

**ECONOMIC OUTLOOK  
AND  
REVENUE ESTIMATES  
FOR  
MICHIGAN**

**FY 2007-08  
AND  
FY 2008-09**



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This report presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue estimates for fiscal year (FY) 2006-07, and revised revenue estimates for FY 2007-08 and FY 2008-09. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 16, 2008, and will be used to facilitate the consensus estimating process.

This report includes HFA analyses of important factors that will affect state and national economies through the year 2009, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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# FORECAST SUMMARY

The national economy has slowed significantly over the last two quarters. It is expected to increase 1.2% in calendar year (CY) 2008—the slowest since 2001—and 2.0% in CY 2009. Record high oil and gasoline prices, an ongoing weakening of the housing market, and a lower level of light motor vehicle sales were the primary factors that reduced economic growth in the last two quarters. National payroll employment subtracted 111,000 jobs in the first quarter of 2008.

Michigan's wage and salary employment has generally trended downward since mid-2000. In the first quarter of CY 2008, Michigan's wage and salary employment declined by 15,000 workers; between March 2007 and March 2008, Michigan lost an average of 6,183 jobs per month.

## U. S. Forecast

Real GDP growth is forecast to be 1.2% in CY 2008, down from 2.2% in CY 2007. Real GDP is forecast to be 2.0% in CY 2009.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase from 2.9% in CY 2007 to 4.1% in CY 2008 and 3.0% in CY 2009.

Light vehicle sales totaled 16.5 million units in CY 2006, declined to 16.1 million units in CY 2007, and are forecast to drop to 14.9 million units in CY 2008 before rising back to 15.1 million units in CY 2009. The import share of light vehicles is forecast to be 25.9% in CY 2008 and 26.5% in CY 2009.

The national unemployment rate is forecast to be 5.3% CY 2008 and 5.8% in CY 2009.

Interest rates on three-month T-bills are forecast to average 1.6% in CY 2008 and 1.8% in CY 2009.

## **Michigan Forecast**

Michigan personal income increased 3.5% in CY 2007; the rate of growth is expected to decelerate to 1.4% in CY 2008 and 1.7% in CY 2009.

Michigan's unemployment rate was 7.2% in CY 2007, and is forecast to be 7.6% in CY 2008 and 8.4% in CY 2009.

Inflation, as measured by the Detroit Consumer Price Index, for CY 2007 was 1.9%; it is forecast to be 3.0% in CY 2008 and 2.5% in CY 2009.

### ***State Revenue***

Final total baseline GF/GP and SAF revenue was \$19.4 billion in FY 2006-07; it is forecast to be \$19.23 billion (1.0% decrease) in FY 2007-08 and \$19.19 billion (0.2% decrease) in FY 2008-09.

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have only recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy.

Final total net GF/GP and SAF revenue was \$19.5 billion in FY 2006-07; it is forecast to increase \$1,109.8 million (5.7%) in FY 2007-08. Much of this increase is due to the income tax rate increase and MBT surcharge. The FY 2008-09 total net GF/GP and SAF revenue is forecast to be \$20.6 billion—an increase of \$49.8 million or 0.2%. Net revenue captures the effects of all policy changes, and represents resources available.

**Table 1** reports GF/GP and SAF revenue in terms of baseline and actual revenue. Final FY 2006-07 estimates and the House Fiscal Agency's recommended revisions to estimates for FY 2007-08 and FY 2008-09 are reported in **Table 2** and **Table 3**.

### ***State Revenue Limit***

Total state revenue was \$5.3 billion below the state revenue limit in FY 2006-07; it is estimated to be under the limit by \$5.0 billion in FY 2007-08, and \$6.0 billion in FY 2008-09. Final calculation of the state revenue limit is performed by the Auditor General.

### ***Fund Balances***

Year-end GF/GP balance estimates: \$2.5 million for FY 2005-06, \$259.1 million for FY 2006-07, and \$83.0 million for FY 2007-08.

Year-end School Aid Fund balance estimates: \$0.0 for FY 2005-06, \$82.4 million for FY 2006-07, and \$70.3 million for FY 2007-08.

Year-end Countercyclical Budget Stabilization Fund balance estimates: \$2.0 million for FY 2005-06, \$2.1 million for FY 2006-07, and \$2.2 million for FY 2007-08.



**Table 1**  
**HFA REVENUE ESTIMATES**  
(Millions of Dollars)

	<u>Final</u> <u>FY 2006-07</u>	<u>HFA Estimate</u> <u>FY 2007-08</u>	<u>HFA Estimate</u> <u>FY 2008-09</u>
Baseline GF/GP	\$8,279.8	\$8,118.5	\$8,080.6
Baseline SAF	<u>11,149.6</u>	<u>11,117.5</u>	<u>11,115.3</u>
<b>TOTAL BASELINE</b>	<b>\$19,429.4</b>	<b>\$19,235.9</b>	<b>\$19,195.9</b>
Actual GF/GP	\$8,317.7	\$9,204.1	\$8,897.0
Actual SAF	<u>11,153.1</u>	<u>11,376.6</u>	<u>11,733.4</u>
<b>TOTAL ACTUAL</b>	<b>\$19,470.8</b>	<b>\$20,580.6</b>	<b>\$20,630.4</b>

**Table 2**  
**FY 2007-08 HFA RECOMMENDED REVISIONS**  
(Millions of Dollars)

	<u>January 2008</u> <u>Consensus</u>	<u>May 2008</u> <u>Recommendation</u>	<u>Recommended</u> <u>Revision</u>
Baseline GF/GP	\$8,093.5	\$8,118.5	\$24.9
Baseline SAF	<u>11,150.8</u>	<u>11,117.5</u>	(33.3)
<b>TOTAL BASELINE</b>	<b>\$19,244.3</b>	<b>\$19,235.9</b>	<b>(\$8.4)</b>
Actual GF/GP	\$9,246.5	\$9,204.1	(\$42.5)
Actual SAF	<u>11,353.1</u>	<u>11,376.6</u>	23.4
<b>TOTAL ACTUAL</b>	<b>\$20,599.7</b>	<b>\$20,580.6</b>	<b>(\$19.1)</b>

**Table 3**  
**FY 2008-09 HFA RECOMMENDED REVISIONS**  
(Millions of Dollars)

	<u>January 2008</u> <u>Consensus</u>	<u>May 2008</u> <u>Recommendation</u>	<u>Recommended</u> <u>Revision</u>
Baseline GF/GP	\$8,163.9	\$8,080.6	(\$83.2)
Baseline SAF	<u>11,277.6</u>	<u>11,115.3</u>	(162.4)
<b>TOTAL BASELINE</b>	<b>\$19,441.5</b>	<b>\$19,195.9</b>	<b>(\$245.7)</b>
Actual GF/GP	\$9,193.7	\$8,897.0	(\$296.8)
Actual SAF	<u>11,870.6</u>	<u>11,733.4</u>	(137.2)
<b>TOTAL ACTUAL</b>	<b>\$21,064.3</b>	<b>\$20,630.4</b>	<b>(\$434.0)</b>





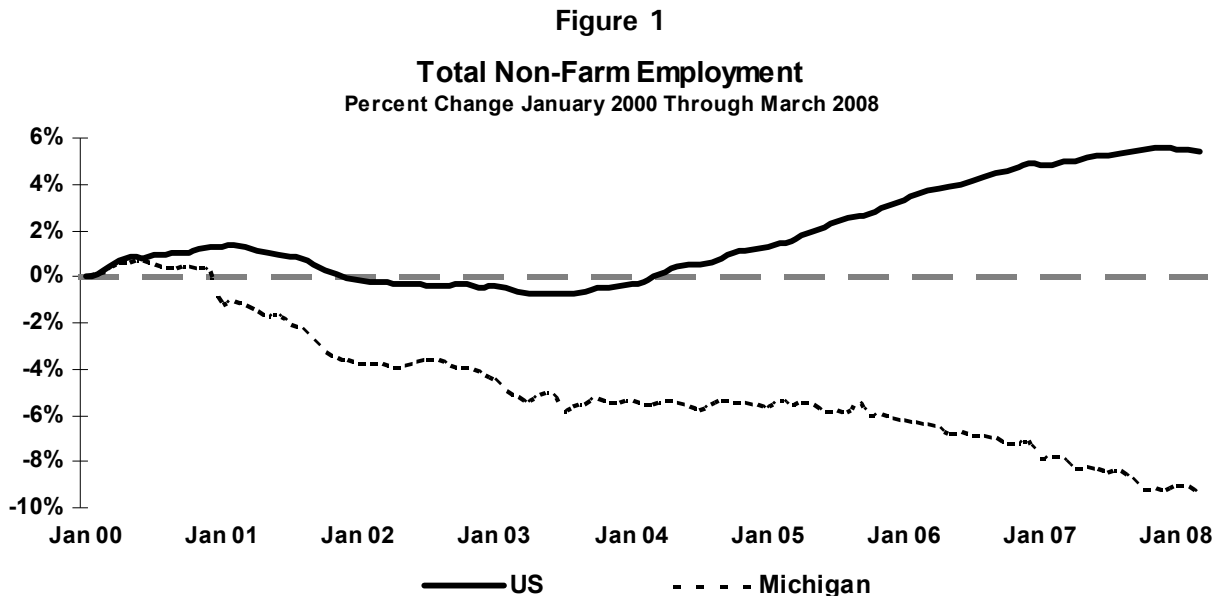
# ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2007-08 and FY 2008-09.

The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout CY 2002 and the early part of CY 2003. At the national level, economic growth accelerated at the end of CY 2003 and continued through CY 2006. Job growth at the national level began to improve during the latter half of CY 2003, and continued an upward trend through the end of 2007—but has declined in recent months.

## Total Non-Farm Employment

**Figure 1** shows the monthly percent change in total non-farm employment for both the U.S. and Michigan from January 2000 through March 2008.



**U.S. Non-Farm Employment**

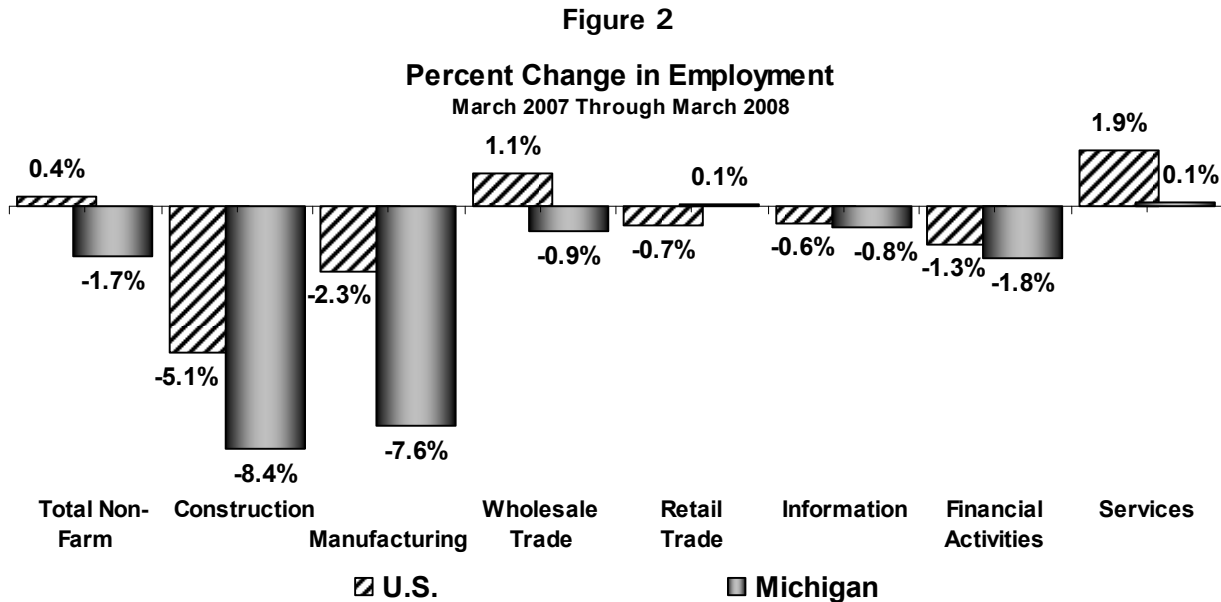
After U.S. employment peaked in February 2001, it began a long slide that did not end until August 2003. During this 30-month period, the national economy lost more than 2.75 million jobs, or about 92,000 jobs per month on average. In the 52 months between August 2003 and December 2007, more than eight million jobs were added. Through the first three months of 2008, more than 230,000 jobs have been lost as national employment has fallen.

**Michigan Non-Farm Employment**

Despite the growth in national employment through 2007, conditions in Michigan remained bleak and job losses continued to mount. Employment in Michigan peaked in June 2000—a full eight months before the national peak in February 2001—and then dropped steadily until July 2003, resulting in a loss of more than 306,000 jobs (a 6.5% decline). During the following period (July 2003 through October 2005), employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses; the total job loss over this 27-month period was about 4,400. During the following 29-month period (October 2005 through March 2008) an additional 164,000 jobs have been lost. Overall, Michigan non-farm employment has fallen 8.5% since the June 2000 peak.

**U.S. and Michigan Employment**

Figure 2 shows the percentage change in employment over the past year for all non-farm workers and several important sectors of the economy for both the U.S. and Michigan. Although the U.S. gained more than 480,000 jobs over this period, employment in Michigan fell by more than 72,000 jobs.



**U.S. Employment**

From March 2007 through March 2008, the U.S. job gains in the wholesale trade and service sectors more than offset declines in all other sectors. The service sector, which grew by more than one million workers, experienced employment growth of

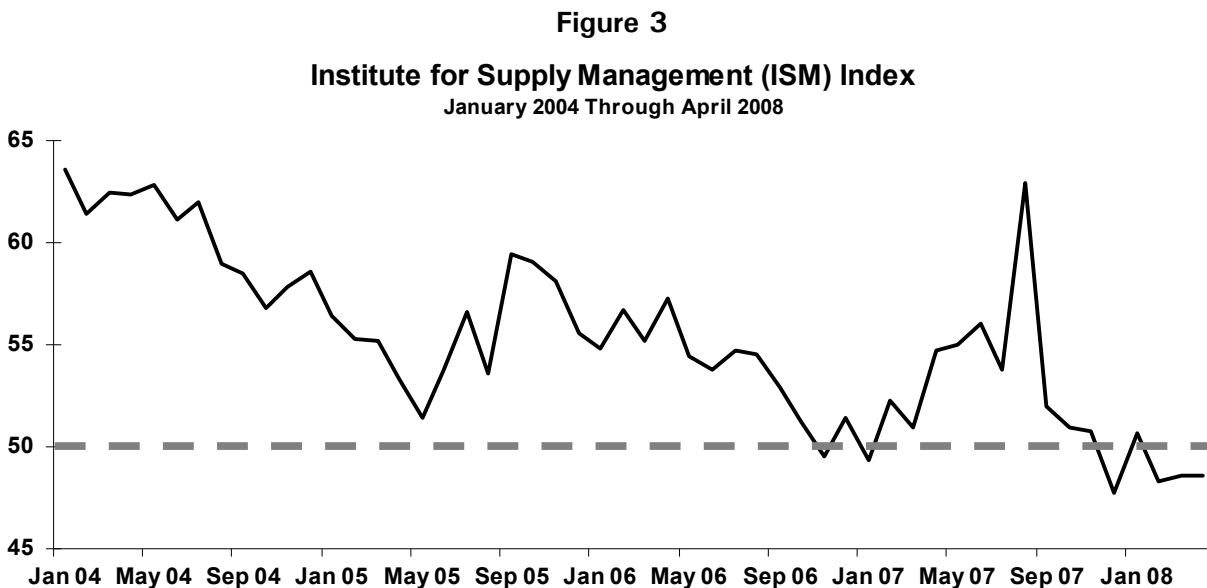
1.9% while the construction sector lost over 370,000 jobs (a 5.1% decline) and manufacturing employment fell by more than 310,000 (a 2.3% decline).

**Michigan Employment**

As in the U.S. economy, job losses in Michigan over the past year were concentrated in the manufacturing and construction sectors. Over the past 12 months, almost 48,000 manufacturing jobs and more than 12,000 construction jobs have been lost in Michigan—Michigan’s manufacturing employment losses have accounted for more than 15% of the total nationwide decline in manufacturing employment.

**Institute for Supply Management (ISM) Index**

Figure 3 shows the ISM Index, a composite index of five economic indicators used to measure economic vitality, beginning with January 2004. An index number above 50 indicates a growing manufacturing sector; a number below 50 suggests the manufacturing sector is contracting.



The ISM index began January 2004 at a 20-year high of 63.3. This was followed by a 16-month slide that saw the index decline to 51.4 in May 2006. The index rose in three of the next four months, reaching a level of 59.4 in September 2005 before beginning a four-month decline to 54.8 in January 2006. With the exception of a brief increase in April, the index generally drifted downward in 2006—dipping below 50 in November (to 49.5), but ending 2006 with a slight upturn to 51.4. The index continued rising through August of 2007, at which point it began a general decline through April 2008. For the past two months, the ISM has remained at a level of 48.6.

**Index of Consumer Sentiment**

Consumer sentiment can be a strong motivator of personal consumption expenditures, which comprise almost two-thirds of GDP. Figure 4 shows the University of Michigan Index of Consumer Sentiment beginning with January 2004.

Although the Index of Consumer Sentiment began January 2004 at a level over 100 for the first time in more than three years, it dropped in February and remained in the low- to mid-90s before ending 2004 with two consecutive monthly increases. Following this brief uptick, consumer sentiment declined in each of the next five months due, in part, to worries about high gas prices and concerns that the U.S. economy may have been weakening.

**Figure 4**  
**University of Michigan Index of Consumer Sentiment**  
 January 2004 Through April 2008



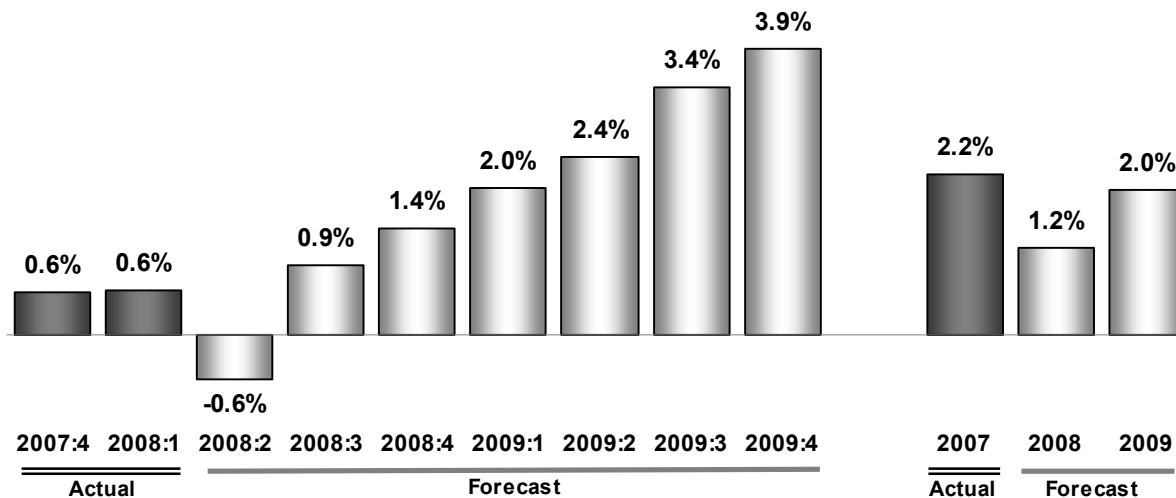
In the wake of the 2005 hurricanes, the index plunged to 72.4 in October before rising to a level of 91.5 in December. In six of the first eight months of 2006, the index dropped as consumers expressed concerns over rising gas prices and interest rates. After reaching a three-year low of 82.0 in August, the index concluded 2006 at a level of 91.7. After a January 2007 index increase, renewed concerns over gas and housing prices have led to a sharp decline in consumer confidence. As of April 2008, consumer confidence has fallen in 12 of the past 16 months, and is at its lowest level since March 1982—a span of 26 years.

**Real GDP**

**Figure 5** shows the actual and estimated percent changes in U.S. Real GDP for CY 2007, CY 2008, and CY 2009. Real GDP growth, which was 2.2% in CY 2007, is forecast to be just 1.2% in CY 2008 before increasing 2.0% in CY 2009.

After rising 0.6% during the fourth quarter of 2007, real GDP growth remained at 0.6% in the first quarter of 2008. It is anticipated that GDP growth will be dampened by a slowdown in gross private domestic investment, which is forecast to decrease 5.7% in CY 2008 before growing 3.9% in CY 2009. Non-residential investment, which is expected to grow just 2.8% in CY 2008, will not likely be sufficient to offset the projected 22.8% decline in residential construction.

**Figure 5**  
**Percent Change in U.S. Real GDP**

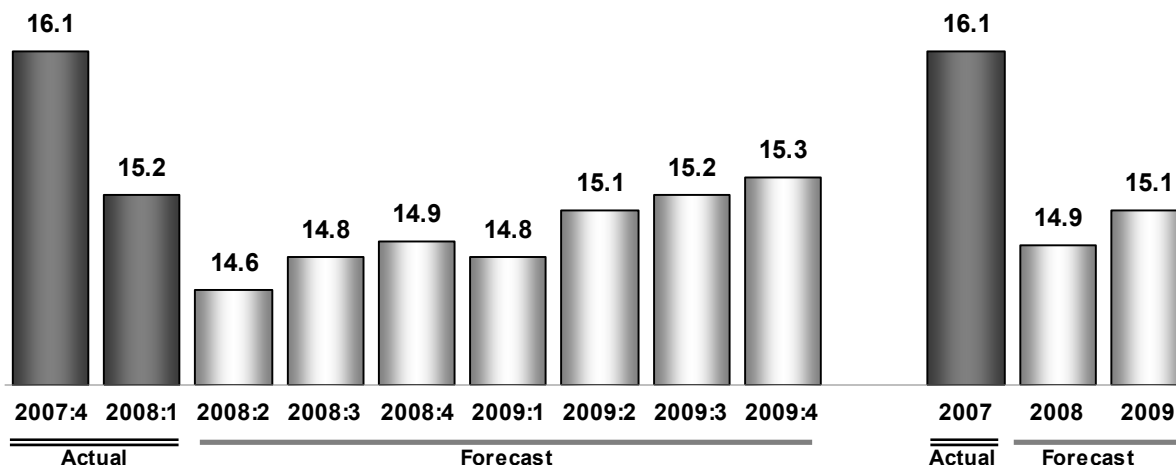


During CY 2007, personal consumption advanced 2.2%. As the economy continues to slow, growth in personal consumption is predicted to increase just 1.3% in CY 2008 and 0.9% in CY 2009.

**Light Vehicle Sales**

**Figure 6** shows actual light vehicle sales for CY 2007 and estimated light vehicle sales for CY 2008 and CY 2009.

**Figure 6**  
**Light Vehicle Sales**  
(Millions of Units)



Sales of light motor vehicles in CY 2007 totaled 16.1 million units—well below the CY 2000 record level of 17.2 million units. Light vehicle sales are anticipated to be 14.9 million units in CY 2008 and 15.1 million units in CY 2009.

Although sales have shifted away from cars and toward light trucks over the past two years, the share of light trucks is expected to diminish over the next two years as gasoline prices remain above historic levels. Light truck sales, which accounted for 52.9% of total vehicle sales in CY 2007, are expected to decline to 49.2% in CY 2008 and increase slightly to 50.0% in CY 2009.

The import share of total light vehicle sales was 23.3% in CY 2007; it is forecast to be 25.9% in CY 2008 and 26.5% in CY 2009.

## **Inflation**

### ***U.S. Inflation***

Input prices (e.g., wages and import prices) have remained moderate and have held down production costs. Crude oil and natural gas prices, which are expected to remain above historical norms, could impact several sectors of the economy.

Benchmark West Texas intermediate crude began 2007 near \$56 per barrel and continued to rise throughout the year. The January 2008 oil price of over \$93 per barrel has increased to almost \$112 per barrel in April. Because of continued concern over the stability of the oil supply and increased world demand, it is anticipated that oil prices will remain at about this level throughout the forecast period—averaging about \$111 per barrel in CY 2008 and \$107 in CY 2009.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index-Urban (CPI-U), was 2.9% in CY 2007; in response to higher energy prices, it is expected to rise to 4.1% in CY 2008 before dropping back to 3.0% in CY 2009.

### ***Michigan Inflation***

The cost of living in Michigan is measured by the Detroit Consumer Price Index for Urban Consumers (Detroit CPI-U). Michigan's average inflation rate was 1.9% in CY 2007, and should remain relatively low throughout the forecast period. The Detroit CPI-U is expected to be 3.0% in CY 2008 and 2.5% in CY 2009.

## **Income Growth**

**Figure 7** shows personal and real disposable income growth for the U.S. and for Michigan.

### ***U.S. Income Growth***

Total U.S. personal income grew 6.2% in CY 2007. Personal income growth is forecast to increase 4.6% in CY 2008 and 4.0% in CY 2009.

Slightly higher inflation contributed to a 3.1% growth of U.S. real disposable income in CY 2007. It is forecast that U.S. real disposable income will grow 2.1% in CY 2008 and 1.2% in CY 2009.

### ***Michigan Income Growth***

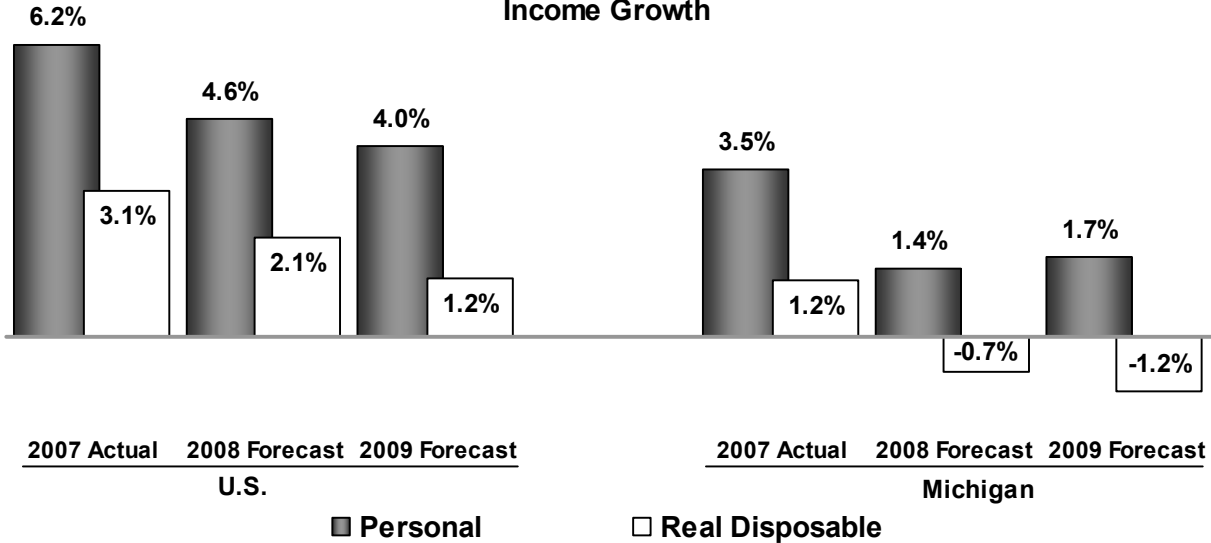
Michigan's total state personal income growth was 3.5% in CY 2007. Michigan personal income is forecast to increase just 1.4% in CY 2008 and 1.7% in CY 2009.



Michigan real disposable income rose 1.2% in CY 2007; it is forecast to fall 0.7% in CY 2008 and 1.2% in CY 2009.

Figure 7

Income Growth



Employment

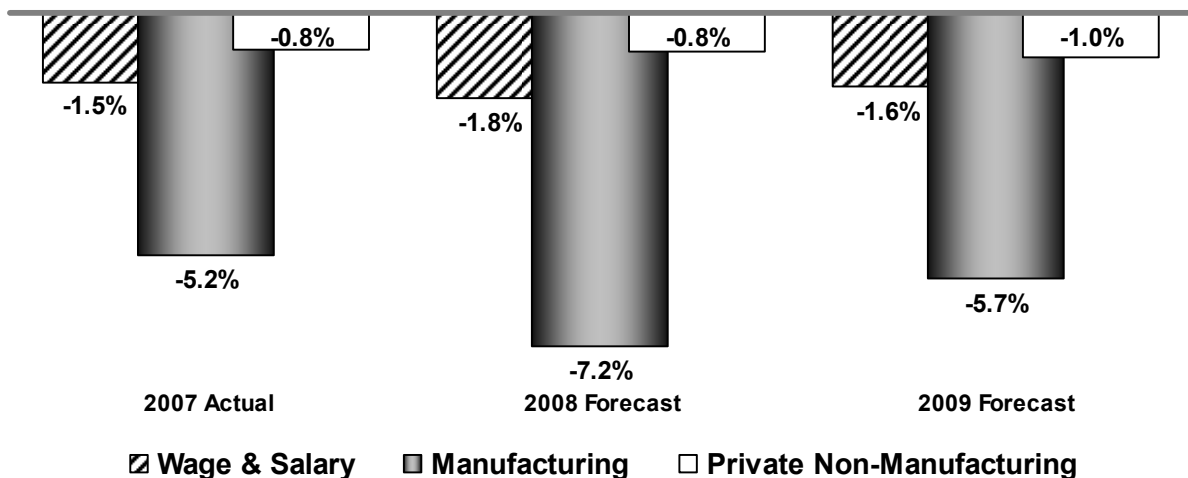
Figure 8 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

U.S. Employment

Nationally, total non-farm employment has posted average declines of 77,300 per month during the first three months of 2008. Total non-farm employment increased 1.1% in CY 2007; it is forecast to remain flat in CY 2008, and increase just 0.2% in CY 2009 as the economy slows.

Figure 8

Michigan Employment Growth



### ***Michigan Employment***

The Michigan economy has continued to endure a weak labor market. Wage and salary employment, which declined by about 66,000 workers in CY 2007, is expected to decline an additional 78,500 workers in CY 2008 and 66,100 workers in CY 2009. The forecast calls for continued quarterly job losses through the fourth quarter of CY 2009.

Michigan wage and salary employment fell 1.5% in CY 2007, and is forecast to fall 1.8% in CY 2008 and 1.6% in CY 2009. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 1.1%.

Michigan manufacturing employment dropped 5.2% in CY 2007, and is forecast to decrease 7.2% in CY 2008 and 5.7% in CY 2009. Although the most significant declines are concentrated in the motor vehicle industry, employment declines also appear throughout the entire manufacturing sector.

Michigan private non-manufacturing employment declined 0.8% in CY 2007; it is expected to decrease 0.8% in CY 2008 and 1.0% in CY 2009.

## **Unemployment**

### ***U.S. Unemployment***

Total non-farm employment increases in each of the 52 months leading to December 2007 had helped to hold down the unemployment rate. During this period, job growth averaged over 159,000 workers per month. During the first three months of 2008, however, job growth has slowed and turned negative.

The U.S. unemployment rate was 4.6% in CY 2007; it is forecast to rise to 5.3% in CY 2008 and 5.8% in CY 2009.

### ***Michigan Unemployment***

Employment in Michigan remains a major concern as employment growth has fallen during each of the past six years. Michigan's wage and salary employment is forecast to continue declining throughout 2008 and 2009, and, as a result, the unemployment rate is expected to remain relatively high through 2009 as the labor force declines and unemployment increases.

Michigan's unemployment rate was 7.2% in CY 2007; it is expected to rise to 7.6% in CY 2008 and 8.4% in CY 2009.

**Table 4**  
**ECONOMIC FORECAST VARIABLES**

	<u>Calendar 2006 Actual</u>	<u>Calendar 2007 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2008 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2009 Estimated</u>	<u>% Change from Prior Year</u>
<b><u>United States</u></b>							
Real Gross Domestic Product (Billions of 2000 dollars)	\$11,319.4	\$11,566.8	2.2%	\$11,703.5	1.2%	\$11,933.3	2.0%
Implicit Price Deflator GDP (2000 = 100)	116.6	119.6	2.6%	122.3	2.2%	125.4	2.6%
Consumer Price Index (1982-84 = 100)	201.6	207.4	2.9%	215.9	4.1%	222.4	3.0%
Personal Consumption Deflator (2000 = 100)	114.7	117.6	2.5%	121.5	3.3%	124.4	2.3%
3-month Treasury Bills Interest Rate (Percent)	4.7%	4.4%		1.6%		1.8%	
Aaa Corporate Bonds Interest Rate (Percent)	5.6%	5.6%		5.2%		4.7%	
Unemployment Rate—Civilian (Percent)	4.6%	4.6%		5.3%		5.8%	
Light Vehicle Sales (Millions of units)	16.5	16.1	-2.4%	14.9	-7.6%	15.1	1.5%
Passenger Car Sales (Millions of units)	7.8	7.6	-2.3%	7.6	-0.3%	7.6	-0.3%
Light Truck Sales (Millions of units)	8.7	8.5	-2.4%	7.3	-14.0%	7.5	3.1%
Import Share of Light Vehicles (Percent)	22.4%	23.3%		25.9%		26.5%	
Personal Income (Billions of current dollars)	\$10,983.4	\$11,659.5	6.2%	\$12,195.4	4.6%	\$12,687.5	4.0%
Real Disposable Income (Billions of 2000 dollars)	\$8,397.0	\$8,654.6	3.1%	\$8,836.4	2.1%	\$8,944.4	1.2%
<b><u>Michigan</u></b>							
Wage and Salary Employment (Thousands)	4,327.4	4,261.4	-1.5%	4,182.9	-1.8%	4,116.8	-1.6%
Unemployment Rate (Percent)	6.9%	7.2%		7.6%		8.4%	
Personal Income (Millions of current dollars)	\$341,337	\$353,377	3.5%	\$358,485	1.4%	\$364,449	1.7%
Real Personal Income (Millions of 1982-84 dollars)	\$173,620	\$176,468	1.6%	\$173,832	-1.5%	\$172,377	-0.8%
Real Disposable Income (Millions of 1982-84 dollars)	\$153,265	\$155,101	1.2%	\$153,953	-0.7%	\$152,176	-1.2%
Wage and Salary Income (Millions of current dollars)	\$185,169	\$189,019	2.1%	\$188,726	-0.2%	\$189,484	0.4%
Detroit Consumer Price Index (1982-84 = 100)	196.6	200.3	1.9%	206.2	3.0%	211.4	2.5%
Detroit CPI (FY) (1982-84 = 100)	195.9	199.0	1.6%	204.6	2.8%	210.3	2.8%





# RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is made. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding energy prices, consumer and household finances, the housing market, and Michigan's motor vehicle industry.

## Energy Prices

The average West Texas Intermediate crude oil price was \$98 per barrel in the first quarter of 2008—a \$40 increase from the year-ago quarter. More recently, oil prices have hovered around \$110 per barrel and gasoline prices have exceeded \$3.50 per gallon in many regions. Oil prices are forecast to average \$111 per barrel throughout CY 2008 and decline slightly to \$107 per barrel in CY 2009.

Energy prices affect the economy primarily through disposable income allocation—because more income is used for energy-related goods, less is used for all other items. Energy prices could fall below the estimated level and cause economic growth to be stronger than anticipated; if they are higher than estimated, the result will be in economic growth below the forecasted level.

## Consumer and Household Finances

Declining or weakened home values, high debt levels, high energy and food prices, and national labor market weakness will keep consumption low.

National real disposable income growth is forecast to slow from 3.1% in CY 2007 to 2.1% in CY 2008 and 1.2% in CY 2009. Consumption is forecast to grow 1.3% in CY 2008 and 0.9% in CY 2009.

## Housing Market

Low mortgage rates, increasingly more creative financing, and speculative buying helped support a strong housing market up through the middle of CY 2006, and the vibrant housing market supported strong consumption growth and allowed for a low savings rate.

National income growth was supplemented with mortgage equity withdrawals, which allowed consumers to spend more than income alone would allow. As the housing market contracted, consumption growth slowed as mortgage equity withdrawals ended and consumers try to rebuild their savings.

New and existing home sales decreased 15% in CY 2007, and the housing market is expected to continue contracting. Housing starts are forecast to decline 33% in CY 2008 before increasing 13% in CY 2009. Consumer spending is expected to slow as the housing market cools in home sales and in refinancing activity.

### **Michigan's Motor Vehicle Industry**

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light vehicle sales were 16.1 million units in CY 2007 and are forecast to be 14.9 million in CY 2008 before increasing to 15.1 million in CY 2009. The import share of light vehicles was 23.3% in CY 2007; it is forecast to be 25.9% in CY 2008 and 26.5% in CY 2009.

The market share of the big three auto manufacturers declined to an all-time low of 50.4% in CY 2007. Imports and vehicles with a foreign nameplate that are made in the U.S. (transplants) have steadily gained in market share over the past several years. The extent to which the domestic nameplates can hold on to market share will have a direct impact on Michigan's economy. This forecast assumes that the big three market share will decline 2.6% in CY 2008 and CY 2009.

After a decline of 7.7% in CY 2007, Michigan transportation employment is forecast to decline 14.0% in CY 2008 and 10.7% in CY 2009. If the Michigan-produced market share of motor vehicles is more than anticipated, Michigan's economy and revenue growth will be higher than estimated.



# GF/GP AND SAF REVENUE

Revenue estimates are based on economic performance of the components of national and state economies discussed in the previous section. This section explains May 2008 House Fiscal Agency revenue estimates for GF/GP (**Table 5**) and SAF (**Table 6**) revenue by major revenue sources. It provides revenue estimates, year-end balances for the major funds and the budget stabilization fund, and the state revenue limit calculation.

## GF/GP Revenue by Source

### ***GF/GP Baseline Tax Revenue***

Baseline GF/GP tax revenue totaled \$7,933.1 million in FY 2006-07; it is estimated to be \$7,785.2 million (decrease of \$147.9 million, or 1.9%) in FY 2007-08, and \$7,751.3 million (decrease of \$33.9 million, or 0.4%) in FY 2008-09.

### ***Total GF/GP Baseline Revenue***

Total baseline GF/GP revenue includes baseline tax revenue and non-tax revenue such as federal aid, licenses and permits, and transfers from the liquor purchase revolving fund. Total GF/GP baseline revenue was \$8,279.8 million in FY 2006-07; it is estimated to decrease to \$8,118.5 million in FY 2007-08, and \$8,080.6 million in FY 2008-09.

### ***Net GF/GP Revenue***

Net GF/GP revenue takes tax changes into account and is available for expenditure each year. Net GF/GP revenue was \$8,317.7 million in FY 2006-07; it is forecast to be \$9,204.1 million (increase of \$886.4 million, or 10.7%) in FY 2007-08, and \$8,897.0 million (decrease of \$307.1 million, or 3.3%) in FY 2008-09.

## SAF Revenue by Source

### ***Total SAF Baseline Revenue***

Total SAF baseline revenue was \$11,149.6 million in FY 2006-07; it is forecast to be \$11,117.5 million (decrease of \$32.2 million, or 0.3%) in FY 2007-08, and \$11,115.3 million in FY 2008-09.

**Net SAF Revenue**

Net SAF revenue takes tax changes into account. Net SAF revenue totaled \$11,153.1 million in FY 2006-07; it is forecast to be \$11,376.6 million (increase of \$223.4 million, or 2.0%) in FY 2007-08, and \$11,733.4 million (increase of \$356.9 million, or 3.1%) in FY 2008-09.

**Table 5**  
**GF/GP REVENUE ESTIMATES**  
(Millions of Dollars)

	<u>Final</u> <u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>Change From FY 2007-08</u> <u>to FY 2008-09</u>	
Personal Income Taxes	\$4,330.7	\$4,303.0	\$4,236.7	-1.5%	(\$66.3)
Sales and Use Taxes	1,006.2	933.7	959.6	2.8%	25.8
MBT/SBT and Insurance Taxes	2,039.9	1,992.4	2,005.0	0.6%	12.6
Other Taxes	<u>556.2</u>	<u>556.1</u>	<u>550.1</u>	-1.1%	<u>(6.0)</u>
<b>GF/GP Baseline Tax Revenue</b>	<b>\$7,933.1</b>	<b>\$7,785.2</b>	<b>\$7,751.3</b>	<b>-0.4%</b>	<b>(\$33.9)</b>
Non-Tax Revenue	<u>346.7</u>	<u>333.3</u>	<u>329.3</u>	-1.2%	<u>(4.0)</u>
<b>Total GF/GP Baseline Revenue</b>	<b>\$8,279.8</b>	<b>\$8,118.5</b>	<b>\$8,080.6</b>	<b>-0.5%</b>	<b>(\$37.9)</b>
Adjustments to Baseline	<u>37.9</u>	<u>1,085.6</u>	<u>816.4</u>	24.8%	<u>(269.2)</u>
<b>Actual GF/GP Revenue</b>	<b>\$8,317.7</b>	<b>\$9,204.1</b>	<b>\$8,897.0</b>	<b>-3.3%</b>	<b>(\$307.1)</b>

*NOTE: Numbers may not add due to rounding.*

**Table 6**  
**SCHOOL AID FUND REVENUE ESTIMATES**  
(Millions of Dollars)

	<u>Final</u> <u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>Change From FY 2007-08</u> <u>to FY 2008-09</u>	
Sales and Use Tax	\$5,230.6	\$5,224.1	\$5,241.7	0.3%	17.7
Income Tax Earmark	2,110.2	2,123.5	2,123.8	0.0%	0.3
State Education Tax	2,091.2	2,112.1	2,112.1	0.0%	0.0
Lottery/Casino Wagering	855.6	850.5	853.1	0.3%	2.7
Tobacco Taxes	451.4	436.6	427.4	-2.1%	(9.2)
Real Estate Transfer Tax	237.5	194.0	180.0	-7.2%	(14.0)
Other Taxes	<u>173.2</u>	<u>176.7</u>	<u>177.1</u>	0.2%	<u>0.4</u>
<b>Baseline SAF Revenue</b>	<b>\$11,149.6</b>	<b>\$11,117.5</b>	<b>\$11,115.3</b>	<b>0.0%</b>	<b>(\$2.2)</b>
Adjustments to Baseline	<u>3.5</u>	<u>259.1</u>	<u>618.1</u>	138.6%	<u>359.0</u>
<b>Actual SAF Revenue</b>	<b>\$11,153.1</b>	<b>\$11,376.6</b>	<b>\$11,733.4</b>	<b>3.1%</b>	<b>\$356.9</b>

*NOTE: Numbers may not add due to rounding.*



## HFA Estimates of Year-End Balances

Table 7 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF.

Fiscal Year 2007-08 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2005-06 and FY 2006-07 figures are included.

Budget Stabilization Fund estimates are based on current balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

**Table 7**  
**HFA ESTIMATES OF YEAR-END BALANCES**  
(Millions of Dollars)

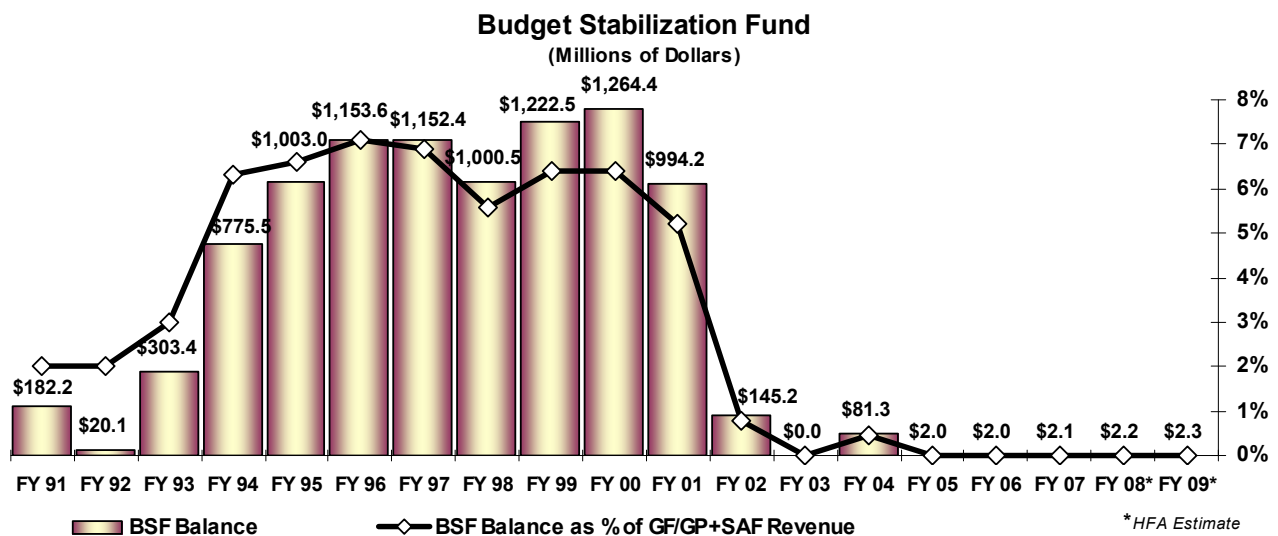
	Final FY 2005-06	Final FY 2006-07	Estimated FY 2007-08
General Fund/General Purpose	\$2.5	\$259.1	\$83.0
School Aid Fund	\$0.0	\$82.4	\$70.3
Budget Stabilization Fund	\$2.0	\$2.1	\$2.2

*School Aid Fund revenues are restricted; any year-end balance is carried forward to the subsequent year.*

## BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. Figure 9 shows the BSF fund balance and the BSF fund balance as a percent of total GF/GP and SAF revenue. Table 8 details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2008-09.

**Figure 9**



The BSF ending fund balance for FY 2006-07 was estimated at \$2.1 million. The BSF trigger calculation—based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue—indicates a \$149.5 million withdrawal for FY 2007-08 and a \$206.8 million withdrawal for FY 2008-09. If a withdrawal were to occur, this would reduce the estimated ending fund balance for FY 2007-08 to zero.

**Table 8**  
**BUDGET STABILIZATION FUND HISTORY**  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.7	303.4
1993-94	460.2	0.0	11.9	775.5
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.2	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98	0.0	212.0	60.1	1,000.5
1998-99	244.4	73.7	51.2	1,222.5
1999-2000	100.0	132.0	73.9	1,264.4
2000-01	0.0	337.0	66.7	994.2
2001-02	0.0	869.8	20.8	145.2
2002-03	0.0	156.1	10.9	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	81.3	2.0	2.0
2005-06	0.0	0.0	0.0	2.0
2006-07	0.0	0.0	0.1	2.1
2007-08*	0.0	0.0	0.1	2.2
2008-09*	0.0	0.0	0.1	2.3

\* HFA Estimates

NOTE: Numbers may not add due to rounding.

### **Compliance With the State Revenue Limit**

Article IX, Section 26 of the *Michigan Constitution*, which was approved by the vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

. . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax

and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund . . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

As shown in **Table 9**, **Figure 10**, and **Table 10**, the final FY 2006-07 revenue limit calculation showed state revenue collections at \$5.32 billion below the revenue limit. For FY 2007-08 and FY 2008-09, state revenue is estimated to be substantially below the revenue limit—by \$5.04 billion, and \$5.99 billion, respectively.

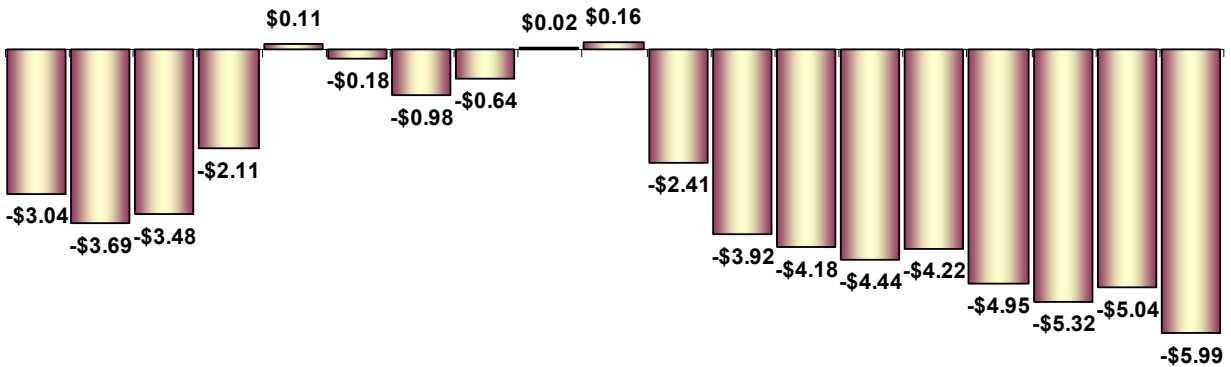
**Table 9**  
**COMPLIANCE WITH THE STATE REVENUE LIMIT**  
(Millions of Dollars)

<u>Revenue Limit Calculations</u>	<u>Final FY 2005-06</u>	<u>Final FY 2006-07</u>	<u>Estimated FY 2007-08</u>	<u>Estimated FY 2008-09</u>
Personal Income				
Calendar Year	<u>CY 2004</u>	<u>CY 2005</u>	<u>CY 2006</u>	<u>CY 2007</u>
Amount	\$324,134	\$331,304	\$341,075	\$353,377
X Limit Ratio	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>
<b>State Revenue Limit</b>	<b>\$30,760.3</b>	<b>\$31,440.7</b>	<b>\$32,368.0</b>	<b>\$33,535.4</b>
Total Revenue Subject to Revenue Limit	<u>25,814.1</u>	<u>26,118.4</u>	<u>27,333.0</u>	<u>27,547.4</u>
<b>Amount (Under) Over State Revenue Limit</b>	<b>(\$4,946.2)</b>	<b>(\$5,322.3)</b>	<b>(\$5,035.0)</b>	<b>(\$5,988.0)</b>

*NOTE: Numbers may not add due to rounding.*

**Figure 10**

**Constitutional Revenue Limit**  
Amount Under or Over Limit (Billions of Dollars)



\*HFA Estimate

**Table 10**  
**CONSTITUTIONAL REVENUE LIMIT HISTORY**  
**(Billions of Dollars)**

<u>Fiscal Year</u>	<u>(Under) or Over Limit</u>
1990-91	(\$3.04)
1991-92	(\$3.69)
1992-93	(\$3.48)
1993-94	(\$2.11)
1994-95	\$0.11
1995-96	(\$0.18)
1996-97	(\$0.98)
1997-98	(\$0.64)
1998-99	\$0.02
1999-2000	\$0.16
2000-01	(\$2.41)
2001-02	(\$3.92)
2002-03	(\$4.18)
2003-04	(\$4.44)
2004-05	(\$4.22)
2005-06*	(\$4.94)
2006-07	(\$5.32)
2007-08*	(\$5.04)
2008-09*	(\$5.99)

*\*HFA Estimate*





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