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**ECONOMY:** How Long Will the Recession Last?  
 Edward H. Boss, Jr., Chief Economist

The National Bureau of Economic Research (NBER), the official designators of U.S. business cycle expansions and contractions, determined that the U.S. economy has been in a recession since March 2001. Revised data for the third quarter show real gross domestic product (GDP) declined at a 1.1% annual rate in the third quarter following a meager 0.3% rise in the second. Thus, the decade-long business expansion begun in March 1991, the longest recorded in U.S. history, has ended. The focus now has quickly shifted to how long the current period of recession will last. No one of course knows, but history can perhaps shed some light on the subject.

Table 1 shows the average length of recessions and expansions over various time periods and under conditions that include military conflicts and those that occurred during peacetime. The reason for the latter distinction is that military buildups can be very stimulative due to vast spending increases and can affect both the shape and length of the business cycle. For example, prior to the record expansion

TABLE 1 U.S. Business Cycles

	RECESSION	EXPANSION		RECESSION	EXPANSION
Average, all cycles			Average, peacetime cycles		
1854 - 1991 (31 cycles)	18 months	35 months	1854 - 1991 (26 cycles)	19 months	29 months
1854 - 1919 (16 cycles)	22 months	27 months	1854 - 1919 (14 cycles)	22 months	24 months
1919 - 1945 (6 cycles)	18 months	35 months	1919 - 1945 (5 cycles)	20 months	26 months
<b>1945 - 1991 (9 cycles)</b>	<b>11 months</b>	<b>50 months</b>	<b>1945 - 1991 (7 cycles)</b>	<b>11 months</b>	<b>43 months</b>

just ended, 120 months, the longest period of expansion was between February 1961 and December 1969, 106 months, which included the Vietnam buildup and war. The longest previous peacetime expansion, between November 1982 and July 1990, was 92 months.

In examining the table, several interesting observations can be made. First, the average recession of all cycles is 18 months with the ensuing expansion lasting 35 months. In peacetime, recessions average 19 months and expansions a lesser 29 months. However, going down the columns, each consecutive period shows recessions getting shorter and expansions becoming longer. This suggests some success over time in managing business cycles. Indeed, in the post World War II era (1945-present) the average length of a

recession was 11 months, while an expansion had grown to 50 months for all 9 cycles and 43 months for the 7 that occurred during peacetime.

Another interesting characteristic is that, in observing individual cycles, there is a tendency that the longer the period of expansion, the shorter the following recession. As an example, the 1980s expansion that lasted from November 1982 to July 1990 was followed by only an 8-month recession, and the longest previous recovery during the 1960s was followed by an 11-month recession. Thus, barring another major shock to the economy, such as occurred on September 11, history alone would suggest the recession should end sometime early next year. Certainly, both monetary and fiscal policies have been on a stimulative course for most of the year, and these steps should help boost economic activity.

<b>INDICATORS OF ILLINOIS ECONOMIC ACTIVITY</b>			
<u>INDICATORS</u>	<u>Oct. 2001</u>	<u>Sept. 2001</u>	<u>Oct. 2000</u>
Unemployment Rate (Average)	5.5%	5.5%	4.3%
Annual Rate of Inflation (Chicago)	-10.7%	10.7%	1.5%
<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) (October)	6,384	-0.2%	-0.3%
Employment (thousands) (October)	6,031	-0.2%	-1.6%
New Car & Truck Registration (October)	71,319	85.5%	67.5%
Single Family Housing Permits (October)	3,630	8.1%	17.0%
Total Exports (\$ mil) (September)	2,448	-6.2%	-2.6%
Chicago Purchasing Managers Index (November)	41.1	-11.0%	-1.4%

## **REVENUE**

Other Than Rainy Day Transfer,  
Revenue Performance Mixed in  
November

Jim Muschinske, Unit Chief

In November, general revenues were up \$279 million. However, this sizable increase is due primarily to the transfer of \$226 million from the Budget Stabilization Fund (i.e. Rainy Day Fund) to the General Revenue Fund. This transfer was executed to help alleviate the State's current cash flow difficulties and, according to Public Act 92-11, must be repaid by June 30th. Absent that transfer, all other general revenue, aided mostly by federal source receipts, increased \$53 million for the month. One extra receipting day in November also contributed to the increase.

Sales tax led the monthly advancers as receipts were up \$31 million. Increased auto sales sparked by financing incentives as well as the return of the sales tax on motor fuel help precipitate the increase. Corporate franchise taxes jumped \$12 million, while gross corporate income tax receipts rose \$11 million. Finally, inheritance tax receipts contributed a gain of \$3 million.

Numerous sources experienced declines in November. The largest loser was public utility tax as receipts were off \$18 million. Interest income fell by \$13 million, while gross personal income tax declined by \$12 million. Other sources declined by \$4 million and both liquor and vehicle use tax receipts each dipped \$1 million.

Overall transfers, excluding the aforementioned Budget Stabilization Fund transfer, were down \$4 million. While the Gaming Fund transfer was up \$15 million in November, the lottery transfer fell by \$17 million. In addition, other transfers fell by \$2 million. Fueled in part by reimbursable spending made available by the Budget Stabilization transfer, Federal sources experienced a \$55 million increase in November.

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

Over the first five months of FY 2002, absent the \$226 million transfer, total general funds revenue is down \$209 million from the same period last year. While receipts have begun to improve since the dismal first quarter performance, revenues still indicate a decidedly negative economy.

Interest income from investments is down \$50 million, reflecting lower interest rates and investable balances. Gross corporate income tax is \$39 million lower, while gross personal income tax is down by \$31 million. Other State tax sources experiencing declines through November totaled an additional \$53 million. Only three tax sources have experienced gains during the first five months with sales tax receipts up \$70 million, insurance taxes and fees up \$6 million, and corporate franchise receipts up \$7 million. Overall transfers were down \$51 million through November, while federal sources were also off by \$51 million.

In order to reach the Commission's current base general funds estimate of \$24.526 billion, receipts over the remaining seven months would have to increase 4.2%. As mentioned in earlier

briefings and updates, the Commission's estimate assumes a pick-up in economic activity and subsequent revenue performance beginning in the second half of the fiscal year.

<b>GENERAL FUNDS RECEIPTS: NOVEMBER</b>				
<i>FY 2002 vs. FY 2001</i>				
<i>(\$ million)</i>				
<b>Revenue Sources</b>	<b>NOV. FY 2002</b>	<b>NOV. FY 2001</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$574	\$586	(\$12)	-2.0%
Corporate Income Tax (regular)	34	23	\$11	47.8%
Sales Taxes	524	493	\$31	6.3%
Public Utility Taxes (regular)	79	97	(\$18)	-18.6%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	11	12	(\$1)	-8.3%
Vehicle Use Tax	3	4	(\$1)	-25.0%
Inheritance Tax (Gross)	31	28	\$3	10.7%
Insurance Taxes and Fees	1	1	\$0	0.0%
Corporate Franchise Tax & Fees	21	9	\$12	133.3%
Interest on State Funds & Investments	11	24	(\$13)	-54.2%
Cook County IGT	0	0	\$0	0.0%
Other Sources	16	20	(\$4)	-20.0%
<b>Subtotal</b>	<b>\$1,338</b>	<b>\$1,330</b>	<b>\$8</b>	<b>0.6%</b>
<b>Transfers</b>				
Lottery	34	51	(\$17)	-33.3%
Gaming Fund Transfer	48	33	\$15	45.5%
Other	16	18	(\$2)	-11.1%
<b>Total State Sources</b>	<b>\$1,436</b>	<b>\$1,432</b>	<b>\$4</b>	<b>0.3%</b>
<b>Federal Sources</b>	<b>\$365</b>	<b>\$310</b>	<b>\$55</b>	<b>17.7%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$1,801</b>	<b>\$1,742</b>	<b>\$59</b>	<b>3.4%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$44)	(\$42)	(\$2)	4.8%
Corporate Income Tax	(8)	(4)	(\$4)	100.0%
<b>Subtotal General Funds</b>	<b>\$1,749</b>	<b>\$1,696</b>	<b>\$53</b>	<b>3.1%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$226</b>	<b>\$0</b>	<b>\$226</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$1,975</b>	<b>\$1,696</b>	<b>\$279</b>	<b>16.5%</b>
IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				
2-Dec-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	\$2,974	\$3,005	(\$31)	-1.0%
Corporate Income Tax (regular)	283	322	(\$39)	-12.1%
Sales Taxes	2,561	2,491	\$70	2.8%
Public Utility Taxes (regular)	426	444	(\$18)	-4.1%
Cigarette Tax	166	166	\$0	0.0%
Liquor Gallonage Taxes	52	55	(\$3)	-5.5%
Vehicle Use Tax	16	16	\$0	0.0%
Inheritance Tax (Gross)	153	179	(\$26)	-14.5%
Insurance Taxes and Fees	58	52	\$6	11.5%
Corporate Franchise Tax & Fees	67	60	\$7	11.7%
Interest on State Funds & Investments	73	123	(\$50)	-40.7%
Cook County IGT	130	130	\$0	0.0%
Other Sources	80	86	(\$6)	-7.0%
<b>Subtotal</b>	<b>\$7,039</b>	<b>\$7,129</b>	<b>(\$90)</b>	<b>-1.3%</b>
<b>Transfers</b>				
Lottery	199	191	\$8	4.2%
Gaming Fund Transfer	222	202	\$20	9.9%
Other	104	183	(\$79)	-43.2%
<b>Total State Sources</b>	<b>\$7,564</b>	<b>\$7,705</b>	<b>(\$141)</b>	<b>-1.8%</b>
<b>Federal Sources</b>	<b>\$1,626</b>	<b>\$1,677</b>	<b>(\$51)</b>	<b>-3.0%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$9,190</b>	<b>\$9,382</b>	<b>(\$192)</b>	<b>-2.0%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$226)	(\$213)	(\$13)	6.1%
Corporate Income Tax	(65)	(61)	(\$4)	6.6%
<b>Subtotal General Funds</b>	<b>\$8,899</b>	<b>\$9,108</b>	<b>(\$209)</b>	<b>-2.3%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$226</b>	<b>\$0</b>	<b>\$226</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$9,125</b>	<b>\$9,108</b>	<b>\$17</b>	<b>0.2%</b>

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

2-Dec-01

**GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE**

**FY 2002 ESTIMATE vs. FY 2001 ACTUAL**

(\$ million)

<b>Revenue Sources</b>	<b>ESTIMATE FY 2002</b>	<b>FYTD 2002</b>	<b>AMOUNT NEEDED FY 2002 EST.</b>	<b>FYTD 2001</b>	<b>GROWTH NEEDED</b>	<b>% CHANGE</b>
<b>State Taxes</b>						
Personal Income Tax	\$8,780	\$2,974	\$5,806	\$3,005	\$204	3.6%
Corporate Income Tax (regular)	1,252	283	\$969	322	\$12	1.3%
Sales Taxes	6,220	2,561	\$3,659	2,491	\$192	5.5%
Public Utility Taxes (regular)	1,180	426	\$754	444	\$52	7.4%
Cigarette Tax	400	166	\$234	166	\$0	0.0%
Liquor Gallonage Taxes	135	52	\$83	55	\$14	20.3%
Vehicle Use Tax	35	16	\$19	16	\$1	5.6%
Inheritance Tax (Gross)	376	153	\$223	179	\$41	22.5%
Insurance Taxes and Fees	260	58	\$202	52	\$8	4.1%
Corporate Franchise Tax & Fees	151	67	\$84	60	(\$2)	-2.3%
Interest on State Funds & Investments	235	73	\$162	123	\$11	7.3%
Cook County IGT	245	130	\$115	130	\$0	0.0%
Other Sources	497	80	\$417	86	\$96	29.9%
<b>Subtotal</b>	<b>\$19,766</b>	<b>\$7,039</b>	<b>\$12,727</b>	<b>\$7,129</b>	<b>\$629</b>	<b>5.2%</b>
<b>Transfers</b>						
Lottery	505	199	\$306	191	(\$4)	-1.3%
Gaming Fund Transfer	465	222	\$243	202	(\$15)	-5.8%
Other	465	104	\$361	183	\$92	34.2%
<b>Total State Sources</b>	<b>\$21,201</b>	<b>\$7,564</b>	<b>\$13,637</b>	<b>\$7,705</b>	<b>\$702</b>	<b>5.4%</b>
<b>Federal Sources</b>	<b>\$4,280</b>	<b>\$1,626</b>	<b>\$2,654</b>	<b>\$1,677</b>	<b>\$11</b>	<b>0.4%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$25,481</b>	<b>\$9,190</b>	<b>\$16,291</b>	<b>\$9,382</b>	<b>\$713</b>	<b>4.6%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$667)	(\$226)	(\$441)	(\$213)	(\$43)	10.8%
Corporate Income Tax	(288)	(65)	(\$223)	(61)	(\$41)	22.5%
<b>Subtotal General Funds</b>	<b>\$24,526</b>	<b>\$8,899</b>	<b>\$15,627</b>	<b>\$9,108</b>	<b>\$629</b>	<b>4.2%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$226</b>	<b>\$226</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$24,752</b>	<b>\$9,125</b>	<b>\$15,627</b>	<b>\$9,108</b>	<b>\$629</b>	<b>4.2%</b>
<b>IEFC</b>						<b>2-Dec-01</b>