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MONTHLY BRIEFING

For the Month Ended: May 2026

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COMMISSION ON GOVERNMENT
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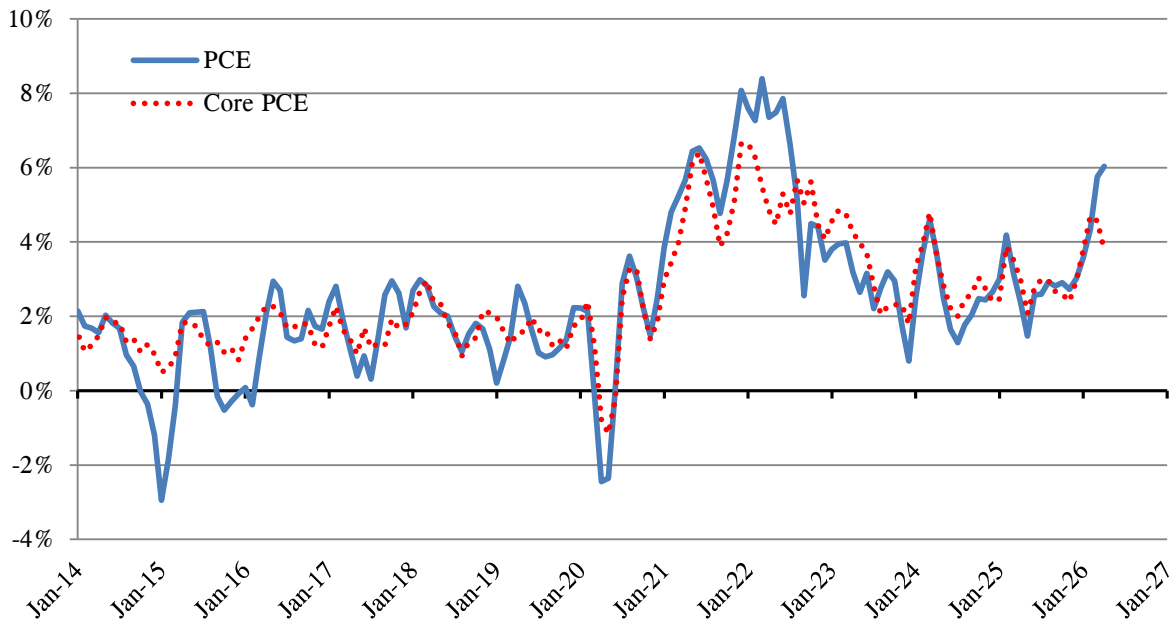
Middle East Tensions Renew Inflation Concerns

Benjamin L. Varner, Chief Economist

Recent geopolitical tensions in the Middle East, particularly involving Iran and the Strait of Hormuz, have increased concerns that higher global energy prices could place additional upward pressure on inflation. Recent economic data, including increases in Personal Consumption Expenditures (PCE) inflation, the Federal Reserve's preferred inflation measure, have reinforced these concerns and suggest that progress toward the Federal Reserve's long-term inflation target may be stalling or even reversing. In response, financial markets have shifted expectations regarding future Federal Reserve actions, with investors increasingly expecting interest rates to remain elevated for longer than previously anticipated.

Last Thursday, the Bureau of Economic Analysis released PCE data for April. The data showed that prices increased 0.4% from March following a 0.7% increase in March, which was the largest monthly increase since June 2022. The first graph on the next page highlights the recent acceleration in inflation by examining the 3-month moving average of annualized monthly inflation rates. As of April, the 3-month annualized inflation rate reached 6.0% for headline PCE and 3.8% for Core PCE, which excludes the more volatile food and energy categories and is often viewed as a better measure of underlying inflation trends. While much of the recent acceleration was driven by higher gasoline and energy-related prices associated with the conflict involving Iran and disruptions to shipping through the Strait of Hormuz, core inflation measures also remained elevated.

Personal Consumption Expenditure (PCE) Price Index 3-month moving average of annualized monthly results



U.S. Bureau of Economic Analysis/FRED

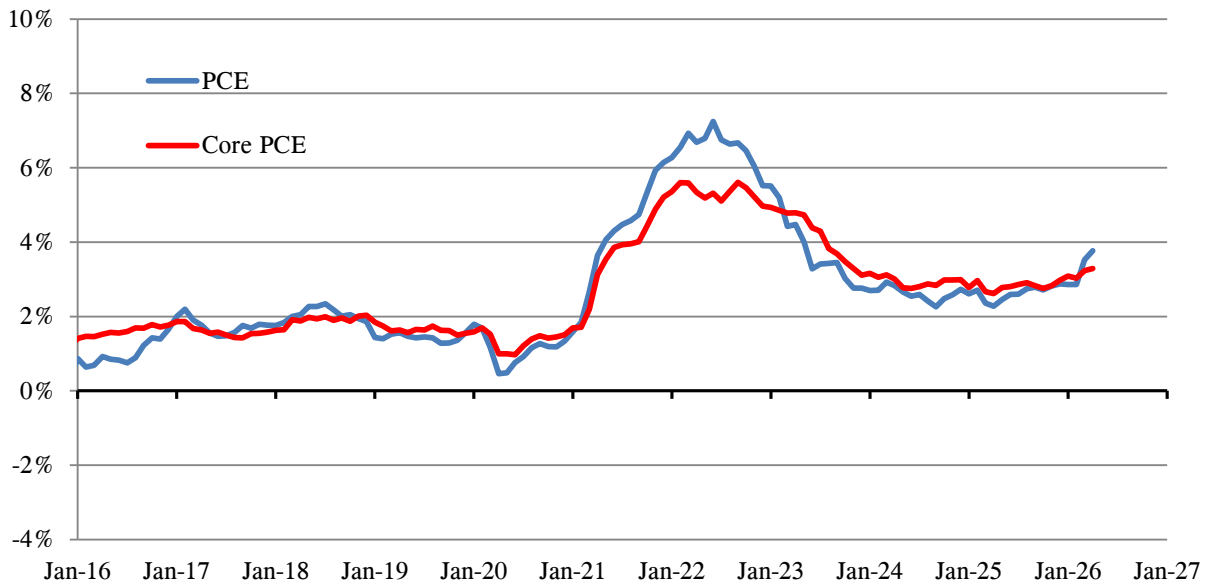
The second graph on the following page shows that these recent monthly increases have now begun pushing broader annual inflation measures higher as well. Overall PCE inflation reached 3.8% in April, while Core PCE inflation rose to 3.3%. Both were the highest year-over-year rates since 2023 and remained well above the Federal Reserve's long-run 2% inflation target. Gasoline and other energy goods prices were up 29.0% compared to April 2025. Elevated inflation was also observed in transportation services (5.6%), which may partially reflect higher fuel-related costs. At the same time, several service-related categories that had already been experiencing persistent inflation, including financial services and insurance (6.3%), remained elevated. Together, these trends suggest inflationary pressures are becoming increasingly broad-based throughout the economy. According to the Federal Reserve Bank of Cleveland's Inflation Nowcast, annual PCE inflation is expected to rise to 4.0% in May, reinforcing concerns that inflationary pressures may continue strengthening in the near term.

The recent acceleration in both headline and core inflation has altered financial market expectations regarding future Federal Reserve actions. Earlier expectations that the Federal Reserve would begin lowering interest rates in 2026 have weakened considerably in recent months. Instead, investors increasingly expect the Federal Reserve to maintain elevated interest rates for a longer period and, in some cases, have begun pricing in the possibility of additional rate increases if inflation pressures persist.

Recent market pricing reflected in the CME FedWatch tool suggests that investors increasingly expect the Federal Reserve to maintain elevated interest rates well into 2027. While markets still assign the highest individual probability to rates remaining unchanged at upcoming meetings, probabilities for

Personal Consumption Expenditure (PCE) Price Index

Percent change from month one year ago



U.S. Bureau of Economic Analysis/FRED

one or more future rate increases rise steadily over time. By January 2027, futures market pricing implied that a majority of investors viewed additional rate increases as more likely than no change in rates if inflationary pressures persist.

As an example of the changing outlook regarding inflation and Federal Reserve policy, the economic forecasts of S&P Global, a major financial analytics and economic forecasting firm, have evolved in recent months. In February 2026, the firm expected that moderating inflation would allow the Federal Reserve to begin lowering interest rates during 2026. However, as inflation pressures strengthened and energy market concerns intensified, it repeatedly delayed its expected timing for future rate cuts. By May 2026, the firm projected that core PCE inflation would rise to 3.6% in 2026 and that the Federal Reserve would maintain its current target range for the federal funds rate until June 2027. Importantly, while the firm's outlook became considerably more hawkish over this period, its baseline forecast continues to assume that the Federal Reserve would eventually lower interest rates rather than increase them further.

The recent increase in inflation and the growing expectation that interest rates may remain elevated well into 2027 could have several important implications for Illinois' finances. Elevated interest rates would likely continue supporting strong interest and investment income earned on State funds. However, if inflationary pressures persist, the State could also face higher borrowing costs, increased prices for goods and services, and continued wage pressures affecting employees and government contractors. It remains to be seen whether the recent acceleration in inflation proves temporary or marks the beginning of a more prolonged period of elevated inflation and restrictive monetary policy.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS*</u>	<u>LATEST MONTH</u>	<u>PRIOR MONTH</u>	<u>A YEAR AGO</u>
Unemployment Rate (Average) (Apr.)	5.1%	5.1%	4.5%
Inflation in Chicago (12-month percent change) (Apr.)	3.1%	2.3%	3.1%
	<u>LATEST MONTH</u>	<u>CHANGE OVER PRIOR MONTH</u>	<u>CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (Apr.)	6,555.3	-0.2%	-0.8%
Employment (thousands) (Apr.)	6,217.9	-0.3%	-1.5%
Nonfarm Payroll Employment (Apr.)	6,158,800	11,400	-4,500
New Car & Truck Registration (Apr.)	36,961	8.7%	-16.4%
Single Family Housing Permits (Mar.)	980	24.2%	1.7%
Total Exports (\$ bil) (Mar.)	7.49	-3.4%	-3.4%
Chicago Purchasing Managers Index (May)	62.7	27.4%	54.8%

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

General Funds See Additional Gains in May Due to Strong Month for Federal Sources Eric Noggle, Revenue Manager

Revenues deposited into the State's General Funds increased by \$152 million, or 3.9%, in May despite a relatively flat month for most State revenue sources. The increase was driven primarily by a strong month for Federal Sources. As a result, year-to-date General Funds receipts through eleven months of FY 2026 total \$50.586 billion, an increase of \$1.868 billion, or 3.8%, over the same period last fiscal year.

For much of the fiscal year, Federal Sources deposited into the General Funds have trailed last year's levels. However, May receipts of \$446 million were \$206 million above the prior year, eliminating the year-to-date deficit in this category. While full-year receipts may still fall short of the original budget estimate, Federal Sources now appear well positioned to finish near the recently revised downward forecast with one month remaining in the fiscal year.

The strength in Federal Sources masks what was otherwise a lackluster month for State-generated revenues, which declined by a combined \$54 million in May. The lack of growth was attributable to weakness in the Personal Income Tax, the State's largest revenue source, which fell by \$7 million, or 0.3%, on a gross basis. After accounting for distributions to the Income Tax Refund Fund and the Local Government Distributive Fund, net Personal Income Tax receipts were down \$6 million. The slight decline was not entirely unexpected, as May contained one fewer receipting day than the same month last year.

In a relatively light receipting month, Corporate Income Tax receipts increased by \$13 million on a gross basis and by \$11 million, or 7.1%, on a net basis. Sales Tax receipts also posted solid gains,

rising \$46 million, or 4.6%, on a gross basis and \$46 million, or 5.2%, on a net basis. Growth in Sales Tax receipts was somewhat stronger than in recent months and may be attributable, in part, to recent inflationary pressures that have increased the cost of taxable purchases, especially motor fuel.

These gains, however, were more than offset by a combined \$73 million decline in All Other State Sources. The decrease was largely attributable to the timing of Insurance Taxes and Fees, which fell \$81 million, or 51.3%, in May, though year-to-date receipts remain ahead of last year’s pace. Other sources posting declines included Interest on State Funds and Investments (down \$7 million), the Cigarette Tax (down \$2 million), and Liquor Taxes (down \$1 million). Offsetting these losses were modest increases in Other Sources (up \$7 million), the Estate Tax (up \$5 million), Public Utility Taxes (up \$3 million), and the Corporate Franchise Tax (up \$3 million).

Transfers In were also lower in May, declining by a combined \$32 million. Most of the decrease was attributable to Other Transfers, which were down \$69 million due to a much smaller transfer from the Capital Projects Fund (CPF) compared with last year. Last year’s CPF transfer was higher because it included additional amounts intended to offset prior year shortfalls. Lottery Transfers also declined by \$5 million. These decreases were partially offset by increases in Gaming Transfers (up \$23 million), Sports Wagering Transfers (up \$16 million), and Cannabis Transfers (up \$3 million).

<i>Summary of Receipts</i>				
MAY				
<i>FY 2025 vs. FY 2026</i>				
<i>(\$ millions)</i>				
Revenue Sources	May FY 2025	May FY 2026	\$ CHANGE	% CHANGE
Net Personal Income Tax	\$1,846	\$1,840	(\$6)	-0.3%
Net Corporate Income Tax	\$154	\$165	\$11	7.1%
Net Sales Tax	\$884	\$930	\$46	5.2%
All Other State Sources	\$371	\$298	(\$73)	-19.7%
Transfers In	\$375	\$343	(\$32)	-8.5%
Federal Sources [base]	\$240	\$446	\$206	85.8%
Base General Funds	\$3,870	\$4,022	\$152	3.9%
<i>Non-Base Gen Funds Revenues</i>	\$0	\$0	\$0	N/A
Total General Funds	\$3,870	\$4,022	\$152	3.9%

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

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MAY
FY 2025 vs. FY 2026
(\$ millions)

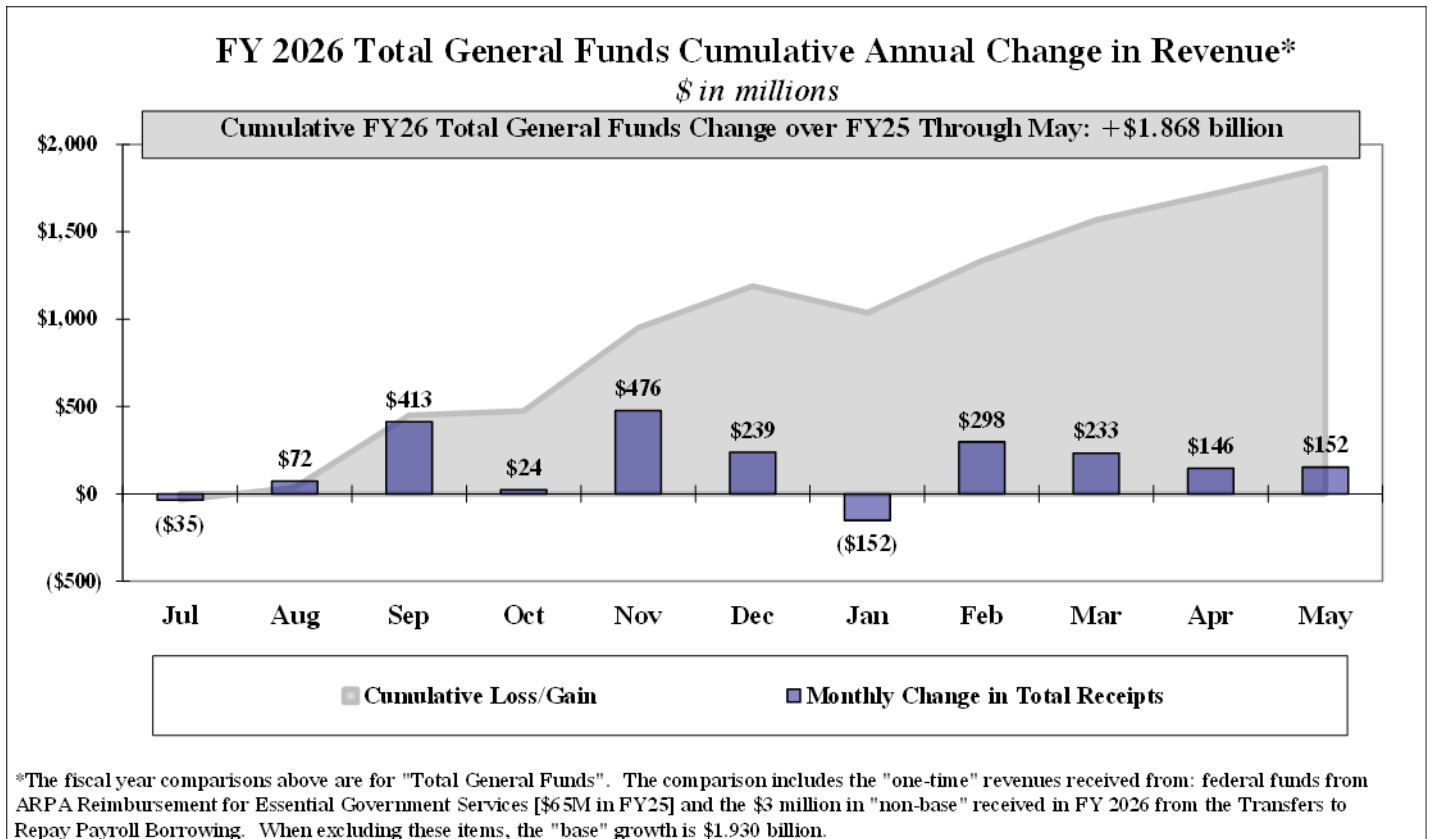
Revenue Sources	May FY 2025	May FY 2026	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$2,172	\$2,165	(\$7)	-0.3%
Corporate Income Tax (regular)	193	206	13	6.7%
Sales Taxes	1,005	1,051	46	4.6%
Public Utility Taxes (regular)	49	52	3	6.1%
Cigarette Tax	18	16	(2)	-11.1%
Liquor Gallonage Taxes	14	13	(1)	-7.1%
Estate Tax	57	62	5	8.8%
Insurance Taxes and Fees	158	77	(81)	-51.3%
Corporate Franchise Tax & Fees	16	19	3	18.8%
Interest on State Funds & Investments	36	29	(7)	-19.4%
Cook County IGT	0	0	0	N/A
Other Sources	23	30	7	30.4%
Total State Taxes	\$3,741	\$3,720	(\$21)	-0.6%
Transfers In				
Lottery	\$53	\$48	(\$5)	-9.4%
Gaming	4	27	23	575.0%
Sports Wagering	19	35	16	84.2%
Cannabis	9	12	3	33.3%
Refund Fund	0	0	0	N/A
Other	290	221	(69)	-23.8%
Total Transfers In	\$375	\$343	(\$32)	-8.5%
Total State Sources	\$4,116	\$4,063	(\$53)	-1.3%
Federal Sources [base]	\$240	\$446	\$206	85.8%
Total Federal & State Sources	\$4,356	\$4,509	\$153	3.5%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$198)	(\$198)	\$0	0.0%
Corporate Income Tax	(\$27)	(\$28)	(1)	3.7%
Local Government Distributive Fund				
Personal Income Tax	(128)	(127)	1	-0.8%
Corporate Income Tax	(11)	(12)	(1)	9.1%
Sales Tax Distributions				
Deposits into Road Fund	(54)	(53)	1	-1.9%
Distribution to the PTF and DPTF	(67)	(68)	(1)	1.5%
General Funds Subtotal [Base]	\$3,870	\$4,022	\$152	3.9%
ARPA Reimb. for Essential Gov't Services	\$0	\$0	\$0	N/A
Transfers to Repay Payroll Borrowing	\$0	\$0	\$0	N/A
Total General Funds	\$3,870	\$4,022	\$152	3.9%

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

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Year to Date

With only one month remaining in FY 2026, revenues deposited into the General Funds are now \$1.868 billion, or 3.8%, above last year's level. As illustrated in the chart below, the growth has been relatively steady throughout much of the fiscal year.



Despite the slight decline in Personal Income Tax receipts during May, this revenue source remains the primary driver of overall revenue growth. Through eleven months of the fiscal year, gross Personal Income Tax receipts are up \$1.160 billion, or 3.9%, compared to the same period last year. On a net basis, receipts have increased by \$984 million.

Corporate Income Tax receipts improved modestly in May but continue to trail last year's pace. On a gross basis, receipts are down \$331 million, or 6.6%, while net receipts are lower by \$252 million. Meanwhile, stronger Sales Tax growth in May pushed the gross year-to-date increase to \$434 million, or 4.0%. However, after accounting for a larger share of Sales Tax receipts being diverted to transportation funds in FY 2026, the net increase stands at a more modest \$169 million, or 1.7%.

Despite weaker May totals, All Other State Sources remain a combined \$267 million above last year's level through eleven months. Growth within this category continues to be led by the Estate Tax, which is up \$221 million, or 39.0%. The year-to-date gain from Insurance Taxes and Fees narrowed to \$40 million following this month's lower receipts. Interest on State Funds and Investments also remains \$21 million above last year's level despite a decline in May. Other positive contributors

include a \$7 million increase in Corporate Franchise Tax receipts and a \$5 million increase in Public Utility Taxes. Collectively, these gains have more than offset declines in Cigarette Taxes (down \$12 million), Other Sources (down \$9 million), and Liquor Taxes (down \$6 million).

Although Transfers In posted lower receipts in May, this category accounts for substantial growth for the fiscal year, with cumulative gains totaling \$602 million through May. A significant portion of this increase is attributable to the Income Tax Refund Fund Transfer, which is up \$447 million. Other positive contributors include Sports Wagering Transfers (up \$170 million), Gaming Transfers (up \$79 million), and Lottery Transfers (up \$14 million). Cannabis Transfers are down \$2 million for the year. Following the notable decline in May, the Other Transfers category now trails last year's pace by \$106 million.

As noted earlier, General Funds receipts from Federal Sources lagged behind last year's pace for much of the fiscal year. However, the \$206 million increase recorded in May lifted the cumulative total to \$3.615 billion, or \$160 million (4.6%) above the amount received through the first eleven months of FY 2025. When the \$65 million in ARPA Reimbursements for Essential Government Services received in FY 2025 is included in the comparison, the cumulative gain narrows to \$95 million.

<i>Summary of Receipts</i>				
GENERAL FUNDS RECEIPTS: THROUGH MAY				
<i>FY 2025 vs. FY 2026</i>				
<i>(\$ millions)</i>				
Revenue Sources	FY 2025	FY 2026	\$ CHANGE	% CHANGE
Net Personal Income Tax	\$25,559	\$26,543	\$984	3.8%
Net Corporate Income Tax	\$4,017	\$3,765	(\$252)	-6.3%
Net Sales Tax	\$9,676	\$9,845	\$169	1.7%
All Other State Sources	\$3,632	\$3,899	\$267	7.4%
Transfers In	\$2,314	\$2,916	\$602	26.0%
Federal Sources [base]	\$3,455	\$3,615	\$160	4.6%
Base General Funds	\$48,653	\$50,583	\$1,930	4.0%
<i>Non-Base Gen Funds Revenues</i>	\$65	\$3	(\$62)	-95.4%
Total General Funds	\$48,718	\$50,586	\$1,868	3.8%

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

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GENERAL FUNDS RECEIPTS: THROUGH MAY

FY 2025 vs. FY 2026

(\$ millions)

<u>Revenue Sources</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>\$</u> <u>CHANGE</u>	<u>%</u> <u>CHANGE</u>
State Taxes				
Personal Income Tax	\$30,077	\$31,237	\$1,160	3.9%
Corporate Income Tax (regular)	5,015	4,684	(331)	-6.6%
Sales Taxes	10,762	11,196	434	4.0%
Public Utility Taxes (regular)	662	667	5	0.8%
Cigarette Tax	174	162	(12)	-6.9%
Liquor Gallonage Taxes	160	154	(6)	-3.8%
Estate Tax	567	788	221	39.0%
Insurance Taxes and Fees	565	605	40	7.1%
Corporate Franchise Tax & Fees	187	194	7	3.7%
Interest on State Funds & Investments	685	706	21	3.1%
Cook County IGT	244	244	0	0.0%
Other Sources	388	379	(9)	-2.3%
Total State Taxes	\$49,486	\$51,016	\$1,530	3.1%
Transfers In				
Lottery	\$712	\$726	\$14	2.0%
Gaming	162	241	79	48.8%
Sports Wagering	180	350	170	94.4%
Cannabis	102	100	(2)	-2.0%
Refund Fund	253	700	447	176.7%
Other	905	799	(106)	-11.7%
Total Transfers In	\$2,314	\$2,916	\$602	26.0%
Total State Sources	\$51,800	\$53,932	\$2,132	4.1%
Federal Sources [base]	\$3,455	\$3,615	\$160	4.6%
Total Federal & State Sources	\$55,255	\$57,547	\$2,292	4.1%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$2,750)	(\$2,857)	(\$107)	3.9%
Corporate Income Tax	(703)	(643)	60	-8.5%
Local Government Distributive Fund				
Personal Income Tax	(1,768)	(1,837)	(69)	3.9%
Corporate Income Tax	(295)	(276)	19	-6.4%
Sales Tax Distributions				
Deposits into Road Fund	(644)	(603)	41	-6.4%
Distribution to the PTF and DPTF	(442)	(748)	(306)	69.2%
General Funds Subtotal [Base]	\$48,653	\$50,583	\$1,930	4.0%
ARPA Reimb. for Essential Gov't Services	\$65	\$0	(\$65)	-100.0%
Transfers to Repay Payroll Borrowing	\$0	\$3	\$3	N/A
Total General Funds	\$48,718	\$50,586	\$1,868	3.8%

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

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