ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN

FY 2009-10
AND
FY 2010-11

HOUSE FISCAL AGENCY

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January 2010

FOREWORD

This report includes a national and State economic forecast for calendar year (CY) 2009 through CY 2011. It also presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2008-09, revised revenue estimates for FY 2009-10, and initial estimates for FY 2010-11. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 11, 2010, and will be used to facilitate the consensus estimating process.

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2011, 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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EXECUTIVE SUMMARY

The national economic recession, which began in December 2007, started out somewhat mild, but turned into a much more serious recession by the end of 2008. The national recession probably ended in June 2009; however, the initial recovery phase is expected to be weak and long.

The 2007-2009 national recession, lasted approximately 19 months and posted a peak-to-trough decline of 3.9%. Considering the degree of the downturn, a much more robust recovery usually is the result. That is not expected to happen primarily because of strains on consumers. Debt burdens are high, housing/stock market wealth has taken a hit, credit is tight, incomes are weak or declining, and unemployment is high.

The national economy is expected to fall 2.6% in CY 2009; it is forecast to increase 2.3% in CY 2010 and increase 2.8% in CY 2011. The national unemployment rate is forecast to remain high due to the weak economic growth.

Michigan's economy and state revenue will be significantly affected by the strength of the national recession, the level of motor vehicle sales, the continued tight credit conditions, and the ongoing restructuring in the Michigan motor vehicle sector.

Michigan's wage and salary employment has trended downward since mid-2000; it is expected to decline by 278,300 jobs (6.7%) in CY 2009 -- the worst since CY's 1958 decline of 9.8%. It is forecast to decline by 67,600 jobs (1.7%) in CY 2010, and 34,800 jobs (0.9%) in CY 2011.

U. S. Forecast

Real GDP growth is forecast to decrease 2.6% in CY 2009. It is forecast to increase 2.3% in CY 2010, and grow 2.8% in CY 2011.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to decline 0.3% in CY 2009, then increase 2.8% in CY 2010 and 2.6% in CY 2011.

Light vehicle sales of 13.2 million units in CY 2008 are forecast to drop to 10.3 million units in CY 2009 before rising to 11.4 million units in CY 2010 and 12.4 million units in CY 2011. The import share of light vehicles is forecast to be 26.2% in CY 2009, 24.9% in CY 2010, and 25.7% in CY 2011.

The national unemployment rate was 5.8% in CY 2008; it is expected to be 9.3% in CY 2009, 9.9% in CY 2010, and 9.3% in CY 2011. The unemployment rate is forecast to peak at 10.1% in the first quarter of 2010.

Interest rates on three-month T-bills are expected to average 0.2% in CY 2009; rates are forecast to average 0.2% in CY 2010 and 0.9% in CY 2011.

Michigan Forecast

Michigan personal income increased 1.8% in CY 2008; it is forecast to fall 1.9% in CY 2009 and increase 1.8% in CY 2010 and 1.4% in CY 2011.

Michigan's unemployment rate was 8.4% in CY 2008; it is forecast to increase to 14.0% in CY 2009 and 15.0% in CY 2010 before falling to 14.7% in CY 2011. The unemployment rate is forecast to peak at 15.1% in the third quarter of 2010.

Inflation (as measured by the Detroit Consumer Price Index) for CY 2009 is expected to fall 0.6%; it is forecast to increase 2.4% in CY 2010 and 2.3% in CY 2011.

State Revenue

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The final total baseline GF/GP and SAF revenue was $18.5 billion in FY 2008-09, which was a 9.7% decline from FY 2007-08. It is forecast to decrease 4.9% to $17.6 billion in FY 2009-10 and to virtually remain flat in FY 2010-11.

Net revenue captures the effects of all policy changes and represents resources available. Final total net GF/GP and SAF revenue was $18.3 billion in FY 2008-09, which was a $2.6 billion or 12.4% decline from FY 2007-08. It is forecast to decrease $964.7 million or 5.3% in FY 2009-10. Total net GF/GP and SAF revenue for FY 2010-11 is forecast to be $17.3 billion—a decrease of $13.4 million or 0.1%.

Table 1 reports GF/GP and SAF revenue in terms of baseline and actual revenue. Final FY 2008-09 revenue and the recommended revisions to estimates for FY 2009-10 are reported in **Table 2 and Table 3**.

State Revenue Limit

Total state revenue is expected to be below the state revenue limit by $7.6 billion in FY 2008-09; it is estimated to be under the limit by $8.9 billion in FY 2009-10 and $8.2 billion in FY 2010-11.

Fund Balances

The year-end GF/GP balance was $176.7 million for FY 2008-09.

The year-end SAF balance was $229.1 million for FY 2008-09.

The year-end Countercyclical Budget Stabilization Fund balance is $2.3 million for FY 2008-09; it is estimated to be $2.4 million for FY 2009-10 and $2.5 million for FY 2010-11.

Table 1

HFA REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2008-09	HFA Estimate FY 2009-10	HFA Estimate FY 2010-11
Baseline GF/GP	$7,611.0	$7,159.4	$7,243.5
Baseline SAF	10,892.8	10,441.8	10,371.8
TOTAL BASELINE	**$18,503.8**	**$17,601.1**	**$17,615.3**
Actual GF/GP	$7,371.5	$6,890.8	$6,935.1
Actual SAF	10,922.2	10,438.2	10,380.5
TOTAL ACTUAL	**$18,293.7**	**$17,329.0**	**$17,315.6**

NOTE: Numbers may not add due to rounding.

Table 2

FY 2008-09 REVISIONS

(Millions of Dollars)

	May 2009 Consensus	January 2010 Final	Recommended Revision
Actual GF/GP	$7,435.3	$7,371.5	($63.8)
Actual SAF	10,943.7	10,922.2	(21.5)
TOTAL ACTUAL	**$18,379.0**	**$18,293.7**	**($85.3)**

NOTE: Numbers may not add due to rounding.

Table 3

FY 2009-10 HFA RECOMMENDED REVISIONS

(Millions of Dollars)

	May 2009 Consensus	January 2010 Recommendation	Recommended Revision
Actual GF/GP	$6,949.7	$6,890.8	($58.9)
Actual SAF	10,563.0	10,438.2	(124.8)
TOTAL ACTUAL	**$17,512.7**	**$17,329.0**	**($183.7)**

NOTE: Numbers may not add due to rounding.

ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2009-10 and FY 2010-11.

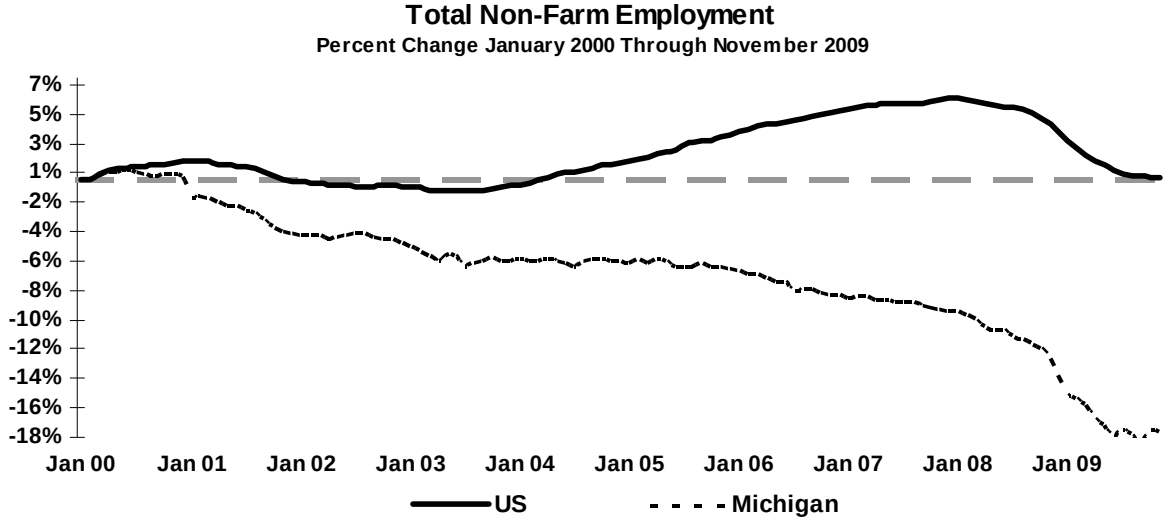
The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout CY 2002 and the early part of CY 2003. As national economic growth improved, so did employment.

Job growth at the national level began to improve during the latter half of CY 2003, and continued its upward trend through December 2007 – at which point the national economy officially entered a recession. Since December 2007, employment has fallen in each of the past 23 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 November 2009.

Figure 1



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 2.7 million jobs – about 91,800 jobs per month on average. In the 52 months between September 2003 and December 2007, more than 8.3 million jobs were added. Since the start of the recession 23 months ago, continued job losses have reduced non-farm employment by more than 7.2 million. Job losses have lessened in recent months, and the November 2009 job loss of 11,000 workers was the smallest monthly decline since the recession began.

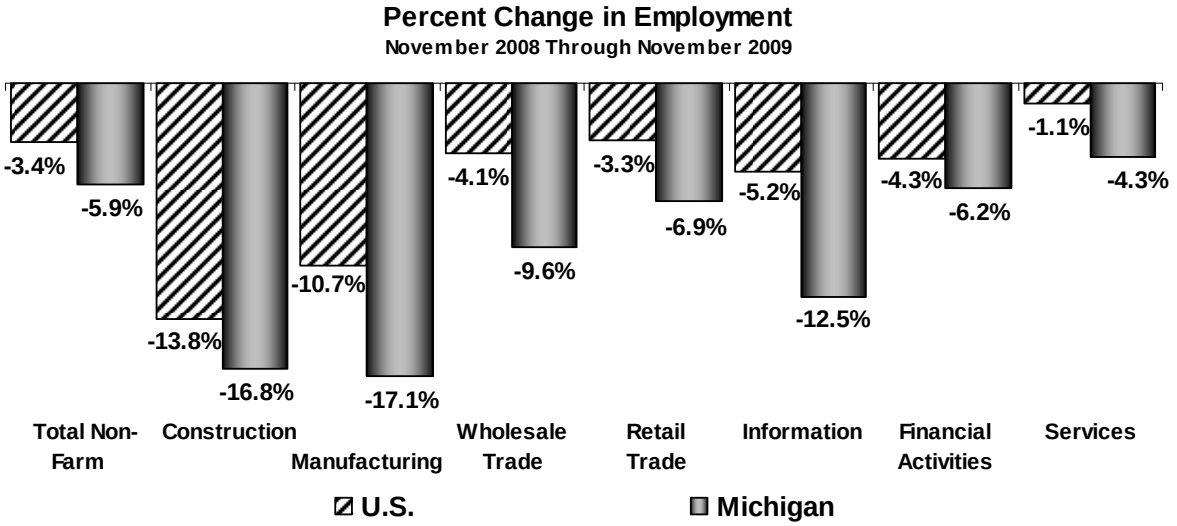
Michigan Non-Farm Employment

Although employment rebounded at the national level through 2007, conditions in Michigan have remained bleak. Employment in Michigan peaked in June 2000, a full eight months before the national level peak in February 2001. Following that June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 314,000 jobs – a 6.7% decline. For the next two years, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses. Since then, job losses have continued to mount; through the first eleven months of 2009, almost 190,000 additional jobs have been lost.

U.S. and Michigan Employment

Figure 2 shows the percent change in employment between November 2008 and November 2009 for all private workers in several important sectors of the economy for both the U.S. and Michigan. Worsening economic conditions are evident as the U.S. lost more than 4.6 million jobs over this period while employment in Michigan fell by 240,000 jobs.

Figure 2



U.S. Employment

From November 2008 through November 2009, the U.S. experienced job losses in all sectors. The construction, manufacturing, and retail trade sectors were especially

hard hit as they lost 974,000, 1.4 million, and 506,000 jobs respectively. Although the manufacturing sector has been generally contracting for the past several years, job losses in construction are the result of the declining housing sector while losses in retail trade reflect the overall economic downturn.

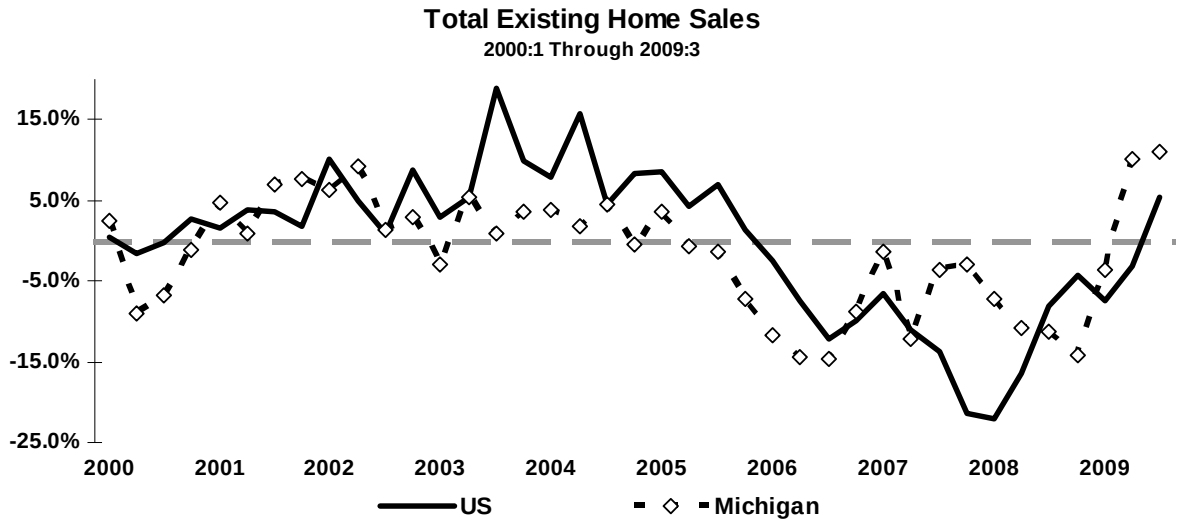
Michigan Employment

Job losses in Michigan over the past year were similarly concentrated in the construction, manufacturing, and retail trade sectors, although the service sector also experienced large declines. Michigan's manufacturing employment losses accounted for 6.2% of the total nationwide decline in manufacturing employment over the past 12 months, and over the past eight years Michigan has lost more than 41% of its manufacturing employment.

U.S. and Michigan Existing Home Sales

Figure 3 shows the quarterly percentage change in sales of existing homes for the U.S. and Michigan relative to the same quarter the year before.

Figure 3



U.S. Existing Home Sales

The U.S. housing market continued to flourish during the first half of the decade, but began to turn downward in late 2005 as home sales began to falter. Sales continued to drop at an accelerating rate throughout 2007 as the full impact of the collapse of the housing market spread through the economy, and they continued to decline through the second quarter of 2009, albeit at a lesser rate.

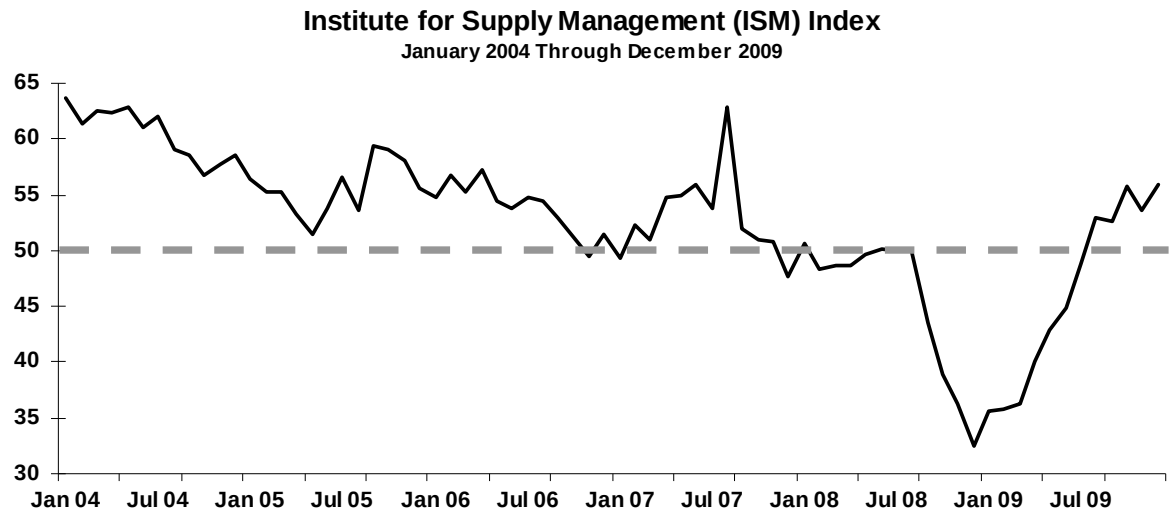
Michigan Existing Home Sales

Although there was a dip in Michigan's housing market in the early part of this decade, sales of existing homes – for the most part – followed a path similar to that of the U.S. as a whole through 2004. Starting in early 2005, existing home sales in Michigan underwent a steep decline through late 2006, and continued to fall until early 2009.

Institute for Supply Management (ISM) Index

Figure 4 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 that the manufacturing sector is contracting. A number below 42.7 indicates that the economy as a whole is contracting.

Figure 4



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 2005. The ISM 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; for the next 30 months, the index generally remained between 50 and 55 before dropping steadily during the latter half of 2008. The ISM index hit a 28-year low of 32.4 in December 2008 before increasing for much of 2009, and ended the year at 55.9.

Index of Consumer Sentiment

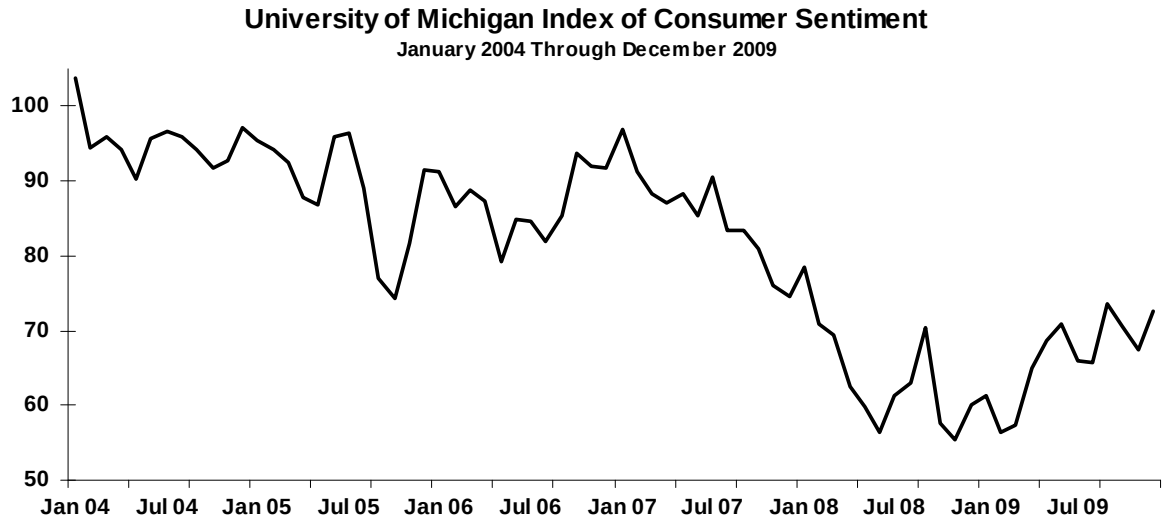
Consumer sentiment can be a strong motivator of personal consumption expenditures, which comprise almost two-thirds of GDP. **Figure 5** shows the University of Michigan Index of Consumer Sentiment beginning with January 2004.

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 concerns about high gas prices and the possibility that the economy may be weakening.

In the wake of hurricanes Katrina and Rita in 2005, the Index of Consumer Sentiment plunged to 72.4 in October, rose to 91.5 in December, and then dropped in six of the first eight months of 2006 as consumers expressed concerns over rising gas prices and interest

rates. After reaching a low of 82.0 in August, the index concluded 2006 at 91.7. Consumer Sentiment declined steadily throughout 2007, and by November 2008 the Index of Consumer Sentiment had fallen to 55.3, the lowest level in almost 28 years. Since then it has generally trended upwards, reaching a level of 72.5 in December 2009.

Figure 5

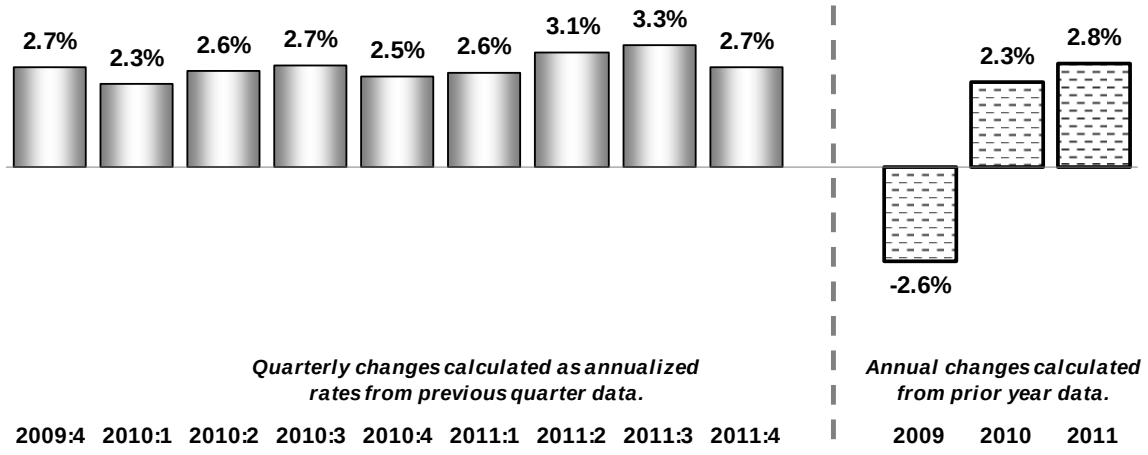


Real GDP

Figure 6 shows the estimated percent change in U.S. Real GDP for CY 2009, CY 2010, and CY 2011.

Figure 6

Percent Change in U.S. Real GDP



After increasing 2.2% during the third quarter of 2009, real GDP is anticipated to rise by 2.7% in the fourth quarter. Real GDP growth, which was 0.4% in CY 2008, is forecast to be -2.6% in CY 2009, 2.3% in CY 2010, and 2.8% in CY 2011.

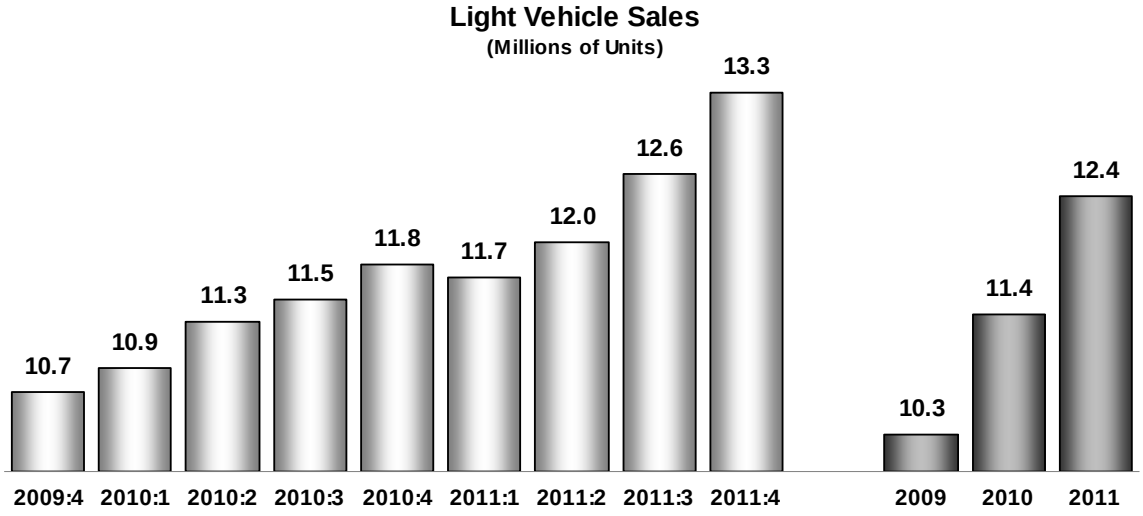
GDP declines over the past year due to reduced consumer and business spending were moderated primarily by Federal expenditures. Both personal consumption and residential investment are forecast to increase in CY 2010, and will provide the impetus for overall real GDP growth. Gross private domestic investment is forecast to fall by 24.3% in CY 2009 before growing 10.3% in CY 2010 and 15.2% in CY 2011.

Personal consumption is expected to decrease by 0.6% during CY 2009. As the economy begins to recover, personal consumption is predicted to increase 1.7% in CY 2010 and 1.5% in CY 2011.

Light Vehicle Sales

Figure 7 shows estimated light vehicle sales for CY 2009, CY 2010, and CY 2011.

Figure 7



Sales of light motor vehicles are expected to fall to 10.3 million units in CY 2009 from a total of 13.2 million units in CY 2008. Light motor vehicle sales are forecast to rise to 11.4 million units in CY 2010 and 12.4 million units in CY 2011.

Over the past few years there has been a shift in vehicle sales away from light trucks and toward cars. Light truck sales, which accounted for 48.3% of total light vehicle sales in CY 2008, are expected to decrease to 47.6% in CY 2009, 47.3% in CY 2010, and 47.0% in CY 2011.

The import share of total light vehicle sales was 25.6% in CY 2008; it is forecast to increase to 26.2% in CY 2009, drop to 24.9% in CY 2010, and then increase to 25.7% in CY 2011.

Inflation

U.S. Inflation

In conjunction with the decline in economic growth, input prices (e.g., wages and import prices) have fallen significantly over the past year and have held down

production costs. Crude oil and natural gas prices, which experienced volatile price fluctuations in 2008, stabilized somewhat in 2009.

Benchmark West Texas intermediate crude reached a high of $145 in July 2008 before falling to less than $50 by the end of the year. Prices have risen gradually throughout 2009 as the economy has begun to grow. Because there is always concern over the stability of the oil supply and world demand is expected to increase, it is anticipated that oil prices will increase during the forecast period and average about $80 per barrel during CY 2010 and $86 per barrel in CY 2011.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index for all Urban Consumers (CPI-U), was 2.7% in CY 2008; it is expected to decline by 0.3% in CY 2009 – reflecting, in part, the drop in oil prices – before rising 2.8% in CY 2010 and 2.6% in CY 2011 as economic growth returns.

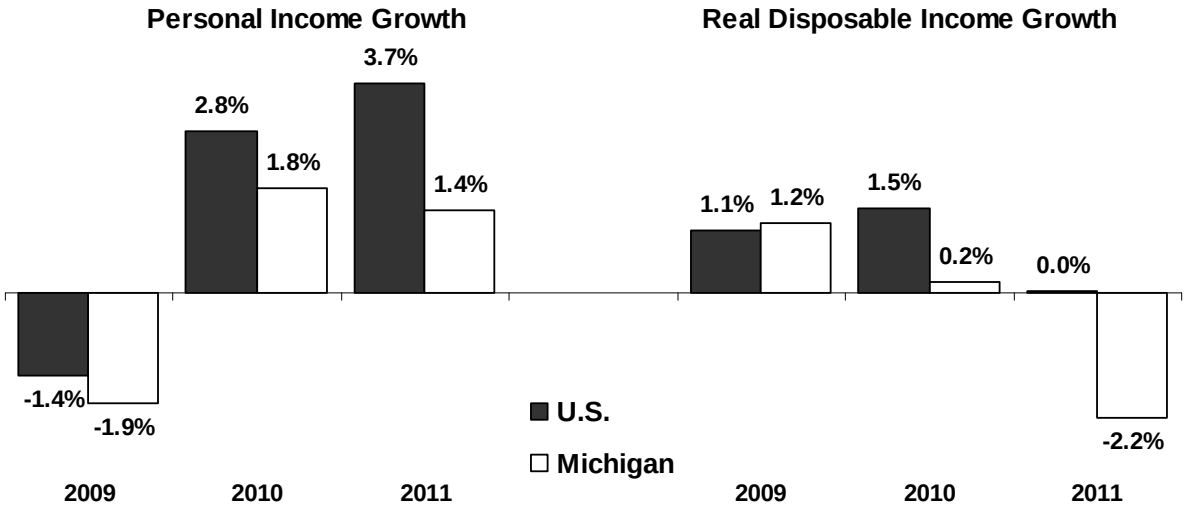
Michigan Inflation

The cost of living in Michigan is measured by the Detroit Consumer Price Index for all Urban Consumers (Detroit CPI-U). Michigan's average inflation rate was 2.3% in CY 2008, and inflation in Michigan should remain relatively low throughout the forecast period. The Detroit CPI-U is expected to decrease 0.6% in CY 2009 before increasing 2.4% in CY 2010 and 2.3% in CY 2011.

Income Growth

Figure 8 shows personal and real disposable income growth for the U.S. and for Michigan.

Figure 8



U.S. Income Growth

Total U.S. personal income grew 2.9% in CY 2008. Personal income growth is forecast to decrease 1.4% in CY 2009 before increasing 2.8% in CY 2010 and 3.7% in CY 2011.

Slightly higher inflation contributed to a modest 0.5% growth in U.S. real disposable income in CY 2008. U.S. real disposable income is forecast to grow 1.1% in CY 2009, 1.5% in CY 2010, and remain flat in CY 2011.

Michigan Income Growth

Michigan's total state personal income growth was 1.8% in CY 2008. Michigan personal income is forecast to decrease 1.9% in CY 2009, and then increase 1.8% in CY 2010 and 1.4% in CY 2011.

Michigan real disposable income increased 0.4% in CY 2008; it is forecast to increase 1.2% in CY 2009, 0.2% in CY 2010, and then decline 2.2% in CY 2011.

Employment

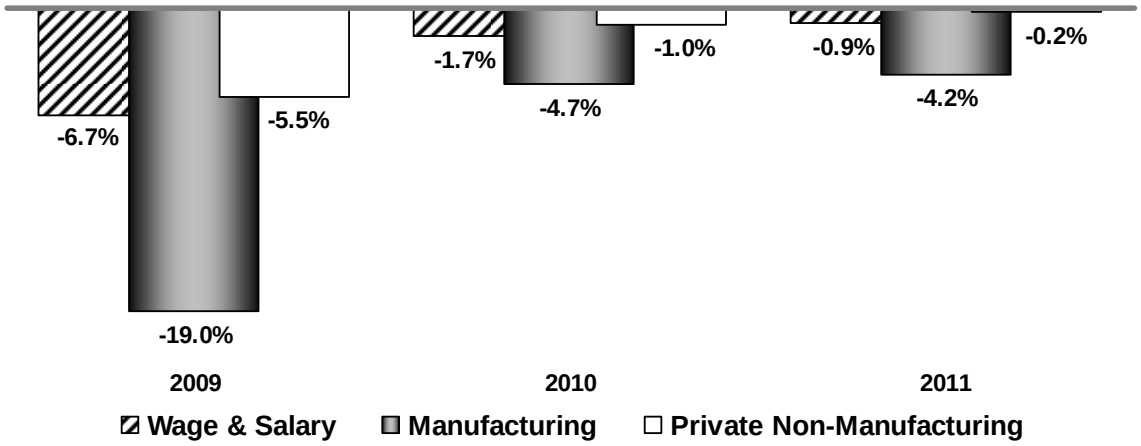
Figure 9 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

U.S. Employment

Nationally, total non-farm employment has experienced average losses in excess of 370,700 per month during the first 11 months of 2009 – a 3.0% overall decline. Total non-farm employment is projected to decrease 3.7% in CY 2009 and 0.5% in CY 2010 before increasing 1.7% in CY 2011.

Figure 9

Michigan Employment Growth



Michigan Employment

The Michigan economy has continued to endure a weak labor market. Michigan wage and salary employment declined by about 108,000 workers in CY 2008 and is estimated to decline by more than 278,000 workers in CY 2009, by 67,600 workers in CY 2010, and by 34,800 workers in CY 2011. The forecast calls for continued quarterly job losses until the fourth quarter of CY 2011.

Michigan wage and salary employment fell 2.5% in CY 2008, and is forecast to fall 6.7% in CY 2009, 1.7% in CY 2010, and 0.9% in CY 2011. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 0.6%.

Michigan manufacturing employment dropped 7.2% in CY 2008, and is forecast to decrease 19.0% in CY 2009, 4.7% in CY 2010, and 4.2% in CY 2011. Although the most significant declines are concentrated in the motor vehicle industry, employment losses appear throughout the entire manufacturing sector.

Michigan private non-manufacturing employment fell 1.9% in CY 2008; it is expected to decline 5.5% in CY 2009, 1.0% in CY 2010, and 0.2% in CY 2011.

Unemployment

U.S. Unemployment

As of December 2007, total non-farm employment had increased for 52 consecutive months. Monthly job losses through all of 2008 and 2009, however, have increased the unemployment rate.

The U.S. unemployment rate was 5.8% in CY 2008; it is forecast to rise to 9.3% in CY 2009, 9.9% in CY 2010, and 9.3% in CY 2011.

Michigan Unemployment

Employment in Michigan remains a major concern as employment growth has fallen during each of the past nine years. Michigan's wage and salary employment is forecast to continue declining throughout 2010 and 2011. As a result, the unemployment rate is expected to remain relatively high through 2011 as the labor force decreases and the number of unemployed workers increases.

Michigan's unemployment rate was 8.4% in CY 2008; it is expected to increase to 14.0% in CY 2009, 15.0% in CY 2010, and 14.7% in CY 2011.

Table 4
ECONOMIC FORECAST VARIABLES

	Calendar 2008 Actual	Calendar 2009 Estimated	% Change from Prior Year	Calendar 2010 Estimated	% Change from Prior Year	Calendar 2011 Estimated	% Change from Prior Year
United States							
Real Gross Domestic Product (Billions of 2005 dollars)	$13,312.2	$12,965.0	-2.6%	$13,261.7	2.3%	$13,629.3	2.8%
Implicit Price Deflator GDP (2005 = 100)	108.5	109.8	1.2%	111.0	1.1%	113.1	1.9%
Consumer Price Index (1982-84 = 100)	215.3	214.6	-0.3%	220.5	2.8%	226.2	2.6%
Consumer Price Index (FY) (1982-84 = 100)	214.5	213.8	-0.3%	219.2	2.5%	224.7	2.5%
Personal Consumption Deflator (2005 = 100)	109.0	109.3	0.2%	111.7	2.2%	114.0	2.1%
3-month Treasury Bills Interest Rate (Percent)	1.4%	0.2%		0.2%		0.9%	
Aaa Corporate Bonds Interest Rate (Percent)	5.7%	5.3%		5.2%		5.0%	
Non-Farm Employment (Millions)	137.0	132.0	-3.7%	131.3	-0.5%	133.5	1.7%
Unemployment Rate—Civilian (Percent)	5.8%	9.3%		9.9%		9.3%	
Light Vehicle Sales (Millions of units)	13.2	10.3	-21.8%	11.4	10.2%	12.4	9.0%
Passenger Car Sales (Millions of units)	6.8	5.4	-20.2%	6.0	10.1%	6.6	10.0%
Light Truck Sales (Millions of units)	6.4	4.9	-23.0%	5.4	9.5%	5.8	8.4%
Import Share of Light Vehicles (Percent)	25.6%	26.2%		24.9%		25.7%	
Personal Income (Billions of current dollars)	$12,238.8	$12,061.9	-1.4%	$12,400.2	2.8%	$12,853.8	3.7%
Real Disposable Income (Billions of 2005 dollars)	$9,911.1	$10,018.1	1.1%	$10,164.4	1.5%	$10,168.7	0.0%
Michigan							
Wage and Salary Employment (Thousands)	4,160.8	3,882.5	-6.7%	3,814.9	-1.7%	3,780.1	-0.9%
Transportation Equipment Employment (Thousands)	172.4	120.0	-30.4%	110.0	-8.3%	97.5	-11.4%
Unemployment Rate (Percent)	8.4%	14.0%		15.0%		14.7%	
Personal Income (Millions of current dollars)	$349,612	$342,887	-1.9%	$349,166	1.8%	$354,221	1.4%
Real Personal Income (Millions of 1982-84 dollars)	$170,709	$168,474	-1.3%	$167,506	-0.6%	$166,164	-0.8%
Real Disposable Income (Millions of 1982-84 dollars)	$151,681	$153,526	1.2%	$153,806	0.2%	$150,437	-2.2%
Wage and Salary Income (Millions of current dollars)	$186,197	$171,862	-7.7%	$172,773	0.5%	$173,789	0.6%
Detroit Consumer Price Index (1982-84 = 100)	204.8	203.5	-0.6%	208.5	2.4%	213.2	2.3%
Detroit CPI (FY) (1982-84 = 100)	204.8	202.6	-1.1%	207.3	2.3%	212.0	2.3%

RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. 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 fiscal and monetary policy, household finances and housing, exports to foreign countries, and Michigan's motor vehicle industry.

Fiscal and Monetary Policy

Fiscal Policy

It is estimated that the American Recovery and Reinvestment Act or ARRA — which will inject about $560 billion into the U.S. economy over CYs 2009 and 2010—will add about 0.8 percentage points in CY 2009 and 1.3 percentage points in CY 2010 to U.S. economic activity (GDP). However, not included in the forecast is any further federal stimulus. If more federal stimulus were put in place, then economic activity could be higher than estimated.

Monetary Policy

In the midst of the financial crisis, the Federal Reserve reduced the Federal Funds rate to near zero, expanded its balance sheet by $1.5 trillion to provide liquidity to banks and financial firms, and purchased $1.3 trillion of marketable securities to make mortgages and other loans more available and affordable. Since the national economy has stabilized, the Federal Reserve now will undo these liquidity measures. Essentially, the Federal Reserve needs to unwind these measures at just the right rate. Reducing liquidity too quickly could cause the recession to return while reducing it too slowly could cause inflation to pick up. Repairing the financial markets is a key element in restoring a smooth-running U.S. economy.

Household Finances and Housing

Personal consumption expenditures comprise almost two-thirds of total economic activity. Declining home values, high debt levels, and mounting job losses will keep personal consumption expenditures low.

Low mortgage rates, creative financing, and speculative buying helped support a strong housing market through the middle of CY 2006, and the vibrant housing market supported strong consumption growth and allowed for a low savings rate. Nationally, income growth was supplemented with mortgage equity withdrawals—which allowed consumers to spend more than income alone would allow. A sharp contraction in the housing market then caused a reduction in consumer spending as the value of investments eroded and mortgage equity withdrawals ended.

National non-farm payroll employment is forecast to remain weak throughout the forecast horizon: down 3.7% in CY 2009, down 0.5% in CY 2010, then increase 1.7% in CY 2011. Consumption is forecast to fall 0.6% in CY 2009, then increase 1.7% in CY 2010 and 1.5% in CY 2011.

Exports to Foreign Countries

In general, a stronger dollar makes imports more attractive and exports less attractive, while a weaker dollar makes imports less attractive and exports more attractive. After a significant decline in the recession, exports to foreign countries grew much faster than the domestic economy in the third quarter of CY 2009 as the economies of major U.S. trading partners started to improve.

After increasing 6.2% in CY 2008, exports are expected to fall 10.5% in CY 2009 before posting gains in CY 2010 and CY 2011. The value of the U.S. dollar is expected to appreciate in CY 2009, then depreciate in CY 2010 and CY 2011.

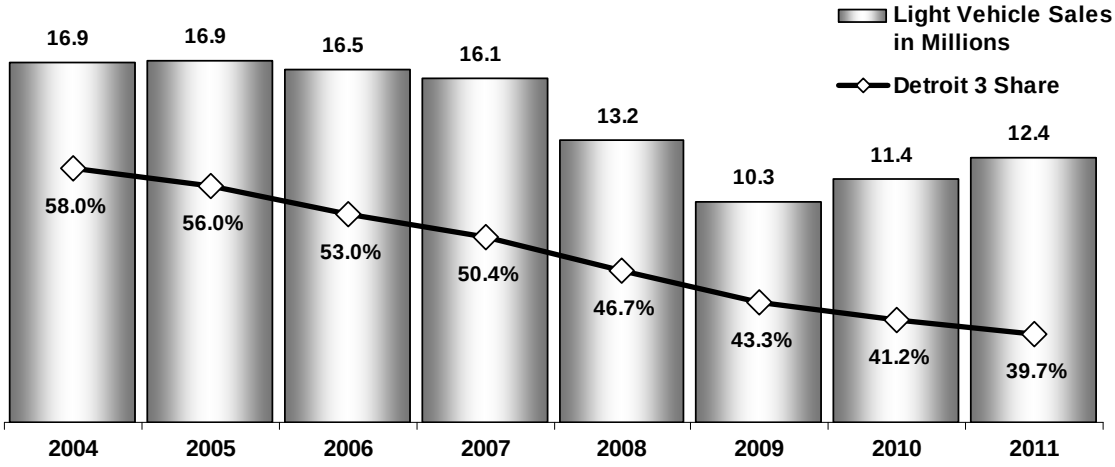
Michigan's Motor Vehicle Industry

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 16.1 million units in CY 2007 and 13.1 million units in CY 2008. Light motor vehicle sales are forecast to be 10.3 million units in CY 2009, then increase to 11.4 million units in CY 2010 and 12.4 million units in CY 2011 as the national economy improves.

Imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) have steadily gained in market share over the past several years. As shown in **Figure 10**, the market share of the Detroit 3 auto manufacturers declined to 46.7% in CY 2008.

Figure 10

Detroit 3 Share of Light Vehicle Sales



The extent to which the domestic nameplates can retain market share will have a direct impact on Michigan's economy. This forecast assumes that the Detroit 3 market share will decline to 43.3% in CY 2009, 41.2% in CY 2010, and 39.7% in CY 2011. In CY 2004, the Detroit 3 sold 9.8 million vehicles; it is expected that the Detroit 3 will sell 4.7 million vehicles in CY 2010 and 4.9 million vehicles in CY 2011.

Restructuring of the Michigan motor vehicle industry is expected to continue. After an expected decline of 30.4% in CY 2009, Michigan transportation equipment employment is forecast to decline 8.3% in CY 2010 and 11.4% in CY 2011. The CY 2011 estimated level of transportation equipment employment of 97,500 is 28% of the 346,000 peak in CY 2000, and 57% of the level in CY 2008. If the Michigan-produced market share of motor vehicles is greater or less than anticipated, Michigan's economy and revenue growth will be higher or lower than estimated.

GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section explains the House Fiscal Agency's January 2010 estimates for GF/GP (**Table 5**) and SAF (**Table 6**) revenue, the estimated 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 Tax Revenue

GF/GP tax revenue totaled $6,979.1 million in FY 2008-09; it is estimated to be $6,533.8 million, a decrease of $445.3 million or 6.4%, in FY 2009-10, and $6,593.1 million, an increase of $59.3 million, or 0.9% in FY 2010-11.

Total Net GF/GP Revenue

Net GF/GP revenue, which includes non-tax revenue and the effect of tax changes, is available for expenditure each year. Net GF/GP revenue was $7,371.5 million in FY 2008-09; it is forecast to be $6,890.8 million, a decrease of $480.7 million or 6.5% in FY 2009-10, and $6,935.1 million, an increase of $44.3 million or 0.6% in FY 2010-11.

SAF Revenue by Source

Net SAF Revenue

Net SAF revenue was $10,922.2 million in FY 2008-09; it is forecast to be $10,438.2 million, a decrease of $484.0 million or 4.4%, in FY 2009-10, and $10,380.5 million, a decrease of $57.7 million or 0.6%, in FY 2010-11.

Total Net SAF Revenue

Total net SAF revenue includes net SAF revenue and adjustments (federal aid, but not federal stimulus revenue and the beginning balance). Total net SAF revenue was $12,672.9 million in FY 2008-09; it is forecast to be $12,253.2 million, a decrease of $419.7 million or 3.3%, in FY 2009-10, and $12,038.0 million, a decrease of $215.2 million or 1.8%, in FY 2010-11.

Table 5

GF/GP REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2008-09	FY 2009-10	FY 2010-11	Change From FY 2009-10 to FY 2010-11	
Income Tax	$3,959.2	$3,498.2	$3,515.1	$16.9	0.5%
Sales and Use Taxes	748.2	814.4	833.2	18.8	2.3%
MBT/SBT/Insurance Taxes	1,815.8	1,787.9	1,810.9	23.0	1.3%
Other Taxes	455.8	433.2	433.8	0.6	0.1%
GF/GP Tax Revenue	**$6,979.1**	**$6,533.8**	**$6,593.1**	**$59.3**	**0.9%**
Non-Tax Revenue	392.4	357.0	342.0	(15.0)	-4.2%
Total Net GF/GP Revenue	**$7,371.5**	**$6,890.8**	**$6,935.1**	**$44.3**	**0.6%**

NOTE: Numbers may not add due to rounding.

Table 6

SCHOOL AID FUND REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2008-09	FY 2009-10	FY 2010-11	Change From FY 2009-10 to FY 2010-11	
Sales and Use Tax	$4,793.2	$4,645.2	$4,657.6	$12.4	0.3%
Income Tax Earmark	1,895.4	1,771.9	1,784.3	12.4	0.7%
State Education Tax	2,040.6	1,882.2	1,769.2	(113.0)	-6.0%
Lottery/Casino Wagering	832.6	811.0	826.8	15.8	2.0%
MBT	729.0	726.8	747.2	20.4	2.8%
Tobacco Taxes	410.4	386.3	375.5	(10.9)	-2.8%
Real Estate Transfer Tax	125.3	128.0	133.0	5.0	3.9%
Other Taxes	95.7	86.8	87.0	0.2	0.2%
Net SAF Revenue	**$10,922.2**	**$10,438.2**	**$10,380.5**	**($57.7)**	**-0.6%**
Adjustments	1,750.7	1,815.0	1,657.5	(157.5)	-8.7%
Total Net SAF Revenue	**$12,672.9**	**$12,253.2**	**$12,038.0**	**($215.2)**	**-1.8%**

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 2009-10 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2007-08 and preliminary final FY 2008-09 figures are included.

Budget Stabilization Fund estimates are based on the current balance and HFA estimates of future deposits and interest earned.

Table 7

YEAR-END BALANCE ESTIMATES

(Millions of Dollars)

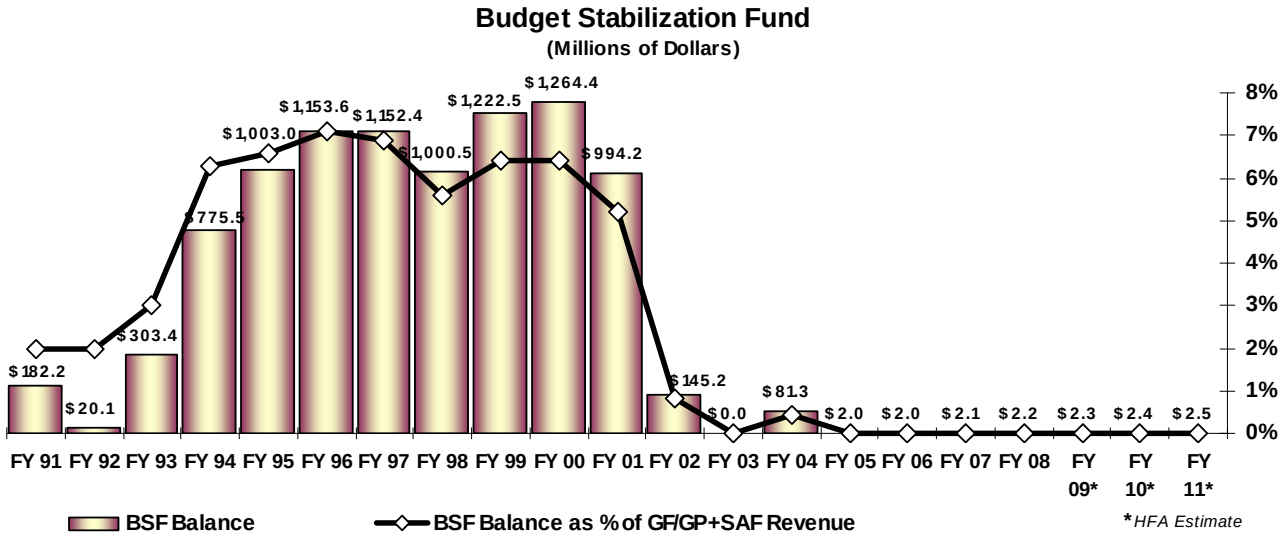
	Final FY 2007-08	Estimated FY 2008-09	Estimated FY 2009-10
General Fund/General Purpose	$457.9	$176.7	$68.8
School Aid Fund	$247.1	$229.1	$38.0
Budget Stabilization Fund	$2.2	$2.3	$2.4

Note: School Aid Fund revenue is 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 2010-11.

Figure 11



The BSF ending fund balance for FY 2008-09 is estimated at $2.3 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 $11.6 million withdrawal for FY 2009-10 and a $38.1 million withdrawal for FY 2010-11. If a withdrawal were to occur, this would reduce the estimated ending fund balance for FY 2009-10 to zero.

Table 8
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
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
2009-10*	$0.0	$0.0	$0.1	$2.4
2010-11*	$0.0	$0.0	$0.1	$2.5

** HFA Estimate*

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 FY 2007-08 revenue limit calculation showed state revenue collections at $4.65 billion below the revenue limit. For FY 2008-09, state revenue is estimated to be below the limit by $7.64 billion. For FY 2009-10 and FY 2010-11, state revenue is estimated to be substantially below the revenue limit—by $8.92 billion, and $8.23 billion, respectively.

Table 9

COMPLIANCE WITH THE STATE REVENUE LIMIT

(Millions of Dollars)

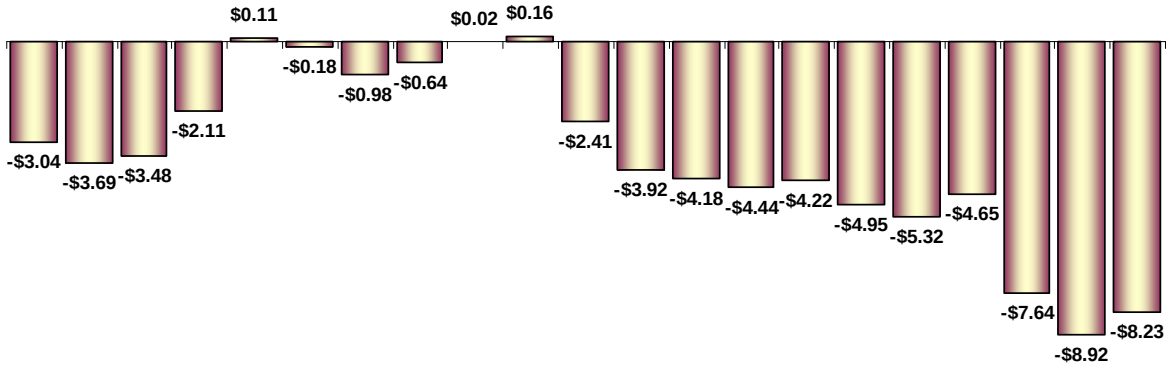
Revenue Limit Calculations	**Final FY 2007-08**	**Estimated FY 2008-09**	**Estimated FY 2009-10**	**Estimated FY 2010-11**
Personal Income				
Calendar Year	CY 2006	CY 2007	CY 2008	CY 2009
Amount	$341,075	$345,886	$349,612	$342,887
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	**$32,368.0**	**$32,824.5**	**$33,178.2**	**$32,540.0**
Total Revenue Subject to Revenue Limit	$27,716.3	$25,182.7	$24,260.4	$24,311.5
Amount Under (Over) State Revenue Limit	**$4,651.7**	**$7,641.8**	**$8,917.8**	**$8,228.4**

NOTE: Numbers may not add due to rounding.

Figure 12

Constitutional Revenue Limit

Amount Under or Over Limit (Billions of Dollars)



** HFA Estimate*

Table 10

CONSTITUTIONAL REVENUE LIMIT HISTORY

(Billions of Dollars)

Fiscal Year	(Under) or Over Limit
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	($4.95)
2006-07	($5.32)
2007-08	($4.65)
2008-09*	($7.64)
2009-10*	($8.92)
2010-11*	($8.23)

**HFA Estimate*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