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## **THE U.S. AND MICHIGAN OUTLOOK FOR 2013–2015**

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

**LANSING, MICHIGAN  
JANUARY 11, 2013**

**BY**

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## Current State of the Economy

- 2012q3 GDP growth at 3.1%
  - Up from 1.3% growth in 12q2
  - Due to a surge in defense spending & inventory building
- 2012q4 growth likely back to about 1%
- Payroll gains: moderate at best & uneven
- Unemployment Rate improving slowly
  - Largely due to declining labor force participation
- Business capital spending softened in 2012
- Light vehicle sales rising steadily
- Housing construction recovering since late 2011

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## 2012 Tax Package

- Bush-era tax rates permanently extended for under \$400k
- Capital gains rate rises for high-income taxpayers
- Retains new investment income surtax (healthcare law)
- Reinstates phase-out of personal exemption & itemized deductions
- Leaves scheduled sunset of payroll tax cut
- Raises the estate tax rate

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## 2012 Tax Package (cont.)

- Indexes the alternative minimum tax (AMT), permanently
- Extends 2009 “stimulus” credits (5 years)
- Renews extended unemployment benefits for 2013
- Extends bonus depreciation for one year
- Delays automatic spending sequester until March

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## Fiscal Policy Assumptions

- Debt ceiling increase approved
- No sequestration
- Lean spending and additional modest tax increases to help narrow the deficit

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## Federal Budget, NIPA Basis (Billions of Dollars)

	FY'11	FY'12	Forecast		
			FY'13	FY'14	FY'15
<b>Current receipts</b>	2501.5	2632.5	2902.1	3180.9	3414.9
% change	6.5	5.2	10.2	9.6	7.4
<b>Current expenditures</b>	3766.8	3744.0	3788.2	3905.7	4074.7
% change	3.2	-0.6	1.2	3.1	4.3
<b>Consumption</b>	1064.4	1062.2	1070.6	1079.2	1101.5
% change	2.0	-0.2	0.8	0.8	2.1
<b>Transfer payments</b>	2322.4	2306.7	2366.3	2466.5	2604.2
% change	1.9	-0.7	2.6	4.2	5.6
<b>Surplus (+) or deficit (-)</b>	-1265.4	-1111.5	-886.1	-724.8	-659.8
<b>Percent of GDP</b>	-8.5	-7.1	-5.5	-4.3	-3.7

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## Monetary Policy

In December the Fed:

- Converted Operation Twist to outright purchases of longer-term Treasury debt
  - \$45bn per month
  - Doubled the pace of balance sheet expansion
  - Likely to go on at least through 2013
- Changed communication strategy
  - Introduced thresholds for inflation and unemployment
  - Argued that it is not a change in expected policy stance

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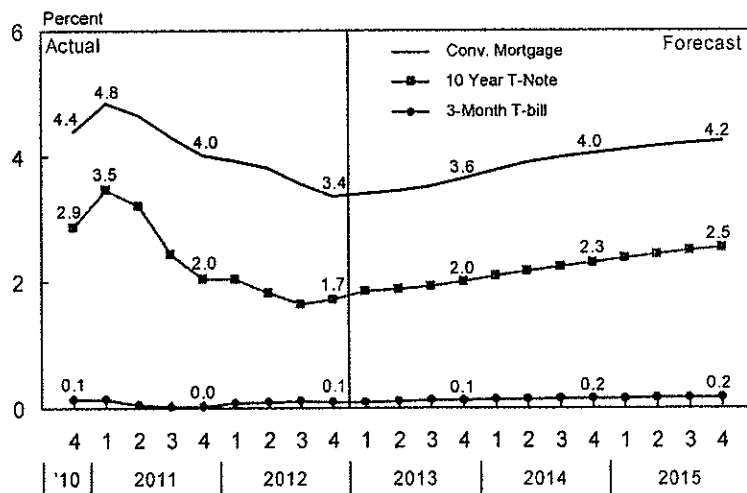
## Monetary Policy (cont.)

New communication strategy:

- Replaces date-based guidance
- Expect the fed funds rate in 0 to ¼ percent range **at least as long as:**
  - Unemployment rate is above 6.5 percent
  - Inflation rate between one and two years ahead is **projected** to be under 2.5 percent
  - Longer-term inflation expectations remain well-anchored

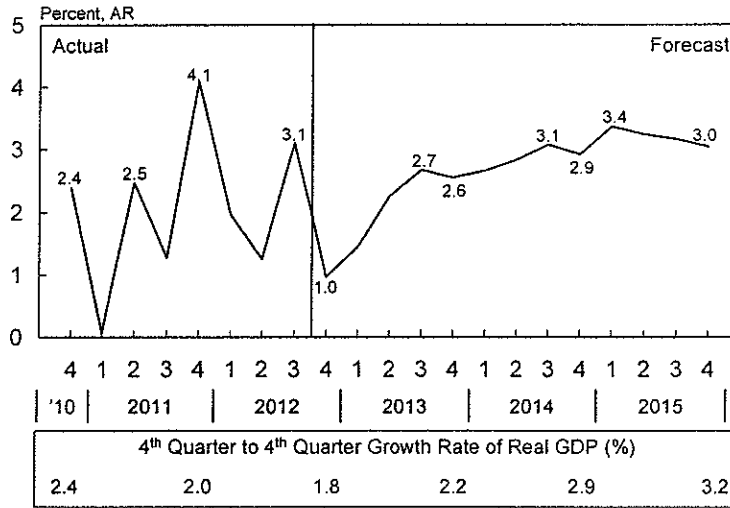
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## Market Interest Rates



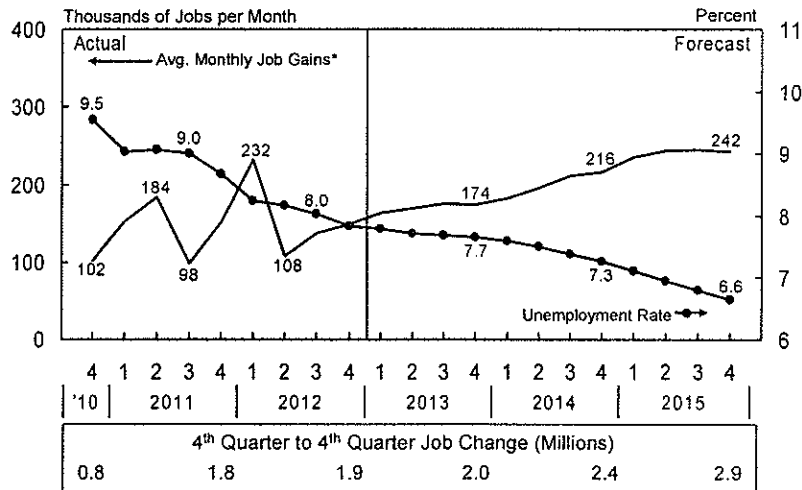
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## Growth Rate of Real GDP



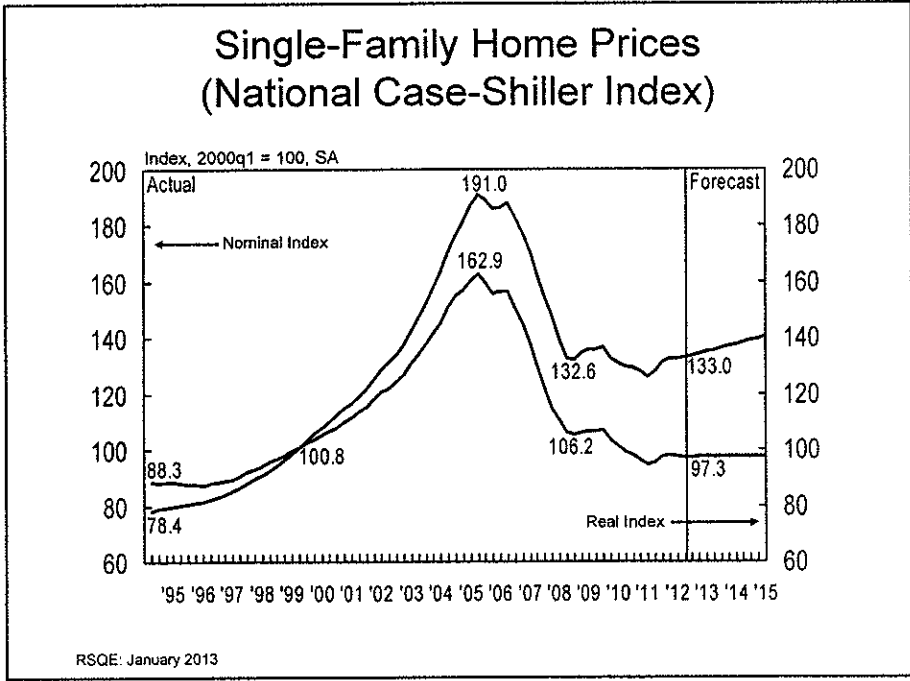
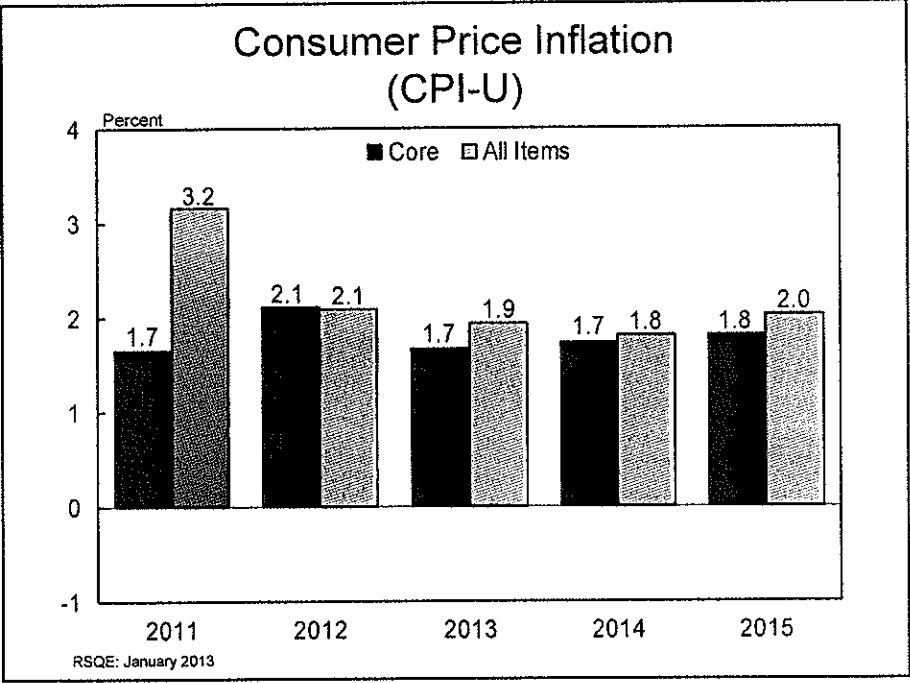
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## Nonfarm Payroll Employment Gains and Unemployment Rate



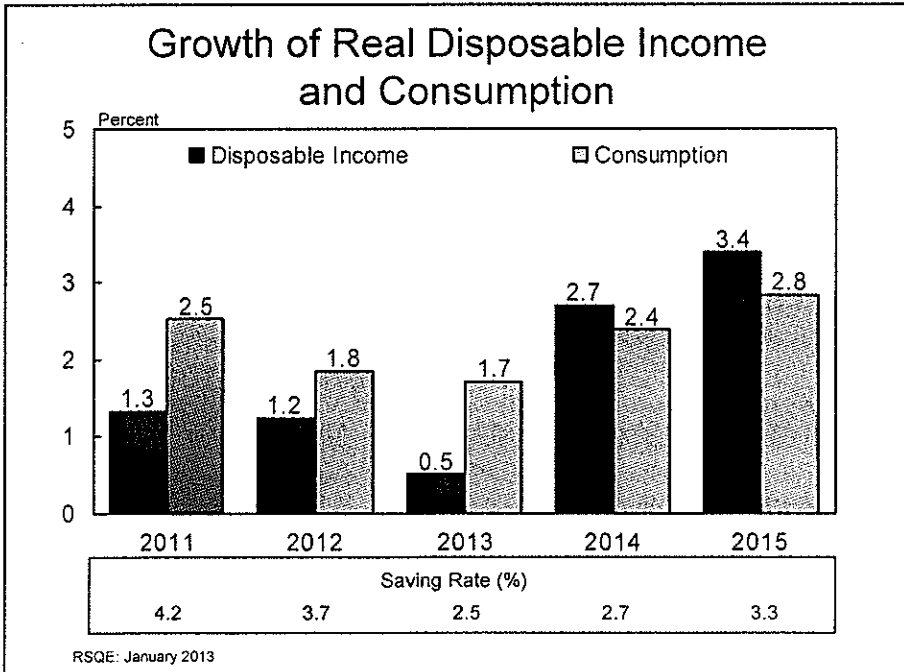
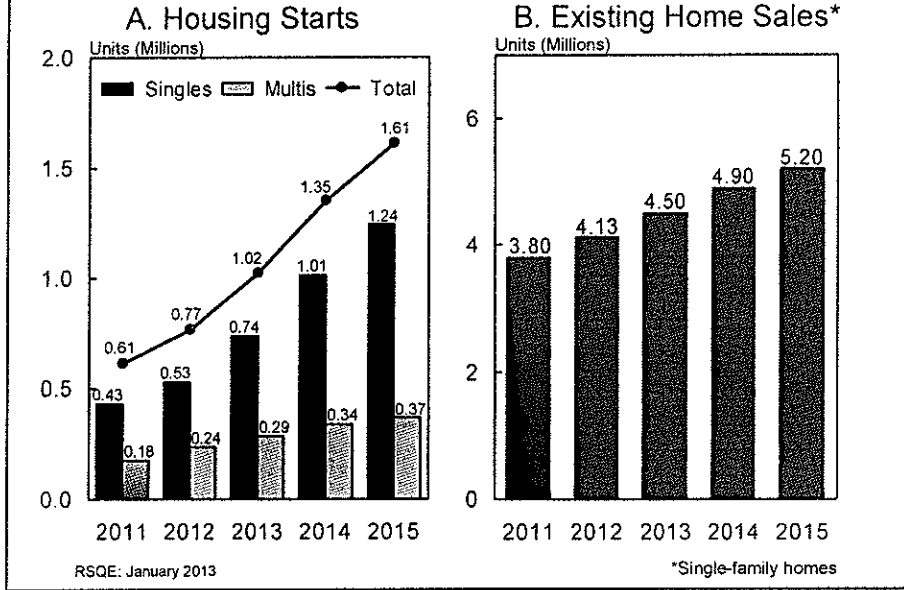
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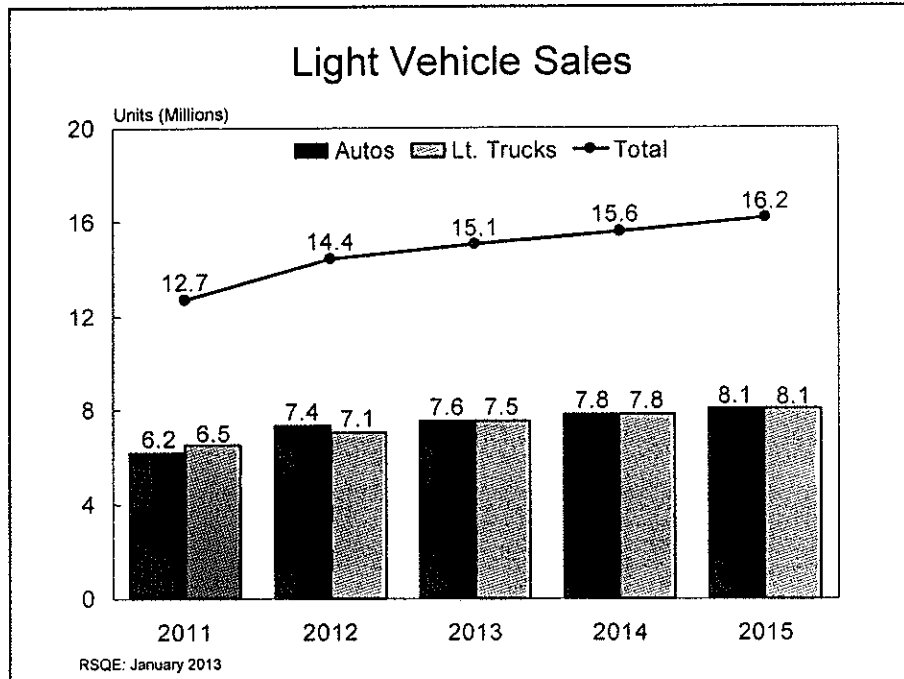
\* 1/3 the change in quarterly value





## Housing Market





## Risks to the Outlook:

### Negative:

- Debt ceiling & sequestration
- Eurozone crisis
- Slowdown in China
- Oil prices
- Abnormal Weather

### Positive:

- Housing prices rising faster
- Stronger home construction
- More business investment

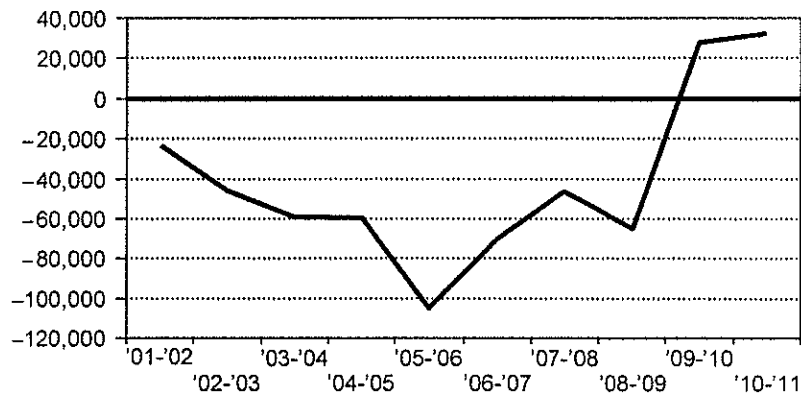
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# THE MICHIGAN ECONOMIC OUTLOOK FOR 2013–2015



JANUARY 11, 2013

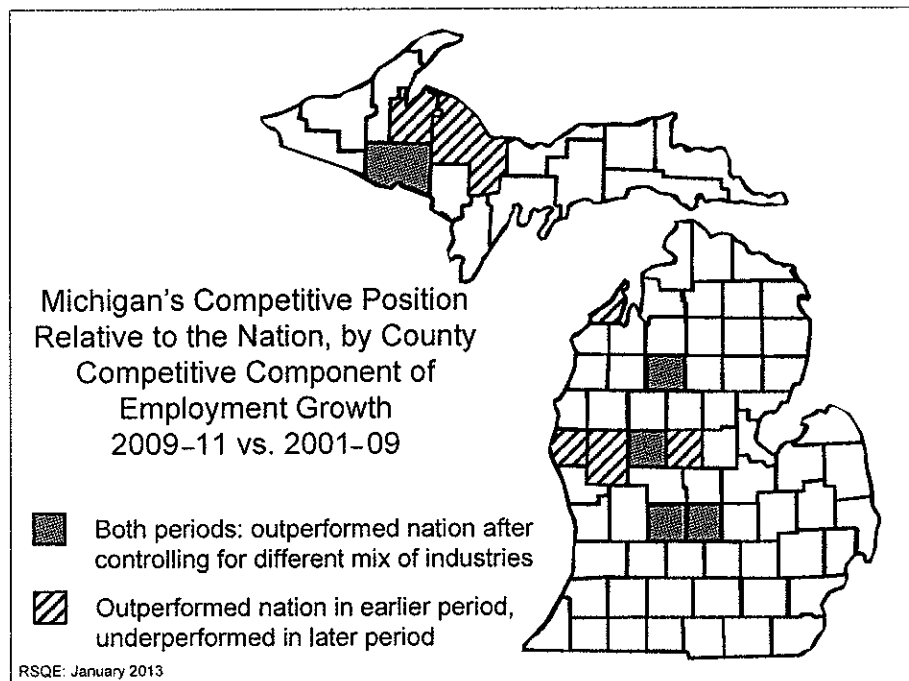
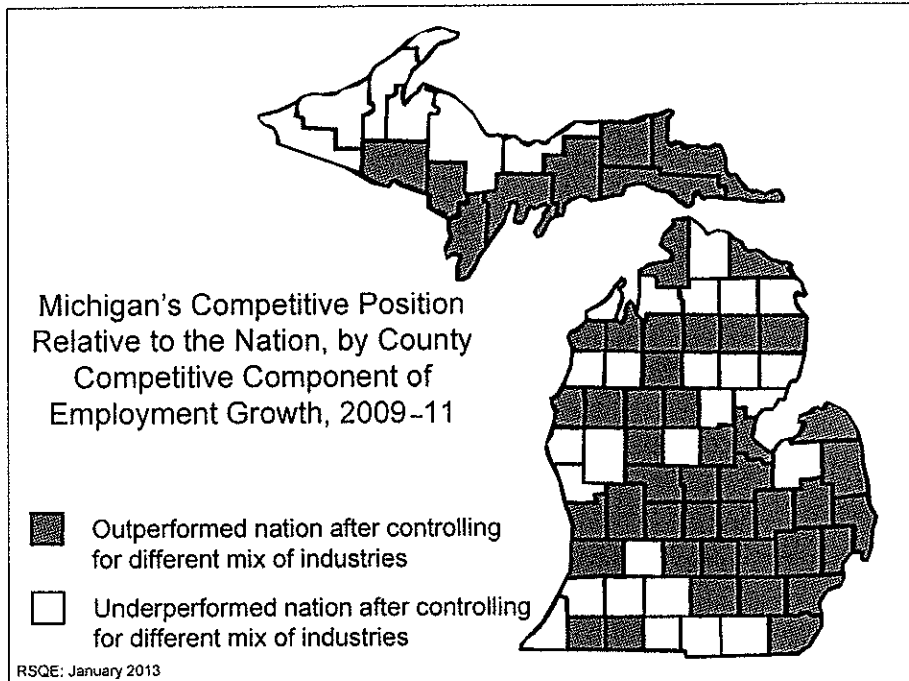
Year-to-Year Change in Michigan Private-Sector Employment  
by Competitive Component, 2001 to 2011

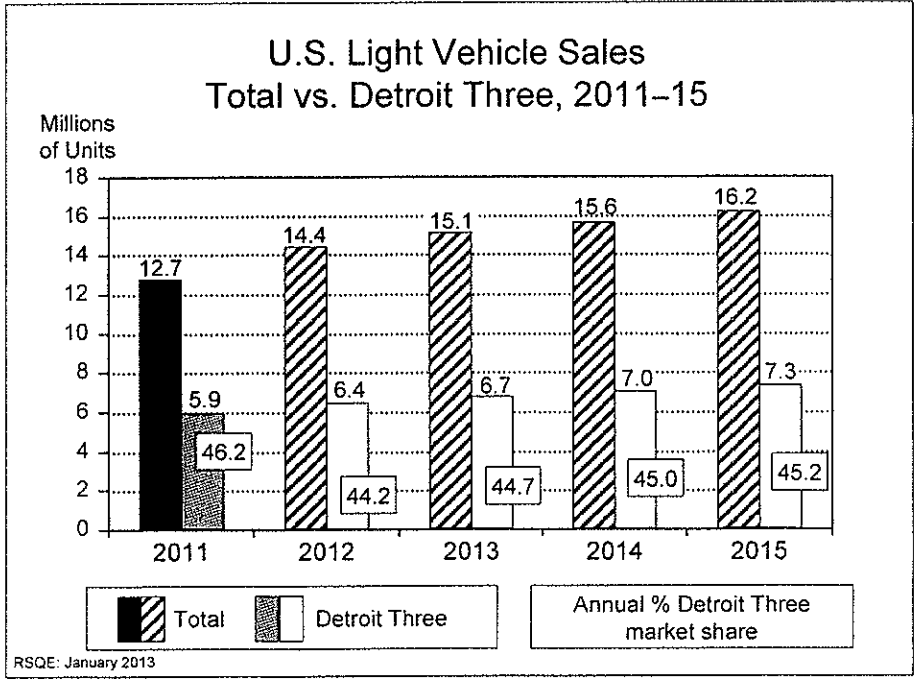
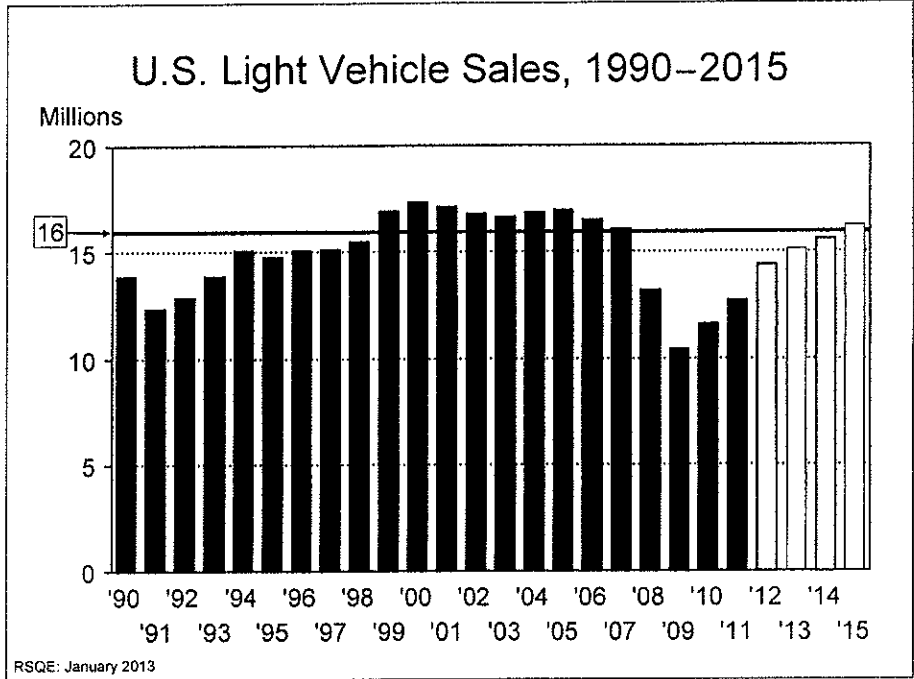


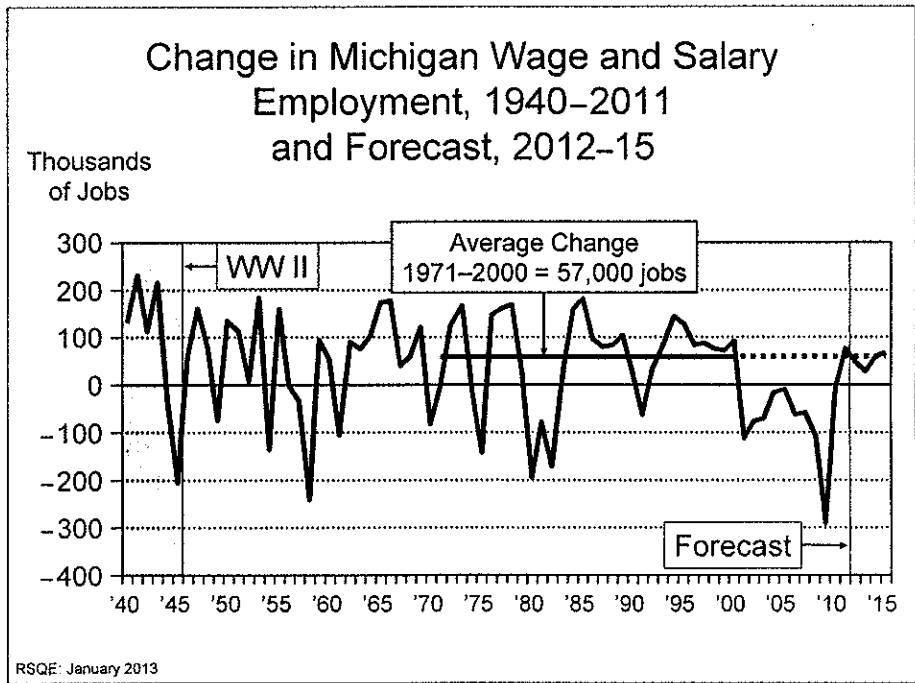
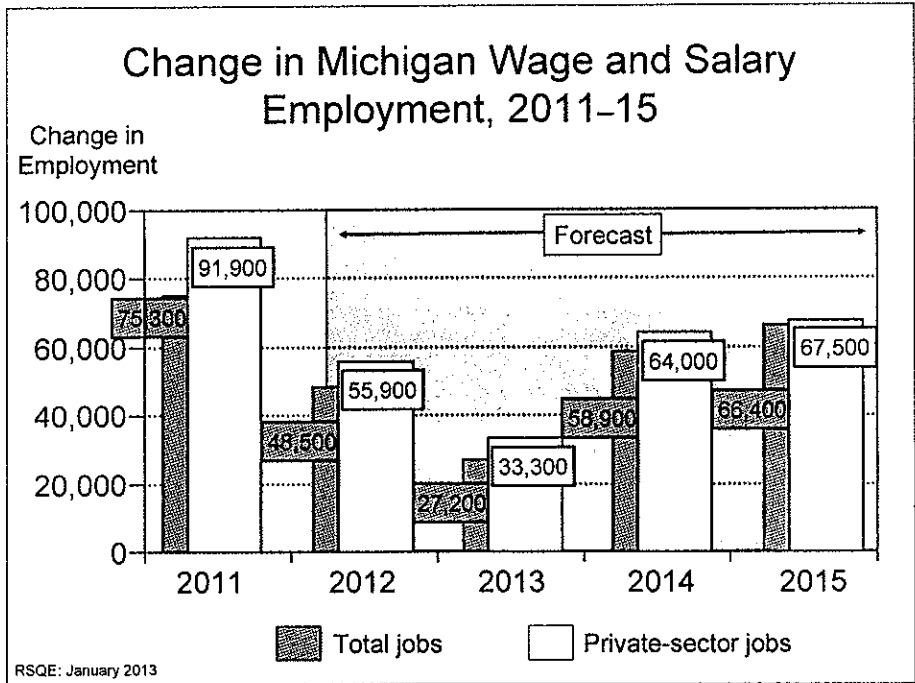
State Ranking on Competitive Position, 2011

1. North Dakota
2. Michigan

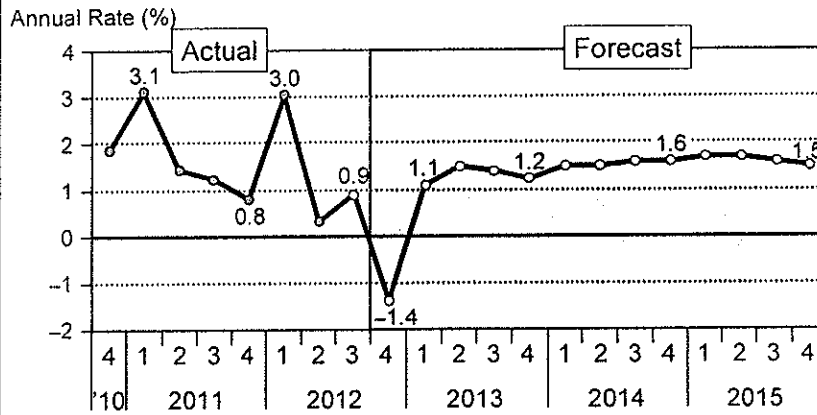
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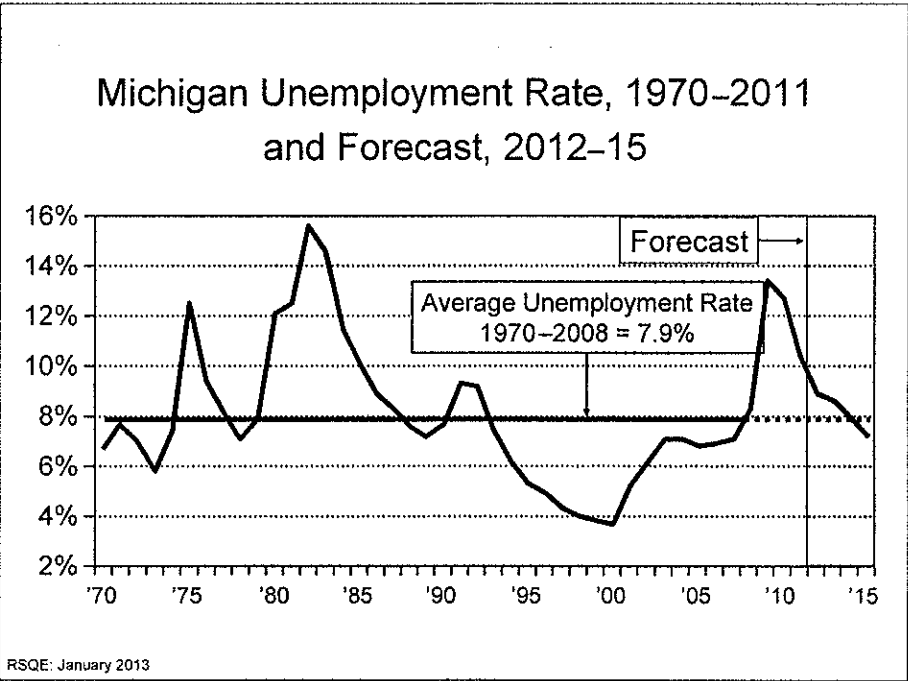
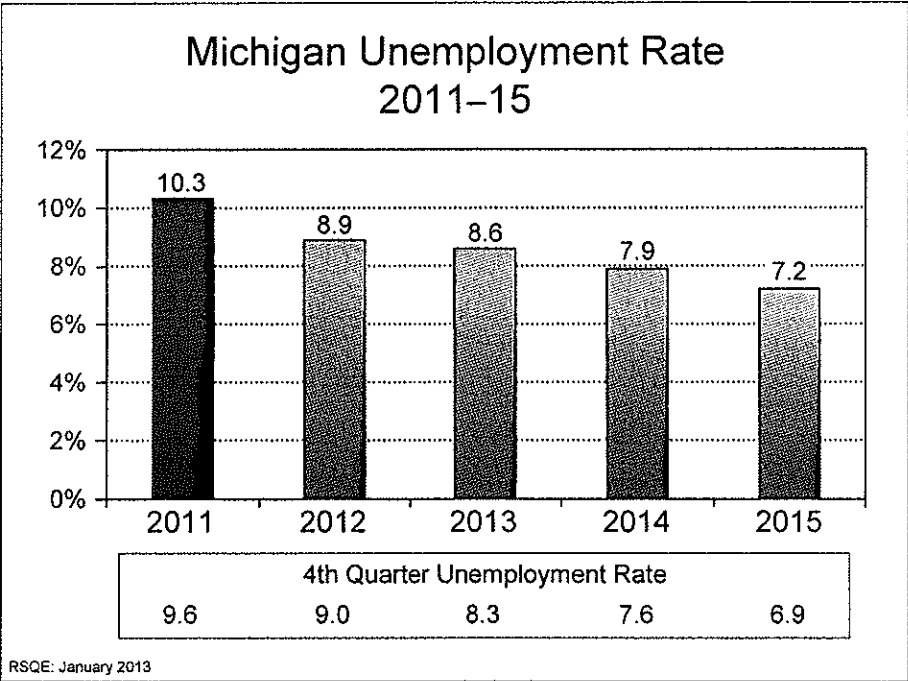


### Michigan Wage and Salary Employment Growth



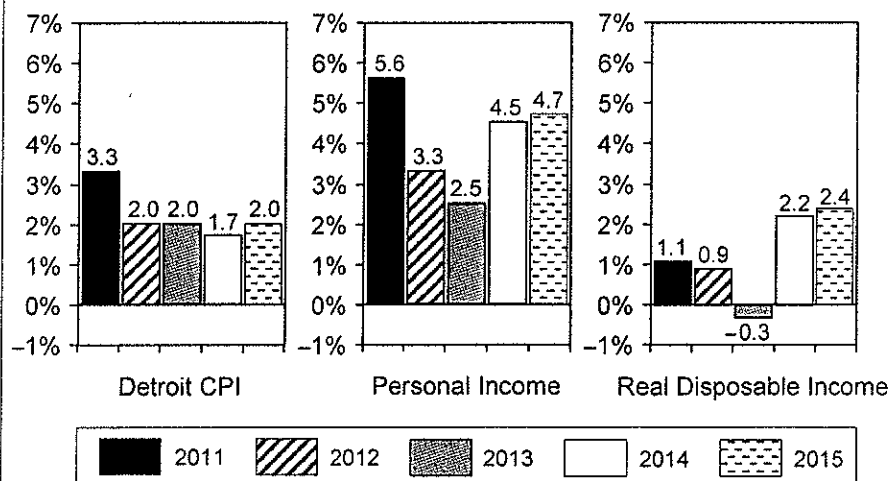
4th Quarter to 4th Quarter Growth Rate (%)					
1.5	1.6	0.7	1.3	1.6	1.6
4th Quarter to 4th Quarter Change (Thousands)					
57.8	63.8	28.0	52.1	62.8	66.5

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## Michigan Inflation and Income Growth



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

	Actual	Forecast		
	2012	2013	2014	2015
GFGP revenue	9,266	8,688	9,176	9,622
(% change)	(5.1)	(-6.2)	(5.6)	(4.9)
Earmarked state SAF revenue	10,879	11,052	11,339	11,687
(% change)	(-3.3)	(1.6)	(2.6)	(3.1)

RSQE: January 2013

## Michigan Summary

- Michigan is starting its fourth year of economic recovery after a nearly decade-long recession.
- Over the recovery period, Michigan has improved its competitive position among other states and across the majority of its constituent counties.
- The pace of job growth slowed during 2012 . . .
- . . . but we see a sustained, moderately paced recovery through 2015, extending the recovery period to six years . . .
- . . . with some pickup in job growth over the forecast period.

RSQE: January 2013

## Michigan Summary

- The largest contributions come from professional and business services, manufacturing, and the sizeable trade-transportation-utilities sector.
- Job growth is accompanied by slowly declining unemployment and relatively tame price inflation.
- If our forecast proves correct, just under 40 percent of the job decline suffered during the “lost decade” will be replenished by the end of 2015.
- Thus, we have a ways to go, but we’re seeing forward progress nonetheless.

RSQE: January 2013

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

	Actual	RSQE Forecast		
	2012	2013	2014	2015
<u>General Fund General Purpose</u>				
Personal income tax	4817	5452	5733	6045
(% change)	(8.4)	(13.2)	(5.2)	(5.4)
Consumption taxes	2160	2115	2298	2367
(% change)	(3.7)	(-2.1)	(8.6)	(3.0)
Sales	1081	1002	1142	1182
Use	794	834	882	917
Other consumption	285	279	274	268
Business taxes	1623	688	752	814
(% change)	(-3.3)	(-57.6)	(9.3)	(8.3)
MBT/SBT/Corporate Income	1279	326	377	427
Other business	344	362	375	386
Other GFGP taxes	98	60	63	66
(% change)	(42.4)	(-38.5)	(4.7)	(5.2)
GFGP tax revenue	8699	8314	8845	9292
(% change)	(5.1)	(-4.4)	(6.4)	(5.1)
Nontax revenue	567	373	331	330
GFGP revenue	9266	8688	9176	9622
(% change)	(5.1)	(-6.2)	(5.6)	(4.9)
<u>School Aid Fund</u>				
SAF taxes	10100	10307	10600	10945
(% change)	(-4.0)	(2.0)	(2.8)	(3.2)
Lottery transfer	778	745	739	742
(% change)	(7.0)	(-4.3)	(-0.8)	(0.4)
Earmarked state SAF revenue	10879	11052	11339	11687
(% change)	(-3.3)	(1.6)	(2.6)	(3.1)
<u>Addendum</u>				
Gross sales and use taxes	8159	8341	8608	8909
(% change)	(4.5)	(2.2)	(3.2)	(3.5)

RSQE: January 2013

