



Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: OCTOBER 2013

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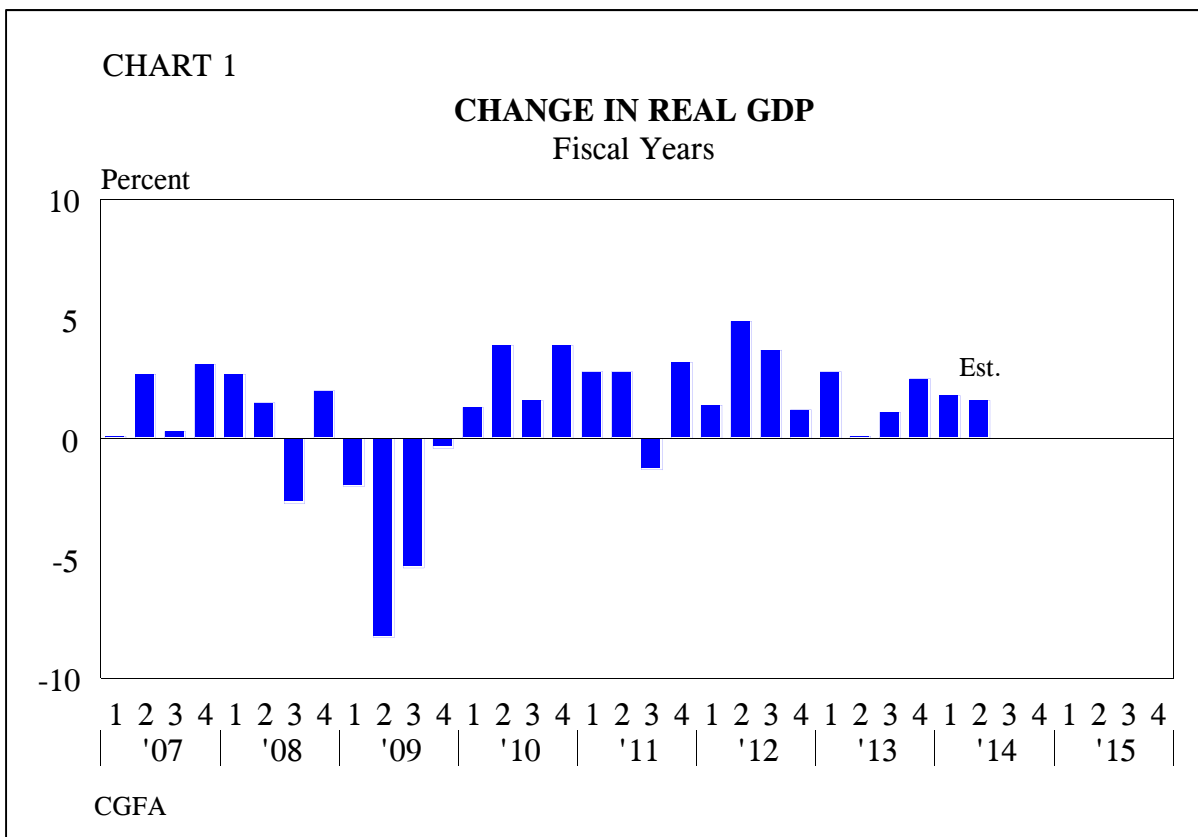
ECONOMY: Where Are We?

Edward H. Boss, Jr., Chief Economist

The title of this article may seem strange, but it refers to the lack of availability of government data, due first to the government shut down and more recently the delay of government releases used to gauge the economy's performance. Indeed, not only weren't new reports being released during the shutdown, but agency web sites were completely shut down, preventing even the retrieval of previous data.

All was not lost, however, as past data often were available from other sources such as the Federal Reserve Bank of St. Louis, private sector forecasting services, and computer searches. At the same time, some important current measures of economic activity continued to be provided by the private sector such as: consumer attitudes by the University of Michigan and the Conference Board; the performance of manufacturing and non-manufacturing sectors by the Institute of Supply Management, and new auto and truck registrations by the Automobile Dealers Association.

The latest overall measure of the U.S. economy, Gross Domestic Product, release was for the second quarter of this year and indicated that the real economy had grown at a 2.5% annual rate, up from only a 1.1% annual rate in the first quarter. Even before the government shut down, however, most forecasters had projected some moderation in third quarter growth in part due to its composition. As shown in the chart, the Commission's forecasting service, Global Insight, projects a slowdown in the third quarter to an annual rate of 1.8% when released by the Bureau of Economic Analysis.



Recent data also suggests a continued slowdown in growth will occur in the final quarter of this year when most of the effects from the government shut down and sequester cutbacks in government spending will be felt. Latest reports appear to support this prospect. For example, the University of Michigan’s recently released Index of Consumer Sentiment for October fell to its lowest level since December of 2012 while the National Federation of Retailers warn that their forecast of a 3 1/2 % increase for holiday sales could be negatively affected. These are important indicators of consumer spending that make up between two-thirds to seventy percent of total spending.

At the same time, one of the hottest areas of the economy, housing, has displayed some recent softening. The National Association of Realtors (NRF) reported that after hitting the highest level in nearly four years, existing home sales declined in September noting that the national median existing

home price for all housing types rose in September, making it the tenth consecutive month of a double digit year-over-year increase. As a result, the report noted that housing affordability has fallen to a five year low as home price increases easily outpaced income growth. In addition one result of the government shut down, as noted by the NRF, was “...delays in the tax transcripts needed for approval of mortgage loans put a monkey wrench in the transaction process and could negatively impact sales closing in the next month.” At the same time, mortgage interest rates have risen even as other interest rates remained virtually unchanged posing another impediment to growth.

The latest analysis by Global Insight states that... “The outlook for the fourth quarter has been downgraded to 1.6% because of these threats to growth. Three out of the four quarters of 2013 are now expected to see sub-2% growth.” Many feel

that with the shut down over, the economy could accelerate. Even so, the International Strategy & Investment Group reports that while odds that the economy accelerates are 60%, so far the data from their company

surveys are rejecting this view. In conclusion, it will take consistent growth of 2 ½% to 3% to put a dent in unemployment and this does not seem to be in the cards anytime soon.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>SEPT. 2013</u>	<u>AUG. 2013</u>	<u>SEPT. 2012</u>
Unemployment Rate (Average)	*	*	*
Annual Rate of Inflation (Chicago)	0	-1.9%	0.7%
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (September)	*	*	*
Employment (thousands) (September)	*	*	*
New Car & Truck Registration (September)	50,617	-12.1%	5.6%
Single Family Housing Permits (September)	*	*	*
Total Exports (\$ mil) (August)	5,586	4.5%	-0.5%
Chicago Purchasing Managers Index (October)	65.9	18.3%	29.9%

**Data delayed due to government shutdown*

REVENUE

Monthly Revenues Dip Due to Receipt Timing and Weak Federal Sources – Receipt Performance Through October Results in Upward Revision

Jim Muschinske, Revenue Manager

Overall base revenues dipped \$76 million in October. It appears the extra receipting day experienced in September had the effect of shifting some revenues that otherwise would have been receipted in October, into the earlier month [see significant gains detailed in September’s briefing]. So, while the larger economic sources cooled from their first quarter pace, monthly comparisons do not always correlate precisely from one year to the next. Sometimes more or fewer receipting days [sometimes referred to as “processing” days] can have a variable effect on receipts.

That being said, for the month, insurance taxes dropped \$18 million [mostly offsetting the larger \$19 million gain enjoyed in September]. Cigarette taxes fell \$13 million; however, the October amount of cigarette taxes was on target for this year. The month vs. prior year month comparison reflects last year’s large October which was a “make up” month related to the stockpiling effect that took place last year. While gross personal income taxes fell \$13 million, or \$8 million net of refunds, the drop appears more to do with receipt timing than demonstrating weakening [see last month’s

net gain of \$138 million for perspective]. The same type of view can be applied to the \$7 million dip in gross corporate income taxes, or \$5 million net of refunds. Last month, net corporate receipts jumped a net \$78 million. In addition, corporate franchise taxes dipped \$5 million, other sources \$2 million, and public utility \$1 million.

Despite the negative effects that timing seemed to play in October, a few sources still managed to post gains. Sales tax was able to shrug off receipt timing issues and increased \$11 million. Inheritance taxes grew \$9 million, while interest earnings eked out a \$1 million gain.

Overall transfers grew a modest \$4 million in October. Lottery transfers grew \$13 million, although those gains were partially offset by a \$3 million decline in riverboat transfers and a \$6 million drop in other transfers. As mentioned, federal sources was particularly weak this month, falling \$49 million.

Year to Date

Through the first third of FY 2014, base general funds are up \$623 million as compared to last fiscal year. Much of that growth can be attributed to the one-time surge in transfers related to the refund fund [\$397 million]. However, despite the pause in October, the larger economically-related sources fared quite well. Gross personal income tax is up \$203 million, or \$196 million net of refunds. Sales tax continues to surprise in its performance, up \$150 million to date. Gross corporate income taxes are up \$74 million, or \$70 million net

of refunds. Other sources are up \$69 million for the year, although all of that increase can be attributed to September's receipt of one-time court settlement proceeds. Cigarette taxes are up \$8 million due to the stockpiling effect of last fiscal year. Interest income is ahead by \$2 million, while both vehicle use tax and insurance taxes are each up \$1 million.

Only a couple of sources suffered year to date declines to begin the fiscal year. Inheritance tax is down \$39 million, although the falloff was expected and is attributed to an earlier tax change which resulted in an exceptionally large July in 2012. Public utility tax is down a modest \$7 million, while corporate franchise taxes have dipped \$2 million.

Through October, overall transfers are up \$407 million. Virtually all of those gains stem from the one-time \$397 million transfer from the Income Tax Refund Fund. Federal sources are down \$233 million thus far, reflecting lower reimbursable spending.

Revisions to FY 2014 Estimate

HR 389 was passed in May of 2013. The resolution detailed the General Assembly's \$35.446 billion revenue forecast that was utilized in crafting the FY 2014 budget. With one-third of the fiscal year now complete, several revenue items should be incorporated into an updated estimate. In total, the Commission's revised forecast represents an increase of \$369 million over HR 389 and reflects an updated general funds total of \$35.815 billion [See table on the following page]. Those estimates undergoing revision include:

CGFA Revised FY 2014 General Funds Estimate [Nov-13]		
[\$millions]		
FY 2014 Estimate per HR 389	\$	35,446
<u>CGFA Adjustments [Nov-13]</u>		
Sales Tax Receipts	\$	200
Refund Fund Transfer	\$	97
Other Sources	\$	72
Revised FY 2014 Estimate [Nov-13]	\$	35,815
Net Adjustment	\$	369

- Sales tax receipts have managed to continue to measurably outpace the conservative projections utilized in HR 389. FY 2013 sales tax ended on a strengthening trend and has continued to perform well through the first third of the fiscal year. As a result, there was considerable upside pressure being placed on the sales tax estimate. Even assuming a significant slowing in growth over the remaining months, year to date performance dictates an upward revision in the estimate for FY 2014. As a result, the forecast is being adjusted up \$200 million.
- At the time HR 389 was passed, the conservative view was that \$300 million in the Income Tax Refund Fund would be available for transfer to the General Fund. Indeed, this was proven to be a conservative estimate as \$397 million was available and actually transferred (occurred in August).
- In September, approximately \$72 million was received from court

settlement proceeds (\$54 million via the Attorney General’s Office and \$18 million via Healthcare and Family Services). Those settlement proceeds [understood to be related to drug company settlements] were not included in earlier revenue forecasts.

While the above revisions are the only ones being undertaken at this time, a couple of other observations serve as foreshadowing for potential revisions at the next scheduled revenue update [during late February/early March].

- Through October, both personal and corporate income taxes have performed somewhat better than anticipated. However, given a great deal of uncertainty related to income tax receipts over the remainder of the fiscal year, an upward revision is not being made at this time. To review, back in April of 2013, an “April Surprise” of sorts occurred with income tax receipts. In essence, corporations as well as individuals made decisions at the end of tax year 2012 related to minimizing tax liabilities prior to higher federal tax

rates that began January 1, 2013. The consequence of those actions resulted in a spike of April income taxes. As a result, comparative income tax growth rates are expected to fall significantly in the spring, as last year's surge will not repeat. While the income tax estimates contained in HR 389 allow for such a falloff, due to significant remaining uncertainty of last year's surge, [despite the better than expected performance to date], the prudent course of action is to delay revision at this time.

- The revenue surge last April enabled a voluminous amount of reimbursable spending to take place, along with subsequent record federal source receipting. Since that event is not

expected to repeat this coming spring, and given the year to date performance, it may be difficult to meet the current forecast of federal sources.

To summarize, the larger economically related sources are performing quite well to date. Sales tax revenues have exceeded expectations and merit a revision to the earlier forecast. In the case of income taxes, only the uncertainties associated with the "April Surge" of FY 2013 give pause to an upward revision at this time. A couple of unanticipated one-time revenue infusions have also aided the bottom line and need to be incorporated in a revised forecast. Despite, the overall positives, downward pressure appears to be building in the forecast of federal sources.

GENERAL FUNDS RECEIPTS: OCTOBER

FY 2014 vs. FY 2013

(\$ million)

<u>Revenue Sources</u>	<u>Oct. FY 2014</u>	<u>Oct. FY 2013</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$1,279	\$1,292	(\$13)	-1.0%
Corporate Income Tax (regular)	173	180	(\$7)	-3.9%
Sales Taxes	640	629	\$11	1.7%
Public Utility Taxes (regular)	84	85	(\$1)	-1.2%
Cigarette Tax	29	42	(\$13)	-31.0%
Liquor Gallonage Taxes	13	13	\$0	0.0%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	36	27	\$9	33.3%
Insurance Taxes and Fees	4	22	(\$18)	-81.8%
Corporate Franchise Tax & Fees	19	24	(\$5)	-20.8%
Interest on State Funds & Investments	2	1	\$1	100.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	29	31	(\$2)	-6.5%
Subtotal	\$2,311	\$2,349	(\$38)	-1.6%
Transfers				
Lottery	59	46	\$13	28.3%
Riverboat transfers & receipts	24	27	(\$3)	-11.1%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	0	0	\$0	N/A
Other	44	50	(\$6)	-12.0%
Total State Sources	\$2,438	\$2,472	(\$34)	-1.4%
Federal Sources	\$254	\$303	(\$49)	-16.2%
Total Federal & State Sources	\$2,692	\$2,775	(\$83)	-3.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$121)	(\$126)	\$5	-4.0%
Corporate Income Tax	(\$23)	(25)	\$2	-8.0%
Subtotal General Funds	\$2,548	\$2,624	(\$76)	-2.9%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,548	\$2,624	(\$76)	-2.9%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				4-Nov-13

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2014 vs. FY 2013
(\$ million)

<u>Revenue Sources</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>CHANGE FROM FY 2013</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$5,267	\$5,064	\$203	4.0%
Corporate Income Tax (regular)	907	833	\$74	8.9%
Sales Taxes	2,579	2,429	\$150	6.2%
Public Utility Taxes (regular)	323	330	(\$7)	-2.1%
Cigarette Tax	118	110	\$8	7.3%
Liquor Gallonage Taxes	56	56	\$0	0.0%
Vehicle Use Tax	11	10	\$1	10.0%
Inheritance Tax (Gross)	82	121	(\$39)	-32.2%
Insurance Taxes and Fees	90	89	\$1	1.1%
Corporate Franchise Tax & Fees	71	73	(\$2)	-2.7%
Interest on State Funds & Investments	6	4	\$2	50.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	196	127	\$69	54.3%
Subtotal	\$9,706	\$9,246	\$460	5.0%
Transfers				
Lottery	201	186	\$15	8.1%
Riverboat transfers & receipts	132	140	(\$8)	-5.7%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	397	0	\$397	N/A
Other	181	178	\$3	1.7%
Total State Sources	\$10,617	\$9,750	\$867	8.9%
Federal Sources	\$986	\$1,219	(\$233)	-19.1%
Total Federal & State Sources	\$11,603	\$10,969	\$634	5.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$501)	(\$494)	(\$7)	1.4%
Corporate Income Tax	(\$121)	(\$117)	(\$4)	3.4%
Subtotal General Funds	\$10,981	\$10,358	\$623	6.0%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund Transfer	\$50	\$264	(\$214)	N/A
Tobacco Liquidation Proceeds	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$275	\$275	\$0	0.0%
Total General Funds	\$11,306	\$10,897	\$409	3.8%

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

CGFA

4-Nov-13

FY 2014 GENERAL FUNDS REVENUE CGFA ESTIMATES

(millions)

<u>Revenue Sources</u>	FY'14 CGFA <u>Nov-13</u>	FY'14 HR 389 <u>May-13</u>	\$ <u>Difference</u>
State Taxes			
Personal Income Tax	\$17,713	\$17,713	\$0
Corporate Income Tax	\$3,391	\$3,391	\$0
Sales Taxes	\$7,548	\$7,348	\$200
Public Utility (regular)	\$1,032	\$1,032	\$0
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$165	\$0
Vehicle Use Tax	\$27	\$27	\$0
Inheritance Tax (gross)	\$210	\$210	\$0
Insurance Taxes & Fees	\$350	\$350	\$0
Corporate Franchise Tax & Fees	\$203	\$203	\$0
Interest on State Funds & Investments	\$20	\$20	\$0
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$482</u>	<u>\$410</u>	<u>\$72</u>
Subtotal	\$31,740	\$31,468	\$272
Transfers			
Lottery	\$669	\$669	\$0
Riverboat transfers and receipts	\$356	\$356	\$0
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$397	\$300	\$97
<u>Other</u>	<u>\$780</u>	<u>\$780</u>	<u>\$0</u>
Total State Sources	\$33,952	\$33,583	\$369
Federal Sources	\$4,000	\$4,000	\$0
Total Federal & State Sources	\$37,952	\$37,583	\$369
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% FY'14]	(\$1,683)	(\$1,683)	\$0
Corporate Income Tax [13.4 FY'14]	(\$454)	(\$454)	\$0
Subtotal General Funds	\$35,815	\$35,446	\$369
NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.			
CGFA			