ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN

FY 2008-09
AND
FY 2009-10

HOUSE FISCAL AGENCY

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This report presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) final revenue for fiscal year (FY) 2007-08, and revised revenue estimates for FY 2008-09 and FY 2009-10. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 15, 2009, and will be used to facilitate the consensus estimating process.

This report includes HFA analyses of important factors that will affect state and national economies through the year 2010, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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FORECAST SUMMARY

The national economic recession began in December 2007 as a mild downturn; by the end of 2008, it was a serious recession. Economic activity declined sharply in the fourth quarter of 2008 and the first quarter of 2009. Retrenchment has occurred in all major areas: personal consumption, business investment, employment, and foreign economies.

- ***Personal Consumption***

  The combination of declining housing and financial wealth, job losses, and tight credit has led to a significant decline in personal consumption. Although there was an increase in personal consumption expenditures in the first quarter of 2009, it followed two consecutive quarters of steep drops.

  Light vehicle sales, which were 16.1 million in calendar year (CY) 2007, declined from an annual rate of 13.1 million units in CY 2008 to 9.2 million units in the first quarter of 2009—a 30% drop.

- ***Business Investment***

  Business activity has fallen sharply in both service and manufacturing sectors.

- ***Employment***

  During the last six months, nonfarm payroll employment declined in excess of 500,000 jobs per month—a significant deterioration from average monthly job losses of 82,000 in the first half of CY 2008.

- ***Foreign Economies***

  Exports have declined as foreign economies also slid into recessionary territory.

Changes have been initiated by the Federal Reserve and U.S. Treasury to increase the flow of credit and stabilize the financial markets, but it will take time for the effects of these changes to be felt throughout the U.S. economy.

The federal stimulus package—which injects about $560 billion into the U.S. economy over CYs 2009 and 2010—is estimated to add about 0.8 percentage points in CY 2009 and 1.3 percentage points in CY 2010 to U.S. economic activity (GDP). The effect of the stimulus package is included in this forecast.

The national economy slowed to 1.1% in CY 2008; it is forecast to decline 3.7% in CY 2009 and increase 1.0% in CY 2010. This forecast assumes the current recession will last through the third quarter of 2009, with a final peak-to-trough decline of 4.8%; this decline would be the worst in the past 60 years.

Michigan's economy and state revenue will be significantly affected by the national recession, the weakened level of motor vehicle sales, the tight credit conditions, and the financial condition (or bankruptcy) of General Motors (GM), Chrysler, and Ford—and their suppliers. Significant restructuring, in the form of employment losses and plant closings, is expected to occur in the Michigan motor vehicle sector.

Michigan's wage and salary employment has trended downward since mid-2000; it declined by 109,200 jobs (2.6%) in CY 2008, and is expected to decline by 343,100 jobs (8.3%) in CY 2009, and 135,900 jobs (3.6%) in CY 2010. CY 2009's decline is the worst since CY's 1958 decline of 9.8%.

U. S. Forecast

Real GDP growth—after increasing 1.1% in CY 2008—is forecast to decrease 3.7% in CY 2009, and grow 1.0% in CY 2010.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to decline from 3.8% in CY 2008 to 0.0% in CY 2009 and 2.5% in CY 2010.

Light vehicle sales of 16.1 million units in CY 2007 declined to 13.1 million units in CY 2008, and are forecast to drop to 9.5 million units in CY 2009 before rising to 11.1 million units in CY 2010. The import share of light vehicles is forecast to be 30.2% in CY 2009 and 30.0% in CY 2010.

The national unemployment rate was 5.8% in CY 2008; it is expected to increase to 9.2% in CY 2009 and 10.4% in CY 2010. The unemployment rate is forecast to peak at 10.5% in the second quarter of 2010.

Interest rates on three-month T-bills averaged 1.4% in CY 2008; rates are forecast to average 0.3% in CY 2009 and 0.5% in CY 2010.

Michigan Forecast

Michigan personal income increased 2.1% in CY 2008; it is forecast to fall 3.9% in CY 2009 and 2.3% in CY 2010.

Michigan's unemployment rate was 8.4% in CY 2008; it is forecast to increase to 13.6% in CY 2009 and 14.5% in CY 2010. The unemployment rate is forecast to peak at 14.7% in the first quarter of 2010.

Inflation (as measured by the Detroit Consumer Price Index) for CY 2008 was 2.3%; it is forecast to decline 0.2% in CY 2009 before increasing 1.8% in CY 2010.

State Revenue

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The final total baseline GF/GP and SAF revenue was $19.4 billion in FY 2007-08; it is forecast to decrease 10.1% (to $17.5 billion) in FY 2008-09 and 3.0% (to $16.9 billion) in FY 2009-10.

Net revenue captures the effects of all policy changes and represents resources available. Final total net GF/GP and SAF revenue was $20.9 billion in FY 2007-08; it is forecast to decrease $2,408.1 million (11.5%) in FY 2008-09. Total net GF/GP and SAF revenue for FY 2009-10 is forecast to be $17.6 billion—a decrease of $814.9 million (4.4%).

Table 1 reports GF/GP and SAF revenue in terms of baseline and actual revenue. Final FY 2007-08 revenue, the recommended revisions to estimates for FY 2008-09, and the initial estimates for FY 2009-10 are reported in **Table 2 and Table 3**.

State Revenue Limit

Total state revenue was below the state revenue limit by $4.7 billion in FY 2007-08; it is estimated to be under the limit by $7.5 billion in FY 2008-09 and $8.9 billion in FY 2009-10.

Fund Balances

The year-end GF/GP balance was $457.9 million for FY 2007-08.

The year-end SAF balance was $247.1 million for FY 2007-08.

The year-end Countercyclical Budget Stabilization Fund balance is $2.2 million for FY 2007-08; it is estimated to be $2.2 million for FY 2008-09 and $2.3 million for FY 2009-10.

Table 1
HFA REVENUE ESTIMATES
(Millions of Dollars)

	Final FY 2007-08	HFA Estimate FY 2008-09	HFA Estimate FY 2009-10
Baseline GF/GP	$8,166.5	$7,107.7	$6,929.8
Baseline SAF	11,249.0	10,355.7	10,018.4
TOTAL BASELINE	**$19,415.5**	**$17,463.5**	**$16,948.2**
Actual GF/GP	$9,358.7	$7,515.6	$7,075.4
Actual SAF	11,512.9	10,949.2	10,574.5
TOTAL ACTUAL	**$20,871.6**	**$18,464.8**	**$17,649.9**

Table 2
FY 2008-09 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	January 2009 Consensus	May 2009 Recommendation	Recommended Revision
Actual GF/GP	$8,306.1	$7,515.6	($790.5)
Actual SAF	11,368.7	10,949.2	(419.5)
TOTAL ACTUAL	**$19,674.8**	**$18,464.8**	**($1,210.0)**

Table 3
FY 2009-10 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	January 2009 Consensus	May 2009 Recommendation	Recommended Revision
Actual GF/GP	$7,934.5	$7,075.4	($859.1)
Actual SAF	11,295.8	10,574.5	(721.3)
TOTAL ACTUAL	**$19,230.3**	**$17,649.9**	**($1,580.4)**

ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2008-09 and FY 2009-10.

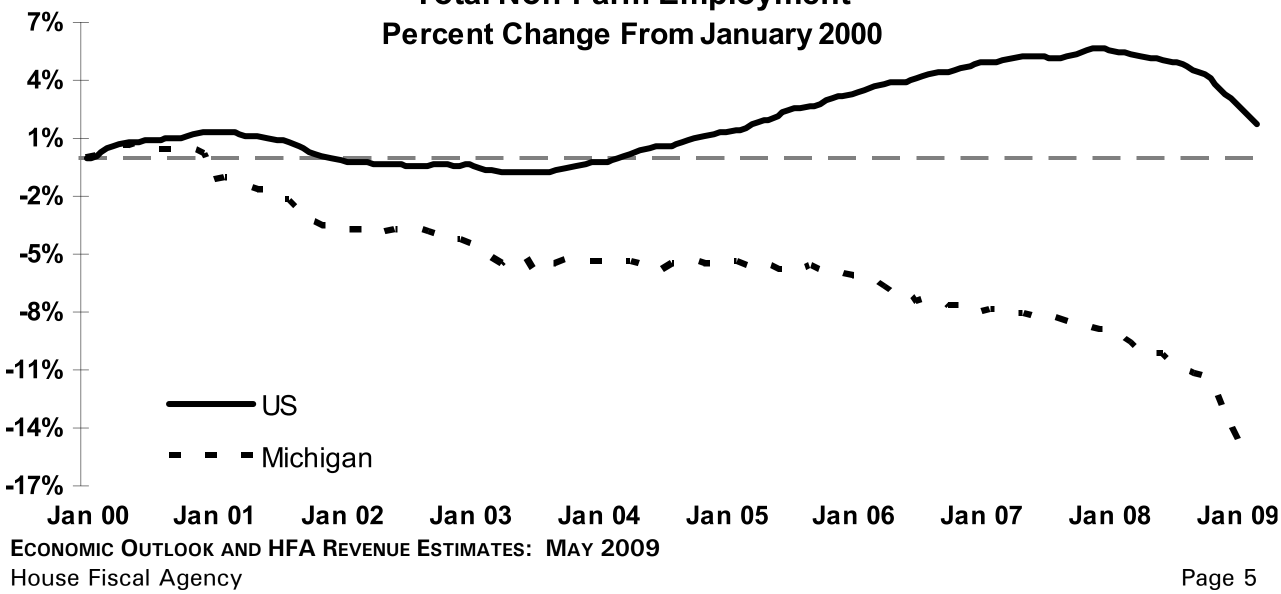
The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout CY 2002 and the early part of CY 2003. As national economic growth improved, so did employment.

Job growth at the national level began to improve during the latter half of CY 2003, and continued its upward trend through December 2007—at which point the national economy officially entered a recession. Since December 2007, employment has fallen for 15 consecutive months.

Total Non-Farm Employment

Figure 1 shows the monthly percent change in total non-farm employment for both the U.S. and Michigan from January 2000 through March 2009.

Figure 1
Total Non-Farm Employment
Percent Change From January 2000



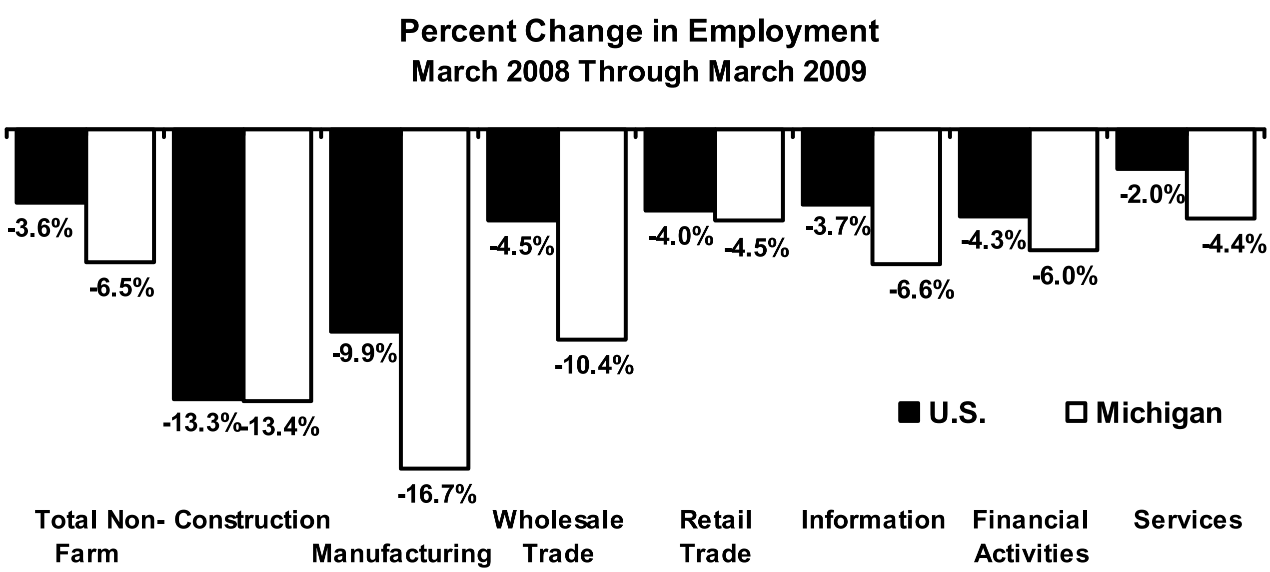
U.S. Non-Farm Employment
After U.S. employment peaked in February 2001, it began a long slide that did not end until August 2003. During this 30-month period, the national economy lost more than 2.7 million jobs—about 91,800 jobs per month on average. In the 52 months between September 2003 and December 2007, more than 8.3 million jobs were added, but continued monthly job losses reduced non-farm employment by almost 3.1 million in 2008. Since the national recession began, 5.7 million jobs have been lost. The January 2009 job loss of more than 741,000 workers was the largest monthly decline since September 1945.

Michigan Non-Farm Employment
Economic conditions in Michigan have been far less optimistic than those at the national level. Employment in Michigan peaked in June 2000, a full eight months before the national level peak in February 2001. Following that June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 314,000 jobs—a 6.7% decline. For the next two years, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses. Since 2005, job losses have accelerated; 109,200 jobs were lost in CY 2008; an additional 98,000 jobs have been lost during the first three months of CY 2009.

U.S. and Michigan Employment

Figure 2 shows U.S. and Michigan percent change in employment between March 2008 and March 2009 for all private workers in several important sectors of the economy. Worsening economic conditions are evident as the U.S. lost almost 4.9 million jobs over this period, while employment in Michigan fell by almost 270,000 jobs.

Figure 2



U.S. Employment
From March 2008 through March 2009, the U.S. experienced job losses in all sectors. The construction, manufacturing, and retail trade sectors were especially hard hit—losing 934,000, 1,349,000, and 609,400 jobs, respectively. The manufacturing sector has been contracting for the past several years, but job losses in construction are the result of the declining housing sector, while losses in retail trade reflect the overall economic downturn.

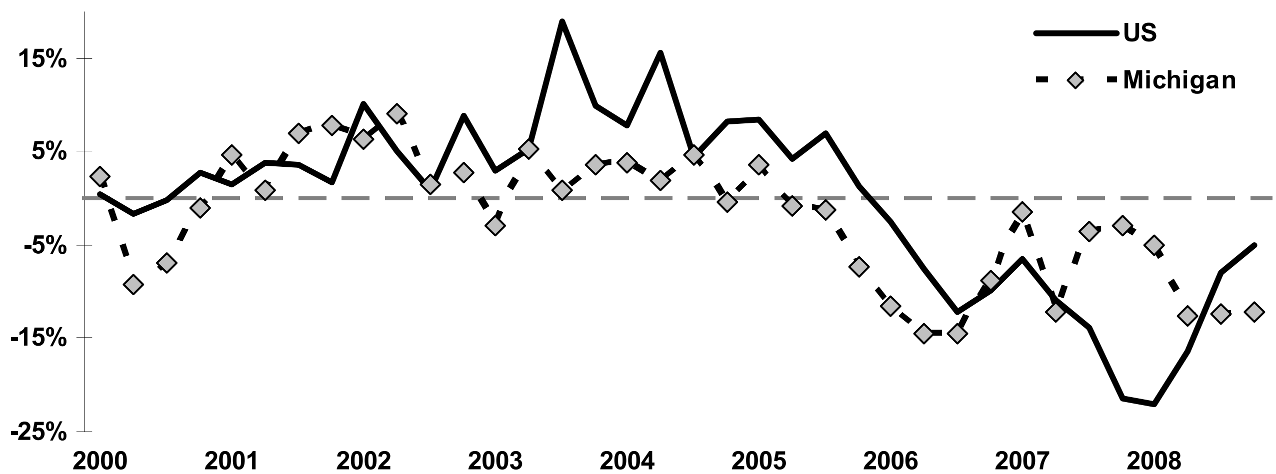
Michigan Employment
Job losses in Michigan over the past year were also concentrated in the construction, manufacturing, and retail trade sectors—although the service sector also experienced large declines. Michigan's manufacturing employment losses accounted for 7.2% of the total nationwide decline in manufacturing employment over the past 12 months.

U.S. and Michigan Existing Home Sales

Figure 3 shows the quarterly percent change in sales of existing homes for the U.S. and Michigan relative to the same quarter the year before.

Figure 3

Total Existing Home Sales
2001:1 Through 2008:4



U.S. Existing Home Sales
The U.S. housing market continued to flourish during the first half of the decade, but turned downward in late 2005 as home sales began to falter. Home sales continued to drop at an accelerating rate throughout 2007 as the full impact of the collapse of the housing market spread through the economy, and the downturn continued through 2008—albeit at a diminished rate.

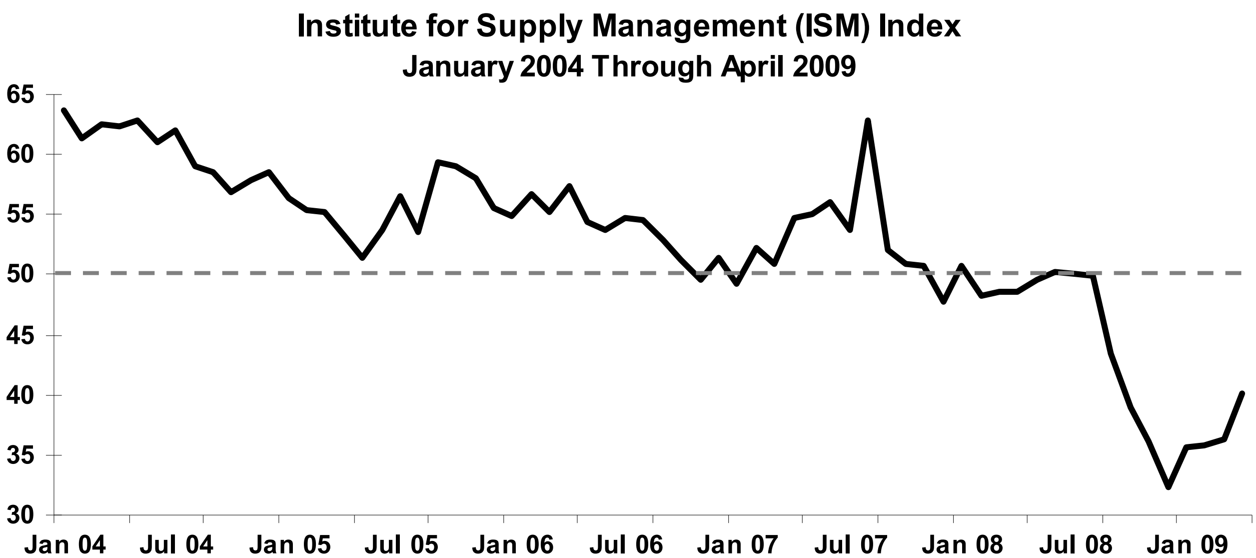
Michigan Existing Home Sales
Despite a dip in Michigan's housing market in the early part of this decade, sales of existing homes—for the most part—followed a path similar to that of the U.S. as a whole through 2004. Starting in early 2005, existing home sales in Michigan began

falling dramatically, underwent a steep decline through late 2006, and continued to fall through the end of 2008.

Institute for Supply Management (ISM) Index

Figure 4 shows the ISM Index, a composite index of five economic indicators used to measure manufacturing economic vitality beginning January 2004. An index number above 50 indicates a growing manufacturing sector, a number below 50 suggests that the manufacturing sector is contracting, and a number below 42.7 indicates that the economy as a whole is contracting.

Figure 4



The ISM index began January 2004 at a 20-year high of 63.3; this was followed by a 16-month slide that saw the index decline to 51.4 in May 2005. The ISM index rose in three of the next four months—reaching a level of 59.4 in September 2005—before beginning a four-month decline to 54.8 in January 2006. For the next 30 months, the index generally remained between 50 and 55, but starting in July 2008, it dropped for six consecutive months and reached a 28-year low of 32.4 in December. The ISM Index has risen in each of the past four months, and currently stands at 40.1.

Index of Consumer Sentiment

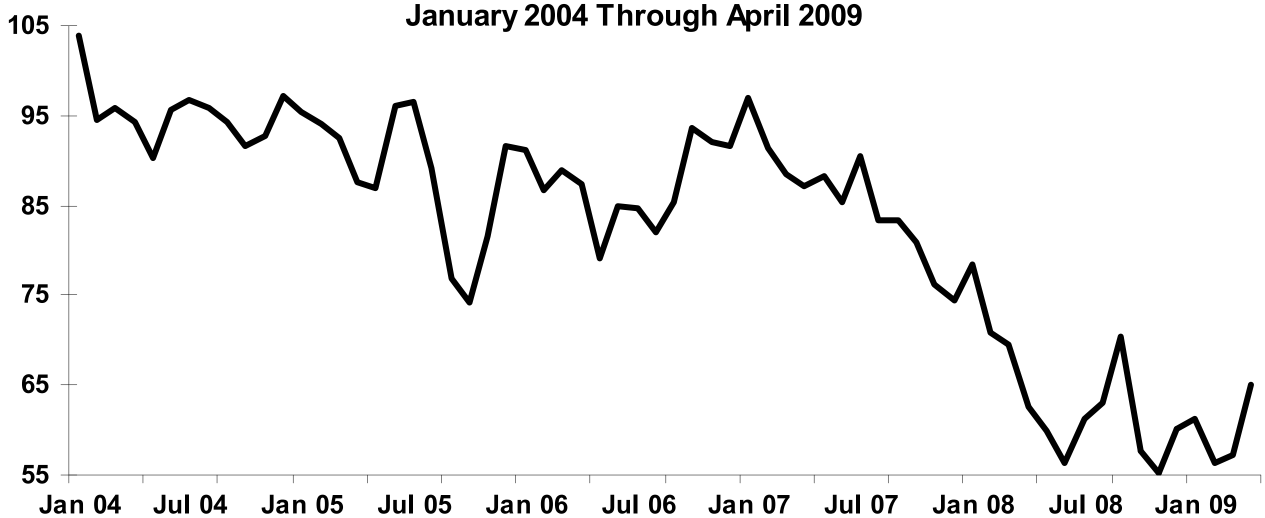
Consumer sentiment can be a strong motivator of personal consumption expenditures, which comprise almost two-thirds of GDP. **Figure 5** shows the University of Michigan Index of Consumer Sentiment beginning January 2004.

Although the Index of Consumer Sentiment began January 2004 at a level over 100 for the first time in more than three years, it dropped in February and remained in the low- to mid-90s before ending 2004 with two consecutive monthly increases. Following this brief uptick, consumer sentiment declined in each of the next five months due, in part, to concerns about high gas prices and the possibility that the economy might be weakening.

Figure 5

University of Michigan Index of Consumer Sentiment

January 2004 Through April 2009



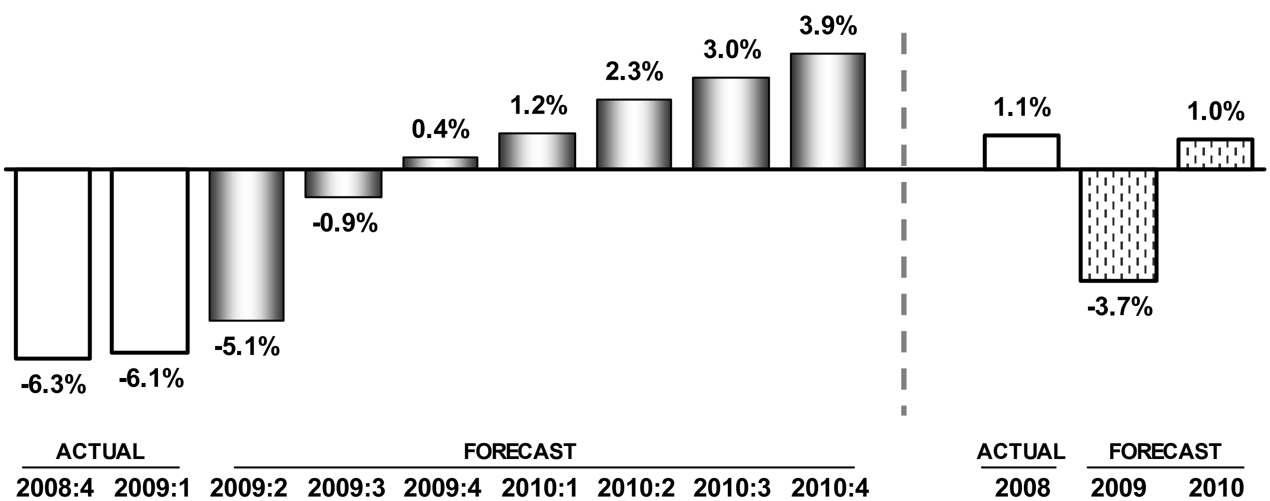
In the wake of hurricanes Katrina and Rita in 2005, the Index of Consumer Sentiment plunged to 72.4 in October, rose to 91.5 in December, and then dropped in six of the first eight months of 2006 as consumers expressed concerns over rising gas prices and interest rates. After reaching a low of 82.0 in August, the index concluded 2006 at 91.7. The Index of Consumer Sentiment declined steadily since 2007 (finishing 2007 at 74.5), and by November 2008 it stood at 55.3—the lowest level in almost 28 years. Since then, the index has generally see-sawed upward to its April 2009 level of 65.1.

Real GDP

Figure 6 shows the estimated percent change in U.S. Real GDP for CY 2008, CY 2009, and CY 2010.

Figure 6

Percent Change in U.S. Real GDP



After declining 6.1% during the first quarter of 2009, real GDP is anticipated to fall by 5.1% in the second quarter. Real GDP growth, which was 1.1% in CY 2008, is forecast to be −3.7% in CY 2009 and 1.0% in CY 2010.

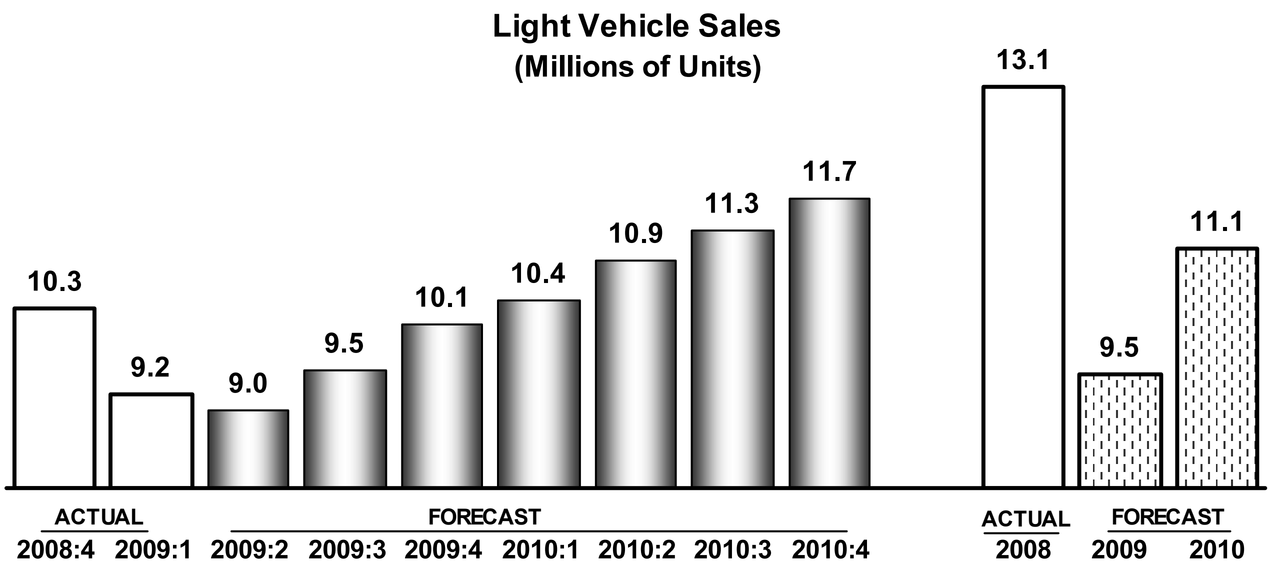
GDP growth in CY 2008 was sustained primarily by investment in non-residential structures and federal government purchases, but due to a weak housing market and failures in the financial sector, both business and residential investment are forecast to decline in CY 2009. Gross private domestic investment is forecast to fall 30.0% in CY 2009 before growing at a modest 4.0% in CY 2010 as business investment starts to increase.

Personal consumption increased by only 0.2% during CY 2008; as the economy continues to worsen, growth in personal consumption is predicted to decline 2.0% in CY 2009 before increasing 1.1% in CY 2010.

Light Vehicle Sales

Figure 7 shows actual light vehicle sales for CY 2008, and estimated sales for CY 2009 and CY 2010.

Figure 7



Sales of light motor vehicles totaled 13.1 million units in CY 2008, but are expected to fall dramatically to just 9.5 million units in CY 2009. Light motor vehicle sales are forecast to recover slightly to 11.1 million units in CY 2010.

Over the past few years there has been a shift in vehicle sales away from light trucks and toward cars. Light truck sales, which accounted for 48.7% of total light vehicle sales in CY 2008, are expected to decrease to 48.2% in CY 2009 and 47.5% in CY 2010.

The import share of total light vehicle sales was 25.4% in CY 2008; it is forecast to increase to 30.2% in CY 2009 before falling back to 30.0% in CY 2010.

Inflation

U.S. Inflation

Input prices (e.g., wages and import prices) have remained moderate and have held down production costs. Crude oil and natural gas prices, which have experienced volatile price fluctuations over the past three years, will continue to impact almost all sectors of the economy.

Benchmark West Texas intermediate crude—which averaged about $72 per barrel in CY 2007—began 2008 at over $90 per barrel, reached a high of $145 in July, and fell to less than $50 by the end of the year. Although there is always concern over the stability of the oil supply, world demand is expected to be subdued as economic growth remains sluggish. It is anticipated that after averaging almost $100 per barrel in 2008, oil prices will stabilize somewhat during the forecast period at $54 per barrel during CY 2009 and $63 per barrel in CY 2010.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index-Urban (CPI-U), was 3.8% in CY 2008; it is expected to remain unchanged in CY 2009 before rising 2.5% in CY 2010.

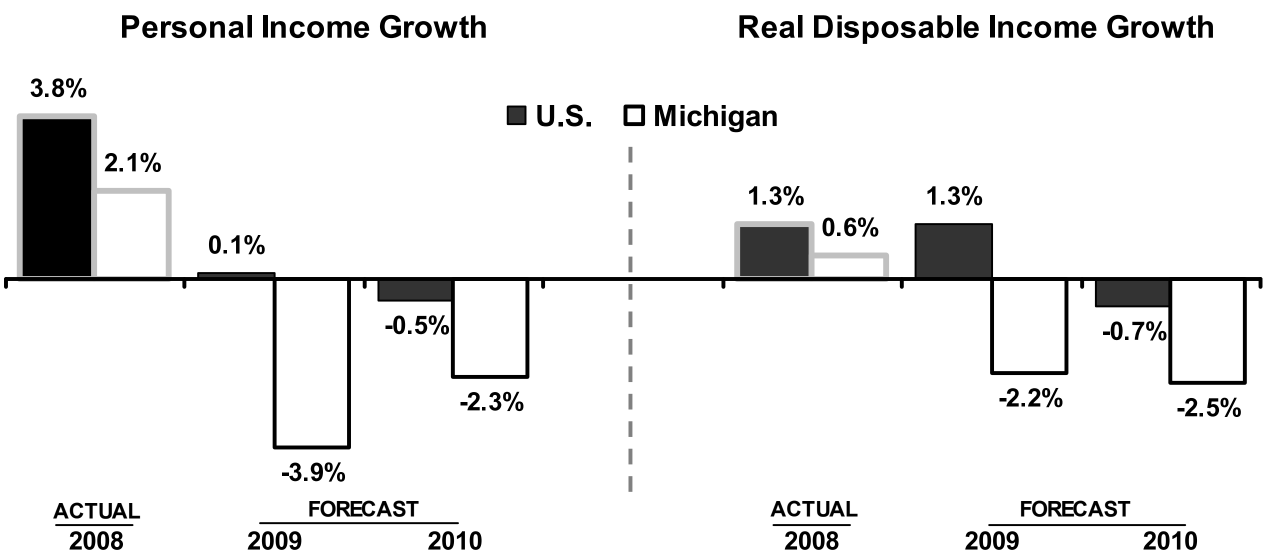
Michigan Inflation

The cost of living in Michigan is measured by the Detroit Consumer Price Index for Urban Consumers (Detroit CPI-U). The average inflation rate for Michigan was 2.3% in CY 2008, and inflation in Michigan should remain relatively low throughout the forecast period. The Detroit CPI-U is expected to decrease 0.2% in CY 2009 before increasing 1.8% in CY 2010.

Income Growth

Figure 8 shows personal income growth and real disposable income growth for both the U.S. and Michigan.

Figure 8



U.S. Income Growth
Total U.S. personal income grew 3.8% in CY 2008. Personal income is forecast to increase just 0.1% in CY 2009 and then drop 0.5% in CY 2010.

Higher inflation contributed to a modest 1.3% growth in U.S. real disposable income in CY 2008. U.S. real disposable income is forecast to grow 1.3% in CY 2009 before declining 0.7% in CY 2010.

Michigan Income Growth
Michigan's total state personal income growth was 2.1% in CY 2008. Michigan personal income is forecast to decline 3.9% in CY 2009 and 2.3% in CY 2010.

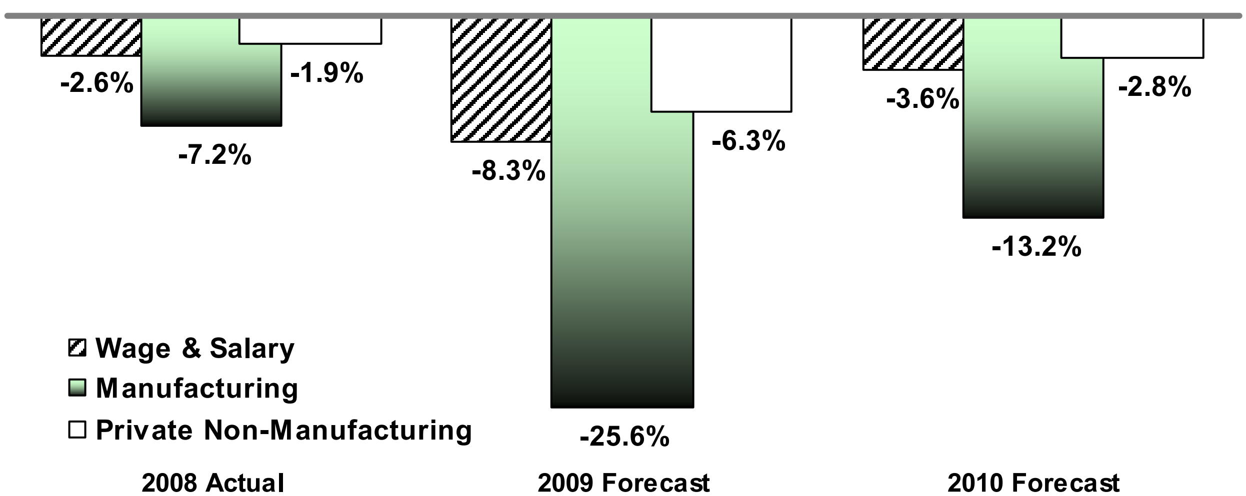
Michigan real disposable income increased 0.6% in CY 2008; it is forecast to decrease 2.2% in CY 2009 and 2.5% in CY 2010.

Employment

Figure 9 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

Figure 9

Michigan Employment Growth



U.S. Employment
Nationally, total non-farm employment experienced average monthly losses in excess of 250,000 during 2008; 2009 average monthly job losses through April have risen to 665,000. Total non-farm employment declined 0.4% in 2008, and is projected to decrease 4.0% in CY 2009 and 1.7% in CY 2010 as the economy continues to slow.

Michigan Employment
The Michigan economy continues to endure a weak labor market. Michigan wage and salary employment declined by 109,200 workers in CY 2008; it is estimated to decline by almost 343,100 workers in CY 2009 and 135,900 workers in CY 2010. The forecast calls for continued quarterly job losses through fourth quarter CY 2010.

Michigan wage and salary employment fell 2.6% in CY 2008; it is forecast to fall 8.3% in CY 2009 and 3.6% in CY 2010. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 1.0%.

Michigan manufacturing employment dropped 7.2% in CY 2008; it is forecast to decrease 25.6% in CY 2009 and 13.2% in CY 2010. Although the most significant employment declines are concentrated in the motor vehicle industry, employment declines also appear throughout the entire manufacturing sector.

Michigan private non-manufacturing employment fell 1.9% in CY 2007; it is expected to decline 6.3% in CY 2009 and 2.8% in CY 2010.

Unemployment

U.S. Unemployment

As of December 2007, total non-farm employment had increased for 52 consecutive months, but monthly job losses for each of the past 15 months have increased the unemployment rate. In the past six months alone, more than 3.9 million jobs have been lost.

The U.S. unemployment rate was 5.8% in CY 2008; it is forecast to rise to 9.2% in CY 2009 and 10.4% in CY 2010.

Michigan Unemployment

Employment in Michigan remains a major concern; it has fallen during each of the past eight years, and it is forecast to continue its decline throughout 2009 and 2010. While the labor force decreases and the number of unemployed workers increases, the unemployment rate is expected to peak at 14.7% in the first quarter of 2010 before drifting downward slightly.

Michigan's unemployment rate was 8.4% in CY 2008; it is expected to increase to 13.6% in CY 2009 and 14.5% in CY 2010.

Table 4
ECONOMIC FORECAST VARIABLES

	Calendar 2007 Actual	Calendar 2008 Actual	% Change From Prior Year	Calendar 2009 Estimated	% Change From Prior Year	Calendar 2010 Estimated	% Change From Prior Year
United States							
Real Gross Domestic Product (Billions of 2000 dollars)	$11,523.9	$11,652.0	1.1%	$11,220.5	-3.7%	$11,330.3	1.0%
Implicit Price Deflator GDP (2000 = 100)	119.8	122.4	2.2%	124.7	1.8%	126.0	1.1%
Consumer Price Index (1982-84 = 100)	207.4	215.3	3.8%	215.3	0.0%	220.8	2.5%
Consumer Price Index (FY) (1982-84 = 100)	205.3	214.5	4.5%	214.5	0.0%	219.4	2.2%
Personal Consumption Deflator (2000 = 100)	117.7	121.6	3.3%	122.1	0.4%	124.4	1.9%
3-month Treasury Bills Interest Rate (Percent)	4.4%	1.4%		0.3%		0.5%	
Aaa Corporate Bonds Interest Rate (Percent)	5.6%	5.7%		5.2%		4.7%	
Non-Farm Employment (Millions)	137.6	137.0	-0.4%	131.6	-4.0%	129.3	-1.7%
Unemployment Rate—Civilian (Percent)	4.6%	5.8%		9.2%		10.4%	
Light Vehicle Sales (Millions of units)	16.1	13.1	-18.4%	9.5	-28.0%	11.1	17.2%
Passenger Car Sales (Millions of units)	7.6	6.7	-11.6%	4.9	-26.9%	5.8	18.9%
Light Truck Sales (Millions of units)	8.5	6.4	-24.8%	4.6	-28.7%	5.3	15.4%
Import Share of Light Vehicles (Percent)	23.3%	25.4%		30.2%		30.0%	
Personal Income (Billions of current dollars)	$11,663.3	$12,106.9	3.8%	$12,124.3	0.1%	$12,062.2	-0.5%
Real Disposable Income (Billions of 2000 dollars)	$8,644.1	$8,756.2	1.3%	$8,868.0	1.3%	$8,809.1	-0.7%
Michigan							
Wage and Salary Employment (Thousands)	4,268.4	4,159.2	-2.6%	3,816.1	-8.3%	3,680.2	-3.6%
Motor Vehicle Employment (Thousands)	202.5	172.1	-15.0%	101.7	-40.9%	79.8	-21.6%
Unemployment Rate (Percent)	7.1%	8.4%		13.6%		14.5%	
Personal Income (Millions of current dollars)	$345,940	$353,113	2.1%	$339,174	-3.9%	$331,440	-2.3%
Real Personal Income (Millions of 1982-84 dollars)	$172,754	$172,419	-0.2%	$166,018	-3.7%	$159,308	-4.0%
Real Disposable Income (Millions of 1982-84 dollars)	$151,794	$152,663	0.6%	$149,320	-2.2%	$145,654	-2.5%
Wage and Salary Income (Millions of current dollars)	$188,116	$187,914	-0.1%	$173,637	-7.6%	$168,159	-3.2%
Detroit Consumer Price Index (1982-84 = 100)	200.1	204.7	2.3%	204.3	-0.2%	208.1	1.8%
Detroit CPI (FY) (1982-84 = 100)	199.0	204.6	2.8%	203.5	-0.7%	207.1	1.8%

RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding fiscal and monetary policy, household finances and housing, exports to foreign countries, and Michigan's motor vehicle industry.

Fiscal and Monetary Policy

Fiscal Policy

It is estimated that the federal stimulus package—which injects about $560 billion into the U.S. economy over CYs 2009 and 2010—will add about 0.8 percentage points in CY 2009 and 1.3 percentage points in CY 2010 to U.S. economic activity (GDP). The effect of the stimulus package is included in this forecast.

Monetary Policy

Although the Federal Reserve is designated as the primary driver of monetary policy through setting interest rates and instilling confidence, the credit crisis has necessitated action by other federal entities to ease the flow of credit.

As the credit crisis started to unfold, the Federal Funds rate—the rate banks charge on short-term loans made to other banks—was lowered from 2.0% to 1.5%. Due to the continuing credit crisis, the Federal Funds rate was lowered to 1.0% on October 28, 2008. In December 2008, the Federal Reserve issued a statement to float the Federal Funds rate between 0 and 25 basis points (0.25%). The Federal Reserve then expanded its balance sheet by $1.4 trillion to provide liquidity to banks, commercial paper issuers, and other financial firms. The Federal Reserve seems to be prepared to inject liquidity through non-traditional means if needed.

Through the $700 billion Troubled Asset Relief Program (TARP), the U.S. Treasury is providing new capital for banks. Under TARP, the Federal Reserve, Federal Deposit Insurance Corporation, and Federal Housing Finance Agency are directed to implement measures to help reduce the number of foreclosures on residential loans—including restructuring mortgages by extending terms and reducing monthly payments.

Containing further economic damage and repairing the financial markets are key elements in restoring a smooth-running U.S. economy. The timing and degree of success of efforts to restore the U.S. economy are major uncertainties in this forecast.

Household Finances and Housing

Personal consumption expenditures comprise almost two-thirds of total economic activity. Declining home values, high debt levels, and mounting job losses will keep personal consumption expenditures low.

Low mortgage rates, creative financing, and speculative buying helped support a strong housing market through the middle of CY 2006, and the vibrant housing market supported strong consumption growth and allowed for a low savings rate. Nationally, income growth was supplemented with mortgage equity withdrawals—which allowed consumers to spend more than income alone would allow. A sharp contraction in the housing market then caused a reduction in consumer spending as the value of investments eroded and mortgage equity withdrawals ended.

National non-farm payroll employment is forecast to post declines throughout the forecast horizon: down 4.0% in CY 2009, and 1.7% in CY 2010. Consumption is forecast to fall 2.0% in CY 2009, then increase 1.1% in CY 2010.

Exports to Foreign Countries

In general, a stronger dollar makes imports more attractive and exports less attractive, while a weaker dollar makes imports less attractive and exports more attractive. Although exports to foreign countries grew much faster than the domestic economy in the first several months of CY 2008, the economies of major U.S. trading partners are now falling rapidly.

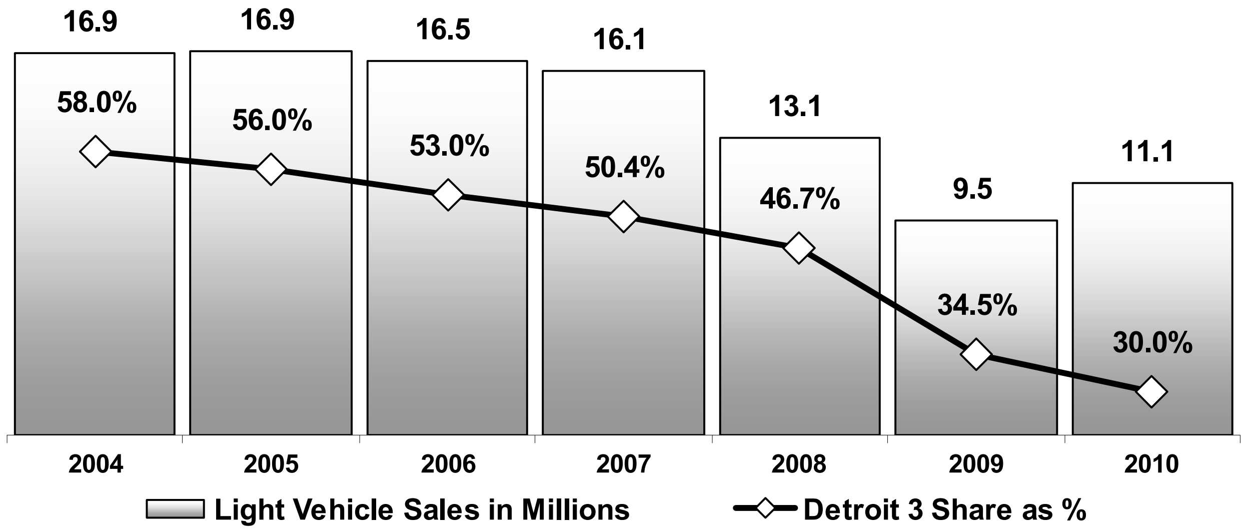
After increasing 6.2% in CY 2008, exports are expected to fall 14.6% in CY 2009 before stabilizing in CY 2010. The value of the U.S. dollar is expected to appreciate in CY 2009, then depreciate in CY 2010.

Michigan's Motor Vehicle Industry

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 16.1 million units in CY 2007 and 13.1 million units in CY 2008. Light motor vehicle sales are forecast to be 9.5 million units in CY 2009, then increase to 11.1 million units in CY 2010 as the national economy starts to improve.

Imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) have steadily gained in market share over the past several years. As shown in **Figure 10**, the market share of the Detroit 3 auto manufacturers declined to 46.7% in CY 2008.

Figure 10
Detroit 3 Share of Light Vehicle Sales



The extent to which the domestic nameplates can retain market share will have a direct impact on Michigan's economy. This forecast assumes that the Detroit 3 market share will decline to 34.5% in CY 2009 and 30.0% in CY 2010. In CY 2004, the Detroit 3 sold 9.8 million vehicles; it is expected that the Detroit 3 will sell 3.3 million vehicles in CY 2009 and CY 2010.

On May 1st, Chrysler filed for bankruptcy. Negotiations with major stakeholders produced concessions and agreements that are designed to put this pre-packaged bankruptcy on a quick path to resolution—possibly in 30 to 60 days. It is assumed that Chrysler will emerge on a much smaller scale in an alliance with Fiat.

As part of its restructuring, GM recently announced a decision to carry only four brands (Chevrolet, GMC, Buick, and Cadillac). It is expected that GM will follow Chrysler into a pre-packaged bankruptcy on June 1, and—considering the size and global reach of GM—the complications and economic risks of a pre-packaged bankruptcy are much greater than with Chrysler. It is assumed that a GM bankruptcy will likely be prolonged and disruptive.

Primary risks associated with these bankruptcies include the impact on consumers (Will they purchase enough vehicles?), the suppler base, and the dealers.

After a decline of 14.9% in CY 2008, Michigan transportation equipment employment is forecast to decline 40.9% in CY 2009 and 21.6% in CY 2010. The CY 2010 estimated level of transportation equipment employment of 79,800 is 23% of the 346,000 peak in CY 2000, and 46% of the level in CY 2008. If the Michigan-produced market share of motor vehicles is greater or less than anticipated, Michigan's economy and revenue growth will be higher or lower than estimated.

GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section explains the House Fiscal Agency's May 2009 estimates for GF/GP (**Table 5**) and SAF (**Table 6**) revenue, the estimated year-end balances for the major funds and the budget stabilization fund, and the state revenue limit calculation.

GF/GP Revenue by Source

GF/GP Tax Revenue

GF/GP tax revenue totaled $8,985.9 million in FY 2007-08; it is estimated to be $7,168.2 million (a decrease of $1,817.7 million, or 20.2%) in FY 2008-09, and $6,735.0 million (a decrease of $433.2 million, or 6.0%) in FY 2009-10.

Total Net GF/GP Revenue

Net GF/GP revenue, which includes non-tax revenue and the effect of tax changes, is available for expenditure each year. Net GF/GP revenue was $9,358.6 million in FY 2007-08; it is forecast to be $7,515.6 million (a decrease of $1,843.0 million, or 19.7%) in FY 2008-09, and $7,075.4 million (a decrease of $440.2 million, or 5.9%) in FY 2009-10.

SAF Revenue by Source

Net SAF Revenue

Net SAF revenue was $11,512.9 million in FY 2007-08; it is forecast to be $10,949.2 million (a decrease of $563.7 million, or 4.9%) in FY 2008-09, and $10,574.5 million (a decrease of $374.7 million, or 3.4%) in FY 2009-10.

The decline in revenue from FY 2007-08 to FY 2008-09 and FY 2009-10 would be even greater without the Michigan Business Tax (MBT)-related property tax changes and the MBT surcharge. The SAF received $341.0 million from the MBT earmark in FY 2007-08 and will receive $729.0 million from the MBT earmark in FY 2008-09. Although the MBT-related personal property tax cuts reduce local revenue for schools

(18-mills), the SAF earmark from the MBT will hold the schools harmless from state and local school property tax cuts.

Total Net SAF Revenue

Total net SAF revenue includes net SAF revenue and adjustments (federal aid and the beginning balance). Total net SAF revenue totaled $13,074.6 million in FY 2007-08; it is forecast to be $12,758.2 million (a decrease of $316.4 million, or 2.4%) in FY 2008-09, and $12,136.3 million (a decrease of $621.9 million, or 4.9%) in FY 2009-10.

Table 5

GF/GP REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2007-08	FY 2008-09	FY 2009-10	Change From FY 2008-09 to FY 2009-10	
Income Tax	$5,106.6	$4,121.2	$3,582.8	($538.4)	–13.1%
Sales and Use Taxes	988.1	802.4	854.6	52.1	6.5%
MBT/SBT/Insurance Taxes	2,348.6	1,778.1	1,847.6	69.5	3.9%
Other Taxes	542.6	466.5	450.1	(16.4)	–3.5%
GF/GP Tax Revenue	**$8,985.9**	**$7,168.2**	**$6,735.0**	**($433.2)**	**–6.0%**
Non-Tax Revenue	372.7	347.4	340.4	(7.0)	-2.0%
Total Net GF/GP Revenue	**$9,358.6**	**$7,515.6**	**$7,075.4**	**($440.2)**	**–5.9%**

NOTE: Numbers may not add due to rounding.

Table 6

SCHOOL AID FUND REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2007-08	FY 2008-09	FY 2009-10	Change From FY 2008-09 to FY 2009-10	
Sales and Use Tax	$5,387.4	$4,898.8	$4,806.7	($92.0)	-1.9%
Income Tax Earmark	2,117.7	1,910.4	1,808.2	(102.2)	–5.6%
State Education Tax	2,079.7	1,997.4	1,870.6	(126.8)	–6.3%
Lottery/Casino Wagering	852.8	805.0	792.3	(12.7)	–1.6%
MBT	341.0	729.0	729.0	0.0	0.0%
Tobacco Taxes	424.7	401.6	379.9	(21.7)	–5.4%
Real Estate Transfer Tax	169.8	98.0	90.0	(8.0)	–8.2%
Other Taxes	139.8	109.0	97.7	(11.3)	–10.4%
Net SAF Revenue	**$11,512.9**	**$10,949.2**	**$10,574.5**	**($374.7)**	**–3.4%**
Adjustments	1,561.7	1,809.0	1,561.8	(247.2)	-13.7%
Total Net SAF Revenue	**$13,074.6**	**$12,758.2**	**$12,136.3**	**($621.9)**	**-4.9%**

NOTE: Numbers may not add due to rounding.

HFA Estimates of Year-End Balances

Table 7 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF.

Fiscal Year 2008-09 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2006-07 and FY 2007-08 figures are included.

Budget Stabilization Fund estimates are based on the current balance and HFA estimates of future deposits and interest earned.

Table 7
YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

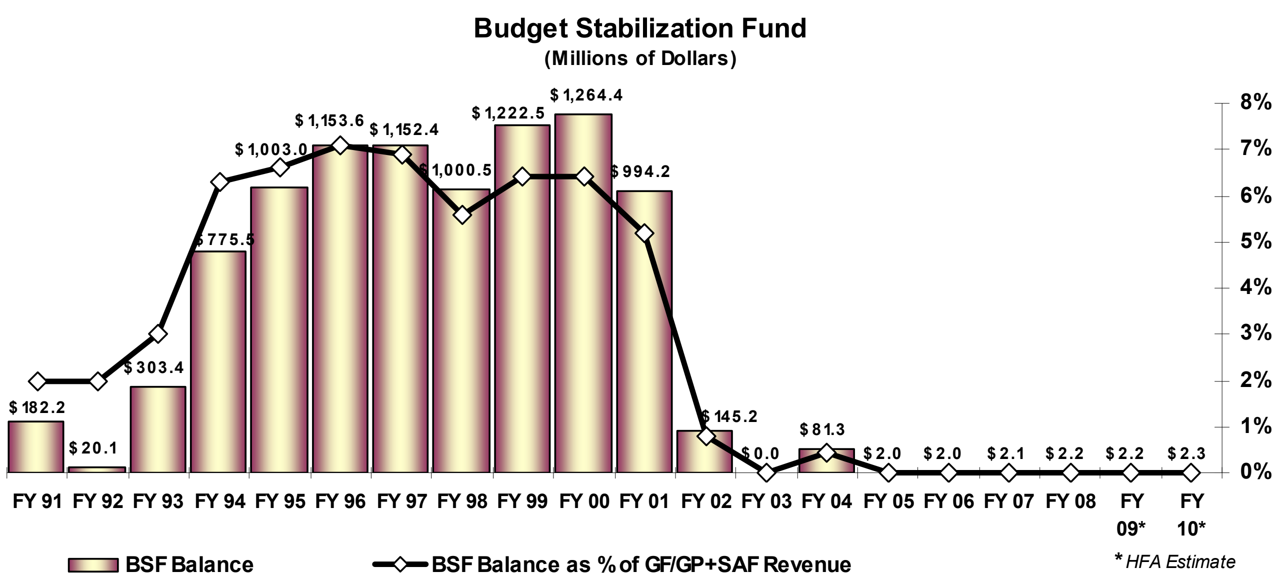
	Final FY 2006-07	Final FY 2007-08	Estimated FY 2008-09
General Fund/General Purpose	$259.1	$457.9	$0.0
School Aid Fund	$82.4	$247.1	$0.0
Budget Stabilization Fund	$2.1	$2.2	$2.2

Note: School Aid Fund revenue is restricted; any year-end balance is carried forward to the subsequent year.

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. **Figure 9** shows the BSF fund balance and the BSF fund balance as a percent of total GF/GP and SAF revenue. **Table 8** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2009-10.

Figure 11



The BSF ending fund balance for FY 2007-08 was estimated at $2.2 million. The BSF trigger calculation—based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue—indicates a $691.2 million withdrawal for FY 2008-09 and a $229.1 million withdrawal for FY 2009-10. If a withdrawal were to occur, this would reduce the estimated ending fund balance for FY 2008-09 to zero.

Table 8
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1990-91	$0.0	$230.0	$27.1	$182.2
1991-92	$0.0	$170.1	$8.1	$20.1
1992-93	$282.6	$0.0	$0.7	$303.4
1993-94	$460.2	$0.0	$11.9	$775.5
1994-95	$260.1	$90.4	$57.7	$1,003.0
1995-96	$91.3	$0.0	$59.2	$1,153.6
1996-97	$0.0	$69.0	$67.8	$1,152.4
1997-98	$0.0	$212.0	$60.1	$1,000.5
1998-99	$244.4	$73.7	$51.2	$1,222.5
1999-2000	$100.0	$132.0	$73.9	$1,264.4
2000-01	$0.0	$337.0	$66.7	$994.2
2001-02	$0.0	$869.8	$20.8	$145.2
2002-03	$0.0	$156.1	$10.9	$0.0
2003-04	$81.3	$0.0	$0.0	$81.3
2004-05	$0.0	$81.3	$2.0	$2.0
2005-06	$0.0	$0.0	$0.0	$2.0
2006-07	$0.0	$0.0	$0.1	$2.1
2007-08	$0.0	$0.0	$0.1	$2.2
2008-09*	$0.0	$0.0	$0.1	$2.2
2009-10*	$0.0	$0.0	$0.1	$2.3

** HFA Estimate*

NOTE: Numbers may not add due to rounding.

Compliance With the State Revenue Limit

Article IX, Section 26 of the *Michigan Constitution,* which was approved by the vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

> . . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund . . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

As shown in **Table 9, Figure 10,** and **Table 10**, the FY 2007-08 revenue limit calculation showed state revenue collections at $4.65 billion below the revenue limit. For FY 2008-09 and FY 2009-10, state revenue is estimated to be substantially below the revenue limit—by $7.49 billion, and $8.91 billion, respectively.

Table 9

COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

Revenue Limit Calculations	**Final FY 2006-07**	**Final FY 2007-08**	**Estimated FY 2008-09**	**Estimated FY 2009-10**
Personal Income				
Calendar Year	CY 2005	CY 2006	CY 2007	CY 2008
Amount	$331,304	$341,075	$345,886	$353,113
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	**$31,440.7**	**$32,368.0**	**$32,824.5**	**$33,510.4**
Total Revenue Subject to Revenue Limit	$26,118.4	$27,716.3	$25,334.0	$24,599.0
Amount Under (Over) State Revenue Limit	**$5,322.3**	**$4,651.7**	**$7,490.6**	**$8,911.4**

NOTE: Numbers may not add due to rounding.

Figure 12
Constitutional Revenue Limit
Amount Under or Over Limit (Billions of Dollars)

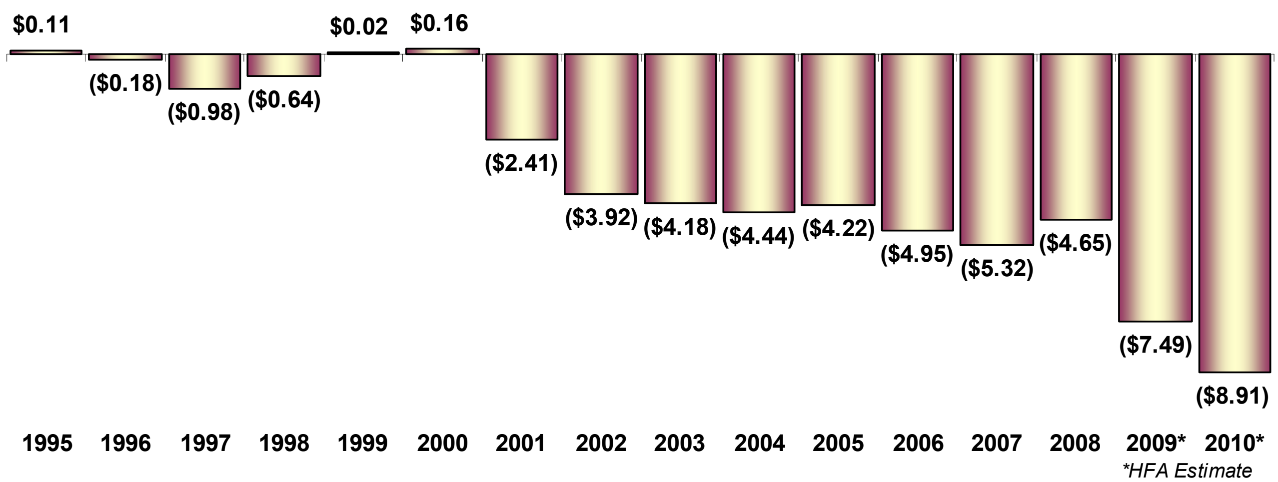


Table 10
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

Fiscal Year	(Under) or Over Limit
1990-91	($3.04)
1991-92	($3.69)
1992-93	($3.48)
1993-94	($2.11)
1994-95	$0.11
1995-96	($0.18)
1996-97	($0.98)
1997-98	($0.64)
1998-99	$0.02
1999-2000	$0.16
2000-01	($2.41)
2001-02	($3.92)
2002-03	($4.18)
2003-04	($4.44)
2004-05	($4.22)
2005-06	($4.95)
2006-07	($5.32)
2007-08	($4.65)
2008-09*	($7.49)
2009-10*	($8.91)

**HFA Estimate*

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