



# Economic Bulletin

## GOOD news

The **Michigan unemployment rate** fell from 4.4 percent in April to a seasonally adjusted 4.0 percent in May, the lowest since the state began keeping track in 1970. May figures also reveal a record **employment** number, with 4.6 million Michiganians on payrolls. While gains were seen in all industries, the construction industry lead the way, with 3,000 new jobs.

◆ The U.S. Labor Department announced that the seasonally adjusted **inflation rate** rose a scant 0.1 percent in June, keeping the rate at just 1.4 percent for the first half of the year. Excluding February, the consumer price index has climbed just 0.1 percent a month in 1997—unusually low inflation for a growing economy. June's modest increase is due in part to falling energy prices and stable food prices, but even excluding these two volatile sectors, inflation still rose at only a 1.2 percent annual rate.

◆ The Conference Board announced that the monthly **index of consumer confidence** rose to a 28-year high in June, reaching 129.6, up from 127.9 in May. The index, a barometer of future consumer spending, usually reads from 85 to 100 when the economy is strong. This consumer optimism is driven by the perception that jobs are "plentiful" and that wages will improve.

◆ **New home sales** were up in May to a seasonally adjusted annual rate of 825,000, an increase of 7 percent over the April rate and 13 percent above that of May 1996. The hike, driven by a strong economy and moderate mortgage rates, is the largest monthly increase since January 1997. Other housing statistics showed mixed results in May: **Housing starts** decreased 5 percent, while **existing home sales** were up 4.4 percent.

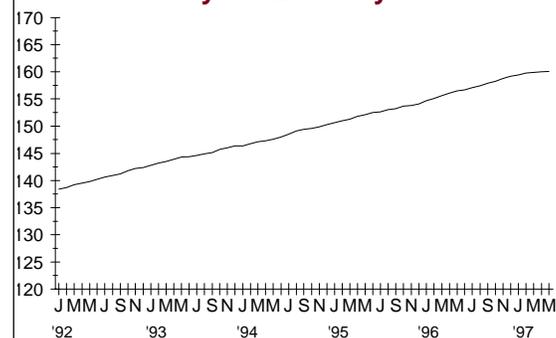
## BAD news

The U.S. Department of Commerce recently reported that the **national unemployment rate** increased to 5.0 percent in June, up from 4.8 percent in May. Despite this, the economy added 217,000 new jobs in June, up from a modest 166,000 in May. The report reduces

the likelihood that when the Federal Reserve Board meets on August 19 it will boost interest rates to slow the economy.

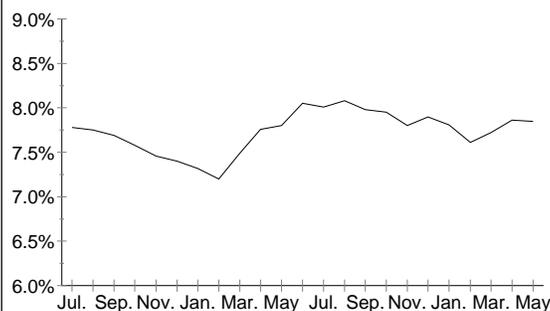
◆ **Motor vehicle sales** continued to be very weak in June, falling 3.4 percent below the year-ago level. Sales have declined in four of the last five months and are down 2 percent for the first six months of 1997. General Motors and Chrysler both suffered sales drops, 13.5 percent and 4 percent, respectively, while Ford figures are up 4 percent. If sales are to match the 1996 number of 15.1 million units, heavy incentives likely will be needed in the last six months of the year

Monthly U.S. CPI, January 1992 to May 1997



SOURCE: U.S. Department of Commerce.

New Home Mortgage Rates, July 1996 to May 1997 (effective rate)



SOURCE: Federal Housing Finance Board.

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# MONTHLY FOCUS

## IRA RELEASES MICHIGAN INCOME TAX DATA

The Internal Revenue Service recently published data on income tax returns filed by Michi-

gan residents for the 1995 tax year. The exhibit shows the number of returns filed by residents in various income groups. The data also show the number of returns falling into such categories as those using itemized deductions, the interest deduction (including mortgage interest), and earned income credit. The data may be used to determine the federal tax burden for the several groups of

taxpayers and also to examine how Michigan residents might be affected by a repeal of the capital gains tax and other federal reforms. Note that only 30 percent of Michigan taxpayers itemize deductions, and 55 percent of capital gains are received by taxpayers earning \$200,000 or more—only 0.7 percent of all taxpayers.

### Federal Income Tax Paid by Michigan Residents, 1995

	Income							
	All Returns	Under \$15,000	\$15,000 to \$29,999	\$30,000 to \$49,999	\$50,000 to \$74,999	\$75,000 to \$99,999	\$100,000 to \$199,999	\$200,000 or more
Number of Returns	4,314,068	1,534,775	961,628	785,089	584,781	243,190	163,272	41,333
Percentage	100.0%	35.6%	22.3%	18.2%	13.6%	5.6%	3.8%	1.0%
Adjusted Gross Income (AGI) (000)	\$158,420,345	\$9,696,213	\$20,964,618	\$30,924,326	\$35,608,689	\$20,803,921	\$20,911,642	\$19,510,936
Returns with Itemized Deductions	1,304,806	49,279	133,575	307,510	403,099	214,723	156,174	40,446
Percentage	30.2%	3.2%	13.9%	39.2%	68.9%	88.3%	95.7%	97.9%
Returns with Interest Deduction	2,563,792	610,770	501,329	540,117	491,411	223,699	155,850	40,616
Amount (000)	\$5,050,222	\$758,529	\$858,612	\$745,416	\$717,449	\$418,060	\$572,400	\$979,756
Returns with Earned Income Credit	563,423	385,940	177,483	NA	NA	NA	NA	NA
Amount (000)	\$691,630	\$512,232	\$179,398	NA	NA	NA	NA	NA
Returns with Net Capital Gains	563,813	102,190	92,552	99,707	106,686	63,693	69,000	29,985
Amount (000)	\$4,388,513	\$155,093	\$167,151	\$259,512	\$380,148	\$318,630	\$690,868	\$2,417,113
Taxable pensions and annuities	741,201	228,387	208,483	134,336	95,264	39,132	28,538	7,061
Amount (000)	\$8,294,301	\$1,412,974	\$2,309,753	\$1,777,113	\$1,371,740	\$638,346	\$573,385	\$210,991
Tax Liability (000)	\$23,775,272	\$449,128	\$1,780,160	\$3,461,186	\$4,681,650	\$3,306,804	\$4,028,978	\$6,067,366
Average per Return	\$5,511	\$293	\$1,851	\$4,409	\$8,006	\$13,598	\$24,676	\$146,792
Effective Tax Rate (% of AGI)	15.0%	4.6%	8.5%	11.2%	13.1%	15.9%	19.3%	31.1%

NA = Not applicable.

SOURCE: Internal Revenue Service, *Statistics of Income Bulletin* (Washington, D.C.: GPO), Spring, 1997.

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NEWS FROM  
THE STATE  
CAPITOL

**LAWMAKERS  
APPROVE  
GASOLINE TAX**

After weeks of intense debate, the Michigan Legislature passed a \$300-million transportation funding package in the wee hours of the morning on July 16. The core of the package is a four-cent-per-gallon increase in the state's gasoline tax, to be offset by income tax cuts.

The final package differs from that introduced by Gov. John Engler in May ("Build Michigan II") in two important ways. First, he had proposed transferring to state control 23,000 miles of road now under local jurisdiction; this provision was dropped from the final package in return for a guarantee that lawmakers will debate the jurisdictional issue in the fall of 1998. Second, the governor had proposed changing the state's no-fault insurance law, to make it harder for people to sue for non-economic damages; this also was dropped but likely will be revisited this fall.

The major provisions of the six-bill package are as follows:

- ◆ The gasoline tax goes up 4 cents a gallon; 3 cents of the hike will be shared by state

and local governments and used for road maintenance, and one cent will be used for bridges

- ◆ Truck fees are hiked; operators will pay higher registration fees and more for permits for overweight vehicles, and other measures also are imposed
- ◆ Twenty percent of road funding is held in escrow, beginning in 1998, until lawmakers agree on a new way to split road funds between state and local government; this bill also contains such miscellaneous measures as a requirement that performance audits be conducted on local road commissions
- ◆ The gasoline tax hike is offset by (1) permitting an additional child-care income tax credit of \$600 for children up to age 6 and \$300 for children aged 7-12; (2) increasing the tuition tax credit to 8 percent of tuition paid (up from 4 percent) and boosting the maximum annual credit to \$375 (from \$250); and (3) permitting a more generous personal income tax exemption—\$2,700 (up from \$2,500), beginning with returns filed for 1997.

The legislation, which is expected to raise \$300 million annually, goes a long way toward reaching the estimated \$400 million needed annually to fix the state's roads.

**STATE MAKES OFFER  
FOR DURANT  
SETTLEMENT**

To reach settlement in the *Durant* case, the state is offering to kick in more money for teacher retirement. A settlement is required by the Michigan Supreme Court's ruling that in mandating school districts to provide special education and other services without fully reimbursing the districts for the resulting costs, state government violated the so-called Headlee Amendment to the state constitution. While the court has not yet determined the amount, if any, of damages the state must pay, it could cost from \$500 million to \$3 billion.

To settle this lawsuit and potential future litigation on the same issue, the state is offering to issue bonds of up to \$1 billion and use the revenue to fully fund the Michigan Public School Employees Retirement System. This would mean districts will save 2.44 percent of their payroll, which is now spent on teacher retirement; the money saved could be put toward debt retirement or school operations.

Because the court has given the state only until the end of August to negotiate a settlement, state officials say that for the bond plan to go forward, they want least 80 percent of all districts in the state to agree to it by August 15. The proposal first must receive legislative approval, however, and it currently is meeting resistance in the House.

# MICHIGAN REVENUE REPORT

June revenue collections were up 8.7 percent from the year-ago figure and significantly better than in April and May.

For the first eight months of FY 1996-97, collections are up 5.4 percent, slightly below the recently upwardly revised consensus estimate—6.2 percent—

reached by state executive and legislative budget experts.

Solid gains in June income and single business tax collections offset weakness in sales and use tax revenue. Personal income tax withholding collections were 8.1 percent above a year ago, and quarterly collections were up 16.4 percent. SBT revenue jumped 44.6 percent, but this represents only a \$26.4 million increase, because June is one of the lower collection months.

June sales tax revenue rose 3.4 percent, an improvement over May's 2.2 percent increase.

While June's collections from motor vehicle sales inched up only 0.3 percent over the year-ago level, collections from all other sources were up 4 percent. Use tax collections increased only 1.3 percent from a year ago, the second straight weak monthly performance.

Lottery sales continue to be strong: The June figure is 12.9 percent higher than a year ago, and year-to-date collections are up 15.6 percent.

## June 1997 Revenue Collections (millions)

Source	June Collections	Percentage Change Year-ago	Percentage Change Year-to-Date	June 1996 Actual	FY 1996-97 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	\$489.4	8.1%	5.6%	\$452.6	6.3%
Quarterly	130.9	16.4	13.3	112.5	9.4
Annual	4.4	100.0	35.6	2.2	33.0
Subtotal: gross income tax	624.7	10.1	8.8	567.3	8.1
Sales tax	467.5	3.4	3.3	452.1	4.2
Motor Vehicles	71.8	0.3	-0.9	71.6	—
Other	395.7	4.0	4.1	380.5	—
Use Tax	90.8	1.3	6.2	89.6	5.4
Subtotal: sales/use/withholding	1,047.7	5.4	4.7	994.3	—
Cigarette tax	51.6	-1.1	-5.8	52.2	-4.4
SBT	85.6	44.6	3.0	59.2	5.5
Insurance	0.3	-116.7	-7.6	-1.8	-2.9
Subtotal: SBT + insurance	85.9	49.7	2.1	57.4	4.8
State education property tax	27.8	44.0	13.7	19.3	5.0
Real estate transfer tax	18.4	9.5	16.6	16.8	15.4
Estate/inheritance tax	5.9	15.7	13.8	5.1	-3.4
Intangibles tax	0.7	-30.0	-28.9	1.0	-23.1
Severance tax	2.3	-46.5	4.7	4.3	19.6
<b>TOTAL</b>	<b>\$1,375.6</b>	<b>8.7%</b>	<b>5.4%</b>	<b>\$1,265.1</b>	<b>6.2%</b>
Gross lottery sales (prel.)	\$123.1	12.9%	15.6%	\$109.0	1.0%

SOURCE: Senate Fiscal Agency.

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