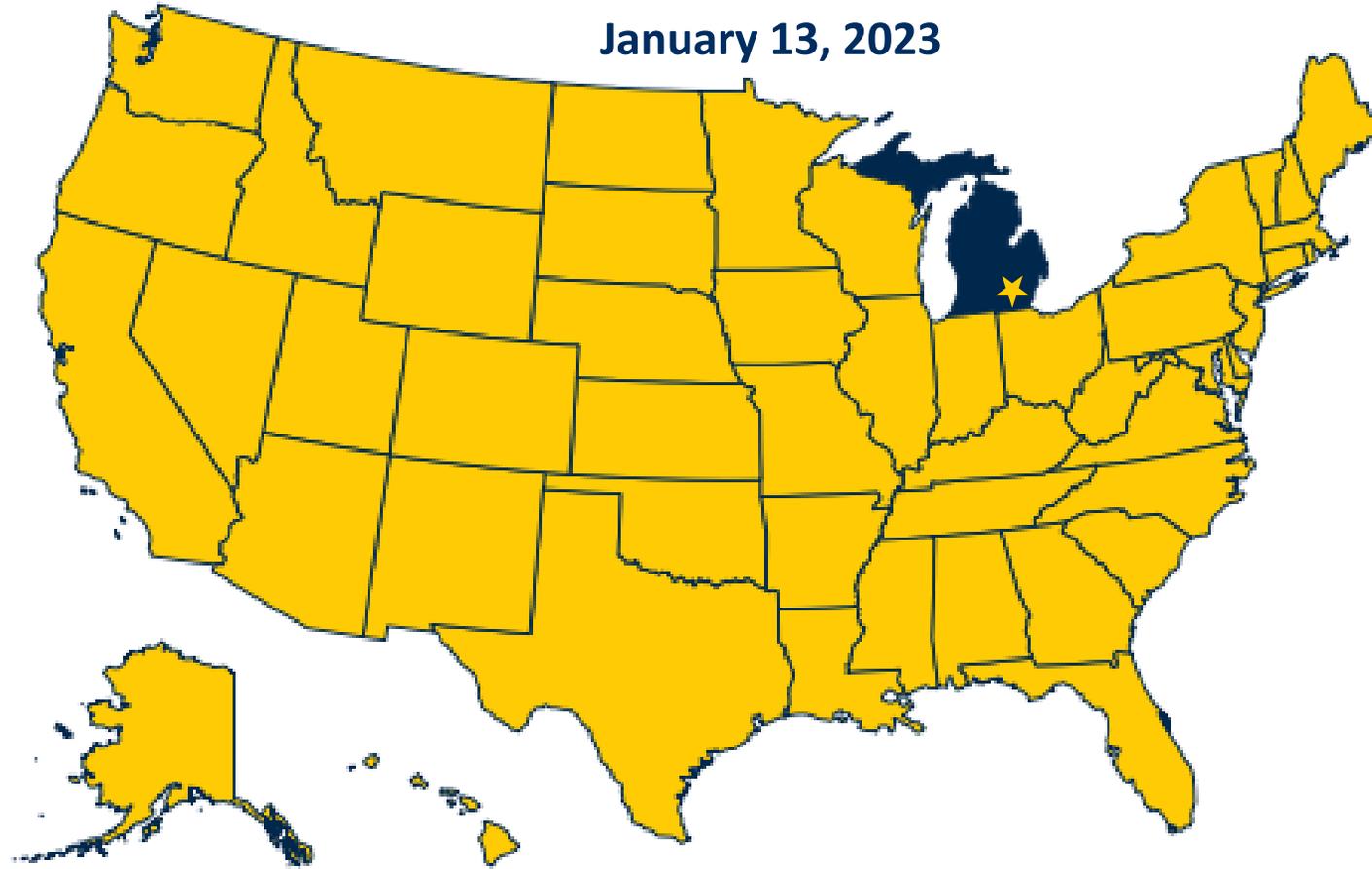


**The U.S. and Michigan Outlook for 2023–2025**  
**Consensus Revenue Estimating Conference**  
**Lansing, Michigan**

January 13, 2023

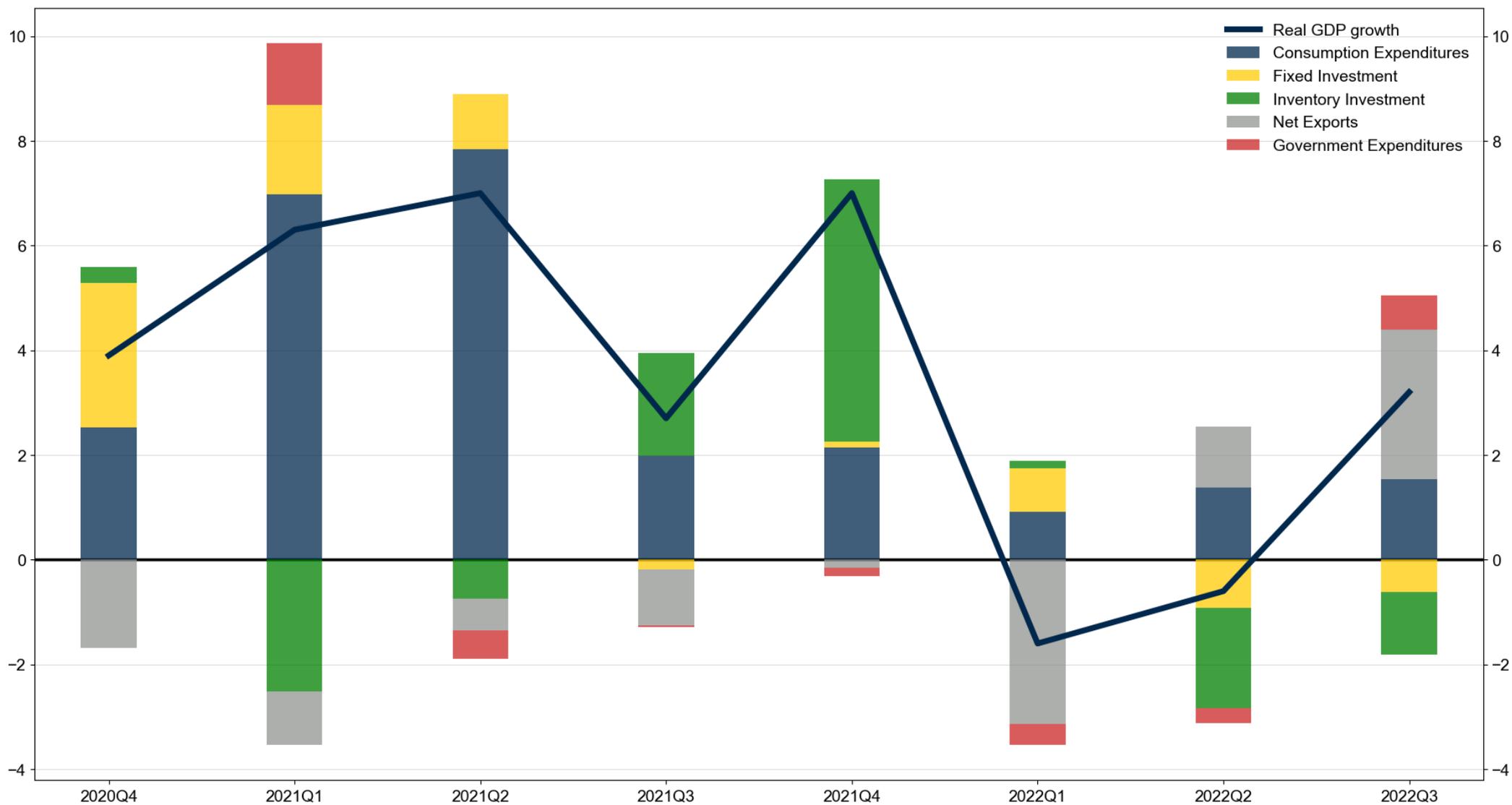


**Research Seminar in Quantitative Economics**

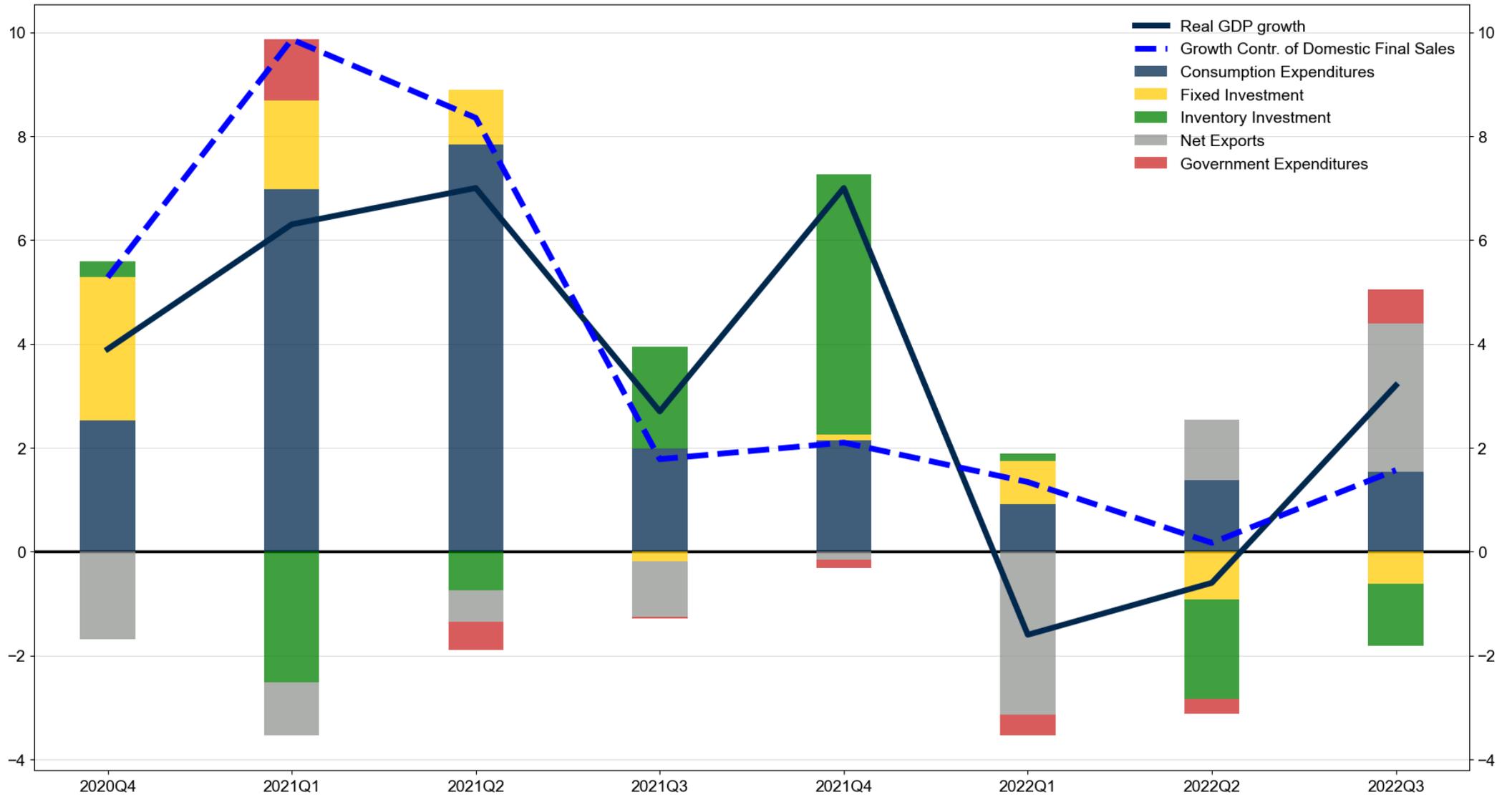


# **Current State of the U.S. Economy**

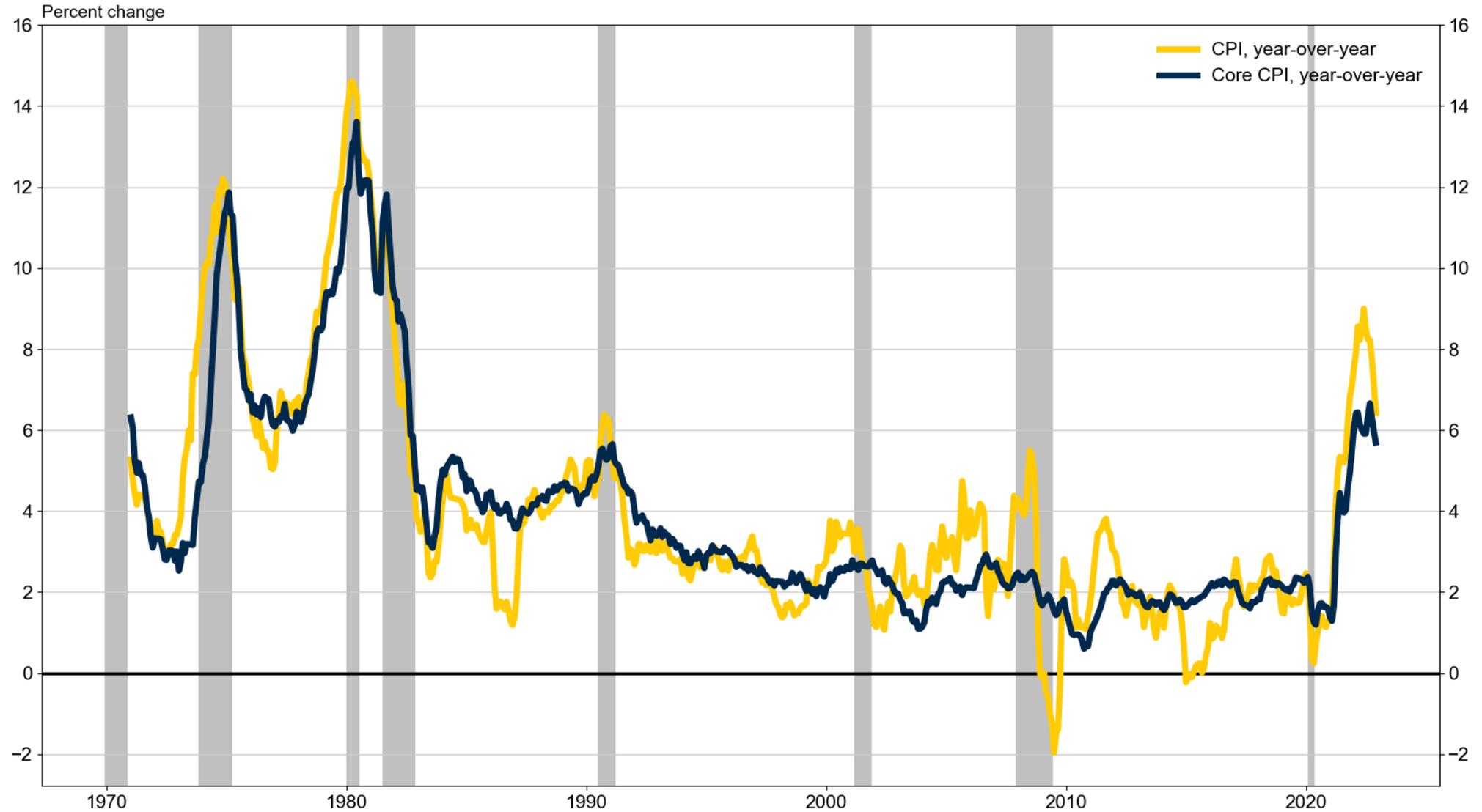
# Real GDP Growth Composition



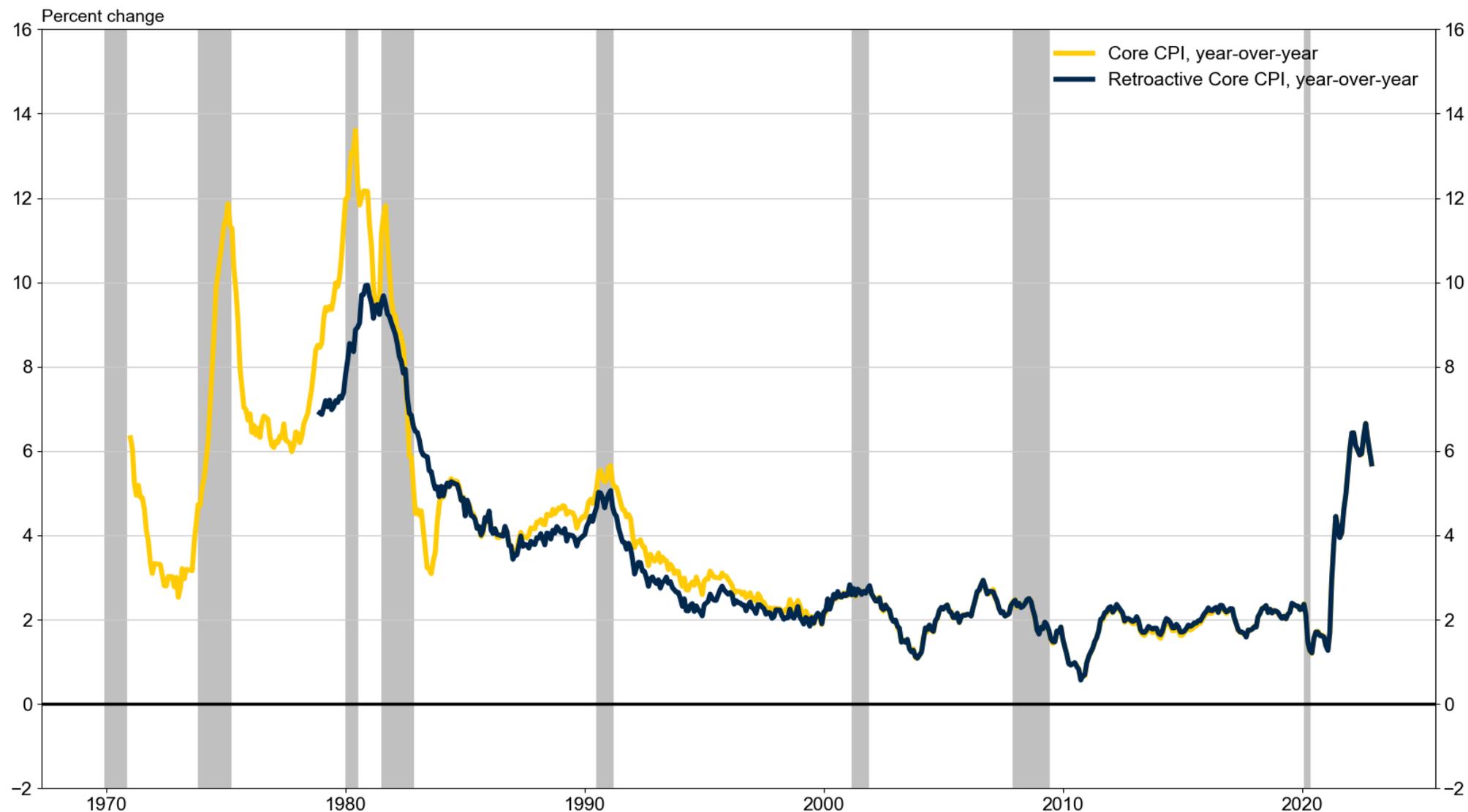
# Real GDP Growth Composition



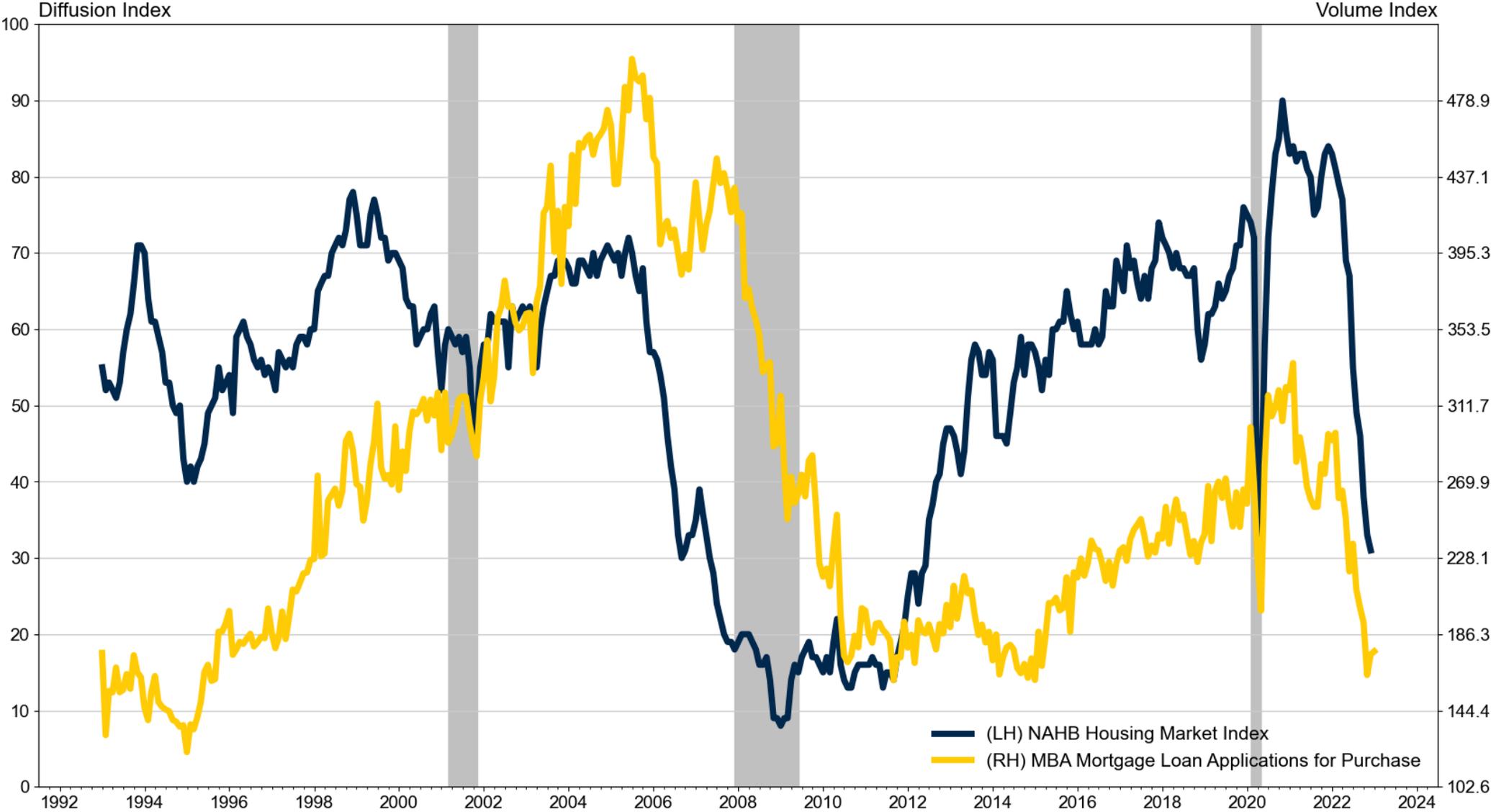
# Consumer Price Index



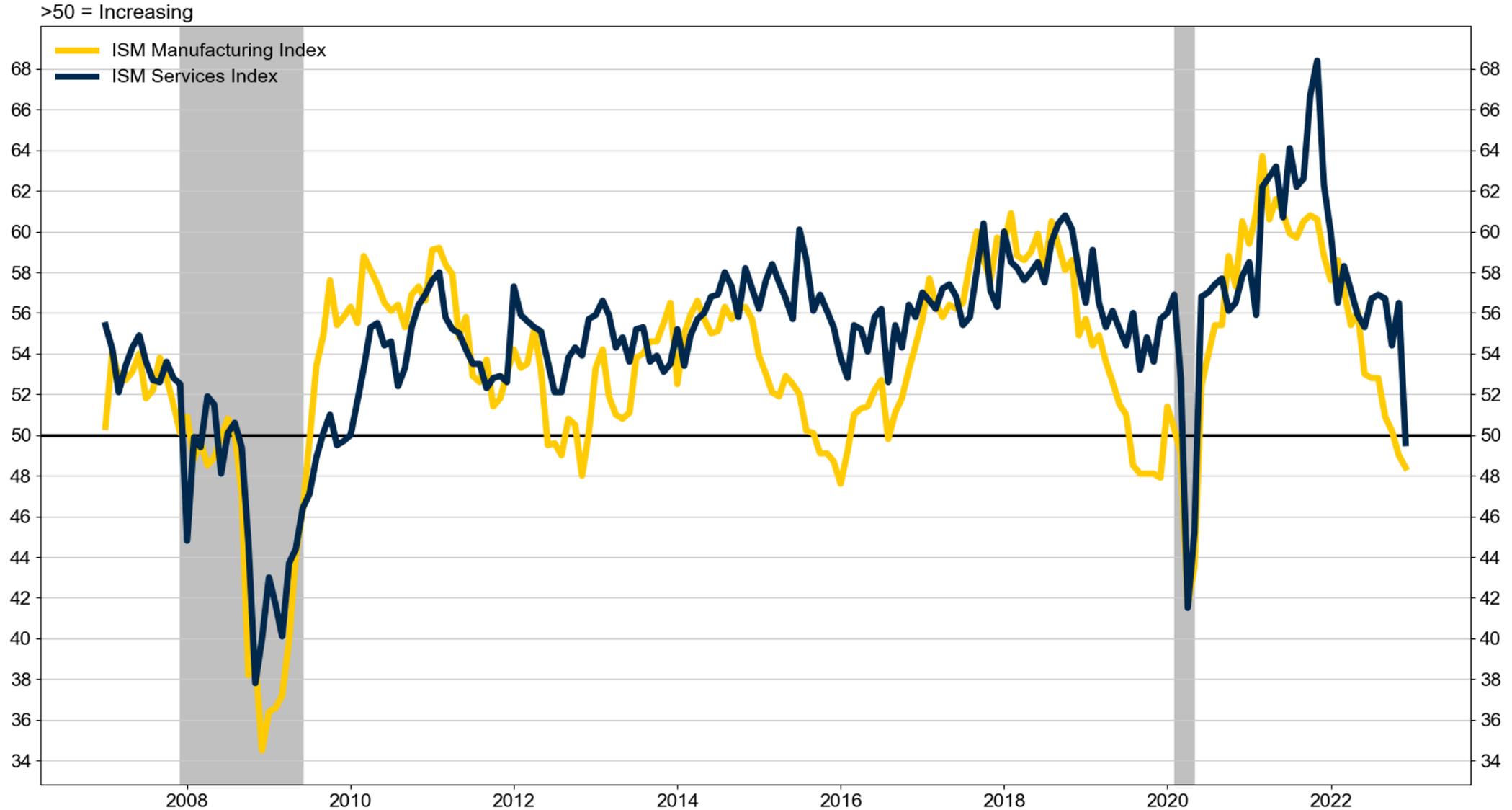
# Core CPI: Historical vs Retroactive Research Series



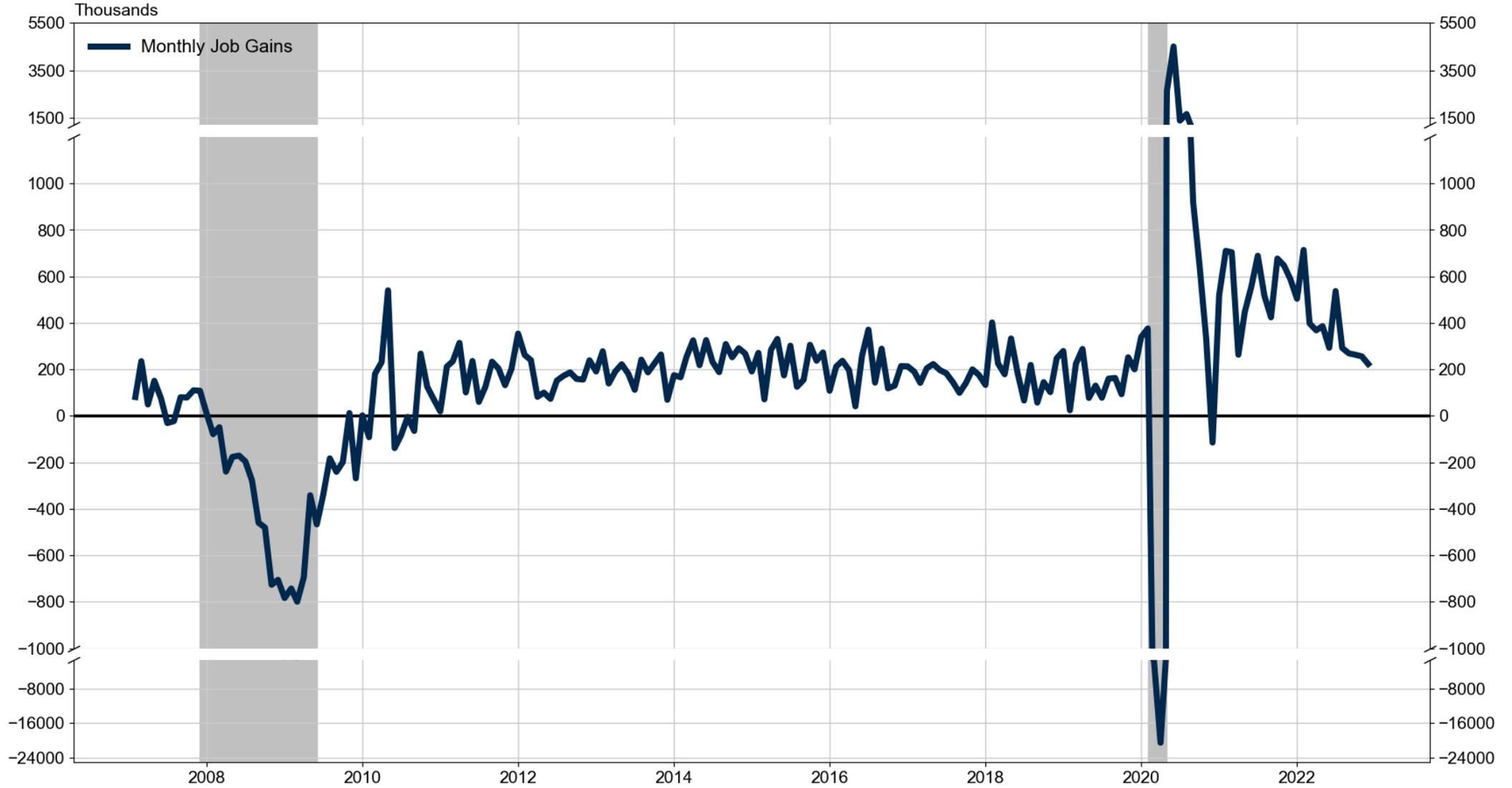
# Residential Housing Market Metrics



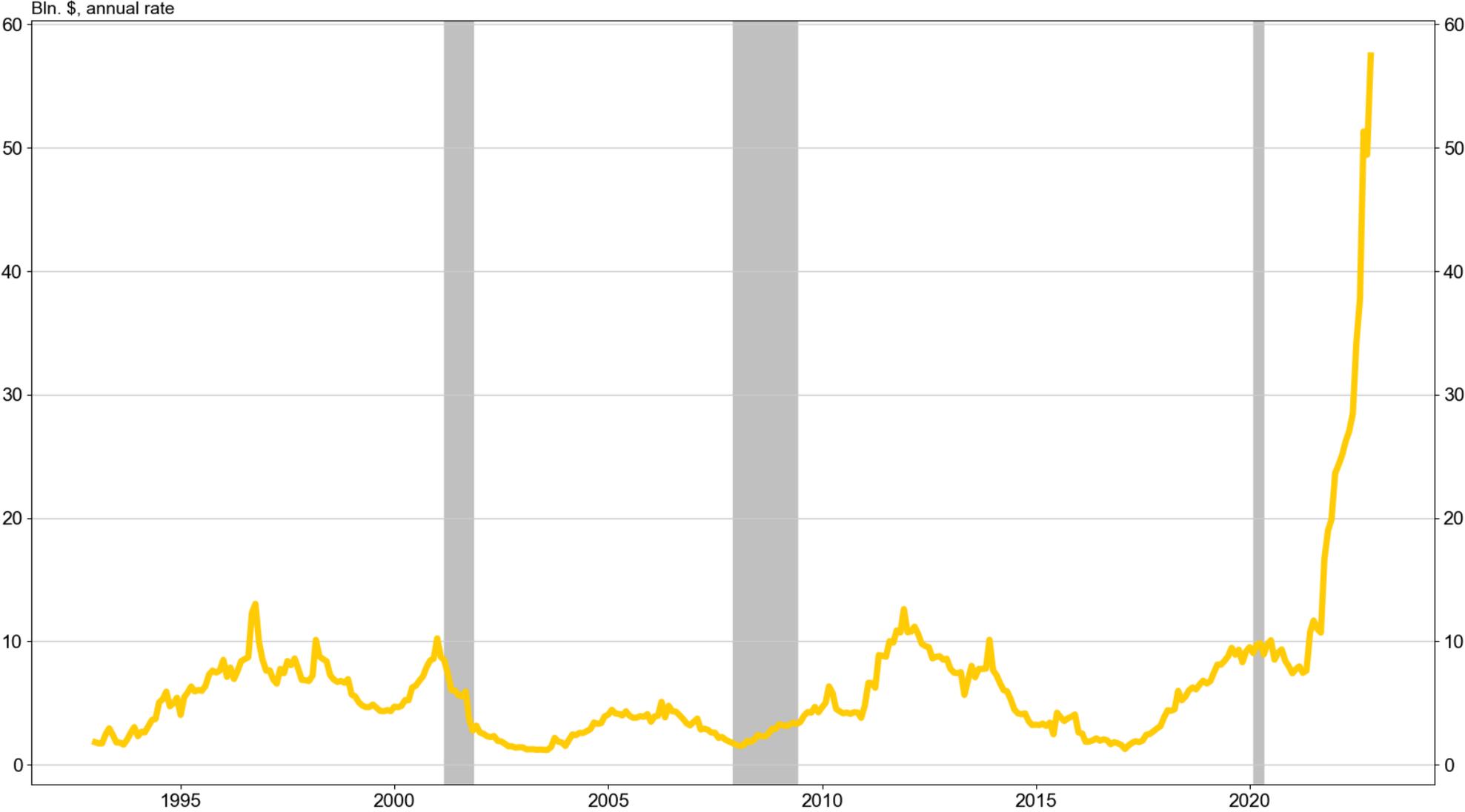
# Institute for Supply Management Diffusion Indices



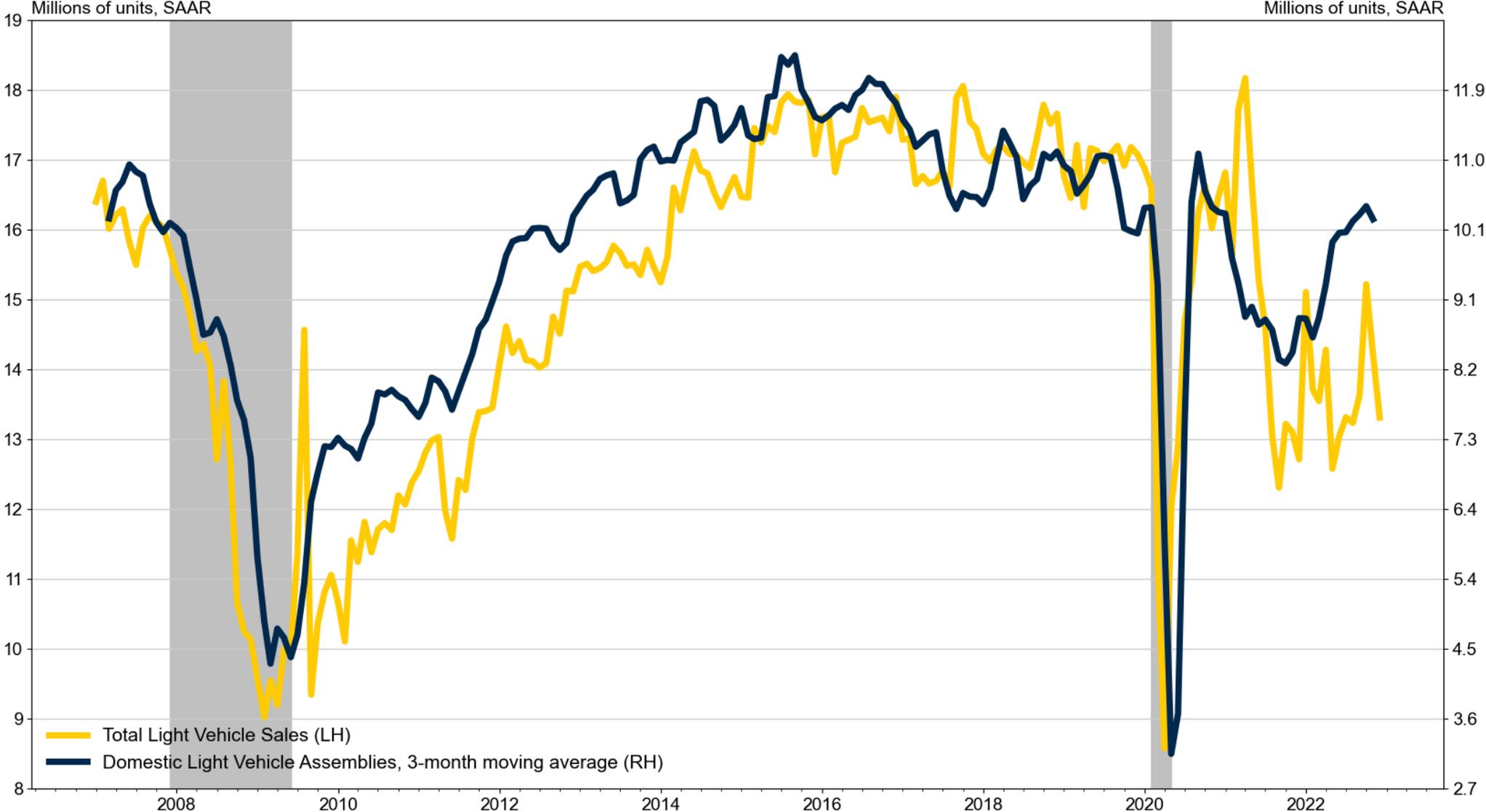
# Monthly Payroll Job Gains



# Nonresidential Structures, Computer/Electronic/Electrical Manufacturing



# Domestic Light Vehicle Sales and Assemblies



**Inputs**

# Policy

## ➤ Monetary Policy:

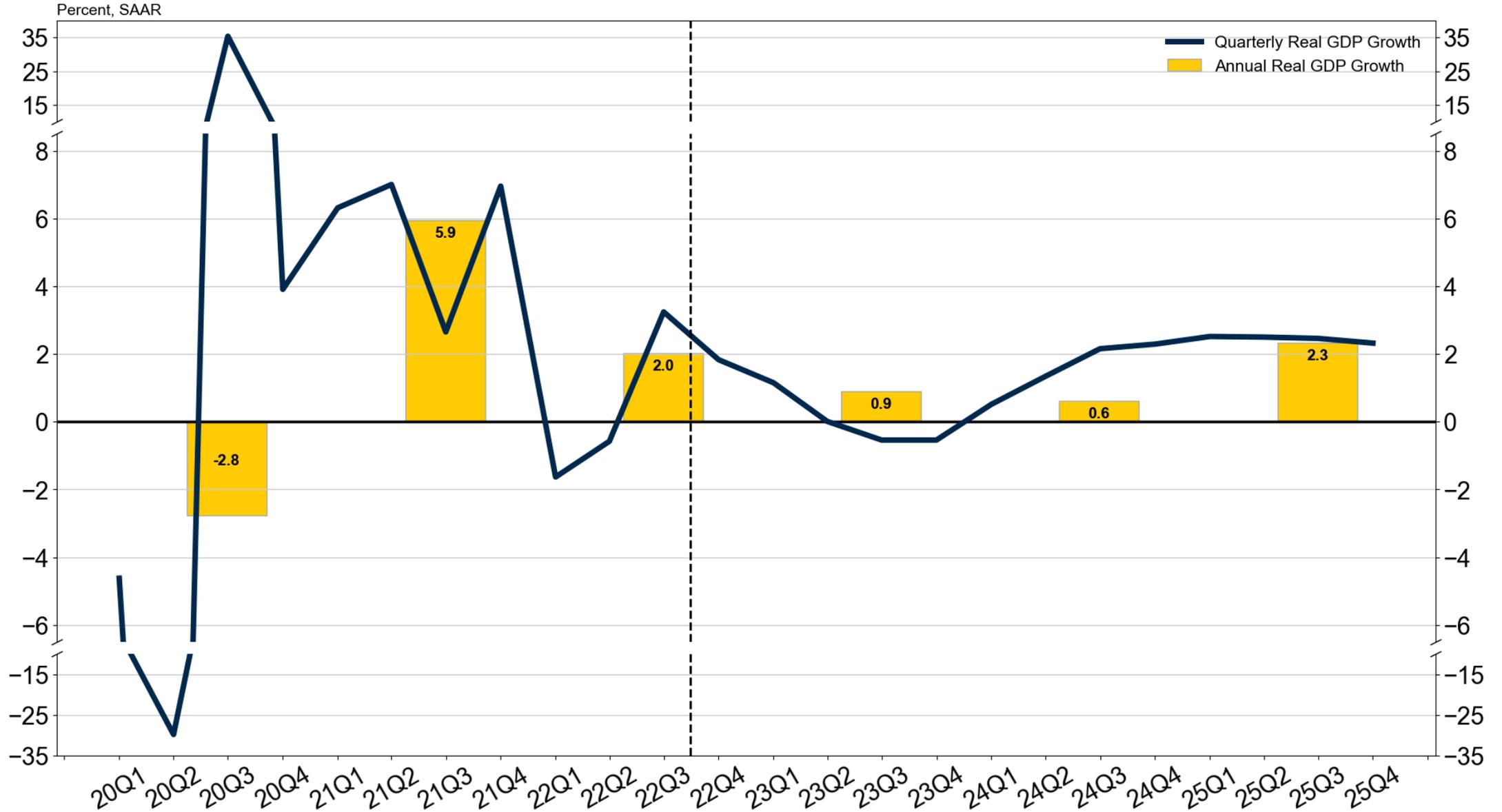
- Terminal fed funds rate range at **5.0–5.25** percent, peaking in 2023Q2
- The Fed starts easing in early 2024, once PCE inflation forecasts show imminent return to 2.0 percent inflation
- Gradual fed funds rate range cuts through 2024-25

## ➤ Fiscal Policy:

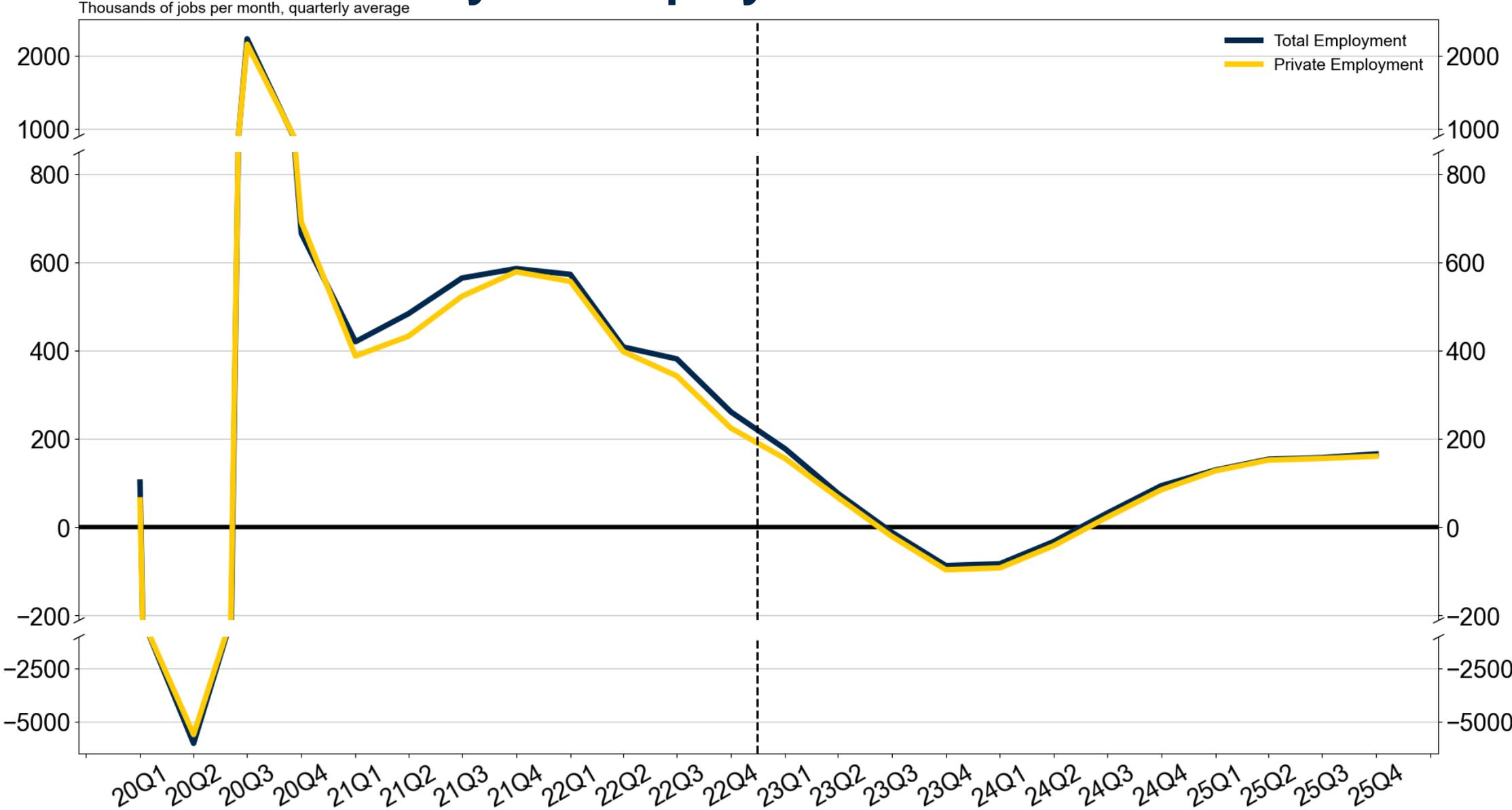
- Divided government is back
- Defense spending set for brisk growth
- Slow growth of discretionary nondefense spending likely

# U.S. Forecast

# Real GDP Growth

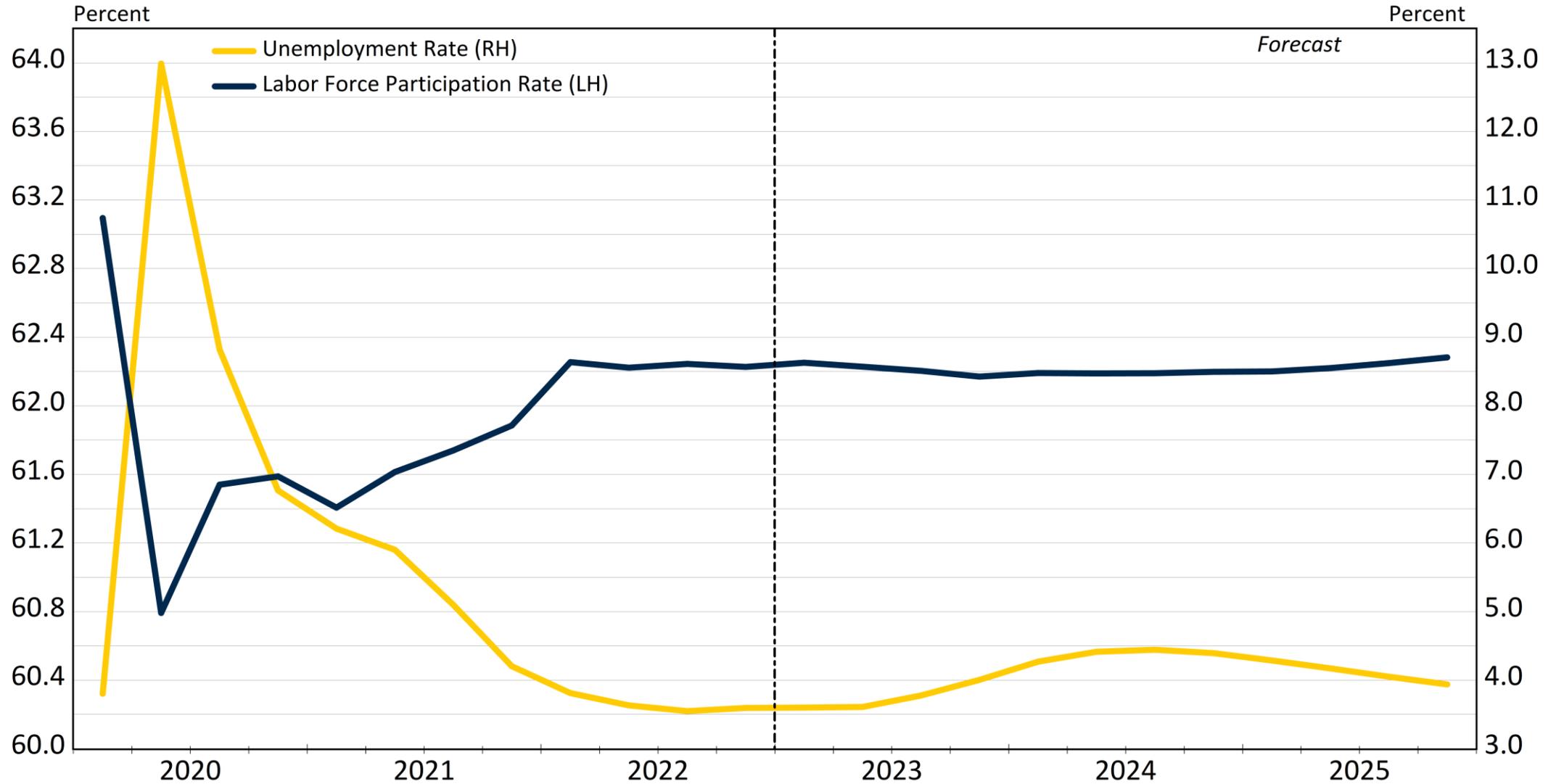


# Payroll Employment Growth

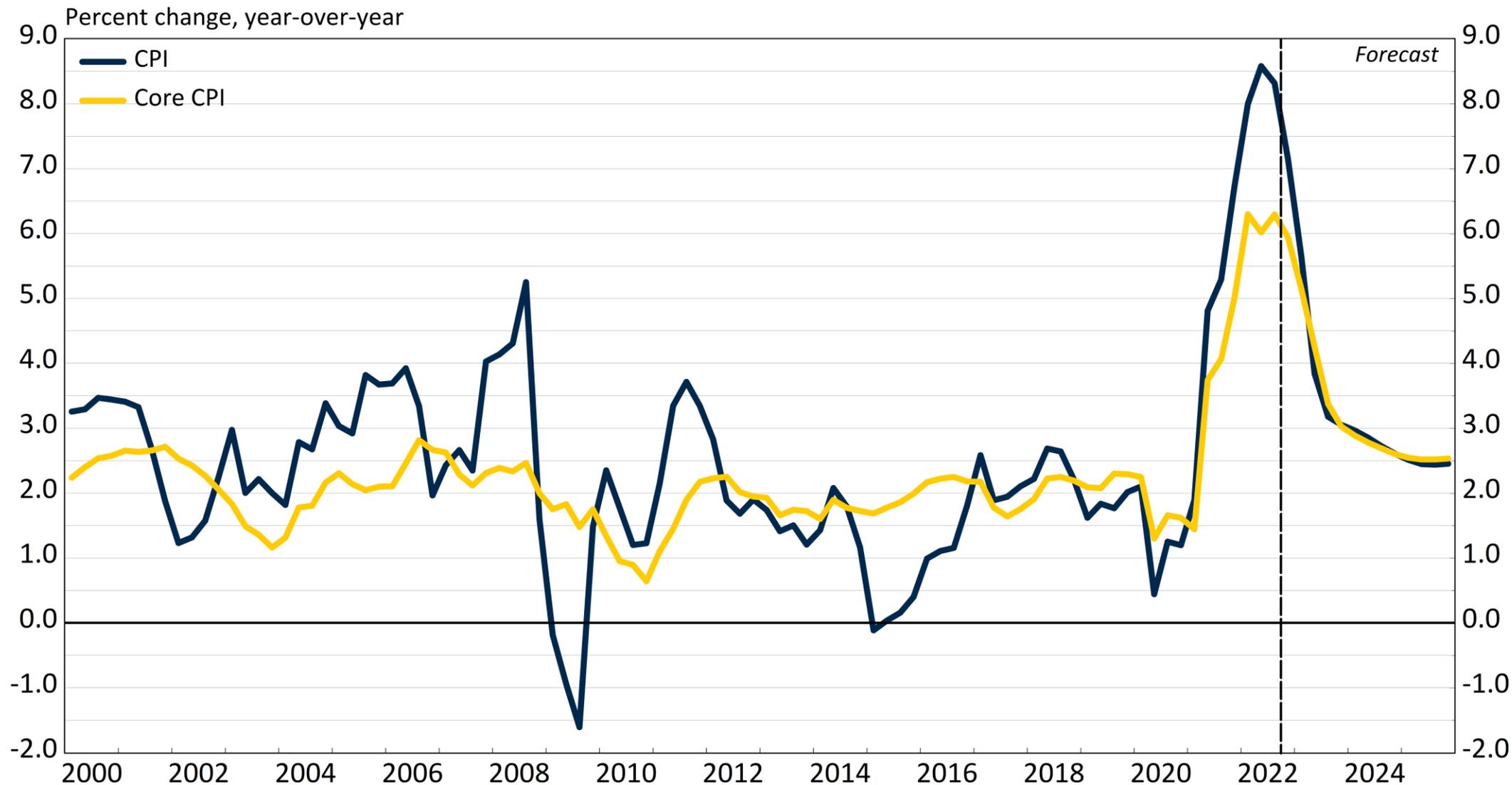


RSQE: January 2023

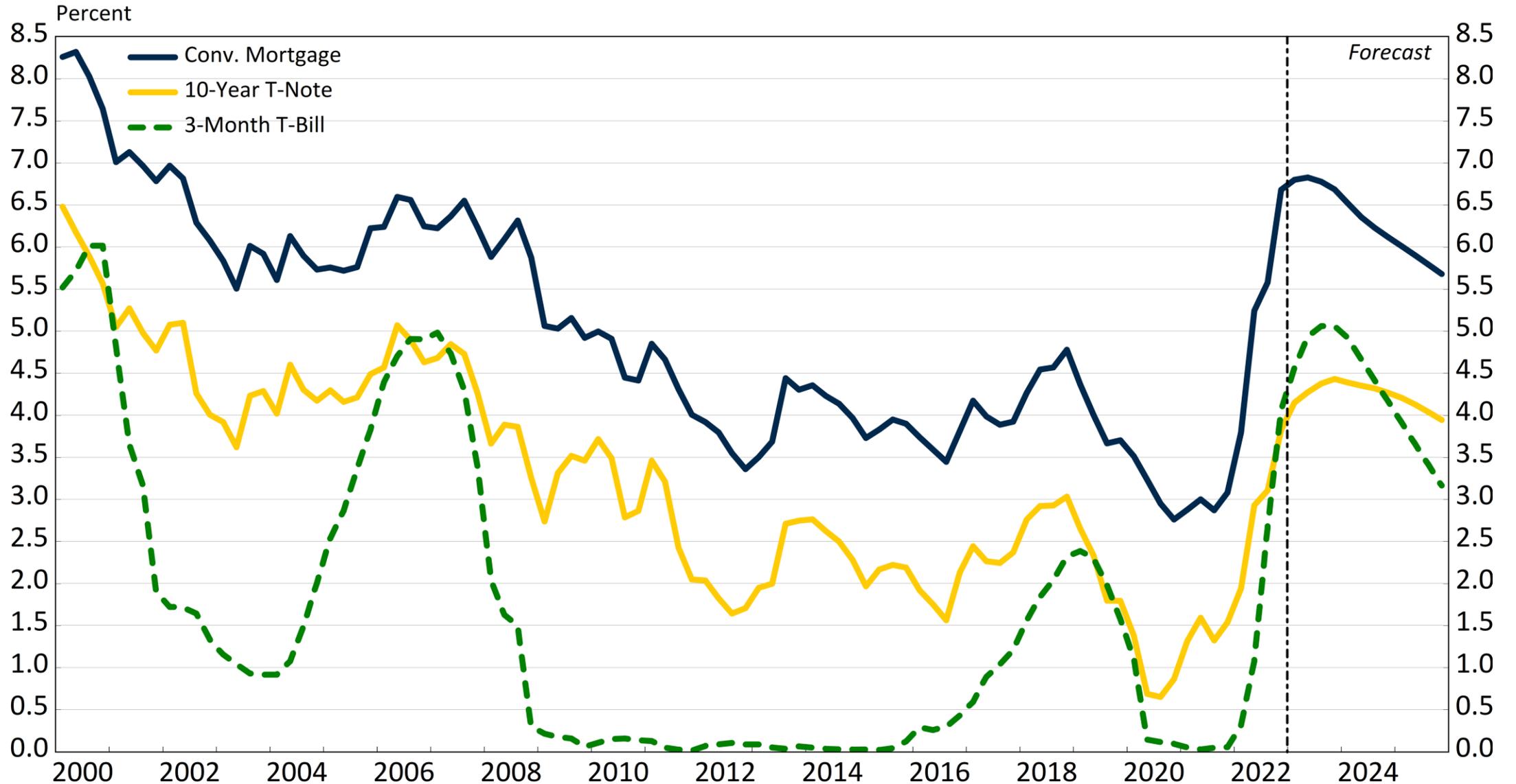
# Unemployment Rate and Participation Rate



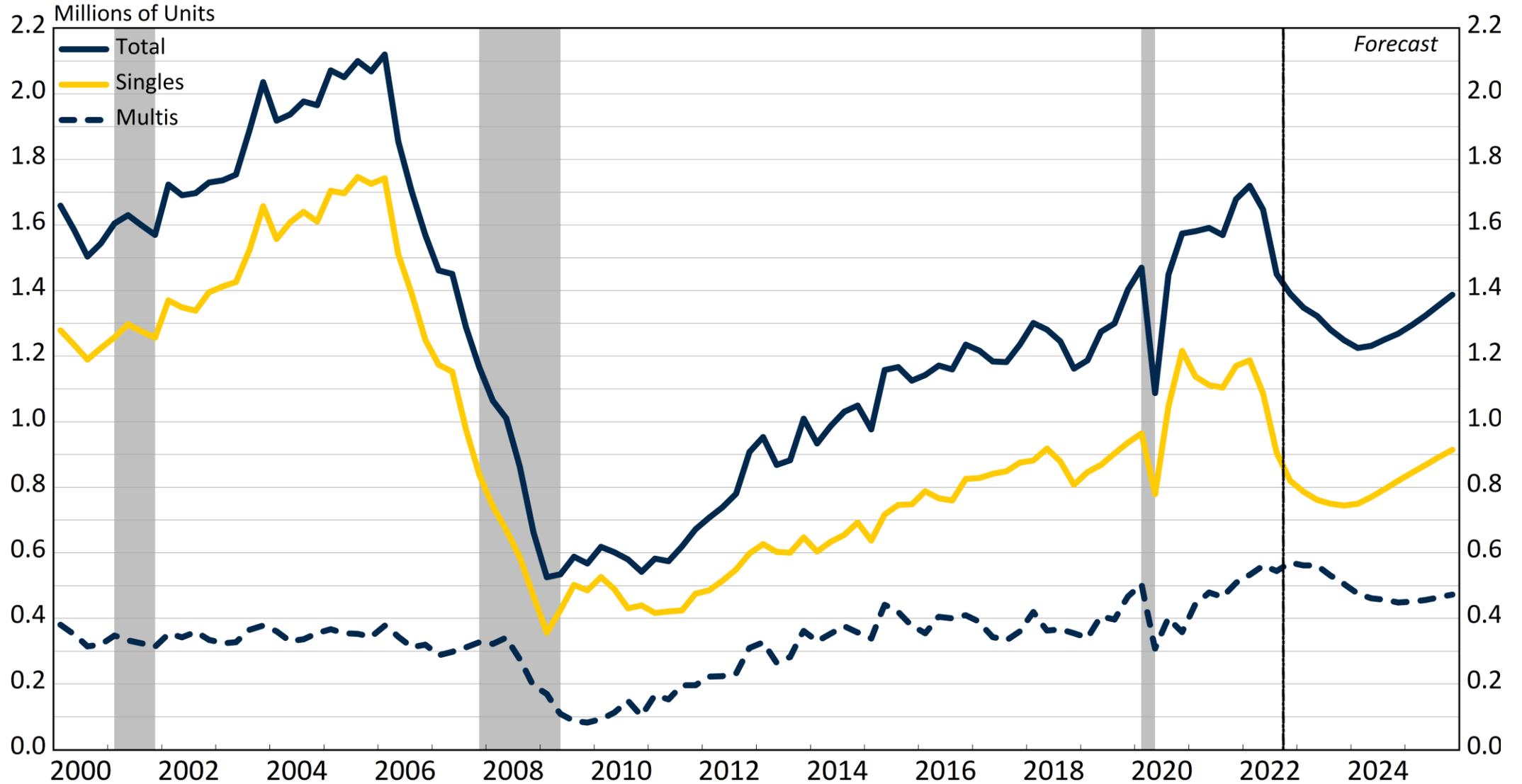
# Consumer Price Index (CPI-U)



# Interest Rates



# Housing Starts



# Risks

- Inflation Dynamics
- Monetary Policy
- Housing Sector
- War in Ukraine
- Financial Stress
- Fiscal path
- Pandemic

# The Michigan Economic Outlook For 2023–2025



Consensus Revenue Estimating Conference

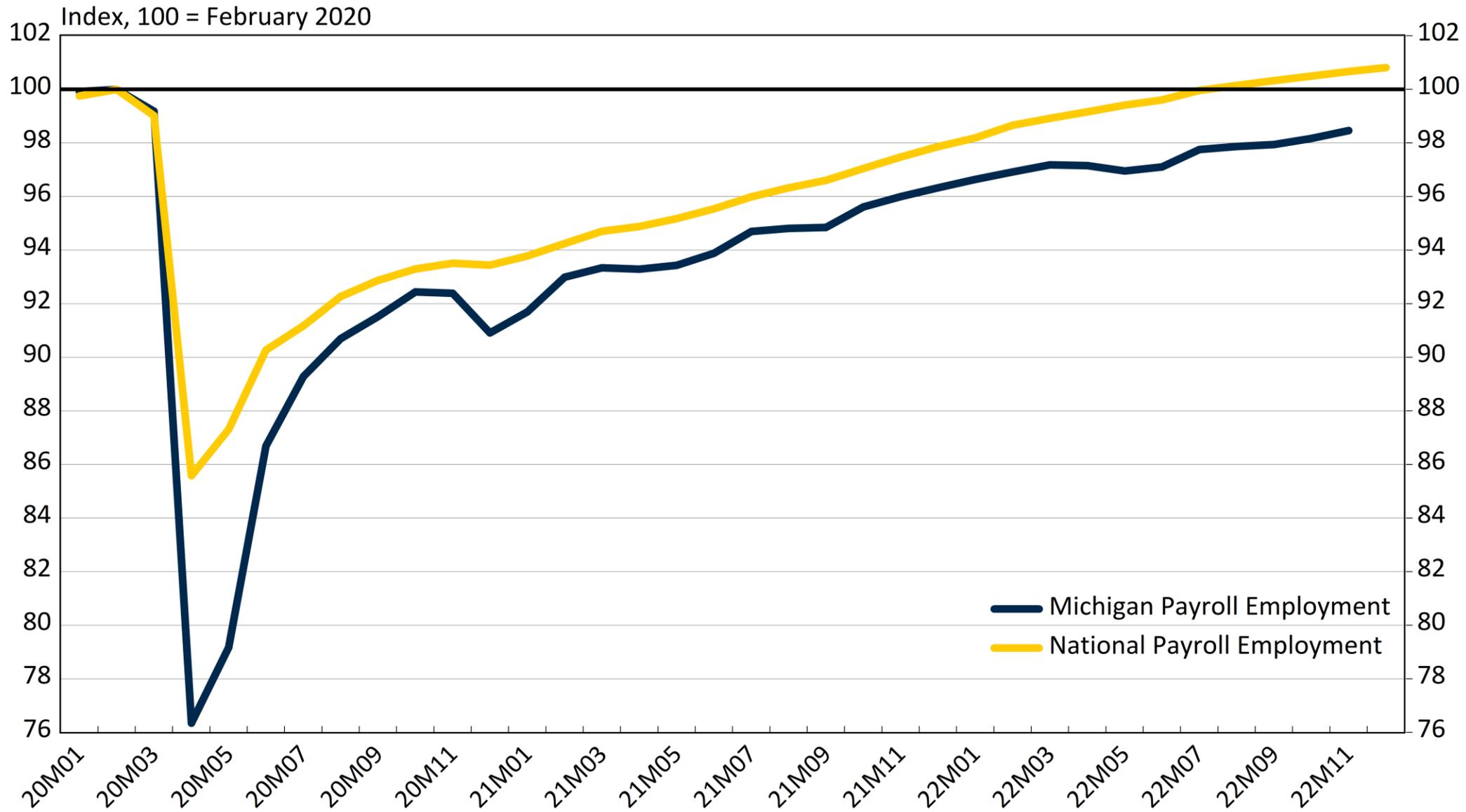
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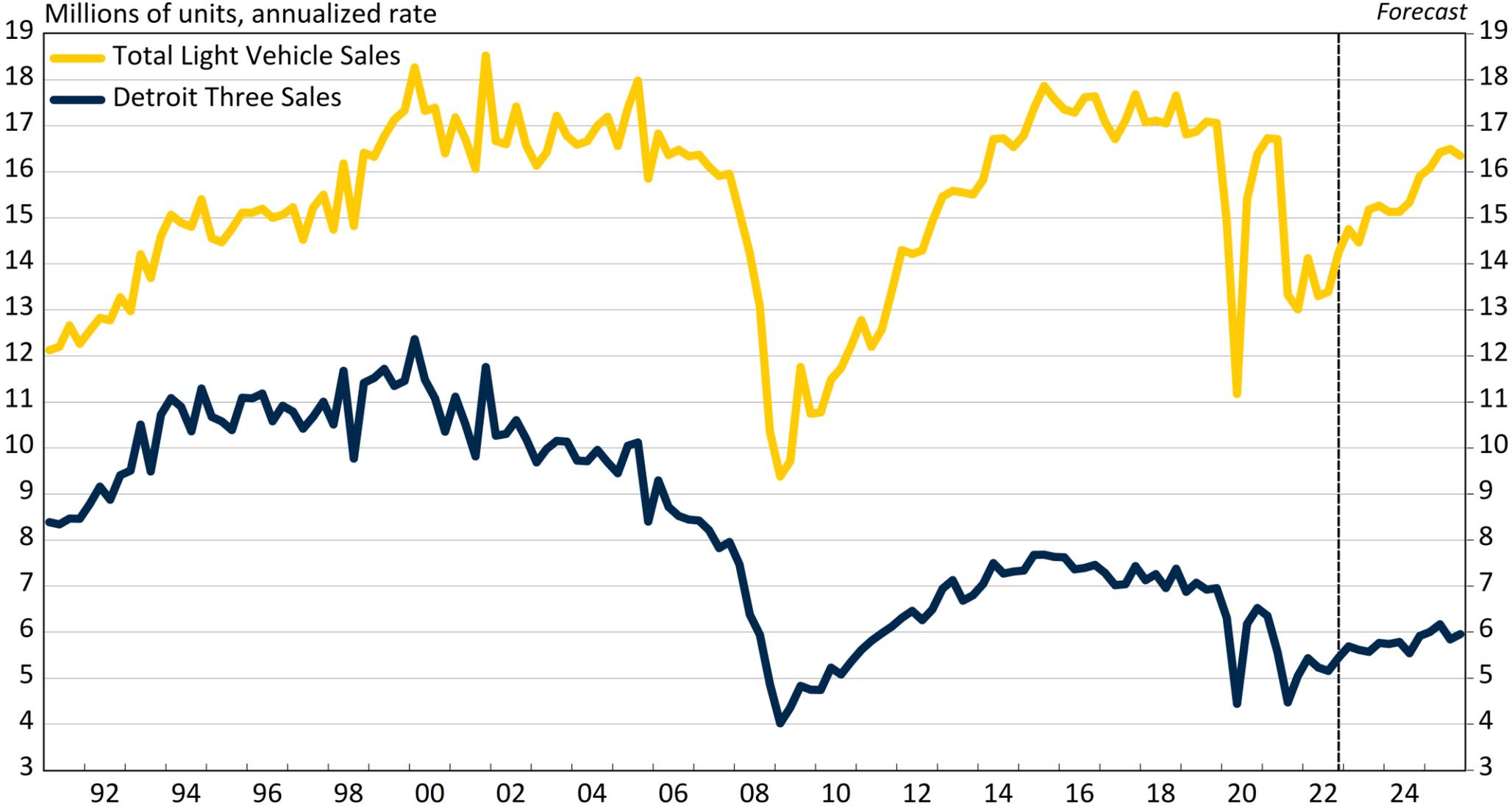


# Michigan Economic Outlook

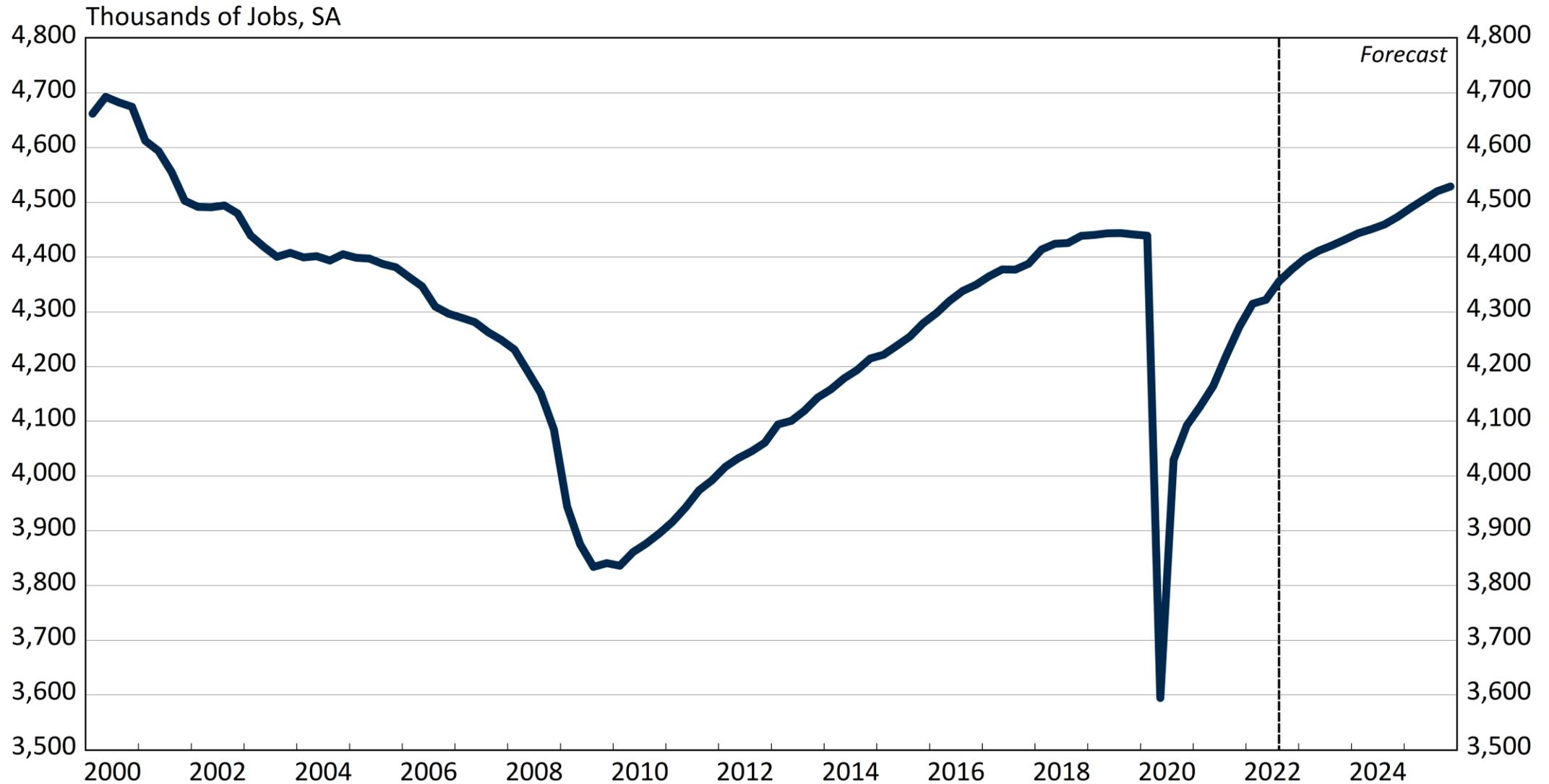
# Michigan is Still Climbing Out of a Deep Jobs Hole



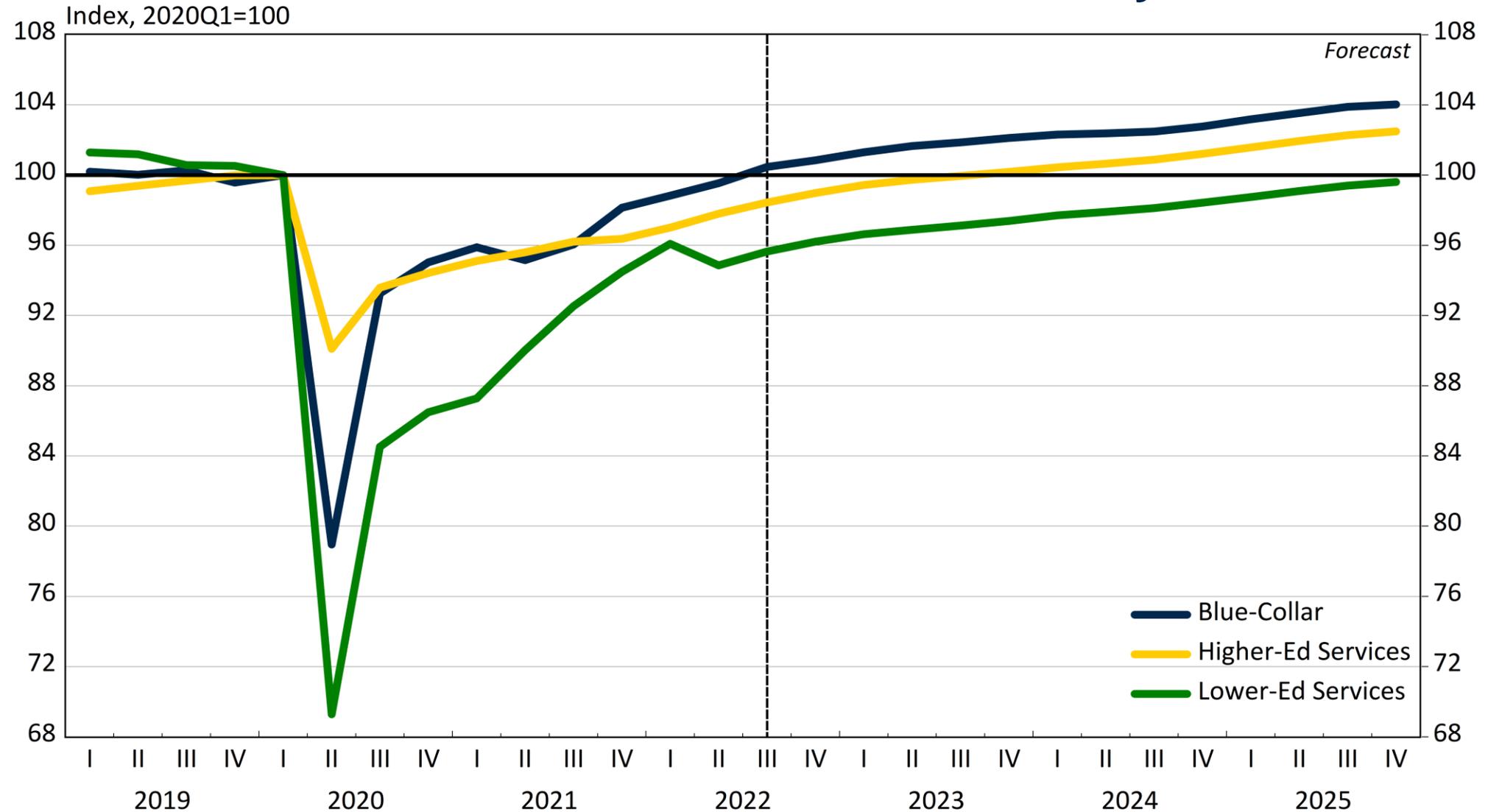
# Quarterly Light Vehicle Sales: Slow Recovery Ahead



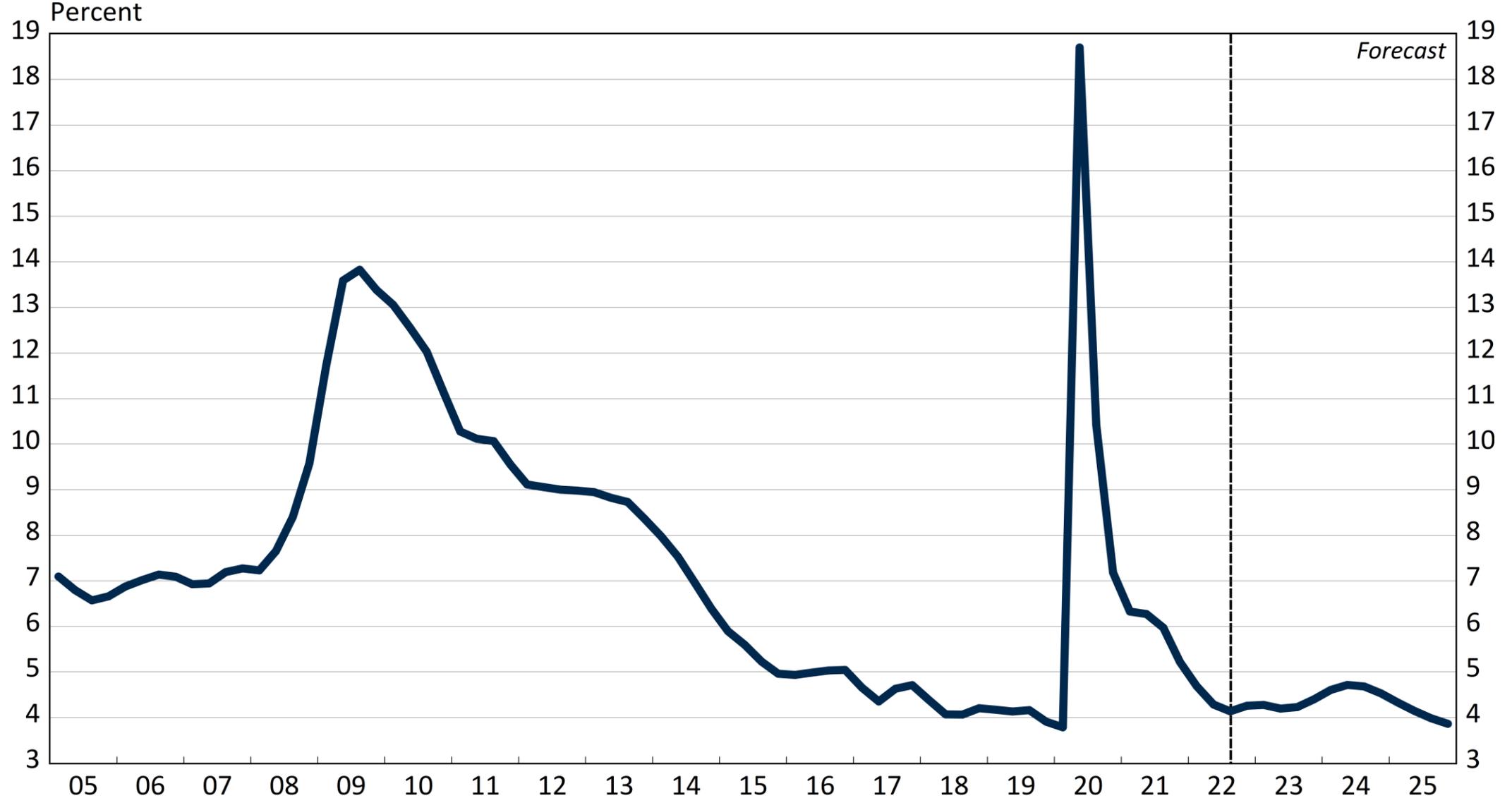
# Quarterly Michigan Payroll Employment: Full Recovery in Early 2024



# Employment Outlook by Industry Group: Blue-Collar Industries Lead the Way



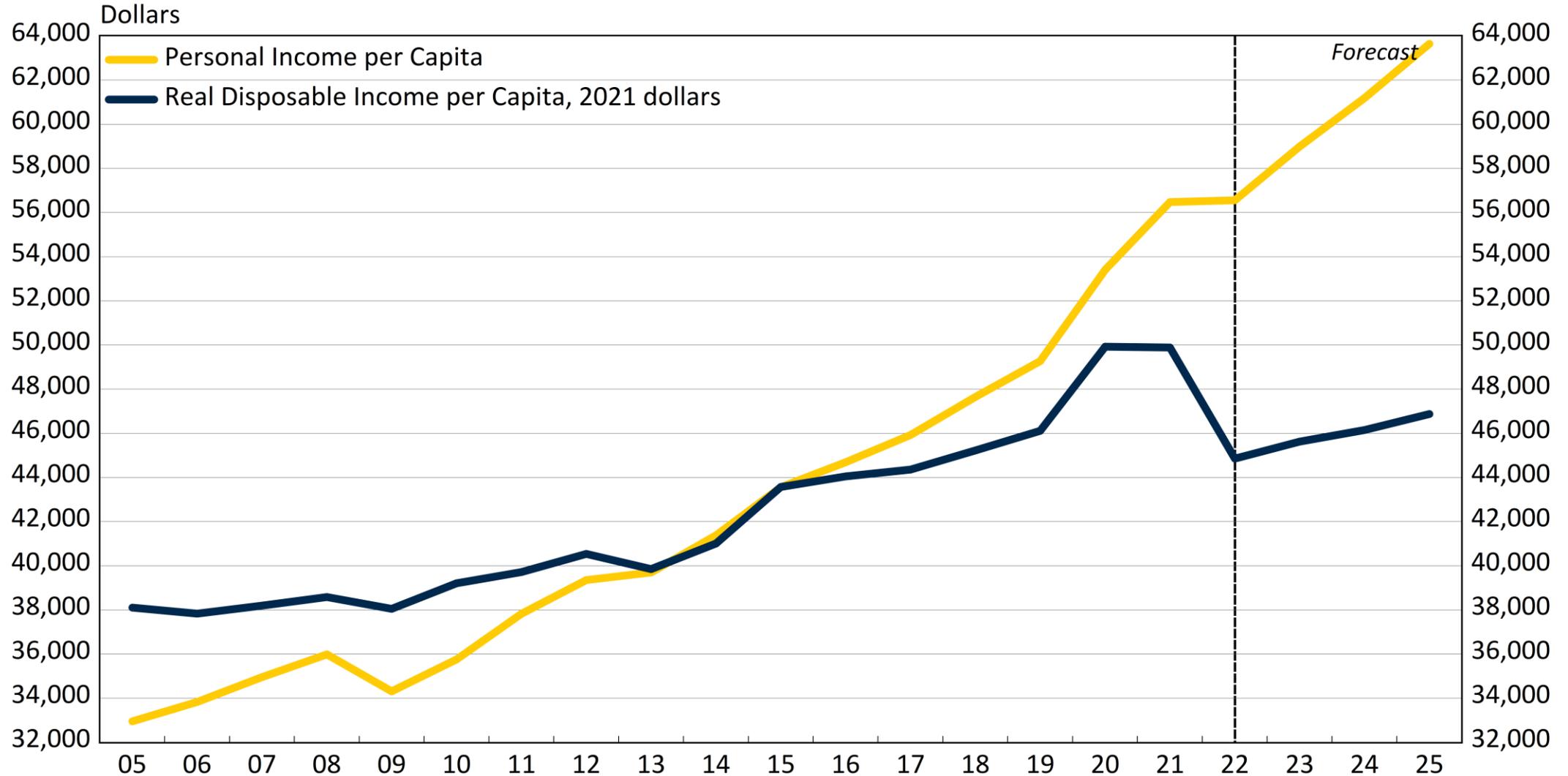
# Michigan's Unemployment Rate Rises Temporarily



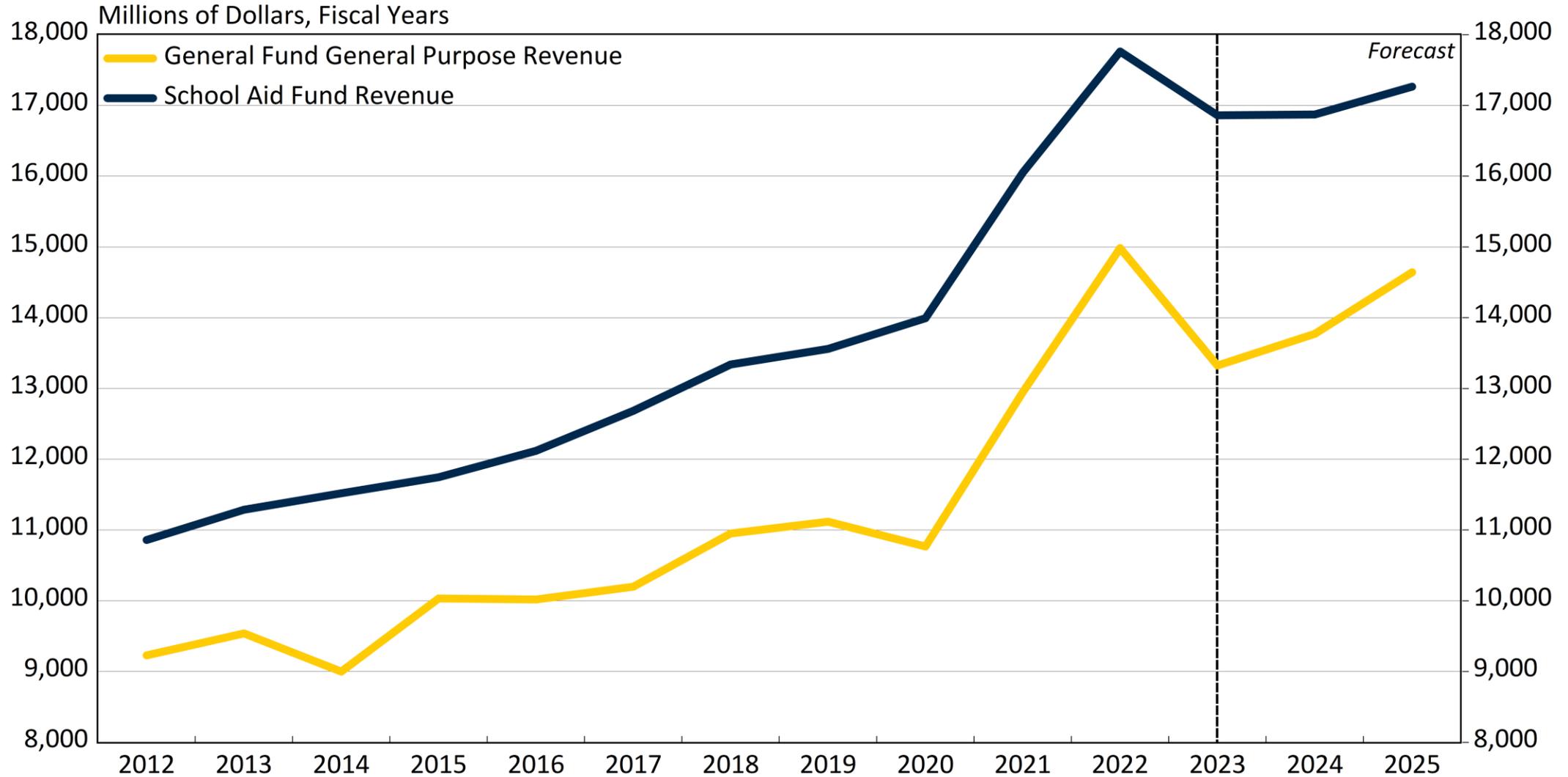
# Labor Force Participation Recovers Modestly



# Michigan Personal Income...Inflation Takes a Bite

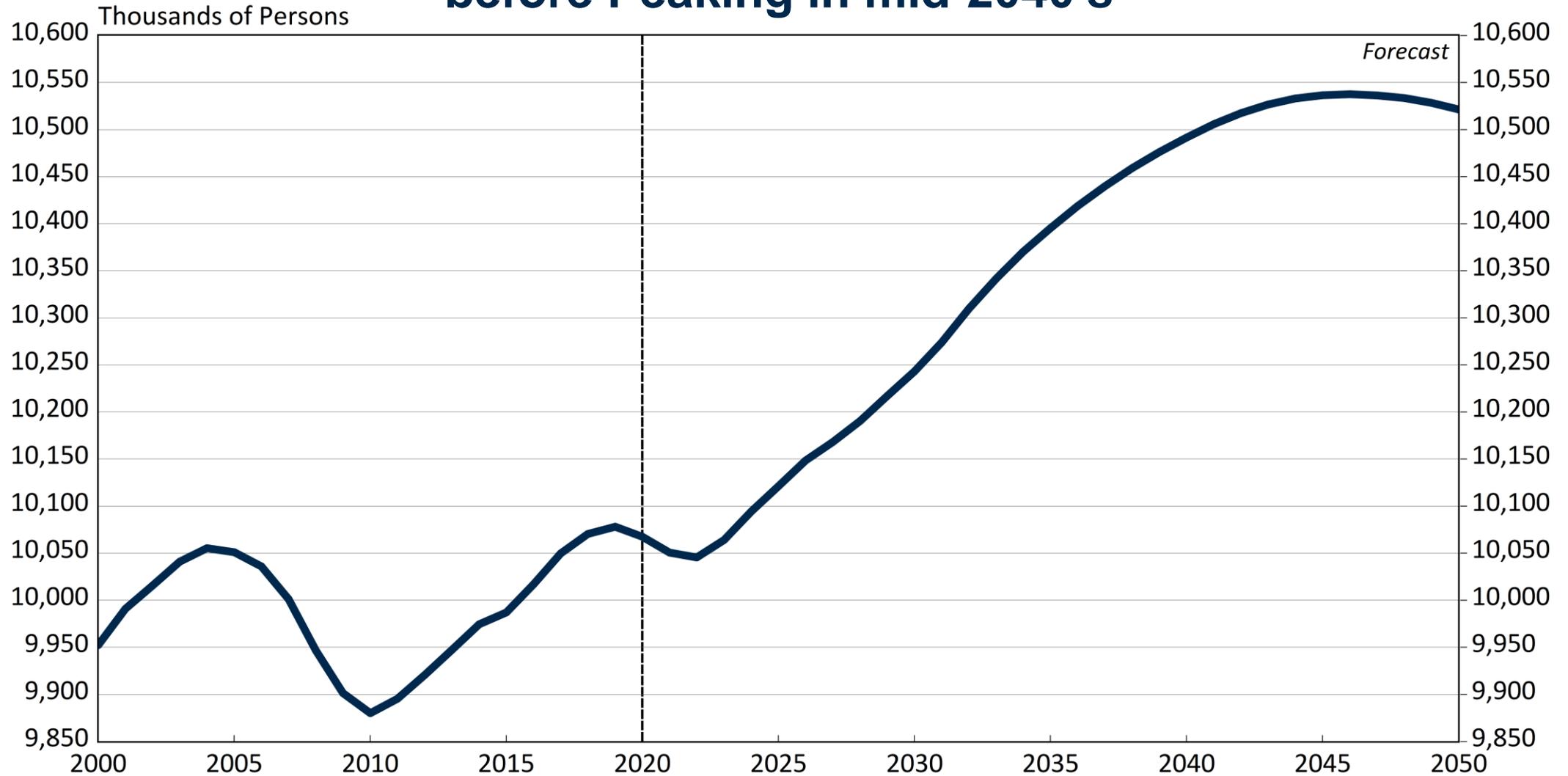


# State Tax Revenues: A Partial Decline Toward Trend

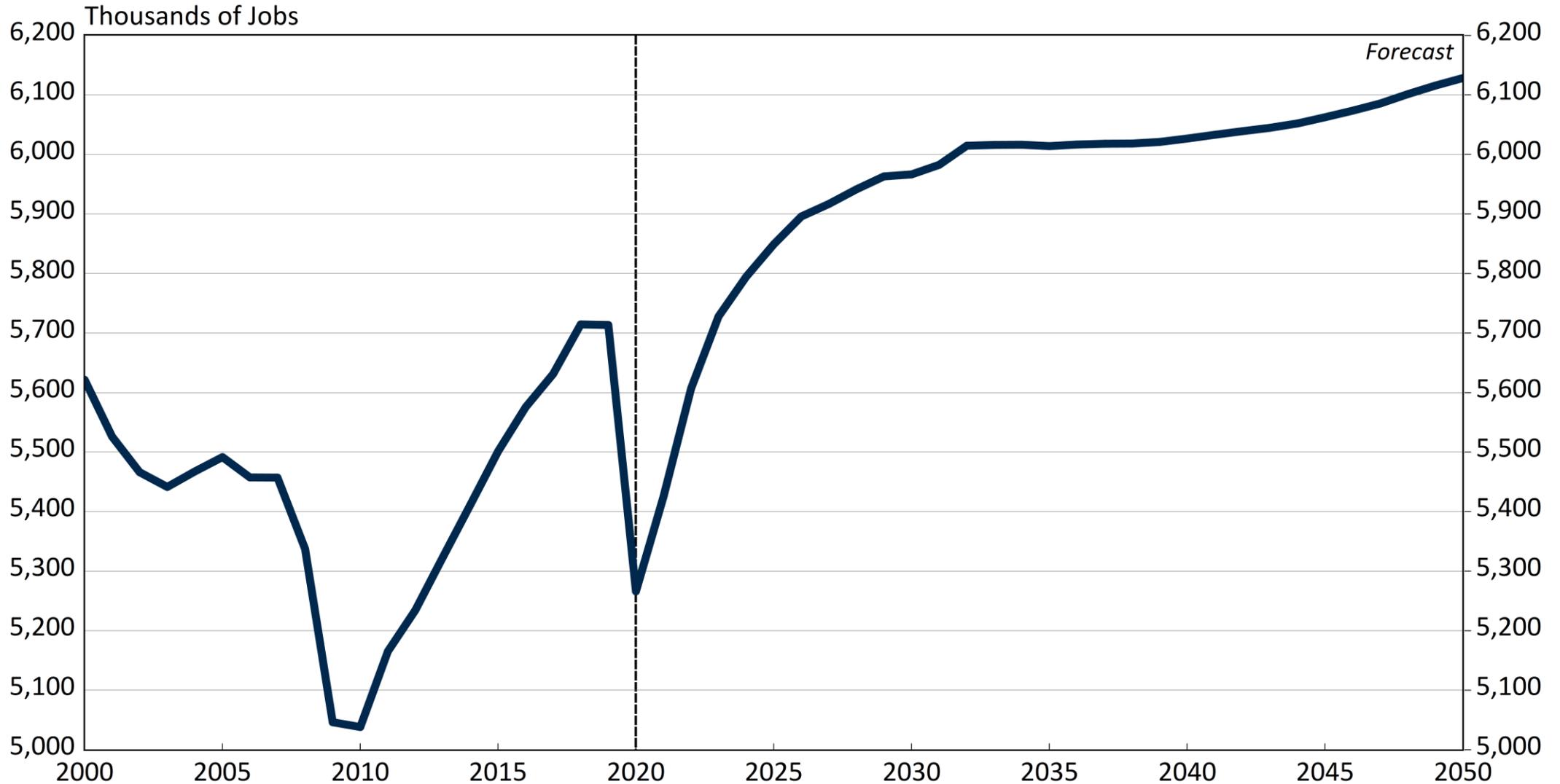


# Michigan's Long-Run Outlook

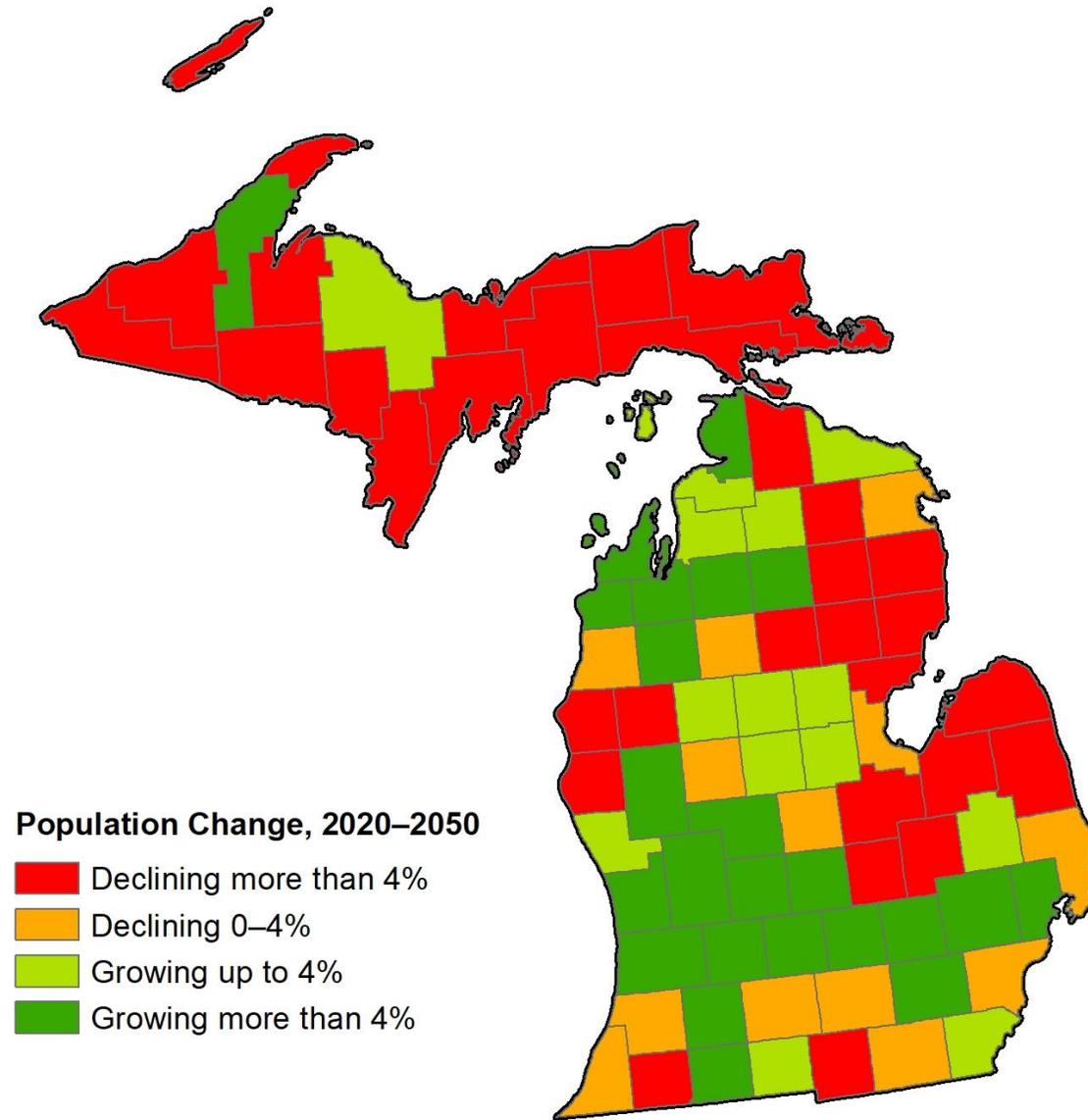
# Michigan Population Grows Modestly before Peaking in mid-2040's



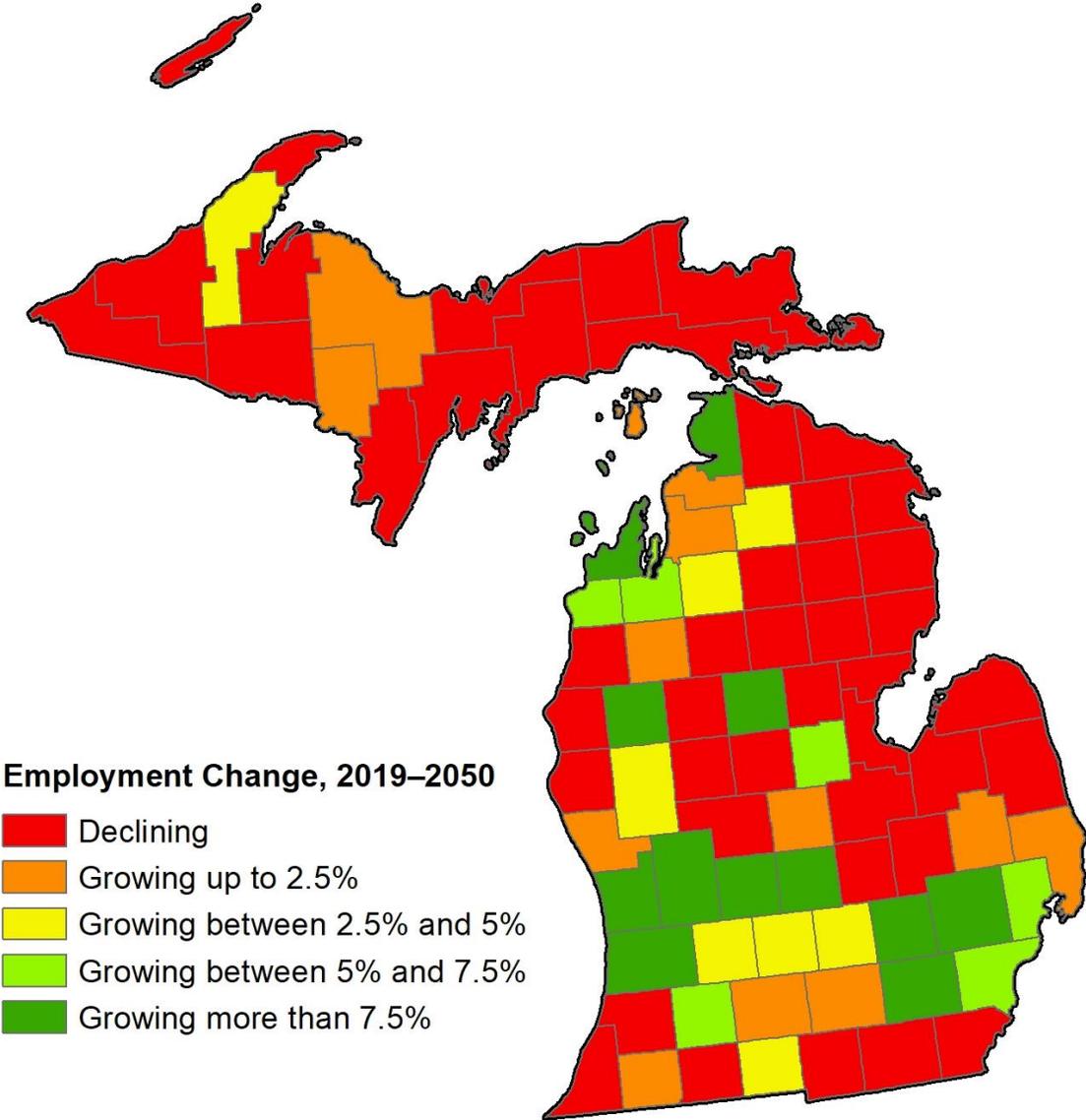
# Michigan Employment (BEA Measure): Healthy Recovery through Early 2030's, then Slower Growth



# County-Level Total Population Change, 2020–2050



# County-Level Total Employment Change, 2019–2050



# Concluding Thoughts

- We are forecasting a complete recovery in payroll employment by early 2024
- The unemployment rate rises to 4.7% in mid-2024 before declining
- Personal income per capita in 2025 is nearly 30% higher than in 2019
  - But inflation eats away almost all of those gains
- State tax revenue declines \$2.6 billion in fiscal 2023 following the boom of the past two years
- Major risks are tilted to the downside, including:
  - Inflation remaining elevated
  - Demand for autos falling
  - Job losses in construction



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