



# Michigan REVENUE REPORT

September revenue collections (August activity) were weak. Personal income tax withholding increased only 1.4 percent above the year-ago level, after a strong increase last month. However, the 4.8 percent increase for the past three months is more indicative than the September figures of the current level of economic activity. Sales tax collections increased only 2.5 percent, down sharply from the 6.9 percent increase in August. Single business tax collections fell 12.9 percent in September and, with one month's collections to go to finish the 1986-87 fiscal year, year-to-date collections are almost 2 percent below the year-ago level. Some of this weakness is a result of one-time payments received under the amnesty tax program last year. Although lottery sales have perked up in recent months—sales for the past three months are 11.9 percent above the year-ago period—lottery revenue allocated to the school aid fund will still fall about 1 percent below FY 1985-86 revenue.

In last month's *Revenue Report* we estimated that FY 1986-87 revenue would fall \$50 million short of current Department of Management and Budget (DMB) estimates. In its September report to the legislature, the DMB projected a year-end balance of \$37.5 million, down \$5 million from the August estimate. The DMB made sharp downward revisions in estimates for the single business tax, sales tax, and interest earned on investments. However, these revisions were more than offset by upward revisions in the estimate for personal income tax quarterly and annual payments and a

(over)

**Table 1. Monthly Tax Collections**

*Dollars in Thousands*

Type of Revenue	Preliminary September 1987	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1986-87 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$254,820	1.4%	\$882,160	4.8%	\$3,270,016 <sup>a</sup>	4.2%
Quarterly and Annual Payments	75,055	5.1	101,312	3.1	571,825 <sup>a</sup>	18.6
Gross Personal Income Tax	329,875	2.2	983,472	4.6	3,841,841 <sup>a</sup>	6.1
Less: Refunds	-13,010	201.7	-55,254	31.5	-999,907	5.8
Net Personal Income Tax	316,865	-0.5	928,218	3.4	2,841,934 <sup>a</sup>	6.2
Sales and Use Taxes	234,758	2.5	719,346	4.3	2,486,073	3.1
-Motor Vehicles	42,071	1.9	133,950	0.8	417,608	-1.0
Single Business Tax	47,386	-12.9	339,696	-6.8	1,340,878	-1.9
Cigarette Tax	19,915	-0.1	62,360	1.5	214,450	-1.2
Public Utility Taxes	81	NM	62,753	5.4	121,649	6.0
Oil and Gas Severance Tax	4,358	8.8	13,064	12.8	44,355	-16.1
Lottery <sup>b</sup>	35,257	14.7	102,661	11.9	377,010	-0.9
Penalties and Interest	226	-7.0	20,655	89.5	47,814	19.1
SUW—Annuals and Undistributed <sup>c</sup>	7,666	34.4	-471	NM	22,047	49.7
Other Taxes <sup>d</sup>	7,556	-4.0	23,095	-0.9	218,128	16.6
TOTAL TAXES (GF & SAF) <sup>e</sup>	\$674,068	0.5%	\$2,309,921	3.9%	\$7,678,058	3.3%
Motor Fuel Tax <sup>f</sup>	\$60,263	9.5%	\$176,547	-1.7%	\$608,424	2.1%

NM = Not meaningful

<sup>a</sup>Adjusted to reflect changes in tax rates. Withholding is also adjusted to reflect difference in number of Fridays (paydays) in a month.

<sup>b</sup>Lottery collections run one month behind other tax collections due to a reporting lag. Therefore, August lottery collections are included in this month's report. The percentage changes for the month and the past three months are calculated on the basis of gross sales. The year-to-date change is based on net revenue to the school aid fund (SAF), which includes other revenue and reflects the change in the share allocated to the SAF after expenses and prizes. In fiscal year 1985-86, the SAF received 40.6 percent of gross lottery revenue. This share was only 39.2 percent as of June 30, 1987.

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

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

<sup>e</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 have usually shown little growth in recent years. One exception is the insurance premiums tax, which increased about 27 percent in fiscal year 1985-86 and 13.1 percent in the previous fiscal year.

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

reduction in income tax refunds. The DMB estimates for the sales tax and personal income tax withholding are still too high, but because of sharply lower income tax refunds, the year-end balance should be close to zero, without further adjustments.

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

One of the more dramatic economic events of the last few months has been the sharp run-up in interest rates. Although interest rates tend to rise in the latter stages of the business cycle, the size of the increase caught most economic forecasters by surprise; the consensus had been that the sluggish economy and relatively low rates of inflation would keep interest rates down. However, signs that inflation may be reawakening and the failure of the trade deficit to improve very much prompted the Federal Reserve Board to tighten the money supply. The money supply (M1) increased at an annual rate of almost 15 percent from December 1985 to April 1987, but it has declined about 1.5 percent in the past four months (mid-May to mid-September).

As indicated in Table 2, long-term interest rates, as measured by corporate AAA bonds, increased from an average of 8.4 percent in March to 10.4 percent in the week ending October 9, the highest rate since November 1985. Short-term interest rates, as measured by three-month treasury bills, increased from an average of 5.6 percent in March to 6.6 percent in the week ending October 9. The Federal Reserve Board increased the discount rate (the rate charged on loans to member banks) from 5.5 percent to 6 percent in September, the first increase since early 1984 and only the second since mid-1981. The increase followed market forces rather than led them; another increase is possible.

The increase in interest rates has already dampened housing activity—private housing starts nationwide are now running about 200,000 units below the 1986 level, has frightened stock market investors as evidenced by the sharp drop in the stock market in recent weeks, and is likely to have a negative effect on consumer spending in the near future. A positive note is that interest rates appear to be leveling off and are likely to stabilize or decline modestly over the next few months, if the Federal Reserve Board does not tighten credit further.

**Table 2. Selected Interest Rates, 1981-October 1987**

Month/Year	Corporate AAA Bonds	Three-Month Treasury Bills	Discount Rate
1981	14.2	14.0	13.4
1982	13.8	10.7	11.0
1983	12.0	8.6	8.5
1984	12.7	9.6	8.8
1985	11.4	7.5	7.7
1986	9.0	6.0	6.3
1/87	8.4	5.5	5.5
2/87	8.4	5.6	5.5
3/87	8.4	5.6	5.5
4/87	8.9	5.8	5.5
5/87	9.3	5.8	5.5
6/87	9.3	5.7	5.5
7/87	9.4	5.8	5.5
8/87	9.7	6.0	5.5
9/87	10.2	6.4	6.0
Week Ending 10/9/87	10.4	6.6	6.0

SOURCES: Council of Economic Advisers, *Economic Indicators*, Washington, D.C.: Government Printing Office, August 1987; Federal Reserve Bank of St. Louis, *U.S. Financial Data*, St. Louis, Mo.: 1987.