

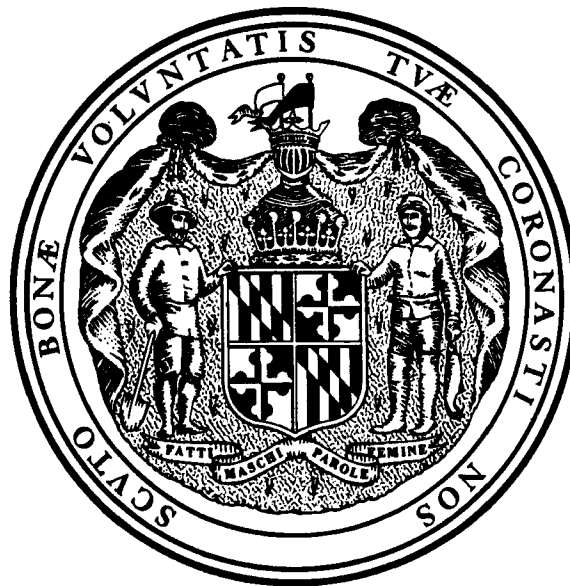
**REPORT OF THE MARYLAND  
BOARD OF REVENUE ESTIMATES  
ON  
ESTIMATED MARYLAND REVENUES**

**FISCAL YEARS ENDING**

**JUNE 30, 1988**

**AND**

**JUNE 30, 1989**



**SUBMITTED TO**

**GOVERNOR WILLIAM DONALD SCHAEFER**

**DECEMBER 10, 1987**

STATE OF MARYLAND



**BOARD OF REVENUE ESTIMATES**  
LOUIS L. GOLDSTEIN TREASURY BUILDING  
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**MEMBERS**  
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SECRETARY, DEPARTMENT OF  
BUDGET AND FISCAL PLANNING  
**EXECUTIVE SECRETARY:**  
ROBERT D. RADER, PH.D.  
DIRECTOR, BUREAU OF  
REVENUE ESTIMATES

December 10, 1987

Honorable William Donald Schaefer  
Governor of Maryland  
State House  
Annapolis, Maryland 21404

Dear Governor Schaefer:

In compliance with State Finance and Procurement Article 6-104 of the Annotated Code of Maryland, the Board of Revenue Estimates has prepared and herewith submits to you new estimates of State revenues for Fiscal Years 1988 and 1989, based upon current laws, administrative practices, and proposed legislation on withholding tables. These estimates are set forth in the accompanying Report on State Revenues.

The current economic expansion has shifted to a much slower growth plane, in part attributable to a volatile stock market. National economic policies have a profound impact upon the State economy generally, and on revenues in particular. Additionally, the impact of TRA86 will not be known until all the 1987 tax returns have been filed, processed, and analyzed. Although, at this time State revenue prospects seem relatively good through Fiscal Year 1989, the continuation of favorable revenue prospects beyond Fiscal Year 1989 is very uncertain. Any adverse change in the national or State economic conditions during the next 18 months, moreover, would have an adverse effect on our revenues. More so than in most other years, there is great uncertainty; therefore, the Board urges caution in committing funds for new initiatives with escalating future costs.

The Board will continue its study of revenue data and will keep you fully advised in coming months of any further important developments affecting revenue prospects.

Respectfully yours,

\_\_\_\_\_  
Charles L. Benton

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Lucille Maurer

\_\_\_\_\_  
Louis L. Goldstein, Chairman

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Robert D. Rader, Executive Secretary

GENERAL FUND REVENUE AND APPROPRIATION ACCOUNT

FOR FISCAL YEARS 1987, 1988 AND 1989

\$ Thousands

	1 9 8 8				1989 Estimate
	1987 Actual	Present Estimate	Revised Estimate	Difference	
GENERAL FUND BALANCE (Beginning of Year)	52,704	207,821	207,821	--	271,025
ADDITIONS - GENERAL FUND REVENUE					
Individual Income Taxes	2,180,430	2,303,945	2,348,301	44,356	2,519,935
Corporation Income Taxes	141,536	140,919	152,730	11,811	144,031
Retail Sales and Use Taxes	1,302,550	1,373,018	1,408,922	35,904	1,501,292
Franchises, Excises, Fees	685,223	696,543	705,460	8,917	707,247
State Lottery Receipts	332,279	331,303	324,761	(6,542)	342,813
Total Additions	4,642,018	4,845,728	4,940,174	94,446	5,215,318
TOTAL AVAILABLE	4,694,722	5,053,549	5,147,995	94,446	5,486,343
DEDUCTIONS					
Appropriations	4,516,765	4,891,970	4,891,970	--	n/a
Less Reversions	29,864	15,000	15,000	--	n/a
Total Deductions	4,486,901	4,876,970	4,876,970	--	n/a
GENERAL FUND BALANCE (End of Year)	207,821	176,579	271,025	94,446	n/a

REPORT OF THE BOARD OF REVENUE ESTIMATES  
ON ESTIMATED STATE REVENUES  
FOR THE FISCAL YEARS 1988 AND 1989

The Board of Revenue Estimates has completed its regular annual review of the State revenue outlook which it makes in the fall of each year while the next State Budget is being prepared by the Governor.

New estimates of State revenues have been established by the Board for the Fiscal Years ending June 30, 1988 and June 30, 1989, based on the current economic outlook.

These estimates are based on the existing revenue structure as set forth in Maryland statutes and on study by the Board of available information on present economic trends as they may affect revenue collections.

In arriving at the estimates, all revenue collecting agencies of the State government were contacted and their estimates and advice obtained.

National and State economic trends were studied for their effect on State revenues, including economic statistics and related data published by Federal and State government and by leading business and private organizations. In addition, national econometric forecasts prepared by Wharton Econometrics and Chase Econometrics (now merged into the WEFA Group), Data Resources and other organizations were employed in preparing State economic and revenue forecasts.

The current revenue outlook is complicated by several major factors, including the comprehensive restructuring of the federal income tax base (upon which Maryland's income taxes are levied) by the Federal Tax Reform Act of 1986 (TRA86), significant State tax reform enacted by the 1987 General Assembly, and recent events which may have profound impacts upon the U. S. and world economics during the next 24 months. In the aftermath of the stock market crash on October 19, economic forecasts have shown unusually large downward revisions in growth prospects for Calendar Years 1988 and 1989.

While the Board does not believe that a recession is inevitable during the Fiscal Year 1988 and 1989 period, it should be recognized that a recession is a distinct possibility. Since a recession would adversely affect State revenue prospects, the Board strongly urges caution in the application of the enclosed revenue estimates to ongoing State spending needs.

U. S. Economic Prospects

During 1987, the U. S. economy has been characterized by relatively slow and uneven growth. Real GNP grew by 4.4 percent in 1987.1 (due largely to inventory rebuilding), 2.5 percent in 1987.2 (due mainly to government defense spending and consumer spending on durable

goods and services) and 4.1 percent in 1987.3 (due to consumer spending on durable goods and services and government nondefense spending). Real GNP is expected to grow more slowly in 1987.4, due to a slowdown in consumer spending and business investment.

Extremely slow and uneven growth is expected during 1988. The crash in the stock market has reduced real growth expectations of the major economic forecasts for 1988 by a full percentage point.

The national outlook hinges upon a number of factors. The stock market crash has brought the seriousness of the federal budget deficit and the international trade deficits into clear focus. Unless significant progress is made to reduce these deficits, future economic growth prospects will be adversely affected.

In addition, the stock market drop may negatively impact consumer spending during the next six months. As a result of this drop, personal wealth in the U. S. has been reduced by roughly \$1 trillion. One of the more pessimistic forecasts, the WEFA Group estimates that this will cause a decline in consumption of approximately \$25 billion during the next six months.

Consumer spending may also be adversely impacted by mounting debt levels and declines in consumer confidence.

The Federal Reserve's response to the stock market crash has been to provide the liquidity necessary to prevent both a near-term recession and financial panic. This complete reversal of Fed policy (from a clear tightening late in the summer to a clear easing now) is expected to last six months, and represents a short-term plus to the economic outlook.

In an attempt to head off the automatic Gramm-Rudman cuts and to control the federal budget deficit, a compromise has been reached on a package of spending cuts and tax increase measures. While such measures do improve the outlook for inflation, they also dampen a source of stimulus for future economic growth prospects.

The foreign trade deficit is expected to improve moderately during 1988 due to slower growth in imports (particularly of consumer goods during the first half of 1988) and continued strength in exports. The current low value of the dollar on foreign exchange markets will help the foreign trade deficit as well.

Automobile sales are projected to total 10.3 million units in 1987, down from the 11.4 million units sold in 1986. Automobile sales are projected to total 10.0 million units in 1988 and 9.9 million in 1989.

Housing starts, which totalled 1.8 million in 1986, are expected to total under 1.7 million in 1987, 1.6 million in 1988 and 1.5 million in 1989.

The consensus outlook is for a roller coaster pattern of growth throughout the end of Fiscal Year 1989. Real GNP growth will be weak during the first half of 1988. Strong

growth during the last half of 1988 should occur as the Fed's current credit easing measures begin to affect consumer spending and business spending plans. For the year as a whole, real GNP should rise around 2.2 percent. Inflation is expected to cool during the first half of 1988 and to rise somewhat during the second half of 1988, with the consumer price index rising between 4.0 and 4.5 percent for the year as a whole.

Even weaker growth is forecasted during 1989, as inflation fears cause credit tightening. Real GNP is expected to grow by 2.0 percent or less and consumer prices are expected to rise by 4.5 to 5.0 percent.

While most major forecasters do not forecast a recession to occur during Fiscal Year 1989, it should be noted that 90 percent of the economists polled in the latest survey by the National Association of Business Economists believe the U. S. economy will be in recession by the end of Calendar Year 1989.

Additional comments regarding the national economic outlook are contained in Appendix A. A summary of forecasts is contained in Appendix B.

#### State Economic Prospects

Maryland's economy continues to expand briskly. As of September 1987, employment had grown by 25,000 jobs or 1.1 percent above the year-earlier level. At the same time, the unemployment rate declined to 3.7 percent, significantly below the national average of 5.8 percent.

As evidenced by available tax data, key sectors of the Maryland economy are continuing to experience strong growth. Automobile sales (as gauged by titling tax collections), real property sales (as measured by property transfer tax receipts) and construction activity (as measured by sales tax collection data) are all running at a stronger than normal pace.

Housing starts in Maryland should total 52,000 in 1987, up 14.2 percent from the comparable 1986 total. Total starts are projected to increase to 53,000 units during 1988 and to decline to 49,000 in 1989. Resales of existing homes should decline by 2.6 percent in 1987 to 75,000 units. Resales are expected to total 70,000 in 1988 and 65,000 in 1989.

New car registrations totalled 319,000 units in 1986 and are expected to total 295,000 units in 1987 and to decline further during 1988.

Despite the projected decline in housing resales and automobile sales, total employment and personal income should continue to grow in Maryland, although at a slower pace. According to the WEFA Group total employment should expand by approximately 2.5 percent during 1988 and by another 3.9 percent in 1989, after growing by 3.3 percent in 1987. Maryland personal income is expected to grow by 6.0 percent in 1987, 7.2 percent in 1988 and 7.6 percent in 1989, after growing by 6.2 percent in 1986.

Overall Maryland should continue to fare better than the U. S. during the next two years.

## State Revenue Trends and Outlook

During Fiscal Year 1987, Maryland's General Fund revenues exceeded final budget estimates by \$143,402,601 or 3.2 percent. Two factors accounted for 84 percent of this excess. The first was Individual Income Taxes which exceeded estimates by \$93,871,104 or 4.5 percent, due chiefly to the unexpectedly large capital gains realized and reported by individual taxpayers in Tax Year 1986. This one-time revenue windfall was created by those taxpayers attempting to avoid the higher effective federal income tax rates on capital gains that became operational January 1, 1987 under TRA86. The second factor was the receipt into the General Fund of \$26,968,504 reflecting a legal settlement between the Maryland Deposit Insurance Fund (MDIF) and a large law firm. This settlement is expected to be appropriated to MDIF to help pay depositors of several large failed thrift institutions. Revenue collections from all other sources exceeded estimates by \$22,562,993 or 0.9 percent, as set forth in Table 1.

Fiscal Year 1987 State and local revenues were affected by several factors including behavioral responses to TRA86 (which encouraged accelerated realization of capital gains and advancing certain deductions (principally miscellaneous and sales and titling tax deductions) into Tax Year 1986). These actions increased State and local Individual Income Tax revenues by roughly \$130,000,000 during Fiscal Year 1987. In addition, TRA86 probably increased Fiscal Year 1987 Property Transfer and Motor Vehicle Titling Tax revenues.

Based on the study by the Policy Economics Group Fiscal Year 1988 State and local revenues are being influenced by several factors, including TRA86. TRA86 will augment State General Fund revenues by \$166,740,000 in Fiscal Year 1988 and by an additional \$190,000,000 in Fiscal Year 1989. TRA86 will augment Department of Transportation revenues by \$7,864,000 during Fiscal Year 1988 and by a similar amount in Fiscal Year 1989.

The recently-ended Maryland Tax Amnesty program ended successfully with the collection of \$34,578,991 in State and local revenues. Approximately \$20,000,000 of this amount will inure to the General Fund, \$3,522,000 will be distributed to the Department of Transportation and Maryland Port Administration and \$4,301,000 has been distributed to local governments.

The remaining \$5,659,000 will be deposited into the State Reserve Fund according to State law.

The following table lists by source and disposition the revenues collected under the Tax Amnesty Program.

----- \$Thousands -----

	<u>General Fund</u>	<u>Special Fund</u>	<u>Local</u>	<u>Total</u>
Individual Income	7,012	5,659	4,230	16,901
Corporation Income	5,444	3,522	--	8,966
Retail Sales & Use	7,544	--	--	7,544
Admissions & Amusements	--	--	71	71
Boat Titling	<u>--</u>	<u>1,096</u>	<u>--</u>	<u>1,096</u>
Total	20,000	10,277	4,301	34,578
	=====	=====	=====	=====

Chapter 13 of the Acts of 1987 increased the State standard deductions and personal exemption and made other changes to the State individual income tax structure. This is expected to reduce General Fund revenue by \$91,000,000 in Fiscal Year 1988 and by \$116,500,000 in Fiscal Year 1989.

Other 1987 legislation enactments: increase the allocation of Property Transfer Tax revenues for Program Open Space and certain other related programs; provide a \$20,000 exemption for owner-occupied properties from the Property Transfer Tax effective July 1, 1988; and increase from \$10,000 to \$20,000 the minimum size of small estates subject to inheritance taxes effective July 1, 1988. These enactments will reduce General Fund revenues by \$5,000,000 during Fiscal Year 1988 and by \$20,400,000 during Fiscal Year 1989.

The Sports Lottery authorized by S.B. 847 provides for instant sports lotteries, the proceeds of which are to be used to fund the future debt service needs of the Maryland Stadium Authority. During each of Fiscal Years 1988 and 1989, \$16,000,000 will be raised by these games.

Table 1 below lists the actual State revenues for the fiscal year ended June 30, 1987 and the Board's current estimates for the fiscal year ending June 30, 1988 and June 30, 1989.



MARYLAND REVENUE RECEIPTS  
FISCAL YEARS 1987, 1988 AND 1989

	GENERAL FUND			SPECIAL FUND			TOTAL		
	Fiscal Year 1987 Actual	Fiscal Year 1988 Revised Estimate	Fiscal Year 1989 Estimate	Fiscal Year 1987 Actual	Fiscal Year 1989 Revised Estimate	Fiscal Year 1989 Estimate	Fiscal Year 1987 Actual	Fiscal Year 1988 Revised Estimate	Fiscal Year 1989 Estimate
	-----\$ Thousands-----								
<b>INCOME TAXES:</b>									
Individual	2,180,430	2,348,301	2,519,935	--	--	--	2,180,430	2,348,301	2,519,935
Corporation	141,536	152,730	144,031	96,390	128,583	132,889	237,926	281,313	276,920
Total	2,321,966	2,501,031	2,663,966	96,390	128,583	132,889	2,418,356	2,629,614	2,796,855
<b>RETAIL SALES AND USE TAXES</b>									
	1,302,550	1,408,922	1,501,292	--	--	--	1,302,550	1,408,922	1,501,292
<b>STATE LOTTERY RECEIPTS</b>									
	332,279	324,761	342,813	22,758	39,400	40,000	355,037	364,161	382,813
<b>TRANSPORTATION REVENUES</b>									
Motor Vehicle Fuel Tax	7,052	9,898	10,125	337,288	448,632	445,674	344,340	459,500	456,890
Motor Vehicle Licenses, Fees	--	--	--	116,421	171,765	174,415	116,421	171,765	174,415
Motor Vehicle Titling Tax	--	--	--	339,497	340,000	343,000	339,497	340,000	343,000
Mass Transit Fees	--	--	--	58,378	64,139	65,298	58,378	64,139	65,298
Maryland Port Fees	--	--	--	34,997	34,665	35,478	34,997	34,605	35,478
State Aviation Fees	--	--	--	36,756	42,674	48,050	36,756	42,674	48,050
Total	7,052	9,898	10,125	923,337	1,101,785	1,112,915	930,389	1,111,683	1,123,641
<b>PROPERTY TAXES, FRANCHISES, ETC.:</b>									
State Real and Personal Property Tax	--	--	--	121,461	133,985	144,261	121,461	133,985	144,261
Property Transfer Tax	50,027	48,093	25,029	24,900	29,000	39,000	74,027	77,093	64,029
Corporation Franchises and Filing Fees	122,697	127,912	129,759	8,814	12,073	9,280	131,511	139,985	139,039
State Tobacco Tax	51,230	51,000	50,850	14,792	14,790	14,650	66,022	65,700	65,590
Tax on Insurance Companies	123,874	125,280	126,530	--	--	--	123,874	125,380	126,530
Alcoholic Beverages Excises	19,597	19,050	19,150	9,465	9,150	9,250	29,063	28,200	28,400
Death Taxes	49,879	52,266	56,127	--	--	--	49,879	52,266	56,127
Clerks of the Court	10,371	31,900	30,900	--	--	--	10,371	31,900	30,900
District Courts	44,065	44,500	46,500	--	--	--	44,065	44,500	46,500
Hospital Patient Recoveries	75,020	80,525	87,184	--	--	--	75,020	80,525	87,184
Interest on Investments	37,521	45,000	50,000	8,087	8,000	5,000	45,608	53,000	55,000
Miscellaneous Fees, Other Receipts	93,890	69,936	75,092	393,003	365,762	352,836	486,893	435,698	427,928
Total	678,171	695,562	697,121	579,623	571,770	574,277	1,257,794	1,267,332	1,271,398
<b>FEDERAL FUNDS</b>									
Highway Transit Reimbursements, Grants	--	--	--	474,921	511,365	525,915	474,921	511,365	525,915
Human Resources	--	--	--	289,537	302,478	299,202	289,537	302,478	299,202
Economic and Employment Training	--	--	--	82,110	86,434	80,500	82,110	86,434	80,500
Housing and Community Development	--	--	--	19,375	62,904	71,836	19,375	62,904	71,836
Public Education	--	--	--	200,763	220,048	214,760	200,763	220,048	214,760
Public Health	--	--	--	405,176	454,106	486,113	405,176	454,106	486,113
Natural Resources, Etc.	--	--	--	49,154	48,066	47,677	49,154	48,066	47,677
Total	--	--	--	1,521,036	1,685,401	1,726,003	1,521,036	1,685,401	1,726,003
<b>GRAND TOTAL</b>	<b>4,642,018</b>	<b>4,940,174</b>	<b>5,215,318</b>	<b>3,143,144</b>	<b>3,526,939</b>	<b>3,586,084</b>	<b>7,785,162</b>	<b>8,467,113</b>	<b>8,801,402</b>

Table 1

The following table shows the current revision of the General Fund revenue and surplus account for the current Fiscal Year 1988.

	<u>Present Estimate</u>	<u>Revised Estimate</u>	<u>Surplus Increase (Decrease)</u>
	----- \$ Thousands -----		
GENERAL FUND BALANCE (Beginning of Year)	207,821	207,821	--
ADDITIONS - GENERAL FUND REVENUE			
Individual Income Taxes	2,303,945	2,348,301	44,356
Corporation Income Taxes	140,919	152,730	11,811
Retail Sales and Use Taxes	1,373,018	1,408,922	35,904
Franchises, Excises, Fees	696,543	705,460	8,917
State Lottery Receipts	331,303	324,761	(6,542)
TOTAL ADDITIONS	<u>4,845,728</u>	<u>4,940,174</u>	<u>94,446</u>
TOTAL AVAILABLE	<u>5,053,549</u>	<u>5,147,995</u>	<u>94,446</u>
DEDUCTIONS			
Appropriations	4,891,970	4,891,970	--
Less Reversions	15,000	15,000	--
TOTAL DEDUCTIONS	<u>4,876,970</u>	<u>4,876,970</u>	<u>--</u>
GENERAL FUND BALANCE (End of Year)	<u>176,579</u>	<u>271,025</u>	<u>94,446</u>

MARYLAND GENERAL FUND REVENUES

FISCAL YEAR 1983 TO 1990

	1983 Actual	1984 Actual	1985 Actual	1986 Actual	1987 Actual	1988		1989 Estimate	1990 Preliminary Estimate
						Present Estimate	Revised Estimate		
	\$ Thousands								
INCOME TAXES:									
Individual	1,458,654	1,607,502	1,767,872	1,928,792	2,180,430	2,303,945	2,348,301	2,519,935	2,721,500
Corporation	60,166	85,871	141,440	144,570	141,536	140,919	152,730	144,031	152,000
Total	1,518,820	1,693,373	1,909,312	2,073,362	2,321,966	2,444,864	2,501,031	2,663,966	2,873,500
RETAIL SALES AND USE TAXES	865,173	988,365	1,098,527	1,189,688	1,302,550	1,373,018	1,408,922	1,501,292	1,600,000
STATE LOTTERY	206,012	209,585	250,198	323,423	332,279	331,303	324,761	342,813	349,500
FRANCHISES, EXCISES, LICENSES, FEES:									
Property Transfer Taxes	--	--	19,938	30,563	50,027	35,252	48,093	25,029	30,000
Business Franchise Taxes	101,716	107,795	114,183	119,270	122,697	131,460	127,912	129,759	133,000
State Tobacco Tax	53,032	51,407	51,848	51,849	51,230	50,900	51,000	50,850	50,700
Tax on Insurance Companies	67,959	74,797	83,951	101,902	123,874	128,585	125,380	126,530	130,000
Alcoholic Beverages Excise	19,224	18,927	19,007	18,666	19,597	18,700	19,050	19,150	19,300
Death Taxes	31,256	34,173	39,260	44,422	49,879	49,900	52,266	56,127	59,500
Motor Vehicle Fuel Tax	--	--	6,825	5,951	7,052	10,000	9,898	10,126	10,200
Clerks of the Court	1,519	3,173	3,708	5,360	10,371	31,891	31,900	30,900	32,400
Hospital Patient Recoveries	77,338	61,700	58,085	63,359	75,020	89,417	80,525	87,184	90,000
Interest on Investments	47,131	35,969	41,706	29,797	37,521	22,000	45,000	50,000	55,000
District Courts	30,322	32,148	34,028	41,945	44,065	43,500	44,500	46,500	52,500
Miscellaneous	76,951	106,325	78,634	64,511	93,890	84,938	69,936	75,092	90,000
Total	506,448	526,414	551,173	577,595	685,223	696,543	705,460	707,247	752,600
GRAND TOTAL	3,096,453	3,417,737	3,809,210	4,164,068	4,642,018	4,845,728	4,940,174	5,215,318	5,575,600

Table 2

## INDIVIDUAL INCOME TAXES

Individual Income Tax revenues during Fiscal Years 1988 and 1989 will be affected by many factors, including TRA86, the 1987 State Tax Reform Package, the Maryland Tax Amnesty Program and the economic outlook.

TRA86 expands Maryland's individual income tax base by eliminating or restricting several major itemized deductions (e.g., sales tax, interest expense, miscellaneous expenses), raising the AGI floor on medical deductions and broadening the income concept by including certain formerly excluded items (e.g., unemployment compensation, capital gains exclusions). This is expected to increase Maryland State and local revenues by \$178,200,000 in Tax Year 1987 and by \$218,100,000 in Tax Year 1988.

The 1987 State Tax Reform Package increased the State standard deduction and personal exemption, added an extra standard deduction for elderly or blind taxpayers, added a tax exclusion for a portion of capital gains, and made several other relatively minor changes to the State individual income tax structure. This is expected to reduce State and local revenues by \$123,000,000 in Tax Year 1987, by \$129,000,000 in Tax Year 1988 and by \$168,000,000 in Tax Year 1989. These estimates are based upon the assumption that the employer withholding tables will be revised effective July, 1988 to take into consideration the full \$300 increase in the exemption value and the increase in the standard deduction. Legislation will be introduced in the 1988 Session of the General Assembly to provide for this.

The recently completed Tax Amnesty Program resulted in the collection of \$16,901,578 in pre-1986 tax year State and local individual income tax revenues. This program directly affects Fiscal Year 1988 only.

Tax Year 1987, 1988 and 1989 revenues will also be affected by growth in Maryland personal income, which is projected to increase by 6.0 percent in 1987, 7.2 percent in 1988 and 7.6 percent in 1989. As a result of these factors, State and local individual income tax revenues are expected to grow by 5.9 percent in Tax Year 1987, 8.6 percent in Tax Year 1988 and 7.8 percent in Tax Year 1989.

The apportionment of these tax year collections to Fiscal Years 1988 and 1989 will be affected by changes in the State withholding table (to reflect the new higher standard deduction and personal exemptions) effective July 1, 1988. Fiscal Year 1988 will also be affected by an allocation of \$2,591,200, reflecting the "hold harmless" amounts to be paid to subdivisions to offset the assumed negative effects of TRA86. This will reduce General Fund revenues by an equivalent amount.

Table 3 contains an analysis of these revenues.

MARYLAND INDIVIDUAL INCOME TAX REVENUES  
FOR FISCAL YEARS 1986, 1987, 1988 AND 1989

\$ Thousands

Tax Year	Collections	Percent Rate of Growth	1986 Actual	1987 Actual	1988 Estimate	1989 Estimate
-----	-----	-----	-----	-----	-----	-----
Prior Years	--	--	43,257	47,644	68,500	57,000
1985	2,707,088	9.7	1,335,518			
1986	3,099,023	14.5	1,476,470	1,622,553		
1987	3,282,169	5.9		1,633,117	1,649,052	
1988	3,563,738	8.6			1,799,688	1,764,050
1989	3,841,677	7.8				1,940,047
Total			2,855,245	3,303,314	3,517,240	3,761,097
GAAP Adjustment			--	34,000 *	5,659 **	--
Less: Local Tax			926,453	1,088,884	1,163,280	1,241,162
NET TO GENERAL FUND			1,928,792	2,180,430	2,348,301	2,519,935
			=====	=====	=====	=====

\*To bring Maryland's Individual Income Tax revenues into conformity with Generally Accepted Accounting Principles

\*\*The excess of \$20,000,000 in Amnesty revenues that will be placed in the State Reserve Fund

TABLE 3

CORPORATION INCOME TAXES

Corporation Income Tax revenues are expected to be impacted by three factors during Fiscal Years 1988 and 1989. One is the transfer to the Department of Transportation of \$2,500,000 per month (\$3,000,000 after July 1, 1988) which began in January 1987. This is to replace the funds advanced to the General Fund to help pay depositors of several large failed thrift institutions. This reduced General Fund revenues by \$15,000,000 during Fiscal Year 1987 and will reduce General Fund revenue by \$30,000,000 during Fiscal Year 1988 and by \$36,000,000 during Fiscal Years 1989.

TRA86 will also have an impact on Fiscal Year 1988 and 1989 revenues. According to information provided by the Policy Economics Group, the Act will increase corporate tax liabilities by \$20,568,000 during Tax Years 1986 and 1987, by \$20,494,000 during Tax Year 1988 and by \$24,229,000 during Tax Year 1989. After adjusting for cash flow and deducting the portions allocable to the Department of Transportation and the Maryland Port Administration, General Fund revenues are expected to be increase by \$13,899,000 in Fiscal Year 1988 and by a similar amount in Fiscal Year 1989.

Maryland's Tax Amnesty Program collected \$8,966,217 in pre-1986 corporation income tax receipts. These amounts are reflected in the Fiscal Year 1988 estimates.

Corporation income tax revenues will also be affected by fluctuations in pre-tax corporate profits, which are expected to increase in Tax Years 1986 and 1987, to decline moderately in Tax Year 1988 and to increase in Tax Year 1989 (based upon the latest forecasts prepared by the WEFA group and DRI which is referred to in Appendix A & B).

Table 4 below summarizes the above analysis of Corporation Income Tax revenues.

MARYLAND CORPORATION INCOME TAX REVENUES  
FOR FISCAL YEARS 1986, 1987, 1988 AND 1989  
\$ Thousands

Tax Year -----	Collections -----	Percent Rate of Growth -----	1986 Actual -----	1987 Actual -----	1988 Estimate -----	1989 Estimate -----
Prior Years	--	--	(1,798)	(11,013)	4,000	(2,500)
1984	209,412	19.1	26,721			
1985	223,757	6.9	147,116	27,062		
1986	243,545	8.8	48,133	168,338	27,074	
1987	279,713	14.9		53,539	195,799	30,375
1988	272,201	-2.7			54,440	190,541
1989	292,522	7.5				58,504
Total			----- 220,172	----- 237,926	----- 281,313	----- 276,920
Less: Maryland Port Administration			22,123	22,280	27,147	26,723
Department of Transportation (32 percent share)			53,479	59,110	71,436	70,166
Department of Transportation Payback			--	15,000	30,000	36,000
NET TO GENERAL FUND			----- 144,570 =====	----- 141,536 =====	----- 152,730 =====	----- 144,031 =====

TABLE 4

## RETAIL SALES AND USE TAXES

During the past four fiscal years, Retail Sales and Use Tax revenues have grown at a very strong pace relative to growth in State personal income and employment. It is anticipated that this strong growth will soon slow to rates that more closely reflect the projected growth in personal income.

For analytic purposes, Retail Sales Tax revenue are broken down into four components: Construction, Consumer Expenditures, Capital Goods (consisting of office equipment, machinery and equipment, containers and miscellaneous manufacturing), and Utilities and Transportation.

The construction cycle in Maryland generally leads the national business cycle by at least four months. An analysis of the latest data indicates that receipts from this sector (which began a cyclical recovery in February 1982) are growing at a pace which is 45 percent stronger than normal.

While the outlook for housing starts and government construction spending appears favorable through 1988, there are several unfavorable factors. TRA86 is expected to have a negative impact upon commercial, industrial and multifamily construction. Interest rates, while currently easing from September and October highs, are expected to rise during the mid-1988 through 1989 period. Accordingly taxable construction spending is projected to peak in September 1988.

Taxable consumer spending has risen dramatically during the past four years in response to favorable trends in employment and income statewide and to special factors (e.g. lower gasoline and fuel oil prices, rising stock market values and lower mortgage interest rates, which encouraged a rash of mortgage refinancing). While employment and income trends still appear favorable, many of the special factors have run their course or have reversed. In addition, there is evidence that consumers are becoming somewhat overextended: nationally, personal savings have declined and personal debt is at a record high relative to income.

As a result of the unprecedented recent drop in the stock market, financial wealth in the U. S. declined by roughly \$1 trillion. One of the more pessimistic forecasts, the WEFA Group, estimates that consumer expenditures will decline by \$25 billion as a direct result of this decline in wealth.

It is to be expected that taxable consumer spending will soon taper off. Consequently, growth in taxable consumer spending is expected to reflect more closely the growth in Maryland personal income during the remainder of Fiscal Year 1988 and Fiscal Year 1989.

Growth in capital goods spending is currently of average strength, and it is expected that this strength will continue throughout Calendar Year 1988 before peaking. Growth in receipts from the utilities and transportation sector is expected to continue in accordance with historic patterns.



Maryland's Tax Amnesty Program collected \$7,543,734 in Retail Sales and Use Tax revenues which have augmented Fiscal Year 1988 collections.

Overall, Retail Sales and Use Tax collections are expected to total \$1,408,922,000, 8.2 percent above Fiscal Year 1987 collections. For Fiscal Year 1989, the Board projects these revenues will rise by 6.6 percent to \$1,501,292,000.

## STATE LOTTERY REVENUES

The outlook for State Lottery revenues is affected by several factors, including a slowdown in daily "Numbers Game" sales, inclusion of two new instant "Sports" lotteries, introduction of a new "Super Lotto" game in Fiscal Year 1989 and possible competition from the newly-authorized Virginia Lottery.

After years of rapid growth, daily "Number Game" sales grew by only 0.6 percent in Fiscal Year 1986 and declined by 1.0 percent in Fiscal Year 1987. The decline in the "Number Game" sales can be attributable to the introduction of Instant Game in Fiscal Years 1987 and 1988. The State Lottery Agency projects daily "Number Game" sales will decline 0.6 percent to \$545,000,000 in Fiscal Year 1988 and will increase 1.3 percent to \$552,000,000 during Fiscal Year 1989.

During both of Fiscal Years 1988 and 1989, \$80,000,000 in instant lottery and instant "Sports" lottery tickets will be sold. The instant "Sports" lotteries are expected to generate net revenues of \$16,000,000 per year. These net revenues will be transferred to the Maryland Stadium Authority to assist in paying the debt service on the new stadium to be built in Baltimore.

During Fiscal Year 1989, a new "Super Lotto" game will be introduced as a supplement to the current Lotto game. "Super Lotto" will offer a larger grand prize at correspondingly higher odds. The current Lotto game drawing will be shifted from Saturday night to a midweek night. As a result of the introduction of "Super Lotto", the State Lottery Agency projects Lotto sales to increase from \$176,000,000 in Fiscal Year 1988 to \$215,000,000 in Fiscal Year 1989. Lotto sales totalled \$165,074,000 in Fiscal Year 1987.

By public referendum, the State of Virginia recently authorized a State lottery, which is expected to become operational in April 1988. It is currently anticipated that the Virginia lottery will consist of instant games only during the 1988 calendar year. The impact of the Virginia Lottery on State revenues is unknown at this time.

During Fiscal Year 1988, gross receipts of \$801,000,000 are expected from all lottery sales. After deduction of agent earnings, administrative expenses, prizes (estimated to be 49.5 percent for the daily "Numbers Game"), and the \$16,000,000 accruing to the Stadium Authority. Net receipts of \$324,761,000 are expected to be paid into the General Fund from these sales during Fiscal Year 1988.

Fiscal Year 1989 gross receipts from the daily, lotto and instant games are expected to total \$847,000,000. Of this amount, \$342,813,000 is estimated to be available to the General Fund after deduction of agent earnings, prizes, Stadium Authority revenues and administrative expenses.

## PROPERTY TRANSFER TAX

Since bottoming out in April 1982, the Property Transfer Tax has grown swiftly in response to lower mortgage rates and favorable market conditions (e.g., rising employment and income, lower inflation, pent-up demand from the 1980 and 1981-82 housing slumps). At one point, the expansion in tax receipts was growing at a rate approximately 75 percent stronger than normal. This strength has abated somewhat as much of the pent-up demand has been satisfied. Currently the expansion is approximately 50 percent stronger than normal.

Recent economic events have had a contradictory impact upon the outlook for future property sales and transfer tax receipts. The retreat of the stock market from its August peak reduced individual wealth and purchasing power and has raised questions of consumer confidence, and its impact on purchases of housing, automobiles and other big-ticket items.

However, as a direct result of the October 19 market crash and the efforts of the Fed to preserve liquidity of the financial system, interest rates have reversed their upward trend which began in mid-summer. Since interest rates are a prime determinant of affordability, this factor plus generally favorable State economic conditions foretell continued short-term strength in single-family property sales.

TRA86 should have some impact upon property sales and transfer tax revenues. Some property sales were accelerated into Calendar Year 1986 to avoid the higher effective tax rates on capital gains which became effective January 1, 1987. This factor and certain provisions of TRA86 (affecting passive loss deductions, depreciation and treatment of capital gains) should have a dampening impact upon real property sales during Fiscal Years 1988 and 1989.

New housing starts in Maryland are expected to total 52,000 during 1987, 53,000 during 1988 and 49,000 during 1989, according to the WEFA Group. Resales, expected to total 75,000 in 1987, are expected to decline to 70,000 in 1988 and to 65,000 in 1989. Nonresidential investment in land and buildings is expected to follow national trends. Fiscal Year 1989 revenues will be impacted by legislation enacted by the 1987 General Assembly which exempts the first \$20,000 of consideration paid for all owner-occupied real properties from the transfer tax effective July 1, 1988. This exemption will reduce State Property Transfer Tax revenues by \$7,900,000 during Fiscal Year 1989.

The current outlook is for the Property Transfer Tax to continue its strong growth through April 1988 before slumping throughout Fiscal Year 1989. On the basis of this outlook Property Transfer Tax revenues are expected to total \$77,093,000 during Fiscal Year 1988 and \$64,029,000 during Fiscal Year 1989.

Legislation enacted by the 1987 General Assembly deposits those Property Transfer Tax revenues in excess of \$29,000,000 for Program Open Space in the General Fund during Fiscal Year 1988. Beginning in Fiscal Year 1989, all revenue in excess of \$39,000,000 are to be deposited in the General Fund.

ALCOHOLIC BEVERAGE EXCISES

Tax receipts from Alcoholic Beverages are influenced by various factors, such as inventory deliveries, tax payment methods and the overall state of the economy. Revenues from Alcoholic Beverages for Fiscal Years 1988 and 1989 are expected to conform to past trends.

Following is a current analysis of these revenues:

	1986 Actual -----	1987 Actual -----	1988 Revised Estimate -----	1989 Estimate -----
	----- \$ Thousands -----			
Tax on Distilled Spirits Total Revenue	14,611	14,552	14,300	14,100
Less - Share to Local Governments	4,841	4,823	4,750	4,700
	-----	-----	-----	-----
Balance to General Fund	9,770	9,729	9,550	9,400
	-----	-----	-----	-----
Tax on Wine (General Fund)	4,139	4,488	4,400	4,500
	-----	-----	-----	-----
Tax on Beer Total Revenue	9,243	10,023	9,500	9,800
Less - Share to Local Governments	4,486	4,643	4,400	4,550
	-----	-----	-----	-----
Balance to General Fund	4,757	5,380	5,100	5,250
	-----	-----	-----	-----
TOTAL TO GENERAL FUND	18,666 =====	19,597 =====	19,050 =====	19,150 =====

STATE TOBACCO TAX

Cigarette sales in Maryland have been affected by stagnancy in per capita consumption nationally and other factors. It is expected that these factors will continue to influence State Tobacco Tax revenues in Fiscal Years 1988 and 1989.

Following is a current analysis of these revenues.

	1986 Actual -----	1987 Actual -----	1988 Revised Estimate -----	1989 Estimate -----
	----- \$ Thousands -----			
Total Revenue	66,926	66,022	65,700	65,500
Less - Share to Counties and Baltimore City	15,077	14,792	14,700	14,650
	-----	-----	-----	-----
BALANCE TO GENERAL FUND	51,849 =====	51,230 =====	51,000 =====	50,850 =====

REAL PROPERTY TAXES

The State's assessable real property basis for Fiscal Year 1988, as prepared by the Department of Assessments and Taxation, is \$63,639,936,000. The Department projects that the Fiscal Year 1989 assessable basis subject to State taxes will increase by 8.3 percent to \$68,934,682,000.

The State tax rate for the current 1987-88 year is 21 cents per \$100 of assessable property as established by the Board of Public Works. The Board is required by law to calculate the rate necessary for debt service on full faith and credit General Obligation bonds by May 1 of each year. The proceeds of the State property tax are exclusively dedicated to pay this debt service.

The projection of State property tax revenues on the basis of this 21 cent rate (after adjusting for collection of prior tax arrearages and current delinquencies) is as follows:

Fiscal Year 1988	\$133,085,000
Fiscal Year 1989	\$144,261,000

CORPORATION FRANCHISE TAXES AND FILING FEES

	1986 Actual	1987 Actual	1988 Revised Estimate	1989 Estimate
	-----	-----	-----	-----
	----- \$ Thousands -----			
Franchise Tax on Gross Receipts	91,029	93,058	97,300	98,270
Franchise Tax on Net Earnings of Savings Banks, Building and Loan Associations	5,864	7,518	10,730*	7,820
Franchise Tax on Building and Loan Associations	1,905	2,640	2,726	2,758
Domestic Corporation Filing Fees	2,748	2,737	2,900	3,076
Filing Fees on Foreign Corporations	519	514	529	545
Franchise Tax on Net Earnings of Financial Institutions	24,368	25,044	25,800	26,570
TOTAL	126,433	131,511	139,985	139,039
LESS - Allocations to Local Governments:				
Franchise Tax on Net Earnings of Savings Banks, Building and Loan Associations	5,789	7,446	10,623	7,742
Domestic Corporation Filing Fees	1,374	1,368	1,450	1,538
BALANCE TO GENERAL FUND	119,270	122,697	127,912	129,759
	=====	=====	=====	=====

\* Legislation enacted in the 1987 Session of the General Assembly requires savings banks and savings and loans to make annual estimated tax payments. This results in a one-time windfall to local governments in Fiscal Year 1988.

DEATH TAXES

Death taxes will be reduced in Fiscal Year 1989 by legislation enacted by the 1987 General Assembly which increases the minimum size of estates subject to State inheritance taxes from \$10,000 to \$20,000. This is expected to reduce Direct and Collateral Inheritance Tax receipts by \$2,500,000.

	1986 Actual ----- -----	1987 Actual ----- -----	1988 Revised Estimate ----- -----	1989 Estimate ----- -----
	\$ Thousands			
Collateral Inheritance Tax	22,663	24,468	29,359	31,114
Direct Inheritance Tax	8,966	8,619	8,841	8,981
Tax on Commissions of Executors and Administrators	3,040	3,431	3,418	3,644
Maryland Estate Tax	9,753	13,361	10,648	12,388
<b>TOTAL</b>	<b>44,422</b> =====	<b>49,879</b> =====	<b>52,266</b> =====	<b>56,127</b> =====

INTEREST ON INVESTMENTS

Based upon the current level and outlook for interest rates and investable State funds, interest earnings are projected to total \$45,000,000 during Fiscal Year 1988. This is 19.9 percent greater than the amount collected during Fiscal Year 1987.

During Fiscal Year 1989, the Board projects interest earnings to total \$50,000,000.

## TRANSPORTATION REVENUES

Receipts from Motor Vehicle License and Registration fees are being affected by the conversion from annual to staggered registration which began in March 1986. After October 1986, all registrations are being done on a staggered monthly basis, with tags being renewed as they expire. This staggered registration system is estimated to have reduced Fiscal Year 1987 revenues by \$15,500,000. A 35 percent tax increase was enacted by the 1987 General Assembly and will augment Fiscal Year 1988 revenues by approximately \$35,000,000.

The Motor Vehicle Inspection fee will expire on December 31, 1988, under current law. Unless the General Assembly extends this program, transportation revenues will be reduced by \$2,300,000 in Fiscal Year 1989.

Motor Vehicle Titling Tax revenues have grown at an extremely high rate during the last two years. Although sales to date -- spurred by dealer price and financing incentives -- have been strong, there is ample reason to expect a decline in unit auto sales and a slowdown in Titling Tax revenues through Fiscal Year 1989. Economic growth is expected to be slow and erratic, implying a rise in unemployment and a reduction in consumer confidence. Auto sales are projected to stagnate or decline during Calendar Years 1988 and 1989 by many of the economic forecasters. Offsetting these factors, auto prices are projected to rise throughout the period. As a result, Motor Vehicle Titling Tax revenues are expected to rise by 0.3 percent during Fiscal Year 1988 and by only 0.9 percent during Fiscal Year 1989.

Motor fuel supplies are currently adequate and are expected to remain so through June 1989. It is expected that fuel prices will not rise substantially during this period. However, an adverse court ruling debars collection of the Motor Carrier Decal fee beyond June 30, 1988. Unless corrective action is taken by the 1988 General Assembly, this will reduce Motor Fuel Tax revenues by approximately \$12,000,000 during Fiscal Year 1989.

Table 5 below contains a detailed analysis of Transportation revenues for each of Fiscal Years 1986 through 1988.

MARYLAND MOTOR VEHICLE USER REVENUES  
FOR FISCAL YEARS 1986, 1987, 1988 AND 1989

\$ Thousands

	1986 Actual	1987 Actual	1988		1989 Estimate
			Present Budget Estimate	Revised Estimate	
MOTOR VEHICLE REVENUES:					
Motor Vehicle Licenses and Registration	99,886	88,342	141,000	141,000	145,000
Miscellaneous Motor Vehicle Fees	9,839	9,548	11,000	11,500	11,800
Vehicle Emission Inspection Fees	3,292	4,347	4,200	4,500	2,300
Security Interest Filing Fees - Counties	1,327	1,437	1,350	1,450	1,475
Security Interest Filing Fees - Special Funds	1,327	1,437	1,350	1,450	1,475
Security Interest Filing Fees - Court Costs	2,654	2,875	2,700	2,900	2,950
Hauling Fees	3,316	3,724	3,700	4,000	4,300
Driver's Education Fees	4,470	4,286	4,750	4,600	4,750
Special License Tags - Special Funds	350	350	350	350	350
Special License Tags - General Funds	823	746	1,250	850	900
Special License Tags - DOT	75	75	15	15	15
Motor Vehicle Titling Tax	296,475	339,497	305,000	340,000	343,000
<b>Total</b>	<b>423,834</b>	<b>456,664</b>	<b>476,665</b>	<b>512,615</b>	<b>518,315</b>
Motor Vehicle Fuel Tax - Special Funds	314,537	337,288	442,500	448,602	446,674
Motor Vehicle Fuel Tax - General Funds	5,951	7,052	10,000	9,898	10,126
<b>Total</b>	<b>320,488</b>	<b>344,340</b>	<b>452,500</b>	<b>458,500</b>	<b>456,800</b>
<b>GRAND TOTAL</b>	<b>744,322</b>	<b>801,004</b>	<b>929,165</b>	<b>971,115</b>	<b>975,115</b>

TABLE 5



APPENDIX A

U. S. ECONOMIC PROSPECTS

The following narrative provides a summary of select national economic forecasts consulted in the preparation of this report on Maryland's revenue prospects for Fiscal Years 1988 and 1989:

Merrill Lynch Weekly Economic & Financial Commentary - October 26, 198

As a result of the stock market quake, financial wealth has declined by roughly \$1 trillion -- the equivalent of nearly a decade of personal savings. Some major conclusions are clear.

- The economy is likely to be softer in 1988 than it would have been had the stock market not plunged. But a recession is by no means a foregone conclusion.
- Consumer spending is likely to slow due to the negative wealth effect and a downturn in consumer confidence. Housing activity will also weaken in the short term.
- Business investment plans may now be at risk as companies reassess the economic climate.
- The Fed will supply liquidity as needed to keep financial markets functioning smoothly. Interest rates will decline in the short run.
- Reducing the deficit just when the economy is slowing creates the risk of converting the slowdown into something worse.

The crash in the stock market is a deflationary shock to the U. S. and world economy which will lower real growth in 1988, but also reduce inflation. Lessened upward pressure on interest rates should reduce the severity of the slowdown expected for late 1989.

While the risk of a near-term recession has clearly increased, it does not yet appear to be high enough to warrant inclusion in our baseline. The magnitude of the drop in consumer spending and business investment in response to the stock market crash, combined with the willingness of the Fed to ease monetary policy, will ultimately determine how well the U. S. economy weathers this storm.

The crash has brought the seriousness of the federal and trade deficits into clear focus. The resulting increased pressure for a long-term solution to U. S. budget deficits may have actually improved the longer run outlook for the U. S. economy.

The following table summarized key elements of the WEFA forecast for the 1987, 1988 and 1989 calendar years:

	<u>1987</u>	<u>1988</u>	<u>1989</u>
<u>Percent Change In:</u>			
Real GNP	2.6%	2.2%	2.2%
GNP Price Level	2.9	3.4	3.9
Pre-Tax Corporate Profits	11.8	- 2.3	6.2
<u>Level Of:</u>			
New Car Sales (000)	10,300	10,200	10,200
Housing Starts (000)	1,660	1,580	1,470

Turning Points - November 20, 1987

The longest peacetime recovery in history still booms in spite of the stock market drop. Things are very good. But can we hold it together, what with a trillion dollars in personal wealth now disappeared. With this issue a switch to caution is advised.

If the forces of luck are with us, the consumer will fool us and continue to spend on cars, homes, etc. The danger is the psychological one: scaring the consumer to death.

Recession is now a real possibility, and we have followed the concept that a recession of average duration and intensity will start in the next year or so. Our forecast alternatives include the following cyclical peaks and probabilities:

<u>Alternative</u>	<u>Cyclical Peak</u>	<u>Probability</u>
Optimistic	June 1989	25%
Best Bet	December 1988	50%
Pessimistic	June 1988	25%

Based upon the "Best Bet" alternative, the following table summarizes key elements of the Turning Points forecast for the 1987 and 1988 calendar years:

	<u>1987</u>	<u>1988</u>
<u>Percent Change In:</u>		
Real GNP	2.3%	1.9%
GNP Price Index	3.2	3.8
<u>Level of:</u>		
New Car Sales (000)	10,300	10,300
Housing Starts (000)	1,654	1,585

Blue Chip Economic Indicators - November 10, 1987

The Consensus Forecast for real GNP growth in 1988 took the biggest "month-from-prior-month" dive in our 11 year history -- sliding nearly a full percentage point (from 2.8 percent to 1.9 percent). The sudden and drastic drop in stock prices with the resulting high potential of undermining consumer spending was volunteered as the key factor behind this dramatic downward revision.

More than half the Blue Chip panel think the start of the next recession will be in early 1989.

Expect a cooler economic climate in 1988 and a moderate heating of inflation. Watch for the possible start of a recession.

The following table summarizes key elements of the Blue Chip forecast for the 1987 and 1988 calendar years:

	<u>1987</u>	<u>1988</u>
<u>Percent Change In:</u>		
Real GNP	2.6%	1.9%
Consumer Prices	3.8	4.2
Pre-Tax Corporate Profits	9.2	3.0
<u>Level Of:</u>		
New Car Sales (000)	10,100	9,900
Housing Starts (000)	1,650	1,550

Kent Model Forecast-Journal of Business Forecasting - Fall 1987

Despite the disturbances in the financial markets, good overall performance is predicted for the rest of 1987 and for 1988. In 1988, the unemployment rate is expected to remain close to 6 percent, inflation will increase only marginally, and interest rates will remain at low levels. Consumer spending (mainly on services), low international value of the dollar, defense spending and business outlays on equipment are expected to be the main factors driving the economy upward.

The following table summarizes key elements of the Kent forecast for the 1987 and 1988 calendar years:

	<u>1987</u>	<u>1988</u>
<u>Percent Change In:</u>		
Real GNP	2.7%	3.1%
Consumer Prices	3.6	3.9
Pre-Tax Corporate Profits	--	--
<u>Level Of:</u>		
New Car Sales (000)	9,700	10,300
Housing Starts (000)	1,692	1,735

Annual Survey of the National Association of Business Economists - October, 1987

Real growth in GNP is expected to average 2.7 percent in 1988, following a 3.0 percent gain in 1987. Inflation is expected to be higher in 1988 than in 1987.

Ninety percent of economists surveyed believe that a recession will occur before the end of 1989.

The following table summarizes key elements of the NABE survey for the 1987 and 1988 calendar years:

	<u>1987</u>	<u>1988</u>
<u>Percent Change In:</u>		
Real GNP	3.0%	2.7%
Consumer Prices	4.5	4.8
After-Tax Corporate Profits	5.0	4.0
<u>Level Of:</u>		
New Car Sales (000)	10,300	10,500
Housing Starts (000)	1,650	1,600

## APPENDIX B

## Summary of U.S. Economic Forecasts

Source	Calendar Year 1987			
	Percent Change In		Level (in thousands)	
	Real GNP	Corporate Profits	Car Sales	Housing Starts
WEFA Group	2.6%	11.8%	10,300	1,660
Data Resources, Inc.	2.7	14.2	10,200	1,652
Turning Points	2.3	--	10,300	1,654
Kent State	2.7	13.0	9,700	1,692
Value Line	2.5	--	9,800	1,630
Blue Chip Economic Indicators	2.6	9.2	10,100	1,650
National Assn of Business Economists	3.0	5.0	10,300	1,650

Source	Calendar Year 1988			
	Percent Change In		Level (in thousands)	
	Real GNP	Corporate Profits	Car Sales	Housing Starts
WEFA Group	2.2%	-2.3%	10,200	1,580
Data Resources, Inc.	1.6	-8.6	9,900	1,511
Turning Points	1.9	--	10,300	1,585
Kent State	3.1	10.0	10,300	1,735
Value Line	3.2	--	10,600	1,600
Blue Chip Economic Indicators	1.9	3.0	9,900	1,550
National Assn of Business Economists	2.7	4.0	10,500	1,600

Source	Calendar Year 1989			
	Percent Change In		Level (in thousands)	
	Real GNP	Corporate Profits	Car Sales	Housing Starts
WEFA Group	2.2%	6.2%	10,200	1,470
Data Resources, Inc.	3.0	24.1	9,800	1,678
Turning Points	--	--	--	--
Kent State	2.1	12.0	--	--
National Assn of Business Economists	--	--	--	--