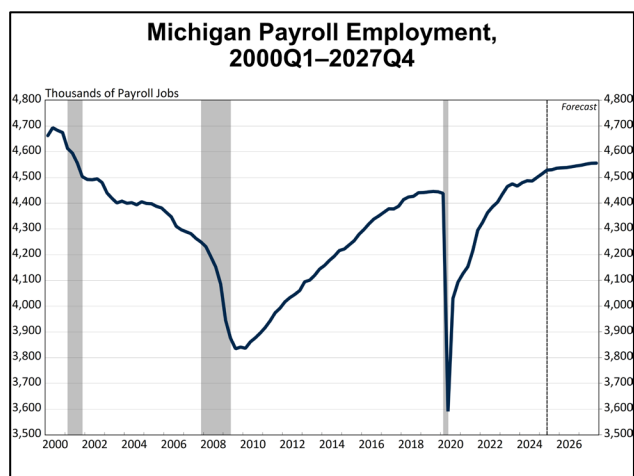


Gabriel M. Ehrlich, Director

George A. Fulton & Saul H. Hymans
Directors Emeriti

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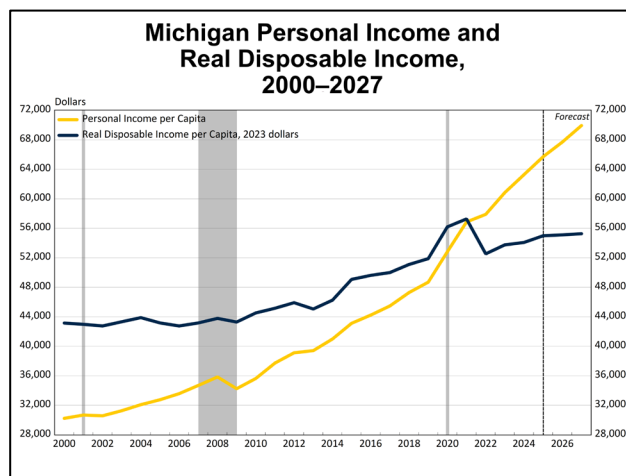
The Michigan Economic Outlook for 2025–2027: Executive Summary



Michigan's economy has been displaying mixed signals recently. Payroll employment has risen at a healthy clip, while resident employment has declined for five consecutive months. We project more clarity ahead as both payroll and resident employment grow at a modest pace. Payroll job growth decelerates from 38,700 this year to 13,700 next year and 12,100 in 2027. Michigan's unemployment rate creeps up to 5.7 percent in the second half of next year before edging back down to 5.5 percent by the end of 2027.

We expect tariffs to reduce employment in Michigan's auto sector over the next several years, but recent regulatory changes such as the relaxation of fuel economy standards are likely to encourage domestic auto production.

We continue to expect growth to be concentrated in industries that are not generally sensitive to the state of the business cycle, such as private education and health services, leisure and hospitality, and government. We expect the strain of scheduled cuts to Medicaid and other social assistance programs not to be felt acutely until after 2027.



We project Detroit CPI inflation to moderate to 2.0 percent this year before picking back up to 3.2 percent next year, as tariffs feed through to consumer prices. We forecast local inflation to tick down to 2.9 percent in 2027 as the tariffs' impact begins to phase out. We do not expect local inflation to return to the pace seen in 2021–23.

Personal income per capita in Michigan has more than doubled since the turn of the century, growing from \$30,200 in 2000 to \$63,300 in 2024. The past two years have seen strong growth, with personal income per capita rising 5.1 percent in 2023 and 4.0 percent in 2024. We project growth to tick down to 3.9 percent in 2025 before decelerating to an average of 3.2 percent over the next two years, bringing Michigan's personal income per capita to \$69,900 in 2027.

Real disposable income per capita has grown much more slowly, rising at an average pace of just 1 percent per year since 2000. We project growth to register a solid 1.7 percent this year. Real disposable income holds roughly flat in 2026 and 2027.

The Michigan Economic Outlook for 2025–2027

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

Introduction

Michigan's economy has been displaying mixed signals recently. The state's payroll employment level has risen at a healthy clip so far this year. After dipping briefly into negative territory in July 2024, Michigan's year-over-year payroll job growth rate rebounded to 1.3 percent this July, its fastest pace since December 2023. Looking instead at the household survey, Michigan's resident employment count has now declined for five consecutive months. The number of employed Michiganders is now at its lowest level since May 2023. Those divergent trends make it difficult to assess the state economy's underlying health.

Figure 1
Michigan Employment Growing at a Modest Pace

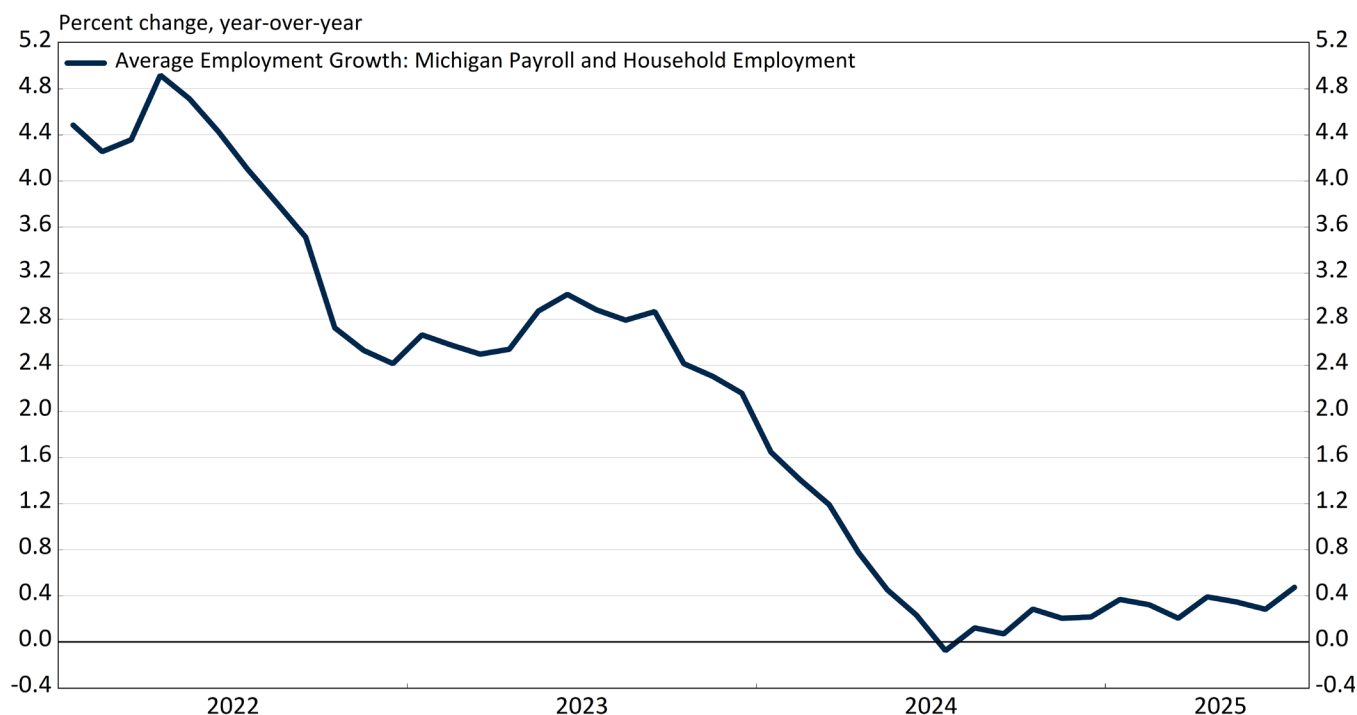


Figure 1 shows one way to make sense of the mixed signals coming from Michigan's labor market. The figure displays the simple average of the year-over-year growth rates of Michigan's payroll job and resident employment counts. The two employment measures refer to different underlying concepts, and

there is a substantial literature discussing the significance of their differences and which measure is likely to give a more reliable signal of trend employment growth.¹ Without diving deeply into that literature, Figure 1 provides a simple average of these two prominent metrics. This average year-over-year employment growth metric dipped into negative territory in July 2024 before turning back up over the subsequent year. By July 2025, average growth stood at 0.5 percent year over year. We interpret this metric as indicating ongoing but muted employment growth in Michigan over the past year.

Looking forward, we expect more of the same, with both payroll and resident employment growth continuing at a modest pace. On a calendar year basis, we are projecting Michigan's payroll job growth to decelerate from 38,700 this year to 13,700 next year and 12,100 in 2027. Michigan's unemployment rate creeps up to 5.7 percent in the second half of 2026 before edging back down to 5.5 percent by the end of 2027.

The basic logic underlying our forecast is the same as it has been for most of this year: we expect employment in Michigan's cyclical industries to hold roughly flat, while employment in Michigan's non-cyclical industries continues to grow at a moderate pace. Although the situation regarding tariffs and trade is far from settled, we believe we can perceive the rough outlines of a long-term policy taking shape. We continue to judge that the tariffs will reduce employment in Michigan's auto industry, but we estimate that effect to be relatively small. Meanwhile, regulatory and policy changes are likely to boost the domestic auto industry, blunting the headwinds from the tariffs. We also foresee more distant challenges regarding cuts to federal funding for Medicaid and other social assistance programs, but we expect the brunt of those cuts to fall outside of our forecast horizon.

In summary, we see a state economy that is driving near cruising speed now and will maintain that pace over the next few years, despite some undeniable speedbumps in its path. Michigan's aging workforce and slow population growth will continue to pose speed limits to our maximum sustainable growth rate. Yet considering the challenges the state has faced recently and will continue to face over the next few years, we regard our forecast as a positive one for Michigan and its residents.

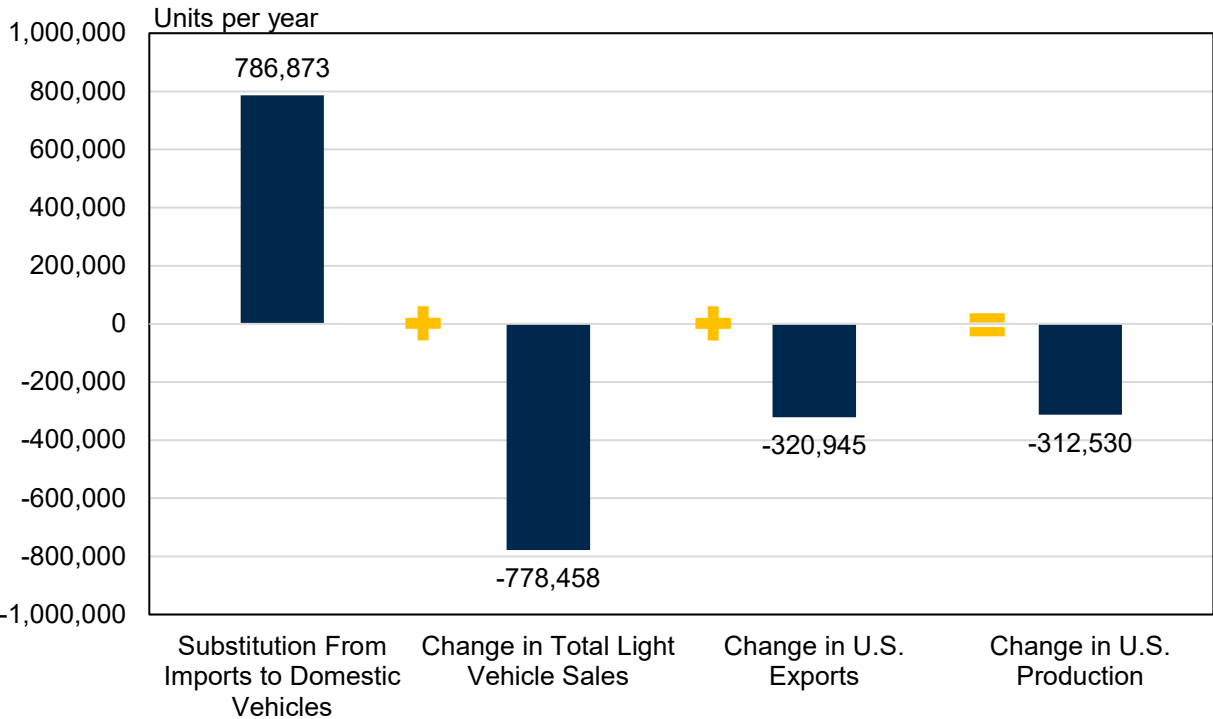
¹ See for example, Aaronson, Rissman, and Sullivan (2004) and Perry (2005).

The Forecast of the State Economy

The Impact of Tariffs on the Domestic Auto Industry

Michigan’s economy is very sensitive to trade policy due to the critical role of the local auto industry. Our August [U.S. forecast report](#) explains the current state of tariffs and how they may change over the forecast.² Here, we summarize our estimates of how these tariffs could affect the national auto industry and Michigan’s economy. These estimates are highly uncertain both because tariff policy is still fluid and because it is inherently difficult to quantify the effects of such a major policy shift. Our May [Michigan forecast report](#) explained our methodology in greater depth; this section focuses on the estimated medium-run impacts of tariffs rather than revisiting those details.

Figure 2
Medium-Term Effects of the 2025 Tariffs on National Domestic Auto Production



Ultimately, we estimate that tariffs on imported vehicles will average 13.0 percent, leading to a price increase of about 9.6 percent averaged across domestic and imported vehicles. Using 2024 prices,

² The analysis in both our August U.S. forecast and September Michigan forecast was based on the tariff and trade situation as announced through early-to-mid August. In particular, it does not include consideration of the recent ruling by the U.S. Court of Appeals for the Federal Circuit invalidating many of the recently imposed tariffs. See, for instance, [“Trump’s Sweeping Tariffs Invalidated by Appeals Court,”](#) *New York Times*, August 29, 2025.

this would raise the average cost of a vehicle by roughly \$4,500 if profit margins stay the same. In addition, we expect retaliatory tariffs from trade partners to place an average effective rate of 6.6 percent on U.S. automotive exports.

Figure 2 shows the key results of our analysis. The tariffs are expected to provide a strong protective effect, with consumers shifting nearly 790,000 light vehicle purchases per year from imported to domestically made vehicles. However, this gain is more than offset by declines in total U.S. light vehicle sales (nearly 780,000 units per year) and in exports (roughly 320,000 units per year). Overall, we estimate that tariffs will reduce U.S. light vehicle production by 313,000 units (or 3.1 percent) per year. We reiterate that there is significant uncertainty around this estimate.

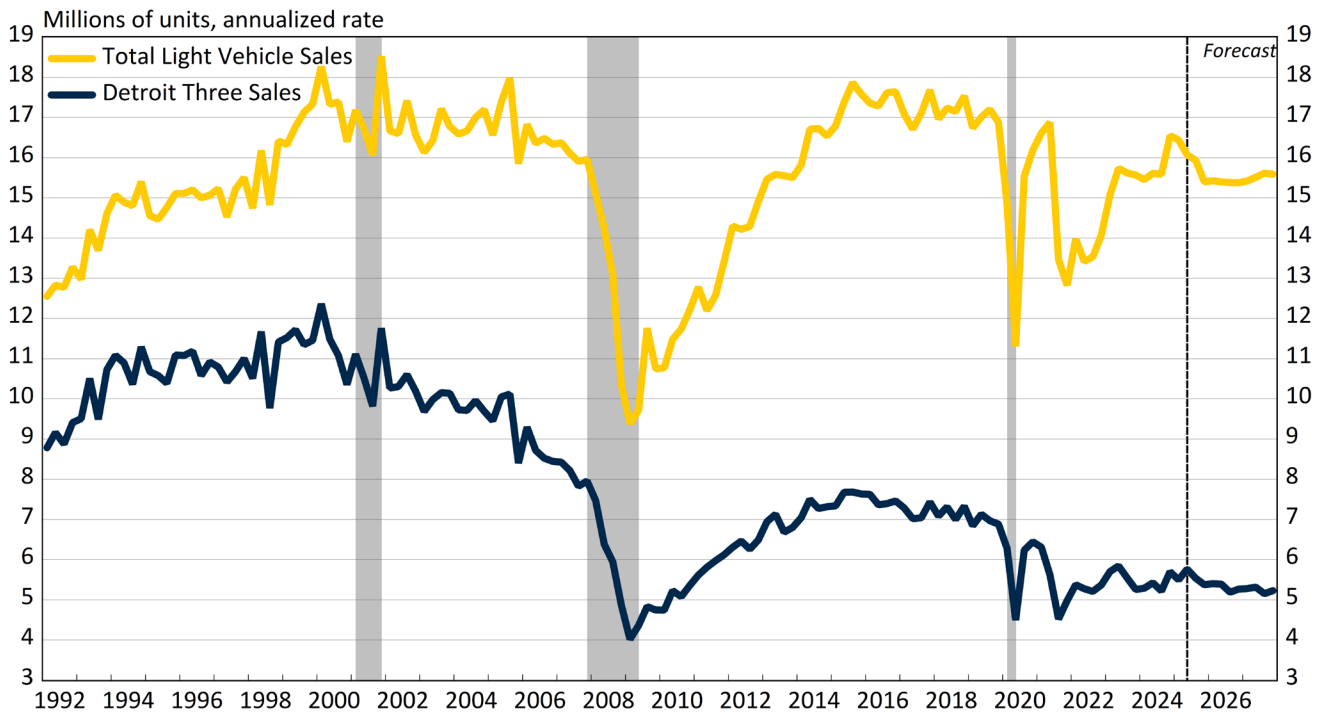
Detroit Three Light Vehicle Sales

Figure 3 shows our quarterly forecast for total U.S. and Detroit Three light vehicle sales. Sales reached 16.4 million units in July 2025, as consumers rushed to purchase ahead of potential price increases related to tariffs and the phaseout of the electric vehicle (EV) tax credits. We expect tariffs to drive higher MSRPs and reduced incentives as 2026 model-year vehicles arrive on dealer lots. Consequently, sales are projected to fall sharply in the fourth quarter of 2025, dropping to an annualized pace of 15.4 million units as the pull-forward effect unwinds. Despite that decline, we expect light truck sales to remain close to pre-tariff levels. We forecast light vehicle sales to stay around 15.4 million units in 2026, before recovering to 15.6 million units by the end of 2027.

While the new tariff environment may offer some support to the Detroit Three, the overall impact is mixed. A key complication is that our measure of the Detroit Three's market share includes many vehicles produced outside the United States.

Aside from the tariffs, there are additional regulatory changes that should reduce production costs and stimulate consumer demand. The end of financial penalties for missing Corporate Average Fuel Economy standards should lead to lower production costs. This looser regulatory environment should help offset tariff pressures, especially for the Detroit Three, because 95 percent of their U.S. sales in 2024 were light trucks. The deductibility of some auto loan interest should also improve affordability in the light vehicle sector.

Figure 3
Light Vehicle Sales Hit a Tariff Speed Bump



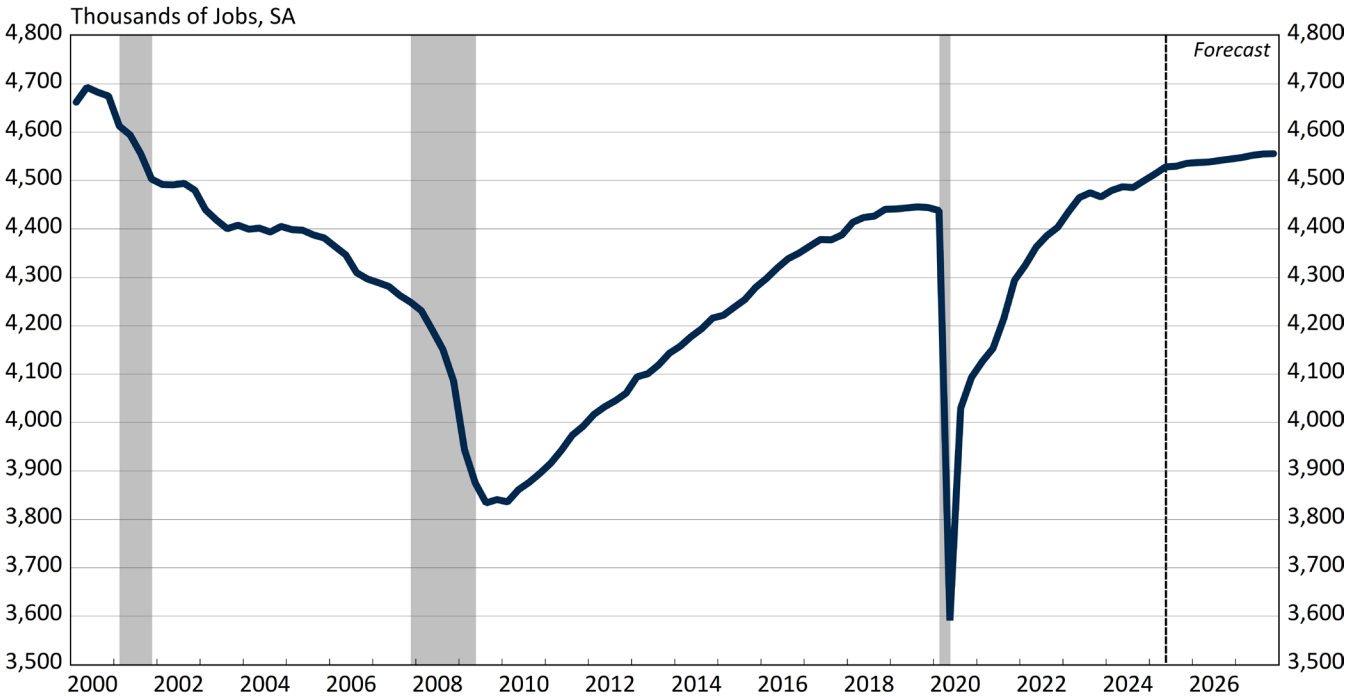
The Detroit Three's share of U.S. light vehicle sales fell from 36.1 percent in 2023 to 34.2 percent in 2024. We expect the long-term trend of eroding market share to reverse course this year, before re-summing its decline in 2026 and 2027. We project that the Detroit Three's share of the market will increase to 34.7 percent in 2025, then fall to 33.8 percent by 2027. In unit terms, Detroit Three sales are projected to rise slightly from 5.4 million units in 2024 to 5.5 million in 2025, before slipping to 5.2 million in 2027.

Payroll Employment

Figure 4 shows the historical data and our forecast of Michigan's quarterly payroll job count. Michigan added 27,600 jobs in 2024, and we are projecting the growth pace to accelerate to 38,700 this year based on the numbers to date. Job growth then slows substantially to 13,700 next year and 12,100 in 2027 amid a complex policy environment. Our forecast takes Michigan's payroll job count to 2.6 percent above its pre-pandemic level by the end of 2027, yet it remains 2.9 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 5 divides our industries into two groups: “Cyclical Industries” and “Non-cyclical Industries.”³ 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 the job growth in Michigan from 2025–2027 to be concentrated in the state’s non-cyclical industries. Meanwhile, we expect the cyclical industries as a whole to lose a small number of jobs.

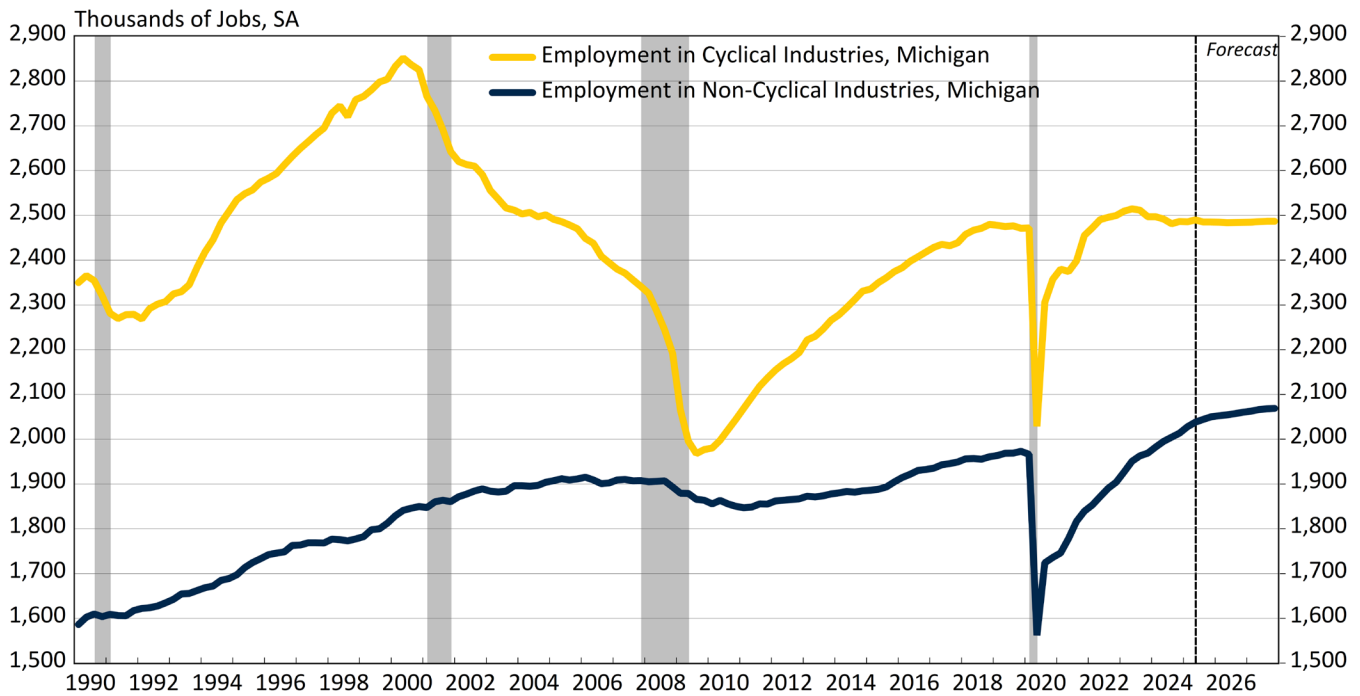
Figure 4
Michigan Payroll Employment Grows at a Steady but Moderate Pace



Michigan’s **construction** industry has defied our expectations of a slowdown recently, adding a whopping 6,200 jobs in the second quarter of 2025. That growth took employment in construction to its highest level since the third quarter of 2001. We expect the construction sector to add a total of 7,100 jobs this year, but growth slows dramatically from here. The sector adds 900 jobs next year and 400 in 2027 as high construction costs and tepid growth in building activity restrain further job gains.

³ 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 55.5 percent of nonfarm payroll employment in Michigan in 2024.

Figure 5
Non-Cyclical Industries Drive Employment Gains



Employment in Michigan's **manufacturing** sector has largely been treading water this year, shedding 1,900 jobs from the fourth quarter of 2024 to the second quarter of 2025. The medium-term trend is more alarming, with 23,900 job losses since the third quarter of 2023. The majority of those cuts have come in transportation equipment manufacturing, even though other manufacturing accounts for more than two-thirds of total manufacturing employment in the state. We estimate that the tariffs announced through early August will cost Michigan's transportation equipment manufacturing industry approximately 5,400 jobs by the end of our forecast, but we continue to emphasize the high degree of uncertainty around that estimate. On the other hand, we expect the tax deductibility of some auto loan interest and the relaxed corporate average fuel economy standards both to boost the auto industry. Accounting for these opposing effects, we are projecting employment in Michigan's auto and broader manufacturing sectors to hold approximately flat over the next few years. Because of the job losses over the course of 2024 and so far this year, manufacturing employment declines by 7,600 jobs on a calendar year basis this year, before losing a total of another 300 jobs over the next two years.

Michigan's **professional and business services** supersector has continued to lose jobs this year after shedding 15,000 jobs in 2023–2024. Although the bulk of those earlier cuts had been concentrated in the administrative and support and waste management sector, which includes temporary help services, the losses this year have been spread across all of the sectors in professional and business services. Traditionally, employment in these industries tends to move with employment in Michigan's manufacturing industry. On a calendar year basis, we are projecting 9,000 job losses this year and another 5,000 next year before professional and business services returns with modest growth of 1,300 jobs in 2027. Still, that discouraging growth path reflects primarily job losses last year and so far this year. On a quarterly basis, we are projecting employment in professional and business services to stabilize from the third quarter of 2025 through the end of our forecast.

Employment in Michigan's **trade, transportation, and utilities** supersector has also generally treaded water so far this year. In a reversal of recent trends, retail trade has actually gained a small number of jobs so far in 2025, while wholesale trade and transportation, warehousing, and utilities have both lost jobs. We are projecting a return to the more normal pattern of job losses in retail accompanied by gains in the other two sectors over the next two and a half years. Altogether, trade, transportation, and utilities loses 900 jobs from 2025 to 2027 in our forecast, with 6,600 job losses in retail trade not quite offset by 2,400 job gains in wholesale trade and 3,300 in transportation, warehousing, and utilities.

Michigan's **financial services** industry has gotten off to a strong start to 2025, adding 4,200 jobs over the first two quarters. In fact, as of the second quarter of 2025, Michigan's finance sector now stands at its all-time employment high since the beginning of the modern industry employment data in 1990. As durably lower mortgage rates come into view, we are projecting the finance sector to continue growing through 2027. Our forecast calls for 6,100 job gains this year to be followed by 1,800 in 2026 and 2,100 in 2027.

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

	2024	Forecast Employment Change			
		'24-'25	'25-'26	'26-'27	'24-'27
Total Jobs	4488.4	38.7	13.7	12.1	64.5
Total Government	617.9	9.9	5.6	4.1	19.6
Total Private	3870.5	28.8	8.2	8.0	44.9
Natural resources and mining	7.3	-0.1	-0.1	-0.1	-0.2
Construction	196.6	7.1	0.9	0.4	8.4
Manufacturing	605.4	-7.6	0.5	-0.8	-7.9
Transportation equipment manufacturing	184.8	-5.1	0.4	-1.4	-6.1
Other manufacturing	420.7	-2.5	0.1	0.6	-1.9
Trade, transportation, and utilities	810.6	0.8	-0.4	-1.2	-0.9
Retail trade	453.9	-1.2	-2.8	-2.6	-6.6
Transportation, Warehousing, and Utilities	179.1	1.7	1.1	0.4	3.3
Wholesale trade	177.6	0.2	1.3	0.9	2.4
Information	56.4	0.1	-0.4	-0.3	-0.6
Financial activities	234.6	6.1	1.8	2.1	10.1
Professional and business services	642.1	-9.0	-5.0	1.3	-12.7
Professional, scientific & technical services	314.4	-3.1	0.3	0.7	-2.1
Management of companies & enterprises	67.7	-1.2	-0.4	0.1	-1.5
Admin & support & waste mgmt.	260.0	-4.7	-4.9	0.5	-9.2
Private education and health services	715.4	18.8	4.6	1.0	24.4
Leisure and hospitality	428.6	6.0	4.2	5.5	15.7
Other services	173.5	6.5	2.1	0.1	8.7
Addendum: Percent Change in Total Jobs	0.6	0.9	0.3	0.3	1.4

RSQE: September 2025

Michigan's **non-cyclical industries** have tended to grow at a steadier pace than the state's cyclical industries, with the exception of the COVID-19 pandemic period. Overall, the non-cyclical industries have gained jobs every quarter since the second quarter of 2020. We have been surprised by their vigorous growth in the first half of this year, which totaled 24,800 jobs. We are projecting the non-cyclical industries to add a total of 41,300 jobs this year before slowing to 16,000 next year and 10,300 in 2027.

Michigan's **private education and health services** sector is dominated by health services. This sector added 28,700 jobs in 2023 and 25,000 in 2024, and it is on track to add another 18,800 this year. We expect growth to slow down substantially going forward, to 4,600 jobs next year and 1,000 in 2027, as cuts to federal funding for Medicaid loom on the horizon. We expect most of those cuts to occur outside of our forecast, however, cushioning this sector against job losses through 2027.

The **leisure and hospitality** industry averaged 33,000 job gains per year from 2021–2023, but growth downshifted to 5,300 jobs last year. We expect growth to pick up slightly, to 6,000 jobs this year, before averaging 4,900 jobs per year in 2026–2027. We project Michigan’s leisure and hospitality sector to recover to its pre-pandemic share of total employment at the end of 2027.

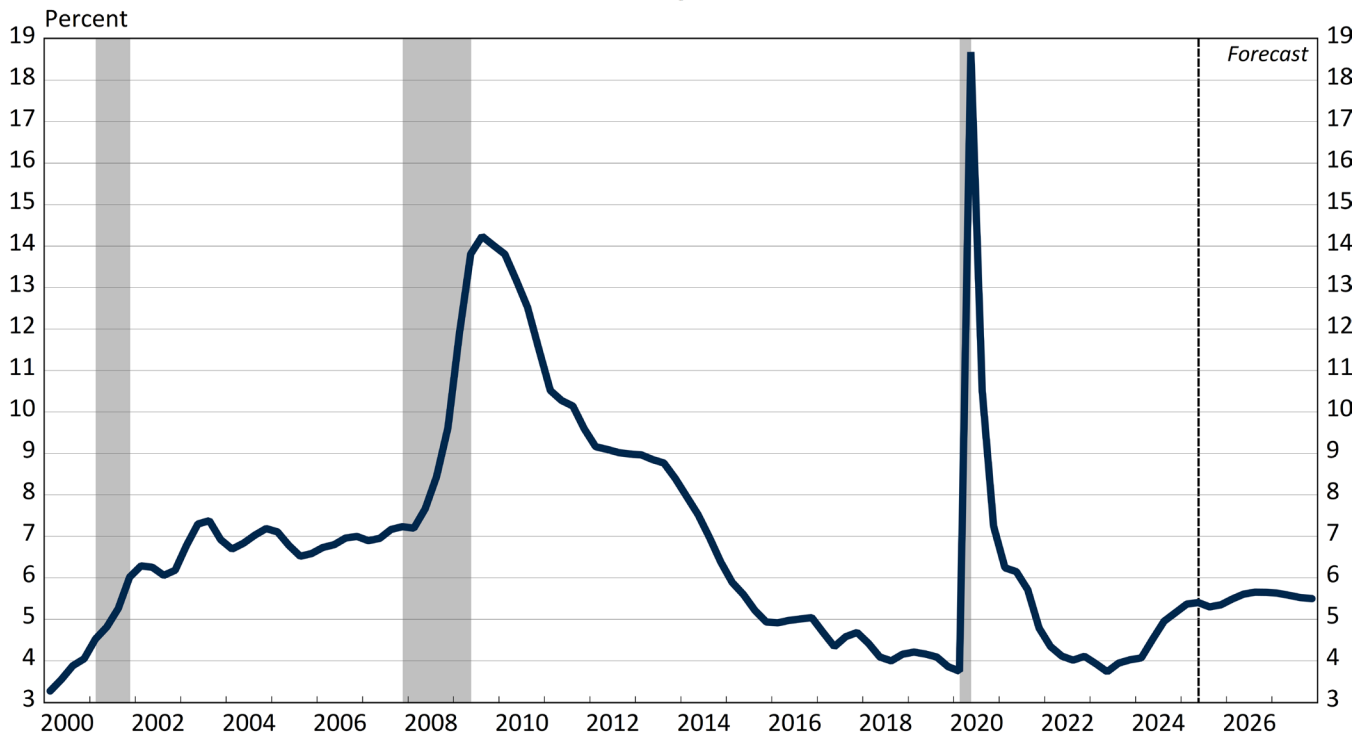
The **other private services** sector has also been expanding at a healthy pace so far this year, with 4,700 job additions in the first two quarters. In fact, employment in the second quarter of the year stood near its all-time high since the beginning of the data series in 1990. We project other services to add 6,500 jobs in total this year, but we do not believe the current growth spurt will continue at this pace. We project growth to slow to 2,100 jobs next year and only 100 in 2027.

Despite the expiration of pandemic-era federal support for state and local governments, Michigan’s **government** sector has been defying expectations for a slowdown with 7,600 job gains in the first half of 2025. Although we expect a slower pace ahead, we are nonetheless projecting government employment growth to persist. Government adds 9,900 jobs this year, followed by an average of 4,800 per year in 2026–2027. Although federal funding cuts for Medicaid and other social assistance programs threaten job growth in government, we believe that those effects are not likely to be felt acutely until after the end of our forecast period.

Unemployment and Labor Force Participation Rates

Figure 6 displays the historical data and our forecast for Michigan’s quarterly unemployment rate. Michigan’s unemployment rate rose to 5.5 percent in March and April 2025 before easing to 5.3 percent in June and July. While this recent decline may seem encouraging, the underlying trends are a bit more concerning. Both the state’s labor force participation rate and household employment have been falling in recent months. As a result, the unemployment rate has dropped not because more Michiganders are finding work, but because fewer are participating in the labor market. At the same time, as discussed in the introduction, Michigan’s payroll employment has displayed healthy growth so far this year, making the unemployment data difficult to interpret. Overall, we judge that the truth lies in between, and Michigan has experienced ongoing but modest employment growth over the past year.

Figure 6
Michigan's Unemployment Rate Ticks Up Slightly



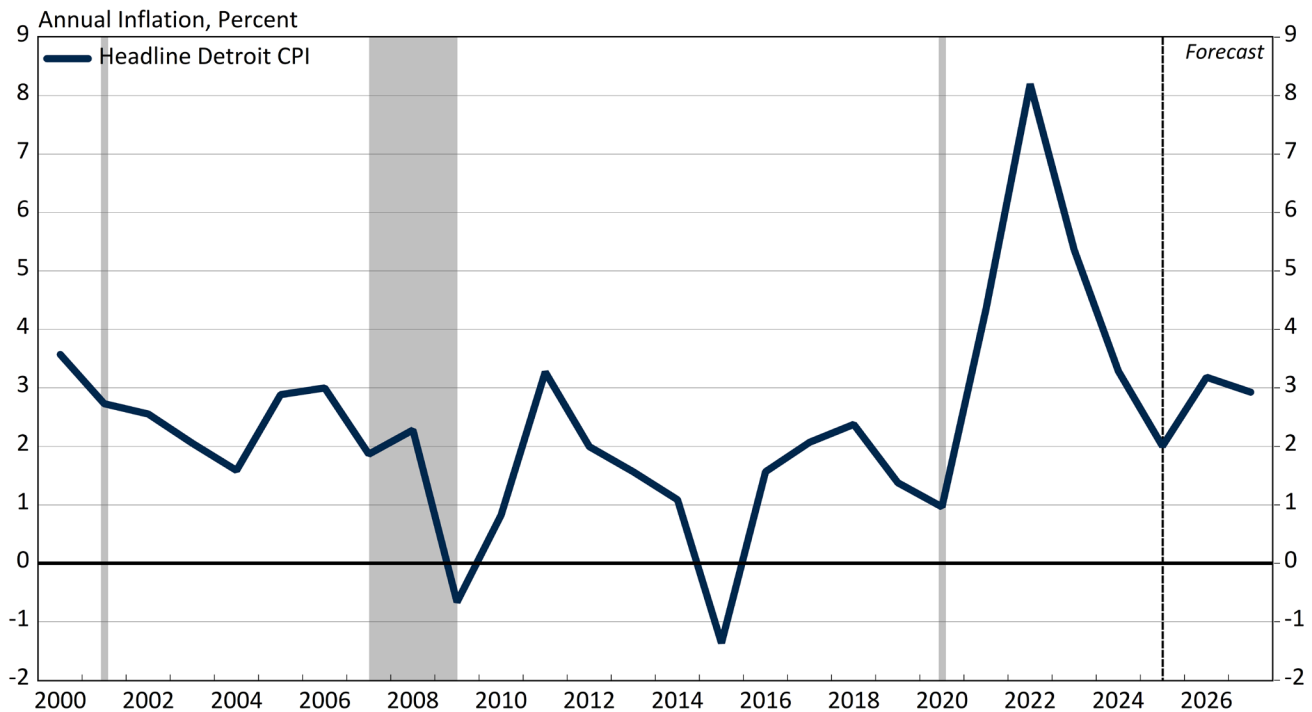
We expect Michigan's labor market to hold up reasonably well against the recent trade and fiscal policy changes over the next few years. The state's unemployment rate is projected to tick up to 5.7 percent in the second half of 2026, the highest since the summer of 2021. That rate would still be below the 6.2 percent average rate between 2000–2007, when Michigan's motor vehicle manufacturing employment was declining rapidly. Moving forward, we anticipate the Federal Reserve will complete its rate-cutting cycle by the end of 2026. That should allow lower interest rates to filter through the economy, reversing the upward momentum in unemployment. By the end of 2027, the unemployment rate is expected to ease to 5.5 percent as tax cuts and lower interest rates help offset the drag from tariffs.

Michigan's labor force participation rate ticked down from 62 percent in the first quarter of 2025 to 61.9 percent in the second quarter. We forecast the state's participation rate to hover between 61.7–61.9 percent during the forecast, as household employment returns to growth but stays muted. Overall, Michigan's labor market will need to weather several competing forces in the coming years, including an aging population, federal tax cuts, lower interest rates, reduced immigration, and the ongoing effects of tariffs.

Local Inflation

Figure 7 shows the history and our forecast of headline (all-item) Detroit CPI inflation on an annual basis. Local headline inflation has slowed significantly over the past three years, falling from a peak of 8.2 percent in 2022 to 5.4 percent in 2023 and 3.3 percent in 2024. Headline inflation is expected to ease further to 2.0 percent in 2025, largely due to a notable decline in local shelter prices late last year. Modest shelter inflation has returned in 2025 and has continued throughout the year. As of July, however, shelter prices remain 2.5 percent below their year-ago levels.

Figure 7
Local Inflation Heats Back Up Under Tariff Pressure



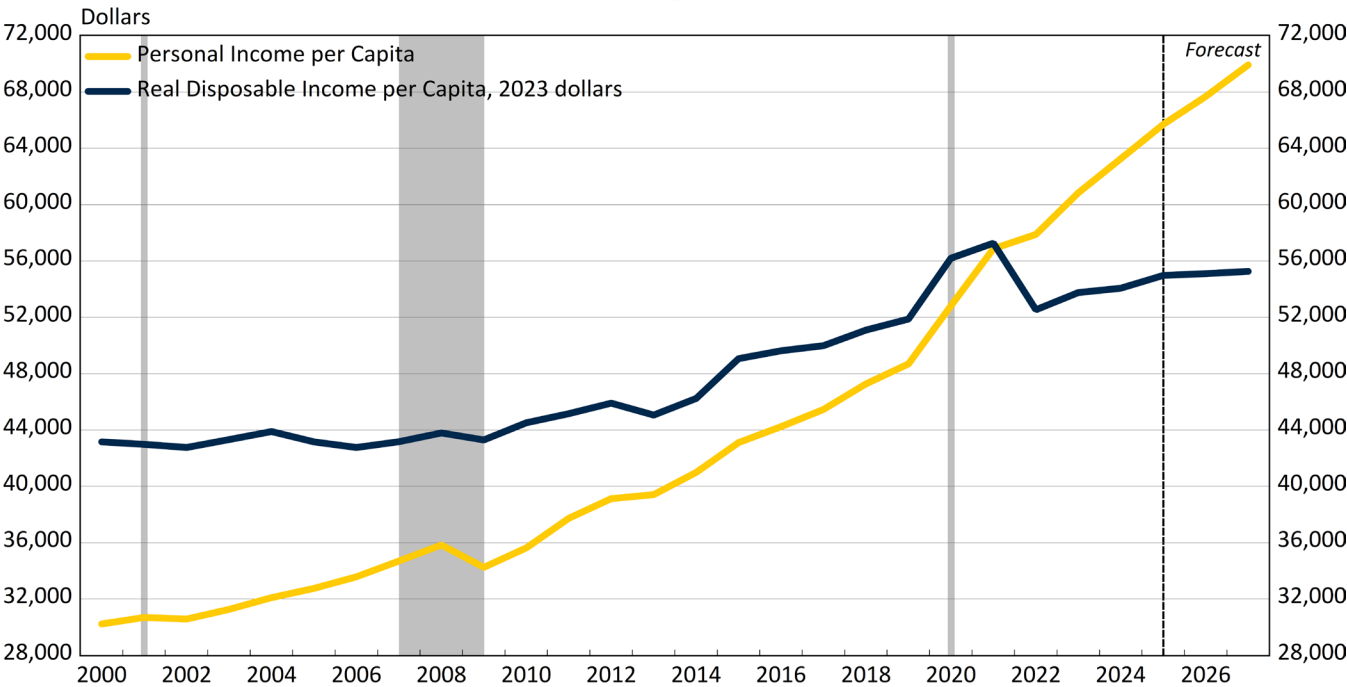
Although overall trade uncertainty seems to be easing, tariffs remain in the spotlight for many aspects of the economy. While the consumer price impacts of the new tariffs have been less pronounced than many expected, the July increase in the national Producer Price Index (to 3.3 percent) suggests that tariff-related pressures may soon reach consumers. By the end of 2025, we expect year-over-year local headline inflation to reach 2.0 percent and to continue rising into 2026, before cooling in 2027. On a calendar year basis, we forecast local headline inflation to register 3.2 percent in 2026 and 2.9 percent in 2027.

While we expect tariffs to add materially to inflation over the next few years, it is unlikely that price growth will return to the rates of 2021–23, when local inflation peaked above 8 percent and ran above 4 percent for three consecutive years. As such, we do not expect current price pressures to prevent the Federal Reserve from resuming its interest rate cuts soon, as downside risks to the economy are likely to weigh more heavily in policy decisions.

Personal Incomes

Figure 8 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 has more than doubled since the turn of the century, growing from \$30,200 in 2000 to \$63,300 in 2024. The past two years have seen strong growth, with personal income per capita rising 5.1 percent in 2023 and 4.0 percent in 2024, exceeding the 3.6 percent average pace during the 2010s. We project the growth pace to tick down to 3.9 percent in 2025 before decelerating to an average of 3.2 percent in 2026 and 2027 as the tariffs dampen broader economic momentum. Our forecast brings Michigan’s personal income per capita to \$69,900 in 2027.

Figure 8
Michigan Real Disposable Income Flattens Out



Our forecast for real disposable income per capita in Michigan combines our forecast of nominal personal income with our projections for taxes and local inflation. Measured in 2023 dollars, real disposable income per capita has grown much more slowly than its nominal counterpart, rising from \$43,200 in 2000 to \$54,100 in 2024, an average pace of just 1 percent per year. Recent years have been especially volatile. After surging during the pandemic, real disposable income per capita fell by 8.3 percent in 2022 under the weight of high inflation. As headline inflation eased in 2023 and 2024, real disposable income regained some ground, but it remained well below the stimulus-fueled levels of 2020 and 2021.

We project solid improvement in 2025, with growth picking up to 1.7 percent as local inflation briefly falls to 2.0 percent. Looking forward, the drag from tariffs is largely offset by federal tax cuts, leaving real disposable income nearly flat in 2026 and 2027. Still, by 2027, Michigan's real disposable income per capita is projected to stand 6.5 percent above its 2019 level. While the resulting level is a bit lower than the 2000–19 trend would suggest, it still represents meaningful growth in the face of heightened policy uncertainty and elevated inflation.

The State Revenue Outlook

We have been pleased with how state revenues have tracked our May forecast over the past months. The One Big Beautiful Bill Act (OBBBA), signed by President Trump on July 4, made significant changes to the treatment of income, deductions, and exemptions for both personal and business income taxes at the federal level. We believe that there are important open questions about how these changes will interact with state revenue collections, and that these changes likely represent the largest updates to our outlook for state revenues since May. We have therefore decided to temporarily withhold from publishing a revenue update for this report while we continue to analyze the evolving tax landscape. We expect to issue an updated full report and analysis with our November forecast.