Economic Bulletin

GOOD news

September's **motor vehicle sales** increased 6.0 percent from the year-ago level, as GM sales returned to near normal following the summer strikes. However, Japanese manufacturers still may be benefiting from the strikes: Their sales rose 13.1 percent, and their market share was 23.2 percent in September (down from August's 30.8 percent but up from 21.8 percent a year ago). Passenger car sales perked up, increasing 2.5 percent above the year-ago level, the first hike since June. As usual, light truck sales led the recovery, jumping 10.4 percent from the year-ago level. The current pace of light motor vehicle sales suggests that sales will be 15.4 million units in 1998.

◆ In two cuts of 0.25 percent each, the Federal Reserve Board has cut **interest rates** for the first time since January 1996. To stimulate the slowing economy and offset the negative effects of the Asian financial crisis, which has weakened the U.S. export market and made American investors and consumers more cautious, the Fed cut its key short-term interest rate to 5.0 percent. The lower rate should help counteract the ebbing economy by making loans for automobiles and other consumer goods more affordable. The Fed also lowered the discount rate for the first time since December 1995, cutting it 0.25 points to 4.75.

◆ The **Michigan unemployment rate** remained unchanged in September at 3.6 percent.

BAD news

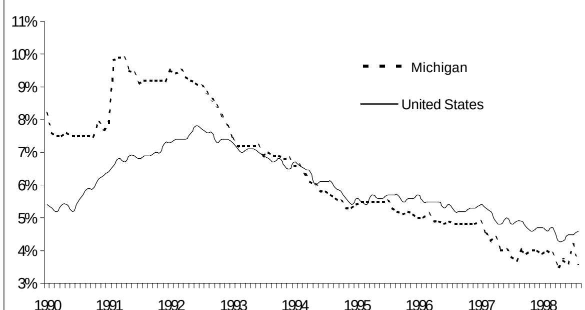
The **U.S. unemployment rate** rose slightly last month, signaling that the economy is cooling. The jobless rate rose in September, to 4.6 percent, from 4.5 percent in June, July, and August. The climb in the rate is due primarily to a slowdown in job growth, with 69,000 new jobs added in September, compared to 309,000 in August. Manufacturing and construction jobs fell by 16,000 and 20,000, respectively, while service jobs rose 105,000.

◆ The Conference Board announced that the **index of consumer confidence** dropped 7 points in September, to 126.0, the largest decline since January. The dip is not due to current conditions, but to fear about a decline in future economic activity—the expectations index fell 11 points in September, while the present situation index fell only 1.5. Despite the decline, consumer confidence apparently remains relatively high.

Consumer Confidence Index, 1992–98

SOURCE: Conference Board.

U.S. and Michigan Monthly Unemployment Rates, 1990–98 (seasonally adjusted)



SOURCE: Michigan Jobs Commission and U.S. Bureau of Labor Statistics.

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MONTHLY FOCUS

STATE BUDGET MAY FARE BETTER THAN MOST IN FUTURE YEARS

A recent article in *State Policy Reports* indicates that the Michigan finances may be in good shape in coming years.[1]

The author examines the degree to which states have *structural deficits*, wherein the revenue generated by their current tax system will be insufficient to cover future expenses. Analysts throughout the nation are concerned that a structural deficit is in many states' future, and they warn that caution should be exercised in making long-term state and local spending commitments.

The article forecasts combined state and local revenue through FY 2005 for each state and finds that most may expect a budget shortfall.

The exhibit presents for each state the projected state and local surplus/shortfall as a percentage of current revenue. It shows, for example, that among the states, Iowa will be in the best fiscal shape in FY 2005 and may expect a surplus equal to 2.7 percent of its current revenue. States that have a negative value can expect shortfalls in FY 2005: the average deficit nationwide will be 3.8 percent of revenue.

Michigan is among the ten states projected to enjoy a surplus in its state and local finances in FY 2005. The surplus is expected to equal 0.4 percent of revenue, ranking Michigan sixth in the nation.

[1]"Identifying Structural Deficits," *State Policy Reports*, 16, no. 14 (1998).

State and Local Surplus or Shortfall as Percentage of Baseline Revenues in Year 8 of Fiscal Projections

Rank	State	Percentage	Rank	State	Percentage	Rank	State	Percentage
1	Iowa	2.7%	18	Kansas	–1.9%	34	Montana	–5.7%
2	Nebraska	1.5	19	Mississippi	–2.0	35	Georgia	–6.5
3	North Dakota	0.9	20	Oklahoma	–2.1	39	Washington	–6.7
4	Ohio	0.9	21	Arkansas	–2.3	37	Virginia	–6.8
5	Kentucky	0.5	22	Louisiana	–2.5	38	Colorado	–7.0
6	Michigan	0.4	23	California	–2.8	39	Maryland	–7.1
7	Connecticut	0.4	24	Rhode Island	–2.9	40	Texas	–7.8
8	New York	0.3	25	Delaware	–3.0	41	New Hampshire	–8.2
9	Maine	0.1	26	New Jersey	–3.3	42	Florida	–8.8
10	Minnesota	0.1	27	North Carolina	–3.7	43	Tennessee	–9.1
11	Massachusetts	0.0		**United States**	**–3.8**	44	Arizona	–10.5
12	Oregon	–0.1	28	Utah	–4.3	45	Wyoming	–10.6
13	Illinois	–0.4	29	South Carolina	–4.6	46	New Mexico	–12.0
14	Pennsylvania	–1.3	30	Vermont	–4.6	47	Idaho	–13.2
15	West Virginia	–1.4	31	Alabama	–4.8	48	Hawaii	–15.1
16	Wisconsin	–1.5	32	South Dakota	–5.0	49	Alaska	–16.4
17	Missouri	–1.8	33	Indiana	–5.7	50	Nevada	–18.3

SOURCE: "Identifying Structural Deficits," *State Policy Reports*, 16, no. 14 (1998).

NEWS FROM THE STATE CAPITOL

SBT MAY BECOME MORE USER FRIENDLY

Members of the House Committee on Tax Policy voted unanimously to report out legislation (HBs 6066 and 5787–8), amending the single business tax (SBT), the state's primary business tax. The bills address some long-standing claims by the business community that the levy is a hardship on small businesses.

House Bill 6066 allows a business to file a short form if it meets certain conditions, including gross receipts less than $1 million. The bill was introduced to address complaints that the time and cost of completing the current SBT tax form is burdensome to small businesses.

House Bill 5787 allows a business to deduct $250,000 from its SBT tax base and take additional, graduated deductions; for example, businesses that have gross receipts of $250,000 to $261,000 could deduct 90 percent of gross receipts from their tax base. The bill was introduced to eliminate the SBT "cliff"—the point at which business abruptly go from being totally exempt (if their adjusted gross receipts are $250,000 or less) to fully liable (if their base increases by even one dollar).

House Bill 5788 limits the conditions under which SBT taxpayers may be assessed interest. Currently, businesses must estimate the amount of SBT they will owe in the coming year and make advance quarterly payments to the state. Interest is assessed on businesses having more than $20,000 in SBT liability if the estimate is substantially different from the actual tax liability. The proposed bill eliminates interest payments for taxpayers whose quarterly payments are 110 percent or less of their last year's tax liability.

MEDICAL INCOME TAX CUT

The House Health Policy Committee has approved Senate-passed SB 479. This bill is an effort to improve access to health care by giving a $5,000 income tax credit to medical practitioners working in medically underserved areas. The credit, available annually for up to five years, may be claimed by physicians, midwives, and nurse practitioners who practice in geographic areas underserved by health care professionals. The Michigan Department of Community Health will decide which areas are underserved. If the bill is enacted, it will cost the state an estimated $2.5 million annually in foregone income tax revenue.

TWO-YEAR SCHOOL BUDGET PASSES

The legislature has passed a two-year K–12 school budget (HB 5516) that will add to the foundation grant $51 per student in the current fiscal year (1998–99) and $190 per student next fiscal year (1999–2000). In the latter year, the budget allocates $9,943.5 million for schools, up 3.5 percent from the current year. This is only the second time that lawmakers have passed a biennial school budget.

This month's *Economic Bulletin* was written by Laurie A. Cummings, Senior Consultant for Economic and Education Policy, and Robert Kleine, Vice President and Senior Economist.
The publications were edited by Wilma Harrison and formatted by Dyan Iansiti.

INFORMATION OF INTEREST

Senate Fiscal Agency, *An Update on Tax Changes in Michigan 1991 through August 1998* (Lansing, Mich.: SFA), September 1998.

This 50+-page report is an update of an earlier one and provides a detailed listing, description, and fiscal analysis of the state and local tax changes that occurred in Michigan from 1991 to 1998. The publication (1) summarizes changes in several taxes (income, single business, sales and use, tobacco, and others) and (2) analyzes the fiscal effect of the increases/decreases on individuals, businesses, and state and local governments. It also divides these tax changes into two broad categories—school finance reform and all others. Appendices list tax changes by type of tax and chronologically.

MICHIGAN REVENUE REPORT

Total state revenue collections slumped in September, dipping 0.7 percent following the robust 11.9 percent gain in August (from the year-ago levels). There are signs that the economy is weakening, but one month's collections do not make a trend. It is likely that some of the weakness is due to transitory factors and a change in collection patterns. Despite September's weakness, revenues for FY 1997–98 are still likely to modestly exceed the May consensus estimate.

Sales tax collections increased only 0.4 percent. Motor vehicle sales showed some improvement but still increased only 0.1 percent over a year ago. Excluding motor vehicles, sales rose 0.5 percent.

Use tax revenue, which can vary widely from month to month, was up 9.9 percent, the sixth consecutive month that collections have increased more than 7 percent. Year-to-date collections are up 4.7 percent after a very slow start in the early months of the fiscal year.

Personal income tax withholding plunged 8.7 percent following a 17.6 percent jump last month. This wide variance almost certainly is due to a change in the collection pattern. The combined increase for August and September was 3.4 percent, well below the year-to-date increase of 5 percent. Quarterly payments, which were up 14.3 percent through August, plunged 25.2 percent in September.

Single business tax collections (excluding insurance) dropped 16 percent after increasing 14.4 percent in August. The quarterly payment for the fourth quarter is not due until October 31, so a trend will not be clear until October and November collections are received.

Lottery sales finished up the fiscal year with a solid 7.8 percent increase in September. Sales for FY 1997–98 were up 2.4 percent, down sharply from last year's 12.3 percent increase.

September 1998 Revenue Collections (millions)

Source	September Collections	Percentage Change, Year-ago	Percentage Change, Year-to-Date	September 1997 Actual	FY 1997–98 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	$452.7	–8.7%	5.9%	$496.1	5.6%
Quarterly	107.5	–25.2	4.9	143.7	10.9
Annual	31.3	439.7	27.2	5.8	14.9
Subtotal: gross income tax	591.5	–8.4	7.5	645.6	6.8
Sales tax	476.2	0.4	3.5	474.3	3.5
Motor vehicles	74.8	0.1	3.8	74.5	—
Other	401.6	0.5	3.5	399.8	—
Use tax	103.3	9.9	4.7	94.0	1.0
Subtotal: sales/use/withholding	1,032.2	–3.0	4.7	1,064.4	4.3
Tobacco tax	57.9	26.1	3.3	45.9	–4.0
SBT	79.1	–16.0	4.3	94.2	2.2
Insurance	1.2	–209.1	–33.6	–1.1	–17.7
Subtotal: SBT + insurance	80.3	–13.7	1.4	93.1	0.7
State education property tax	202.8	19.2	4.8	170.1	5.0
Real estate transfer tax	23.4	21.9	20.5	19.2	11.5
Estate/inheritance tax	7.8	–31.6	27.7	11.4	13.2
Intangibles tax	–0.1	–88.9	–42.4	–0.9	–46.2
Severance tax	2.5	–28.6	–19.7	3.5	–12.6
TOTAL	$1,545.5	–0.7%	5.0%	$1,556.2	4.0%
Gross lottery sales (prel.)	$125.8	7.8%	2.4%	$116.7	

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