

MICHIGAN REVENUE REPORT

A monthly publication of the **FISCAL AWARENESS SERVICE**

DR. GERALD FAVERMAN, Chairman of the Board

ROBERT J. KLEINE, Editor

Volume 3, Number 12 November 1986

Revenue growth in September (October collections) was mixed. Personal income tax withholding increased 5.3 percent above the year-ago level and sales and use tax collections increased only 3.6 percent. Motor vehicle sales tax collections increased 25 percent above the year-ago level, but were artificially inflated by the low interest rate financing offered by the auto companies. Excluding motor vehicles, sales and use tax collections actually declined 2.4 percent, the weakest performance of the past fiscal year. On the positive side, single business tax collections increased 34.7 percent above the year-ago level.

Collections for fiscal year 1985-86 are now complete, with the exception of accrual adjustments. In its October 24, 1986 report to the legislature, the Department of Management and Budget estimated fiscal year 1985-86 general fund-general purpose and school aid fund revenue at \$7,951.8 million; the estimate in the executive budget issued in January was \$7,747.8 million. It now appears that revenue from these two major revenue funds will total about \$8 billion, allowing for a \$105 million debit

(over)

TABLE 1
Monthly Tax Collections
(dollars in thousands)

Type of Revenue	Preliminary October 1986	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1985-86 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding ^a	\$276,296	5.3%	\$ 827,258	5.5%	\$3,609,143	7.9%
Quarterly and Annual Payments ^a	8,216	-33.5	93,089	22.9	526,596	18.9
SAFRA ^{a,b}	-0-	NM	517	NM	45,985	-76.6
Gross Personal Income Tax ^a	284,512	3.5	920,864	7.0	4,181,724	9.2
Less: Refunds	-8,292	-38.0	-31,634	-49.0	-955,313	-2.7
Net Personal Income Tax ^a	276,220	5.6	889,230	11.4	3,226,411	13.3
Sales and Use Taxes	245,291	3.6	694,363	5.4	2,656,527	7.0
-Motor Vehicles	63,837	25.0	150,325	14.3	485,687	8.6
Single Business Tax	139,717	34.7	402,178	15.9	1,506,100	8.0
Cigarette Tax	20,405	2.1	61,382	-1.8	237,456	-1.8
Public Utility Taxes	-0-	-	52,708	15.6	114,762	1.7
Oil and Gas Severance Tax	3,641	-40.4	11,255	-40.4	56,462	-25.4
Lottery ^c	35,275	13.3	100,728	6.4	416,900	15.9
Penalties and Interest ^d	168	NM	14,716	53.4	44,087	25.7
SUW--Annals and Undistributed ^e	1,324	NM	798	NM	10,503	9.9
Other Taxes ^f	11,456	-3.6	29,718	23.6	199,211	18.2
TOTAL TAXES (GF-GP & SAF) ^g	\$733,497	9.1%	\$2,257,076	9.9%	\$8,468,419	9.7%
Motor Fuel Tax ^h	\$ 52,077	3.1%	\$ 164,678	0.1%	\$ 651,187	4.4%

NM = Not meaningful

^aAdjusted to reflect changes in tax rates. Withholding is also adjusted to reflect difference in number of Fridays (paydays) in a month. On an unadjusted basis, October withholding collections declined 5.1% from the year-ago level.

^bState Accounting and Fiscal Responsibility Account. This fund is no longer operational and is only receiving residual payments. These monies are not included in totals for purposes of calculating percent changes.

^cLottery collections run one month behind other tax collections due to a reporting lag. Therefore, September lottery collections are included in this month's report. The State share of lottery collections is estimated to be 41.9%, based on the average profit to the State for fiscal year 1985-86. The percentage increase is calculated on gross sales for the month and three-month collections and on the transfer to the school aid fund for year-to-date figures.

^dPenalty and interest collections for the past three months exclude October and cover the July through September period.

^eThese revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

^fIncludes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.

^gExcluded 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% of GF-GP and SAF revenue and have shown little growth in recent years.

^hThe motor fuel tax is restricted to the Transportation Fund.

A SERVICE OF

PUBLIC SECTOR CONSULTANTS, inc.

KNAPP'S CENTRE • 300 S. WASHINGTON SQUARE • SUITE 401 • LANSING, MI 48933 • (517) 484-4954

due to the rollback of the income tax rate from 5.1 to 4.6 percent, effective January 1, 1986. Assuming the current expenditure estimates are accurate, the year-end surplus will be about \$110 million. However, there are likely to be expenditure lapses (monies appropriated but not spent) that will increase the surplus.

Motor fuel collections will exceed the budget estimate by about \$16 million. (The March Revenue Report estimated that motor fuel tax collections would exceed the budget estimate by \$17 million.)

Monthly Focus: Productivity and Unit Labor Costs

The U.S. Department of Labor recently reported that productivity, or output per hour, in the nonfarm business sector increased at an annual rate of 0.2 percent in the third quarter of 1986, following a 0.5 percent increase in the second quarter. In the manufacturing sector, productivity increased at an annual rate of 4.2 percent in the third quarter, the largest increase since the second quarter of 1985. Unit labor costs increased at an annual rate of 2.1 percent in the third quarter, continuing the moderate increases that began in 1983.

Productivity is affected by factors such as capital investment per worker, composition of the labor force, the business cycle, and technological changes and is an important measure of the strength of the economy. Productivity is a key determinant of unit labor costs, which in turn help determine the rate of inflation. Generally, productivity decreases during the early stages of a recession as output decreases faster than employment and increases at above-average rates in the beginning stages of a recovery as output increases faster than workers are added to the work force. The current economic recovery is mature, and productivity gains have slowed somewhat. (See Table 2.)

As mentioned above, productivity helps determine unit labor costs and unit labor costs help determine the rate of inflation. Unit labor costs increased at double-digit rates in the late 1970s and early 1980s, as did inflation. As indicated in Table 2, unit labor costs fell sharply in 1983 and have remained low. There is no sign that unit labor costs will jump significantly in the near future, which means continued low rates of inflation.

TABLE 2

Productivity and Unit Labor Costs in Nonfarm Business Sector and Implicit Price Deflator, United States, 1978-86 (percentage change from previous period at annual rate)

Year	Productivity (output per hour)	Unit Labor Cost	Implicit Price Deflator
1978	0.8%	7.7%	7.0%
1979	-1.6	11.2	8.9
1980	-0.4	11.0	9.7
1981	1.0	8.3	9.7
1982	-0.6	8.4	6.3
1983	3.3	1.1	3.5
1984	1.8	2.1	3.2
1985	0.5	3.5	3.3
1986—1st quarter	4.3	-1.2	2.3
1986—2nd quarter	0.5	1.8	1.0
1986—3rd quarter	0.2	2.1	3.1

SOURCE: Council of Economic Advisors, *Economic Indicators*, Washington, D.C.: September 1986 and United States Department of Labor, Bureau of Labor Statistics, *Productivity and Costs, Third Quarter 1986*, Washington, D.C.: October 29, 1986.