



Commission on Government Forecasting and Accountability

802 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: OCTOBER 2021

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Inflation Comes to the Forefront

Benjamin L. Varner, Senior Analyst and Economic Specialist

Inflation has become one of the biggest issues currently facing the economy. As outlined in last month's briefing, a surge in the demand for both durable and non-durable goods fueled by improved household finances, combined with disruptions in supply chains and increased labor costs have led to increases in prices throughout the economy. Relatedly, this report examines in which sectors of the economy inflation is being detected and how this differs at the local level. To analyze the growth in prices, the Commission examined Consumer Price Index (CPI) data for both the country as a whole and in the Chicago area.

According to the Bureau of Labor Statistics, the CPI is a measure of the average change overtime in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI market basket is developed from detailed expenditure information provided by families and individuals on what they actually bought. As shown in the chart on the next page, the CPI-U, which is the Consumer Price Index for All Urban Consumers and covers approximately 93% of the total U.S. population, has been around 2% annual growth over the last decade. This is especially true for Core CPI which removes food and energy which are some of the more volatile components of the index. The onset of the COVID-19 pandemic saw a slowing of inflation in the spring of 2020. This was followed by a period of inflation around 1.5% into the early part of 2021. In April of

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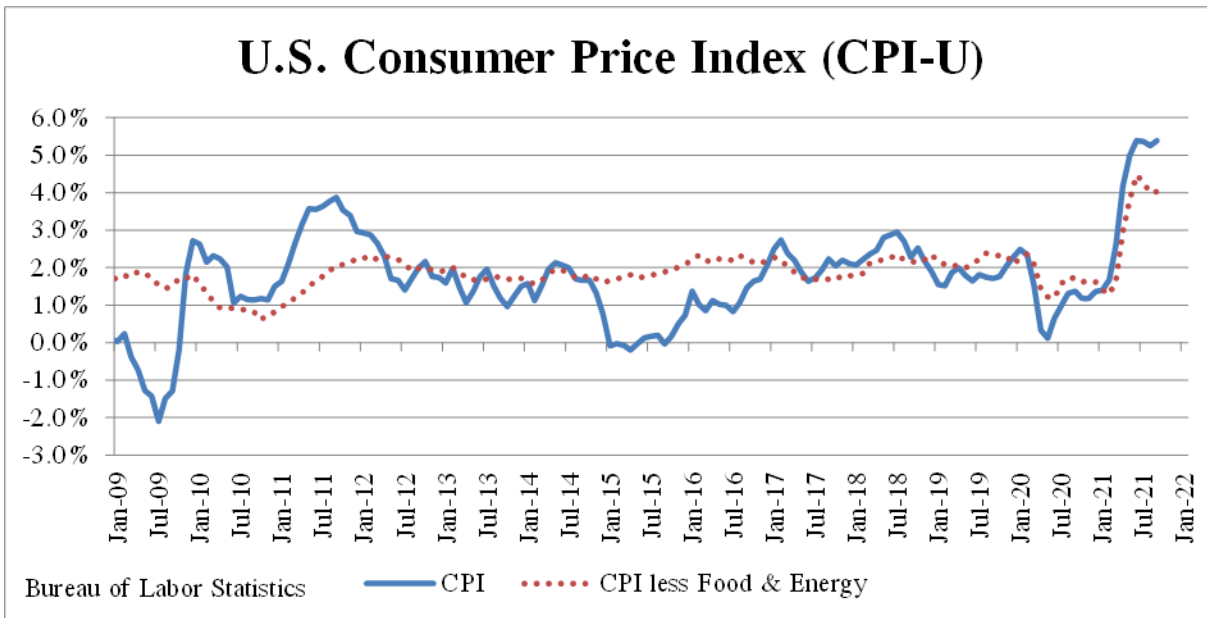
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2021, inflation surged due to base effects, as current prices were compared to the first months of the pandemic when prices were suppressed, and increased economic activity associated with reopening the economy. The All Item CPI has risen

to 5.4% which is the highest level since the summer of 2008. Core CPI rose to 4.5% over the summer which was a level not seen since 1991 but has fallen to 4.0% in September.



The following table highlights a break-down of the Consumer Price Index for All Urban Consumers (CPI-U) for the U.S. and the Chicago area. The table shows the index broken down into three sub-categories (Food, Energy, and all other items) with selected sub-categories, relative importance, or weighting, of each item, the percentage change over the previous year for the U.S., each item's effect on the U.S. All Items percentage change for September, and the percentage change over the previous year for the Chicago area. The 'effect' of an item category is a measure of that item's contribution to the All Items price change. For example, if the Food index had an effect of 0.40, and the All items index rose 1.2 percent, then the increase in food prices contributed $0.40 / 1.2$, or 33.3 percent, to that All items increase. Data for the Chicago area is taken from the Chicago-Naperville-Elgin, IL-IN-WI, Core Based Statistical Area which is comprised of Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry, and Will Counties in Illinois; Jasper, Lake, Newton, and Porter Counties in Indiana; and Kenosha County in Wisconsin.

The All Item CPI for the U.S. was up 5.4% for September of 2021. Food which comprises just

under 14% of the index was up 4.6%. This added approximately 0.6% of the 5.4% increase. Looking at the sub-categories, both food at home and food away from home equally added to this growth. Meats, poultry, fish and eggs appreciably furthered this rise as these items were up over 10%. Energy items which make up just over 7% of the index were up almost 25% in September. This contributed about 1.5% of the 5.4% total gain in the CPI. Increases in the price of gasoline, which were up over 42%, accounted for the lion's share of the growth in energy prices. The all items less food and energy category (Core CPI) makes up the remaining 79% of the index. This category was up 4.0% and added 3.2% of the 5.4% total. Upturns in the price of both commodities and services added to the growth in this category. However, two areas of the economy stood out, vehicles and shelter. New vehicles were up 8.7%, while used cars and trucks were up over 24%. The growth in vehicle prices added 1.0% of the 5.4% total by itself. Shelter prices were only up 3.2%, which is relatively small compared to some of the other categories discussed, but since it makes up such a large portion of the index (almost 33%), this increase added 1.0% to the total growth in CPI also. In the Shelter category, rent of primary residence

was up 2.4% but the bigger contributor to growth was the increase in owners' equivalent rent of residences which was up 2.9%.

Looking at data from the Chicago area shows a similar pattern of growth in recent years but at a more subdued level. Price growth in Chicago has consistently been a little below the nation as a whole. Over the last two years, the all item CPI for Chicago has averaged being about 0.3% lower than the U.S. and 0.6% lower for Core CPI. Currently the all item CPI for the Chicago area is 4.5% which is 0.9% less than the 5.4% rate for the U.S. Chicago's Core CPI

is at the relatively sedate rate of 2.3% which is 1.7% lower than the U.S.'s rate of 4.0%. Food (6.1%) and Energy (30.8%) prices in Chicago have risen more than the U.S. as a whole but as mentioned previously, the Core CPI items are only up 2.3% compared to 4.0%. Due to a lack of data in certain sectors for the Chicago area, it is somewhat unclear what exactly is causing this difference. However, two sub-categories for the Chicago area have actually declined, while still growing in the rest of the U.S. Apparel has declined 2.0% and the cost of medical services is down 2.2% in Chicago compared to growth of 3.4% and 0.9% in the U.S.

Consumer Price Index for All Urban Consumers (CPI-U)				
U.S. city and Chicago Area average, by expenditure category, September 2021				
Expenditure category*	Relative Importance Aug. 2021	U.S. % Change over Previous Year	Effect on U.S. All Items Sep. 2020 - Sep. 2021	Chicago Area % Change over Previous Year
All items	100.0	5.4		4.5
Food	13.9	4.6	0.646	6.1
Food at home	7.7	4.5	0.351	5.5
Cereals and bakery products	1.0	2.7	0.027	2.2
Meats, poultry, fish, and eggs	1.8	10.5	0.183	8.1
Dairy and related products	0.7	0.6	0.005	-0.5
Fruits and vegetables	1.3	3.0	0.040	10.6
Nonalcoholic beverages and beverage materials	0.9	3.7	0.035	5.0
Other food at home	1.9	3.1	0.061	4.1
Food away from home	6.2	4.7	0.295	6.8
Energy	7.3	24.8	1.535	30.8
Energy commodities	4.1	41.7	1.266	n/a
Fuel oil	0.1	42.6	0.031	n/a
Motor fuel	3.9	42.0	1.219	46.9
Gasoline (all types)	3.8	42.1	1.196	47.0
Energy services	3.2	8.5	0.269	17.1
Electricity	2.5	5.2	0.129	1.3
Utility (piped) gas service	0.8	20.6	0.139	n/a
All items less food and energy	78.8	4.0	3.210	2.3
Commodities less food and energy commodities	20.7	7.3	1.478	n/a
Apparel	2.7	3.4	0.094	-2.0
New vehicles	3.8	8.7	0.325	7.8
Used cars and trucks	3.4	24.4	0.681	24.2
Medical care commodities	1.5	-1.6	-0.026	n/a
Alcoholic beverages	1.0	2.8	0.029	2.2
Tobacco and smoking products	0.6	6.7	0.040	n/a
Services less energy services	58.1	2.9	1.732	n/a
Shelter	32.6	3.2	1.051	3.3
Rent of primary residence	7.6	2.4	0.191	3.1
Owners' equivalent rent of residences	23.6	2.9	0.700	2.8
Medical care services	7.1	0.9	0.065	-2.2
Physicians' services	1.8	3.8	0.069	n/a
Hospital services	2.2	3.2	0.070	n/a
Transportation services	5.1	4.4	0.222	n/a
Motor vehicle maintenance and repair	1.1	4.0	0.043	n/a
Motor vehicle insurance	1.6	4.8	0.075	n/a
Airline fares	0.6	0.8	0.005	n/a

*1982-84=100 for most categories, see BLS website for more details

Sub-sections are samples of pertinent industries and will not always equal the section totals.

U.S. Bureau of Labor Statistics

Update On Sports Wagering

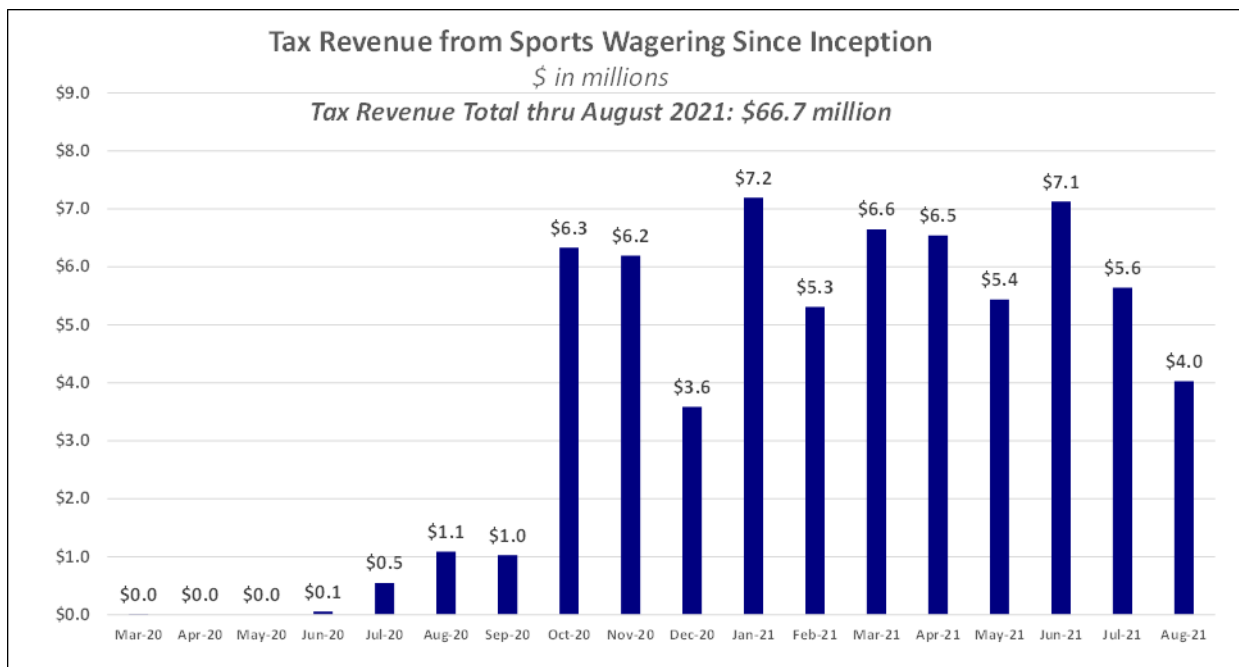
Eric Noggle, Senior Revenue Analyst

Sports Wagering was legalized in Illinois in June 2019 as part of P.A. 101-0031. The initial expectation was that some form of sports betting would be implemented in time for the Spring 2020 sports season. However, the cancellation of most major sporting events due to COVID-19 resulted in very little tax revenues (\$12,224 to be exact) being received from the sports wagering tax in FY 2020.

The return of the major sports during the latter half of 2020 allowed for sports wagering to begin generating consistent revenues. In FY 2021, the amount of adjusted gross receipts (AGR) produced from sports wagering in Illinois totaled just over \$380 million. The tax rate on sports wagering is a flat 15%. Therefore, the \$380 million in adjusted gross receipts resulted in a tax revenue total for FY 2021 of \$57 million.

While only two months of data from FY 2022 is available so far on the Gaming Board’s website at the time of this article, these figures show that the FY 2022 numbers are, not surprisingly, significantly higher than they were at this time last year. As sports wagering approaches full implementation, the expectation is that FY 2022 sports wagering tax revenues should see notable gains. This, of course, assumes no further virus related shutdowns in the sports wagering industry.

The graph below displays the monthly amounts of tax revenue collected from the State’s 15% tax rate on sports wagering since its inception in March 2020.



Since sports wagering is still in its infancy in Illinois, it is premature to identify consistent trends in Illinois’ sports wagering figures. In fact, a consistent monthly revenue stream is not expected due to the seasonality of the sports in which bets are placed upon. For example, one of the most popular sports to gamble on in the United States is football. However, this sport typically runs only during the fall and early winter months. When football is over,

wagering on basketball fills part of this void during the late winter and spring months. But once the NBA playoffs conclude in late spring, it is expected that sports wagering will consistently see a drop-off in wagering activity in the summer months, as was seen in July and August of 2021. Sports like baseball, golf, and tennis, do provide limited sports betting options during the summer months, but the popularity of these sports, especially in terms of

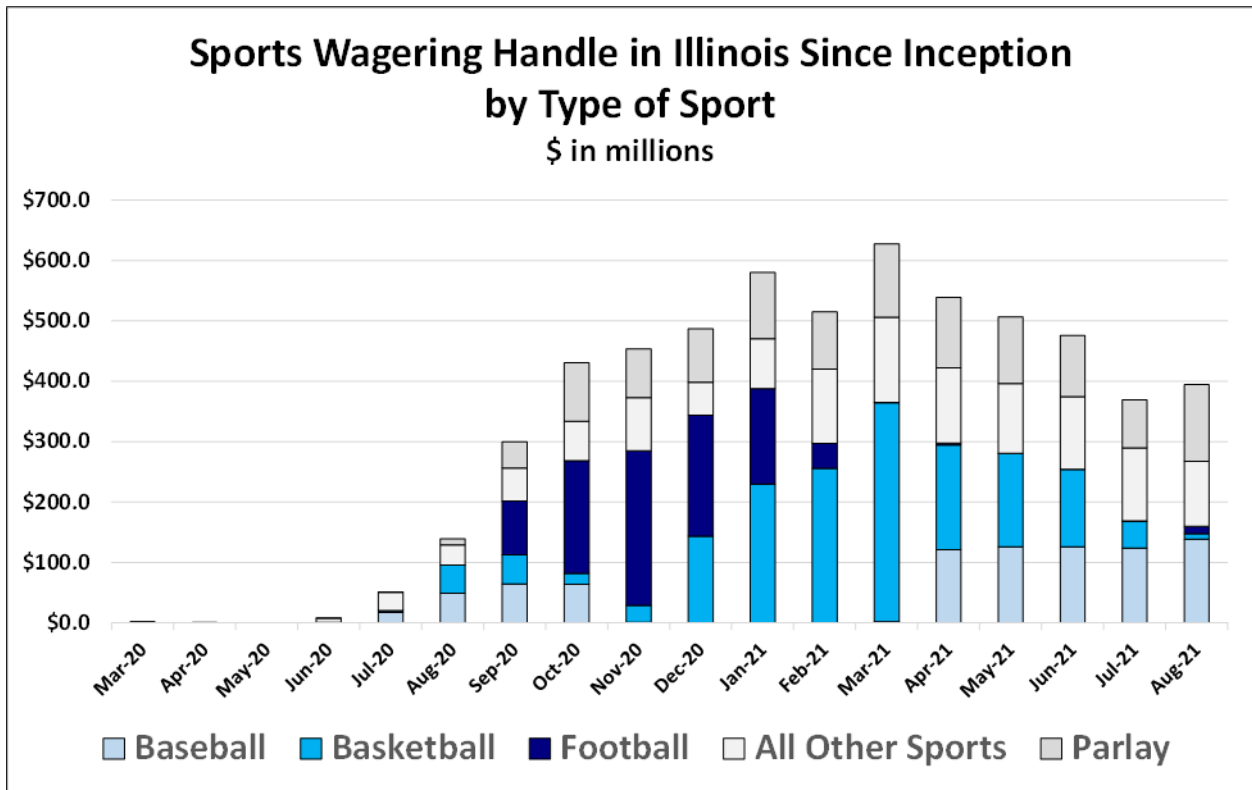
wagers, currently do not reach the levels of that of football and basketball. For these reasons, sports wagering will likely see fluctuations in its monthly revenue totals throughout a typical year.

The Illinois Gaming Board’s website provides a database that allows the user to see further details behind the revenues collected from sports wagering. The Commission provided tables summarizing these details on a fiscal year basis in its latest Wagering Report (released in September and available on the Commission’s website). In summary, the data shows that the vast majority of the sports wagering in Illinois in FY 2021 was done on professional sports (86.8% of wagers, 81.4% of the handle, and 81.1% of the payouts). College sports made up most of the remaining bets with motor races and other events making up less than 0.3% of all wagering activity in FY 2021.

In terms of the type of sport wagered on, the Gaming Board’s database shows that “parlays” had the highest percentage of wagers in FY 2021 at 39.2%. A “parlay” is when a bettor makes multiple wagers and ties them together into the same bet. Parlays can

involve multiple bets in the same sport or across multiple sports (which is why it has its own category, though, parlays are often made on just one type of sport). Basketball had the 2nd most wagers (20.2%), followed by football (16.1%) and baseball (7.8%). In terms of handle and payouts, basketball had the most activity in FY 2021, which benefitted from both the NBA season and playoffs, as well as the popular NCAA tournament.

Using the sports wagering handle data as a guide, the graph below displays the wagering activity on a monthly basis and broken out by type of sport bet upon since sports wagering began in Illinois in March 2020. {The “handle” is the amount of money wagered by bettors. The adjusted gross figures previously discussed are essentially the handle less payouts to winning bets}. In this graph, the seasonality of sports can be seen. Again, the lack of betting options from basketball and football has caused revenues to fall during the recent summer months. However, it is expected that an increase in sports wagering activity will occur in the months ahead as data from the popular football and basketball seasons are again included in the figures.



REVENUE: OCTOBER REVENUE GROWTH REFLECTS FEDERAL SOURCES—CORPORATE INCOME TAX AND SALES TAX RECEIPTS ALSO CONTRIBUTORS TO GAIN

Jim Muschinske, Revenue Manager

Base October general funds revenues grew \$663 million. Comparatively higher federal source growth represented the bulk of the gain, as receipts were \$441 million higher than a very weak month experienced last year. In addition, corporate income tax receipts along with sales tax receipts also performed impressively, contributing to overall monthly growth. October had one less receipting day compared to last year.

For the month, gross corporate income tax receipts were up \$117 million, or \$92 million on a net basis. Gross sales tax receipts also performed well with a monthly gain of \$105 million, or \$87 million net. Gross personal income taxes moderated from earlier levels, but still grew \$38 million or \$28 million net. Estate tax revenue had another strong month, growing \$34 million. Other miscellaneous sources to the general funds added \$6 million in growth, public utility taxes \$3 million, and vehicle use \$1 million.

A few revenue sources experienced monthly declines. Corporate franchise taxes were down \$16 million, interest earnings were off \$3 million, insurance taxes faded by \$2 million, and cigarette taxes eased \$1 million.

Overall transfers into the general funds were slightly lower in October as revenues dipped \$7 million. Lottery transfers were down \$50 million, but were mostly offset by a \$23 million improvement in miscellaneous transfers, as well as a \$20 million gain

from riverboat gaming transfers [after going dormant for all of FY 2021 due to the pandemic]. As mentioned, federal sources posted another strong month as reimbursements jumped \$441 million, reflecting a very weak month one year earlier. [Contained in that monthly gain of federal sources was a \$144 million transfer from the Essential Government Services Support Fund related to the American Rescue Plan Act].

Year to Date

Through the first third of FY 2022, overall base receipts are up \$1.198 billion. While net income taxes are \$467 million behind last year's pace, as explained in earlier briefings, this is due to timing of last year's final payment delay rather than underpinnings of economic performance. In fact, given the performance of September/October income tax receipts, and factoring in the approximate \$1.3 billion of last year's receipt timing, income tax receipts have performed very strong. Net sales tax has also enjoyed good growth as receipts are up \$466 million. All other sources are behind last year's levels by a combined \$77 million.

Overall transfers are ahead of last year's pace by \$227 million through October. Those gains reflect better miscellaneous transfers, particularly from the Capital Projects Fund, as well as the return of riverboat transfers. Federal sources had a strong first third of the fiscal year, with revenues up \$1.049 billion.

OCTOBER

FY 2022 vs. FY 2021

(\$ million)

<u>Revenue Sources</u>	<u>Oct. FY 2022</u>	<u>Oct. FY 2021</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$1,651	\$1,613	\$38	2.4%
Corporate Income Tax (regular)	250	133	117	88.0%
Sales Taxes	892	787	105	13.3%
Public Utility Taxes (regular)	51	48	3	6.3%
Cigarette Tax	20	21	(1)	-4.8%
Liquor Gallonage Taxes	16	16	0	0.0%
Vehicle Use Tax	4	3	1	33.3%
Inheritance Tax	51	17	34	200.0%
Insurance Taxes and Fees	1	3	(2)	-66.7%
Corporate Franchise Tax & Fees	14	30	(16)	-53.3%
Interest on State Funds & Investments	2	5	(3)	-60.0%
Cook County IGT	0	0	0	N/A
Other Sources	19	13	6	46.2%
Subtotal	\$2,971	\$2,689	\$282	10.5%
Transfers				
Lottery	\$35	\$85	(\$50)	-58.8%
Riverboat transfers & receipts	20	0	20	N/A
Proceeds from Sale of 10th license	0	0	0	N/A
Refund Fund transfer	0	0	0	N/A
Other	76	53	23	43.4%
Total State Sources	\$3,102	\$2,827	\$275	9.7%
Federal Sources	\$460	\$19	\$441	2321.1%
Total Federal & State Sources	\$3,562	\$2,846	\$716	25.2%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$153)	(\$145)	(\$8)	5.5%
Corporate Income Tax	(37)	(19)	(18)	94.7%
LGDF--Direct from PIT	(91)	(89)	(2)	2.2%
LGDF--Direct from CIT	(15)	(8)	(7)	87.5%
Downstate Pub/Trans--Direct from Sales	(36)	(18)	(18)	100.0%
Subtotal General Funds	\$3,230	\$2,567	\$663	25.8%
Treasurer's Investments	\$0	\$0	\$0	N/A
Interfund Borrowing	\$0	\$0	\$0	N/A
Short Term Borrowing [MLF]	\$0	\$0	\$0	N/A
Total General Funds	\$3,230	\$2,567	\$663	25.8%

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

1-Nov-21

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2022 vs. FY 2021

(\$ million)

Revenue Sources	FY 2022	FY 2021	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$7,138	\$8,009	(\$871)	-10.9%
Corporate Income Tax (regular)	1,605	1,220	385	31.6%
Sales Taxes	3,590	3,083	507	16.4%
Public Utility Taxes (regular)	227	222	5	2.3%
Cigarette Tax	92	100	(8)	-8.0%
Liquor Gallonage Taxes	68	62	6	9.7%
Vehicle Use Tax	16	14	2	14.3%
Inheritance Tax	208	153	55	35.9%
Insurance Taxes and Fees	112	187	(75)	-40.1%
Corporate Franchise Tax & Fees	78	116	(38)	-32.8%
Interest on State Funds & Investments	4	34	(30)	-88.2%
Cook County IGT	0	0	0	N/A
Other Sources	78	72	6	8.3%
Subtotal	\$13,216	\$13,272	(\$56)	-0.4%
Transfers				
Lottery	\$245	\$250	(\$5)	-2.0%
Riverboat transfers & receipts	54	0	54	N/A
Proceeds from Sale of 10th license	0	0	0	N/A
Refund Fund transfer	242	281	(39)	-13.9%
Other	368	151	217	143.7%
Total State Sources	\$14,125	\$13,954	\$171	1.2%
Federal Sources	\$1,855	\$806	\$1,049	130.1%
Total Federal & State Sources	\$15,980	\$14,760	\$1,220	8.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$660)	(\$721)	\$61	-8.5%
Corporate Income Tax	(241)	(171)	(70)	40.9%
LGDF--Direct from PIT	(393)	(442)	49	-11.1%
LGDF--Direct from CIT	(93)	(72)	(21)	29.2%
Downstate Pub/Trans--Direct from Sales	(108)	(67)	(41)	61.2%
Subtotal General Funds	\$14,485	\$13,287	\$1,198	9.0%
Treasurer's Investments	\$0	\$0	\$0	N/A
Interfund Borrowing	\$0	\$0	\$0	N/A
Short Term Borrowing [MLF]	\$0	\$0	\$0	N/A
Total General Funds	\$14,485	\$13,287	\$1,198	9.0%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Nov-21