



Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: MAY 2015

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LATEST PUBLICATIONS

Report on the Financial Condition of the Downstate Police and Fire Pension Funds in Illinois: May 2015

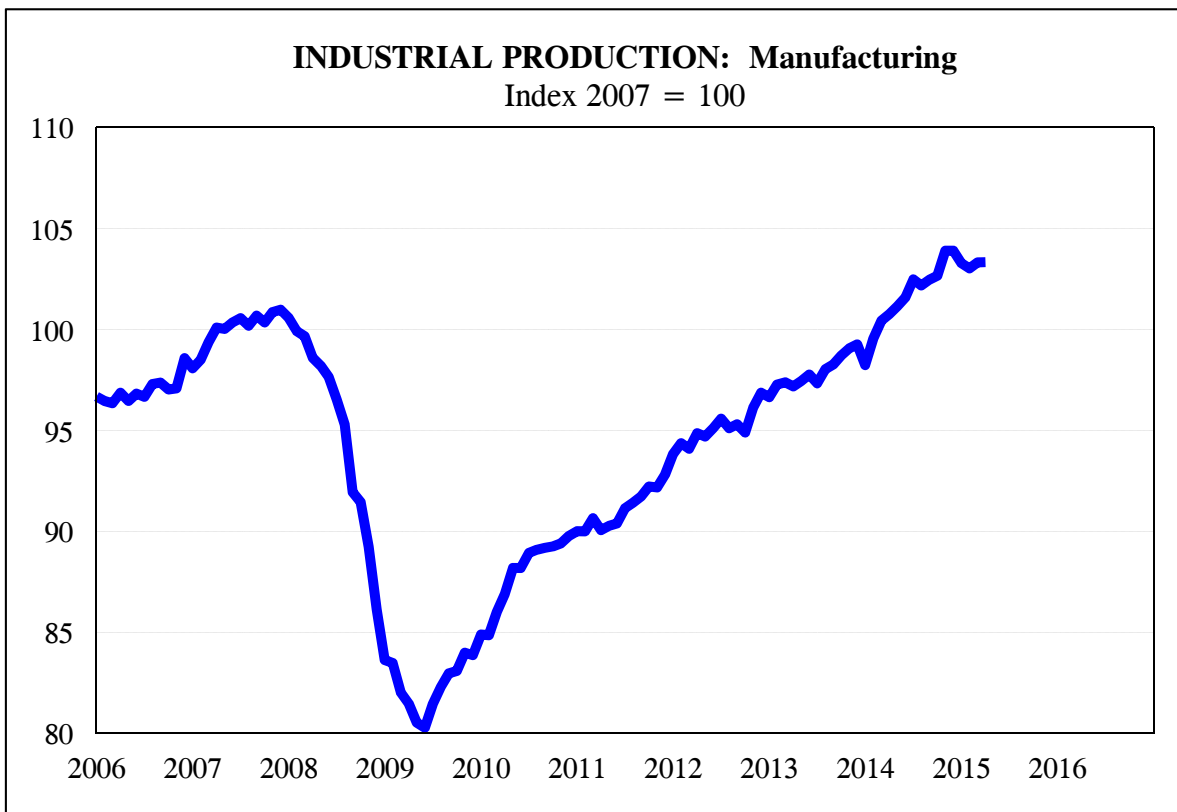
ECONOMY: Where's the Rebound?

Edward H. Boss, Jr., Chief Economist

Even as the year began, economic reports indicated that the exuberant growth of the second and third quarters of 2014 had lost steam. Indeed, after falling 2.1% after revisions in the first quarter of last year, growth accelerated to 4.6% and 5.0% consecutively in the second and third quarters. However, growth slowed again to 2.2% in the final quarter. Thus for 2014 as a whole, growth was held to 2.4%. This kept it in the range of 2% to 2½% for the fifth consecutive year, continuing to reflect the weakest performance emerging from a recession in the post WWII period.

Again this year seems to have started out resembling last. The preliminary report issued by the Commerce Department on first quarter 2015 Gross Domestic Product showed growth at an annual rate of 2.2% while a second estimate, released at the end of May, now has been revised down to show an actual decline of 0.7% with one more revision to come. Unlike last year, however, while most expect some improvement, no sharp rebound like last year is expected in the near term based upon economic reports released as the second quarter progresses.

Examples of softness include retail sales, which had declined for three months before edging up in March but then held virtually unchanged in April, recording a modest 1.9% increase before inflation in the first 4 months of 2015 compared to the same period last year. Moreover, consumer attitudes softened. The Conference Board's Index of Consumer Confidence, which had rebounded in March, gave up all of the gain and then some in April. Recently released data for May edged up, but April was revised down so there was little net change from the original reported April data. Moreover Consumer Sentiment for May by the University of Michigan tumbled to the lowest level since last November at 90.7, down from an initial reading of 95.9. The U.S. trade deficit in March reached a 6-year high which will have a



negative impact on GDP growth while an inventory overhang in the first quarter could subtract 1.1 percentage points from GDP growth in the second quarter according to the forecasting firm Global Insight.

A measure of a sub sector of the economy can be found in the Federal Reserve’s measure of Industrial Production (consisting of manufacturing, mining, and electric and gas utilities) and the level of capacity utilization. As shown in the chart above, industrial production reached a recent peak at the end of 2007 as the expansion came to an end and the recession began, hitting a low point when the recovery began in mid-2009. It wasn’t until September 2013 that the index regained the level reached prior to the recession. It continued to rise through last fall before leveling out, edging a tad lower in each of the 5 months ended this April. At the same

time, capacity utilization for manufacturing decreased 0.1 point in April to 77.2%, 1.4 percentage points below its long-run average.

The recouping of industrial production since the recession ended had a positive effect on manufacturing employment which had been declining sharply since the 1980s.

Manufacturing employment hit a high in mid-1979 at 19,553,000 beginning a sharp downward trend that resulted in a level of 11,453,000 in March 2010, a loss of 8,100,000 manufacturing jobs. By April 2015, manufacturing jobs had regained 869,000 nationwide, much of it in the so-called “rust belt” states in the Midwest. Behind this improvement was the effect of increased petroleum output in the U.S. due to new drilling techniques that helped to lower energy prices and improve U.S. competitiveness. However

as world oil prices fell below that needed to recover the cost of production; some rigs stopped producing, reducing employment which may help explain the leveling in recent months in industrial production and overall manufacturing employment. However, oil prices firmed recently and the shutdown of oil rigs has about come to a halt.

Illinois also lost manufacturing jobs during roughly the same period. In January 2000, manufacturing employment in the State totaled 877,200, sliding a decade later to 553,800 in January 2010, a loss of 323,400 jobs. There was some gain in Illinois manufacturing jobs by July 2012 reaching a level of 586,100, a gain of 32,300, a level not reached since. Unlike many surrounding states,

manufacturing employment continued weak in the State. In April of 2015, the latest data available, manufacturing employment totaled 576,400, down 1,200 for the month and 3,300 lower than a year earlier.

In conclusion, based on data released so far this year for the second quarter, no sharp rebound from the negative growth reported for the first three months of the year appears likely. This would be in contrast with last year's pattern. Already the Federal Reserve, which had indicated the economy was strong enough to edge up the federal funds rate, implied it will delay what had been an expected June date to initiate the program until September or later, dependent on the data that unfold and world conditions.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS *</u>	<u>April 2015</u>	<u>March 2015</u>	<u>April 2014</u>
Unemployment Rate (Average)	6.0%	6.0%	7.4%
Annual Rate of Inflation (Chicago)	1.5%	8.7%	-0.9%
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	<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) (April)	6,494	-0.1%	-0.6%
Employment (thousands) (April)	6,104	-0.1%	0.8%
NonFarm Payroll Employment (April)	5,919,700	4,800	62,900
New Car & Truck Registration (April)	55,406	3.3%	2.4%
Single Family Housing Permits (April)	995	21.8%	-12.4%
Total Exports (\$ mil) (March)	5,639	15.0%	-10.0%
Chicago Purchasing Managers Index (May)	46.2	-11.6%	-29.4%

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

REVENUE
May Receipts Fall As Expected
Jim Muschinske, Revenue Manager

Overall general funds revenues fell \$288 million in May. Despite continued fund sweep activity allowed under P.A. 99-0002, the falloff was due mainly to the lower income tax rates now in effect. One less receipting day for the month also contributed to the decline.

For the month, gross personal income taxes decreased \$312 million, or \$287 million net of refunds. In addition, another \$81 million was removed from general revenue and deposited into the Fund for Advancement of Education and the Commitment to Human Services Fund. As a result, net personal income taxes going to the general funds fell \$449 million. Gross corporate income taxes decreased \$17 million, or \$16 million net of refunds. The Cook County IGT dropped \$30 million due to timing, while public utility taxes experienced a modest decline, falling \$3 million.

A number of other sources managed to post gains in May. Other sources grew \$15 million, inheritance tax advanced \$11 million, sales tax moderated somewhat but still increased \$7 million, corporate franchise taxes were up \$5 million, and insurance taxes increased \$3 million. Also experiencing growth, albeit minor, was liquor taxes and vehicle use taxes, each increasing by \$1 million.

Overall transfers rose \$186 million, due to the continuing of fund sweeps that were not executed in the first month of

sweeps [April]. In May, \$162 million in sweeps were made. Riverboat transfers managed to grow \$7 million for the month, while lottery transfers eked out a \$1 million increase. Federal sources declined \$19 million, reflecting reimbursable spending.

Year to Date

With only one month remaining in the fiscal year, overall receipts are down \$356 million through May. The falloff would have been significantly larger if not for the \$1.236 billion in year to date fund sweeps conducted over the last two months.

Through May, gross personal income tax is down \$472 million, (down \$508 million net of refunds, and down \$936 million overall due to the two new fund distributions). Gross corporate income tax is down \$439 million, or \$397 net of refunds. Public utility taxes have fallen \$32 million in the fiscal year.

Some sources demonstrated good growth thus far in FY 2015. In particular, sales taxes have been able to maintain positive momentum and are up \$340 million. Inheritance tax receipts have done quite well and increased \$48 million, insurance taxes also had strong growth and are up \$22 million. Other sources are ahead of last year by \$20 million, while all other smaller sources contributed another \$18 million in growth.

Overall transfers, aided by \$1.236 billion in year to date fund sweeps, increased \$847 million. The refund fund transfer is \$334 million less than last year, while riverboat transfers are down

\$20 million. Lottery transfers managed to post \$10 million in gains.

Despite the surge of federal sources in April, reimbursements are still \$286 million behind the levels of last year.

GENERAL FUNDS RECEIPTS: MAY

FY 2015 vs. FY 2014

(\$ million)

Revenue Sources	May FY 2015	May FY 2014	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$952	\$1,264	(\$312)	-24.7%
Corporate Income Tax (regular)	74	91	(\$17)	-18.7%
Sales Taxes	672	665	\$7	1.1%
Public Utility Taxes (regular)	75	78	(\$3)	-3.8%
Cigarette Tax	29	29	\$0	0.0%
Liquor Gallonage Taxes	14	13	\$1	7.7%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax	44	33	\$11	33.3%
Insurance Taxes and Fees	4	1	\$3	300.0%
Corporate Franchise Tax & Fees	19	14	\$5	35.7%
Interest on State Funds & Investments	3	3	\$0	0.0%
Cook County IGT	94	124	(\$30)	-24.2%
Other Sources	44	29	\$15	51.7%
Subtotal	\$2,027	\$2,346	(\$319)	-13.6%
Transfers				
Lottery	76	75	\$1	1.3%
Riverboat transfers & receipts	21	14	\$7	50.0%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	0	0	\$0	N/A
Other	235	57	\$178	312.3%
Total State Sources	\$2,359	\$2,492	(\$133)	-5.3%
Federal Sources	\$320	\$339	(\$19)	-5.6%
Total Federal & State Sources	\$2,679	\$2,831	(\$152)	-5.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$95)	(\$120)	\$25	-20.8%
Corporate Income Tax	(\$11)	(12)	\$1	-8.3%
Fund for Advancement of Education	(\$81)	0	(\$81)	N/A
Commitment to Human Services Fund	(\$81)	0	(\$81)	N/A
Subtotal General Funds	\$2,411	\$2,699	(\$288)	-10.7%
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	\$2,411	\$2,699	(\$288)	-10.7%

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

2-Jun-15

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2015 vs. FY 2014

(\$ million)

<u>Revenue Sources</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>CHANGE FROM FY 2014</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$16,236	\$16,708	(\$472)	-2.8%
Corporate Income Tax (regular)	2,738	3,177	(\$439)	-13.8%
Sales Taxes	7,325	6,985	\$340	4.9%
Public Utility Taxes (regular)	926	958	(\$32)	-3.3%
Cigarette Tax	324	324	\$0	0.0%
Liquor Gallonage Taxes	153	150	\$3	2.0%
Vehicle Use Tax	29	26	\$3	11.5%
Inheritance Tax	300	252	\$48	19.0%
Insurance Taxes and Fees	290	268	\$22	8.2%
Corporate Franchise Tax & Fees	198	190	\$8	4.2%
Interest on State Funds & Investments	22	18	\$4	22.2%
Cook County IGT	244	244	\$0	0.0%
Other Sources	515	495	\$20	4.0%
Subtotal	\$29,300	\$29,795	(\$495)	-1.7%
Transfers				
Lottery	607	597	\$10	1.7%
Riverboat transfers & receipts	272	292	(\$20)	-6.8%
Proceeds from Sale of 10th license	10	10	\$0	0.0%
Refund Fund transfer	63	397	(\$334)	N/A
Other	1,797	606	\$1,191	196.5%
Total State Sources	\$32,049	\$31,697	\$352	1.1%
Federal Sources				
Total Federal & State Sources	\$35,225	\$35,511	(\$286)	-8.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$1,623)	(\$1,587)	(\$36)	2.3%
Corporate Income Tax	(\$384)	(\$426)	\$42	-9.9%
Fund for Advancement of Education	(\$214)	\$0	(\$214)	N/A
Commitment to Human Services Fund	(\$214)	\$0	(\$214)	N/A
Subtotal General Funds	\$32,839	\$33,195	(\$356)	-1.1%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund Transfer	\$0	\$50	(\$50)	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	\$33,114	\$33,520	(\$406)	-1.2%

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

CGFA

2-Jun-15