Economic Bulletin

GOOD news

Michigan's unemployment rate edged down in May to 5.7 percent, from 5.8 percent in April, as total employment in the state set a new record. Primarily due to growth in tourism-related industries, the total number of jobs in the state reached nearly 4.54 million, exceeding last October's record by 4,000. The state work force also set a new record in May, surpassing 4.8 million—11,000 more people than in April 1994, when the previous record was set.

◆ Primarily due to a 0.7 percent decrease in the labor force, the U.S. unemployment rate was identical to Michigan's, dropping to 5.7 percent in May from 5.8 percent in April.

◆ After four consecutive months of decline, May U.S. car and light truck sales were up 3.1 percent from the year-earlier level. Of the major auto makers, only GM's sales failed to improve. May sales represent an annualized rate of 15 million vehicles, but sales are down 3.7 percent for the year.

◆ Long-term interest rates continue to drop; as the 10-year treasury securities rate fell from a high of 8 percent last November to 6.12 percent on June 9. The rate's decline has accelerated recently, falling from 6.93 percent on May 5.

BAD news

The May Conference Board's consumer confidence index fell three points from April, to 101.6. Consumers show more concern than they did earlier about the current health of the economy, but they remain more optimistic about longer-term expectations.

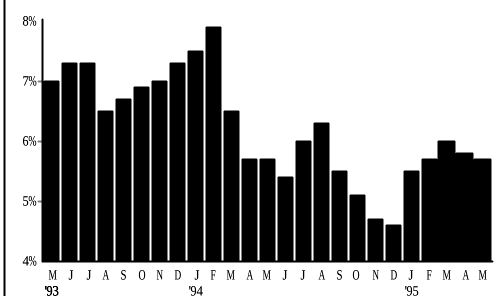
◆ The index of leading indicators slid for the third month in a row, falling 0.6 percent in April; this is fueling concern that the desired soft landing will not be achieved.

◆ Contributing to fear that the economy is heading toward a recession, the number of people on U.S. payrolls plummeted by 101,000 jobs in May, the largest one-month drop since April 1991. Factory and construction rosters experienced large decreases; in the service sector, however, payroll employment increased modestly.

◆ New orders for durable goods sank 4 percent in April, after also declining in both February and March. Orders fell in every category of durable goods, with 9.3 and 5.2 percent declines in transportation equipment and nondefense capital goods, respectively, leading the retreat. The decline was the largest in durable good orders since December 1991.

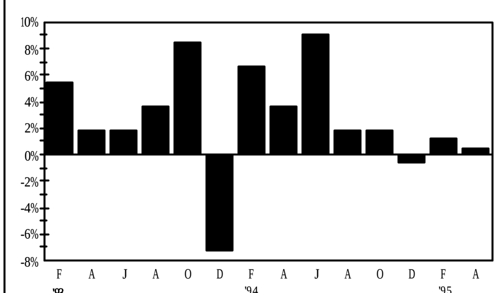
◆ Ignoring lower mortgage rates, existing single-family home sales fell 6.4 percent from March to April. The seasonally adjusted annual rate of 3,390,000 home sales, a three-year low, is off 17.5 percent from April 1994.

Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

Detroit-Ann Arbor CPI, Percentage Change from Two-Month-Ago Period



SOURCE: U.S. Bureau of Labor Statistics.

IN THIS ISSUE

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June 1995

MONTHLY FOCUS

A NEW ECONOMY: LAYOFFS DURING AN UPSWING

The *Wall Street Journal* recently ran a feature discussing the fact than despite a healthy economy and sizable profits, the nation is experiencing layoffs.[1] The article explains that while the continued downsizing may help corporations stay on top of a competitive market, it takes a toll on employee productivity.

Strong Growth, Huge Layoffs

After a slow start, the current upswing in the business cycle has been strong for more than two years—1994's 4.1 percent growth in U.S. Gross Domestic Product was the fastest in a decade.[2] Normally, growth of this magnitude ensures temporary job security, as layoffs usually are reserved for recessions, when firms need to cut expenses to stay afloat.

Not this time. Firms are benefiting from the growth—corporate profits jumped 13 percent in 1993 and 11 percent in 1994—but corporations are cutting jobs. In 1994 alone the figure was 516,069, more than half again the 316,047 jobs eliminated in 1990 and almost as many as the 555,292 layoffs in 1991 (the last recession straddled 1990–91); in 1993 the number exceeded 600,000.

> Normally, growth of this magnitude ensures temporary job security . . . Not this time.

Cuts Necessary but Counterproductive?

Corporate executives argue that the cuts are needed to remain competitive. To take advantage of technology, best deal with the fast-paced global market place, and stay as lean as competitors, large numbers of jobs may have to be eliminated, even during economic good times.

Economist S. Jay Levy, chairman of the Jerome Levy Economics Institute, believes the restructuring is a necessary part of the economy's ongoing transition from an industrial to a technological/informational era, similar to the Industrial Revolution. Although the process is necessary, Levy says "We have to think of the corporations. . .in the same light that we would think of farms historically. When a new combine or tractor displaced farm workers, it was not pleasant for those workers, and they had to look elsewhere for jobs. Similarly, it is also unpleasant for people today who are losing their jobs because of downsizing or some other reason."[3]

Jobs *are* available—the expanding economy has increased the overall number during the last two years. But they are not necessarily as high paying as the jobs being lost.

Moreover, although employees recognize the need for layoffs during recessions, they find it hard to understand why their jobs are at risk when the economy is strong. The seemingly ever-present fear that s/he may be next out can decrease a worker's productivity, spur backbiting, and hurt teamwork. The *Journal* points out that the stress often induces physical illness ranging from minor headache and insomnia to more serious migraine, sleep disorder, and stomach problems. Stress affects employees' personal lives, too, making them less willing or able to make large investments or become involved in relationships; this also can reduce on-the-job productivity.

Conclusion

Although corporate layoffs slowed in the first five months of 1995, public-sector layoffs picked up. Downsizing may be part of the new economic reality. For now, however, employers need to realize the practice's costs in terms of jobholder morale and health. And, to better cope with the ever-changing and unstable job market, workers need to adjust their expectations.

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[1] *Wall Street Journal*, "Amid Record Profits, Companies Continue to Lay Off Employees," May 4, 1995.

[2] *Wall Street Journal*, "Economy Grew at 2.8% Rate in First Quarter," May 1, 1995.

[3] *The Jerome Levy Economics Institute of Bard College Report*, "S. Jay Levy Discusses Ethics and Capitalism, Recent Research and General Economic Conditions," October 1994.

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NEWS FROM THE STATE CAPITOL

SENATE ADVANCES SBT REFORM

The Senate began the latest "reform" of Michigan's single business tax (SBT) by passing SB 342 on a 27–9 vote. The measure, which does not have Governor Engler's support, will drastically alter the tax's base. Under current law, a firm's taxable in-state activity, as calculated for the SBT, consists of 50 percent of its Michigan sales, 25 percent of its payroll in Michigan, and 25 percent of its property in Michigan. The Senate bill will shift, by the year 2000, the SBT base to 100 percent in-state sales, which will benefit firms based in Michigan.

Proponents argue that the current system favors companies headquartered outside the state. Businesses located in Michigan, with more payroll and property within state boundaries, are disadvantaged by having to pay the SBT on a larger base. Supporters also contend that the dynamic effects of a better state business climate will attract new taxpaying firms, perhaps offsetting any short-term revenue losses.

Opponents, skeptical of the claim of dynamic effects, focus on Michigan Department of Treasury and Senate Fiscal Agency estimates that when the reapportionment is fully implemented, SBT revenue could drop at least $200–250 million. Although this constitutes less than one percent of Michigan's total revenue, it could make it difficult for the state, already working with tight budgets, to meet its fiscal commitments—especially school funding.

AND SPEAKING OF HEADQUARTERS ON THE MOVE

Michigan's attempts to improve its business climate apparently are paying off. Citing the state's tax advantages, late-night talk-show host David Letterman recently announced he is moving his "home office" from Sioux City, Iowa, to Grand Rapids. Governor Engler welcomed Letterman to the state, of course.

STATE MAY GET BOND RATING UPGRADE

Michigan soon may receive its highest bond rating in 15 years, pending enactment of the 1995–96 budget. Moody's Investors Service, a major rating agency, recently released a statement signaling its intent to upgrade the current A1 rating to Aa if positive trends continue. The rating will be the best for the state since 1980, placing it lower than just twelve other states.

This could be good news for both the state and local governments. The higher bond rating will signal investors that a strong state economy is being managed wisely, which could allow lower interest rates and thus financial savings on newly issued state and municipal bonds.

Moody's indicates that factors weighing in Michigan's favor include a low debt level, an improved economy, and, particularly, a high budget reserve (the Budget Stabilization Fund stands at an estimated $1.1 billion).

ENGLER PROPOSES RENAISSANCE ZONES

Governor Engler proposes to create eight "renaissance zones," which will eliminate virtually all state and local taxes for ten years in up to three rural and five urban areas.

Intended to attract development to economically distressed areas of up to eight square miles, the state and local governments will agree to waive all state and local income, business, and property taxes in the zone. By eliminating such a broad range of taxes, Engler hopes the zones will attract residential housing, shopping, and businesses.

In related news, the governor signed into law HB 4730 (P.A. 75 of 1995) allowing Detroit, Muskegon, Flint, and Lake County to assume their federal empowerment zone designations and establish corporations to carry out zone responsibilities, including buying and selling property and obtaining grants and loans. The federal government awarded an enterprise zone designation to Detroit and enterprise community designations to the other three localities last December.

PUBLICATION OF INTEREST

Corporation for Enterprise Development, *Bidding for Business: Are Cities and States Selling Themselves Short?* (Washington, D.C.: CFED, 1994).

CFED takes a critical look at the growing use by states and cities of development incentives to attract businesses. It defines the incentives, discusses how they are used, and why states and localities turn to them. The report examines whether this trend is beneficial and offers guidelines for best using incentives and how they should be curbed. To order, call 202 / 408-9788.

MICHIGAN REVENUE REPORT

Despite increasing signs of weakness in the economy, state revenue growth continues to be strong.

Income tax withholding (adjusted for the rate change and different number of paydays) rose 8.8 percent in April and 10.4 percent in May. Annual payments also have been very strong and are running well above state fiscal officials' consensus estimate.

Sales tax collections have shown signs of weakness, increasing 5.3 percent in April but declining 7.9 percent in May. The May dip is overstated, however, as complete figures on motor vehicle collections are not yet available. The companion use tax also has been very weak, increasing only 0.8 percent in April and dropping 8.4 percent in May (also overstated). Year-to-date collections are up only 1 percent, compared to the consensus estimate of 5.4 percent for the year.

SBT collections continue strong and are up 16 percent for the year through May.

Lottery sales continued to grow, but more modestly than in February and March. April sales were up 6.7 percent, and May sales rose 3.4 percent; year-to-date sales are up 9.3 percent.

Cigarette tax collections year-to-date (adjusted for the rate increase) are down 22.4 percent, about in line with the consensus estimate.

May 1995 Revenue Collections (preliminary, dollars in millions)

May 1995 Tax Revenue	May 1995 Gross	May 1995 New	May 1995 Baseline	Percentage Change from Yr. Ago (baseline)	Percentage Change FY-to-Date (baseline)	FY 1994–95 Consensus Est. Base % Chg. (5/15/95)	May 1994
Income Tax							
Withholding	$411.6	–$32.2	$443.8	10.4%[a]	9.9%	8.8%	$432.6
Quarterly	5.9	–0.4	6.3	34.0	7.0	3.8	4.7
Annual	68.5	–2.9	71.4	155.9	47.1	13.9	27.9
Subtotal Gross Income Tax	486.0	–35.5	521.5	19.4[a]	12.7	8.7	465.2
Sales Tax	380.5	123.9	256.6	–7.9	4.6	6.2	278.7
Use Tax	81.7	30.2	51.5	–8.4	1.0	5.4	56.2
Cigarette Tax	47.4	31.6	15.8	–32.5	–22.4	–19.0	23.4
SBT	444.4	–16.8	461.2	27.8	16.0	9.4	360.8
Insurance	18.7	0.0	18.7	22.2	3.9	3.0	15.3
Subtotal SBT + Insurance	463.1	–16.8	479.9	27.6	14.3	8.9	376.1
Estate/Inheritance Tax	5.6	0.0	5.6	522.2	70.4	36.8	0.9
Intangibles Tax	53.6	0.0	53.6	–9.9	7.5	6.1	59.5
Severance Tax	1.3	0.0	1.3	–56.7	–13.4	–7.5	3.0
TOTAL	1,519.2	133.4	1,385.8	12.4[a]	9.6	8.3	1,263.0
S-U-W	873.8	121.9	751.9	–6.5[a]	7.5	7.6	767.5
Sales Tax - SOS[b]	69.5	23.2	46.3	–8.9	4.6		50.8
Sales Tax - All Other	311.0	100.7	210.3	1.5	4.6		207.2

[a]Adjusted for one more Friday in May '94 than in May '95.
[b]Data are incomplete.
SOURCE: Senate Fiscal Agency.

Brian VanKlompenberg, a PSC research assistant, contributed substantially to this issue of the Economic Bulletin. *Mr. VanKlompenberg is a recent graduate of Michigan State University and in the fall will enter law school at the University of Chicago.*