ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN

FY 2011-12
THROUGH
FY 2013-14

HOUSE FISCAL AGENCY

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FOREWORD

This report includes a national and State economic forecast for calendar year (CY) 2011 through CY 2014. It also presents preliminary final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2010-11, revised revenue estimates for FY 2011-12 and FY 2012-13, and initial estimates for FY 2013-14. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 13, 2012, 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 2014, 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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EXECUTIVE SUMMARY

The national economy has been generally improving at a subdued pace. Encouragingly, national non-farm employment increased by 200,000 in December and the economic data suggests a healthy 2011 fourth quarter. U.S. economic momentum is forecast to outweigh the overseas threat as the Eurozone financial crisis is expected to be generally contained.

The growth of Gross Domestic Product or GDP started out at a very anemic rate at the beginning of CY 2011. However, the pace remained subpar, but increased throughout the year; it is expected to increase 1.7% for CY 2011. The national economy is expected to slowly accelerate throughout the forecast period. The forecast assumes the 2% employee payroll tax cut and the emergency unemployment insurance benefits will be extended for all of 2012.

Michigan's economy and state revenue will be significantly affected by the strength of the national recovery. In November, Michigan's nonfarm employment grew 1.5% or by 59,100 jobs relative to a year ago. This increase was led by gains in construction, manufacturing, professional and business services, and health care and social assistance.

U. S. Forecast

Real GDP growth is forecast to increase 1.9% in CY 2012. It is forecast to increase 2.4% in CY 2013, and grow 2.8% in CY 2014.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 2.1% in CY 2012, then increase 1.9% in CY 2013 and 1.9% in CY 2014.

Light vehicle sales of 12.7 million units in CY 2011 are forecast to grow to 13.6 million units in CY 2012, to 14.4 million units in CY 2013, and to 14.9 million units in CY 2014. The import share of light vehicles is forecast to be close to 22% through the forecast horizon.

The national unemployment rate is expected to be 9.0% in CY 2011; it is forecast to decline to 8.4% in CY 2014.

Interest rates on three-month T-bills are expected to average 0.1% in CY 2011 and CY 2012; rates are forecast to average 0.2% in CY 2013 and 0.6% in CY 2014.

Michigan Forecast

Michigan personal income is expected to increase 5.1% in CY 2011; it is forecast to increase 3.4% in CY 2012, 2.8% in CY 2013, and 4.7% in CY 2014.

Michigan's unemployment rate is expected to be 10.7% in CY 2011; it is forecast to decrease to 9.6% in CY 2014.

Inflation (as measured by the Detroit Consumer Price Index) for CY 2011 is expected to increase 3.4%; it is forecast to increase 2.2% in CY 2012 and increase under 2.0% for both CY 2013 and CY 2014.

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 preliminary final total baseline GF/GP and SAF revenue was $19.8 billion in FY 2010-11, which was an increase of 7.4%. It is forecast to increase 3.7% in FY 2011-12 and by approximately 3.0% in both FY 2012-13 and FY 2013-14.

Net revenue captures the effects of all policy changes and represents resources available. Preliminary final total net GF/GP and SAF revenue was $20.1 billion in FY 2010-11, which was a $1.84 billion or 9.7% increase from FY 2009-10. It is forecast to decrease $280.5 million or 1.4% in FY 2011-12. Total net GF/GP and SAF revenue for FY 2012-13 is forecast to increase 1.8% and for FY 2013-14 increase 2.4%.

Table 1 reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the May 2011 adjusted consensus estimates and the recommended revisions to these estimates for FY 2010-11 through FY 2012-13. The May 2011 adjusted consensus estimates include the May 2011 consensus estimates plus the enacted tax reform changes, amnesty, unclaimed property, statutory revenue sharing, and other adjustments. Prior to a GF/GP appropriation, the sales tax earmarked for statutory revenue sharing is technically GF/GP revenue. Preliminary final FY 2010-11 figures suggest an increase of $253.7 million from the May 2011 adjusted consensus estimates; the recommended revision for FY 2011-12 is an increase of $417.1 million and for FY 2012-13 is an increase of $285.4 million.

State Revenue Limit

Total state revenue is expected to be below the state revenue limit by $6.4 billion in FY 2010-11; it is estimated to be under the limit by $7.3 billion in FY 2011-12, $8.6 billion in FY 2012-13, and $9.0 billion in FY 2013-14.

Fund Balances

The year-end GF/GP balance was $574.3 million for FY 2010-11.

The year-end unreserved SAF balance was $722.0 million for FY 2010-11.

The year-end Countercyclical Budget Stabilization Fund balance was $2.2 million for FY 2010-11; it is estimated to be $258.0 million for FY 2011-12, $260.6 million for FY 2012-13, and $263.8 million for FY 2013-14.

Table 1
HFA JANUARY 2012 REVENUE ESTIMATES FOR FY 2010-11 THROUGH FY 2013-14
(Millions of Dollars)

	Preliminary Final FY 2010-11	HFA Est. FY 2011-12	HFA Est. FY 2012-13	HFA Est. FY 2013-14	FY 2010-11 % Change	FY 2011-12 % Change	FY 2012-13 % Change	FY 2013-14 % Change
Baseline								
GF/GP	$8,553.3	$9,028.4	$9,363.0	$9,710.4	12.2%	5.6%	3.7%	3.7%
SAF	11,256.1	11,508.3	11,793.5	12,095.1	4.1%	2.2%	2.5%	2.6%
Total	**$19,809.4**	**$20,536.7**	**$21,156.4**	**$21,805.5**	**7.4%**	**3.7%**	**3.0%**	**3.1%**
Net								
GF/GP	$8,824.6	$9,004.0	$9,067.5	$9,279.3	17.1%	2.0%	0.7%	2.3%
SAF	11,250.8	10,790.9	11,091.2	11,372.7	4.1%	-4.1%	2.8%	2.5%
Total	**$20,075.4**	**$19,794.9**	**$20,158.7**	**$20,652.0**	**9.7%**	**-1.4%**	**1.8%**	**2.4%**
May 2011 Adjusted Consensus[1)]								
GF/GP	$8,683.2	$8,752.5	$8,908.1					
SAF	11,138.5	10,625.3	10,965.2					
Total	**$19,821.7**	**$19,377.8**	**$19,873.3**					
Recommended Revision								
GF/GP	$141.4	$251.5	$159.4					
SAF	112.3	165.6	126.0					
Total	**$253.7**	**$417.1**	**$285.4**					

NOTE: Numbers may not add due to rounding.

[1)] The May 2011 adjusted consensus includes the May 2011 consensus estimates plus the enacted tax reform changes, amnesty, unclaimed property, statutory revenue sharing, and other adjustments.

ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2011-12 through FY 2013-14.

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 January 2008 – at which point the national economy officially entered a severe recession.

Employment fell by more than 6% between January 2008 and February 2009, which translates into a loss of more than 8.7 million jobs. And, while employment began growing during 2010, fewer than one million jobs were added. Continued employment growth through all of 2011 has added more than 1.6 million jobs, but employment still remains far below pre-recession levels.

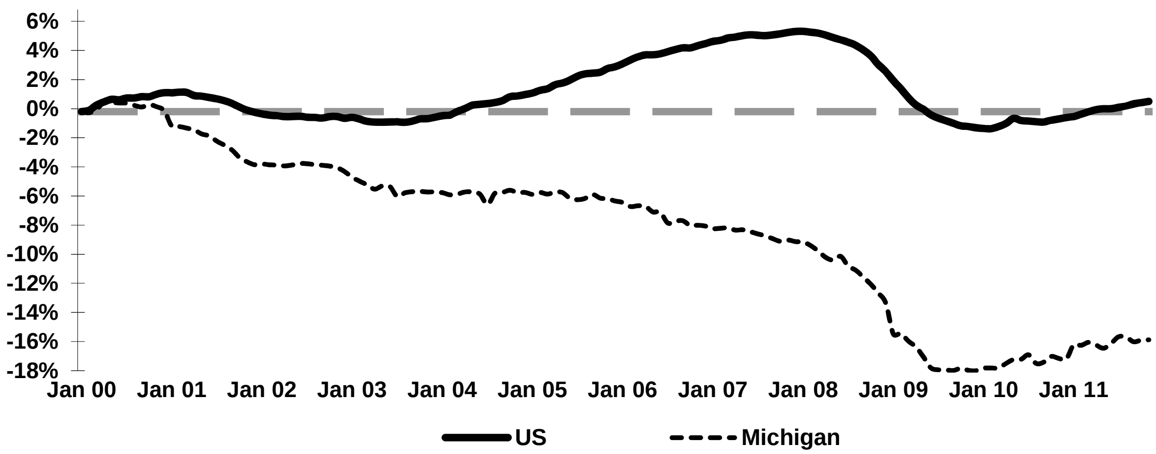
Total Non-Farm Employment

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

Figure 1

Total Non-Farm Employment

Percent Change From January 2000 Through November 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. This decline was followed by 53 consecutive months of job growth. Between September 2003 and January 2008, more than 8.1 million jobs were added.

The ensuing recession saw 25 consecutive months of employment declines during which more than 8.7 million jobs were lost. Job gains finally reappeared in March 2010, and while modest job growth resumed during much of 2010 and continued through 2011, total non-farm employment increased by only about 2.5 million jobs. As of November 2011, total employment is less than one percent higher than in January 2000.

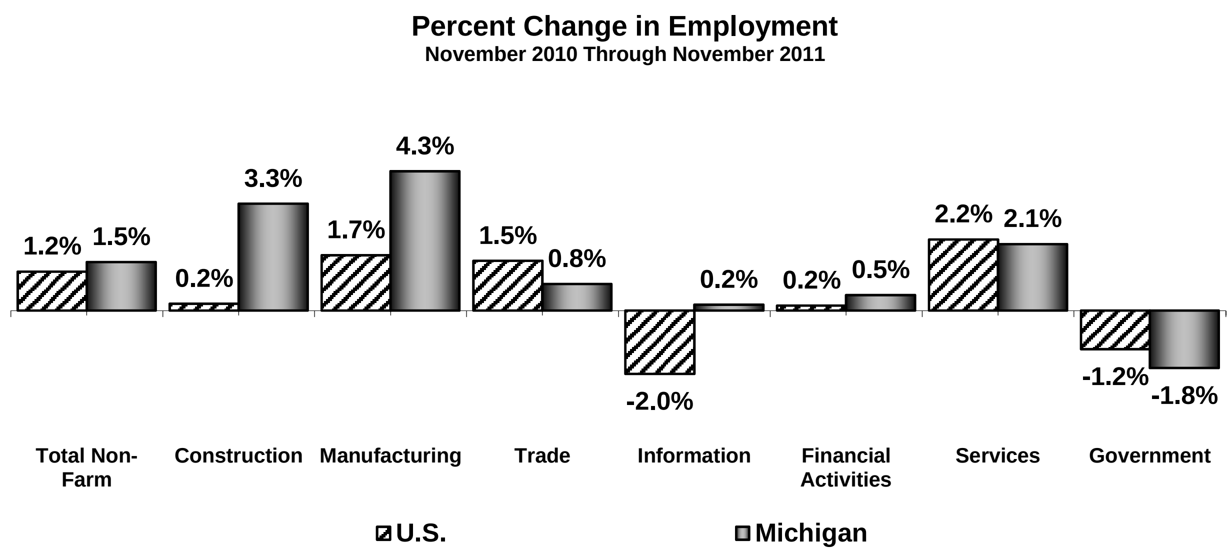
Michigan Non-Farm Employment

Although employment rebounded at the national level through 2007, conditions in Michigan 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. Throughout the 2000s, job losses continued to mount. During 2008 and 2009, more than 400,000 additional jobs were lost, and while employment increased somewhat in 2010, only about 37,000 jobs were added. Although about 62,500 jobs have been added during the first eleven months of 2011, total non-farm employment in November 2011 is 15.7% lower than in January 2000.

U.S. and Michigan Employment

Figure 2 shows the percent change in employment between November 2010 and November 2011 for all 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 1.6 million jobs over this period. In addition, employment in Michigan rose by 59,100 jobs.

Figure 2



U.S. Employment
From November 2010 through November 2011, the U.S. experienced job gains in all categories with the exception of information and government, which lost 53,000 and 271,000 jobs respectively. Conversely, service sector employment increased by more than 1.2 million. Although the manufacturing sector has been generally contracting for the past several years, it realized job gains of 199,000 workers.

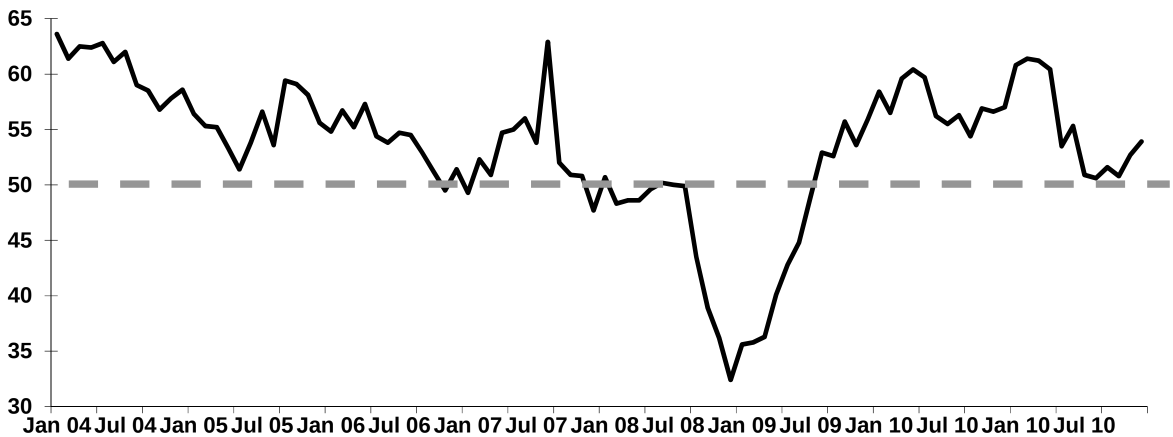
Michigan Employment
Job gains in Michigan over the past year totaled 59,100 and occurred in all sectors with the exception government, which declined by 11,500 workers. Although Michigan's manufacturing sector added almost 21,000 jobs, over the past eight years Michigan has lost almost 29% of its manufacturing employment.

Institute for Supply Management (ISM) Index

Figure 3 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 3

Institute for Supply Management (ISM) Index
January 2004 Through December 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 61.4 in February 2011. After dropping for six consecutive months, the ISM resumed a mostly upward path, and stands at 53.9 in December 2011.

Index of Consumer Sentiment

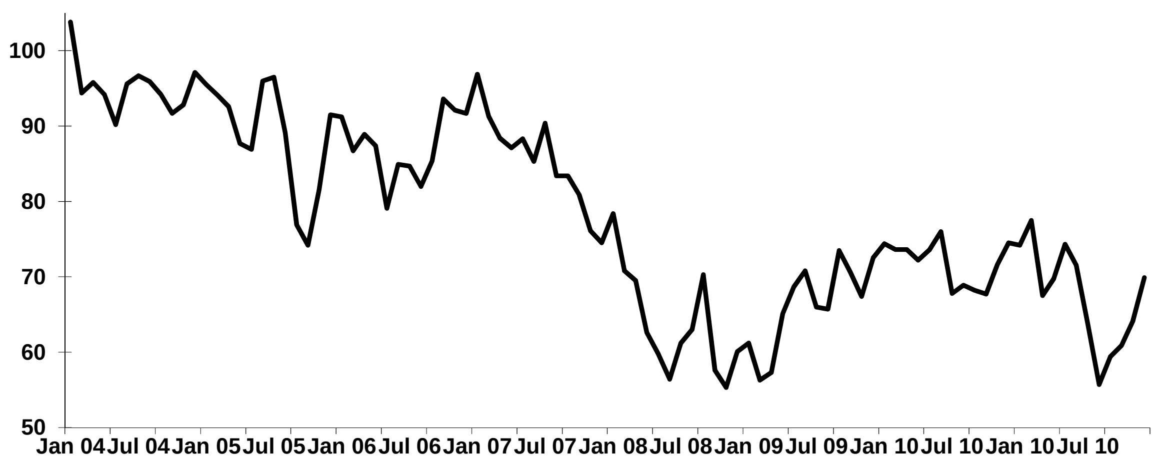
Consumer sentiment can be a strong motivator of personal consumption expenditures, which comprise almost two-thirds of GDP. **Figure 4** shows the University of Michigan Index of Consumer Sentiment beginning with January 2004.

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 February 2011 it had risen to 77.5, its highest level in more than three years. After dropping to 55.7 in August, consumer sentiment improved to 69.9 in December 2011.

Figure 4

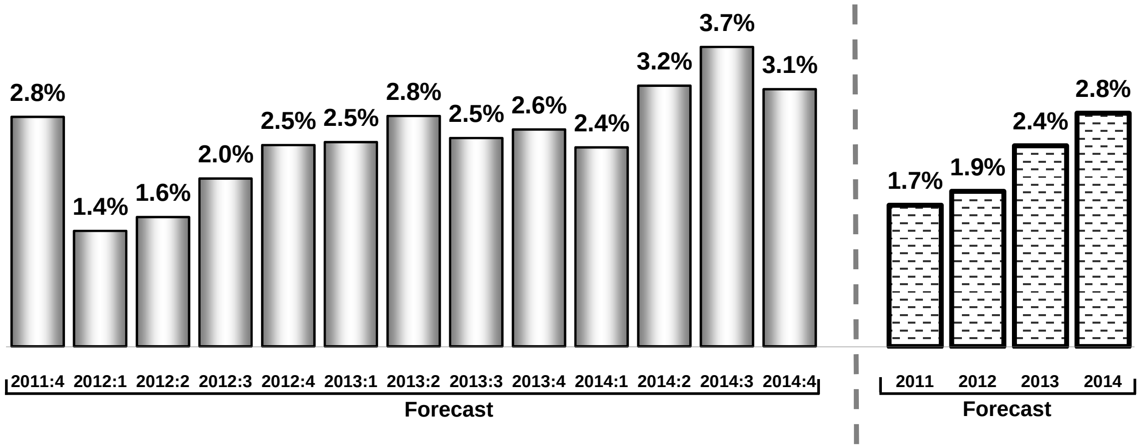
University of Michigan Index of Consumer Sentiment
January 2004 Through December 2011



Real GDP

Figure 5 shows the estimated percent change in U.S. Real GDP for CY 2011 through CY 2014.

Figure 5
Percent Change in U.S. Real GDP



Quarterly changes calculated as annualized rates from previous quarter data.

Annual changes calculated from prior year data.

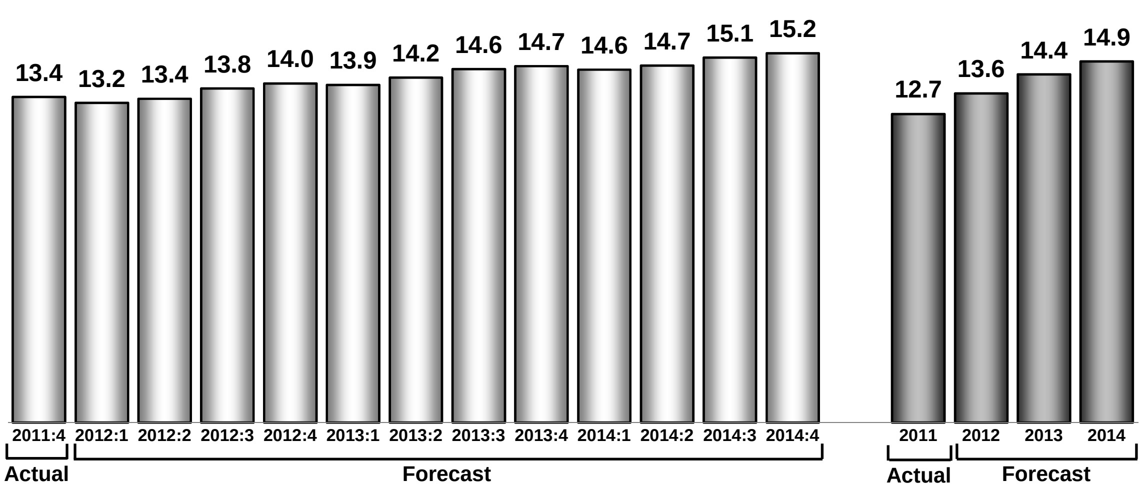
After increasing 1.8% during the third quarter of 2011, real GDP is anticipated to rise 2.8% in the fourth quarter. Real GDP, which grew 3.0% in CY 2010, is forecast to increase 1.7% in CY 2011, 1.9% in CY 2012, 2.4% in CY 2013, and 2.8% in CY 2014.

Both personal consumption and business fixed investment are forecast to increase in CY 2011, and will continue to provide the foundation for continued real GDP growth. In addition, residential investment is forecast to increase beginning in 2012. All three of these factors will contribute to overall economic growth throughout the forecast horizon.

Light Vehicle Sales

Figure 6 shows light vehicle sales for CY 2011 and estimates for CY 2012 through CY 2014.

Figure 6
Light Vehicle Sales
(Millions of Units)



Sales of light motor vehicles totaled 11.6 million units in CY 2010 and rose to 12.7 million units in CY 2011. Light vehicle sales are forecast to increase to 13.6 million units in CY 2012, 14.4 million units in CY 2013, and 14.9 million units in CY 2014.

While there was a shift in vehicle sales away from light trucks and toward cars over the past few years, that trend has reversed itself somewhat as light trucks have become more fuel efficient. Light truck sales, which accounted for 47.5% of total light vehicle sales in CY 2009 and 50.4% in CY 2010, are expected to increase to about 51.3% in CY 2011 and then remain near 51.0% through CY 2014.

The import share of total light vehicle sales was 23.7% in CY 2010; it is forecast to decrease to 22.3% in CY 2011 and then remain near 22.0% through CY 2014.

Inflation

U.S. Inflation

In conjunction with the resumption in economic growth, input prices (e.g., wages and import prices) have smoothed in recent months. Crude oil and natural gas prices, which experienced volatile price fluctuations in 2008 and 2009, stabilized somewhat in 2010 and 2011.

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. After spiking during the second quarter of 2011, crude oil prices have dropped back, albeit at a higher level than during 2010. Because there is always concern over the stability of the oil supply and the uncertainty of world demand, it is anticipated that oil prices, which averaged about $95 in CY 2011, will average $98 in CY 2012 and remain in this general range throughout the forecast period.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index for all Urban Consumers (CPI-U), rose by 1.6% in CY 2010; it is expected to increase by 3.2% in CY 2011, 2.1% in CY 2012, and 1.9% in both CY 2013 and CY 2014.

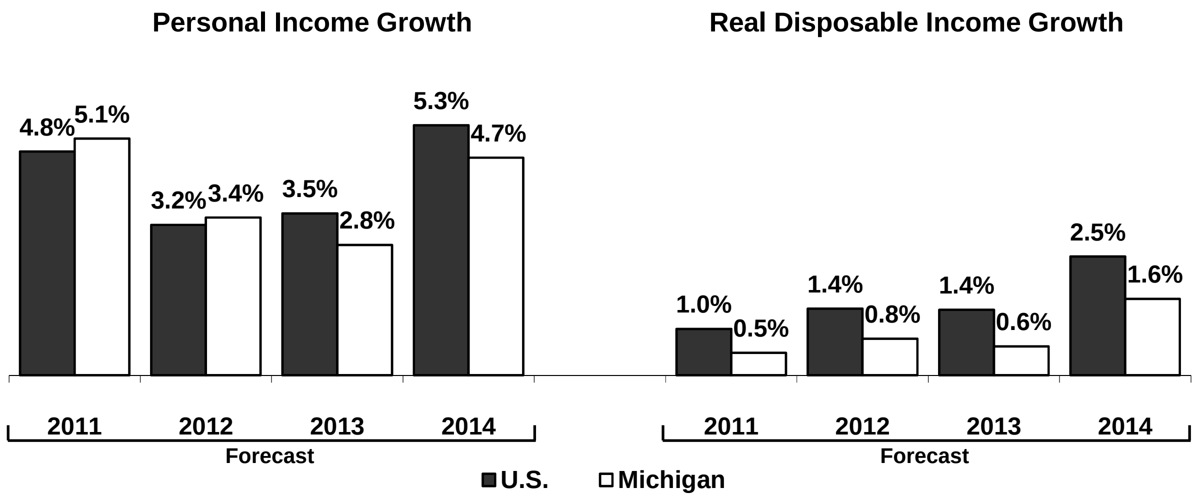
Michigan Inflation

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 was 0.8% in CY 2010, and although inflation in Michigan is predicted to continue increasing, it should remain relatively modest throughout the forecast period. The Detroit CPI-U is expected to increase 3.4% in CY 2011, 2.2% in CY 2012, 1.7% in CY 2013, and 1.8% in CY 2014.

Income Growth

Figure 7 shows personal and real disposable income growth for the U.S. and for Michigan.

Figure 7



U.S. Income Growth

Total U.S. personal income grew 3.7% in CY 2010. Personal income growth is forecast to increase 4.8% in CY 2011, 3.2% in CY 2012, 3.5% in CY 2013, and 5.3% in CY 2014.

Modest inflation contributed to 1.8% growth in U.S. real disposable income in CY 2010. U.S. real disposable income is forecast to grow 1.0% in CY 2011, 1.4% in both CY 2012 and CY 2013, and 2.5% in CY 2014.

Michigan Income Growth

Michigan's total state personal income growth was 3.3% in CY 2010. Michigan personal income is forecast to increase 5.1% in CY 2011, and 3.4% in CY 2012, 2.8% in CY 2013, and 4.7% in CY 2014.

Michigan real disposable income increased 2.3% in CY 2010; it is forecast to increase 0.5% in CY 2011, 0.8% in CY 2012, 0.6% in CY 2013, and 1.6% in CY 2014.

Employment

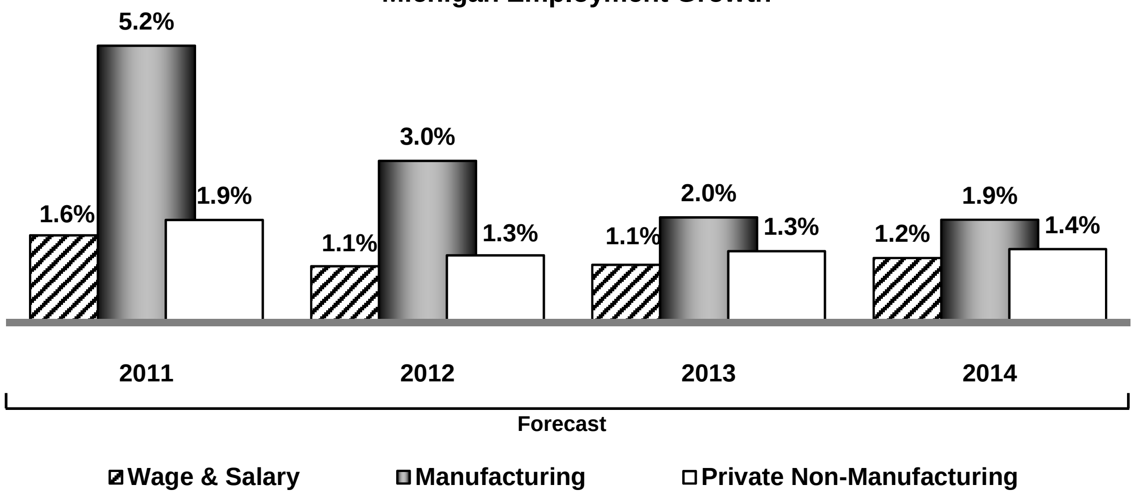
Figure 8 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

U.S. Employment

Nationally, total non-farm employment experienced average gains of about 93,700 per month during 2010 – roughly a 0.72% overall increase between December 2009 and December 2010. However, when compared to CY 2009 as a whole, total non-farm employment increased just 0.3% in CY 2010. Total non-farm employment is expected to grow 1.0% in both CY 2011 and CY 2012, 1.3% in CY 2013, and 1.6% in CY 2014.

Figure 8

Michigan Employment Growth



Michigan Employment

The Michigan economy has continued to endure a weak labor market. After experiencing a decade of annual job losses, Michigan wage and salary employment is forecast to grow by about 63,000 workers in CY 2011. The forecast calls for continued job gains through CY 2014.

Michigan wage and salary employment fell 0.3% in CY 2010, but is forecast to increase 1.6% in CY 2011, 1.1% in CY 2012 and CY 2013, and 1.2% in CY 2014. 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 increased 2.1% in CY 2010 after suffering an almost 20.0% decline in CY 2009. It is forecast to increase 5.2% in CY 2011, 3.0% in CY 2012, 2.0% in CY 2013, and 1.9% in CY 2014. Much of this growth is expected to occur within the motor vehicle industry, in small part offsetting some of the job losses due to the restructuring of Michigan's auto industry.

Michigan private non-manufacturing employment fell 0.3% in CY 2010; it is expected to increase 1.9% in CY 2011, 1.3% in both CY 2012 and CY 2013, and 1.4% in CY 2014.

Unemployment

U.S. Unemployment

As of January 2008, total non-farm employment had increased for 53 consecutive months. Monthly job losses through the remainder 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, which was 9.6% in CY 2010, is expected to drop to 9.0% in CY 2011; it is forecast to remain at 9.0% in CY 2012 before falling to 8.9% in CY 2013 and 8.4% in CY 2014.

Michigan Unemployment

Employment in Michigan remains a major concern as employment growth has fallen during each of the past ten years. Michigan's wage and salary employment is forecast to begin growing in CY 2011, and continue to grow through 2014, albeit at declining rates. As a result, the unemployment rate is expected to decline, although it will remain relatively high.

Michigan's unemployment rate was 12.5% in CY 2010; it is expected to decrease to 10.7% in CY 2011, 10.3% in CY 2012, 9.9% in CY 2013, and 9.6% in CY 2014.

Table 2
ECONOMIC FORECAST VARIABLES

	Calendar 2010 Actual	Calendar 2011 Estimated	% Change from Prior Year	Calendar 2012 Estimated	% Change from Prior Year	Calendar 2013 Estimated	% Change from Prior Year	Calendar 2014 Estimated	% Change from Prior Year
United States									
Real Gross Domestic Product (Billions of 2005 dollars)	$13,088.0	$13,313.8	1.7%	$13,565.8	1.9%	$13,899.0	2.4%	$14,293.5	2.8%
Implicit Price Deflator GDP (2005 = 100)	111.0	113.4	2.2%	115.3	1.6%	117.2	1.6%	119.0	1.6%
Consumer Price Index (1982-84 = 100)	218.1	225.0	3.2%	229.6	2.1%	233.9	1.9%	238.3	1.9%
Consumer Price Index (FY) (1982-84 = 100)	217.4	223.1	2.7%	228.6	2.5%	232.8	1.8%	237.2	1.9%
Personal Consumption Deflator (2005 = 100)	111.1	113.8	2.4%	115.4	1.4%	117.1	1.5%	118.8	1.5%
3-month Treasury Bills Interest Rate (Percent)	0.1%	0.1%		0.1%		0.2%		0.6%	
Aaa Corporate Bonds Interest Rate (Percent)	4.9%	4.7%		4.0%		4.2%		4.4%	
Non-Farm Employment (Millions)	129.8	131.2	1.0%	132.5	1.0%	134.1	1.3%	136.3	1.6%
Unemployment Rate – Civilian (Percent)	9.6%	9.0%		9.0%		8.9%		8.4%	
Light Vehicle Sales (Millions of units)	11.6	12.7	10.3%	13.6	6.7%	14.4	5.7%	14.9	3.7%
Passenger Car Sales (Millions of units)	5.7	6.2	8.3%	6.7	7.3%	7.0	5.7%	7.3	3.7%
Light Truck Sales (Millions of units)	5.8	6.5	12.2%	6.9	6.0%	7.3	5.7%	7.6	3.7%
Import Share of Light Vehicles (Percent)	23.7%	22.3%		23.1%		21.9%		22.1%	
Housing Starts (Thousands of units)	0.585	0.597	2.1%	0.720	20.5%	0.957	33.0%	1.274	33.0%
Personal Income (Billions of current dollars)	$12,373.5	$12,965.4	4.8%	$13,382.7	3.2%	$13,846.4	3.5%	$14,586.6	5.3%
Real Disposable Income (Billions of 2005 dollars)	$10,061.7	$10,161.4	1.0%	$10,306.4	1.4%	$10,450.6	1.4%	$10,716.0	2.5%
Michigan									
Wage and Salary Employment (Thousands)	3,860.0	3,923.2	1.6%	3,964.5	1.1%	4,007.5	1.1%	4,056.1	1.2%
Transportation Equipment Employment (Thousands)	131.3	136.7	4.1%	142.1	4.0%	146.7	3.2%	151.2	3.1%
Unemployment Rate (Percent)	12.5%	10.7%		10.3%		9.9%		9.6%	
Personal Income (Millions of current dollars)	$342,663	$360,022	5.1%	$372,168	3.4%	$382,549	2.8%	$400,343	4.7%
Real Personal Income (Millions of 1982-84 dollars)	$167,031	$169,801	1.7%	$171,823	1.2%	$173,610	1.0%	$178,446	2.8%
Real Disposable Income (Millions of 1982-84 dollars)	$151,707	$152,438	0.5%	$153,630	0.8%	$154,581	0.6%	$157,110	1.6%
Wage and Salary Income (Millions of current dollars)	$173,642	$181,869	4.7%	$189,118	4.0%	$196,328	3.8%	$204,302	4.1%
Detroit Consumer Price Index (1982-84 = 100)	205.2	212.0	3.4%	216.6	2.2%	220.3	1.7%	224.3	1.8%
Detroit CPI (FY) (1982-84 = 100)	204.8	210.1	2.6%	215.8	2.7%	219.4	1.7%	223.3	1.8%

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 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 $99 per barrel in December 2011 – almost $10 per barrel higher than a year ago and has been rising since September. Oil prices averaged $95 per barrel throughout CY 2011; they are expected to remain high and to increase to $98 per barrel in CY 2014.

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. In addition, the amount spent on oil is for the most part an import, which is a subtraction from overall U.S. economic growth. 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 continue to put downward pressure on home prices. In CY 2011, median existing home prices likely declined 4.5%, while national home sales increased approximately 0.9%. In CY 2011, housing starts are expected to increase 2.1%, but remained at an extremely low level of 0.60 million units.

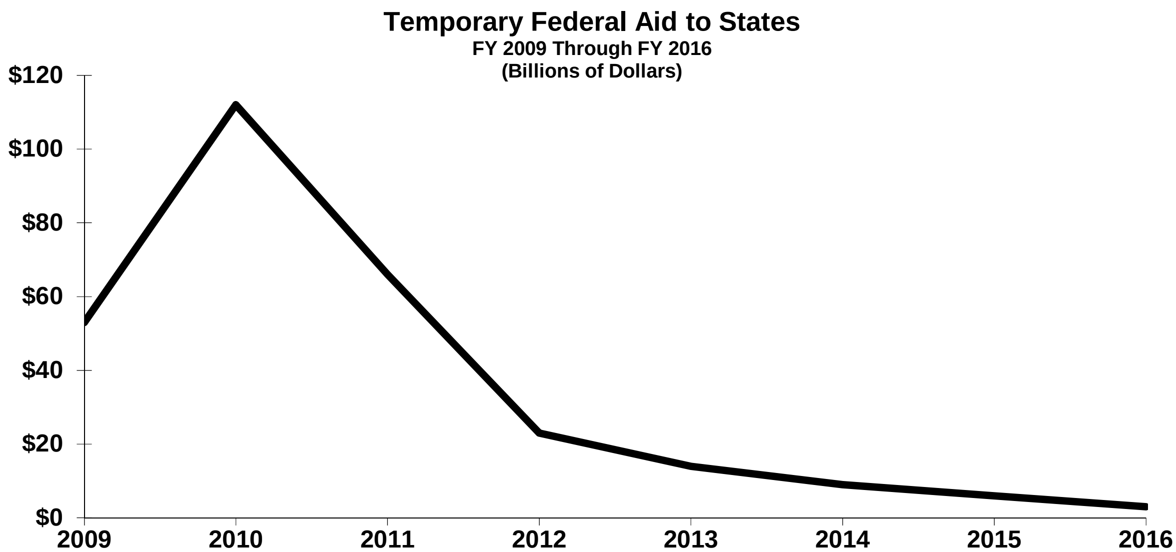
Housing starts are forecast to increase to 0.72 million units in CY 2012, 0.96 million units in CY 2013, and 1.27 million units in CY 2014.

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). In typical recoveries, housing generally provides a strong background for growth.

Fiscal Policy

Significant tax and spending changes are not anticipated until after the 2012 election. Federal fiscal policy is in contractionary mode and is expected to remain so throughout the forecast horizon. Figure 9, from the General Accounting Office (GAO) and the National Association of State Budget Officers (NASBO) shows the significant reduction of the federal aid to the states that will occur in FY 2011-12. The forecast assumes the 2% employee payroll tax cut and the emergency unemployment insurance benefits will be extended for 2012. However, fiscal policy remains a risk if federal government spending cuts are enacted that are too severe in the short-term.

Figure 9



Sources: General Accounting Office and the National Association of State Budget Officers

State and Local Governments

According to the Nelson A. Rockefeller Institute, the state tax revenue picture in the first three quarters of CY 2011 was a significant improvement from the collapse during the Great Recession. 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 2.3% in CY 2011, 1.5% in CY 2012, 0.8% in CY 2013, and 0.2% in CY 2014.

Michigan's Motor Vehicle Industry

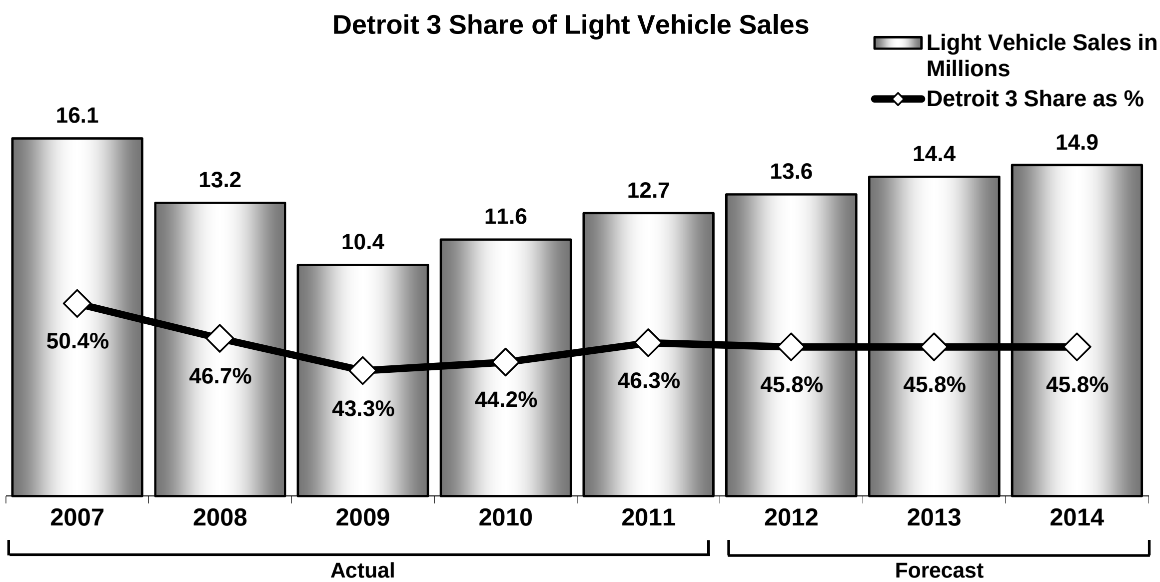
The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 12.7 million units in CY 2011, which was a 10.3% increase from the previous year. Light motor vehicle sales are forecast to be 13.6 million units in CY 2012, then increase to 14.4 million units in CY 2013 and 14.9 million units in CY 2014 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; however since 2009 the market share of these vehicles has stabilized. As shown in **Figure 10**, the market share of the Detroit 3 auto manufacturers hovered around 46% in CY 2011 and is expected to remain at this level throughout the forecast horizon.

The extent to which the domestic nameplates can retain market share will have a direct impact on Michigan's economy. In CY 2011, the Detroit 3 sold 5.9 million vehicles, which was a 14.7% increase from the previous year. It is expected that the Detroit 3 will sell 6.2 million vehicles in CY 2012 and continue to post healthy gains in CY 2013 and CY 2014.

After significant declines since CY 2000, Michigan transportation equipment employment increased 4.1% in CY 2011 and is forecast to increase 4.0% in CY 2012, 3.2% in CY 2013, and 3.1% in CY 2014. The CY 2014 estimated level of transportation equipment employment of 151,200 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 contains the House Fiscal Agency's January 2012 estimates for GF/GP (**Table 3**) and SAF (**Table 4**) revenue, which include enacted personal income tax and business tax changes, amnesty, unclaimed property changes, and other adjustments. Also, included in this section are the estimated year-end balances for the GF/GP, the SAF, the budget stabilization fund (BSF), and the state revenue limit calculation.

GF/GP Revenue by Source

GF/GP Tax Revenue

GF/GP tax revenue increased 15.8% to $8,285.9 million in FY 2010-11. Much of this increase was due stronger MBT and gross income tax revenue, as well as, dampened income tax refunds because of taxpayers reduced ability to take the homestead property tax credit. GF/GP tax revenue is estimated to be $8,578.5 million, an increase of $292.6 million or 3.5%, in FY 2011-12, and $8,745.5 million, an increase of $167.0 million, or 1.9% in FY 2012-13. GF/GP tax revenue is estimated to increase 2.7% in FY 2013-14.

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 $8,824.6 million in FY 2010-11; it is forecast to be $9,004.0 million, an increase of $179.4 million or 2.0% in FY 2011-12, and $9,067.5 million, an increase of $63.5 million or 0.7% in FY 2012-13. Net GF/GP revenue is estimated to increase 2.3% in FY 2013-14.

SAF Revenue by Source

Total Net SAF Revenue

Net SAF revenue increased 4.1% to $11,250.8 million in FY 2010-11. Most of the increase was due to a strong 8.8% increase in sales tax revenue, but the gain was also due to income tax revenue and the lottery. Continued declines in housing resulted in falling State education tax revenue. Net SAF revenue is forecast to be $10,790.9 million, a decrease of $459.8 million or 4.1%, in FY 2011-12 – due largely to the repeal of the MBT earmark. Net SAF revenue is estimated to increase 2.8% in FY 2012-13 and 2.5% in FY 2013-14.

Table 3
GF/GP REVENUE ESTIMATES
(Millions of Dollars)

	Preliminary Final FY 2010-11	HFA Est. FY 2011-12	HFA Est. FY 2012-13	HFA Est. FY 2013-14	FY 2011-12 $ Change	FY 2011-12 % Change	FY 2012-13 $ Change	FY 2012-13 % Change	FY 2013-14 $ Change	FY 2013-14 % Change
Income Tax	$4,447.9	$4,921.8	$5,700.9	$5,861.5	$473.9	10.7%	$779.1	15.8%	$160.6	2.8%
Sales Tax	1,067.2	1,087.6	1,122.5	1,157.7	20.4	1.9%	34.8	3.2%	35.2	3.1%
Use Tax	195.7	189.3	185.2	180.9	-6.5	-3.3%	(4.0)	-2.1%	(4.3)	-2.3%
Michigan Business Tax	1,347.2	647.6	(437.3)	(504.9)	(699.6)	-51.9%	(1,084.9)	-167.5%	(67.6)	15.5%
Corporate Income Tax	0.0	447.5	819.1	883.0	447.5	--	371.6	83.0%	63.9	7.8%
Insurance	271.2	282.0	292.0	303.0	10.8	4.0%	10.0	3.5%	11.0	3.8%
Other Taxes	956.6	1,002.7	1,063.1	1,096.1	46.1	4.8%	60.4	6.0%	33.0	3.1%
GF/GP Net Taxes	**$8,285.9**	**$8,578.5**	**$8,745.5**	**$8,977.3**	**$292.6**	**3.5%**	**$167.0**	**1.9%**	**$231.8**	**2.7%**
Non-Tax Revenue	538.7	425.5	322.0	302.0	(113.2)	-21.0%	(103.5)	-24.3%	(20.0)	-6.2%
Total GF/GP Net Revenue	**$8,824.6**	**$9,004.0**	**$9,067.5**	**$9,279.3**	**$179.4**	**2.0%**	**$63.5**	**0.7%**	**$211.8**	**2.3%**

NOTE: Numbers may not add due to rounding.

Table 4
SCHOOL AID FUND REVENUE ESTIMATES
(Millions of Dollars)

	Preliminary Final FY 2010-11	HFA Est. FY 2011-12	HFA Est. FY 2012-13	HFA Est. FY 2013-14	FY 2011-12 $ Change	FY 2011-12 % Change	FY 2012-13 $ Change	FY 2012-13 % Change	FY 2013-14 $ Change	FY 2013-14 % Change
Sales Tax	$4,880.0	$5,009.0	$5,147.0	$5,296.8	$129.0	2.6%	$138.0	2.8%	$149.8	2.9%
Use Tax	367.3	403.5	419.7	433.0	36.3	9.9%	16.1	4.0%	13.3	3.2%
Income Tax	1,973.0	2,117.0	2,225.3	2,301.0	144.0	7.3%	108.3	5.1%	75.7	3.4%
State Education Tax	1,845.1	1,824.0	1,855.0	1,890.0	(21.1)	-1.1%	31.0	1.7%	35.0	1.9%
Lottery/Casinos	841.3	828.3	830.1	837.2	(13.0)	-1.5%	1.8	0.2%	7.1	0.9%
Michigan Business Tax	739.2	0.0	0.0	0.0	(739.2)	-100.0%	0.0	--	0.0	--
Tobacco Tax	376.4	366.7	358.3	349.3	(9.8)	-2.6%	(8.4)	-2.3%	(8.9)	-2.5%
Real Estate Transfer Tax	123.3	139.8	151.8	160.0	16.5	13.3%	12.0	8.6%	8.2	5.4%
Other Taxes	105.2	102.6	104.1	105.4	(2.6)	-2.5%	1.5	1.4%	1.3	1.2%
SAF Net Revenue	**$11,250.8**	**$10,790.9**	**$11,091.2**	**$11,372.7**	**($459.8)**	**-4.1%**	**$300.3**	**2.8%**	**$281.5**	**2.5%**

NOTE: Numbers may not add due to rounding.

HFA Estimates of Year-End Balances

Table 5 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2011-12 estimates are based on year-to-date appropriations and HFA revenue estimates. Preliminary final FY 2010-11 figures are included.

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

Table 5
YEAR-END UNRESERVED BALANCE ESTIMATES
(Millions of Dollars)

	Preliminary Final FY 2010-11	Estimated FY 2011-12	Estimated FY 2012-13
General Fund/General Purpose	$574.3	$606.2	$923.0
School Aid Fund	$722.0	$154.8	$265.7
Budget Stabilization Fund	$2.2	$258.0	$260.6

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. **Table 6** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2013-14.

The BSF ending fund balance for FY 2010-11 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 2011-12 through FY 2013-14. However, a $255.8 million appropriation has been made for FY 2011-12. The year-end balance is estimated at $258.0 million for FY 2011-12, $260.6 million for FY 2012-13, and $263.8 million for FY 2013-14.

Table 6
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	$0.0	$2.2
2011-12*	$255.8	$0.0	$0.0	$258.0
2012-13*	$0.0	$0.0	$2.6	$260.6
2013-14*	$0.0	$0.0	$3.2	$263.8

** 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 7, Figure 11,** and **Table 8**, the FY 2010-11 revenue limit calculation is expected to show state revenue collections at $6.37 billion below the revenue limit. For FY 2011-12, state revenue is estimated to be below the limit by $7.29 billion. For FY 2012-13 and FY 2013-14, state revenue is estimated to be below the revenue limit – by $8.64 billion, and $8.97 billion, respectively.

Table 7

COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

Revenue Limit Calculations	Final FY 2010-11	Estimated FY 2011-12	Estimated FY 2012-13	Estimated FY 2013-14
Personal Income				
Calendar Year	CY 2009	CY 2010	CY 2011	CY 2012
Amount	$342,302	$351,830	$372,168	$382,549
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	**$32,484.5**	**$33,388.7**	**$35,318.7**	**$36,303.9**
Total Revenue Subject to Revenue Limit	$26,111.9	$26,101.4	$26,674.1	$27,333.0
Amount Under (Over) State Revenue Limit	**$6,372.6**	**$7,287.3**	**$8,644.7**	**$8,970.9**

NOTE: Numbers may not add due to rounding.

Figure 11

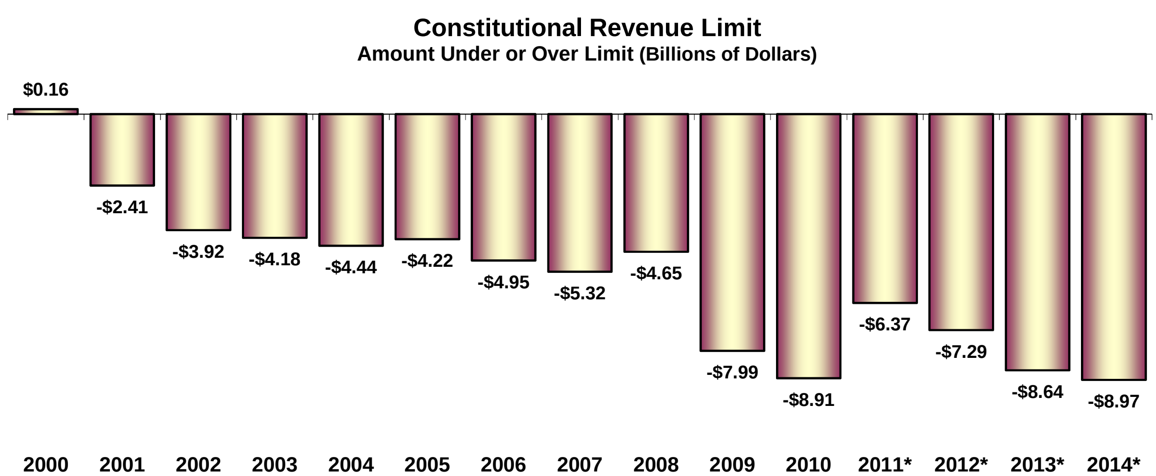


Table 8
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

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*	($6.37)
2011-12*	($7.29)
2012-13*	($8.64)
2013-14*	($8.97)

**HFA Estimate*

Additional copies of this report can be obtained from:

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