 2027. The decline in both years is entirely caused by the elimination of the sales tax on motor fuels. In the absence of that change, we would be projecting growth of 2.6 percent in fiscal 2026 and 1.3 percent in 2027.
- 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 shed half a percent in fiscal 2026 before gaining 0.9 percent in fiscal 2027.

### ***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.
- Business tax revenue fell by 8.8 percent in fiscal 2025, based on the preliminary data, due to declines in all of the major categories as well as a rise in MBT refunds. That loss would have been even worse if it were not for the repeal of the \$500 million distribution from the CIT to the SOAR fund, which was replaced with a smaller \$250 million distribution to the Healthy Michigan Fund.
- Business tax revenue is projected to significantly decrease over the forecast, by 13.7 percent in fiscal 2026 and 4.4 percent in fiscal 2027. Those declines are entirely accounted for (and more) by the new transportation earmarks to the CIT. The new legislation stipulates that \$688 million of CIT revenue in fiscal 2026 and \$776 million in fiscal 2027 be allocated to the Neighborhood Roads Fund.

### **Total General Fund Revenue**

- Based on our reading of the monthly data for the individual components, we expect total GFGP revenue to nudge up by 0.9 percent in fiscal 2025. Declines in business tax and nontax revenue are outweighed by positive contributions from income and consumption taxes.
- With respect to the legislative changes, the fiscal 2025 books are expected to show a net gain of \$250 million to the General Fund from the replacement of the CIT's earmark to the SOAR Fund with the one-time earmark to the Healthy Michigan Fund.
- The other legislative changes begin to phase in during fiscal 2026. The largest impacts result from the CIT's earmark to the Neighborhood Roads Fund combined with the distribution from the General Fund to the School Aid Fund for the lost sales tax revenue from motor fuels. All told, we estimate the full suite of changes will reduce GFGP revenue by \$920 million in fiscal 2026 and \$1.21 billion in fiscal 2027.
- Overall, we forecast total GFGP revenue to decline by 2.4 percent in fiscal 2026 on account of the legislative changes. Gains from the personal income tax are not enough to outweigh losses from the other major categories. GFGP revenue flattens out in fiscal 2027 as small gains to personal income tax and consumption tax revenues offset declines in business tax revenue, nontax revenue, and a larger transfer to the SAF for lost sales tax on motor fuels.
- Our forecast would take total GFGP revenue to \$3.2 billion, or 28.7 percent, above its fiscal 2019 level in fiscal 2027. After adjusting for inflation, however, that gain becomes a real decline of 3.7 percent. Still, much of the apparent weakness relative to 2019 reflects legislative changes; absent those changes, revenue would rise 4.5 percent in real terms, for average annual growth of 0.5 percent.

### **Total School Aid Fund Revenue**

- Almost 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.
- Total SAF revenue grew by 2.7 percent in fiscal 2025, up from 1.2 percent growth the year before. A small rebound in sales tax revenue combined with healthy growth in income tax and state education property tax revenues and smaller contributions from the casino tax, liquor tax, and real estate transfer tax.
- State education property tax and real estate transfer tax revenues are projected to remain strong over the forecast horizon, along with disbursements from the income tax. Sales tax revenue falls sharply in fiscal 2026, but that is due to the elimination of the sales tax on motor fuels. Absent that change, combined sales and use tax revenue would be providing the largest gains.
- The new distribution from the General Fund, however, holds the School Aid Fund harmless for the changes to the sales tax. In total, the legislative changes reduce SAF revenue by only \$20.5 million in fiscal 2026 and \$23.2 million in fiscal 2027, as the General Fund bears most of the cost.
- Altogether, we project total SAF revenue to grow by 3.5 percent in fiscal 2026 and 2.4 percent in fiscal 2027. Total SAF revenue is forecast to finish fiscal 2027 roughly \$6.1 billion, or 45.1 percent, higher than in fiscal 2019. After adjusting for inflation, that growth is reduced to 8.6 percent, translating to average real growth of just 1.0 percent per year from fiscal 2019 to 2027.

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

	Actual		RSQE Forecast	
	2024	2025 <sup>P</sup>	2026	2027
<u>General Fund General Purpose</u>				
Personal income tax	8,336	8,532	9,405	9,678
(% change)	(7.4)	(2.3)	(10.2)	(2.9)
Consumption taxes	3,020	3,125	3,110	3,138
(% change)	(-4.8)	(3.5)	(-0.5)	(0.9)
Sales	1,583	1,709	1,574	1,633
Use	1,188	1,177	1,306	1,273
Other consumption	249	240	229	232
Business taxes	1,776	1,619	1,397	1,336
(% change)	(6.6)	(-8.8)	(-13.7)	(-4.4)
MBT/SBT/Corporate income	1,217	1,072	837	756
Other business	559	547	560	580
Other GFGP taxes	219	252	230	235
GFGP tax revenue	13,351	13,529	13,565	13,630
(% change)	(4.5)	(1.3)	(0.3)	(0.5)
Nontax revenue	1,186	1,132	741	682
GFGP revenue <sup>1</sup>	14,536	14,661	14,307	14,313
(% change)	(4.0)	(0.9)	(-2.4)	(0.0)
<u>School Aid Fund</u>				
SAF taxes	16,825	17,391	17,499	17,811
(% change)	(1.9)	(3.4)	(0.6)	(1.8)
Lottery transfer	1,249	1,169	1,135	1,110
(% change)	(-7.6)	(-6.4)	(-2.9)	(-2.2)
Earmarked state SAF revenue <sup>1</sup>	18,074	18,560	19,210	19,677
(% change)	(1.2)	(2.7)	(3.5)	(2.4)
<u>Addendum</u>				
Combined GFGP and SAF revenue	32,611	33,221	33,517	33,990
(% change)	(2.4)	(1.9)	(0.9)	(1.4)
Gross sales and use taxes	13,342	13,533	13,101	13,035
(% change)	(-0.3)	(1.4)	(-3.2)	(-0.5)

<sup>P</sup> Preliminary

<sup>1</sup> GFGP revenue and earmarked SAF revenue totals account for RSQE's estimated transfers from the General Fund to the SAF of \$552 million in FY2026 and \$719 million in FY2027 under provisions in HB 4180 of 2025.