



GOOD NEWS

Despite stormy weather, which usually keeps shoppers at home, January U.S.

motor vehicle sales

were up 2.3 percent over the same month last year. As usual, the increase was led by light-truck sales, which climbed an impressive 9 percent, while car sales fell 2.5 percent. Ford was the number-one seller in both vehicle categories, with the F-Series pickup outselling all other light trucks and the Taurus all other cars.

◆ The U.S. Department of Commerce recently reported that the **U.S. trade deficit** fell in November to \$7.06 billion, down more than a billion from the October figure (\$8.16 billion). The decline was due to both an increase of 0.9 percent in exports (higher sales of aircraft and automobiles) and a decline of 0.7 percent in imports.

◆ The January **U.S. inflation rate** remained low, increasing at an annual rate of 2.5 percent, the smallest monthly increase since January 1995, when it increased 2.4 percent. (The January Consumer Price Index was 153.5.)

BAD NEWS

The **Michigan unemployment rate** rose to 5.3 percent in December, from 5.0 percent in November, as 19,000 people joined the ranks of the unemployed.

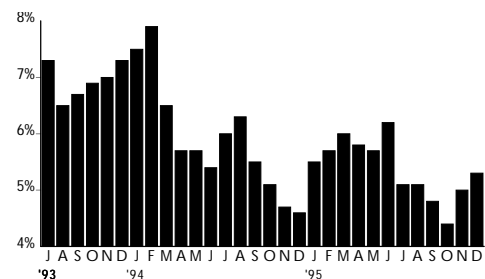
Despite the increase, Michigan's November jobless rate still was below the U.S. rate, as was Michigan's 1995 annual jobless rate of 5.4 percent. (Note: Due to a change in methods used to calculate the Michigan unemployment rate, the state rate now is released approximately one month after the U.S. rate.)

◆ The U.S. Bureau of Labor Statistics reports that January's **U.S. unemployment rate** rose to 5.8 percent from 5.6 percent the month before. Part of the increase was due to harsh January weather, which temporarily kept 1.8 million people home from work. Another factor in the increase is

January's 201,000 drop in the number of U.S. jobs, which stemmed primarily from downsizing.

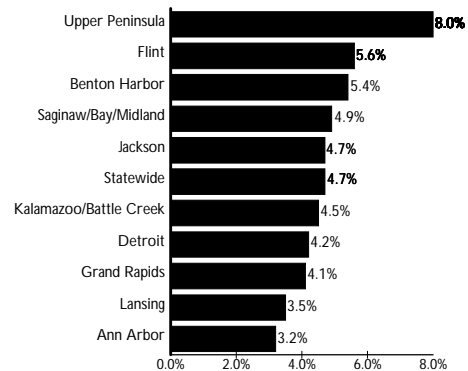
◆ **Consumer confidence** fell to its lowest level in two years in January, dropping to 87 from December's 99.2 rate. The drop in the index, which ranges from 85 to 100 when the economy is strong, was fueled by consumer pessimism about job availability in the coming months. Low consumer confidence foretells a likely slowdown of purchases of cars, homes, and other goods.

Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

Unemployment Rates in Major Michigan Labor Markets, December, 1995 (unadjusted rates)



SOURCE: Michigan Employment Security Commission.

IN THIS ISSUE

- Population Growth p. 2
- FY 1996-97 Budget Assumes Federal Reforms p. 3
- Publications of Interest p. 3
- Michigan Revenue Report p. 4

NEWS FROM THE STATE CAPITOL

FY 1996–97 BUDGET ASSUMES FEDERAL REFORMS

Governor Engler recently released his proposed FY 1996–97 state budget, basing it on the assumption that federal block grants for Medicaid and welfare will be approved this year.

The budget includes \$30.3 billion in total spending and \$8.2 billion in general fund spending, a 4.3-percent increase (adjusted for additional earmarking of income tax revenue for school aid) over the FY 1995–96 budget. However, if a federal budget agreement is not reached, \$320 million to \$560 million in general funds will need to be cut from the state budget. This proposed “continuation” budget involves less cutting of state programs and employment than in recent years and focuses primarily on incremental changes.

A few departments will see spending cuts under the proposed budget, including the departments of Education and Labor; the latter is slated to be merged with the Commerce Department this year. The Department of Corrections will receive only a 3.8 percent increase, its smallest in more than ten years, as the governor hopes that probation and other incarceration alternatives will continue to slow the growth of imprisonment. New or increased fees are proposed for several state services, including hunting and fishing licenses. The governor also recommends eliminating the Indian Tuition Waiver Program, which allows Native Americans to attend state universities tuition free; if the legislature concurs and the program is canceled, legal challenges are expected.

A proposed budget always meets with some criticism, and this one is no exception. Some believe that the economic projections upon which it is based are too rosy, and further, it is ill-advised to assume passage of federal budget reform. Others are dis-

pleased with the governor’s proposed elimination of state funding for adult education. Because the proposed spending plan comes on the heels of a period of intense tax reform in Michigan—lawmakers have cut approximately \$1.4 billion in taxes since 1993—and the economy is slowing, some observers are concerned that it is going to lead to cuts down the road.

Two recent developments may help quell these latter fears. First, due to the transfer of \$84.5 million from the FY 1994–95 surplus, the state’s rainy day fund passed the \$1-billion mark for the first time in its 20-year history, giving the state a large cushion to fall back on if needed. Second, a pending court case, *Musselman*, was just resolved in the state’s favor. This case, which attempted to force the state to pre-fund teacher retirement benefits, could have cost the state \$500 million.

NOTE: PSC’s analysis of the recommended budget will be published in March.

PUBLICATIONS OF INTEREST

National Conference of State Legislatures, *State Budget Actions, 1995* (Washington, D.C.: NCSL, 1995) 202/624-5400.

This annual, 48-page publication summarizes FY 1994–95 state finances and provides an outlook for FY 1995–96. Based on a survey of state fiscal officers, the report evaluates the condition of state general fund budgets, special funds, year-end balances, reserves, and balanced-budget requirements. It also discusses the leading fiscal issues (e.g., health care, tax cuts) nationwide in FY 1994–95 and provides state-by-state data for each. The document is useful for state comparisons on budget priorities, revenue growth, and other facets of state budgeting. It does not contain historical data.

National Conference of State Legislators, *State Tax Actions, 1995* (Washington, D.C.: NCSL, 1995) 202/624-5400.

This annual report summarizes tax and revenue changes made in the 1995 state legislative sessions and provides an outlook for the 1996 session. The report measures the percentage change in taxes resulting from 1995 tax legislation nationwide and discusses tax reforms in various regions. It also lists increases or decreases in specific types of taxes and fees and the net effect of the changes on revenue in each state. The document is useful for monitoring tax revisions in the states and comparing the states’ 1995 legislative sessions. It contains no historical data.

M I C H I G A N R E V E N U E R E P O R T

Overall, preliminary January collections showed some improvement over the previous two months, although the state's largest revenue source, sales and use taxes, continued to be weak. Sales tax collections actually fell

0.6 percent; although this is the first decline in many months, the rate of increase has been weak for some time. The January drop may have been due in part to cold weather and to weak Christmas sales (January collections include sales activity from both December and January). Use tax collections increased only 1.3 percent.

Strong gains in several other important revenue sources offset the weakness in the sales and use taxes. Personal income tax withholding increased a robust 8.4

percent, making up much of that source's deficiency in the past two months. Single business tax collections continued to be strong, increasing 13.6 percent above the year-ago level. Cigarette tax collections bounced back from last month's sharp decline, with a robust 7.9 percent gain.

Lottery sales increased 6.2 percent in January, the third consecutive monthly increase. However, fiscal year-to-date sales are up only one percent, as October sales were down sharply.

January 1996 Revenue Collections (millions)

Source	January Collections	% Change Year-ago	% Change Year-to-date	FY 1995-96 SFA Est. % Change (12/06/95)	January Actual
Income tax					
Withholding	\$608.9	8.4	4.3	4.9	\$578.8
Quarterly	132.5	-7.1	14.0	5.5	142.7
Annual	9.7	-24.2	0.0	4.3	12.8
Subtotal: gross income tax	751.1	4.8 ^a	5.3	4.9	734.3
Sales tax	415.2	-0.6	1.3	4.6	417.8
Sales tax: motor vehicles	58.5	-0.8	-4.9	NA	59.0
Sales tax: other	356.7	-0.6	2.4	NA	358.8
Use tax	74.9	1.5	0.9	6.2	73.8
Subtotal: sales/use/withholding	1,099.0	4.4 ^a	2.8	4.9	1,070.4
Cigarette tax	53.3	7.9	-1.1	-2.5	49.4
SBT	225.3	13.6	11.0	2.9	198.4
Insurance	33.3	11.0	43.6	-1.3	30.0
Subtotal: SBT + Insurance	258.6	13.2	12.8	2.6	228.4
State education property tax	83.5	39.2	20.9	3.9	60.0
Real estate transfer tax	12.1	—	—	25.3	0.0
Estate/inheritance tax	6.8	74.4	3.1	1.9	3.9
Intangibles tax	9.2	10.8	1.5	-6.4	8.3
Severance tax	2.8	-15.2	-5.2	7.9	3.3
TOTAL	\$1,667.5	6.8^a	5.9	4.2	\$1,579.2

SOURCE: Senate Fiscal Agency.

^aAn adjustment has been made for one less Thursday in January 1996 compared with January 1995.

NA = Not available.

© COPYRIGHT 1996 PRINTED ON RECYCLED PAPER