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Senate Committee on Economic and
Community Development

February 2, 2023

Senate Fiscal Agency

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Outline and Remarks

- Outline
 - The January 2023 Consensus Revenue Estimates
 - What drives economic growth
 - Labor market situation
 - Demographic information
- Remarks
 - Economic data for 2023 and later reflect the January 2023 Consensus Revenue Estimating Conference or estimates presented by RSQE
 - Economic and revenue estimates will be revised at the May 2023 Conference
 - Changing demographics is a slow process and many factors are both complex and inter-related...and beyond what will be covered here

Key Components of the Consensus Revenue Estimating Conference (CREC)

- The conference establishes the official economic forecast for major variables of the national and state economies. The conference also establishes a forecast of anticipated state revenues, including:
 - State income tax collections
 - State sales tax collections
 - Corporate income tax collections
 - Michigan business tax collections
 - Total general fund/general purpose (GF/GP) revenues
 - Lottery transfers to the school aid fund (SAF)
 - Total school aid fund revenues
- Pay-in or pay-outs indicated under the countercyclical budget and economic stabilization fund (BSF) formula
- Compliance with the state revenue limit established by section 26 of article IX of the state constitution

Takeaways from January 2023 CREC

Mild recession – Michigan better situated than nation – auto production increasing

Jobs steady:

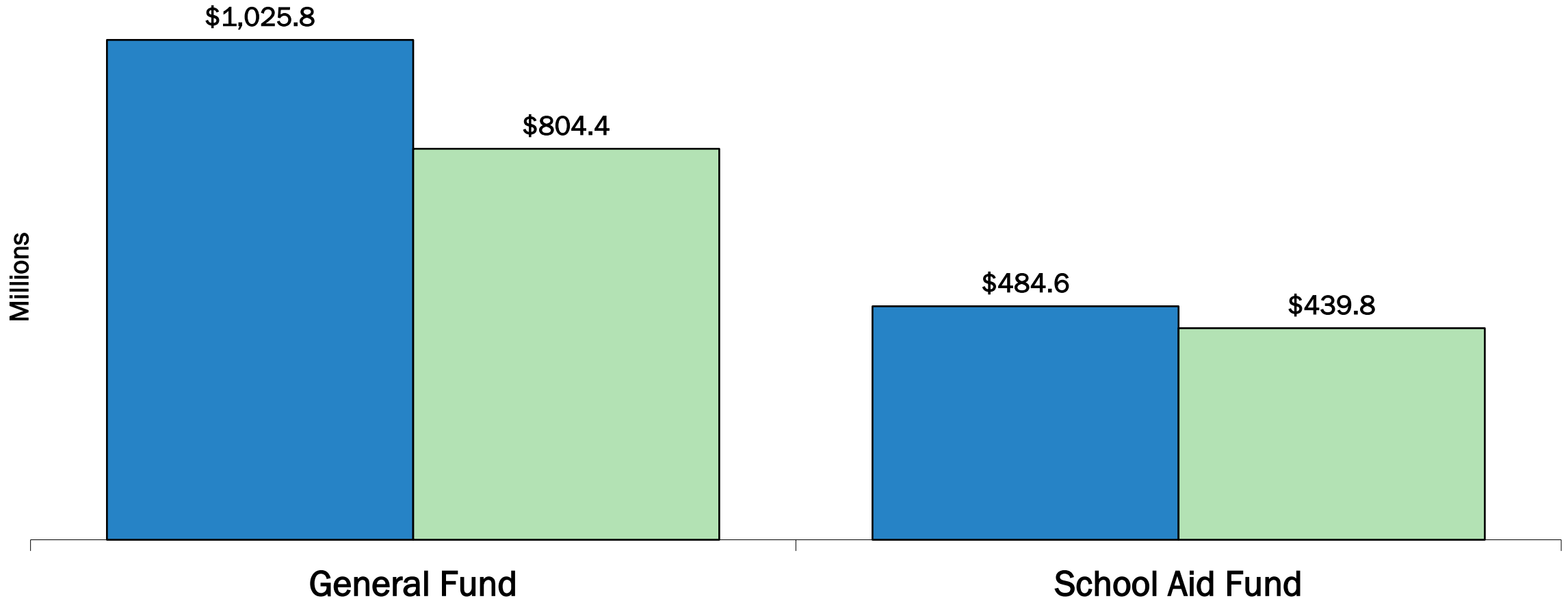
- 4,332,000 in 2022 (+3.3%), Unemployment Rate 4.3%
- 4,367,000 in 2023 (+0.8%), Unemployment Rate 4.7%
- 4,388,000 in 2024 (+0.5%), Unemployment Rate 4.8%

Inflation (fiscal year Detroit CPI) moderating:

- 7.9% in 2022
- 5.5% in 2023
- 3.1% in 2024

Revenues above May 2022 CREC; caution on quarterly and annual income tax payments

GF-GP and SAF Growth Compared to May 2022 CREC

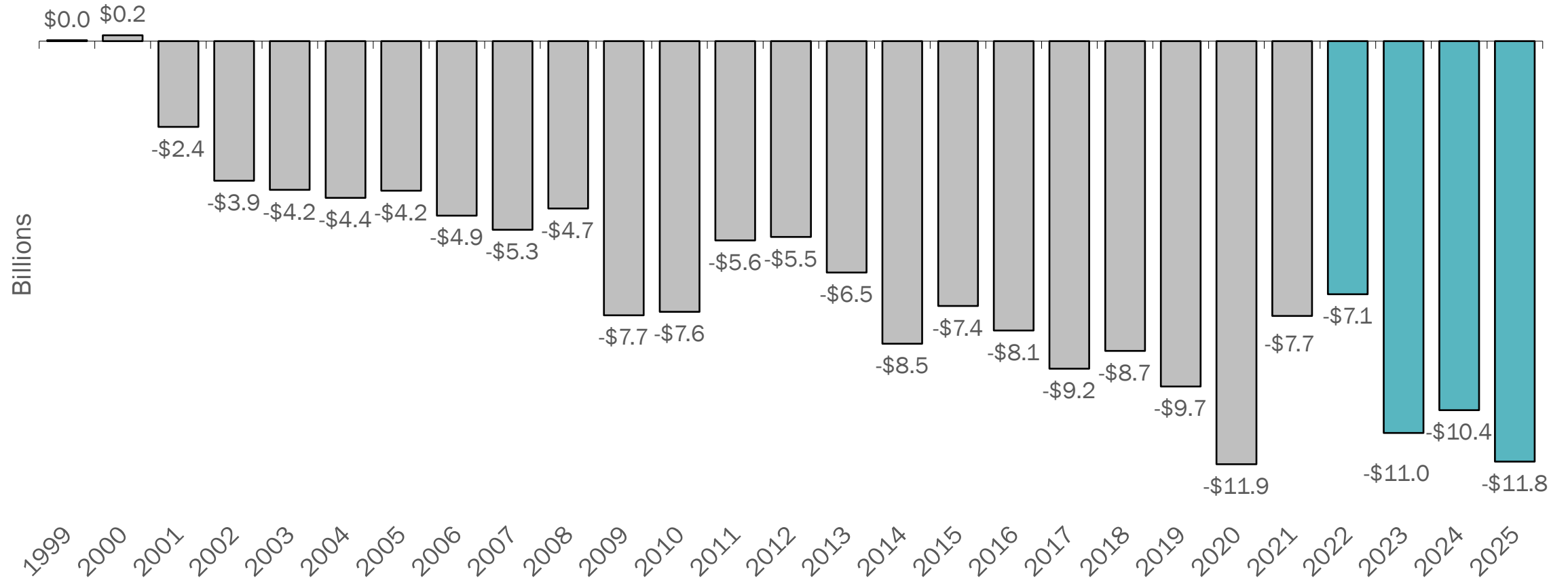


■ Additional FY 2021-22 Revenue

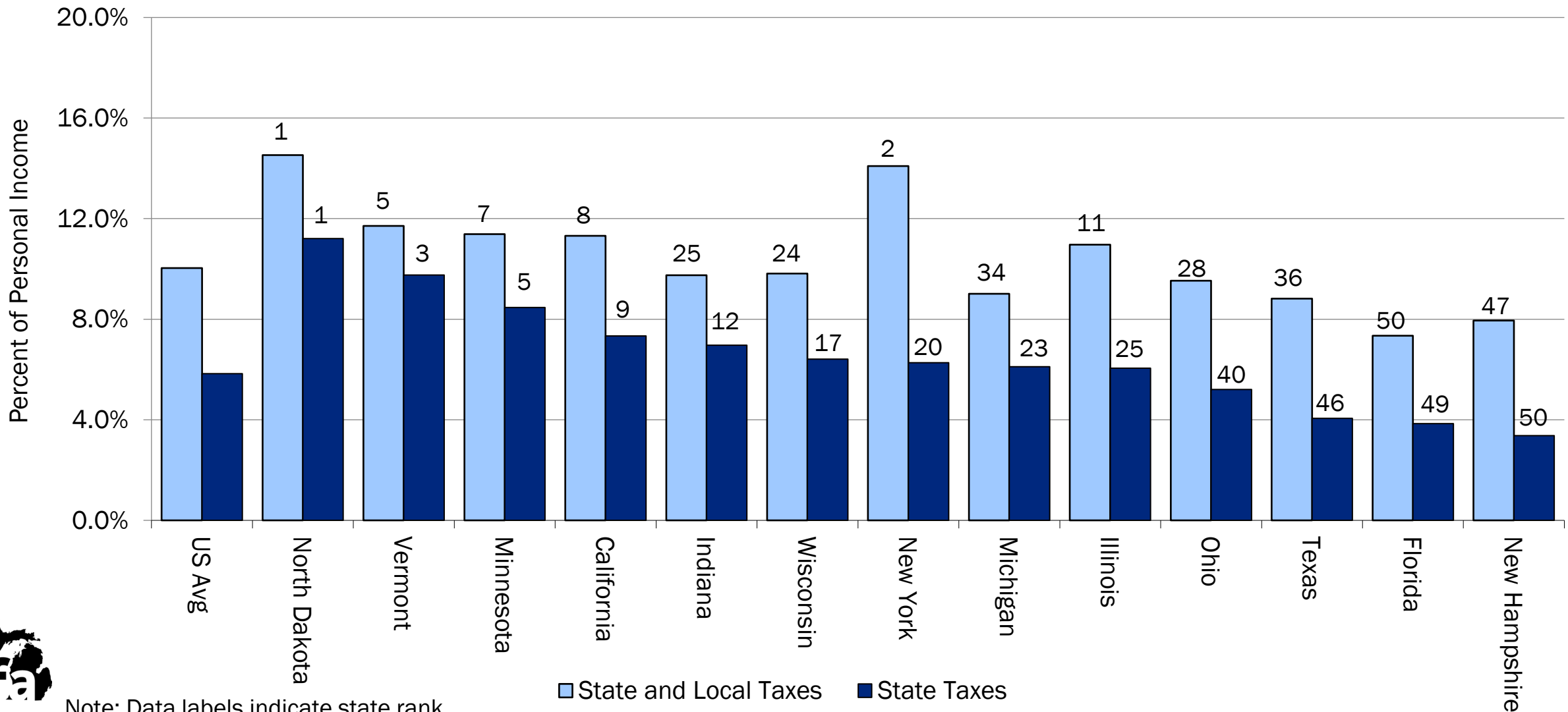
■ Additional FY 2022-23 Revenue

Section 26 Revenue Limit

Amount Under/Over the Constitutional Revenue Limit



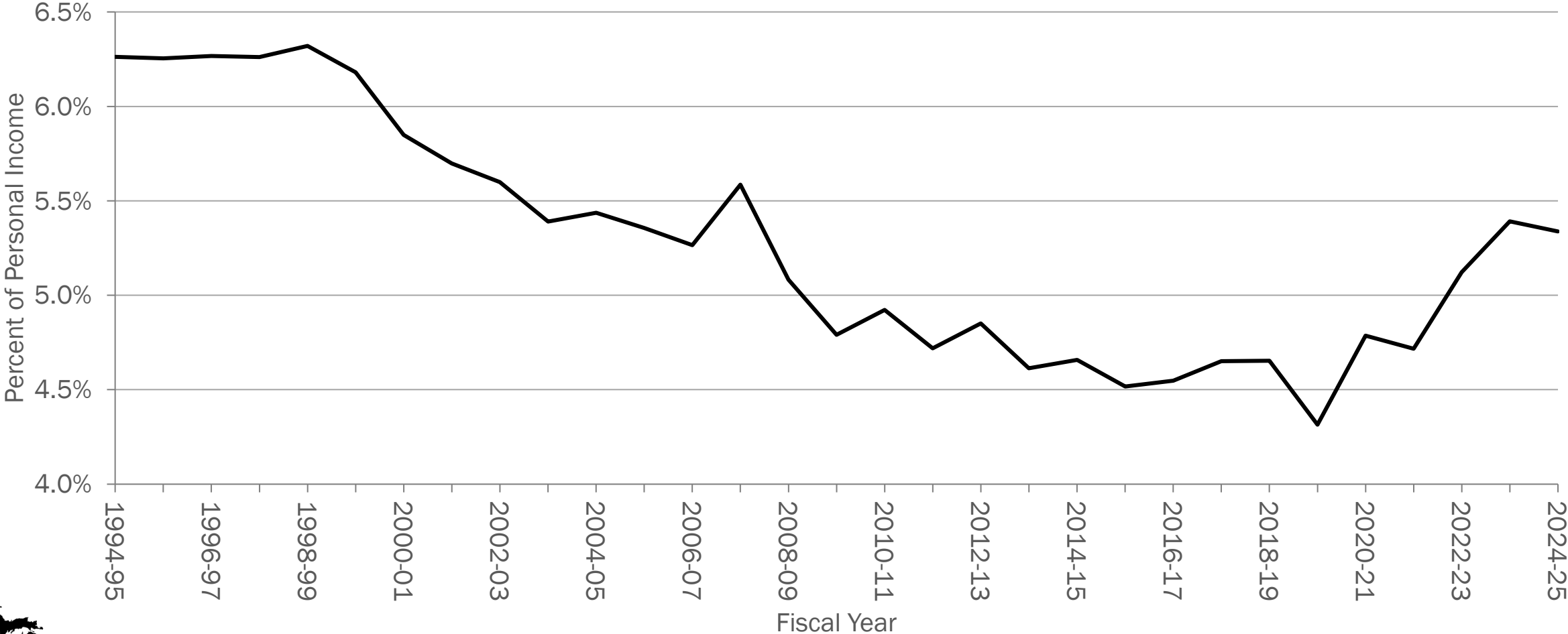
Taxes as a Percent of Personal Income, 2019



Note: Data labels indicate state rank

Total for Major Michigan Taxes, Percent of Personal Income

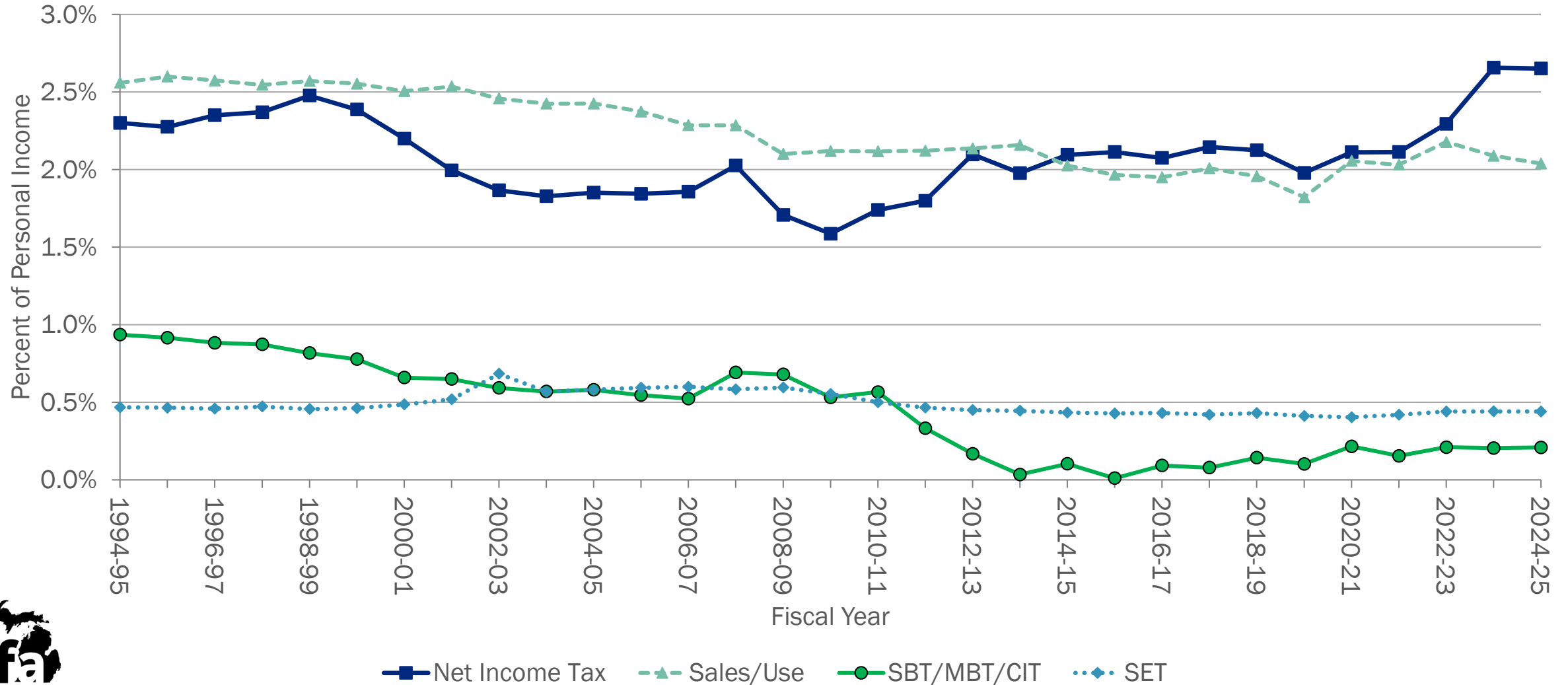
Increases After COVID Reversed 20-Year Trend



— Total, Major Taxes (Sales, Use, IIT, SBT, MBT, CIT, SET)

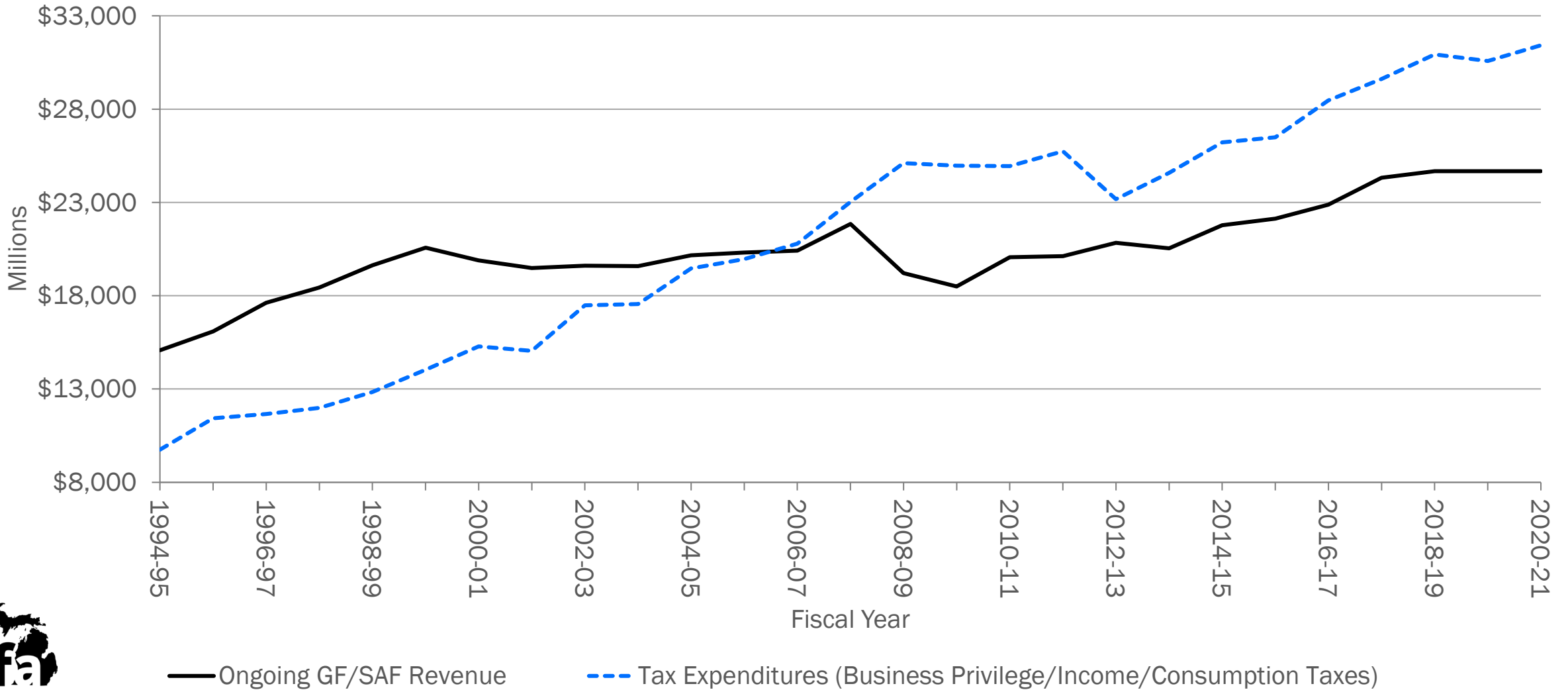
Major Michigan Taxes, Percent of Personal Income

Income Tax Revenue Driving Expected Increases



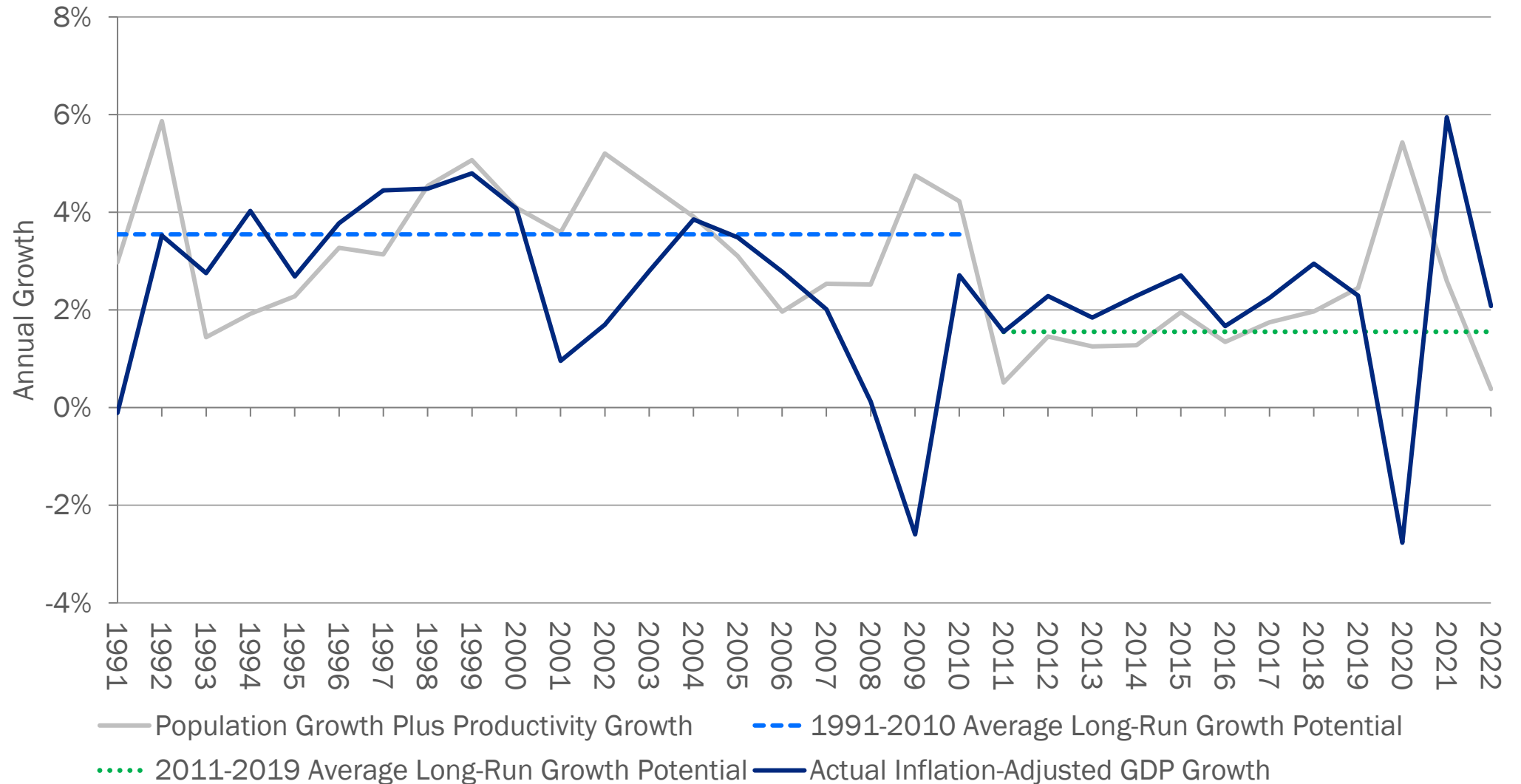
Tax Expenditures

Exempt Activity Exceeds the Tax Base for Ongoing Revenue



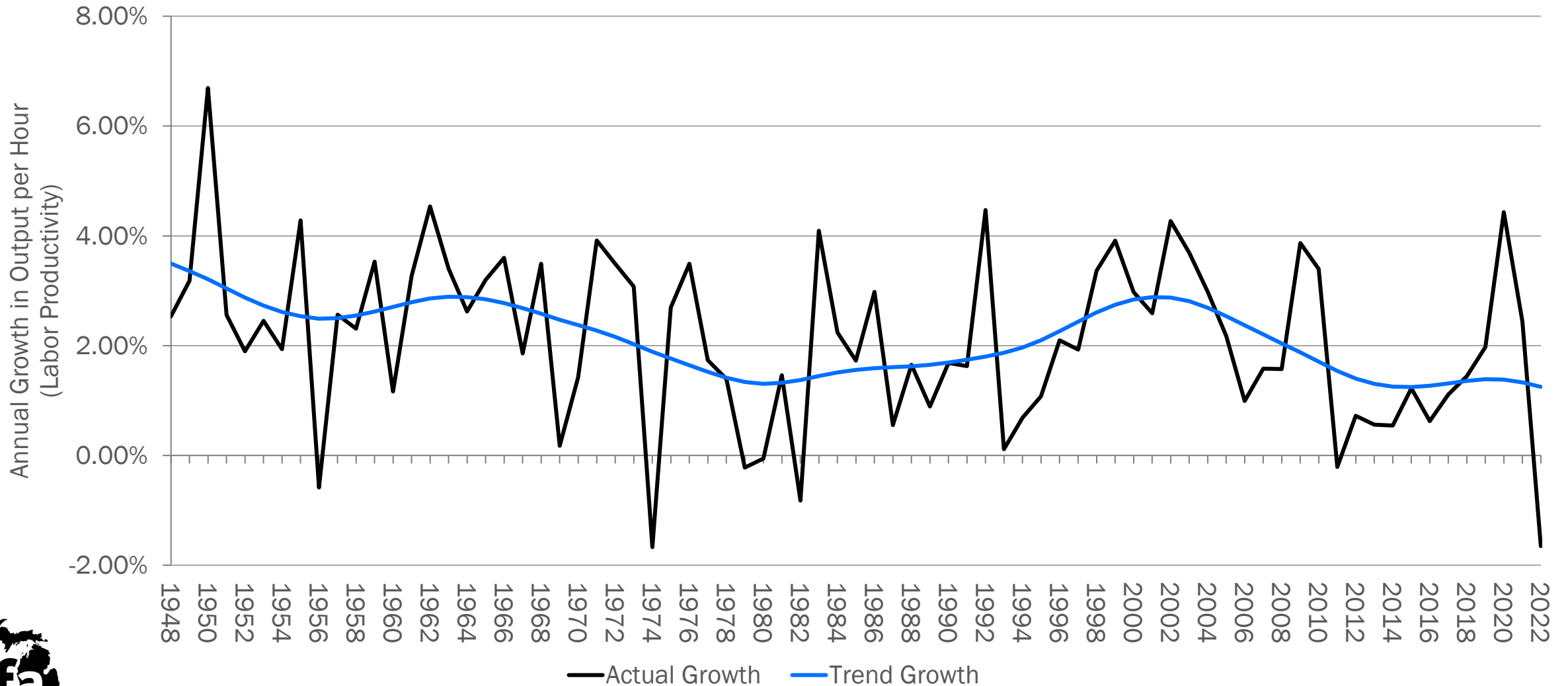
Long-Run Growth Potential

Economic Growth Limited by Population Growth and Productivity Growth



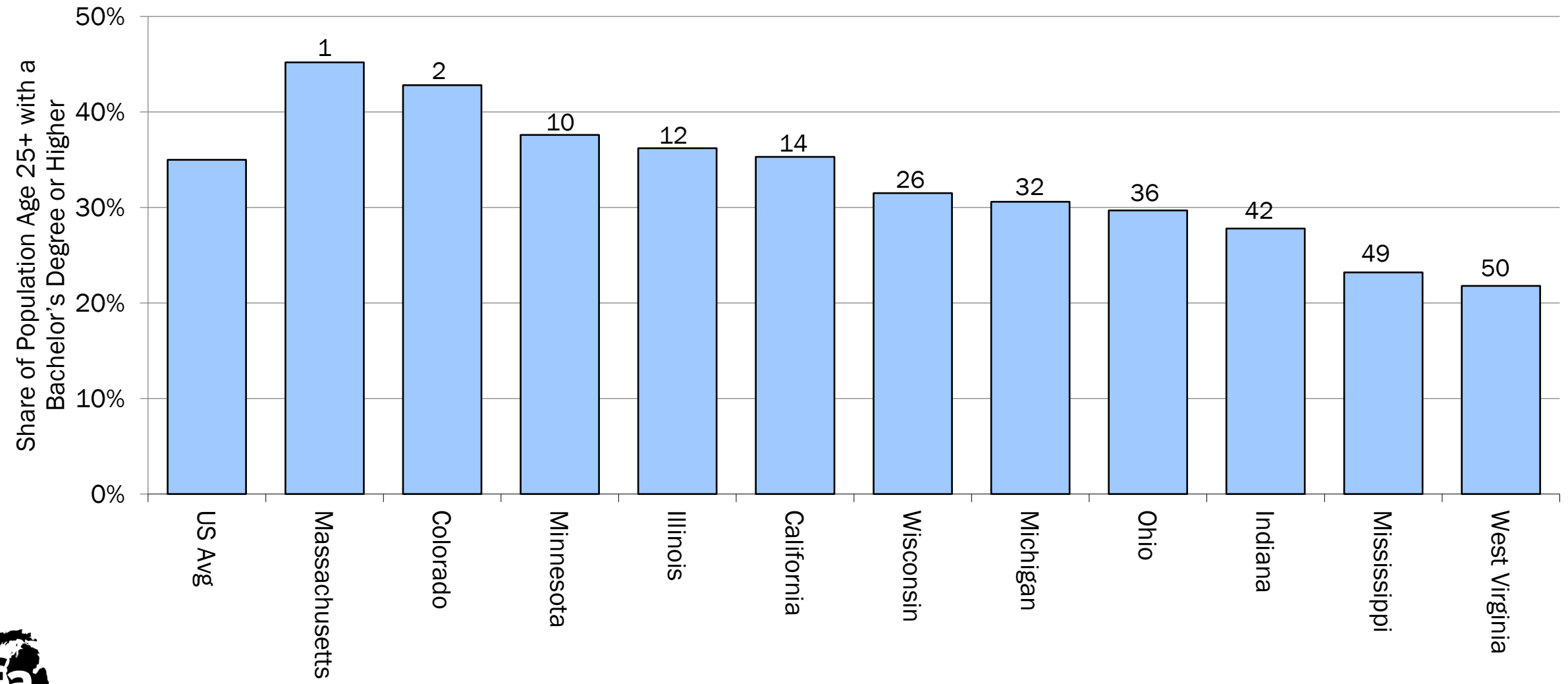
Trend Productivity Growth

Long-Term Trend Below 2% Growth, New Trend Low Projected for 2022



Source: Source: Bureau of Labor Statistics, U.S. Department of Labor.

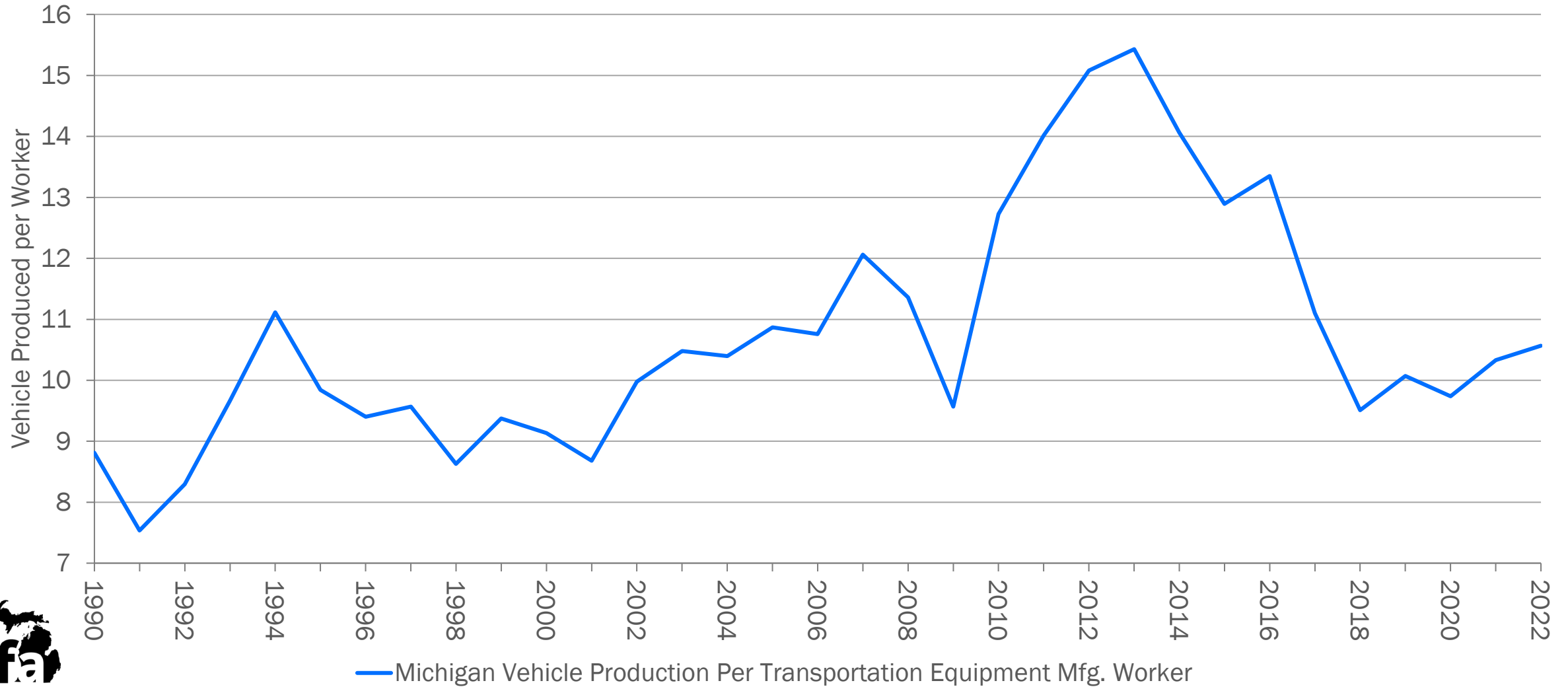
Share of Population with at Least a Bachelor's Degree



Note: Data labels indicate state rank

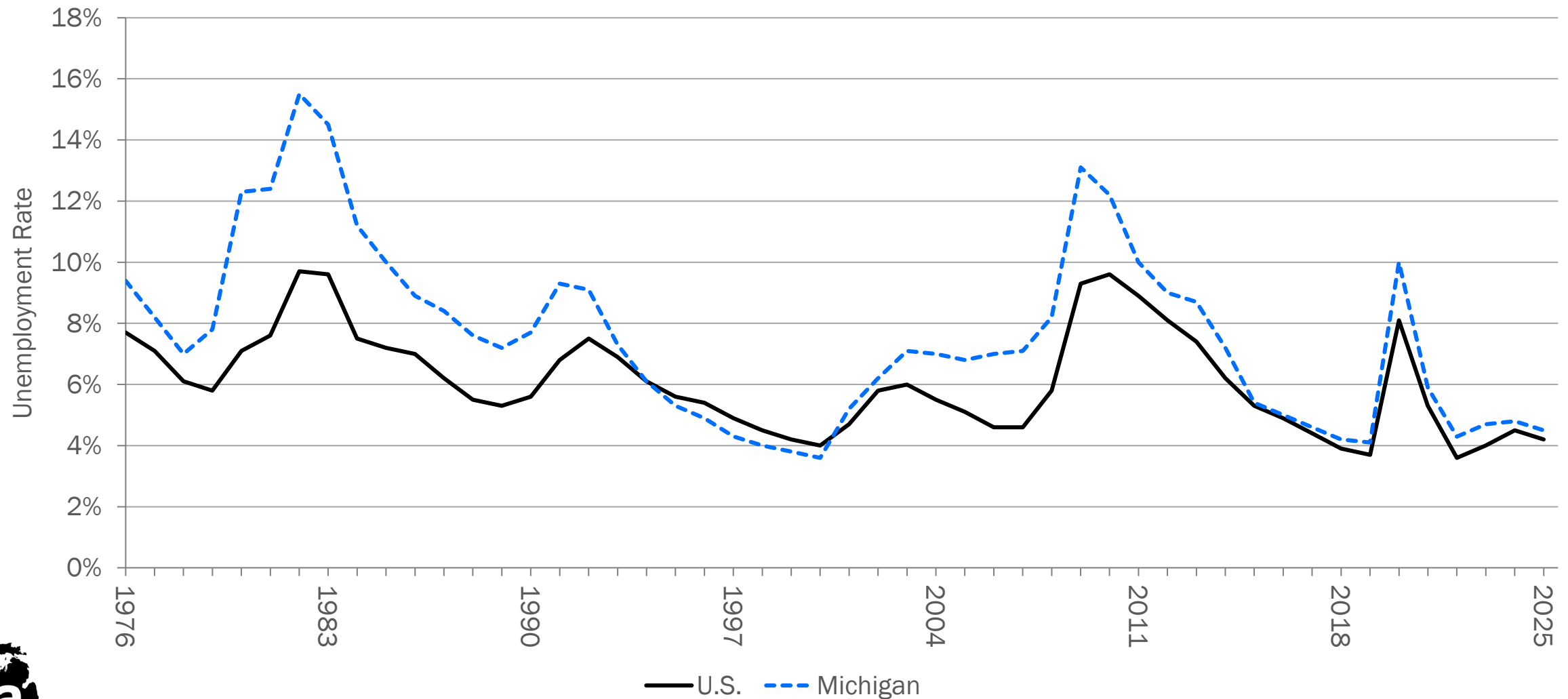
Productivity in the Michigan Motor Vehicle Sector

Volume-Based Measure Distorted by Change in Production Mix Over Last 10 Years



Michigan and US Unemployment Rate

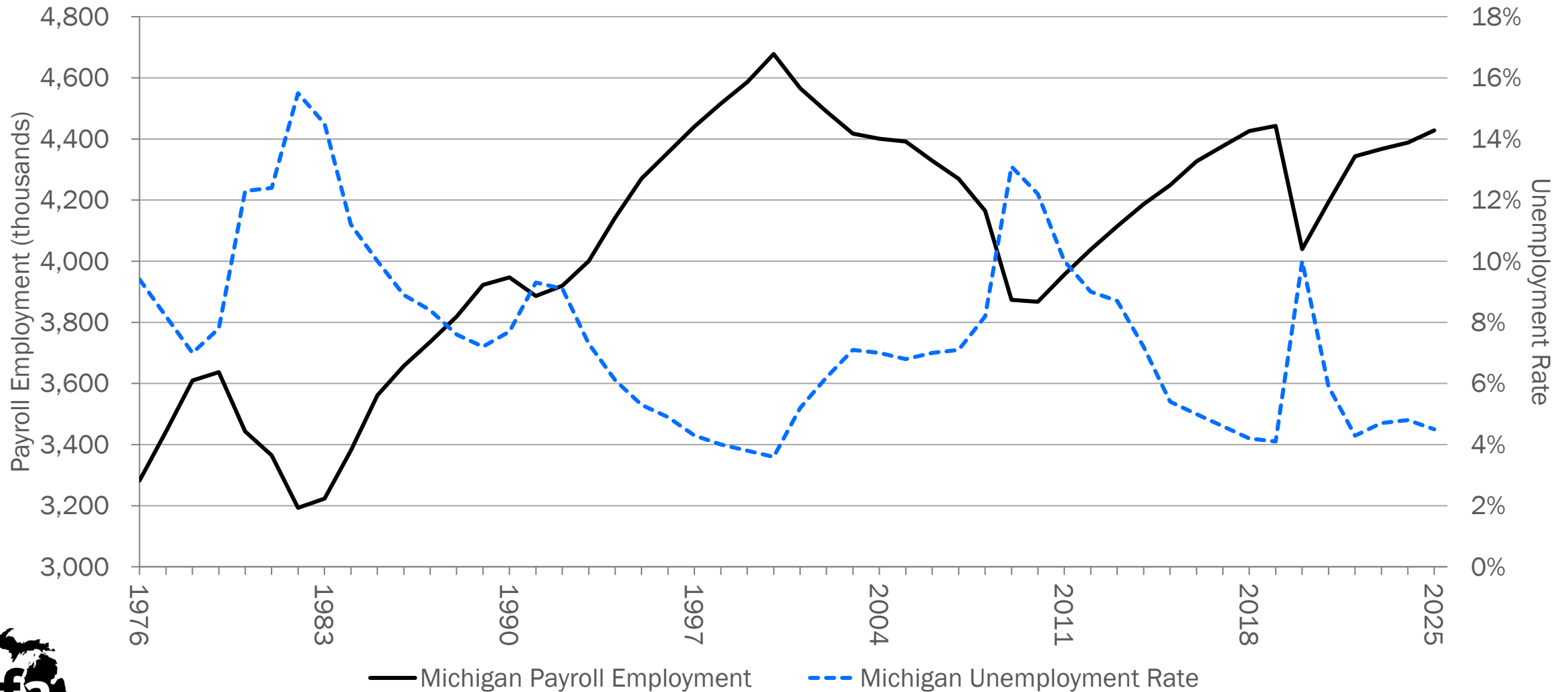
Michigan's Unemployment Rate Usually Above the U.S. Average



Source: Source: Bureau of Labor Statistics, U.S. Department of Labor.

Michigan Jobs Growth and the Unemployment Rate

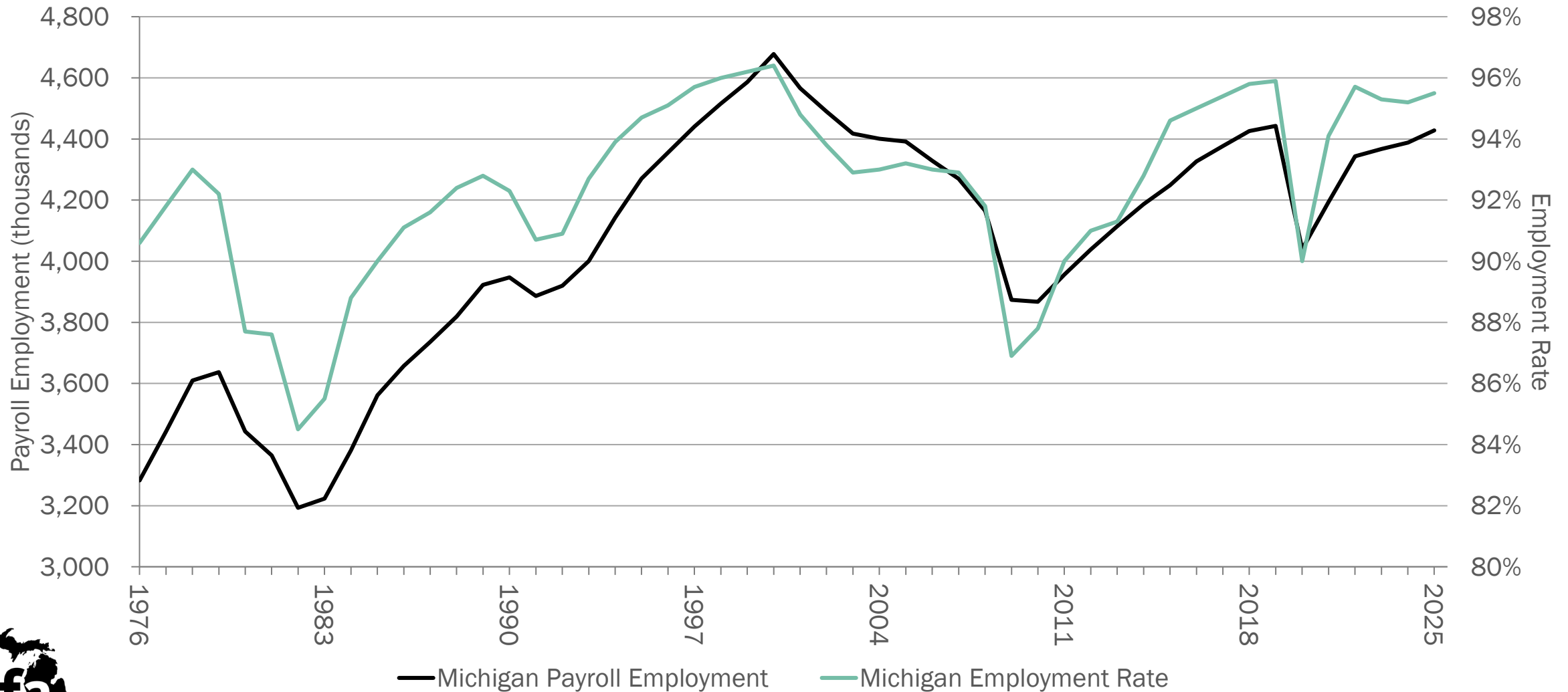
Employment Below the 2000 Peak, Unemployment Rate at Record Lows



Source: Bureau of Labor Statistics, U.S. Department of Labor.

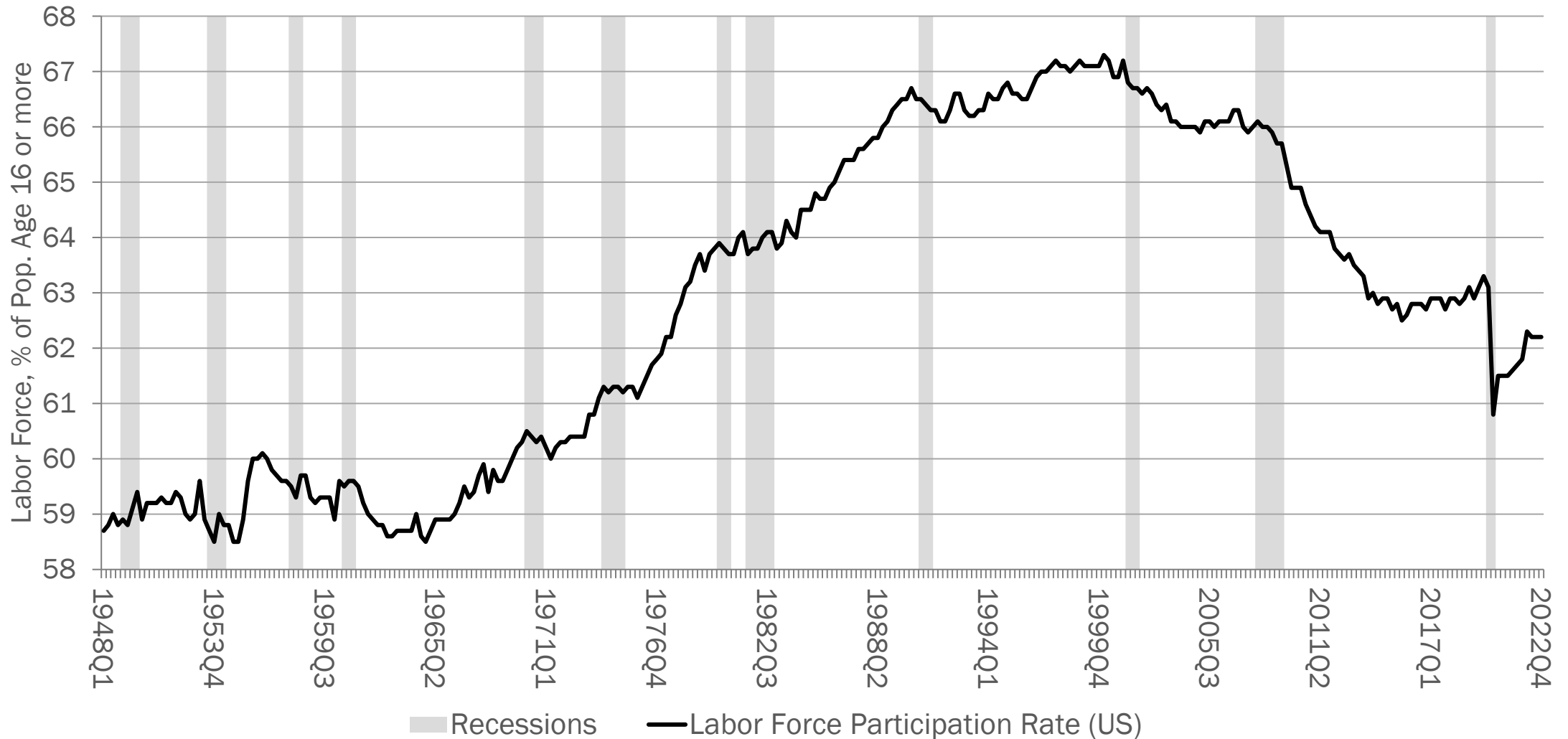
Michigan Jobs Growth and the Employment Rate

Differences in Relative Slopes Reflect Changing Labor Force Demographics



Source: Bureau of Labor Statistics, U.S. Department of Labor.

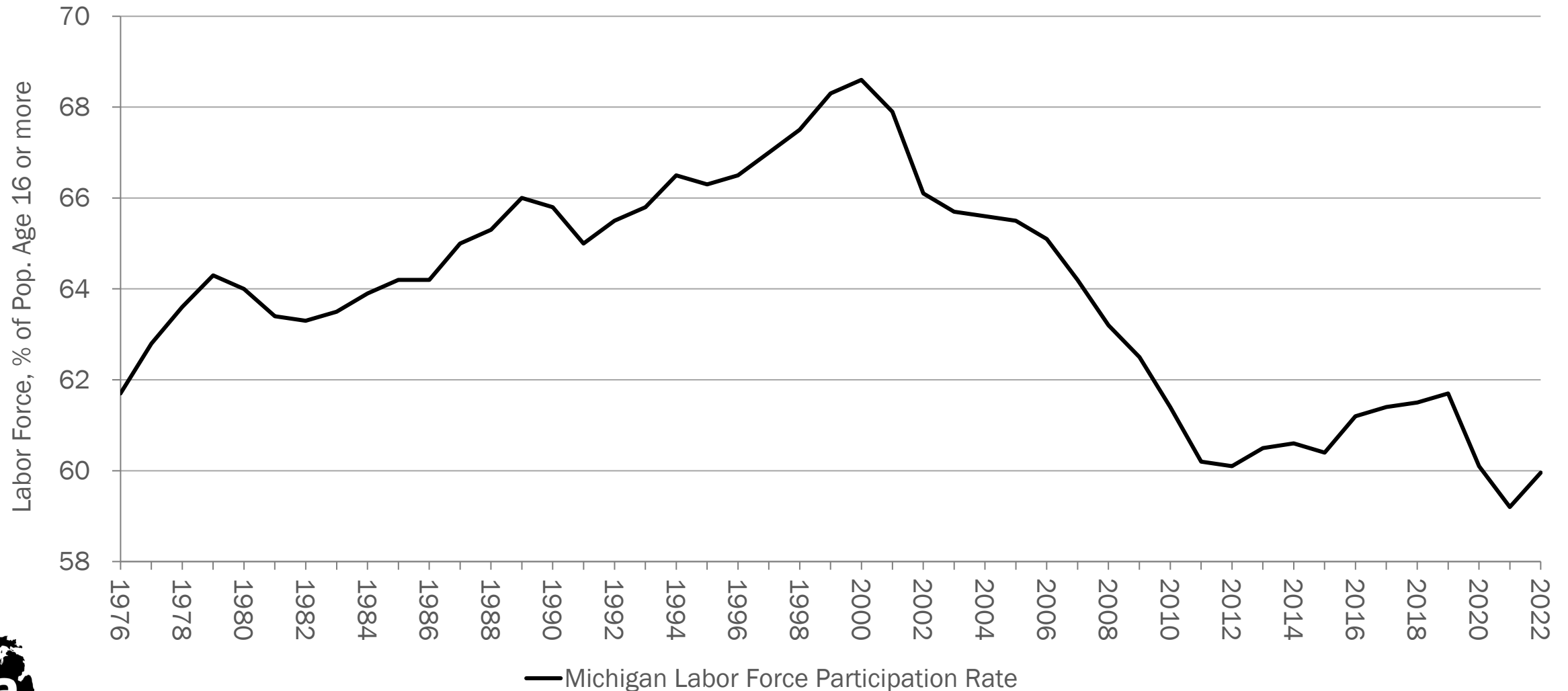
Recent Recessions See Workers Leaving the Labor Force



Source: Bureau of Labor Statistics, U.S. Department of Labor.

Michigan's Labor Force Participation Rate

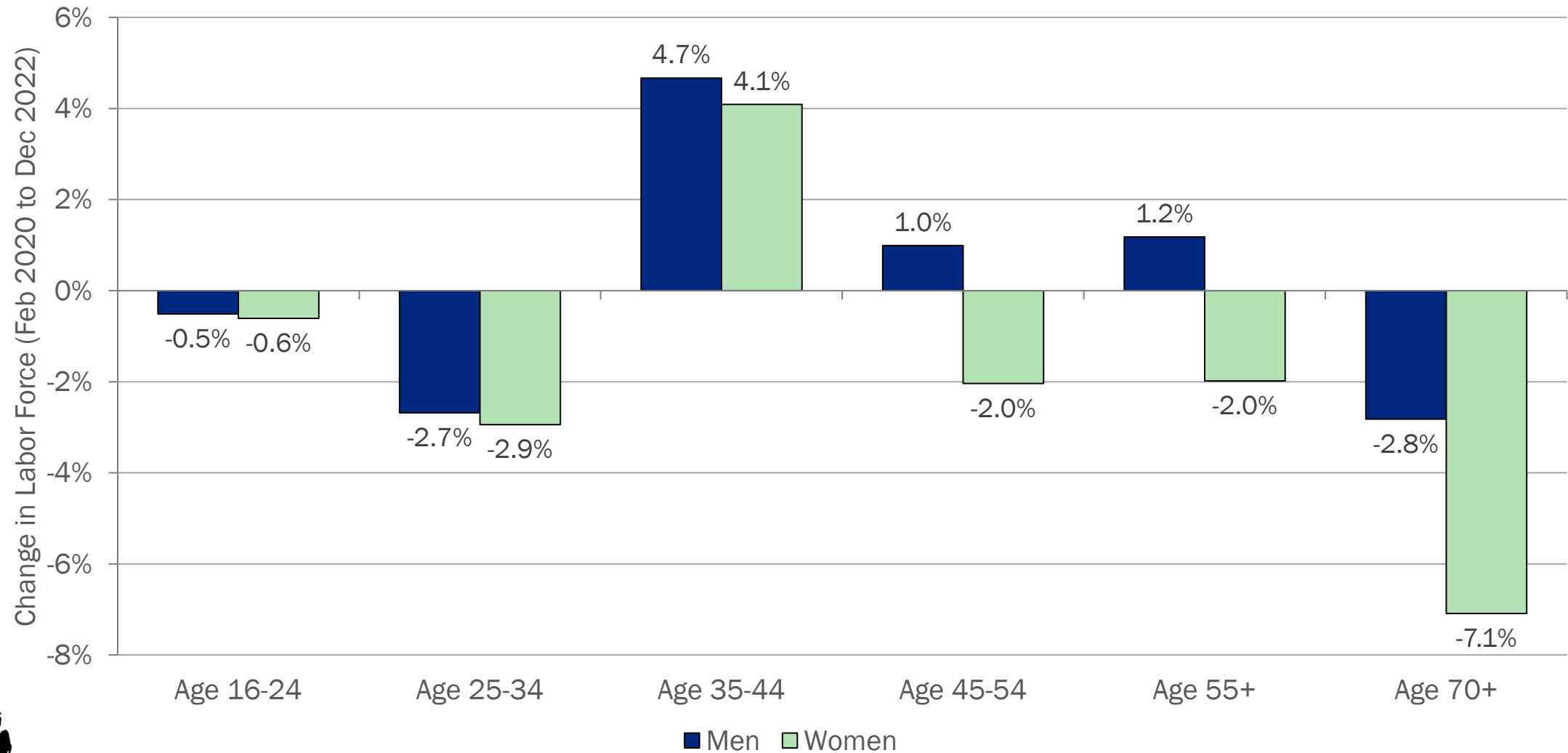
Unlike the National Average, Michigan's Rate Increased from 2012 to 2019



Source: Source: Bureau of Labor Statistics, U.S. Department of Labor.

Labor Force Changes by Sex and Age

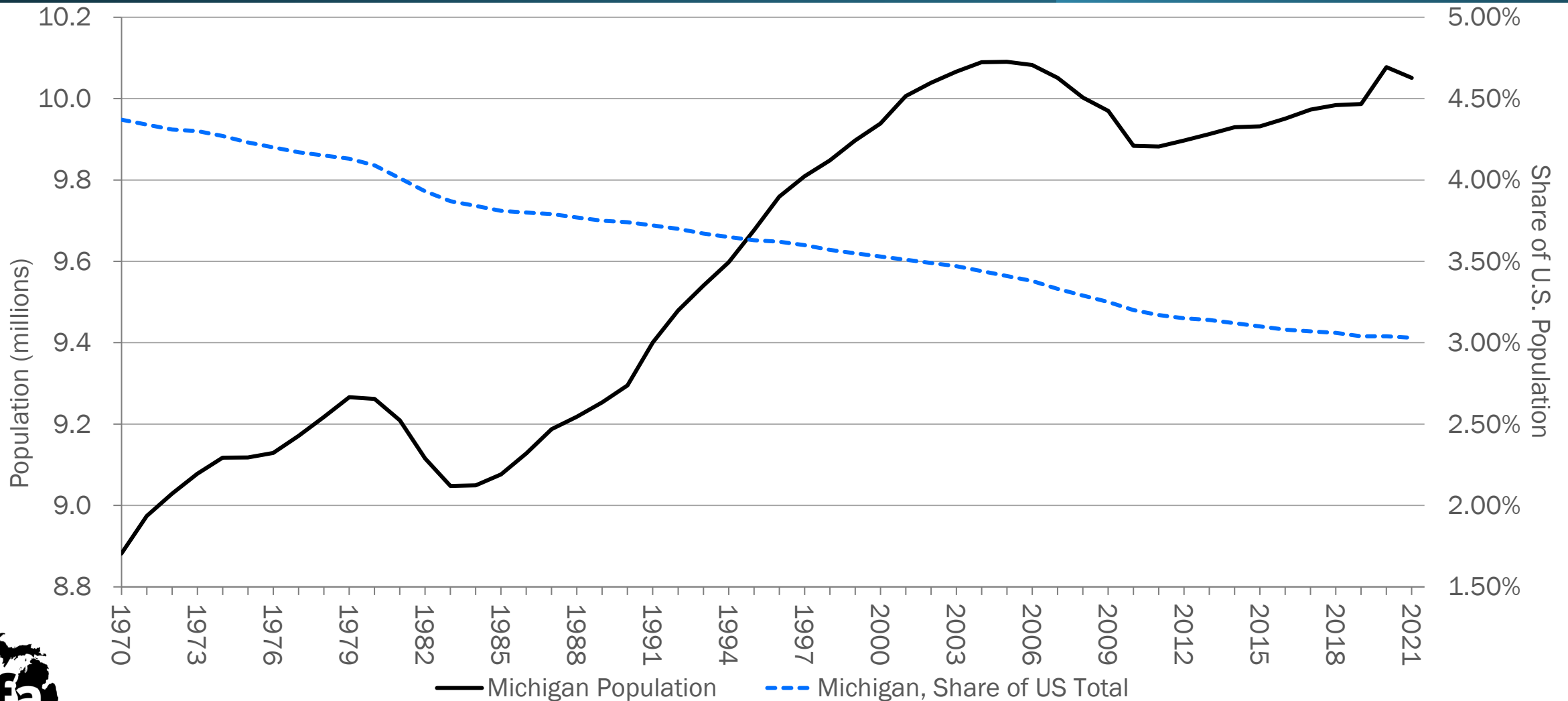
Largest Declines for Adults of Child-Rearing Age and Older Adults of Both Sexes



Source: Source: Bureau of Labor Statistics, U.S. Department of Labor.

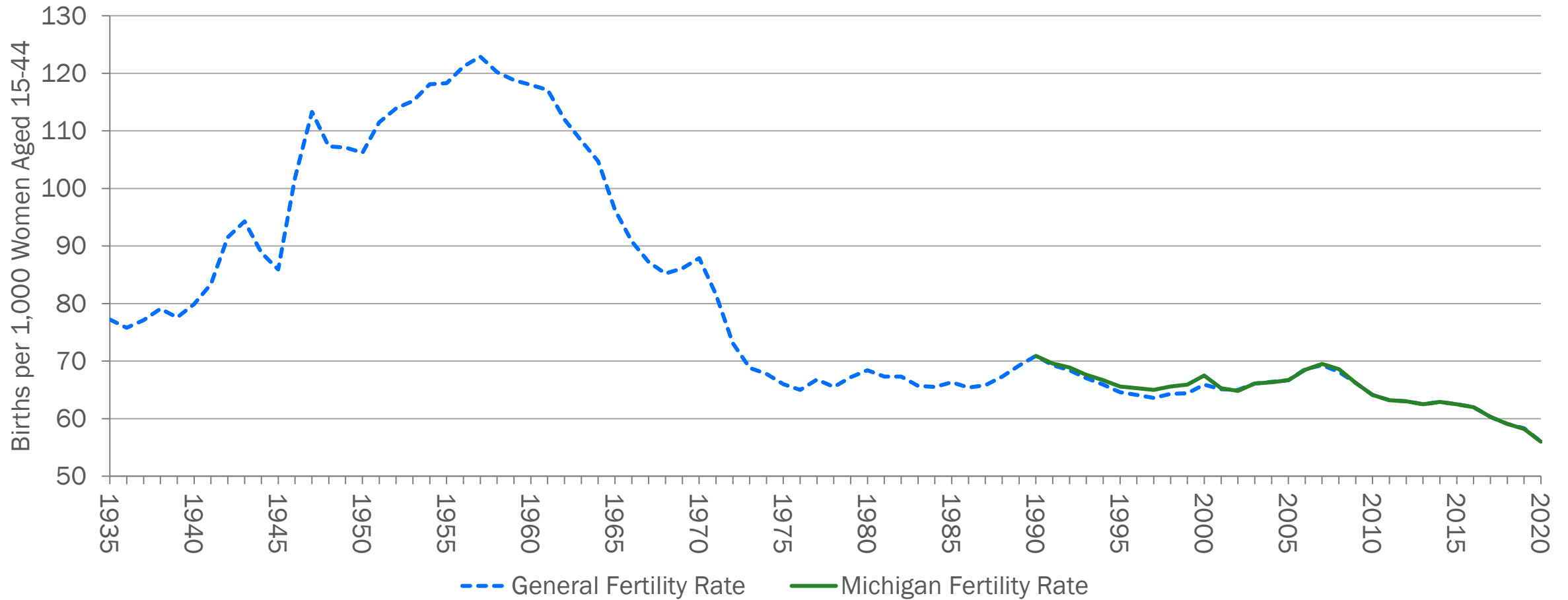
Michigan's Population

Michigan Population Growth Slower than National Average for More than 50 Years



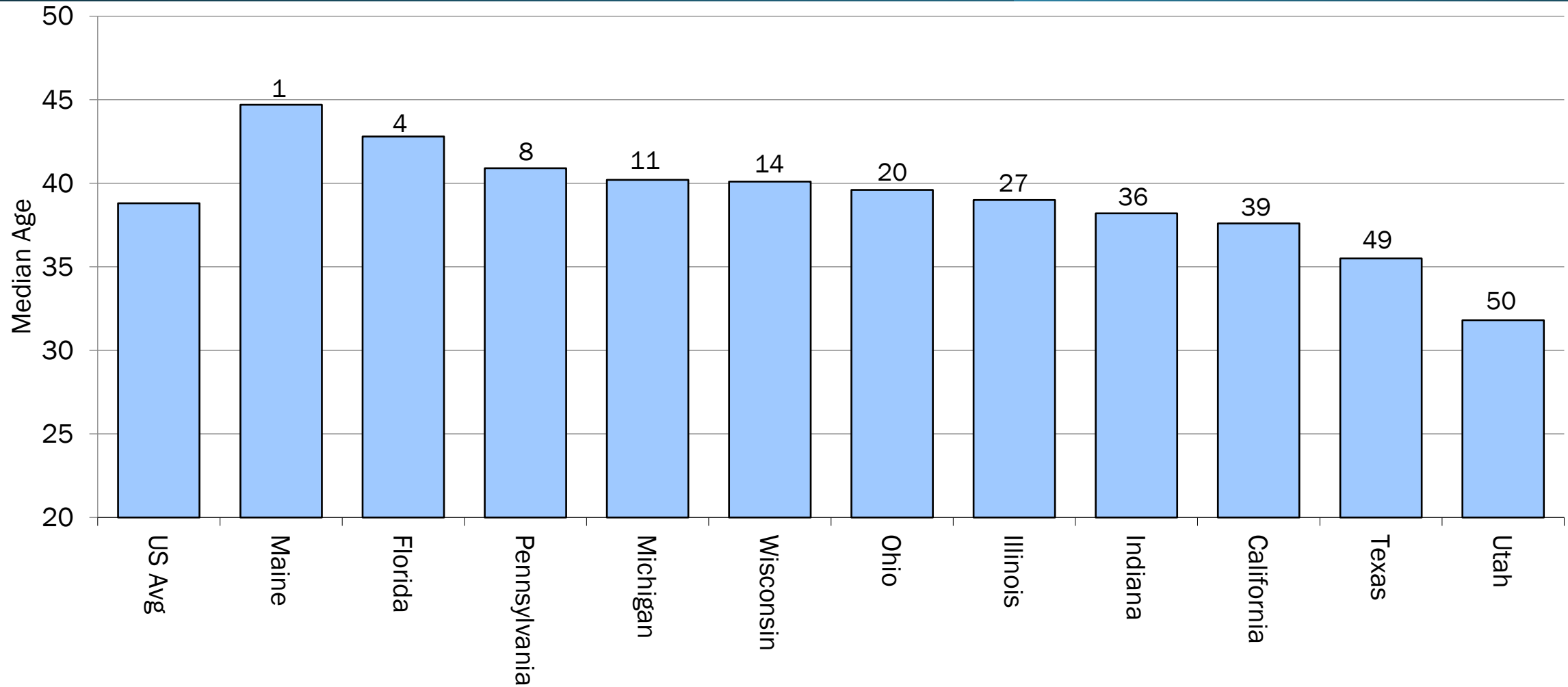
Source: Bureau of the Census, U.S. Department of Commerce.

General Fertility Rates at Record Lows



Source: National Center for Health Statistics, Michigan Department of Health and Human Services.
Note: The "General Fertility Rate" is defined as the total number of births per 1,000 women aged 15-44.

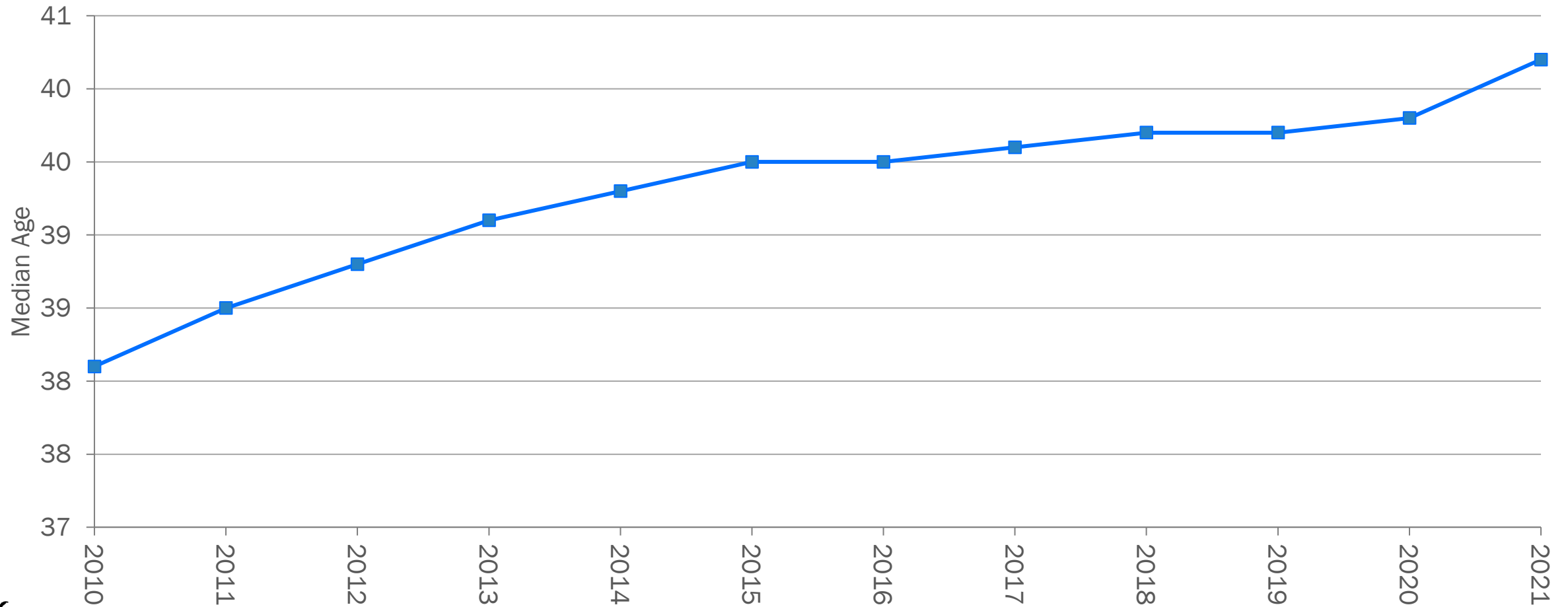
Median Age by State, 2021



Source: Bureau of the Census, U.S. Department of Commerce.

Note: Data labels indicate state rank

Michigan's Aging Population

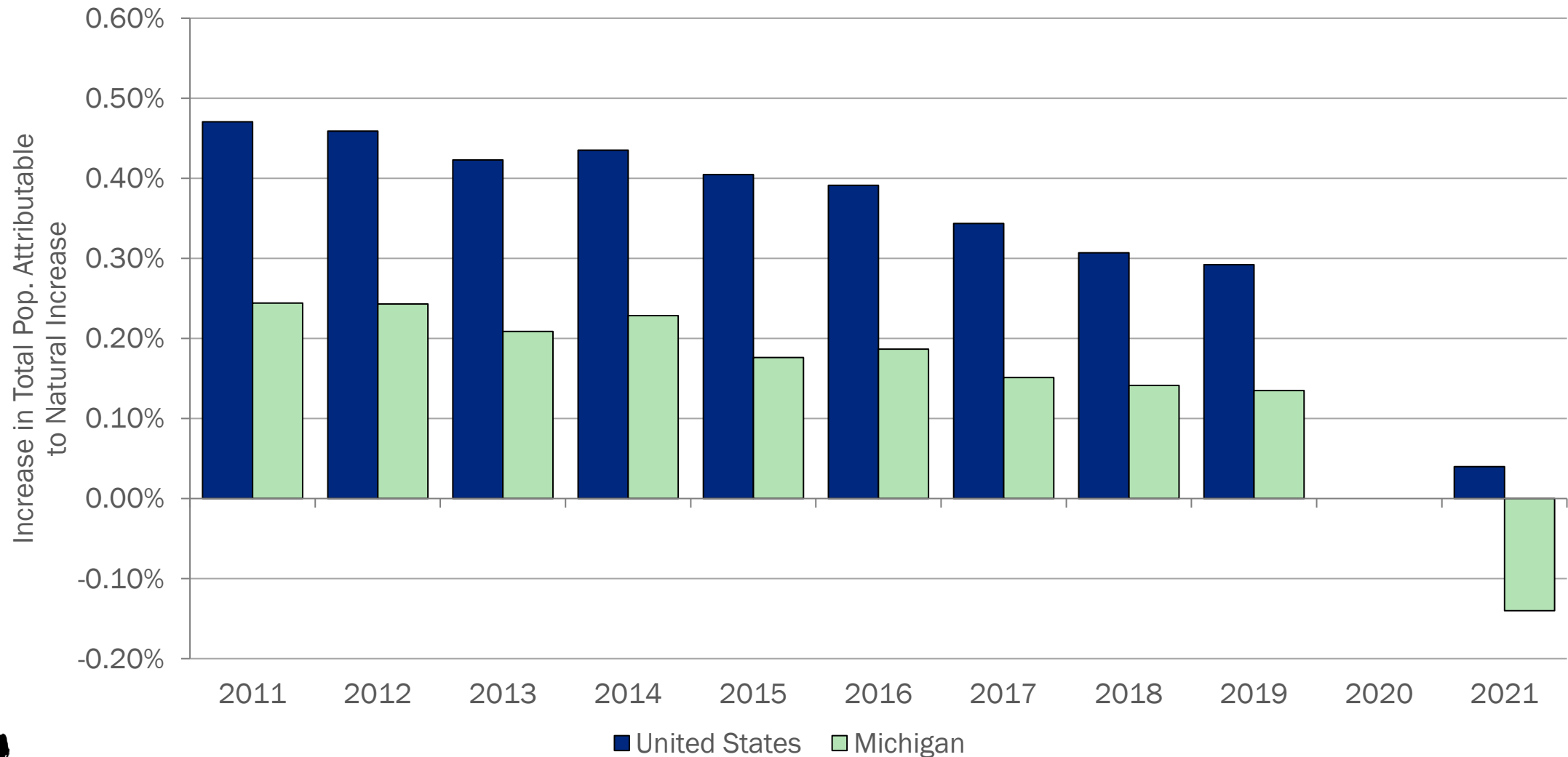


Source: Bureau of the Census, U.S. Department of Commerce.

Note: Median age from 2010-2020 taken from 5-year ACS Estimates, 2021 is from the 1-year ACS Estimates.

Population Changes Due to Natural Increases

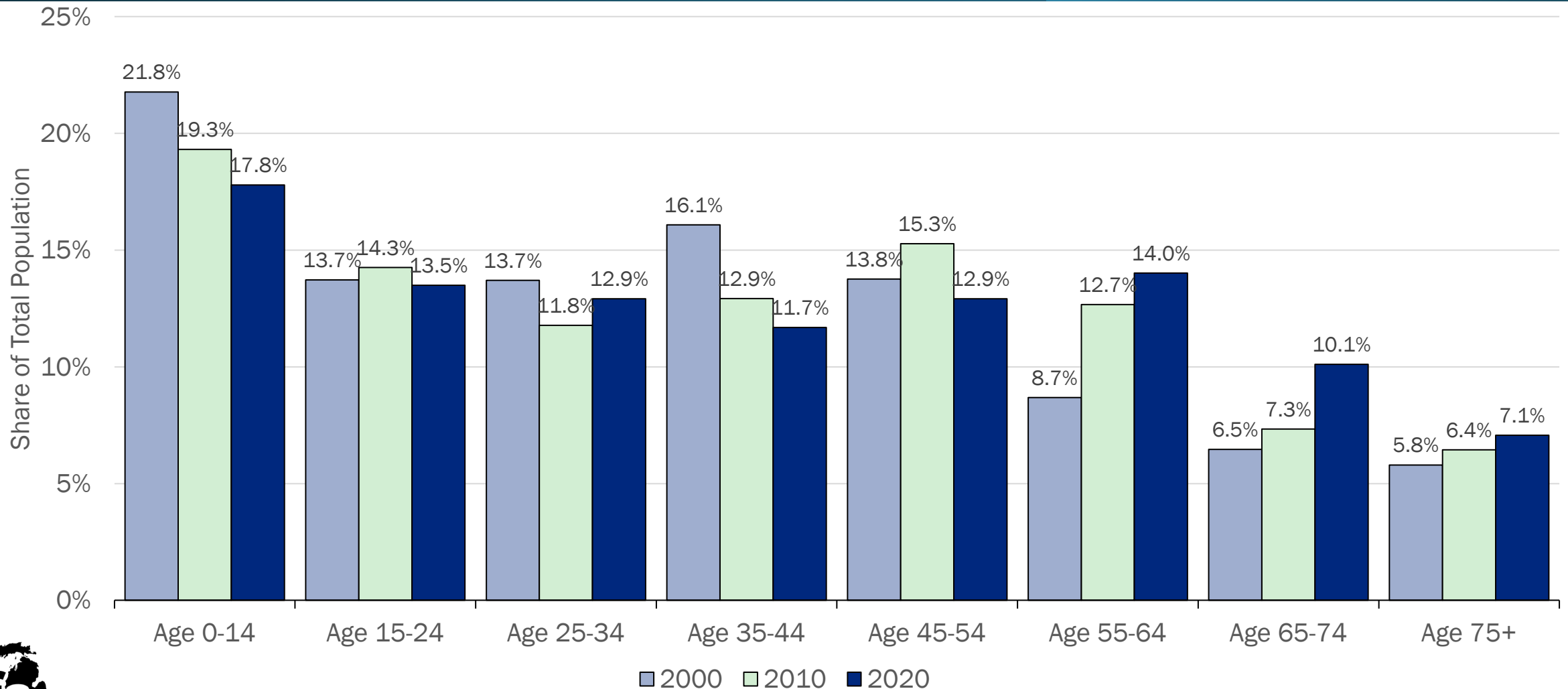
Natural Rate of Population Growth Declining



Source: Bureau of the Census, U.S. Department of Commerce.

Composition of Michigan Population, By Age

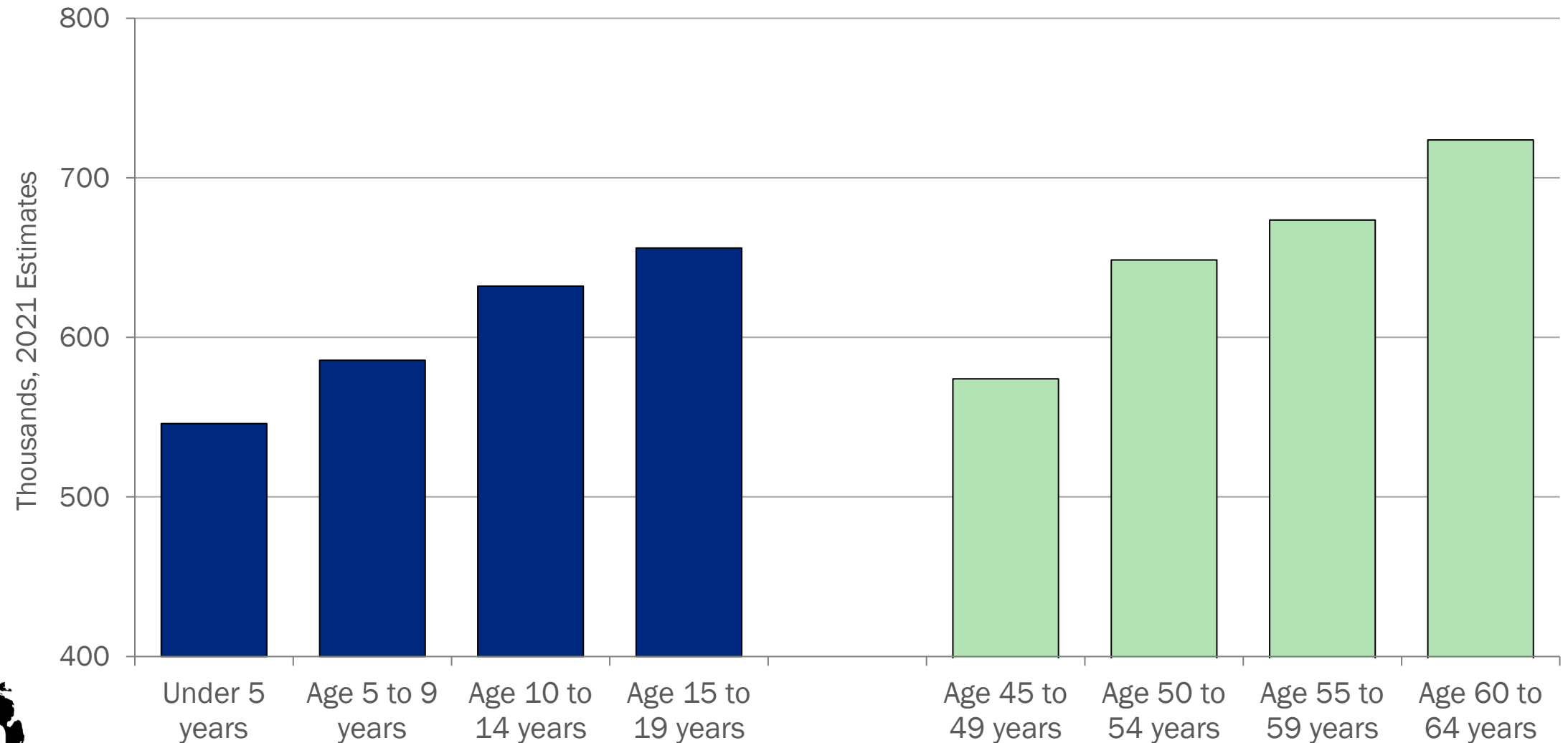
Between 2000 and 2020, Those Age 55+ Became Larger Share of the Total



Source: Bureau of the Census, U.S. Department of Commerce.

Michigan Age Mismatch

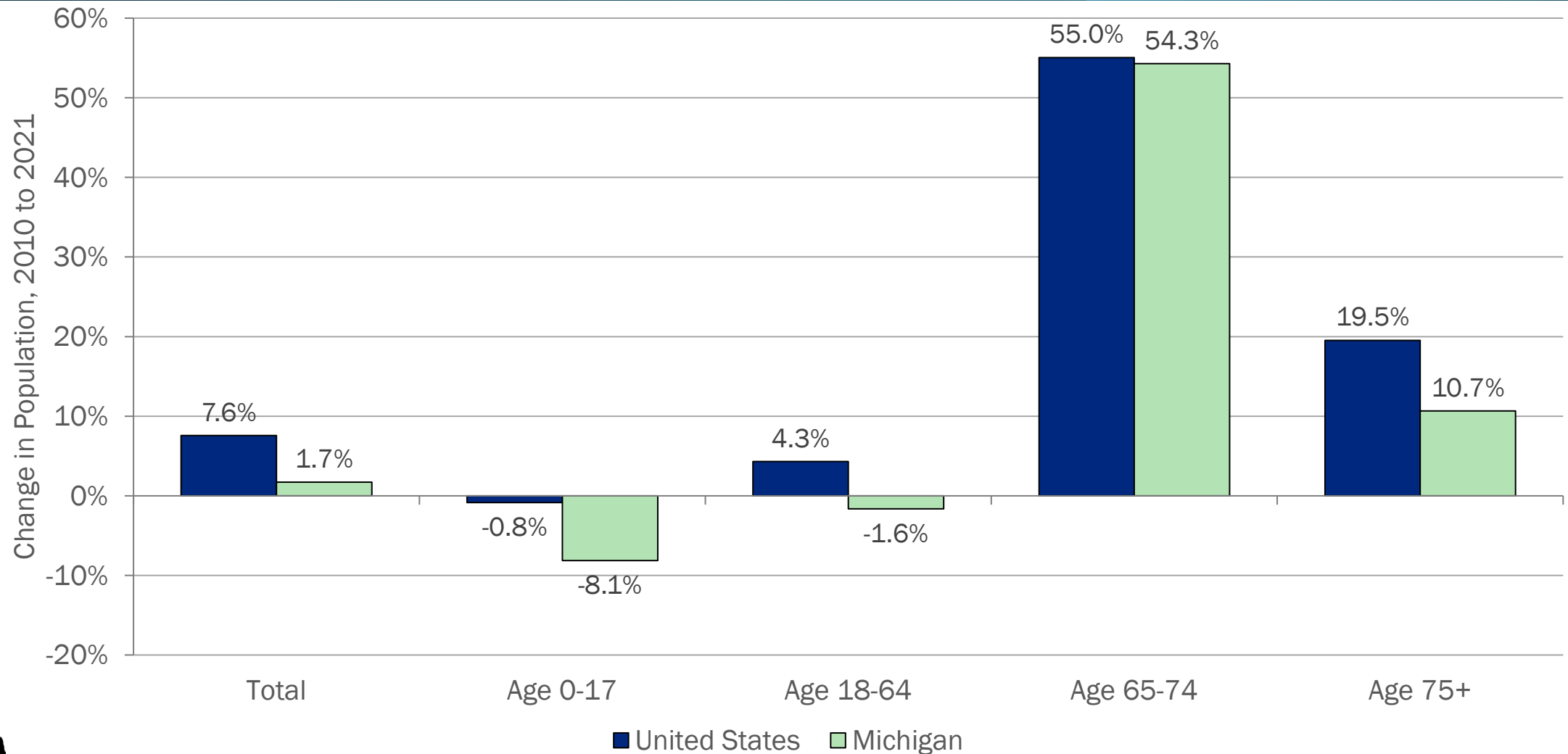
Smaller Cohorts Replacing Those Reaching Retirement Age



Source: Bureau of the Census, U.S. Department of Commerce.

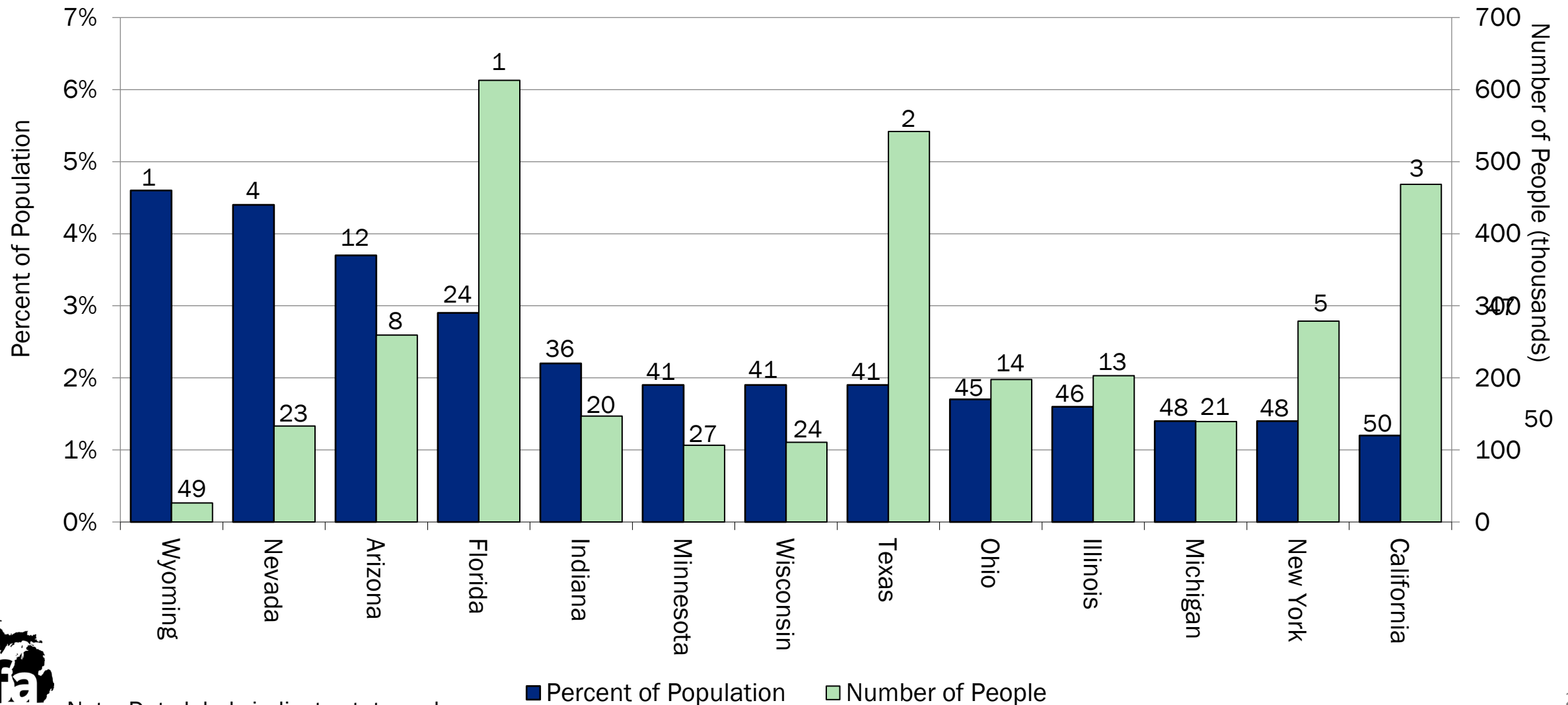
Michigan's Aging Population

Primarily Reflects Less Replacement From Younger Age Groups



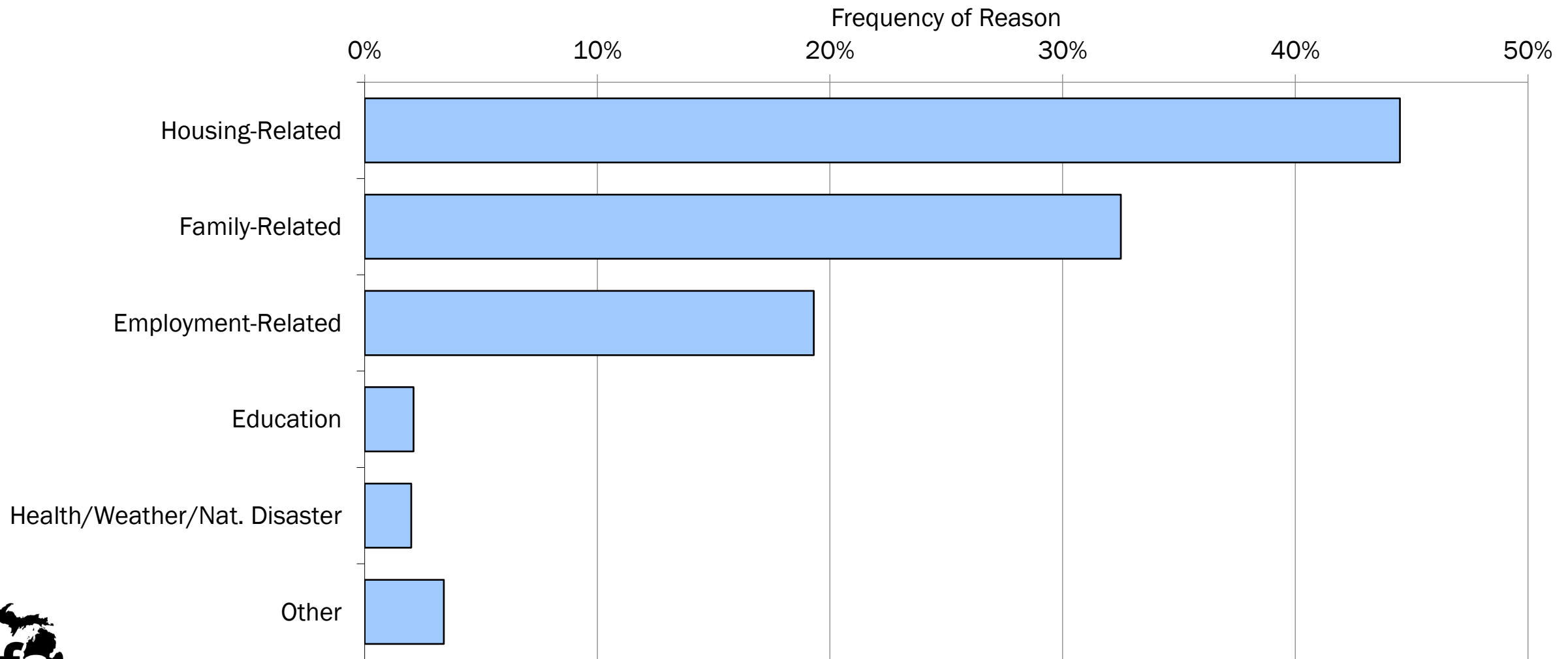
Source: Bureau of the Census, U.S. Department of Commerce.

Attracting People from Other States



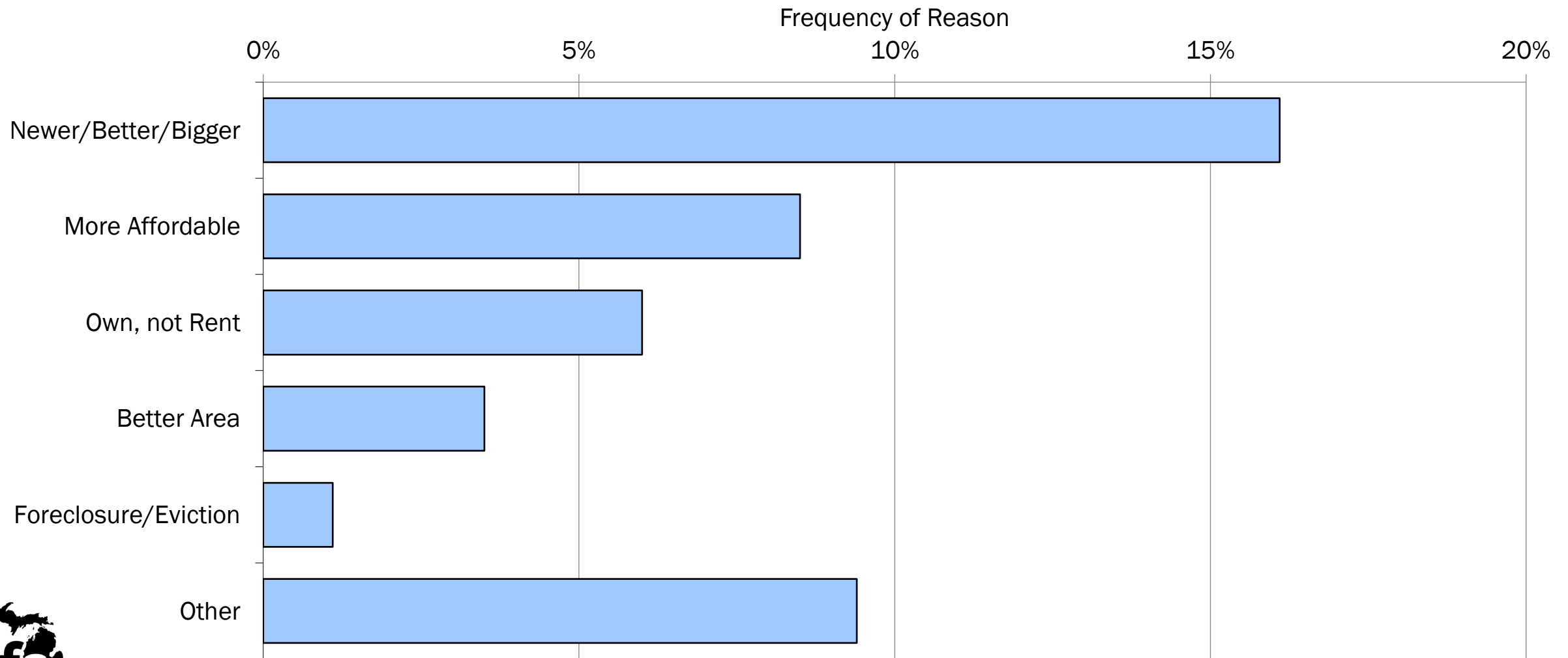
Note: Data labels indicate state rank

Why People Move



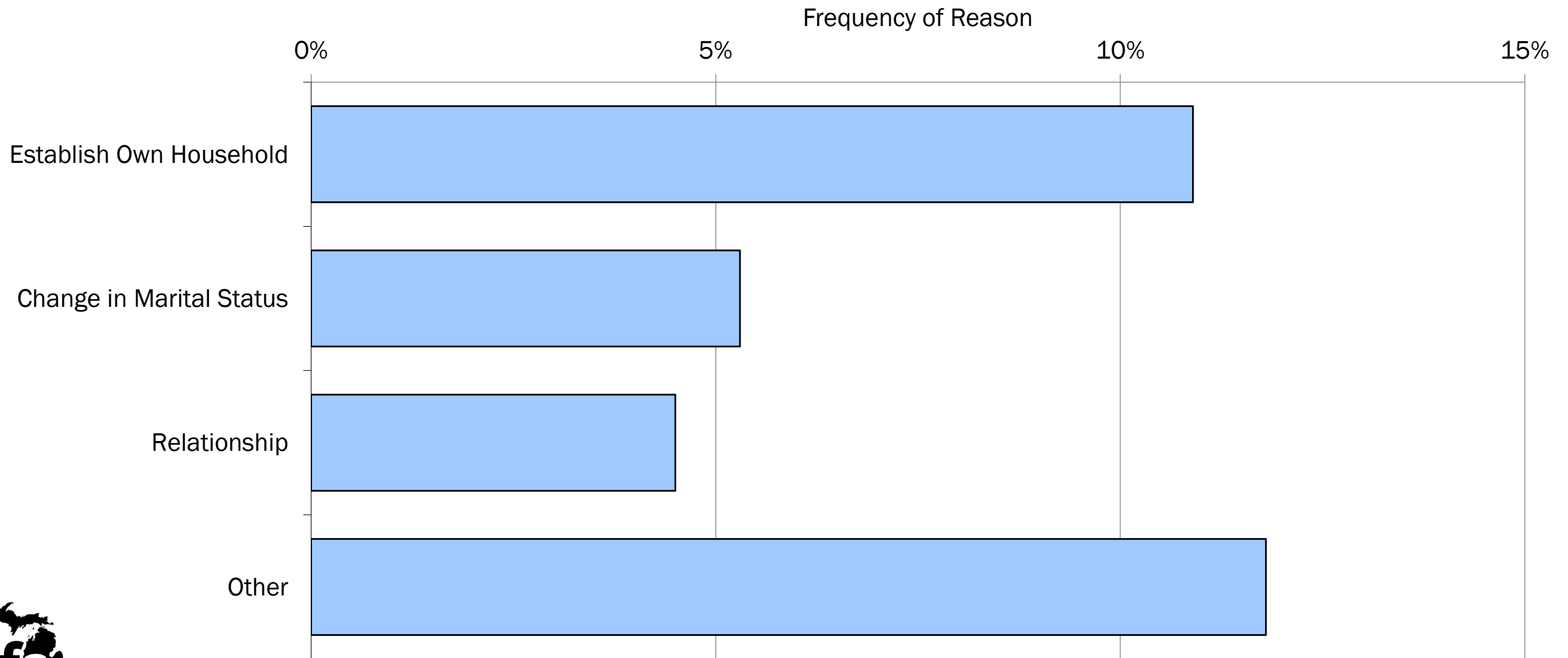
Source: Bureau of the Census, U.S. Department of Commerce.

Why People Move: Housing



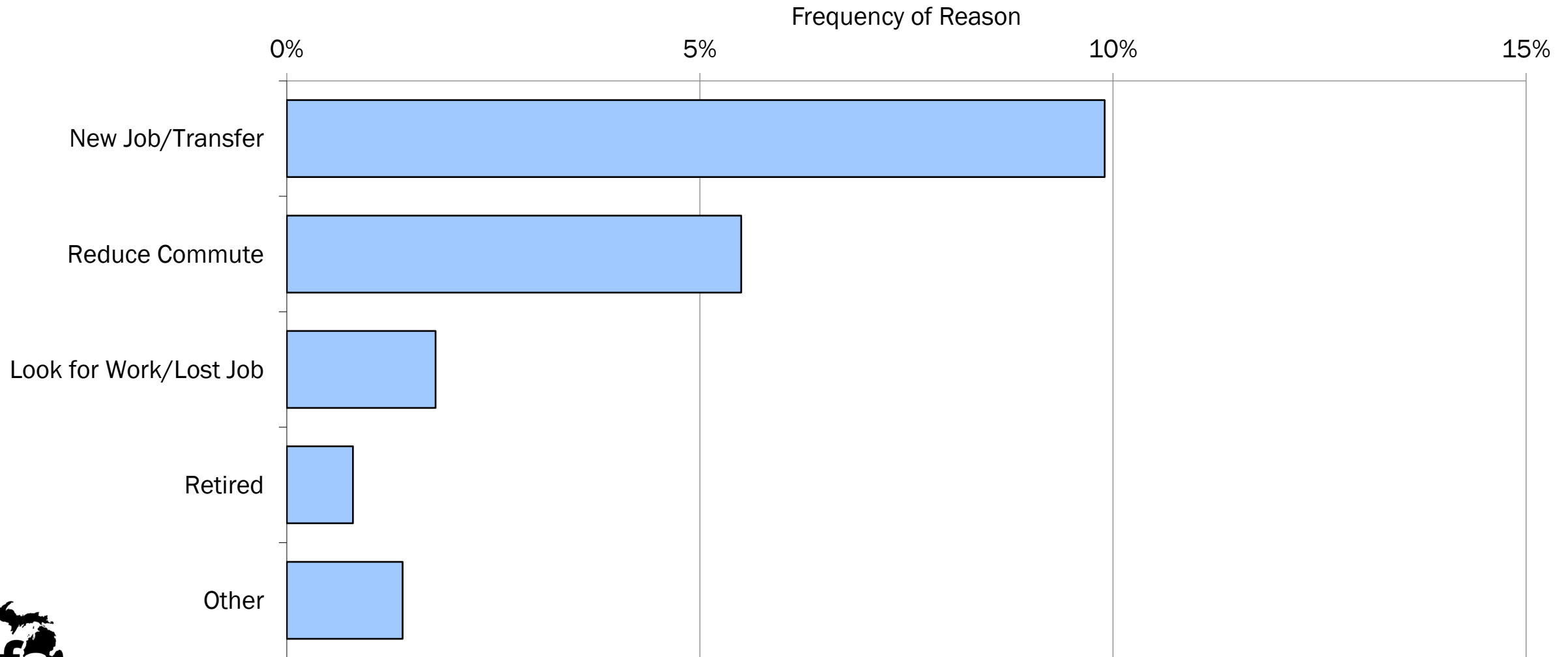
Source: Bureau of the Census, U.S. Department of Commerce.

Why People Move: Family



Source: Bureau of the Census, U.S. Department of Commerce.

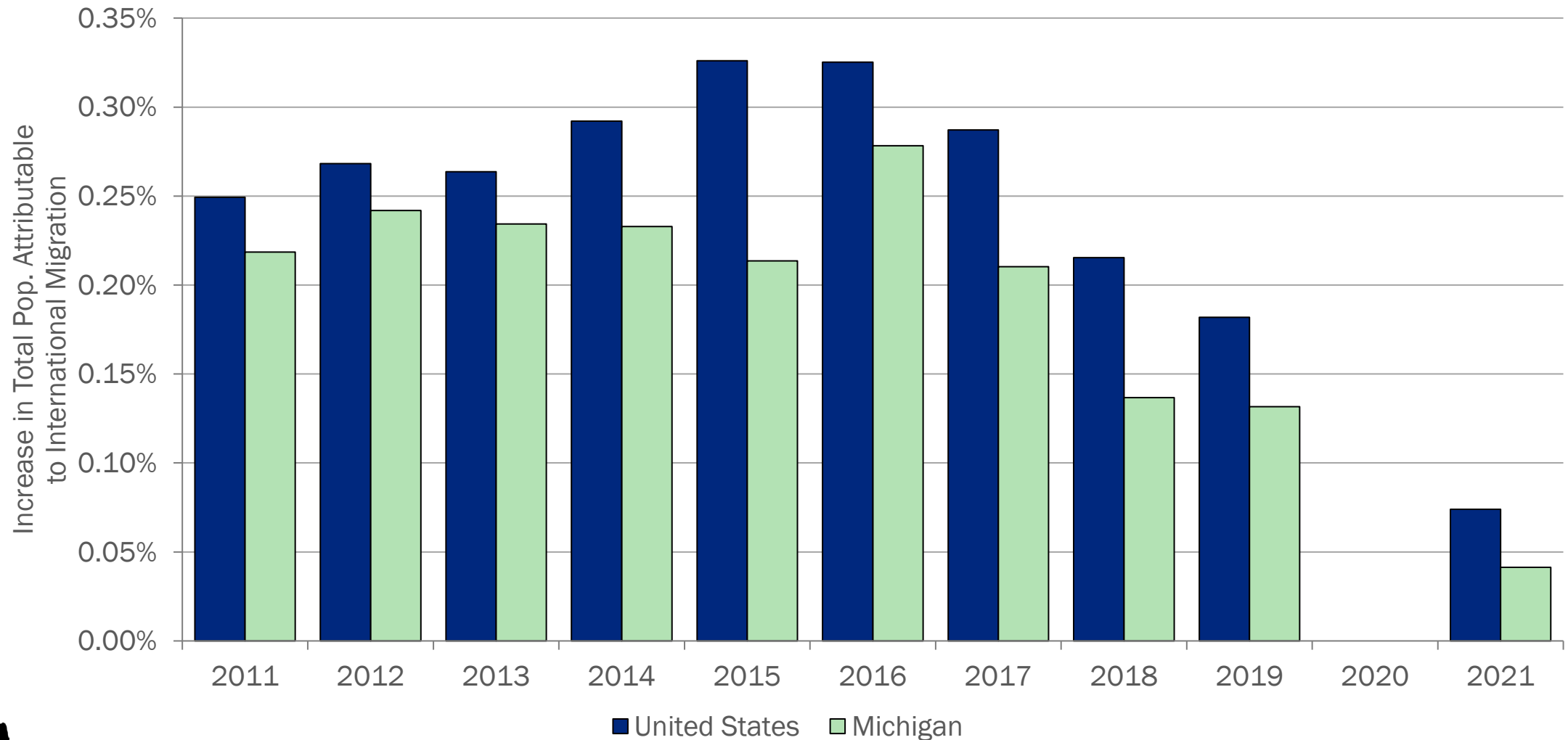
Why People Move: Employment



Source: Bureau of the Census, U.S. Department of Commerce.

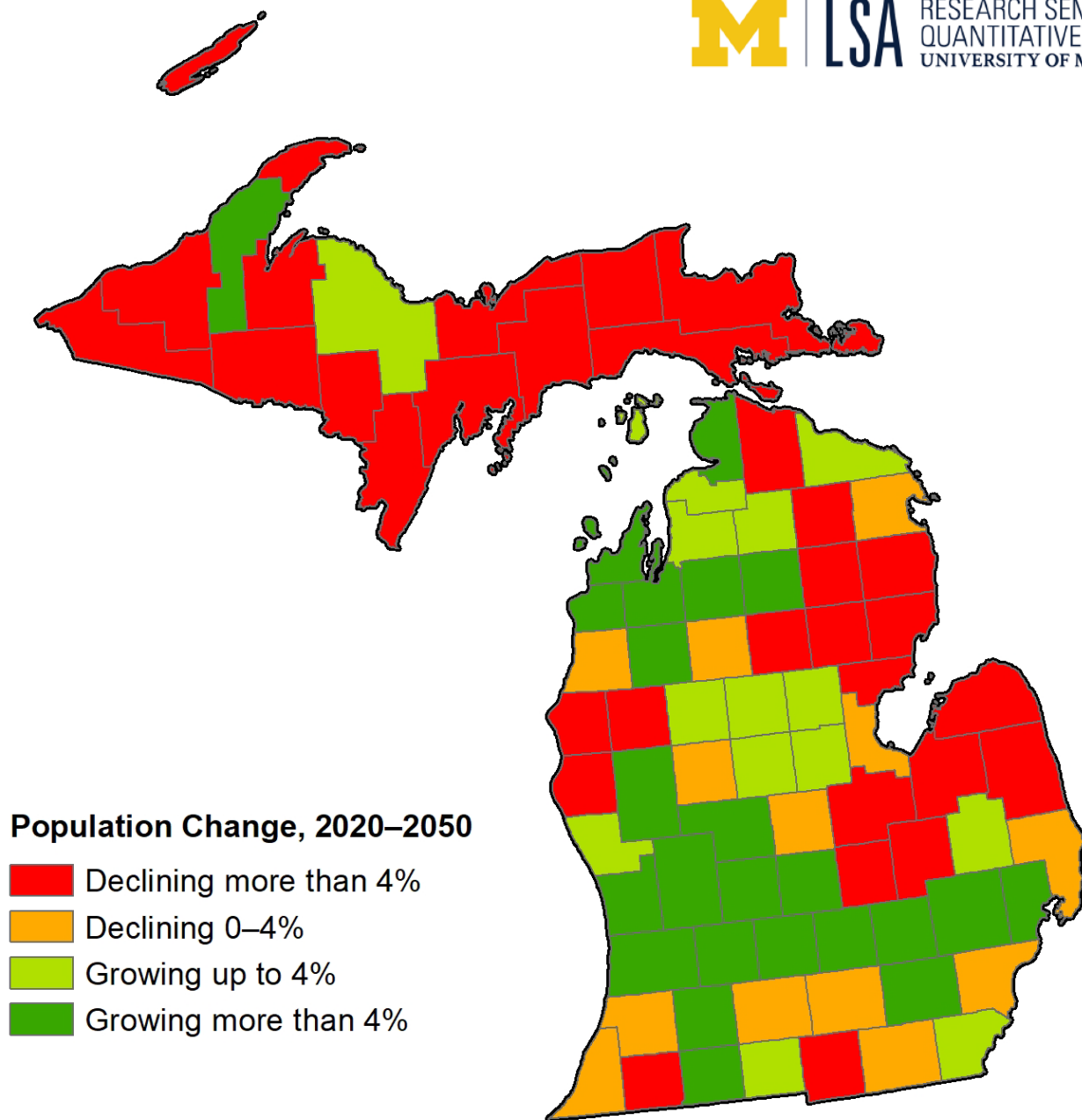
Population Changes Due to International Migration

International Migration Contributing Less to Population Growth

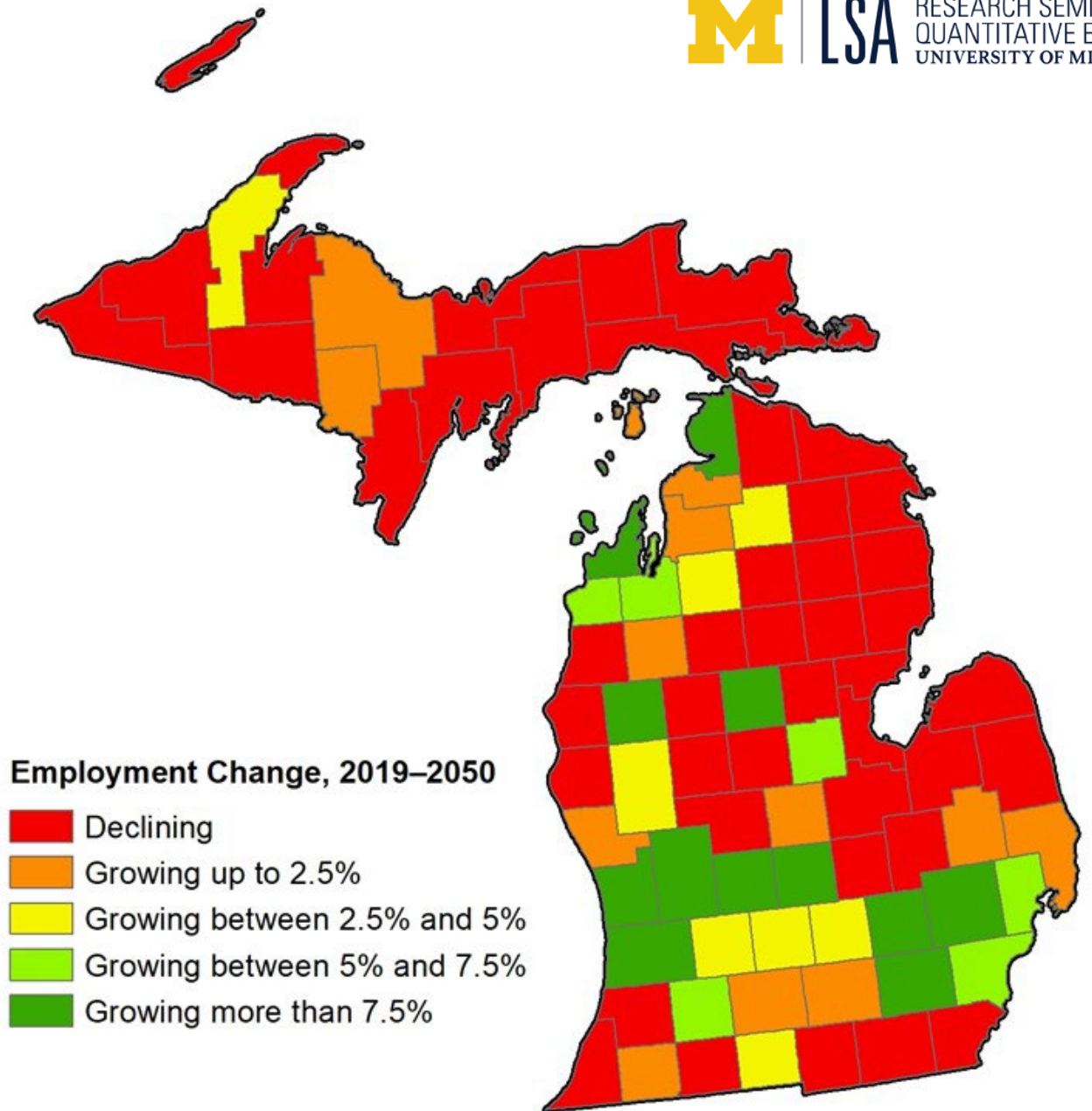


Source: Bureau of the Census, U.S. Department of Commerce.

County-Level Population Change 2020-2050



County-Level Total Employment Change 2019-2050



Takeaways

- After a mild recession, the Michigan economy will return to trends seen at the end of the 2010-2020 decade:
 - Slow employment growth
 - Stable inflation around 2.0-2.5%
 - Unemployment rates slightly less than 5%
 - Inflation-adjusted personal income growth between 1-2%
- Economic growth is limited by the number of workers and how productive those workers are
- Future economic growth for both the U.S. and Michigan will be constrained by several factors:
 - Productivity growth has been on a long-term downward trend
 - The number of workers will grow slowly, if at all
- Labor markets will remain tight for reasons dominated by demographics
 - Low fertility rates
 - Aging population, with more people retiring than entering the labor force
 - Limited in-migration from either other states or from other countries
 - In a world increasingly driven by high technology, Michigan lags many states in average educational achievement
 - Older/more rural areas will face the greatest challenges

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