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Public Sector Reports

Michigan ECONOMIC BULLETIN

The Good News

➤ **Michigan's unemployment rate** fell below the national average for the first time in 15 years, standing at 6.8 percent in February compared to 7 percent nationally. The state's jobless rate has fallen almost every month since July 1992, and it fell faster than the national rate during most of those months. February's unemployment rate, which was 2.3 points lower than one year earlier, was one of the lowest among the nation's 11 most populous states.

➤ The **national unemployment rate** fell 0.1 percent in February to a seasonally adjusted 7.0 percent. The Labor Department announced that 365,000 new jobs were created in February, representing the greatest job growth since early 1989. Job growth was spread across all sectors, most strongly in retail trade and the service sector. On the down side, many of the new jobs were part-time or temporary positions, which typically are low paying and lack benefits.

➤ **Car and truck sales** fell slightly last month, to a seasonally adjusted rate of 12.7 million vehicles. Compared to the same time last year, car sales fell 8.8 percent, while truck sales rose 13.2 percent. Sales of vehicles made by GM, Ford, and Chrysler grew a meager 1.2 percent in February from the same month last year, while those made by Japanese companies fell 10.2 percent.

➤ **Gross domestic product (GDP)** rose at an impressive annual rate of 4.8 percent during the last quarter of 1992—the strongest growth in the economy in five years and a larger increase than estimated by Department of Commerce analysts. While the quarterly growth rate is certainly good news for the economy, experts warn that such high growth cannot be sustained, especially in view of falling consumer confidence and slow job growth.

The Bad News

➤ The Conference Board announced that **consumer confidence** plunged 10 percent in February, after peaking at the end of 1992. The index, which measures between 85 and 100 when the economy is performing well, dropped to 68.5 in February, after falling to 76.7 in January. Analysts caution that it is premature to draw any conclusions about the decline because the index was compiled before Clinton's economic plan was released.

➤ The **index of leading economic indicators** rose a mere 0.1 percent in January, signaling a continued slow recovery. The index, designed to predict the state of the economy in the coming six months, rose to 152.9 percent of the 1982 level in January from a revised 152.8 percent in the preceding month. Components that contributed to the improvement in the index were manufacturers' unfilled orders, sensitive materials prices, the average workweek, slower deliveries, and orders for consumer goods.

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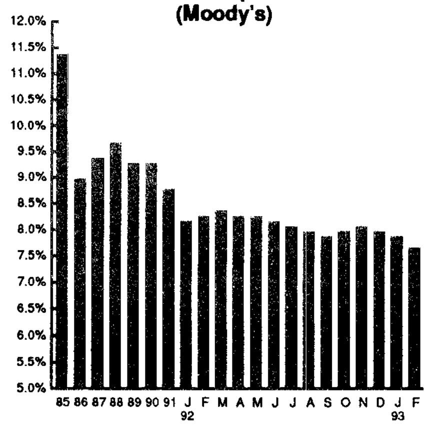
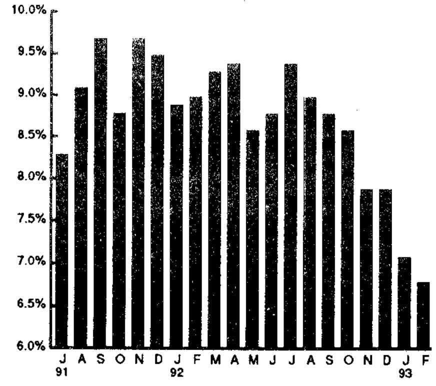
MICHIGAN ECONOMIC INDICATORS

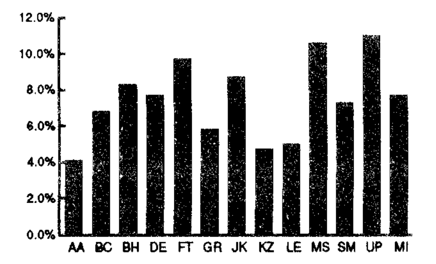
Interest Rates on Corporate Aaa Bonds (Moody's)



Michigan Monthly Unemployment Rates (seasonally adjusted)



Unemployment Rates in Major Michigan Labor Markets, January 1993



AA: Ann Arbor; BC: Battle Creek; BH: Benton Harbor; DE: Detroit; FT: Flint; GR: Grand Rapids; JK: Jackson; KZ: Kalamazoo; LE: Lansing/East Lansing; MS: Muskegon; SM: Saginaw/Bay City/Midland; UP: Upper Peninsula

SOURCE: *Economic Indicators*, Michigan Employment Security Commission.

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New Hope for U.S. Automakers: Japanese Market Share Falls

The *Wall Street Journal* recently published a series of articles that suggests good news for the American automobile industry—the Japanese share of U.S. auto sales is declining for the first time in more than ten years. In the first two months of 1993 Japanese market share fell to 27 percent, down from about 30 percent in 1991 and 1992. At the same time the share of the Big Three (GM, Ford, and Chrysler) rose from 65 percent to 68 percent. The exhibit below traces some of the changes in auto sales market share.

Percentage Change in Market Share

	Percentage Change		
	1991 to 1992	**1/92 to 1/93**	**Actual Market Share 1/93**
Big Three			
Cars	0.6%	3.9%	67.2%
Trucks	3.3	0.6	85.4
Total	2.4	3.4	74.0
Japan			
Cars	–0.3	–8.7	27.3
Trucks	–16.0	–4.0	14.4
Total	–5.4	–9.7	22.4

SOURCE: *Automotive News*

Japanese Companies Cut Back

As the Japanese automakers look inward to boost competitiveness, they are finding that they are no longer the super-lean producers they were during their rise in the 1980s. Slumping sales have forced the Japanese to experience some of the hardships that are now well-known to American auto producers. In Japan overtime hours have been cut, auto parts redesigned, and general belt-tightening initiated.

The Nissan Motor Company in particular is biting the bullet. For 1992 it will report its first annual loss since its inception in 1951. Nissan will cut its work force by thousands over the next three years and is responsible for the first major automobile plant closing in Japanese history. Cutbacks have been ordered in the tremendous variety of options and features offered in the past (such as 437 different types of dashboard meters).

Reasons for the Reversal

Part of the explanation for Japan's unusual market share decline is that American companies are now more competitive. Through improved quality, design, and features, domestic autos have become more attractive to U.S. consumers. American vehicles now have only 0.4 more defects on average than Japanese vehicles, a 15-fold improvement over the 1980 figure of six more defects. American producers also have command of the fastest-growing market segment—light trucks. American dominance of truck sales is long-established but has been growing. In 1992 sales of light trucks made by U.S. companies grew to 85.6 percent of the American market, up from 82.9 percent in 1991.

Pricing has also cost customers for Japanese companies, which were once known for undercutting U.S. prices. Japanese cars now cost an average of $2,300 more than their American counterparts. One reason for the higher prices is that they value of the yen has soared, cutting into Japanese profits. Poor economic conditions and sluggish demand in the home market are also forcing Japanese automakers to raise prices abroad. The attempt by some Japanese producers to upgrade their products is another source of higher prices. The 1991 upgrade of the Toyota Camry, for example, resulted in a $2,300 price hike and a cost to consumers which well exceeds comparable American models.

End of the Road for the Japanese?

Japan's declining market share is certainly big news, but it does not foretell the demise of the Japanese auto industry. The Big Three have problems of their own, and domestic sales have been weak as well. Some analysts are concerned that American automakers will become too confident about their recent triumphs over the Japanese and raise prices. The Big Three have already made some highly unusual middle-of-the-year price hikes. The well-documented losses of GM and Ford in 1992 are evidence that American producers cannot afford to become complacent.

To some extent, the longevity of U.S. gains is out of American producers' control. The value of the yen is bound to fall, and the slumping Japanese economy will certainly rebound. Both of these conditions could push Japanese prices down. Structural changes in Japanese production, such as those at Nissan, could result in long-term competitive gains. Although the potential exists for a resurgence of the American auto industry, it is too soon to celebrate, and American producers must remain on their toes.

Taxpayers' Rights; Budget Reductions

Taxpayers' Bill of Rights

The Michigan House of Representatives passed HBs 4104 and 4160, the taxpayers' bill of rights plan. The bipartisan package, based on the work of a 1990 House Republican Task Force, aims to furnish taxpayers with clear, concise, and accurate information before and after they prepare their tax forms and provide a less hostile atmosphere in which to resolve disputed tax assessments. Currently, the Department of Treasury can issue a notice of its intent to assess if it believes that an individual owes taxes. The new legislation would require that the first communication from the department include a letter stating in a "courteous and unintimidating" manner the belief that a tax is owed. Accompanying the letter would be a brochure explaining the taxpayer's rights, protections, and the procedures to be followed in the case of dispute. The bills also contain provisions for (1) the award of damages against the department if it has intentionally or recklessly disregarded the law in administering a tax and (2) upon payment of taxes owed, the prompt removal of any liens levied against the taxpayer by the Treasury. The bills now move to the Senate.

Budget Reductions

Governor Engler's $368 million deficit reduction package was approved by the legislative appropriations committees. There were no proposed reductions for education, and most of the cuts will have a minimum effect on program delivery.

The largest items in the package were

- $89.6 million from the Public School Employees Retirement (PSER) health reserve to cover current-year health costs for retirees. Similar amounts are expected to be taken from this reserve in the next two fiscal years;
- $115 million in additional federal aid for Medicaid, gained by increasing payments to county-care facilities to earn more federal revenue; and
- $16.8 million in additional federal aid for Medicaid, gained by increasing payments to state psychiatric hospitals.

The proposal also includes (1) $14.3 million in additional revenues raised by increasing the markup on liquor from 51 percent to 65 percent; (2) $8.3 million, gained by eliminating the sales tax collection fee; and (3) supplemental appropriations of about $75 million, mainly in the departments of Corrections and Social Services and for school aid. The increase in the liquor tax does not require legislation and has already been approved.

The agreement provides that, if there is still a deficit at year end, an additional $26 million can be taken from the PSER health reserve and $6 million from the Budget Stabilization Fund. This situation is not likely to occur since the economy appears to be picking up enough steam to allow revenues to grow at at least the 4.5 percent rate that we have forecast for the current fiscal year.

With the adoption of this plan, we project a $28 million surplus in the FY 1992–93 budget. Our projections for FY 1993–94, however, are for a shortfall of $688 million if a continuation budget is adopted. In addition, about $230 million will be needed to replace hospital voluntary contributions, which earn additional federal aid for Medicaid, a problem that could be solved through a new financing scheme or a provider tax.

PUBLICATIONS OF INTEREST

Human Resources Division, General Accounting Office, ***Hospital Costs: Adoption of Technologies Drives Cost Growth***, GAO/HRD-92-120 (Washington, D.C.: G.A.O., September 1992).

This publication offers an analysis of the factors driving up hospital costs and an examination of the adequacy of Medicare payments under its prospective payment system (PPS). The study documents the extent to which total hospital operating costs rose during the 1980s, analyzes the effect of the PPS on the growth of these costs, and identifies the factors that have fostered their persistent rise. The report also assesses the contributions of AIDS, malpractice insurance, and hospital administration to operating costs.

Congressional Budget Office, Congress of the United States, ***Reducing the Deficit: Spending and Revenue Options*** (Washington, D.C.: U.S. Government Printing Office, February 1992). (ISBN 0-16-041642-6)

This annual report compiles current information and future estimates about the economy and the federal budget deficit and compiles 239 specific policy options for both increasing federal revenues (41 options) or reductions in spending (198 options). Although 75 percent of the options were listed in last year's report, many have been revised or updated. Available from the U.S. Government Printing Office, Superintendent of Documents, Mail Stop: SSOP, Washington D.C., 20402-9328; their phone number is 202/783-3238.

Overall, February revenue collections were about as projected, with sales and use tax collections weaker and single business tax (SBT) collections stronger than expected.

Sales and use tax collections in February (January activity) increased only 0.4 percent above the year-ago level. The volatile use tax dropped 3.9 percent, while the sales tax (excluding motor vehicles) increased 3 percent. Motor vehicle collections fell 7.8 percent, the first monthly drop since September and only the second decline since December 1991.

Adjusted for last year's one-time increase in refunds, SBT collections increased 30 percent. The large gain was due mainly to the timing of payments. For the last three months, SBT collections are up 9.3 percent from the year-ago level, a better than expected performance.

Lottery sales increased an estimated 1.7 percent in February, well below the year-to-date increase of 6.2 percent.

The governor and the legislature have agreed to a $370 million deficit reduction package to balance the FY 1992–93 state budget. We project that the year will end with a $28 million surplus. The FY 1993–94 budget is in bad shape, however. Spending needs will exceed available revenues by nearly $700 million. Some of this shortfall can be handled by one-time adjustments, but real cuts of at least $400 million to $500 million (or tax increases) will be required for the governor to present a balanced budget on March 19. This likely will require cuts in education, which have largely been avoided to date.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary February 1993	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1992–93 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	$348,279	–2.6%	$1,639,021	7.2%	$1,639,021	7.2%
Quarterly and Annual Payments	17,077	104.5	176,074	15.4	176,074	15.4
Gross Personal Income Tax	365,356	–0.1	1,815,095	8.0	1,815,095	8.0
Less: Refunds	–155,556	3.5	–195,962	–4.9	–195,962	–4.9
Net Personal Income Tax	209,790	–2.6	1,619,133	9.8	1,619,133	9.8
Sales and Use Taxes	237,328	0.4	1,109,627	4.9	1,109,627	4.9
Motor Vehicles	32,155	–7.8	142,711	7.4	142,711	7.4
Single Business Tax	220,311	58.0	633,951	26.6	633,951	26.61
Cigarette Tax	16,766	–18.1	79,405	–5.4	79,405	–5.4
Public Utility Taxes	0	0.0	72,902	NM	72,902	0.6
Oil and Gas Severance	2,530	–21.8	12,431	–13.9	12,431	–13.9
Lottery[a]	39,643	1.7	127,354	7.3	208,858	6.2
Penalties and Interest	810	–3.6	32,836	47.8	32,836	47.8
SUW—Annuals and Undistributed[b]	16,139	32.4	2,608	–76.6	2,608	–76.6
Other Taxes[c]	26,423	–29.1	122,031	–9.6	122,031	–9.6
TOTAL TAXES (GF & SAF)[d]	$769,740	9.3%	$3,812,278	9.2%	$3,893,782	9.1%
Motor Fuel Tax[e]	$58,201	1.7%	$243,114	5.6%	$243,114	5.6%

SOURCE: Data supplied by Michigan Department of Treasury.
NM = Not meaningful
[a]The state share of lottery sales is 40 percent (FY 1992). The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the change in ticket sales.
[b]These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.
[c]Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.
[d]Excluded are beer and wine, liquor, and horse racing taxes.
[e]The motor fuel tax is restricted to the Transportation Fund.