



GOOD news

The **Michigan unemployment rate** decreased dramatically from 7.9 percent in February to 6.5 percent in

March. The rate was at or below the U.S. rate for the first time since September. State employment rose to a record high of 4.4 million as 29,000 people found jobs in March. The retail trade, services, and durable goods manufacturing sectors all posted employment gains. Unemployment averaged 7.3 percent for the first quarter.

◆ U.S. **vehicle sales** surged to an annualized rate of 15.9 million units or a 20-percent increase over March 1993 sales. All of the Big Three automakers reported record light truck sales, and Chrysler reported a monthly vehicles sales record as well. Japanese automakers' market share increased 1.8 percentage points, as their sales rose 29.8 percent over sales in March 1993.

◆ The U.S. **unemployment rate** remained at 6.5 percent in March following a 0.2 percent decline in February. For the first quarter firms reported adding 207,000 jobs per month. Factory employment continued its slow rise, adding 12,000 jobs. The average factory workweek in March increased to 42.4 hours, indicating that the recovery in manufacturing continues to produce more overtime than new jobs.

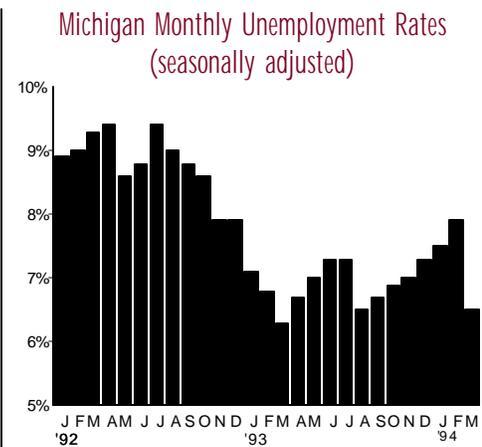
◆ The Conference Board's **consumer confidence** index increased from 79.9 in February to 86.7 in March, the highest reading since July 1990. The monthly survey of households also reported an eight-point rise in consumers' expectations about the economy for the coming six months.

BAD news

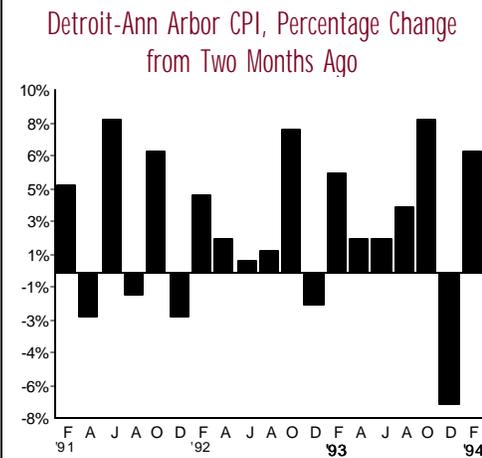
The Department of Commerce reported that **factory orders** fell one percent in February, with orders for durable goods slipping 2.6 percent due to weakness in the de-

fense and aircraft sectors. Although the February drop was not felt across the manufacturing sector—nondurable goods orders rose 0.9 percent—the outlook for factory jobs remains weak.

◆ **Consumer prices** rose at a seasonally adjusted annualized rate of 3.6 percent in March after a 3.6 percent increase in February and no increase in January. Many analysts attribute the rise in prices to strong demand associated with the recent rapid economic growth.



SOURCE: Michigan Employment Security Commission.



SOURCE: Bureau of Labor Statistics.

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MONTHLY FOCUS

U.S. AUTOMAKERS RIDE RECORD TRUCK SALES TO IMPROVED OUTLOOK FOR SALES, PROFITS

Last month the U.S. Big Three automakers—General Motors, Ford, and Chrysler—reported record sales of light trucks amid generally strong vehicle sales. First-quarter 1994 U.S. sales of light trucks, which include pickups, vans, minivans, and sport-utility vehicles, totaled 1.44 million units. The Big Three accounted for 86.6 percent of these sales.

If this sales pace continues for the next three quarters, Big Three light truck sales will total 4.99 million units and surpass last year's record of 4.66 million. Most analysts do not expect the first-quarter pace to continue for the entire year; however, the strong truck sales improve the short- and long-term outlook for the U.S. and Michigan automotive sectors.

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Trucks Gain Market Share

In 1983 light trucks accounted for only 24.5 percent of the U.S. vehicle market. Truck sales progressively improved throughout the next ten years, resulting in a 38.8 percent market share in 1993 (see exhibit). In 1993 trucks accounted for five of the top ten vehicle name plates sold. This upward trend should continue with the increasing popularity of minivans and sport-utility vehicles.

Domestic Dominance in Light Truck Production

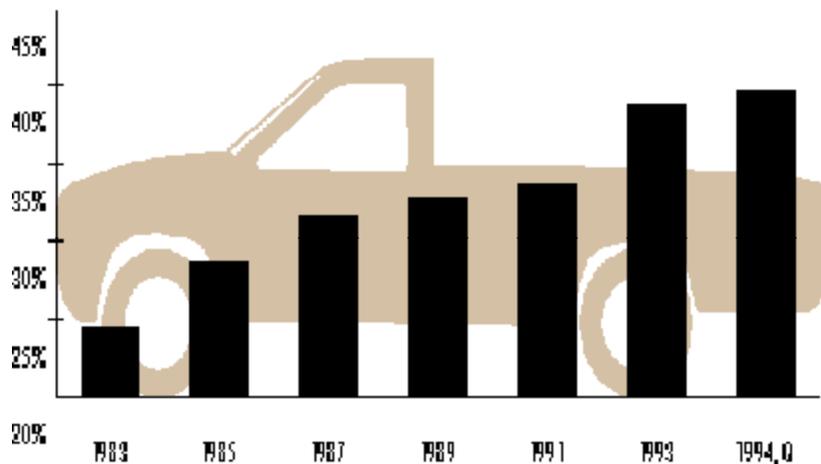
While the Big Three's share of the U.S. car market fell from 72 to 66 percent between 1983 and 1993, their share of the growing truck market increased from 85 to 87 percent and never dropped below 80 percent. The market share of domestically produced trucks, which include vehicles produced by Japanese automakers

in the United States and Canada, totaled 93 percent in 1993. North American light truck production for the second quarter 1994 is scheduled to increase 18 percent over the 1993 level, compared to a 9-percent increase in car production.

Conclusions

Michigan factories account for more than 20 percent of domestic truck production. As truck sales continue to grow, state employment in vehicle manufacturing should improve. For 1994 the Big Three are all anticipating profitable North American operations. The companies are expected to funnel some of these profits into new product development in an effort to maintain truck market share and regain car market share. These efforts should help keep Michigan's auto industry on the right track.

Truck Share of U.S. Vehicle Sales



SOURCE: *Automotive News*, various issues.

NEWS FROM
THE STATE
CAPITOL

BACK TO BUSINESS FOR
MICHIGAN LAWMAKERS

Lawmakers returned from their spring recess to face a variety of issues and debate on several potentially controversial bills. Reform of the state's health care system and single business tax (SBT) are two major issues likely to be discussed in the coming year. In addition, many bills now in the legislature deal with education and school finance reform. Following is a list of legislation to be debated by the House and/or Senate in the next month that could affect Michigan's budget and economy.

SB 5128. This bill, which proposes a number of cost-containment measures for public schools, is expected to be one of the year's more controversial. The bill would require schools to seek competitive bids for food service and other noneducational services. It would also require school districts to seek competitive bids for their employees' health insurance. While districts are currently allowed to do this, most do not and prefer to obtain these services through the Michigan Education Special Services Association (MESSA). In addition, SB 5128 broadens the authority of school administrators to set education policy and direct

curriculum, and bolsters current law that forbids teacher strikes. SBs 1033–1035. These bills, introduced before the March 15 ballot proposal on the sales tax, relate to tax increment financing authorities (TIFAs) and downtown development authorities (DDAs). TIFAs and DDAs are local government agencies that use property tax revenues for local economic development projects and usually have bond obligations to pay off. These three Senate bills were introduced to help ensure that the state's TIFAs and DDAs will be able to meet their bond obligations under the new school finance system. The bills give lo-

cal governments the authority to collect funding from school and other local millages and requires the legislature to make up any difference between revenues and bond obligations.

HB 5329. This bill, also introduced before March 15, would allow farmland to be taxed at the same school millage rate as residential land (6 mills) rather than at the higher nonhomestead rate of 24 mills. Previous language in the bill that laid out specific criteria under which farmland would be taxed at the homestead rate has been replaced with language that applies the lower rate to almost all property classified as agricultural.

PUBLICATIONS OF INTEREST

Congressional Budget Office, Congress of the United States, *Reducing the Deficit: Spending and Revenue Options* (Washington, D.C.: Government Printing Office, March 1994).

This 350-page book contains nearly 200 specific policy options for decreasing the federal budget deficit, at least some of which will be considered by Congress in the coming year. The report explains the Congressional Budget Office's deficit projections and reviews past efforts to reduce the deficit. The bulk of the book is a compilation of suggestions for reducing federal spending, including specific cuts in defense, discretionary, and entitlement spending. The book also suggests a few revenue-raising measures, including an energy tax, tobacco and alcohol taxes, and an air pollution tax.

Congressional Budget Office, Congress of the United States, *The Tax Treatment of Employment-Based Health Insurance* (Washington, D.C.: Government Printing Office, March 1994).

This document examines the tax-exempt status of employer-provided health insurance. Unlike wages and salaries, employees do not pay taxes on employer-provided health benefits. The subsidy is given to encourage employers to provide health benefits to their employees. This study examines the effect of the health insurance subsidy on the cost and availability of health insurance. It also discusses equity issues between people who have and do not have employer-based insurance and compares the current policy with alternative policies recently proposed in Congress.

Senate Fiscal Agency, *1993 Statistical Report* (Lansing, Mich.: February 1994).

This annual report of the Senate Fiscal Agency provides a variety of information to help the reader interpret the Michigan budget. The overall budget is summarized historically up through FY 1991–92, and detailed information is provided for the FY 1993–94 budget. Appropriations, government employment, caseloads, and other information that affect government spending are provided for each departmental budget (Education, Social Services, etc.). A summary of Michigan economic indicators, such as employment and interest rates, and a glossary of budgeting terms are also provided.

MICHIGAN REVENUE REPORT

Despite Federal Reserve Board action to cool the economy, Michigan's economy continues to hum, led by the resurgent motor vehicle industry. This solid economic growth is reflected in state revenue collections.

In March personal income tax withholding collections increased about 10 percent, and collections are up 8.6 percent for the year. Sales and use tax collections increased 8.7 percent despite only

a 2.3-percent increase in motor vehicle collections. This small increase is likely only a temporary pause after a 35-percent rise last month. April collections should be very strong, as buyers rush to beat the increase in the state sales tax. Sales and use tax collections excluding motor vehicles increased 9.7 percent.

Single business tax collections, typically small in March, rose only 4.7 percent. With auto industry profits soaring, collections should be strong in coming months. Year-to-date collections are up almost 15 percent.

Cigarette tax collections fell in March but are up more than 15 percent for the year, due to advance buying to beat the May 1

increases in the tax rate—from 25 cents to 75 cents per pack.

Lottery sales fell 5.1 percent in March from a strong year-ago month but still rose slightly for the year.

Last month we forecast that FY 1993–94 revenue would exceed the consensus revenue estimate by \$150–200 million. It now appears that the excess will fall at the high end of that range. In a March 15 memo to the Senate, the Senate Fiscal Agency projected a year-end surplus of about \$88 million, accounting for a \$107-million loss in revenue due to the passage of Proposal A. Our current estimate is that the surplus will approach \$300 million.

MONTHLY TAX COLLECTIONS (dollars in thousands)

TYPE OF REVENUE	Preliminary March 1994	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1993–94 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$403,068	10.2%	\$1,299,418	6.9%	\$2,165,351	8.6%
Quarterly & Annual Payments	28,557	-2.6	187,776	13.7	220,725	7.5
Gross Personal Income Tax	431,625	9.3	1,487,194	7.7	2,386,076	8.5
Less: Refunds	-376,140	-8.8	-555,405	-4.0	-579,450	-4.8
Net Personal Income Tax	55,485	0.0	931,789	16.1	1,806,626	13.6
Sales & Use Taxes	262,650	8.7	837,962	2.8	1,457,649	7.3
Motor Vehicles	32,917	2.3	111,677	10.5	195,217	11.6
Single Business Tax	49,943	4.7	434,632	16.8	782,338	14.9
Cigarette Tax	17,773	-3.5	72,544	25.9	113,749	15.3
Public Utility Taxes	0	0.0	13	-90.7	18,053	-75.3
Oil & Gas Severance	4,750	33.7	9,416	-2.7	14,231	-11.4
Lottery ^a	36,981	-5.1	109,427	3.0	227,510	2.1
Penalties & Interest	463	-18.8	20,093	12.1	35,234	0.8
SUW—Annuals & Undistributed ^b	17,690	34.6	32,728	221.1	28,309	17.8
Other Taxes ^c	32,870	-33.8	96,915	-16.1	149,135	-13.3
TOTAL TAXES (GF & SAF) ^d	\$478,605	20.9%	\$2,663,602	9.9%	\$4,632,834	8.5%
Motor Fuel Tax ^e	\$58,231	-6.4%	\$188,456	18.7%	\$309,165	12.4%

SOURCE: Data supplied by Michigan Department of Treasury.

^aThe state share of lottery sales is 35 percent (FY 1993). The previous years's figures are adjusted to the current year's profit margin; the percent change reflects the change in ticket sales.

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

^cIncludes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

^dExcluded are beer and wine, liquor, and horse racing taxes.

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

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