



# Michigan REVENUE REPORT

Revenue collections continued strong in September (August activity). Personal income tax withholding collections increased 10.7 percent above the year-ago level, following last month's decline. Any one month's data can be misleading, as income tax collections have been weak one month and strong the next for the past year. This is obviously due to a quirk in the collection process and is not related to economic activity. The 5 percent increase for the past three months is more indicative of underlying economic activity. Net income tax collections for FY 1987-88 will likely be in the range of \$3,525 million to \$3,550 million compared with a current Department of Management and Budget (DMB) estimate of \$3,474.2 million.

Sales and use tax collections increased 6.8 percent above the year-ago level in September and have shown a fairly steady growth pattern in recent months. If October collections increase 5 percent, FY 1987-88 collections will total about \$2,890 million, \$45 million above the current DMB estimate.

Single business tax collections continued to surge, increasing 18 percent in September. Collections for FY 1987-88 will not be complete until the October quarterly payment (due October 31) is received, as these revenues are accrued to the previous fiscal year. Final collections are estimated at \$1,715-1,730 million compared with a current DMB estimate of \$1,663.8 million. *(over)*

*Table 1. Monthly Tax Collections*

*Dollars in Thousands*

Type of Revenue	Preliminary September 1988	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1987-88 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$282,201	10.7%	\$926,054	5.0%	\$3,441,119	5.2%
Quarterly and Annual Payments	85,297	13.6	111,351	9.9	683,574	19.5
Gross Personal Income Tax	367,498	11.4	1,037,405	5.5	4,124,873	7.4
Less: Refunds	-16,002	23.0	-39,884	-27.8	-879,528	12.0
Net Personal Income Tax	351,496	10.9	997,521	7.5	3,245,345	14.2
Sales and Use Taxes	250,687	6.8	767,497	6.7	2,630,463	5.8
-Motor Vehicles	69,953	5.0	143,515	7.1	445,614	6.7
Single Business Tax	55,912	18.0	390,232	14.9	1,600,755	19.4
Cigarette Tax <sup>a</sup>	23,884	19.9	72,487	16.2	240,884	12.3
Public Utility Taxes	16	NM	65,221	3.9	126,752	4.2
Oil and Gas Severance	3,452	20.8	10,389	-20.5	40,535	-8.6
Lottery <sup>b</sup>	42,907	18.4	116,513	8.9	437,290	16.3
Penalties and Interest	330	9.3	13,894	30.4	61,195	28.8
SUW—Annuals and Undistributed <sup>c</sup>	5,303	-30.8	2,363	NM	14,636	-33.6
Other Taxes <sup>d</sup>	8,123	8.8	30,136	30.5	221,947	1.8
TOTAL TAXES (GF & SAF) <sup>e</sup>	\$742,110	9.9%	\$2,461,667	8.6%	\$8,614,801	11.7%
Motor Fuel Tax <sup>f</sup>	\$59,034	-2.0%	\$182,272	3.2%	\$628,844	3.4%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>Adjusted for the 4-cent increase on January 1, 1988, the percentage changes are: September, 0.7 percent; past three months, -2.4 percent; year-to-date, -0.9 percent.

<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 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>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 usually have shown little growth in recent years.

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

Lottery sales show little sign of slowing down, as large Lotto jackpots continue to attract millions of players with a dream of instant wealth. August sales increased 18.4 percent above the year-ago level, and sales rose 56.7 percent in the first four weeks of September, as a \$33 million Lotto jackpot caused a buying frenzy. The revenue for FY 1987-88, which goes to the school aid fund (SAF), will be about \$485 million to \$490 million compared with a current DMB estimate of \$462.5 million.

There may be small offsets to the increases in the major revenue sources from insurance premium tax collections and interest earned on investments, but as reported for the last few months, general fund/general purpose and SAF revenues for FY 1987-88 will be sharply higher than current DMB estimates.

### **Monthly Focus: Employment by Sector**

The strong revenue performance discussed above is due largely to the better-than-expected growth in the Michigan economy. One might normally expect this to be the result of large gains in employment, but this is not the case. Total nonagricultural employment in August (latest data available by industry) is down 0.3 percent from one year ago, due mainly to the weakness in manufacturing employment (see Table 2). This weakness has been centered in the motor vehicle industry, where employment declined 8.6 percent in the last year (August 1987 to August 1988). The only sectors recording good employment growth are construction, retail trade, and banking.

The impetus for revenue growth is coming from personal income. As is shown in Table 2, average weekly earnings (an important component of personal income) have increased strongly in several sectors. Despite the sharp employment decline, average weekly earnings in the motor vehicle industry are 10.7 percent above the year-ago level, due in large part to an increase in the average work week from 41.5 hours to 43.9 hours. The implication is that the industry is making heavy use of overtime rather than adding new workers.

Most forecasters expected the large declines in motor vehicle industry employment but did not foresee the large increases in income and profits produced by the industry. This has been a major factor in the unexpectedly large increase in state revenues, as the production of motor vehicles remains Michigan's most important industry.

**Table 2. Michigan Employment and Average Weekly Earnings by Sector, August 1988**

Sector	Employment (in thousands)	Percentage Change from August 1987	Average Weekly Earnings	Percentage Change from August 1987
Mining	10.5	1.0%	\$565.08	1.3%
Construction	146.3	8.2	638.64	5.0
Manufacturing	915.3	-3.1	558.83	5.5
-Durable	692.1	-4.3	591.92	6.8
Motor vehicles	269.6	-8.6	705.91	10.7
-Nondurable	223.2	1.0	453.61	1.9
Transportation and public utilities	153.7	1.8	NA	NA
Wholesale trade	190.4	1.2	495.71	4.3
Retail trade	697.4	3.0	NA	NA
Finance, insurance, and real estate	186.1	1.1	NA	NA
-Banking	58.2	3.0	287.73	5.6
Services	840.1	2.1	NA	NA
Government	571.4	0.7	NA	NA
<b>TOTAL NONAGRICULTURAL EMPLOYMENT</b>	<b>3,711.1</b>	<b>-0.3</b>	<b>NA</b>	

SOURCE: Michigan Employment and Security Commission, *Monthly Report on Employment, Hours, and Earnings*, August 1988.

NA = Not available.