



# Michigan REVENUE REPORT

Revenue collections continued strong in January (December activity). Income tax withholding collections increased 5.1 percent above the year-ago level, adjusted for one more Friday (payday) this year. The year-to-date increase of 7.2 percent is larger than the Budget Office or the Senate Fiscal Agency expected.

January sales and use tax collections, which reflect Christmas sales, increased 8.6 percent above January 1988 collections. This is the largest January increase since 1985. Excluding motor vehicles sales, which declined 0.3 percent, sales and use tax collections increased a robust 9.9 percent.

Single business tax collections increased 51.8 percent in January. However, this large increase likely is due to a change in the collection pattern. The quarterly payment is due January 31, and some payments that fell into February last year likely were credited to January this year.

After slowing in October and November, lottery sales jumped 20.7 percent in December. January sales are expected to decline from one year ago, as January 1988 sales were inflated by a very large Lotto jackpot.

The FY 1989-90 budget will be released on February 9, about two weeks later than normal. The revenue estimates in the budget will be discussed in next month's *Revenue Report*. The Senate Fiscal Agency (SFA) has released its revenue *(over)*

**Table 1. Monthly Tax Collections**

*Dollars in Thousands*

Type of Revenue	Preliminary January 1989	% 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	\$427,651	5.1% <sup>a</sup>	\$1,041,695	7.2%	\$1,041,695	7.2%
Quarterly and Annual Payments	114,283	14.3	154,259	3.5	154,259	3.5
Gross Personal Income Tax	541,934	7.0 <sup>a</sup>	1,195,754	6.7	1,195,954	6.7
Less: Refunds	-15,116	26.9	-34,245	2.9	-34,245	2.9
Net Personal Income Tax	526,818	5.8 <sup>a</sup>	1,161,709	6.9	1,161,709	6.9
Sales and Use Taxes	305,195	8.6	785,424	6.9	785,424	6.9
-Motor Vehicles	34,251	-0.3	107,000	7.1	107,000	7.1
Single Business Tax	153,013	51.8	466,404	13.7	466,404	13.7
Cigarette Tax <sup>b</sup>	23,716	-5.9	69,749	9.3	69,749	9.3
Public Utility Taxes	0	--	64,647	5.6	64,647	5.6
Oil and Gas Severance	3,374	-21.4	9,752	-21.1	9,752	-21.1
Lottery <sup>c</sup>	44,332	20.7	111,911	5.7	111,911	5.7
Penalties and Interest	520	NM	4,418	-67.8	4,418	-67.8
SUW—Annuals and Undistributed <sup>d</sup>	9,979	317.2	2,569	119.0	2,569	119.0
Other Taxes <sup>e</sup>	22,212	7.3	76,178	40.8	76,178	40.8
TOTAL TAXES (GF & SAF) <sup>f</sup>	\$1,089,159	12.9%	\$2,752,761	8.2%	\$2,752,761	8.2%
Motor Fuel Tax <sup>g</sup>	\$57,133	9.1%	\$165,832	0.2%	\$165,832	0.2%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>Withholding is adjusted to reflect difference in number of Fridays (paydays) in a month; there were five Fridays in December 1988 and only four in December 1987.

<sup>b</sup>Adjusted for the 4-cent increase on January 1, 1988, the percentage changes are: January, -21.0 percent; past three months, -8.2 percent; year-to-date, -8.2 percent. The large decline in January is due to advance buying one year ago to beat the tax increase.

<sup>c</sup>Lottery collections run one month behind other tax collections due to a reporting lag. Therefore, December lottery collections are included in this month's report. The figure reported here is the state's estimated profit, not total sales. 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 1987-88. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

<sup>d</sup>These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

<sup>e</sup>Includes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.

<sup>f</sup>Excluded 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.

<sup>g</sup>The motor fuel tax is restricted to the Transportation Fund.

estimates for fiscal years 1988-89 and 1989-90, projecting general fund/general purpose (GF/GP) revenue of \$6,863.5 million for 1988-89, a 2.8 percent increase from the FY 1987-88 level, and school aid fund (SAF) revenue of \$2,194 million, a 5.3 percent increase. (Adjusted for noneconomic factors, such as tax policy changes, the FY 1988-89 GF/GP increase is 5.1 percent.) These estimates are about \$75 million higher, in total, than those projected by the SFA in November and \$361.9 million higher than the figure projected last January. For FY 1989-90 the SFA is projecting a 3.4 percent increase in GF/GP revenue to \$7,095.3 million and a 3.9 percent increase in SAF revenue to \$2,280.1 million.

### ***Monthly Focus: Inflation***

Consumer prices in Michigan, as measured by the Detroit Consumer Price Index (CPI), fell 0.3 percent from October to December but are 5.1 percent above the year-ago level. In the most recent period, housing and apparel prices fell.

Compared with the year-ago period, there was little variance in prices among the major components. Increases ranged from 3.2 percent for entertainment to 7.5 percent for other goods and services. (See Table 2.)

U.S. consumer prices increased 0.25 percent from October to December and 4.4 percent from one year ago. The only major category in which changes from a year ago were substantially different in Detroit than in the United States was transportation, which increased 5.7 percent in Detroit and only 3 percent nationwide.

The recent strength in the economy has increased concerns about inflation. Labor markets are tight, and wage costs are moving upward. The employment cost index increased 5 percent from the fourth quarter 1987 to the fourth quarter 1988, compared with a 3.6 percent increase in 1987. The Federal Reserve Board has responded by tightening monetary policy and driving up short-term interest rates sharply. The economy will continue strong in the first half of 1989 but will cool off in the second half of the year as the effects of tight monetary policy begin to be felt.

The slowdown in economic growth will prevent major run-ups in consumer prices. Both the Detroit and U.S. consumer price indices are projected to increase between 4 and 5 percent in 1989.

***Table 2. Detroit Consumer Price Index, Changes in Selected Categories, December 1988***

<b>Category</b>	<b>Percentage Change October 1988 to December 1988</b>	<b>Percentage Change December 1987 to December 1988</b>
Food and beverages	0.8	6.2
Housing	-1.0	3.8
-Fuels	-2.3	1.5
Apparel and upkeep	-3.5	6.0
Transportation	1.0	5.7
Medical care	1.2	6.3
Entertainment	1.9	3.2
Other goods and services	0.2	7.5
All Items	-0.3	5.1

SOURCE: Bureau of Labor Statistics, U.S. Department of Labor, *News*, December 20, 1988.