



#### SENATE

Patrick D. Welch, Co-Chair  
 Miguel del Valle  
 Rickey R. Hendon  
 Chris Lauzen  
 John W. Maitland, Jr.  
 Steven Rauschenberger

#### HOUSE

Terry R. Parke, Co-Chair  
 Mark H. Beaubien, Jr.  
 Judy Erwin  
 Frank J. Mautino  
 Richard Myers  
 Jeffrey M. Schoenberg

#### EXECUTIVE DIRECTOR

Dan R. Long

#### DEPUTY DIRECTOR

Trevor J. Clatfelter

#### INSIDE THIS ISSUE

PAGE 1 - **ECONOMY:**  
 Weakest Sector Improves

PAGE 2:  
 Illinois Economic Indicators

PAGE 3 - **REVENUE:**  
 Receipts Edge Down Again in August

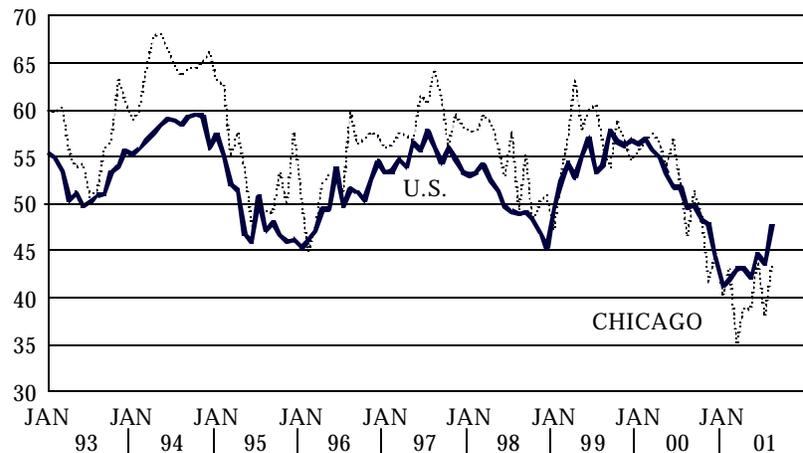
PAGE 4-6:  
 Revenue Tables

703 Stratton Ofc. Bldg.  
 Springfield, IL 62706  
 217/782-5322

#### **ECONOMY:** Weakest Sector Improves Edward H. Boss, Jr., Chief Economist

Revised data for the second quarter of 2001 show that the economy was at a standstill, with real GDP growth at a downwardly-revised annual rate of 0.2%. Moreover some observers fret that the final revision yet to come could produce a negative reading, completing the first leg of a recession which historically has seen at least two consecutive quarters of decline. Even while those dwell on past data, the weakest sector of the economy, which already has been in recession, is showing some signs of improvement.

CHART 1 PURCHASING MANAGERS INDEX  
 50% = EXPANSION



There can be no doubt that it has been the manufacturing sector which has been hardest hit as represented by ten consecutive months of decline in industrial production in July and a loss of 36,500 manufacturing jobs in the past twelve months. Even so, in July overall production fell just 0.1% with the manufacturing component held unchanged after a sharp drop in June. More recently, as shown in Chart 1, the important Purchasing Manager's Index (PMI), which is an indicator of manufacturing activity, after reaching a low point earlier this year continued to strengthen in August both nationally and in Illinois.

The National PMI reached 47.9 in August, up from 43.6% in July while the Chicago PMI jumped to 43.5% from 38.0%. A PMI reading above 50% indicates that the manufacturing economy is expanding; below 50% that it is generally declining. While the overall picture is still one of a decline in manufacturing, last month's upward move was the most significant gain since June 1996 and 12 of 20 industries reported growth in new orders.

In addition to indicating what's occurring in manufacturing, there is a relationship established between the PMI and real GDP. A PMI over 42.7%, over a period of time, indicates the overall economy, or Gross Domestic Product, is expanding, below 42.7% that it is generally declining. The distance from 50% or 42.7% is indicative of the strength of the expansion or decline. The National Association of Purchasing Management in the latest report states that if one were to average the PMI from January through July (43.5%) it would correspond to 0.3% growth in real GDP, whereas if August at 47.9%

turned out to be the average for 2001, it would correspond to a 1.9% increase in real GDP.

In addition to the improved August readings of the PMI and flat manufacturing output in July, there are some other signs indicating some improvement in manufacturing which has been by far the weakest link. Last quarter's downward GDP revision was due in part to larger inventory declines which, while subtracting growth last quarter, indicates a positive factor for the future as old inventories must be lowered before new production can begin. Also, new orders to factories rose 0.1% in July instead of an expected decline.

While layoffs are likely to continue, every turning point must start somewhere. An end to the sharp decline in manufacturing may be that signal. Should this occur at a time when tax rebate checks help sustain consumer spending and lower interest rates reduce borrowing costs, the glass indeed may prove to be half full rather than half empty.

<b>INDICATORS OF ILLINOIS ECONOMIC ACTIVITY</b>			
<u>INDICATORS</u>	<u>July 2001</u>	<u>June 2001</u>	<u>July 2000</u>
Unemployment Rate (Average)	5.3%	5.2%	4.3%
Annual Rate of Inflation (Chicago)	-10.0%	-4.0%	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) (July)	6,388	-0.3%	-0.4%
Employment (thousands) (July)	6,051	-0.4%	-1.4%
New Car & Truck Registration (July)	64,043	-1.1%	42.0%
Single Family Housing Permits (July)	3,663	-7.6%	2.8%
Total Exports (\$ mil) (June)	2,728	1.4%	1.3%
Chicago Purchasing Managers Index (August)	43.5	14.4%	-6.4%

## **REVENUE**

Receipts Edge Down Again in August  
Edward H. Boss, Jr., Chief Economist

General funds receipts edged down 2.5% in August following a 5.9% decline last month. As a result, for the first two months of fiscal 2002, receipts are down 4.2% compared to the same period a year earlier. (See table on page 5).

The largest gain in receipts in August was from the sales tax which rose \$23 million or 4.6% (See table on page 4). The rise may well reflect, in part, improved back-to-school sales, some positive impact from early tax rebate checks, as well as the fact that last year's number excluded the sales tax on gasoline which had been temporarily suspended. Income tax receipts were steady with personal income tax receipts down \$1 million and corporate receipts up \$1 million compared to August a year earlier. Receipts were also helped out by a jump of \$12 million in inheritance taxes, which are highly volatile. There were the same number of receipting days this August as in August of last year.

The largest dollar declines in August were in public utility taxes, down \$17 million or 14.2%, interest on State funds, down \$10 million or 32.3%, and liquor gallonage, down \$7 million or

43.8%. The declines in utility taxes and liquor gallonage receipts in August were due in part to comparatively large receipts recorded a year ago, although a steady decline in manufacturing and relatively moderate weather conditions may have reduced electric usage this August. The drop in interest receipts may well reflect reduced cash balances as well as lower interest rates on investments as the Federal Reserve lowered short-term interest rates seven times so far this year.

Transfers fell \$6 million as lottery declined \$4 million, gaming fund dropped \$3 million, while other transfers gained \$1 million. At the same time, federal sources dropped \$49 million or 13%.

### **Year-to-Date**

As mentioned, general funds have fallen 4.2% in the first two months of fiscal 2002, although the rate of decline slowed in August. In order to achieve the IEF's forecast for FY 2002, growth will have to rise 4.2% during the remaining ten months of the fiscal year (See table on page 6). Some improvement, however, seems likely as the economy's weak manufacturing sector, mentioned earlier, began to improve and both recent stimulative fiscal and monetary policy actions have yet to take hold.

## GENERAL FUNDS RECEIPTS: AUGUST

FY 2002 vs. FY 2001

(\$ million)

<b>Revenue Sources</b>	<b>AUG. FY 2002</b>	<b>AUG. FY 2001</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$579	\$580	(\$1)	-0.2%
Corporate Income Tax (regular)	15	14	\$1	5.0%
Sales Taxes	525	502	\$23	4.6%
Public Utility Taxes (regular)	103	120	(\$17)	-14.2%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	9	16	(\$7)	-43.8%
Vehicle Use Tax	4	4	\$0	0.0%
Inheritance Tax (Gross)	43	31	\$12	38.7%
Insurance Taxes and Fees	4	2	\$2	100.0%
Corporate Franchise Tax & Fees	12	7	\$5	71.4%
Interest on State Funds & Investments	21	31	(\$10)	-32.3%
Cook County IGT	0	0	\$0	0.0%
Other Sources	21	16	\$5	31.3%
<b>Subtotal</b>	\$1,369	\$1,356	\$13	0.9%
<b>Transfers</b>				
Lottery	43	47	(\$4)	-8.5%
Gaming Fund Transfer	40	43	(\$3)	-7.0%
Other	22	21	\$1	4.8%
<b>Total State Sources</b>	\$1,474	\$1,467	\$7	0.5%
<b>Federal Sources</b>	\$328	\$377	(\$49)	-13.0%
<b>Total Federal &amp; State Sources</b>	\$1,802	\$1,844	(\$42)	-2.3%
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$44)	(\$41)	(\$3)	7.3%
Corporate Income Tax	(3)	(3)	(\$0)	13.3%
<b>Total General Funds</b>	\$1,754	\$1,800	(\$46)	-2.5%

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

4-Sep-01

**GENERAL FUNDS RECEIPTS: YEAR TO DATE**

**FY 2002 vs. FY 2001**  
(\$ million)

<b>Revenue Sources</b>	<b>FY 2002</b>	<b>FY 2001</b>	<b>CHANGE FROM FY 2001</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$1,105	\$1,105	\$0	0.0%
Corporate Income Tax (regular)	44	41	\$3	7.3%
Sales Taxes	1,038	1,018	\$20	2.0%
Public Utility Taxes (regular)	165	188	(\$23)	-12.2%
Cigarette Tax	67	67	\$0	0.0%
Liquor Gallonage Taxes	19	24	(\$5)	-20.8%
Vehicle Use Tax	7	7	\$0	0.0%
Inheritance Tax (Gross)	65	67	(\$2)	-3.0%
Insurance Taxes and Fees	6	7	(\$1)	-14.3%
Corporate Franchise Tax & Fees	19	22	(\$3)	-13.6%
Interest on State Funds & Investments	38	52	(\$14)	-26.9%
Cook County IGT	54	54	\$0	0.0%
Other Sources	32	30	\$2	6.7%
<b>Subtotal</b>	<b>\$2,659</b>	<b>\$2,682</b>	<b>(\$23)</b>	<b>-0.9%</b>
<b>Transfers</b>				
Lottery	73	65	\$8	12.3%
Gaming Fund Transfer	80	93	(\$13)	-14.0%
Other	41	71	(\$30)	-42.3%
<b>Total State Sources</b>	<b>\$2,853</b>	<b>\$2,911</b>	<b>(\$58)</b>	<b>-2.0%</b>
<b>Federal Sources</b>	<b>\$586</b>	<b>\$664</b>	<b>(\$78)</b>	<b>-11.7%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$3,439</b>	<b>\$3,575</b>	<b>(\$136)</b>	<b>-3.8%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$84)	(\$78)	(\$6)	8.2%
Corporate Income Tax	(10)	(8)	(\$2)	30.0%
<b>Total General Funds</b>	<b>\$3,344</b>	<b>\$3,489</b>	<b>(\$145)</b>	<b>-4.2%</b>

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

IEFC-

4-Sep-01

**GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE**

*FY 2002 ESTIMATE vs. FY 2001 ACTUAL*

(\$ million)

<b>Revenue Sources</b>	<b>ESTIMATE FY 2002</b>	<b>FYTD 2002</b>	<b>AMOUNT NEEDED FY 2002 EST.</b>	<b>FYTD 2001</b>	<b>GROWTH NEEDED</b>	<b>% CHANGE</b>
<b>State Taxes</b>						
Personal Income Tax	\$8,955	\$1,105	\$7,850	\$1,105	\$348	4.6%
Corporate Income Tax (regular)	1,318	44	\$1,274	41	\$36	2.9%
Sales Taxes	6,378	1,038	\$5,340	1,018	\$400	8.1%
Public Utility Taxes (regular)	1,180	165	\$1,015	188	\$57	5.9%
Cigarette Tax	400	67	\$333	67	\$0	0.0%
Liquor Gallonage Taxes	135	19	\$116	24	\$16	16.0%
Vehicle Use Tax	35	7	\$28	7	\$1	3.7%
Inheritance Tax (Gross)	376	65	\$311	67	\$17	5.8%
Insurance Taxes and Fees	260	6	\$254	7	\$15	6.3%
Corporate Franchise Tax & Fees	151	19	\$132	22	\$8	6.5%
Interest on State Funds & Investments	265	38	\$227	52	\$5	2.3%
Cook County IGT	245	54	\$191	54	\$0	0.0%
Other Sources	497	32	\$465	30	\$88	23.3%
<b>Subtotal</b>	<b>\$20,195</b>	<b>\$2,659</b>	<b>\$17,536</b>	<b>\$2,682</b>	<b>\$991</b>	<b>6.0%</b>
<b>Transfers</b>						
Lottery	505	73	\$432	65	(\$4)	-0.9%
Gaming Fund Transfer	465	80	\$385	93	\$18	4.9%
Other	465	41	\$424	71	\$43	11.3%
<b>Total State Sources</b>	<b>\$21,630</b>	<b>\$2,853</b>	<b>\$18,777</b>	<b>\$2,911</b>	<b>\$1,048</b>	<b>5.9%</b>
<b>Federal Sources</b>	<b>\$4,180</b>	<b>\$586</b>	<b>\$3,594</b>	<b>\$664</b>	<b>(\$62)</b>	<b>-1.7%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$25,810</b>	<b>\$3,439</b>	<b>\$22,371</b>	<b>\$3,575</b>	<b>\$986</b>	<b>4.6%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$681)	(\$84)	(\$597)	(\$78)	(\$64)	11.9%
Corporate Income Tax	(303)	(10)	(\$293)	(8)	(\$58)	24.5%
<b>Total General Funds</b>	<b>\$24,826</b>	<b>\$3,344</b>	<b>\$21,482</b>	<b>\$3,489</b>	<b>\$865</b>	<b>4.2%</b>
<b>IEFC</b>						
						4-Sep-01