



# Michigan REVENUE REPORT

The performance of the major revenue sources was mixed in August (July activity). Personal income tax withholding declined 1.3 percent from the year-ago level, following a robust 8.4 percent increase last month. The 3.3 percent increase for the last three months, compared with a 4.8 percent increase year-to-date, may presage a modest slowdown in growth in the coming months. Nevertheless, income tax collections still are likely to exceed the latest (August 2) DMB estimate by \$35 million to \$40 million.

Sales and use tax collections increased 6.7 percent above the August 1987 level, despite only a 2.2 percent increase in motor vehicle collections. This revenue source has shown consistently solid growth during the past few months. Nationally, consumption has been weak, but the Michigan consumer has continued to buy. It now appears that collections for FY 1987-88 will exceed the DMB estimate by \$45 million to \$50 million.

Single business tax collections increased 63.1 percent in August. This large increase is due to a change in the timing of quarterly payments, which were due on July 31. The combined increase for July and August collections is 13.3 percent, indicating a continuation of the unexpectedly strong growth in this revenue source. Collections for FY 1987-88 are likely to exceed the DMB estimate by about \$30 million. *(over)*

*Table 1. Monthly Tax Collections*

*Dollars in Thousands*

Type of Revenue	Preliminary August 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	\$305,887	-1.3%	\$928,443	3.3% <sup>a</sup>	\$3,153,038	4.5%
Quarterly and Annual Payments	12,549	11.5	101,536	13.8	594,644	20.8
Gross Personal Income Tax	318,436	-0.9	1,029,979	4.2	3,747,682	7.0
Less: Refunds	-11,513	-52.6	-40,570	-39.2	-861,915	-12.7
Net Personal Income Tax	306,923	3.4	989,409	7.3	2,885,767	14.7
Sales and Use Taxes	250,670	6.7	766,928	7.5	2,378,865	5.6
-Motor Vehicles	45,266	2.2	145,616	8.8	399,394	6.1
Single Business Tax	212,110	63.1	379,940	8.0	1,541,742	19.3
Cigarette Tax <sup>b</sup>	24,024	9.8	72,487	16.9	216,999	11.5
Public Utility Taxes	49,924	-9.2	65,501	4.1	126,736	4.3
Oil and Gas Severance	3,398	-21.5	10,465	-17.0	37,083	-7.2
Lottery <sup>c</sup>	37,608	9.8	108,880	8.3	394,383	16.1
Penalties and Interest	496	NM	12,607	13.5	53,545	24.5
SUW—Annuals and Undistributed <sup>d</sup>	5,303	-8.5	5,896	65.9	18,060	-10.3
Other Taxes <sup>e</sup>	12,146	66.1	28,648	19.2	213,859	1.6
TOTAL TAXES (GF & SAF) <sup>f</sup>	\$902,594	14.2%	\$2,440,753	7.8%	\$7,867,039	11.9%
Motor Fuel Tax <sup>g</sup>	\$57,755	29.2%	\$178,509	4.8%	\$567,338	4.1%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>Withholding is adjusted to reflect difference in number of Fridays (paydays) in a month or quarter.

<sup>b</sup>Adjusted for the 4-cent increase on January 1, 1988, the percentage changes are: August, -7.8 percent; past three months, -1.8 percent; year-to-date, -0.9 percent.

<sup>c</sup>Lottery collections run one month behind other tax collections due to a reporting lag. Therefore, July 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 May 31. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

<sup>d</sup>These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

<sup>e</sup>Includes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.

<sup>f</sup>Excluded 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.

<sup>g</sup>The motor fuel tax is restricted to the Transportation Fund.

Lottery sales bounced back from a weak performance in June, increasing 9.8 percent in July and 19.3 percent in the first three weeks of August. The increased strength was due to larger Lotto jackpots. The DMB estimates FY 1987-88 lottery revenue at \$455 million, which is likely to be about \$20 million too low.

Overall, revenue from these major sources will exceed the current DMB estimates by \$130 million to \$140 million, pushing the FY 1987-88 surplus above \$100 million.

### ***Monthly Focus: Interest Rates***

One of the more unsettling economic developments in recent months has been the rise in interest rates. Most short- and long-term interest rates reached their 1986-87 peak in October 1987. For example, corporate Aaa bonds averaged 10.52 percent in October and three-month treasury bills (T-bills) averaged 6.4 percent. The October stock market crash resulted in a sharp decline in most interest rates, with the bottom being reached in March 1988. In that month corporate Aaa bonds averaged 9.39 percent and T-bills averaged 5.69 percent. Since then interest rates have followed a steady, upward trend. In early September the corporate Aaa bond rate was 10.18 percent and the T-bill interest rate was 7.31 percent. (See Table 2.)

The increase in interest rates has been due to the stronger-than-expected performance by the national economy, which has rekindled inflation fears. Inflation is not about to rage out of control, but investors have become nervous. The 5.7 percent (annual rate) increase in the producer price index for finished goods in July did little to comfort investors. The Federal Reserve Board expressed its concern about inflation by raising the discount rate (the rate it charges member banks for loans) from 6 to 6.5 percent in August, only the second increase since 1981.

Short-term interest rates have increased faster than long-term rates; this reflects investors' reluctance to buy longer-term obligations when there is concern about inflation driving up interest rates.

Interest rates are likely to continue moving up until the economy shows signs of slowing, which could be in 1989 — and higher interest rates will likely contribute to slower economic growth. One effect of higher rates has been to attract more foreign capital, resulting in an increase in the value of the dollar. The trade-weighted value of the dollar increased 9.1 percent from March through the end of August. This likely will slow the export boom, which has been a major strength of the U.S. economy during the last 18 months.

***Table 2. Selected Interest Rates***

	<b>3-Month Treasury Bills</b>	<b>5-Year Treasury Securities</b>	<b>Corporate Aaa Bonds</b>	<b>Prime Bank Loan Rate</b>
1981	14.03%	14.70%	14.20%	18.87%
1986	5.98	7.30	9.02	8.33
1987	5.82	7.90	9.38	8.22
October 1987	6.40	9.75	10.52	8.75-9.00
March 1988	5.69	7.75	9.39	8.50
Week ended September 2, 1988	7.31	8.99	10.18	10.00

SOURCE: Council of Economic Advisors, *Economic Indicators*, Washington, D.C., July 1988, Federal Reserve Bank of St. Louis, *U.S. Financial Data*, September 1, 1988.