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THE U.S. AND MICHIGAN OUTLOOK FOR 2014–2016

**PREPARED FOR PRESENTATION AT THE
CONSENSUS REVENUE ESTIMATING CONFERENCE**

**LANSING, MICHIGAN
JANUARY 10, 2014**

BY

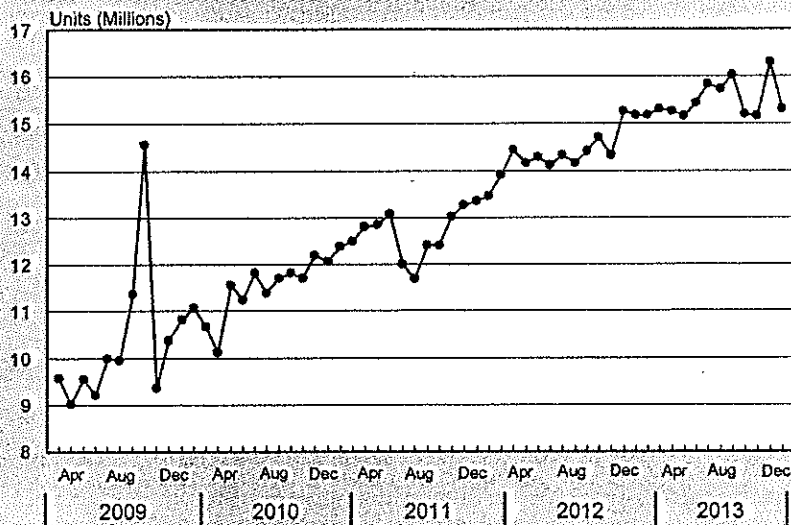
**GEORGE A. FULTON
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Current State of the Economy

- 2013q3 GDP growth at 4.1%
 - Of which, 1.7pp due to inventory investment
 - Overstates underlying strength
- Payroll job gains: December report today
- ISM PMI indices: continued expansion
- Homebuilder confidence: positive outlook
 - Softened during Fall 2013
 - Rebounded to 58 in December
- Vehicle sales: volatile, trending up

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Light Vehicle Sales



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Fiscal Policy:

- No shutdown in January 2014
- Part of the sequester stays
- No increases in tax *rates*
- Minor revenue increases
- Debt ceiling will be raised

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Federal Budget, NIPA Basis

(Billions of Dollars)

	FY'12	FY'13	Forecast		
			FY'14	FY'15	FY'16
Current receipts	2616.2	2938.0	3158.2	3359.5	3588.3
% change	4.5	12.3	7.5	6.4	6.8
Current expenditures	3756.9	3796.6	3893.7	4054.8	4256.8
% change	-0.5	1.1	2.6	4.1	5.0
Consumption	1013.9	981.2	958.9	955.2	969.9
% change	0.3	-3.2	-2.3	-0.4	1.5
Transfer payments	2270.6	2337.0	2447.5	2583.5	2737.4
% change	-0.8	2.9	4.7	5.6	6.0
Surplus (+) or deficit (-)	-1140.8	-858.6	-735.5	-695.2	-668.5
Percent of GDP	-7.1	-5.2	-4.3	-3.8	-3.5

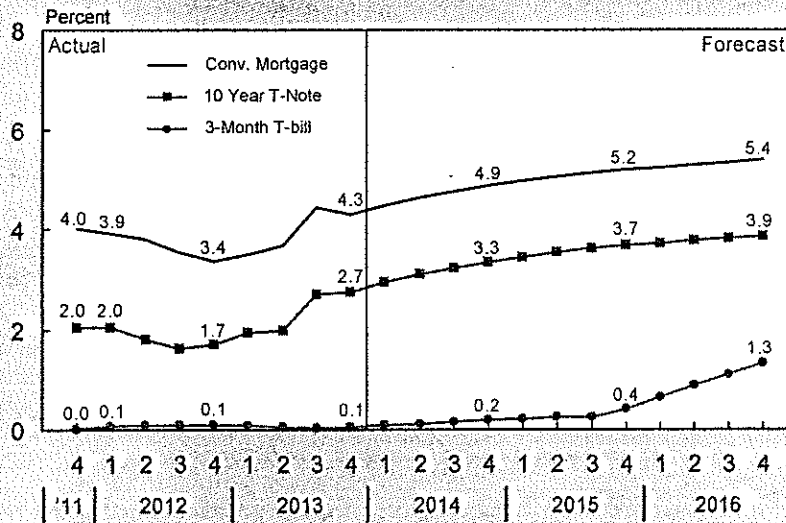
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Monetary Policy

- Janet Yellen confirmed.
 - No change in policy stance expected
- Slowing of asset purchases has began
- Zero policy rate for an extended period
- Near-term challenge: forward guidance
 - 6.5% unemployment rate threshold is near
 - Will have to adjust forward guidance

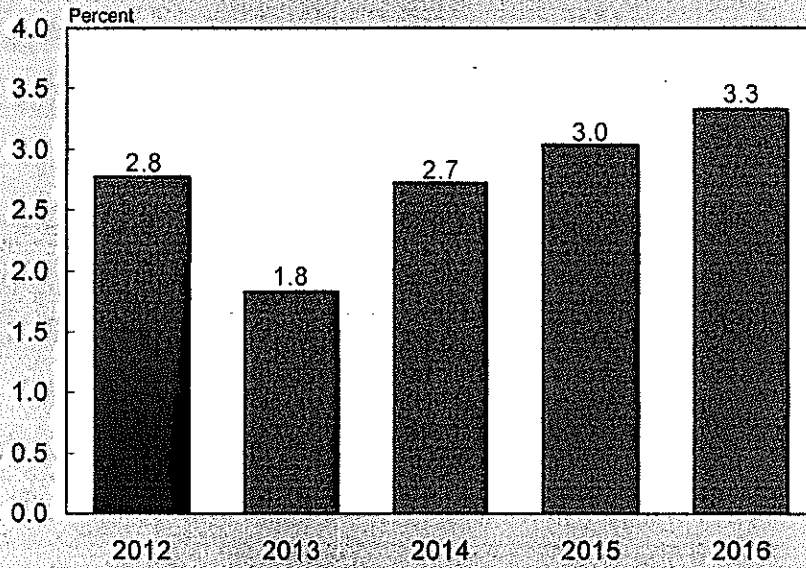
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Market Interest Rates



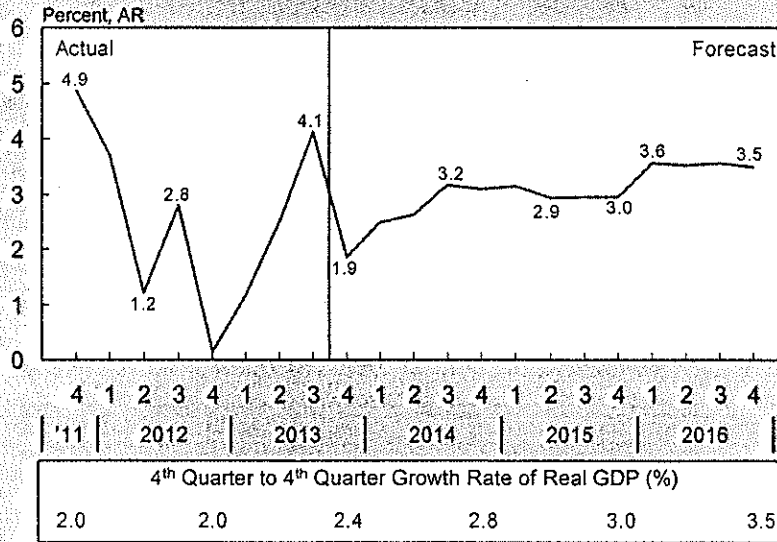
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Real GDP Growth



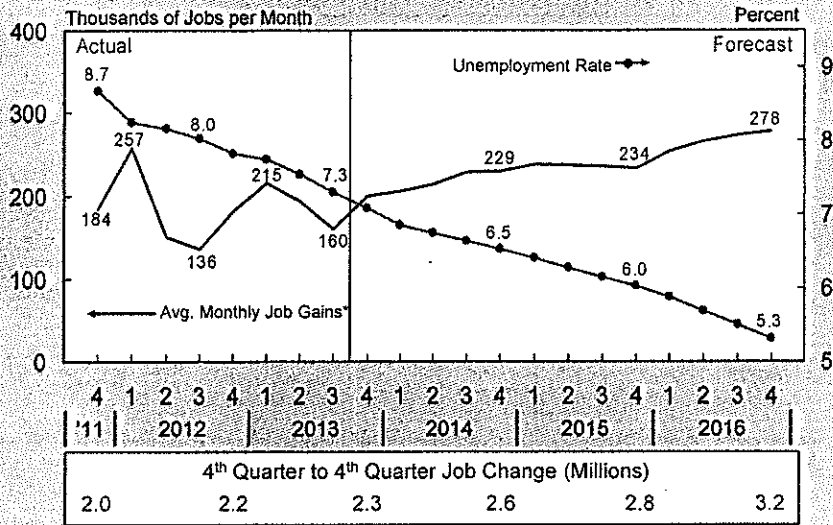
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Growth Rate of Real GDP



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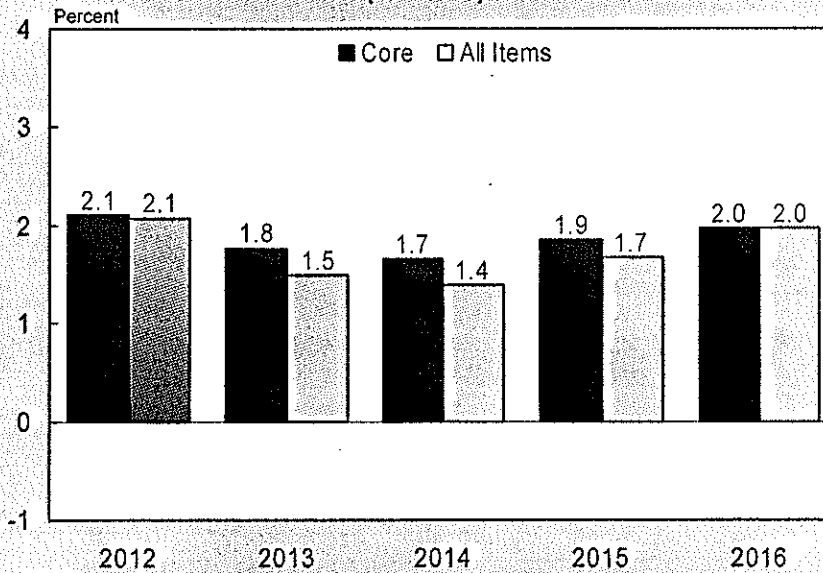
Nonfarm Payroll Employment Gains and Unemployment Rate



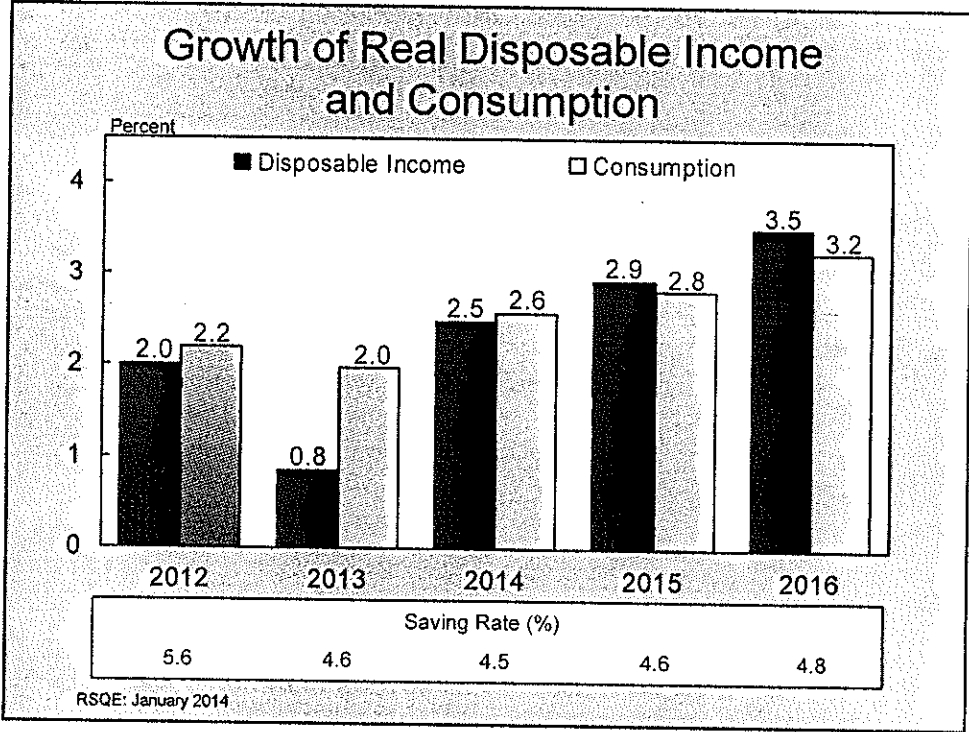
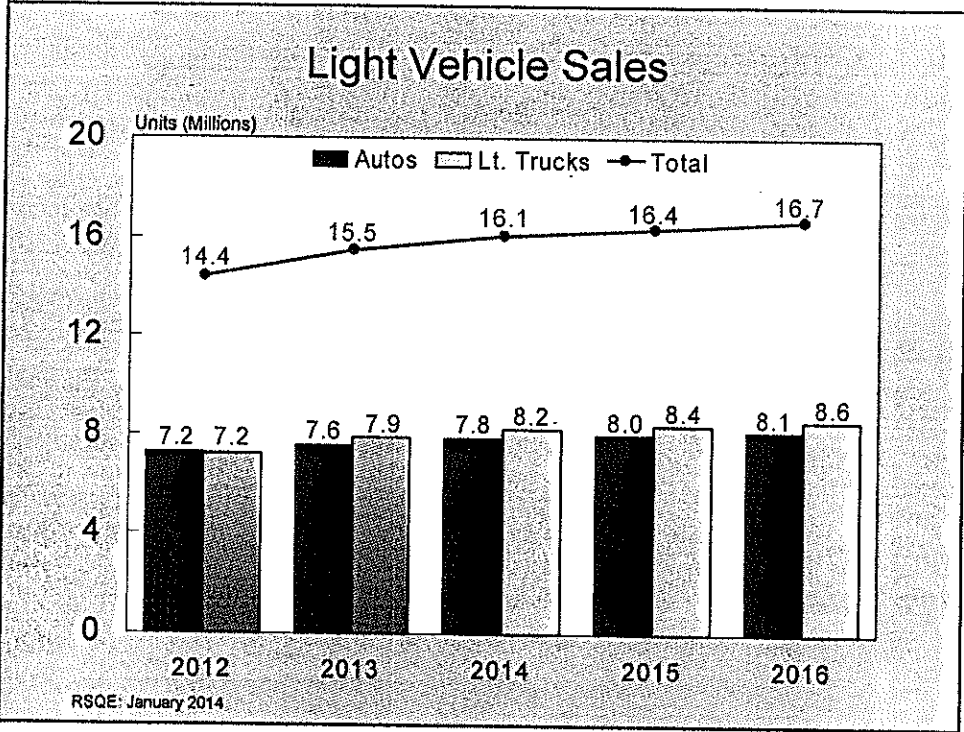
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* 1/3 the change in quarterly value

Consumer Price Inflation (CPI-U)

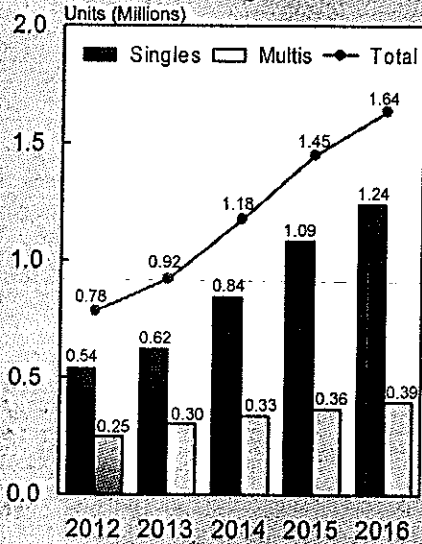


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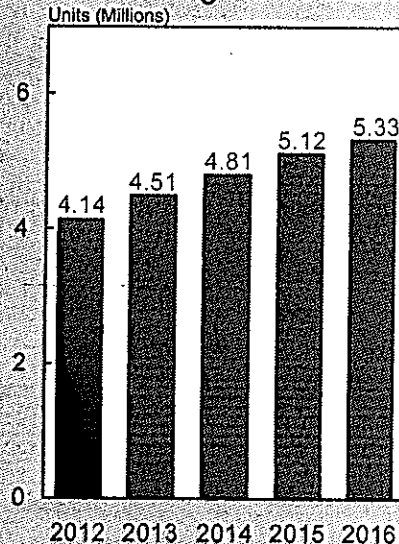


Housing Market

A. Housing Starts



B. Existing Home Sales*



Risks

- Abnormal weather
- Oil prices
- Policy mistakes
- Housing sector
- Economic growth abroad

RSQE: January 2014

THE MICHIGAN ECONOMIC OUTLOOK FOR 2014–2016



JANUARY 10, 2014

Where is the Michigan economy today?

Macroeconomic successes

- Michigan ranked 4th among the 51 states (including D.C.) in private-sector job growth from 2010 to 2012:
 - with particular strength in activities skewed toward the better-compensated end of the wage scale.
- Michigan closed out 2013 with a healthy year of job growth:
 - the 2nd-largest gain in jobs over a year since 1999,
 - and in excess of the average yearly gains recorded from 1971 to 2000, prior to the extended downturn of the 2000s.

Where is the Michigan economy today?

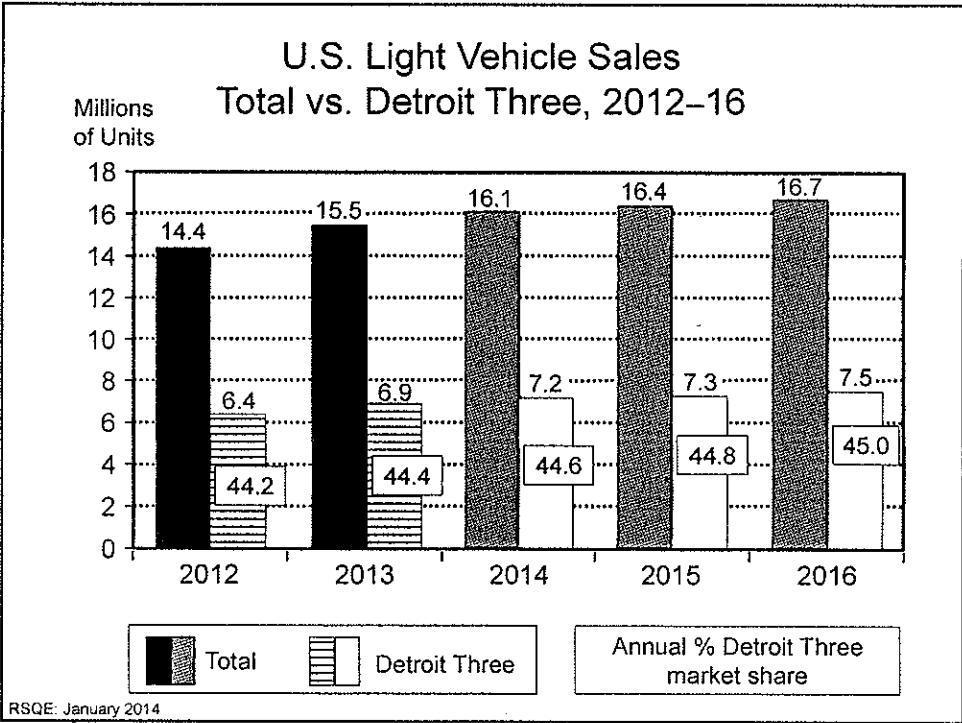
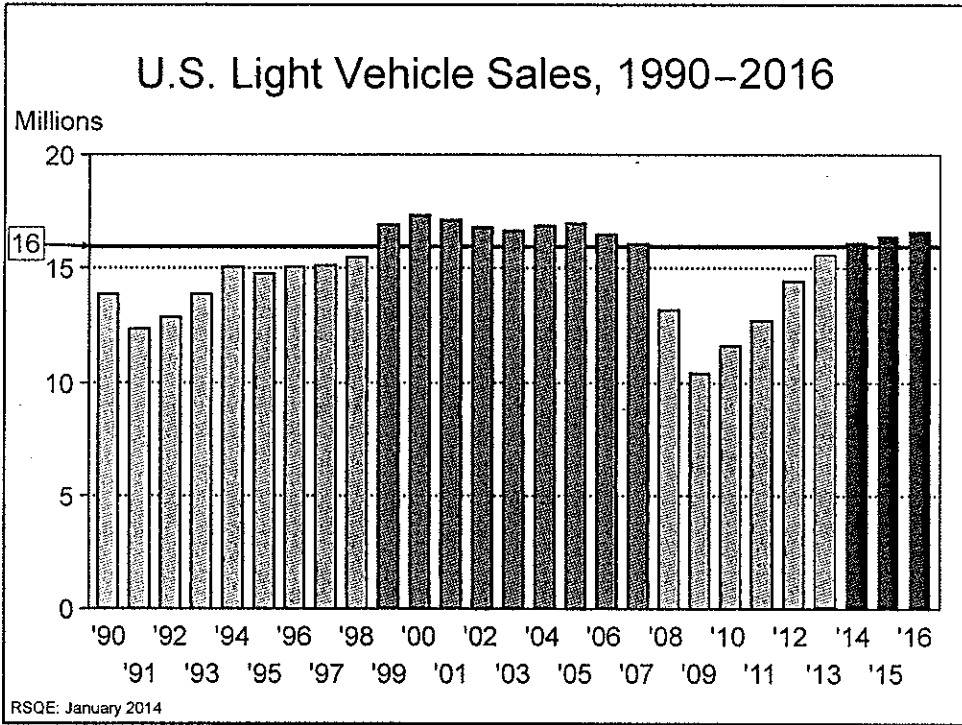
Macroeconomic successes

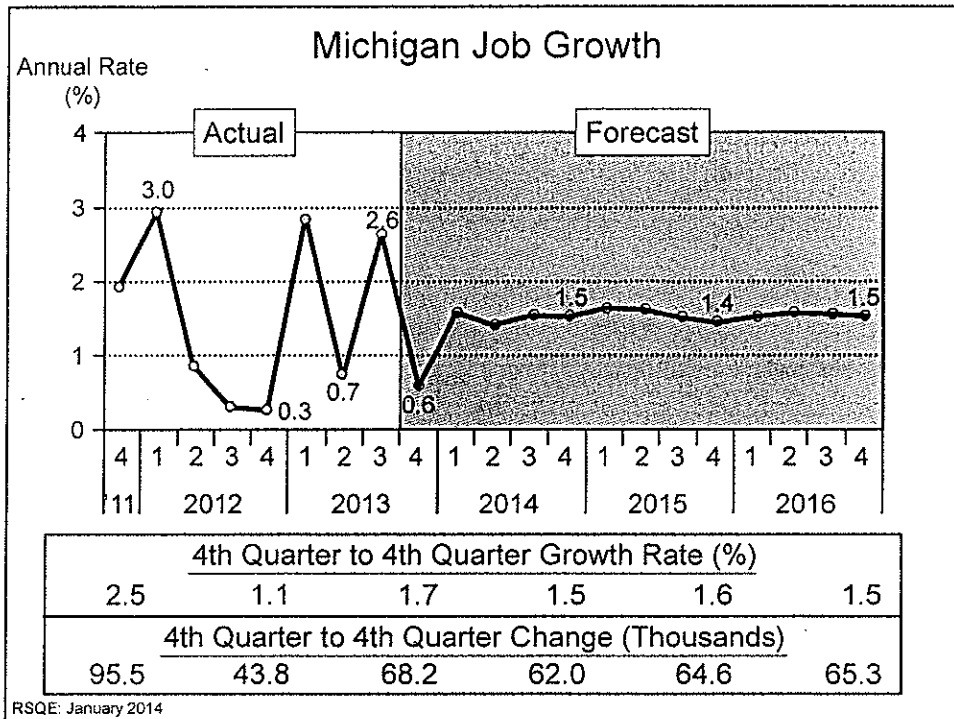
- Michigan is completing its fourth year of economic recovery:
 - which is becoming more broad-based across sectors, including housing.
- The unemployment rate has come down by more than 5 percentage points from its peak in the summer of 2009.
- Local consumer inflation remains subdued: by our estimate, at 1.7 percent for 2013.

Where is the Michigan economy today?

Microeconomic challenges

- Parts of society are not benefiting, or not benefiting fully, from the state's macroeconomic successes.
- The state unemployment rate, currently at 8.8 percent, is still too high, above the rates we saw prior to the Great Recession of 2008–09.
- Despite the solid job recovery to date, there is still much ground to be made up after the job loss suffered during the prolonged recession of the past decade.
- The proportion of the population living in poverty or near poverty increased in Michigan (as it did in the nation) from 2010 to 2012.

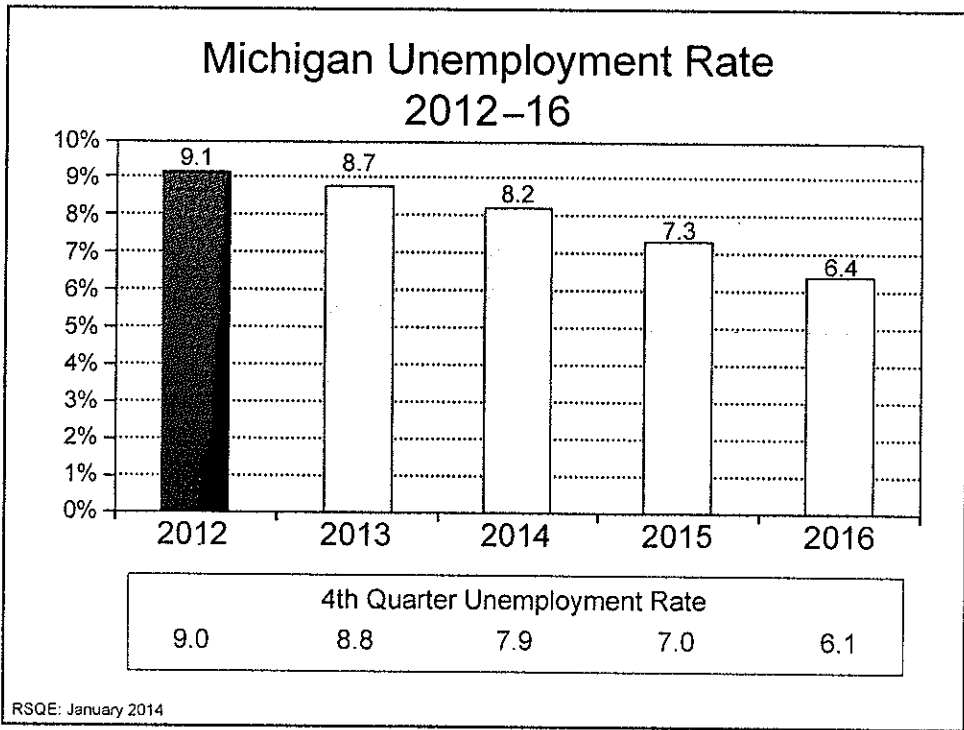
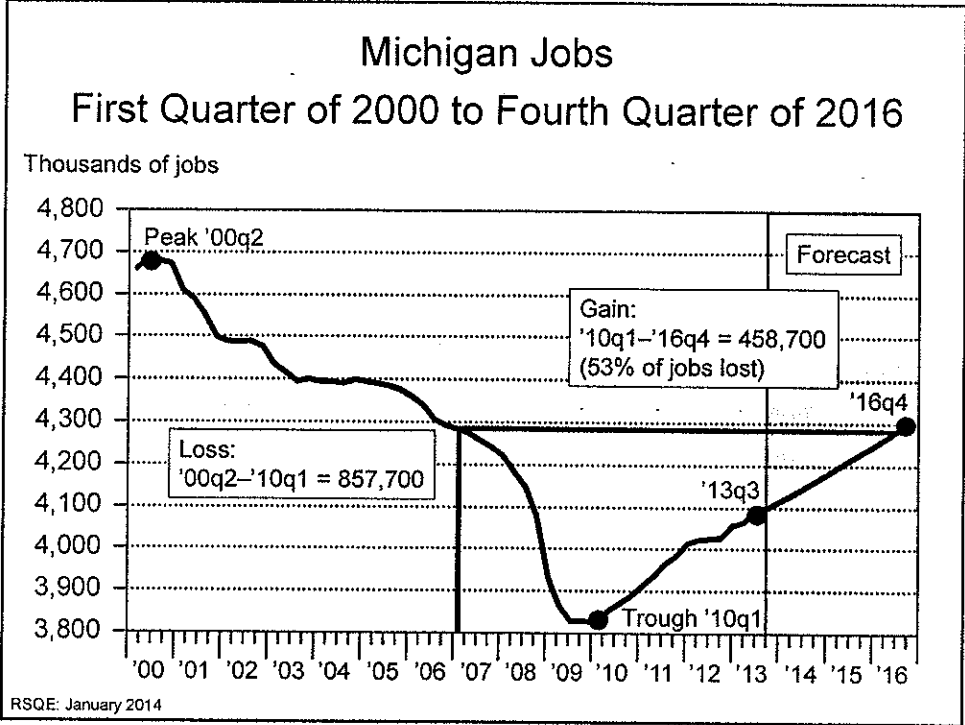




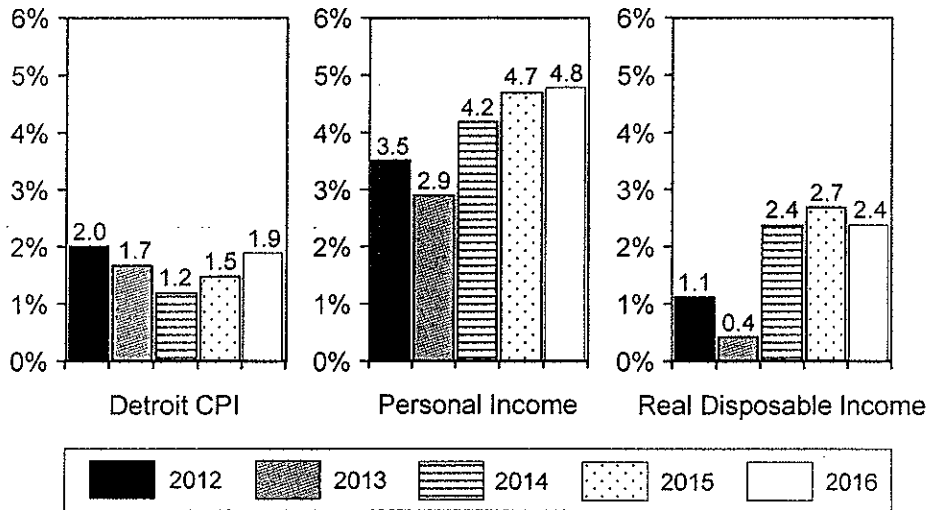
Change in Payroll Employment by Industry Sector (Thousands of jobs)

	'11q4 to '12q4	'12q4 to '13q4	'13q4 to '14q4	'14q4 to '15q4	'15q4 to '16q4
Total jobs	44	68	62	65	65
Manufacturing	22	19	11	5	7
Construction	-2	3	9	12	8
Professional & bus. svcs.	11	20	13	13	14
Private educ. & health svcs.	8	7	7	7	8
Trade, transportation, utilities	4	15	15	14	13
Government	-5	-2	-3	0	1

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Michigan Inflation and Income Growth



RSQE: January 2014

RSQE Forecast – State Revenues by Fiscal Year (Millions of dollars)

	Actual	Forecast		
	2013	2014	2015	2016
GFGP revenue	9,562	9,525	10,040	10,544
(% change)	(3.2)	(-0.4)	(5.4)	(5.0)
Earmarked state SAF revenue	11,270	11,546	11,928	12,328
(% change)	(3.6)	(2.4)	(3.3)	(3.4)

RSQE: January 2014

Michigan Outlook Summary

- The job recovery continues, adding an average of 64,000 jobs per year from the end of 2013 to yearend 2016, cumulating to 191,900 jobs over the 3-year forecast period.
- The sustained recovery through 2016 is consistent with an expanding U.S. economy, including an improving housing sector and increasing vehicle sales, with the Detroit Three fully participating.
- The top job producers over the forecast period are professional and business services and the large trade, transportation, and utilities sector.

Michigan Outlook Summary

- Job growth is accompanied by slowly declining unemployment and tame inflation.
- The 7-year recovery period through 2016 replenishes a little over half of the jobs lost from mid-2000 to early 2010:
 - and all of the jobs lost from the beginning of 2007, prior to the onset of the Great Recession.
- Thus, we have a ways to go, but we are expecting continued forward progress.

State Revenues by Fiscal Year
(Millions of dollars, except as noted)

	Actual	RSQE Forecast		
	2013	2014	2015	2016
<u>General Fund General Purpose</u>				
Personal income tax	5931	6018	6321	6641
(% change)	(23.1)	(1.5)	(5.0)	(5.1)
Consumption taxes	2125	2311	2386	2467
(% change)	(-1.7)	(8.8)	(3.3)	(3.4)
Sales	1004	1142	1184	1228
Use	838	888	925	965
Other consumption	283	281	278	274
Business taxes	1021	772	912	1015
(% change)	(-37.1)	(-24.4)	(18.2)	(11.2)
MBT/SBT/Corporate Income	660	350	440	526
Other business	361	422	472	489
Other GF/GP taxes	78	62	60	60
(% change)	(-20.3)	(-20.9)	(-2.7)	(-0.7)
GF/GP tax revenue	9155	9163	9680	10183
(% change)	(5.2)	(0.1)	(5.6)	(5.2)
Nontax revenue	407	362	360	361
GF/GP revenue	9562	9525	10040	10544
(% change)	(3.2)	(-0.4)	(5.4)	(5.0)
<u>School Aid Fund</u>				
SAF taxes	10535	10801	11177	11563
(% change)	(4.3)	(2.5)	(3.5)	(3.5)
Lottery transfer	734	745	751	765
(% change)	(-5.7)	(1.5)	(0.8)	(1.9)
Earmarked state SAF revenue	11270	11546	11928	12328
(% change)	(3.6)	(2.4)	(3.3)	(3.4)
<u>Addendum</u>				
Gross sales and use taxes	8424	8668	8979	9307
(% change)	(3.2)	(2.9)	(3.6)	(3.7)

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