



Michigan ECONOMIC BULLETIN

The Good News

● The April **Detroit-Ann Arbor CPI** brought welcome news to Michigan consumers, increasing at an annual rate of only 1.8 percent from the February level. Prices were held down by a decline in housing and transportation costs and a modest 0.6 percent increase in food prices. Even though prices in general were held in check, prices of fuel, apparel, entertainment, and medical care jumped sharply. The April 1993 CPI was 2.5 percent above the April 1992 level.

➤ The **national unemployment rate** fell in May to a seasonally adjusted 6.9 percent from 7 percent the previous month. The May rate, the lowest in 18 months, still exceeds the 6.8 percent rate at the end of the recession in March 1991. The drop in the jobless rate was a result of creation of 209,000 new jobs across the country, primarily in services and construction.

➤ **May sales of cars and trucks** increased 13.7 percent from the year-ago level. Truck sales rose 21 percent, while car sales climbed 9.5 percent. Domestic motor vehicle sales were even stronger, increasing 18.1 percent above the May 1992 level. Sales of imports declined 6 percent.

➤ **New home sales** jumped 22.7 percent in April to a six-year high. Sales increased in every region of the country. Low interest rates sparked the surge, but the strong performance also was the result of a rebound after poor weather in March.

The Bad News

● The **index of leading indicators**, which foretells the state of the economy in the coming six months, rose only 0.1 percent in April, following a one percent plunge in March, the sharpest drop in two years. This confirms that economic growth is likely to remain sluggish.

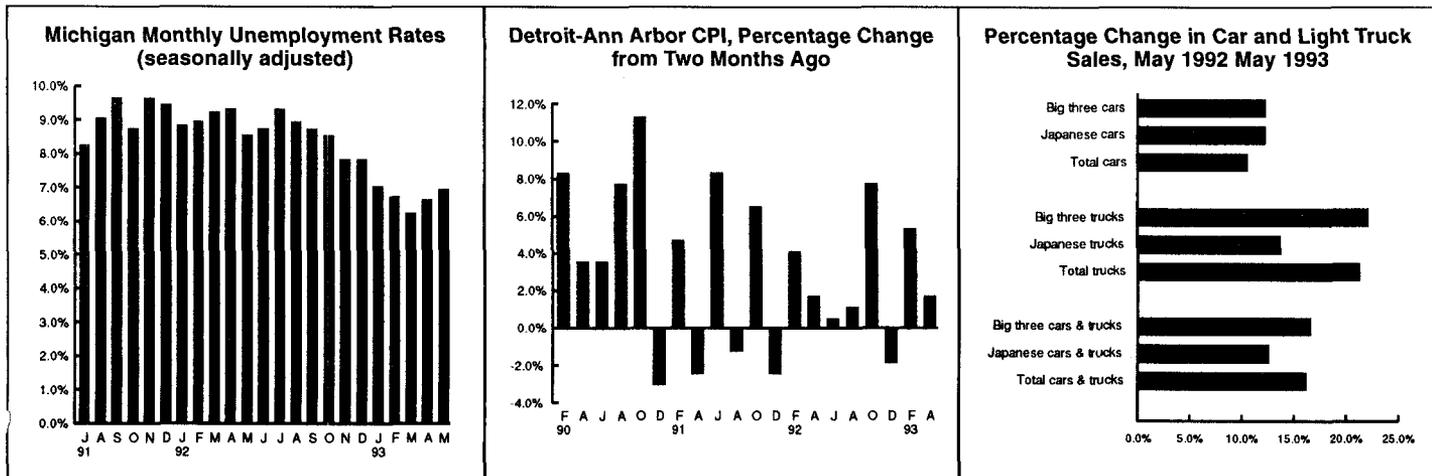
➤ In May the **Michigan unemployment rate** rose above the national rate for the first time since December, climbing from 6.7 to 7 percent, 0.1 percent above the U.S. rate. May's job growth was impressive, however, with 20,000 new jobs. This apparent paradox is explained by a large number of new workers entering the job market (51,000 in May), which raises the jobless rate despite employment growth.

➤ Growth in **gross domestic product** was sluggish in the first quarter of 1993, increasing at a 0.9 percent annual rate. Despite this poor showing, economists are confident that economic growth will improve in the second quarter, as housing, retail, and auto sales are showing signs of life. Some analysts suggest that enactment of Clinton's economic program may improve matters by relieving some of the uncertainty felt by businesses in the first quarter.

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MICHIGAN ECONOMIC INDICATORS



SOURCES: Michigan Employment Security Commission, Bureau of Labor Statistics, *Automotive News*.

Michigan's Economy Gains on Other States

A recent article in *State Policy Reports* presents an index of economic growth that shows how states' economies are progressing relative to each other. The exhibit shows rankings and an index, compiled from employment, income, and population statistics, comparing each state's economic growth to the U.S. average. Among the top ten economic performers, the South and West are well represented, with Arkansas enjoying the strongest economic growth in the nation. The bottom ten include former growth states California, Massachusetts, and New York.

Mobility in State Rankings

The report reveals that the patterns of economic growth among U.S. states are changing—some former leaders are sliding to the bottom of the ranks while others are climbing to the top. This “reversal of fortune,” for example, was experienced in California and Hawaii. Both were “boom economies” in the recent past but now are near the bottom, with Hawaii in last place. (This does not mean that Hawaii has the weakest economy in the nation, but that its *growth* has been the weakest.) The opposite has been true for Colorado, Texas, West Virginia, and some of the north central states. Texas, for example, fell victim to low oil prices in the 1980s, and the ensuing economic troubles placed it low in the economic growth standings. The 1993 index (1992 data), however, shows a recovery for Texas, now 13th in growth.

Michigan has made its own recovery. Rocked by troubles in the automobile industry, Michigan ranked 40th in economic growth according to the 1992 index (based on 1991 data). One year later, the state has climbed 12 places to 28th in the nation, and the 1993 index (1992 data) shows that Michigan's economy grew slightly faster than the national average. Two fellow Great Lakes states, Minnesota and Wisconsin, have made similar improvements in economic growth, and Minnesota is now among the top ten fastest growing states.

Employment and Personal Income

States' employment and income growth were also ranked in this report. In 1992, 116,600 new jobs were added to the U.S. economy, but employment growth was uneven across the nation. For example, California lost 230,000 jobs, while Texas added 110,500. Relative to the size of its work force, Arkansas was first in the nation in job growth, adding 3.4 percent more jobs to its economy. Hawaii, which ranked 50th in overall economic growth, ranked 44th in job growth, leaving last place to Connecticut.

1993 Economic Growth Index in Relation to National Average, Based on December 1991 to December 1992 data (U.S. Average = 0)

State	Rank	Index	State	Rank	Index
Arkansas	1	2.33	Indiana	26	0.53
Montana	2	2.16	South Carolina	27	0.28
Idaho	3	2.10	Michigan	28	0.22
Utah	4	2.03	Wyoming	29	0.13
South Dakota	5	1.78	Nebraska	30	-0.03
Colorado	6	1.65	Delaware	31	-0.11
Nevada	7	1.61	Ohio	32	-0.13
Tennessee	8	1.36	Virginia	33	-0.13
Minnesota	9	1.31	Maine	34	-0.20
Mississippi	10	1.28	Missouri	35	-0.24
Arizona	11	1.25	Illinois	36	-0.25
Washington	12	1.22	Oklahoma	37	-0.26
Texas	13	1.04	Florida	38	-0.31
New Mexico	14	1.01	Louisiana	39	-0.32
Oregon	15	1.00	Vermont	40	-0.45
Alaska	16	0.98	New Hampshire	41	-0.50
Georgia	17	0.94	Pennsylvania	42	-0.56
Wisconsin	18	0.91	New York	43	-0.75
North Dakota	19	0.86	California	44	-0.93
North Carolina	20	0.86	Maryland	45	-1.05
Iowa	21	0.83	Rhode Island	46	-1.08
Kansas	22	0.76	Massachusetts	47	-1.18
Kentucky	23	0.71	New Jersey	48	-1.25
Alabama	24	0.70	Connecticut	49	-1.94
West Virginia	25	0.69	Hawaii	50	-2.76

SOURCE: State Policy Research, Inc., *State Policy Reports* (Columbus, Ohio: SPR, March 1993).

cut. Michigan's rank in job growth, 27th, was nearly the same as its rank for economic growth in general, 28th. The state added 0.7 percent more jobs to its economy in 1992, beating the national average by 0.6 percentage points.

Arkansas is first in the nation in personal income growth, with 8.3 percent growth in 1992. Hawaii placed last, with a 3 percent decline in personal income, the only decrease in the nation. Michigan's personal income grew 5.1 percent, more than the national average of 4.5 percent, placing the state 27th in the ranking.

Conclusion

As the changing fortunes of Texas, California, and others attest, the path from boom to bust is well worn. Natural disasters, such as Hurricane Iniki in Hawaii, and nationwide circumstances, such as the effect of rising oil prices on Texas, can explain some of the economic turns taken by states. While not as easily explained, Michigan's improved economic growth is welcome news. Perhaps Michigan will repeat its “comeback” performance of the mid-1980s and once again outpace national growth.

Efforts Continue in Wake of Proposal A; Higher Education Plan Passes

Legislative Efforts to Reform School Financing Continue

Lawmakers have not given up on school finance/property tax reform, despite the defeat of Proposal A. Sen. Lana Pollack (D-Ann Arbor) is planning to reintroduce legislation to fund a property tax cut for school operation by increasing the state income tax. Senator Pollack will introduce Senate Bills 681 and 682, although Senate and House Republican leaders have stated that they will oppose any cut funded by an income tax increase. The bills would exempt a portion of a home's value from local school operating taxes, increase the personal state income tax exemption from \$2,100 to \$3,000, and increase renters credits under the Homestead Credit Act from 17 to 20 percent. To compensate for the resulting revenue losses, the legislation would increase the state income tax rate from 4.6 to 6 percent and earmark the extra money for schools. Voter approval would not be needed for the measures to be implemented.

Meanwhile Governor Engler and GOP leaders are discussing taking action of their own. They have not yet ruled anything out, save an income tax increase (because of concern that it would impede economic growth). The governor has said an assessment freeze or lowering this year's 11 percent assessment increases are the most likely alternatives he will consider.

One thing that both Democrats and Republicans agree on is that some type of property tax and school finance reform is necessary; Michigan's property taxes are 30 percent above the national average, and some predict court action to correct school inequities if legislators do not do so.

Senate Passes "Equitable Financing" Plan for Universities

Finance reform has also reached higher education. The Senate Appropriations Committee has added language to the higher education appropriations bill mandating that state universities be equitably financed. The measures were intended to bring equity to higher education financing while acknowledging differing program structures, enroll-

ment, and "missions" among the state's public universities. Opponents of the plan suggest that it favors research institutions over smaller, teaching universities.

Publications of Interest

Crain Communications, Inc., **Automotive News 1993 Market Data Book** (Detroit, Mich.: Crain Communications, May 1993).

This annual publication contains 152 pages of data on the auto industry that would be useful to industry analysts, buyers and sellers, and students of the Michigan economy. Data focus primarily on the domestic market, but some global production and sales data are included. Tables provide data for sales and production by make of vehicle, and some compare data for U.S.-built and imported models. Other information in the *Market Data Book* includes vehicle registrations, vehicle specifications, 1993 retail prices, and directories of automakers, suppliers, and dealers.

Congressional Budget Office, Congress of the United States, **The Federal Role in Improving Elementary and Secondary Education** (Washington, D.C.: U.S. Government Printing Office, May 1993) (ISBN 0-16-041768-6).

As the nation calls for education reform, Congress is in the process of deciding what its role in education must be. This 76-page publication was prepared to provide information to members of Congress and the general public throughout this decision-making process. It describes state efforts to improve schools, discusses trends and current conditions in education, and analyzes different options for changing the federal role. Specifically, it discusses changes in education over the past decade, the outcomes of education (including test scores), fiscal resources available to educators, racial and other characteristics of students, and existing federal education programs. Supporting tables and graphs are provided throughout the document.

Congressional Budget Office, Congress of the United States, **Resolving the Thrift Crisis** (Washington, D.C.: U.S. Government Printing Office, April 1993).

In 1989 legislation was passed to deal with the thrift cleanup, the initial phase of which is now near completion. This study examines the underlying causes of the crisis and the progress of the cleanup through the end of 1992 and presents several options for improving the cleanup. The study is for sale by the U.S. Government Printing Office, Superintendent of Documents, Mail Stop: SSOP, Washington, DC 20402-9328.

Michigan Revenue Report

State revenues continued to grow at modest rates in May. Personal income tax withholding collections (April and May activity) increased 5.9 percent. Adjusted for extra paydays this year, however, collections actually fell 0.8 percent. This is likely an aberration, and collections should continue to grow at a 5-6 percent rate for the remaining months of the fiscal year. Gross income tax collections jumped 125 percent due to a sharp drop in refunds, which resulted from the faster processing of returns this year.

Sales and use tax collections (April activity) rose 5.4 percent above the level for the same month a year ago, right in line with the year-to-date increase of 5.2 percent. Sales tax collections excluding motor vehicles increased a robust 7.2 percent. Motor vehicle collections increased 3.3 percent and use tax collections declined 2.1 percent.

Single business tax collections increased 17.4 percent, offsetting the decline in April. For the past three months collections have risen 6.4 percent.

Lottery collections for the first four weeks of May increased 3.3 percent, despite weakness in the new Bonus Lotto game. The profit to the state is down sharply, however, from about 40 percent in FY 1991-92 to 36 percent this year. As a result, we have lowered our estimate for lottery revenue by \$15 million to \$455 million.

We have increased our general fund-general purpose and school aid fund revenue estimate for FY 1992-93 by \$42 million to \$9,730 million, due mainly to strong income tax collections; revenue is now expected to grow 5.1 percent compared with our earlier estimate of 4.6 percent.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary May 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	\$365,768	5.9%	\$1,101,563	8.7%	\$2,749,438	8.2%
Quarterly and Annual Payments	16,633	-1.8	334,423	-1.7	513,514	3.8
Gross Personal Income Tax	382,401	5.5	1,435,986	6.1	3,262,952	7.4
Less: Refunds	-136,796	-46.0	-913,242	2.3	-1,109,265	0.9
Net Personal Income Tax	245,605	125.1	522,744	13.5	2,153,687	11.1
Sales and Use Taxes	276,535	5.4	778,495	5.2	1,891,741	5.2
Motor Vehicles	48,473	3.3	120,470	2.7	263,178	5.2
Single Business Tax	294,598	17.4	501,201	6.4	1,135,013	16.4
Cigarette Tax	19,188	-1.5	58,749	1.9	138,154	-2.5
Public Utility Taxes	0	0.0	133	NM	73,035	0.6
Oil and Gas Severance	3,165	9.0	10,510	2.3	23,017	-6.9
Lottery ^a	41,435	3.3	124,112	-0.5	334,701	5.2
Penalties and Interest	514	13.0	21,424	44.0	62,429	39.6
SUW—Annals and Undistributed ^b	2,639	-8.4	24,662	-39.5	29,000	-35.0
Other Taxes ^c	58,416	-6.7	204,413	-5.6	326,900	-7.1
TOTAL TAXES (GF & SAF)^d	\$942,095	25.5%	\$2,246,443	5.1%	\$6,167,677	8.0%
Motor Fuel Tax ^e	\$55,944	2.1%	\$181,408	9.5%	\$424,608	6.4%

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.