



Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: NOVEMBER 2014

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ECONOMY: Consumer Spending Holds the Key

Edward H. Boss, Jr., Chief Economist

As the holiday spending season is well underway, the outcome for consumer spending will provide the basis for the path of the economy in the New Year. Expectations remain high as a series of recent reports indicate that consumers, which account for two-thirds or more of Gross Domestic Product, are invigorated. Unlike last year, when forecasts of improved holiday sales were not met, with actual results falling short, this year there seems to be virtual agreement as to the improved outlook for such spending.

The second estimate of GDP for the third quarter showed an annual rate of increase of 3.9%. While this was an unexpected upward revision from a preliminary estimate of 3.5%, it was below the 4.6% rate in the second quarter. The spurt in growth in the second quarter largely reflected a weather-related rebound from the annual rate of decline of 2.1% in the first quarter. While on a rocky path, economic growth this year was in the 2% range, similar to that seen in each of the past two years.

Economic measures released since the end of the third quarter may provide some insight into the course of consumer spending as the holiday buying period begins. Personal spending rose 0.2% in October following no change in September which in turn was revised up from an initial decline of 0.2%. Even while an absolute 0.4% shift, some analysts had expected a gain of 0.3%. Incomes also rose 0.2% last month but also were somewhat less than expected. The savings rate remained at 5%, indicating the ability for increased expenditures. At the same time, measures of consumer optimism by the Conference Board

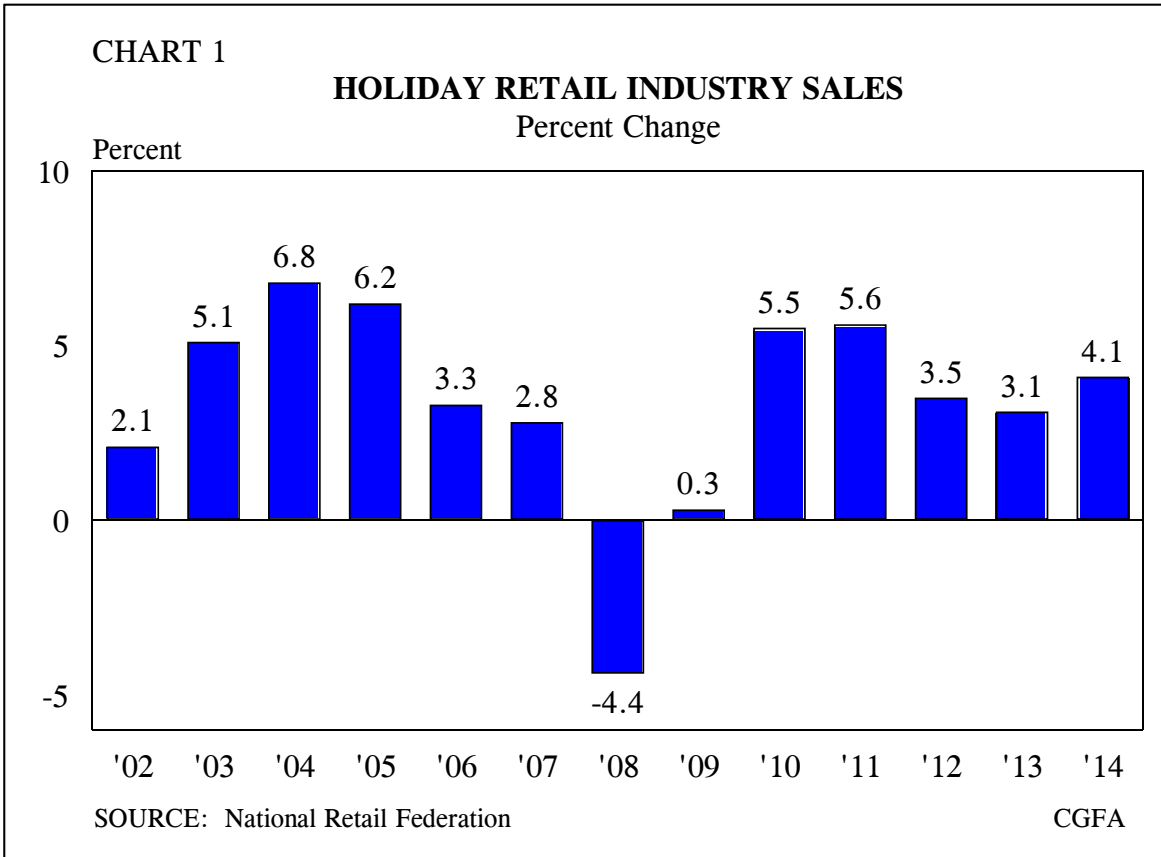
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and the University of Michigan have been on a rising trend with the latest release from the U of M reaching a 7-year high, the highest since July 2007, five months prior to the Great Recession.

Other factors also may be cited for providing an improved setting for holiday spending. Gasoline prices have fallen sharply in recent months and in October were 14% lower than a year earlier while equity prices reached record levels. In addition, an early onset of cold weather may psychologically spur some early shopping, particularly for apparel, while improvement in the job market may have reduced some of the hesitance from spending. The attached chart displays the performance of holiday sales as reported by the National Retail

Federation. The change represents sales in November and December (excluding autos, gas and restaurant).

The NRF forecast for holiday sales in 2014 is for a rise of 4.1%, up a full percent from the 3.1% gain in 2013 and the first time since 2011 that sales gains exceeded 4% and compares to an average 2.9% gain over the past 10 years. It should be pointed out, however, that a year ago the forecast estimate was originally reported at 3.9%, only to fall short at 3.1%. And, while perhaps not indicative of the entire holiday sales season, according to the NRF fewer people visited stores during the Black Friday weekend and spent less this year than last. Wells Fargo Bank's Economics Group that uses the same holiday sales definition as the NRF forecasts a gain of 3.9% this year.

Finally, a somewhat similar holiday sales forecast is done by Deloitte which measures retail sales (excluding motor vehicles and gasoline) but for the months of November through January expects holiday sales to increase 4% to 4.5% over the same period last year.

The consumer remains the key to the economy as we enter 2015. While holiday sales may well surpass that shown in recent years, profit margins are likely to be under pressure. Business spending also seems restrained as indicated by durable goods orders. While durable goods orders rose an unexpected 0.4%, it was due to a 45.3% surge in demand for defense aircraft and parts.

Excluding transportation, orders fell 0.9% the largest drop since December of last year while excluding defense-related items orders dropped 0.6%. Housing gains also have moderated and a slowdown in China and troubles in several European countries will reduce export sales. This is occurring at a time of uncertainty in the Middle East, disturbances at home, and only a slow improvement in the job picture. As a result, forecasts of economic growth for the last quarter of 2014 are likely to fall from the 3.9% fourth quarter rate to the mid 2% area. Moreover, the economy is likely to be locked in that 2% range of recent years and not progressing to the 3% range on a sustained basis for some time to come.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u> *	<u>OCT. 2014</u>	<u>SEPT. 2014</u>	<u>OCT. 2013</u>
Unemployment Rate (Average)	6.6%	6.6%	9.1%
Annual Rate of Inflation (Chicago)	-4.4%	-0.4%	2.0%
—————			
	<u>LATEST</u>	<u>% CHANGE</u>	<u>% CHANGE</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (October)	6,531	0.5%	-0.1%
Employment (thousands) (October)	6,102	0.5%	2.6%
New Car & Truck Registration (October)	55,004	-6.9%	9.7%
Single Family Housing Permits (October)	1,158	18.7%	5.2%
Total Exports (\$ mil) (September)	5,557	-0.5%	1-.2%
Chicago Purchasing Managers Index (November)	60.8	-8.1%	-3.5%

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

REVENUE

November Receipts Dip On Weak Federal Sources And Fewer Receipt Days

Jim Muschinske, Revenue Manager

Overall base revenues declined \$54 million in November. The various revenue sources were mixed for the month. However, federal sources continued to underperform expectations, as they have for most of the fiscal year. In addition, two less receipting days contributed to the monthly decline. It is not uncommon for receipting days to vary by one day. But, they can on occasion vary by two or more depending how the calendar falls. When that occurs, revenues can experience temporary monthly swings.

For the month, gross personal income taxes dipped \$31 million, or \$34 million net of refunds. Inheritance tax returned some earlier gains, falling \$16 million. Gross corporate income taxes declined \$5 million, while corporate franchise taxes were off by \$3 million. Insurance taxes and fees suffered a minor \$1 million reduction.

Due to timing, the Cook County transfer grew by \$30 million, while sales tax receipts continued to fare quite well despite two less receipting days as revenues grew by \$23 million. Other sources managed to gain \$6 million, while public utility taxes advanced \$3 million.

Overall transfers eked out a \$2 million increase in November. While riverboat transfers rose \$8 million and lottery transfers \$1 million, all other transfers suffered a drop of \$7 million. As mentioned, it was another poor month for federal sources as receipts dropped \$59 million, reflecting reimbursable spending at this time primarily taking place in non-general funds spending.

Year to Date

Through the first five months of the fiscal year, overall base revenues were down \$452 million. However, much of that decline was expected and due to the much lower Refund Fund transfer into GRF. In addition, weaker federal sources to begin the year contributed significantly to the fall off. The economically related sources were mixed as both personal income taxes and sales performed well while corporate income taxes weakened.

To date, gross personal income taxes were up \$169 million, or \$121 million net of refunds. Sales tax receipts were ahead of last year's pace by \$177 million, while other sources were up \$66 million. The Cook County IGT gained \$30 million while inheritance tax added \$8 million, insurance taxes \$2 million, interest income \$2 million, liquor taxes \$1 million, and vehicle use tax \$1 million.

Gross corporate income taxes were down \$128 million through November, or \$117 million net of refunds. And public utility taxes were off by \$13 million.

To date, overall transfers were down \$348 million due to the much lower Refund transfer which accounts for \$334 million of that falloff. Riverboat transfers were down \$12 million, other transfers were off \$6 million, while lottery transfers contributed a \$4 million increase. Federal sources were down \$382 million thus far in the fiscal year, reflecting lower reimbursable spending from the GRF.

GENERAL FUNDS RECEIPTS: NOVEMBER

FY 2015 vs. FY 2014

(\$ million)

<u>Revenue Sources</u>	<u>Nov. FY 2015</u>	<u>Nov. FY 2014</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$1,087	\$1,118	(\$31)	-2.8%
Corporate Income Tax (regular)	43	48	(\$5)	-10.4%
Sales Taxes	647	624	\$23	3.7%
Public Utility Taxes (regular)	69	66	\$3	4.5%
Cigarette Tax	29	29	\$0	0.0%
Liquor Gallonage Taxes	15	15	\$0	0.0%
Vehicle Use Tax	2	2	\$0	0.0%
Inheritance Tax (Gross)	13	29	(\$16)	-55.2%
Insurance Taxes and Fees	2	3	(\$1)	-33.3%
Corporate Franchise Tax & Fees	13	16	(\$3)	-18.8%
Interest on State Funds & Investments	1	1	\$0	0.0%
Cook County IGT	56	26	\$30	115.4%
Other Sources	30	24	\$6	25.0%
Subtotal	\$2,007	\$2,001	\$6	0.3%
Transfers				
Lottery	37	36	\$1	2.8%
Riverboat transfers & receipts	41	33	\$8	24.2%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	0	0	\$0	N/A
Other	40	47	(\$7)	-14.9%
Total State Sources	\$2,125	\$2,117	\$8	0.4%
Federal Sources	\$163	\$222	(\$59)	-26.6%
Total Federal & State Sources	\$2,288	\$2,339	(\$51)	-2.2%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$109)	(\$106)	(\$3)	2.8%
Corporate Income Tax	(\$6)	(6)	\$0	0.0%
Subtotal General Funds	\$2,173	\$2,227	(\$54)	-2.4%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,173	\$2,227	(\$54)	-2.4%

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

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GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2015 vs. FY 2014
(\$ million)

Revenue Sources	FY 2015	FY 2014	CHANGE FROM FY 2014	% CHANGE
State Taxes				
Personal Income Tax	\$6,555	\$6,386	\$169	2.6%
Corporate Income Tax (regular)	828	956	(\$128)	-13.4%
Sales Taxes	3,380	3,203	\$177	5.5%
Public Utility Taxes (regular)	376	389	(\$13)	-3.3%
Cigarette Tax	147	147	\$0	0.0%
Liquor Gallonage Taxes	72	71	\$1	1.4%
Vehicle Use Tax	14	13	\$1	7.7%
Inheritance Tax (Gross)	119	111	\$8	7.2%
Insurance Taxes and Fees	95	93	\$2	2.2%
Corporate Franchise Tax & Fees	86	86	\$0	0.0%
Interest on State Funds & Investments	9	7	\$2	28.6%
Cook County IGT	56	26	\$30	115.4%
Other Sources	286	220	\$66	30.0%
Subtotal	\$12,023	\$11,708	\$315	2.7%
Transfers				
Lottery	241	237	\$4	1.7%
Riverboat transfers & receipts	153	165	(\$12)	-7.3%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	63	397	(\$334)	N/A
Other	222	228	(\$6)	-2.6%
Total State Sources	\$12,702	\$12,735	(\$33)	-0.3%
Federal Sources	\$826	\$1,208	(\$382)	-31.6%
Total Federal & State Sources	\$13,528	\$13,943	(\$415)	-3.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$655)	(\$607)	(\$48)	7.9%
Corporate Income Tax	(\$117)	(\$128)	\$11	-8.6%
Subtotal General Funds	\$12,756	\$13,208	(\$452)	-3.4%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund Transfer	\$0	\$50	(\$50)	N/A
Tobacco Liquidation Proceeds	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$275	\$275	\$0	0.0%
Total General Funds	\$13,031	\$13,533	(\$502)	-3.7%

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

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