



Michigan REVENUE REPORT

March revenue collections (February activity) improved from the previous month, but were still far from robust. Personal income tax withholding increased 5.1 percent from the year-ago level, but net collections were down sharply because refunds are being processed faster this year than last.

Sales and use tax collections increased 3.8 percent, after declining 3.7 percent last month. Motor vehicle collections fell 15.2 percent from the year-ago level, but an encouraging sign is that all other collections increased 7.7 percent.

Single business tax collections increased 4.2 percent, but year-to-date collections still are slightly below the year-ago level. Lottery sales continue to be weak, increasing only 1.5 percent in February; the year-to-date increase is 2.1 percent. If sales continue at that rate for the remainder of the year, the transfer to the school aid fund will fall about \$65 million short of the governor's budget estimate.

Sales, use, and single business tax (SBT) collections are also running well short of the budget estimates. If sales and use tax collections increase 2.5 percent for the remainder of the year (slightly faster than the growth rate for the first five months of the fiscal year), there will be a shortfall of about \$50 million. The SBT will fall about \$90 million short of the budget estimate if collections continue the no-growth pattern of the first five months of the fiscal year. On the positive side, income tax withholding collections appear to be on target and annual and quarterly payments will exceed the budget estimate by about \$55 million, based on an estimated increase of about 10 percent for the remainder of the fiscal year.

(over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary March 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	\$272,535	5.1%	\$919,205	4.2%	\$1,503,121	4.4%
Quarterly and Annual Payments ^a	16,421	10.8	127,241	27.1	178,146	41.2
Gross Personal Income Tax ^a	288,956	5.4	1,046,446	6.5	1,681,267	7.4
Less: Refunds	-307,601	52.1	-514,720	35.7	-545,172	35.6
Net Personal Income Tax ^a	-18,465	NM	531,736	-11.8	1,136,095	-2.4
Sales and Use Taxes	186,221	3.8	653,542	2.0	1,085,663	2.2
-Motor Vehicles	25,851	-15.2	91,237	-4.2	157,558	-1.3
Single Business Tax	48,452	4.2	318,247	-6.2	556,951	-0.7
Cigarette Tax	16,956	0.0	55,540	-2.2	94,232	-3.2
Public Utility Taxes	15	NM	15	NM	58,635	7.0
Oil and Gas Severance Tax	3,979	-27.3	11,596	-32.1	19,472	-34.3
Lottery ^b	33,255	1.5	103,535	-1.0	174,725	2.1
Penalties and Interest	419	NM	9,253	8.3	16,165	4.4
SUW—Annuals and Undistributed ^c	9,292	-2.0	16,504	53.5	20,001	37.5
Other Taxes ^d	30,110	8.2	60,886	9.4	107,349	25.4
TOTAL TAXES (GF & SAF) ^e	\$310,064	-20.6%	\$1,760,844	-4.3%	\$3,269,288	-0.4%
Motor Fuel Tax ^f	\$49,372	6.8%	\$153,484	2.6%	\$262,725	3.2%

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, March withholding collections declined 5.2 percent from the year-ago level.

^bLottery collections run one month behind other tax collections due to a reporting lag. Therefore, February 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 fiscal year 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.

What all this means is that the budget in the current year and in fiscal year 1987-88 could be seriously out of balance, particularly if the income tax rate is reduced to 4.4 percent. The revenue shortfall would be reduced if the economy perks up in the next few months, but there are no clear signs of that at present.

Monthly Focus: Consumer Prices

The consumer price index (CPI) measures changes in the price levels of goods and services. The February figures, released in late March, generated some concern that higher rates of inflation may be on the horizon. The United States CPI (urban workers) increased at an annual rate of 4.8 percent in February; the Detroit CPI, which is now released every two months rather than every month, increased at an annual rate of 5.4 percent in January and February (see Table 2). The increase in the Detroit CPI was mainly the result of higher energy costs, which rose at an annual rate of 31.2 percent. Excluding energy, the Detroit CPI rose at an annual rate of 3 percent. There were also above-average increases for medical care—9.6 percent—and shelter—8 percent.

There is little reason for concern that inflation may again become a serious economic problem, but consumer prices will rise more than in 1986, when weak energy prices held the increases in the United States and Detroit CPIs to 1.9 and 1.4 percent, respectively. Increases in labor costs continue to be modest and the relatively weak economy will continue to exert downward pressure on prices. For the shorter term, the producer price index, which usually leads consumer prices by several months, points to continued low rates of inflation; the producer price index for finished goods grew at an annual rate of 1.2 percent in February. There were, however, larger price increases for intermediate materials and for crude materials, reflecting in part higher energy costs.

*Table 2. United States and Michigan Consumer Prices,
Selected Components, February 1987*

Category	United States		Detroit	
	Percentage Change		Percentage Change	
	Since February 1986	Since January 1987 ^a	Since February 1986	Since December 1986 ^b
Food and Beverages	4.5	0.3	4.2	0.5
Housing	2.4	0.3	1.8	2.3
Fuel and Other Utilities	-3.9	0.3	-6.1	3.0
Apparel and Upkeep	2.1	0.6	-0.1	-2.1
Transportation	-2.9	0.5	-2.9	-0.2
Medical Care	7.1	0.6	6.7	1.6
All Items	2.1	0.4	1.5	0.9

SOURCE: Bureau of Labor Statistics, U.S. Department of Labor, *Consumer Price Index, February 1987*, Chicago, Illinois.

^aTo calculate annual rate, multiply by 12.

^bTo calculate annual rate, multiply by 6.