Economic Bulletin

GOOD news Michigan's unemployment rate plummeted to 5.1 in July, a vast improvement over June's 6.2 percent, and dipped well below the national rate for the first time in 1995; in fact, the July figure is the state's lowest for that month since 1966. The drop since June is attributable to a modest increase in employment and a more substantial decrease in the number of workers seeking summer employment.

◆ The index of leading indicators reversed its four-month decline by increasing 0.2 percent in June. Eight of the 11 indicators contributed to the improvement.

◆ After several months of stagnation, the housing market finally is showing signs of life. Low interest rates are attracting home buyers, driving existing home sales up 6.5 percent from May to June, and new single-family home activity was up a similar 6.1 percent. Housing starts have yet to follow suit, falling 0.1 percent in the same period.

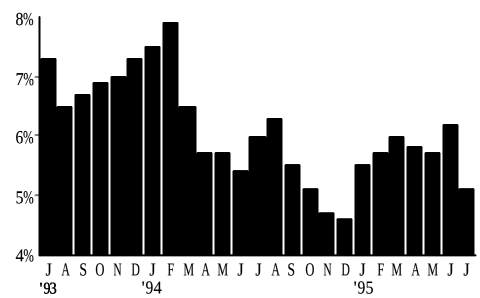
◆ July light vehicle sales topped last July's by 2.8 percent, with improvements in both car and light-truck sales. July sales traditionally decline somewhat, because buyers are waiting for the new models; this year the decline means that the seasonally adjusted annualized rate of 14.1 million units understates the strength of 1995 model sales. Nevertheless, sales still are slower than the industry and analysts had expected: July is only the second month this year in which sales have topped their year-ago level, and the 1995 year-to-date numbers are lagging behind last year's. The 1995 number is 2.2 percent below the same period in 1994.

BAD news The U.S. unemployment rate edged up to 5.7 percent in July, from 5.6 percent in June. Factories cut about 85,000 jobs in July, the fourth consecutive month in which manufacturing employment has dropped. Although service sector jobs did grow in July, the overall increase in employment was a mere 55,000 jobs, far less than June's increase of 250,000.

◆ Factory orders declined 0.2 percent in June, following a 1.4 percent increase in May, while durable goods orders fell by 0.3 percent. The latter drop follows May's 2.6 percent increase, the only rise in the last 5 months.

◆ During the 12 months ending in June, total compensation costs rose a mere 2.9 percent. Wages and salaries kept pace with the 3 percent inflation rate for the year, while benefits rose 2.7 percent. The average hourly pay of factory workers inched up 0.2 percent in June, to $12.31, from a revised $12.28 in May, representing an annual increase of only 2.4 percent.

Michigan Monthly Unemployment Rates
(seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

U.S. Monthly Car and Light Truck Sales
(seasonally adjusted annualized rates)

SOURCE: *Wall Street Journal.*

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August 1995

MONTHLY FOCUS

E-CASH: TOMORROW'S MONEY

Business Week recently addressed the emerging form of money called E-cash.[1] While electronic currency offers great convenience, flexibility, and cost-effectiveness, it also raises serious issues that governments all over the world will have to address.

A New Way to Spend

A host of companies, ranging from Microsoft and Visa to Citicorp and start-ups DigiCash and CyberCash, are beginning to develop forms of electronic money that can be transmitted along such modern channels as interactive television and the Internet. Already, some corporations are using E-cash, and *Business Week* estimates that in 10 years as many as 20 percent of household purchases will be accomplished with electronic currency.

The technology is in its infancy, and the workings of E-cash still are evolving, but possibilities abound. For example, consumers, instead of carrying paper currency and coins, may use a plastic card with an embedded microchip that stores the amount of E-money available; providers of goods and services will accept the cards as they now do credit or debit cards. Or a consumer's home computer will keep track of the amount of E-cash on hand and enable him/her, with a keystroke, to buy goods off the Internet and have the funds transferred instantly. It also will be possible for firms to create money expendable only at certain stores (similar to the Disney Dollars already in use by Walt Disney Corp.) or for anyone to earmark funds for certain goods and services (parents can transfer E-cash to their kids in college, expendable in a bookstore but not the local bar).

Companies offering E-cash may choose whether to back it with dollars, foreign currencies, or precious metals.

By transferring electronic funds instantaneously, E-cash has significant advantages over such traditional financial transaction tools as checks, currency, credit, ATMs, and debit cards. For example, handling money is time-consuming: Consumers must drive to the ATM and balance their checkbooks; banks and retail outlets must ship checks or credit card invoices across the country, manage interaccount fund transfers, and handle currency. E-cash can deal with many of these tasks in seconds and help with others, e.g., keeping detailed computerized transaction records (imagine a checkbook that balances itself).

Profound Decentralizing Effects

E-cash also poses significant challenges. First, the money may not be secure. If a computer crashes, a person's money could disappear. Moreover, computer hackers may be able to tap into systems, stealing E-cash from countless people in seconds.

More important, however, are the decentralizing effects of E-cash. Counterfeiting and money "laundering" may be difficult to control. Also, governments will have to figure out how to tax non-dollar purchases on the "information superhighway," especially interstate or international transactions.

Perhaps the most vital issue, however, is that large amounts of E-cash could undermine central banks' control of money systems worldwide. To provide economic stability, the Federal Reserve Bank and its counterparts in other countries rely on their ability to manage the money supply through controlling commercial bank loan rates and reserves as well as the physical amount of currency in the economy. Large amounts of electronic money flying from person to person and across borders, without ever passing through traditional banks, will seriously impede that control.

Conclusion

E-cash has the potential to transform the economy to everyone's benefit. But governments must not wait to see what kind of E-cash materializes and what the effects are. Corporations are forging ahead and will provide the opportunities to use E-cash. Elected officials should begin *now* to examine E-cash's ramifications and establish the framework necessary to ensure that its use does, in fact, benefit society.

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[1] *Business Week*, "The Future of Money," June 12, 1995.

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NEWS FROM THE STATE CAPITOL

SCHOOL CHIEF RESIGNS, BUY OUT SPARKS LEGISLATIVE IRE

The State Board of Education has accepted Superintendent of Public Instruction Robert Schiller's resignation. Both Mr. Schiller and Clark Durant, board president, insist that the superintendent's decision to leave was mutual and based on both personal and professional considerations. Although some board members wonder if Mr. Schiller was forced out and wish they had been included in discussion about the matter, all praise him for his dedication to improving Michigan's education system. The board approved a buy out of his contract, which will cost the state $167,325 plus benefits.

Senator Chris Dingell (D-Ecorse) is displeased with the generous buy out, calling it a waste of taxpayer money. The board also had bought out the previous superintendent's contract, and the senator intends to introduce legislation to prohibit such buy outs for any state employee.

Commerce Director Art Ellis will serve as interim superintendent until the board selects a permanent replacement.

GOVERNOR SPLITS THE DNR

By executive order, Gov. John Engler is splitting the Department of Natural Resources (DNR) into two departments. The DNR will retain its conservation, state park, and outdoor sports management functions. The new entity, the Department of Environmental Quality (DEQ), will assume responsibility primarily for enforcing state environment laws and preventing environmental degradation.

While the administration argues that halving the department will flatten out management and strengthen environmental enforcement by bringing it to a cabinet-level status, opponents of the split fear that the result will be overlapping bureaucracies and weakened environmental enforcement.

Through interdepartmental transfers, the DNR's FY 1995–96 budget will be split between the two departments, and there will be no overall increase in funding.

The Senate as yet to decide whether it will have a hearing on the separation, but the House Appropriations Subcommittee on Natural Resources plans to hold a hearing on the split's implementation. The DEQ is scheduled to officially open its doors on October 1.

PUT IT ON MY CARD . . .

The state is issuing each department's purchasing officials MasterCards that may be used for noncontractual purchases up to $1,000. The state believe the action will save money two ways: by eliminating the need for processing purchasing forms for small expenditures and by increasing the number of vendors and thus competition among them. Currently, many vendors do not want to sell to the state because up to six weeks may be necessary for the state to process payment; with charged purchases, however, a vendor will be issued the credit in just a couple of days.

PUBLICATIONS OF INTEREST

U.S. General Accounting Office, *School Facilities: America's Schools Not Designed or Equipped for 21st Century* (Washington, D.C.: GPO, April 1995).
This report to Congress (GAO / HEHS-95-95) details the inadequacy of America's education infrastructure to support learning in the next century. After summarizing the state of technology, facilities, and the physical environment in schools, several appendices provide more detail on both national and state data. To order, call 202 / 512-6000.

Office of Revenue and Tax Analysis, Michigan Department of Treasury, *Michigan's Individual Income Tax, 1991* (Lansing, Mich.: Treasury, April 1995).
This comprehensive analysis of Michigan's personal income tax in 1991, following a brief history of the tax, presents data on its incidence, credits claimed, and geographic patterns. Also included are interstate comparisons, 1991 changes in tax law, and numerous tables providing credits, collections, and more, by income and county. To order, call 517 / 373-2697.

Congressional Budget Office, Congress of the United States, *Federal Financial Support for Business* (Washington, D.C.: GPO, July 1995).
The CBO looks at the direct spending programs, credit subsidies, and tax incentives through which the federal government supports private business. The report details and quantifies the support and provides information on the agencies involved. The CBO also examines which economic sectors receive the benefits. To order, call 202 / 226-2809.

MICHIGAN REVENUE REPORT

Most major revenue sources posted solid gains in July (preliminary data), raising the odds that state revenue for FY 1994–5 will exceed the consensus revenue estimate (the figure arrived at by a body composed of certain legislative and executive branch officials).

Income tax withholding collections continued strong, increasing an adjusted 8.3 percent above July 1994 collections.

Sales tax collections jumped 10.9 percent, the largest monthly increase this fiscal year. This strong performance was lead by a 16 percent increase in motor vehicle collections. Use tax collections continued to be weak, however, edging up only 1.9 percent over June.

Single business tax collections turned in another strong month, up 42 percent, and are running well above the consensus revenue estimate.

Lottery sales (preliminary) declined 4.2 percent in July. Although this is the second consecutive month in which sales have dropped, collections year-to-date are still up 5.9 percent over last year.

July 1995 Revenue Collections (preliminary month end DCCR, millions)

July 1995 Tax Revenue	July 1995 Gross	July 1995 New	July 1995 Baseline	Percentage Change from Yr. Ago (baseline)	Percentage Change FY-to-Date (baseline)	FY 1994–95 Consensus Est. Base % Chg. (5/15/95)	July 1994 (baseline)
Income Tax							
Withholding	$453.5	–34.1	487.6	8.3[a]	10.4	8.8	419.0
Quarterly	5.6	–0.3	5.9	–23.4	8.5	3.8	7.7
Annual	3.8	–0.2	4.0	185.7	19.5	13.9	1.4
Subtotal Gross Income Tax	462.9	–34.6	497.5	8.3[a]	10.9	8.7	428.1
Sales Tax	438.4	143.0	295.4	10.9	5.5	6.2	266.4
Use Tax	86.2	32.1	54.1	1.9	3.6	5.4	53.1
Cigarette Tax	58.2	38.8	19.4	–1.0[b]	–17.2	–19.0	12.3
SBT	217.3	–15.7	233.0	42.0	20.4	9.4	164.1
Insurance	32.9	0.0	32.9	19.2	7.9	3.0	27.6
Subtotal SBT + Insurance	250.2	–15.7	265.9	38.7	18.7	8.9	191.7
State Education Property Tax	18.6	18.6	0.0	—			
Real Estate Transfer Tax	2.5	2.5	0.0	—			
Estate / Inheritance Tax	4.4	0.0	4.4	–21.4	69.8	36.8	5.6
Intangibles Tax	1.8	0.0	1.8	–18.2	7.4	6.1	2.2
Severance Tax	1.6	0.0	1.6	–42.9	–12.4	–7.5	2.8
TOTAL	1,324.8	184.7	1,140.1	14.1[a] [b]	10.0	7.6	962.2
S-U-W	978.1	141.0	837.1	8.7[a]	8.3	7.6	738.5
Sales Tax - Motor Vehicles	69.3	23.1	46.2	16.0	4.0		39.8
Sales Tax - All Other	369.1	119.9	249.2	10.0	5.8		226.6

[a]There was an extra Friday this year compared with last year, so July 1995 was reduced by $34 million.

[b]Adjusted to reflect depressed sales in July 1994 (+$7.3 m) that partially offsets adjustment for advance buying in January and February 1994 (–$16.1 million).

SOURCE: Senate Fiscal Agency.

Special Insert
August 1995

MICHIGAN ECONOMIC FORECAST

INTRODUCTION

The U.S economy slowed to almost no growth in the second quarter. The Federal Reserve Board (Fed) lowered interest rates in July, which is expected to have the "lagged" effect of stimulating growth to more healthy levels for the remainder of 1995. The Fed may have achieved the elusive "soft-landing": Inflation is well under control—although a little higher than last year—due to the Fed's aggressive stance over the last year, and growth has been slowed from the unsustainable rates at the end of 1994. The estimated growth rate of around 2 percent for 1995 and 1996 may be a little slower than the Fed would prefer, but it is sufficient to keep the economic expansion going.

Job and income growth have slowed from last year's fast pace but will continue to rise moderately. Automobile and housing sales were somewhat disappointing in the first half of 1995, but consumer confidence remains high, and this should help boost both housing and retail sales in the next two quarters. Automobile sales, however, will not meet the high expectations set at the beginning of this year by analysts both in and out of the industry.

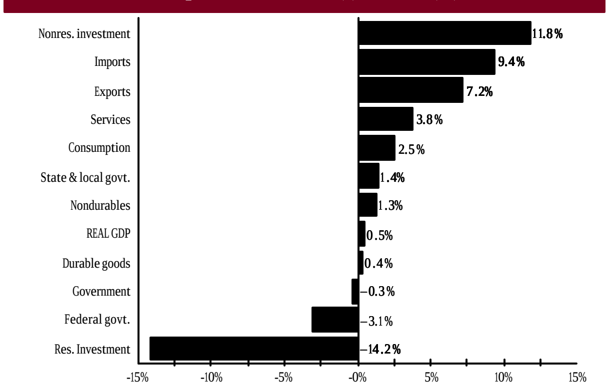
Washington continues to push for a balanced budget. Congressional leaders and President Clinton have voiced support for eliminating the deficit in 7–10 years, and a credible package probably will pass this fall.

GROSS DOMESTIC PRODUCT

Gross domestic product (GDP), the value of all finished goods and services produced in the economy, increased at an annual rate of only 0.5 percent during the second quarter, the slowest growth in almost four years; higher interest rates, the effect of federal tax increases, and exhaustion of the pent-up demand for automobiles all exerted a drag on the economy. The near-stagnant second quarter followed a moderate pace of 2.7 percent in the first and strong growth of 4.1 percent in 1994. One encouraging second-quarter note is that consumer and business demand increased.

Nonresidential investment led the growth sectors, increasing 11.8 percent from the previous quarter. (See Exhibit 1). The trade and services sectors also registered healthy growth. The low value of the dollar and the rising demand for U.S. goods in the Pacific Rim pushed export growth to 7.2 percent, which helped pull the U.S. economy forward. Consumption increased at a moderate pace, while durable and nondurable goods grew slowly. Government spending posted a small decline, and residential investment plummeted 14.2 percent from the previous quarter.

EXHIBIT 1
Percentage Change in Selected GDP Components, 1995 (I)–1995 (II)



SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce.

Outlook

Recent data, showing a climb in home sales, suggests that residential investment is poised for more substantial growth in the next quarter. Relatively low interest rates will encourage both residential and nonresidential investment. Consumption will continue to grow moderately, and manufacturing of durable and nondurable goods will increase as firms seek to replenish inventories that they have allowed to shrink during the last six months. Exports will keep growing, but the economic troubles of Mexico and Japan, major U.S. trading partners, will continue to moderate that growth. The government sector will decline for the rest of the year, led by federal downsizing.

With all sectors but government poised for growth, the economy can expected to push ahead at a rate of 2.2–2.5 percent in the third quarter, and growth for the year should measure 1.9–2.2 percent.

For 1996 we expect economic growth to remain slow, but a recession is unlikely because the Fed still has room to reduce interest rates.

EMPLOYMENT AND INCOME

In the first two quarters of 1995, U.S. nonfarm payroll employment grew by 855,000 jobs (an annual rate of 1.4 percent), down from the 1994 rate of 2.6 percent, which was the largest increase since 1988. The services sector led the way with an increase of 611,000. Manufacturing employment fell by 51,000 jobs.

In the second quarter, nonfarm employment increased only by 273,000 jobs despite June's increase of 215,000 (preliminary). Manufacturing was down 54,000, losing 104,000 jobs from March to June. Services accounted for more than half the job gains in June, and construction added 42,000 jobs after several weak months. In July employment rose only 55,000, with manufacturing shedding 85,000 jobs, the largest drop in 3.5 years.

In total, the U.S. unemployment rate averaged 5.6 percent in the first half of the year, down from 6.1 percent in 1994, but was unchanged from the fourth-quarter rate. The second-quarter rate was 5.7 percent, up from 5.5 percent in the first quarter. The July unemployment rate was 5.7 percent.

The Michigan labor market continued strong in the first half of 1995, following solid gains in 1994 (3.4 percent growth in wage and salary employment), which was the best year since 1985. Wage and salary employment increased by 136,000 jobs, or 3.3 percent in the first six months. However, the growth rate slowed to 2 percent in the second quarter, from 3.7 percent in the first quarter. As shown in Exhibit 2 (detail is available only for the first five months), construction, services, and manufacturing were the strongest sectors, with finance/ insurance/real estate, mining, and government declining or showing little growth.

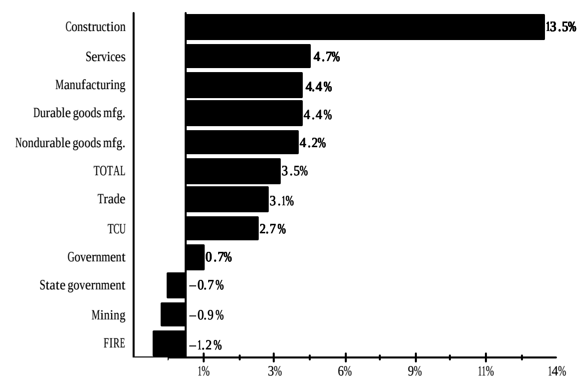
The Michigan unemployment rate averaged 5.8 percent in the first six months of 1995, down slightly from last year's 5.9 percent. The unemployment rate averaged 5.7 percent in the first quarter and 5.9 percent in the second; the July figure was 5.1 percent.

U.S. personal income increased modestly, at an annual rate of 4.5 percent, in the first half of this year, compared with a 6.1 percent increase in 1994. Wages and salaries increased only 3.6 percent.

The growth in Michigan personal income slowed moderately, to an annual rate of 7 percent in the first quarter (latest data available), after increasing 8.3 percent in 1994, the largest gain since 1984. (See Exhibit 3). Wages and salaries grew at an annual rate of 6.6 percent but were held back by slow growth in government wages, which rose at an annual rate of only 2.8 percent; manufacturing wage growth slowed to 6.9 percent from a 12.6 percent increase in 1994. The most vigorous growth was in construction, where wages climbed at an annual rate of 20 percent. Dividend, interest, and rental income was up 10.9 percent, due in part to rising interest rates, following a 12.8 percent increase in 1994.

EXHIBIT 2

Michigan Wage and Salary Employment by Sector, Percentage Change January–May 1994 to January–May 1995



FIRE: Finance, insurance, and real estate
TCU: Transportation, communications, and utilities
SOURCE: Michigan Employment Security Commission (special release).

EXHIBIT 3

Michigan Personal Income, Selected Components, 1989–95 (I) (dollars in millions)

Year	Total Personal Income	Wages and Salaries	Manufacturing Wages	Services Wages	Transfer Payments	Dividends, Interest, and Rent
1989	$162,358	$98,939	$34,581	$19,511	$23,271	$27,837
1990	169,808	102,804	34,193	21,254	25,250	29,603
1991	175,244	103,703	33,406	21,950	29,890	29,690
1992	185,665	110,141	35,175	24,058	31,763	29,209
1993	194,718	115,372	37,073	25,518	34,172	29,681
1994	210,856	124,877	41,756	27,289	35,899	33,489
1995(I)	220,511	130,227	44,003	28,415	37,353	35,675
Percentage change 1993 (II) to 1994 (II)	7.0%	6.6%	6.9%	7.4%	5.4%	10.9%
Percentage change 1994 (I) to 1994 (II) (annual rate)	7.1%	6.1%	4.4%	7.9%	9.7%	8.7%

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Calculations by Public Sector Consultants, Inc.

Outlook

As we forecast in our last quarterly outlook, economic growth has slowed this year, both nationwide and in Michigan. The causes are higher interest rates, the effect of increased federal taxes, and a slowdown in motor vehicle sales resulting from pent-up demand being met. Second-quarter GDP increased only 0.5 percent, the most sluggish growth since the last quarter of 1991. However, there are signs that the slowdown may be short lived. Residential housing has shown strength in the last two months, as have motor vehicle sales, and business investment continues to be robust. Due in part to the recent dip in interest rates, we expect that national economic growth will be a little stronger in the second half of the year than it was in the first. In Michigan, however, we expect second-half growth to be a little slower, due to cutbacks in motor vehicle production.

We project a 1.75–2.0 percent increase in U.S. payroll employment in 1995, down from 2.6 percent from last year. The U.S. unemployment rate is forecast at about 6 percent in 1995, down slightly from 6.1 percent in 1994, but up from the first-quarter average. We are raising our 1995 Michigan wage and salary employment forecast from 1.5–2.0 percent to 2.5–3.0 percent, because employment rose 3.5 percent in the first five months of 1995—about the same rate as in 1994. We expect the Michigan unemployment rate to remain in the 5.75–6.25 percent range in 1995. We anticipate that Michigan employment growth will fall to about 1.5–2.0 percent in 1996, due partly to weaker auto sales, and the unemployment rate will average 6.25–6.5 percent.

Our forecast for U.S. personal income growth is 5.5–5.75 percent in 1995, compared with growth of 6.1 percent in 1994. We see Michigan personal income slowing to about 5.5–6.0 percent in 1995, due in part to reduced overtime in the motor vehicle industry and smaller bonuses for auto workers. In 1996 we expect Michigan personal income to rise about 5.0–5.5 percent.

MONETARY AND FISCAL POLICY

In July the Federal Reserve Board lowered the short-term federal-funds interest rate (the rate at which banks lend to one another), by 0.25 percentage points—to 5.75 percent. It was the first such reduction in almost three years. Major banks responded by lowering their prime lending rates a quarter of a point. Long-term interest rates continued to fall from a high of about 8 percent at the end of last year, to around 6.5 percent at the end of June. They recently have inched back up but still are under 6.75 percent.

The U.S. House and Senate are working on 1995–96 appropriations. Both chambers already have adopted budgets that will allow spending over the next seven years to increase from approximately $1.5 trillion to $1.9 trillion but still eliminate the deficit. The conference report allows for a $245 billion tax-relief package to be written—which likely will include both a capital gains tax cut and a substantial per child tax credit for middle class families—after the Congressional Budget Office verifies that all committees with reconciliation instructions have completed them, and the reductions are sufficient to balance the budget as planned.

Numerous major tax-reform proposals have been introduced, but action is unlikely until a commission reviewing the tax system, led by former-Congressman Jack Kemp, issues its report later this year.

Outlook

While last quarter's anemic growth fueled concerns among some economists that a Fed-induced recession was imminent, it appears that a soft landing has been achieved. Fed Chairman Alan Greenspan, after lowering the federal-funds rate in July, indicated that it and the discount rate most likely would remain constant during the next several months but may be lowered in late fall, if Congress passes and President Clinton signs a significant deficit-reduction package. Until the Fed further lowers its rates, market rates will continue a slow decline.

The Republican-controlled Congress, working to fulfill both tax and budget campaign pledges, probably will pass FY 1995–96 appropriations bills that lead to a balanced budget in seven years. While a presidential veto is a possibility (and could lead to a temporary shutdown of the federal government), a more likely scenario is that he will force some changes to protect programs that meet his priorities, and then he will sign onto the package, claiming some of the credit for—rather than appearing to obstruct—deficit reduction. We believe tax cuts will be enacted this fall, but major tax reform will not be passed until next year at the earliest.

MOTOR VEHICLE SALES

Car and light-truck sales continue to trail the 15.1 million vehicles sold last year. Second-quarter sales totaled 4.0 million, down 2 percent from the same period in 1994. Sales for the first half of 1995, totaling 7.5 million, are off 3 percent from last year. Car sales have been particularly weak, falling, compared to 1994, 5.6 percent in the first six months of 1995; truck sales inched up 0.7 percent.

Early predictions for 1995, including ours, pegged sales at about 15.5 million units. In the last quarter, seasonally adjusted annualized sales reached only 14.6 million; the annualized rate for the first half of 1995 was about 14.8 million vehicles.

Outlook

Consumer confidence remains good, interest rates will stay constant or fall, and automobile dealers are using a wide variety of large incentives to attract buyers. Despite these favorable conditions, however, consumers are not purchasing as many autos as manufacturers and economists anticipated. As mentioned, pent-up demand is spent, and many potential buyers are choosing to hold on to their older cars and spend money on other large-ticket purchases. We must again revise downward our prediction for 1995 sales: Our current reading of the situation suggests that sales in the second half of the year will pick up to a level just shy of that of the last half of 1994—about 7.3 million vehicles, resulting in approximately 14.8 million units being sold for the year. While this number falls 300,000 short of 1994 sales, it still exceeds 1993 sales by nearly one million units. For 1996 we anticipate another moderate decline, to about 14.6 million units.

HOUSING

The lackluster performance of the national housing market has begun to show signs of a turnaround, likely due to lower interest rates. After dismal sales in the early months of 1995, new home sales rose 12.5 percent in May and 6.1 percent in June. Housing starts also turned around, beginning to rise in April after declining in the first three months of the year. Despite improvements in the second quarter, starts for the first half of 1995 are 11 percent below the 1994 level, a record year for the housing market.

The performance of Michigan's housing market mirrors that of the rest of the nation. Starts have not matched their impressive 1994 performance, but they are growing steadily and have exceeded 1993 levels every month of 1995. Employment in construction was up 42,000 jobs in June.

Outlook

We expect mortgage rates, which began dropping in February, to continue to go down, spurring continued growth in housing. The fixed-rate mortgage rate for a 30-year loan was 7.74 in June, down more than 1.25 points since February. We believe the lower rates will exert a lagged effect, helping fuel home sales at least through the next quarter. The Michigan housing market will continue to rebound from its slow start this year, but it will not match the U.S. market because the state's economy will not be as healthy.

PRICES

The U.S. consumer price index (CPI-U) rose at a seasonally adjusted annualized rate of 3.2 percent in the second quarter, the same as in the first. Excluding food and energy, the second-quarter annualized increase was 3 percent, with transportation (6.5 percent), medical care (3.7 percent), and other goods and services (4.4 percent, driven largely by a substantial increase in the price of tobacco and smoking products) exceeding the overall average.

Michigan consumer prices (as measured by the Detroit–Ann Arbor CPI, released every two months) have cooled, following a sharp 7.4 percent annualized increase from December to February. From February to April the annualized increase was 3 percent, and from April to June it was a mere 0.8 percent. Housing, energy, and transportation costs drove the index up, while apparel and durable goods prices fell.

The producer price index for finished goods, which serves as an indicator for future consumer prices, increased at a 1.6 percent seasonally adjusted annualized rate in the second quarter, following a revised 2.8 percent increase in the first. The core index—finished goods, excluding food and energy—climbed at a 3.2 percent annualized rate in the second quarter. Energy prices, despite falling in both May and June, rose 4.4 percent during the three-month period. The producer price index for intermediate materials and supplies rose at a 4 percent rate in the second quarter, after soaring 9.2 percent in the first quarter.

Outlook

Inflationary pressures largely have been subdued by the Fed's aggressive stance over the last 18 months. We believe the summer slowdown will help keep prices in check for the rest of the year, so the 3.2 percent rate for the first half of the year will not be exceeded in the second. Producer prices, after starting the year with relatively large hikes, recently have cooled and will not heat up again until the end of the year, which will help keep the increase in the U.S. CPI at about 3.1 percent for 1995. The Detroit CPI also will slow for the rest of the year. Lower-than-expected vehicle sales will ease wage pressure and help keep Michigan prices down, resulting in an annual increase of about 3.0 percent.

Juli 1995 Revenue Collections (preliminary month end DCCR, millions)

July 1995 Tax Revenue	July 1995 Gross	July 1995 New	July 1995 Baseline	Percentage Change from Yr. Ago (baseline)	Percentage Change FY-to-Date (baseline)	FY 1994–95 Consensus Est. Base % Chg. (5/15/95)	July 1994 (baseline)
Income Tax							
Withholding	$453.5	-34.1	487.6	8.3[a]	10.4	8.8	419.0
Quarterly	5.6-	0.3	5.9	-23.4	8.5	3.8	7.7
Annual	3.8-	0.2	4.0	185.7	19.5	13.9	1.4
Subtotal Gross Income Tax	462.9	-34.6	497.5	8.3[a]	10.9	8.7	428.1
Sales Tax	438.4	143.0	295.4	10.9	5.5	6.2	266.4
Use Tax	86.2	32.1	54.1	1.9	3.6	5.4	53.1
Cigarette Tax	58.2	38.8	19.4	-1.0b	-17.2	-19.0	12.3
SBT	217.3	-15.7	233.0	42.0	20.4	9.4	164.1
Insurance	32.9	0.0	32.9	19.2	7.9	3.0	27.6
Subtotal SBT + Insurance	250.2	-15.7	265.9	38.7	18.7	8.9	191.7
State Education Property Tax	18.6	18.6	0.0	—			
Real Estate Transfer Tax	2.5	2.5	0.0	—			
Estate / Inheritance Tax	4.4	0.0	4.4	-21.4	69.8	36.8	5.6
Intangibles Tax	1.8	0.0	1.8	-18.2	7.4	6.1	2.2
Severance Tax	1.6	0.0	1.6	-42.9	-12.4	-7.5	2.8
TOTAL	1,324.8	184.7	1,140.1	14.1[ab]	10.0	7.6	962.2
S-U-W	978.1	141.0	837.1	8.7a	8.3	7.6	738.5
Sales Tax - SOS	69.3	23.1	46.2	16.0	4.0		39.8
Sales Tax - All Other	369.1	119.9	249.2	10.0	5.8		226.6

[a]There was an extra Friday this year compared with last year, so July 1995 was reduced by $34 million.

bAdjusted to reflect depressed sales in July 1994 (+$7.3 m) that partially offsets adjustment for advance buying in January and February 1994 (-$16.1 million).
SOURCE: Senate Fiscal Agency.