



# Michigan ECONOMIC BULLETIN

## The Good News

● Manufacturing in the Midwest appears to be recovering more swiftly than in the rest of the country: The Federal Reserve Bank of Chicago reported that in June, for the third month in a row, its **Midwest Manufacturing Index** has "markedly" outperformed its U.S. equivalent, rising 6.2 percent versus a national increase of 1.9 percent since March.

➤ **Construction spending** rose by a seasonally adjusted 1.6 percent in July, the first increase in three months. The gain was led by rises in residential and government construction.

● July's **index of leading indicators** rose a healthy 1.2 percent from the figure posted in June. The manufacturing sector led the monthly gain: More than one-third of the increase was due to a 6.2 percent monthly gain in factory orders; increases also were recorded for consumer goods and plant and equipment orders, unfilled durable orders, and materials prices.

● **Orders for durable goods** rose a whopping 10.7 percent in July, the largest monthly increase in more than twenty years. Excluding the volatile transportation component, orders still rose by 6 percent. The gain could stimulate hiring in the near future, furthering the economic recovery.

➤ **Industrial output** rose by 0.3 percent in August, the fifth consecutive monthly increase. Excluding cars and trucks, production rose 0.5 percent.

➤ The **merchandise trade deficit** rose \$2.1 billion in July to \$5.9 billion, the result of rising imports and exports.

The January-July total of \$35.9 billion is \$21.5 billion less than the gap for the same period of 1990.

## The Bad News

● With declines in employment registered in nearly all industries, **Michigan's unemployment rate** jumped from 8.3 percent in July to 9.1 percent in August (see exhibit below right). Employment recalls following new model year retooling resulted in the auto industry being the only sector recording notable hiring.

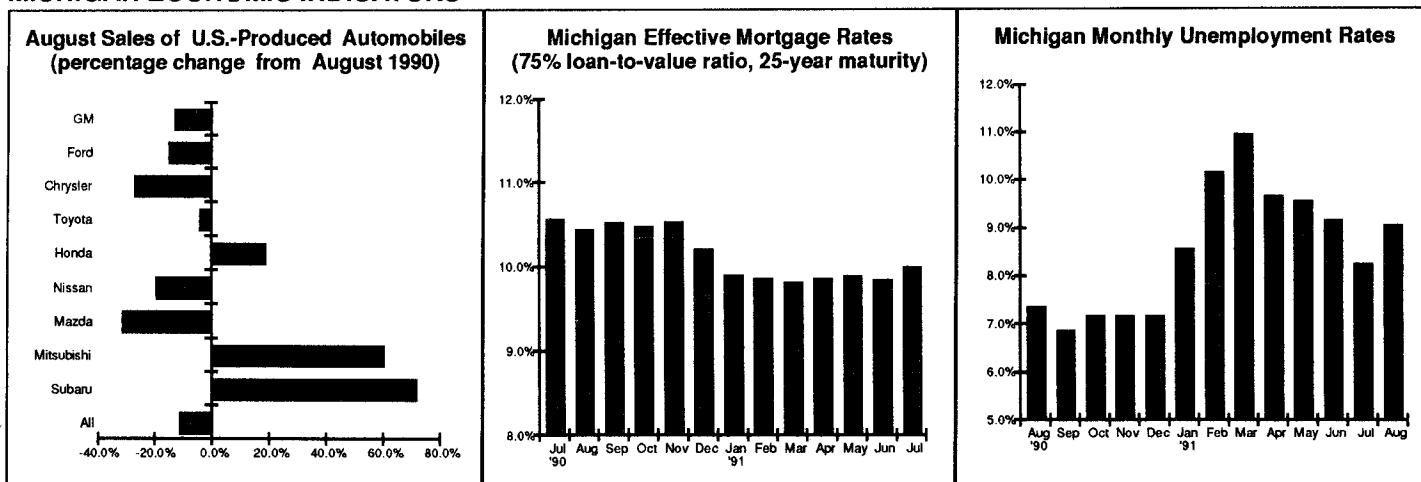
● Despite discounts and rebates on 1991 models, **sales of domestically produced cars** slipped to a seasonally adjusted rate of 6.1 million in August from 6.3 million in July and 7.2 million in August 1990. Some dealers have complained that low production and inventory levels have left them with little to sell. (See exhibit below left.)

● The 0.4 percent rise originally posted for second-quarter GNP was revised to a 0.1 percent decline, the third consecutive quarterly decline. The revision included a smaller than originally projected increase in consumer spending as well as large inventory liquidations.

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## MICHIGAN ECONOMIC INDICATORS



SOURCES: Federal Home Loan Bank of Indianapolis, U. S. Census Bureau, and MESC.



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## States Share Budget Woes

While the state's fiscal condition over the last year has not been favorable, Michigan is not alone in sailing rough financial waters. The cause of budget problems has been the same nationwide, although some states—most notably California—have faced much worse problems than Michigan's.

The National Association of State Budget Officers (NASBO) notes that the story is the same in Michigan as in the rest of the country. The recession and slow recovery reduced revenue collections, while spending problems worsened, most notably in the areas of corrections and Medicaid. The revenue problem continues to worsen because states remain heavily reliant on sales taxes on goods but not services.

The 1980s have seen rapid growth in the service sector, while manufacturing declined. Continued reliance on the latter for revenues will cause many states—including Michigan—to search for other revenue sources as long as the service sector remains untouched.

In addition, states entered the recession in relatively weak cash positions, leaving them with limited resources to fall back upon. In January, state budget officers estimated their ending cash positions at less than \$5.9 billion, 43 percent below the level in the previous year. Finally, the federal government has continued the policy of reduced support of state grants programs. (Refer to the "Monthly Focus" article in the July *Economic Bulletin*.)

Faced with this difficult reality, state government officials have been forced to take actions to balance their books. While occasionally an innovative approach can be found that does not hurt state coffers (witness the hospital voluntary contributions program), there are still only two basic approaches to resolving a deficit problem: cutting spending or increasing taxes.

NASBO surveyed the states to find which of these methods were being employed; 32 of the states contacted participated in the analysis. The results are summarized in the exhibit. It should be noted that the number of states answering affirmatively when asked if they had increased revenues is likely understated, as originally the states were asked only about tax hikes; those that increased fees, therefore, likely did not give an affirmative response to the question. Four states (including Michigan) did not have a budget at the time of the survey (early August 1991).

It should not be too surprising that, faced with these difficult decisions, some states have not as yet resolved their budget problems. At the close of their fiscal year in July, nine states still had not passed budgets for FY 1992.

### Highlights of Enacted State Budgets, FY 1992

Participating states	32
No budget	4
Revenue/tax increase <sup>1</sup>	17
Appropriation cuts	4
Reduced K-12 spending	7
Reduced local aid	11
Layoffs <sup>2</sup>	19
Hiring freeze	11
No pay increases	13
Early retirement	5
Benefit reductions	15
Travel freeze	10

<sup>1</sup> Likely understated due to form of original question.

<sup>2</sup> Between 10,225 and 16,374 layoffs in 11 states.

SOURCE: NASBO News, September 1991, p. 5.

Although the large number of states in that situation is unusual, more unusual is the fact that those that had passed budgets earlier were forced to scramble to adjust them. Why? These states had based their spending levels on much earlier revenue estimates that in light of the mild recovery now seem unobtainable. With or without a budget, there seem to be few winners in this year's budget negotiations.

### PUBLICATIONS OF INTEREST

Howard Heideman, Taxation and Economic Policy Office, Michigan Department of Treasury, **Property Taxes in Michigan: Rates, Revenue, and Relief** (Lansing: the Department, July 1990).

Provides data and analysis of changes in Michigan property values, by type, for the ten-year period between 1979 and 1989.

Office of Economic and Tax Policy, Department of Finance and Revenue, Government of the District of Columbia, **Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison** (Washington, D.C.: the Department, June 1990).

Ranks tax rates and burdens for various types of taxes among large U.S. cities and the District of Columbia. Also provides specifics regarding individual state and local taxes and exemptions.

Congressional Budget Office, Congress of the United States, **Capital Gains Taxes in the Short Run** (Washington, D.C.: CBO, August 1991).

Compares how different options for cutting capital gains taxes might affect the incentive to sell assets, economic efficiency, and federal tax receipts in the short run.

## Economic Forecast

### Gross National Product

The second-quarter decline in GNP (0.1 percent) marked the third consecutive decrease in the figure. The drop followed declines of 1.6 percent and 2.8 percent (revised) in the fourth quarter of 1990 and the first quarter of 1991, respectively. The second-quarter figures (revised from a preliminary estimate of a 0.4 percent increase), however, should mark the bottom of the recession.

Positive contributors to second-quarter GNP were consumer and government spending; investment, net exports, and inventories all contributed negatively to the total. Led by rises in spending on services and nondurables, the gain in consumer spending was especially significant, increasing \$18.4 billion compared to the first-quarter decline of \$9.9 billion. Consumers still appear wary, but there are some signs that the cautionary period may be coming to an end: While spending on durable goods declined \$1.3 billion during the quarter, this was far less than the \$12.7 billion decline posted in the first quarter of 1991.

**OUTLOOK** We still do not expect any significant economic expansion during the remainder of the year. The second quarter should mark the bottom of the recession, but partly due to slower than expected auto sales, we have revised our third-quarter estimate to a 1.3 percent growth rate. Activity should pick up slightly in the fourth quarter; we expect growth of about 2.2 percent. This will mean an annual rate of increase of only 0.6 percent.

### Employment and Income

**U.S. nonfarm employment** declined by 330,000 in the second quarter of 1991, a significant improvement from the first-quarter drop of 650,000. The quarterly change masks an even larger improvement in recent months: May employment increased 151,000 (the first gain in nearly a year), June employment fell by only 21,000 jobs, and July employment fell by 51,000. The average employment decline from January to April was 220,000.

The second-quarter weakness was spread across all major sectors. Employment declined in all sectors except services and government, which both managed only weak gains. The sharpest declines were in construction and retail trade. Employment in the manufacturing sector declined, but the job loss was not as sharp as in previous quarters. Motor vehicle employment, however, continued weak, declining at an annual rate of 10 percent. The **U.S. employment rate** averaged 6.8 percent in the second quarter,

EXHIBIT 1		
Michigan Wage and Salary Employment, Second Quarter 1991		
Sector	Number Employed (thousands)	% Change from Year- ago Quarter
Services	951.5	1.2%
Health	313.3	3.2
Business	172.3	-2.3
FIRE	193.1	1.1
Government	632.7	-0.8
Trade	926.3	-2.1
Transportation, Com- munications, and Public Utilities	153.9	-2.4
Mining	9.6	-5.3
Manufacturing	887.6	-7.1
Motor Vehicles	258.1	-9.9
Construction	128.2	-9.6
TOTAL	3,882.8	-2.4%

SOURCE: Michigan Employment Security Commission.

up from 6.5 percent in the first quarter. The rate peaked at 7 percent in June, before dropping to 6.8 percent in July and August.

**Michigan nonfarm employment** averaged 3,883,000 (not seasonally adjusted) in the second quarter of 1991, down 2.4 percent from the second quarter of 1990. This compares with a first-quarter decline of 1.5 percent. As in the first quarter, declines occurred nearly across the board; the only sectors to report job gains were services (1.2 percent) and fire, insurance, and real estate (1.1 percent). (See Exhibit 1.) The increase in services was due mainly to a 3.2 percent gain in employment in health services. Business services, which were a major growth sector during the 1980s, declined 2.3 percent. The largest declines continued to be in construction (9.6 percent) and manufacturing (7.1 percent). Employment in the motor vehicles and equipment sector was down 9.9 percent from the year-ago quarter. Employment fell by 63,000 to 4,080,000 workers in July, the lowest level for the month since June 1988, and another 49,000 in August to the lowest level since September 1986. August total employment was 5 percent below the year-ago level, and wage and salary employment (3,878,000) was 2.2 percent below August 1990. The **state unemployment rate** averaged 9.3 percent in the second quarter, down from 9.9 percent in the first quarter. This was the highest rate among the eleven largest states; Massachusetts was second at 9.1 percent. The rate fell to 8.3 percent (seasonally adjusted) in July from 9.1

percent in June, and then jumped back to 9.1 percent in August.

**U.S. personal income** increased at a seasonally adjusted annual rate of 3.6 percent in the second quarter, after increasing only 1.5 percent in the first quarter. An even more encouraging sign is that personal income in May and June increased at an annual rate of 6 percent.

**Michigan personal income** declined at an annual, seasonally adjusted rate of 2.4 percent in the first quarter (latest data available) from the previous quarter, but was 3.4 percent above the year-ago quarter (see Exhibit 2). Fourth-quarter personal income increased a revised 1.2 percent. Wages and salaries were even weaker, declining 8 percent (annual average), due mainly to a 27.2 percent decline in manufacturing wages and salaries. Total wages and salaries were 2.7 percent above the year-ago level, and manufacturing wages were 0.4 percent below the first quarter of 1990. Personal income was boosted by a 20.8 percent (annual average) gain in transfer payments (mainly social security, welfare, and unemployment benefits).

**OUTLOOK** There are a number of signs indicating that the national economic recession is over. A key indicator is the decline in initial unemployment insurance claims to 400,000 from a peak of 509,000 in March. However, employers likely will be cautious in adding workers. We are forecasting an increase of about one percent (annual rate) in the second half of 1991. This will mean that nonfarm employment will be 0.8 percent lower in 1991 than in 1990. The unemployment rate will decline slowly to an average of about 6.5 percent for the last two quarters of the year.

As we reported last quarter, we expect growth in state employment and income to be a bit weaker in Michigan than in the nation. We are projecting very little growth in employment in the second half of the year, certainly not enough to make up for job losses in the first half. Our forecast is that in 1991 Michigan employment will average about 3,880,000, 0.5 percent below the 1990 level. The unemployment rate has peaked and will decline slowly in

the second half to the year, averaging about 9 percent for all of 1991.

## Prices

**U.S. consumer prices** continued to rise at a moderate pace in the second quarter. The U.S. consumer price index-urban (CPI-U) increased at an annual rate (unadjusted) of 2.4 percent, the same increase as in the second quarter. Housing prices increased at an annual rate of only 1.9 percent, while transportation prices fell 2.4 percent due mainly to a 7.8-percent decline in motor fuel prices. The CPI, excluding volatile food and energy prices, increased at an annual rate of 3.1 percent (see Exhibit 3). The second quarter CPI was 4.8 percent above the year-ago level. In July, consumer prices increased at an annual rate of only 2.4 percent, rising to 3.6 percent in August.

**Consumer prices in Michigan** [as measured by the Detroit-Ann Arbor consumer price index (CPI) released every two months] increased at an annual rate of 7.2 percent in June from the April level. This is misleading, however, as the index was boosted by usually large temporary increases in housing (19.8 percent annual rate), and energy (84.1 percent annual rate) prices. The CPI increased at an annual rate of only 3 percent from February to April and 3.6 percent for the first six months of the year. For the six-month period, prices were held down by an 8.6-percent annual rate decline in energy prices and a 1.6 percent gain in apparel prices. Excluding energy, prices increased at an annual rate of 4.6 percent in the first half of 1991, slightly below the 1990 rate. June consumer prices were 4.5 percent above the year-ago level. Housing and food prices were up only 2.7 percent and 4 percent, respectively, while prices rose sharply for other goods and services (8.1 percent), medical care (6.7 percent), and transportation (6.7 percent). In August prices rose by 4.8 percent.

The **U.S. producer price index (PPI)** for finished goods (which generally foretells increases in the CPI)

### EXHIBIT 2

#### Michigan Personal Income, Selected Components, 1989, 1990, 1991 I (millions of dollars)

Quarter	Total Personal Income	Wages and Salaries	Manufacturing Wages	Transfer Payments	Dividends, Interest, and Rent
1989 I	159,440	97,094	40,857	24,347	25,068
II	161,486	97,681	40,394	24,660	26,204
III	163,901	99,285	40,739	25,096	26,754
IV	165,614	99,828	40,262	25,567	27,192
1990 I	166,146	98,575	37,857	26,569	27,422
II	169,634	101,722	40,174	26,561	27,743
III	172,280	103,708	41,188	26,816	28,082
IV	172,806	103,288	40,349	27,514	28,242
1991 I*	171,796	101,245	37,683	28,948	28,022

\*Preliminary.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, July 1991 release.

### EXHIBIT 3

#### Detroit-Ann Arbor Consumer Price Index, June 1991

Component	Index	Percent Change from December 1990 (annual rate)	Percent Change from June 1990
Medical care	169.5	6.0%	6.7%
Food and beverages	131.6	5.8	4.0
Other goods and services	158.3	5.2	8.1
Entertainment	134.6	4.6	6.2
Housing	129.9	4.2	2.7
Transportation	129.8	-1.0	6.7
All items	133.5	3.6	4.5
Energy	105.5	-8.6	2.7
Motor fuel	101.0	-21.0	4.9
All items less energy	137.7	4.6	4.7

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

increased at an annual rate of 0.8 percent in the second quarter. Excluding food and energy, the PPI increased at an annual rate of 1.6 percent, compared with a 4.4-percent increase in the first quarter. Energy prices, which declined at an annual rate of about 42 percent in the first quarter, have begun to level off and fell only 5.6 percent in the second quarter. In August, the PPI rose at a 3-percent annual rate following a decline of 2.9 percent in July. July's decline was the result of lower food and energy prices; excluding these items, the July PPI rose at a modest annual rate of 2.5 percent, and in August, by 2.4 percent.

**OUTLOOK** The outlook for inflation continues to be favorable. In our last quarterly forecast we projected a 4 to 4.5 percent increase in U.S. and Michigan consumer prices. Given our expectation of a weak recovery in the second half and the recent performance of the PPI, consumer prices are likely to increase near the low end of that range. This compares with a 5.4 percent increase in the U.S. CPI in 1990, and a 5.2 percent increase in the Detroit-Ann Arbor CPI.

### Monetary and Fiscal Policy

Less than a month ago the Federal Reserve (Fed) cut the discount rate (the rate charged member banks for short-term loans from the Fed) to 5 percent, and the rate on three-month Treasury bills responded by falling to 5.18 percent, the lowest rate since 1977. Despite this, slow growth of the money supply is likely to spur monetary authorities to cut rates even further. The M-2 money supply (which includes currency, checking, and selected savings accounts) has grown at an annual rate of only 2.4 percent this year (the target range is generally between 2.5 and 6.5 percent, with a 4.5 percent annual rate considered normal); since July, growth has been negative. This, and continued moderate inflation, likely will cause the Fed to cut rates again. Continued tight lending practices of banks, however, could be a problem in attempting to use monetary policy to stimulate the economy.

Last year's five-year budget agreement—which caps spending within broad budget areas (defense, domestic, and international programs) and forbids transfers between areas—will be the focus of an intense political battle. The administration wants to keep the accord intact until after the 1992 elections, but in light of recent events in the Eastern Block and the effects of the lingering recession, some members of Congress are pushing for switching some funds allotted to defense over to domestic programs. It appears virtually certain that a package increasing unemployment benefits will pass Congress and is likely to have enough support to fend off a threatened presidential veto. The plan would extend the period of eligibility and reduce qualification restrictions. The cost of the program is estimated at \$6.3 billion.

**OUTLOOK** In the face of the sluggish economy, the Fed is very likely to continue to put downward pressure on interest rates. Pressure from the administration on the Fed to do so is likely to continue as well. During the remainder of the year, the discount rate may be reduced an additional quarter to half percentage point; the result on investment and spending, however, will depend on the degree to which banks lower their lending rates and ease borrowing restrictions. In terms of fiscal policy, if the spending limitations included in the budget accord are rescinded, the deficit—already approaching yet another record-breaking level—could reach as high as \$370 billion in FY 1992.

### Motor Vehicle Sales and Production

Motor vehicle sales improved modestly in the second quarter, declining 11.3 percent compared with a 19-percent decline in the first quarter. Passenger car sales declined 11.7 percent in the second quarter, while light truck sales fell 10.5 percent. Sales of motor vehicles produced by the Big Three American manufacturers fell 13.9 percent, while sales of Japanese motor vehicles declined only 3.7 percent.

For the first six months of 1991, motor vehicle sales declined 15 percent, with passenger car sales off 14.5 percent and truck sales down 15.9 percent. Big Three sales were down 16.7 percent, while Japanese motor vehicle sales fell only 8 percent. As a result, the Japanese increased their share of the motor vehicle market from 23.4 percent (27.3 percent for passenger cars) in the first half of 1990 to 25.3 percent (29.5 percent for passenger cars) in the first half of 1991. The U.S. share fell from 72.3 percent in 1990 to 70.9 percent in 1991. In mid-September, sales plummeted by 16.3 percent from the year-ago level, primarily due to losses by the Big Three.

U.S. car production in the second quarter was up 11.8 percent from the first quarter but trailed the year-ago quarter by 16.3 percent. Truck production was 42.3 percent above the first quarter, but 14.6 percent below the year-ago level. U.S. motor vehicle production for the first six months of 1991 totaled only 4,425,000 units, down 16.5 percent from 1991. Passenger car production was the lowest since 1982, and truck production the lowest since 1984.

As shown in Exhibit 4, the big sales winners in the first half were Honda, Toyota, and Mazda among the Japanese makes, and Dodge, Buick, and Mercury among the American makes. The big losers were Chevrolet, Ford, and Pontiac.

**OUTLOOK** Motor vehicle sales in the second quarter were slightly weaker than we forecast in the May 1991 *Economic Bulletin*; off 11.3 percent compared with an estimated decline of 10 percent. In May we forecast that second-half sales would equal the year-ago level. However, that appears too optimistic in light of the 4.6 percent decline in July sales and the 10.9 percent decline in August sales, the weakness in early September, and expectations of a slow economic recovery. We are revising our estimate for motor vehicle sales downward from 13.2 million units to 12.9 million units (off about 8 percent from 1990), with

passenger car sales of 8.5 million units and truck sales of 4.4 million units.

U.S. manufacturers are in a good position to increase production in the second half of the year, if sales improve, as the average inventory of U.S. cars was only 54 days at the end of June. The outlook is not as good for Michigan, however, as the state Office of Revenue and Tax Analysis estimated the supply of cars manufactured in Michigan at 74 days. As a result, an upturn in sales may not mean higher production and sales in Michigan until inventories are reduced.

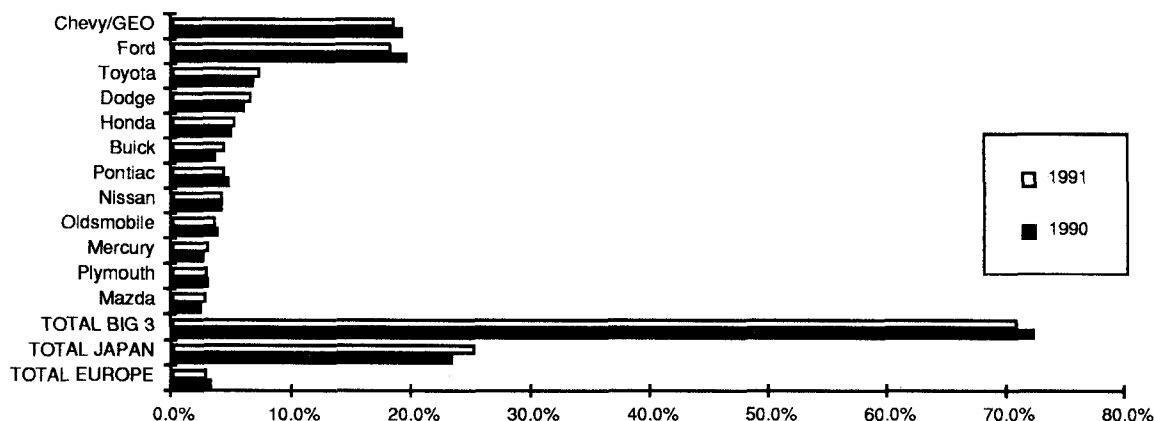
## Housing

While the Michigan housing sector appears to be doing better than the national market, its performance is still weak in comparison to one of the weakest national sectors. Some mixed signals still exist, possibly reflecting consumer apprehension. Overall, **Michigan housing permits**—an indicator of future construction plans—rose during the second quarter. Nearly all of the quarter's increases, however, were due to a robust showing in April. In May and July, permits rose slightly but fell in June.

**OUTLOOK** The Michigan housing market, although doing well compared to the nation, still appears a bit weak. April's strong showing was likely a seasonal factor but could have been influenced by falling mortgage rates. In addition, employment declines in the overall construction sector have been second only to drops in manufacturing employment. The weakness of the recovery that we predict for the second half of 1991 and early 1992, continued tight credit markets, and stubbornly high lending rates will all help to stymie this sector. We look for the market in the second half to continue to outperform the national sector, but at levels below those of 1990.

EXHIBIT 4

### Motor Vehicle Share, First Six Months, 1990 and 1991





## Property Tax Ballot Proposals and Budget Targets

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### Property Tax Relief Revisited

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Voters could have to act upon up to four property tax ballot proposals in November 1992; these proposals are summarized here.

► **Headlee** This plan resulted from an initiated law, which the Board of State Canvassers failed to validate early this year. The ruling, however, was successfully appealed in the courts, and the board must reevaluate the petition's signatures. The proposal would reduce the property assessment ratio from the current level of 50 percent to 45 percent in the first year and 40 percent in the second year, a 20-percent reduction. The state would be required to reimburse local governments for the lost revenue. The plan would reduce property taxes by an estimated \$980 million in the first year (1993) and \$2.1 billion in the second year. The net cost after property tax credit savings would be an estimated \$700 million in the first year and \$1.5 billion in the second year.

● **Engler** This plan, also an initiated law, would reduce school operating taxes by 30 percent over a five-year period (beginning with a 10 percent cut in 1993) and constitutionally limits property tax assessment increases for individual parcels to the lesser of 3 percent or the rate of inflation. School districts would be guaranteed reimbursement for lost revenues. The proposal would reduce property taxes by \$631 million in year one and \$2,810 million in year five. The net cost after property tax credits savings is an estimated \$500 million in year one and \$2,260 million in year five.

● **House Democrats** Also an initiated law, the plan (1) exempts the lesser of \$30,000 or 50 percent of a home's market value from local school operating taxes, with the exemption thereafter indexed to the rate of inflation; (2) modifies the current Homestead Property Tax Credit to provide additional relief for renters, low income seniors, and disabled persons and raises the maximum credit from \$1,200 to \$1,500; (3) amends the constitution to provide that homestead assessment increases be limited to the rate of inflation until the home is sold; (4) provides relief for small businesses by reducing the alternative profits tax rate under the single business tax by 50 percent. The plan would be funded by repealing the SBT's capital acquisition deduction (CAD), discontinuing industrial tax abatements for school millages, and eliminating some state contracts. School districts would be fully reimbursed for lost revenues. This plan would provide about \$1.2 billion in tax relief. The net cost after homestead tax credit savings of \$325 million would be an estimated \$910 million.

● **Legislative Tax Freeze and Limit** The legislature passed legislation that freezes 1992 property tax assessments at 1991 levels, with no reimbursement to locals, and places a proposal on the 1992 ballot to limit future assessment increases on each parcel to the lesser of 5 percent or the inflation rate. The cost of the plan will vary from year to year depending on inflationary and assessment increases. (In an average year the cost would be minimal, but in years in which assessments are significantly greater than inflation the cost would be substantial.) Based on 1991 assessments each one percent reduction is worth about \$150 million.

### Budget Targets

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The signing of a formal statement by Governor Engler promising that the State Administrative Board would halt, at least temporarily, any interdepartmental transfers paved the way for agreement with legislative leaders on FY 1991-92 budget targets. (The board will not act until the supreme court rules on the lawsuit filed by House Speaker Dodak.) Except for a \$3.27 million decrease in spending for Public School Employees Retirement, the targets are identical to those agreed upon by legislative negotiators in late August. This brings total target level expenditures to \$7,945 million.

Not addressed in the agreement was the administration's recent \$117 million reduction in expected FY 1991-92 revenues. Before this revision, the target budget was already \$415 million above available revenues; the plan had been to close this gap through budget savings, one-time revenues, and the governor's veto of \$230 million in programs, to include the General Assistance program.

Public Sector Consultants predicts that the revenue shortfall will be even larger than that predicted by the administration, and that expenditures likely will exceed targeted levels, which would leave the budget \$300-400 million out of balance. It appears that once again this year's budget will be the topic of debate long after it is approved by the legislature and the governor.

### National Note

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The Department of Health and Human Services estimates that by the year 2000, national health care spending nationwide is expected to rise to 16.4 percent of the gross national product from 12.3 percent in 1990.

# Michigan Revenue Report

There were some bright spots in August (July activity) revenue collections.

First, single business tax collections increased 32.6 percent above the year-ago level. However, much of this increase was due to the settlement of the CAD problem rather than to an improvement in economic activity. Second, sales and use tax collections were up 3.8 percent, the best performance since last September, despite a 4.6 percent decline in motor vehicle collections. On the negative side, personal income tax collections increased only 0.5 percent, a smaller than expected increase.

Lottery sales continued to slump, declining 24.1 percent in August (preliminary) from a year ago when sales were stimulated by a \$29 million Lotto jackpot. Sales for FY 1990-91 will fall about 5 percent below FY 1989-90.

In response to the weakness in revenue collections this year the administration again reduced its revenue estimates for FY 1991-92. The new estimates are \$117.6 million below the numbers used in the June 1991 legislative budget agreement. The major downward adjustments were for the single business tax and interest on investments, which is now expected to be a negative \$50 million due to the cash flow problem.

The administration is still assuming a 5.2 percent growth rate in revenues for FY 1991-92, unchanged from the March budget estimate. Our view is that revenue growth is more likely to be in the 3 to 4 percent range, adding as much as \$200 million to the anticipated budget shortfall.

## MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary August 1991	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1990-91 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$316,925	0.5%	\$1,027,112	0.9%	\$3,483,940	1.5%
Quarterly and Annual Payments	10,244	-8.2	113,689	-6.0	638,961	-8.4
Gross Personal Income Tax	327,169	0.2	1,140,801	0.2	4,122,901	-0.2
Less: Refunds	-30,191	36.1	-122,877	64.5	-1,109,238	8.7
Net Personal Income Tax	296,978	-2.4	1,017,924	-4.3	3,013,663	-3.1
Sales and Use Taxes	276,219	3.8	825,125	0.5	2,605,447	0.05
Motor Vehicles	44,074	-4.6	128,131	-12.5	360,924	-10.9
Single Business Tax	233,198	32.6	431,352	1.5	1,459,865	-8.2
Cigarette Tax	24,684	14.3	68,512	2.4	213,932	0.1
Public Utility Taxes	55,231	-11.9	73,203	1.2	144,874	1.9
Oil and Gas Severance	3,861	10.4	11,459	14.6	41,725	13.1
Lottery <sup>a</sup>	49,946	-24.1	110,647	-15.6	427,610	-4.9
Penalties and Interest	386	NM	17,769	41.1	71,674	31.2
SUW—Annuals and Undistributed <sup>b</sup>	4,968	NM	5,542	NM	28,673	92.2
Other Taxes <sup>c</sup>	22,085	44.9	71,062	52.1	398,345	29.1
<b>TOTAL TAXES (GF &amp; SAF)<sup>d</sup></b>	<b>\$955,509</b>	<b>-6.3%</b>	<b>\$2,632,595</b>	<b>-0.6</b>	<b>\$8,485,808</b>	<b>-1.4%</b>
Motor Fuel Tax <sup>e</sup>	\$57,428	-0.2%	\$179,329	0.3%	\$568,456	-0.9%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>The state share of lottery collections is estimated to be 40.7 percent, based on the average profit to the state for fiscal year 1989-90. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

<sup>b</sup>These revenues are distributed to the sales, use, and withholding

(SUW) accounts when final numbers for the month are reconciled.

<sup>c</sup>Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

<sup>d</sup>Excluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

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

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