



# Commission on Government Forecasting and Accountability

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**MONTHLY BRIEFING FOR THE MONTH ENDED: DECEMBER 2018**

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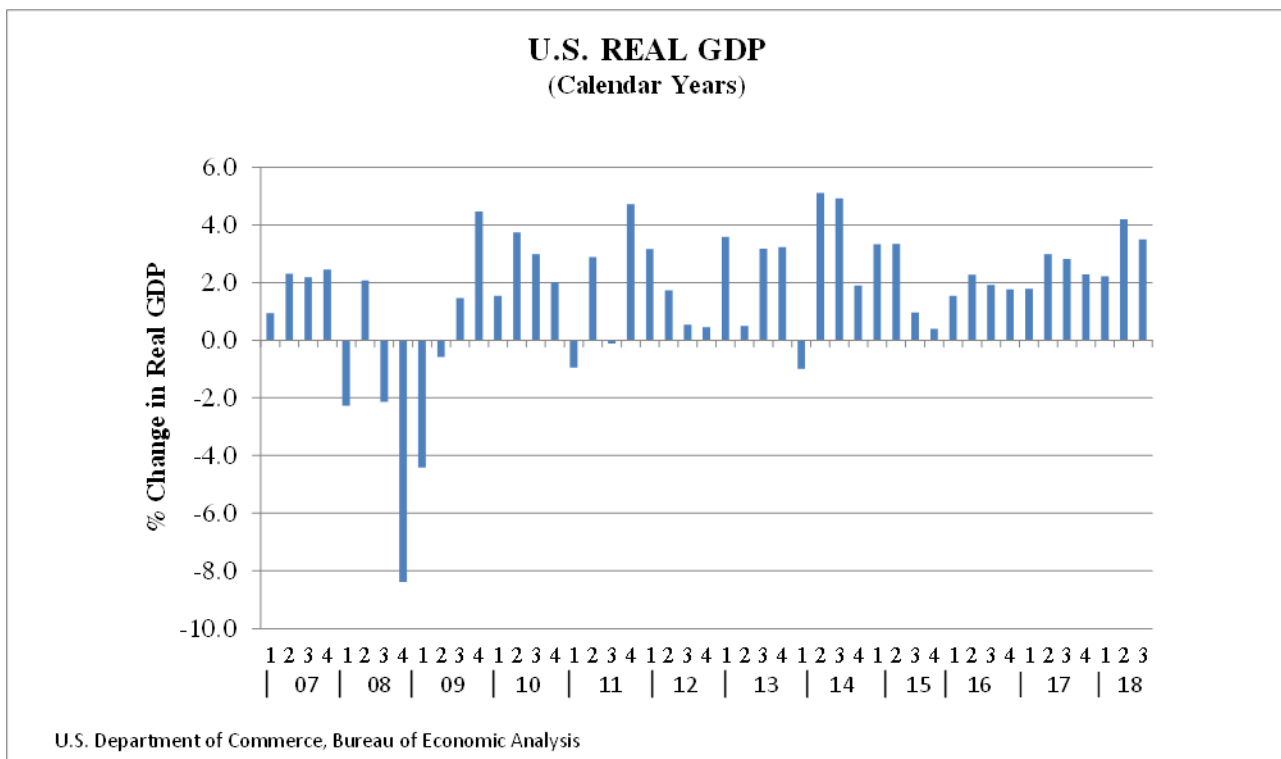
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## Economy: What's to Come?

Benjamin L. Varner, Senior Analyst and Economic Specialist

As 2018 comes to an end; the Commission will examine what economic expectations are for 2019. The Commission utilizes numerous data sources in developing its views on the economy. One of the more all-encompassing sources is "A Digest of Economic Forecasts" produced by Consensus Economics. This report summarizes economic forecasts for the United States from twenty-seven different economic forecasters. These forecasters include various economic service providers (IHS Markit/Moody's Analytics), professional business associations (National Association of Home Builders), academic institutions (University of Michigan/University of Maryland), and individual businesses (FedEx Corporation/Ford Motor Company).

One of the main statistics used to describe the condition of the economy is real Gross Domestic Product (GDP). GDP is measured by industry according to the North American Industry Classification System (NAICS) by the Bureau of Economic Analysis, a division of the U.S. Department of Commerce. Current dollar GDP is calculated by adding the expenditures of households on goods and services plus business investment, government expenditures, and net exports. The GDP estimates are then adjusted for inflation to arrive at a real GDP amount. As of November 2018, the mean forecast for real GDP from the twenty-seven economic forecasters was 2.9% for 2018. The mean forecast for 2019 was 2.7% with



a high of 3.2% and a low of 2.2%. The forecasters see a further slowing of the economy in 2020 as the mean outlook is growth of only 1.9%. The unemployment rate has continually fallen in recent years and the forecasters believe that the unemployment rate will continue to decline. In 2014 the U.S. unemployment rate averaged 6.2%. It fell to 5.3% in 2015, 4.9% in 2016, and 4.4% in 2017. The unemployment rate is expected to average 3.9% in 2018. It is predicted that the unemployment rate will continue to decline to 3.5% in 2019.

Even with the continued high level of employment, the economic expectations are for a slowdown in real disposable income. Real disposable income is the inflation-adjusted income available to persons for spending or saving. It is equal to personal income less personal current taxes. In 2014 and 2015, real disposable income grew at over 4.0%. In 2016 and 2017, it grew around 2%. Expectations are for it to grow 2.8% in 2018 but slow to 2.3% in 2019.

Inflation is expected to continue at a slightly elevated level when compared to recent years. Consumer prices grew at less than 1.6% per year from 2014 to 2016. In fact, consumer prices only grew 0.1% in 2015. Consumer prices grew 2.1%

in 2017 and are expected to grow 2.5% in 2018. The mean estimate for 2019 is 2.3% with a high of 2.7% and a low of 2.0%. The forecasters believe that a similar level of growth in consumer prices (2.2%) will be seen in 2020.

The members of the Federal Reserve Board (FED) seem to generally agree with the forecasters summarized above. On December 19, 2018, the FED released a Summary of Economic Projections. In those projections, the median estimate for growth in real GDP was 3.0% for 2018, 2.3% for 2019, and 2.0% for 2020. These estimates were a little higher than the consensus forecast for 2018, a little lower for 2019, and basically the same for 2020. Similarly, the Fed sees the unemployment rate at 3.7% for 2018 and 3.5% for 2019 and 2020. This is a little lower in 2018 than the consensus forecasters but the same for future years.

Overall, the economy appears to be ending 2018 on a strong note but the future is more uncertain. Economic prognosticators see a slowing of the economy in 2019 with further deterioration in 2020. Employment is expected to continue to be strong but disposable income may be weakening. Inflation is expected to continue at sustainable levels though at a higher level than in recent years.

## INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

| INDICATORS*  | LATEST<br>MONTH | PRIOR MONTH                | A YEAR AGO                |
|--|-----------------|----------------------------|---------------------------|
| Unemployment Rate (Average) (Nov.)   | 4.2%            | 4.2%                       | 4.9%                      |
| Inflation in Chicago (12-month percent change) (Nov.)                                  | 1.0%            | 2.0%                       | 1.8%                      |
|  | LATEST<br>MONTH | CHANGE OVER<br>PRIOR MONTH | CHANGE OVER<br>A YEAR AGO |
| Civilian Labor Force (thousands) (Nov.)  | 6,499.5         | 0.2%                       | 0.0%                      |
| Employment (thousands) (Nov.)  | 6,225.6         | 0.1%                       | 0.7%                      |
| Nonfarm Payroll Employment (Nov.)  | 6,136,500       | 5,900                      | 54,600                    |
| New Car & Truck Registration (Nov.)  | 45,696          | -15.6%                     | -0.3%                     |
| Single Family Housing Permits (Nov.)**   | N/A             | N/A                        | N/A                       |
| Total Exports (\$ mil) (Oct.)  | 5,792.2         | 10.0%                      | 5.9%                      |
| Chicago Purchasing Managers Index (Dec.)   | 65.4            | -1.5%                      | -3.5%                     |
| * Due to monthly fluctuations, trend best shown by % change from a year ago            |                 |                            |                           |
| ** Data for November 2018 have not been updated yet due to a lapse in federal funding. |                 |                            |                           |

### REVENUE: December Revenues Up Modestly

Jim Muschinske, Revenue Manager

In December, base monthly receipts increased \$208 million. While the economic related sources were mixed, a comparatively stronger month for federal sources contributed to the monthly gain. December had one less receipting day compared to the prior year.

Sales taxes increased \$60 million on a gross basis, or \$57 million net of the direct distributions to transportation funds. Gross corporate income taxes grew \$48 million, or \$45 million on a net basis. Corporate franchise taxes rose \$15 million, while interest income added \$7 million to the overall monthly increase. Gross personal income tax edged \$7 million higher, or \$3 million net. Cigarette taxes managed to eke out a \$2 million advance.

A few sources posted declines for the month. A comparatively smaller SERS prior-year overpayment resulted in a \$55 million decline in other sources, while inheritance taxes fell \$6 million. Public utility taxes and insurance taxes each dipped \$1 million.

Overall transfers increased \$53 million in December. While lottery transfers managed to grow \$1 million, all other miscellaneous transfers into the general funds added \$52 million to the monthly gain. Federal sources were up by \$89

million which reflected an extremely poor month one-year earlier.

#### Year To Date

Excluding interfund borrowing, last year's \$2.5 billion bond proceeds transfer and the \$700 million related to the Treasurer's Investments this fiscal year, base general funds for the first half of FY 2019 are \$935 million behind last year. As explained in last month's briefing, the reason for the decline is due to last year's federal reimbursement surge. Absent that, the closely-tied economic sources demonstrated considerable strength. Gross personal income tax is up by \$931 million, or \$777 million net. Gross sales tax receipts are up by \$318 million, or \$292 million net. Gross corporate income taxes are up by \$188 million, or \$165 million net. All other tax sources combined added \$44 million to the year-to-date gain.

Overall transfers increased by \$54 million through December. And again, Federal sources are down by \$2.267 billion, as on a comparative basis last year was record setting due to reimbursable spending made possible from bond sale proceeds.

**DECEMBER**  
**FY 2019 vs. FY 2018**  
(\$ million)

| <b>Revenue Sources</b>                                 | <b>Dec.<br/>FY 2019</b> | <b>Dec.<br/>FY 2018</b> | <b>\$<br/>CHANGE</b> | <b>%<br/>CHANGE</b> |
|--|-------------------------|-------------------------|----------------------|---------------------|
| <b>State Taxes</b>                                     |                         |                         |                      |                     |
| Personal Income Tax                                    | \$1,577                 | \$1,570                 | \$7                  | 0.4%                |
| Corporate Income Tax (regular)                         | 452                     | 404                     | \$48                 | 11.9%               |
| Sales Taxes  | 815                     | 755                     | \$60                 | 7.9%                |
| Public Utility Taxes (regular)                         | 71                      | 72                      | (\$1)                | -1.4%               |
| Cigarette Tax  | 27                      | 25                      | \$2                  | 8.0%                |
| Liquor Gallonage Taxes                                 | 15                      | 15                      | \$0                  | 0.0%                |
| Vehicle Use Tax  | 2                       | 2                       | \$0                  | 0.0%                |
| Inheritance Tax  | 42                      | 48                      | (\$6)                | -12.5%              |
| Insurance Taxes and Fees                               | 74                      | 75                      | (\$1)                | -1.3%               |
| Corporate Franchise Tax & Fees                         | 30                      | 15                      | \$15                 | 100.0%              |
| Interest on State Funds & Investments                  | 11                      | 4                       | \$7                  | 175.0%              |
| Cook County IGT  | 0                       | 0                       | \$0                  | N/A                 |
| Other Sources  | 77                      | 132                     | (\$55)               | -41.7%              |
| <b>Subtotal</b>  | <b>\$3,193</b>          | <b>\$3,117</b>          | <b>\$76</b>          | <b>2.4%</b>         |
| <b>Transfers</b>                                       |                         |                         |                      |                     |
| Lottery  | 71                      | 70                      | \$1                  | 1.4%                |
| Riverboat transfers & receipts                         | 28                      | 28                      | \$0                  | 0.0%                |
| Proceeds from Sale of 10th license                     | 0                       | 0                       | \$0                  | N/A                 |
| Refund Fund transfer                                   | 0                       | 0                       | \$0                  | N/A                 |
| Fund sweeps  | 0                       | 0                       | \$0                  | N/A                 |
| Other  | 83                      | 31                      | \$52                 | 167.7%              |
| <b>Total State Sources</b>                             | <b>\$3,375</b>          | <b>\$3,246</b>          | <b>\$129</b>         | <b>4.0%</b>         |
| <b>Federal Sources</b>                                 | <b>\$117</b>            | <b>\$28</b>             | <b>\$89</b>          | <b>317.9%</b>       |
| <b>Total Federal &amp; State Sources</b>               | <b>\$3,492</b>          | <b>\$3,274</b>          | <b>\$218</b>         | <b>6.7%</b>         |
| <b>Nongeneral Funds Distributions/Direct Receipts:</b> |                         |                         |                      |                     |
| <b>Refund Fund</b>                                     |                         |                         |                      |                     |
| Personal Income Tax                                    | (\$153)                 | (\$154)                 | \$1                  | -0.6%               |
| Corporate Income Tax                                   | (\$70)                  | (71)                    | \$1                  | -1.4%               |
| <b>LGDF--Direct from PIT</b>                           | <b>(\$82)</b>           | <b>(77)</b>             | <b>(\$5)</b>         | <b>6.5%</b>         |
| <b>LGDF--Direct from CIT</b>                           | <b>(\$25)</b>           | <b>(21)</b>             | <b>(\$4)</b>         | <b>19.0%</b>        |
| <b>Downstate Pub/Trans--Direct from Sales</b>          | <b>(\$47)</b>           | <b>(44)</b>             | <b>(\$3)</b>         | <b>6.8%</b>         |
| <b>Subtotal General Funds</b>                          | <b>\$3,115</b>          | <b>\$2,907</b>          | <b>\$208</b>         | <b>7.2%</b>         |
| <b>Treasurer's Investments</b>                         | <b>\$0</b>              | <b>\$0</b>              | <b>\$0</b>           | <b>N/A</b>          |
| <b>Interfund Borrowing</b>                             | <b>\$0</b>              | <b>\$0</b>              | <b>\$0</b>           | <b>N/A</b>          |
| <b>Income Tax Bond Fund Transfer</b>                   | <b>\$0</b>              | <b>\$0</b>              | <b>\$0</b>           | <b>N/A</b>          |
| <b>Transfer to Commitment Human Services</b>           | <b>\$0</b>              | <b>\$0</b>              | <b>\$0</b>           | <b>N/A</b>          |
| <b>Total General Funds</b>                             | <b>\$3,115</b>          | <b>\$2,907</b>          | <b>\$208</b>         | <b>7.2%</b>         |

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

2-Jan-19

# GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2019 vs. FY 2018

(\$ million)

| Revenue Sources  | FY 2019         | FY 2018         | \$<br>CHANGE     | %<br>CHANGE   |
|--|-----------------|-----------------|------------------|---------------|
| <b>State Taxes</b>                                     |                 |                 |                  |               |
| Personal Income Tax                                    | \$9,282         | \$8,351         | \$931            | 11.1%         |
| Corporate Income Tax (regular)                         | 1,250           | 1,062           | \$188            | 17.7%         |
| Sales Taxes  | 4,547           | 4,229           | \$318            | 7.5%          |
| Public Utility Taxes (regular)                         | 399             | 415             | (\$16)           | -3.9%         |
| Cigarette Tax  | 180             | 172             | \$8              | 4.7%          |
| Liquor Gallonage Taxes                                 | 90              | 89              | \$1              | 1.1%          |
| Vehicle Use Tax  | 16              | 16              | \$0              | 0.0%          |
| Inheritance Tax  | 197             | 181             | \$16             | 8.8%          |
| Insurance Taxes and Fees                               | 190             | 194             | (\$4)            | -2.1%         |
| Corporate Franchise Tax & Fees                         | 133             | 108             | \$25             | 23.1%         |
| Interest on State Funds & Investments                  | 63              | 31              | \$32             | 103.2%        |
| Cook County IGT  | 56              | 56              | \$0              | 0.0%          |
| Other Sources  | 277             | 295             | (\$18)           | -6.1%         |
| <b>Subtotal</b>  | <b>\$16,680</b> | <b>\$15,199</b> | <b>\$1,481</b>   | <b>9.7%</b>   |
| <b>Transfers</b>                                       |                 |                 |                  |               |
| Lottery  | 344             | 338             | \$6              | 1.8%          |
| Riverboat transfers & receipts                         | 161             | 167             | (\$6)            | -3.6%         |
| Proceeds from Sale of 10th license                     | 0               | 0               | \$0              | N/A           |
| Refund Fund transfer                                   | 327             | 0               | \$327            | N/A           |
| Fund sweeps  | 0               | 207             | (\$207)          | N/A           |
| Other  | 363             | 429             | (\$66)           | -15.4%        |
| <b>Total State Sources</b>                             | <b>\$17,875</b> | <b>\$16,340</b> | <b>\$1,535</b>   | <b>9.4%</b>   |
| <b>Federal Sources</b>                                 | <b>\$1,253</b>  | <b>\$3,520</b>  | <b>(\$2,267)</b> | <b>-64.4%</b> |
| <b>Total Federal &amp; State Sources</b>               | <b>\$19,128</b> | <b>\$19,860</b> | <b>(\$732)</b>   | <b>-3.7%</b>  |
| <b>Nongeneral Funds Distributions/Direct Receipts:</b> |                 |                 |                  |               |
| <b>Refund Fund</b>                                     |                 |                 |                  |               |
| Personal Income Tax                                    | (\$900)         | (\$818)         | (\$82)           | 10.0%         |
| Corporate Income Tax                                   | (\$194)         | (186)           | (\$8)            | 4.3%          |
| <b>LGDF--Direct from PIT</b>                           | <b>(\$483)</b>  | <b>(411)</b>    | <b>(\$72)</b>    | <b>17.5%</b>  |
| <b>LGDF--Direct from CIT</b>                           | <b>(\$69)</b>   | <b>(54)</b>     | <b>(\$15)</b>    | <b>27.8%</b>  |
| <b>Downstate Pub/Trans--Direct from Sales</b>          | <b>(\$200)</b>  | <b>(174)</b>    | <b>(\$26)</b>    | <b>14.9%</b>  |
| <b>Subtotal General Funds</b>                          | <b>\$17,282</b> | <b>\$18,217</b> | <b>(\$935)</b>   | <b>-5.1%</b>  |
| <b>Treasurer's Investments</b>                         | <b>\$700</b>    | <b>\$0</b>      | <b>\$700</b>     | <b>N/A</b>    |
| <b>Interfund Borrowing</b>                             | <b>\$250</b>    | <b>\$354</b>    | <b>(\$104)</b>   | <b>N/A</b>    |
| <b>Income Tax Bond Fund Transfer</b>                   | <b>\$0</b>      | <b>\$2,500</b>  | <b>(\$2,500)</b> | <b>N/A</b>    |
| <b>Transfer to Commitment Human Services</b>           | <b>\$0</b>      | <b>\$0</b>      | <b>\$0</b>       | <b>N/A</b>    |
| <b>Total General Funds</b>                             | <b>\$18,232</b> | <b>\$21,071</b> | <b>(\$2,839)</b> | <b>-13.5%</b> |

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

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