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JANUARY 2026

# THE 2026 MICHIGAN ECONOMIC FORECAST

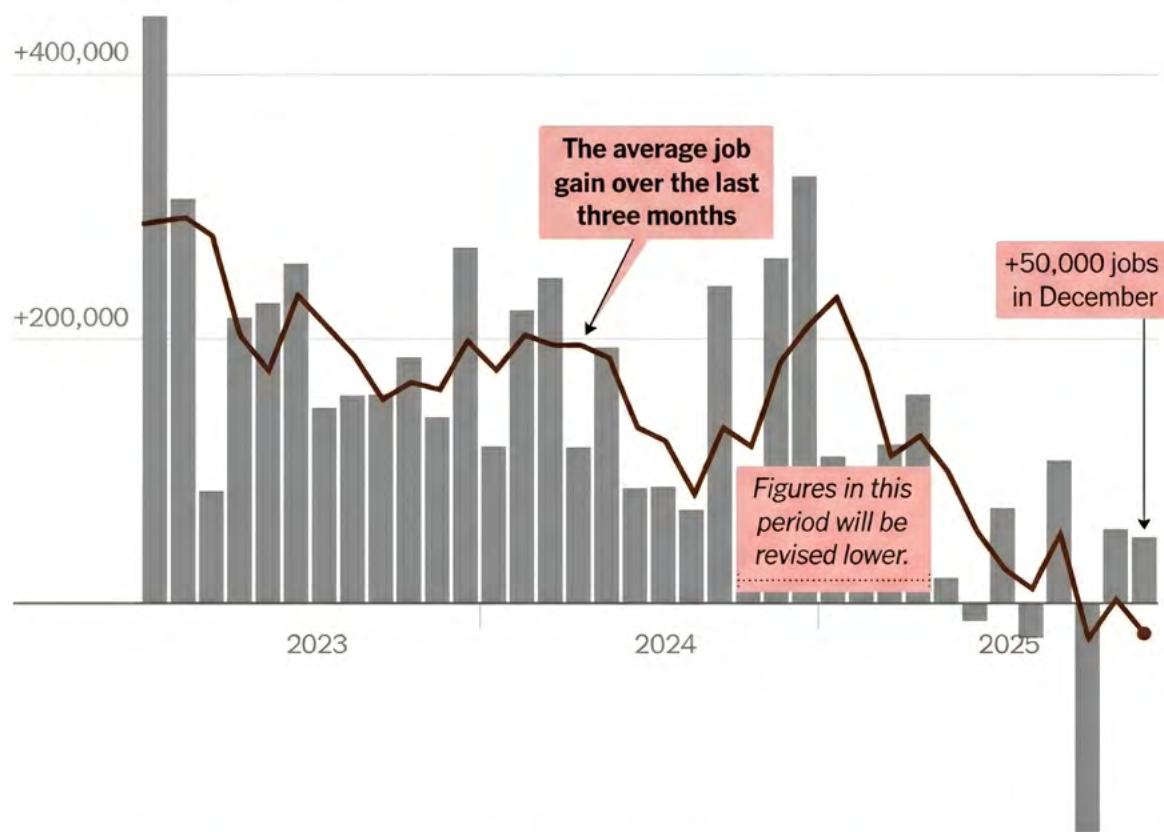
# SLOWING GROWTH, SHIFTING WORKFORCE:

## What Late 2025 Data Signals for Michigan

U.S. labor market data closing out 2025 points to an economy that continues to grow, but with mounting signs of structural strain. Payrolls increased by just 50,000 jobs in December, bringing total job creation for the year to 584,000, the weakest annual gain since 2020. While the unemployment rate edged down to 4.4 percent nationally in December, the headline figures obscure demographic shifts, data revisions, and regional disparities that are becoming increasingly relevant for employers, particularly in industrial states like Michigan.

Revisions played a significant role in reshaping the year's narrative. Payroll gains for October and November were revised downward by a combined 76,000 jobs, reinforcing concerns that earlier reports overstated labor market strength. These revisions followed disruptions caused by the federal government shutdown in October and November, which limited survey collection and required statistical assumptions to fill gaps. Federal Reserve officials have cautioned that recent employment reports may be overstating monthly job growth by as much as 60,000 positions.

### Monthly change in jobs



Note: Data is seasonally adjusted. Period of revision includes data that will be adjusted by the Bureau of Labor Statistics as part of a longstanding annual process known as benchmarking. Source: Bureau of Labor Statistics Jacqueline Gu/The New York Times

At the national level, hiring remained concentrated in health care, social assistance, and food services, sectors supported by demographic demand and consumer spending. Manufacturing, by contrast, continued to contract, shedding roughly 68,000 jobs over the year despite reshoring incentives and elevated capital investment. This divergence reflects longer term demographic realities, including an aging population driving health care demand and a shrinking pool of younger workers entering skilled trades and production roles.

Michigan's labor market mirrors many of these national dynamics but with added intensity.

According to the Michigan Department of Technology,

Management and Budget, the state's labor force declined by 58,000 workers since March 2025, a 1.1 percent reduction, even as the unemployment rate fell to 5.0 percent in November. Employment declined by 0.6 percent over the year, contrasting with national employment growth of 1.6 percent. Labor force participation dropped to 61.1 percent, reflecting ongoing demographic pressures tied to retirements and slower population growth .

Manufacturing employment in Michigan slipped modestly on a year over year basis, while gains were concentrated in private education and health services, government, and construction. This sectoral mix underscores a broader transition underway. Job availability increasingly favors service and care oriented roles, while traditional manufacturing employers face tighter labor supply and heightened competition for experienced workers.

For employers and workforce planners, the late 2025 data suggests that the labor market is not weakening uniformly but rebalancing. Slower job growth, downward revisions, and demographic headwinds mean hiring will remain challenging, particularly for industries reliant on mid career and entry level talent. In Michigan, stabilizing employment may depend less on cyclical recovery and more on attracting and retaining workers in a shrinking labor pool, making workforce strategy as important as economic momentum in the year ahead.



# THE 2026 MICHIGAN ECONOMY FORECAST

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# Executive Summary

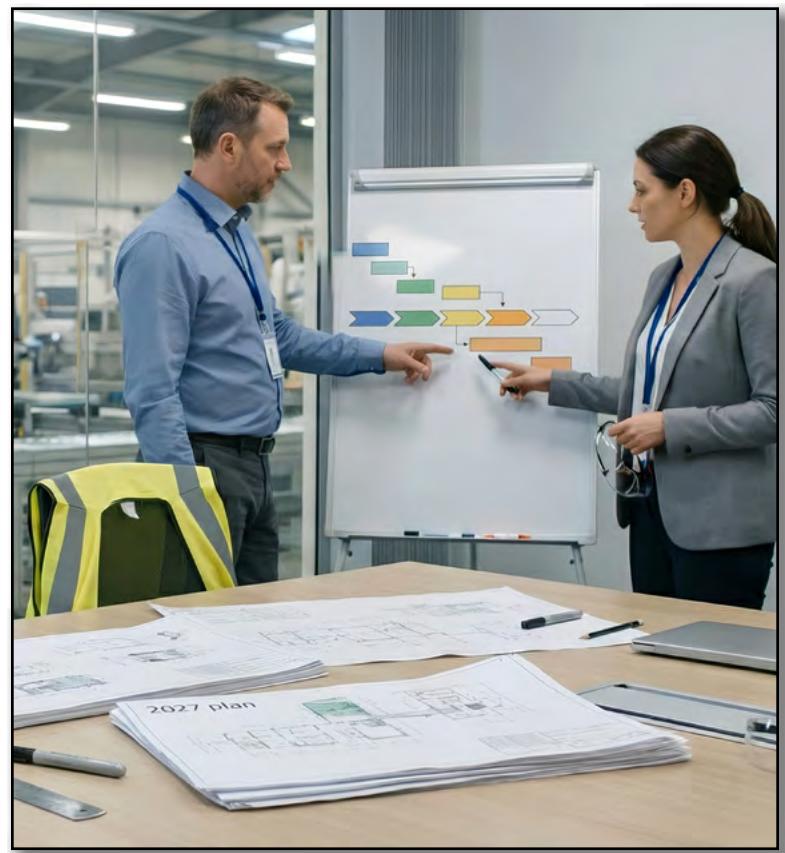
As we begin 2026, the State of Michigan finds itself at a pivotal economic juncture, defined not by post-pandemic volatility, but by a clear and sobering growth pause. Our report is synthesized from projections by the University of Michigan's Research Seminar in Quantitative Economics (RSQE), the Consensus Revenue Estimating Conference (CREC), and regional analyses from Grand Valley State University (GVSU) and The Right Place, provides a roadmap for employers navigating this new terrain.

The overarching narrative for 2026 is stabilization constrained by structural limits. After unexpected resilience in 2025, when payroll employment expanded by an estimated 36,700 jobs, the state's economic engine is projected to downshift sharply. The consensus forecast anticipates a slight labor market contraction in 2026, with a loss of roughly 2,000 jobs, before a modest recovery in 2027. This stagnation reflects Michigan's long-predicted demographic speed limit, where an aging population and stagnant workforce participation restrict potential growth.

For employers, 2026 brings a mix of headwinds and tailwinds. The automotive sector benefits from a more favorable federal regulatory environment that prioritizes domestic production and relaxes aggressive electric vehicle mandates. At the same time, rising labor costs are reshaping service industries, driven by a \$13.73 statutory minimum wage and the gradual elimination of the tip credit. Fiscal policy has also shifted with the implementation of a tax swap that exempts motor fuel from sales tax while raising excise taxes, altering revenue flows and road funding.

Regionally, West Michigan Exceptionalism is under pressure. Grand Rapids remains a center for technology and medical innovation, but its industrial base is softening, and the merger of HNI Corporation and Steelcase marks a new era of consolidation for Furniture City. Detroit, by contrast, is experiencing a demographic resurgence, posting population gains that outpace the rest of the state.

This report moves from macroeconomic indicators to sector analysis, regional comparisons, and employer-focused recommendations. Its purpose is not only to inform, but to equip Michigan business leaders with practical insight for a year of transition.



# PART I: THE MACROECONOMIC ENVIRONMENT

## 1.1 The Arrival of the “Growth Pause”

The economic trajectory of Michigan in 2026 is defined by a phenomenon that RSQE economists have termed a “growth pause.” This characterization is crucial for employers to understand: it is neither a recessionary collapse nor a continuation of the recovery boom. It is a plateau, a period where the opposing forces of economic momentum and structural constraints reach a temporary equilibrium.

### The Employment Stagnation

The most visible indicator of this pause is the trajectory of payroll employment. In 2025, the state defied expectations, adding jobs at a pace of 0.8% and bringing the total payroll count to approximately 4.52 million. However, as we enter 2026, the forward momentum has dissipated. The forecast projects a net decline of roughly 2,000 jobs on a calendar year average basis.

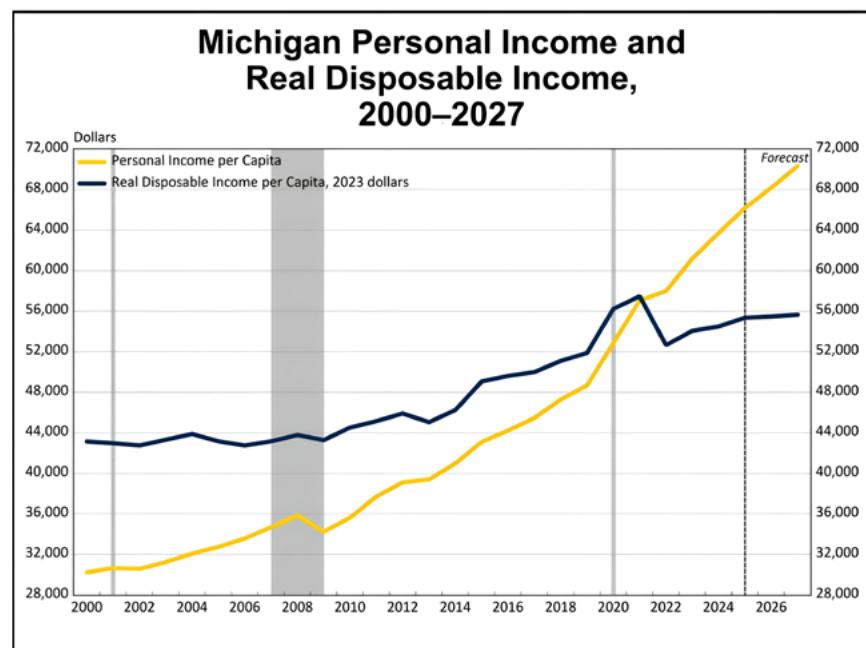
This stagnation is driven by several converging factors:

**Manufacturing Retrenchment:** The manufacturing sector, historically the bellwether of Michigan’s economy, is projected to shed approximately 2,000 or more jobs in 2026. This reflects a cooling in global demand for durable goods and a period of inventory rightsizing following the supply chain disruptions of the previous years.

**Service Sector Saturation:** The rapid recovery of the leisure and hospitality sector has largely run its course. While demand remains stable, the explosive hiring sprees of 2023-2024 are over, replaced by a focus on efficiency and margin preservation.

**Fiscal Drag:** The expiration of federal pandemic-era stimulus and the tightening of state spending in response to revenue changes have removed a key source of demand from the economy.

**Inflation: The Return of Price Pressure**  
While employment cools, inflation is heating up. The Detroit Consumer Price Index (CPI), which tracks local inflation, had moderated to a manageable 2.0% in 2025. However, the forecast for 2026 sees a reacceleration to 3.0%. Unlike the demand-driven inflation of 2021, this resurgence is largely “cost-push,” driven by the implementation of new federal tariffs on imported goods.



These tariffs, while designed to protect domestic industries, increase the input costs for a wide range of consumer products. As these costs are passed through to consumers, they erode the purchasing power of households. This dynamic creates a challenging environment for employers: employees face rising living costs and will likely demand higher wages, yet businesses are facing softer demand and cannot easily pass on labor cost increases.

## Real Income and Purchasing Power

The interaction between nominal wage growth and inflation tells a stark story for 2026. In 2025, robust wage growth combined with low inflation led to a healthy 1.6% increase in real disposable income per capita. In 2026, however, the acceleration of inflation to 3.0% is expected to consume nearly all nominal wage gains.

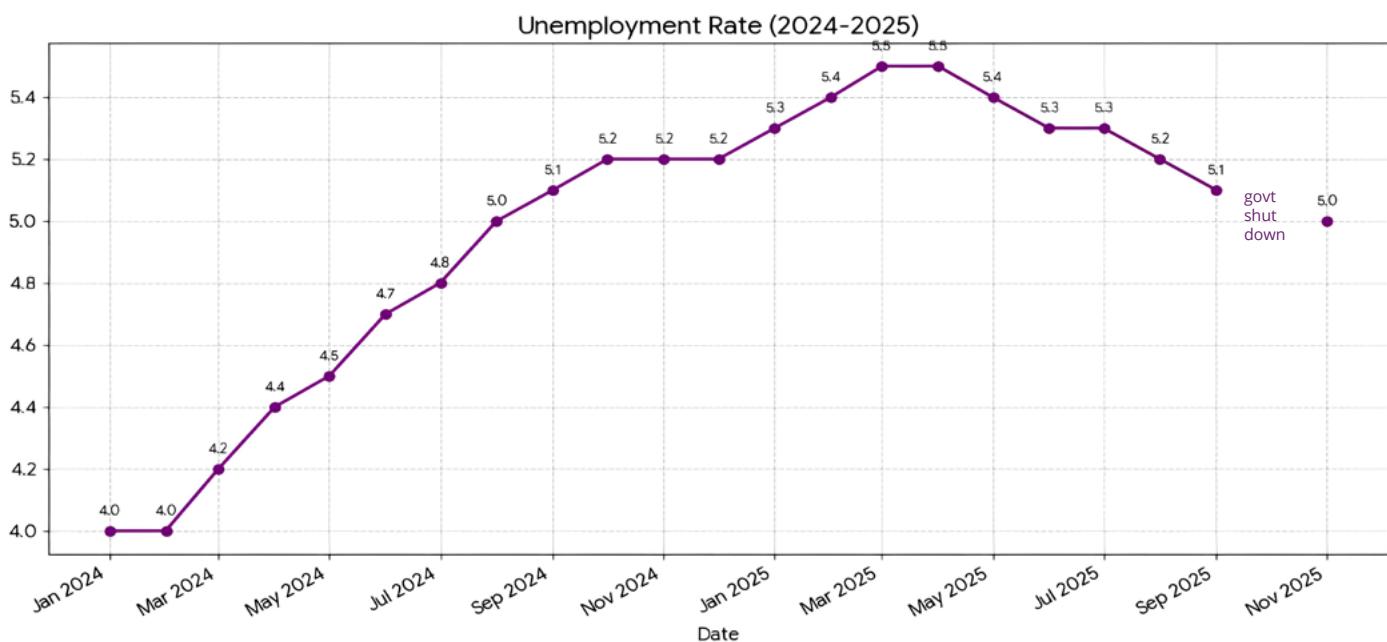
Real disposable income growth is projected to collapse to just 0.2% in 2026. This near-zero growth in purchasing power suggests that consumer spending—the primary driver of the U.S. economy—will be lackluster in Michigan. Retailers and service providers should anticipate a consumer base that is cautious, price-sensitive, and financially stretched.

## 1.2 The Demographic “Speed Limit”

Underpinning the cyclical “growth pause” is a structural reality that has been building for decades: Michigan has hit its demographic “speed limit.” Economic growth is fundamentally a function of two variables: growth in the labor force and growth in productivity. In 2026, Michigan’s capacity for labor force growth is nearing exhaustion.

### The Labor Force Participation Ceiling

The labor force participation rate in Michigan, estimated at 61.5% in late 2025, is projected to inch up only marginally to 61.7% by mid-2026. This low participation rate is not a reflection of discouraged workers who could be drawn back in; rather, it is a reflection of an aging population. As the Baby Boomer generation retires in full force, there are simply fewer prime-age workers available to replace them.



This demographic constraint acts as a governor on the economy. Even if demand for Michigan products were to surge, the state lacks the human capital to rapidly expand production. This “speed limit” implies that the unemployment rate, projected to tick up to 5.6% in 2026, is unlikely to fall significantly lower in the future without a massive influx of migration—a trend that currently favors the Sun Belt over the Rust Belt.

## MICHIGAN MIGRATION

**From July 2023 to June 2024, Michigan saw an estimated net loss of about 7,656 residents to other U.S. states, though this outbound migration has shrunk from prior years. Net international migration added around 67,600 people, driving a modest statewide population increase of about 57,100 in 2024. Domestic outflows still trend toward Sun Belt states like Florida and Midwest states such as Ohio, often for jobs, climate, or affordability.**

### The Migration Challenge

While Detroit has seen some positive net migration (discussed in Part IV), the state as a whole struggles to attract new residents. The RSQE forecast notes that without significant changes to immigration policy or domestic migration patterns, Michigan’s workforce growth will remain anemic. This places a premium on retention and productivity enhancement. For employers, the message is clear: the labor shortage is not a temporary crisis; it is the new permanent operating condition.

### 1.3 Detailed Forecast Data (RSQE)

To provide a granular view of the outlook, we have reconstructed the key economic indicators from the RSQE November 2025 forecast data. This data highlights the stagnation expected in 2026. The shift from positive job growth (+36,700) to a contraction (-2,000) marks the definitive start of the “pause.” Simultaneously, the jump in inflation from 2.0% to 3.0% confirms the cost-push pressures facing the state.

Economic Indicator	2024 (History)	2025 (Estimate)	2026 (Forecast)	2027 (Forecast)
Total Payroll Jobs (000s)	4,488.4	4,525.1	4,523.1	4,534.4
Job Change (000s)	+27.6	+36.7	-2.0	+11.3
Unemployment Rate (%)	4.6%	5.3%	5.6%	5.5%
Michigan CPI Inflation (%)	3.3%	2.0%	3.0%	2.9%
Personal Income Growth (%)	4.6%	3.9%	3.0%	3.2%
Real Disposable Income Growth (%)	0.9%	1.6%	0.2%	0.3%

# PART II: THE AUTOMOTIVE SECTOR – NAVIGATING TRADE AND TECHNOLOGY

## 2.1 The Tariff Regime and Domestic Production

The automotive industry remains the beating heart of Michigan's economy, and in 2026, it is operating under a radically altered trade regime. The Trump Administration's aggressive use of tariffs has reshaped the competitive landscape, creating a complex mix of penalties and incentives for domestic manufacturers.

### The Mechanics of the Tariff Rebate

The headline policy involves steep tariffs on imported vehicles and parts. However, a critical nuance lies in the rebate mechanism designed to protect U.S. manufacturing. As detailed in the RSQE report, automakers assembling vehicles domestically can claim rebates on the tariffs paid for imported parts.

**Rebate Structure:** Automakers can rebate up to 3.75% of a vehicle's MSRP against the tariffs owed on its imported components. This policy effectively subsidizes domestic assembly by neutralizing the cost penalty of importing parts, provided the final assembly occurs in the U.S..

**Timeline:** This 3.75% rebate is in effect for 2026 but is scheduled to step down to 2.5% in May 2026 and phase out by May 2027. This creates a window of opportunity for Michigan plants to maximize output before the full weight of component tariffs hits the bottom line.



### Net Impact on Production

Contrary to fears that trade wars would decimate production, the specific structure of these tariffs and rebates is projected to be net positive for U.S. light vehicle production in the medium term. RSQE estimates that while total U.S. vehicle sales may decline due to higher prices, the substitution effect—consumers switching from imported cars to domestically made ones—will outweigh the loss.

**Substitution Gain:** +927,000 units/year shifted from imports to domestic models.

**Sales Loss:** -531,000 units/year due to higher prices.

**Net Production Change:** +275,000 units (+2.7%) increase in domestic assembly.

For Michigan, which hosts a disproportionate share of domestic assembly capacity, this is a vital lifeline. It suggests that assembly plants will remain busy, supporting the dense network of Tier 1 and Tier 2 suppliers in the region.

## 2.2 The Regulatory Pivot: ICE Resurgence vs. EV "Winter"

2026 marks a decisive shift in the technological roadmap for the U.S. auto industry. The aggressive push toward electric vehicles under prior administrations has given way to a more market-driven, technology-neutral approach that favors the core strengths of the Detroit Three. What was once framed as an inevitable EV transition is now evolving into a more cautious recalibration driven by economics rather than policy.

Two regulatory changes are central to this shift.

**Elimination of EV Credits:** The removal of federal tax credits for EV purchases has further dampened demand that was already weakening amid high prices, charging infrastructure gaps, and range anxiety. Automakers that expanded production assuming sustained subsidy support now face a smaller addressable market.

**CAFE Penalty Removal:** The elimination or relaxation of penalties for missing Corporate Average Fuel Economy standards removes a major financial overhang, particularly for manufacturers dominated by trucks and SUVs. This materially improves the economics of continued internal combustion engine production.



The financial consequences of the earlier EV push are becoming clear. Ford has disclosed nearly \$19.5 billion in cumulative EV-related losses, while General Motors has taken \$7.1 billion in charges tied to declining asset values and overbuilt EV capacity. These write-downs underscore how sharply consumer demand was overestimated and how quickly shifts in policy can alter investment outcomes.

### The Detroit Three Advantage

These regulatory and market changes play directly to the strengths of General Motors, Ford, and Stellantis. Their highest-margin products remaining are internal combustion engine (ICE) based full-size pickups and SUVs, including Silverados, F-Series trucks, and Rams. With less pressure to subsidize EV losses, automakers are redirecting capital toward hybrids and gasoline platforms. Ford's decision to reposition the F-150 Lightning away from a purely electric future reflects this broader retreat.

RSQE projects the Detroit Three's U.S. light vehicle market share will rise to 35.4 percent in 2026, reversing decades of erosion. This ICE resurgence supports near-term stability for Michigan's engine and transmission plants but creates whiplash across the supply chain. Suppliers that invested heavily in EV-specific tooling now face underutilization, highlighted by the 1,200 layoffs at GM's Factory Zero. Employers must now balance profitable ICE production with maintaining selective EV capabilities for a slower long-term transition.

# PART III: FISCAL POLICY – THE 2026 BUDGET TRANSFORMATION

## 3.1 The “Tax Swap” and Revenue Dynamics

Effective January 1, 2026, Michigan’s fiscal landscape underwent a structural transformation through a package of legislation (HB 4180-4183) known as the “Tax Swap.” This policy overhaul fundamentally changes how the state taxes fuel and funds its roads and schools.

### The Policy Mechanics

**Sales Tax Exemption (HB 4180, 4182):** Motor fuel is now exempt from the state’s 6% sales and use tax. Historically, Michigan applied sales tax to fuel—a “tax on a tax” that funded schools and local governments but not roads.

**Excise Tax Hike (HB 4183):** To compensate for lost road funding and capitalize on the sales tax cut, the motor fuel excise tax was raised from roughly \$0.31 to \$0.51 per gallon.

### Fiscal Impact: The General Fund Squeeze

While this swap ensures dedicated funding for roads (via the Michigan Transportation Fund), it creates a significant hole in the General Fund (GF/GP).

**Revenue Loss:** The exemption of fuel from sales tax is estimated to reduce General Fund revenue by \$651 million in FY 2026 and \$814 million in FY 2027.

**School Aid Fund Protection:** Crucially, the legislation mandates that the School Aid Fund (SAF) be “held harmless.” The General Fund must transfer revenue to the SAF to replace the lost sales tax receipts.

**Implication:** This structure drains discretionary resources from the General Fund. With over \$600 million diverted to cover the SAF hole, the state has less flexibility for other priorities, such as economic development incentives, higher education funding, or general administrative costs. For employers, this could signal a tightening of state grants or a future pressure to find new revenue sources.



## 3.2 The Consensus Revenue Forecast (May 2025)

The state's budget for FY 2026 is built on the consensus estimates established in May 2025. These figures provide the baseline for state spending capacity.

Revenue Source	FY 2025-26 Estimate (\$M)	Growth vs FY 25	FY 2026-27 Estimate (\$M)	Growth vs FY 26
General Fund (GF/GP)	\$15,114.6	+4.3%	\$15,343.7	+1.5%
School Aid Fund (SAF)	\$18,934.3	+2.1%	\$19,398.6	+2.5%
<b>Total Combined</b>	<b>\$34,048.9</b>	<b>+3.1%</b>	<b>\$34,742.3</b>	<b>+2.0%</b>

Despite the disruptions of the Tax Swap, the overall revenue picture shows moderate growth. However, the slowing growth rate in FY 2027 (dropping to 2.0% combined) reflects the broader economic "pause." Additionally, the forecast includes a calculated payout from the Budget Stabilization Fund (BSF) of up to \$538.5 million in FY 2026, indicating that the state plans to use its savings to smooth over the transition and maintain spending levels despite the revenue restructuring.

## 3.3 The "One Big Beautiful Bill" Decoupling



Another critical fiscal development is Michigan's decoupling from the federal "One Big Beautiful Bill Act" (OBBA). The OBBA introduced new federal deduction and depreciation rules that, if adopted at the state level, would have reduced Michigan's tax base by \$400-\$600 million annually. By decoupling (HB 4961), Michigan preserved this revenue.

For businesses, this creates a compliance divergence. Employers can no longer simply carry over federal taxable income figures to their state returns; they must maintain separate accounting for state depreciation and deductions. This increases the administrative burden for corporate tax compliance in 2026.

# PART IV: REGIONAL ECONOMIC ANALYSIS – DIVERGENT PATHS

## 4.1 West Michigan: The Plateauing Powerhouse

For the past decade, West Michigan has been the overachiever of the state's economy, boasting growth rates that consistently outpaced the east side. In 2026, however, the region is reverting to the mean. The Right Place, the region's economic development organization, has characterized the outlook as "good but not great," signaling a cooling of the hot labor market and industrial activity.

### Employment and Industry Trends

**Job Market:** Total employment in Greater Grand Rapids has plateaued between 603,000 and 605,000 jobs. While the region added approximately 1,300 tech jobs in 2025, the broader industrial base is softening.

**Manufacturing Slowdown:** GVSU's Brian Long reports that the industrial economy is "softening," with the index of new orders dropping sharply to -20 in late 2025 and business confidence flipping to negative. This reflects the region's exposure to global supply chains and the uncertainty surrounding tariffs.

**Forecast:** Dr. Paul Isely of GVSU projects a tepid growth rate of 1.0% to 1.6% for employment in 2026. This is a "small uptick" but lacks the dynamism of previous years.



### The "Medical Mile" Anchor

A key stabilizer for Grand Rapids is the healthcare sector, specifically the "Medical Mile." Corewell Health continues to drive construction and employment with significant expansion projects:

**Holland Expansion:** A \$100 million expansion of the Care Center in Holland broke ground in late 2025, adding 100,000 square feet of clinical space.

**Troy Tower:** While located in Southeast Michigan, Corewell's new tower in Troy (132,000 sq ft) reflects the system's statewide capital strength, managed from its dual headquarters in Grand Rapids and Southfield.

These projects ensure a steady pipeline of construction jobs and high-wage healthcare positions, insulating the region somewhat from the manufacturing slowdown.

## 4.2 Southeast Michigan: Detroit's Resurgence

In a reversal of historical narratives, Southeast Michigan—specifically the City of Detroit—is providing a bright spot in the state's demographic picture.

### Detroit's Population Rebound

After decades of decline, Detroit posted a significant population gain in 2024, adding nearly 6,800 residents. This growth rate (1.1%) was double the statewide average and notably tripled the numeric growth of Grand Rapids for that year. This turnaround is driven by:

**Housing Development:** Aggressive revitalization of housing stock and new apartment construction in the city core and neighborhoods like Corktown and Midtown.

**Retention:** The city is increasingly retaining younger residents and attracting empty nesters from the suburbs.

For employers, this signals that Detroit is regaining its viability as a residential hub for talent. The ability to recruit workers who want to live in a dense, urban environment is improving, making the city a more competitive location for office-based businesses.



### The Auto-Dependence Liability

Despite the positive demographic news in the city, the broader region remains heavily exposed to the automotive cycle. The RSQE forecasts the Detroit Metro region to experience a long-term contraction in jobs, contrasting with the (slowing) growth of the west side. The region's reliance on the Detroit Three means it benefits from the ICE-friendly regulatory shift in the short term, but it faces existential risks if the companies fail to successfully navigate the delayed EV transition later in the decade.



## 4.3 Rural and Northern Michigan

Outside the two major metros, the outlook is challenging. Rural counties continue to face depopulation and rapid aging. The “speed limit” of labor force growth is effectively zero or negative in many northern counties. However, pockets of growth exist, particularly in the Northwest (Traverse City area), which is projected to see employment gains of 2.4% over the decade, driven by tourism and lifestyle migration.

# THE RESHAPING OF “FURNITURE CITY”

## The Steelcase-HNI Merger: A New Era for West Michigan

In December 2025, the economic landscape of Grand Rapids was fundamentally altered by the completion of HNI Corporation’s \$2.2 billion acquisition of Steelcase. This merger of two office furniture giants marks the end of Steelcase as an independent, locally headquartered public company—a status it held for over a century.

**The Deal Structure** Steelcase shareholders approved the deal, receiving \$7.20 in cash and 0.2192 shares of HNI stock per Steelcase share. HNI, based in Muscatine, Iowa, becomes the undisputed leader in the contract furniture market.

## Notable West Michigan Furniture Manufacturers

Company	Location	Employees
Herman Miller	Zeeland	3,621
Steelcase, Inc.	Grand Rapids	3,500
Haworth, Inc.	Holland	2,000
Knape & Vogt Manufacturing	Grand Rapids	750
Work Furniture Group	Kentwood	450
Nucraft	Comstock Park	370
Irwin Seating Company	Walker	300
Structural Concepts Corporation	Muskegon	293
Genesis Seating	Cascade Township	287
Davidson Plyforms	Grand Rapids	250
American Seating Company	Grand Rapids	250
Comfort Research	Grand Rapids	220

SOURCE: WWW.THERIGHTPLACE.ORG

## Impact on Grand Rapids

**Headquarters Status:** HNI has stated that Steelcase will maintain its headquarters in Grand Rapids as a brand division. However, the corporate “nerve center” shifts to Iowa.

**Executive Exit:** The merger triggered an immediate exodus of leadership. Steelcase CEO Sara Armbruster and other top executives departed upon closing. This loss of local C-suite leadership often precedes a reduction in civic engagement and philanthropic spending.

**Employment Risk:** While manufacturing jobs may be relatively sticky due to fixed capital assets, administrative and back-office roles (HR, Finance, Legal, Marketing) face high risk of consolidation. “Synergies” usually mean redundancy reductions.

**Dealer Network:** The combined entity now controls a massive share of the dealer network. Industry analysts predict a rationalization of dealerships, which could disrupt local small businesses that support the furniture ecosystem.

For West Michigan, this is a psychological and economic blow. It transitions the region from a decision-making hub to an operational outpost for one of its marquee industries.

# THE IMPLEMENTATION OF THE \$13.73 MINIMUM WAGE

On January 1, 2026, a new regulatory reality took effect in Michigan. Following the reinstatement of the original “Improved Workforce Opportunity Wage Act” provisions, the state saw a significant jump in its wage floor.

**Standard Minimum Wage:** Increased from ~\$12.48 to \$13.73 per hour.

**Tipped Minimum Wage:** Increased to \$5.49 per hour (40% of the full minimum wage). This is the first step in a phased elimination of the tip credit, which will eventually equalize tipped and non-tipped minimum wages.

**Minor Wage (16-17 years):** Adjusted to \$11.67 per hour (85% of standard).

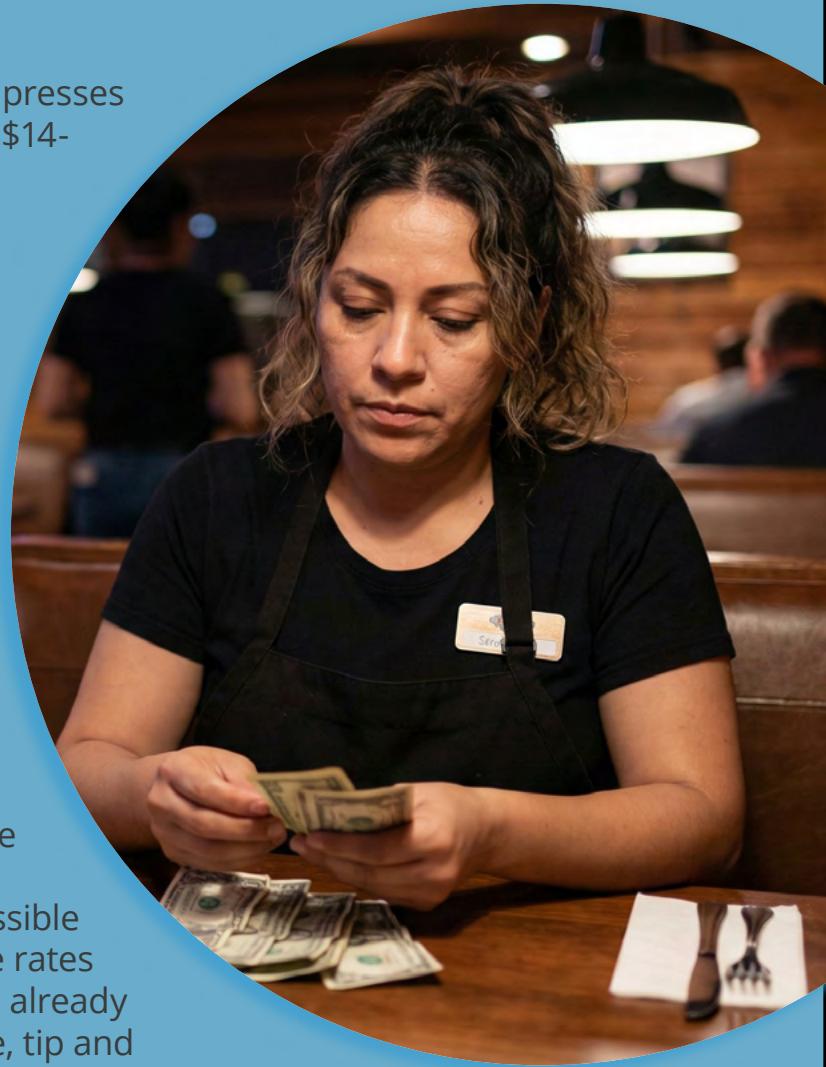
## EMPLOYER IMPACT:

**Wage Compression:** The hike to \$13.73 compresses the pay scale for employees currently earning \$14-\$16/hr. Employers are facing pressure to issue “ripple effect” raises to maintain seniority differentials.

**Hospitality Costs:** The 40% jump in the tipped wage base (from ~\$3.93 to \$5.49) directly impacts restaurant margins. Expect higher menu prices in 2026 as businesses pass these costs to consumers.

**Compliance:** The new law eliminates the ambiguity of previous years. Employers must audit their payroll systems immediately to ensure compliance with the new rates and tip credit calculations.

Michigan employers now have a clearer picture of upcoming minimum wage, minimum cash wage, and tip credit requirements. It is still possible the Legislature and governor could change the rates or their effective dates. Some lawmakers have already introduced proposals to revise minimum wage, tip and overtime standards, and paid sick leave rules. It is unclear whether these bills will move forward or if new ones will emerge, so employers should keep watching developments and the state labor department’s website.



# PART V: THE LABOR MARKET & WAGES

## 5.1 The Erosion of the Wage Premium

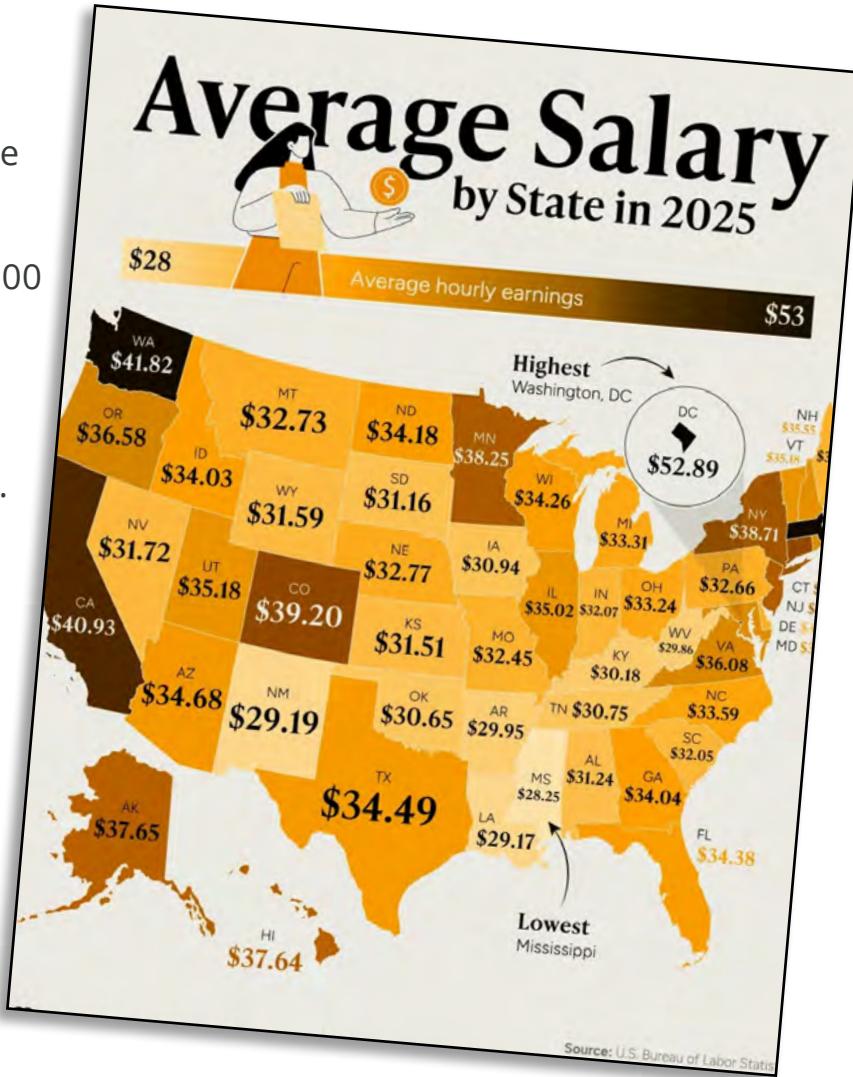
One of the most alarming findings in the RSQE report is the long-term deterioration of Michigan's wage advantage. In 1990, Michigan wages were 9.5% above the national average (adjusted for cost of living), reflecting the dominance of high-paying unionized manufacturing jobs. By 2024/2025, that advantage had evaporated. Michigan wages are now 4.2% below the national average.

**Cause:** The decline is not in blue-collar wages, which remain relatively competitive (\$3,000 premium vs. national), but in "private higher-educational attainment services" (tech, finance, professional services). In this knowledge sector, Michigan wages are \$11,000 below the national average.

**Implication:** To attract top-tier talent in engineering, IT, and management, Michigan employers cannot rely on local benchmarks.

# PART VI: STRATEGIC IMPLICATIONS FOR EMPLOYERS

The economic landscape of 2026—characterized by stagnant growth, rising costs, and demographic constraints—demands a shift in strategy. The "growth at any cost" mindset of the post-pandemic recovery is no longer viable.



## 6.1 Talent Strategy: Cannibalization & Retention

With the labor force participation rate capped at 61.7%, the pool of available workers is shallow. Growth for any individual firm will likely come from cannibalizing talent from competitors rather than finding unemployed workers.

**Action:** Pivot recruiting budgets toward retention and upskilling. It is far more cost-effective to train an existing employee for a new role than to engage in a bidding war for external talent in a zero-sum labor market.

**Targeting:** Leverage the "youth dividend" in West Michigan (ranked 5th in attracting 25-34 year olds) and the urban renaissance in Detroit for recruitment.

## 6.2 Managing Cost Volatility

The combination of 3.0% inflation, the fuel tax hike, and wage increases creates a high-cost environment.

**Fuel Hedging:** The 20-cent/gallon gas tax increase will impact logistics costs. Review fuel surcharge clauses in contracts.

**Automation:** The rising wage floor (\$13.73+) reinforces the ROI for automation, particularly in service roles. Expect accelerated adoption of kiosks and AI customer service interfaces.

## 6.3 Adapting to Policy Shifts

**Tax Compliance:** Ensure tax teams are prepared for the decoupling from federal OBBBA rules.

**Supply Chain:** For auto suppliers, maximize the use of the tariff rebate mechanism (3.75%) while it lasts. Prepare for the step-down to 2.5% in May 2026.

# FINAL THOUGHTS

The year 2026 serves as a reality check for the Michigan economy. The “growth pause” is a signal that the state has reached the limits of its current demographic and industrial model. While the automotive sector has secured a reprieve through favorable trade and regulatory shifts, the broader economy is constrained by a lack of people and persistent inflation.

For employers, success in 2026 will not come from riding a rising tide. It will require rigorous efficiency, strategic talent management, and astute navigation of a complex new tax and regulatory environment.

By understanding the nuances of the “Tax Swap,” the “EV Pivot,” and the “Speed Limit,” Michigan businesses can turn a year of stagnation into a year of stabilization and preparation for the future.



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There is a kind of economic year that does not arrive with alarms. No crash. No boom. Just a quiet shift in texture. Hiring cools without stopping. Prices stabilize without falling. Paychecks rise, yet pressure remains. That is the environment Michigan employers are entering in 2026.

WSI's Michigan Economic Outlook shows a pause year ahead. Statewide payroll employment is projected to dip slightly in 2026 before recovering in 2027. Manufacturing and construction are expected to soften, while government and select service sectors remain more stable. The risk is not collapse. It is rigidity. In flat years, the mix of skills, roles, and labor strategies matters more than raw headcount.

This is where flexibility becomes a competitive advantage. Employers who can adjust staffing models, redeploy talent, and invest in cross training tend to outperform those who rely on static hiring plans. Workers who can pivot into maintenance, controls, quality, logistics, or healthcare adjacent roles find more stability than those locked into a single lane.

WSI's full Michigan Economic Outlook breaks down what this shift means by sector and region, and what employers can do next. If your 2026 hiring plan was built for a different economy, now is the time to revisit it. Call WSI. We will help you build a workforce strategy that fits the year you are actually facing.

