



# Michigan ECONOMIC BULLETIN

## The Good News

- In its largest gain since last May, **retail sales** rose 0.6 percent in January, led by gains in building materials (up 5.4 percent) and department stores (up 2.1 percent). In addition, November and December sales, previously reported as declines of 0.4 percent and 0.5 percent, respectively, are now reported as no change and a 0.1 percent increase.
- Nationally, the number of **initial claims for state unemployment insurance** declined by 13,000 (seasonally adjusted) during the first week of February.
- **Michigan's employment picture** improved in January, with the unemployment rate declining to 8.9 percent from December's 9.2 percent. The decline was the result of a 61,000 increase in the number of persons employed, and a 13,000 drop in the number of unemployed.

## The Bad News

- While the overall unemployment rate held steady (7.1 percent), the **nation's labor market** remained weak in January. The number of nonfarm payroll jobs fell and the mean duration of unemployment increased to 16.4 weeks.
- **Motor vehicle sales** rose 3.5 percent in January from the depressed year-ago level caused by the Gulf War. Passenger car sales inched up 1.1 percent; domestic sales

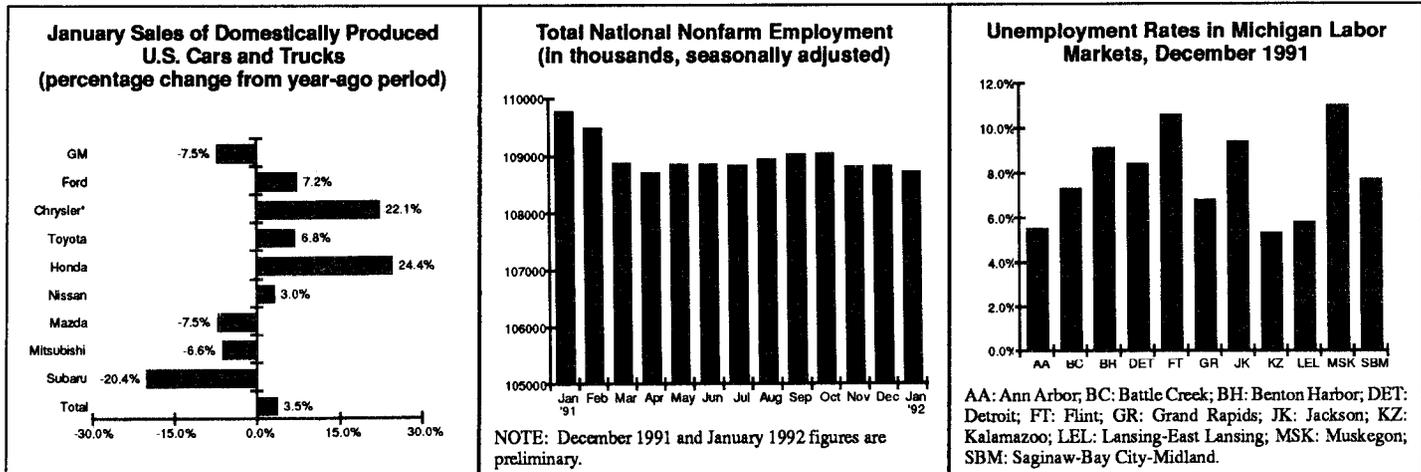
were down 0.8 percent and sales of imports were up by 6.9 percent. Truck sales rose 8.4 percent. Vehicle sales among the Big Three manufacturers rose 2.3 percent. One bright note: During the last ten days of January, sales of passenger cars rose 8.3 percent and truck sales rose 17.5 percent from the year-ago level. However, the annual sales rate for domestic cars was 6.1 million units, about the same level as in November and December.

- General Motors has reduced its **first-quarter production** quota by 137,300 vehicles from previously-announced levels. The automaker plans to build 988,700 units, 12.2 percent fewer than originally planned but 20.3 percent more than in the first quarter of 1991.
- Following two months of consecutive gains, **new factory orders** declined in December, falling 3.8 percent, the steepest drop in orders since November 1990. The largest decline was recorded for orders of nondefense capital goods, which fell by 16.8 percent from the November level.
- For the second month in a row and the third time in the last four months, the Commerce Department's **index of leading economic indicators** declined in December. The drop implies that economic recovery is not likely until this summer at the earliest.

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### MICHIGAN ECONOMIC INDICATORS



SOURCES: *Automotive News*, Bureau of Labor Statistics.

## Michigan's Labor Market: An Annual and Decade Review

The Michigan Employment Security Commission (MESC) recently issued its annual employment report, which includes statistics and analysis of Michigan's labor market for the previous year. The MESC reports that as the result of the recession total Michigan employment declined by 109,000 in 1991, and the unemployment rate rose to 9.2 percent from 7.5 percent in 1990. The increase in the unemployment rate is even worse than it appears as the state's labor force fell by 35,000. (Only those officially included in the labor force are counted in the unemployment rate calculation. Refer to the October *Economic Bulletin's* "Monthly Focus.")

This year's report also included interesting data comparing last year's developments to those that occurred during the 1982 recession. Some of these comparisons are summarized below.

### Structural Changes in Employment

Although the state remains reliant on the automobile industry, during the decade the Michigan economy continued its transition from one overwhelmingly dominated by manufacturing to one that is more service-sector oriented. Because manufacturing is more vulnerable to economic cycles than services, this changeover tempered a recent downturn in employment compared with the employment losses during the 1980-82 recession (refer to Exhibit 1).

The structural change in employment also altered the demographics of those affected in this recession versus the last. Employment among women actually increased during the earlier recession, while for men it dropped sharply (refer to Exhibit 2). Last year, unemployment among women grew; as a result, male and female employment were more equally affected during this recession. There are several possible explanations for this; the most obvious is that, relative to men, women had been (and still

are) largely employed in service-sector occupations rather than in auto manufacturing. Because annual growth rates in services were larger in the early 1980s than in the early 1990s, and services were less affected by the last recession than manufacturing was, total employment among women also was less affected in 1982 than in 1991.

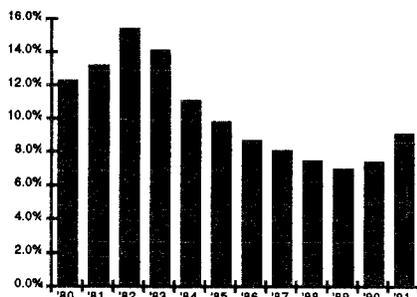
### White Collar Versus Blue Collar Employment

An interesting point made in the MESC report is that, despite sound bites to the contrary, blue collar workers have been more adversely affected by this recession (experiencing higher unemployment rates and longer durations of unemployment) than have white collar workers. Compared to the rest of the work force, however, the latter have fared worse in this recession than they did in the last. National unemployment rates among this segment of the labor force rose from 3.3 percent in 1979 to 4.9 percent in 1982, a relatively small increase when compared to the rise (from 5.8 to 9.7 percent) in the national overall unemployment rate. Between 1990 and 1991, however, unemployment rates among white collar workers have risen from 3.3 percent to 4.0 percent, which much more closely mirrors the increase in the national overall unemployment rate (which rose from 5.5 percent to 6.7 percent) than it did in the early 1980s.

### Comment

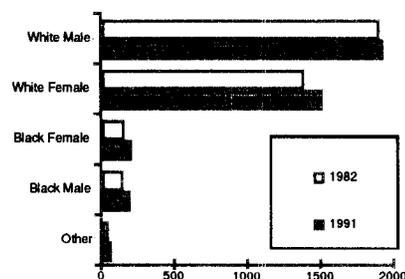
Any recession will have detrimental effects on a large portion of the population, making comparison of one episode of economic downturn with another trivial, especially if you are one of the many hurt by a decline. Yet, if a comparison is made of the severity of the last recession with the current one, the effects of this downturn are not nearly as widespread as the last.

EXHIBIT 1  
Michigan Unemployment Rates, 1980-91



SOURCE: Michigan Employment Security Commission.

EXHIBIT 2  
Michigan Civilian Employment, By Race and Sex, 1982 and 1991 (in thousands)



SOURCE: Michigan Statistical Abstract, 1986-87.

## The Governor's FY 1993 Budget Recommendations

Governor Engler's general fund/general purpose (GF/GP) recommendation for FY 1992-93 is \$7,928 million, 3.8 percent above projected spending for the current fiscal year. This compares with an estimated decline of 1.5 percent in the FY 1991-92 budget. Total recommended spending is \$21,191.3 million, up 3 percent from last year.

On the surface the governor's FY 1992-93 budget appears to be a continuation budget, with a further downsizing of government. For example, a reduction of 4,700 positions is recommended, but many of these will be cut through attrition and the elimination of unfunded vacancies. The budget does include significant new initiatives in K-12 education and substantial increases for human services, corrections, and state police. Higher spending in these areas would be offset by reducing expenditures for capital outlay, providing no increase in the higher education budgets, and allowing few increases in general government budgets.

The recommendations likely to create the most controversy are those for education. In the school aid budget, the governor is proposing to shift resources from out-of-formula school districts to in-formula districts by eliminating categorical spending for social security and several other areas, and allocating the money to the membership formula. While this results in no net increase in total funding, it will increase the state guarantee by 7.7 percent for districts levying 34 mills. And although in-formula districts would pick up the cost of social security from their membership grant, most would still be small winners. The net loss for out-of-formula districts would be about \$100 million (after elimination of recapture provisions); the loss for any district would be limited to 5 percent. The governor also indicated his willingness to discuss the repeal of the tax base sharing law enacted last year, which transfers monies from richer to poorer districts. In addition, the governor is recommending the elimination of the automatic appropriation for school aid when restricted revenues fall below estimates. Several key legislators, however, have indicated that this proposal has little chance of approval.

There also will be considerable pressure to provide more funds for colleges and universities, which overall would receive almost no increase from current year appropriations. Lawmakers are concerned about the effect this could have on tuition.

Unlike last year, the budget recommends relatively large increases (\$223 million or 5.5 percent) for human

services (social services, health, and corrections). Much of this money would be allocated to pay for higher health costs, increased caseloads, federal requirements, and new prisons.

The only other department that would receive a substantial increase in operational funds is State Police, up \$11.8 million or 6.2 percent. Part of the increase would be used to hire 75 civilian radio dispatchers to free 60 troopers for patrol duty.

Despite the effort to hold the line on spending, the governor and the legislature still need to reach agreement on a plan to eliminate a potential deficit in the current year budget that we estimate at about \$800 million (including a \$90 million carryover from FY 1990-91).

### PUBLICATIONS OF INTEREST

Michigan Civil Service Commission, *Toward Public Trust in Public Service: Change in the State Classified Service* (Lansing, Mich.: the Commission, February 6, 1992).

This annual report fulfills a constitutional requirement that the commission provide notice to the governor of all increases in salaries and benefits of state classified personnel. According to the report, the FY 1992-93 freeze on wages and benefits "is unique in the state's history of collective bargaining." In response, this year's report provides a historical review of classified employment in Michigan, including the development of collective bargaining and the effects of cyclical changes in the economy that occurred in the 1980s. Also included is a review of the current status of the system.

Congress of the United States, Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1993-1997* (Washington, D.C.: U.S. Government Printing Office, January 1992).

This report, issued annually as part of federal requirements, provides five-year baseline projections of the federal budget, including individual outlooks for spending, revenue, and the deficit. It also reports on the status of the discretionary spending limits, pay-as-you-go requirements, and maximum deficit amounts agreed to in the FY 1991 budget agreement. Also included is an analysis of the effectiveness of using monetary and fiscal policy to stimulate the economy. In accordance with the CBO's mandate to be impartial and objective, the report contains no recommendations.

# Michigan Revenue Report

January revenue collections (mainly December activity) showed no signs of improvement. Personal income tax withholding (60 percent December activity, 40 percent January activity) declined 0.7 percent from the year-ago level. Because of accelerated withholding and an extra payday in January 1992, it is difficult to compare collections with those of a year ago. Our best estimate is that collections increased about one percent. The year-to-date increase of 4.2 percent is overstated; our estimated increase is 1.3 percent. Annual and quarterly payments were also very weak, falling 13.1 percent from the year-ago level.

Sales and use tax collections increased 0.7 percent from the same period last year. Motor vehicle collections increased 8.1 percent, the first gain since December 1990. Sales tax collections excluding motor vehicles and use tax collections (off 10.6 percent) increased 1.6 percent above the January 1991 level. January single business tax (SBT) collections were down 32.6 percent from one year ago, due to refunds of \$52.1 million. Additional refunds of at least

\$50 million are expected. The Treasury Department had delayed processing of a number of SBT returns to process income tax returns and was unaware of the size of the refunds. These large refunds will require a reduction in the SBT estimate for the current fiscal year. Excluding refunds, collections increased 3 percent.

Lottery collections continued strong, increasing 3.7 percent due to a large lotto jackpot. Year-to-date collections are up 3.5 percent, a significant improvement from the 5 percent decline in FY 1990-91.

Because of continued slow economic growth and the unexpected SBT refunds, we are lowering our FY 1991-92 general fund/general purpose and school aid fund revenue estimate from \$9.420 billion to \$9.323 billion. This is \$255 million below the consensus revenue estimate currently being used by the Engler administration. This shortfall likely will require additional cuts in the FY 1991-92 budget.

## MONTHLY TAX COLLECTIONS (dollars in thousands)

| Type of Revenue                               | Preliminary<br>January 1992 | % Change<br>from<br>Last Year | Past 3 Months'<br>Collections | % Change<br>from<br>Last Year | FY 1991-92<br>Year-to-Date | % Change<br>from<br>Last Year |
|---|-----------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------|-------------------------------|
| Personal Income Tax                           |                             |                               |                               |                               |                            |                               |
| Withholding                                   | \$429,774                   | -0.7%                         | \$1,174,996                   | 4.2%                          | \$1,174,996                | 4.2%                          |
| Quarterly and Annual Payments                 | 108,669                     | -13.1                         | 141,718                       | -12.7                         | 141,718                    | -12.7                         |
| Gross Personal Income Tax                     | 538,443                     | -3.5                          | 1,316,714                     | 2.1                           | 1,316,714                  | 2.1                           |
| Less: Refunds                                 | (24,496)                    | 76.8                          | -56,391                       | 37.6                          | -56,391                    | 37.6                          |
| Net Personal Income Tax                       | 513,947                     | -5.5                          | 1,260,323                     | 0.0                           | 1,260,323                  | 0.9                           |
| Sales and Use Taxes                           | 310,204                     | 0.7                           | 825,262                       | -1.0                          | 825,262                    | -1.0                          |
| Motor Vehicles                                | 29,309                      | 8.1                           | 97,969                        | -3.9                          | 97,969                     | -3.9                          |
| Single Business Tax                           | 87,843                      | -32.6                         | 360,756                       | -15.0                         | 360,756                    | -15.0                         |
| Cigarette Tax                                 | 20,528                      | -6.4                          | 63,525                        | -4.2                          | 63,525                     | -4.2                          |
| Public Utility Taxes                          | 0                           | 0.0                           | 72,477                        | 1.2                           | 72,477                     | 1.2                           |
| Oil and Gas Severance                         | 3,480                       | -22.7                         | 11,202                        | -21.7                         | 11,202                     | -21.7                         |
| Lottery <sup>a</sup>                          | 42,282                      | 3.7                           | 121,030                       | 5.4                           | 160,087                    | 3.5                           |
| Penalties and Interest                        | 741                         | -34.7                         | 14,313                        | 11.3                          | 14,313                     | 11.3                          |
| SUW—Annuals and Undistributed <sup>b</sup>    | 8,957                       | 103.5                         | 9,937                         | 89.7                          | 9,937                      | 89.7                          |
| Other Taxes <sup>c</sup>                      | 45,549                      | 73.7                          | 97,562                        | 18.7                          | 97,562                     | 18.7                          |
| <b>TOTAL TAXES (GF &amp; SAF)<sup>d</sup></b> | <b>\$1,033,531</b>          | <b>-4.4%</b>                  | <b>\$2,715,357</b>            | <b>-1.6%</b>                  | <b>\$2,715,357</b>         | <b>-1.6%</b>                  |
| Motor Fuel Tax <sup>e</sup>                   | \$57,874                    | 13.0%                         | \$169,369                     | 3.0%                          | \$169,369                  | 3.0%                          |

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>The state share of lottery sales is 40.1 percent (FY 1991). The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

<sup>b</sup>These revenues are distributed to the sales, use, and withholding

(SUW) accounts when final numbers for the month are reconciled.

<sup>c</sup>Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

<sup>d</sup>Excluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

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

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