Economic Bulletin

Public Sector Consultants, Inc.
600 W. St. Joseph
Suite 10
Lansing, MI 48933-2265
(517) 484-4954

GOOD news

The **producer price index (PPI)**, which measures inflation at the wholesale level, fell 0.3 percent in March, the sixth consecutive month without an increase. Energy prices, which fell 1.9 percent last month, contributed to the index's decline. Even excluding declining fuel prices, however, the PPI fell 0.1 percent last month. Moderate wholesale prices are good news for consumers as well as producers—a low wholesale inflation rate foretells low consumer inflation in coming months. In related news, the **consumer price index** remained unchanged in March from February's rate.

◆ The **purchasing manager's index** (PMI) showed signs of strength in February. The index, which measures the strength of the manufacturing sector, increased to 54.8 from 53.3 in February. (An index reading above 50 indicates that the sector is growing.) The index was higher than forecast—analysts had expected the economy to slow, with a resulting decline in the index to about 53. However, forecasts that imports would increase due to the Asian financial crisis were accurate, as the PMI's import index rose from 51.2 to 53.4.

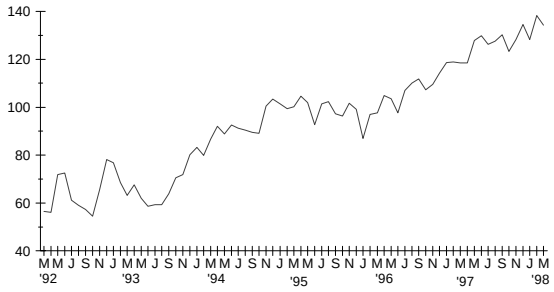
BAD news

The **U.S. unemployment rate** inched up to a seasonally-adjusted 4.7 percent in March from 4.6 percent in February. The increase is due to a loss of 36,000 seasonally-adjusted jobs in March that largely resulted from the way in which the government adusts its data. Good weather has caused consumers to do their spring shopping earlier than usual, leading employers to hire more people earlier in the year. As a result, government formulas that assume increased hiring in the spring show that the economy has 36,000 fewer jobs than it should have at this time of year. In contrast to seasonally-adjusted data, unadjusted payroll data show an increase of 636,000 jobs from February to March.

March **light motor vehicle** sales fell 1.7 percent from the year-ago level, the third consecutive monthly decline. Car sales dipped 5.1 percent while light truck sales gained 2.5 percent. Sales for the Big Three edged up 0.2 percent while sales of Japanese models plummeted 13.6 percent. The decline in Japanese sales was due mainly to a drop in sales of Nissans (–44 percent) and Toyotas (–17.1 percent). GM sales increased (3.5 percent) while Ford (-2.6 percent) and Chrysler (-1.8 percent) recorded declines. Light vehicle sales for the first quarter of 1998 are down 2.8 percent, with car sales down 7.5 percent and light truck sales up 3.1 percent.

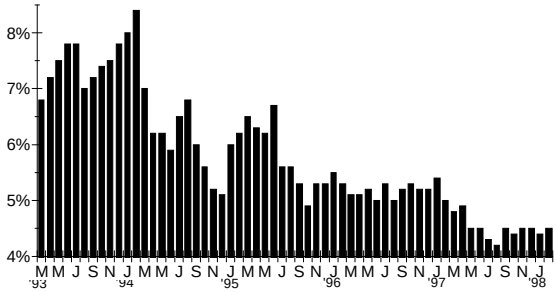
◆ The index of **consumer confidence** fell slightly in March to 134.3 from 138.3 in February. The index, which measures between 85 and 100 when the economy is performing well, indicates potential consumer spending. Of consumers surveyed, 42 percent said they feel current business conditions are good, up from 40 percent in February. They feel less certain about the future—5.1 percent said they believe the economy will get worse in coming months, up from 4.4 percent in February, and 24 percent expect their income to rise, down from 27 percent.

Consumer Confidence Index, March 1992 to March 1998



SOURCE: Conference Board.

Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: Michigan Employment Security Agency.

IN THIS ISSUE

MONTHLY FOCUS

INCOME INEQUITY INCREASES

The Center on Budget and Policy Priorities recently released a study of income inequality in each of the 50 states.[1] It found that in most states, the gap between the incomes of the richest 20 percent of families with children and the poorest 20 percent was significantly wider than it was in the mid-1980s.

The study examined inflation-adjusted before-tax income data for families with at least one child under the age of 18 for the poorest one-fifth, wealthiest one-fifth, and middle one-fifth of the population. It analyzed the data for the mid-1980s (1985–87) and the mid-1990s (1994–96) to determine how the average income of these three groups had changed relative to each other.

Nationwide

The study found that income inequality has increased in 37 states since the mid-1980s. In these states, the gap between the incomes of the wealthiest one-fifth and the poorest one-fifth grew, due in part to the fact that, in some states, real incomes of the wealthy grew faster than those of the poor. In 24 states, however, the gap widened because the average annual income of society's most impoverished families—the poorest one-fifth—had actually declined when adjusted for inflation. Income equality was reduced in 13 states, where the incomes of the poor increased.

The study found that incomes of the middle fifth of families also have fallen farther behind those of the wealthy. In 47 states, the ratio of the average income of the wealthiest fifth to that of the middle fifth increased between the mid-1980s and mid-1990s.

Michigan

Despite a loss of many manufacturing jobs in Michigan between the mid-1980s and mid-1990s, income inequality did not increase more in Michigan than in most other states (see exhibit). Michigan's wealthiest fifth of families with children held an average of 12.2 times the income of the poorest fifth in the 1985–87 period. This ratio increased only slightly to 12.7 in 1994–96, the 30th-highest increase among the states.

Findings were similar for income inequality between the wealthy and middle class in Michigan. The ratio between the wealthiest fifth of the population to that of the middle fifth was 2.3 in the 1985–87 period and 2.6 in the 1994–96 period, a 9 percent increase. Michigan ranked 33rd highest in the nation.

This month's Economic Bulletin was written by Laurie A. Cummings, Senior Consultant for Economic and Education Policy, and Robert Kleine, Vice President and Senior Economist.

Change in the Ratio of Incomes of Top and Bottom Fifths, of Families with Children, 1985–86 to 1994–96 (Selected States)

State	Top-to-Bottom Ratio 1985–87	Top-to-Bottom Ratio 1994–96	Percentage Change	Rank
Arizona	8.7	14.2	63%	1
Connecticut	8.8	14.2	61	2
New York	12.7	19.5	54	3
Indiana	8.0	10.0	24	18
Ohio	10.3	12.0	17	22
MICHIGAN	**12.2**	**12.7**	**4**	**30**
Wisconsin	7.6	7.7	2	35
Illinois	12.1	12.3	2	36
Minnesota	9.2	8.2	–11	48
Colorado	11.0	9.2	–17	49
Arkansas	12.0	9.3	–23	50

SOURCE: Center on Budget and Policy Priorities.

[1]Kathryn Larin and Elizabeth McNichol, *Pulling Apart: A State-by-State Analysis of Income Trends*, Center on Budget and Policy Priorities, http://www.cbpp.org/pa-1.htm.

NEWS FROM THE STATE CAPITOL

TAX HIKES MAY GET TOUGHER

The Senate Committee on Finance currently is discussing Senate Joint Resolution A that would make it much tougher for lawmakers to raise taxes. The resolution, called for by Governor Engler in his January State of the State Address, would require that any proposed tax increase receive two-thirds support of the legislature before it can become law.

The resolution would make it much more difficult for the legislature to pass a new tax, expand a tax base, increase the rate for an existing tax, or end a tax exemption. If passed, Michigan would become the 15th state to require such a super-majority.

It is supported primarily by Republican lawmakers and is expected to be adopted by the committee; it must then pass the full Senate as well as the House. Voter approval also would be required as the resolution modifies the Michigan Constitution.

STATE DEBATES SCHOOL AND LOCAL GOVERNMENT FUNDING

The Michigan House is debating a resolution (HJR BB) that would guarantee schools and local governments funding increases in the future. The resolution would change the constitution to require that schools receive the same funding increase each year as that allocated to the state's general and school aid funds combined beginning in FY 1999–2000.

Supporters assert that the change is necessary to ensure that schools and local governments receive adequate funding in the future. They state that, absent such a constitutional guarantee, state officials have no incentive to keep their promise of increased school funding made as part of Proposal A.

HJR BB's opponents contend it would result in too much of the state's monies being earmarked for specific uses, leaving officials too little flexibility for setting future budgets. They add that future lawmakers should have the right to decide how to allocate funds without such a stringent restriction.

At the time of writing, this largely Democrat-supported resolution is being debated on the House Floor and, should it pass, will face a tough battle in the Senate.

INFORMATION OF INTEREST

House Fiscal Agency, *State of Michigan Revenue Source and Distribution*, (Lansing, MI: HFA), March 1998. 517/373-5874.

This 60-page document provides information on the source of revenues for the State of Michigan. It describes which tax revenues go into the General Fund, the Michigan School Aid Fund, and transportation funds. It then details the distribution of the revenues collected from the income tax, sales and use taxes, the single business tax, the tobacco tax, and transportation taxes and fees for estimated 1997–98 and 1998–99 revenues. It provides definitions and other notes to clarify what each tax category includes. For example, business taxes include the single business tax and the insurance company tax. The report also has a section estimating the amount of revenue collected for FY 1996–97 by tax type. For each tax it cites the law that established it and provides information with regard to the tax base, rate, and disposition.

Council of Economic Advisers, *Economic Report of the President, Transmitted to the Congress*, (Washington, DC: GPO), February 1998. 202/512-1800.

This 400+-page report reviews the U.S. economy of 1997 and discusses the Clinton administration's plans for the economy in 1998. Specific areas of consideration include: ways to promote prosperity in a high-employment economy; the performance of and the policies affecting inflation, the unemployment rate, productivity, and consumer confidence; the economic well-being of children; the economic inequality among racial and ethnic groups; ways to improve economic efficiency in health and environmental issues; initiatives in antitrust enforcement; and the benefits of opening markets to foreign trade. The publication concludes with 112 tables of economic indicators, such as income, employment, and gross domestic product.

MICHIGAN REVENUE REPORT

State revenue collections are improving after a sluggish start. Total March collections increased 4.1 percent from the year-ago level. Revenue growth was dampened by weakness in the use tax and state property tax. Sales, use, and withholding tax collections increased only 2.4 percent, down sharply from the previous two months due mainly to the weakness in the use tax and only a modest increase in sales tax collections.

Personal income tax withholding collections were up 5.4 percent in March following solid gains in January and February. Gross collections were even stronger—up 6.7 percent—due to a 26 percent gain in annual payments.

Sales tax collections increased 3.3 percent in March, down from increases of 4.5 percent in January and 4.8 percent in February. Motor vehicle sales taxes were strong in March, up 10.3 percent from March 1997. All other collections gained only 2 percent. Use tax revenue, which can vary widely from month to month, plunged 15.4 percent in March, the third consecutive month that sales have been down or up only slightly. Year-to-date collections are down 3.2 percent, well below the consensus forecast of a 5-percent increase.

SBT collections (excluding insurance) jumped 36.9 percent, but March is not a big month for collections. Year-to-date collections are up only 1.9 percent compared with the consensus forecast of a 5-percent gain.

Lottery sales were down 4.9 percent in March from the year-ago level, but this is misleading as sales were the second largest in history due to a large Lotto jackpot. Sales are down because last March's collections were the largest in Michigan lottery history. March sales are up 20 percent from the January level.

March 1998 Revenue Collections (millions)

Source	March Collections	Percentage Change Year-ago	Percentage Change Year-to-date	March 1997 Actual	FY 1997–98 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	$525.0	5.4%	5.2%	$498.1	4.3%
Quarterly	5.4	–11.5	20.4	6.1	4.4
Annual	49.9	26.0	24.4	39.6	–4.2
Subtotal: gross income tax	580.3	6.7	6.8	543.8	3.7
Sales tax	415.9	3.3	3.5	402.7	4.6
Motor vehicles	68.5	10.3	8.2	62.1	—
Other	347.4	2.0	2.8	340.6	—
Use tax	86.3	–15.4	–3.2	102.0	5.0
Subtotal: sales/use/withholding	1,027.2	2.4	3.8	1,002.8	3.9
Tobacco tax	38.2	–9.0	–3.9	42.0	–3.1
SBT	97.6	36.9	1.9	71.3	5.0
Insurance	8.4	–31.7	–21.1	12.3	12.5
Subtotal: SBT + insurance	106.0	26.8	–0.2	83.6	5.5
State education property tax	168.1	–2.2	–5.1	171.9	5.0
Real estate transfer tax	15.0	38.9	15.6	10.8	0.6
Estate/inheritance tax	12.2	64.9	43.5	7.4	4.4
Intangibles tax	2.0	–9.1	–51.9	2.2	–39.6
Severance tax	3.0	–36.2	–22.5	4.7	–2.9
TOTAL	$1,427.0	4.1%	3.1%	$1,371.1	3.9%
Gross lottery sales (prel.)	$161.4	–4.9%	4.9%	$169.8	

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

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