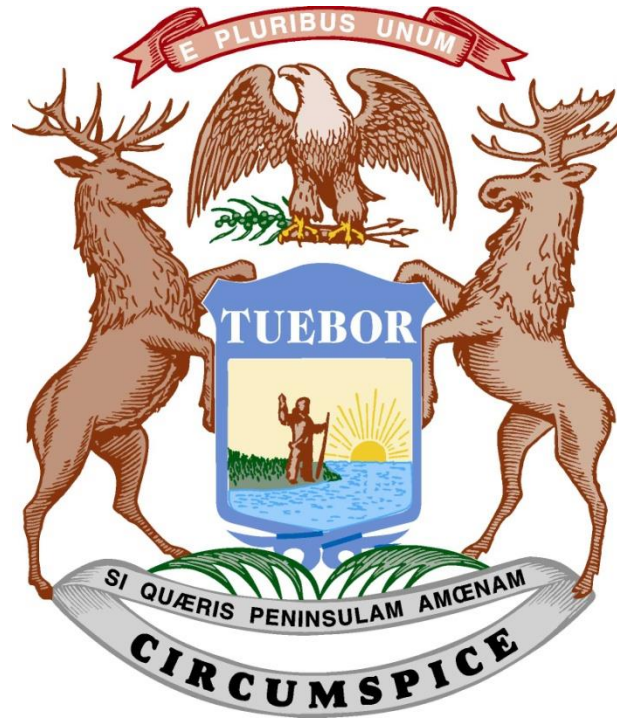


Economic and Revenue Forecasts

FY 2020 * FY 2021 * FY 2022



Consensus Revenue Estimating Conference

August 24, 2020

Outline

- **FY 2020 Revenue Update**
Eric Bussis, Department of Treasury
- **Revenue Estimates for Major Taxes**
Jim Stansell, House Fiscal Agency
- **Revenue Estimates by Fund**
David Zin, Senate Fiscal Agency

Economic Summary: Baseline Scenario

Michigan Economy

- Michigan was hit harder from the recession
- Economic recovery will take many years
- Modest economic recovery is forecast to continue

State Revenue Collections

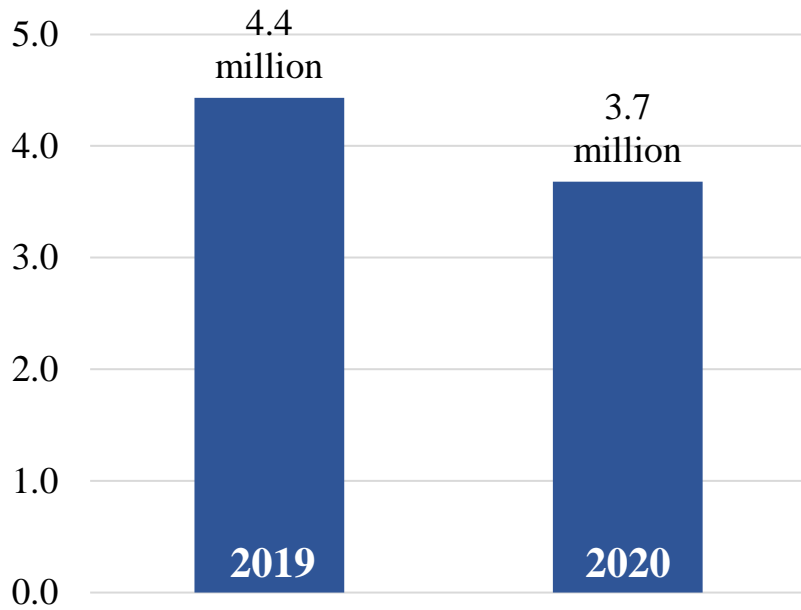
- Summer 2020 revenue collections included positive surprises that are unlikely to continue

Michigan Revenue Falls but by Less than Expected

Between April and July, key Michigan economic indicators have declined more than revenue

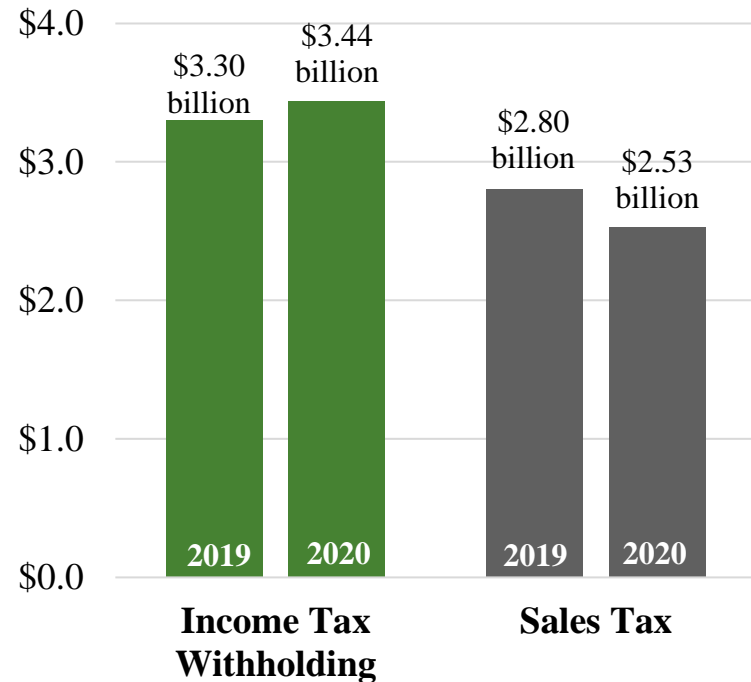
Payroll Jobs

Average from April to July
Down 743,000 jobs (-16.8%)



Major Tax Revenue

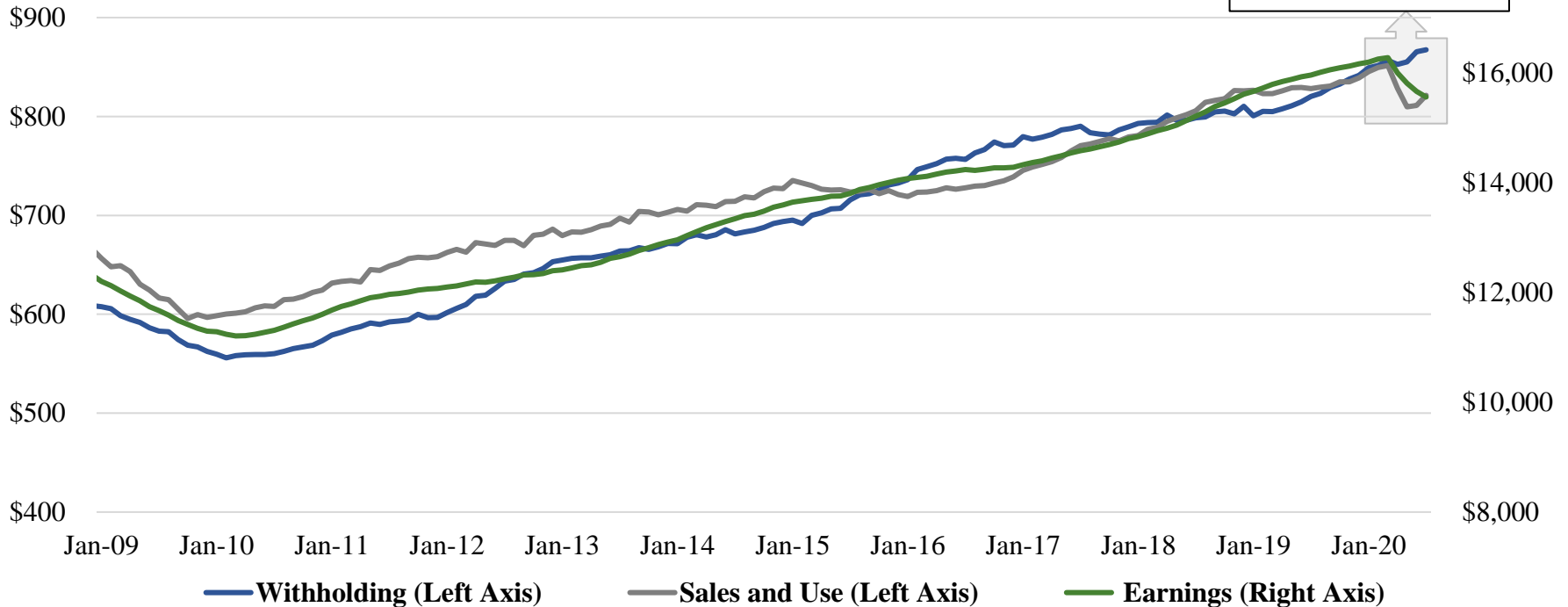
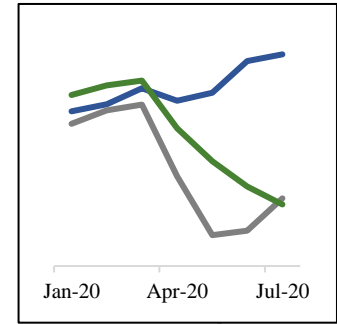
Withholding: \$130 million (+3.9%)
Sales Tax: Down \$270 million (-9.6%)



Major Taxes Depart from Economic Trend

Historically, employment and earnings drive income tax withholding, sales tax, and use tax.

Over the summer of 2020, income tax withholding has continued to grow while employment and earnings fell. Sales and use tax have rebounded more quickly than earnings.



*All amounts are a 12-month moving average in millions of dollars
 Monthly earnings estimated with payroll employment and weekly wages
 Data not seasonally adjusted*

Analyzing the May CREC Forecast

The May economic forecast was essentially on target, but FY 2020 state revenue forecasts were significantly too low

1. Delayed payments for individual and corporate income taxes were stronger, which accounts for \$200 million
2. Manufacturing and automotive production recovered more rapidly than expected
3. The impact of the CARES Act on revenue was underestimated
4. Spending on taxable goods is higher than expected
 - Consumer reaction to the pandemic increased collections, including shifts from nontaxable services and increases from remote sellers and marketplaces

CARES Act Programs Support Economy

Three programs added nearly \$43.3 billion to the Michigan economy during 2020 Q2, which is about 8.5% of annual state personal income or \$4,350 per capita

1. Paycheck Protection Program
 - Nearly \$16 billion has been loaned to Michigan businesses
2. Economic Impact Payments
 - \$8.3 billion paid to Michigan residents
3. Pandemic Unemployment Insurance Compensation
 - \$19 billion in benefits, of which \$13.4 billion was federally funded
 - Unemployment benefits expanded to many previously ineligible individuals

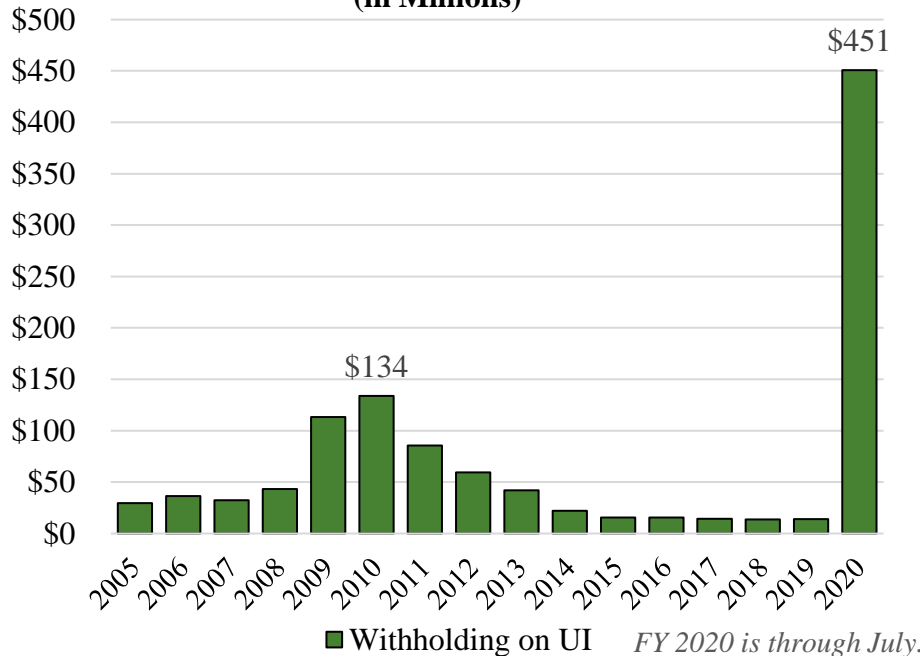
Withholding on Unemployment Benefits

Withholding on unemployment benefits in FY 2020 is over three times the level in FY 2009 or FY 2010. The support for withholding from unemployment benefits is completely unprecedented.

UIA withholding made up a significant portion of total withholding in the past four months, accounting for 18.0% in May. Historically, the highest level was 2.7% in February of 2010.

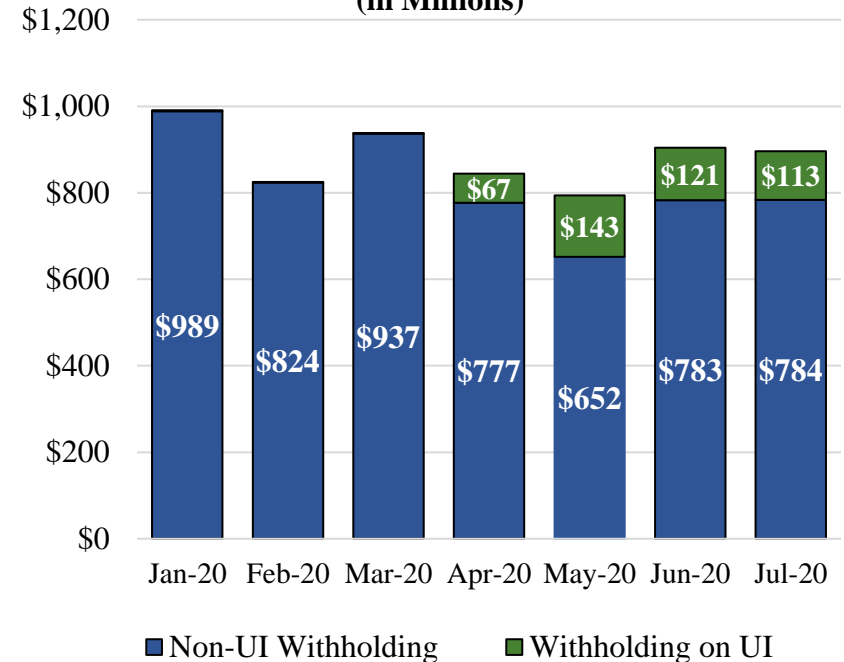
Fiscal Year Totals

(in Millions)

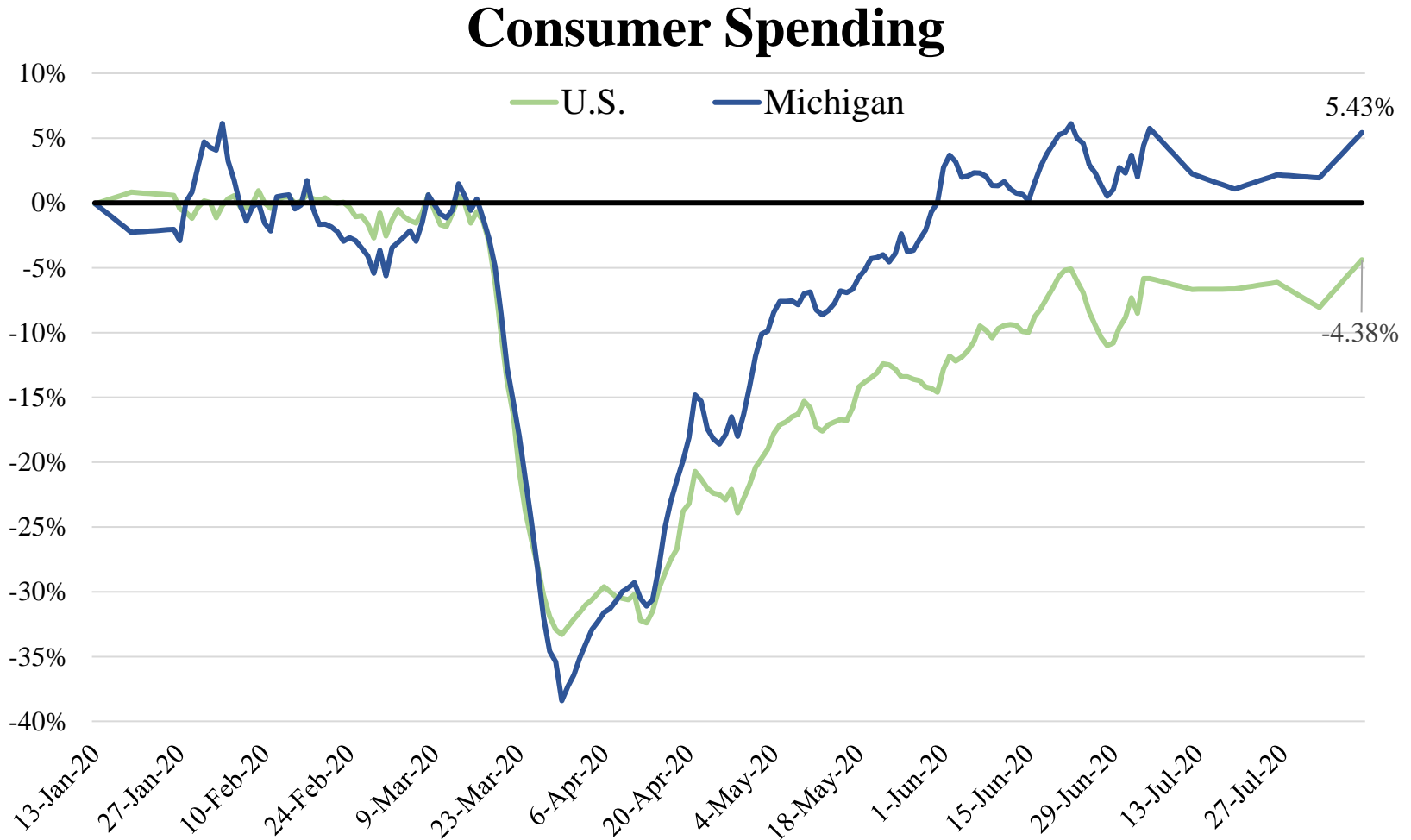


2020 Monthly Withholding

(in Millions)



Michigan Consumer Spending More than U.S.

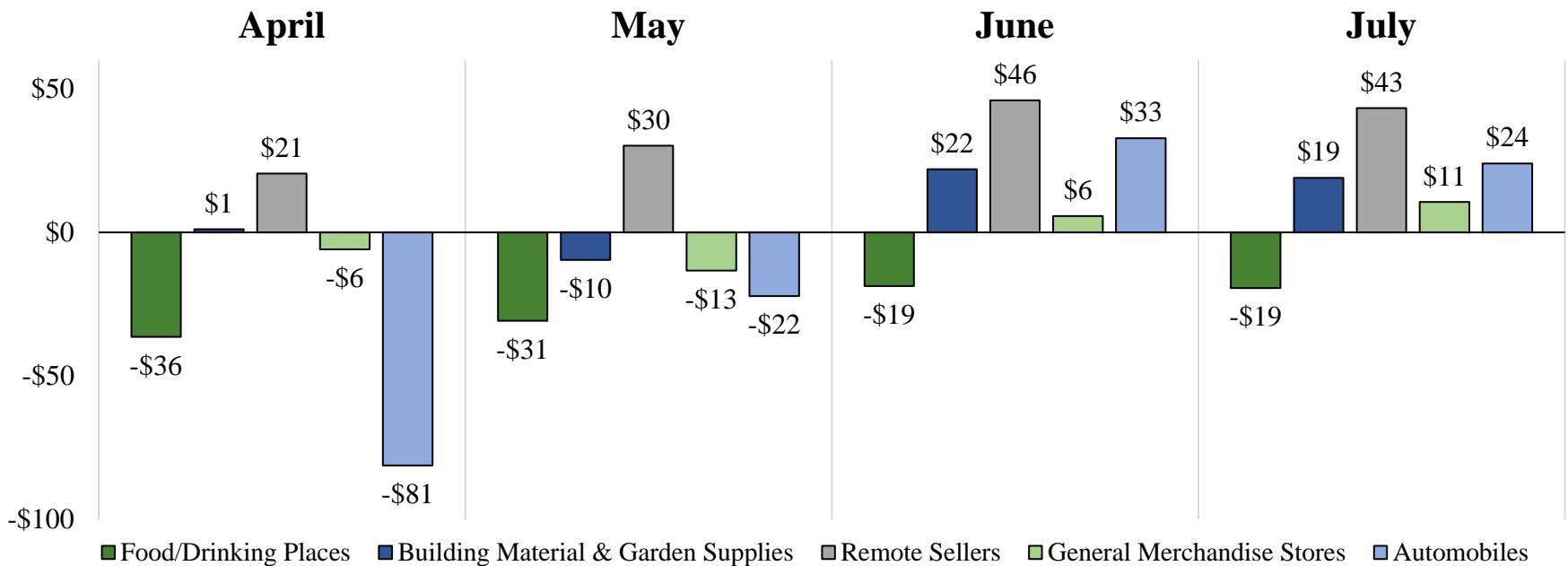


Growing Sectors Offset Many Sales Tax Losses

- Restaurants have recovered slightly since the early stages of the crisis, but sales tax for July was still 23% below the prior year
- The spring months have seen strong growth at stores that sell building materials and garden supplies, including big home improvement centers
- Sales tax from remote sellers has been strong in 2020 and accelerated after the pandemic

Sales Tax by Sector

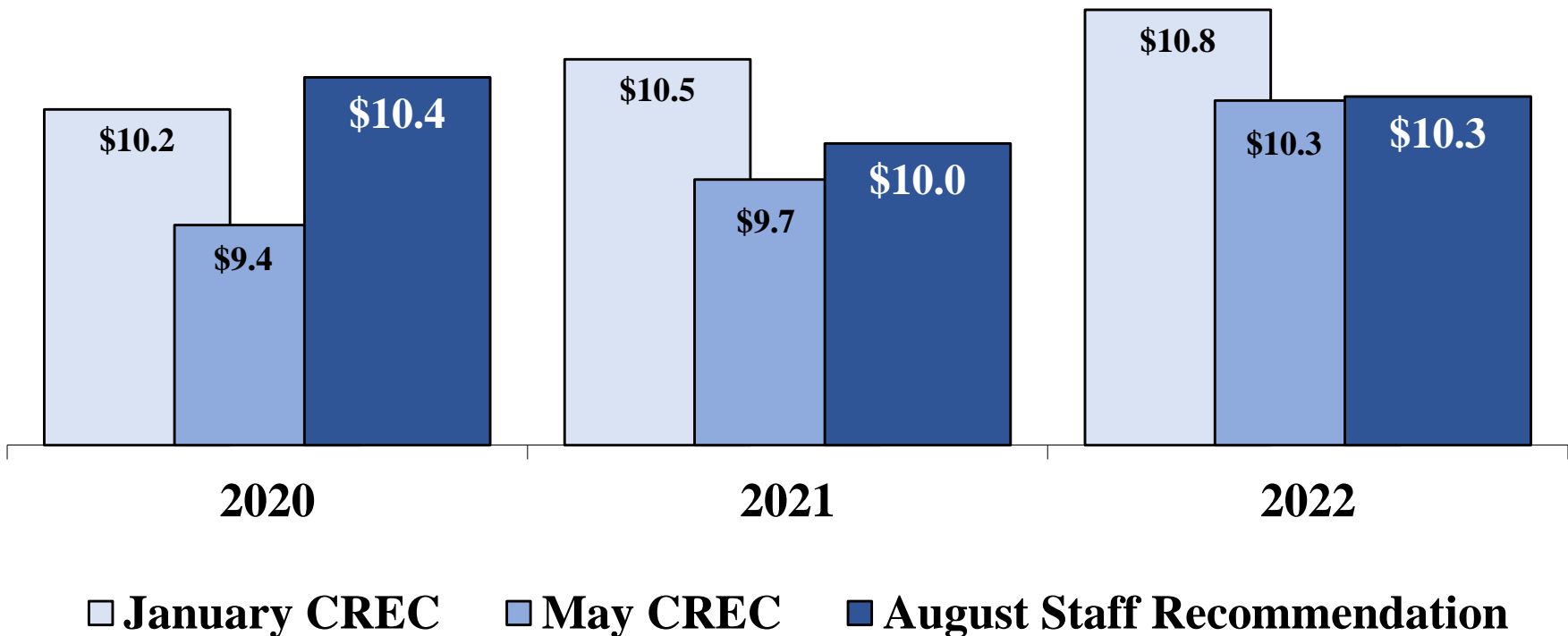
Change from 2019 to 2020



FORECAST OF MAJOR TAXES

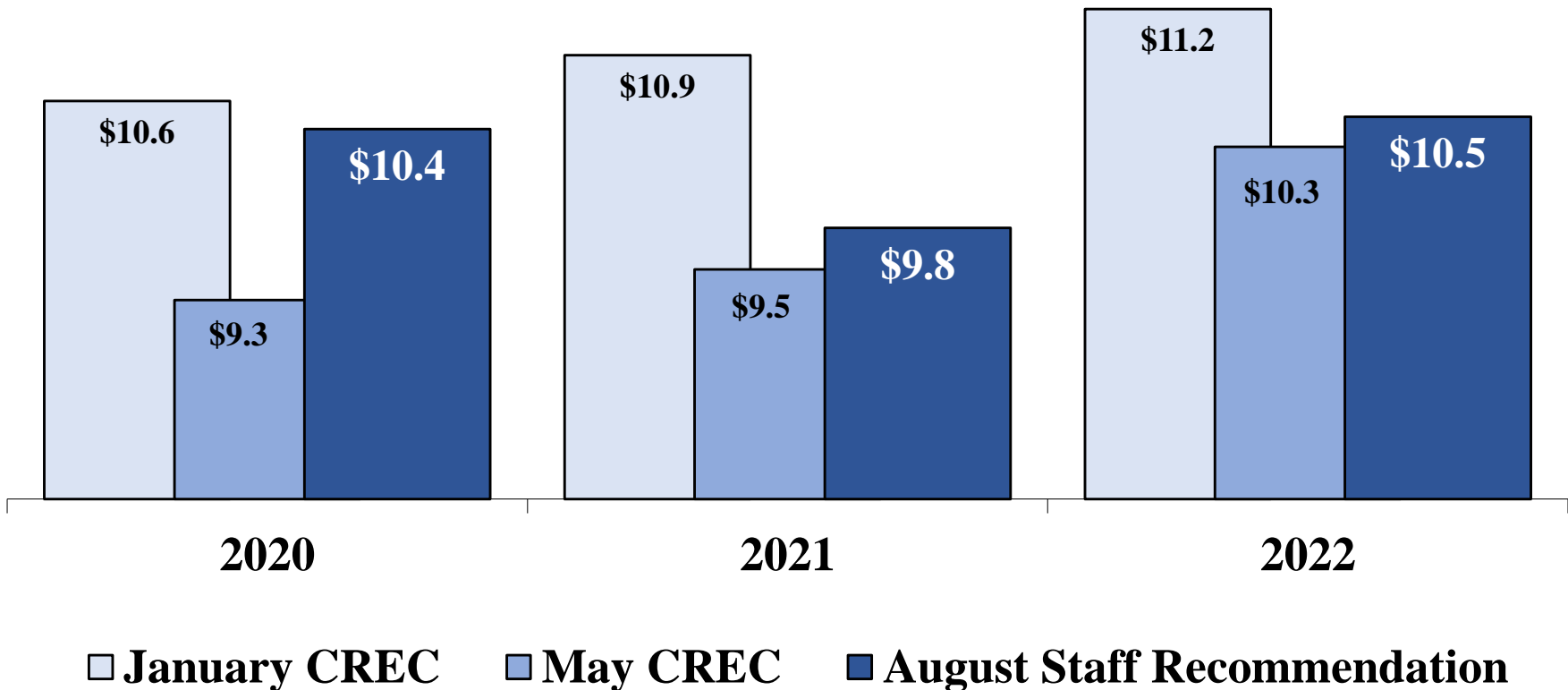
Withholding Tax Revenue Estimates

Fiscal Year
Billions



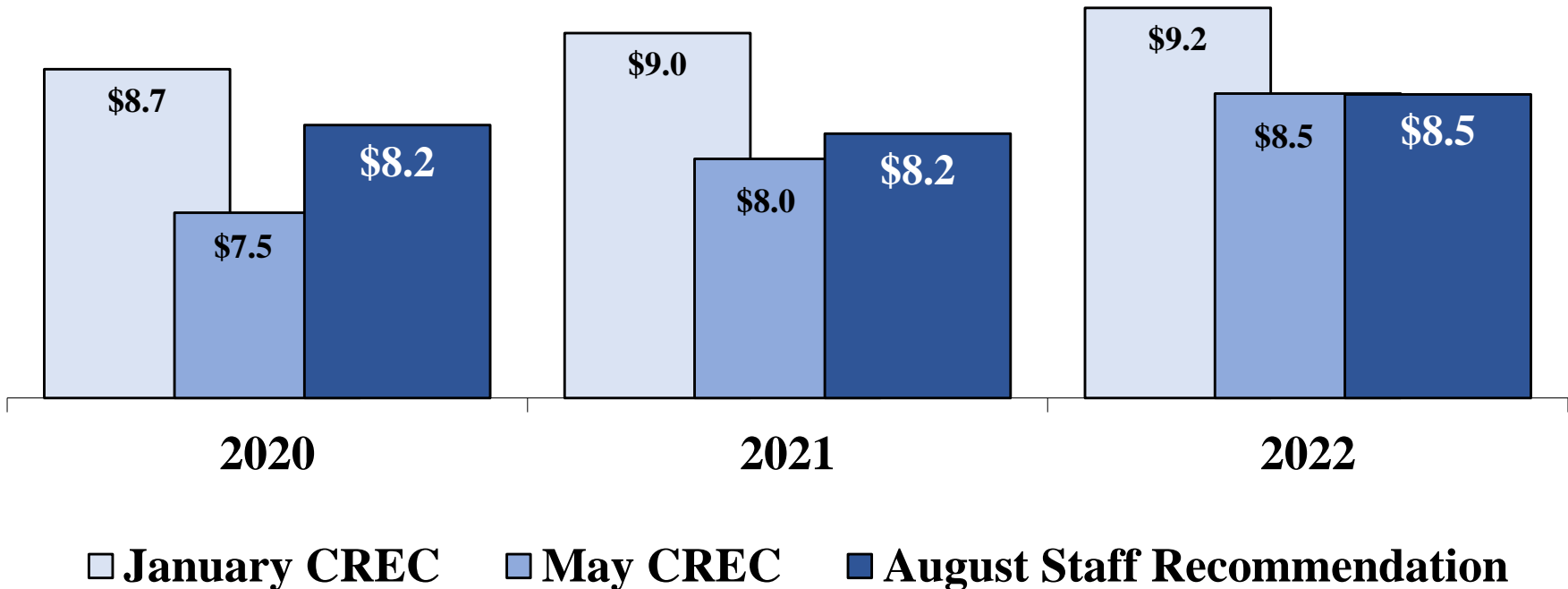
Income Tax Revenue Estimates

Fiscal Year
Billions



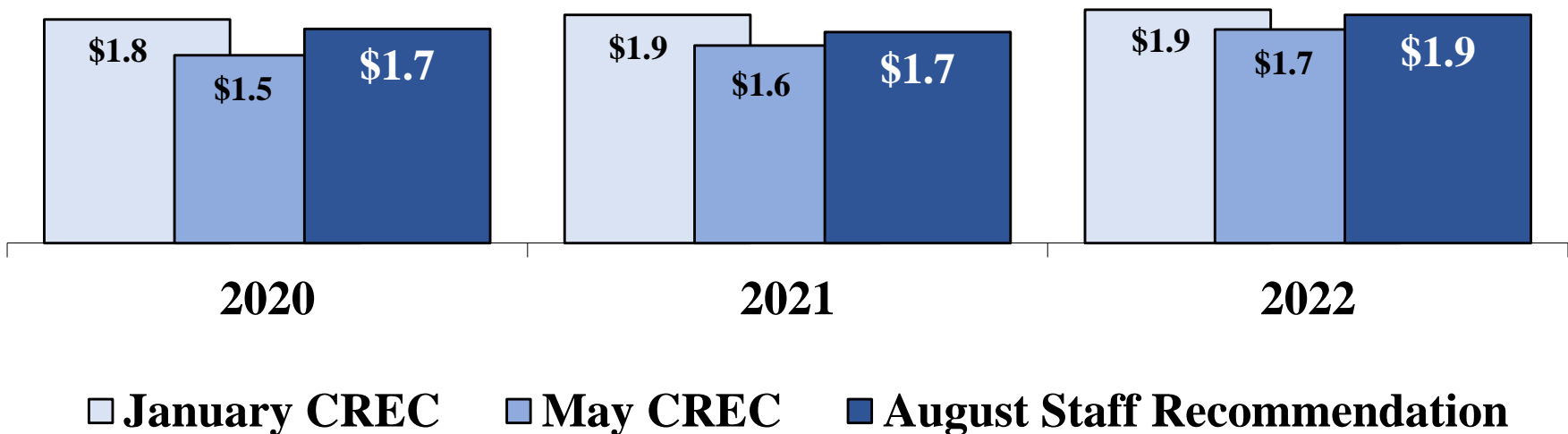
Sales Tax Revenue Estimates

Fiscal Year
Billions



Use Tax Revenue Estimates

Fiscal Year
Billions



Comparison to Prior Recession

State tax revenue sometimes falls slower than the economy, which may be the case in this recession

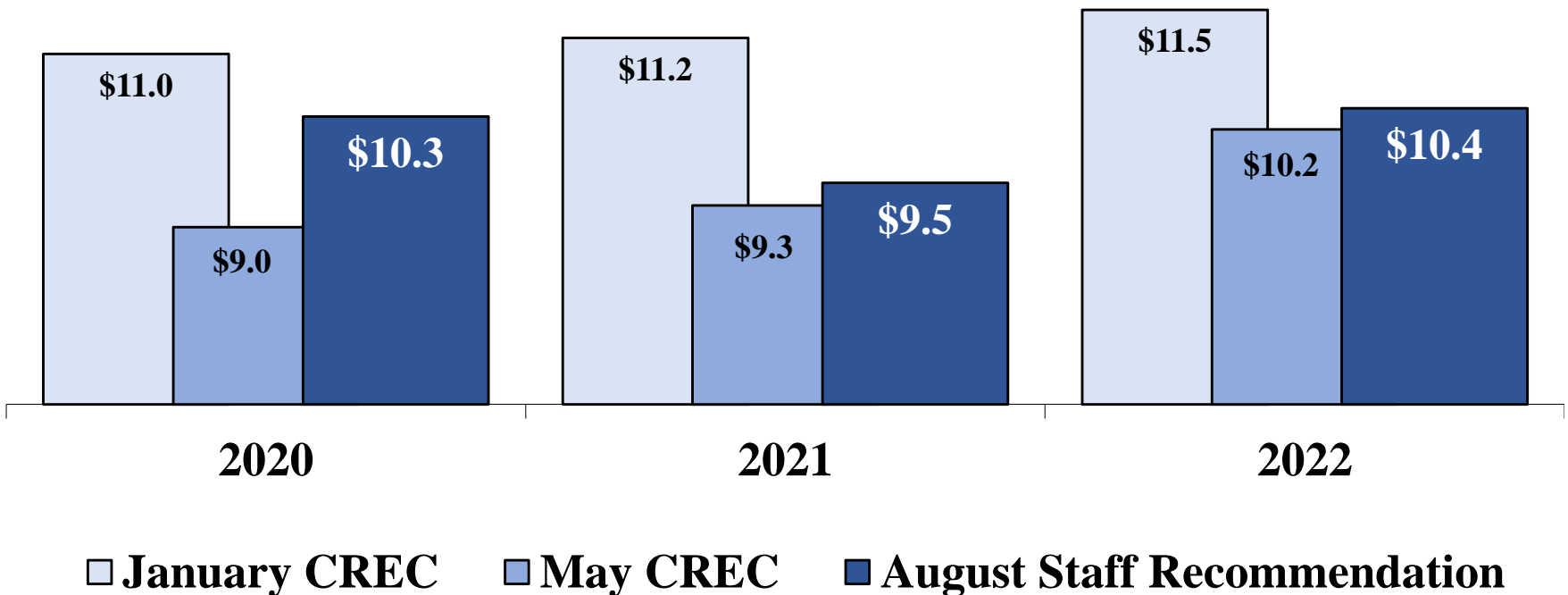
Recession	Michigan Payroll Employment Change	Year	Sales Tax	Use Tax	Income Tax Withholding
December 2007 to June 2009	-411,600 (-9.7%)	FY 2008	3.4%	-0.2%	10.4%
		FY 2009	-10.1%	-19.2%	-6.0%
March 2020 to Present	-520,100 (-11.7%)	FY 2020 Forecast	-0.3%	-2.6%	4.7%
		FY 2021 Forecast	-0.8%	-1.5%	-4.2%

FORECAST OF GF-GP AND SCHOOL AID FUND

Revenue Estimates

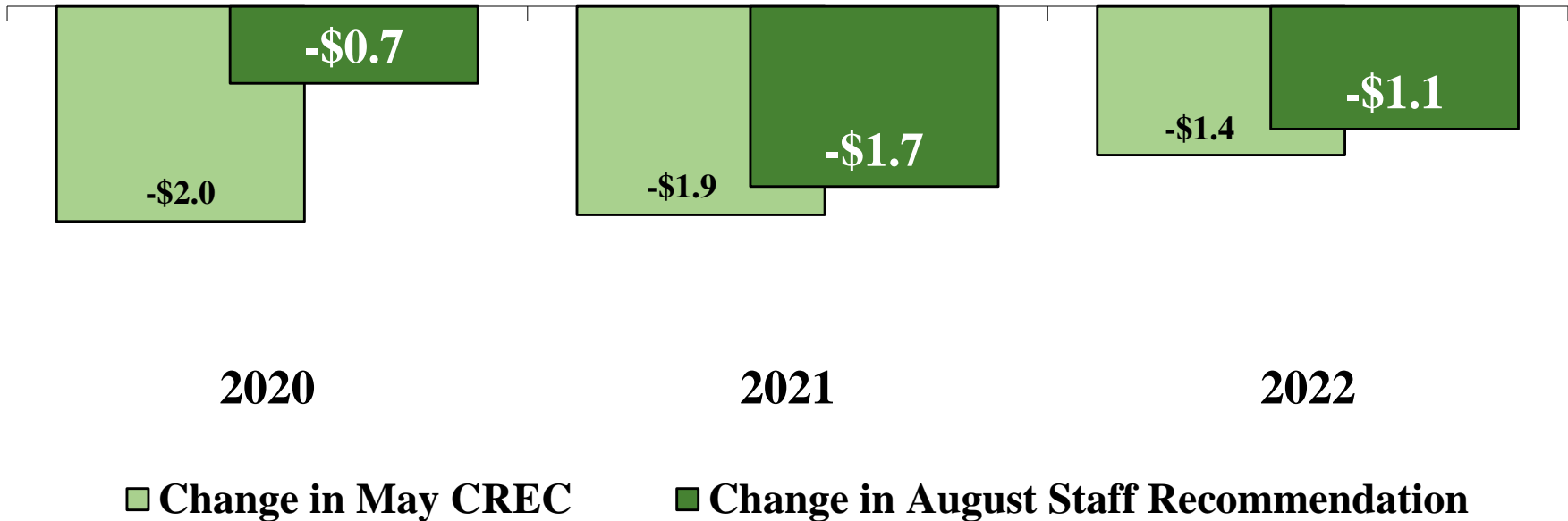
General Fund-General Purpose

Fiscal Year
Billions



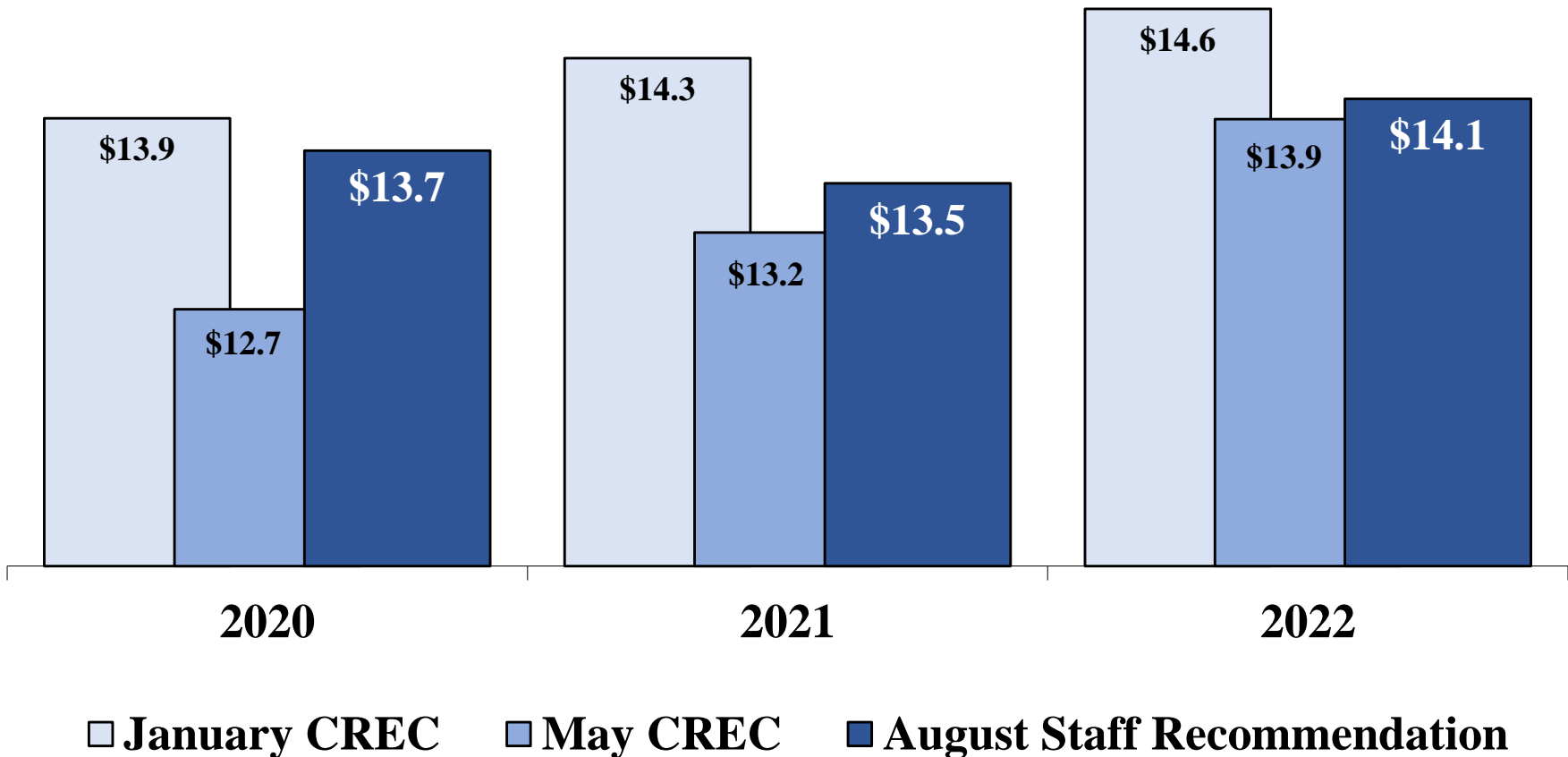
Change From January Consensus General Fund-General Purpose

Fiscal Year
Billions



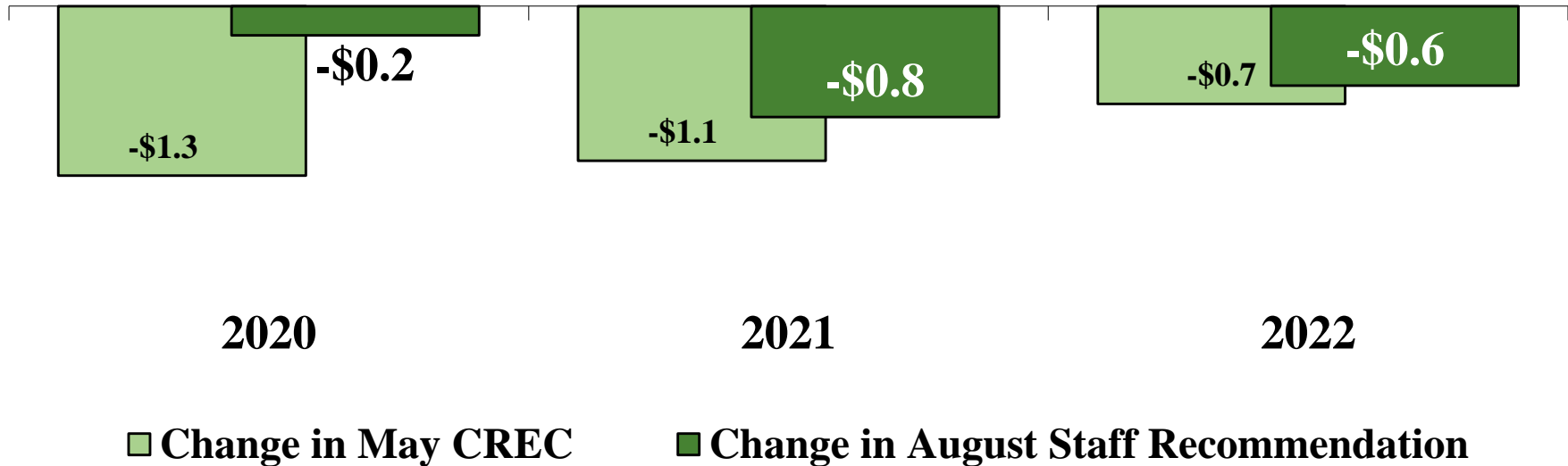
Revenue Estimates School Aid Fund

Fiscal Year
Billions



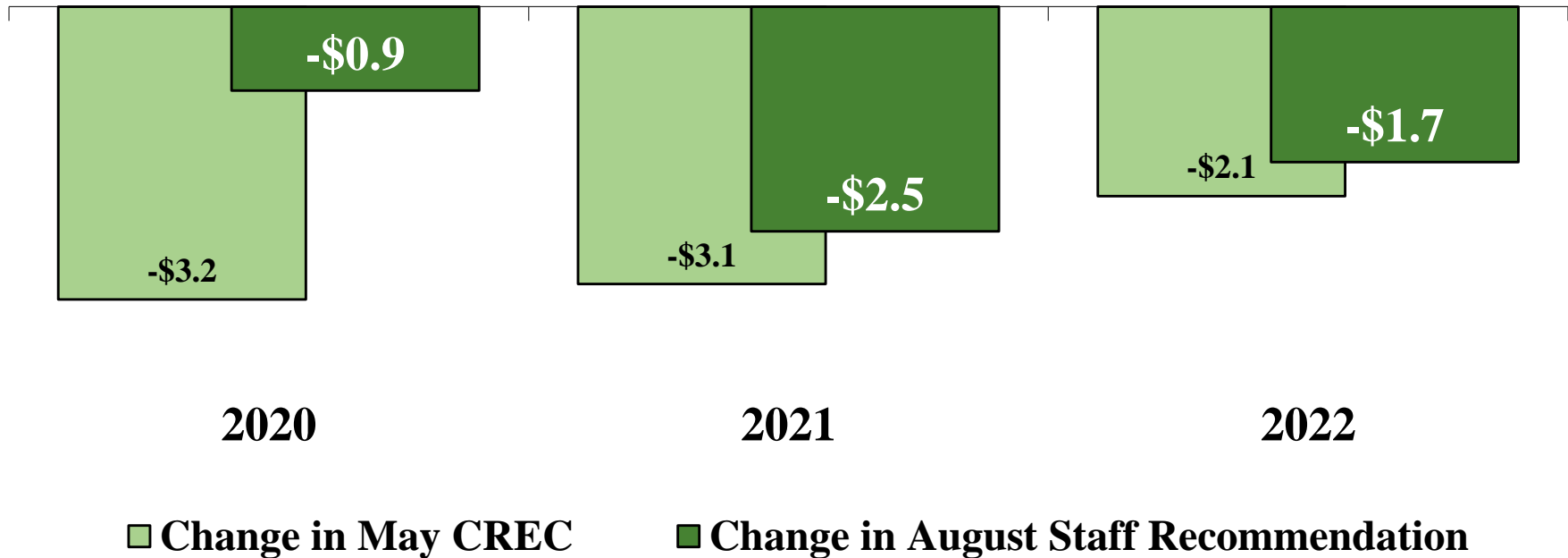
Change From January Consensus School Aid Fund

Fiscal Year
Billions



Change From January Consensus GF and SAF Combined

Fiscal Year
Billions



August Revenue Forecast Comparison

Total Revenue (Values in Millions)									
	FY 2020			FY 2021			FY 2022		
	<u>January</u>	<u>May</u>	<u>August</u>	<u>January</u>	<u>May</u>	<u>August</u>	<u>January</u>	<u>May</u>	<u>August</u>
GF-GP	\$11,012.2	\$9,028.2	\$10,296.8	\$11,194.4	\$9,279.2	\$9,536.7	\$11,518.5	\$10,149.7	\$10,392.5
School Aid Fund	\$13,925.4	\$12,676.7	\$13,714.4	\$14,317.5	\$13,180.4	\$13,501.9	\$14,640.1	\$13,920.4	\$14,053.5
Combined	\$24,937.6	\$21,704.9	\$24,011.2	\$25,512.0	\$22,459.6	\$23,038.6	\$26,158.7	\$24,070.1	\$24,446.0

Change from January Estimates			
	FY 2020	FY 2021	FY 2022
Total Combined	-\$926.4	-\$2,473.4	-\$1,712.7
Change from May Estimates			
	FY 2020	FY 2021	FY 2022
Total Combined	\$2,306.3	\$579.0	\$375.9

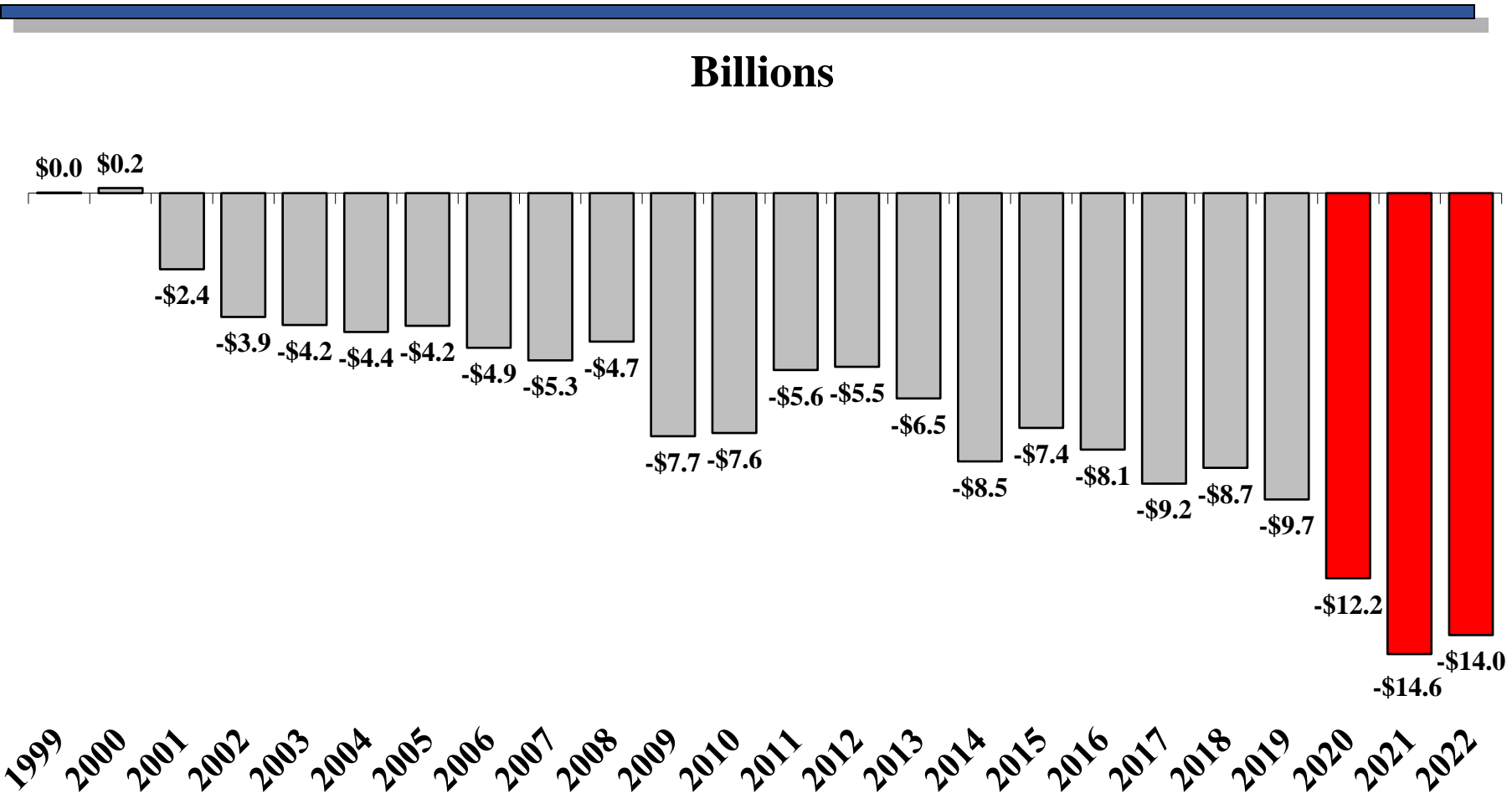
Budget Stabilization Fund

Both pay-outs and pay-ins require an appropriation

The staff estimates calculate:

- No pay-ins in FY 2020 & FY 2021
- Pay-in of \$133.5 million in FY 2022
- BSF pay-out of \$287.2 million in FY 2020
- No BSF pay-outs during FY 2021 & FY 2022

Constitutional Revenue Limit Calculation



Staff Forecast

Forecast Risks

Economic

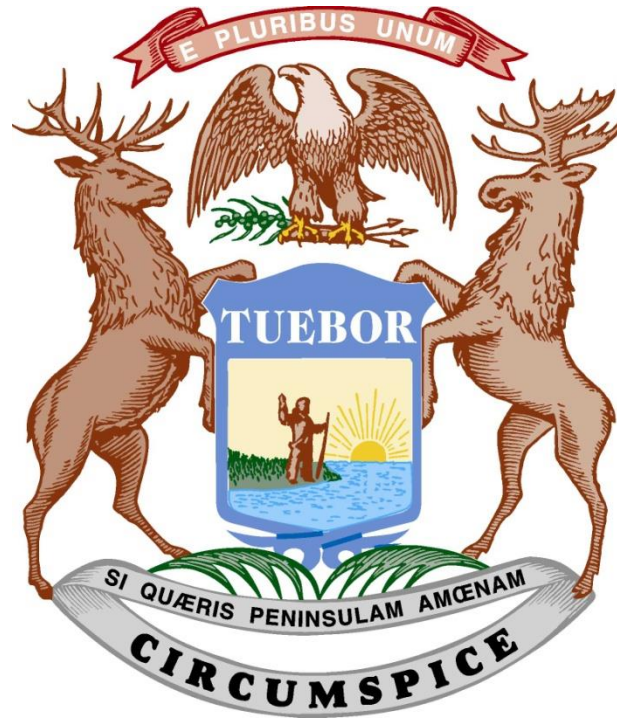
- Uncertainty from the path of the pandemic
- COVID-19 will have a short-term and long-term impact
- More federal stimulus spending could boost revenue short-term, while the drop may cause the economy to fall

Michigan Tax Revenue

- Uncertainty surrounds withholding, which may fall significantly from job losses
- Large increases in FY 2020 taxable consumer spending creates uncertainty about FY 2021
- Risks surround how Michigan's economy, population, and workforce recover from the recession

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