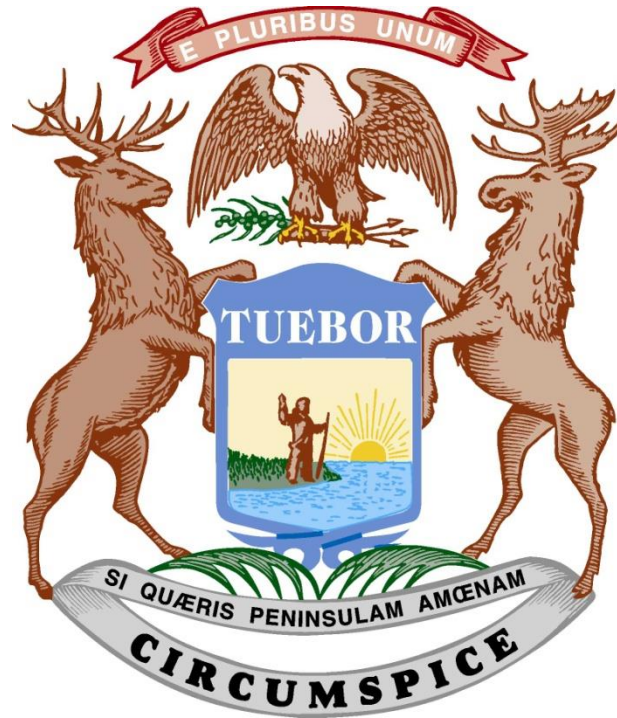


# Economic and Revenue Forecasts

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



**Consensus Revenue Estimating Conference  
January 15, 2021**

# Outline

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

# Economic Summary: Baseline Scenario

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The May and August economic forecasts were essentially on target, but FY 2020 state revenue was better than forecasted

## **National**















- COVID-19 has drastically affected the economy and will continue to alter the outlook
- A slow recovery is expected

## **Michigan**

- Michigan was hit harder from the recession, but is benefiting from a rapid rebound in the vehicle sector
- Economic recovery is forecasted to keep pace with the national economic recovery, supported by the vehicle sector
- Economic recovery will take many years

# Economic Relationships and Recessions

While the 2008-09 recession followed traditional patterns, the 2020 recession has not.

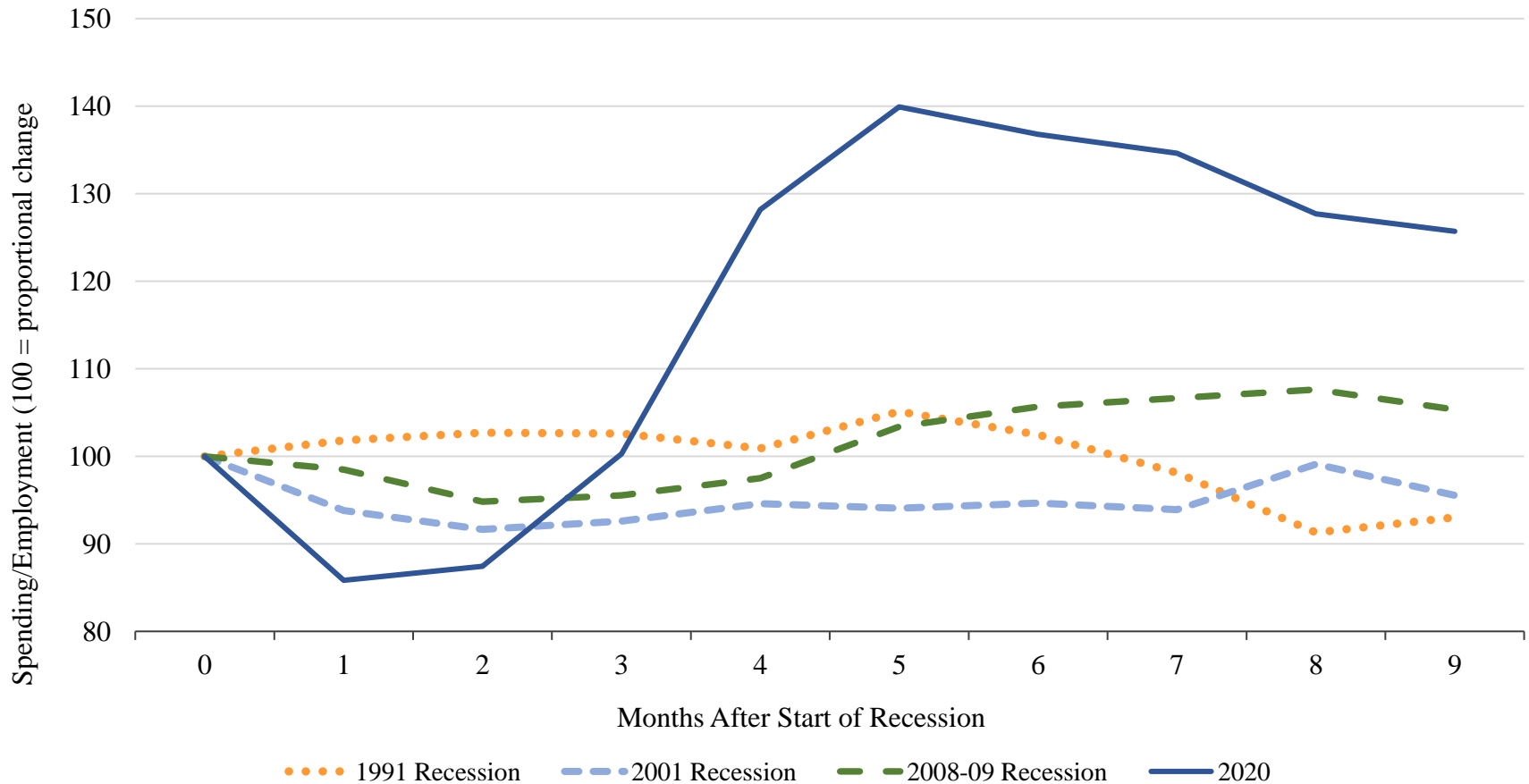
	Payroll Employment	Wage Income	Transfer Payments	Personal Income	Retail Sales	Personal Consumption	Existing Home Sales
2008-2009 Recession							
	-3.6%	-2.6%	16.3%	-0.8%	-6.9%	-0.7%	-0.2%
Current 2020 Recession							
	-22.4%	0.1%	67.2%	3.8%	9.2%	-0.5%	22.1%

Note: The percentages are the annualized average growth rates over the Dec 2007-Jun 2009 and the Feb-Nov 2020 time frames.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Census Bureau, National Association of Realtors

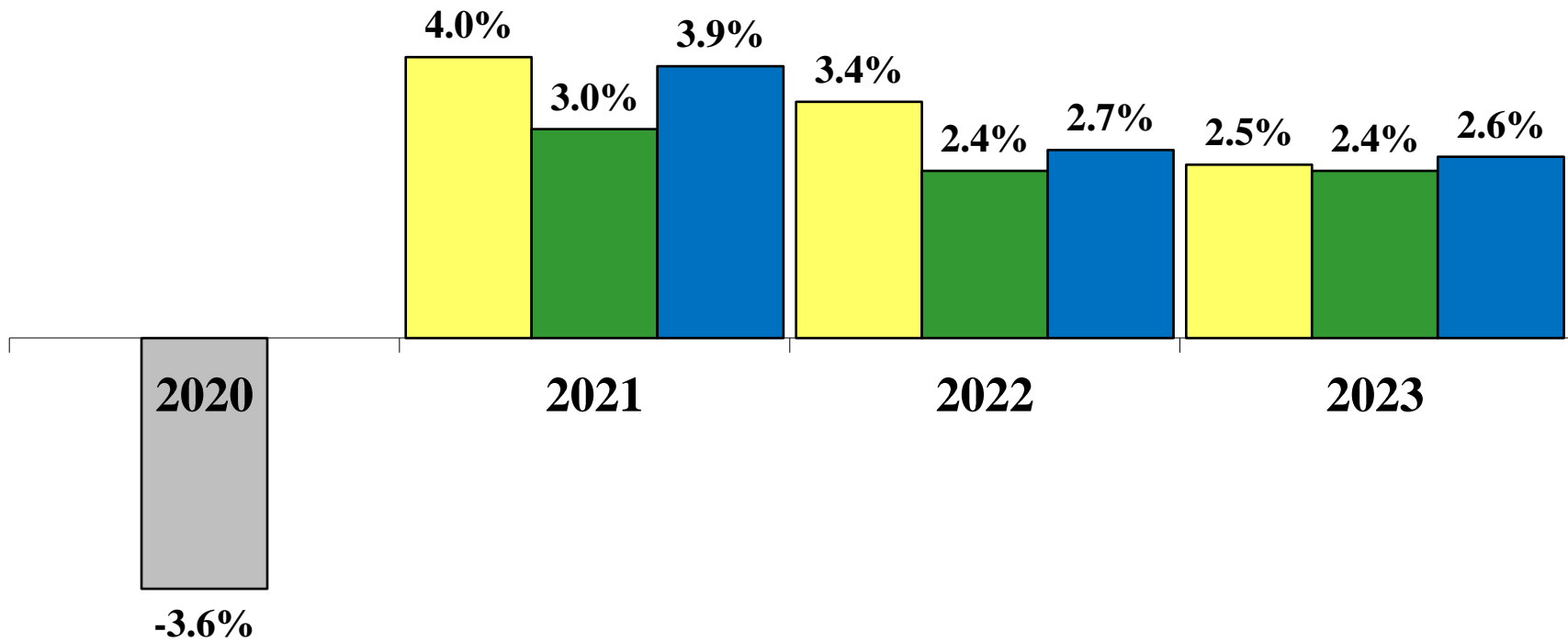
# Employment and Spending in Michigan

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



# GDP Forecasts

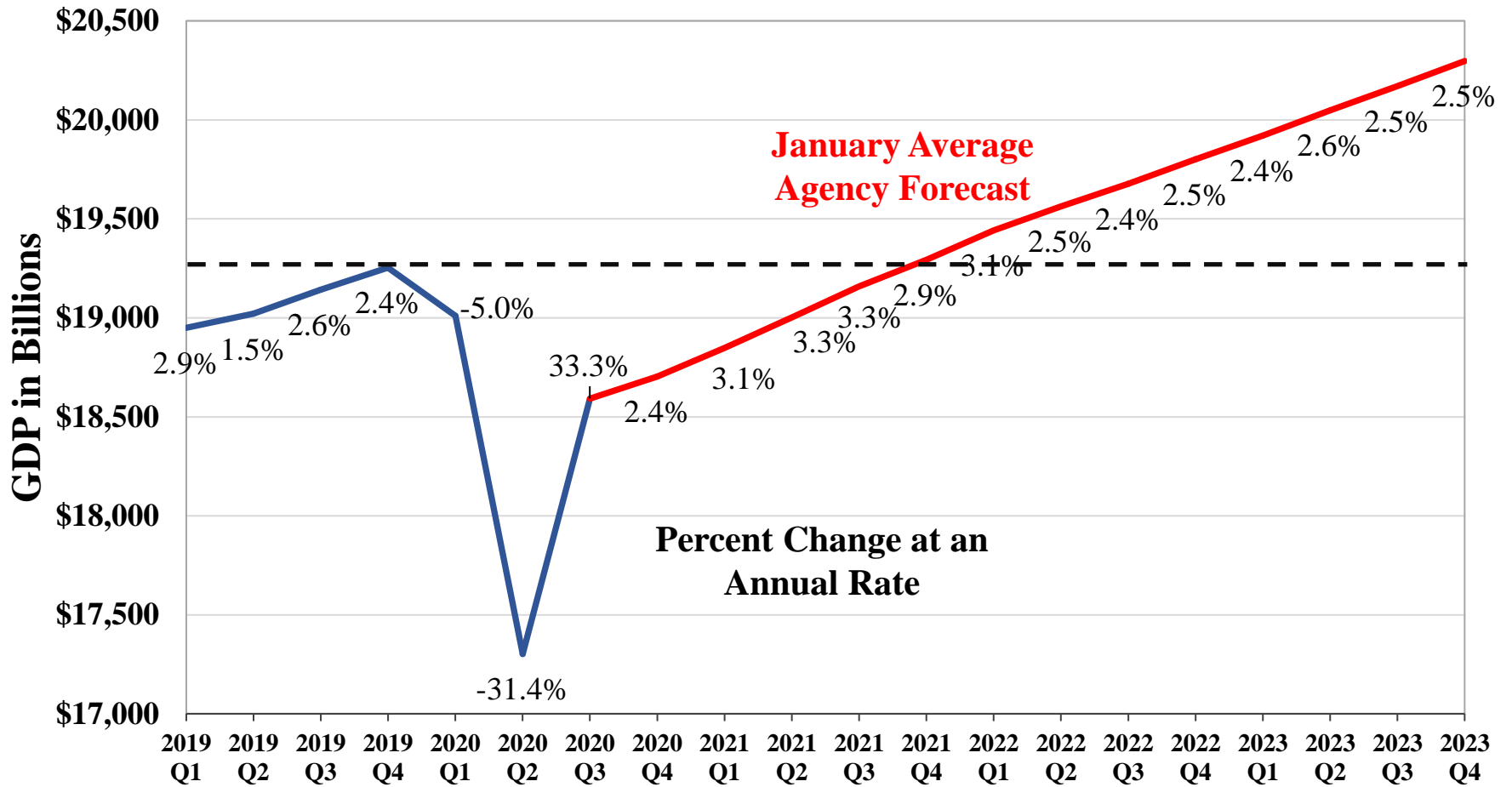
## Annual Percent Change



**Actual**

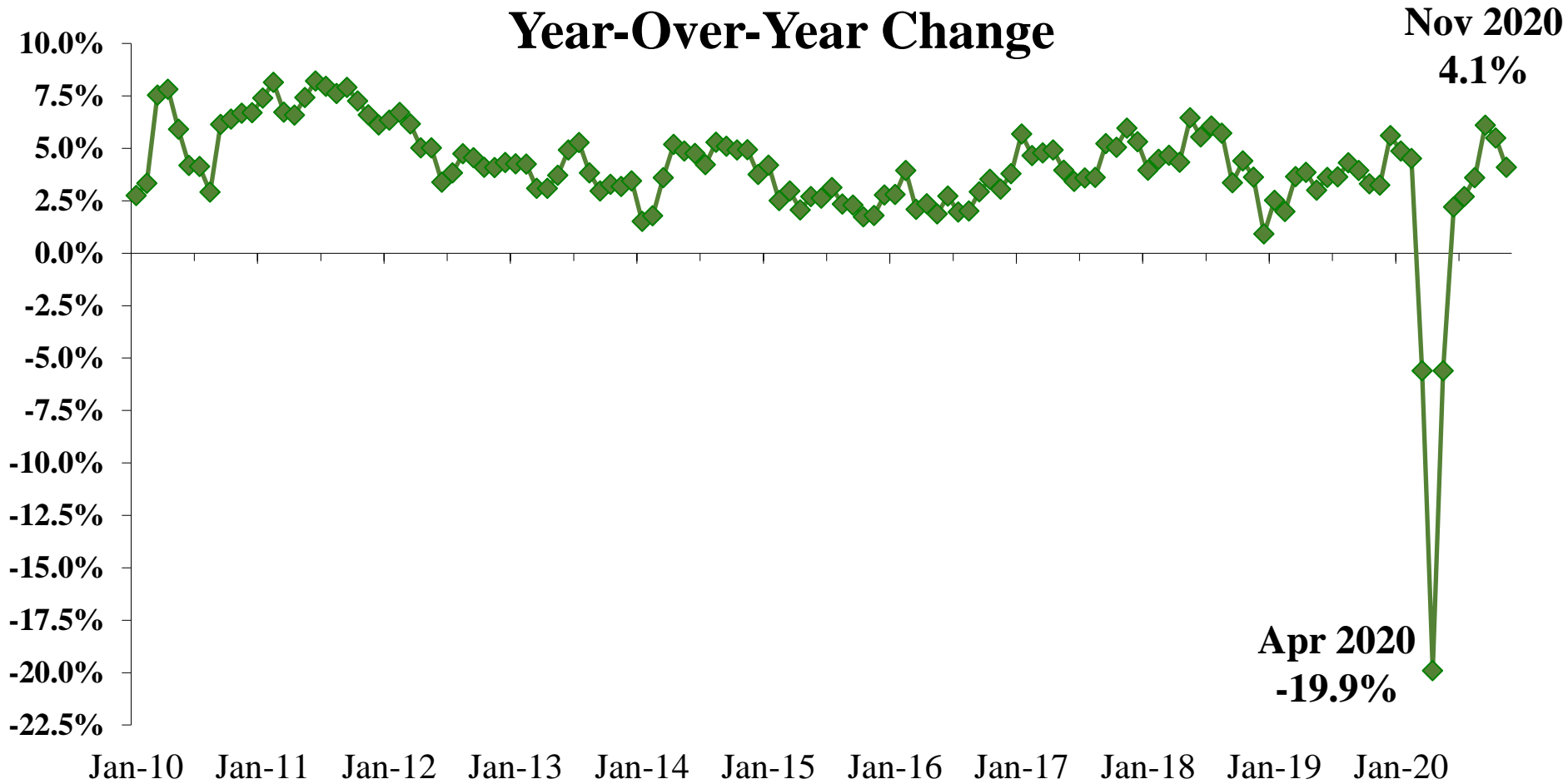
**■ HFA ■ SFA ■ Admin.**

# 2020 Recession – Real GDP Quarterly Forecast



Source: U.S. Bureau of Economic Analysis.

# Retail Sales Rebound Quickly

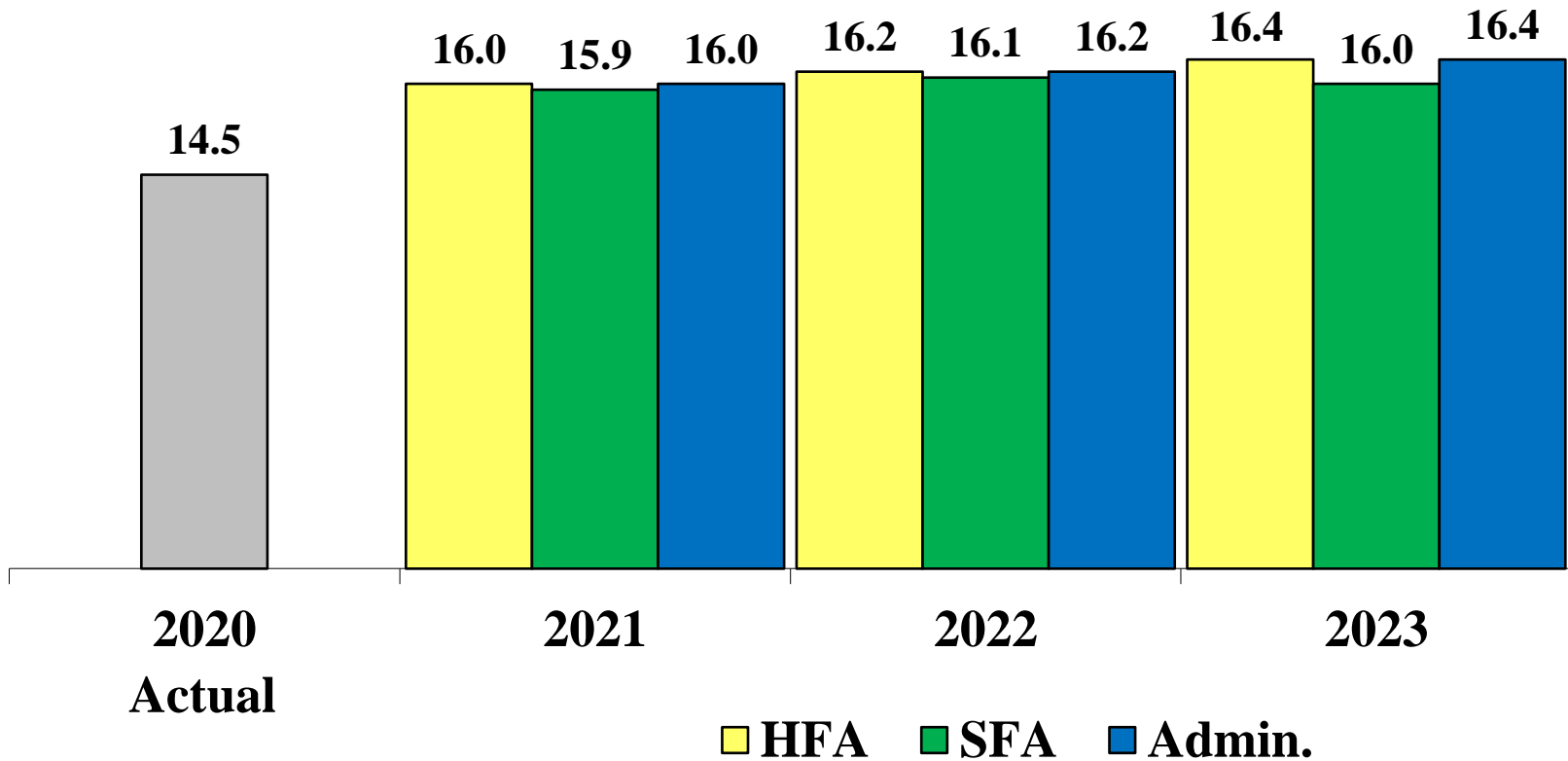


Source: Bureau of the Census



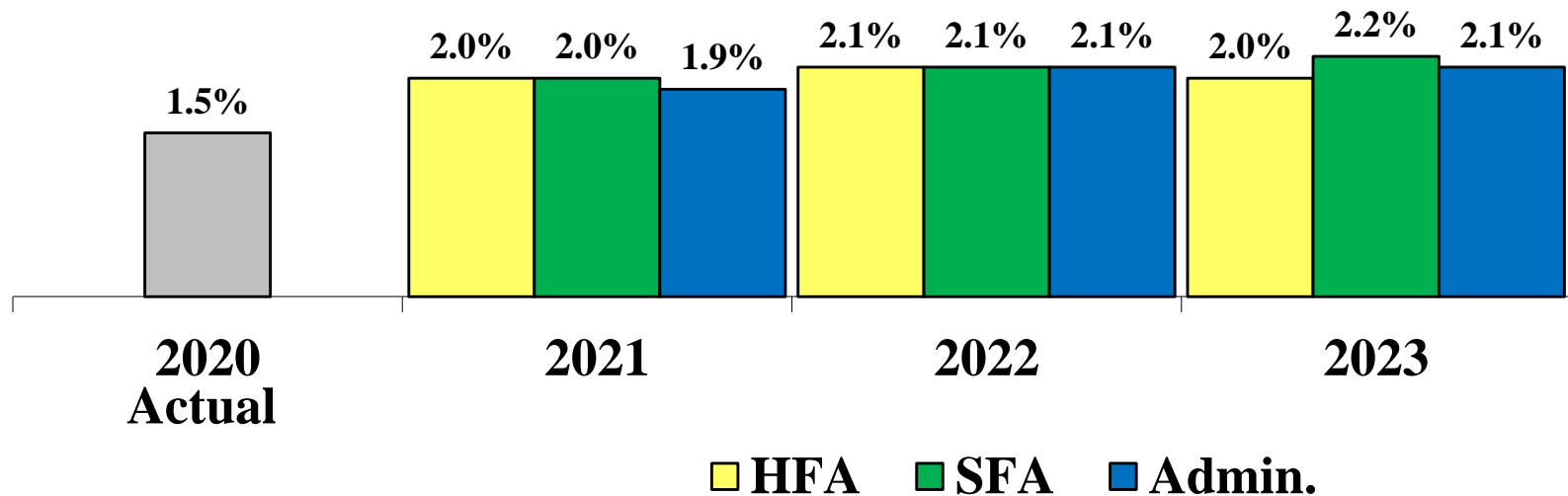
# Light Vehicle Sales Forecast

Millions of Units

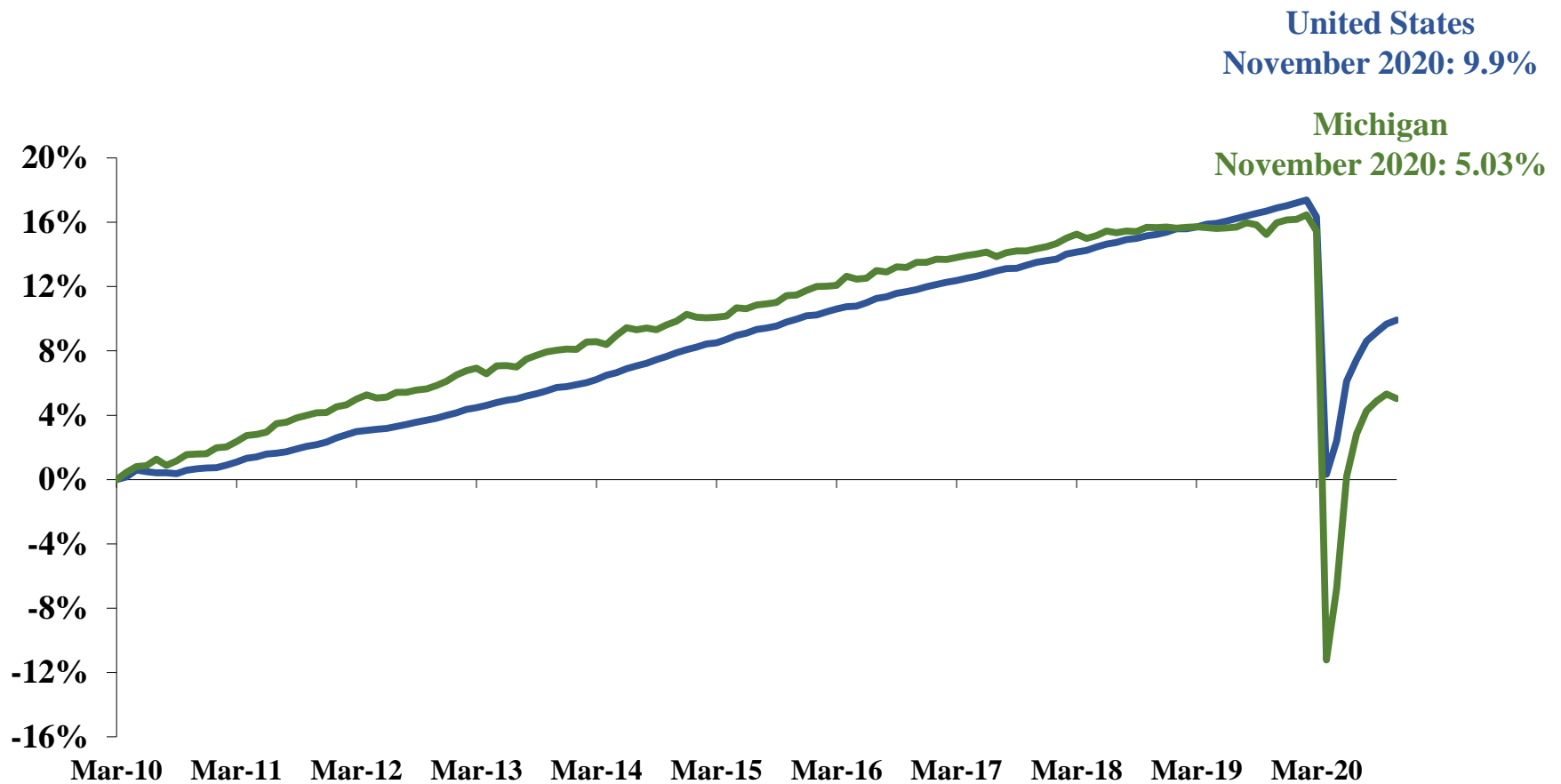


# Inflation Expected to be Low In Near Term

## Detroit Consumer Price Index Fiscal Year Growth



# Michigan and US Cumulative Employment Growth

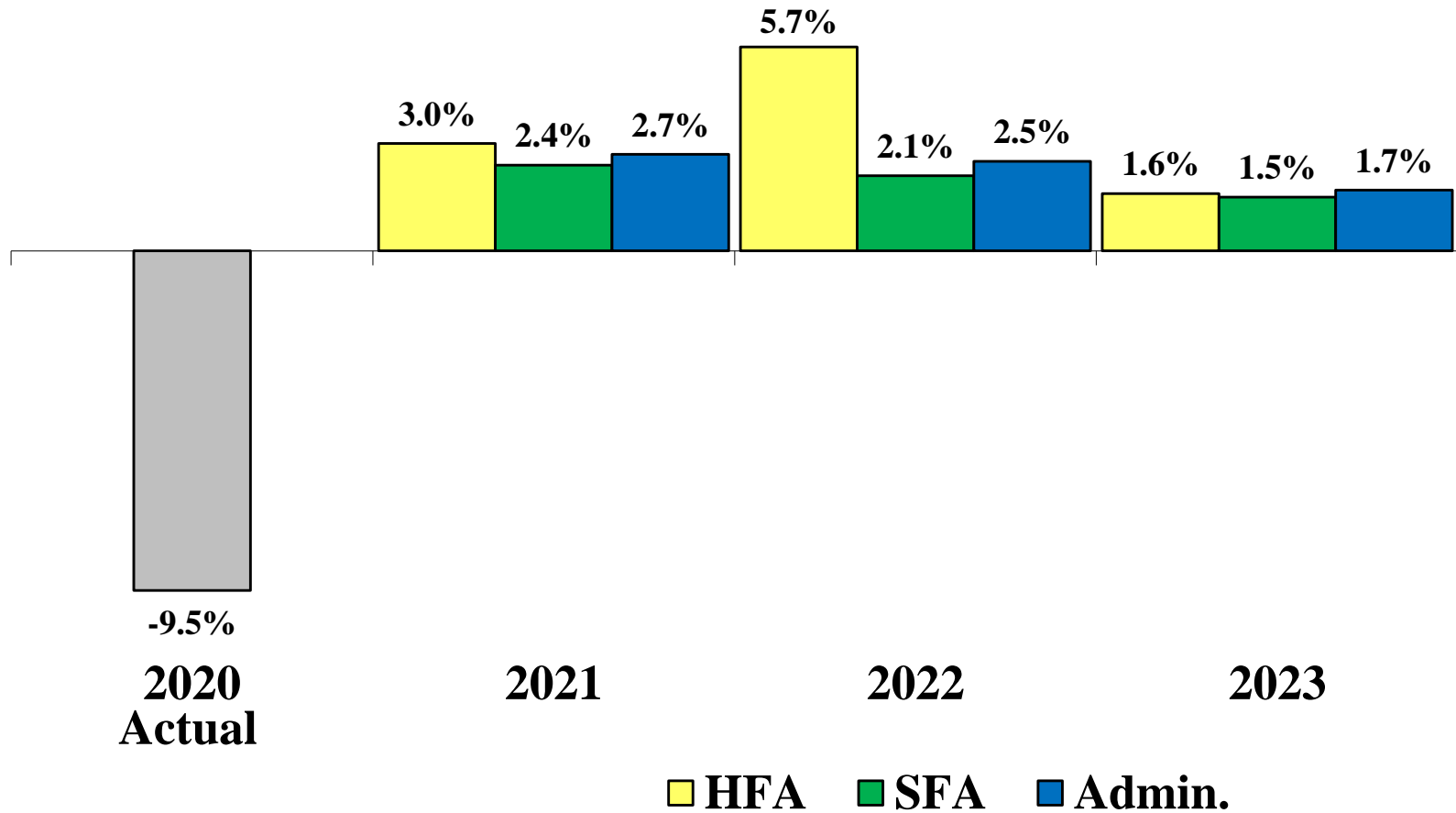


Cumulative growth, relative to March 2010.  
Seasonally adjusted values

Sources: Bureau of Labor Statistics

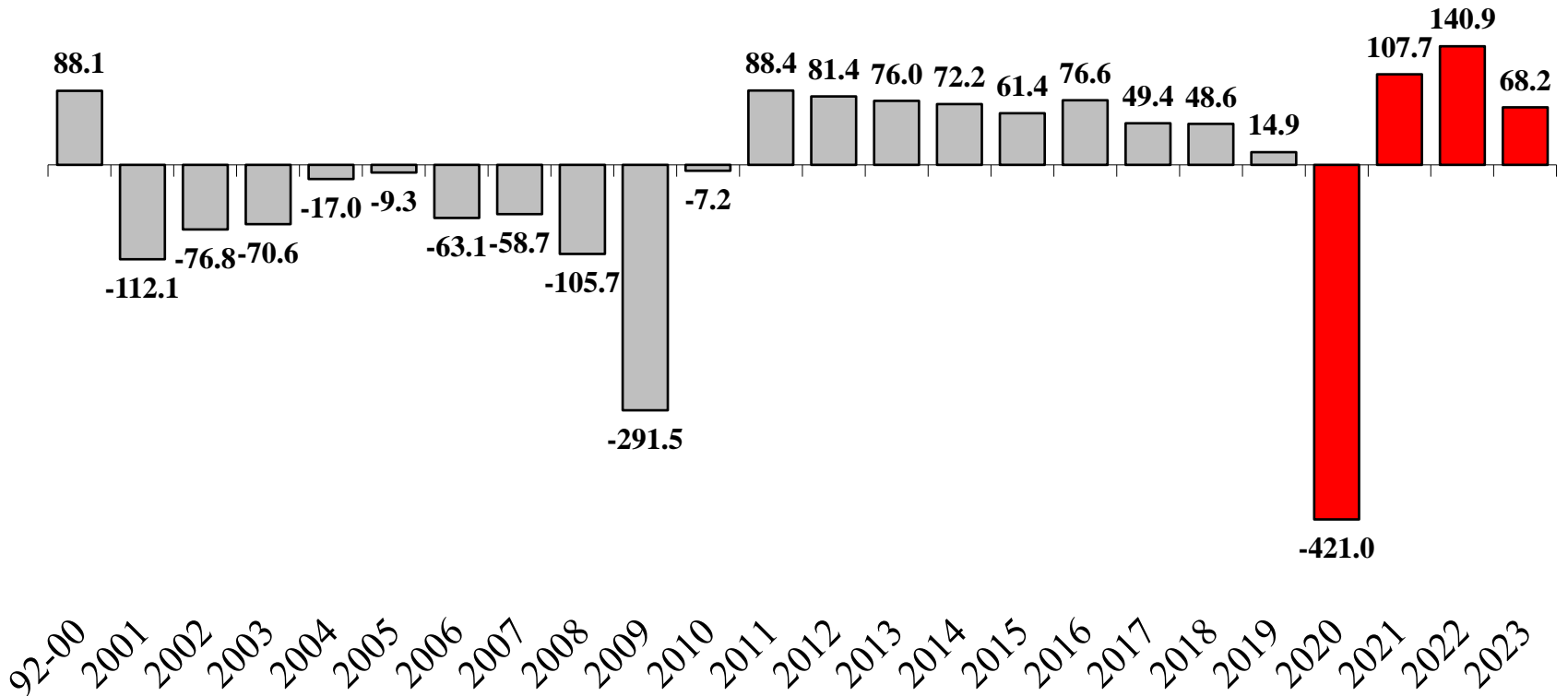
# Michigan Wage and Salary Employment

## Annual Percent Change



# Michigan Job Gains Expected Through 2022

## Change in Michigan Wage and Salary Employment Thousands



**Average Agency Forecasts**

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# FORECAST OF MAJOR TAXES

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# Preliminary FY 2020 Revenue

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Revenue collections continued at stronger than expected levels

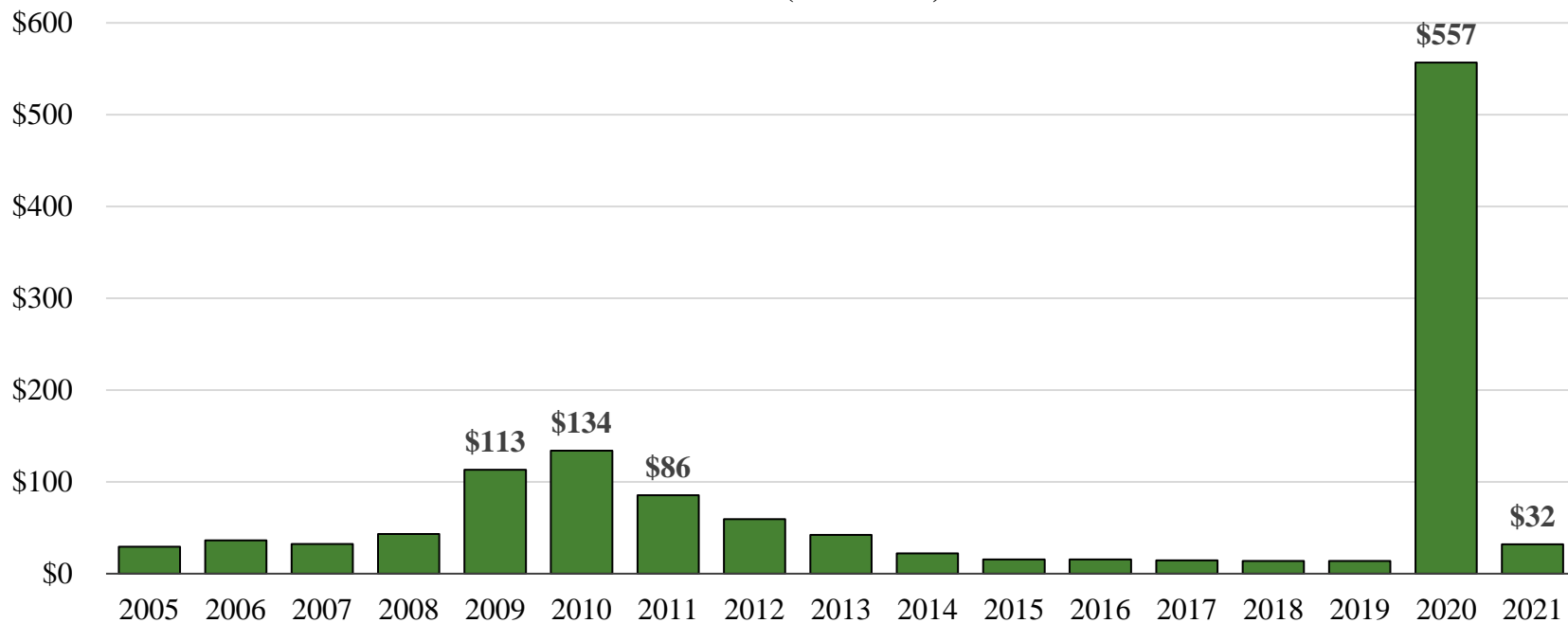
- Total FY 2020 GF-GP and SAF revenue was approximately \$762 million above the August forecast
- Income tax withholding continues to be strong
- Sales and Use tax were both higher than expected, boosted by consumer spending
  - Consumer spending, including shifts in types of purchases, increased collections from remote sellers and marketplaces

# Withholding on Unemployment Benefits

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

## Fiscal Year Totals

(in Millions)



■ Withholding on UI

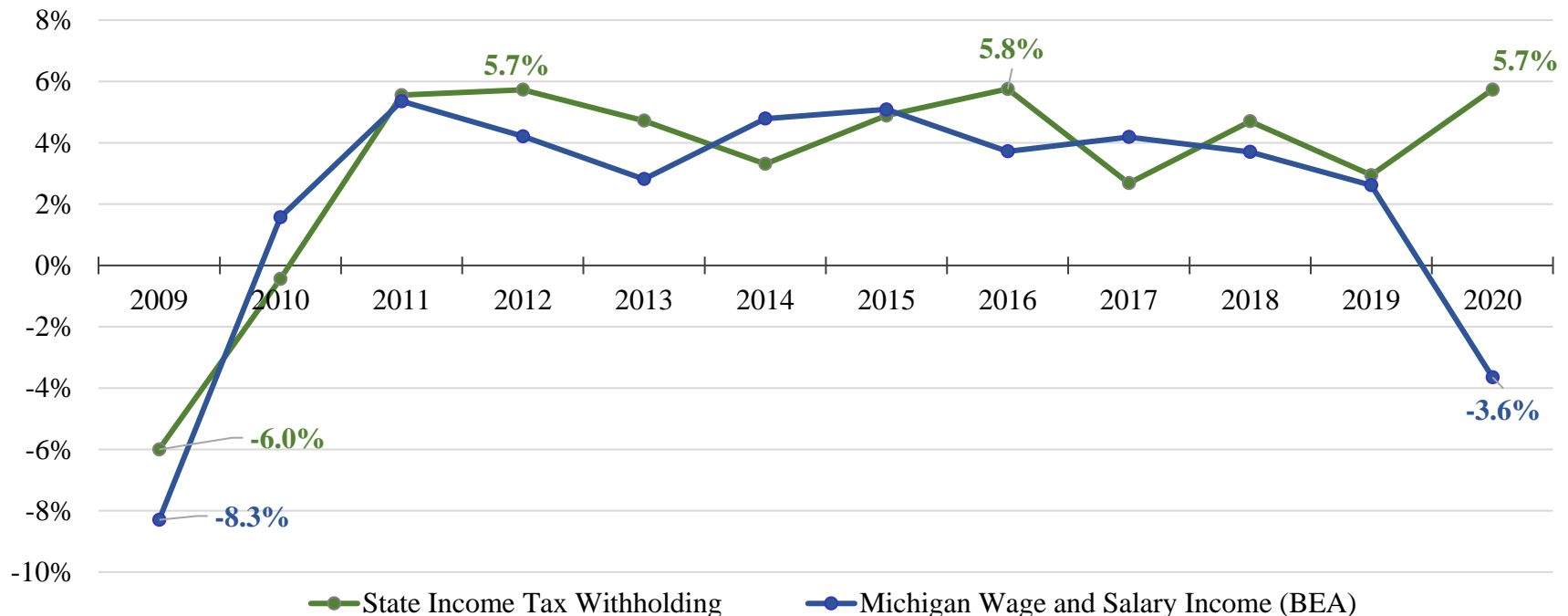
FY 2021 UI withholding is the total for November and December 2020.



# Withholding Nears Record Growth in FY 2020

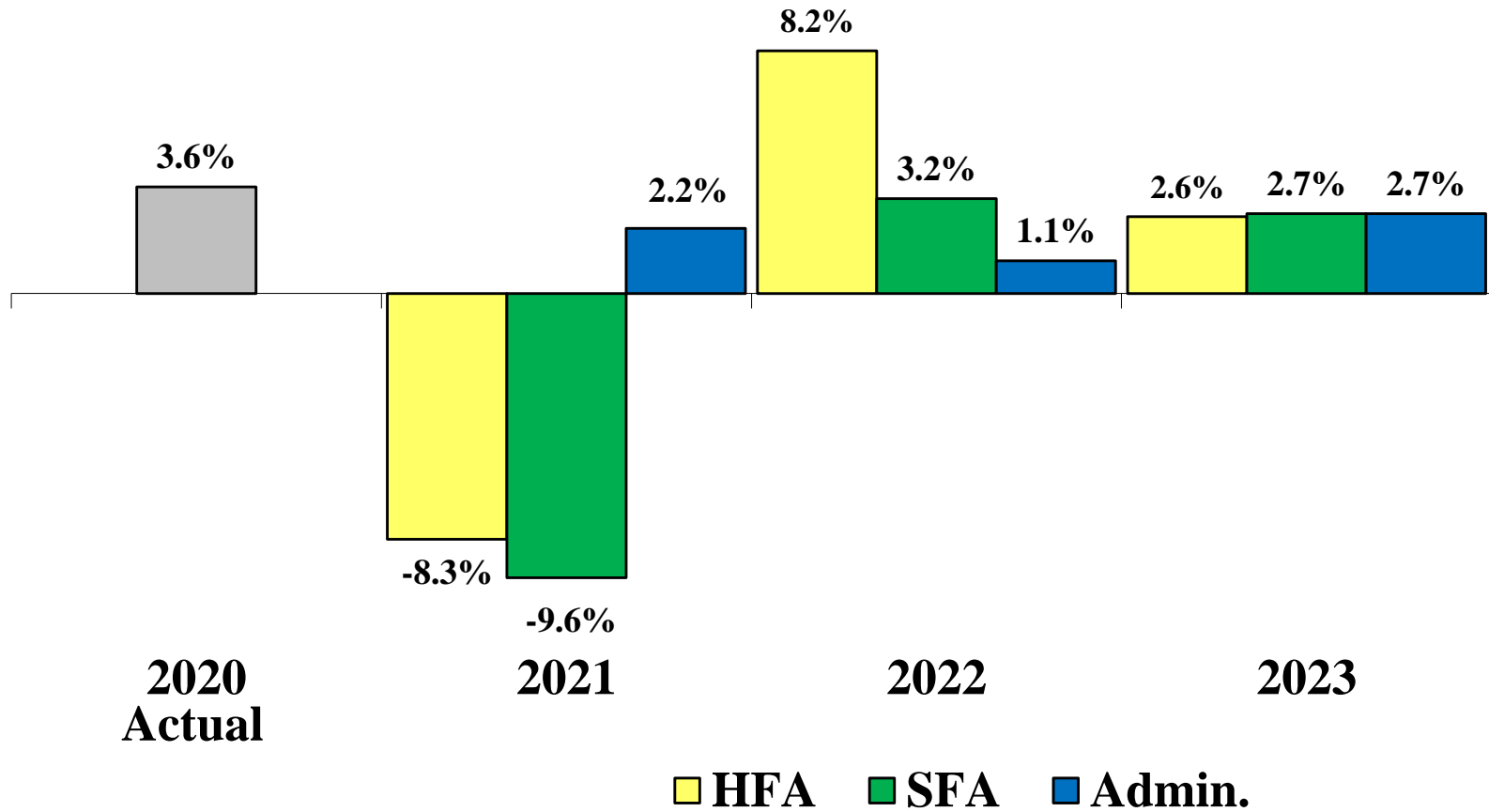
The change in state income tax withholding has outpaced the change in wages and salary income during the pandemic.

## Withholding versus Wage and Salary Income Percent Change from Prior Year

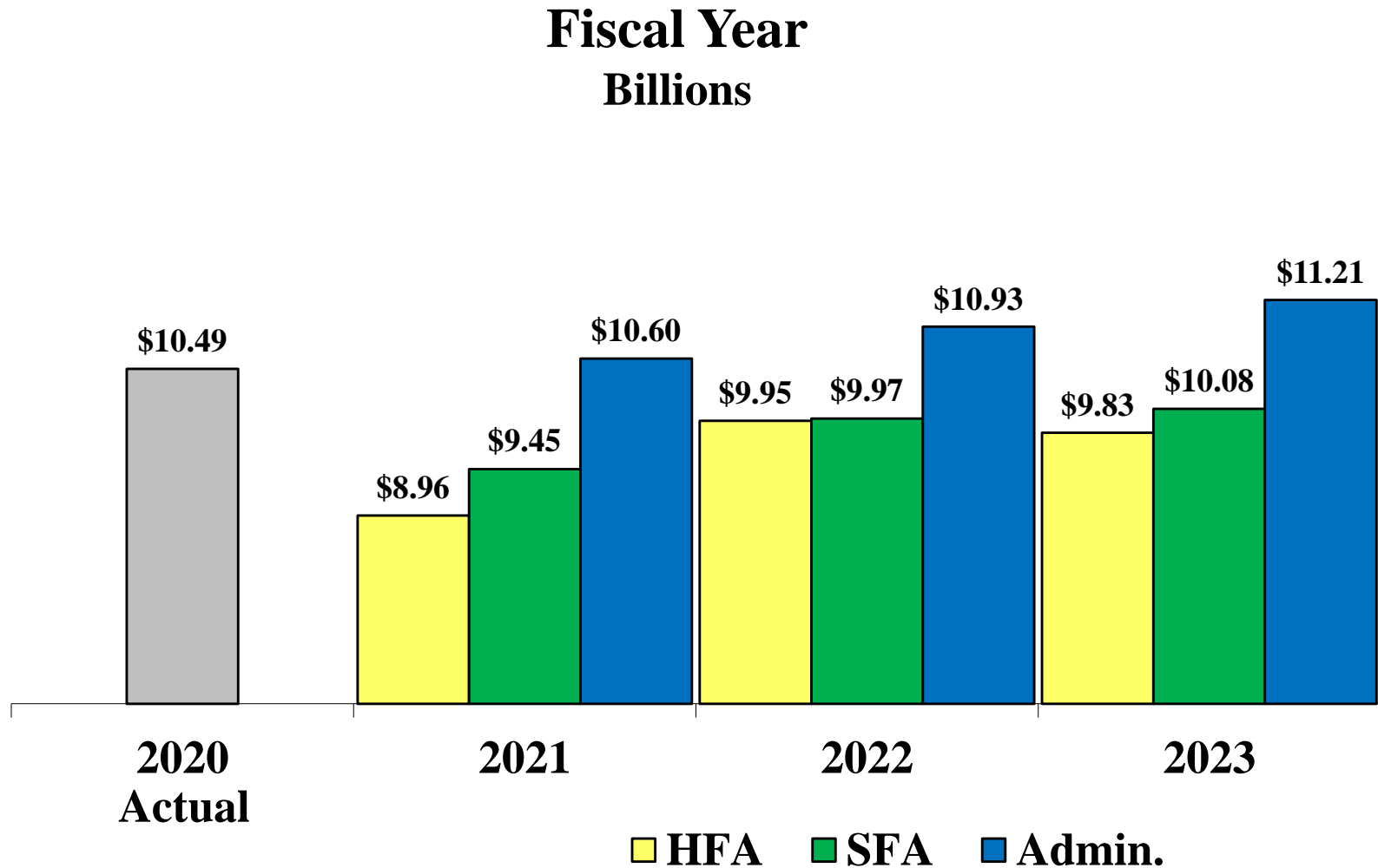


# Baseline Income Tax Growth

## Fiscal Year Growth



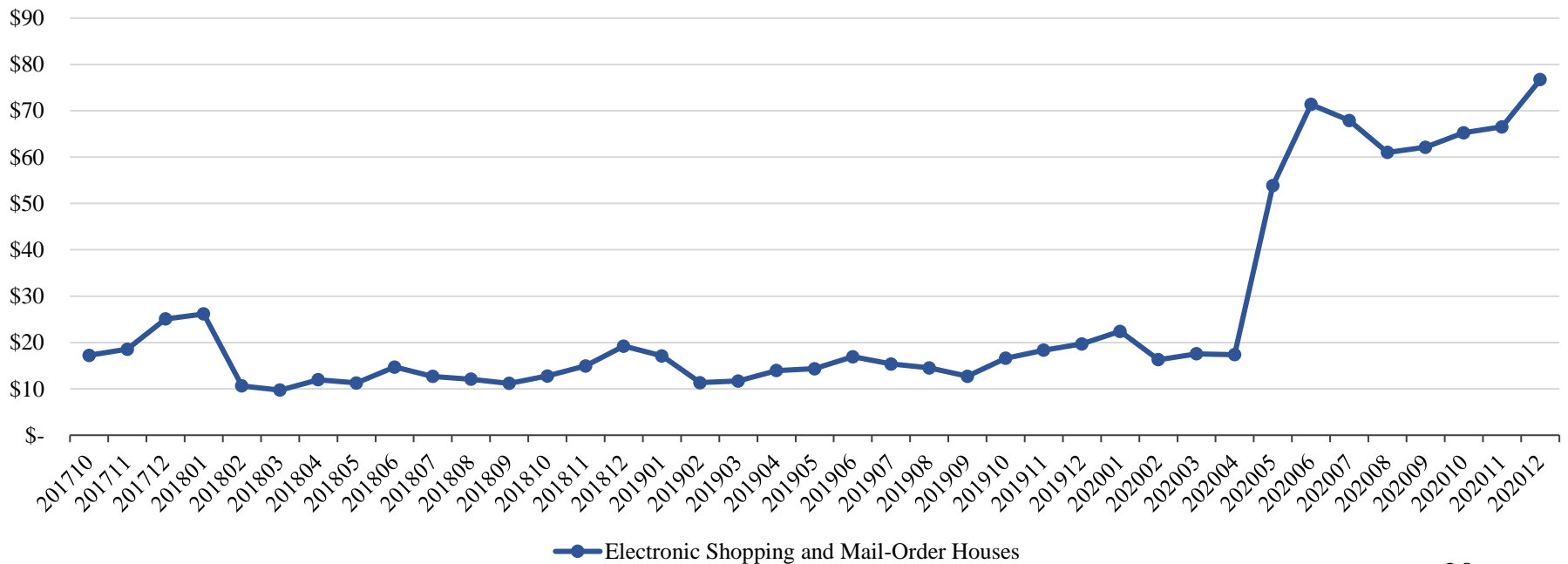
# Net Income Tax Revenue Estimates



# Online Spending Boosts Sales and Use Tax Revenue

- In FY20, sales and use tax collections from online shopping and mail order businesses totaled over \$493 million, an increase of over \$318 million from the FY19 level of only \$175 million
- Since the beginning of the pandemic, collections from online retailers have averaged \$65 million per month, up from about \$17 million per month in the twelve months prior to the pandemic

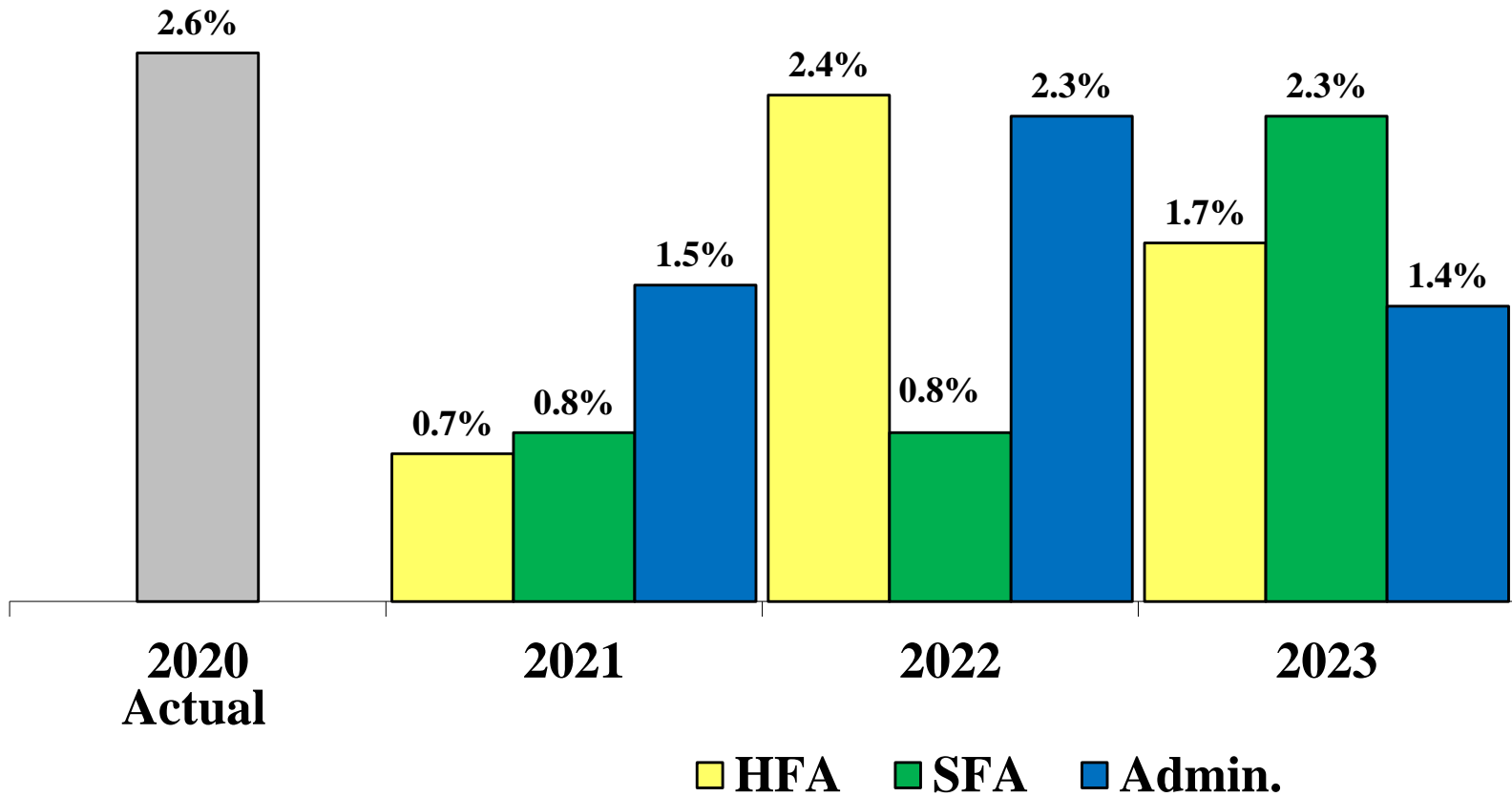
**Monthly Sales and Use Collections  
Values in Millions of Dollars**



—●— Electronic Shopping and Mail-Order Houses

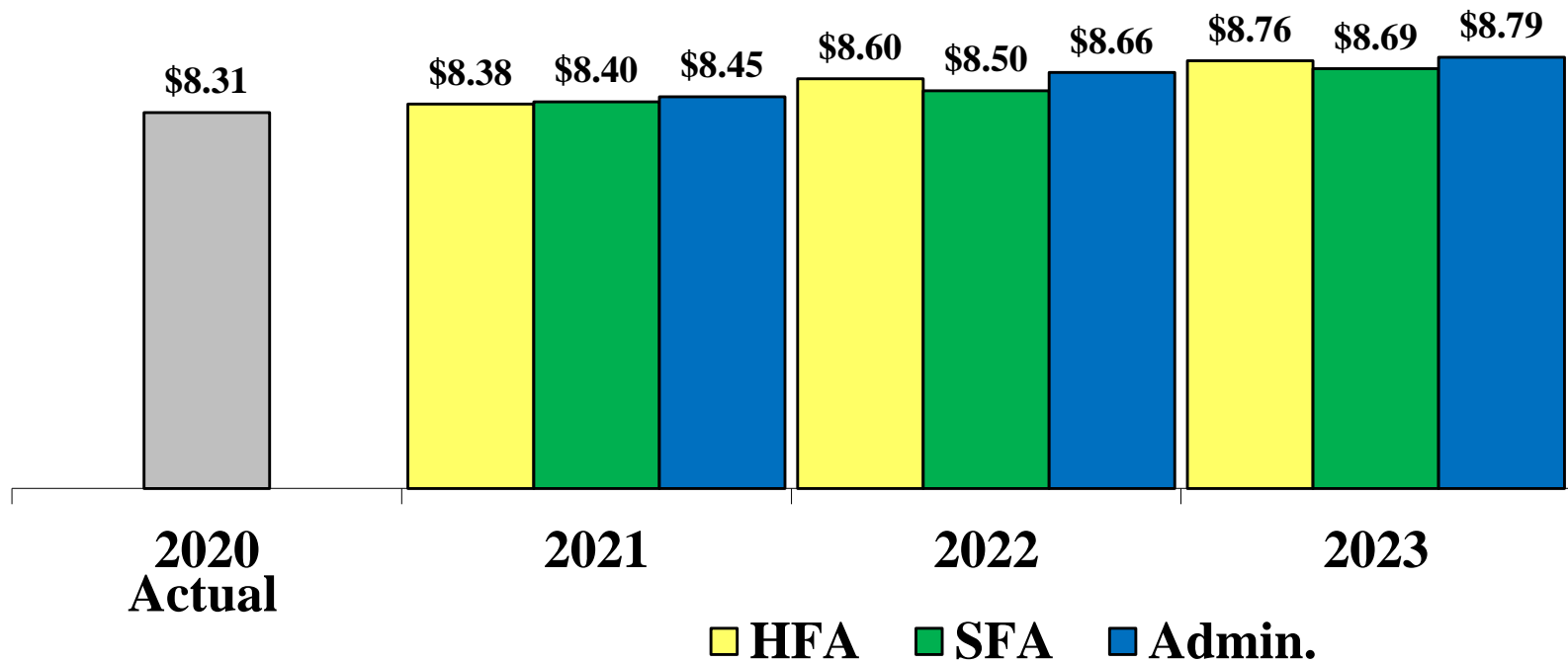
# Baseline Sales Tax Growth

## Fiscal Year Growth



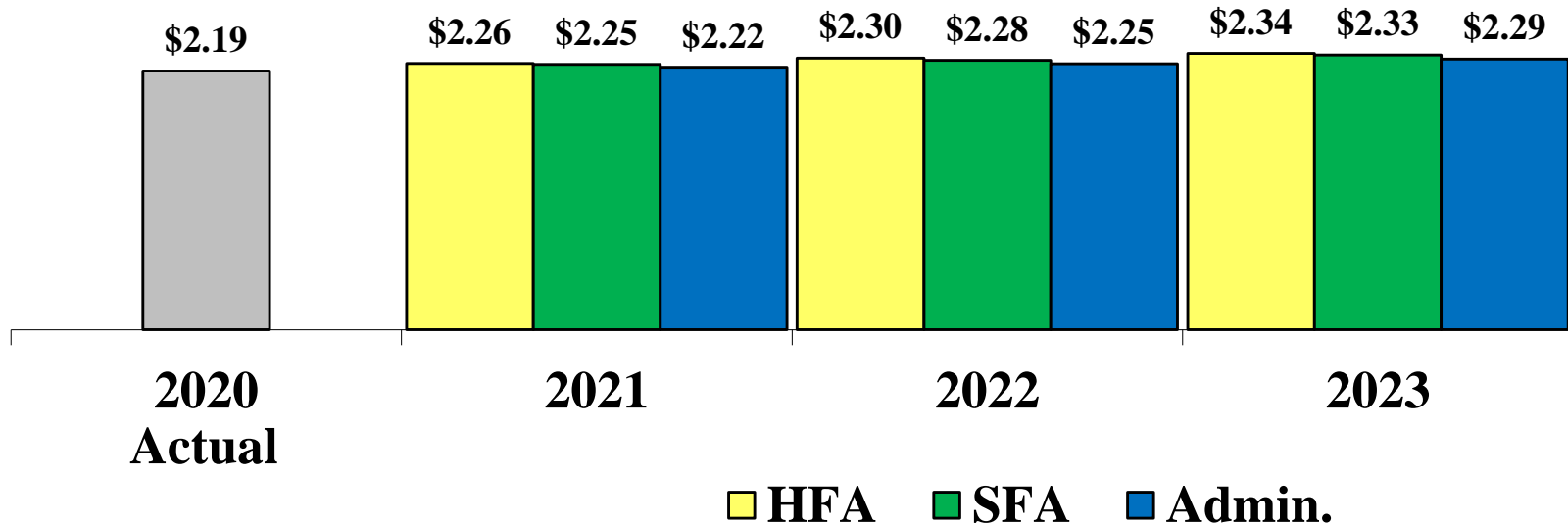
# Net Sales Tax Revenue Estimates

Fiscal Year  
Billions



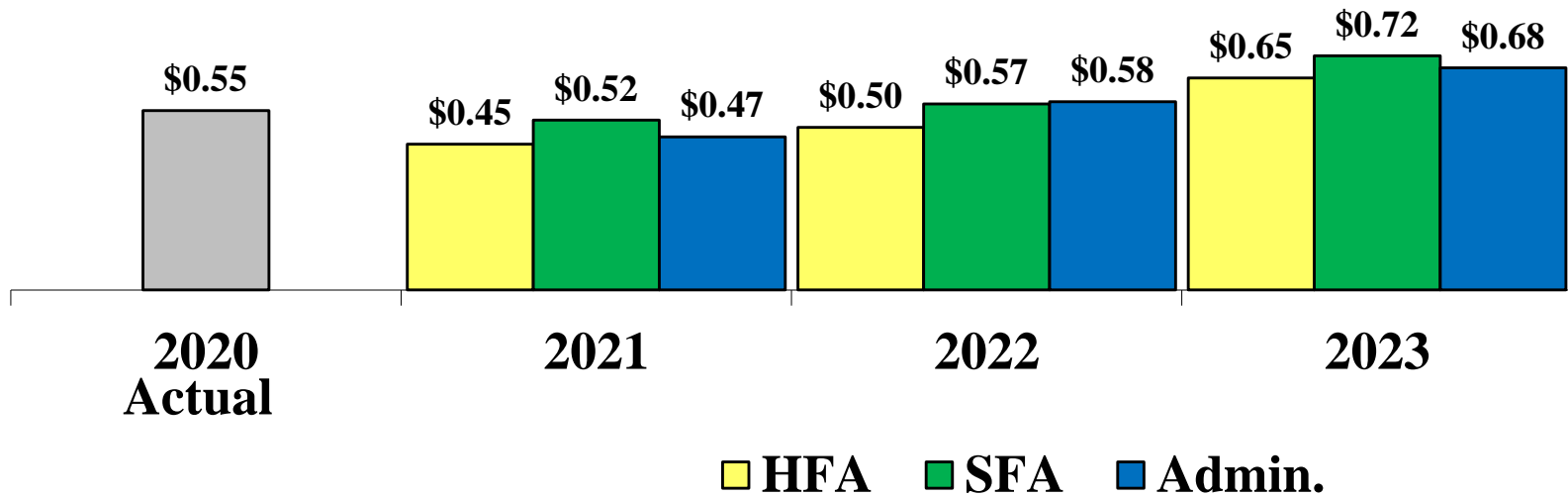
# Net SET Revenue Estimates

Fiscal Year  
Billions



# Net CIT/MBT Revenue Estimates

Fiscal Year  
Billions





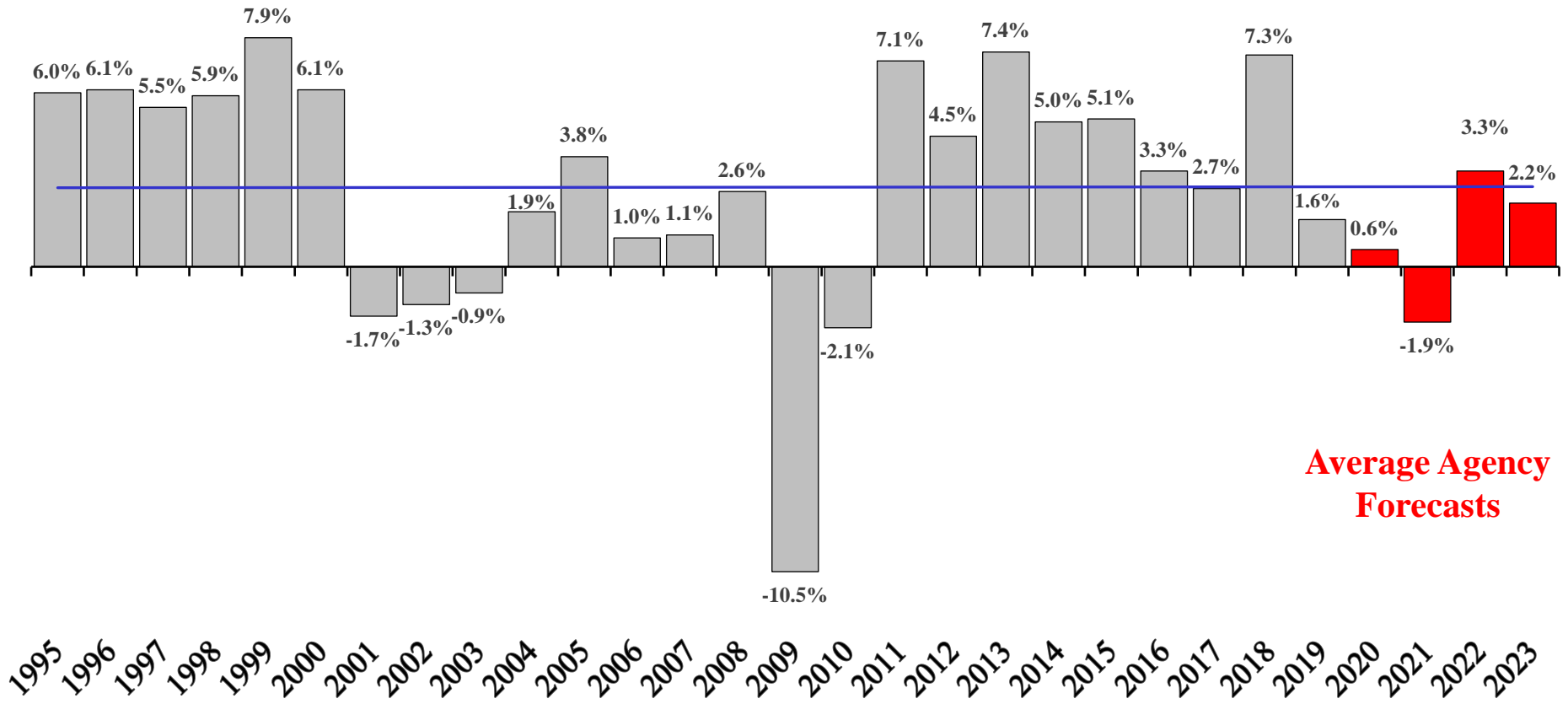
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# **FORECAST OF GF-GP AND SCHOOL AID FUND**

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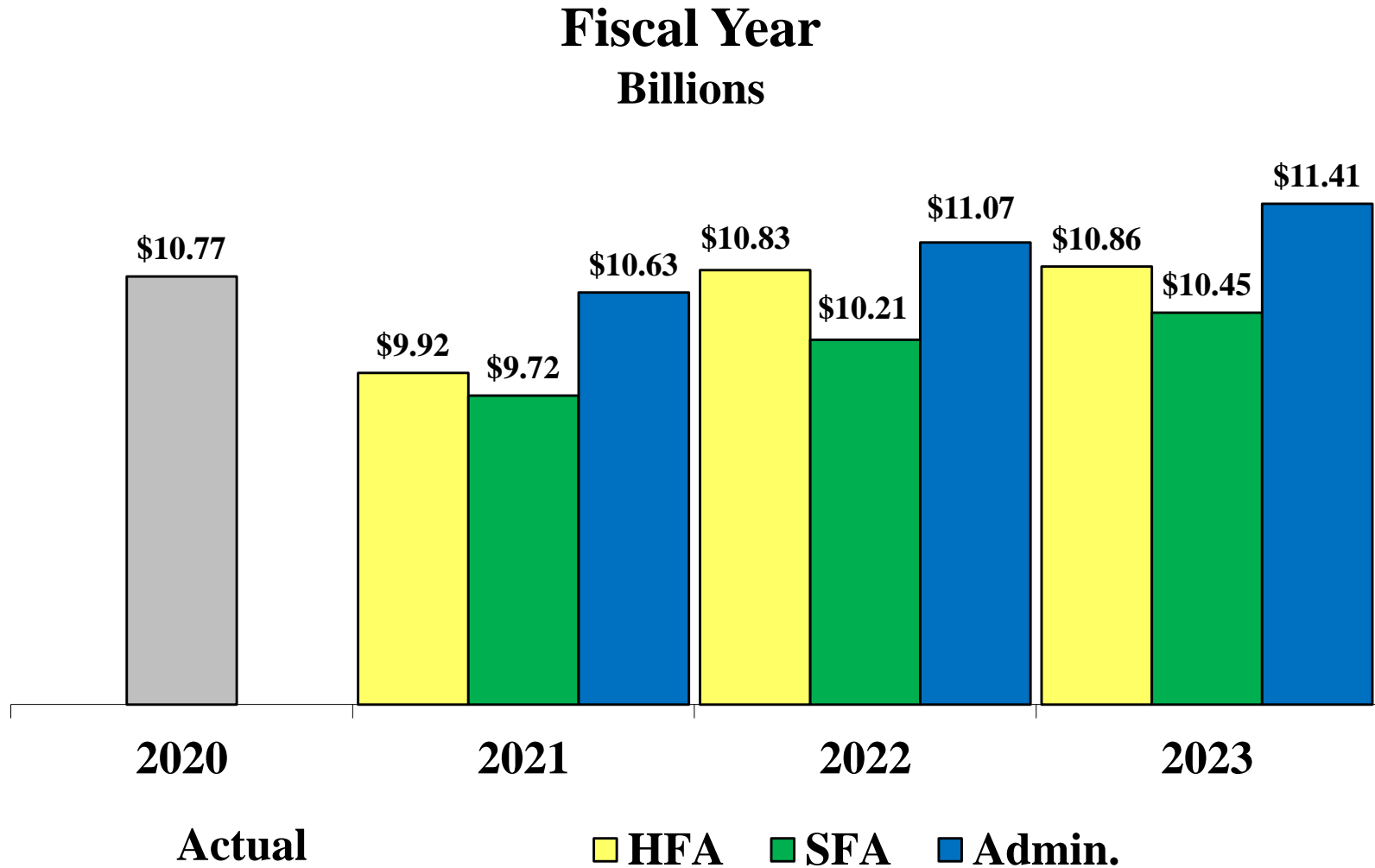
# GF-GP and School Aid Revenue

## Baseline Growth Rates Before Tax Changes

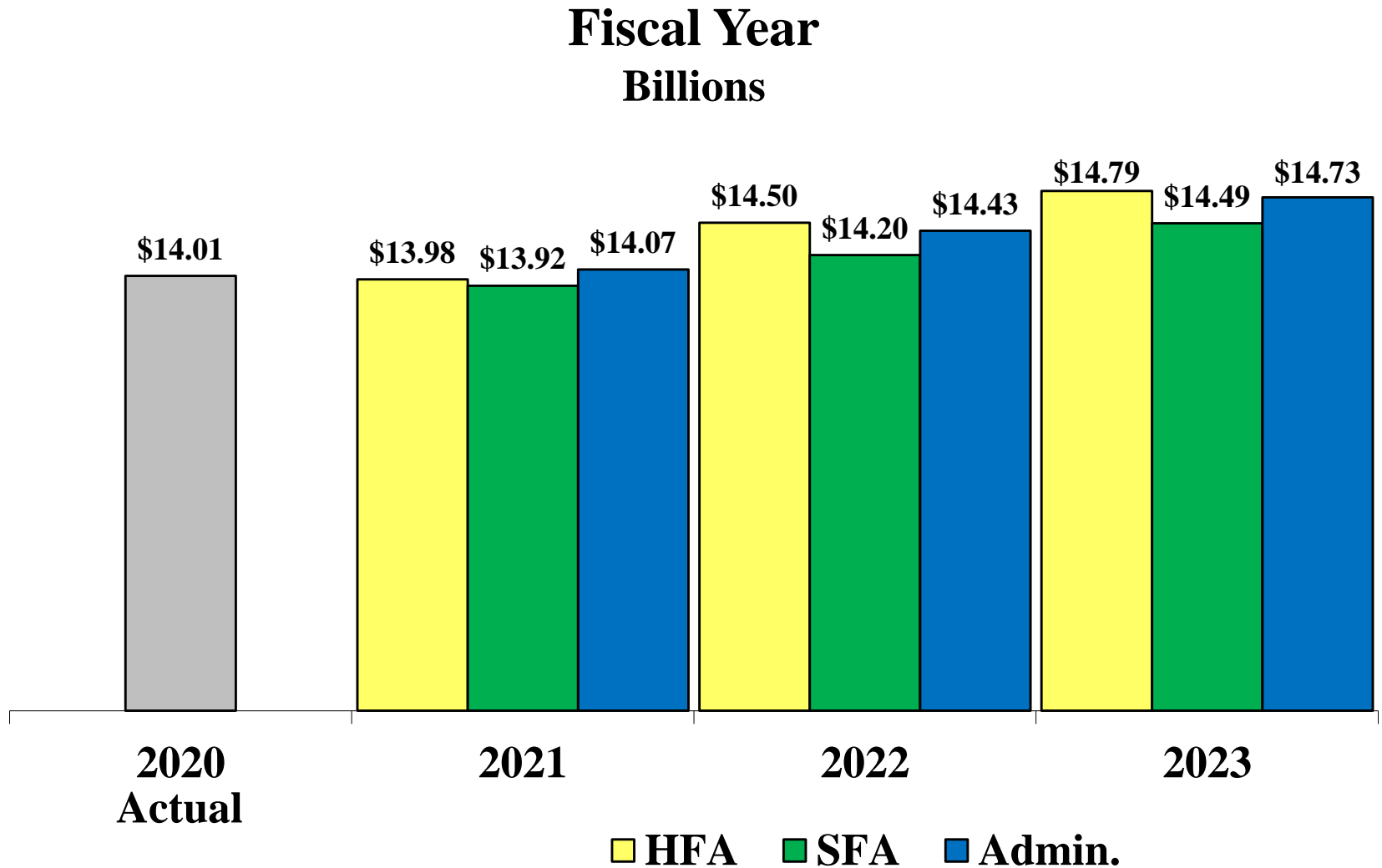


**Average Agency Forecasts**

# GF-GP Net Revenue Estimates



# School Aid Fund Net Revenue Estimates



# 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	\$9,922.2	\$9,722.5	\$10,632.9	\$10,826.9	\$10,214.0	\$11,072.1	\$10,859.0	\$10,452.8	\$11,411.9
School Aid Fund	\$13,976.7	\$13,918.9	\$14,069.2	\$14,499.7	\$14,201.6	\$14,425.0	\$14,791.9	\$14,493.4	\$14,734.4

<b>Difference from August Consensus Estimates</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>
GF-GP	\$385.8	\$185.8	\$1,096.2	\$434.5	(\$178.5)	\$679.6
School Aid Fund	\$482.8	\$417.0	\$567.3	\$457.0	\$148.1	\$371.5
Combined	\$868.6	\$602.8	\$1,663.5	\$891.5	(\$30.4)	\$1,051.1

# Income Tax Rate under MCL 206.51(1)

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Revenues will be impacted by the income tax rate reduction under MCL 206.51(1), which limits revenue growth to inflation from FY 2021 levels

The agency estimates range from:

- Rate cuts between \$58.0 and \$418.0 million in FY 2023

# Budget Stabilization Fund

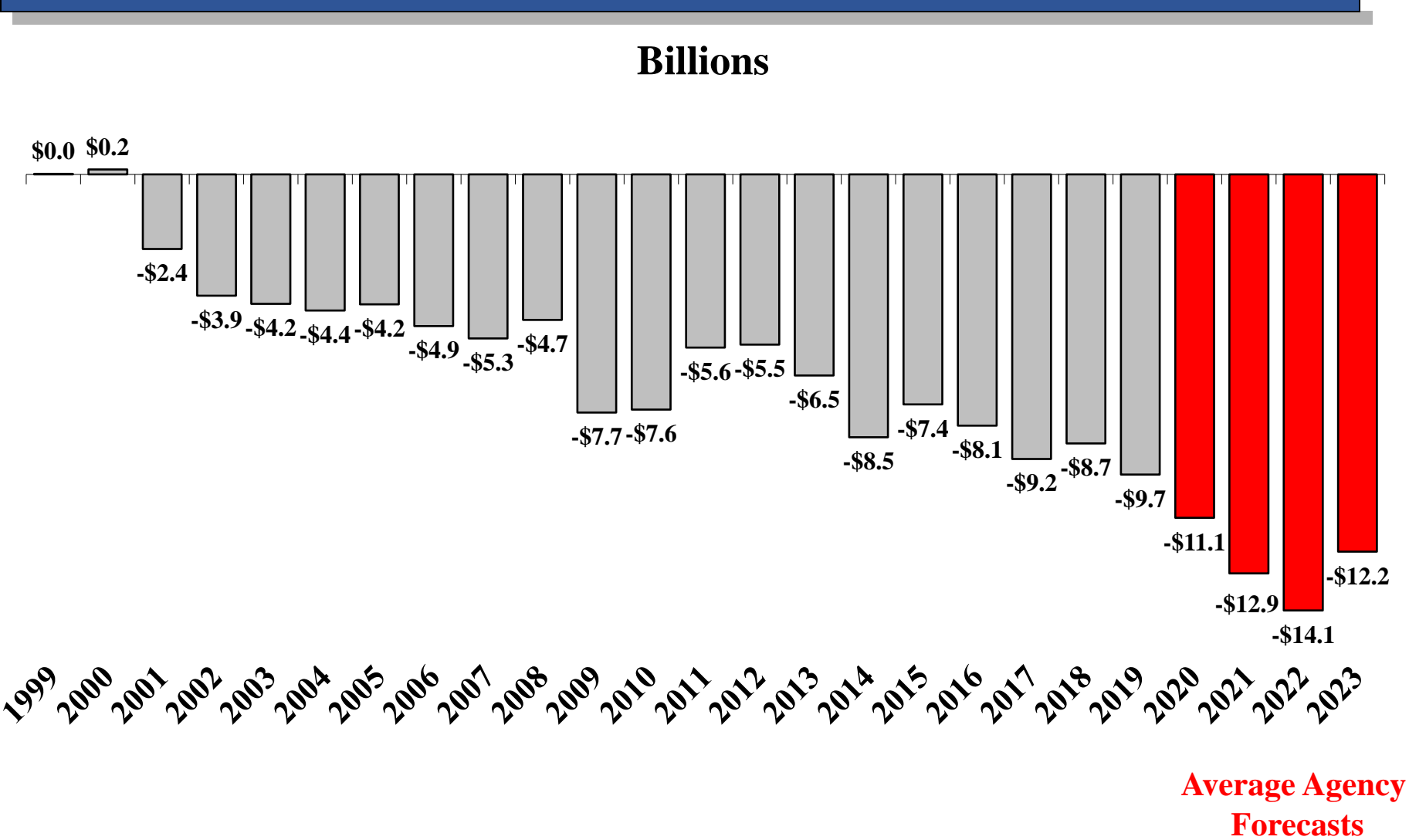
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Both pay-ins and pay-outs require an appropriation

The average agency estimates calculate:

- No pay-ins in FY 2021
- Pay-in between \$0 and \$60.5 million in FY 2022
- Pay-in between \$0 and \$21.0 million in FY 2023
- BSF pay-out between \$0 and \$287.2 million in FY 2021
- No BSF pay-outs during FY 2022 & FY 2023

# Constitutional Revenue Limit Calculation





# Forecast Risks

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## Economy

- Uncertainty from the path of the pandemic
- Further federal stimulus in 2021 could boost revenue short-term, while the drop may cause the economy to fall

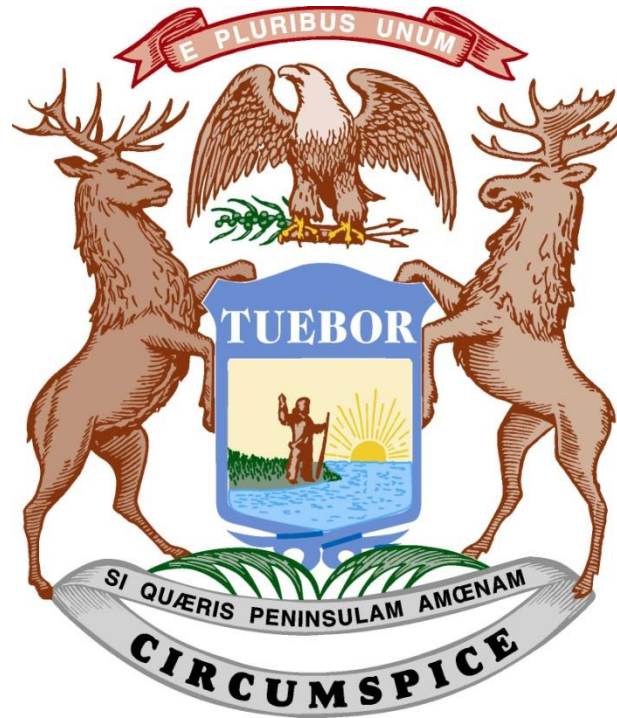
## Michigan Tax Revenue

- Large increases in FY 2020 taxable consumer spending creates uncertainty about FY 2021
- Additional federal stimulus could increase state revenue, while federal tax changes could impact revenue in both directions
  - Each additional \$100 per week in federal unemployment benefits increase withholding and income tax by \$4.6 million, assuming current levels of unemployment
  - Increasing the stimulus payments to \$2,000 would increase Michigan personal income by almost \$14 billion and may increase sales and use tax by \$375 million

# Economic and Revenue Forecasts

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



**Consensus Revenue Estimating Conference**  
**January 15, 2021**