Economic and Revenue Forecasts

FY 2020 * FY 2021 * FY 2022

Consensus Revenue Estimating Conference
August 24, 2020
Outline

• **FY 2020 Revenue Update**  
  Eric Bussis, Department of Treasury

• **Revenue Estimates for Major Taxes**  
  Jim Stansell, House Fiscal Agency

• **Revenue Estimates by Fund**  
  David Zin, Senate Fiscal Agency
Economic Summary: Baseline Scenario

Michigan Economy
• Michigan was hit harder from the recession
• Economic recovery will take many years
• Modest economic recovery is forecast to continue

State Revenue Collections
• Summer 2020 revenue collections included positive surprises that are unlikely to continue
Michigan Revenue Falls but by Less than Expected

Between April and July, key Michigan economic indicators have declined more than revenue.

**Payroll Jobs**
Average from April to July
Down 743,000 jobs (-16.8%)

**Major Tax Revenue**
Withholding: $130 million (+3.9%)
Sales Tax: Down $270 million (-9.6%)

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Source: Michigan Bureau of Labor Market Information and Strategic Initiatives; Michigan Department of Treasury
Major Taxes Depart from Economic Trend

Historically, employment and earnings drive income tax withholding, sales tax, and use tax.

Over the summer of 2020, income tax withholding has continued to grow while employment and earnings fell. Sales and use tax have rebounded more quickly than earnings.

All amounts are a 12-month moving average in millions of dollars
Monthly earnings estimated with payroll employment and weekly wages
Data not seasonally adjusted

Source: Michigan Department of Treasury; U.S. Bureau of Labor Statistics
Analyzing the May CREC Forecast

The May economic forecast was essentially on target, but FY 2020 state revenue forecasts were significantly too low

1. Delayed payments for individual and corporate income taxes were stronger, which accounts for $200 million

2. Manufacturing and automotive production recovered more rapidly than expected

3. The impact of the CARES Act on revenue was underestimated

4. Spending on taxable goods is higher than expected
   - Consumer reaction to the pandemic increased collections, including shifts from nontaxable services and increases from remote sellers and marketplaces
CARES Act Programs Support Economy

Three programs added nearly $43.3 billion to the Michigan economy during 2020 Q2, which is about 8.5% of annual state personal income or $4,350 per capita.

1. Paycheck Protection Program
   - Nearly $16 billion has been loaned to Michigan businesses.

2. Economic Impact Payments
   - $8.3 billion paid to Michigan residents.

3. Pandemic Unemployment Insurance Compensation
   - $19 billion in benefits, of which $13.4 billion was federally funded.
   - Unemployment benefits expanded to many previously ineligible individuals.
Withholding on Unemployment Benefits

Withholding on unemployment benefits in FY 2020 is over three times the level in FY 2009 or FY 2010. The support for withholding from unemployment benefits is completely unprecedented.

UIA withholding made up a significant portion of total withholding in the past four months, accounting for 18.0% in May. Historically, the highest level was 2.7% in February of 2010.
Michigan Consumer Spending More than U.S.

Consumer Spending

Source: Affinity Data Solutions, Opportunity Insights Economic Tracker Tracktherecovery.org
Growing Sectors Offset Many Sales Tax Losses

- Restaurants have recovered slightly since the early stages of the crisis, but sales tax for July was still 23% below the prior year.
- The spring months have seen strong growth at stores that sell building materials and garden supplies, including big home improvement centers.
- Sales tax from remote sellers has been strong in 2020 and accelerated after the pandemic.

Sales Tax by Sector
Change from 2019 to 2020

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food/Drinking Places</td>
<td>$1</td>
<td>-$6</td>
<td>-$10</td>
<td>-$19</td>
</tr>
<tr>
<td>Building Material &amp; Garden Supplies</td>
<td>-$36</td>
<td>-$31</td>
<td>-$13</td>
<td>-$19</td>
</tr>
<tr>
<td>Remote Sellers</td>
<td>$21</td>
<td>$30</td>
<td>$46</td>
<td>$19</td>
</tr>
<tr>
<td>General Merchandise Stores</td>
<td>$33</td>
<td>$22</td>
<td>$6</td>
<td>$11</td>
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<tr>
<td>Automobiles</td>
<td>$46</td>
<td>$33</td>
<td>$43</td>
<td>$24</td>
</tr>
</tbody>
</table>

Source: Michigan Department of Treasury
FORECAST OF MAJOR TAXES
Withholding Tax Revenue Estimates

Fiscal Year
Billions

- **2020**
  - January CREC: $9.4
  - May CREC: $10.2
  - August Staff Recommendation: $10.4

- **2021**
  - January CREC: $9.7
  - May CREC: $10.5
  - August Staff Recommendation: $10.0

- **2022**
  - January CREC: $10.3
  - May CREC: $10.8
  - August Staff Recommendation: $10.3
Income Tax Revenue Estimates

Fiscal Year
Billions

2020
- January CREC: $9.3
- May CREC: $10.6
- August Staff Recommendation: $10.4

2021
- January CREC: $9.5
- May CREC: $10.9
- August Staff Recommendation: $9.8

2022
- January CREC: $10.3
- May CREC: $11.2
- August Staff Recommendation: $10.5

□ January CREC □ May CREC □ August Staff Recommendation
Sales Tax Revenue Estimates

Fiscal Year
Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>January CREC</th>
<th>May CREC</th>
<th>August Staff Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$7.5</td>
<td>$8.2</td>
<td>$8.7</td>
</tr>
<tr>
<td>2021</td>
<td>$8.0</td>
<td>$8.2</td>
<td>$9.0</td>
</tr>
<tr>
<td>2022</td>
<td>$8.5</td>
<td>$8.5</td>
<td>$9.2</td>
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</table>

2020 Consensus Conference
Use Tax Revenue Estimates

Fiscal Year
Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>January CREC</th>
<th>May CREC</th>
<th>August Staff Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$1.8</td>
<td>$1.5</td>
<td>$1.7</td>
</tr>
<tr>
<td>2021</td>
<td>$1.9</td>
<td>$1.6</td>
<td>$1.7</td>
</tr>
<tr>
<td>2022</td>
<td>$1.9</td>
<td>$1.7</td>
<td>$1.9</td>
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</table>
Comparison to Prior Recession

State tax revenue sometimes falls slower than the economy, which may be the case in this recession.

<table>
<thead>
<tr>
<th>Recession</th>
<th>Michigan Payroll Employment Change</th>
<th>Year</th>
<th>Sales Tax</th>
<th>Use Tax</th>
<th>Income Tax Withholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2007 to June 2009</td>
<td>-411,600 (-9.7%)</td>
<td>FY 2008</td>
<td>3.4%</td>
<td>-0.2%</td>
<td>10.4%</td>
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<tr>
<td></td>
<td></td>
<td>FY 2009</td>
<td>-10.1%</td>
<td>-19.2%</td>
<td>-6.0%</td>
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<tr>
<td>March 2020 to Present</td>
<td>-520,100 (-11.7%)</td>
<td>FY 2020 Forecast</td>
<td>-0.3%</td>
<td>-2.6%</td>
<td>4.7%</td>
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<tr>
<td></td>
<td></td>
<td>FY 2021 Forecast</td>
<td>-0.8%</td>
<td>-1.5%</td>
<td>-4.2%</td>
</tr>
</tbody>
</table>
Forecast of GF-GP and School Aid Fund
Revenue Estimates
General Fund-General Purpose

Fiscal Year
Billions

2020
January CREC: $11.0
May CREC: $9.0
August Staff Recommendation: $10.3

2021
January CREC: $11.2
May CREC: $9.3
August Staff Recommendation: $9.5

2022
January CREC: $11.5
May CREC: $10.2
August Staff Recommendation: $10.4
Change From January Consensus
General Fund-General Purpose

Fiscal Year
Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in May CREC</th>
<th>Change in August Staff Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>-$2.0</td>
<td>-$0.7</td>
</tr>
<tr>
<td>2021</td>
<td>-$1.9</td>
<td>-$1.7</td>
</tr>
<tr>
<td>2022</td>
<td>-$1.4</td>
<td>-$1.1</td>
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Revenue Estimates
School Aid Fund

Fiscal Year
Billions

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<th>May CREC</th>
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<tr>
<td>2020</td>
<td>$13.9</td>
<td>$12.7</td>
<td>$13.7</td>
</tr>
<tr>
<td>2021</td>
<td>$14.3</td>
<td>$13.2</td>
<td>$13.5</td>
</tr>
<tr>
<td>2022</td>
<td>$14.6</td>
<td>$13.9</td>
<td>$14.1</td>
</tr>
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</table>
Change From January Consensus
School Aid Fund

Fiscal Year
Billions

2020 2021 2022

- $1.3 - $1.1 - $0.8 - $0.7 - $0.6

- $0.2 - $0.8

Change in May CREC  Change in August Staff Recommendation
Change From January Consensus
GF and SAF Combined

Fiscal Year
Billions

2020
- $3.2
- $0.9

2021
- $3.1
- $2.5

2022
- $2.1
- $1.7

Change in May CREC
Change in August Staff Recommendation
# August Revenue Forecast Comparison

## Total Revenue

<table>
<thead>
<tr>
<th></th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>January</td>
<td>May</td>
<td>August</td>
</tr>
<tr>
<td>GF-GP</td>
<td>$11,012.2</td>
<td>$9,028.2</td>
<td>$10,296.8</td>
</tr>
<tr>
<td>School Aid Fund</td>
<td>$13,925.4</td>
<td>$12,676.7</td>
<td>$13,714.4</td>
</tr>
<tr>
<td>Combined</td>
<td>$24,937.6</td>
<td>$21,704.9</td>
<td>$24,011.2</td>
</tr>
</tbody>
</table>

## Change from January Estimates

<table>
<thead>
<tr>
<th></th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Combined</td>
<td>-$926.4</td>
<td>-$2,473.4</td>
<td>-$1,712.7</td>
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</tbody>
</table>

## Change from May Estimates

<table>
<thead>
<tr>
<th></th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
</tr>
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<tbody>
<tr>
<td>Total Combined</td>
<td>$2,306.3</td>
<td>$579.0</td>
<td>$375.9</td>
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</table>
Budget Stabilization Fund

Both pay-outs and pay-ins require an appropriation

The staff estimates calculate:
• No pay-ins in FY 2020 & FY 2021
• Pay-in of $133.5 million in FY 2022
• BSF pay-out of $287.2 million in FY 2020
• No BSF pay-outs during FY 2021 & FY 2022
Constitutional Revenue Limit Calculation

Staff Forecast
Forecast Risks

Economic

• Uncertainty from the path of the pandemic
• COVID-19 will have a short-term and long-term impact
• More federal stimulus spending could boost revenue short-term, while the drop may cause the economy to fall

Michigan Tax Revenue

• Uncertainty surrounds withholding, which may fall significantly from job losses
• Large increases in FY 2020 taxable consumer spending creates uncertainty about FY 2021
• Risks surround how Michigan’s economy, population, and workforce recover from the recession
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