



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

Consensus Revenue Estimating Conference
January 16, 2026

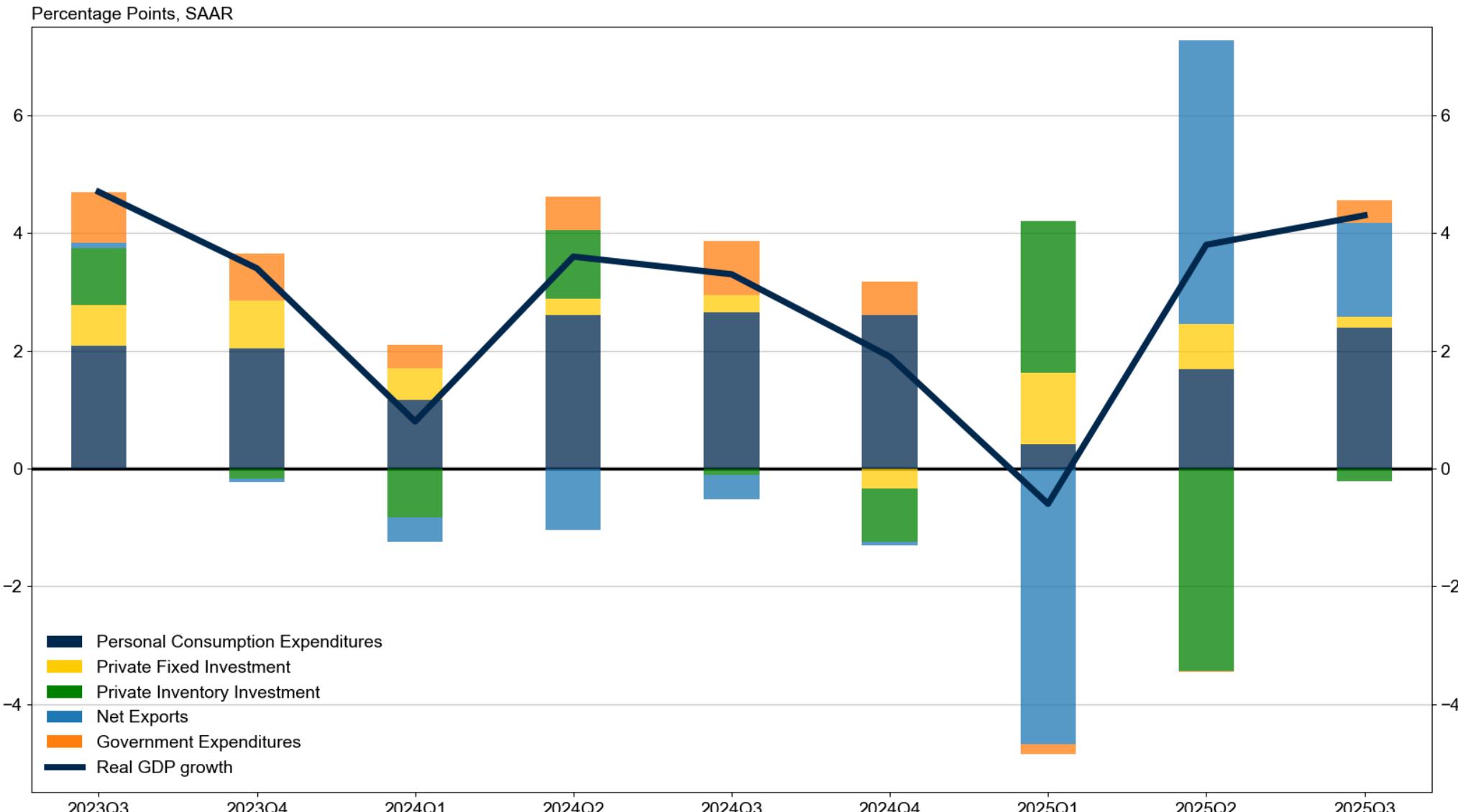
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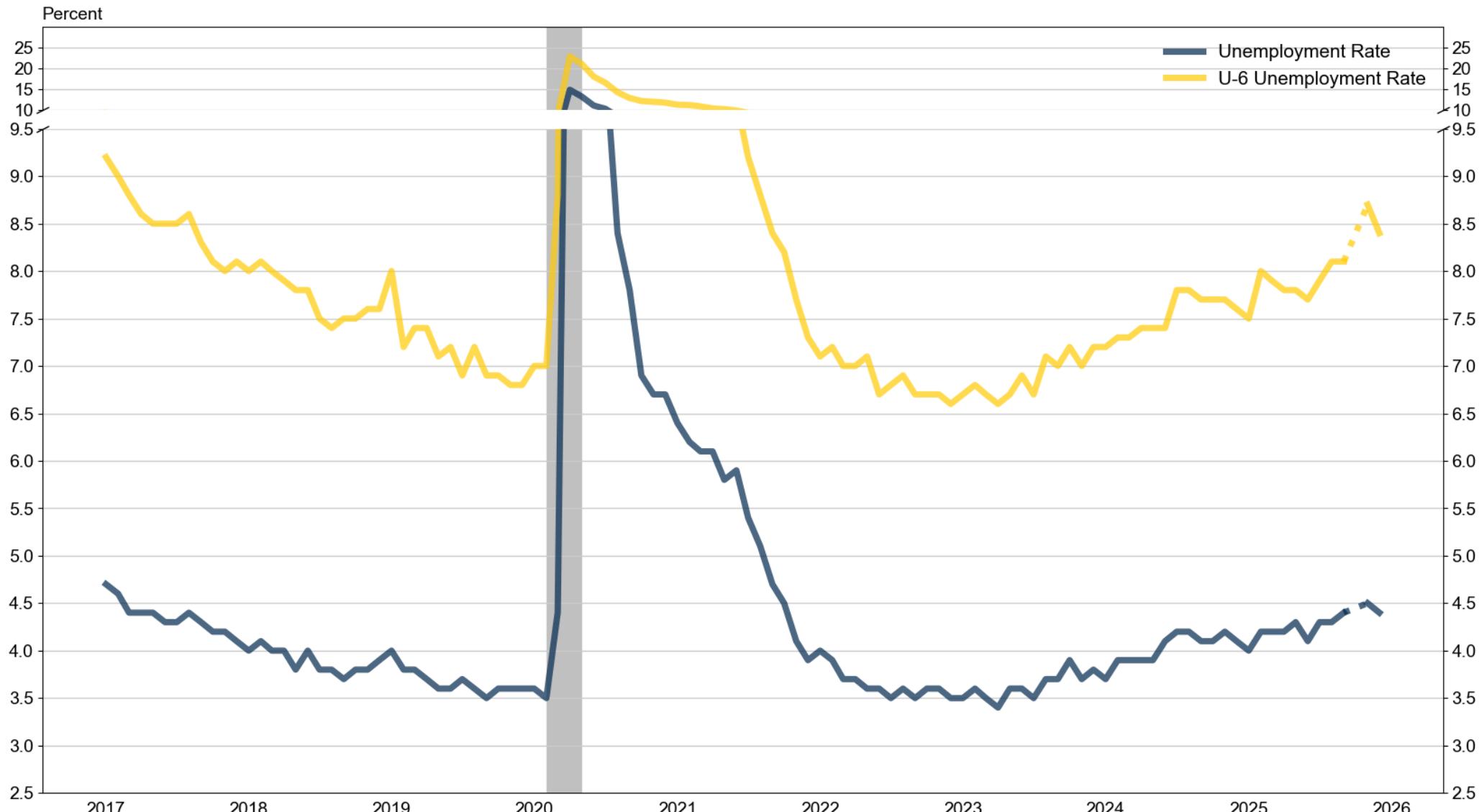


Current State of the U.S. Economy

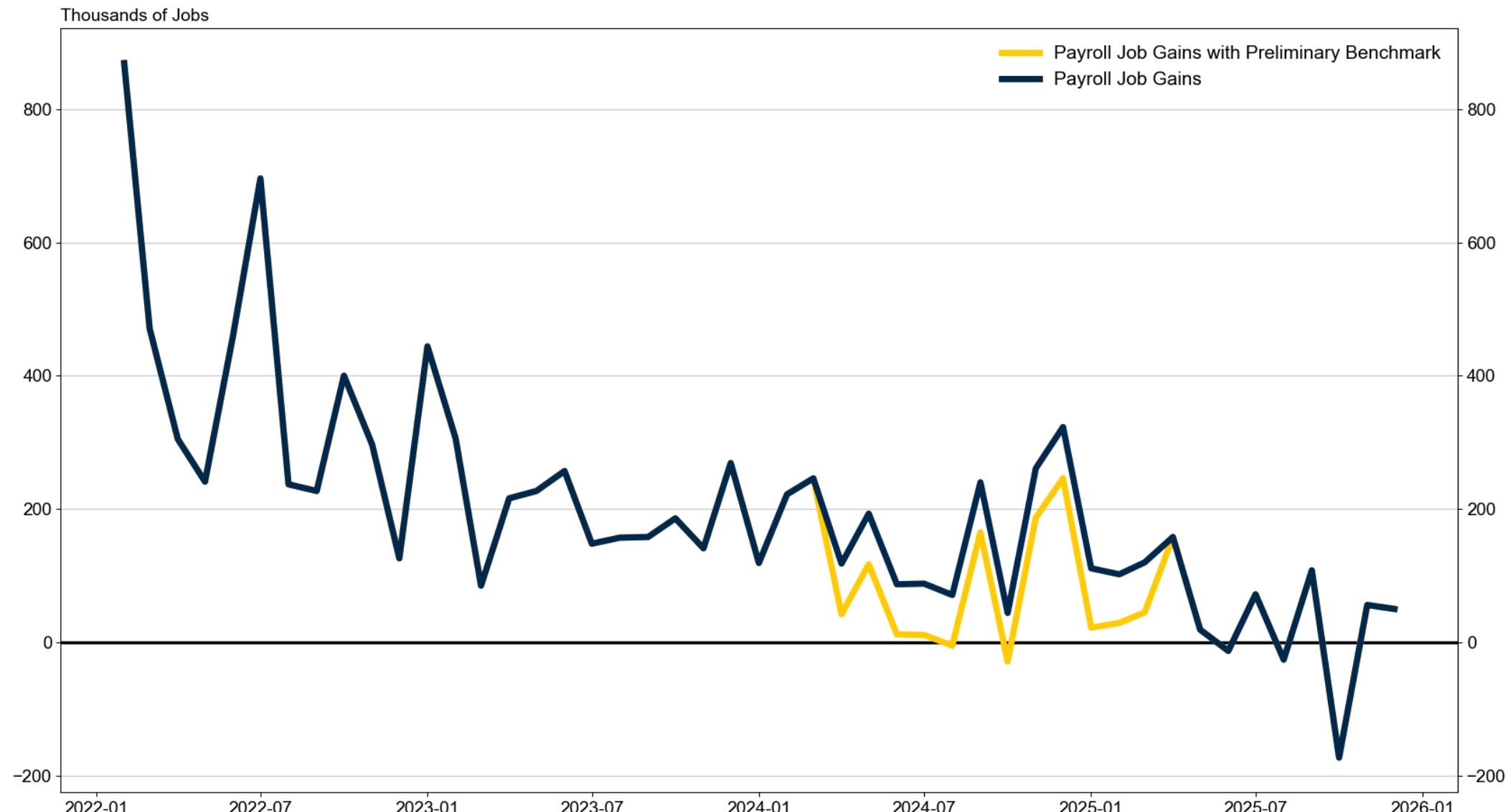
Contributions to Real GDP Growth



Unemployment Rates

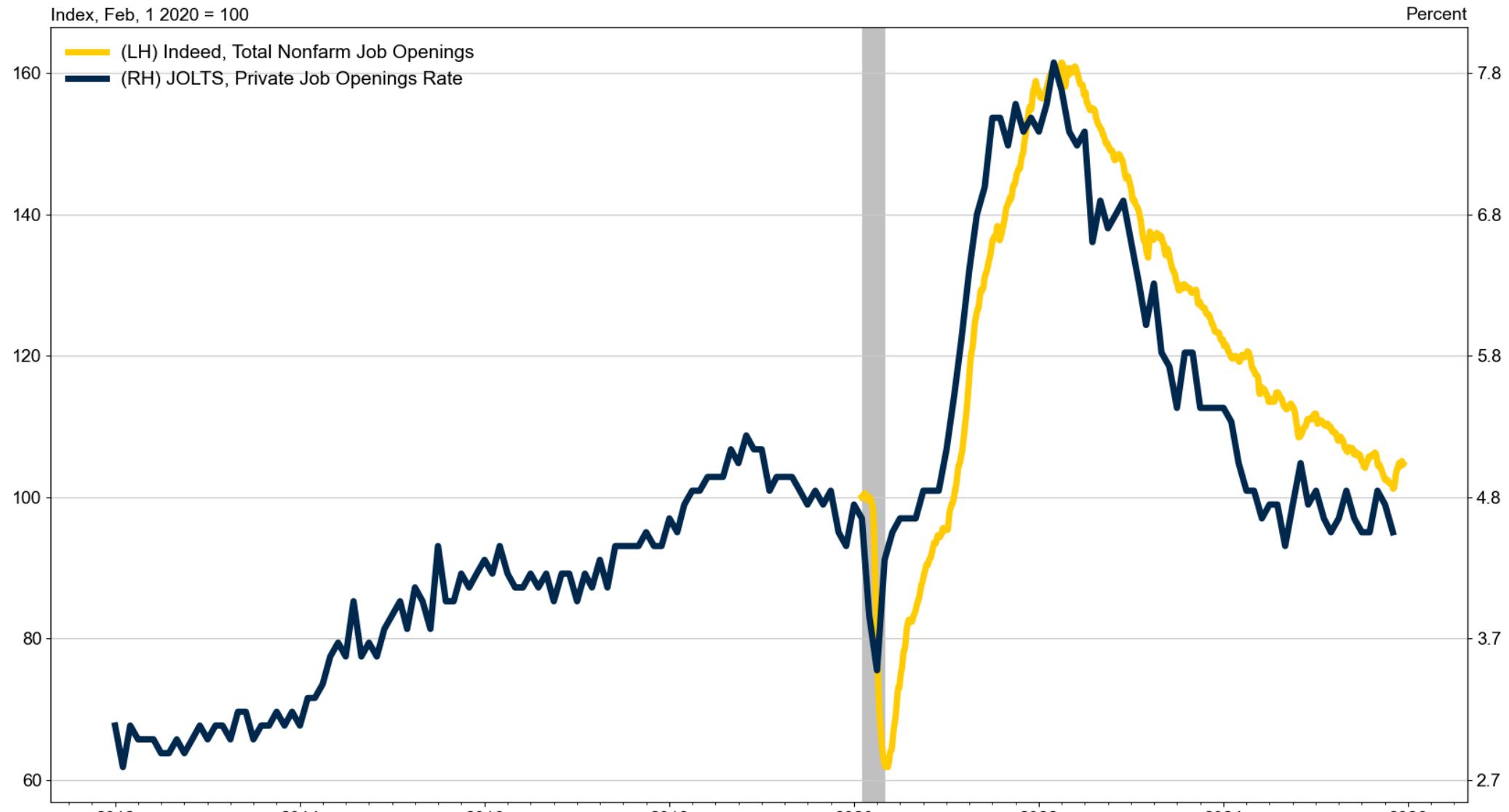


Payroll Job Gains and Preliminary Benchmark Revision

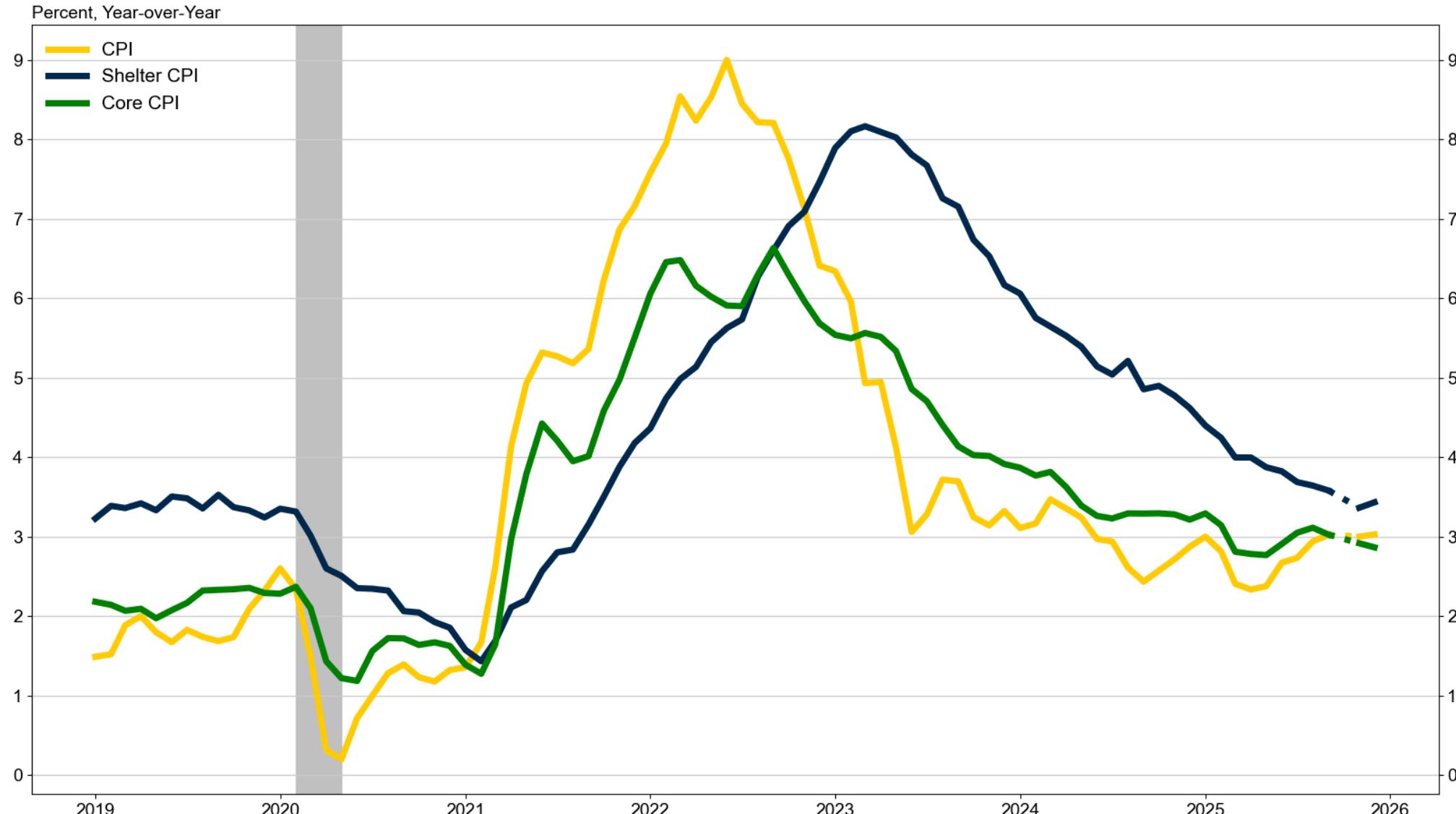


RSQE: January 2026

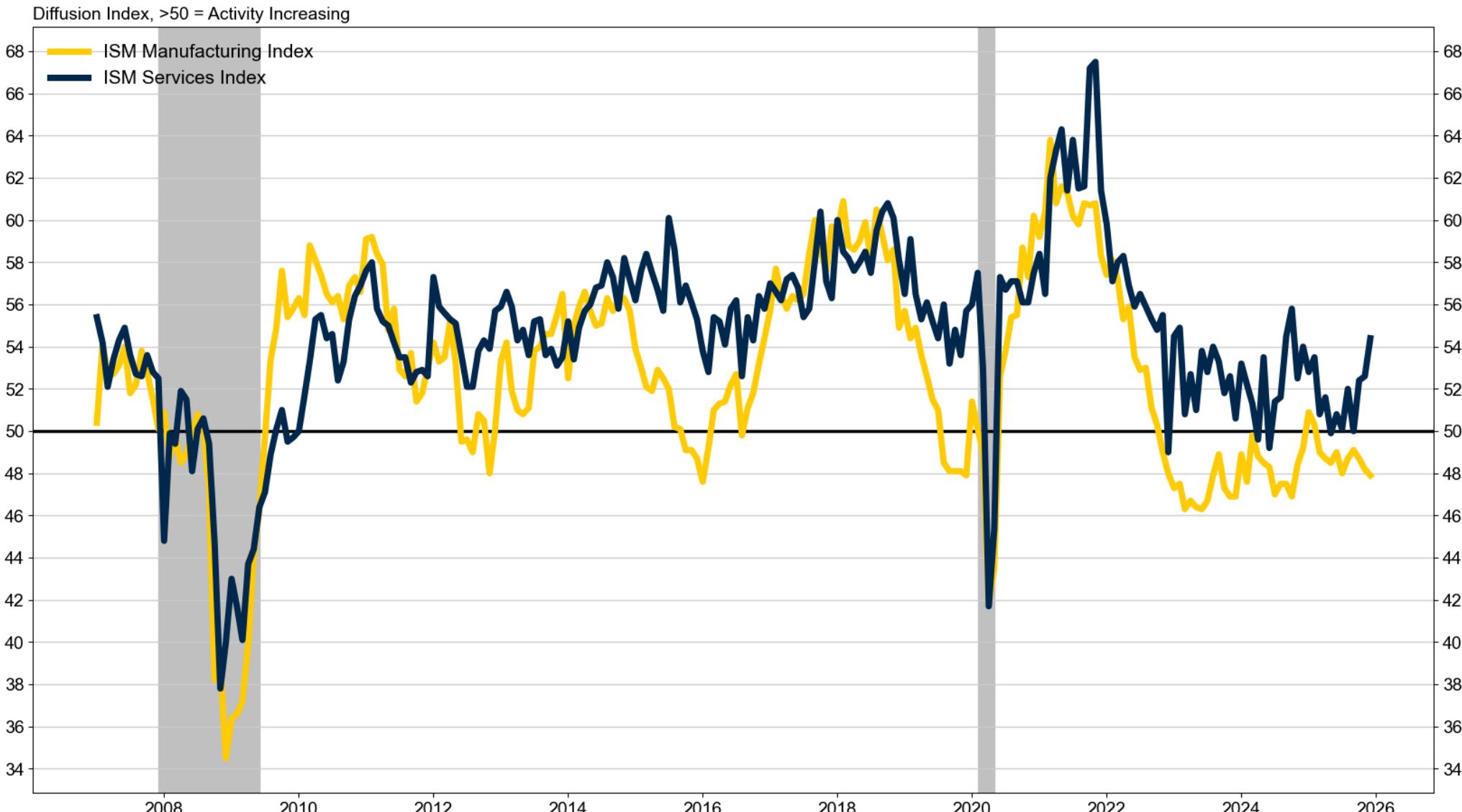
Job Openings



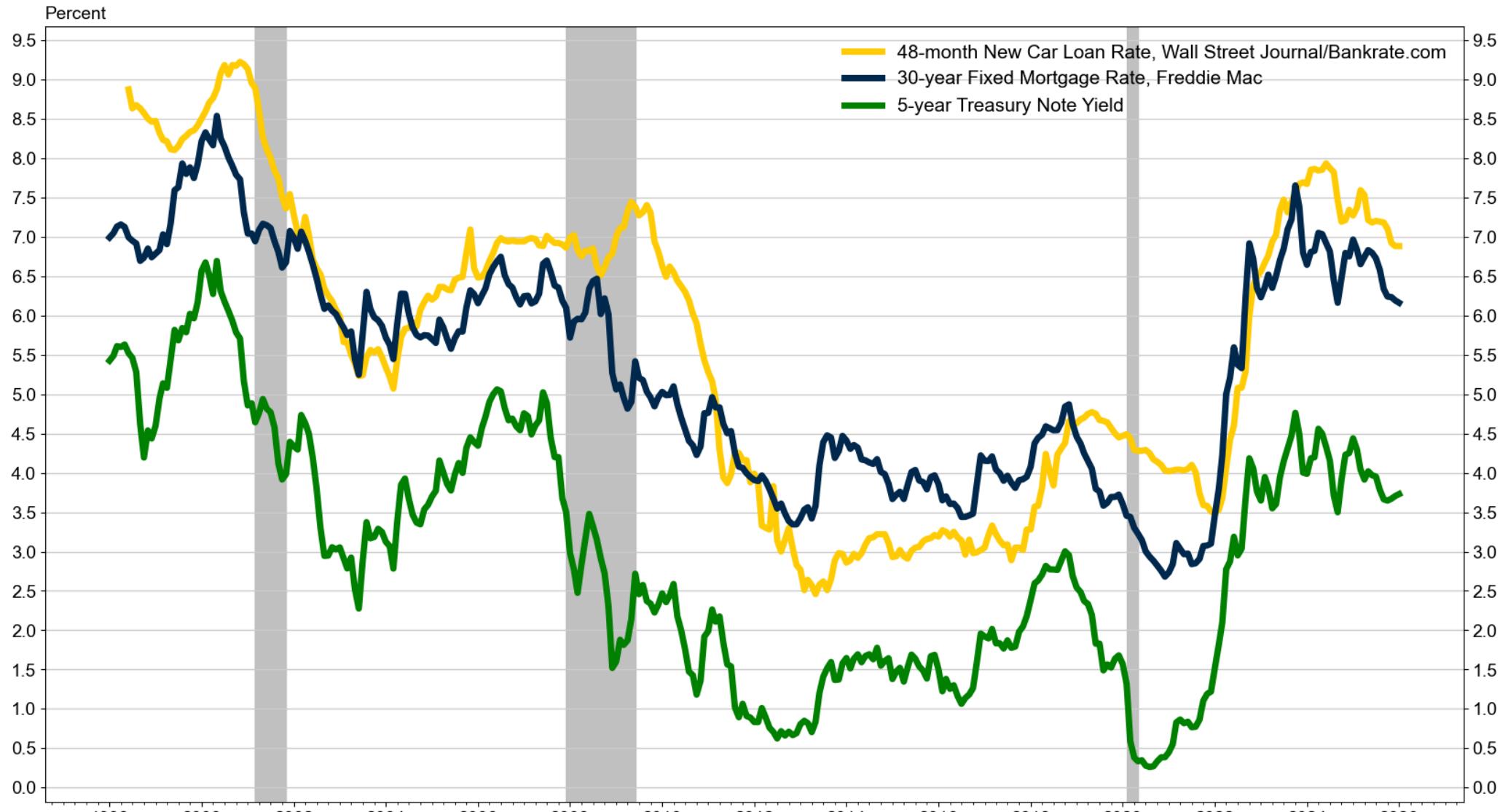
Headline, Core, and Shelter CPI Inflation



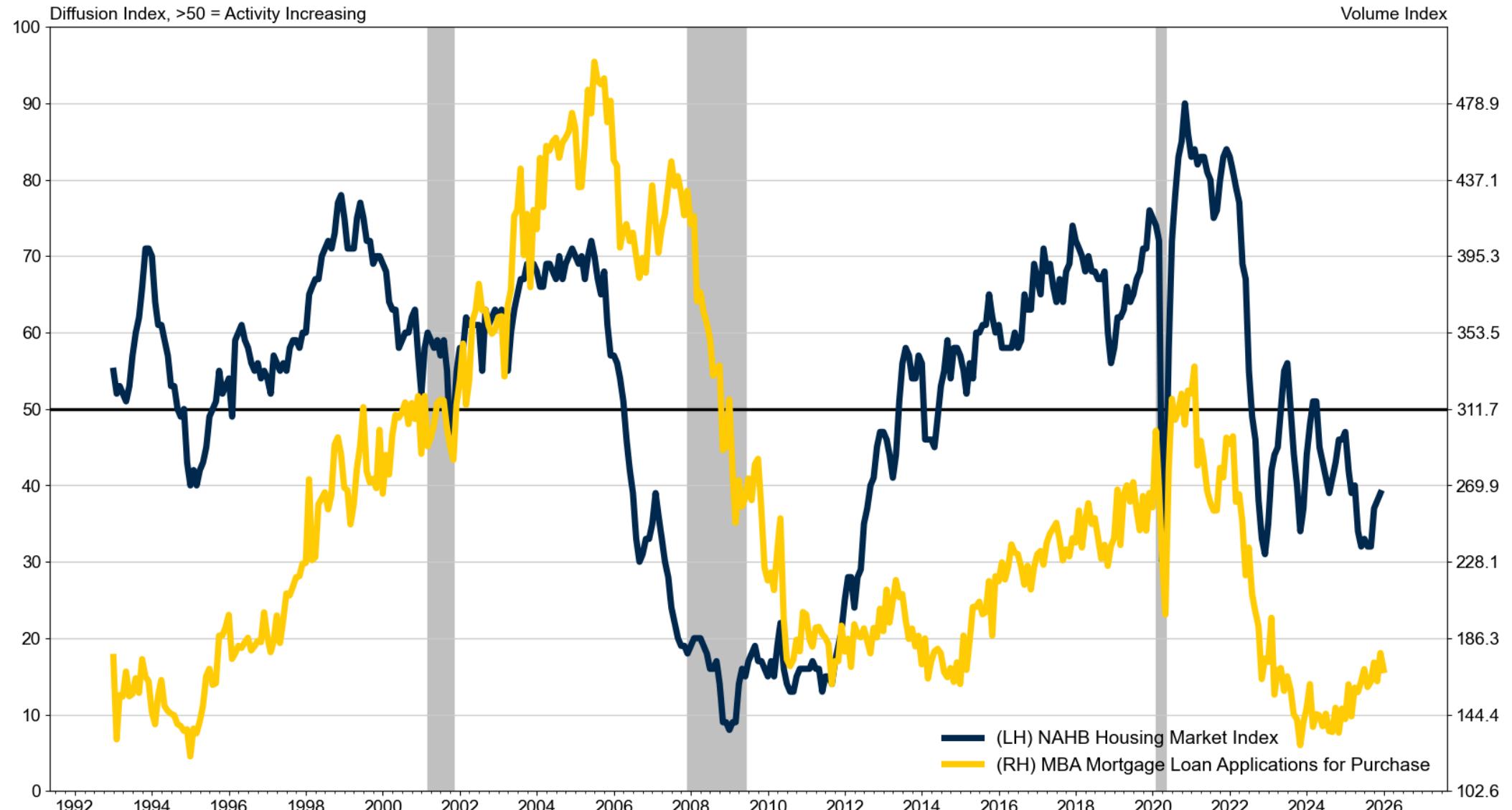
Institute for Supply Management Indices



Selected Interest Rates



Residential Market Metrics





Policy Assumptions

Trade Policy

- 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

- 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

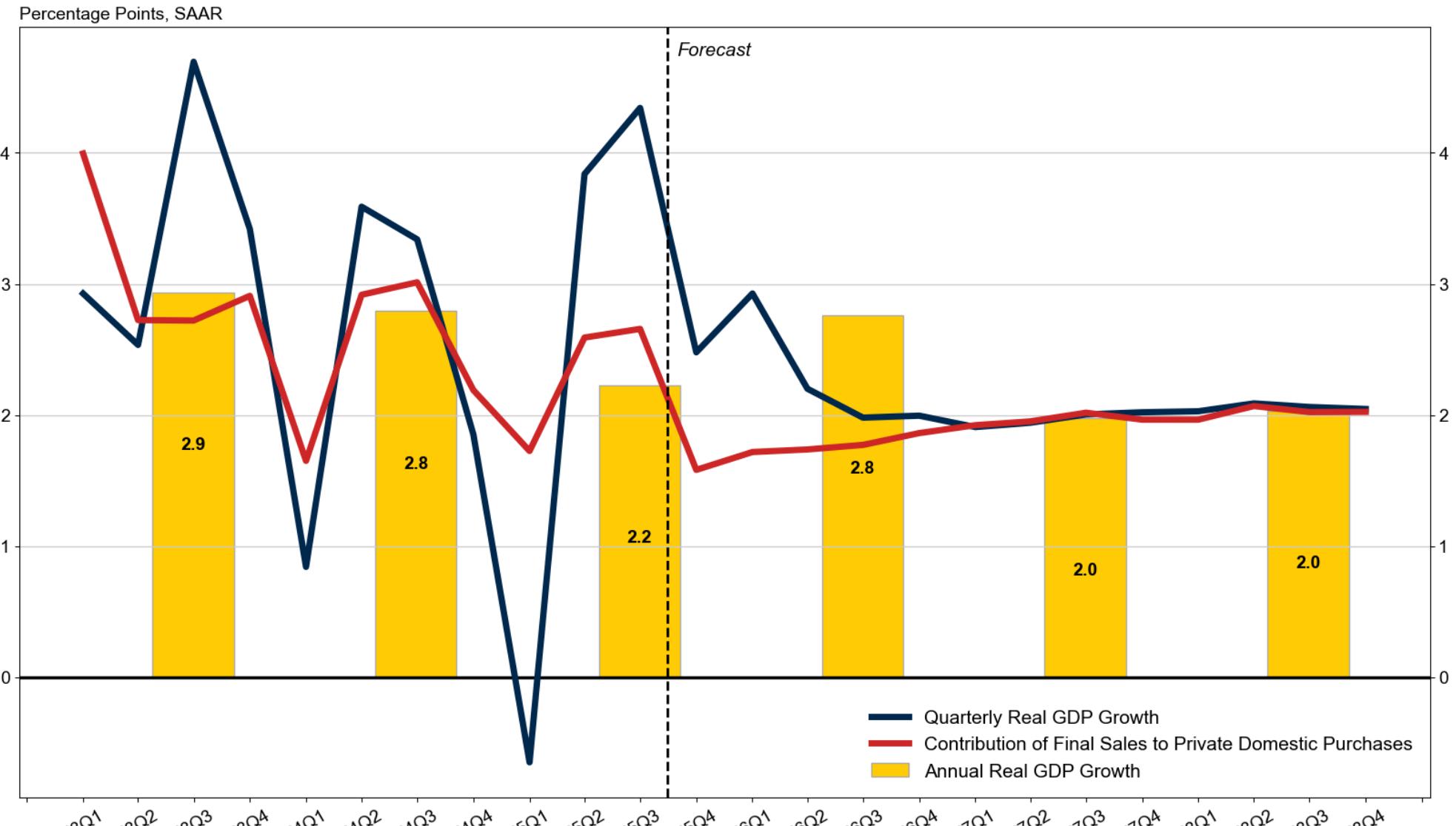
Fiscal Policy

- 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



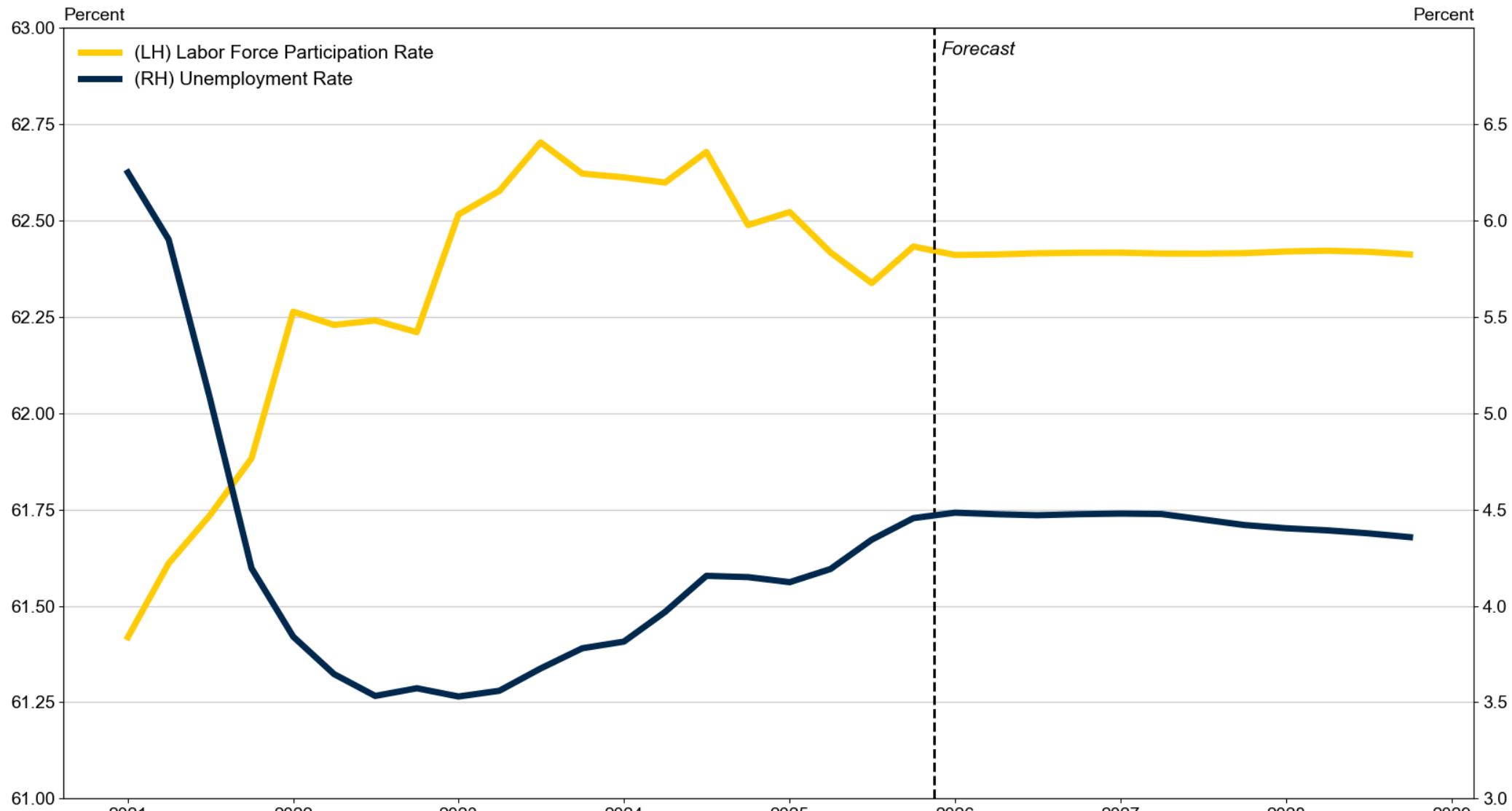
U.S. Economic Outlook

Economic Growth Forecast



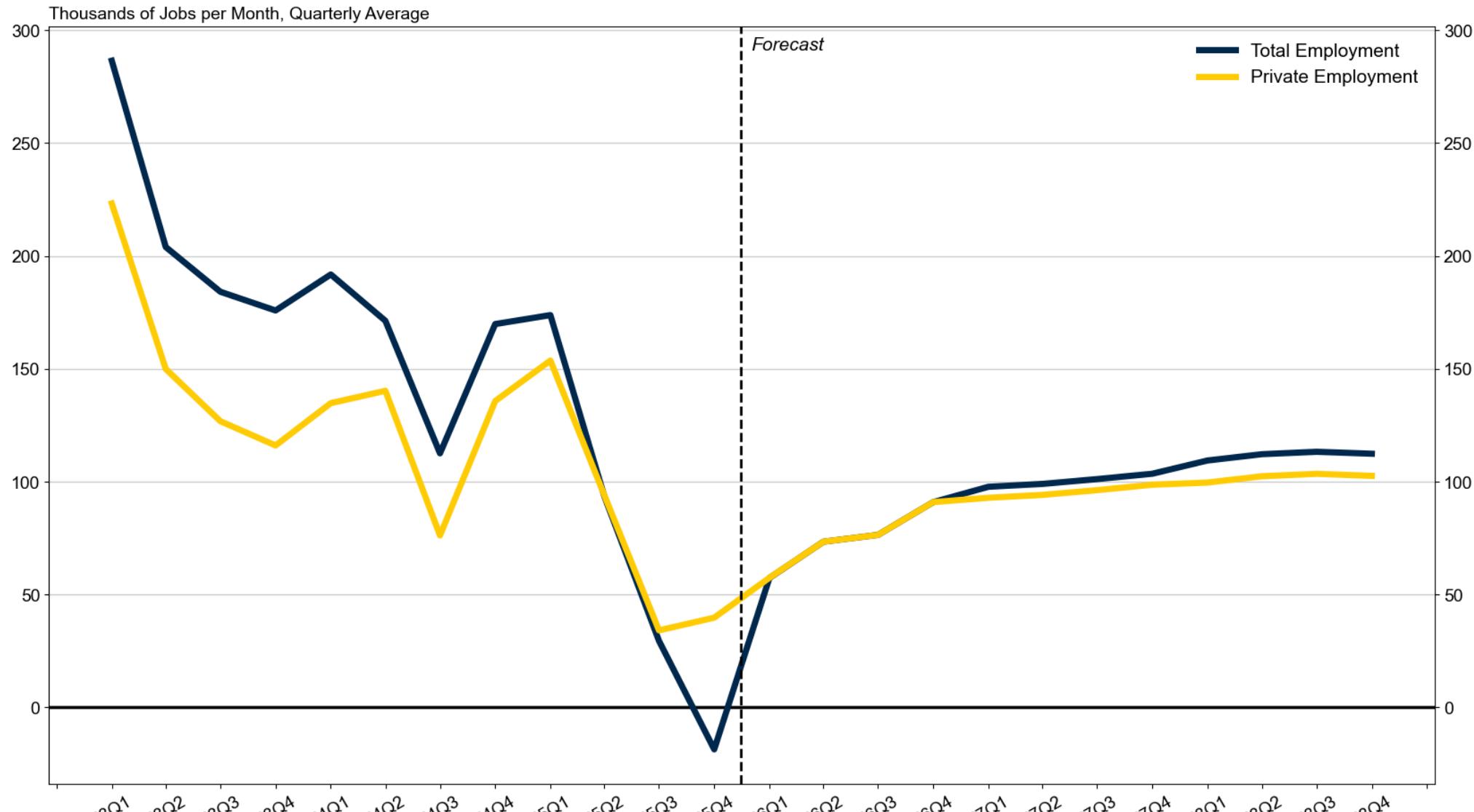
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Unemployment and Labor Force



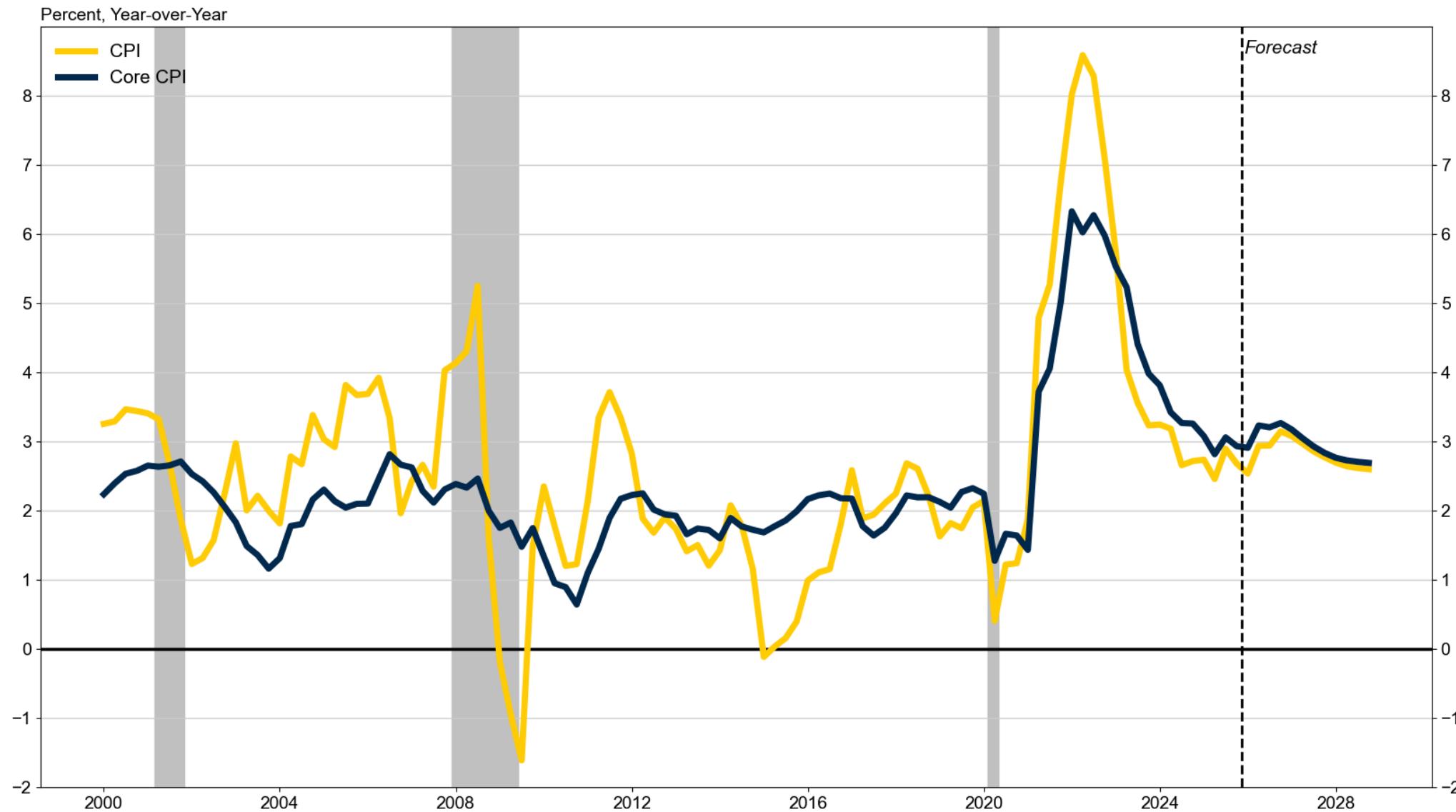
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Total and Private Employment Change

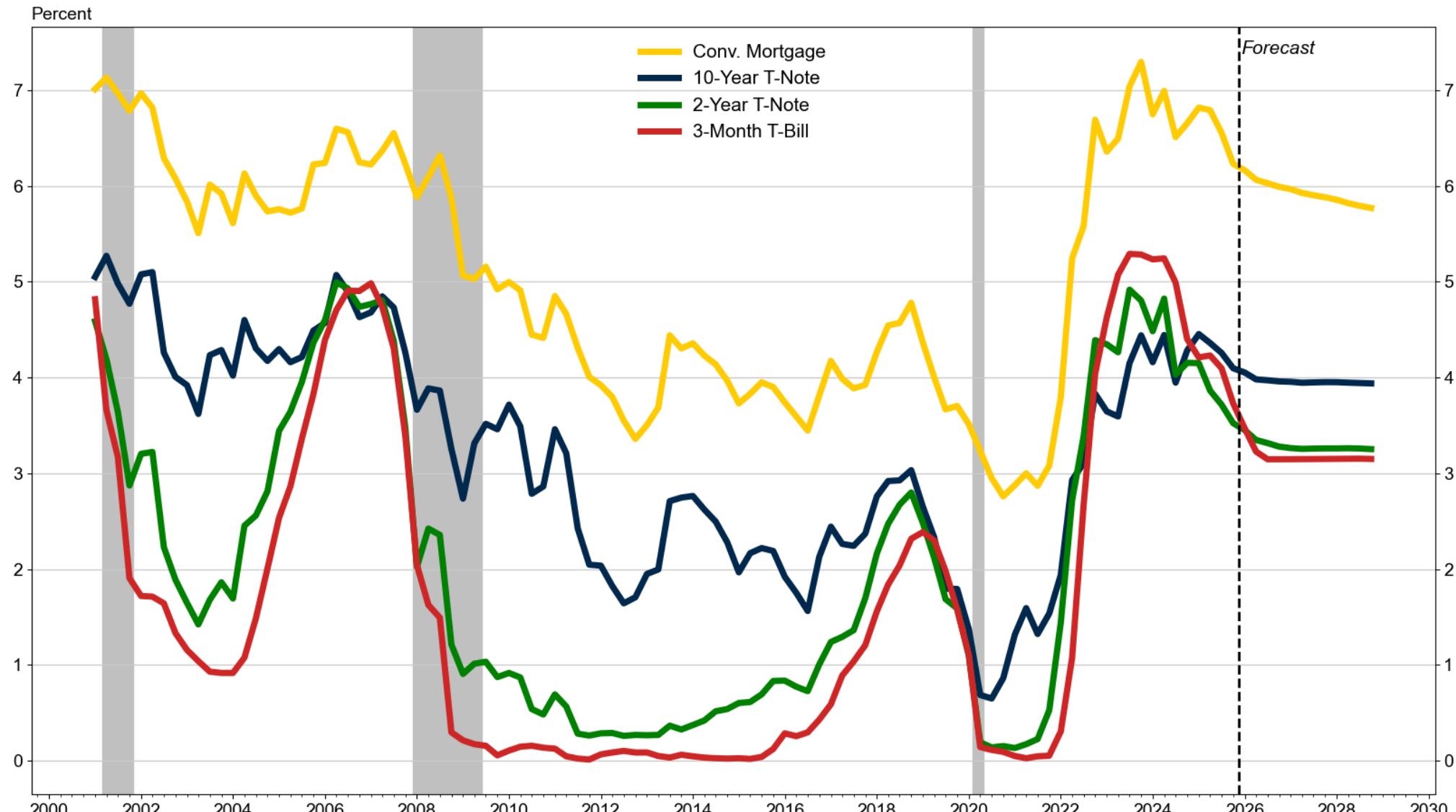


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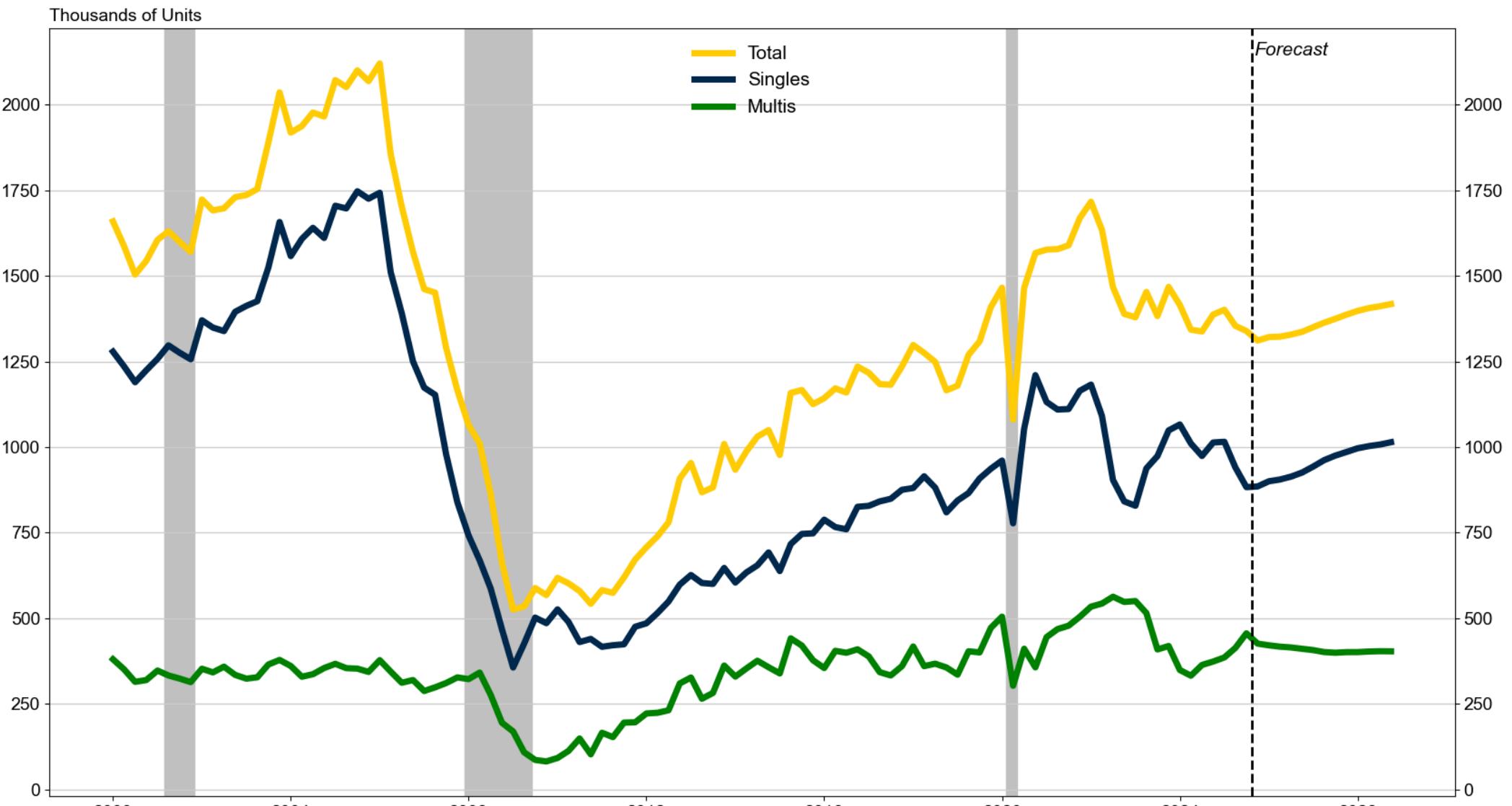
Consumer Price Inflation (CPI-U)



Interest Rates



Housing Starts



Risks to Outlook

Misreading Economic Momentum

Trade

Fiscal Policy

Geopolitics

Immigration

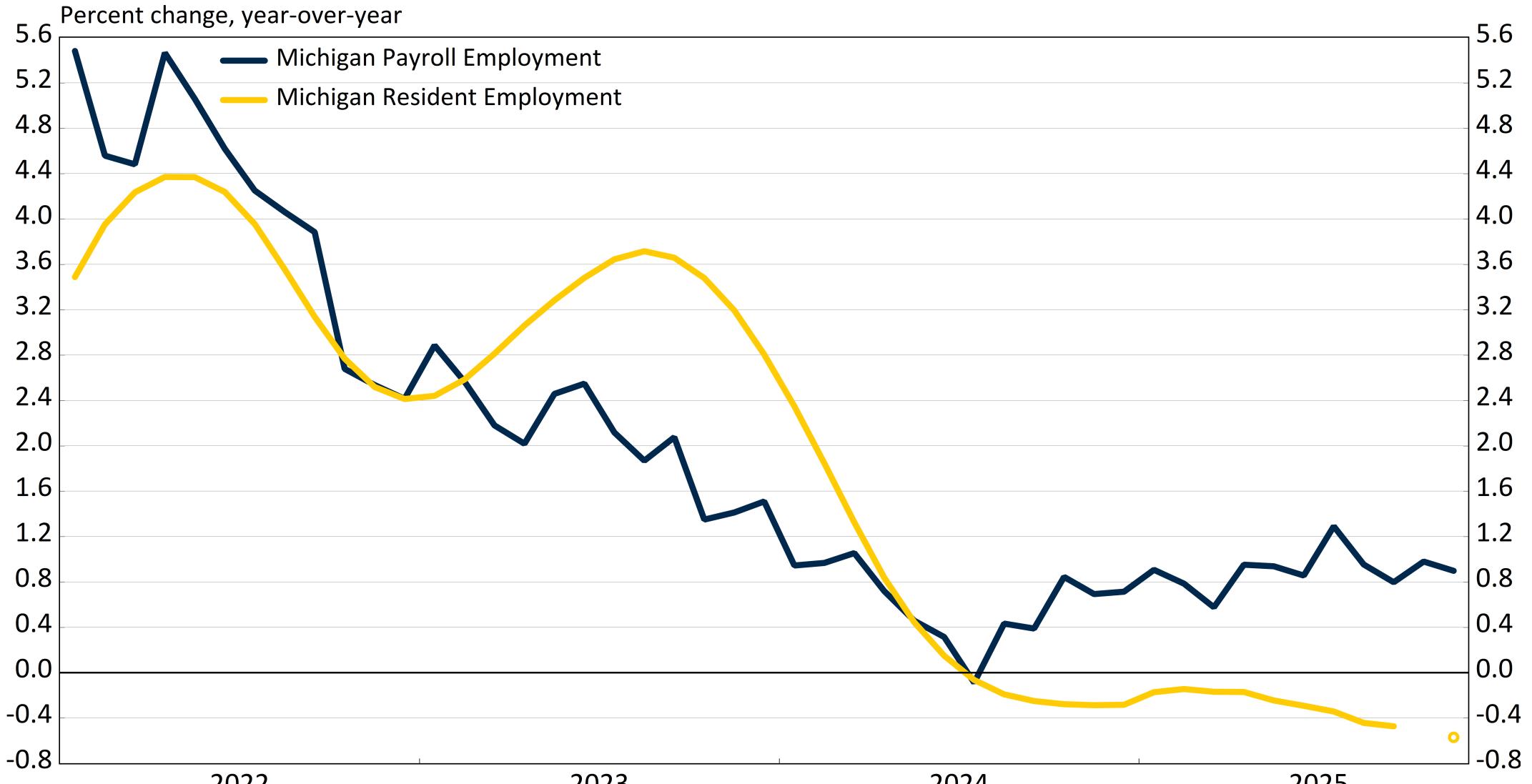
Monetary policy and FOMC composition

AI

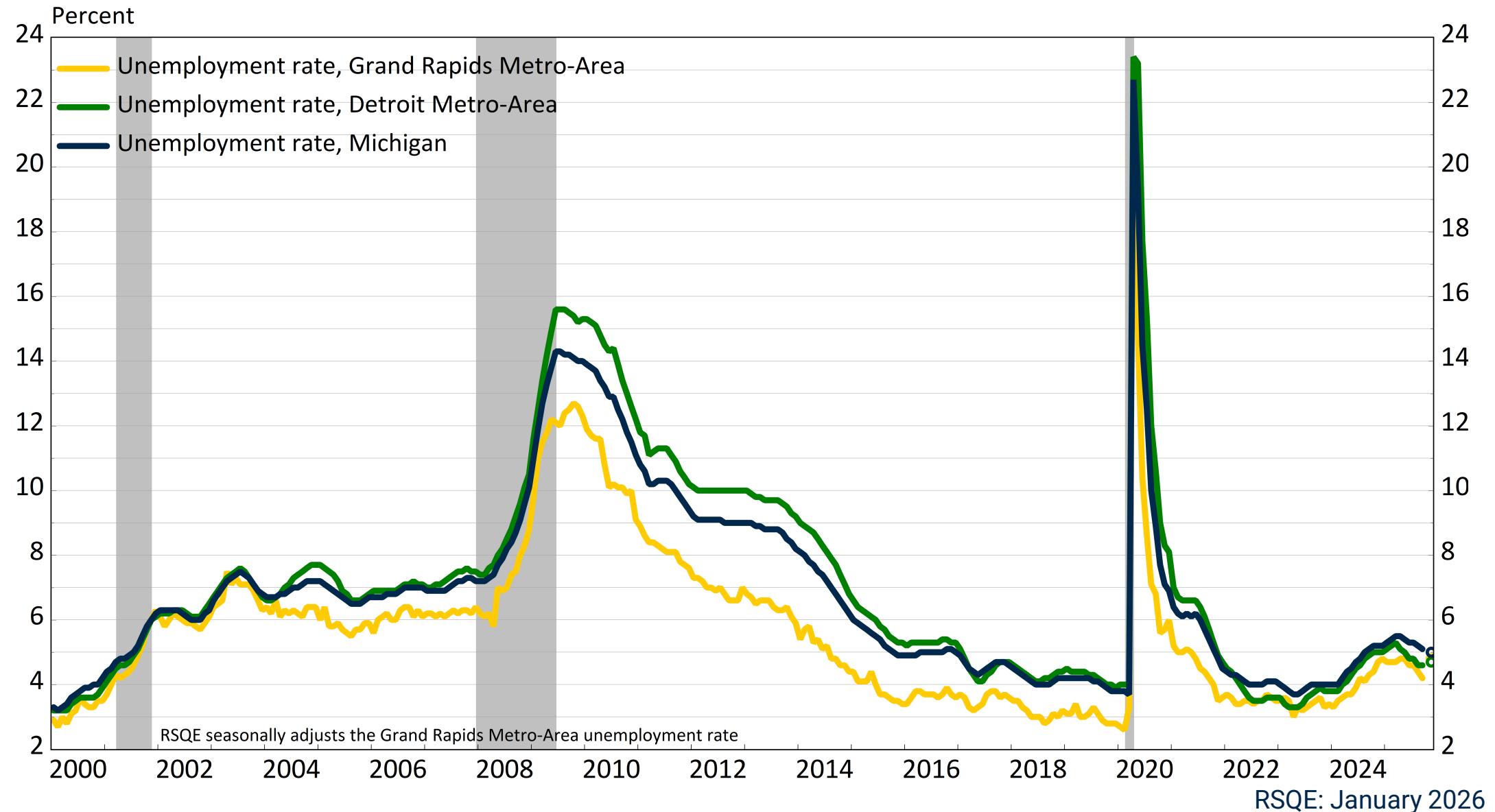


Current State of the Michigan Economy

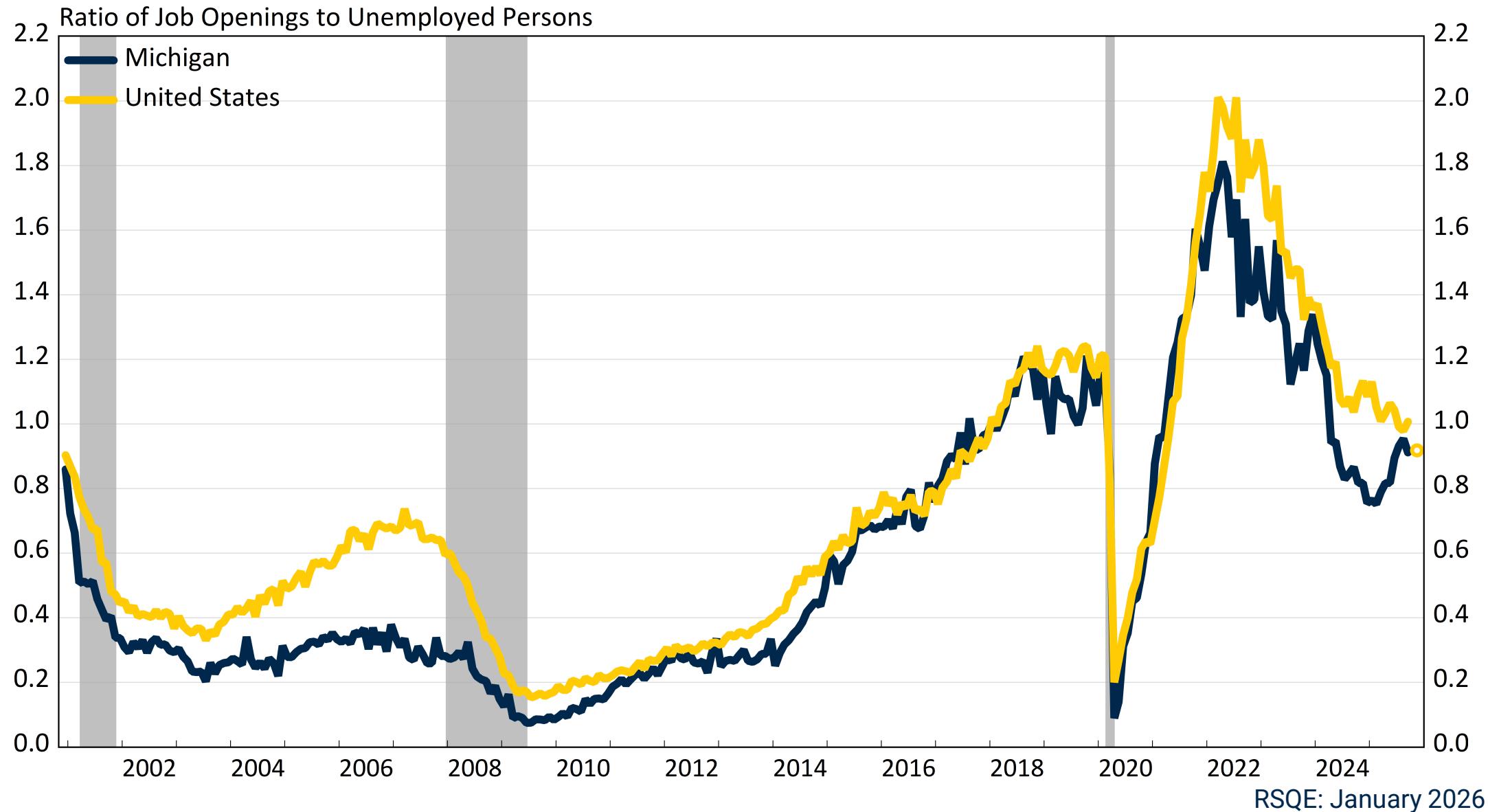
Michigan Employment Measures Telling Different Stories



Local Unemployment Rates Generally Improving



Labor Demand Below Pre-Pandemic Levels



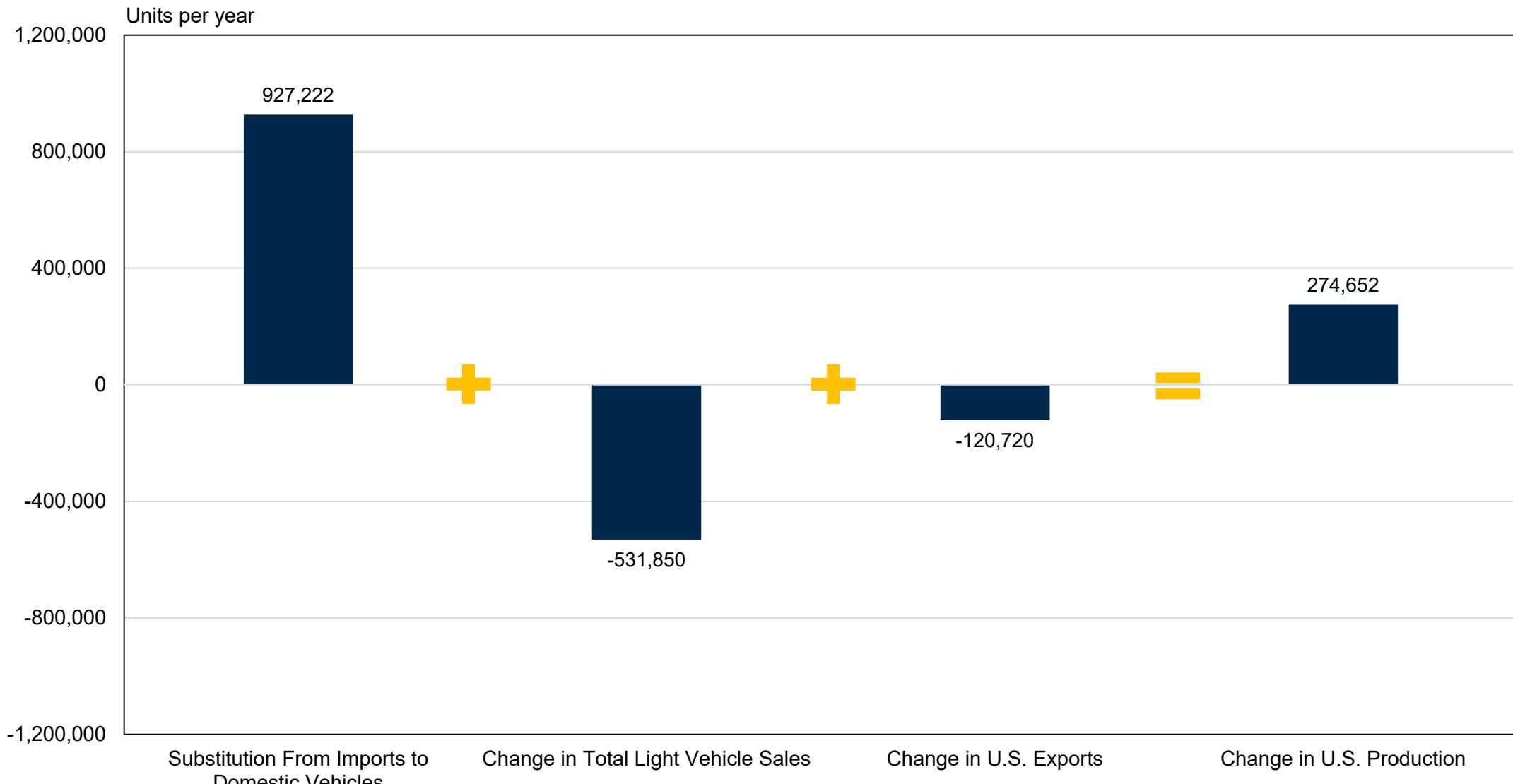


Michigan Economic Outlook

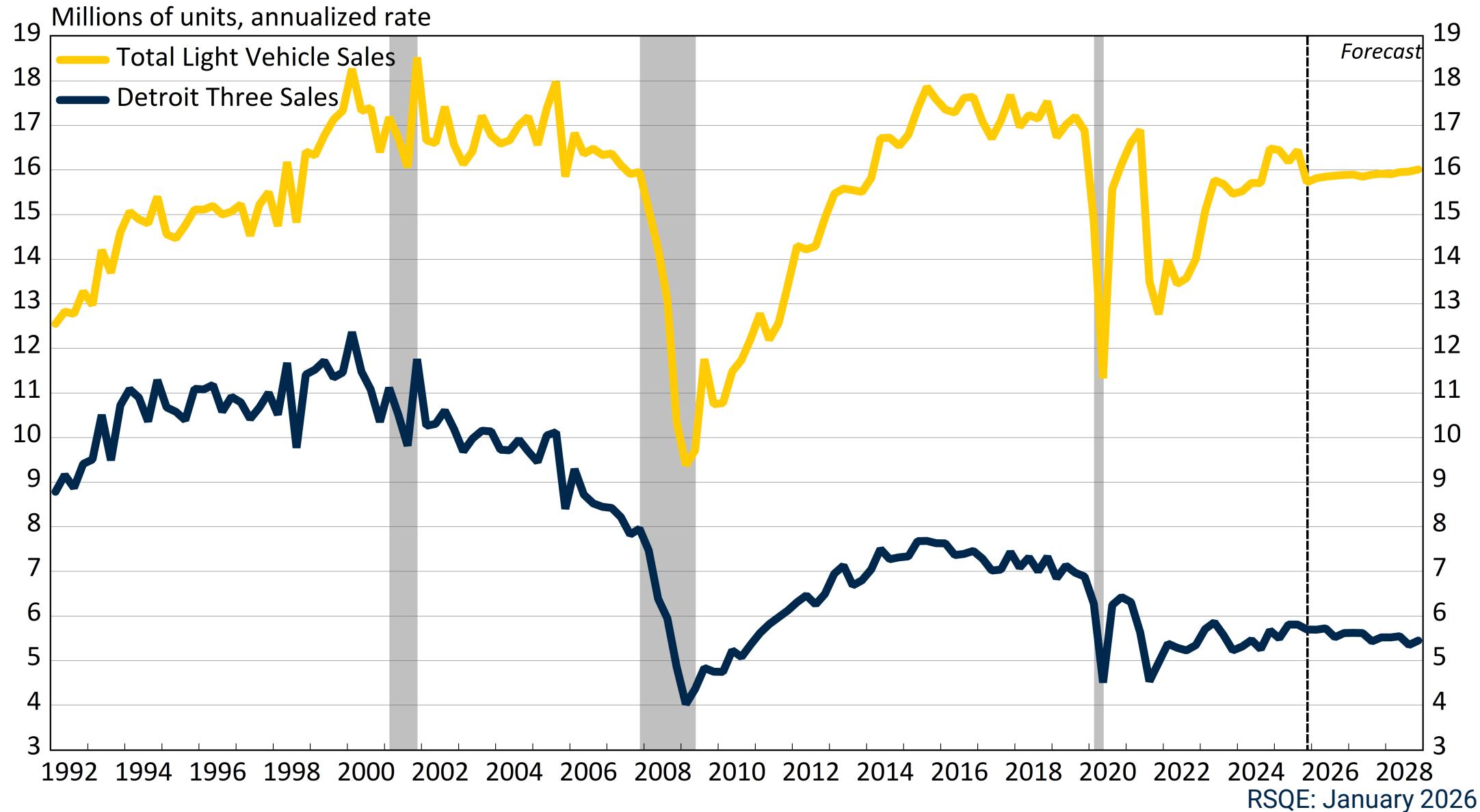
Policy Assumptions

- 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

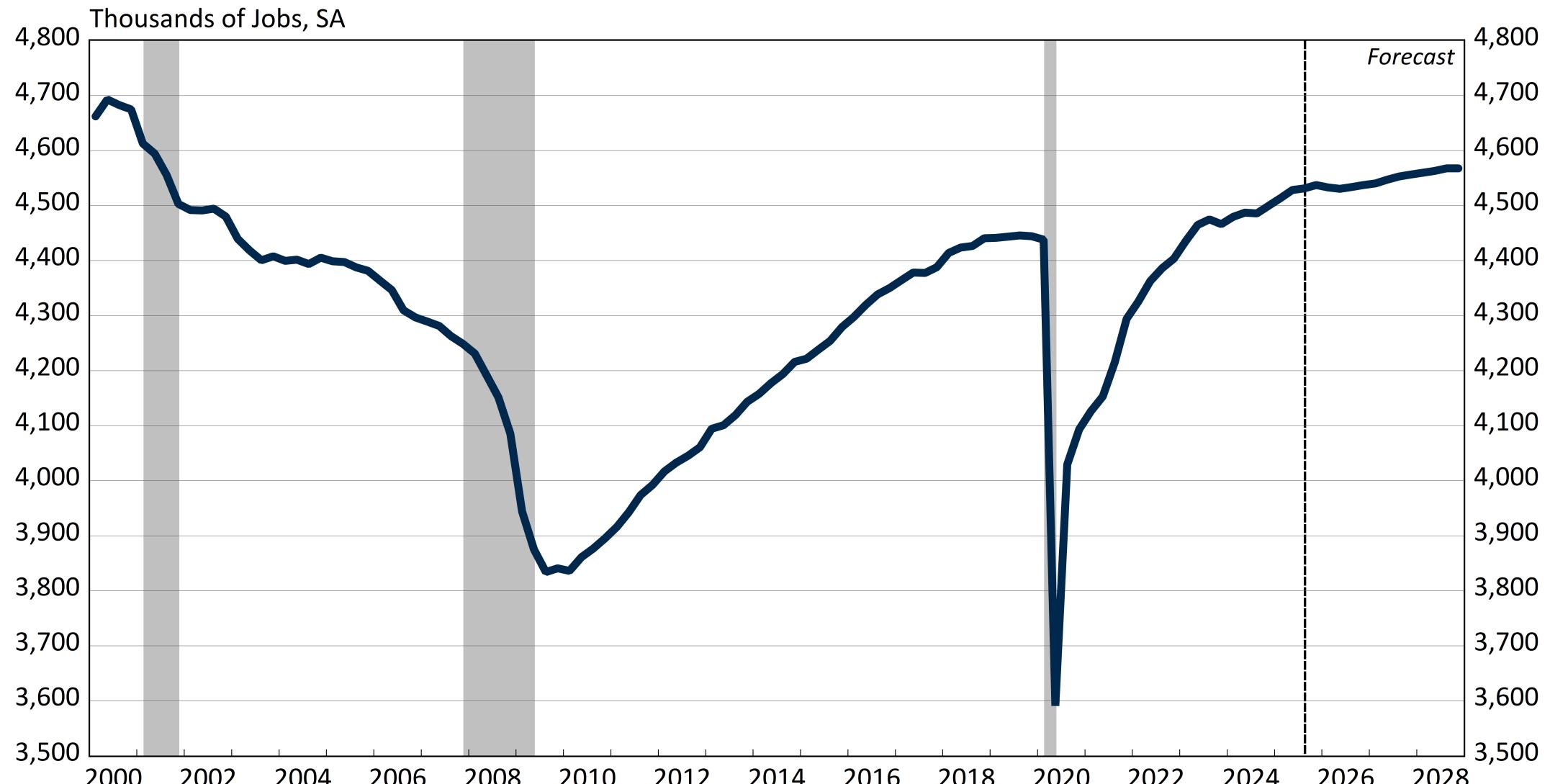
Medium-Term Effects of the 2025 Tariffs on Domestic Auto Production



Light Vehicle Sales Idle at Trend

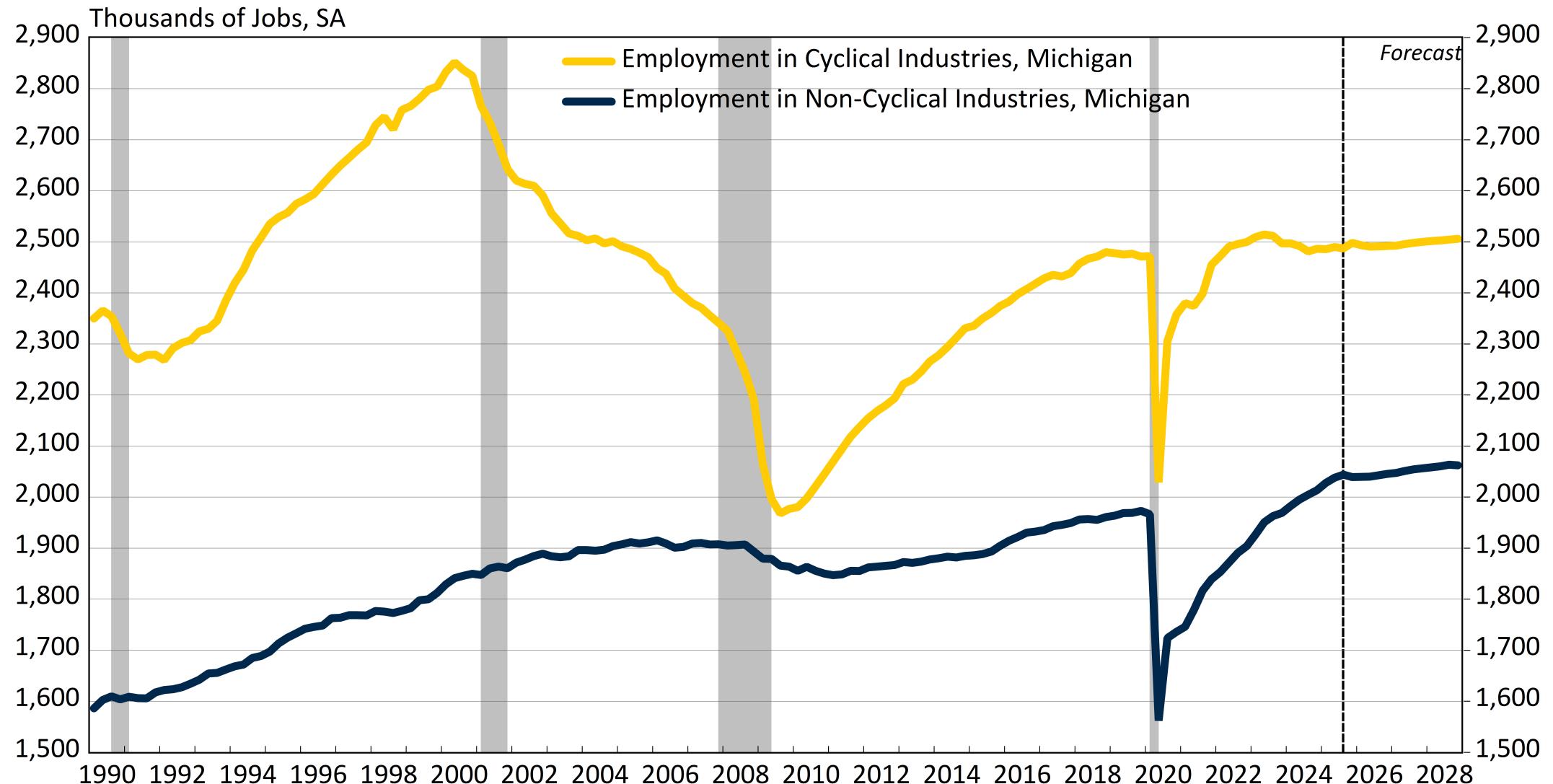


Michigan Payroll Employment Pauses Before Returning to Moderate Growth

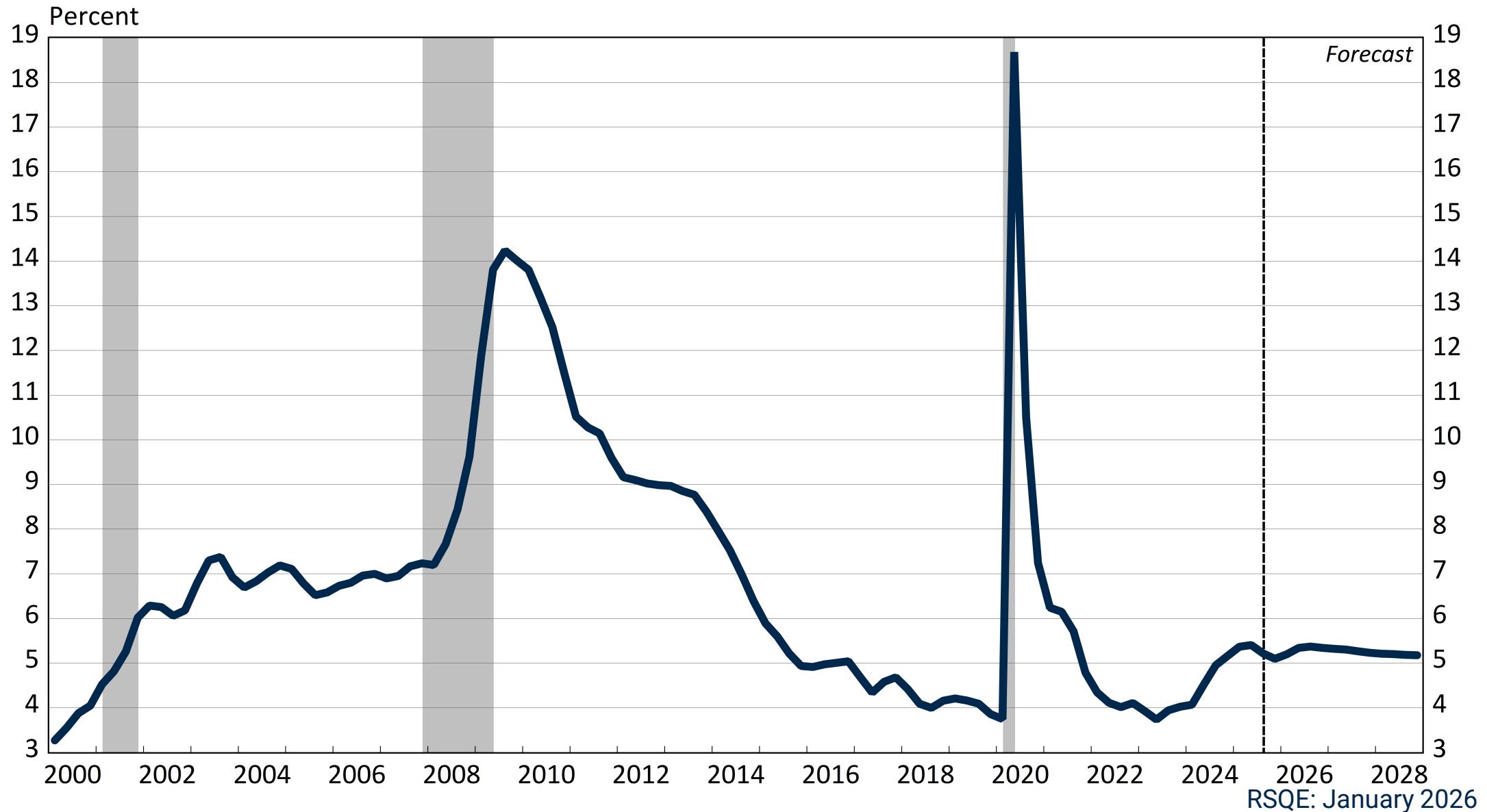


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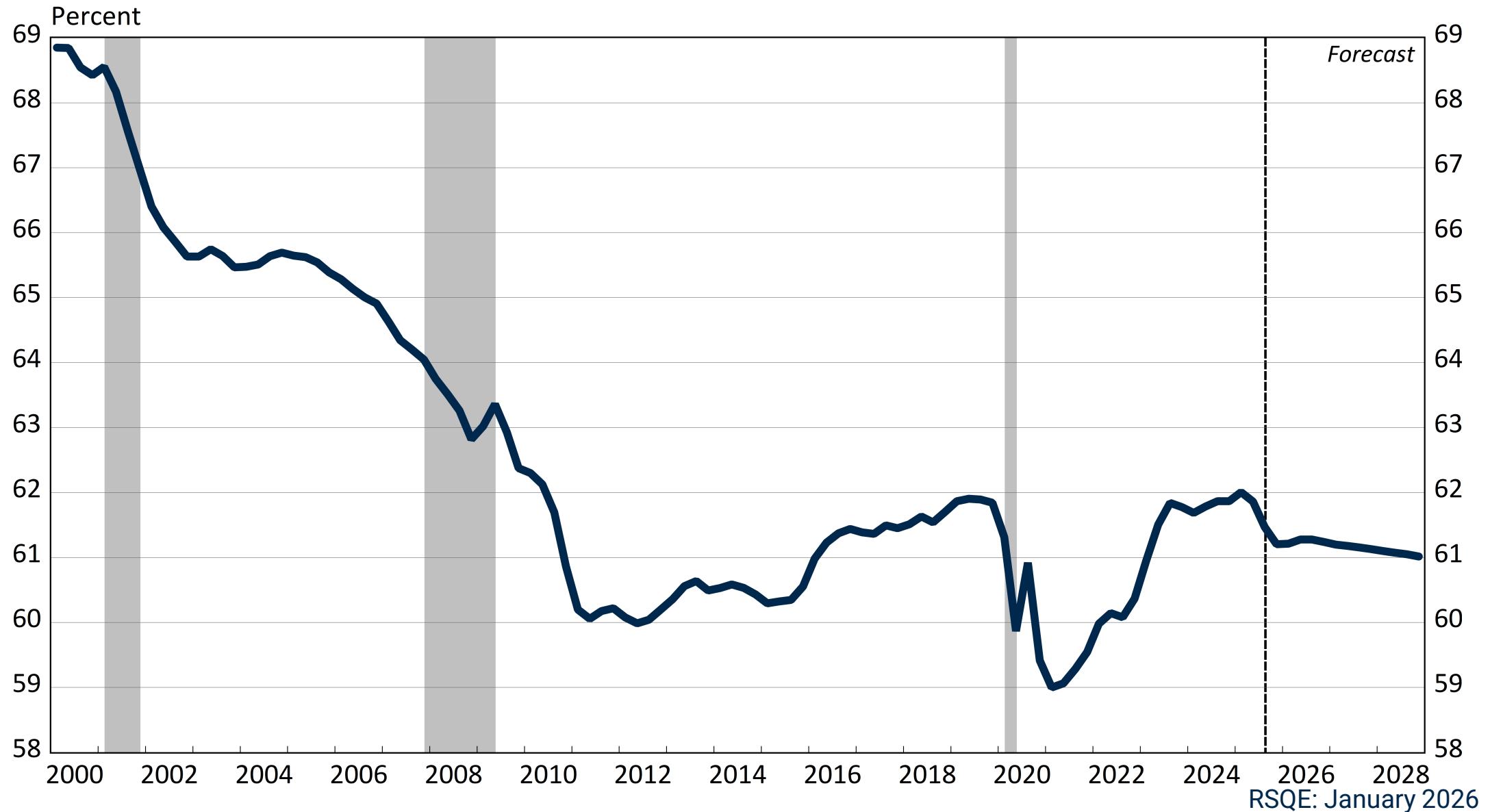
Non-Cyclical Industries Drive Employment Gains



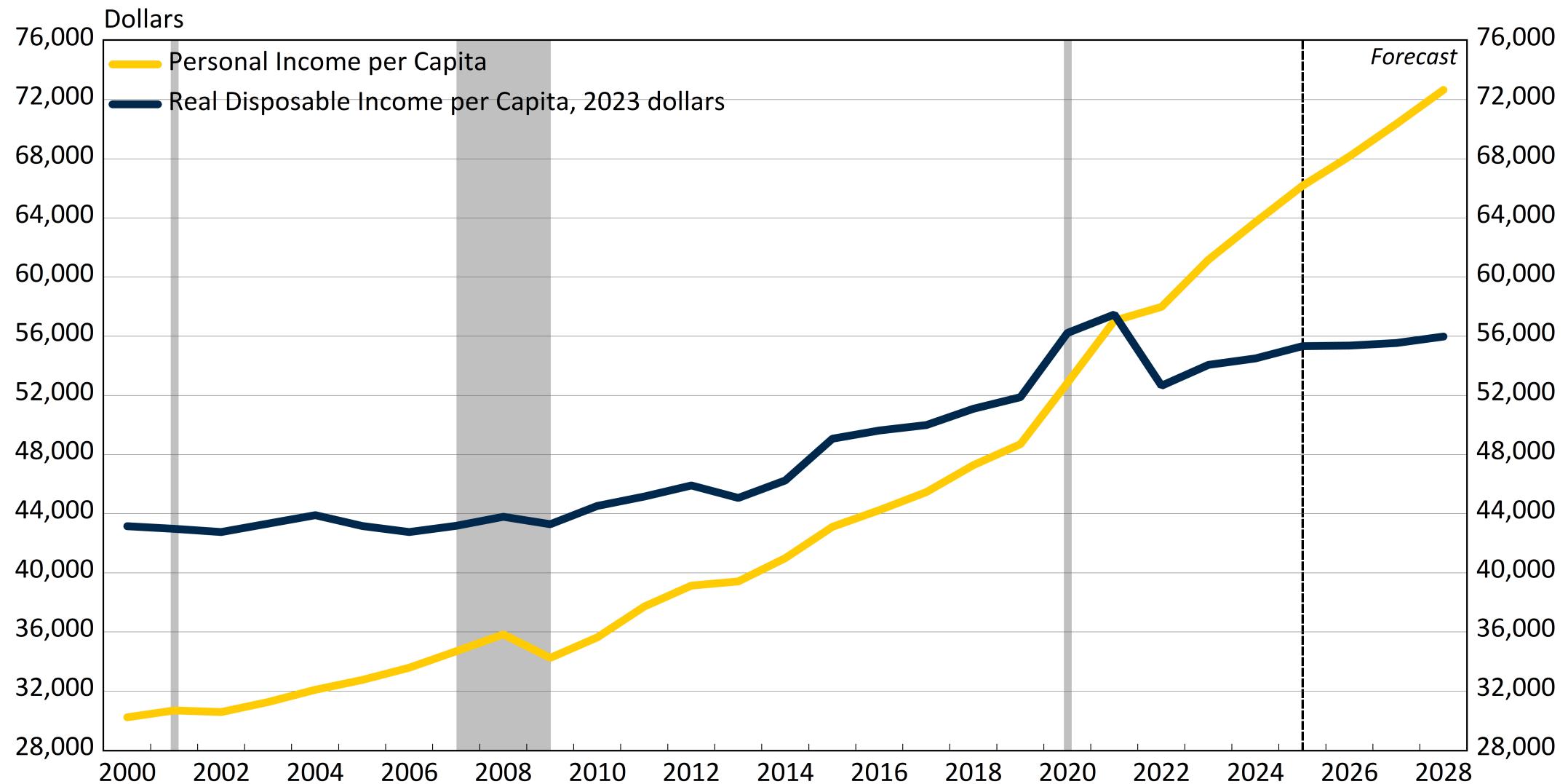
Michigan's Unemployment Rate Hovers Between 5.0–5.5 Percent



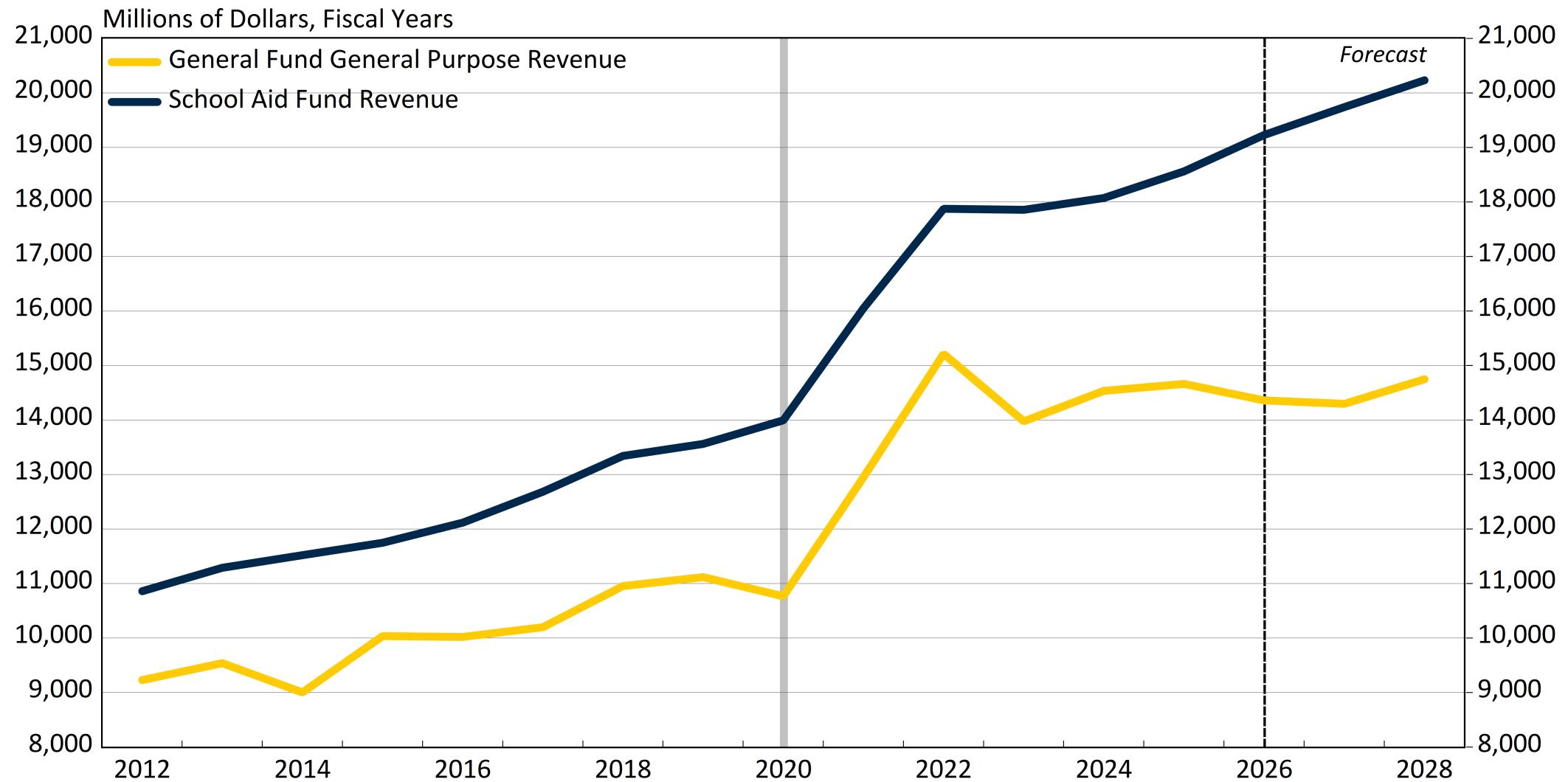
Michigan's Labor Force Faces Demographic Headwinds



Michigan Real Disposable Income Growth Slows



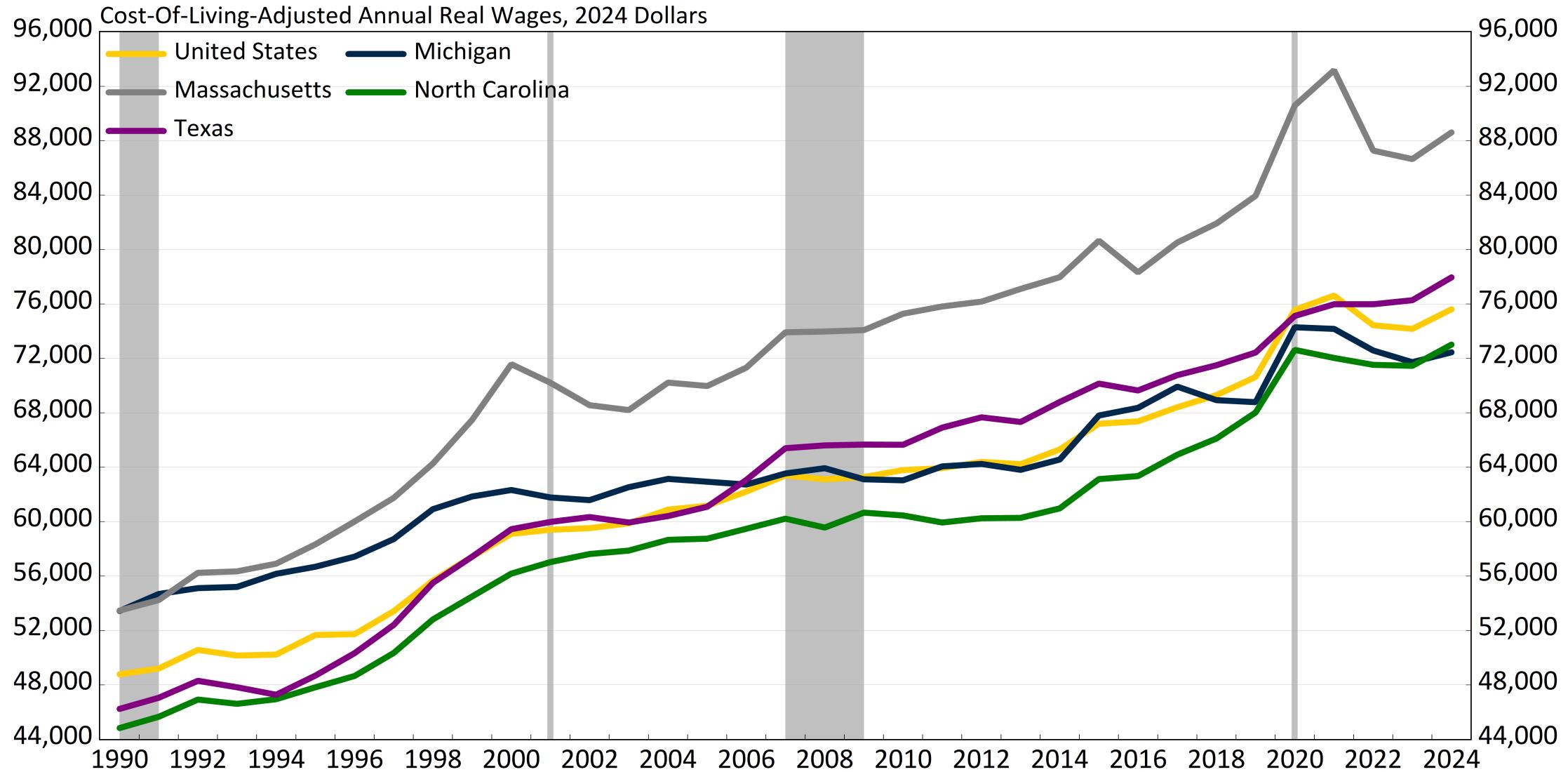
Michigan Tax Revenues: Legislative Changes Weigh on the General Fund



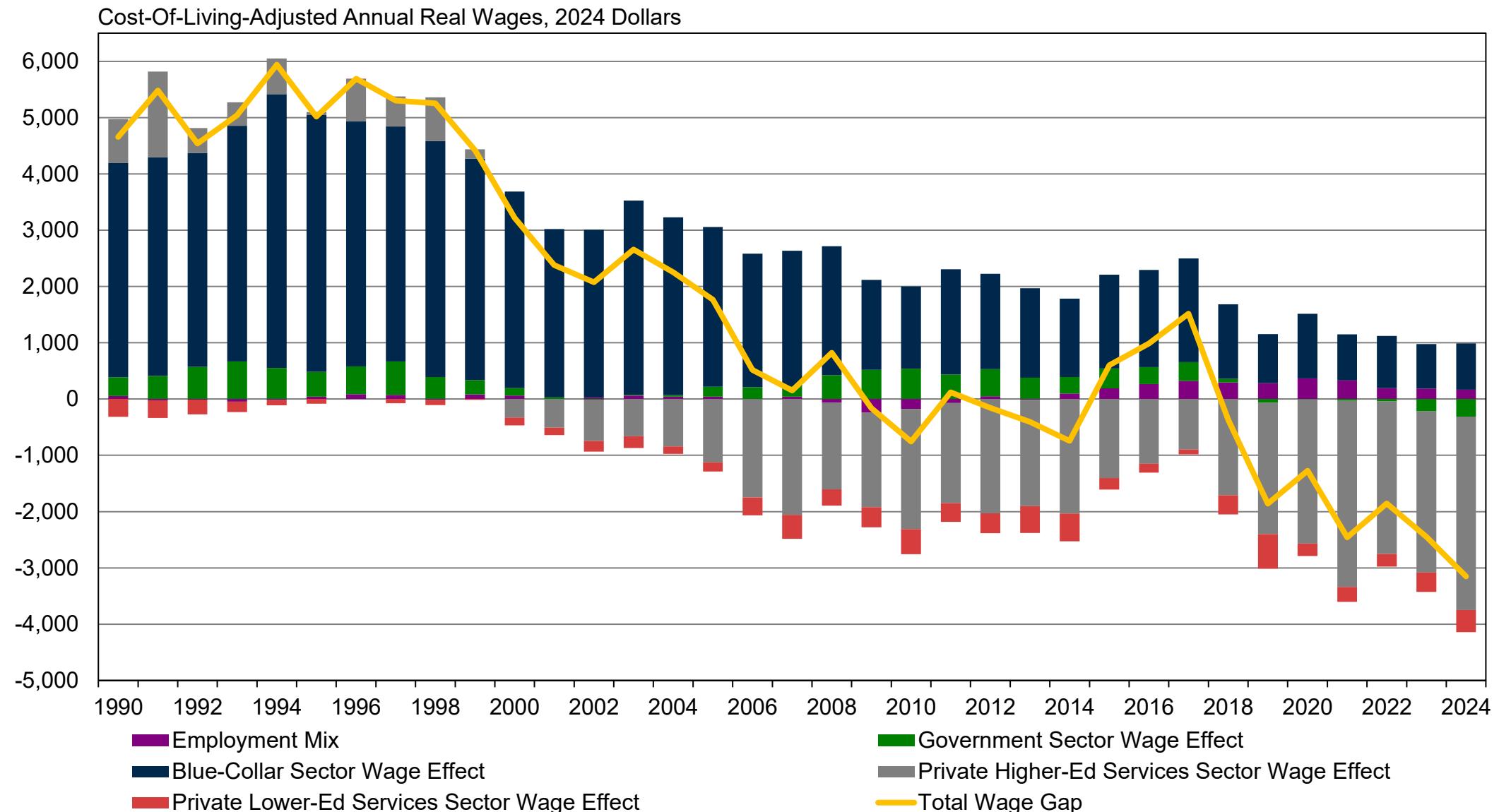


The Erosion of Michigan's Wage Premium

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



Components of the Michigan–U.S. Wage Gap



Concluding Thoughts

- 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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