Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: APRIL 2017

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ECONOMY: Divergent Readings

Edward H. Boss, Jr., Chief Economist

In judging the current, yet alone future, direction of the U.S. economy, it seems clouded by divergent movements in key measures of its performance. For example, at month's end, the Commerce Department's advance first quarter report on real GDP showed a marked slowdown with inflation adjusted GDP growth rising a modest 0.7 %, the slowest pace since a 1.2% decline in the first quarter of 2014. Some question its significance, however, as it is based on incomplete data and subject to revision. Moreover, the slowdown repeats the pattern of recent years where a weakening in the first half of the year was followed by a healthier second half. Still the first quarter growth was less than had been expected and follows last year's meager growth for the year of 1.6%, the slowest since 2011.

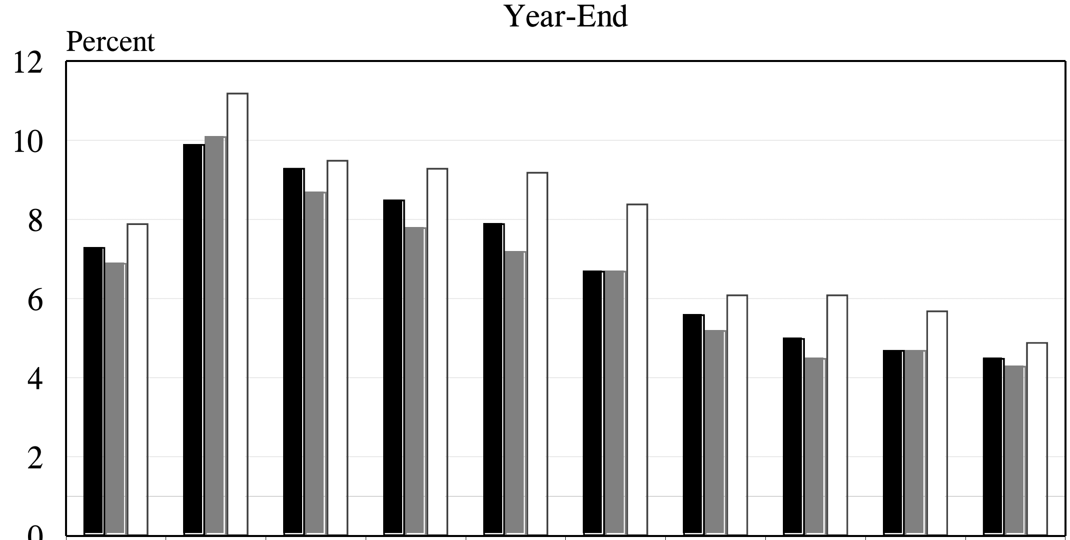
The largest component of growth is the consumer, which accounts for about 70% of total spending. Thus it is noteworthy that while sales in the January through March period of 5.4% matched that of a year ago, retail sales actually declined during February and March this year. Indeed, real personal consumption expenditures edged up a modest 0.3% in the first quarter from 3.5% in the final quarter, and 2.7% for all of last year. At the same time, despite softer sales, consumer prices firmed. The overall CPI averaged a 2.5% increase in the first quarter from slightly over 1% in the year earlier period. However, the core CPI that excludes the volatile food and energy sectors rose at the same 2.1% rate as in the first quarter of last year, largely due to declining energy prices.

In contrast, while the pace of economic activity slows, the employment picture appears to be strengthening. March's unemployment rate fell to 4.5%, the lowest rate since May 2007, as the economy was peaking prior to the last recession.

CHART 1

COMPARATIVE UNEMPLOYMENT RATES

Year-End



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
U.S.	7.3	9.9	9.3	8.5	7.9	6.7	5.6	5	4.7	4.5
Midwest	6.9	10.1	8.7	7.8	7.2	6.7	5.2	4.5	4.7	4.3
Illinois	7.9	11.2	9.5	9.3	9.2	8.4	6.1	6.1	5.7	4.9

Perhaps even more encouraging is that the U6 definition of unemployment, which includes those marginally attached to the labor force plus part time unemployed due to economic reasons and declared by many as “the truer unemployment rate”, fell to 8.9%. This put it at the lowest level since November 2007. At the same time the stock market continues to reach record levels and confidence measures are strong.

Similar divergent economic reports appear in Illinois. On the one hand the unemployment rate fell to 4.9% in March; this is the lowest rate in a decade. On the other hand, another survey showed nonfarm payroll employment fell for three consecutive months. It dropped by 8,900 in March and, as population in the State declines, there now are fewer payroll jobs than in calendar year 2000. Recent gains in manufacturing jobs also have been diminishing, with some being picked up by surrounding states. After rising impressively from 2010 to 2012 Illinois manufacturing jobs stabilized through 2015 before beginning to decline. By March 2017, these jobs had retraced back to the levels reached in September 2010. As President Truman was quoted saying, “Give me a one-handed economist as all my economists say on the one hand… on the other.”

As shown in the above chart, the overall Midwest March unemployment rate was 4.3%, below the national rate of 4.5% and well below the 4.9% in Illinois. As shown in the chart, however, the gap between Illinois’ rate, which averaged almost 1.5% higher in the five years ended 2016, has been narrowing and last month was only 0.4% higher than that of the nation.

Even as Illinois' 4.9% unemployment rate had come down significantly, there remain large differences among the states. Illinois' unemployment rate was higher in all but 2 of the 12 states that make up the Midwest region in March. Both Michigan and Ohio had the highest unemployment rates, 5.1% each last month. The lowest unemployment rates were in the Dakotas where the unemployment rate was 2.8% in both North and South Dakota while the remaining 7 States had March unemployment rates in a range of 3.1% to 3.9%.

There are even wider unemployment rate disparities within the metro areas of Illinois than those among the Midwest states. While unemployment rates were down from a year ago in all but one of the metro areas in the state, six of the metro areas reported job increases while eight reported fewer payroll jobs than a year earlier. The highest unemployment rate was in Rockford at 8.3%, up 1.1 from 7.2% in March 2016. The lowest unemployment rate last month was in the Chicago-Naperville-Arlington Heights area with an unemployment rate of 4.2%, followed by Bloomington at 4.3%. Four other metro areas including Springfield and Champaign-Urbana had unemployment rates below 5% while seven had unemployment rates between 5% and 6.5%.

In looking ahead, while it appears that economic growth will recover from the initial first quarter reading, there is little reason at this time to expect, absent major policy changes, any improvement from the anemic growth of the past few years. In this context Illinois is likely to continue to lag both the nation and Midwest with widely divergent trends in its metro areas as population declines and manufacturing employment weakens and jobs move out of the state.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS *	March 2017	February 2017	March 2016
Unemployment Rate (Average)	4.9%	5.4%	6.1%
Annual Rate of Inflation (Chicago)	-0.1%	0.1%	2.0%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (March)	6,523.6	0.1%	-0.6%
Employment (thousands) (March)	6,200.8	0.4%	0.6%
NonFarm Payroll Employment (March)	6,035,300	-8,900	25,500
New Car & Truck Registration (March)	49,828	22.3%	-13.5%
Single Family Housing Permits (March)	958	71.9%	-11.1%
Total Exports ($ mil) (February)	4,904.5	-4.0%	-4.8%
Chicago Purchasing Managers Index (April)	58.3	1.0%	15.6%

* Due to monthly fluctuations, trend best shown by % change from a year ago

Downgrades of Illinois Universities
Lynnae Kapp, Senior Bond Analyst

Rating agencies have downgraded the State's public universities due to the reliance on State appropriations among other problems the universities may be dealing with, such as low enrollment, weak revenue growth and already stretched liquidity:

Standard & Poor's has downgraded universities over the past year and most recently at the end of April 2017 (uninsured ratings). "The CreditWatch Negative status reflects our view of the potential for negative rating action on the university if no further state operating appropriations are received for the remainder of fiscal 2017. We could consider additional negative rating action, including a multinotch downgrade during the CreditWatch period, if we lower our rating on the state," said S&P Global Ratings Credit Analyst Ashley Ramchandani. S&P doesn't rate CSU or NIU.

S & P	Ratings	2016 Downgrades	2017 Downgrades	Status
U of I	from AA-	to **A+**	to A	CreditWatch negative implications
ISU	from A+	to A		
SIU	from A	to BBB+	to BB **(junk)**	CreditWatch negative implications
WIU	from A-	to BBB-	to BB- **(junk)**	CreditWatch negative implications
GSU	from BBB+	to BB+ **(junk)**		CreditWatch negative implications
EIU	from A-	to BB **(junk)**		CreditWatch negative implications
NEIU	from A-	to BB **(junk)**	to B **(junk)**	CreditWatch negative implications

Moody's downgraded State public universities' bonds multiple levels in the last year (uninsured ratings), and mid-April 2017 placed six of these universities on review for possible downgrade. "The reviews will focus on each university's exposure to continuing state budget pressure given failure of the state to adopt a budget for the current fiscal year and the resulting use of each university's own liquidity to bridge the funding shortfall. Moody's doesn't rate CSU and withdrew ratings for WIU. [Moody's Investor Service Rating Action: Moody's Places 6 Illinois Public Universities Under Review for Downgrade, April 17, 2017]

Moody's	Ratings	2016 Downgrades	2017 Downgrades	Status
U of I	Aa3			Under Review
ISU	from A3	to Baa1		Under Review
SIU	from A3	to Baa2		Under Review
NIU	from A3	to Baa3		Under Review
GSU	from Baa1	to Ba1 **(junk)**		Under Review
NEIU	from Baa1	to Ba2 **(junk)**	to B1 **(junk)**	Under Review
EIU	from Baa1	to B1 **(junk)**		Under Review

REVENUE
Strong Federal Sources Mitigate Weakness
Jim Muschinske, Revenue Manager

Overall base revenues grew $216 million in April. The gains reflect strong reimbursable spending in April, with subsequent federal source receipts growing $319 million for the month. Unfortunately, most other revenue sources experienced disappointing results, particularly the "Big Three" of personal, corporate, and sales taxes. April had one less receipting day as compared to the same period last year.

Gross personal income tax receipts grew $99 million or $40 net of refunds and diversions to the Fund for Advancement of Education and Commitment to Human Services Fund. While still positive, the monthly performance can be viewed as disappointing as a stronger month stemming from final payments was anticipated. This is especially true since the reclassification of pass-through withholding is now receipted under the personal income tax designation. Corporate franchise taxes managed to grow $4 million, other sources increased $3 million, and vehicle use taxes posted $2 million in gains.

Gross corporate income taxes continue to disappoint as receipts fell $91 million, or $86 million net of refunds. Also disappointing was the performance of sales tax receipts with monthly revenues weakening by $30 million. Public utility taxes gave back some of last month's timing gains, as receipts eased $13 million. Inheritance tax fell $9 million, insurance taxes and fees lowered $5 million, and cigarette taxes dipped $2 million.

Overall transfers declined $7 million in April. The $16 million falloff in Lottery transfers was partially offset by a $6 million gain in miscellaneous transfers and a $3 million increase in riverboat transfers. Federal sources experienced a legitimately large monthly increase of $319 million, due to a surge in reimbursable spending. [March also increased, but due to an extremely low month the prior year].

Year To Date

With only two months remaining in the fiscal year, despite two consecutive months of growth, base receipts are off $1.098 billion, or 4.3%. As discussed in earlier briefings, the receipt weakness is widespread, and has resulted in disappointing performances in key areas such as income and sales taxes as well as federal sources.

To date, gross corporate income taxes are off $838 million, or $737 million net of refunds. Inheritance tax, true to its volatile nature, declined $60 million. Public utility taxes are off of last year's pace by $55 million, while sales taxes continue to disappoint and raise concerns with its present $36 million decline. Cigarette taxes are down, falling $12 million through April.

Other sources leads those revenue areas which have posted gains thus far in the fiscal year, as receipts are up $131 million, in large part to a one-time $84 million deposit of an SERS repayment. With the boost in March and April payments as well as reclassification of pass-through withholdings, gross personal income taxes are up by $104 million, however, on a net basis they are actually down $88 million. Interest income has grown $8 million, corporate franchise is up $6 million, insurance taxes is ahead by $3 million, and liquor taxes managed to grow $2 million.

Overall transfers are down $94 million, while federal sources, despite positive performances as of late, remain $166 million behind last year's pace.

APRIL

FY 2017 vs. FY 2016

($ million)

Revenue Sources	April FY 2017	April FY 2016	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,971	$1,872	$99	5.3%
Corporate Income Tax (regular)	424	515	($91)	-17.7%
Sales Taxes	626	656	($30)	-4.6%
Public Utility Taxes (regular)	72	85	($13)	-15.3%
Cigarette Tax	27	29	($2)	-6.9%
Liquor Gallonage Taxes	14	14	$0	0.0%
Vehicle Use Tax	2	0	$2	N/A
Inheritance Tax	13	22	($9)	-40.9%
Insurance Taxes and Fees	62	67	($5)	-7.5%
Corporate Franchise Tax & Fees	16	12	$4	33.3%
Interest on State Funds & Investments	3	3	$0	0.0%
Cook County IGT	0	0	$0	N/A
Other Sources	42	39	$3	7.7%
Subtotal	$3,272	$3,314	($42)	-1.3%
Transfers				
Lottery	52	68	($16)	-23.5%
Riverboat transfers & receipts	4	1	$3	300.0%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Fund sweeps	0	0	$0	N/A
Other	44	38	$6	15.8%
Total State Sources	$3,372	$3,421	($49)	-1.4%
Federal Sources	$553	$234	$319	136.3%
Total Federal & State Sources	$3,925	$3,655	$270	7.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($221)	($182)	($39)	21.4%
Corporate Income Tax	($73)	(78)	$5	-6.4%
Fund for Advancement of Education	($48)	(38)	($10)	26.3%
Commitment to Human Services Fund	($48)	(38)	($10)	26.3%
Subtotal General Funds	$3,535	$3,319	$216	6.5%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$3,535	$3,319	$216	6.5%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-May-17

GENERAL FUNDS RECEIPTS: YEAR TO DATE FY 2017 vs. FY 2016 ($ million)				
Revenue Sources	**FY 2017**	**FY 2016**	**CHANGE FROM FY 2016**	**% CHANGE**
State Taxes				
Personal Income Tax	$12,894	$12,790	$104	0.8%
Corporate Income Tax (regular)	1,213	2,051	($838)	-40.9%
Sales Taxes	6,636	6,672	($36)	-0.5%
Public Utility Taxes (regular)	738	793	($55)	-6.9%
Cigarette Tax	283	295	($12)	-4.1%
Liquor Gallonage Taxes	144	142	$2	1.4%
Vehicle Use Tax	25	25	$0	0.0%
Inheritance Tax	217	277	($60)	-21.7%
Insurance Taxes and Fees	318	315	$3	1.0%
Corporate Franchise Tax & Fees	177	171	$6	3.5%
Interest on State Funds & Investments	28	20	$8	40.0%
Cook County IGT	150	150	$0	0.0%
Other Sources	465	334	$131	39.2%
Subtotal	$23,288	$24,035	($747)	-3.1%
Transfers				
Lottery	563	554	$9	1.6%
Riverboat transfers & receipts	232	238	($6)	-2.5%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	4	77	($73)	-94.8%
Fund sweeps	0	0	$0	N/A
Other	431	455	($24)	-5.3%
Total State Sources	$24,528	$25,369	($841)	-3.3%
Federal Sources	$2,219	$2,385	($166)	-7.0%
Total Federal & State Sources	$26,747	$27,754	($1,007)	-3.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,444)	($1,246)	($198)	15.9%
Corporate Income Tax	($210)	($311)	$101	-32.5%
Fund for Advancement of Education	($370)	($373)	$3	N/A
Commitment to Human Services Fund	($370)	($373)	$3	N/A
Subtotal General Funds	$24,353	$25,451	($1,098)	-4.3%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$125	($125)	-100.0%
Total General Funds	$24,353	$25,576	($1,223)	-4.8%

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.

CGFA 1-May-17