

Economic and Revenue Forecasts

FY 2019 * FY 2020 * FY 2021



Consensus Revenue Estimating Conference
January 11, 2019

January 2019 Consensus Conference

Outline

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

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Economic Summary

National

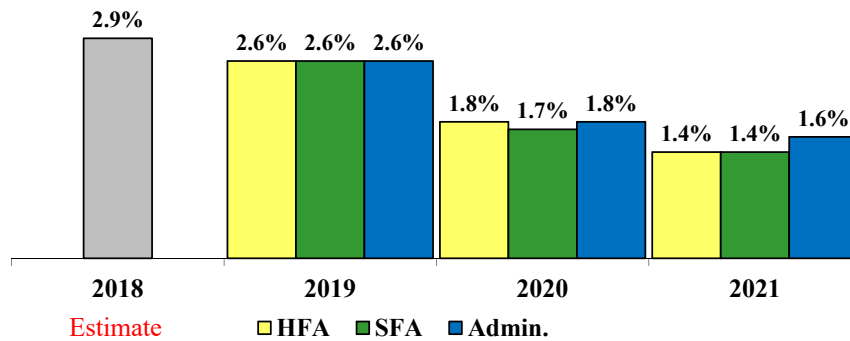
- Economic fundamentals solid
- Growth slows down over the forecast horizon
- Light vehicle sales at strong levels but off from recent highs

Michigan

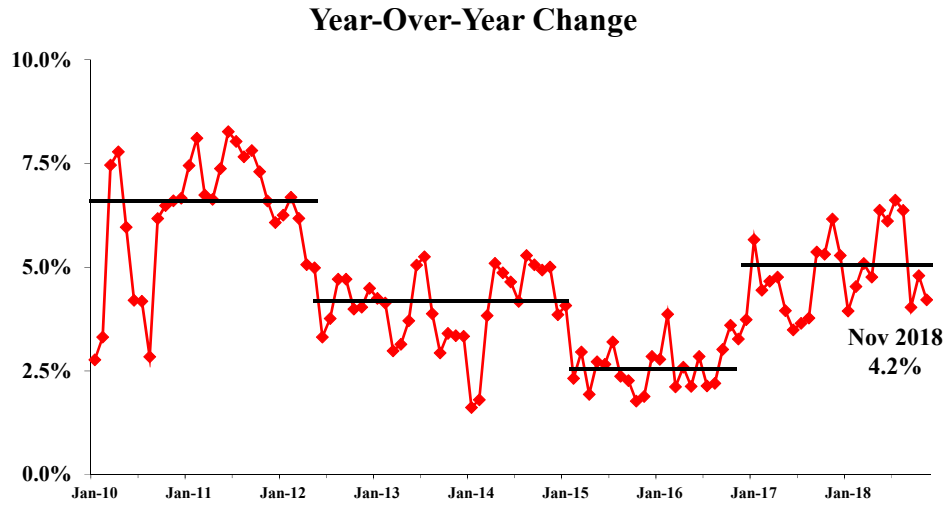
- Continued modest growth
- Can Michigan keep pace with the national economy?

GDP Forecasts

Annual Percent Change



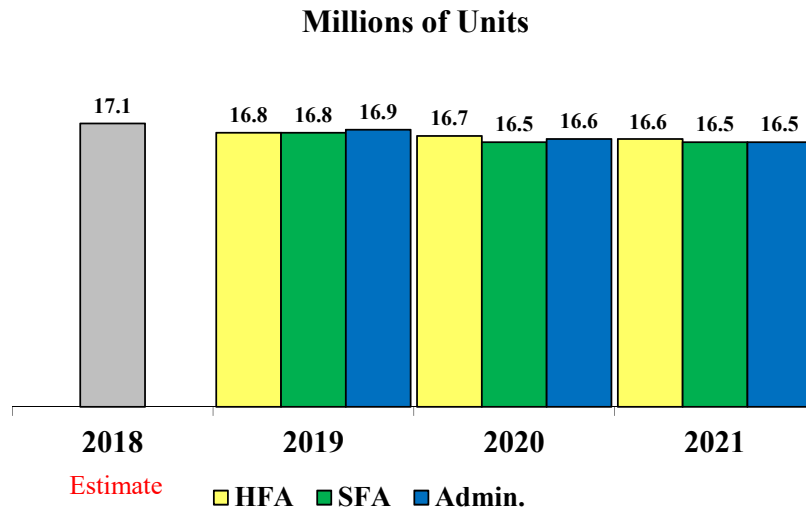
Retail Sales Trending Up



Source: Bureau of the Census.
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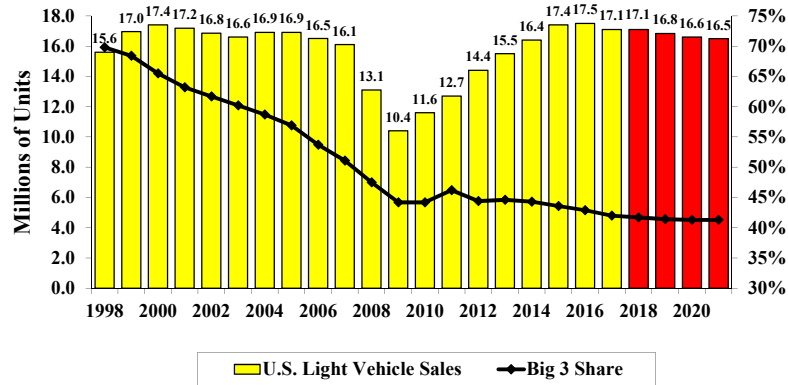
Light Vehicle Sales Forecast



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Vehicle Sales at Historically High Levels



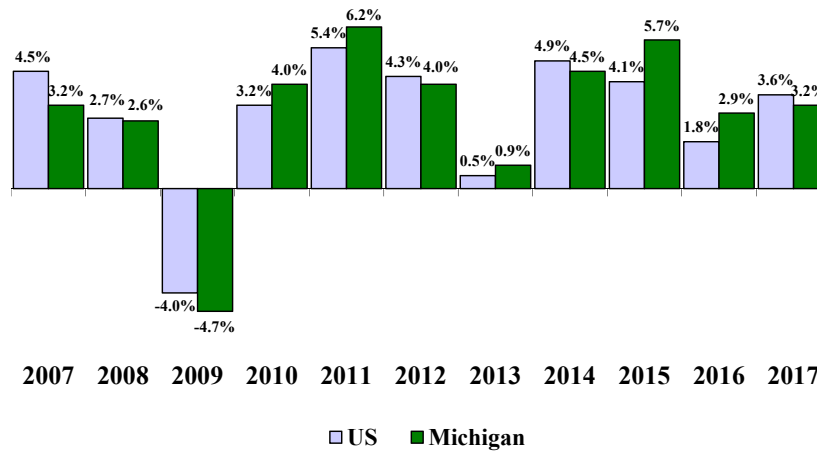
Source: Automotive News.
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Average Agency Forecasts

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Per Capita Personal Income Growth

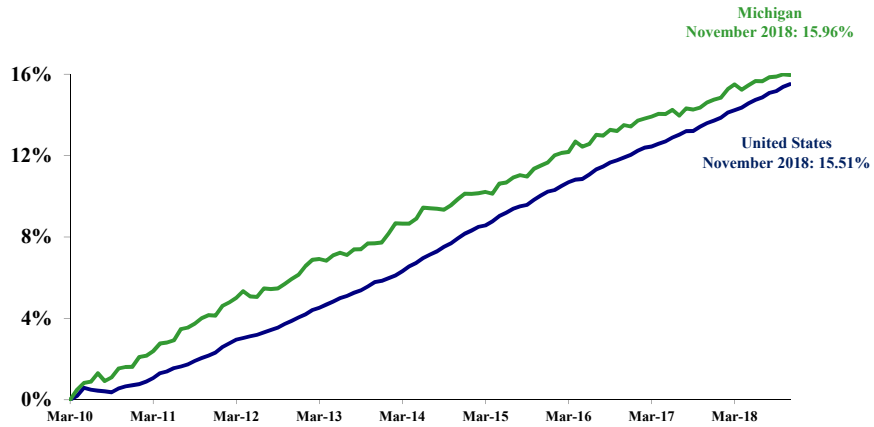
Yearly Percent Change



Source: Bureau of Economic Analysis
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Michigan and US Employment Growth

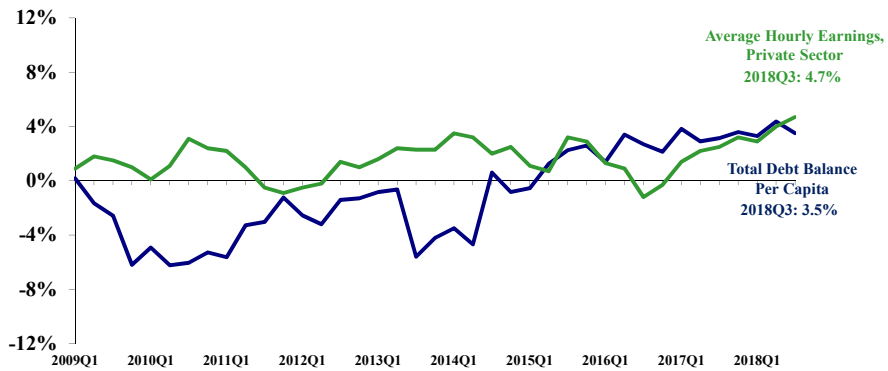


Sources: Bureau of Labor Statistics

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Michigan Debt and Average Hourly Earnings



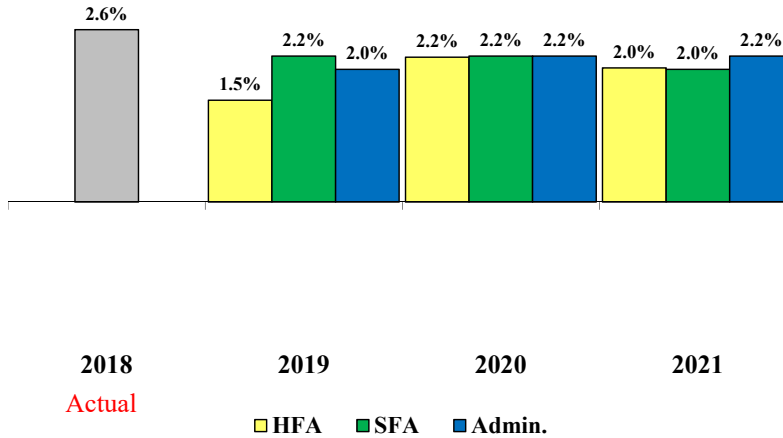
Sources: Bureau of Labor Statistics & Federal Reserve Bank of New York

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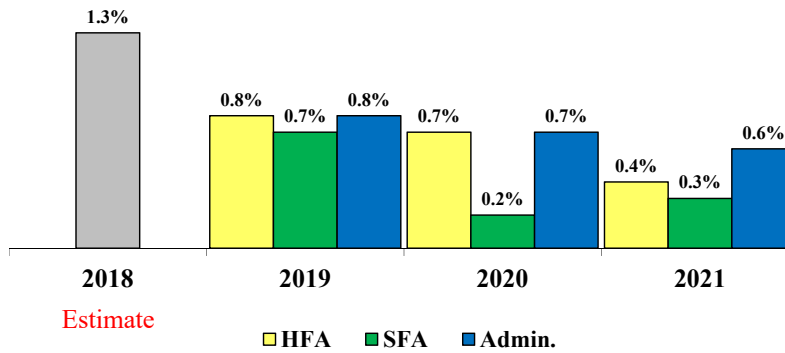
Inflation Expected to be Modest

**Detroit Consumer Price Index
Fiscal Year Growth**



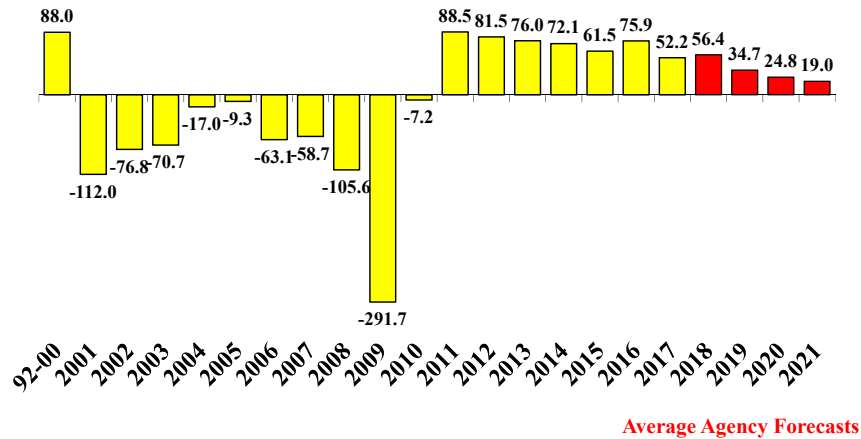
Michigan Wage and Salary Employment

Annual Percent Change



Michigan Job Gains Expected Through 2021

Change in Michigan Wage and Salary Employment Thousands

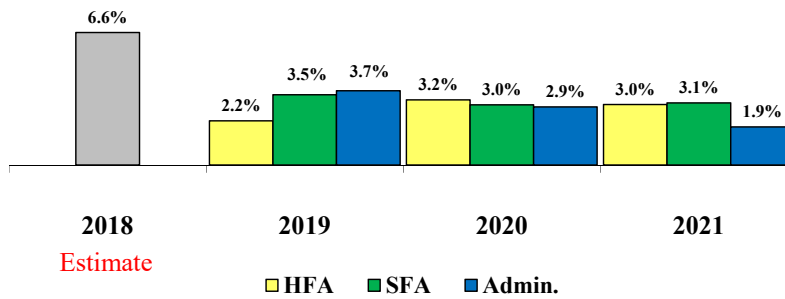


Forecast of Major Taxes

- Individual income tax collections slow due to economic and policy changes
- Sales tax stronger driven by *South Dakota v. Wayfair* US Supreme Court decision
- CIT/MBT remains the most volatile major taxes for both economic and non-economic reasons
- SET is lower than previous forecasts as lower than expected FY 2018 lowers tax base for future years

Baseline Income Tax Growth

Fiscal Year Growth

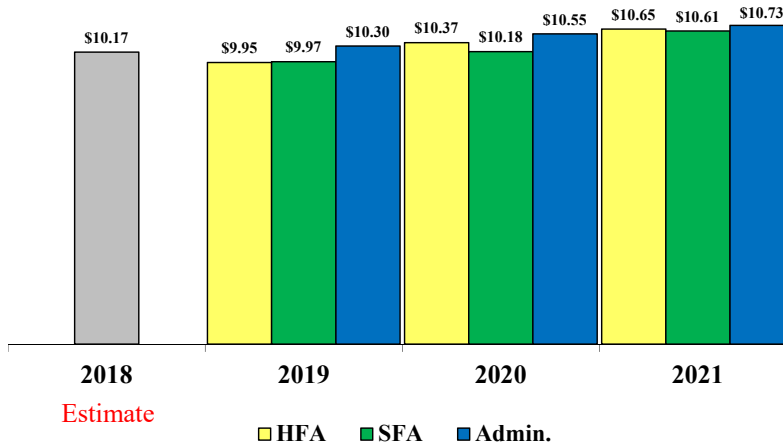


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Net Income Tax Revenue Estimates

Fiscal Year Billions

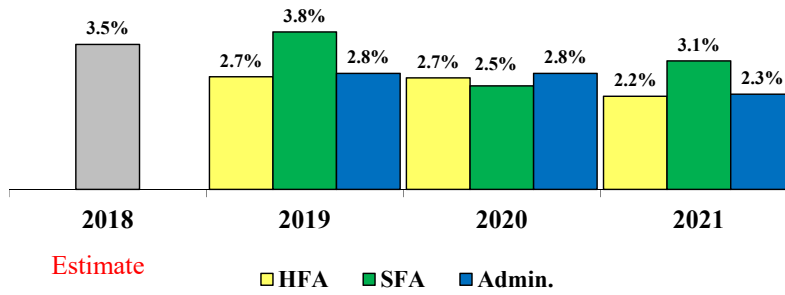


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Baseline Sales Tax Growth

Fiscal Year Growth

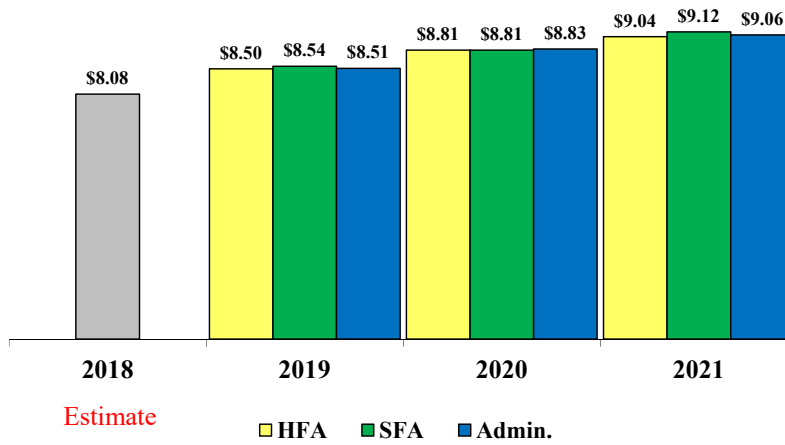


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Net Sales Tax Revenue Estimates

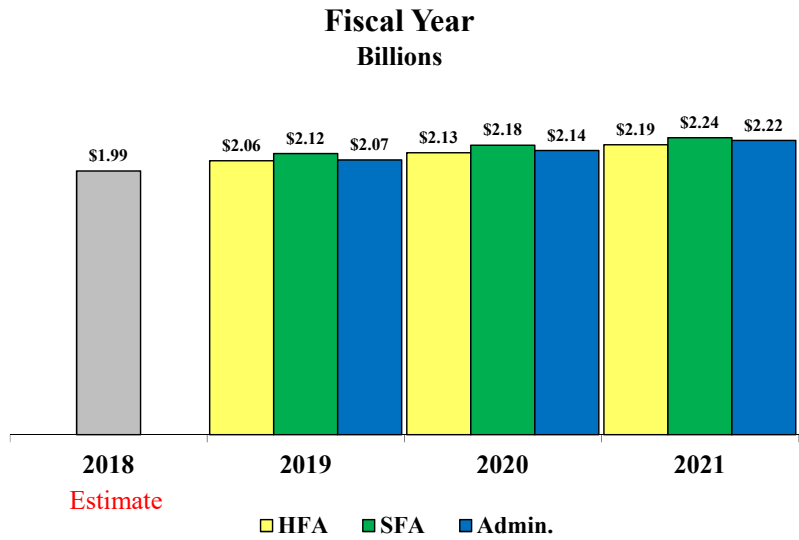
Fiscal Year Billions



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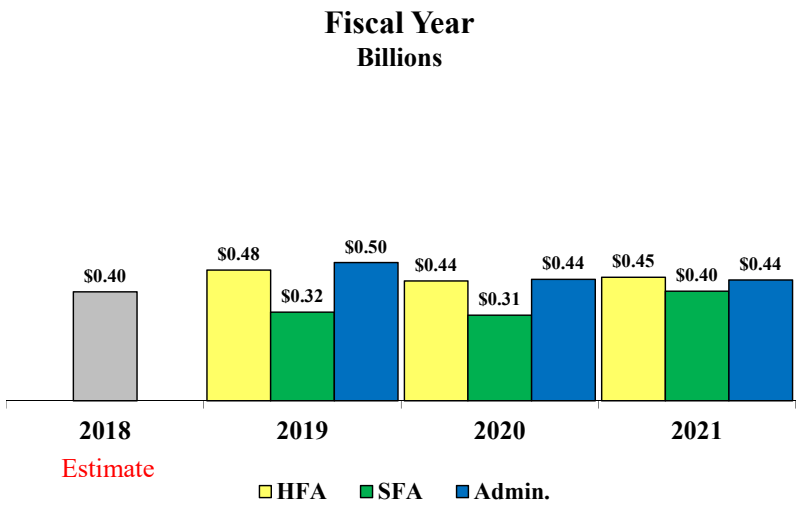
Net SET Revenue Estimates



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Net CIT/MBT Revenue Estimates



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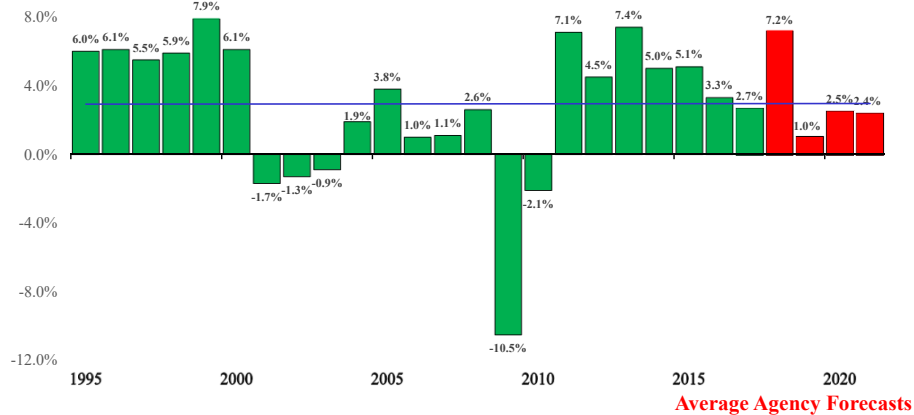
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GF-GP and School Aid Fund Revenue

- Numerous legislative changes impact the distribution of revenue by fund
- General Fund Revenue has been diverted and reduced
 - Homestead Property Tax Credit
 - \$205 million beginning in FY 2019
 - Transfers to MTF from 2015 Road Package and PA 588 of 2018
 - FY 19: \$264 million
 - FY 20: \$468 million
 - FY 21: \$600 million
- SAF benefits from recreational marijuana

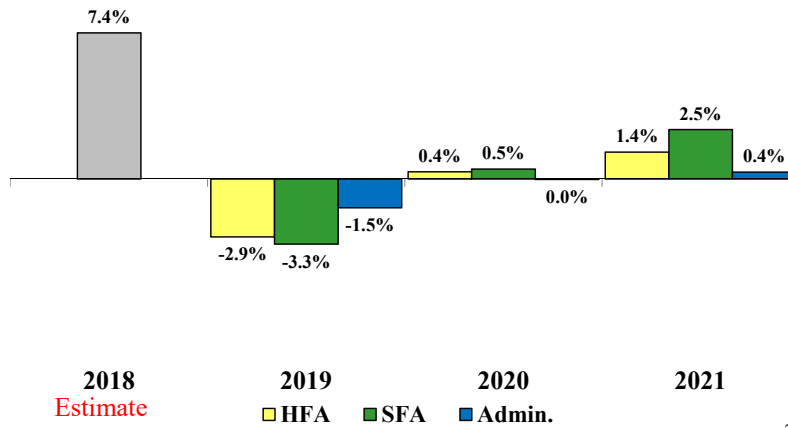
GF-GP and School Aid Revenue

Baseline Growth Rates Before Tax Changes



GF-GP Net Revenue Growth

Fiscal Year Growth

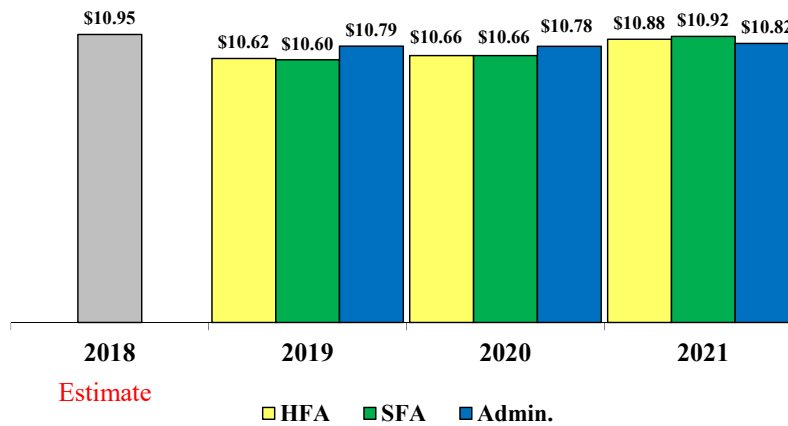


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GF-GP Net Revenue Estimates

Fiscal Year Billions

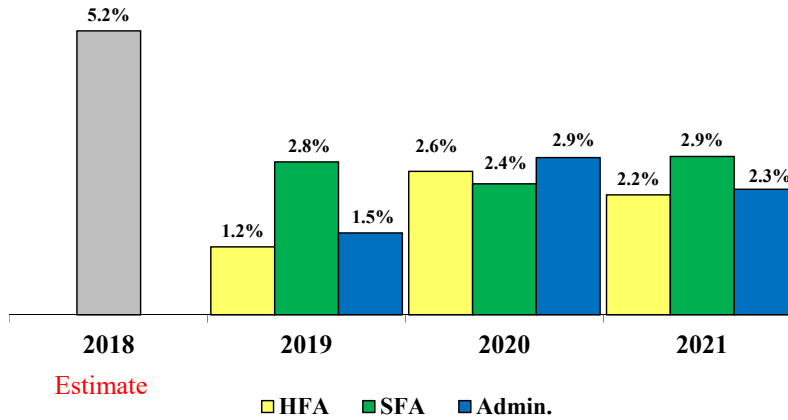


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School Aid Fund Net Growth

Fiscal Year Growth

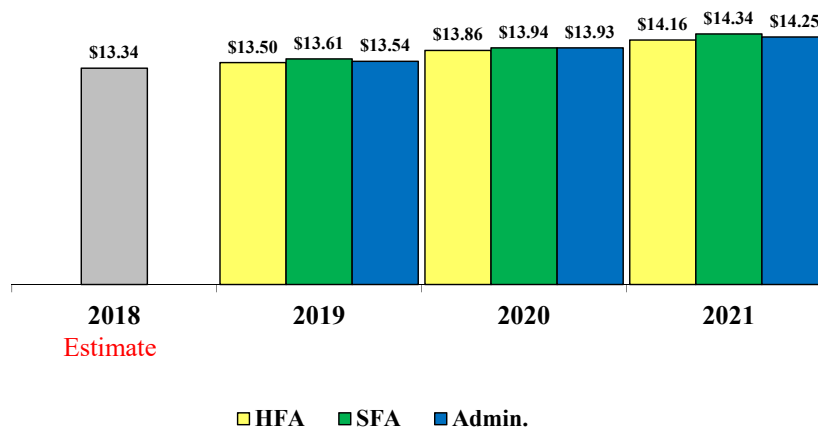


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School Aid Fund Net Revenue Estimates

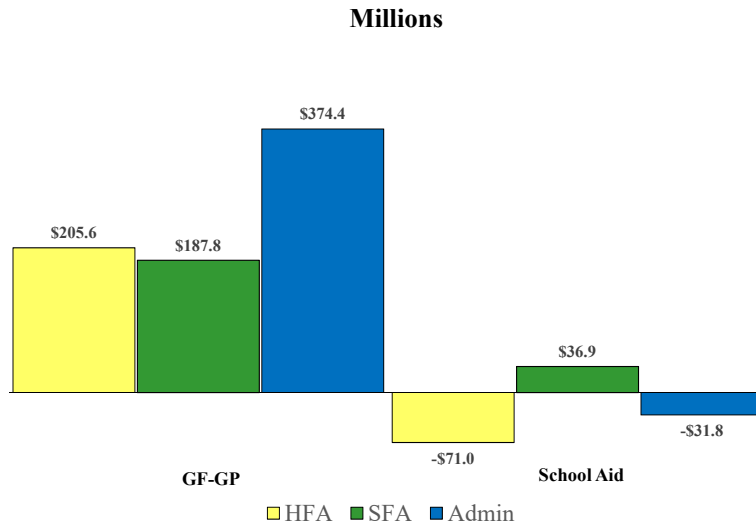
Fiscal Year Billions



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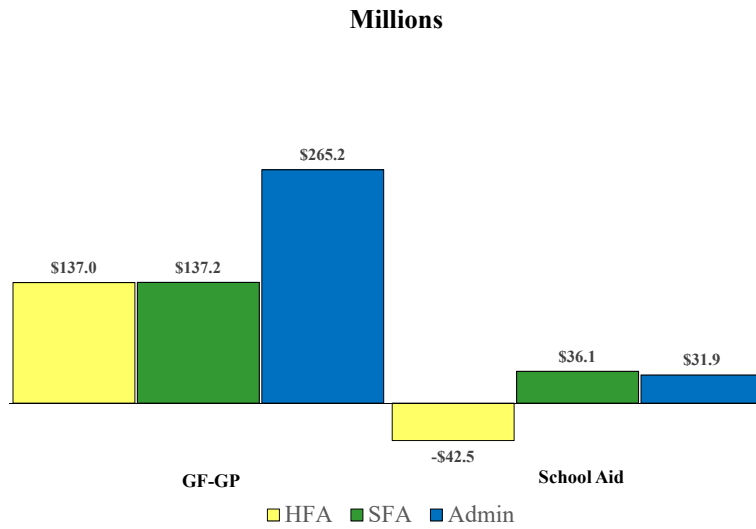
FY 2019 Changes Since May Consensus Estimates



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FY 2020 Changes Since May Consensus Estimates



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Revenue Forecast Comparison

Millions

Revenue	FY 2019			FY 2020			FY 2021		
	Treasury	House Fiscal Agency	Senate Fiscal Agency	Treasury	House Fiscal Agency	Senate Fiscal Agency	Treasury	House Fiscal Agency	Senate Fiscal Agency
GF-GP	\$10,786.0	\$10,617.1	\$10,599.6	\$10,783.9	\$10,655.8	\$10,655.9	\$10,822.1	\$10,888.7	\$10,919.8
School Aid Fund	\$13,542.6	\$13,503.4	\$13,611.3	\$13,932.7	\$13,858.2	\$13,936.9	\$14,252.6	\$14,162.8	\$14,342.6
Difference from May									
GF-GP	\$374.4	\$205.5	\$188.0	\$265.2	\$137.1	\$137.2			
School Aid Fund	(\$31.8)	(\$71.0)	\$36.9	\$31.9	(\$42.6)	\$36.1			
Combined	\$342.6	\$134.5	\$224.9	\$297.1	\$94.5	\$173.3			
May 2018 Consensus	\$10,411.6			\$10,518.7					
	\$13,574.4			\$13,900.8					

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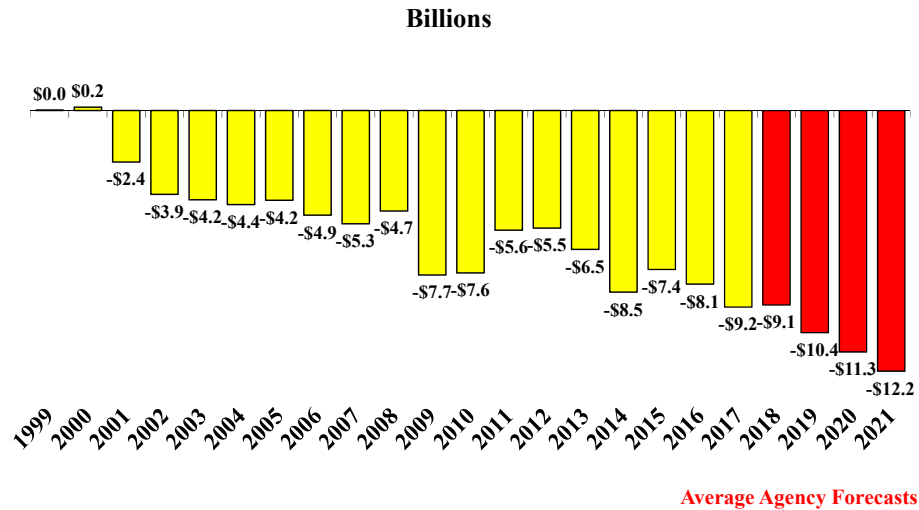
Budget Stabilization Fund

- In FY 2019, the Agencies estimate no pay-ins.
- In FY 2020, the Agencies estimate pay-ins ranging from \$0 to \$35 million.
- In FY 2021, the Agencies estimate pay-ins ranging from \$0 to \$16 million.
- No BSF pay-outs are estimated by any of the Agencies during FY 2019 through FY 2021.

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Constitutional Revenue Limit Calculation



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Forecast Risks

Economic

- Federal Policy: Fiscal, Tax, and Trade Policy
- International Uncertainty
 - Trade Wars
 - Slower Global Growth and Economic Shocks
- Monetary Policy
- Any slack in labor markets?
- Housing

Michigan Tax Revenue

- Corporate Income Tax volatility
- Individual Income Tax estimated payments

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