



Michigan ECONOMIC BULLETIN

The Good News

► **Michigan's unemployment rate** declined again in October to a seasonally adjusted 8.6 percent. The jobless rate has dropped in three consecutive months, falling 0.4 percent in August and 0.2 percent in both September and October.

► The **national unemployment rate** declined 0.1 percent, from 7.5 percent in September to 7.4 percent in October, for the second consecutive month. The figures for **unfilled orders and inventories**, however, indicate that any increase in consumer spending will be slow to translate into increased hiring.

► In mid-November the Labor Department announced that **producer prices** of finished goods rose a seasonally adjusted 0.1 percent in October after increasing 0.3 percent in September. Excluding food and energy, producer prices declined 0.1 percent, due primarily to a 2.8 percent drop in car prices and a 0.2 percent fall in the prices of capital equipment.

► **Consumer installment credit** increased 2.7 percent in September, the first increase since the beginning of the year. Loans for automobiles rose 4.2 percent and bank and credit card loans jumped almost 9 percent.

as more than 600,000 people have dropped from the **labor force** since June. Many of these are **discouraged workers** who have simply given up their search for work. Employment increased by only 26,000 workers.

► A record \$290.2 billion **federal deficit** for fiscal year 1992 was announced in late October, an amount equal to 4.9 percent of the gross domestic product (GDP). Because outlays for the savings-and-loan cleanup were excluded, the figure greatly understates the true size of the deficit.

► The Commerce Department announced that, following a revised 0.3 percent decrease in August and a 0.1 percent rise in July, the **index of leading economic indicators** fell 0.3 percent in September. The index—designed to foretell the state of the economy in the coming six months—has dropped three times in the past four months but is up 2.4 percent for the year.

► **Consumer confidence** fell 4.3 points to 53 in October, the fourth consecutive monthly decline. (The indicator measures between 85 and 100 when the economy is performing well.) Low wages—the result of a 0.7 percent rise in **compensation costs**—are blamed in part for the drop. Despite consumer apprehension, **consumer spending** rose at a 3.4 percent rate in the third quarter after falling 0.1 percent in the second.

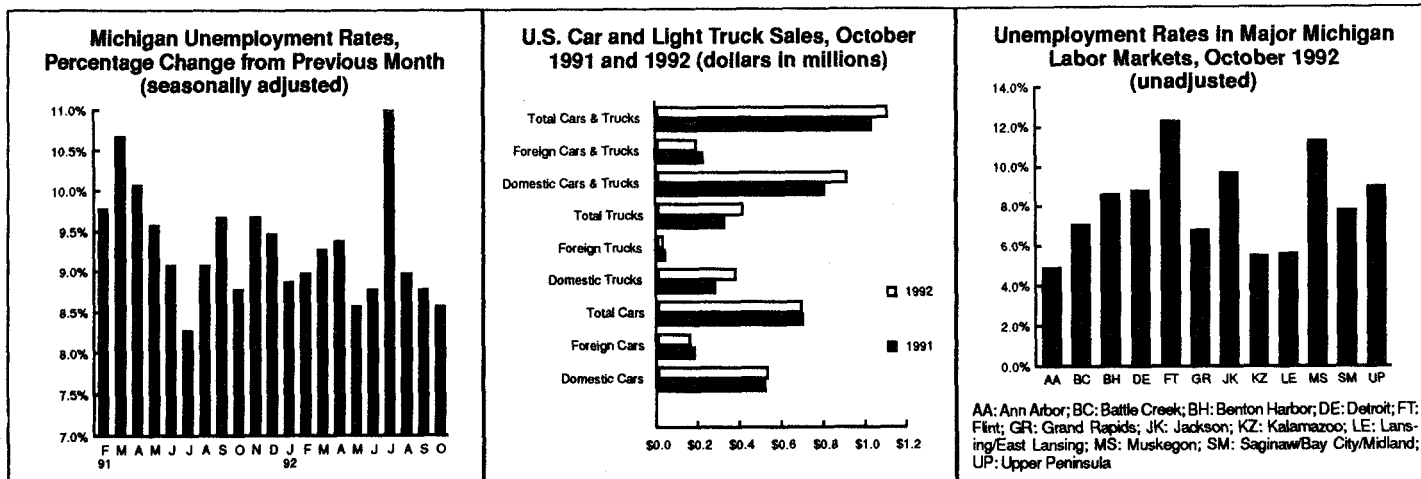
The Bad News

► American workers still face a listless **job market** despite the slight drop in unemployment in October. The drop is attributed to a decline in the number of people seeking work,

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MICHIGAN ECONOMIC INDICATORS



SOURCES: Michigan Employment Security Commission and *Automotive News*.

Regional Economies: Did They Translate Into Regional Votes?

by Laurie Cummings

A recent report by the Conference Board compared the economies of different U.S. regions immediately preceding the recent presidential election.¹ For the first time since 1980, the national unemployment rate rose in the months before a national election and was rising more rapidly in the most populous states. Although written before the election, the report helps to explain the possible effect of regional economic differences on voters' choices.

Regional Differences

At the beginning of the recession, economic hardship was unevenly distributed among U.S. regions. For example, mountain states have been relatively unaffected by the recession, enjoying employment growth above the national average since early 1989, while the Pacific states have endured declining employment since late 1990. These differences are due, in part, to the movement of industries from region to region, which suggests that "job gains and losses occur not only between the United States and low-cost foreign countries but also within the United States between high- and low-wage states."

Employment and the Election

The exhibit summarizes the regional economies in the quarter preceding the 1992 election. Regions were divided into two groups based on employment growth in May, June, and July. Five regions had employment growth below the national average, and four enjoyed employment gains above the national average. The second column shows which candidate won the popular vote in the majority of states within each region.

Governor Clinton fared better in regions where employment was growing more slowly or declining; in none of these struggling regions did the majority of states choose Bush. In fact, in only the south Atlantic region (including Florida and Virginia) did more than one state choose Bush over Clinton.

Such a clear pattern does not emerge in regions growing faster than the national average. President Bush won four of seven states in the west north central region

Growth in Employment and Winner of Popular Vote in a Majority of States

Growth in Employment	Winner
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Below the National Average	
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East North Central	Clinton
Mid-Atlantic	Clinton
North East	Clinton
Pacific	Clinton
South Atlantic	Clinton

Above the National Average	
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East South Central	Tie
Mountain	Tie
West North Central	Bush
West South Central	Tie

(which includes Minnesota and North Dakota) but tied with Clinton in the east south central (Tennessee, Alabama), mountain (Utah, Nevada), and west south central (Texas, Arkansas) regions. President Bush did not dominate in these growing regions; rather, voters appear to have demonstrated ambivalence toward change.

The Situation in Michigan

Michigan enjoyed *above-average* growth in employment in the months preceding the election. In October 1992 the Michigan unemployment rate was 8.6 percent, more than one percent higher than the national rate; the rate, however, was falling by around 0.2 percent per month, twice as fast as the national rate. Nevertheless, Michigan voters selected Governor Clinton by a substantial margin, giving him 44 percent of the vote.

Conclusions

While the effect of regional economic prosperity on the election is unclear, economic *hardship* appears to correlate with a vote for change. The concentration of economic hardship in larger states and the differences in hardship across regions have significant political implications; as the economy changes and industry shifts from region to region, we may find votes shifting with them.

1 The Conference Board, *Regional Economies and Markets* (New York: the Board, third quarter 1992).

School Finance/Property Tax Reform; Utility Cross-Subsidization

School Finance Reform

In the week following the election the House Taxation Committee met to discuss a proposal offered by a bipartisan group of House members that would provide property tax relief and reduce the spending gaps between school districts. The plan would be paid for with revenues from higher income and business taxes.

Provisions contained in the package include: eliminating property taxes for school operating purposes (House Bill 4965); establishing a minimum level of per-pupil funding of \$4,700 and providing for additional monies in the future for districts currently below that level (HB 4972); raising the state income tax rate to 6.55 percent in 1993 from its current 4.6 percent (HB 4970); and increasing the rate of the single business tax (SBT) to 6.1 percent from its current 2.35 percent and eliminating the personal property tax on real property, such as plant and equipment (HB 4967). In addition, HB 4971 would give voters the opportunity to eliminate the levy of county-allocated mills and increase their income tax rate to 7.25 percent; if voters approve this option, the SBT rate would be 5.3 percent (versus the 6.1 percent rate imposed under HB 4967).

Representatives of school districts that were present at the hearing were supportive of the plan; Sen. Debbie Stabenow (D-East Lansing) testified that the proposal had bipartisan support in the Senate. Business groups, however, while generally supporting the proposal, voiced concern that if the plan were passed during the lame duck session its swift movement through the legislature would not allow businesses to assess the proposal's potential effect on them. A second public hearing on the bills was scheduled for mid-November, as not all those wishing to testify at the first hearing were able to.

Cross-Subsidization of Utilities

At a hearing before the Senate Committee on Technology and Energy, representatives from service contractors for both utilities and small heating and cooling businesses voiced their opinions on SB 1021, which would eliminate utilities' ability to subsidize the cost of service contracts with ratepayer monies. The bill would also prohibit utility companies from referring customers to specific contractors.

Small contractors argued that the rates charged by utilities for servicing furnaces and water heaters are too low to cover their costs, thereby giving them an unfair competitive advantage over private firms offering the same services. In addition, those favoring the legislation contend that utilities have other advantages, including having ratepayers cover costs for mailing items such as advertisements for competing services with monthly bills. Utilities argued that existing consumer protection and antitrust laws prevent them from offering cross-subsidized services. They argued that the new legislation would hinder competition and impede the introduction of new technology. The Public Service Commission has not taken a position on the bill. Additional hearings have not yet been scheduled.

PUBLICATIONS OF INTEREST

Congressional Budget Office, Congress of the United States, ***Projections of National Health Expenditures*** (Washington, D.C.: the CBO, October 1992).

This report was prepared as part of the Congressional Budget Office's response to a request by the House Committee on Ways and Means to examine the economic and budgetary costs of the rise in national health care spending. The study—a companion to *Economic Implications of Rising Health Care Costs*, cited in last month's *Bulletin*—provides a review of the growth in spending on national health care since 1965 and gives projections for spending through 2000. You may obtain a copy of the report by writing or calling the CBO at Second and D Streets, S.W., Washington, DC 20515 (attention: publications); their phone number is 202/226-2621.

Bureau of Labor Statistics, U.S. Department of Labor, ***Geographic Profile of Employment and Unemployment, 1991***, BLS Bulletin 2410, Stock No. 029-001-03125-4 (Washington, D.C.: U.S. Government Printing Office, September 23, 1992).

An annual databook that provides statistics on employment and unemployment, by age, sex, race, Hispanic origin, marital status, full- and part-time employment status, occupation, and industry for regions, states, and selected metropolitan areas and U.S. central cities. The report is available by writing the U.S. Government Printing Office, Washington, DC 20402 (enclose a check or money order payable to the Superintendent of Documents) or by calling 202/783-3238.

Michigan Revenue Report

October revenue collections (largely September activity) turned in a mixed performance, with sales tax collections strong and income and single business tax (SBT) collections weak.

Sales and use tax collections in October increased 8.5 percent above the year-ago level, due in part to an 18.1 percent gain in motor vehicle collections; most of the strength was in truck sales. Excluding motor vehicles, collections increased 6.6 percent, still a strong performance. It is unlikely that sales tax collections will continue this strong as consumers have dipped into savings in recent months to increase spending.

Personal income tax withholding collections increased an adjusted 4.4 percent in October (a combination of September

and October activity). We expect these collections to continue to increase about 4 to 5 percent each month for the next several months.

SBT collections declined 10.1 percent in October, as the losses in the auto industry continue to depress collections. In addition, year-ago payments were likely inflated due to catch-up payments that had been delayed from earlier in the year due to uncertainty over a court decision.

Collections for FY 1991-92 are now complete. There will be a number of accruals and other adjustments, however, before a final figure is available. It now appears that revenue could fall as much as \$100 million below the current consensus revenue estimate.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary October 1992	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1991-92 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$380,072	0.5%	\$1,033,076	-15.9%	\$4,356,963	0.1%
Quarterly and Annual Payments	10,079	-17.9	122,095	-3.2	729,327	-3.3
Gross Personal Income Tax	390,151	-0.1	1,155,171	-14.7	5,086,290	-0.4
Less: Refunds	-11,781	-35.6	-46,121	-45.0	-1,242,848	7.8
Net Personal Income Tax	378,370	1.7	1,109,050	-0.1	3,843,442	-2.8
Sales and Use Taxes	296,732	8.5	883,730	10.5	3,227,199	3.1
Motor Vehicles	52,371	18.1	149,674	14.5	486,613	8.8
Single Business Tax	121,135	-10.1	322,708	-19.0	1,529,561	-7.1
Cigarette Tax	20,848	2.3	63,590	-5.4	245,952	-4.3
Public Utility Taxes	11	-81.4	56,820	NM	146,772	1.2
Oil and Gas Severance	3,493	18.4	11,491	28.0	42,178	-13.1
Lottery ^a	40,928	5.0	120,482	8.4	487,175	6.7
Penalties and Interest	888	-17.3	388	-97.4	73,249	-14.9
SUW—Annals and Undistributed ^b	5,347	516.7	59,822	893.7	65,430	123.3
Other Taxes ^c	65,322	25.1	150,121	46.2	556,571	20.8
TOTAL TAXES (GF & SAF)^d	\$933,074	4.0%	\$2,778,202	-2.0%	\$10,217,529	0.0%
Motor Fuel Tax ^e	\$57,562	4.1%	\$175,376	-1.9%	\$697,188	1.1%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

^aThe state share of lottery sales is 40 percent (FY 1992). The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

^bThese revenues are distributed to the sales, use, and withholding (SUW)

accounts when final numbers for the month are reconciled.

^cIncludes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

^dExcluded are beer and wine, liquor, and horse racing taxes.

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

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