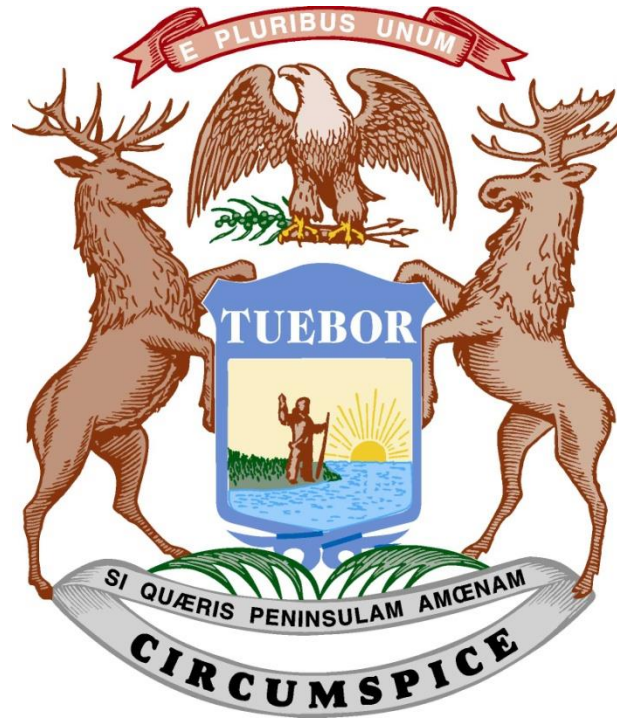


Economic and Revenue Forecasts

FY 2021 * FY 2022 * FY 2023



Consensus Revenue Estimating Conference

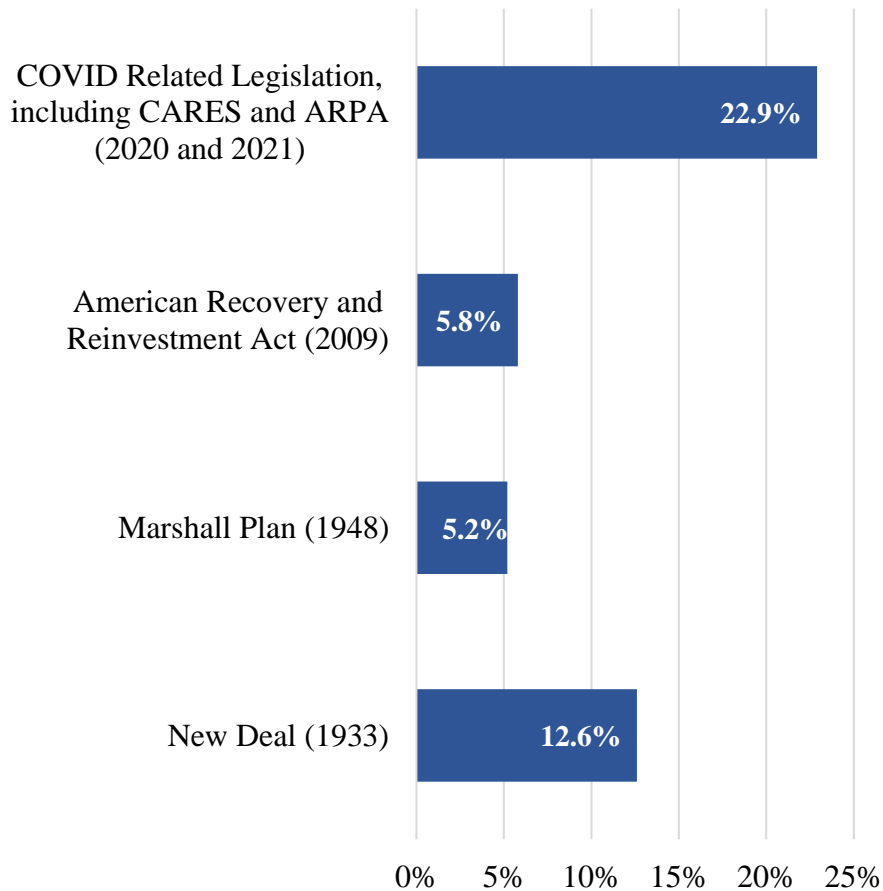
May 21, 2021

Outline

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

Unprecedented Federal Fiscal Support

Major U.S. Fiscal Stimulus Plans as a Percent of GDP

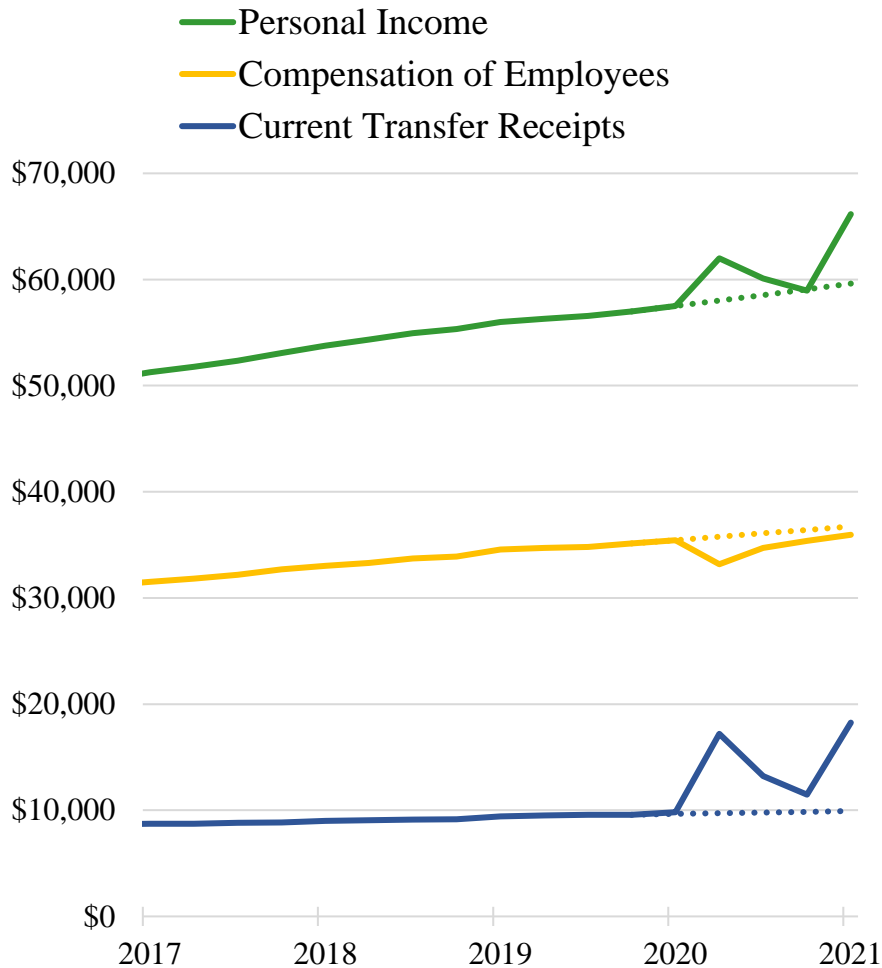


Transfer Payments as a Percent of Personal Income



Transfer Receipts Boost Personal Income

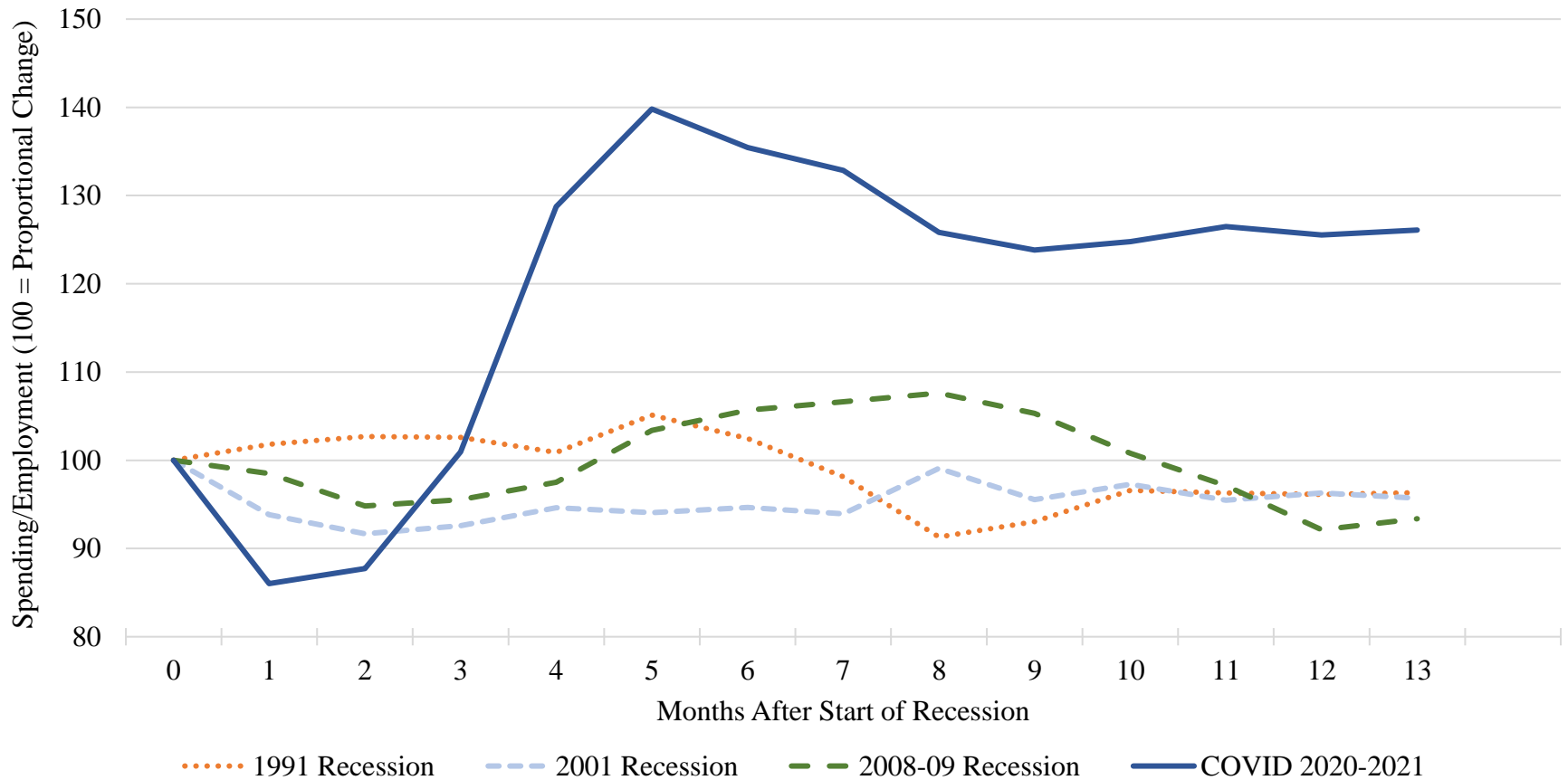
Per Capita:



Per Capita Last 4 Quarters	Hypothetical No Pandemic	Actual	Difference
Personal Income	\$58,810	\$61,805	+\$2,995
Compensation of Employees	\$36,253	\$34,806	-\$1,447
Transfer Payments	\$9,822	\$15,042	+\$5,220

Employment and Spending in Michigan

In 2020-2021, the relationship between employment and spending was very different than in previous recessions.

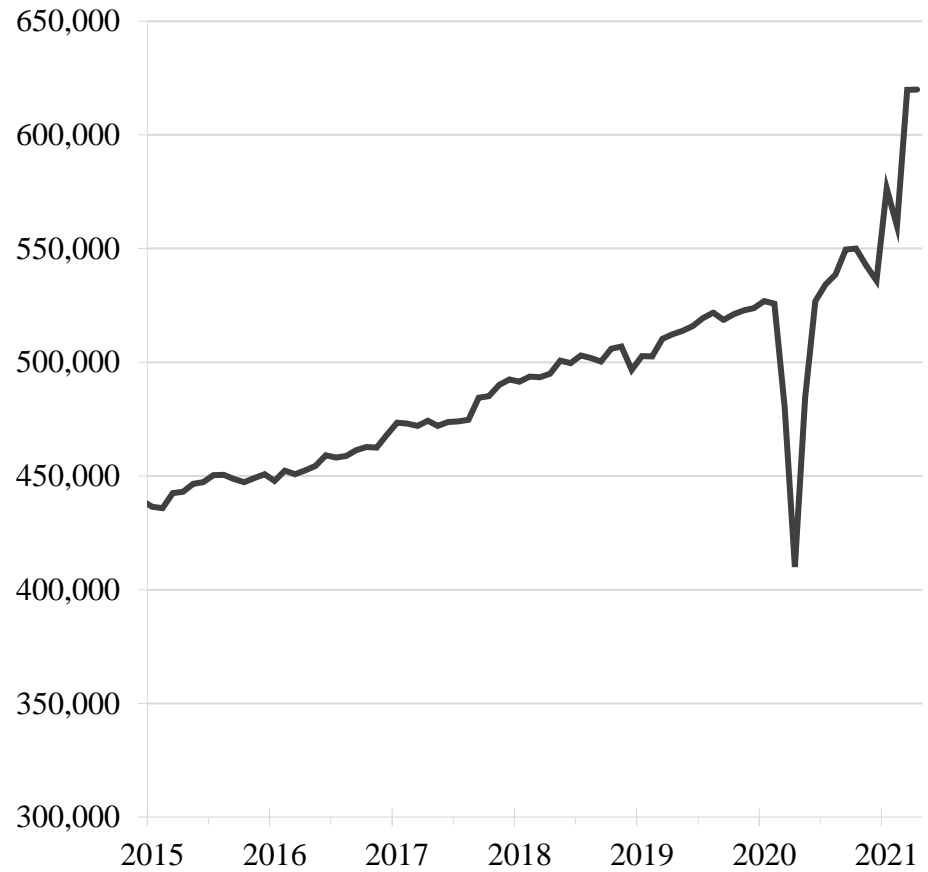


Retail Sales Boosted by Stimulus

One-Month Percent Change

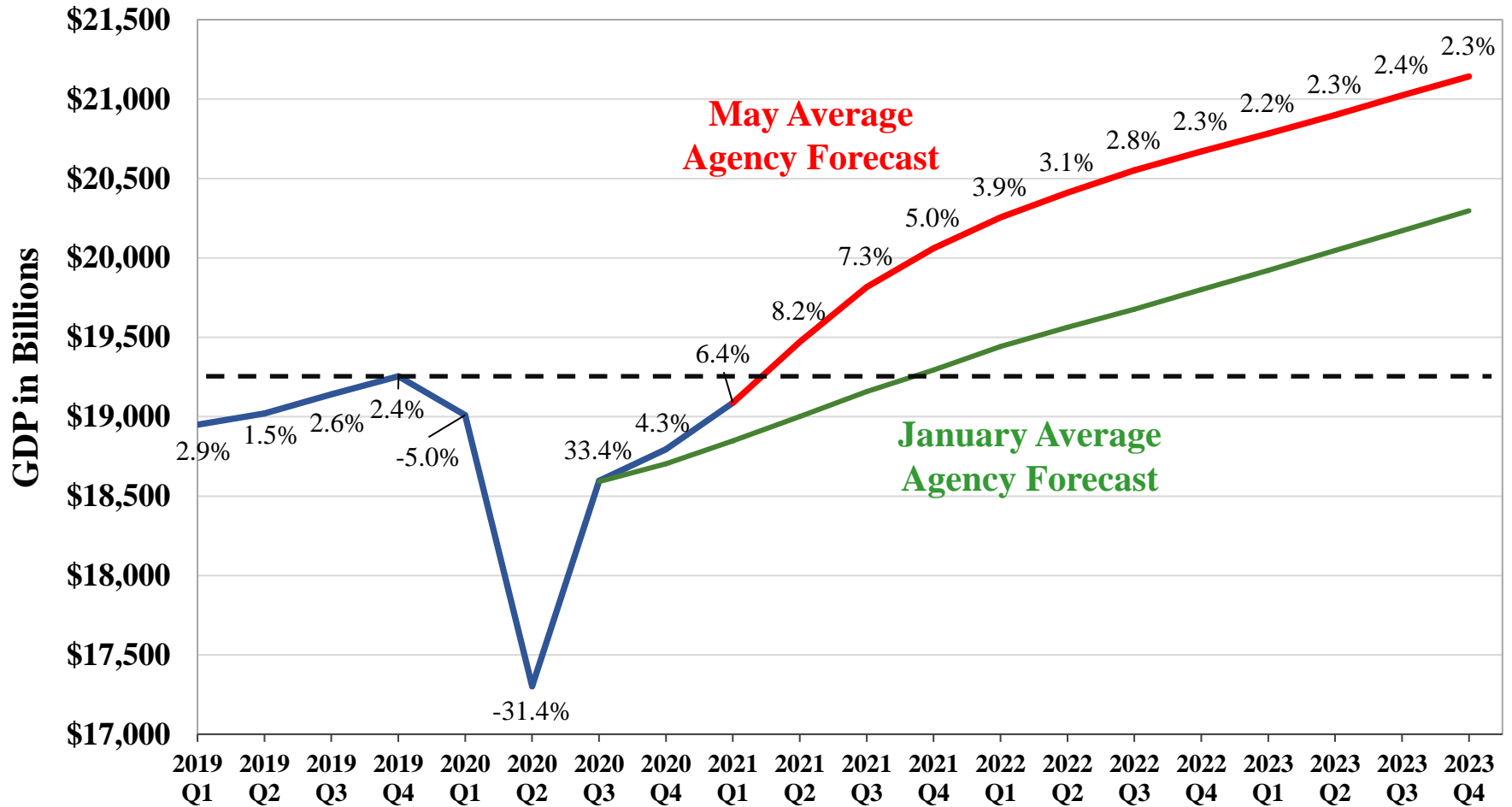


Monthly, Millions of Dollars



Source: Bureau of the Census

2020 Recession – Real GDP Quarterly Forecast

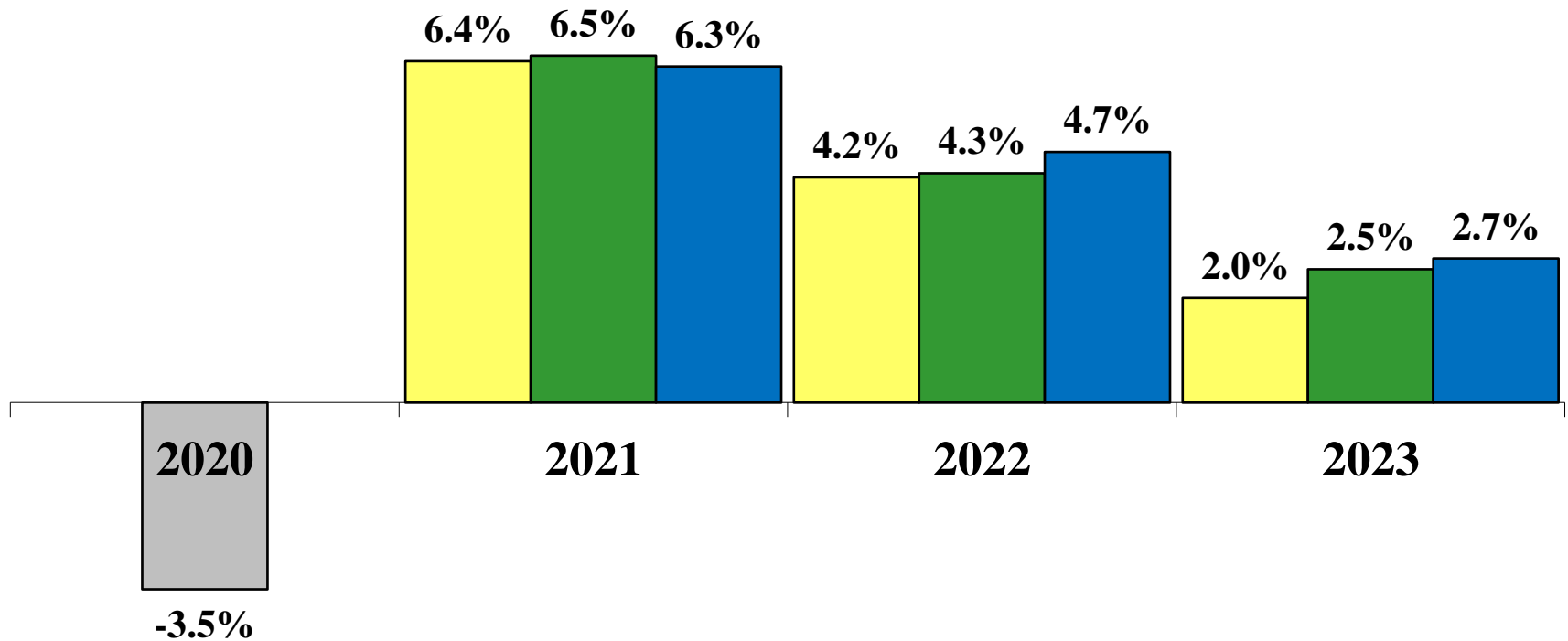


Labels: Percent Change at an Annual Rate

Source: U.S. Bureau of Economic Analysis.

GDP Forecasts

Annual Percent Change

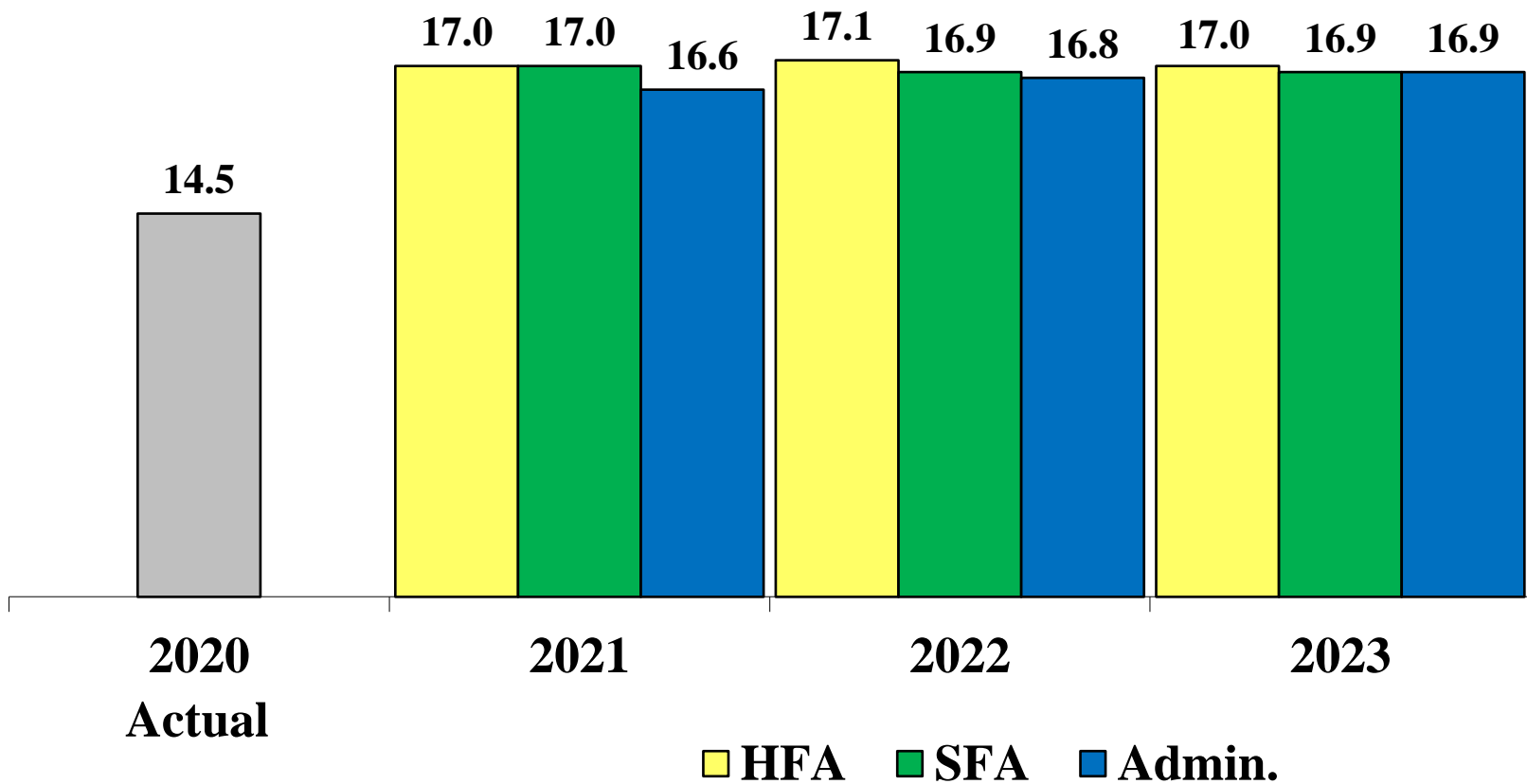


Actual

■ HFA ■ SFA ■ Admin.

Light Vehicle Sales Forecast

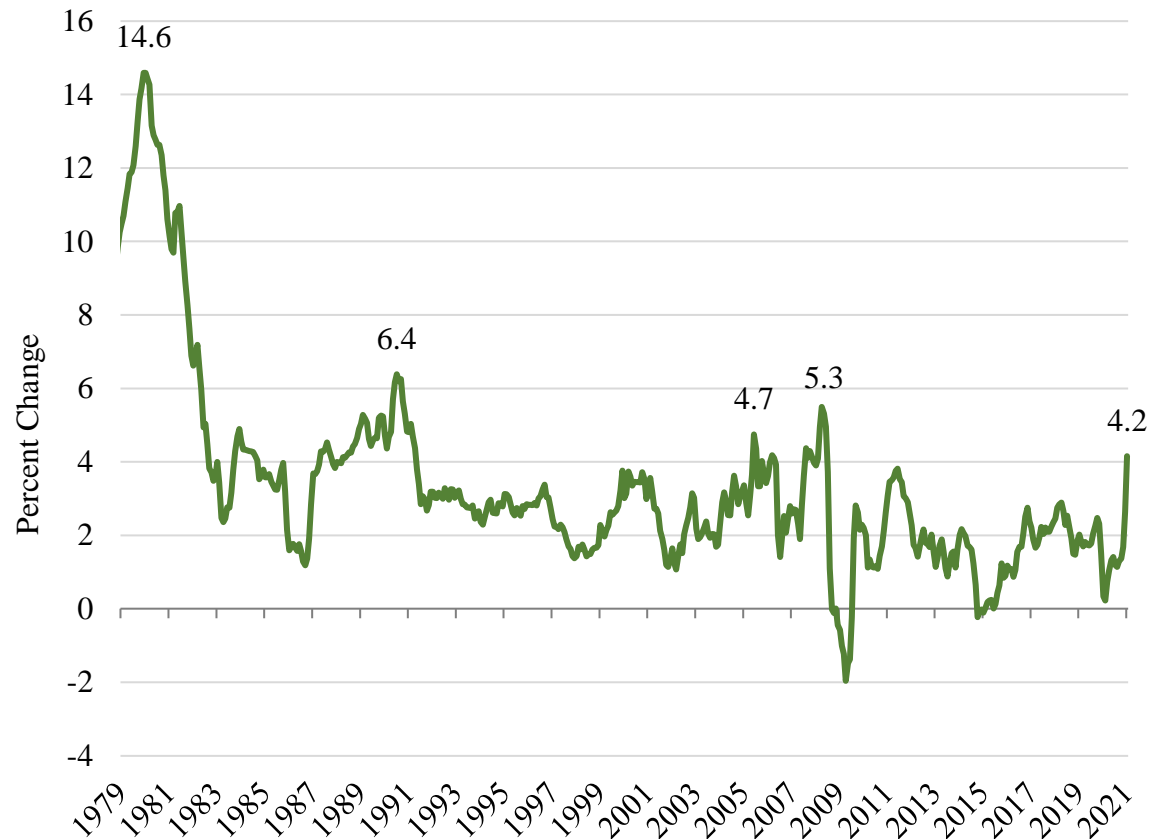
Millions of Units



Inflation Levels Up, but Not Atypical

- April inflation is up year-over-year, but CPI experiences significant monthly swings
- Current inflation drivers are a short-term phenomena
 - Much of the current inflation is driven by the increase in housing, energy and vehicle prices, which are expected to be more stable going forward

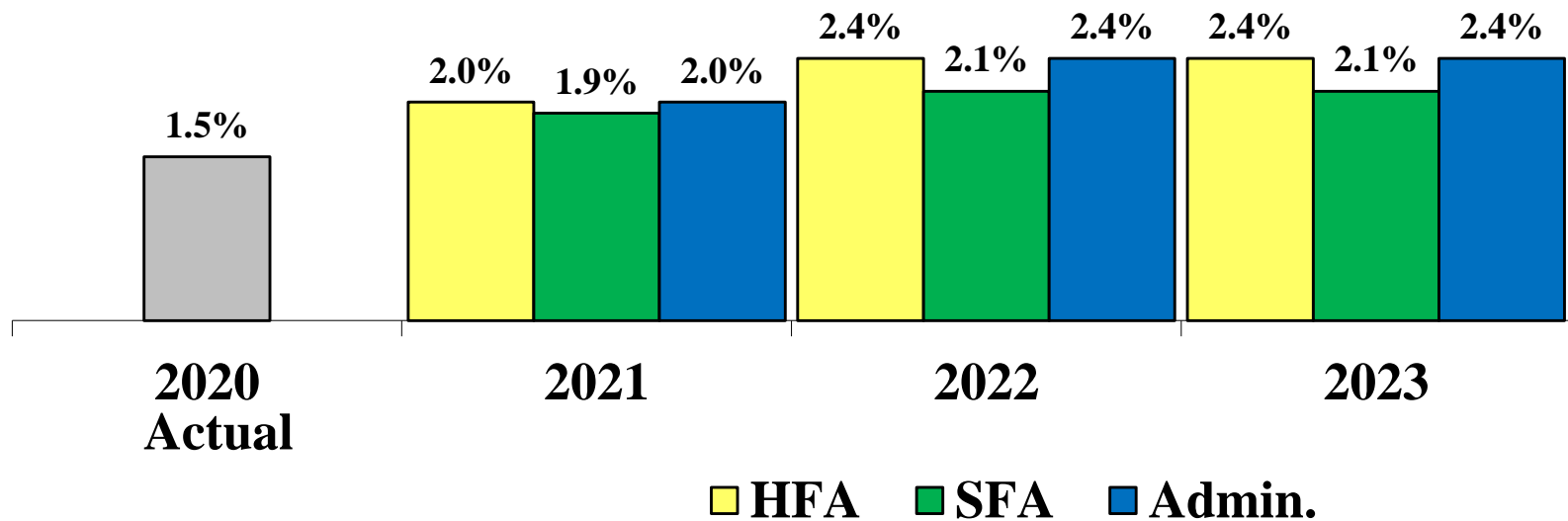
**Consumer Price Index, Monthly
Year-Over-Year Percent Change**



Source: Bureau of Labor Statistics

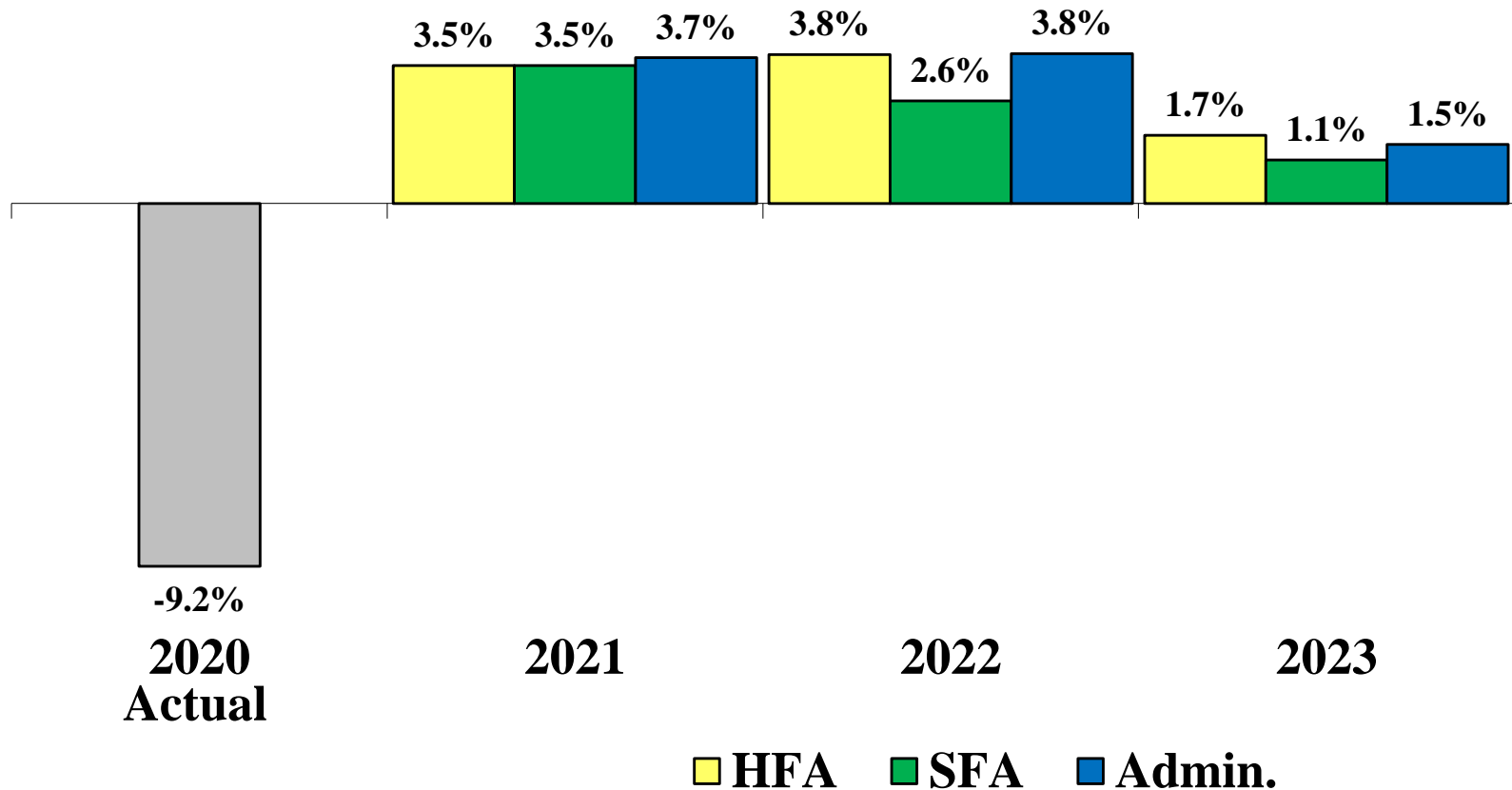
Inflation Expected to be Low In Near Term

Detroit Consumer Price Index Fiscal Year Growth



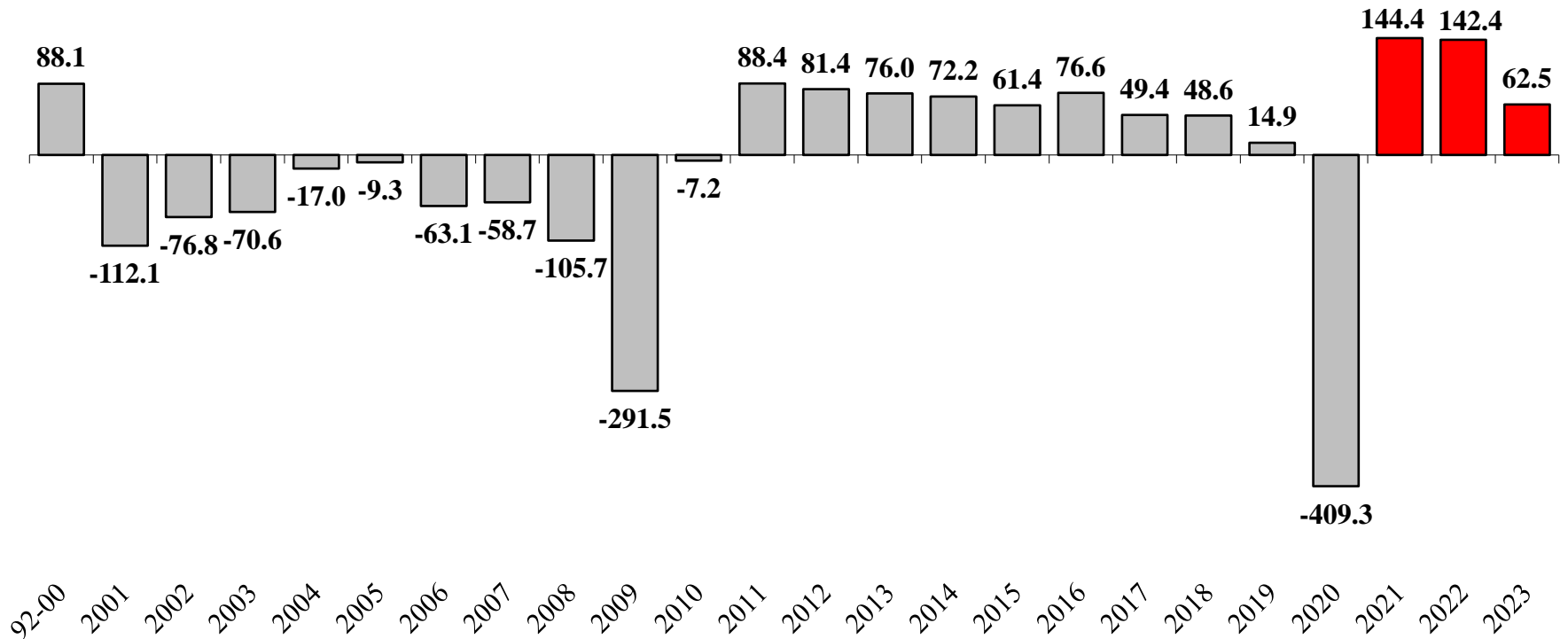
Michigan Wage and Salary Employment

Annual Percent Change



Michigan Job Gains Expected Through 2023

Change in Michigan Wage and Salary Employment Thousands



Average Agency Forecasts

FORECAST OF MAJOR TAXES

Revenue Updates Since January

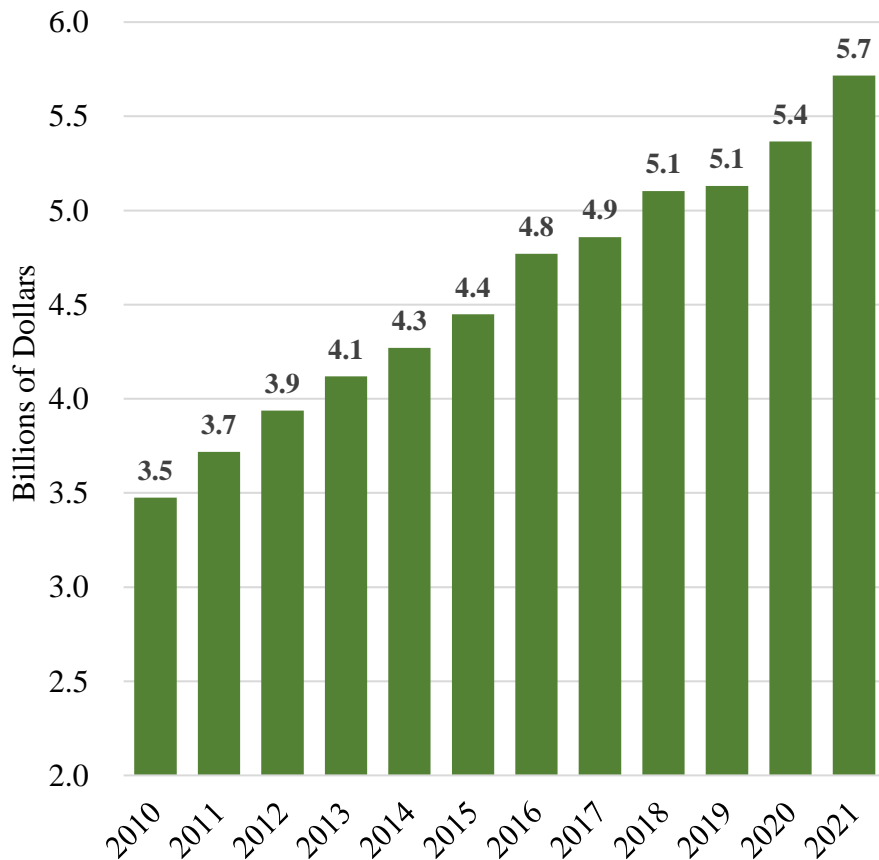
CREC estimates always assume current Federal and State law

- The May conference will be the first to include the impacts of the American Rescue Plan Act
 - 2021 Child Tax Credit will be refundable and increased
 - Stimulus Economic Impact Payments will boost spending
 - Exclusion from Income tax for 2020 unemployment benefits of up to \$10,200

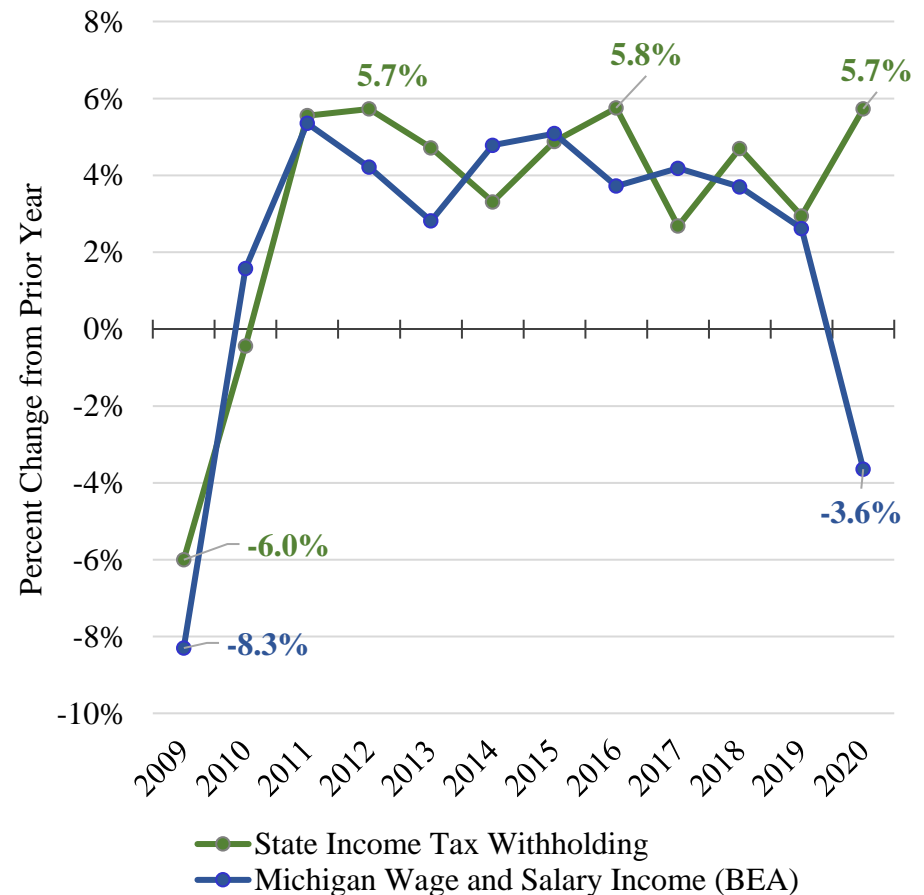
The state revenue collections continue to outperform economic metrics since January

Withholding Collections Continue to Climb

Withholding Tax Collections Fiscal Year to Date

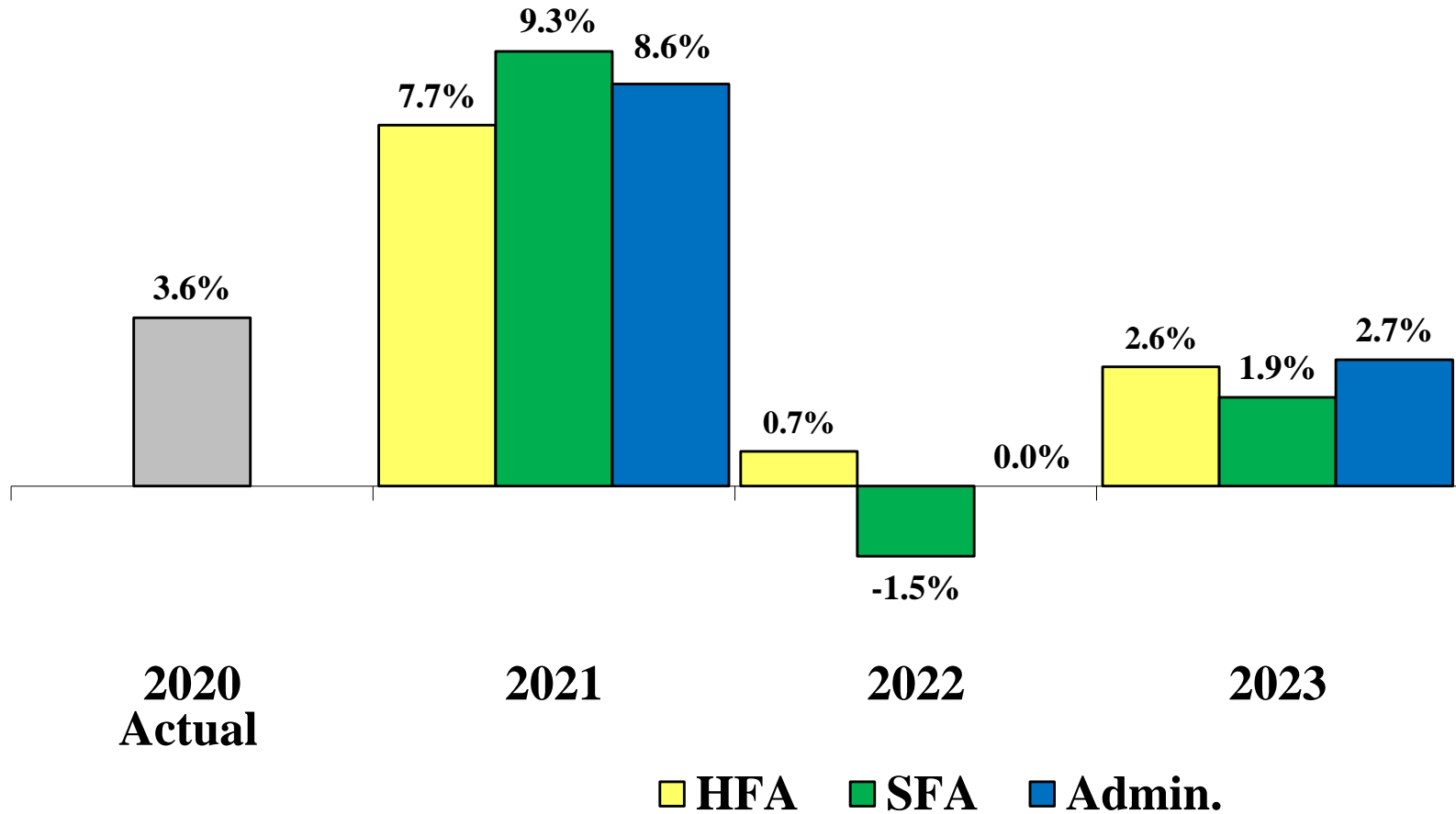


Withholding versus Wage and Salary Income



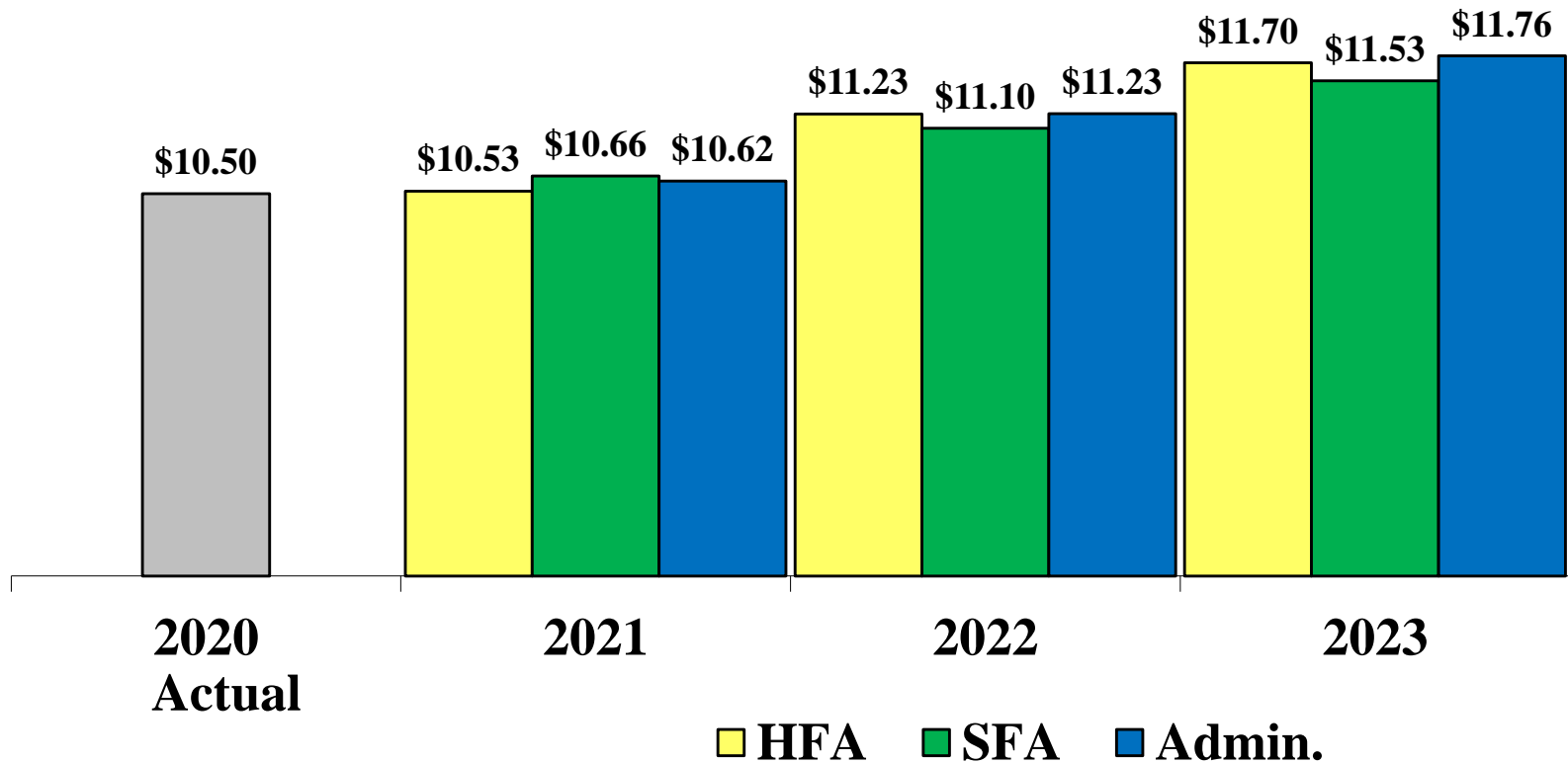
Baseline Income Tax Growth

Fiscal Year Growth



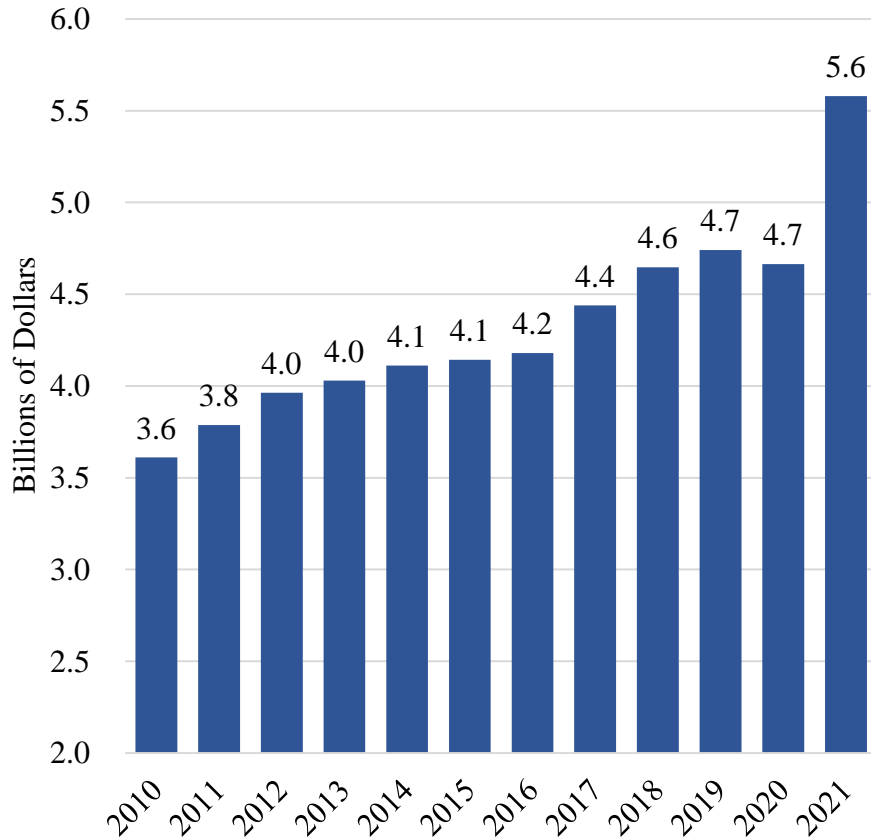
Net Income Tax Revenue Estimates

Fiscal Year
Billions

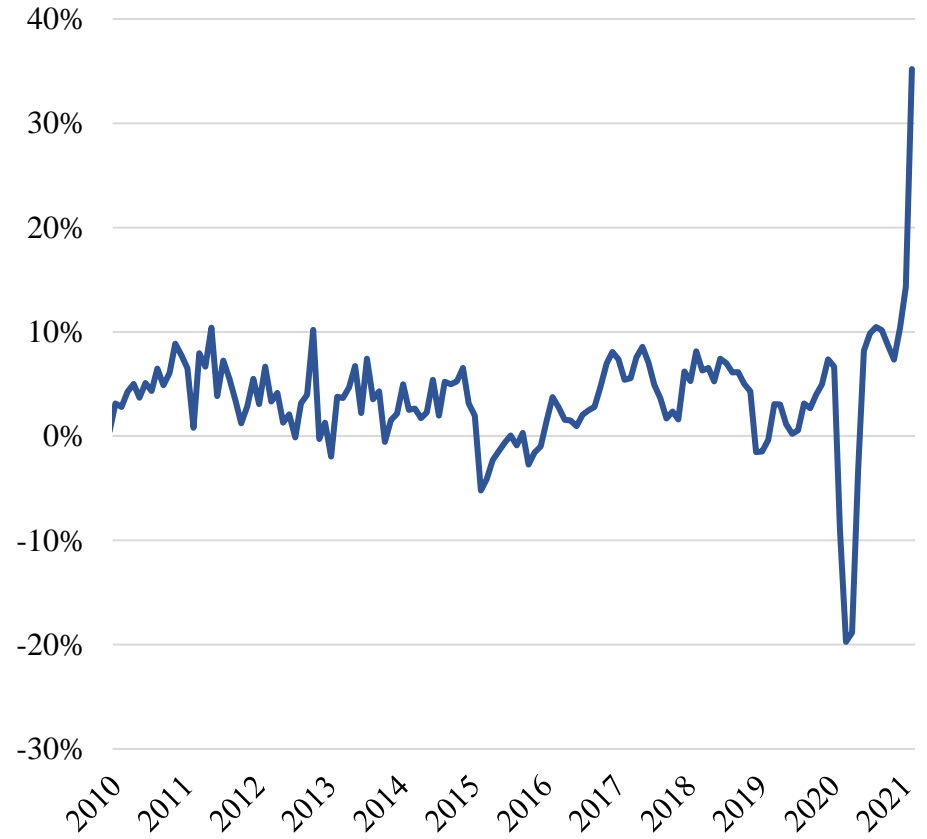


Sales and Use Tax Accelerate

Sales and Use Tax Collections Fiscal Year to Date

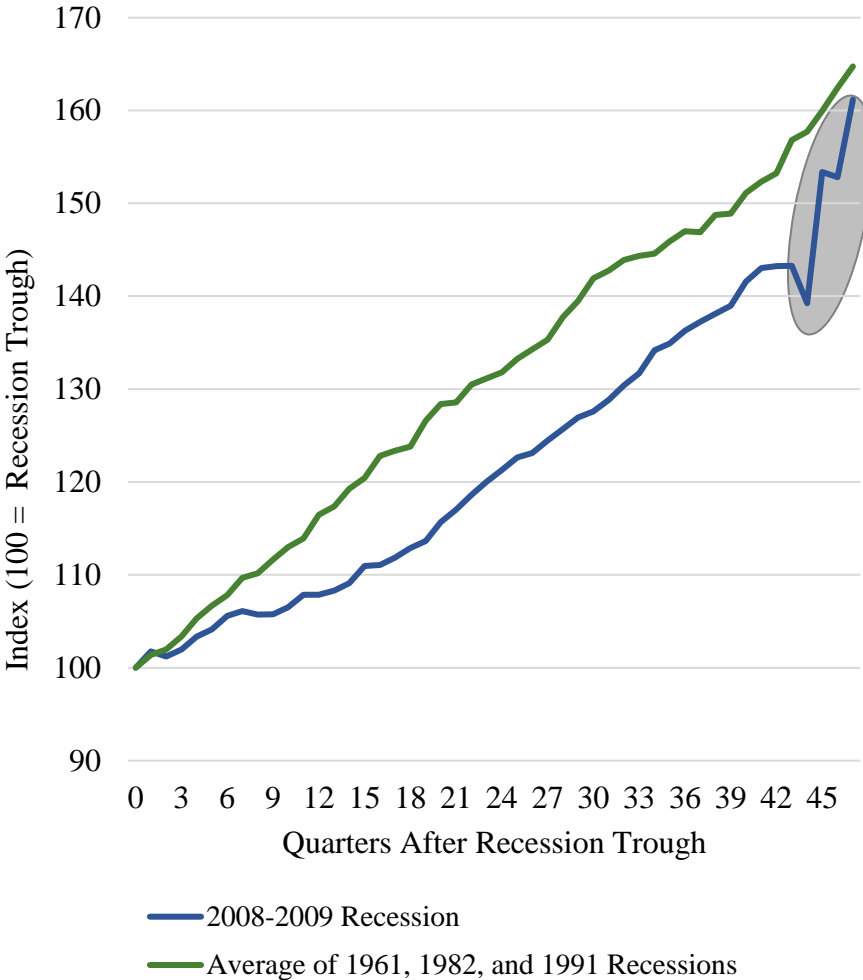


Year-Over-Year Percent Change Three Month Rolling Average

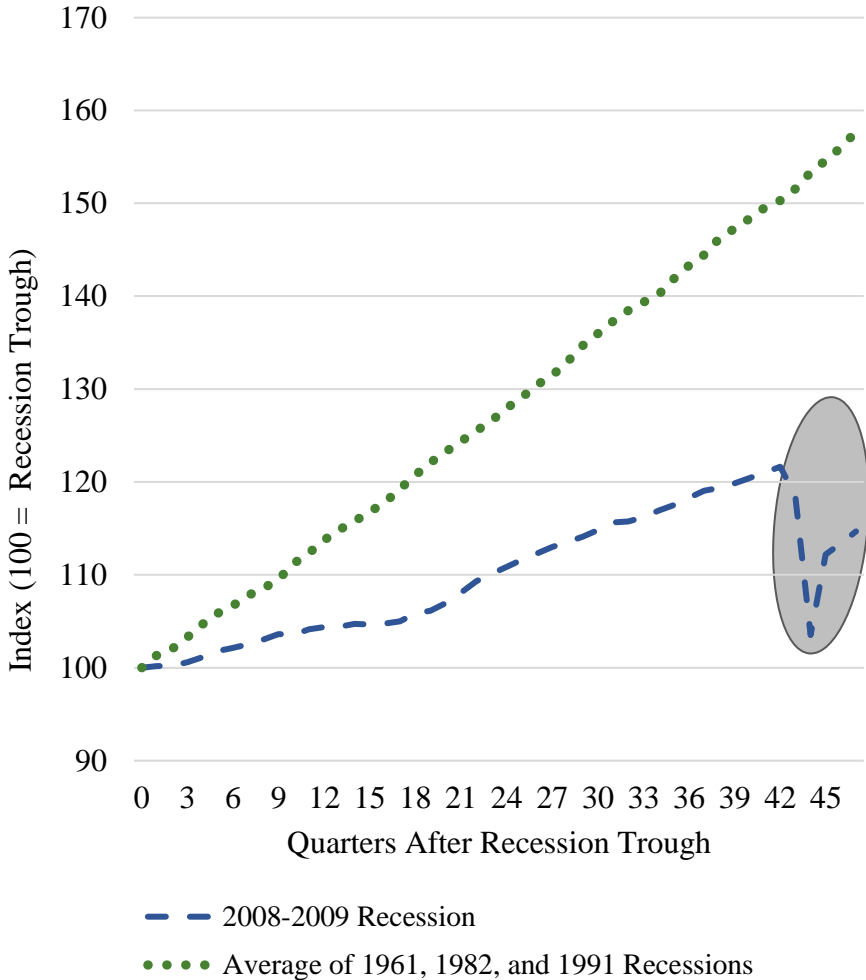


Consumption: Goods Up, Services Down

Real Goods Consumption

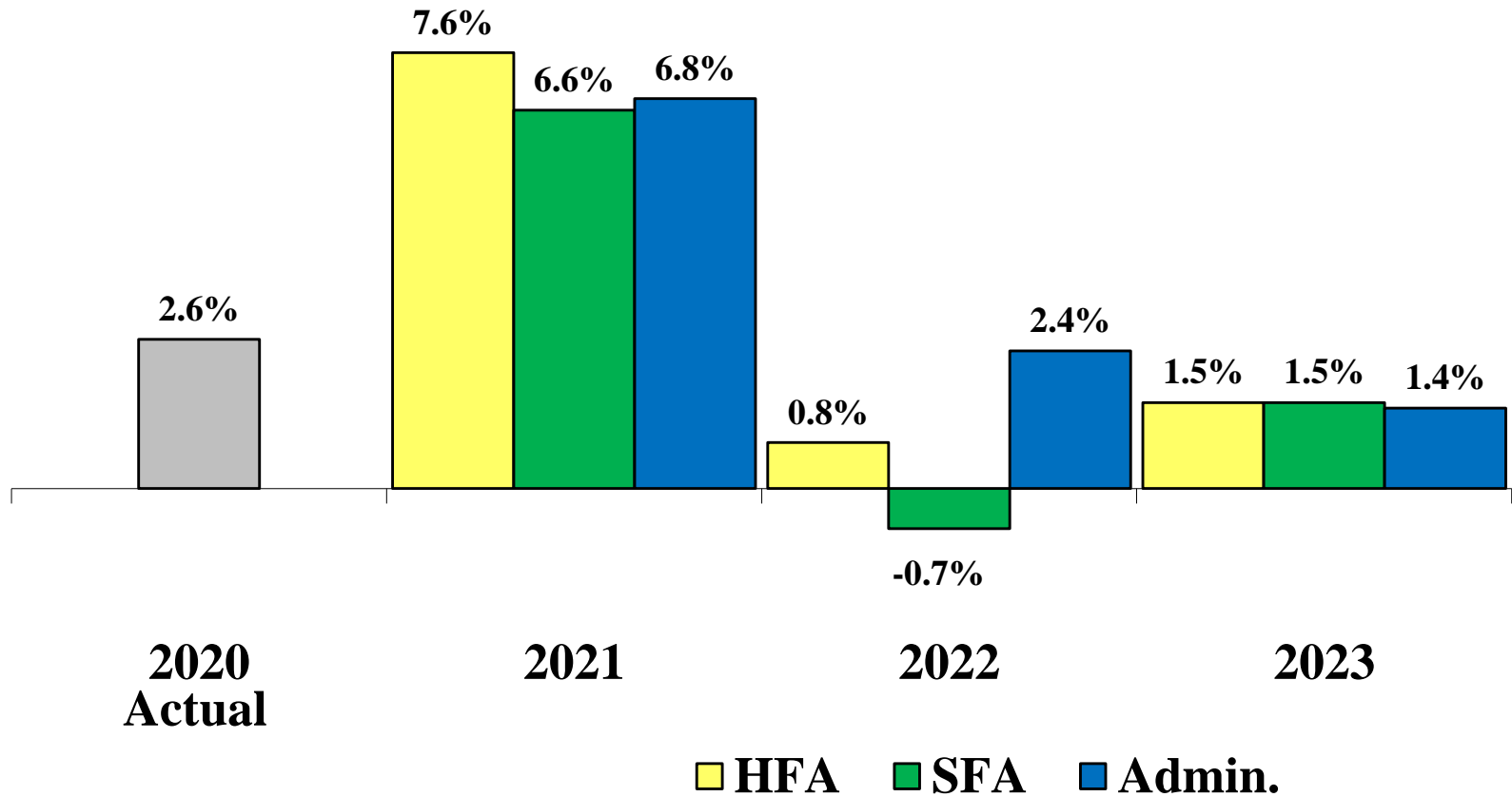


Real Services Consumption



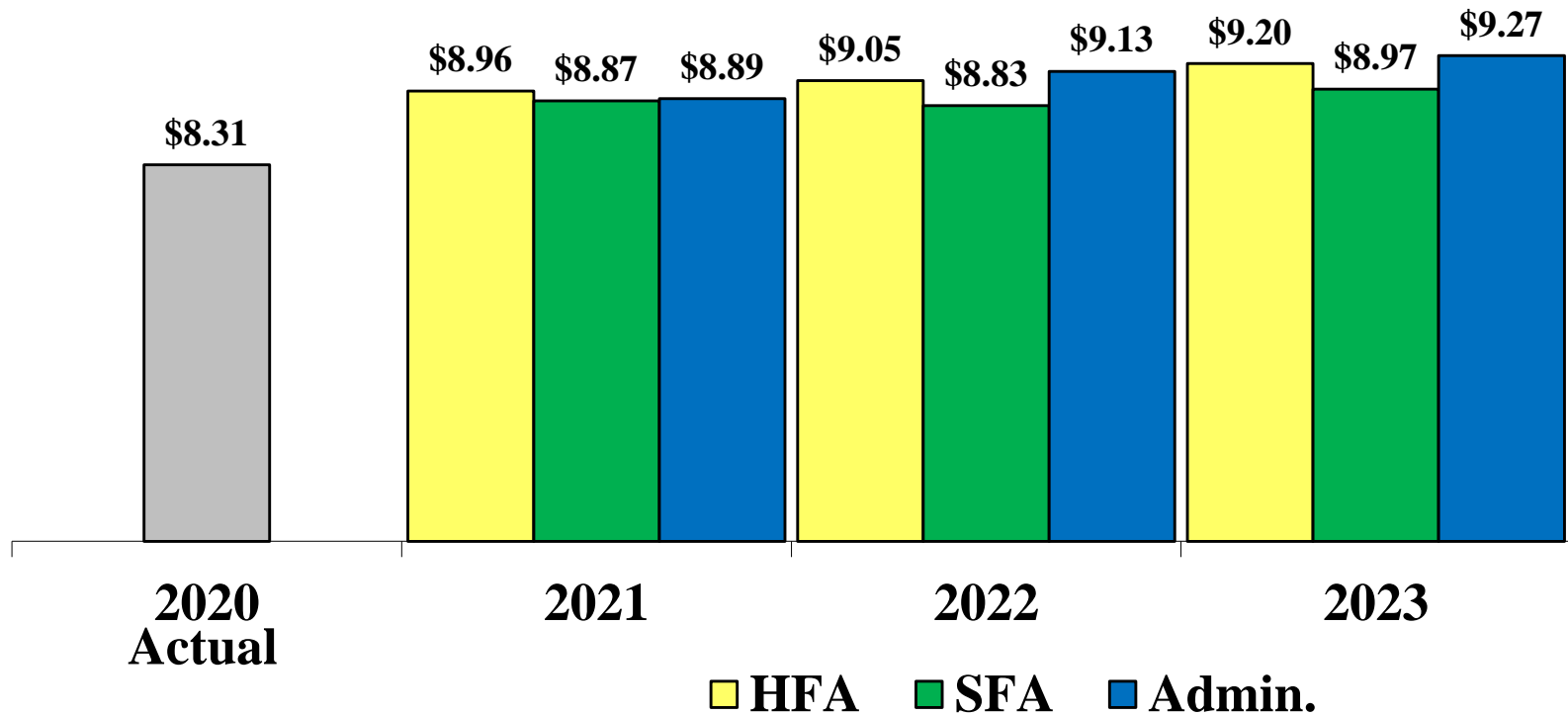
Baseline Sales Tax Growth

Fiscal Year Growth



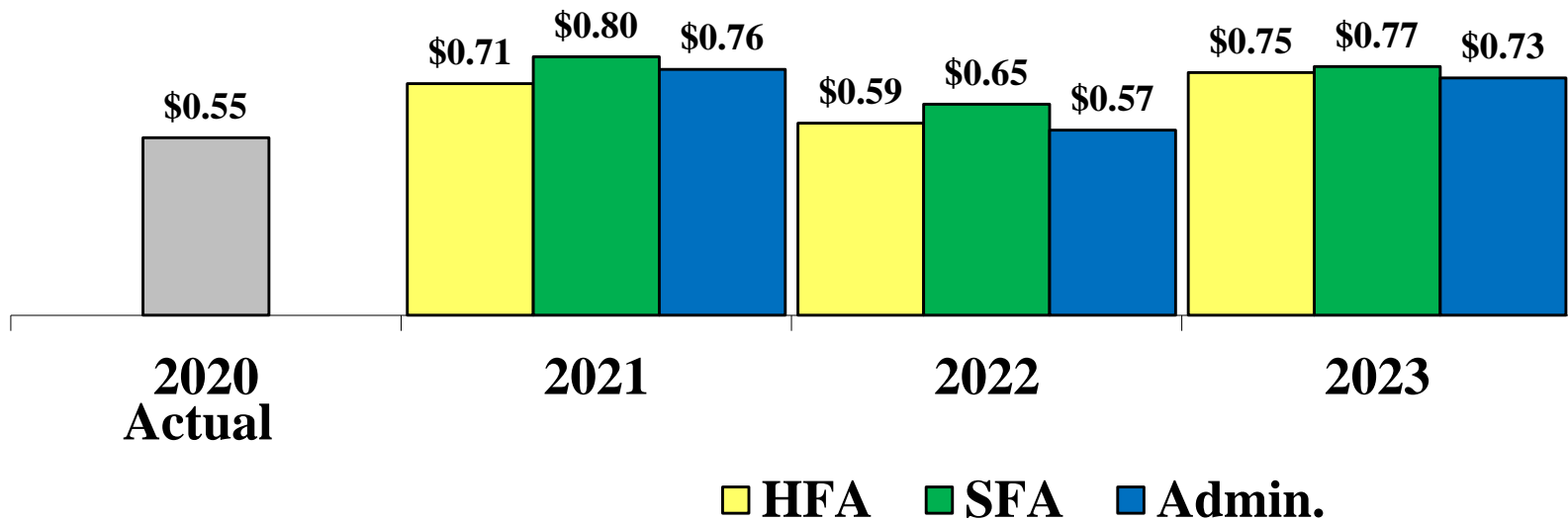
Net Sales Tax Revenue Estimates

Fiscal Year
Billions



Net CIT/MBT Revenue Estimates

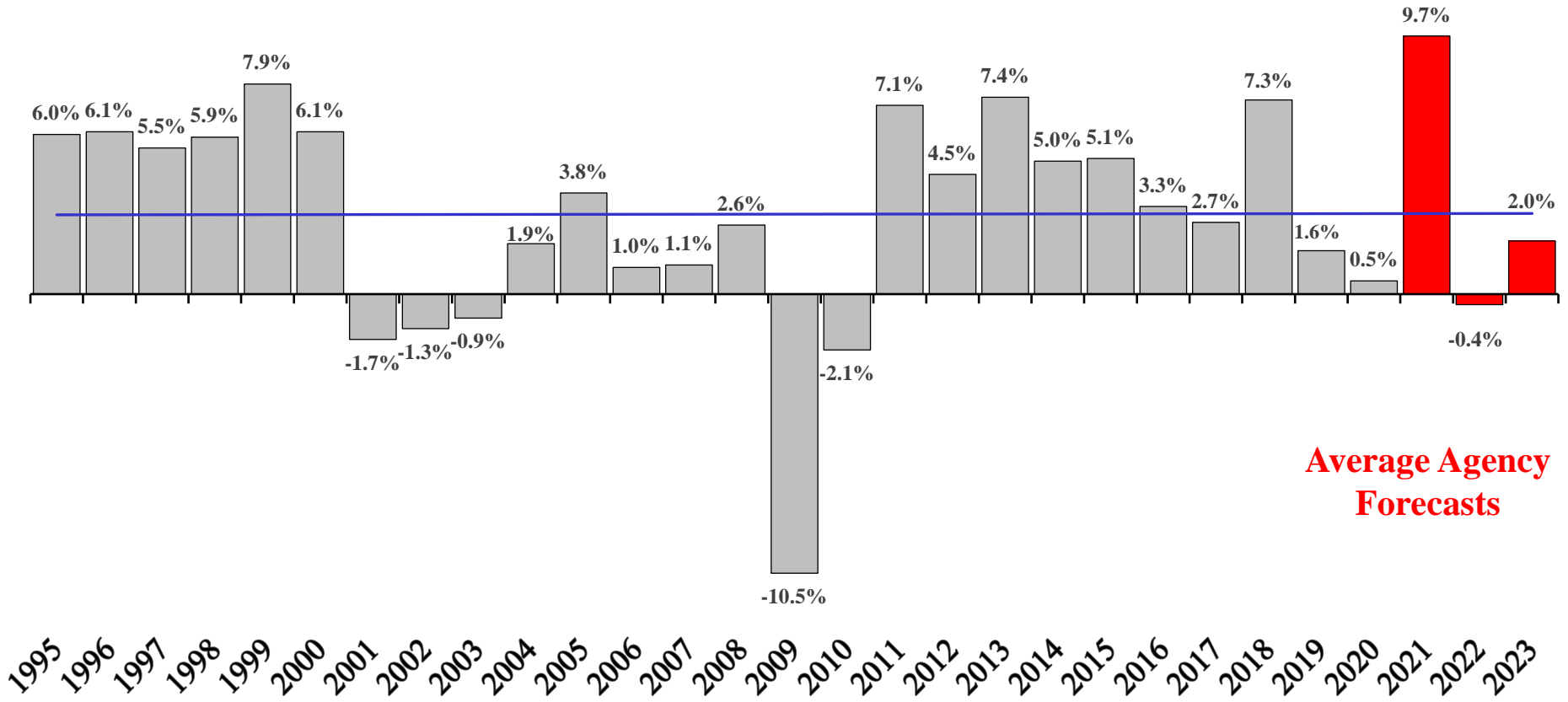
Fiscal Year
Billions



FORECAST OF GF-GP AND SCHOOL AID FUND

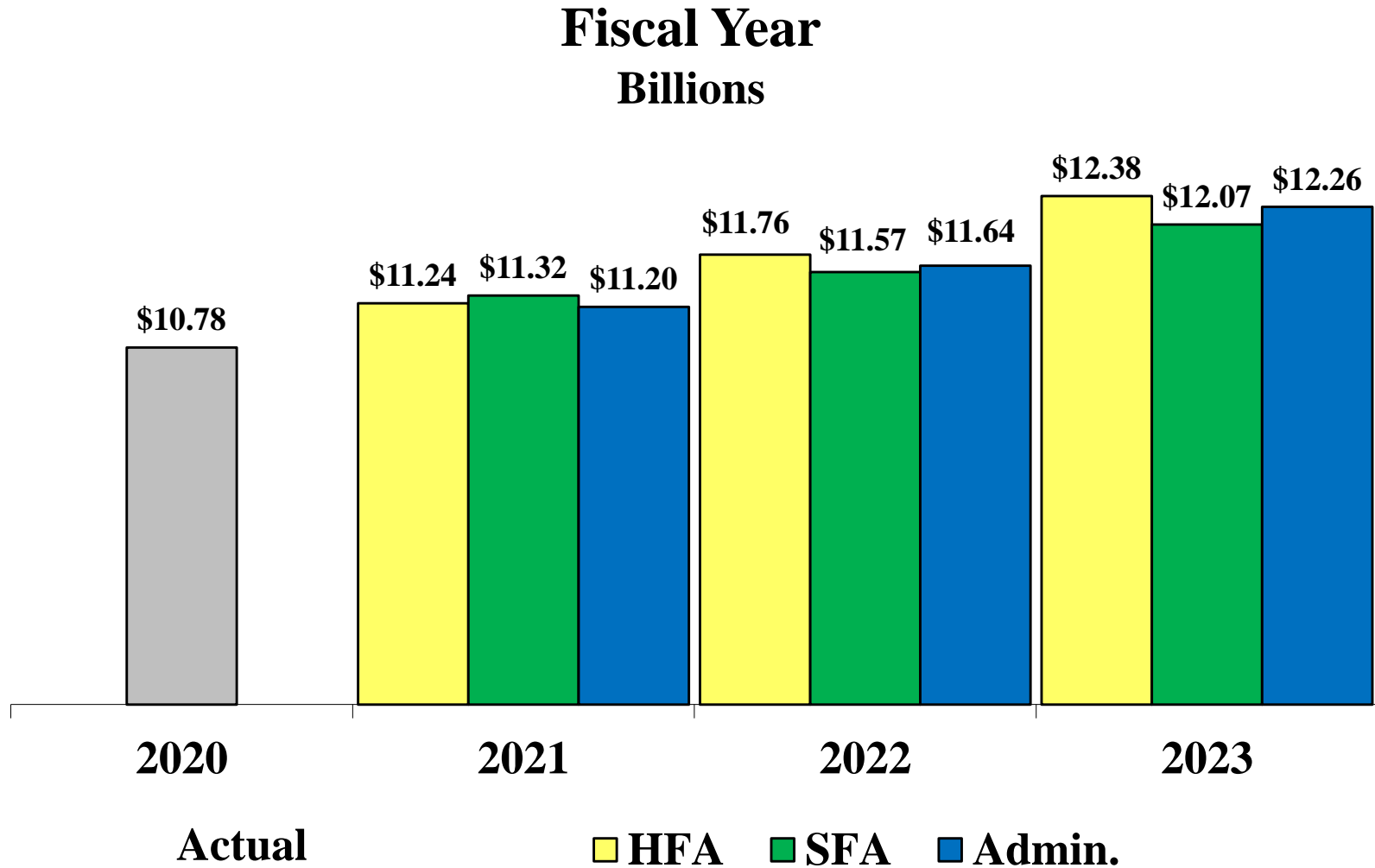
GF-GP and School Aid Revenue

Baseline Growth Rates Before Tax Changes



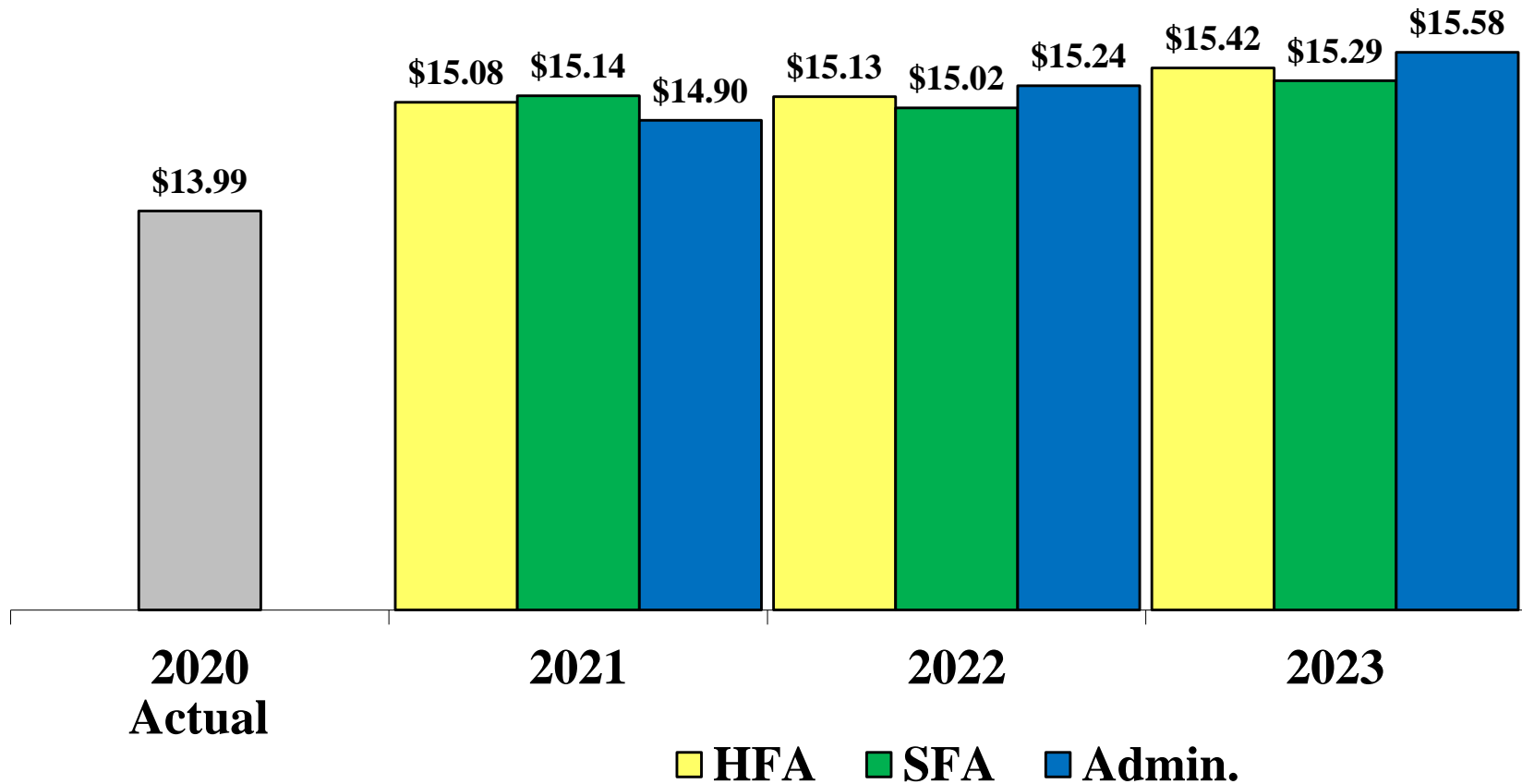
**Average Agency
Forecasts**

GF-GP Net Revenue Estimates



School Aid Fund Net Revenue Estimates

Fiscal Year
Billions



Revenue Forecast Comparison

Total Revenue (Values in Millions)									
	FY 2021			FY 2022			FY 2023		
	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>
GF-GP	\$11,242.2	\$11,323.5	\$11,204.6	\$11,755.8	\$11,571.4	\$11,639.8	\$12,376.5	\$12,074.8	\$12,261.6
School Aid Fund	\$15,078.4	\$15,140.6	\$14,895.3	\$15,132.7	\$15,020.9	\$15,242.4	\$15,419.6	\$15,291.7	\$15,577.6

Difference from January Consensus Estimates									
	FY 2021			FY 2022			FY 2023		
	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>
GF-GP	\$1,004.7	\$1,086.0	\$967.1	\$859.0	\$674.3	\$742.7	\$1,163.8	\$907.7	\$1,094.5
School Aid Fund	\$1,048.2	\$1,110.4	\$865.1	\$708.7	\$597.2	\$818.7	\$734.8	\$561.3	\$847.2
Combined	\$2,052.9	\$2,196.4	\$1,832.2	\$1,567.7	\$1,271.5	\$1,561.4	\$1,898.6	\$1,469.0	\$1,941.7

Budget Stabilization Fund

Both pay-ins and pay-outs require an appropriation

The agency estimates calculate:

Pay-ins

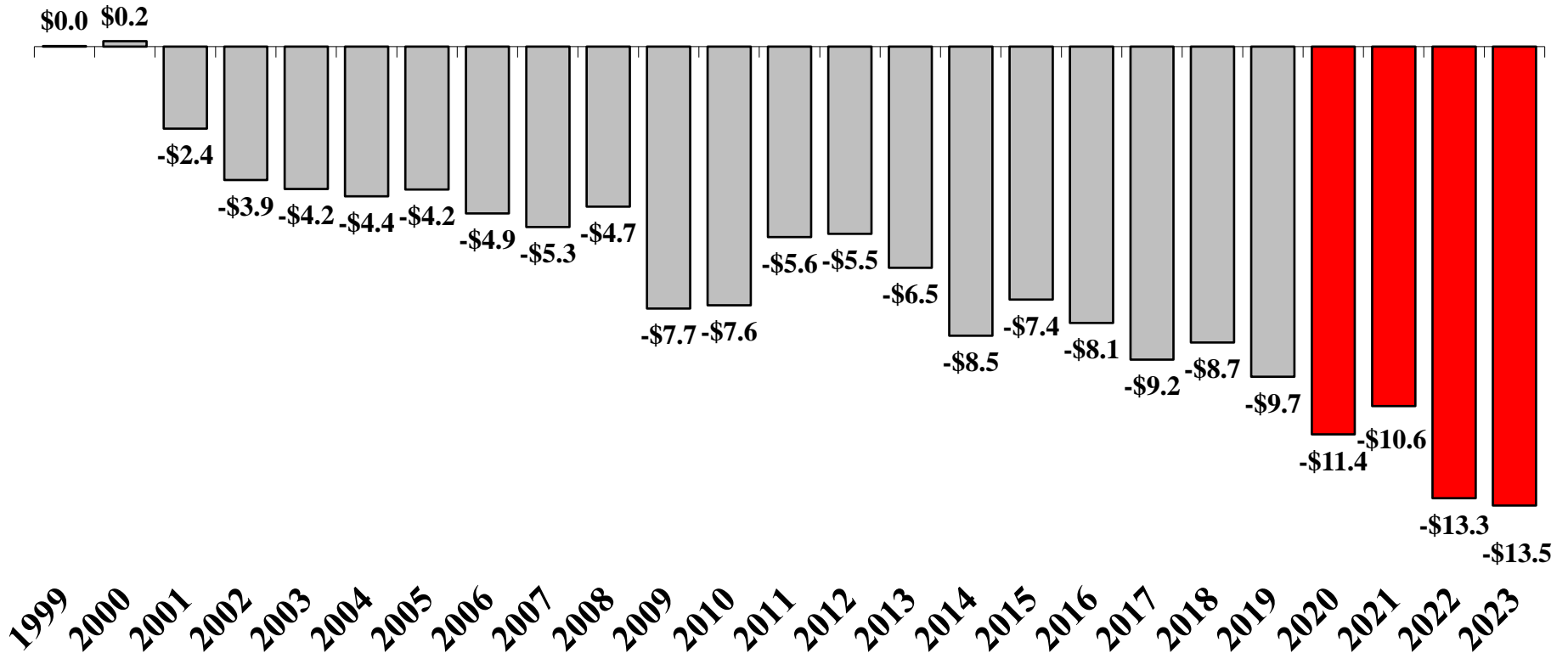
- No pay-ins in FY 2021 & FY 2022
- Pay-in between \$11.6 and \$44.4 million in FY 2023

Pay-outs

- No BSF pay-outs during FY 2021, FY 2022 & FY 2023

Constitutional Revenue Limit Calculation

Billions



Average Agency Forecasts

Income Tax Rate under MCL 206.51(1)

MCL 206.51(1) limits General Fund revenue growth to a factor of inflation from FY 2021 levels. If revenues surpass the limit, reductions in the individual income tax rate are triggered.

- Based on revenue and inflation growth in the three forecasts, the rate cut estimates range from zero to 0.02 percentage points for tax year 2023
- All agencies forecast a rate cut for tax year 2024
 - Reduction estimates range from less than 0.01 percentage points to 0.09 percentage points

Forecast Risks

Economy

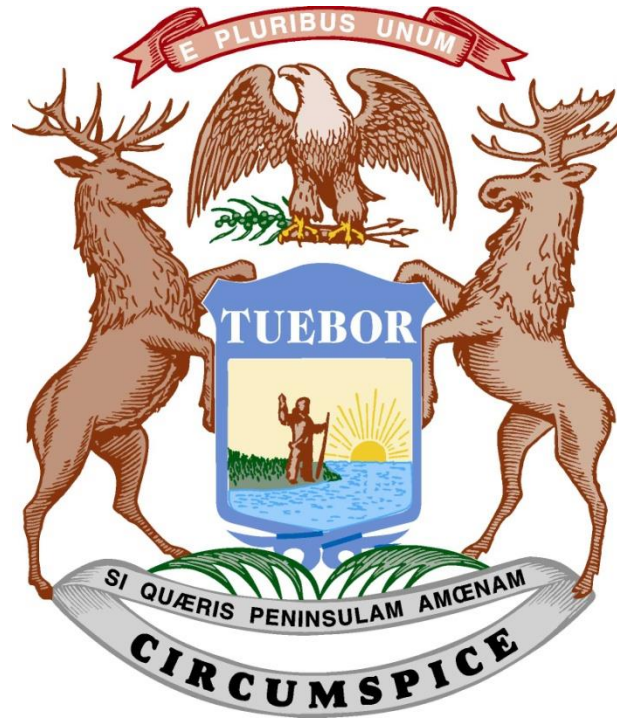
- Uncertainty from the path of the pandemic remains the largest risk
- The transition from expansionary fiscal policy to “normal” fiscal policy
- Forecast assumes current federal law for tax policy and infrastructure spending

Michigan Tax Revenue

- Large increases in FY 2020 taxable consumer spending creates uncertainty about FY 2021 and FY 2022
- Pent-up demand for goods and services is expected to be high, but shortages of raw materials and industry labor shortages may constrain currently predicted growth

Economic and Revenue Forecasts

FY 2021 * FY 2022 * FY 2023



Consensus Revenue Estimating Conference

May 21, 2021