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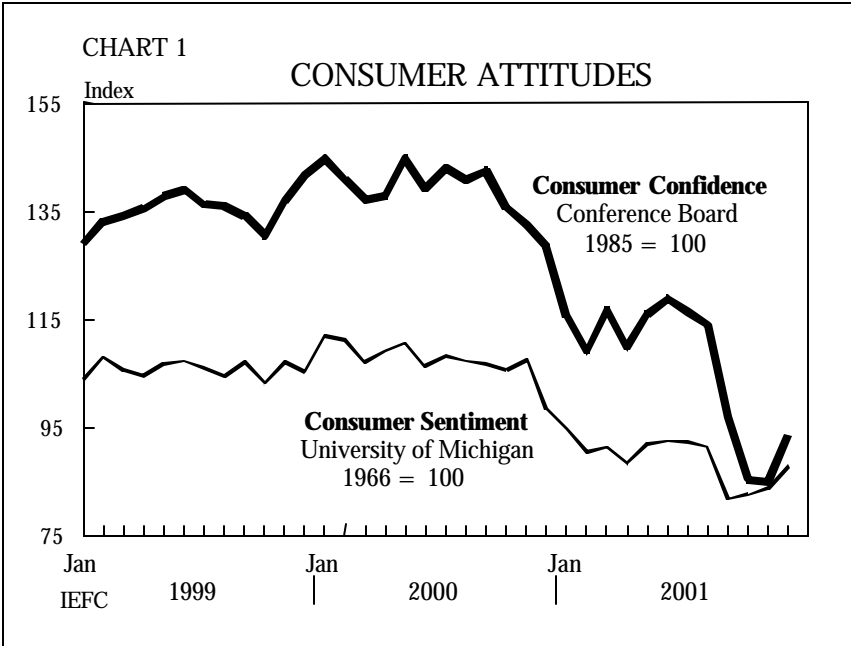


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ECONOMY: New Year Begins On Optimistic Note Edward H. Boss, Chief Economist

The new year brings with it a note of optimism, following the tragic events on September 11th and being in the midst of the first recession in more than a decade. As an indication of this improved psychology, Chart 1 shows the recent upturn in the major measures of consumer attitudes in December. The consumer confidence measure by the Conference Board jumped more than eight points after a dramatic decline in the prior three months, whereas the Michigan Sentiment Survey continued to edge up following its low point reached in September. While both measures are well below the levels seen in recent years, nevertheless, barring any renewed terrorist attacks, the bottom may well have been reached.

The big question now is how long will the economy continue to decline before showing renewed growth. As noted last month, the average post World War II recession lasted 11 months. Given that the current recession now has been officially designated as having begun in March, that would suggest a turnaround could be expected sometime in the first



quarter of the new year. This is consistent with DRI-WEFA, the IEFC's forecasting service, which has the first quarter of positive growth projected in the second quarter of 2002, with the turning point occurring during the first quarter of calendar year 2002.

There are several factors suggesting this may be a reasonable expectation. Monetary policy has aggressively eased over the past year, inflation has abated sharply with energy prices falling, and federal government spending has been increased with taxes being lowered. Despite rising unemployment, consumer spending has held up nicely. Auto sales in particular were up 11.6% in Illinois last month as 0% financing and improved confidence lured in new customers. Business spending and corporate profits, however, remain in the doldrums. Even here, however, there are some hopeful signs.

The Institute of Supply Management, formerly known as the National Association of Purchasing Management, reported their widely-watched measure of manufacturing activity index rose to 48.2 from 44.5 in November, the highest level in 14 months. While any ranking below 50 reflects contraction, there were hopeful signs. The New Orders Index, a critical measure of demand, rose to 54.9, the highest level since April 2000. Thus, the weakest sector of the economy appears to be stabilizing with some light appearing at the end of the tunnel.

Overall, there is growing confidence that the worst of the economic decline is behind us and that a turnaround is only months away. When this improvement is reflected in increased State revenues, however, will be dependent not only on economic trends, but also on tax and spending decisions yet to be made in Washington.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>NOV. 2001</u>	<u>OCT. 2001</u>	<u>NOV. 2000</u>
Unemployment Rate (Average)	5.8%	5.6%	4.5%
Annual Rate of Inflation (Chicago)	-4.7%	-10.7%	0.8%
<hr/>			
	<u>LATEST MONTH</u>	<u>% CHG. OVER PRIOR MONTH</u>	<u>% CHG. OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (November)	6,365	-0.3%	-0.3%
Employment (thousands) (November)	5,998	0.5%	-1.6%
New Car & Truck Registration (November)	79,569	11.6%	116.8%
Single Family Housing Permits (November)	2,897	-39.8%	-27.9%
Total Exports (\$ mil) (October)	2,182	7.7%	-12.9%
Chicago Purchasing Managers Index (December)	41.4	0.7%	-7.3%

REVENUE

Receipts Increase In December-Aided by Federal Sources

Jim Muschinske, Unit Chief

In December, general revenues were up \$124 million. While some State tax sources fared well in December, over half of that increase was the result of strong federal receipting. After starting the fiscal year with three consecutive months of declining revenues, December marks the third consecutive month of increased revenues.

Personal income tax receipts led the monthly advancers as gross receipts were up \$41 million. Sales tax revenues gained \$24 million while insurance taxes and fees added \$12 million to the monthly increase. Public utility taxes managed to post a \$7 million increase in December, and a number of smaller sources each grew by \$1 million for the month.

A few sources experienced declines in December. The largest loser was the corporate income tax as gross receipts were off \$43 million. Interest income continued to fall short of last year's efforts, as earnings fell by \$7 million. Inheritance tax and other source revenues each fell \$1 million for the month.

Overall transfers were up \$21 million in December. While the Gaming Fund transfer was down \$18 million, the lottery transfer increased by \$5 million and other transfers jumped by \$34 million. As mentioned earlier, the majority of the monthly gain was

caused by a very good month of federal receipting with revenues up \$71 million in December.

Year-to-Date

Over the first half of FY 2002, absent the \$226 million transfer from the Budget Stabilization Fund, total general funds revenue is down \$85 million from the same period last year. While overall receipts have continued to improve since the dismal first quarter performance, several revenue sources continue to struggle.

Gross corporate income tax revenue is down \$82 million followed by a \$58 million decline in interest income. All other tax sources experiencing declines total \$45 million. In addition, total transfers are off by \$30 million.

Despite total revenues still being down, several sources managed to post positive, albeit rather modest, gains thus far in FY 2002. Sales tax revenues, aided by the return of the tax on motor fuel, managed to gain \$94 million. Insurance taxes and fees increased \$17 million, while personal income taxes have eked out a \$10 million advance. Other tax sources experiencing gains total an additional \$9 million. Federal sources also have contributed \$21 million in gains.

In order to reach the Commission's current base general funds estimate of \$24.526 billion, receipts over the remaining six months would have to increase 3.9%.

GENERAL FUNDS RECEIPTS: DECEMBER

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

Revenue Sources	DEC. FY 2002	DEC. FY 2001	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$630	\$589	\$41	7.0%
Corporate Income Tax (regular)	161	204	(\$43)	-21.1%
Sales Taxes	552	528	\$24	4.5%
Public Utility Taxes (regular)	85	78	\$7	9.0%
Cigarette Tax	34	33	\$1	3.0%
Liquor Gallonage Taxes	11	10	\$1	10.0%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	27	28	(\$1)	-3.6%
Insurance Taxes and Fees	55	43	\$12	27.9%
Corporate Franchise Tax & Fees	10	9	\$1	11.1%
Interest on State Funds & Investments	11	18	(\$7)	-38.9%
Cook County IGT	23	23	\$0	0.0%
Other Sources	12	13	(\$1)	-7.7%
Subtotal	\$1,614	\$1,578	\$36	2.3%
Transfers				
Lottery	38	33	\$5	15.2%
Gaming Fund Transfer	47	65	(\$18)	-27.7%
Other	53	19	\$34	178.9%
Total State Sources	\$1,752	\$1,695	\$57	3.4%
Federal Sources	\$381	\$310	\$71	22.9%
Total Federal & State Sources	\$2,133	\$2,005	\$128	6.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$48)	(\$42)	(\$6)	14.3%
Corporate Income Tax	(37)	(39)	\$2	-5.1%
Subtotal General Funds	\$2,048	\$1,924	\$124	6.4%
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,048	\$1,924	\$124	6.4%

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

3-Jan-02

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2002 vs. FY 2001

(\$ million)

<u>Revenue Sources</u>	<u>FY 2002</u>	<u>FY 2001</u>	<u>CHANGE FROM FY 2001</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$3,604	\$3,594	\$10	0.3%
Corporate Income Tax (regular)	444	526	(\$82)	-15.6%
Sales Taxes	3,112	3,018	\$94	3.1%
Public Utility Taxes (regular)	511	522	(\$11)	-2.1%
Cigarette Tax	200	200	\$0	0.0%
Liquor Gallonage Taxes	63	65	(\$2)	-3.1%
Vehicle Use Tax	20	19	\$1	5.3%
Inheritance Tax (Gross)	180	206	(\$26)	-12.6%
Insurance Taxes and Fees	112	95	\$17	17.9%
Corporate Franchise Tax & Fees	77	69	\$8	11.6%
Interest on State Funds & Investments	83	141	(\$58)	-41.1%
Cook County IGT	154	154	\$0	0.0%
Other Sources	92	98	(\$6)	-6.1%
Subtotal	\$8,652	\$8,707	(\$55)	-0.6%
Transfers				
Lottery	237	224	\$13	5.8%
Gaming Fund Transfer	270	267	\$3	1.1%
Other	157	203	(\$46)	-22.7%
Total State Sources	\$9,316	\$9,401	(\$85)	-0.9%
Federal Sources	\$2,007	\$1,986	\$21	1.1%
Total Federal & State Sources	\$11,323	\$11,387	(\$64)	-0.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$274)	(\$255)	(\$19)	7.5%
Corporate Income Tax	(102)	(100)	(\$2)	2.0%
Subtotal General Funds	\$10,947	\$11,032	(\$85)	-0.8%
Budget Stabilization Fund Transfer	\$226	\$0	\$226	N/A
Total General Funds	\$11,173	\$11,032	\$141	1.3%
SOURCE Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
IEFC- 3-Jan-02				

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE
FY 2002 ESTIMATE vs. FY 2001 ACTUAL
(\$ million)

Revenue Sources	ESTIMATE FY 2002	FYTD 2002	AMOUNT NEEDED FY 2002 EST.	FYTD 2001	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$8,780	\$3,604	\$5,176	\$3,594	\$163	3.3%
Corporate Income Tax (regular)	1,252	444	\$808	526	\$55	7.3%
Sales Taxes	6,220	3,112	\$3,108	3,018	\$168	5.7%
Public Utility Taxes (regular)	1,180	511	\$669	522	\$45	7.2%
Cigarette Tax	400	200	\$200	200	\$0	0.0%
Liquor Gallonage Taxes	135	63	\$72	65	\$13	22.0%
Vehicle Use Tax	35	20	\$15	19	\$0	0.0%
Inheritance Tax (Gross)	376	180	\$196	206	\$41	26.5%
Insurance Taxes and Fees	260	112	\$148	95	(\$3)	-2.0%
Corporate Franchise Tax & Fees	151	77	\$74	69	(\$3)	-3.9%
Interest on State Funds & Investments	235	83	\$152	141	\$19	14.3%
Cook County IGT	245	154	\$91	154	\$0	0.0%
Other Sources	497	92	\$405	98	\$96	31.1%
Subtotal	\$19,766	\$8,652	\$11,114	\$8,707	\$594	5.6%
Transfers						
Lottery	505	237	\$268	224	(\$9)	-3.2%
Gaming Fund Transfer	465	270	\$195	267	\$2	1.0%
Other	465	157	\$308	203	\$59	23.7%
Total State Sources	\$21,201	\$9,316	\$11,885	\$9,401	\$646	5.7%
Federal Sources	\$4,280	\$2,007	\$2,273	\$1,986	(\$61)	-2.6%
Total Federal & State Sources	\$25,481	\$11,323	\$14,158	\$11,387	\$585	4.3%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$667)	(\$274)	(\$393)	(\$255)	(\$37)	10.4%
Corporate Income Tax	(288)	(102)	(\$186)	(100)	(\$43)	30.1%
Subtotal General Funds	\$24,526	\$10,947	\$13,579	\$11,032	\$505	3.9%
Budget Stabilization Fund Transfer	\$226	\$226	\$0	\$0	\$0	N/A
Total General Funds	\$24,752	\$11,173	\$13,579	\$11,032	\$505	3.9%
IEFC						3-Jan-02