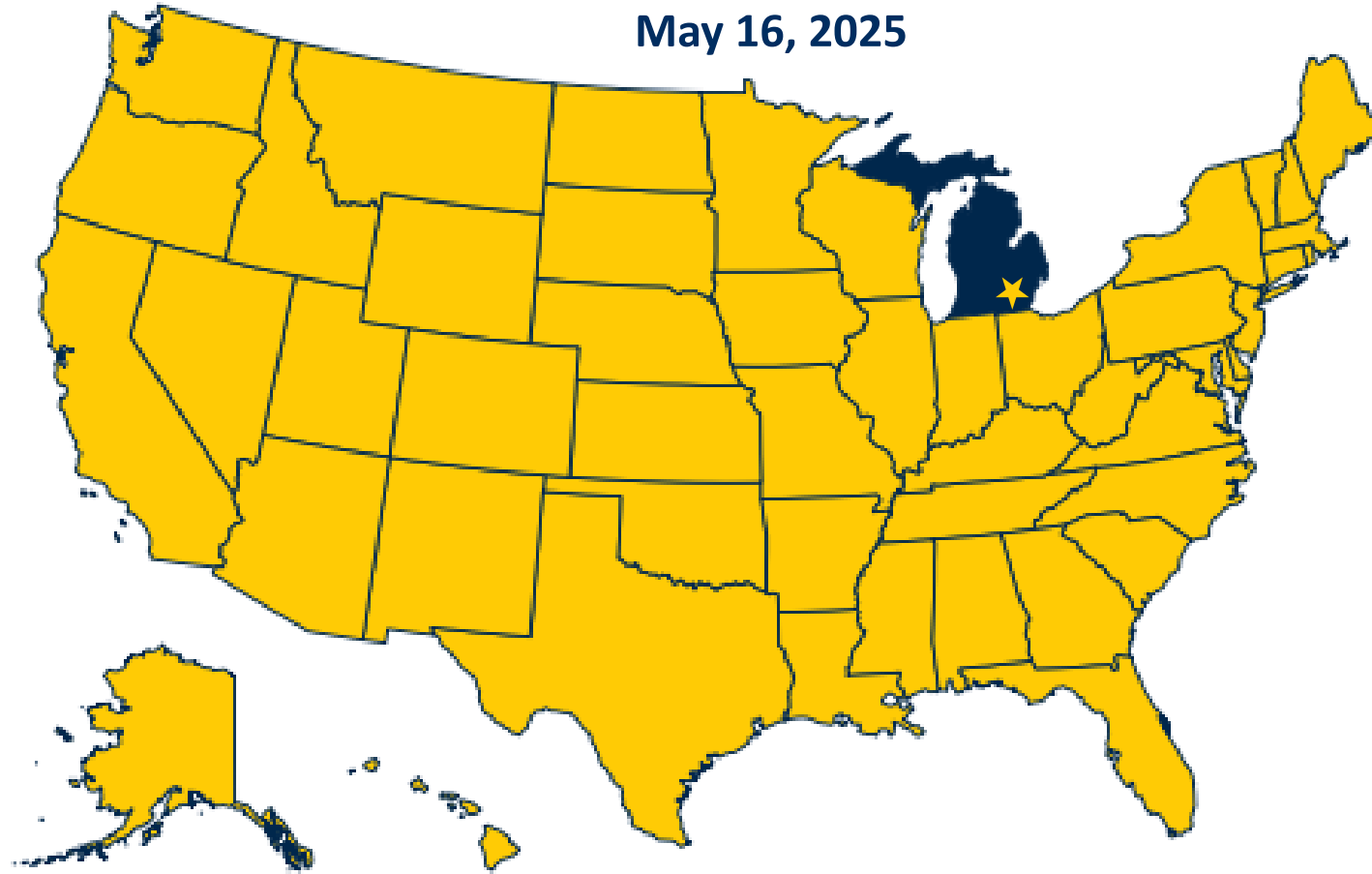


The U.S. and Michigan Outlook for 2025–2027
Consensus Revenue Estimating Conference
Lansing, Michigan
May 16, 2025

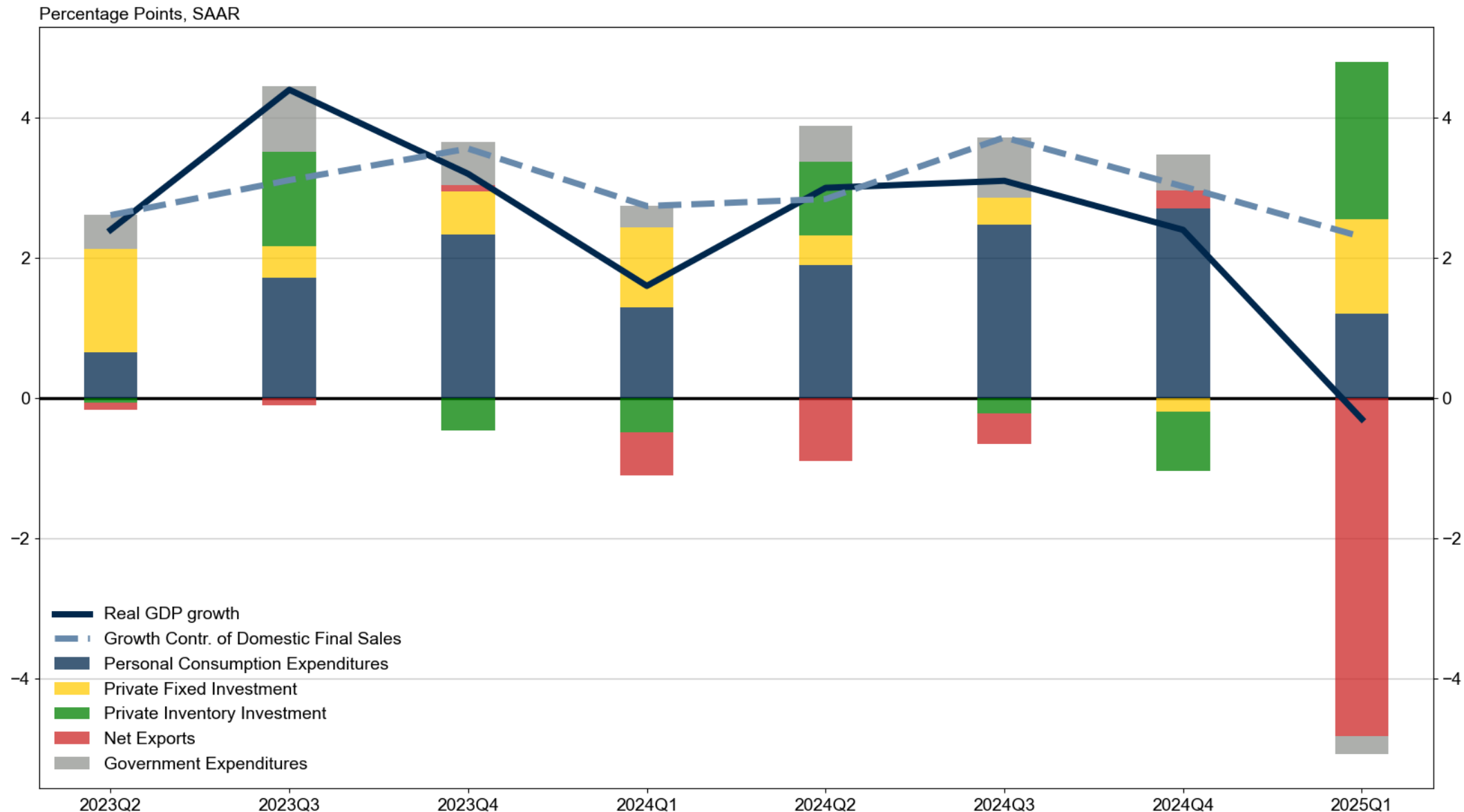


Research Seminar in Quantitative Economics

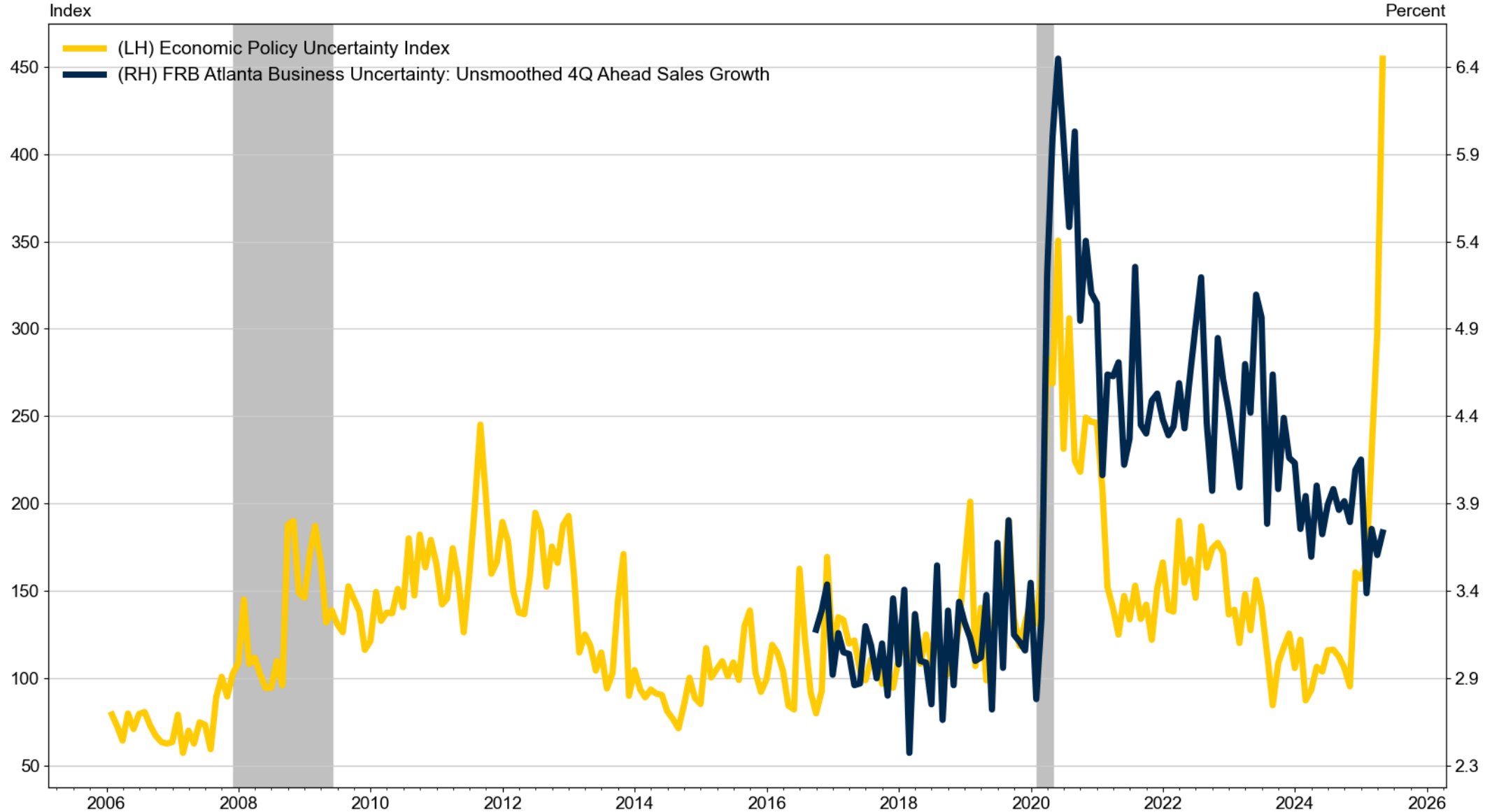


Current State of the U.S. Economy

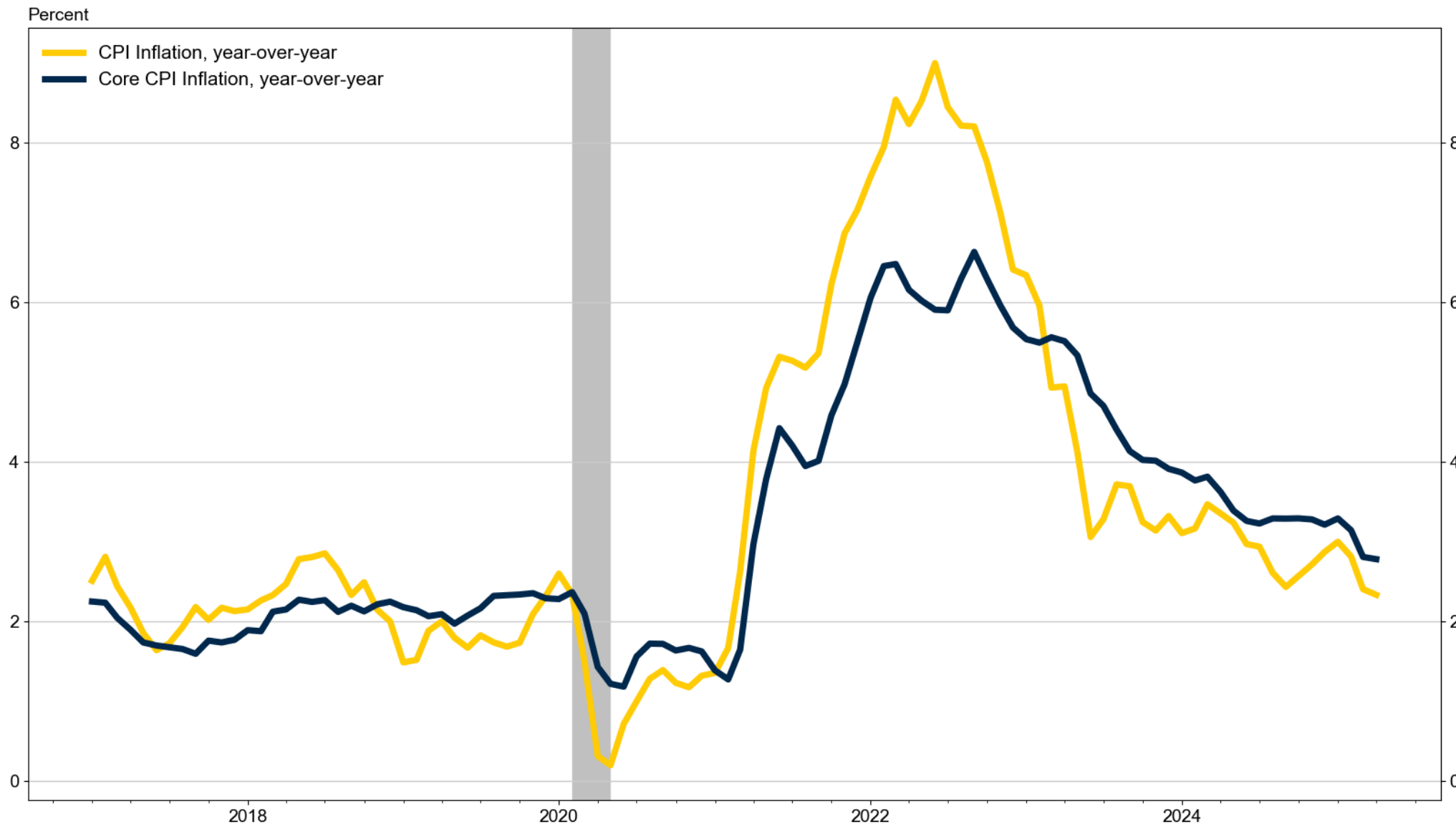
Real GDP Contracted in Q1



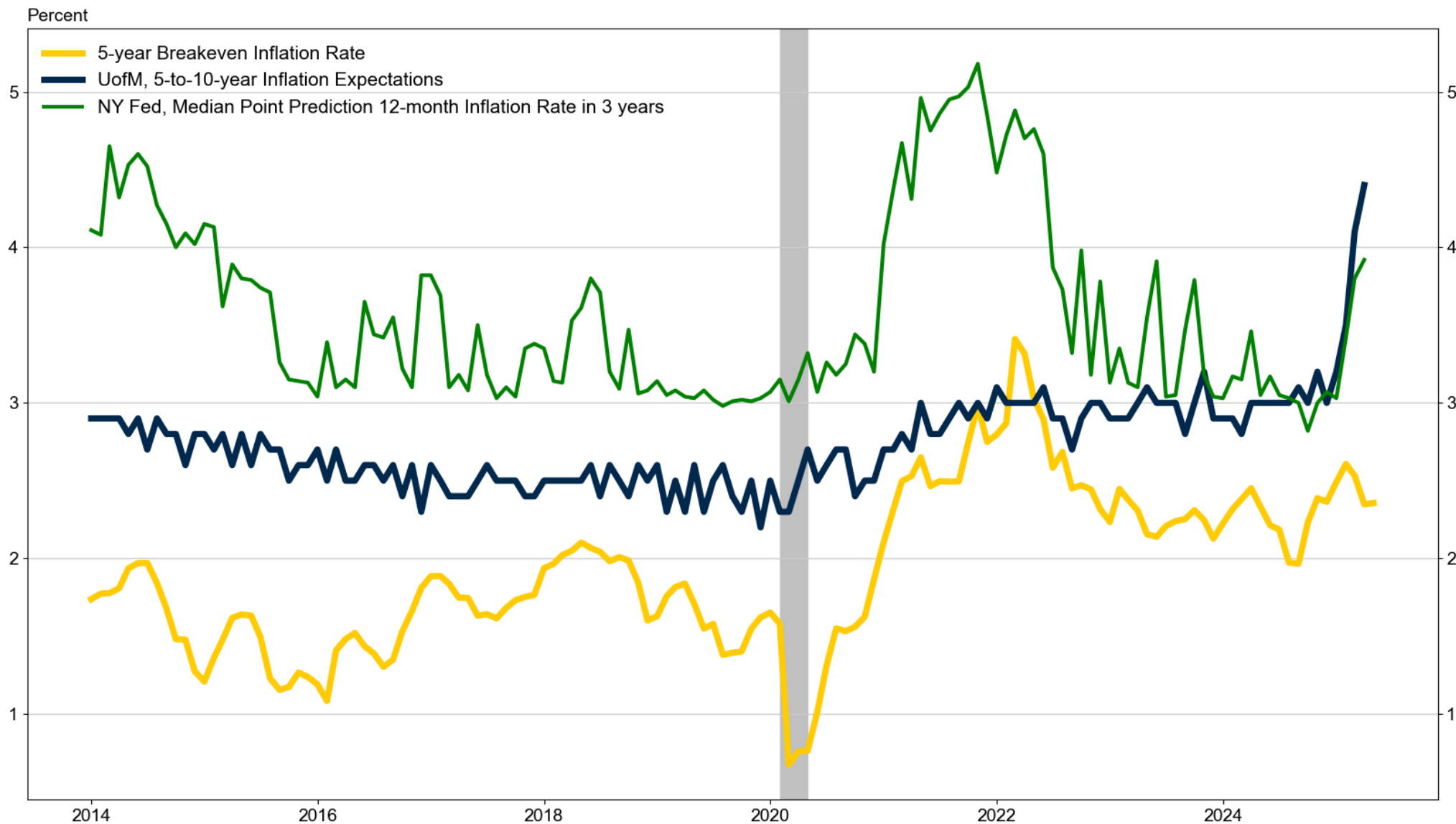
Elevated Economic Uncertainty



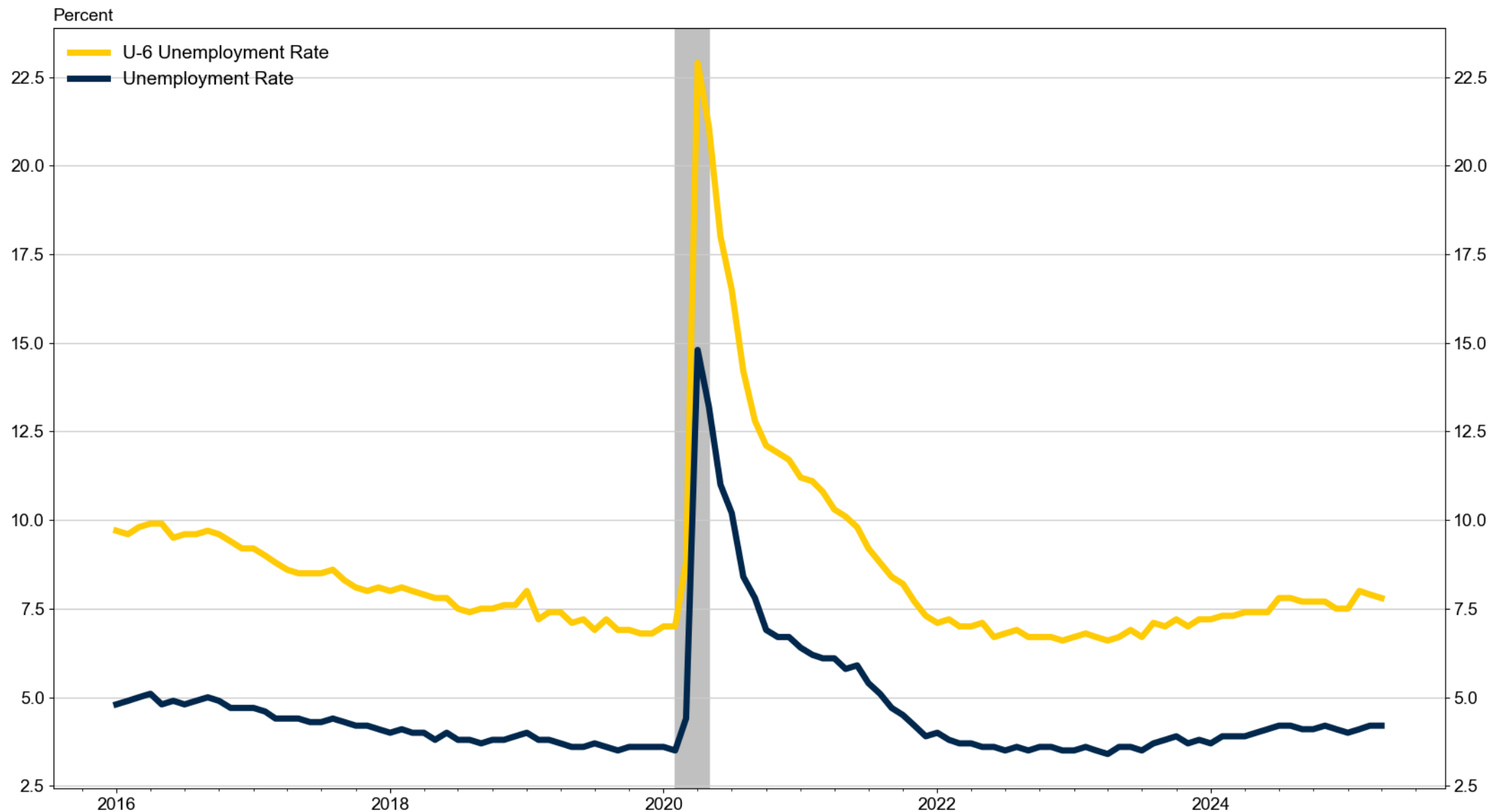
Inflation Has Eased, For Now



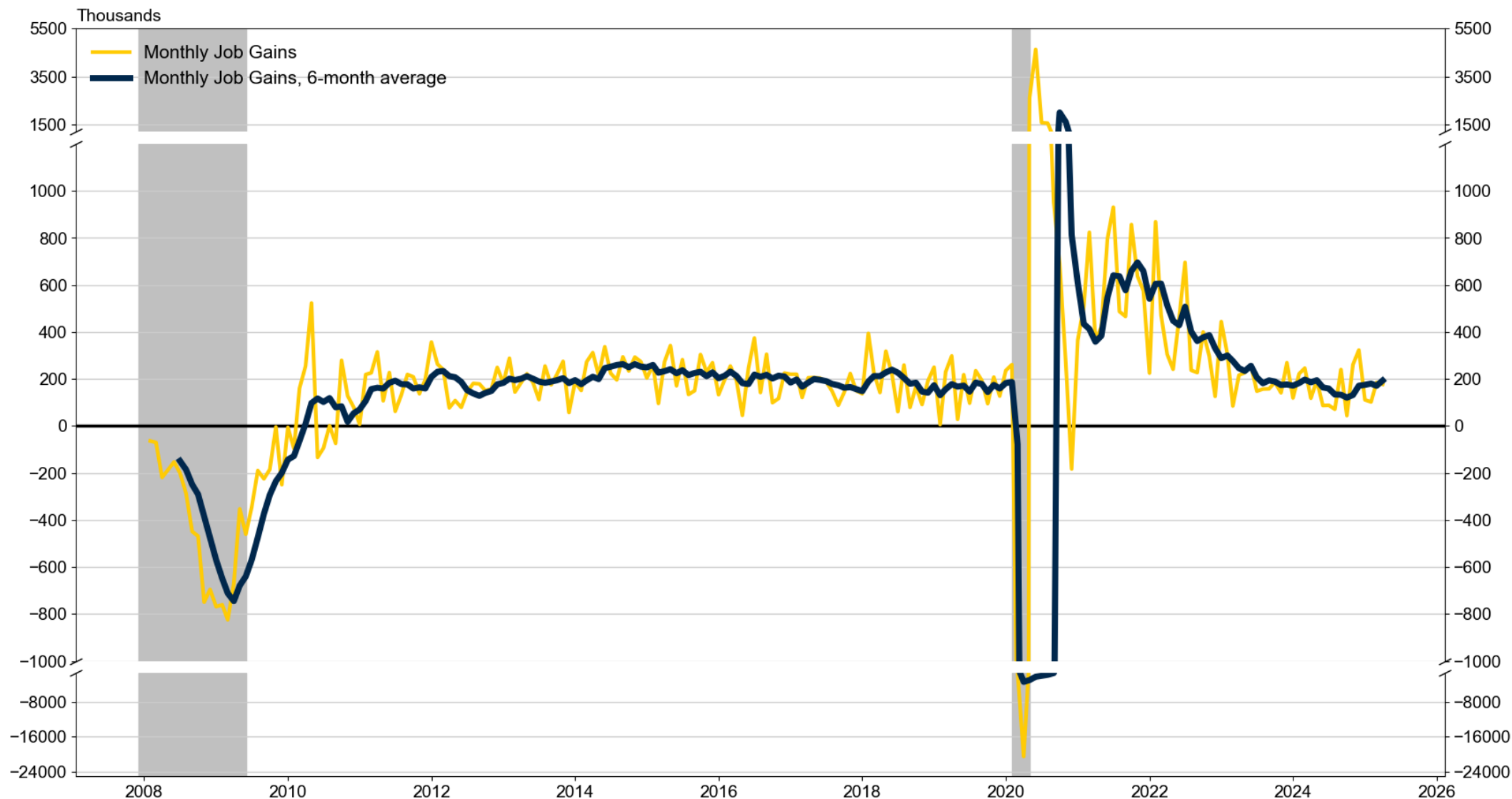
Survey-Based Longer-Term Inflation Expectations Tick Up



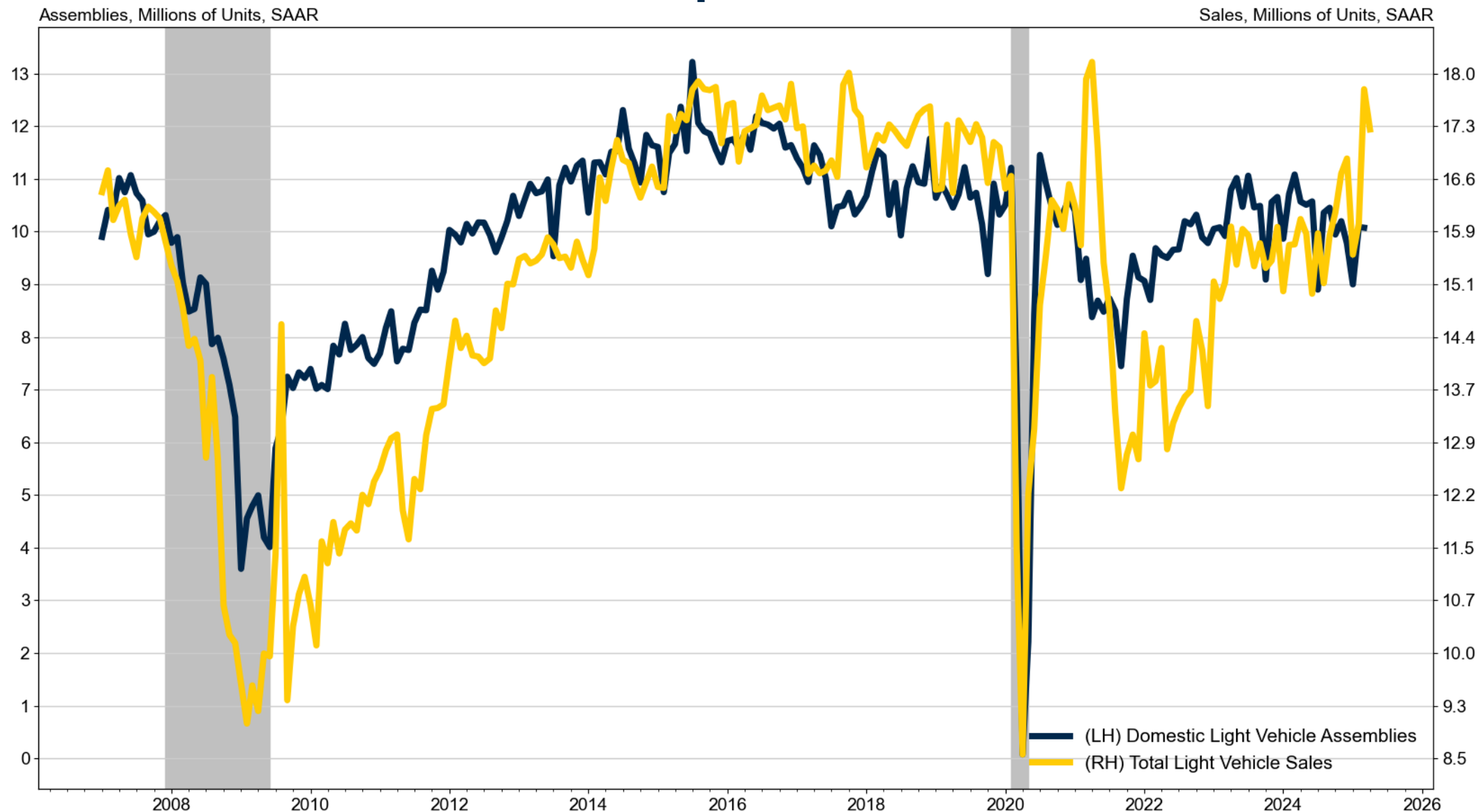
Unemployment Rates Remain Low



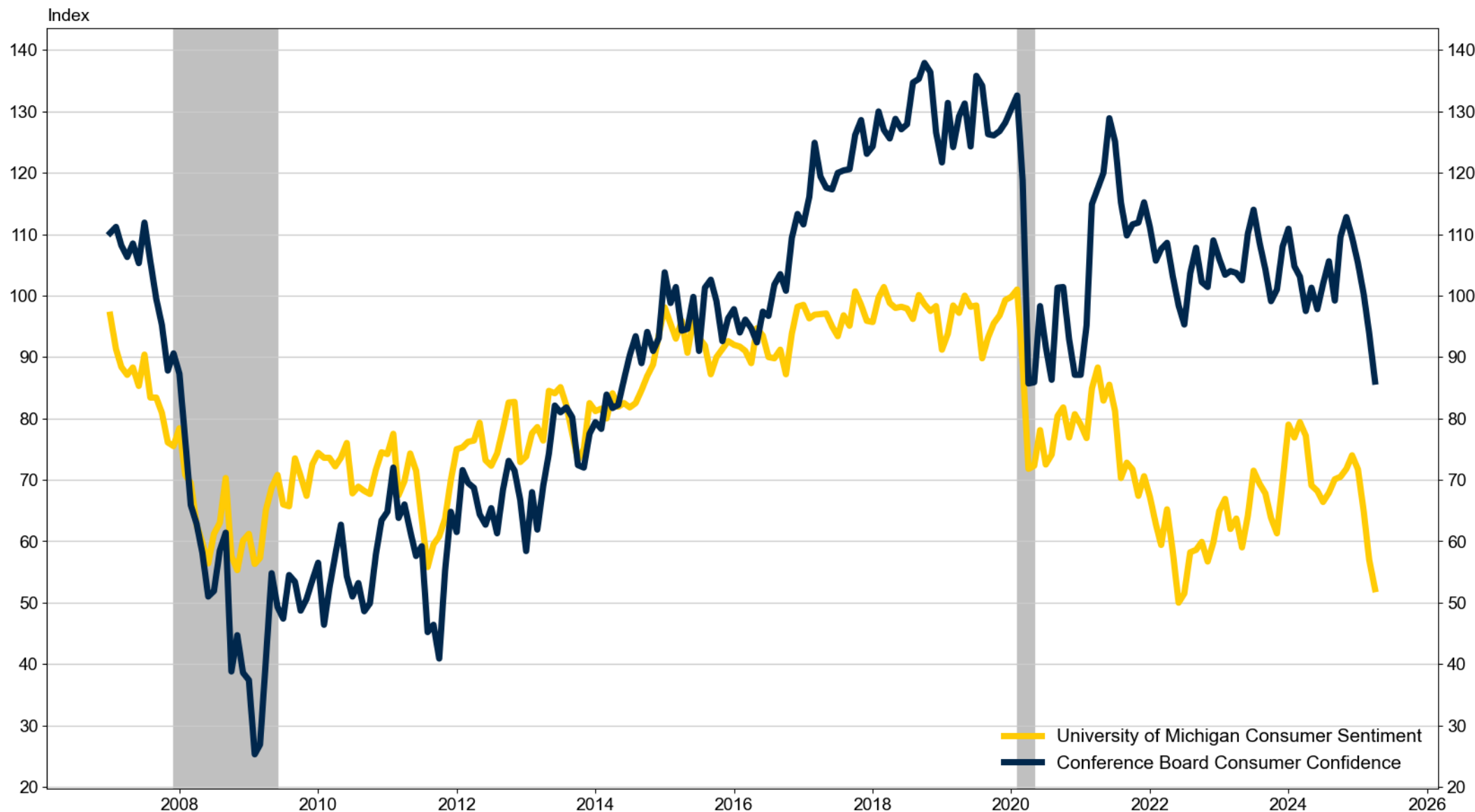
Payroll Employment Gains Steady



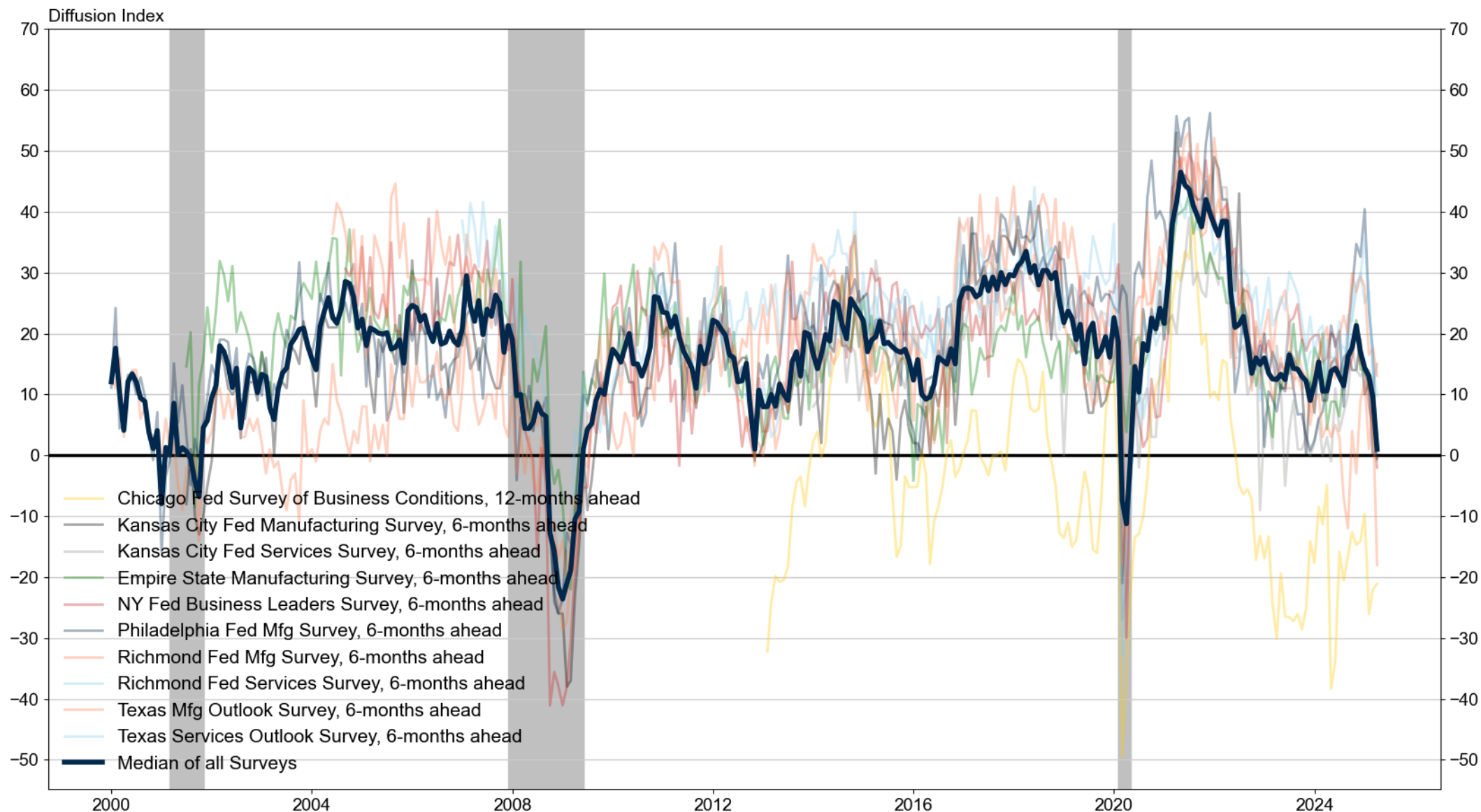
Vehicle Sales Spike on Tariff Fears



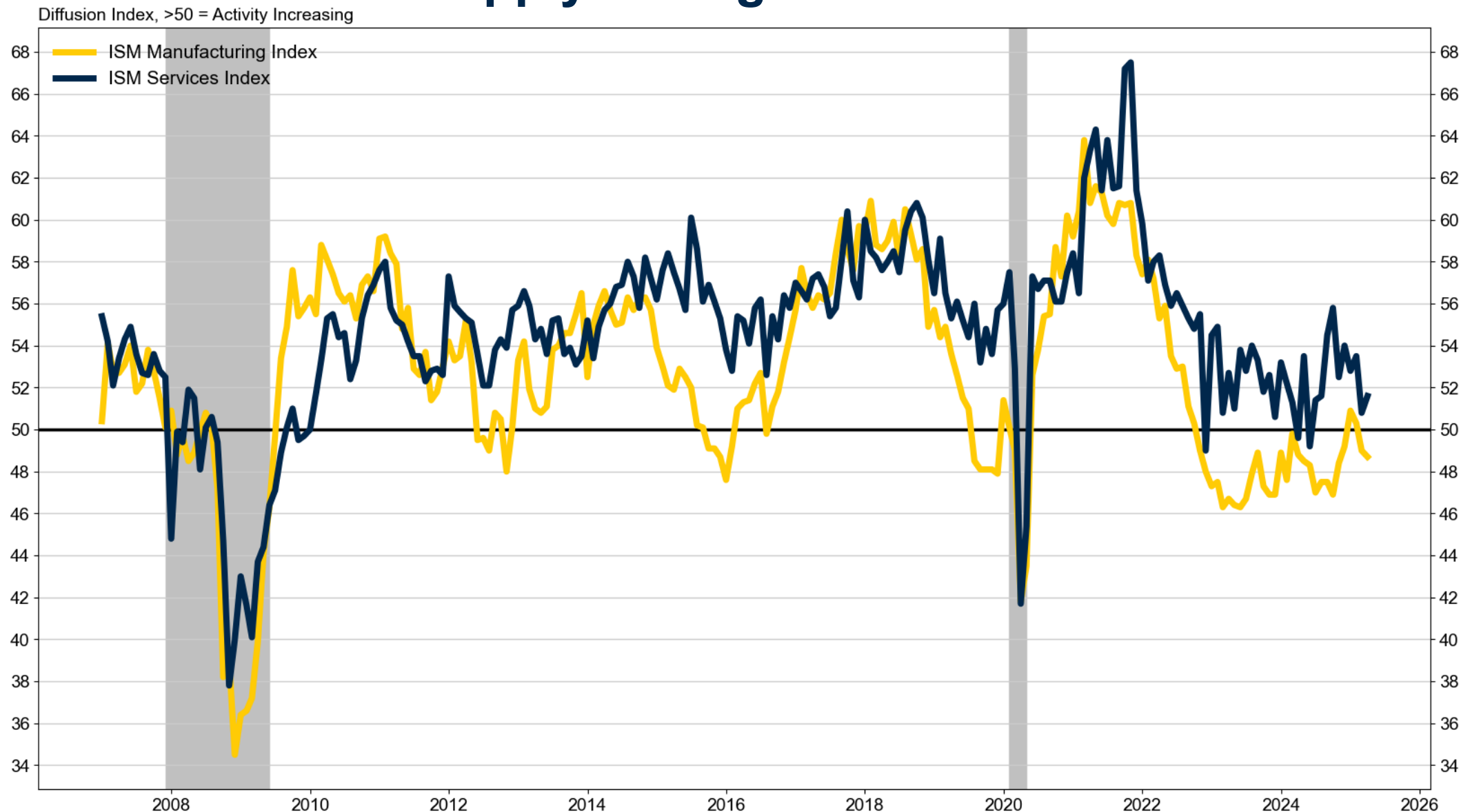
Sentiment Sinks Under Tariff Fears



Widespread Deterioration in Hiring Expectation



Institute for Supply Management Diffusion Indices



Effects of Federal Policy

Monetary & Fiscal Policy

➤ Upcoming fiscal package will provide short-term stimulus

- About \$200 billion/year of personal and corporate tax cuts, on top of TCJA, starting in 2026
- Partially offset by reductions in Medicaid and SNAP transfers starting in fiscal 2027
- Tariff revenues ramping up over 2 years to a permanently higher level of \$270 billion/year
 - Federal NIPA deficit settles around 6.0 percent of GDP till the end of fiscal 2027

➤ Monetary Policy

- The Fed has signaled a slower pace of cuts going forward
- We project a terminal rate range of 3.25–3.5%; the Fed gets there by end of 2026
- We expect the Fed to “look through” tariffs

Tariffs: Canada & Mexico, Steel & Aluminum, Vehicles, Retaliation

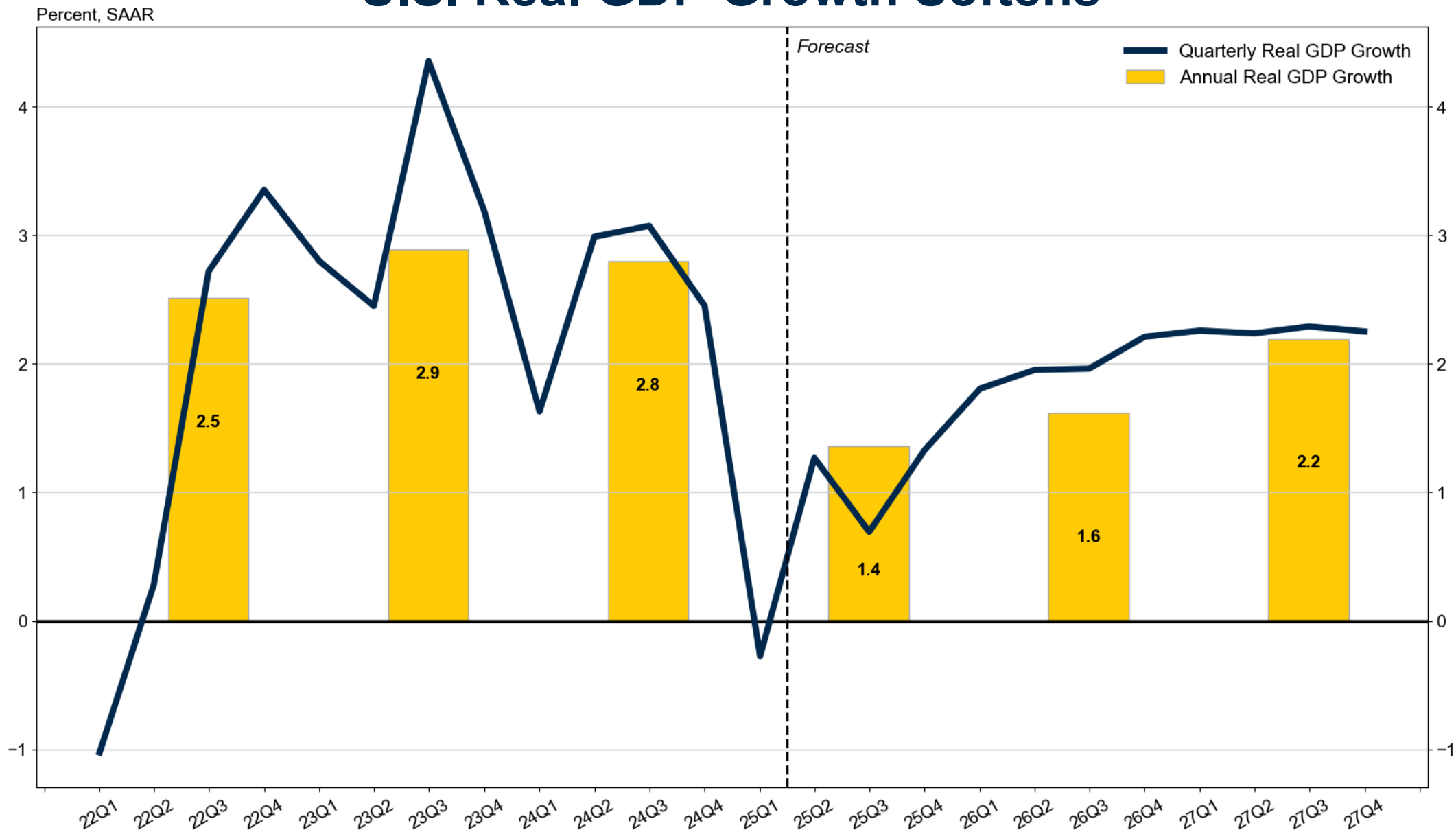
- 25% tariffs on Canada and Mexico to persist
 - Under USMCA compliance, 13% effective tariff on Mexico and 16% on Canada
- 25% on vehicle imports, steel and aluminum to remain in effect
 - U.S. content exemption continues to apply to USMCA-eligible vehicles and parts
- Retaliation stays measured
 - The European Union: 25% auto tariff on U.S. vehicle imports to come
 - China: lowered tariffs to 10% for 90 days
 - Canada: 25% tariff on \$40 billion worth of goods, countermeasures to U.S. vehicle imports

Tariffs 2: China, and Rest of the World

- We had projected China's tariffs to settle around the campaign level of 60%
 - Geneva talks: cut additional tariffs to 30%; the effective tariff totals 42%
- 10% broad-based tariff to continue throughout our forecast horizon
 - No lasting additional “reciprocal” tariffs; more sectors may receive exemptions
- All in all, our assumptions result in an 18% effective tariff rate
- A meaningful headwind to output while delaying inflation normalization
 - Compared to the pre-tariff trend: a 0.9% jump in PCE price level and a 0.8 p.p. decline in y-o-y real GDP growth by 2026Q2

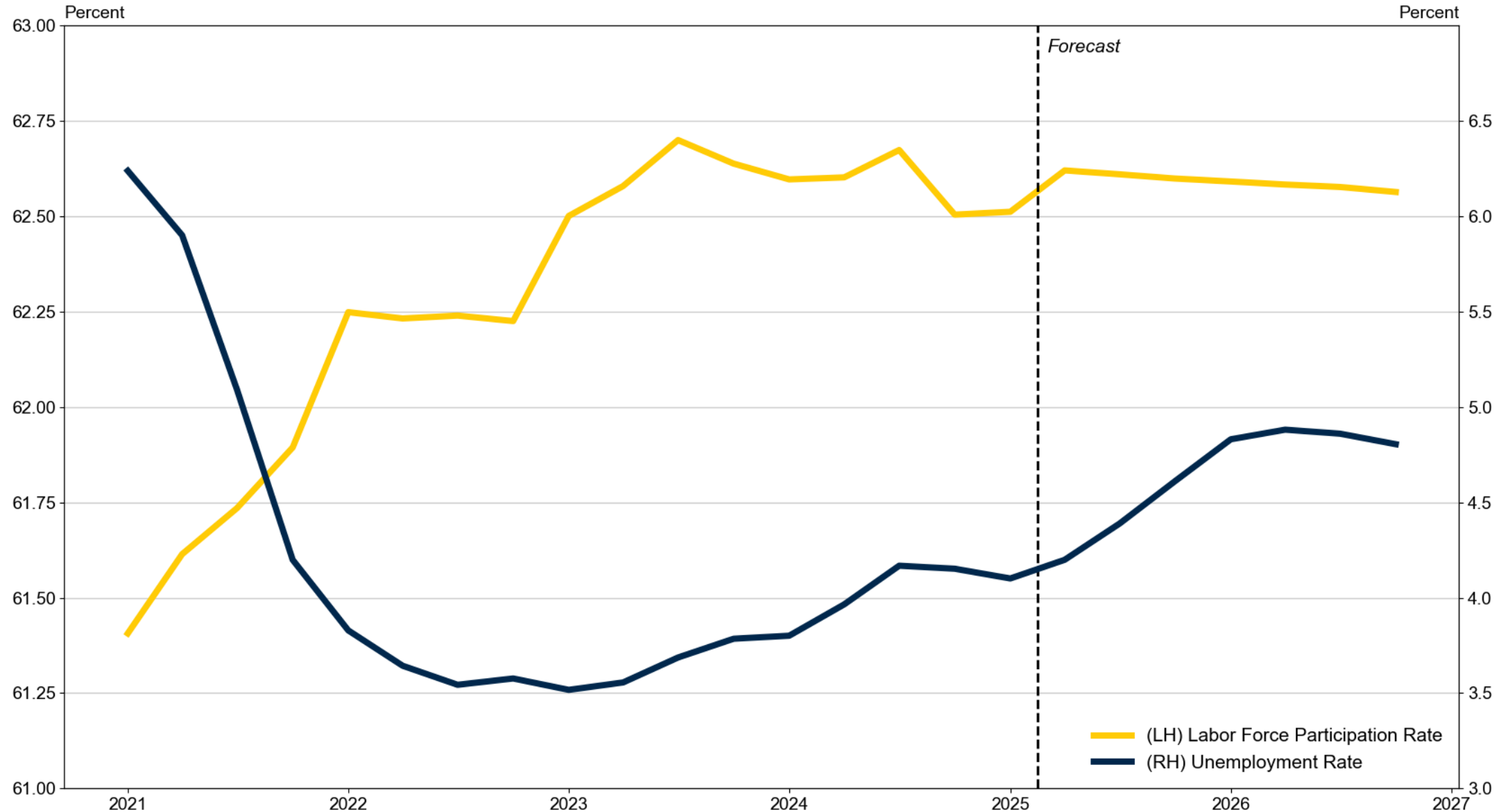
U.S. Forecast

U.S. Real GDP Growth Softens



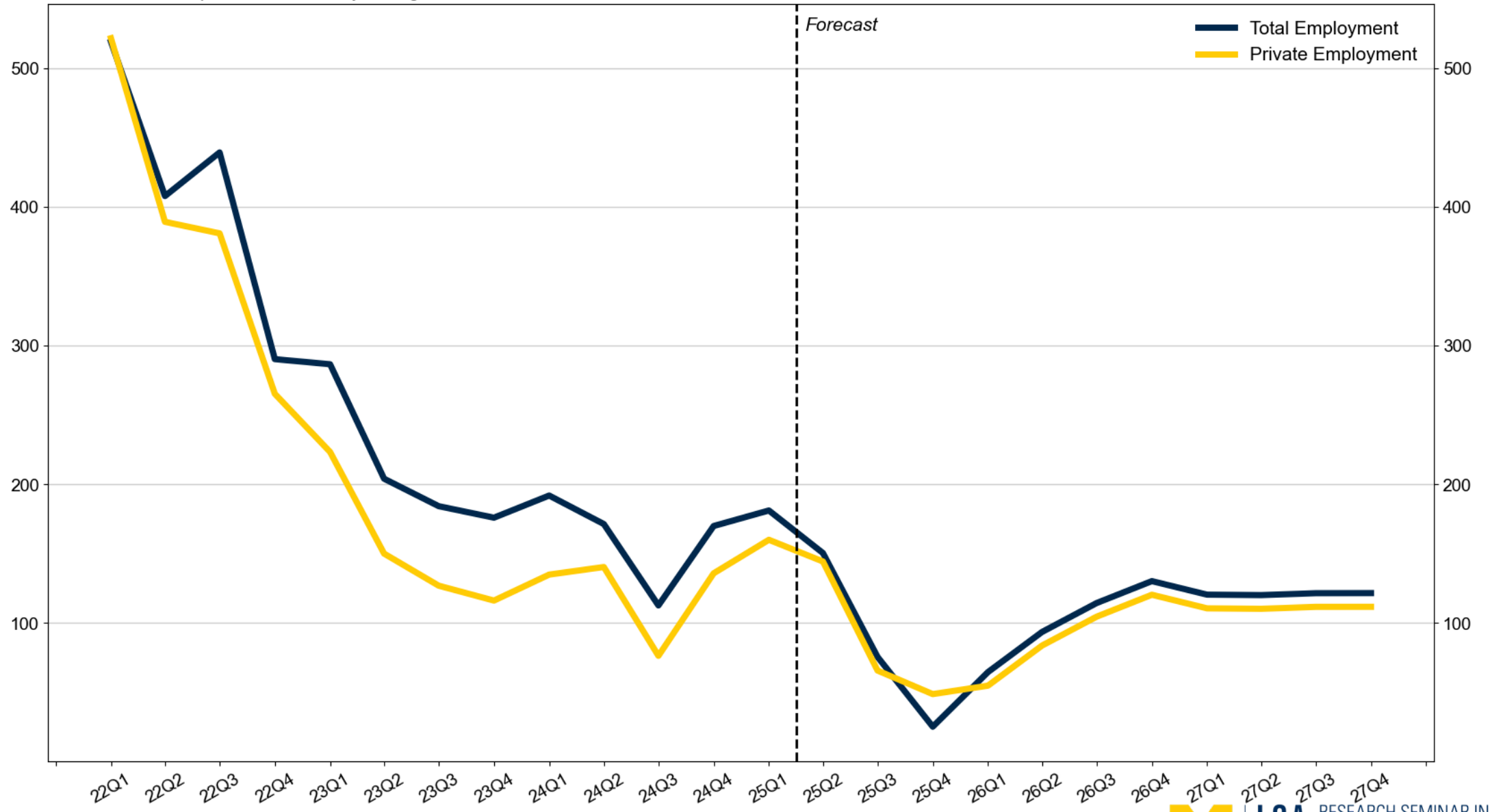
RSQE: May 2025

Labor Market Weakens Moderately



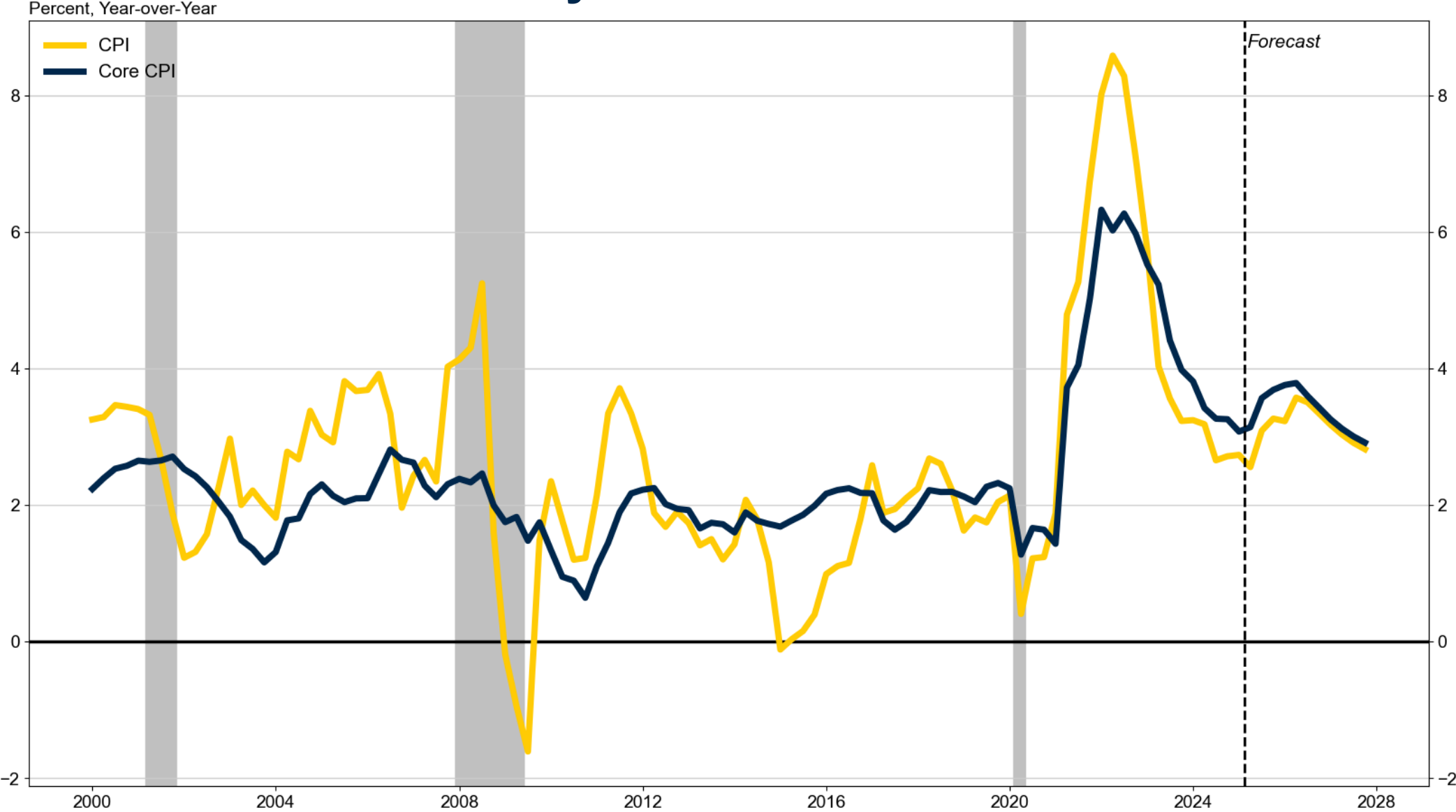
Payroll Employment Gains Decelerate

Thousands of Jobs per Month, Quarterly Average

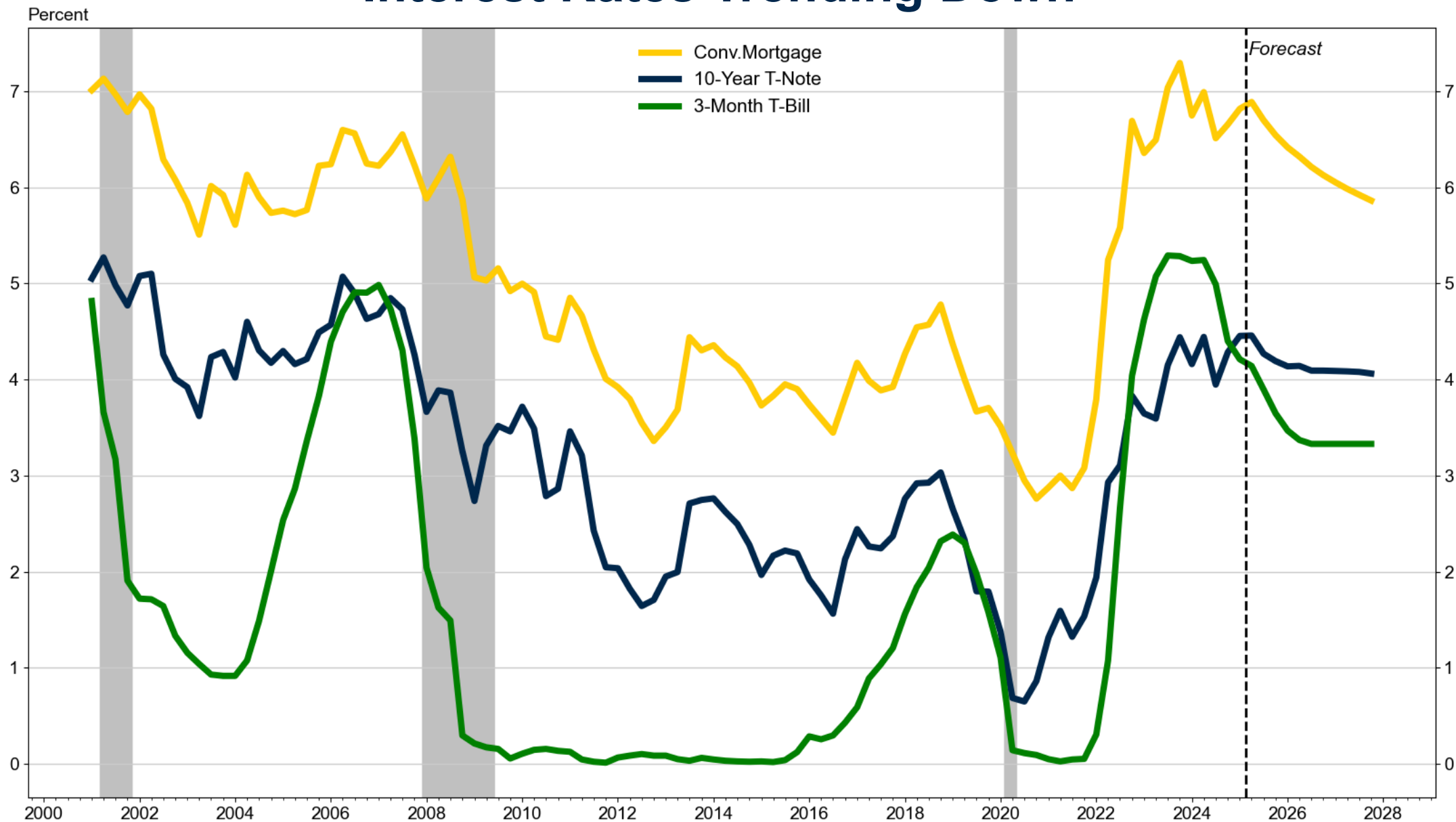


RSQE: May 2025

Tariffs Delay Inflation Normalization



Interest Rates Trending Down



RSQE: May 2025

Concluding Thoughts and Risks

- The economy entered 2025Q2 in decent shape, but tariff headwinds await
 - We judge that tariff strains are likely to be visible starting in 2025Q3
- Risks are large, but roughly balanced
 - Mercurial nature of tariff policy announcements
 - An evolving fiscal landscape
 - A labor market more vulnerable to negative shocks
 - Geopolitical risks

The Michigan Economic Outlook for 2025–2027



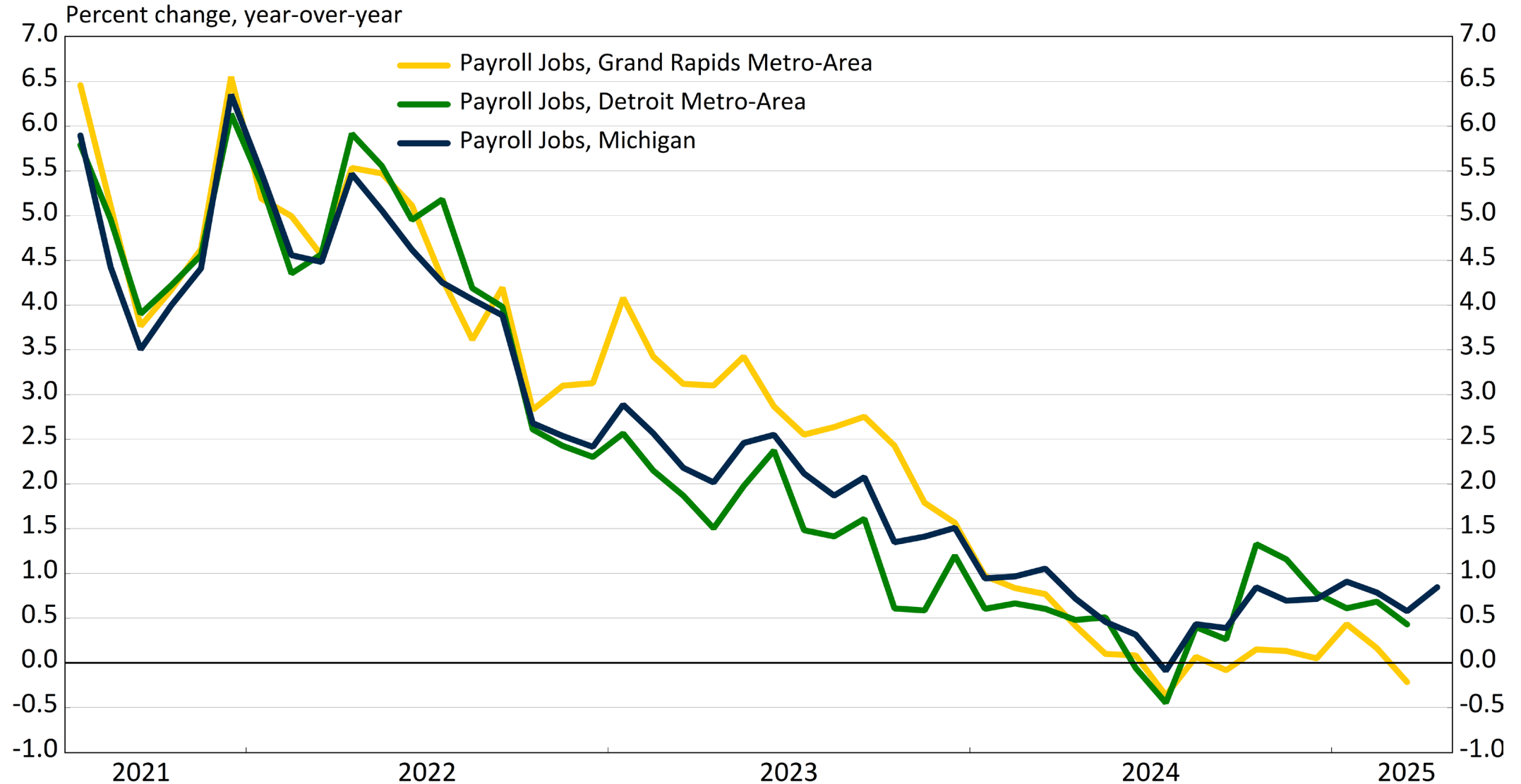
Consensus Revenue Estimating Conference

May 16, 2025

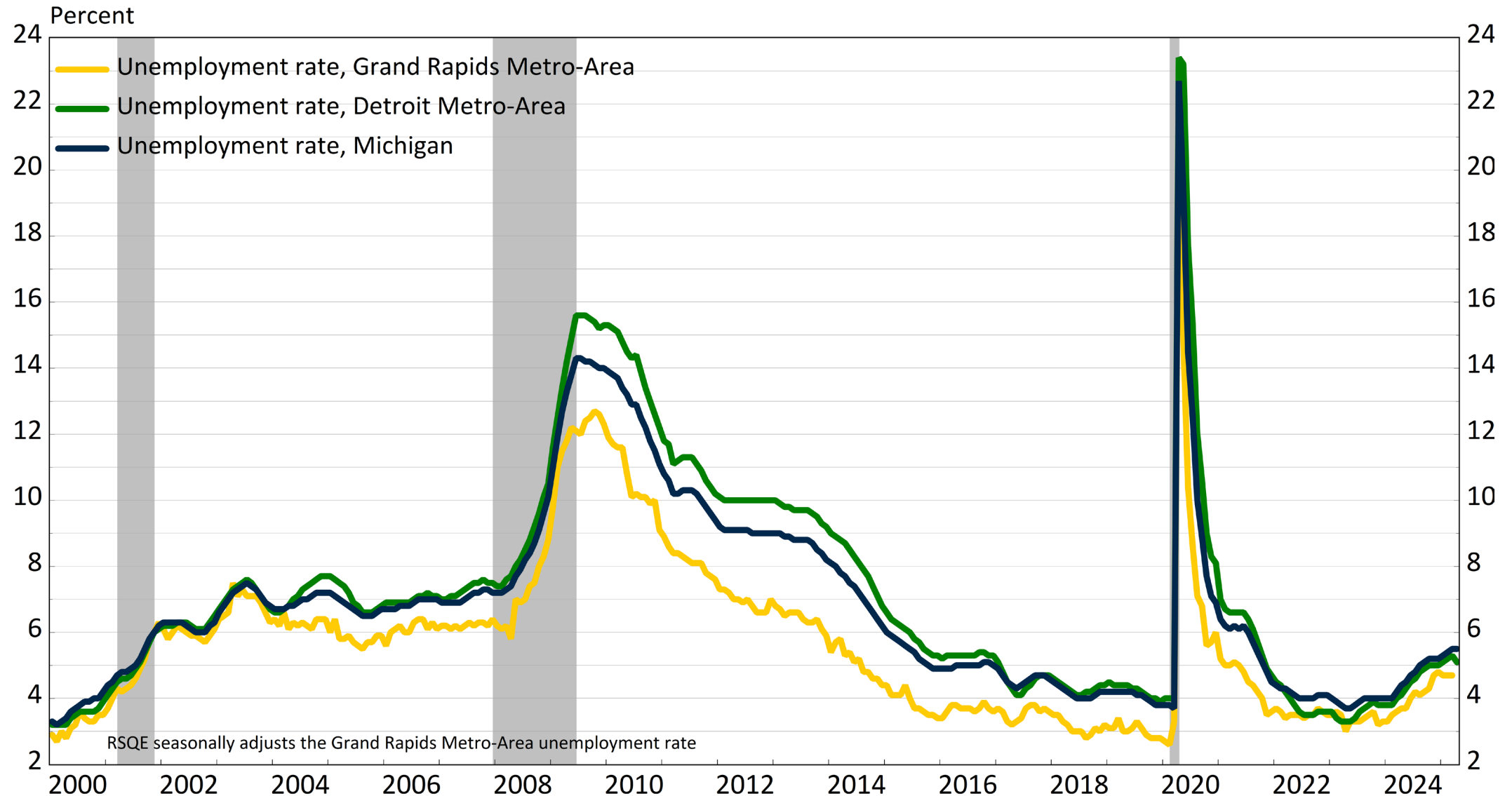
Research Seminar in Quantitative Economics

Current State of the Michigan Economy

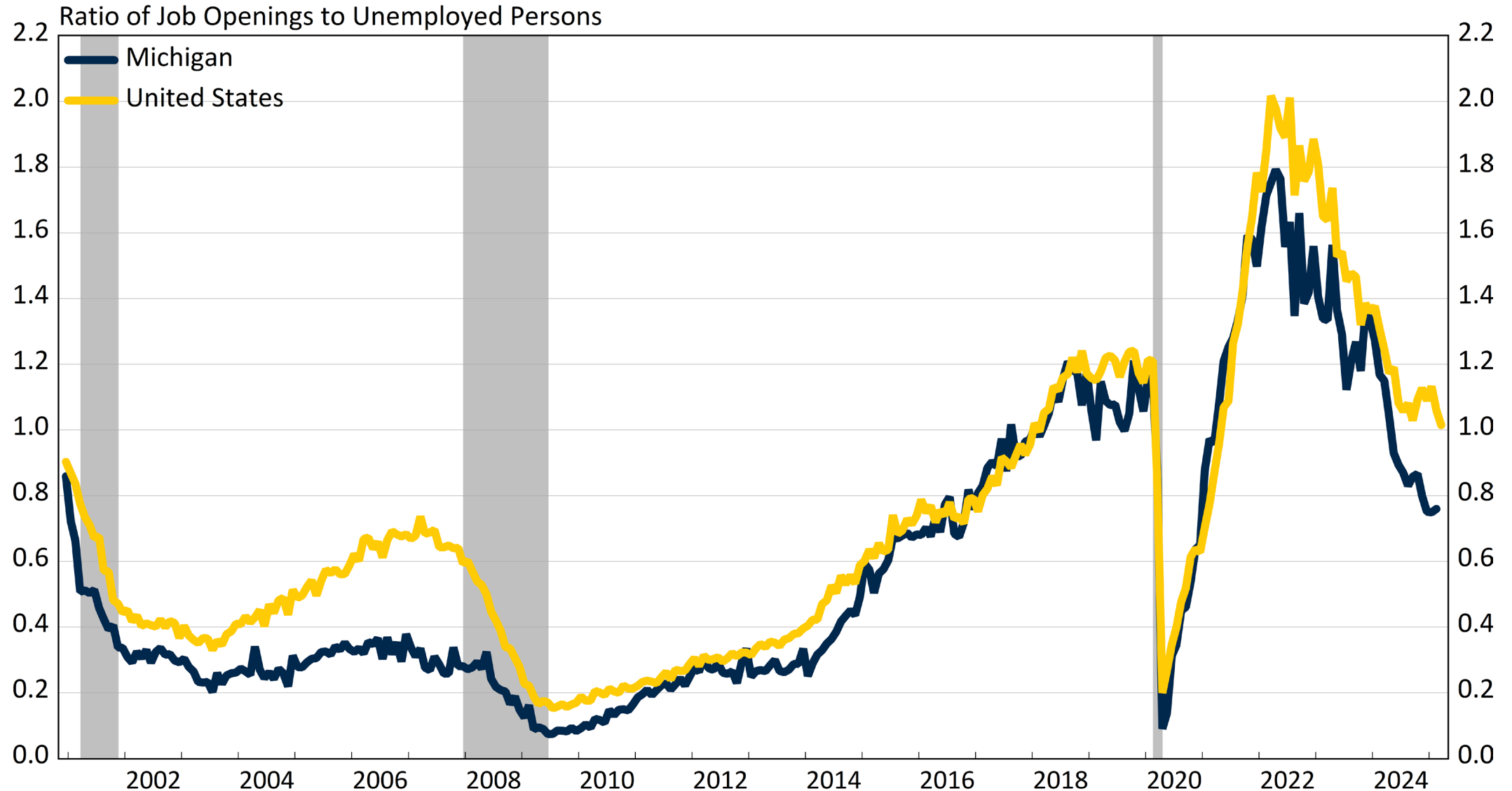
Local Job Gains: A Mixed Start to the Year



Local Unemployment Rates Are Rising



Labor Demand Has Dipped Below Pre-Pandemic Levels



Tariffs' Impacts on the Domestic Auto Industry

Background for Analysis

- Focus on 3-to-5 year impact (after supply chains adjust)
- Short-run effects could be more disruptive
 - Less time for adjustment
 - Risk of cascading failures along the supply chain
 - Data to study these risks is closely held
 - Partial relief offered in late April should reduce those risks
- Our analysis includes tariff measures announced through April

Key Mechanisms of Tariffs

➤ Protective Effect

- Tariffs raise prices of imported vehicles relative to domestically produced vehicles

➤ Cost of Production Effect

- Tariffs on imported parts raise the cost of producing vehicles domestically

➤ Retaliation Effect

- Tariffs on imports are likely to lead to retaliatory tariffs on U.S. exports

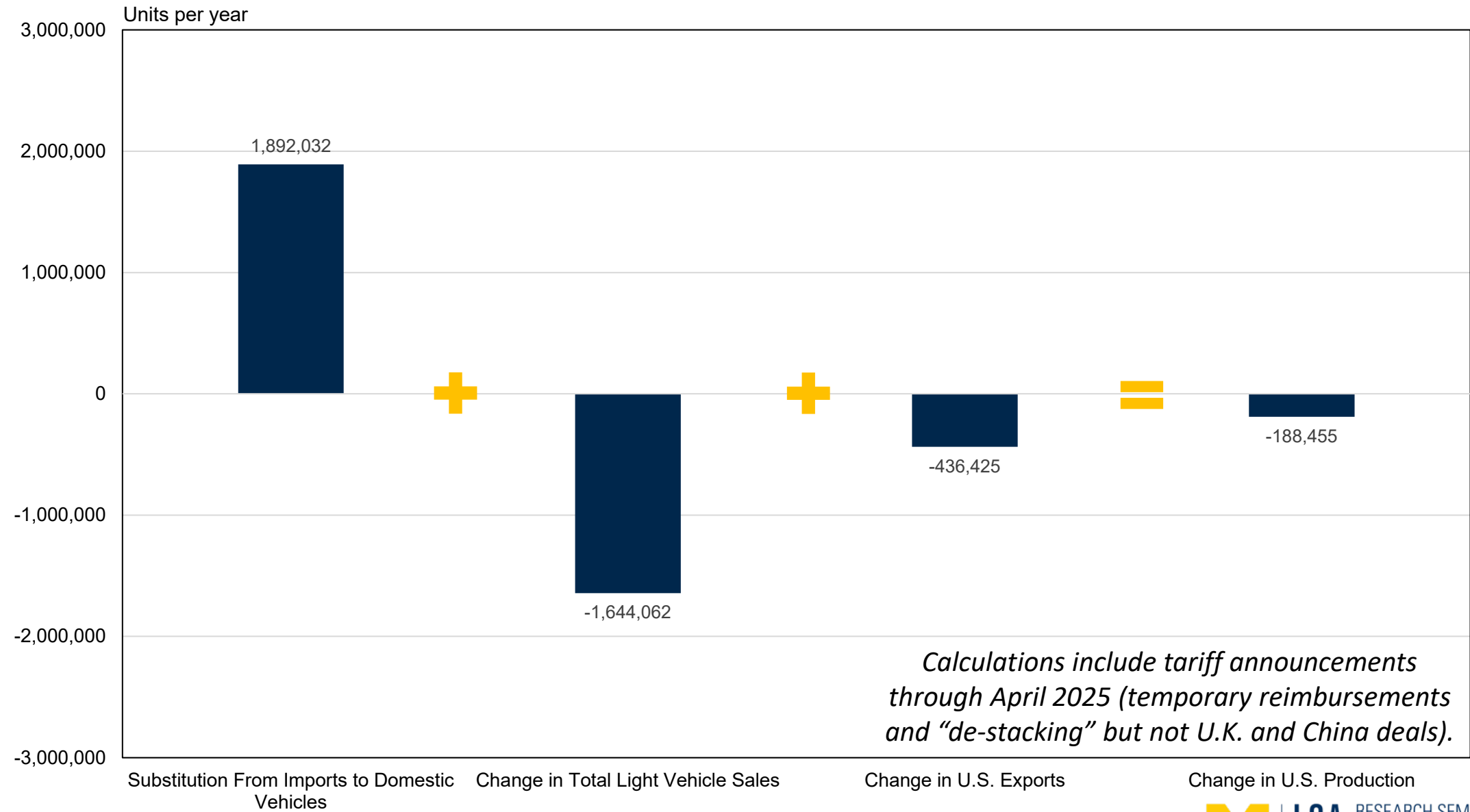
➤ Real Income Effect

- Tariffs reduce consumers' real purchasing power

Effective Tariff Rates and Rough Price Effects

- 21.6% effective average tariff rate on imported vehicles
- 5.7% effective cost increase for domestic production
- Average light vehicle prices rise 13.2% (roughly \$6,200)
- 12.7% effective average retaliatory tariff rate
- Drew on estimates from the (sparse) academic literature to translate these price changes into economic effects

Medium-Term Effects of the 2025 Tariffs on Domestic Auto Production

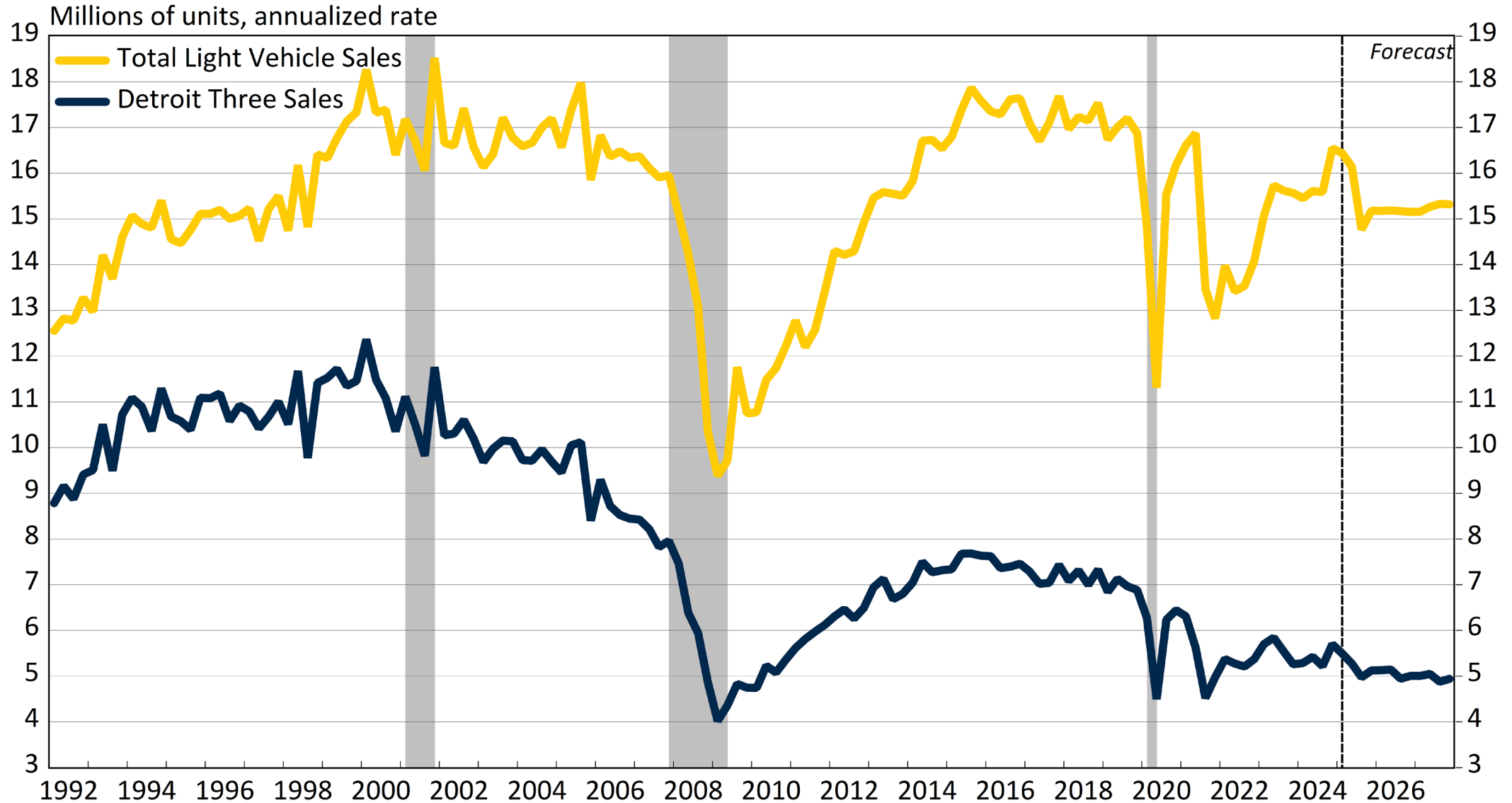


Implications for the Michigan Economy

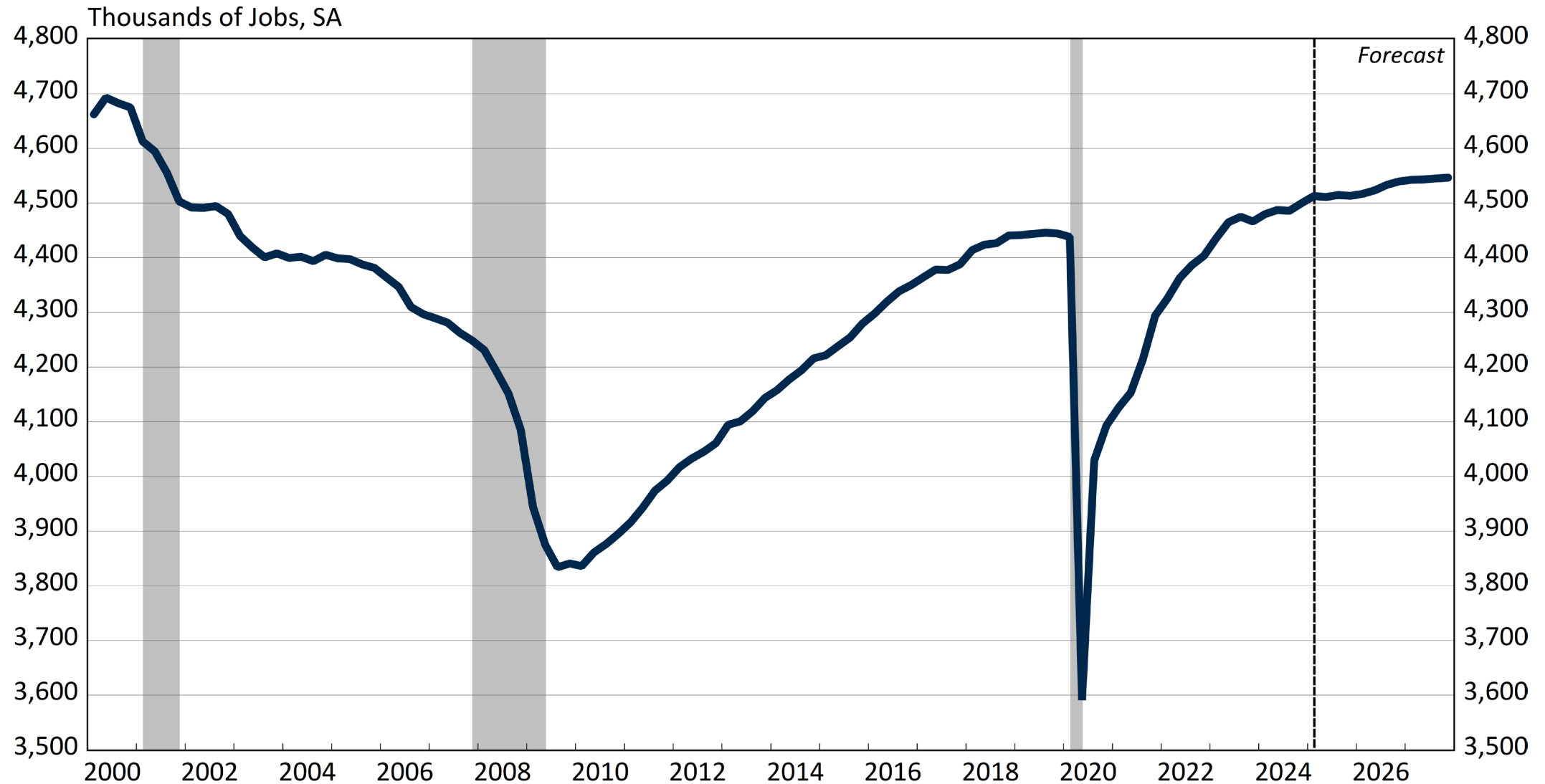
- Roughly 1.8% decline in domestic vehicle production
- Could lead to roughly 3,300 job losses in Michigan's transportation equipment manufacturing sector
 - Statewide jobs multiplier of nearly four
 - Implies approximately 13,000 job losses in Michigan
- Estimate is very uncertain
 - Tariffs remain fluid
 - Inherent complexity in assessing effects

Michigan Economic Outlook

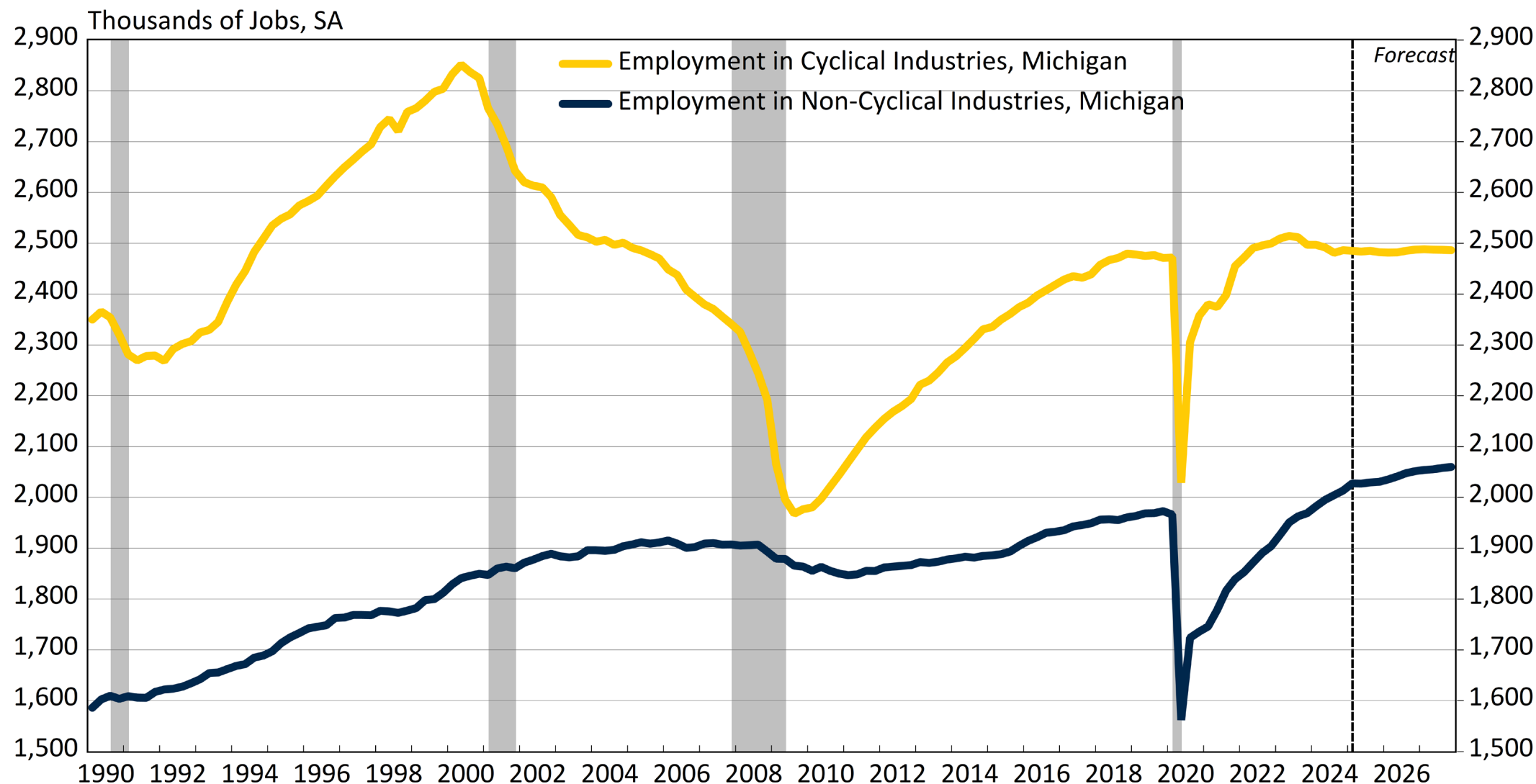
Light Vehicle Sales Hit a Tariff Speed Bump



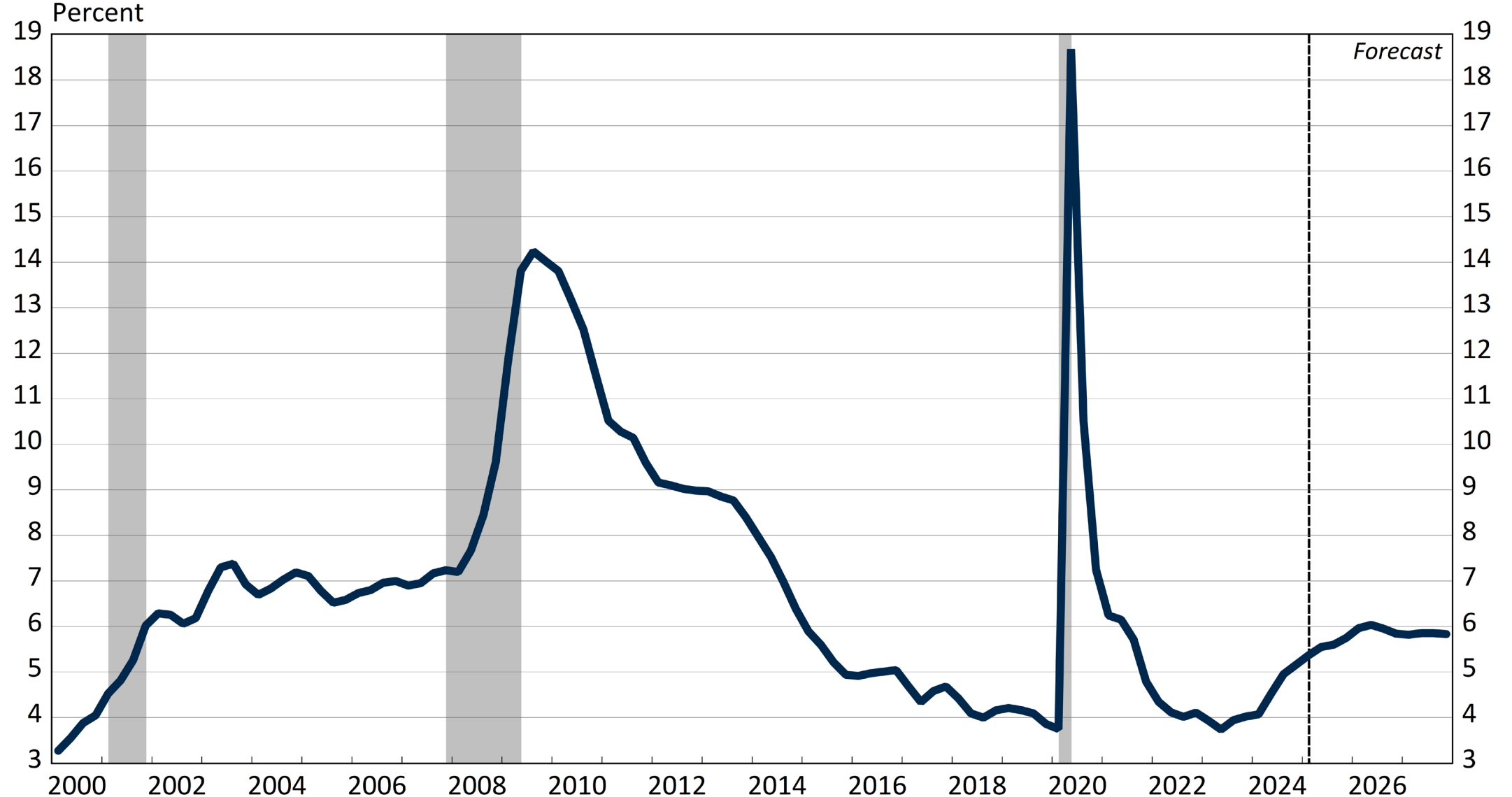
Michigan Payroll Employment Holds Flat Through Rest of 2025 Before Returning to Moderate Growth



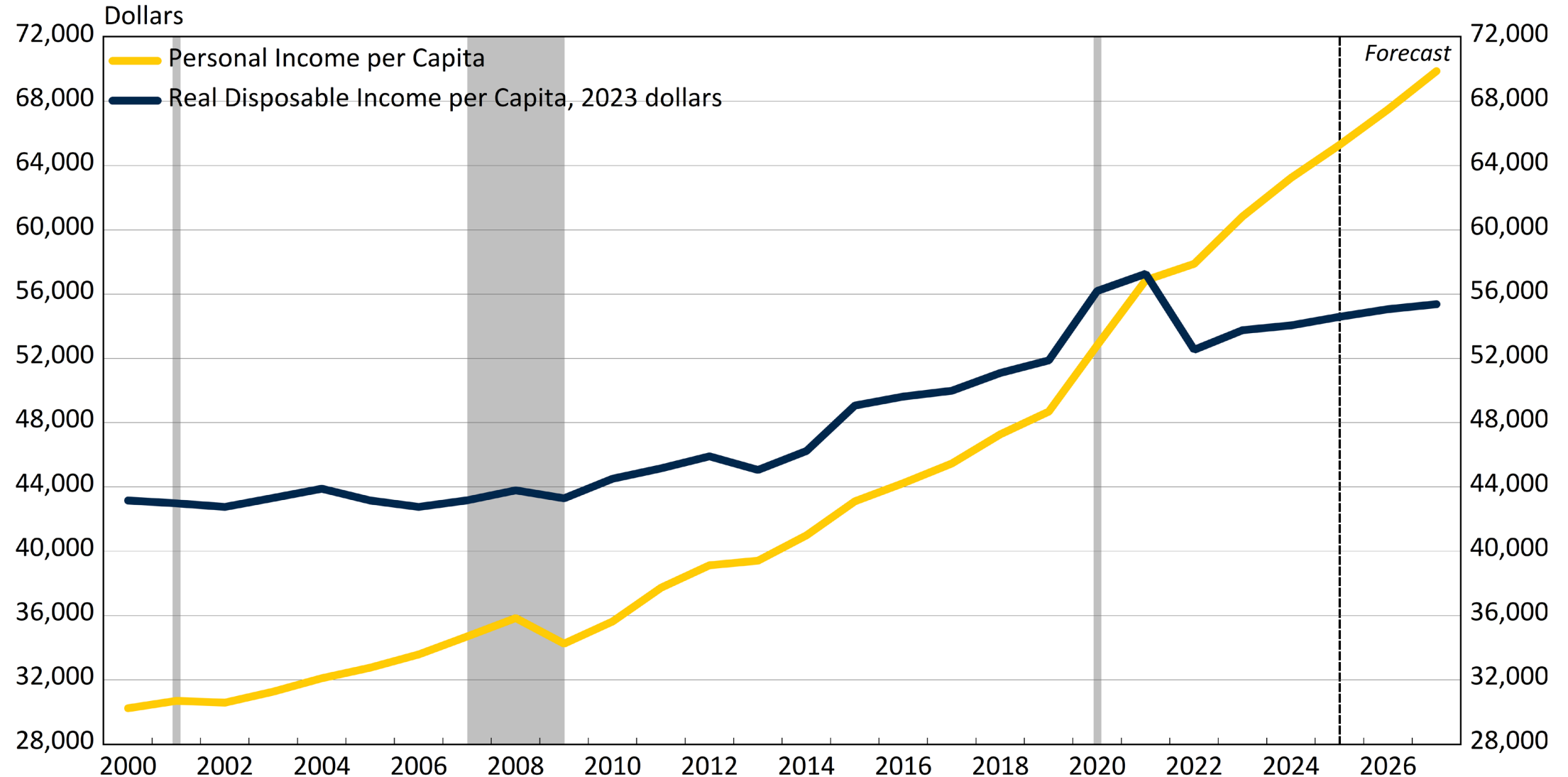
Non-Cyclical Industries Drive Employment Gains



Michigan's Unemployment Rate Peaks at 6 Percent Next Year



Michigan Real Disposable Income Slightly Below Trend





lsa.umich.edu/econ/rsqe