



Michigan REVENUE REPORT

After slowing in November, collections in December (November activity) showed renewed strength. Personal income tax withholding collections increased 12.4 percent above the year-ago level and sales tax collections rose 11.6 percent. As we have stated before, however, one month's data can be misleading. These figures are encouraging but overstate the strength of the economy. About half of the increases likely are due to a change in the collection pattern.

Single business tax collections fell 15.2 percent from December 1988, but collections for the quarter, which is the appropriate unit of comparison, were up 16.1 percent.

Lottery sales picked up steam again in November after the October breather, increasing 6.3 percent above the year-ago level. Based on partial data, December sales are projected to have increased 16.5 percent.

On December 15, the Department of Management and Budget (DMB) released its latest surplus figures, projecting an FY 1987-88 surplus of \$19.2 million and an FY 1988-89 surplus of \$21.5 million. The final figure for FY 1987-88 is due to be released this month. PSC expects the surplus to be considerably higher than current DMB estimates, as revenues increased much more than expected. A number of revenue and expenditure accounting adjustments likely will offset the revenue increases and could keep the FY 1987-88 surplus under \$50 million.

Table 1. Monthly Tax Collections

Type of Revenue	Dollars in Thousands					
	Preliminary December 1988	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1988-89 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$304,042	12.4%	\$973,459	11.0%	\$613,122	7.9% ^a
Quarterly and Annual Payments	34,848	-11.8	53,498	-9.7	39,977	-14.5
Gross Personal Income Tax	338,890	9.4	1,026,957	9.7	653,099	6.2 ^a
Less: Refunds	-15,081	2.7	-33,700	3.3	-19,953	-14.1
Net Personal Income Tax	323,809	9.7	993,257	9.9	633,146	7.0 ^a
Sales and Use Taxes	245,205	11.6	739,072	4.8	482,312	5.1
-Motor Vehicles	70,131	3.8	119,354	4.7	72,820	10.9
Single Business Tax ^b	59,166	-15.2	467,210	16.1	314,442	2.6
Cigarette Tax	21,154	14.6	68,844	15.1	45,877	18.8
Public Utility Taxes	49,193	2.4	64,647	5.4	64,647	5.6
Oil and Gas Severance	3,716	-10.9	9,495	-21.5	6,378	-20.9
Lottery ^c	36,759	6.3	133,292	27.4	133,292	27.4
Penalties and Interest	622	NM	9,548	-28.7	3,783	-45.3
SUW—Annuals and Undistributed ^d	2,726	NM	2,747	NM	2,569	NM
Other Taxes ^e	22,392	7.1	67,962	21.9	53,964	61.3
TOTAL TAXES (GF & SAF) ^f	\$764,742	7.6%	\$2,556,074	10.3%	\$1,740,410	8.3% ^a
Motor Fuel Tax ^g	\$51,994	4.2%	\$169,823	1.5%	\$106,397	-3.1%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

^aWithholding is adjusted to reflect difference in number of Fridays (paydays) in a month.

^bAdjusted for the 4-cent increase on January 1, 1988, the percentage changes are: December, -3.7 percent; past three months, -3.3 percent; year-to-date, -0.2 percent.

^cLottery collections run one month behind other tax collections due to a reporting lag. Therefore, November lottery collections are included in this month's report. The State share of lottery collections is estimated to be 40.7 percent, based on the average profit to the State for the fiscal year period ending August 31. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

^dThese revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

^eIncludes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.

^fExcluded are beer and wine, liquor, horse racing, and insurance premium taxes, which are not collected by the Department of Treasury. These taxes account for less than 3 percent of GF and SAF revenue and usually have shown little growth in recent years.

^gThe motor fuel tax is restricted to the Transportation Fund.

Motor Vehicle Sales

A major reason for the good performance of the Michigan economy and the larger than expected increase in revenues in 1988 was the strength in the motor vehicle industry. Motor vehicle sales in 1988 totaled 15.8 million, a 4 percent increase over 1987 and the second best year in history, trailing only 1986.

Domestic auto sales increased 3.6 percent to 10.6 million units. This total includes 614,000 cars produced by U.S.-based foreign manufacturers, a 12.7 percent increase above 1987. Imports fell 2.5 percent in 1988, and the foreign market share dropped from 30.7 percent in 1987 to 29 percent in 1988.

Sales of imported light trucks dropped sharply in 1988, 23.3 percent, and their market share fell from 18.6 percent in 1987 to 14.4 percent in 1988. This was the second consecutive year that truck imports lost market share. In 1986, imports took 20.4 percent of the light truck market. The weakness in imports was due in large part to the weakness of the U.S. dollar, particularly against the Japanese yen. This made foreign imports more expensive for American consumers.

The strongest segment of the market was the intermediate class, as sales of this type of car increased 12.6 percent above the 1987 level (see Table 2). This can be attributed largely to strong sales for the Chrysler New Yorker, Dodge Dynasty, Buick Regal, Chevrolet Corsica/Beretta, and Pontiac Grand Prix. Compacts also gained market share.

The strong performance in 1988 was a surprise to most automotive analysts. At the beginning of the year, expectations were that motor vehicle sales would decline as much as 5 percent in 1988.

Most analysts again are being cautious about prospects for 1989, with most automotive analysts expecting sales to fall from 3 to 6 percent. Public Sector Consultants' forecast is for a decline of about 4 to 5 percent. Despite the projected decline, 1989 still will be a good year for the automotive industry—and that is good news for Michigan.

Table 2. Sales and Market Share by Type of Passenger Car

	1987		1988	
	Sales	Market Share	Sales	Market Share
Subcompact	978,067	9.56	981,247	9.26
Compact	1,944,751	19.02	2,089,753	19.73
Intermediate	2,691,324	26.32	3,031,052	28.62
Standard	1,397,336	13.66	1,369,001	12.93
Specialty	69,784	0.68	54,981	0.52
Import	3,145,326	30.76	3,065,404	28.94
TOTAL	10,226,588	100.00	10,591,438	100.00

SOURCE: *Automotive News*