ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN

FY 2010-11
THROUGH
FY 2012-13

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This report presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) final revenue for fiscal year (FY) 2009-10, revised revenue estimates for FY 2010-11 and FY 2011-12, and an initial estimate for FY 2012-13. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 16, 2011, and will be used to facilitate the consensus estimating process.

This report includes HFA analyses of important factors that will affect state and national economies through the year 2013, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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FORECAST SUMMARY

The national economy has been generally improving at a subdued pace. Encouragingly, national non-farm employment increased by 244,000 in April following an increase of 221,000 in March and an increase of 235,000 in February. This was the best 3-month string (excluding the artificially high months when the national census was conducted) since the beginning of 2006. Job gains were widespread and occurred in manufacturing, business and professional services, education and health services, retail and wholesale trade, leisure and hospitality, while job losses occurred in state and local government.

Gross Domestic Product or GDP grew 1.8% in the first quarter of 2011—down from the 3.1% pace in the fourth quarter of 2010. The main contributors to the first quarter growth were consumer spending, business investment in equipment and software, and inventories.

The national expansion is expected to increase between 2.5% to 3.0% throughout the forecast period. The national unemployment rate is forecast to remain relatively high but continue heading downward.

Michigan's economy and state revenue will be significantly affected by the strength of the national recovery. In March, Michigan's nonfarm employment grew 2.0% or by 75,600 jobs relative to a year ago. Compared to other states, Michigan posted the 5th highest percentage year-over-year job gain in March, which was driven by a strong performance in manufacturing and education and health services.

U. S. Forecast

Real GDP growth is forecast to increase 2.5% in CY 2011. It is forecast to increase 2.7% in CY 2012 and 3.0% in CY 2013.

Light vehicle sales totaled 11.5 million units in CY 2010 and are forecast to increase to 13.0 million units in CY 2011 before rising to 14.6 million units in CY 2012 and 15.2 million units in CY 2013. The import share of light vehicles is forecast to be 23.8% in CY 2011, 24.2% in CY 2012, and 24.6% in CY 2013.

The national unemployment rate was 9.6% in CY 2010; it is expected to decrease to 8.8% in CY 2011 then drop to 8.0% in CY 2013.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 3.5% in CY 2011, then 2.2% in CY 2012, and 1.9% in CY 2013.

Michigan Forecast

Michigan personal income increased 2.8% in CY 2010; it is forecast to increase 5.4% in CY 2011, 2.2% in CY 2012, and 4.6% in CY 2013.

Michigan's unemployment rate was 12.5% in CY 2010; it is forecast to decrease to 10.1% in CY 2011, 9.6% in CY 2012, and fall to 9.3% in CY 2013.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 3.4% in CY 2011, 2.1% in CY 2012, and 1.8% in CY 2013.

State Revenue

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The final total baseline GF/GP and SAF revenue was $17.3 billion in FY 2009-10; it is forecast to increase 5.8% to $18.3 billion in FY 2010-11, increase 2.6% in FY 2011-12, and increase 2.8% in FY 2012-13.

Net revenue captures the effects of all policy changes and represents resources available. Final total net GF/GP and SAF revenue was $17.6 billion in FY 2009-10; it is forecast to increase $1.0 billion or 5.9% in FY 2010-11, increase 1.8% in FY 2011-12, and increase 0.5% in FY 2012-13.

Table 1 reports GF/GP and SAF revenue in terms of baseline and actual revenue. The recommended revisions to estimates for FY 2010-11 and FY 2011-12 are reported in **Table 2 and Table 3**.

State Revenue Limit

Total state revenue was below the state revenue limit by $8.9 billion in FY 2009-10; it is estimated to be under the limit by $7.1 billion in FY 2010-11, $7.8 billion in FY 2011-12, and $9.0 billion in FY 2012-13.

Fund Balances

The year-end GF/GP balance was $187.2 million for FY 2009-10.

The year-end SAF balance was $255.9 million for FY 2009-10.

The year-end Countercyclical Budget Stabilization Fund balance was $2.2 million for FY 2009-10; it is estimated to be $2.3 million for FY 2010-11, $2.4 million for FY 2011-12, and $2.5 million for FY 2012-13.

Table 1
HFA REVENUE ESTIMATES
(Millions of Dollars)

	Final FY 2009-10	HFA Estimate FY 2010-11	HFA Estimate FY 2011-12	HFA Estimate FY 2012-13
Baseline GF/GP	$6,505.9	$7,198.8	$7,476.3	$7,728.8
Baseline SAF	10,808.8	11,119.9	11,312.8	11,586.6
TOTAL BASELINE	**$17,314.7**	**$18,318.7**	**$18,789.1**	**$19,315.5**
Net GF/GP	$6,785.2	$7,511.3	$7,628.8	$7,439.2
Net SAF	10,816.9	11,122.3	11,342.7	11,625.3
TOTAL ACTUAL	**$17,602.1**	**$18,633.6**	**$18,971.5**	**$19,064.5**

Table 2
FY 2010-11 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	January 2011 Consensus	May 2011 Recommendation	Recommended Revision
Net GF/GP	$7,227.8	$7,511.3	$283.5
Net SAF	10,979.1	11,122.3	143.2
TOTAL ACTUAL	**$18,206.9**	**$18,633.6**	**$426.7**

Table 3
FY 2011-12 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	January 2011 Consensus	May 2011 Recommendation	Recommended Revision
Net GF/GP	$7,294.1	$7,628.8	$334.7
Net SAF	11,193.7	11,342.7	149.0
TOTAL ACTUAL	**$18,487.8**	**$18,971.5**	**$483.7**

ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2009-11, FY 2011-12, and FY 2012-13.

The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout CY 2002 and the early part of CY 2003. As national economic growth improved, so did employment.

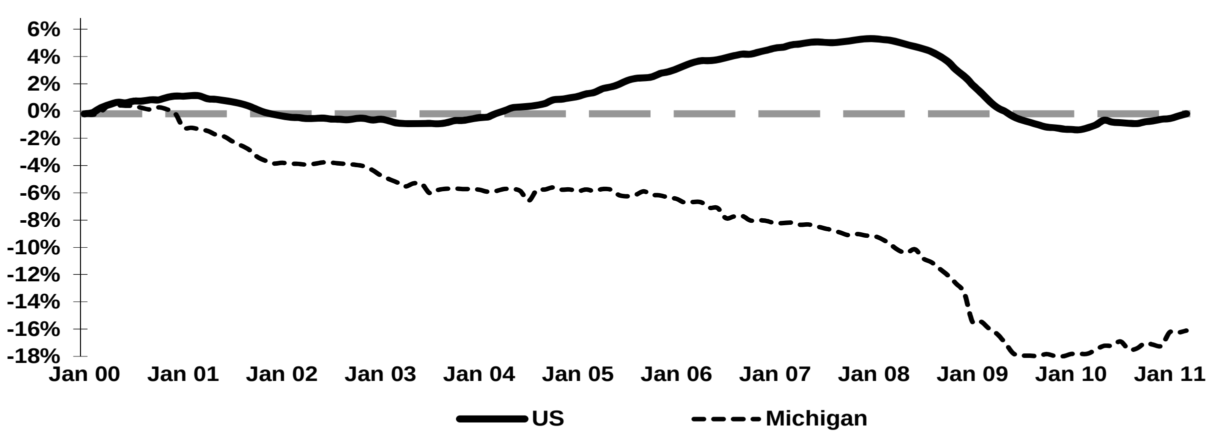
Job growth at the national level began to improve during the latter half of CY 2003, and continued its upward trend through December 2007—at which point the national economy officially entered a recession. Employment fell by more than 6% between December 2007 and December 2009, which translates into a loss of more than 8.3 million jobs. And, while employment began growing during 2010, fewer than one million jobs were added.

The job growth that began in late 2010 has continued into 2011, and during the first quarter the national economy added more than 475,000 jobs.

Total Non-Farm Employment

Figure 1 shows the monthly percent change in total non-farm employment for both the U.S. and Michigan from January 2000 through March 2011.

Figure 1
Total Non-Farm Employment
Percent Change From January 2000 Through March 2011



U.S. Non-Farm Employment

After U.S. employment peaked in February 2001, it began a long slide that did not end until August 2003. During this 30-month period, the national economy lost more than 2.7 million jobs—about 91,800 jobs per month on average. In the 52 months between September 2003 and December 2007 more than 8.3 million jobs were added.

The ensuing recession saw 22 consecutive months of job loss before slight job gains were recorded in November 2009, and although modest job growth resumed during much of 2010 and into 2011, total non-farm employment as of April 2011 is at essentially the same level as it was at the beginning 2000.

Michigan Non-Farm Employment

Economic conditions over the last decade in Michigan have been far less optimistic than those at the national level. Employment in Michigan peaked in June 2000, a full eight months before the national level peaked in February 2001. Following that June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 314,000 jobs—a 6.7% decline. For the next two years, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses.

During 2008 and 2009, job losses continued to mount as more than 400,000 additional jobs were lost. However, job losses turned to job gains in 2010 as annual employment increased for the first time since 2000. Michigan's economy added 36,800 jobs in 2010, and through the first three months of 2011 an additional 51,100 jobs have been added.

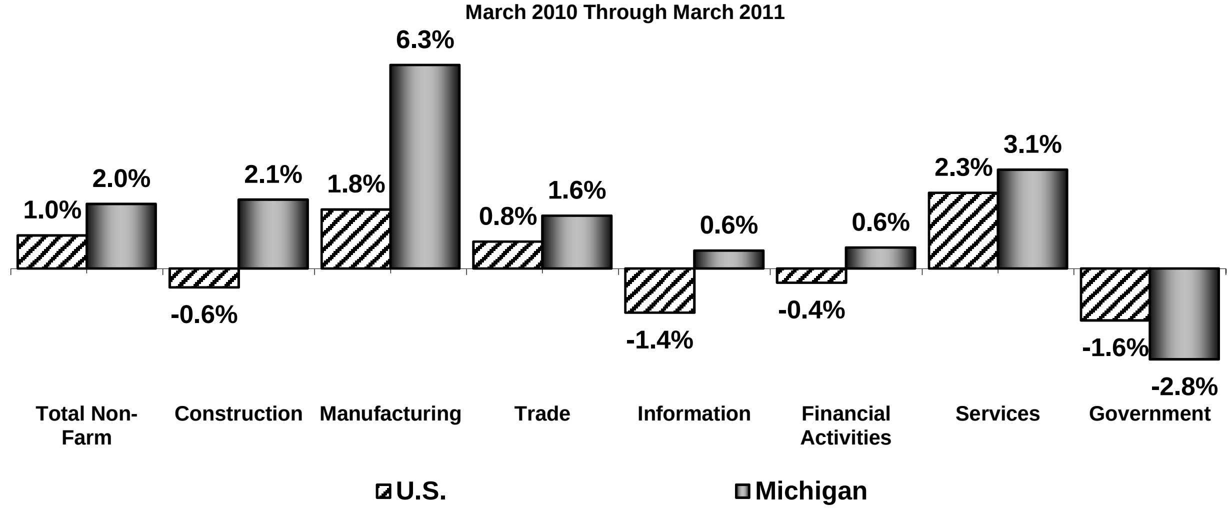
U.S. and Michigan Employment

Figure 2 shows U.S. and Michigan percent change in employment between March 2010 and March 2011 for all workers in several important sectors of the economy. Improving economic conditions at the national and state level are evident as the U.S. gained approximately 1.3 million jobs over this period while employment in Michigan grew by 75,700 jobs.

Figure 2

Percent Change in Employment

March 2010 Through March 2011



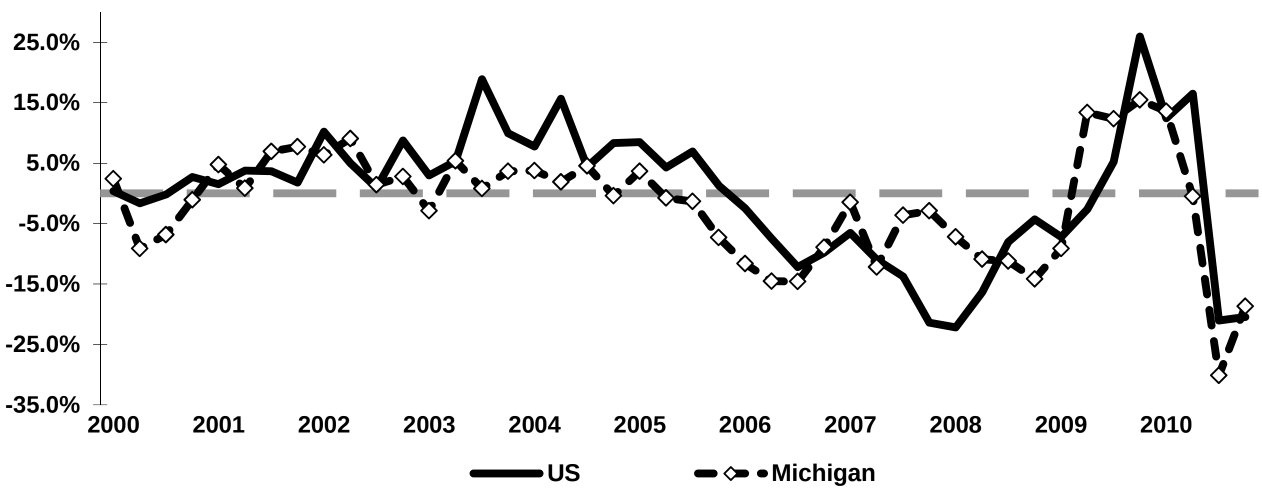
U.S. Employment
From March 2010 through March 2011, the U.S. experienced job gains in all sectors except for construction, information, and financial activities. The manufacturing sector, which had been contracting for the past several years, grew by more than 200,000 workers.

Michigan Employment
Michigan experienced job gains over the past year in all sectors, with the manufacturing, wholesale trade, and service sectors leading the way. Almost 29,000 manufacturing jobs have been added over the past year, which represents more than 38% of all job growth. The only decline occurred in the Government sector, which reduced overall employment by 18,400.

U.S. and Michigan Existing Home Sales
Figure 3 shows the quarterly percent change in sales of existing homes for the U.S. and Michigan relative to the same quarter the year before.

Figure 3

Total Existing Home Sales
2000:1 Through 2010:4



U.S. Existing Home Sales
The U.S. housing market continued to flourish during the first half of the decade, but turned downward in late 2005 as home sales began to falter. Home sales continued to drop at an accelerating rate throughout 2007 as the full impact of the collapse of the housing market spread through the economy, and the downturn continued through 2008, albeit at a lesser rate. Existing home sales increased during the final three quarters of 2009 before dropping in the first quarter of 2010. After a moderate increase in the second quarter, existing home sales tumbled again in the third quarter of 2010 before turning upward again at the end of the year.

Michigan Existing Home Sales
Despite a dip in Michigan's housing market in the early part of this decade, sales of existing homes—for the most part—followed a path similar to that of the U.S. as a whole through 2004. Starting in early 2005, existing home sales in Michigan underwent a steep decline through late 2006, and continued to fall until the end of 2008. Existing home sales grew slightly in each of the next five quarters, but the second and third quarters of 2010 saw

existing home sales in Michigan plunge yet again before recovering somewhat during the fourth quarter.

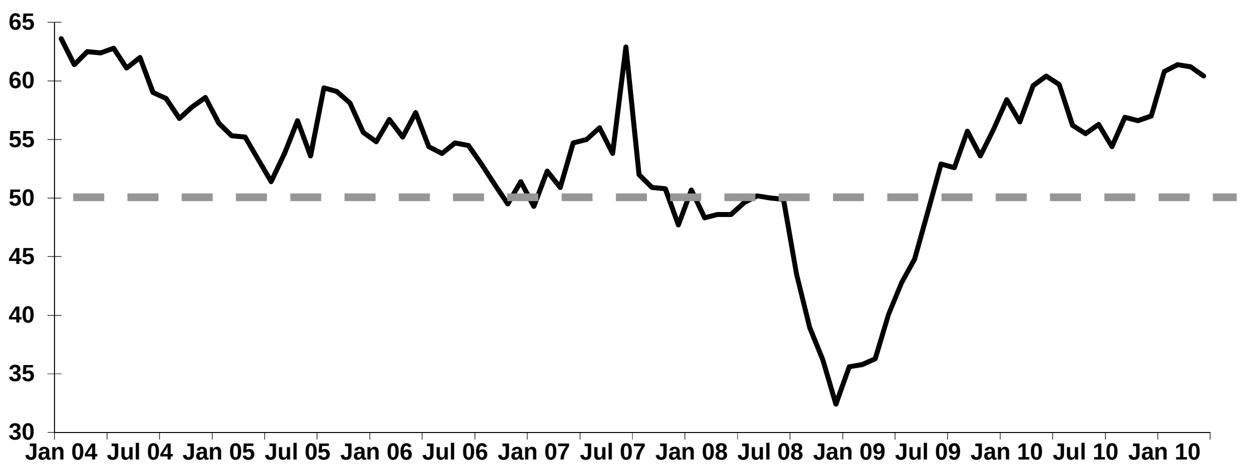
Institute for Supply Management (ISM) Index

Figure 4 shows the ISM Index, a composite index of five economic indicators used to measure manufacturing economic vitality beginning January 2004. An index number above 50 indicates a growing manufacturing sector, a number below 50 suggests that the manufacturing sector is contracting, and a number below 42.7 indicates that the economy as a whole is contracting.

Figure 4

Institute for Supply Management (ISM) Index

January 2004 Through April 2011



The ISM index began January 2004 at a 20-year high of 63.3. This was followed by a 16-month slide that saw the index decline to 51.4 in May 2005. The ISM index rose in three of the next four months—reaching a level of 59.4 in September 2005—before beginning a four-month decline to 54.8 in January 2006; for the next 30 months, the index generally remained between 50 and 55 before dropping steadily during the latter half of 2008. The ISM index hit a 28-year low of 32.4 in December 2008 before increasing throughout 2009, and ended the year at 55.9. After reaching a three-year high of 60.4 in April 2010, the index dipped slightly to 54.4 in September before rising to 57.0 by the end of the year. It continued increasing during the first three months of 2011 before dropping back slightly in April.

Index of Consumer Sentiment

Consumer sentiment can be a strong motivator of personal consumption expenditures, which comprise almost two-thirds of GDP. **Figure 5** shows the University of Michigan Index of Consumer Sentiment beginning January 2004.

Although the Index of Consumer Sentiment began January 2004 at a level over 100 for the first time in more than three years, it dropped in February and remained in the low- to mid-90s before ending 2004 with two consecutive monthly increases. Following this brief uptick, consumer sentiment declined in each of the next five months due, in part, to concerns about high gas prices and the possibility that the economy might be weakening.

Figure 5

University of Michigan Index of Consumer Sentiment
January 2004 Through April 2011

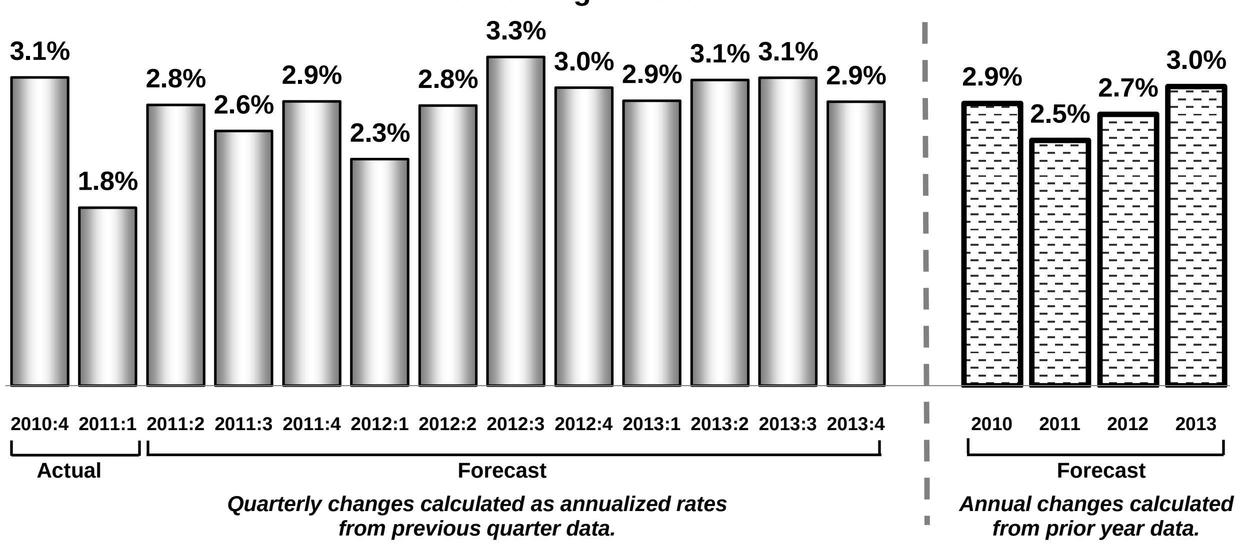
In the wake of hurricanes Katrina and Rita in 2005, the Index of Consumer Sentiment plunged to 72.4 in October, rose to 91.5 in December, and then dropped in six of the first eight months of 2006 as consumers expressed concerns over rising gas prices and interest rates. After reaching a low of 82.0 in August, the index concluded 2006 at 91.7. Consumer sentiment declined steadily throughout 2007, and by November 2008 the Index of Consumer Sentiment had fallen to 55.3, the lowest level in almost 28 years. Consumer sentiment trended upwards during 2009, and reached a level of 72.5 in December. A mid-year decline in 2010 saw the index drop to 67.8 in June, but by December 2010 it had risen to 74.5, its highest level in almost three years. The first four months of 2011 have seen the index drop back as concerns arise about stability in the Middle East, gasoline prices, and the Federal debt.

Real GDP

Figure 6 shows the actual percent change in U.S. Real GDP for CY 2010 and the estimated percent changes in U.S. Real GDP for CY 2011, CY 2012, and CY 2013.

Figure 6

Percent Change in U.S. Real GDP



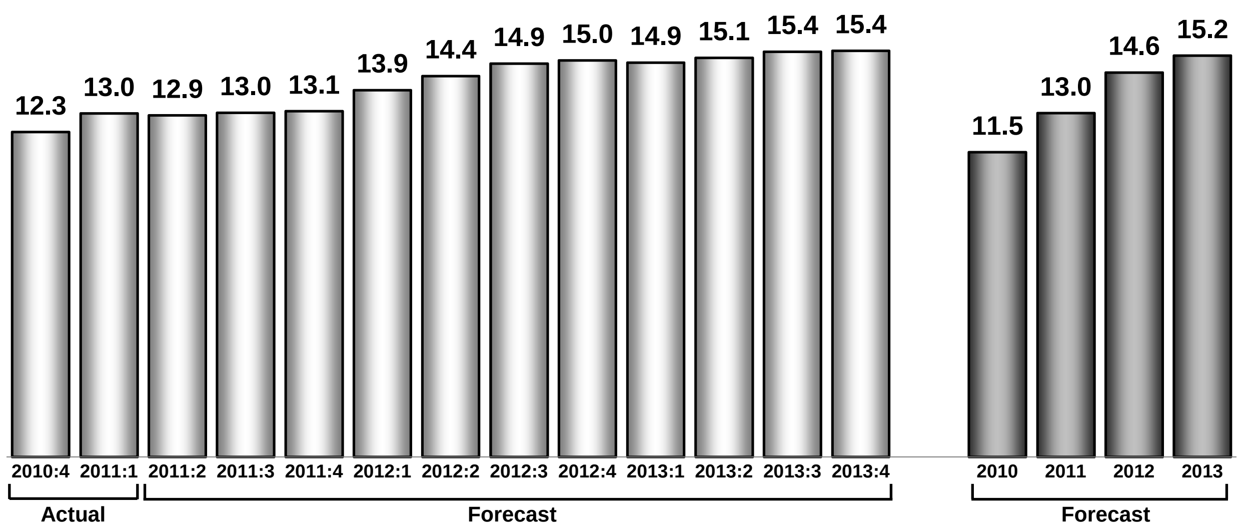
After increasing 1.8% during the first quarter of 2011, real GDP is anticipated to grow by 2.8% in the second quarter. Real GDP growth, which was 2.9% in CY 2010, is forecast to be 2.5% in CY 2011, 2.7% in CY 2012, and 3.0% in CY 2013.

GDP growth in CY 2010 recovered primarily due to increases in personal consumption of durable goods and business investment. Both personal consumption and investment are forecast to continue growing in CY 2011. Personal consumption is forecast to increase by 2.5% in CY 2011, 2.1% in CY 2012, and 2.0% in CY 2013 while gross private domestic investment is forecast to grow 6.2% in CY 2011, 11.8% in CY 2012, and 12.4% in CY 2013.

Light Vehicle Sales

Figure 7 shows actual light vehicle sales for CY 2010, and estimated sales for CY 2011, CY 2012, and CY 2013.

Figure 7
Light Vehicle Sales
(Millions of Units)



Sales of light motor vehicles increased from 10.4 million units in CY 2009 to 11.5 million units in CY 2010, and are expected to increase to 13.0 million units in CY 2010, 14.6 million units in CY 2011, 15.2 million units in CY 2013.

Light truck sales, which accounted for 50.3% of total light vehicle sales in CY 2010, are expected to decline to 47.5% in CY 2011 before increasing slightly to 48.0% in CY 2012 and CY 2013.

The import share of total light vehicle sales was 23.8% in CY 2010; it is forecast to remain at 23.8% in CY 2011 before increasing to 24.2% in CY 2012 and 24.6% in CY 2013.

Inflation

U.S. Inflation

Input prices (e.g., wages and import prices) have remained moderate and have held down production costs. Crude oil and natural gas prices, which have experienced volatile price fluctuations over the past several years, will continue to impact almost all sectors of the economy.

Benchmark West Texas Intermediate crude—which averaged about $62 per barrel in CY 2009—began 2010 at almost $80 per barrel, and rose modestly before reaching a high of $88 in December. Because there is always concern over the stability of the oil supply, oil prices tend to be heavily influenced by speculation in addition to world demand. It is anticipated that after averaging almost $80 per barrel in 2010, oil prices will increase during the forecast period to $106 per barrel during CY 2011, $111 per barrel in CY 2012, and $115 per barrel in CY 2013.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index-Urban (CPI-U), was 1.6% in CY 2010; it is expected to increase by 3.5% in CY 2011, 2.2% in CY 2012, and 1.9% in CY 2013.

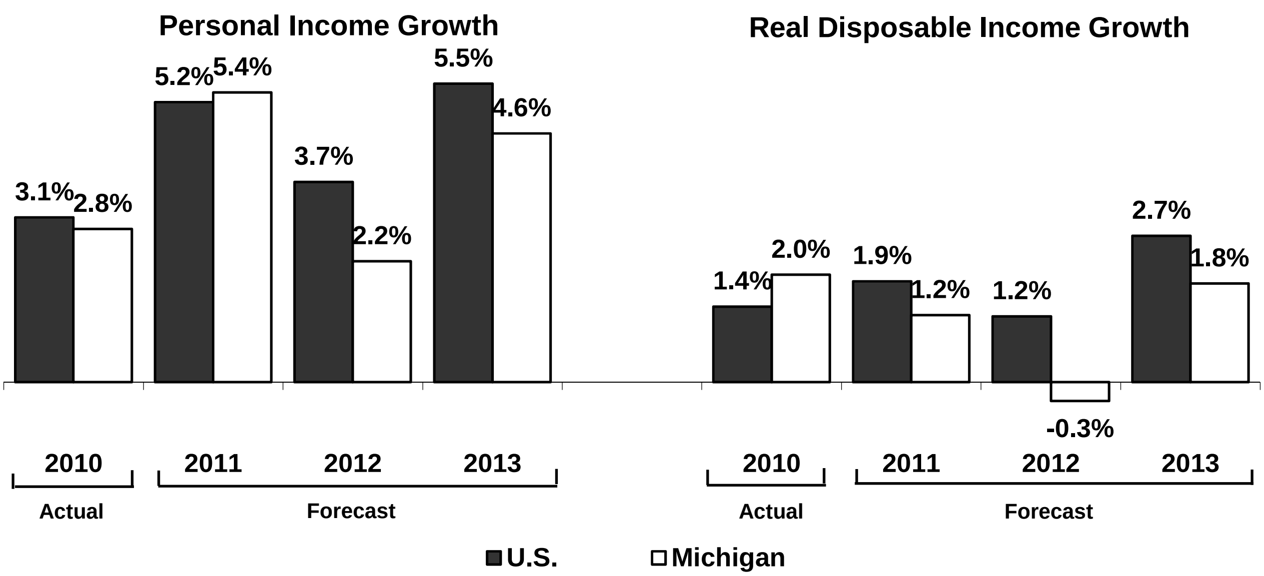
Michigan Inflation

The cost of living in Michigan is measured by the Detroit Consumer Price Index for Urban Consumers (Detroit CPI-U). Although the average inflation rate for Michigan was 0.8% in CY 2010, the Detroit CPI-U is expected to increase 3.4% in CY 2011, 2.1% in CY 2012, and 1.8% in CY 2013.

Income Growth

Figure 8 shows personal income growth and real disposable income growth for both the U.S. and Michigan.

Figure 8



U.S. Income Growth

Total U.S. personal income rose 3.1% in CY 2010. Personal income is forecast to increase 5.2% in CY 2011, 3.7% in CY 2012, and 5.5% in CY 2013.

Given the increase in inflation in CY 2010, real disposable income grew at a modest 1.4% rate in CY 2010. U.S. real disposable income is forecast to grow 1.9% in CY 2011, 1.2% in CY 2012, and 2.7% in CY 2013.

Michigan Income Growth

Michigan's total state personal income growth rose by 2.8% in CY 2010. Michigan personal income is forecast to grow 5.4% in CY 2011, 2.2% in CY 2012, and 4.6% in CY 2013.

Michigan real disposable income increased 2.0% in CY 2010, and as inflation picks up it is forecast to increase 1.2% in CY 2011, decrease 0.3% in CY 2012, and increase 1.8% in CY 2013.

Employment

U.S. Employment

Nationally, total non-farm employment decreased by 0.7% even though the economy experienced average monthly losses in excess of 78,300 during 2010. This atypical result stems from the large job losses that occurred throughout 2009. Because the average annual employment gains in 2010 were not sufficient to offset the losses from 2009, the net impact is that the average annual employment level in 2010 was slightly below the 2009 annual average despite the job growth that occurred.

During the first four months of 2011 the economy posted average monthly job gains of 192,000, and the employment gains that are expected throughout 2011 are forecast to increase average annual employment by 1.2%. Continued increases in job growth are expected as employment is forecast to increase 2.0% in CY 2012 and CY 2013.

Michigan Employment

Although Michigan's labor markets remain weak, recent indications are that employment growth is returning. Average annual Michigan wage and salary employment declined by 11,000 workers in CY 2010, but is estimated to increase by almost 70,000 workers in CY 2011 and more than 42,000 workers in CY 2012. The forecast calls for continued quarterly job gains through fourth quarter CY 2013.

Average annual Michigan wage and salary employment fell 0.3% in CY 2010; it is forecast to increase 1.8% in CY 2011, 1.1% in CY 2012, and 1.4% in CY 2013. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 0.32%.

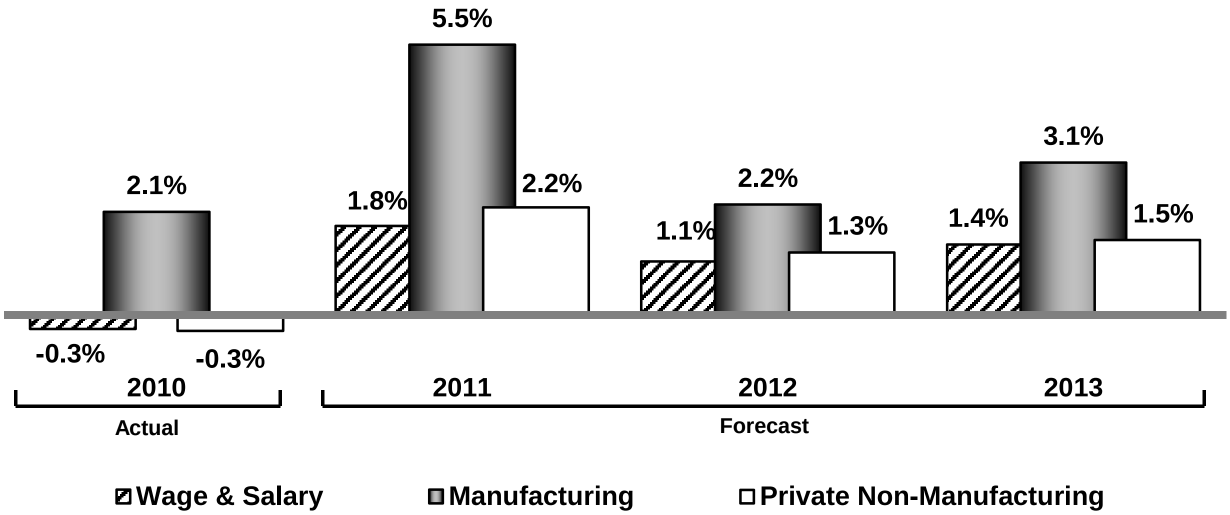
Michigan average annual manufacturing employment rose 2.1% in CY 2010, primarily due to a 3.5% increase in motor vehicle employment; it is forecast to increase 5.5% in both CY 2011, 2.2% in CY 2012, and 3.1% in CY 2013. Although the most significant employment declines continue to be concentrated in the motor vehicle industry, employment increases also appear throughout the much of the manufacturing sector.

Average annual private non-manufacturing employment in Michigan remained constant in CY 2010; it is expected to increase 2.7% in CY 2011, 1.4% in CY 2012, and 1.8% in CY 2013.

Figure 9 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

Figure 9

Michigan Employment Growth



Unemployment

U.S. Unemployment

As of December 2007, total non-farm employment had increased for 52 consecutive months, but monthly job losses for each of the next 22 months increased the unemployment rate. Recent job growth has helped to reduce the unemployment rate, although it is still at historically high levels.

The U.S. unemployment rate was 9.6% in CY 2010; it is forecast to decline to 8.8% in CY 2011, 8.5% in CY 2012, and 8.0% in CY 2013.

Michigan Unemployment

Employment in Michigan has been a major concern; it has fallen during each of the past 10 years. The unemployment rate is expected to decrease over the forecast horizon.

Michigan's unemployment rate was 12.5% in CY 2010; it is expected to decrease to 10.1% in CY 2011, 9.6% in CY 2012, and 9.3% in CY 2013.

Table 4
ECONOMIC FORECAST VARIABLES

	Calendar 2009 Actual	Calendar 2010 Actual	% Change from Prior Year	Calendar 2011 Estimated	% Change from Prior Year	Calendar 2012 Estimated	% Change from Prior Year	Calendar 2013 Estimated	% Change from Prior Year
United States									
Real Gross Domestic Product (Billions of 2005 dollars)	$12,880.6	$13,248.2	2.9%	$13,576.8	2.5%	$13,949.3	2.7%	$14,371.1	3.0%
Implicit Price Deflator GDP (2005 = 100)	109.6	110.7	1.0%	112.7	1.8%	115.0	2.1%	117.1	1.9%
Consumer Price Index (1982-84 = 100)	214.5	218.1	1.6%	225.6	3.5%	230.6	2.2%	235.0	1.9%
Consumer Price Index (FY) (1982-84 = 100)	213.8	217.4	1.7%	223.5	2.8%	229.6	2.7%	233.8	1.8%
Personal Consumption Deflator (2005 = 100)	109.3	111.1	1.7%	114.0	2.6%	116.1	1.8%	118.0	1.7%
3-month Treasury Bills Interest Rate (Percent)	0.2%	0.1%		0.1%		0.2%		0.8%	
Aaa Corporate Bonds Interest Rate (Percent)	5.3%	4.9%		5.2%		4.9%		5.0%	
Non-Farm Employment (Millions)	130.9	129.8	-0.7%	131.4	1.2%	134.0	2.0%	136.7	2.0%
Unemployment Rate – Civilian (Percent)	9.3%	9.6%		8.8%		8.5%		8.0%	
Light Vehicle Sales (Millions of units)	10.4	11.5	11.0%	13.0	12.8%	14.6	11.9%	15.2	4.4%
Passenger Car Sales (Millions of units)	5.5	5.7	5.1%	6.8	9.1%	7.6	10.9%	7.9	4.4%
Light Truck Sales (Millions of units)	4.9	5.8	17.5%	6.2	6.5%	7.0	12.9%	7.3	4.4%
Import Share of Light Vehicles (Percent)	26.2%	23.8%		23.8%		24.2%		24.6%	
Housing Starts (Thousands of units)	0.555	0.585	5.5%	0.618	5.5%	0.850	37.6%	1.250	47.1%
Personal Income (Billions of current dollars)	$12,174.9	$12,546.7	3.1%	$13,198.1	5.2%	$13,688.3	3.7%	$14,445.3	5.5%
Real Disposable Income (Billions of 2005 dollars)	$10,100.0	$10,241.4	1.4%	$10,433.1	1.9%	$10,560.3	1.2%	$10,846.8	2.7%
Michigan									
Wage and Salary Employment (Thousands)	3,871.0	3,860.0	-0.3%	3,929.4	1.8%	3,871.9	1.1%	4,028.5	1.4%
Transportation Equipment Employment (Thousands)	126.9	131.3	3.5%	141.7	7.9%	148.1	4.5%	152.1	2.7%
Unemployment Rate (Percent)	13.3%	12.5%		10.1%		9.6%		9.3%	
Personal Income (Millions of current dollars)	$342,114	$351,830	2.8%	$370,730	5.4%	$379,032	2.2%	$396,517	4.6%
Real Personal Income (Millions of 1982-84 dollars)	$168,177	$171,499	2.0%	$174,769	1.9%	$175,093	0.2%	$179,928	2.8%
Real Disposable Income (Millions of 1982-84 dollars)	$153,222	$156,270	2.0%	$158,212	1.2%	$157,662	-0.3%	$160,543	1.8%
Wage and Salary Income (Millions of current dollars)	$170,663	$174,256	2.1%	$183,807	5.5%	$188,825	2.7%	$196,017	3.8%
Detroit Consumer Price Index (1982-84 = 100)	203.4	205.2	0.8%	212.1	3.4%	216.5	2.1%	220.4	1.8%
Detroit CPI (FY) (1982-84 = 100)	202.6	204.8	1.1%	210.2	2.6%	215.6	2.6%	219.3	1.7%

NOTE: Numbers may not add due to rounding

RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding the European debt crisis, oil prices, housing, fiscal policy, state and local governments, and Michigan's motor vehicle industry.

European Debt Crisis

The European debt crisis and concerns about the level of contagion will remain a significant risk. Debt restructuring at some European banks and government austerity measures will continue and be precarious. Many European countries face difficult decisions and weak economies moving forward.

The U.S. economy has built some momentum over the last few months and the expansion is expected to continue. However, the effects of the crisis on U.S. financial markets may unnerve households and businesses and could dampen the overall economy.

Oil Prices

The average West Texas Intermediate crude oil price was $110 per barrel in April 2011—almost $26 per barrel higher than a year ago and has been steadily rising since September. However, by mid-May, oil prices have fallen below $100 per barrel. Oil prices are forecast to average $106 per barrel throughout CY 2011, $111 per barrel in CY 2012, and $115 per barrel in CY 2013.

Oil prices affect the economy primarily through disposable income allocation—because more income is used for oil-related goods, less is used for all other items. Also, since oil is an imported good, as the price rises, more U.S. resources/income flow out of the U.S. economy. Oil prices could fall below the estimated level and cause economic growth to be stronger than anticipated, or they may be higher than estimated—resulting in economic growth below the forecasted level.

Housing

High foreclosure and delinquency rates coupled with weak home sales are putting downward pressure on home prices. National home sales declined 5.1% in CY 2010 which was, to some extent, a payback from the federal homebuyer tax credit that pulled sales forward into CY 2009. In CY 2010, housing starts increased 5.5%, but remained at an extremely low level of 0.59 million units. The housing market is expected to improve, but at a historically weak pace. Housing starts are forecast to increase to 0.62 million units in CY 2011, 0.85 million units in CY 2012, and 1.25 million units in CY 2013.

The conditions of the housing market are important driving factors for construction related industries (employment/income) and for State and local government revenue (property tax and real estate transfer tax).

Fiscal Policy

The federal budget deficit was $1.3 trillion in FY 2009-10 and is expected to increase to $1.4 in FY 2010-11. Discussions and the resolution to raising the debt ceiling will need to occur over the next few months and it could be potentially disruptive. Significant tax and spending changes are not anticipated until after the 2012 election, but more modest changes and targets will likely be established this year. Federal fiscal policy is in a contractionary mode and is expected to remains so throughout the forecast horizon. Fiscal policy remains a risk if federal government spending cuts are enacted that are too severe in the short-term, as it could weaken the economy.

State and Local Governments

According to the Nelson A. Rockefeller Institute, the state tax revenue picture in the first four quarters of CY 2010 was a significant improvement from the collapse in the preceding five quarters. Despite four consecutive quarters of growth, state tax revenues were still 0.6% below the same period a year ago. Only 18 states reported higher collections in the fourth quarter of 2010 than in the same quarter of 2007. State revenue collections remain vastly below prerecession levels. State governments were largely able to avoid significant cuts to spending or increased taxes due to federal government assistance in 2009 and 2010.

In addition, local governments, which rely predominately on property tax revenue—which has been declining—will also have to deal with ongoing budget difficulties. The forecast for Michigan includes government employment reductions of 2.6% in CY 2011, 0.7% in CY 2012 and 0.4% in CY 2013.

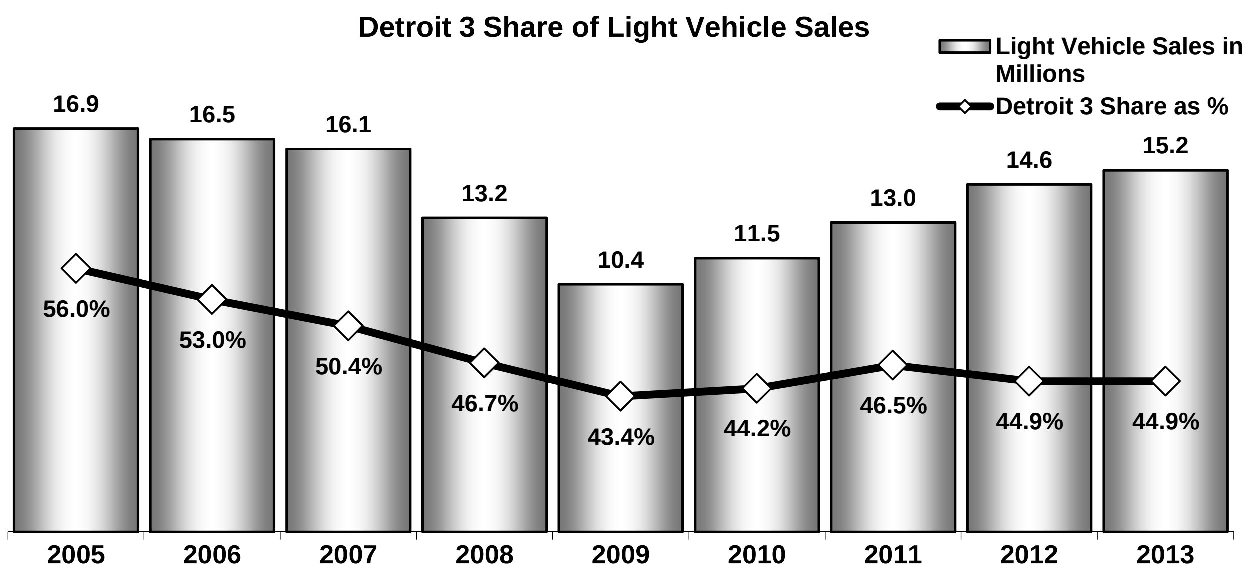
Michigan's Motor Vehicle Industry

The level and composition of light motor vehicle sales is a key component of Michigan's economy. As shown in **Figure 10,** light motor vehicle sales totaled 11.5 million units in CY 2010. Light motor vehicle sales are forecast to be 13.0 million units in CY 2011, then increase to 14.6 million units in CY 2012, and 15.2 million units in CY 2013 as the national expansion continues.

Imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) have steadily gained in market share over the past several years. The extent to which the domestic nameplates can retain market share will have a direct impact on Michigan's economy. This forecast assumes that the Detroit 3 market share will stabilize at 44.9% in CY 2012 and CY 2013 after a brief tick up to 46.5% due in part to supply chain issues related to the Japanese brands. In CY 2010, the Detroit 3 sold 5.1 million vehicles; it is expected that the Detroit 3 will sell 6.1 million vehicles in CY 2011, 6.6 million units in CY 2012, and 6.8 million units in CY 2013.

After significant declines since CY 2000, Michigan transportation equipment employment increased 3.5% in CY 2010 and is forecast to increase 7.9% in CY 2011, 4.5% in CY 2012, and 2.7% in CY 2013. The CY 2013 estimated level of transportation equipment employment of 152,100 is 44% of the 346,000 peak in CY 2000. If the Michigan-produced market share of motor vehicles is greater or less than anticipated, Michigan's economy and revenue growth will be higher or lower than estimated.

Figure 10



GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section explains the House Fiscal Agency's May 2011 estimates for GF/GP (**Table 5**) and SAF (**Table 6**) revenue, the estimated year-end balances for the major funds and the budget stabilization fund, and the state revenue limit calculation.

GF/GP Revenue by Source

GF/GP Tax Revenue

GF/GP tax revenue totaled $6,413.1 million in FY 2009-10; it is estimated to be $7,125.9 million, an increase of $712.8 million or 11.1%, in FY 2010-11, and $7,244.4 million, an increase of $118.6 million or 1.7%, in FY 2011-12. In FY 2012-13, GF/GP net taxes are estimated to decline 2.5%—primarily due to a scheduled income tax rate reduction and MBT battery credits.

Total Net GF/GP Revenue

Net GF/GP revenue, which includes tax and non-tax revenue, is available for expenditure each year. Net GF/GP revenue was $6,785.2 million in FY 2009-10; it is forecast to be $7,511.3 million, an increase of $726.1 million or 10.7%, in FY 2010-11, and $7,628.8 million, an increase of $117.6 million or 1.6%, in FY 2011-12. In FY 2012-13 total net GF/GP revenue is estimated to decline $189.6 million to $7,439.2 million.

SAF Revenue by Source

Total Net SAF Revenue

Total net SAF revenue was $10,816.9 million in FY 2009-10; it is estimated to be $11,122.3 million, an increase of $305.5 million or 2.8%, in FY 2010-11, and $11,342.7 million, an increase of $220.4 million or 2.0%, in FY 2011-12. In FY 2012-13 total net SAF revenue is estimated to increase $282.6 million to $11,625.3 million.

Table 5

GF/GP REVENUE ESTIMATES
(Millions of Dollars)

	Final FY 2009-10	HFA Est. FY 2010-11	HFA Est. FY 2011-12	HFA Est. FY 2012-13	FY 2010-11 % Change	FY 2010-11 $ Change	FY 2011-12 % Change	FY 2011-12 $ Change	FY 2012-13 % Change	FY 2012-13 $ Change
Income Tax	$3,712.6	$4,228.0	$4,220.6	$4,184.4	13.9%	$515.4	-0.2%	($7.4)	-0.9%	($36.2)
Sales and Use Taxes	891.1	852.3	927.8	965.6	-4.4%	(38.8)	8.9%	75.5	4.1%	37.8
MBT/SBT/Insurance Taxes	1,394.2	1,606.3	1,654.1	1,473.9	15.2%	212.1	3.0%	47.8	-10.9%	(180.2)
Other Taxes	415.1	439.2	441.9	439.9	5.8%	24.1	0.6%	2.7	-0.5%	(2.0)
GF/GP Tax Revenue	**$6,413.1**	**$7,125.9**	**$7,244.4**	**$7,063.8**	**11.1%**	**$712.8**	**1.7%**	**$118.6**	**-2.5%**	**($180.6)**
Non-Tax Revenue	372.1	385.4	384.4	375.4	3.6%	13.3	-0.3%	-1.0	-2.3%	(9.0)
Total Net GF/GP Revenue	**$6,785.2**	**$7,511.3**	**$7,628.8**	**$7,439.2**	**10.7%**	**$726.1**	**1.6%**	**$117.6**	**-2.5%**	**($189.6)**

NOTE: Numbers may not add due to rounding.

Table 6

SCHOOL AID FUND REVENUE ESTIMATES
(Millions of Dollars)

	Final FY 2009-10	HFA Est. FY 2010-11	HFA Est. FY 2011-12	HFA Est. FY 2012-13	FY 2010-11 % Change	FY 2010-11 $ Change	FY 2011-12 % Change	FY 2011-12 $ Change	FY 2012-13 % Change	FY 2012-13 $ Change
Sales and Use Tax	$4,886.7	$5,106.3	$5,248.7	$5,406.4	4.5%	$219.6	2.8%	$142.4	3.0%	$157.7
Income Tax Earmark	1,836.1	1,970.1	2,039.0	2,113.7	7.3%	134.0	3.5%	68.9	3.7%	74.7
State Education Tax	1,930.5	1,860.0	1,835.0	1,849.0	-3.7%	-70.5	-1.3%	-25.0	0.8%	14.0
Lottery/Casino Wagering	812.4	847.9	856.4	873.9	4.4%	35.5	1.0%	8.5	2.0%	17.5
MBT	726.8	739.2	759.9	780.4	1.7%	12.4	2.8%	20.7	2.7%	20.5
Tobacco Taxes	392.9	372.8	366.6	357.3	-5.1%	-20.1	-1.7%	-6.2	-2.5%	-9.3
Real Estate Transfer Tax	121.6	130.0	141.0	148.0	6.9%	8.4	8.5%	11.0	5.0%	7.0
Other Taxes	109.9	96.1	96.1	96.6	-12.6%	-13.8	0.0%	0.0	0.5%	0.5
Net SAF Revenue	**$10,816.9**	**$11,122.3**	**$11,342.7**	**$11,625.3**	**2.8%**	**$305.5**	**2.0%**	**$220.4**	**2.5%**	**$282.6**

NOTE: Numbers may not add due to rounding.

HFA Estimates of Year-End Balances

Table 7 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Final year-end balances are reported for FY 2009-10 and estimates for FY 2010-11 are based on year-to-date appropriations and HFA revenue estimates.

Table 7
YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	Final FY 2009-10	Estimated FY 2010-11	Estimated* FY 2011-12
General Fund/General Purpose	$187.2	$262.0	N/A
School Aid Fund	$255.9	$657.1	N/A
Budget Stabilization Fund	$2.2	$2.3	$2.4

Note: School Aid Fund revenue is restricted; any year-end balance is carried forward to the subsequent year.

** = FY 2011-12 budget not yet enacted.*

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. **Table 8** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2012-13.

The BSF ending fund balance for FY 2009-10 was estimated at $2.2 million. The BSF trigger calculation—based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue—indicates a $259.9 million pay-in for FY 2011-12, no pay in or withdrawal for FY 2012-13, and a $72.1 million pay-in for FY 2013-14. Pay-ins are subject to appropriations.

Table 8
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1990-91	$0.0	$230.0	$27.1	$182.2
1991-92	$0.0	$170.1	$8.1	$20.1
1992-93	$282.6	$0.0	$0.7	$303.4
1993-94	$460.2	$0.0	$11.9	$775.5
1994-95	$260.1	$90.4	$57.7	$1,003.0
1995-96	$91.3	$0.0	$59.2	$1,153.6
1996-97	$0.0	$69.0	$67.8	$1,152.4
1997-98	$0.0	$212.0	$60.1	$1,000.5
1998-99	$244.4	$73.7	$51.2	$1,222.5
1999-2000	$100.0	$132.0	$73.9	$1,264.4
2000-01	$0.0	$337.0	$66.7	$994.2
2001-02	$0.0	$869.8	$20.8	$145.2
2002-03	$0.0	$156.1	$10.9	$0.0
2003-04	$81.3	$0.0	$0.0	$81.3
2004-05	$0.0	$81.3	$2.0	$2.0
2005-06	$0.0	$0.0	$0.0	$2.0
2006-07	$0.0	$0.0	$0.1	$2.1
2007-08	$0.0	$0.0	$0.1	$2.2
2008-09	$0.0	$0.0	$0.1	$2.2
2009-10	$0.0	$0.0	$0.1	$2.2
2010-11*	$0.0	$0.0	$0.1	$2.3
2011-12*	$0.0	$0.0	$0.1	$2.4
2012-13*	$0.0	$0.0	$0.1	$2.5

** HFA Estimate*

NOTE: Numbers may not add due to rounding.

Compliance With the State Revenue Limit

Article IX, Section 26 of the *Michigan Constitution,* which was approved by the vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

> . . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund . . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

As shown in **Table 9, Figure 11,** and **Table 10**, the FY 2009-10 revenue limit calculation showed state revenue collections at $8.91 billion below the revenue limit. For FY 2010-11 and FY 2011-12, state revenue is estimated to be substantially below the revenue limit—by $7.13 billion, and $7.84 billion, respectively. The estimate for FY 2012-13 also indicates that revenue will be below the limit by an estimated $8.95 million.

Table 9
COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

Revenue Limit Calculations	**Final FY 2008-09**	**Estimated FY 2009-10**	**Estimated FY 2010-11**	**Estimated FY 2011-12**	**Estimated FY 2012-13**
Personal Income					
Calendar Year	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011
Amount	$345,885	$349,612	$339,219	$351,830	$370,730
X Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	**$32,824.5**	**$33,178.2**	**$32,191.9**	**$33,388.7**	**$35,182.3**
Total Revenue Subject to Revenue Limit	$24,838.6	$24,263.8	$25,065.6	$25,547.4	$26,228.0
Amount Under (Over) State Revenue Limit	**$7,985.8**	**$8,914.4**	**$7,126.3**	**$7,841.3**	**$8,954.3**

NOTE: Numbers may not add due to rounding.

Figure 11

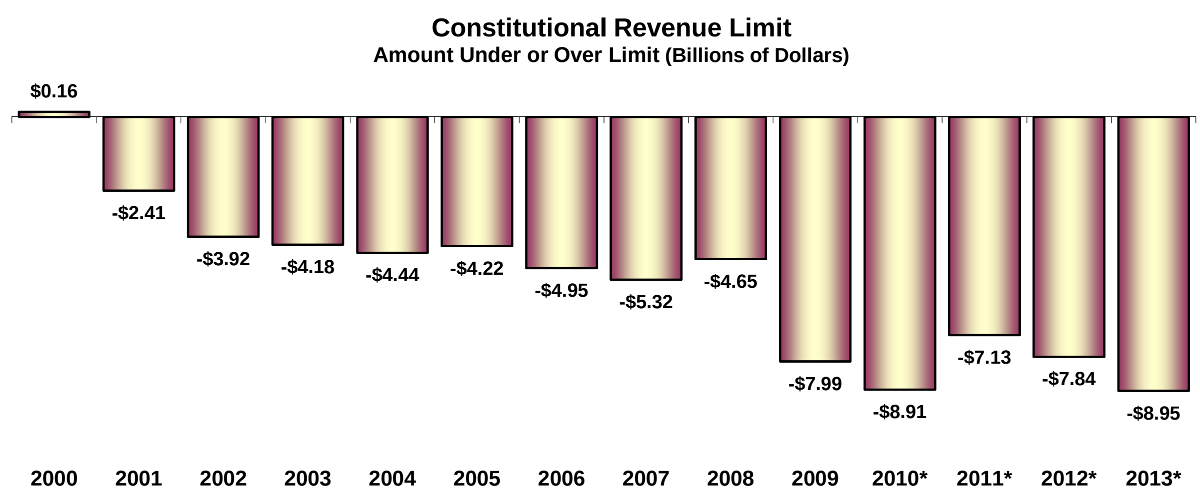


Table 10
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

Fiscal Year	(Under) or Over Limit
1990-91	($3.04)
1991-92	($3.69)
1992-93	($3.48)
1993-94	($2.11)
1994-95	$0.11
1995-96	($0.18)
1996-97	($0.98)
1997-98	($0.64)
1998-99	$0.02
1999-2000	$0.16
2000-01	($2.41)
2001-02	($3.92)
2002-03	($4.18)
2003-04	($4.44)
2004-05	($4.22)
2005-06	($4.95)
2006-07	($5.32)
2007-08	($4.65)
2008-09	($7.99)
2009-10*	($8.91)
2010-11*	($7.13)
2011-12*	($7.84)
2012-13*	($8.95)

**HFA Estimate*

Additional copies of this report can be obtained from:

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