



Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: NOVEMBER 2018

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Economy: Appears Bright for Strong Holiday Sales

Julie Bae, Pension Analyst/Economic Specialist

In October, the U.S. unemployment rate remained unchanged at 3.7%, a 49-year low, and both personal income (pre-tax income) and disposable income (after-tax income) increased 0.5%, the biggest gains since January. As consumer confidence rose, the savings rate fell to 6.2% in October from 7.0% in the beginning of this year. Personal consumption expenditures, a measure of national consumer spending on goods and services, rose 0.6%, the highest monthly increase since March. The fourth quarter of 2018 appears to be off to a good start, with strong labor market conditions and consumer confidence observed by these economic indicators in October.

Chart 1 on the following page shows the performance of total retail sales, an important component of consumer spending which accounts for nearly 70% of total spending in the economy. Retail sales in October were up 0.8% over last month or 4.6% a year earlier. As of now, forecasts of holiday sales appear buoyant.

The National Retail Federation (NRF) report in October projected holiday sales in November and December (excluding automobiles, gasoline, and restaurants) to grow between 4.3% and 4.8% over 2017. IHS Markit also forecast in October that the holiday retail sales (excluding automobiles, gasoline, and restaurants) for the same period would increase 5.0% with approximately \$1 out of every \$5.30 spending for holiday sales projected to occur online, a main factor for the holiday sales growth. In September Deloitte projected 2018 holiday season sales (excluding motor vehicles and

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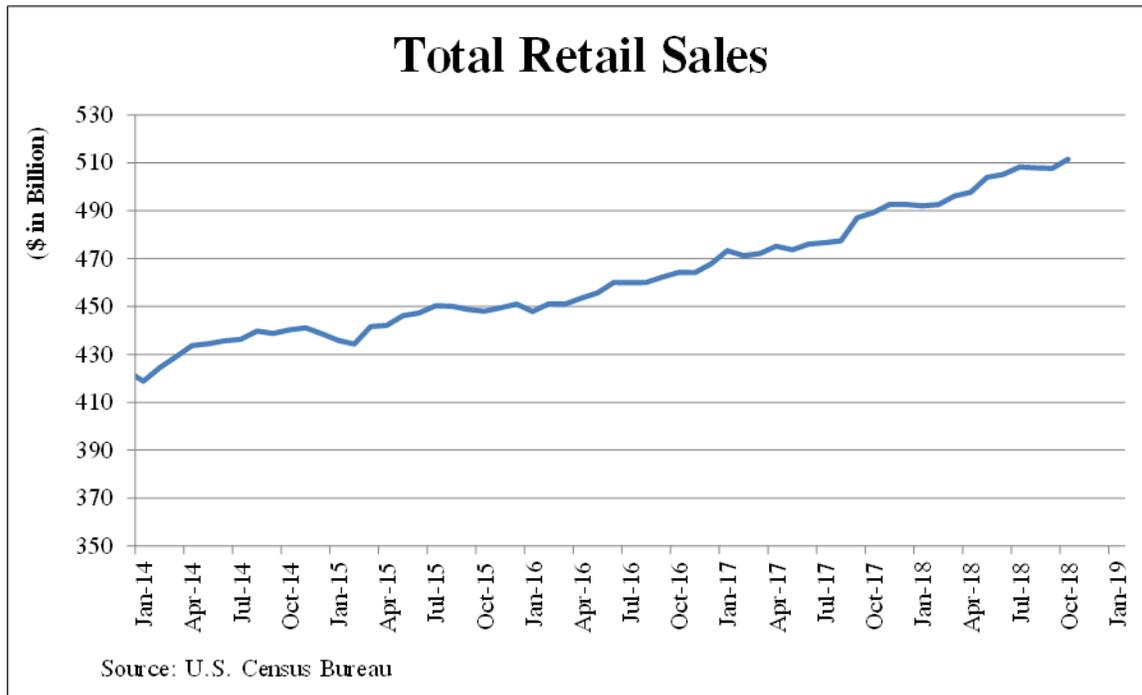
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gasoline) would increase between 5% and 5.6% year-over-year, totaling over \$1.1 trillion.

According to research released by NRF on November 27th, there were more than 165 million American shoppers during the five-day Thanksgiving weekend, slightly higher-than-expected. Average spending in 2018 over the five-day weekend was \$313.29, approximately \$20 below 2017. However, in part this seems to reflect consumers' belief that Thanksgiving deals would be extended further or even improve throughout the remaining holiday season. As most would agree, online sales are expected to significantly increase in 2018; Adobe Analytics reported the online sales on Cyber Monday were projected to reach a record high of \$7.9 billion, a 19.7% increase year-over-year. NRF showed a similar picture as well. Over 89 million people shopped both in stores and online during the Thanksgiving weekend, an approximately 40% increase from last year. *“Over the last couple of days, what I heard in discussions*

with retail CEOs across all categories and segments was very positive, driven by macro conditions of low unemployment and rising wages combined with the right mix of merchandise at great prices. This is a very strong emotional start to the holiday season and a positive indicator of where we are headed over the next month,” NRF President and CEO Matthew Shay said.

Even though optimism is prevailing for now, it is worth noting some experts mention uncertainties still remain. These include a volatile stock market, potential inflationary pressure, possibility of trade disputes, and changes arising from the recent elections. As a result, consumer behavior could change quickly. According to IHS Markit, *“the robust health of the US consumer will result in a solid year for holiday retail sales. However, with the turbulence in stock markets, the risk profile has recently turned more negative. Severe storms and [Sears'] bankruptcy also complicate the outlook.”*



INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS*</u>	<u>LATEST MONTH</u>	<u>PRIOR MONTH</u>	<u>A YEAR AGO</u>
Unemployment Rate (Average) (Oct.)	4.2%	4.1%	4.9%
Inflation in Chicago (12-month percent change) (Oct.)	2.0%	1.6%	1.6%
	<u>LATEST MONTH</u>	<u>CHANGE OVER PRIOR MONTH</u>	<u>CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (Oct.)	6,488.2	0.2%	-0.2%
Employment (thousands) (Oct.)	6,218.1	0.1%	0.6%
Nonfarm Payroll Employment (Oct.)	6,134,100	10,300	59,300
New Car & Truck Registration (Oct.)	54,123	15.0%	5.6%
Single Family Housing Permits (Oct.)	1,087	28.0%	18.3%
Total Exports (\$ mil) (Sept.)	5,265.1	-3.2%	-2.1%
Chicago Purchasing Managers Index (Nov.)	66.4	13.7%	3.9%
* Due to monthly fluctuations, trend best shown by % change from a year ago			

November 2018 Interfund Borrowing Lynnae Kapp, Sr. Analyst

Public Act 100-0023 allowed for \$1.2 billion in Interfund Borrowing from July 6, 2018 through December 31, 2018, and Public Act 100-0587 extended the time for borrowing through March 1, 2019. Interfund Borrowing may include transfers from unspecified special state funds to general funds and the Health Insurance Reserve Fund up to and outstanding at any one time of \$1.2 billion. Additional transfers and retransfers may occur between funds as needed due to insufficient cash in

the originator fund, as long as the amount outstanding is still at or below \$1.2 billion. Amounts shall be repaid from general funds to the original funds with interest within 24 months of the date borrowed.

Transfers to-date to the General Revenue Fund equal \$783 million, \$250 million of which occurred in November 2018.

FY 2018 INTERFUND BORROWING (Public Act 100-0023)

Transfer from Fund			TO-DATE	TOTAL
Fund #	Fund Name	November 2018	TOTAL	PAID BACK
0022	General Professions Dedicated Fund	\$100,000	\$100,000	\$0
0044	Lobbyist Registration Administration Fund	\$1,000,000	\$1,000,000	\$0
0067	Radiation Protection Fund	\$1,000,000	\$1,000,000	\$0
0072	Underground Storage Tank Fund	\$21,300,000	\$74,300,000	\$53,000,000
0075	Compassionate Use of Medical Cannabis Fund	\$2,500,000	\$2,500,000	\$0
0093	Illinois State Medical Disciplinary Fund	\$5,000,000	\$5,000,000	\$0
0118	Facility Licensing Fund	\$500,000	\$500,000	\$0
0245	Fair and Exposition Fund		\$2,500,000	\$0
0258	Nursing Dedicated and Professional Fund	\$1,000,000	\$1,000,000	\$0
0265	State Rail Freight Loan Repayment Fund		\$6,000,000	\$0
0286	Illinois Affordable Housing Trust Fund	\$10,000,000	\$21,295,000	\$11,295,000
0294	Used Tire Management Fund	\$1,000,000	\$1,000,000	\$0
0298	Natural Areas Acquisition Fund	\$2,000,000	\$2,000,000	\$0
0299	Open Space Lands Acquisition and Development Fund	\$3,000,000	\$58,000,000	\$0
0362	Securities Audit and Enforcement Fund	\$6,000,000	\$6,000,000	\$0
0372	Plumbing Licensure and Program Fund	\$500,000	\$500,000	\$0
0384	Tax Compliance and Administration Fund	\$3,000,000	\$3,000,000	\$0
0421	Public Aid Recoveries Trust Fund	\$100,000,000	\$200,000,000	\$20,000,000
0453	Monitoring Device Driving Permit Administration Fee Fund	\$3,000,000	\$3,000,000	\$0
0534	Illinois Workers' Compensation Commission Operations Fund	\$2,000,000	\$2,000,000	\$0
0550	Supplemental Low-Income Energy Assistance Fund	\$27,000,000	\$42,000,000	\$0
0568	School Infrastructure Fund	\$45,000,000	\$146,000,000	\$0
0608	Partners for Conservation Fund		\$2,000,000	\$0
0708	Illinois Standardbred Breeders Fund		\$1,000,000	\$0
0709	Illinois Thoroughbred Breeders Fund		\$500,000	\$0
0722	Comptroller Debt Recovery Trust Fund		\$6,000,000	\$6,000,000
0763	Tourism Promotion Fund	\$5,000,000	\$5,000,000	\$0
0795	Bank and Trust Company Fund	\$1,000,000	\$1,000,000	\$0
0796	Nuclear Safety Emergency Preparedness Fund	\$2,000,000	\$2,000,000	\$0
0836	Illinois Power Agency Renewable Energy Resources Fund		\$150,000,000	\$37,500,000
0850	Real Estate License Administration Fund	\$1,000,000	\$1,000,000	\$0
0922	Insurance Producer Administration Fund	\$5,000,000	\$15,000,000	\$0
0925	Coal Technology Development Assistance Fund		\$5,000,000	\$0
0944	Environmental Protection Permit and Inspection Fund	\$100,000	\$100,000	\$0
0962	Park and Conservation Fund		\$10,000,000	\$0
0997	Insurance Financial Regulation Fund	\$1,000,000	\$6,000,000	\$0
	TOTAL	\$250,000,000	\$783,295,000	\$127,795,000

REVENUE: As Expected, November 2017's Surge in Reimbursements Results in Large Monthly Federal Sources Decline in 2018

Jim Muschinske, Revenue Manager

Excluding \$250 million in interfund borrowing, as well as \$2.500 billion which was deposited into the GRF stemming from the \$6 billion bond sale executed in November 2017, base monthly receipts fell \$1.738 billion. The significant drop in revenues was not a surprise and merely reflects last year's reimbursable spending surge made possible as a result of the bond sale. That important item aside, most of the other revenue sources showed mixed results this November. The month had one less receipting day compared to the prior year.

Sales taxes increased \$105 million on a gross basis, or \$100 million net of the direct distributions to transportation funds. Gross personal income taxes grew \$47 million, or \$37 million on a net basis. Public utility taxes posted a gain of \$9 million, while cigarette taxes moved up \$6 million as a result of receipt timing. Interest income reflected higher rates of return and advanced \$6 million. Corporate franchise taxes rose \$2 million, and liquor tax as well as vehicle use tax each eked out a \$1 million increase.

A few sources posted minor declines for the month as inheritance tax receipts fell \$6 million, other sources eased \$3 million, and insurance taxes dipped \$2 million.

Overall transfers declined \$60 million in November. While lottery transfers managed to grow \$14 million, all other miscellaneous transfers into the general funds fell \$73 million. As mentioned, the surge in reimbursable spending

made in November 2017 related to the bond sale resulted in an enormous month for federal receipts last fiscal year. This November, which was a strong month in its own right, still paled in comparison, falling \$1.829 billion short of its 2017 record performance.

Year To Date

Excluding interfund borrowing, last year's \$2.5 billion bond proceed transfer, and the \$700 million related to the Treasurer's Investments this fiscal year, base general funds for the first five months of FY 2019 are behind last year by \$1.143 billion. Again, the reason for the decline is due to last year's federal reimbursement surge. Absent that, the most closely-tied economic sources experienced impressive gains. Gross personal income tax is up by \$924 million, or \$775 million net. Gross sales tax receipts are up by \$258 million, or \$236 million net. Gross corporate income taxes are up by \$136 million, or \$118 million net. All other tax sources combined added \$83 million to the year-to-date gain.

Overall transfers increased by \$1 million through November. And again, Federal sources are down by \$2.356 billion, as on a comparative basis last year was record setting due to reimbursable spending made possible from bond sale proceeds.

NOVEMBER

FY 2019 vs. FY 2018

(\$ million)

Revenue Sources	Nov. FY 2019	Nov. FY 2018	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$1,366	\$1,319	\$47	3.6%
Corporate Income Tax (regular)	42	42	\$0	0.0%
Sales Taxes	784	679	\$105	15.5%
Public Utility Taxes (regular)	75	66	\$9	13.6%
Cigarette Tax	36	30	\$6	20.0%
Liquor Gallonage Taxes	16	15	\$1	6.7%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax	25	31	(\$6)	-19.4%
Insurance Taxes and Fees	3	5	(\$2)	-40.0%
Corporate Franchise Tax & Fees	25	23	\$2	8.7%
Interest on State Funds & Investments	17	11	\$6	54.5%
Cook County IGT	56	56	\$0	0.0%
Other Sources	27	30	(\$3)	-10.0%
Subtotal	\$2,475	\$2,309	\$166	7.2%
Transfers				
Lottery	66	52	\$14	26.9%
Riverboat transfers & receipts	25	26	(\$1)	-3.8%
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	41	114	(\$73)	-64.0%
Total State Sources	\$2,607	\$2,501	\$106	4.2%
Federal Sources	\$430	\$2,259	(\$1,829)	-81.0%
Total Federal & State Sources	\$3,037	\$4,760	(\$1,723)	-36.2%

Nongeneral Funds Distributions/Direct Receipts:

Refund Fund				
Personal Income Tax	(\$133)	(\$129)	(\$4)	3.1%
Corporate Income Tax	(\$7)	(7)	\$0	0.0%
LGDF--Direct from PIT	(\$71)	(65)	(\$6)	9.2%
LGDF--Direct from CIT	(\$2)	(2)	\$0	0.0%
Downstate Pub/Trans--Direct from Sales	(\$52)	(47)	(\$5)	10.6%

Subtotal General Funds	\$2,772	\$4,510	(\$1,738)	-38.5%
Treasurer's Investments	\$0	\$0	\$0	N/A
Interfund Borrowing	\$250	\$0	\$250	N/A
Income Tax Bond Fund Transfer	\$0	\$2,500	(\$2,500)	N/A
Transfer to Commitment Human Services	\$0	\$0	\$0	N/A
Total General Funds	\$3,022	\$7,010	(\$3,988)	-56.9%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 4-Dec-18

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2019 vs. FY 2018

(\$ million)

<u>Revenue Sources</u>	<u>FY 2019</u>	<u>FY 2018</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$7,706	\$6,782	\$924	13.6%
Corporate Income Tax (regular)	797	661	\$136	20.6%
Sales Taxes	3,731	3,473	\$258	7.4%
Public Utility Taxes (regular)	327	343	(\$16)	-4.7%
Cigarette Tax	153	147	\$6	4.1%
Liquor Gallonage Taxes	75	74	\$1	1.4%
Vehicle Use Tax	14	12	\$2	16.7%
Inheritance Tax	155	133	\$22	16.5%
Insurance Taxes and Fees	116	119	(\$3)	-2.5%
Corporate Franchise Tax & Fees	103	93	\$10	10.8%
Interest on State Funds & Investments	53	27	\$26	96.3%
Cook County IGT	56	56	\$0	0.0%
Other Sources	200	165	\$35	21.2%
Subtotal	\$13,486	\$12,085	\$1,401	11.6%
Transfers				
Lottery	273	268	\$5	1.9%
Riverboat transfers & receipts	133	139	(\$6)	-4.3%
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	280	398	(\$118)	-29.6%
Total State Sources	\$14,499	\$13,097	\$1,402	10.7%
Federal Sources	\$1,136	\$3,492	(\$2,356)	-67.5%
Total Federal & State Sources	\$15,635	\$16,589	(\$954)	-5.8%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$747)	(\$665)	(\$82)	12.3%
Corporate Income Tax	(\$124)	(116)	(\$8)	6.9%
LGDF--Direct from PIT	(\$401)	(334)	(\$67)	20.1%
LGDF--Direct from CIT	(\$44)	(34)	(\$10)	29.4%
Downstate Pub/Trans--Direct from Sales	(\$152)	(130)	(\$22)	16.9%
Subtotal General Funds	\$14,167	\$15,310	(\$1,143)	-7.5%
Treasurer's Investments	\$700	\$0	\$700	N/A
Interfund Borrowing	\$250	\$354	(\$104)	N/A
Income Tax Bond Fund Transfer	\$0	\$2,500	(\$2,500)	N/A
Transfer to Commitment Human Services	\$0	\$0	\$0	N/A
Total General Funds	\$15,117	\$18,164	(\$3,047)	-16.8%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 4-Dec-18