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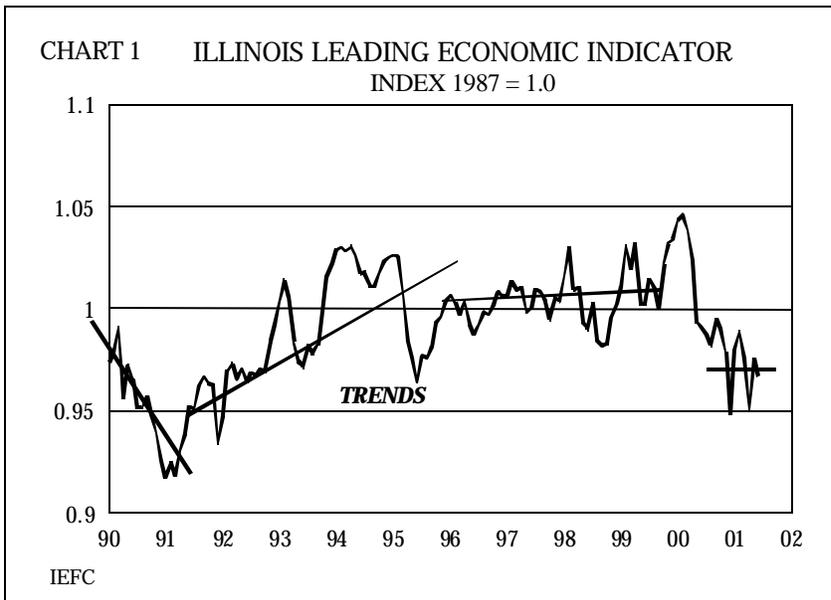
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ECONOMY: What Letter of the Alphabet?
 Edward H. Boss, Jr., Chief Economist

The pace of economic activity came to a virtual halt last quarter according to the U.S. Department of Commerce. Real gross domestic product (GDP) rose at a scant 0.7% annual rate in the second quarter, the slowest rate in eight years. Still, many observers feel the economy may be bottoming out. As shown in Chart 1, the IEFC leading indicator -- consisting largely of manufacturing, employment, and housing data -- appears to have flattened, ceasing its declining trend seen late last year. Yet, there are no indications, even by this measure, when faster growth may resume.



Many economists describe the future performance of the U.S. economy in terms of letters of the alphabet, primarily an L, U, or V. An L-shaped economy suggests a bottom has been reached but that the economy continues to drag along bottom for an extended period. A U-shaped economy suggests a bottom is reached followed by a gradual, but steady, recovery. Finally, a V-shaped pattern indicates a severe drop followed by a sharp increase. While there are elements of each shape within the economy today, most forecasters project a U-shape or gradual recovery in economic activity in the months ahead.

On the negative front, nonresidential business investment tumbled at a 13.6% annual rate last quarter, sharply slower than the 0.2% annual rate of drop in the previous quarter and its worst performance since 1982. In contrast, consumer spending, which accounted for 69% of GDP last quarter rose 2.1%, housing remained strong, and increases were recorded in state and local government spending. The key to the future lies in whether the weakening business sector will pull down the consumer, or whether a sustained consumer will begin to pull up business activity.

Manufacturing activity continues to weaken as indicated by the Chicago Purchasing Manager's index which fell in July to the lowest level since last March.

(See the table on Indicators of Illinois Economic Activity). The consumer, however, also continues to spend. Consumer spending rose 0.4% in June boosted by a 1.5% gain in durable goods purchases, beating Wall Street estimates. And, chain store sales rose during the first three weeks of July compared with June, as there was a strong demand for a wide variety of goods at department stores. Thus, these divergent trends in the economy continue.

At this point, the odds favor the expected U-shape pattern of recovery. From a policy point of view, the combined impact of lower interest rates, falling energy costs, and tax rebates may well offset the effects of a stagnant stock market and likelihood of rising unemployment.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>JUNE 2001</u>	<u>MAY 2001</u>	<u>JUNE 2000</u>
Unemployment Rate (Average)	5.2%	5.2%	4.3%
Annual Rate of Inflation (Chicago)	-4.0%	9.4%	1.8%
<hr/>			
	<u>LATEST</u>	<u>% CHG.</u>	<u>% CHG.</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (June)	6,413	0%	-0.3%
Employment (thousands) (June)	6,078	0.1%	-1.3%
New Car & Truck Registration (June)	64,782	-4.2%	12.1%
Single Family Housing Permits (June)	3,966	-3.8%	14.4%
Total Exports (\$ mil) (May)	2,690	0.5%	4.3%
Chicago Purchasing Managers Index (July)	38.0	-14.4%	-26.9%

REVENUE

Revenues Remain Weak to Begin FY 2002

Jim Muschinske, Unit Chief

Despite an extra receipting day in July, general funds revenues were down \$100 million or 5.9% in the first month of the fiscal year as compared to the same month a year earlier. Most of that decline can be attributed to lower transfers and reduced federal receipts.

The majority of the revenue sources started the fiscal year on a down note. The biggest deficit came from inheritance tax where receipts were off \$15 million. Corporate franchise taxes fell \$8 million while public utility tax receipts dipped \$6 million. Revenues from sales tax, insurance tax, interest income, and other sources, each fell \$3 million, respectively.

Only a few sources experienced gains, and those were rather lackluster. Liquor taxes rose \$2 million as did gross corporate income tax. Gross personal income tax eked out a \$1 million gain, as did vehicle use tax. While gross income taxes rose slightly, when factoring higher refund percentages for FY 2002, net income tax receipts actually fell by approximately \$2 million for the month.

Overall transfers in July were down \$30 million. Other transfers suffered a \$31 million decline while the Gaming Fund transfer fell by \$10 million. Those

declines were partially offset by an \$11 million increase in lottery transfers. As mentioned earlier, federal sources also had a down month, falling \$30 million at the beginning of the fiscal year.

Revisions to the FY 2002 Estimate

As in years past, the "General Funds Growth Needed to Meet Estimate" table shows the Commission's latest estimate. Revisions to the estimate have been made to reflect actual FY 2001 base figures as well as other factors. Specifically, those items include the Administration's plan for a Build Illinois reserve transfer of \$275 million as well as the projected amount of federal source receipts. In addition, the revised estimate incorporates new refund fund percentages of 7.6% for personal income tax and 23% for corporate income tax, respectively. Absent those items, the Commission's underlying economic assumptions regarding FY 2002 have remained essentially the same: those being for continued weakness during the first half of the fiscal year followed by a second half improvement.

The revised FY 2002 estimate is \$24.826 billion, which represents an increase of \$720 million or 3.0% over the prior fiscal year. The Commission's estimate is \$174 million lower than the Bureau of the Budget's latest official projection of \$25.000 billion published in the July Quarterly Financial Report.

GENERAL FUNDS RECEIPTS: JULY

FY 2002 vs. FY 2001

(\$ million)

Revenue Sources	JULY FY 2002	JULY FY 2001	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$526	\$525	\$1	0.2%
Corporate Income Tax (regular)	29	27	\$2	7.4%
Sales Taxes	513	516	(\$3)	-0.6%
Public Utility Taxes (regular)	62	68	(\$6)	-8.8%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	10	8	\$2	25.0%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	22	37	(\$15)	-40.5%
Insurance Taxes and Fees	2	5	(\$3)	-60.0%
Corporate Franchise Tax & Fees	7	15	(\$8)	-53.3%
Interest on State Funds & Investments	18	21	(\$3)	-14.3%
Cook County IGT	54	54	\$0	0.0%
Other Sources	11	14	(\$3)	-21.4%
Subtotal	\$1,290	\$1,325	(\$35)	-2.6%
Transfers				
Lottery	30	19	\$11	57.9%
Gaming Fund Transfer	40	50	(\$10)	-20.0%
Other	19	50	(\$31)	-62.0%
Total State Sources	\$1,379	\$1,444	(\$65)	-4.5%
Federal Sources	\$257	\$287	(\$30)	-10.5%
Total Federal & State Sources	\$1,636	\$1,731	(\$95)	-5.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$40)	(\$37)	(\$3)	8.1%
Corporate Income Tax	(7)	(5)	(\$2)	40.0%
Total General Funds	\$1,589	\$1,689	(\$100)	-5.9%

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

1-Aug-01

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2002 ESTIMATE vs. FY 2001 ACTUAL

(\$ million)

Revenue Sources	JULY-01 ESTIMATE FY 2002	FYTD 2002	AMOUNT NEEDED FY 2002 EST.	FYTD 2001	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$8,955	\$526	\$8,429	\$525	\$347	4.3%
Corporate Income Tax (regular)	1,318	29	\$1,289	27	\$37	3.0%
Sales Taxes	6,378	513	\$5,865	516	\$423	7.8%
Public Utility Taxes (regular)	1,180	62	\$1,118	68	\$40	3.7%
Cigarette Tax	400	33	\$367	33	\$0	0.0%
Liquor Gallonage Taxes	135	10	\$125	8	\$9	7.8%
Vehicle Use Tax	35	3	\$32	2	\$0	0.0%
Inheritance Tax (Gross)	376	22	\$354	37	\$30	9.3%
Insurance Taxes and Fees	260	2	\$258	5	\$17	7.1%
Corporate Franchise Tax & Fees	151	7	\$144	15	\$13	9.9%
Interest on State Funds & Investments	265	18	\$247	21	(\$6)	-2.4%
Cook County IGT	245	54	\$191	54	\$0	0.0%
Other Sources	497	11	\$486	14	\$93	23.7%
Subtotal	\$20,195	\$1,290	\$18,905	\$1,325	\$1,003	5.6%
Transfers						
Lottery	505	30	\$475	19	(\$7)	-1.5%
Gaming Fund Transfer	465	40	\$425	50	\$15	3.7%
Other	465	19	\$446	50	\$44	10.9%
Total State Sources	\$21,630	\$1,379	\$20,251	\$1,444	\$1,055	5.5%
Federal Sources	\$4,180	\$257	\$3,923	\$287	(\$110)	-2.7%
Total Federal & State Sources	\$25,810	\$1,636	\$24,174	\$1,731	\$945	4.1%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$681)	(\$40)	(\$641)	(\$37)	(\$67)	11.7%
Corporate Income Tax	(303)	(7)	(\$296)	(5)	(\$58)	24.4%
Total General Funds	\$24,826	\$1,589	\$23,237	\$1,689	\$820	3.7%
IEFC						1-Aug-01