

## **Economic and Revenue Report**

### **U.S. Economy**

\*\* Real Gross Domestic Product (GDP) increased at an annual rate of 4.6% in the second quarter of 2014 following a 2.1% decline in the first quarter. Final sales (or GDP less inventories) accelerated from a 1.0% decrease in the first quarter to a 3.2% increase in the second quarter, fueled by broad-based gains in personal consumption, business investment, exports of goods, and residential construction, while higher imports subtracted from economic activity.

\*\* The August nonfarm employment report showed a 180,000 job gain (seasonally adjusted), following an upwardly revised increase of 243,000 in July. In August, government employment increased slightly so that the majority of the increase was attributable to private payrolls. The number of long-term unemployed (those jobless for 27 weeks or more) dipped below 3.0 million and represents about 31.2% of the unemployed.

\*\* Light motor vehicle sales totaled 1.2 million in September 2014, which is an increase of 9.1% from September 2013. The September sales represent a seasonally adjusted annual rate of 16.4 million units, up 9.3% from a year ago. Much of the increase was driven by foreign nameplates, although sales relative to one year ago increased by 14.4% for GM and 13.6% for Fiat Chrysler. Sales for Ford dropped by 7.0%.

\*\* The Reuters/University of Michigan's consumer sentiment index rose 2.1 points to 84.6 in September as expectations of future economic conditions rose, reflecting improved consumer outlooks.

\*\* The ISM manufacturing index dipped 2.4 points to 56.6 in September and the non-manufacturing (services) index declined by 0.8 points to 58.6. Readings above 50 indicate expansion, while figures below 50 indicate contraction.

### **Michigan Economy**

\*\* Michigan's seasonally adjusted nonfarm employment decreased by 9,500 in August following an increase of 9,200 in July. Relative to August 2013, nonfarm employment was up 0.7%, or 30,500 jobs, with the gains concentrated in the construction, manufacturing, and information sectors, while job losses occurred in financial activities and the trade sectors. In spite of the job losses, the unemployment rate in Michigan decreased from 7.7% in July to 7.4% in August, still well above the 6.1% national rate.

### **State Revenue**

\*\* Fiscal year-to-date revenue for Michigan's major taxes through September collections was \$18.8 billion, about 1.3% below one year ago. Fiscal year-to-date net income tax revenue was down 2.5%, and while consumption taxes were up 1.8%, the increase was more than offset by the 28.2% decline in major business taxes. Based on House Fiscal Agency (HFA) targets, General Fund (GF) revenue through September is down about \$46 million, almost all of which can be attributed to reduced penalty and interest collections. School Aid Fund (SAF) revenue is down roughly \$75 million due to weaker-than-anticipated sales tax collections and lottery transfers.

**Revenue Review: FY 2013-14, September**  
(Millions of Dollars)

| <b>Major Taxes</b>        | <b>FY 2013-14<br/>September</b> | <b>FY 2012-13<br/>Year-to-Date</b> | <b>FY 2013-14<br/>Year-to-Date</b> | <b>Change from</b>             |               | <b>May 2014 CREC</b> |               |
|---------------------------|---------------------------------|------------------------------------|------------------------------------|--------------------------------|---------------|----------------------|---------------|
|                           |                                 |                                    |                                    | <b>FY 2012-13 Year-to-Date</b> | <b>Dollar</b> | <b>Percent</b>       | <b>Dollar</b> |
| Individual Income Tax     |                                 |                                    |                                    |                                |               |                      |               |
| Withholding               | \$676.2                         | \$7,353.2                          | \$7,584.6                          | \$231.4                        | 3.1%          | \$8,281.1            | 4.0%          |
| Quarterly Income Tax      | 209.8                           | 852.2                              | 860.5                              | 8.3                            | 1.0%          | 876.9                | 2.5%          |
| Annual Income Tax         | <u>20.4</u>                     | <u>1,096.9</u>                     | <u>753.9</u>                       | <u>(343.0)</u>                 | <u>-31.3%</u> | <u>790.8</u>         | <u>-31.0%</u> |
| <b>Gross Income Tax</b>   | <b>906.4</b>                    | <b>9,302.2</b>                     | <b>9,198.9</b>                     | <b>(103.3)</b>                 | <b>-1.1%</b>  | <b>9,948.8</b>       | <b>-0.2%</b>  |
| Less: Income Tax Refunds  | <u>30.5</u>                     | <u>1,617.6</u>                     | <u>1,705.1</u>                     | <u>87.5</u>                    | <u>5.4%</u>   | <u>1,743.2</u>       | <u>2.9%</u>   |
| <b>Net Income Tax</b>     | <b>875.9</b>                    | <b>7,684.6</b>                     | <b>7,493.9</b>                     | <b>(190.8)</b>                 | <b>-2.5%</b>  | <b>8,205.6</b>       | <b>-0.8%</b>  |
| Consumption Taxes         |                                 |                                    |                                    |                                |               |                      |               |
| Sales Tax                 | 647.3                           | 6,577.7                            | 6,657.1                            | 79.4                           | 1.2%          | 7,285.0              | 1.8%          |
| Use Tax                   | 115.0                           | 1,147.6                            | 1,240.2                            | 92.6                           | 8.1%          | 1,378.4              | 8.5%          |
| Beer and Wine Taxes       | 4.3                             | 46.4                               | 46.9                               | 0.5                            | 1.2%          | 51.5                 | 1.6%          |
| Liquor Excise Tax         | 8.5                             | 81.5                               | 84.7                               | 3.3                            | 4.0%          | 89.5                 | 1.5%          |
| Tobacco Taxes             | <u>81.7</u>                     | <u>873.8</u>                       | <u>857.1</u>                       | <u>(16.7)</u>                  | <u>-1.9%</u>  | <u>938.0</u>         | <u>-2.0%</u>  |
| <b>Subtotal</b>           | <b>856.7</b>                    | <b>8,727.0</b>                     | <b>8,886.1</b>                     | <b>159.1</b>                   | <b>1.8%</b>   | <b>9,742.4</b>       | <b>2.3%</b>   |
| Business Taxes            |                                 |                                    |                                    |                                |               |                      |               |
| Single Business Tax       | (6.6)                           | (51.3)                             | (38.9)                             | 12.3                           | -24.1%        | (20.0)               | -57.4%        |
| Michigan Business Tax     | 0.7                             | (175.5)                            | (529.2)                            | (353.7)                        | 201.5%        | (552.0)              | 628.2%        |
| Corporate Income Tax      | 131.6                           | 750.9                              | 848.9                              | 98.0                           | 13.1%         | 879.9                | 12.4%         |
| Insurance Taxes           | <u>28.2</u>                     | <u>226.6</u>                       | <u>257.8</u>                       | <u>31.2</u>                    | <u>13.8%</u>  | <u>346.5</u>         | <u>15.0%</u>  |
| <b>Subtotal</b>           | <b>153.9</b>                    | <b>750.7</b>                       | <b>538.6</b>                       | <b>(212.0)</b>                 | <b>-28.2%</b> | <b>654.4</b>         | <b>-32.0%</b> |
| Other Miscellaneous Taxes |                                 |                                    |                                    |                                |               |                      |               |
| State Education Tax       | 354.5                           | 889.4                              | 866.0                              | (23.3)                         | -2.6%         | 1,788.0              | 1.0%          |
| Real Estate Transfer Tax  | 22.7                            | 175.6                              | 198.6                              | 23.0                           | 13.1%         | 233.4                | 15.4%         |
| Lottery Transfer to SAF   | 65.0                            | 680.0                              | 673.0                              | (7.0)                          | -1.0%         | 775.0                | 5.5%          |
| Casino Wagering Tax       | 7.9                             | 101.2                              | 97.9                               | (3.3)                          | -3.3%         | 108.0                | -2.4%         |
| Gas and Oil Severance Tax | <u>4.0</u>                      | <u>54.4</u>                        | <u>57.7</u>                        | <u>3.3</u>                     | <u>6.1%</u>   | <u>67.0</u>          | <u>12.6%</u>  |
| <b>Subtotal</b>           | <b>454.1</b>                    | <b>1,900.5</b>                     | <b>1,893.2</b>                     | <b>(7.3)</b>                   | <b>-0.4%</b>  | <b>2,971.4</b>       | <b>3.2%</b>   |
| <b>TOTAL</b>              | <b>\$2,340.7</b>                | <b>\$19,062.8</b>                  | <b>\$18,811.8</b>                  | <b>(\$251.0)</b>               | <b>-1.3%</b>  | <b>\$21,573.8</b>    | <b>-0.3%</b>  |

Note: Numbers may not add due to rounding.