



The U.S. Department of Labor recently reported that the seasonally adjusted **national unemployment rate** fell in July to 4.8 percent; June's figure was 5.0 percent. The drop is due to unexpectedly high job growth—nationally, 316,000 new jobs in July, up from a healthy 228,000 in June. The same report reveals that despite a greater demand for workers, July's **average hourly earnings** were the same as in June—\$12.23.

◆ The Michigan Employment Security Agency announced that the **Michigan unemployment rate** held at a seasonally adjusted 4.0 percent in June, the same as May's record-breaking low. The low rate's staying power is explained in part by a decline in the total labor force, which fell by 11,000 people (to 4.86 million) in June. Most (10,000) of those who dropped out of the workforce had been employed; 1,000 were not.

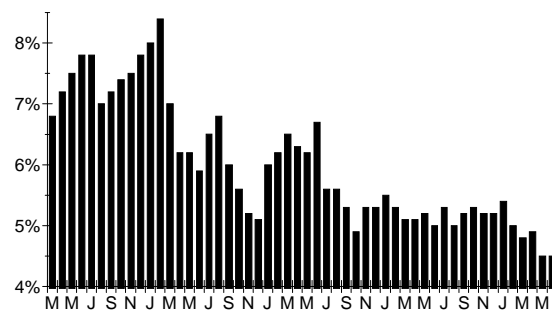
◆ **New home sales** increased an estimated 6.1 percent in June, to a seasonally adjusted annual rate of 819,000. The rise follows May's increase of 1.0 percent, revised downward from the original estimate of 7.1 percent. The hike in home sales is due largely to moderate mortgage rates and the strong economy. In related news, existing homes sales fell 2.6 percent in June, to a seasonally adjusted annual rate of 4.14 million; despite this drop, home resales remain healthy and the downward trend is not expected to continue.

◆ **Retail sales** enjoyed a 6.1 percent boost in July, following 4.6 percent growth in June and 2.3 percent in July 1996. The improvement, likely due to high consumer confidence and a rosy employment picture, is welcomed by retailers, who for months have had to offer deep price discounts to move their wares. Discount stores, value-oriented chain stores, and department stores took in the most consumer dollars in July and were able to do so without offering excessive price discounts.

◆ **Motor vehicle sales** finally showed some power in July—this sector is up 4.6

percent, after declining in four of the previous five months. The seasonally adjusted annual sales rate is a solid 15.5 million units, up from June's 1997 low of 13.9 million. Sales of Japanese models continue to be strong, rising 12.6 percent above the July 1996 level, while Big Three activity increased 2.4 percent. Sales for the first seven months of 1997 still are down 1.1 percent, but the July performance provides renewed hope that light-vehicle sales can match or exceed the 1996 sales number of 15.1 million units.

Michigan Monthly Unemployment Rate (seasonally adjusted)



MONTHLY FOCUS

U.S. TRADE REP. LOOKS AT NAFTA

The Office of the United States Trade Representative (USTR) recently presented to Congress its Study on the Operation and Effect of the North American Free Trade Agreement (NAFTA). The report—required by law—reveals that the pact has had a “positive effect” on the U.S. economy. The study examines the first three years of the 15-year agreement, with a particular look at the economic benefits it has created, including job and export increases.

Effects of Free Trade

According to the study, U.S. trade with Canada and Mexico has grown significantly since NAFTA's inception on January 1, 1994: Exports to Canada are up nearly 34 percent, to a record

\$134.2 billion in 1996; and exports to Mexico are up 37 percent, to a record \$56.8 billion. Also, two-way trade (imports and exports) between the U.S. and these neighbors jumped 44 percent; the figure is 33 percent for U.S. two-way trade with the rest of the world.

Michigan also is benefiting from NAFTA, although the gains have not been quite as immediate as for the nation. The exhibit shows that although in 1994 there was a sharp 13-percent increase over the previous year in Michigan exports to Canada, this was followed in 1995 by an equally sharp decline. (The reason for the 1995 Michigan decline is unclear; some observers attribute it to added competition from Mexico and other U.S. exporters.) By 1996, however, exports to Canada were again exceeding pre-NAFTA figures.

Michigan exports to Mexico have more than doubled since the agreement took effect (from \$1.5

billion in 1994 to \$3.2 billion in 1996), and state officials point out that if the trend continues, the 1997 Michigan exports to that nation will exceed \$5 billion.

Why NAFTA's Success?

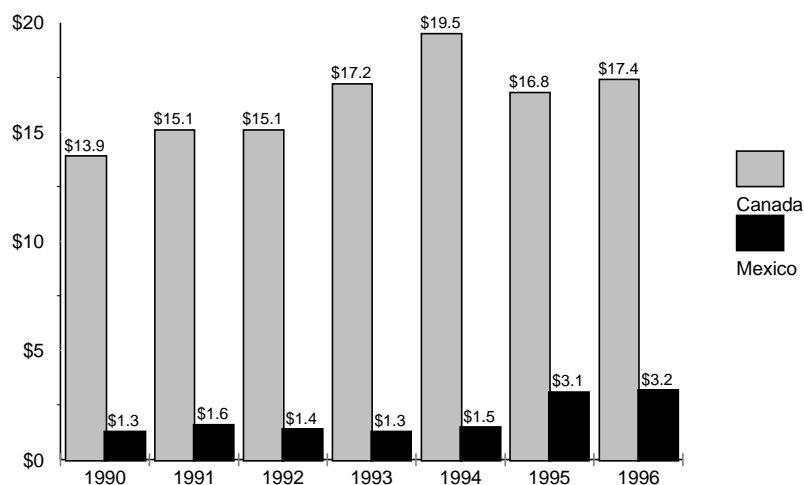
The study credits the increase in trade among NAFTA members to reduced tariffs (taxes on imports) and other lower trade barriers. For example, Mexico's average tariff on U.S.-produced goods fell almost 7 percentage points—from 10 percent to 3 percent—from 1993 to 1997, and Canadian tariffs on U.S. goods dropped from almost 0.4 percent to 0.2 percent. The United States's tariffs on Canadian and Mexican goods declined as well. In addition, NAFTA countries have eliminated a wide variety of non-tariff barriers, such as import licensing, local content, and trade-balance requirements.

The USTR claims that exports to Canada and Mexico supported an estimated 2.3 million jobs in 1996. The study adds that recent increases in U.S. exports worldwide, led by exports to NAFTA partners, account for one-third of recent U.S. economic growth.

Conclusion

The results of NAFTA have, on balance, been favorable. Federal officials hope to expand the accord to Chile and then the remaining western hemisphere. If the outcome of the new agreements mirrors that of the success of the free trade agreement with Canada and Mexico, Michigan will benefit.

**Michigan Exports to Canada and Mexico, 1990–96
(billions of dollars)**



SOURCE: Massachusetts Institute for Social and Economic Research.

NEWS FROM THE STATE CAPITOL

COURT MAKES FINAL DURANT RULING

The Michigan Supreme Court has ruled that the State of Michigan must reimburse the 84 plaintiff school districts in the *Durant* case. This litigation involved 84 Michigan school districts charging that state government had mandated special education and other programs but failed to reimburse districts for their costs, thereby violating the so-called Headlee amendment to the state constitution. The court agreed and has ordered the state to pay an estimated \$211 million in reparations.

As a result of the judgment, Governor Engler has vetoed \$304 million in at-risk and other program funding in the FY 1997-98 school aid budget. While some of the monies no doubt will be restored to schools, many local officials are concerned about the

difficulty of planning for the upcoming school year with uncertain appropriations.

Also at issue is whether the state should pay damages to the 440 school districts not involved in the case. These districts also operated under unfunded mandates, and they may yet sue for damages. If all remaining districts are reimbursed, it could cost the state an additional \$600 million to \$800 million.

EMPLOYMENT AGENCY RESHUFFLED AGAIN

Governor John Engler has issued Executive Order 1997-12, to reorganize the Michigan Employment Security Agency (MESA)—formerly the Michigan Employment Security Commission.

Last December, the governor moved the MESA from the former Department of Labor to the Michigan Jobs Commission, and now he is again changing the way the MESA does business. The governor's new order transfers the unemployment benefits functions currently housed in the

MESA to the Department of Consumer and Industry Services (CIS).

The new order also transforms the way the state will provide job-search assistance to residents. Some MESA job-search activities will stay under the auspices of the Jobs Commission, helping certain targeted populations with job seeking, but the bulk of them will be integrated with the Jobs Commission's local workforce development boards, which currently assist with job finding for welfare recipients and people who are unemployed because of layoffs or plant closings. The governor says that the reorganization will improve service to job seekers by providing "one-stop job-search service in their local community."

The executive order does not specify when reorganization will occur, but it directs the heads of the Jobs Commission and the CIS department to develop a plan. No state jobs are expected to be lost in the shuffle—current employees will stay at the Jobs Commission or be retrained to fill unemployment insurance positions vacated by early retirements.

ERRATUM The July 1997 Economic Bulletin incorrectly states that the state income tax reduction recently enacted as part of the transportation funding package may be applied to returns filed for tax year 1997. The reduction will take effect for returns for tax year 1998.

MICHIGAN REVENUE REPORT

July revenue collections increased 5.5 percent, roughly in line with the year-to-date increase of 5.8 percent but down from the 8.7 percent gain in June.

Solid gains in sales and use tax collections offset weakness in income tax and SBT revenue. Personal income tax withholding collections rose only 3.9 percent, after jumping 8.1 percent in June. July SBT collections are up only 2.3 percent, or 3.3 percent if insurance taxes are included.

Sales tax revenue grew a solid 7 percent, after several weak months. Collections from motor vehicle sales increased 6.7

percent while that from all other sources rose 7.1 percent. Sales tax collections for the past three months are up only 3.5 percent from the year-ago level; for the use tax, the three-month figure is 8.3 percent above a year ago.

Lottery sales continued to be strong in July, increasing 7.4 percent over July 1996. Year-to-date collections are up 14.8 percent.

This month's Economic Bulletin was written by Laurie A. Cummings, Senior Consultant for Economic and Education Policy; Robert Kleine, Vice President and Senior Economist; and Lisa D. Barager, Consultant for Public Policy.

July 1997 Revenue Collections (millions)

Source	July Collections	Percentage Change Year-ago	Percentage Change Year-to-Date	July 1996 Actual	FY 1996-97 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	\$463.5	3.9%	6.1%	\$446.3	6.3%
Quarterly	7.8	23.8	13.5	6.3	9.4
Annual	5.7	16.3	33.0	4.9	33.0
Subtotal: gross income tax	477.0	4.3	8.1	457.5	8.1
Sales tax	493.7	7.0	3.8	461.3	4.2
Motor Vehicles	78.4	6.7	0.1	73.5	—
Other	415.3	7.1	4.5	387.8	—
Use Tax	98.9	8.3	6.4	91.3	5.4
Subtotal: sales/use/withholding	1,056.1	5.7	5.1	998.9	—
Cigarette tax	48.3	0.2	-6.1	48.2	-4.4
SBT	243.4	2.3	3.0	237.9	5.5
Insurance	39.3	9.8	-3.7	35.8	-2.9
Subtotal: SBT + insurance	282.7	3.3	2.4	273.7	4.8
State education property tax	15.1	64.1	14.5	9.2	5.0
Real estate transfer tax	18.1	21.5	17.2	14.9	15.4
Estate/inheritance tax	6.0	-33.3	5.7	9.0	-3.4
Intangibles tax	0.3	-40.0	-28.9	0.5	-23.1
Severance tax	4.5	18.4	6.5	3.8	19.6
TOTAL	\$1,444.6	5.5%	5.8%	\$1,369.4	6.2%
Gross lottery sales (prel.)	\$128.7	7.4%	14.8%	\$119.8	1.0%

SOURCE: Senate Fiscal Agency.

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

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