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# 2025 Mid-Year Michigan Economic Outlook

JULY 14, 2025

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*The views expressed here do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.*

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## Presentation: Signal vs. Noise

- There are three themes that are meant to be highlighted in the deck that hopefully come through
  - Uncertainty: We always talk about it, but this time is different. Not just with how often it's mentioned, but the manner in that it's mentioned.
  - Mixed signals: Based off the sector you operate in or within a data series itself, there are many inconsistencies that have made it more difficult to interpret what's going on.
  - Pull-ahead: One consistency is the pull-ahead we've seen in production of and consumer demand for some big-ticket items.
- However, that pull-ahead seems to be winding down.
- Lastly, the pace of growth of Michigan's economy ended 2024 on the same strong note as the U.S. However, Michigan's labor market has softened much more relative to the other 7<sup>th</sup> District states and the U.S., causing concern.
- And Michigan is one of the more exposed states to tariff implementation, creating another risk.

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# Current Business Cycle

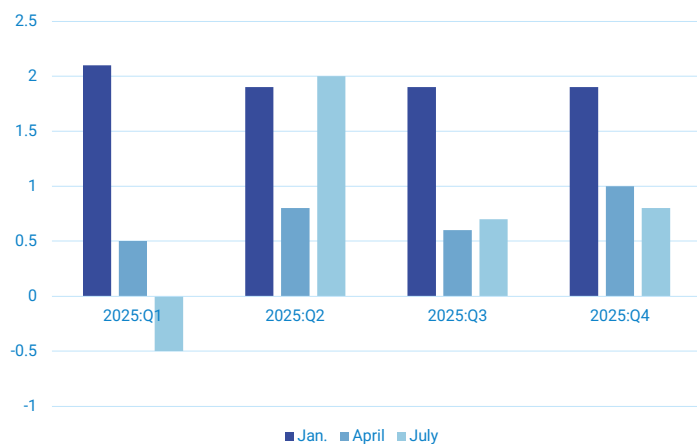
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## U.S. Real GDP Projections: Blue Chip Consensus

- 1<sup>st</sup> quarter Real GDP growth was negative because of the surge in imports to get ahead of tariffs
- This should balance out somewhat in the 2<sup>nd</sup> quarter
- As 2025 has progressed, the Blue Chip consensus forecast (and Fed SEP) for 2025 real GDP growth has become more pessimistic.



Source: Author's calculations using data from the Blue Chip Economic Forecast and Haver Analytics.

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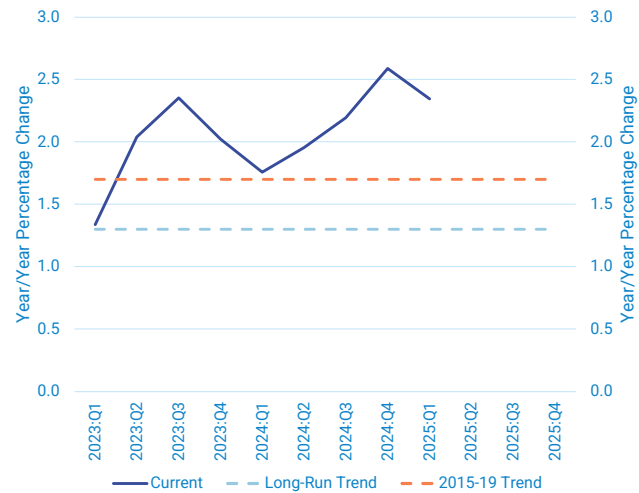
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## Michigan Real GDP vs. Trend

- Like with the rest of the U.S., Michigan Real GDP growth flattened out in the 1<sup>st</sup> quarter of 2025
- However, growth remains relatively strong given the rise in unemployment.



Source: Author's calculations using data from U.S. Bureau of Economic Analysis.

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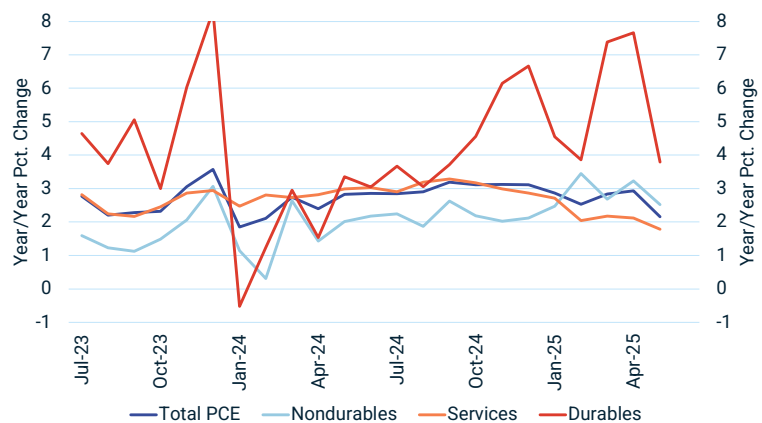
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## U.S. Real Consumer Spending

- Consumer spending has been impacted by the prospect of tariff implementation
- Strong pull-forward demand in the spring has cycled through and now growth has slowed
- Growth has slowed in non-tariff categories as well such as air travel and restaurants



Source: Author's calculations using data from U.S. Bureau of Economic Analysis.

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## Financial Sentiment: S&P 500 vs. Interest Rate Risk Spread

- S&P 500 moves lower = negative signal
- Risk spread moving lower = positive signal
- In recent weeks, the signals these variables are giving off are similar



Sources: Author's calculations using data from the Federal Reserve Board, Freddie Mac, and S&P Dow Jones Indices LLC via FRED

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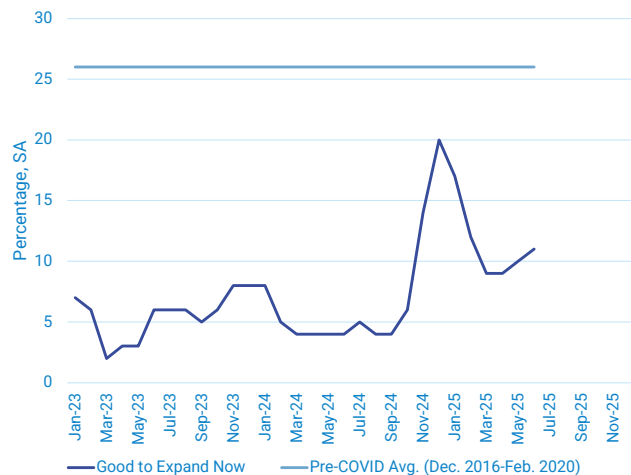
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## NFIB Small Business Survey Question: Is Now A Good Time to Expand?

- After the 2024 election, it seemed that more positive sentiment around expansion was returning, but it has retreated each of the last 3 months.
- In general, small business sentiment is lower than pre-COVID levels



Source: National Federation of Independent Business/Haver Analytics

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# Inflation

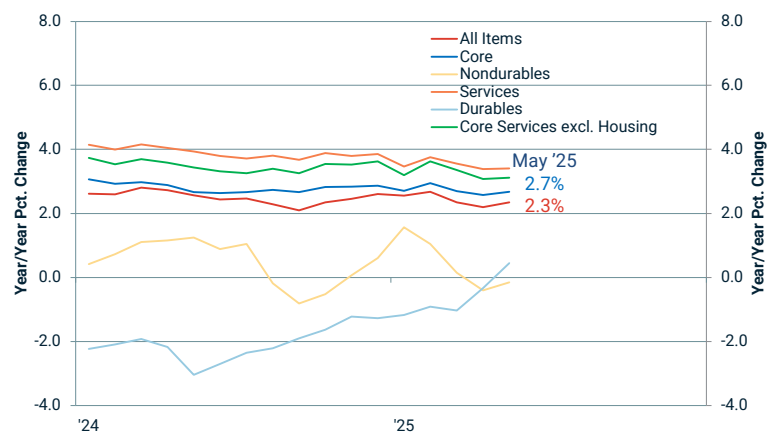
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## PCE Inflation

- Headline PCE inflation remains slightly above the 2% target.
- Core PCE inflation portends a slight pickup in inflation
- Tariff-induced pricing has only impacted certain items to this point.



Source: Author's calculations using data from the Bureau of Economic Analysis

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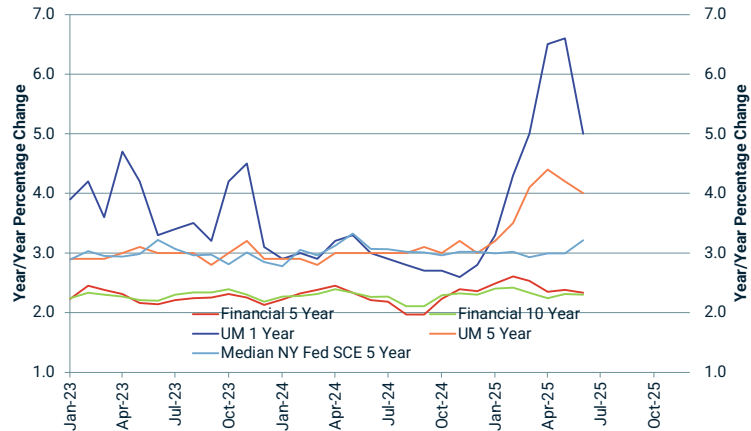
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## Inflation Expectations

- Measures of inflation expectations continue to give mixed signals.
- But overall, inflation expectations remain higher relative to a few months ago.



Source: Survey of Consumers – University of Michigan, Federal Reserve Board, and Haver Analytics

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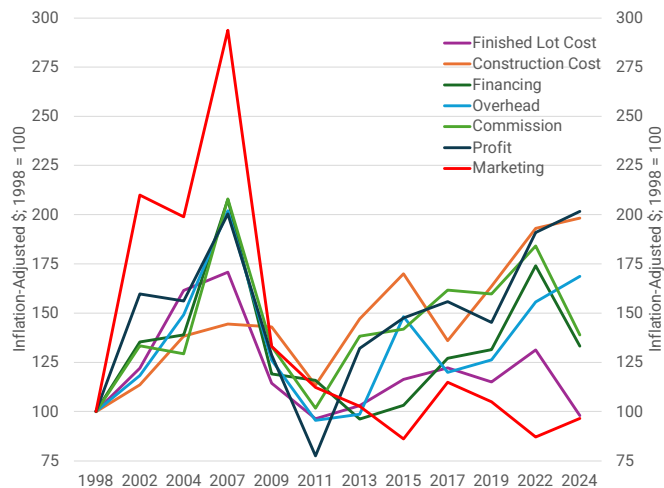
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## Inflation-Adjusted Construction Cost Breakdown

- Adjusted for inflation, construction costs have doubled in the last 25+ years
- Even with its post-Great Recession dip, margin levels have doubled as well despite ongoing cost pressures

Source: Author's calculations using data from the Bureau of Economic Analysis and [special-study-cost-of-constructing-a-home-2024-january-2025.pdf](#)

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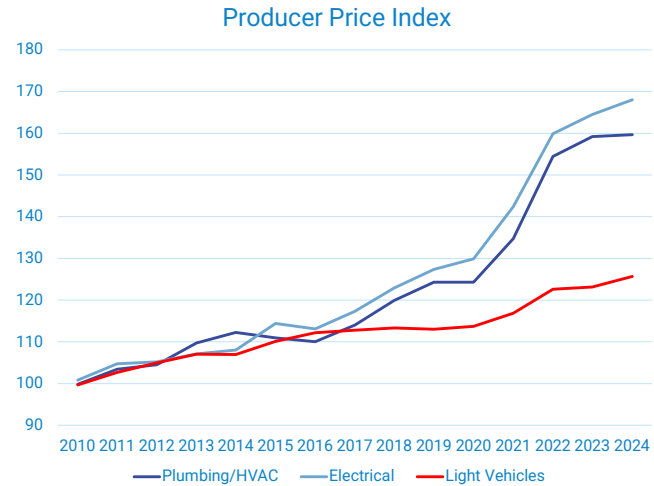
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## Producer Prices: Net Output of Select Industries

- In the homebuilders' survey, plumbing, HVAC, and electrical costs have each increased their cost share.



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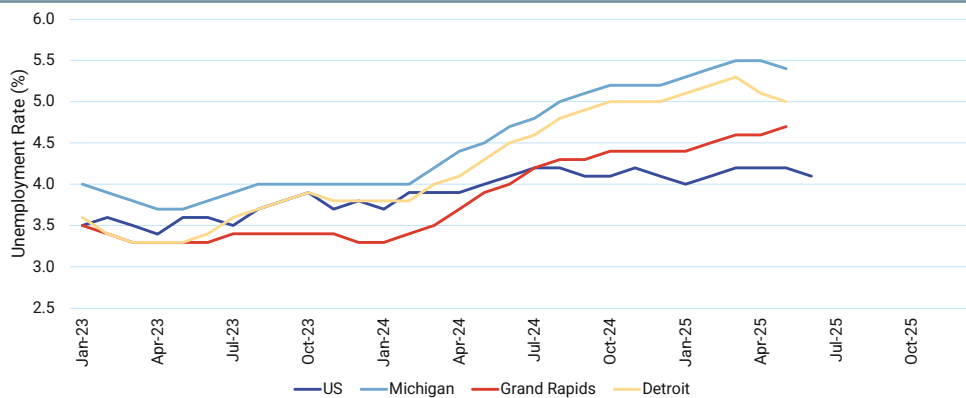
## Labor Market

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## Unemployment Rates



- U.S. unemployment rate is 4.1%; Michigan's unemployment rate is 5.4%
- Michigan's unemployment rate was revised higher and is tied for the 2nd highest unemployment rate among the states
- Grand Rapids metro unemployment rate is at its highest (not including COVID) since 2014

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Source: Bureau of Labor Statistics and Haver Analytics

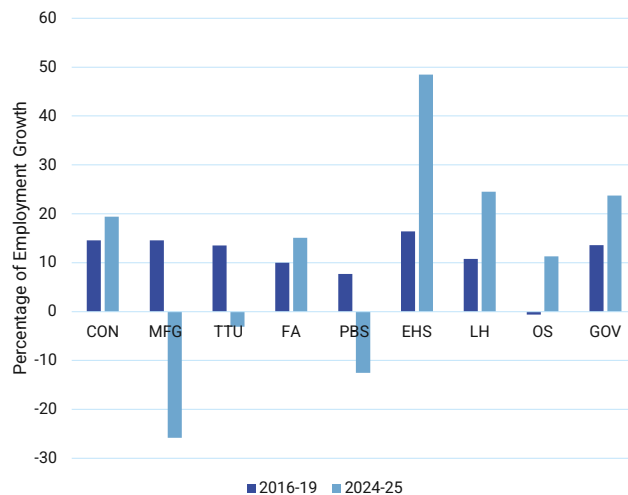
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## MI Nonfarm Payroll Employment Growth

- Year-to-date, Michigan has added 28,800 nonfarm payroll jobs, well ahead of last year's pace.
- Goods-producing employment has been negative year/year since last April.



Source: Author's calculations using data from the Bureau of Labor Statistics

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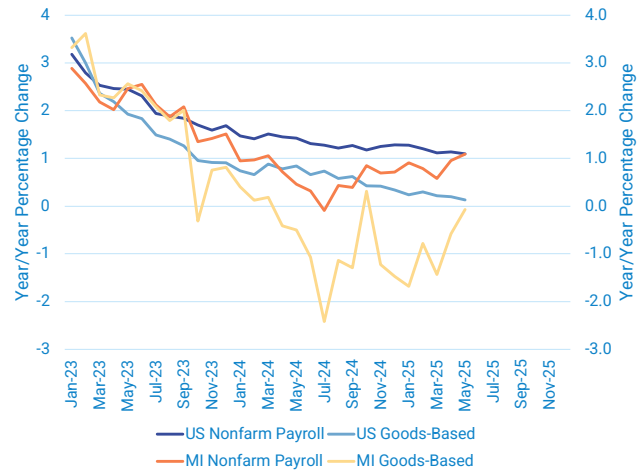
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## Goods-Based Employment

- Employment growth has slowed more so on the goods-based side.
- Michigan service-based employment has kept overall employment growth positive



Source: Author's Calculations using data from the Bureau of Labor Statistics

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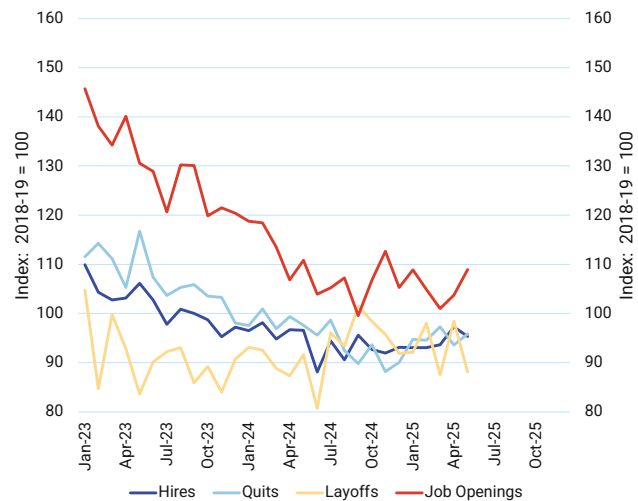
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## Hires, Job Openings, Quits & Layoffs

- The number of job openings is around 6% higher than pre-COVID levels
- The increase in layoffs leveled off but at slightly elevated levels when compared to where they were for most of 2024



Source: Author's calculations using data from the Bureau of Labor Statistics

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# Goods-Based Indicators

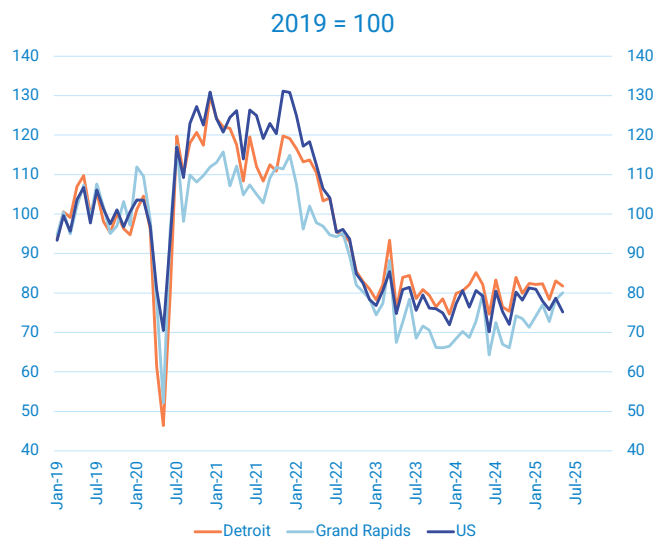
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## Zillow Home Sales Count

- All home sales, 3 month moving average
- After the COVID surge in homebuying, sales are 20-30% off 2019 levels



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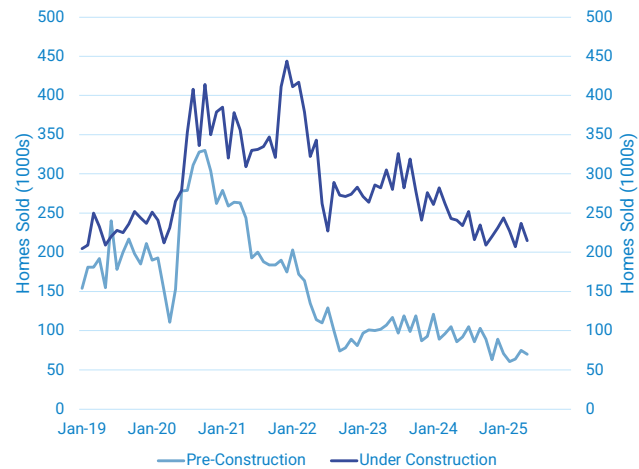
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## New Homes Sold: Under Construction vs. Pre-Construction

- The divergence between in-progress construction sales and pre-construction sales started in 2018-19
- Pre-construction sales haven't been this low since the years immediately after the Great Recession



Source: U.S. Census Bureau

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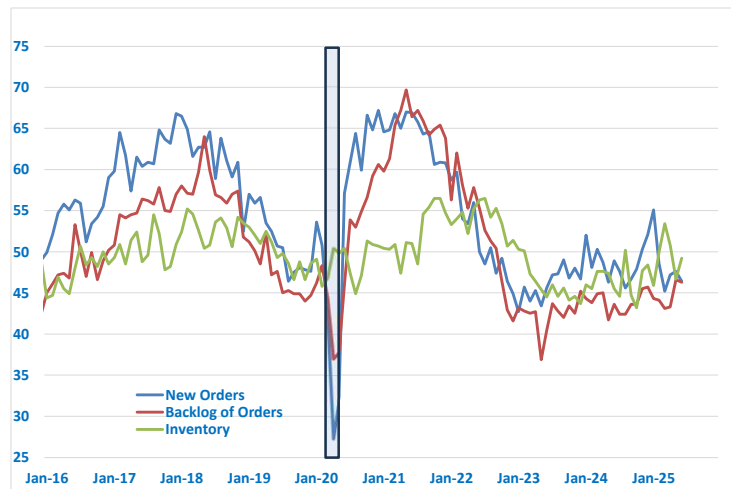
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## National ISM Sub-Indexes

- More purchasing managers reported decreases in new orders in recent months



Source: Author's calculations using data from the ISM and Haver Analytics

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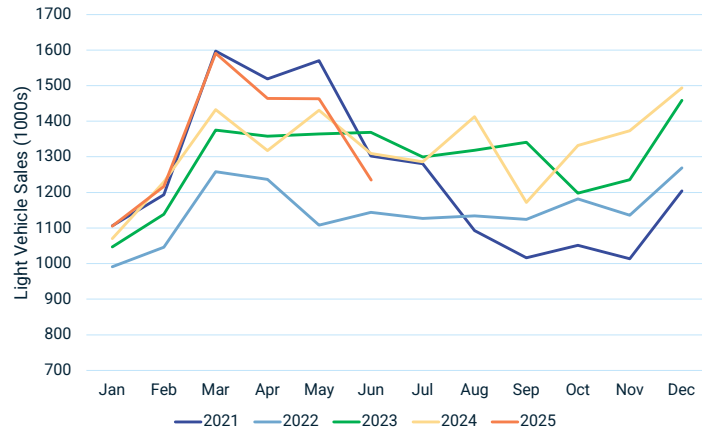
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## U.S. New Light Vehicle Sales

- Year-to-date, light vehicle sales are up 3.7% over last year because of strong sales in March and April
- However, with looming tariffs, some forecasts for light vehicle sales were revised lower.



Source: Author's Calculations using data from Wards Intelligence

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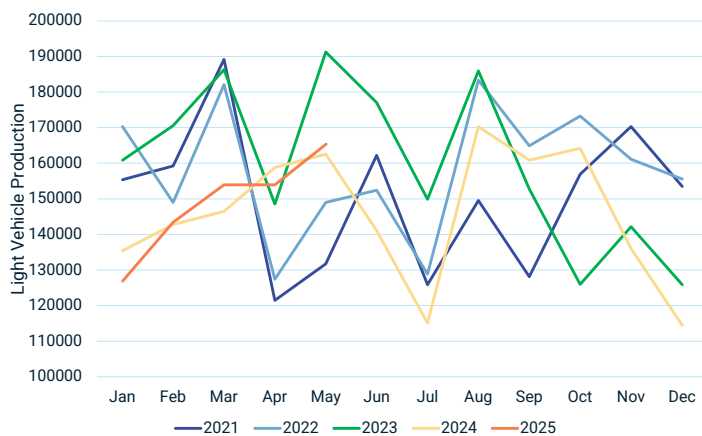
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## Michigan New Light Vehicle Production

- In 2024, Michigan light vehicle production was down 9%.
- Through May, year-to-date, Michigan light vehicle production is virtually even with year-ago levels.



Source: Author's Calculations using data from Wards Intelligence

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## Current Conditions

- Forecasters have lowered their growth forecasts and raised their inflation projections. The downside risks vastly outnumber the upside risks.
- Whether it be through trading down, pulling ahead, or pulling back, consumers had started adjusting to the tariff regime.
- However, that tariff regime has changed. Time to adjust again.
- There continue to be upside risks with inflation, even without tariffs.
- Michigan's labor market isn't as healthy as the U.S. labor market
- While Michigan's economy ended 2024 on a strong note, the turbulence around tariffs and its potential impact on the goods-based economy with already rising unemployment is likely to lower growth in 2025.

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