Commission on Government Forecasting and Accountability

802 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: AUGUST 2019

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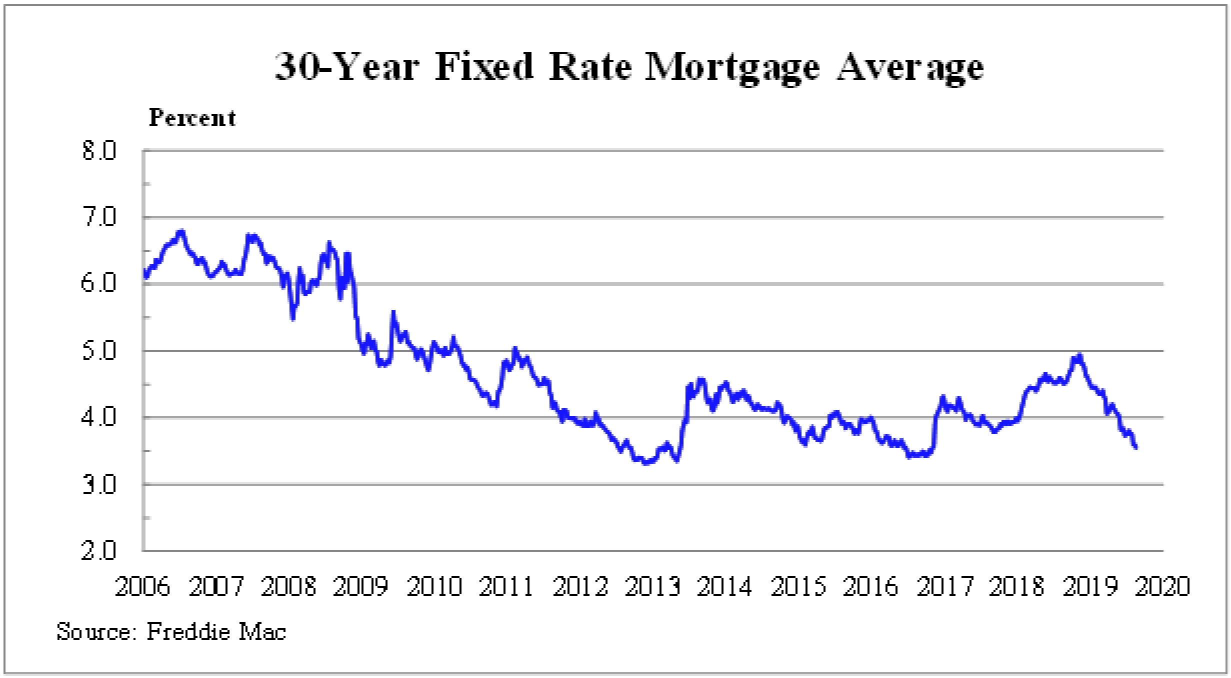
INSIDE THIS ISSUE

Will the Rate Cut Help the Housing Market?

Julie Bae, Pension Analyst/Economic Specialist

The Federal Reserve lowered its benchmark interest rates by 25 basis points to a range of 2.00% and 2.25% at the end of July for the first time since 2008. Growing fears of recession, trade disputes with China, along with other factors including a global slowdown, precipitated the move. Although the reasons behind the recent rate cut do not send positive signals to investors, it may work in favor of the housing market as mortgage rates have a linkage to the Federal Funds rate. As shown in the following page, based on data from Freddie Mac, the average 30-year fixed rate is now approximately 3.6%, the lowest since late 2016. Theoretically, lower mortgage rates should help increase the affordability of ownership, thus likely resulting in a higher number of homeowners. Wouldn't the housing market be stimulated with the help of the rate cut? The short answer would be ... "maybe."

Recent data sends mixed signals. Building permits for new residential construction, provided by the U.S. Census, saw an increase of 8.4% in July over the one month or a year-over-year increase of 1.5%. Building permits for single-family houses also rose 1.8% in July from the previous month. According to the National Association of Realtors (NAR), the sales of existing homes of all kinds (including single-family houses, condos, co-ops, etc.) went up 2.5% in July from the previous month to a seasonally-adjusted annual rate of 5.42 million, or up 0.6% from the previous year's reading of 5.39 million. On the other hand, pending home sales, saw a monthly drop of 2.5% in July after two consecutive months of increases, or down 0.3% from a year earlier. This implies that existing home sales in August and September are more likely to fall as existing sales usually lag pending sales by one or two months. Lawrence Yun, Chief Economist of NAR said from their most recent release, "super-low mortgage rates have not yet consistently pulled buyers back into the market. What is desperately needed is more supply of moderately priced homes. A boost to home building would greatly improve economic growth."



Many economists agree that due to rising construction costs, regulations, and lack of available land, builders are struggling, restraining the supply, which could dilute the positive impact of attractive mortgage rates. Greg Ugalde, Chairman of the National Association of Home Builders (NAHB), said in their latest release, "*even as builders report a firm demand for single-family homes, they continue to struggle with rising construction costs stemming from excessive regulations, a chronic shortage of workers and a lack of buildable lots.*" NAHB releases the Housing Market Index monthly that shows homebuilders' confidence for the single-family houses, which showed a positive sign in July.

Continuing uncertainties are another factor that complicates the outlook as IHS Markit, the Commission's forecasting service, states in their recent release; "*dwindling supplies would translate to accelerating prices; however, affordability remains a major hurdle as prices are out of reach for many households in the nation's largest metropolitan areas. This was exacerbated by a drop in consumer confidence following ongoing uncertainty over US trade policy and emerging concerns about a possible inversion of the yield curve for US Treasuries. We expect home price growth to slow further in the second half of the year as homebuyers wait out uncertainty over the US economic outlook.*"

When it comes to Illinois, the housing market has been much slower to recover compared to the nation. The most recent data show gains in line with some of the U.S. data. It may be too quick to consider the recent gains as a trend, however, as data has been so volatile. Building permits in Illinois jumped to 2,095 in July, a 30% annual increase or a 63% monthly gain after June experienced a sharp drop from May's reading of 2,094. The single-family house permits also rose 12% in July from the previous month, although the annual growth slightly declined by 1.6%. According to the data from the Illinois Realtors, existing home sales in Illinois saw an annual gain of 0.3% in July with the median price increase of 2.6%, following June's disappointing annual loss of 11.2%.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (July)	4.2%	4.3%	4.2%
Inflation in Chicago (12-month percent change) (July)	1.6%	1.0%	1.9%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (July)	6,496.4	0.1%	0.6%
Employment (thousands) (July)	6,223.8	0.2%	0.6%
Nonfarm Payroll Employment (July)	6,186,000	-400	62,700
New Car & Truck Registration (July)	44,968	-0.3%	-15.9%
Single Family Housing Permits (July)	895	12.3%	-1.6%
Total Exports ($ mil) (June)	4,905.9	-7.1%	-17.1%
Chicago Purchasing Managers Index (Aug.)	50.4	13.5%	-20.8%

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

REVENUE: WEAK FEDERAL SOURCES RESULTS IN AUGUST REVENUE DECLINE

Jim Muschinske, Revenue Manager

Overall base receipts declined $118 million in August. An extremely weak month for federal sources accounted for the decline, while performances from the other revenue sources basically offset each other. The month had one less receipting day than did last August.

Monthly gross personal income tax declined $27 million, or $20 million net. Gross corporate income taxes fell $21 million or $16 million on a net basis. Cigarette tax receipts to the general funds were down $17 million [likely due to a temporary stockpiling effect of the recent tax increase as well as fund distribution impacts related to P.A. 101-0031]. Insurance taxes and fees were off $6 million, while corporate franchise taxes dipped $1 million.

A number of revenue sources managed to post gains for the month. Gross sales taxes were up $26 million, the same on a net basis. Interest income had an impressive jump of $13 million, while inheritance tax grew $12 million. Both public utility and liquor taxes each eked out $1 million increases.

Overall transfers increased $18 million in August. The Refund Fund transfer was $17 million higher than the same month of last year, riverboat transfers grew $3 million, and lottery transfers were up $2 million. Those gains were slightly offset by a $4 million decline from other miscellaneous transfers. As mentioned, federal sources were exceptionally weak for August, dropping $129 million below even last year's below average effort.

Year to Date

Through August, overall general funds receipts have posted gains of $482 million, mostly on the strength of transfers related to the Income Tax Refund Fund. Absent that, revenue performances have been mixed to start the fiscal year.

Gross sales taxes are ahead of last year by $80 million, or $79 million net, while gross personal income taxes are up $73 million, or $68 million net. Those gains have been mostly offset by a $41 million drop from other sources, a $29 million decline from cigarette tax to the general funds, a $27 million loss from inheritance tax, and a $19 million fall off from gross corporate income tax [-$13 million net].

As mentioned, the $417 million increase from Refund Fund transfers accounts for most of the year-to-date growth. Augmenting those transfers are additional transfers netting $99 million in improvement. Federal sources, reminiscent of last fiscal year's whipsaw receipt pattern, is off $85 million through August.

AUGUST

FY 2020 vs. FY 2019

($ million)

Revenue Sources	August FY 2020	August FY 2019	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,415	$1,442	($27)	-1.9%
Corporate Income Tax (regular)	51	72	($21)	-29.2%
Sales Taxes	778	752	$26	3.5%
Public Utility Taxes (regular)	72	71	$1	1.4%
Cigarette Tax	20	37	($17)	-45.9%
Liquor Gallonage Taxes	14	13	$1	7.7%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	31	19	$12	63.2%
Insurance Taxes and Fees	20	26	($6)	-23.1%
Corporate Franchise Tax & Fees	19	20	($1)	-5.0%
Interest on State Funds & Investments	20	7	$13	185.7%
Cook County IGT	0	0	$0	N/A
Other Sources	28	28	$0	0.0%
Subtotal	$2,471	$2,490	($19)	-0.8%
Transfers				
Lottery	43	41	$2	4.9%
Riverboat transfers & receipts	23	20	$3	15.0%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	217	200	$17	8.5%
Other	44	48	($4)	-8.3%
Total State Sources	$2,798	$2,799	($1)	0.0%
Federal Sources	$97	$226	($129)	-57.1%
Total Federal & State Sources	$2,895	$3,025	($130)	-4.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($134)	($140)	$6	-4.3%
Corporate Income Tax	($7)	(11)	$4	-36.4%
LGDF--Direct from PIT	($74)	(75)	$1	-1.3%
LGDF--Direct from CIT	($3)	(4)	$1	-25.0%
Downstate Pub/Trans--Direct from Sales	($19)	(19)	$0	0.0%
Subtotal General Funds	$2,658	$2,776	($118)	-4.3%
Treasurer's Investments	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Total General Funds	$2,658	$2,776	($118)	-4.3%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 3-Sep-19

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2020 vs. FY 2019

($ million)

Revenue Sources	FY 2020	FY 2019	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$2,976	$2,903	$73	2.5%
Corporate Income Tax (regular)	146	165	($19)	-11.5%
Sales Taxes	1,560	1,480	$80	5.4%
Public Utility Taxes (regular)	132	129	$3	2.3%
Cigarette Tax	36	65	($29)	-44.6%
Liquor Gallonage Taxes	33	31	$2	6.5%
Vehicle Use Tax	6	6	$0	0.0%
Inheritance Tax	41	68	($27)	-39.7%
Insurance Taxes and Fees	35	35	$0	0.0%
Corporate Franchise Tax & Fees	31	32	($1)	-3.1%
Interest on State Funds & Investments	30	20	$10	50.0%
Cook County IGT	0	0	$0	"N/A
Other Sources	61	102	($41)	-40.2%
Subtotal	$5,087	$5,036	$51	1.0%
Transfers				
Lottery	76	95	($19)	-20.0%
Riverboat transfers & receipts	40	48	($8)	-16.7%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	617	200	$417	N/A
Other	219	93	$126	135.5%
Total State Sources	$6,039	$5,472	$567	10.4%
Federal Sources	$450	$535	($85)	-15.9%
Total Federal & State Sources	$6,489	$6,007	$482	8.0%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($283)	($282)	($1)	0.4%
Corporate Income Tax	($21)	(26)	$5	-19.2%
LGDF--Direct from PIT	($155)	(151)	($4)	2.6%
LGDF--Direct from CIT	($8)	(9)	$1	-11.1%
Downstate Pub/Trans--Direct from Sales	($37)	(36)	($1)	2.8%
Subtotal General Funds	$5,985	$5,503	$482	8.8%
Treasurer's Investments	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Total General Funds	$5,985	$5,503	$482	8.8%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 3-Sep-19