Economic Bulletin

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GOOD news

The **U.S. unemployment rate** fell from 4.6 percent in October to 4.4 percent (seasonally adjusted) in November as strong gains in retail trade and construction jobs offset a decline of 47,000 in manufacturing employment. Employers added 267,000 jobs in November, the largest gain in three months. This strength surprised many analysts as world financial turmoil has been expected for several months to dampen U.S. economic growth.

◆ The **Michigan unemployment rate** (seasonally adjusted) fell to 3.6 percent in November from 3.7 percent in October.

◆ The Conference Board's measure of **consumer confidence** rebounded strongly in November as the stock market continued its recovery. Both the assessment of current conditions and expectations for the future improved. The composite measure returned to its September level of 126 after falling to 119 in October, reversing a four-month decline. The index peaked at 138.2 in June.

◆ **Light motor vehicle** sales increased 2.1 percent in November, below the increases in September and October, but still a solid performance. Sales were 15 million units on a seasonally adjusted annual basis, down from about 16.5 million units in the August–October period. Car sales were about unchanged from the year-ago month, while light truck sales increased 4.3 percent. Light truck sales exceeded car sales for the first time since immediately after World War II. Sales of vehicles made in North America (this category replaces the Big Three classification) were up only 1 percent, while sales of Japanese produced models rose 7.6 percent. Chrysler/Mercedes and Ford/Jaguar sales were up 6.7 percent and 2.1 percent, respectively. GM/Saab sales fell 5.7 percent from the year-ago month. With only one month left in the year, 1998 light-vehicle sales are on track to be the second best on record, trailing only 1986.

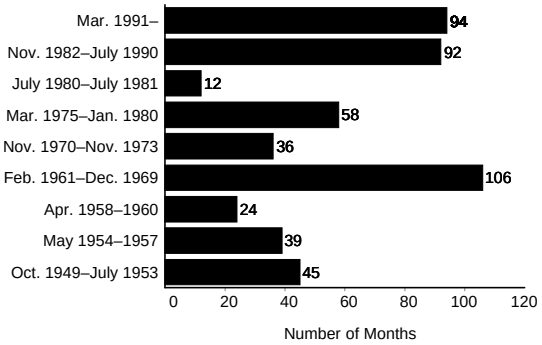
◆ **Crude oil prices**, as measured by the price of West Texas Intermediate, averaged $11.48 a barrel for the last week in November, down $2.78 a barrel from four weeks earlier and $7.87 a barrel from a year ago.

◆ Inflation remains in check. The **producer price index**, an indicator of future prices increases, fell 0.2 percent (seasonally adjusted) in November, after modest increases in September and October. The **consumer price index (CPI-U)** increased 0.2 percent (seasonally adjusted) in November, the same as in October.

BAD news

The **November National Association of Purchasing Managers Index** (NAPM) fell to 46.8, the sixth consecutive decline in this measure of manufacturing level and its lowest level in 33 months. At its current level the index is consistent with real GDP growth of only 1.1 percent (annual rate). Weakening prices, business investment, and sagging international markets are the primary factors causing the continuing decline in manufacturing. The index was as high as 57.6 in March, and it was above 64 in the summer of 1997. According to the NAPM, a value below 50 generally implies that the manufacturing sector is contracting.

Length of U.S. Economic Expansions, 1949 to Date



SOURCE: National Bureau of Economic Research, Washington, D.C.

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MONTHLY FOCUS

CENSUS BUREAU RELEASES MEDIAN HOUSEHOLD INCOME DATA

The U.S. Department of Commerce recently released data on real median household income for 1997. The highlight was a return to the peak reached in 1989 for family households, the year prior to the most recent U.S. recession. Median income for all households still was slightly below the 1989 level due to a decline in real income of nonfamily households. U.S. households began their recovery in median household income in 1995 and since then have experienced significant annual increase in their income. There has been a significant variation by region since 1989. From 1989 to 1997, median real income increased 3.3 percent in the Midwest and 2.8 percent in the South and fell 7.6 percent in the Northeast and 2.3 percent in the West.

Exhibit 1 presents data for selected states. In 1997 Michigan suffered the largest drop in real median income, 3.4 percent, of any of the states in the exhibit. From 1989 to 1997, Michigan median real income fell 2.7 percent compared with a 1.1 percent decline nationwide. Michigan was the only one of the Great Lakes states to suffer a decline. This was due in part to the 1997 decline and the fact that Michigan was affected more by the recession in 1990 and 1991 than most other states. From 1993 to 1996, Michigan real median household income jumped 10.6 percent, one of the largest gains of any of the 50 states.

There was no increase in income inequality in 1997. However, the long-term trend is for increasing income inequality. In 1987 the bottom 40 percent of households received 13.4 percent of household income, and the top 20 percent received 46.2 percent. In 1997 the bottom 40 percent received only 12.5 percent of household income, while the top 20 percent received 49.4 percent. The share of income for the top 5 percent of households increased from 18.2 percent in 1987 to 21.7 percent in 1997.

This month's Economic Bulletin was written by Robert Kleine and Pamela Sanders.
The publication was edited by Sandra Gross and Wilma Harrison and formatted by Dyan Iansiti.

Median Household Income (1997$), Selected States, 1989, 1996, and 1997

State	1989	1996	1997	% change 1996-1997	%change 1989-1997
California	$42,725	$39,703	$39,694	0.0%	-7.1%
Florida	33,763	31,344	32,455	3.5	–3.9
Illinois	40,513	40,412	41,283	2.2	1.9
Indiana	33,521	35,953	38,889	8.2	16.0
Michigan	**39,834**	**40,125**	**38,742**	**-3.4**	**–2.7**
Minnesota	39,070	41,932	42,564	1.5	8.9
New York	40,767	36,222	35,798	–1.2	–12.2
Ohio	37,563	34,852	36,134	3.7	–3.8
Pennsylvania	37,135	35,700	37,517	5.1	1.0
Texas	33,506	33,831	35,075	3.7	4.7
Wisconsin	37,696	40,917	39,595	–3.2	5.0
Massachusetts	46,708	40,400	42,023	4.0	–10.0
U.S.	$37,415	$36,306	$37,005	1.9%	–1.1%

SOURCE: U.S. Department of Commerce, *Money Income in the United States:1997, Current Population Reports, Consumer Income, pp. 60–200.*

NEWS FROM THE STATE CAPITOL

INCOME TAX CREDIT APPROVED

Before recessing for the year, the Senate passed and sent to the governor's desk a bill (SB 479) providing an income tax credit for health care providers in medically underserved areas. Currently, more than 70 of Michigan's 83 counties are wholly or partially designated as medically underserved by the Michigan Department of Community Health. The bill will provide a $5,000 tax credit per year for a maximum of five years for physicians, nurse practitioners, nurse midwives, physician assistants, and dentists.

REVENUE SHARING AGREEMENT REACHED

The legislature reached a historic agreement on a revenue sharing bill and sent HB 5989 to the governor, which he is expected to sign. The bill includes a new formula that will be used to divide up the state's $1.4 billion allocated to local governments. Under the new formula, funds will be disbursed based equally on three factors; population, taxable value, and taxes levied. Detroit's share will be frozen at $333.9 million over the next 8½ years. Under HB5391, which is tie-barred to the revenue-sharing bill, Detroit's income tax rate will be cut over the next 10 years from 3 percent to 2 percent for residents and from 1.5 percent to 1 percent for nonresidents.

The major changes to the previous version were to restore the "hold harmless" provision guaranteeing that no municipality will receive less money than currently and to require townships with a population between 10,000 and 20,000 to provide or contract out at least 50 percent of their police, fire, water, and sewer services in order to receive the same funding treatment as cities. Detroit currently receives about 25 percent of state revenue-sharing payments. Under the new formula, Detroit's share will drop to about 17 percent over the next 8½ years, assuming a 4 percent annual increase in revenue-sharing monies.

FOUR NEW INDIAN CASINOS APPROVED

After exhausting and divisive negotiations, the legislature approved, on the fourth vote in three days, four compacts with Indian tribes that will allow them to open four new casinos (HCR 115). The casinos will be located in Manistee, Calhoun County, Mackinaw City, and New Buffalo. The state's Renaissance Fund will receive 8 percent of the revenue generated by the new casinos. Some observers expect a legal challenge to the compacts.

INFORMATION OF INTEREST

Governing, State and Local Sourcebook for 1998. Washington, D.C.: Congressional Quarterly, Inc. 1998.
This 96-page publication ranks states and localities by revenue collections and spending. It contains data on 103 state and local governments that generate more than $1 billion in annual revenues. The document also contains information on (1) how revenue is generated (e.g., from federal funds, personal income tax, property tax) and (2) how revenue is spent (e.g., on education, welfare, transportation, law enforcement) in each state. The document concludes with lists of state and local decision-makers and Web site addresses.

House Fiscal Agency. *Directory of State-Administered Grants*. Lansing, Mich.: House Fiscal Agency. September 1998.
This 80-page report details 180 state-administered grants in 25 categories ranging from aging to veterans. Each listing contains (1) the grant name and purpose, (2) a description of eligible applicants, (3) the name and phone number of the department responsible for administering the grant, (4) the amount appropriated for the grant for fiscal year 1997–98, and (5) information about applications and funding sources. Indices to the report list the grants by department and funding source.

Citizens Research Council of Michigan. *Michigan Renaissance Zones in the Economic Development Context*. Farmington Hills, Mich.: Citizens Research Council. November 1998.
This 48-page report examines the 11 Michigan renaissance zones. It presents information on (1) the renaissance zone legislation, (2) the geographic areas in Michigan that were selected as renaissance zones, (3) tax incentives for businesses or residents within the zones, and (4) the terms of tenure and of tax benefits of the zones. The report also discusses the zones in the context of economic development policy. Main areas of focus are (1) state and community subsidies to the zones in the form of lost tax dollars and structural funding, (2) anti-pirating provisions that keep in-state businesses from relocating to renaissance zones, and (3) how to measure a zone's success. The document also contains a description of each zone, including maps, employment and unemployment data, and information on the specific businesses located within. The publication concludes with a discussion of specific policy considerations for renaissance zones.

MICHIGAN REVENUE REPORT

Total state revenue collections jumped 10.7 percent in November following a revised 4.3 percent increase in October, as strong increases in single business tax, use, and state property-tax collections offset a small increase in income tax collections and a moderate gain in sales tax collections. However, sales, use, and withholding collections increased only 4.5 percent from the year-ago level, down from a 6.7 percent increase in October.

Sales tax collections increased 4.8 percent in November, down sharply from the 13 percent jump in October. Motor-vehicle sales tax collections were up 7.4 percent from last year, a significant improvement from the 1.8 percent decline in November. Excluding motor vehicles, sales tax collections rose 4.4 percent. Use tax revenue, which vary widely from month to month, surged 12.6 percent following a 4.4 percent decline in October.

Personal income tax withholding rose only 2.9 percent, about the same increase as last month.

Single business tax collections (excluding insurance) jumped 34.8 percent in November, offsetting a sharp drop in October. Combined, collections for October and November increased 6.5 percent (October collections have been revised upward by $31 million).

Lottery sales were up 15.9 percent in November, due, in large part, to a large Lotto jackpot.

Tobacco tax collections are up 12.5 percent over November of last year. Collections have been strong in recent months, apparently due to a decline in smuggling resulting from the cigarette-package stamp program that took effect September 1, 1998, but was implemented by some wholesalers as early as May. The Senate Fiscal Agency estimates that the stamp program increased revenue by $45 million in FY 1997–98 and will generate $84 million in revenue in the current year.

November 1998 Revenue Collections (millions)

Source	November Collections	Percentage Change, Year-ago	Percentage Change, Year-to-Date	November 1997 Actual	FY 1998–99 Consensus Est. (% Change)
Income tax					
Withholding	$536.1	2.9%	2.9%	$521.1	4.6%
Quarterly	3.0	–25.0	–25.0	4.0	–1.5
Annual	6.2	8.8	8.8	5.7	–4.2
Subtotal: gross income tax	545.3	2.7	2.7	530.8	3.3
Sales tax	482.4	4.8	4.8	460.4	4.0
Motor vehicles	62.6	7.4	7.4	58.3	—
Other	419.8	4.4	4.4	402.1	—
Use tax	96.5	12.6	12.6	85.7	4.3
Subtotal: sales/use/withholding	1,115.0	4.5	4.5	1,067.2	4.3
Tobacco tax	51.4	12.5	12.5	45.7	1.7
SBT	286.5	34.8	34.8	212.6	0.7
Insurance	14.6	–7.0	–7.0	15.7	23.3
Subtotal: SBT + insurance	301.1	31.9	31.9	228.3	2.1
State education property tax	90.2	39.2	39.2	64.8	4.6
Real estate transfer tax	18.2	–8.1	–8.1	19.8	4.7
Estate/inheritance tax	12.1	175.0	175.0	4.4	–0.9
Intangibles tax	–0.4	–300.0	–300.0	0.2	–100.0
Severance tax	0.7	–73.1	–73.1	2.6	2.8
TOTAL	$1,597.7	10.7%	10.7%	1,442.7	3.1%
Gross lottery sales (prel.)	$146.0	15.9%	9.8%		

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