

## **Economic and Revenue Update**

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

\*\* Real Gross Domestic Product (GDP) increased at an annual rate of 3.7% in the second quarter of 2014 following a 0.6% increase in the first quarter. Final sales (or GDP less inventories) accelerated from a 0.2% decrease in the first quarter to a 3.5% increase in the second quarter, fueled by broad-based gains in personal consumption, business investment, exports of goods, and residential construction, while increases in imports reduced economic activity.

\*\* The August nonfarm employment report showed seasonally adjusted job gains of 173,000 following an upwardly revised increase of 245,000 in July. More than 80% of the August employment gains are increases in private sector payrolls. The number of long-term unemployed (those jobless for 27 weeks or more) dipped below 2.2 million and represents about 27.7% of the unemployed.

\*\* Light motor vehicle sales totaled 1.58 million in August 2015, which translates to a seasonally adjusted annual rate of 17.7 million units. Relative to August 2014, passenger car sales dropped by 10.3% while light truck sales grew by 8.3%, increasing the overall share of light trucks to 57.3% of total light vehicle sales.

\*\* The University of Michigan consumer sentiment index dipped 1.2 points to 91.9 in August as expectations of future economic conditions declined, reflecting less optimistic consumer outlooks.

### **Michigan Economy**

\*\* Michigan's seasonally adjusted nonfarm employment increased by 8,600 in July following a decline of 5,300 in June. Relative to July 2014, nonfarm employment was up 2.3%, or 95,800 jobs. The gains were concentrated in the construction, manufacturing, and business services sectors while job losses occurred in the information and government sectors. As a result, the unemployment rate in Michigan decreased from 5.5% in June to 5.3% in July, the same as July's U.S. unemployment rate.

### **State Revenue**

\*\* Fiscal year-to-date revenue for Michigan's major taxes through August collections was \$17.0 billion, about 3.5% higher than one year ago. Fiscal year-to-date net income tax revenue was up 9.5% as quarterly and annual payments remain robust, more than offsetting the 30.5% reduction in major business taxes (which is largely attributable to ongoing certificated credits awarded under the MBT). Sales tax revenue continues to lag behind FY 2013-14 collections, due in part to the decline in motor fuel prices.

\*\* Based on House Fiscal Agency targets, General Fund revenue through August is up about \$45 million, the majority of which can be accounted for by the increase in net income tax revenue. School Aid Fund revenue is down roughly \$95 million due to weaker-than-anticipated sales tax collections and lottery transfers.

**Revenue Review: FY 2014-15, August**

Millions of Dollars

Major Taxes	FY 2014-15	FY 2013-14	FY 2014-15	Change from		May 2015 CREC	
	Collections August	Collections Year-to-Date	Collections Year-to-Date	FY 2013-14 Year-to-Date Dollar	% Change	FY 2014-15 Estimates Dollar	% Change
Individual Income Tax							
Withholding	\$707.0	\$6,908.4	\$7,305.5	\$397.1	5.7%	\$8,575.0	3.5%
Quarterly Income Tax	14.3	650.7	772.1	121.4	18.7%	960.4	9.5%
Annual Income Tax	<u>17.7</u>	<u>733.5</u>	<u>872.1</u>	<u>138.6</u>	<u>18.9%</u>	<u>833.2</u>	<u>5.4%</u>
<b>Gross Income Tax</b>	<b>739.1</b>	<b>8,292.6</b>	<b>8,949.6</b>	<b>657.1</b>	<b>7.9%</b>	<b>10,368.6</b>	<b>4.2%</b>
Less: Income Tax Refunds	30.8	<u>1,674.6</u>	<u>1,702.3</u>	<u>27.7</u>	<u>1.7%</u>	<u>1,770.1</u>	<u>1.5%</u>
<b>Net Income Tax</b>	<b>708.2</b>	<b>6,617.9</b>	<b>7,247.3</b>	<b>629.4</b>	<b>9.5%</b>	<b>8,598.5</b>	<b>4.8%</b>
Consumption Taxes							
Sales Tax	624.5	6,009.8	5,983.5	(26.4)	(0.4%)	7,503.8	3.0%
Use Tax	134.6	1,125.2	1,157.1	31.9	2.8%	1,419.2	3.0%
Beer and Wine Taxes	5.2	42.7	35.9	(6.7)	(15.8%)	45.5	(11.7%)
Liquor Excise Tax	10.3	76.3	82.4	6.1	8.0%	93.6	4.6%
Tobacco Taxes	<u>88.3</u>	<u>775.4</u>	<u>777.6</u>	<u>2.2</u>	<u>0.3%</u>	<u>924.4</u>	<u>(1.4%)</u>
<b>Subtotal</b>	<b>863.0</b>	<b>8,029.3</b>	<b>8,036.5</b>	<b>7.2</b>	<b>0.1%</b>	<b>9,986.5</b>	<b>2.5%</b>
Business Taxes							
Single Business Tax	(2.2)	(32.4)	26.0	58.3		(20.0)	
Michigan Business Tax	(38.6)	(529.9)	(847.4)	(317.5)		(751.1)	
Corporate Income Tax	2.0	717.3	817.5	100.2	14.0%	1,029.7	17.0%
Insurance Taxes	<u>2.9</u>	<u>229.6</u>	<u>271.1</u>	<u>41.5</u>	<u>18.1%</u>	<u>402.0</u>	<u>16.0%</u>
<b>Subtotal</b>	<b>(35.9)</b>	<b>384.7</b>	<b>267.2</b>	<b>(117.5)</b>	<b>(30.5%)</b>	<b>660.6</b>	<b>0.9%</b>
Other Miscellaneous Taxes							
State Education Tax	142.8	511.5	498.2	(13.3)	(2.6%)	1,850.3	3.5%
Real Estate Transfer Tax	27.3	175.9	212.4	36.5	20.8%	256.8	10.0%
Lottery Transfer to SAF	68.0	608.0	666.8	58.8	9.7%	780.0	0.6%
Casino Wagering Tax	8.7	89.9	92.9	3.0	3.3%	111.0	2.8%
Gas and Oil Severance Tax	<u>2.0</u>	<u>53.7</u>	<u>26.9</u>	<u>(26.9)</u>	<u>(50.0%)</u>	<u>39.0</u>	<u>(41.8%)</u>
<b>Subtotal</b>	<b>248.9</b>	<b>1,439.1</b>	<b>1,497.2</b>	<b>58.1</b>	<b>4.0%</b>	<b>3,037.1</b>	<b>2.2%</b>
<b>TOTAL</b>	<b>\$1,784.3</b>	<b>\$16,471.0</b>	<b>\$17,048.2</b>	<b>\$577.1</b>	<b>3.5%</b>	<b>\$22,282.7</b>	<b>3.3%</b>

Note: Numbers may not add due to rounding.