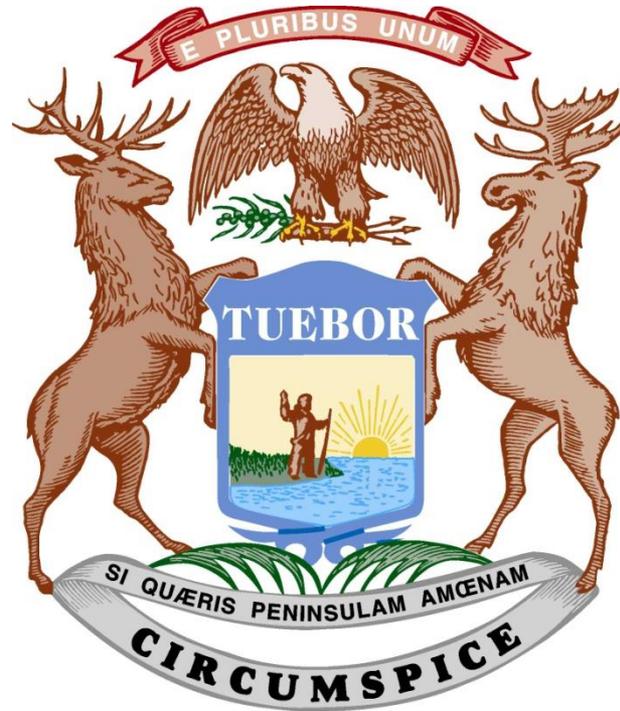


Economic and Revenue Forecasts

FY 2021 * FY 2022 * FY 2023



Consensus Revenue Estimating Conference
January 15, 2021

Outline

- **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

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.

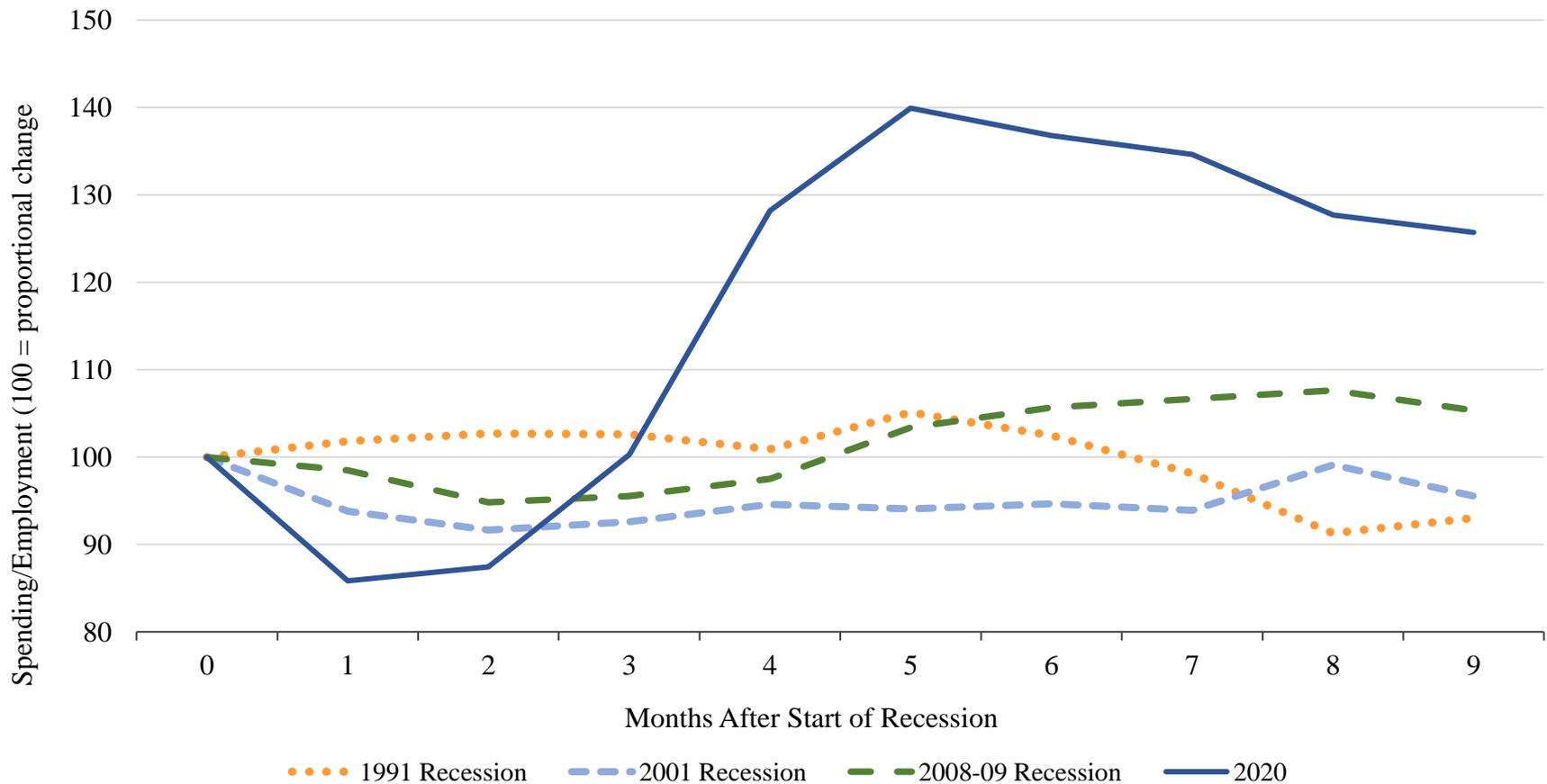
	Payroll Employment	Wage Income	Transfer Payments	Personal Income	Retail Sales	Personal Consumption	Existing Home Sales
2008-2009 Recession							
	-3.6%	-2.6%	16.3%	-0.8%	-6.9%	-0.7%	-0.2%
Current 2020 Recession							
	-22.4%	0.1%	67.2%	3.8%	9.2%	-0.5%	22.1%

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

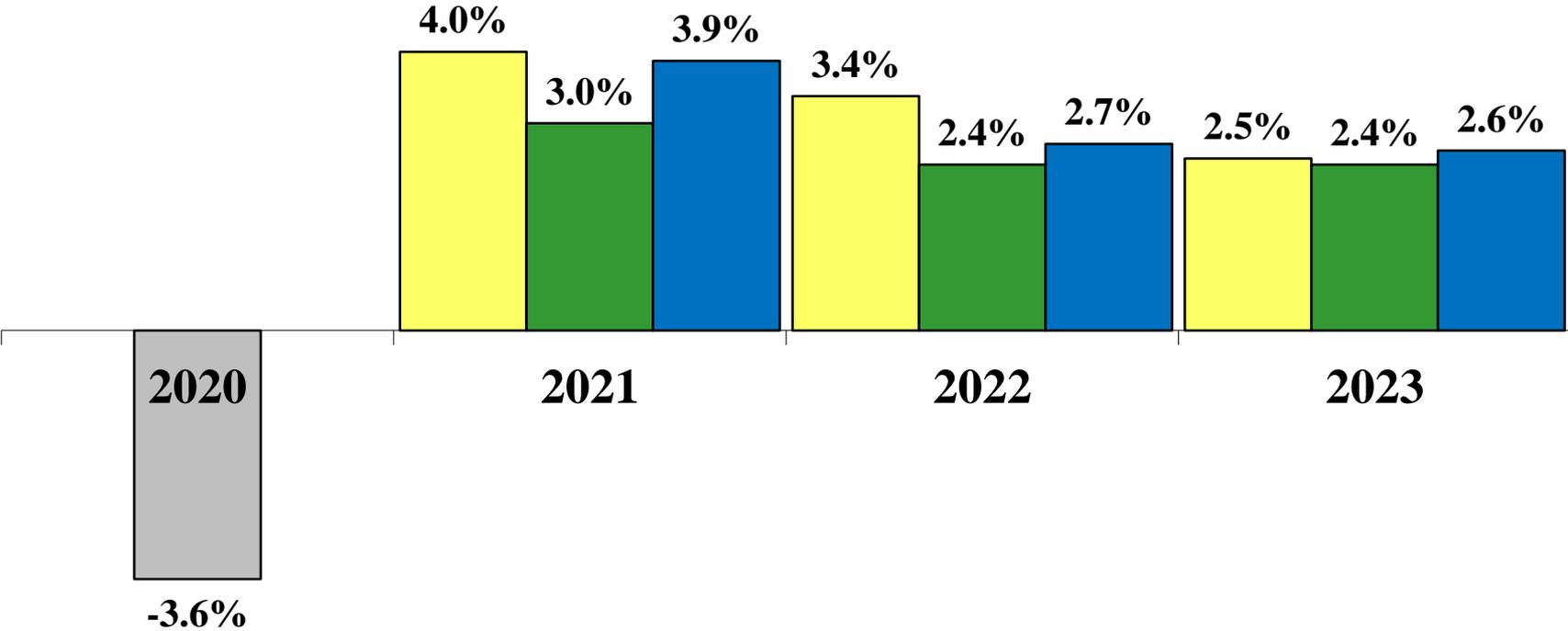
Employment and Spending in Michigan

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



GDP Forecasts

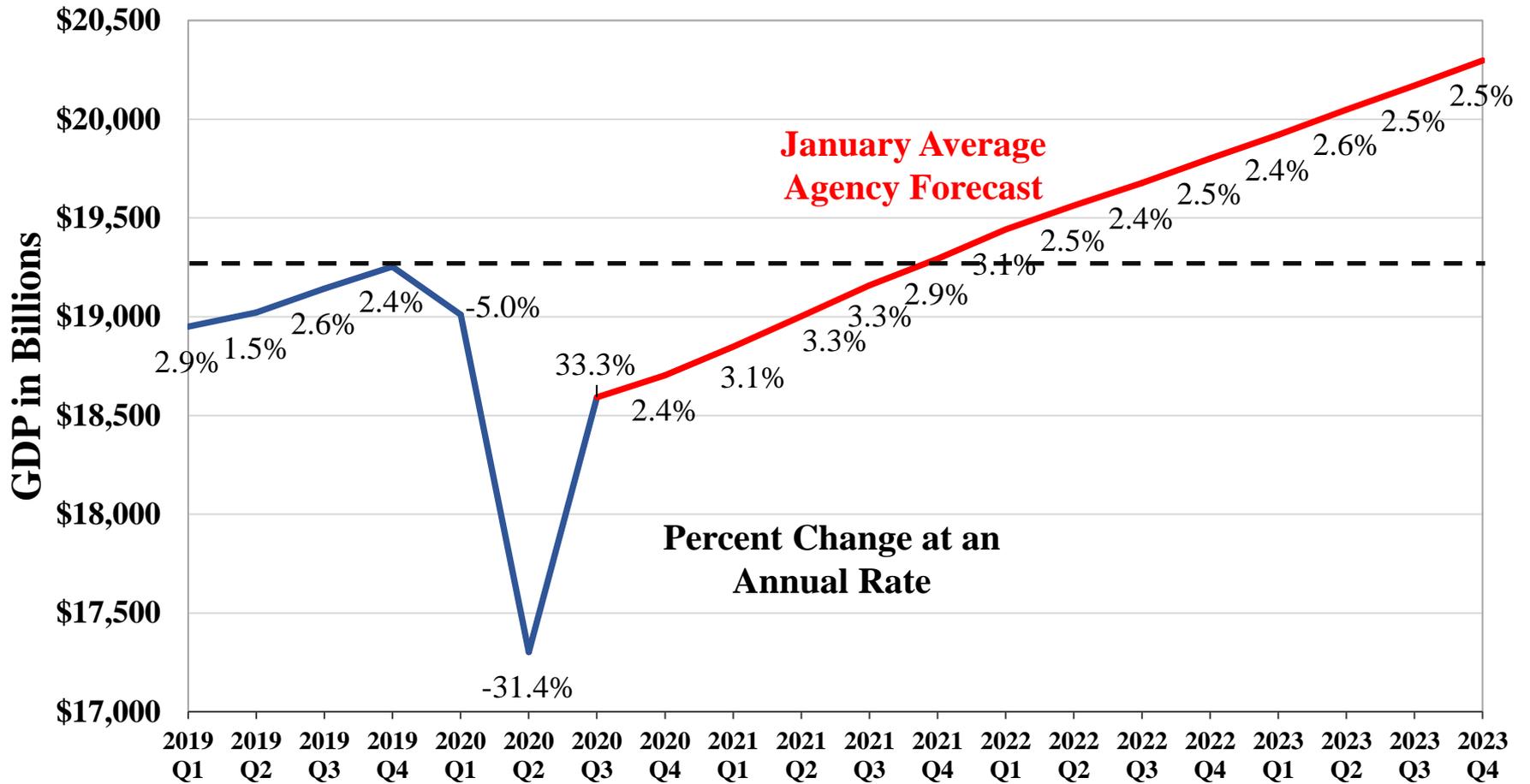
Annual Percent Change



Actual

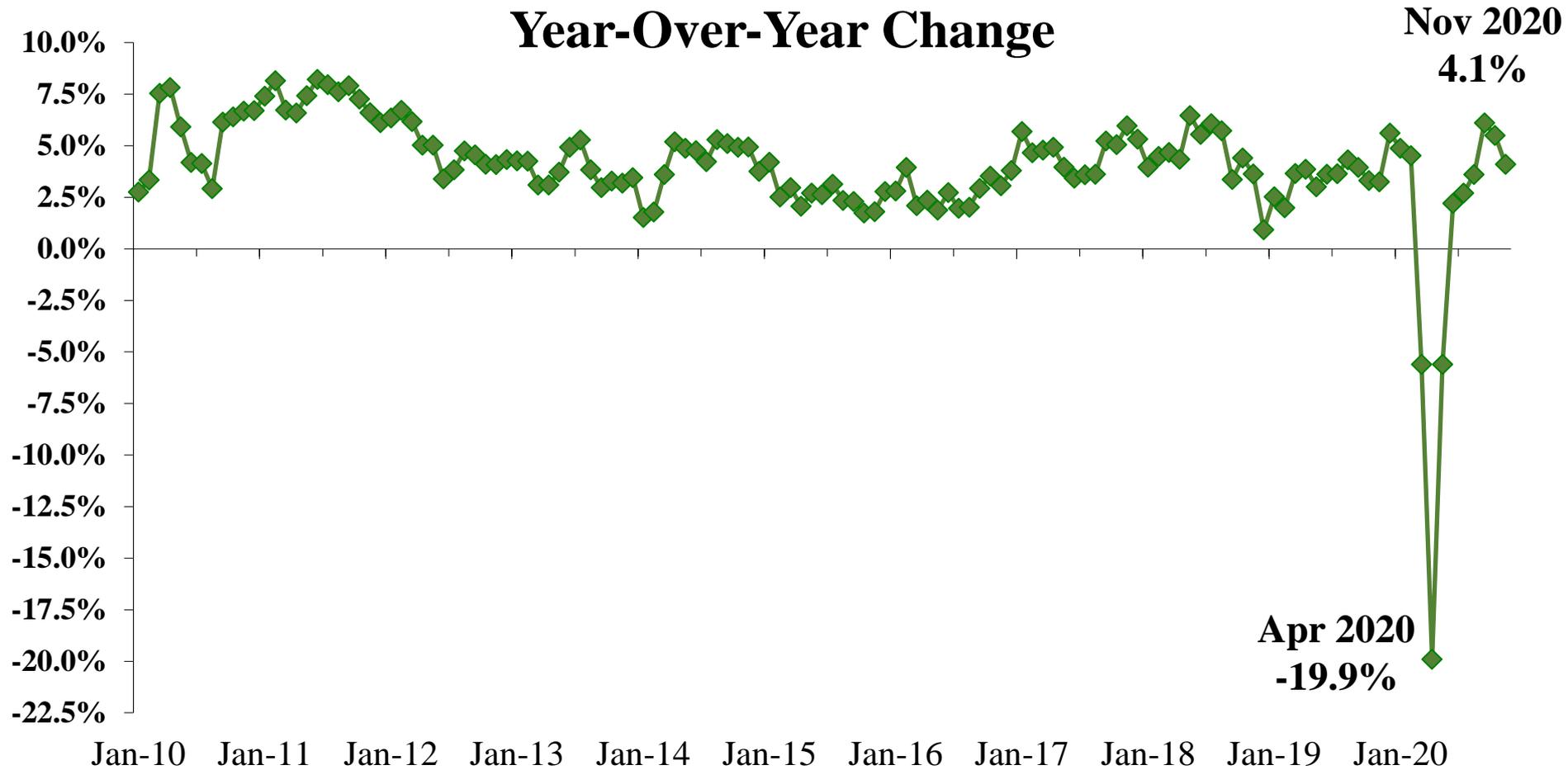
■ HFA ■ SFA ■ Admin.

2020 Recession – Real GDP Quarterly Forecast



Source: U.S. Bureau of Economic Analysis.

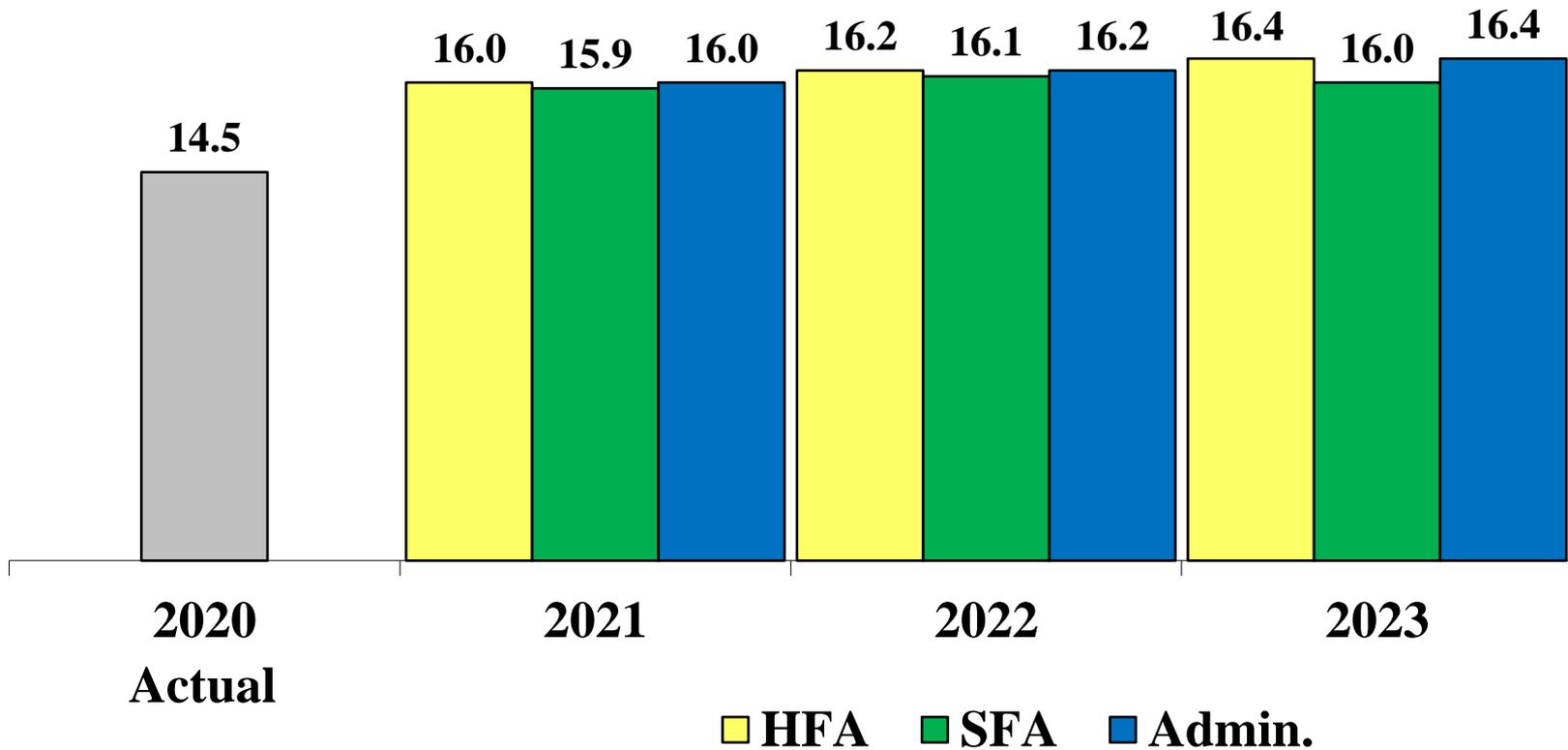
Retail Sales Rebound Quickly



Source: Bureau of the Census

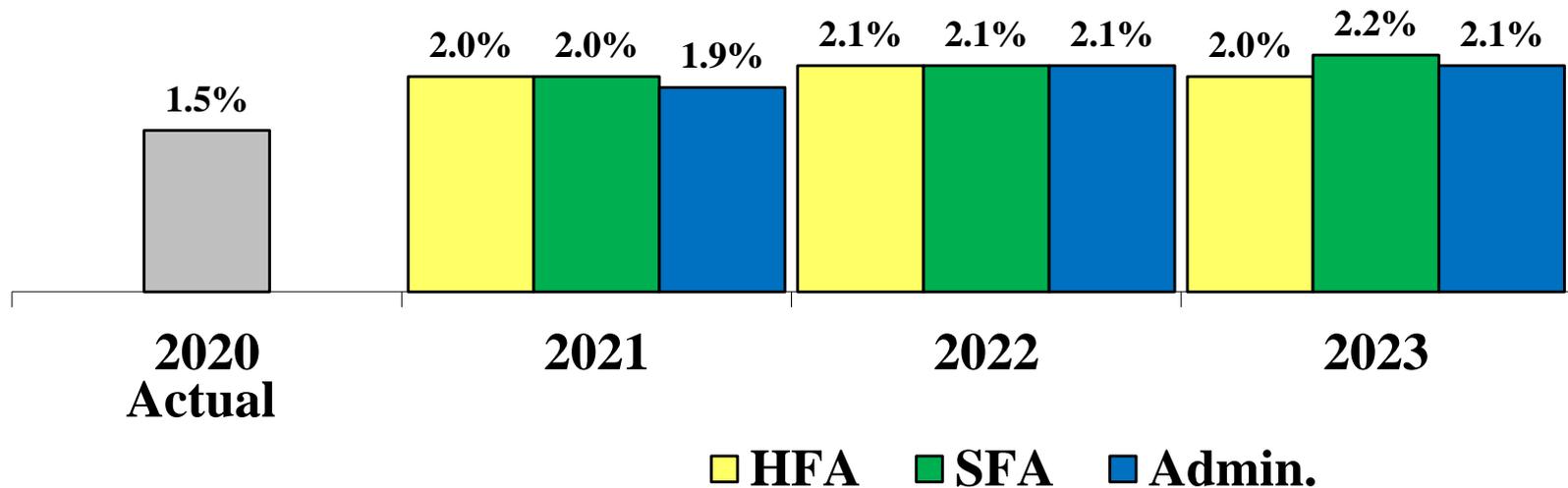
Light Vehicle Sales Forecast

Millions of Units

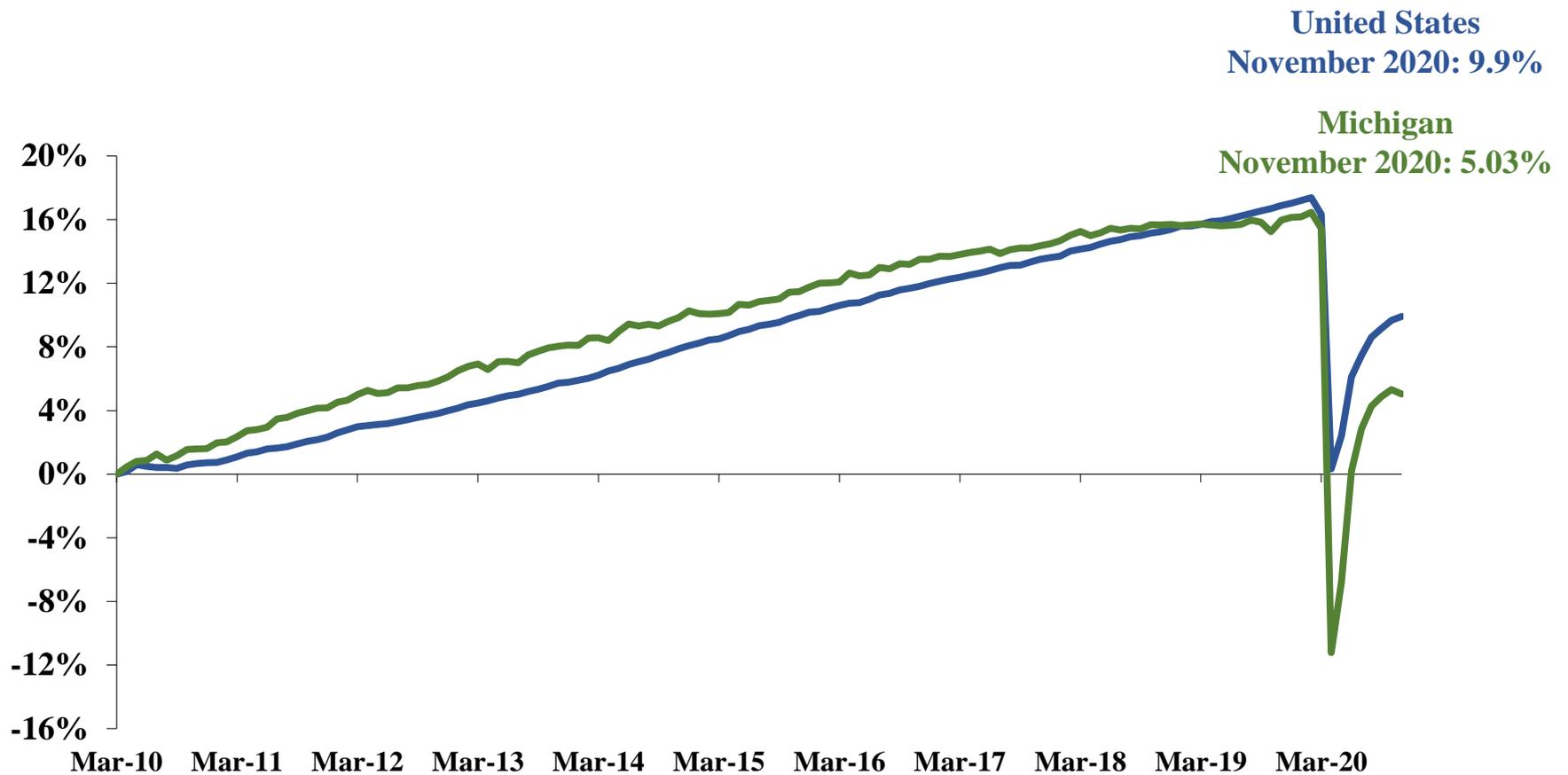


Inflation Expected to be Low In Near Term

Detroit Consumer Price Index Fiscal Year Growth



Michigan and US Cumulative Employment Growth

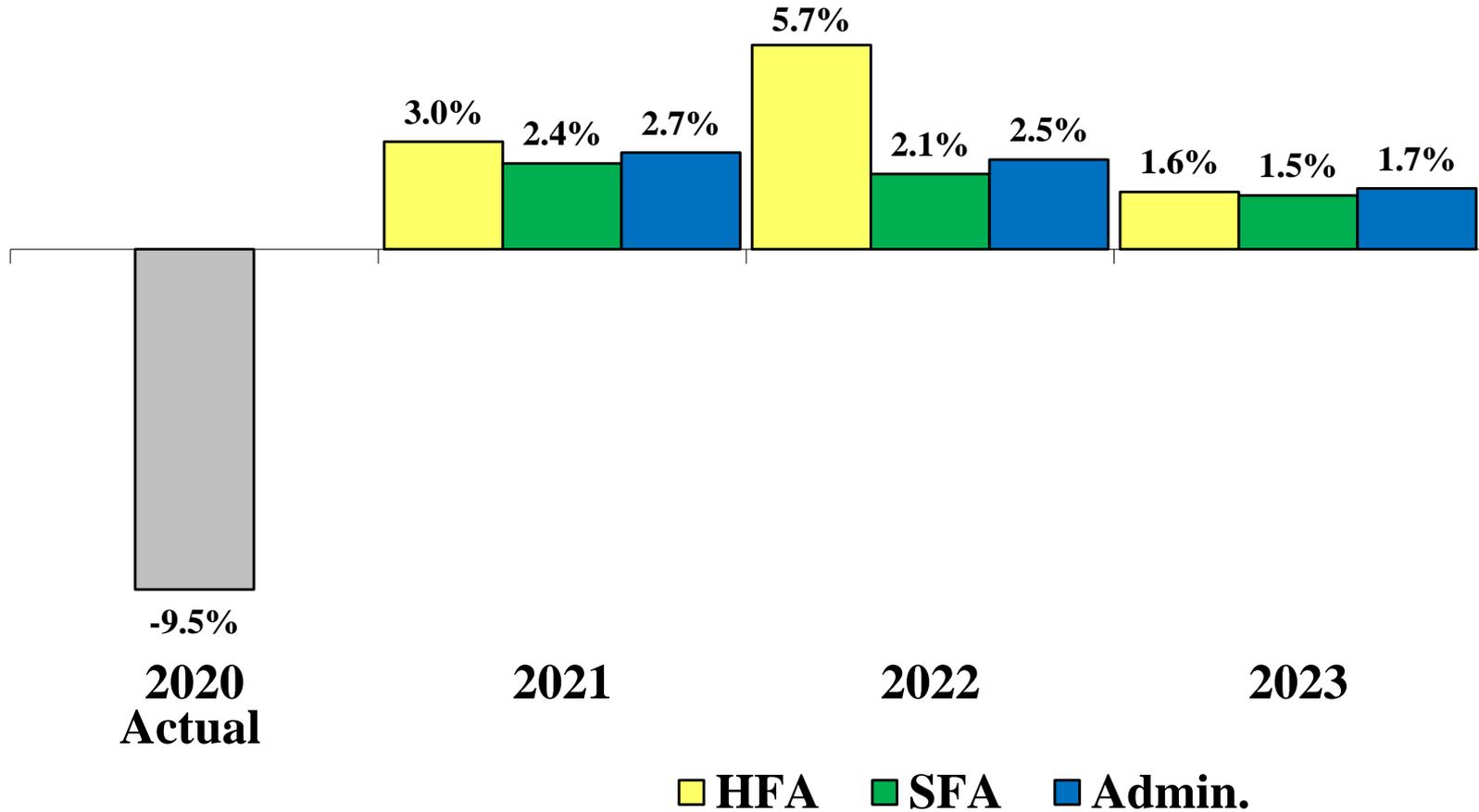


Cumulative growth, relative to March 2010.
Seasonally adjusted values

Sources: Bureau of Labor Statistics

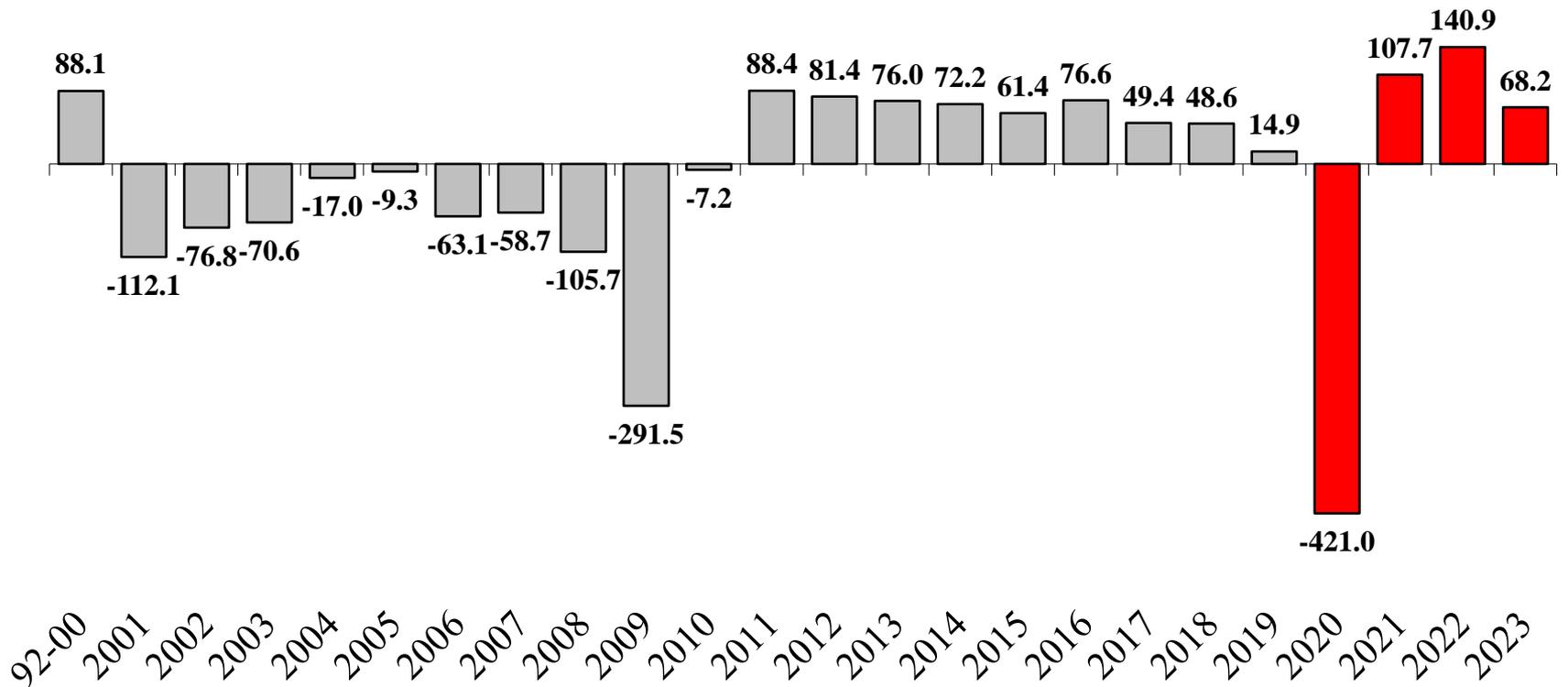
Michigan Wage and Salary Employment

Annual Percent Change



Michigan Job Gains Expected Through 2022

Change in Michigan Wage and Salary Employment Thousands



Average Agency Forecasts

FORECAST OF MAJOR TAXES

Preliminary FY 2020 Revenue

Revenue collections continued at stronger than expected levels

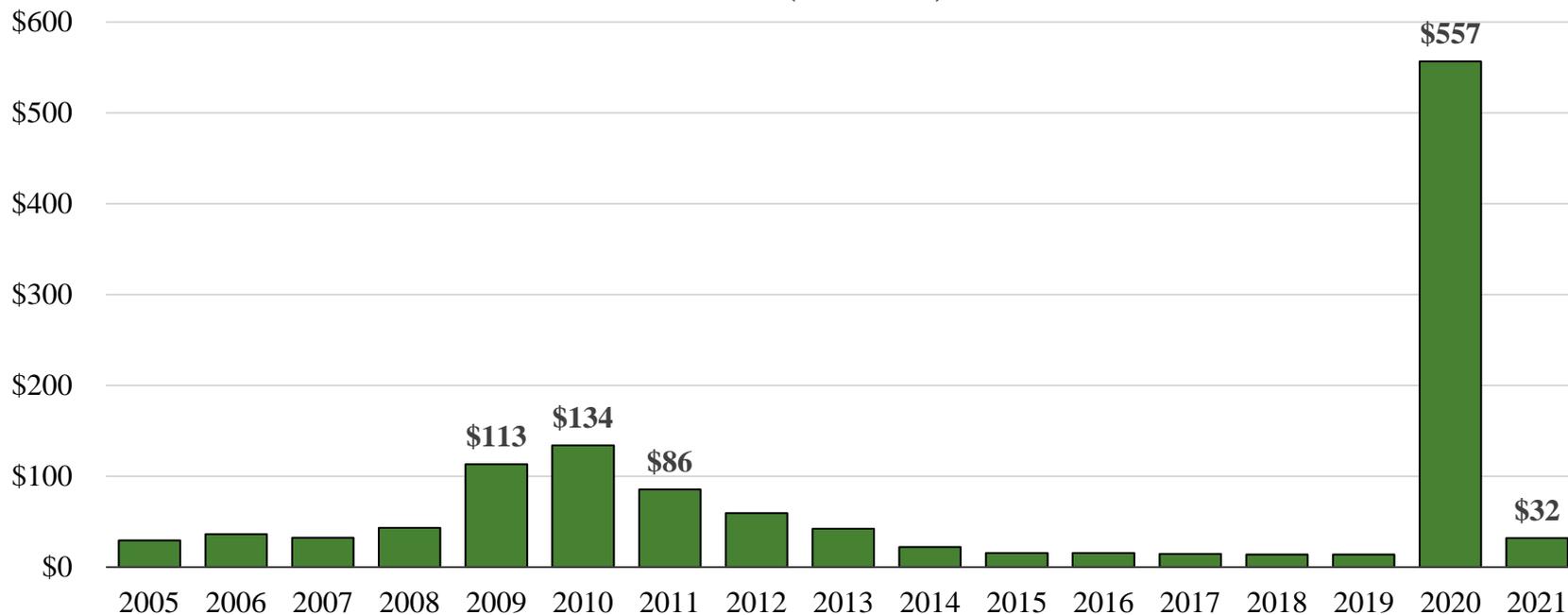
- Total FY 2020 GF-GP and SAF revenue was approximately \$762 million above the August forecast
- Income tax withholding continues to be strong
- Sales and Use tax were both higher than expected, boosted by consumer spending
 - Consumer spending, including shifts in types of purchases, increased collections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



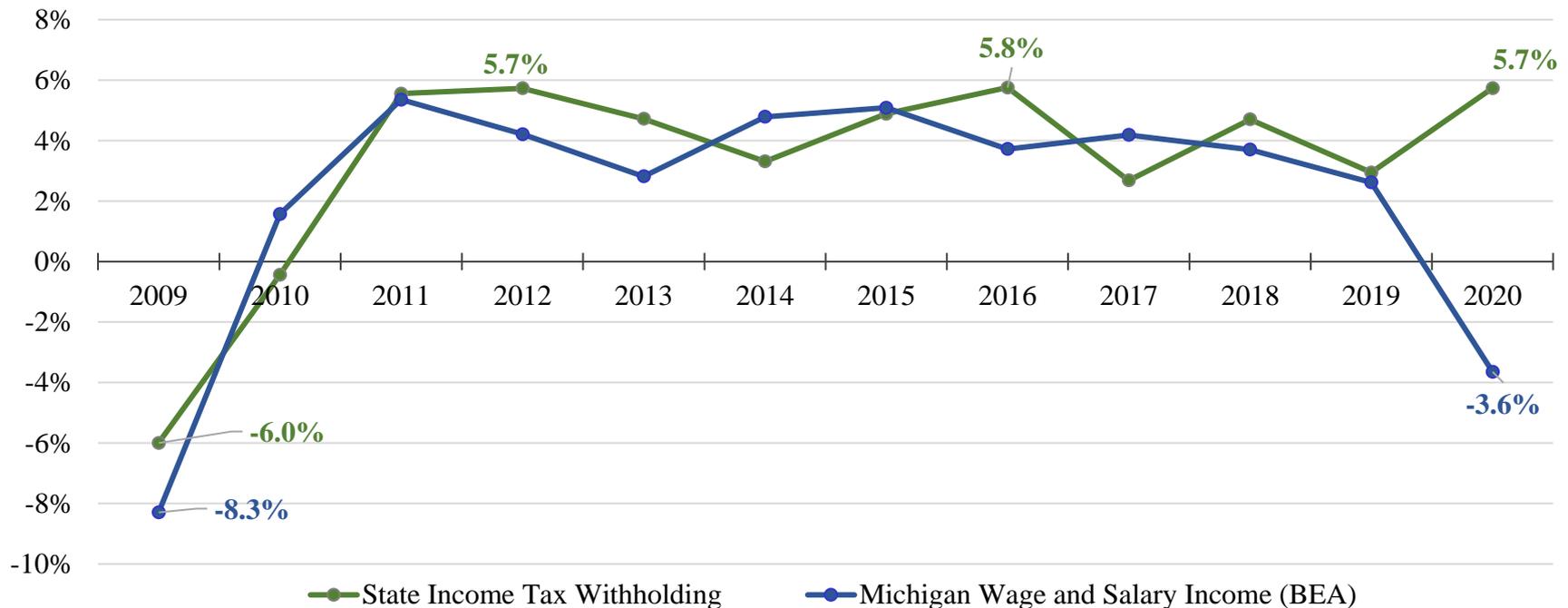
■ Withholding on UI

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

Withholding Nears Record Growth in FY 2020

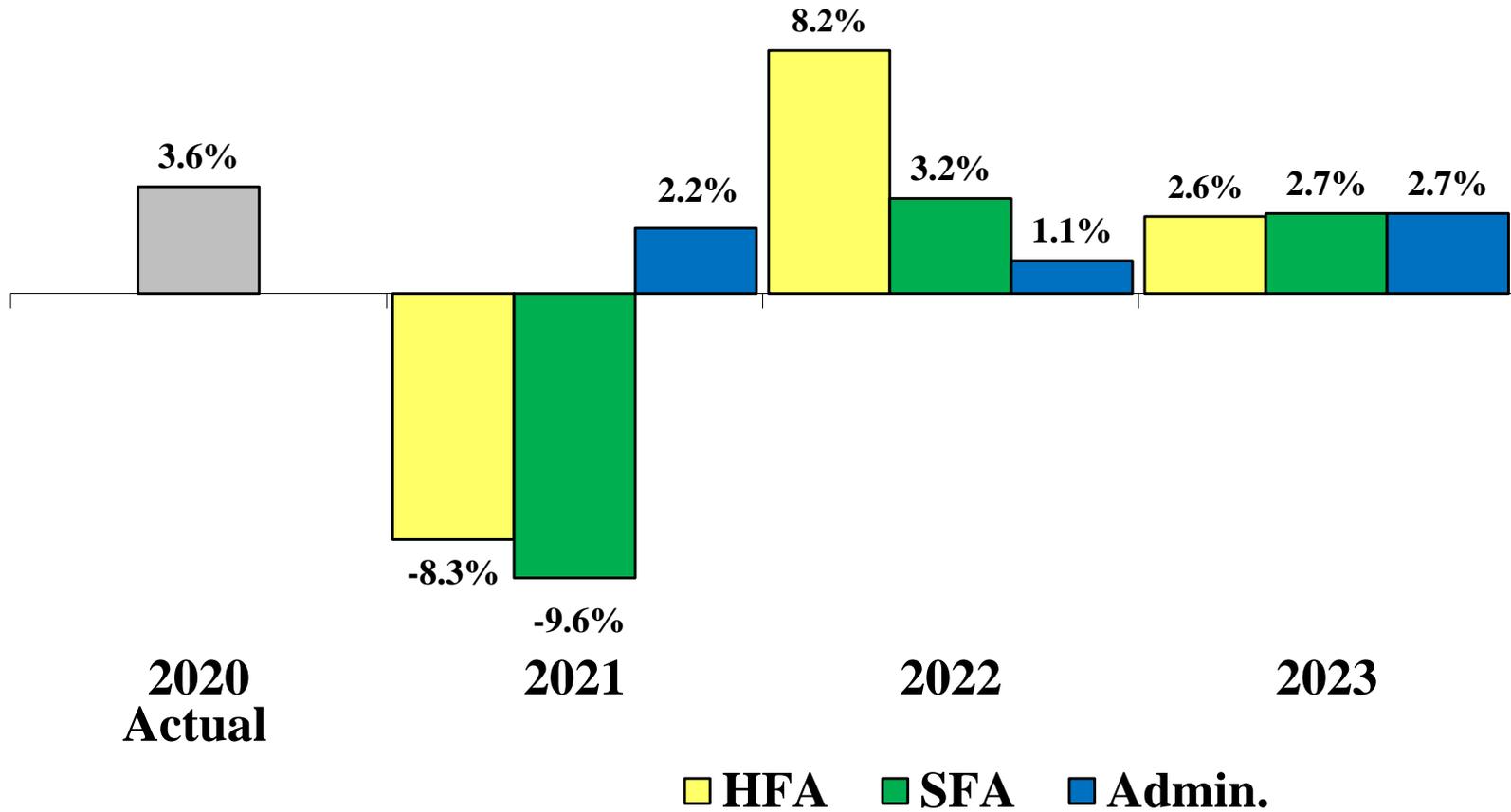
The change in state income tax withholding has outpaced the change in wages and salary income during the pandemic.

Withholding versus Wage and Salary Income Percent Change from Prior Year



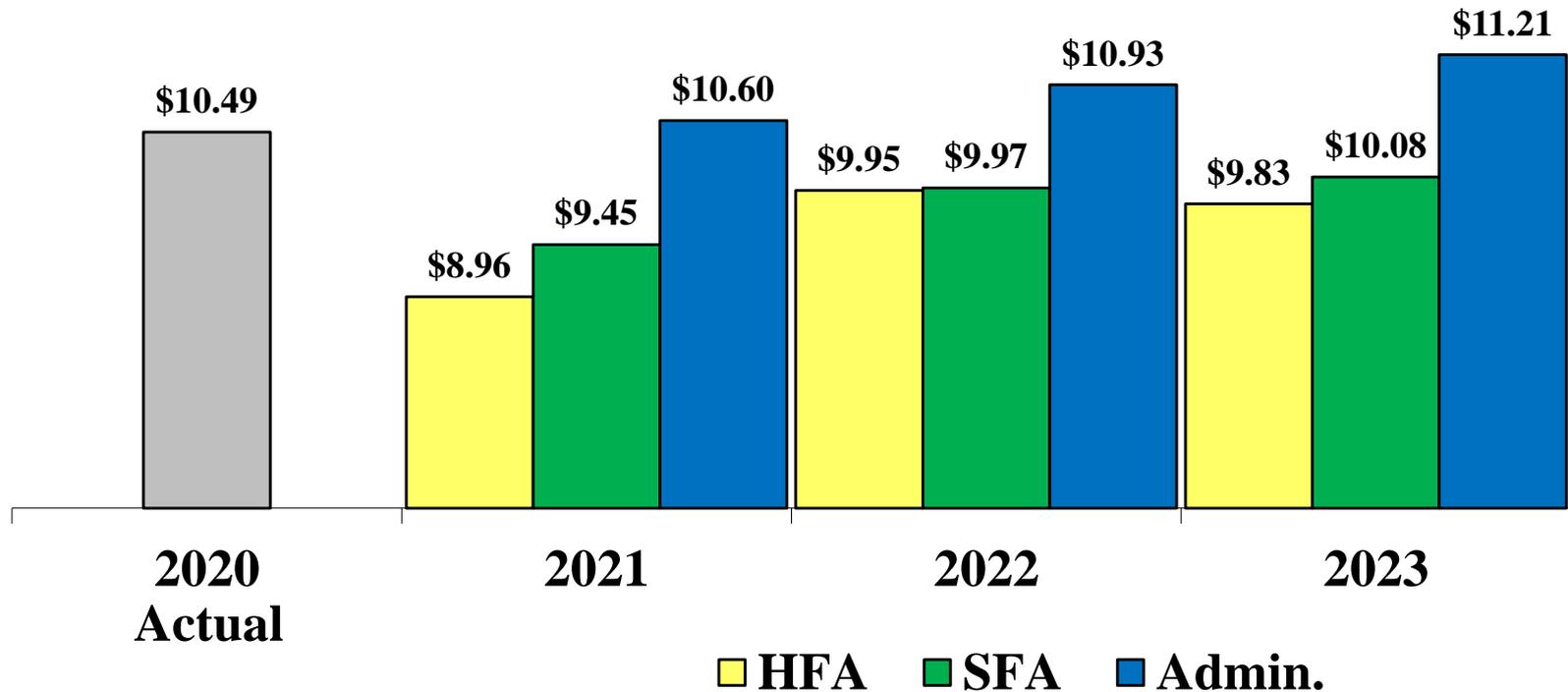
Baseline Income Tax Growth

Fiscal Year Growth



Net Income Tax Revenue Estimates

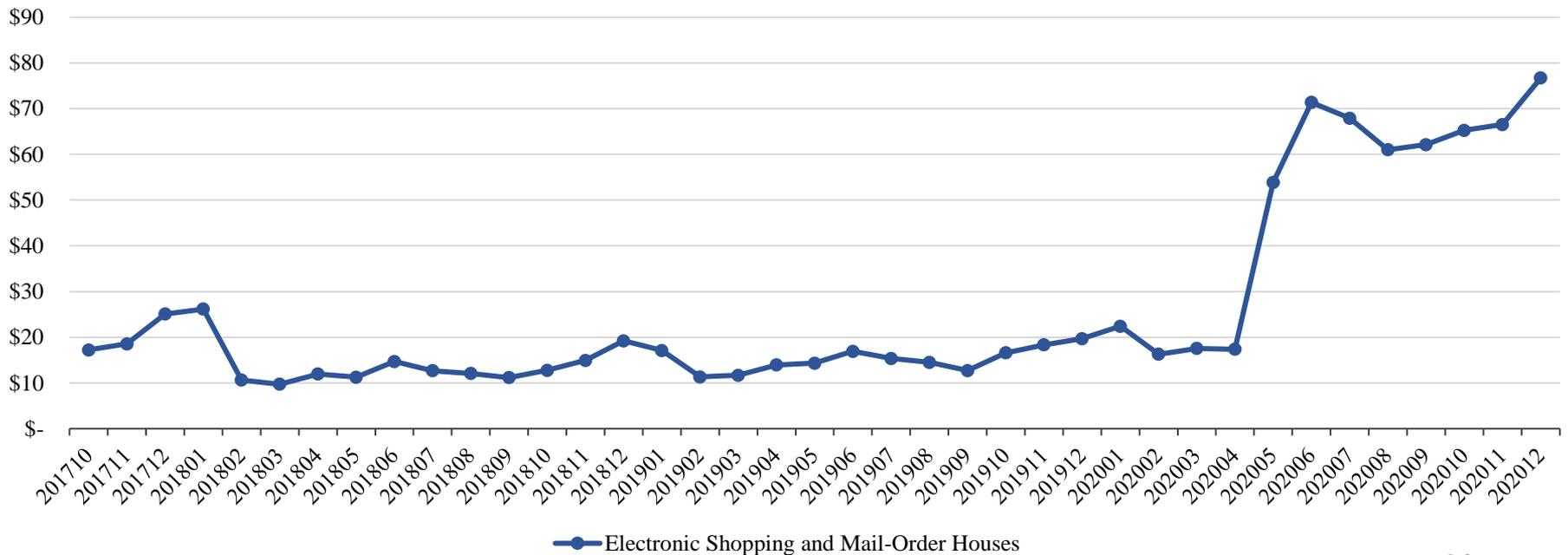
Fiscal Year
Billions



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

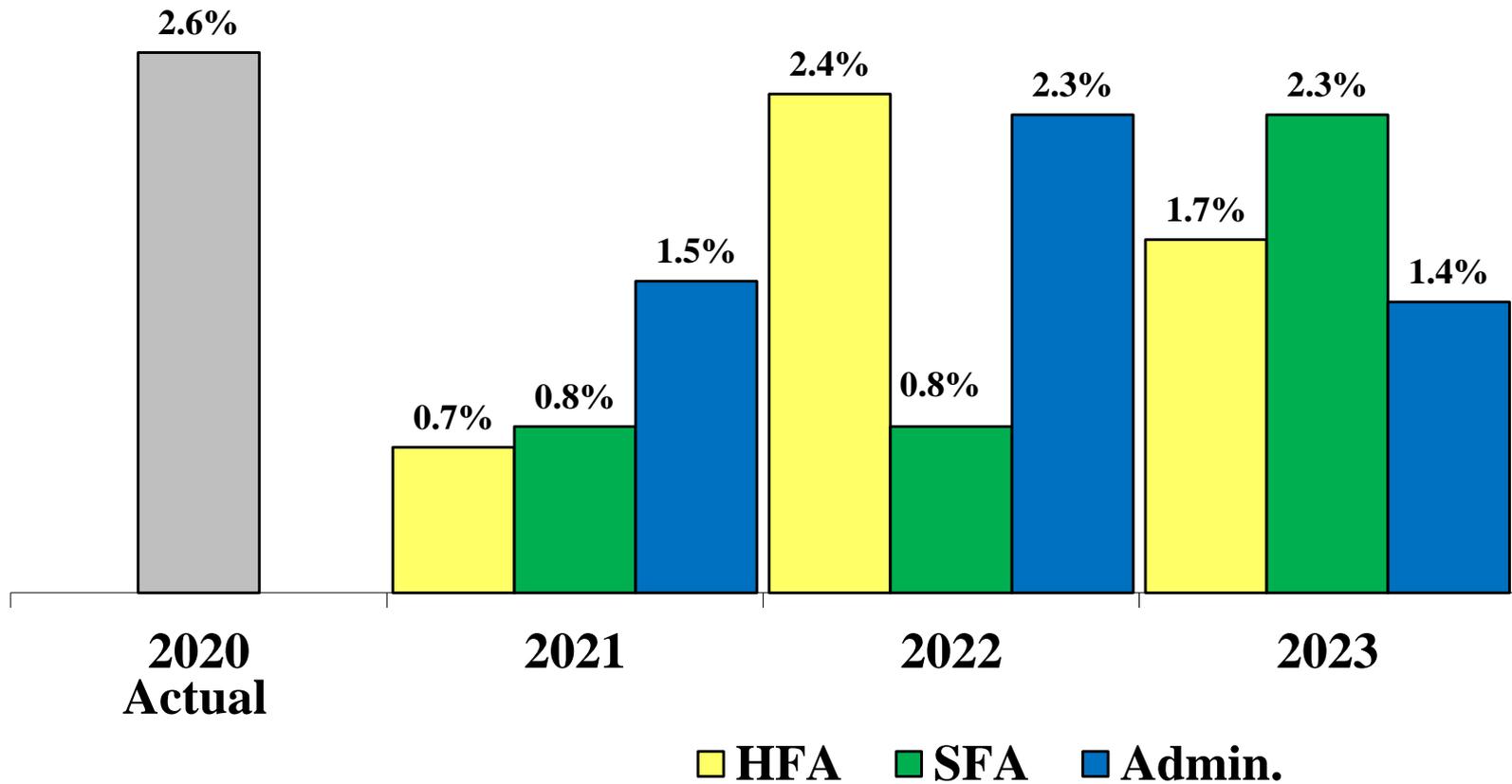
**Monthly Sales and Use Collections
Values in Millions of Dollars**



Source: Michigan Department of Treasury

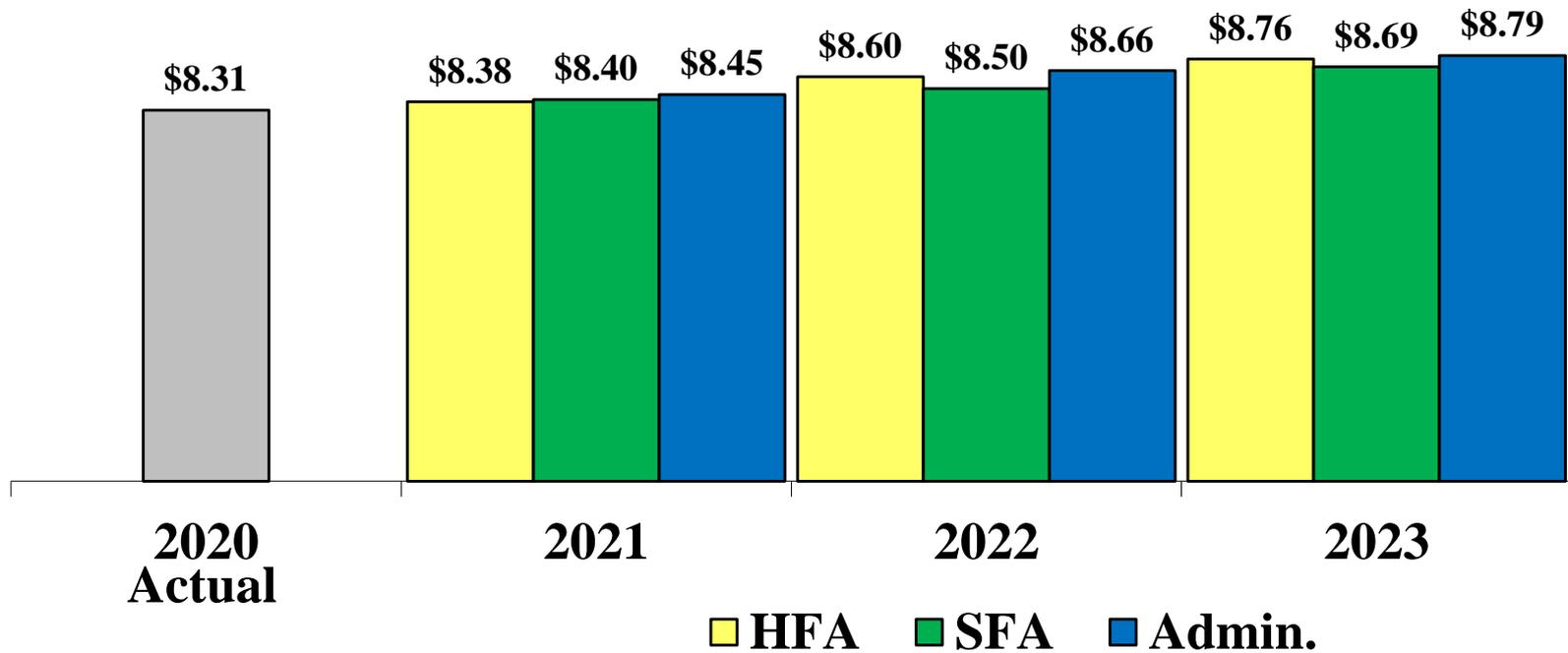
Baseline Sales Tax Growth

Fiscal Year Growth



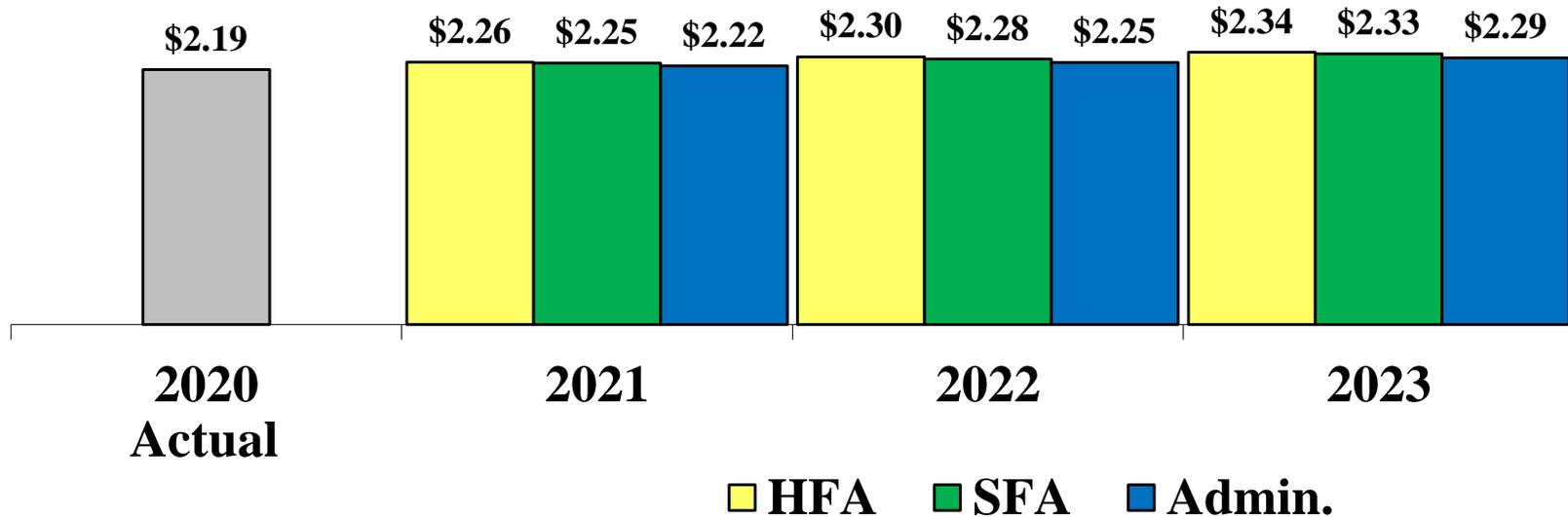
Net Sales Tax Revenue Estimates

Fiscal Year
Billions



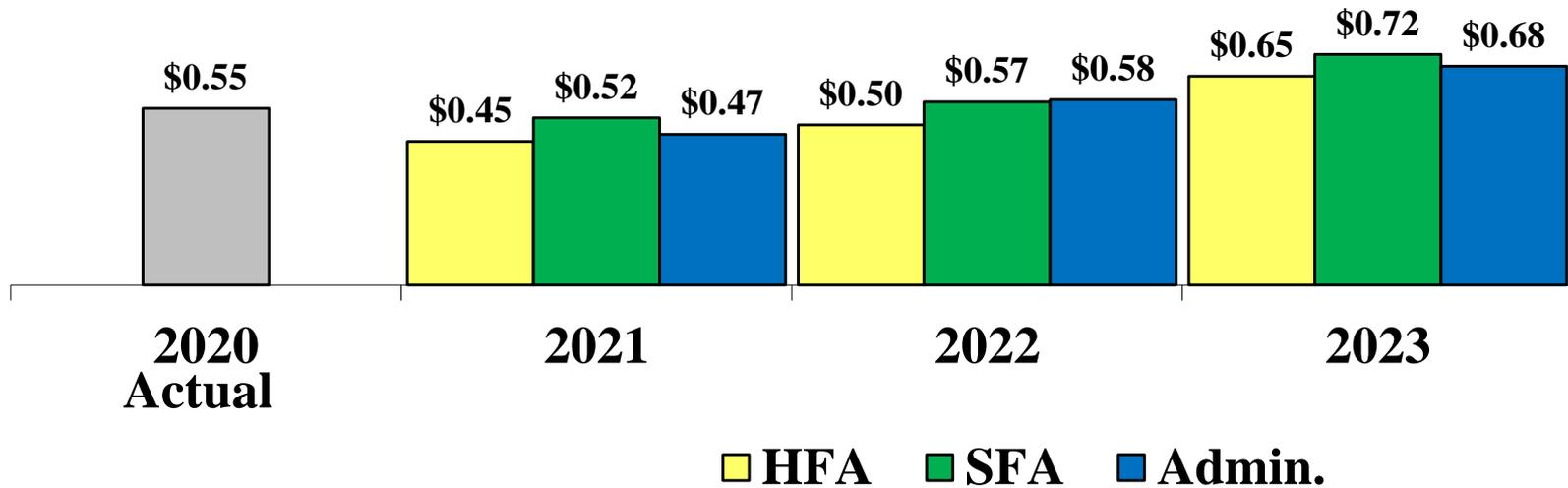
Net SET Revenue Estimates

Fiscal Year
Billions



Net CIT/MBT Revenue Estimates

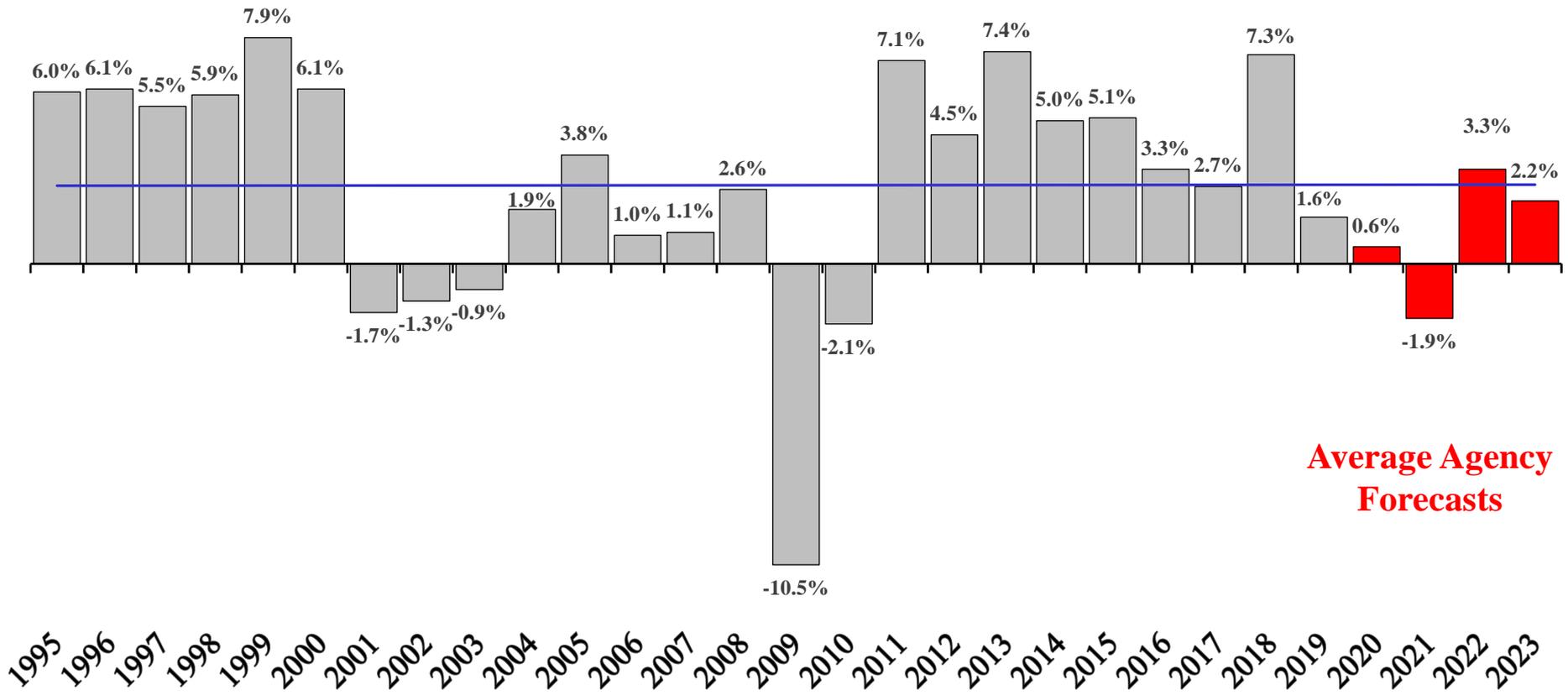
Fiscal Year
Billions



FORECAST OF GF-GP AND SCHOOL AID FUND

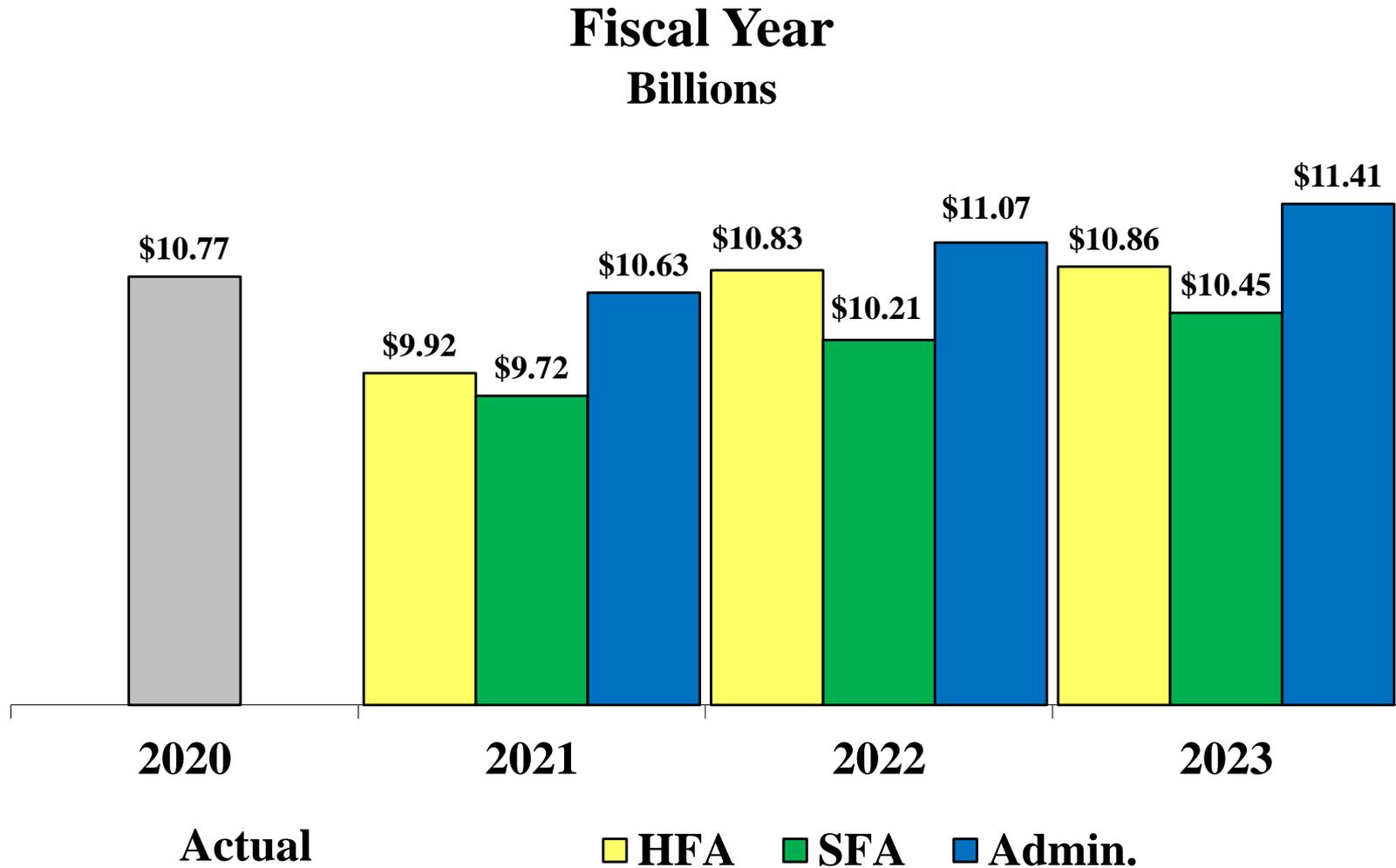
GF-GP and School Aid Revenue

Baseline Growth Rates Before Tax Changes



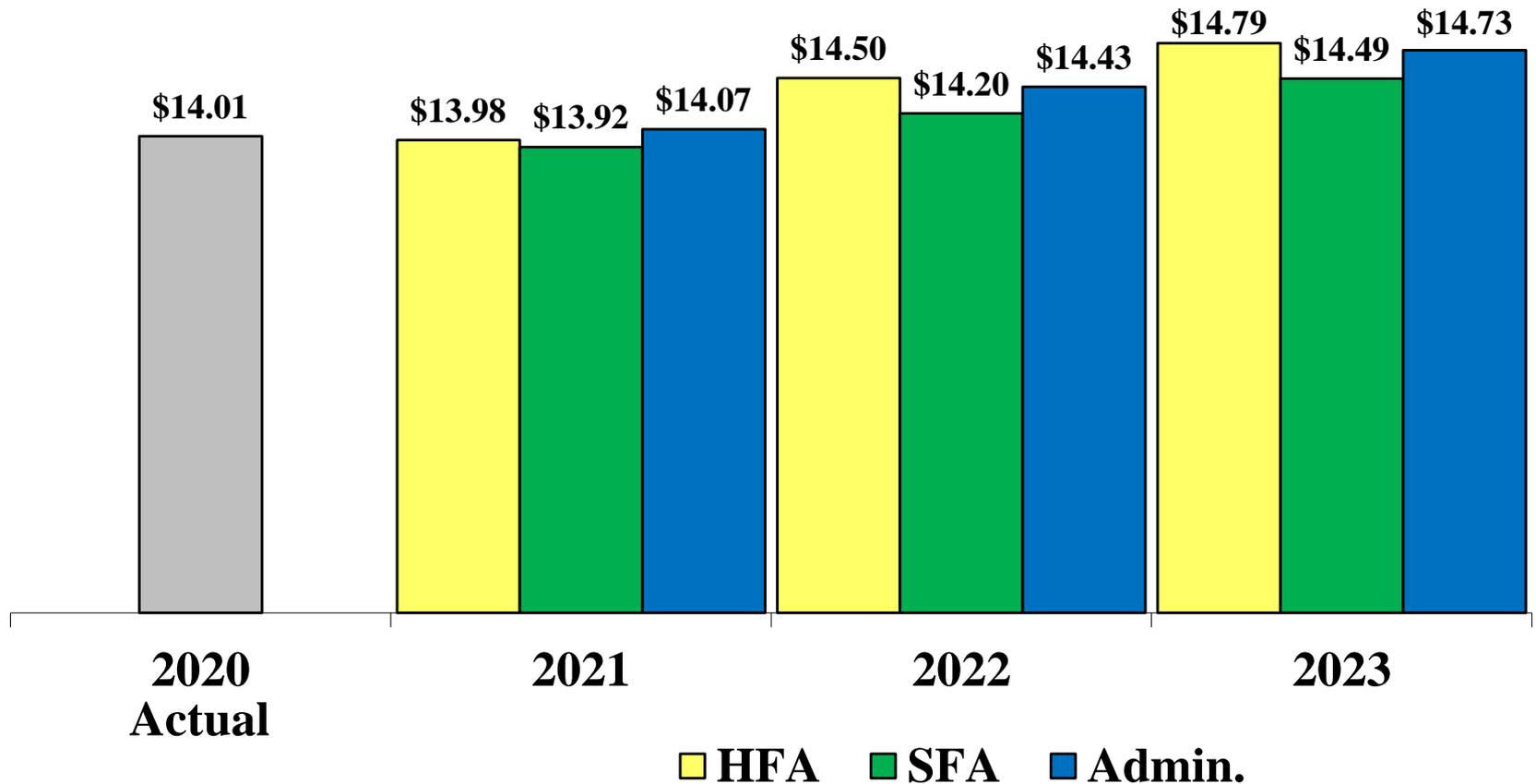
Average Agency Forecasts

GF-GP Net Revenue Estimates



School Aid Fund Net Revenue Estimates

Fiscal Year
Billions



Revenue Forecast Comparison

Total Revenue (Values in Millions)									
	FY 2021			FY 2022			FY 2023		
	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>
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

Difference from August Consensus Estimates						
	FY 2021			FY 2022		
	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>
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)

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

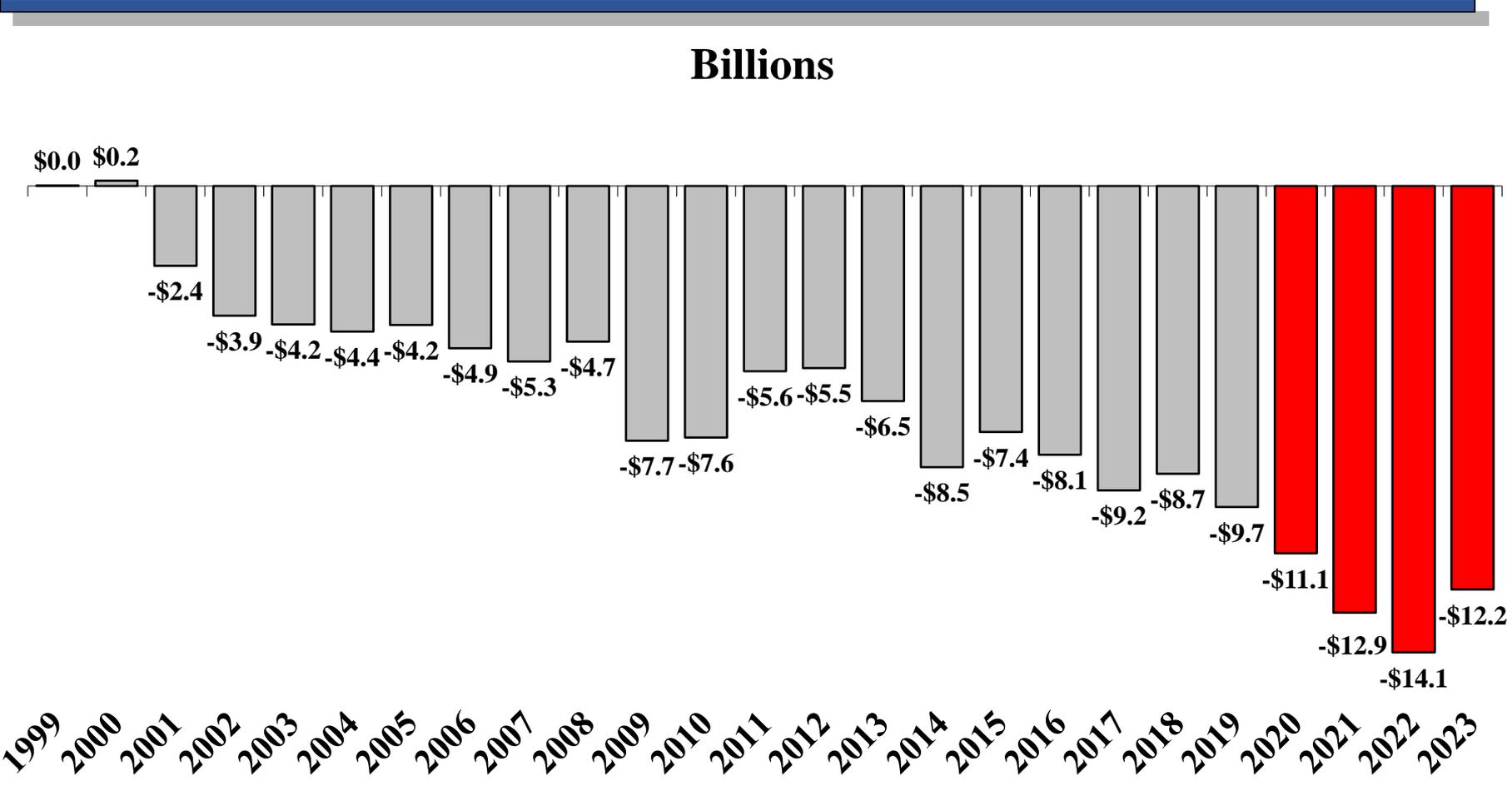
Budget Stabilization Fund

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



Average Agency Forecasts

Forecast Risks

Economy

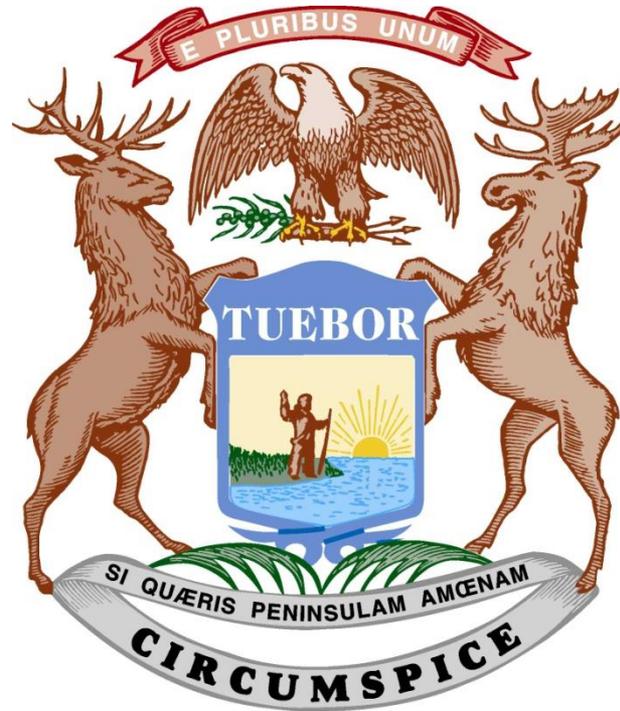
- Uncertainty from the path of the pandemic
- Further federal stimulus in 2021 could boost revenue short-term, while the drop may cause the economy to fall

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

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