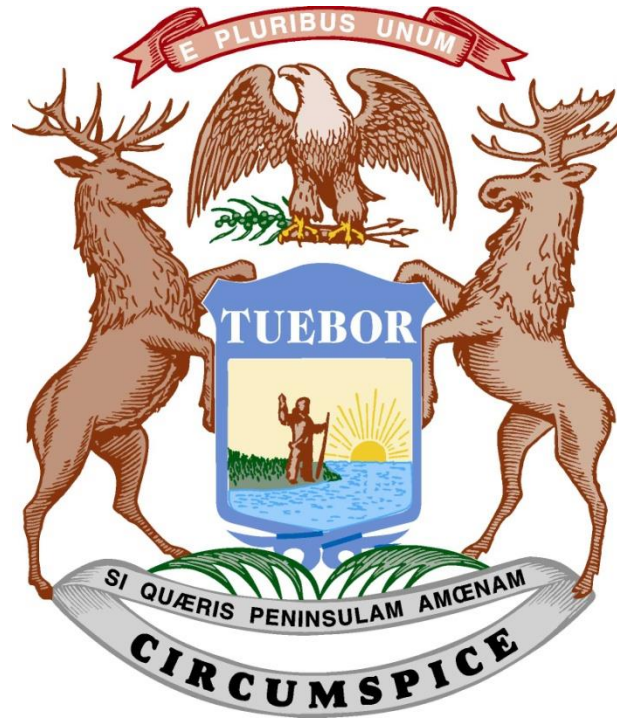


# Economic and Revenue Forecasts

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**FY 2020 \* FY 2021 \* FY 2022**



**Consensus Revenue Estimating Conference**

**May 15, 2020**

May 2020 Consensus Conference

# Outline

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- **Economic Forecast**

Jim Stansell, House Fiscal Agency

- **Revenue Estimates for Major Taxes**

David Zin, Senate Fiscal Agency

- **Revenue Estimates by Fund**

Eric Bussis, Department of Treasury

# Economic Summary: Baseline Scenario

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## National

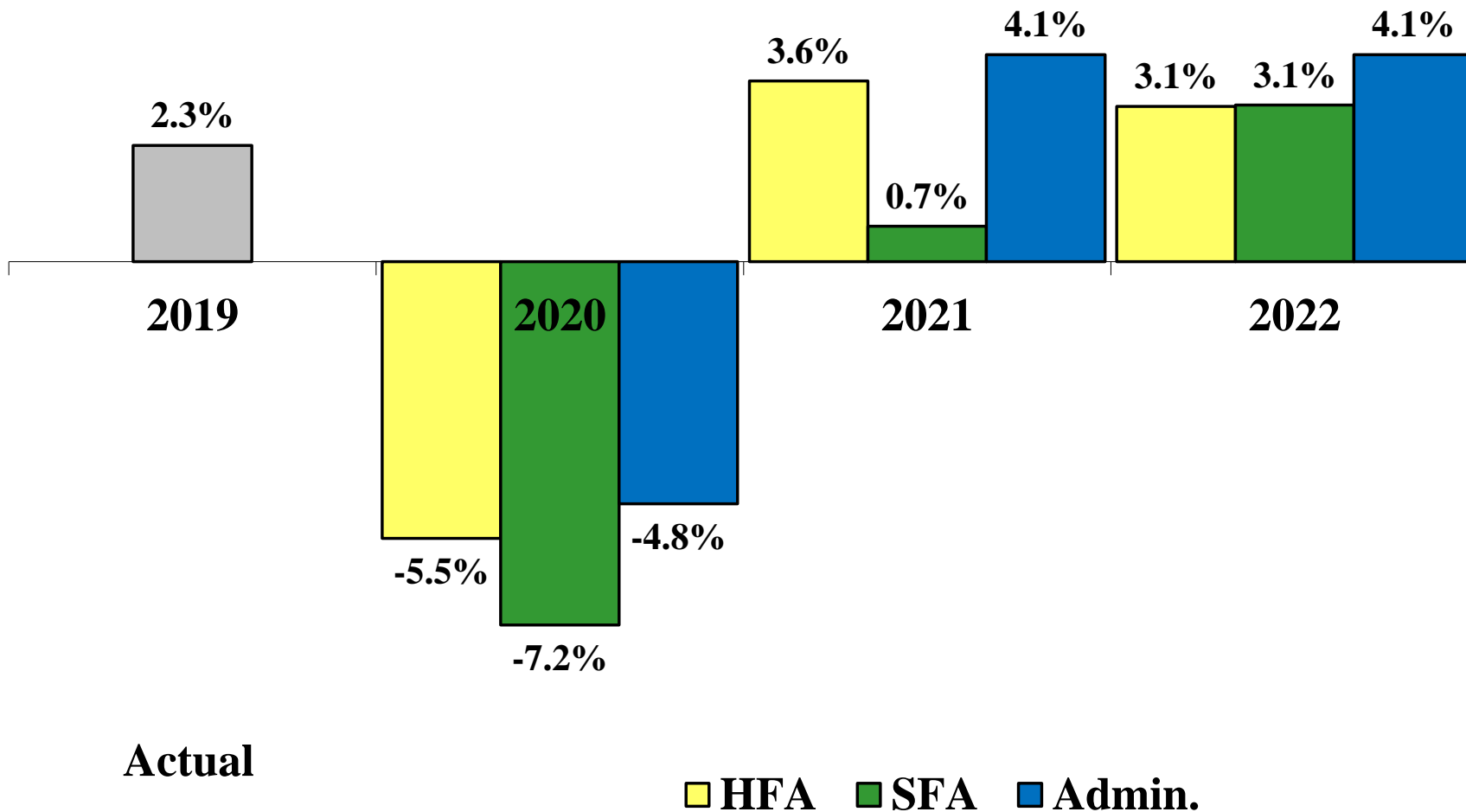
- COVID-19 drastically altered the economic outlook
- Economic recession with a slow recovery projected

## Michigan

- A harder hit from the recession than the national average
- Can Michigan keep pace with the national recovery post COVID-19?

# GDP Forecasts

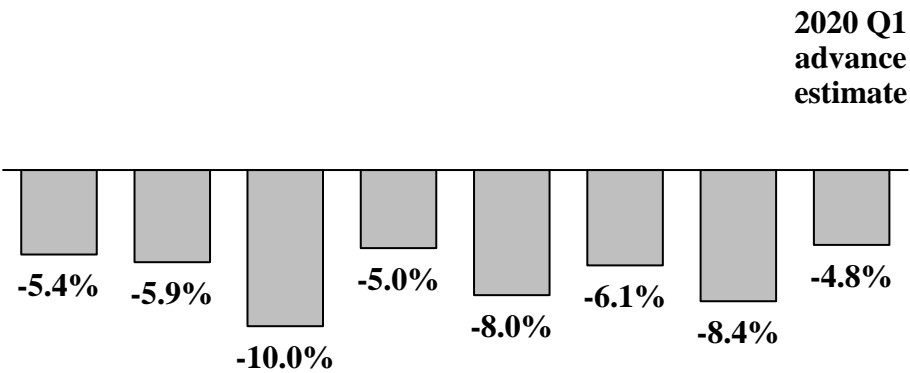
## Annual Percent Change



# 2020 Recession - Quarterly

## Quarterly GDP Declines of more than 5% since 1949

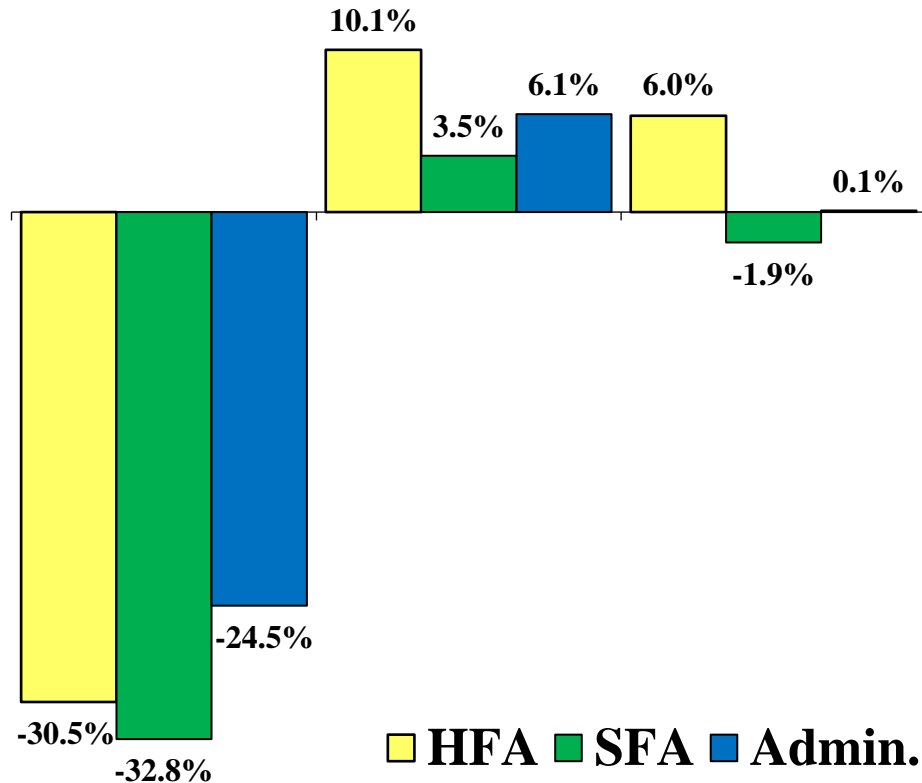
1949 Q1 1953 Q4 1958 Q1 1960 Q4 1980 Q2 1982 Q1 2008 Q4 2020 Q1



All values are annualized rates

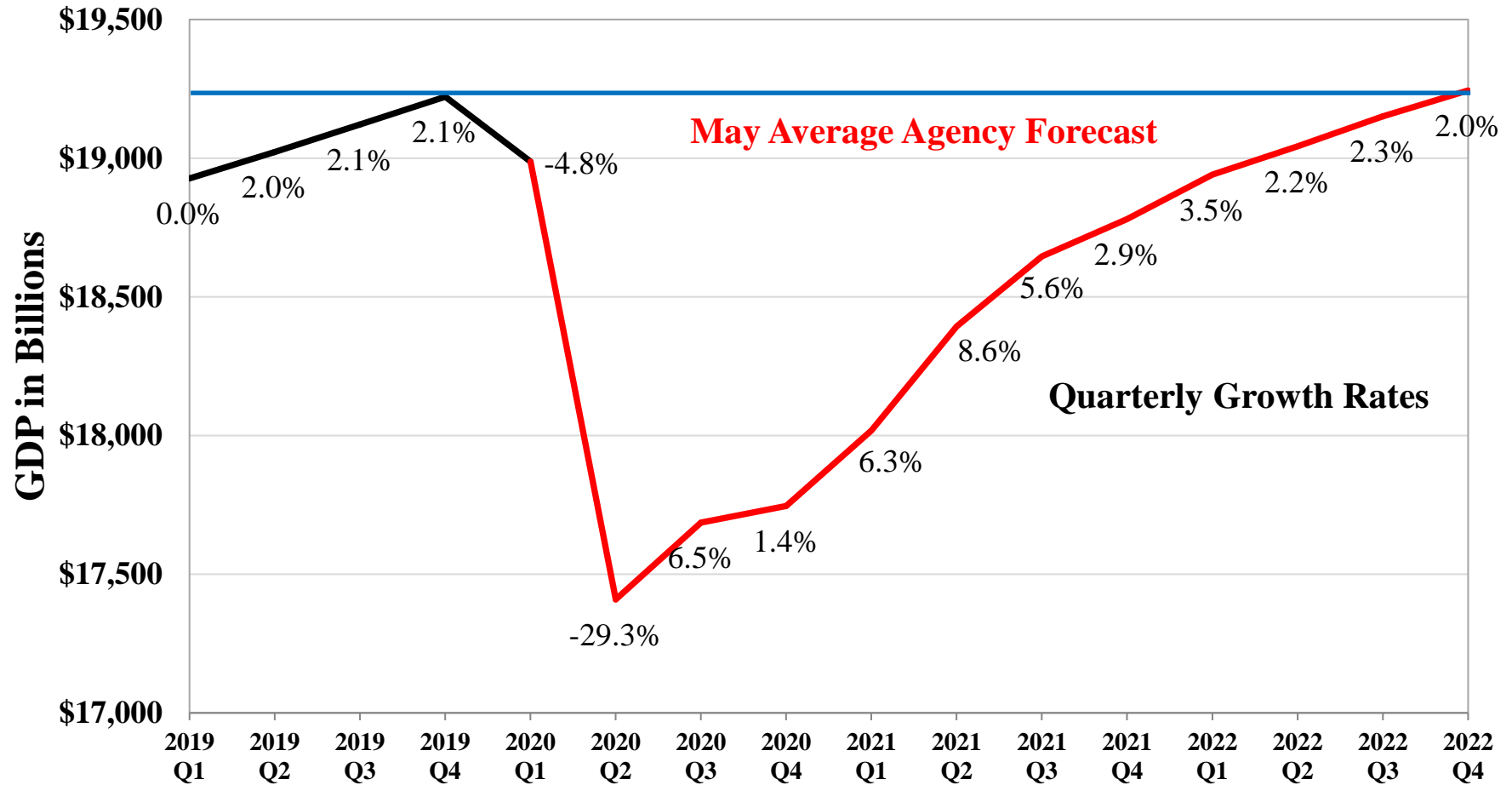
## Predicted GDP

2020 Q2 2020 Q3 2020 Q4



Source: U.S. Bureau of Economic Analysis.

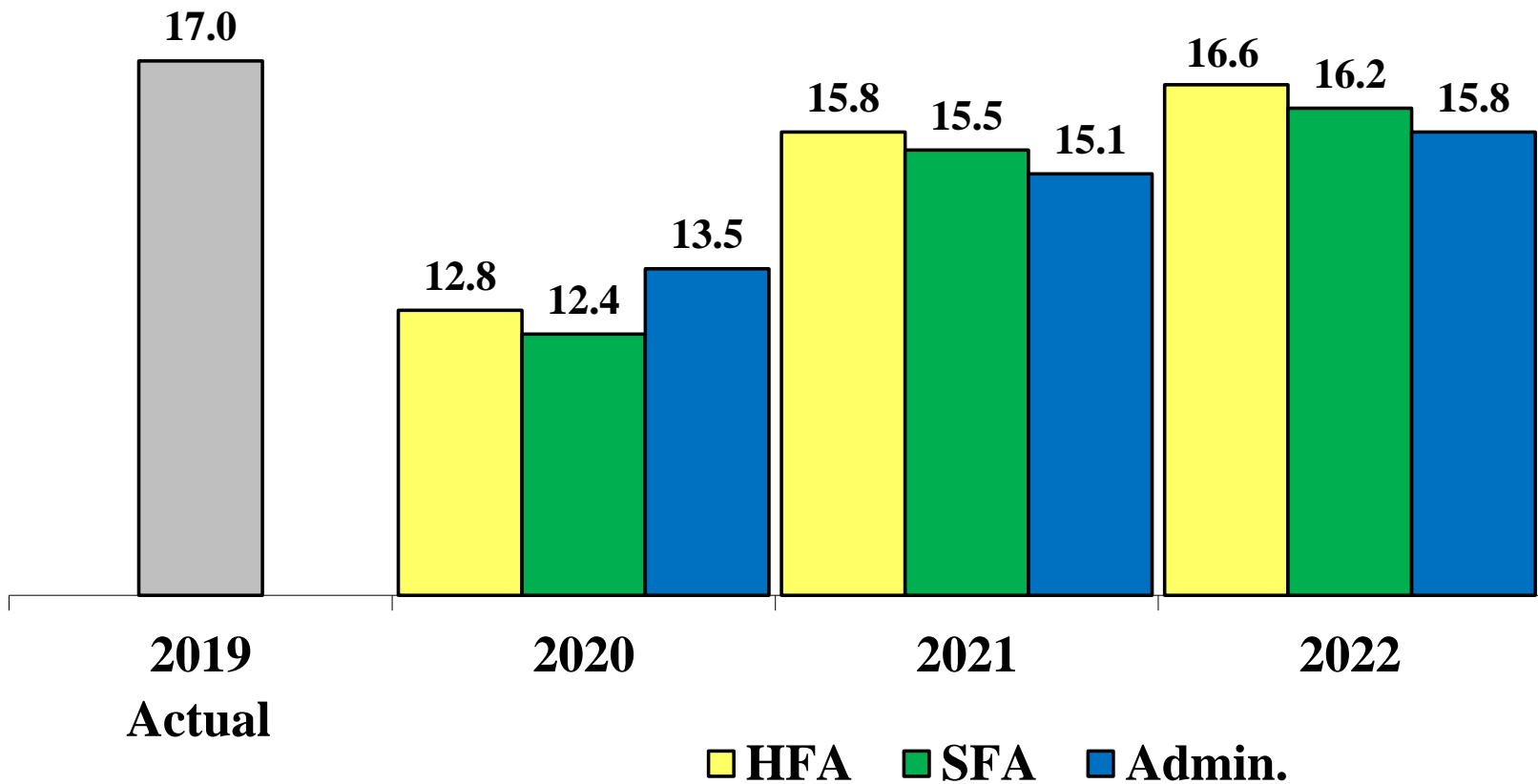
# 2020 Recession – Real GDP Quarterly Forecast



Source: U.S. Bureau of Economic Analysis.

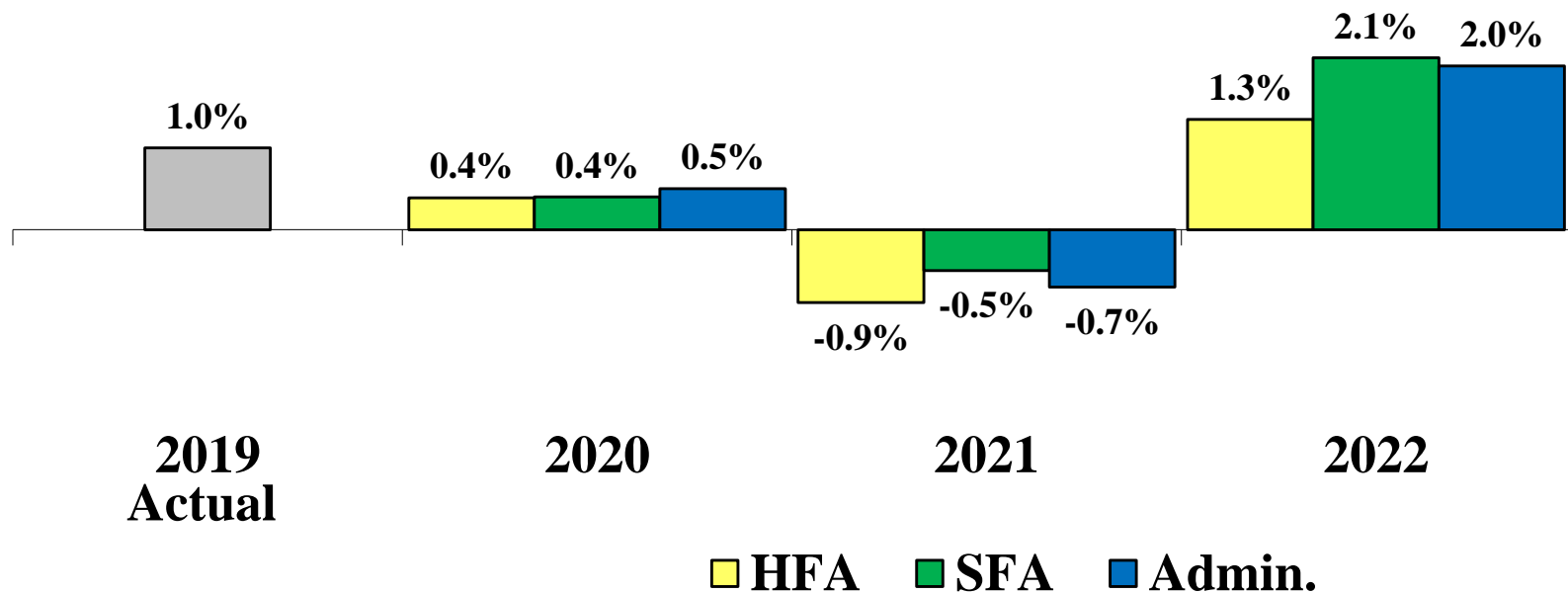
# Light Vehicle Sales Forecast

Millions of Units



# Inflation Expected to be Low In Near Term

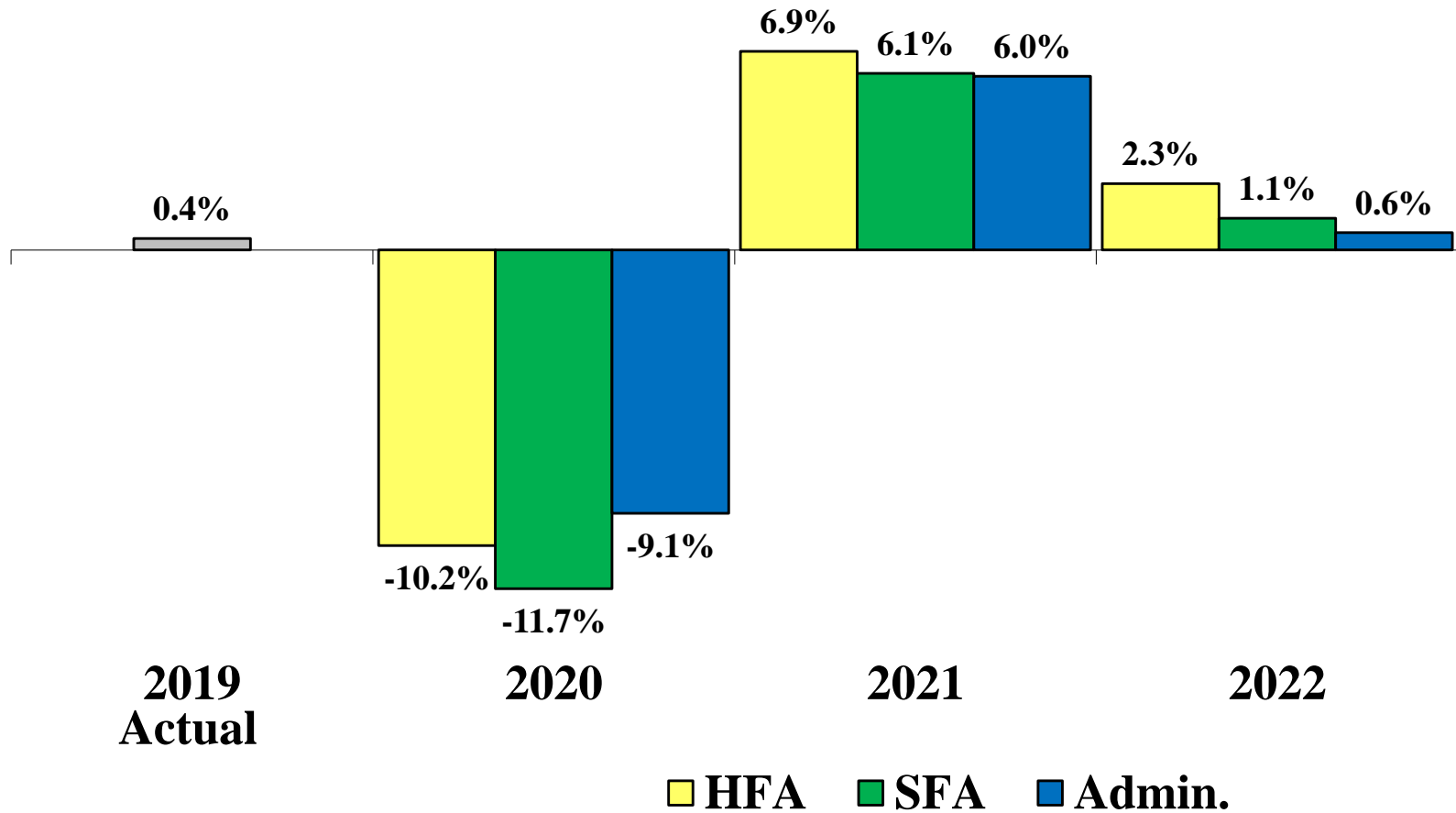
## Detroit Consumer Price Index Fiscal Year Growth





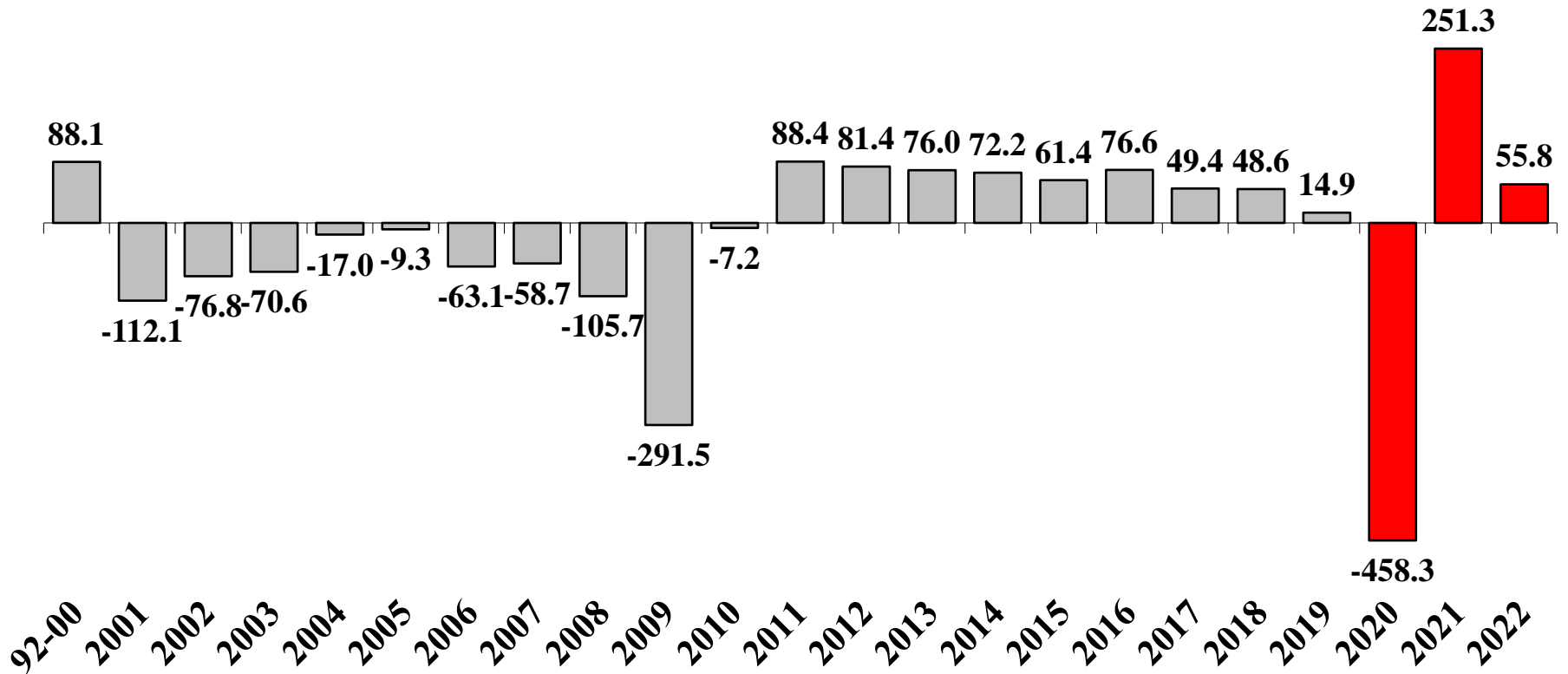
# Michigan Wage and Salary Employment

## Annual Percent Change



# Michigan Job Changes Expected Through 2022

## Change in Michigan Wage and Salary Employment Thousands



**Average Agency Forecasts**

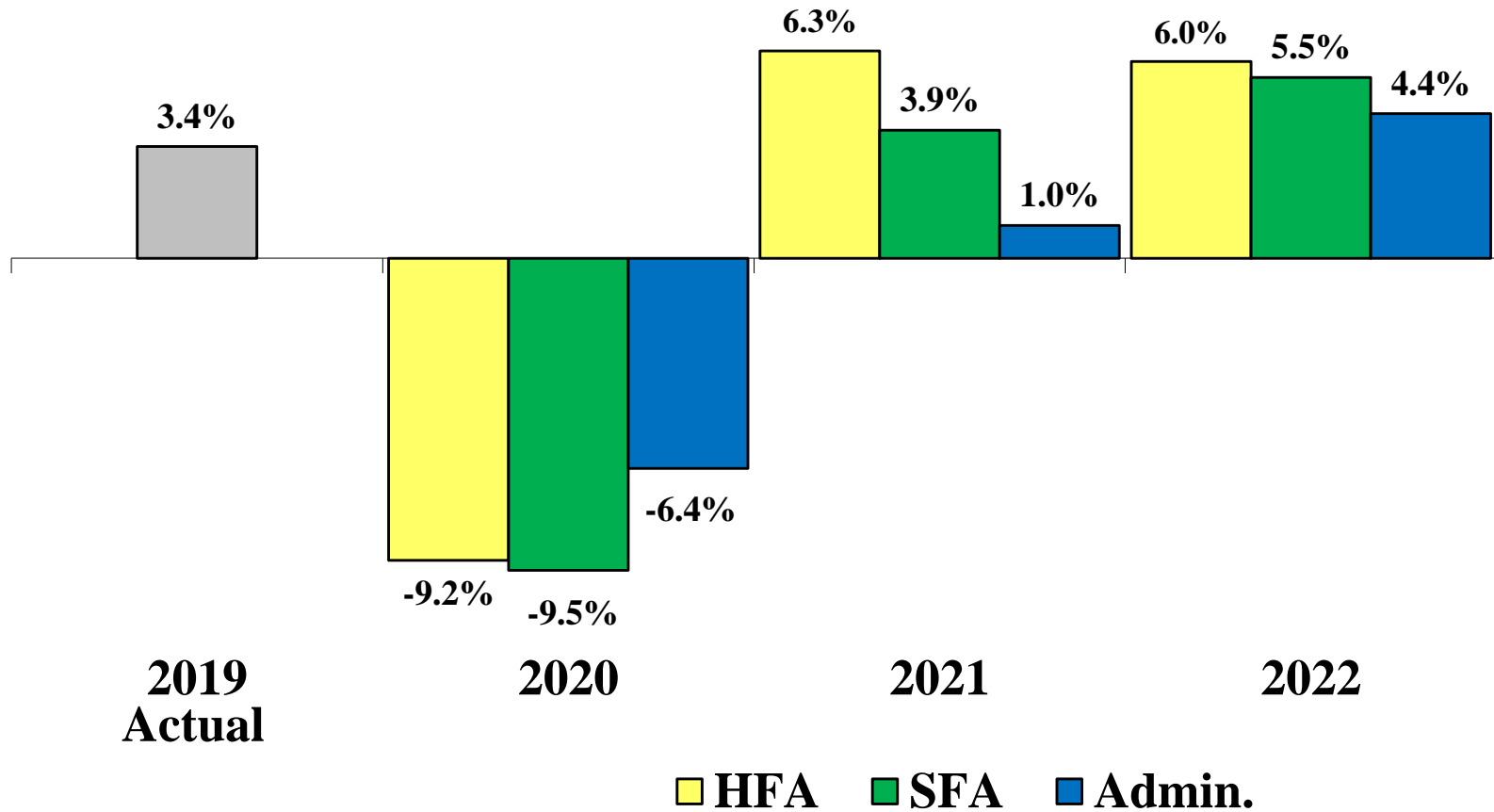
# Forecast of Major Taxes

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- Significant decreases in all major taxes
- CARES Act Impact
  - Unemployment benefits from the CARES Act supports withholding through July 2020
  - Income Tax and CIT lowered by federal tax base changes
- Sales tax hit by lower consumer spending, auto sales, and gas prices
  - Sales tax collections boosted from *South Dakota v. Wayfair* and Market Place legislation

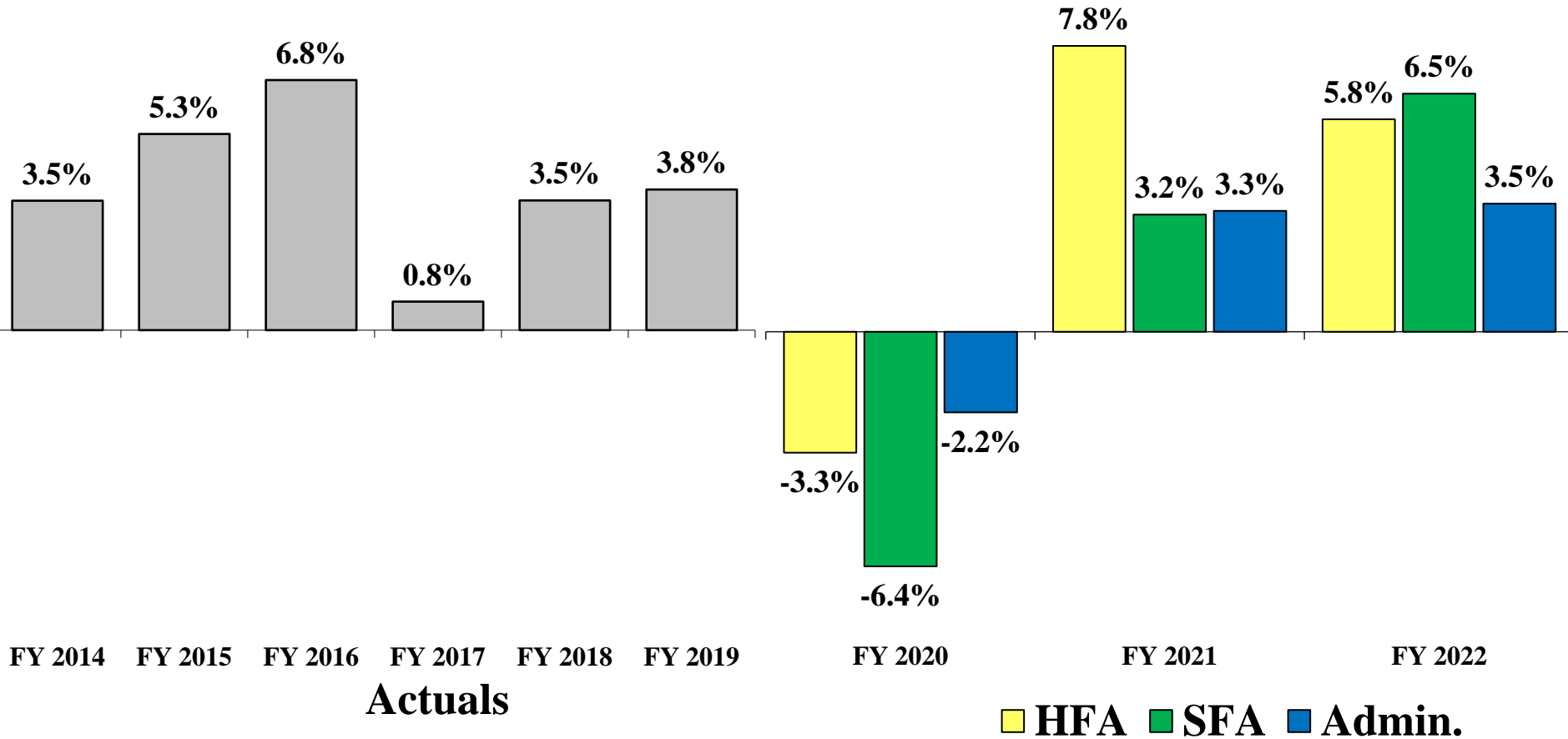
# Baseline Income Tax Growth

## Fiscal Year Growth

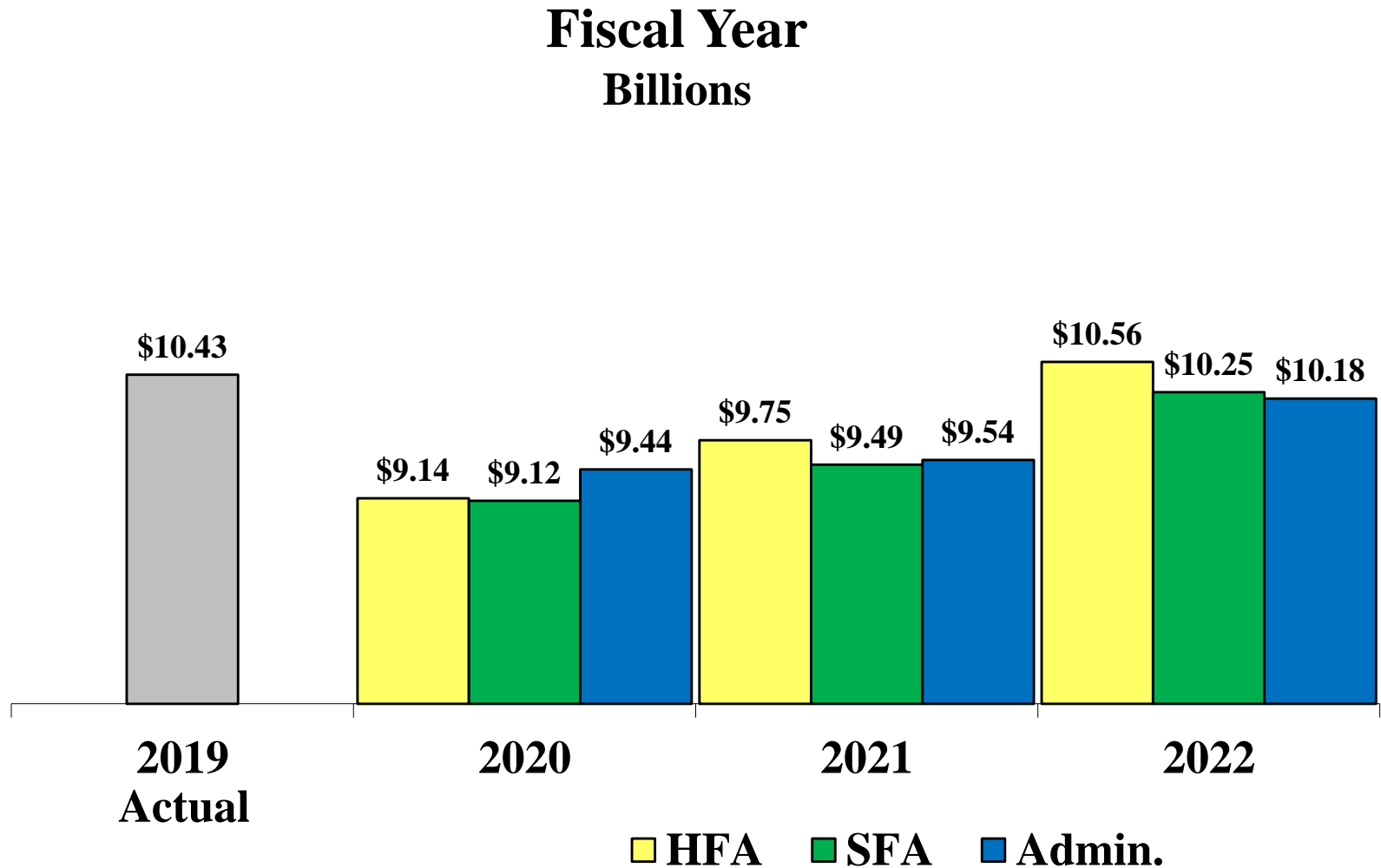


# Baseline Income Tax Withholding Growth

## Fiscal Year Growth

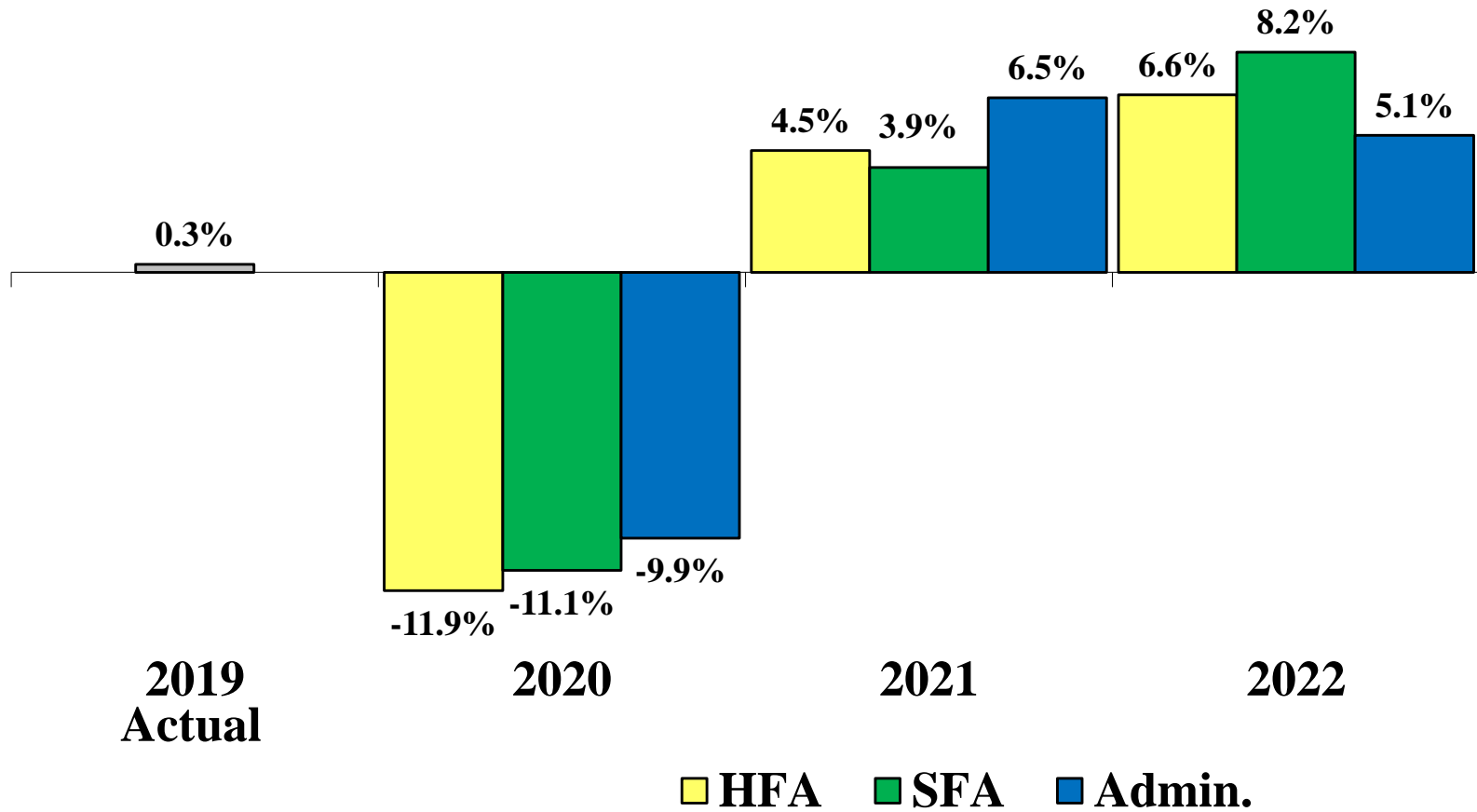


# Net Income Tax Revenue Estimates



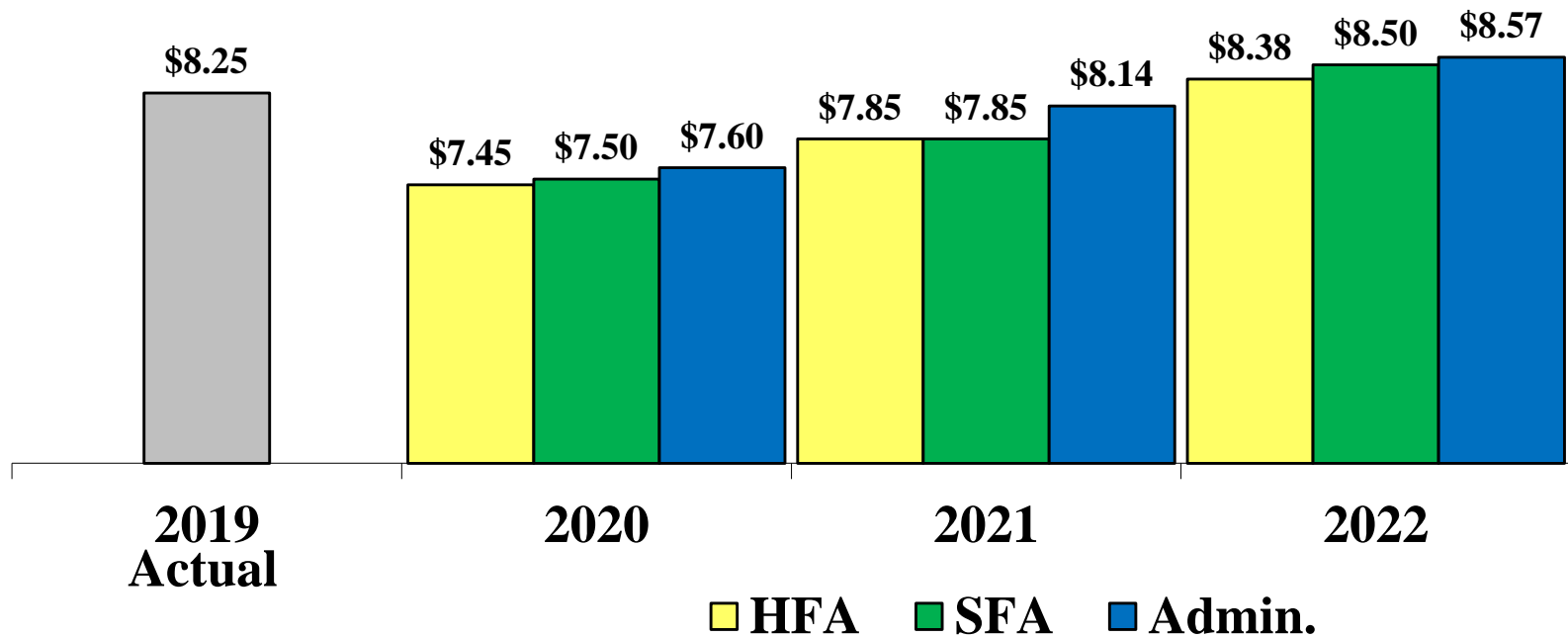
# Baseline Sales Tax Growth

## Fiscal Year Growth



# Net Sales Tax Revenue Estimates

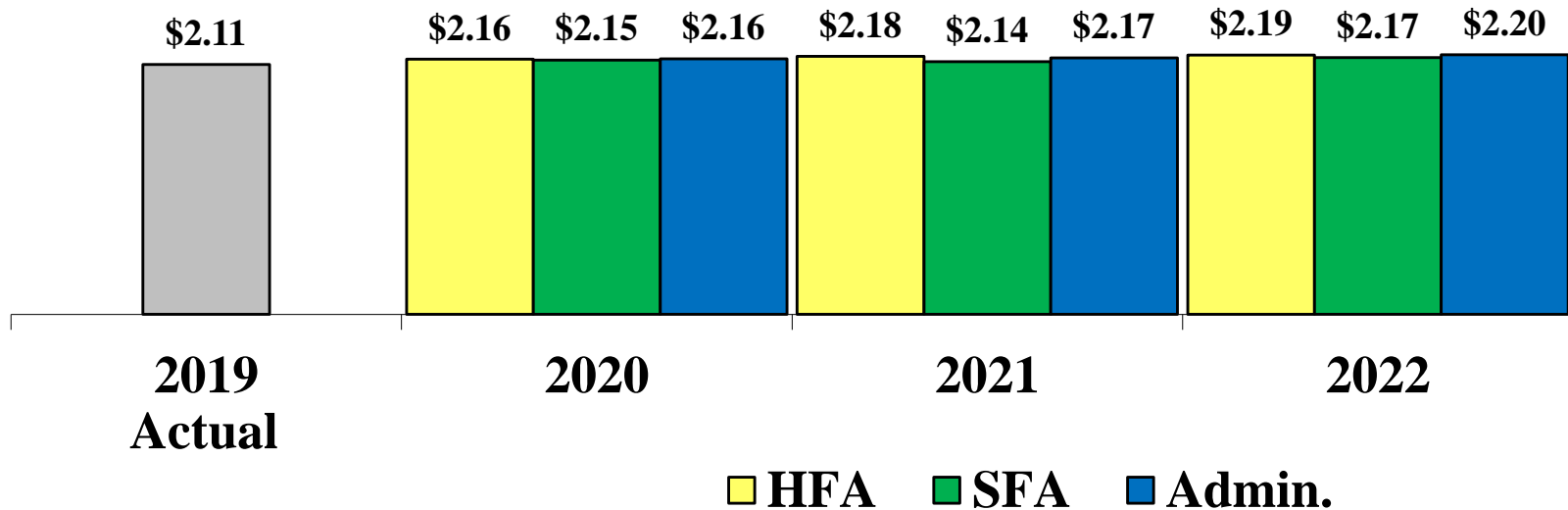
Fiscal Year  
Billions





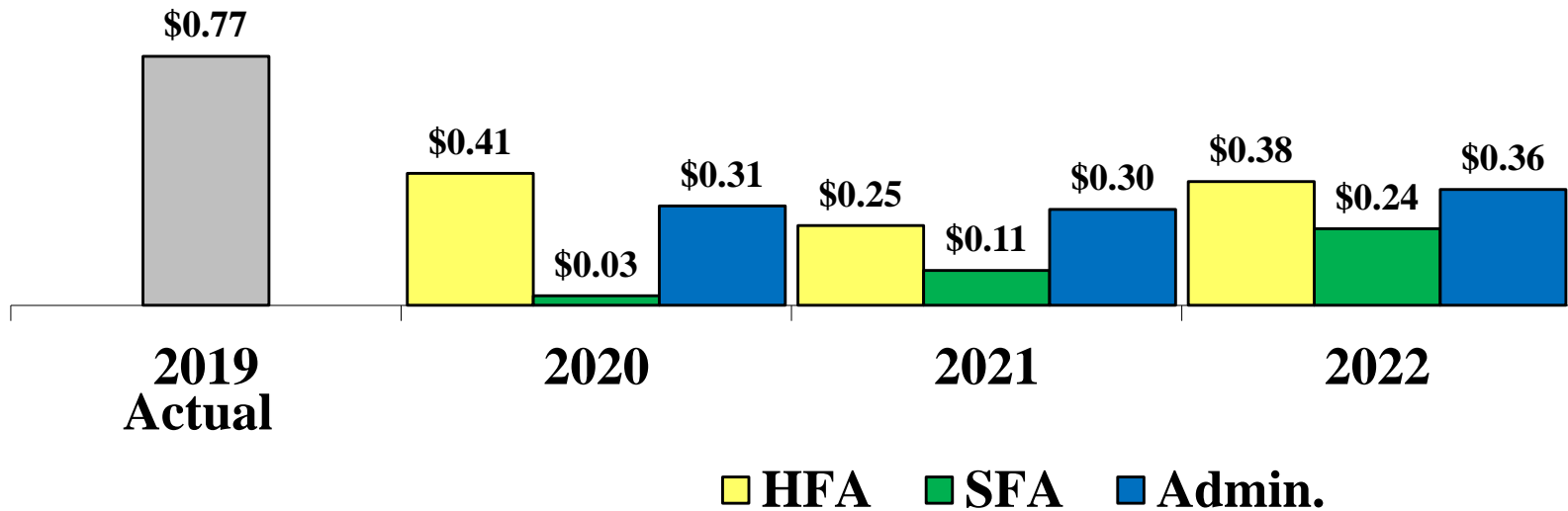
# Net SET Revenue Estimates

Fiscal Year  
Billions



# Net CIT/MBT Revenue Estimates

Fiscal Year  
Billions



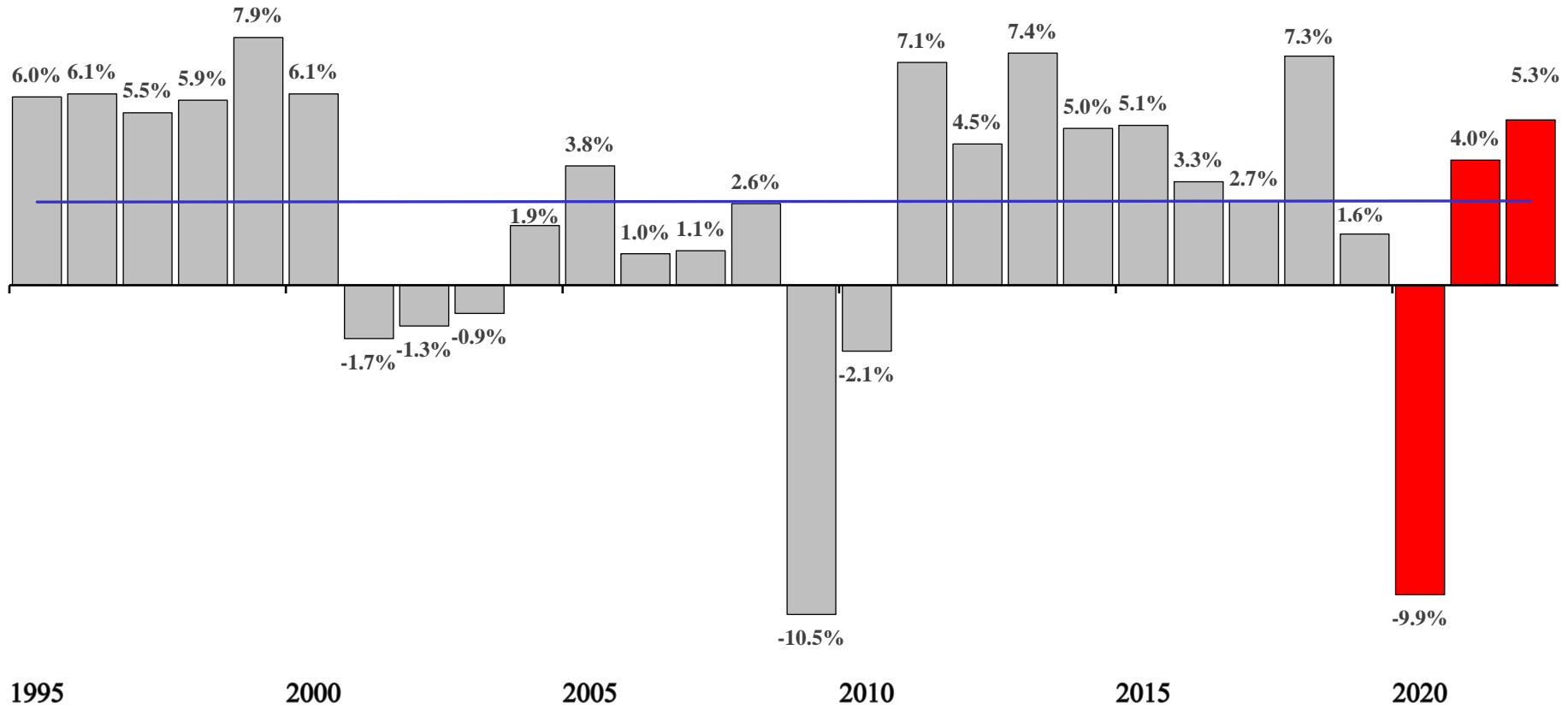
# GF-GP and School Aid Fund Revenue

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- Falling revenue sources lower both GF-GP and SAF
- Numerous legislative changes impact the distribution of revenue by fund
  - General Fund Revenue has been diverted and reduced
    - Transfers to Michigan Transportation Fund (MTF) from 2015 Road Package and PA 588 of 2018
      - FY 19: \$264 million
      - FY 20: \$468 million
      - FY 21: \$600 million
  - GF-GP Use Tax revenue for personal property tax reimbursement continues to grow
  - HB 4125 increased the SAF to the level prior to PA 588 of 2018, but did not lower the MTF or Renew Michigan amounts
- Fixed rate earmarks leave more volatility in the General Fund

# GF-GP and School Aid Revenue

## Baseline Growth Rates Before Tax Changes

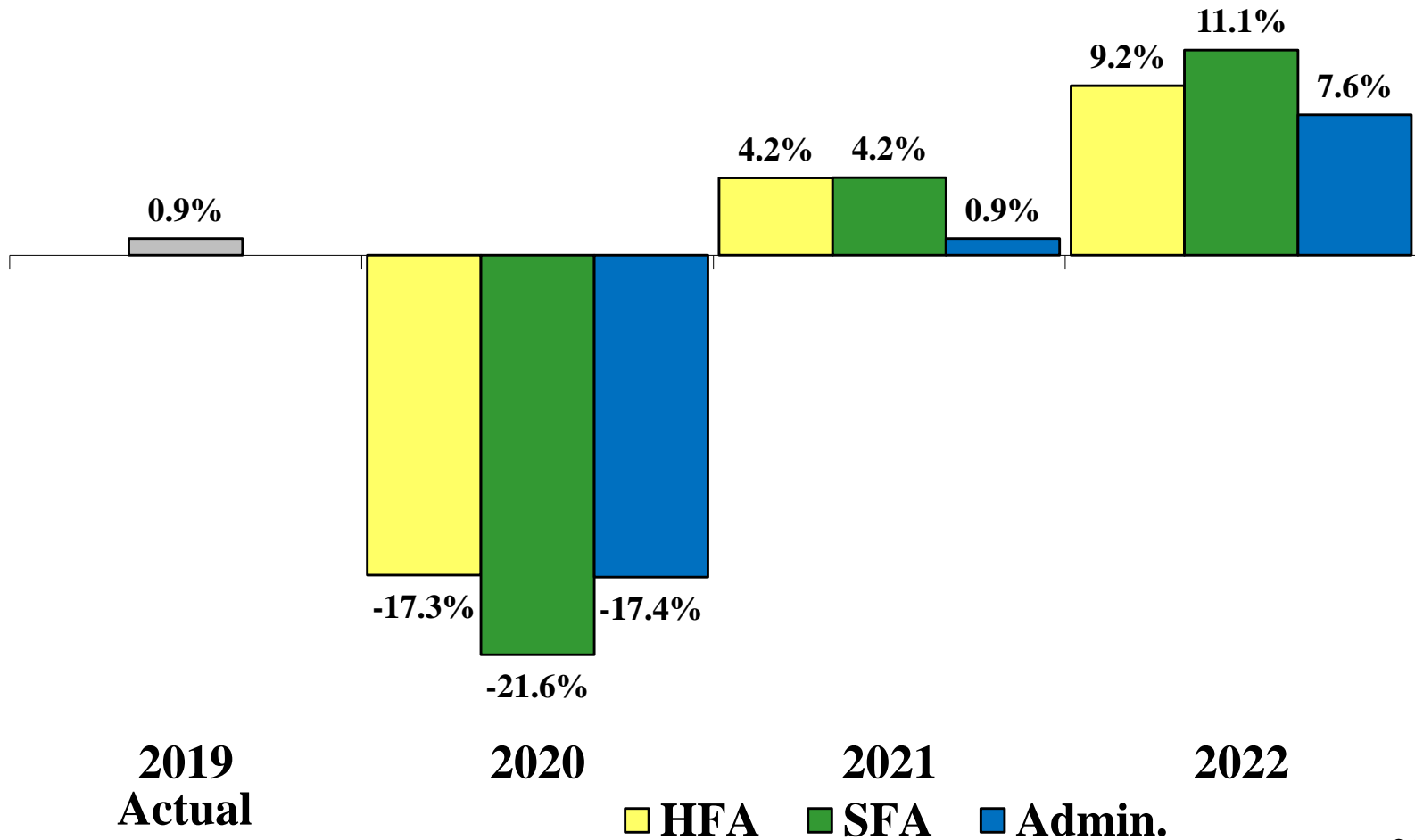


**Average Agency Forecasts**

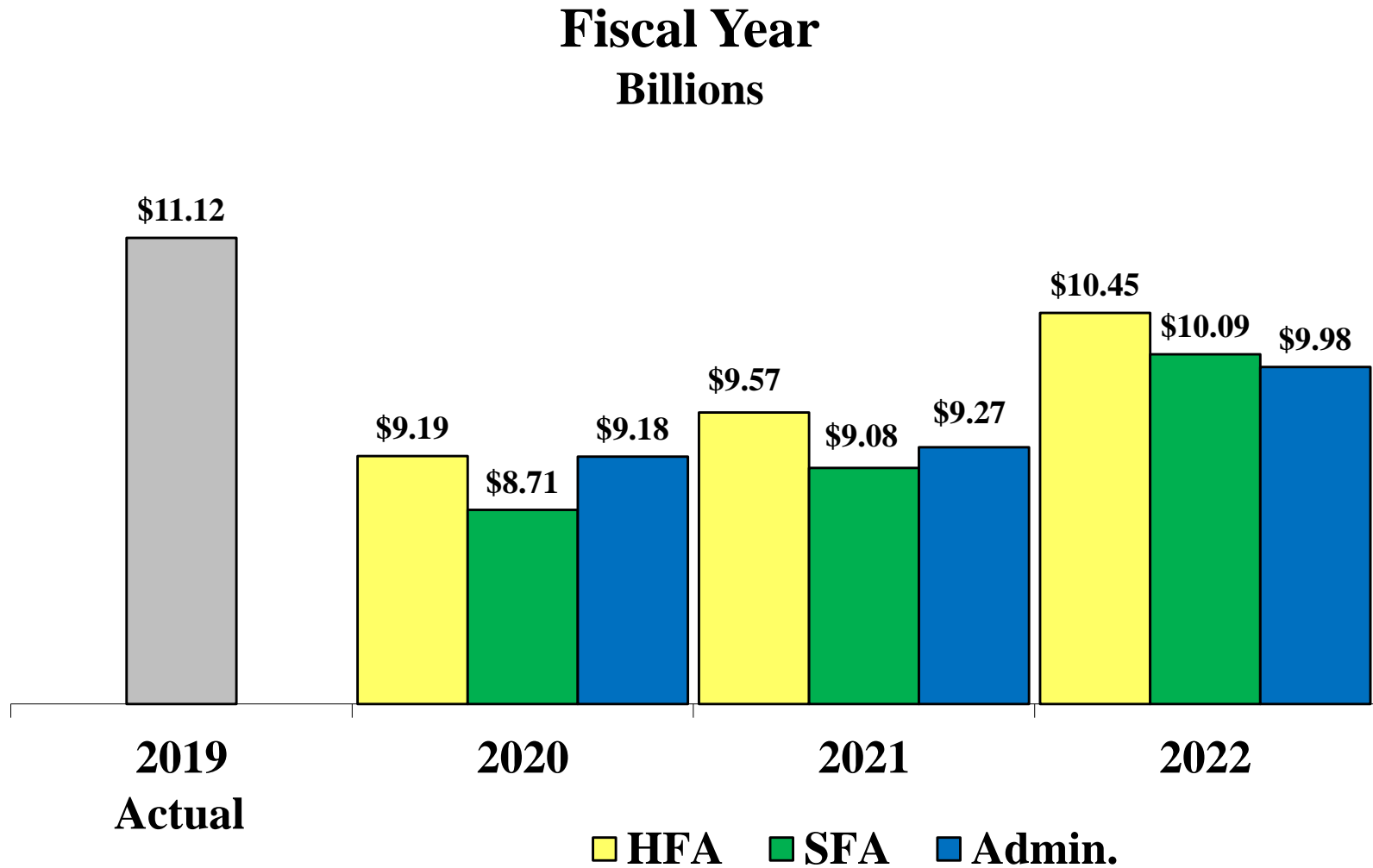
20

# GF-GP Net Revenue Growth

## Fiscal Year Growth

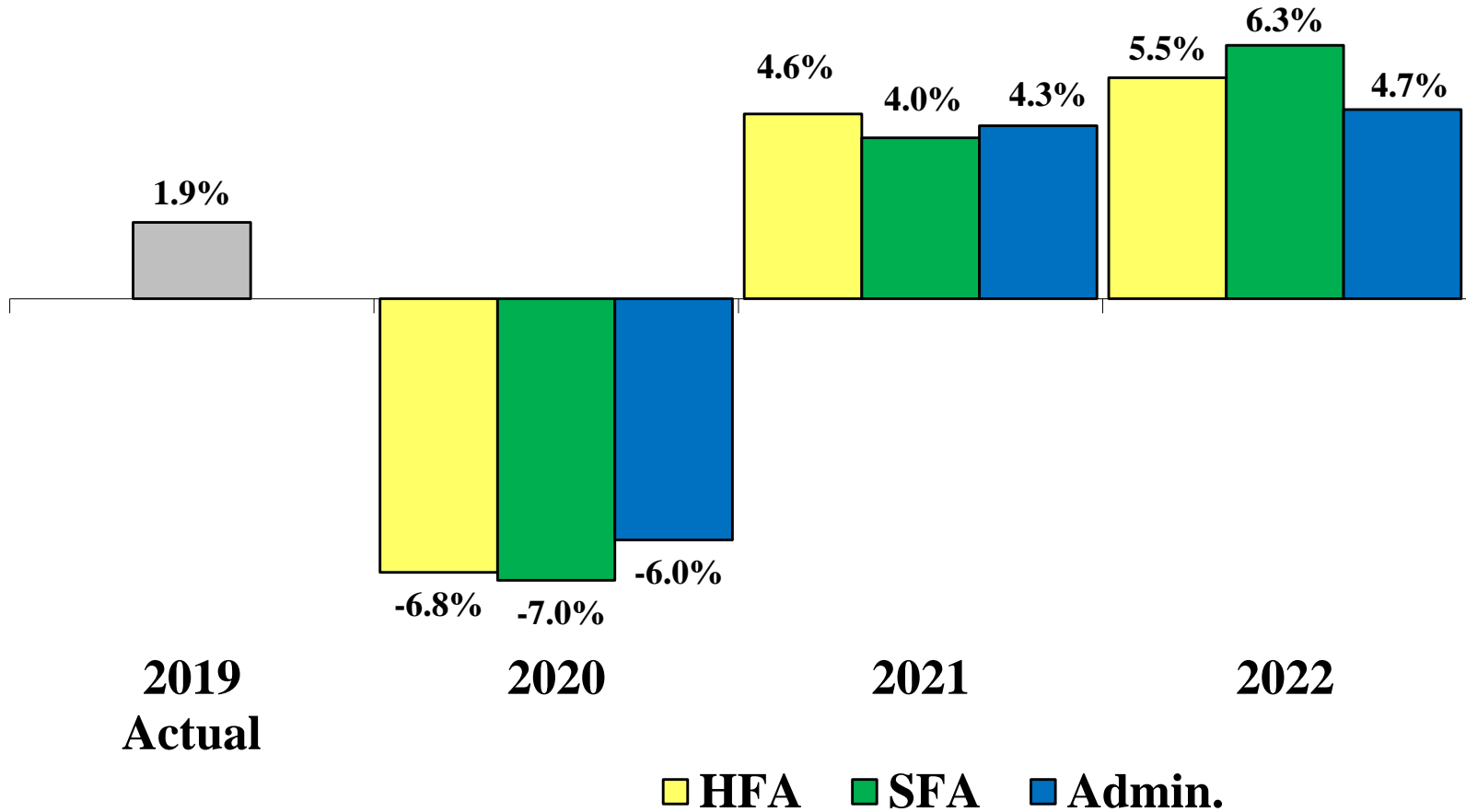


# GF-GP Net Revenue Estimates



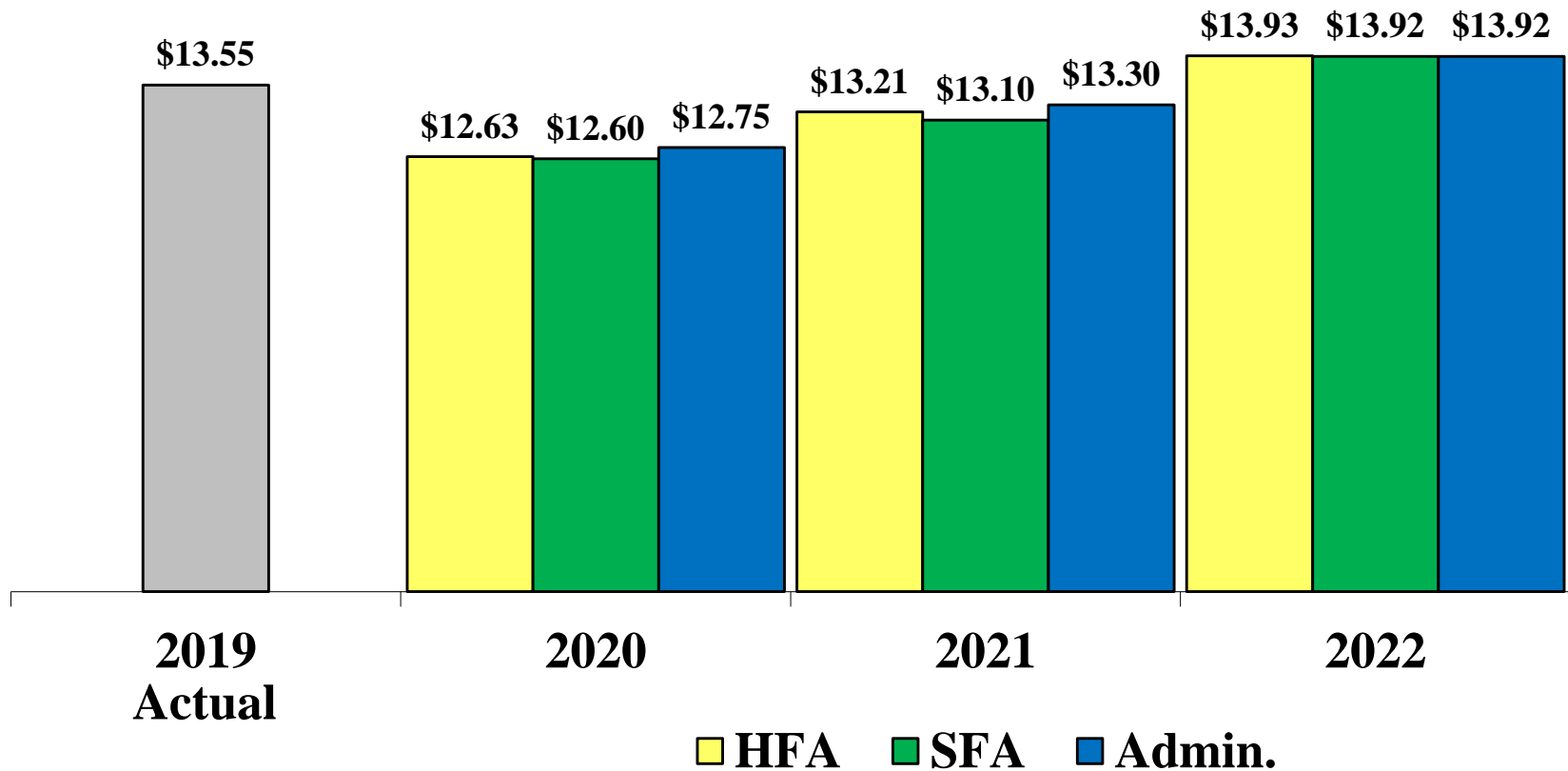
# School Aid Fund Net Growth

## Fiscal Year Growth



# School Aid Fund Net Revenue Estimates

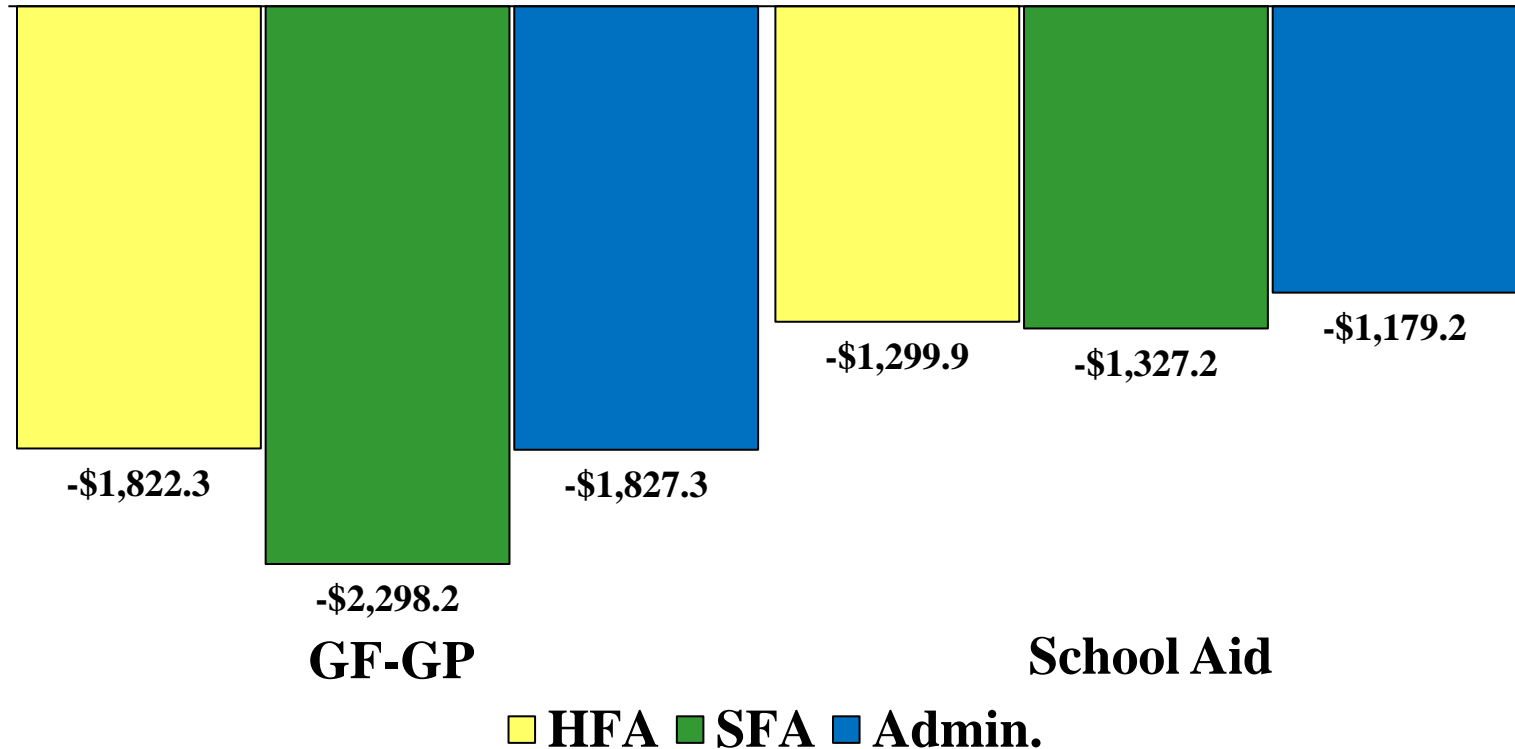
**Fiscal Year**  
**Billions**





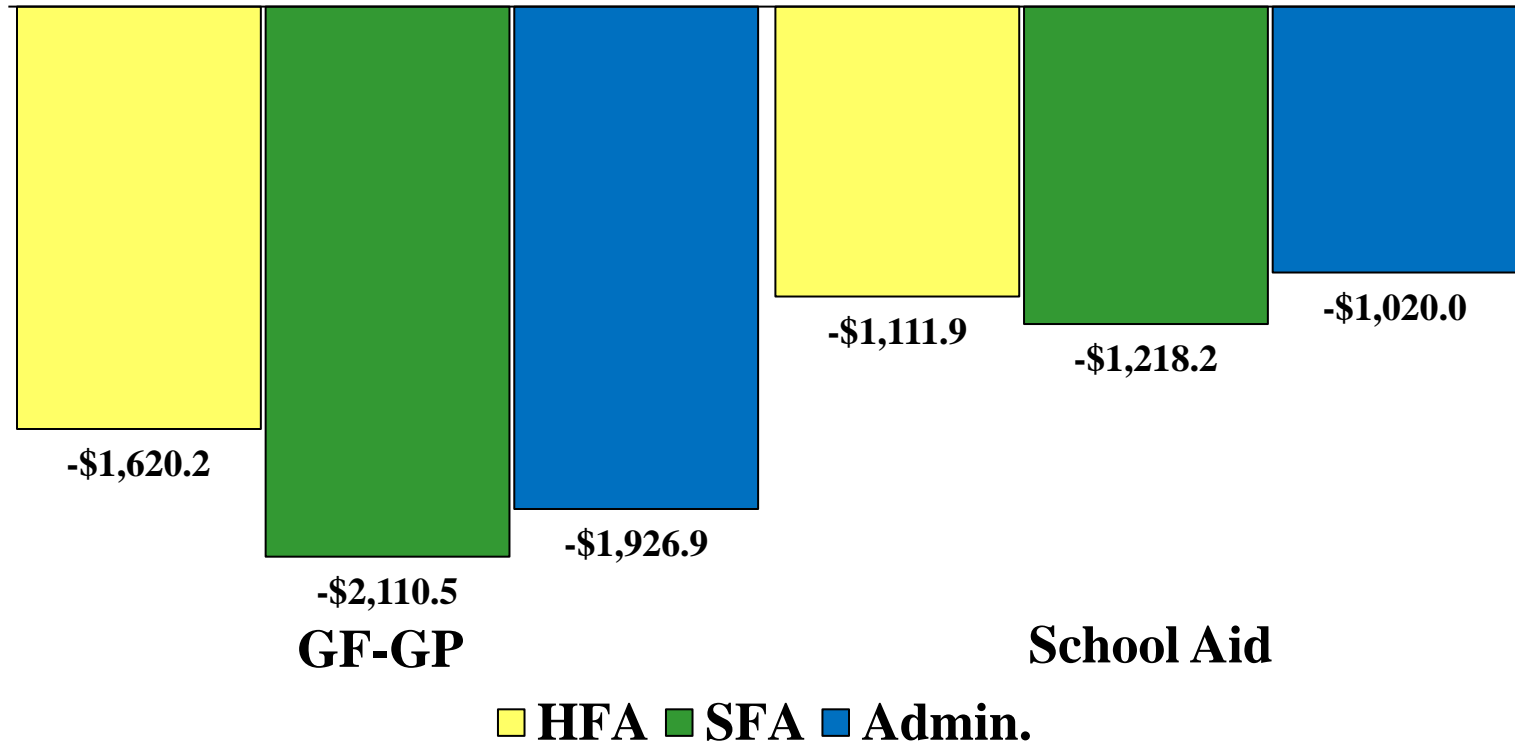
# FY 2020 Changes Since January Consensus Estimates

Millions



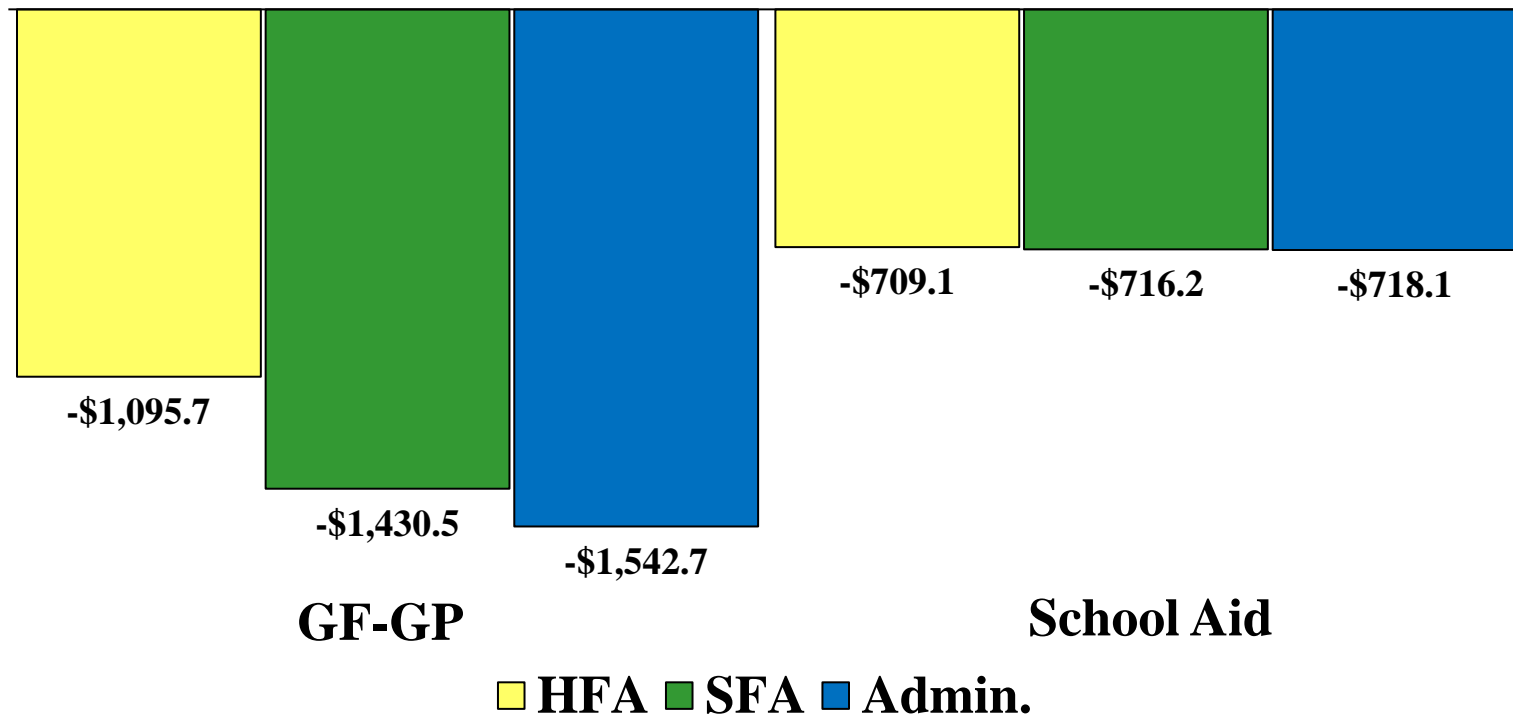
# FY 2021 Changes Since January Consensus Estimates

Millions



# FY 2022 Changes Since January Consensus Estimates

Millions



# Revenue Forecast Comparison

<b>Total Revenue (Values in Millions)</b>									
	<b>FY 2020</b>			<b>FY 2021</b>			<b>FY 2022</b>		
	<b><u>HFA</u></b>	<b><u>SFA</u></b>	<b><u>Admin.</u></b>	<b><u>HFA</u></b>	<b><u>SFA</u></b>	<b><u>Admin.</u></b>	<b><u>HFA</u></b>	<b><u>SFA</u></b>	<b><u>Admin.</u></b>
GF-GP	\$9,189.8	\$8,713.9	\$9,184.8	\$9,575.4	\$9,084.0	\$9,267.6	\$10,453.3	\$10,088.0	\$9,975.8
School Aid Fund	\$12,625.6	\$12,598.3	\$12,746.3	\$13,193.6	\$13,099.3	\$13,297.5	\$13,918.6	\$13,923.9	\$13,922.0

<b>Difference from January Consensus Estimates</b>									
	<b>FY 2020</b>			<b>FY 2021</b>			<b>FY 2022</b>		
	<b><u>HFA</u></b>	<b><u>SFA</u></b>	<b><u>Admin.</u></b>	<b><u>HFA</u></b>	<b><u>SFA</u></b>	<b><u>Admin.</u></b>	<b><u>HFA</u></b>	<b><u>SFA</u></b>	<b><u>Admin.</u></b>
GF-GP	(\$1,822.3)	(\$2,298.2)	(\$1,827.3)	(\$1,619.1)	(\$2,110.5)	(\$1,926.9)	(\$1,065.2)	(\$1,430.5)	(\$1,542.7)
School Aid Fund	(\$1,299.9)	(\$1,327.2)	(\$1,179.2)	(\$1,123.9)	(\$1,218.2)	(\$1,020.0)	(\$721.5)	(\$716.2)	(\$718.1)
Combined	(\$3,122.2)	(\$3,625.4)	(\$3,006.5)	(\$2,743.0)	(\$3,328.7)	(\$2,946.9)	(\$1,786.7)	(\$2,146.7)	(\$2,260.8)

# Budget Stabilization Fund

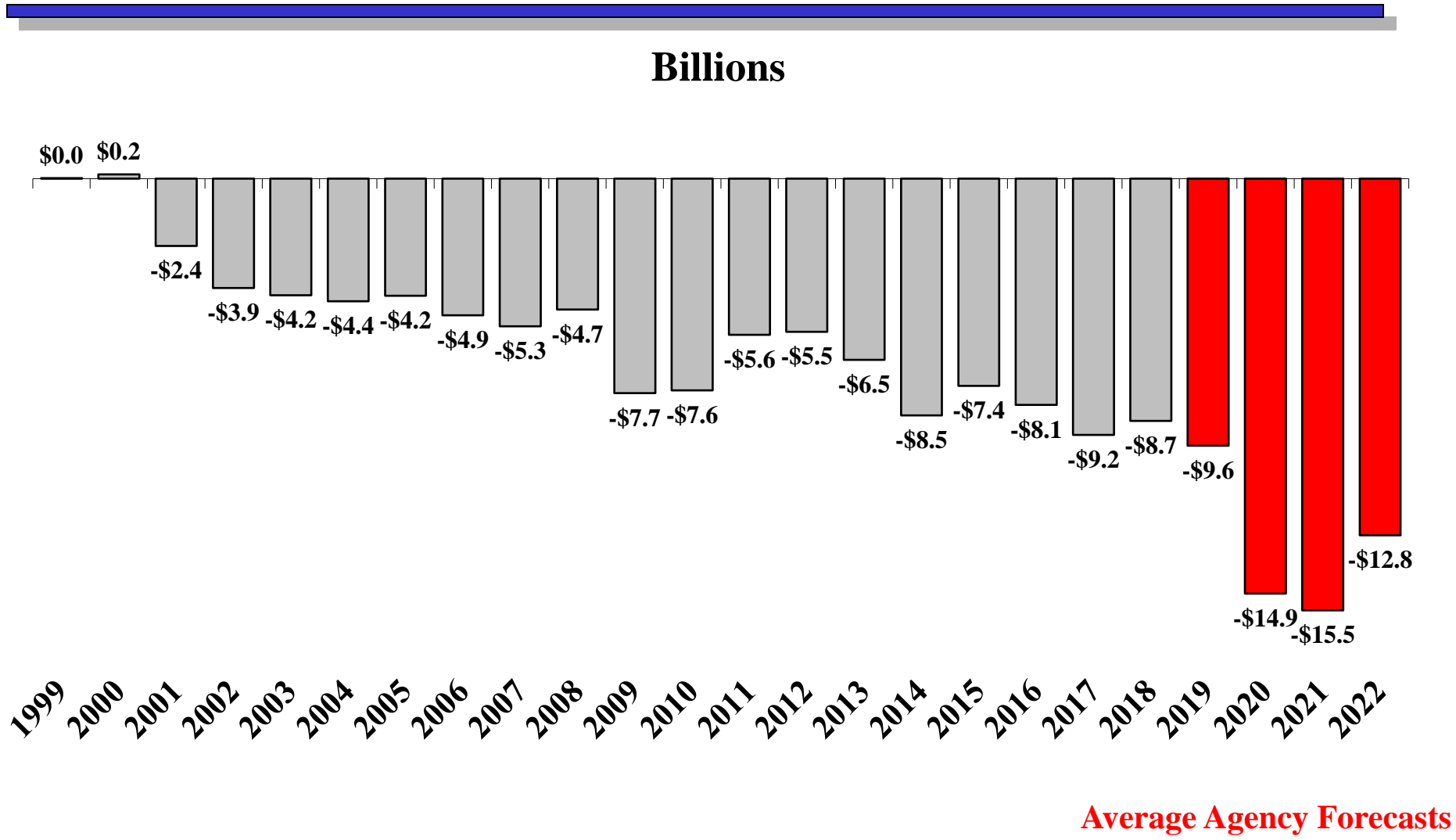
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Both pay-outs and pay-ins require an appropriation

The Agencies estimate:

- No pay-ins in FY 2020 & FY 2021
- Pay-ins ranging from \$159 to \$382 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



# Forecast Risks

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## **Economic**

- COVID-19 short-term and long-term impact
- Federal policy, trade policy, and monetary policy
- Slower global growth

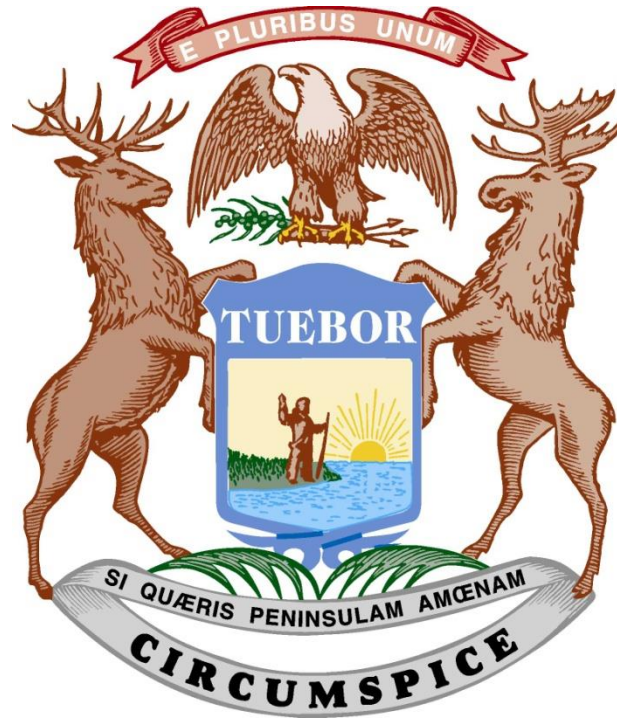
## **Michigan Tax Revenue**

- Volatility in Individual and Corporate Income Taxes
- Will consumer patterns change as a result of COVID-19?
- How will Michigan's economy, population, and workforce recover from the recession?

# Economic and Revenue Forecasts

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**FY 2020 \* FY 2021 \* FY 2022**



**Consensus Revenue Estimating Conference**

**May 15, 2020**