



Michigan REVENUE REPORT

Revenue collections were strong in March (February activity) as income tax withholding increased 9.2 percent above last year's March level, and sales and use tax collections increased 7.4 percent, despite only a 2 percent increase in motor vehicle collections. Single business tax revenues increased only 1.1 percent above the year-ago level, but this is not very significant as March is a low collections month. Lottery revenues continued weak, down 12.1 percent from February 1988.

Added to collections this month, for the first time, is foreign insurance premium tax revenue of \$14.6 million. This inflates the percentage increase numbers for the "other taxes" category and for total taxes.

In a March 14 report to the Senate Appropriations Committee, the Senate Fiscal Agency (SFA) increased their combined general fund/general purpose and school aid fund revenue estimate by \$63.5 million for the current fiscal year and \$20.1 million for FY 1989-90. The increases are due to unexpected strength in single business tax collections, which were partially offset by an upward revision in the estimate for income tax refunds (reducing net collections) and a downward revision in the estimate for lottery revenue. The SFA is projecting year-end balances of \$91.8 million in the current fiscal year and \$269 million in FY 1989-90. The estimate for the current year assumes a \$66.8 million pay-in to the Budget Stabilization Fund, which is not required by law; the legislature may decide not to make the transfer.

Public Sector Consultants believes the new SFA estimates are accurate.

(over)

Table 1. Monthly Tax Collections

Type of Revenue	Dollars in Thousands					
	Preliminary March 1989	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1988-89 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$297,151	9.2%	\$1,049,673	8.2%	\$1,663,806	6.4%
Quarterly and Annual Payments	25,556	-12.4	154,259	6.3	194,236	-0.1
Gross Personal Income Tax	322,707	7.2	1,203,932	7.9	1,858,042	5.7
Less: Refunds	-270,541	-6.5	-394,413	-8.9	-413,543	-9.0
Net Personal Income Tax	52,166	349.7	809,519	18.6	1,444,499	10.8
Sales and Use Taxes	209,125	7.4	735,776	7.6	1,216,001	7.0
-Motor Vehicles	31,697	2.0	103,514	7.8	176,261	9.0
Single Business Tax	51,158	1.1	450,671	25.7	764,061	14.4
Cigarette Tax ^a	18,142	-15.4	60,969	-0.9	106,999	6.9
Public Utility Taxes	0	--	0	--	64,647	5.6
Oil and Gas Severance	4,651	10.0	10,046	-12.2	16,424	-15.8
Lottery ^b	33,632	-12.1	112,521	-10.2	186,006	-2.7
Penalties and Interest	454	NM	14,370	44.9	18,270	-22.2
SUW—Annuals and Undistributed ^c	9,184	-27.2	15,257	-23.1	15,535	-13.1
Other Taxes ^d	54,137	284.6	91,075	38.9	145,040	46.5
TOTAL TAXES (GF & SAF) ^e	\$432,649	24.4%	\$2,300,205	13.9%	\$3,977,482	9.9%
Motor Fuel Tax ^f	\$57,101	1.2%	\$169,587	5.3%	\$278,287	1.5%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

^aAdjusted for 4-cent increase on January 1, 1988, the percentage changes are: March, -15.4 percent; past three months, -8.1 percent; year-to-date, 1.4 percent.

^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 38.8 percent, based on the average profit to the state for the fiscal year period ending October 31, 1988. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

^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 and SAF revenue and usually have shown little growth in recent years.

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

Employment and Inflation

Strong gains in employment nationally have increased fears about inflation, as tight labor markets are beginning to exert upward pressure on wage rates. In Michigan, as nationally, employment gains have been relatively strong in the past year, and the latest consumer price report (for the Detroit-Ann Arbor area) shows a surge in inflation.

As shown in Table 2, total nonagricultural employment in Michigan increased 2.6 percent from February 1988 to February 1989 (latest data available), despite only a 1.1 percent increase in manufacturing employment. Excluding manufacturing, employment gained 3.1 percent compared to a 3.9 percent increase nationally.

In the manufacturing sector, furniture and fixtures, metalworking machinery, printing and publishing, and rubber and plastic products recorded strong increases. Among the major sectors, the strongest gains were recorded by construction, wholesale and retail trade, and services.

Table 3 shows that consumer prices in the Detroit-Ann Arbor area are moving up at a disquieting rate. The 5.6 percent increase in the past year is the largest since 1981. The 9 percent increase (at an annual rate) between December and February is troubling but is not likely to continue. The recent increase was led by a 15 percent rise in housing prices and an 8.4 percent rise in food prices. Medical care prices, which have increased at above-average rates for several years, declined in the recent period and are up only 3.1 percent in the last year.

The Detroit consumer price index (CPI) is expected to increase from 5 to 5.5 percent in 1989.

*Table 2. Michigan Employment, Selected Industries
February 1988 and February 1989
(thousands)*

Industry	Employment February 1988	Employment February 1989	Percentage Change
Mining	9.8	10.5	7.1%
Construction	107.7	118.4	9.9
Manufacturing	936.8	947.2	1.1
— Transportation equipment	311.8	309.6	-0.7
— Furniture and fixtures	32.8	34.2	4.3
— Metalworking machinery	51.2	54.7	6.8
— Printing and publishing	41.5	43.2	4.1
— Rubber and plastic products	46.7	48.8	4.5
Transportation communication, and utilities	150.3	150.3	-0-
Wholesale and retail trade	184.6	191.3	3.6
Finance, insurance, and real estate	183.4	185.3	1.0
Services	834.8	862.3	3.3
Government	637.8	654.1	2.6
TOTAL	3,713.8	3,811.8	2.6%

SOURCE: Michigan Employment and Security Commission, *Monthly Report on Hours and Earnings*, February 1989.

*Table 3. Detroit-Ann Arbor Consumer Price Index,
Selected Categories, February 1989*

Category	Percentage Change from February 1988	Percentage Change (Annual Rate) from December 1988
Food and beverages	6.3%	8.4%
Housing	4.0	15.0
Apparel and upkeep	9.9	5.4
Transportation	7.8	4.8
Medical care	3.1	-3.6
Entertainment	5.4	4.2
Other	5.5	4.2
All items	5.6%	9.0%

SOURCE: Bureau of Labor Statistics, U.S. Department of Labor, *News*, March 1989.