



Economic Bulletin



U.S. housing starts were up 3 percent in February. The increase is being attributed to the fact the interest rates began to rise in the middle of February, after remaining low for many weeks, and this likely motivated latent buyers to take advantage of rates before they rose further.

◆ The **Michigan unemployment rate** fell slightly in February, to 4.8 percent, from January's 4.9 percent rate. This marks the 26th consecutive month that the state's jobless rate has been at or below the national average, which was 5.5 percent in February.

◆ Total **Michigan employment** was up by 19,000 in February; 15,000 were wage and salary jobs, a 1.7-percent improvement over the year-ago level.

◆ **Inflation**, as measured by the Detroit CPI, was up 0.7 percent from December to February (the figures are released bi-monthly); the current rate is 2.7 percent above that of a year ago.

◆ **Consumer income and spending** rebounded from a weather-depressed January. Personal income increased 0.8 percent, compared with the 0.1 percent figure for January, and consumer spending was up a robust 1.1 percent after falling 0.4 percent in January.

◆ **Motor vehicle sales** rose 0.6 percent in March, despite the General Motors strike. The annual sales rate was 15.3 million units, down from February, but up from the 1995 level of 14.7 million units.

◆ **U.S. wage and salary employment** was up 140,000 in March, a little stronger than expected. The February increase has been revised downward, from 705,000 to 624,000. For the first quarter, the average monthly job increase was 206,000 up from an average of 144,000 in 1995. The **U.S. unemployment rate**, however, increased from 5.5 percent in February to 5.6 percent in March.

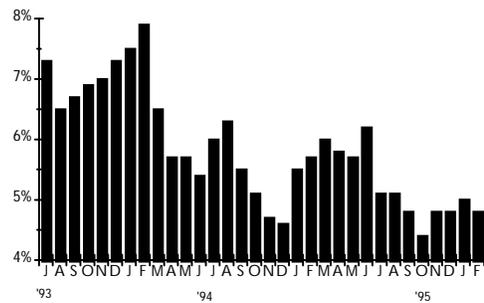


The Conference Board's consumer confidence index measured 97.7 (1985=100) in March,

down slightly from 98.0 in February. Compared with March 1995, consumer confidence has declined 2.5 points.

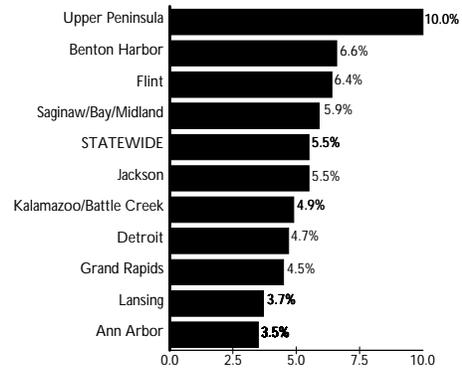
◆ The value of advance new orders for manufactured durable goods fell \$4.2 billion in February—2.5 percent—the fourth decline in five months. New orders rose 0.7 percent, excluding the 11.6 percent drop in orders for transportation equipment.

Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

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



SOURCE: Michigan Employment Security Commission.

IN THIS ISSUE

- Used-Car Buying Overhauled p. 2
- Local Funding May Change p. 3
- Adult Education Cuts Stir Controversy p. 3
- Publication of Interest p. 3
- Michigan Revenue Report p. 4

MONTHLY FOCUS

USED-CAR BUYING OVERHAULED

by Zachary A. Konett,
Research Assistant

Consumers have complained for years about the pressure and frustration of buying a car. In the past few years, some new-car dealerships, such as Saturn franchises, have marketed stress-free car shopping, and Saturn's success has not been lost on the used-car market. There now are places where one can buy used cars at a fixed price, with no haggling over options, discounts, warranties, or customer service.

Used-Car "Superstores"

If you have shopped at Wal-Mart, Best Buy, or Sam's Club, you have experienced the shift in how everything from car phones to coffee is being retailed. Consumers are growing accustomed to the way superstores do business: wide selection, convenience, and low prices. Now the superstore concept is being applied to previously owned automobiles.

Used-car superstores offer many advantages over traditional automotive dealers: employees working on salary rather than commission, an easier way for customers to comparison shop, and such service-oriented accommodations as coffee bars, child care, and touch-screen computers to access inventory information.

Analysts estimate that the cost of building a store like

CarMax, AutoNation, and CarChoice—three of the top used-car superstore chains in the nation—is close to \$20 million (the figure for a traditional new-car dealership is \$4 million). To recoup the investment, these superstores are banking on stealing the fast-growing used-car market from new-car dealers.

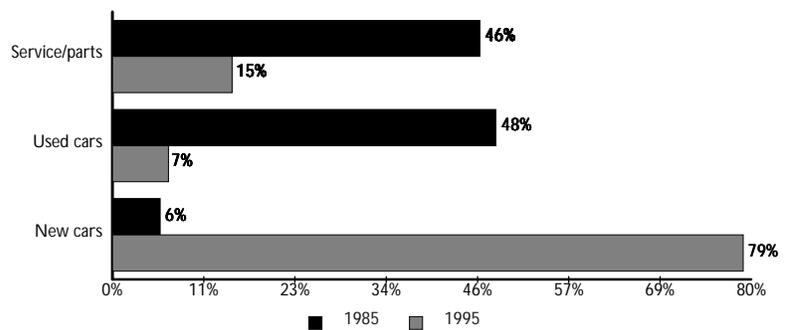
As the exhibit shows, from 1985–95, new-car profits as a share of total dealer profits plunged from 79 percent to 6 percent. Today, new-car dealers make their money from service/parts and from selling used cars; the 1995 figures are 46 percent and 48 percent of profit, respectively (up considerably from 1985). This is evidence that used-car superstores could pose a serious threat to the profitability of new-car dealers. (Indeed, when Chrysler announced it was giving CarMax a new-car franchise in Duluth, Georgia, "as a test," the company's dealer network was outraged.)

fire with fire. Nine of the largest dealers are joining to launch a chain of 100 used-car superstore outlets called Driver's Mart. These dealers are taking the venture seriously: They have hired a number of top automotive executives to run the company, and they even may take Driver's Mart public and issue stock.

Conclusion

Consumer research reveals that what car buyers want most is an honest, affordable price, without having to haggle. This is one reason surveys find that such superstores as CarMax boast a customer-satisfaction rating of 98 percent, while dealers' satisfaction ratings are 10–30 percent lower. No one knows exactly where the automobile market is headed, but everyone agrees that there is a major change in retailing on the horizon, and the move toward used-car superstores is a big piece of it. The next step may be for all automobile manufactur-

New-Car Dealer Profits, 1985 and 1995



Dealers Unite?

In response to the used-car superstore threat, many U.S. new-car dealers are planning to fight

ers to grant new-car franchises to the superstores, which would really shake up motor-vehicle marketing.

NEWS FROM
THE STATE
CAPITOL

LOCAL FUNDING MAY CHANGE

Republican members of the Michigan Senate are discussing a change in how the state distributes money to local governments. Currently, money flows to counties, cities, villages, and townships through “revenue sharing,” and it accounts for about one-tenth of the income of county governments, one-fourth of the incomes of city and village governments, and two-fifths of township income.

How much a local entity receives is based on a combination of factors, including its population, tax burden (or tax “effort”), and millage rates. The current distribution formula allocates more to locals that have a higher tax effort; the intent was twofold: to reward those that help themselves but also to relieve higher-tax entities of having to levy even higher property taxes (and, in some cities, income taxes), which

they often must do if the tax base is low but the need for public services is above average.

Some Republican senators are discussing a proposal to base revenue sharing entirely on population, leaving local tax effort out of the equation. Supporters of per capita-based distribution, which they propose to phase in over ten years, believe that the current distribution formula encourages local governments to boost tax rates and fails to reflect population shifts in the state.

Winners under this population-based proposal include townships (which are outdistancing cities in population growth) and some growing areas, such as the western lower peninsula. Losers are cities with high tax effort or declining population, including Detroit, which would lose \$18 million in the first year alone and \$180 million annually after the ten-year phase in.

ADULT EDUCATION CUTS STIR CONTROVERSY

For FY 1996–97, the governor proposes cutting adult education funding from \$185 million to \$65 million and transferring the funds to the Jobs Commission budget.

According to budget director Mark Murray, state per capita spending on adult education still would be three times the national average, and moving the funds to the Jobs Commission will allow money to be used more effectively. The current program enrolls 185,000 students but annually awards only 15,000 diplomas. The governor proposes allowing school districts, or the contractors that provide adult education, to charge tuition to people 21 and older and also to those referred by employers.

Murray indicates that although the administration may be willing to accept the Senate’s decision to move the adult education funds back to the school aid budget and also may agree to raise the age at which tuition is charged, they will fight efforts to increase funding.

Many Democrats are opposed to reducing adult education funding. They argue that the program is particularly important to minorities, to workers needing the additional education necessary for their survival in an increasingly competitive workplace, and to people trying to move from welfare to work.

PUBLICATION OF INTEREST

Kids Count in Michigan, Kids Count in Michigan: County Profiles of Child and Family Well-being, 1994 (Lansing, Mich.: Kids Count, 1994). 517/487-5436.

This annual publication presents indicators, on a county-by-county basis, of child well-being. It provides data on the children’s economic, social, health, and education status over time. It includes demographic data on the percentage of children in poverty, low-birth-weight babies, teen parenthood, infant mortality, and MEAP scores. The book is prefaced with a discussion of child welfare statewide and concludes with a table presenting trend data for some indicators. 165 pages. \$12.

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

March revenue collections were considerably weaker than expected, possibly due, in part, to the General Motors strike. Total taxes (included in this report) collected in March were down 4.9 percent from the year-ago level, and sales, use, and withholding collections (SUW) were up only 1.2 percent.

Most major sources were weak. Income tax withholding

collections were down 0.7 percent (adjusted) from the year-ago month and now are up only 2.5 percent year-to-date compared to the consensus estimate of 4.9 percent. Single business tax and insurance tax collections were down 21.4 percent, but this is not significant since a very small share of annual revenues are collected in March.

Sales tax collections were up 2.5 percent from the year-ago month despite a 5.4 percent decline in motor vehicle-related collections. Collections year-to-date are up 4.4 percent, just slightly below the consensus estimate. Use tax collections were

up 6.2 percent and are running slightly above the consensus estimate.

Cigarette tax collections were down only 4.2 percent from March 1995.

Lottery sales increased only 1 percent above the year-ago month. Sales for the first six months of the fiscal year are down almost 5 percent due, in part, to a record \$46 million jackpot in February 1995, which inflated last year's sales.

Recent economic indicators point to some strengthening in the Michigan economy, which should boost revenues in coming months.

March 1996 Revenue Collections (millions)

Source	March 1996 Collections	% Change Year-ago	% Change Year-to-date	FY 1995-96 Consensus Est. % Change (1/11/96)	March 1995 Actual
Income tax					
Withholding	\$449.1	-0.7 ^a	2.5	4.9	\$433.8
Quarterly	3.8	8.6	12.7	5.5	3.5
Annual	42.3	21.2	17.7	4.3	34.9
<i>Subtotal: gross income tax</i>	<i>495.2</i>	<i>1.0^a</i>	<i>3.6</i>	<i>4.9</i>	<i>472.2</i>
Sales tax	397.7	2.5	4.4	4.6	388.0
Motor vehicles	66.3	-5.4	0.1		70.1
Other	331.4	4.2	5.2		317.9
Use tax	75.2	6.2	6.7	6.2	70.8
<i>Subtotal: sales/use/withholding</i>	<i>922.0</i>	<i>1.2^a</i>	<i>3.7</i>	<i>4.9</i>	<i>892.6</i>
Cigarette tax	45.7	3.2	-4.2	-2.5	44.3
SBT	63.1	-20.2	0.2	2.9	79.1
Insurance	8.3	-29.1	15.0	-1.3	11.7
<i>Subtotal: SBT + insurance</i>	<i>71.4</i>	<i>-21.4</i>	<i>3.3</i>	<i>2.6</i>	<i>90.8</i>
State education property tax	162.3	-29.1	-4.6	3.9	228.9
Real estate transfer tax	8.8	—	—	25.3	0.3
Estate/inheritance tax	7.6	-2.6	-39.1	1.9	7.8
Intangibles tax	4.5	-45.1	-13.2	-6.4	8.2
Severance tax	0.7	-81.6	-16.2	7.9	3.8
TOTAL	\$1,269.1	-4.9^a	3.6	4.2	\$1,315.1

SOURCE: Senate Fiscal Agency.

^aAn adjustment has been made for one additional Thursday reflected in March 1996 collections compared with March 1995.

© COPYRIGHT 1996 Printed on recycled paper