Michigan Economic Outlook

2026–2028

September 2026

RESEARCH SEMINAR IN QUANTITATIVE ECONOMICS
UNIVERSITY OF MICHIGAN

RESEARCH SEMINAR IN QUANTITATIVE ECONOMICS
UNIVERSITY OF MICHIGAN

Gabriel M. Ehrlich, Director

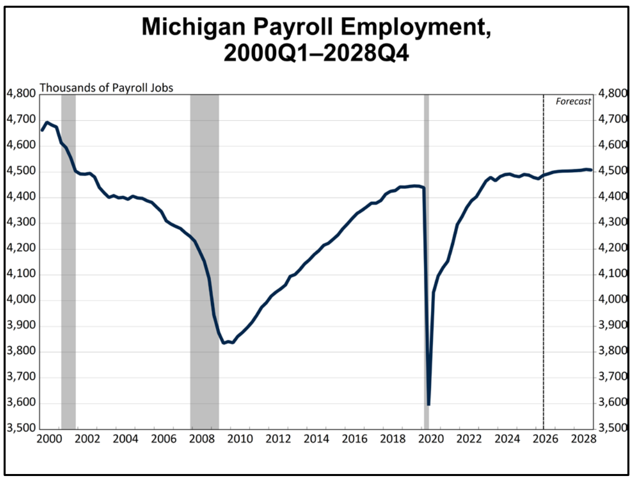
George A. Fulton & Saul H. Hymans
Directors Emeriti

University of Michigan, Ann Arbor
Department of Economics
611 Tappan Avenue
Ann Arbor, MI 48109-1120

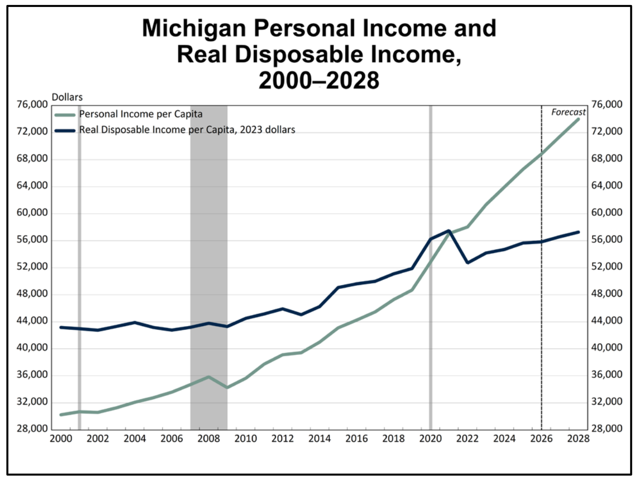
lsa.umich.edu/econ/rsqe
734-764-2567

For Release: 09/4/2026

The Michigan Economic Outlook for 2026–2028: Executive Summary



Michigan Payroll Employment, 2000Q1–2028Q4



Michigan Personal Income and Real Disposable Income, 2000–2028

Michigan's labor market data continue to tell a puzzling story about the state economy. Wage and salary employment has increased by 8,200 jobs from July 2025 to July 2026, while the count of employed Michigan residents has declined by 135,600. The silver lining to those losses is that the state's unemployment rate has held steady around 5.0 percent since May 2025.

Looking ahead, we expect Michigan's economy to exhibit modest but positive growth through 2028. We are projecting the state to add 3,200 payroll jobs this year, 15,400 in 2027, and another 4,200 in 2028. Michigan's unemployment rate holds near 5.0 percent, restrained by a falling labor force participation rate.

We project Michigan's cyclical industries to lose 16,300 jobs in 2026 before recovering an average of 1,400 jobs annually in 2027–2028. Non-cyclical industries—including government and health services—are expected to add 19,500 jobs this year and 14,200 in 2027. Job growth in non-cyclical industries slows to 2,600 in 2028 as health services face federal funding cuts.

Inflation has moved higher recently as tariff pass-through lingers, the war in Iran persists, and AI-related pressures leak into consumer prices. We forecast local headline inflation to average 3.5 percent in 2026 before declining to 2.4 percent in 2027 and 2.2 percent in 2028. Our forecast assumes the war de-escalates 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 average 3.6 percent annually from 2026 through 2028. Our forecast brings Michigan's personal income per capita to $74,000 in 2028, more than 50 percent above its 2019 level.

Growth of real disposable income per capita is expected to moderate in 2026 as local inflation rises. We forecast growth of 1.2–1.3 percent in both 2027 and 2028 as local inflation recedes. By 2028, Michigan's real disposable income per capita is projected to stand just 0.4 percent below its stimulus-fueled peak from 2021.

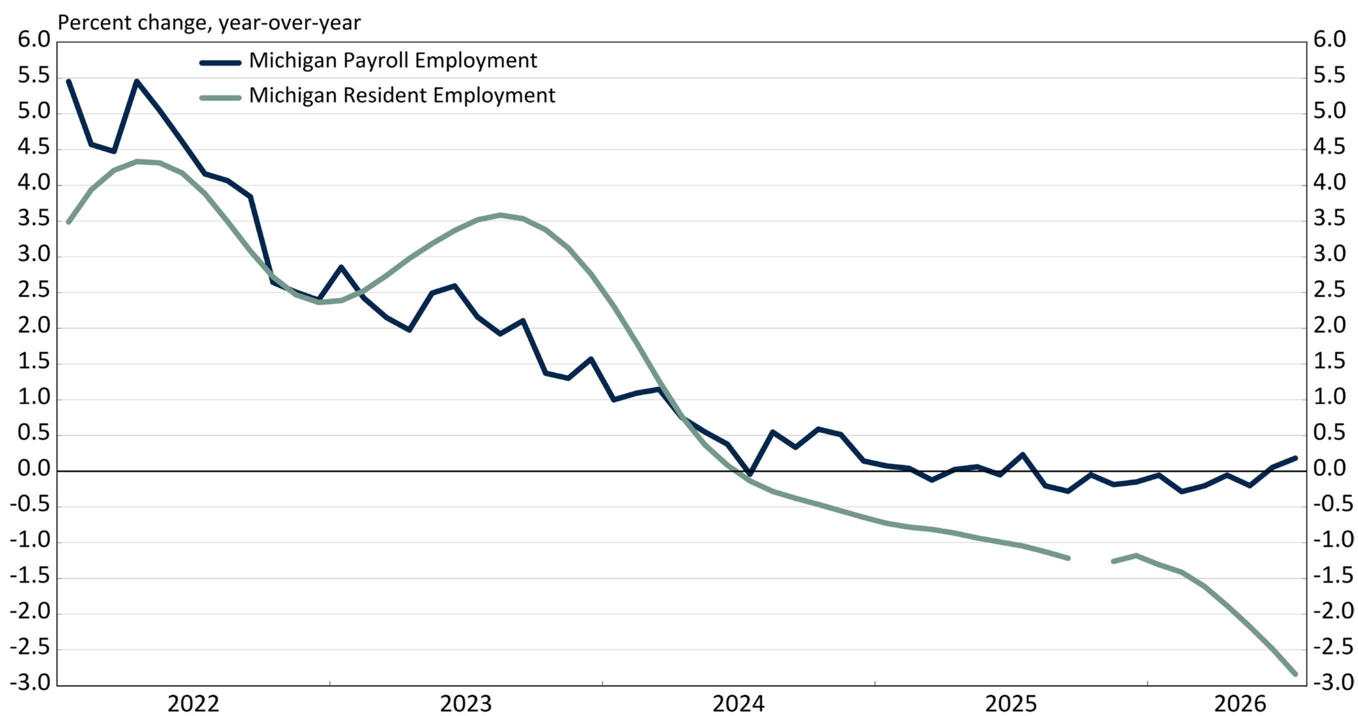
The Michigan Economic Outlook for 2026–2028

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

Introduction

Michigan's labor market data continue to tell a puzzling story about the state economy. The most recent data, available through July 2026, indicate that Michigan's payroll employment count has climbed by 8,200 jobs over the past year. Yet the data also indicate that the count of employed Michigan residents has declined by 135,600 over the same period, or 2.8 percent. Figure 1 illustrates these divergent patterns. Although we generally consider both employment counts to provide informative signals about the state's labor market, we believe the payroll job count is currently providing the much more informative signal. We believe Michigan's economy has been holding roughly steady around cruising speed over the past year, a pattern we expect to persist through 2028.

Figure 1
Michigan's Labor Market Data Show Divergent Patterns



It is notable that, despite the decline in Michigan's resident employment count, the state's unemployment rate has held roughly flat over the past year. It has hovered in the narrow range of 4.9–5.1

percent since May 2025, and it stood at 4.9 percent in July 2026. The decline in resident employment therefore stems from the state's cratering labor force, which has also fallen 2.8 percent over the past year. The bulk of that decline has come since the start of the year. Although a decline in Michigan's labor force is to be expected given the state's aging workforce, we would expect a demographic-driven decline of the scale witnessed recently to occur over a period of several years, not six months.[1]

Looking ahead, we expect Michigan's economy to exhibit modest but positive growth. We are projecting the state to add 3,200 payroll jobs on a calendar year basis this year, 15,400 in 2027, and 4,200 in 2028. We expect the state unemployment rate to remain near 5.0 percent, while the labor force enjoys a small partial rebound from its recent freefall through the middle of next year before resuming a more gradual decline. We also project local inflation to decline over the next two years, while growth of real disposable income per capita accelerates.

Yet our forecast for sustained growth is subject to multiple risks. We have assumed that the current trade tensions with Canada will remain contained, and in particular that the threatened 50 percent tariffs on Canadian cars, trucks, and auto parts do not become a reality, at least for any substantial length of time.[2] We additionally project crude oil prices to begin declining in the back half of the year, returning to near their level prior to the war with Iran by the end of 2028. As noted, we also expect inflation to cool off substantially over the next year, giving the Federal Reserve breathing room to avoid interest rate hikes and allowing for slight relief in long-term interest rates. Any of these assumptions could prove to be too optimistic, in which case we would expect Michigan's economic performance to be weaker than we have projected.

Michigan's economy is caught in a precarious position, facing demographic speed limits to growth and an external environment that poses important risks. Seen through this lens, we believe that the state's recent economic performance is a story of resilience amid tough challenges. We project that resilience to continue over the next two years.

---

[1] One simple point of comparison is that we project Michigan's population aged 16 through 64 years to decline by roughly 19,000 people in 2026; the currently published statistics indicate that Michigan's labor force has declined by 115,000 people from January to July.

[2] See, for instance, Tiago Ventura, "'We Don't Need Canada': Trump Escalates Trade War With Threat of 50% Auto Tariffs," *Time*, August 24, 2026.

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 August U.S. forecast report explains the current state of tariffs and how they may change over the forecast. Ultimately, the broad tariff burden remains similar to what it was in our May forecast. However, unresolved U.S.-Canada tensions continue to create uncertainty. The announced 50-percent tariffs under Section 338 of the Tariff Act of 1930 on roughly $20 billion of Canadian imports—including goods eligible for preferential treatment under the U.S.-Mexico-Canada Agreement (USMCA)—alongside the shift to annual USMCA reviews, signal that trade disputes with Canada are far from re-solved. However, we expect the threatened 50-percent tariffs on Canadian cars, trucks, and auto parts to serve primarily as a bargaining chip in future negotiations and that they will not come to fruition durably. Meanwhile, Mexico has taken further steps to align its export controls with U.S. policy. Our view is that, despite some additional disruption from the Section 338 tariffs, Michigan's auto industry can continue to function in the absence of further escalation.

Figure 2
Light Vehicle Sales Coasting in Neutral

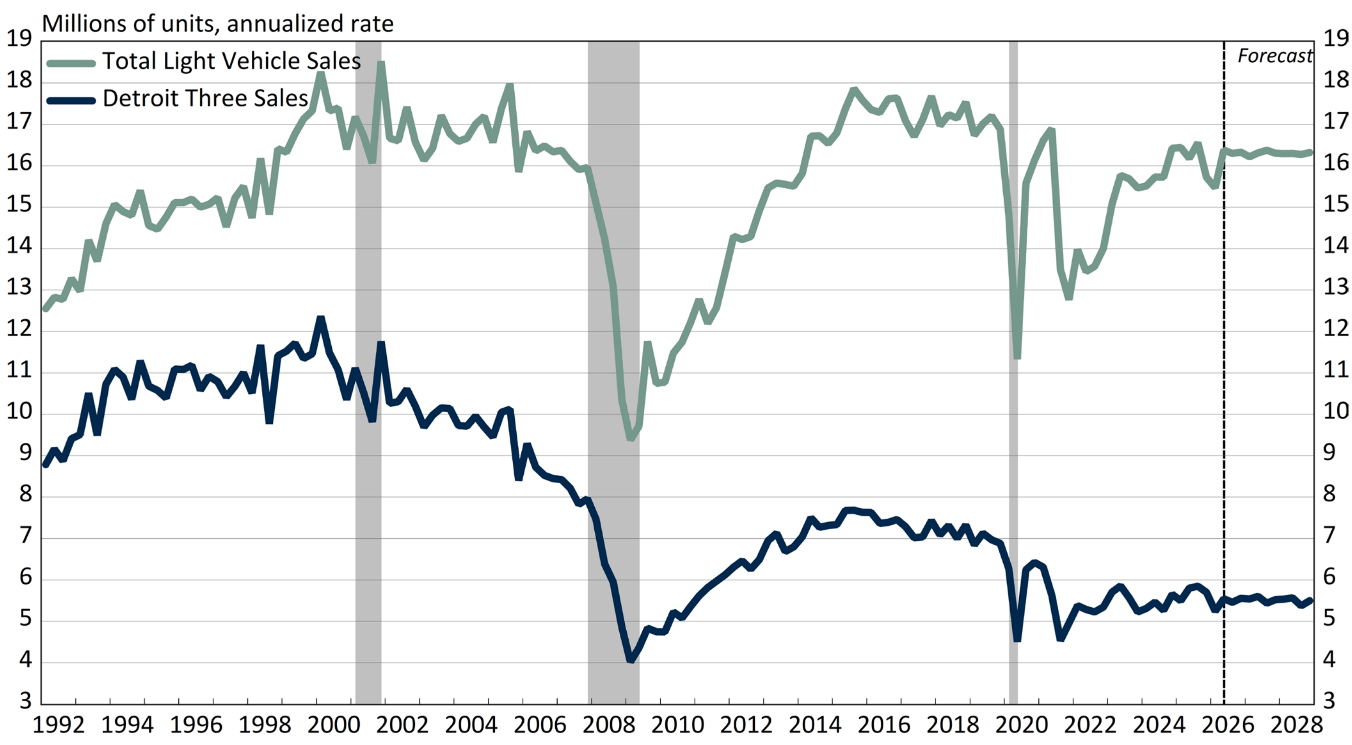


Figure 2 shows our quarterly forecast for total U.S. and Detroit Three light vehicle sales. Light vehicle sales rebounded from weather-related weakness early in 2026 to a healthy and seemingly sustainable average pace of roughly 16.4 million units this spring and summer, with the oil price spike exhibiting little meaningful impact on the new vehicle market. Improved affordability has likely helped to sustain demand, as wage growth has outpaced vehicle price inflation and financing costs have remained relatively stable. Moving forward, we expect muted job and wage growth to limit further gains, keeping the annualized sales pace near 16.3 million units through the fourth quarter of 2028, even as oil prices work their way down.

The Detroit Three's share of U.S. light-vehicle sales averaged 33.9 percent in the first half of 2026. Despite higher gasoline prices, we do not expect a significant decline in Detroit Three sales, as tariff refunds and the elimination of CAFE penalties should support the automakers' cash flows and truck-heavy mix in the near term. While ongoing trade tensions with Canada pose a risk to the Detroit Three automakers, we expect cooler heads to prevail and tariff policy to end up in a tolerable position for domestic auto manufacturers over the medium term. Ultimately, we project that the Detroit Three's market share will remain around 33.7–33.9 percent over the forecast. In unit terms, Detroit Three sales are expected to average 5.5 million vehicles annually from 2026 through 2028, just below the 5.6-million-unit annual average recorded from 2023 through 2025.

Payroll Employment

Figure 3 shows the historical data and our forecast of Michigan's quarterly payroll job count. Based on the performance so far this year, we are projecting Michigan to add 3,200 jobs in 2026 following a loss of 2,300 in 2025. Growth picks up to 15,400 job gains next year before slowing back down to 4,200 jobs in 2028. Our forecast takes Michigan's payroll job count to 1.5 percent above its pre-pandemic level by the end of 2028, but it remains 3.9 percent below its all-time peak from the second quarter of 2000.

Figure 3
Michigan Payroll Employment Reaches Cruising Altitude

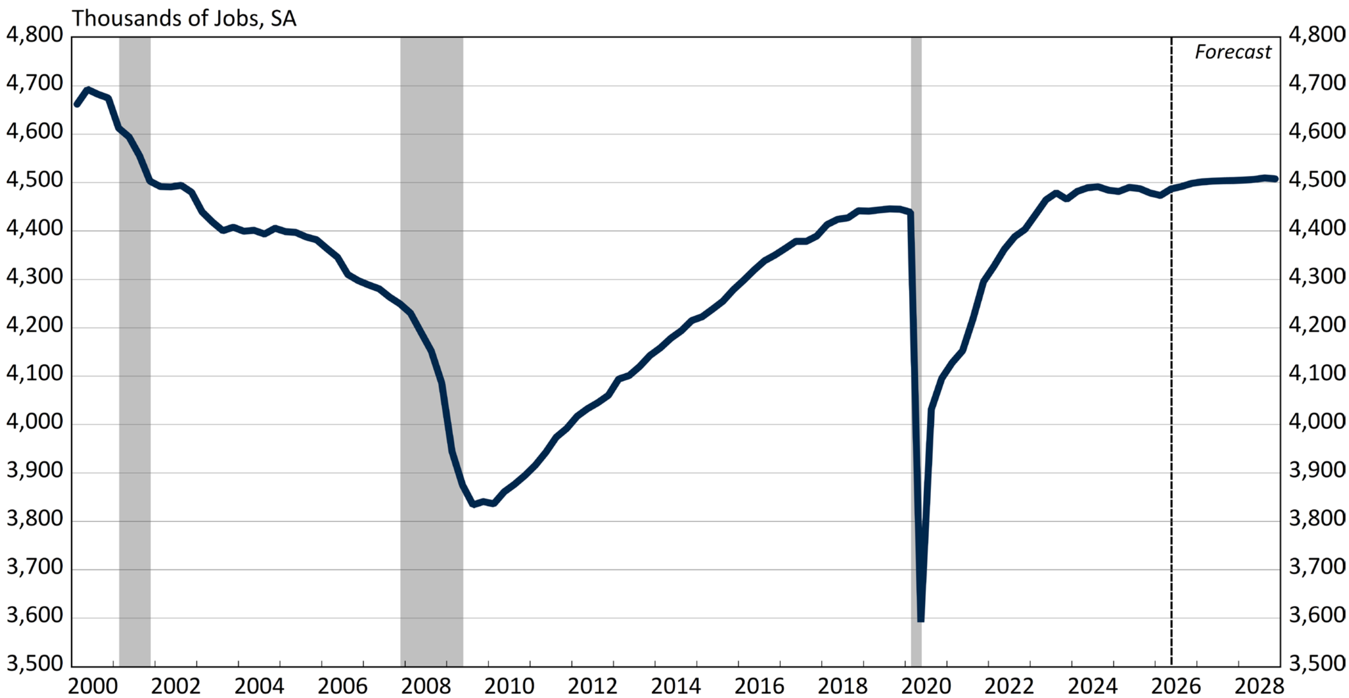


Table 1 displays our forecast for Michigan's annual job growth by industry, while Figure 4 divides our industries into two groups: "Cyclical Industries" and "Non-cyclical Industries."[3] We have named the groups this way because the non-cyclical industries typically display much less volatile employment 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 16,300 jobs this year before recovering an average of 1,400 jobs per year in 2027–2028. Michigan's non-cyclical industries add 19,500 jobs this year and another 14,200 in 2027 before their growth slows to 2,600 jobs in 2028.

Michigan's **construction** industry has lost about 2,100 jobs from the second quarter of 2025 through the second quarter of this year. The residential portion of the industry has contended with high mortgage rates, weak homebuyer demand, and builder pessimism. On the other hand, the AI buildout has supported demand in commercial construction. On balance, we are projecting Michigan's construction sector to lose 1,800 jobs this year on a calendar year basis. Modest growth averaging 1,400 jobs

[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 percent of nonfarm payroll employment in Michigan in 2025.

annually returns in 2027 and 2028 as mortgage rates decline slightly. Despite the recent job losses and relatively slow growth that we are projecting for the construction sector, it is worth noting that the level of employment in the industry remains healthy. As of the recent cyclical peak in the third quarter of 2025, Michigan's construction sector featured higher employment than at any time since early 2002.

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

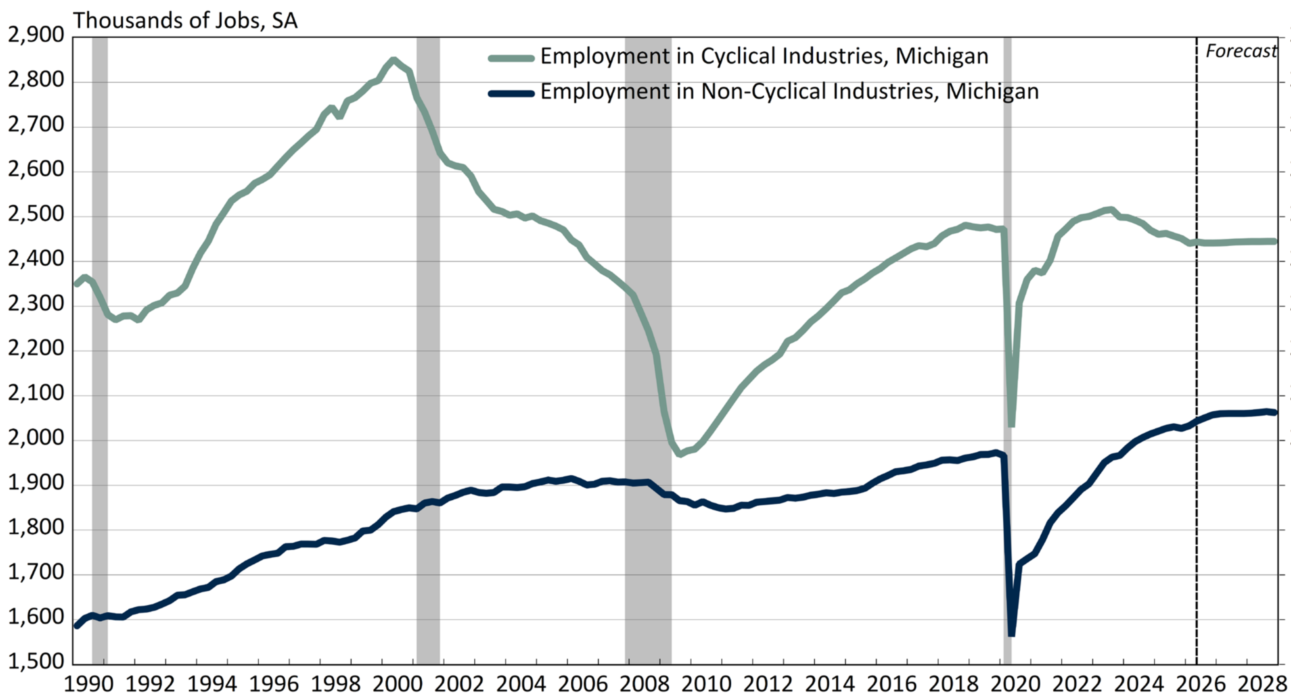
	2025	Δ'25–'26^F	Δ'26–'27	Δ'27–'28	Δ'25–'28
Total Jobs	**4484.7**	**3.2**	**15.4**	**4.2**	**22.8**
Total Government	627.1	12.1	5.1	3.0	20.2
Total Private	3857.6	-8.9	10.3	1.2	2.6
Natural resources and mining	7.0	0.3	0.0	0.0	0.2
Construction	201.2	-1.8	1.6	1.2	1.1
Manufacturing	586.0	-4.9	1.5	1.4	-2.1
Transportation equipment manufacturing	174.3	-1.9	0.9	0.4	-0.6
Other manufacturing	411.7	-3.0	0.6	0.9	-1.5
Trade, transportation, and utilities	805.6	-7.6	-2.6	-2.5	-12.7
Retail trade	452.7	-0.1	-1.3	-3.3	-4.7
Transportation, Warehousing, and Utilities	178.0	-3.3	-1.1	0.2	-4.2
Wholesale trade	174.8	-4.2	-0.1	0.6	-3.8
Information	54.8	-1.7	-0.3	-0.4	-2.5
Financial activities	240.3	1.5	1.1	2.2	4.8
Professional and business services	625.1	-3.5	-0.4	-0.6	-4.5
Professional, scientific & technical services	307.8	-2.3	0.1	0.0	-2.2
Management of companies & enterprises	64.4	-1.7	0.0	-0.1	-1.7
Admin & support & waste mgmt.	252.9	0.4	-0.5	-0.6	-0.7
Private education and health services	732.9	7.3	3.9	-3.7	7.5
Leisure and hospitality	429.3	0.1	4.1	2.7	6.9
Other services	175.4	1.5	1.4	0.9	3.9
Addendum: Percent Change in Total Jobs		**0.1**	**0.3**	**0.1**	**0.5**

RSQE: September 2026

[F] Denotes the start of the forecast period.

Michigan's **manufacturing** sector lost over 30,000 jobs in 2024 and 2025. High interest rates and uncertainty about trade policy have both posed challenges for the local manufacturing sector, and this year's run-up in energy prices caused by the war with Iran has added another burden. We are projecting Michigan's manufacturing sector to lose 4,900 jobs in calendar 2026, but those losses reflect primarily the historical path in the second half of 2025, rather than ongoing declines. Manufacturing recovers an average of 1,400 jobs per year in 2027–2028. The renewed trade tensions with Canada are a major downside risk to our projections. Although we believe that Michigan's manufacturing can withstand the current tariffs and retaliatory measures, substantial escalation, especially pertaining to the auto sector, would be much tougher to accommodate.

Figure 4
Non-Cyclical Industries Drive Employment Gains



Michigan's **professional and business services** supersector generally follows the manufacturing sector's employment patterns, and that trend has continued recently. Professional and business services shed a cumulative 28,000 jobs in 2024 and 2025, and they are on track to lose another 3,500 this year. In contrast to our expectation that manufacturing will recover a modest number of jobs over the next two years, we expect modest job losses in professional and business services to persist, at an average rate of 500 jobs annually. Administrative and support and waste management and remediation services drive most of those losses.

Michigan's **trade, transportation, and utilities** supersector lost a total of 7,500 jobs in 2024–2025, and we are projecting another 7,600 job losses this year given the sector's performance to date. We forecast losses to continue at an average pace of 2,600 jobs per year in 2027 and 2028, slower than the recent pace but still meaningful. The job losses in our projection stem primarily from the retail trade sector, which continues to lose jobs as traditional retailers face competition from online sales. After losing jobs this year and in 2027, the wholesale trade and transportation, warehousing, and utilities sectors exhibit modest growth in 2028.

Michigan's **financial services** sector is on track to add 1,500 jobs this year, despite stubborn mortgage rates and a sluggish housing sector. In fact, the financial services sector has gained jobs every year since 2011 except for the pandemic year in 2020. We expect that trend to continue over the next two years, with 1,100 job gains in 2027 and 2,200 in 2028.

Michigan's **non-cyclical industries** added 25,900 job gains in 2025, and they are on pace to add another 19,500 jobs this year. We expect solid growth to continue next year, with 14,200 job gains, before a substantial slowdown to 2,600 jobs in 2028 as budget cuts in the healthcare sector weigh on health services employment.

We project Michigan's **private education and health services** sector to add 7,300 jobs this year and another 3,900 in 2027. The sector then reverses course in 2028, losing 3,700 jobs as funding cuts contained in the One Big Beautiful Bill Act of 2025 take a toll on growth. Michigan's private education and health services sector has only lost jobs in two calendar years since the start of the modern industry classifications in 1990: in 1998 and during the pandemic year of 2020. This sector turning from a reliable engine of job growth to a source of losses represents a serious risk for the state economy.

Growth in Michigan's **leisure and hospitality** industry has nearly flatlined recently, with only 700 job gains last year followed by a weak start to 2026. A healthier performance recently has led us to project the sector to eke out 100 job gains this year. Faster growth at an average pace of 3,400 jobs annually resumes over the next two years. Our forecast takes Michigan's leisure and hospitality sector to slightly above its pre-pandemic employment level by the end of 2028.

The **other private services** sector has settled into what appears to be a stable growth path. We are projecting 1,500 job gains this year to be followed by 1,400 in 2027 and 900 in 2028. Employment in other private services is already well above its pre-pandemic level, so its sustained growth recently has been encouraging to see.

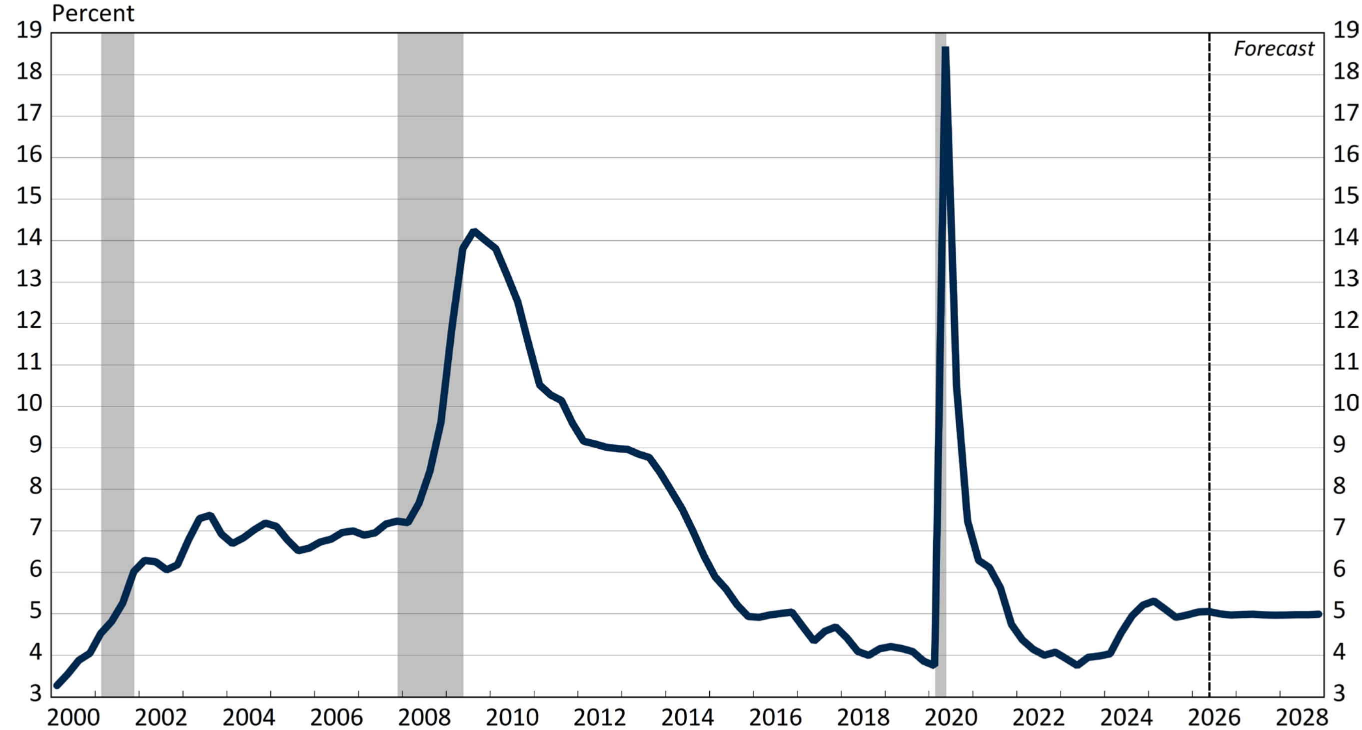
Last year, we were concerned that the shrinking federal workforce and the end of pandemic-era support for state and local governments would weigh heavily on Michigan's **government** sector. Government ended up adding 7,900 jobs in 2025, a slower pace than in the preceding few years but still meaningful growth. We have seen solid growth continue so far this year, and we now project growth to accelerate to 12,100 job additions in 2026. We expect growth to moderate to an average of 4,100 jobs per year in 2027–2028 as government's share of total employment in Michigan edges up. Despite this increase, government's share of Michigan employment remains below its average for this millennium by the end of our forecast.

Unemployment and Labor Force Participation Rates

Figure 5 displays the historical data and our forecast for Michigan's quarterly unemployment rate. The state's unemployment rate reached a cyclical peak of 5.3 percent in the first quarter of 2025 before settling between 4.9 and 5.1 percent from May 2025 through July 2026. While this stability may seem like positive news, the underlying details are less encouraging. Over the twelve-month period ending in July 2026, the number of employed Michiganders declined by 2.8 percent, while the state's labor force participation rate fell by 2.0 percentage points. Michigan's shrinking labor force has accordingly helped keep downward pressure on the state's unemployment rate. As discussed in the introduction, we must confess that we are somewhat puzzled by the magnitude of these declines in such a short period of time, because the monthly payroll survey shows that Michigan establishments gained a modest number of jobs over the same period.

We expect Michigan's labor market to stabilize by the end of our forecast as the national economy reaches cruising speed. We project that the number of employed Michigan residents will decline by 2.2 percent in 2026 and another 0.4 percent in 2027 before holding steady in 2028. The state's unemployment rate is projected to hover near 5.0 percent throughout the forecast, as the decline in Michigan's labor force begins to moderate.

Figure 5
Michigan's Unemployment Rate Hovers Near 5.0 Percent



Michigan's labor force participation rate declined from roughly 62 percent in the second half of 2024 to 59.1 percent in July 2026. This decline puts the state's participation rate on par with levels seen in mid-2021, as Michigan was recovering from the COVID-19 pandemic. Excluding the pandemic period, Michigan's labor force participation rate in July 2026 is approaching its lowest level since 1976, when the Local Area Unemployment Statistics begin.

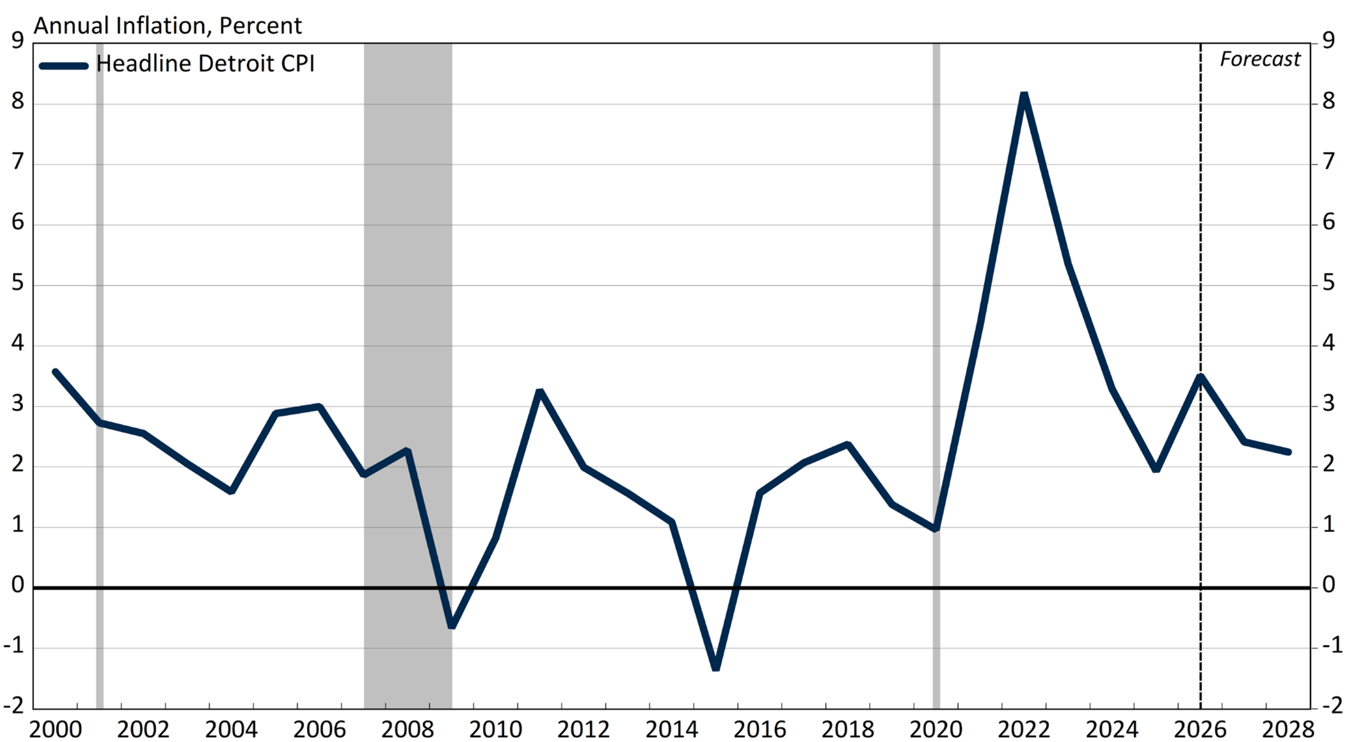
We project that the state's labor force participation rate will tick up during the first half of 2027 before resuming its decline over the remainder of the forecast, as baby boomers continue to retire and current immigration policies restrain labor force growth. By the end of 2028, we expect Michigan's labor force participation rate to edge down to 59.0 percent.

While this forecast may seem optimistic given the severity of the decline over the past two years, we reiterate our puzzlement regarding the currently published estimates. We would not be surprised if those estimates are revised meaningfully next year. At the same time, we recognize that Michigan's aging demographics are beginning to show up more clearly both in the data and in our forecast.

Local Inflation

Figure 6 shows the historical path and our forecast for annual headline (all-items) Detroit CPI inflation. Progress toward normalizing inflation has been disappointing, with the Federal Reserve's preferred measure moving in the wrong direction through May as the effects of tariff pass-through continue to linger, the war in Iran persists, and AI-related price increases leak into consumer prices. National core CPI inflation, however, has provided some relief, registering 2.5 percent year over year in July as disruptions from last fall's federal government shutdown faded. Local headline inflation has accelerated amid the war with Iran, rising from 2.3 percent in February to 4.0 percent in June 2026. Mirroring the national trend, though, local core inflation has offered some relief to Michiganders, slowing from 2.4 percent in February to 2.1 percent year over year in June.

Figure 6
Local Inflation Heats Back Up



Looking ahead, we see two major wildcards for our inflation outlook over the next several years. First, the war in Iran represents a significant source of uncertainty. Our forecast assumes that shipping traffic through the Strait of Hormuz will largely normalize by the second half of 2027. If shipping flows recover sooner than anticipated, oil prices would likely decline more quickly as well. If, however, a resolution is delayed or disruptions to shipping persist, prices could remain elevated for longer, and the resulting economic damage could become more severe the longer it takes to reach a resolution.

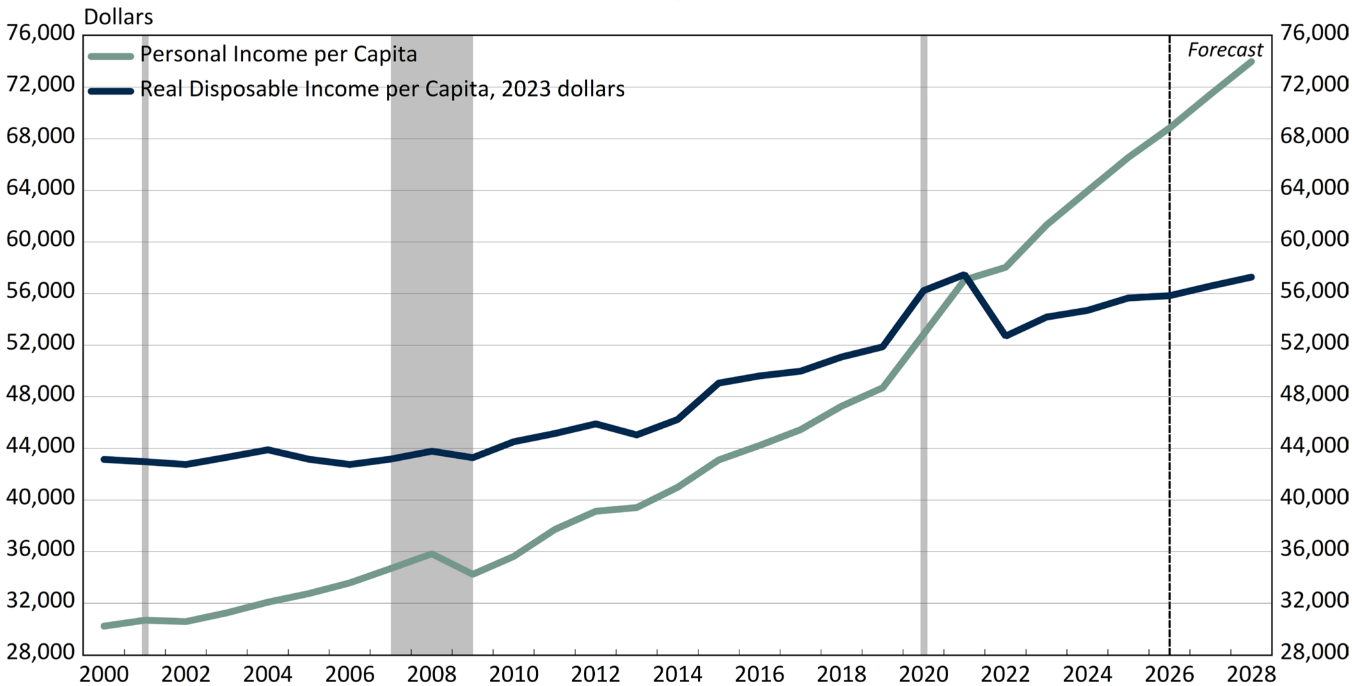
Second, while overall trade policy appears to be settling into place, the Section 338 tariffs on Canada suggest that trade relations with one of Michigan's largest trading partners remain unsettled. Although we expect a deal to be reached eventually, the stop-and-start nature of the Administration's trade actions increases the risk of more frequent price adjustments and a more prolonged period of elevated inflation.

Inflation data for early 2026 featured some noise as the BLS worked through gaps in data collection resulting from last fall's federal government shutdown. Figure 6 displays annual inflation rates, which should smooth out much of that volatility. Amid continued tariff pressures and uncertainty surrounding the war in Iran, we expect year-over-year local headline inflation to reach 3.7 percent by the end of 2026 before easing to the 2.1–2.3 percent range by the second half of 2027 and remaining there through the end of 2028. We anticipate that inflation will 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 average 3.5 percent in 2026 before declining to 2.4 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. On a calendar year basis, personal income per capita in Michigan increased from $64,000 in 2024 to $66,600 in 2025, a gain of 4.1 percent. Personal income growth tends to track the trajectory of wages and salaries in the state, which account for nearly half of Michigan's total personal income. We forecast personal income per capita to grow by an average of 3.6 percent annually from 2026 through 2028, on par with our forecast for average annual wage growth. By 2028, we expect Michigan's personal income per capita to reach $74,000, more than 50 percent above its 2019 level.

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



Our forecast for real disposable income per capita combines projections for nominal personal income with our forecasts for taxes and local inflation. Low inflation during the early pandemic period, combined with substantial federal assistance, initially produced sharp gains in real disposable income. Those gains were largely reversed in 2022 as inflation accelerated and federal support faded. More recently, local inflation fell below 2.0 percent in 2025 for the first time since 2020, helping real disposable income growth rebound to 1.8 percent last year.

Looking ahead, we expect real disposable income growth to moderate substantially in 2026 as local inflation rises to 3.5 percent. At the same time, real wage growth is expected to remain positive throughout the forecast, providing support for household purchasing power. On an annual basis, we forecast real disposable income per capita to grow by 0.3 percent in 2026 and by 1.2–1.3 percent in both 2027 and 2028. Although still below its stimulus-fueled peak in 2021, Michigan's real disposable income per capita is projected to stand 10.4 percent above its 2019 level by 2028, just 0.4 percent below its level in 2021.

The State Revenue Outlook

Total state tax revenue collections over the summer have come in above our previous May forecast, which was established following the state's Consensus Revenue Estimating Conference (CREC). We had previously forecast combined revenues to increase by $513 million in fiscal 2026, but we now project a larger gain of $965 million. The primary source of this revision is sales tax revenue, which is now expected to decline considerably less than previously projected, despite the elimination of the sales tax on motor fuels.

In general, two broad forces are shaping the outlook for state tax revenue over the next few years. First, our forecast of muted economic growth, including a subdued labor market and significant policy uncertainty, translates directly into weaker state tax collections. Second, a suite of legislative changes enacted as part of the state's budget package and related bills in October 2025 has resulted in meaningfully lower tax revenue projections. The most notable changes from the legislation include the elimination of the sales tax on motor fuel purchases, new deductions for qualified tips and overtime, the repeal of the personal income tax earmark for the Michigan Transportation Fund (MTF), and a new corporate income tax earmark for the newly created Neighborhood Roads Fund.[4]

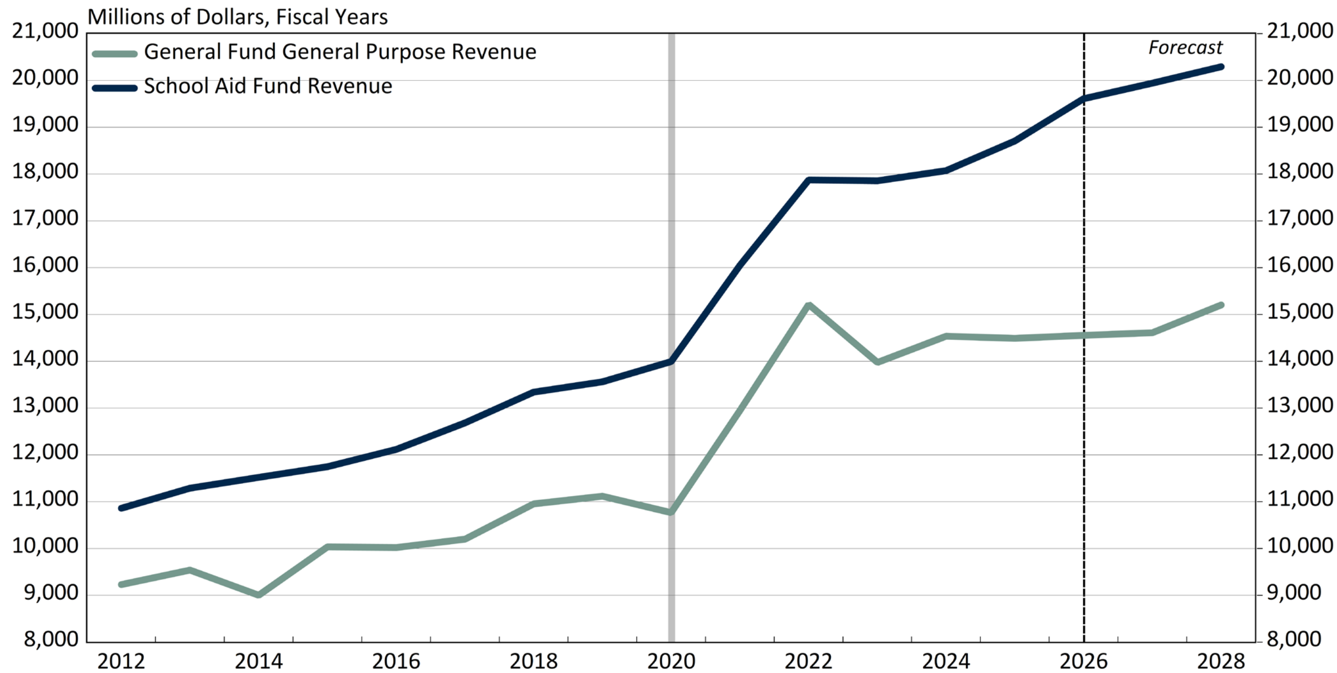
Taken together, we expect that the provisions included in the state budget package will lower General Fund revenue by approximately $1.1 billion in fiscal 2026 and $1.4 billion in each of fiscal 2027 and 2028. The impact on School Aid Fund revenue is considerably smaller, with annual reductions of approximately $20 million to $25 million in fiscal 2026 through fiscal 2028.

Figure 8 shows the history and our forecast of total GFGP and SAF revenues. We anticipate that combined GFGP and SAF revenues will grow by 2.9 percent in fiscal 2026, followed by more modest growth of 1.1 percent in fiscal 2027 before accelerating to 2.7 percent in fiscal 2028. Gains in personal income tax and use tax revenue in fiscal 2026 are partially offset by declines in sales and business tax revenues, reflecting the effects of the legislative changes. In fiscal 2027, growth in personal income tax revenue slows, while sales and use tax revenues remain essentially flat. Total revenue firms up in fiscal

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

2028, when sales and use tax revenues return to growth, net personal income tax revenue growth holds steady, and most of the legislative changes have been phased in.

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



Our forecast puts total state tax revenue $10.8 billion, or 43.8 percent, higher in fiscal 2028 than in fiscal 2019, well above the pre-pandemic trend. Still, much of that growth has occurred alongside higher inflation. After adjusting for local inflation, cumulative state revenue growth between fiscal 2019 and fiscal 2028 is only 4.9 percent, with average real growth of only 0.5 percent per year.

We now describe our forecast for state tax revenues in more detail. Table 2 summarizes the recent history for fiscal 2025 alongside our projections for fiscal years 2026 through 2028. GFGP revenues are presented in the first section of the table, while the second section breaks down SAF revenues.

Net Personal Income Tax Revenue

- Net personal income tax revenue grew by 2.9 percent in fiscal 2025, as an unexpected rise in refunds tempered growth. We forecast net personal income tax growth to accelerate to 6.9 percent in fiscal 2026 with healthy contributions from all components except for annual payments, which post a small decline. Net personal income tax revenue growth then moderates to 2.8 percent in each of fiscal 2027 and fiscal 2028.

- 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 is calculated before refunds, the SAF's distribution of personal income tax revenue grows at a healthy 5.0 percent in fiscal 2026, before cooling to 2.9 percent in fiscal 2027 and 2.3 percent in fiscal 2028.
- Changes affecting retirement income, qualified tips, and qualified overtime will reduce the General Fund's distribution of income tax revenue by $153.3 million in fiscal 2026, $178.0 million in fiscal 2027, and $169.6 million in fiscal 2028. These reductions are more than offset by the repeal of the MTF earmark, which increases the General Fund's share by $600 million annually. Consequently, GFGP net personal income tax revenue is projected to rise 15.5 percent in fiscal 2026, followed by growth of 2.7 percent in fiscal 2027 and 3.1 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 edged up by 0.7 percent in fiscal 2025, as an increase in sales tax revenue offset declines across the other components.
- Gross sales and use tax revenue is projected to decline 2.5 percent in fiscal 2026 and another 0.2 percent in fiscal 2027, before rising by 1.6 percent in fiscal 2028. The decline this year and the weakness next year are the result of the elimination of the sales tax on motor fuels. In the absence of that change, we would be projecting growth of 4.6 percent in fiscal 2026 and 1.5 percent in 2027.
- After accounting for the General Fund's share of gross sales and use tax revenue as well as excise taxes on cigarettes and alcohol, we forecast GFGP consumption tax revenue to increase by 1.6 percent in fiscal 2026 before growing by 3.4 percent in fiscal 2027 and 2.3 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 non-earmarked 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.
- GFGP business tax revenue is expected to fall sharply over the next two fiscal years, declining 13.3 percent in fiscal 2026 and another 5.5 percent in fiscal 2027, before rebounding 14.8 percent in fiscal 2028. The declines in 2026 and 2027 are driven by the new transportation earmarks from the CIT. Under the new legislation, $688 million of CIT revenue in fiscal 2026, $776 million in fiscal 2027, and $864 million in fiscal 2028 will be directed to the Neighborhood Roads Fund. The projected rebound in fiscal 2028 is supported by an expected decline in MBT refunds.

Total General Fund Revenue

- Total GFGP revenue ticked down by 0.3 percent in fiscal 2025. Modest increases in personal income and consumption tax revenues were more than offset by decreases in business tax and nontax revenues.

- Most of the recent legislative changes begin to take effect in fiscal 2026, with the largest impacts stemming from the CIT earmark for the Neighborhood Roads Fund and the General Fund distribution to the School Aid Fund to replace sales tax revenue lost from motor fuels. Taken together, we estimate these changes will reduce GFGP revenue by $1.1 billion in fiscal 2026 and $1.4 billion in each of fiscal 2027 and 2028.

- We project total GFGP revenue to grow by 0.4 percent in fiscal 2026, as a substantial increase in personal income tax revenue is largely offset by the effects of the new tax changes. Growth remains modest in fiscal 2027, with GFGP revenue rising another 0.4 percent. Moderate personal income tax growth and gains in consumption tax revenue partially offset declines in business and nontax revenues, as well as a larger transfer to the SAF to replace sales tax revenue lost from motor fuels. Total GFGP revenue growth accelerates to 4.1 percent in fiscal 2028, supported by growth across all major revenue categories and a smaller transfer to the SAF.

- By fiscal 2028, our forecast puts total GFGP revenue $4.1 billion, or 36.7 percent, above its fiscal 2019 level. After adjusting for local inflation, however, that gain becomes a real decline of 0.3 percent. Still, much of the weakness relative to 2019 reflects legislative changes; absent those changes, revenue would rise a projected 8.6 percent in real terms from 2019 to 2028, for average annual growth of 0.9 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-sixth 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 coincided 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 revenues are projected to remain strong over the forecast, 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 4.2 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.

- Overall, we project total SAF revenue to grow by 4.8 percent in fiscal 2026, before growth moderates to 1.7 percent in fiscal 2027 and 1.8 percent in fiscal 2028. By the end of the forecast, total SAF revenue is forecast to finish fiscal 2028 roughly $6.7 billion, or 49.6 percent, higher than its fiscal 2019 level. After adjusting for local inflation, that growth is reduced to 9.1 percent, or an average real growth rate of 1.0 percent per year from fiscal 2019 to fiscal 2028.

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

	2025	2026[F]	2027	2028
General Fund General Purpose				
Personal income tax	8,447	9,758	10,026	10,337
(% change)	(1.3)	(15.5)	(2.7)	(3.1)
Consumption taxes	3,041	3,091	3,197	3,270
(% change)	(0.7)	(1.6)	(3.4)	(2.3)
Sales	1,654	1,518	1,636	1,653
Use	1,150	1,338	1,327	1,388
Other consumption	238	235	234	229
Business taxes	1,619	1,403	1,325	1,521
(% change)	(-8.9)	(-13.3)	(-5.5)	(14.8)
MBT/SBT/Corporate income	1,073	822	726	903
Other business	546	581	599	618
Other GFGP taxes	252	274	280	285
GFGP tax revenue	13,359	14,526	14,828	15,413
(% change)	(0.1)	(8.7)	(2.1)	(3.9)
Nontax revenue	1,132	736	667	608
GFGP revenue[1]	14,491	14,552	14,610	15,201
(% change)	(-0.3)	(0.4)	(0.4)	(4.1)
School Aid Fund				
SAF taxes	17,544	17,774	17,954	18,376
(% change)	(4.3)	(1.3)	(1.0)	(2.3)
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	19,611	19,942	20,293
(% change)	(3.5)	(4.8)	(1.7)	(1.8)
Addendum				
Combined GFGP and SAF revenue	33,199	34,163	34,552	35,494
(% change)	(1.8)	(2.9)	(1.1)	(2.7)
Gross sales and use taxes	13,518	13,174	13,144	13,348
(% change)	(1.3)	(-2.5)	(-0.2)	(1.6)

[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.*

[F] *Denotes the start of the forecast period.*