Economic Bulletin

GOOD news The Michigan unemployment rate held at a 20-year low of 5.7 percent in May. Among the 11 largest states only Michigan, North Carolina (4 percent), and Massachusetts (5.8 percent) recorded lower jobless rates than the federal rate of 6 percent. This represents a major turnaround from the first quarter when Michigan's unemployment rate averaged eighth highest of the 11.

◆ The U.S. unemployment rate dropped significantly, from 6.4 percent to 6 percent, between April and May. Nationally, employers reported an increase of 191,000 jobs, including 70,000 Teamster Union truckers returning to work. The increase in employment fell short of the average increase of 260,000 jobs registered through the first four months of 1994, indicating that employment is growing at a moderate rate that is not likely to stir up wage-driven inflation.

◆ The U.S. Department of Commerce revised the estimate of first-quarter growth in gross domestic product from 2.6 percent to 3 percent. Analysts believe that the growth rate—well below the 7-percent fourth-quarter 1993 rate—can be sustained through the second quarter without producing inflationary pressures.

◆ Demonstrating further proof that inflation is under control, the producer price index for finished goods fell 0.1 percent (seasonally adjusted) for the second consecutive month. Changes in producer prices generally foreshadow changes in consumer prices.
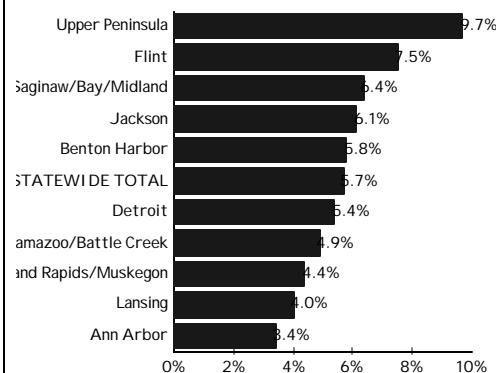
BAD news The sales rate of cars and light trucks slowed to a 1994-low of 14.6 million units (annualized rate) in May. Vehicle sales, however, were still 3 percent higher than in May 1993. The Big Three lost 0.4 percentage points of market share from a year earlier, largely due to a shortage of popular models caused by the shut-down of assembly plants that are retooling for the upcoming model year. Japanese auto makers also lost market share as European auto makers gained 0.8 percentage points.
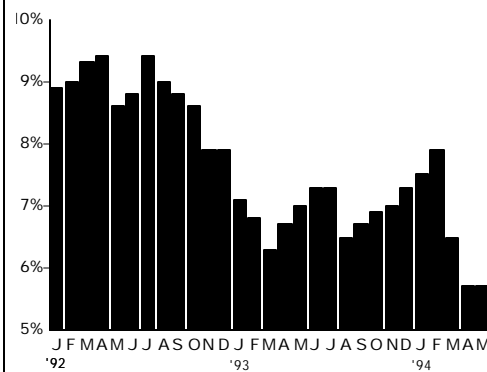
◆ The Conference Board's index of consumer confidence slid from 92.1 in April to 87.6 in May, reversing a three-month trend of increases. The report indicates that although consumer expectations about current economic conditions have dropped somewhat, consumers nevertheless have high expectations for the future.

Unemployment Rates in Major Michigan Labor Markets, April 1994 (unadjusted)

Market	Rate
Upper Peninsula	9.7%
Flint	7.5%
Saginaw/Bay/Midland	6.4%
Jackson	6.1%
Benton Harbor	5.8%
STATEWIDE TOTAL	5.7%
Detroit	5.4%
Kalamazoo/Battle Creek	4.9%
Grand Rapids/Muskegon	4.4%
Lansing	4.0%
Ann Arbor	3.4%

SOURCE: Michigan Employment Security Commission.

Michigan Monthly Unemployment Rates (seasonally adjusted)

SOURCE: Michigan Employment Security Commission.

June 1994

PROPERTY ASSESSMENT GROWTH AT SIX-YEAR LOW IN 1993

The State Tax Commission recently released the 1994 State Equalized Valuations (SEV) for each Michigan county.[1] Total SEV is $175.5 billion, up only 4.6 percent from 1993, the smallest increase since 1987 other than 1992, when assessments were frozen. Residential SEV increased 5.4 percent, compared with a 12.5-percent increase in 1993 that represented a two-year increase in property values due to the 1992 freeze. Commercial and industrial property rose only 3.3 percent, and agricultural SEV was up 3.1 percent.

The exhibit shows the percentage increase by county for residential and total property for 1993–94 and for 1989–94. The growth rate for most counties in 1994 was well below the average growth rate for the last five years. Statewide, the average five-year increase was 6.4 percent compared with the 4.6-percent aver-

[1]Assessments as of December 31, 1993.

age increase in 1994. Only three counties recorded double-digit increases in 1994: Mackinac, 16.6 percent; Kalkaska, 15.9 percent (personal property increased 43.2 percent due mainly to new oil and gas investments); and Benzie, 10.5 percent. The smallest increase was 0.6 percent in Monroe County, due mainly to a 5-percent decline in industrial SEV.

Twelve counties had double-digit increases in residential SEV, led by a 30.2 percent gain in Mackinac County, where a number of townships had their first reassessments in several years. All of these counties, except Lapeer and Sanilac, are located in northern Michigan. The smallest increase in residential property was 1.1 percent in Montmorency County. Of the 18 counties with a population of 100,000 or more only five—Berrien, Calhoun, Livingston, Ottawa, and St. Clair—recorded a 1994 SEV growth rate of 5 percent or more.

Growth in Assessed Valuations, By

County	Average Annual Percent Change (1989–94)		Percent Change (1993–94)		County	R
	Residential	Total Property	Residential	Total Property		
Alcona	9.4%	7.7%	5.0%	3.9%	Lake	
Alger	8.8	8.1	8.4	7.5	Lapeer	
Allegan	9.9	8.8	7.7	8.2	Leelanau	
Alpena	8.8	6.3	9.9	7.0	Lenawee	
Antrim	12.4	11.1	6.6	7.0	Livingston	
Arenac	8.3	6.9	11.7	7.6	Luce	
Baraga	4.0	3.4	2.2	2.3	Mackinac	
Barry	10.2	8.4	7.4	6.8	Macomb	
Bay	6.8	5.0	8.1	4.8	Manistee	
Benzie	11.7	10.4	11.5	10.5	Marquette	
Berrien	10.5	6.4	9.3	6.3	Mason	
Branch	7.1	6.2	4.4	5.0	Mecosta	
Calhoun	6.8	6.4	6.1	5.3	Menominee	
Cass	7.2	5.9	5.2	4.5	Midland	
Charlevoix	10.6	9.5	7.7	6.5	Missaukee	
Cheboygan	12.4	9.9	11.3	8.8	Monroe	
Chippewa	11.2	9.8	8.2	7.1	Montcalm	
Clare	7.1	6.5	7.4	7.8	Montmorency	
Clinton	8.8	7.5	7.0	6.2	Muskegon	
Crawford	5.9	8.3	5.6	4.6	Newaygo	
Delta	6.0	5.2	7.5	4.9	Oakland	
Dickinson	4.8	6.3	6.0	4.5	Oceana	
Eaton	7.2	5.7	6.0	5.6	Ogemaw	
Emmett	13.7	11.7	9.1	7.5	Ontonagon	
Genesee	5.1	3.4	3.7	3.0	Osceola	
Gladwin	9.8	8.4	9.9	8.8	Oscoda	
Gogebic	5.2	6.9	8.8	6.5	Otsego	
Grand Traverse	9.1	7.7	5.7	5.2	Ottawa	
Gratiot	5.8	5.1	4.7	4.6	Presque Isle	
Hillsdale	9.7	7.1	9.1	6.9	Roscommon	
Houghton	5.8	4.9	8.8	8.0	Saginaw	
Huron	7.3	6.0	5.9	4.2	St. Clair	
Ingham	6.0	5.2	4.0	3.6	St. Joseph	
Ionia	8.4	6.8	6.1	5.8	Sanilac	
Iosco	8.8	7.1	6.7	5.7	Schoolcraft	
Iron	3.9	5.7	5.2	3.2	Shiawassee	
Isabella	6.5	5.4	8.7	6.3	Tuscola	
Jackson	7.8	6.3	4.9	4.8	Van Buren	
Kalamazoo	7.2	6.0	6.1	4.9	Washtenaw	
Kalkaska	6.5	8.5	4.4	15.9	Wayne	
Kent	8.0	7.6	4.0	4.4	Wexford	
Keweenaw	7.2	5.4	10.9	8.5	**State**	

RETIREES AND BUSINESSES MAY GET TAX BREAK

The Michigan House has passed a plan that would reduce taxes for some Michigan residents and businesses. Agreement was reached to provide a $155-million tax cut by slicing the single business tax (SBT) and the tax on private pensions. Based on Senate Fiscal Agency estimates, the reduction is required to keep state revenues under the constitutional limit of 9.49 percent of personal income.

The SBT reform plan would provide $90 million in business tax cuts. SB 1145 would reduce the SBT rate to 2.3 percent from 2.35 percent, cutting $45 million in taxes. HB 5090 would give the state's smaller businesses a break by raising the SBT filing threshold from $100,000 to $250,000, cutting $30 million. HB 5614 would lower the alternative profits tax rate to 2 percent from 3 percent, cutting $10 million. Through HB 4958 the state would hold local governments harmless for any foregone revenue sharing resulting from the tax cuts. The guarantee is expected to cost the state about $5 million.

A last-minute effort to repeal the SBT altogether failed. Repeal was supported by a group of lawmakers who hoped to force long-term revision in the SBT in the same way that Michigan's property tax repeal forced school finance reform. However, neither business groups, the governor, nor the majority of House members were in favor of the repeal. Opposition by business to the repeal came as somewhat of a surprise because Michigan businesses have long been pushing for an end to the SBT. Business leaders explained that they oppose a repeal at this time and believe the SBT revisions will be a significant improvement.

Tax relief for private-sector pensions has been debated over the past few years. (Public-sector pensions are not taxed in Michigan.) The House and Governor Engler reached agreement on a cut that would cost the state about $70 million a year. The legislation passed by the House would raise the exemption on private pensions to $30,000 from $7,500 for single filers and to $60,000 from $10,000 for joint filers (HB 4801). Pension income over those amounts would be taxed at the state's 4.4 percent income tax rate. HB 5278 would cut $6 million in state revenue by allowing taxpayers who are at least 65 years old to deduct $1,000 of dividend and interest income.

Supporters of the tax cuts argue that the state will have a surplus in the next couple of years and that the cuts are necessary to comply with the state constitution. They say that the cuts will give businesses a break, particularly small businesses, and will promote equity between private-sector and public-sector pensions. Opponents say it is inevitable that the state will leave itself short in future years if the reductions are implemented and that further tax reforms should be delayed until the fiscal effects of the state's recent school finance reform are known.

nual Percent Change (989–94)	Percent Change (1993–94)	
Total Property	Residential	Total Property
4.8%	4.1%	3.5%
8.7	11.2	.7
12.7	5.7	5.4
6.8	8.2	6.4
11.5	7.6	7.0
6.5	10.1	8.5
12.4	30.2	16.6
6.0	4.3	3.8
6.1	5.0	2.7
6.0	9.5	7.1
4.3	7.1	4.3
5.3	6.3	5.5
2.3	3.0	2.4
9.7	7.5	3.3
6.0	12.6	9.4
4.7	5.1	0.6
6.5	8.7	7.3
7.0	1.1	9.3
6.5	3.3	3.3
5.7	7.8	5.8
5.9	4.7	3.6
8.1	8.4	7.3
8.1	12.2	9.0
3.2	4.8	3.7
4.2	5.4	4.5
5.0	3.6	3.6
8.8	6.6	5.6
8.5	6.1	5.8
6.9	10.1	7.8
9.0	9.5	8.8
4.9	6.0	4.1
6.5	7.3	5.9
5.8	4.8	5.2
7.9	13.0	9.5
8.2	12.2	6.6
6.2	6.6	5.3
5.1	4.3	3.1
7.3	7.4	6.1
7.2	5.1	4.0
5.6	3.6	3.8
7.8	8.9	9.5
6.4	**5.4**	**4.6**

Revenue collections appear to have remained strong in May, although an analysis of the data is complicated by changes in tax rates on May 1 as a result of the passage of Proposal A on March 15.[2] The sales tax rate increased from 4 percent to 6 percent, the income tax rate dropped from 4.6 percent to 4.4 percent, and the cigarette

[2]Adjusting for the rate changes in the sales and income taxes is difficult because (1) a portion of May collections were taxed at the old rate and a portion were taxed at the new rate (because of accelerated collections) and because of (2) advance buying, particularly of motor vehicles, to avoid the higher sales tax rate.

tax increased from 25 cents to 50 cents per pack and was extended to other tobacco products.

Income tax withholding collections increased an adjusted 24 percent in May despite the lower rate reflecting a change in the collection pattern or a problem in adjusting for the lower rate and an extra state payday last year—not a surge in economic activity.

Sales and use tax collections increased 39.3 percent in May. Adjusted for the higher tax rate, nonmotor vehicle collections were up an estimated 19 percent from May 1993 as consumers rushed to beat the higher tax rate. Also due to advance buying, motor vehicle collections, largely April activity, increased 41.2 percent.

SBT collections were very strong, up 21.5 percent from May 1993. Year-to-date collections are up about 15 percent.

Cigarette tax collections increased 37 percent from the year-ago level. Adjusted for the tax rate increase, however, collections were down about 43 percent. This large decline was due in part to the advance buying in recent months to beat the tax increase. Future declines (adjusted for the tax change) should be less dramatic, most likely in the 12–15 percent range.

Lottery ticket sales in May turned in the second straight strong month, jumping 10.9 percent above the year-ago level.

MONTHLY TAX COLLECTIONS
(dollars in thousands)

TYPE OF REVENUE	Preliminary May 1994	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1993–94 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	$418,242	16.3%	$1,228,084	10.5%	$3,019,493	10.2%
Quarterly & Annual Payments	28,395	70.7	337,416	0.9	529,585	3.7
Gross Personal Income Tax	446,637	18.7	1,565,500	8.3	3,549,078	9.2
Less: Refunds	−248,414	81.6	−1,008,502	10.4	−1,211,812	9.3
Net Personal Income Tax	198,223	−17.3	556,998	4.5	2,337,266	9.2
Sales & Use Taxes	385,155	39.3	952,995	22.4	2,148,530	13.4
Motor Vehicles	68,519	41.4	160,474	33.2	322,772	22.6
Single Business Tax	357,972	21.5	568,340	13.4	1,300,735	14.7
Cigarette Tax	26,280	37.0	67,615	15.1	163,592	18.1
Public Utility Taxes	0	0.0	5	−96.2	18,058	−75.3
Oil & Gas Severance	2,976	−6.0	9,164	−12.8	18,645	−19.0
Lottery [a]	39,865	10.9	117,369	8.5	307,885	6.3
Penalties & Interest	912	77.8	24,226	13.1	58,999	5.7
SUW—Annuals & Undistributed [b]	2,338	−54.6	11,002	−38.5	14,609	−37.9
Other Taxes [c]	79,438	36.0	180,156	−11.9	296,420	−9.2
TOTAL TAXES (GF & SAF) [d]	$1,093,159	17.2%	$2,678,386	10.9%	$6,664,739	9.2%
Motor Fuel Tax [e]	$44,957	−19.6%	$179,670	−1.0%	$430,604	3.0%

SOURCE: Data supplied by Michigan Department of Treasury.
[a]The state share of lottery sales is 35 percent (FY 1993). The previous years's figures are adjusted to the current year's profit margin; the percent change reflects the change in ticket sales.

[b]These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

[c]Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.
[d]Excluded are beer and wine, liquor, and horse racing taxes.
[e]The motor fuel tax is restricted to the Transportation Fund.