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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

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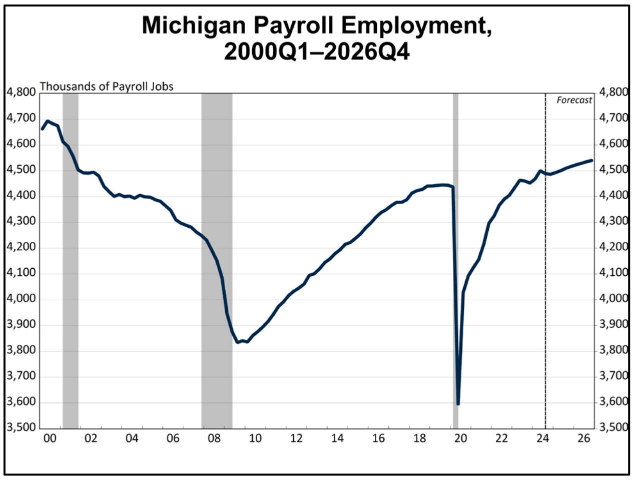
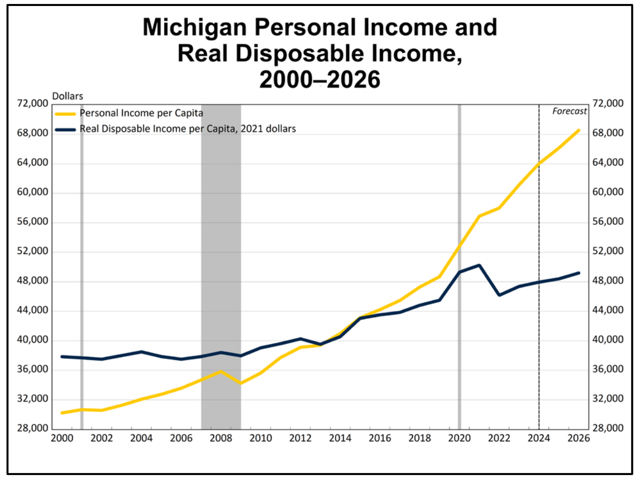
The Michigan Economic Outlook for 2025–2026: Executive Summary



Michigan's economy has decelerated noticeably since this spring and was standing in an uncertain position even before this month's elections. We believe the election results have amplified the uncertainty surrounding Michigan's economic outlook. We project a small dip in Michigan's job count in the back half of 2024 to give way to moderate job gains in 2025 and 2026, but the outlook depends critically on uncertain policy decisions and the subsequent market responses.

Job growth is concentrated in industries such as healthcare, leisure and hospitality, and government, which have historically been less sensitive to the business cycle. We project more cyclical industries such as manufacturing and professional and business services largely to tread water over the next two years.

Michigan's unemployment rate edges down from 4.6 percent in the fourth quarter of this year to 4.3 percent by the end of 2026 as job growth picks up. The labor force grows more slowly due to changes in immigration policy.



Recent data revisions paint a rosier picture for personal income growth. We now project personal income per capita to stand at $64,000 this year, $2,500 higher than we expected in September. Our forecast brings Michigan's personal income per capita to approximately $68,500 in 2026, or 41 percent higher than in 2019.

We expect local headline inflation to slow to 3.3 percent this year, down from 5.4 percent in 2023 and 8.2 percent in 2022. Local inflation eases to 2.2 percent in 2025 before ticking up to 2.7 percent in 2026 with the imposition of new tariffs on Chinese imports.

With the data revisions, we project real disposable income per capita in 2024 to stand 5.4 percent higher than in 2019. Looking forward, we forecast real disposable income growth to register 0.9 percent in 2025 before picking up to 1.6 percent in 2026, helped along by federal personal income tax cuts. By then, Michigan's real disposable income per capita is expected to be 8.1 percent above its 2019 level.

The Michigan Economic Outlook for 2025–2026

Jacob T. Burton, Gabriel M. Ehrlich, Donald R. Grimes, Michael R. McWilliams, and Yinuo Zhang
University of Michigan

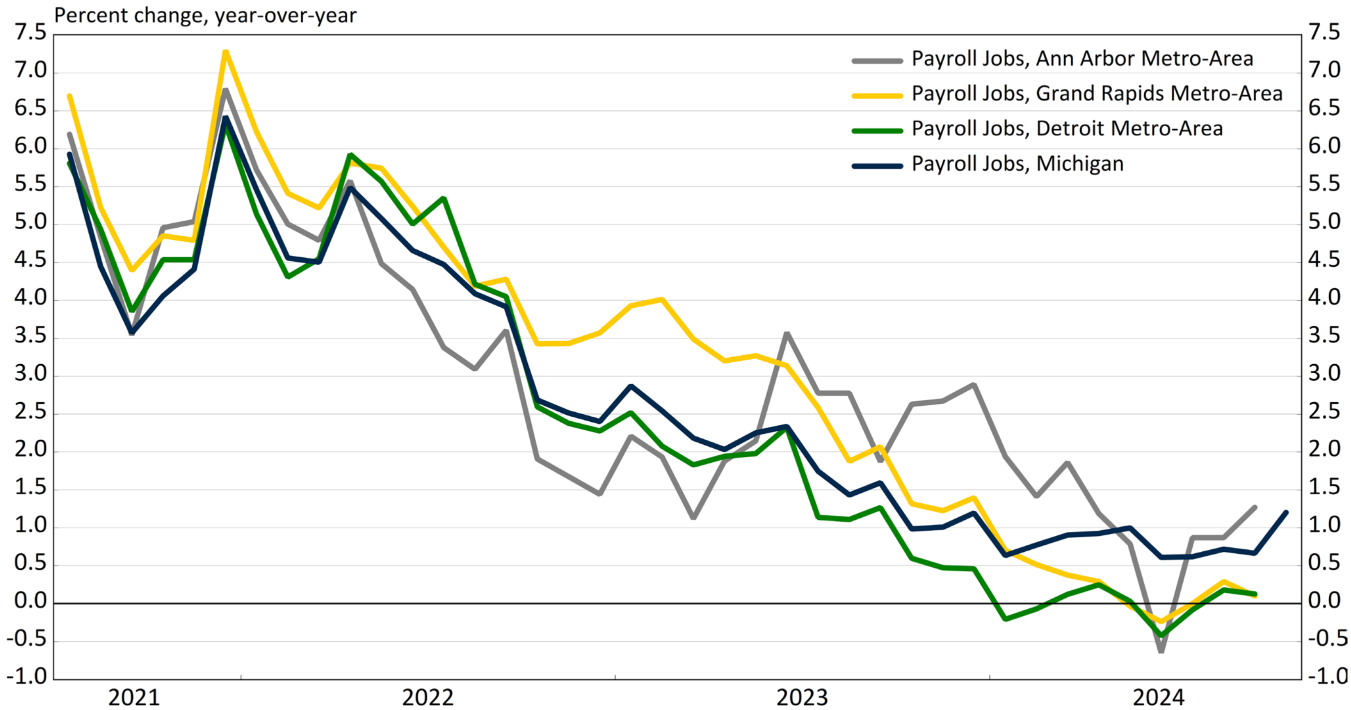
Introduction

Michigan's economy has decelerated noticeably since this spring and was standing in an uncertain position even before this month's elections. Some of the policies President-elect Trump advocated on the campaign trail have the potential to boost Michigan's economy, but others pose the risk of substantial harm. Without a solid reading on which electoral pledges will translate into policy priorities in the incoming administration, we believe the election results have amplified the uncertainty surrounding Michigan's economic outlook. We are projecting a small dip in Michigan's job count in the back half of 2024 to give way to moderate job gains in 2025 and 2026, but the outlook depends critically on uncertain policy decisions and the subsequent market responses.

Figure 1 illustrates the recent slowdown in Michigan's labor market. The blue line displays the year-over-year growth rate in statewide payroll employment. Job growth in Michigan decelerated from 1.2 percent at the end of 2023 to just 0.7 percent in September 2024. Although the growth rate ticked up in October 2024, that improvement is a statistical artifact from the comparison to last October, which featured the United Auto Workers' "Stand-Up Strike" in the auto industry—Michigan actually lost 700 payroll jobs from September to October 2024. The state has now lost 13,400 jobs since its recent employment peak in May.

The gray, yellow, and green lines in Figure 1 show year-over-year job growth rates for the Ann Arbor, Grand Rapids, and Detroit metropolitan areas, respectively. They have generally tracked the statewide growth rate downward, with the caveat that metro-level data for October was not available as of the writing of this report. Twelve-month job growth stands at just 0.1 percent in the Detroit and Grand Rapids areas, although the Ann Arbor area has held up better, with growth of 1.3 percent as of September.

Figure 1
Michigan Job Growth Decelerating



The slowdown in Michigan's payroll jobs situation has been accompanied by a rising unemployment rate. Both statewide and in metro Detroit, the unemployment rate has risen from 3.9 percent in May to 4.7 percent in October. The increase has been less pronounced in Ann Arbor, where it has risen from 3.2 to 3.7 percent in that time, and Grand Rapids, where it has risen from 3.1 to 3.6 percent.

We believe the underlying cause of the slowdown in Michigan's labor market is the Federal Reserve's policy of monetary tightening to control inflation. Although the Fed has recently pivoted toward reducing short-term interest rates, we believe that real interest rates remain at a restrictive level and that the effects of the Fed's past tight monetary policy continue to impact Michigan's economy. Indeed, in many ways, the national rebalancing in the labor market is precisely what the Fed hoped to engineer with its policy actions. Unfortunately for Michigan, our relatively rate-sensitive industry mix means that higher interest rates have taken a larger economic toll than nationally.

Our diagnosis of the cause for Michigan's recent economic soft spot also leads to our relatively benign prognosis for the state economy. We are projecting the state economy to return to growth over the next two years as easier monetary policy and another round of tax cuts boost medium-term growth. Michigan adds 19,000 payroll jobs next year and an additional 26,700 in 2026. The state unemployment rate inches down from 4.6 percent at the end of this year to 4.3 percent by the end of 2026. Local inflation slows from 3.3 percent this year to 2.2 percent next year before rising to 2.7 percent in 2026 as import tariffs put pressure on consumer prices. In light of recent data revisions, we have also turned more optimistic in our projection for real disposable income growth per capita, which we expect to climb at an average pace of 1.3 percent per year over the next two years.

We consider our relatively optimistic projections for real income growth in Michigan to be one of the highlights of this year's forecast because for this year's report, we took a deep dive into the distribution of prosperity across Michigan. We found large disparities in residents' chances of belonging to the middle class or higher-income groups that vary widely by geography, education level, and race and ethnicity. We estimate that, as of 2022, Michigan lagged the nation on our measure of average adjusted household incomes by nearly $5,000. We hope that the steady growth in living standards we project over the next two years will allow more Michiganders to share in economic prosperity.

Although we acknowledge the very real risks of economic disruption ahead, we believe the most likely outcome is a state economy that withstands these challenges over the next two years, with moderate job growth accompanied by relatively low unemployment, tolerable inflation, and rising real incomes. The U.S. economy has gone through times of great uncertainty before and emerged intact. We are projecting that both Michigan and the nation will follow that path over the next two years.

Key Policy Implications of the 2026 Federal Elections

The path of economic policy in the second Trump Administration remains uncertain. Our U.S. forecast dated November 21st, 2024, outlines our main policy assumptions. Here, we summarize the policy changes we expect to have large impacts on Michigan's economy over the next two years. We discuss their implications for Michigan's economy throughout the report.

We project additional import tariffs on Chinese goods to take effect in early 2026, eventually rising to three times larger than the tariffs enacted during the first Trump Administration. We have not projected significant new tariffs on our other trading partners, however. We have incorporated limited retaliatory tariffs on U.S. exports to China within our forecast horizon.

We anticipate the tax credit for electric vehicle (EV) purchases enacted in the Inflation Reduction Act of 2022 (IRA) to end early. Yet we do not project all of the green energy provisions in the bill to be eliminated given the widespread geographic distribution of the projects benefitting from those provisions.

We project substantial personal and corporate tax cuts. They include the renewal of most tax cuts in the Tax Cuts and Jobs Act of 2017 (TCJA), a relaxation of the cap on the state and local tax deduction (SALT cap), and a partial tax exemption for Social Security benefits, tips, and overtime income. They also include a 15 percent corporate tax rate for domestic manufacturing and the return of 100-percent bonus depreciation. From a macroeconomic perspective, we project the scale of the upcoming tax cuts to be substantially larger than the scale of the projected import tariffs.

Finally, we project stricter immigration policy to produce substantially slower population growth both nationally and in Michigan. Although we expect efforts to deport undocumented immigrants, we are skeptical that such efforts will result in widespread removals. We expect the flow of new international immigrants into the country to slow significantly, though.

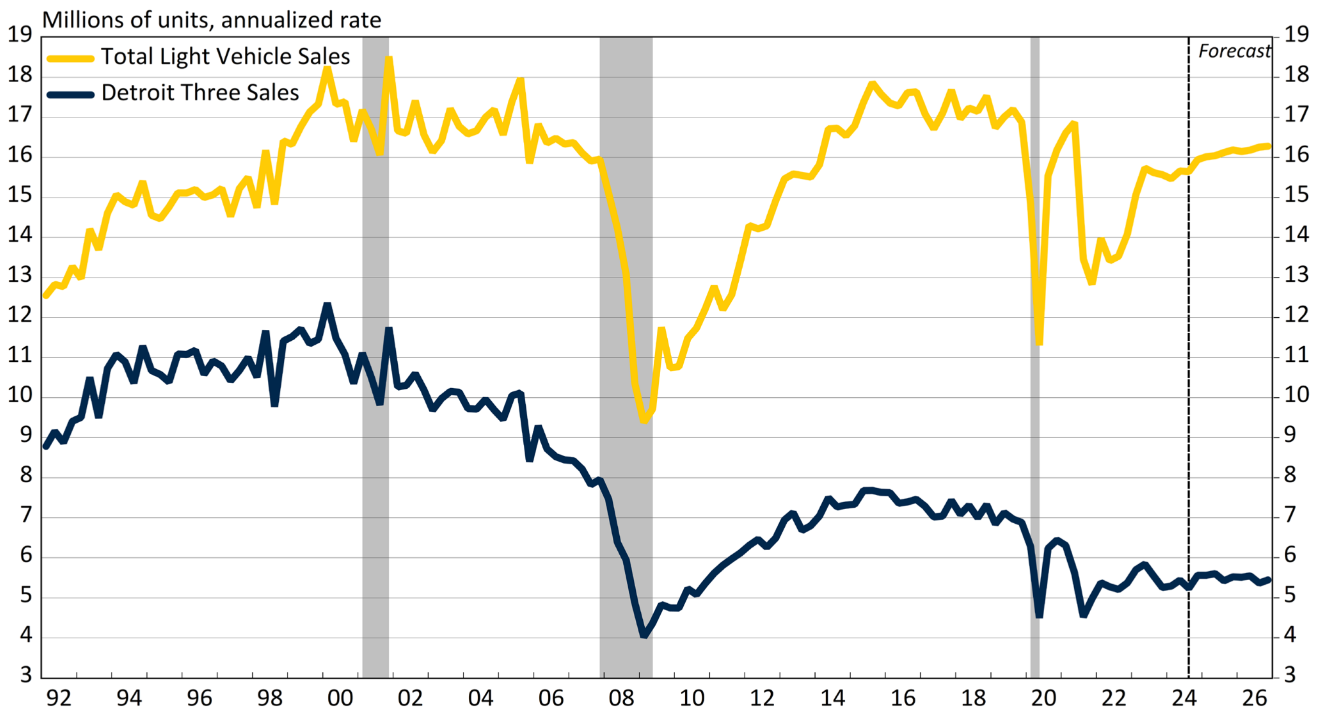
The Forecast of the State Economy

Detroit Three Light Vehicle Sales

Figure 2 shows our quarterly forecast for total U.S. and Detroit Three light vehicle sales. The seasonally adjusted annualized sales pace exceeded 16 million units in October for the second time this year, but the year-to-date average still stands at a modest 15.6 million units. Poor affordability due to high vehicle finance interest rates is one factor holding back vehicle sales, but we expect interest rates on auto loans to decline as the Fed's cutting cycle proceeds. We forecast that the sales pace will average 15.9 million units in the fourth quarter of 2024 and rise to 16.3 million units by the end of 2026, with growth concentrated in the light truck segment, including pickups, SUVs, and crossovers.

While the medium-term outlook for auto production and sales remains robust, the trajectory of electric vehicle (EV) adoption remains a key risk to our forecast. The anticipated early phaseout of the tax credits for purchasing an EV could slow the future growth of EV sales. Perhaps counterintuitively given Tesla's lead in EV sales, the elimination of the tax credit could harm the Detroit Three because they face a substantial cost disadvantage in EV production.[1] We expect the phaseout to affect the Detroit Three automakers unevenly. GM faces challenges due to its large investments in EV manufacturing, while Ford's moderate EV investments position it to weather the shift reasonably well. Stellantis appears best positioned to benefit, given its comparatively limited EV investments.

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



The Detroit Three's share of U.S. light vehicle sales registered 35.1 percent in October, on par with its level from last winter after the UAW strike. Looking forward, we anticipate that the Detroit Three's market share will resume its decade-long contraction, declining to 33.5 percent by the end of 2026. Combined with our projection of increasing total light vehicle sales, our forecast for the Detroit Three's share of the market implies that Detroit Three vehicle sales will total 5.4 million units in 2024 and 5.5 million units in both 2025 and 2026, remaining in line with their post-pandemic sales pace.

We assume that President-elect Trump's tariffs on Chinese imports will take effect in early 2026. While these measures may provide short-term protection to domestic participants in the light vehicle

[1] See, for instance, Breana Noble and Grant Schwab, "EV tax credit death could be first effect of Trump-Musk 'bromance'." *The Detroit News*, November 14, 2024. https://www.detroitnews.com/story/business/autos/2024/11/14/electric-vehicle-tax-credit-donald-trump-elon-musk-auto-industry-regulations-tariffs-doge/76200942007/.

market, they could also disrupt supply chains for imported parts and drive-up costs. Ultimately, a prolonged trade war with multiple rounds of retaliation could harm manufacturing employment in Michigan despite its intent to protect the industry.

Payroll Employment

Figure 3 shows our forecast of Michigan's quarterly payroll job count. Michigan added 48,100 jobs in the first half of the year before giving back nearly one-quarter of those gains in the third quarter. We are projecting the state to lose another 2,400 jobs this quarter. Moderate growth returns next year as looser monetary policy works its way through the economy, with 19,000 job gains, or a growth rate of 0.4 percent. Growth accelerates a bit to 26,700 job gains, or a 0.6 percent pace, in 2026, as the stimulative effects of the personal and corporate federal tax cuts we are projecting outweigh the drag from additional tariffs on Chinese imports. Michigan's payroll jobs count climbs to 2.3 percent above its pre-pandemic level by the end of 2026, but it remains 3.3 percent below its all-time peak from the second quarter of 2000.

Figure 3
Quarterly Michigan Payroll Employment

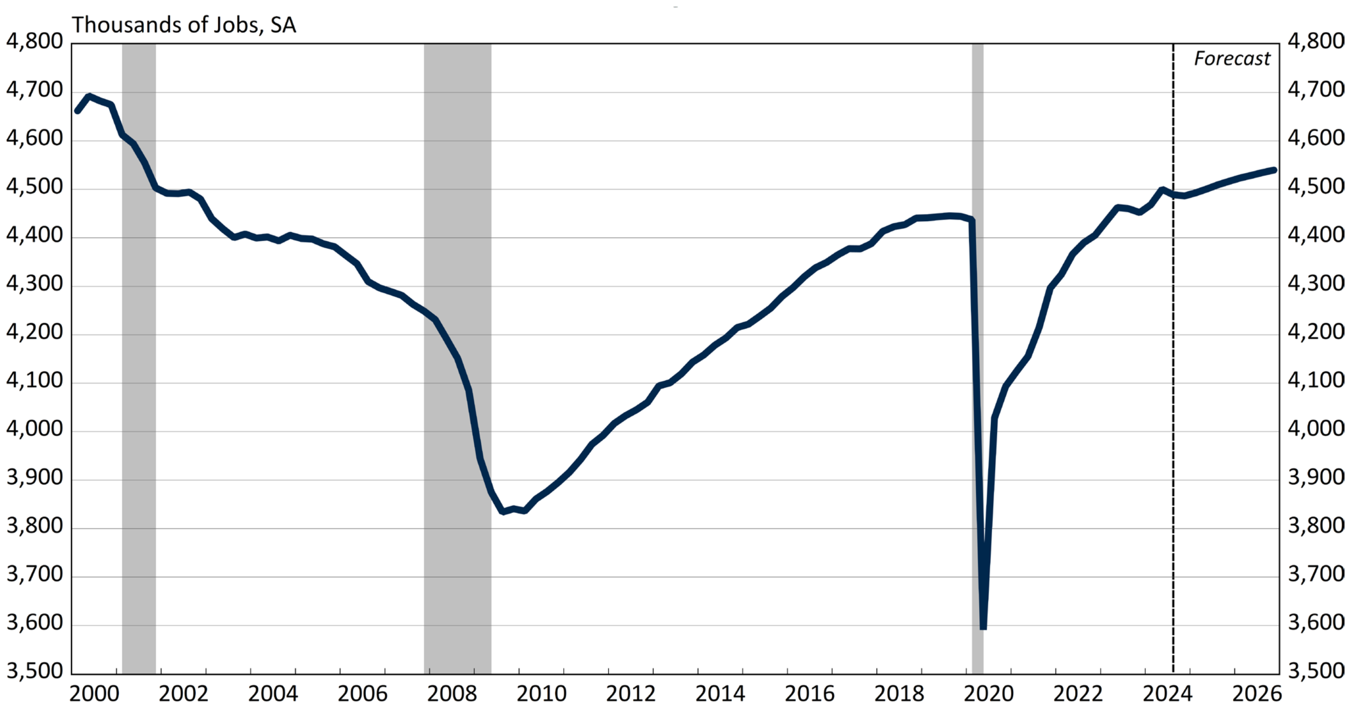
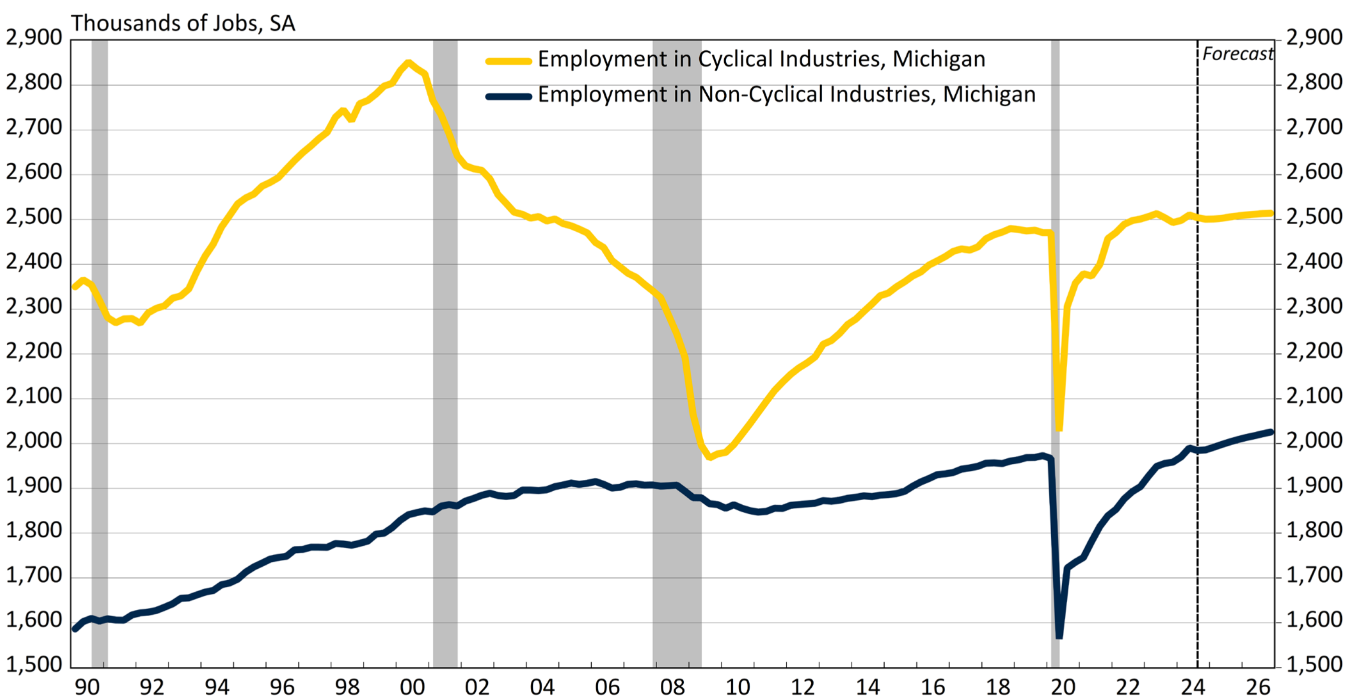


Table 1 below displays our forecast for Michigan's annual job growth by industry, while Figure 4 splits our industries into two groups: "Cyclical Industries" and "Non-cyclical Industries."[2] This distinction helps to illustrate the logic behind our forecast that Michigan will return to job growth next year despite the recent soft patch. As the figure shows, the non-cyclical industries have displayed much less volatile employment patterns than the cyclical industries with the exception of the COVID-19 pandemic and recovery period. We are projecting nearly all of the job growth in Michigan over the next two years to occur in the state's non-cyclical industries.

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



Michigan's **cyclical industries** have reversed course recently after adding 16,700 jobs in the first half of 2024, and we are projecting them to shed 9,500 jobs in the second half of the year. Because Michigan's cyclical industries also lost jobs in the second half of 2023, our forecast translates into a calendar year job loss of 1,100 jobs in 2024. We project the cyclical industries to eke out 1,000 job additions next year before growth picks up to 7,900 jobs in 2026.

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[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 56.3 percent of nonfarm payroll employment in Michigan in 2023.

Michigan's **construction** industry has held up well in the face of high mortgage rates and tepid permitting activity for residential homebuilding, but we expect growth to pause for the remainder of the year. Modest job growth returns in 2025 and 2026 as mortgage rates decline—the construction sector adds an average of 2,000 jobs per year, a significant downshift from its pace of 13,000 jobs this year.

The potential for large-scale deportations of undocumented immigrants poses an important risk to employment in the construction sector, but we believe the risk is less pronounced in Michigan than nationwide. The American Community Survey indicates that 7.3 percent of Michigan's population is foreign born, roughly half the 14.3 percent share nationally. Only 3.2 percent of Michigan's residents are not U.S. citizens, less than half the national share of 6.8 percent. Likewise, estimates from the Pew Research Center suggest that Michigan is home to approximately 130,000 undocumented immigrants, versus 11,000,000 nationally.[3] Those estimates imply that undocumented immigrants make up a much smaller share of Michigan's population than nationally.

We project Michigan's **manufacturing** sector to lose 9,300 jobs this year, split between slightly over 5,200 job losses in transportation equipment manufacturing and slightly over 4,000 in other manufacturing. Stellantis and Ford have both announced substantial layoffs of production workers this year amid a tough sales environment and high vehicle financing rates. Multiple automotive suppliers have cut jobs as well. We are projecting another 1,900 job losses in manufacturing next year, again spread almost evenly between transportation equipment and other manufacturing. The manufacturing sector then adds 2,300 jobs in 2026, over three-quarters of which are in the non-transportation equipment manufacturing sector.

The incoming Trump Administration's trade and industrial policies will have important implications for Michigan's manufacturing sector, but plausible alternative versions of the policy mix could have very different implications. We believe that the expected increase in tariffs on Chinese imports will pose a drag on local manufacturing by driving up the costs of upstream inputs, as seen during the trade war with

[3] Jeffrey Passel and Jens Krogstad, "What we know about unauthorized immigrants living in the U.S." Pew Research Center, July 22, 2024. https://www.pewresearch.org/short-reads/2024/07/22/what-we-know-about-unauthorized-immigrants-living-in-the-us/.

China in the first Trump Administration.[4] A retaliatory cycle would likely amplify this effect. We believe that the campaign discussion of 10 to 20 percent tariffs on imports from our other trading partners will prove to be primarily a bargaining tool rather than a long-term reality. A broader import tariff's effects on the local manufacturing sector would likely depend on the degree of retaliation from our trade partners.[5] There is a serious risk that a prolonged trade war with multiple rounds of retaliation could end up hurting employment in Michigan's manufacturing sector despite the ostensibly high degree of protection it would offer local manufacturers.

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

		Forecast Employment Change			
	2023	'23–'24	'24–'25	'25–'26	'23–'26
Total Jobs	**4452.5**	**33.8**	**19.0**	**26.7**	**79.6**
Total Government	601.9	19.3	4.2	4.5	28.0
Total Private	3850.6	14.5	14.8	22.2	51.6
Natural resources and mining	7.3	0.2	0.0	-0.1	0.1
Construction	189.0	13.0	2.5	1.5	16.9
Manufacturing	615.0	-9.3	-1.9	2.3	-8.9
Transportation equipment manufacturing	188.0	-5.2	-0.9	0.5	-5.6
Other manufacturing	427.0	-4.0	-1.1	1.8	-3.3
Trade, transportation, and utilities	814.6	5.6	-0.3	1.8	7.1
Retail trade	457.7	-1.9	-3.5	-1.2	-6.5
Transportation, Warehousing, and Utilities	178.6	3.2	1.1	1.5	5.8
Wholesale trade	178.3	4.3	2.1	1.5	7.8
Information	57.9	-0.4	-0.7	-0.2	-1.3
Financial activities	231.3	-2.7	1.7	1.1	0.2
Professional and business services	654.7	-7.7	-0.9	1.2	-7.5
Professional, scientific & technical services	317.7	-0.3	-0.5	0.5	-0.2
Management of companies & enterprises	69.3	-0.3	0.5	0.5	0.7
Admin & support & waste mgmt.	267.8	-7.2	-0.9	0.2	-7.9
Private education and health services	688.5	13.3	6.5	4.9	24.6
Leisure and hospitality	422.5	3.1	6.7	9.4	19.1
Other services	169.8	-0.5	1.3	0.4	1.1
Addendum: Percent Change in Total Jobs	**1.8**	**0.8**	**0.4**	**0.6**	**1.8**

RSQE: November 2024

On the positive side of the ledger, the potential for weaker regulatory pressure to improve fuel economy and a 15 percent corporate tax rate for domestic manufacturing should both support the local

[4] See, for instance, Ana Maria Santacreu and Makenzie Peake, "The Economic Effects of the 2018 U.S. Trade Policy: A State-Level Analysis," Federal Reserve Bank of St. Louis *Review*, Fourth Quarter 2020, pp. 385-412. https://doi.org/10.20955/r.102.385-412.

[5] See, for instance, Ana Maria Santacreu, Michael Sposi, and Jing Zhang. "What Determines State Heterogeneity in Response to US Tariff Changes?" (2023). https://www.chicagofed.org/publications/working-papers/2023/2023-09.

manufacturing industry. Likewise, the potential for targeted industrial support could also provide a boost to manufacturing in Michigan. We note that we do not expect wholesale repeal of the green energy subsidies in the Inflation Reduction Act of 2022 given likely support from Congressional Republicans whose districts have seen related investment.

The **professional and business services** supersector is on pace to shed 7,700 jobs this year after losing 4,700 in 2023. Historically, employment in professional and business services has moved closely with employment in manufacturing in Michigan. Both Stellantis and General Motors have announced layoffs in their white-collar workforces this year. Most recently, on November 15th General Motors announced 1,000 layoffs of primarily white-collar workers, more than 500 of whom worked in Michigan.[6] That said, the bulk of the job losses (7,200) in professional and business services this year have come in the administrative support and waste management sector. We are projecting another 900 job losses in professional and business services next year to be followed by 1,200 job gains in 2026.

We expect the **trade, transportation, and utilities** supersector to swing from adding 3,300 jobs in the first half of 2024 to losing 500 jobs in the second half. Modest job losses continue through the first half of next year before growth resumes, leading to 300 job losses for calendar year 2025. The supersector then enjoys modest growth of 1,800 jobs in 2026. We project retail trade to lose jobs in each year from 2024 to 2026 due to continued competition from online commerce. Wholesale trade and transportation, warehousing, and utilities, the two other component sectors of trade, transportation, and utilities, both gain jobs each year in that span.

Michigan's **financial services** industry appears to be beginning its recovery from a tough stretch in which it lost 7,000 jobs, from the fourth quarter of 2021 to the second quarter of 2024, as mortgage rates skyrocketed. Financial services added back 1,900 jobs in the third quarter as mortgage rates dipped. Although the recent rebound in mortgage rates may restrain growth in the near term, we expect rates to resume their decline over the next two years. We project lower interest rates to provide a boost to the local finance industry, which adds 1,700 jobs next year and 1,100 in 2026.

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[6] See, for instance, Jamie L. LaReau, "GM cuts 1,000 jobs globally, mostly salaried but some hourly, in move to gain efficiency." *Detroit Free Press*, November 15, 2024. https://www.freep.com/story/money/cars/general-motors/2024/11/15/gm-cuts-jobs-hourly-employees-global-technical-center-warren/76329328007/.

Figure 4 illustrates that Michigan's **non-cyclical industries** account for the bulk of job growth in our forecast over the next two years. Although less volatile, these industries have not been immune from the recent chill in the state's labor market, losing 5,400 jobs last quarter after adding 31,400 in the first half of the year. We expect that soft spot to be short-lived, with growth returning in the fourth quarter and persisting through the end of 2026. Annual job gains decelerate from 34,900 this year to 18,000 next year and 18,900 in 2026.

The **private education and health services** sector is dominated by health services. After adding 8,200 jobs in the second quarter, it gave back 800 in the third quarter, and we expect it to lose another 600 jobs to end the year before job growth resumes. Private education and health services adds 6,500 jobs in 2025 and 4,900 in 2026. The sector's share of statewide employment inches up from 15.6 percent in 2024 to 15.7 percent by 2026; looking beyond our forecast horizon, we expect to see continued gains in the share of statewide employment from this important sector, in part due to the aging of the state's population.

The **leisure and hospitality** industry has followed the general contours of Michigan's economy this year, with solid expansion in the first half giving way to job losses in the third quarter. We are projecting growth to resume going forward at an average pace of 8,000 jobs per year in 2025 and 2026 with healthy growth in real disposable incomes. That pace would be faster than this year's projected 3,100 job additions, but below the 18,700 the sector posted in 2023. Leisure and hospitality recovers to its pre-pandemic employment level (reached in the fourth quarter of 2019) at the end of 2025. Upcoming increases in the minimum wage, currently scheduled to include a phase-out of the separate tipped minimum wage as well as changes to benefit administration contained in the Earned Sick Time Act, add uncertainty to the growth outlook for leisure and hospitality.

The **other private services** sector is on pace to lose 500 jobs this year, driven largely by a weak performance to start the year. We are projecting a total of 1,600 job gains over the next two years in the other services sector, as it returns to its trend of roughly flat employment from the years prior to the pandemic.

Michigan's **government** sector did not recover to its pre-pandemic employment level from the first quarter of 2020 until the second quarter of 2024. The recovery was supported by federal funding for state and local governments. As that support fades, we project government employment growth to slow from 19,300 job gains this year to 4,200 next year and 4,500 in 2026. The government sector's share of total employment edges up to 13.9 percent of total employment in Michigan in 2026, a touch higher than its average of 13.8 percent from 2017–2019 in the years prior to the pandemic.

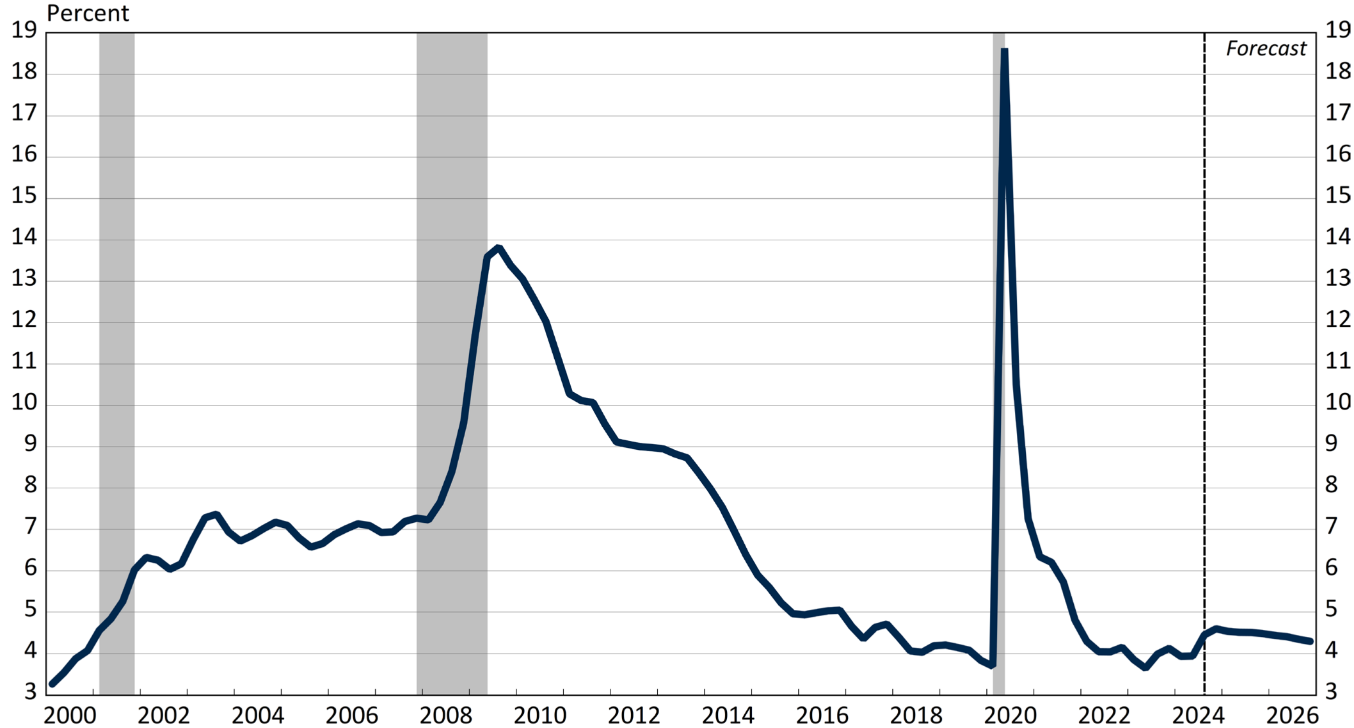
Unemployment and Labor Force Participation Rates

Figure 5 displays the historical data and our forecast for Michigan's quarterly unemployment rate. Michigan's labor market showed remarkable strength from January to May 2024, with an unemployment rate hovering around 3.9 percent. During this period, the count of employed Michiganders increased by 16,000, and the labor force expanded by 10,800 residents. The more recent data tell a different story, however. From May to October 2024, Michigan's unemployment rate rose to 4.7 percent, household employment decreased by nearly 41,000 residents, and the labor force flatlined. Despite Michigan's softening labor market, we believe that relief is on the horizon now that the Fed has started lowering interest rates.

Michigan's cyclical labor market is expected to stabilize early next year. We anticipate the state's unemployment rate will inch down from an average of 4.6 percent in the fourth quarter of this year to 4.5 percent throughout 2025 as lower interest rates gradually make their way through the economy. As the national economy gains momentum, we expect Michigan's unemployment rate to decline to 4.3 percent by the end of 2026.

The state's labor force participation rate rose from 59.2 percent in January 2021 to 62.4 percent in July 2024, its highest level since August 2009. Local labor force participation has softened in the past couple of months though, ticking down to 62.2 percent in October. We do not expect the labor force's sharp growth to persist during the forecast period, but we also do not expect it to give back a significant share of its recent gains.

Figure 5
Quarterly Michigan Unemployment Rate



One possible explanation for the recent strength of the labor force is a surge in immigration, though its impact on official statistics is complex. We forecast that the state's labor force participation rate will stabilize despite President-elect Trump's commitment to stricter border control. We expect the state to retain the bulk of its recent arrivals, as we believe the likely changes to immigration policy will have a stronger impact on the influx of new international migrants into Michigan rather than affecting those already here. Slower international migration combined with Michigan's aging population will likely cause the state's participation rate to level off during the forecast, hovering around 62.2–62.3 percent over the next couple of years.

Local Inflation

Figure 6 shows the history and our forecast of headline (all-item) and core (excluding food and energy) Detroit CPI inflation on an annual basis. While the annual chart suggests we are enjoying a smooth retreat from the recent inflationary highs, those following the monthly data have witnessed a far choppier ride. The annualized rate of headline (all-item) inflation in the Detroit CPI jumped from 4.0 percent in the fourth quarter of 2022 to 8.8 percent in the second quarter of 2023, then dropped to negative 1.7 percent in the fourth quarter, only to repeat the same qualitative pattern in 2024. Although we believe the underlying trend in local inflation is toward moderation, we continue to be puzzled by the behavior of some local CPI components, particularly the shelter component.

The local price index for shelter rose 12.2 percent from January to July 2024, driving up both headline and core inflation, before falling by 6.3 percent through October. Last year, we saw an even larger spike and reversal, with a 21.2 percent increase from January to July 2023 followed by a 12.0 percent drop through December. Whether the recent pattern in the shelter cost index reflects a new seasonal pattern or just coincidence, it has resulted in both headline and core local inflation displaying erratic patterns.[7]

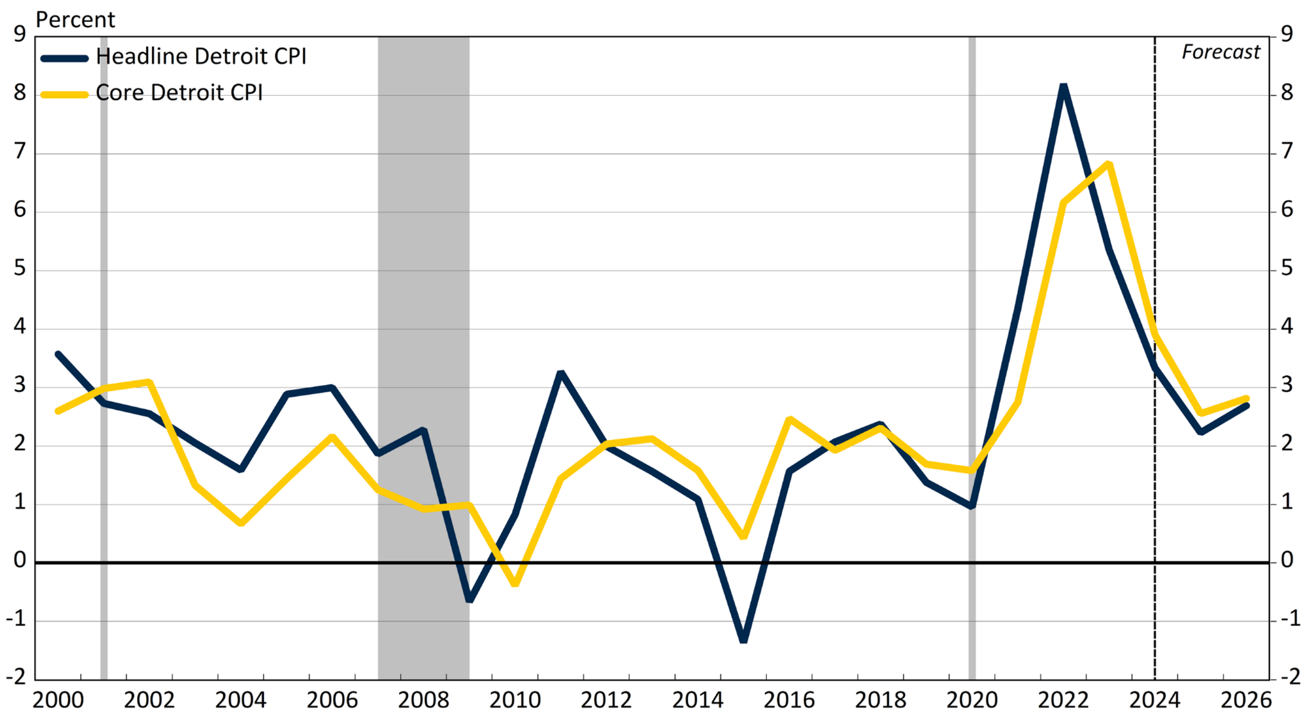
Despite that choppiness, the latest readings for both headline and core Detroit CPI inflation are consistent with the ongoing moderation in inflation, as shown in Figure 6. On an annual basis, we expect local headline inflation to slow to 3.3 percent this year, down from 5.4 percent in 2023 and 8.2 percent in 2022. Even so, inflation remains significantly higher than the pre-pandemic norm for Michiganders. What is more, although we forecast annual local inflation to ease to 2.2 percent in 2025, we expect an uptick to 2.7 percent in 2026 as features of President-elect Trump's second term take hold. Higher tariffs and reduced growth of the labor force from lower immigration and deportations will put upward pressure on prices across the economy.

Our forecast for local core inflation closely aligns with our expectations for the headline measure. In 2023, local core inflation outpaced headline inflation, as falling energy prices helped to offset rapidly rising shelter costs in the headline measure. Because the core measure excludes food and energy prices, it did not benefit from the decline in energy costs. Local core inflation accelerated from 6.2 percent in 2022 to 6.8 percent in 2023, creating a 1.5 percentage point gap between the headline and core

[7] The Bureau of Labor Statistics does not seasonally adjust the local price indices. We seasonally adjust the headline and core measures of the Detroit CPI ourselves, and all the numbers presented in this report for local headline and core inflation have been seasonally adjusted. The percentage changes presented for the shelter cost index, however, have not been seasonally adjusted.

measures. We anticipate this gap to narrow over the next two years as local core inflation falls to 3.9 percent this year and 2.6 percent next year before ticking up to 2.8 percent in 2026, just one-tenth of a percent above the headline measure.

Figure 6
Local Inflation, Headline and Core Detroit CPI

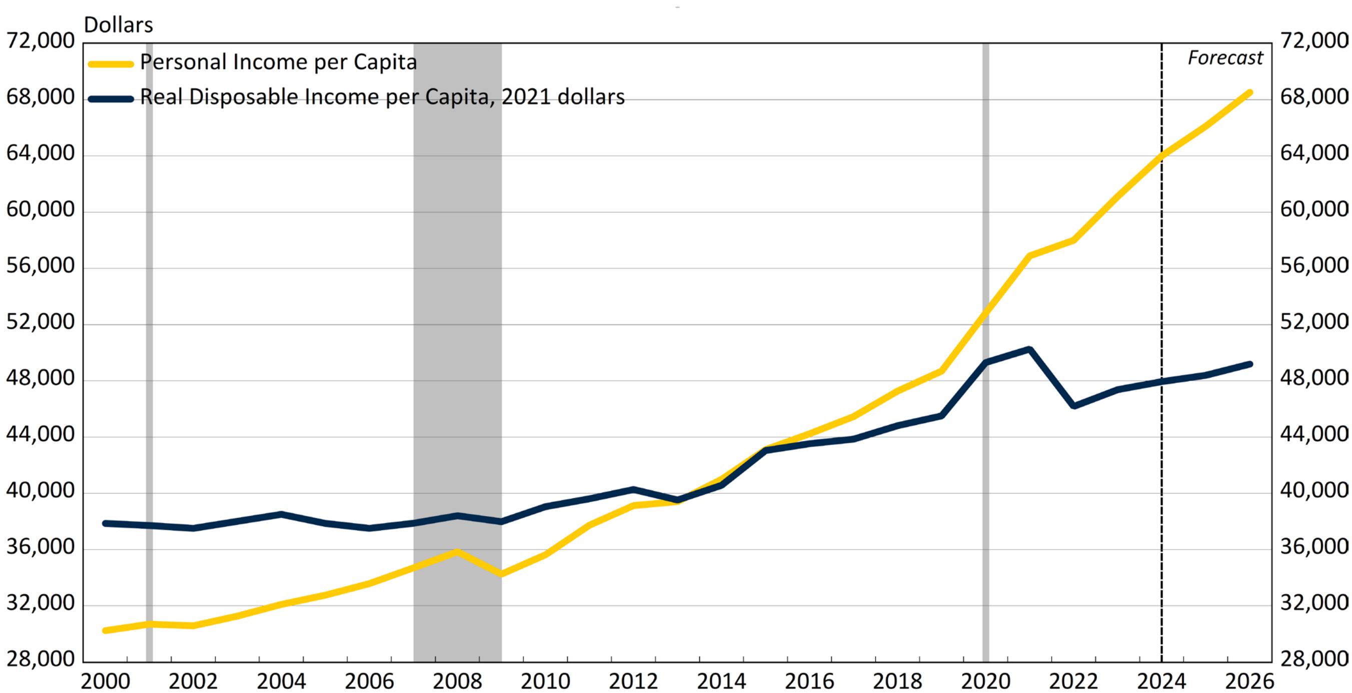


Personal Incomes

Figure 7 shows our forecast for Michigan personal income per capita, measured in nominal dollars, and real disposable income per capita, adjusted for Detroit CPI inflation to be measured in 2021 dollars. In September 2024, the Bureau of Economic Analysis revised the past three years of history for most components of personal income in Michigan, resulting in significantly higher estimates of total personal income than was previously reported. The bulk of the revisions went to proprietors' income, transfer payments, and dividends, interest, and rental income. While some of the revisions for 2023 may reflect a reclassification of previously reported wage income, most of the revisions represent new additions in the form of higher estimated non-wage income.

As a result, our current forecast for Michigan's personal income per capita in 2024 is $64,000, nearly $2,500 higher than it was in our last forecast from early September. Not surprisingly, the revised data show stronger annual growth rates over the past few years as well. Personal income per capita in Michigan grew by 1.9 percent in 2022 (previously estimated at 0.8 percent), before rising by 5.4 percent in 2023 (previously estimated at 4.5 percent). We now anticipate that personal income per capita will increase by 4.7 percent in 2024, as opposed to 3.3 percent in our previous forecast. As job growth slows over the next two years, we project the growth of Michigan's personal income per capita to average 3.5 percent per year in 2025 and 2026. Our forecast brings Michigan's personal income per capita to approximately $68,500 in 2026, or 41 percent higher than in 2019.

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



Our forecast for real disposable income per capita in Michigan combines our forecast of nominal personal income with our forecasts for taxes and local inflation. Prior to the income data revisions, we frequently made the point that after adjusting for the elevated inflation of the past few years, disposable personal income per capita was hardly above its level from 2019. With the new personal income data, however, the picture is not nearly as discouraging. The average annual growth rate of Michigan's real disposable income per capita in 2023 and 2024 now registers 1.9 percent, one-half of a percentage point better than the average from 2015–2019. When the final data is in, we expect real disposable income per capita in 2024 to be 5.4 percent higher than the level from 2019.

Looking forward, as nominal income growth eases and inflation remains above target, we forecast real disposable income growth to dip to 0.9 percent in 2025 before picking back up to 1.6 percent in 2026, helped along by personal income tax cuts. By then, Michigan's real disposable income per capita is expected to be 8.1 percent above its 2019 level, much better than the 1.6 percent difference we had projected in September.

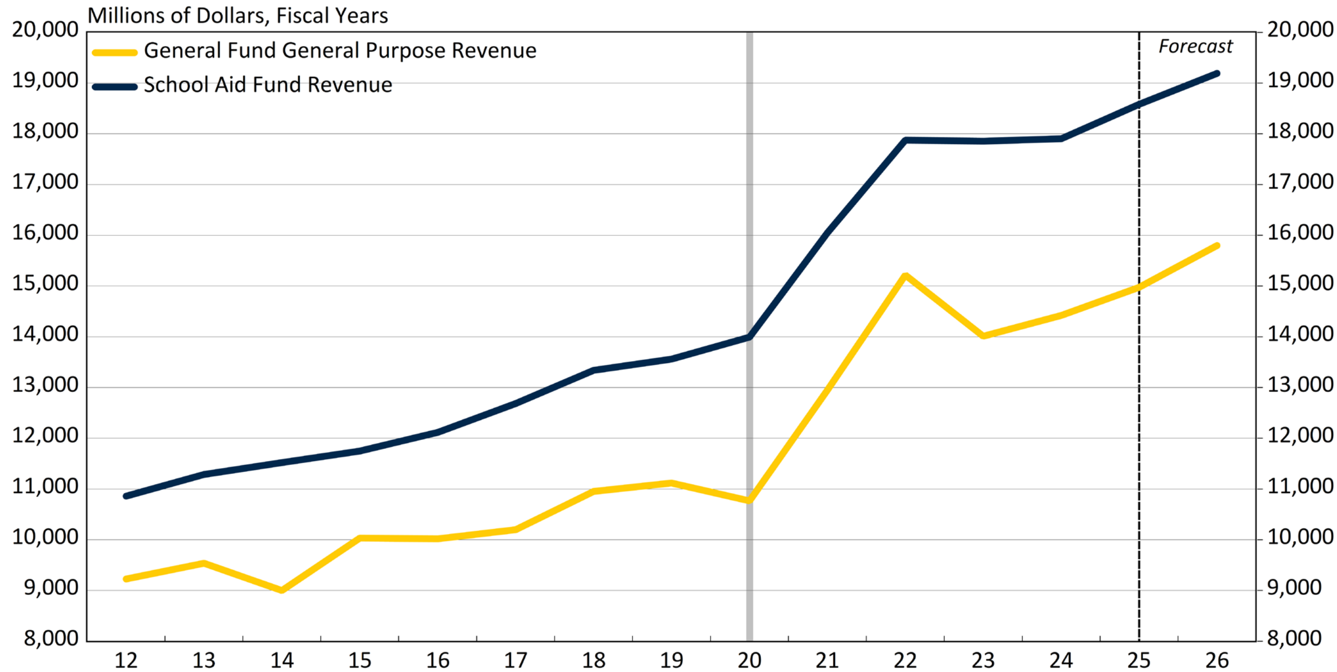
The State Revenue Outlook

The fiscal year for the State of Michigan officially ended on September 30. While final account settlements will extend into next year, the monthly data suggest a return to modest growth for fiscal 2024. The preliminary numbers show a gain of $460 million, or 1.4 percent, in combined General Fund General Purpose (GFGP) and School Aid Fund (SAF) revenues, just a touch above our previous forecast from September. That growth, although tempered, follows several years of turbulent returns during the pandemic and post-pandemic economies, as shown in Figure 8.

After soaring by $8.4 billion from fiscal 2019 to fiscal 2022, combined GFGP and SAF revenues fell by $1.2 billion in fiscal 2023, due mostly to a combination of factors related to the state's tax laws.[8] Altogether, these factors are estimated to have reduced combined revenues in fiscal 2023 and 2024 by $1.8 billion and $1.9 billion, respectively, and they are expected to reduce fiscal 2025 revenues by approximately $1.4 billion. As a result, swings in the bottom-line tallies of tax revenue from one year to the next have been less connected to economics than previous years. In the absence of the new tax legislation, we estimate that Michigan's tax revenue growth would have stabilized in the 1.6–1.8 percent range for both fiscal 2023 and fiscal 2024.

[8] First, Public Act 4 of 2023, adopted in March 2023, expanded exemptions for certain retirement income as well as the state's earned income tax credit and adopted new earmarks to Michigan's corporate income tax rate. Second, Michigan's individual income tax rate was lowered from 4.25 percent to 4.05 percent for calendar year 2023 due to a provision associated with the state's 2015 road funding law. Third, Public Acts 20, 21, and 29 of 2023 provided new sales and use tax exemptions for most delivery and installation charges in Michigan. Fourth, the state's "flow-through entity tax", adopted in December 2021, experienced a one-time outsized level of returns in fiscal 2022 and has subsequently fallen to a more sustainable level.

Figure 8
Michigan Tax Revenues, General and School Aid Funds



Looking forward, we forecast sustained growth of state tax revenue in Michigan through fiscal year 2026. Combined revenue growth of $1.2 billion, or 3.8 percent, in fiscal 2025 is led by contributions from the personal income tax, the State Education Property tax, and the sales and use taxes. Those trends continue in fiscal 2026 along with the relaxation of most of the new earmarks to the Corporate Income Tax—we project combined revenues to rise another $1.4 billion, or 4.3 percent, that year.

Our forecast puts total state tax revenue $10.3 billion, or 42 percent, higher in fiscal 2026 than in fiscal 2019, well above the pre-pandemic trend. Still, much of that growth has occurred in tandem with high inflation. After adjusting for inflation, cumulative state revenue growth between 2019 and 2026 is only 8.9 percent, with average real growth of 1.2 percent per year.

We now describe our forecast of state revenues in more detail. Table 2 breaks down the recent history, as well as our forecast for fiscal years 2025–26. The upper portion details GFGP revenues, and the lower portion summarizes SAF revenues.

Net Personal Income Tax Revenue

- Net personal income tax revenue accounts for about 40 percent of Michigan's total GFGP and SAF tax revenue, just a hair behind the contribution from the combination of sales and use tax in the state.
- Following two years of extraordinary growth during the pandemic, net personal income tax revenue declined by 11.5 percent in fiscal 2023 due to an increase in refunds and substantial reductions in annual, quarterly, and flow-through entity tax revenue. The reduction in flow-through entity tax revenue accounted for over half of the decline and represented a transition from outsized returns in its first year of existence to a more sustainable level. Personal income tax withholding, on the other hand, saw a gain of 1.5 percent in fiscal 2023, despite the tax rate adjustment to 4.05 percent.
- Growth bounced back in fiscal 2024 as withholding and quarterly payments led net personal income tax revenue to a gain of 4.6 percent. Flow-through entity tax payments and annual payments both fell on the year.
- We expect all components of personal income tax revenue to improve in fiscal 2025, as the new tax legislation is mostly phased in and the economy continues to expand, followed by an across-the-board moderation the next year. Net personal income tax revenue grows by 7.2 percent in fiscal 2025 and 3.6 percent in fiscal 2026.

Consumption Tax Revenue

- GFGP consumption tax revenue in Michigan is driven by distributions from the sales and use taxes, with smaller contributions from excise taxes on cigarettes and alcohol. Altogether, consumption tax revenue accounts for just over one fifth of total General Fund revenue.
- In fiscal 2023, sales tax revenue pulled back from its pandemic-era highs as consumers felt the pinch of inflation, and spending began to shift back to services, a trend that continued into fiscal 2024. Use tax revenue, on the other hand, grew rapidly in fiscal 2023 and into 2024, which may partly reflect increased consumer spending in the accommodations sector. As a result, gross sales and use tax revenue ticked up 0.5 percent in fiscal 2023 before ticking back down 0.5 percent in fiscal 2024.
- The dynamics of sales and use tax revenue drove overall GFGP consumption tax revenue to gain 1.1 percent in fiscal 2023 before losing 1.3 percent in fiscal 2024.
- We forecast a resurgence of growth in fiscal 2025 and 2026 as both sales and use tax revenue sustain moderate growth. We project gross sales and use tax revenue to increase 2.9 percent in fiscal 2025 and 2.8 percent in fiscal 2026.
- Combining the General Fund's share of gross sales and use tax revenue with the excise taxes on cigarettes and alcohol, we forecast GFGP consumption tax revenue to climb by 4.0 percent in fiscal 2025, before growth softens to 3.6 percent in fiscal 2026.

Business Tax Revenue

- Business tax revenue comes primarily from the state's corporate income tax (CIT), insurance company premiums, and oil and gas severance tax payments. Certain businesses continue to pay taxes and claim credits under the previously used Michigan Business Tax (MBT) instead of the CIT. Variability in the timing of when MBT refunds are claimed can lead to swings in the state's overall business tax revenue. All business tax revenue accrues to the General Fund.

- After impressive growth in 2021 and 2022, gross CIT collections remained strong in fiscal 2023. The new earmarks adopted last year, though, subtracted $600 million from the share accruing to the General Fund, leading GFGP business tax revenue to drop 16.4 percent for the fiscal year.
- CIT collections held relatively flat in fiscal 2024. Rapid growth of insurance company premiums, however, outweighed an increase in MBT refunds and a small decline in oil and gas severance payments. Overall, GFGP business tax revenue rose 0.7 percent in fiscal 2024.
- We expect CIT payments to decline slightly in fiscal 2025 before rising by over 30 percent in fiscal 2026 as the earmarks are relaxed. GFGP business tax revenue follows suit, falling by 1.3 percent in fiscal 2025 and rebounding by 30.8 percent in fiscal 2026.

Total General Fund Revenue

- The General Fund lost $1.2 billion in fiscal 2023, as nearly all revenue sources experienced declines. Although some softening was expected based on economic trends, the declines in fiscal 2023 were mostly due to changes in the state's tax laws, as discussed above.
- Total GFGP revenue rebounded with growth of $400 million (2.8 percent) in fiscal 2024 thanks to healthy gains from net personal income tax revenue as business taxes stayed flat and consumption taxes declined.
- We forecast growth to pick up over the next two years. The continued strength of personal income tax withholding combined with rebounding sales tax revenue leads the General Fund to expand by $570 million (3.9 percent) in fiscal 2025. Growth accelerates in fiscal 2026 with the rebound of business tax revenue and contributions from most major revenue sources—GFGP revenue grows by $820 million (5.5 percent).
- Our forecast puts total GFGP revenue nearly $4.7 billion, or 42.1 percent, higher in fiscal 2026 than in fiscal 2019. After adjusting for inflation, however, the growth of General Fund revenues from fiscal 2019–26 is only 9.1 percent, resulting in average real growth of just 1.3 percent per year.

Total School Aid Fund Revenue

- About one-half of total SAF revenue comes from sales and use tax collections, while one-fifth derives from the personal income tax, and about one-seventh comes from the state education property tax. Other taxes, such as the real estate transfer tax, liquor tax, casino tax, and tobacco tax, as well as lottery transfers, all contribute smaller amounts.
- Despite a sizeable loss in GFGP revenue, total SAF revenue managed to hold flat in fiscal 2023, as its allocations are generally based off gross revenue and are largely protected from the tax law changes that were adopted last year.
- SAF revenue held mostly flat again in fiscal 2024, ticking up by only 0.3 percent. The recent weakness has largely been due to the contraction of sales tax revenue over the past two fiscal years. Early in the pandemic, sales tax revenue soared as consumer spending shifted away from services and towards taxable goods. As spending patterns have reversed in recent years, sales

tax revenue has also retracted, limiting further growth to the School Aid Fund. The small gain to the SAF in fiscal 2024 was mostly due to an increase in State Education Property tax payments.

- We forecast total SAF revenue to pick up over the next two fiscal years, on par with our expectations for the General Fund. We project gains of 3.7 percent in fiscal 2025 and 3.3 percent in fiscal 2026.
- Total SAF revenue is forecast to finish fiscal 2026 over $5.6 billion, or 41.5 percent, higher than in fiscal 2019. After adjusting for inflation, that growth is reduced to 8.7 percent, translating to average real growth of just 1.2 percent per year from fiscal 2019 to 2026.

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

	Actual		RSQE Forecast	
	2023	2024[P]	2025	2026
General Fund General Purpose				
Personal income tax	7,764	8,327	9,049	9,369
(% change)	(-15.7)	(7.3)	(8.7)	(3.5)
Consumption taxes	3,207	3,167	3,294	3,412
(% change)	(1.1)	(-1.3)	(4.0)	(3.6)
Sales	1,674	1,636	1,722	1,759
Use	1,272	1,279	1,320	1,403
Other consumption	261	252	251	250
Business taxes	1,665	1,677	1,655	2,165
(% change)	(-16.4)	(0.7)	(-1.3)	(30.8)
MBT/SBT/Corporate income	1,172	1,130	1,095	1,592
Other business	493	547	561	573
Other GFGP taxes	177	191	202	209
GFGP tax revenue	12,813	13,362	14,200	15,154
(% change)	(-12.0)	(4.3)	(6.3)	(6.7)
Nontax revenue	1,198	1,048	778	645
GFGP revenue	14,011	14,410	14,977	15,799
(% change)	(-7.9)	(2.8)	(3.9)	(5.5)
School Aid Fund				
SAF taxes	16,505	16,645	17,314	17,913
(% change)	(-0.7)	(0.8)	(4.0)	(3.5)
Lottery transfer	1,352	1,270	1,270	1,280
(% change)	(8.3)	(-6.1)	(0.0)	(0.8)
Earmarked state SAF revenue	17,857	17,915	18,584	19,193
(% change)	(-0.1)	(0.3)	(3.7)	(3.3)
Addendum				
Combined GFGP and SAF revenue	31,868	32,326	33,561	34,992
(% change)	(-3.7)	(1.4)	(3.8)	(4.3)
Gross sales and use taxes	13,419	13,356	13,741	14,121
(% change)	(0.5)	(-0.5)	(2.9)	(2.8)

[P] *Preliminary*

RSQE: November 2024

Special Section—Shared Prosperity in Michigan

We receive frequent questions at RSQE about the distribution of income in Michigan in addition to its overall trajectory. Earlier this year, the Southeast Michigan Council of Governments (SEMCOG) sponsored a project in which we examined the degree of shared prosperity in the seven counties that make up the Southeast Michigan region.[9] We used individual household records from the American Community Survey for 2018 and 2022 to produce a standardized measure of household income that controls for differences in household size and in local costs of living. We classified people as members of economically lower-, lower-middle-, upper-middle-, and higher-income households using that standardized income measure. We then examined how the share of the population in each household income group has evolved over time across different geographical areas and demographic categories in Southeast Michigan.

Based on the enthusiastic reception to our report for Southeast Michigan, we decided to extend several features of the analysis to cover the entire state of Michigan in this report. In what follows, we provide a snapshot of how prosperity was shared across Michigan in 2022, the latest year for which detailed individual and household data existed at the time of our analysis.[10]

As in our previous analysis for Southeast Michigan, we classified an individual's affluence based upon their household's income rather than their individual income. We also adjusted household incomes for differences in the local cost of living and for household size, as described in our original report, resulting in a standardized three-person equivalent household income measure for all people represented in the analysis. We refer to this measure hereafter as "equivalent household income." We classified households into income groups, with the middle-income group ranging from two-thirds to twice the national median household income, or $57,525 to $172,575 for a family of three living in an area with a cost of living equal to the national average. Households in the middle-income group are further divided into

[9] RSQE's report, "Evaluating Shared Prosperity in Southeast Michigan," is available on our website at: https://lsa.umich.edu/econ/rsqe/special-reports.html.
[10] Our analysis in this section makes use of the 1-year public use microdata samples for 2022 available at IPUMS USA: https://doi.org/10.18128/D010.V15.0

lower-middle and upper-middle groups based on whether their incomes fall above or below the national median equivalent household income of $86,287.

We begin by describing the overall household income distribution after standardization in Michigan and the United States across all geographies and demographic groups. Table 3 shows the share of the state and national populations in each of our four income categories along with average equivalent household income in 2022. The growth and strength of the middle-class has been an important theme in Michigan's history, and its relevance continues to this day. In 2022, Michigan had a greater share of its household population in the middle-income groups and a lesser share in the lower- and higher-income groups compared to the nation. Unfortunately, Michigan's average equivalent household income was nearly $5,000 lower than the nation's. The state's lower share of higher-income households, and the lower average incomes of those households in Michigan relative to the nation, drive most of this difference.

Table 3
Shares of Population by Income Category, Michigan and the United States, 2022

	Income Category				Avg 3-person
	Lower	Lower-Middle	Upper-Middle	Higher	Equiv. HH
Michigan	30.0%	19.1%	35.3%	15.6%	$111,203
United States	30.4%	18.3%	34.0%	17.3%	$116,109

Note: Income categories are based on equivalent household income. The lower-middle income range is 2/3 of the national median to the national median ($57,525 to $86,287). The upper-middle income range is the national median to two times the national median ($86,287 to $172,575).

Within Michigan, there is considerable variation in household incomes by geographical location. Figure 9 shows a map of average equivalent household income in 2022 across Michigan's Public Use Microdata Area (PUMA) regions. PUMA regions are used by the Census Bureau and represent the finest geographical detail for which individual income data is publicly available; each PUMA region contains at least 100,000 people.

Average equivalent household incomes ranged from a low of $54,000 in northeast Detroit to $222,000 in the Birmingham and Bloomfield region of Oakland County. The highest average equivalent incomes were concentrated in Oakland County, Washtenaw County, and the western edge of Wayne County, which all contained regions with average equivalent household incomes above $150,000. The next highest income categories on the map consist largely of a group of PUMA regions that stretch from Southeast Michigan across the state to Lake Michigan, along with the Northwest Lower Peninsula region that contains Traverse City. Rural areas of the state tended to have average equivalent household incomes in the $75,000–$100,000 range, somewhat below the state average, while the lowest average equivalent incomes were found in the city of Detroit and the region that includes Flint.

Figure 9
Average Three-Person Equivalent Household Incomes in Michigan by PUMA Region, 2022

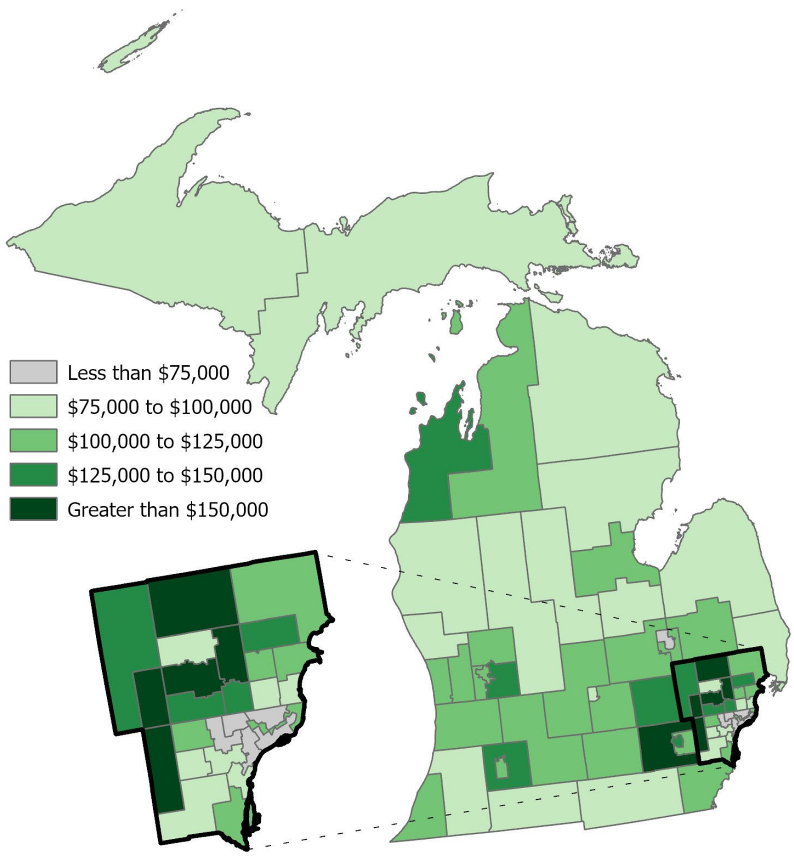
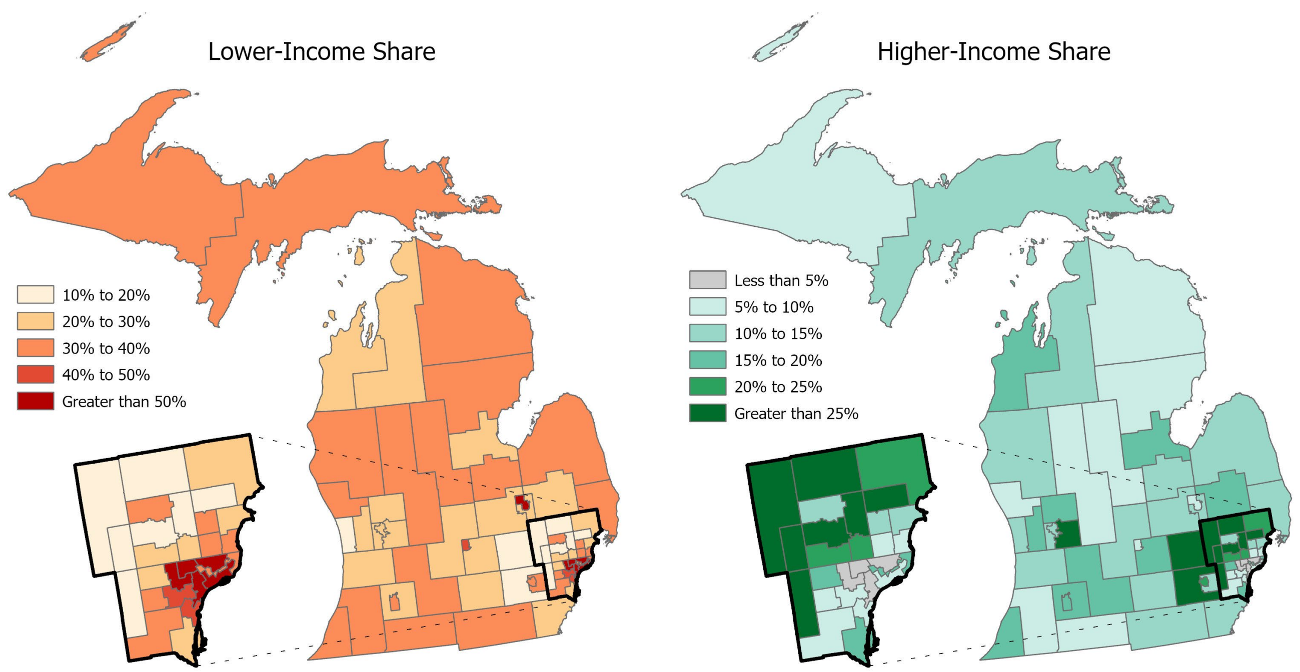


Figure 10 shows the share of each PUMA region's population that resided in either lower-income households (left panel) or higher-income households (right panel) in 2022. Not surprisingly, regions with higher average equivalent incomes tend to also have a greater share of residents residing in higher-income households. Likewise, regions with lower average equivalent incomes have a greater share of residents in lower-income households. In 2022, the top five PUMA regions in terms of average equivalent household incomes were also the top five regions in terms of population share in higher-income households. However, the order of these regions in the rankings differs between the two measures. Similarly, the same pattern holds for the bottom five regions in terms of household income and the population share in lower-income households.

Regions with the largest and smallest shares in each panel tend to be geographically concentrated in specific areas, matching the patterns seen for average equivalent household incomes in Figure 9. The city of Detroit and Flint contained the regions with the greatest share of residents in lower-income households, which ranged from 57 percent in South Central and Southeast Detroit to over 70 percent in Southwest Detroit. Meanwhile, the high-income regions in Oakland, Wayne, Livingston, and Washtenaw counties had shares of residents in higher-income households that ranged from just over 25 percent in Livingston County to 47 percent in the Birmingham and Bloomfield region of Oakland County.

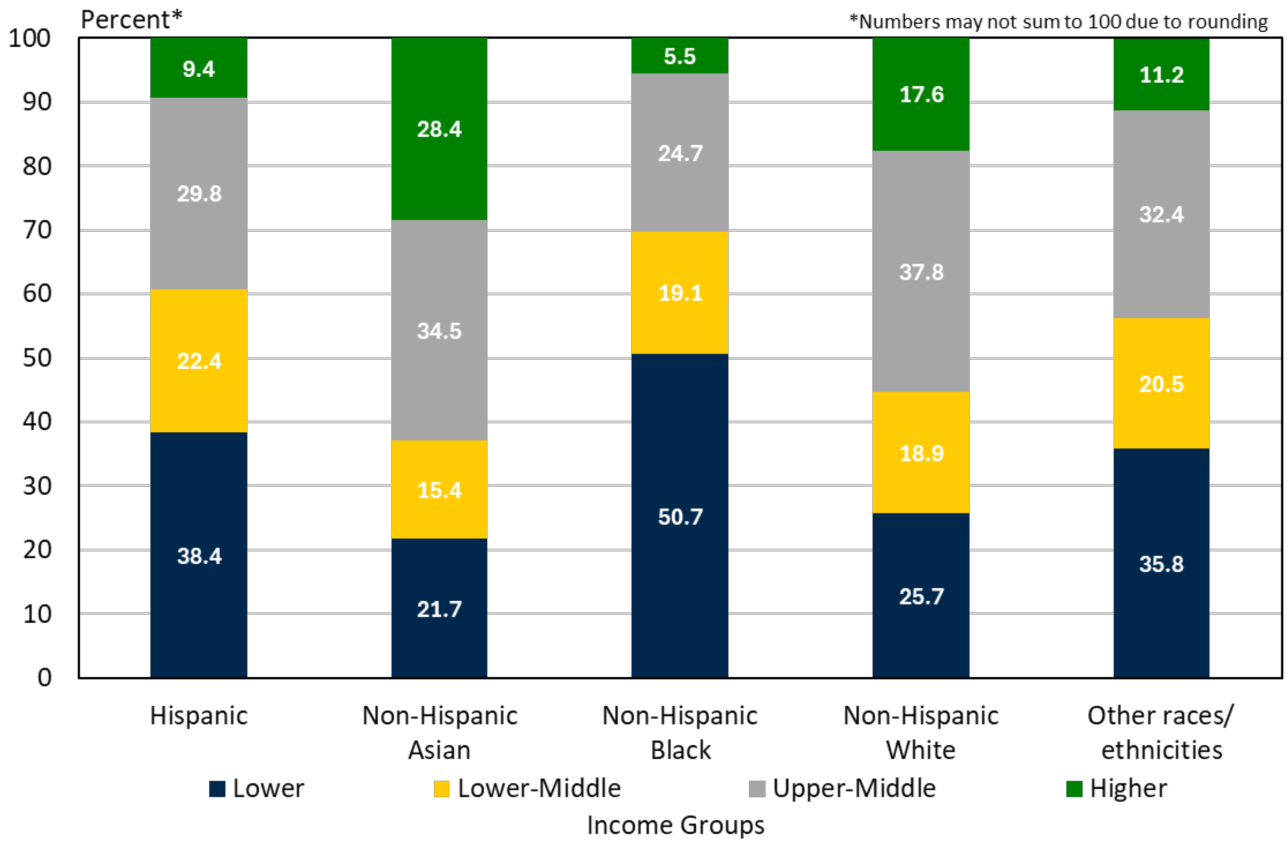
Figure 10
Shares of Michigan Residents Residing in Lower- and Higher-Income Households by PUMA Region, 2022



Note: Income categories are based on equivalent household income. Individuals are classified as lower income if their equivalent household income is less than $57,525; they are classified as higher income if their equivalent household income is greater than $172,575.

We now turn to the distribution of household incomes in Michigan among sociodemographic groups. Figure 11 shows the equivalent household income distributions in 2022 for the Hispanic, Non-Hispanic Asian, Non-Hispanic-Black, and Non-Hispanic White populations in Michigan, as well as for the group comprising all other races and ethnicities found in the state. The values in the bar segments represent the shares of the population within each racial or ethnic group who lived in households of each income category in 2022.

Figure 11
The Distribution of Michigan's Population
by Household Income and Race/Ethnicity, 2022



The distribution of economic prosperity was noticeably less favorable for the state's Hispanic and Non-Hispanic Black residents than for its Non-Hispanic Asian and Non-Hispanic White residents. Hispanic and Non-Hispanic Black residents were much more likely to reside in lower-income households, and much less likely to reside in higher-income households, compared to Non-Hispanic Asian and Non-Hispanic White residents. The distribution of household income for Michigan residents in the "Other races/ethnicities" category tended to fall between the extremes but was closer to the distributions for Hispanic and Non-Hispanic Black residents.

In 2022, more than half of Michigan's Non-Hispanic Black population lived in lower-income households; another 19.1 percent lived in lower-middle income households, with only 5.5 percent living in higher-income households. While the distribution for the state's Hispanic population was a shade more favorable, it still contrasted sharply with the distribution for the Non-Hispanic Asian and Non-Hispanic White populations. Among Michigan's Non-Hispanic Asian population, 28.4 percent lived in higher-income households, while only 37.1 percent lived in lower- or lower-middle income households. Among non-Hispanic White residents, 17.6 percent lived in higher-income households and 44.6 percent lived in lower- or lower-middle income households. Non-Hispanic White and Non-Hispanic Asian residents were also more likely to live in upper-middle income households than residents in the Hispanic, Non-Hispanic Black, and Other races and ethnicities groups.

Figure 12
The Distribution of Michigan's Population Aged 25-and-older by Household Income and Education, 2022

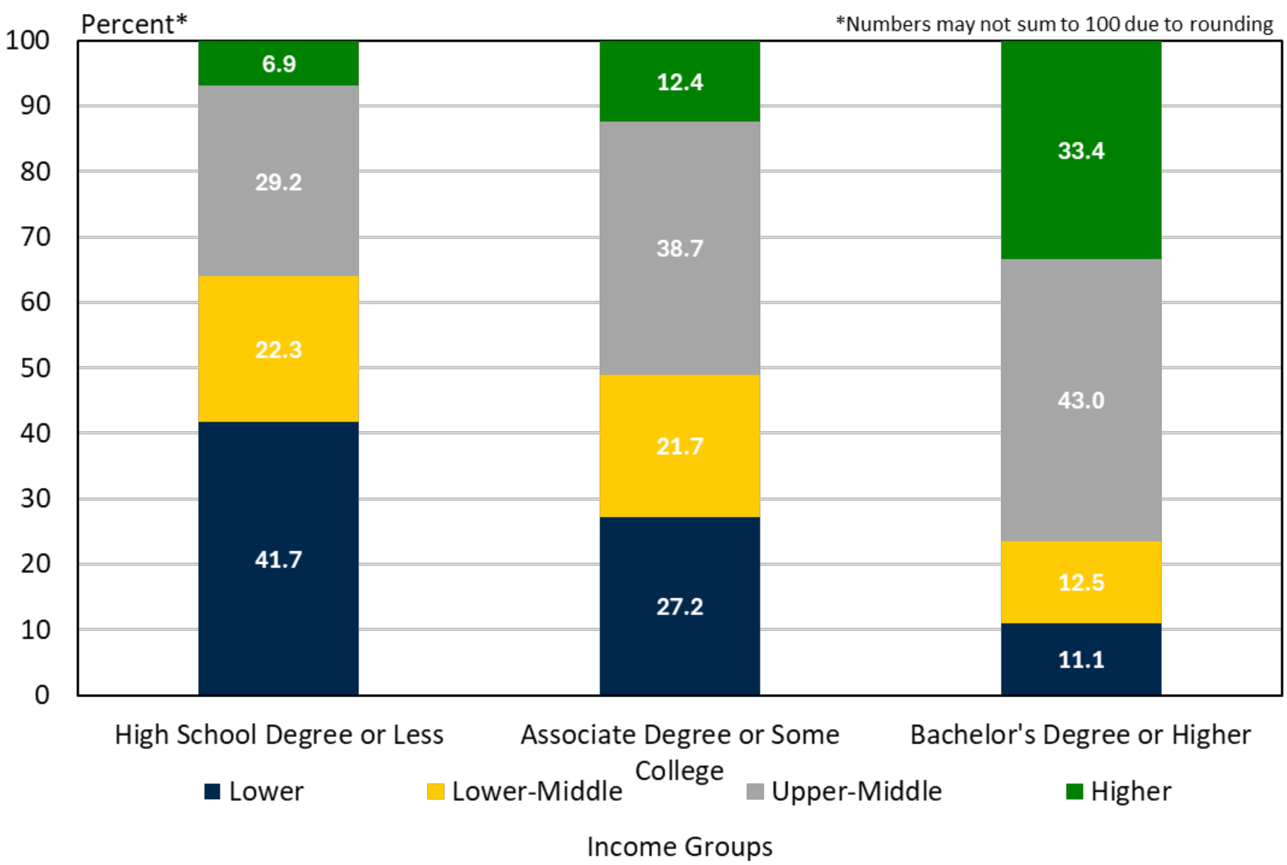


Figure 12 shows that the distribution of average equivalent household income also varies significantly with respect to educational attainment. Here, each bar represents the population of Michigan residents, aged 25 and older, with a specific level of education in 2022. Bars are divided into segments proportionally based on the number of residents in each household income category. We focus on adults aged 25 years or older because they are most likely to have completed their formal education.

It is clear from Figure 12 that residents with higher levels of education were substantially more likely to live in higher- or upper-middle-income households. For both of those categories, the share rises for each progressive educational step. For residents with a bachelor's degree or higher, 33.4 percent live in higher-income households, compared to just 6.9 percent for those with a high school degree or less.

Similarly, the share of residents in both lower- and lower-middle-income households declines as educational attainment increases. For residents with a high school degree or less, 41.7 percent live in lower-income households; that figure drops to 11.1 percent for residents with a bachelor's degree or higher.

In summary, Michigan's economic landscape features a resilient middle class alongside geographic, racial and ethnic, and educational disparities that hinder more broadly shared prosperity. We show that while the distribution of prosperity across the state's population in aggregate is more equitable than the nation overall, substantial gaps remain. Michigan is often touted as the birthplace of the middle-class, and indeed, the state has a higher share of residents in middle-income households than the national average. Unfortunately, the distribution of Michigan's economic prosperity remains uneven geographically, and especially between and among racial and ethnic groups. The state's Non-Hispanic White population is almost twice as likely to live in higher-income households as its Hispanic population and more than three times as likely compared to its Non-Hispanic Black population. These differences are even more dramatic when compared to Michigan's Non-Hispanic Asian population.

Educational attainment also plays a critical role in Michigan's distribution of prosperity. Residents with an associate degree or some college education are nearly twice as likely to be in higher-income households as those with a high school degree or less. Those with a bachelor's degree or higher formal education are almost five times as likely to reside in a higher-income household. One key takeaway from our analysis is that higher educational attainment continues to be an important pathway to economic prosperity.

Risks and Concluding Thoughts

We see three main risks to our forecast for the Michigan economy over the next two years. They are the future course of economic policy under the incoming administration and Congress, the course of electrification of the auto industry, and slower population growth. We summarize these risks below.

With great power comes great responsibility. With President-elect Trump's return to the Oval Office and Republican majorities in both houses of Congress, we expect significant policy changes in 2025 and 2026. Although some of these changes could benefit Michigan, the expected increase in tariffs poses an uncertain risk to our trade-dependent economy. If tariffs dampen demand or raise costs for local industries as in the previous trade war, then Michigan may face economic disruptions, similar to its experience in 2018–19, when job growth decelerated. Ultimately, the impact of tariffs on the local manufacturing sector will likely hinge on the extent of retaliation from our trade partners.

To EV, or not to EV. With a Republican trifecta, the EV tax credits included in the Inflation Reduction Act are likely to be on the chopping block, which should dampen EV enthusiasm among new car buyers. A slower transition is likely to be a mixed development for the Michigan economy. A gradual shift gives the state's traditional automotive industry time to adapt, allowing the Detroit Three to improve their EV technology gradually while still profiting from internal combustion engine vehicles. This approach supports short-term stability and employment, while suppliers and related industries can adjust more smoothly to future demands. On the downside, delaying EV adoption could weaken Michigan's competitive edge as the rest of the world advances in this area. While immediate stability is beneficial, Michigan risks long-term stagnation without a balanced strategy to remain a leader in automotive innovation.

Immigration boom to immigration bust. Michigan's population began to turn up in 2023 after declining in 2021 and 2022. Still, the tally of Michiganders in 2023 stood slightly below its peak from 2004. The state has aged significantly in that time, making natural population growth (i.e., births minus deaths) more challenging. Michigan relies disproportionately on international migration to offset slowing natural growth and the loss of residents to other states. For this reason, international migration is crucial for the state's population growth going forward. President-elect Trump's commitment to stricter border control could therefore have a large long-term impact on Michigan's growth prospects. While we expect the new policies to have their most significant effects near the southern border, they are also likely to slow the arrival of new international migrants to Michigan. These policies pose a serious downside risk to the future growth of Michigan's population and labor force in the coming years.

While the risks to our forecast appear relatively balanced at this stage, the final details of new policy over the course of President-elect Trump's second term will determine how much Michigan's outlook rocks one way or another. Although Michigan's economy has been navigating choppy waters recently, our baseline forecast predicts moderate job growth over the next two years, accompanied by relatively low unemployment and rising real incomes.

Appendix: Review of the Previous Year's Forecast

RSQE has been presenting its forecast of the Michigan economy at the Economic Outlook Conference for over fifty years. Table A.1 presents our track record for each of our previous forecasts for employment and personal income growth.

Last November, we forecast that Michigan's payroll job count would rise by 0.9 percent on a calendar year average basis from 2023 to 2024. We now estimate that employment rose 0.8 percent, producing an absolute forecast error of 0.15 percentage points when calculated using unrounded growth rates. That error is well below our historical average absolute forecast error of 1.4 percentage points. Our forecast error for employment translates to an overestimate of 6,500 job gains, but that topline figure masks partially offsetting forecast errors for various industries. We were too optimistic about Michigan's manufacturing and professional and business service industries, forecasting 9,900 job gains for those two supersectors combined. We now project 9,300 job losses in Michigan's manufacturing sector and 7,700 job losses in professional and business services, for a combined loss of 17,000 jobs. On the other side of the ledger, we were too pessimistic about Michigan's construction and government sectors. Last November, we had forecast Michigan's construction industry to add only 900 jobs this year, compared to the 13,000 we now estimate. Likewise, we had projected 7,900 job gains in Michigan's government sector, whereas we now project 19,300.

As of last November, we were projecting state personal income to grow by 3.5 percent this year as local economic growth decelerated. We now estimate that personal income grew by 4.9 percent. That means we underestimated income growth by 1.4 percentage points. Our absolute forecast error was just below our average absolute forecast error of 1.7 percentage points. Our forecast error stemmed largely from an underestimate of the growth rate of wage and salary income.

Overall, we are pleased with how our forecast from last year's Economic Outlook Conference has held up this year.

Appendix Table A.1: Review of RSQE Forecasts of Employment and Income in the State of Michigan

Year	Percent Change in Michigan Wage and Salary Employment		Percent Change in Michigan Personal Income	
	RSQE Forecast[1]	Observed	RSQE Forecast[1]	Observed
1973	4.6	5.4	9.6	11.6
1974	1.5	-0.2	7.4	7.0
1975	-1.3	-4.3	5.8	7.0
1976	3.4	4.7	12.7	11.7
1977	2.1	4.8	11.4	12.5
1978	2.8	4.8	11.2	11.5
1979	-0.6	0.8	8.3	9.6
1980	-2.5	-5.3	6.1	7.0
1981	2.2	-2.3	10.8	7.0
1982	-0.9	-5.1	7.1	3.2
1983	1.0	0.9	7.0	6.3
1984	5.5	4.9	11.3	10.6
1985	2.6	5.3	8.0	8.5
1986	1.3	2.7	4.8	6.5
1987	1.8	2.1	3.8	4.0
1988	0.3	2.2	3.7	6.7
1989	1.8	2.7	6.4	7.7
1990	1.3	0.6	6.0	4.6
1991	-0.4	-1.5	5.0	2.1
1992	0.7	0.8	5.1	6.1
1993	0.3	2.1	4.9	5.3
1994	1.1	3.6	4.7	7.5
1995	2.1	3.1	6.4	5.8
1996	1.6	2.0	4.6	5.3
1997	1.6	1.9	5.1	5.3
1998	1.2	1.6	4.8	6.1
1999	1.4	1.6	3.5	5.2
2000	1.4	2.1	5.2	6.7
2001	0.5	-2.4	4.6	1.7
2002	-0.6	-1.7	2.3	0.1
2003	-0.3	-1.6	3.5	2.1
2004	0.8	-0.4	4.9	2.9
2005	0.8	-0.2	4.7	2.0
2006	-0.2	-1.4	4.9	2.4
2007	-0.7	-1.4	3.3	2.8
2008	-1.7	-2.5	1.6	2.2
2009	-3.0	-7.0	0.7	-5.1
2010	-2.2	-0.2	1.0	3.4
2011	0.2	2.3	2.0	6.2
2012	0.8	2.1	3.0	3.6
2013	0.9	1.9	2.6	1.4
2014	1.7	1.7	4.5	4.3
2015	1.5	1.5	4.6	5.5
2016	1.4	2.0	4.4	2.8
2017	0.9	1.2	3.7	3.5
2018	1.0	1.1	4.4	4.1
2019	0.8	0.4	3.7	3.1
2020	0.7	-9.1	3.7	8.5
2021	3.4	3.9	-1.5	5.6
2022	3.1	3.9	-0.4	0.7
2023	1.2	1.8	4.7	5.4
2024	0.9	0.8[2]	3.5	4.9[2]

[1] Forecast presented at the Economic Outlook Conference of the preceding year.

[2] Estimated by RSQE as of November 2024.