



Michigan Economic Outlook

2026–2028

May 2026



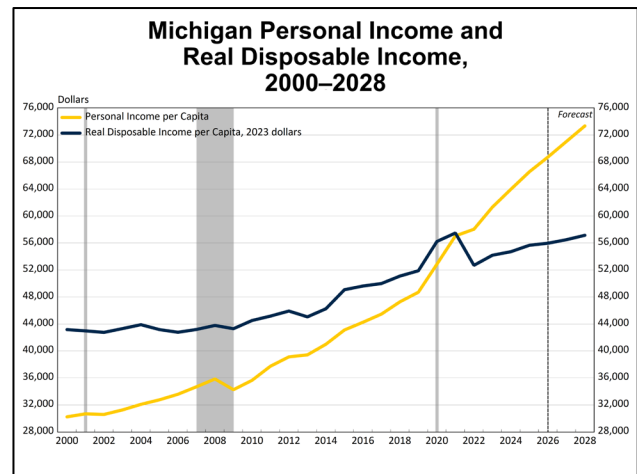
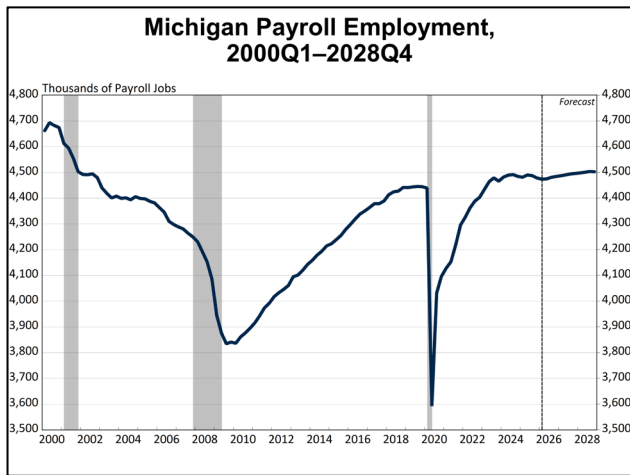
RESEARCH SEMINAR IN
QUANTITATIVE ECONOMICS
UNIVERSITY OF MICHIGAN

Gabriel M. Ehrlich, Director

George A. Fulton & Saul H. Hymans
 Directors Emeriti

For Release: 05/27/2026

The Michigan Economic Outlook for 2026–2028: Executive Summary



The annual benchmark revisions clarify that Michigan’s labor market has hit a soft patch recently. Wage and salary employment has declined by 6,100 jobs from April 2025 to April 2026, while the count of employed Michigan residents has declined by 90,100. The silver lining to those losses is that the state’s unemployment rate has held steady at 5.0 percent for the past six months.

We are cautiously optimistic that Michigan’s economy will begin picking back up later this year. We are projecting Michigan to lose 5,900 payroll jobs on a calendar year basis this year before returning to moderate growth with 13,400 job gains next year and another 9,300 in 2028.

We expect the bulk of those gains to occur in Michigan’s non-cyclically sensitive service sectors such as healthcare and government. Cyclically sensitive sectors, including manufacturing and trade, transportation, and utilities, lose jobs this year before returning to modest growth in 2027 and 2028. Michigan’s unemployment rate holds near 5.0 percent, held down by a falling labor force participation rate.

Inflation has moved higher recently amid the ongoing war in Iran. We forecast local headline inflation to register 3.2 percent in 2026 before easing to 2.6 percent in 2027 and 2.2 percent in 2028. Our forecast assumes that the war deescalates soon—we would expect a larger price impact the longer the war persists.

Michigan’s personal income per capita rose by 4.1 percent in 2025. We project annual growth to slow to the 3.3–3.4 percent range from 2026 through 2028. Our forecast brings Michigan’s personal income per capita to \$73,400 in 2028, more than 50 percent higher than its level in 2019.

Real disposable income per capita grew 1.8 percent in 2025 as local inflation dipped below 2.0 percent, but we are projecting growth to moderate as inflation picks back up. We forecast growth of 0.5 percent in 2026 and 0.9 percent in 2027, below the 1.0 percent average pace since 2000. We expect growth of Michigan’s real disposable income per capita to accelerate to 1.2 percent in 2028 as local inflation recedes.

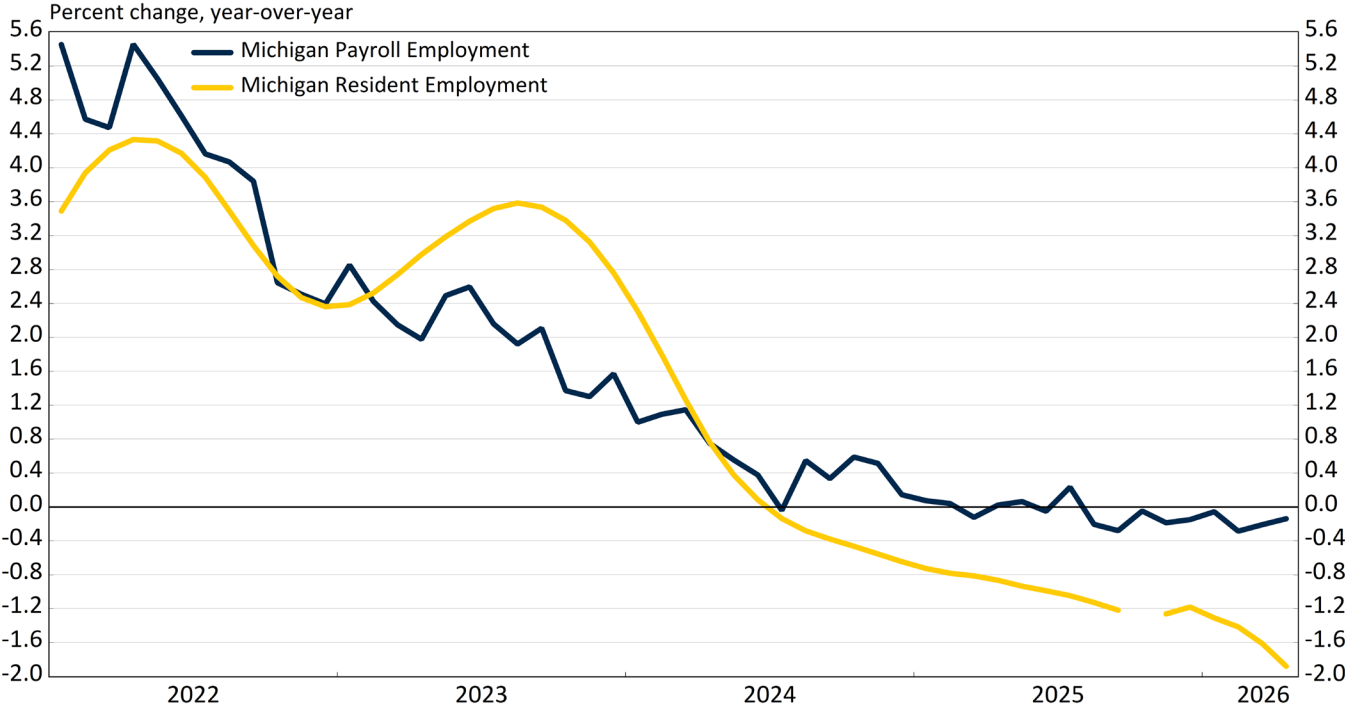
The Michigan Economic Outlook for 2026–2028

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

Introduction

The recent annual revisions to Michigan’s employment data unambiguously indicate that the state’s labor market has encountered a soft patch recently.¹ The revised data, shown in Figure 1, indicate that Michigan lost 6,100 payroll jobs from April 2025 to April 2026, or 0.1 percent. The count of employed state residents has fallen much more substantially in that time, by 90,100 or 1.9 percent. One silver lining to those disappointing numbers is that the state’s unemployment rate has held steady at 5.0 percent over the past six months, and it has actually edged down from 5.2 percent in April 2025. We therefore view the recent data as suggesting cause for concern, but not for alarm.

Figure 1
Michigan’s Labor Market Hits a Soft Patch



¹ This forecast incorporates economic data available through May 15th, 2026, the date of Michigan’s May 2026 Consensus Revenue Estimating Conference. Although this introduction discusses the labor market data released by the Michigan Center for Data and Analytics on May 21st for the April 2026 reference period, the forecast was completed prior to the release of that data.

We are cautiously optimistic that Michigan's economy will begin picking back up as we move further into the year. We expect the ongoing AI boom to support national economic growth this year, and we believe that last year's uncertainty surrounding the trade and tariff landscape is giving way to a bit more clarity alongside lower average effective tariff rates. Although the war in Iran and the recent spike in gas prices pose a definite downside risk for Michigan's economy, we have not seen conclusive evidence that Michigan's economy is more exposed than the U.S. economy to energy price shocks. We expect General Motors to begin ramping up hiring soon in its Orion Assembly plant, which should provide a lift to Michigan's manufacturing sector. More broadly, we believe a more permissive federal policy environment will boost the Detroit Three's share of the light vehicle market, all else equal.

We are projecting Michigan to lose 5,900 payroll jobs on a calendar year basis this year before returning to moderate growth with 13,400 job gains next year and another 9,300 in 2028. We project the bulk of those gains to occur in Michigan's non-cyclically sensitive service sectors such as healthcare and government. The state's cyclically sensitive sectors, including manufacturing and trade, transportation, and utilities, lose jobs this year before returning to modest growth in 2027 and 2028. We forecast Michigan's unemployment rate to hold near 5.0 percent throughout the forecast, helped by a falling labor force participation rate. Perhaps the best news in our forecast is that we expect real disposable income per capita to continue growing despite the recent spike in gas prices.

The external environment has been tough for Michigan's economy recently, with high interest rates, a volatile trade landscape, and now a spike in energy prices. State residents and policymakers should find some encouragement in the stability of Michigan's unemployment rate despite these challenges. We believe this stabilization reflects a more resilient economy than the state possessed at the start of the millennium. This hard-earned resilience should allow Michigan to pivot from the current economic soft patch toward moderate growth over the next two and a half years.

The Forecast of the State Economy

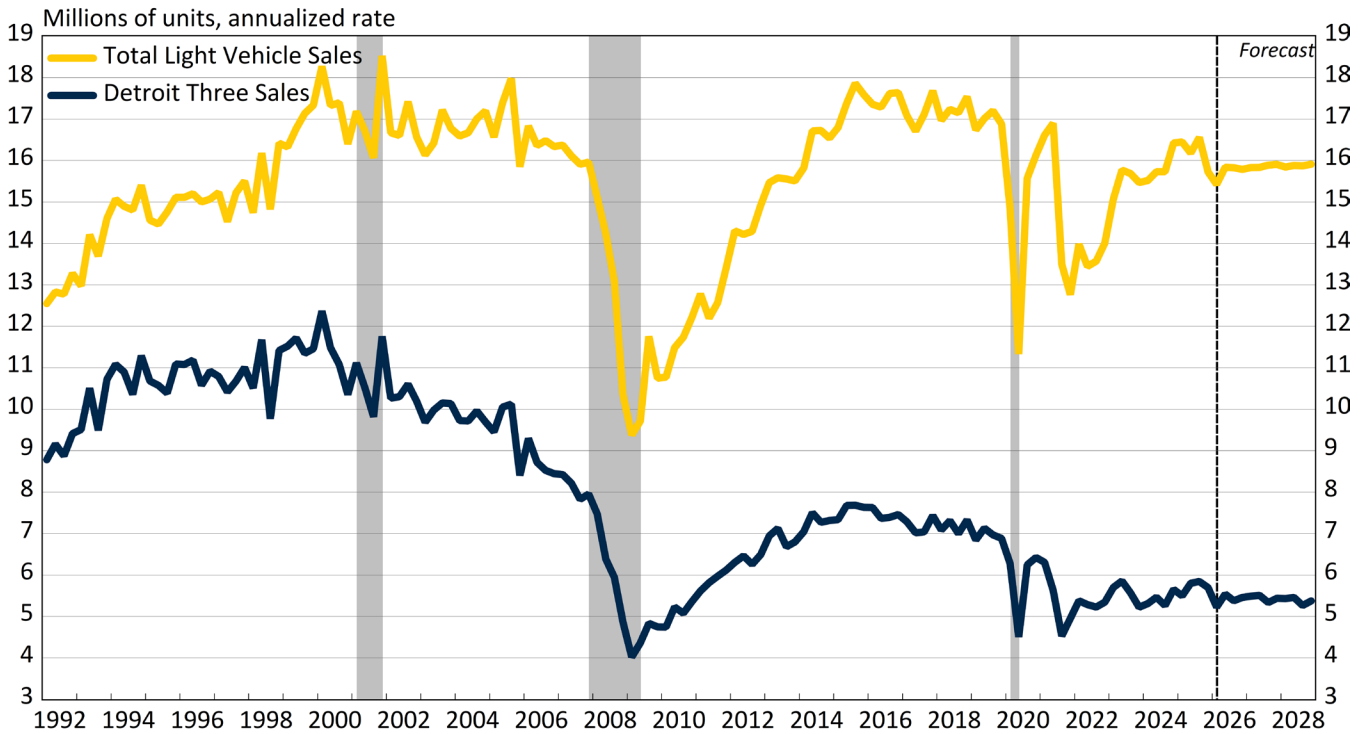
Detroit Three Light Vehicle Sales

Michigan's economy is highly sensitive to international trade policy due to the critical role of the local auto industry. Our May [U.S. forecast report](#) explains the current state of tariffs and how they may change over the forecast. Ultimately, we do not expect the recent court rulings on the temporary 10-percent Section 122 tariffs or the Supreme Court's decision to strike down tariffs imposed under the International Emergency Economic Powers Act (IEEPA) to have an overwhelming effect on the auto industry, as many of the auto-related tariffs were imposed via other authorities. 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. Yet this boost will come after a difficult pivot away from the previously envisioned rapid transition to 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. The light vehicle sales pace then dipped again to 14.6 million units in January 2026 amid harsh winter conditions. Despite elevated gasoline prices, the sales pace then recovered to an average annualized pace of 15.9 million units from February through April.

While it is still too early to see the full effect of higher gasoline prices in the light vehicle sales data, we recognize that rising fuel costs and still-elevated financing rates are weighing on demand. At the same time, limited new-vehicle price inflation, improving auto loan delinquency trends, and strong equity markets should provide some support in the near term. On balance, we expect the light vehicle market to remain broadly stable as higher oil prices work their way through the economy. We forecast light vehicle sales to run at a 15.8–15.9 million annualized pace from the second half of 2026 through the end of 2028.

Figure 2
Light Vehicle Sales Coasting in Neutral



The Detroit Three’s share of U.S. light vehicle sales declined to 33.9 percent in the first quarter of 2026, but it remained 0.5 percentage points higher than one year earlier. Despite higher gasoline prices, we do not expect Detroit Three light vehicle sales to face significant pressure, as a more favorable tariff policy and the removal of fines for failing to meet Corporate Average Fuel Economy standards help support Detroit’s gas-hungry vehicle mix. On an annual basis, we project the Detroit Three’s market share will average 34.4 percent this year before edging back down to 33.9 percent by 2028. That decline represents only a modest 0.3 percentage point decrease over a four-year period, which stands in sharp contrast to the 5.0 percentage point decline experienced during 2019–2023, a time marked by the COVID-19 pandemic and the first major microchip shortage. In unit terms, Detroit Three sales are projected to slip modestly from 5.7 million vehicles in 2025 to 5.4 million units annually during 2026–2028.

Payroll Employment

Figure 3 shows the historical data and our forecast of Michigan’s quarterly payroll job count. The revised data show that Michigan lost 2,300 jobs last year. Aside from the COVID-19 recession year in 2020, that was Michigan’s first annual job loss since 2010. On a calendar year basis, we are projecting job losses to continue at a pace of 5,900 this year, but that figure primarily reflects past losses; looking from the fourth quarter of 2025 to the fourth quarter of 2026, we are projecting Michigan to add 6,000 jobs. Moderate growth continues over the next two years, with Michigan adding 13,400 jobs in 2027 on a calendar year basis and another 9,300 in 2028. Our forecast takes Michigan’s payroll job count to 1.4 percent above its pre-pandemic level by the end of 2028, but it remains 4.1 percent below its all-time peak from the second quarter of 2000.

Figure 3
Michigan Payroll Employment Returns to Moderate Growth

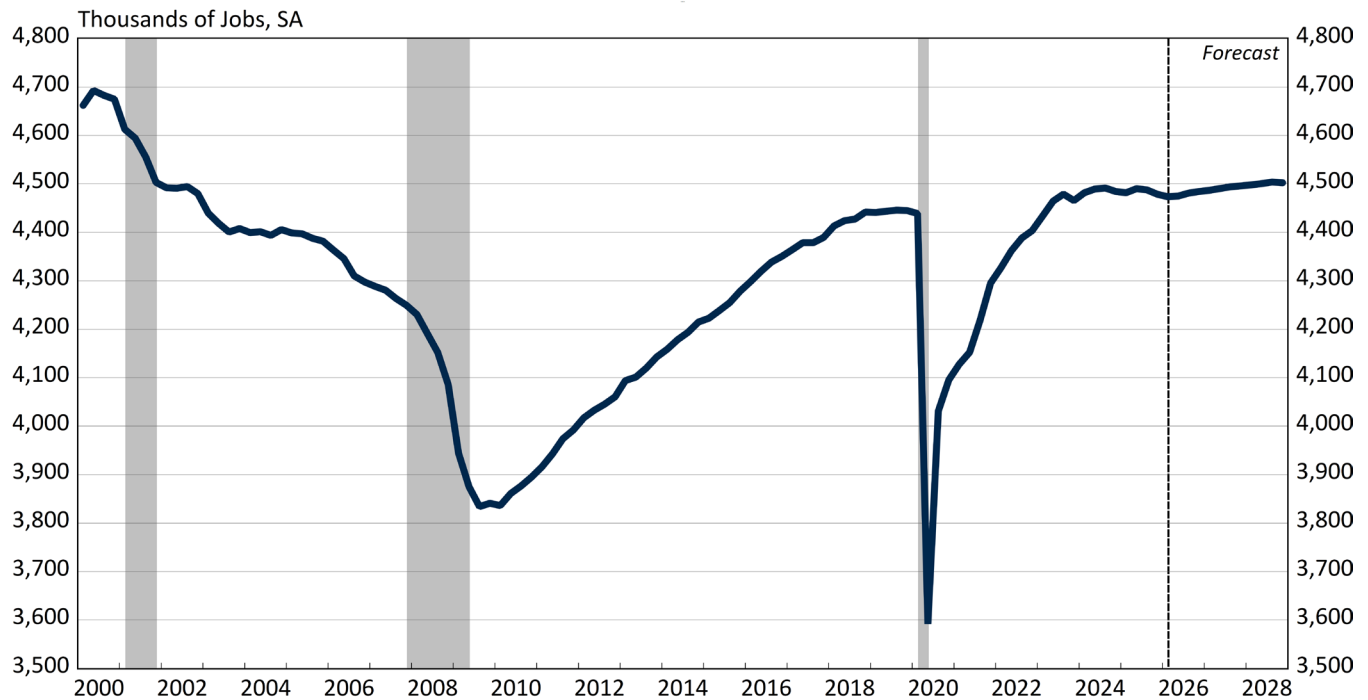


Table 1 below displays our forecast for Michigan’s annual job growth by industry, while Figure 4 divides our industries into two groups: “Cyclical Industries” and “Non-cyclical Industries.”² We have

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 55 percent of nonfarm payroll employment in Michigan in 2025.

named the groups this way because 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 Michigan’s cyclical industries to lose 17,100 jobs this year before recovering an average of 3,700 jobs per year in 2027–2028. Michigan’s non-cyclical industries add 11,100 jobs this year before slowing to 8,900 job gains in 2027 and 6,300 in 2028.

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

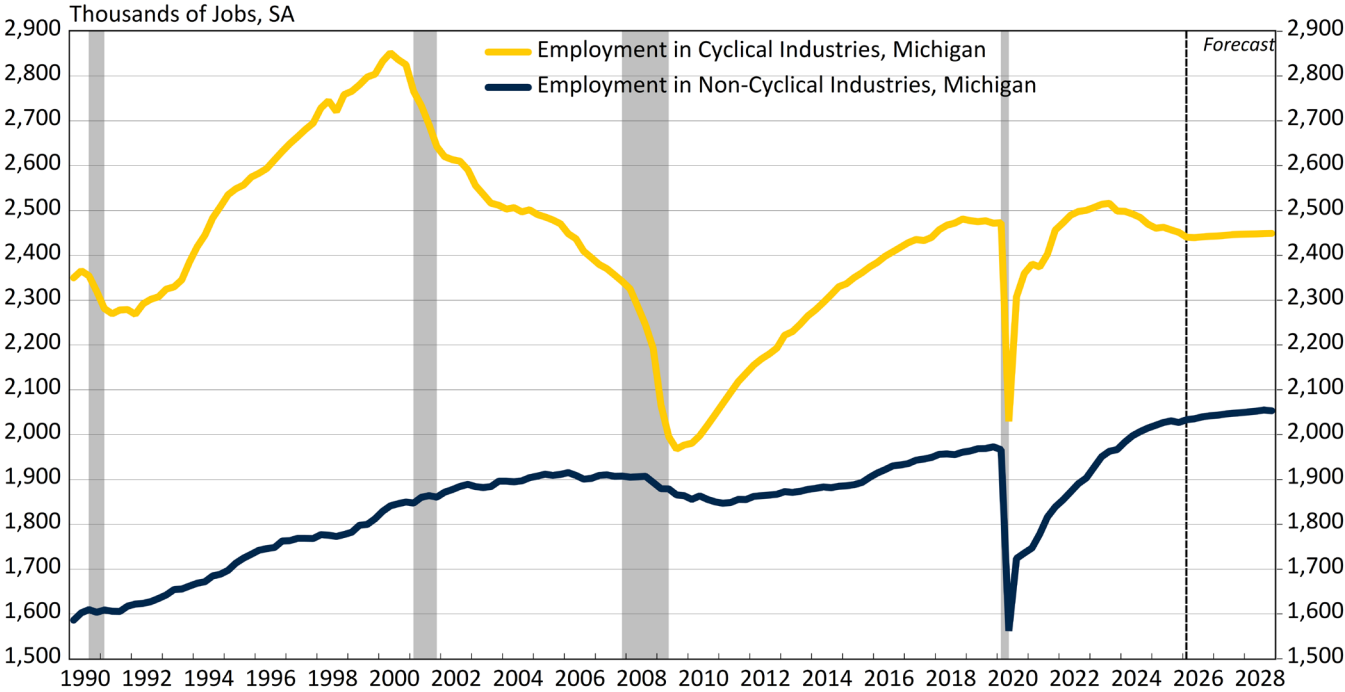
| | 2025 | Forecast Employment Change | | | |
|---|---------------|----------------------------|-------------|------------|-------------|
| | | '25-'26 | '26-'27 | '27-'28 | '25-'28 |
| Total Jobs | 4484.7 | -5.9 | 13.4 | 9.3 | 16.7 |
| Total Government | 627.1 | 7.7 | 4.1 | 3.9 | 15.7 |
| Total Private | 3857.6 | -13.7 | 9.3 | 5.4 | 1.0 |
| Natural resources and mining | 7.0 | 0.4 | 0.0 | -0.1 | 0.3 |
| Construction | 201.2 | -3.0 | 1.3 | 1.8 | 0.1 |
| Manufacturing | 586.0 | -5.3 | 3.7 | 1.9 | 0.4 |
| Transportation equipment manufacturing | 174.3 | -1.2 | 2.4 | 0.8 | 1.9 |
| Other manufacturing | 411.7 | -4.0 | 1.4 | 1.1 | -1.5 |
| Trade, transportation, and utilities | 805.6 | -9.8 | -3.3 | -2.2 | -15.3 |
| Retail trade | 452.7 | -4.0 | -3.9 | -3.8 | -11.7 |
| Transportation, Warehousing, and Utilities | 178.0 | -1.6 | 0.6 | 0.8 | -0.2 |
| Wholesale trade | 174.8 | -4.2 | 0.0 | 0.8 | -3.4 |
| Information | 54.8 | -1.7 | -0.4 | -0.3 | -2.4 |
| Financial activities | 240.3 | 1.1 | 1.5 | 2.7 | 5.4 |
| Professional and business services | 625.1 | -0.2 | 1.3 | -1.3 | -0.2 |
| Professional, scientific & technical services | 307.8 | -0.8 | 0.8 | -0.9 | -0.9 |
| Management of companies & enterprises | 64.4 | -1.4 | 0.2 | 0.1 | -1.1 |
| Admin & support & waste mgmt. | 252.9 | 2.0 | 0.4 | -0.5 | 1.9 |
| Private education and health services | 732.9 | 6.4 | 0.1 | -1.6 | 4.9 |
| Leisure and hospitality | 429.3 | -2.9 | 4.0 | 3.4 | 4.4 |
| Other services | 175.4 | 1.3 | 1.2 | 1.0 | 3.5 |
| Addendum: Percent Change in Total Jobs | -0.1 | -0.1 | 0.3 | 0.2 | 0.4 |

RSQE: May 2026

Michigan’s **construction** industry had held strong in the face of high mortgage rates, weak home-buyer demand, and downbeat builder sentiment through the third quarter of 2025, but those challenges have finally caught up to the industry over the past six months. We are projecting the industry to lose 3,000 jobs this year on a calendar year basis. Modest growth of an average 1,500 jobs per year returns in 2027 and 2028 as lower mortgage rates provide some relief to the residential housing market.

Michigan’s **manufacturing** sector lost a total of 31,900 jobs in 2024 and 2025. We believe that high interest rates and a volatile trade policy have both posed headwinds for the local manufacturing sector. Those challenges predate the recent spike in energy prices following the outbreak of war with Iran. Our forecast assumes that energy prices trend toward their pre-war level over the forecast horizon, which should limit the price spike’s effect on the local auto industry. Meanwhile, General Motors is planning to scale up hiring ahead of a launch of its Orion Assembly plant next year, which ought to put a floor under job losses this year.³ We are projecting the local manufacturing sector to lose 5,300 jobs this year, before adding back a total of 5,600 in 2027–2028. An escalation or prolongation of the war with Iran, or major changes to the USMCA at its upcoming review this year, both pose downside risks to our outlook for manufacturing.

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



Michigan’s **professional and business services** supersector has lost 28,000 jobs over the past two years, reflecting its close connections to the state’s manufacturing industry. Unfortunately, we do not see the same sources of support for an employment turnaround in professional and business services

³ See, for instance, Kurt Nagl, “[GM production, hiring plans revealed for launch of Orion Assembly plant](#),” *Crain’s Detroit Business*, May 6, 2026.

as we see for manufacturing. We are projecting employment in these sectors to hold roughly flat over our forecast, losing an average of 100 jobs per year from 2026–2028.

Michigan's **trade, transportation, and utilities** supersector has been another job loser over the past two years, shedding a total of 7,500 jobs in 2024–2025. In contrast to our outlook for manufacturing and professional and business services, we expect job losses to accelerate to a pace of 9,800 this year. Losses then continue at a slower average pace of 2,700 jobs annually over the next two years. The cuts we foresee in 2027–2028 are concentrated in the retail trade sector, where traditional brick-and-mortar stores continue to face pressure from online retailers. After losing jobs this year, the wholesale trade and transportation, warehousing, and utilities sectors both return to modest growth over the next two years.

Michigan's **financial services** sector has been a bright spot among the state's cyclically sensitive industries recently. It gained 2,900 jobs last year despite still-elevated mortgage rates. We are projecting growth to continue at the more moderate average pace of 1,800 jobs per year from 2026 through 2028. The gradual decline in mortgage rates we are forecasting to resume in the second half of this year provides some support.

Michigan's **non-cyclical industries** delivered a strong performance last year, with 25,900 job gains despite the losses in the state's cyclical industries. The non-cyclical industries exhibited a brief wobble with 3,800 job losses in the fourth quarter of 2025, but they added back those losses and more with 6,400 job gains in the first quarter of this year. We are projecting job growth to continue at a more moderate pace going forward, with 11,100 job gains this year slowing to 6,300 by 2028.

Michigan's **private education and health services** sector added 18,000 jobs last year, but we do not expect growth to continue at that pace going forward. We expect a tougher funding landscape for healthcare resulting from the One Big Beautiful Bill Act of 2025 to limit growth over the next few years. Growth slows to 6,400 jobs this year and 100 next year, before transitioning into 1,600 job losses in 2028 as cuts to Medicaid funding begin to bite in earnest.

Michigan's **leisure and hospitality** industry suffered a disappointing 2025, adding only 700 jobs. More concerning still, the sector lost jobs over the back half of last year and through the first quarter of this year. Based on the recent trajectory, we are forecasting leisure and hospitality to lose 2,900 jobs this

year. Growth resumes over the next two years at an average pace of 3,700 jobs per year. Even so, our forecast leaves employment in leisure and hospitality slightly below its pre-pandemic level by the end of 2028.

The **other private services** sector added 1,100 jobs last year, and we expect growth to continue at approximately that pace over the forecast. The sector adds an average of 1,200 jobs per year from 2026 through 2028. Our forecast takes employment in this sector to near its all-time high in the historical data, which it reached in the second quarter of 2005.

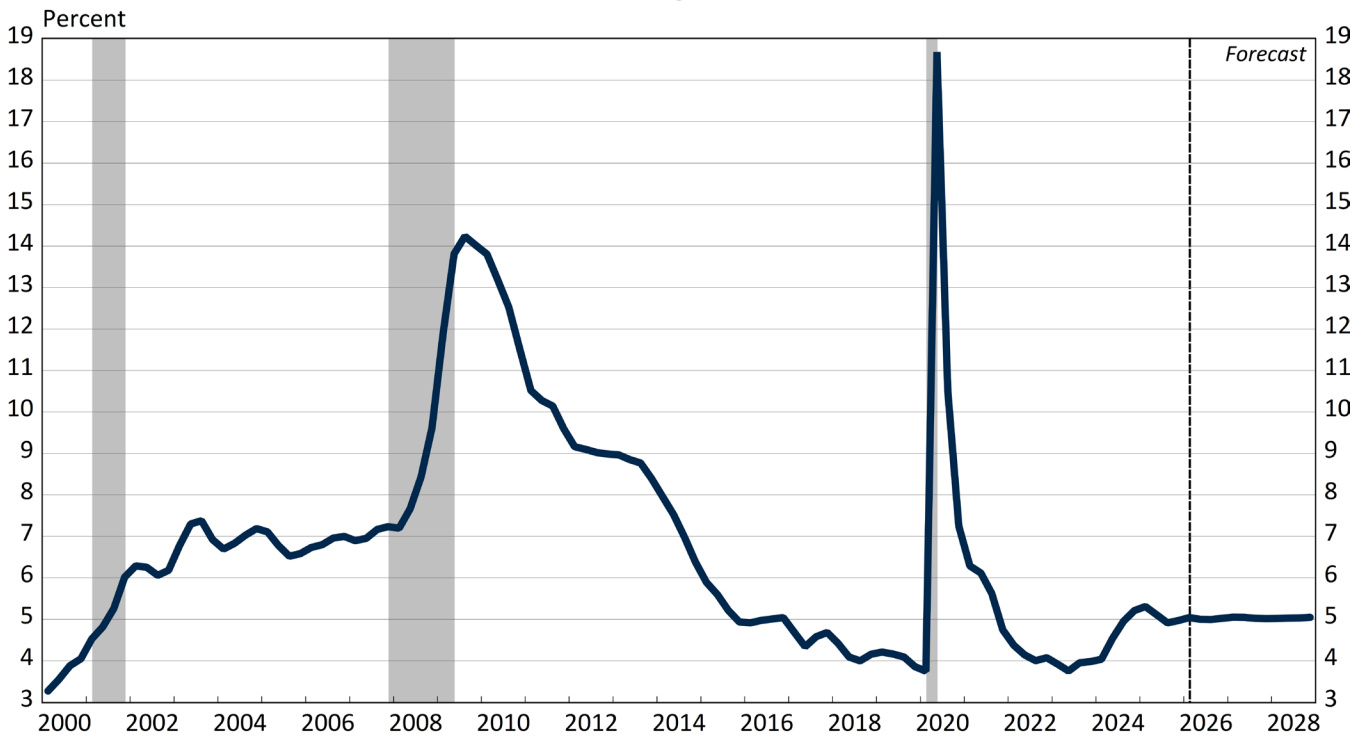
Michigan's **government** sector added 7,900 jobs last year, a strong performance in light of significant headwinds that included the phaseout of pandemic-era support for state and local governments and a shrinking federal workforce. We expect government to add another 7,700 jobs this year before growth slows to an average of 4,000 jobs per year in 2027–2028.

Unemployment and Labor Force Participation Rates

Figure 5 displays the historical data and our forecast for Michigan's quarterly unemployment rate. Despite the challenging external environment last year, the state's unemployment rate peaked at 5.3 percent in the first quarter of 2025 before declining to 5.0 percent in November, where it has remained through April 2026. While this stabilization is positive news on its own, the broader picture is less encouraging. Over the 12-month period ending in April 2026, the number of employed Michiganders declined by 1.9 percent, and the state's labor force participation rate fell by 1.5 percentage points. As a result, Michigan's shrinking labor force has kept downward pressure on the state's unemployment rate.

We expect Michigan's labor market to resume heading in the right direction by the end of the forecast as the national economy reaches cruising speed amid lower interest rates. The state's unemployment rate is projected to hover near 5.0 percent during the forecast, as Michigan's labor force stabilizes around its current level.

Figure 5
Michigan's Unemployment Rate Hovers Near 5.0 Percent



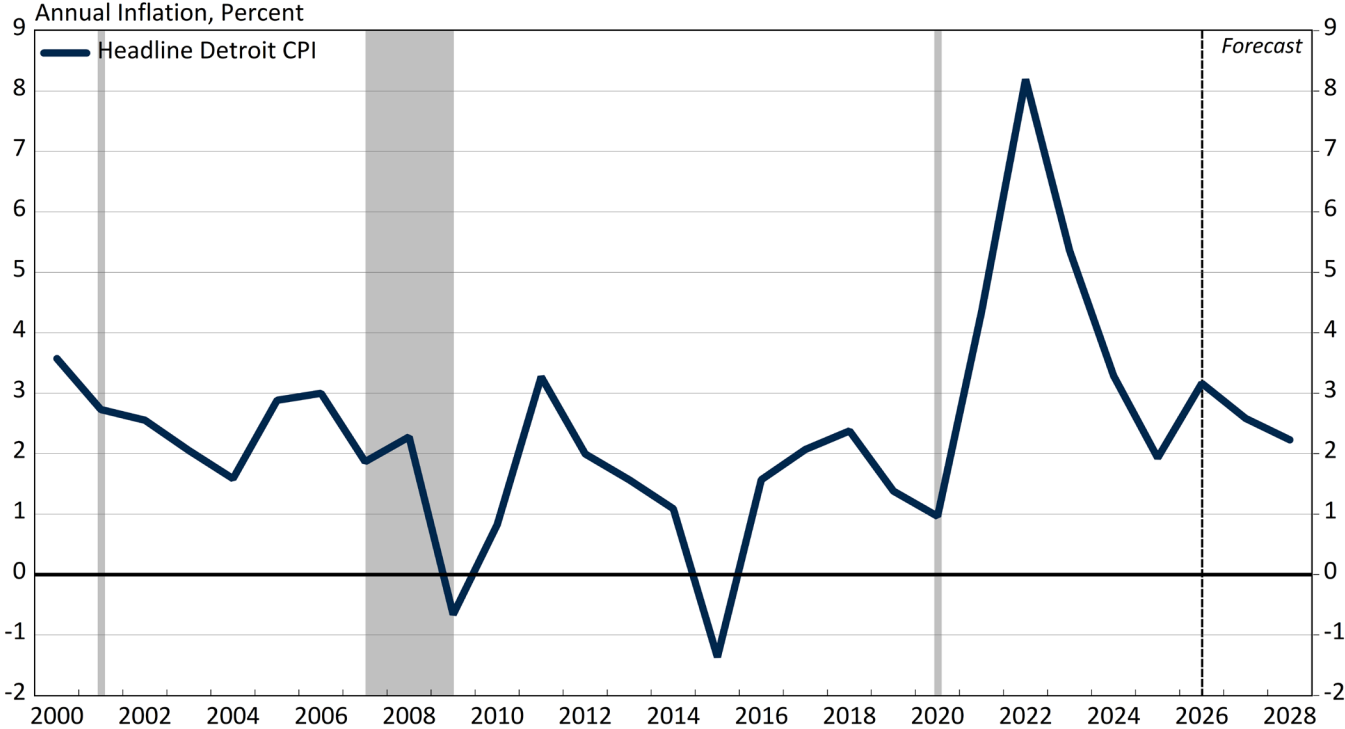
Michigan's labor force participation rate decreased from 61.8 percent in the first quarter of 2025 to 60.5 percent in the first quarter of 2026. We project that the state's participation rate will continue to decline over the forecast as baby boomers continue to retire and current immigration policies restrain growth. By the end of our forecast, we expect Michigan's labor force participation rate to reach 60.1 percent. For historical context, that rate is comparable to the state's participation rate during its recovery from the COVID-19 pandemic in mid-2022, as well as its rate during 2011–2012, the trough following Michigan's lost decade and the Great Recession. We have warned readers that Michigan's aging demographics would eventually place meaningful limits on the state's growth for some time now, and we believe those pressures are beginning to show up clearly in the data and in our forecast as well.

Local Inflation

Figure 6 shows the historical path and our forecast for headline (all-items) Detroit CPI inflation on an annual basis. Both local and national measures of headline inflation have moved higher recently amid the ongoing war in Iran. As of April 2026, year-over-year headline inflation had risen to 4.1 percent locally and 3.8 percent nationally. That marks a notable increase from February, when the 12-month inflation

rate stood at 2.3 percent in the Detroit area and 2.4 percent nationally. The recent movement in headline inflation has been driven primarily by energy prices, though core inflation, which excludes food and energy, has also begun to firm. Year-over-year local core inflation rose from 2.4 percent in February to 3.0 percent in April.

**Figure 6
Local Inflation Heats Back Up**



Looking ahead, we see two major risks to our outlook for inflation over the next few years. Firstly, the war in Iran presents a major risk to our outlook. Our forecast assumes that the U.S. and Iran will reach a deal within the next few months and that shipping traffic through the Strait of Hormuz will largely normalize by the end of 2026. If a deal is reached sooner than anticipated, oil prices would likely decline sooner as well. If a resolution is delayed, however, prices could remain elevated for longer, and the resulting economic damage would likely become more severe the longer it takes to negotiate a deal.

Secondly, overall trade policy remains unsettled after the Supreme Court struck down the IEEPA tariffs, and as the temporary 10-percent Section 122 tariffs make their way through the court system as well. While we do not expect the recent rulings to materially affect near-term tariff rates beyond what has

already shown up in the data, 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.

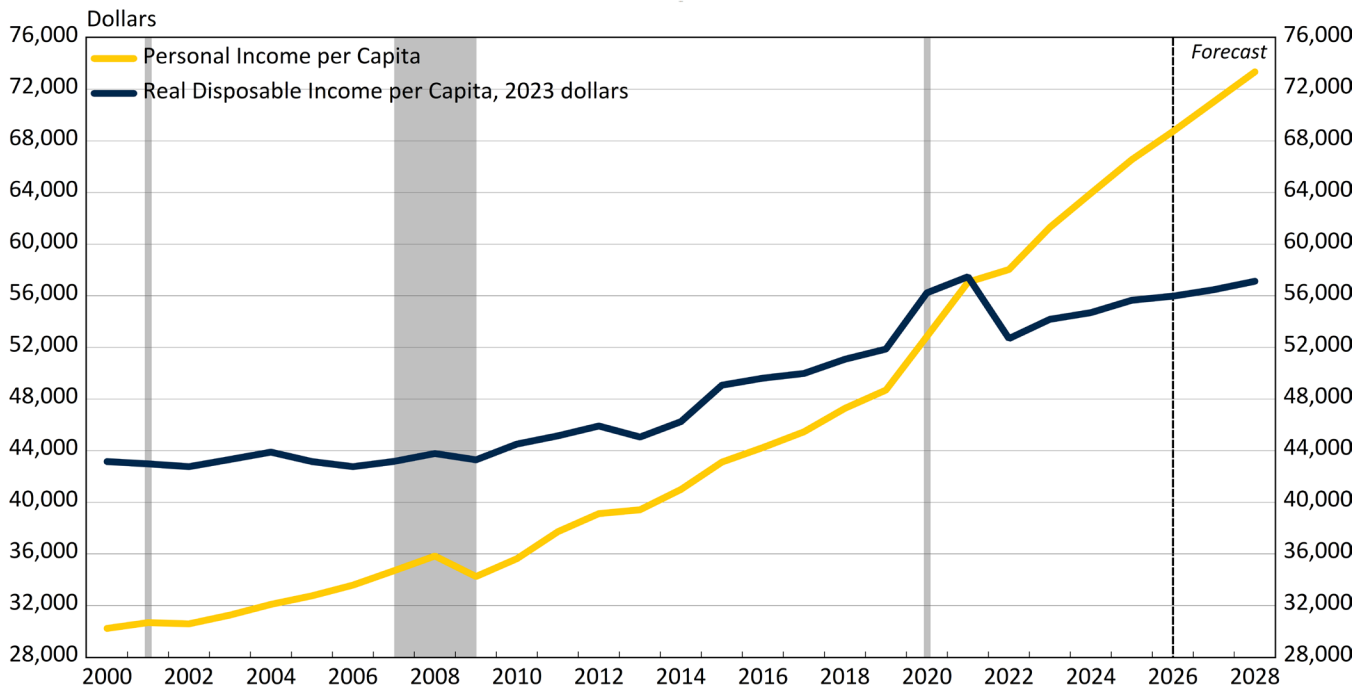
Inflation data for early 2026 will likely remain somewhat noisy as the BLS finishes working through gaps in data collection during the federal government shutdown. Figure 6 presents the annual inflation rate, which should help smooth through much of that volatility. Amid ongoing tariff pressures and the war in Iran, we expect year-over-year local headline inflation to reach 3.5 percent by the end of 2026 before easing to 2.2 percent by the end of 2027 and 2.3 percent by the end of 2028. Ultimately, we expect inflation to moderate as energy-market disruptions gradually subside and tariff-related pressures become less pronounced. On a calendar year basis, we forecast local headline inflation to register 3.2 percent in 2026 before easing to 2.6 percent in 2027 and 2.2 percent in 2028.

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. Personal income per capita in Michigan rose from \$64,000 in 2024 to \$66,600 in 2025, an increase of 4.1 percent. The growth of personal income per capita tends to align closely with the trajectory of wages and salaries in the state, as wage income accounts for almost half of Michigan's personal income.

We project growth of nominal personal income per capita to pick up in mid-2026 as the IEEPA tariff refunds provide a temporary boost to proprietors' income, but we do not expect the bulk of those refunds to trickle down to consumers. Still, on a calendar year basis, we forecast growth of personal income per capita to register 3.3 percent in 2026. As lower interest rates filter through the economy, Michigan's per capita income growth picks up to 3.4 percent in 2027, before edging back down to 3.3 percent in 2028. Our forecast brings Michigan's personal income per capita to \$73,400 in 2028, more than 50 percent higher than its level in 2019.

Figure 7
Michigan Real Disposable Income Returns to Near Pre-Pandemic Trend



Our forecast for real disposable income per capita in Michigan combines our projections for nominal personal income with forecasts for taxes and local inflation. Low inflation early in the pandemic period, together with substantial federal assistance, initially led to sharp gains in real disposable income. Those gains were erased in 2022, however, as those supporting factors reversed. More recently, local inflation dipped below 2.0 percent in 2025 for the first time since 2020, allowing real disposable income growth to pick up to 1.8 percent last year.

We project growth in real disposable income per capita to moderate in 2026 as inflation rises back above 3 percent. On an annual basis, we forecast growth of 0.5 percent in 2026 and 0.9 percent in 2027, below the 1.0 percent average pace since 2000. We expect growth in Michigan’s real disposable income per capita to accelerate to 1.2 percent in 2028 as inflation continues to recede. Although still below the temporary peak reached in 2021, Michigan’s real disposable income per capita in 2028 is projected to stand 10.2 percent above its 2019 level, just 0.6 percent below its stimulus-fueled 2021 peak.

The State Revenue Outlook

Michigan's most recent Consensus Revenue Estimating Conference (CREC) took place on May 15th in Lansing, during which state officials agreed on revenue forecasts for fiscal years 2026–2028. Combined General Fund General Purpose (GFGP) and School Aid Fund (SAF) revenue growth slowed from 2.4 percent in fiscal 2024 to 1.8 percent in fiscal 2025, and officials expect further softening to 1.2 percent in fiscal 2026 and 0.7 percent in fiscal 2027, before growth picks back up to 2.4 percent in fiscal 2028. Our forecast at RSQE is quite similar and the qualitative story is the same, although we expect slightly stronger growth than state officials for fiscal 2026 and fiscal 2028.

In general, there are two broad forces affecting state tax revenue over the next few years. First, our forecast of overall economic softening, reflected by a subdued labor market and significant policy uncertainty, translates directly into weaker state tax revenue collections. Second, a suite of legislative changes associated with the passage of the state's budget package and related bills in October 2025 have led to meaningfully lower tax revenue projections. The most notable of these changes are the elimination of the sales tax on motor fuel purchases, new deductions on qualified tips and overtime, the repeal of the personal income tax earmark to the Michigan Transportation Fund (MTF), as well as the new earmark on the corporate income tax for the newly created Neighborhood Roads Fund.⁴

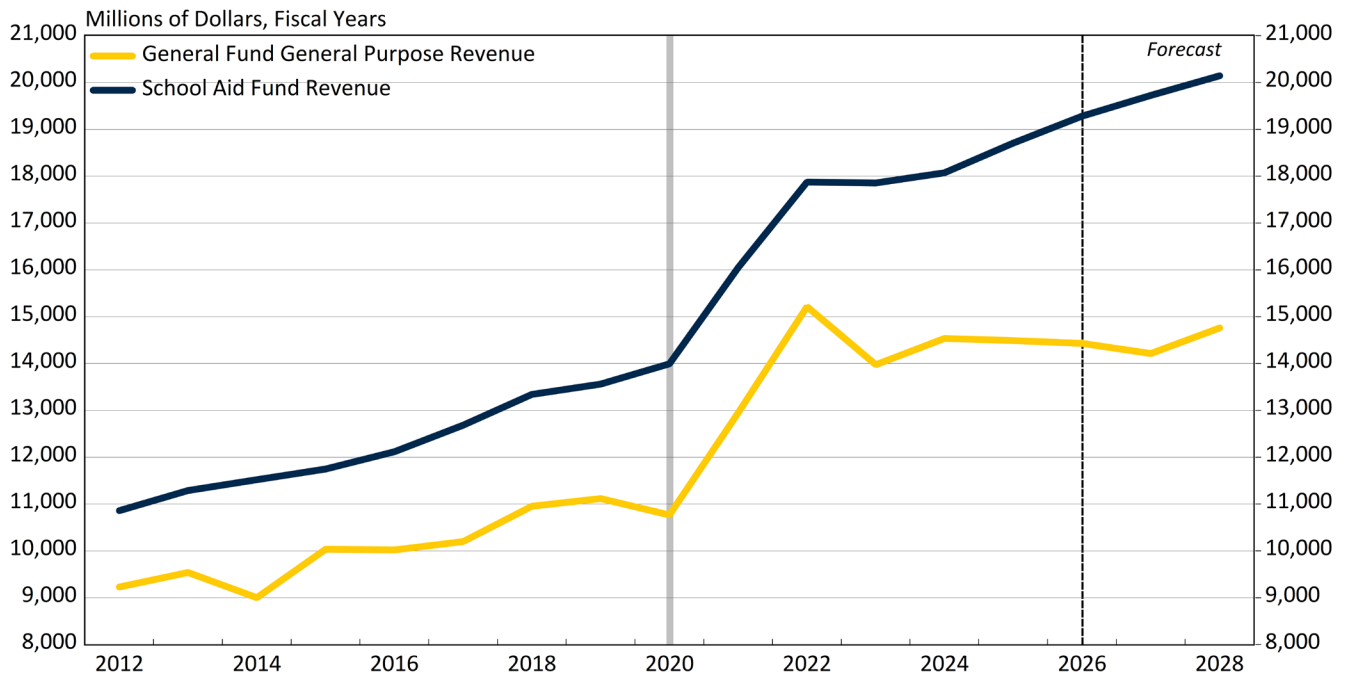
Altogether, we expect the provisions associated with the state budget package to reduce General Fund revenue by approximately \$945 million in fiscal 2026, \$1.22 billion in fiscal 2027, and \$1.3 billion in fiscal 2028. School Aid Fund revenue, on the other hand, decreases by between \$20–\$25 million per fiscal year.

Figure 8 shows the history and our forecast of total GFGP and SAF revenues. In total, we project combined GFGP and SAF revenue growth of 1.5 percent in fiscal 2026, 0.7 percent in fiscal 2027, and 2.8 percent in fiscal 2028. Despite rising personal income tax revenue in fiscal 2026, overall growth is limited by sharply declining sales and business tax revenues, largely a result of the legislative changes.

⁴ See pages 15–16 of RSQE's report, [The Michigan Economic Outlook for 2026–2027: March 2026](#), for a more complete description of the legislative changes to state tax revenue.

Personal income tax and sales tax revenues both flatten out in fiscal 2027 before picking up with moderate growth in fiscal 2028. Business tax revenue continues to decline in fiscal 2027 as its distribution to the Neighborhood Roads Fund expands, but it enjoys a healthy rebound in fiscal 2028.

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



Our forecast puts total state tax revenue \$10.2 billion, or 41.4 percent, higher in fiscal 2028 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 local inflation, cumulative state revenue growth between 2019 and 2028 is only 3.3 percent, with average real growth of only 0.4 percent per year.

We now describe our forecast for state tax revenues in more detail. Table 2 breaks down the recent history, as well as our forecast for fiscal years 2026–2028. The upper portion details GFGP revenues, and the lower portion summarizes SAF revenues.

Net Personal Income Tax Revenue

- Net personal income tax revenue grew by 2.9 percent in fiscal 2025, down from 5.1 percent the year before. All components of income tax collections posted strong growth last year, but an unexpected rise in refunds held back overall growth.

- We forecast net personal income tax growth to strengthen to 6.4 percent in fiscal 2026 with healthy contributions from all components except for annual payments, which post a small decline. Net personal income tax revenue ticks up in fiscal 2027 before returning to moderate growth of 2.1 percent in fiscal 2028.
- The new exemptions on qualified tips and overtime reduce the SAF's distribution from the personal income tax by roughly 0.5 percent in each fiscal year. Because the contribution to the SAF is calculated before refunds, the SAF's share of personal income tax revenue grows at a healthy 4.8 percent rate in fiscal 2026, before cooling to 2.0 percent in fiscal 2027 and 1.7 percent in fiscal 2028.
- The General Fund's distribution is reduced by \$153.3 million in fiscal 2026, \$178.0 million in fiscal 2027, and \$169.6 million in fiscal 2028 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 14.8 percent in fiscal 2026 before holding flat in fiscal 2027 and growing by 2.3 percent in fiscal 2028.

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.
- GFGP consumption tax revenue ticked up by 0.7 percent in fiscal 2025 with gains from sales tax revenue just outweighing declines from the other components.
- We expect gross sales and use tax revenue to fall by 5.0 percent in fiscal 2026 before rising 0.5 percent in fiscal 2027 and 2.6 percent in fiscal 2028. The decline this year and the weakness next year are entirely caused by the elimination of the sales tax on motor fuels. In the absence of that change, we would be projecting growth of 0.8 percent in fiscal 2026 and 2.4 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 hold flat in fiscal 2026 before growing by 2.8 percent in fiscal 2027 and 3.2 percent in fiscal 2028.

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 8.9 percent in fiscal 2025 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 next two years, by 13.5 percent in fiscal 2026 and 5.6 percent in fiscal 2027, before rebounding by 14.8 percent in fiscal 2028. The declines in fiscal years 2026 and 2027 result from the new transportation earmarks to the CIT. The new legislation stipulates that \$688 million of CIT revenue in fiscal 2026, \$776 million in fiscal 2027, and \$864 million in fiscal 2028 be allocated to the Neighborhood Roads Fund. The growth in fiscal 2028 is aided by an expected decline in MBT refunds.

Total General Fund Revenue

- Total GFGP revenue nudged down by 0.3 percent in fiscal 2025. Small gains from personal income taxes and consumption taxes were outweighed by declines in business tax and nontax revenues.
- Most of the recent 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 \$945 million in fiscal 2026, \$1.22 billion in fiscal 2027, and \$1.30 billion in fiscal 2028.
- Overall, we forecast total GFGP revenue to fall 0.4 percent in fiscal 2026, as the effects of the new tax changes outweigh a sizable gain from personal income taxes. GFGP revenue then drops another 1.5 percent in fiscal 2027 as roughly flat personal income taxes and moderate consumption tax gains are more than offset by drops in business tax revenue, nontax revenue, and a larger transfer to the SAF for lost sales tax on motor fuels. The combination of growth in all of the major categories and a smaller transfer to the SAF leads total GFGP revenue to rebound by 3.8 percent in fiscal 2028.
- Our forecast would take total GFGP revenue to \$3.6 billion, or 32.8 percent, above its fiscal 2019 level in fiscal 2028. After adjusting for local inflation, however, that gain becomes a real decline of 3.0 percent. Still, much of the apparent weakness relative to 2019 reflects legislative changes; absent those changes, revenue would rise 5.5 percent in real terms, for average annual growth of 0.6 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 3.5 percent in fiscal 2025. 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 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, although most components of SAF revenue see some degree of moderation. 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, the SAF's allocation of sales tax revenue would be growing by 0.9 percent.
- 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, \$23.2 million in fiscal 2027, and \$21.2 million in fiscal 2028, as the General Fund bears most of the cost.
- Altogether, we project total SAF revenue to grow by 3.1 percent in fiscal 2026, 2.3 percent in fiscal 2027, and 2.1 percent in fiscal 2028. Total SAF revenue is forecast to finish fiscal 2028 roughly \$6.6 billion, or 48.5 percent, higher than in fiscal 2019. After adjusting for local inflation, that growth is reduced to 8.5 percent, translating to average real growth of just 0.9 percent per year from fiscal 2019 to 2028.

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

| | Actual | RSQE Forecast | | |
|--|--------|---------------|--------|--------|
| | 2025 | 2026 | 2027 | 2028 |
| <u>General Fund General Purpose</u> | | | | |
| Personal income tax | 8,447 | 9,700 | 9,702 | 9,926 |
| (% change) | (1.3) | (14.8) | (0.0) | (2.3) |
| Consumption taxes | 3,041 | 3,041 | 3,128 | 3,228 |
| (% change) | (0.7) | (0.0) | (2.8) | (3.2) |
| Sales | 1,654 | 1,526 | 1,612 | 1,644 |
| Use | 1,150 | 1,287 | 1,287 | 1,359 |
| Other consumption | 238 | 228 | 229 | 225 |
| Business taxes | 1,619 | 1,400 | 1,321 | 1,517 |
| (% change) | (-8.9) | (-13.5) | (-5.6) | (14.8) |
| MBT/SBT/Corporate income | 1,073 | 822 | 726 | 903 |
| Other business | 546 | 578 | 596 | 614 |
| Other GFGP taxes | 252 | 274 | 280 | 285 |
| GFGP tax revenue | 13,359 | 14,415 | 14,431 | 14,956 |
| (% change) | (0.1) | (7.9) | (0.1) | (3.6) |
| Nontax revenue | 1,132 | 736 | 667 | 608 |
| GFGP revenue ¹ | 14,491 | 14,430 | 14,215 | 14,760 |
| (% change) | (-0.3) | (-0.4) | (-1.5) | (3.8) |
| <u>School Aid Fund</u> | | | | |
| SAF taxes | 17,544 | 17,433 | 17,742 | 18,239 |
| (% change) | (4.3) | (-0.6) | (1.8) | (2.8) |
| Lottery transfer | 1,164 | 1,127 | 1,103 | 1,098 |
| (% change) | (-6.8) | (-3.2) | (-2.2) | (-0.4) |
| Earmarked state SAF revenue ¹ | 18,707 | 19,283 | 19,727 | 20,142 |
| (% change) | (3.5) | (3.1) | (2.3) | (2.1) |
| <u>Addendum</u> | | | | |
| Combined GFGP and SAF revenue | 33,199 | 33,712 | 33,942 | 34,902 |
| (% change) | (1.8) | (1.5) | (0.7) | (2.8) |
| Gross sales and use taxes | 13,518 | 12,843 | 12,912 | 13,245 |
| (% change) | (1.3) | (-5.0) | (0.5) | (2.6) |

¹ GFGP revenue and earmarked SAF revenue totals account for RSQE's estimated transfers from the General Fund to the SAF of \$722 million in FY2026, \$883 million in FY2027, and \$805 million in FY2028 under provisions in HB 4180 of 2025.