Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: APRIL 2018

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10-Year Anniversary of the Great Recession Part 3 - Housing

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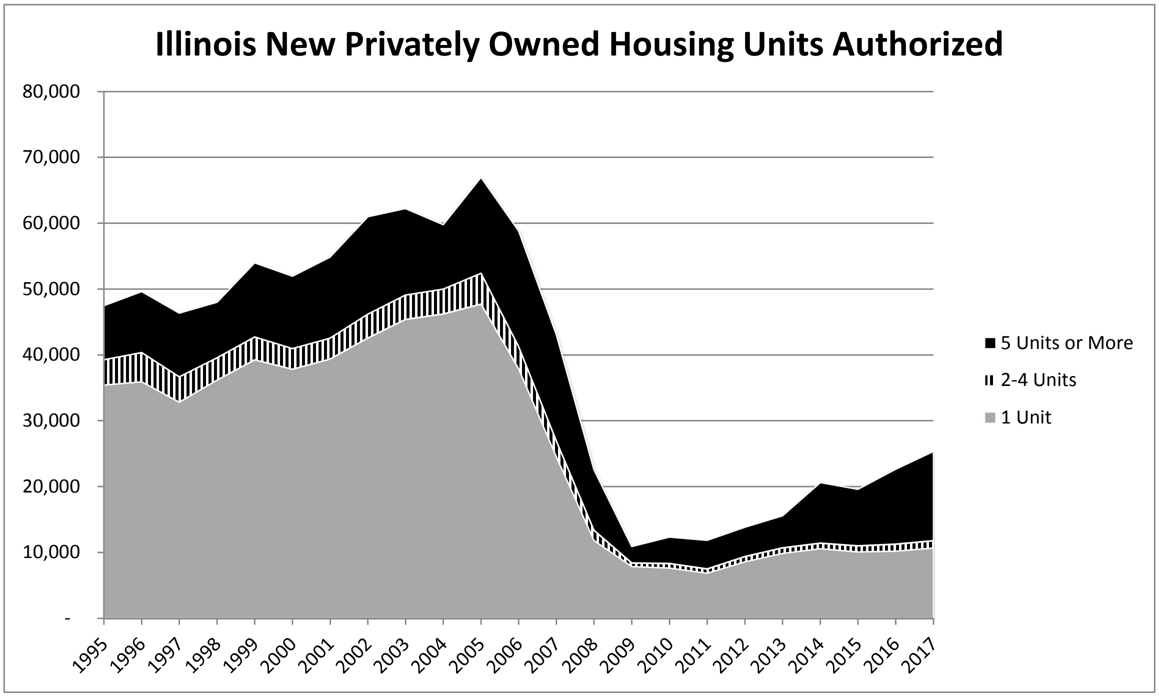
In this month's briefing, the Commission returns to its earlier examination of the Illinois economy ten years removed from the "Great Recession." In parts one and two of this series, published in November and December of 2017, the Commission looked at how the economy recovered as measured by real Gross Domestic Product (GDP). This month the Commission will examine how the housing market has recovered in Illinois.

One of the major events leading to the Great Recession was the bursting of the housing bubble in the mid-2000s. Low interest rates and rising home prices in the early 2000s led to increased speculation in the housing market.

Around the turn of the century, the seasonally adjusted rate for new privately owned housing starts was consistently around 1.6 million units for the whole county. Beginning in 2002, this number began to steadily increase until in January of 2006 when this number peaked at 2.3 million on an annualized basis.

This peak was followed by a three-year descent as the housing bubble deflated. In April of 2009, new housing starts totaled only 478,000 units. This was its lowest point since at least the 1960s. Since then, housing starts have steadily increased to its current level of approximately 1.3 million units per year. While this is improvement from the lows related to the Great Recession, it still is a level more associated with the troughs of previous housing cycles.

To examine how Illinois has done in comparison to the



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country and the Midwest, the Commission examined data on permits for new privately-owned housing units. The U.S. Bureau of the Census defines a housing unit is a house, an apartment, a group of rooms, or a single room occupied or intended for occupancy as separate living quarters.

Between 1995 and 2000, Illinois averaged authorization permits for approximately 49,500 new privately-owned housing units. Between 2001 and 2005, Illinois averaged growth of 5.4% per year to reach a high of 66,942 units in 2005.

This was followed by four years of steep declines. The bottom of the housing collapse saw Illinois have permits for only 10,859 new units in 2009. The 10,859 new units was a decline of 84% when compared to the peak in 2005. Illinois fell further than the Midwest and the country as a whole as they declined 73% from their peaks.

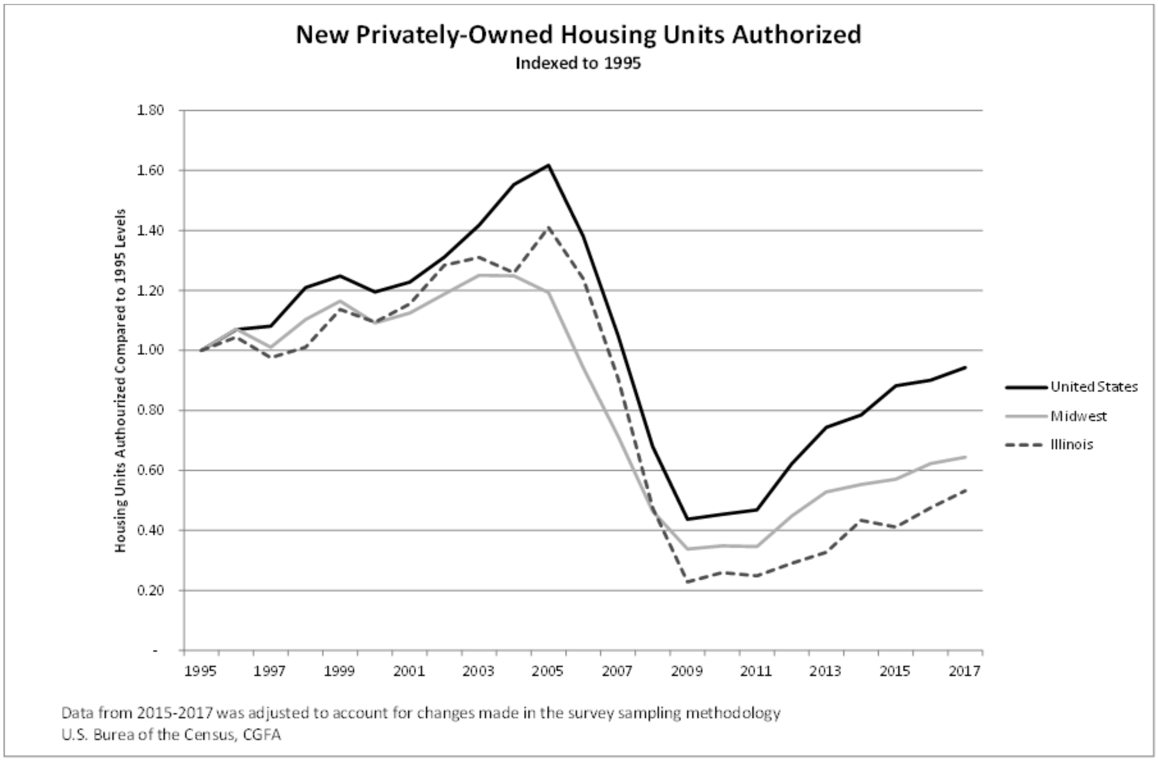
Besides a large change in the number of housing units authorized, the type of structure that those units are housed in has also changed. In Illinois from 1995 to 2005 approximately 73% of new housing units were from single-unit homes, while buildings with five or more units contributed about 20% of total units. Since 2005, the percentage of new units authorized from single-family homes has declined precipitously. In 2017, just 42% of new housing units were in single-family homes. Over half the new units authorized in Illinois were from buildings with five or more units. The change in the number and type of housing units can be seen in the chart above.

To illustrate the comparison between Illinois, the Midwest, and the U.S., the Commission indexed the total number of new privately-owned units sought to 1995 levels. As can be seen in the second chart, the U.S. as a whole grew faster than Illinois or the Midwest. Compared to 1995 levels, the U.S. had grown by just over 60% in 2005, while Illinois had risen by just over 40%, and the Midwest grew by only 19%. One thing that stands out is that housing permits for the Midwest actually peaked in 2003.

The slowdown in housing in Illinois continued longer and deeper than in the rest of the country. The chart shows that the U.S. bottomed out at 44% of its 1995 level in 2009. The Midwest was at 34%, while Illinois lagged at only 23%. Illinois was at less than 30% of its 1995 level between 2009 and 2013.

By 2017, the U.S. as a whole had almost regained its 1995 level, while the Midwest and Illinois continue to climb back to that level. In 2017, the U.S. had permits for 1.257 million new units which equaled 94% of the 1995 level. The Midwest had permits equal to approximately 64%. Illinois builders sought permits for just over 25,000 new units which corresponded to only 53% of its 1995 levels.

According to the U.S. Bureau of the Census, home ownership in Illinois peaked in 2004 at 72.7%. In 2017, this percentage had declined to 65.4%. This was the lowest level since 1994.



INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Mar.)	4.6%	4.7%	5.0%
Inflation in Chicago (12-month percent change) (Mar.)	1.8%	1.6%	2.0%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Mar.)	6,493.0	0.0%	0.1%
Employment (thousands) (Mar.)	6,195.4	0.1%	0.5%
Nonfarm Payroll Employment (Mar.)	6,093,100	-2,100	39,200
New Car & Truck Registration (Mar.)	43,603	14.8%	-12.5%
Single Family Housing Permits (Mar.)	1042	100.0%	8.8%
Total Exports ($ mil) (Feb.)	5,095.0	1.2%	3.9%
Chicago Purchasing Managers Index (Apr)	57.6	0.3%	-1.2%

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

May 2018 Bond Sale
Lynnae Kapp, Senior Analyst

BOND SALES

Illinois competitively sold $500 million of General Obligation bonds in two series April 25, 2018. The $450 million May 2018A Series received nine bids with a true interest cost of 4.7442%. The $50 million May 2018B Series received eleven bids with a true interest cost of 4.3348%. The combined true interest cost is 4.72%. Interest rates have increased and Illinois' spreads have widened since the State's G.O. sale in November. Nonetheless, the State did better than its secondary trading levels due to market demand for high-yield bonds. "The long 25-year maturity in the Wednesday sale landed at 4.88%, a 185 bp spread to the AAA early in the trading day and a 102 spread to the BBB. The state's longer bonds have recently traded at a 195 bp spread and in the November sale came in around a 163 bp spread according to MMD." [*Illinois Pays More to Borrow As Investors Worry about State's Prospects*, The Bond Buyer, April 25, 2018; *Municipals Weaken as Illinois, Port Authority Deals Come to Market*, The Bond Buyer, April 25, 2018]

STATE-ISSUED BOND SALES								
DATE	BOND SALE TYPE	AMOUNT	TAXABLE v. TAX-EXEMPT	NEGOTIATED v. COMPETITIVE SALE	TRUE INTEREST COST	S&P	FITCH	MOODY'S
FY 2016								
Jan-16	General Obligation bonds	$480 million	tax-exempt	competitive	3.999%	A-	BBB+	Baa1
Jun-16	General Obligation bonds	$550 million	tax-exempt	competitive	3.743%	BBB+	BBB+	Baa2
FY 2017								
Sep-16	Build IL 2016A	$150 million	tax-exempt	competitive	2.442%	AAA	AA+	Baa2
	Build IL 2016B	$60 million	taxable					
	Build IL 2016C Refunding	$152 million	tax-exempt					
	Build IL 2016D Refunding	$187 million	tax-exempt					
Oct-16	General Obligation Refunding	$1.3 billion	tax-exempt	negotiated	3.7616% Discount Rate	BBB	BBB+	Baa2
Nov-16	General Obligation bonds	$480 million	tax-exempt	competitive	4.245%	BBB	BBB+	Baa2
FY 2018								
Nov-17	General Obligation 2017A/B/C	$1.5 billion	tax-exempt	competitive	combined 3.46%	BBB-	BBB	Baa3
Nov-17	General Obligation 2017D	$4.5 billion	tax-exempt	negotiated	3.55%	BBB-	BBB	Baa3
Dec-17	General Obligation 2018A & B	$750 million	tax-exempt	competitive	combined 4.29%	BBB-	BBB	Baa3
May-18	General Obligation 2018A & B	$500 million	tax-exempt	competitive	combined 4.72%	BBB-	BBB	Baa3

REVENUE: APRIL RECEIPTS BOLSTERED BY EXTRA RECEIPTING DAY—STRONG LAST DAY LIKELY REFLECTS ONE-TIME NON-WAGE REVENUES

Jim Muschinske, Revenue Manager

Base receipts grew $937 million in April, with gains posted by most of the larger revenue sources. An extra receipting day for the month resulted in a large final day of personal income tax revenues, some of which would likely have fallen into early May if not for the extra processing day. [As an aside, this upcoming June will have one less receipting day]. While a precise component breakdown is not yet available for April's income tax receipts, preliminary data indicate that another reason for April's impressive performance was due to strong final day extension payments. Presumably, this was due to non-wage related revenues. Such items could include dividends and capital gains stemming from market conditions in tax year 2017, as well as remnant one-time impacts from federal tax changes [i.e. repatriated income]. Also, to the extent taxpayers filing extensions overpaid to avoid penalty, that may manifest in increased future refund demand next fiscal year when returns are finalized, although it's too early to quantify such impacts.

As a result, this one month moderate over performance cannot be extrapolated into future underlying growth. In fact, revenue of a one-time nature usually serves to increase future uncertainty and introduce volatility. One only needs to view recent market conditions to appreciate how abrupt changes in non-wage financials can occur; after returning nearly 10% in 2016 and nearly 19% in 2017, the S&P is down over 1% year to date. Similarly, one-time impacts related to federal changes regarding dividend and repatriation, while a positive in FY 2018 are not expected to repeat in similar magnitude in future years. As a result, those same changes will act as a drag on overall growth rates next fiscal year.

Caveats aside, monthly gross personal income taxes were up $1.040 billion, or $914 million net of refunds and other changes enacted under P.A. 100-23. [See July briefing for further discussion of these changes]. To repeat, aside from higher tax rates, some of that increase is due to timing related to the extra processing day, while other non-wage growth should be viewed as more one-time in nature. Gross corporate income also reflected higher tax rates, increasing $133 million, or $80 million net. Sales tax returned an increase of $51 million in April, but due to a disruption in the usual sales tax distribution experienced in March/April of last year, this monthly gain should be viewed as rather pedestrian. [When the direct deposits to the transportations funds are factored, net sales tax actually experienced a $21 million decline]. Insurance taxes continued strong, up $15 million for the month, while inheritance tax grew $8 million, interest income $2 million, and vehicle use $1 million.

Despite an overall very positive month, a few revenue sources suffered declines in April. Other sources declined by $10 million and public utility taxes eased $5 million. Corporate franchise taxes were off by $2 million, while cigarette taxes dipped by $1 million.

Overall transfers grew a modest $15 million in April. Lottery transfers grew $18 million, while riverboat gaming transfers increased $3 million. All other miscellaneous transfers declined by $6 million. Federal sources experienced a decline of $59 million due to lower reimbursable spending, but still experienced a strong month of receipts when compared with a stellar month one year earlier.

Year To Date

Excluding November's $2.5 billion bond sale transfer proceeds, as well as $516 million from interfund borrowing, base general funds grew $7.898 billion through April. Increased income tax receipts as well as fund sweeps, and an increase in federal sources resulted in a significant gain.

With two months remaining in the fiscal year, gross personal income taxes are up $4.594 billion, or $4.204 billion net of refunds and other changes. Gross corporate income taxes are ahead of last year by $812 million, or $564 million net. While overall sales taxes are up $195 million, once direct sales tax receipts diverted to the transportation funds are factored, net receipts are actually down $162 million. Smaller revenue sources posted a combined gain of $81 million.

Overall transfers, boosted by $251 million in fund sweeps, are up by $557 million. Federal sources, reflecting significantly higher reimbursable spending made possible by the November bond sale generated $2.654 billion in growth. In fact, federal sources have performed so strongly in FY 2018, related to reimbursable spending, that the potential exists for downward pressure on expectations for the next fiscal year. Of course that would depend on appropriation levels, reimbursable vouchers being submitted for payment, available resources, and ultimately the payment priorities of the Comptroller's Office.

APRIL
FY 2018 vs. FY 2017
($ million)

Revenue Sources	April FY 2018	April FY 2017	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$3,011	$1,971	$1,040	52.8%
Corporate Income Tax (regular)	557	424	$133	31.4%
Sales Taxes	677	626	$51	8.1%
Public Utility Taxes (regular)	67	72	($5)	-6.9%
Cigarette Tax	26	27	($1)	-3.7%
Liquor Gallonage Taxes	14	14	$0	0.0%
Vehicle Use Tax	3	2	$1	50.0%
Inheritance Tax	21	13	$8	61.5%
Insurance Taxes and Fees	77	62	$15	24.2%
Corporate Franchise Tax & Fees	14	16	($2)	-12.5%
Interest on State Funds & Investments	5	3	$2	66.7%
Cook County IGT	0	0	$0	N/A
Other Sources	32	42	($10)	-23.8%
Subtotal	$4,504	$3,272	$1,232	37.7%
Transfers				
Lottery	70	52	$18	34.6%
Riverboat transfers & receipts	7	4	$3	75.0%
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	38	44	($6)	-13.6%
Total State Sources	$4,619	$3,372	$1,247	37.0%
Federal Sources	$494	$553	($59)	-10.7%
Total Federal & State Sources	$5,113	$3,925	$1,188	30.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($295)	($221)	($74)	33.5%
Corporate Income Tax	($98)	(73)	($25)	34.2%
Fund for Advancement of Education	$0	(48)	$48	-100.0%
Commitment to Human Services Fund	$0	(48)	$48	-100.0%
LGDF--Direct from PIT	($148)	0	($148)	N/A
LGDF--Direct from CIT	($28)	0	($28)	N/A
Downstate Pub/Trans--Direct from Sales	($72)	0	($72)	N/A
Subtotal General Funds	$4,472	$3,535	$937	26.5%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Income Tax Bond Fund Transfer	$0	$0	$0	N/A
Transfer to Commitment Human Services	$10	$0	$10	N/A
Total General Funds	$4,482	$3,535	$947	26.8%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-May-18

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2018 vs. FY 2017

($ million)

Revenue Sources	FY 2018	FY 2017	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$17,488	$12,894	$4,594	35.6%
Corporate Income Tax (regular)	2,025	1,213	$812	66.9%
Sales Taxes	6,831	6,636	$195	2.9%
Public Utility Taxes (regular)	743	738	$5	0.7%
Cigarette Tax	278	283	($5)	-1.8%
Liquor Gallonage Taxes	144	144	$0	0.0%
Vehicle Use Tax	23	25	($2)	-8.0%
Inheritance Tax	268	217	$51	23.5%
Insurance Taxes and Fees	348	318	$30	9.4%
Corporate Franchise Tax & Fees	175	177	($2)	-1.1%
Interest on State Funds & Investments	58	28	$30	107.1%
Cook County IGT	150	150	$0	0.0%
Other Sources	439	465	($26)	-5.6%
Subtotal	$28,970	$23,288	$5,682	24.4%
Transfers				
Lottery	576	563	$13	2.3%
Riverboat transfers & receipts	238	232	$6	2.6%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	0	4	($4)	N/A
Fund sweeps	251	0	$251	N/A
Other	722	431	$291	67.5%
Total State Sources	$30,767	$24,528	$6,239	25.4%
Federal Sources	$4,873	$2,219	$2,654	119.6%
Total Federal & State Sources	$35,640	$26,747	$8,893	33.2%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($1,714)	($1,444)	($270)	18.7%
Corporate Income Tax	($355)	(210)	($145)	69.0%
Fund for Advancement of Education	$0	(370)	$370	-100.0%
Commitment to Human Services Fund	$0	(370)	$370	-100.0%
LGDF--Direct from PIT	($860)	0	($860)	N/A
LGDF--Direct from CIT	($103)	0	($103)	N/A
Downstate Pub/Trans--Direct from Sales	($357)	0	($357)	N/A
Subtotal General Funds	$32,251	$24,353	$7,898	32.4%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$516	$0	$516	N/A
Income Tax Bond Fund Transfer	$2,500	$0	$2,500	N/A
Transfer to Commitment Human Services	$10	$0	$10	N/A
Total General Funds	$35,277	$24,353	$10,924	44.9%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-May-18