



Economic Bulletin

GOOD NEWS

The Michigan **unemployment** rate fell again in March, dipping to an all-time low of 4.3 percent.

March's rate, the lowest in 24 years, inched lower primarily due to job gains in the service and retail sectors. Although March was a good month for the state's overall employment picture, there were job losses in the mining and auto industries and state government. The April rate moved up slightly to 4.4 percent.

◆ First quarter **gross domestic product (GDP)**—the nation's primary measure of economic growth—rose at a robust 5.6 percent annual rate, following 2.7 percent growth in the 4th quarter of 1996. The growth was fueled by a 9.9 percent surge in consumer spending, the largest increase since the first quarter of 1988.

◆ The **U.S. unemployment rate** fell to 4.9 percent in April from 5.2 percent in March. April's jobless rate, the lowest since 1973, was driven by the addition of 142,000 new jobs to the economy. The drop in the rate, along with the first quarter GDP data, have renewed fears of inflation among economists, investors, and others, despite the fact that there are no tangible signs of rising prices as of yet. However, the Federal Reserve Board passed up the chance to raise interest rates at its May 20 meeting.

BAD NEWS

The U.S. Department of Commerce reports that **durable goods orders** fell 5.3 percent in March

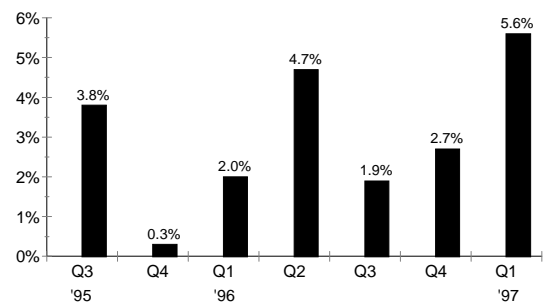
following a 0.8 percent rise in February. The report foretells a possible weakening in the manufacturing sector in coming months. The largest declines in factory orders were for electronic components, communication equipment, and transportation equipment.

◆ **Light motor vehicle sales** fell 3.8 percent in April (from April 1996), as an 8.2 percent decline in car sales offset a 2.1 percent gain in truck sales. The annual sales rate was only 14.7 million units, down from 15.5 million in March. Sales of Japanese models increased 1.8 percent, while Big Three sales declined 6.4 percent. All three

U.S. manufacturers suffered declines—11.5 percent for Chrysler, 5.3 percent for General Motors, and 4.3 percent for Ford. With year-to-date sales down 3.1 percent, some auto analysts' earlier upward revisions of the 1997 sales estimate may have been premature.

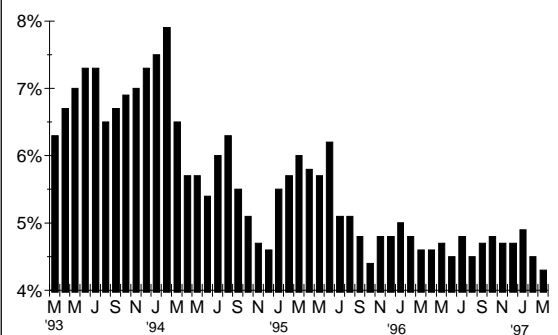
◆ The **producer price index (PPI)** fell 0.6 percent in April, the largest drop since 1993. The decline in the PPI, designed to predict inflation in coming months, was led by falling energy prices, which slid 2.6 percent. The core index, which excludes the volatile food and energy sectors, fell 0.1 percent.

Quarterly Changes in U.S. Gross Domestic Product (annual rate)



SOURCE: U.S. Department of Commerce.

Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

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MONTHLY FOCUS

REPEAL THE PERSONAL PROPERTY TAX?

The Michigan Department of Treasury recently released a report on Michigan's personal property

tax (tax on buildings and equipment). The legislature is considering repealing the tax because of the perception that it is unfair to businesses, which also pay property taxes on their land. Repealing the tax, however, would significantly reduce revenues, to the tune of \$303.9 million for state government and \$1.4 billion for local governments. The exhibit shows local governments' reli-

ance on personal property taxes by county. The personal property tax as a percentage of total property value (taxable value) varies from 3.3 percent in Leelanau County to 63.3 percent in Midland County. Unless the tax revenues are replaced by another revenue source, a repeal would clearly have a negative, disproportionate effect on Michigan local governments.

Personal Property as a Percentage of Total Property Value (Taxable Value), by County, 1996

County	Percentage	Ranking	County	Percentage	Ranking
Alcona	3.5	82	Leelanau	3.3	83
Alger	16.4	23	Lenawee	11.2	49
Allegan	15.8	26	Livingston	8.2	68
Alpena	12.1	43	Luce	7.3	74
Antrim	5.7	78	Mackinac	19.8	17
Arenac	8.7	65	Macomb	14.7	29
Baraga	13.1	34	Manistee	19.9	16
Barry	7.5	72	Marquette	11.1	50
Bay	12.3	39	Mason	9.3	59
Benzie	4.2	81	Mecosta	15.3	27
Berrien	10.8	52	Menominee	12.2	41
Branch	11.4	48	Midland	63.3	1
Calhoun	22.4	12	Missaukee	20.2	15
Cass	9.1	61	Monroe	11.9	44
Charlevoix	9.0	62	Montcalm	15.9	25
Cheboygan	6.0	77	Montmorency	27.6	9
Chippewa	9.7	56	Muskegon	13.6	32
Clare	23.1	10	Newaygo	12.4	38
Clinton	8.6	66	Oakland	11.1	51
Crawford	21.4	13	Oceana	5.0	80
Delta	31.2	6	Ogemaw	12.6	37
Dickinson	23.1	11	Ontonagon	18.5	18
Eaton	10.2	53	Osceola	29.4	8
Emmet	8.7	64	Oscoda	12.3	40
Genesee	17.6	20	Otsego	37.2	3
Gladwin	7.0	75	Ottawa	10.1	54
Gogebic	32.3	5	Presque Isle	9.4	58
Grand Traverse	10.0	55	Roscommon	6.6	76
Gratiot	16.0	24	Saginaw	17.3	21
Hillsdale	11.4	47	Sanilac	7.3	73
Houghton	11.6	46	Schoolcraft	32.8	4
Huron	8.0	71	Shiawassee	8.9	63
Ingham	12.9	35	St. Clair	12.1	42
Ionia	11.8	45	St. Joseph	17.7	19
Iosco	8.0	70	Tuscola	9.2	60
Iron	30.9	7	Van Buren	8.1	69
Isabella	13.8	31	Washtenaw	13.6	33
Jackson	14.5	30	Wayne	20.4	14
Kalamazoo	17.0	22	Wexford	12.6	36
Kalkaska	59.0	2	MICHIGAN	12.7	
Kent	14.7	28			
Keweenaw	9.6	57			
Lake	5.0	79			
Lapeer	8.4	67			

SOURCE: Michigan Department of Treasury, *The Michigan Property Tax: Real and Personal* (Lansing, MI: Treasury), March 1997.



**NEWS FROM
THE STATE
CAPITOL**

**GOVERNOR
RELEASES GAS TAX
PLAN**

Governor Engler released a plan to raise an additional \$570 million per year for road repair. Dubbed “Build Michigan II,” it would raise money through increased federal revenue, a higher gas tax, and systemic reforms.

Federal Gas Tax Revenue

The plan assumes that the federal government will return an additional \$200 million annually in federal gas tax revenue to Michigan. Although there has been a bipartisan effort to extract more highway revenue out of Washington, some observers feel that this estimate is unrealistically high.

Increase the State Gas Tax

Build Michigan II would raise the state gas tax 4 cents per gallon—from 15 cents to 19 cents. The 19-cent gas tax would be depos-

ited into a State Gas Tax Fund—the state would receive 10 cents of the tax and localities 9 cents. The 4-cent increase, which would cost the average Michigan motorist an additional \$22 per year, is expected to raise \$200 million annually.

Systemic Reforms

The plan includes administrative reforms, such as ending the diesel discount for commercial vehicles (already enacted), increasing registration fees for commercial truckers, tort reform for auto-accident lawsuits, and various other measures.

The tort reform would change current no-fault law to allow drivers to opt out of purchasing liability coverage, which provides protection in case a driver is responsible for a bodily injury resulting from an auto accident and is sued for pain and suffering. It could save drivers up to \$100 per vehicle per year in premiums.

The plan also would radically change the way that road funds are distributed throughout the state. Local governments would receive significant funding increases—cities would receive a 74 percent-per-mile increase, and counties would get 53 percent-per-mile more. The governor also

has proposed that the state take over maintenance of 20,000 miles of local roads. The state would assume jurisdiction of all primary roads (major highways and heavily-trafficked streets) on October 1, 1997, and competitive bids would be taken for their maintenance.

Reaction to the proposal was mixed: Some observers were pleased that there is finally a proposal to increase road funding; others were concerned about the details of the plan.

The change in authority for maintaining local roads is quite controversial, with critics stating that it is too complicated, gives the state too much control, and pits local jurisdictions against each other. Consumer and victims’ rights groups have criticized the no-fault change, claiming it would keep at-fault drivers from being held accountable for their actions. Reactions to the gas tax increase have ranged from charges that it is too small to total opposition to any increase.

Build Michigan II will no doubt be heavily debated in the legislature in coming weeks.



PUBLICATIONS OF INTEREST · Congressional Budget Office. *An Analysis of the President’s Budgetary Proposals for 1998.* (Washington, D.C.: GPO), March, 1997. 202/512-1800.

This 73-page document contains independent CBO estimates of the impact of the President’s budgetary proposals, finding that they would leave a \$69 billion deficit in 2007. The document also contains revised estimates of CBO budget projections published in the widely read *Economic & Budget Outlook: Fiscal Years 1998–2007*. The new estimate for the 1997 deficit is \$115 billion, down from the previous estimate of \$124 billion. (More recent estimates put the 1997 deficit at \$70 billion.) The document also contains estimates of the impact of a balanced budget in 2002 on the national economy.

Michigan Department of Treasury. *The Michigan Property Tax: Real and Personal* (Lansing, Michigan: Treasury), March 1997. 517/373-3200.

This 57-page report provides an overview of the Michigan property tax. It compares property tax levies, millage rates, and property values for the real property tax (tax on land and buildings) and the personal property tax (tax on plant and equipment). It also compares Michigan’s property tax with the 35 other states that levy such a tax and discusses the degree to which Michigan county governments rely on personal property taxes. The appendix lists the revenues raised by the personal property tax in each local government.



MICHIGAN REVENUE REPORT

State revenue collections in April slowed from the pace of recent months due mainly to weakness in quarterly and annual single business tax (SBT) payments.

Collections of the 11 major taxes covered in this report increased 5.5 percent from the year-ago level. For the first five months of FY 1996-97, collections are up 6.1 percent, about 1.6 percentage points above projections. If the current growth rate

continues, fiscal year collections will exceed the consensus revenue estimate by more than \$200 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 Consensus Revenue Estimating Conference is on May 22, at which time estimates are likely to be significantly increased.)

Gross income tax collections increased 12.7 percent above the year-ago level due to explosive gains in annual and quarterly payments. This strength could be partly a result of a sharp increase in capital gains, as investors cashed in profits generated by the six-year surge in the stock market.

Personal income tax withholding declined 5.1 percent following sharp gains in recent months. This weakness is likely an aberration in the collection pattern and not an indication of a slowing of growth.

Sales tax collections increased 5 percent, about in line with recent months. Use tax collections were up only 4.7 percent following large increases in recent months.

SBT collections fell 5.5 percent; they have been weak for most of the fiscal year.

Lottery sales continued strong, increasing 10.8 percent above April 1996.

April 1997 Revenue Collections (millions)

Source	April Collections	% Change Year-ago	% Change Year-to-Date	April 1996 Actual	FY 1996-97 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	\$436.0	-5.1%	5.4%	\$459.3	5.8%
Quarterly	93.3	22.6	11.8	76.1	5.7
Annual	382.5	39.9	33.6	273.5	9.5
Subtotal: gross income tax	911.8	12.7	8.7	808.9	6.0
Sales tax	433.4	5.0	3.5	412.6	4.5
Motor Vehicles	76.6	4.5	-0.5	73.3	—
Other	356.8	5.2	4.2	339.3	—
Use Tax	84.9	4.7	13.7	81.1	1.6
Subtotal: sales/use/withholding	954.3	0.1	5.3	953.0	—
Cigarette tax	43.8	-2.4	-5.6	44.9	-2.5
SBT	251.6	-5.5	0.5	266.3	6.2
Insurance	26.3	9.1	-2.2	24.1	0.2
Subtotal: SBT + insurance	277.9	-4.3	0.3	290.4	5.6
State education property tax	75.1	-3.8	14.8	78.1	3.6
Real estate transfer tax	11.5	13.9	23.0	10.1	-0.7
Estate/inheritance tax	8.1	125.0	19.5	3.6	0.3
Intangibles tax	40.8	-25.0	-33.1	54.4	-18.1
Severance tax	1.8	-71.0	22.2	6.2	4.1
TOTAL	\$1,889.1	5.5%	6.1%	\$1,790.3	4.5%
Gross lottery sales (prel.)	\$142.0	10.8%	16.3%	\$128.2	1.0%

SOURCE: Senate Fiscal Agency.

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