
4TH ANNUAL ECONOMIST FORECAST FORUM

Treasurer Rachael Eubanks and Chief Deputy Treasurer Jeff Guilfoyle
January 9, 2020
OUR SENIOR STAFF

Rachael Eubanks
Treasurer

Jeff Guilfoyle
Chief Deputy Treasurer

Sally Durfee
Chief of Staff

Jon Braeutigam
Chief Investment Officer

Ann Good
Deputy Treasurer
Financial & Admin. Services

Joyce Parker
Deputy Treasurer
State/Local Finance

Glenn White
Deputy Treasurer
Tax Administration
OUR FOUNDATION

EMPLOYEE ENGAGEMENT
Commitment to an inclusive environment that values diverse perspectives and cultivates employee recruitment, retention, development, and leadership.

CULTURE OF SERVICE
Provide complete, accurate, and timely services to all internal and external customers in a professional manner.

CONTINUOUS IMPROVEMENT
Commitment to proactive and innovative employee-driven solutions in our daily operations and in strategic financial leadership.
OUR MISSION, VISION and VALUES

MISSION
Providing fair and efficient financial services on behalf of taxpayers, governments, students and all Michiganders, for the long-term fiscal health and stability of our state.

VISION
We are the innovative and inclusive resource provider of exceptional financial services for a better Michigan.

VALUES
Integrity ~ Inclusion & Diversity ~ Innovation ~ Public Service
STATE ECONOMIC OUTLOOK
Two Divergent Periods of Economic Growth

Michigan’s single state recession has been followed by a period of growth that has outperformed the US and Great Lakes States.

<table>
<thead>
<tr>
<th>Economic Metric</th>
<th>2000</th>
<th>2009</th>
<th>2018</th>
<th>Annual Growth Rate</th>
<th>Higher than US Growth</th>
<th>Rank Among Great Lakes States*</th>
<th>Annual Growth Rate</th>
<th>Higher than US Growth</th>
<th>Rank Among Great Lakes States*</th>
</tr>
</thead>
<tbody>
<tr>
<td>State GDP</td>
<td>$351.6 billion</td>
<td>$365.6 billion</td>
<td>$528.0 billion</td>
<td>0.4%</td>
<td>✗</td>
<td>Last</td>
<td>4.2%</td>
<td>✓</td>
<td>#1</td>
</tr>
<tr>
<td>Wage and Salary Employees</td>
<td>4.7 million</td>
<td>3.9 million</td>
<td>4.4 million</td>
<td>-2.1%</td>
<td>✗</td>
<td>Last</td>
<td>1.5%</td>
<td>✓</td>
<td>#1</td>
</tr>
<tr>
<td>Wage and Salary Earnings</td>
<td>$174.2 billion</td>
<td>$170.0 billion</td>
<td>$240.4 billion</td>
<td>-0.3%</td>
<td>✗</td>
<td>Last</td>
<td>3.9%</td>
<td>✗</td>
<td>#2</td>
</tr>
<tr>
<td>Per Capita Personal Income</td>
<td>$30,409</td>
<td>$34,030</td>
<td>$48,423</td>
<td>1.3%</td>
<td>✗</td>
<td>Last</td>
<td>4.0%</td>
<td>✓</td>
<td>#1</td>
</tr>
<tr>
<td>Manufacturing Job Growth</td>
<td>886,400</td>
<td>455,100</td>
<td>629,800</td>
<td>-7.1%</td>
<td>✗</td>
<td>Last</td>
<td>3.7%</td>
<td>✓</td>
<td>#1</td>
</tr>
</tbody>
</table>

*Ranking Includes: Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin

## The 2000s Hit Michigan Hard

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. Per Capita Income</th>
<th>Michigan Per Capita Income</th>
<th>Michigan Compared to U.S.</th>
<th>State Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>$621</td>
<td>$658</td>
<td>106%</td>
<td>14</td>
</tr>
<tr>
<td>1940</td>
<td>$600</td>
<td>$683</td>
<td>114%</td>
<td>12</td>
</tr>
<tr>
<td>1950</td>
<td>$1,533</td>
<td>$1,717</td>
<td>112%</td>
<td>12</td>
</tr>
<tr>
<td>1960</td>
<td>$2,321</td>
<td>$2,411</td>
<td>104%</td>
<td>15</td>
</tr>
<tr>
<td>1970</td>
<td>$4,198</td>
<td>$4,200</td>
<td>100%</td>
<td>16</td>
</tr>
<tr>
<td>1980</td>
<td>$10,180</td>
<td>$10,230</td>
<td>100%</td>
<td>19</td>
</tr>
<tr>
<td>1990</td>
<td>$19,621</td>
<td>$19,051</td>
<td>97%</td>
<td>21</td>
</tr>
<tr>
<td>2000</td>
<td>$30,657</td>
<td>$30,409</td>
<td>99%</td>
<td>18</td>
</tr>
<tr>
<td>2010</td>
<td>$40,546</td>
<td>$35,391</td>
<td>87%</td>
<td>40</td>
</tr>
<tr>
<td>2018</td>
<td>$54,446</td>
<td>$48,423</td>
<td>89%</td>
<td>33</td>
</tr>
</tbody>
</table>

Employment Growth Strong Since 2010

Change in Payroll Employment, 2010 to 2018

- Construction: 39.1%
- Manufacturing: 35.1%
- Trade, Transportation, & Utilities: 11.4%
- Professional and Business Services: 26.0%
- Education and Health Services: 11.0%
- Leisure and Hospitality: 14.8%
- Government: -4.6%
- Total: 14.4%

Source: Michigan Bureau of Labor Market Information and Strategic Initiatives and Michigan Department of Treasury calculations.
But, Employment Levels Still Below 2000

Change in Payroll Employment, 2000 to 2018

<table>
<thead>
<tr>
<th>Sector</th>
<th>Change 2000-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>-19.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-28.9%</td>
</tr>
<tr>
<td>Trade, Transportation, &amp; Utilities</td>
<td>-10.1%</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>1.4%</td>
</tr>
<tr>
<td>Education and Health Services</td>
<td>35.2%</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>8.8%</td>
</tr>
<tr>
<td>Government</td>
<td>-11.0%</td>
</tr>
<tr>
<td>Total</td>
<td>-5.5%</td>
</tr>
</tbody>
</table>

Source: Michigan Bureau of Labor Market Information and Strategic Initiatives and Michigan Department of Treasury calculations.
Michigan Unemployment Rate
Lowest Rate Since 2000

Monthly Unemployment Rate

Jun 09
14.6%

Nov 19
4.0%

Michigan Labor Force Participation Rate Down From 2000 but Rising

Source: St. Louis Federal Reserve FRED Economic Data series CIVPART and LBSSA26.
U.S. Light Vehicles Sales Remain Constant

Source: U.S. Bureau of Economic Analysis. Sales levels are seasonally adjusted at annual rates. Administration forecast for future estimates.
Slow, continued growth for U.S. and Michigan economies

- Administration forecast of GDP growth:
  - 2.3 percent for 2019
  - 1.6 percent for 2020
  - 1.6 percent for 2021

- Administration forecast of Michigan employment:
  - 0.5 percent for 2019
  - 0.6 percent for 2020
  - 0.5 percent for 2021

China and U.S. trade negotiations appear to be progressing

Additional Auto tariffs have not been imposed
January 2020 Administration Forecast of Major Taxes

Sales Tax

• Forecast of 2.6 percent growth
• Collections boosted by *South Dakota v. Wayfair* and Market Place legislation

CIT/MBT

• Expecting modest growth in business taxes
• Remain the most volatile major taxes for both economic and non-economic reasons

Income Tax

• Forecast of 1.5 percent increase in gross collections

Recreational Marihuana Tax

• Receipts may be light early in the year due to demand exceeding current supply
• Estimated sales tax revenue:
  • $97.5 million in 2020
  • $143.0 million in 2021
Forecast Risks

**National**
- Federal Policy — fiscal, tax and trade policy
- International Uncertainty— trade wars, slower global growth, economic shocks, and geo-political risks
- Monetary Policy

**Michigan**
- Slower economic growth may cause weakness in individual income tax withholding and sales tax
- Corporate income tax volatility
- Individual income tax estimated payments and annual payments continue at high levels

*Can Michigan keep pace with the US?*
STATE BUDGET OUTLOOK
State government is mostly a pass-through entity—most money received is sent elsewhere

- School Aid—payments to local schools
- Medicaid—payments to doctors, hospitals, nursing homes
- Human services—payments to individuals, child care providers, etc.
- Revenue sharing—payments to local governments

Salaries to state employees are only about 11% of the state budget; by contrast employee compensation is often 80% or more of local government and school district budgets.
Economic Growth has Large Impact on Revenues

Per Capita Personal Income Growth 2000-2018

United States: 77.6%
Michigan: 59.2%

Source: U.S. Bureau of Economic Analysis, September 24, 2019 data release
State and Local Taxes as Share of Income at a 50-Year Low

State and Local Taxes as a Percent of Personal Income

Why is Revenue as a Share of Income Down?

**Move to services** — a growing share of spending is on services, which is mostly exempt from the sales tax

**Property tax caps** — Michigan has two caps that limit growth—taxable value cap and the Headlee limit

**Tax cuts** — Michigan has enacted some sizeable tax cuts and credits:

- **MEGA** — this economic development credit reduces revenues by roughly $500M per year
- **Personal property taxes** — phasing out of property taxes on manufacturing machinery and equipment (~$500M per year)
- **Homestead property tax credit**—increased as part of the 2015 road funding package (~200M per year)
- **MBT Repeal** — Much of the revenue replaced with income tax increases but on net a tax cut
- **Miscellaneous smaller cuts**
Michigan Trails U.S. in State and Local Taxes Per Capita

How Has Budget Changed Since 2002?

Percentage Change in Appropriations: FY 2002 to FY 2019

- Family Independence Program (GF+TANF)
- Revenue Sharing: Locals
- Universities
- Revenue Sharing: Counties
- School Aid (total state $)
- Corrections (GF/GP)
- Community Colleges
- Medicaid (Total)
- Medicaid (GF/GP)
- GF/GP Budget
- Gross Budget
- Inflation (Detroit CPI)
Since FY 2001, the state’s total Medicaid caseload has doubled due to economic trends and the expansion of the program.

State spending on the program has gone up by $2.3 billion while federal spending has increased $11.3 billion.

Rate of uninsured in Michigan (w/o private or government insurance) has fallen from 13.0% in 2011 to 5.3% in 2018.
Capital Outlay for Highways Per Capita for 2016

- Michigan
- Indiana
- Ohio
- Wisconsin
- Minnesota
In fiscal 2019 (Oct 2018-Sept 2019), Medical cannabis sales totaled $219 million. Recreational sales were $6.9 million in the month of December.

After a lot of feedback, MRA is in the process of lowering or capping the fee for the banking portal that connects to the seed-to-sale program (METRC).

Currently, one institution is actively using the portal and six financial institutions are finalizing their reviews to sign up. We also have roughly a dozen (that we know of) other financial institutions within the state currently banking the cannabis industry.
Medical Marihuana Sales

Fiscal Year 2019
Questions