

**ECONOMIC OUTLOOK  
AND  
REVENUE ESTIMATES  
FOR  
MICHIGAN**

**FY 2014-15  
THROUGH  
FY 2016-17**



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January 2015



# FOREWORD

This report includes a national and State economic forecast for calendar year (CY) 2014 through CY 2017. It also presents preliminary final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2013-14, revised revenue estimates for FY 2014-15 and FY 2015-16, and initial estimates for FY 2016-17. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 16, 2015, 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 2017, 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

After an unusually weak first quarter of 2014, the national economy has been improving at a modest pace. The housing sector continues to expand and light motor vehicle sales are increasing steadily. In addition, non-farm payroll employment is on track to increase 1.8% in 2014 on the strength of broad-based gains across all major economic sectors.

Gross Domestic Product (GDP) growth is expected to accelerate from an anticipated 2.4% rate in CY 2014 to 3.2% in CY 2015. Continued economic growth, albeit at a somewhat slower pace, should continue throughout the forecast period.

Michigan's economy and state revenue will be significantly affected by the strength of the national recovery. Through November, Michigan's non-farm employment has grown just 0.7% or by 37,700 jobs in 2014. This increase has been led by gains in construction, professional and business services, manufacturing, and wholesale trade.

## **U. S. Forecast**

Real GDP growth is forecast to increase 3.2% in CY 2015. It is forecast to increase 2.9% in CY 2016, and grow 2.8% in CY 2017.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 0.6% in CY 2015, 2.1% in CY 2016, and 1.9% in CY 2017.

Estimated light vehicle sales of 16.4 million units in CY 2014 are forecast to grow to 16.8 million units in CY 2015, 17.1 million units in CY 2016, and 17.4 million units in CY 2017. The import share of light vehicles is forecast to be 21.0% in CY 2014 and then dip to approximately 20.3% through the remainder of forecast horizon.

The national unemployment rate is expected to be 6.2% in CY 2014; it is forecast to decline to 5.5% in CY 2015, 5.3% in CY 2016, and 4.9% in CY 2017.

Interest rates on three-month T-bills are expected to average 0.3% in CY 2015, 1.1% in CY 2016, and 2.0% in CY 2017 as the Federal Reserve begins allowing interest rates to rise.

## **Michigan Forecast**

Michigan personal income is expected to increase 4.2% in CY 2014; it is forecast to increase 4.3% in CY 2015 and 4.5% in both CY 2016 and CY 2017.

Michigan's unemployment rate is expected to be 7.4% in CY 2014; it is forecast to decrease to 6.8% in CY 2015, 6.5% in CY 2016, and 6.2% in CY 2017.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 0.4% in CY 2015, 1.8% in CY 2016, and 1.6% in CY 2017.

### ***State Revenue***

Baseline revenue does not include the impact of partial-year policy changes or certain other policy changes that have recently been adopted. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The preliminary final total baseline GF/GP and SAF revenue was \$21.3 billion in FY 2013-14. It is forecast to increase 3.3% in FY 2014-15, 3.2% in FY 2015-16, and 3.5% in FY 2016-17.

Net revenue captures the effects of all policy changes and represents actual resources available. Preliminary final total net GF/GP and SAF revenue was \$20.5 billion in FY 2013-14, which would be a 1.5% decrease from FY 2012-13. It is forecast to increase 3.8% in FY 2014-15. Total net GF/GP and SAF revenue is expected to increase 3.2% in FY 2015-16 and 2.6% in FY 2016-17.

**Table 1** reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the May 2014 adjusted consensus estimates and the recommended revisions to these estimates for FY 2013-14 through FY 2015-16. The May 2014 adjusted consensus estimates include the May 2014 consensus estimates plus enacted tax changes since May 2014. Preliminary final FY 2013-14 figures suggest a decrease of \$287.4 million from the May 2014 adjusted consensus estimates; the recommended revision for FY 2014-15 is a decrease of \$361.4 million and for FY 2015-16 is a decrease of \$507.5 million.

A substantial portion of the reductions from the May 2014 consensus estimates can be attributed to existing certificated credits that can still be claimed under the Michigan Business Tax.

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

Total state revenue is expected to be below the constitutional state revenue limit by \$8.8 billion in FY 2013-14; it is estimated to be under the limit by \$8.4 billion in FY 2014-15, \$9.1 billion in FY 2015-16, and \$10.0 billion in FY 2016-17.

### ***Fund Balances***

For FY 2014-15, a year-end GF/GP shortfall of \$454.4 million is estimated.

For FY 2014-15, a year-end unreserved SAF balance of \$284.4 million is estimated.

The year-end Countercyclical Budget Stabilization Fund balance is estimated to be \$386.4 million for FY 2013-14, \$499.9 million for FY 2014-15, \$618.0 million for FY 2015-16, and \$739.5 million for FY 2016-17.



**Table 1**  
**HFA JANUARY 2015 REVENUE ESTIMATES FOR FY 2014-15 THROUGH FY 2016-17**  
(Millions of Dollars)

	Preliminary Final <u>FY 2013-14</u>	HFA Est. <u>FY 2014-15</u>	HFA Est. <u>FY 2015-16</u>	HFA Est. <u>FY 2016-17</u>	<u>FY 2014-15</u> <u>% Change</u>	<u>FY 2015-16</u> <u>% Change</u>	<u>FY 2016-17</u> <u>% Change</u>
<b><u>Baseline</u></b>							
GF/GP	\$9,737.6	\$10,068.2	\$10,447.3	\$10,872.6	3.4%	3.8%	4.1%
SAF	11,567.9	11,932.4	12,260.8	12,626.0	3.2%	2.8%	3.0%
<b>Total</b>	<b>\$21,305.5</b>	<b>\$22,000.5</b>	<b>\$22,708.1</b>	<b>\$23,498.6</b>	<b>3.3%</b>	<b>3.2%</b>	<b>3.5%</b>
<b><u>Net</u></b>							
GF/GP	\$9,007.7	\$9,445.7	\$9,801.3	\$10,019.6	4.9%	3.8%	2.2%
SAF	11,520.5	11,872.2	12,194.4	12,557.5	3.1%	2.7%	3.0%
<b>Total</b>	<b>\$20,528.2</b>	<b>\$21,317.9</b>	<b>\$21,995.8</b>	<b>\$22,577.1</b>	<b>3.8%</b>	<b>3.2%</b>	<b>2.6%</b>
<b><u>May 2014 Adjusted Consensus<sup>1</sup></u></b>							
<b><u>Net</u></b>							
GF/GP	\$9,319.3	\$9,826.0	\$10,245.3				
SAF	11,496.3	11,853.3	12,258.0				
<b>Total</b>	<b>\$20,815.6</b>	<b>\$21,679.3</b>	<b>\$22,503.3</b>				
<b><u>Recommended Revision</u></b>							
<b><u>Net</u></b>							
GF/GP	(\$311.6)	(\$380.3)	(\$444.0)				
SAF	24.2	18.9	(63.6)				
<b>Total</b>	<b>(\$287.4)</b>	<b>(\$361.4)</b>	<b>(\$507.5)</b>				

*NOTE: Numbers may not add due to rounding*

<sup>1</sup> The May 2014 adjusted consensus estimate includes the May 2014 consensus estimate plus enacted tax changes since May 2014.





# ECONOMIC REVIEW AND FORECAST

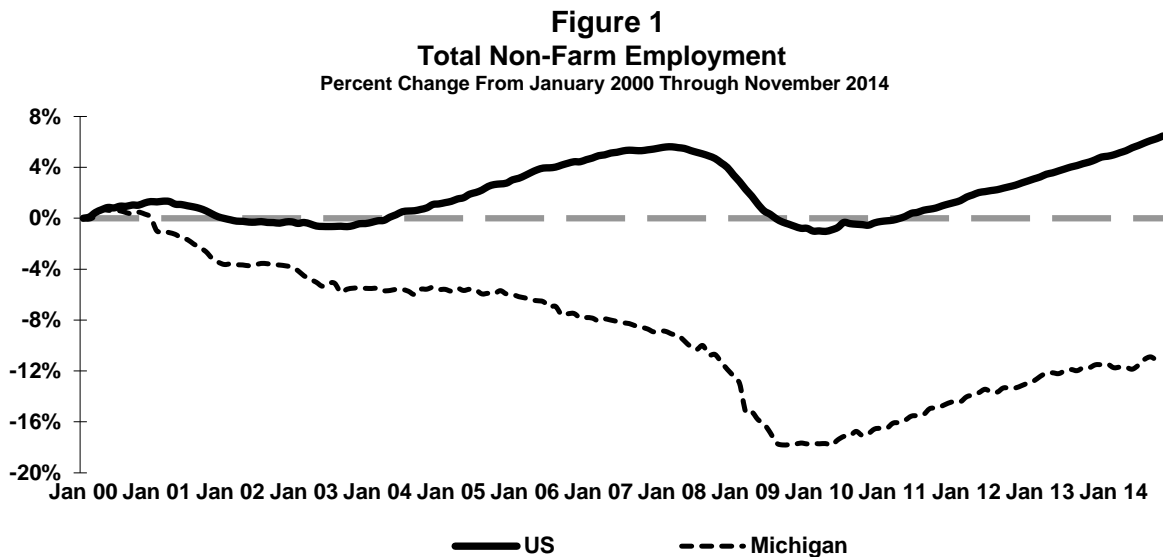
This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2014-15 through FY 2016-17.

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 January 2008 – at which point the national economy officially entered a severe recession.

Employment fell by more than 6% between January 2008 and February 2010, which translates into a loss of about 8.8 million jobs. Although employment began growing during 2010, only slightly more than one million jobs were added. Continued employment growth through all of 2011 and 2012 added more than 2.0 million jobs each year. In 2013 approximately 2.3 million jobs were added. Based on preliminary December data, an additional 2.9 million jobs have been added in 2014 with employment finally exceeding the pre-recession peak by just under 2.0 million jobs.

## 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 2014.



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

U.S. employment peaked in February 2001, and then began a long slide that did not end until August 2003. During this 30-month period, more than 2.7 million jobs were lost – about 91,800 jobs per month on average. This decline was followed by 53 consecutive months of job growth, and by January 2008, more than 8.1 million jobs had been added.

The ensuing recession saw 25 continuous months of employment declines during which almost 8.8 million jobs were lost. Job gains finally reappeared in March 2010, and modest job growth resumed during much of 2010. During a 39-month span of job growth from October 2010 through the end 2013, total non-farm employment increased by about 7.1 million jobs. By May 2014, U.S. non-farm employment recovered from the recession and as of November 2014, total employment was almost 7.0% higher than in January 2000.

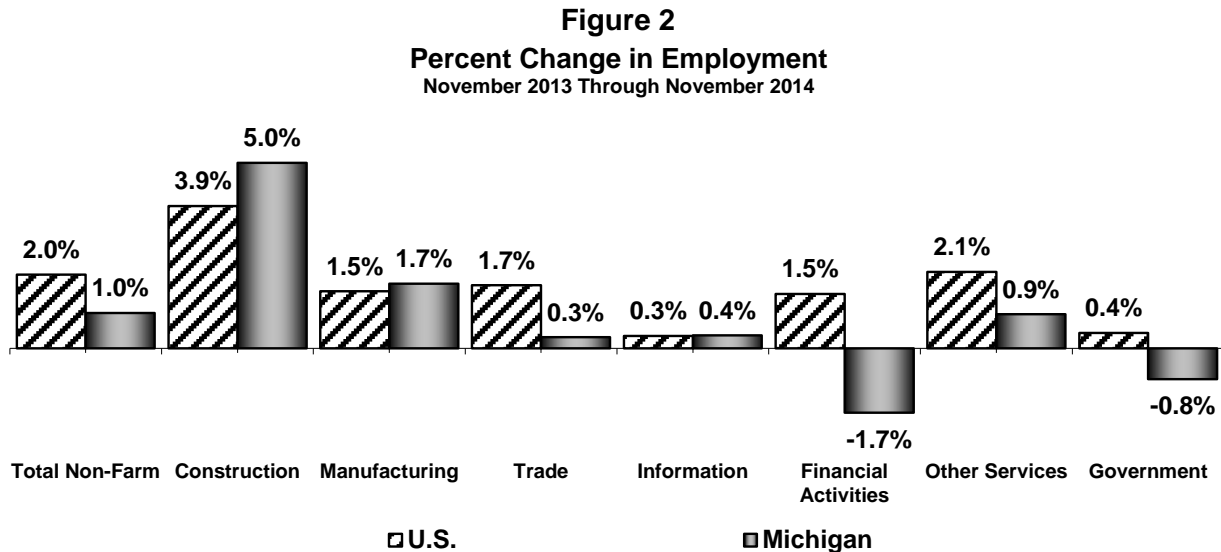
**Michigan Non-Farm Employment**

Although employment rebounded at the national level through 2007, conditions in Michigan 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. Throughout the 2000s, job losses continued to mount.

During 2008 and 2009, more than 400,000 additional jobs were lost, and although employment increased somewhat in 2010, only about 65,000 jobs were added. An additional 97,000 jobs were added during 2011, and while growth in total non-farm employment slowed to 37,000 during 2012, growth almost doubled in 2013 when 71,200 were added. The first 11 months of 2014 have seen modest job growth, as roughly 37,700 new jobs have been added. However, total non-farm employment remains 10.7% lower than in January 2000.

**U.S. and Michigan Employment**

Figure 2 shows the percent change in employment between November 2013 and November 2014 for all workers in several important sectors of the economy for both the U.S. and Michigan. Continued improving economic conditions at the national level are evident as the U.S. gained almost 2.8 million jobs over this period. In addition, employment in Michigan rose by 40,000.



### U.S. Employment

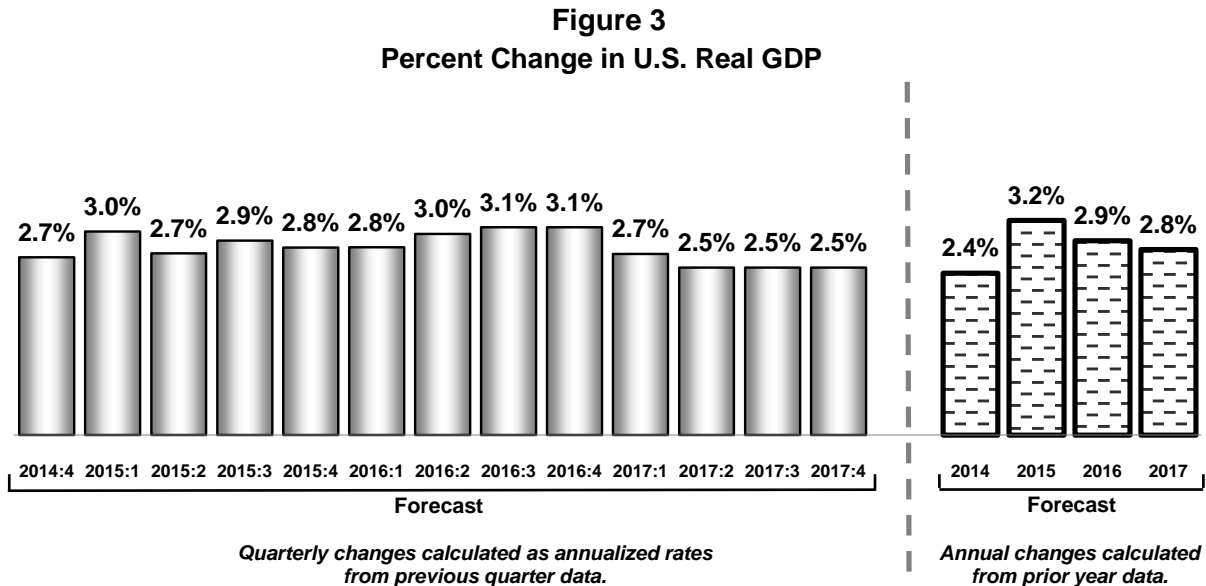
From November 2013 through November 2014, the U.S. experienced job gains in all categories. Total non-farm employment grew by 2.0%, led by a 3.9% increase in construction employment, and a 2.1% increase in the other services category. Although the manufacturing sector has been generally contracting for the past several years, it realized strong growth of 186,000 workers over this period.

### Michigan Employment

Job gains in Michigan over the past year (November 2013 to November 2014) totaled 40,000, and were concentrated in other services sector which gained 23,600 jobs. Employment in the construction and trade sectors rose by 6,900 and 1,900, respectively, while government employment declined by 5,200 workers. Although Michigan's manufacturing sector added 9,900 jobs, manufacturing employment in Michigan is still almost 150,000 below the November 2008 level.

### Real GDP

Figure 3 shows the estimated percent change in U.S. Real GDP for CY 2014 through CY 2017.

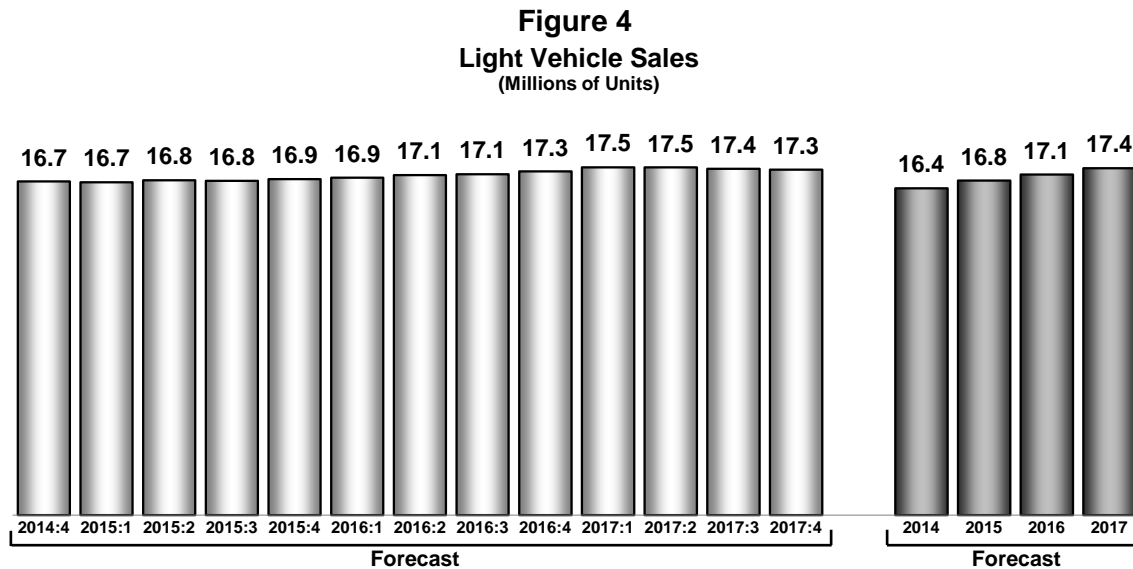


After increasing 5.0% during the third quarter of 2014, real GDP is anticipated to grow at a 2.7% rate in the fourth quarter. Real GDP, which grew 1.9% in CY 2013, is forecast to increase 2.4% in CY 2014, 3.2% in CY 2015, 2.9% in CY 2016, and 2.8% in CY 2017.

Both personal consumption (particularly in durable goods) and business fixed investment are forecast to increase in CY 2014, and will continue to provide the foundation for continued real GDP growth. In addition, residential investment is forecast to remain robust through 2017 as housing starts rebound. All three of these factors will contribute to overall economic growth throughout the forecast horizon.

## Light Vehicle Sales

Figure 4 shows estimated light vehicle sales for CY 2014 through CY 2017.



Sales of light motor vehicles are expected to total 16.4 million units in CY 2014 and are forecast to increase to 16.8 million units in CY 2015, 17.1 million units in CY 2016, and 17.4 million units in CY 2017.

While there was a shift in vehicle sales away from light trucks and toward cars over the past few years, that trend has reversed itself somewhat as light trucks have become more fuel efficient. Light truck sales are expected to account for 53.2% of total light vehicle sales in CY 2014 and then decrease slightly and remain steady at 53.0% for the next three years.

The import share of total light vehicle sales was 21.8% in CY 2013; it is forecast to decrease to 21.0% in CY 2014 and then remain near 20.2% through CY 2017.

## Inflation

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

In conjunction with the resumption in economic growth, input prices (e.g., wages and import prices) have smoothed in recent months. Crude oil and natural gas prices, which experienced volatile price swings in 2008 and 2009, have stabilized somewhat over the past few years.

Benchmark West Texas Intermediate crude (WTI) reached a CY 2014 high of \$103 per barrel in the second quarter before falling to about \$73 by the end of the year. Although the annual average for CY 2014 is expected to be \$93 per barrel, this average does not reflect the recent steep slide to about \$54 per barrel. Crude oil prices are forecast to remain below \$60 per barrel in CY 2015 before rising to \$70 in CY 2016, and \$73 in CY 2017.

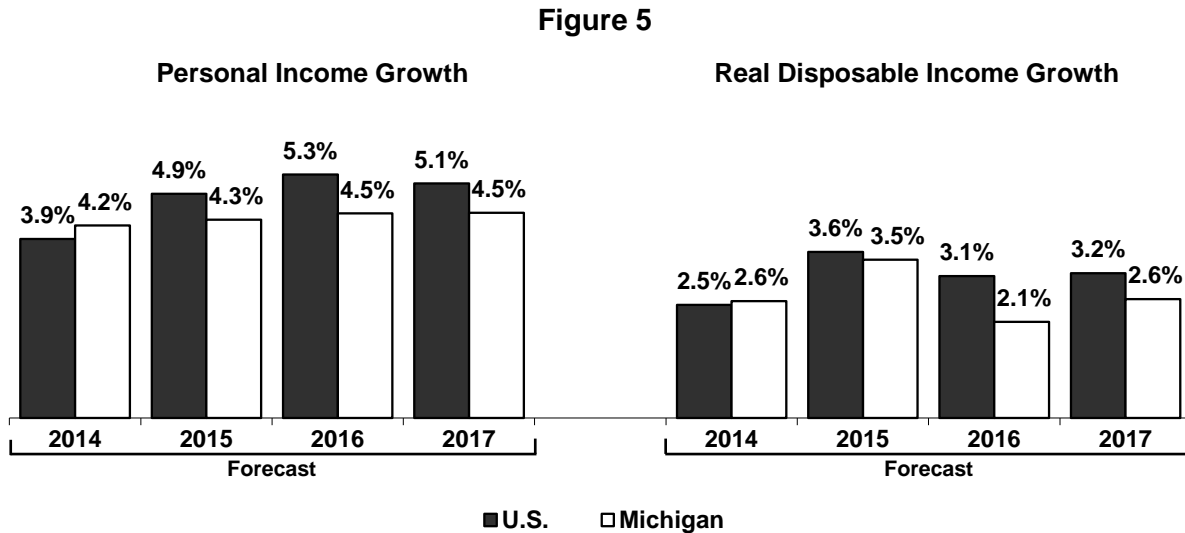
The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index for all Urban Consumers (CPI-U), rose by 1.5% in CY 2013; it is expected to increase by 1.6% in CY 2014, 0.6% in CY 2015, 2.1% in CY 2016, and 1.9% in CY 2017.

### **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, which was 1.6% in CY 2013, is expected to remain low during the forecast period. The Detroit CPI-U is expected to increase 1.4% in CY 2014, 0.4% in CY 2015, 1.8% in CY 2016, and 1.6% in CY 2017.

### **Income Growth**

Figure 5 shows personal and real disposable income growth for the U.S. and for Michigan.



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

Total U.S. personal income grew 2.0% in CY 2013. Personal income growth is forecast to increase 3.9% in CY 2014, 4.9% in CY 2015, 5.3% in CY 2016, and 5.1% in CY 2017.

U.S. real disposable income fell by 0.2% in CY 2013 due primarily to the expiration of a temporary payroll tax cut. U.S. real disposable income is forecast to grow 2.5% in CY 2014, 3.6% in CY 2015, 3.1% in CY 2016, and 3.2% in CY 2017.

#### **Michigan Income Growth**

Michigan's total state personal income growth was 1.4% in CY 2013. Michigan personal income is forecast to increase 4.2% in CY 2014, 4.3% in CY 2015, and 4.5% in CY 2016 and CY 2017.

Michigan real disposable income decreased 1.2% in CY 2013; it is forecast to increase 2.6% in CY 2014, 3.5% in CY 2015, 2.1% in CY 2016, and 2.6% in CY 2017.

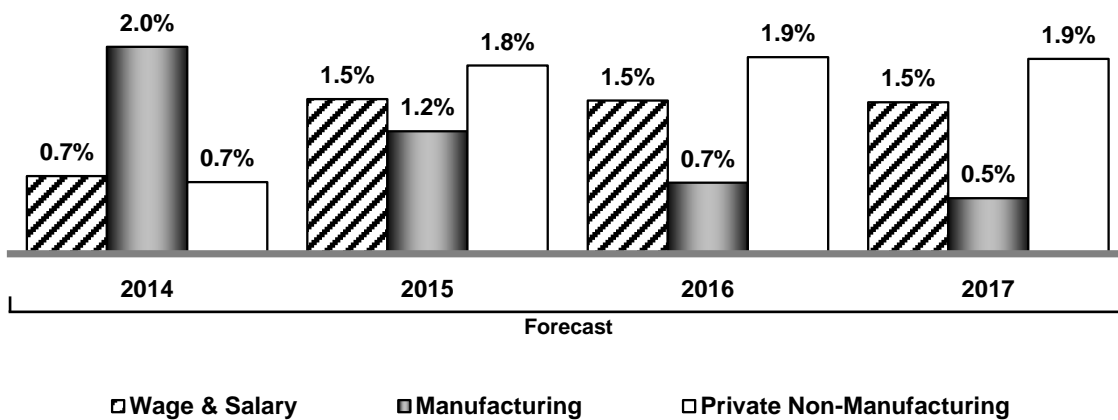
## Employment

**Figure 6** shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

### ***U.S. Employment***

Nationally, total non-farm employment experienced average gains of about 206,300 per month during 2013 – roughly a 1.7% overall increase between December 2012 and December 2013. Total non-farm employment is expected to grow 1.8% in CY 2014, 2.1% in CY 2015, 1.7% in CY 2016, and 1.5% in CY 2017.

**Figure 6**  
**Michigan Employment Growth**



### ***Michigan Employment***

After strong growth of about 71,800 jobs in CY 2013, Michigan wage and salary employment is forecast to grow by about 30,800 workers in CY 2014. The forecast calls for job gains of roughly 62,000 per year through CY 2017.

Michigan wage and salary employment grew 1.8% in CY 2013 and is forecast to increase 0.7% in CY 2014, and then increase 1.5% each year for the remainder of the forecast period (CY 2015, CY 2016, and CY 2017). Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 0.2%.

Michigan manufacturing employment increased approximately 3.3% in CY 2013, and is forecast to increase 2.0% in CY 2014, 1.2% in CY 2015, 0.7% in CY 2016, and 0.5% in CY 2017. About 85% of this growth is expected to occur within the motor vehicle industry.

Michigan private non-manufacturing employment rose 2.2% in CY 2013; it is expected to increase 0.7% in CY 2014, 1.8% in CY 2015, and 1.9% in both CY 2016 and CY 2017.



## **Unemployment**

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

As of November 2014, total non-farm employment had increased for 38 consecutive months; the forecast calls for continued job growth.

The U.S. unemployment rate, which was 7.4% in CY 2013, is expected to drop to 6.2% in CY 2014 and continue falling to 5.5% in CY 2015, 5.3% in CY 2016, and 4.9% in CY 2017.

### ***Michigan Unemployment***

Employment in Michigan remains a major concern as employment growth has not been sufficient to recover all of the jobs lost since the 2000 employment peak, despite job gains in the last few years. Michigan's wage and salary employment continued to grow in CY 2014, and is expected to continue growing through 2017, albeit at modest rates. As a result, the unemployment rate is expected to decline, although it will remain higher than the national rate.

Michigan's unemployment rate was 8.8% in CY 2013; it is expected to decrease to 7.4% in CY 2014, 6.8% in CY 2015, 6.5% in CY 2016, and 6.2% in CY 2017.

**Table 2  
ECONOMIC FORECAST VARIABLES**

	<b>Calendar 2013 <u>Actual</u></b>	<b>Calendar 2014 <u>Estimated</u></b>	<b>% Change from <u>Prior Year</u></b>	<b>Calendar 2015 <u>Estimated</u></b>	<b>% Change from <u>Prior Year</u></b>	<b>Calendar 2016 <u>Estimated</u></b>	<b>% Change from <u>Prior Year</u></b>	<b>Calendar 2017 <u>Estimated</u></b>	<b>% Change from <u>Prior Year</u></b>
<b><u>United States</u></b>									
Real Gross Domestic Product (Billions of 2009 dollars)	\$15,710.3	\$16,089.9	2.4%	\$16,605.3	3.2%	\$17,087.1	2.9%	\$17,559.9	2.8%
Implicit Price Deflator GDP (2009 = 100)	106.7	108.4	1.6%	110.3	1.7%	112.3	1.8%	114.4	1.9%
Consumer Price Index (1982-84 = 100)	233.0	236.8	1.6%	238.2	0.6%	243.2	2.1%	247.7	1.9%
Consumer Price Index (FY) (1982-84 = 100)	232.2	236.0	1.6%	237.5	0.6%	241.9	1.9%	246.6	1.9%
Personal Consumption Deflator (2009 = 100)	107.3	108.8	1.3%	109.6	0.8%	111.4	1.6%	113.2	1.6%
3-month Treasury Bills Interest Rate (Percent)	0.1%	0.0%		0.3%		1.1%		2.0%	
Aaa Corporate Bonds Interest Rate (Percent)	4.2%	4.2%		4.3%		4.6%		4.9%	
Unemployment Rate – Civilian (Percent)	7.4%	6.2%		5.5%		5.3%		4.9%	
Wage and Salary Employment (Millions)	136.4	138.9	1.8%	141.8	2.1%	144.2	1.7%	146.4	1.5%
Housing Starts (Thousands of units)	0.930	0.997	7.2%	1.190	19.4%	1.408	18.3%	1.555	10.5%
Light Vehicle Sales (Millions of units)	15.5	16.4	5.7%	16.8	2.3%	17.1	1.8%	17.4	1.9%
Passenger Car Sales (Millions of units)	7.6	7.7	1.2%	7.9	2.7%	8.0	1.8%	8.2	1.9%
Light Truck Sales (Millions of units)	7.9	8.7	9.9%	8.9	2.0%	9.1	1.7%	9.2	1.9%
Import Share of Light Vehicles (Percent)	21.8%	21.0%		20.2%		20.3%		20.2%	
Big-3 Share of Light Vehicle Sales (Percent)	44.4%	44.4%		44.7%		44.8%		45.0%	
Personal Income (Billions of current dollars)	\$14,166.9	\$14,722.6	3.9%	\$15,446.0	4.9%	\$16,269.8	5.3%	\$17,105.4	5.1%
Real Disposable Income (Billions of 2009 dollars)	\$11,650.8	\$11,939.3	2.5%	\$12,373.8	3.6%	\$12,758.7	3.1%	\$13,163.4	3.2%
<b><u>Michigan</u></b>									
Wage and Salary Employment (Thousands)	4,106.0	4,136.7	0.7%	4,198.5	1.5%	4,260.7	1.5%	4,323.0	1.5%
Transportation Equipment Employment (Thousands)	167.1	171.9	2.9%	177.9	3.5%	181.1	1.8%	183.7	1.4%
Unemployment Rate (Percent)	8.8%	7.4%		6.8%		6.5%		6.2%	
Personal Income (Millions of current dollars)	\$386,471	\$402,765	4.2%	\$420,250	4.3%	\$439,078	4.5%	\$458,810	4.5%
Real Personal Income (Millions of 1982-84 dollars)	\$176,089	\$181,038	2.8%	\$188,137	3.9%	\$193,023	2.6%	\$198,555	2.9%
Real Disposable Income (Millions of 1982-84 dollars)	\$156,543	\$160,546	2.6%	\$166,113	3.5%	\$169,614	2.1%	\$174,025	2.6%
Wage and Salary Income (Millions of current dollars)	\$195,203	\$204,829	4.9%	\$212,609	3.8%	\$220,260	3.6%	\$229,106	4.0%
Detroit Consumer Price Index (1982-84 = 100)	219.5	222.5	1.4%	223.4	0.4%	227.5	1.8%	231.1	1.6%
Detroit CPI (FY) (1982-84 = 100)	219.1	221.8	1.2%	222.8	0.5%	226.5	1.6%	230.2	1.6%



# 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 the growth in other countries (primarily China and the Eurozone nations), monetary policy, oil prices, and Michigan's motor vehicle industry.

## **Rest of World Growth**

Economic growth in China is expected to decline from over 7.0% in CY 2015 to around 6.0% in CY 2015. Although such growth rates would be welcome in most nations, they represent a significant slowdown for the Chinese economy, and the potential exists that financial and productivity reforms will continue to diminish growth.

Economic conditions among Eurozone countries have improved and the modest recovery should continue barring unforeseen factors. Although unemployment remains high, there has been some improvement in the labor market which, in conjunction with low inflation due to declining oil prices, could help to increase consumer demand. However, the recovery is tenuous.

## **Monetary Policy**

Although the Federal Reserve officially ended its monthly bond purchases in October 2014, the action was anticipated and there was no market disruption. What is less well known is the degree to which the Federal Reserve will reinvest earnings from bonds that mature into new purchases. Although the forecast expects the national unemployment rate to fall below 5.5% in the second quarter of 2015, the inflation rate is expected to remain below 2.0% until the first quarter of 2016. The federal funds rate is not expected to exceed 1.0% until the second quarter of 2016, but should interest rates rise more quickly it could have a dampening impact on projected economic growth.

## **Oil Prices**

Recent WTI crude oil prices have dropped to levels not seen since May 2009, and the forecast assumes that the average price for CY 2015 will remain below \$60 per barrel before increasing modestly to the low \$70 per barrel range in CY 2016 and CY 2017. Although declines in the prices of crude oil and motor fuels may be a boon for consumers' pocketbooks, decreasing prices will likely squelch some domestic oil production that is not cost effective at current prices. The degree to which these two effects offset each other creates considerable uncertainty.

In addition, a rapid reversal in oil prices can be triggered by a natural disaster or political unrest, especially in oil exporting countries. As such, while falling oil prices may provide a respite for consumers and boost economic growth, whether current prices can persist remains unknown.

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

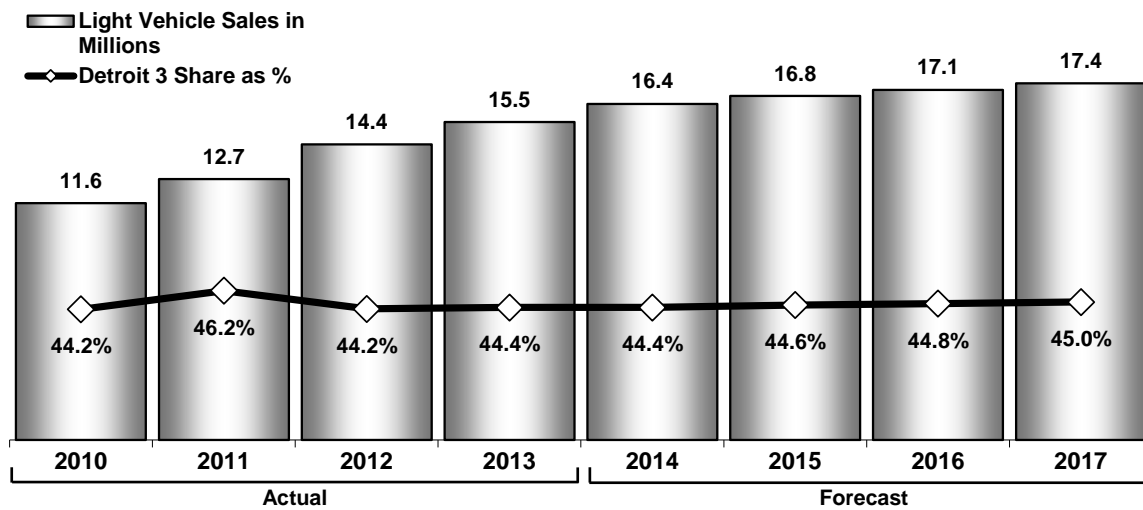
The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales are expected to total 16.4 million units in CY 2014, which would be a 5.7% increase from the previous year. Light motor vehicle sales are forecast to be 16.8 million units in CY 2015, then increase to 17.1 million units in CY 2016 and 17.4 million units in CY 2017 as the national expansion continues.

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; however, since 2009 the market share of these vehicles has stabilized. As shown in **Figure 7**, the market share of the Detroit 3 auto manufacturers hovered around 44.4% in CY 2014 and is expected to increase only to 45% through the end of the forecast horizon.

The extent to which the domestic nameplates can retain market share will have a direct impact on Michigan's economy. In CY 2014, the Detroit 3 is expected to sell 7.3 million vehicles, which would translate to a 5.7% increase from the previous year. It is expected that the Detroit 3 will sell 7.5 million vehicles in CY 2015 and continue to post modest gains in CY 2016 and CY 2017.

After significant declines since CY 2000, Michigan transportation equipment employment increased 6.7% in CY 2013 and is forecast to slow to increases of 2.9% in CY 2014, 3.5% in CY 2015, 1.8% in CY 2016, and 1.4% in CY 2017. The CY 2017 estimated level of transportation equipment employment of 183,700 is 53% of the 346,000 peak in CY 2000. 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.

**Figure 7**  
**Detroit 3 Share of Light Vehicle Sales**







# 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 contains the House Fiscal Agency's January 2015 estimates for GF/GP (**Table 3**) and SAF (**Table 4**) revenue. Also, included in this section are the estimated year-end balances for the GF/GP, the SAF, and the budget stabilization fund (BSF), and the state revenue limit calculation.

## **GF/GP Revenue by Source**

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

GF/GP tax revenue declined 5.8% to \$8,625.3 million in FY 2013-14. The majority of the decrease can be attributed to existing certificated credits that can still be claimed under the Michigan Business Tax. GF/GP tax revenue is estimated to be \$9,089.2 million, an increase of \$463.9 million or 5.4% in FY 2014-15, and \$9,450.05 million, an increase of \$360.8 million, or 4.0% in FY 2015-16. GF/GP tax revenue is estimated to increase 2.4% in FY 2016-17.

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

Net GF/GP revenue includes non-tax revenue and represents the amount available to spend. Final net GF/GP revenue is expected to be \$9,007.7 million in FY 2013-14; it is forecast to be \$9,445.7 million, an increase of \$438.0 million or 4.9% in FY 2014-15, and \$9,801.3 million, an increase of \$355.6 million or 3.8% in FY 2015-16. Net GF/GP revenue is estimated to increase 2.2% in FY 2016-17.

## **SAF Revenue by Source**

### ***Total Net SAF Revenue***

Final net SAF revenue is anticipated to increase 2.2% to \$11,520.5 million in FY 2013-14. Net SAF revenue is forecast to be \$11,872.2 million, an increase of \$351.7 million or 3.1% in FY 2014-15. Net SAF revenue is estimated to increase 2.7% in FY 2015-16 and 3.0% in FY 2016-17.

**Table 3**  
**GF/GP NET REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS**  
(Millions of Dollars)

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2014-15		FY 2015-16		FY 2016-17	
	Final FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$5,655.4	\$5,856.2	\$6,097.7	\$6,374.0	\$200.8	3.6%	\$241.4	4.1%	\$276.3	4.5%
Sales Tax	1,170.0	1,198.5	1,240.9	1,288.8	28.5	2.4%	42.4	3.5%	47.9	3.9%
Use Tax	926.8	956.7	899.9	647.2	29.9	3.2%	(56.9)	-5.9%	(252.7)	-28.1%
Michigan Business Tax	(723.3)	(603.2)	(565.0)	(501.6)	120.1	-16.6%	38.2	-6.3%	63.4	-11.2%
Corporate Income Tax	906.4	933.7	962.8	991.9	27.3	3.0%	29.1	3.1%	29.1	3.0%
Insurance	362.2	410.0	417.0	436.0	47.8	13.2%	7.0	1.7%	19.0	4.6%
Other Taxes	327.8	337.2	396.8	444.7	9.4	2.9%	59.6	17.7%	47.9	12.1%
<b>GF/GP Net Taxes</b>	<b>\$8,625.3</b>	<b>\$9,089.2</b>	<b>\$9,450.0</b>	<b>\$9,681.0</b>	<b>\$463.9</b>	<b>5.4%</b>	<b>\$360.8</b>	<b>4.0%</b>	<b>\$231.0</b>	<b>2.4%</b>
Non-Tax Revenue	382.4	356.5	351.3	338.6	(25.9)	-6.8%	(5.2)	-1.5%	(12.7)	-3.6%
<b>Total GF/GP Net Revenue</b>	<b>\$9,007.7</b>	<b>\$9,445.7</b>	<b>\$9,801.3</b>	<b>\$10,019.6</b>	<b>\$438.0</b>	<b>4.9%</b>	<b>\$355.6</b>	<b>3.8%</b>	<b>\$218.3</b>	<b>2.2%</b>

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



**Table 4**  
**SCHOOL AID FUND NET REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS**  
(Millions of Dollars)

	Preliminary Final	HFA Est.	HFA Est.	HFA Est.	FY 2014-15		FY 2015-16		FY 2016-17	
	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$5,349.9	\$5,534.8	\$5,732.5	\$5,947.6	\$184.9	3.5%	\$197.8	3.6%	\$215.1	3.8%
Use Tax	463.8	478.5	498.0	513.9	14.7	3.2%	19.6	4.1%	15.9	3.2%
Income Tax	2,357.6	2,439.1	2,526.9	2,626.9	81.5	3.5%	87.9	3.6%	100.0	4.0%
State Education Tax	1,804.2	1,835.0	1,832.1	1,852.9	30.8	1.7%	(2.9)	-0.2%	20.8	1.1%
Lottery/Casinos	841.0	887.0	898.0	903.0	46.0	5.5%	11.0	1.2%	5.0	0.6%
Tobacco Tax	359.4	342.8	335.2	328.0	(16.6)	-4.6%	(7.5)	-2.2%	(7.2)	-2.2%
Real Estate Transfer Tax	233.4	245.0	260.0	272.0	11.6	5.0%	15.0	6.1%	12.0	4.6%
Other Taxes	111.2	110.1	111.6	113.1	(1.1)	-1.0%	1.5	1.4%	1.5	1.3%
<b>SAF Net Revenue</b>	<b>\$11,520.5</b>	<b>\$11,872.2</b>	<b>\$12,194.4</b>	<b>\$12,557.5</b>	<b>\$351.7</b>	<b>3.1%</b>	<b>\$322.3</b>	<b>2.7%</b>	<b>\$363.1</b>	<b>3.0%</b>

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

## **HFA Estimates of Year-End Balances**

**Table 5** reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2014-15 estimates are based on year-to-date appropriations and HFA revenue estimates. Preliminary final FY 2013-14 figures are included.

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

**Table 5**  
**YEAR-END UNRESERVED BALANCE ESTIMATES**  
(Millions of Dollars)

	<b>Preliminary Final FY 2013-14</b>	<b>Estimated FY 2014-15</b>
General Fund/General Purpose	\$306.4	(\$454.4)
School Aid Fund	\$473.1	\$284.4
Budget Stabilization Fund	\$386.4	\$499.9

*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. **Table 6** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2016-17.

The BSF ending fund balance for FY 2013-14 was \$386.4 million. A \$94.0 million appropriation has been made for FY 2014-15. In addition, 2014 PA 186 amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2014-15 through FY 2034-35.

The statutory BSF trigger calculation – based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue – indicates pay-ins for FY 2015-16 and FY 2016-17 of \$97.8 million and \$70.9 million respectively. When the required \$17.5 million deposits are included, the year-end balance is estimated at \$499.9 million for FY 2014-15, \$618.0 million for FY 2015-16, and \$739.5 million for FY 2016-17.

**Table 6**  
**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	\$0.0	\$2.2
2009-10	\$0.0	\$0.0	\$0.0	\$2.2
2010-11	\$0.0	\$0.0	\$0.0	\$2.2
2011-12	\$362.7	\$0.0	\$0.2	\$365.1
2012-13	\$140.0	\$0.0	\$0.5	\$505.6
2013-14	\$75.0	\$194.8	\$0.6	\$386.4
2014-15*	\$111.5	\$0.0	\$1.9	\$499.9
2015-16*	\$114.4	\$0.0	\$3.7	\$618.0
2016-17*	\$115.3	\$0.0	\$6.2	\$739.5

\* 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.

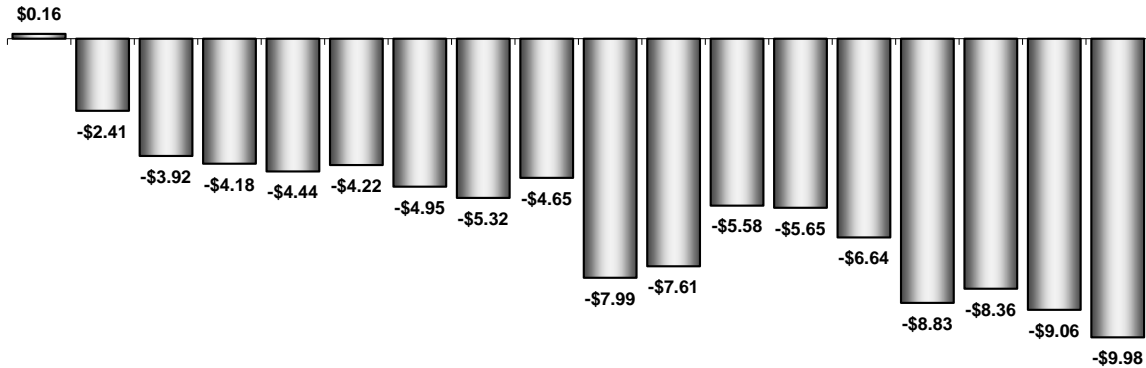
As shown in **Table 7**, **Figure 8**, and **Table 8**, the FY 2013-14 revenue limit calculation is expected to show state revenue collections at \$8.8 billion below the revenue limit. For FY 2014-15, state revenue is estimated to be below the limit by \$8.4 billion. For FY 2015-16 and FY 2016-17, state revenue is estimated to remain well below the revenue limit – by \$9.1 billion, and \$10.0 billion, respectively.

**Table 7**  
**COMPLIANCE WITH THE STATE REVENUE LIMIT**  
(Millions of Dollars)

<b>Revenue Limit Calculations</b>	<b>Estimated FY 2013-14</b>	<b>Estimated FY 2014-15</b>	<b>Estimated FY 2015-16</b>	<b>Estimated FY 2016-17</b>
Personal Income				
Calendar Year	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2014</u>	<u>CY 2015</u>
Amount	\$381,314	\$386,471	\$402,765	\$420,250
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
<b>State Revenue Limit</b>	<b>\$36,186.7</b>	<b>\$36,676.1</b>	<b>\$38,222.4</b>	<b>\$38,881.8</b>
Total Revenue Subject to Revenue Limit	\$27,365.5	\$28,318.7	\$29,165.7	\$29,906.6
<b>Amount Under (Over) State Revenue Limit</b>	<b>\$8,830.2</b>	<b>\$8,357.4</b>	<b>\$9,056.7</b>	<b>\$9,975.2</b>

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

**Figure 8**  
**Constitutional Revenue Limit**  
Amount Under or Over Limit (Billions of Dollars)



\* HFA Estimate

**Table 8**  
**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	(\$4.95)
2006-07	(\$5.32)
2007-08	(\$4.65)
2008-09	(\$7.99)
2009-10	(\$7.61)
2010-11	(\$5.58)
2011-12	(\$5.65)
2012-13	(\$6.64)
2013-14*	(\$8.83)
2014-15*	(\$8.36)
2015-16*	(\$9.06)
2016-17*	(\$9.98)

*\*HFA Estimate*



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