

\$1.7B Deficit in 2010; Economic Recovery Expected to Be Slow

Legislators and the Granholm administration are facing a \$1.7 billion deficit in the budget they are currently preparing for the 2009-10 fiscal year, the state's three top economists have determined.

At Friday's revenue estimating conference setting projections that must be used in crafting the final spending plan for the upcoming year, the general fund deficit for the upcoming fiscal year will be \$984.8 million, while the School Aid Fund deficit will total \$732.8 million, considering the spending recommendations made earlier this year.

Total general revenues are estimated to be \$6.95 billion, down 6.5 percent from the current year, while total School Aid Fund revenues are expected to be \$10.56 billion, down 3.5 percent.

One of the greatest uncertainties facing Michigan's economy is what will happen with Chrysler, which is going through bankruptcy, and General Motors, which likely will go through bankruptcy over the summer as well.

Economists said there is also a significant level of uncertainty over the level of Michigan Business Tax revenues.

While there are hints that the national recession is drawing to a close, the recovery will be moderate and less robust than the period after previous recessions, the panel was told.

Michigan's heavy reliance on the auto sector and its unpredictable future made it difficult for economists to predict when the state will bounce back. But it's likely the state will not see any meaningful employment increases until at least 2011.

Auto industry researchers said the good news is that much of the restructuring in the sector in Michigan already has occurred as two of the Big Three automakers faced bankruptcy. Another bright spot may also be what's happening with Ford's transformation.

But if Chrysler and General Motors go through long bankruptcies that end with the companies not emerging, the impact on the state will be staggering, economists said. One of the hardest-hit industries, should the above scenario occur, would be the health care sector because of the number of auto retirees who live in the state.