



# Commission on Government Forecasting and Accountability

**MONTHLY BRIEFING**

**MAY 2011**

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

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## **INSIDE THIS ISSUE**

**PAGE 1 - ECONOMY:** Soft Patch Continues

**PAGE 3:** Illinois Economic Indicators

**PAGE 3 - REVENUE:** May Revenues Up Largely Due to Tax Increase

**PAGE 5-6:** Revenue Tables

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## **ECONOMY: Soft Patch Continues**

Edward H. Boss, Jr., Chief Economist

The economy, which lost momentum in the first quarter, continues to display a lackluster performance now two-thirds of the way into the second quarter as the soft patch continues. The consumer accounts for more than two-thirds of total spending in the economy and here the gains have slowed noticeably. The rise in total retail sales in April was below that of March that in turn was less than that of February. Consumer confidence has shown little improvement in recent months and remains at levels well below those of the first six years of the decade, never returning to the previous level prior the late 2007 recession, which lasted 18 months.

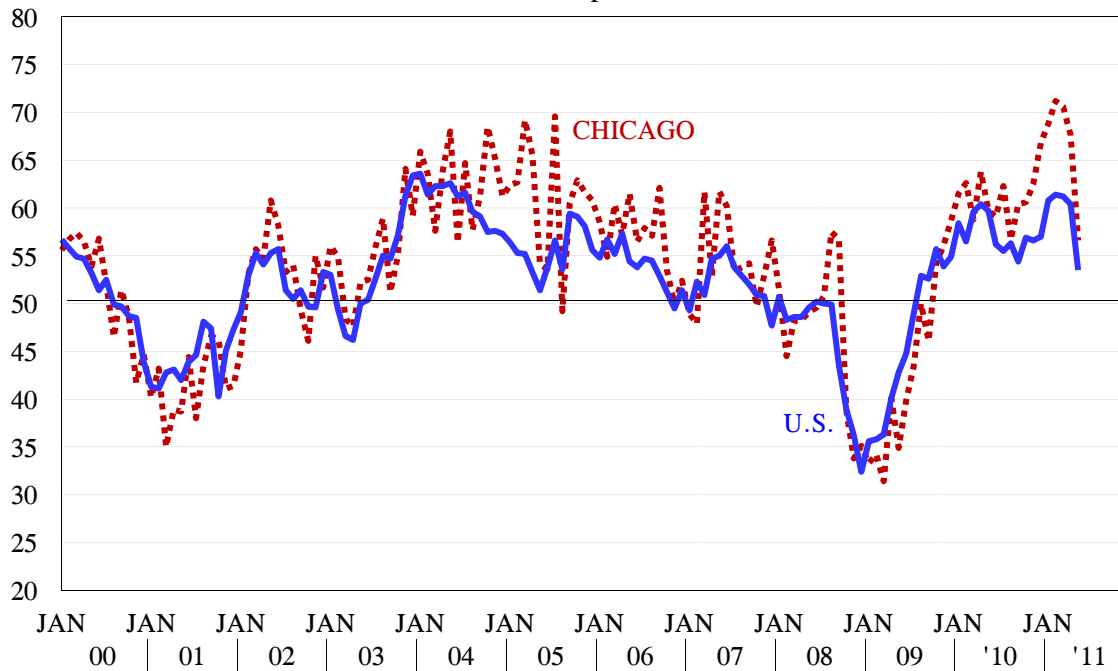
At the same time, unemployment remains at extremely high levels. In April despite job gains, the national unemployment rate rose to 9.0%. Moreover in the latest week initial unemployment claims rose again, and despite a slight decline on a four-week moving average basis, is at much higher levels than what would be considered conducive to increasing new hiring's. While Illinois' unemployment rate edged down to 8.7% from 8.8% in March, below the national rate, the reason for the decline was a sharp falloff in labor force participation reflecting discouraged workers who stopped looking for work. The survey from which the unemployment rate is derived showed that while employment rose a modest 1,300, those who dropped out of the labor force amounted to 5,300.

It is not only consumer spending that has turned sluggish. Throughout this recovery, almost two years old now, business spending has shown strong gains. However, as illustrated in the attached chart on manufacturing, while continuing to expand, its strength has moderated sharply in

CHART 1

**PURCHASING MANAGERS INDEX**

50% = Expansion



SOURCE: Institute for Supply Management

CGFA

the past couple of months. And, in April manufacturing production declined after increasing for nine consecutive months. This was largely due, however, to a falloff in auto assemblies because of parts shortages that resulted from the earthquakes in Japan.

Even more weakening has been shown in the growing service sector. While continuing to expand, the non-manufacturing sector dropped in April to its lowest level since last August. Finally, given budget constraints at both the state and federal level, little in the way of new spending can be expected with most forecasts of real GDP showing declines in government spending for many quarters ahead.

Adding to these concerns are exogenous factors that help account for the recent lack luster performance of the economy. Certainly continued high gasoline prices, upheaval in the Middle East, disastrous weather in parts of this country, and renewed currency concerns among countries in the Euro Zone are all factors. In addition, there is the continued weakening in the housing market, expected removal of QE2 by the Federal Reserve, wrangling over the federal budget and raising the debt ceiling. While these events are likely to continue to slow the pace of economic progress, the likelihood is that while the soft patch is likely to continue in the months ahead it will not lead to a change in the upward direction of the economy.

## INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

| <u>INDICATORS</u>                        | <u>April 2011</u>       | <u>March 2011</u>                        | <u>April 2010</u>                       |
|------------------------------------------|-------------------------|------------------------------------------|-----------------------------------------|
| Unemployment Rate (Average)              | 8.7%                    | 8.8%                                     | 10.8%                                   |
| Annual Rate of Inflation (Chicago)       | 4.9%                    | 9.4%                                     | 2.7%                                    |
| <b>—————</b>                             |                         |                                          |                                         |
|                                          | <u>LATEST<br/>MONTH</u> | <u>% CHANGE<br/>OVER PRIOR<br/>MONTH</u> | <u>% CHANGE<br/>OVER A<br/>YEAR AGO</u> |
| Civilian Labor Force (thousands) (April) | 6,596                   | -0.1%                                    | -0.7%                                   |
| Employment (thousands) (April)           | 6,021                   | 0.0%                                     | 1.4%                                    |
| New Car & Truck Registration (April)     | 46,018                  | 6.7%                                     | 13.1%                                   |
| Single Family Housing Permits (April)    | 632                     | -10.7%                                   | -29.2%                                  |
| Total Exports (\$ mil) (March)           | 5,740                   | 31.6%                                    | 38.1%                                   |
| Chicago Purchasing Managers Index (May)  | 56.6                    | -16.6%                                   | -5.2%                                   |

### REVENUE

#### May Revenues Up Largely Due to Tax Increase

Jim Muschinske, Revenue Manager

Overall base revenues grew \$559 million in May, primarily reflecting the impact of the income tax rate increase passed in January. That, in addition to underlying base growth in other areas was more than enough to offset another comparatively down month for federal sources and falloffs in a number of smaller revenue sources. May had one more receipting day when compared to last year.

Gross personal income tax grew \$595 million, or \$549 million net of refunds. May receipts benefited from the higher tax rate, as well as a presumed rebound from last year's weak final payments. Sales tax continued to perform quite

well, as receipts grew \$40 million for the month. Gross corporate income tax was up \$38 million, or \$32 million net of refunds. Lastly, public utility tax receipts rose \$12 million.

A number of revenue sources posted monthly losses in May. As expected, inheritance tax continued to fall, down \$21 million for the month. Corporate franchise taxes dipped \$4 million, cigarette tax \$3 million, vehicle use tax \$2 million, and interest income \$2 million.

Overall transfers in May grew a modest \$3 million. Other transfers gained \$7 million, while riverboat

transfers were down \$4 million. As mentioned, federal sources fell again, with monthly receipts dipping \$45 million.

### Year to Date

Excluding short-term borrowing, tobacco settlement bond proceeds, Pension Contribution Fund transfers, and Budget Stabilization Fund transfers, base general funds revenues are up \$2.493 billion through May. However, that increase takes into account approximately \$419 million in net revenues classified as related to tax amnesty. Some of this is money that has been accelerated from the current fiscal year as well as from future fiscal years. In addition, year to date totals include approximately \$496 million in interfund borrowing.

Through May and fueled by the recent tax change, gross personal income tax is up \$2.307 billion, or \$2.191 billion net of refunds. Gross corporate income tax is up \$480 million, or \$369 million net of refunds although a large proportion of that gain is likely due to the acceleration effects of the tax amnesty. Sales tax receipts are up \$479 million; again, those gains are in part related to the tax amnesty.

Overall transfers are up \$309 million for the year, principally due to \$496 million in interfund borrowing that is somewhat offset by a loss of \$49 million in riverboat transfers and \$48 million in last year's one-time proceeds from the sale of the 10<sup>th</sup> license. Federal sources, after falling again in May, are now down \$823 million for the year.

**GENERAL FUNDS RECEIPTS: MAY**

FY 2011 vs. FY 2010

(\$ million)

| <b>Revenue Sources</b>                                                             | <b>May<br/>FY 2011</b> | <b>May<br/>FY 2010</b> | <b>\$<br/>CHANGE</b> | <b>%<br/>CHANGE</b> |
|------------------------------------------------------------------------------------|------------------------|------------------------|----------------------|---------------------|
| <b>State Taxes</b>                                                                 |                        |                        |                      |                     |
| Personal Income Tax                                                                | \$1,297                | \$702                  | \$595                | 84.8%               |
| Corporate Income Tax (regular)                                                     | 99                     | 61                     | \$38                 | 62.3%               |
| Sales Taxes                                                                        | 568                    | 528                    | \$40                 | 7.6%                |
| Public Utility Taxes (regular)                                                     | 85                     | 73                     | \$12                 | 16.4%               |
| Cigarette Tax                                                                      | 30                     | 33                     | (\$3)                | -9.1%               |
| Liquor Gallonage Taxes                                                             | 12                     | 12                     | \$0                  | 0.0%                |
| Vehicle Use Tax                                                                    | 2                      | 4                      | (\$2)                | -50.0%              |
| Inheritance Tax (Gross)                                                            | 2                      | 23                     | (\$21)               | -91.3%              |
| Insurance Taxes and Fees                                                           | 1                      | 1                      | \$0                  | 0.0%                |
| Corporate Franchise Tax & Fees                                                     | 15                     | 19                     | (\$4)                | -21.1%              |
| Interest on State Funds & Investments                                              | 1                      | 3                      | (\$2)                | -66.7%              |
| Cook County IGT                                                                    | 94                     | 94                     | \$0                  | 0.0%                |
| Other Sources                                                                      | 27                     | 27                     | \$0                  | 0.0%                |
| <b>Subtotal</b>                                                                    | <b>\$2,233</b>         | <b>\$1,580</b>         | <b>\$653</b>         | <b>41.3%</b>        |
| <b>Transfers</b>                                                                   |                        |                        |                      |                     |
| Lottery                                                                            | 58                     | 58                     | \$0                  | 0.0%                |
| Riverboat transfers & receipts                                                     | 21                     | 25                     | (\$4)                | -16.0%              |
| Proceeds from Sale of 10th license                                                 | 0                      | 0                      | \$0                  | N/A                 |
| Other                                                                              | 69                     | 62                     | \$7                  | 11.3%               |
| <b>Total State Sources</b>                                                         | <b>\$2,381</b>         | <b>\$1,725</b>         | <b>\$656</b>         | <b>38.0%</b>        |
| <b>Federal Sources</b>                                                             | <b>\$164</b>           | <b>\$209</b>           | <b>(\$45)</b>        | <b>-21.5%</b>       |
| <b>Total Federal &amp; State Sources</b>                                           | <b>\$2,545</b>         | <b>\$1,934</b>         | <b>\$611</b>         | <b>31.6%</b>        |
| <b>Nongeneral Funds Distribution:</b>                                              |                        |                        |                      |                     |
| <b>Refund Fund</b>                                                                 |                        |                        |                      |                     |
| Personal Income Tax                                                                | (\$114)                | (\$68)                 | (\$46)               | 67.6%               |
| Corporate Income Tax                                                               | (\$17)                 | (11)                   | (\$6)                | 54.5%               |
| <b>Subtotal General Funds</b>                                                      | <b>\$2,414</b>         | <b>\$1,855</b>         | <b>\$559</b>         | <b>30.1%</b>        |
| <b>Short-Term Borrowing</b>                                                        | <b>\$0</b>             | <b>\$0</b>             | <b>\$0</b>           | <b>N/A</b>          |
| <b>Tobacco Liquidation Proceeds</b>                                                | <b>\$0</b>             | <b>\$0</b>             | <b>\$0</b>           | <b>N/A</b>          |
| <b>Pension Contribution Fund Transfer</b>                                          | <b>\$0</b>             | <b>\$0</b>             | <b>\$0</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>\$2,414</b>         | <b>\$1,855</b>         | <b>\$559</b>         | <b>30.1%</b>        |
| CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding |                        |                        |                      | 1-Jun-11            |

## GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2011 vs. FY 2010

(\$ million)

| <b>Revenue Sources</b>                                                                            | <b>FY 2011</b>  | <b>FY 2010</b>  | <b>CHANGE<br/>FROM<br/>FY 2010</b> | <b>%<br/>CHANGE</b> |
|---------------------------------------------------------------------------------------------------|-----------------|-----------------|------------------------------------|---------------------|
| <b>State Taxes</b>                                                                                |                 |                 |                                    |                     |
| Personal Income Tax                                                                               | \$10,905        | \$8,598         | \$2,307                            | 26.8%               |
| Corporate Income Tax (regular)                                                                    | 1,873           | 1,393           | \$480                              | 34.5%               |
| Sales Taxes                                                                                       | 6,225           | 5,746           | \$479                              | 8.3%                |
| Public Utility Taxes (regular)                                                                    | 1,046           | 994             | \$52                               | 5.2%                |
| Cigarette Tax                                                                                     | 325             | 325             | \$0                                | 0.0%                |
| Liquor Gallonage Taxes                                                                            | 144             | 145             | (\$1)                              | -0.7%               |
| Vehicle Use Tax                                                                                   | 27              | 27              | \$0                                | 0.0%                |
| Inheritance Tax (Gross)                                                                           | 121             | 208             | (\$87)                             | -41.8%              |
| Insurance Taxes and Fees                                                                          | 255             | 259             | (\$4)                              | -1.5%               |
| Corporate Franchise Tax & Fees                                                                    | 191             | 190             | \$1                                | 0.5%                |
| Interest on State Funds & Investments                                                             | 28              | 24              | \$4                                | 16.7%               |
| Cook County IGT                                                                                   | 244             | 244             | \$0                                | 0.0%                |
| Other Sources                                                                                     | 360             | 357             | \$3                                | 0.8%                |
| <b>Subtotal</b>                                                                                   | <b>\$21,744</b> | <b>\$18,510</b> | <b>\$3,234</b>                     | <b>17.5%</b>        |
| <b>Transfers</b>                                                                                  |                 |                 |                                    |                     |
| Lottery                                                                                           | 565             | 559             | \$6                                | 1.1%                |
| Riverboat transfers & receipts                                                                    | 299             | 348             | (\$49)                             | -14.1%              |
| Proceeds from Sale of 10th license                                                                | 0               | 48              | (\$48)                             | N/A                 |
| Other                                                                                             | 1,125           | 725             | \$400                              | 55.2%               |
| <b>Total State Sources</b>                                                                        | <b>\$23,733</b> | <b>\$20,190</b> | <b>\$3,543</b>                     | <b>17.5%</b>        |
| <b>Federal Sources</b>                                                                            | <b>\$4,836</b>  | <b>\$5,659</b>  | <b>(\$823)</b>                     | <b>-14.5%</b>       |
| <b>Total Federal &amp; State Sources</b>                                                          | <b>\$28,569</b> | <b>\$25,849</b> | <b>\$2,720</b>                     | <b>10.5%</b>        |
| <b>Nongeneral Funds Distribution:</b>                                                             |                 |                 |                                    |                     |
| <b>Refund Fund</b>                                                                                |                 |                 |                                    |                     |
| Personal Income Tax                                                                               | (\$954)         | (\$838)         | (\$116)                            | 13.8%               |
| Corporate Income Tax                                                                              | (\$355)         | (\$244)         | (\$111)                            | 45.5%               |
| <b>Subtotal General Funds</b>                                                                     | <b>\$27,260</b> | <b>\$24,767</b> | <b>\$2,493</b>                     | <b>10.1%</b>        |
| <b>Short-Term Borrowing</b>                                                                       | <b>\$1,300</b>  | <b>\$1,250</b>  | <b>\$50</b>                        | <b>4.0%</b>         |
| <b>Tobacco Liquidation Proceeds</b>                                                               | <b>\$1,250</b>  | <b>\$0</b>      | <b>\$1,250</b>                     | <b>N/A</b>          |
| <b>Pension Contribution Fund Transfer</b>                                                         | <b>\$224</b>    | <b>\$843</b>    | <b>(\$619)</b>                     | <b>-73.4%</b>       |
| <b>Budget Stabilization Fund Transfer</b>                                                         | <b>\$335</b>    | <b>\$871</b>    | <b>(\$536)</b>                     | <b>-61.5%</b>       |
| <b>Total General Funds</b>                                                                        | <b>\$30,369</b> | <b>\$27,731</b> | <b>\$2,638</b>                     | <b>9.5%</b>         |
| SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding. |                 |                 |                                    |                     |
| CGFA                                                                                              |                 |                 |                                    | 1-Jun-11            |