Economic Bulletin

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GOOD news

The U.S. Commerce Department reports that **gross domestic product** (GDP) rose at an annual rate of 3.5 percent in the third quarter, after rising 3.3 percent in the second; much of the increase is explained by a 5.7 percent expansion in consumer spending, which accounts for about three-fourths of all economic activity. Business investment also helped to boost GDP, climbing 18.7 percent in the third quarter after an almost equally impressive 14.6 percent increase in the second.

◆ The **U.S. unemployment rate** hit a 24-year low in October, dropping to 4.7 percent from 4.9 percent in September. The economy added 284,000 new jobs last month, fueling an already tight labor market that in many parts of the nation has sparked fierce competition for employees. Although such labor markets usually force employers to attract workers by raising wages and then offset the wage increases with consumer price hikes, such wage-driven inflation surprisingly has not yet appeared.

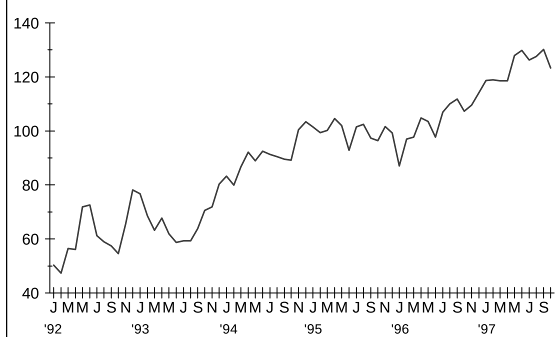
BAD news

The U.S. Commerce Department announced that September **new home sales** dipped 0.2 percent; this was preceded by declines of 2.3 percent in August and 2.4 in July. The three-month drop has been led by slower sales in the Northeast, where home sales have fallen 12 percent. On the bright side, despite the recently falling figures, the seasonally adjusted sales figure has exceeded 800,000 units for four consecutive months for the first time in almost 20 years.

◆ The Michigan Employment Security Agency reports that the **Michigan unemployment rate** inched up slightly in September, to 4.0 percent; the August figure was 3.7 percent. The increase is explained primarily by about 15,000 new workers entering the Michigan labor force, the first substantial increase since January. Despite the September setback, Michigan's jobless rate is the second lowest among the nation's eleven largest industrial states.

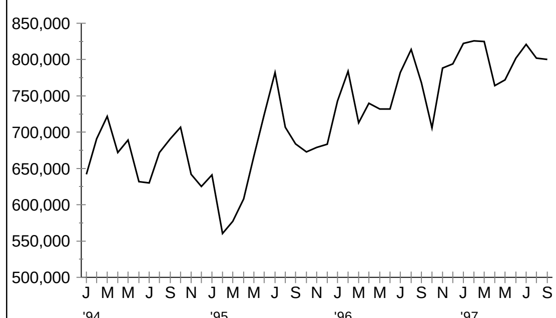
◆ The Conference Board announced considerable slippage in October in **consumer confidence**. The October index was 123.3, down from September's 130.2. The index, which ranges from 85 to 100 when the economy is performing well, has been on an upward swing since mid-1993. In October, the percentage of consumers who rate current business conditions as "good" fell from 40 percent in September to 33 percent, and the percentage who believe the economy will improve remained the same—19 percent. November's index will help economists decide whether the October figure signals the beginning of a downward trend or simply a one-time dip resulting from the stock market correction.

Consumer Confidence Index, July 1992 to October 1997



SOURCE: Conference Board.

New Single-Family Home Sales, January 1994 to September 1997



SOURCE: U.S. Department of Commerce.

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MONTHLY FOCUS

GRAYING OF MICHIGAN

The Michigan Department of Management and Budget recently released a report discussing changes in the distribution of the Michigan population by age.[1] As can be seen in the exhibit, people aged under 24 have become a smaller piece of the population pie, while those aged over 24 comprise a larger share.

Retirement Years (Age 65+)

Growth of this age group slowed from an average of 2.1 percent annually in 1970–90 to 1.4 percent in 1990–95. The low birth and immigration rates of 1939–45 (the years of the Great Depression and World War II) are affecting this age group, which is expected to increase slowly until 2010, when baby boomers hit their retirement years, and then expand rapidly.

Middle Years (Age 45–64)

In 1990–95, the middle-aged contingent grew faster than any other. Their number increased 9.5 percent, as baby boomers left their young working years behind and entered their middle years. This group will continue to grow until 2002, when boomers begin to reach retirement age.

Young Working Years (Age 25–44)

Although this group swelled 9.5 percent in 1990–95, the growth soon will slow. Most of the expansion occurred when the baby boomers reached this age, and a parallel reduction will occur over the next few years, as the balance of the boomers move on to their middle years.

College Years (Age 18–24)

In a little more than a generation—1970–95—college-age Michiganians have declined from 11.6 percent of the state's population in to 9.7 percent. The shrinkage can be attributed largely to the baby boomers having left the college-years category by 1995 and been replaced by a new, smaller group born during the "baby bust" of the late 1970s. Little expansion of this age group is expected in the near future.

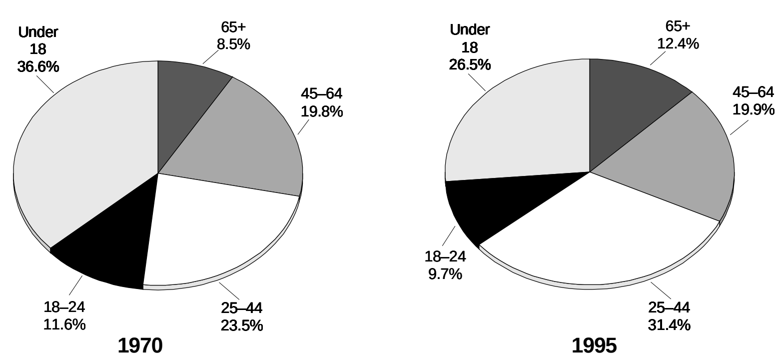
18 Years and Under

In 1970–95 this group declined from 36.6 percent of the Michigan population to 26.5 percent. However, in the last years of this period (1990–95), the children of the baby boomers boosted the size of the school-age population (aged 5–17) by 5.2 percent. Meanwhile, preschoolers (aged 0–4) declined in number, due to lower birth rates; this group is expected to continue to diminish in the coming years, meaning there will be fewer children entering school.

Conclusion

The demographic changes ahead will effect college enrollment, K–12 school enrollment, size and composition of the labor force, consumer buying habits, and many other aspects of life. Policymakers, school administrators, business people, members of the health care community, and others will be well-advised to heed these trends and prepare for the demographic transformation ahead.

Distribution of Michigan Population, by Age, 1970 and 1995



SOURCE: Michigan Department of Management and Budget.

[1]Office of the State Demographer, *Michigan Population Update: Changing Population by Age in Michigan: 1990 to 1995*, Michigan Department of Management and Budget, (Lansing, Mich.: D.B.), September 1997.

NEWS FROM THE STATE CAPITOL

DURANT IS SETTLED

The legislature has agreed on how to fulfill the state's obligations in the Durant case. The Michigan Supreme Court ruling found in favor of 84 school districts that sued Michigan for imposing unfunded special education and other mandates on schools, and the state will pay the plaintiffs $212 million. State officials also will reimburse nonplaintiff districts, to avoid future lawsuits, and have decided on $768 million for this purpose.

The agreement came about after weeks of negotiation between House and Senate leaders. To implement it, lawmakers passed HB 5083 and SBs 178 and 719, which pay (1) pay plaintiffs with one lump sum of $212 million from the Budget Stabilization Fund (BSF)—the state's so-called rainy day fund and (2) nonplaintiffs half their designated funds in November 1998 and the balance over ten years, using a combination of bond-issue proceeds and BSF funds.

The agreement will restore $250 million in funds for at-risk students that the governor had vetoed from the school aid budget in order to free up funds to settle the suit. It also increases special education funding by $66.7 million for the current fiscal year and $48.2 million for FY 1998–99.

At this writing, the bills are on their way to the governor, who has said he gladly will sign them.

WELFARE BENEFITS CAPPED FOR NONRESIDENTS

The Michigan Senate has passed SB 411, which caps welfare benefits for new Michigan residents at the level paid by their former state of residence. The cap, which will apply for a person's first six months of welfare eligibility, is designed to deter people from moving into the state so as to collect higher welfare benefits.

The bill's supporters argue that Michigan's relatively high public assistance payouts provide an incentive for people to locate here simply to receive the benefits. They point out that a family of three in Indiana would receive welfare benefits of $288 a month but could receive $450 by moving into Wayne County. The sponsor reports that 15 states have passed similar measures.

Opponents say the cap may be unconstitutional and that there have been legal challenges to the legislation in other states. They also believe the Michigan measure targets mothers and children, some of whom may move into the state simply to be near family members. These issues no doubt will resurface in the House, where the bill is being considered by the committee on Human Services and Children.

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.

INFORMATION OF INTEREST

NPA Data Services, Inc., *Key Indicators of County Growth, 1970 to 2025: 1997 Edition,* (NPA: Washington, D.C.), 1997. 202/884-7634.

This sizable database contains indicators of demographic and economic growth for every county in the nation, in addition to state and U.S. totals. It includes historic data, current data through 1996, and projected data through 2025. Specific data include population, population by age, number of households, persons per household, total and per capita personal income, total employment, and earnings per job. The data may be ordered on disk form or in hard copy.

Michigan Department of Agriculture, *Michigan Agricultural Statistics, 1996–97* (Lansing, Mich.), 1997. 517/377-1831.

This 135-page document contains (1) an annual report for the Michigan Department of Agriculture and (2) statistics describing the state's agricultural sector. The annual report describes department activities and accomplishments, by division, during 1996. Statistics are presented on the state's national ranking in production of various products, farm income, and prices paid and received by farmers. It also gives detailed information about various field crops and other agricultural goods, including numbers on production, value, fertilizer used, and other variables.

October revenue collections were among the best of the year, with the 12 revenue sources covered in this report 9.4 percent above the year-ago level. October is the last month of collections for FY 1996–97, but the final numbers for the fiscal year will not be available until revenue accruals have been determined.

Personal income tax withholding collections were up 6.7 percent above last October, the second consecutive solid monthly gain.

Sales tax collections increased only 2.6 percent; although motor-vehicle sales tax revenue enjoyed a 15.5 percent gain, all other sales tax collections were weak, barely topping a year ago. Use tax revenue, which can vary widely from month to month, jumped 25 percent, after two very weak months. This large gain likely was due to a change in the timing of collections.

SBT collections (excluding insurance taxes), which have been very weak in recent months, were up 6.5 percent in October. When insurance collections, which dropped sharply, are included, total SBT collections rose only 3.7 percent. Whether the increase in SBT collections is due to an actual improvement in the tax base or a change in the timing of collections will not be known until November collections are tabulated.

Lottery sales were up only 0.4 percent in October, the third consecutive month of weak growth. It is too soon to determine if this signals a downward trend. Despite the recent slow growth, the fiscal year that ended September 30 was one of the lottery's best ever.

When final FY 1996–97 collections are determined, there likely will be a small (no more than $50 million) shortfall from the May consensus revenue estimate.

October 1997 Revenue Collections (millions)

Source	October Collections	Percentage Change Year-ago	Percentage Change Year-to-Date	October 1996 Actual	FY 1996–97 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	$497.4	6.7%	6.2%	$466.3	6.3%
Quarterly	12.8	124.6	15.4	5.7	6.1
Annual	15.6	17.3	34.6	13.3	33.0
Subtotal: gross income tax	525.8	8.3	8.7	485.3	7.9
Sales tax	463.5	2.6	3.9	451.6	4.2
Motor vehicles	76.6	15.5	1.4	66.3	—
Other	386.9	0.4	4.4	385.3	—
Use tax	108.0	25.3	7.2	86.2	5.4
Subtotal: sales/use/withholding	1,068.9	6.5	5.3	1,004.1	—
Cigarette tax	42.8	–5.5	6.3	45.3	–4.4
SBT	248.2	6.8	2.8	232.3	5.5
Insurance	29.4	–16.7	–7.8	35.3	–2.9
Subtotal: SBT + insurance	277.6	3.7	1.9	267.6	4.8
State education property tax	265.5	30.5	12.6	203.4	5.0
Real estate transfer tax	18.4	17.9	13.9	15.6	15.4
Estate/inheritance tax	5.6	9.8	–8.0	5.1	–3.4
Intangibles tax	1.0	–28.6	–29.9	1.4	–23.1
Severance tax	2.8	3.7	6.4	2.7	19.6
TOTAL	$1,711.0	9.4%	5.5%	$1,564.2	5.4%
Gross lottery sales (prel.)	$131.5	0.1%	0.1%	$131.4	1.0%

SOURCE: Senate Fiscal Agency.

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