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INSIDE THIS ISSUE

PAGE 1 - **ECONOMY:** Pace of Activity Moderates.

PAGE 2: Illinois Economic Indicators

PAGE 3 - **REVENUE:** Revenues Continue to Decline Despite Boost from Transfers

PAGE 5-7: Revenue Tables

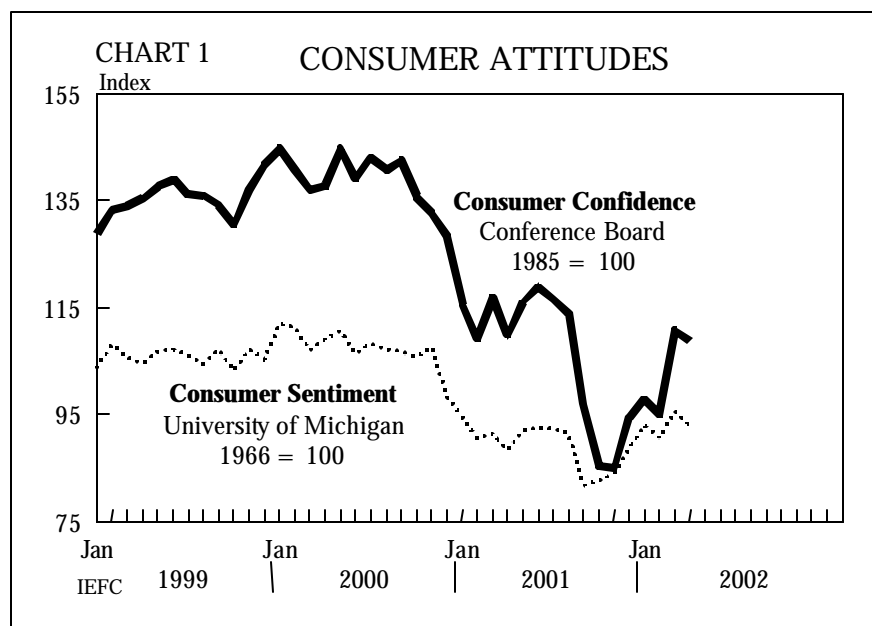
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ECONOMY: Pace of Activity Moderates

Edward H. Boss, Jr., Chief Economist

The economy, as measured by inflation-adjusted gross domestic product (GDP), grew at an annual rate of 5.8% in the first quarter of 2002 according to preliminary estimates by the Commerce Department, the sharpest acceleration in two years. The healthy increase last quarter compares to a modest 1.7% annual growth rate in the final quarter of 2001 and an actual decline at a 1.3% rate in the quarter before that. Even as evidence increases that the U.S. economy is in a recovery phase, prospects for some moderation in its current performance abound.

Key to the economy's sustained growth is the consumer. Indeed, it has been continued spending by the consumer throughout the recession that made the past economic decline the mildest in history. As shown in Chart 1, after a surge in March, consumer confidence eased lower in April as measured by both the Conference Board and the University of Michigan. The falloff, however, was modest, reflecting mainly a soften-



ing in current economic conditions while future expectations remained strong suggesting further economic expansion. Undoubtedly the heightened conflict in the Middle East, higher oil prices, and stock market declines were causes of weakening current concerns. Yet, as has been the case for some time now, confidence in the future remained bright.

Another factor behind the expected moderation in economic growth has to do with the composition of that growth. Of the 5.8% real rate of economic growth last quarter, more than half came from businesses increasing production to restock shelves which had been depleted last year. This is a temporary factor. The vitality of the expansion will depend increasingly on improvement in business spending, and that actually declined last quarter.

Profits, although improving, remain weak and act to constrain both capital spending and new hiring. On Tuesday, the Chicago Purchasing Manager's Index edged down to 54.7% in April from 55.7% in March. Even so, this is the third consecutive month with the index over 50%, meaning further

expansion in manufacturing following sixteen consecutive months when the index was below 50%, or contracting.

A slew of other data also showed some moderation. Weakness was reported in durable goods orders, home sales, and heavy truck sales. Continuing claims for unemployment insurance rose and money growth declined.

Finally, the employment situation apparently weakened following some strengthening earlier this year. In Illinois the unemployment rate reached 6.1% in March, after declining in January and February. Even so, employment data are a lagging indicator and any expectations that things were improving this early in a business recovery were not warranted.

While there is increasing evidence that the pace of economic activity has moderated from that shown last quarter, odds favor continued growth. Moreover, barring any major disruption from international crises, growth should resume at a faster pace in the second half of this year. As to its effect on State revenues, major improvement is likely to be slow in surfacing.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>March 2002</u>	<u>February 2002</u>	<u>March 2001</u>
Unemployment Rate (Average)	6.1%	5.8%	5.2%
Annual Rate of Inflation (Chicago)	6.7%	5.4%	1.5%
	<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) (March)	6,368	-0.3%	-0.0%
Employment (thousands) (March)	5,982	-0.6%	-0.9%
New Car & Truck Registration (March)	48,411	10.3%	N/A
Single Family Housing Permits (March)	3,348	31.0%	-4.4%
Total Exports (\$ mil) (February)	2,532	1.8%	-2.5%
Chicago Purchasing Managers Index (April)	54.7	-1.8%	40.6%

REVENUE

Revenues Continue to Decline Despite Boost from Transfers

Jim Muschinske, Revenue Manager

April general funds revenues, despite significant gains from certain transfers, still ended the month down \$36 million. That marks the fourth consecutive monthly decline in revenues, further signifying that early signs of an economic recovery have yet to manifest into receipts. While a decline in April was anticipated due to the unusually large April of last year, those sources most closely associated with economic conditions--income taxes and sales taxes--continued to falter. One more receipting day for the month helped to make the drop-off less pronounced than what it could have been.

Not surprisingly, personal income tax receipts led the monthly State tax decliners, with gross receipts off \$146 million. A significant drop was anticipated, as last April was an exceptionally large month for income taxes. Gross corporate income taxes were down \$65 million, continuing that sources poor fiscal year performance, although a decline was not shocking given last April's strength. Interest income was down \$9 million and both sales and corporate franchise taxes fell \$2 million. Finally, revenues from the cigarette tax dipped \$1 million in April.

Despite the drop in monthly revenues, several smaller sources did manage to post gains. Public utility taxes rose by \$16 million and other sources advanced \$6 million. Other increases include: \$4 million in liquor tax receipts; \$3 million from insurance taxes and fees; and, \$1 million in vehicle use tax revenue.

As mentioned earlier, April was a very good month for transfers as revenues surged up \$122 million. Lottery transfers jumped by \$46 million, fueled in large part by multiple rollovers in the Big Game. In addition, other transfers increased a net of \$76 million as a result of an expected \$80 million transfer back to the General Fund from the tobacco settlement proceeds. Federal sources also contributed gains in April with receipts up \$25 million.

Year-to-Date

With only two months remaining in FY 2002, absent the \$226 million transfer from the Budget Stabilization Fund, total general funds revenue is down \$449 million from the same period last year.

Personal income tax revenue leads the yearly decliners with gross receipts down by \$257 million. The decline in gross corporate income tax revenues is not far behind, falling \$220 million. Interest income earnings continue to plummet and are off by \$115 million. All other tax sources experiencing declines total \$36 million.

Despite total revenues being down, several sources have managed to post positive gains thus far in FY 2002. Sales tax revenues, aided by the return of the tax on motor fuel, managed to gain \$95 million. Insurance taxes and fees increased \$21 million while corporate franchise taxes and fees are up \$8 million. Vehicle use tax is up \$4 million through April, while liquor taxes have gained \$3 million.

With the big increase in April transfers, overall transfers have now turned positive

and are up \$69 million. Federal sources are mostly unchanged and are off by only \$13 million.

In order to reach the Commission's February 2002 base general funds estimate of \$24.196 billion, receipts over the remaining two months would have to increase \$539 million or 11.3%. It now

appears certain that FY 2002 revenues will fall below last year's levels. At the Commission's April 10th meeting, it was stated that the most likely decline would be in the range of \$300-\$500 million. Another Commission meeting has been scheduled for May 8th. At that time a formal FY 2002 revision will be presented as well as an updated forecast for FY 2003.

GENERAL FUNDS RECEIPTS: APRIL

FY 2002 vs. FY 2001

(\$ million)

Revenue Sources	APRIL FY 2002	APRIL FY 2001	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$1,016	\$1,162	(\$146)	-12.6%
Corporate Income Tax (regular)	168	233	(\$65)	-27.9%
Sales Taxes	471	473	(\$2)	-0.4%
Public Utility Taxes (regular)	97	81	\$16	19.8%
Cigarette Tax	33	34	(\$1)	-2.9%
Liquor Gallonage Taxes	9	5	\$4	80.0%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	17	17	\$0	0.0%
Insurance Taxes and Fees	51	48	\$3	6.3%
Corporate Franchise Tax & Fees	10	12	(\$2)	-16.7%
Interest on State Funds & Investments	9	18	(\$9)	-50.0%
Cook County IGT	45	45	\$0	0.0%
Other Sources	20	14	\$6	42.9%
Subtotal	\$1,949	\$2,144	(\$195)	-9.1%
Transfers				
Lottery	87	41	\$46	112.2%
Gaming Fund Transfer	35	35	\$0	0.0%
Other	125	49	\$76	155.1%
Total State Sources	\$2,196	\$2,269	(\$73)	-3.2%
Federal Sources	\$366	\$341	\$25	7.3%
Total Federal & State Sources	\$2,562	\$2,610	(\$48)	-1.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$77)	(\$83)	\$6	-7.2%
Corporate Income Tax	(38)	(44)	\$6	-13.6%
Subtotal General Funds	\$2,447	\$2,483	(\$36)	-1.4%
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,447	\$2,483	(\$36)	-1.4%

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

1-May-02

GENERAL FUNDS RECEIPTS: YEAR TO DATE

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

Revenue Sources	FY 2002	FY 2001	CHANGE FROM FY 2001	% CHANGE
State Taxes				
Personal Income Tax	\$6,726	\$6,983	(\$257)	-3.7%
Corporate Income Tax (regular)	859	1,079	(\$220)	-20.4%
Sales Taxes	5,028	4,933	\$95	1.9%
Public Utility Taxes (regular)	918	928	(\$10)	-1.1%
Cigarette Tax	333	333	\$0	0.0%
Liquor Gallonage Taxes	101	98	\$3	3.1%
Vehicle Use Tax	31	27	\$4	14.8%
Inheritance Tax (Gross)	270	294	(\$24)	-8.2%
Insurance Taxes and Fees	216	195	\$21	10.8%
Corporate Franchise Tax & Fees	127	119	\$8	6.7%
Interest on State Funds & Investments	121	236	(\$115)	-48.7%
Cook County IGT	222	222	\$0	0.0%
Other Sources	159	161	(\$2)	-1.2%
Subtotal	\$15,111	\$15,608	(\$497)	-3.2%
Transfers				
Lottery	463	393	\$70	17.8%
Gaming Fund Transfer	380	375	\$5	1.3%
Other	351	357	(\$6)	-1.7%
Total State Sources	\$16,305	\$16,733	(\$428)	-2.6%
Federal Sources	\$3,312	\$3,325	(\$13)	-0.4%
Total Federal & State Sources	\$19,617	\$20,058	(\$441)	-2.2%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$511)	(\$496)	(\$15)	3.0%
Corporate Income Tax	(198)	(205)	\$7	-3.4%
Subtotal General Funds	\$18,908	\$19,357	(\$449)	-2.3%
Budget Stabilization Fund Transfer	\$226	\$0	\$226	N/A
Total General Funds	\$19,134	\$19,357	(\$223)	-1.2%
SOURCE Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
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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	\$8,655	\$6,726	\$1,929	\$6,983	\$305	18.8%
Corporate Income Tax (regular)	1,152	859	\$293	1,079	\$93	46.5%
Sales Taxes	6,190	5,028	\$1,162	4,933	\$137	13.4%
Public Utility Taxes (regular)	1,160	918	\$242	928	\$24	11.0%
Cigarette Tax	400	333	\$67	333	\$0	0.0%
Liquor Gallonage Taxes	125	101	\$24	98	(\$2)	-7.7%
Vehicle Use Tax	35	31	\$4	27	(\$3)	-42.9%
Inheritance Tax (Gross)	361	270	\$91	294	\$24	35.8%
Insurance Taxes and Fees	270	216	\$54	195	\$3	5.9%
Corporate Franchise Tax & Fees	166	127	\$39	119	\$12	44.4%
Interest on State Funds & Investments	180	121	\$59	236	\$21	55.3%
Cook County IGT	245	222	\$23	222	\$0	0.0%
Other Sources	490	159	\$331	161	\$85	34.6%
Subtotal	\$19,429	\$15,111	\$4,318	\$15,608	\$699	19.3%
Transfers						
Lottery	530	463	\$67	393	(\$41)	-38.0%
Gaming Fund Transfer	475	380	\$95	375	\$10	11.8%
Other	455	351	\$104	357	\$9	9.5%
Total State Sources	\$20,889	\$16,305	\$4,584	\$16,733	\$677	17.3%
Federal Sources	\$4,230	\$3,312	\$918	\$3,325	(\$77)	-7.7%
Total Federal & State Sources	\$25,119	\$19,617	\$5,502	\$20,058	\$600	12.2%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$658)	(\$511)	(\$147)	(\$496)	(\$32)	27.8%
Corporate Income Tax	(265)	(198)	(\$67)	(205)	(\$29)	76.3%
Subtotal General Funds	\$24,196	\$18,908	\$5,288	\$19,357	\$539	11.3%
Budget Stabilization Fund Transfer	\$226	\$226	\$0	\$0	\$0	N/A
Total General Funds	\$24,422	\$19,134	\$5,288	\$19,357	\$539	11.3%
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