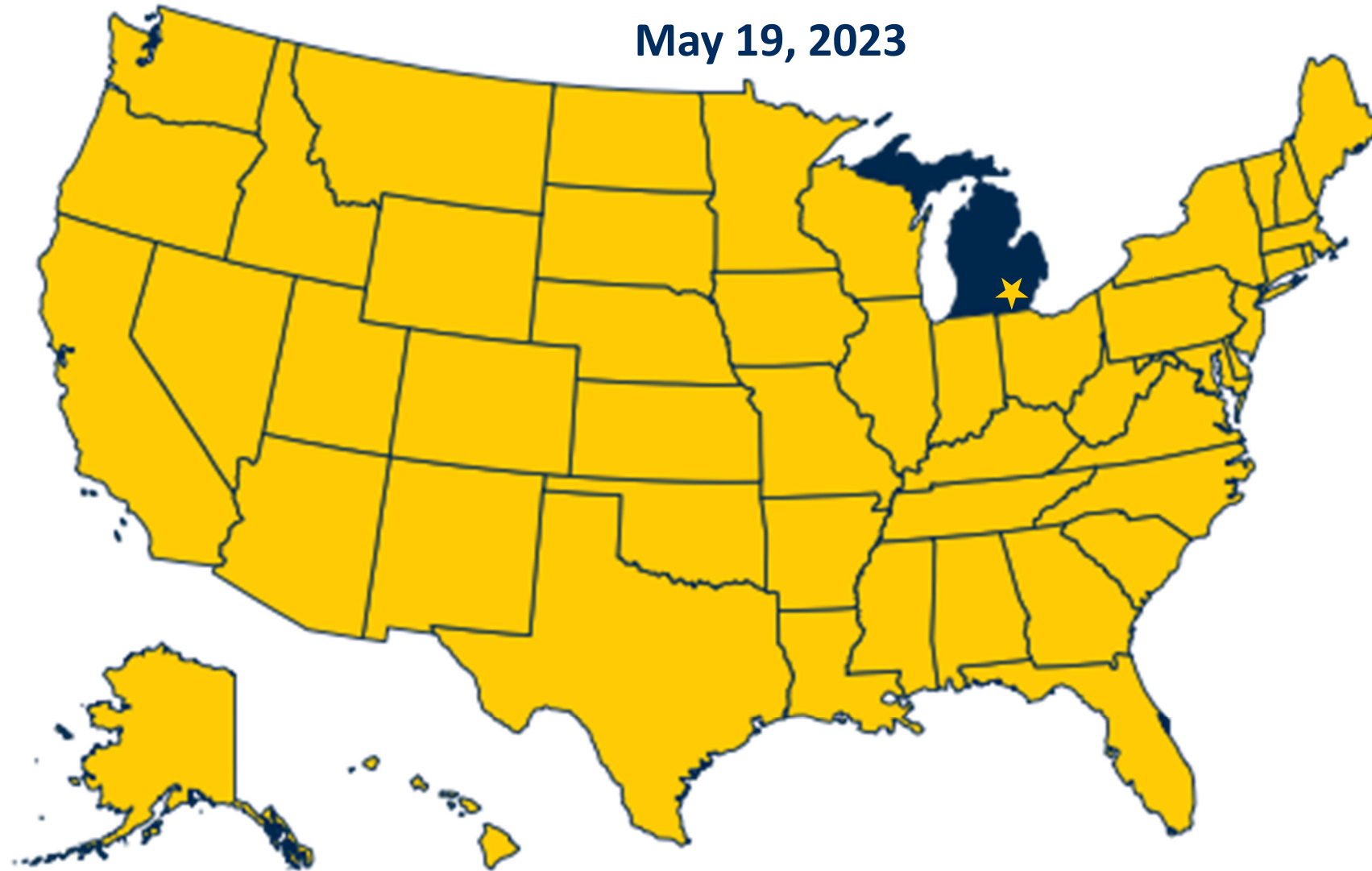


The U.S. and Michigan Outlook for 2023–2025
Consensus Revenue Estimating Conference
Lansing, Michigan

May 19, 2023

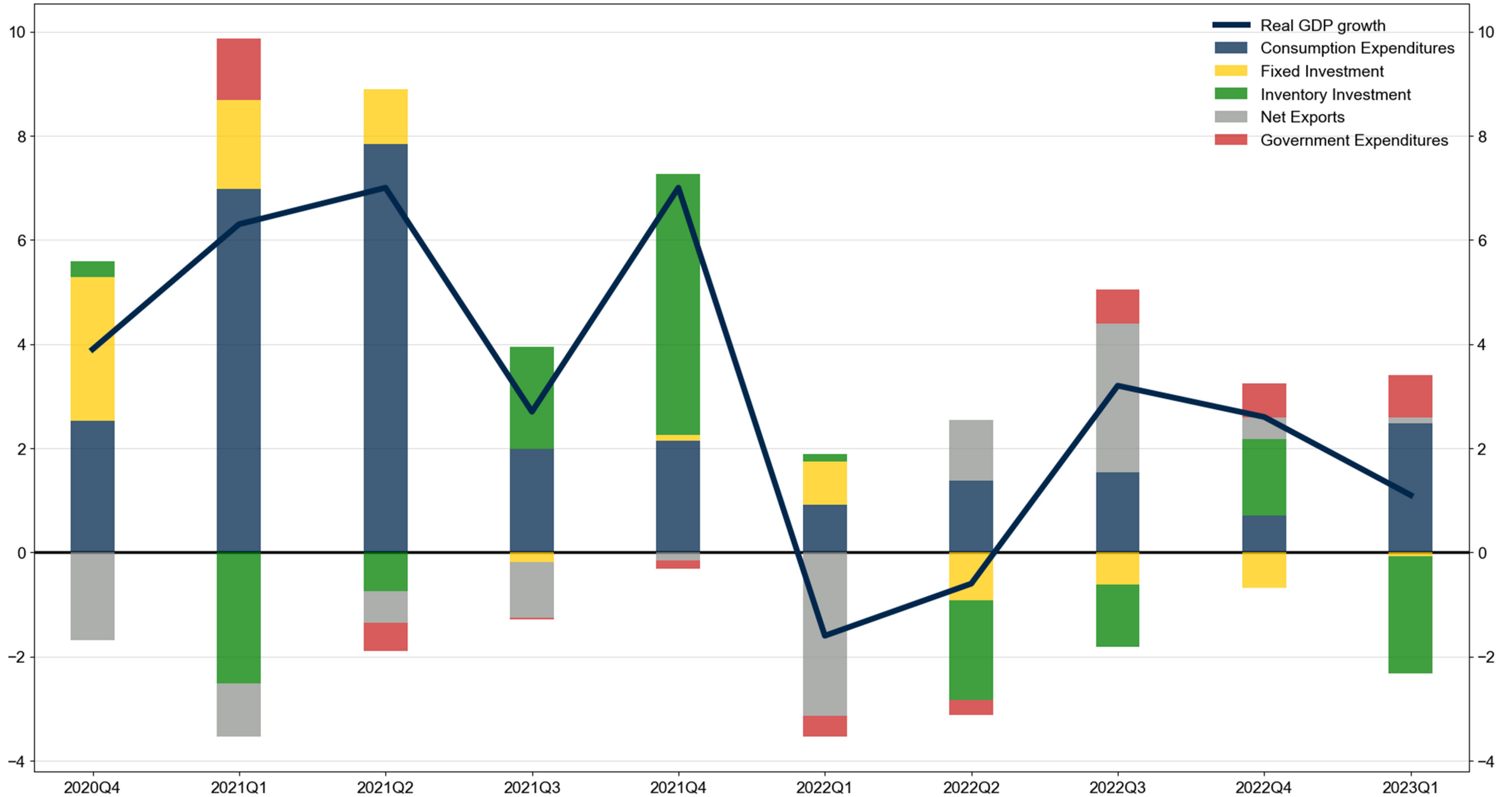


Research Seminar in Quantitative Economics

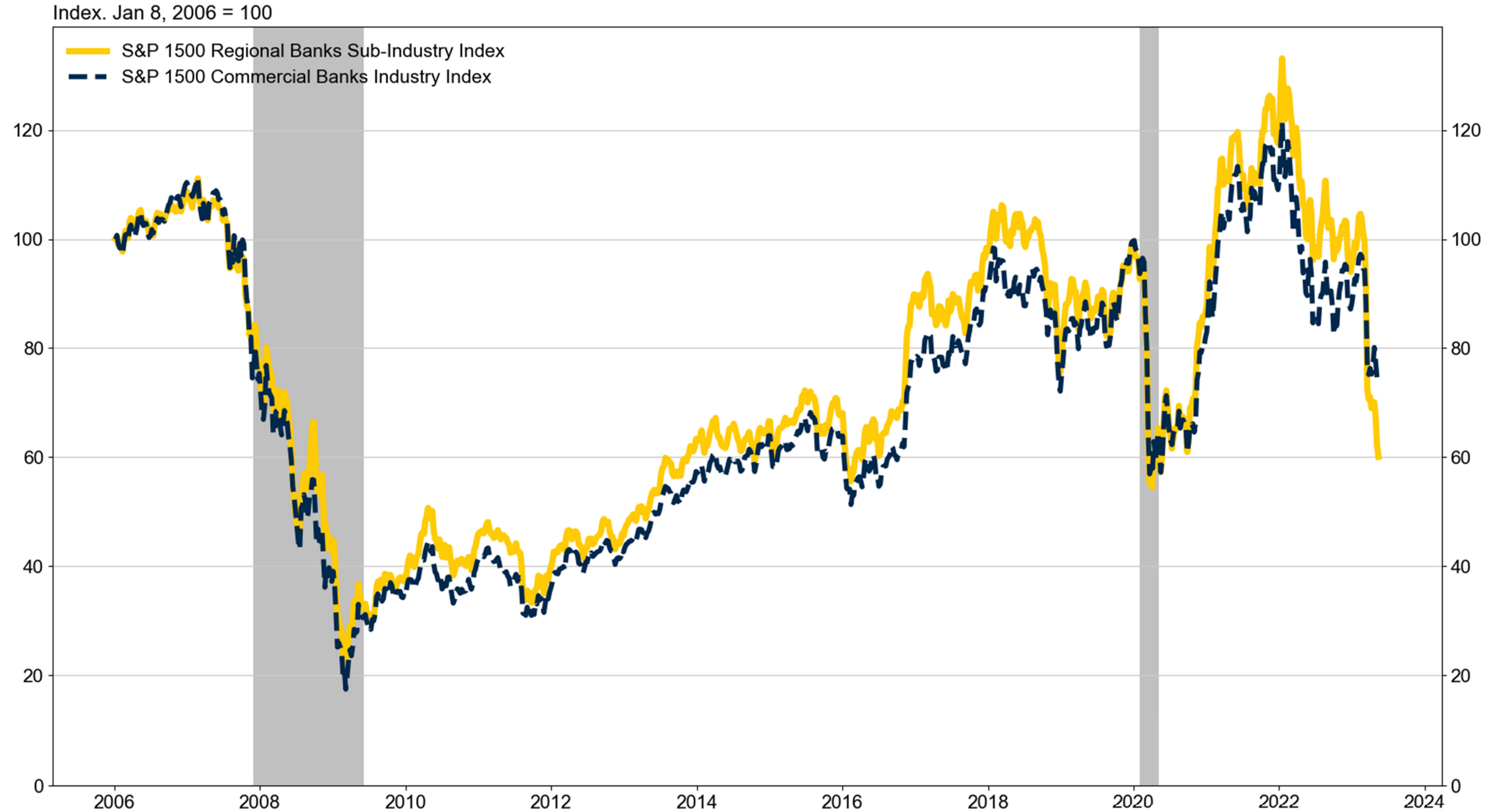


Current State of the U.S. Economy

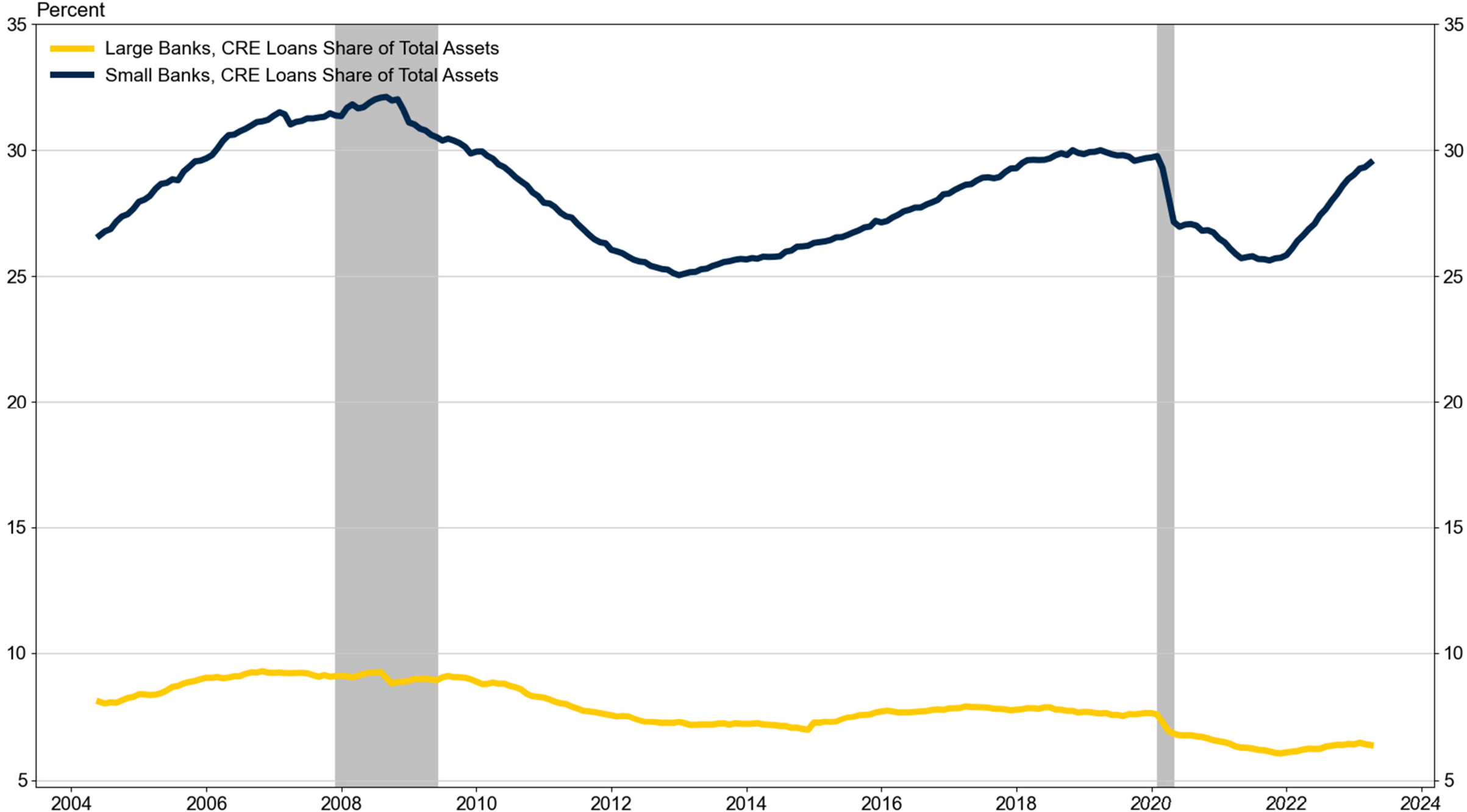
Real GDP Growth Composition



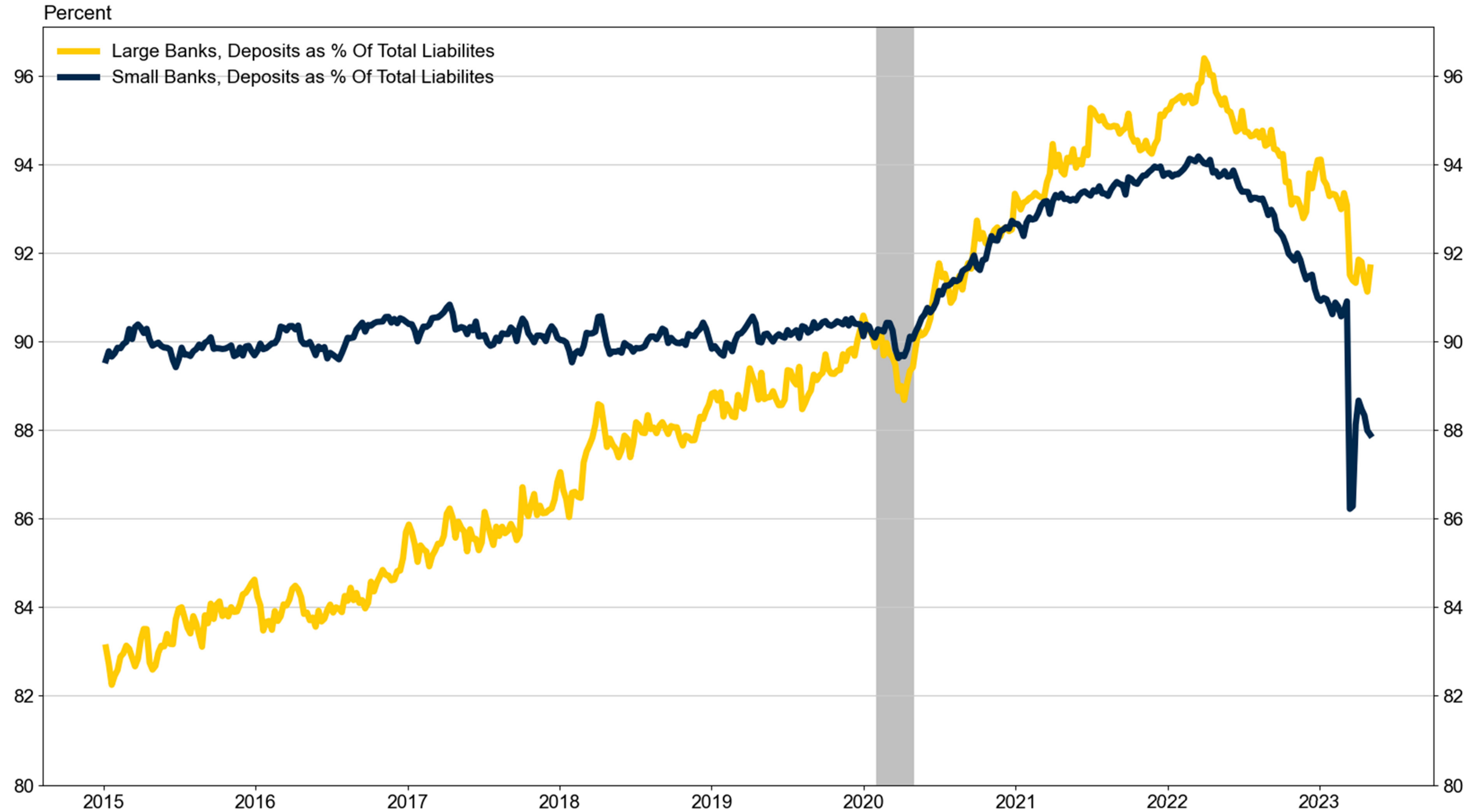
S&P 1500 Banking Indices



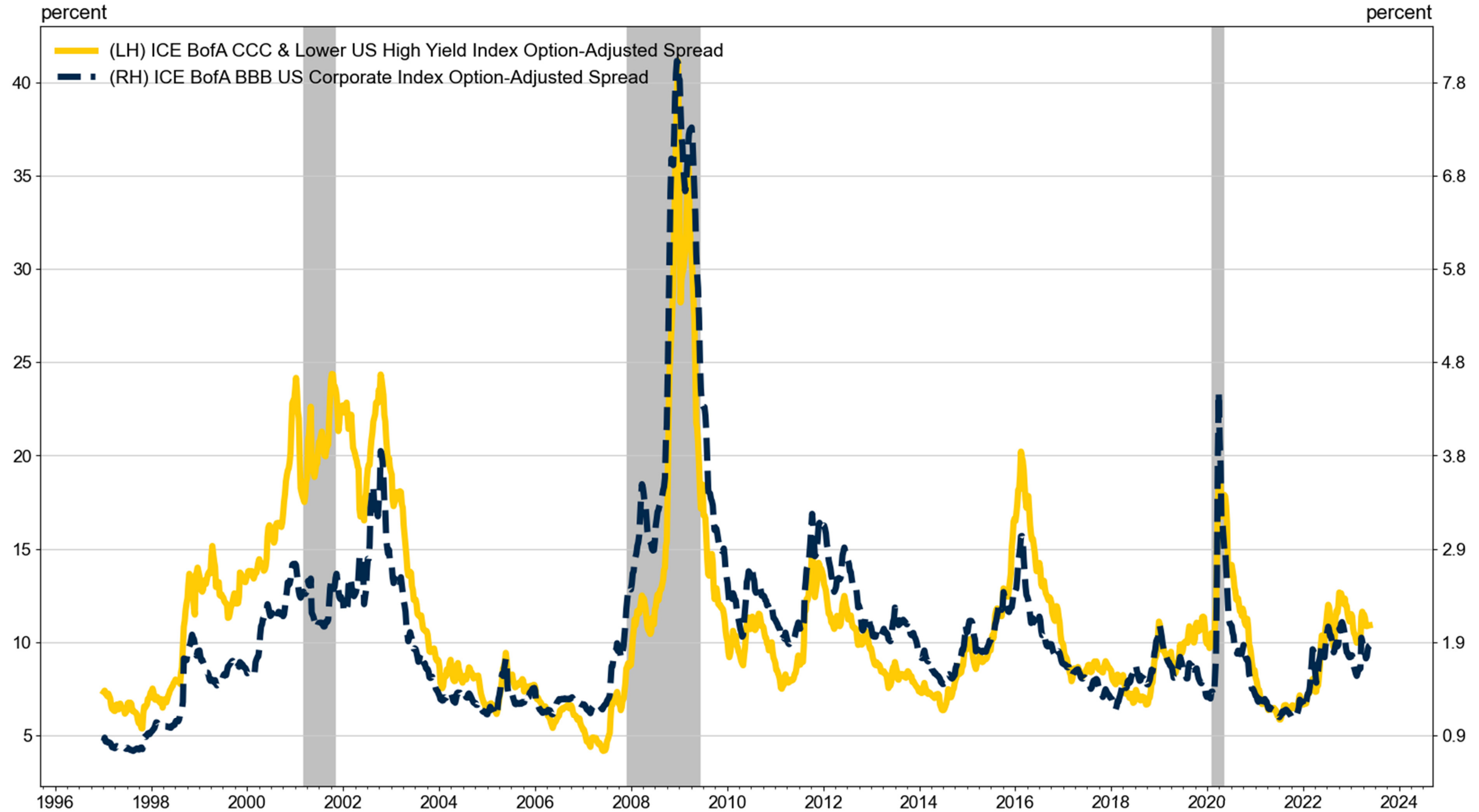
CRE Loans, Share of Bank Assets



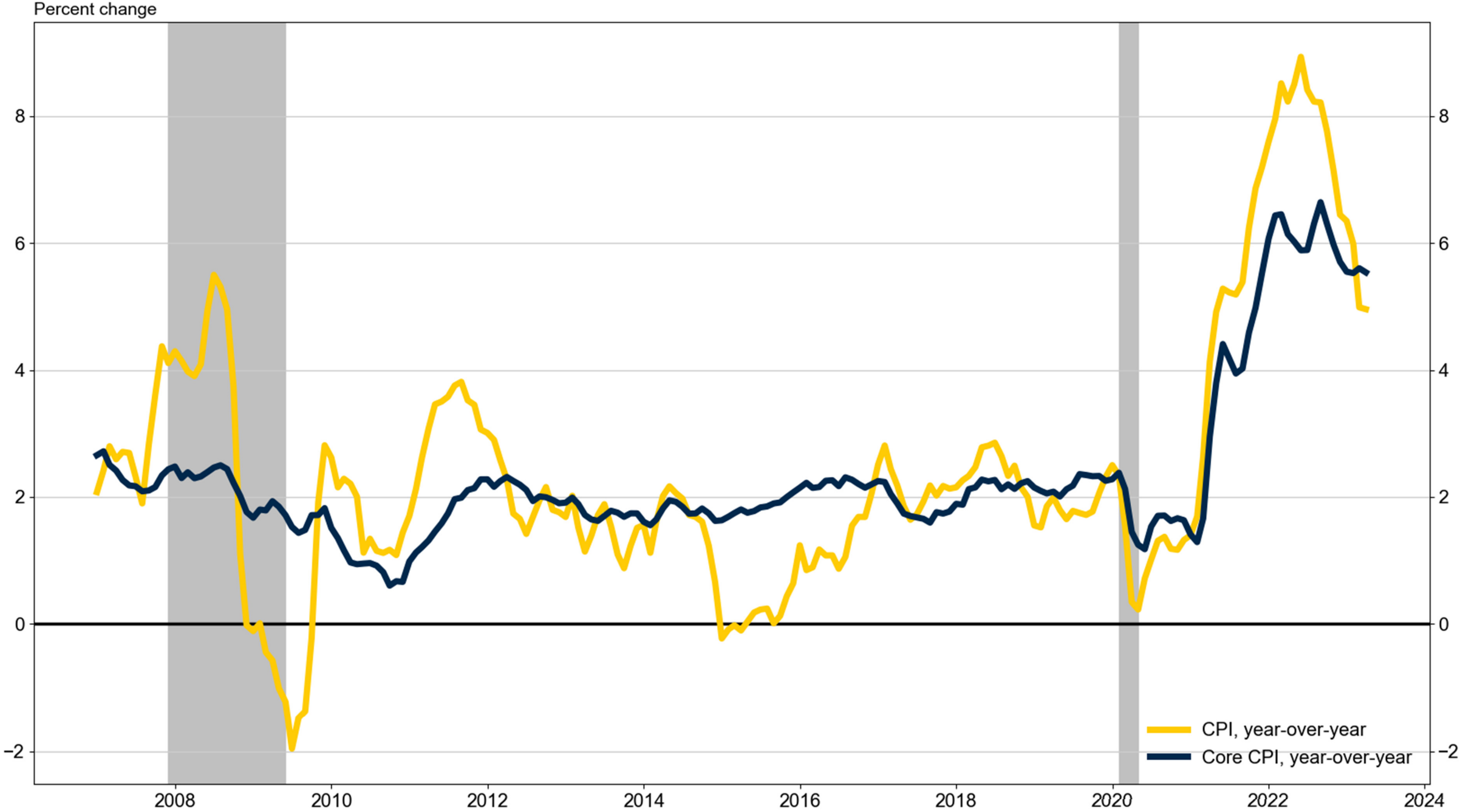
Bank Deposit Outflow



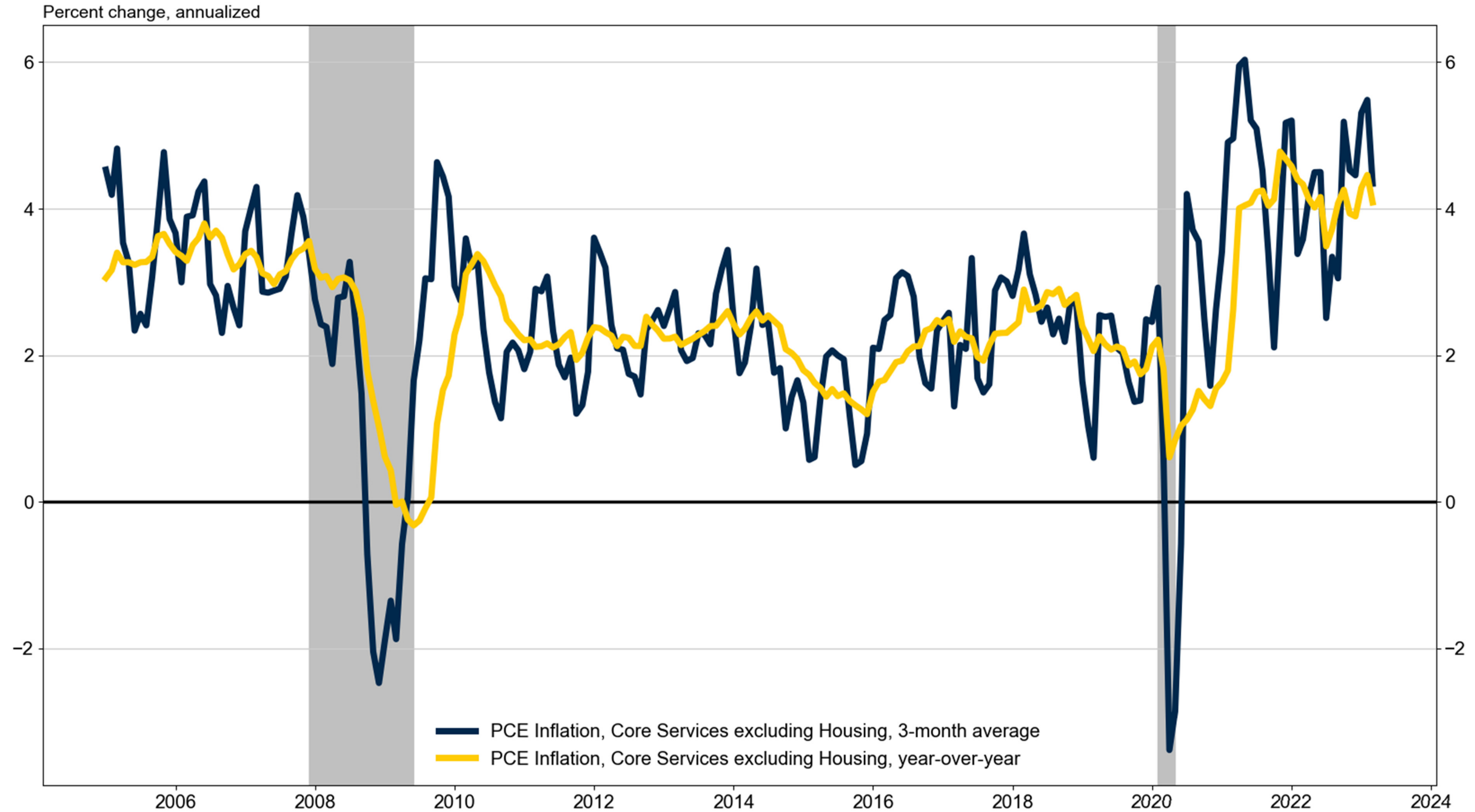
Risk Spreads



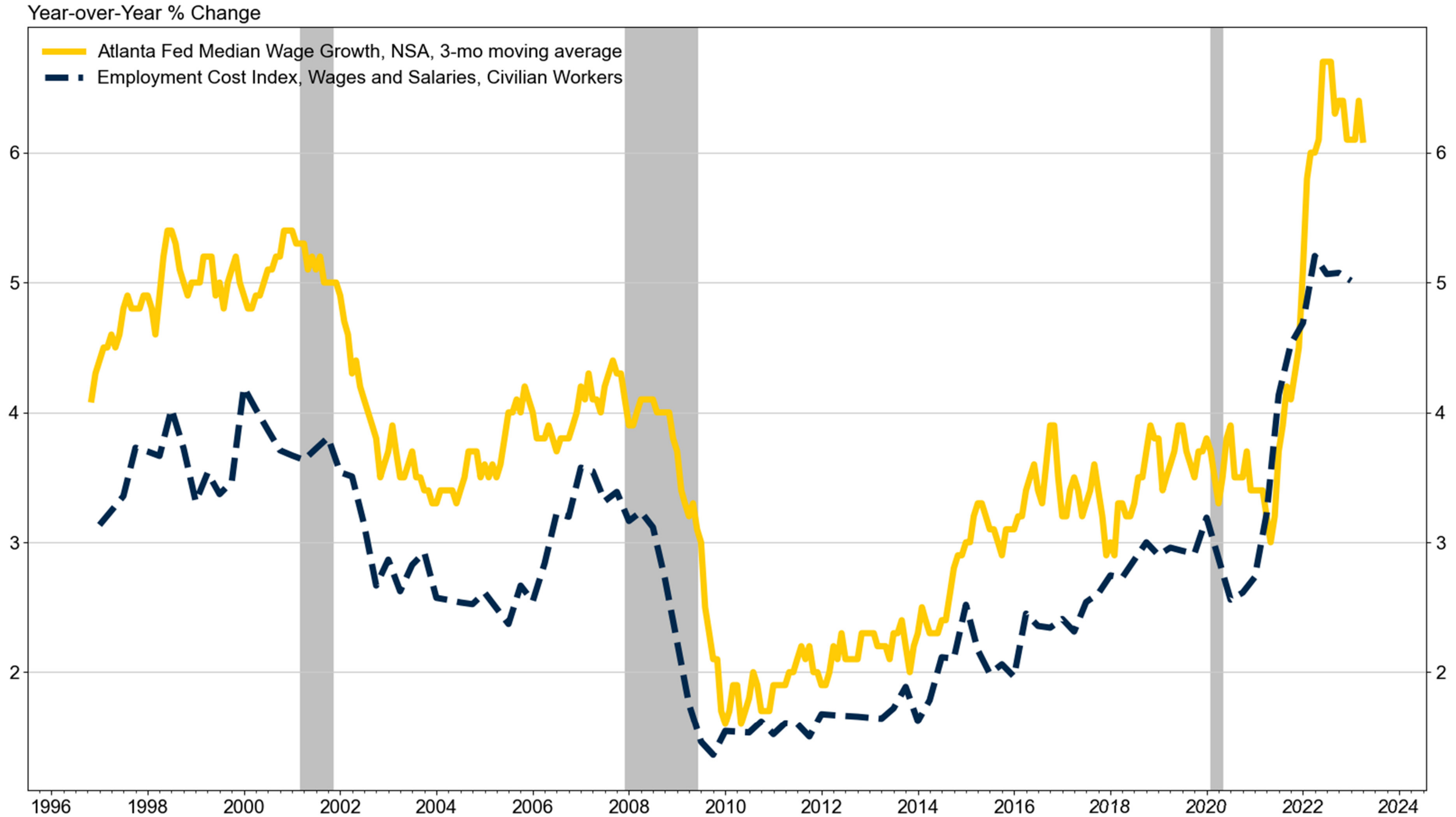
Consumer Price Index



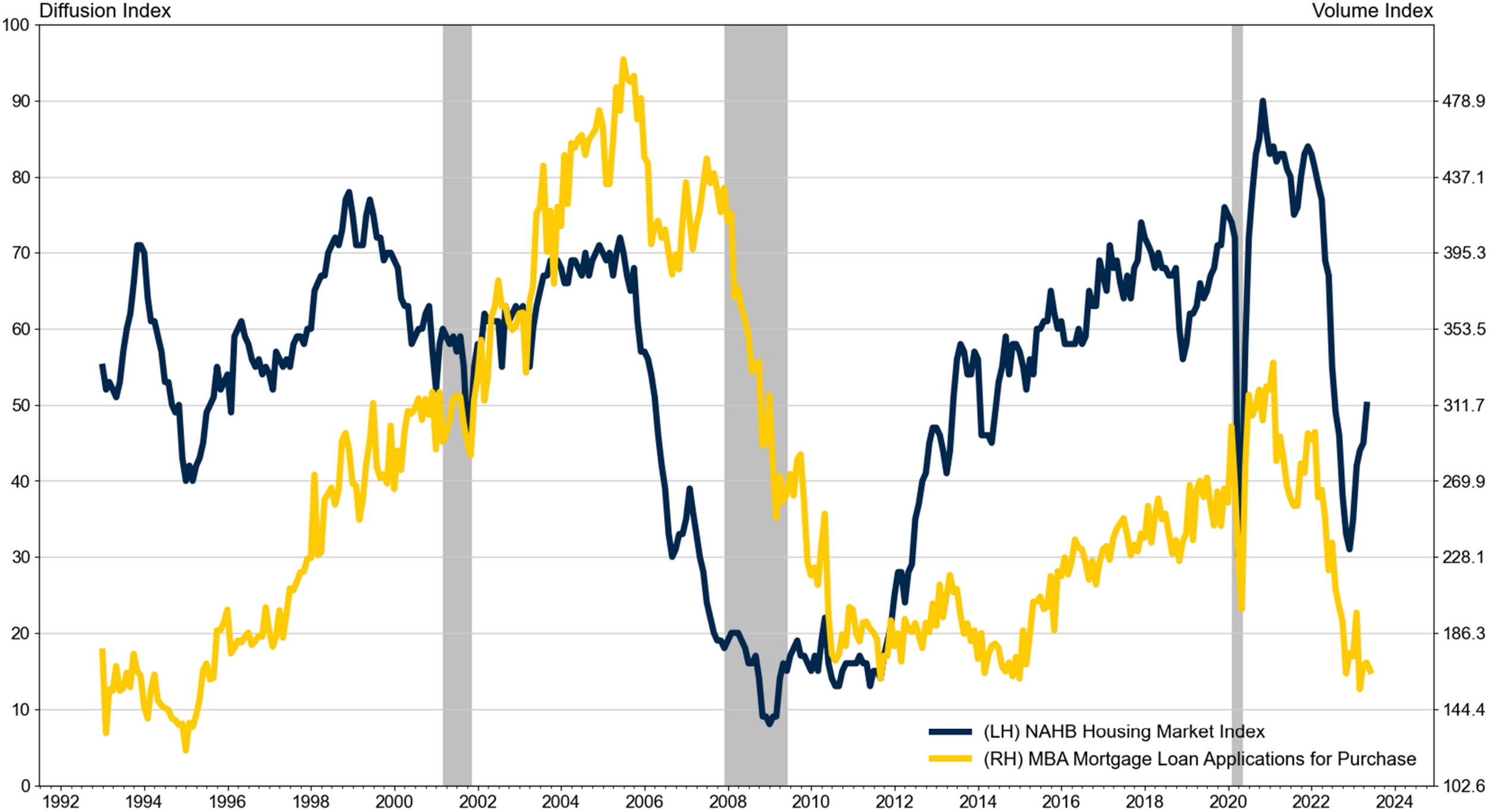
Core PCE Services excl. Housing



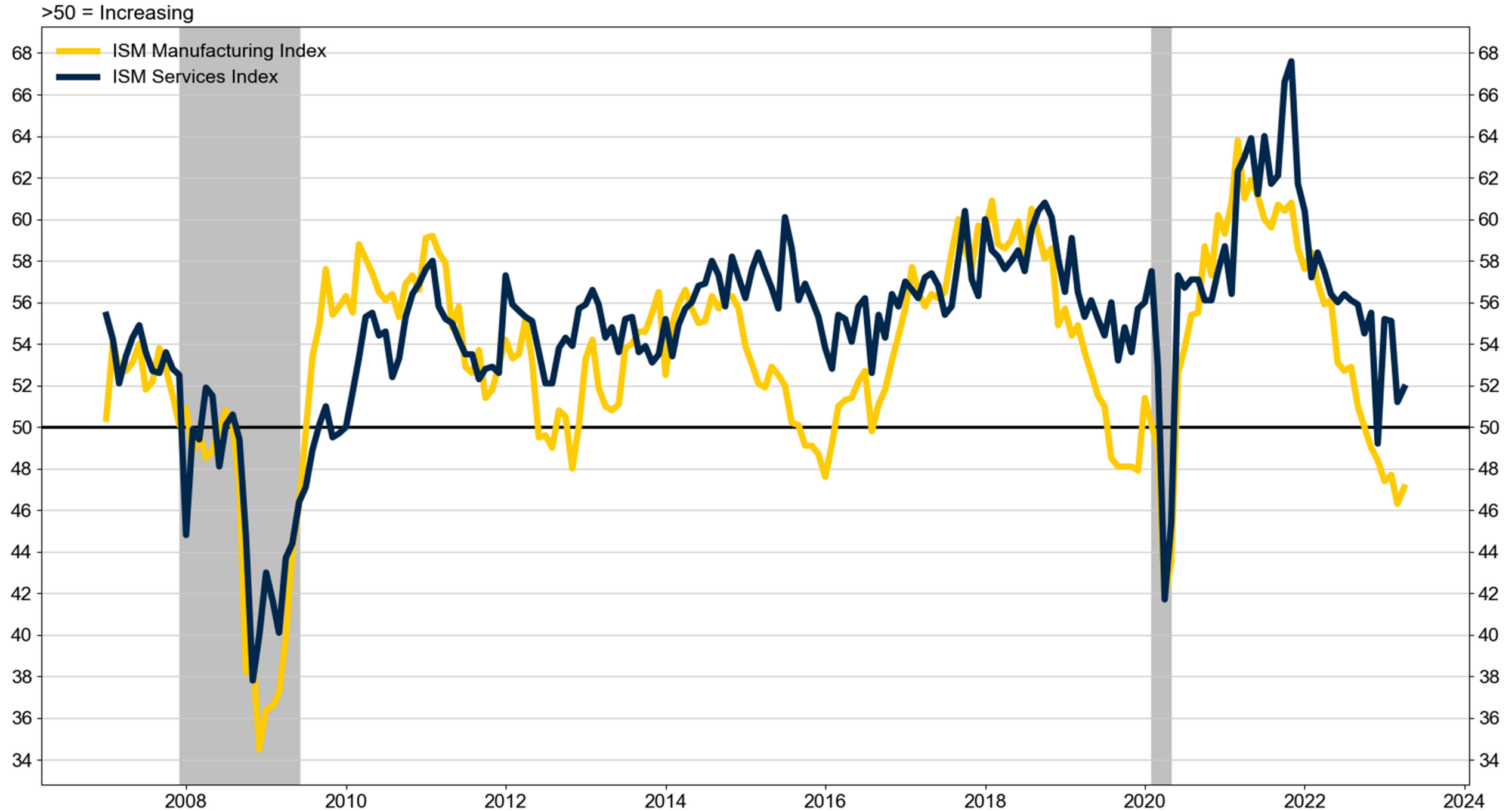
Wage Growth



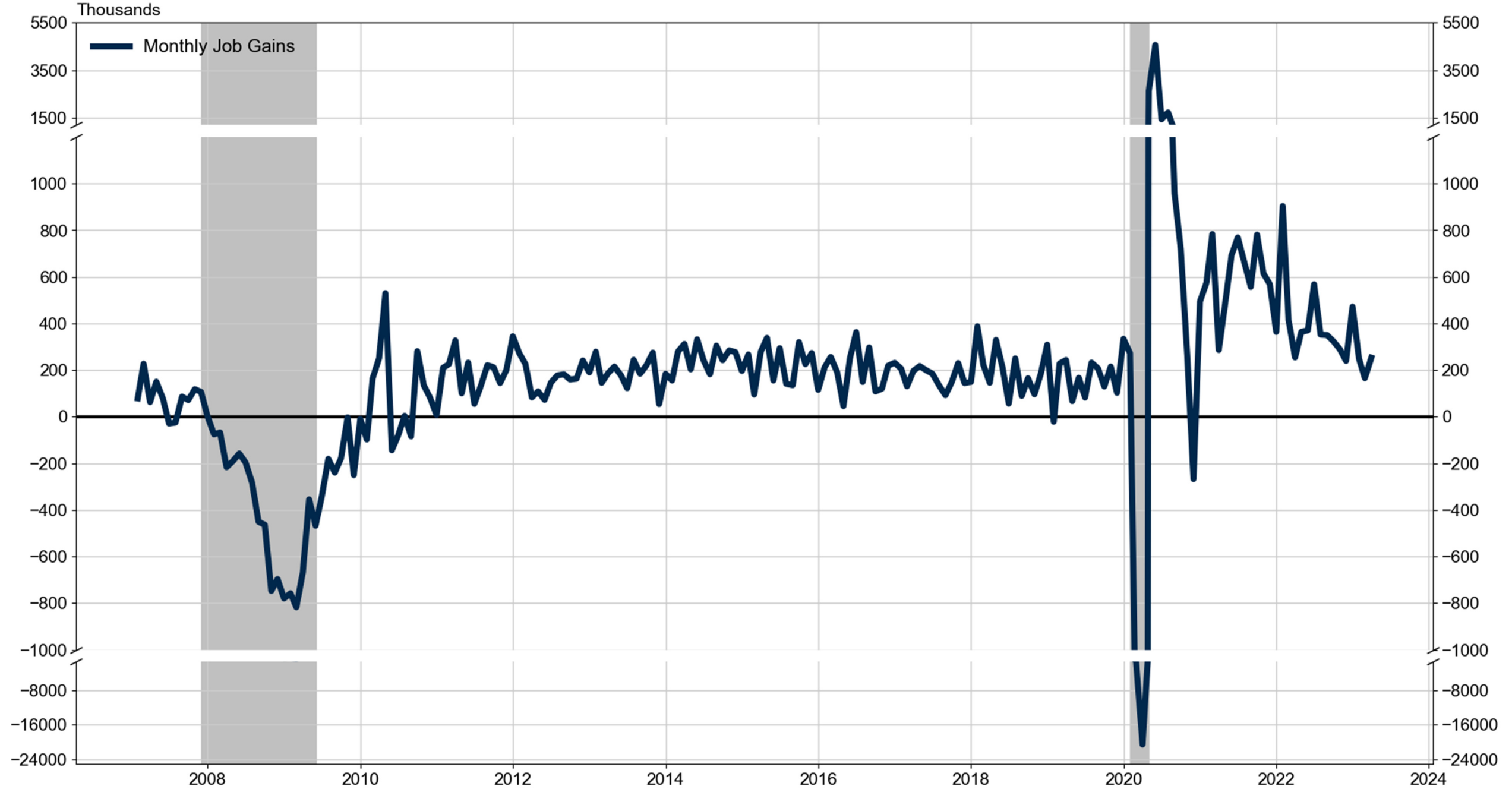
Residential Housing Market Metrics



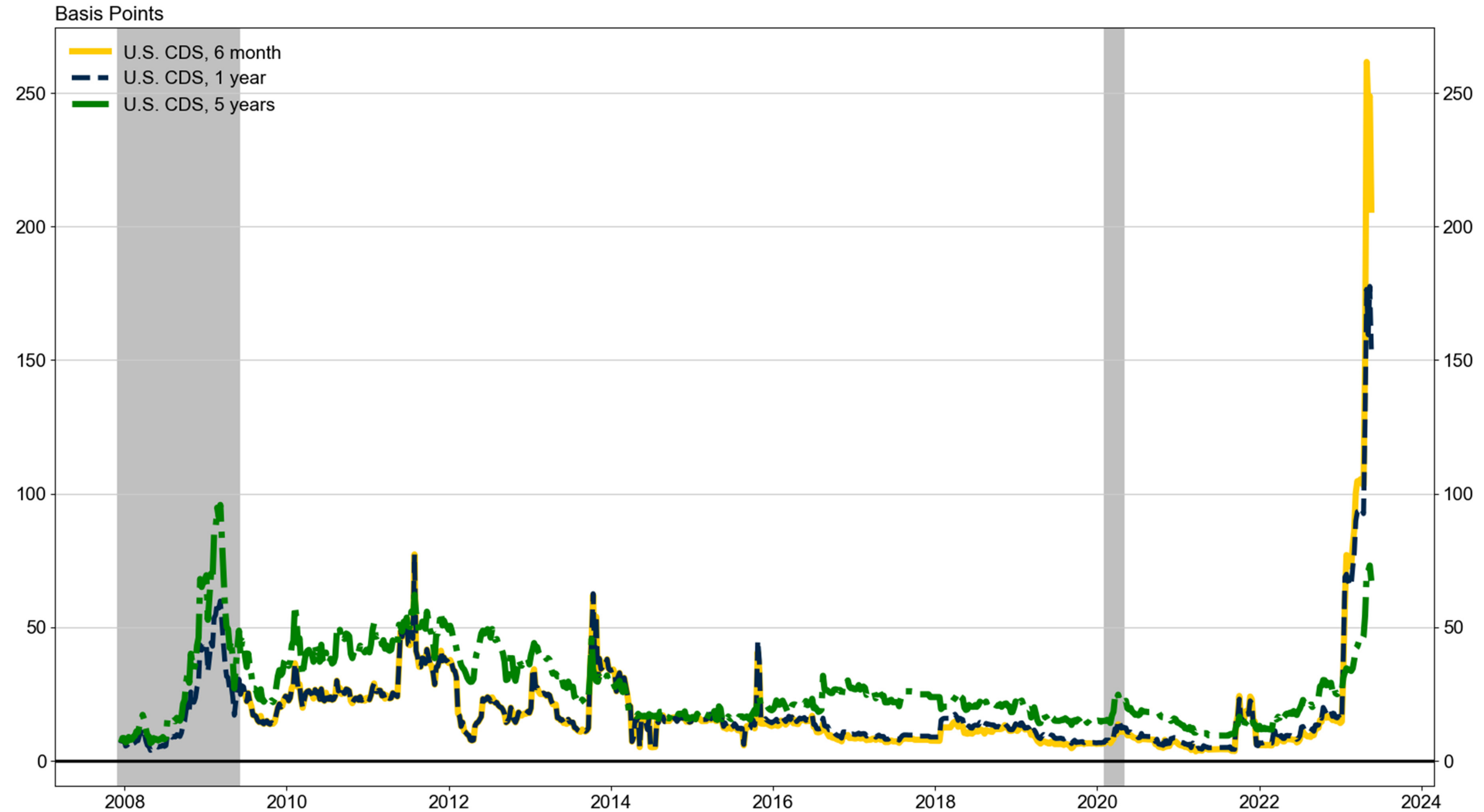
Institute for Supply Management Diffusion Indices



Monthly Payroll Job Gains



U.S. Credit Default Swaps



U.S. Forecast

Policy

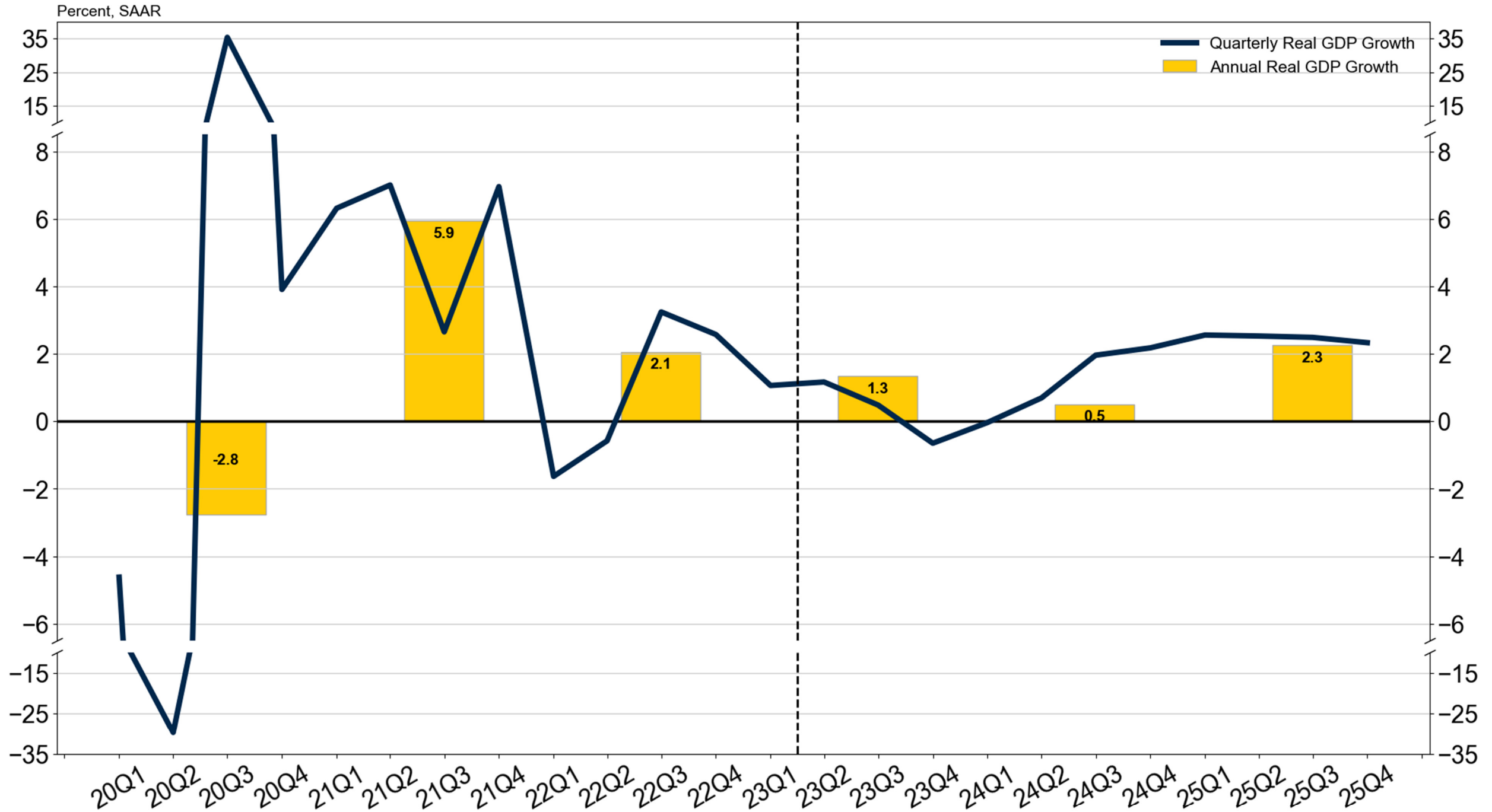
➤ Monetary Policy:

- Fed pause until early 2024 at the funds rate range of **5.0–5.25** percent.
- The Fed starts easing once PCE inflation forecasts show return to 2.0 percent inflation over 1–2 year horizon. Gradual fed funds rate range cuts through 2024–25.

➤ Fiscal Policy:

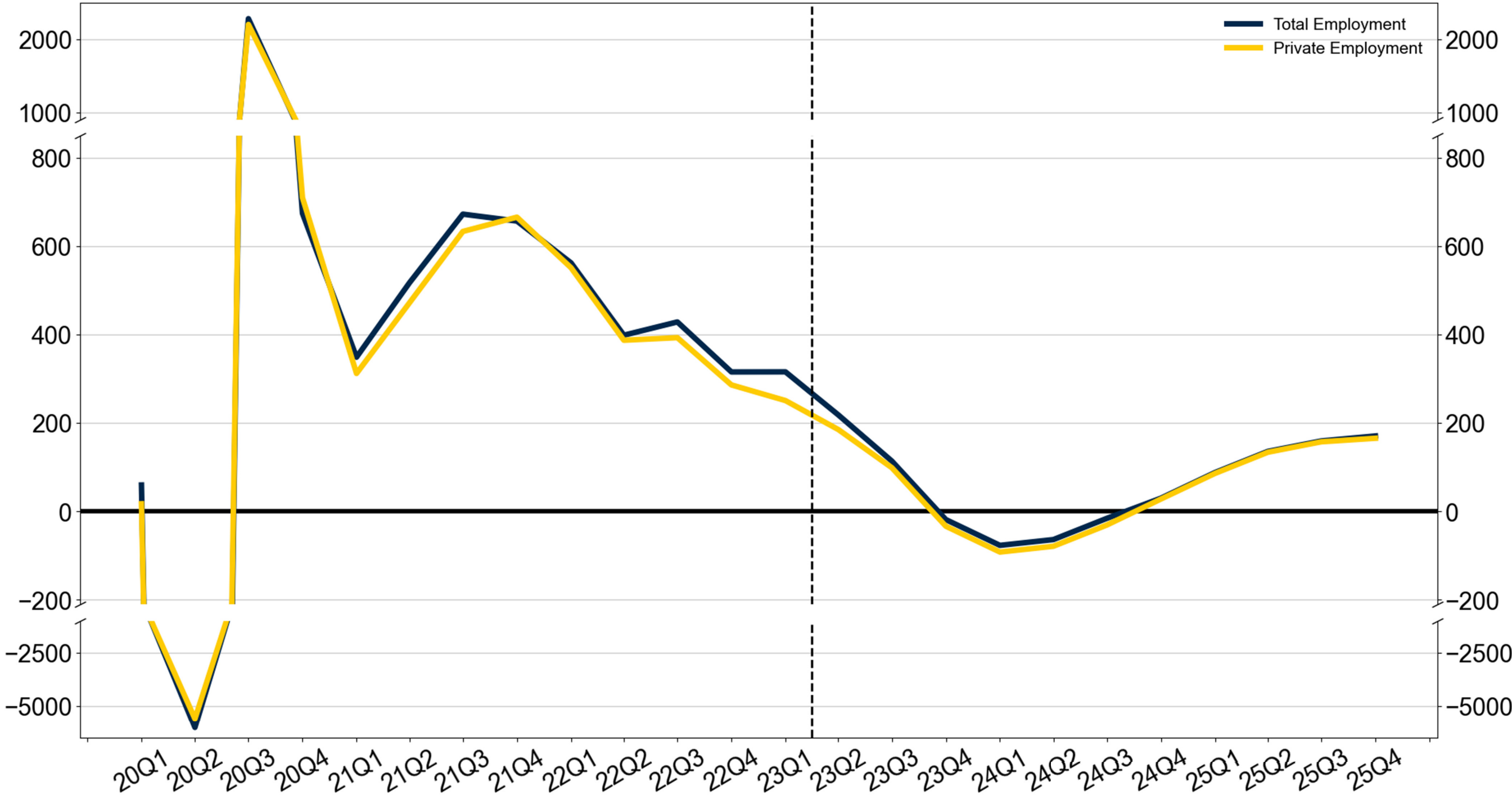
- Divided government: more contentious fights
- Defense spending likely set for brisk growth
- Slow growth of discretionary nondefense spending likely
- Budget deficit of about 5.8 percent of GDP in fiscal 2023–25

Real GDP Growth

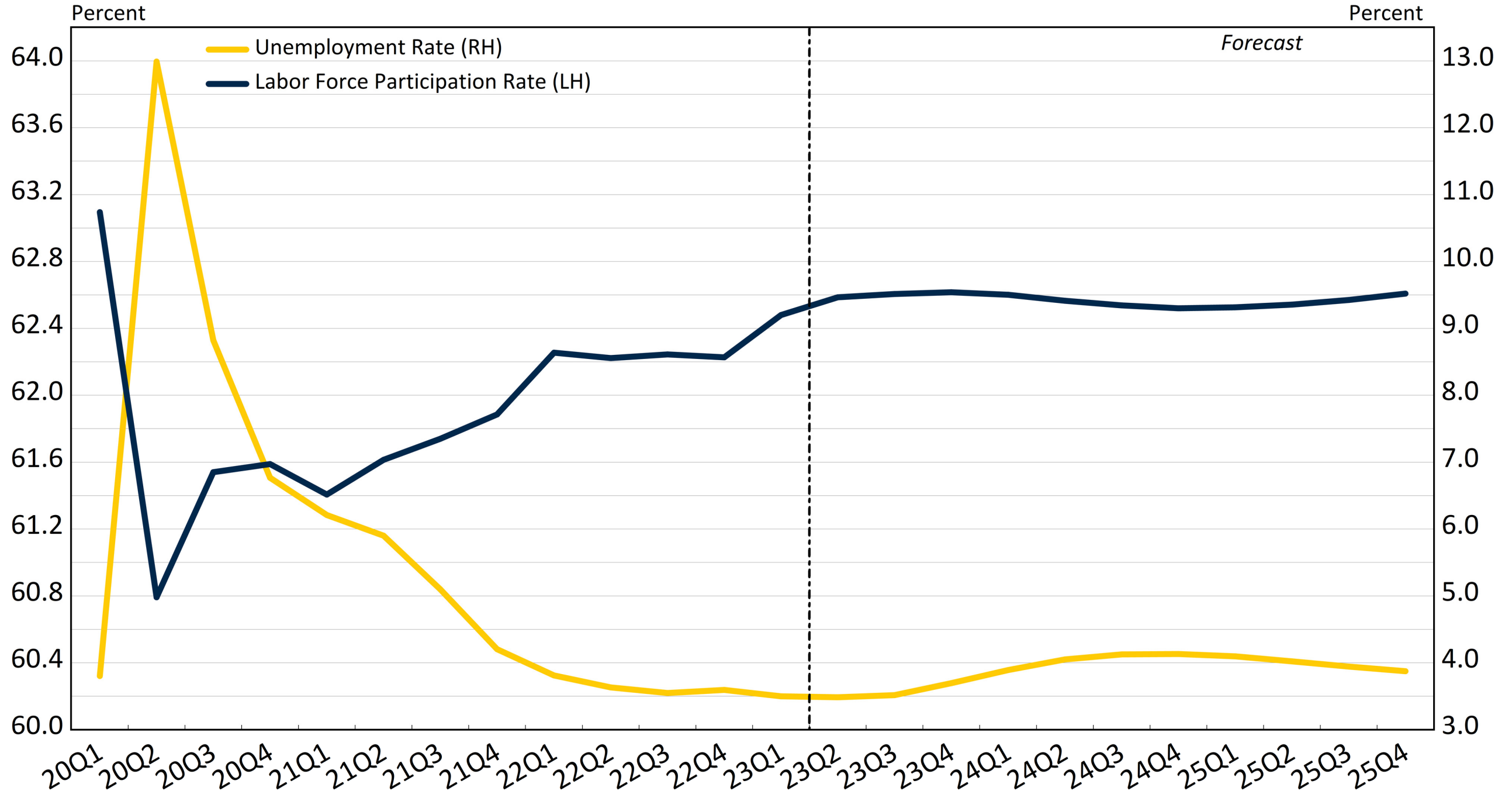


Payroll Employment Growth

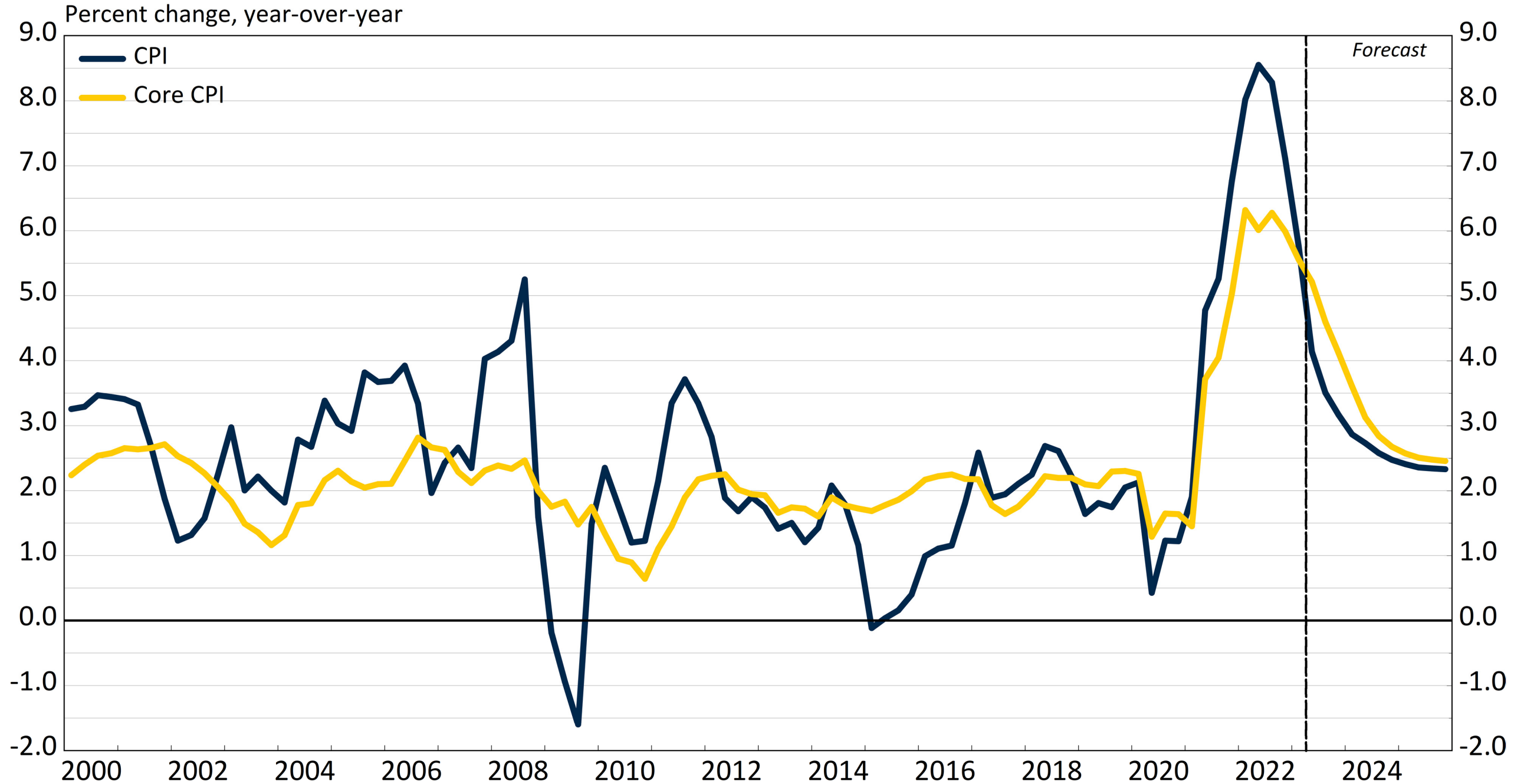
Thousands of jobs per month, quarterly average



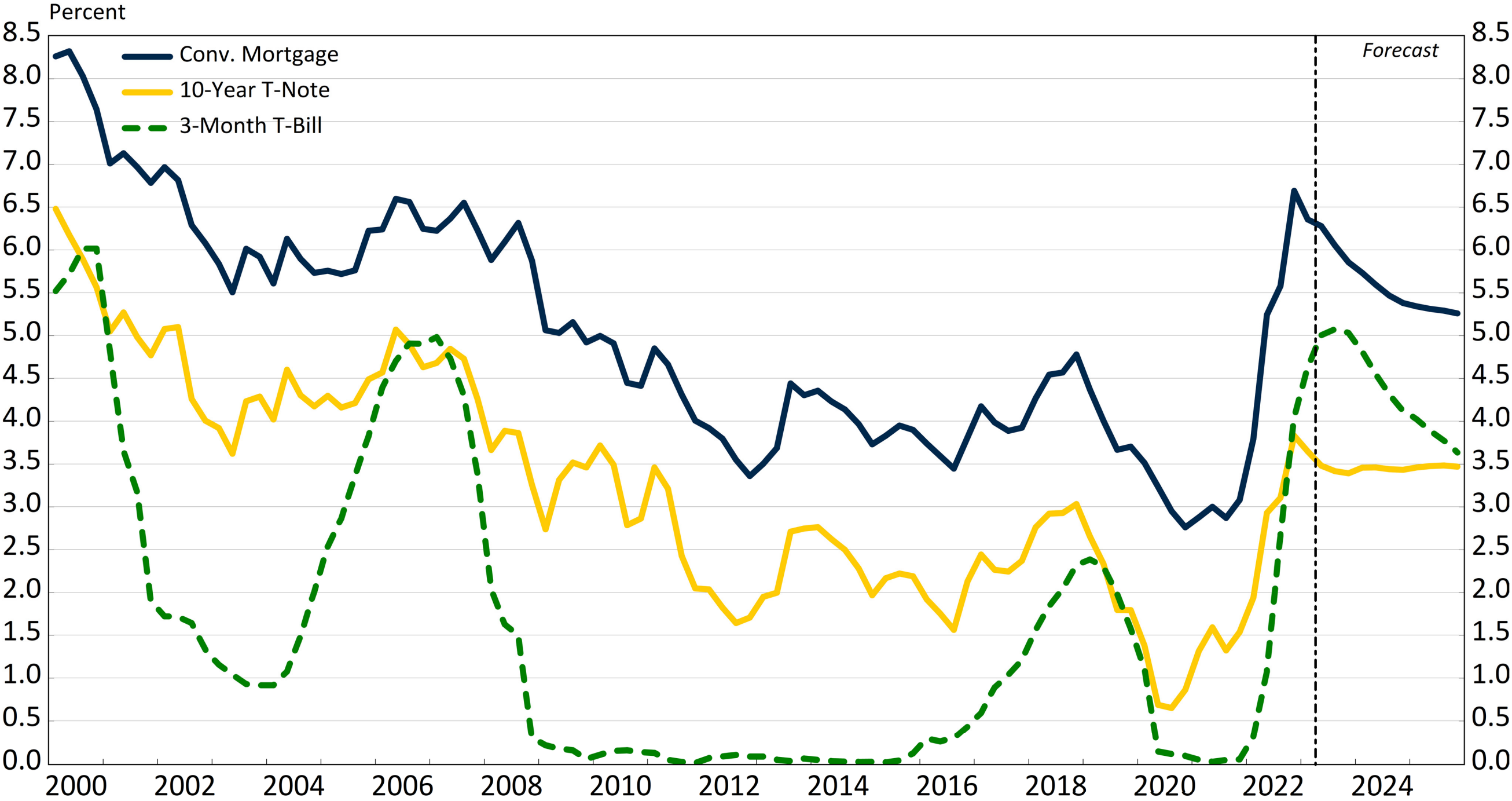
Unemployment Rate and Participation Rate



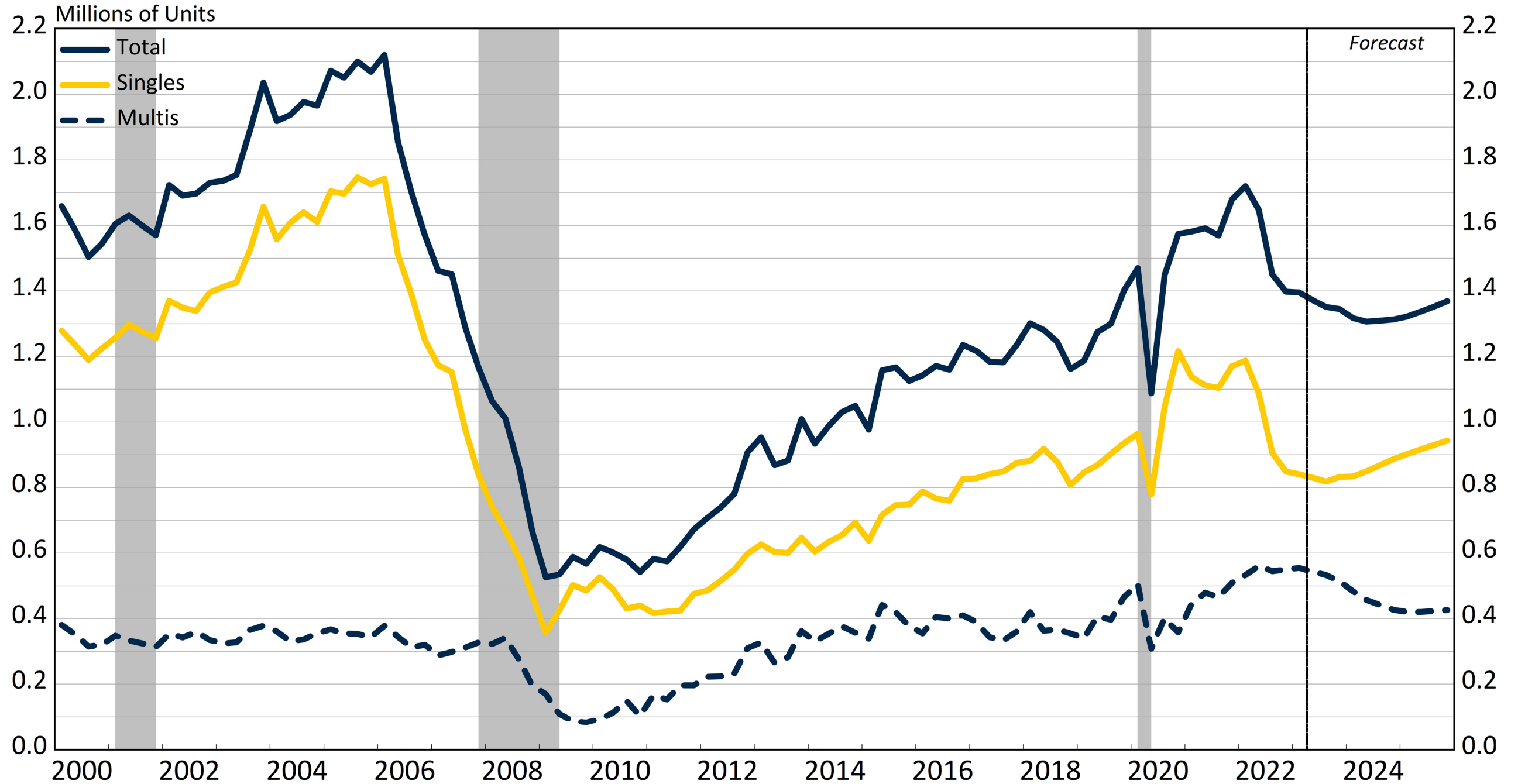
Consumer Price Index (CPI-U)



Interest Rates



Housing Starts



Risks

- Financial Stress
- Inflation Dynamics
- Monetary Policy
- Housing Sector
- Geopolitical Shocks
- Fiscal Path

The Michigan Economic Outlook For 2023–2025



Consensus Revenue Estimating Conference

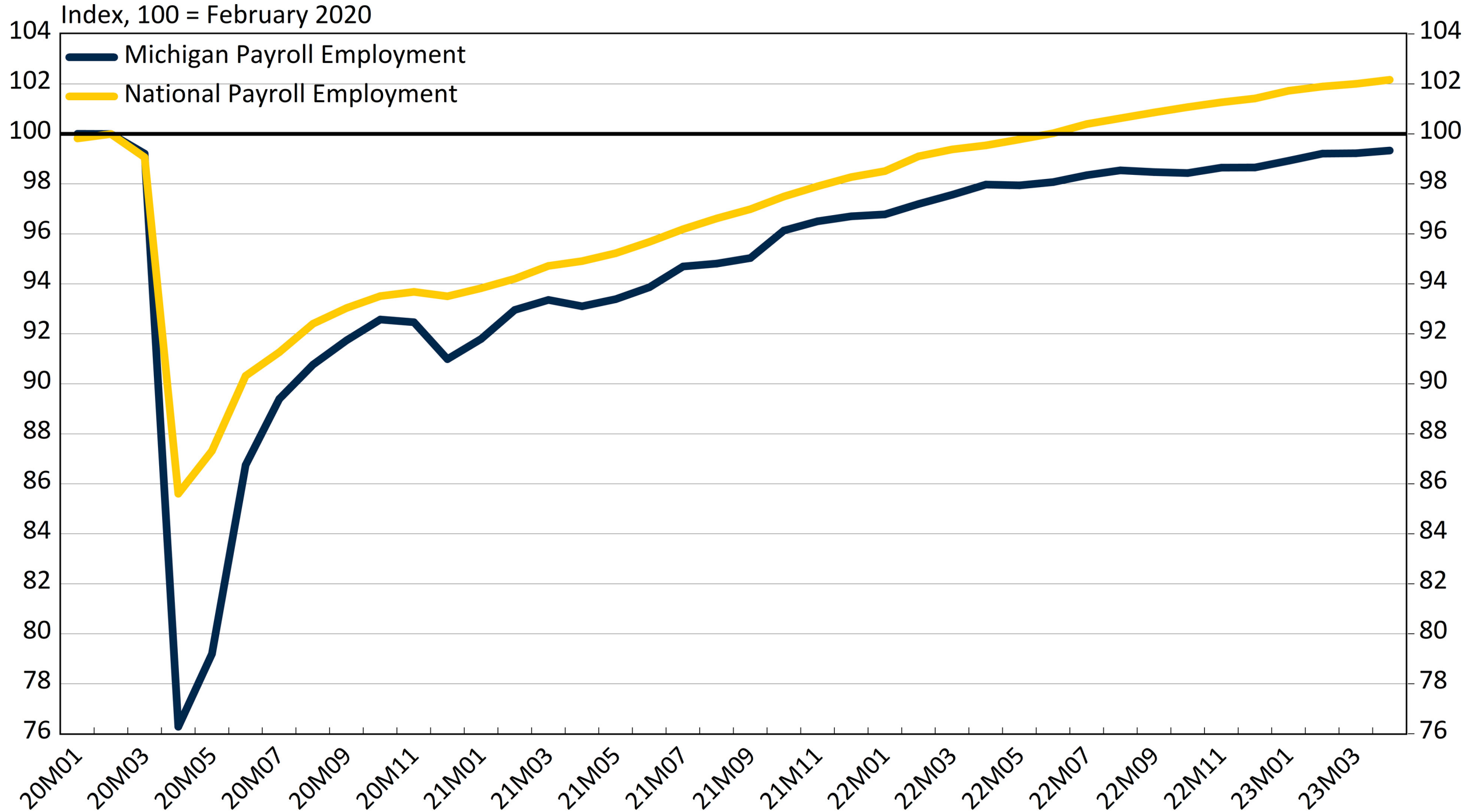
May 19, 2023

Research Seminar in Quantitative Economics

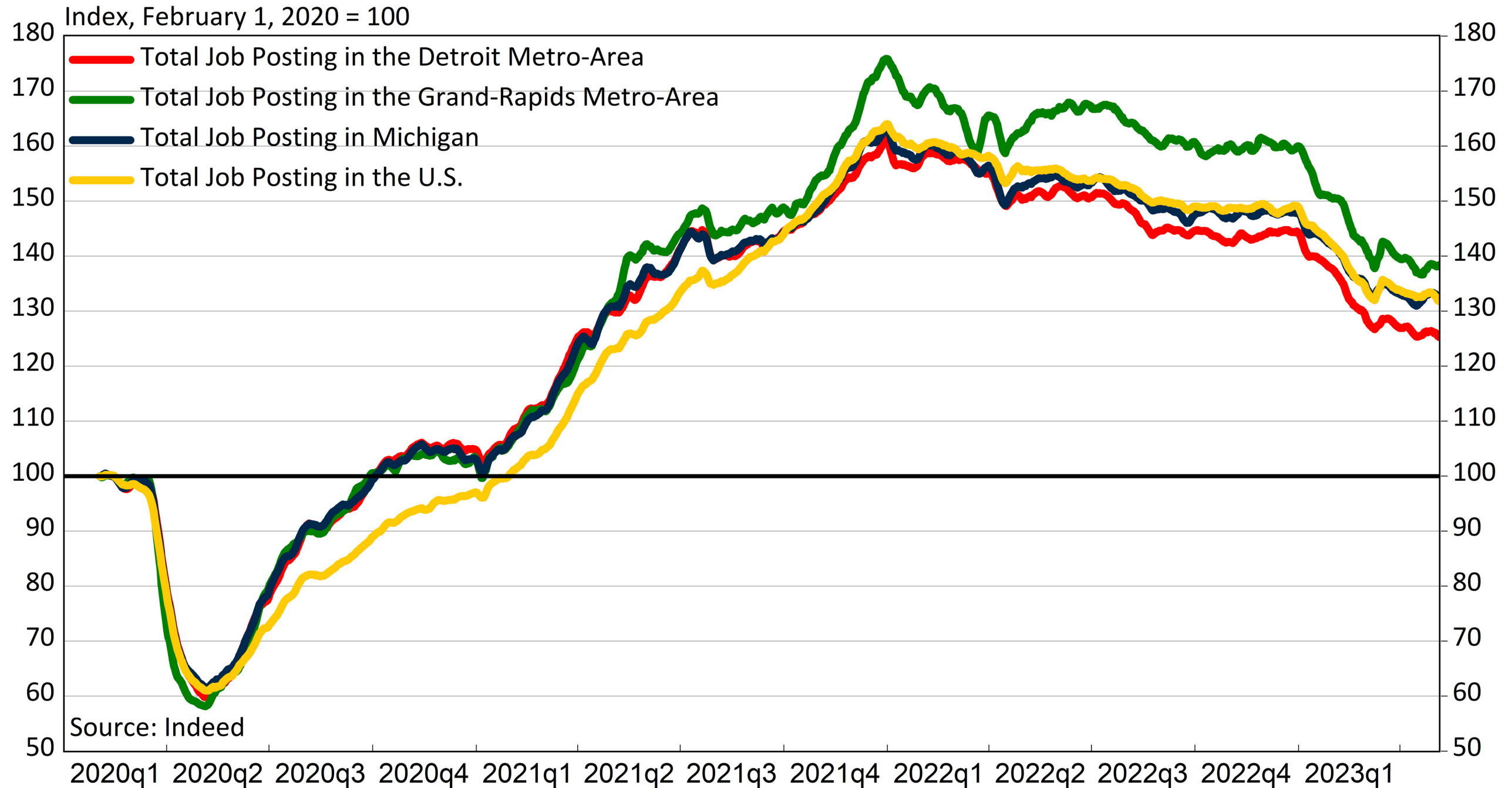


Michigan Economic Outlook

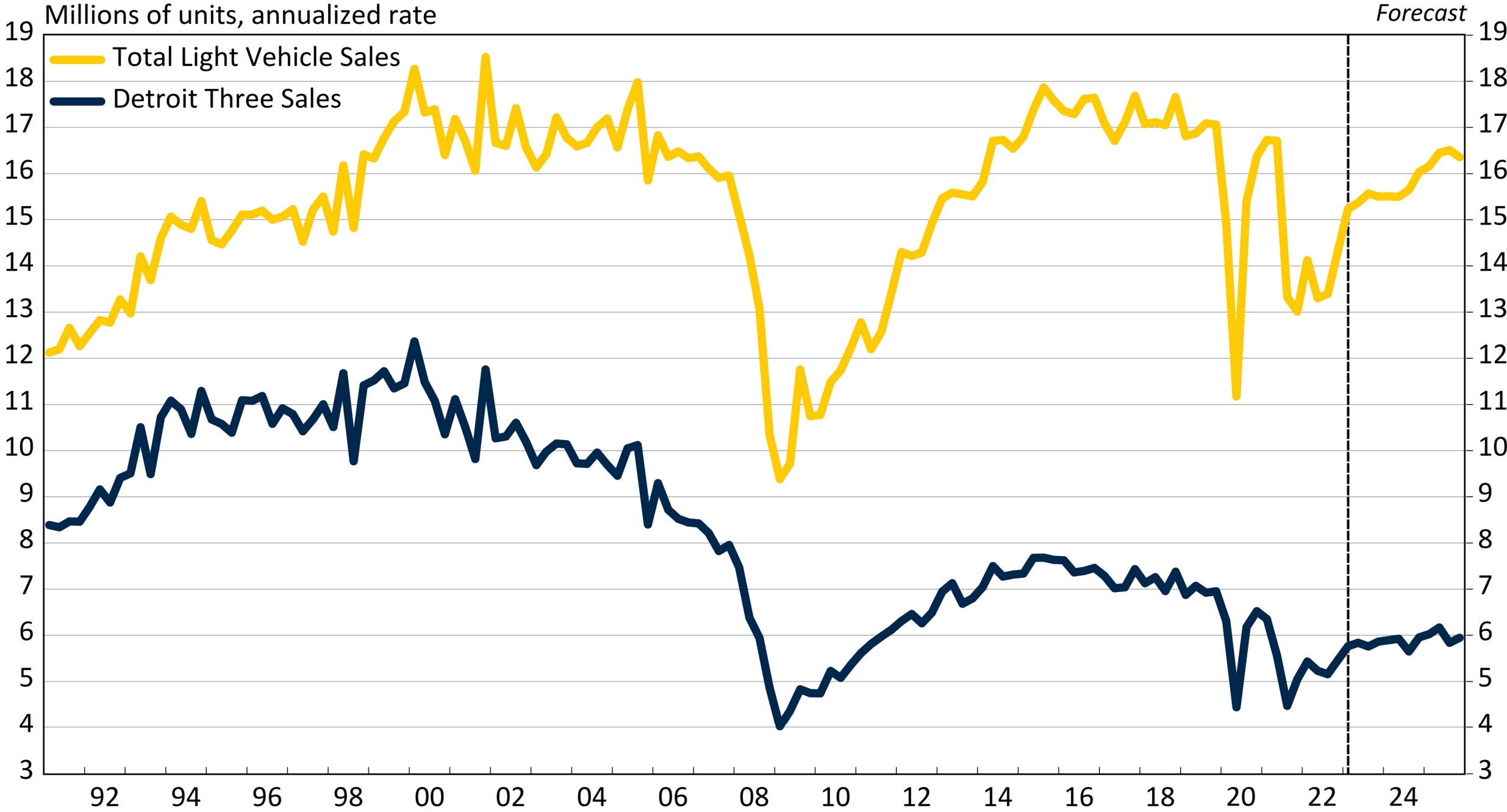
Michigan is Nearly Out of a Deep Jobs Hole



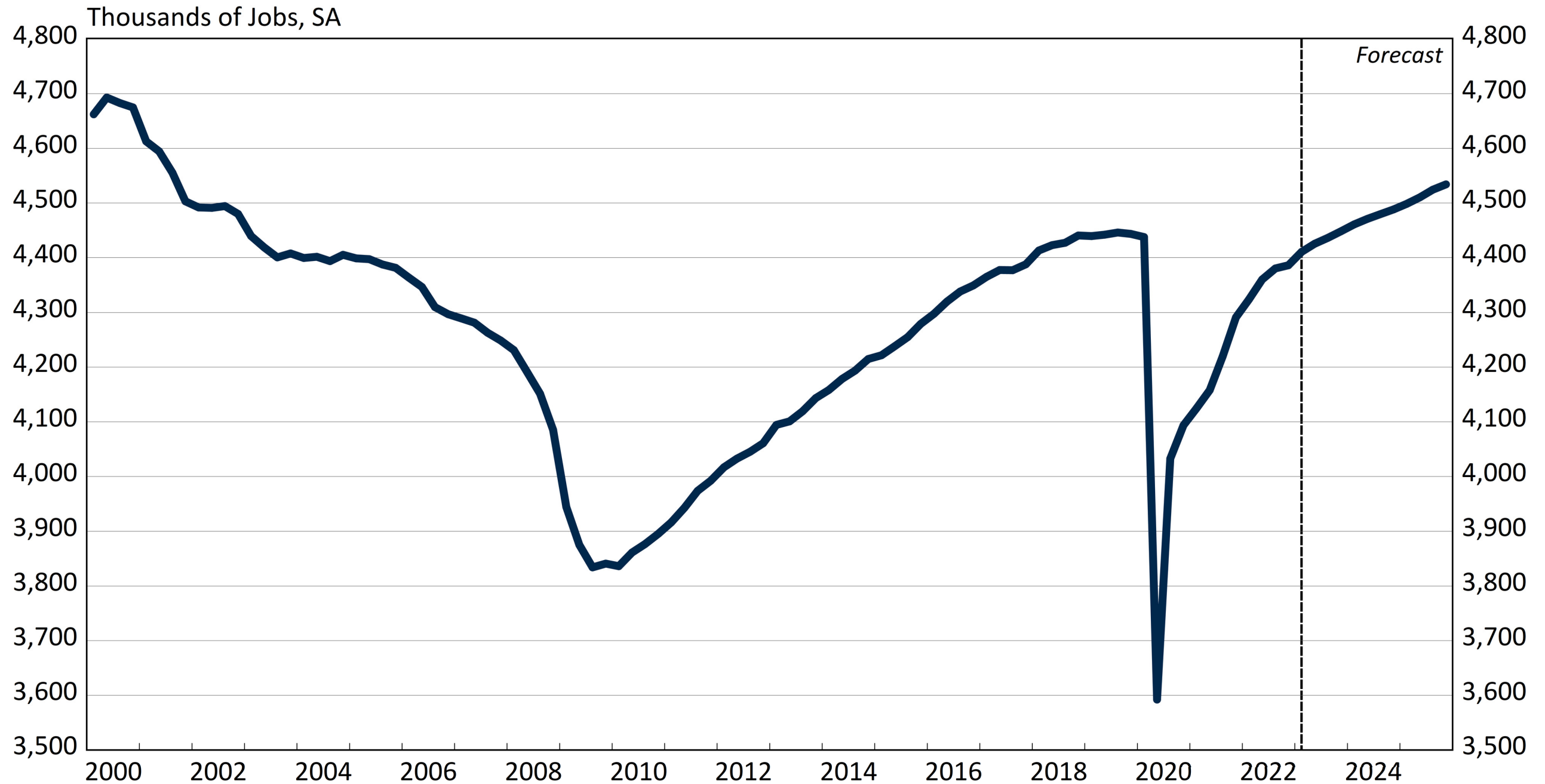
Labor Demand Has Cooled Off, but Remains Solid



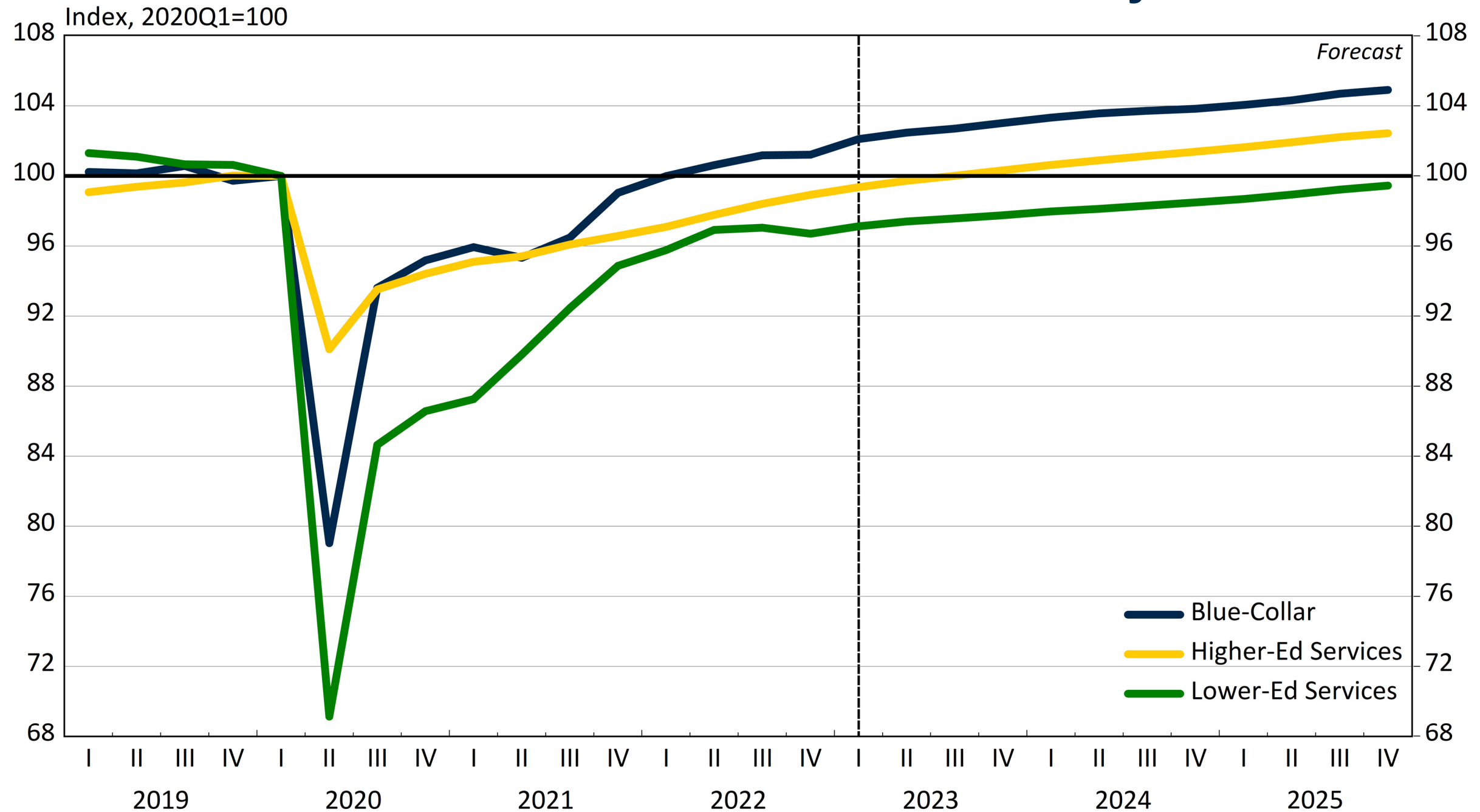
Quarterly Light Vehicle Sales: Choppy Recovery Ahead



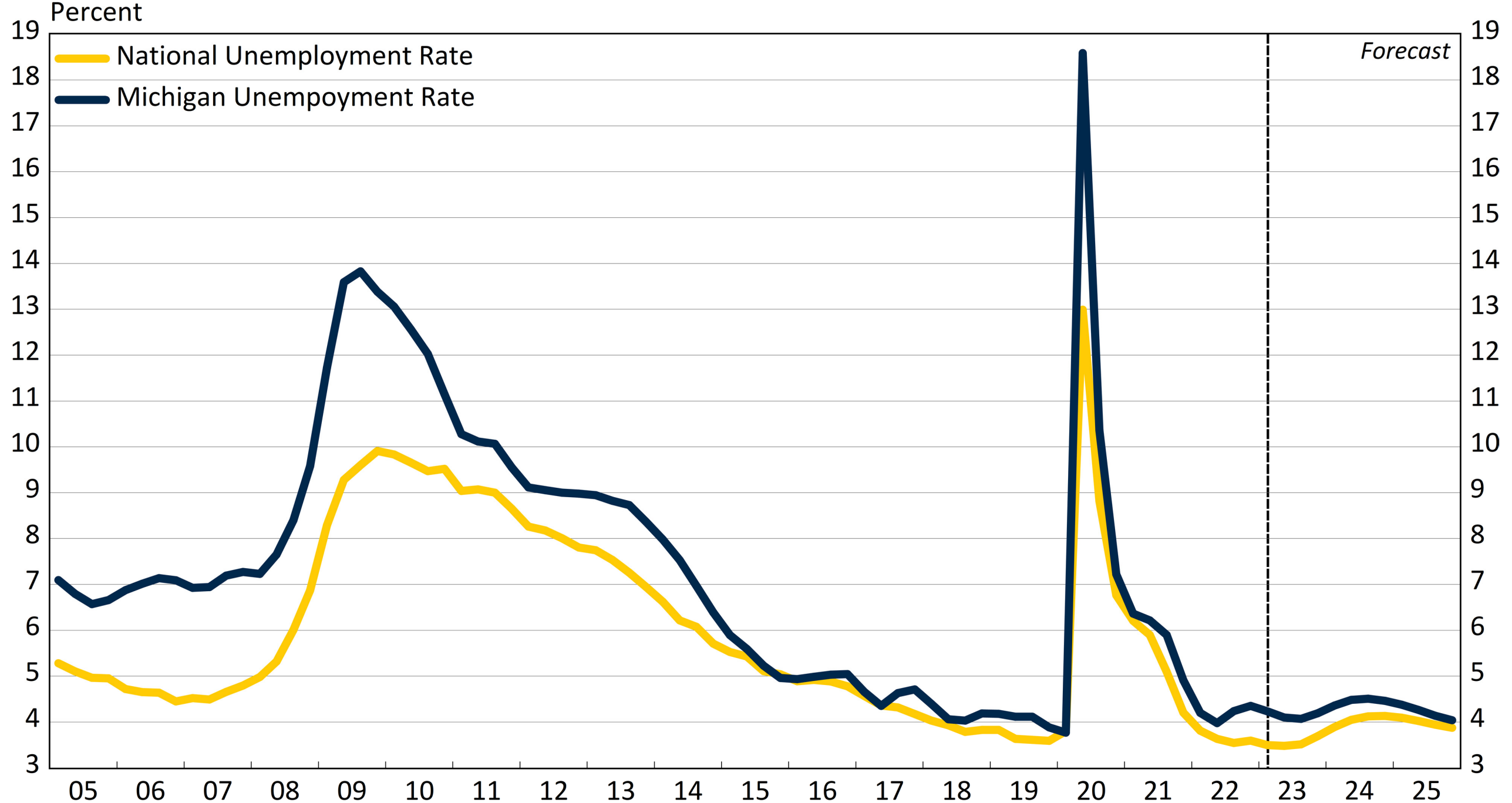
Quarterly Michigan Payroll Employment: Full Recovery in Late 2023



Employment Outlook by Industry Group: Blue-Collar Industries Lead the Way



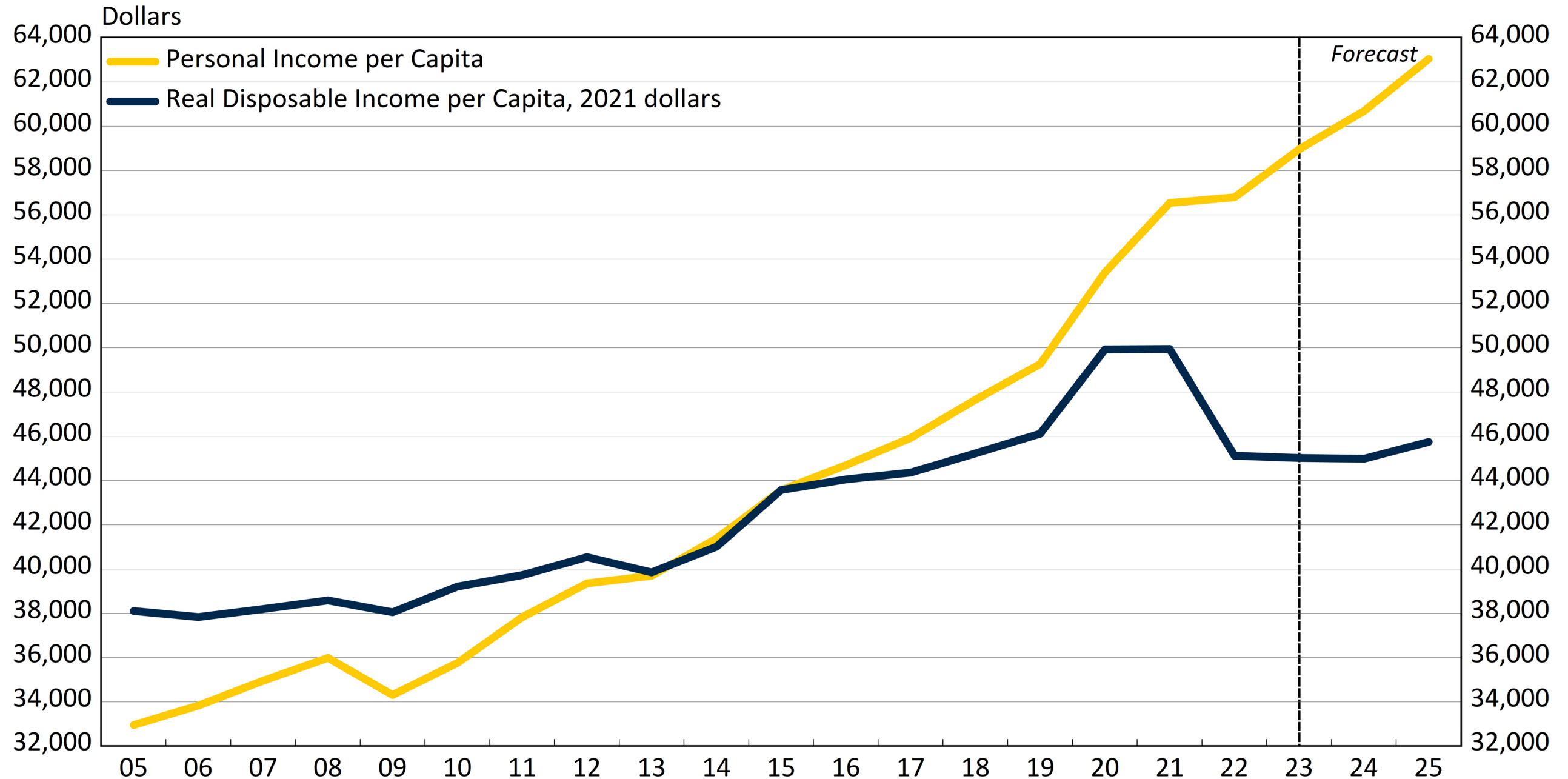
Michigan's Unemployment Rate Rises Temporarily



Labor Force Participation Recovers Modestly

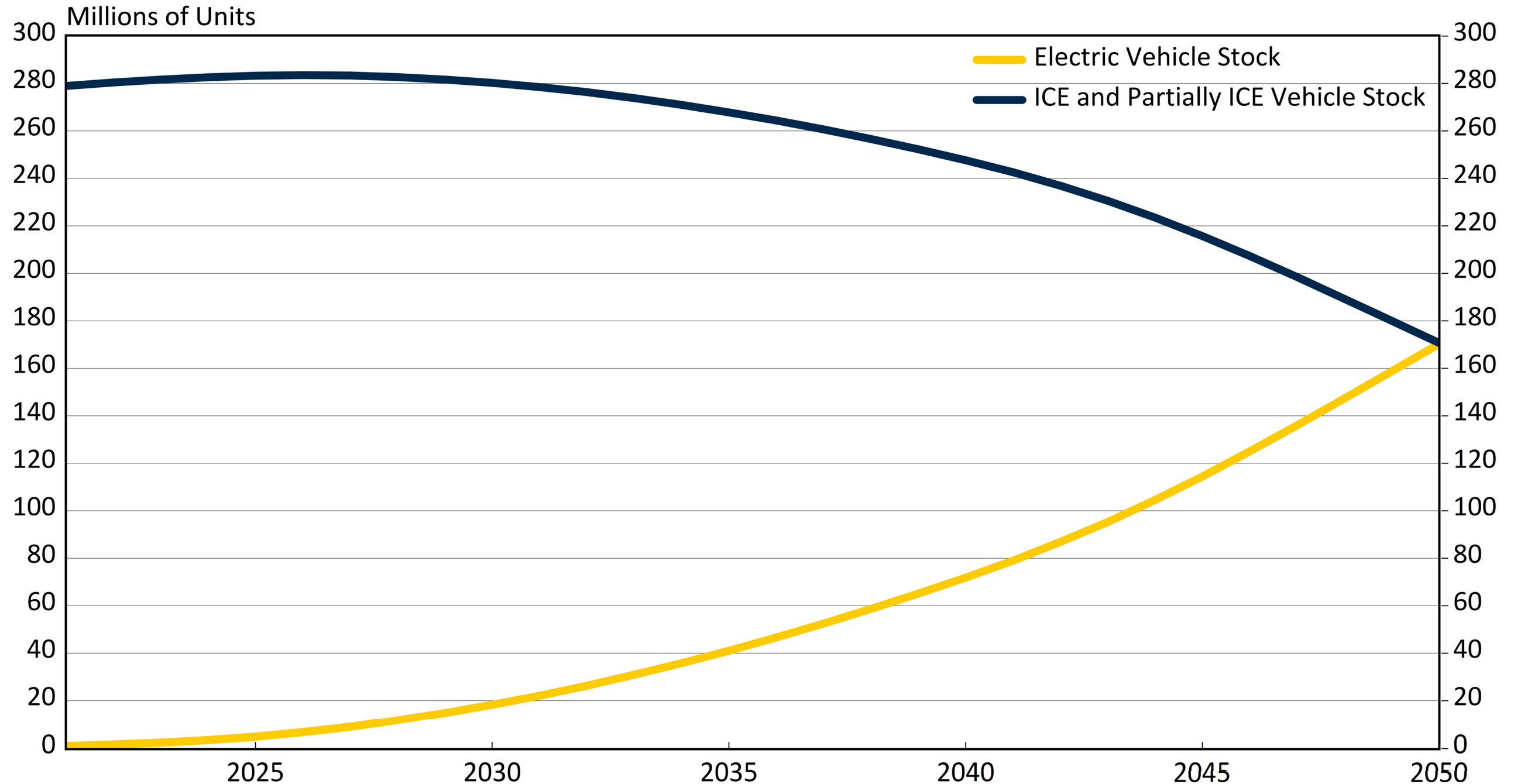


Inflation Devours Michigan Personal Income Gains

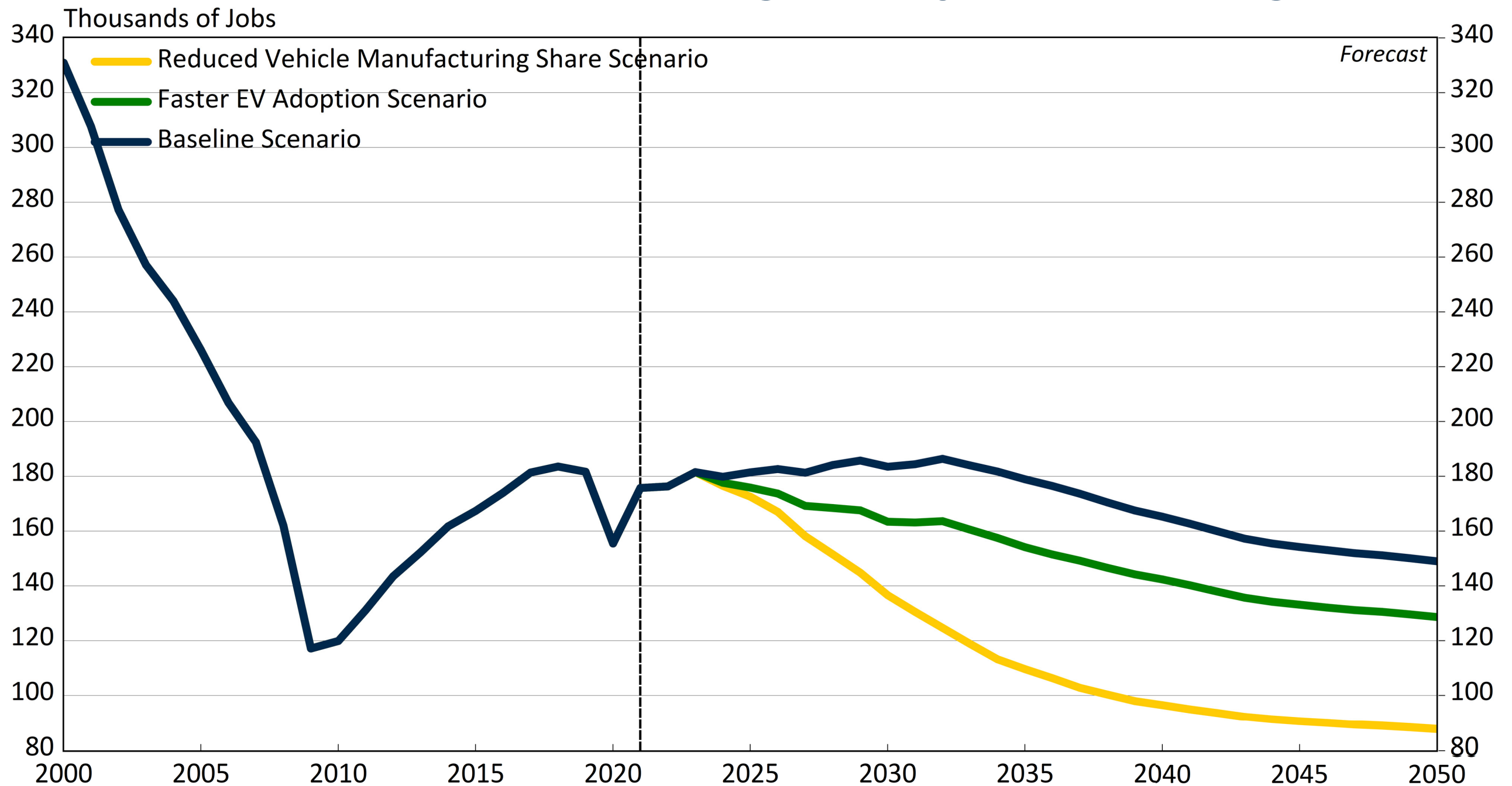


Michigan's Long-Run Outlook and Implications of Vehicle Electrification

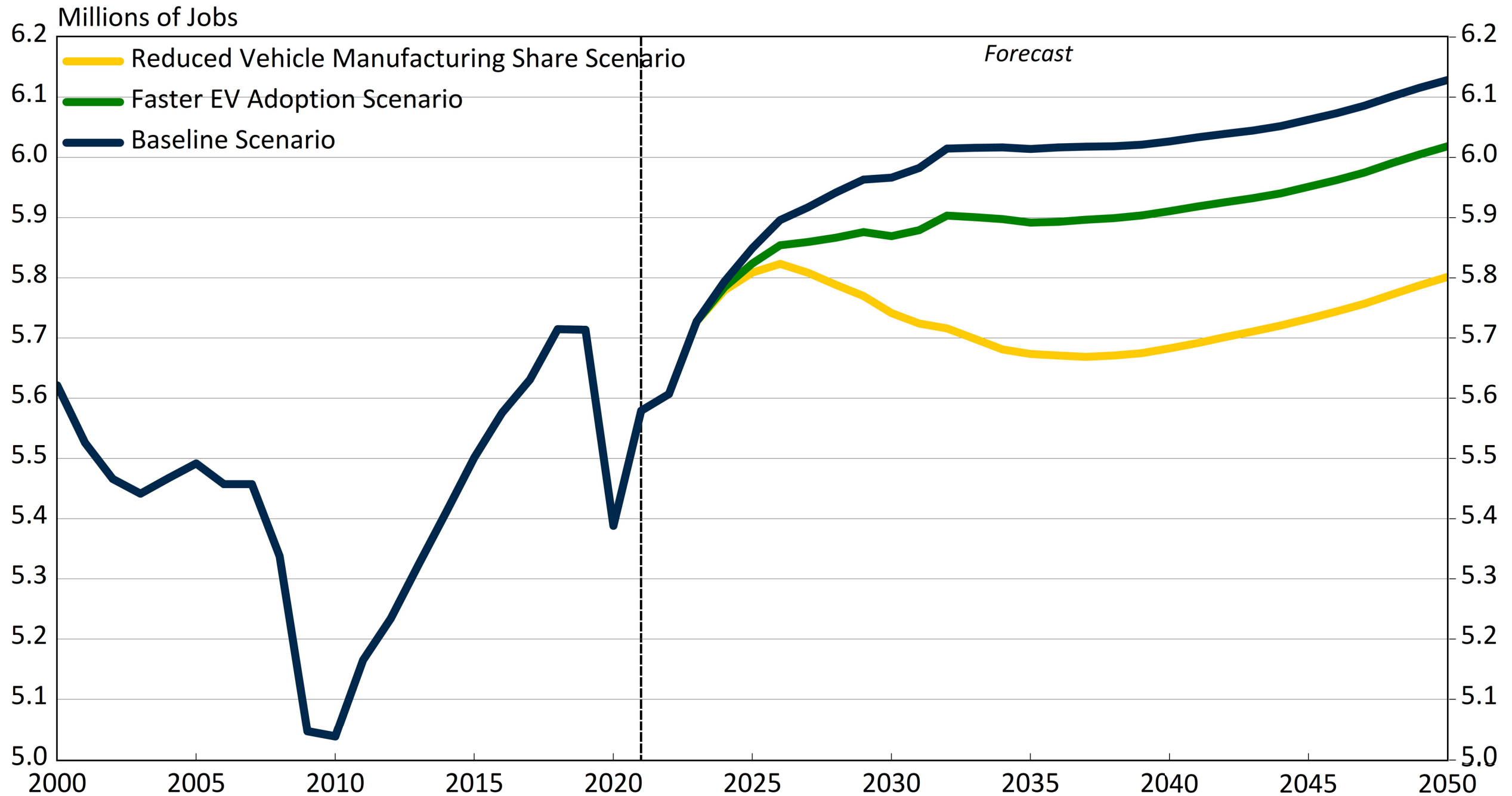
U.S. Light Vehicle Fleet by Power Type: 50% Electric by 2050



Faster EV Adoption/Potential Loss of Detroit Three Share would Reduce Auto Manufacturing Employment in Michigan



Faster EV Adoption Slows Total Michigan Employment Gains; Adding Loss of Market Share Leads to Job Losses through mid-2030s



Concluding Thoughts

- We are forecasting a complete recovery in payroll employment by late 2023
- The unemployment rate rises to 4.5% in mid-2024 before declining
- Personal income per capita in 2025 is nearly 30% higher than in 2019
 - But inflation eats away all of those gains
- Major short-term risks are tilted to the downside, including:
 - Inflation remaining elevated
 - Demand for autos falling
 - Job losses in construction
 - Looming UAW Strike
- Longer term, an unsuccessful transition to electric vehicles is a major risk



lsa.umich.edu/econ/rsqe