



The U.S. Department of Commerce announced that **gross domestic product**, the primary measure of economic growth, rose at a seasonally adjusted 3.3 percent annual rate in the third quarter. The growth surprised many economists, who expected third quarter performance to be similar to the less-than-impressive second quarter growth rate of 1.8 percent. The increase was fueled in part by inventory growth, but this could signal a potential slowdown because factories may slow production to compensate.

◆ October **light motor vehicle sales** jumped a surprising 9.8 percent above the year-ago level despite lower incentives, decline in consumer confidence, and worry about the global economy. Car sales rose 7.2 percent, the largest gain of the year, and truck sales continued to show strength, increasing 12.8 percent. Sales for the Big Three increased 7.7 percent (Chrysler up 20.1 percent, GM up 6 percent, and Ford up 2.4 percent), but Japanese manufacturers turned in an even stronger performance, with sales up 14.4 percent from October 1997 and market share up from 22.7 percent last October to 23.7 percent this October.

◆ The Federal Reserve Board just announced another **interest rate cut**: 0.25 percent in the key federal funds rate, the third such reduction in seven weeks.

◆ Nationally, **consumer prices** rose only a modest 0.2 percent in October.

◆ The **Michigan unemployment rate** was 3.7 percent (seasonally adjusted), up slightly from 3.6 percent in September. The number of jobs increased by 25,000, mostly in services, retail, and construction.

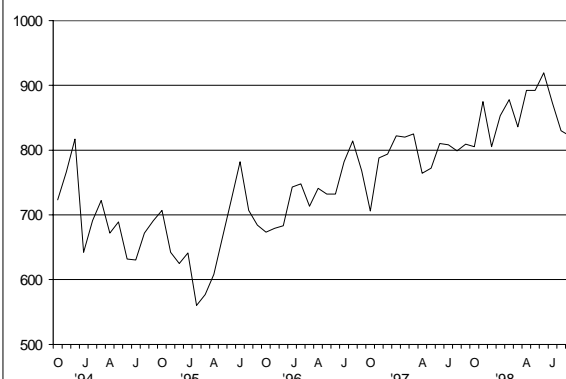


The Conference Board announced that the **index of consumer confidence** fell in October for the fourth consecutive month. The index, which measures 100 when the economy is performing well, fell to 117.3 from September's 126.4. Although Americans remain relatively confident about the economy, enthusiasm is dampened by the global economic crisis, stock market unpredictability, and signs that the nation's economy is slowing. Consumers not only express concern about the future of the economy,

but they rate the current economy much lower than they did previously.

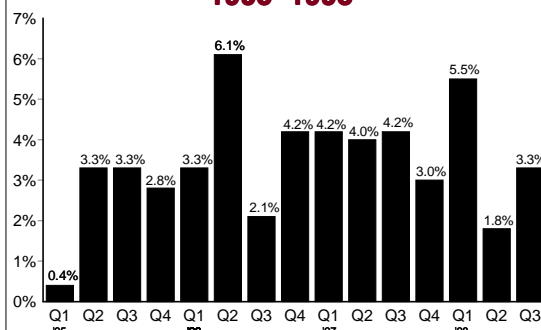
◆ The **U.S. unemployment rate** held steady at 4.6 percent in October after rising 0.1 percent in September. Job growth continued in October but was sluggish—payrolls grew by 116,000 jobs after rising 157,000 in the previous month. Manufacturing payrolls dropped by 52,000 nationwide, while the service sector added 154,000 jobs.

New Home Sales (000), 1994–1998
(seasonally adjusted annual rate)



SOURCE: U.S. Bureau of the Census

Percentage Change in Quarterly Gross Domestic Product, 1995–1998



SOURCE: U.S. Department of Commerce.

IN THIS ISSUE

IRS Releases Michigan Income
Income Tax Data p. 2
Welfare Caseload Drops p. 3
37 Colleges Kept Tuition to
Inflation Rate p. 3
Information of Interest p. 3
Michigan Revenue Report p. 4

MONTHLY FOCUS

IRS RELEASES MICHIGAN INCOME TAX DATA

The Internal Revenue Service recently published data on income tax returns filed by Michigan residents for the 1996 tax year.

The exhibit shows the number of returns filed by residents in

various income groups. The data also show the number of returns falling into such categories as those using itemized deductions, the interest deduction (including mortgage interest), earned income credit, and net capital gains.

Note that the effective rate of the federal income tax as a share of adjusted gross income (AGI) is 15.3 percent for all taxpayers, with the rate increasing from 5.6 percent for taxpayers with AGI under \$20,000 to 30.4 percent for taxpayers earning more than

\$200,000. This points up the fact that the federal income tax is quite progressive—that is, those with higher incomes pay a larger share of their income in taxes.

Also of interest is that only 31 percent of Michigan taxpayers itemize deductions, and 56 percent of capital gains are received by taxpayers earning \$200,000 or more—only 1.1 percent of all taxpayers.

Federal Income Tax Paid by Michigan Residents, 1996

	Income							
	All Returns	Under \$20,000	\$20,000 to \$29,999	\$30,000 to \$49,999	\$50,000 to \$74,999	\$75,000 to \$99,999	\$100,000 to \$199,999	\$200,000 or more
Number of returns	4,368,021	1,886,009	584,265	792,640	610,342	264,259	182,886	47,620
Percentage	100.0%	43.2%	13.4%	18.1%	14.0%	6.0%	4.2%	1.1%
Adjusted gross income (AGI) (000)	\$168,849,657	\$16,140,226	\$14,416,686	\$31,226,067	\$37,223,328	\$22,624,360	\$23,470,058	\$23,748,930
Returns with itemized deductions	1,342,290	79,179	97,522	304,033	412,251	229,643	173,331	46,331
Percentage	30.7%	4.2%	16.7%	38.4%	67.5%	86.9%	94.8%	97.3%
Returns with interest deduction	1,181,043	53,040	79,694	270,196	378,143	209,813	152,442	37,715
Amount (000)	\$7,088,956	\$255,721	\$336,875	\$1,246,952	\$1,987,327	\$1,292,470	\$1,284,701	\$684,912
Returns with earned income credit	564,631	468,862	95,769	NA	NA	NA	NA	NA
Amount (000)	\$778,139	\$708,636	\$69,503	NA	NA	NA	NA	NA
Returns with net capital gains	804,956	195,269	77,172	141,719	157,517	95,945	98,527	38,807
Amount (000)	\$6,496,517	\$323,641	\$159,713	\$362,079	\$550,692	\$467,571	\$987,475	\$3,645,344
Taxable pensions and annuities	760,493	307,651	119,407	140,269	104,636	45,796	34,076	8,658
Amount (000)	\$8,832,033	\$2,214,510	\$1,444,206	\$1,882,194	\$1,539,464	\$771,502	\$715,515	\$264,642
Tax Liability (000)	\$25,756,460	\$906,560	\$1,300,730	\$3,482,093	\$4,828,159	\$3,541,044	\$4,474,134	\$7,223,742
Average per return	\$5,897	\$481	\$2,226	\$4,393	\$7,911	\$13,400	\$24,464	\$151,696
Effective tax rate (% of AGI)	15.3%	5.6%	9.0%	11.2%	13.0%	15.7%	19.1%	30.4%

SOURCE: Internal Revenue Service, Statistics of Income Bulletin (Washington, D.C.: GPO), Spring 1998.
NA = Not applicable.

NEWS FROM THE STATE CAPITOL

WELFARE CASELOAD DROPS

Governor Engler's office has announced that the number of welfare cases in the state fell in September by 2,300 families, to 105,826. This is the lowest Family Independence Program (formerly AFDC) caseload since 1971. The decline has been occurring for over four years, and the caseload has fallen in all but one of the last 54 months.

September also saw an increase in the number of families

eligible for the food stamp "cash out"—a program that awards cash instead of food coupons to recipients who earn at least \$350 monthly for three consecutive months. The number of households eligible for this program rose in September to 75,178, up from 73,916 in August.

37 COLLEGES KEPT TUITION TO INFLATION RATE

The Michigan Treasury Department has announced that people paying tuition (including parents and guardians of students) at 37 of Michigan's 92 public and private colleges are eligible for a state tax credit on their 1998 return.

The Michigan College Tuition Tax Credit is available to people paying tuition at institutions that

keep their tuition increases at or below the previous year's inflation rate (2.3 percent in 1997). Eligible taxpayers may claim 8 percent of the tuition paid to such an institution, up to \$375 per student. To qualify, taxpayers must earn less than \$200,000 per year and attach a Schedule CT to their 1998 MI 1040 return.

Of the state's 15 public universities, eight kept their FY 1997–98 tuition increase below the rate of inflation, while 23 of the state's 28 community colleges did so. Of the state's three largest public universities, only Michigan State University kept tuition below inflation—the University of Michigan and Wayne State University did not.

This month's Economic Bulletin was written by Laurie A. Cummings, Robert Kleine, and Pamela Sanders. The publication was edited by Wilma Harrison and formatted by Dyan Iansiti.

INTEREST INFORMATION

Congressional Budget Office. *The Economic and Budget Outlook*, Washington, D.C.: CBO August 1998.

This 80+-page document, one of a series of reports to the legislative committees on the budget, summarizes fiscal policy and provides baseline projections of the federal budget. The report discusses (1) the current state of the economy, (2) the economic forecast for 1998 and 1999, (3) the economic projections for 2000–08, and (4) the uncertainty in the economic outlook. The report also presents a budget outlook which addresses an improved bottom line, changes in projections since March, revenue and spending projections, and the federal sector of the national income and product accounts (divides government spending/receipts into categories for use in analyzing domestic production and income). In the section on the revenue outlook, the report reviews key factors in projecting revenues, revenue estimates for 1999 and 2000, and the longer-term outlook.

National Governors Association and National Association of State Budget Officers. *The Fiscal Survey of States*. Washington, D.C.: National Governors Association and National Association of State Budget Officers, May 1998. [202/624-5382]

This 46-page document is a biannual publication presenting aggregate and individual data on the various states' general fund expenditures, revenue, and total balance. It also examines disparities in the rate of economic growth by region and looks at strategies being implemented in certain states to improve service, cut costs, and maintain a long-term balanced budget. The document also describes welfare reform across the nation. The edition concludes with 20 pages of tables and notes on states' general funds, expenditure changes, tax collections, revenue changes, revenue measures, and balances.

MICHIGAN REVENUE REPORT

Total state revenue collections increased only 2.5 percent in October, as a decline in SBT and use tax collections offset a sharp jump in sales, gross income, and tobacco tax collections. Sales, use, and withholding collections increased 6.7 percent from the year-ago level, well above the 4.7 percent increase for the year to date (which encompasses the 12 months of FY 1997–98).

Sales tax collections jumped 13 percent in October, following a 0.4 percent increase in September. The October gain easily was the largest of the year. Motor-vehicle sales collections fell 1.8 percent despite strong national car and truck sales in October. Excluding motor vehicles, sales tax collections rose 15.9 percent. **Use tax** revenue, which can vary widely from month to month, fell 4.4 percent, breaking a streak in which collections had increased more than 7 percent in six of the previous seven months.

Personal income tax withholding increased 3.2 percent, following wild gyrations in the previous two months—up sharply in August and down sharply in September. Quarterly payments jumped

235.9 percent in October, more than offsetting a 25.2 percent drop in September.

Single business tax collections (excluding insurance) fell 30.2 percent in October, following a 16 percent decline in September. The quarterly payment for the fourth quarter was not due until October 31, so a trend will not be clear until November collections are in. The September–October weakness could be due to a change in the collection pattern.

Lottery sales started off the new fiscal year (FY 1998–99) with a modest 3.8 percent increase from the year-ago level.

Preliminary estimates are that **FY 1997–98 revenues** will exceed the state's May consensus estimate by about \$100 million.

October 1998 Revenue Collections (millions)

Source	October Collections	Percentage Change, Year-ago	Percentage Change, Year-to-Date	October 1997 Actual	FY 1997–98 Consensus Est. (% Change)
Income tax					
Withholding	\$513.4	3.2%	5.7%	\$497.4	5.6%
Quarterly	43.0	235.9	9.7	12.8	10.9
Annual	19.6	25.6	27.1	15.6	14.9
Subtotal: gross income tax	576.0	9.5	7.6	525.8	6.8
Sales tax	523.7	13.0	4.3	463.5	3.5
Motor vehicles	75.3	–1.8	3.3	76.7	—
Other	448.4	15.9	4.5	386.8	—
Use tax	103.2	–4.4	3.8	108.0	1.0
Subtotal: sales/use/withholding	1,140.3	6.7	4.9	1,068.9	4.3
Tobacco tax	52.6	22.9	4.8	42.8	–4.0
SBT	173.2	–30.2	0.5	248.2	2.2
Insurance	24.5	–16.7	–31.0	29.4	–17.7
Subtotal: SBT + insurance	197.7	–28.8	–2.0	277.6	0.7
State education property tax	263.4	–0.8	3.6	265.5	5.0
Real estate transfer tax	23.4	27.2	21.2	18.4	11.5
Estate/inheritance tax	9.8	75.0	31.0	5.6	13.2
Intangibles tax	1.2	20.0	–41.6	1.0	–46.2
Severance tax	2.1	–25.0	–20.1	2.8	–12.6
TOTAL	\$1,753.1	2.5%	4.7%	\$1,711.0	4.0%
Gross lottery sales (prel.)	\$136.5	3.8%	3.8%	\$131.5	

SOURCE: Senate Fiscal Agency.

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