Economic Bulletin

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GOOD news

The Michigan Employment Security Commission (MESC) announced that the seasonally adjusted **Michigan unemployment rate** remained at 4.7 percent in December, unchanged from November's rate. The rate for the entire year—4.7 percent—is the lowest annual rate in nearly 30 years. The annual rate remained below the national rate for the third consecutive year.

◆ **Gross domestic product (GDP)**, the primary measure of growth in the national economy, accelerated to a vigorous annual rate of 4.7 percent in the fourth quarter of 1996. Despite the healthy economic growth, fueled by rising exports and consumer spending, inflation remained in check. For the entire year, GDP increased at a 2.5 percent annual rate, following a meager 1.3 percent rise in 1995.

◆ The **index of leading economic indicators**, which foretells the state of the economy in the coming six months, rose a modest 0.1 percent in December after an increase of 0.2 percent in November. This indicates that economic growth will continue but at a slightly slower pace than in recent months.

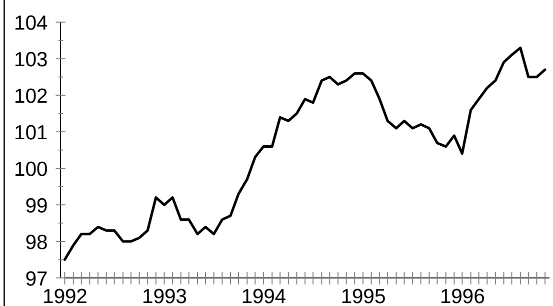
BAD news

Despite an increase in the number of jobs, the **U.S. unemployment rate** rose slightly in January to 5.4 percent from December's 5.3 percent. The increase occurred in spite of a higher-than-expected increase of 271,000 jobs nationwide. Many of the jobs are in computer-related industries, engineering, and temporary employment. The slight rise in the rate is a result of an increase in the size of the labor force and reflects continued moderate growth in the job market.

◆ **New home sales** fell to an annual sales rate of 783,000 homes in December, down one percent from November's 791,000 rate. The slowdown in sales came as no surprise to industry analysts, who expected a cooling down after a very robust 1996. For the year, home sales rose 13 percent (from 1995) to a rate of 756,000, making 1996 the industry's best year since 1978.

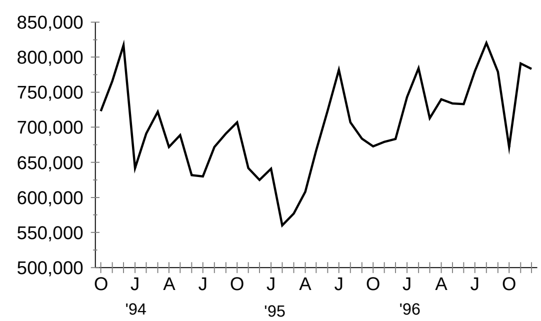
◆ January **auto sales** jumped 6.3 percent over the year-ago rate to 1,092,094 vehicles. Sales of both cars and light trucks accelerated, increasing 7.9 percent and 4.2 percent, respectively, over January 1996 sales. The news was not all good for the Big Three, however, because foreign auto imports also rose—Japanese automakers increased their market share to 24.5 percent in January 1997 from 21.2 in January 1996.

Index of Leading Economic Indicators, 1992–96



SOURCE: The Conference Board.

New Single-Family Home Sales, 1994 to 1996



SOURCE: U.S. Department of Commerce.

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MONTHLY . . . . FOCUS

MICHIGAN'S ECONOMIC MOMENTUM

State Policy Reports recently released its December Index of Economic Momentum, which compares the performance of state economies to the national average.[1] To calculate the index, released quarterly, the 1995 to 1996 percentage change in each state's employment, income, and population is calculated and a national average determined. Each state's index is compared to the national average. The higher the index, the better the state's performance. The indexes range from a high of 3.89 for Nevada's boom economy to a low of -2.3 for Hawaii.

The Index

The exhibit shows the Index of Economic Momentum for the Great Lakes states. The index measures how much faster or slower the states are growing compared to the national average. For example, Michigan's index means the state's economy is slower than the national average growth rates of employment, income, and population by 0.13 percent. (This does not mean that the Michigan economy declined by 0.13 percent.)

Although Michigan's economic growth slightly trailed the national average, Michigan ranks first among Great Lakes states, followed closely by Wisconsin and Illinois, and 26th in the nation.

Employment

The exhibit also shows growth in employment and income. Michigan's 1.89 percent employment growth from October 1995 to October 1996 was slightly above the national average of 1.82 percent and ranked 21st in the nation. The state also added a larger percentage of jobs than any other Great Lakes state. Nationally, employment growth ranged from 6.17 percent in Nevada to -1.13 percent in Hawaii.

Income

Michigan also outperformed its peers in personal income growth, increasing 5.4 percent between the second quarter of 1995 and second quarter of 1996. This growth rate, which slightly trailed the national average of 5.5 percent, ranks Michigan 23rd among the states. Nationwide, income growth ranged from 9.1 percent in Nevada to 1.75 percent in Hawaii.

Conclusion

By any measure, Michigan's economy has done well in recent years. Most notably, the state's unemployment rate has been below the national rate for three consecutive years after exceeding it, often by large margins, for decades. The Index of Economic Momentum may help put the state's growth into perspective. When compared to other Great Lakes states, which share similar industries, resources, and challenges, Michigan takes the lead. When compared to the national average, however, Michigan's performance hovers near the average. Given that Michigan's former "rust belt" economy once ranked it near the bottom of the economic ladder, this index provides additional evidence that the state is on the right track.

The December 1996 Index of Economic Momentum and Other Indicators, Great Lakes States

	Index of Economic Momentum	Percentage Change in Employment	Percentage Change in Personal Income
Michigan	-0.13	1.89%	5.40%
Wisconsin	-0.25	1.52	5.34
Illinois	-0.29	1.46	5.23
Ohio	-0.58	1.03	5.10
Indiana	-0.85	0.54	5.10
U.S.		1.82	5.53

SOURCE: *State Policy Reports.*

[1]State Policy Research, *State Policy Reports* (Columbus, OH: SPR), Vol. 14, Issue 24, December 1996.

NEWS FROM THE STATE CAPITOL

GOVERNOR ENGLER RELEASES FY 1997-98 BUDGET

Michigan Gov. John Engler released his recommendations for the FY 1997–98 budget. Although the budget is always a source of controversy, the fiscally conservative governor's recommendations for this year lacked the shock value of most of his past budgets, which have included such items as slashing adult education funding and eliminating entire state departments.

Despite a healthy state economy, the $8.5 billion general fund/general purpose (GF/GP) budget includes a modest 2.7 percent increase over FY 1996–97 spending, as previously enacted tax cuts reduced available resources. The governor proposed a 4.9 percent increase in the total budget to $30.9 billion, largely due to growth in the state's school aid fund and state efforts to increase federal funding.

The budget recommends an overall increase of 6.3 percent in funding for K–12 schools. The per-pupil grant to districts will increase by $137 per student to $5,445, and an additional $192 million will pay for an anticipated increase in enrollment. After a long-awaited 5 percent increase in the higher education budget last year, the governor recommended a 3.5 percent increase for state universities and a 2.5 percent increase for community colleges.

Other highlights include:

- A 2.1 percent reduction in overall state spending for welfare, largely due to reduced caseloads resulting from an improved state economy and welfare reforms
- $43 million in GF/GP funds to improve state roads and a stated goal of garnering an additional $200 million in federal funds to repair the state's ailing roads (The direct GF/GP appropriation for state roads is the first in memory.)
- Line items in many budgets reflecting the anticipated decrease in costs resulting from an estimated 3,500 state employees who will take advantage of an early retirement plan

Although largely a continuation budget, it will no doubt be the subject of legislative debate. The most contentious issues are likely to be the school foundation grants, which critics say are not sufficient, and monies to repair state roads, which many say will fall short unless the gas tax is raised. The budget now goes to a legislative committee, which has until July to work out differences.

Note: PSC will release an indepth analysis of the proposed budget in March.

The Economic Bulletin is written by Robert J. Kleine and Laurie A. Cummings.

PUBLICATIONS OF INTEREST

The Institution of Educational Leadership, *The New Oregon Trail: Accountability for Results* (Washington, D.C.: IEL), 1996. 202/822-8405.

This 50-page report discusses Oregon's efforts to move to a "results-driven" government. It describes the Oregon Option, an agreement with the federal government that gives the state freedom from some federal rules in return for increased accountability for state program results. This document describes the political, economic, and social reasons behind Oregon's effort; the benchmarks in education, health, and other policy areas developed in Oregon; and the lessons learned from the state's initiatives.

"Quality Counts: A Report Card on the Condition of Public Education in the 50 States." *Education Week* (Washington, D.C.), January 22, 1997. 202/364-4114.

This 238-page special edition of *Education Week* presents the results of a year-long effort to collect information on the quality of education in all U.S. states. The report compares over 75 indicators of education quality and assigns each state a grade for four major categories—academic standards, quality of teaching, school climate, and funding. Readers will find state-by-state comparisons on topics such as race and demography, student achievement, and resources. The report also contains individual summaries of the problems and progress in each state, including one for Michigan entitled "Middle of the Pack."

MICHIGAN REVENUE REPORT

After strong growth in the first two months of this fiscal year, revenue growth slowed in January. Total collections of the 11 taxes covered in this report increased only 0.5 percent. Income tax withholding collections declined 1.3 percent after increasing 9 percent in December. The increase for December and January combined was only 3.1 percent; however, the year-to-date gain is 6.4 percent, which is above the consensus forecast.

Sales tax collections increased only 0.6 percent, due in part to a 7.5 percent decline in motor vehicle collections. All other sales tax collections were up 1.9 percent from January 1996. Use tax collections jumped 16.6 percent and are up nearly 10 percent for the fiscal year.

SBT collections continued weak, falling 1.8 percent from a year ago. Year-to date collections are down 3.1 percent, well short of the consensus forecast of a 6.2 percent increase for FY 1996–97.

Total tax collections for the first three months of FY 1996–97 are up 5.6 percent compared with a consensus forecast of a 4.5 percent increase for all of FY 1996–97.

January 1997 Revenue Collections (millions)

Source	January Collections	% Change Year-ago	% Change Year-to-date	January 1996 Actual	FY 1996–97 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	$592.3	-1.3%	6.4%	$600.4	5.8%
Quarterly	141.7	6.9	6.3	132.5	5.7
Annual	4.7	-61.8	-36.7	12.3	9.5
Subtotal: gross income tax	738.7	-0.9	5.8	745.2	6.0
Sales tax	436.7	0.6	6.4	434.2	4.5
Motor vehicles	55.7	-7.5	2.4	60.2	—
Other	381.0	1.9	6.9	374.0	—
Use tax	93.9	16.1	9.9	80.9	1.6
Subtotal: sales/use/withholding	1,122.9	0.7	6.7	1,115.5	—
Cigarette tax	44.5	-5.3	-4.3	47.0	-2.5
SBT	192.7	-1.8	-3.1	196.2	6.2
Insurance	30.5	-8.7	-18.7	33.4	0.2
Subtotal: SBT + insurance	223.2	-2.8	-4.8	229.6	5.6
State education property tax	91.7	10.0	37.7	83.4	3.6
Real estate transfer tax	16.0	31.1	24.9	12.2	-0.7
Estate/inheritance tax	5.3	-31.2	6.3	7.7	0.3
Intangibles tax	4.4	-53.7	-48.9	9.5	-18.1
Severance tax	5.6	107.4	52.8	2.7	4.1
TOTAL	$1,660.0	0.5%	9.2%	$1,652.4	4.5%
Gross lottery sales (prel.)	NA			NA	

SOURCE: Senate Fiscal Agency.
NOTE: November is the first month of the new fiscal year for all revenue sources except the lottery.
NA = Not available.