Higher Levels of Inflation
Benjamin L. Varner, Senior Analyst and Economic Specialist

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. It is a monthly measurement of U.S. prices for most household goods and services. It reports inflation (rising prices) and deflation (falling prices.) The CPI market basket is developed from detailed expenditure information provided by families and individuals on what they actually bought.

In June and July of 2018, the CPI for all urban consumers (CPI-U) which represents approximately 93% of the total U.S. population reached a 6-year high. The year-over-year percentage change in the non-seasonally adjusted CPI was 2.9% in the U.S. This was the highest level since February of 2012. Inflation has been steadily growing since the beginning of 2015. The increase in inflation in June and July was associated with increases in shelter costs (rent or owner’s equivalent rent of primary residence) which accounts for approximately 1/3 of the basket of goods measured by the CPI. Shelter costs were up 3.4% in June and 3.5% in July. Increases in energy and transportation prices also added to the growth in inflation.

While inflation as measured by the CPI-U is higher compared to recent years, especially when compared to levels in 2015 and 2016, overall inflation is not that high particularly when food and
energy costs are removed. The CPI-U with food and energy costs removed has been consistently around 2% since about July of 2011. In July of 2011, the CPI-U less food and energy rose to 1.8% after almost a year at or below 1.1%. Since then, the CPI-U less food and energy has averaged 1.9% with the highest month being 2.4% in July of 2018 and the lowest months being 1.6% in January and February of 2015. The table below shows the growth in the CPI-U since 2015 and the stability of consumer prices when food and energy costs are removed.
As compared to the U.S., the Illinois economy did not see as high of a level of inflation over the summer. Inflation reached a high of 2.3% in May of 2018 in the Chicago-Naperville-Elgin region. In recent years, the Chicago area has consistently had lower levels of inflation when compared to the country as a whole. Since the beginning of 2015, the Chicago area has averaged 0.5% less inflation as measured by the CPI-U than the U.S. In the 45 months since January of 2015, Chicago has only seen five months in which its monthly CPI-U estimate was higher than the U.S. The persistent lower level of inflation in Chicago since 2015 is illustrated in the graph which shows CPI-U results for both the U.S. and Chicago. Similar, to the U.S., the volatility of the CPI is reduced in Chicago when food and energy prices are removed. While the U.S. averaged 1.9% growth in the CPI-U less food and energy since 2011, Chicago averaged only 1.5%. This difference of 0.4% is similar to the 0.5% difference seen in the CPI-U for all items.

Looking Ahead

It is likely that the moderately increased level of inflation will continue into the near future. Examining what 29 different groups which make economic forecasts think will happen, the average growth estimate for consumer prices was 2.5% in 2018 and 2.3% in 2019. This is above the 1.9% average seen in the U.S. since 2011.

Another indicator which may point to continued higher consumer prices is the Producer Price Index (PPI). The PPI measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. The PPI measures inflation and deflation at the wholesale level of the economy. The PPI has been at a somewhat elevated level since the beginning of 2017. In July of 2018, the PPI peaked at 5.8%. This is the highest level it has been since December of 2011. While not absolute, current high PPI results could be a signal for continued higher levels for the CPI moving forward.

Finally, the expectation for a continued higher level of inflation can be seen in the actions taken by the Federal Reserve. The Federal Reserve has a mandate to ensure maximum employment, stable prices, and moderate long-term interest rates through the use of monetary policy. While the economy has neared full employment, the Federal Reserve has raised the federal funds rate numerous times in the recent past to fight inflation. The federal funds rate is the interest rate at which depository institutions trade federal funds (balances held at Federal Reserve Banks) with each other overnight. The federal funds target rate is set by the Federal Reserve through the use of open market operations. Since December of 2016, the Federal Reserve has raised the federal funds rate seven times from a target range of 0.25% - 0.50% to its current level of between 2.00%-2.25%. The most recent interest rate raise was done on September 27, 2018. Both the Chairmen and the Vice Chairman of the Federal Reserve have recently indicated that they believe further gradual adjustment in the federal fund rate will be needed in the future.
October 2018 Build Illinois Bond Sales and Downgrade
Lynnae Kapp, Senior Analyst

Illinois competitively sold $250 million of Build Illinois bonds in three series in October of 2018 for capital projects. Debt service for Series A will be paid from sales tax revenues, and debt service for both Series B and Series C will be paid with revenues from both sales taxes and the Capital Projects Fund. The October 2018 Series A tax-exempt bonds of $115 million had 10 bids and received a true interest cost of 4.16%. The October 2018 Series B tax-exempt bonds of $125 million received a 4.27% true interest cost from the winner out of 11 bids. The October 2018 Series C taxable bonds of $10 million had four bids and received a true interest cost of 4.09%. “The yields landed on par with current trading levels. Build Illinois bonds in the seven to 12 year range have traded recently between 75 basis points to 85 bps over the AAA benchmark…While the spreads have widened since the 2016 sale, they remain attractive compared to the 180 bp spread trading levels of the state’s 10-year general obligation bond.” [Spread penalty on Build Illinois sales tax bonds reflects downgrades, The Bond Buyer, October 17, 2018]
The State did not request a rating for this bond sale from Moody’s, but received the State’s first rating from Kroll Bond Rating Agency of AA+ with a stable outlook.

In June 2017, during the State of Illinois’ budget impasse, Standard & Poor’s downgraded the State’s Build Illinois bonds three levels from AAA to AA-, after it began to tie them to the State’s general obligation bonds.

On October 30, 2018, S&P lowered the Build Illinois Bond rating five more levels to BBB, based on changes they have made to their rating’s criteria for priority-lien tax revenue debt. S&P stated, “Offsetting these strengths, in our view, is the state’s general credit quality (general obligation [GO] rating BBB-/Stable). To date, the Build Illinois bond program’s authorizing legislation has restricted its use to financing capital and infrastructure projects. While

this remained the case even throughout the state’s two-year budget impasse, future legislatures could enact laws broadening the program’s allowable uses. In our view, the inability to prohibit future lawmakers from taking such action, combined with the state’s unresolved fiscal imbalances, links the credit quality of the Build Illinois sales tax revenue bonds to the state’s general creditworthiness. Therefore, the rating on the Build Illinois bonds is constrained from going higher unless we raise the state GO rating.”

In May 2018, Fitch downgraded Illinois’ Build Illinois bonds five levels from AA+ down to A-. Fitch decided that due to the flow of sales tax revenues to general operations after Build Illinois debt requirements and the State’s ability to transfer excess sales tax revenues to the general fund at the end of the fiscal year, the Build Illinois bond ratings should be tied to the State’s general obligation rating.

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The table below provides details of the bond sales:

### STATE-ISSUED BOND SALES

<table>
<thead>
<tr>
<th>DATE</th>
<th>BOND SALE TYPE</th>
<th>AMOUNT</th>
<th>TAXABLE v. TAX-EXEMPT</th>
<th>NEGOTIATED v. COMPETITIVE SALE</th>
<th>TRUE INTEREST COST</th>
<th>FITCH</th>
<th>S&amp;P</th>
<th>MOODY’S</th>
<th>Kroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan-16</td>
<td>General Obligation bonds</td>
<td>$480 million</td>
<td>tax-exempt</td>
<td>competitive</td>
<td>3.99%</td>
<td>BBB+</td>
<td>A-</td>
<td>Baa1</td>
<td></td>
</tr>
<tr>
<td>Jun-16</td>
<td>General Obligation bonds</td>
<td>$550 million</td>
<td>tax-exempt</td>
<td>competitive</td>
<td>3.743%</td>
<td>BBB+</td>
<td>BB+</td>
<td>Baa2</td>
<td></td>
</tr>
</tbody>
</table>

| FY 2017 |                  |          |                        |                               |                   |        |       |         |       |
| Sep-16  | Build IL 2016A  | $150 million | tax-exempt            | competitive                   | 2.442%            | AA+    | AAA   | 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            | nonguaranteed                | 3.7616% Discount Rate | BBB-   | BB    | Baa2    |       |
| Nov-16  | General Obligation bonds | $480 million | tax-exempt            | competitive                   | 4.245%            | BBB+   | BB    | Baa2    |       |

| FY 2018 |                  |          |                        |                               |                   |        |       |         |       |
| Nov-17  | General Obligation 2017A/B/C | $1.5 billion | tax-exempt            | competitive                   | combined  5.46% | BBB    | BBB-  | Baa3    |       |
| Nov-17  | General Obligation 2017D   | $4.5 billion | tax-exempt            | nonguaranteed                | 3.55%            | BBB    | BBB-  | Baa3    |       |
| Dec-17  | General Obligation 2018A & B | $750 million | tax-exempt            | competitive                   | combined  4.29% | BBB    | BB    | Baa3    |       |
| May-18  | General Obligation 2018A & B | $500 million | tax-exempt            | competitive                   | combined  4.72% | BBB    | BB    | Baa3    |       |

| FY 2019 |                  |          |                        |                               |                   |        |       |         |       |
| Sep-18  | General Obligation Refunding Series A & B | $966 million | tax-exempt            | nonguaranteed                | combined  4.19% | BBB    | BBB-  | Baa3    |       |
| Oct-18  | Build IL October 2018 A | $115 million | tax-exempt            | competitive                   | 4.16%            | A-     | BB    | AA+     |       |
| Oct-18  | Build IL October 2018 A | $125 million | tax-exempt            | competitive                   | 4.27%            | A-     | BB    | AA+     |       |
| Oct-18  | Build IL October 2018 A | $10 million  | taxable               | competitive                   | 4.09%            | A-     | BB    | AA+     |       |
Excluding $204 million in interfund borrowing last October, as well as $500 million related to the Treasurer’s Investment transfers per P.A. 100-1107, base revenues grew $205 million this October. A good month for personal income tax and sales taxes were partially offset by a comparatively weaker month in overall transfers. Federal sources, while disappointing on an absolute basis, did manage to contribute to the monthly gain as last year’s monthly receipts were even weaker. The month had one more receipting day compared to the prior year.

October’s $500 million was the second month to see activity related to SB 2858 [P.A. 100-1107] which allows the Treasurer’s Office to invest in the state’s unpaid receivables. The new law allows up to $2 billion of state funds not immediately needed for current expenses to be utilized to address the state’s overdue bill backlog.

As mentioned, the larger economically-related revenue sources performed well with gross personal income taxes growing $145 million, or $122 million on a net basis. Sales taxes rose $71 million on a gross basis, or $60 million net of the direct distributions to transportation funds. Other sources increased $14 million, while inheritance tax rose by $13 million. Insurance taxes contributed a gain of $6 million, corporate income taxes $4 million, interest earnings $4 million, corporate franchise taxes $1 million, and public utility taxes $1 million. Only one tax source experienced a monthly decline as cigarette taxes dipped by $5 million in October.

Overall transfers erased some of the above gains with monthly totals down $51 million. While October benefited from an additional $127 million transfer from the Income Tax Refund Fund, those gains were more than eliminated by timing associated with last year’s $81 million of fund sweeps, as well as a decline of $83 million in other miscellaneous transfers. In addition, Lottery transfers were down $12 million, while riverboat transfers dipped $2 million. Federal sources managed to post gains of $34 million, however, that increase was due to an even weaker October of last fiscal year.

**Year To Date**

Excluding $354 million in interfund borrowing last fiscal year, and the $700 million related to the Treasurer’s Investments this fiscal year, the first third of FY 2019 show general funds ahead of last year by $595 million. Gross personal income tax is up by $878 million, or $737 million net. Gross sales tax receipts are up by $154 million, or $136 million net. Gross corporate income taxes are up by $138 million, or $119 million net. All other tax sources combined added $69 million to the year-to-date gain.

Overall transfers increased $61 million through October. Federal sources are down by $527 million, as on a comparative basis last year was particularly strong.
## OCTOBER
### FY 2019 vs. FY 2018

($ million)

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>Oct. FY 2019</th>
<th>Oct. FY 2018</th>
<th>$ CHANGE</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>$1,612</td>
<td>$1,467</td>
<td>$145</td>
<td>9.9%</td>
</tr>
<tr>
<td>Corporate Income Tax (regular)</td>
<td>84</td>
<td>80</td>
<td>$4</td>
<td>5.0%</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>736</td>
<td>665</td>
<td>$71</td>
<td>10.7%</td>
</tr>
<tr>
<td>Public Utility Taxes (regular)</td>
<td>65</td>
<td>64</td>
<td>$1</td>
<td>1.6%</td>
</tr>
<tr>
<td>Cigarette Tax</td>
<td>24</td>
<td>29</td>
<td>($5)</td>
<td>-17.2%</td>
</tr>
<tr>
<td>Liquor Gallonage Taxes</td>
<td>13</td>
<td>13</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Vehicle Use Tax</td>
<td>3</td>
<td>2</td>
<td>$1</td>
<td>50.0%</td>
</tr>
<tr>
<td>Inheritance Tax</td>
<td>41</td>
<td>28</td>
<td>$13</td>
<td>46.4%</td>
</tr>
<tr>
<td>Insurance Taxes and Fees</td>
<td>6</td>
<td>0</td>
<td>$6</td>
<td>N/A</td>
</tr>
<tr>
<td>Corporate Franchise Tax &amp; Fees</td>
<td>20</td>
<td>18</td>
<td>$2</td>
<td>11.1%</td>
</tr>
<tr>
<td>Interest on State Funds &amp; Investments</td>
<td>9</td>
<td>5</td>
<td>$4</td>
<td>80.0%</td>
</tr>
<tr>
<td>Cook County IGT</td>
<td>0</td>
<td>0</td>
<td>$0</td>
<td>N/A</td>
</tr>
<tr>
<td>Other Sources</td>
<td>43</td>
<td>29</td>
<td>$14</td>
<td>48.3%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$2,656</td>
<td>$2,400</td>
<td>$256</td>
<td>10.7%</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lottery</td>
<td>51</td>
<td>63</td>
<td>($12)</td>
<td>-19.0%</td>
</tr>
<tr>
<td>Riverboat transfers &amp; receipts</td>
<td>33</td>
<td>35</td>
<td>($2)</td>
<td>-5.7%</td>
</tr>
<tr>
<td>Proceeds from Sale of 10th license</td>
<td>0</td>
<td>0</td>
<td>$0</td>
<td>N/A</td>
</tr>
<tr>
<td>Refund Fund transfer</td>
<td>127</td>
<td>0</td>
<td>$127</td>
<td>N/A</td>
</tr>
<tr>
<td>Fund sweeps</td>
<td>0</td>
<td>81</td>
<td>($81)</td>
<td>N/A</td>
</tr>
<tr>
<td>Other</td>
<td>72</td>
<td>155</td>
<td>($83)</td>
<td>-53.5%</td>
</tr>
<tr>
<td><strong>Total State Sources</strong></td>
<td>$2,939</td>
<td>$2,734</td>
<td>$205</td>
<td>7.5%</td>
</tr>
<tr>
<td><strong>Federal Sources</strong></td>
<td>$88</td>
<td>$54</td>
<td>$34</td>
<td>63.0%</td>
</tr>
<tr>
<td><strong>Total Federal &amp; State Sources</strong></td>
<td>$3,027</td>
<td>$2,788</td>
<td>$239</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

### Nongeneral Funds Distributions/Direct Receipts:

**Refund Fund**
- Personal Income Tax: ($156), ($144), ($12), 8.3%
- Corporate Income Tax: ($13), (14), $1, -7.1%
- LGDF--Direct from PIT: ($84), (73), ($11), 15.1%
- LGDF--Direct from CIT: ($5), (4), ($1), 25.0%
- Downstate Pub/Trans--Direct from Sales: ($45), (34), ($11), 32.4%

**Subtotal General Funds**
- $2,724, $2,519, $205, 8.1%

**Treasurer's Investments**
- $500, $0, $500, N/A

**Interfund Borrowing**
- $0, $204, ($204), 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**
- $3,224, $2,723, $501, 18.4%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Nov-18
# GENERAL FUNDS RECEIPTS: YEAR TO DATE  
**FY 2019 vs. FY 2018**  
($ million)

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>FY 2019</th>
<th>FY 2018</th>
<th>$ CHANGE</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>$6,340</td>
<td>$5,462</td>
<td>$878</td>
<td>16.1%</td>
</tr>
<tr>
<td>Corporate Income Tax (regular)</td>
<td>755</td>
<td>617</td>
<td>$138</td>
<td>22.4%</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>2,948</td>
<td>2,794</td>
<td>$154</td>
<td>5.5%</td>
</tr>
<tr>
<td>Public Utility Taxes (regular)</td>
<td>252</td>
<td>277</td>
<td>($25)</td>
<td>-9.0%</td>
</tr>
<tr>
<td>Cigarette Tax</td>
<td>117</td>
<td>117</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Liquor Gallonage Taxes</td>
<td>59</td>
<td>59</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Vehicle Use Tax</td>
<td>11</td>
<td>10</td>
<td>$1</td>
<td>10.0%</td>
</tr>
<tr>
<td>Inheritance Tax</td>
<td>130</td>
<td>102</td>
<td>$28</td>
<td>27.5%</td>
</tr>
<tr>
<td>Insurance Taxes and Fees</td>
<td>113</td>
<td>113</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Corporate Franchise Tax &amp; Fees</td>
<td>78</td>
<td>70</td>
<td>$8</td>
<td>11.4%</td>
</tr>
<tr>
<td>Interest on State Funds &amp; Investments</td>
<td>36</td>
<td>17</td>
<td>$19</td>
<td>111.8%</td>
</tr>
<tr>
<td>Cook County IGT</td>
<td>0</td>
<td>0</td>
<td>$0</td>
<td>N/A</td>
</tr>
<tr>
<td>Other Sources</td>
<td>173</td>
<td>135</td>
<td>$38</td>
<td>28.1%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$11,012</td>
<td>$9,773</td>
<td>$1,239</td>
<td>12.7%</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lottery</td>
<td>207</td>
<td>216</td>
<td>($9)</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Riverboat transfers &amp; receipts</td>
<td>107</td>
<td>113</td>
<td>($6)</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Proceeds from Sale of 10th license</td>
<td>0</td>
<td>0</td>
<td>$0</td>
<td>N/A</td>
</tr>
<tr>
<td>Refund Fund transfer</td>
<td>327</td>
<td>0</td>
<td>$327</td>
<td>N/A</td>
</tr>
<tr>
<td>Fund sweeps</td>
<td>0</td>
<td>207</td>
<td>($207)</td>
<td>N/A</td>
</tr>
<tr>
<td>Other</td>
<td>240</td>
<td>284</td>
<td>($44)</td>
<td>-15.5%</td>
</tr>
<tr>
<td><strong>Total State Sources</strong></td>
<td>$11,893</td>
<td>$10,593</td>
<td>$1,300</td>
<td>12.3%</td>
</tr>
<tr>
<td><strong>Federal Sources</strong></td>
<td>$706</td>
<td>$1,233</td>
<td>($527)</td>
<td>-42.7%</td>
</tr>
<tr>
<td><strong>Total Federal &amp; State Sources</strong></td>
<td>$12,599</td>
<td>$11,826</td>
<td>$773</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

## Nongeneral Funds Distributions/Direct Receipts:

### Refund Fund

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>FY 2019</th>
<th>FY 2018</th>
<th>$ CHANGE</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>($615)</td>
<td>($535)</td>
<td>($80)</td>
<td>15.0%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>($117)</td>
<td>(108)</td>
<td>($9)</td>
<td>8.3%</td>
</tr>
<tr>
<td>LGDF--Direct from PIT</td>
<td>($330)</td>
<td>(269)</td>
<td>($61)</td>
<td>22.7%</td>
</tr>
<tr>
<td>LGDF--Direct from CIT</td>
<td>($41)</td>
<td>(31)</td>
<td>($10)</td>
<td>32.3%</td>
</tr>
<tr>
<td>Downstate Pub/Trans--Direct from Sales</td>
<td>($101)</td>
<td>(83)</td>
<td>($18)</td>
<td>21.7%</td>
</tr>
</tbody>
</table>

### Subtotal General Funds

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>FY 2019</th>
<th>FY 2018</th>
<th>$ CHANGE</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasurer’s Investments</td>
<td>$700</td>
<td>$0</td>
<td>$700</td>
<td>N/A</td>
</tr>
<tr>
<td>Interfund Borrowing</td>
<td>$0</td>
<td>$354</td>
<td>($354)</td>
<td>N/A</td>
</tr>
<tr>
<td>Income Tax Bond Fund Transfer</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>N/A</td>
</tr>
<tr>
<td>Transfer to Commitment Human Services</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total General Funds</strong></td>
<td>$12,095</td>
<td>$11,154</td>
<td>$941</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

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