



Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: MAY 2014

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INSIDE THIS ISSUE

PAGE 1 - **ECONOMY:** Is the
Housing Recovery Fading?

PAGE 3: Illinois Economic Indicators

PAGE 4 - **REVENUE:** May Receipts
Up Modestly On Mixed Results

PAGE 6-7: Revenue Tables

LATEST PUBLICATIONS

FY 2015 Capital Plan Analysis

ECONOMY: Is the Housing Recovery Fading?

Edward H. Boss, Jr., Chief Economist

Recent housing data suggest that what has been a resurgence in this major sector of the economy, helping to lift it from the depths of the financial crisis and Great Recession, may be weakening. Indeed, many economists have stated for some time that the economy could not truly recover until this sector had healed. Undoubtedly, part of its most recent weakening can be blamed on the severe winter weather that hit most areas of the U.S. economy, and in particular housing.

Even so, there appear to be other than weather-related issues that raise some concerns. For example, the weakness in new and existing home sales was seen in parts of the country which did not experience unusual winter weather conditions, eliminating weather as the sole factor. Moreover, as pointed out in the latest minutes of the Federal Open Market Committee, "permits for single-family homes - which are typically less sensitive to fluctuations in the weather and a better indicator of the underlying pace of construction - remained below their fourth quarter level and had not shown a sustained improvement since last spring, when mortgage rates began to rise."

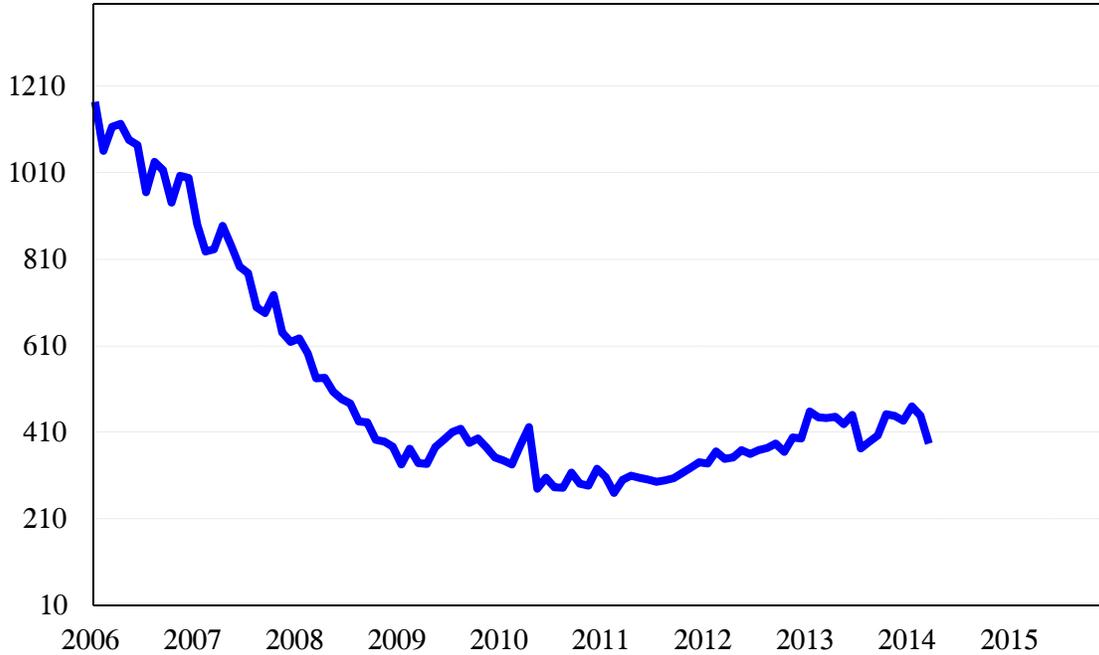
Home prices, which had surprised many, uncharacteristically fell sharply during the recession causing a collapse in value, raising the number of foreclosures, short sales, walk a ways, and decline in net worth. The median price of a new home dropped from \$262,000 in March 2007 to a level of \$204,200 by October 2010. It took until March 2014 before the median price of a new home reached a new record level, reaching \$281,700, although it edged lower in April to reach \$275,800, about

CHART 1

NEW SINGLE-FAMILY HOMES SOLD

Seasonally-Adjusted

Thousands of Units



CGFA

the same as of December. Sales of existing homes of all kinds (single family, townhomes, condos and coops) did fall in March 2014, 7.9% below a year earlier, even while median prices were 7.9% higher.

With home higher home prices, and some up-tick in mortgage interest rates has come a decline in housing affordability. Indeed, much of the improvement in housing has come from the expansion of multi-unit housing and from investors with easy access to credit availability in a low interest rate environment. The NAR Housing Affordability Index for individuals fell in March and remains 12.8% below that of a year earlier. The combination of

these factors put a lid on the expansion of new homes. According to The National Association of Realtors, existing homes account for more than 90% of all current sales.

Newly built homes, which must cover the cost of construction, can carry a heavy premium over existing homes with little room for a price decline. As shown in the attached chart, new single-family home sales have shown only modest gains in the mix of housing and remain well below that which existed prior to the recession. Only new construction adds to growth, for example the sale of an existing asset such as a home for another financial asset or purchaser is

merely a transfer of existing assets and does not support growth.

When it comes to Illinois, the housing sector has been even slower to recover. According to the Moody's Analytics report done for the Commission earlier this year, *"Inventories in Chicago and the surrounding region are still triple what they are nationally. The excess supply has kept builders on the sidelines for the most part, and construction employment in both Chicago and the rest of the state is at or near a cyclical low. Downstate it has been weakness in sales, not foreclosures, which have kept construction at bay. Household formation has been slow to recover because of weak migration patterns and a midyear hiccup in the job market, of which have kept a lid on housing*

demand" Recent data this year, however, suggest improvement may be underway. New single-family building permits in Illinois, a precursor to actual home construction, have increased with a spurt up in April.

According to the latest revisions by the Commerce Department, real GDP in the first quarter of 2014 fell by 1.0%, the first decline in three years when GDP fell at a 1.3% annual rate in the first quarter of 2011. Thus, the recovery that began in June 2009 remains the slowest of any in the post WWII period. If the economy is to break out of the 2% to 2.5% range of growth where it has held throughout this recovery, more substantial improvement in housing, particularly single-family, may well be necessary.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u> *	<u>April 2014</u>	<u>March 2014</u>	<u>April 2013</u> *
Unemployment Rate (Average)	7.9%	8.4%	9.2%
Annual Rate of Inflation (Chicago)	5.6%	13.6%	2.4%
<hr style="border: 2px solid black;"/>			
	<u>LATEST</u> <u>MONTH</u>	<u>% CHANGE</u> <u>OVER PRIOR</u> <u>MONTH</u>	<u>% CHANGE</u> <u>OVER A</u> <u>YEAR AGO</u>
Civilian Labor Force (thousands) (April)	6,565	-0.1%	0.0%
Employment (thousands) (April)	6,049	0.4%	1.4%
New Car & Truck Registration (April)	54,793	14.6%	4.5%
Single Family Housing Permits (April)	1,136	27.5%	22.8%
Total Exports (\$ mil) (March)	6,269	18.1%	11.3%
Chicago Purchasing Managers Index (May)	65.5	3.9%	11.5%

* Due to monthly fluctuations, trend best shown by % change from a year ago.

REVENUE
May Receipts Up Modestly On Mixed Results
Jim Muschinske, Revenue Manager

Overall base revenues grew a net \$147 million in May. Monthly receipts were mixed, with about the same number of sources experiencing gains as losses. A comparatively good month for federal sources was the largest contributor to the overall improvement. May had one less receipting day as last fiscal year.

Gross personal income tax receipts increased \$31 million for the month. The Cook County IGT grew by \$30 million, making up for running slightly behind for most of the fiscal year. Sales tax again performed decently, as receipts managed to increase \$26 million. Interest income gained \$2 million, while liquor taxes eked out a \$1 million advance.

Despite the overall monthly gain, a number of sources experienced a falloff in May. Gross corporate income taxes fell \$38 million, or \$32 million net of refunds. Public utility taxes gave back last month's gains as receipts dropped \$26 million. Inheritance tax fell \$9 million, other sources \$6 million, corporate franchise taxes \$4 million, insurance taxes \$3 million, and cigarette taxes \$1 million.

Overall transfers grew \$25 million in May. Other transfers advanced \$18 million, while lottery transfers rose \$14 million. Riverboat transfers offset some of those gains with a drop of \$7 million. As mentioned, a comparatively good month for federal receipts helped the monthly bottom line

as reimbursements were up \$114 million.

Year to Date

Through May of FY 2014, base general funds are now up \$396 million compared to last fiscal year. Sales taxes continued to perform strongly, growing \$289 million to date. Other sources are up \$123 million, due mostly to earlier one-time deposits of court settlement proceeds and prior year overpayments to SERS. Corporate income taxes are up \$17 million, or \$34 million net of refunds. Public utility taxes are up \$2 million, while vehicle use taxes managed to post a \$1 million gain.

While gross personal income taxes are down \$63 million, or \$15 million through May, considering the FY 2014 budget assumed a yearly loss of \$508 million, year to date performance should be considered impressive. Inheritance tax, while down \$21 million due to timing of higher exemption amounts, has actually outperformed expectations for most of the fiscal year. Insurance taxes and corporate franchise taxes are each off \$2 million, and interest income is down \$1 million.

House Joint Resolution 100

In the last days of the spring session, both chambers passed HJR 100. The resolution contained the revenue forecast used to create the FY 2015 budget. As shown on page 5, the

underpinnings of the forecast were the revised CGFA forecast detailed in last month's briefing. To that estimate of \$34.662 billion, the General Assembly made two adjustments:

- SB 274 allows for up to \$650 million of interfund borrowing to take place as directed by the Governor. Funds must be paid back within 18 months from the date of borrowed.

- SB 741 increased the statutory required transfer from the Hospital Provider Fund to the General Revenue Fund by \$40 million [from \$40 million under previous schedule, to \$80 million].

After incorporating those two augmentations to the CGFA forecast, the total general funds revenue estimate for FY 2015 is \$35.352 billion.

Illinois FY 2015 Estimate per HJR 100 [May-14]	
[\$millions]	
CGFA May-14 Revised Estimate	\$34,662
Plus Interfund Borrowing [SB274]	\$650
Plus Hospital Provider transfer [SB741]	\$40
Total HJR 100	\$35,352

GENERAL FUNDS RECEIPTS: MAY

FY 2014 vs. FY 2013

(\$ million)

<u>Revenue Sources</u>	<u>May FY 2014</u>	<u>May FY 2013</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$1,264	\$1,233	\$31	2.5%
Corporate Income Tax (regular)	91	129	(\$38)	-29.5%
Sales Taxes	665	639	\$26	4.1%
Public Utility Taxes (regular)	78	104	(\$26)	-25.0%
Cigarette Tax	29	30	(\$1)	-3.3%
Liquor Gallonage Taxes	13	12	\$1	8.3%
Vehicle Use Tax	2	3	(\$1)	-33.3%
Inheritance Tax (Gross)	33	42	(\$9)	-21.4%
Insurance Taxes and Fees	1	4	(\$3)	-75.0%
Corporate Franchise Tax & Fees	14	18	(\$4)	-22.2%
Interest on State Funds & Investments	3	1	\$2	200.0%
Cook County IGT	124	94	\$30	31.9%
Other Sources	29	35	(\$6)	-17.1%
Subtotal	\$2,346	\$2,344	\$2	0.1%
Transfers				
Lottery	75	61	\$14	23.0%
Riverboat transfers & receipts	14	21	(\$7)	-33.3%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	0	0	\$0	N/A
Other	57	39	\$18	46.2%
Total State Sources	\$2,492	\$2,465	\$27	1.1%
Federal Sources	\$339	\$225	\$114	50.7%
Total Federal & State Sources	\$2,831	\$2,690	\$141	5.2%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$120)	(\$120)	\$0	0.0%
Corporate Income Tax	(\$12)	(18)	\$6	-33.3%
Subtotal General Funds	\$2,699	\$2,552	\$147	5.8%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,699	\$2,552	\$147	5.8%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Jun-14

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2014 vs. FY 2013

(\$ million)

Revenue Sources	FY 2014	FY 2013	CHANGE FROM FY 2013	% CHANGE
State Taxes				
Personal Income Tax	\$16,708	\$16,771	(\$63)	-0.4%
Corporate Income Tax (regular)	3,177	3,160	\$17	0.5%
Sales Taxes	6,985	6,696	\$289	4.3%
Public Utility Taxes (regular)	958	956	\$2	0.2%
Cigarette Tax	324	324	\$0	0.0%
Liquor Gallonage Taxes	150	150	\$0	0.0%
Vehicle Use Tax	26	25	\$1	4.0%
Inheritance Tax (Gross)	252	273	(\$21)	-7.7%
Insurance Taxes and Fees	268	270	(\$2)	-0.7%
Corporate Franchise Tax & Fees	190	192	(\$2)	-1.0%
Interest on State Funds & Investments	18	19	(\$1)	-5.3%
Cook County IGT	244	244	\$0	0.0%
Other Sources	495	372	\$123	33.1%
Subtotal	\$29,795	\$29,452	\$343	1.2%
Transfers				
Lottery	597	586	\$11	1.9%
Riverboat transfers & receipts	292	312	(\$20)	-6.4%
Proceeds from Sale of 10th license	10	15	(\$5)	-33.3%
Refund Fund transfer	397	0	\$397	N/A
Other	606	504	\$102	20.2%
Total State Sources	\$31,697	\$30,869	\$828	2.7%
Federal Sources	\$3,511	\$4,008	(\$497)	-12.4%
Total Federal & State Sources	\$35,208	\$34,877	\$331	0.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$1,587)	(\$1,635)	\$48	-2.9%
Corporate Income Tax	(\$426)	(\$443)	\$17	-3.8%
Subtotal General Funds	\$33,195	\$32,799	\$396	1.2%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund Transfer	\$50	\$264	(\$214)	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	\$33,520	\$33,338	\$182	0.5%

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

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2-Jun-14