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MONTHLY BRIEFING *For the Month Ended: JULY 2025*

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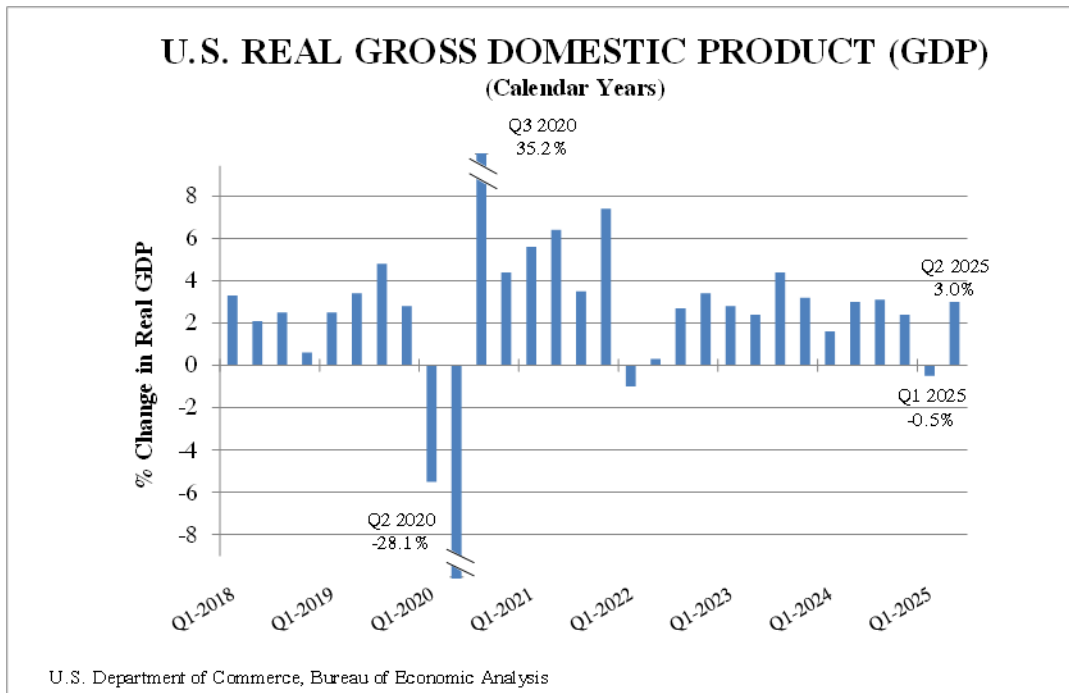
COMMISSION ON GOVERNMENT
FORECASTING & ACCOUNTABILITY

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GDP Rebounds, but Core Demand Continues to Slow Benjamin L. Varner, Chief Economist

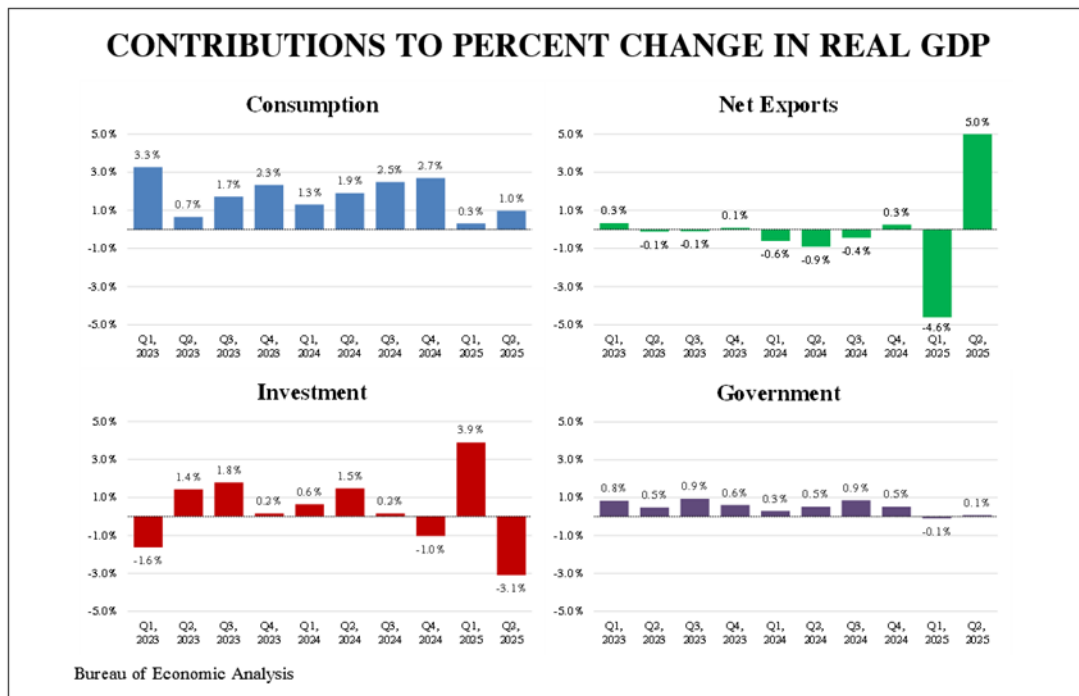
Recently released data from the U.S. Bureau of Economic Analysis shows that the U.S. economy returned to growth in the second quarter of 2025, following a contraction in the first quarter. The earlier decline was largely the result of a temporary surge in imports, as businesses accelerated purchases to get ahead of newly implemented tariff policies. This behavior led to an unusual buildup in inventories. In the second quarter, those trends reversed: imports fell sharply, and inventories were drawn down as companies sold off or used the goods they had stockpiled. These sharp fluctuations in trade and inventory activity reflect short-term business adjustments. More broadly, the economy continues to grow, though at a slower and more uneven pace. This article examines the most recent quarterly data and identifies key trends that point to a deceleration in economic momentum.

The U.S. economy grew at an annualized rate of 3.0% in the second quarter of 2025, following a 0.5% contraction in the first quarter. As noted, the primary driver of this swing was shifting business behavior tied to trade policy. Imports rose nearly 38% in the first quarter as firms pulled forward purchases, then dropped by 30% in the second as conditions normalized. Because GDP only includes domestic production, imports are subtracted in the calculation. As a result, net exports (exports minus imports) reduced growth by 4.6 percentage points in the first quarter but added nearly 5.0 points in the second. Investment activity also contributed to the volatility. Overall investment, which includes business spending, housing, and changes in inventories, added 3.9 points to growth in the first quarter but subtracted 3.1 points in the second. This reversal was largely driven by inventories, which



swung from a 2.6-point contribution to a 3.2-point drag. These dynamics are shown in the chart below. Outside of inventory shifts, total investment was relatively flat. Business spending on equipment and software posted modest gains, while declines in spending on structures and housing offset that growth.

The shifts in net exports and inventories were the primary contributors to the GDP volatility observed in the first half of the year. In contrast, personal consumption—the largest component of GDP at just under 70%—has remained more stable. Consumption grew at an annualized rate of 1.4% in the second quarter, an improvement over the 0.5% rate in the first quarter. However, this pace remains well



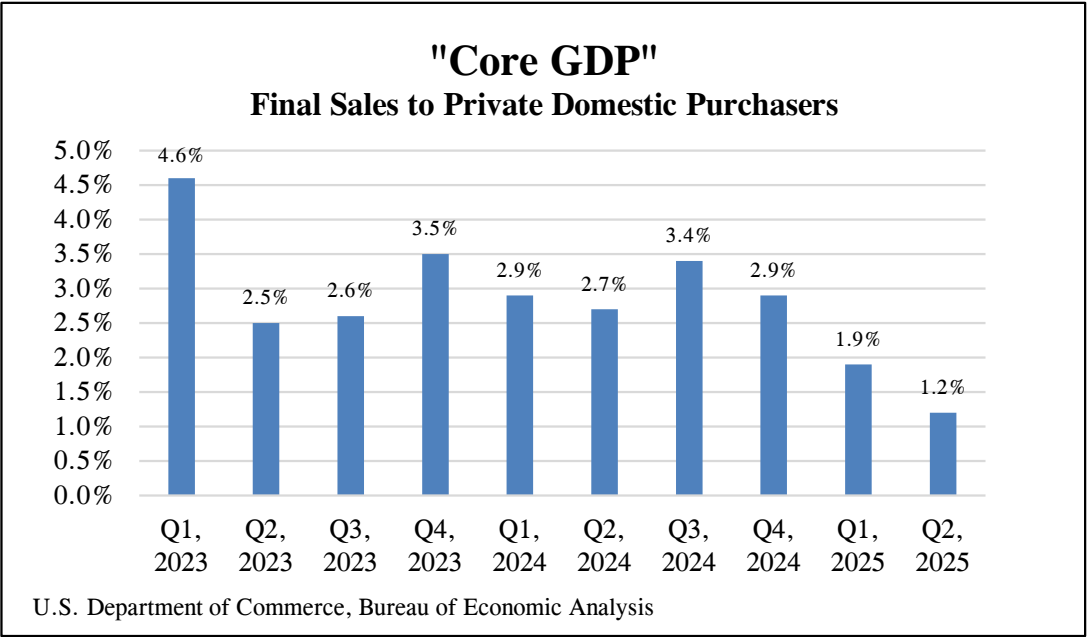
below the 2.8% growth recorded in 2024. Personal consumption contributed approximately 1.0 percentage point to the overall 3.0% GDP increase during the second quarter.

Growth in consumption was evenly split between goods and services. Goods spending rose 2.2%, rebounding from a nearly flat performance in the first quarter. Notably, durable goods reversed course, rising 3.7% after falling 3.7% at the start of the year. Service spending increased at a slower pace of 1.1%, but due to the sector’s larger share of the economy, it contributed slightly more to overall GDP growth.

Government spending remained relatively subdued but improved compared to earlier in the year. In the first quarter, total government expenditures declined 0.6%, led by reduced federal defense outlays. This turned into 0.4% growth in the second quarter. Federal spending continued to decline overall, falling 3.7%, as a modest increase in defense spending (2.2%) was outweighed by a sharp drop in nondefense spending (-11.2%). In contrast, state and local government spending rose 3.0%, more than offsetting the decline at the federal level.

One key indicator the Commission tracks is final sales to private domestic purchasers, which combines personal consumption expenditures and gross private fixed investment. Sometimes referred to as “Core GDP,” this measure excludes government spending, net exports, and inventory changes, making it a useful gauge of underlying private-sector demand. Over the past three quarters, growth in this metric has steadily declined. After rising at an annualized rate of 3.4% in the third quarter of 2024, it fell to 2.9% in the fourth quarter, 1.9% in the first quarter of 2025, and just 1.2% in the second. This marks the slowest pace since the fourth quarter of 2022, when it increased by only 0.6%. The continued weakening in Core GDP underscores the loss of momentum in private-sector activity despite headline growth in overall GDP.

Taken together, the data from the first half of 2025 present a mixed picture for policymakers. While overall GDP returned to growth in the second quarter, much of that improvement stemmed from



temporary shifts in trade and inventories. Broader measures of private-sector activity, including final sales to private domestic purchasers, point to a clear loss of momentum in underlying demand. For the Federal Reserve, this creates a delicate balancing act. Inflation has moderated but remains above target in some areas, while economic growth appears increasingly fragile. In response to these trends, the Fed chose to maintain its current interest rate stance at its meeting earlier this month, signaling a continued wait-and-see approach as it monitors both inflation progress and signs of broader economic weakness.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (June)	4.6%	4.8%	5.1%
Inflation in Chicago (12-month percent change) (June)	3.5%	3.3%	3.0%
	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (June)	6,611.9	-0.2%	-0.3%
Employment (thousands) (June)	6,304.6	0.0%	0.2%
Nonfarm Payroll Employment (June)	6,175,200	9,400	35,000
New Car & Truck Registration (June)	35,996	-13.5%	27.7%
Single Family Housing Permits (June)	1,203	23.3%	28.3%
Total Exports (\$ bil) (May)	6.68	-11.9%	-6.1%
Chicago Purchasing Managers Index (July)	47.1	16.6%	4.0%
* Due to monthly fluctuations, trend best shown by % change from a year ago			

Revenue Assumptions for Enacted FY 2026 Budget

Eric Noggle, Revenue Manager

At the end of the Spring 2025 Legislative Session, there were several prominent bills that were set into law to set the framework for the FY 2026 Budget:

- P.A. 104-0002 (HB 1075 – BIMP)
- P.A. 104-0003 (SB 2510 – FY 2026 Appropriations)
- P.A. 104-0006 (HB 2755 – Revenue Omnibus)
- P.A. 104-0008 (HB 3374 – Bond Authorization)

Collectively, these public acts were used to establish a FY 2026 budget with base expenditures set at \$55.080 billion. To support this spending, the enacted budget's revenue assumptions were valued at \$55.297 billion. A table summarizing the FY 2026 General Funds Budget Plan, as provided by the Governor's Office of Management and Budget, is shown below.

FY 2026 GENERAL FUNDS BUDGET PLAN	
Expenditures, Revenues/Resources, and Resulting Estimated Surplus	
{Amounts per GOMB}	
\$ in millions	
Revenues/Resources	
Revenue Source	FY 2026 Estimate [June'25]
Personal Income Taxes (Net):	\$28,420
Corporate Income Taxes (Net):	\$5,238
Sales Tax (Net):	\$10,717
All Other State Sources:	\$3,955
Transfers In:	\$2,768
Federal Sources:	\$4,200
Total Base Revenues:	\$55,297
Expenditures	
Purpose	FY 2026 Amount
K-12 Education:	\$11,184
Higher Education:	\$2,622
Pensions:	\$10,899
Human Services:	\$12,019
Healthcare:	\$9,301
Group Insurance:	\$2,530
Government Services:	\$2,470
Public Safety:	\$2,712
Debt Service:	\$1,780
Statutory Transfers Out:	\$527
Lapsed Appropriations:	-\$965
Total Base Expenditures:	\$55,080
Fiscal Year 2026 Est. General Funds "Base Surplus":	\$217
Budget Stabilization Fund Contribution:	-\$161
Adjusted General Funds Surplus:	\$56
Source: https://budget.illinois.gov/ Note: To be consistent with similar tables from previous editions, the GOMB's figures for Economic Development (\$238M) and Environment and Culture (\$139M) are included in "Government Services" in the above table, but does not include Chicago Teachers' Pension System expenditures (\$363M), which the Commission includes in the "Pensions" line.	

The assumed revenue total of \$55.297 billion for FY 2026 represents a 2.4% increase over the final FY 2025 total of \$53.998 billion. However, when excluding the \$65 million in one-time federal revenues that are not expected to recur in FY 2026, the projected total of \$55.297 billion is 2.5% higher than the the FY 2025 General Funds “base” total of \$53.933 billion.

The FY 2026 assumed revenue total includes the impacts of Public Acts 104-0002 and 104-0006, which the Governor’s Office of Management and Budget initially projects will generate approximately \$872 billion in new revenues for the State’s General Funds. This package includes a new tax amnesty program, several changes to corporate taxation, distribution changes, and a new per wager tax on online sports wagers. These new revenues provide additional funding for a fiscal year that was expected to see limited growth in its core receipts absent these changes.

One of the primary reasons for this subdued growth expectation is because the State’s largest source of revenue, the Personal Income Tax, is projected to have only a modest increase of 0.9% in FY 2026. This limited growth is largely attributed to a significantly smaller “true-up” (the Department of Revenue’s annual reconciliation adjustment for business-related income taxes) compared to FY 2025. While base revenues are still expected to grow in FY 2026, the pace is anticipated to be more moderate than in previous years, reflecting a cautious view of income growth due to ongoing economic uncertainty tied to potential tariffs and other economic/geopolitical factors.

Although these adverse factors may also negatively affect Corporate Income Tax receipts, revenues in this category are expected to rise nearly 11% in FY 2026. The primary reason is due to the various changes to corporate tax policy under Public Act 104-0006, including modifications to “safe harbor” provisions and a change in how certain taxable income from unitary businesses is calculated. However, also contributing to this anticipated growth is a smaller negative impact from “true-up” reallocations relative to the prior year.

The portions of income tax revenues that are distributed to the Income Tax Refund Fund (ITRF) and the Local Government Distributive Fund (LGDF) from income tax receipts were set under the FY 2026 Budget Implementation Act (P.A. 104-0002) to be same as FY 2025, as detailed below.

- 9.15% of Personal Income Tax receipts to ITRF; 6.47% of Net of Refunds to LGDF
- 14.0% of Corporate Income Tax receipts to ITRF; 6.85% of Net of Refunds to LGDF

Sales Tax revenues, under the enacted budget, are projected to increase by 2.7% on a gross basis in FY 2026, largely due to a weak first half of collections in FY 2025, which creates a favorable year-over-year comparison. Additional growth is supported by anticipated revenues from the recently enacted tax amnesty program. However, the net increase from these revenues is expected to be a more modest 1.4% due to higher required distributions to certain transportation funds in FY 2026.

Several other factors are expected to limit revenue growth in base receipts in FY 2026. These include lower returns from Interest on State Funds and Investments, driven by anticipated declines in interest rates; a decrease in Insurance Tax revenues following unusually high receipts in FY 2025; and

continued declines in revenue from historically shrinking sources such as the Cigarette Tax, Corporate Franchise Tax, and Public Utility Tax. On the other hand, revenues received from Transfers In are expected to rise in FY 2026, largely due to changes implemented under Public Act 104-0006. This includes growth in the Gaming Transfer stemming from the new per wager tax on online sports wagers, as well as new statutory transfers implemented by Public Act 104-0002.

There is concern that changes in federal law—particularly those affecting Medicaid-related federal matching—could negatively impact Federal Sources in future fiscal years. However, at this point, it appears that a significant impact is not expected in FY 2026, as most of the related changes will not be implemented until January 1, 2027. As such, revenues directed to the General Funds are projected to increase from a lower-than-expected \$3.715 billion total in FY 2025 to approximately \$4.200 billion in FY 2026.

The following two tables provide a summary of the final budget assumptions for General Funds revenues for FY 2026 and how it compares to the FY 2025 final revenue totals. The first table categorizes the revenues into broad categories, while the table on the following page provides more detail. Both tables include the impact of the estimated \$872 million in enacted revenue changes under Public Acts 104-0002 and 104-0006 that will affect the General Funds in FY 2026. Further information on these changes, as well as an extensive overview of the FY 2026 budget, can be viewed in the Commission’s recently released *FY 2026 Budget Summary*, which can be found at the Commission’s website by using the following link:

<https://cgfa.ilga.gov/Upload/FY2026BudgetSummary.pdf>

<i>General Funds Revenues</i> <i>FY 2025 Actuals vs. FY 2026 Enacted Budget Revenue Assumptions*</i> <i>(\$ millions)</i>				
Revenue Sources	FY 2025 Actuals	FY 2026 Revenue Assumptions*	\$ Change	% Change
Personal Income Taxes [Net]	\$28,174	\$28,420	\$246	0.9%
Corporate Income Taxes [Net]	\$4,729	\$5,238	\$509	10.8%
Sales Tax [Net]	\$10,574	\$10,717	\$143	1.4%
All Other State Sources	\$4,232	\$3,954	(\$278)	-6.6%
Transfers In	\$2,510	\$2,768	\$258	10.3%
Federal Sources [Base]	\$3,715	\$4,200	\$485	13.1%
General Funds Subtotal [Base]	\$53,933	\$55,297	\$1,364	2.5%
Non-Base Revenues	\$65	\$0	(\$65)	-100.0%
Total General Funds Revenues	\$53,998	\$55,297	\$1,299	2.4%
*Source: GOMB: https://budget.illinois.gov/ Note: Some totals may not equal, due to rounding.				

General Funds Revenues
FY 2025 Actuals vs. FY 2026 Enacted Budget Revenue Assumptions*
(\$ millions)

Revenue Sources	FY 2025 Actuals	FY 2026 Revenue Assumptions*	\$ Change	% Change
State Taxes				
Personal Income Tax	\$33,154	\$33,446	\$292	0.9%
Corporate Income Tax (regular)	\$5,904	\$6,538	\$634	10.7%
Sales Taxes	\$11,794	\$12,113	\$319	2.7%
Public Utility (regular)	\$716	\$686	(\$30)	-4.2%
Cigarette Tax	\$191	\$183	(\$8)	-4.2%
Liquor Gallonage Taxes	\$173	\$178	\$5	2.9%
Estate Tax	\$603	\$600	(\$3)	-0.5%
Insurance Taxes & Fees	\$574	\$475	(\$99)	-17.2%
Corporate Franchise Tax & Fees	\$197	\$183	(\$14)	-7.1%
Interest on State Funds & Investments	\$741	\$600	(\$141)	-19.0%
Cook County Intergovernmental Transfer	\$244	\$244	\$0	0.0%
<u>Other Sources</u>	<u>\$793</u>	<u>\$805</u>	<u>\$12</u>	<u>1.5%</u>
Total State Taxes	\$55,084	\$56,051	\$967	-33.5%
Transfers In				
Lottery	\$777	\$802	\$25	3.2%
Gaming	\$186	\$178	(\$8)	-4.3%
Sports Wagering	\$203	\$281	\$78	38.4%
Cannabis	\$113	\$122	\$9	8.0%
Refund Fund	\$253	\$450	\$197	77.9%
<u>Other</u>	<u>\$978</u>	<u>\$935</u>	<u>(\$43)</u>	<u>-4.4%</u>
Total Transfers In	\$2,510	\$2,768	\$258	10.3%
Total State Sources	\$57,594	\$58,819	\$1,225	2.1%
Federal Sources [Base]	\$3,715	\$4,200	\$485	13.1%
Total Federal & State Sources	\$61,309	\$63,019	\$1,710	2.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax [9.15% '25 & '26]	(\$3,031)	(\$3,060)	(\$29)	1.0%
Corporate Income Tax [14.0% '25 & '26]	(\$827)	(\$915)	(\$88)	10.6%
Local Government Distributive Fund				
Personal Income Tax	(\$1,949)	(\$1,966)	(\$17)	0.9%
Corporate Income Tax	(\$348)	(\$385)	(\$37)	10.6%
Sales Tax Distributions				
Sales Tax Deposits into Road Fund	(\$698)	(\$695)	\$3	-0.4%
Sales Tax Distribution to the PTF and DPTF	(\$522)	(\$701)	(\$179)	34.3%
General Funds Subtotal [Base]	\$53,933	\$55,297	\$1,364	2.5%
Non-Base Revenues	\$65	\$0	(\$65)	-100.0%
Total Revenues General Funds	\$53,998	\$55,297	\$1,299	2.4%

*Source: GOMB: <https://budget.illinois.gov/> Note: Some totals may not equal, due to rounding.

General Revenues Down Slightly to Kick Off Fiscal Year 2026

Eric Noggle, Revenue Manager

Revenues deposited into the State's General Funds slipped slightly in July to start off Fiscal Year 2026 with an overall decline of \$35 million or -0.9%. The minor decrease was due to mixed results from Illinois' revenue areas with growth from the Sales Tax, Transfers, and Other State Sources being offset by modest declines in Income Taxes and Federal Sources. July had the same number of receipting days as last July.

The positive momentum from Sales Tax receipts to end FY 2025 continued into the first month of FY 2026. For the month, revenues grew \$80 million or +8.5%. The net gain is adjusted lower to \$49 million or +5.5% when accounting for non-general fund distributions to the Road Fund and the Downstate Public Transportation Fund.

The positive month for Sales Tax receipts helped counterweight the subpar performance of income tax receipts in July. Personal Income Tax receipts dropped \$114 million or -5.2% to start the fiscal year, while Corporate Income Tax receipts declined \$41 million or -16.9%. On a net basis, when adjusting out distributions to the Income Tax Refund Fund and the Local Government Distributive Fund, Personal Income Tax receipts were down \$97 million and the Corporate Income Tax was \$33 million lower.

Collectively, it was a solid month for Other State Sources with revenues in this category rising \$42 million. The largest gains from this category came from the Estate Tax, which rose \$32 million in July. It was also a strong month for Insurance Taxes [up \$29 million] and Interest on State Funds & Investments [up \$27 million]. The growth in these areas helped offset the notable declines in Other Sources [-\$36 million]; Public Utility Taxes [-\$10 million]; and Cigarette Tax receipts [-\$5 million].

Revenues received from Transfers In rose a combined \$13 million in July. The largest growth came from July's Sports Wagering Transfer of \$26 million, which is also the year-over-year gain as the State did not begin transferring revenues into the State's General Funds until September of last year. Other positive growth came from the Gaming Transfer [+\$7 million] and Other Transfers [+\$1 million]. These transfers counterbalanced lower July totals from Lottery Transfers [-\$20 million] and Cannabis Transfers [-\$1 million].

Completing the revenue picture for the month was a slight decline in receipts from Federal Sources, which were \$9 million lower as compared to last July.

Summary of Receipts

JULY

FY 2025 vs. FY 2026

(\$ millions)

	July	July	\$	%
<u>Revenue Sources</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>CHANGE</u>	<u>CHANGE</u>
Net Personal Income Tax	\$1,860	\$1,763	(\$97)	-5.2 %
Net Corporate Income Tax	\$194	\$161	(\$33)	-17.0 %
Net Sales Tax	\$891	\$940	\$49	5.5 %
All Other State Sources	\$365	\$407	\$42	11.5 %
Transfers In	\$169	\$182	\$13	7.7 %
Federal Sources [base]	\$314	\$305	(\$9)	-2.9 %
<i>Base General Funds</i>	\$3,793	\$3,758	(\$35)	-0.9 %
<i>Non-Base Gen Funds Revenues</i>	\$0	\$0	\$0	N/A
<i>Total General Funds</i>	\$3,793	\$3,758	(\$35)	-0.9 %
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Aug-25

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

Revenue Sources	July FY 2025	July FY 2026	\$ CHANGE	% CHANGE
<i>State Taxes</i>				
Personal Income Tax	\$2,189	\$2,075	(\$114)	-5.2%
Corporate Income Tax (regular)	242	201	(41)	-16.9%
Sales Taxes	942	1,022	80	8.5%
Public Utility Taxes (regular)	59	49	(10)	-16.9%
Cigarette Tax	19	14	(5)	-26.3%
Liquor Gallonage Taxes	17	16	(1)	-5.9%
Estate Tax	47	79	32	68.1%
Insurance Taxes and Fees	64	93	29	45.3%
Corporate Franchise Tax & Fees	17	23	6	35.3%
Interest on State Funds & Investments	78	105	27	34.6%
Cook County IGT	0	0	0	N/A
Other Sources	64	28	(36)	-56.3%
<i>Total State Taxes</i>	\$3,738	\$3,705	(\$33)	-0.9%
<i>Transfers In</i>				
Lottery	\$70	\$50	(\$20)	-28.6%
Gaming	11	18	7	63.6%
Sports Wagering	0	26	26	N/A
Cannabis	10	9	(1)	-10.0%
Refund Fund	0	0	0	N/A
Other	78	79	1	1.3%
<i>Total Transfers In</i>	\$169	\$182	\$13	7.7%
Total State Sources	\$3,907	\$3,887	(\$20)	-0.5%
<i>Federal Sources [base]</i>	\$314	\$305	(\$9)	-2.9%
Total Federal & State Sources	\$4,221	\$4,192	(\$29)	-0.7%
<i>Nongeneral Funds Distributions/Direct Receipts:</i>				
<i>Refund Fund</i>				
Personal Income Tax	(\$200)	(\$190)	\$10	-5.0%
Corporate Income Tax	(\$34)	(\$28)	6	-17.6%
<i>Local Government Distributive Fund</i>				
Personal Income Tax	(129)	(122)	7	-5.4%
Corporate Income Tax	(14)	(12)	2	-14.3%
<i>Sales Tax Distributions</i>				
Deposits into Road Fund	(51)	(52)	(1)	2.0%
Distribution to the PTF and DPTF	0	(30)	(30)	N/A
General Funds Subtotal [Base]	\$3,793	\$3,758	(\$35)	-0.9%
Non-Base Gen Funds Revenues	\$0	\$0	0	N/A
Total General Funds	\$3,793	\$3,758	(\$35)	-0.9%

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

1-Aug-25