



# Commission on Government Forecasting and Accountability

**MONTHLY BRIEFING**

**MARCH 2007**

<http://www.ilga.gov/commission/cgfa2006/home.aspx>

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## **ECONOMY: Inflation Concerns Remain**

Edward H. Boss, Jr., Chief Economist

Inflation remains a concern, despite increasing evidence that the pace of economic activity has slowed. Many market observers celebrated following the March Federal Reserve Open Market Committee meeting and stocks soared. While holding key monetary policy rates unchanged at the meeting, the Committee removed the previous policy signal that had talked about “the extent and timing of any additional firming....”. The removal of the credit firming language and shift in the description of the economy from “somewhat firmer economic growth” in January to “Recent indicators have been mixed.... the economy seems likely to expand at a moderate pace” in March, rose speculation that the next policy move would be toward credit ease.

Expectations of lower interest rates, however, may well be premature, particularly given recent inflation performance. Indeed, the language on inflation between the January and March meetings got increasingly more pessimistic. Between January and March, the Federal Reserve statements on inflation went from “Readings on core inflation have improved modestly in recent months” to “Recent readings on core inflation have been somewhat elevated...”. Finally, the operative statement from the March meeting focused on inflation” ...the Committee’s predominant policy concerns remains the risk that inflation will fail to moderate as expected.”

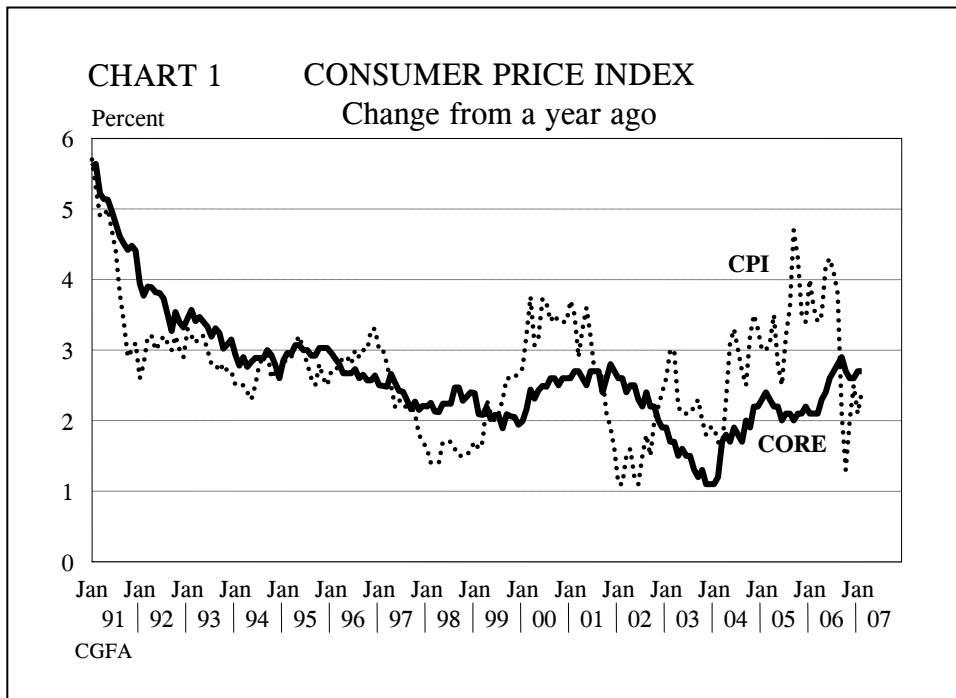
Chart 1, on the following page, shows the changes from a year ago in both overall consumer prices and in core prices, which exclude the volatile food and energy components. Many economists, including the members of the Open Market Committee, pay particular attention to the core rate

as a guide to policy, feeling it is a better measure of underlying price pressures. As shown, overall consumer prices in February 2007 were 2.4% higher than a year earlier, well below the rates seen in the previous two years.

The softening in overall price pressures reflects the decline in energy prices from the record highs reached earlier. Indeed, energy prices have fallen in four of the past six months and in February showed a 1.0% decline from a year earlier. Even while overall price increases have slowed, the core rate has picked up, and in February was 2.7% higher than a year earlier. Indeed, the core rate of inflation has now exceeded the overall rate of consumer price increase in each of the past six months.

The Federal Reserve desires a core rate of inflation at 2.0% or below to

represent relatively stable prices. But, the core rate has been accelerating and has not been below 2.0% on a year-over-year basis since 2004. Moreover, according to analysis prepared by the ISI Group (International Strategy & Investment) creeping seasonal factors likely will cause the core CPI increase in both March and April to rise at an elevated rate, causing at least a temporary inflation scare. Under these conditions, any near term reduction in interest rates stemming from Federal Reserve action seems highly unlikely. Moreover with inflation the key concern, it is also premature to completely rule out any further increase in key monetary policy rates, especially should the recent lull in economic activity end and faster growth resume. In the meantime, the outlook is for stability in these key interest rates in the months ahead.



## INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>FEB. 2007</u>	<u>JAN. 2006</u>	<u>FEB. 2006</u>
Unemployment Rate (Average)	4.8%	4.6%	4.9%
Annual Rate of Inflation (Chicago)	7.4%	9.2%	1.7%
<hr style="border: 2px solid black;"/>			
	<u>LATEST</u>	<u>% CHANGE</u>	<u>% CHANGE</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (February)	6,677	-0.4%	1.9%
Employment (thousands) (February)	6,358	-0.6%	2.0%
New Car & Truck Registration (February)	40,099	-25.8%	1.3%
Single Family Housing Permits (February)	1,454	-10.4%	-48.4%
Total Exports (\$ mil) (January)	3,655	0.2%	20.6%
Chicago Purchasing Managers Index (March)	61.7	28.8%	2.2%

### REVENUE

#### March Receipts Jump Due to Income Taxes and Federal Sources

Jim Muschinske, Revenue Manager

Revenues in March increased \$240 million, excluding \$289 million in cash flow transfers from the Hospital Provider Fund. The cash flow transfer allowed significant spending on Medicaid, thereby generating federal reimbursement. In addition to the good month for federal sources, both personal and corporate income tax receipts did very well. March had one less receipting day than last year.

For the month, gross personal income taxes were up \$85 million, or \$77 million net of refunds. Gross corporate income taxes were up \$52 million, or \$51 million net of refunds. Corporate franchise tax and other sources each gained \$7 million. Interest income increased by \$5 million, while insurance taxes posted a \$3 million advance.

Despite an overall increase in revenues, a number of sources suffered declines in March. Sales tax receipts were down by \$40 million, although it is believed the decline is in part due to an earlier misallocation of sales tax revenue at the Department of Revenue. Public utility taxes fell by \$20 million, while cigarette tax receipts were off by \$4 million due to this year's distribution change. Liquor taxes and inheritance tax each declined by \$2 million.

Overall transfers fell \$9 million in March. Other transfers were down by \$10 million and riverboat transfers fell by \$5 million. Those declines were partially offset by a \$6 million increase in lottery transfers. As mentioned earlier, a \$289 million cash flow transfer from the Hospital Provider Fund allowed for an increase in reimbursable spending and subsequent federal sources. For the month, receipts from federal sources rose by \$167 million. [The \$900 million in short-term borrowing undertaken in

February was part of the hospital assessment program. However, without supplemental spending authority for the Hospital Provider Fund, approximately \$1 billion was sitting idle in that fund. The Comptroller transferred \$289 million from the fund into the General Fund to assist in cash flow as allowed per the official statement. Such transfers do not count against the appropriation limits of the fund. Similar transactions may occur in the coming month(s) as a way to utilize the short-term borrowing.

### **Year to Date**

Excluding the recent \$289 Hospital Provider Fund cash flow transfer and the earlier \$900 million in short-term borrowing, overall general funds are up \$633 million. A comparative decline of \$198 million in federal sources has held down overall growth. In fact, excluding the falloff in federal sources, all other revenues are up a respectable \$831 million.

Gross personal income taxes are up \$543 million, or \$491 million net of refunds. Gross corporate income taxes are up \$177 million, or \$173 million net of refunds. Sales tax receipts are up \$109 million, while interest income is ahead by \$50 million. All other sources experiencing gains added \$33 million.

As expected, the Cook County IGT is down \$38 million while, due to a change

in tax distribution, cigarette taxes are off by \$37 million. Inheritance taxes and insurances taxes are behind by \$5 million, vehicle use tax is down by \$2 million, and insurance taxes and fees posted a \$1 million decline.

Overall transfers are up by \$58 million. While other transfers are up \$104 million due mostly to a large July transfer from the Refund Fund as well as fund sweep and chargeback activity, a \$57 million falloff in lottery transfers served to offset some of those gains. Finally, federal sources are still down \$198 million due to less general funds reimbursable spending.

### **Revised Estimate**

On March 28<sup>th</sup>, the Commission increased its estimate for FY 2007 by \$125 million. Overall receipts performance through the first two-thirds of the fiscal year has performed about as expected, albeit slightly ahead of expectations. In particular, income taxes have continued to do well, and public utility taxes have recently strengthened. Despite those improvements, a few sources have been disappointing. For example, sales taxes have recently weakened, after running at or slightly ahead of expectations. Inheritance tax receipts continue their historic volatility by giving back some earlier gains. And lottery transfers, despite lowered expectations, continue to disappoint. See the following breakdown of the adjustments to the FY 2007 estimate.

**Upward Adjustments**

Personal Income Tax (\$110 million net of refunds)	\$122 million
Corporate Income Tax (\$40 million net of refunds)	\$49 million
Public Utility Tax	\$40 million
Interest Income	\$5 million
Liquor Tax	\$2 million

**Downward Adjustments**

Sales Tax	\$30 million
Inheritance Tax	\$20 million
Lottery Transfer	\$10 million
Insurance Taxes	\$6 million
Corporate Franchise Taxes	\$4 million
Cook County IGT	\$2 million

**Net Increase = \$125 million**

*For a complete discussion of the FY 2007 forecast as well as an update for FY 2008, please see the Commission's latest report entitled, "FY 2008 Revenue Forecast and Updated FY 2007 Revenue Estimate". A summary of the report is also available and is called "Summary" under the same major title. These reports are available online or can be obtained by contacting the Commission.*

**GENERAL FUNDS RECEIPTS: MARCH**

FY 2007 vs. FY 2006  
(\$ million)

<b>Revenue Sources</b>	<b>March FY 2007</b>	<b>March FY 2006</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$852	\$767	\$85	11.1%
Corporate Income Tax (regular)	374	322	\$52	16.1%
Sales Taxes	515	555	(\$40)	-7.2%
Public Utility Taxes (regular)	102	122	(\$20)	-16.4%
Cigarette Tax	29	33	(\$4)	-12.1%
Liquor Gallonage Taxes	10	10	\$0	0.0%
Vehicle Use Tax	2	4	(\$2)	-50.0%
Inheritance Tax (Gross)	16	18	(\$2)	-11.1%
Insurance Taxes and Fees	40	37	\$3	8.1%
Corporate Franchise Tax & Fees	21	14	\$7	50.0%
Interest on State Funds & Investments	17	12	\$5	41.7%
Cook County IGT	0	0	\$0	N/A
Other Sources	30	23	\$7	30.4%
<b>Subtotal</b>	<b>\$2,008</b>	<b>\$1,917</b>	<b>\$91</b>	<b>4.7%</b>
<b>Transfers</b>				
Lottery	67	61	\$6	9.8%
Riverboat transfers & receipts	35	40	(\$5)	-12.5%
Other	48	58	(\$10)	-17.2%
<b>Total State Sources</b>	<b>\$2,158</b>	<b>\$2,076</b>	<b>\$82</b>	<b>3.9%</b>
<b>Federal Sources</b>	<b>\$525</b>	<b>\$358</b>	<b>\$167</b>	<b>46.6%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$2,683</b>	<b>\$2,434</b>	<b>\$249</b>	<b>10.2%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$83)	(\$75)	(\$8)	10.7%
Corporate Income Tax	(\$65)	(64)	(\$1)	1.6%
<b>Subtotal General Funds</b>	<b>\$2,535</b>	<b>\$2,295</b>	<b>\$240</b>	<b>10.5%</b>
<b>Short-Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Hopital Provider Fund (cash flow transfer)</b>	<b>\$289</b>	<b>\$0</b>	<b>\$289</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$2,824</b>	<b>\$2,295</b>	<b>\$529</b>	<b>23.1%</b>

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

3-Apr-07

**GENERAL FUNDS RECEIPTS: YEAR TO DATE**

*FY 2007 vs. FY 2006*  
(\$ million)

<b>Revenue Sources</b>	<b>FY 2007</b>	<b>FY 2006</b>	<b>CHANGE FROM FY 2006</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$6,989	\$6,446	\$543	8.4%
Corporate Income Tax (regular)	1,268	1,091	\$177	16.2%
Sales Taxes	5,377	5,268	\$109	2.1%
Public Utility Taxes (regular)	847	837	\$10	1.2%
Cigarette Tax	263	300	(\$37)	-12.3%
Liquor Gallonage Taxes	117	115	\$2	1.7%
Vehicle Use Tax	24	26	(\$2)	-7.7%
Inheritance Tax (Gross)	198	203	(\$5)	-2.5%
Insurance Taxes and Fees	202	203	(\$1)	-0.5%
Corporate Franchise Tax & Fees	147	136	\$11	8.1%
Interest on State Funds & Investments	154	104	\$50	48.1%
Cook County IGT	178	216	(\$38)	-17.6%
Other Sources	305	295	\$10	3.4%
<b>Subtotal</b>	<b>\$16,069</b>	<b>\$15,240</b>	<b>\$829</b>	<b>5.4%</b>
<b>Transfers</b>				
Lottery	447	504	(\$57)	-11.3%
Riverboat transfers & receipts	455	444	\$11	2.5%
Other	504	400	\$104	26.0%
<b>Total State Sources</b>	<b>\$17,475</b>	<b>\$16,588</b>	<b>\$887</b>	<b>5.3%</b>
<b>Federal Sources</b>	<b>\$3,621</b>	<b>\$3,819</b>	<b>(\$198)</b>	<b>-5.2%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$21,096</b>	<b>\$20,407</b>	<b>\$689</b>	<b>3.4%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$681)	(\$629)	(\$52)	8.3%
Corporate Income Tax	(\$222)	(\$218)	(\$4)	1.8%
<b>Subtotal General Funds</b>	<b>\$20,193</b>	<b>\$19,560</b>	<b>\$633</b>	<b>3.2%</b>
<b>Short-Term Borrowing</b>	<b>\$900</b>	<b>\$1,000</b>	<b>(\$100)</b>	<b>N/A</b>
<b>Hopital Provider Fund (cash flow transfer)</b>	<b>\$289</b>	<b>\$0</b>	<b>\$289</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$276</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$21,658</b>	<b>\$20,836</b>	<b>\$822</b>	<b>3.9%</b>

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

CGFA

3-Apr-07

**GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE**  
**FY 2007 ESTIMATE vs. FY 2006 ACTUAL**  
(\$ million)

<b>Revenue Sources</b>	<b>March-07 ESTIMATE FY 2007</b>	<b>FYTD 2007</b>	<b>AMOUNT NEEDED FY 2007 EST.</b>	<b>FYTD 2006</b>	<b>GROWTH NEEDED</b>	<b>% CHANGE</b>
<b>State Taxes</b>						
Personal Income Tax	\$10,238	\$6,989	\$3,249	\$6,446	\$127	4.1%
Corporate Income Tax (regular)	1,987	1,268	\$719	1,091	\$26	3.8%
Sales Taxes	7,315	5,377	\$1,938	5,268	\$114	6.3%
Public Utility Taxes (regular)	1,114	847	\$267	837	\$30	12.7%
Cigarette Tax	350	263	\$87	300	(\$13)	-13.0%
Liquor Gallonage Taxes	155	117	\$38	115	\$1	2.7%
Vehicle Use Tax	34	24	\$10	26	\$2	25.0%
Inheritance Tax (Gross)	257	198	\$59	203	(\$10)	-14.5%
Insurance Taxes and Fees	314	202	\$112	203	(\$2)	-1.8%
Corporate Franchise Tax & Fees	186	147	\$39	136	(\$6)	-13.3%
Interest on State Funds & Investments	190	154	\$36	104	(\$13)	-26.5%
Cook County IGT	307	178	\$129	216	(\$5)	-3.7%
Other Sources	440	305	\$135	295	(\$11)	-7.5%
<b>Subtotal</b>	<b>\$22,887</b>	<b>\$16,069</b>	<b>\$6,818</b>	<b>\$15,240</b>	<b>\$240</b>	<b>3.6%</b>
<b>Transfers</b>						
Lottery	620	447	\$173	504	\$7	4.2%
Riverboat transfers & receipts	700	455	\$245	444	\$0	0.0%
Other	841	504	\$337	400	(\$9)	-2.6%
<b>Total State Sources</b>	<b>\$25,048</b>	<b>\$17,475</b>	<b>\$7,573</b>	<b>\$16,588</b>	<b>\$238</b>	<b>3.2%</b>
<b>Federal Sources</b>	<b>\$4,803</b>	<b>\$3,621</b>	<b>\$1,182</b>	<b>\$3,819</b>	<b>\$276</b>	<b>30.5%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$29,851</b>	<b>\$21,096</b>	<b>\$8,755</b>	<b>\$20,407</b>	<b>\$514</b>	<b>6.2%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$998)	(\$681)	(\$317)	(\$629)	(\$13)	4.3%
Corporate Income Tax	(348)	(\$222)	(\$126)	(218)	\$12	-8.7%
<b>Subtotal General Funds</b>	<b>\$28,505</b>	<b>\$20,193</b>	<b>\$8,312</b>	<b>\$19,560</b>	<b>\$513</b>	<b>6.6%</b>
<b>Short-Term Borrowing</b>	<b>\$900</b>	<b>\$900</b>	<b>\$0</b>	<b>\$1,000</b>	<b>\$0</b>	<b>N/A</b>
<b>Hospital Provider Fund (cash flow transfer)</b>	<b>\$289</b>	<b>\$289</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$276</b>	<b>\$0</b>	<b>\$276</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$29,970</b>	<b>\$21,658</b>	<b>\$8,312</b>	<b>\$20,836</b>	<b>\$513</b>	<b>6.6%</b>

CGFA estimate updated to reflect actual short-term borrowing

3-Apr-07



**GENERAL FUNDS PERFORMANCE TO DATE**  
**GOVERNOR'S OFFICE OF MANANGEMENT AND BUDGET**

FY 2007 ESTIMATE vs. FY 2006 ACTUALS

(\$ million)

	GOMB March-07 Estimate FY 2007	FYTD 2007	AMOUNT NEEDED FY 2007 Est.	FYTD 2006	GROWTH NEEDED	% CHANGE
<b>Revenue Sources</b>						
<b>State Taxes</b>						
Personal Income Tax	\$10,117	\$6,989	\$3,128	\$6,446	\$6	0.2%
Corporate Income Tax (regular)	2,046	1,268	\$778	1,091	\$85	12.3%
Sales Taxes	7,356	5,377	\$1,979	5,268	\$155	8.5%
Public Utility Taxes (regular)	1,110	847	\$263	837	\$26	11.0%
Cigarette Tax	350	263	\$87	300	(\$13)	-13.0%
Liquor Gallonage Taxes	153	117	\$36	115	(\$1)	-2.7%
Vehicle Use Tax	35	24	\$11	26	\$3	37.5%
Inheritance Tax (Gross)	255	198	\$57	203	(\$12)	-17.4%
Insurance Taxes and Fees	322	202	\$120	203	\$6	5.3%
Corporate Franchise Tax & Fees	186	147	\$39	136	(\$6)	-13.3%
Interest on State Funds & Investments	185	154	\$31	104	(\$18)	-36.7%
Cook County IGT	307	178	\$129	216	(\$5)	-3.7%
Other Sources	440	305	\$135	295	(\$11)	-7.5%
<b>Subtotal</b>	<b>\$22,862</b>	<b>\$16,069</b>	<b>\$6,793</b>	<b>\$15,240</b>	<b>\$215</b>	<b>3.3%</b>
<b>Transfers</b>						
Lottery	631	447	\$184	504	\$18	10.8%
Gaming Fund Transfer	692	455	\$237	444	(\$8)	-3.3%
Other	850	504	\$346	400	\$0	0.0%
<b>Total State Sources</b>	<b>\$25,035</b>	<b>\$17,475</b>	<b>\$7,560</b>	<b>\$16,588</b>	<b>\$225</b>	<b>3.1%</b>
<b>Federal Sources</b>	<b>\$4,803</b>	<b>\$3,621</b>	<b>\$1,182</b>	<b>\$3,819</b>	<b>\$276</b>	<b>30.5%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$29,838</b>	<b>\$21,096</b>	<b>\$8,742</b>	<b>\$20,407</b>	<b>\$501</b>	<b>6.1%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$987)	(\$681)	(\$306)	(\$629)	(\$2)	0.7%
Corporate Income Tax	(358)	(222)	(\$136)	(218)	\$2	-1.4%
<b>Subtotal General Funds</b>	<b>\$28,493</b>	<b>\$20,193</b>	<b>\$8,300</b>	<b>\$19,560</b>	<b>\$501</b>	<b>6.4%</b>
<b>Short-Term Borrowing</b>	<b>\$900</b>	<b>\$900</b>	<b>\$0</b>	<b>\$1,000</b>	<b>\$0</b>	<b>N/A</b>
<b>Hospital Provider Fund (cash flow transfer)</b>	<b>\$289</b>	<b>\$289</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$276</b>	<b>\$0</b>	<b>\$276</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$29,958</b>	<b>\$21,658</b>	<b>\$8,300</b>	<b>\$20,836</b>	<b>\$501</b>	<b>6.4%</b>
GOMB Estimate updated to reflect actual short-term borrowing						3-Apr-07