

GOOD news

The Michigan Employment Security Agency reports that the **Michigan unemployment rate** fell

in February to a seasonally adjusted 4.5 percent, down from 4.9 percent in January. February's jobless rate, the lowest for the month since 1970, was accompanied by 22,000 new jobs, primarily in construction, retail, and services.

◆ The **U.S. unemployment rate** fell in March to 5.2 percent from February's 5.3 percent rate. Job growth remained strong in March, with 175,000 new jobs added to the national economy, but it was less rigorous than in February, when 293,000 new jobs were added. The size of the labor force continues to increase, as more people decide to seek employment—the employment-to-population ratio set a new record in March: 63.8 percent.

◆ **Motor vehicle sales** increased 1.4 percent in March from the year-ago level—an 8 percent gain in truck sales offset a 3.4 percent decline in passenger car sales. The annual sales rate was a solid 15.5 million units, prompting some analysts to raise their 1997 forecast. Sales of Japanese models increased 3.4 percent, while Big Three sales were up only 0.1 percent. For the first quarter of 1997, Japan's market share grew from 22.3 percent to 24.2 percent.

◆ The March **producer price index**, which measures wholesale prices paid by producers and is used to predict inflation in coming months, fell 0.1 percent, the third consecutive monthly decline. News of the index, however, was mixed—the core index, which excludes the volatile food and energy sectors, rose 0.4 percent, hinting that inflation may be around the corner after all. Energy prices dropped 3.4 percent in March, while food prices rose 0.9 percent.

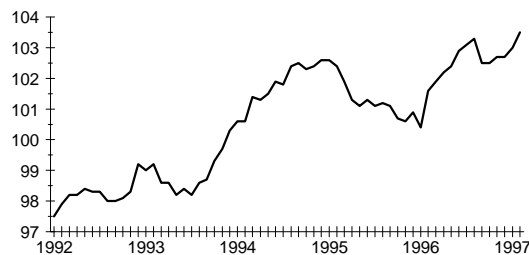
◆ The Conference Board announced that the **index of leading economic indicators**, designed to foretell the state of the economy in the coming six months, rose 0.5 percent in February, to 103.5, after rising 0.3 percent in January. The increase, which bodes well for the economy, was influenced by a drop in initial claims for unemployment in-

surance and by indicators showing slower delivery times for goods.

BAD news

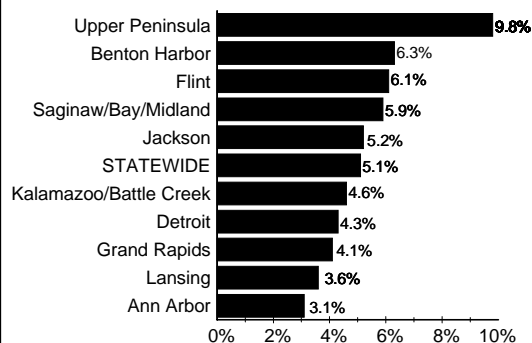
In late March, the Federal Reserve raised short-term **interest rates** by one-quarter of a percentage point in an effort to slow economic momentum and head off inflation. The hike came after a slew of indicators—including lower unemployment, higher wages, and a stronger dollar—were released showing that the economy was percolating. While March's rate boost was modest, most analysts expect additional increases in coming months.

Index of Leading Economic Indicators



SOURCE: Conference Board.

Unemployment Rates in Major Michigan Labor Markets, February 1997 (unadjusted rates)



SOURCE: Michigan Employment Security Commission.

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MONTHLY FOCUS

HIGH-TECH'S PLACE IN THE ECONOMY

Many economists suggest that global competition, higher productivity, and/or Federal Reserve policies have tamed the traditional business cycle. However, a recent *Business Week* article offers a new explanation for the record-setting longevity of the current economic expansion—the predominance of a new high-technology cycle.¹

The article points out that growth in the high-tech industry (e.g., computer equipment/software and information technology) has made the economy extremely vulnerable to the highs and lows of that industry. In fact, the author proposes that to monitor the business cycle, economists should stop following such cyclical indicators as retail sales, housing starts, and auto production and instead follow indicators of the health of high-tech industry.

The High-Tech Economy

The high-tech industry has only recently become a dominant economic force (see exhibit). *Business Week* reports that in 1983–93, growth on high-tech products and services spending was no faster than overall economic growth but since 1993 has far surpassed it. The author estimates that this economic newcomer's nominal contribution to gross domestic product (GDP)—the primary

measure of national economic growth—was 27 percent in 1994–96, eclipsing the contributions of the traditional housing and automobile industries (14 percent and 4 percent, respectively).

Pros and Cons

Dependence on high-tech industries has several advantages. *Business Week* asserts that it is the industry's unique nature that has enabled the economy to expand for more than 70 months without prices heating up. Because of the cost structure of producing high-tech goods, the industry is less susceptible to inflationary pressure, as evidenced by the drop in prices of computers and related technologies in the past several months. A potentially recession-causing decline in the technology industry also could be mitigated by growth in sales overseas, a very large potential market. The industry also produces relatively high-paying jobs, and wages are rising.

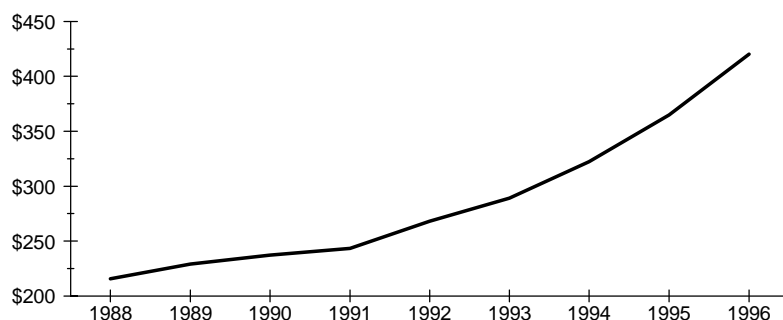
On the downside, the computer industry is more volatile than even the auto industry, with steep downswings occurring when new technological breakthroughs dry up. This occurred in 1985 and 1989, causing massive layoffs in the computer industry. (Conversely, major tech-

nological innovations, such as the Internet, cause powerful upswings in the computer industry.) High-tech goods are particularly vulnerable, because if the economy does begin to contract, purchases of new computers and other high-tech goods are likely to slow faster than other types of goods. *Business Week* also points out that interest rate adjustments do not affect high-technology purchases in the same way they do automobiles and housing purchases, reducing the power of the Fed to use monetary policy to boost the economy during a recession.

Conclusion

The economic force of high-tech has been slow to dawn on government statisticians, however: Government statistics to adequately measure the health of the high-tech industry are lacking. While such traditional industries as manufacturing and retail still are important gauges of economic health, high tech has not been given the weight it deserves. Until the ebbs and flows of the technology industry are tracked, we will be able neither to fully understand nor predict the effect of this economic powerhouse on our lives.

High-Tech Sector Output (billions of 1996 dollars)



SOURCE: *Business Week*, March 31, 1997.

¹Michael J. Mandel, "The New Business Cycle", *Business Week*, March 31, 1997.





NEWS FROM THE STATE CAPITOL

DURANT CASE GETS ANOTHER DAY IN COURT

The Michigan Supreme Court recently heard the State of Michigan's appeal of a case that could force the state to reimburse school districts for the costs of special education, school lunch and breakfast programs, and driver education. The case involves 83 school districts and ultimately could cost the state from \$500 million to \$3 billion, depending on the ruling.

Plaintiffs in the 17-year case argue that the state has violated the Michigan Constitution by failing to reimburse schools for

the costs of state-mandated programs. The state counters that the programs actually were unfunded federal mandates, and therefore, the state cannot properly be held responsible for the costs to the school districts. The supreme court will issue a ruling before its August recess.

GAS TAX COULD GO TO VOTERS

A group of Oakland County business executives says that if the legislature does not within weeks agree to pass a \$400-500 million permanent gasoline tax increase, it will lead a petition drive to let the voters decide. Governor Engler has said that he will support a tax hike only if all other possibilities for adequately funding road repairs have been exhausted.

While lawmakers are far from agreeing on a gas tax increase, the issue of Michigan's crumbling

roads is receiving a good deal of attention in Lansing. Proposals to pay for road repairs include a higher gas tax, taking money out of the state's "rainy day" fund, using supplemental funds, creating administrative savings, asking the federal government for a larger share of federal road funding, and prohibiting state departments from using Transportation Fund monies for administrative purposes. However, lawmakers have not yet agreed to a single plan.

It will be difficult for the legislature to raise the nearly half billion necessary to permanently repair the state's roads, but putting the issue on the ballot is no simple task, either. Approximately 250,000 signatures are needed to put the issue before the voters, and there is no guarantee that a majority will approve the measure if it is put to a vote.



The Economic Bulletin is written by Robert J. Kleine and Laurie A. Cummings.

House Fiscal Agency, Senate Fiscal Agency, and Michigan Department of Treasury. *Dynamic Revenue Estimating: Will It Work for Michigan?* (Lansing, MI), March 1997. 517/373-8080.

This 44-page report is the result of a year-long state effort to explore the feasibility of using dynamic revenue estimating, a new way to calculate the revenue upon which the state budget is based. Unlike current methods, dynamic revenue estimating considers the indirect effects on state revenue of changes in taxpayer behavior and state economic activities due to tax policy changes. The report explains research results of dynamic revenue estimating in other states, the pros and cons of using it, and the practicality of incorporating it into Michigan revenue estimating. It also makes recommendations to state policymakers, suggesting that the state make some changes in its estimating procedures but refrain from adopting dynamic revenue models in the near future.

Congressional Budget Office. *Reducing the Deficit: Spending and Revenue Options.* (Washington, D.C.: GPO), March 1997. 202/512-1800

This 426-page report describes approximately 200 specific policy options for lowering the federal deficit by reducing spending or increasing revenue. It describes the deficit, gives background information on the options, and explains each in detail. Options are categorized under the broad headings of defense and international spending, entitlements and other mandatory spending, domestic discretionary spending, Medicare and Medicaid, and revenue; in each, specific changes to a policy/program are set out, including a description of the program/policy to be changed, the amount of savings expected, and the pros and cons of the change.



MICHIGAN REVENUE REPORT

State revenue collections in March picked up steam from the fast February pace; the yield of the 11 major taxes covered in this report increased 9.5 percent. For the first five months of FY 1996-97, collections are up 7 percent, about 2.5 percentage points above

projections. If the current growth rate continues, fiscal year collections will exceed the consensus revenue estimate (arrived at by various executive and legislative branch officials) by about \$350 million. Although we expect revenue growth to slow in the second half of the fiscal year, revenues still are likely to significantly exceed the estimate.

The reason for the gap between the growth rates of sales and income tax revenue is unclear. Normally, the former rises about 0.9 percent for each one

percent increase in the latter. There can be a wide variance over a short period, but two months is longer than normal, and the gap is unusually large.

Lottery sales boomed in March—41 percent above the year-ago level—due to one of the fattest Lotto jackpots in recent years and the Big Game multi-state Lotto, which did not exist a year ago. Excluding the Big Game, ticket sales were up 25.8 percent. Year-to-date collections are up 17.3 percent.

March 1997 Revenue Collections (millions)

Source	March Collections	% Change Year-ago	% Change Year-to-Date	March 1996 Actual	FY 1996-97 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	\$498.1	11.3%	8.5%	447.5%	5.8%
Quarterly	6.1	60.5	7.7	3.8	5.7
Annual	39.6	41.9	4.0	27.9	9.5
Subtotal: gross income tax	543.8	13.5	8.3	479.2	6.0
Sales tax	102.2	36.1	15.6	75.1	1.6
Subtotal: sales/use/withholding	1,003.2	9.0	7.3	920.2	—
Cigarette tax	42.0	-7.7	-6.1	45.5	-2.5
SBT	71.3	13.0	2.6	63.1	6.2
Insurance	12.3	48.2	-5.3	8.3	0.2
Subtotal: SBT + insurance	83.6	17.1	2.6	71.4	5.6
State education property tax	171.9	-5.7	17.8	182.3	3.6
Real estate transfer tax	10.8	22.7	24.6	8.8	-0.7
Estate/inheritance tax	7.4	-2.6	4.4	7.6	0.3
Intangibles tax	2.2	-51.1	-48.8	4.5	-18.1
Severance tax	4.7	571.4	75.2	0.7	4.1
TOTAL	\$1,371.5	9.5%	7.0%	\$1,252.7	4.5%
Gross lottery sales (prel.)	\$169.8	41.0%	17.3%	\$120.4	1.0%

SOURCE: Senate Fiscal Agency.

NOTE: November is the first month of the new fiscal year for all revenue sources except the lottery.