



Commission on Government Forecasting and Accountability

802 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: May 2019

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ECONOMY: Have Expectations Changed?

Benjamin L. Varner, Senior Analyst and Economic Specialist

In the December 2018 monthly briefing, the Commission observed economic expectations entering the new year by examining the forecasts provided by A Digest of Economic Forecasts produced by Consensus Economics. Since that time, numerous economic and political events have occurred that might have changed the perceptions of how the U.S. economy will perform in 2019. To analyze how events in the last six months such as the 35-day shutdown of the federal government, the turmoil in trade relations with China, and the periodic inversion of the yield curve have changed economic perceptions, the Commission will compare what economic forecasters predicted in November 2018 and what they think now.

The Digest of Economic Forecasts summarizes economic outlooks for the United States from twenty-seven different economic forecasters. These include various econometric firms (IHS Markit/Moody's Analytics), professional business associations (National Association of Home Builders), academic institutions (University of Michigan/University of Maryland), and individual businesses (FedEx Corporation/Ford Motor Company). The following table shows the economic forecasts along with historical data for relevant economic indicators.

U.S. ECONOMIC INDICATORS

	2015	2016	2017	2018	2019	2019	Change in Forecast
	Actual	Actual	Actual	Actual	Nov. 2018 Forecast	May 2019 Forecast	
Real Gross Domestic Product (GDP)	2.9%	1.6%	2.2%	2.9%	2.7%	2.6%	-0.1%
Unemployment Rate (Year Average)	5.3%	4.9%	4.4%	3.9%	3.5%	3.7%	0.2%
Real Disposable Personal Income	4.1%	1.7%	2.6%	2.9%	2.3%	2.5%	0.2%
Consumer Prices (CPI-U)	0.1%	1.3%	2.1%	2.4%	2.3%	1.9%	-0.4%

Average % change on previous calendar year except where noted

The forecasts included herein are the mean forecasts from 27 different organizations that make economic forecasts for the U.S. economy as of May 2019.

Source: Consensus Forecasts

According to the Bureau of Economic Analysis (BEA), Gross Domestic Product (GDP) is a comprehensive measure of U.S. economic activity. GDP is the value of the goods and services produced in the United States. Real GDP estimates are adjusted to account for inflation which allows for better comparison between years. The growth rate of GDP is the most popular indicator of the nation's overall economic health.

When looking at Real GDP, it appears that events of the past six months have not changed the economic outlook much, but forecasts did initially decline somewhat, before improving. As of November 2018, the mean forecast for real GDP for 2019 was 2.7% with a high forecast of 3.2% and a low of 2.2%. In May 2019, the mean forecast had lowered a small amount to 2.6%. The high forecast was down -0.3% to 2.8%, while the lowest forecast stayed at 2.2%. However, while the current change is only 0.1% lower, if this same comparison was made last month the difference would have been larger. The April mean forecast was only 2.4% with a high of 2.6% and a low of 2.1%. This would have equaled a decline of 0.3% in the rate of growth for Real GDP. Economic growth of 1.9% is predicted in 2020.

In 2014 the U.S. unemployment rate averaged 6.2%. It fell to 5.3% in 2015, 4.9% in 2016, and 4.4% in 2017. The unemployment rate averaged 3.9% in 2018. In November 2018, it was predicted that the unemployment rate would continue to decline to 3.5% in 2019. The unemployment rate currently stands at 3.6% but is forecast to average 3.7% for the year. This forecast is 0.2% higher

than previously predicted but still very low when compared to historical results. It is forecast that the unemployment rate will lower to 3.6% in 2020.

Even with the continued high level of employment, the economic expectations were for a slowdown in real disposable income. Real disposable income is the inflation-adjusted income available to persons for spending or saving. It is equal to personal income less personal current taxes. Previously, it was expected that real disposable personal income would grow at 2.3% in 2019 but this indicator is now expected to increase by 2.5%. While this rate is not particularly high, it is an improvement of 0.2% from November's expectations. In 2020, disposable income is expected to lower to 2.3%.

In November 2018, inflation was expected to continue at a slightly elevated level when compared to recent years. Those expectations have since lowered but are still above the rates seen in earlier years. Consumer prices grew at less than 1.6% per year from 2014 to 2016. Consumer prices grew 2.1% in 2017 and 2.4% in 2018. Six months ago economic forecasters had a mean estimate for 2019 of 2.3% with a high of 2.7% and a low of 2.0%. Now expectations are for inflation of 1.9% which would be below the rates seen in the previous two years but above the slower rates seen from 2014 to 2016. The current high forecast for 2019 is 2.4%, while the low is 1.6%. Forecasters believe that a little higher level of growth in consumer prices (2.1%) will be seen in 2020.

While short term expectations for the economy seem to have dimmed during the early part of 2019,

in recent months, those expectations have risen back to a similar level as seen in late 2018. Economic growth as measured by real GDP is expected to be slightly lower and the unemployment rate is anticipated to be slightly higher, potential indicators of a decelerating economy. However, real disposable income is anticipated to be slightly higher and inflation seems to be well under control,

which could indicate that the economy has room to expand further. Likely certain events that lowered economic expectations in early 2019 have been offset by good news such as continued job growth and strong tax receipts. Overall, the predictions for the economy appear to be in a similar place as they were at the end of 2018 despite some fluctuations in expectations since then.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS*</u>	<u>LATEST MONTH</u>	<u>PRIOR MONTH</u>	<u>A YEAR AGO</u>
Unemployment Rate (Average) (Apr.)	4.4%	4.4%	4.3%
Inflation in Chicago (12-month percent change) (Apr.)	0.8%	1.5%	2.1%
	<u>LATEST MONTH</u>	<u>CHANGE OVER PRIOR MONTH</u>	<u>CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (Apr.)	6,486.1	0.1%	0.2%
Employment (thousands) (Apr.)	6,199.4	0.1%	0.1%
Nonfarm Payroll Employment (Apr.)	6,179,000	20,900	83,500
New Car & Truck Registration (Apr.)	50,737	8.7%	-0.3%
Single Family Housing Permits (Apr.)	975	25.2%	0.1%
Total Exports (\$ mil) (Mar.)	5,606.3	14.7%	-5.1%
Chicago Purchasing Managers Index (May)	54.2	3.0%	-13.6%
* Due to monthly fluctuations, trend best shown by % change from a year ago			

REVENUE:

Weaker May Revenues Reflect Poor Federal Receipts; Other Lines Experience Mixed Results

Jim Muschinske, Revenue Manager

After a stunning April which saw receipts jump over \$1.5 billion, May receipts relinquished some of the previous month's gains as base general funds revenues fell \$222 million. The majority of the falloff stemmed from a very weak month for federal reimbursement, as the other lines were mixed. While personal and corporate income taxes eased after an explosive April, sales tax receipts posted another month of solid gains. May had the same number of receipting days as the prior fiscal year.

For the month, gross personal income taxes gave back some of April's gains as receipts declined \$95 million, or \$84 million net. Gross corporate income taxes also retreated, falling \$10 million or \$7 million net. Taken in context, these relatively minor drops were not surprising given April's success which likely included some benefits of receipt timing between the periods of March-May. Public utility taxes dropped \$9 million for the month, while cigarette and inheritance taxes each declined \$7 million. Insurance taxes dipped \$3 million in April.

As mentioned, sales taxes continued to post impressive gains as gross receipts jumped \$107 million [the same amount on a net basis]. Corporate franchise taxes increased \$5 million in April, while both interest earnings as well as miscellaneous other sources both returned \$4 million in monthly gains.

Overall transfers into the general funds were down \$9 million. Despite miscellaneous transfers growing \$21 million, those gains were offset by a

\$16 million comparative decline in fund sweeps, a \$13 million falloff in Lottery transfers, and a \$1 million dip in riverboat transfers. The decline in Lottery transfers is the result of corrective action by the Department of the Lottery in relation to an audit finding which calculated that just over \$73 million in excess transfers to the Common School Fund were made in FY 2018. The lower May transfer reflects partial reconciliation, with the assumption June will also be impacted as a result of corrective action. After jumping in April, May federal sources suffered a poor month, falling \$216 million in comparison to last year.

Year To Date

Excluding interfund borrowing, last year's \$2.5 billion bond proceeds transfer and the \$750 million related to the Treasurer's Investments this fiscal year, base general funds thru May of FY 2019 are \$67 million higher than last year. With only one more month left in the fiscal year, gross personal income tax is up by \$1.713 billion, or \$1.424 billion net. Gross sales tax receipts are up by an impressive \$598 million, or \$561 million net. Gross corporate income taxes are up by \$452 million, or \$391 million net. All other tax sources combined added \$84 million in gains.

Overall transfers have fallen by \$51 million through May. Federal sources are down by \$2.342 billion due to reimbursable spending made possible from November 2017 bond sale proceeds.

MAY
FY 2019 vs. FY 2018
(\$ million)

Revenue Sources	May FY 2019	May FY 2018	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$1,473	\$1,568	(\$95)	-6.1%
Corporate Income Tax (regular)	76	86	(\$10)	-11.6%
Sales Taxes	787	680	\$107	15.7%
Public Utility Taxes (regular)	82	91	(\$9)	-9.9%
Cigarette Tax	28	35	(\$7)	-20.0%
Liquor Gallonage Taxes	13	13	\$0	0.0%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax	41	48	(\$7)	-14.6%
Insurance Taxes and Fees	3	6	(\$3)	-50.0%
Corporate Franchise Tax & Fees	19	14	\$5	35.7%
Interest on State Funds & Investments	17	13	\$4	30.8%
Cook County IGT	94	94	\$0	0.0%
Other Sources	22	18	\$4	22.2%
Subtotal	\$2,658	\$2,669	(\$11)	-0.4%
Transfers				
Lottery	40	53	(\$13)	-24.5%
Riverboat transfers & receipts	13	14	(\$1)	-7.1%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	0	0	\$0	N/A
Fund sweeps	0	16	(\$16)	N/A
Other	58	37	\$21	56.8%
Total State Sources	\$2,769	\$2,789	(\$20)	-0.7%
Federal Sources	\$82	\$298	(\$216)	-72.5%
Total Federal & State Sources	\$2,851	\$3,087	(\$236)	-7.6%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$143)	(\$154)	\$11	-7.1%
Corporate Income Tax	(\$12)	(15)	\$3	-20.0%
LGDF--Direct from PIT	(\$77)	(77)	\$0	0.0%
LGDF--Direct from CIT	(\$4)	(4)	\$0	0.0%
Downstate Pub/Trans--Direct from Sales	(\$42)	(42)	\$0	0.0%
Subtotal General Funds	\$2,573	\$2,795	(\$222)	-7.9%
Treasurer's Investments	\$0	\$0	\$0	N/A
Interfund Borrowing	\$0	\$11	(\$11)	N/A
Income Tax Bond Fund Transfer	\$0	\$0	\$0	N/A
Transfer to Commitment Human Services	\$0	\$10	(\$10)	N/A
Total General Funds	\$2,573	\$2,816	(\$243)	-8.6%

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

3-Jun-19

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2019 vs. FY 2018

(\$ million)

Revenue Sources	FY 2019	FY 2018	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$20,769	\$19,056	\$1,713	9.0%
Corporate Income Tax (regular)	2,564	2,112	\$452	21.4%
Sales Taxes	8,109	7,511	\$598	8.0%
Public Utility Taxes (regular)	815	834	(\$19)	-2.3%
Cigarette Tax	322	313	\$9	2.9%
Liquor Gallonage Taxes	158	156	\$2	1.3%
Vehicle Use Tax	29	26	\$3	11.5%
Inheritance Tax	366	316	\$50	15.8%
Insurance Taxes and Fees	324	354	(\$30)	-8.5%
Corporate Franchise Tax & Fees	225	189	\$36	19.0%
Interest on State Funds & Investments	131	72	\$59	81.9%
Cook County IGT	244	244	\$0	0.0%
Other Sources	431	457	(\$26)	-5.7%
Subtotal	\$34,487	\$31,640	\$2,847	9.0%
Transfers				
Lottery	627	629	(\$2)	-0.3%
Riverboat transfers & receipts	243	252	(\$9)	-3.6%
Proceeds from Sale of 10th license	10	10	\$0	0.0%
Refund Fund transfer	327	0	\$327	N/A
Fund sweeps	0	267	(\$267)	N/A
Other	658	758	(\$100)	-13.2%
Total State Sources	\$36,352	\$33,556	\$2,796	8.3%
Federal Sources	\$2,830	\$5,172	(\$2,342)	-45.3%
Total Federal & State Sources	\$39,182	\$38,728	\$454	1.2%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$2,015)	(\$1,868)	(\$147)	7.9%
Corporate Income Tax	(\$398)	(370)	(\$28)	7.6%
LGDF--Direct from PIT	(\$1,080)	(938)	(\$142)	15.1%
LGDF--Direct from CIT	(\$141)	(108)	(\$33)	30.6%
Downstate Pub/Trans--Direct from Sales	(\$435)	(398)	(\$37)	9.3%
Subtotal General Funds	\$35,113	\$35,046	\$67	0.2%
Treasurer's Investments	\$750	\$0	\$750	N/A
Interfund Borrowing	\$250	\$527	(\$277)	-52.6%
Income Tax Bond Fund Transfer	\$0	\$2,500	(\$2,500)	N/A
Transfer to Commitment Human Services	\$0	\$20	(\$20)	N/A
Total General Funds	\$36,113	\$38,093	(\$1,980)	-5.2%

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

3-Jun-19