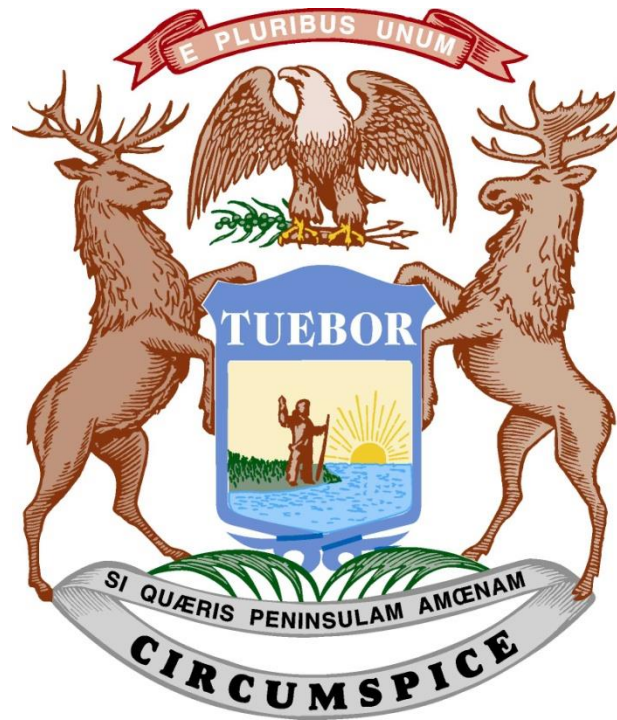


# Economic and Revenue Forecasts

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**FY 2021 \* FY 2022 \* FY 2023**



**Consensus Revenue Estimating Conference**

**May 21, 2021**

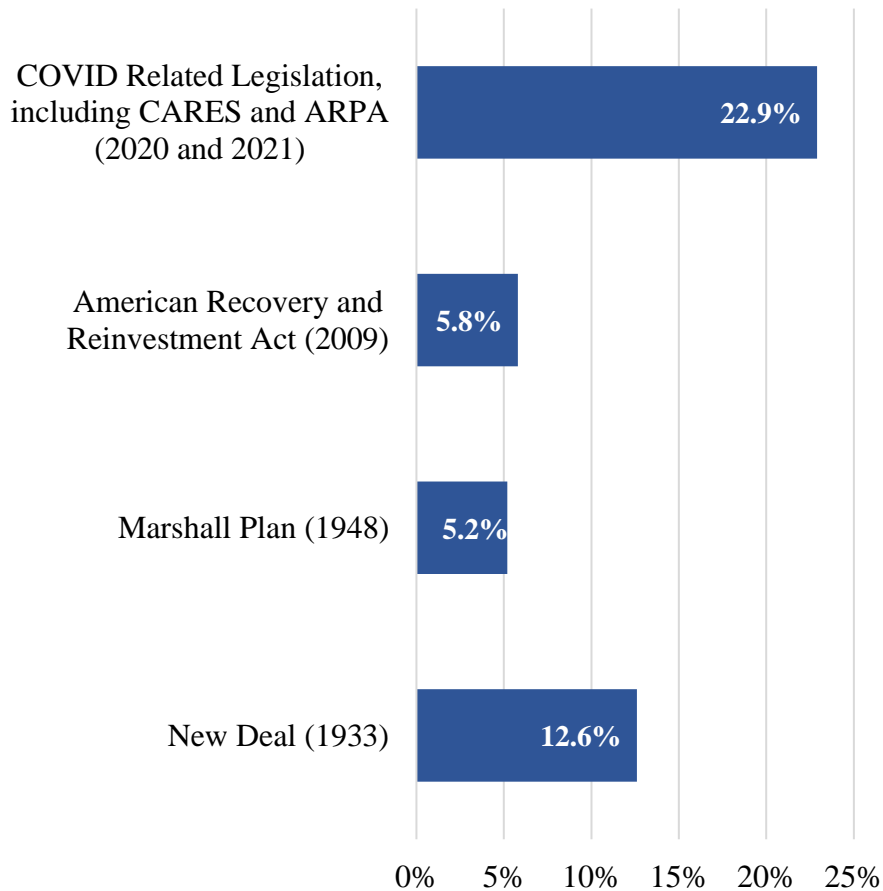
# Outline

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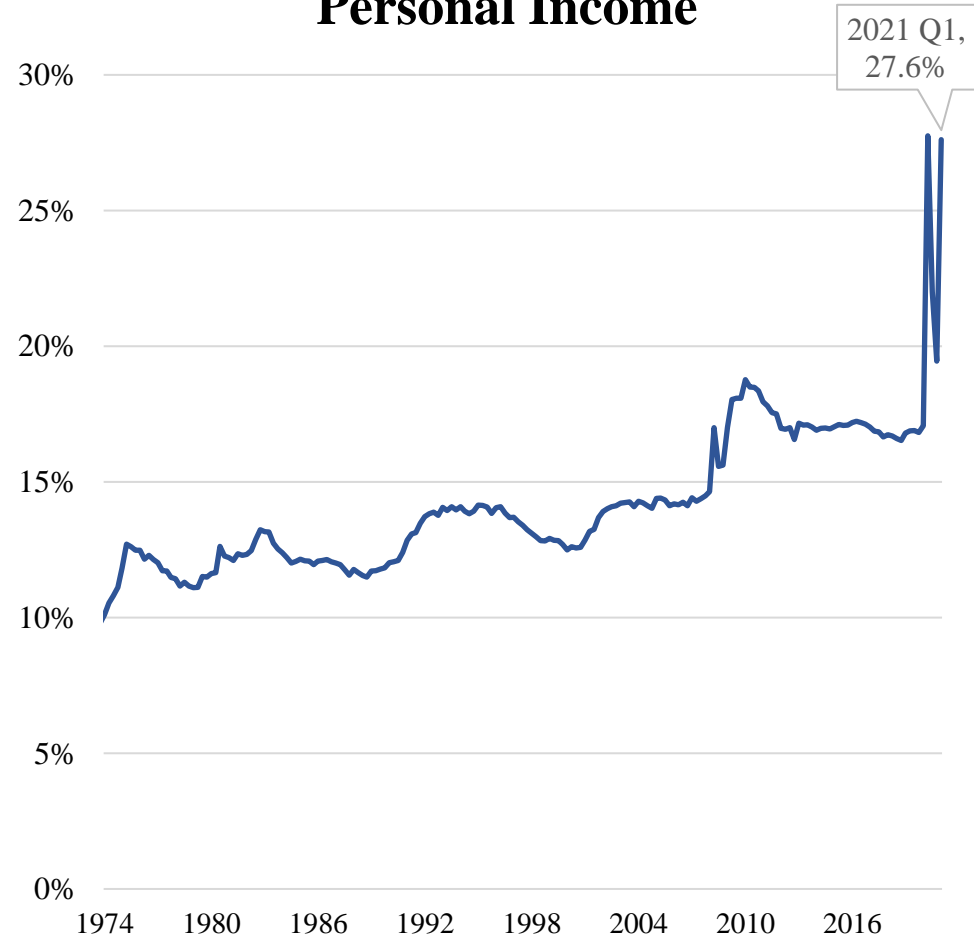
- **Economic Forecast**  
Jim Stansell, House Fiscal Agency
- **Revenue Estimates for Major Taxes**  
David Zin, Senate Fiscal Agency
- **Revenue Estimates by Fund**  
Eric Bussis, Department of Treasury

# Unprecedented Federal Fiscal Support

## Major U.S. Fiscal Stimulus Plans as a Percent of GDP

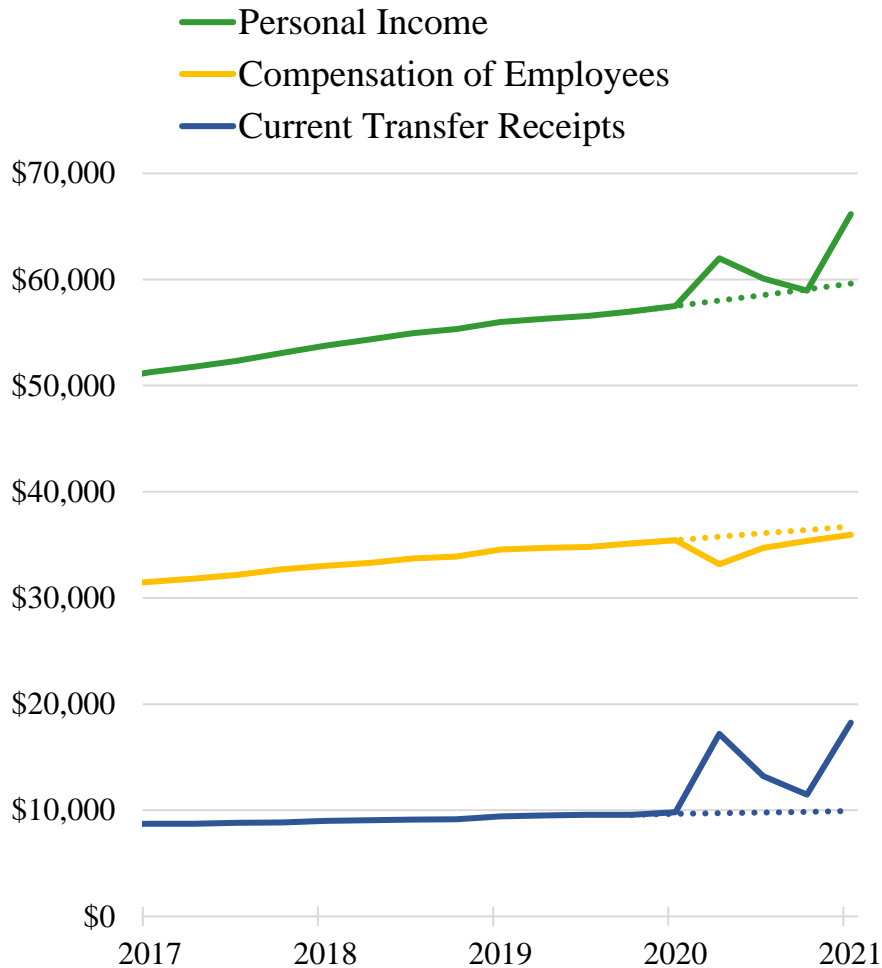


## Transfer Payments as a Percent of Personal Income



# Transfer Receipts Boost Personal Income

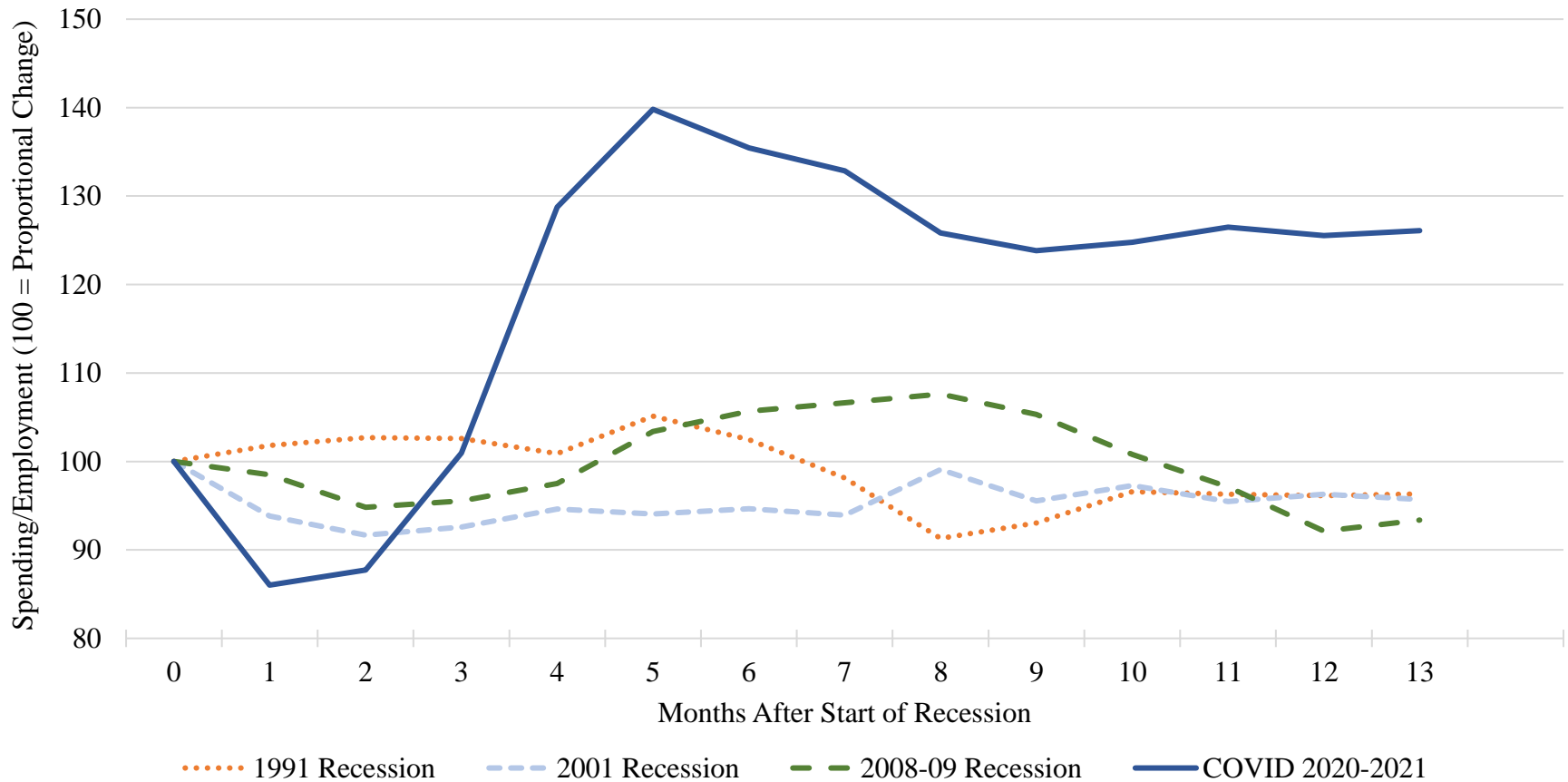
## Per Capita:



Per Capita Last 4 Quarters	Hypothetical No Pandemic	Actual	Difference
Personal Income	\$58,810	\$61,805	+\$2,995
Compensation of Employees	\$36,253	\$34,806	-\$1,447
Transfer Payments	\$9,822	\$15,042	+\$5,220

# Employment and Spending in Michigan

In 2020-2021, the relationship between employment and spending was very different than in previous recessions.

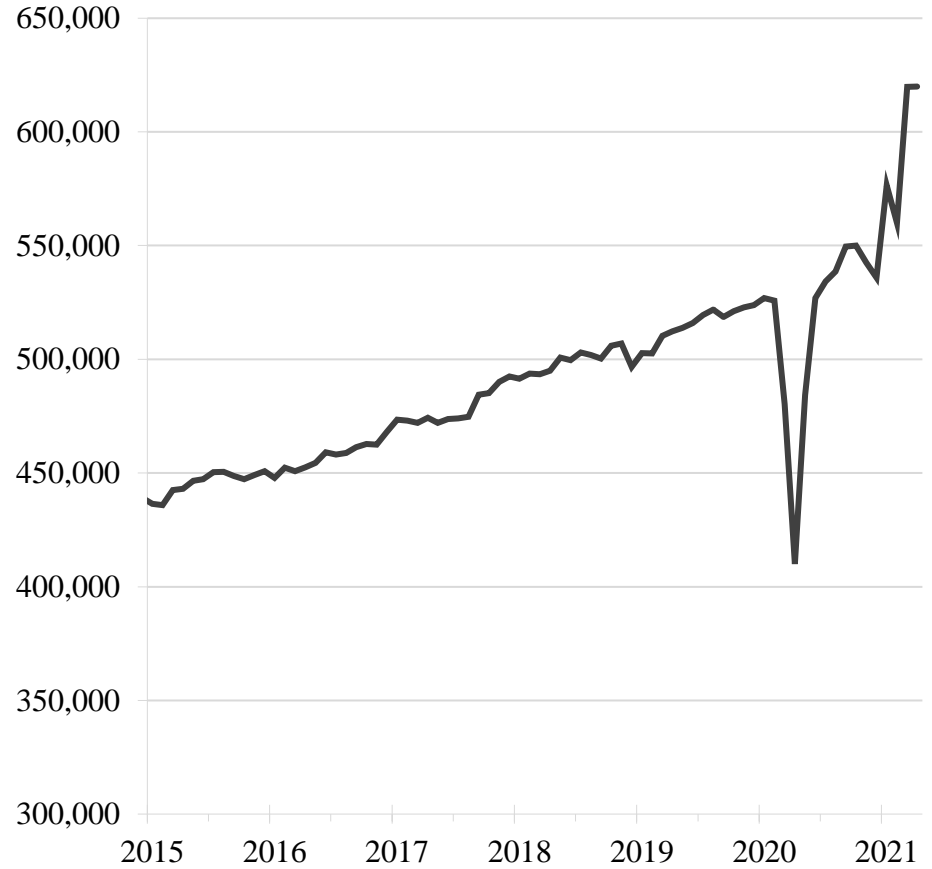


# Retail Sales Boosted by Stimulus

## One-Month Percent Change

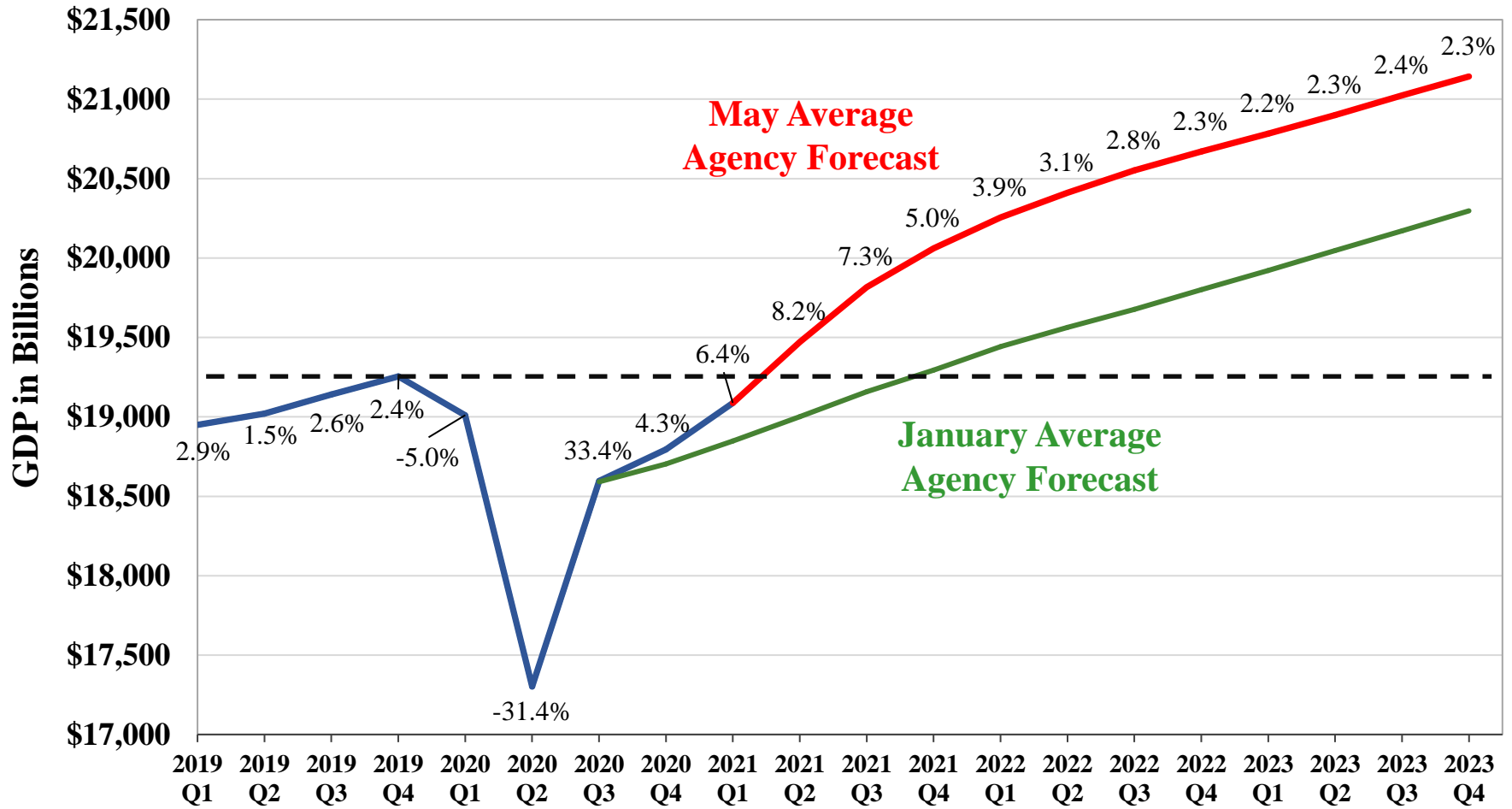


## Monthly, Millions of Dollars



Source: Bureau of the Census

# 2020 Recession – Real GDP Quarterly Forecast

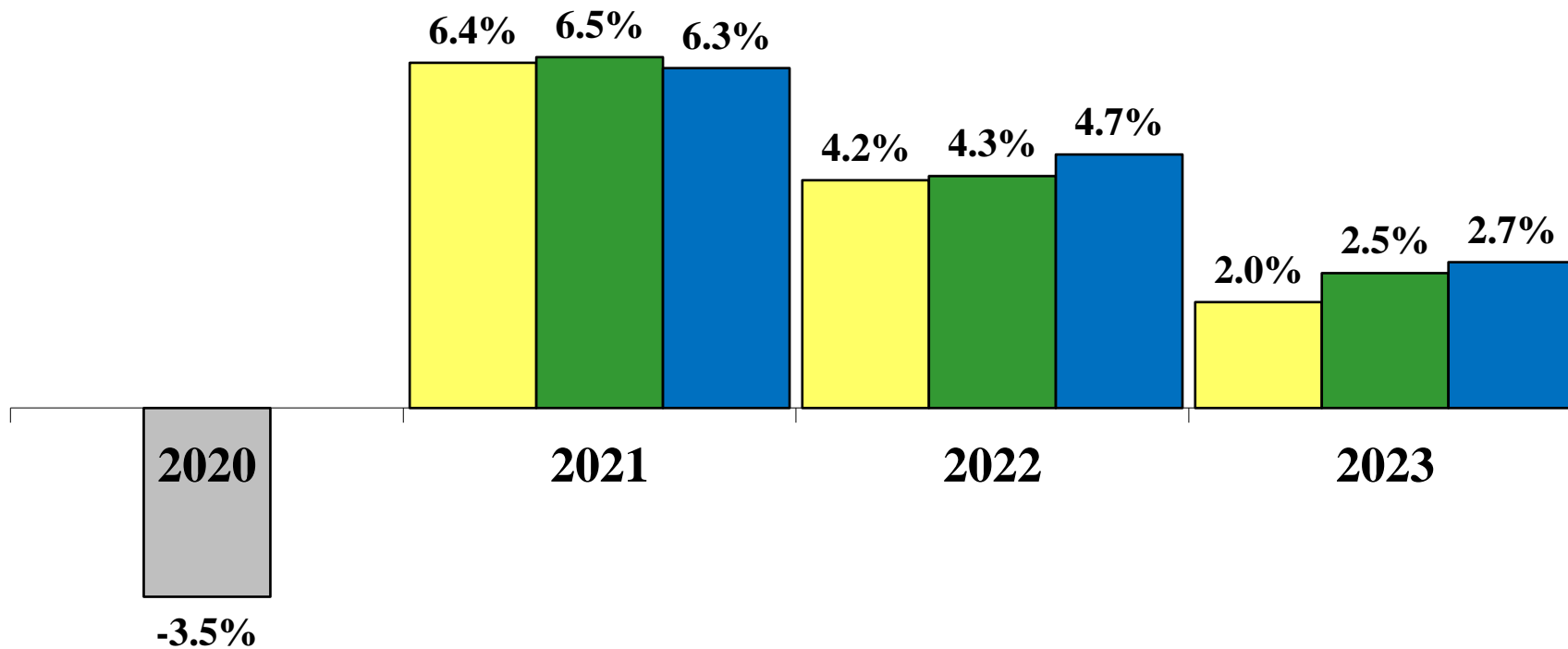


Labels: Percent Change at an Annual Rate

Source: U.S. Bureau of Economic Analysis.

# GDP Forecasts

## Annual Percent Change



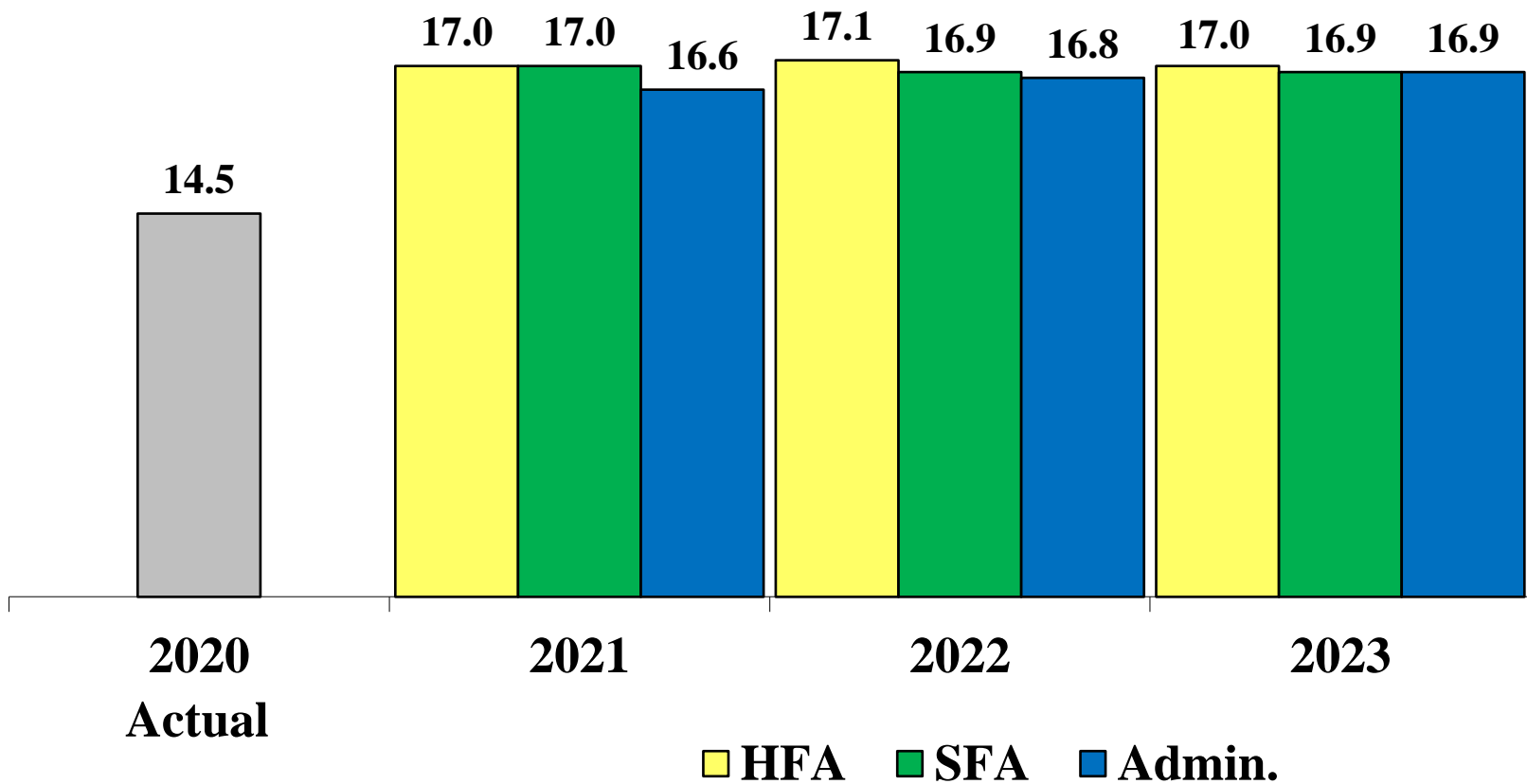
**Actual**

■ HFA ■ SFA ■ Admin.



# Light Vehicle Sales Forecast

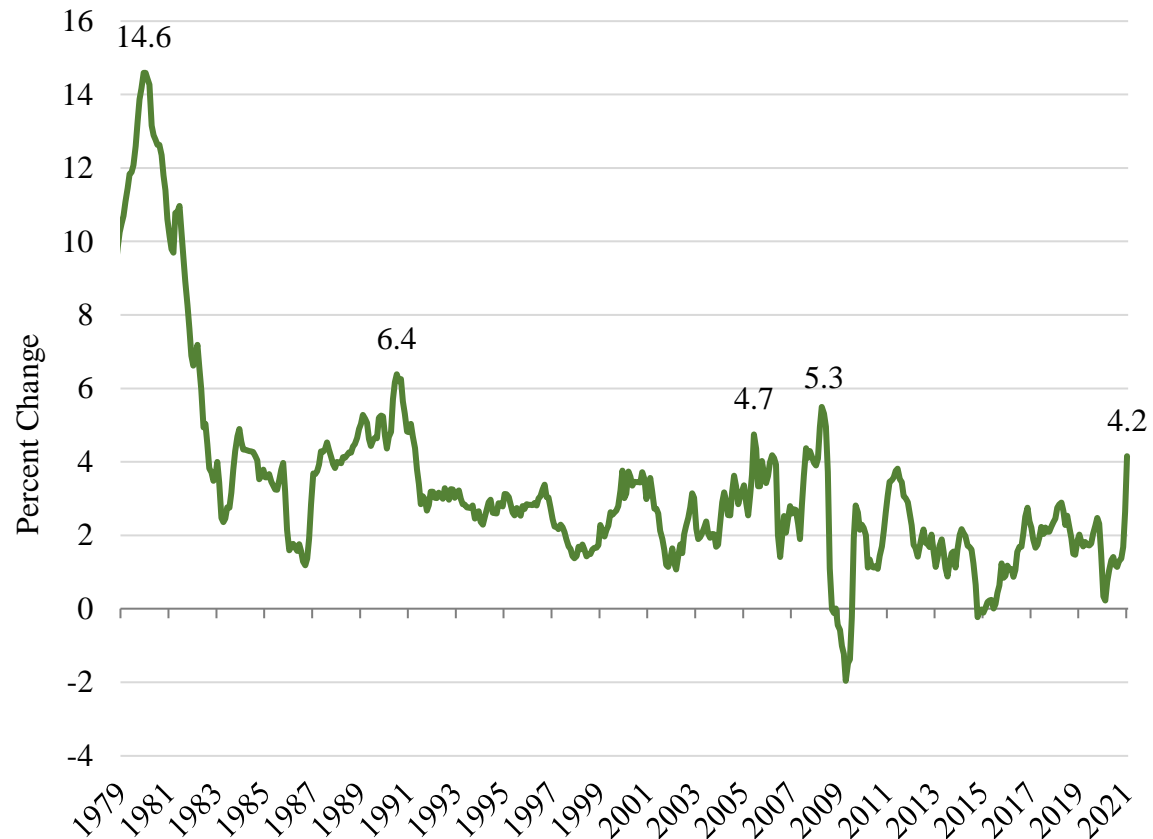
Millions of Units



# Inflation Levels Up, but Not Atypical

- April inflation is up year-over-year, but CPI experiences significant monthly swings
- Current inflation drivers are a short-term phenomena
  - Much of the current inflation is driven by the increase in housing, energy and vehicle prices, which are expected to be more stable going forward

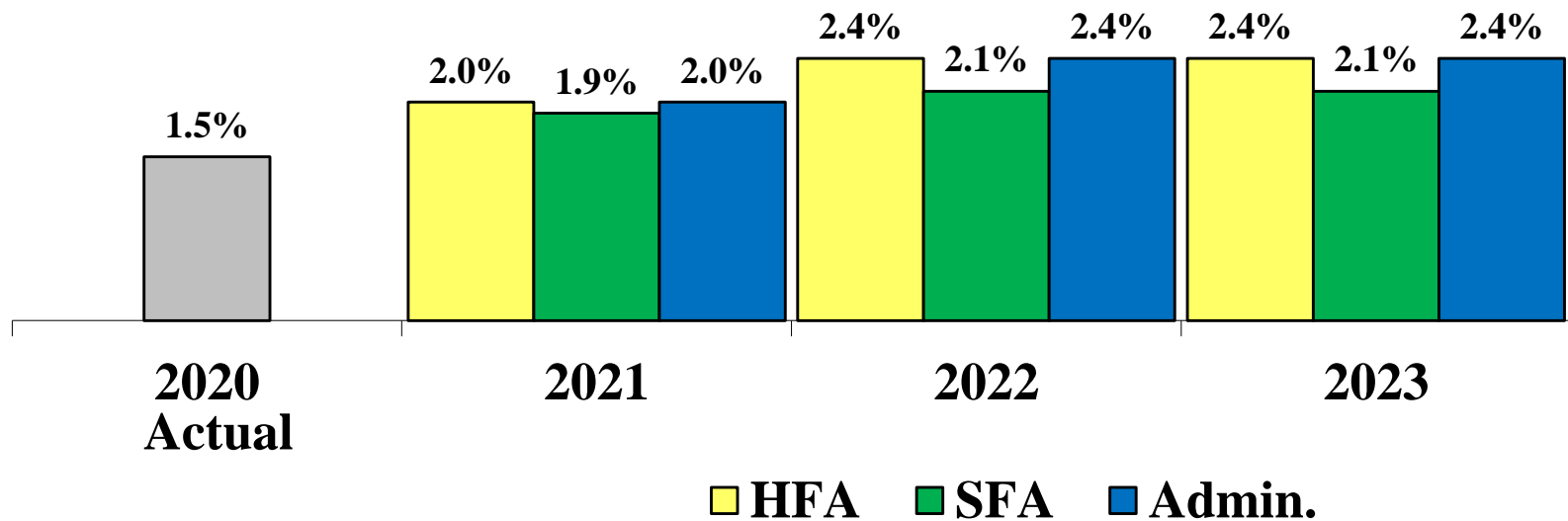
**Consumer Price Index, Monthly  
Year-Over-Year Percent Change**



Source: Bureau of Labor Statistics

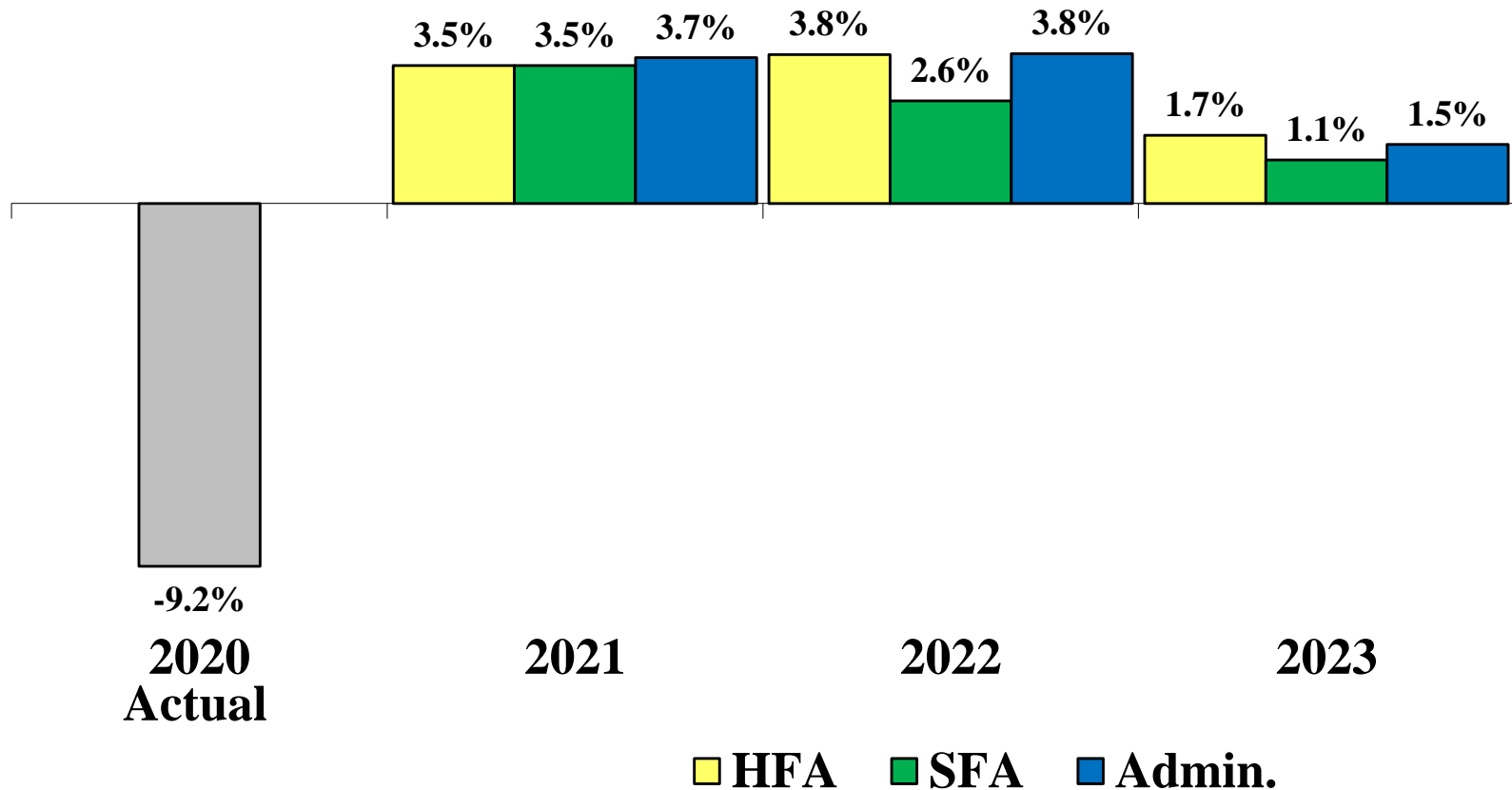
# Inflation Expected to be Low In Near Term

## Detroit Consumer Price Index Fiscal Year Growth



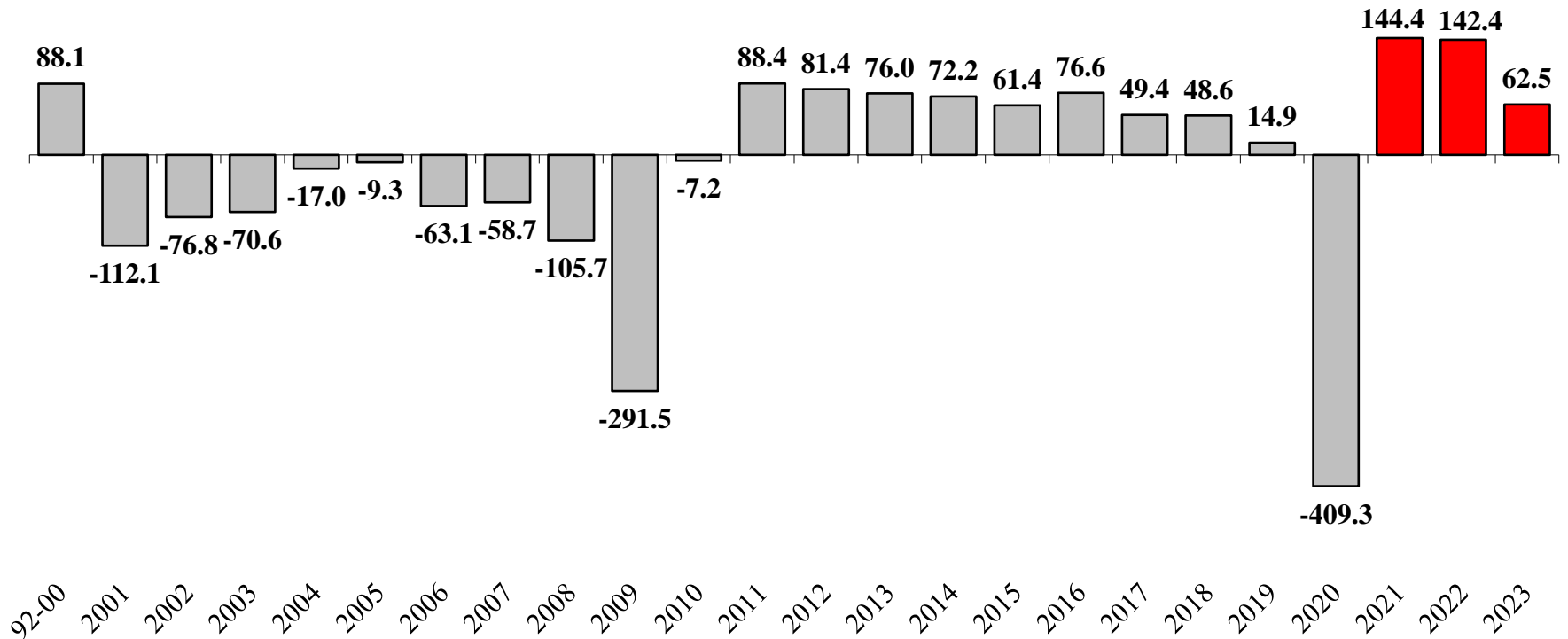
# Michigan Wage and Salary Employment

## Annual Percent Change



# Michigan Job Gains Expected Through 2023

## Change in Michigan Wage and Salary Employment Thousands



**Average Agency Forecasts**

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# FORECAST OF MAJOR TAXES

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# Revenue Updates Since January

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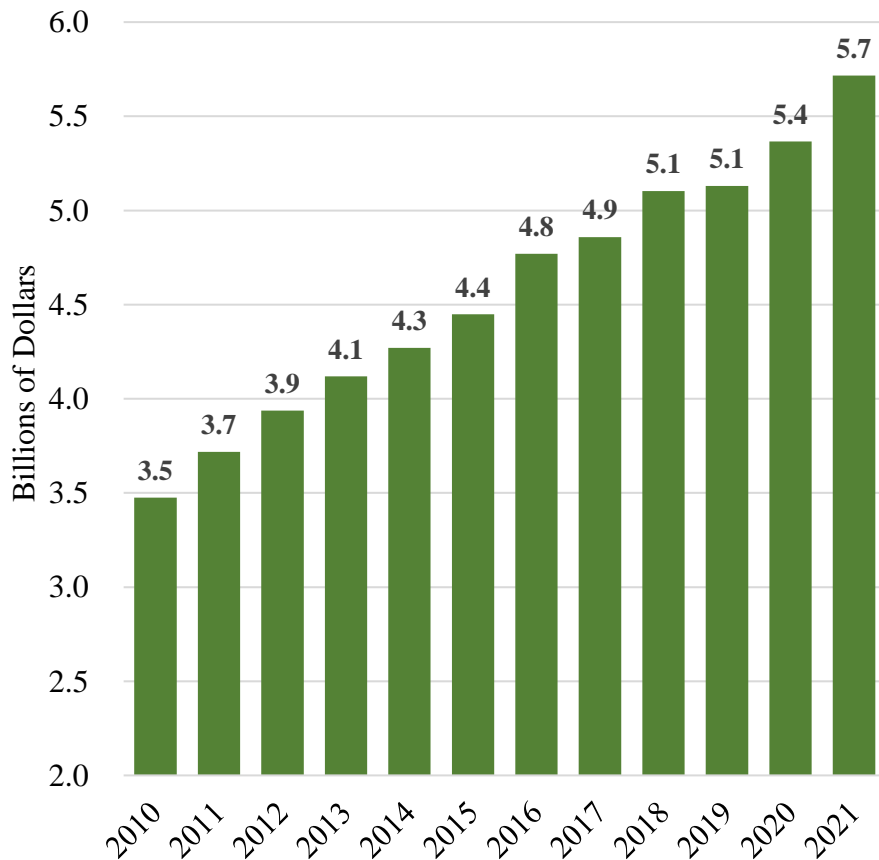
CREC estimates always assume current Federal and State law

- The May conference will be the first to include the impacts of the American Rescue Plan Act
  - 2021 Child Tax Credit will be refundable and increased
  - Stimulus Economic Impact Payments will boost spending
  - Exclusion from Income tax for 2020 unemployment benefits of up to \$10,200

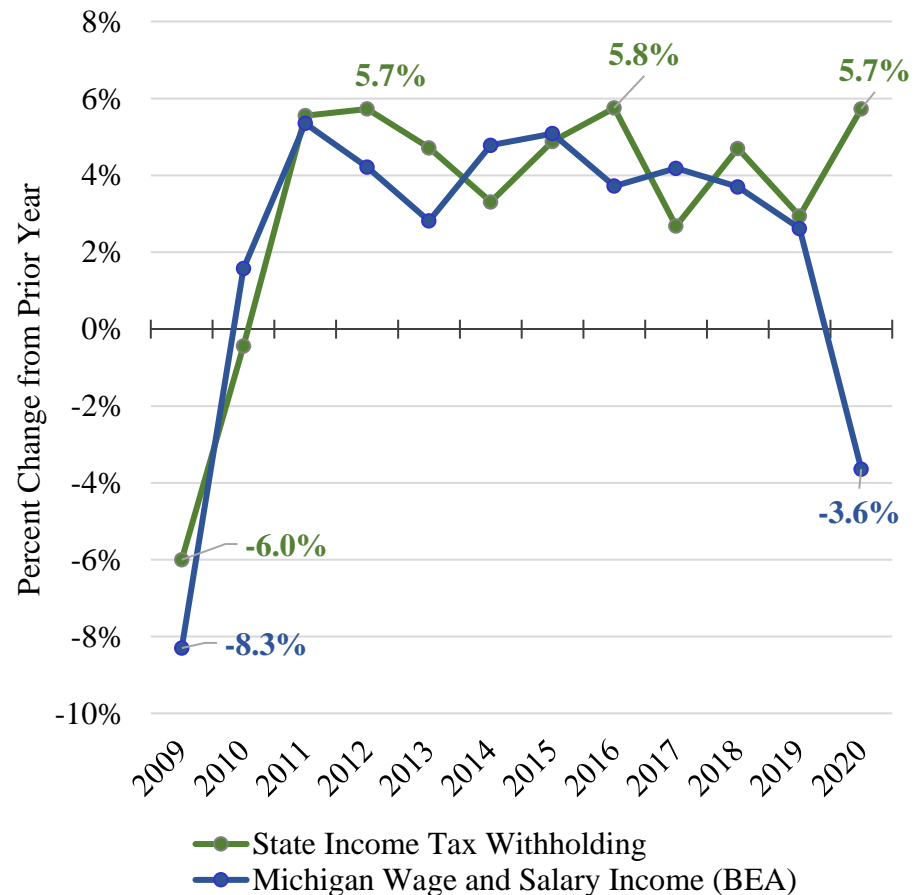
The state revenue collections continue to outperform economic metrics since January

# Withholding Collections Continue to Climb

## Withholding Tax Collections Fiscal Year to Date



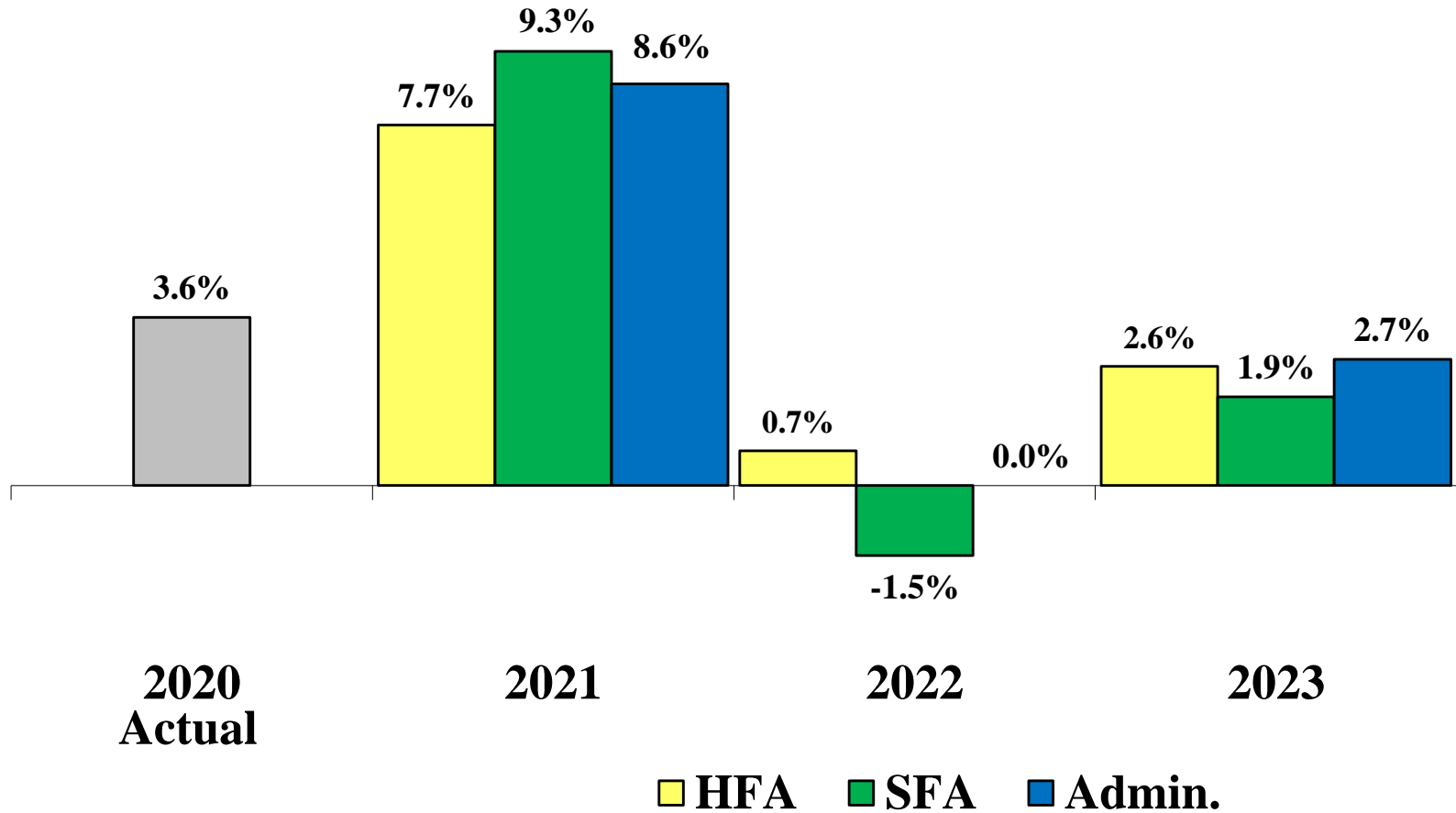
## Withholding versus Wage and Salary Income





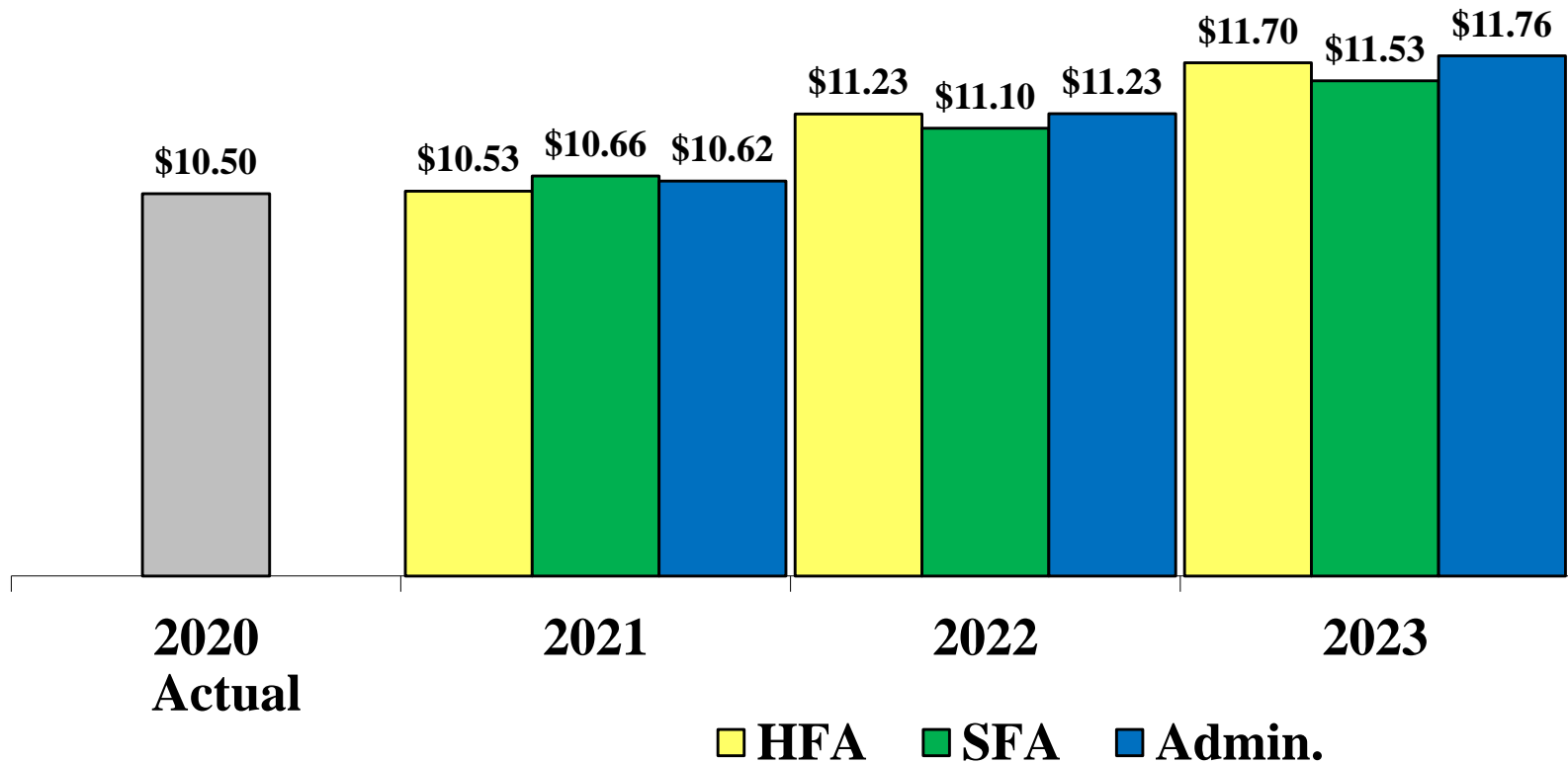
# Baseline Income Tax Growth

## Fiscal Year Growth



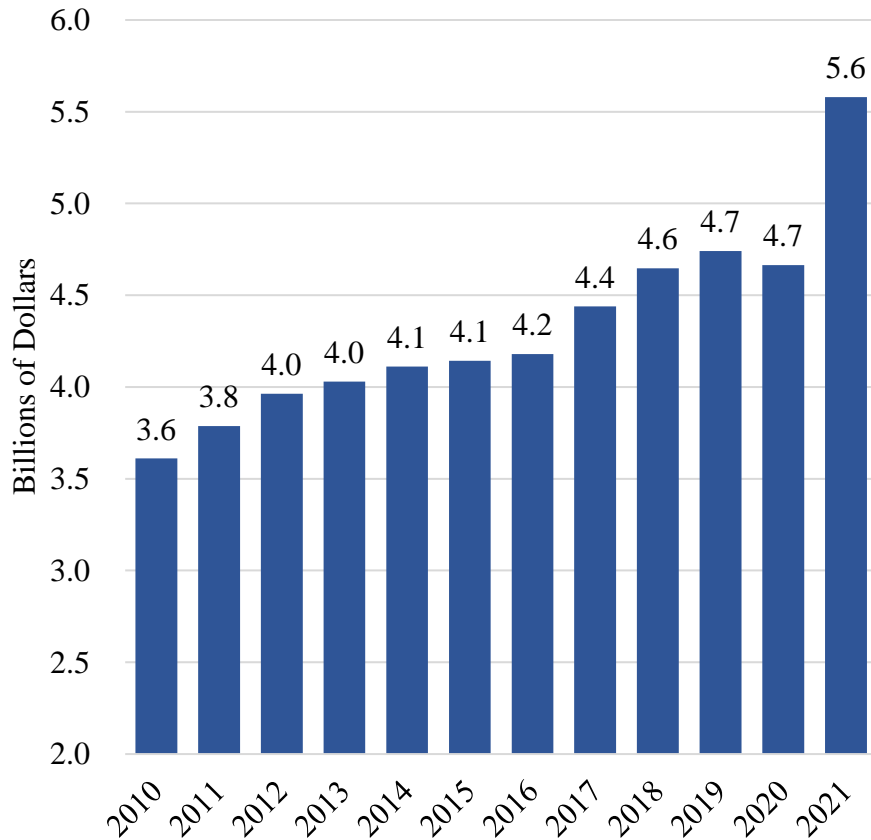
# Net Income Tax Revenue Estimates

Fiscal Year  
Billions

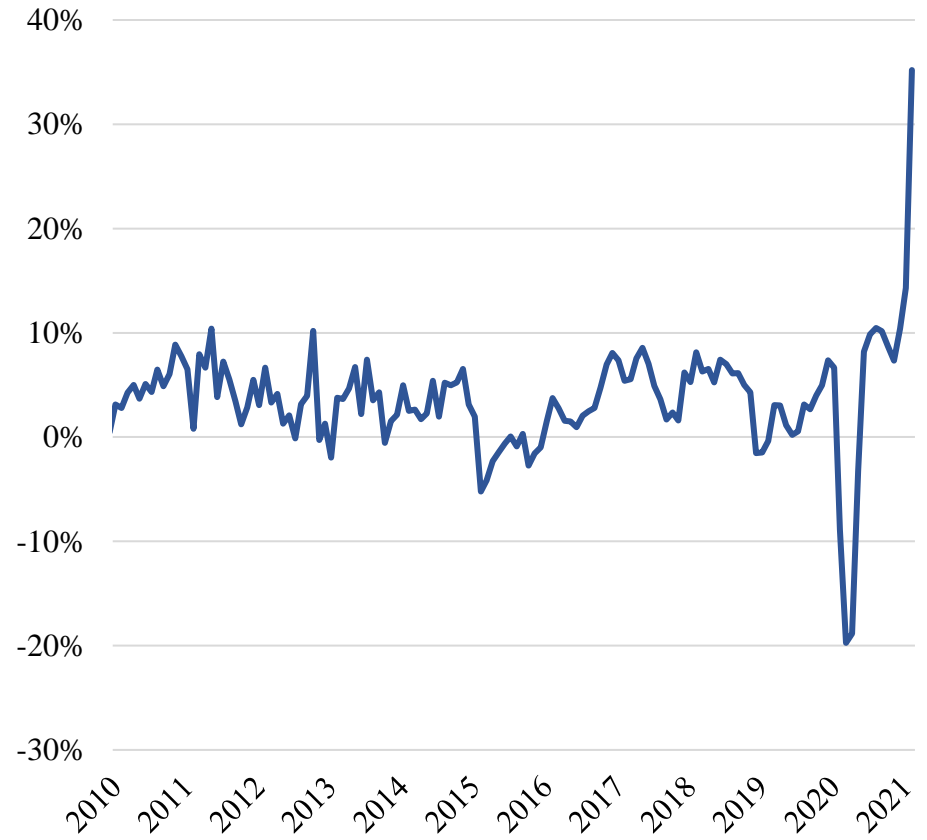


# Sales and Use Tax Accelerate

## Sales and Use Tax Collections Fiscal Year to Date

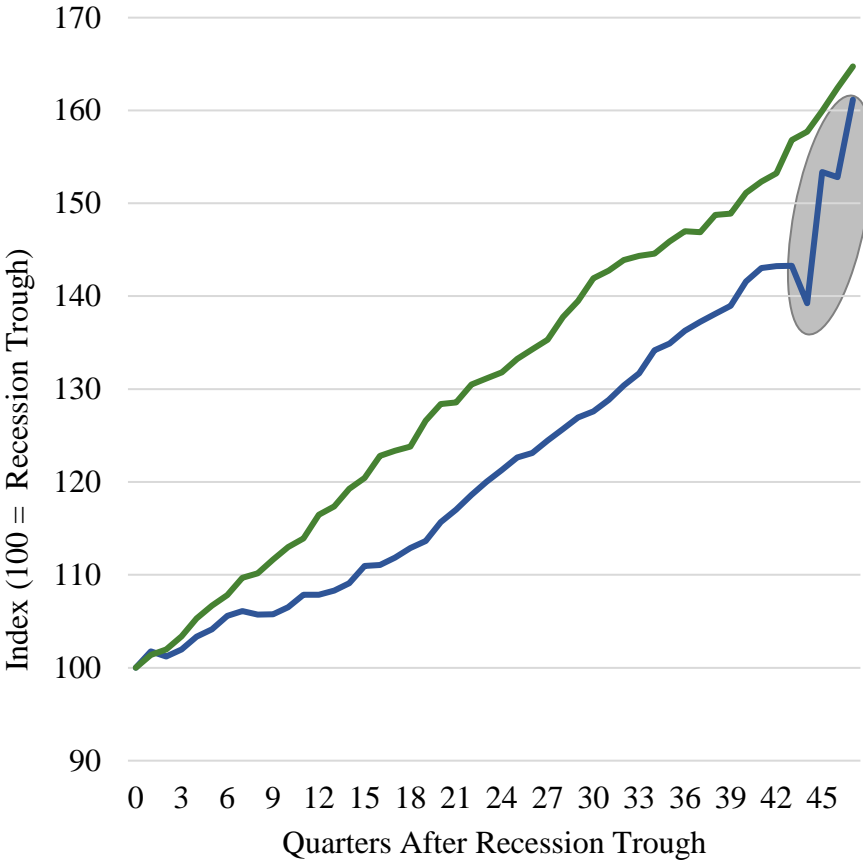


## Year-Over-Year Percent Change Three Month Rolling Average



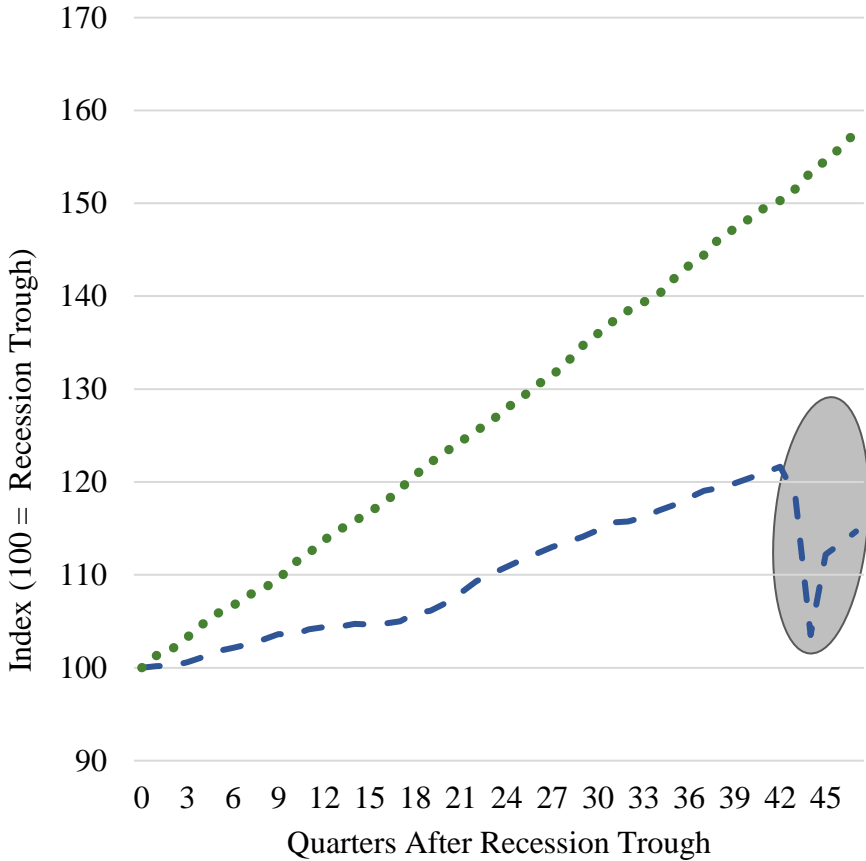
# Consumption: Goods Up, Services Down

## Real Goods Consumption



— 2008-2009 Recession  
 — Average of 1961, 1982, and 1991 Recessions

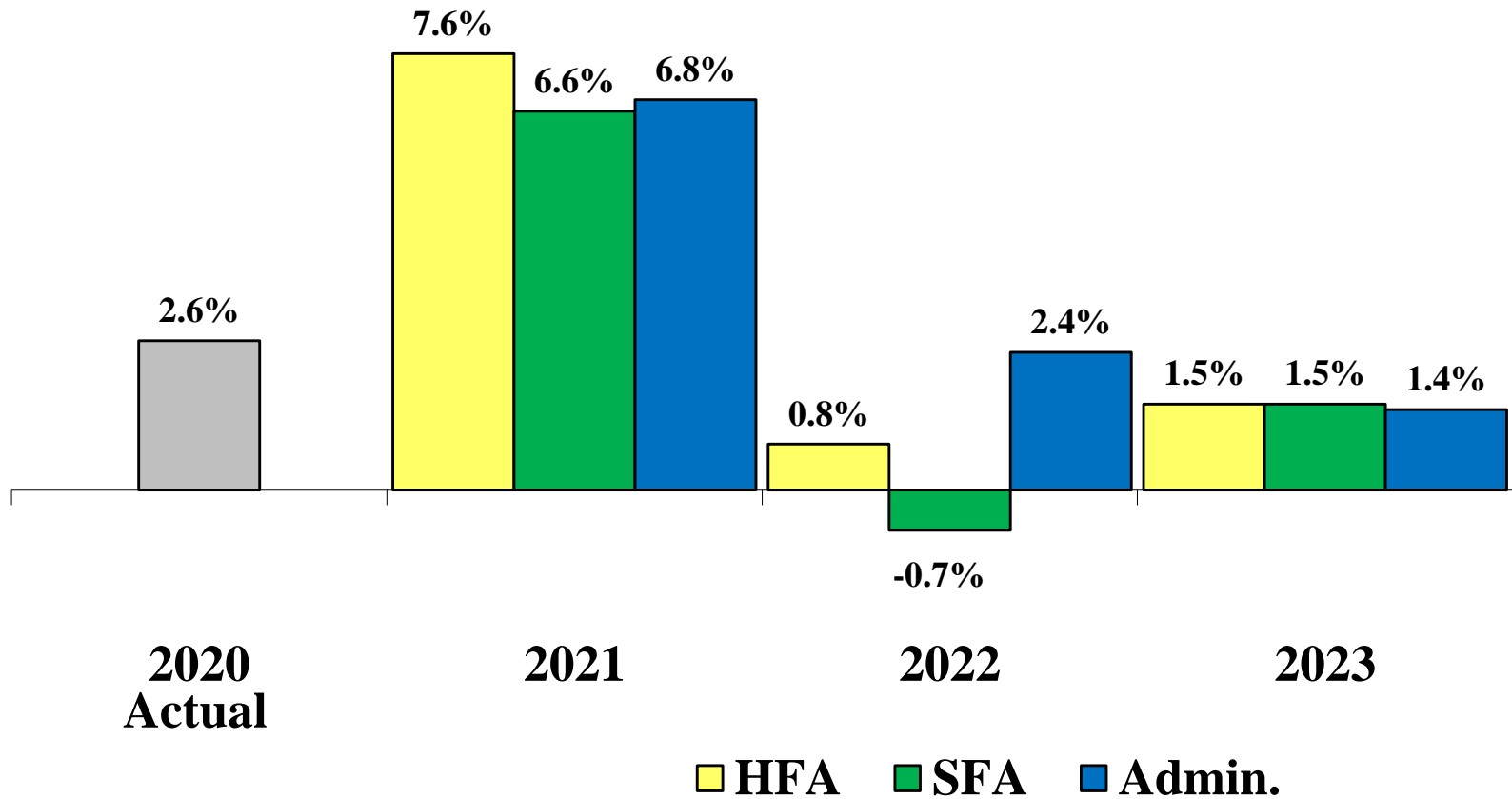
## Real Services Consumption



- - 2008-2009 Recession  
 . . . Average of 1961, 1982, and 1991 Recessions

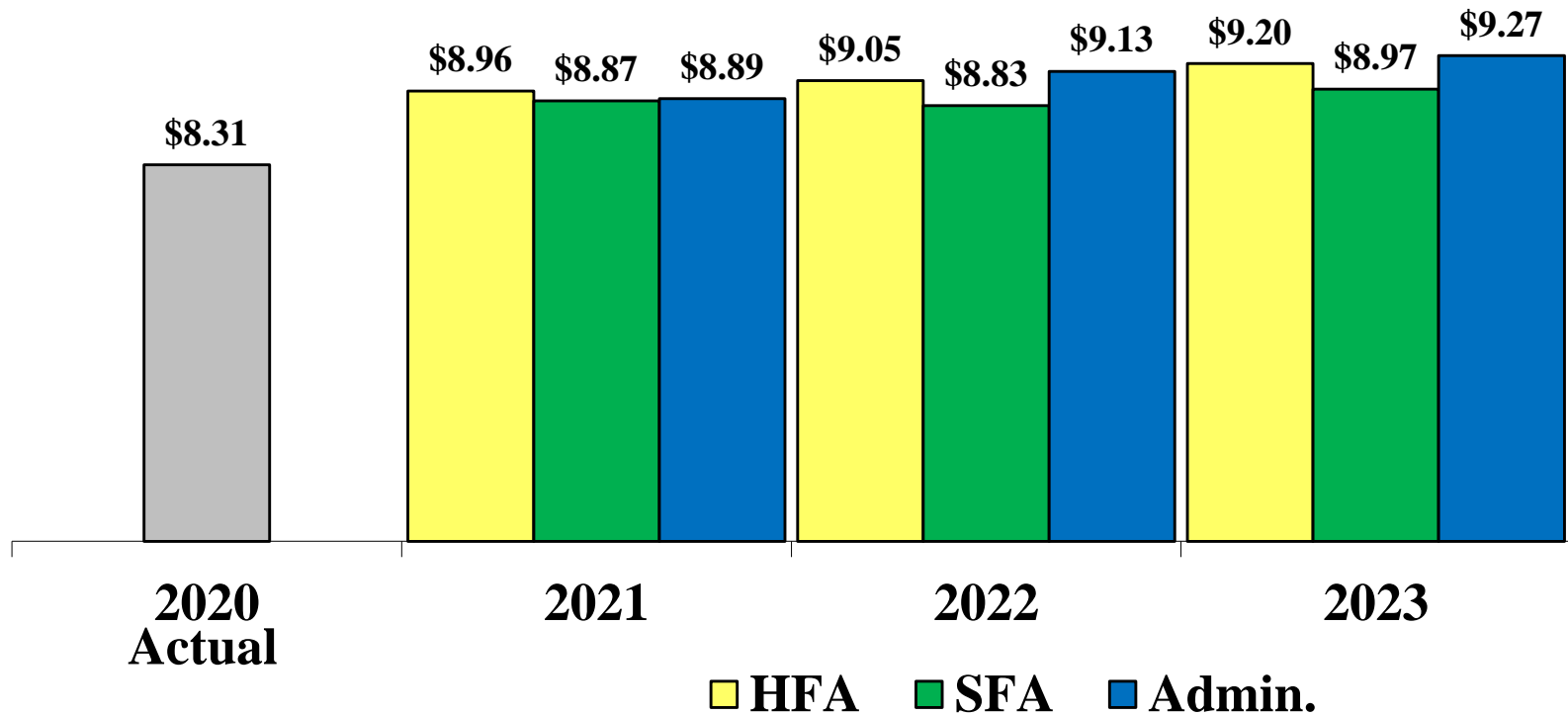
# Baseline Sales Tax Growth

## Fiscal Year Growth



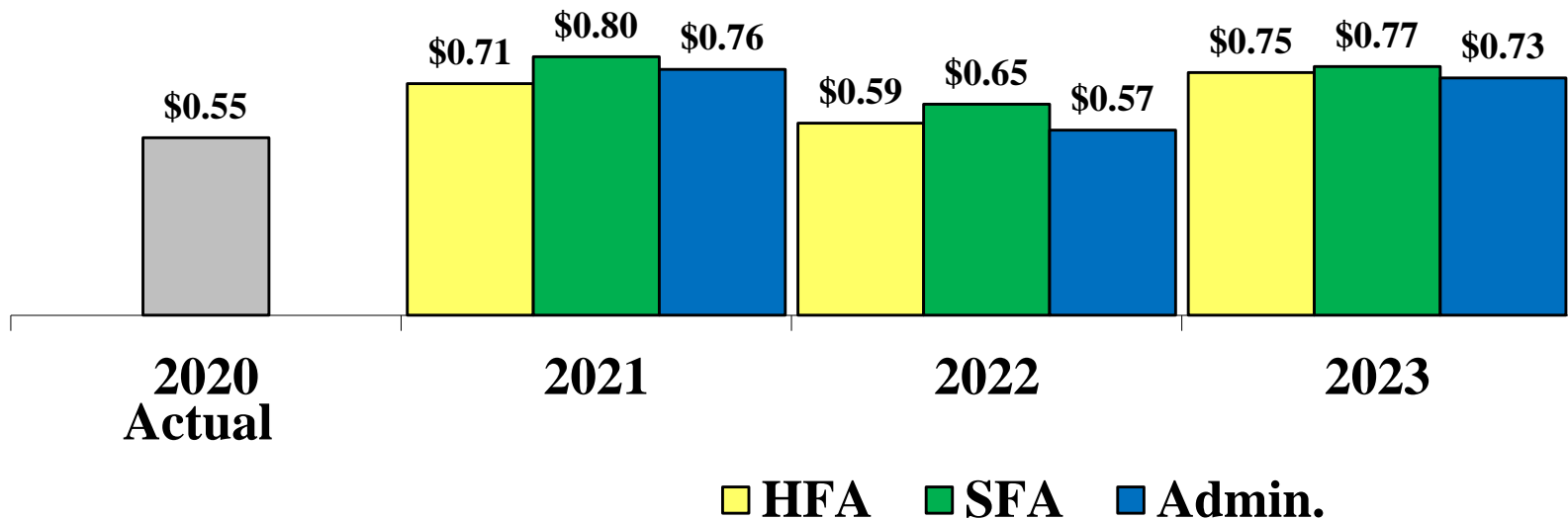
# Net Sales Tax Revenue Estimates

**Fiscal Year**  
**Billions**



# Net CIT/MBT Revenue Estimates

**Fiscal Year**  
**Billions**



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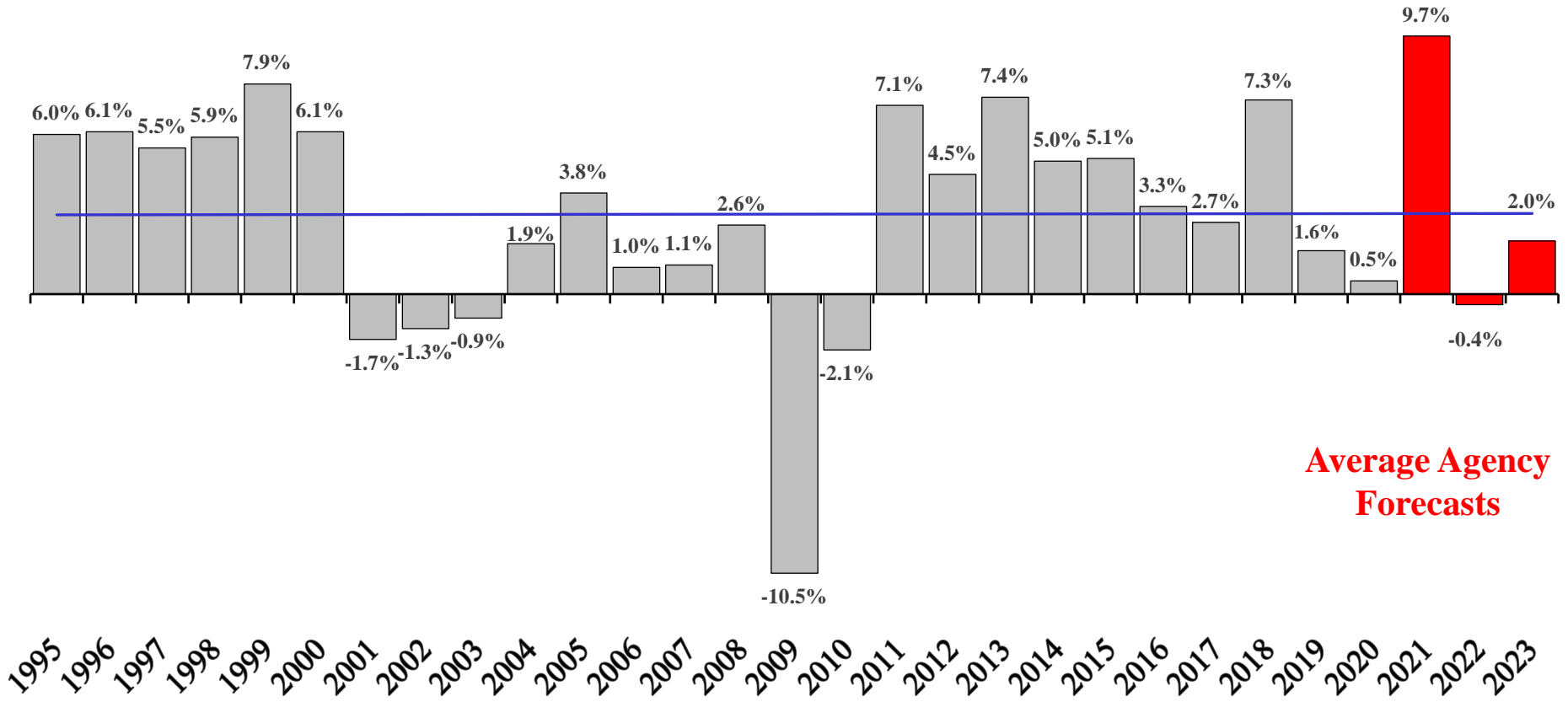
# **FORECAST OF GF-GP AND SCHOOL AID FUND**

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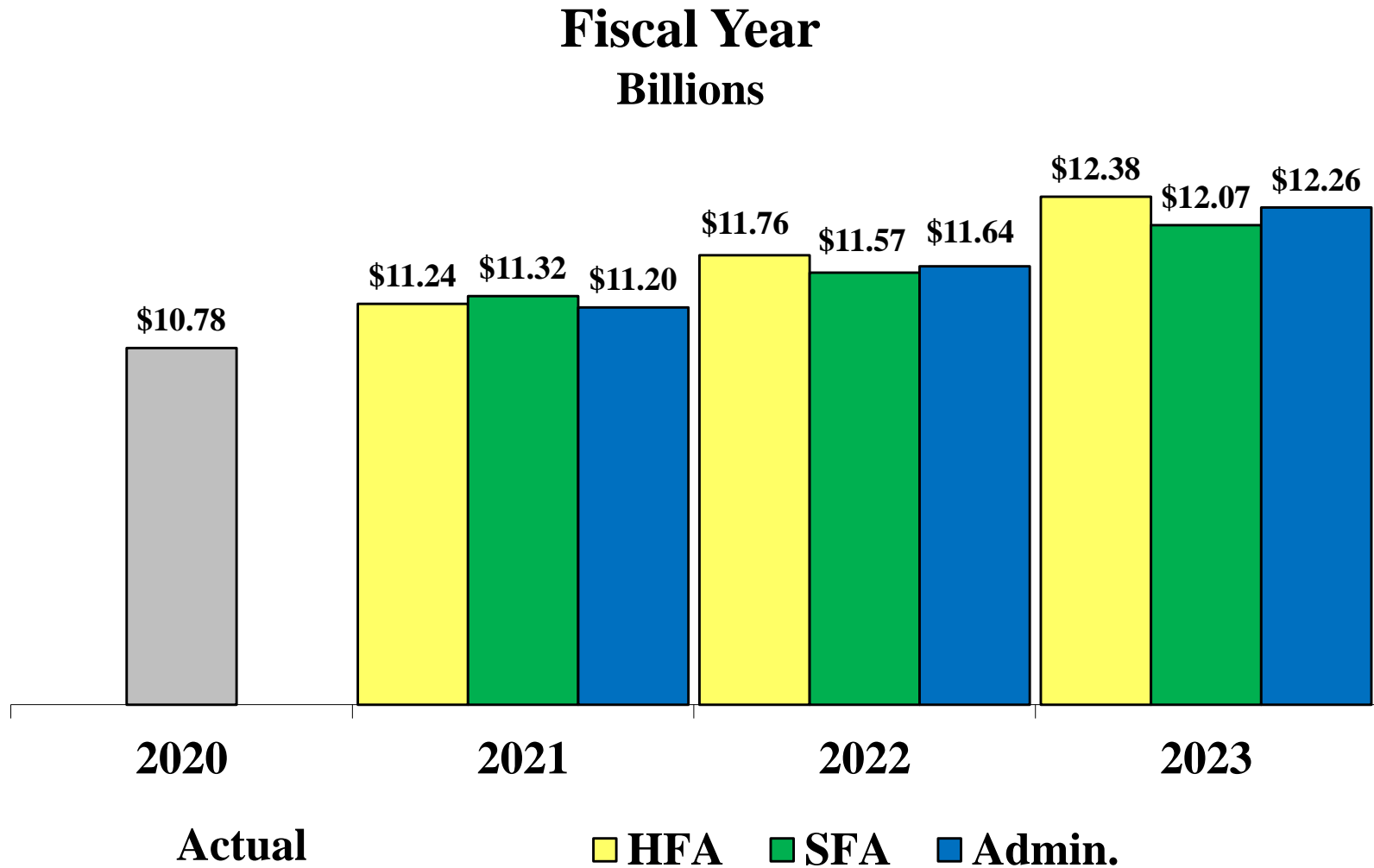
# GF-GP and School Aid Revenue

## Baseline Growth Rates Before Tax Changes



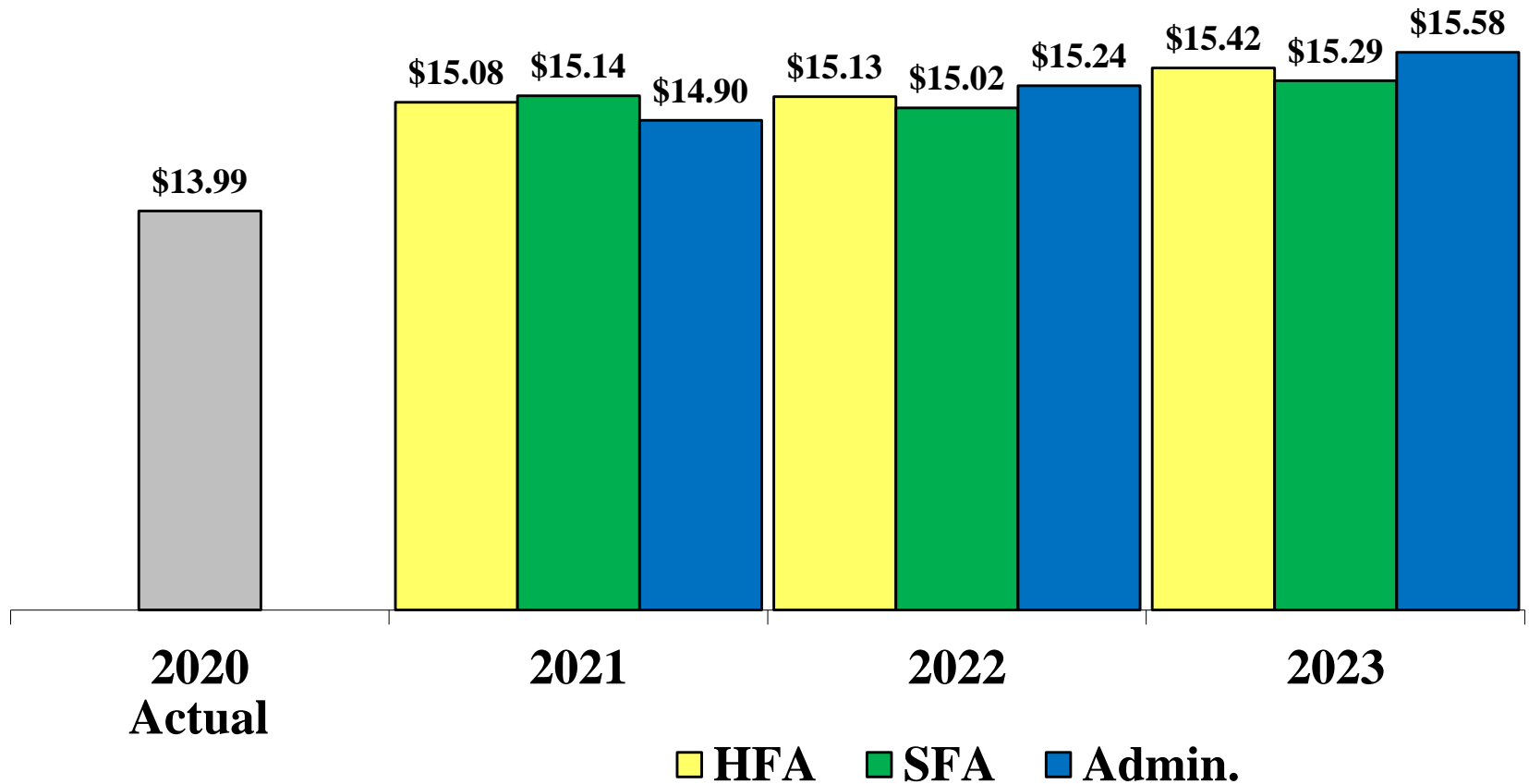
**Average Agency  
Forecasts**

# GF-GP Net Revenue Estimates



# School Aid Fund Net Revenue Estimates

**Fiscal Year**  
**Billions**



# Revenue Forecast Comparison

<b>Total Revenue (Values in Millions)</b>									
	<b>FY 2021</b>			<b>FY 2022</b>			<b>FY 2023</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	\$11,242.2	\$11,323.5	\$11,204.6	\$11,755.8	\$11,571.4	\$11,639.8	\$12,376.5	\$12,074.8	\$12,261.6
School Aid Fund	\$15,078.4	\$15,140.6	\$14,895.3	\$15,132.7	\$15,020.9	\$15,242.4	\$15,419.6	\$15,291.7	\$15,577.6

<b>Difference from January Consensus Estimates</b>									
	<b>FY 2021</b>			<b>FY 2022</b>			<b>FY 2023</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	\$1,004.7	\$1,086.0	\$967.1	\$859.0	\$674.3	\$742.7	\$1,163.8	\$907.7	\$1,094.5
School Aid Fund	\$1,048.2	\$1,110.4	\$865.1	\$708.7	\$597.2	\$818.7	\$734.8	\$561.3	\$847.2
Combined	\$2,052.9	\$2,196.4	\$1,832.2	\$1,567.7	\$1,271.5	\$1,561.4	\$1,898.6	\$1,469.0	\$1,941.7

# Budget Stabilization Fund

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Both pay-ins and pay-outs require an appropriation

The agency estimates calculate:

## *Pay-ins*

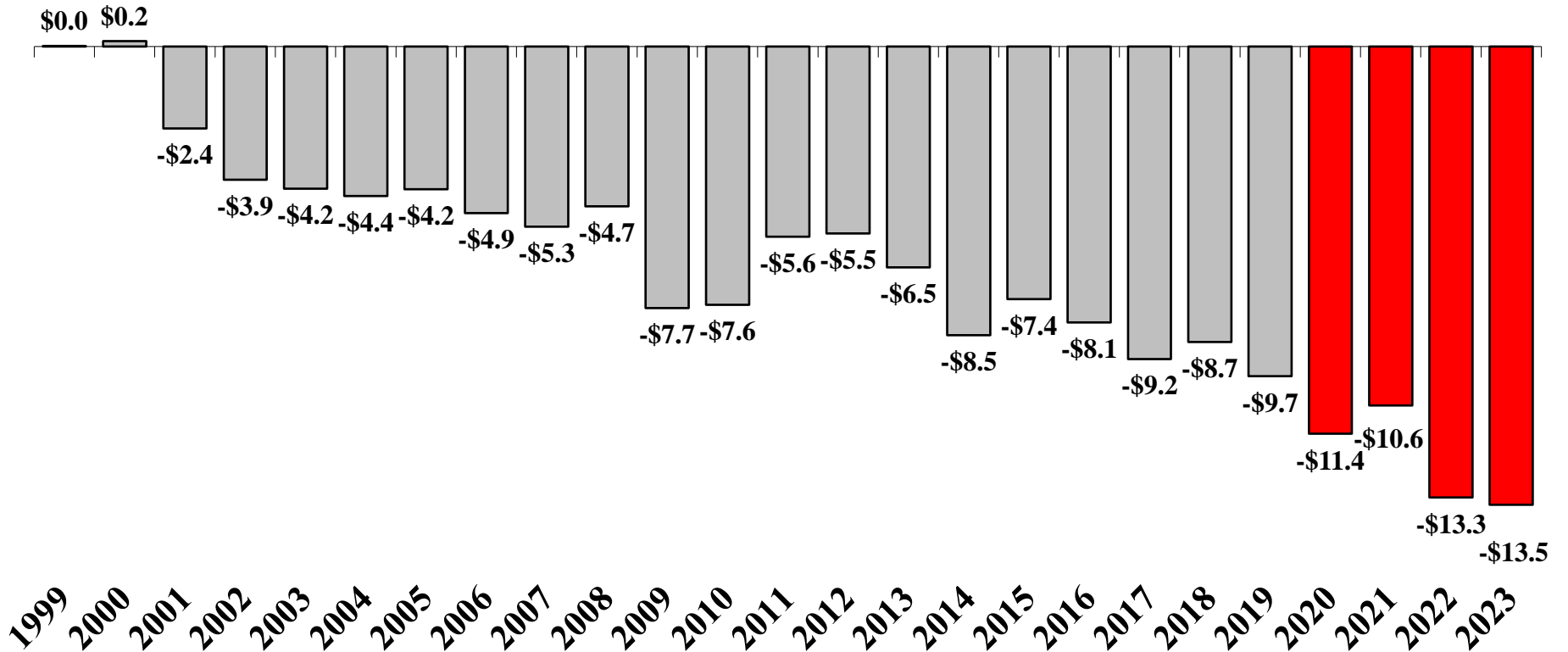
- No pay-ins in FY 2021 & FY 2022
- Pay-in between \$11.6 and \$44.4 million in FY 2023

## *Pay-outs*

- No BSF pay-outs during FY 2021, FY 2022 & FY 2023

# Constitutional Revenue Limit Calculation

Billions



**Average Agency  
Forecasts**

# Income Tax Rate under MCL 206.51(1)

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MCL 206.51(1) limits General Fund revenue growth to a factor of inflation from FY 2021 levels. If revenues surpass the limit, reductions in the individual income tax rate are triggered.

- Based on revenue and inflation growth in the three forecasts, the rate cut estimates range from zero to 0.02 percentage points for tax year 2023
- All agencies forecast a rate cut for tax year 2024
  - Reduction estimates range from less than 0.01 percentage points to 0.09 percentage points

# Forecast Risks

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## Economy

- Uncertainty from the path of the pandemic remains the largest risk
- The transition from expansionary fiscal policy to “normal” fiscal policy
- Forecast assumes current federal law for tax policy and infrastructure spending

## Michigan Tax Revenue

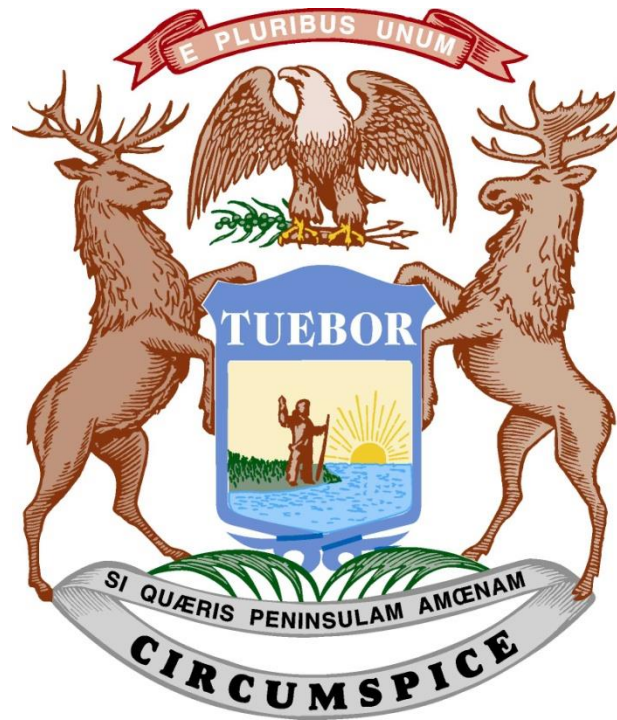
- Large increases in FY 2020 taxable consumer spending creates uncertainty about FY 2021 and FY 2022
- Pent-up demand for goods and services is expected to be high, but shortages of raw materials and industry labor shortages may constrain currently predicted growth



# Economic and Revenue Forecasts

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**FY 2021 \* FY 2022 \* FY 2023**



**Consensus Revenue Estimating Conference**

**May 21, 2021**