



# The U.S. and Michigan Economic Outlook for 2026–2028

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**Consensus Revenue Estimating Conference**  
January 16, 2026

PREPARED BY

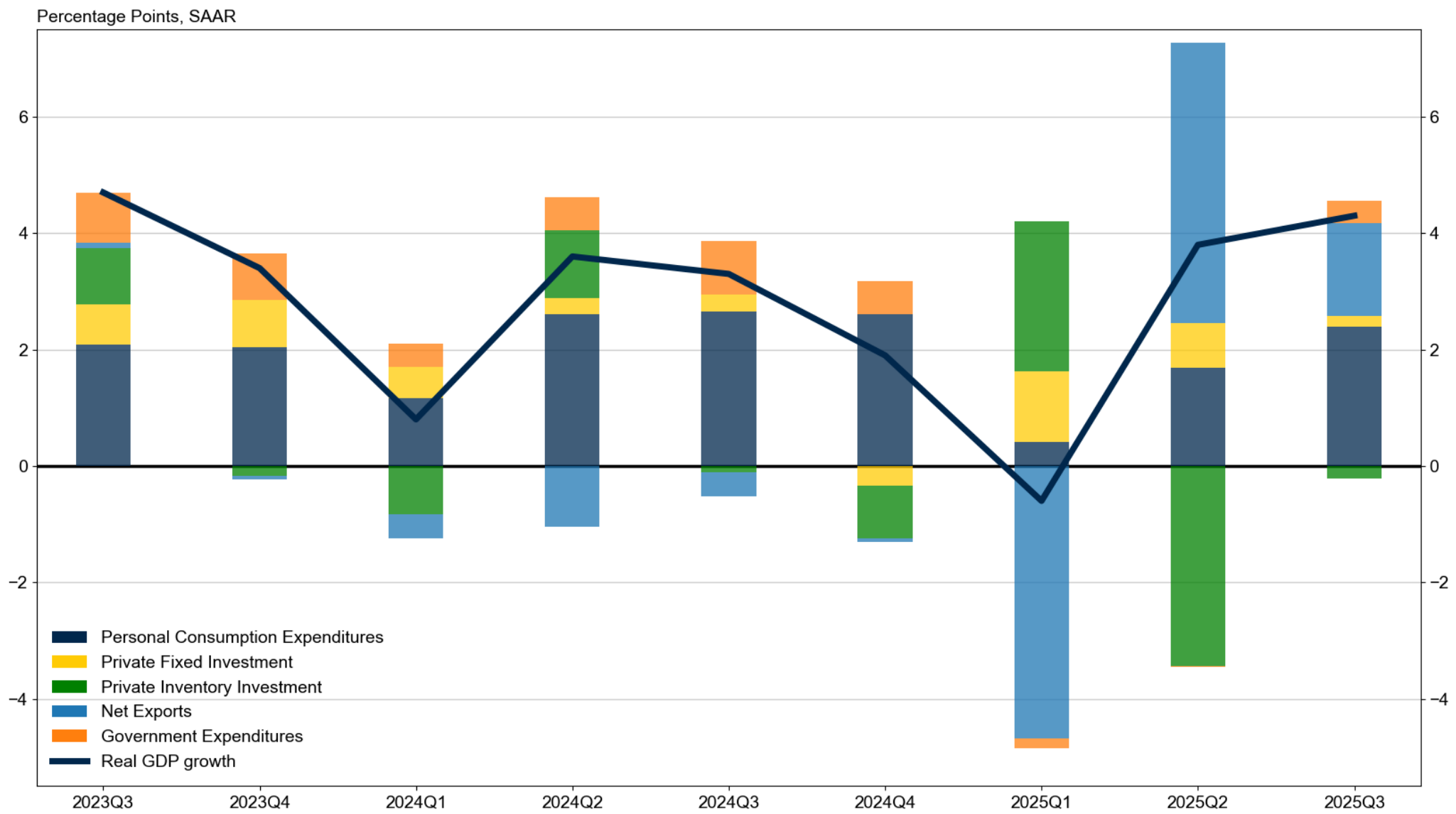
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- Donald R. Grimes
- Daniil Manaenkov
- Michael R. McWilliams
- Niaoniao You
- Yinuo Zhang



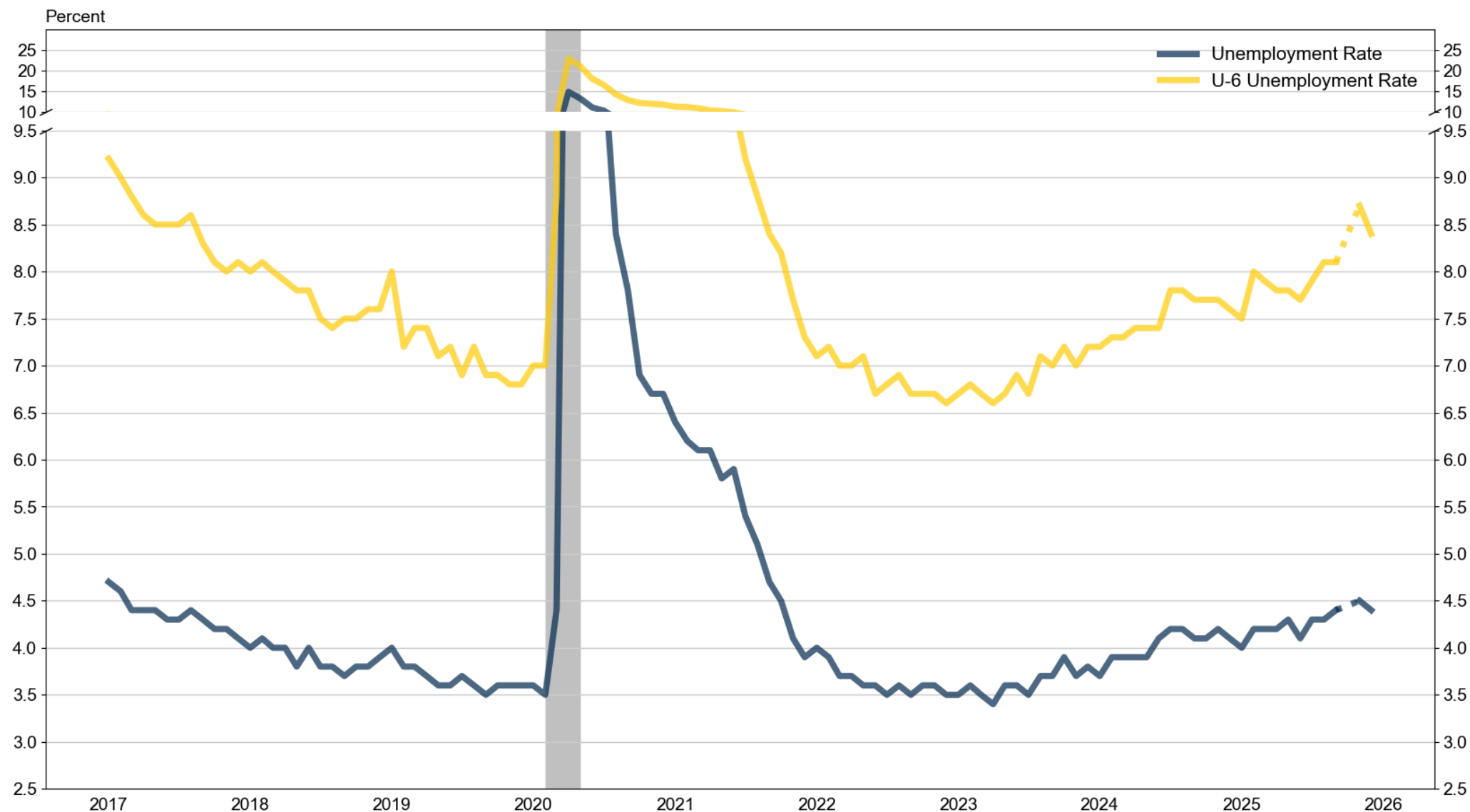


# Current State of the U.S. Economy

# Contributions to Real GDP Growth

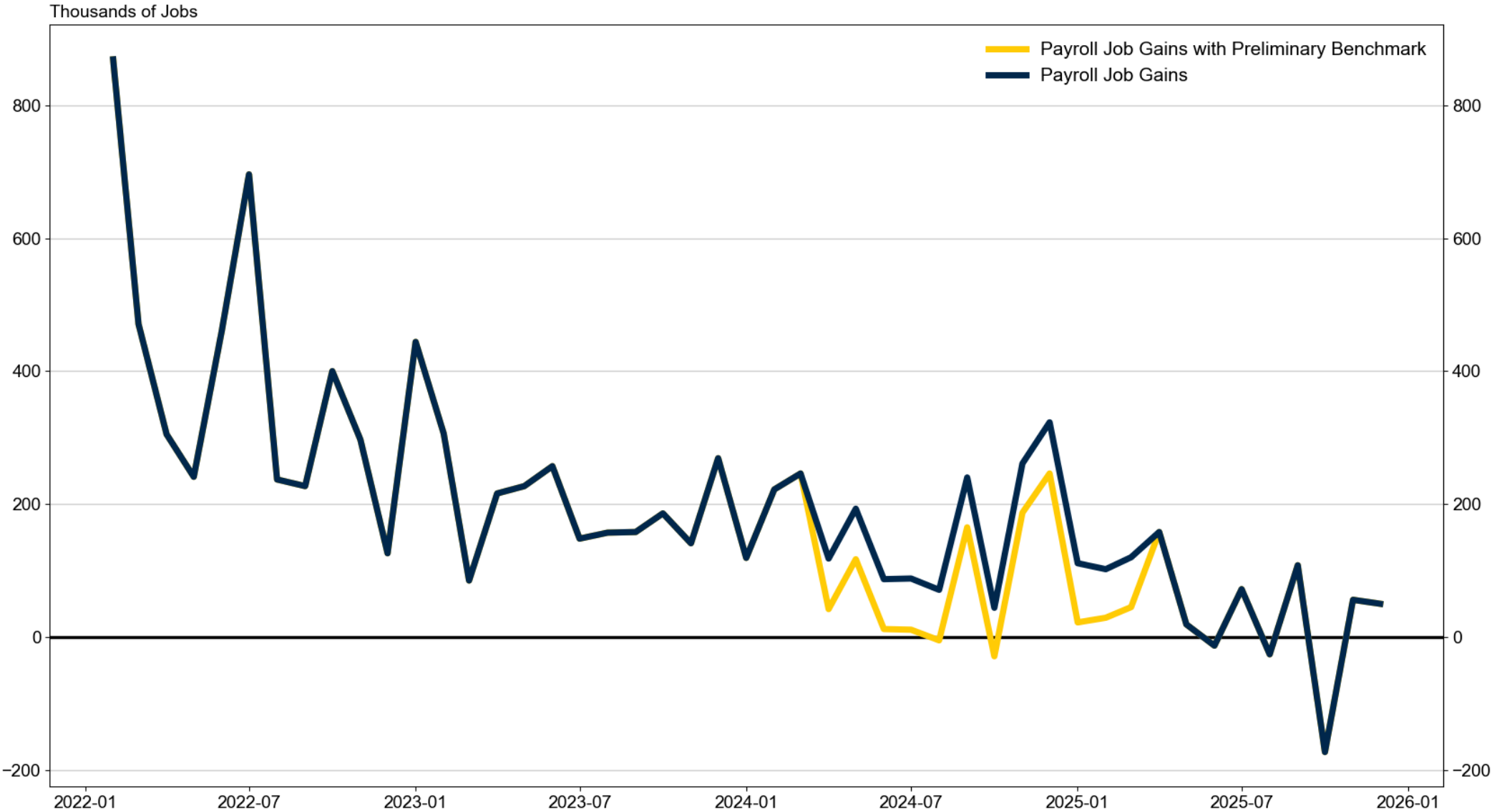


# Unemployment Rates

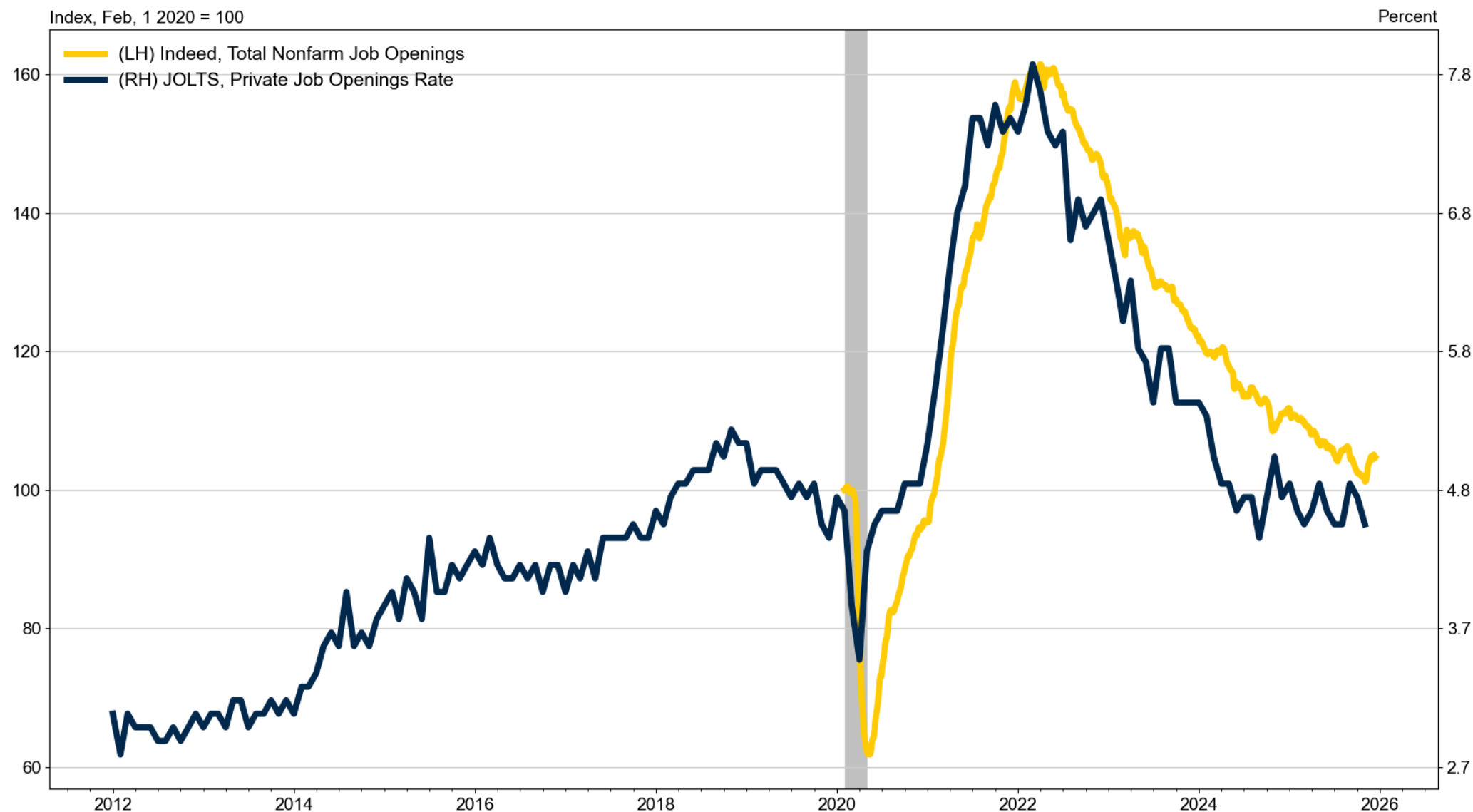




# Payroll Job Gains and Preliminary Benchmark Revision

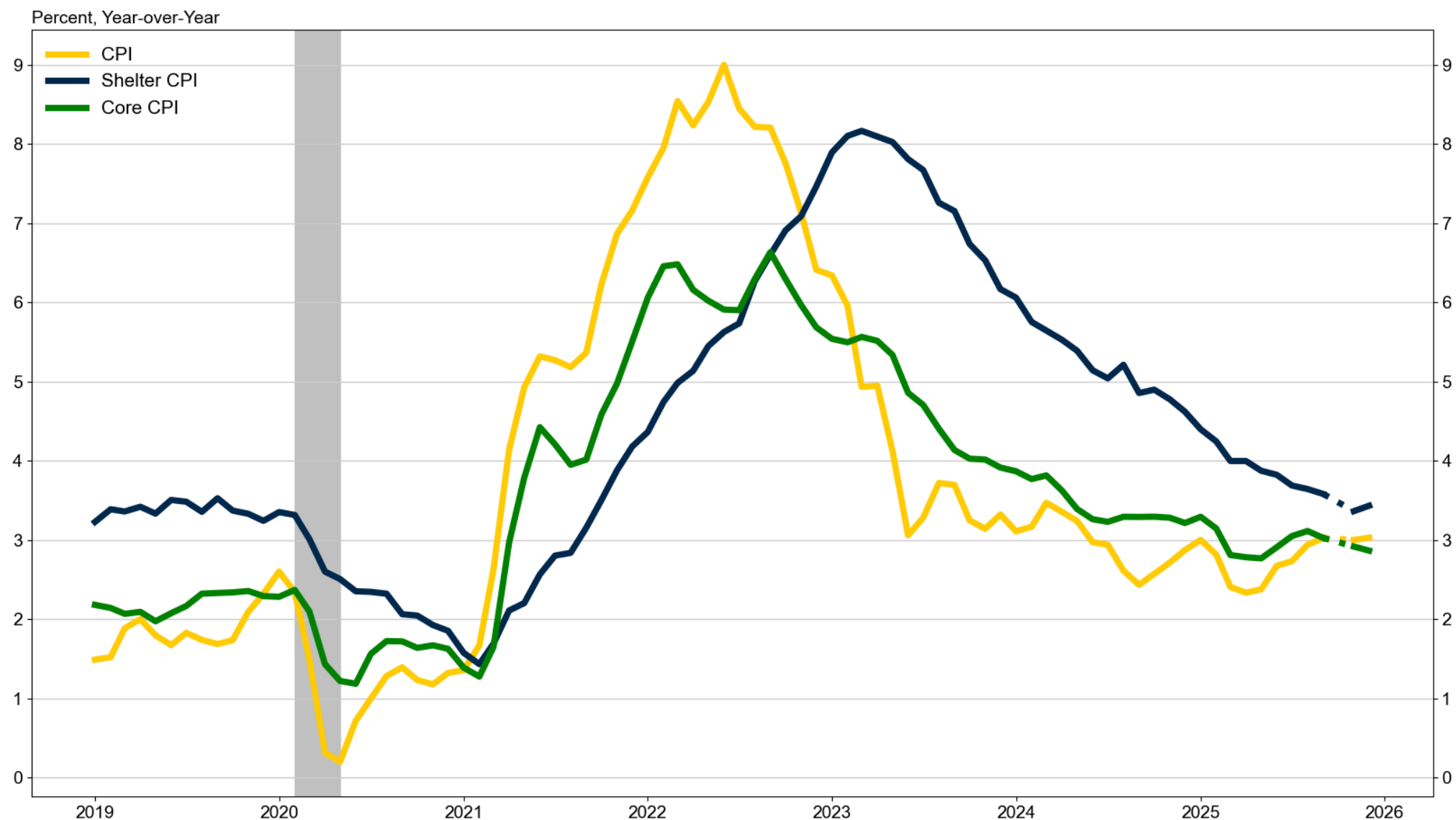


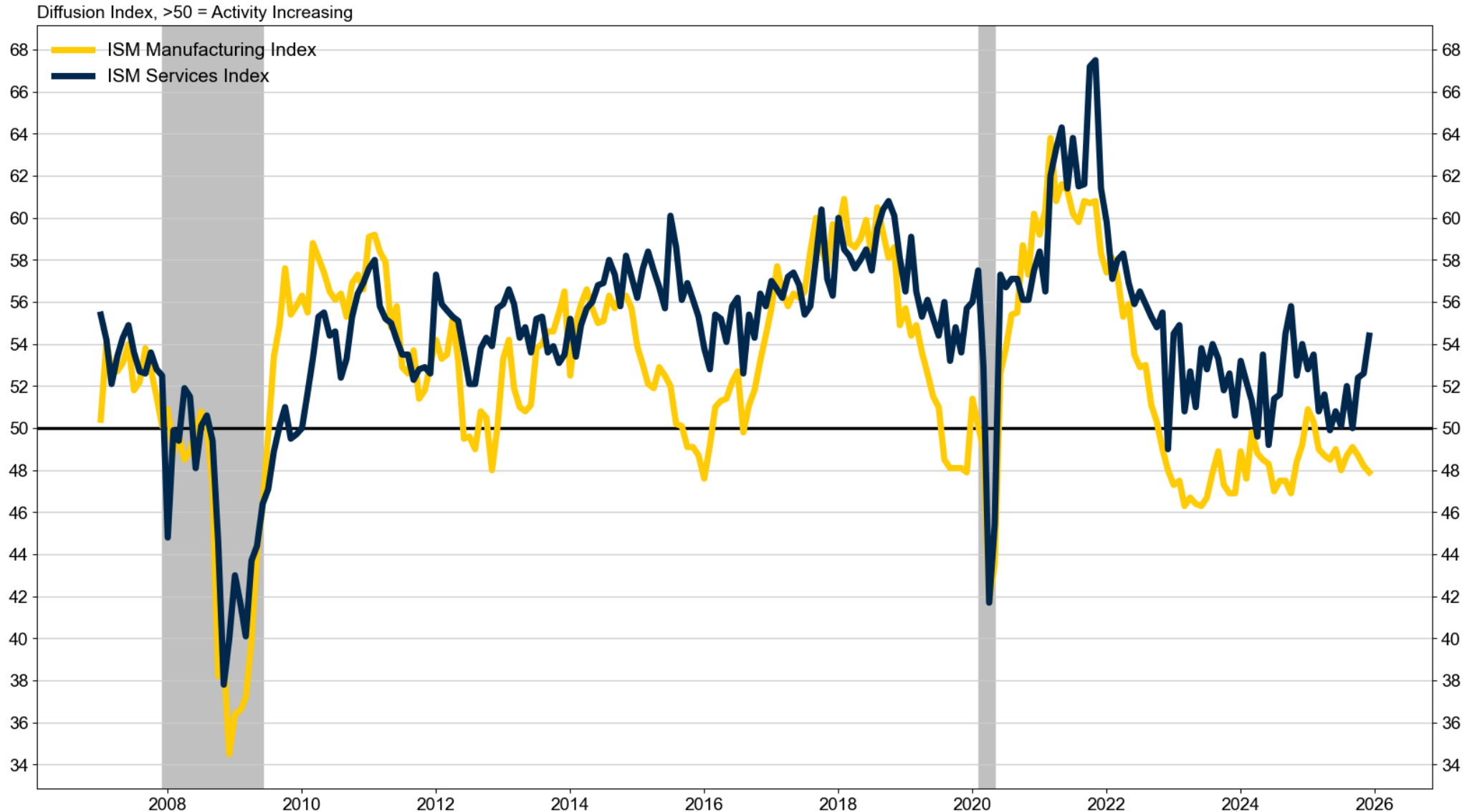
# Job Openings





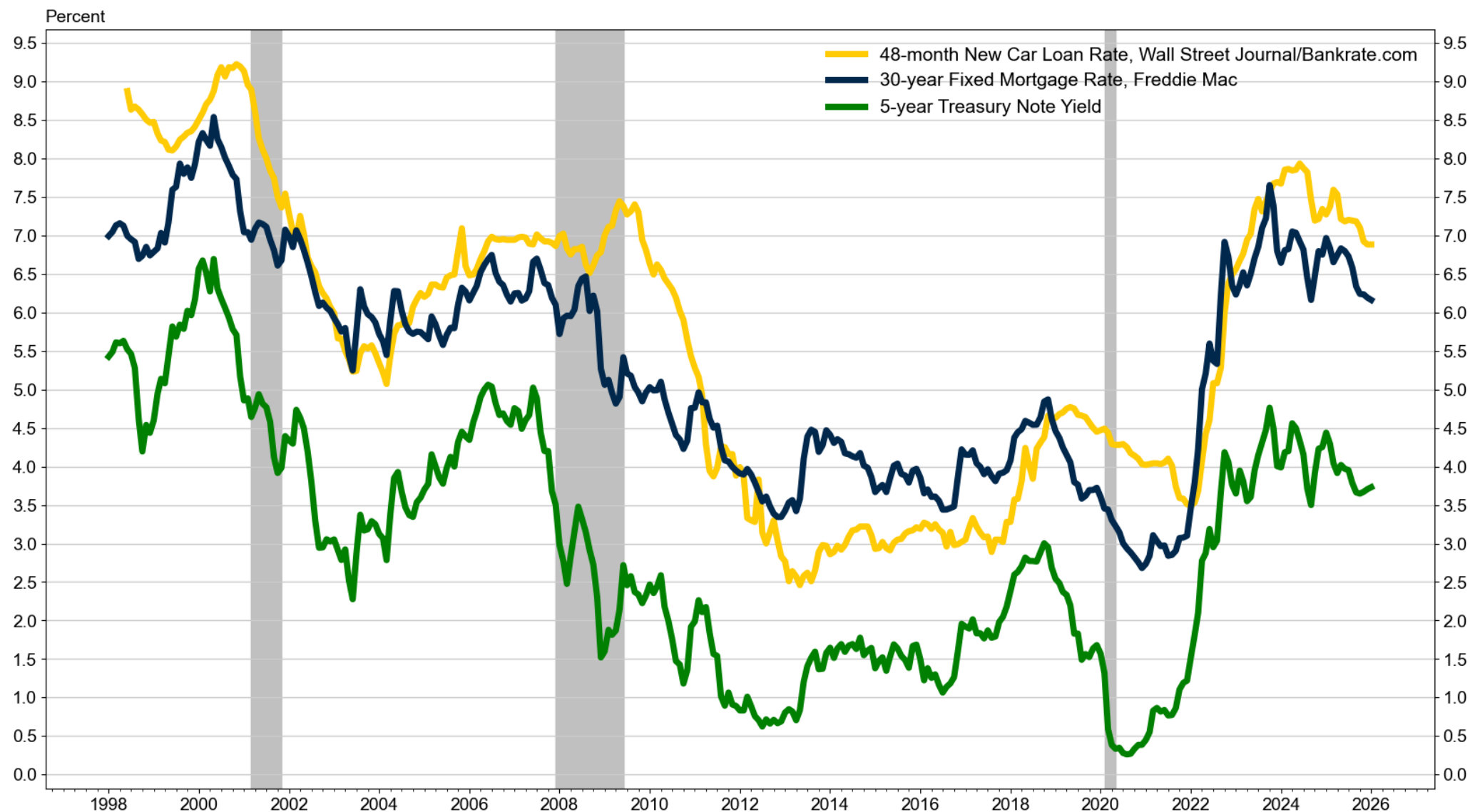
# Headline, Core, and Shelter CPI Inflation



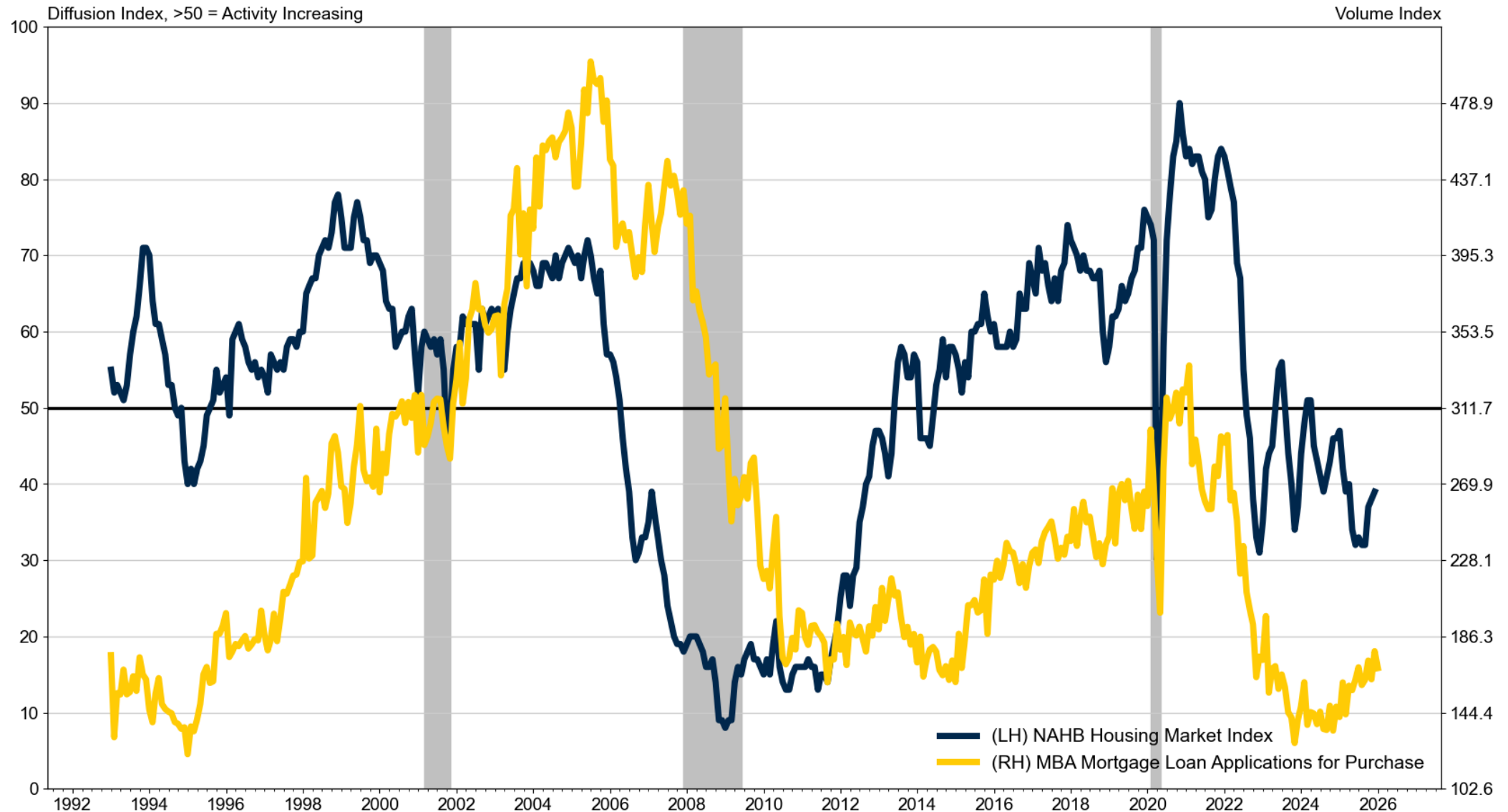




# Selected Interest Rates



# Residential Market Metrics







# Policy Assumptions

# Trade Policy

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- Large tariff rate increases seem less likely
- Further deals/rate reductions/exemptions plausible
- Further Sect. 232 investigations could result in sectoral tariffs
- Effective tariff rate around 11.0 percent so far through October 2025
  - Substantially below most projections
  - Businesses likely quickly reoptimized import flows and also fully took advantage of exemptions and tariff differentials
- We expect effective tariff rate to stay roughly flat
- USMCA review/renegotiation later this year



# Monetary Policy

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- Monetary policy stance likely still somewhat restrictive
- The Fed is in risk-management mode
  - Labor market risk vs. inflation risk
  - October/December FOMC 2025 assessment: labor risk dominates
  - Dissents on both sides
- No January cut. FOMC will wait for early 2026 data
- We expect a gradual return to neutral (3.00–3.25) percent by mid-2026
  - Two more 25bps cuts

# Fiscal Policy

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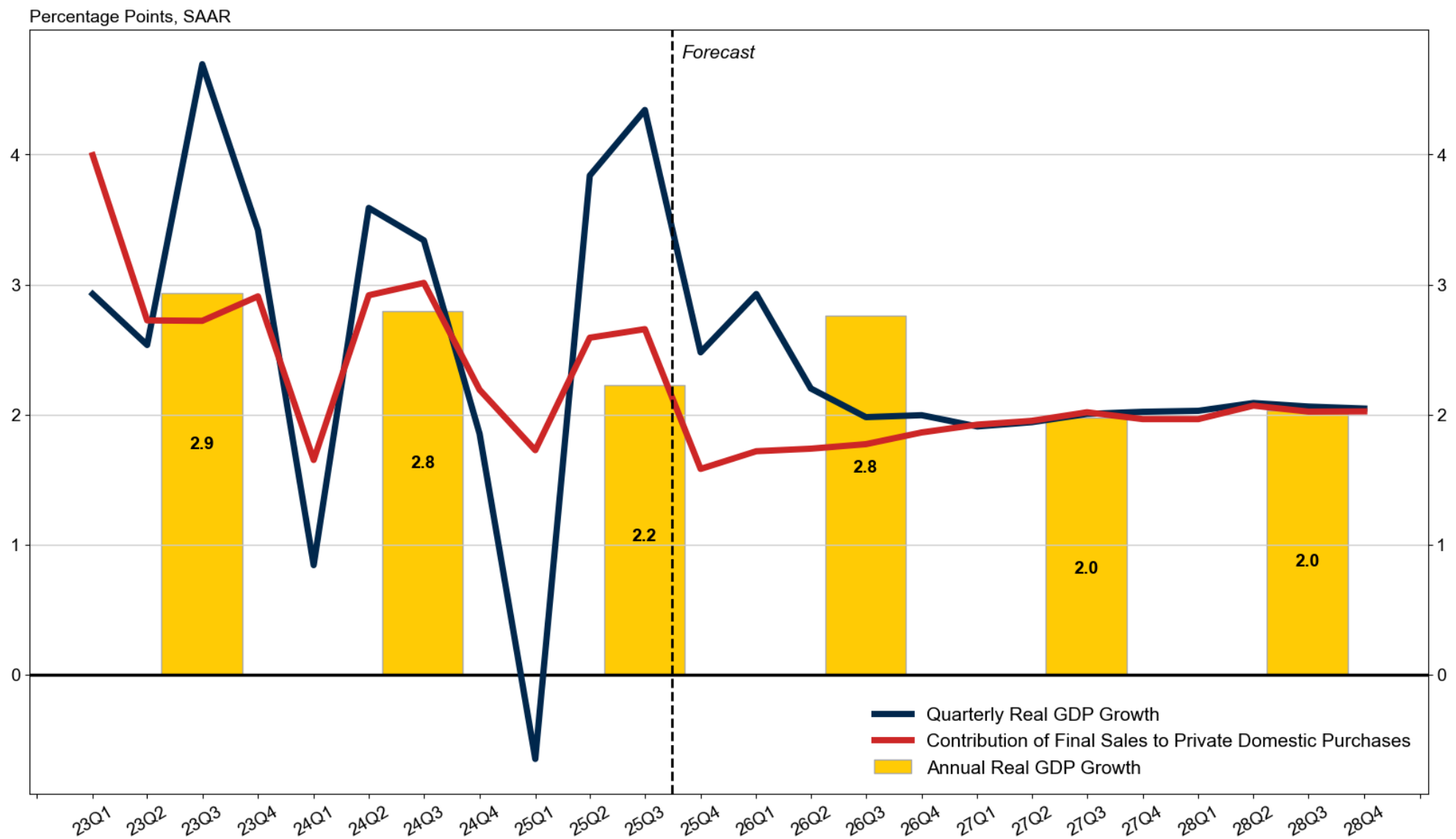


- Little fiscal action since OBBBA
- Federal shutdown—a 0.6 percentage point drag on 25Q4 real GDP
  - Largely due to missing real value added of furloughed workers
  - A boost to 2026Q1 growth of similar magnitude
  - We do not expect another shutdown
- Unclear if Congressional Republicans will attempt another reconciliation bill
  - No clear goal for fiscal 2026 budget
  - 1.5 Trillion defense budget for FY2027 could become one (not in our forecast)
- Divided government may return in 2027



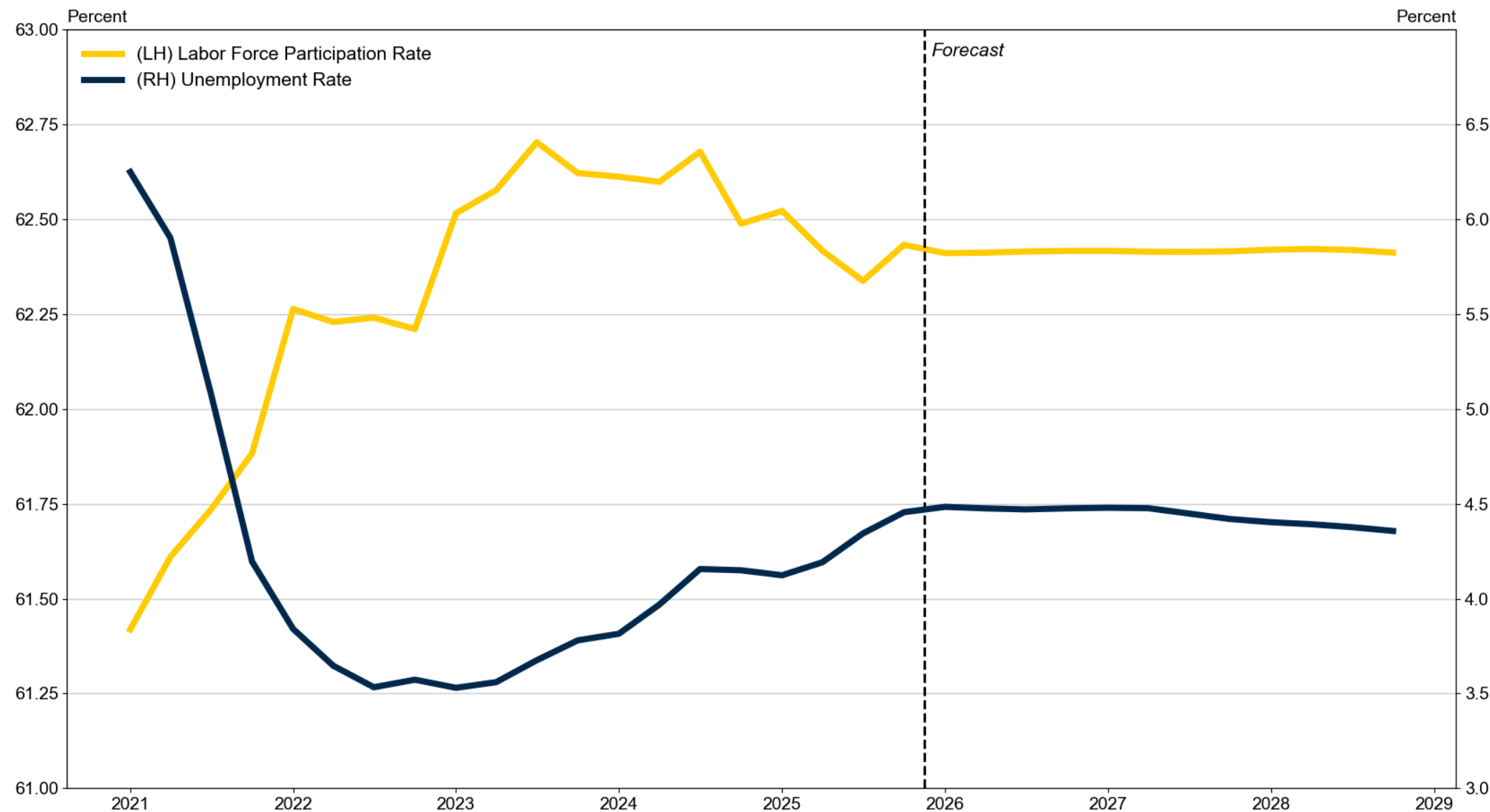
# U.S. Economic Outlook

# Economic Growth Forecast

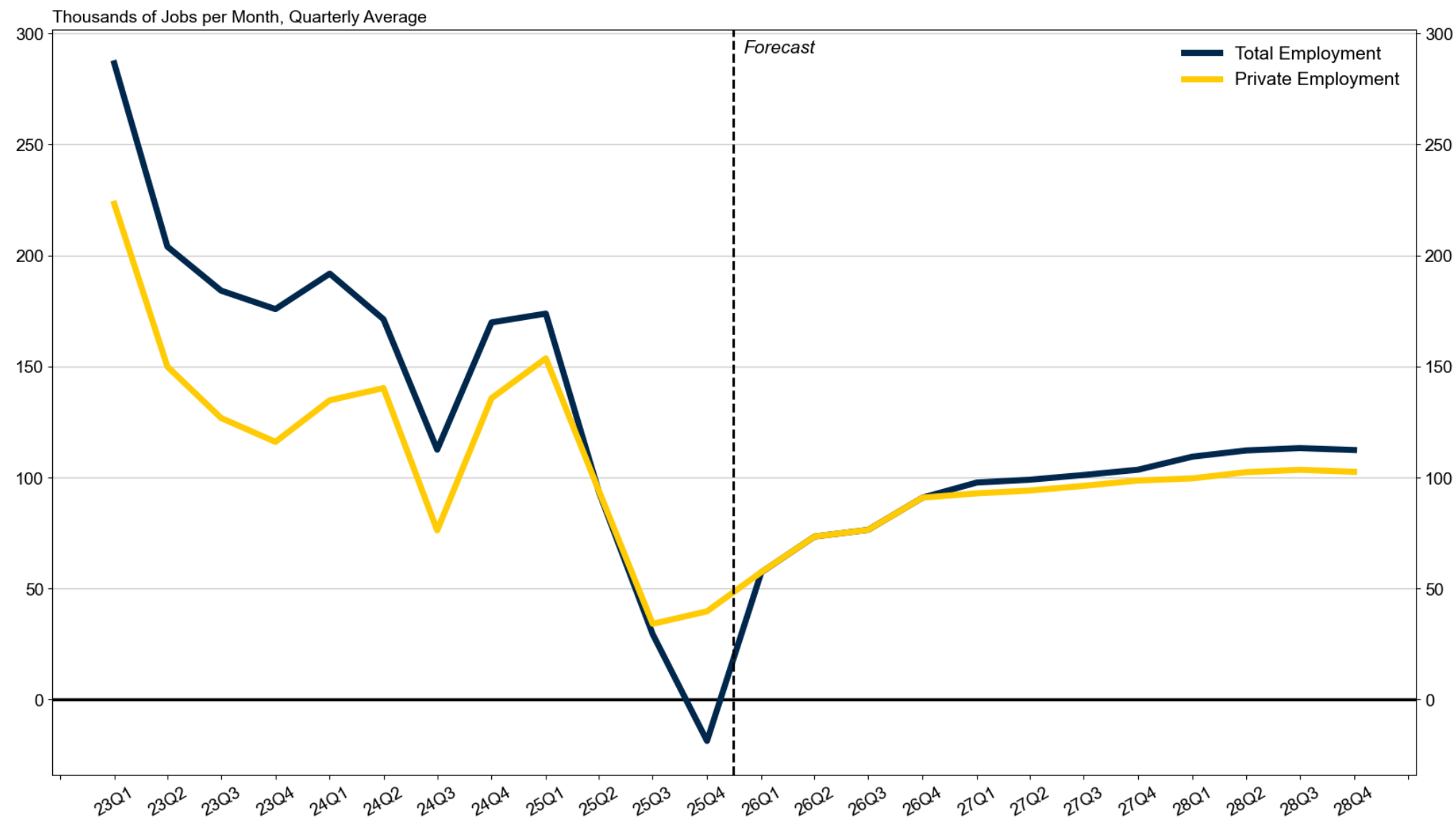




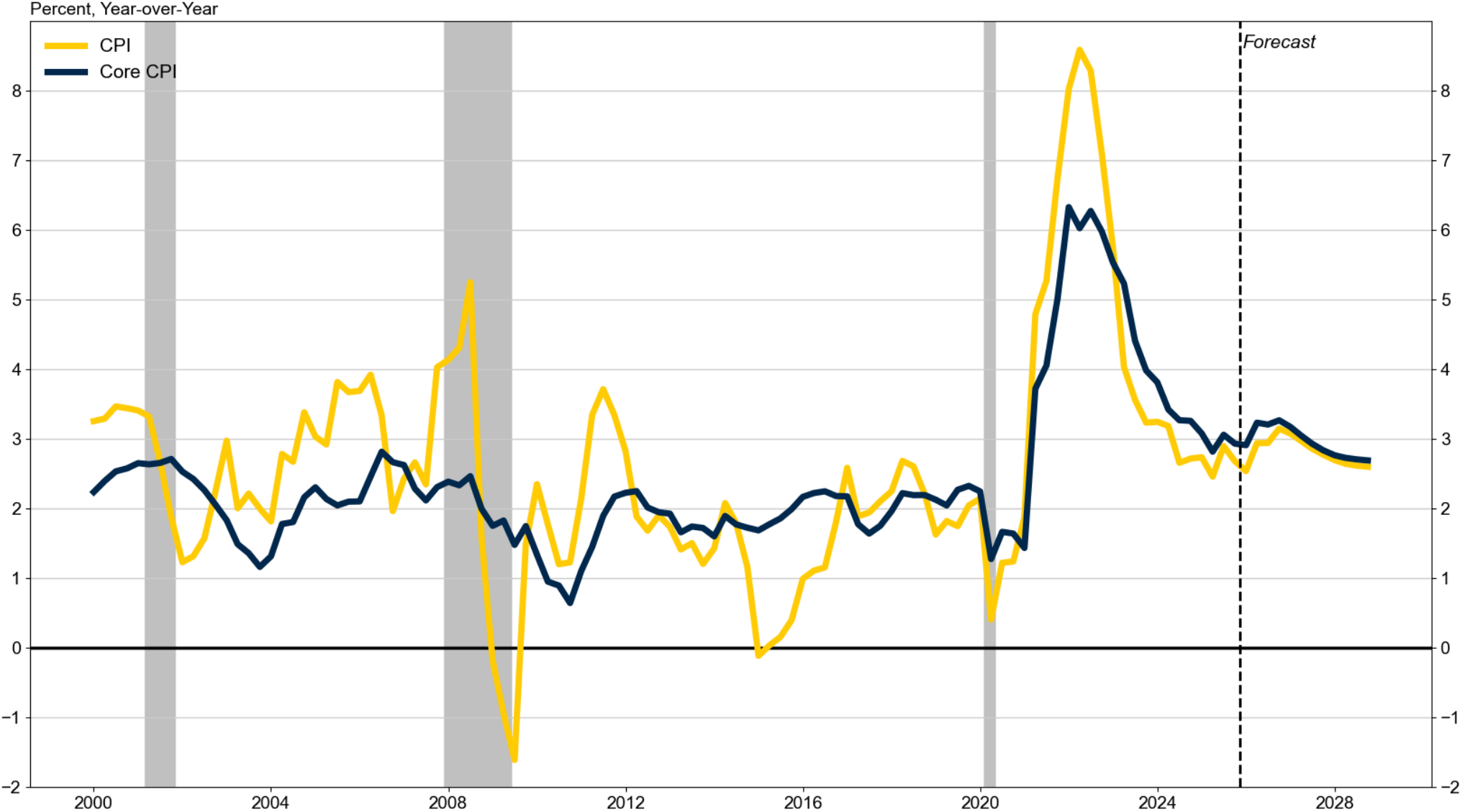
# Unemployment and Labor Force



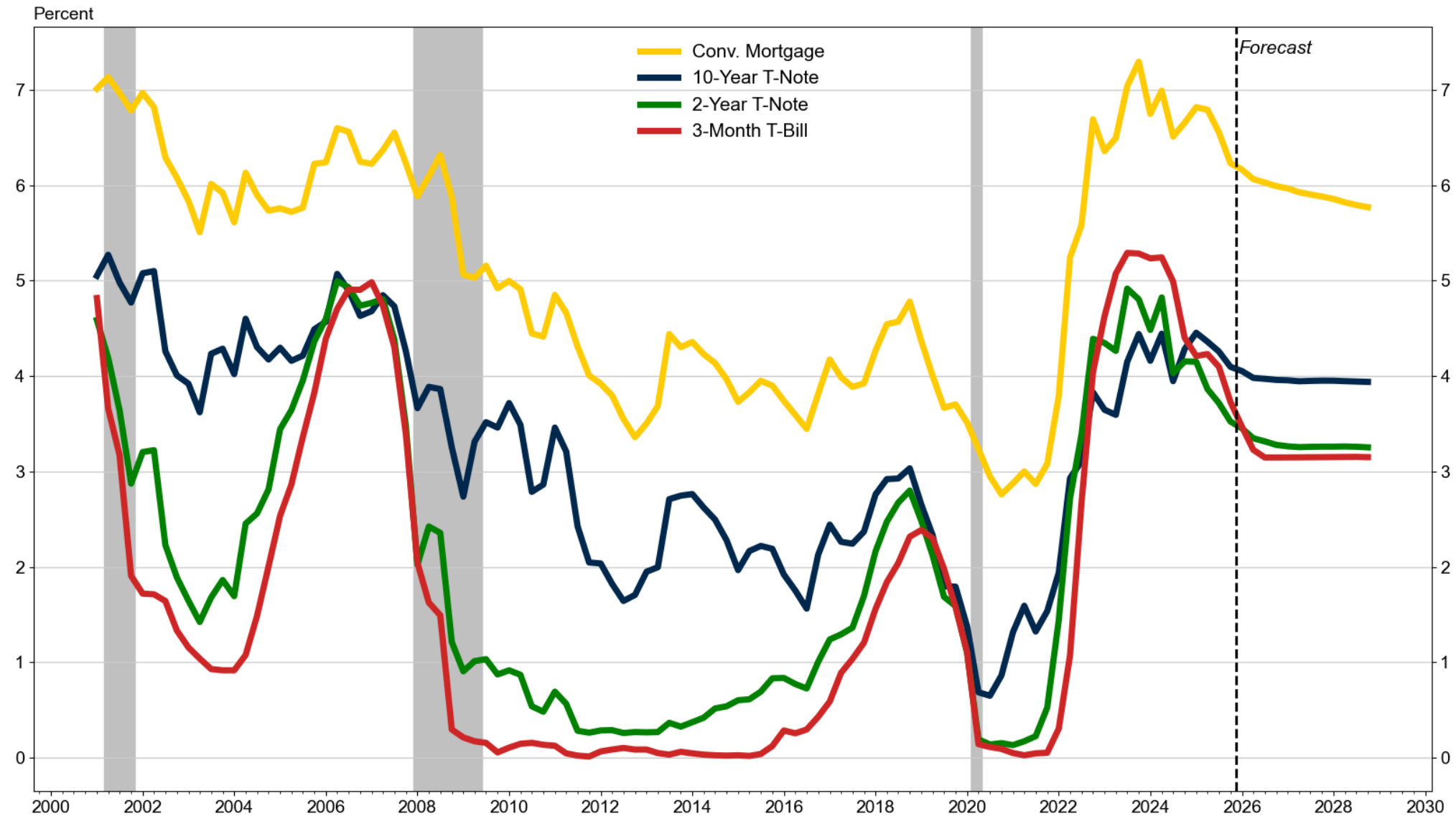
# Total and Private Employment Change



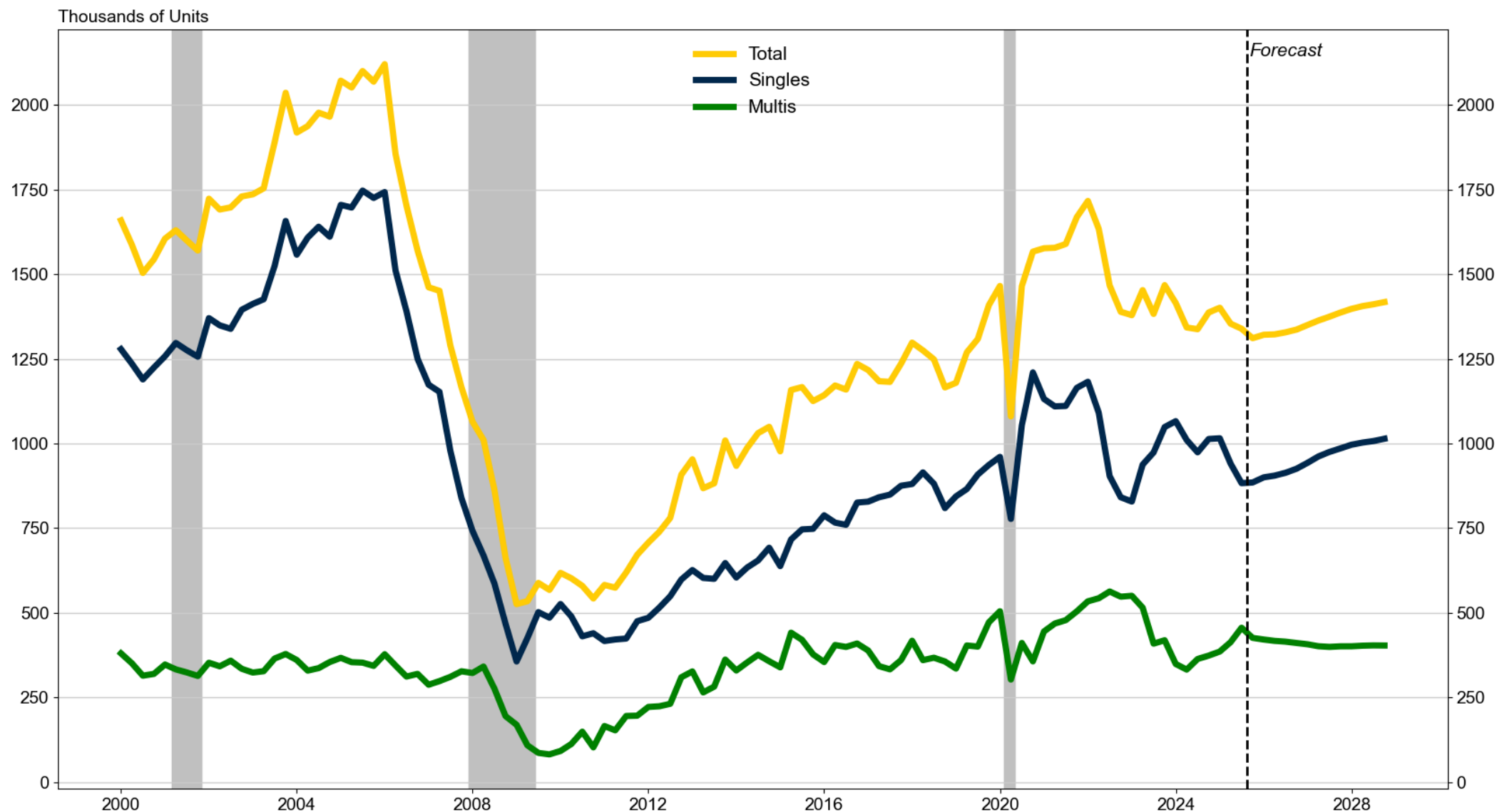
# Consumer Price Inflation (CPI-U)



# Interest Rates



# Housing Starts





# Risks to Outlook

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Misreading Economic Momentum

Immigration

Trade

Monetary policy and FOMC composition

Fiscal Policy

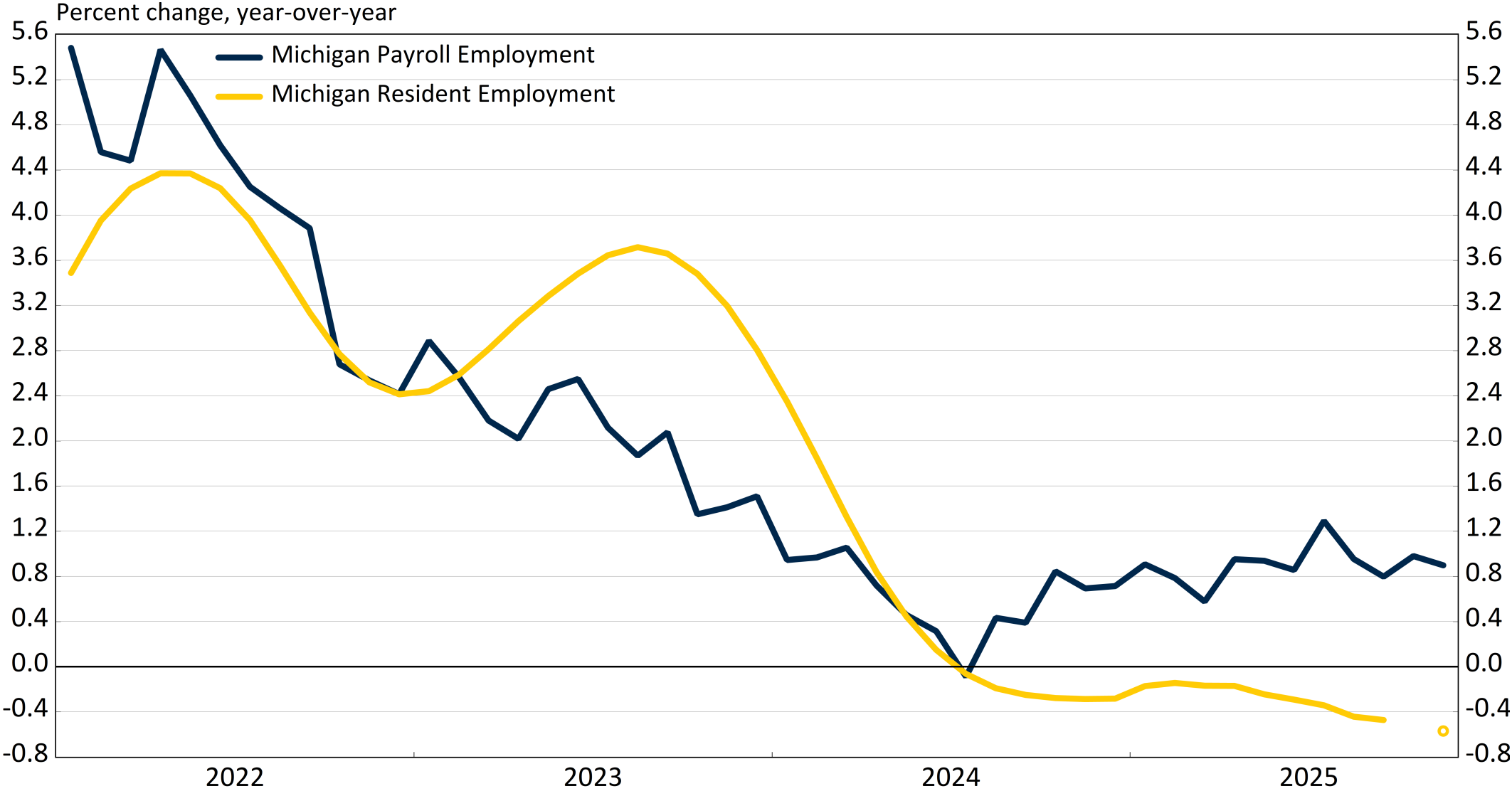
AI

Geopolitics

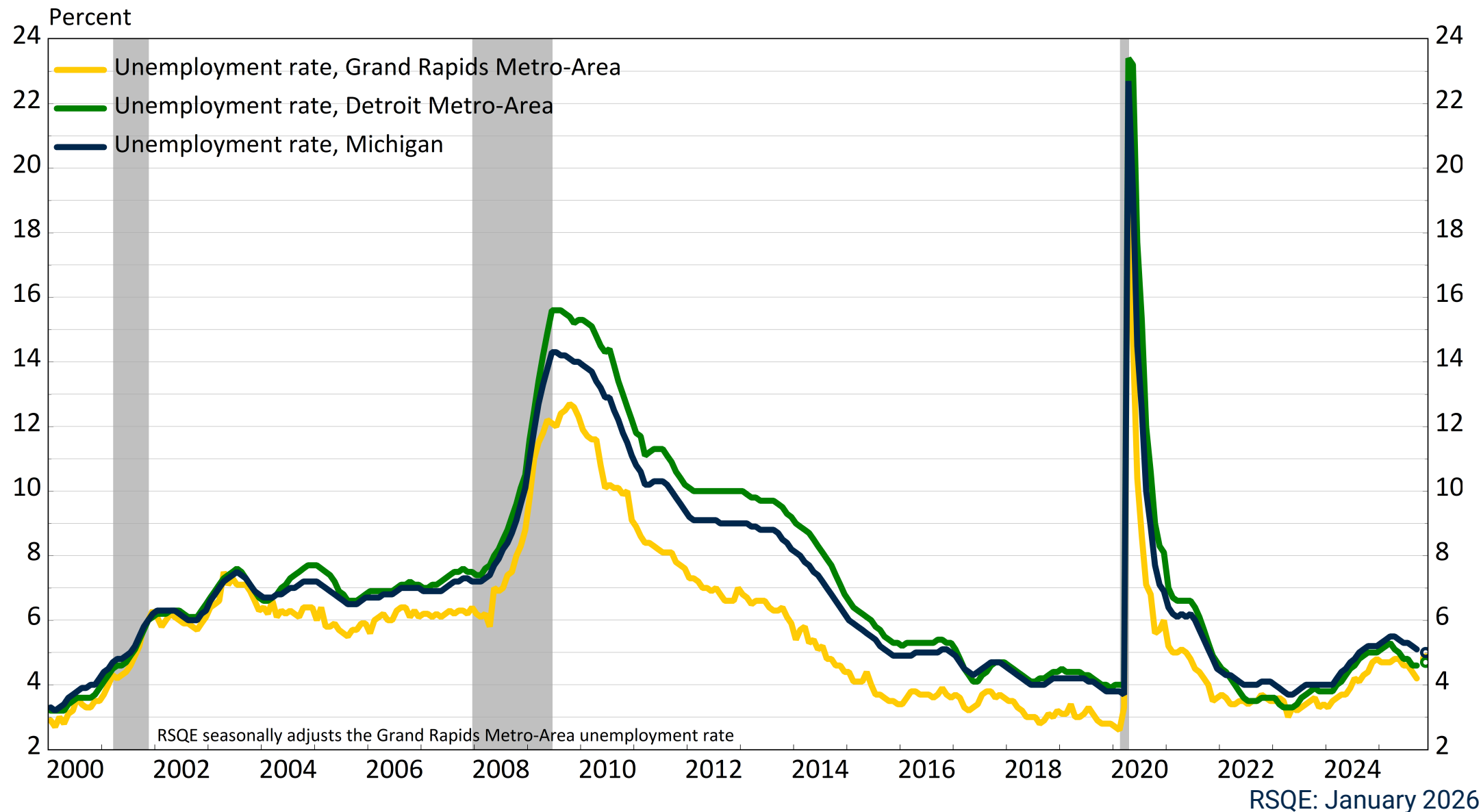


# Current State of the Michigan Economy

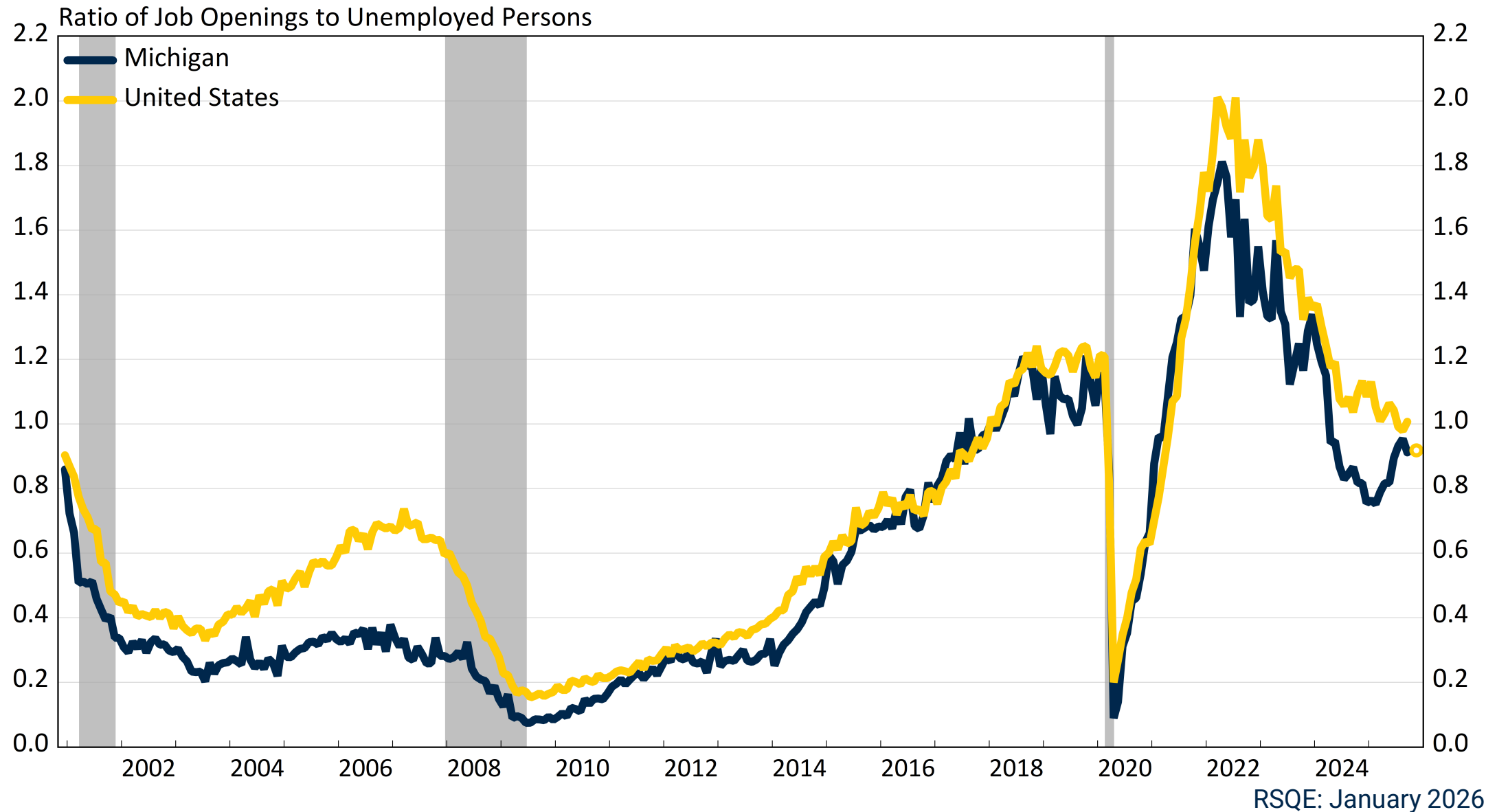
# Michigan Employment Measures Telling Different Stories



# Local Unemployment Rates Generally Improving



# Labor Demand Below Pre-Pandemic Levels







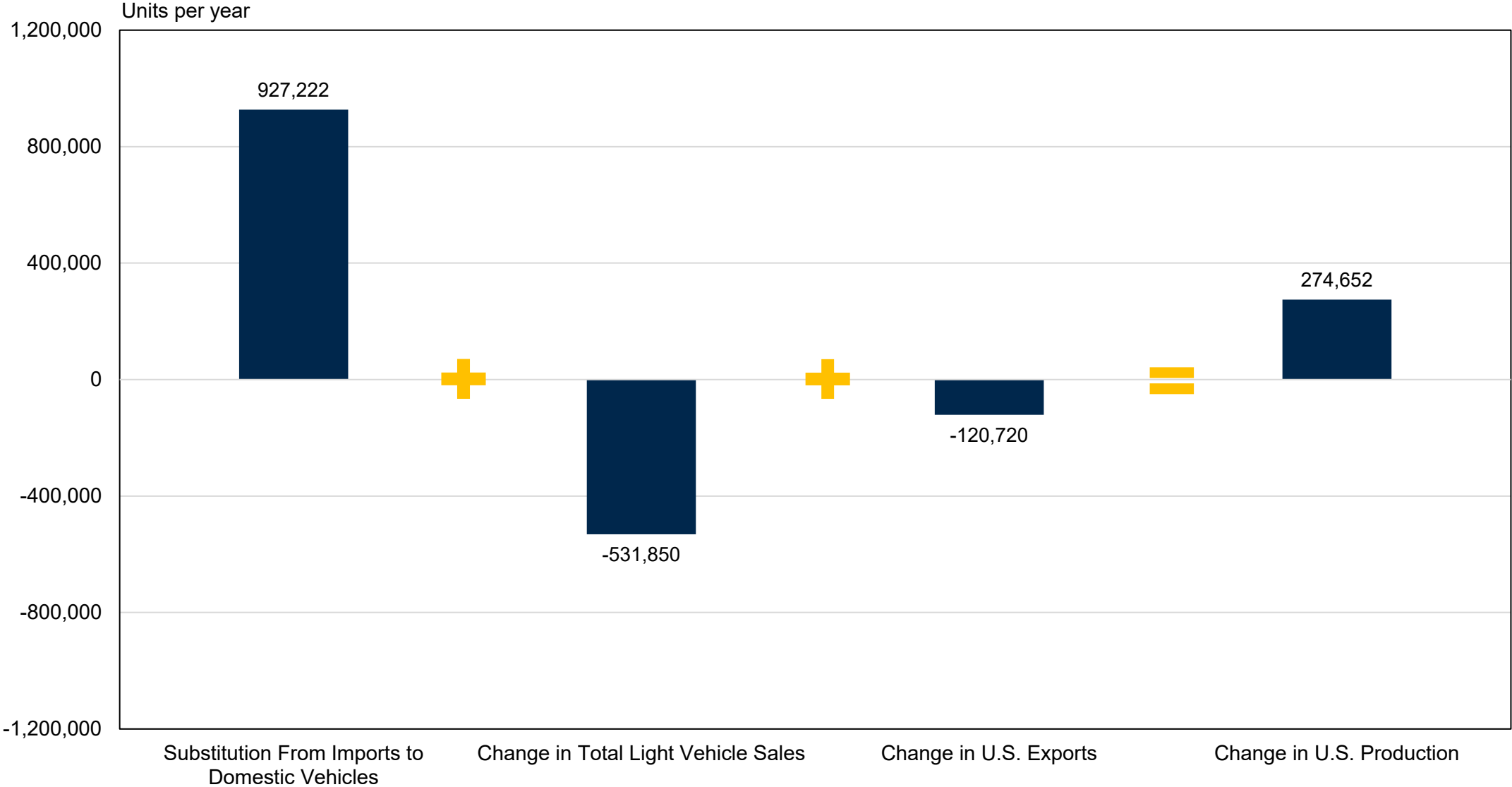
# Michigan Economic Outlook

# Policy Assumptions

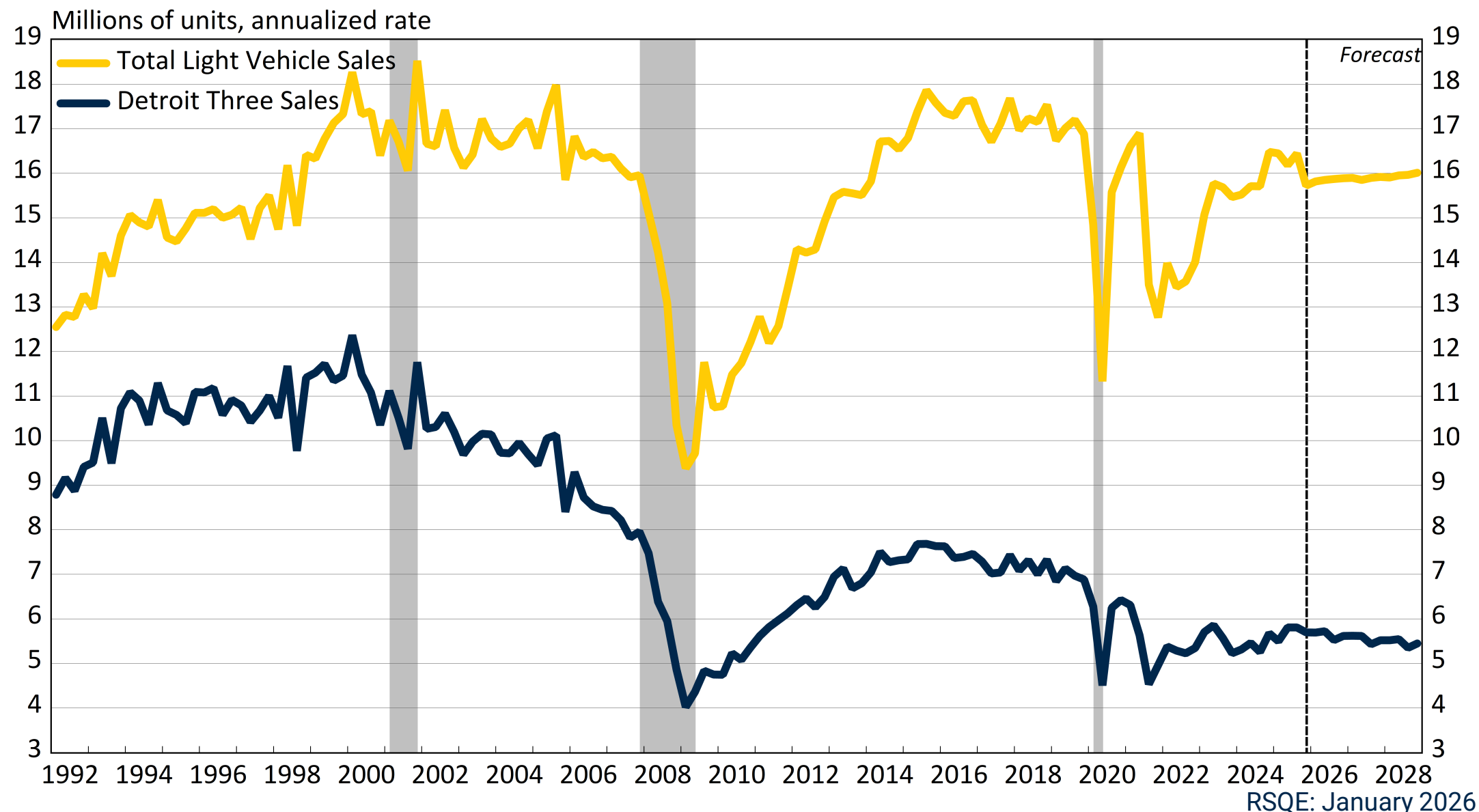
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- Tariffs and Trade:
  - Parts rebate up to 3.75% of MSRP extend through 2030
  - Average tariff on imported vehicles is estimated at 11.7%
  - Average prices across imports and domestic production rise roughly \$3,100 after the supply chain and prices have adjusted
- CAFE standards effectively eliminated over forecast window
  - Boosts Detroit Three's share of the light vehicle market by 1.8 percentage points
  - But short-term pain from the end of EV tax credits
- Reduced ACA tax credits and looming cuts to Medicaid weigh on health sector

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

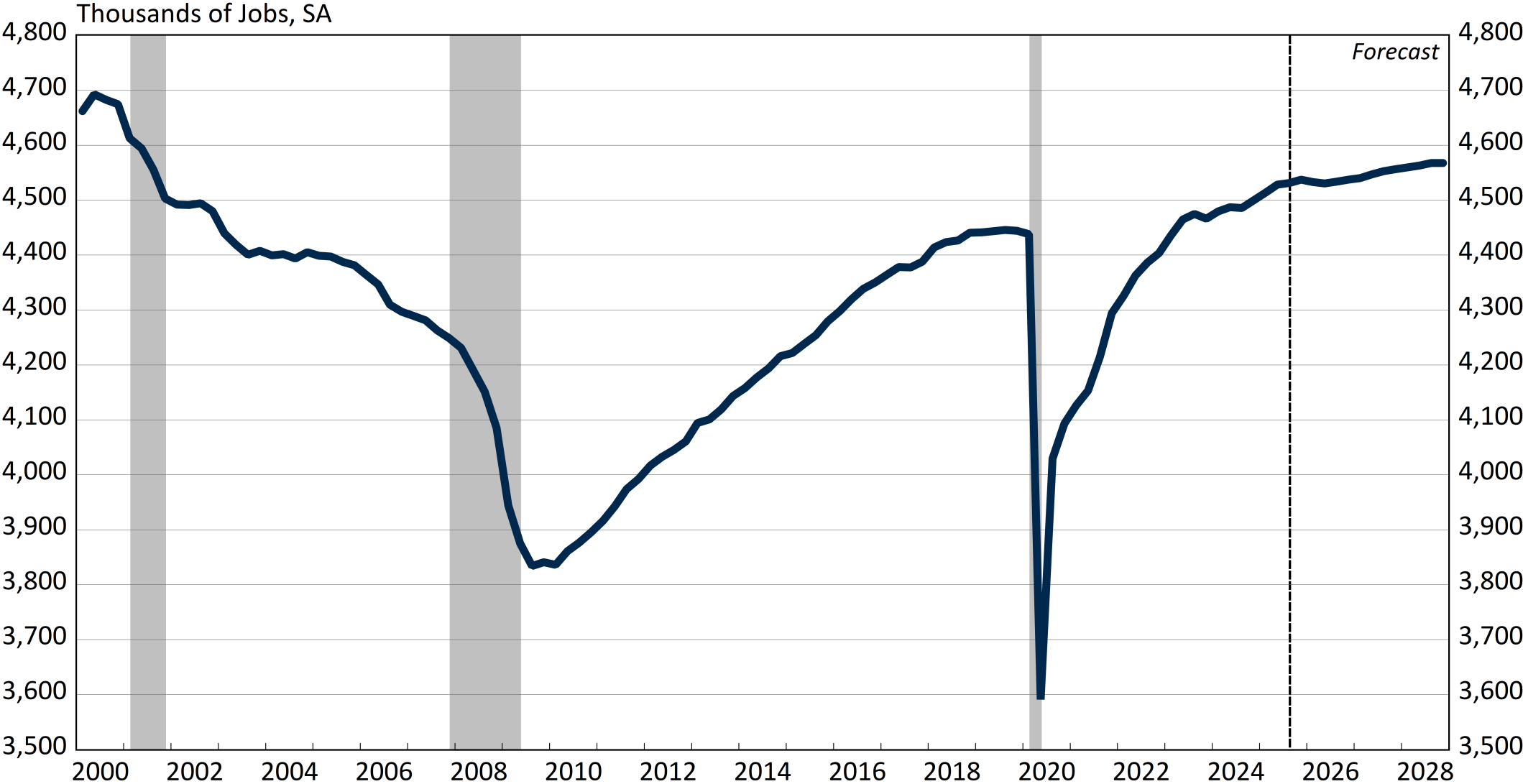


# Light Vehicle Sales Idle at Trend

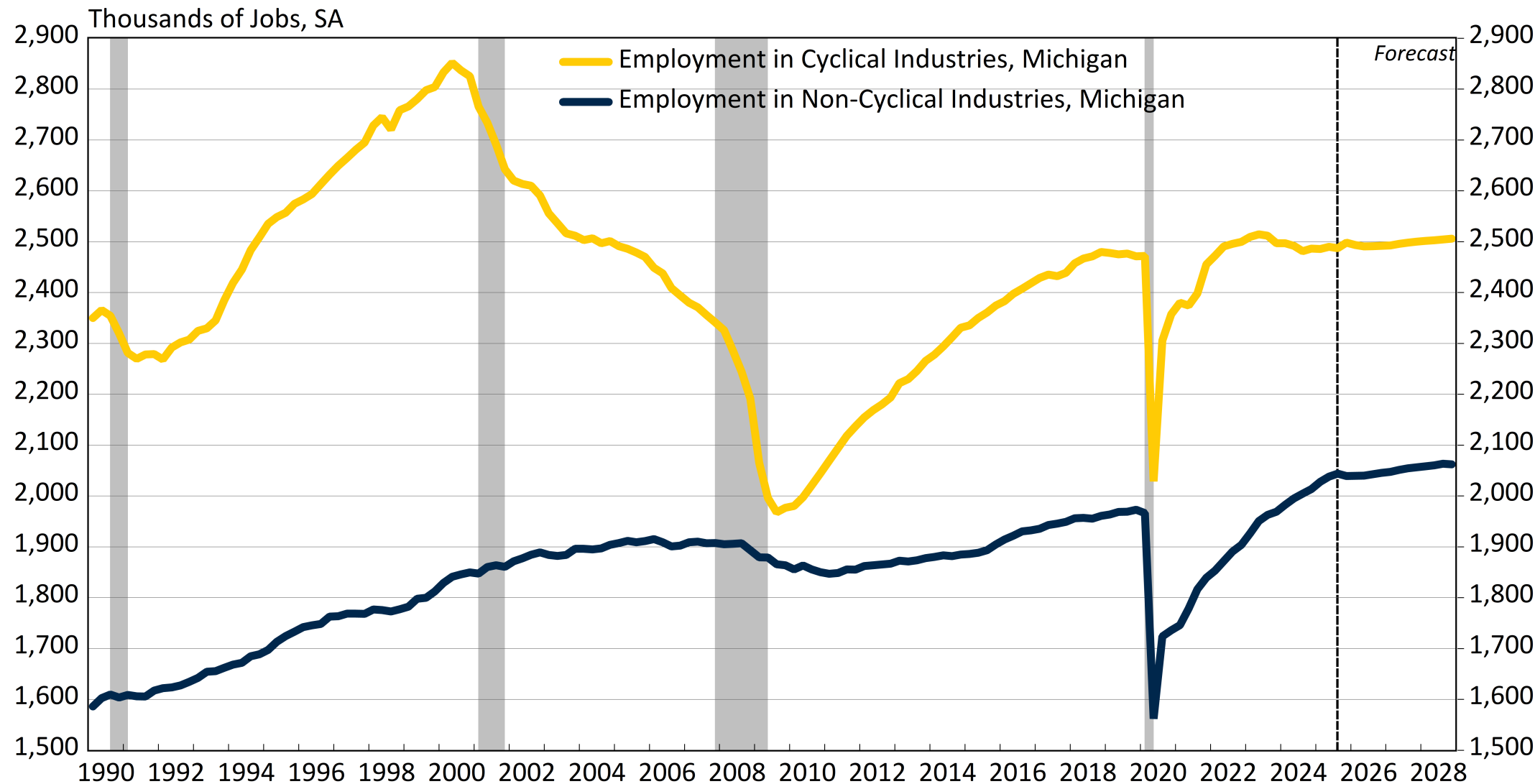




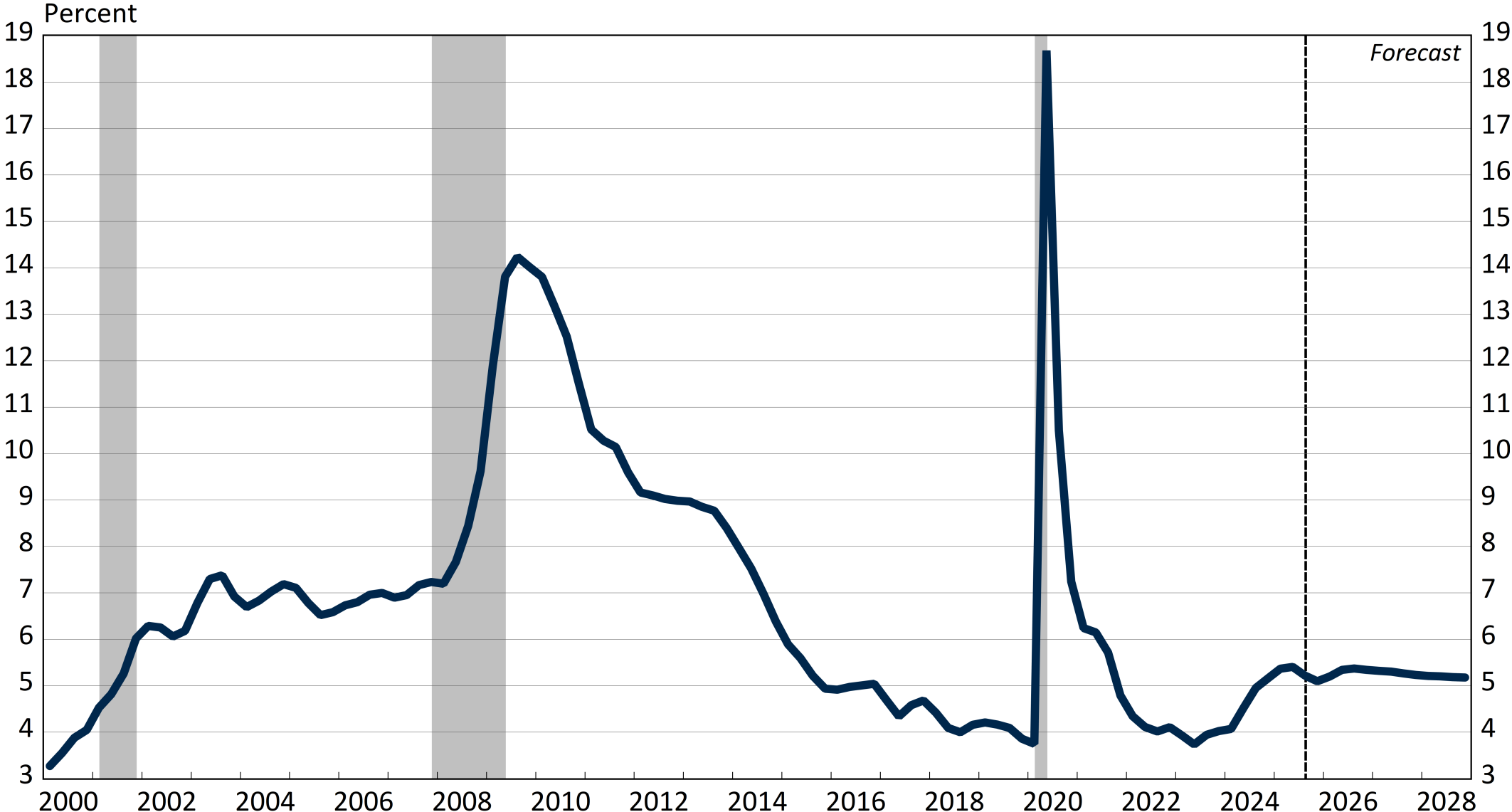
# Michigan Payroll Employment Pauses Before Returning to Moderate Growth



# Non-Cyclical Industries Drive Employment Gains

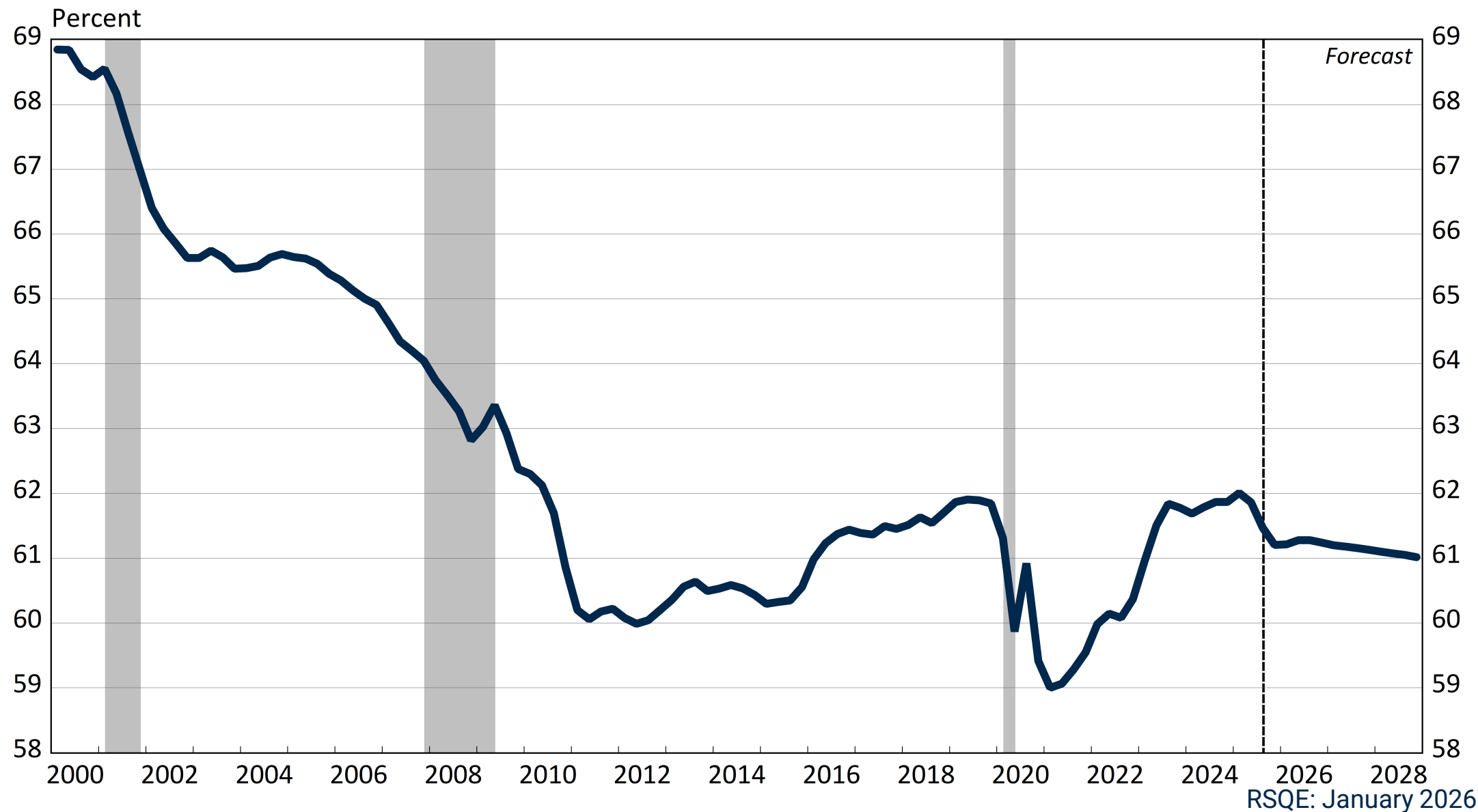


# Michigan's Unemployment Rate Hovers Between 5.0–5.5 Percent



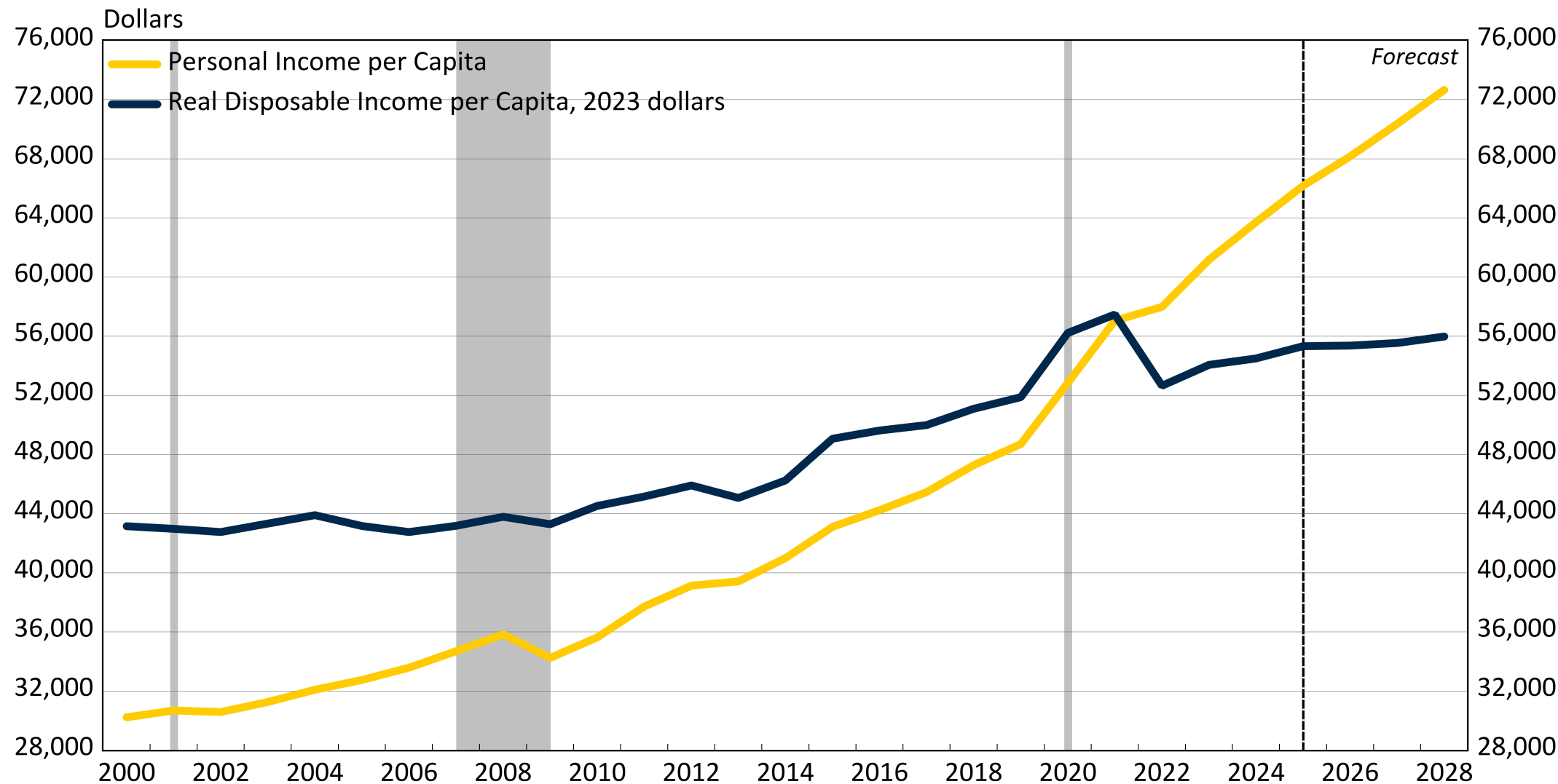
RSQE: January 2026

# Michigan's Labor Force Faces Demographic Headwinds

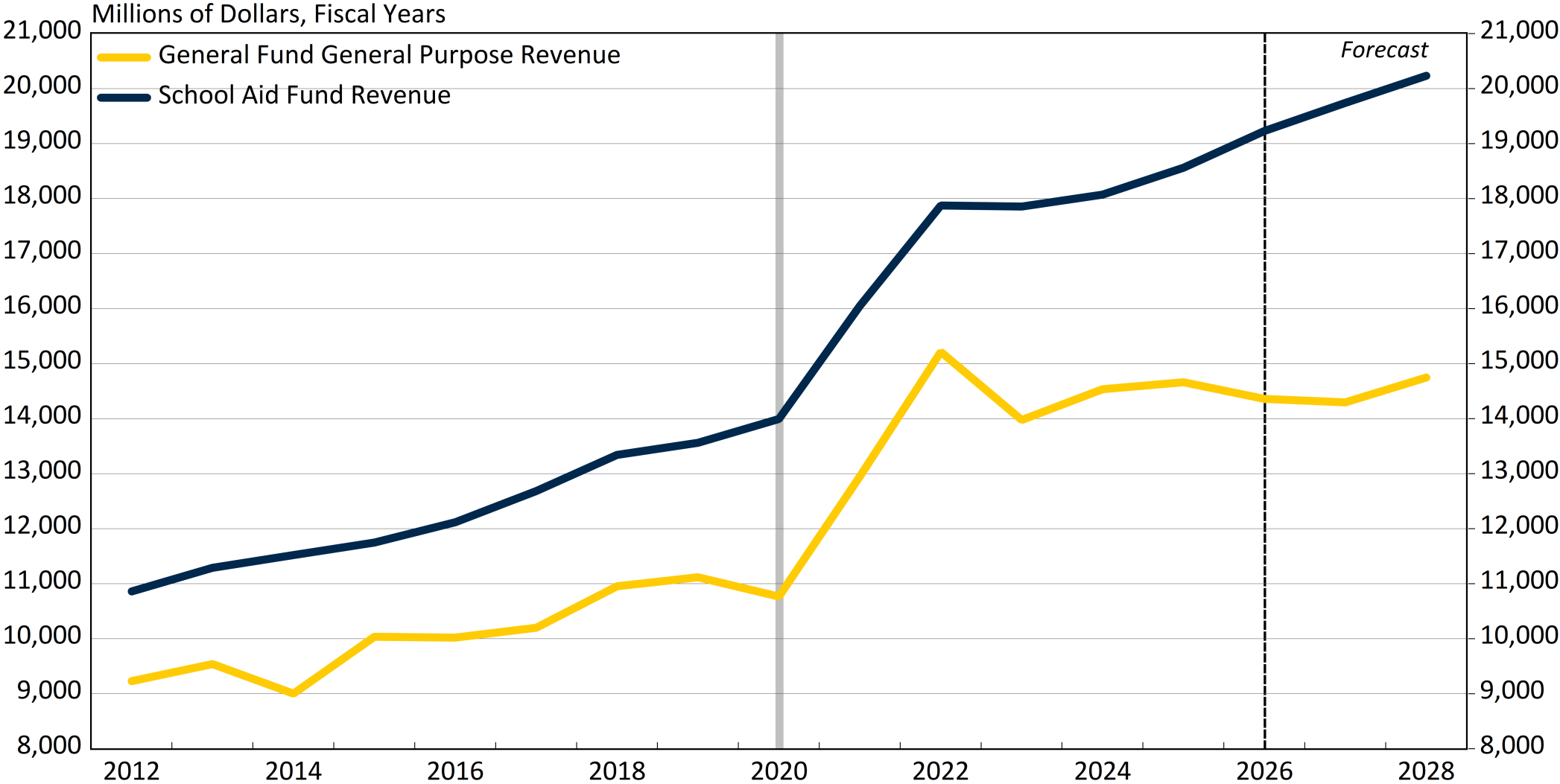




# Michigan Real Disposable Income Growth Slows



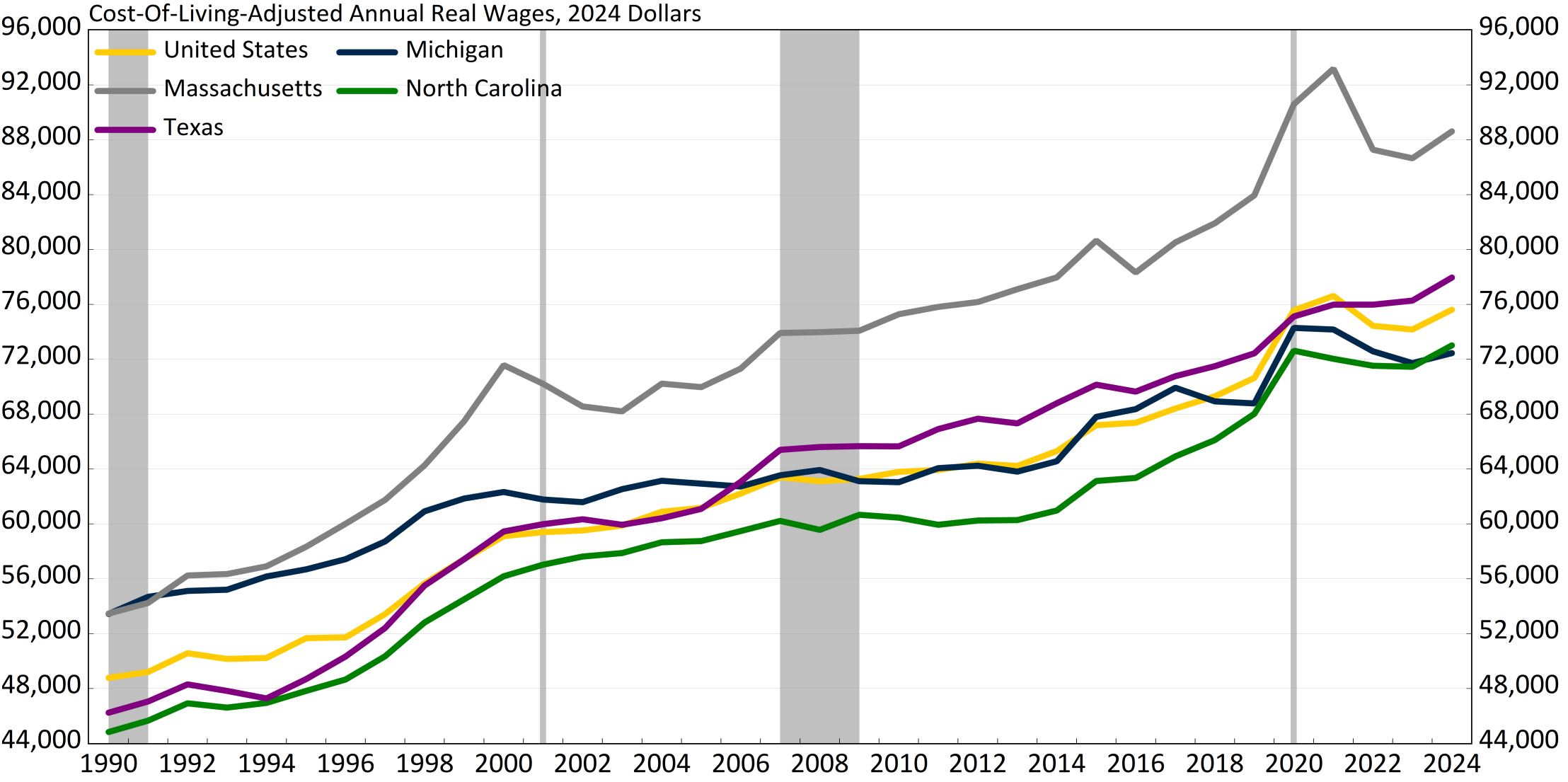
# Michigan Tax Revenues: Legislative Changes Weigh on the General Fund





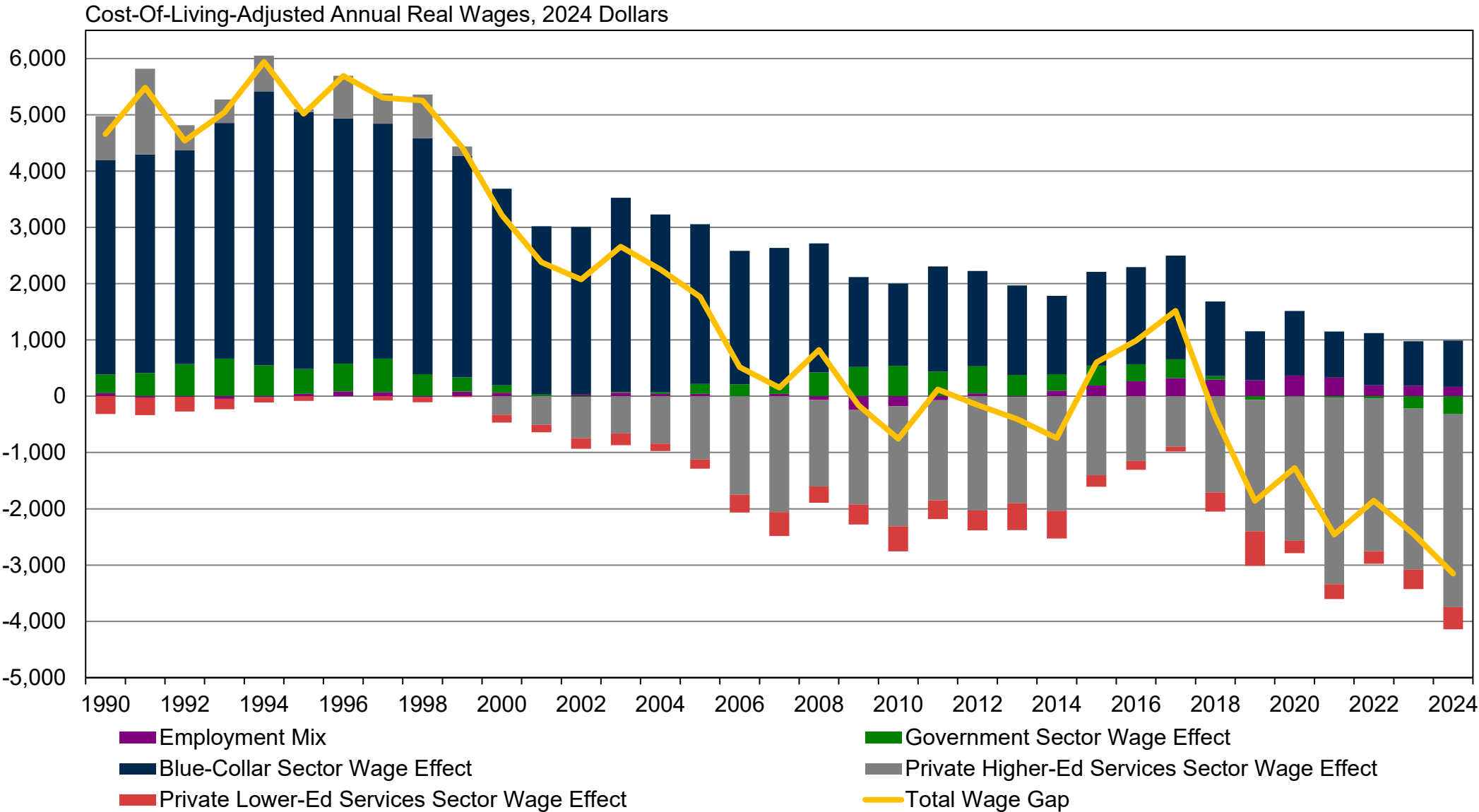
# The Erosion of Michigan's Wage Premium

# Michigan's Adjusted Real Wages Have Deteriorated Relative to the Nation and Comparison States





# Components of the Michigan–U.S. Wage Gap





# Concluding Thoughts

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- Michigan payroll employment grows roughly 12,000 jobs (0.3 percent) per year through 2028
- The state's unemployment rate hovers between 5.0–5.5 percent
- Real disposable income per capita growth averages 0.4 percent per year through 2028
- Combined General Fund and School Aid Fund revenues increase by \$1.8 billion from fiscal 2025 to fiscal 2028

# THANK YOU!

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