



Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: AUGUST 2015

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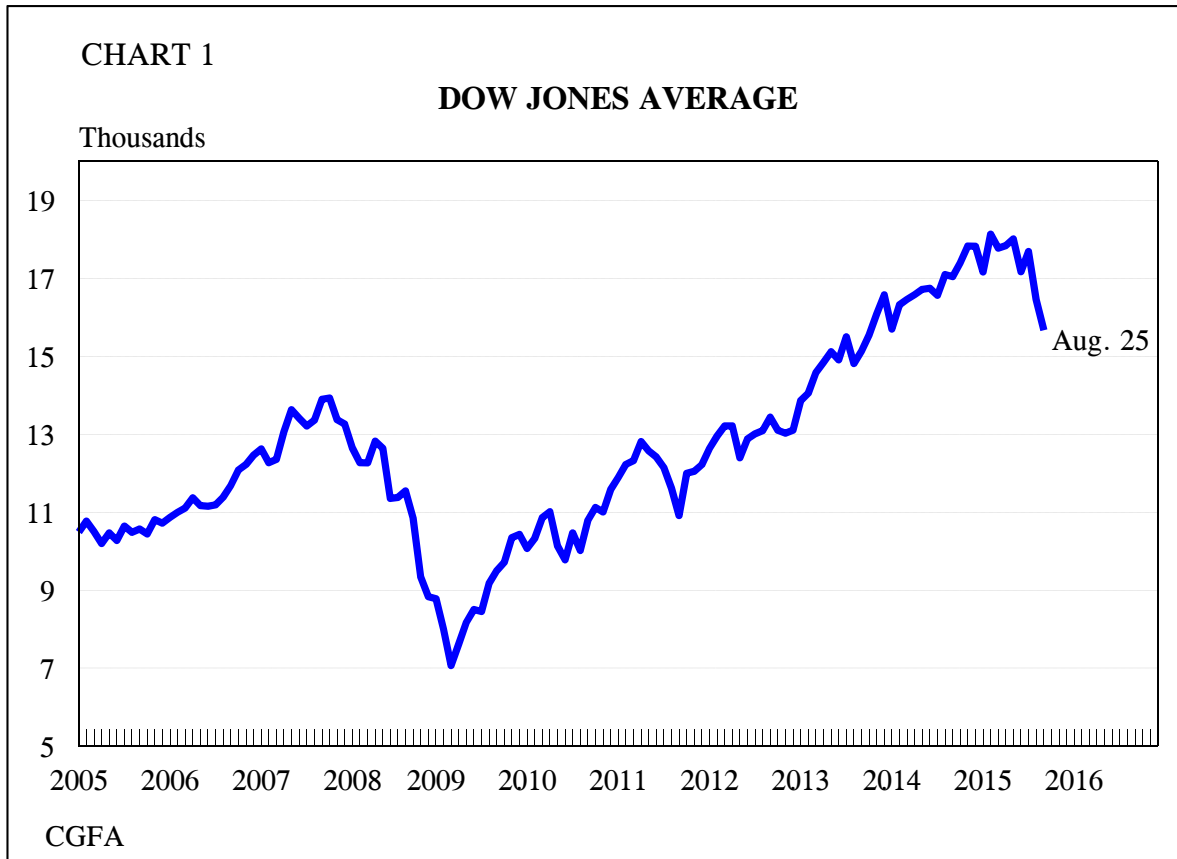
ECONOMY: Running Out of Gas or Stepping on the Accelerator?

Edward H. Boss, Jr., Chief Economist

The economic expansion is rapidly becoming the 4th longest in the post WWII period. At 74 months, as measured from the trough of the recession to date, the economy already exceeds the 58.4 months average of the 11 business cycles during the post war era. And, while there does not appear to be a close relationship between the length of expansions and when a peak in activity is reached, other issues have arisen that raise questions over its continued sustainability.

One such concern is that, despite its length, the current economic expansion has been the weakest in the post WWII era with no post-recession rebound or evidence of emergence from its narrow 2% to 2.5% growth path. At month's end, however, after a modest 0.6% rise in the first quarter, second quarter GDP was revised up from an advance estimate of 2.3% to a strong 3.7% annual rate. However, this still placed it in the 2% to 2.5% range for the first half of the year. Much of last quarter's gain came from an historic buildup in inventories which may well act to depress future growth as these stocks are worked off. Indeed, this month the Congressional Budget Office (CBO) released a major update to its Budget and Economic Outlook, lowering its 2015 GDP estimate to 2.0% (measured Q4-Q4) from 2.9% previously, although it ticked up its 2016 and 2017 estimates.

On the positive side, the nation's unemployment rate fell to 5.3% in June and July, the lowest level since March 2008. However, if those marginally attached workers plus total employed part-time for economic reasons are included, the rate jumps to 10.4%. Moreover, with many dropping out of the labor force, the participation rate remains the lowest since the late 1970s. With the Affordable Care Act, full time employment is defined as those who work more than 30 hours, not 40 hours. To avoid mandated coverage for those with 50 employees or more, firms may slash worker hours.



While employment has risen, wages remain stagnant, resulting in pressure to raise the minimum wage. While most agree a moderate increase may not be deleterious to jobs a large nationwide increase could. The nonpartisan CBO examined the impacts of raising the hourly minimum wage from \$7.25 to \$9.00 and \$10.10. The former increase was estimated to cost 100,000 new jobs as employers reduce workforces to make up for the higher wage cost while the larger increase could result in a loss of 500,000 new jobs. A minimum wage has been thought of as a starting wage for new entrants into the labor market and as a step to higher positions, not an end point to provide a family a “living” wage. Another change that will add cost to business is the expansion of salaried

workers who work more than 40 hours that now must receive overtime pay.

Concerns over the strength of the economy in a period of rapidly changing world events were highlighted late in the month by a sharp downturn in equity prices near the end of the month as shown by the attached chart on the Dow Jones average which fell by 10% in a few days reaching a low on August 25th. Such a decline puts it in the range of a correction from the previous sharp rise. It has been over 4 years since such a correction and many had expected one for some time. The stock market surge had been sparked by the lack of viable alternatives. With the Federal Reserve keeping interest rates over which they influence near zero for 6 years there were

unintended consequences. For example, pension funds that depend on historical interest rate returns on their investments set by actuaries, found funds diminishing as increased retirements from an aging population, early retirements, and weak job opportunities caused many of their plans to be underfunded. It is not only pension short-falls that have suffered from years of manipulated low interest rates. For example, those who have saved and live on a fixed income avoiding risk have seen virtually no return on their savings, Treasury bonds, or CDs. Now, the pain from the recent stock market correction spread to those with 401Ks that saw their accounts shrink as equity prices fell.

The Federal Reserve has clearly indicated that it wants to begin to gradually raise interest rates over which it

has influence to a more market-based rate to reflect an improving U.S. economy and reduce distortions caused by its prolonged period of monetary ease. While it has stated it would like to begin the gradual process this year, the sharp slowing in China, the world's second largest economy, plunging oil and commodity prices stemming from a lack of demand from the deterioration in the economies of emerging countries, and weakness in parts of Europe, could delay an early move. While China and the U.S. as the strongest economies providing the engines for world growth, with China slowing, the U.S. economy's strength will take on more importance. Fortunately, the financial condition of the banks, businesses, and consumers are in much better shape than prior to the last recession to handle most situations without deleterious results.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u> *	<u>JULY 2015</u>	<u>JUNE 2015</u>	<u>JULY 2014</u>
Unemployment Rate (Average)	5.8%	5.9%	6.7%
Annual Rate of Inflation (Chicago)	-1.3%	1.8%	-0.5%
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	<u>LATEST</u>	<u>% CHANGE</u>	<u>% CHANGE</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (July)	6,489.2	0.0%	-0.3%
Employment (thousands) (July)	6,115.5	0.1%	0.6%
NonFarm Payroll Employment (July)	5,924,000	1,900	50,100
New Car & Truck Registration (July)	58,822	-3.6%	-6.2%
Single Family Housing Permits (July)	1,109	-2.3%	11.6%
Total Exports (\$ mil) (June)	5,390	-3.3%	-6.9%
Chicago Purchasing Managers Index (August)	54.4	-0.5%	-14.9%

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

REVENUE

August Revenues Reflect Lower Income Tax Rates

Jim Muschinske, Revenue Manager

Overall base revenues fell \$229 million in August. Comparatively lower income tax rates, related income tax diversions to the education and human service related funds, and extremely weak federal sources, account for the decline. The month had the same number of receipts days as last fiscal year.

Due to the lower income tax rates effective January 2015, gross personal income tax receipts fell \$224 million, or \$199 million net of refunds. An additional \$30 million was directed from the general funds to both the Fund for Advancement of Education as well the Commitment to Human Services Fund. As result, net personal income tax receipts were comparatively lower by \$259 million. Gross corporate income tax also fell due to reduced rates, with receipts off \$6 million.

A number of sources suffered declines in August as inheritance tax receipts fell \$10 million, public utility taxes \$5 million, corporate franchise taxes \$2 million, other sources \$2 million, and interest earnings \$1 million.

However, a few sources did manage to record gains for the month. Sales tax rebounded and grew \$31 million, insurance taxes were up by \$2 million, and liquor taxes eked out a \$1 million gain.

Overall transfers grew \$57 million in August. While lottery transfers fell \$19 million, that loss was offset by increases of \$11 million in riverboat transfers, \$14 million in Refund Fund transfers, and \$51

million in other miscellaneous transfers. It should be mentioned that until now, no transfer from the Income Tax Refund Fund was assumed to occur in FY 2016. As mentioned, federal sources were extremely weak for the month, dropping \$35 million compared to last fiscal year [which also were very low].

Year To Date

Through the first two months of the fiscal year, base receipts are down \$605 million. The drop off reflects the comparatively lower income tax rates as well as the one-time nature of some pharmaceutical court settlements recovered by the Attorney General's Office last fiscal year.

Gross personal income taxes are down \$413 million, \$367 million net of refunds, or \$515 million when the diversions to the education and human service funds are included. Other sources are down \$117 million, reflecting the aforementioned court settlement proceeds received last fiscal year in a similar amount. Public utility taxes are off \$21 million, inheritance tax by \$18 million, and interest income by \$2 million.

Sales tax receipts recovered from a weak July, and are now up \$11 million for the fiscal year. Insurance taxes advanced by \$6 million, while liquor taxes managed to post a \$1 million gain.

Overall transfers are up by \$58 million, and federal sources, despite its weakness, were up \$10 million over the first two months.

GENERAL FUNDS RECEIPTS: AUGUST

FY 2016 vs. FY 2015

(\$ million)

<u>Revenue Sources</u>	<u>August FY 2016</u>	<u>August FY 2015</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$983	\$1,207	(\$224)	-18.6%
Corporate Income Tax (regular)	45	51	(\$6)	-11.8%
Sales Taxes	689	658	\$31	4.7%
Public Utility Taxes (regular)	68	73	(\$5)	-6.8%
Cigarette Tax	29	29	\$0	0.0%
Liquor Gallonage Taxes	14	13	\$1	7.7%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax	18	28	(\$10)	-35.7%
Insurance Taxes and Fees	21	19	\$2	10.5%
Corporate Franchise Tax & Fees	14	16	(\$2)	-12.5%
Interest on State Funds & Investments	1	2	(\$1)	-50.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	28	30	(\$2)	-6.7%
Subtotal	<u>\$1,913</u>	<u>\$2,129</u>	<u>(\$216)</u>	<u>-10.1%</u>
Transfers				
Lottery	29	48	(\$19)	-39.6%
Riverboat transfers & receipts	36	25	\$11	44.0%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	77	63	\$14	N/A
Fund sweeps	0	0	\$0	N/A
Other	84	33	\$51	154.5%
Total State Sources	<u>\$2,139</u>	<u>\$2,298</u>	<u>(\$159)</u>	<u>-6.9%</u>
Federal Sources	<u>\$47</u>	<u>\$82</u>	<u>(\$35)</u>	<u>-42.7%</u>
Total Federal & State Sources	<u>\$2,186</u>	<u>\$2,380</u>	<u>(\$194)</u>	<u>-8.2%</u>
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$96)	(\$121)	\$25	-20.7%
Corporate Income Tax	(\$7)	(7)	\$0	0.0%
Fund for Advancement of Education	(\$30)	0	(\$30)	N/A
Commitment to Human Services Fund	(\$30)	0	(\$30)	N/A
Subtotal General Funds	<u>\$2,023</u>	<u>\$2,252</u>	<u>(\$229)</u>	<u>-10.2%</u>
Short-Term Borrowing	\$0	\$0	\$0	N/A
Interfund Borrowing	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$125	\$0	\$125	N/A
Total General Funds	<u>\$2,148</u>	<u>\$2,252</u>	<u>(\$104)</u>	<u>-4.6%</u>

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

2-Sep-15

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2016 vs. FY 2015

(\$ million)

<u>Revenue Sources</u>	<u>FY 2016</u>	<u>FY 2015</u>	<u>CHANGE FROM FY 2015</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$1,997	\$2,410	(\$413)	-17.1%
Corporate Income Tax (regular)	111	130	(\$19)	-14.6%
Sales Taxes	1,365	1,354	\$11	0.8%
Public Utility Taxes (regular)	132	153	(\$21)	-13.7%
Cigarette Tax	59	59	\$0	0.0%
Liquor Gallonage Taxes	31	30	\$1	3.3%
Vehicle Use Tax	6	6	\$0	0.0%
Inheritance Tax	46	64	(\$18)	-28.1%
Insurance Taxes and Fees	31	25	\$6	24.0%
Corporate Franchise Tax & Fees	30	30	\$0	0.0%
Interest on State Funds & Investments	2	4	(\$2)	-50.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	77	194	(\$117)	-60.3%
Subtotal	\$3,887	\$4,459	(\$572)	-12.8%
Transfers				
Lottery	80	88	(\$8)	-9.1%
Riverboat transfers & receipts	57	43	\$14	32.6%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	77	63	\$14	22.2%
Fund sweeps	0	0	\$0	N/A
Other	150	112	\$38	33.9%
Total State Sources	\$4,251	\$4,765	(\$514)	-10.8%
Federal Sources	\$392	\$382	\$10	2.6%
Total Federal & State Sources	\$4,643	\$5,147	(\$504)	-9.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$195)	(\$241)	\$46	-19.1%
Corporate Income Tax	(\$17)	(\$18)	\$1	-5.6%
Fund for Advancement of Education	(\$74)	\$0	(\$74)	N/A
Commitment to Human Services Fund	(\$74)	\$0	(\$74)	N/A
Subtotal General Funds	\$4,283	\$4,888	(\$605)	-12.4%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Interfund Borrowing	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$125	\$275	(\$150)	-54.5%
Total General Funds	\$4,408	\$5,163	(\$755)	-14.6%

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

CGFA

2-Sep-15