



Michigan REVENUE REPORT

As expected, revenue collections continued strong in July (June activity), although single business tax (SBT) revenues fell sharply due to a change in the timing of collections. Personal income tax withholding increased a robust 8.4 percent, and sales and use tax collections increased 7.9 percent, as economic activity in Michigan continued strong. The Michigan unemployment rate dropped to 6.5 percent in May, the lowest in a decade, before moving up to 7.3 percent in July.

July SBT collections fell 25.5 percent from the level a year ago, but as the quarterly payment is due on the last day of the month, it is likely that this shortfall will be more than made up by August collections.

Lottery collections increased only 0.5 percent in June, but sales for the first four weeks of July were 11.5 percent above the year-ago level.

The revenue projections included in last month's Revenue Report still appear to be accurate.

(over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary July 1988	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1987-1988 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$330,030	8.4%	\$919,826	3.5%	\$2,845,095	5.7%
Quarterly and Annual Payments	6,724	-16.0	163,308	8.7	579,128	21.0
Gross Personal Income Tax	336,754	7.8	1,083,134	4.3	3,424,223	8.0
Less: Refunds	-10,076	-43.6	-142,252	-15.6	-849,721	-11.7
Net Personal Income Tax	326,678	10.9	940,882	8.1	2,574,502	16.6
Sales and Use Taxes	266,788	7.9	758,591	7.1	2,129,935	5.8
-Motor Vehicles	52,073	9.1	148,593	12.0	354,173	6.9
Single Business Tax	118,427	-25.5	547,653	10.0	1,328,951	14.6
Cigarette Tax ^a	24,571	19.5	69,776	17.7	192,968	11.8
Public Utility Taxes	15,279	99.2	15,576	96.4	76,811	15.4
Oil and Gas Severance	3,547	-19.2	10,970	-12.6	33,694	-5.5
Lottery ^b	35,998	0.5	116,398	16.3	353,089	17.9
Penalties and Interest	-89	NM	12,477	24.0	47,212	26.1
SUW—Annals and Undistributed ^c	5,303	NM	3,185	-63.2	14,657	-33.6
Other Taxes ^d	9,861	24.6	59,462	19.4	201,673	-0.6
TOTAL TAXES (GF & SAF) ^e	\$806,363	3.8%	\$2,534,980	9.0%	\$6,953,492	11.8%
Motor Fuel Tax ^f	\$58,581	-9.3%	\$171,880	-2.1%	\$505,193	1.8%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

^aAdjusted for the 4-cent increase on January 1, 1988, the percentage changes are: July, 0.4 percent; past three months, -1.1 percent; year-to-date, 1.4 percent.

^bLottery collections run one month behind other tax collections due to a reporting lag. Therefore, June lottery collections are included in this month's report. The profit to the state for the current month is estimated on the basis of year-to-date data through March 31. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

^cThese revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

^dIncludes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.

^eExcluded are beer and wine, liquor, horse racing, and insurance premium taxes, which are not collected by the Department of Treasury. These taxes account for less than 3 percent of GF-GP and SAF revenue and usually have shown little growth in recent years.

^fThe motor fuel tax is restricted to the Transportation Fund.

Inflation

The continuing strength of the U.S. economy has raised fears about inflation. In recent months there has been an increase in interest rates, which on 5-year Treasury securities rose from about 7.75 percent in March to about 8.7 percent at the end of July. However, the inflation measures have yet to show much upward movement. Prices, as measured by the GNP deflator, rose at a 4.1 percent annual rate in the second quarter and were only 2.8 percent above the level a year ago. In Michigan, the Detroit CPI increased at an annual rate of 5.4 percent in June, or 3.9 percent above the year-ago level. As indicated in Table 2, the recent upward movement of prices in Michigan was concentrated in transportation, housing, and food.

There is little evidence to suggest that inflation will become a serious long-term problem. The strong economy and the effect of the drought on food prices could push up the rate for the remainder of the year, but for the longer term, inflation cannot accelerate unless wage gains do so, and this is not happening. Major industrial collective bargaining settlements reached during the first quarter of 1988 provided wage increases averaging only 2.3 percent annually over the life of the contract. Also, compensation per hour rose only 3.6 percent in the first quarter and 4.1 percent in the second. Although unit labor costs increased only 0.3 percent in the first quarter, they went up 5.9 percent in the second quarter as productivity fell 1.7 percent, after rising 3.2 percent in the first quarter. The second quarter numbers are not encouraging but likely do not signal an upward trend in wage costs. Inflation should be of even less concern in Michigan than in the nation because economic growth in this state is slower than national economic growth. For example, in the first quarter, Michigan personal income grew 4.8 percent above the year-ago quarter compared with a U.S. increase of 6.3 percent. Employment also is growing more slowly in Michigan than in the nation, due largely to weakness in manufacturing.

For 1989 or 1990, economy watchers should be more concerned about a recession than about an upward spiral in the rate of inflation.

*Table 2. Detroit CPI, June 1988:
Percentage Change from June 1987 and April 1988,
by Major Component*

	Percentage Change from April 1988	Percentage Change from June 1987
Food and beverages	1.2	2.7
Housing	1.1	2.9
Fuel and other utilities	1.1	-3.6
Apparel and upkeep	-6.1	6.4
Transportation	3.3	5.1
Medical care	-0.7	3.5
Entertainment	0.8	3.7
Other	0.4	7.6
All items	0.9	3.9

SOURCE: U.S. Department of Labor, *Consumer Price Index: June 1988* (Washington, D.C.: July 22, 1988).