ECONOMIC OUTLOOK

AND

REVENUE ESTIMATES

FOR

MICHIGAN

FY 2010-11

AND

FY 2011-12

HOUSE FISCAL AGENCY

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January 2011

FOREWORD

This report includes a national and State economic forecast for calendar year (CY) 2010 through CY 2012. It also presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2009-10, revised revenue estimates for FY 2010-11, and initial estimates for FY 2011-12. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 14, 2011, and will be used to facilitate the consensus estimating process.

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2012, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

Rebecca Ross, Senior Economist, and Jim Stansell, Economist, are the authors of this report. Kathryn Bateson, Administrative Assistant, prepared the report for publication.

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EXECUTIVE SUMMARY

After a weak patch that occurred in the middle of 2010, consumer spending and overall economic growth appear to be improving. Consumers are still in a difficult predicament as employment is weak and households are realigning their finances. While private sector hiring is slowly improving, the recovery is expected to be weak and long.

The national economy is expected to increase around 3% throughout the forecast period and become more balanced as consumption, investments, and exports improve. The national unemployment rate is forecast to remain relatively high but continue heading downward.

Michigan's economy and state revenue will be affected by the strength of the national recession, the level of motor vehicle sales, and credit conditions. Michigan's wage and salary employment which has trended downward since mid-2000 and has flattened out over the past several months. It is expected to decline by under 1.0% in CY 2010. It is forecast to increase slightly in CY 2011 and 1.3% in CY 2012.

U. S. Forecast

Real GDP growth is forecast to increase 2.9% in CY 2010. It is forecast to increase 3.0% in CY 2011, and grow 2.9% in CY 2012.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 1.7% in CY 2010, then increase 1.3% in CY 2011 and 1.6% in CY 2012.

Light vehicle sales of 11.5 million units in CY 2010 are forecast to grow to 13.1 million units in CY 2011 and to 14.7 million units in CY 2012. The import share of light vehicles is forecast to be 24.5% through the forecast horizon.

The national unemployment rate was 9.6% in CY 2010; it is expected to be 9.4% in CY 2011 and 8.9% in CY 2012.

Interest rates on three-month T-bills are expected to average 0.1% in CY 2010; rates are forecast to average 0.2% in CY 2011 and CY 2012.

Michigan Forecast

Michigan personal income is expected to increase 2.4% in CY 2010; it is forecast to increase 3.3% in both CY 2011 and CY 2012.

Michigan's unemployment rate is expected to be 13.4% in CY 2010; it is forecast to decrease to 12.2% in CY 2011 and 11.5% in CY 2012.

Inflation (as measured by the Detroit Consumer Price Index) for CY 2010 is expected to increase 0.8%; it is forecast to increase 1.1% in CY 2011 and 1.4% in CY 2012.

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, which was a 1.9% decline – much improved from the 9.7% decline in FY 2008-09. It is forecast to increase 4.2% to $18.0 billion in FY 2010-11 and increase 2.4% in FY 2011-12.

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, which was a $707.8 million or 3.9% decline from FY 2008-09. It is forecast to increase $759.6 million or 4.3% in FY 2010-11. Total net GF/GP and SAF revenue for FY 2011-12 is forecast to be $18.6 billion, which is $197.6 million or 1.1% above FY 2010-11.

Table 1 reports GF/GP and SAF revenue in terms of baseline and actual revenue. Final FY 2009-10 revenue and the recommended revisions to estimates for FY 2010-11 are reported in **Table 2 and Table 3**.

State Revenue Limit

Total state revenue is expected to be below the state revenue limit by $8.9 billion in FY 2009-10; it is estimated to be under the limit by $7.3 billion in FY 2010-11 and $7.7 billion in FY 2011-12.

Fund Balances

The year-end GF/GP balance was $205.2 million for FY 2009-10.

The year-end unreserved SAF balance was $276.1 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 and $2.4 million for FY 2011-12.

Table 1
HFA REVENUE ESTIMATES
(Millions of Dollars)

	Final FY 2009-10	HFA Estimate FY 2010-11	HFA Estimate FY 2011-12
Baseline GF/GP	$6,499.0	$7,018.6	$7,240.5
Baseline SAF	10,812.5	11,014.7	11,222.7
TOTAL BASELINE	**$17,311.5**	**$18,033.4**	**$18,463.2**
Net GF/GP	$6,785.2	$7,313.1	$7,304.9
Net SAF	10,816.9	11,048.6	11,254.5
TOTAL NET	**$17,602.2**	**$18,361.8**	**$18,559.4**

NOTE: Numbers may not add due to rounding.

Table 2
FY 2009-10 REVISIONS
(Millions of Dollars)

	May 2010 Consensus	January 2011 Final	Recommended Revision
Net GF/GP	$6,654.9	$6,785.2	$130.3
Net SAF	10,749.9	10,816.9	67.0
TOTAL NET	**$17,404.8**	**$17,602.2**	**$197.3**

NOTE: Numbers may not add due to rounding.

Table 3
FY 2010-11 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	May 2010 Consensus	January 2011 Recommendation	Recommended Revision
Net GF/GP	$7,096.7	$7,313.1	$216.4
Net SAF	10,832.9	11,048.6	215.7
TOTAL NET	**$17,929.6**	**$18,361.8**	**$432.2**

NOTE: Numbers may not add due to rounding.

ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2010-11 and FY 2011-12.

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 1.2 million jobs were added.

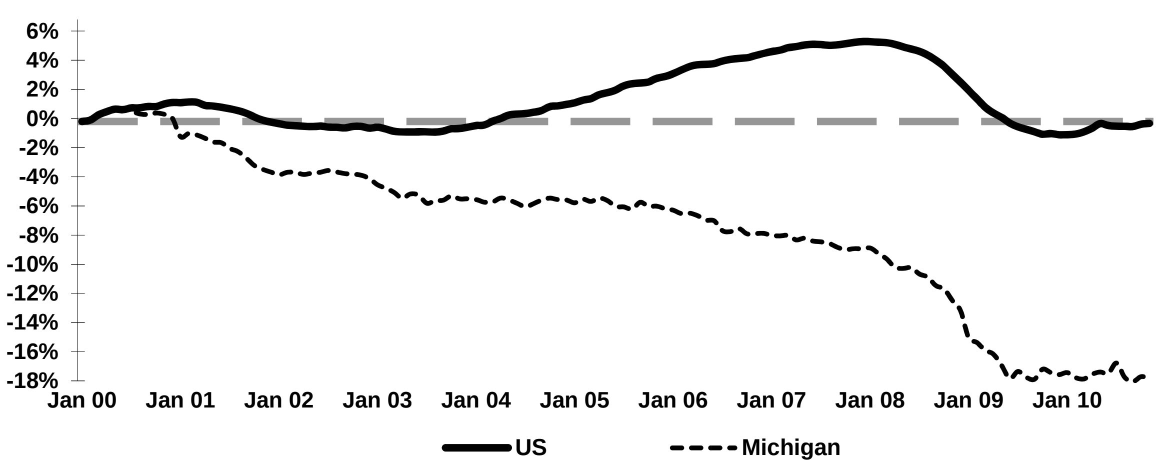
Total Non-Farm Employment

Figure 1 shows the monthly percent change in total non-farm employment for both the U.S. and Michigan from January 2000 through November 2010.

Figure 1

Total Non-Farm Employment

Percent Change From January 2000 Through November 2010



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, total non-farm employment at the end of 2010 is at essentially the same level as it was at the beginning 2000.

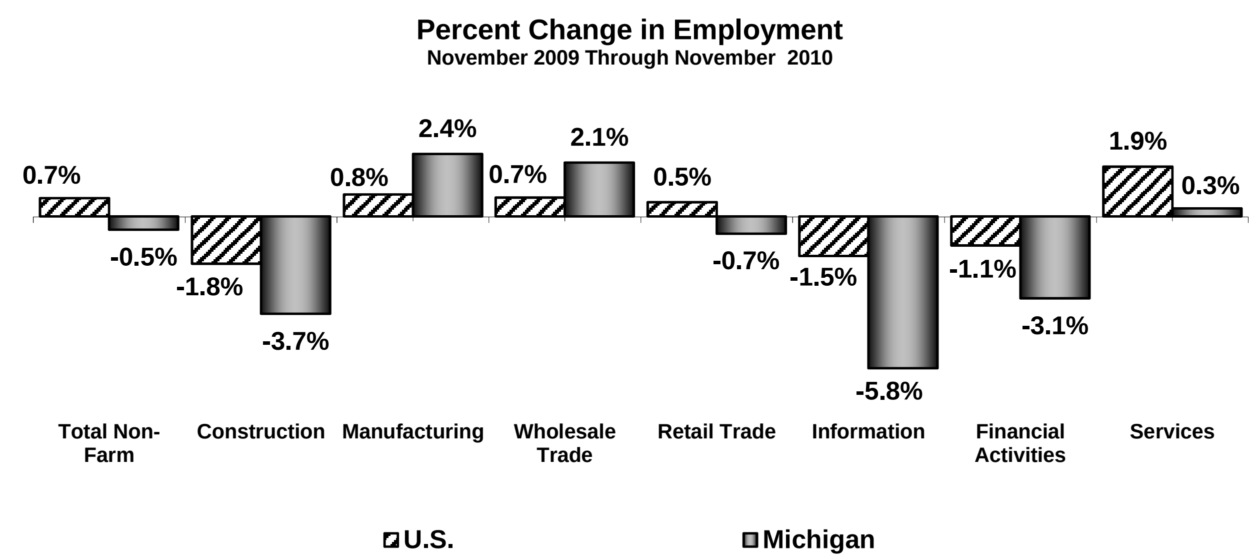
Michigan Non-Farm Employment

Although employment rebounded at the national level through 2007, conditions in Michigan have remained bleak. Employment in Michigan peaked in June 2000, a full eight months before the national level peak 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. Since then, job losses have continued to mount. During 2008 and 2009, more than 400,000 additional jobs were lost, and although job losses have continued into 2010, there are signs that employment declines have begun to taper off. Through the first eleven months of the year, total job losses are less than 13,000.

U.S. and Michigan Employment

Figure 2 shows the percent change in employment between November 2009 and November 2010 for all non-farm workers in several important sectors of the economy for both the U.S. and Michigan. Improving economic conditions at the national level are evident as the U.S. gained approximately 902,000 jobs over this period. In contrast, employment in Michigan fell by 19,900 jobs.

Figure 2



U.S. Employment

From November 2009 through November 2010, the U.S. experienced job losses in the construction, information, and financial activities sectors. Construction employment fell by 106,000 workers, and the financial activities and information sectors shed 85,000 jobs and

42,000 jobs, respectively. Although the manufacturing sector has been generally contracting for the past several years, it actually realized job gains of 97,000 workers.

Michigan Employment

Job losses in Michigan over the past year totaled 19,900 and occurred in all sectors with the exception of manufacturing, wholesale trade, and services. Although Michigan's manufacturing sector added almost 11,000 jobs, over the past eight years Michigan has lost more than 38% of its manufacturing employment.

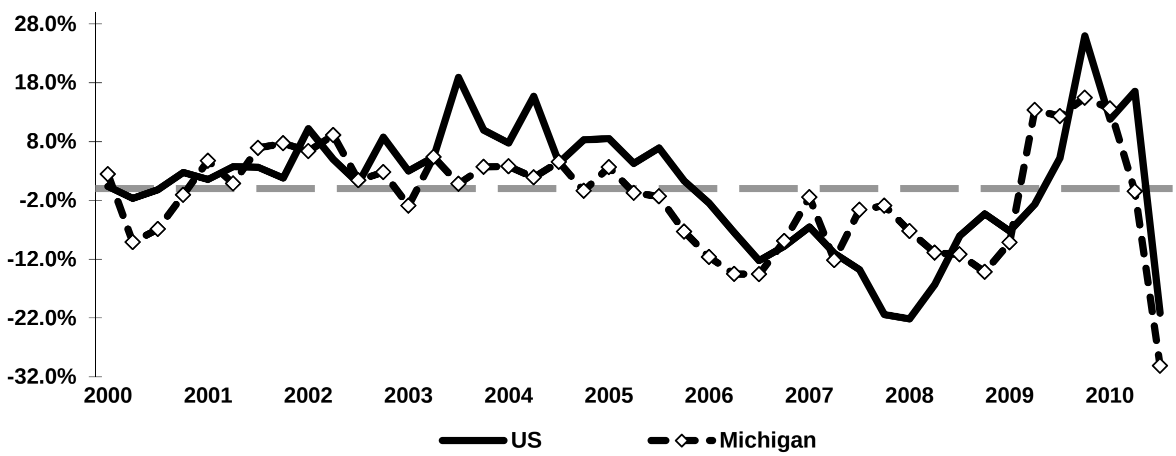
U.S. and Michigan Existing Home Sales

Figure 3 shows the quarterly percentage 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 2010:3



U.S. Existing Home Sales

The U.S. housing market continued to flourish during the first half of the decade, but began to turn downward in late 2005 as home sales began to falter. 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 they continued to decline into the first quarter of 2009, 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.

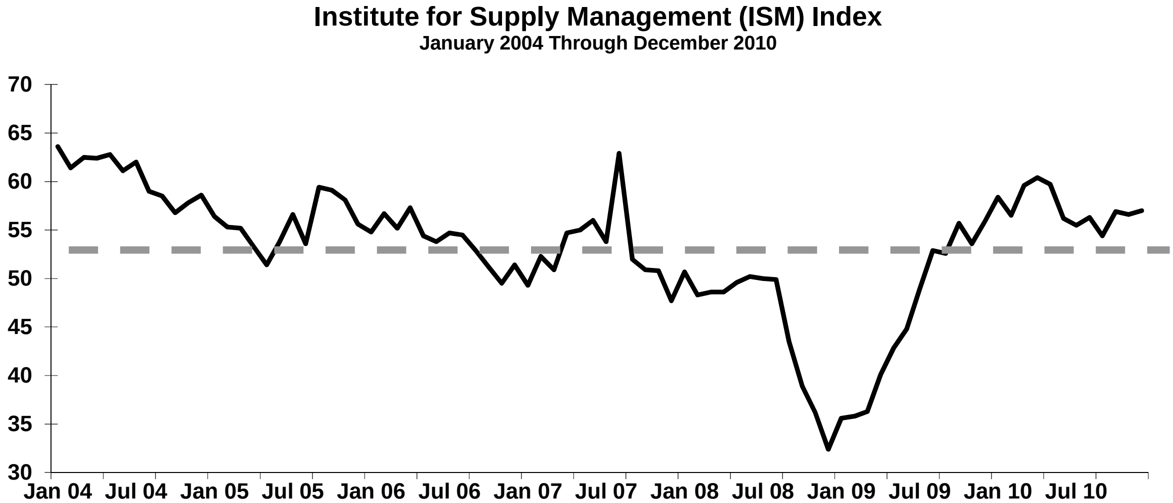
Michigan Existing Home Sales

Although there was 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 have seen existing home sales in Michigan plunge yet again.

Institute for Supply Management (ISM) Index

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

Figure 4



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 in December.

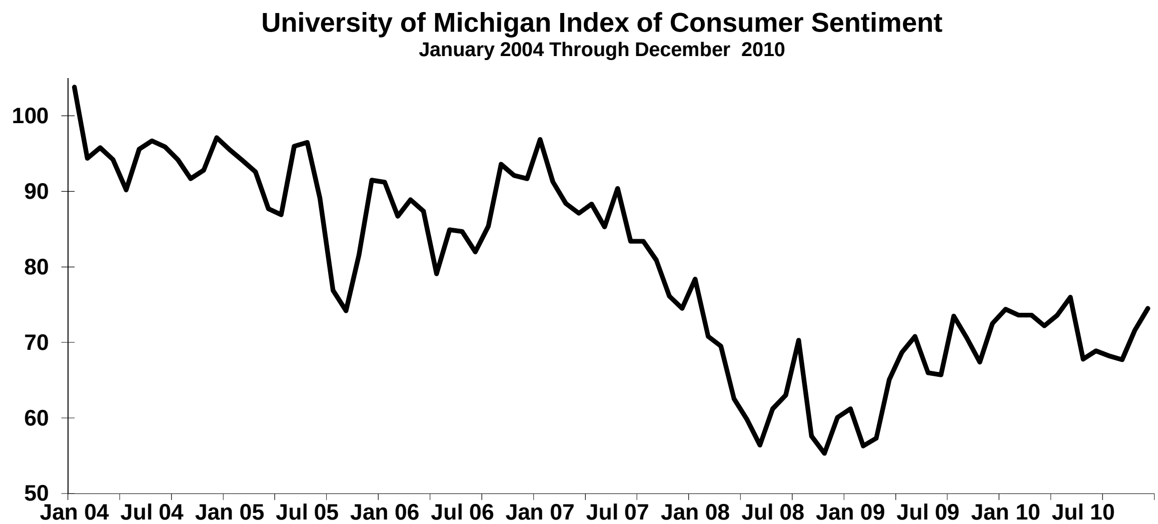
Index of Consumer Sentiment

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 with 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 may be weakening.

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.

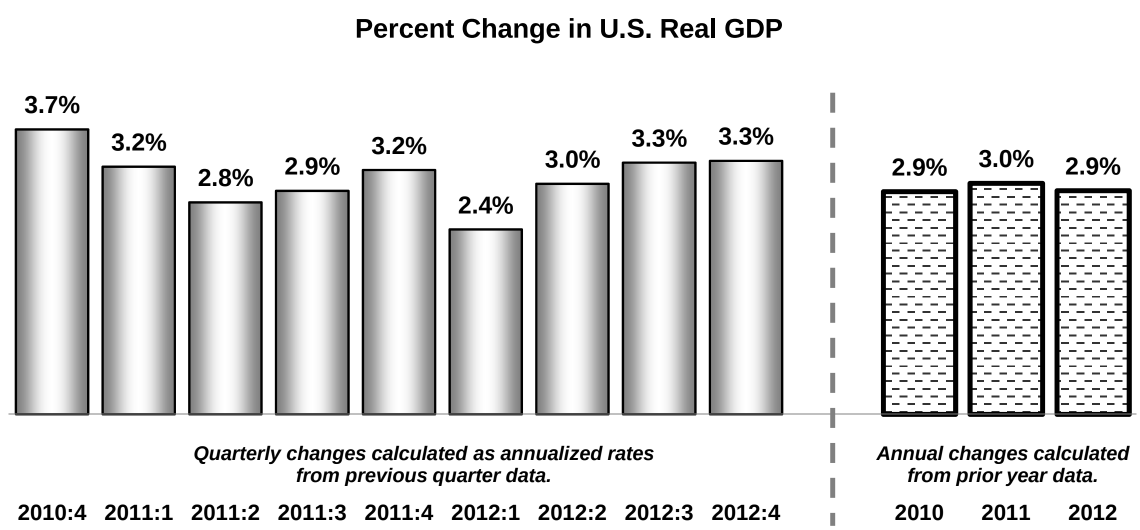
Figure 5



Real GDP

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

Figure 6



After increasing 2.6% during the third quarter of 2010, real GDP is anticipated to rise 3.7% in the fourth quarter. Real GDP growth, which declined 2.6% in CY 2009, is forecast to increase 2.9% in CY 2010, 3.0% in CY 2011, and 2.9% in CY 2012.

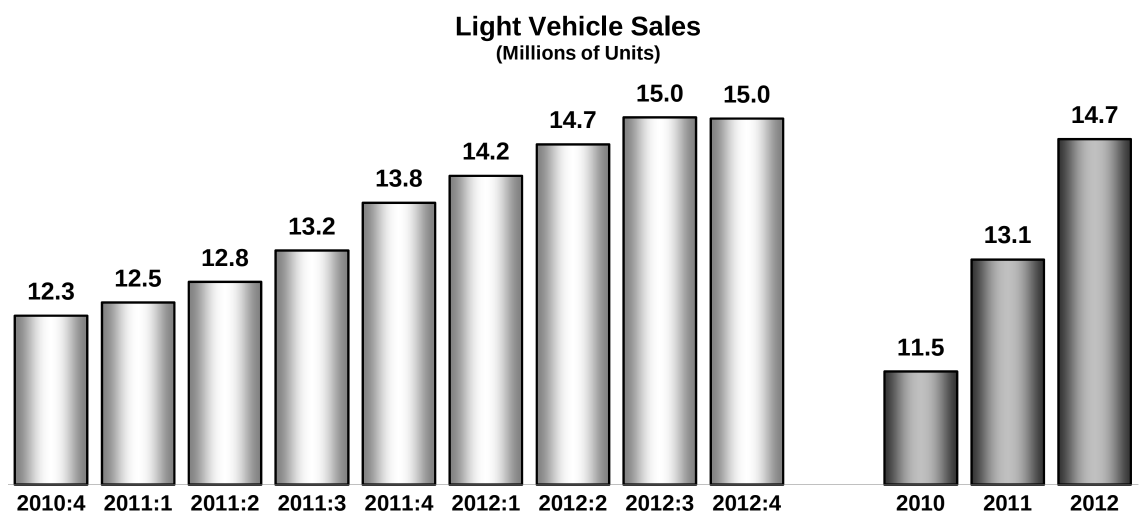
The decline in GDP growth in 2009 due to reduced consumer and business spending was moderated primarily by Federal expenditures. Both personal consumption and residential investment are forecast to increase in CY 2010, and will provide the impetus for overall real GDP growth. Gross private domestic investment is forecast to increase by 17.7% in CY 2010, 10.1% in CY 2011, and 10.0% in CY 2012.

Personal consumption, which fell by 1.2% in CY 2009, is expected to increase by 1.8% during CY 2010 as the economy begins to recover. Personal consumption is predicted to increase 2.8% in CY 2011 and 2.5% in CY 2012.

Light Vehicle Sales

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

Figure 7



Sales of light motor vehicles, which totaled 10.4 million units in CY 2009, are expected to rise to 11.5 million units in CY 2010, 13.1 million units in CY 2011, and 14.7 million units in CY 2012.

While there has been a shift in vehicle sales away from light trucks and toward cars over the past few years, that trend is expected to reverse itself somewhat as light trucks become more fuel efficient. Light truck sales, which accounted for 47.5% of total light vehicle sales in CY 2009, are expected to increase to 50.3% in CY 2010 and 51.2% in CY 2011 before dropping back to 50.0% in CY 2012.

The import share of total light vehicle sales was 26.2% in CY 2009; it is forecast to decrease to 24.0% in CY 2010 before increasing to 24.5% in both CY 2011 and CY 2012.

Inflation

U.S. Inflation

In conjunction with the resumption in economic growth, input prices (e.g., wages and import prices) have stabilized after falling over the past year. Crude oil and natural gas prices, which experienced volatile price fluctuations in 2008 and 2009, stabilized somewhat in 2010.

Benchmark West Texas intermediate crude reached a high of $135 in July 2008 before falling to about $40 by the end of the year. Oil prices rose steadily during 2009 to almost $78 by year's end, but leveled off through much of 2010 before increasing in the fourth quarter. Because there is always concern over the stability of the oil supply and world demand is expected to increase, it is anticipated that oil prices will increase during the forecast period from an average price in CY 2010 of $79 per barrel to about $88 per barrel during CY 2011 and $95 per barrel in CY 2012.

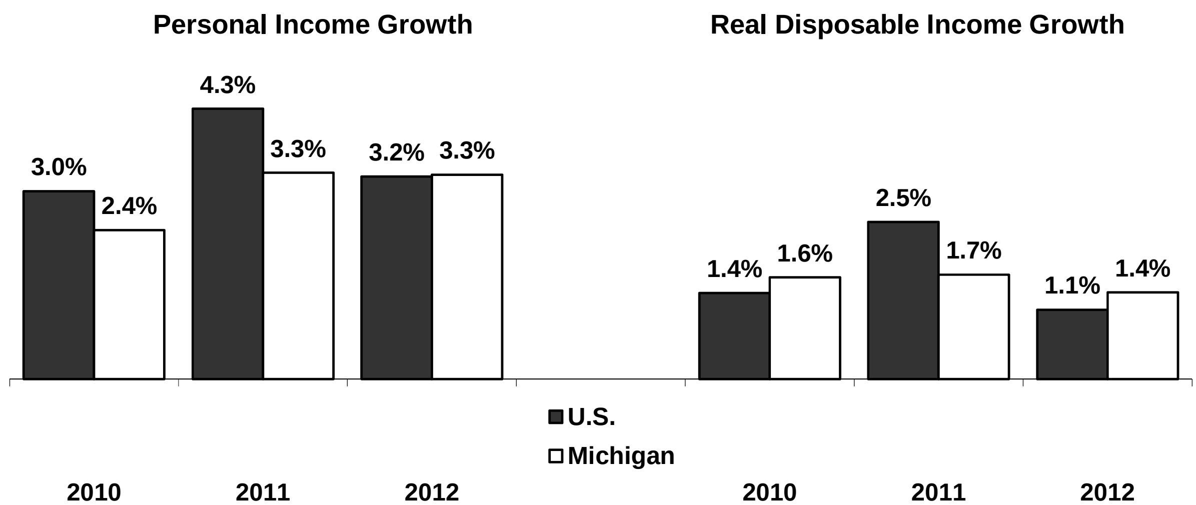
The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index for all Urban Consumers (CPI-U), fell by 0.4% in CY 2009; it is expected to increase by 1.6% in CY 2010, 1.3% in CY 2011, and 1.6% in CY 2011 as economic growth returns.

Michigan Inflation
The cost of living in Michigan is measured by the Detroit Consumer Price Index for all Urban Consumers (Detroit CPI-U). Michigan's average inflation rate declined 0.6% in CY 2009, and although inflation in Michigan is predicted to turn positive, it should remain relatively low throughout the forecast period. The Detroit CPI-U is expected to increase 0.8% in CY 2010, 1.1% in CY 2011, and 1.4% in CY 2012.

Income Growth

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

Figure 8



U.S. Income Growth
Total U.S. personal income fell 1.7% in CY 2009. Personal income growth is forecast to increase 3.0% in CY 2010, 4.3% in CY 2011 and 3.2% in CY 2012.

Very low inflation contributed to a modest 0.6% growth in U.S. real disposable income in CY 2009. U.S. real disposable income is forecast to grow 1.4% in CY 2010, 2.5% in CY 2011, and 1.1% in CY 2012.

Michigan Income Growth
Michigan's total state personal income growth fell 3.1% in CY 2009. Michigan personal income is forecast to increase 2.4% in CY 2010, and 3.3% in both CY 2011 and CY 2012.

Michigan real disposable income decreased 0.1% in CY 2009; it is forecast to increase 1.6% in CY 2010, 1.7% in CY 2011, and 1.4% in CY 2012.

Employment

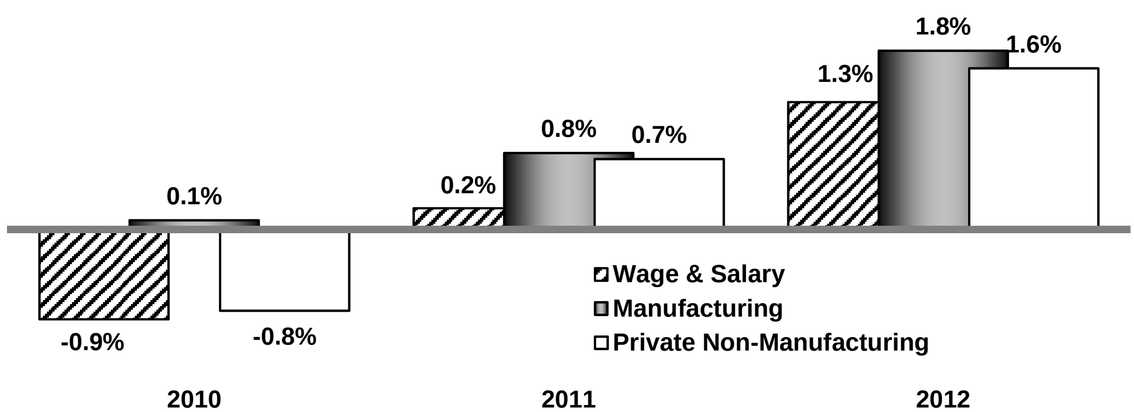
Figure 9 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

U.S. Employment

Nationally, total non-farm employment experienced average gains of about 93,700 per month during 2010 – roughly a 0.79% overall increase between December 2009 and December 2010. However, when compared to CY 2009 as a whole, total non-farm employment decreased 0.5% in CY 2010. Total non-farm employment is expected to grow 1.2% in CY 2011 and 2.0% in CY 2012.

Figure 9

Michigan Employment Growth



Michigan Employment

The Michigan economy has continued to endure a weak labor market. Michigan wage and salary employment declined by more than 285,000 workers in CY 2009 and is estimated to decline by about 35,000 workers in CY 2010. Wage and salary employment is expected to grow by 8,300 workers in CY 2011 and 49,400 workers in CY 2012. The forecast calls for continued quarterly job losses through the fourth quarter of CY 2010. Job growth is forecast for each quarter in CY 2011 and CY 2012.

Michigan wage and salary employment fell 6.9% in CY 2009, and is forecast to fall 0.9% in CY 2010 before increasing 0.2% in CY 2011 and 1.3% in CY 2012. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 0.3%.

Although Michigan manufacturing employment declined 19.4% in CY 2009, it is forecast to increase 0.1% in CY 2010, 0.8% in CY 2011, and 1.8% in CY 2012. Although meager, much of this growth is expected to occur within the motor vehicle sector, in small part offsetting some of the job losses due to the restructuring of Michigan's auto industry.

Michigan private non-manufacturing employment fell 5.8% in CY 2009; it is expected to decline 0.8% in CY 2010 before growing 0.7% in CY 2011 and 1.6% in CY 2012.

Unemployment

U.S. Unemployment

As of December 2007, total non-farm employment had increased for 52 consecutive months. Monthly job losses through all of CY 2008 and most of CY 2009 increased the unemployment rate, and although CY 2010 saw the return modest job growth, the unemployment rate is expected to remain at historically high levels.

The U.S. unemployment rate was 9.3% in CY 2009; it is forecast to increase to 9.6% in CY 2010 before falling to 9.4% in CY 2011 and 8.9% in CY 2012.

Michigan Unemployment

Employment in Michigan remains a major concern as employment growth has fallen during each of the past nine years. Michigan's wage and salary employment is forecast to continue declining throughout CY 2010, remain relatively flat in CY 2011, and begin growing in CY 2012. As a result, the unemployment rate is expected to decline, although it will remain relatively high.

Michigan's unemployment rate was 13.6% in CY 2009; it is expected to decrease to 13.4% in CY 2010, 12.2% in CY 2011, and 11.5% in CY 2012.

Table 4
ECONOMIC FORECAST VARIABLES

	Calendar 2009 Actual	Calendar 2010 Estimated	% Change from Prior Year	Calendar 2011 Estimated	% Change from Prior Year	Calendar 2012 Estimated	% Change from Prior Year
United States							
Real Gross Domestic Product (Billions of 2005 dollars)	$12,880.6	$13,253.0	2.9%	$13,650.5	3.0%	$14,046.7	2.9%
Implicit Price Deflator GDP (2005 = 100)	109.6	110.6	0.9%	111.7	1.0%	113.1	1.2%
Consumer Price Index (1982-84 = 100)	214.5	218.0	1.6%	220.8	1.3%	224.4	1.6%
Consumer Price Index (FY) (1982-84 = 100)	213.8	217.4	1.7%	220.2	1.3%	223.4	1.5%
Personal Consumption Deflator (2005 = 100)	109.3	111.1	1.7%	112.5	1.2%	114.3	1.6%
3-month Treasury Bills Interest Rate (Percent)	0.2%	0.1%		0.2%		0.2%	
Aaa Corporate Bonds Interest Rate (Percent)	5.3%	4.9%		4.9%		4.8%	
Non-Farm Employment (Millions)	130.9	130.3	-0.5%	131.8	1.2%	134.4	2.0%
Unemployment Rate – Civilian (Percent)	9.3%	9.6%		9.4%		8.9%	
Light Vehicle Sales (Millions of units)	10.4	11.5	11.0%	13.1	13.3%	14.7	12.6%
Passenger Car Sales (Millions of units)	5.5	5.7	5.1%	6.4	11.2%	7.4	15.4%
Light Truck Sales (Millions of units)	4.9	5.8	17.5%	6.7	15.3%	7.4	9.9%
Import Share of Light Vehicles (Percent)	26.2%	24.0%		24.5%		24.5%	
Housing Starts (Thousands of units)	0.555	0.591	6.6%	0.691	17.0%	1.070	54.8
Personal Income (Billions of current dollars)	$12,174.9	$12,541.7	3.0%	$13,085.2	4.3%	$13,510.2	3.2%
Real Disposable Income (Billions of 2005 dollars)	$10,100.0	$10,239.3	1.4%	$10,497.3	2.5%	$10,613.9	1.1%
Michigan							
Wage and Salary Employment (Thousands)	3,876.9	3,841.9	-0.9%	3,850.1	0.2%	3,899.5	1.3%
Transportation Equipment Employment (Thousands)	126.3	129.4	2.4%	130.1	0.5%	132.6	1.9%
Unemployment Rate (Percent)	13.6%	13.4%		12.2%		11.5%	
Personal Income (Millions of current dollars)	$342,303	$350,497	2.4%	$362,072	3.3%	$373,935	3.3%
Real Personal Income (Millions of 1982-84 dollars)	$168,249	$170,945	1.6%	$174,703	2.2%	$177,874	1.8%
Real Disposable Income (Millions of 1982-84 dollars)	$153,307	$155,806	1.6%	$158,414	1.7%	$160,616	1.4%
Wage and Salary Income (Millions of current dollars)	$170,771	$173,010	1.3%	$177,517	2.6%	$183,833	3.6%
Detroit Consumer Price Index (1982-84 = 100)	203.5	205.0	0.8%	207.3	1.1%	210.2	1.4%
Detroit CPI (FY) (1982-84 = 100)	202.6	204.8	1.1%	206.8	1.0%	209.3	1.2%

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 (primarily centered on Greece and Ireland) 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 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 $89 per barrel in December 2010 – almost $15 per barrel higher than a year ago and has been steadily rising since September. Oil prices are forecast to average $88 per barrel throughout CY 2011 and $95 per barrel in CY 2012.

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. 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 likely saw a 6.2% decline in CY 2010 which was a payback from the federal homebuyer tax credit that pulled sales forward into CY 2009. In CY 2010, housing starts likely increased 6.5%, but remained at an extremely low level of 0.59 million units. Housing starts are forecast to increase to 0.69 million units in CY 2011 and 1.07 million units in CY 2012.

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

Included in the forecast is the extension of the Bush tax cuts, which does not provide any additional stimulus to the economy, but continues the overall tax law that was in place in the immediately preceding years. Also incorporated into the forecast is a one-year reduction of 2 percentage points in the employee contributions to Social Security, a two-year extension of various tax credits that were part of the ARRA package, and investment incentives (100% depreciation expensing and 50% bonus depreciation). However, fiscal policy remains a risk if federal government spending cuts are enacted that are too severe in the short-term.

State and Local Governments

According to the Nelson A. Rockefeller Institute, the state tax revenue picture in the first three quarters of CY 2010 was a significant improvement from the collapse in the preceding five quarters. However, 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. However, additional federal aid is not expected to materialize beyond what has already been enacted.

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 cuts of 2.0% in CY 2010, 2.3% in CY 2011 and 0.6% in CY 2012.

Michigan's Motor Vehicle Industry

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 10.4 million units in CY 2009 and 11.5 million units in CY 2010. Light motor vehicle sales are forecast to be 13.1 million units in CY 2011, then increase to 14.7 million units in CY 2012 as the national expansion continues.

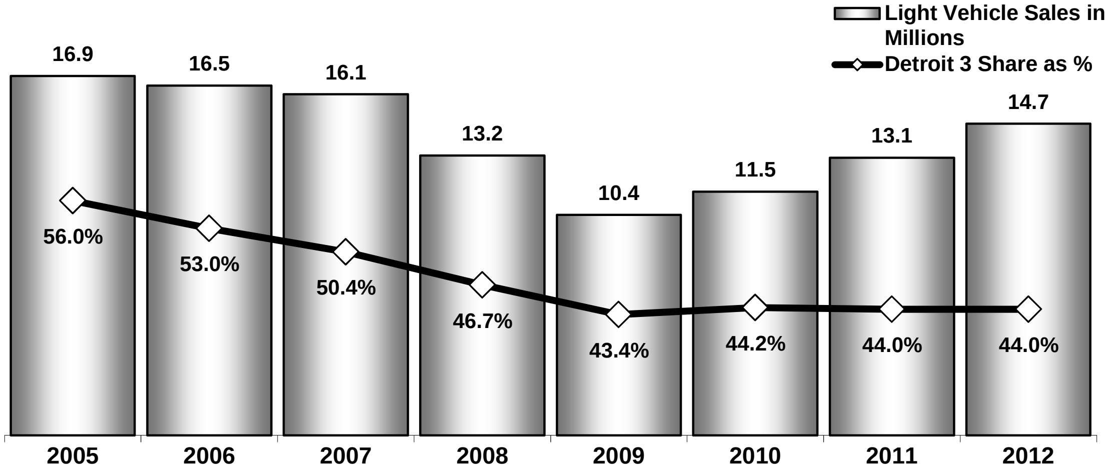
Imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) have steadily gained in market share over the past several years. As shown in **Figure 10**, the market share of the Detroit 3 auto manufacturers increased to 44.2% in CY 2010.

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 44.0% in CY 2011 and CY 2012. In CY 2010, the Detroit 3 sold 5.1 million vehicles; it is expected that the Detroit 3 will sell 5.8 million vehicles in CY 2011 and 6.5 million units in CY 2012.

After significant declines since CY 2000, Michigan transportation equipment employment increased 2.4% in CY 2010 and is forecast to increase 0.5% in CY 2011 and 1.9% in CY 2012. The CY 2011 estimated level of transportation equipment employment of 130,000 is 38% 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

Detroit 3 Share of Light Vehicle Sales



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 January 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 declined 8.2% to $6,413.1 million in FY 2009-10. Much of this decline was due to the weak economy and falling income tax and MBT revenue, but also from an increase in the earned income tax credit or EITC. GF/GP tax revenue is estimated to be $6,937.7 million, an increase of $524.6 million or 8.2%, in FY 2010-11, and $6,926.5 million, a decrease of $11.3 million, or 0.2% in FY 2011-12. The FY 2011-12 GF/GP revenue includes the fiscal impact of an income tax rate reduction (from 4.35% to 4.25% effective October 1, 2011) and MBT battery credits, which together reduce revenue by an estimated $195 million.

Total Net GF/GP Revenue

Net GF/GP revenue includes non-tax revenue and represents the amount available to spend. Net GF/GP revenue was $6,785.2 million in FY 2009-10; it is forecast to be $7,313.1 million, an increase of $527.9 million or 7.8% in FY 2010-11, and $7,304.9 million, a decrease of $8.3 million or 0.1% in FY 2011-12.

SAF Revenue by Source

Total Net SAF Revenue

Net SAF revenue declined 1.2% to $10,816.9 million in FY 2009-10. Continued declines in housing resulted in falling State education tax and real estate property tax revenue, which were partially offset by increases in sales and use tax revenue. Net SAF revenue is forecast to be $11,048.6 million, an increase of $231.7 million or 2.1%, in FY 2010-11, and $11,254.5 million, an increase of $205.9 million or 1.9%, in FY 2011-12.

Table 5

GF/GP REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2009-10	FY 2010-11	FY 2011-12	Change From FY 2010-11 to FY 2011-12	
Income Tax	$3,694.5	$3,879.9	$3,838.6	($41.4)	-1.1%
Sales and Use Taxes	891.9	909.8	940.3	30.5	3.4%
MBT/SBT/Insurance Taxes	1,393.4	1,699.1	1,693.1	(6.0)	-0.4%
Other Taxes	433.3	448.9	454.5	5.6	1.2%
GF/GP Tax Revenue	**$6,413.1**	**$6,937.7**	**$6,926.5**	**($11.3)**	**-0.2%**
Non-Tax Revenue	372.1	375.4	378.4	3.0	0.8%
Total Net GF/GP Revenue	**$6,785.2**	**$7,313.1**	**$7,304.9**	**($8.3)**	**-0.1%**

NOTE: Numbers may not add due to rounding.

Table 6

SCHOOL AID FUND REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2009-10	FY 2010-11	FY 2011-12	Change From FY 2010-11 to FY 2011-12	
Sales and Use Tax	$4,886.6	$5,077.5	$5,213.5	$136.0	2.7%
Income Tax Earmark	1,836.2	1,917.3	1,976.3	59.0	3.1%
State Education Tax	1,930.5	1,881.0	1,880.0	(1.0)	-0.1%
Lottery/Casino Wagering	812.4	833.0	838.0	5.0	0.6%
MBT	729.0	739.2	748.0	9.6	1.3%
Tobacco Taxes	392.9	379.0	371.8	(7.2)	-1.9%
Real Estate Transfer Tax	121.6	116.0	120.0	4.0	3.4%
Other Taxes	107.7	105.6	106.1	0.5	0.5%
Total Net SAF Revenue	**$10,816.9**	**$11,048.6**	**$11,254.5**	**$205.9**	**1.9%**

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. Fiscal Year 2010-11 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2009-10 figures are included.

Budget Stabilization Fund estimates are based on the current balance and HFA estimates of future deposits and interest earned.

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

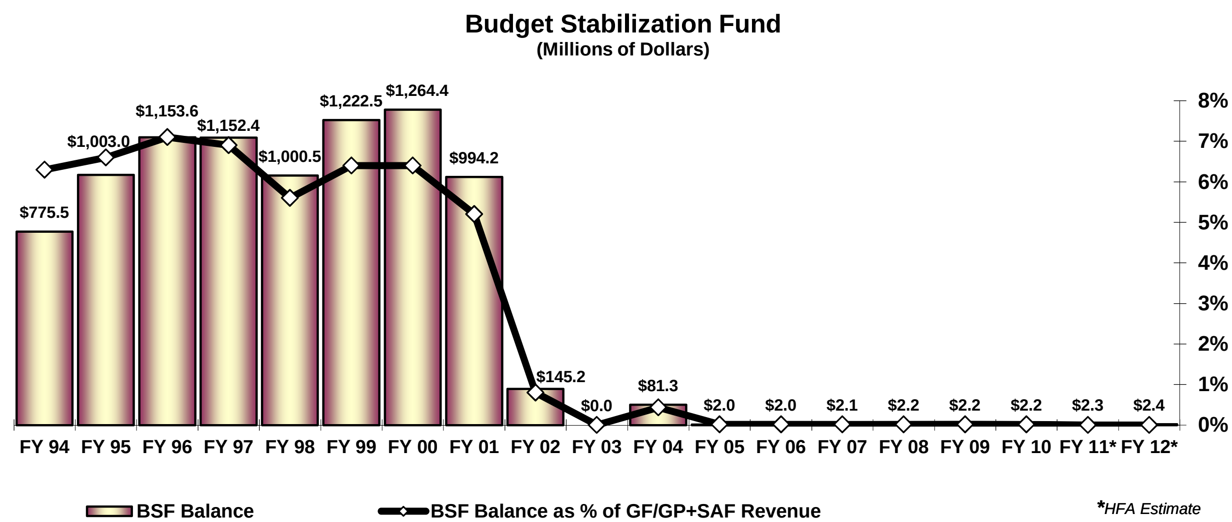
	Final FY 2009-10	Estimated FY 2010-11	Estimated FY 2011-12
General Fund/General Purpose	$205.2	$0.0	$0.0
School Aid Fund	$276.1	$600.0	$799.4
Budget Stabilization Fund	$2.2	$2.3	$2.4

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

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. **Figure 9** shows the BSF fund balance and the BSF fund balance as a percent of total GF/GP and SAF revenue. **Table 8** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1993-94 through FY 2011-12.

Figure 11



The BSF ending fund balance for FY 2009-10 was $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 no pay-in or withdrawal for FY 2010-11 and a $90.0 million pay-in for FY 2011-12. The pay-in is subject to an appropriation.

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	$0.0	$2.2
2009-10	$0.0	$0.0	$0.0	$2.2
2010-11*	$0.0	$0.0	$0.1	$2.3
2011-12*	$0.0	$0.0	$0.1	$2.4

** 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 12,** and **Table 10**, the FY 2008-09 revenue limit calculation showed state revenue collections at $7.99 billion below the revenue limit. For FY 2009-10, state revenue is estimated to be below the limit by $8.94 billion. For FY 2010-11 and FY 2011-12, state revenue is estimated to be below the revenue limit – by $7.31 billion, and $7.71 billion, respectively.

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**
Personal Income				
Calendar Year	CY 2007	CY 2008	CY 2009	CY 2010
Amount	$345,885	$349,612	$342,303	$350,479
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	**$32,368.0**	**$33,178.2**	**$32,484.6**	**$33,260.5**
Total Revenue Subject to Revenue Limit	$24,838.5	$24,234.0	$25,178.4	$25,551.7
Amount Under (Over) State Revenue Limit	**$7,985.9**	**$8,944.2**	**$7,306.1**	**$7,708.7**

NOTE: Numbers may not add due to rounding.

Figure 12

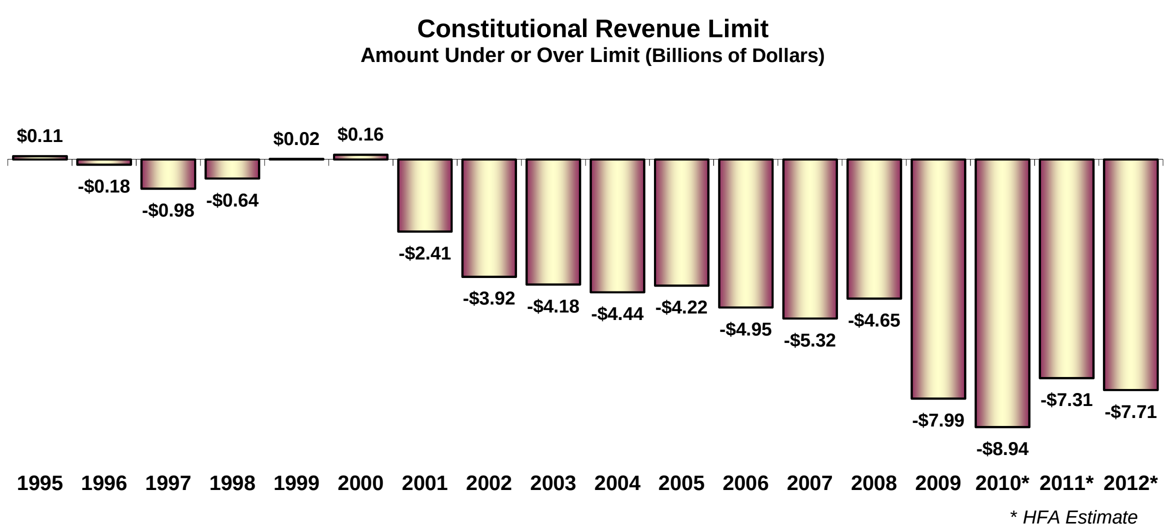


Table 10
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

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*	($8.94)
2010-11*	($7.31)
2011-12*	($7.71)

**HFA Estimate*

HOUSE FISCAL AGENCY

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