Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: AUGUST 2018

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INSIDE THIS ISSUE

Economy: Exports Strengthen Despite Uncertainties

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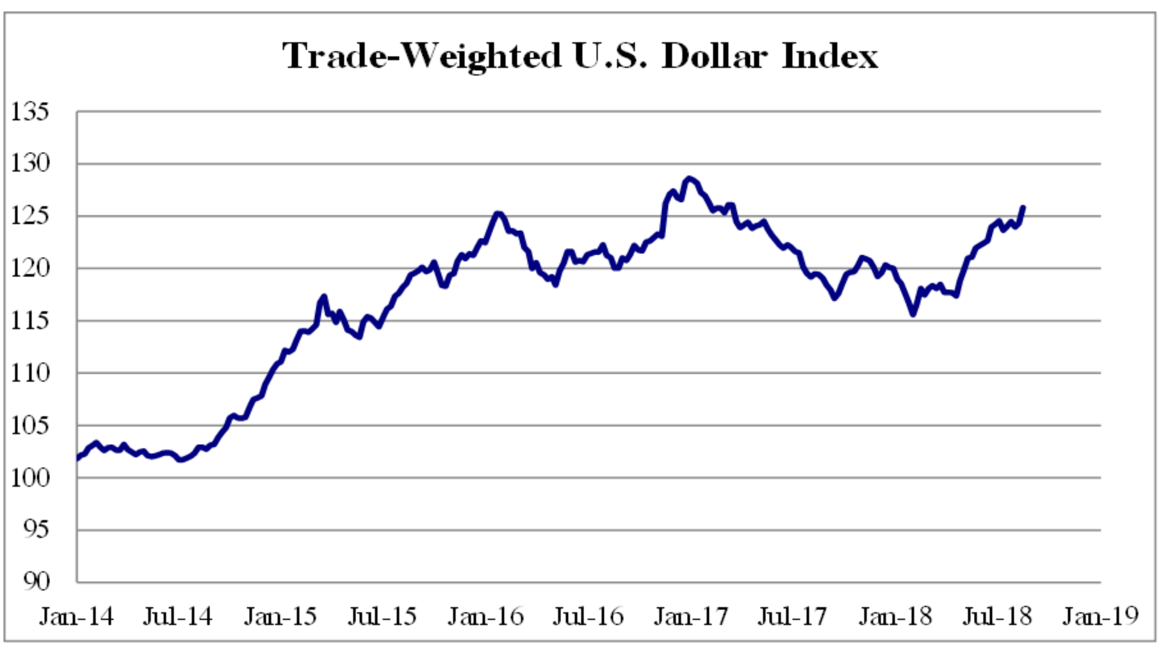
Current measures of U.S. economic performance have been impressive: a solid labor market, low unemployment rate, and a gradually rising inflation rate to the Fed's preferable level. The Fed has been tightening monetary policy by raising short-term interest rates while closely watching the economy since late 2015; at the same time, the European Central Bank (ECB) conducted a stimulus program, keeping its interest rates quite low. With other factors including a strong U.S. economy, the two opposite monetary policies by the Fed and ECB caused the U.S. dollar to be more attractive to foreign investors as interest rates on dollar deposits would be higher than interest rates on euro deposits. This led to a higher demand, and a stronger U.S. dollar.

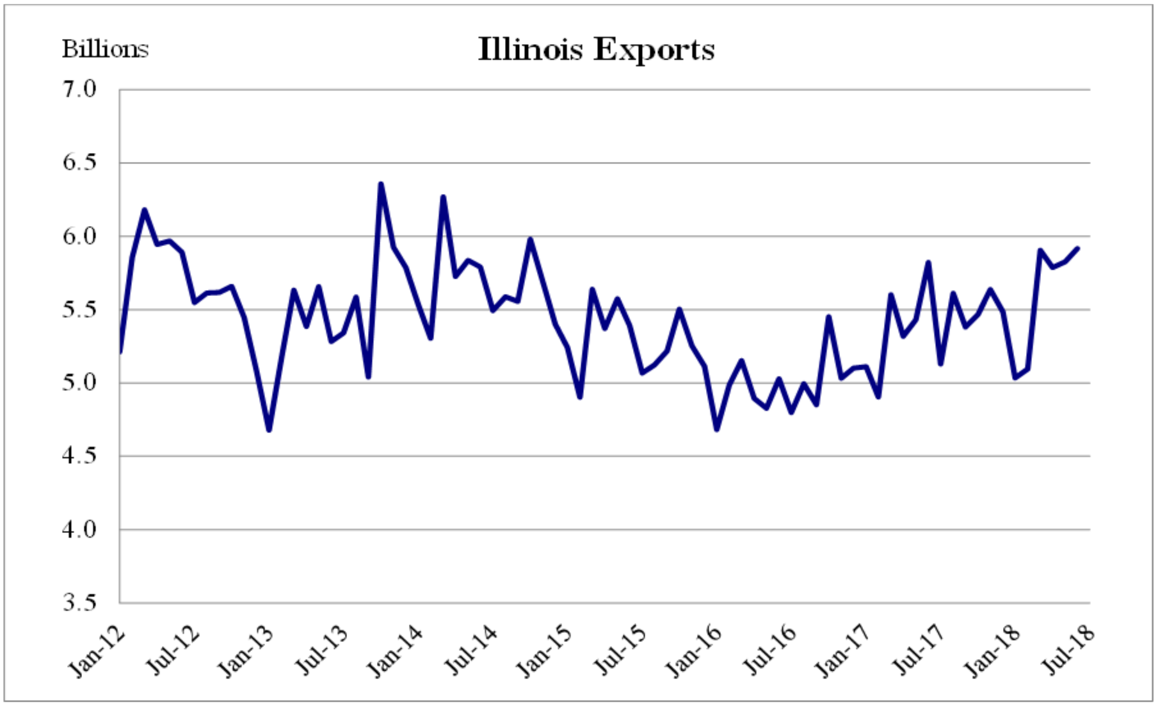
The strengthening dollar can be observed in the trade-weighted U.S. dollar index. Called the "broad index," it measures the value of the U.S. dollar against foreign currencies. As shown in Chart 1 on the following page, the broad index began to increase around mid-2014 and reached its highest point since 2002 in December 2016 before beginning an almost year-long downward trend. In January 2018, the value of the U.S. dollar climbed and hit its highest point in 17 months in August 2018, up 5.4% from a year earlier. It is interesting to note that the U.S. dollar gained strength around early 2018 when the global trade tensions began to arise. Experts say a possible reason for this would be uncertainties arising from the trade conflicts between the U.S. and other countries such as China, Mexico, and Canada, encouraging foreign investors to seek a safer currency such as the U.S. dollar.

As exports stem from foreign consumers, the value of the U.S. dollar relative to foreign currencies is an important factor in exports. In theory, exports should decline as the U.S. dollar appreciates, making U.S. exports more expensive to foreign consumers, and vice versa. However, the recent appreciation of the U.S. dollar has not yet appeared to deteriorate exports. In fact, the U.S. trade deficit narrowed to $43.1 billion in May 2018, the lowest level in 19 months as exports grew significantly faster than imports. Some believe it was most likely due to companies' efforts to get ahead of retaliatory tariffs.

Illinois, the 5th largest exporter within the U.S, also gained in exports. According to U.S. Census data, Illinois exports rose in June 2018 to $5.92 billion, the highest level since late 2014 after a continuous upward slope with a drop in early 2018 as shown in Chart 2. The State's largest export partners in 2017, in order of magnitude are Canada (27.1%), Mexico (15.1%), and China (8.1%). Combined these countries comprised more than 50% of the total exports from Illinois in 2017. With respect to its export category, in order of importance with a two-digit share, are Machinery (17.0%), Chemicals (13.7%), Computer & Electronic products (13.2%), and Transportation equipment (12.3%). It may come as a surprise that Agricultural products account for only 4.4% of total Illinois exports. Among Illinois's top 10 export product categories, the largest gain from 2016 to 2017 was Machinery, which rose 14.5%, and the largest decline was Agriculture products, which declined 11.1%.

At least in the near future, economists anticipate a continued strong economic performance for the U.S. However, in the Federal Open Market Committee (FOMC) minutes of July 31-August 1 meeting, the Fed showed its concerns about uncertainties associated with the trade conflicts. "*Trade policies could move in a direction that would have significant negative effects on [the U.S.] economic growth. … In addition, all participants pointed to ongoing trade disagreements as an important source of uncertainty and risks,*" according to the FOMC minutes. Recent progress in a trade agreement reached with Mexico and negotiations with Canada are raising hopes of avoiding a trade war.





INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (July)	4.2%	4.3%	5.0%
Inflation in Chicago (12-month percent change) (July)	1.9%	2.2%	2.2%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (July)	6,486.9	0.0%	0.0%
Employment (thousands) (July)	6,214.7	0.1%	0.8%
Nonfarm Payroll Employment (July)	6,128,900	3,700	65,700
New Car & Truck Registration (July)	53,460	-1.4%	11.1%
Single Family Housing Permits (July)	910	-10.7%	-12.8%
Total Exports ($ mil) (June)	5,917.4	1.6%	1.6%
Chicago Purchasing Managers Index (Aug.)	63.6	-2.9%	8.0%

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

Series of September 2018 Bond Sale
Lynnae Kapp, Senior Analyst

Illinois sold $966 million of General Obligation Refunding bonds in two series at the end of August. The September 2018 Series A for $641 million refunds the $600 million variable rate bonds of Series 2003B and will pay the termination fees on the five swap agreements that were taken out on the bonds. This removes the only variable rate exposure the State had and will create savings of $93.6 million due to a lower, fixed interest rate. The September 2018 Series B refunding bonds of $325 million will refund other GO debt with a savings of $33.6 million. The bonds received 87 institutional investor bids equaling $4.1 billion in orders, 4.3 times the $966 million available to be sold. The true interest cost was 4.19%. "The state saw a 175 basis point spread to the AAA benchmark on the 10-year maturities in the $963 million general obligation refunding issue JPMorgan priced Wednesday. The BBB spreads -- where the state's paper is rated -- are back under 100 bp after going up for the state's previous GO sale in April." Market participants "attributed the demand to the top yields, the improved outlook, and market conditions with demand strong for both supply and high-yielding paper -- especially given the flatness of the yield curve with not much of a yield boost between a single-A and AAA." [*Illinois deal trims state's spread penalties*, The Bond Buyer, August 22, 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
FY 2019								
Sep-18	General Obligation Refunding Series A & B	$966 million	tax-exempt	negotiated	combined 4.19%	BBB-	BBB	Baa3

REVENUE: AUGUST REVENUES DOWN—REFLECTING LAST YEAR'S STRONG FEDERAL RECEIPTS

Jim Muschinske, Revenue Manager

Base revenues fell $145 million excluding $150 million of interfund borrowing executed in August 2017. The drop in receipts was essentially due to comparatively weaker federal sources. August of last fiscal year enjoyed increased reimbursable spending and subsequent federal sources made possible by the aforementioned interfund borrowing as well as fund sweeps. The month had the same number of receipting days as the prior year.

Major revenue sources performed quite well for the month as gross personal income taxes increased $127 million, or $106 net. Gross sales taxes posted gains of $54 million, or $52 million net. Gross corporate income tax rose $35 million, or $28 million on a net basis. Cigarette taxes increased $7 million due to receipt timing, while corporate franchise taxes grew $6 million. Inheritance taxes advanced $4 million, interest income $3 million, and liquor taxes $2 million.

Only a couple of State sources registered declines in August. Public utility taxes dropped $9 million, and all other miscellaneous sources were off $8 million.

Overall transfers rose by $79 million in August. The growth was due to the expected $200 million transfer from the Income Tax Refund Fund which more than made up for $126 million in fund sweeps executed last fiscal year. Lottery transfers grew $9 million and all other miscellaneous transfers increased $1 million, while riverboat transfers dipped by $5 million.

For the month, federal sources were down $415 million. As mentioned, federal sources in August 2018 were unusually high, so while federal source performance was relatively weak this August, it was made even more so on a comparative basis.

Year To Date

Excluding interfund borrowing last fiscal year, the first two months of FY 2019 show general funds ahead of last year by $197 million. Gross personal income tax is up by $514 million, or $432 million net. The gain is partially due to timing associated with last year's rate increase which took time to be fully integrated. Similarly, gross corporate income taxes are up by $59 million, or $49 million net. Gross sales tax receipts are up by $45 million, or $42 million net. All other tax sources combined added $54 million to the monthly gain.

Overall transfers increased $79 million through August. The recent $200 million transfer from the Income Tax Refund Fund more than offset last year's $126 million of fund sweeps. And again, federal sources are down by $459 million, as on a comparative basis, as last year was particularly strong.

AUGUST

FY 2019 vs. FY 2018

($ million)

Revenue Sources	August FY 2019	August FY 2018	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,442	$1,315	$127	9.7%
Corporate Income Tax (regular)	72	37	$35	94.6%
Sales Taxes	752	698	$54	7.7%
Public Utility Taxes (regular)	71	80	($9)	-11.3%
Cigarette Tax	37	30	$7	23.3%
Liquor Gallonage Taxes	13	11	$2	18.2%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	19	15	$4	26.7%
Insurance Taxes and Fees	26	26	$0	0.0%
Corporate Franchise Tax & Fees	20	14	$6	42.9%
Interest on State Funds & Investments	7	4	$3	75.0%
Cook County IGT	0	0	$0	N/A
Other Sources	28	36	($8)	-22.2%
Subtotal	$2,490	$2,269	$221	9.7%
Transfers				
Lottery	41	32	$9	28.1%
Riverboat transfers & receipts	20	25	($5)	-20.0%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	200	0	$200	N/A
Fund sweeps	0	126	($126)	N/A
Other	48	47	$1	2.1%
Total State Sources	$2,799	$2,499	$300	12.0%
Federal Sources	$226	$641	($415)	-64.7%
Total Federal & State Sources	$3,025	$3,140	($115)	-3.7%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($140)	($129)	($11)	8.5%
Corporate Income Tax	($11)	(6)	($5)	83.3%
LGDF--Direct from PIT	($75)	(65)	($10)	15.4%
LGDF--Direct from CIT	($4)	(2)	($2)	100.0%
Downstate Pub/Trans--Direct from Sales	($19)	(17)	($2)	11.8%
Subtotal General Funds	$2,776	$2,921	($145)	-5.0%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$150	($150)	N/A
Income Tax Bond Fund Transfer	$0	$0	$0	N/A
Transfer to Commitment Human Services	$0	$0	$0	N/A
Total General Funds	$2,776	$3,071	($295)	-9.6%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding — 5-Sep-18

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	$2,903	$2,389	$514	21.5%
Corporate Income Tax (regular)	165	106	$59	55.7%
Sales Taxes	1,480	1,435	$45	3.1%
Public Utility Taxes (regular)	129	146	($17)	-11.6%
Cigarette Tax	65	59	$6	10.2%
Liquor Gallonage Taxes	31	30	$1	3.3%
Vehicle Use Tax	6	6	$0	0.0%
Inheritance Tax	68	38	$30	78.9%
Insurance Taxes and Fees	35	42	($7)	-16.7%
Corporate Franchise Tax & Fees	32	28	$4	14.3%
Interest on State Funds & Investments	20	8	$12	150.0%
Cook County IGT	0	0	$0	N/A
Other Sources	102	77	$25	32.5%
Subtotal	$5,036	$4,364	$672	15.4%
Transfers				
Lottery	95	85	$10	11.8%
Riverboat transfers & receipts	48	54	($6)	-11.1%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	200	0	$200	N/A
Fund sweeps	0	126	($126)	N/A
Other	93	92	$1	1.1%
Total State Sources	$5,472	$4,721	$751	15.9%
Federal Sources	$535	$994	($459)	-46.2%
Total Federal & State Sources	$6,007	$5,715	$292	5.1%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($282)	($234)	($48)	20.5%
Corporate Income Tax	($26)	(19)	($7)	36.8%
LGDF--Direct from PIT	($151)	(117)	($34)	29.1%
LGDF--Direct from CIT	($9)	(6)	($3)	50.0%
Downstate Pub/Trans--Direct from Sales	($36)	(33)	($3)	9.1%
Subtotal General Funds	$5,503	$5,306	$197	3.7%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$150	($150)	N/A
Income Tax Bond Fund Transfer	$0	$0	$0	N/A
Transfer to Commitment Human Services	$0	$0	$0	N/A
Total General Funds	$5,503	$5,456	$47	0.9%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 5-Sep-18