Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: AUGUST 2020

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LOOKING INTO THE FUTURE

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As we enter September, the response to COVID-19 continues to be the primary driver of the economy. After much of the country's economy being shut down in April and May, loosened COVID-19 restrictions in June facilitated some economic rebound. However an increase of cases in July, initially in the southern states and now spreading throughout other parts of the country, has led to signs of a weakening recovery.

The response to COVID-19 and the associated recession has led to varying reactions from different components of the economy. While the number of jobs in the U.S. was reduced in the spring, personal income actually increased. Jobs declined by approximately 22 million in April, and remain approximately 13 to 15 million below its peak level depending on the survey. However, the large COVID-19 related monetary support from the federal government led personal income to grow significantly in April (over 12%) and surprisingly remained higher than prior to the pandemic through the summer. This increase in personal income will likely diminish as federal support expires or is reduced. While consumer spending on goods has recovered from its April low, spending on the larger service sector does not appear to have rebounded as fast. Similarly, industries heavily reliant on in-person customer experience continue to suffer. Air travel continues to be down approximately 70% throughout August based on TSA checkpoint data and restaurant reservations continue to be down approximately 50% compared to last year based on data from OpenTable.com. However, despite a slow-down in the spring, housing starts and sales are up due to historically low mortgage rates and pent up demand. The stock market as measured by the S&P 500 has returned to an all-time high in August despite the on-going pandemic.

With this mixed bag of current economic metrics, the Commission examined what the latest economic expectations are for the rest of 2020 and 2021. The Commission utilizes numerous data sources to inform its views on the economy. One of the more all-encompassing sources is a survey of economic outlooks named Consensus Forecasts – USA produced by Consensus Economics. This report summarizes economic projections for the United States from twenty-eight different economic forecasters. A table showing the mean of these estimates, along with historical data, can be found on the following page. These entities include various economic service providers (IHS Markit/Moody's Analytics), professional business associations (National Association of Home Builders), academic institutions (University of Maryland/Georgia State University), and individual businesses (Eaton Corporation/Ford Motor Company).

One of the main statistics used to describe the condition of the economy is real Gross Domestic Product (GDP). 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. In August 2020, the mean forecast for real GDP was -5.2% for 2020 compared to growth of around 2%-3% in recent years. The highest forecast was -3.3%, while the lowest was -6.8%. Even if the highest forecast of -3.3% were to be realized, it would be the worst economic performance since 1948 when tracking of real GDP began. The forecasters predict a partial recovery in 2021 as the mean forecast is growth of 4.0%.

As mentioned previously, personal income has risen during the pandemic. Forecasters estimate that real disposable personal income is expected to rise 4.9% in 2020. This compares to growth of around 3-4% in previous years when the country wasn't in recession. Real disposable personal income is expected to fall -1.5% in 2021. Once again, this is likely due to a belief that there will be a reduction in federal assistance associated with COVID-19.

Real personal consumption, on the other hand, is expected to decline in 2020. The mean forecast for real personal consumption is a decline of -5.6% with a high of -3.3% and a low of -7.1%. These lowered expectations for personal consumption are likely due to limitations of both the supply of and demand for goods and services that are used in-person. These limitations are due to both government mandated restrictions of the economy which limits the amount of retailers available to supply items or services and self-imposed restrictions by customers due to health concerns which limits the demand. A recent poll by the Associated Press-NORC Center for Public Affairs Research backed up these expectations as it found that 66% of respondents were currently spending less than usual, while 45% were saving more than usual. Expectations for 2021 are for a bounce back of 4.3%.

Inflation is expected to be below the long-term trend. Consumer prices have hovered around 2% in recent years. Consumer prices are expected to only grow 0.9% this year and 1.7% in 2021. Inflation at the wholesale level, as measured by Producer Prices, had grown around 3.0% in 2017 and 2018 but only grew 0.9% in 2019. Expectations are for producer prices to actually decline -1.7% in 2020. Continued muted growth of 1.4% is forecast for 2021.

Forecasters expect that the unemployment rate will continue to decline but will remain at an elevated level moving forward. Prior to the COVID-19 pandemic, the unemployment rate was near historic lows at 3.5% in February. The unemployment rate skyrocketed to 14.2% in April as restrictions were set in place to suppress the spread of the virus. The unemployment rate fell to 10.2% in July as restrictions were lifted. Experts anticipate that the unemployment rate will continue to fall over the remainder of 2020 and into 2021. The unemployment rate is predicted to average 9.1% in 2020, while it is expected to fall to 7.4% in 2021.

U.S. ECONOMIC FORECASTS

The forecasts presented are the mean forecast from 28 different economic forecasters.

Economic Indicator	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast
Real GDP*	2.4%	2.9%	2.3%	-5.2%	4.0%
Nominal GDP*	4.2%	5.5%	4.3%	-4.2%	5.4%
Real Disposable Personal Income*	2.9%	4.0%	2.9%	4.9%	-1.5%
Real Personal Consumption*	2.6%	3.0%	2.6%	-5.6%	4.3%
Real Government Consumption and Investment*	0.7%	1.7%	2.3%	1.8%	0.7%
Real Business Investment*	4.4%	6.4%	2.1%	-7.0%	2.8%
Nominal Pre-tax Profits*	-0.3%	3.4%	0.0%	-18.3%	8.8%
Consumer Prices*	2.1%	2.4%	1.8%	0.9%	1.7%
Core PCE Prices (excluding Food/Energy)*	1.6%	2.0%	1.6%	1.0%	1.3%
Producer Prices*	3.2%	3.0%	0.8%	-1.7%	1.4%
Employment Costs*	2.5%	2.8%	2.7%	2.4%	1.8%
Auto & Light Truck Sales (inc. imports) mn	17.1	17.2	16.9	13.8	15.4
Housing Starts, mn	1.21	1.25	1.30	1.23	1.30
Unemployment Rate (%)	4.4%	3.9%	3.7%	9.1%	7.4%

*average % change over previous calendar year
Source: Consensus Economics, August 2020

Overall, the economy appears to be rebounding from the sudden disruption initially caused by COVID-19. Expectations are for growth in the coming year but the damage already done to the economy will lead to one of the historically worst years. The financial condition of U.S. consumers is presumed to be holding up and projected to continue to do so in the short-term. However, questions linger related to how far back the economy will rebound and if near term job growth will match the significant losses seen in the spring. Overhanging all these discussions, is the specter of COVID-19 and the degree to which the virus will continue to impact the national economy.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (July)	11.3%	14.5%	3.9%
Inflation in Chicago (12-month percent change) (July)	1.0%	1.1%	1.6%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (July)	6,239.2	-3.9%	-3.2%
Employment (thousands) (July)	5,533.7	-0.3%	-10.6%
Nonfarm Payroll Employment (July)	5,617,400	93,200	-508,000
New Car & Truck Registration (July)	46,843	23.5%	4.2%
Single Family Housing Permits (July)	1,032	6.7%	15.3%
Total Exports ($ mil) (June)	4,156.5	9.2%	-15.3%
Chicago Purchasing Managers Index (Aug.)	51.2	-1.3%	1.6%

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

COVID-19's Impact on Motor Fuel Tax Revenues

Eric Noggle, Senior Revenue Analyst

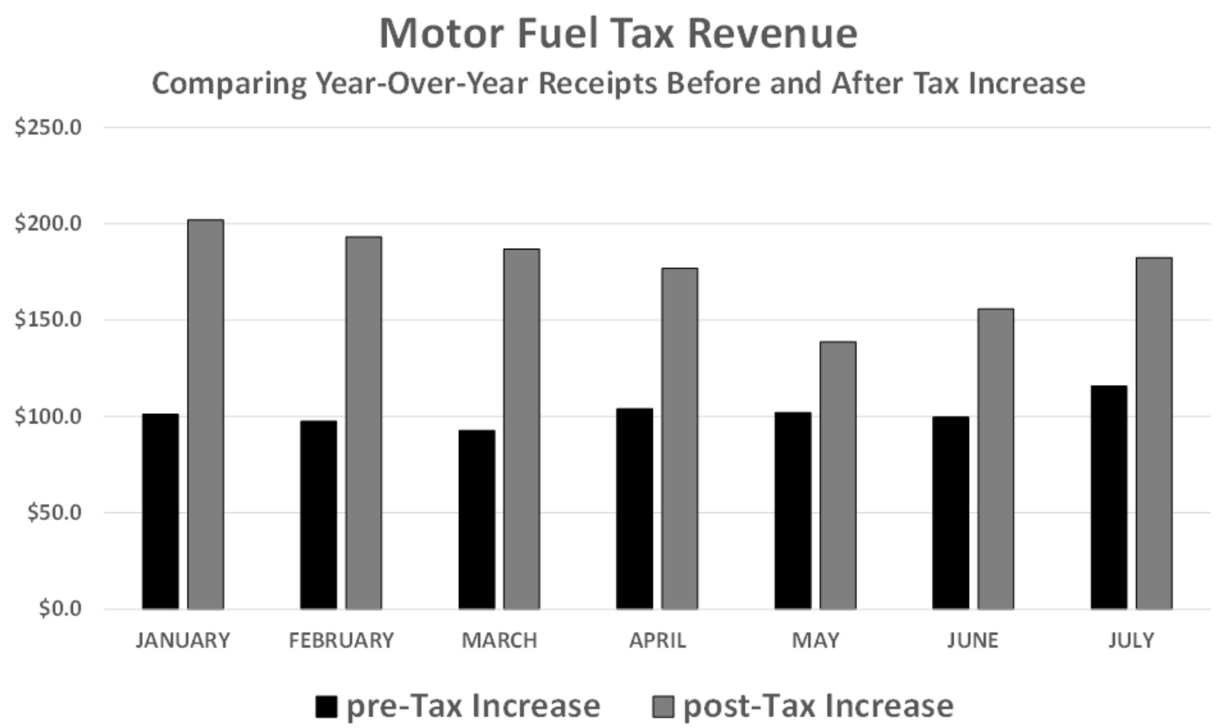
On July 1, 2019, P.A. 101-0032 increased the State's motor fuel tax from $0.19 to $0.38 per gallon and increased the tax on diesel fuel, liquefied natural gas, and propane from $0.215 to $0.455 per gallon. The Act provides that the amount of tax collected from the tax increase shall be transferred each month into the Transportation Renewal Fund. [There is an approximate one-month lag between when motor fuel is purchased by the consumer and taxed and when it is reported by the Comptroller in the form of tax receipts. This is proven by the fact that there was no tax revenues transferred into the Transportation Renewal Fund from the motor fuel tax in July 2019, despite the July 1st imposition date].

With an approximate doubling of the tax rate, it would be expected that the monthly revenue totals for the months after the tax increase would be similar to twice that of the prior year's monthly totals, assuming similar gallonage totals. For the first eight months of the year, this is essentially what occurred. Between August 2018 and March 2019, motor fuel tax revenues under the prior tax rate totaled $828 million. Between August 2019 and March 2020, revenues totaled $1,617 million, an increase of 95.4%, or slightly below a true doubling of tax receipts. It is not that surprising that the growth is slightly below 100% as it was expected that some consumers would find ways to avoid the tax increase (i.e. stockpiling fuel, crossing state lines to purchase fuel, etc.), especially during the first several months of the rate hike.

Beginning with April 2020 receipts, however, tax revenues began to come in at much lower values. As shown in the following table, April 2020 tax revenues were only 70.0% higher than in April 2019. This value dropped to only 36.1% in May. While these figures improved slightly in June (56.2%) and July (57.7%), the growth in motor fuel tax receipts during this time period were well below original expectations. Motor fuel tax revenues for this four-month period totaled $654 million - only 55.1% higher than the same four-month period under the prior tax rate.

pre-Tax Increase		post-Tax Increase		
Month	**Revenues ($ in mil)**	**Month**	**Revenues ($ in mil)**	**% Change**
Aug-18 thru Mar-19 Total:	$827.7	**Aug-19 thru Mar-20 Total:**	$1,616.8	95.4%
Apr-19	$104.1	**Apr-20**	$176.9	70.0%
May-19	$102.0	**May-20**	$138.8	36.1%
Jun-19	$99.8	**Jun-20**	$155.8	56.2%
Jul-19	$115.7	**Jul-20**	$182.5	57.7%
Apr-19 thru Jul-19 Total:	**$421.6**	**Apr-20 thru Jul-20 Total:**	**$654.1**	**55.1%**

The following graph compares the amount of tax receipts from motor fuel in specific months before and after the tax increase. Here it can be seen how the revenues went from a near "doubling" of receipts at the beginning of the calendar year to totals much below this anticipated value.



Note: The data illustrated above include only tax revenues from the regular motor fuel tax and do not include tax revenues from related fees. Because of this, the amounts shown in the graph are different than what is shown in the Comptroller's motor fuel tax totals for the months shown.

The reason for these disappointing motor fuel tax revenues, especially during the 2nd quarter of 2020, is of course due to the effects of the COVID-19 pandemic on normal driving patterns. As many businesses across the state suspended operations and residents honored stay-at-home recommendations and switched to working at home when possible, the number of vehicles on Illinois roads dropped dramatically. As a result, fewer gallons of motor fuel were consumed, having a direct impact on the amount of motor fuel tax revenues collected.

The question, then, is how much has motor fuel tax revenues been impacted as a result of the current pandemic? The simplest way to calculate this is using the basic assumption that a doubling of the tax rate would result in a doubling of tax revenues. Obviously, tax increases could result in behavioral changes that would lower consumption levels, but significant long-term consumption changes were not expected with this increase as $0.19 fluctuations in the price of motor fuel are relatively common. Therefore, for this exercise, a 100% increase in tax receipts is the expected starting point. Any value below this 100% increase will be considered related to the pandemic on motor fuel tax receipts.

Again, between April and July of 2019, $422 million in motor fuel tax revenues were collected prior to the tax increase. Therefore, if these tax receipts would have doubled as a result of the doubling of the tax rate, an estimated $844 million would be expected. Instead, the slowdown of activity in Illinois resulted in only $654 million being receipted between April and July of 2020. Therefore, during this time period, motor fuel tax revenues have fallen approximately $190 million below what would have been anticipated – a differential likely attributed to COVID-19**.**

Not only does the drop in fuel consumption impact motor fuel tax revenues, but it also has a direct impact on State sales tax receipts as well. The State's sales tax, as well as local sales taxes, is also imposed on motor fuel sold in Illinois. The calculation of this impact is not as cut and dry because the sales tax is based on the retail price of motor fuel and not simply on gallonage. Because of this, the impact of this tax revenue decline is approximated by the Commission based on calculations related to regional fuel prices, as published by the Energy Information Administration.

Using the $190 million figure from above, it is estimated that fuel consumption was reduced by roughly 475 million gallons due to the pandemic. The Commission estimates that the retail prices of motor fuel during the last third of the fiscal year would have resulted in a State sales tax of around $0.075 per gallon. Applying these figures, the reduced levels of motor fuel sold at the end of FY 2020 resulted in a reduction in State sales tax revenue of approximately $35 million.

The levels of impact discussed above will likely continue throughout FY 2021 as the effects of the pandemic persists. The extent of this impact on future months remains to be seen, and is largely dependent on the degree in which motorists return to "normal" driving patterns. The Commission will continue to monitor the tax receipts from motor fuel and provide updates when necessary.

REVENUE: AUGUST REVENUE GROWTH STILL REFLECTS TIMING FROM DELAYED TAX DAY DEADLINE—FEDERAL SOURCES ALSO GROW BUT GAINS PARTIALLY OFFSET BY WEAKER TRANFERS

Jim Muschinske, Revenue Manager

Base August general funds revenues grew $299 million overall. Combined, personal and corporate income taxes contributed $275 million to the increase as a consequence of prior-month carryover related to the delayed July 15th final payment filing deadline [see last month's briefing for more detailed information]. In addition to that timing anomaly, federal sources were up on a comparative basis with a very weak month one-year earlier. However, a lack of transfer activity served to offset much of those gains. August had one less receipting day than the prior year.

For the month, gross personal income taxes increased $285 million, or $246 million on a net basis. Gross corporate income taxes also grew, rising $36 million, or $29 million net. Again, those gains appear to be related to timing of "in-transit" receipts that were larger than usual last month, reflecting July's surge made possible by the filing deadline extension.

In addition to income taxes, a few other revenue sources experienced monthly gains. Inheritance tax receipts jumped $47 million, while insurance taxes and fees added $10 million in growth. Cigarette taxes managed to increase $6 million and liquor taxes added $2 million in gains.

Despite the overall positive month, several sources fell below last year's levels. Interest income fell $19 million, while public utility taxes were off $16 million. Gross sales taxes were also off $16 million, but up $8 million on a net basis [there appears to have been a reconciliation adjustment made to last month's sales tax distribution]. Other miscellaneous sources were off $13 million, and corporate franchise taxes fell $7 million.

As mentioned earlier, transfers into the general funds continued weaker as overall transfers dropped $226 million. Of that decline, $217 million is directly related to the absence of any transfer from the Income Tax Refund Fund. In addition, this August saw a falloff of $13 million from all other miscellaneous transfers, as well as a $23 million decline from a lack of any riverboat gaming transfer. Lottery transfers manage to gain $27 million for the month. Federal sources grew a substantial $232 million, although the gain mostly reflected a very weak month one-year earlier.

Year To Date

Despite the pandemic and related economic uncertainty it has caused, through the first two months of FY 2021, base receipts are up $1.051 billion. The growth reflects the surge in July income tax receipts related to the filing deadline extension. Through August, combined net income tax receipts are up by $1.530 billion. While net sales taxes are down $21 million, that modest falloff indicates that consumer activity has managed to return to decent levels, even during COVID related disruptions.

However, the coming months may find the sledding tougher as the higher $600 per/wk unemployment benefits under the Cares Act have expired. While IDES has submitted its application to FEMA for the new Lost Wage Assistance funds, indications are the amount [$300 per/wk] and availability of the funds [estimated to be only three weeks] will be a significant drop off from previous assistance. Uncertainty is building as to what effect that sudden drop in assistance will have on the consumers caught up in pandemic related job losses.

All of the other revenue sources combined have grown a net $111 million. Overall transfers are off considerably, down $751 million, mostly reflecting the absence of any Income Tax Refund transfer yet this fiscal year. Through last August, $617 million had been transferred. [While the enacted FY 2021 budget plan did not include any anticipated transfers from that Fund, it's quite possible that there may be some future transfer activity]. And as has been mentioned, federal sources have posted early gains, up $182 million. However, federal source receipt patterns have been quite volatile, and monthly swings in performance are the norm.

AUGUST

FY 2021 vs. FY 2020

($ million)

Revenue Sources	August FY 2021	August FY 2020	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,700	$1,415	$285	20.1%
Corporate Income Tax (regular)	87	51	$36	70.6%
Sales Taxes	762	778	($16)	-2.1%
Public Utility Taxes (regular)	56	72	($16)	-22.2%
Cigarette Tax	26	20	$6	30.0%
Liquor Gallonage Taxes	16	14	$2	14.3%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	78	31	$47	151.6%
Insurance Taxes and Fees	30	20	$10	50.0%
Corporate Franchise Tax & Fees	12	19	($7)	-36.8%
Interest on State Funds & Investments	1	20	($19)	-95.0%
Cook County IGT	0	0	$0	N/A
Other Sources	15	28	($13)	-46.4%
Subtotal	$2,786	$2,471	$315	12.7%
Transfers				
Lottery	70	43	$27	62.8%
Riverboat transfers & receipts	0	23	($23)	N/A
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	217	($217)	N/A
Other	31	44	($13)	-29.5%
Total State Sources	$2,887	$2,798	$89	3.2%
Federal Sources	$329	$97	$232	239.2%
Total Federal & State Sources	$3,216	$2,895	$321	11.1%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($153)	($134)	($19)	14.2%
Corporate Income Tax	($12)	(7)	($5)	71.4%
LGDF--Direct from PIT	($94)	(74)	($20)	27.0%
LGDF--Direct from CIT	($5)	(3)	($2)	66.7%
Downstate Pub/Trans--Direct from Sales	$5	(19)	$24	-126.3%
Subtotal General Funds	$2,957	$2,658	$299	11.2%
Treasurer's Investments	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Short Term Borrowing	$0	$0	$0	N/A
Total General Funds	$2,957	$2,658	$299	11.2%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Sep-20

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2021 vs. FY 2020

($ million)

Revenue Sources	FY 2021	FY 2020	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$4,436	$2,976	$1,460	49.1%
Corporate Income Tax (regular)	491	146	$345	236.3%
Sales Taxes	1,532	1,560	($28)	-1.8%
Public Utility Taxes (regular)	110	132	($22)	-16.7%
Cigarette Tax	53	36	$17	47.2%
Liquor Gallonage Taxes	31	33	($2)	-6.1%
Vehicle Use Tax	7	6	$1	16.7%
Inheritance Tax	90	41	$49	119.5%
Insurance Taxes and Fees	102	35	$67	191.4%
Corporate Franchise Tax & Fees	58	31	$27	87.1%
Interest on State Funds & Investments	23	30	($7)	-23.3%
Cook County IGT	0	0	$0	N/A
Other Sources	42	61	($19)	-31.1%
Subtotal	$6,975	$5,087	$1,888	37.1%
Transfers				
Lottery	130	76	$54	71.1%
Riverboat transfers & receipts	0	40	($40)	-100.0%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	617	($617)	-100.0%
Other	71	219	($148)	-67.6%
Total State Sources	$7,176	$6,039	$1,137	18.8%
Federal Sources	$632	$450	$182	40.4%
Total Federal & State Sources	$7,808	$6,489	$1,319	20.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($399)	($283)	($116)	41.0%
Corporate Income Tax	($69)	(21)	($48)	228.6%
LGDF--Direct from PIT	($245)	(155)	($90)	58.1%
LGDF--Direct from CIT	($29)	(8)	($21)	262.5%
Downstate Pub/Trans--Direct from Sales	($30)	(37)	$7	-18.9%
Subtotal General Funds	$7,036	$5,985	$1,051	17.6%
Treasurer's Investments	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Short Term Borrowing	$0	$0	$0	N/A
Total General Funds	$7,036	$5,985	$1,051	17.6%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Sep-20