



Michigan REVENUE REPORT

February (January activity) was one of the weakest months for revenue collections in several years. Personal income tax withholding increased only 0.6 percent, sales and use tax collections fell 3.7 percent from the year-ago level, and single business tax (SBT) collections declined 11 percent.

The weakness in the sales and use taxes can be attributed, in part, to reduced consumer activity in January because of advance buying in December to take final advantage of the sales tax deduction on the federal income tax. The weakness in income tax withholding may be a collection aberration, as collections were strong in the previous month and there has been a pattern recently of a strong month followed by a weak month.

The weakness in the SBT is of more concern, as collections for the year to date are 0.7 percent below the year-ago level. If collections do not improve in the heavy collection months of April and May, revenues from this major revenue source will fall well short of the budget estimate. (over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary February 1987	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1986-87 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding ^a	\$307,875	0.6%	\$ 904,576	3.3%	\$1,221,993	4.6%
Quarterly and Annual Payments ^a	9,858	17.2	156,378	48.8	160,672	49.6
Gross Personal Income Tax ^a	317,733	1.0	1,060,954	8.2	1,382,665	8.4
Less: Refunds	-179,784	36.9	-226,820	25.8	-237,107	19.3
Net Personal Income Tax ^a	137,949	-24.7	834,134	4.2	1,145,558	6.4
Sales and Use Taxes	195,711	-3.7	682,205	1.7	897,941	2.0
-Motor Vehicles	30,897	-11.0	92,964	-1.2	131,713	1.9
Single Business Tax	171,465	-11.3	334,919	-1.3	506,418	-0.7
Cigarette Tax	17,455	-7.4	56,889	-3.6	77,274	-4.0
Public Utility Taxes	-0-	-0-	53,177	NM	58,620	6.6
Oil and Gas Severance Tax	3,671	-30.6	12,350	-35.4	15,492	-35.9
Lottery ^b	36,237	-9.2	105,546	1.1	140,787	1.7
Penalties and Interest	195	NM	7,926	-11.1	11,293	-1.9
SUW—Annuals and Undistributed ^c	13,837	36.4	19,367	54.1	19,800	24.5
Other Taxes ^d	7,222	-44.5	57,640	36.1	77,159	32.9
TOTAL TAXES (GF & SAF) ^e	\$583,742	-11.1%	\$2,151,803	4.6%	\$2,950,342	3.5%
Motor Fuel Tax ^f	\$45,218	-3.2%	\$153,483	1.0%	\$210,673	3.8%

NM = Not meaningful

^aAdjusted to reflect changes in tax rates. Withholding is also adjusted to reflect difference in number of Fridays (paydays) in a month. On an unadjusted basis, February withholding collections declined 9.3 percent from the year-ago level.

^bLottery collections run one month behind other tax collections due to a reporting lag. Therefore, January lottery collections are included in this month's report. The State share of lottery collections is estimated to be 41.9 percent based on the average profit to the State for FY 1985-86. The percentage is calculated on gross sales for the month.

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

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

^eExcluded 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-GP and SAF revenue and have shown little growth in recent years. One exception is the insurance premiums tax, which increased 27 percent in fiscal year 1985-86 and 13.1 percent in the previous fiscal year.

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

Michigan Employment Growth, 1979-86

The Michigan economy has made a strong recovery from the depths of the last recession, but the decline from the peak was so sharp that all the losses have not been recovered. Total state employment in 1986 was about 0.6 percent above the 1979 peak, but wage and salary employment, a more reliable measure, was 1.5 percent below the 1979 peak. The failure of wage and salary employment to reach the 1979 peak is due to the weakness in the manufacturing sector, where 1986 employment was 16 percent below the 1979 level; more than 80 percent of the manufacturing employment decline was in the motor vehicles sector. Michigan manufacturing employment reached a peak of 1,179,000 in 1978 and bottomed out at 877,000 in 1982. About one-third of the loss was recovered by 1985, but manufacturing employment turned down again in 1986. Construction, government, and other employment are also below the 1979 peak. The major growth area in the Michigan economy has been the services sector, up 23.8 percent from 1979 to 1986. Services now account for 19.4 percent of total employment, up from 15.8 percent in 1979. Manufacturing employment declined from 29.2 percent of total employment in 1979 to 24.4 percent in 1986.

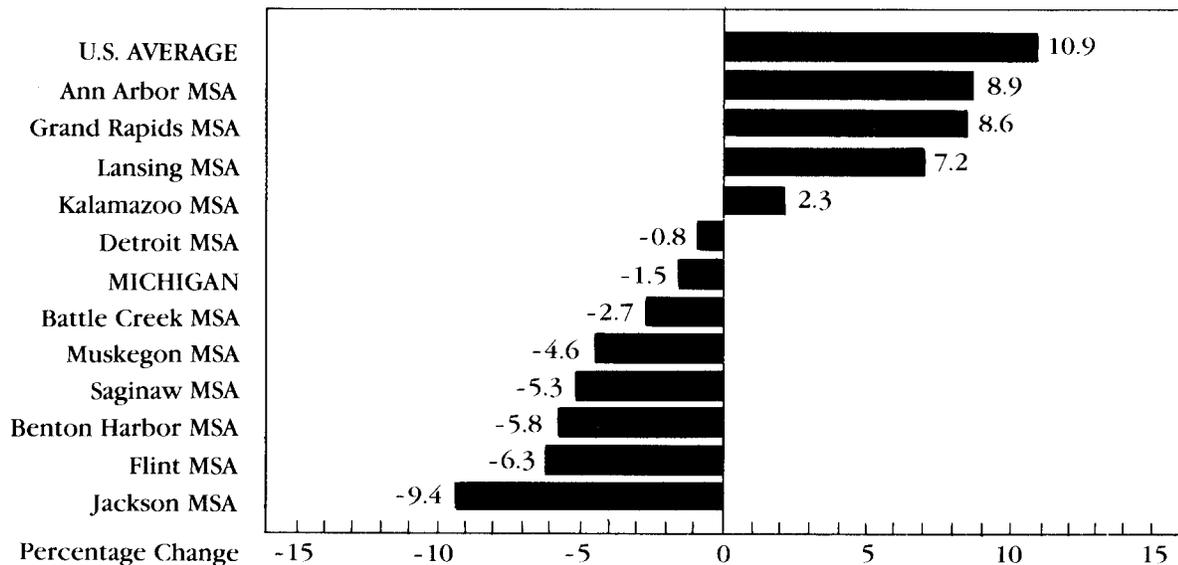
Table 2. Michigan Employment by Sector, 1979-86

Sector	1979 (thousands)	1986 (thousands)	Percentage Change
Total Employment	3,979	4,002	0.6
Wage and Salary Employment	3,637	3,581	-1.5
Manufacturing	1,160	975	-16.0
—Motor vehicles	393	326	-17.0
Government	621	587	-5.5
—State	148	147	-0.7
Retail and Wholesale Trade	761	805	5.8
Services	627	776	23.8
Finance, Insurance, and Real Estate	155	169	9.0
Construction	140	112	-20.0
Other	171	157	-8.2

SOURCE: Calculated by Public Sector Consultants, Inc., from Department of Management and Budget, *Economic Report of the Governor, 1985* and *Michigan Economic Review and Outlook*, November-February 1987.

The employment performance has been very uneven throughout the state (see Figure 1). The Ann Arbor, Grand Rapids, and Lansing metropolitan statistical areas (MSA) recorded the fastest growth and the Jackson, Flint, Benton Harbor, Saginaw, and Muskegon MSAs recorded employment declines ranging from 9.4 percent to 4.6 percent. This employment pattern is not likely to change much over the next two or three years.

Figure 1. Employment Growth, 1979-86



SOURCE: Calculated by Public Sector Consultants, Inc., from Michigan Employment and Security Commission data.