Lansing Economic Outlook: 2026

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East Lansing, MI

Steven R. Miller

Center for Economic Analysis

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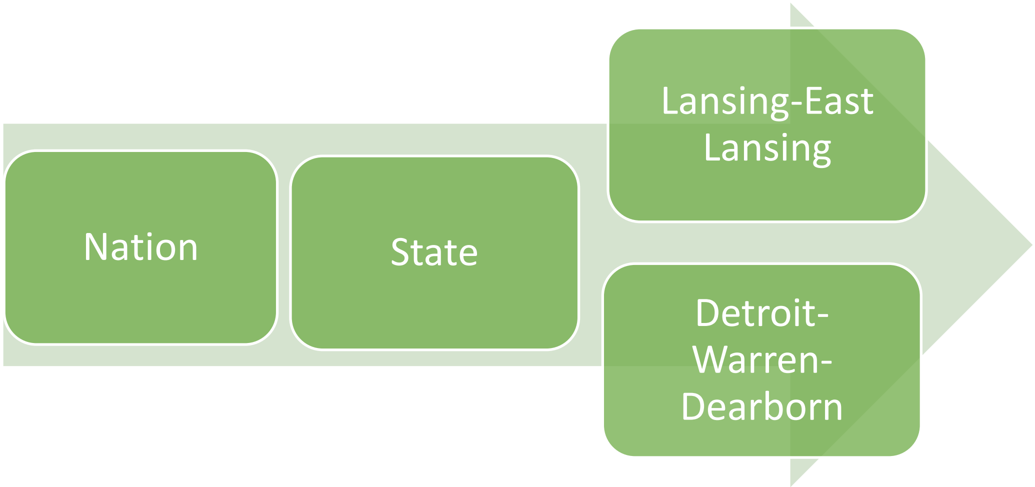
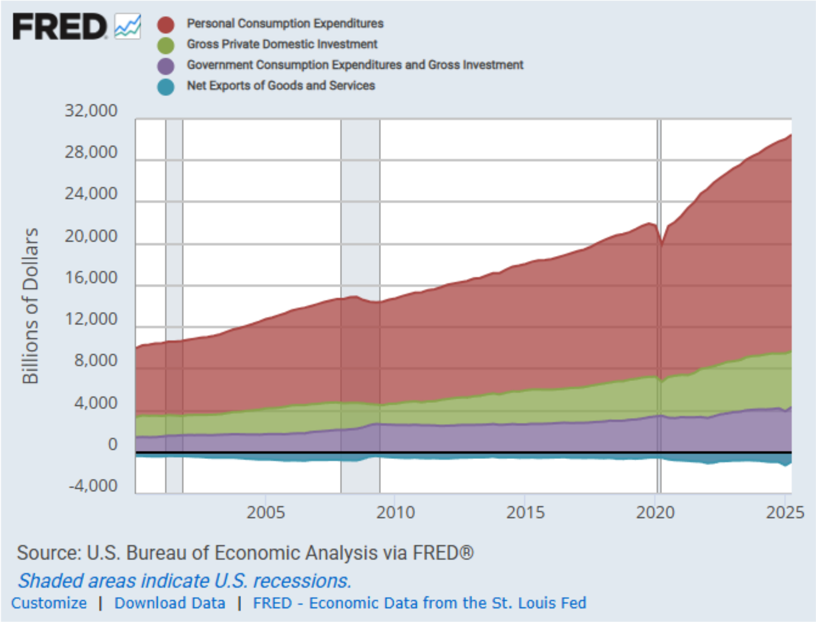
MSU Economic Forecast Model

- National
- State
- Core Based Statistical Areas (CBSA)
  - Lansing-East Lansing
  - Detroit-Warren-Dearborn



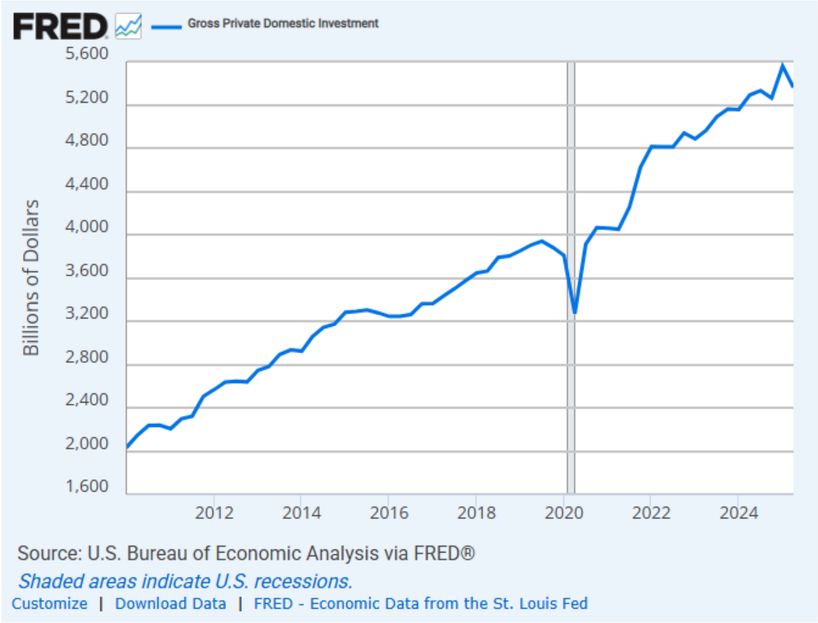
National Conditions

- Generally, we think of the national economy having four main consumptive expenditure components
  - Consumers (68%)
  - Government (17%)
    - State and local (10.7%)
    - Federal (6.3%)
  - Investment (17%)
  - Net Exports {Exports – Imports} (-2 to -3%)



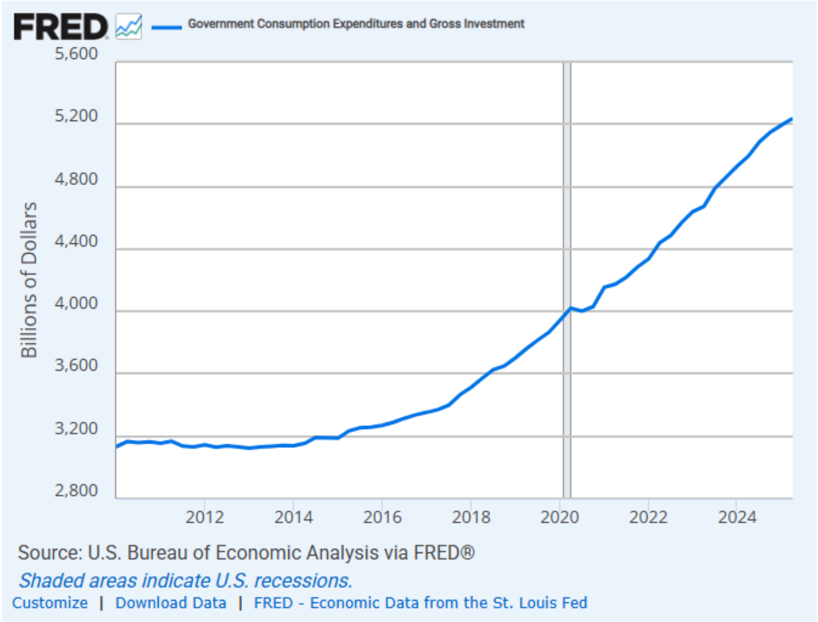
National Conditions

- Investment makes up about 17% of GDP
  - A small component of that is the accumulation or reduction in business inventories
    - The second quarter of 2025 saw inventory reductions
  - The largest component is investment in facilities, equipment and business acquisitions
    - Positive Drivers:
      - Tax treatment of qualified investments
      - Policies promoting on-shoring
    - Negative Drivers:
      - Tariffs and trade wars
      - Crowding out of financial markets
      - Weakening consumer demand



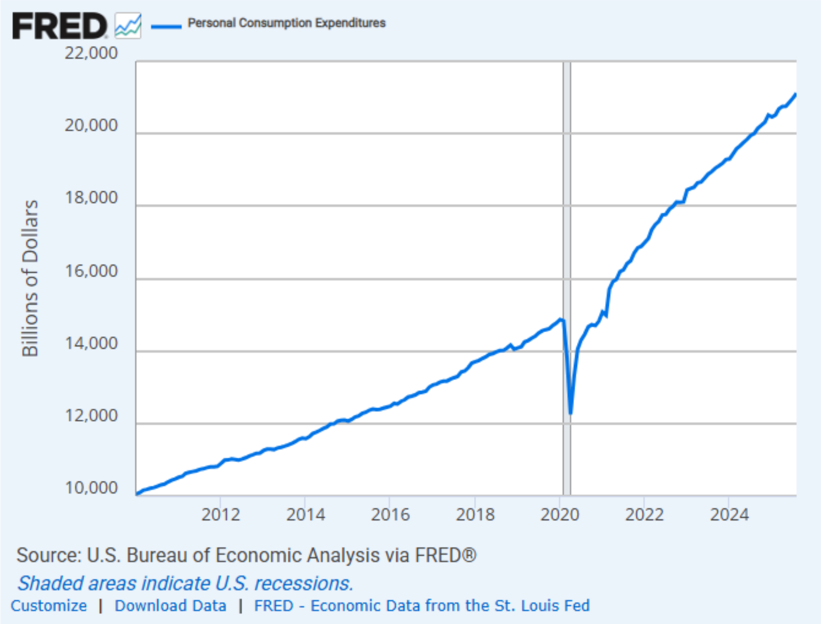
National Conditions

- Government consumptive expenditures makes up about 17% of GDP
  - Federal deficit spending has been excessive since 2002
  - President Trump inherited a challenging budget outlook, but the national debt continues to build under his administration
    - The administration's solution posits some questions, however
      - Expansionary Fiscal Policy
        - Tariff Revenues do not make up for income tax reductions under the "One Big Beautiful Bill Act"
        - Mandatory spending continues to increase
        - May be too early to determine the Trump policy effect on discretionary federal spending



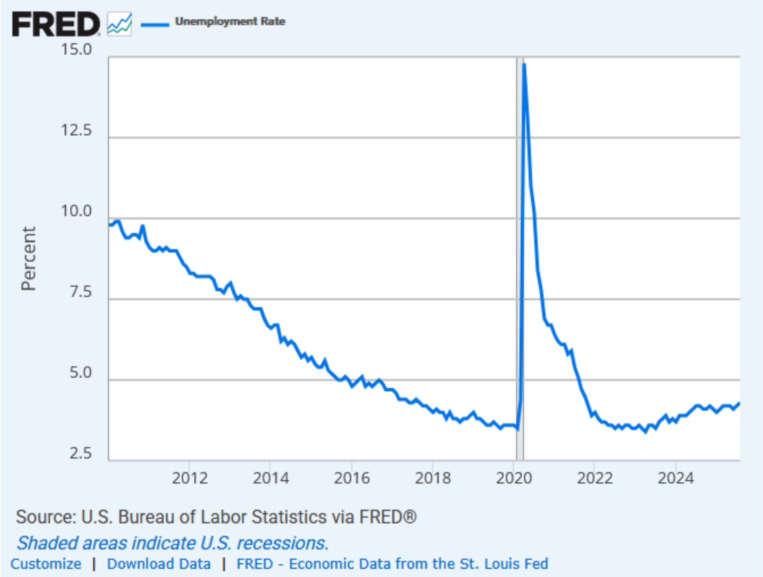
National Conditions

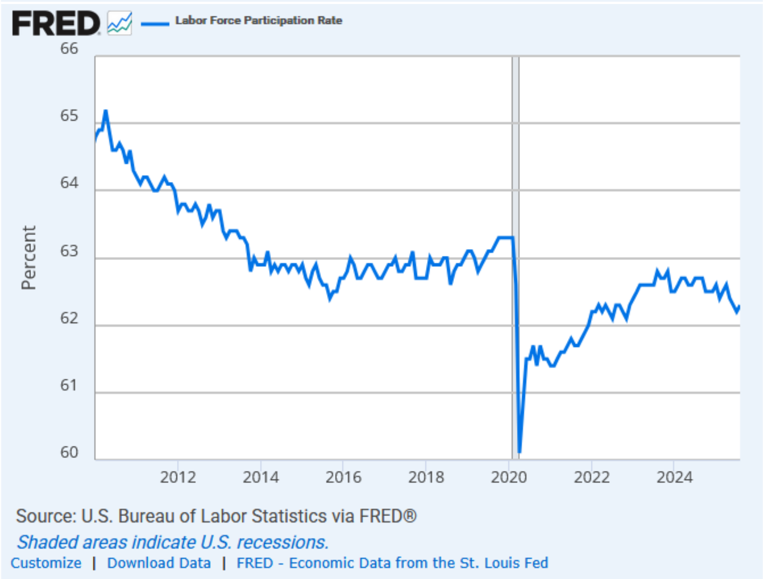
- Consumer Expenditures makes up about 68% of GDP
  - The consumer has been the primary growth engine of this economy since the Pandemic
  - While pandemic-era spending centered on goods, That reversed between 2021 and 2024
    - In 2025, durable goods demand rebounded, with autos and recreational goods demand leading growth
      - Some goods expenditures early in 2025 may have been a race to beat the oncoming tariffs
  - Can consumer expenditures continue to grow?
    - Relatively high household debt
    - Persistent wage growth
    - Equally persistent inflation growth
    - Consumer Sentiment



National Conditions

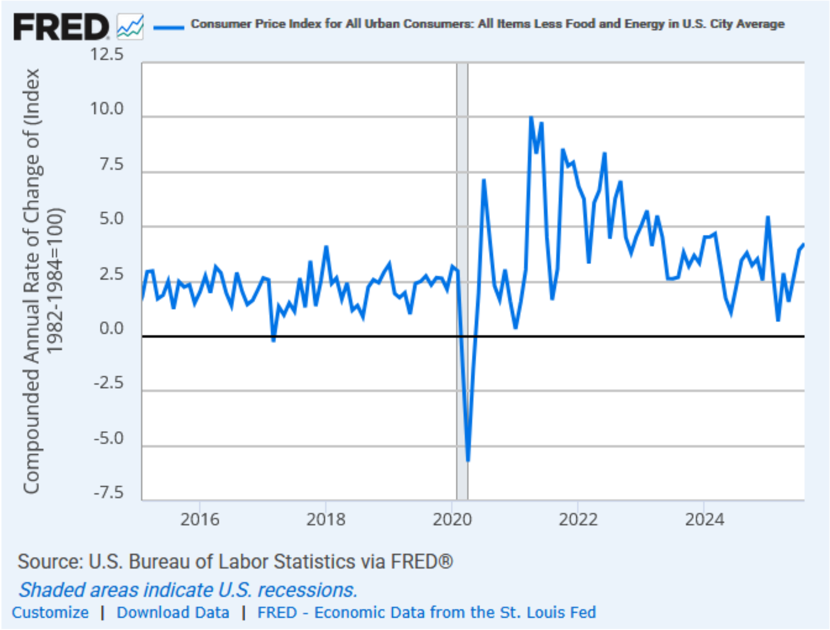
- Labor Force
  - While off its lows, unemployment remains at historically low levels
  - Unemployment rate fails to capture the significant reduction in the workforce
    - Baby Boomers are retiring, and older workers are increasingly choosing early retirement
    - Declining prime-aged male participation
    - Flat or declining female participation
    - Chronically displaced workers and skills mismatch





National Conditions

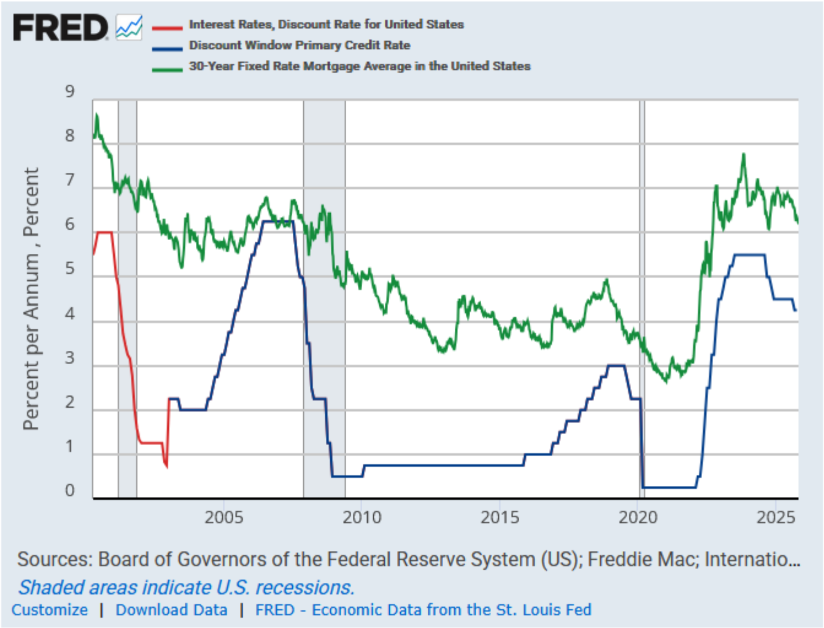
- Inflation
  - A confluence of expansionary fiscal and monetary policy and supply disruptions
    - Stimulus dollars created excess cash
    - Quantitative easing created cheap credit
    - Production slowed
      - **More dollars chasing fewer goods**



- Wages are generally keeping pace with or exceeding inflation

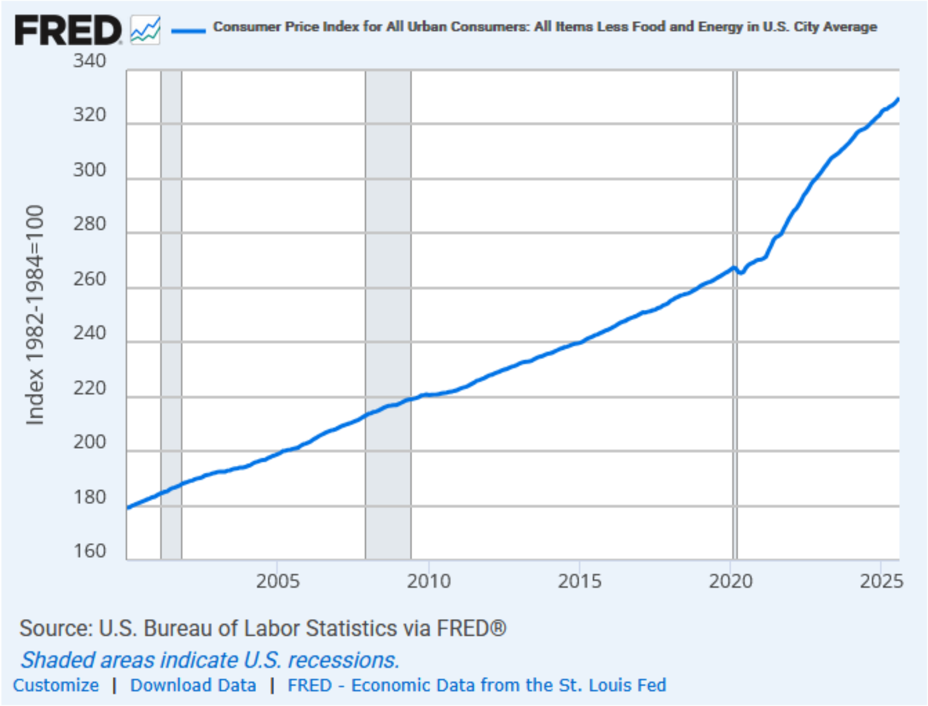
National Conditions

- Federal Reserve and Monetary Policy
  - Federal Reserve
  - Current situation does not set a strong agenda for the Federal Reserve
    - High inflation calls for a rate hike – *quantitative tightening*
    - Slowing economy calls for a rate drop – *quantitative easing*
  - Most economist see cautious easing of less than 1%, bringing the 2026 targeted Discount rate to 3.5%



National Conditions

- Trump Administration
  - Trade Policy: 10% tariffs on nearly imports threatening harsh retaliations by trading countries.
    - Improve federal budget deficit
  - Tax Policy: Permanent extension of the 2017 Tax Cuts and Jobs Act and addition of new Individual Income Tax provisions (through 2028)
    - More than offset deficit gains by tariff tax revenues
  - Immigration and Labor Policies
    - Policies discouraging highly skilled workers from remaining in the US further degrading federal income tax revenues



Is a National Recession on the Horizon?

- **It's the big question we're always asking**
  - The U.S. economy remains fundamentally strong
  - What is working against it is recently enacted fiscal and regulatory policy changes and those that may be on the horizon
    - Potential for escalated trade wars
      - Reduced domestic capital formation
      - Higher consumer prices
      - Retaliations reducing agricultural exports
    - Return to collections & default enforcement of student loans
    - Immigrant labor force disruptions
    - Aid to low-income households
    - Prolonged government shut-down
      - Temporary loss of SNAP benefits

National Labor Force Projections

- We're cautiously optimistic for stable growth in national employment
- Strong sectors include:
  - Education and health services
  - Leisure and Hospitality
- Weaker segments include:
  - Information
  - Manufacturing

Employment Growth	2025	2026	2027
Total nonfarm	1.0%	1.0%	1.1%
Total private	1.0%	1.0%	1.2%
Goods-producing	0.0%	-0.2%	-0.1%
Service-providing	1.1%	1.2%	1.3%
Mining and logging	-1.4%	-0.1%	1.0%
Construction	1.1%	0.3%	0.4%
Manufacturing	-0.6%	-0.5%	-0.5%
Trade, transportation & utilities	0.6%	0.5%	0.6%
Information	-0.6%	-3.3%	-4.1%
Financial activities	0.9%	0.7%	0.8%
Prof & business services	-0.1%	1.1%	1.4%
Education and health services	3.2%	2.6%	2.5%
Leisure and hospitality	1.3%	2.2%	2.5%
Other services	1.2%	0.9%	1.0%
Government	0.9%	0.6%	0.7%

	2024	2025	2026	2027
CES Employment	161,349	163,499	164,632	166,244
	0.2%	*1.3%*	*0.7%*	*1.0%*
U.S. Unemployment Rate	4.03	4.19	4.25	4.25
	11.0%	*3.9%*	*1.4%*	*0.0%*

National Output and Income projections

- Our projections call for cautious optimism
- Growth projections are moderated by inflation

	2024	2025	2026	2027
Gross Domestic Product ($Mil. Current)	29,298,010	30,583,120	31,878,295	33,230,040
	6.7%	*5.3%*	*4.4%*	*4.2%*
Personal income ($ Millions: Current)	23,380,270	24,675,490	25,960,810	27,400,027
	5.9%	*5.5%*	*5.2%*	*5.5%*
Personal consumption ($Mil. Current)	19,896,008	20,855,550	21,714,633	22,651,823
	5.6%	*4.8%*	*4.1%*	*4.3%*
GDP: Investment ($Mil. Current)	5,259,320	5,485,857	5,679,476	5,909,157
	4.7%	*4.3%*	*3.5%*	*4.0%*
GDP: Net exports ($Mil. Current)	-898,460	-1,021,584	-971,846	-987,098
GDP: Gov't expend ($Mil. Current)	5,041,144	5,263,301	5,456,035	5,656,159
	6.3%	*4.4%*	*3.7%*	*3.7%*
Treasury Yields: 2-Year Constant Maturity	5.17	6.24	5.28	5.35
Treasury Yields: 30-Year Constant Maturity	4.72	5.28	5.58	5.73
Consumer Price Index: All Cities, All Goods &	314.81	325.39	336.63	346.93
	3.3%	*3.4%*	*3.5%*	*3.1%*

State Conditions

- Factors effecting the Michigan Economy
  - The production of goods for trade is an important component of Michigan's economy
    - Agriculture,
    - Light vehicle manufacturing,
    - Furniture, &
    - Trade hubs with Canada
  - On again-off again EV transition
  - Aging workforce
  - Slowing national economy and consumer spending
  - Elevated interest rates

State Labor Force Projections

- State employment growth is slated for moderate growth
  - Growth in goods-producing sectors is flat
  - Service-providing sectors are expected to generate net gains
  - Construction is likely to weaken in 2027, but may reverse depending public investment in infrastructure

Employment Growth	2025	2026	2027
Total Nonfarm	0.8%	0.6%	0.6%
Total Private	0.7%	0.7%	0.7%
Goods Producing	-0.3%	0.2%	-0.2%
Service-Providing	1.0%	0.6%	0.7%
Mining and Logging	-0.6%	-1.5%	-0.1%
Construction	4.1%	1.6%	0.1%
Manufacturing	-1.7%	-0.3%	-0.3%
Trade Transportation and Utilities	0.6%	0.4%	0.4%
Information	-0.5%	-3.5%	-4.4%
Financial Activities	2.5%	1.3%	0.9%
Professional and Business Services	-1.3%	-0.4%	0.2%
Education and Health Services	2.7%	1.8%	1.7%
Leisure and Hospitality	1.1%	1.8%	2.2%
Other Services	2.8%	0.8%	0.7%
Government	0.9%	-0.1%	0.0%

	2025	2026	2027
Labor Force	5,076,763	5,090,973	5,117,586
Employment	4,808,662	4,822,525	4,844,514
Unemployment	268,101	268,449	273,072
Unemployment Rate	5.3	5.3	5.3

State Output and Income projections

- State Gross Domestic Product is expected to keep pace with inflation
- We're also pegging personal income growth to just keep pace with inflation

State Output	**2024**	**2025**	**2026**	**2027**
Current-dollar GDP ($000s)	699,351,700	722,773,300	745,481,600	768,989,300
	3.8%	*3.3%*	*3.1%*	*3.2%*
Real GDP (2017 $000s)	556,474,900	559,317,200	560,876,600	562,172,800
	0.4%	*0.5%*	*0.3%*	*0.2%*

Michigan Income by place of residence ($000s)	**2024**	**2025**	**2026**	**2027**
Personal income (thousands of dollars)	647,569,700	670,765,000	693,164,800	717,164,500
	5.5%	*3.6%*	*3.3%*	*3.5%*
Population (persons)	10,037,730	10,039,340	10,041,680	10,044,460
	0.0%	*0.0%*	*0.0%*	*0.0%*
Per capita personal income ($)	64,514	66,814	69,029	71,399
	5.5%	*3.6%*	*3.3%*	*3.4%*

Lansing-East Lansing Conditions

- Factors effecting the Lansing-East Lansing Economy
    - UofM Health investment in Sparrow
    - LG Energy Solutions-~~GM~~ investment in Ultium Cells battery plant
    - Plant expansion and highway construction boosting construction activities
    - Relatively tight labor market
        - Access to qualified workers
        - Employee costs of production
    - University austerity plan
    - Housing constraints

Lansing-East Lansing Labor Force Projections

- We see a bit more growth in Lansing-East Lansing employment
  - Resilient stability in vehicle manufacturing
  - Shared growth in Education & Health Services and in Leisure and Hospitality
  - Construction has seen strong growth in recent quarters, but we anticipate that that will taper off in the coming years

Employment Growth	2025	2026	2027
Total Nonfarm	1.5%	0.8%	0.8%
Total Private	1.0%	1.0%	1.0%
Goods Producing	3.7%	0.7%	0.5%
Service-Providing	1.2%	0.8%	0.9%
Mining, Logging, and Construction	6.2%	1.7%	0.7%
Manufacturing	2.5%	0.1%	0.3%
Trade, Transportation, and Utilities	0.6%	0.6%	0.7%
Information	-1.3%	-1.5%	-1.2%
Financial Activities	1.2%	2.2%	1.8%
Professional and Business Services	-1.8%	0.5%	0.5%
Education and Health Services	2.0%	1.5%	1.4%
Leisure and Hospitality	-1.2%	1.1%	1.6%
Other Services	1.9%	0.6%	0.8%
Government	3.1%	0.4%	0.5%

	2025	2026	2027
Labor Force	256,988	257,502	259,281
Employment	244,123	244,391	245,844
Unemployment	12,866	13,112	13,437
Unemployment Rate	5.0	5.1	5.2

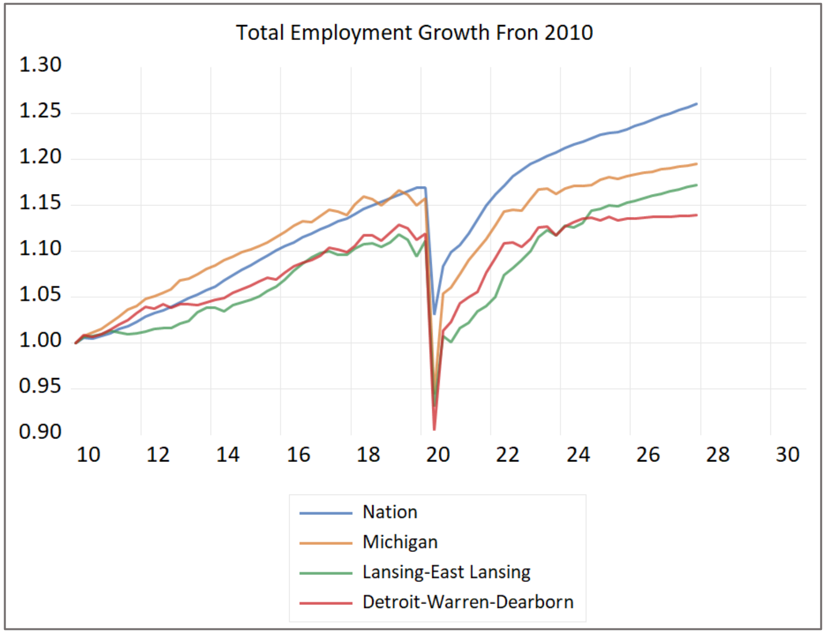
Lansing-East Lansing Output and Income projections

- GDP expansion driven primarily by rising prices and population
- Little to no growth in real, per-person economic output

State Output	2024	2025	2026	2027
Current-dollar GDP ($000s)	36,827,510	38,132,210	39,443,280	40,802,380
	3.9%	*3.5%*	*3.4%*	*3.4%*
Real GDP (2017 $000s)	29,461,040	29,687,150	29,874,150	30,050,400
	0.6%	*0.8%*	*0.6%*	*0.6%*

Lansing Income by place of residence ($000)	2024	2025	2026	2027
Personal income (thousands of dollars)	27,051,760	28,115,090	29,081,350	30,117,630
	5.3%	*3.9%*	*3.4%*	*3.6%*
Population (persons)	474,088	475,062	476,079	477,123
	0.2%	*0.2%*	*0.2%*	*0.2%*
Per capita personal income (dollars)	57,061	59,182	61,085	63,123
	5.1%	*3.7%*	*3.2%*	*3.3%*

Summary



- If left to its own devises, the national, state and local economies are poised for further, yet tepid growth over the next 2 years
- Much rests on the volatility of U.S. policy and how existing policy enactments play out
  - Effect of tariffs on consumer prices and consumer response
  - Growing national debt that hit $38 trillion this week
  - Consumer debt is also hitting new highs
  - Jerome Powell will vacate the Federal Reserve May 2026

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Detailed projections can be retrieved at:

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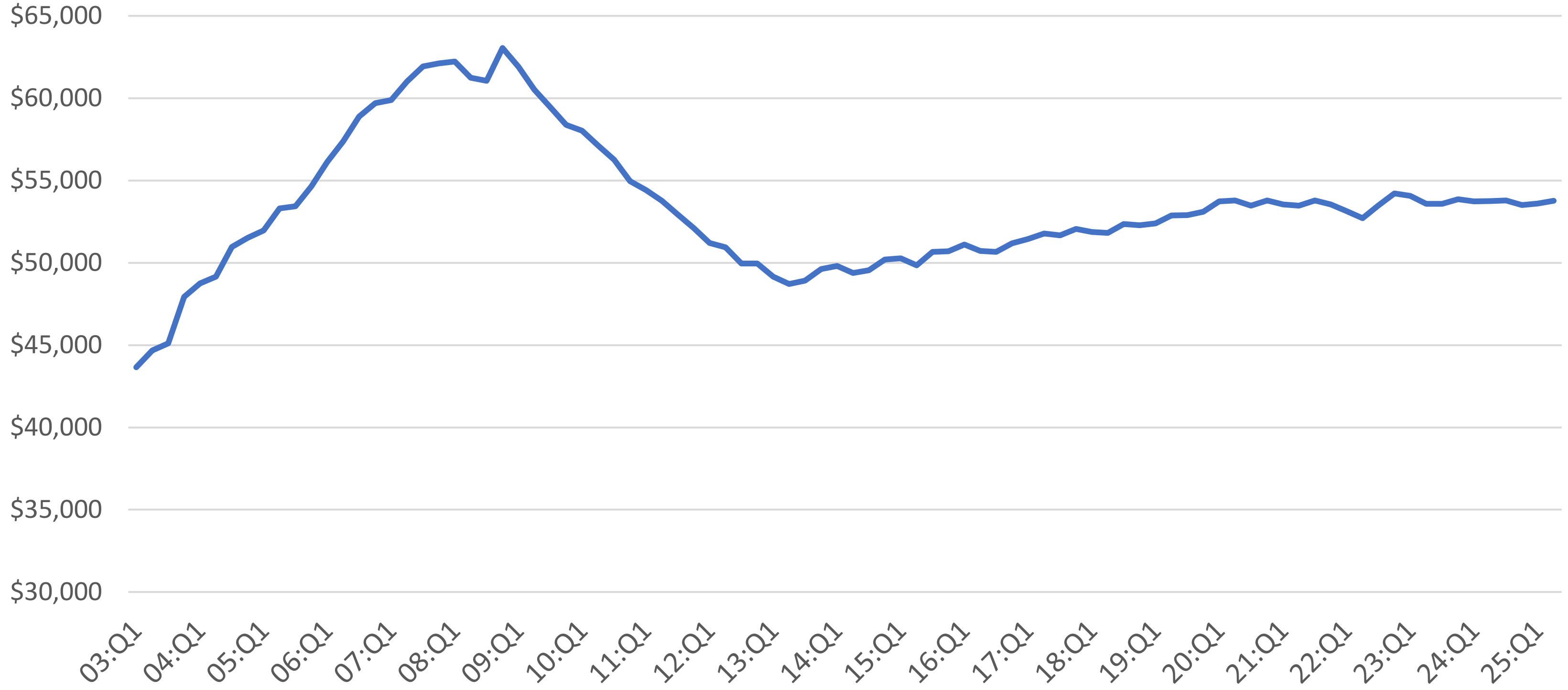
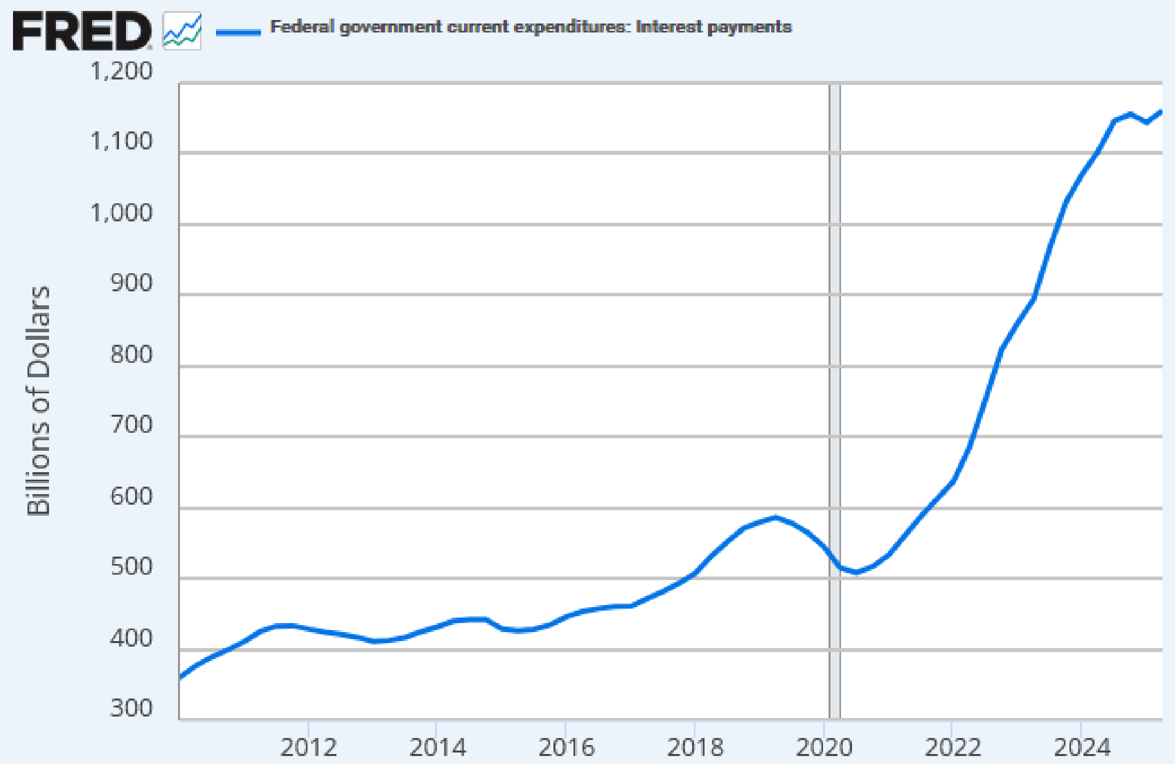
Real Household Debt per Capita
U.S. in 2025 Prices



Calculated using data from the New York Federal Reserve Bank "Household Debt and Credit Report, Census and Bureau of Labor Statistics

Interest on Federal Government Debt



Source: U.S. Bureau of Economic Analysis via FRED®

Shaded areas indicate U.S. recessions.

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Consumer Sentiment