



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING FOR THE MONTH ENDED: FEBRUARY 2013

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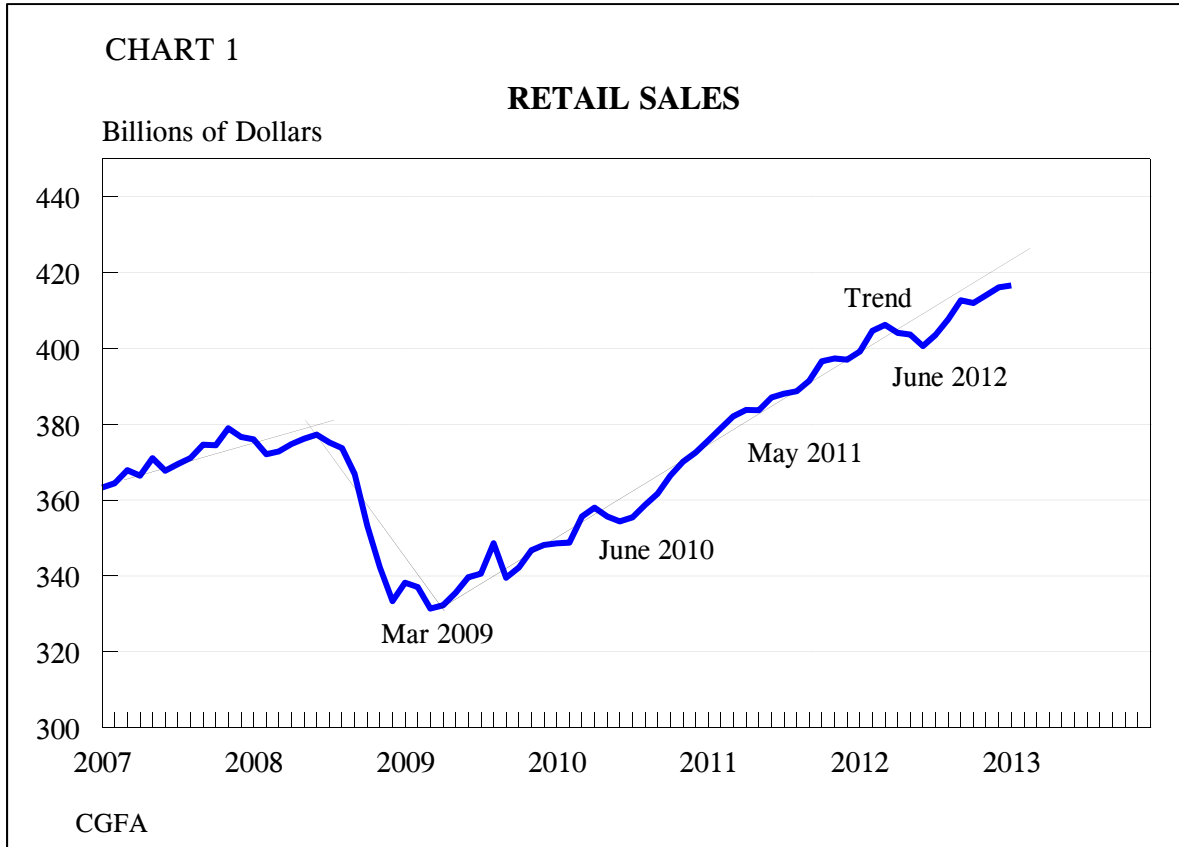
ECONOMY: Consumers Hold the Key

Edward H. Boss, Jr., Chief Economist

The consumer holds the key to economic performance this year, having accounted for 70% of all spending in the economy in 2012. The outcome will depend not only on their financial position and their ability to spend, but also on their assessment of market conditions in an uncertain economic landscape. The economic recovery will be 4 years in the making by midyear, having officially begun in June 2009, but is the weakest in at least the post World War II period following the longest recession on record during that period. Still the sluggish pace of growth, in the area of 2%, is in contrast with earlier economic recoveries when sharp declines in economic growth were followed by sharp gains.

One major restraint on spending reflects a slowdown in income growth where disposable income, income available after taxes, slowed to 3.3% last year, down from a 3.8% gain in 2011. At the same time there has been little improvement in the unemployment rate that continues to hang near the 8% rate. Moreover, elimination of a portion of the payroll tax this year, record gasoline prices, higher taxes and health care costs, and concern over fiscal policy issues add uncertainty over the outlook and as a depressant on consumer sentiment. Both the University of Michigan's Consumer Sentiment Index and the Conference Board's Consumer Confidence Index rose in February, but that just brought them back to levels seen around the same time last year and leaves them well below levels seen prior to the last recession.

An indication of consumer spending can be seen in the performance of retail sales. As shown in the chart, retail sales have been rising although the pace of increase has slowed. A major component of the gain has been in auto sales, which in January were 8% higher than a year earlier,



in part reflecting the need for replacement as the average age of the car on the road approached 11 years, the highest since 1995. At the same time, holiday sales were disappointing. According to the National Retail Federation, holiday sales rose a scant 3%, a full percent below their original forecast and almost half that seen in each of the prior two years and January sales rose a scant 0.1 percent from December. Also, as indicated in the chart, the economy hit a soft patch in each of the past four years as the year progressed toward summer. That was clearly reflected in slower sales gains. In each case the economy improved as did retail sales. Whether or not this improving trend develops again or the current depressed levels continue will

be up to the consumer.

Despite the government sequestration that is likely to take effect and other fiscal issues that follow that must be addressed, there was some positive news on the economy in recent reports. Nondefense capital goods, excluding aircraft, which is a measure of business investment, jumped 6.3%, the largest gain in a year. In addition to an uptrend in home prices, other just-released reports on the housing sector showed strength. Contracts for previous built homes approached a 3-year high and in a separate report, the National Association of Realtors pending home sales index increased 4.5%, the highest since April 2010. In response, the stock market showed another large gain

with the S&P 500 showing the best percentage gain since January 2nd. Thus, despite the myriad of uncertainties that lie ahead, there

appears to be growing evidence that retail sales and the economy will weather any soft patch like those that had developed in recent years.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>JAN. 2013</u>	<u>DEC. 2012</u>	<u>JAN. 2012</u>
Unemployment Rate (Average)	N/A%	8.7%	9.4%
Annual Rate of Inflation (Chicago)	1.6%	-3.1%	1.2%
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	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (January)	N/A	-%	-%
Employment (thousands) (January)	N/A	-%	-%
New Car & Truck Registration (January)	51,620	24.5%	16.6%
Single Family Housing Permits (January)	409	-24.2%	16.2%
Total Exports (\$ mil) (December)	5,084	-6.7%	-8.7%
Chicago Purchasing Managers Index (February)	56.8	2.1%	-11.2%
N/A: January State data delayed due to additional time to revise historical data (benchmarking)			

REVENUE

Revenues Post Modest Gain in February

Jim Muschinske, Revenue Manager

Overall base revenues grew \$37 million in February. The performance of the larger economic sources was mixed; while overall transfers and federal sources fueled what little growth that did occur. February had one less receipting day compared to the same month last year.

After posting somewhat disappointing results over the past several months, sales tax managed to recover somewhat and post a monthly gain of \$43 million, although most of the

increase was likely due to receipt timing rather than a marked improvement in underlying growth. Public utility managed a gain of \$22 million while gross corporate income taxes grew \$12 million. Liquor taxes eked out a \$1 million increase, as did interest earnings.

Gross personal income tax dipped in January, down \$65 million, or \$59 million net of refunds. Through most of the month, personal income tax receipts were doing quite well, but a combination of one less receipting day coupled with a

very strong last couple of days in February 2012 impacted monthly performance. A few other revenue sources experienced monthly drops as other sources fell \$7 million, corporate franchise taxes \$5 million, inheritance tax \$3 million, and insurance taxes \$1 million.

Overall transfers grew \$21 million for the month. Both lottery transfers and riverboat transfers each posted \$9 million gains in February, while other transfers grew a modest \$3 million. After a number of months of significant increases, federal source receipts grew a more modest \$24 million as expected.

Year to Date

Through two-thirds of the fiscal year, overall base revenues have grown \$1.308 billion. Gross personal income taxes were up \$625 million, or \$462 million net of refunds. Gross corporate income taxes increased \$312 million [\$312 million net of refunds as well]. Sales tax has increased \$68 million and, due to the lagged timing of receipts related to a prior tax change, inheritance tax was up \$66 million. All other tax sources totaled a net gain of \$27 million.

The performance of both personal and corporate income taxes has been quite good. However, expectations should be tempered by certain timing issues that have yet to be realized as well as numerous legislative changes that may interrupt historic receipt patterns. Some examples include: implementation timing of a rate increase that resulted in a positive FY'12 impact of an estimated \$500 million during last spring—that will not recur in FY'13. Also, changes related to federal expensing, net operating loss, and other tax changes all add uncertainty and may impact receipts over the remaining months.

Overall transfers were down \$234 million. The falloff was due in part to the one-time \$73 million sale of the 10th license last year, as well as timing related to last year's settlement of protested liquor taxes. Federal sources have managed to post a \$607 million gain through February due to higher general funds spending on Medicaid bills. It is anticipated that Medicaid spending will begin to slow as well as shift to non-GRF funding sources. As a result, current rates of growth of federal sources are expected to reverse course over the remaining months of FY 2013.

GENERAL FUNDS RECEIPTS: FEBRUARY

FY 2013 vs. FY 2012

(\$ million)

Revenue Sources	Feb. FY 2013	Feb. FY 2012	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$1,184	\$1,249	(\$65)	-5.2%
Corporate Income Tax (regular)	69	57	\$12	21.1%
Sales Taxes	548	505	\$43	8.5%
Public Utility Taxes (regular)	90	68	\$22	32.4%
Cigarette Tax	29	29	\$0	0.0%
Liquor Gallonage Taxes	10	9	\$1	11.1%
Vehicle Use Tax	2	2	\$0	0.0%
Inheritance Tax (Gross)	20	23	(\$3)	-13.0%
Insurance Taxes and Fees	14	15	(\$1)	-6.7%
Corporate Franchise Tax & Fees	15	20	(\$5)	-25.0%
Interest on State Funds & Investments	2	1	\$1	100.0%
Cook County IGT	94	94	\$0	0.0%
Other Sources	21	28	(\$7)	-25.0%
Subtotal	\$2,098	\$2,100	(\$2)	-0.1%
Transfers				
Lottery	40	31	\$9	29.0%
Riverboat transfers & receipts	21	12	\$9	75.0%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Other	24	21	\$3	14.3%
Total State Sources	\$2,183	\$2,164	\$19	0.9%
Federal Sources	\$229	\$205	\$24	11.7%
Total Federal & State Sources	\$2,412	\$2,369	\$43	1.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$115)	(\$109)	(\$6)	5.5%
Corporate Income Tax	(\$10)	(10)	\$0	0.0%
Subtotal General Funds	\$2,287	\$2,250	\$37	1.6%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13 Backlog Payment Fund	\$0	\$0	\$0	N/A
Tobacco Liquidation Proceeds	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,287	\$2,250	\$37	1.6%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Mar-13

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2013 vs. FY 2012
(\$ million)

<u>Revenue Sources</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>CHANGE FROM FY 2012</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$10,888	\$10,263	\$625	6.1%
Corporate Income Tax (regular)	1,582	1,270	\$312	24.6%
Sales Taxes	4,885	4,817	\$68	1.4%
Public Utility Taxes (regular)	669	669	\$0	0.0%
Cigarette Tax	235	236	(\$1)	-0.4%
Liquor Gallonage Taxes	114	112	\$2	1.8%
Vehicle Use Tax	18	18	\$0	0.0%
Inheritance Tax (Gross)	200	134	\$66	49.3%
Insurance Taxes and Fees	178	167	\$11	6.6%
Corporate Franchise Tax & Fees	144	133	\$11	8.3%
Interest on State Funds & Investments	14	12	\$2	16.7%
Cook County IGT	150	150	\$0	0.0%
Other Sources	269	267	\$2	0.7%
Subtotal	\$19,346	\$18,248	\$1,098	6.0%
Transfers				
Lottery	396	378	\$18	4.8%
Riverboat transfers & receipts	263	246	\$17	6.9%
Proceeds from Sale of 10th license	0	73	(\$73)	N/A
Other	331	527	(\$196)	-37.2%
Total State Sources	\$20,336	\$19,472	\$864	4.4%
Federal Sources				
Total Federal & State Sources	\$2,460	\$1,853	\$607	32.8%
Total Federal & State Sources	\$22,796	\$21,325	\$1,471	6.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$1,061)	(\$898)	(\$163)	18.2%
Corporate Income Tax	(\$222)	(\$222)	\$0	0.0%
Subtotal General Funds	\$21,513	\$20,205	\$1,308	6.5%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13 Backlog Payment Fund Transfer	\$264	\$0	\$264	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	\$22,052	\$20,480	\$1,572	7.7%

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

CGFA

1-Mar-13