



# Economic Bulletin

## GOOD NEWS

The **Michigan unemployment rate** hit a record low of 4.6 percent for March and April, down from 4.8 percent in February and nearly one full percentage point below the national rate. Employment rose to a record 4.6 million jobs in March.

◆ Growth in the economy is picking up steam. **Gross domestic product** rose at an annual rate of 2.8 percent in the first quarter of the year compared to 0.5 percent in the fourth quarter of 1995. According to other economic indicators released recently, moderate growth may continue in coming months. (See *Michigan Economic Forecast* insert for more information on projected economic growth.)

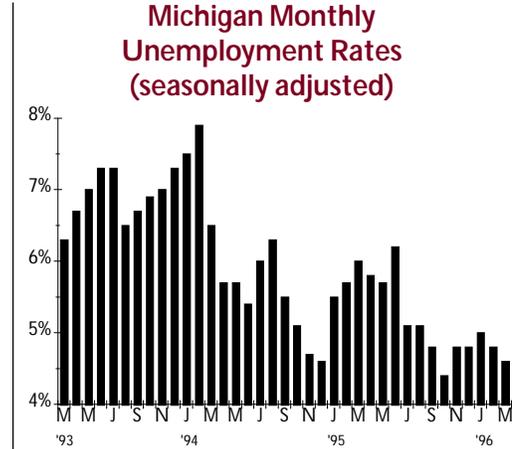
◆ The Conference Board recently reported that April's **Consumer Confidence Index** escalated to 105.4 from 98.4 in March, indicating greater consumer confidence in the economy. The index—a clue to future consumer spending—has not been this high since July 1990.

◆ **April motor vehicle sales** jumped 12.3 percent above the weak year-ago level. Surprisingly, light truck sales, which led the growth with a 14.3 percent increase, were not hampered by higher gasoline prices. April was the fourth consecutive month of higher truck sales. Another positive sign was a slight drop in the Japanese market share, from 21.1 percent in April 1995 to 20.8 percent this April.

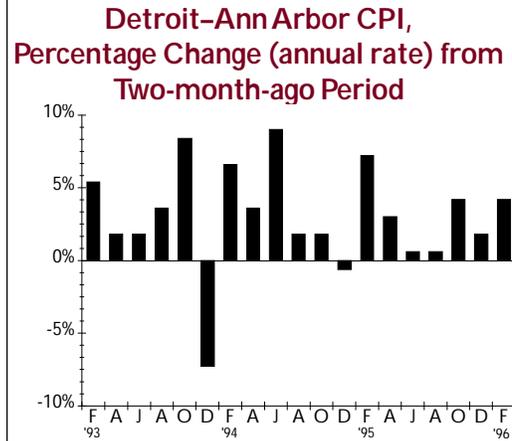
## BAD NEWS

Although the **U.S. unemployment rate** fell in April to 5.4 percent from 5.6 percent in March, the drop was due to a shrinking labor force—the number of people working or looking for work—rather than job creation. Nationwide, only 2,000 jobs were created in April, while 294,000 people dropped out of the labor force for retirement and other reasons.

◆ **Sales of new homes** fell a whopping 7.6 percent in March, due primarily to higher interest rates. Some analysts feel that the market simply is correcting itself after an unsustainable 6.5 percent growth rate in February as buyers rushed to beat rising mortgage rates. Sales of existing homes, on the other hand, rose 6.9 percent in March over February's level.



SOURCE: Michigan Employment Security Commission.



SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

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# MONTHLY FOCUS

## BOOMERS BEWARE: EARLY RETIREMENT MAY BE PIPE DREAM

The *Wall Street Journal* recently published an article by Bernard Wysocki, Jr., that may ease Generation Xers' fears of supporting a sea of retired baby boomers in coming decades.<sup>1</sup> Ominous government statistics tell us that by 2030 there will be as few as two workers for every retiree in the U.S. due to the large numbers of baby boomers expected to retire, longer life expectancies, and growth in early retirements. (See exhibit on Michigan's anticipated worker-to- retiree ratio.) The *Wall Street Journal* points out, however, that the early-retirement trend is unlikely to continue at its current rate, offering hope that the worker-to- retiree ratio may not be quite as low as currently thought.

### The Growth in Early Retirements

Wysocki explains that early retirements—retirements before age 65—have been increasing due to two factors. First, more people are voluntarily retiring early. Second, more employers are offering an early retirement option as part of their downsizing effort. Early retirements have led to a significant reduction in the percentage of working-age persons age 55–64 in the labor force.

<sup>1</sup>Wysocki, Bernard, Jr., "The Outlook: Early Retirement Isn't in the Boomers' Future," *Wall Street Journal*, May 6, 1996.

The percentage of men age 55–64 in the labor force fell from 83 percent in 1970 to the current level of 65 percent. (Workforce participation of women in this age bracket has been low historically and, therefore, is not a valid indicator of retirement.)

### The Decline in Early Retirements

Although early retirement sounds tantalizing to many of the 76 million baby boomers, many of whom will soon turn 50, corporate downsizings eventually will slow and economic reality will prevent many from voluntarily retiring. Inadequate savings, reduced employer-provided retirement benefits, and a probable scaling-down of government-provided benefits will chip away at boomers' early retirement dreams.

- The savings rate—the percentage of personal income that people save for future use—fell from 8.4 percent in 1984 to 3.8 percent in 1994.
- The percentage of Fortune 500 companies offering retiree

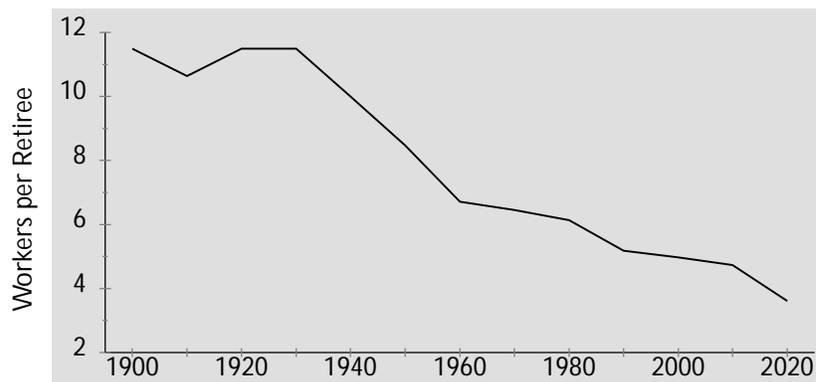
health care plans dropped from 43 percent in 1994 to 41 percent in 1995.

- The federal government has cut back retirement benefits for anyone joining the government after January 1984.
- Persons turning 65 this year can expect no more than \$1,248 per month (\$15,000 annually) in Social Security benefits.

### Conclusion

Even with a slowdown in early retirements, the U.S. is going to face formidable problems when baby boomers begin leaving the workforce. Society will be forced to look for ways to keep people at work longer, such as reeducating older workers, raising the age at which retirees are eligible for Social Security (already slated to go from 65 to 67), or providing incentives to delay retirement. To the chagrin of many aging baby boomers, the economic necessity of working later in life will make the task of keeping people on the job during their golden years a little easier.

Ratio of Working-Age to Retirement-Age  
Persons in Michigan



SOURCE: Michigan Aging Services System.

# NEWS FROM THE STATE CAPITOL

## SALES TAX BILL FACES TOUGH ROAD AHEAD

Michigan's House Taxation Committee has approved a bill to change the way sales tax is applied to new cars. Currently, Michigan's 6-percent sales tax is levied on the full price. House Bill 4227 would require that the tax be applied to the difference between a car's purchase price and the value of a car traded in or sold. The tax break, which would apply only to purchases of new cars and recreational vehicles, would save consumers an average of about \$400 per vehicle.

The bill faces some opposition. Some opponents claim the legislation is unfair because it does not apply to used cars, thereby giving an advantage to one segment of the market. Others say it is unfair because it would benefit only consumers who can afford new vehicles, which average about \$22,000 in price.

Still others are concerned about the tax cut's effect on state revenue—estimates are that it would cost the state approximately \$160 million annually. Lawmakers, currently at work on the FY 1996–97 budget, already have the challenge of passing a budget predicated on federal welfare and Medicaid reform; if Washington does not approve the reforms this year, at least \$320 million will have to be cut from next year's state budget. Given this situation, the bill's supporters will find it tough to turn this legislation into law.

## SENATE PASSES APPRENTICE TAX CREDIT

Businesses that provide apprenticeships to teenagers would be eligible for a single business tax (SBT) credit under a bill approved by the Michigan Senate. SB 872 would allow an SBT credit of 50 percent of an apprentice's wages and benefits, plus all of the cost of employer-provided classroom instruction.

Eligible apprentices must be under 20 years of age and registered with the Bureau of Apprenticeships and Training. The credit, which could cost the state an estimated \$5 million annually, is intended to help teenagers who opt not to attend college to learn job skills. Currently, only 2 percent of registered Michigan apprentices are under age 20; the bill's sponsors hope that a tax credit will increase that number.

**INTEREST** · **Steven Gold and David Liebschutz, *State Tax Relief for the Poor*, Center for the Study of the States, Nelson A. Rockefeller Institute of Government (Albany, NY: NCSL, 1996). 581/443-5522.**

· This 129-page book examines policies to provide state tax relief for the poor. It highlights desirable features of tax relief policies and compares policies currently in place around the nation. The book discusses in detail five major tax relief policies: raising personal exemptions, providing credits that are phased out as income rises, establishing earned income tax credits, creating or raising minimum standard deductions, and creating an income threshold below which taxes are not paid. It concludes by providing guidelines to consider when planning tax relief for the poor. Supporting tables of state data are provided.

**PUBLICATIONS OF INTEREST** · **Council of Economic Advisors, *Economic Report of the President* (Washington, D.C.: U.S. GPO), February 1996. 202/783-3238.**

· This 400-page annual report discusses the state of the current national economy and lays out the administration's economic agenda for the coming year. It examines in detail many aspects of the economy, including the performance of employment, income, exports, and monetary policy in 1995. It also addresses such current issues as intergenerational equity, devolution of government power, government reform, industry deregulation, education, and global competition. The topics are illustrated with charts and graphs and written for a general, as well as technical, audience. The report also includes 125 pages of current and historical economic data.

# MICHIGAN REVENUE REPORT

April revenue collections recovered from the automobile strike-induced decline in March. Personal income tax withholding collections (adjusted) surged 11.6

percent. Gross income tax collections increased, however, only 3.8 percent as annual payments, which are considerable in April, fell 2.6 percent from the year-ago level.

Sales tax collections continued weak, increasing only 2.2 percent; motor vehicle sales tax collections jumped 10.6 percent, but collections excluding motor vehicles increased only 0.3 percent. Use tax collections rose 8 percent,

slightly above the year-to-date increase.

SBT collections increased 64.4 percent from April 1995, but this was due to the timing of collections. Collections in the first two weeks of May were off sharply; collections for the two months will likely fall below the year-ago level.

Lottery sales continued weak in April, declining 0.8 percent from April 1995 (preliminary).

## April 1996 Revenue Collections (millions)

Source	April 1996 Collections	% Change Year-ago	% Change Year-to-date	April 1995 Actual	FY 1995-96 Consensus Est. % Change
Income tax					
Withholding <sup>a</sup>	\$459.9	11.6%	3.9%	\$428.6	4.9%
Quarterly	76.1	13.9	13.0	66.8	5.5
Annual	273.5	-2.6	-3.2	280.9	4.3
Subtotal: gross income tax	809.5	4.3	3.8	776.3	4.9
Sales tax	412.3	2.2	4.1	403.4	4.6
Motor vehicles	81.5	10.6	5.0	73.7	—
Other	330.8	0.3	3.9	329.7	—
Use tax	82.0	8.0	6.9	75.9	6.2
Subtotal: sales/use/withholding <sup>a</sup>	954.2	7.1	4.2	907.9	4.9
Cigarette tax	44.9	1.8	-3.3	44.1	-2.5
SBT	266.3	64.4	13.8	162.0	2.9
Insurance	24.1	10.6	14.0	21.8	-1.3
Subtotal: SBT + insurance	290.4	58.0	13.8	183.8	2.6
State education property tax	78.1	-3.5	-4.4	80.9	3.9
Real estate transfer tax	10.1	—	—	1.2	25.3
Estate/inheritance tax	3.6	-28.0	-37.9	5.0	1.9
Intangibles tax	54.4	9.7	2.3	49.6	-6.4
Severance tax	6.2	226.3	14.8	1.9	7.9
<b>TOTAL</b>	<b>\$1,791.5</b>	<b>10.4%</b>	<b>5.0%</b>	<b>\$1,622.1</b>	<b>4.2%</b>
Gross lottery sales	\$115.3	-0.8%	-4.6%	\$116.2	

SOURCE: Senate Fiscal Agency.

<sup>a</sup>An adjustment has been made for April collections reflecting one less Thursday in 1996 than in April 1995.

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