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INSIDE THIS ISSUE

PAGE 1 - **ECONOMY:**
Momentum Slows

PAGE 2:
Illinois Economic Indicators

PAGE 3 - **REVENUE:**
Revenues Continue to Fall

PAGE 5-7:
Revenue Tables

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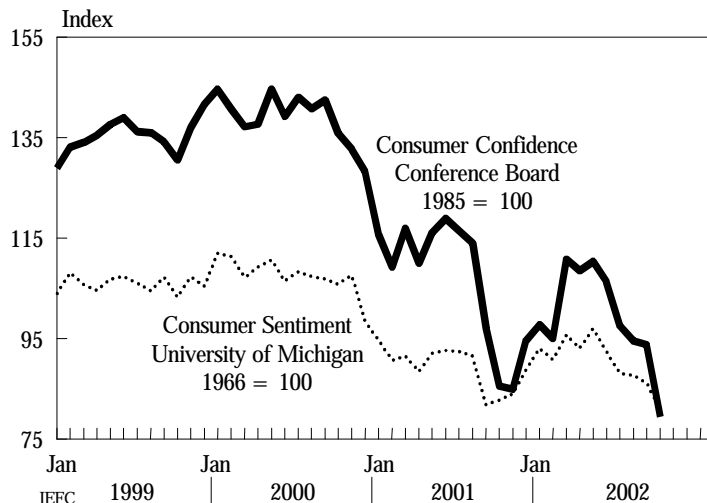
ECONOMY: Momentum Slows

Edward H. Boss, Jr., Chief Economist

On Thursday, the Commerce Department released its advance report on the nation's gross domestic product (GDP), the most comprehensive measure of overall economic activity. The report showed that real, or inflation-adjusted, GDP growth accelerated at a 3.1% annual rate last quarter, up from a meager 1.3% rate of growth in the previous quarter. Despite this improvement, concerns are rising that conditions are weakening again as the calendar year comes to a close.

One report in particular that has been a worry is the sharp downturn reported for October in consumer confidence. As shown on Chart 1, consumer attitudes, whether measured by the Conference Board or University of Michigan, fell to levels below those reached following the events of 9-11. The concern is that this may be a precursor of consumer spending weakness during the upcoming holiday sales period. Adding to this concern is the possibility that the momentum of auto sales, which were a major contributor to overall GDP growth last quarter, will slow while the lagging affects of the West Coast dock strikes keep goods off the shelves of retailers and serve to dampen Christmas sales.

CHART 1 CONSUMER ATTITUDES



Besides the consumer, which generally accounts for two-thirds of total GDP spending, there are signs that any emergence in business spending will be delayed. Even while business fixed investment rose last quarter for the first time in two years, subsequent reports raise doubts over whether this improvement can be sustained.

Orders for manufactured durable goods plunged 5.9% in September, the largest drop in nine months. On Thursday, the National Association of Purchasing Management reported that the Chicago monthly index dropped for the second consecutive month to 45.9%, the lowest level since January 2002. The next day the Institute of Supply Management reported the national index fell from 49.5 to 48.5. (Any reading below 50 denotes a contraction in activity.) The weakness in manufacturing is evidenced by recent declines in industrial production. Production for the nation edged down in September after falling in August. This

follows increases in each of the first seven months of 2002.

Recent business reports are raising the question as to whether or not the pace of activity will slow from last quarter's performance or weaken severely leading to a renewed downturn. While another downturn cannot be entirely ruled out, the most likely outcome is for continued growth, albeit at a relatively subdued pace.

The reported weakness in activity already has raised prospects for yet another cut in interest rates, suggesting another easing in monetary policy. Furthermore, rising government spending continues to make a positive contribution to GDP. Finally, it should be pointed out that there is not a direct correlation between consumer attitudes and spending, rather incomes are a more important determinant and they continue to rise. Despite a plunge in consumer confidence in late 1991, real GDP growth rose 3.8% in the first quarter of 1992, with real consumer spending rising 6.4%.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	SEPT. 2002	AUG. 2002	SEPT. 2001
Unemployment Rate (Average)	6.3%	6.2%	5.6%
Annual Rate of Inflation (Chicago)	3.3%	2.7%	1.3%
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	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (September)	6,242	-0.4%	-1.5%
Employment (thousands) (September)	5,847	-0.5%	-2.3%
New Car & Truck Registration (September)	75,726	7.6%	N/A
Single Family Housing Permits (September)	3,792	2.7%	22.2%
Total Exports (\$ mil) (August)	2,887	10.7%	10.6%
Chicago Purchasing Managers Index (October)	45.9	-4.6%	-0.6%

REVENUE

Revenues Continue to Fall
Jim Muschinske, Revenue Manager

Overall general funds revenues fell \$83 million in October as compared to the same month a year ago. A poor month for federal sources and continued disappointment in income and sales taxes more than offset a jump in transfers. This October had the same number of receipting days as did last year.

Of those tax sources experiencing declines, gross corporate income taxes suffered the largest drop with receipts down \$28 million (\$22 million net of refunds). Gross personal income tax dropped by \$19 million (\$20 million net of refunds), followed closely by a \$17 million decline in public utility tax receipts. Interest income, which continues to suffer from low balances and rates of return, fell another \$6 million in October. Liquor taxes declined \$5 million, while insurance taxes dropped by \$4 million. Finally, corporate franchise tax revenue dipped by \$2 million.

Slightly offsetting the above declines were advancements in several areas. Cigarette tax receipts recovered \$7 million, while sales tax, inheritance tax, and other sources, each showed \$1 million in growth.

Overall transfers were up \$71 million for the month. Gaming Fund transfers generated a \$15 million gain due to the restructured gaming tax, and other transfers jumped \$57 million. The increase in other transfers was due primarily to a transfer of approximately \$50 million from the Protest Fund comprised of insurance taxes held as a result of court challenges related to the

unconstitutionality of the State's previous insurance tax structure. This transfer was expected to occur sometime in FY 2003. Lottery transfers dipped \$1 million in October. Federal sources experienced another down month with receipts off \$88 million in October.

Year to Date

Even though October marked the third consecutive drop in monthly receipts, due to strong July federal sources and interfund transfers, overall general funds receipts are still up \$143 million (excluding short-term borrowing and Budget Stabilization Fund transfers). However, despite the positive bottom line, the performance of some of the more closely economically tied sources are unsettling and indicate that the recovery phase has yet to manifest in actual receipts.

Through the first four months, gross personal income tax revenues were off \$45 million (\$51 million net of refunds). Interest earnings have fallen \$37 million and inheritance tax receipts are down by \$21 million. Gross corporate income tax receipts are off \$19 million (\$24 million net of refunds), while public utility tax receipts have declined by \$18 million and corporate franchise taxes by \$1 million.

Of the State's tax sources, sales taxes have struggled to post \$30 million in gains, while insurance taxes have picked up \$10 million. Finally, liquor taxes have managed to eek out a \$1 million increase.

Overall transfers are up \$271 million as a result of interfund transfers as well as other transfers and the changes in the

riverboat tax structure. After beginning with a strong first month of the fiscal year, as expected, federal sources have now turned into negative territory with a \$17 million decline.

Excluding short-term borrowing and Budget Stabilization Fund transfers, revenues need to grow 4.0% over the remaining months of the fiscal year to reach the Commission's estimate. That

rate of growth is double the current growth rate of 2.0%. Given that the State's employment picture has yet to demonstrate much improvement, consumer confidence has fallen, and rates of return on investments are at historic lows, it is becoming unlikely that the current estimate can be reached. The Commission has scheduled a meeting on November 20th to present a revised FY 2003 forecast as well as a preliminary view of the FY 2004 revenue picture.

GENERAL FUNDS RECEIPTS: OCTOBER

FY 2003 vs. FY 2002
(\$ million)

Revenue Sources	OCT. FY 2003	OCT. FY 2002	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$563	\$582	(\$19)	-3.3%
Corporate Income Tax (regular)	15	43	(\$28)	-65.1%
Sales Taxes	505	504	\$1	0.2%
Public Utility Taxes (regular)	98	115	(\$17)	-14.8%
Cigarette Tax	40	33	\$7	21.2%
Liquor Gallonage Taxes	10	15	(\$5)	-33.3%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	25	24	\$1	4.2%
Insurance Taxes and Fees	4	8	(\$4)	-50.0%
Corporate Franchise Tax & Fees	12	14	(\$2)	-14.3%
Interest on State Funds & Investments	6	12	(\$6)	-50.0%
Cook County IGT	54	54	\$0	0.0%
Other Sources	19	18	\$1	5.6%
Subtotal	\$1,354	\$1,425	(\$71)	-5.0%
Transfers				
Lottery	46	47	(\$1)	-2.1%
Gaming Fund Transfer	60	45	\$15	33.3%
Other	89	32	\$57	178.1%
Total State Sources	\$1,549	\$1,549	\$0	0.0%
Federal Sources	\$248	\$336	(\$88)	-26.2%
Total Federal & State Sources	\$1,797	\$1,885	(\$88)	-4.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$45)	(\$44)	(\$1)	2.3%
Corporate Income Tax	(4)	(10)	\$6	-60.0%
Subtotal General Funds	\$1,748	\$1,831	(\$83)	-4.5%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$1,748	\$1,831	(\$83)	-4.5%
IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Nov-02

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2003 vs. FY 2002
(*\$ million*)

Revenue Sources	FY 2003	FY 2002	CHANGE FROM FY 2002	% CHANGE
State Taxes				
Personal Income Tax	\$2,355	\$2,400	(\$45)	-1.9%
Corporate Income Tax (regular)	229	248	(\$19)	-7.7%
Sales Taxes	2,067	2,037	\$30	1.5%
Public Utility Taxes (regular)	330	348	(\$18)	-5.2%
Cigarette Tax	133	133	\$0	0.0%
Liquor Gallonage Taxes	42	41	\$1	2.4%
Vehicle Use Tax	13	13	\$0	0.0%
Inheritance Tax (Gross)	101	122	(\$21)	-17.2%
Insurance Taxes and Fees	66	56	\$10	17.9%
Corporate Franchise Tax & Fees	45	46	(\$1)	-2.2%
Interest on State Funds & Investments	25	62	(\$37)	-59.7%
Cook County IGT	130	130	\$0	0.0%
Other Sources	65	65	\$0	0.0%
Subtotal	\$5,601	\$5,701	(\$100)	-1.8%
Transfers				
Lottery	165	165	\$0	0.0%
Gaming Fund Transfer	220	175	\$45	25.7%
Other	314	88	\$226	256.8%
Total State Sources	\$6,300	\$6,129	\$171	2.8%
Federal Sources	\$1,243	\$1,260	(\$17)	-1.3%
Total Federal & State Sources	\$7,543	\$7,389	\$154	2.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$188)	(\$182)	(\$6)	3.3%
Corporate Income Tax	(62)	(57)	(\$5)	8.8%
Subtotal General Funds	\$7,293	\$7,150	\$143	2.0%
Short-Term Borrowing	\$700	\$0	\$700	N/A
Budget Stabilization Fund Transfer	\$226	\$0	\$226	N/A
Total General Funds	\$8,219	\$7,150	\$1,069	15.0%
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
IEFC				1-Nov-02

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2003 ESTIMATE vs. FY 2002 ACTUAL

(\$ million)

	July-02 ESTIMATE FY 2003	FYTD 2003	AMOUNT NEEDED FY 2003 EST.	FYTD 2002	GROWTH NEEDED	% CHANGE
Revenue Sources						
State Taxes						
Personal Income Tax	\$8,405	\$2,355	\$6,050	\$2,400	\$364	6.4%
Corporate Income Tax (regular)	1,126	229	\$897	248	\$102	12.8%
Sales Taxes	6,365	2,067	\$4,298	2,037	\$284	7.1%
Public Utility Taxes (regular)	1,165	330	\$835	348	\$79	10.4%
Cigarette Tax	400	133	\$267	133	\$0	0.0%
Liquor Gallonage Taxes	125	42	\$83	41	\$2	2.5%
Vehicle Use Tax	39	13	\$26	13	\$1	4.0%
Inheritance Tax (Gross)	270	101	\$169	122	(\$38)	-18.4%
Insurance Taxes and Fees	280	66	\$214	56	(\$2)	-0.9%
Corporate Franchise Tax & Fees	169	45	\$124	46	\$11	9.7%
Interest on State Funds & Investments	160	25	\$135	62	\$61	82.4%
Cook County IGT	395	130	\$265	130	\$150	130.4%
Other Sources	320	65	\$255	65	(\$192)	-43.0%
Subtotal	\$19,219	\$5,601	\$13,618	\$5,701	\$822	6.4%
Transfers						
Lottery	585	165	\$420	165	\$30	7.7%
Gaming Fund Transfer	625	220	\$405	175	\$110	37.3%
Other	650	314	\$336	88	(\$29)	-7.9%
Total State Sources	\$21,079	\$6,300	\$14,779	\$6,129	\$933	6.7%
Federal Sources	\$4,075	\$1,243	\$2,832	\$1,260	(\$166)	-5.5%
Total Federal & State Sources	\$25,154	\$7,543	\$17,611	\$7,389	\$767	4.6%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$672)	(\$188)	(\$484)	(\$182)	(\$51)	11.8%
Corporate Income Tax	(304)	(62)	(\$242)	(57)	(\$59)	32.2%
Subtotal General Funds	\$24,178	\$7,293	\$16,885	\$7,150	\$657	4.0%
Short-Term Borrowing	\$700	\$700	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	\$0	(\$226)	N/A
Total General Funds	\$25,104	\$8,219	\$16,885	\$7,150	\$431	2.6%
IEFC						1-Nov-02