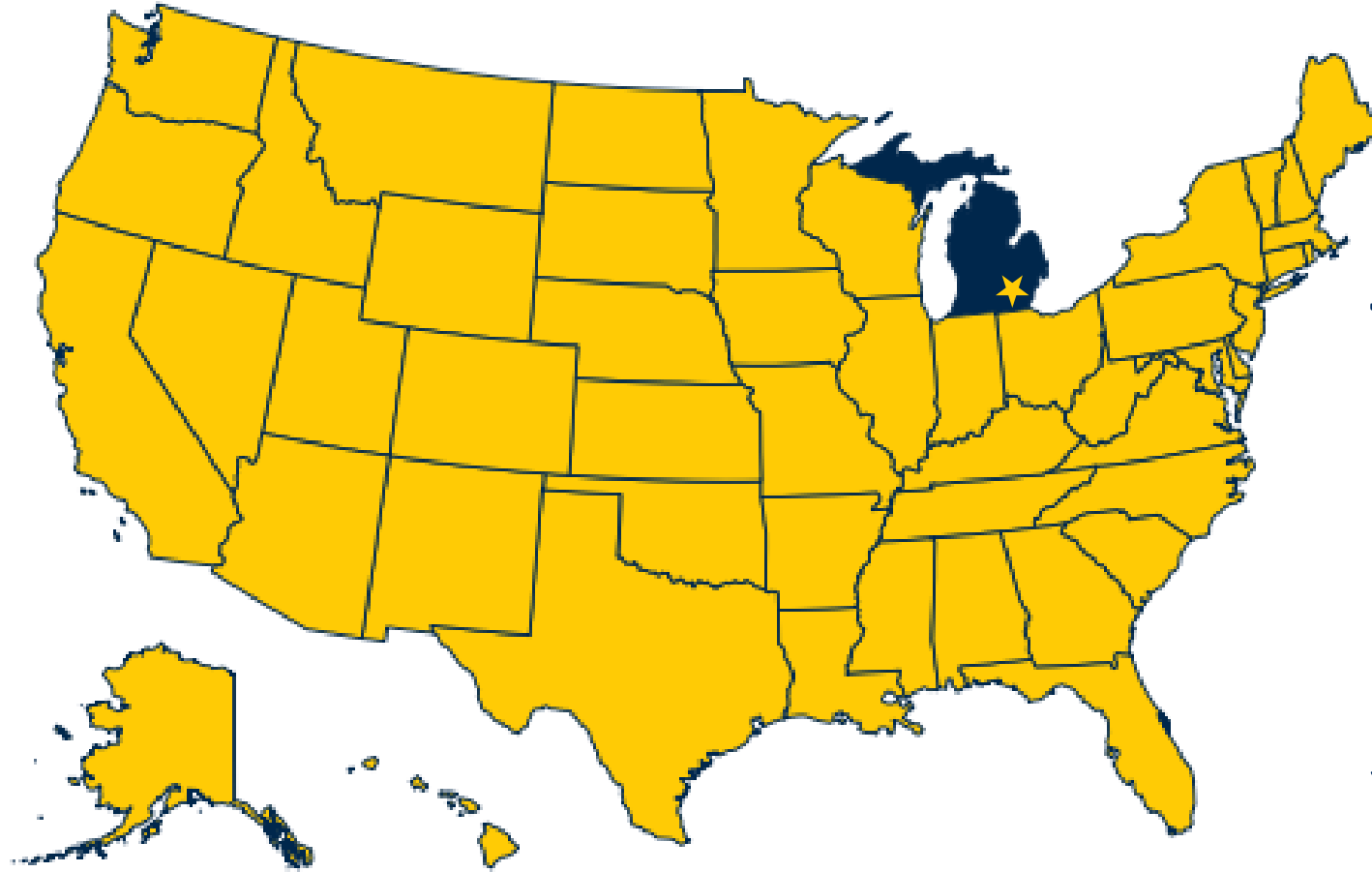


The Economic Outlook for 2025–2026

Michigan State University Legislative Leadership Program

December 9, 2024



Jacob Burton
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Kyle Henson
Daniil Manaenkov
Michael McWilliams
Niaoniao You
Yinuo Zhang

Research Seminar in Quantitative Economics





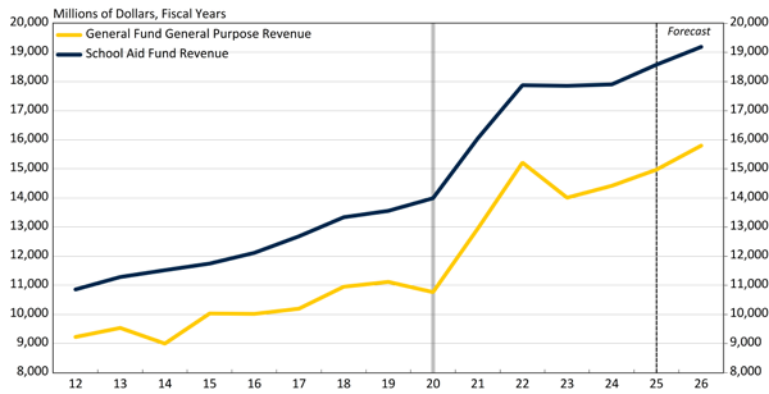
About RSQE

What is RSQE?

We are the Research Seminar in Quantitative Economics!

RSQE is the economic forecasting and policy analysis group in the Department of Economics

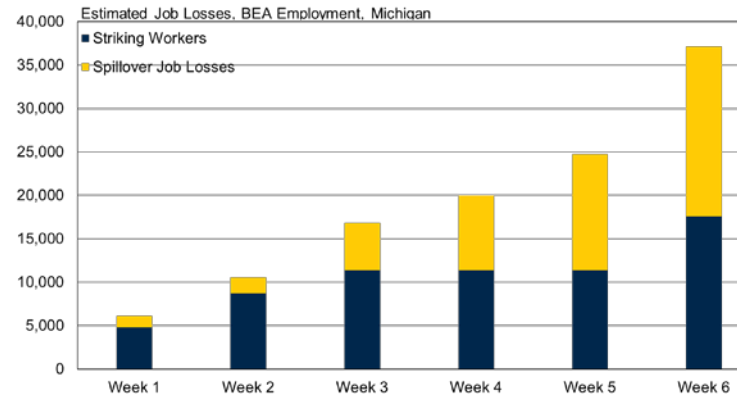
Forecasting



Michigan Tax Revenue Forecast
Nov. 2024

RSQE is the world's oldest continuously running economic forecasting group

Impact & Development



Auto Strike's Impact on MI Employment
Jan. 2024

RSQE performs economic impact analysis and research

Outreach & Engagement

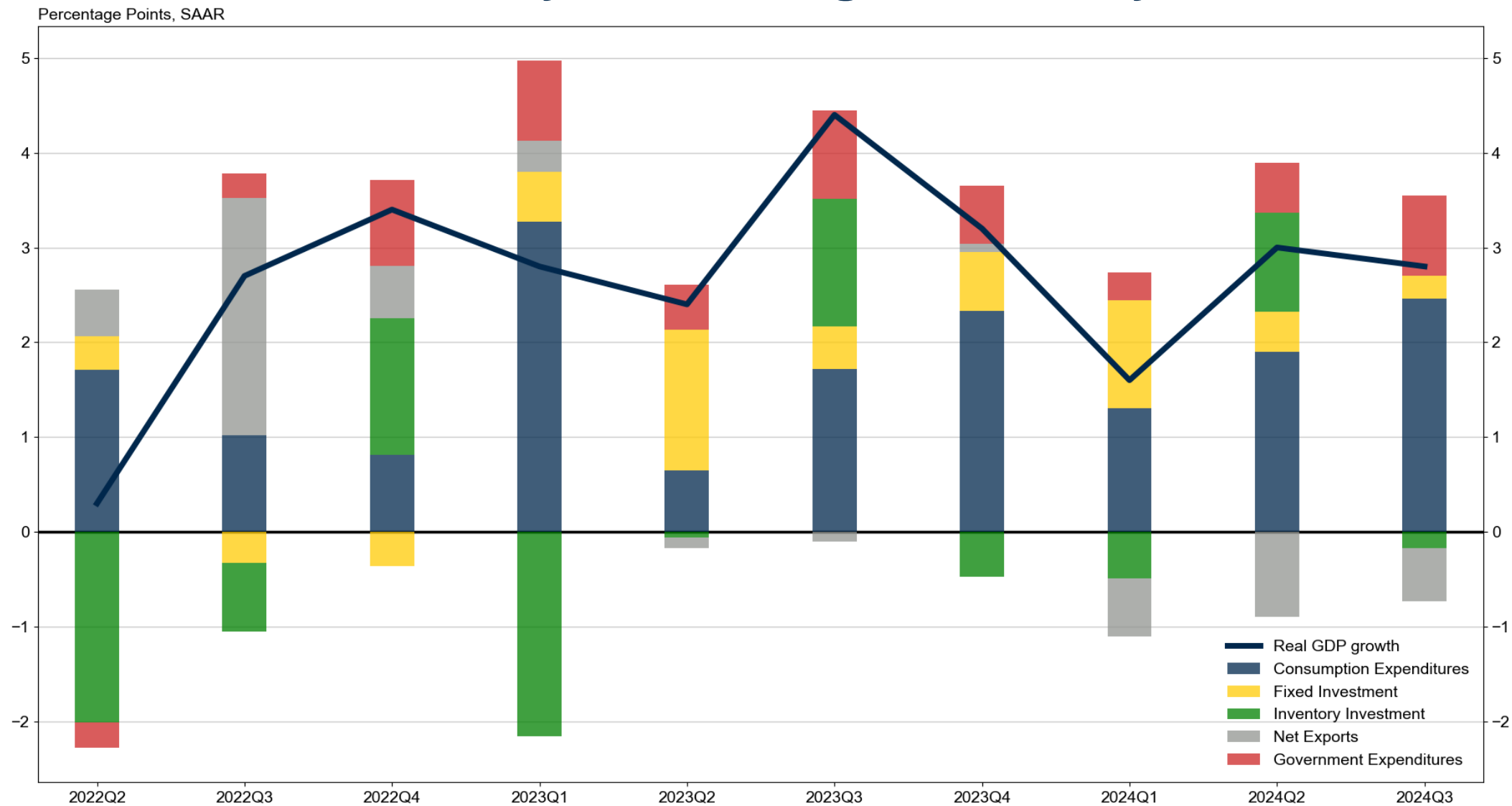


Detroit Economic Club
Jan. 2024

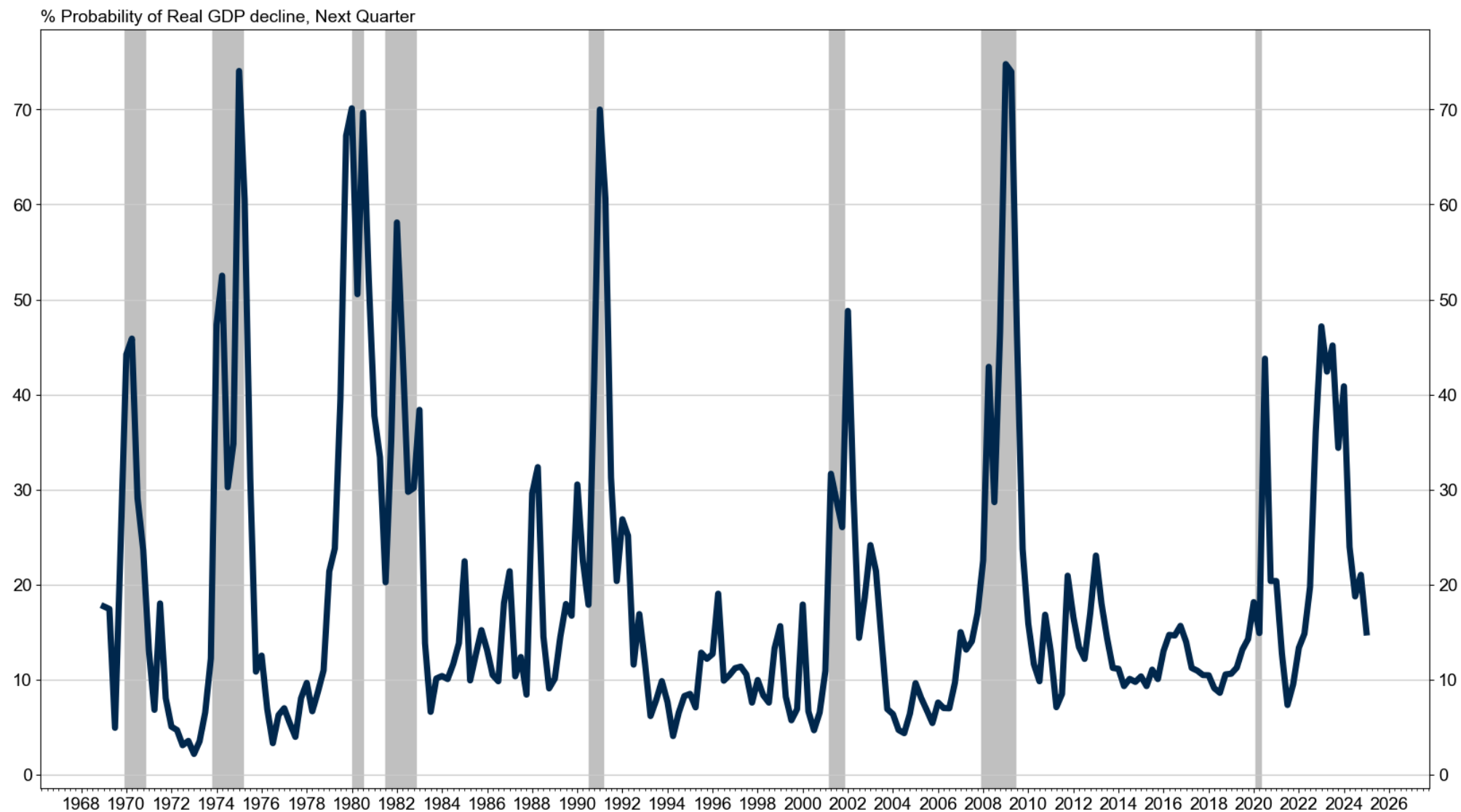
RSQE hosts events on campus and presents throughout Michigan

Current State of the U.S. Economy

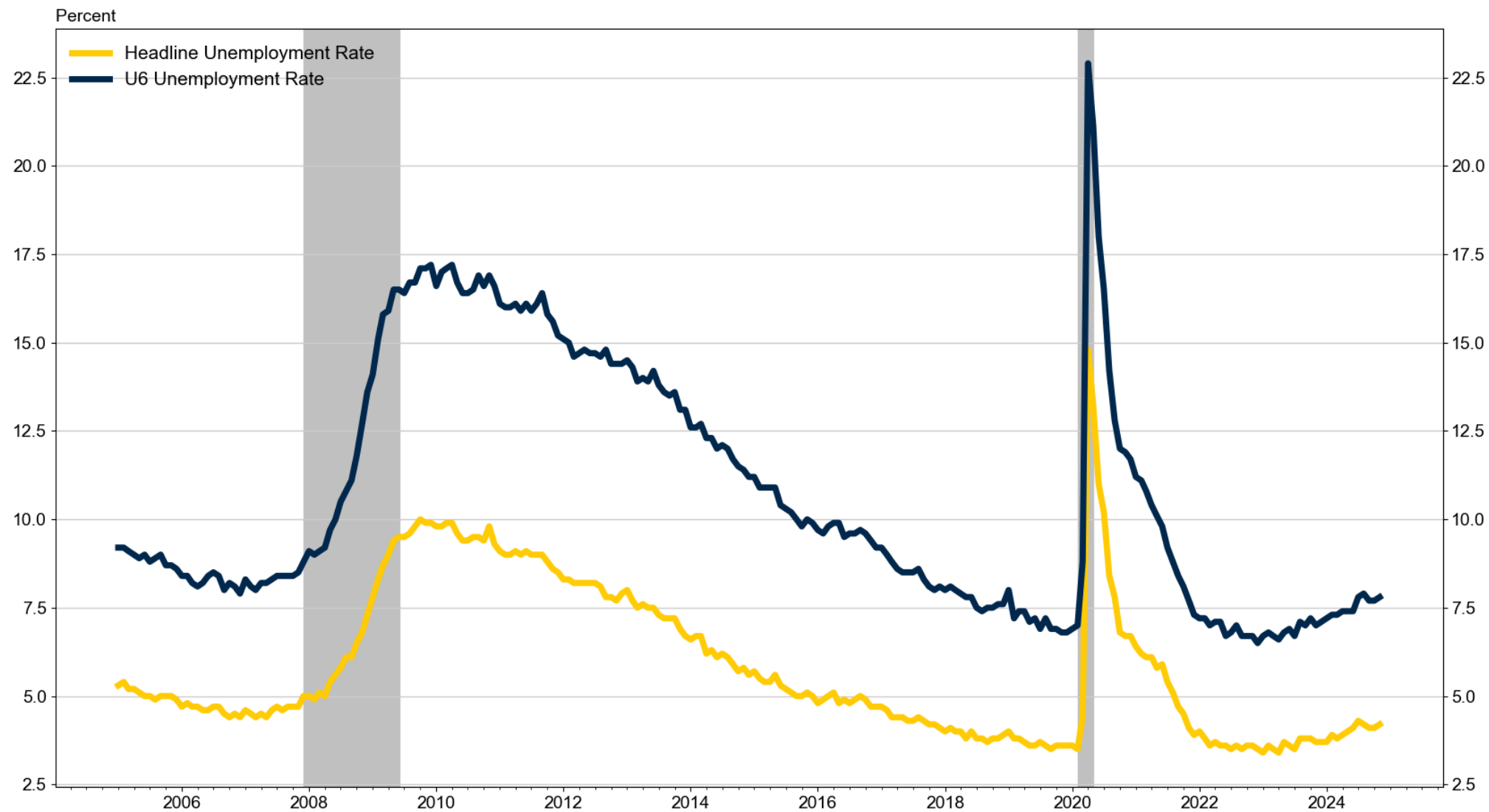
The Economy is Cruising at a Steady Pace



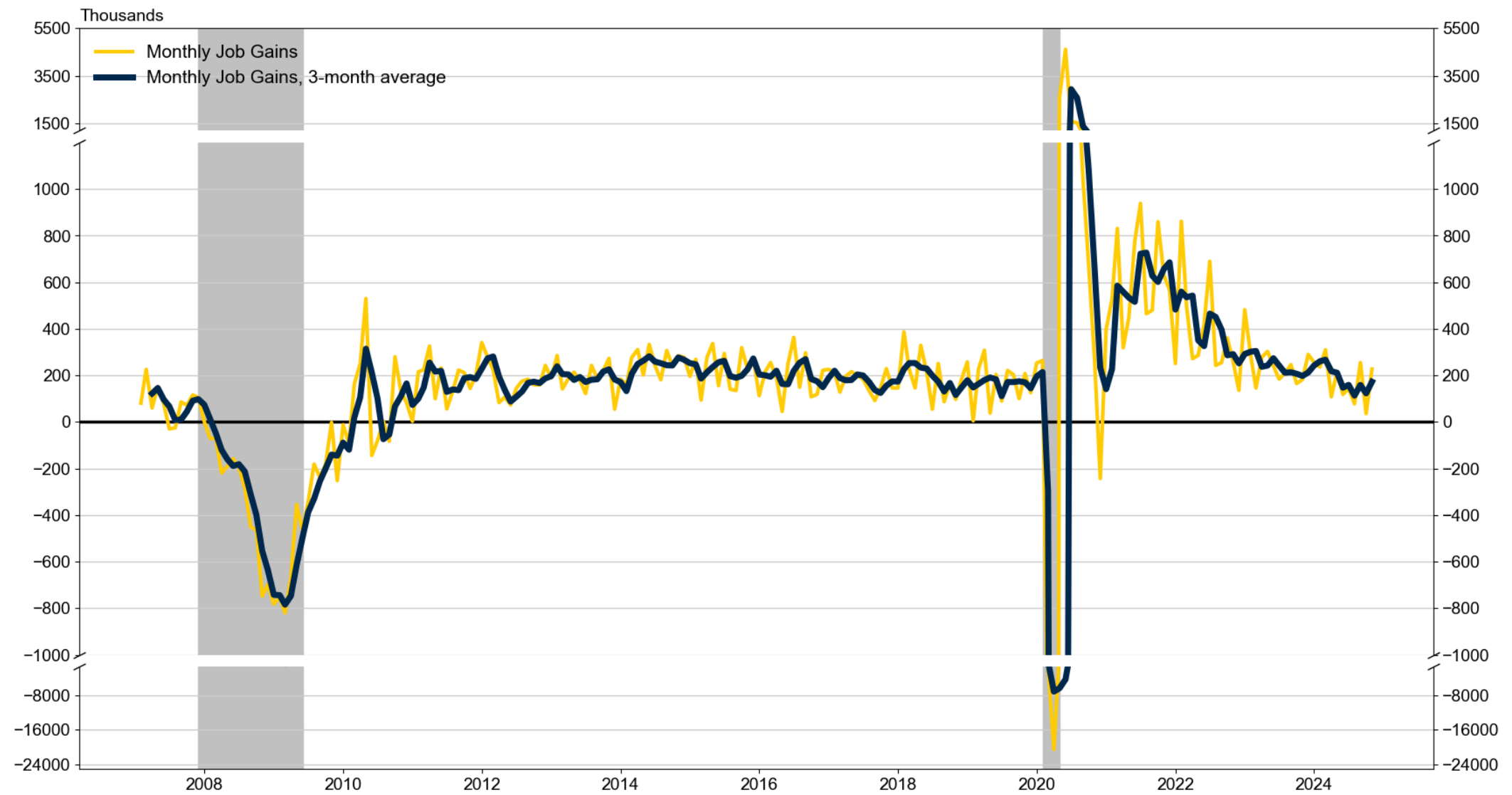
Survey of Professional Forecasters: The Anxious Index



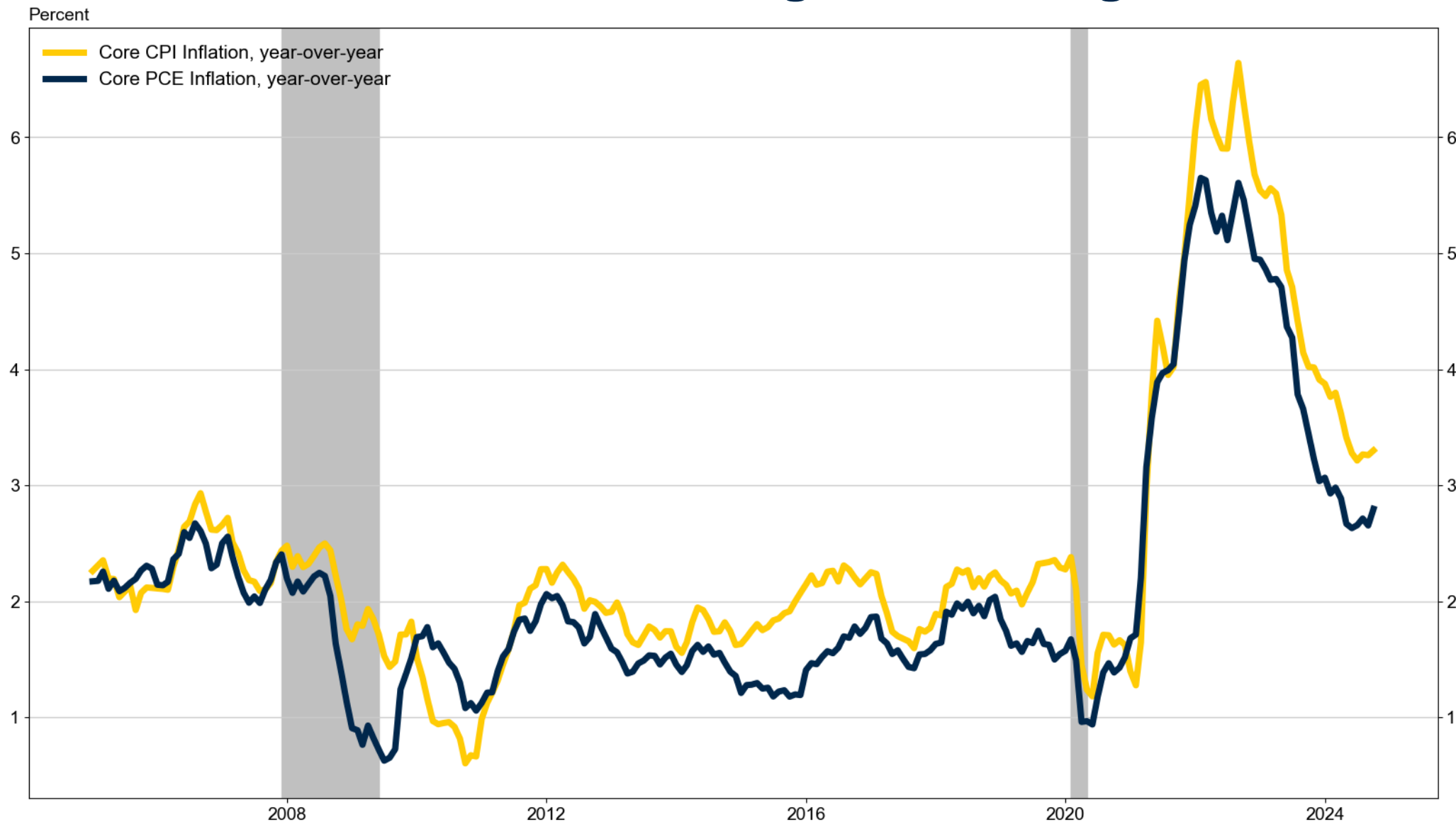
Unemployment: Slow Upward Trend



Payroll Job Gains: Cooling

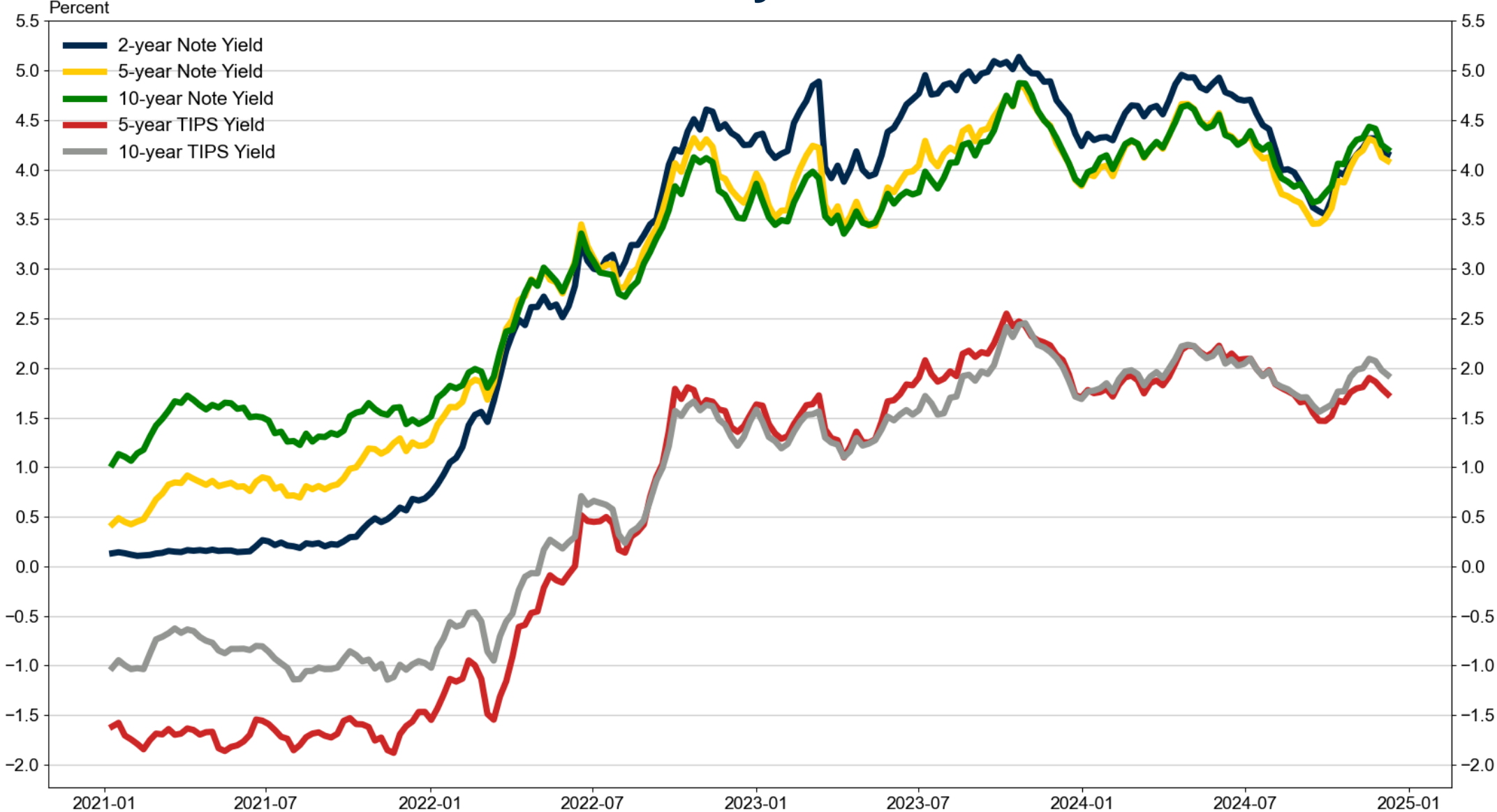


Core Inflation: Progress Stalling





Treasury Yields



Inputs

Key Policy Implications of the Federal Elections

- TCJA largely extended (was our baseline already)
- Higher SALT deduction cap
- 15% Corporate rate for domestic manufacturing
- Sizeable tax cut on Social Security benefits, tips, and overtime income
- \$7,500 EV tax credit gone soon, most IRA provisions expire on schedule
- Tariffs on imports from China will jump in 2026, eventually ~triple
 - Limited retaliation from China through 2026
 - No significant/lasting new tariffs on the rest of the world
- A deportation program of limited scope

Monetary Policy

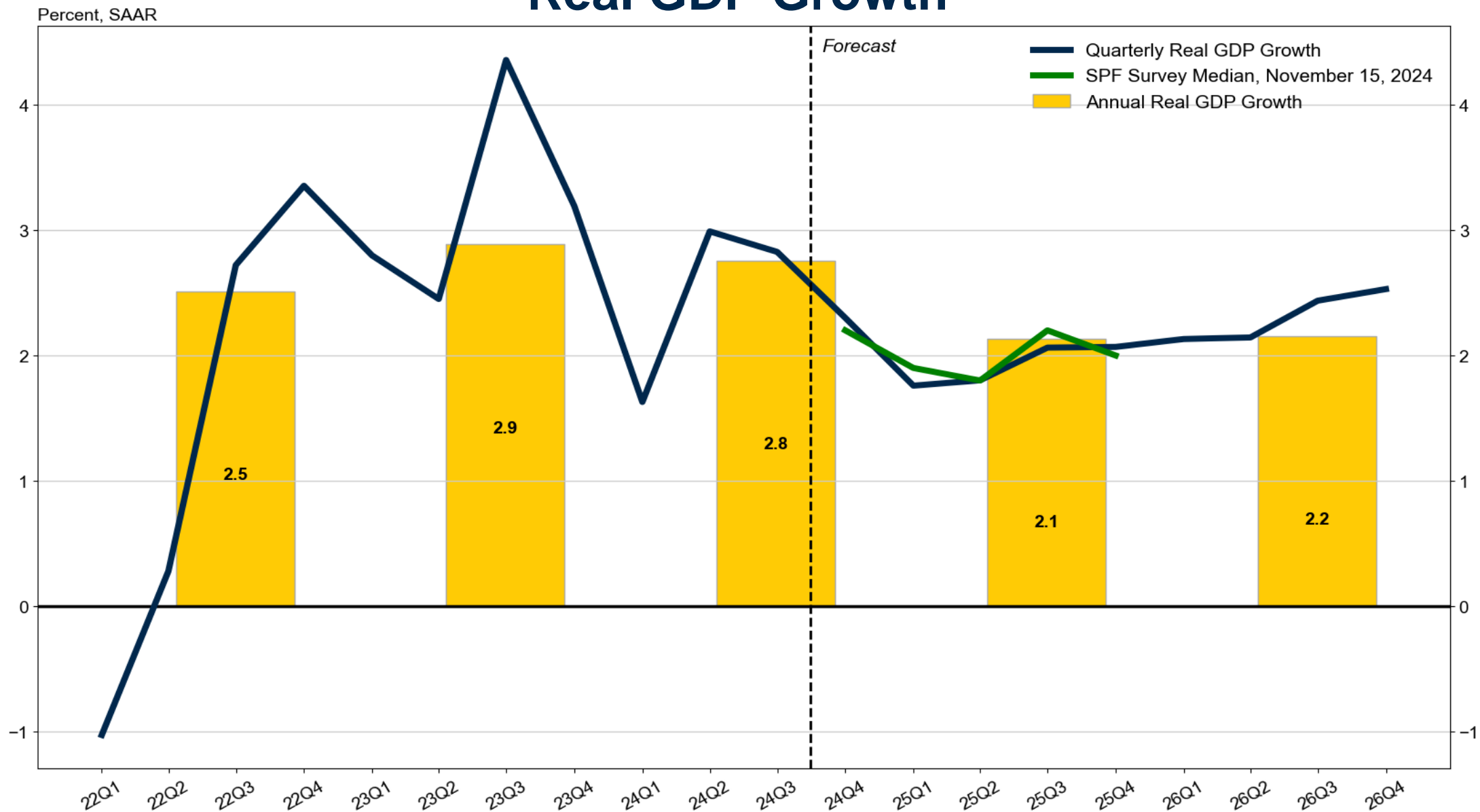
- Inflation progress stalling a bit
- Labor market likely still softening, yet fear of rapid deterioration has subsided
- But, long-term interest rates up considerably since mid-September
- We expect a December cut, but then a much slower pace of cuts
- Terminal rate range 3.25–3.5%, the Fed gets there by 2025Q4
- Uptick of inflation in 2026 due to tariffs/tax cuts, but no Fed action
 - One-time effects
 - Concerns about negative growth effects of tariffs were important for 2019 rate cuts

Fiscal Policy

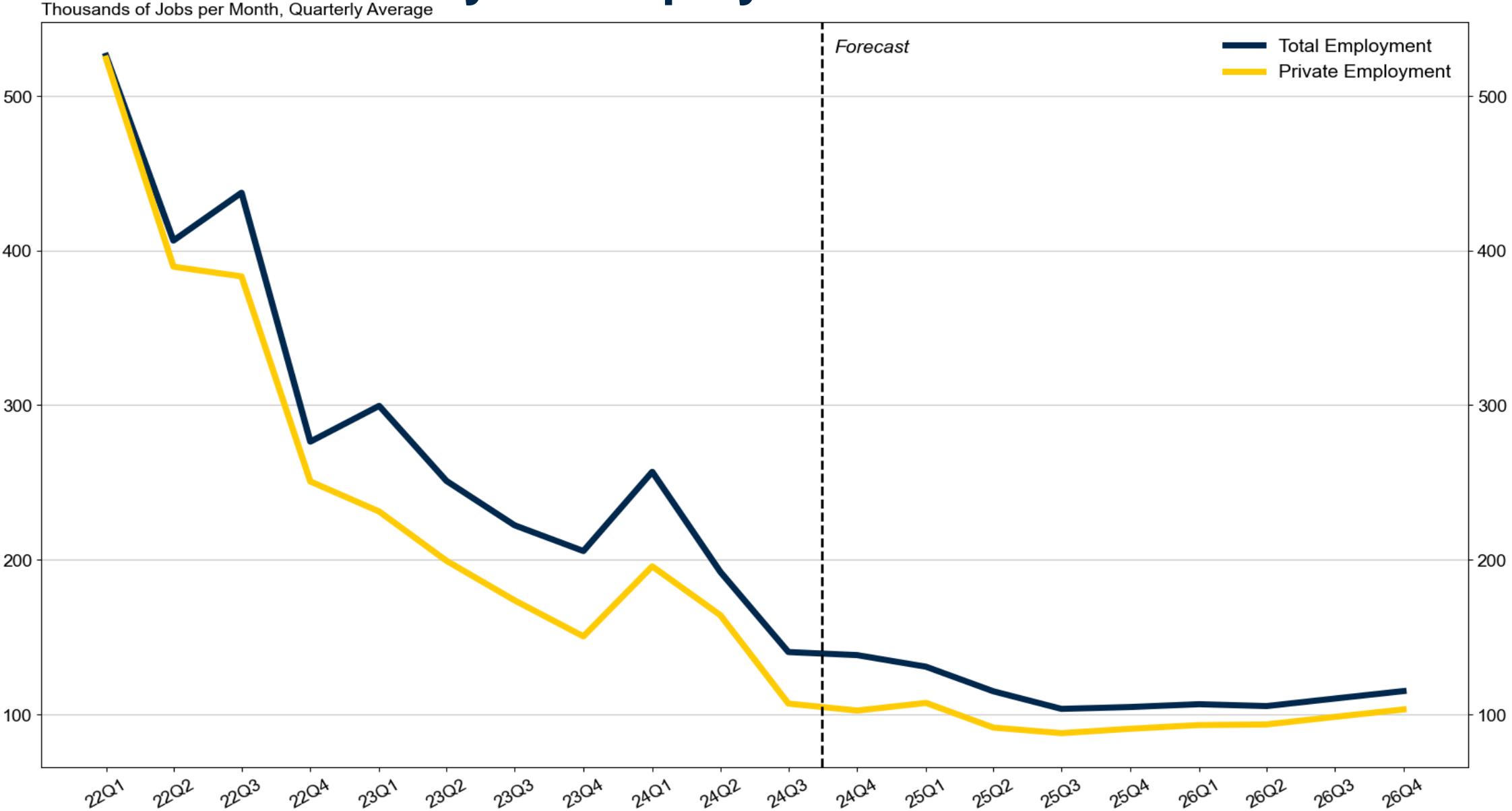
- Slim House majority will prevent major cuts to spending
- About \$200 billion/year of personal and corporate tax cuts starting in 2026
- Tariff revenues rise by annualized \$86bln between 2026Q1 and 2026Q4
- Strong growth of federal defense expenditures continues
- Historic Deficits outside of the recent pandemic, World War II, the Great Recession
 - Federal NIPA deficit widens to 6.8 percent of GDP in fiscal 2026
 - Primary NIPA deficit near 3 percent of GDP

U.S. Forecast

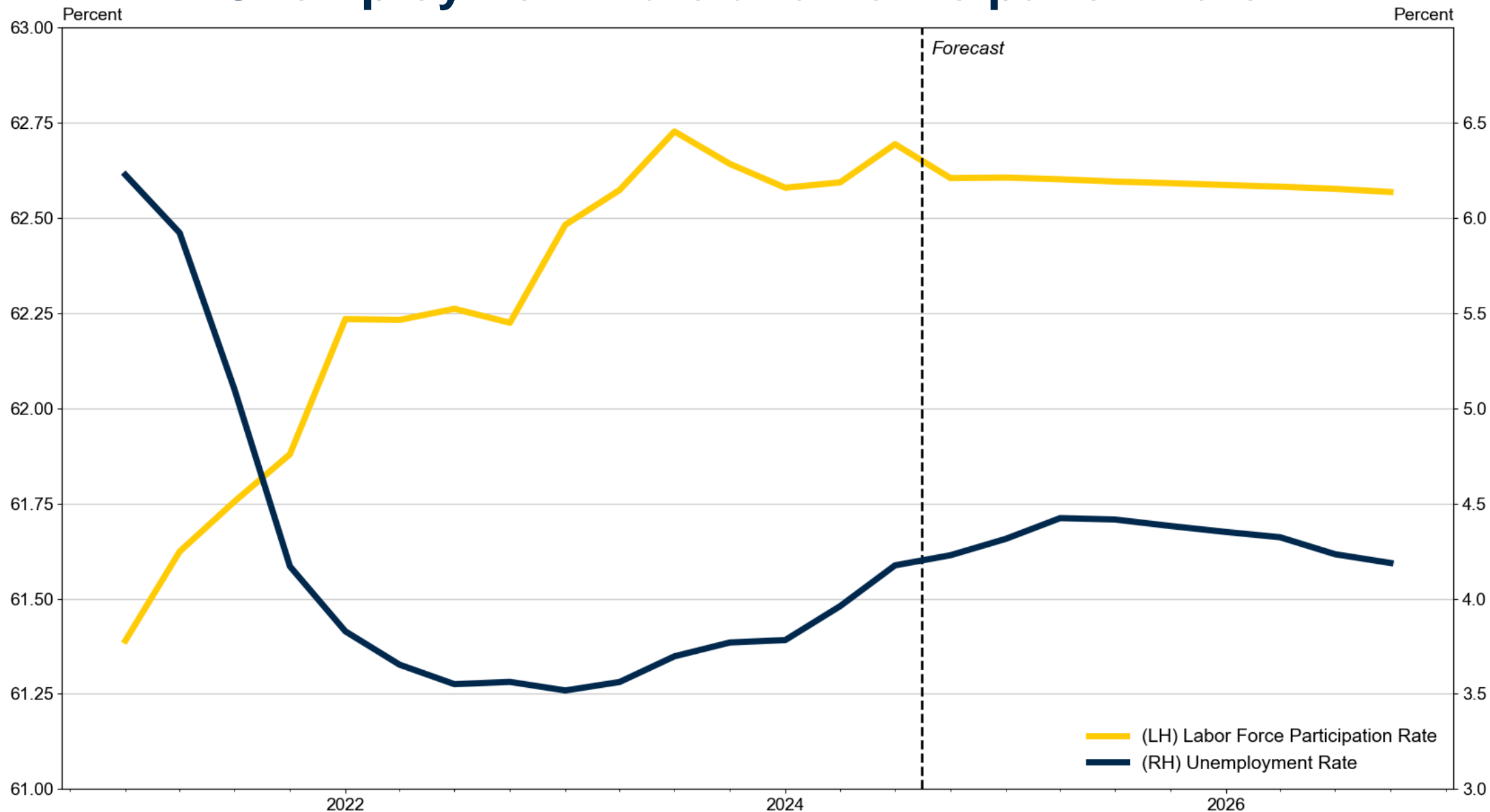
Real GDP Growth



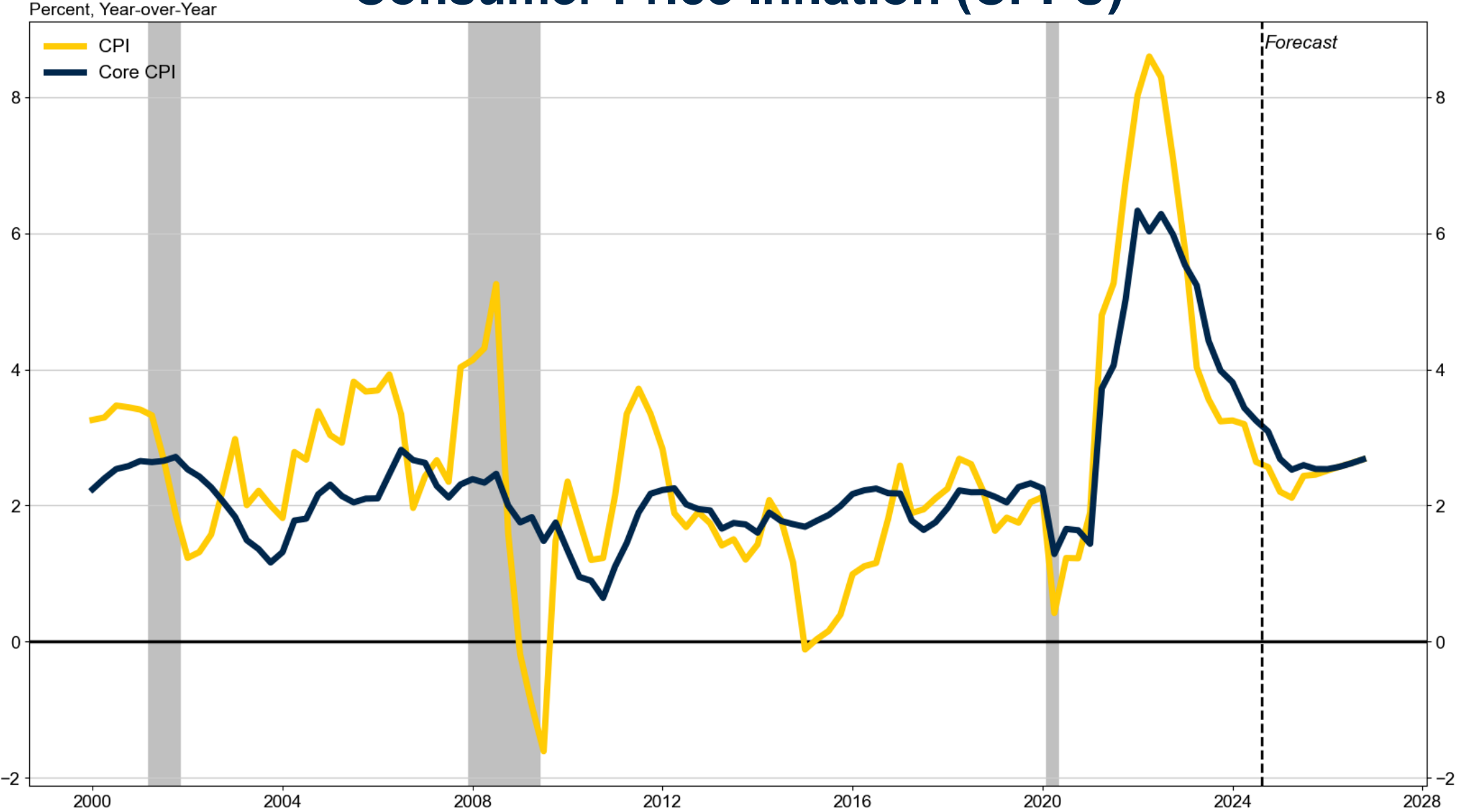
Payroll Employment Growth



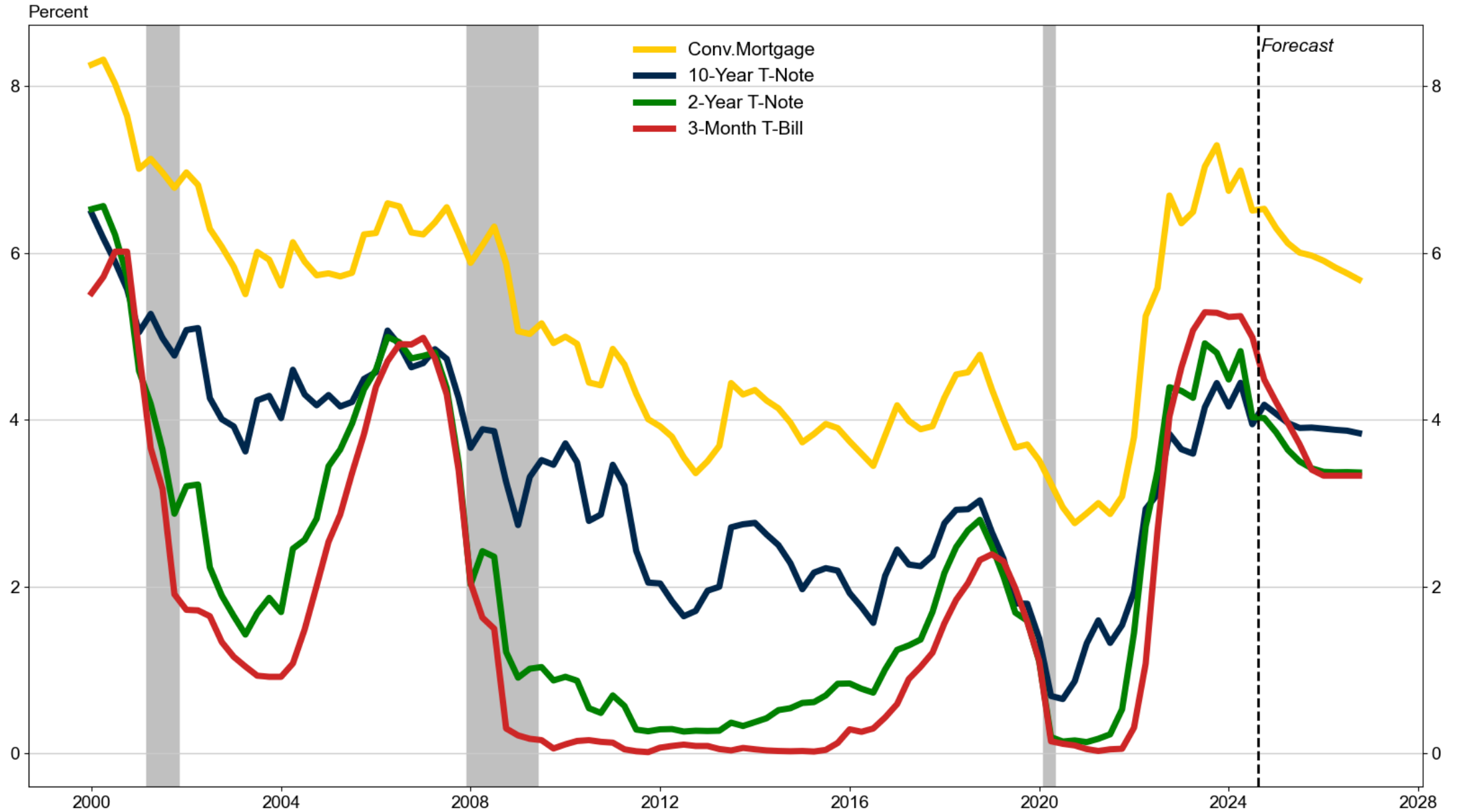
Unemployment Rate and Participation Rate



Consumer Price Inflation (CPI-U)

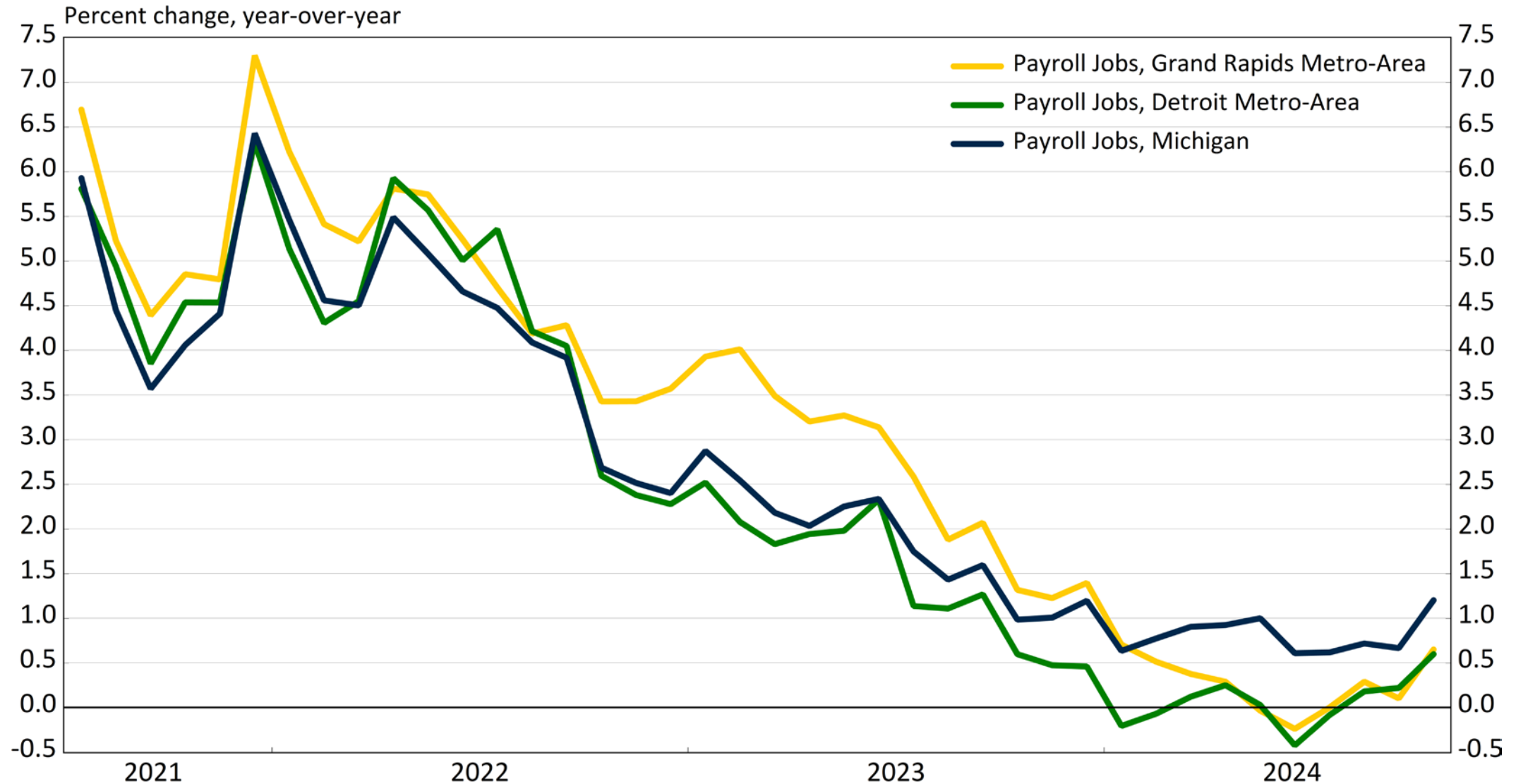


Interest Rates

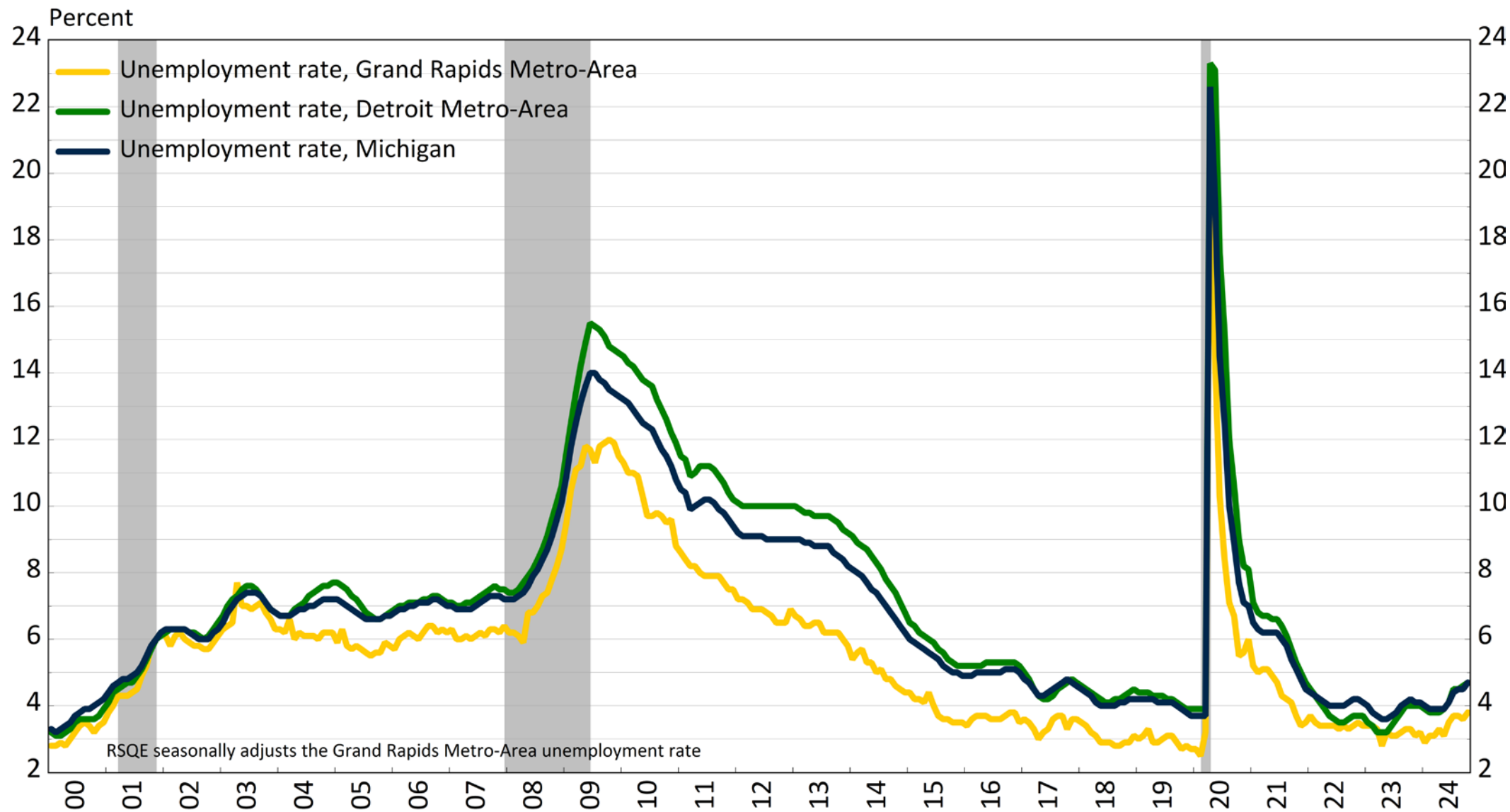


Current State of the Michigan Economy

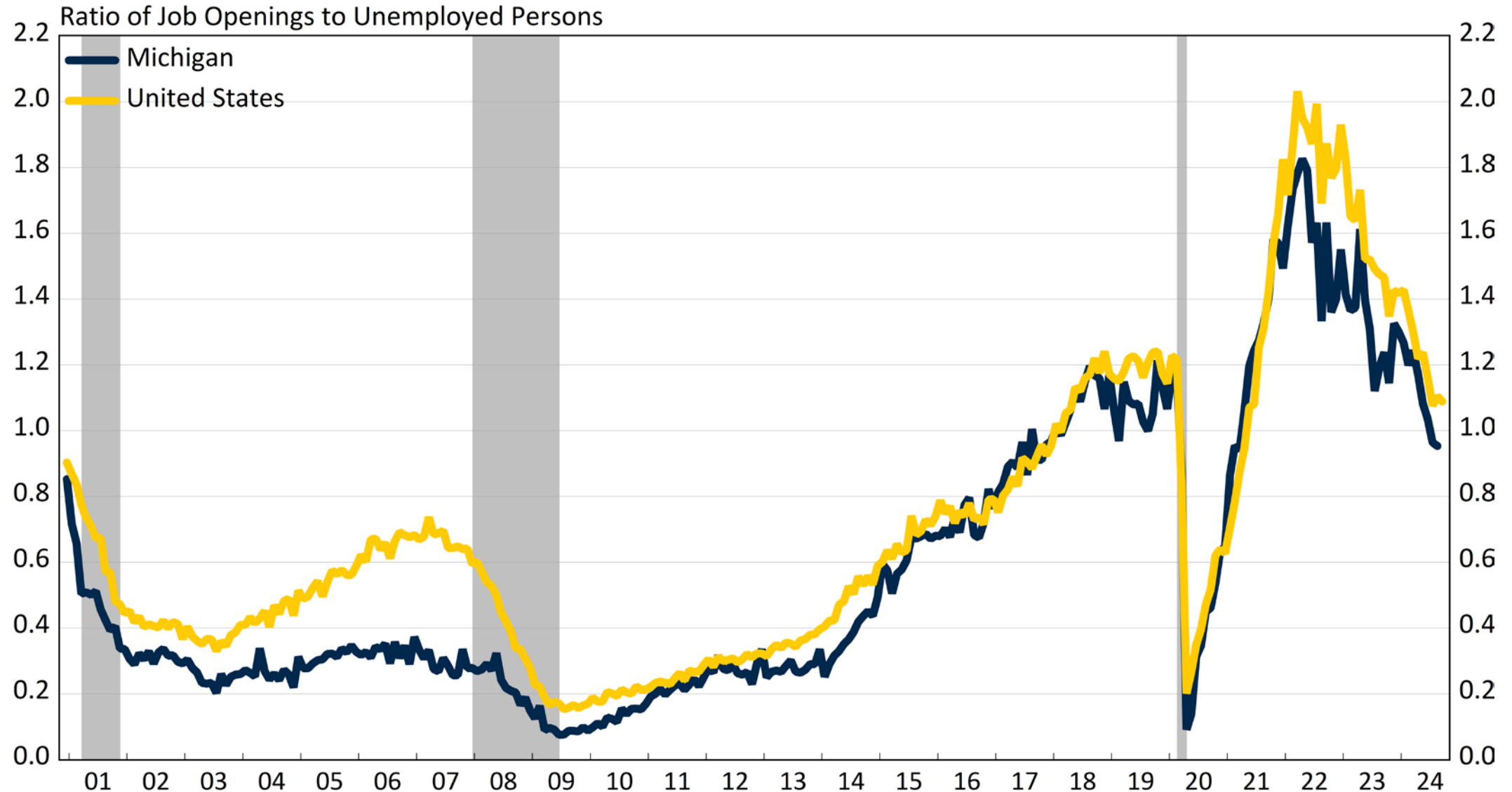
Local Job Gains Slowing Down



Local Unemployment Rates Moving Up

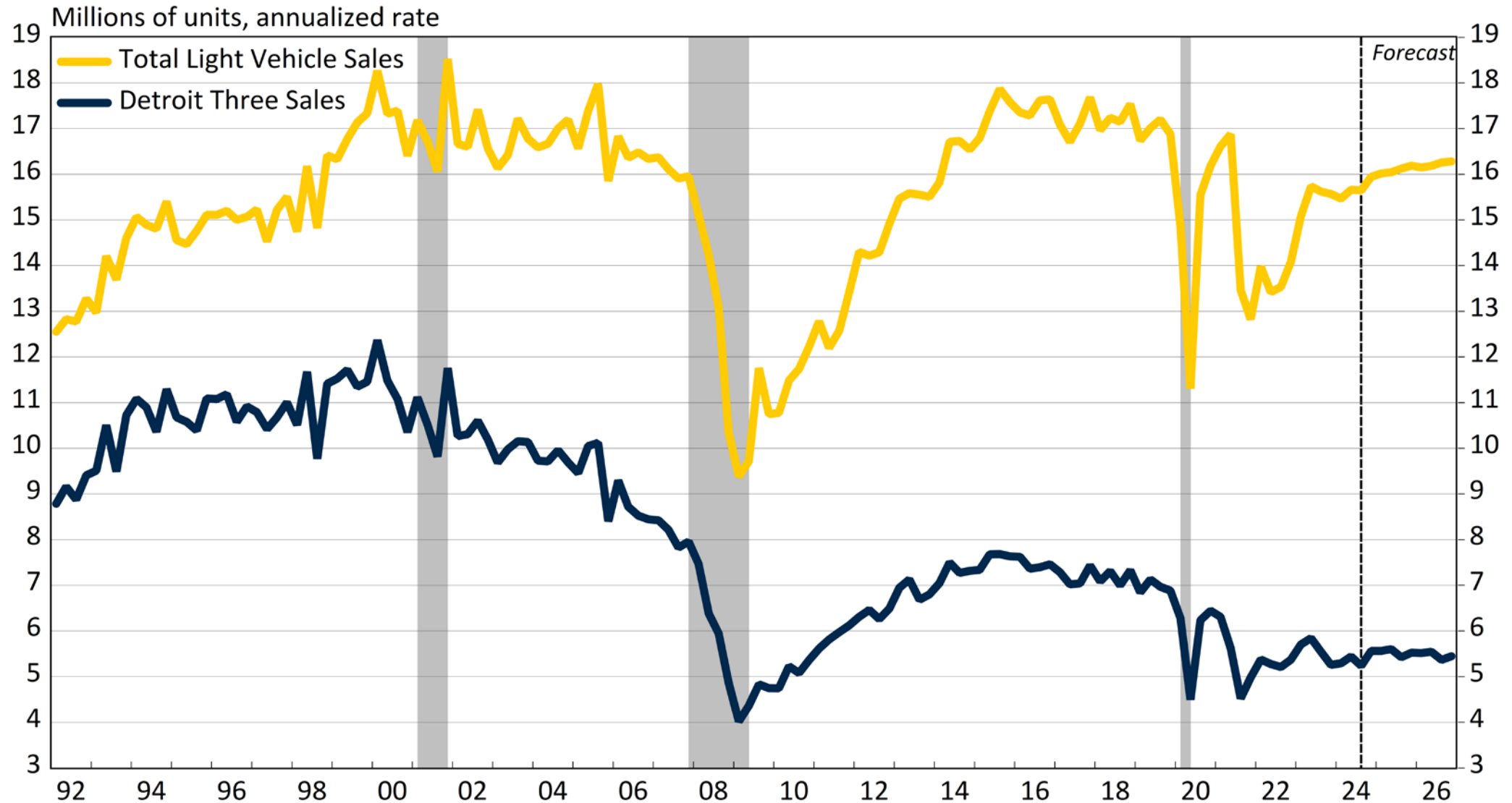


Labor Demand Has Returned to Pre-Pandemic Levels

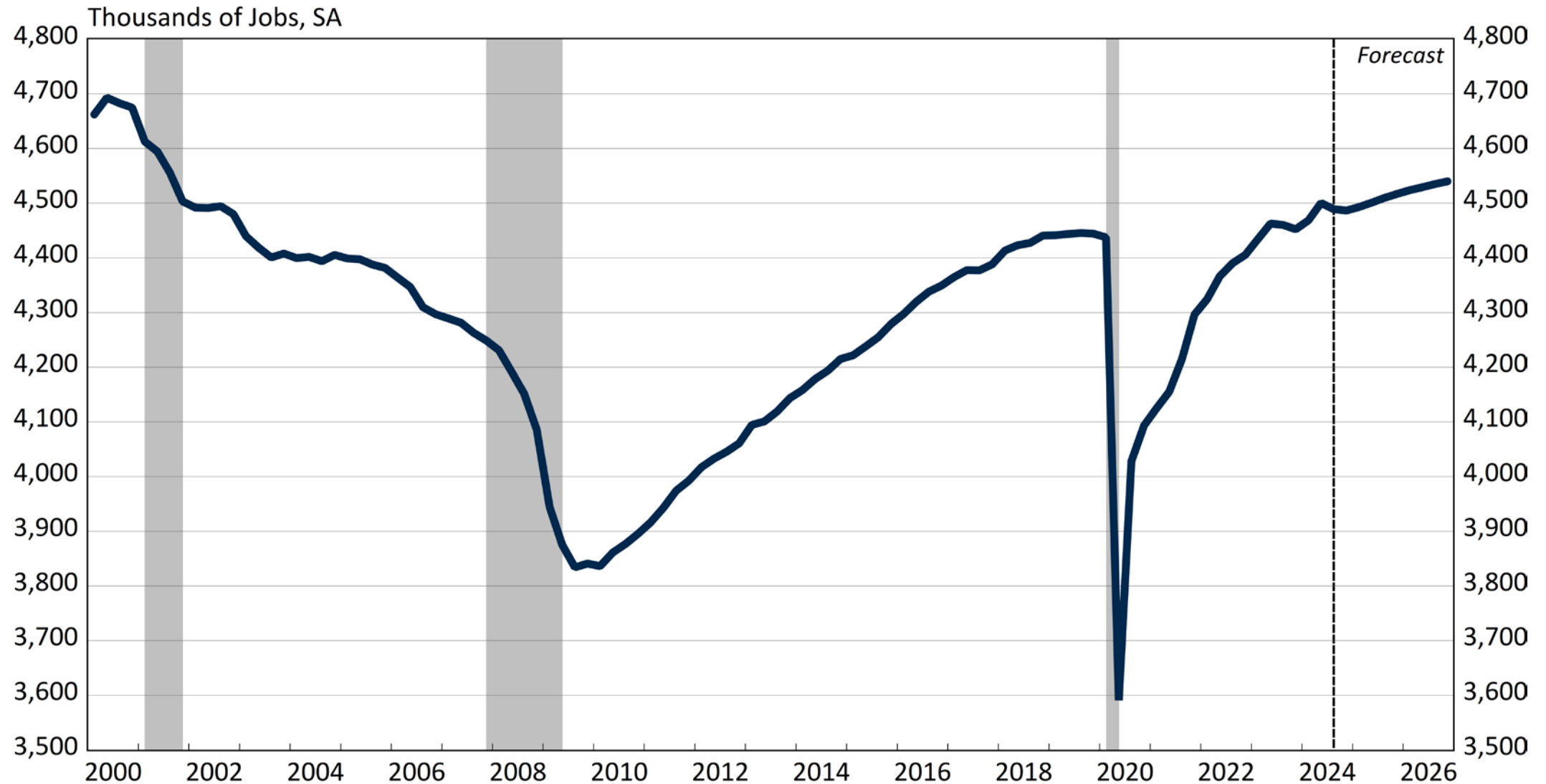


Michigan Economic Outlook

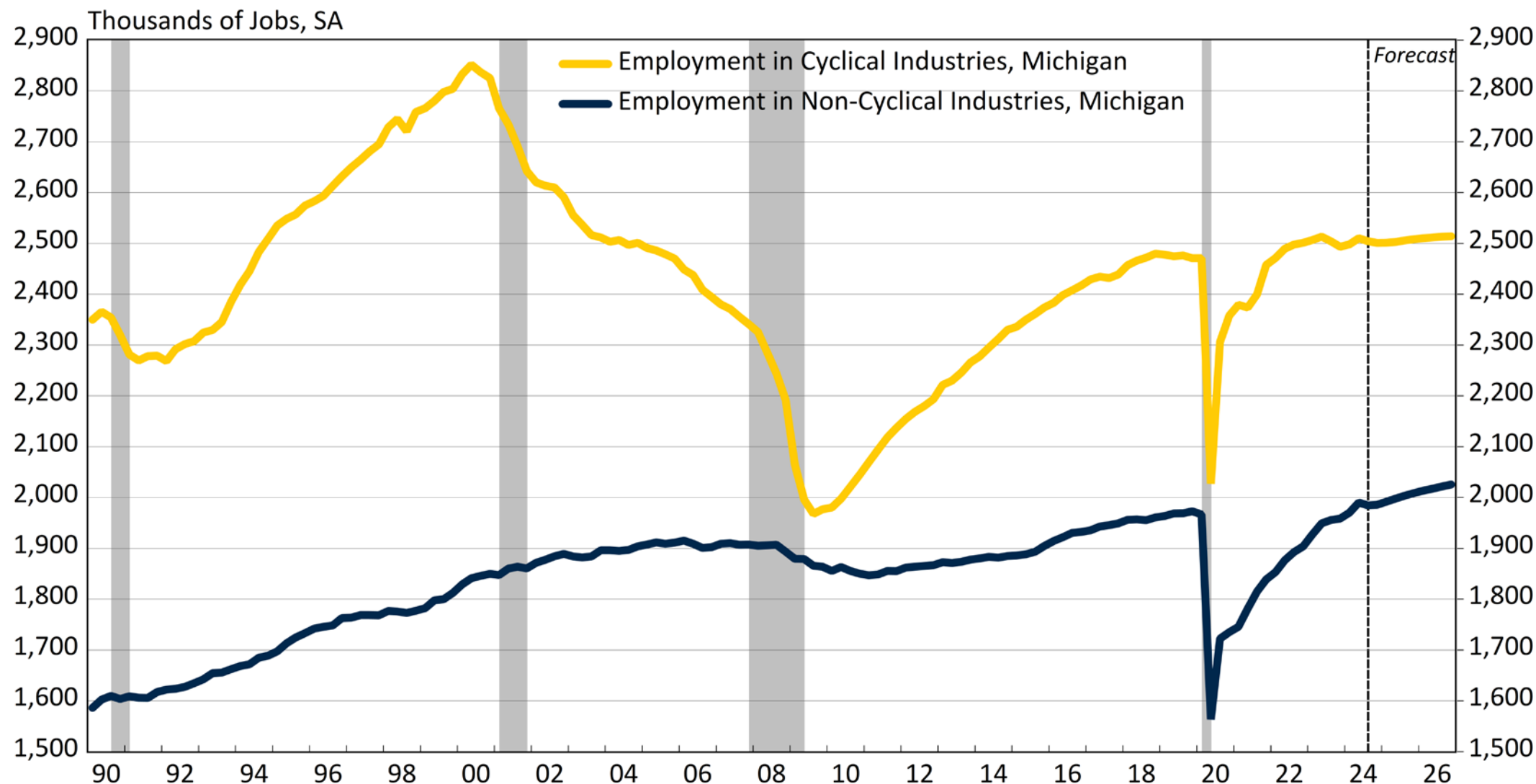
Light Vehicle Sales Near Cruising Speed



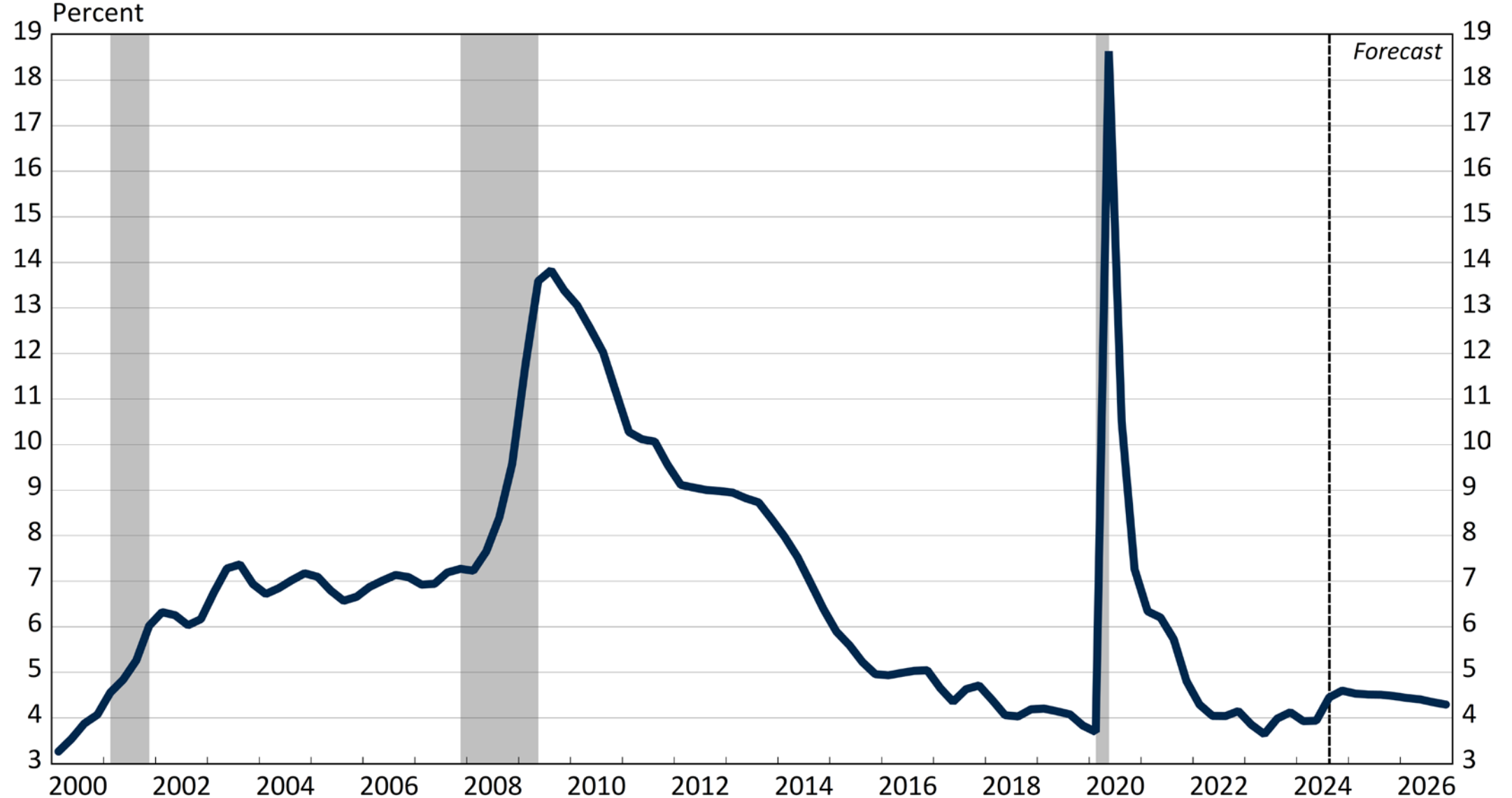
Michigan Employment Pauses Before Returning to Growth



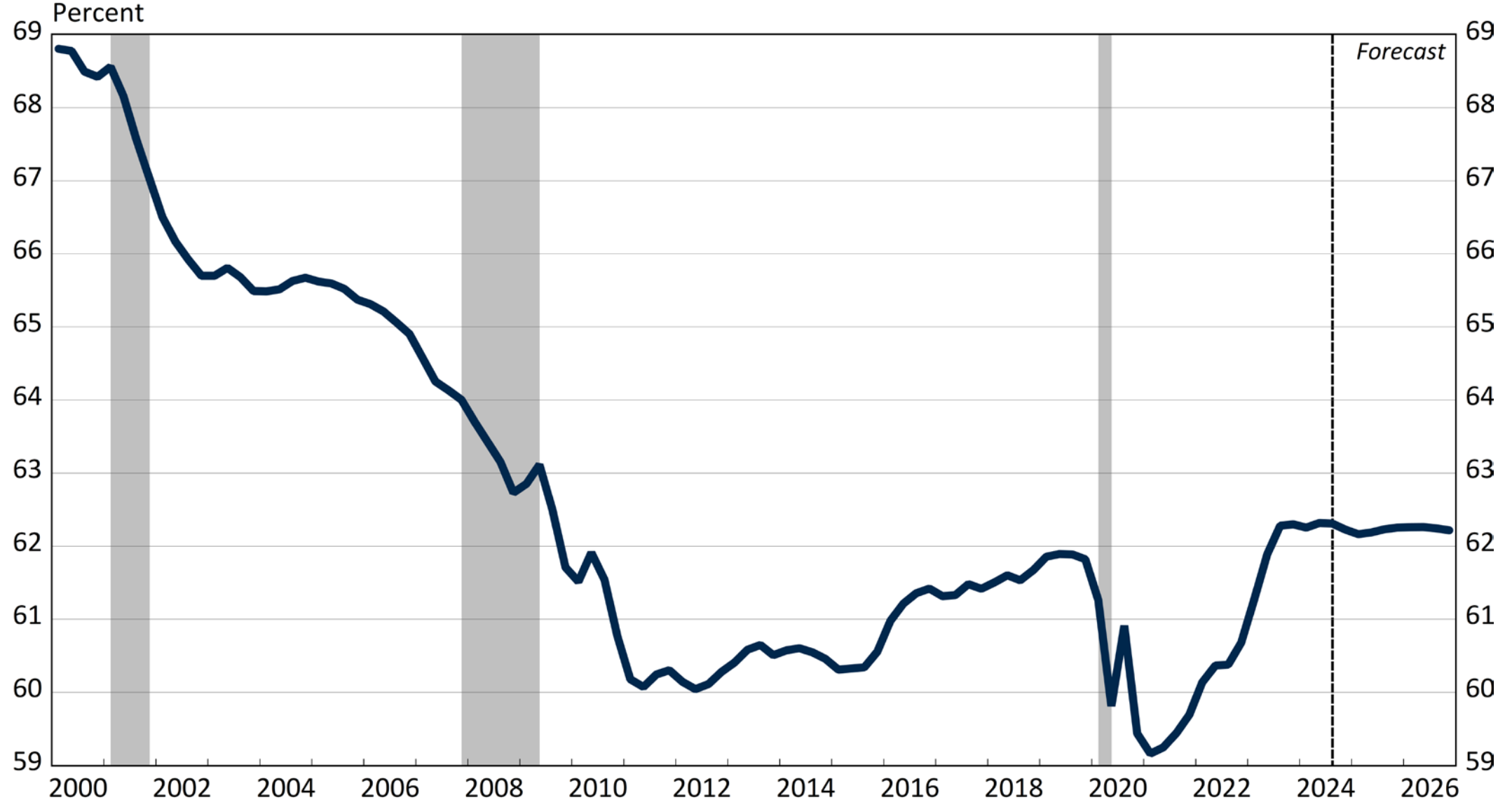
Non-Cyclical Industries Drive Employment Gains



Michigan's Unemployment Rate Rises Modestly

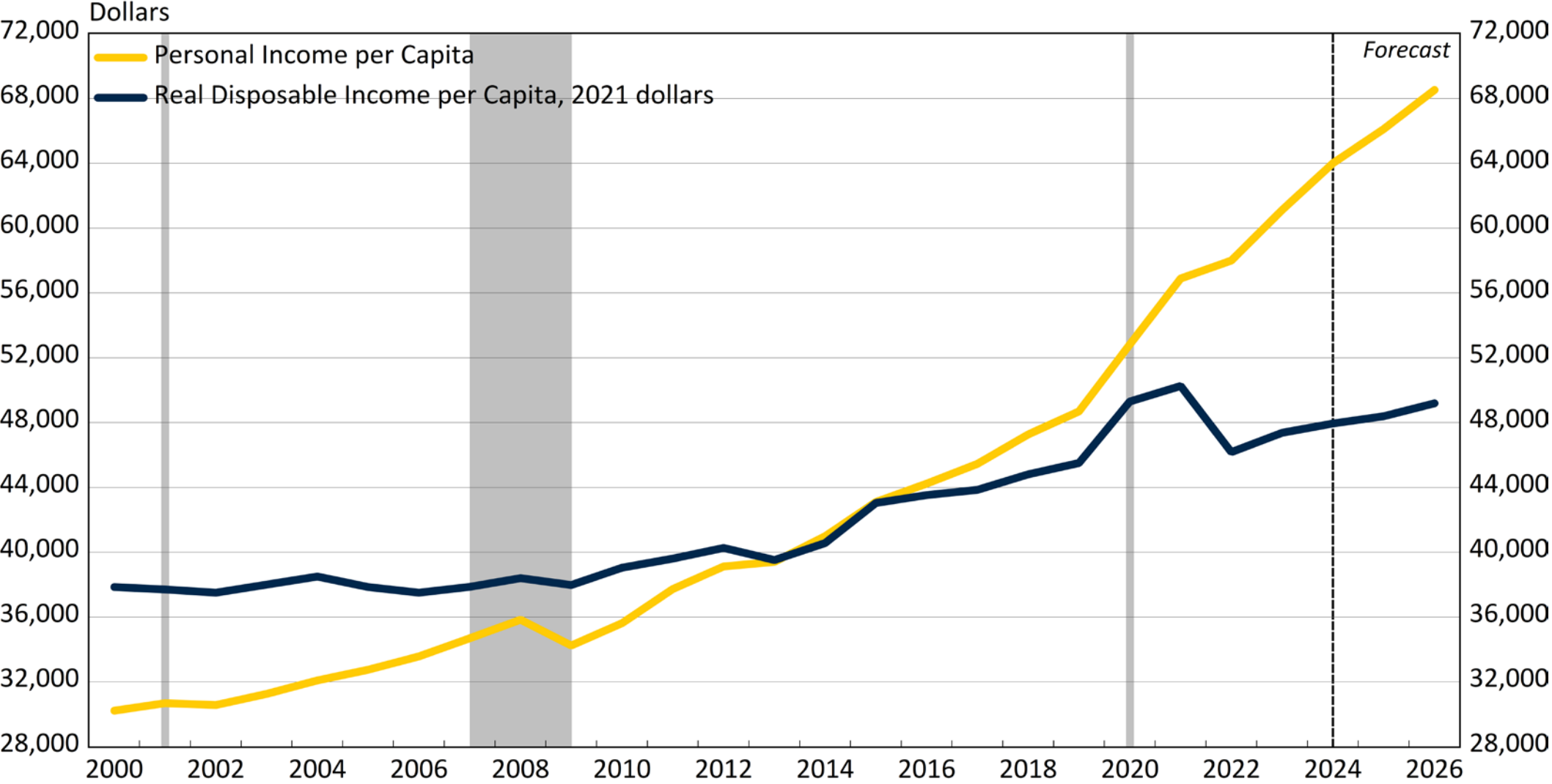


Michigan's Labor Force Participation Fights with Demographics

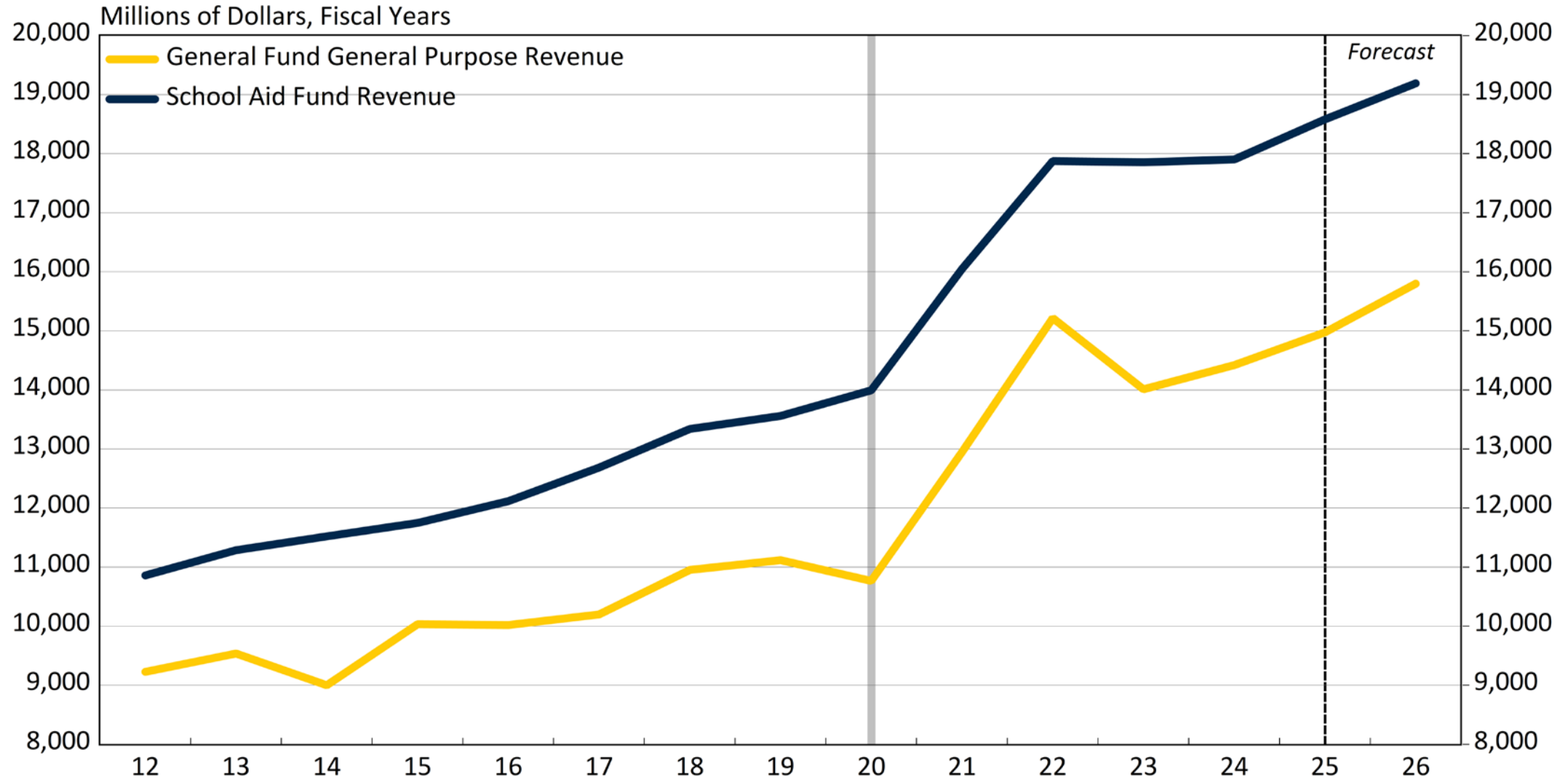


RSQE: December 2024

Michigan Real Disposable Income: New Data Paints a Prettier Picture



State Tax Revenues Step off the Roller Coaster





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