



Commission on Government Forecasting and Accountability

802 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: OCTOBER 2019

<http://cgfa.ilga.gov>

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Economy: Too much worry?

Julie Bae, Pension Analyst/Economic Specialist

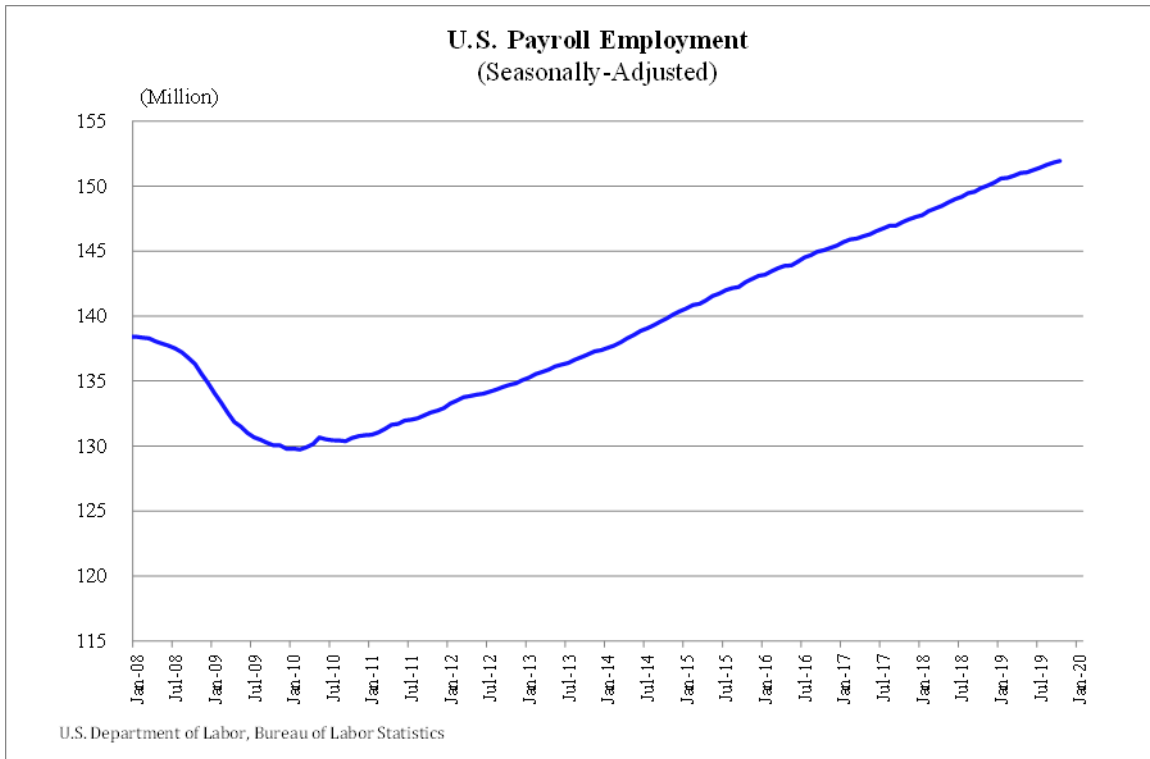
Since the Great Recession, the U.S. economy is now in the longest expansion in history. However, history tells us the expansion in the business cycle will end at some point. Recently, fear of the next recession has been exacerbated due to weaker domestic growth and a global slowing, along with other uncertainties including trade talks with China. That being said, the most recent economic data suggests we are doing fine – for now.

The U.S. Bureau of Labor Statistics reported last Friday that the U.S. added 128,000 jobs in October, a solid figure, considering the recent strike at GM that lasted for nearly 6 weeks and a decrease in the number of temporary Federal government employees. Previously reported data for August and September was revised up significantly by 51,000 and 44,000 to 219,000 and 180,000, respectively. The average monthly job gain so far this year is 167,000, which is lower than an average monthly increase of 223,000 in 2018. While the unemployment rate inched up by 0.1% to 3.6% from the previous month, it is still near the lowest level since 1969. Overall, the October employment report that beat expectations indicates that the job market may have slowed down, compared with last year, but continues to perform at a solid rate.

In addition, the U.S. economy grew at an annual rate of 1.9% in the third quarter of 2019, somewhat higher than expected, but down slightly from the pace of 2% in the second quarter, according to data released by the U.S. Commerce Department. The higher-than-expected pace resulted from positive consumer consumption and government spending, but was

partially offset by weak business investment. Consumer spending, the engine of the U.S. economy as it accounts for approximately 70% of the gross domestic product, shows a similar story as well. The Personal Consumption Expenditures (PCE) gained

0.2% from last month or 3.9% from a year earlier. The Commerce Department reported last Thursday that new automobiles and health care spending were the biggest contributors to the gain.



Meanwhile, the Fed lowered its target rate last week by 25 basis points to a range of 1.50% and 1.75%, the third rate cut this year. The Fed also signaled that a higher hurdle would be required for the next rate reduction to happen, suggesting that the economy appears to be stabilizing, at this time. The series of recently released data validate the Fed’s move as well.

Still, there are some uncertainties that complicate the outlook, such as trade policies, weakening global growth, muted inflation, etc. Unfortunately, it is difficult to predict the precise timing of the next recession.

IHS Markit, the Commission’s economic forecasting service, wrote in a recent report, “*the outlook for underlying growth in demand remains solid. Strong financial conditions, including record high readings on the S&P 500 equity index and low borrowing costs, support healthy growth in spending, as do strong labor markets and gains in real income. We continue to anticipate that solid growth through 2020 and strong labor markets will support expectations for an eventual reversal of the 2019 rate cuts, beginning in late 2020 and through 2021.*”

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Sept.)	3.9%	4.0%	4.2%
Inflation in Chicago (12-month percent change) (Sept.)	1.4%	1.6%	1.6%
	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Sept.)	6,505.9	0.0%	0.7%
Employment (thousands) (Sept.)	6,250.0	0.1%	1.0%
Nonfarm Payroll Employment (Sept.)	6,186,700	4,800	66,600
New Car & Truck Registration (Sept.)	60,973	-1.8%	29.5%
Single Family Housing Permits (Sept.)	831	12.1%	-2.1%
Total Exports (\$ mil) (Aug.)	4,950.0	4.7%	-9.0%
Chicago Purchasing Managers Index (Oct.)	43.2	-8.3%	-26.0%
* Due to monthly fluctuations, trend best shown by % change from a year ago			

REVENUE: OCTOBER RECEIPTS SPURRED HIGHER BY COURT SETTLEMENT PROCEEDS AND FEDERAL SOURCES

Jim Muschinske, Revenue Manager

Excluding last fiscal year's \$500 million in Treasurer's Investments, base October revenues increased by \$209 million. A large component of the monthly gain was \$193 million in court settlement proceeds related to drug company recoveries via the Attorney General's Office (more information is here http://www.illinoisattorneygeneral.gov/pressroom/2019_10/20191028.html). In addition, a comparatively better month for federal sources also aided in the monthly gain, while transfers were weaker and most other revenue sources performed unspectacularly. October had the same number of receipting days as last fiscal year.

For the month, the revenue line "Other Sources" was boosted \$177 million due to the court settlement proceeds. Gross sales tax turned up \$7 million, or \$34 million on a net basis. Gross corporate income taxes increased \$14 million, or \$12 million on a net basis. Public utility tax receipts grew \$12 million, interest earnings improved by \$9 million, insurance tax revenues increased \$3 million, and corporate franchise taxes ticked up \$2 million.

Despite an overall positive month for revenues, a few sources experienced declines in October, albeit at relatively low levels. While the volatile source of estate taxes dropped \$19 million for the month, gross personal income taxes dipped \$5 million, or \$1 million net. Vehicle use taxes declined by \$2 million and cigarette tax receipts by \$1 million.

Overall transfers declined \$179 million in October. Of that amount, \$127 million was due to timing related to transfers from the Income Tax Refund Fund. Miscellaneous transfers were down \$35 million for the month, while riverboat transfers were off \$12 million, and lottery transfers declined \$5 million. As indicated, federal sources posted a sizable increase of \$162 million for the month, although like September, the gain was more due to an extremely poor showing last year.

Year to Date

Excluding proceeds from the Treasurer's Investment program, through the first third of the fiscal year,

base general funds receipts have posted gains of \$1.420 billion. Those gains have been driven by specific transfers [Refund Fund and Capital Projects], stronger federal sources, court settlement proceeds, and decent performance from the larger economically related sources.

Gross personal income taxes are ahead of last year by \$264 million, or \$237 million net, while gross sales taxes are up \$87 million, or \$115 million net. The “Other Sources” category is ahead of last year by \$131 million, but that gain is entirely due to the

October court settlement proceeds. Gross corporate income taxes have increased \$51 million, or \$49 million net. The performance of the remaining revenue sources have been mixed, but have experienced a combined \$29 million decline.

Aided by gains associated to Refund Fund and Capital Projects Fund transfers, overall transfers to the general funds are up \$511 million. Federal sources, the beneficiary of comparatively strong recent months, are now up \$406 million.

OCTOBER
FY 2020 vs. FY 2019
(\$ million)

Revenue Sources	Oct. FY 2020	Oct. FY 2019	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$1,607	\$1,612	(\$5)	-0.3%
Corporate Income Tax (regular)	98	84	\$14	16.7%
Sales Taxes	743	736	\$7	1.0%
Public Utility Taxes (regular)	77	65	\$12	18.5%
Cigarette Tax	23	24	(\$1)	-4.2%
Liquor Gallonage Taxes	13	13	\$0	0.0%
Vehicle Use Tax	1	3	(\$2)	-66.7%
Inheritance Tax	22	41	(\$19)	-46.3%
Insurance Taxes and Fees	9	6	\$3	50.0%
Corporate Franchise Tax & Fees	22	20	\$2	10.0%
Interest on State Funds & Investments	18	9	\$9	100.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	220	43	\$177	411.6%
Subtotal	\$2,853	\$2,656	\$197	7.4%
Transfers				
Lottery	46	51	(\$5)	-9.8%
Riverboat transfers & receipts	21	33	(\$12)	-36.4%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	0	127	(\$127)	N/A
Other	37	72	(\$35)	-48.6%
Total State Sources	\$2,957	\$2,939	\$18	0.6%
Federal Sources	\$250	\$88	\$162	184.1%
Total Federal & State Sources	\$3,207	\$3,027	\$180	5.9%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$152)	(\$156)	\$4	-2.6%
Corporate Income Tax	(\$14)	(13)	(\$1)	7.7%
LGDF--Direct from PIT	(\$84)	(84)	\$0	0.0%
LGDF--Direct from CIT	(\$6)	(5)	(\$1)	20.0%
Downstate Pub/Trans--Direct from Sales	(\$18)	(45)	\$27	-60.0%
Subtotal General Funds	\$2,933	\$2,724	\$209	7.7%
Treasurer's Investments	\$0	\$500	(\$500)	N/A
Interfund Borrowing	\$0	\$0	\$0	N/A
Total General Funds	\$2,933	\$3,224	(\$291)	-9.0%

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

1-Nov-19

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2020 vs. FY 2019

(\$ million)

<u>Revenue Sources</u>	<u>FY 2020</u>	<u>FY 2019</u>	<u>\$</u> <u>CHANGE</u>	<u>%</u> <u>CHANGE</u>
State Taxes				
Personal Income Tax	\$6,604	\$6,340	\$264	4.2%
Corporate Income Tax (regular)	806	755	\$51	6.8%
Sales Taxes	3,035	2,948	\$87	3.0%
Public Utility Taxes (regular)	265	252	\$13	5.2%
Cigarette Tax	85	117	(\$32)	-27.4%
Liquor Gallonage Taxes	62	59	\$3	5.1%
Vehicle Use Tax	10	11	(\$1)	-9.1%
Inheritance Tax	85	130	(\$45)	-34.6%
Insurance Taxes and Fees	110	113	(\$3)	-2.7%
Corporate Franchise Tax & Fees	84	78	\$6	7.7%
Interest on State Funds & Investments	66	36	\$30	83.3%
Cook County IGT	0	0	\$0	"N/A"
Other Sources	304	173	\$131	75.7%
Subtotal	\$11,516	\$11,012	\$504	4.6%
Transfers				
Lottery	174	207	(\$33)	-15.9%
Riverboat transfers & receipts	96	107	(\$11)	-10.3%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	617	327	\$290	88.7%
Other	505	240	\$265	110.4%
Total State Sources	\$12,908	\$11,893	\$1,015	8.5%
Federal Sources	\$1,112	\$706	\$406	57.5%
Total Federal & State Sources	\$14,020	\$12,599	\$1,421	11.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$628)	(\$615)	(\$13)	2.1%
Corporate Income Tax	(\$115)	(117)	\$2	-1.7%
LGDF--Direct from PIT	(\$344)	(330)	(\$14)	4.2%
LGDF--Direct from CIT	(\$45)	(41)	(\$4)	9.8%
Downstate Pub/Trans--Direct from Sales	(\$73)	(101)	\$28	-27.7%
Subtotal General Funds	\$12,815	\$11,395	\$1,420	12.5%
Treasurer's Investments	\$400	\$700	(\$300)	-42.9%
Interfund Borrowing	\$0	\$0	\$0	N/A
Total General Funds	\$13,215	\$12,095	\$1,120	9.3%

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

1-Nov-19