



Although the **Michigan unemployment rate** inched up to a seasonally adjusted

4.0 percent in November from 3.9 percent in October, the overall rate for 1997 likely will be the lowest in nearly 30 years. November's rate increase is due to the fact that 20,000 people entered the labor force in November, while only 15,000 new jobs were created. The rate's slight increase did little to dampen the likelihood that Michigan's monthly unemployment rate will be below 4.0 percent for 1997, the lowest rate since 1969.

◆ The **U.S. unemployment rate** rose just slightly in December, making the overall 1997 rate the lowest in 24 years. Despite the addition of 370,000 new jobs to the national economy, December's rate crept up to a seasonally adjusted 4.7 percent from 4.6 percent in November. The rate's rise is due to an increase in the size of the workforce rather than an increase in the number of unemployed persons. The jobless rate for all of 1997 is 4.9 percent, the lowest since 1969 when it plunged to 3.5 percent.

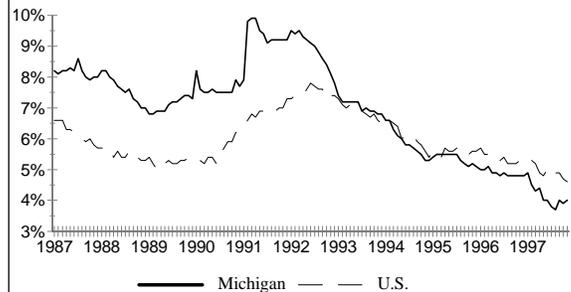
◆ The **producer price index**, which foretells price increases that may be passed on to consumers, hit an 11-year low in 1997, falling 1.2 percent from the previous year. This was the largest decline in producer prices since 1986, when they fell 2.3 percent in response to crumbling oil prices. Even after adjusting for typically volatile food and energy prices, the index rose just 0.1 percent, following a 0.6 percent increase in 1996. Falling prices for computers, light trucks, and cars helped to keep wholesale prices low.

◆ Despite indications early last month that Christmas sales would be weak, December's **retail sales** rose a stronger-than-expected 4.4 percent over last year's level. The surprising strength in sales is due primarily to last-minute holiday shopping that put badly needed dollars into retailers' cash registers. The strongest December sales were enjoyed by discounters and off-price stores, such as Wal-Mart Stores, Inc., and by high-end retailers, such as Neiman-

Marcus. Mid-line stores, particularly J.C. Penny, did not fare as well—Penny's sales actually fell 2.3 percent from December 1996.

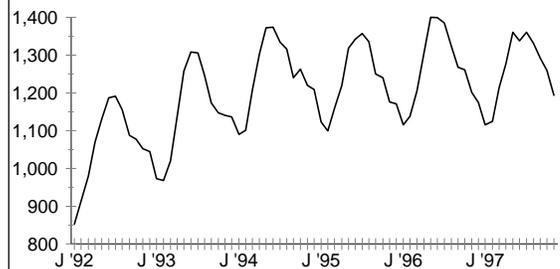
◆ **Motor vehicle sales** leapt 11 percent in December after dipping 0.4 percent in November, making the last month of 1997 the year's best. December's seasonally adjusted annual sales rate was 16.0 million units, following a 14.9 million rate in November. December's truck sales increased 13.9 percent while car sales increased 9.3 percent. For the year, Big Three auto sales fell 1.5 percent while Japanese sales rose 3.9 percent. U.S. automakers lost market share in 1997—the Big Three's share of U.S. sales fell to 71.5 percent in 1997 from 72.9 percent in 1996 while that of Japanese automakers rose to 23.5 percent from 22.7 percent.

U.S. and Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: U.S. Bureau of Labor Statistics and Michigan Employment & Security Agency.

Auto Sales¹, Three-Month Moving Average, Seasonally-Adjusted Annual Rate



SOURCE: *Automotive News*.
¹Thousands of units.

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MONTHLY FOCUS

STATES CUT TAXES IN FY 1996–97

All states have now closed their books on the 1996–97 fiscal year. The Center for the Study of the States recently released a report summarizing the fiscal year, which will be remembered as a good one—the national economy was strong, tax revenues were up, and almost all states ended the year with a surplus.¹ In light of the good fiscal times, many states cut taxes. (See table on page 3.)

The table shows that 34 states, including Michigan, cut taxes in FY 1996–97. (Michigan's tax cut was made in part to offset an increase in the gas tax.) Personal income tax cuts were the most popular—22 states cut income taxes, 9 cut property taxes, 9 cut corporate taxes, and 10 cut

¹David S. Liebschultz, et al., *State Fiscal Brief: FY 1997 Year End Budget Summary*, Center for the Study of the States, Nelson A. Rockefeller Institute of Government (Albany, NY), December 1997.

sales taxes. Some of the cuts were one-time refunds caused by states collecting more revenue than their laws allow them to keep (e.g., Ohio, Colorado, and Oregon). It also is interesting to note that many of the property tax cuts were made because states (e.g., New York, Texas, and Oregon) needed to reform their school finance systems, much as Michigan did in 1994.

NEWS FROM THE STATE CAPITOL

ENGLER SPLITS DMB FUNCTIONS

Governor Engler has split the Michigan Department of Management and Budget (DMB) into two branches and appointed separate directors.

The first branch will oversee all of the department's management and operations divisions, including purchasing, facilities management, Project Main, and other operations. It will be run by Janet Phipps, who currently runs the Iowa Department of General Services. The second branch will draft and implement the state's budget. This branch will be run by Mary Lannoye, who was named interim DMB director after Mark Murray left the department to become Associate Vice President for Finance and Operation at Michigan State University.

The governor's rationale for the split is that the previous structure had become too much for one person to manage. Two former DMB directors—Murray and Patricia Woodworth—had advised the governor to take such action, in part because drafting and monitoring the state budget has become a full-time job on its own.

INTEREST INFORMATION · The Center on Budget and Policy Priorities, *Pulling Apart: A State-by-State Analysis of Income Trends*, (Washington, D.C.), December 1997. 202/408-1080 or <http://www.cbpp.org/pa-rel.htm>
· In this report, the Center on Budget and Policy Priorities used the latest Census Bureau data to analyze income disparities in the United States. The report compares the incomes of Americans by "quintile" (fifth). For example, it compares growth in the incomes of the wealthiest one-fifth of the American population to the poorest one-fifth. Using these comparisons, the report found that the disparity between high- and low-income families grew between the 1970s and 1990s, and that the incomes of the poorest quintile declined during this period while the incomes of the wealthiest quintile increased.
· Patrick Anderson, et al, *The Universal Tuition Tax Credit: A Proposal to Advance Parental Choice in Education*, The Mackinac Center for Public Policy (Midland, MI: Mackinac Center), November 1997. 517/631-0900 or <http://www.mackinac.org/studies/s97-04.htm>
· This report examines issues related to parental choice in education, including public vouchers for private schools, with the objective of advancing school choice. Part 1 presents general arguments for parental choice in education. Part 2 examines the constitutional prohibition on using public funding for private schools. Part 3 reviews different methods for expanding parental choice and concludes that a universal tuition tax credit (UTTC) should be used. Part 4 analyzes the potential effect of using a UTTC on student enrollment and state finances.

Tax Changes Enacted in 1997

State	Income	Business	Sales	Property	Other	Comments (cost to state budget)
Arizona	x					Changes rates and increases exemption to \$2,100 for married couples filing jointly with one dependent (\$110M)
Arkansas	x					\$70M in income tax deductions and credits if sales tax on food not enacted
California	x					Increases tax deductions for dependents, federal conformity changes; total cost \$166M in FY98, \$863M in FY99, \$931M in FY00
Colorado	x			x	x	\$140M one-time refund
Connecticut	x			x	x	\$126M income tax cut over 2 years; 6 cent/gallon gas tax cut over 2 years
Delaware					x	Gift tax cut; increases inheritance tax threshold
Florida					x	One-year \$162 million decrease in unemployment insurance tax
Hawaii					x	Movie and TV producer tax breaks
Indiana	x			x		Earned Income Tax Deduction; income tax child deduction; 6% homestead credit rate increase over 4 years
Iowa	x	x	x			10% income tax rate cut (\$103M in FY98)
Kansas	x			x		Property tax mill rate decreased 6 mills; first \$20,000 of assessed value removed from income tax levy (\$233M over 2 years)
Louisiana	x		x		x	Did not renew additional 1% food sales tax (\$110M/year)
Maine	x					\$50 increase in income tax exemption (\$3M/yr)
Maryland	x					5-year income tax rate cut; increase in personal exemption
Massachusetts	x		x			Earned Income Tax Deduction, doubled dependent child credit; increased exemptions
MICHIGAN	x					\$5,000 per-child child-care credit; 8% tuition tax credit
Minnesota	x	x	x	x		\$500M in one-time and \$265M in ongoing property tax relief; \$80M in education credits
Missouri			x			Food sales tax reduction
Montana	x					Family savings accounts exempt
Nebraska	x				x	\$127M over 2 years income tax rate cut
Nevada					x	Aviation fuel tax cut
New York	x	x	x	x	x	\$2.3B 4-year property tax reform; Gross Receipts Tax on utilities cut over 3 years; repeals sales tax on clothing under \$100
North Carolina			x		x	Decreases statewide sales tax on food from 3% to 2%, cost \$38M in FY98, \$89M in FY99
Ohio	x	x				\$263M income tax refund (one-time)
Oregon	x	x		x		Nonrefundable Earned Income Tax Deduction; \$870M/2 years property tax relief, personal and corporate income tax refunds
Pennsylvania		x	x			\$165M in business and sales tax cuts
Rhode Island	x	x				Income tax rate cut over 5 years (\$56M/5 years)
Tennessee		x				Insurance excise tax phased out by 2002
Texas				x		Increases homestead credit from \$5,000 to \$15,000 (\$1B/2 years)
Utah			x		x	Sales and use rate decrease (\$34M)
Virginia					x	Unemployment insurance tax decreased
Washington		x	x	x	x	Decrease in Business and Occupation tax rates; 4.7% property tax cut
West Virginia	x			x		Phaseout of intangible property tax
Wisconsin	x					1% income tax rate cut for CY1998 (\$50M in FY99); increase in marriage credit; new working family tax credit
# of states:	22	9	10	9	12	

SOURCE: Center for the Study of the States.

M = Million.

B = Billion.

MICHIGAN REVENUE REPORT

December revenue collections fell 0.2 percent below the year-ago level. The fiscal year is off to a shaky start as November collections increased only 1.3 percent. However, revenue growth should pick up in the next few months since the economy is much stron-

ger than these revenue numbers indicate.

Personal income tax withholding collections were down 2.3 percent following an 8 percent increase in November.

Sales tax collections increased only 1.3 percent, despite an 18.8 percent jump in motor-vehicle sales tax collections. Use tax revenue, which can vary widely from month to month, was up 7.7 percent after declining 4.1 percent last month.

SBT collections (excluding insurance taxes) were up only 0.1 percent in December.

Lottery sales were up 9 percent in December, following a strong performance in November, a continuation of the slow growth pattern of recent months.

The consensus revenue estimating conference was held on January 15, and the participants agreed to a GF-GP revenue estimate for FY 1997-98 of \$8,583.7 million, an increase of 2.9 percent from FY 1996-97. Excluding an estimated \$121 million in tax cuts, the increase would be 4.4 percent. School aid fund revenue growth is forecast at 4.2 percent before tax cuts and 3.9 percent after tax cuts.

This month's Economic Bulletin was written by Laurie A. Cummings, Senior Consultant for Economic and Education Policy, and Robert Kleine, Vice President and Senior Economist.

December 1997 Revenue Collections (millions)

Source	December Collections	Percentage Change Year-ago	Percentage Change Year-to-date	December 1996 Actual	1997-98 SFA Revised Estimate (% Change)
Income tax					
Withholding	\$484.6	-2.3%	2.8%	\$495.9	5.7%
Quarterly	53.5	-7.1	-5.9	57.6	6.0
Annual	6.2	17.0	24.0	5.3	-1.5
Subtotal: gross income tax	544.3	-2.6	2.5	558.8	5.1
Sales tax	511.9	1.3	2.6	505.4	4.4
Motor vehicles	61.4	18.8	12.1	51.7	—
Other	450.5	-0.7	1.4	453.7	—
Use tax	89.5	7.7	1.6	83.1	4.5
Subtotal: sales/use/withholding	1,086.0	-17.8	2.6	1,321.7	5.0
Tobacco tax	40.0	-13.4	-8.4	46.2	-3.1
SBT	88.6	0.1	-1.1	88.5	3.6
Insurance	0.2	-89.5	5.3	1.9	3.0
Subtotal: SBT+ insurance	88.8	-1.8	-0.8	90.4	3.6
State education property tax	19.1	28.2	-27.2	14.9	4.5
Real estate transfer tax	12.4	-8.8	5.2	13.6	1.0
Estate/inheritance tax	6.8	44.7	12.0	4.7	3.0
Intangibles tax	1.3	-38.1	-44.4	2.1	17.9
Severance tax	4.5	80.0	31.5	2.5	-1.5
TOTAL	\$1,318.6	-0.2%	0.5%	\$1,321.7	4.1%
Gross lottery sales (prel.)	\$147.4	9.0%	6.9%	\$135.2	1.0%

SOURCE: Senate Fiscal Agency.

NOTE: November is the first month of the new fiscal year for all revenue sources except the lottery.