RESEARCH SEMINAR IN QUANTITATIVE ECONOMICS
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The Michigan Economic Outlook for 2024–2025

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Introduction[1]

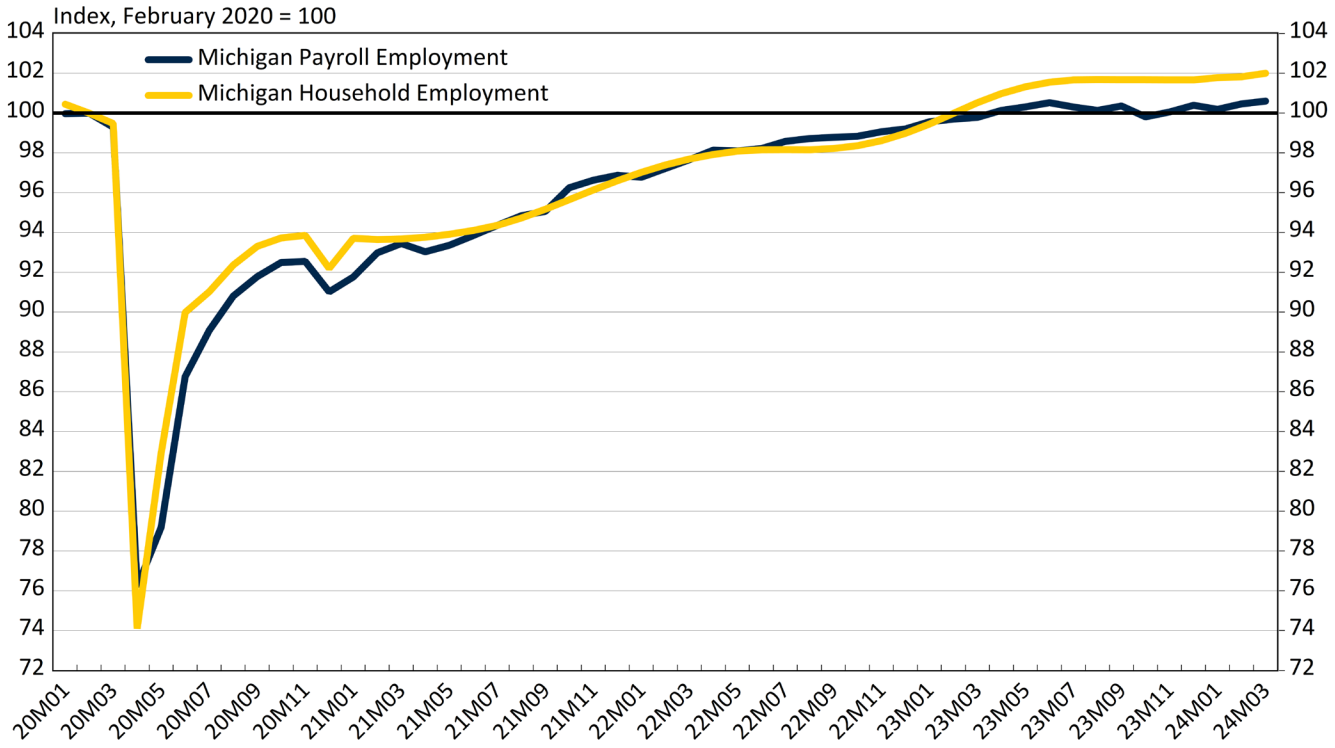
The annual benchmark revisions to Michigan's employment data in March show that the state's labor market recovered from the COVID-19 recession in the first half of 2023. The payroll job count climbed to one-half a percent higher than its February 2020 level last June before growth stalled out in the second half of the year. Michigan's loss of momentum undoubtedly stemmed partially from the strike in the auto industry last fall, but the weak patch predated the strike. The good news is that Michigan's economy has gotten off to a strong start in 2024, with the payroll jobs count climbing above its June 2023 level as of March. We expect the good news to continue over the next two years, with steady job growth, low unemployment, and continued progress toward lower inflation.

Figure 1 shows the paths of Michigan's payroll and household employment counts after the benchmark revisions; the most recent data available at the time this forecast was produced was for March 2024. Michigan's payroll job count recovered from last fall's strike in the auto industry in December, and the state added 9,400 jobs from January to March, despite puzzling job losses in January. Michigan's household employment level grew steadily from late 2022 through mid-2023 before plateauing in the second half of the year. We have been pleased to see growth resume at a healthy pace to start 2024,

[1] To make our economic outlook for the state of Michigan available contemporaneously with the state's May Consensus Revenue Estimating Conference, we are changing the format of this May's forecast report. This report includes our economic outlook but not our revenue outlook. We will release a supplement with our revenue outlook later in the month.

but we confess to wondering whether residual seasonality or other complicating factors may be affecting the measured path of household employment.

Figure 1
Michigan's Employment Recovery



Michigan's unemployment rate ticked back down from 4.2 percent in October 2023 to 3.9 percent in February and March 2024. The state's labor force participation rate has hovered in the 62.2–62.3 percent band every month since last July. March's participation rate of 62.3 percent stood only 0.4 percentage points below the national rate.

Local inflation has continued to slow down recently, although there are several challenges to measuring it at high frequency. The twelve-month rate of Detroit consumer price inflation stood at 2.8 percent this February, its slowest pace since February 2021, before the recent surge in inflation. Local core twelve-month inflation stood at 3.3 percent, its lowest rate since October 2021. The shelter component, which is published monthly, jumped noticeably in March 2024.[2] This increase suggests that we have not reached the end of the bumpy path toward an enduring normalization of inflation.

[2] Some components of local CPI are published every month, but the all-items and core (all-items excluding food and energy) measures are released every other month. At the time this forecast was prepared, the latest available all-items measure for Detroit CPI was for February 2024.

Still, our outlook for Michigan's economy over the next two years is relatively sunny. We are projecting a total of 76,100 job gains in 2024–25, while the state's unemployment rate hovers in the 3.8–3.9 percent range. Perhaps the only disappointing element of our forecast is that the growth of real disposable income per capita remains tepid, with a decline of 0.6 percent this year followed by growth of 1.4 percent in 2025. Overall, though, we believe that if our expectations for Michigan's economy turn out to be accurate, the next two years will be considered a solid success story.

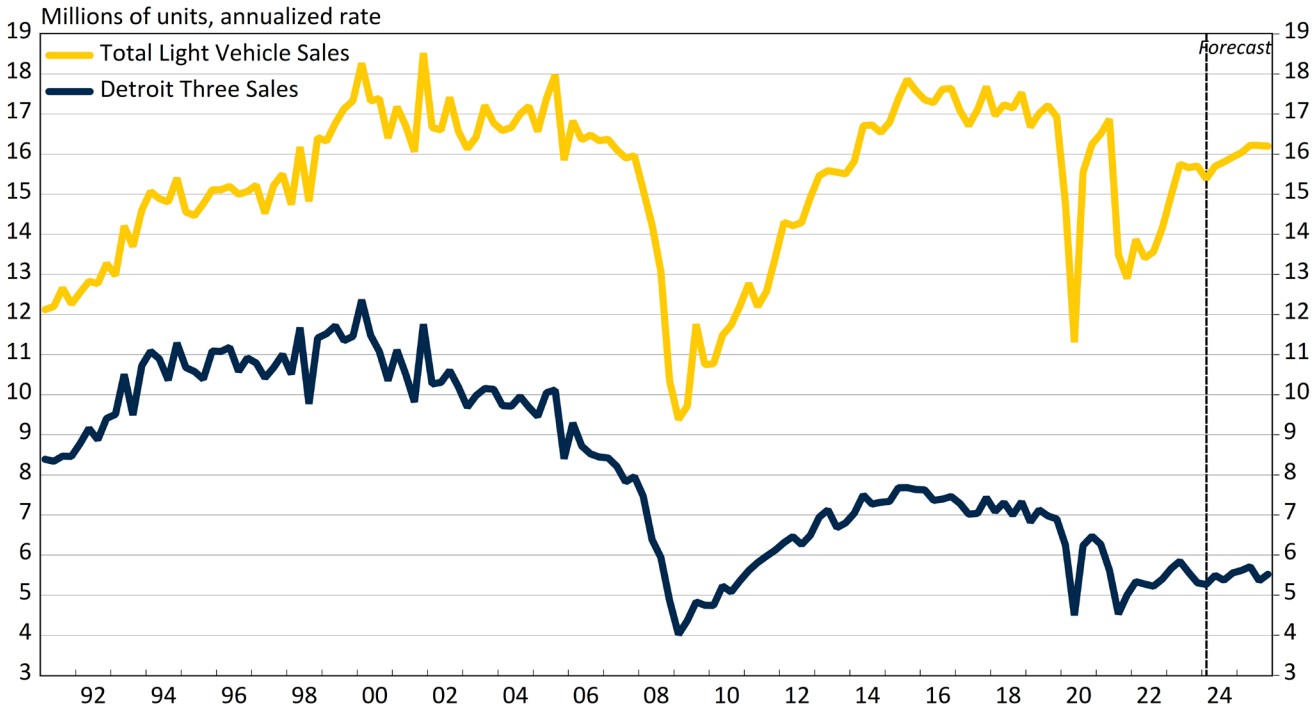
The Forecast of the State Economy[3]

Detroit Three Light Vehicle Sales

Figure 2 shows our quarterly forecast for total U.S. and Detroit Three light vehicle sales. The annualized pace of light vehicle sales has been hovering around 15.7 million units since February 2024. Inventory levels increased in April, however, reaching 51 days' supply, which was nearly 50 percent higher than one year ago. Despite this improvement, national light vehicle inventories remain one-quarter below what they were before the pandemic. Depressed inventories, high prices, and even higher financing rates have all contributed to a stalled-out pace of vehicle sales. We anticipate light vehicle sales to increase from their recent sluggish pace to reach an average of 15.9 million units in the second half of 2024, as inventories continue to build and financing rates begin to retreat. As the national economy picks up speed, light vehicle sales are projected to increase to an average pace of 16.2 million units in the final three quarters of 2025.

[3] Our Michigan forecast is based on our U.S. economic outlook published on May 17, 2024.

Figure 2
Quarterly Light Vehicle Sales, Total U.S. vs. Detroit Three



The Detroit Three's share of U.S. light vehicle sales averaged 34.4 percent in April 2024, down 3.2 percentage points from one year ago. Stellantis contributed over three-quarters of this decline, while General Motors accounted for the rest. Ford, on the other hand, saw a small increase in its market share over the past year, averaging just under 13 percent of national light vehicle sales in April 2024. Moving forward, we expect the Detroit Three's share of the market to hold roughly flat, inching down to 34.3 percent in 2025. We expect Detroit Three light vehicle sales to remain near their current cruising pace of 5.6 million units in 2023, averaging 5.5 million units in both 2024 and 2025.

Payroll Employment

Figure 3 shows our forecast of Michigan's quarterly payroll job count. Statewide employment fell by 10,500 jobs in the second half of 2023, a sharp reversal from the 57,300 job gains in the first half of the year. Fortunately, job growth returned in early 2024, with 14,800 additions in the first quarter of the year. We judge that the second half of last year was anomalous and that growth will continue at a healthy pace through the end of 2025. We are projecting 28,400 job gains in 2024, as the job losses in late 2023

reduce this year's growth due to calendar-year averaging effects. Calendar year growth picks up to 47,800 jobs in 2025. On a fourth-quarter-to-fourth-quarter basis, job gains are fairly steady over the next two years, totaling 45,300 this year and 47,600 in 2025. Our forecast takes Michigan's payroll job count to 2.4 percent above its pre-pandemic level by the end of 2025 but leaves the state 3.2 percent below its all-time employment peak achieved in the second quarter of 2000.

Figure 3
Quarterly Michigan Payroll Employment

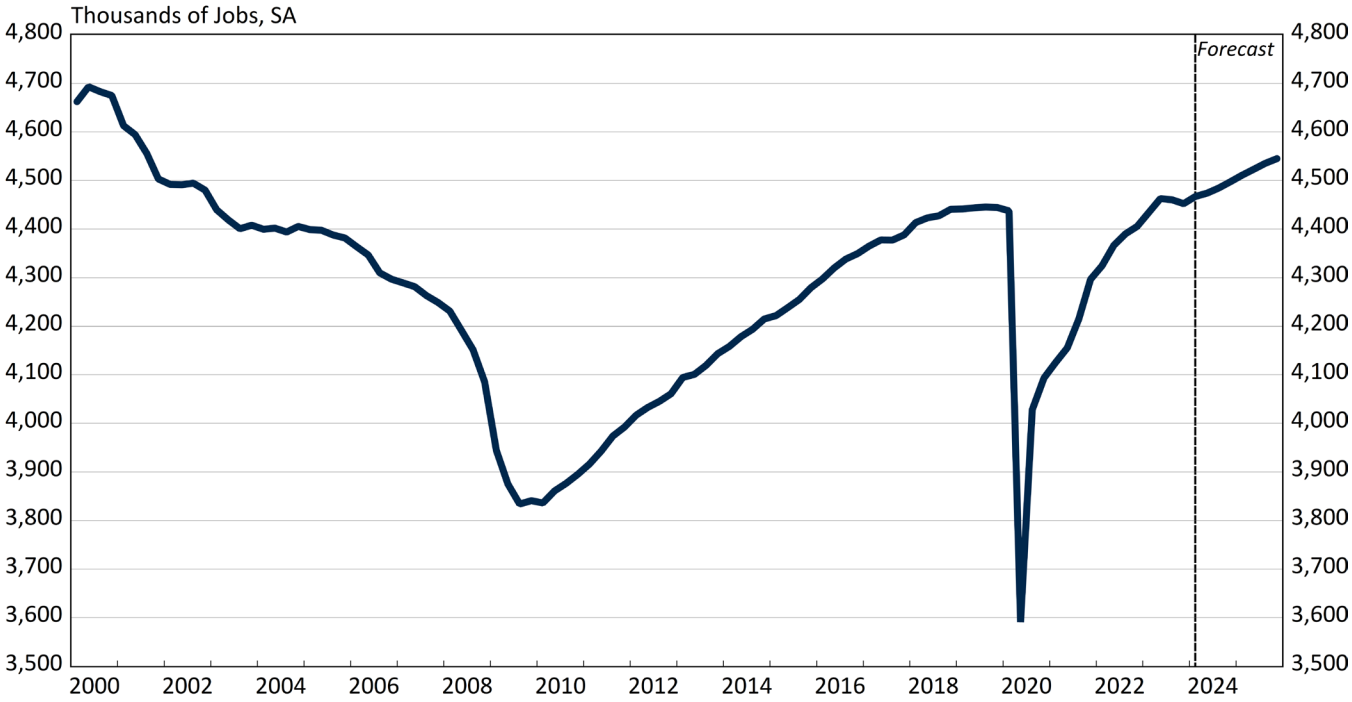
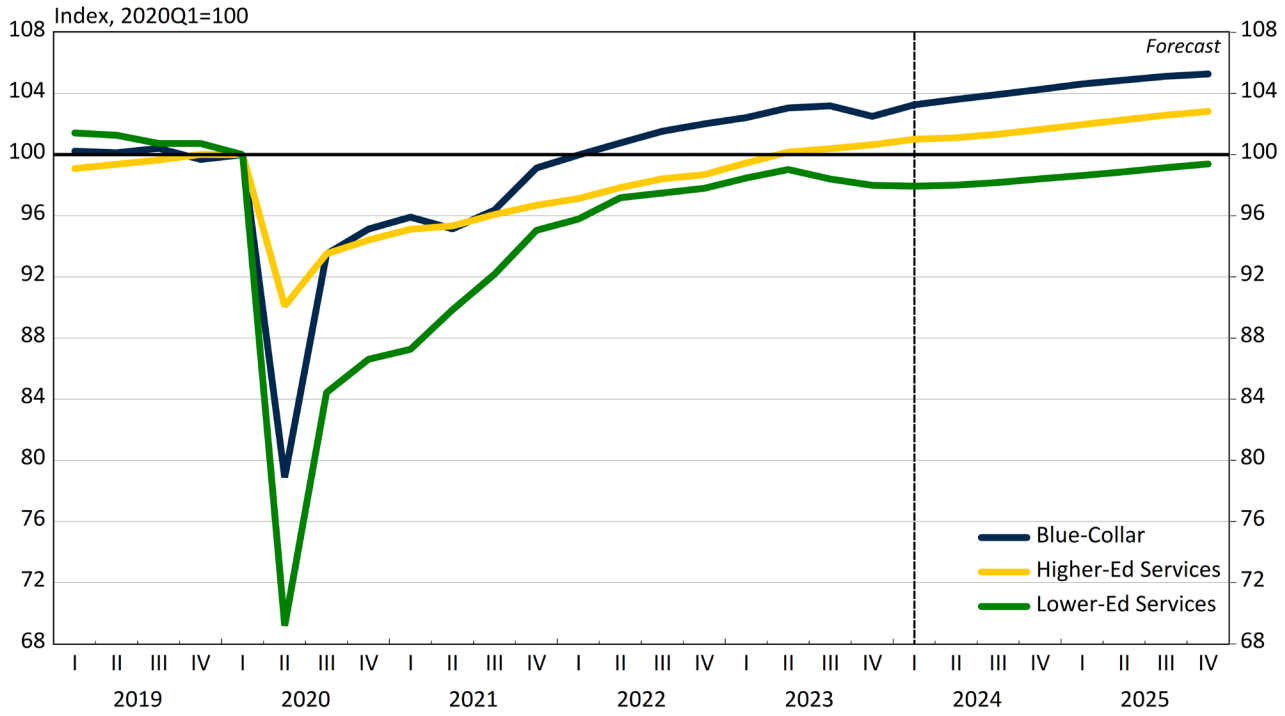


Table 1 below displays our forecast for annual job growth for Michigan's individual industries, while Figure 4 splits the state's industries into three groups: "Blue-Collar Industries," "Lower-Education Services Industries," and "Higher-Education Services Industries."[4] The figure plots the recent history and our quarterly forecast for each of these industry groups as index values, with the first quarter of 2020 normalized to a value of 100.

[4] The blue-collar industries comprise mining; construction; manufacturing; and wholesale trade, transportation, and utilities. The higher-education services industries (which generally require employees to hold a bachelor's degree or higher educational level) comprise information; finance; professional, scientific, and technical services; management of companies and enterprises; private education and health services; and government. The lower-education services industries (which typically do not require a college education) comprise retail trade; leisure and hospitality; administrative support services and waste management; and other services.

Figure 4
Job Growth in Michigan
Blue-Collar, Higher-Education Services, and Lower-Education Services Industries



Employment in Michigan's **blue-collar industries** dipped by 7,800 jobs in the fourth quarter of 2023, but they added back 8,600 jobs in the first quarter of this year. We expect steady growth of 3,800–3,900 jobs per quarter over the remainder of this year before growth slows to an average pace of 2,900 jobs per quarter next year. We forecast the blue-collar industries to finish our forecast period 5.3 percent above their pre-pandemic job count.

We are not particularly optimistic about employment growth in Michigan's transportation equipment manufacturing industry. It loses 2,400 jobs this year before adding 3,800 next year. Despite those job gains, employment in Michigan's auto industry remains below its pre-strike level even by the end of 2025. A tough interest rate environment, slow growth in national unit sales, the lingering jobs hole from last year's strike, and this year's announced layoffs all weigh on job growth in the auto sector over the next two years.

Our outlook for Michigan's non-automotive manufacturing sector is also cautious. We are forecasting the sector to shed 1,200 jobs this year, reflecting job losses that mounted during the course of 2023 and in the first quarter of 2024. Growth returns in the second half of this year, and the sector

adds 4,400 jobs in 2025. The strong dollar weighs on growth in Michigan's non-automotive manufacturing sector.

Employment in Michigan's construction industry jumped at the beginning of 2024, allaying our concerns that job growth was slipping late last year. We expect high mortgage rates to restrain growth in Michigan's construction sector, but it still adds 9,400 jobs this year, based largely on its stellar performance early in the year. Growth slows to a more sustainable 3,600 jobs next year even as the decline in mortgage rates provides some relief.

Table 1
Forecast of Payroll Jobs in Michigan by Major Industry Division
(Thousands of Jobs)

		Forecast Employment Change		
	2023	'23–'24	'24–'25	'23–'25
Total Jobs	**4452.5**	**28.4**	**47.8**	**76.1**
Total Government	601.9	17.2	7.2	24.5
Total Private	3850.6	11.1	40.5	51.7
Natural resources and mining	7.3	0.1	-0.1	0.1
Construction	189.0	9.4	3.6	13.0
Manufacturing	615.0	-3.6	8.2	4.6
Transportation equipment manufacturing	188.0	-2.4	3.8	1.4
Other manufacturing	427.0	-1.2	4.4	3.2
Trade, transportation, and utilities	814.6	2.9	0.4	3.3
Retail trade	457.7	-2.2	-1.6	-3.8
Transportation, Warehousing, and Utilities	178.6	1.9	0.3	2.2
Wholesale trade	178.3	3.3	1.7	5.0
Information	57.9	-0.5	-0.2	-0.6
Financial activities	231.3	-3.6	1.0	-2.5
Professional and business services	654.7	-8.5	5.8	-2.7
Professional, scientific & technical services	317.7	-2.3	3.0	0.6
Management of companies & enterprises	69.3	-0.5	1.1	0.6
Admin & support & waste mgmt.	267.8	-5.7	1.7	-3.9
Private education and health services	688.5	11.4	10.2	21.6
Leisure and hospitality	422.5	4.1	10.4	14.5
Other services	169.8	-0.7	1.2	0.5
Addendum: Percent Change in Total Jobs	**1.8**	**0.6**	**1.1**	**1.7**

RSQE: May 2024

Michigan's wholesale trade sector has been one of the major job gainers since the pandemic, and we expect growth to continue over the next two years. Wholesale trade adds 3,300 jobs this year and

1,700 in 2025, taking its job count by the end of 2025 to within 3,000 of its all-time high from the first quarter of 2000.

Taken as a whole, Michigan's **higher-education services industries** did not display the same wobbles last year as the other industry groups. They added 42,200 jobs in 2023, nearly in line with 2022's pace of 43,400. We expect job growth in these industries to continue at a slower pace over the next two years, averaging 22,100 jobs per year. Employment in the state's higher-education services industries finishes our forecast 2.8 percent above its pre-pandemic level.

The benchmark revisions revealed that there were fewer job losses last year in Michigan's finance sector than previously measured. The state's finance industry lost only 1,200 jobs in 2023, compared to the estimate of 3,600 prior to the benchmark revision. Unfortunately, the state's finance sector lost 2,000 jobs in the first quarter of 2024. We expect finance to lose a total of 3,600 jobs this year amid high mortgage rates before recovering 1,000 jobs next year as rates decline.

The preliminary estimates show that the government sector added 9,700 jobs in the first quarter of 2024, an eyebrow-raising performance. We now expect the government sector to surpass its pre-pandemic employment level in the second quarter of the year. We forecast 17,200 job gains in government this year and a further 7,200 in 2025. Government's share of total employment in Michigan holds steady at about one in seven jobs, roughly in line with its average from 2015–19.

Michigan's private education and health services sector recovered to its pre-pandemic employment level in the third quarter of 2023 and added a robust 25,000 jobs for the year. We do not believe the health services sector can sustain that growth rate going forward. We project an average of 10,800 job gains per year over the next two years as the health services sector puts the pandemic firmly behind it.

Job growth in Michigan's professional, scientific, and technical services sector slowed sharply last year, from 13,100 job gains in 2022 to only 3,400 in 2023. We project the professional services sector to lose 2,300 jobs this year based on its recent trend. Growth returns next year with 3,000 job gains. We are monitoring this sector closely given its role as one of the cornerstones of Michigan's knowledge economy.

Michigan's **lower-education services industries** lost 13,800 jobs in the second half of 2023. We had expected employment to bounce back following the conclusion of last year's strikes in the auto and casino industries, but these industries lost another 700 jobs in the first quarter of 2024. Although we are projecting moderate growth to return going forward, we do not expect Michigan's lower-education services industries to recover to their pre-pandemic employment level by the end of our forecast period.

The leisure and hospitality industry added 15,100 jobs in the first half of 2023 before losing 5,000 in the second half. Growth returned in the first quarter of 2024, with 2,900 job gains in the sector. We expect growth to continue, with 4,100 total job gains this year to be followed by 10,400 in 2025. The leisure and hospitality sector achieves a full recovery from the pandemic recession next year.

The retail trade sector gained 1,100 jobs last year, but it lost 1,600 jobs in the first quarter of 2024. We project 2,200 job losses for the year as a whole, followed by another 1,600 in 2025. The continuing transition away from traditional retailers toward online shopping and big box stores reduces labor demand in the retail sector.

Administrative and support and waste management services lost 5,900 jobs in 2023, with especially large job losses in the second half of the year. We are projecting the sector to lose another 5,700 jobs this year before recovering 1,700 jobs in 2025.

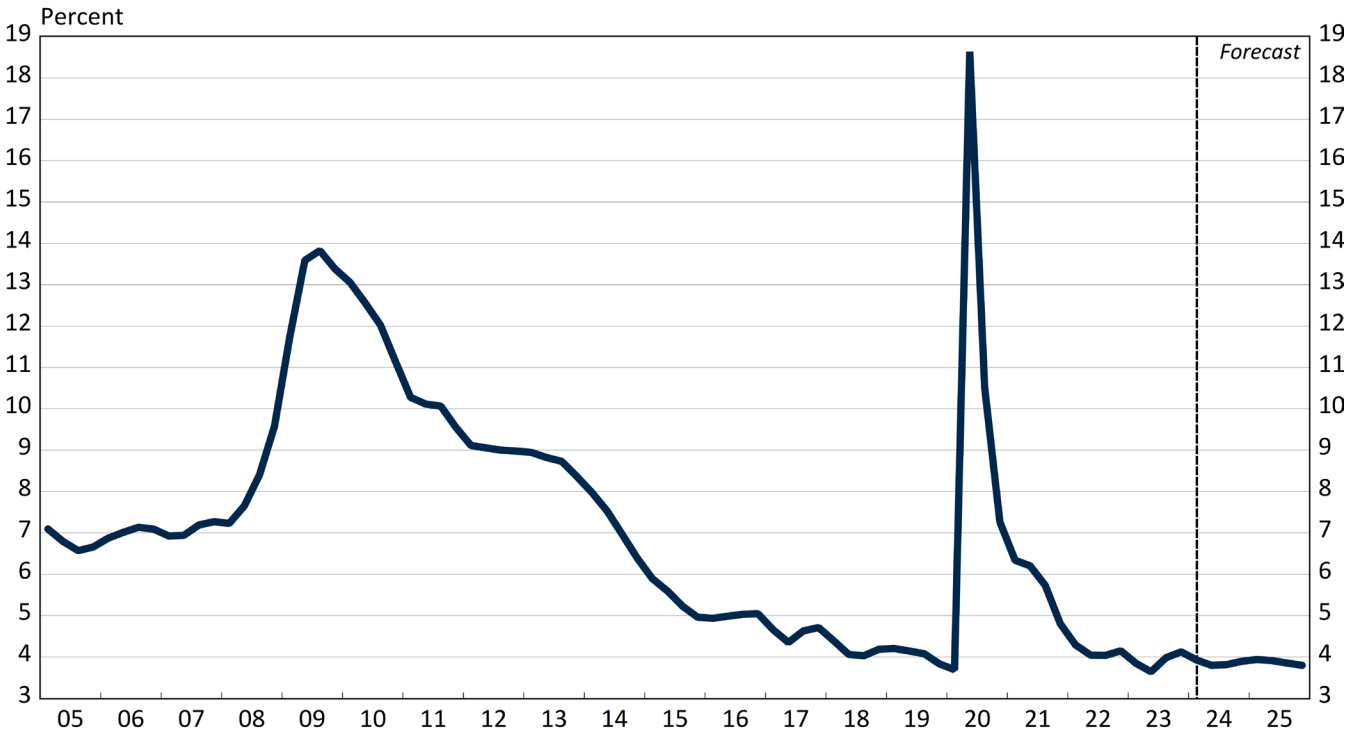
Following the benchmark revisions, the data show that the other services industry gained 5,000 jobs in 2023. It lost 2,000 jobs in the first quarter of 2024, and we are projecting 700 losses for the year overall. Growth resumes next year with 1,200 job gains.

Unemployment and Labor Force Participation Rates

Figure 5 displays the historical data and our forecast for Michigan's quarterly unemployment rate. The state's unemployment rate hit a post-pandemic low of 3.6 percent in April and May 2023 before climbing to 4.2 percent in October. Michigan's unemployment rate has inched down since then, registering 3.9 percent in February and March 2024. We anticipate that Michigan's unemployment rate will hover around 3.8–3.9 percent in our forecast period, as increases in household employment balance out gains in the labor force. We remain cautiously optimistic about Michigan's labor market over the next

two years, judging that an ongoing decline in interest rates coupled with a growing national economy should help Michigan swerve around the potential potholes on the road ahead.

Figure 5
Quarterly Michigan Unemployment Rate



The state's labor force participation rate has been a major bright spot in Michigan's economic recovery from the COVID-19 pandemic recession. Michigan's labor force participation rate has increased by 3.1 percentage points from the beginning of 2021 to March 2024, which puts the state's labor force participation rate 0.4 percentage points higher than its 2019 level. We believe that this newfound momentum will persist during our forecast period, possibly reflecting under-measurement of the state's working age population due to the recent surge in immigration. We forecast Michigan's labor force participation rate to increase from 61.9 percent in 2023 to 62.4 percent in 2024 and 62.7 percent in 2025. Even though we remain pleasantly surprised by Michigan's labor force growth and expect it to continue over the next two years, we suspect that Michigan's aging workforce will eventually limit and reverse progress on labor force participation.

Local Inflation

Local inflation gave its best roller coaster impression during 2023. The annualized rate of inflation of the headline (all-item) Detroit CPI rose from 4.0 percent in the fourth quarter of 2022 to 5.0 percent in the first quarter of 2023, before jumping to 8.8 percent in the second quarter, moderating to 3.6 percent in the third quarter, and registering *negative* 1.7 percent in the fourth quarter. Local core inflation (excluding food and energy) followed a similar track. National headline inflation, on the other hand, was comparatively stable, ranging between 3–4 percent for most of 2023 before falling to 2.7 percent in the fourth quarter. We expect local inflation's bumpy ride to continue in the first half of 2024. It accelerates to 5.1 percent by the second quarter before settling to the 3–3.5 percent range in the second half of the year.

Figure 6
Local Inflation, Headline and Core Detroit CPI

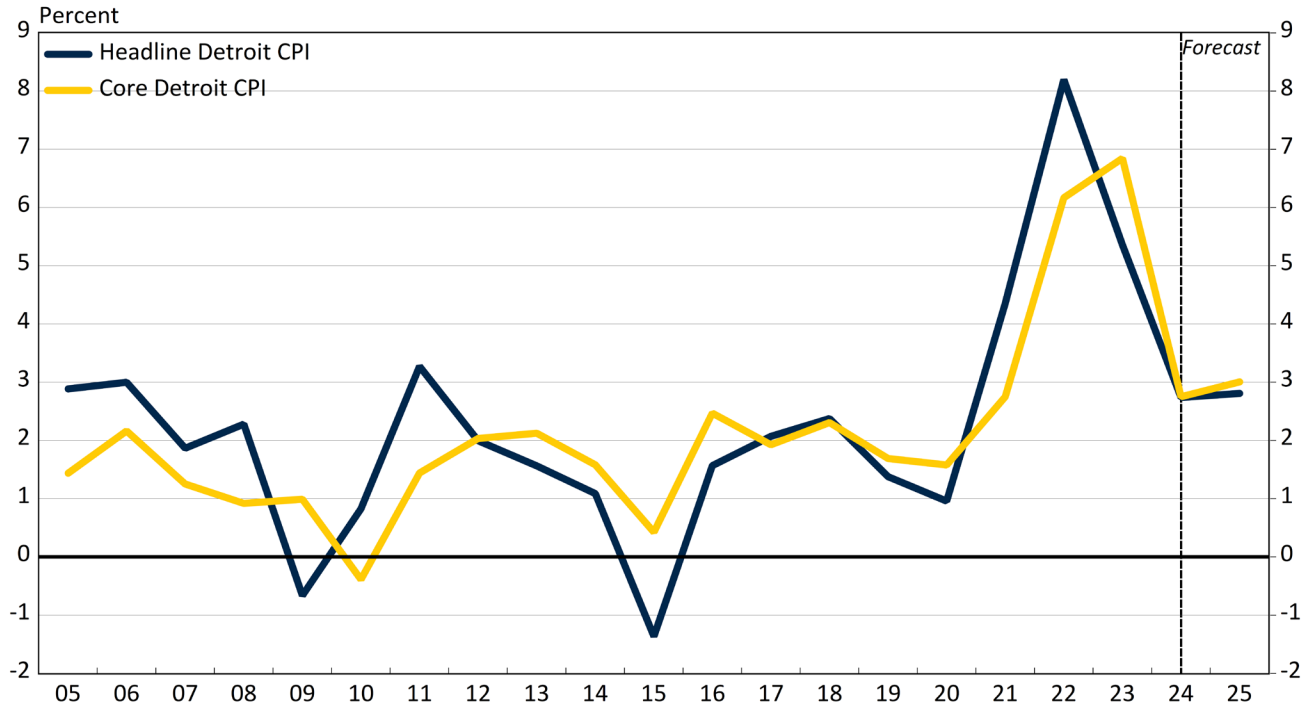


Figure 6 shows the history and our forecast of headline and core Detroit CPI inflation. On an annual basis, local headline inflation peaked at 8.2 percent in 2022 and fell to 5.4 percent last year, in large part due to declines in energy prices. Even so, inflation has remained significantly faster than the pace Michiganders became accustomed to prior to the pandemic, and we project that pattern to continue

over the next two years. Local inflation averaged only 1.2 percent per year from 2015 to 2019, but we forecast annual local inflation of 2.7–2.8 percent in 2024 and 2025.[5]

Local core inflation accelerated from 6.2 percent in 2022 to 6.8 percent in 2023 even as the headline measure moderated. The gap between headline and core inflation arose mostly from the decline in energy prices from 2022 to 2023. While shelter cost inflation has continued to play an important role for both the headline and core measures, it has slowed considerably since mid-2023. A similar story has played out in the personal services sector. In keeping with the broad moderation of price pressure in our forecast, we project local core inflation to drop to 2.8 percent in 2024, essentially even with the headline rate. Local core inflation then inches above the headline rate by two-tenths of a percentage point in 2025, as core inflation slightly outpaces gasoline and food prices.

Personal Incomes

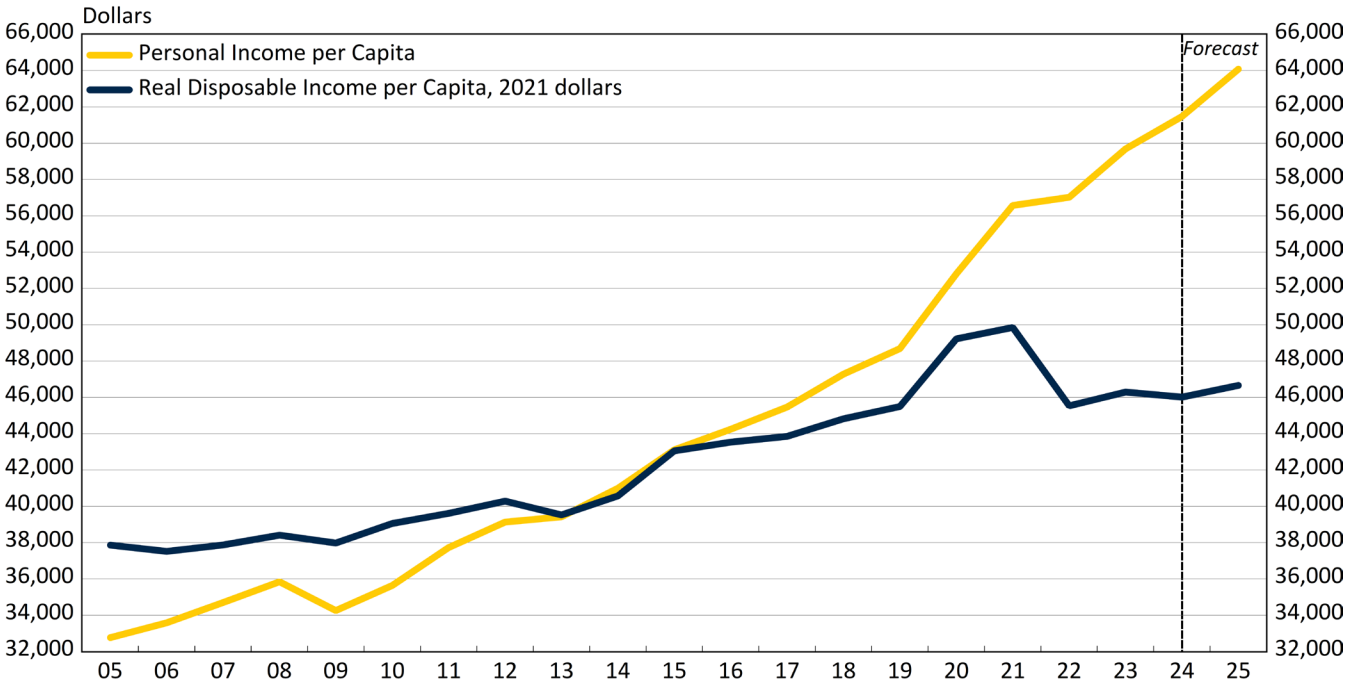
Figure 7 shows our forecast for Michigan personal income per capita, measured in nominal dollars, and real disposable income per capita, measured in 2021 dollars. After holding steady in 2022, Michigan's personal income per capita increased by 4.7 percent on a calendar year basis in 2023. We expect income growth to slow to 3.0 percent this year, however, as job growth moderates in the state. Michigan personal income per capita then increases by 4.2 percent in 2025 as broad economic momentum picks back up. Altogether, income growth is expected to average 3.6 percent per year between 2024–25, a touch above the average pace of 3.5 percent from 2011–19. That brings Michigan's personal income per capita to $64,090 in 2025.

Our forecast for real disposable income per capita in Michigan combines our forecast of nominal personal income with our forecasts for taxes and local inflation. Michigan's real disposable income per capita surged during the pandemic, but high inflation drove a decline of 8.7 percent in 2022, sending living standards back to 2019 levels. Although real disposable income in the state clawed back some of that loss in 2023 with an increase of 1.7 percent, we expect to lose a bit of that progress in 2024. Slowing nominal income growth combined with pesky inflation pulls real disposable incomes down by 0.6 percent

[5] Calendar year averaging effects hold annual inflation below the quarterly rates discussed previously in 2024.

in 2024. As Michigan's economy heats up in 2025, real disposable income growth rebounds to 1.4 percent. That pace still falls 0.3 percentage points short of the average from 2011–19, when the state experienced brisk job growth coming out of the previous decade's downturn. Our forecast puts Michigan's real disposable income per capita at 2.6 percent above its 2019 level in 2025 and hopefully on a smoother path moving forward.

Figure 7
Personal Income per Capita and Real Disposable Income per Capita in Michigan



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Supplement to The Michigan Economic Outlook for 2024–2025: The State Tax Revenue Outlook[1]

Jacob T. Burton, Gabriel M. Ehrlich, and Michael R. McWilliams
University of Michigan

The Consensus Revenue Estimating Conference (CREC) took place on May 17 in Lansing, during which state officials agreed on final revenue forecasts for fiscal years 2024–26. The short version of the story is that after a decline of 3.7 percent in fiscal 2023, state officials expect combined General Fund General Purpose (GFGP) and School Aid Fund (SAF) revenues to nudge down slightly further in fiscal 2024 before returning to moderate growth in fiscal years 2025 and 2026.

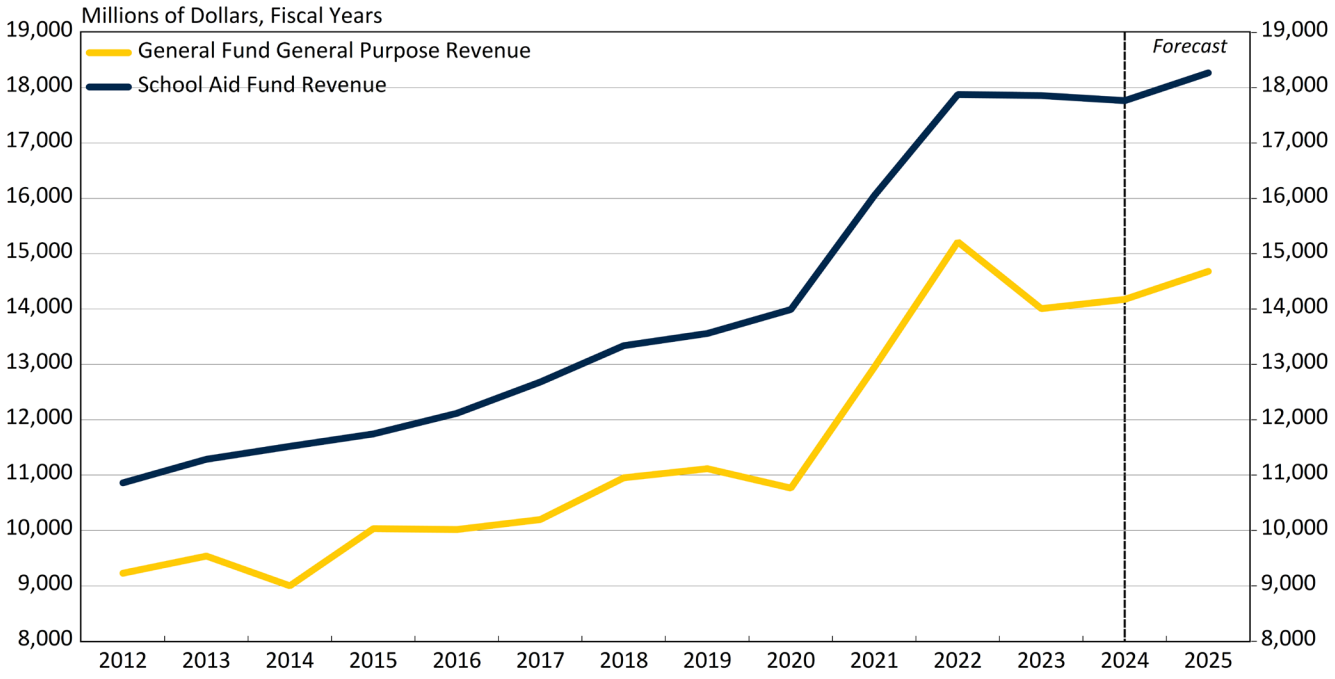
While the performance in fiscal 2023 and the outlook for fiscal 2024 may sound like bad news, there are two reasons we are not currently alarmed. First, combined revenues soared by over $8.3 billion in fiscal years 2021 and 2022, as shown in Figure 1 below. The dramatic rise in state revenue during that time was due to several features of the pandemic and post-pandemic economy, most notably the emergency federal assistance and the shift in consumer spending from services to goods. Second, the dramatic fall of state tax revenue in fiscal 2023 was due mostly to a combination of factors related to the state's tax laws rather than to economic factors.[2] Recent changes to the state's tax laws will continue to

[1] We changed the format of this May's forecast report to make our economic outlook for the state of Michigan available contemporaneously with the state's May Consensus Revenue Estimating Conference on May 17, 2024. This report on the state's tax revenue outlook serves as a supplement to our economic outlook. Both reports are publicly available on our website at https://lsa.umich.edu/econ/rsqe/forecasts/michigan-forecast.html.

[2] First, Public Act 4 of 2023, adopted in March 2023, expanded exemptions for certain retirement income as well as the state's earned income tax credit and adopted new earmarks to Michigan's corporate income tax rate. Second, Michigan's individual income tax rate was lowered from 4.25 percent to 4.05 percent for calendar year 2023 due to a provision associated with the state's 2015 road funding law. Third, Public Acts 20, 21, and 29 of 2023 provided new sales and use tax exemptions for most delivery and installation charges in Michigan. Fourth, the state's "flow-through entity tax", adopted in December 2021, experienced a one-time outsized level of returns in fiscal 2022 and has subsequently fallen to a more sustainable level. Altogether, these factors are estimated to have reduced combined fiscal 2023 revenues by over $1.8 billion in fiscal 2023, and they are expected to reduce fiscal 2024 and 2025 revenues by nearly $2 billion and $1.4 billion, respectively.

influence state tax revenues throughout our forecast period, as will the ongoing shifts in spending as consumers deplete any remaining excess savings from the pandemic era and continue to rotate their consumption bundles away from goods and back to services.

Figure 1
Michigan Tax Revenues, General and School Aid Funds



State officials expect combined GFGP and SAF revenues to decline by 0.3 percent in fiscal 2024, as the recent legislative changes continue to phase in. The State, however, anticipates growth to rebound to a middling pace of 2.1 percent in fiscal 2025. RSQE's forecast has a similar flavor but is slightly more optimistic over the next two years. We project growth in both years, with combined revenues increasing by 0.2 percent this fiscal year and then climbing 3.2 percent in fiscal 2025. The state's expanding labor market elicits healthy gains from personal income tax withholding in both years, driving a 1.2 percent increase in total GFGP revenue in fiscal 2024 and 3.6 percent in fiscal 2025. Sales and use tax revenue growth, on the other hand, is mixed. The ongoing shift in consumption patterns leads to a drop in combined sales and use tax revenue in fiscal 2024, before rebounding in fiscal 2025. Total SAF revenue mirrors this pattern and falls by 0.5 percent in fiscal 2024 before increasing by 2.8 percent in fiscal 2025.

We now describe our forecast of state revenues in more detail. Table 1 breaks down the recent history as well as our forecast for fiscal years 2024–25. The upper portion details GFGP revenues, and the lower portion summarizes SAF revenues.

Net Personal Income Tax Revenue

- Following two years of extraordinary growth during the pandemic, net personal income tax revenue declined by 11.5 percent in fiscal 2023 due to an increase in refunds and substantial reductions in annual, quarterly, and flow-through entity tax revenue. The reduction in flow-through entity tax revenue accounted for over half the decline. That decline was expected—the tax was introduced during fiscal 2022 and experienced outsized returns in its first year of existence due to incentives related to the timing of payments. The decline in fiscal 2023 represented an adjustment to a more sustainable level.
- Personal income tax withholding, on the other hand, saw a gain of 1.5 percent in fiscal 2023, despite the tax rate adjustment to 4.05 percent, bolstered by the ongoing jobs recovery and wage growth in the state.
- We forecast another year of declining revenue from annual, quarterly, and flow-through returns, but withholding more than makes up for that loss despite moderating job growth. Altogether, net personal income tax revenue rises 2.2 percent in fiscal 2024.
- We expect all components of personal income tax revenue to improve in fiscal 2025 as the new tax legislation is mostly phased in and the economy continues to expand. Net personal income tax revenue grows by 7.7 percent.

Consumption Tax Revenue

- GFGP consumption tax revenue in Michigan is driven by distributions from the sales and use taxes, with smaller contributions from excise taxes on cigarettes and alcohol.
- In fiscal 2021 and fiscal 2022, gross sales and use tax revenue showed remarkable growth due to the combination of resilient consumer demand during the pandemic, a shift in spending away from services to taxable goods, and inflationary pressures in goods markets.
- Sales tax revenue pulled back slightly in fiscal 2023 as economic growth softened, consumers felt the pinch of inflation, and spending began to shift back to services. Use tax revenue, on the other hand, grew rapidly in fiscal 2023, which may partly reflect increased consumer spending in the accommodations sector. Gross sales and use tax revenue ticked up 0.5 percent as a result.
- The ongoing transition of consumer spending back to services has led to a decline in sales tax revenue to-date in fiscal 2024. We project gross sales and use tax revenue to retract by 0.9 percent for the fiscal year.
- As the state economy continues to expand in fiscal 2025, we project gross sales and use tax revenue to pick back up, with growth of 1.7 percent.
- Combining the General Fund's share of gross sales and use tax revenue with the excise taxes on cigarettes and alcohol, we forecast GFGP consumption tax revenue to fall by 1.6 percent in fiscal 2024 before nudging up by 0.8 percent in fiscal 2025.

Business Tax Revenue

- Business tax revenue comes primarily from the state's corporate income tax (CIT), insurance company premiums, and oil and gas severance tax payments. Certain businesses continue to pay taxes and claim credits under the previously used Michigan Business Tax (MBT) instead of the CIT. Variability in the timing of when MBT refunds are claimed can lead to swings in the state's overall business tax revenue. All business tax revenue accrues to the General Fund.
- Business tax revenue saw impressive growth during the pandemic, primarily due to sharp rises in CIT payments in fiscal 2021 and fiscal 2022.
- Gross CIT collections remained strong in fiscal 2023. The new earmarks adopted last year, though, subtracted from the share accruing to the General Fund, leading GFGP business tax revenue to drop 16.4 percent for the fiscal year.
- We expect GFGP business tax revenue to eke out growth of 0.8 percent in fiscal 2024 before falling by 1.1 percent in fiscal 2025.

Total General Fund Revenue

- Most of the GFGP's revenue sources declined in fiscal 2023, resulting in an overall loss of $1.2 billion, or 7.9 percent, as shown in Figure 1. The decline came after two years of exceptional growth during the pandemic. Although some softening was expected, the decline in fiscal 2023 was due mostly to a combination of factors related to the state's tax laws as discussed above.
- Based on our projections of the individual components, we expect total GFGP revenue to grow by 1.2 percent in fiscal 2024 before accelerating to growth of 3.6 percent in fiscal 2025. This growth comes despite the ongoing phase-in of the new tax legislation and is largely attributable to the growth of personal income tax withholding in fiscal 2024 and overall personal income tax revenue in fiscal 2025.
- Our forecast puts total GFGP revenue almost $3.6 billion, or 32.1 percent, higher in fiscal 2025 than in fiscal 2019. After adjusting for inflation, however, the growth of General Fund revenues from fiscal 2019–25 is only 4.1 percent, resulting in average real growth of just 0.7 percent per year.

Total School Aid Fund Revenue

- About half of total SAF revenue comes from sales and use tax collections, while one-fifth derives from the personal income tax, and about one-seventh comes from the state education property tax. Other taxes, such as the real estate transfer tax, liquor tax, casino tax, and tobacco tax, as well as lottery transfers, all contribute smaller amounts.
- Despite a sizeable loss in GFGP revenue, total SAF revenue managed to hold flat in fiscal 2023, as its allocations are generally based off gross revenue and are largely protected from the tax law changes that were adopted last year. That said, SAF growth in fiscal 2023 was held back by the drop in flow-through entity tax revenue and the overall decline in gross personal income tax revenue.

- Revenues related to the housing market also limited SAF growth in fiscal 2023. State education property tax revenue (SEP) grew by 4.8 percent, but real estate transfer tax revenue fell by 28.8 percent as mortgage rates soared and home sales cooled.
- We forecast total SAF revenue to decrease by 0.5 percent in fiscal 2024 as contributions from the sales, use, and personal income taxes all slide.
- We expect SAF revenue to expand by 2.8 percent in fiscal 2025, with growth from most major revenue components.
- Total SAF revenue is forecast to finish fiscal 2025 over $4.7 billion, or 34.7 percent, higher than in fiscal 2019. After adjusting for inflation, that growth is reduced to 6.2 percent, translating to average real growth of just 1.0 percent per year from fiscal 2019 to 2025.

Table 1
State Revenues by Fiscal Year
(Millions of dollars, except as noted)

	Actual		RSQE Forecast	
	2022	2023	2024	2025
General Fund General Purpose				
Personal income tax	9,212	7,764	8,105	8,860
(% change)	(19.3)	(-15.7)	(4.4)	(9.3)
Consumption taxes	3,173	3,207	3,155	3,182
(% change)	(4.1)	(1.1)	(-1.6)	(0.8)
Sales	1,702	1,674	1,642	1,700
Use	1,192	1,272	1,256	1,228
Other consumption	279	261	257	254
Business taxes	1,993	1,665	1,678	1,660
(% change)	(25.7)	(-16.4)	(0.8)	(-1.1)
MBT/SBT/Corporate income	1,531	1,172	1,130	1,095
Other business	462	493	548	565
Other GFGP taxes	182	177	191	202
GFGP tax revenue	14,560	12,813	13,130	13,904
(% change)	(16.3)	(-12.0)	(2.5)	(5.9)
Nontax revenue	656	1,198	1,048	778
GFGP revenue	15,216	14,011	14,178	14,682
(% change)	(17.5)	(-7.9)	(1.2)	(3.6)
School Aid Fund				
SAF taxes	16,628	16,505	16,496	17,000
(% change)	(13.6)	(-0.7)	(-0.1)	(3.1)
Lottery transfer	1,248	1,352	1,270	1,270
(% change)	(-12.1)	(8.3)	(-6.1)	(0.0)
Earmarked state SAF revenue	17,876	17,857	17,766	18,270
(% change)	(11.4)	(-0.1)	(-0.5)	(2.8)
Addendum				
Combined GFGP and SAF revenue	33,093	31,868	31,944	32,952
(% change)	(14.1)	(-3.7)	(0.2)	(3.2)
Gross sales and use taxes	13,358	13,419	13,301	13,523
(% change)	(11.0)	(0.5)	(-0.9)	(1.7)

RSQE: May 2024