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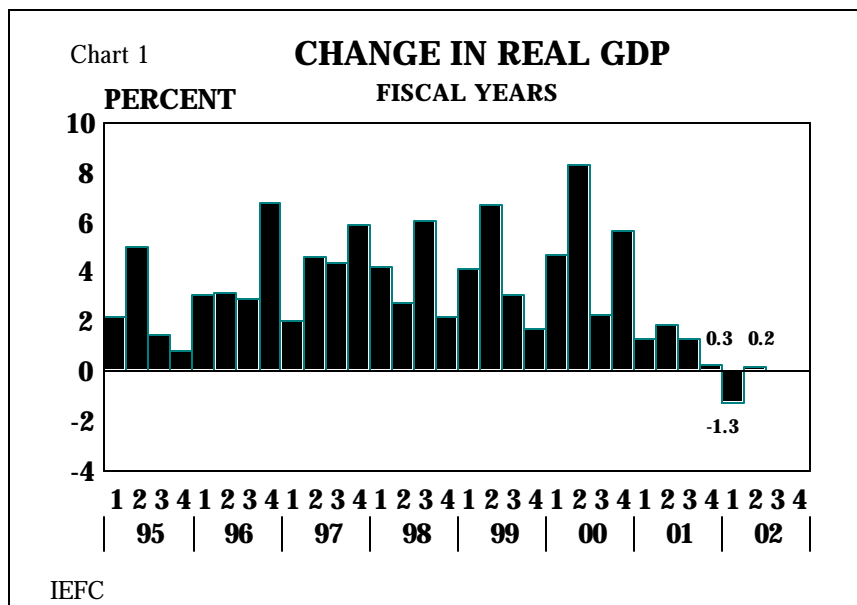


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#### **ECONOMY:** End of Recession: Near or Here? Edward H. Boss, Jr., Chief Economist

Preliminary data on the economy for the last three months of 2001 show that it grew in real terms at a 0.2% annual rate, surprising most, but not all, forecasters. While the figure will be revised twice more as additional data become available in the weeks ahead, should a positive number hold up, it will break the old rule of thumb that recessions have at least two consecutive quarters of negative changes in real gross domestic product (GDP).

Chart 1 shows quarterly changes in real GDP on a State fiscal year basis, with the greatest weakness occurring in the first half of fiscal 2002. Even so, the small uptick last quarter may be a signal that the worst of the weakness may be behind us. The rise in economic growth last quarter was largely accounted for by significant gains in consumer and government spending, which were largely offset by weaknesses in business investment, inventories, and exports.



**R**eal consumer spending jumped at a 5.4% annual rate last quarter, compared to a 1% rate of gain in the prior quarter and 2.1% for all of calendar year 2001. Most of the gain was due to a jump in auto sales, which increased at a 38.4% rate as substantial financial incentives including zero percent financing were put in place. Beyond autos, consumer spending on nondurables and services also rose somewhat faster last quarter than in the previous quarter. Lower tax rates and tax refund checks undoubtedly helped boost consumer spending. Indeed, the consumer has held up quite well during the recession, even given the tragedy of September 11th.

Government spending also helped strengthen the economy last quarter, rising at a 9.2% annual rate following a meager 0.3% rate of gain in the previous quarter, and 3.5% for all of 2001. An acceleration in both defense and nondefense federal spending coupled with a sharp upturn in State and local government spending were all major contributors.

The major negative, as has been the case for some time, was business spending. Poor profits and reduced output lead to a 12.8% annual rate of decline in business spending, with investment in new plant down at a sharp 31% rate. The largest negative was the change in business inventories, which plunged \$120.6 billion, twice the rate of the previous quarter and almost four

times larger than in the quarter before. Indeed, without the drop in inventories, real GDP would have risen at a 2.5% annual rate last quarter in contrast to a 0.5% rate of decline in the previous quarter.

The drop in inventories, however, could prove to be a positive in the long run as any strengthening in demand would require new production. Because the consumer has continued to spend, however, there is no backlog of pent-up demand. In large part, this is why the President would like to have an economic stimulus package as insurance that a recovery is taking hold.

**T**he tax cuts, rebates, and a year-long drop in key interest rates appear to have taken hold, sharply reducing the impact of the recession. If the recession is ending, it will have proven to be extremely mild by historical standards. Indeed, IEFCA's forecasting agency, DRI/WEFA, already projects real growth at a 1.7% rate in the current quarter with ISI, International Strategy and Investment, looking for growth at a faster 4% annual rate this quarter.

The effect of the recession's end, however, may not be felt soon at the State level. It took until November to officially declare that a recession had begun last March. Thus, it could take months of positive growth before the recession would be declared officially ended.

## INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>DEC. 2001</u>	<u>NOV. 2001</u>	<u>DEC. 2000</u>
Unemployment Rate (Average)	5.9%	5.8%	4.7%
Annual Rate of Inflation (Chicago)	3.4%	-4.7%	1.2%
<hr style="border: 2px solid black;"/>			
	<u>LATEST</u>	<u>% CHG.</u>	<u>% CHG.</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (December)	6,357	-0.1%	-0.1%
Employment (thousands) (December)	5,981	-0.2%	-1.4%
New Car & Truck Registration (December)	77,241	-2.9%	44.8%
Single Family Housing Permits (December)	2,145	-1.7%	36.0%
Total Exports (\$ mil) (November)	2,652	0.6%	-13.2%
Chicago Purchasing Managers Index (January)	45.1	8.9%	12.2%

### REVENUE

Revenues Begin 2002 on a Down Note  
Jim Muschinske, Revenue Chief

After three months of consecutive increases in monthly general funds revenues, receipts in January reversed and fell \$90 million. Very weak income tax revenues coupled with the timing of transfers were the most significant factors. The number of receipting days in January was the same as last year.

Personal income tax receipts led the monthly decliners, with gross receipts down \$94 million. While signs are appearing that the economy is stabilizing and the rate of job loss is slowing, the lagging effects of earlier work force reductions will continue for some time as employers wait to be certain that business conditions have improved before they engage in meaningful hirings. Revenue from corporate income tax continues to fall as gross receipts tumbled another \$16 million. Clearly, business profitability has been significantly affected by the

recession, and receipts are likely to continue to struggle over the coming months. Income from State funds and investments were off by \$16 million, reflecting both lower balances and reduced rates of return. Insurance taxes and fees were down by \$3 million in January, although they are still up considerably for the year.

Despite the drop in monthly revenues, several sources did manage to post gains. Sales tax increased \$33 million in January, although most of those gains still reflect the lagging impact of last year's motor fuel sales tax suspension. Corporate franchise taxes and fees jumped by \$7 million, while public utility taxes increased \$5 million. Inheritance tax revenue rose by \$3 million, other sources \$2 million, and vehicle use tax \$1 million.

Overall transfers were down \$36 million in January. While the lottery transfer was up \$5 million and the Gaming Fund transfer rose \$2 million, those modest gains were more than

offset by a \$43 million decline in other sources. Timing played a significant part in that decline, as last year other transfers were quite large. Federal sources rose by \$20 million in January.

### **Year-to-Date**

Over the first seven months of FY 2002, absent the \$226 million transfer from the Budget Stabilization Fund, total general funds revenue is down \$175 million from the same period last year. The poor showing in January dealt a significant blow to FY 2002 revenues.

Corporate income tax revenue continues to lead the yearly decliners with gross receipts down by \$98 million. The decline in personal income tax revenues is not far behind, falling \$85 million. Interest income earnings continue to free-fall and are off by \$74 million. All other tax sources experiencing declines total \$35 million. In addition, total transfers are off by \$65 million.

Despite total revenues 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, have managed to gain \$126 million.

Corporate franchise taxes and fees are up \$16 million, while insurance taxes and fees increased \$14 million. Federal sources also contributed \$41 million in gains.

### **Future Revision**

In order to reach the Commission's current base general funds estimate of \$24.526 billion, receipts over the remaining five months would have to increase 5.5%. Despite signs that the economy may be beginning the recovery phase, time is working against reaching the estimate with only five months remaining in the fiscal year. In February, the Commission will be preparing a revised FY 2002 estimate, as well as a preliminary FY 2003 forecast. Details will be presented at the next meeting of the Commission, tentatively scheduled for Friday, February 22<sup>nd</sup>.

## GENERAL FUNDS RECEIPTS: JANUARY

FY 2002 vs. FY 2001  
(\$ million)

<u>Revenue Sources</u>	<u>JAN. FY 2002</u>	<u>JAN. FY 2001</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
<b>State Taxes</b>				
Personal Income Tax	\$920	\$1,014	(\$94)	-9.3%
Corporate Income Tax (regular)	30	46	(\$16)	-34.8%
Sales Taxes	565	532	\$33	6.2%
Public Utility Taxes (regular)	118	113	\$5	4.4%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	13	13	\$0	0.0%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	25	22	\$3	13.6%
Insurance Taxes and Fees	2	5	(\$3)	-60.0%
Corporate Franchise Tax & Fees	21	14	\$7	50.0%
Interest on State Funds & Investments	11	27	(\$16)	-59.3%
Cook County IGT	0	0	\$0	0.0%
Other Sources	26	24	\$2	8.3%
<b>Subtotal</b>	<u>\$1,767</u>	<u>\$1,845</u>	<u>(\$78)</u>	<u>-4.2%</u>
<b>Transfers</b>				
Lottery	51	46	\$5	10.9%
Gaming Fund Transfer	20	18	\$2	11.1%
Other	23	66	(\$43)	-65.2%
<b>Total State Sources</b>	<u>\$1,861</u>	<u>\$1,975</u>	<u>(\$114)</u>	<u>-5.8%</u>
<b>Federal Sources</b>	<u>\$304</u>	<u>\$284</u>	<u>\$20</u>	<u>7.0%</u>
<b>Total Federal &amp; State Sources</b>	<u>\$2,165</u>	<u>\$2,259</u>	<u>(\$94)</u>	<u>-4.2%</u>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$70)	(\$72)	\$2	-2.8%
Corporate Income Tax	(7)	(9)	\$2	-22.2%
<b>Subtotal General Funds</b>	<u>\$2,088</u>	<u>\$2,178</u>	<u>(\$90)</u>	<u>-4.1%</u>
<b>Budget Stabilization Fund Transfer</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>N/A</u>
<b>Total General Funds</b>	<u>\$2,088</u>	<u>\$2,178</u>	<u>(\$90)</u>	<u>-4.1%</u>

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

4-Feb-02

**GENERAL FUNDS RECEIPTS: YEAR TO DATE**

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

<b>Revenue Sources</b>	<b>FY 2002</b>	<b>FY 2001</b>	<b>CHANGE FROM FY 2001</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$4,524	\$4,609	(\$85)	-1.8%
Corporate Income Tax (regular)	474	572	(\$98)	-17.1%
Sales Taxes	3,677	3,551	\$126	3.5%
Public Utility Taxes (regular)	628	634	(\$6)	-0.9%
Cigarette Tax	233	233	\$0	0.0%
Liquor Gallonage Taxes	76	78	(\$2)	-2.6%
Vehicle Use Tax	23	21	\$2	9.5%
Inheritance Tax (Gross)	205	228	(\$23)	-10.1%
Insurance Taxes and Fees	115	101	\$14	13.9%
Corporate Franchise Tax & Fees	99	83	\$16	19.3%
Interest on State Funds & Investments	94	168	(\$74)	-44.0%
Cook County IGT	154	154	\$0	0.0%
Other Sources	118	122	(\$4)	-3.3%
<b>Subtotal</b>	<b>\$10,420</b>	<b>\$10,554</b>	<b>(\$134)</b>	<b>-1.3%</b>
<b>Transfers</b>				
Lottery	288	270	\$18	6.7%
Gaming Fund Transfer	290	285	\$5	1.8%
Other	180	268	(\$88)	-32.8%
<b>Total State Sources</b>	<b>\$11,178</b>	<b>\$11,377</b>	<b>(\$199)</b>	<b>-1.7%</b>
<b>Federal Sources</b>	<b>\$2,311</b>	<b>\$2,270</b>	<b>\$41</b>	<b>1.8%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$13,489</b>	<b>\$13,647</b>	<b>(\$158)</b>	<b>-1.2%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$344)	(\$328)	(\$16)	4.9%
Corporate Income Tax	(110)	(109)	(\$1)	0.9%
<b>Subtotal General Funds</b>	<b>\$13,035</b>	<b>\$13,210</b>	<b>(\$175)</b>	<b>-1.3%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$226</b>	<b>\$0</b>	<b>\$226</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$13,261</b>	<b>\$13,210</b>	<b>\$51</b>	<b>0.4%</b>

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

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4-Feb-02

**GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE**

**FY 2002 ESTIMATE vs. FY 2001 ACTUAL**

(\$ million)

<b>Revenue Sources</b>	<b>ESTIMATE</b>	<b>FYTD</b>	<b>AMOUNT</b>	<b>FYTD</b>	<b>GROWTH</b>	<b>%</b>
	<b>FY 2002</b>	<b>2002</b>	<b>NEEDED</b>	<b>2001</b>	<b>NEEDED</b>	<b>CHANGE</b>
			<b>FY 2002 EST.</b>			
<b>State Taxes</b>						
Personal Income Tax	\$8,780	\$4,524	\$4,256	\$4,609	\$258	6.5%
Corporate Income Tax (regular)	1,252	474	\$778	572	\$71	10.0%
Sales Taxes	6,220	3,677	\$2,543	3,551	\$136	5.7%
Public Utility Taxes (regular)	1,180	628	\$552	634	\$40	7.8%
Cigarette Tax	400	233	\$167	233	\$0	0.0%
Liquor Gallonage Taxes	135	76	\$59	78	\$13	28.3%
Vehicle Use Tax	35	23	\$12	21	(\$1)	-7.7%
Inheritance Tax (Gross)	376	205	\$171	228	\$38	28.6%
Insurance Taxes and Fees	260	115	\$145	101	\$0	0.0%
Corporate Franchise Tax & Fees	151	99	\$52	83	(\$11)	-17.5%
Interest on State Funds & Investments	235	94	\$141	168	\$35	33.0%
Cook County IGT	245	154	\$91	154	\$0	0.0%
Other Sources	497	118	\$379	122	\$94	33.0%
<b>Subtotal</b>	<b>\$19,766</b>	<b>\$10,420</b>	<b>\$9,346</b>	<b>\$10,554</b>	<b>\$673</b>	<b>7.8%</b>
<b>Transfers</b>						
Lottery	505	288	\$217	270	(\$14)	-6.1%
Gaming Fund Transfer	465	290	\$175	285	\$0	0.0%
Other	465	180	\$285	268	\$101	54.9%
<b>Total State Sources</b>	<b>\$21,201</b>	<b>\$11,178</b>	<b>\$10,023</b>	<b>\$11,377</b>	<b>\$760</b>	<b>8.2%</b>
<b>Federal Sources</b>	<b>\$4,280</b>	<b>\$2,311</b>	<b>\$1,969</b>	<b>\$2,270</b>	<b>(\$81)</b>	<b>-4.0%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$25,481</b>	<b>\$13,489</b>	<b>\$11,992</b>	<b>\$13,647</b>	<b>\$679</b>	<b>6.0%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$667)	(\$344)	(\$323)	(\$328)	(\$40)	14.1%
Corporate Income Tax	(288)	(110)	(\$178)	(109)	(\$44)	32.8%
<b>Subtotal General Funds</b>	<b>\$24,526</b>	<b>\$13,035</b>	<b>\$11,491</b>	<b>\$13,210</b>	<b>\$595</b>	<b>5.5%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$226</b>	<b>\$226</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$24,752</b>	<b>\$13,261</b>	<b>\$11,491</b>	<b>\$13,210</b>	<b>\$595</b>	<b>5.5%</b>
<b>IEFC</b>						<b>4-Feb-02</b>