Commission on Government Forecasting and Accountability

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Economy Keeps Chugging Along

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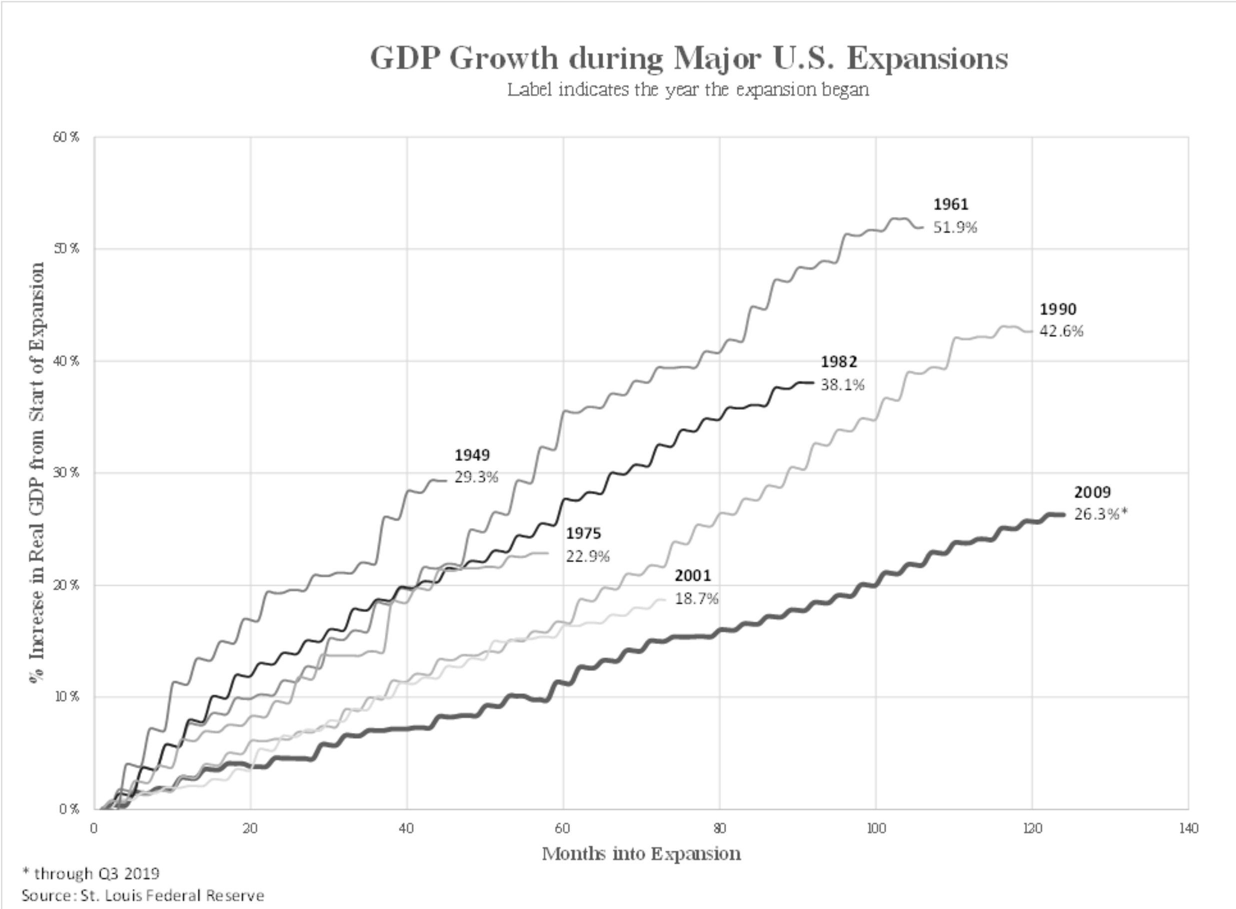
As of November of 2019, the current expansion of the U.S. economy will have reached 126 months. The economy has been expanding since the end of the Great Recession in June of 2009. This is currently 6 months longer than the tech boom of the 1990s and 20 months longer than the expansion seen throughout most of the 1960s, which were the second and third longest expansions as defined by the National Bureau of Economic Research. Although the current expansion is the longest ever recorded, it has not been as strong as other expansions.

As can be seen in the chart on the next page, while the current expansion has lasted longer than previous economic expansions, the growth in real gross domestic product (GDP) has not been as high as other expansions that lasted shorter time periods. The current expansion has seen growth of just over 26% through the 3rd quarter of 2019. This is well behind the 42.6% seen during the 1990s or the almost 52% seen during the 1960s.

Despite some concerns in late 2018 and early 2019, the economy appears to be continuing to expand at a moderate pace. In recent years, the Federal Open Market Committee (FOMC) tightened monetary policy with three federal fund rate increases in 2017 and four increases in 2018 as they tried to head off potential increases in inflation and avoid an over-heating of the economy. Weak results (1.1% growth) in real GDP in the fourth quarter of 2018 and economic volatility early in 2019 related to the government shut-down and trade war, led some to worry that the economy was heading into a recession. Real GDP rebounded to 3.1% during the first quarter of 2019, easing some concerns, but fell back to 2.0% in the second quarter. The revised data for real GDP indicated growth of 2.1% in the third quarter of 2019.



While recent results have been near 2% growth and the unemployment rate remains low, there remains some concerns about the economy. The Purchasing Managers Index (PMI) which measures expansion or contraction in the manufacturing sector has shown signs of deterioration. The PMI has gone from the highest level in 15 years (60.8) in August of 2018 to its current level of 48.3 which indicates contraction and is similar to levels last seen coming out of the Great Recession. The Non-Manufacturing Index (NMI), which measures growth in the service sector, has also decelerated during 2019 but still indicates slow growth. Despite the FOMC loosening monetary policy with three interest rate cuts since August to try and invigorate the economy, the current GDPNow economic model forecast by the Federal Reserve Bank of Atlanta estimates growth of only 0.4% for the fourth quarter.

Though the economy faces some headwinds, there are indications of continued growth. The economy continues to add jobs and the unemployment rate remains near record low levels. Both the Household Survey and the Establishment Survey continue to indicate steady growth in the total number of people employed. Inflation appears under control with no indications of an increase on the horizon. The Consumer Price Index (CPI), which measures inflation at the consumer level, remains below 2% despite a short period of increased inflation during the summer of 2018. The Producer's Price Index (PPI), which measures inflation at the wholesale level and is a potential indicator of future inflation at the consumer level, has actually seen declines in prices when compared to last year. Consumer spending which is an integral part of the economy remains relatively strong and consumer confidence remains strong. Consumer confidence as measured by The Conference Board's Consumer Confidence Survey is near its highest level since the early 2000, while the University of Michigan's Consumer Sentiment Survey remains at generally high levels though not as high as the Consumer Confidence Survey.

The economy appears to have weathered a rough period around the beginning of the year and then renewed its path of moderate growth. Forecasters continue to call for slow growth but keep an eye out for the economy falling into recession. Looking at an aggregation of economic forecasts produced by Consensus Economics, Inc., economic forecasters are currently predicting overall growth of 2.3% in real GDP for 2019 with a slight decline to 1.8% in 2020. IHS Markit, an economic research and analysis firm which provides an economic forecast to the Commission, currently calls for continued growth of around 2% in their base model which is estimated as having a 55% chance of coming to fruition. Unfortunately, the likelihood of a recession in its short-term forecast has increased. At the beginning of 2019, the probability of a recession was estimated at 25% in their economic model. By June of this year, the probability had increased to 35% which is where it still stands in November. Overall, the economy is expected to continue to grow slowly but the downside risk appears to have increased.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Oct.)	3.9%	3.9%	4.2%
Inflation in Chicago (12-month percent change) (Oct.)	1.8%	1.4%	2.0%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Oct.)	6,504.4	0.0%	0.6%
Employment (thousands) (Oct.)	6,253.5	0.1%	1.0%
Nonfarm Payroll Employment (Oct.)	6,192,300	1,900	57,000
New Car & Truck Registration (Oct.)	60,194	-1.3%	11.2%
Single Family Housing Permits (Oct.)	899	8.2%	-17.3%
Total Exports ($ mil) (Sep.)	4,932.5	-0.4%	-6.3%
Chicago Purchasing Managers Index (Nov.)	46.3	7.2%	-30.3%

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

November 2019 Bond Sale and Ratings

Lynnae Kapp, Senior Analyst

BOND SALES

Illinois sold $750 million in General Obligation bonds competitively at the beginning of November 2019. The tax-exempt bonds were sold in three series with a total all-in true interest cost of 3.4578%. The proceeds of the bonds will mainly be used for transportation projects under the State's new six-year $45 billion Rebuild Illinois capital program. Some state building renovations will be paid from the proceeds as well as a few remaining projects from previous capital programs.

The 10-year bond came in at a 140 basis point (bp) spread to the Municipal Market Data's AAA benchmark, and 78 basis points from the BBB benchmark level that the State's ratings are actually at. "The state's spreads have fluctuated in recent years. The 10-year in an August 2018 deal landed at a 175 bp spread. That deal sold after the state's two-year budget impasse ended. The 10-year in the previous deal that sold in the fall of 2016 amid budget gridlock came at a 192 bp spread."

STATE-ISSUED BOND SALES

DATE	BOND SALE TYPE	AMOUNT	TAXABLE v. TAX-EXEMPT	NEGOTIATED v. COMPETITIVE SALE	TRUE INTEREST COST	FITCH	S&P	MOODY'S	Kroll
FY 2017									
Sep-16	Build IL 2016A	$150 million	tax-exempt	competitive	2.442%	AA+	AAA	Baa2	
	Build IL 2016B	$60 million	taxable						
	Build IL 2016C Refunding	$152 million	tax-exempt						
	Build IL 2016D Refunding	$187 million	tax-exempt						
Oct-16	General Obligation Refunding	$1.3 billion	tax-exempt	negotiated	3.7616% Discount Rate	BBB+	BBB	Baa2	
Nov-16	General Obligation bonds	$480 million	tax-exempt	competitive	4.245%	BBB+	BBB	Baa2	
FY 2018									
Nov-17	General Obligation 2017A/B/C	$1.5 billion	tax-exempt	competitive	combined 3.46%	BBB	BBB-	Baa3	
Nov-17	General Obligation 2017D	$4.5 billion	tax-exempt	negotiated	3.55%	BBB	BBB-	Baa3	
Dec-17	General Obligation 2018A & B	$750 million	tax-exempt	competitive	combined 4.29%	BBB	BBB-	Baa3	
May-18	General Obligation 2018A & B	$500 million	tax-exempt	competitive	combined 4.72%	BBB	BBB-	Baa3	
FY 2019									
Sep-18	General Obligation Refunding Series A & B	$966 million	tax-exempt	negotiated	combined 4.19%	BBB	BBB-	Baa3	
Oct-18	Build IL October 2018 A	$115 million	tax-exempt	competitive	4.16%	A-	BBB		AA+
Oct-18	Build IL October 2018 A	$125 million	tax-exempt	competitive	4.27%	A-	BBB		AA+
Oct-18	Build IL October 2018 A	$10 million	taxable	competitive	4.09%	A-	BBB		AA+
Apr-19	General Obligation Pension Obligation Acceleration Bonds April 2019A	$300 million	taxable	competitive	5.74%	BBB	BBB-	Baa3	
Apr-19	General Obligation Refunding April 2019B	$140 million	tax-exempt	competitive	3.33%	BBB	BBB-	Baa3	
FY 2020									
Nov-19	General Obligation November 2019A/B/C	$750 million	tax-exempt	competitive	all in TIC 3.4578%	BBB	BBB-	Baa3	

"Barclays won over nine other bidders on the $300 million series that offered maturities from 2020 to 2029 with a true interest cost of 2.6058%. Bank of America Merrill Lynch won the $300 million series with maturities from 2030 to 2039 with its 3.5786% TIC over seven other bidders and it won the $150 million that offered maturities from 2040 to 2044 with a TIC of 3.8057% over 10 other bidders. Cover bids were tight indicating the deal sold on the market based on demand, traders said." [*Competitive Illinois GO deal brings narrower spreads*, The Bond Buyer, Yvette Shields, November 6, 2019.]

GENERAL OBLIGATION RATINGS

Illinois' General Obligation ratings left AA territory for single A in 2009, and entered BBB territory in October 2015. By June of 2017, the rating agencies had downgraded Illinois to BBB by Fitch, BBB- by S&P and Baa3 by Moody's. While the budget impasse continued through June, all three ratings agencies threatened more downgrades if the State didn't pass a budget for FY 2018. The budget-related bills -- SB 6, SB 9 and SB 42 -- did not become law until July 6, 2017, after the General Assembly overrode the Governor's vetoes. By July 20, 2017, all three rating agencies had affirmed their current ratings on the State. These ratings have remained unchanged through November 2019.

Standard & Poor's BBB- (stable)

"The 'BBB-' GO rating reflects our view of the state's lack of budget reserve and generally weakened financial condition, lingering structural budget imbalance, backlog of unpaid bills that remains elevated, distressed pension funding levels, and elevated fixed costs.

"Our outlook reflects our view of expected credit stability within the one-year horizon and while we view Illinois' progress toward closing its structural general fund budget gap and timely budget as a step forward compared with its recent budget history, the state still faces significant credit challenges, such as likely increasing debt and fixed-cost burdens, slow economic growth, and population loss. We believe that it will need further action to achieve sustainable structural balance and address its pension liabilities to maintain an investment-grade rating. On top of political and legislative risks, if current budget assumptions prove optimistic, Illinois could quickly face a deficit. Illinois has yet to sustainably address its persistent structural imbalance, and we anticipate that rising pension costs, coupled with a slowing economy, will contribute to a budget gap for fiscal 2021. That said, its liquidity position remains paramount to the rating, and we expect that recent fiscal 2019 budget performance and the enacted fiscal 2020 budget decrease the likelihood that the state will face a near-term liquidity crisis. The state's strong bond payment provisions also offer some downside insulation to the state ratings. The current GO rating incorporates our view of the state's longer-term vulnerabilities and remains the lowest possible rating within the investment-grade categories."

Fitch Ratings BBB (stable)

"Illinois' 'BBB' Issuer Default Rating (IDR) and GO bond ratings continue to reflect an ongoing pattern of weak operating performance and irresolute fiscal decision-making that has produced a credit position well below the level that the state's broad economic base and substantial independent legal ability to control its budget would otherwise support. The state's elevated long-term liability position remains a key credit challenge.

"MATERIAL WEAKENING OF FINANCIAL OPERATIONS: Fitch will downgrade the state's IDR if the state exacerbates its structural budget challenges through measures such as materially increasing the burden posed by its accounts payable balance and other liabilities, or otherwise notably increasing the use of non-structural budget maneuvers during a period of ongoing economic and revenue growth.

"PENSION OBLIGATION MANAGEMENT: Implementation of proposals to defer or similarly alter annual pension obligations without offsetting measures to reduce long-term costs could also trigger a downgrade. The governor had proposed such a measure in his fiscal 2020 executive budget that Fitch previously noted as a rating concern, but the enacted budget did not include significant pension changes. Illinois remains very constrained in its ability to revise benefit costs given state constitutional limitations.

"INCOME TAX CHANGES UNCERTAIN: A proposed graduated individual income tax could raise substantial revenue, but faces a long and uncertain path before implementation. The credit implications of the November 2020 vote on the income tax amendment depend on whether Illinois uses any increased revenues to address structural budget challenges, or if the state can adequately adjust its budget to work toward structural balance if the amendment fails.

"ONGOING BUDGETARY BALANCE: Upward rating momentum is unlikely until the state more comprehensively addresses its accumulated liabilities including the accounts payable balance."

Moody's Investors Service Baa3 (stable)

"Illinois' credit position largely reflects outsized leverage from the state's pension liabilities and elevated fixed costs that threaten to consume a growing share of the state's operating budget. The state also retains a sizable bill backlog produced by a tendency toward structurally imbalanced budgets. At the same time, the state's credit position is supported by a diverse, large and comparatively wealthy economic base, as well as the government's fiscal powers, though its operating flexibility is somewhat limited in view of factors such as a constitutional pension benefit protection clause. In recent months, the state has taken additional actions to continue stabilizing what had been a weakening financial position, signaling a potential for improvement in the flawed policymaking that allowed the state's challenges to grow more pronounced during the past decade.

"RATING OUTLOOK

The state's stable outlook reflects progress in achieving a balanced fiscal 2020 operating budget, and containment of the unpaid bill backlog. These conditions indicate an improving state governance trend that is nevertheless offset by persistently high net pension liabilities and funding burdens.

"FACTORS THAT COULD LEAD TO AN UPGRADE
-Decisive action to improve funding of the state's main pension plans
-Progress in lowering the state's backlog of unpaid bills that does not rely on long-term borrowing or significant decrease in liquidity
-Enactment of recurring financial measures that support sustainable budget balance

"FACTORS THAT COULD LEAD TO A DOWNGRADE
-Structural imbalance that leads to sustained and significant increase in the state's unpaid bills or other liabilities
-Reduction in pension contributions to provide fiscal relief
-Substantial assumption of debt or pension liabilities incurred by local governments."

ILLINOIS' GENERAL OBLIGIATION RATINGS HISTORY						
Date of	***Fitch***		***S&P***		***Moody's***	
Rating Action	***Rating***	***up/down***	***Rating***	***up/down***	***Rating***	***up/down***
June 2017			***BBB-***	**↓1x**	***Baa3***	**↓1x**
February 2017	***BBB***	**↓1x**				
September 2016			***BBB***	**↓1x**		
June 2016			***BBB+***	**↓1x**	***Baa2***	**↓1x**
October 2015	***BBB+***	**↓1x**			***Baa1***	**↓1x**
June 2013	***A-***	**↓1x**			***A3***	**↓1x**
Jan 2013			***A-***	**↓1x**		
Aug 2012			***A***	**↓1x**		
Jan 2012					***A2***	**↓1x**
Jun 2010	***A***	**↓1x**			***A1***	**↓1x**
Mar-Apr 2010	***A-/A+ recal***	**↓1x/↑2x**			***Aa3 recal***	**↑2x**
Dec 2009			***A+***	**↓1x**	***A2***	**↓1x**
Mar-Jul 2009	***A***	**↓2x**	***AA-***	**↓1x**	***A1***	**↓1x**
Dec 2008	***AA-***	**↓1x**				
May 2003	***AA***	**↓1x**			***Aa3***	**↓1x**
Jun 2000	***AA+***	**↑1x**				
Jun 1998					***Aa2***	**↑1x**
Jul 1997			***AA***	**↑1x**		
Feb 1997					***Aa3***	**↑1x**
Sep 1996	***AA***	***initial rating***				
Feb 1995					***A1***	**↓1x**
Aug 1992			***AA-***	**↓1x**	***Aa****	**↓1x**
Aug-Sep 1991			***AA***	**↓1x**	***Aa1***	**↓1x**
Mar 1983			***AA+***	**↓1x**		
Feb 1979			***AAA***	***initial rating***		
1973					***AAA***	***initial rating***

Note: "recal" means recalibration, when Fitch and Moody's revised their ratings on municipal bonds to match global/corporate ratings. These are not considered upgrades.
***Moody's rating of Aa was before that level had modifiers of Aa2 and Aa3, so it was considered one level in between AA1 and A1**

REVENUE: DESPITE TAX AMNESTY PROCEEDS, RECEIPTS DECLINE IN NOVEMBER AS FEDERAL SOURCES WEAKEN

Jim Muschinske, Revenue Manager

Excluding interfund borrowing, base November revenues declined by $106 million. While the latest tax amnesty program set forth under P.A. 101-0009 boosted certain tax receipts, a significant drop in federal source revenues coupled with declines in a variety of other revenue lines, more than offset any gains. November had the same number of receipting days as last fiscal year.

Only personal and corporate income taxes managed to post monthly growth as the effects of the aforementioned tax amnesty were evident. Gross personal income taxes increased $114 million or $100 million net, while gross corporate income tax jumped $87 million or $70 million on a net basis.

The tax amnesty program enacted under P.A. 101-0009 ran from October 1 thru November 15th. The FY 2020 budget plan assumed that $175 million would be generated by this latest iteration of a tax amnesty program. While the IDoR does not yet have final totals for the latest efforts as amnesty returns are still trickling in, based on a preliminary figure of $159 million thru November 27th, the value of the program seems on pace to be very close to budgeted expectations. It is anticipated that final tallies by revenue source will be determined by IDoR in the near future once all amnesty monies are received.

With only those two revenue sources experiencing growth, the remaining lines were either flat or suffered declines. Public utility taxes fell $17 million in November, while cigarette taxes declined $14 million. Interest income on investments lowered by $5 million and both corporate franchise tax and gross sales tax each fell $4 million [on a net basis sales tax grew $17 million]. Insurance taxes and fees dropped by $2 million, while inheritance tax and other sources each dipped $1 million.

Overall transfers declined $29 million in November. While riverboat transfers increased $3 million, lottery transfers fell $31 million and other miscellaneous transfers by $1 million. As indicated, federal sources suffered a significant monthly decline, falling $220 million, and continuing its pattern of sizable monthly gains/losses.

Year to Date

Excluding proceeds from the Treasurer's Investment program as well as interfund borrowing, through the first five months of the fiscal year, base general funds receipts have posted gains of $1.314 billion. Those increases have been driven by specific transfers [Refund Fund and Capital Projects], stronger federal sources, court settlement proceeds, the tax amnesty program, and decent underlying performance from the larger economically related sources.

Gross personal income taxes are ahead of last year by $378 million, or $337 million net, while gross corporate income taxes are up $138 million, or $120 million net. Gross sales taxes are up $83 million, or $131 million net. The "other source" category is ahead of last year by $130 million, but that gain is entirely due to earlier court settlement proceeds. The performance of the remaining revenue sources have been mixed, but have experienced a combined $72 million decline.

Aided by gains associated to Refund Fund and Capital Projects Fund transfers, overall transfers to the general funds are up $481 million. Federal sources, despite the latest weak month, are still up $187 million through November.

NOVEMBER FY 2020 vs. FY 2019 ($ million)				
Revenue Sources	**Nov. FY 2020**	**Nov. FY 2019**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,480	$1,366	$114	8.3%
Corporate Income Tax (regular)	129	42	$87	207.1%
Sales Taxes	780	784	($4)	-0.5%
Public Utility Taxes (regular)	58	75	($17)	-22.7%
Cigarette Tax	22	36	($14)	-38.9%
Liquor Gallonage Taxes	16	16	$0	0.0%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	24	25	($1)	-4.0%
Insurance Taxes and Fees	1	3	($2)	-66.7%
Corporate Franchise Tax & Fees	21	25	($4)	-16.0%
Interest on State Funds & Investments	12	17	($5)	-29.4%
Cook County IGT	56	56	$0	0.0%
Other Sources	26	27	($1)	-3.7%
Subtotal	$2,628	$2,475	$153	6.2%
Transfers				
Lottery	35	66	($31)	-47.0%
Riverboat transfers & receipts	28	25	$3	12.0%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Other	40	41	($1)	-2.4%
Total State Sources	$2,731	$2,607	$124	4.8%
Federal Sources	$210	$430	($220)	-51.2%
Total Federal & State Sources	$2,941	$3,037	($96)	-3.2%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($141)	($133)	($8)	6.0%
Corporate Income Tax	($19)	(7)	($12)	171.4%
LGDF--Direct from PIT	($77)	(71)	($6)	8.5%
LGDF--Direct from CIT	($7)	(2)	($5)	250.0%
Downstate Pub/Trans--Direct from Sales	($31)	(52)	$21	-40.4%
Subtotal General Funds	$2,666	$2,772	($106)	-3.8%
Treasurer's Investments	$0	$0	$0	N/A
Interfund Borrowing	$150	$250	($100)	N/A
Total General Funds	$2,816	$3,022	($206)	-6.8%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 3-Dec-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	$8,084	$7,706	$378	4.9%
Corporate Income Tax (regular)	935	797	$138	17.3%
Sales Taxes	3,814	3,731	$83	2.2%
Public Utility Taxes (regular)	323	327	($4)	-1.2%
Cigarette Tax	107	153	($46)	-30.1%
Liquor Gallonage Taxes	78	75	$3	4.0%
Vehicle Use Tax	13	14	($1)	-7.1%
Inheritance Tax	109	155	($46)	-29.7%
Insurance Taxes and Fees	111	116	($5)	-4.3%
Corporate Franchise Tax & Fees	105	103	$2	1.9%
Interest on State Funds & Investments	78	53	$25	47.2%
Cook County IGT	56	56	$0	0.0%
Other Sources	330	200	$130	65.0%
Subtotal	$14,143	$13,486	$657	4.9%
Transfers				
Lottery	209	273	($64)	-23.4%
Riverboat transfers & receipts	124	133	($9)	-6.8%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	617	327	$290	88.7%
Other	544	280	$264	94.3%
Total State Sources	$15,637	$14,499	$1,138	7.8%
Federal Sources	$1,323	$1,136	$187	16.5%
Total Federal & State Sources	$16,960	$15,635	$1,325	8.5%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($768)	($747)	($21)	2.8%
Corporate Income Tax	($134)	(124)	($10)	8.1%
LGDF--Direct from PIT	($421)	(401)	($20)	5.0%
LGDF--Direct from CIT	($52)	(44)	($8)	18.2%
Downstate Pub/Trans--Direct from Sales	($104)	(152)	$48	-31.6%
Subtotal General Funds	$15,481	$14,167	$1,314	9.3%
Treasurer's Investments	$400	$700	($300)	-42.9%
Interfund Borrowing	$150	$250	($100)	N/A
Total General Funds	$16,031	$15,117	$914	6.0%

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