



Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: DECEMBER 2014

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LATEST PUBLICATIONS

Illinois Revenue Volatility Study
(P.A. 98-0682)

ECONOMY: What Lies Ahead?

Edward H. Boss, Jr., Chief Economist

Hopes run high that after 5 ½ years of expansion, the economy not only will continue to grow, but gather strength from what has proved to be the weakest recovery from a recession in the post WWII era. Despite recent improvement in many business reports, the road to improved growth faces many headwinds, not the least of which is the upward direction of the U.S. economy that is in sharp contrast to much of the rest of the industrial world. Much of Europe for example, if not in, is being threatened by recession; there are worldwide concerns over deflation; a sharp slowdown appears underway in China; and a 40% to 50% plunge in oil prices not only has severely weakened the Russian economy and built up animosity to the West, but may have ramifications for the troubled conflicts in the Middle East.

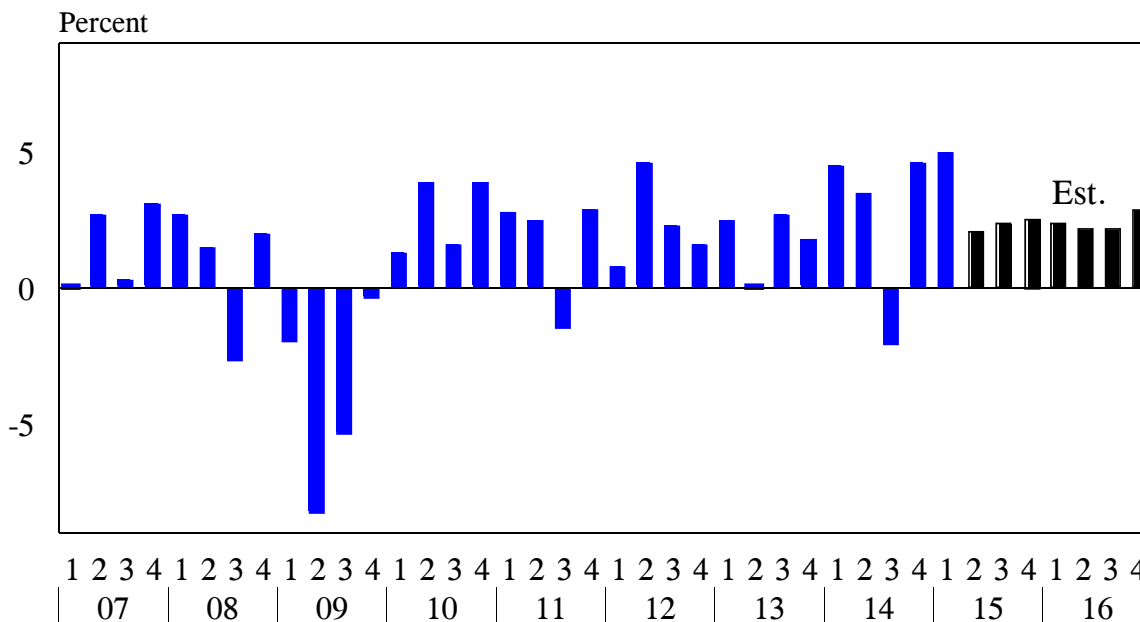
On the home front, the Consumer Sentiment Index rose to an 8 year high according to preliminary data for December issued by Thomson Reuters/University of Michigan. Moreover, retail sales in November came in stronger than expected and, while there had been some nervousness over holiday sales' strength, the National Retail Federation reaffirmed its 4.1% initial estimate, the best since 2011, and many project even stronger gains. Adding to the buoyancy in attitudes has been the sharp decline in gasoline prices, freeing up spending availability, together with some improvement in both employment and wages. Since the consumer accounts for about 70% of GDP growth recently, this has contributed to rising expectations.

It is not only consumer spending that has risen. The Federal Reserve reported that industrial production rose 1.3% in November with manufacturing output up 1.1%, well above its monthly pace of 0.3% over the prior five

CHART 1

CHANGE IN REAL GDP

Fiscal Years



months. In the past 12 months manufacturing is up 4.8%, reaching a new high, surpassing the previous high reached in January 2007 just prior to the recession. A rise in home prices and a surge in equity prices add to optimism over the outlook. And, while most prognosticators agree lower oil and energy prices will bolster the economy, it is not without some negatives, particularly in the energy-producing states.

There already are signs of slowing for U.S. oil states related to the sharp slide in crude oil prices, the very states that led the U.S. economic recovery out of recession. States including: Texas, North Dakota, Oklahoma and New Mexico are likely to feel restraints according to a Wells Fargo municipal analyst’s report. In Texas there have been some oil industry layoffs and home sales are forecast to decline next year. Alaska’s fiscal year budget “will have to be

lowered by \$2 billion, according to Fitch Ratings”, and the shale oil boom in North Dakota not only will raise its unemployment rate from the lowest in the nation at 2.8%, but with low-cost producers in Saudi Arabia announcing no cutback in supplies is likely to cause a retrenchment in new capital spending as well as some business failures.

Despite these economic changes among the states, at this time the outlook for the nation as a whole have the positives outweighing the negatives and the economic expansion now into its sixth year is expected continue. The question remaining is how fast the expansion will be. The latest forecast by Global Insight, a consultant to CGFA, show real GDP growth on a calendar year basis at 2.2% in 2014, same as 2013, rising to 2.6% in 2015 and 2.8% in 2016. The latest yearly forecast by Wells Fargo also shows 2014 growth at 2.2% but somewhat faster

growth of 2.8% in 2015 and 3.0% in 2016. As shown in the attached chart, on a State fiscal year basis, the pattern looks different due to the quarters included. On a fiscal year basis, growth was at 1.8% in FY 2014, rising to 3.1% in FY 2015 before slowing to 2.4% in FY 2016.

When it comes to Illinois, continued expansion also is expected.

However, given the relative performance of key economic measures, Illinois is likely to continue to trail the national economy, although narrowing the gap particularly in comparison with the Midwest. At the current time, the Commission has enjoined Moody's Analytics to do an independent analysis of the State's economy, the results of which will be posted on CGFA's web site when completed.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

| <u>INDICATORS</u> * | <u>NOV. 2015</u> | <u>OCT. 2015</u> | <u>NOV. 2013</u> |
|--|---------------------|----------------------------------|---------------------------------|
| Unemployment Rate (Average) | 6.4% | 6.6% | 9.0% |
| Annual Rate of Inflation (Chicago) | -9.4% | -4.4% | 1.6% |
| ————— | | | |
| | <u>LATEST MONTH</u> | <u>% CHANGE OVER PRIOR MONTH</u> | <u>% CHANGE OVER A YEAR AGO</u> |
| Civilian Labor Force (thousands) (November) | 6,547 | 0.2% | 0.1% |
| Employment (thousands) (November) | 6,125 | 0.4% | 2.9% |
| NonFarm Payroll Employment (November) | 5,858,400 | 2,300 | 32,400 |
| New Car & Truck Registration (November) | 38,934 | -29.2% | -5.5% |
| Single Family Housing Permits (November) | 687 | -40.6% | -19.0% |
| Total Exports (\$ mil) (October) | 5,980 | 7.6% | -5.9% |
| Chicago Purchasing Managers Index (December) | 58.3 | -4.1% | -1.3% |

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

REVENUE

December Receipts Post Modest Gains

Jim Muschinske, Revenue Manager

Overall base revenues grew \$72 million in December. While personal income tax and sales tax receipts performed well, corporate income tax revenue remained weak as did federal sources. There was the same number of receipts days in December as in the prior year.

For the month, gross personal income taxes performed well, growing \$128 million, or \$108 million net of refunds. Sales tax receipts continued strong, rising \$64 million in December. Inheritance tax showed an erratic performance, growing \$19 million. Other sources contributed

\$6 million in gains, while public utility taxes and insurance taxes each added \$5 million to growth.

Gross corporate income taxes continued to experience weakness with receipts falling \$89 million, or \$80 million net of refunds. Insurance taxes dipped \$4 million in December, while interest income eased by \$1 million.

Overall transfers fell \$30 million for the month. Riverboat transfers were down \$18 million, while lottery transfers fell \$12 million. Federal sources fared a little better than they have been, but still suffered a comparative loss as December receipts dipped \$20 million.

Year to Date

Through the first half of the fiscal year, overall base revenues were down \$380 million. However, much of that decline was expected and due to the much lower Refund Fund transfer into GRF. In addition, weaker federal sources to begin the year contributed significantly to the fall off. The economically-related sources were mixed as both personal income taxes and sales performed well while corporate income taxes weakened.

To date, gross personal income taxes were up \$299 million, or \$229 million net of refunds. Sales tax receipts were ahead of last year's pace by \$241 million, while other sources were up \$72 million. The Cook County IGT gained \$30 million while inheritance tax added

\$27 million, insurance taxes \$7 million, interest income \$2 million, and vehicle use tax \$1 million.

Gross corporate income taxes were down \$217 million through December, or \$197 million net of refunds. Public utility taxes were off a modest \$8 million, and corporate franchise taxes dipped \$5 million.

To date, overall transfers were down \$378 million due to the much lower Refund transfer which accounts for \$334 million of that falloff. Riverboat transfers were down \$30 million, lottery transfers fell \$8 million, while other transfers were off \$6 million. Federal sources were down \$402 million thus far in the fiscal year, reflecting lower reimbursable spending from the GRF.

Income Tax Rates Decrease January 1st

With the absence of any legislative action taken during the veto session, the income tax rates were adjusted down per current law [P.A. 96-1496]. The personal income tax rates declined from 5% to 3.75%, while corporate rates adjusted down from 7% to 5.25%. As a result, and absent any subsequent changes to the rates, income tax revenues will shortly begin to reflect the rate reductions. While the revenue forecast used to craft the FY 2015 budget assumed the rate rollback [HJR 100], its effects soon will be manifested in future revenue performance.

GENERAL FUNDS RECEIPTS: DECEMBER

FY 2015 vs. FY 2014

(\$ million)

| <u>Revenue Sources</u> | <u>Dec. FY 2015</u> | <u>Dec. FY 2014</u> | <u>\$ CHANGE</u> | <u>% CHANGE</u> |
|--|-------------------------|-------------------------|----------------------|---------------------|
| State Taxes | | | | |
| Personal Income Tax | \$1,670 | \$1,542 | \$128 | 8.3% |
| Corporate Income Tax (regular) | 486 | 575 | (\$89) | -15.5% |
| Sales Taxes | 756 | 692 | \$64 | 9.2% |
| Public Utility Taxes (regular) | 84 | 79 | \$5 | 6.3% |
| Cigarette Tax | 30 | 30 | \$0 | 0.0% |
| Liquor Gallonage Taxes | 14 | 14 | \$0 | 0.0% |
| Vehicle Use Tax | 2 | 2 | \$0 | 0.0% |
| Inheritance Tax (Gross) | 37 | 18 | \$19 | 105.6% |
| Insurance Taxes and Fees | 66 | 61 | \$5 | 8.2% |
| Corporate Franchise Tax & Fees | 16 | 20 | (\$4) | -20.0% |
| Interest on State Funds & Investments | 1 | 2 | (\$1) | -50.0% |
| Cook County IGT | 0 | 0 | \$0 | N/A |
| Other Sources | 30 | 24 | \$6 | 25.0% |
| Subtotal | <u>\$3,192</u> | <u>\$3,059</u> | <u>\$133</u> | <u>4.3%</u> |
| Transfers | | | | |
| Lottery | 65 | 77 | (\$12) | -15.6% |
| Riverboat transfers & receipts | 28 | 46 | (\$18) | -39.1% |
| Proceeds from Sale of 10th license | 0 | 0 | \$0 | N/A |
| Refund Fund transfer | 0 | 0 | \$0 | N/A |
| Other | 40 | 40 | \$0 | 0.0% |
| Total State Sources | <u>\$3,325</u> | <u>\$3,222</u> | <u>\$103</u> | <u>3.2%</u> |
| Federal Sources | <u>\$232</u> | <u>\$252</u> | <u>(\$20)</u> | <u>-7.9%</u> |
| Total Federal & State Sources | <u>\$3,557</u> | <u>\$3,474</u> | <u>\$83</u> | <u>2.4%</u> |
| Nongeneral Funds Distribution: | | | | |
| Refund Fund | | | | |
| Personal Income Tax | (\$167) | (\$147) | (\$20) | 13.6% |
| Corporate Income Tax | (\$68) | (77) | \$9 | -11.7% |
| Subtotal General Funds | <u>\$3,322</u> | <u>\$3,250</u> | <u>\$72</u> | <u>2.2%</u> |
| 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 | <u>\$3,322</u> | <u>\$3,250</u> | <u>\$72</u> | <u>2.2%</u> |
| CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding | | | | 6-Jan-15 |

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2015 vs. FY 2014

(\$ million)

| <u>Revenue Sources</u> | <u>FY 2015</u> | <u>FY 2014</u> | <u>CHANGE FROM FY 2014</u> | <u>% CHANGE</u> |
|---|-----------------|-----------------|------------------------------------|---------------------|
| State Taxes | | | | |
| Personal Income Tax | \$8,226 | \$7,927 | \$299 | 3.8% |
| Corporate Income Tax (regular) | 1,313 | 1,530 | (\$217) | -14.2% |
| Sales Taxes | 4,136 | 3,895 | \$241 | 6.2% |
| Public Utility Taxes (regular) | 460 | 468 | (\$8) | -1.7% |
| Cigarette Tax | 177 | 177 | \$0 | 0.0% |
| Liquor Gallonage Taxes | 85 | 85 | \$0 | 0.0% |
| Vehicle Use Tax | 16 | 15 | \$1 | 6.7% |
| Inheritance Tax (Gross) | 156 | 129 | \$27 | 20.9% |
| Insurance Taxes and Fees | 161 | 154 | \$7 | 4.5% |
| Corporate Franchise Tax & Fees | 102 | 107 | (\$5) | -4.7% |
| Interest on State Funds & Investments | 11 | 9 | \$2 | 22.2% |
| Cook County IGT | 56 | 26 | \$30 | 115.4% |
| Other Sources | 316 | 244 | \$72 | 29.5% |
| Subtotal | \$15,215 | \$14,766 | \$449 | 3.0% |
| Transfers | | | | |
| Lottery | 306 | 314 | (\$8) | -2.5% |
| Riverboat transfers & receipts | 181 | 211 | (\$30) | -14.2% |
| Proceeds from Sale of 10th license | 0 | 0 | \$0 | N/A |
| Refund Fund transfer | 63 | 397 | (\$334) | N/A |
| Other | 262 | 268 | (\$6) | -2.2% |
| Total State Sources | \$16,027 | \$15,956 | \$71 | 0.4% |
| Federal Sources | \$1,058 | \$1,460 | (\$402) | -27.5% |
| Total Federal & State Sources | \$17,085 | \$17,416 | (\$331) | -1.9% |
| Nongeneral Funds Distribution: | | | | |
| Refund Fund | | | | |
| Personal Income Tax | (\$823) | (\$753) | (\$70) | 9.3% |
| Corporate Income Tax | (\$184) | (\$205) | \$21 | -10.2% |
| Subtotal General Funds | \$16,078 | \$16,458 | (\$380) | -2.3% |
| Short-Term Borrowing | \$0 | \$0 | \$0 | N/A |
| FY'13/14 Backlog Payment Fund Transfer | \$0 | \$50 | (\$50) | 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 | \$16,353 | \$16,783 | (\$430) | -2.6% |

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

CGFA

6-Jan-15