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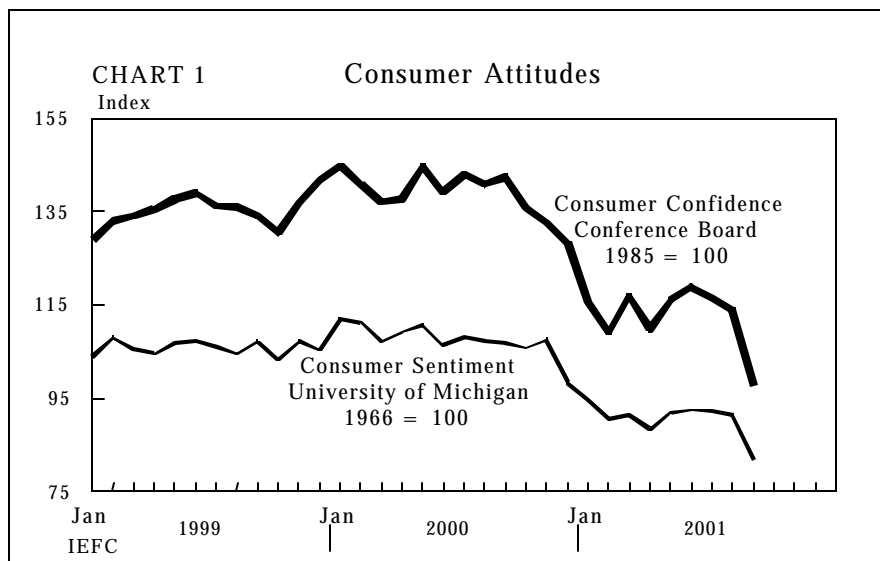


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**ECONOMY: Recession Prospects Rise**  
 Edward H. Boss, Jr., Chief Economist

Just as it appeared that the U.S. economy had successfully skirted a full-fledged recession, the tragedies of September 11<sup>th</sup> appear to have overwhelmed the fundamentals. Final revisions on real gross domestic product for the second quarter were revised slightly upward to show a 0.3% annual rate of gain. The weakest sector, manufacturing, as mentioned last month appeared to have bottomed out earlier this year as measured by the important Purchasing Manager's Index. The overall indexes, both nationally and in Chicago, strengthened in August and, at least in Chicago, improved again in September. Finally, lower interest rates, tax rebate checks, and some modest improvement in consumer confidence appeared to suggest a stronger end to the current calendar year. Alas, things have changed since.

As shown in the chart below, consumer confidence measures fell off the cliff following the unprovoked attacks on our nation on September 11<sup>th</sup>. The nation came to a virtual halt. Since the attack, more than 100,000 layoffs have been announced in the airlines and related industries, new claims for unemployment benefits soared to a nine-year high in the week ended September 22, the unemployment rate shot-up in August to 4.9%, the biggest one-month jump in more than six years, and predictions are it may climb to 6% by year end.



The sharp erosion in consumer confidence and in the job market are crucial to the outlook for consumer spending, which recently has accounted for more than two-thirds of total spending in the economy. Indeed, it has been consumer spending that has been the key support to the economy, keeping it out of recession.

Should the weakness in the business sector of the economy now spread to the consumer, one of the 3-D definition of a recession -- diffusion -- would have been met. Then it would depend on the other two -- depth and duration -- as to whether or not an official recession will be proclaimed. These in turn will be affected by future developments in the fight against terrorism.

At the same time, unified government actions have done much to soften the economic blow dealt with since the attacks. The federal government has passed recovery aid to New York, given financial assistance to the ailing airline industry, boosted spending in key areas, called up portions of the military, and taken a strong leadership role.

At the same time, the monetary authorities quickly infused liquidity, lowered interest rates quickly even prior to its next scheduled meeting, and have kept the financial markets relatively calm. These steps may well provide the basis for economic growth in the future, if and when the terrorism effects are diminished.

<b>INDICATORS OF ILLINOIS ECONOMIC ACTIVITY</b>			
<u>INDICATORS</u>	<u>August 2001</u>	<u>July 2001</u>	<u>August 2000</u>
Unemployment Rate (Average)	5.5%	5.3%	4.4%
Annual Rate of Inflation (Chicago)	2.7%	-10.0%	2.5%
<hr/>			
	<u>LATEST</u>	<u>% CHG.</u>	<u>% CHG.</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (August)	6,345	-0.7%	-1.1%
Employment (thousands) (August)	5,999	-0.9%	-2.2%
New Car & Truck Registration (August)	67,926	6.1%	25.5%
Single Family Housing Permits (August)	3,854	5.2%	5.3%
Total Exports (\$ mil) (July)	2,428	-11.0%	-0.6%
Chicago Purchasing Managers Index (September)	46.6	7.1%	-9.3%

## **REVENUE**

### **Receipts Fall Again**

Jim Muschinske, Unit Chief

In September, general revenues were off by \$152 million. This marks the third consecutive month that revenues have failed to keep pace with the same prior year month and further indicates that the economy is being battered by a number of forces, i.e. rising unemployment, dismal consumer confidence, and falling corporate profits. Add to that the impact of the tragic events of September 11, which really have not had time to be reflected in receipts, and it is clear that the revenue picture is at best tenuous.

Corporate income tax revenues led the decliners as gross receipts were off by \$65 million. Not far behind was the performance of personal income tax as gross figures fell \$52 million. Public utility taxes and interest earnings each dropped by \$9 million. Other sources were off \$7 million while sales tax receipts dipped \$5 million. It should be noted that sales tax fell in September despite the fact that last year's receipts did not include motor fuel taxes, indicating significant weakness in this source. Liquor taxes decreased by \$4 million, while insurance taxes dipped by a modest \$2 million. For the month, only inheritance tax and corporate franchise tax demonstrated month-over-month growth with revenues up \$5 million and \$1 million, respectively.

Overall transfers were up \$4 million in September as an \$8 million increase in lottery transfers and a \$7 million increase in Gaming Fund transfers were

partially offset by an \$11 million decrease in other transfers. Federal sources contributed somewhat to the overall monthly decline with receipts down by \$15 million.

### **Year-to-Date**

For the first quarter of FY 2002, overall general funds receipts have declined \$296 million or 5.3%. Weakness in receipting is broad-based and demonstrates that the economic slowdown has considerable breadth.

Gross corporate income tax receipts are down by \$61 million through September. Gross personal income tax revenues have declined by \$52 million, while public utility revenues are down by \$33 million. Other State tax sources experiencing declines for the first quarter totaled an additional \$40 million. Only two tax sources have experienced gains during the first quarter as sales tax receipts are up \$15 million and the inheritance tax is up \$2 million. Actually, if sales taxes were adjusted to reflect the suspension of motor fuel sales, base growth would be slightly negative as well. Overall transfers were down \$32 million through September, while federal sources were off by \$93 million.

In order to reach the Commission's current general funds estimate of \$24.826 billion, receipts over the remaining nine months would have to increase 5.5%. While the current forecast was predicated on a rather poor first half of the fiscal year followed by a second half rebound, there is no doubt

that the first quarter has significantly under-performed even those modest expectations. With the additional impact of the recent terrorist attacks

and the economic uncertainty brought with it, the current estimate will likely have to be adjusted downward in the coming months.

<b>GENERAL FUNDS RECEIPTS: SEPTEMBER</b>				
<i>FY 2002 vs. FY 2001</i>				
<i>(\$ million)</i>				
<b>Revenue Sources</b>	<b>SEPT. FY 2002</b>	<b>SEPT. FY 2001</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	713	765	(\$52)	-6.8%
Corporate Income Tax (regular)	162	227	(\$65)	-28.6%
Sales Taxes	494	499	(\$5)	-1.0%
Public Utility Taxes (regular)	68	77	(\$9)	-11.7%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	6	10	(\$4)	-40.0%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	33	28	\$5	17.9%
Insurance Taxes and Fees	42	44	(\$2)	-4.5%
Corporate Franchise Tax & Fees	13	12	\$1	8.3%
Interest on State Funds & Investments	12	21	(\$9)	-42.9%
Cook County IGT	23	23	\$0	0.0%
Other Sources	15	22	(\$7)	-31.8%
<b>Subtotal</b>	<b>1,617</b>	<b>1,764</b>	<b>(\$147)</b>	<b>-8.3%</b>
<b>Transfers</b>				
Lottery	45	37	\$8	21.6%
Gaming Fund Transfer	50	43	\$7	16.3%
Other	15	26	(\$11)	-42.3%
<b>Total State Sources</b>	<b>1,727</b>	<b>1,870</b>	<b>(\$143)</b>	<b>-7.6%</b>
<b>Federal Sources</b>	<b>338</b>	<b>353</b>	<b>(\$15)</b>	<b>-4.2%</b>
<b>Total Federal &amp; State Sources</b>	<b>2,065</b>	<b>2,223</b>	<b>(\$158)</b>	<b>-7.1%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$54)	(\$54)	\$0	0.0%
Corporate Income Tax	(37)	(43)	\$6	-14.0%
<b>Total General Funds</b>	<b>1,974</b>	<b>2,126</b>	<b>(\$152)</b>	<b>-7.1%</b>
IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				
1-Oct-01				

**GENERAL FUNDS RECEIPTS: YEAR TO DATE**

**FY 2002 vs. FY 2001**

(\$ million)

<b>Revenue Sources</b>	<b>FY 2002</b>	<b>FY 2001</b>	<b>CHANGE FROM FY 2001</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$1,818	\$1,870	(\$52)	-2.8%
Corporate Income Tax (regular)	206	267	(\$61)	-22.8%
Sales Taxes	1,533	1,518	\$15	1.0%
Public Utility Taxes (regular)	233	266	(\$33)	-12.4%
Cigarette Tax	100	100	\$0	0.0%
Liquor Gallonage Taxes	25	34	(\$9)	-26.5%
Vehicle Use Tax	10	10	\$0	0.0%
Inheritance Tax (Gross)	98	96	\$2	2.1%
Insurance Taxes and Fees	49	51	(\$2)	-3.9%
Corporate Franchise Tax & Fees	32	34	(\$2)	-5.9%
Interest on State Funds & Investments	50	73	(\$23)	-31.5%
Cook County IGT	77	77	\$0	0.0%
Other Sources	47	51	(\$4)	-7.8%
<b>Subtotal</b>	<b>\$4,278</b>	<b>\$4,447</b>	<b>(\$169)</b>	<b>-3.8%</b>
<b>Transfers</b>				
Lottery	118	103	\$15	14.6%
Gaming Fund Transfer	130	136	(\$6)	-4.4%
Other	56	97	(\$41)	-42.3%
<b>Total State Sources</b>	<b>\$4,582</b>	<b>\$4,783</b>	<b>(\$201)</b>	<b>-4.2%</b>
<b>Federal Sources</b>	<b>\$924</b>	<b>\$1,017</b>	<b>(\$93)</b>	<b>-9.1%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$5,506</b>	<b>\$5,800</b>	<b>(\$294)</b>	<b>-5.1%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$139)	(\$133)	(\$6)	4.5%
Corporate Income Tax	(47)	(51)	\$4	-7.8%
<b>Total General Funds</b>	<b>\$5,320</b>	<b>\$5,616</b>	<b>(\$296)</b>	<b>-5.3%</b>

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

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**GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE**

*FY 2002 ESTIMATE vs. FY 2001 ACTUAL*

(\$ million)

<u>Revenue Sources</u>	<u>ESTIMATE FY 2002</u>	<u>FYTD 2002</u>	<u>AMOUNT NEEDED FY 2002 EST.</u>	<u>FYTD 2001</u>	<u>GROWTH NEEDED</u>	<u>% CHANGE</u>
<b>State Taxes</b>						
Personal Income Tax	\$8,955	\$1,818	\$7,137	\$1,870	\$400	5.9%
Corporate Income Tax (regular)	1,318	206	\$1,112	267	\$100	9.9%
Sales Taxes	6,378	1,533	\$4,845	1,518	\$405	9.1%
Public Utility Taxes (regular)	1,180	233	\$947	266	\$67	7.6%
Cigarette Tax	400	100	\$300	100	\$0	0.0%
Liquor Gallonage Taxes	135	25	\$110	34	\$20	22.2%
Vehicle Use Tax	35	10	\$25	10	\$1	4.2%
Inheritance Tax (Gross)	376	98	\$278	96	\$13	4.9%
Insurance Taxes and Fees	260	49	\$211	51	\$16	8.2%
Corporate Franchise Tax & Fees	151	32	\$119	34	\$7	6.3%
Interest on State Funds & Investments	265	50	\$215	73	\$14	7.0%
Cook County IGT	245	77	\$168	77	\$0	0.0%
Other Sources	497	47	\$450	51	\$94	26.4%
<b>Subtotal</b>	<b>\$20,195</b>	<b>\$4,278</b>	<b>\$15,917</b>	<b>\$4,447</b>	<b>\$1,137</b>	<b>7.7%</b>
<b>Transfers</b>						
Lottery	505	118	\$387	103	(\$11)	-2.8%
Gaming Fund Transfer	465	130	\$335	136	\$11	3.4%
Other	465	56	\$409	97	\$54	15.2%
<b>Total State Sources</b>	<b>\$21,630</b>	<b>\$4,582</b>	<b>\$17,048</b>	<b>\$4,783</b>	<b>\$1,191</b>	<b>7.5%</b>
<b>Federal Sources</b>	<b>\$4,180</b>	<b>\$924</b>	<b>\$3,256</b>	<b>\$1,017</b>	<b>(\$47)</b>	<b>-1.4%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$25,810</b>	<b>\$5,506</b>	<b>\$20,304</b>	<b>\$5,800</b>	<b>\$1,144</b>	<b>6.0%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$681)	(\$139)	(\$542)	(\$133)	(\$64)	13.4%
Corporate Income Tax	(303)	(47)	(\$256)	(51)	(\$64)	33.3%
<b>Total General Funds</b>	<b>\$24,826</b>	<b>\$5,320</b>	<b>\$19,506</b>	<b>\$5,616</b>	<b>\$1,016</b>	<b>5.5%</b>
<b>IEFC</b>						<b>1-Oct-01</b>