



Michigan ECONOMIC BULLETIN

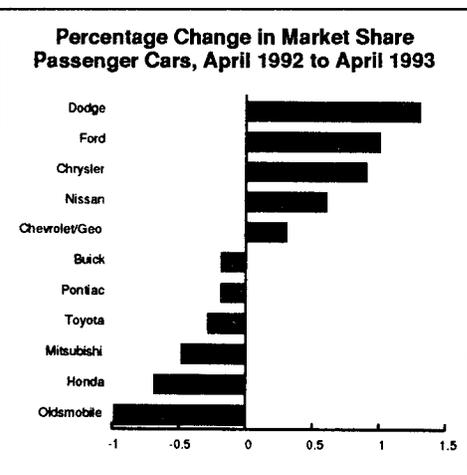
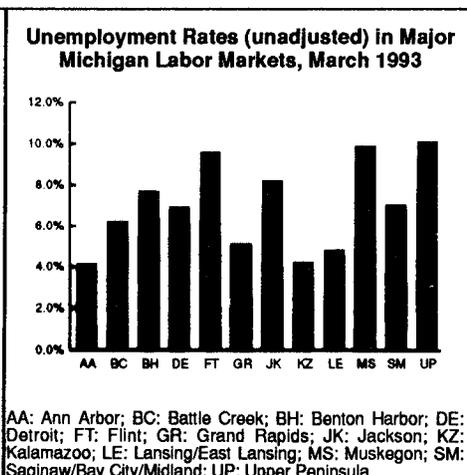
The Good News

● Michigan's unemployment rate rose in April to 6.7 percent from 6.3 percent in March. While the jump appears discouraging, it accompanied the state's highest monthly employment level in four years. Economists attribute this paradox to the return of discouraged workers, who wanted jobs but for a time gave up looking, to the work force. In April 84,000 of these workers rejoined the labor force—since not all were able to find jobs, they pushed up both job growth and the unemployment rate.

➤ April car sales climbed to their highest level in five years, and sales of pickups, minivans, and sport-utility vehicles also were strong. While light truck sales have been increasing steadily for months, April brought a surprising 7.1 percent rise in car sales, the largest jump this year. American consumers bought 50,663 (or 7 percent) more cars in April 1993 than in the same month last year.

● Consumer confidence rose to 67.7 in April, from a revised 63.2 in March, after a three-month trend of dwindling optimism about the economy's health. The rise in the index, which measures between 85 and 100 when the economy is performing well, occurred despite consumers' continued fears about employment conditions. While last month's increase in consumer confidence does not compensate for the substantial 15-point drop during the previous three months, it raises hopes that consumer spending will help fuel economic recovery in the future.

MICHIGAN ECONOMIC INDICATORS



SOURCES: Michigan Employment Security Commission and *Automotive News*.

The Bad News

➤ Real gross domestic product (GDP) rose at a sluggish annual rate of 1.8 percent in the first quarter of 1993, far slower than the previous quarter's impressive rate of 4.7 percent. Slow growth in GDP—which measures the value of goods and services produced in the nation—strengthens economists' concerns that the recovery will be slow.

● The 120,000 jobs created across the nation last month were not enough to reduce the unemployment rate. National unemployment remained at 7 percent, unchanged from the previous month. Although job growth has been better than in the early stages of the recovery, it has averaged only 124,000 jobs per month since November. In a typical recovery between 200,000 and 300,000 jobs are added each month.

➤ Sale of existing homes fell 2.9 percent in March to the lowest rate since June 1992—3.4 million (annual rate seasonally adjusted), down from 3.5 million in February and 3.5 million one year earlier. Poor weather is in part to blame for the lackluster sales, lending hope that April's figures will show more robust growth.

IN THIS ISSUE

Michigan Per Capita Income Improves	p. 2
Inheritance Tax Repealed; Proposal A Implementation Bills	p. 3
Michigan Revenue Report	p. 4

Michigan Per Capita Income Improves

In late April the U.S. Department of Commerce released its figures on state personal income for 1992.¹ (Personal income includes wages, salaries, interest, government transfers, rents, and dividends received by residents.) The exhibit shows 1992 per capita personal income for each state, ranked from highest to lowest.

Income Varies by Region and State

Connecticut's residents enjoyed the highest per capita personal income in 1992 (\$29,979), followed by many other northeastern states. Southern states generally fared the worst, with Mississippi's \$14,088 placing it last in the nation. The Great Lakes states are scattered throughout the standings. Illinois had the highest per capita personal income in the region (\$21,608) and ranked 7th nationally; Indiana had the lowest per capita income (\$18,043) and ranked 31st. Michigan, Ohio, and Wisconsin fell between these two, with Michigan ranking second highest among its Great Lakes neighbors.

Michigan

Michigan's per capita personal income ranked 19th highest nationally in 1992, up slightly from 20th in 1991. Michigan residents earned \$19,508 on average, slightly below the national average of \$19,841. The state's income grew 4.6 percent from the 1991 level, however, a faster rate than the nation's 3.9 percent. Within the state, in 1990 (the last year for which data are available) the Ann Arbor area earned the highest inflation-adjusted per capita income of the state's eleven MSAs, \$3,487 above the state average.² Muskegon earned the lowest, only \$11,483.

Changes Since 1979

Michigan has witnessed an interesting change in per capita personal income over the past decade or so—one that represents a break with state economic tradition. Cyclical swings in the economy tend to be much stronger in Michigan than around the nation—unemployment rises higher and income falls lower than in other states. For example, in 1978, when the national economy was performing well, Michigan's per capita personal income was the 10th highest in the nation. During the recession of the early 1980s the state plunged from 10th to 24th highest in per capita income in the nation.

However, 1991 data and the recently released 1992 data show a change in this pattern—during the recession of the early 1990s, the state's income did not fall faster than the national average. In fact, between 1990 and 1991 Michigan's real personal income fell *less* than the national average—1.6 percent, compared to 1.7 percent nationally. In 1992 Michigan's increase in real personal income was 1.5 percent above the U.S. average. The data seem to indicate that Michigan is becoming less vulnerable to the national economy's highs and lows than in the past.

Conclusion

The new per capita income data indicate that Michigan seems to be holding its own—it ranks 19th highest in the nation and second among the Great Lakes states. Although there are great differences in financial well-being within Michigan, the state economy is becoming less vulnerable to outside forces and may enjoy more stable, predictable income in the future.

²Michigan's Upper Peninsula is not included in this analysis.

State	1992 Personal Income	Percent Change from 1991	State	1992 Personal Income	Percent Change from 1991
Connecticut	\$26,979	3.9%	Ohio	\$18,624	7.7%
New Jersey	26,457	4.3	Iowa	18,287	6.0
Massachusetts	24,059	4.4	Maine	18,226	4.5
New York	23,534	4.3	Oregon	18,202	4.0
Maryland	22,974	3.0	Georgia	18,130	3.9
New Hampshire	22,934	5.1	Indiana	18,043	4.9
Illinois	21,608	4.2	Texas	17,892	5.2
Alaska	21,603	2.2	North Carolina	17,667	4.9
Delaware	21,451	2.5	Wyoming	17,423	2.7
California	21,278	2.3	Tennessee	17,341	2.9
Hawaii	21,218	0.7	Arizona	17,119	3.2
Virginia	20,629	4.9	North Dakota	16,854	4.9
Washington	20,398	2.9	South Dakota	16,558	3.9
Rhode Island	20,299	4.9	Kentucky	16,534	5.8
Nevada	20,266	2.3	Alabama	16,220	4.5
Pennsylvania	20,253	4.0	Oklahoma	16,198	4.8
Colorado	20,124	3.8	Idaho	16,067	4.6
Minnesota	20,049	4.8	Montana	16,062	2.4
Michigan	19,508	4.6	South Carolina	15,989	5.7
Florida	19,397	2.2	Louisiana	15,712	4.4
Kansas	19,376	5.8	Arkansas	15,439	5.5
Nebraska	19,084	7.3	New Mexico	15,353	4.4
Missouri	18,835	4.8	Utah	15,325	3.7
Vermont	18,834	4.8	West Virginia	15,065	4.5
Wisconsin	18,727	5.2	Mississippi	14,088	5.8
U.S.	19,841	3.9			

SOURCE: Michigan Department of Treasury, *Michigan Personal Income, 1979 to 1992*. (Lansing, Mich.: May 1992)

¹Michigan Department of Treasury, *Michigan Personal Income, 1979 to 1992* (Lansing, Mich., May 1992).

Inheritance Tax Repealed; Proposal A Implementation Bills

Repeal of Inheritance Tax

On October 1, 1993, Gov. John Engler will make it official—Michigan's inheritance tax will be a thing of the past. The governor has pledged to support a complete repeal of the "death tax," to become effective in the next fiscal year. Michigan's inheritance tax, which is one of the highest in the nation, will be replaced by a "pickup tax," an estate tax that parallels the federal estate tax. The pickup tax will be calculated only on property in excess of \$600,000—estates worth less than that would be tax exempt. By passing the measure Michigan will join 28 other states that have repealed inheritance taxes in favor of an estate tax based on federal law.

The repeal of the inheritance tax, which nets the state around \$110 million each year, will mean an estimated loss of \$95 million in the first year and between \$70 million and \$80 million in subsequent years. Supporters of the repeal believe that these estimates may be high because residents who otherwise would move out of state to avoid high inheritance taxes might remain, continuing to contribute income and sales taxes. Critics of repeal say that it will mean reduced revenues with which to plan the FY 1993-94 budget. They also question whether many people leave the state to avoid inheritance taxes.

Senate Approves Proposal A Implementation Bills

On May 13 the Senate approved five bills implementing the technical requirements of Proposal A. The bills will now go to the House, which will act on them during the week of May 17. The bills (SB 1, SB 596, SB 597, SB 598, and SB 599) were all passed by a healthy majority, but the Senate rejected proposed amendments to SB 1 that would have required lending institutions to pay interest on escrow accounts if they do not lower the escrow account amounts by October 1. Provisions passed under SB 1 require lenders to either lower a homeowner's escrow account by the amount of tax savings by October 1 or lower it by 20 percent of the account's 1992 amount.

Senate Bill 596, passed 29-6, amends the Property Tax Limitation Act so that local school districts will no longer

be allocated mills for school operating purposes. SB 597, passed 26-9, amends the School Code and adds much of the language of Proposal A, including the provision to levy 18 mills without a vote and the 27-mill cap. Senate bills 598 and 599, passed 26-9 and 24-11, respectively, amend the sales and use tax acts to allow an increase from 4 to 6 percent.

Publications of Interest

Senate Fiscal Agency, *Governor Engler's FY 1993-94 and FY 1994-95 Budget, Summary and Analysis of Major Recommendations* (Lansing, Mich.: SFA, March 1993).

This report summarizes the governor's initial state appropriation recommendations for the fiscal year beginning on October 1, 1993. It provides a numerical summary of the overall makeup of the budget, as well as department-by-department details of his appropriation requests for FY 1993-94 compared to the FY 1992-93 level. Major changes for the fiscal year, including differences in the dollar amount recommended, are summarized by program (for example, corrections and community colleges). Pie charts and other graphics are provided when appropriate to illustrate the governor's recommendations. Available from the Senate Fiscal Agency, P.O. Box 30036, Lansing, MI 48909.

Michigan Department of Social Services, *Program Statistics, Fiscal 1992*, DSS Publication 170 (Lansing, Mich., 1992).

This publication contains more than 80 tables of data on Department of Social Services (DSS) programs by Michigan county and for the entire state. Most tables are further broken down by month, and most contain fiscal year totals or averages. Data can be found under categories including aid to dependent children, state assistance, food stamps, medical assistance, protective services, and others. Several tables are provided for each program and contain various data, such as caseloads and payments to recipients. Copies can be ordered by calling (517) 373-2005.

Congressional Budget Office, Congress of the United States, *Assessing the Decline in the National Savings Rate* (Washington, D.C.: U.S. Government Printing Office, April 1993).

Questions regarding the country's future standard of living have been raised in light of the decline in the nation's savings rate. This report examines the reasons for the decline, which began in the 1980s and has persisted into

Michigan Revenue Report

State revenues continued to strengthen in April (largely March activity). Personal income tax withholding collections increased 6.2 percent in April. However, annual and quarterly payments declined slightly and refunds increased 8.5 percent. As a result, gross income tax collections fell 4.3 percent from the year-ago level.

Despite poor weather and weak sales nationally, April sales and use tax collections increased 5.8 percent, a better-than-expected performance. Motor vehicle collections increased only 1.6 percent and use tax collections fell 1.5 percent. Sales tax collections less motor vehicles increased a robust 9.5 percent.

Single business tax collections declined 9 percent due to a 16.5 percent decline in quarterly payments and a large jump in refunds. This weakness, however, was likely due

to a change in the collection pattern, as collections in early May appeared strong.

After several strong months, lottery sales fell an estimated 9.4 percent in April. However, year-to-date collections are still up 5.5 percent.

As we have forecast for several months, it appears that FY 1992-93 revenues will exceed current budget estimates. The budget assumes a 4.1 percent increase. We have been estimating a 4.6 percent increase, and it now appears that revenue may increase about 5 percent or \$75-90 million more than the budget estimate. The revenue estimates for this year and next are expected to be increased at the next consensus revenue estimating conference in early June.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary April 1993	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1992-93 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$366,700	6.2%	\$1,078,945	4.7%	\$2,369,687	7.8%
Quarterly and Annual Payments	283,772	-2.0	336,380	1.5	495,377	4.1
Gross Personal Income Tax	650,472	2.5	1,415,325	3.9	2,865,064	7.0
Less: Refunds	-363,230	8.5	-931,731	17.9	-972,128	14.8
Net Personal Income Tax	287,242	-4.3	483,594	-15.3	1,892,936	3.4
Sales and Use Taxes	264,327	5.8	744,293	3.5	1,616,618	4.9
Motor Vehicles	39,810	1.6	104,148	-1.1	214,703	5.6
Single Business Tax	158,951	-9.0	427,665	18.9	841,304	16.7
Cigarette Tax	20,628	3.2	56,337	-3.9	118,975	-2.6
Public Utility Taxes	0	0.0	132	NM	73,035	0.6
Oil and Gas Severance	3,793	10.6	9,950	-6.2	19,852	-9.0
Lottery ^a	38,702	-9.4	124,112	4.6	293,266	5.5
Penalties and Interest	260	-48.6	18,531	14.9	50,559	34.8
SUW—Annals and Undistributed ^b	5,472	3.7	39,533	62.1	36,880	7.5
Other Taxes ^c	94,950	-9.9	172,661	-9.8	268,270	-7.2
TOTAL TAXES (GF & SAF)^d	\$874,325	-3.1%	\$2,076,808	0.3%	\$5,211,695	5.3%
Motor Fuel Tax ^e	\$62,096	14.6%	\$183,562	9.2%	\$368,475	8.2%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

^aThe state share of lottery sales is 40 percent (FY 1992). The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase 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.