Commission on Government Forecasting and Accountability

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INSIDE THIS ISSUE

Economy Poised to Grow

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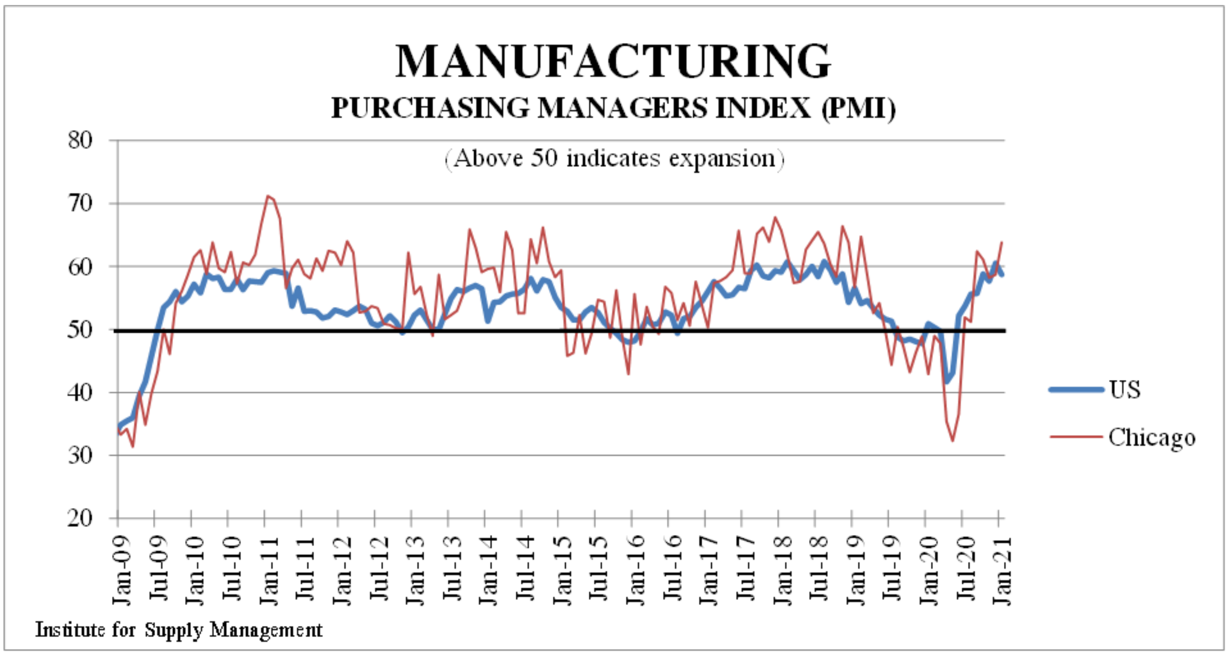
The economy experienced a sharp decline and a significant rebound in 2020. As measured by real Gross Domestic Product (GDP), the first quarter of the year saw the economy shrink 5% on an annualized basis due to the beginning of the COVID-19 pandemic. The economy fell a drastic -31.4% during the second quarter as numerous restrictions were put on the economy to fight the spread of the virus. The third quarter saw a rebound of 33.4% as the economy began to reopen with the easing of restrictions. The fourth quarter saw growth of 4.0% which would normally be seen as a very strong quarter, but was somewhat below expectations, as demand appeared to soften during the latter part of the quarter likely due to the resurgence of the virus. Overall, the economy declined -3.5% in 2020 which was the worst year since demobilizing from World War II and a full percentage point lower than the worst year during the Great Recession (-2.5% in 2009).

While the overall results for 2020 were disappointing, the economy appears to be poised to expand. COVID-19 still remains the driving factor in the economy. The spike in COVID-19 cases seen in November and December was likely a drag on the economy. This wave of the virus appears to be abating as we enter February. With reductions in the spread of the virus, the economy is able to have fewer restrictions on it that can curtail growth. Illinois has seen improvement as many of the State's health care regions have progressed to Phase 4 of the re-opening plan. The introduction of vaccines will decrease the likelihood of additional waves of COVID-19 in the future, pending they are also successful against emerging strains of the virus.

A look at manufacturers in the U.S. shows a significant rebound since the beginning of the pandemic. As indicated by The Institute for Supply Management's [ISM] Purchasing Managers Index (PMI) for the manufacturing sector, the manufacturing economy has grown for eight straight months after seeing declines from March through May of last year. The Manufacturing PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. Prior to the spread of COVID-19, the index had been staying just above 50. A value of 50 or more indicates expansion, while a value of below 50 signifies contraction. In March the index fell to 49.7 as the first effects of the virus were seen. During the initial wave in April, the index fell to 41.7 which was the lowest level seen since the Great Recession. May indicated continued decline at 43.1 but since then, the index has remained above 50. In December, the index grew to 60.5 which was a recent high, similar to levels seen in 2018. In January, the index fell to 58.7 which is below the previous month but still indicating strong growth. Conditions for the Chicago area followed a similar pattern but with a higher level of volatility as seen in the attached graph.



Per ISM, the reports from the manufacturing sector were very positive in January. In collecting data for the manufacturing PMI, industry contacts reflected optimism in regard to the future. While the manufacturing sector continues to face issues related to COVID-19 especially with maintaining their supply networks, sanitizing the work environment, and locating additional labor, three out of four comments were positive. Sixteen of the eighteen industries surveyed indicated growth in January. Respondents continued to see strong demand. Their customer's inventory levels were viewed as low which could indicate more demand if conditions remain positive. A reason for the positive expectations in the manufacturing sector can be seen in the GDP results for the fourth quarter of 2020. Personal consumption expenditures on goods were up 7.0% compared to the fourth quarter of 2019. This was largely due to an 11.9% increase in the sale of durable goods. These upbeat results are likely to continue as a recent survey of trucking companies showed a 15-year high in economic activity.

While things in the manufacturing sector are looking up, the rebound in the larger service sector has not been as smooth. While the PMI for the service sector has largely followed the same pattern, it has not seen the corresponding response in consumer spending. The Services PMI saw a large decline in April followed by a rebound in the summer and fall. In April, the Services PMI declined to 41.8. In July, it bounced back to 58.1 and has stayed a little below that level since then. Despite the encouraging responses for the Services PMI, consumer spending on services in the fourth quarter was down -6.8%. This discouraging result caused all personal consumption expenditures (which includes both goods and services) to decline by 2.5% for the quarter when compared to 2019. Reasons for why the Services PMI and the consumer spending results may be diverging are that responses to the Services PMI may be more indicative of future activity or responses from industries that are being hit the hardest by the recession (primarily Leisure and Hospitality) are not being fully accounted for. No matter the reason for the current disconnect, the outlook for the service sector will obviously improve as the COVID-19 situation improves. As consumers feel safer being out in public, the desire to spend on services will likely grow also.

Despite a historically bad year in 2020, the U.S. economy appears to be poised for growth in 2021. As more people receive COVID-19 vaccinations, the number of cases and the associated chance of spreading the virus will decline. Improved health conditions will allow people to more readily spend money in the Leisure and Hospitality industries. While people in the most heavily affected industries have had serious economic ramifications, large swathes of the American consumer are in a better place financially than prior to the pandemic. A reduction in expenditures due to the pandemic and government payments have allowed many to pay down debt or increase savings. Household savings levels have remained high and could indicate an ability to increase spending once the pandemic is more under control.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Dec.)	7.6%	6.9%	3.7%
Inflation in Chicago (12-month percent change) (Dec.)	1.4%	0.8%	2.2%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Dec.)	6,170.4	0.1%	-4.1%
Employment (thousands) (Dec.)	5,704.2	-0.6%	-7.9%
Nonfarm Payroll Employment (Dec.)	5,693,900	-2,500	-423,300
New Car & Truck Registration (Dec.)	44,059	18.4%	-12.8%
Single Family Housing Permits (Dec.)	753	-3.0%	36.7%
Total Exports ($ mil) (Nov.)	4,779.5	-4.5%	-0.3%
Chicago Purchasing Managers Index (Jan.)	63.8	8.7%	48.7%

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

Illinois Employment and Wage Update

Eric Noggle, Senior Revenue Analyst

At the start of 2020, jobs in Illinois were at decade high levels. In fact, according to the Bureau of Labor Statistics, Illinois reached a historically low unemployment rate in February 2020 with a seasonally adjusted rate of 3.4%. That status abruptly changed with the onset of the COVID-19 virus. Within two months, Illinois went to a historical high rate of 17.2% in April 2020. As shown in the following table, this abrupt contrast between extremes was seen in states all over the country. All but three states reached record high unemployment rate levels in the spring of 2020.

December 2020 Unemployment Rates (Seasonally Adjusted) for States and Historical Highs/Lows

NATIONAL RATE =6.7%

State	Dec-20 Rate	Rate Ranking	Historical High Date	Historical High Rate	Historical Low Date	Historical Low Rate
Nebraska	3.0	1	Apr. 2020	8.7	Oct. 1990	2.3
South Dakota	3.0	1	Apr. 2020	10.9	Jul. 2000	2.4
Iowa	3.1	3	Apr. 2020	11.0	Mar. 2000	2.4
Vermont	3.1	3	Apr. 2020	16.5	May. 2019	2.3
Utah	3.6	5	Apr. 2020	10.4	Dec. 2019	2.4
Kansas	3.8	6	Apr. 2020	11.9	Mar. 2020	2.8
Alabama	3.9	7	Dec. 1982	15.5	Feb. 2020	2.7
New Hampshire	4.0	8	Apr. 2020	17.1	Mar. 1988	2.2
North Dakota	4.1	9	May. 2020	9.1	Mar. 2020	2.0
Arkansas	4.2	10	Apr. 2020	10.8	Feb. 2020	3.5
Indiana	4.3	11	Apr. 2020	17.5	Oct. 2000	2.9
Idaho	4.4	12	Apr. 2020	11.8	Mar. 2020	2.5
Minnesota	4.4	12	May. 2020	9.9	Feb. 1999	2.5
Montana	4.4	12	Apr. 2020	11.9	Feb. 2007	2.9
South Carolina	4.6	15	Apr. 2020	12.8	Jan. 2020	2.4
Wyoming	4.8	16	Apr. 2020	9.6	May. 1979	2.5
Maine	4.9	17	Apr. 2020	10.4	Sept. 2019	2.9
Virginia	4.9	17	Apr. 2020	11.2	Nov. 2000	2.1
Delaware	5.3	19	May. 2020	15.9	Jun. 1988	3.0
Oklahoma	5.3	19	Apr. 2020	14.7	Mar. 2020	2.9
Ohio	5.5	21	Apr. 2020	17.6	Feb. 2001	3.7
Wisconsin	5.5	21	Apr. 2020	13.6	Dec. 2018	3.0
Georgia	5.6	23	Apr. 2020	12.6	Feb. 2020	3.1
Alaska	5.8	24	Apr. 2020	13.5	Mar. 2020	5.2
Missouri	5.8	24	Mar. 1983	10.6	Oct. 2018	3.0
Kentucky	6.0	26	Apr. 2020	16.6	Aug. 2000	4.1
Florida	6.1	27	Apr. 2020	13.8	Feb. 2020	2.8
Mississippi	6.2	28	Apr. 2020	16.3	Aug. 2018	4.7
North Carolina	6.2	28	Apr. 2020	12.9	Apr. 1999	3.0
Maryland	6.3	30	Apr. 2020	10.1	Mar. 2020	3.3
West Virginia	6.3	30	Feb. 1983	18.8	Jul. 2008	4.0
Oregon	6.4	32	Apr. 2020	14.9	Feb. 2020	3.3
Tennessee	6.4	32	Apr. 2020	15.5	Mar. 2020	3.3
Pennsylvania	6.7	34	Apr. 2020	16.1	May. 2000	4.0
Washington	7.1	35	Apr. 2020	16.3	Feb. 2020	3.8
Louisiana	7.2	36	Apr. 2020	15.1	Oct. 2007	4.1
Texas	7.2	36	Apr. 2020	13.5	Jun. 2019	3.4
Massachusetts	7.4	38	Jun. 2020	17.7	Oct. 2000	2.6
Arizona	7.5	39	Apr. 2020	13.4	Jul. 2007	3.6
Michigan	7.5	39	Apr. 2020	24.0	Mar. 2000	3.2
Illinois	**7.6**	**41**	**Apr. 2020**	**17.2**	**Feb. 2020**	**3.4**
New Jersey	7.6	41	Jun. 2020	16.8	Jul. 2019	3.3
District Of Columbia	7.9	43	Apr. 2020	11.7	Sept. 1989	4.8
Connecticut	8.0	44	Jul. 2020	10.2	Oct. 2000	2.2
Rhode Island	8.1	45	Apr. 2020	18.1	Jul. 1988	3.0
New Mexico	8.2	46	Jul. 2020	12.7	Sept. 2007	3.7
New York	8.2	46	Jul. 2020	15.9	Feb. 2020	3.7
Colorado	8.4	48	Apr. 2020	12.2	Feb. 2020	2.5
California	9.0	49	May. 2020	16.4	Feb. 2020	3.9
Nevada	9.2	50	Apr. 2020	30.1	Feb. 2020	3.6
Hawaii	9.3	51	Apr. 2020	23.8	Nov. 2017	2.2

Note: The December 2020 figures are preliminary. Rates shown are a percentage of the labor force. Data refer to place of residence. Series begin in January 1976. Historical highs and lows show the most recent month that a rate was recorded in the event of multiple occurrences. Estimates for at least the latest five years are subject to revision early in the following calendar year.

Source: http://www.bls.gov/web/laus/lauhsthl.htm

While unemployment levels have improved since the spring, the rates remain at comparatively high levels, especially in Illinois. The latest figures (December 2020, seasonally adjusted) show Illinois with an unemployment rate of 7.6%, which is notably higher than the U.S. average of 6.7% and markedly higher than the 3.4% rate experienced just 10 months prior. Illinois' current rate of 7.6%, ranks as the 41st highest measure in the country.

At the end of January, the Bureau of Labor Statistics released preliminary job and wage figures for the month of December 2020, thus providing a preliminary look of CY 2020 totals. This allows for a look into how 2020 job numbers compared to prior years. The following table displays the annual average of employment levels by subsector between 2010 and 2020. As shown, Illinois' job total average for 2020 of 5.724 million jobs is 6.4% below 2019 levels. In fact, the 2020 employment average is at its lowest level since 2011 (5.678 million jobs) and is the first year the State has experienced an overall average decline in employment since 2010 (-0.8%).

Average Employment Levels by Subsector in Illinois
Non-Seasonally Adjusted Averages: 2010 to 2020 (in thousands)

	Annual Average										
Subsector	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Mining	9.1	9.6	10.2	9.7	9.9	9.3	8.1	7.8	7.9	8.3	7.3
Construction	198.3	195.8	189.1	191.4	201.7	213.6	218.7	220.3	226.1	226.7	216.0
Manufacturing	561.3	574.3	583.4	579.7	580.5	582.1	575.0	575.9	587.2	585.5	556.2
Trade, Transportation, and Utilities	1,123.6	1,141.6	1,153.9	1,162.0	1,177.4	1,198.8	1,208.5	1,210.5	1,211.5	1,204.9	1,159.7
Information	101.9	100.5	100.2	98.9	99.0	100.4	98.5	97.5	94.7	95.4	89.9
Financial Activities	372.7	372.3	375.6	379.0	378.1	382.5	386.6	394.9	402.9	411.1	404.6
Professional and Business Services	794.2	824.1	857.1	883.2	909.4	921.9	931.4	941.6	947.6	944.8	884.0
Education and Health Services	831.6	848.3	863.2	875.3	886.1	900.3	915.2	923.7	932.2	939.4	899.1
Leisure and Hospitality	515.5	522.4	536.5	546.4	558.7	578.9	597.3	610.7	617.6	621.1	474.7
Other Services	249.2	249.7	249.7	249.9	252.2	252.1	251.4	252.8	254.3	255.4	237.8
Government	852.2	839.0	832.2	828.0	825.7	826.5	822.0	819.3	819.8	825.4	794.9
Annual Average Totals	**5,609.6**	**5,677.6**	**5,751.1**	**5,803.5**	**5,878.7**	**5,966.4**	**6,012.7**	**6,055.0**	**6,101.8**	**6,118.0**	**5,724.1**
Illinois' Annual % Change	**-0.8%**	**1.2%**	**1.3%**	**0.9%**	**1.3%**	**1.5%**	**0.8%**	**0.7%**	**0.8%**	**0.3%**	**-6.4%**

Illinois' dramatic drop in employment during the COVID-19 crisis begs the question, "In what areas did these job losses occur—were they widespread, or concentrated in certain sectors?" This can be answered by taking a closer look at the Bureau of Labor Statistics' eleven employment subsectors.

In 2020, every subsector experienced yearly average declines in employment when compared to the prior year. Not surprisingly, due to COVID-19, the largest level of decline was in "Leisure and Hospitality" with a falloff of 146,400 jobs, which represented a year-over-year decline of 23.6%. This level of decline is not surprising due to the impact that the pandemic has had on many businesses that fall into this category (such as the travel industry, hotels, conventions, etc.).

Other notable job declines were experienced in "Professional and Business Services" (-60,800 jobs, -6.4%); "Trade, Transportation, and Utilities" (-45,300 jobs, -3.8%); "Education and Health Services" (-40,300 jobs, -4.3%); and in "Government" (-30,500 jobs, -3.7%). While "Mining" only lost 1,100 jobs, this was a 12.7% decline in jobs, which is a significant loss for this relatively small subsector. These rates of change are shown in the following table.

State Rankings of Illinois' Employment Subsectors - Job Data Employment Values, Non-Seasonally Adjusted (in thousands)			CY 19 to CY 20 (1-yr Change)			
Subsector	2020 Avg Employment Totals	Sector Ranking	Change in Jobs (% Ch)	Sector Ranking	Change in Jobs (thousands)	Sector Ranking
Mining	7.3	11	-12.7%	10	(1.1)	1
Construction	216.0	9	-4.7%	5	(10.7)	4
Manufacturing	556.2	5	-5.0%	6	(29.3)	6
Trade, Transportation, and Utilities	1,159.7	1	-3.8%	3	(45.3)	9
Information	89.9	10	-5.8%	7	(5.5)	2
Financial Activities	404.6	7	-1.6%	1	(6.5)	3
Professional and Business Services	884.0	3	-6.4%	8	(60.8)	10
Education and Health Services	899.1	2	-4.3%	4	(40.3)	8
Leisure and Hospitality	474.7	6	-23.6%	11	(146.4)	11
Other Services	237.8	8	-6.9%	9	(17.6)	5
Government	794.9	4	-3.7%	2	(30.5)	7
Source: www.bls.gov						

From an earnings perspective, the impact of the pandemic on average wage levels is not as clear cut. This is further complicated by the recent step increases in Illinois' minimum wage which increased from \$8.25 to \$9.25 on January 1, 2020, and then again to \$10 on July 1, 2020. These were the first two phases of transitioning to \$15 by January 1, 2025. [The minimum wage was again increased to \$11 on January 1, 2021 but would not be yet reflected in this data set]. The latest wage data from the Bureau of Labor Statistics shows that average weekly earnings grew 5.4% in 2020, from an average weekly earnings value of \$976 to \$1,029. This is the highest year-over-year growth rate in average weekly earnings over the last decade. Since 2010, the average weekly earnings value has increased from \$799 to \$1,029, an increase of 28.8% over this ten-year period. The following table displays each subsector's fiscal year average earnings over this time period.

Average Weekly Earnings and Employment Change by Subsector in Illinois Calendar Year Averages: 2010 to 2020	Annual Average										
Subsector	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mining*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Construction	\$1,236	\$1,282	\$1,291	\$1,263	\$1,317	\$1,374	\$1,392	\$1,377	\$1,424	\$1,488	\$1,445
Manufacturing	\$923	\$978	\$981	\$993	\$1,016	\$1,033	\$1,043	\$1,045	\$1,086	\$1,117	\$1,154
Trade, Transportation, and Utilities	\$693	\$734	\$766	\$788	\$808	\$813	\$811	\$823	\$860	\$872	\$902
Information	\$1,040	\$1,005	\$1,027	\$1,102	\$1,155	\$1,153	\$1,129	\$1,202	\$1,333	\$1,432	\$1,532
Financial Activities	\$1,036	\$1,054	\$1,131	\$1,140	\$1,230	\$1,314	\$1,349	\$1,368	\$1,400	\$1,425	\$1,534
Professional and Business Services	\$1,024	\$1,007	\$1,027	\$1,025	\$1,038	\$1,049	\$1,073	\$1,087	\$1,130	\$1,183	\$1,236
Education and Health Services	\$724	\$757	\$792	\$814	\$810	\$806	\$808	\$805	\$815	\$824	\$855
Leisure and Hospitality	\$319	\$322	\$343	\$338	\$352	\$368	\$375	\$391	\$405	\$426	\$430
Other Services	\$712	\$703	\$728	\$751	\$780	\$834	\$864	\$840	\$861	\$928	\$1,014
Government*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Illinois' Annual Average Weekly Earnings*	**\$799**	**\$820**	**\$847**	**\$859**	**\$880**	**\$897**	**\$906**	**\$914**	**\$946**	**\$976**	**\$1,029**
% Change in Avg. Weekly Earnings	**0.9%**	**2.7%**	**3.3%**	**1.4%**	**2.5%**	**1.9%**	**1.0%**	**0.8%**	**3.6%**	**3.1%**	**5.4%**
Annualized Wage/Employment Comparison	**0.1%**	**3.9%**	**4.6%**	**2.3%**	**3.9%**	**3.4%**	**1.8%**	**1.5%**	**4.4%**	**3.4%**	**-1.4%**

* Because the Mining and Government subsectors' weekly earnings are not available from the Bureau of Labor Statistics, "Statewide Average Weekly Earnings" is calculated by using the weekly earnings of the other nine subsectors. The statewide value was calculated by multiplying each subsector's average jobs by its average earnings and dividing the sum of these figures by the total number of jobs from these nine subsectors.
Source: www.bls.gov

The largest growth in wages between 2019 and 2020 came from the "Financial Activities" subsector (average weekly wage increase of $109 to $1,534 or +7.7%). Other notable increases in wages came from "Information" (+$100 to $1,532, +7.0%); "Other Services" (+$87 to $1,014, +9.3%); and "Professional and Business Services" (+$52 to $1,236, +4.4%). The only subsector to see a decline in wages between 2019 and 2020 was "Construction" (-$44 to $1,445, -2.9%). These values are shown in the table below.

State Rankings of Illinois' Employment Subsectors - Wage Data
Weekly Wages, Non-Seasonally Adjusted (in thousands)

			CY 19 to CY 20 (1-yr Change)			
Subsector	2020 Avg Weekly Wage	Sector Ranking	Change in Wage (% Ch)	Sector Ranking	Change in Wage ($ Ch)	Sector Ranking
Mining	N/A	N/A	N/A	N/A	N/A	N/A
Construction	$1,445	3	-2.9%	9	-$44	9
Manufacturing	$1,154	5	3.3%	7	$36	5
Trade, Transportation, and Utilities	$902	7	3.4%	6	$30	7
Information	$1,532	2	7.0%	3	$100	2
Financial Activities	$1,534	1	7.7%	2	$109	1
Professional and Business Services	$1,236	4	4.4%	4	$52	4
Education and Health Services	$855	8	3.7%	5	$31	6
Leisure and Hospitality	$430	9	1.0%	8	$4	8
Other Services	$1,014	6	9.3%	1	$87	3
Government	N/A	N/A	N/A	N/A	N/A	N/A

Source: www.bls.gov. Note: Mining and Government subsectors' weekly earnings are not available from the Bureau of Labor Statistics

When combining the impact of the overall employment change with the composite growth in wages, a 2020 annualized wage/employment growth factor of -1.4% results (shown on the bottom line of the earlier table). This is the first year to experience a decline in this measure since the Great Recession's 2009 decline of -2.9%.

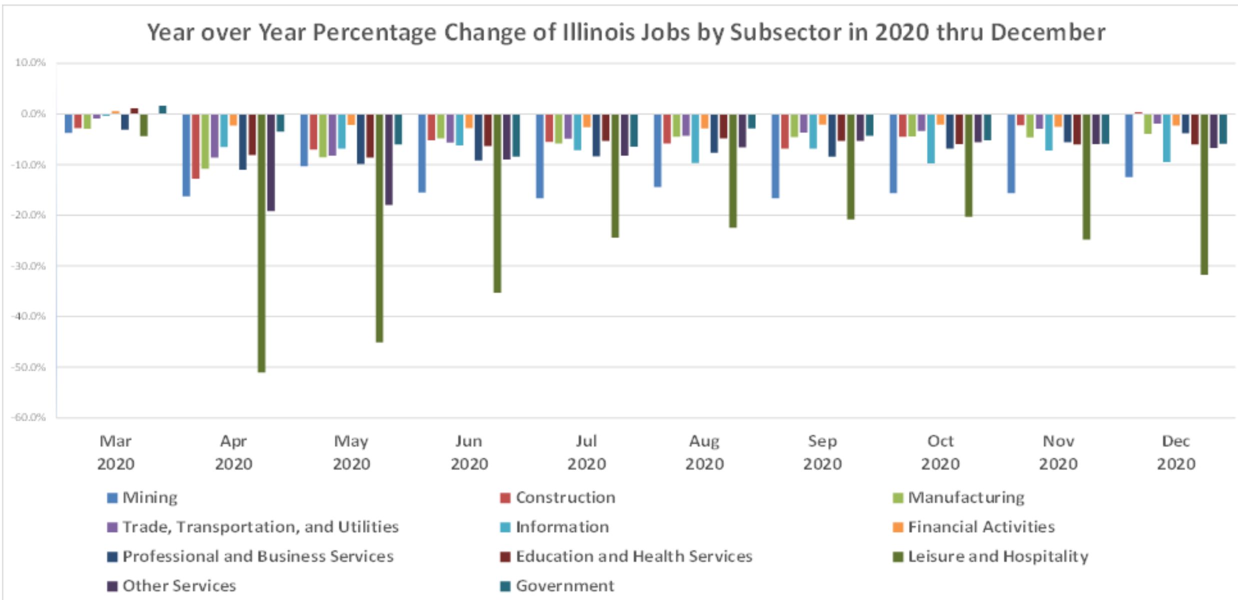
Typically, this computed value provides a good indicator of how economic related revenues, particularly personal income tax, are performing in the State. A relatively high value in this metric can usually be reflected in expectations for a strong year in income tax revenues, as ultimately personal income taxes are fueled by the number of jobs and accompanying earnings. Conversely, a weak value typically would reflect lowered expectations of related tax revenues. However, 2020 has shown to be anything but typical. As such, the value of this metric has been compromised by the abnormalities caused by COVID-19, either by the virus itself, or related policy decisions enacted to mitigate its impact.

Despite this -1.4% decline in this combined measure, economically driven tax revenues have continued to perform surprisingly well in Illinois. For example, through the first six months of the fiscal year, income tax revenues from withholding payments (which are not directly impacted by the delay in final payments from April into July) have been hovering between +3.5% and+6.0% on a fiscal year to date basis. This level of performance would appear surprising considering the levels of declines in employment experienced throughout the State in recent months.

Illinois is not alone in this occurrence. In fact, a number of states are revising their revenue projections due to better-than-expected results. A December 2020 article from the New York Times, entitled "Why Some States are Seeing Higher Revenue Than Expected Amid Job Losses" discusses how states are still hurting from the economic crisis, but "their finances no longer look quite as bad as they had feared in the uncertain early days of the pandemic".

So why have revenues continued to perform so well despite the overall decline in jobs? There appear to be several factors at play contributing to this better than expected performance. The first has to do with the wage level of the subsectors hurt most by the job losses. For example, the hardest hit subsector, "Leisure and Hospitality", has by far the lowest average weekly wage of the major subsectors in Illinois ($430/wk). In contrast, the "Construction" subsector has been hurt the least by the recent employment losses, but is among the highest wage earning subsectors in the State ($1,445/wk).

The graph below displays the immediate impact that the COVID-19 pandemic has had on Illinois jobs, starting in April 2020. This graph clearly shows how the lower-paying "Leisure and Hospitality" subsectors has been hit significantly harder than the other subsector of jobs in the State. In December 2020, jobs in this subsector made up 7.3% of total Illinois jobs. However, 46.1% of the lost jobs (as compared to a year ago) came from this sector of employment.



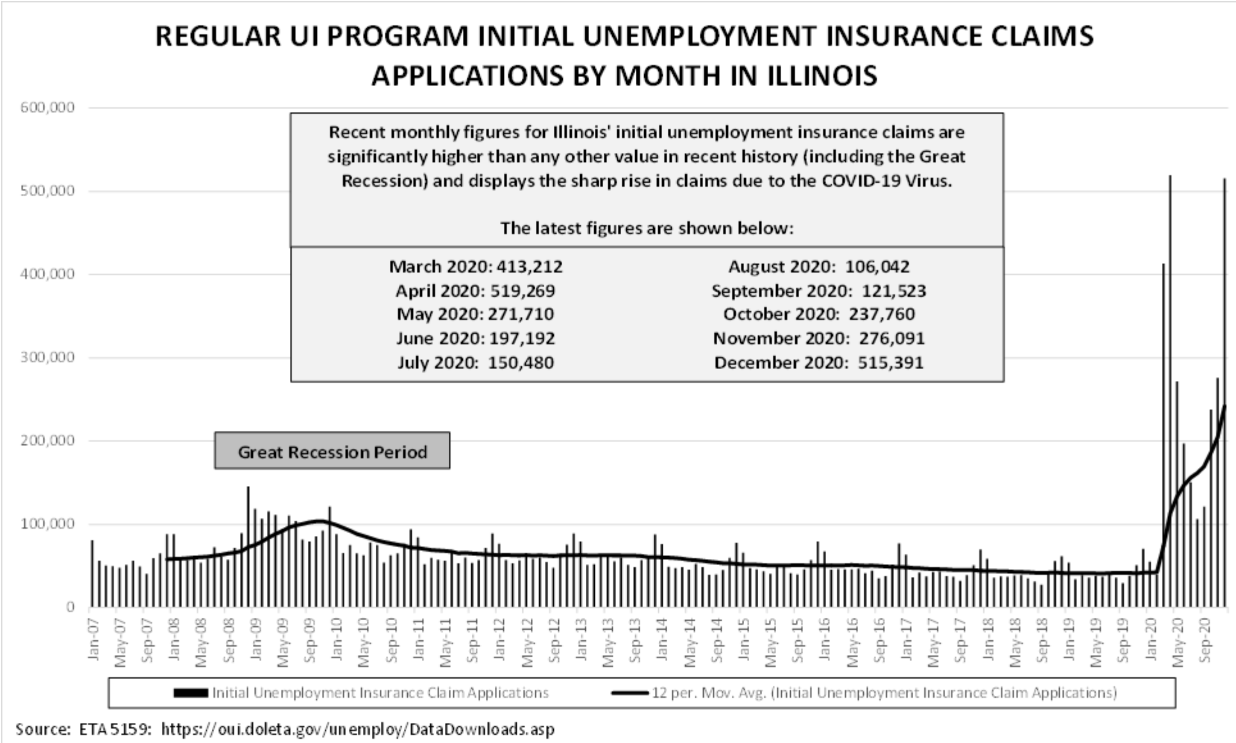
Because the jobs impacted by the virus have been mostly from the lower-paying subsectors, there is not near the impact on income related tax revenues as it would be if the higher income subsectors were affected similarly. The previously mentioned New York Times article hits on this point.

> *In typical recessions, when unemployment rises steeply, state revenues fall steeply, too. But the relationship between the two has been much weaker this year. Effectively, the inequality inherent in the Covid recession has insulated many states from worse fiscal effects.*

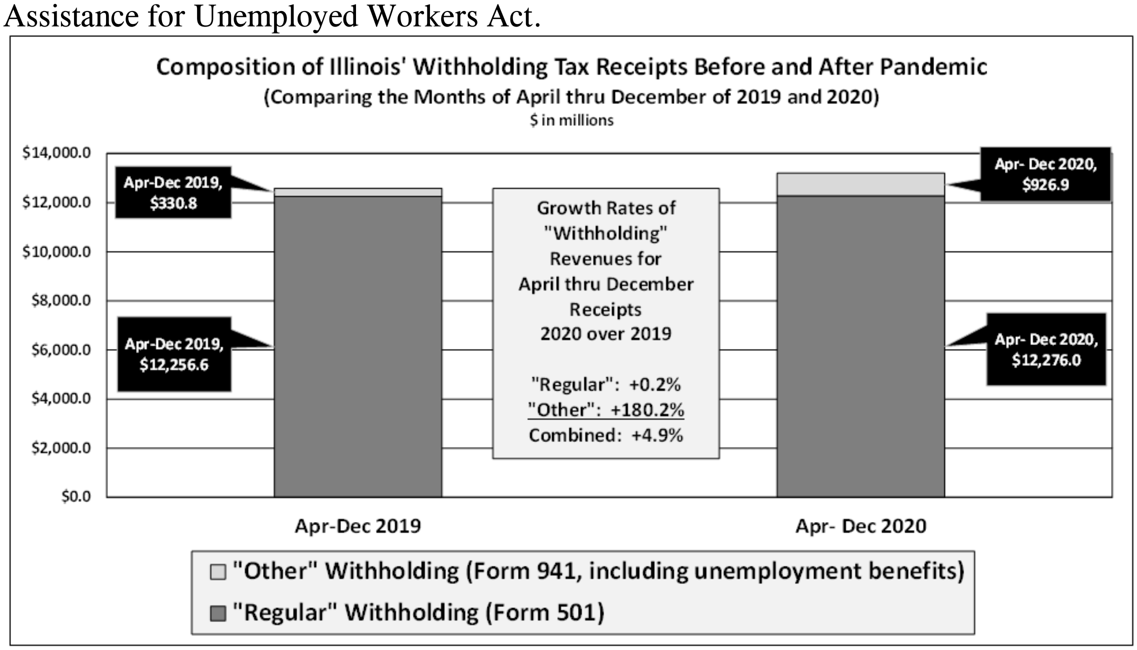
The previous graph also shows how the falloff in year-over-year job totals slowed from its initial declines, but worsened at the later stages of 2020. This fluctuation is likely due to the resurgence of the virus in Illinois during this time. This resurgence lead to reduced holiday travel and an increase in State-imposed restrictions on various businesses. These factors impacted many businesses across Illinois, but especially businesses in the "Leisure and Hospitality" subsector that may have been forced to suspend or cut back on operations (hotels, casinos, etc.). As these restrictions are lifted, it is hoped that significant improvement in these job levels will follow.

While the level of declines in the lower-paying subsectors help explain part of the reason why overall revenues have continued to perform well, another contributing factor is likely the result of the surge in unemployment benefits at sometimes significantly enhanced levels per Federal stimulus efforts. What is often overlooked in the conversation is that unemployment benefits are taxable. As shown in the following chart, the number of unemployment insurance claims in Illinois skyrocketed from 39,616 claims in February 2020 to 413,212 claims in March

2020 as a result of the pandemic. It then rose to as high as 519,269 in April. After declining in the summer months immediately following the initial surge, the number of claims again increased at the end of the year to its latest level of 515,391 claims in December 2020. (Although, it should be noted that a portion of this dramatic growth over this period has been fueled by fraudulent claims)



The historically high levels of unemployment insurance claims has led to a dramatic increase in the amount of unemployment benefits paid in Illinois. In addition to "regular" benefits, the Federal government has provided qualified residents with additional levels of benefits at times throughout this pandemic {including $600 per week via the CARES Act (expired on July 31), and $300 per week via the Continued Assistance for Unemployed Workers Act. These latest benefits are currently set to expire on March 14, 2021. *Source: U.S. Department of Labor*}. All of the unemployment benefits that a resident receives are subject to taxation, and is included on the Department of Revenue's Form 941. The growth in the amount of tax revenues collected from Form 941 in recent months is shown in the following chart.



As highlighted in the chart, between April 2019 and December 2019, income tax revenues from Form 941 amounted to $330.8 million. During the virus-impacted months of April 2020 thru December 2020, this amount grew to $926.9 million, which is a whopping +180.2% increase compared to the prior year. Comparatively, during these same time frames, "regular" withholding (Form 501) has been essentially flat with growth of only +0.2%. But when combined with the Form 941 revenues, tax receipts for this time period are up +4.9%. The data shows that this increase in tax revenues is nearly entirely due to the significant increase in Form 941 tax revenues, or in other words, due to the increase in tax revenues from unemployment benefits. So while unemployment has increased in recent months, the taxation of unemployment benefits has undoubtedly minimized the impact on Illinois' tax revenues, acting like a buoy and keeping withholding tax receipts at levels higher than otherwise would be expected given the jobs picture.

In addition to the enhanced unemployment benefits, the CARES Act provided additional relief through the Paycheck Protection Program (PPP). This is another reason that Illinois' tax receipts have remained at solid levels throughout the pandemic. The PPP is a federally-funded loan program that acts as an incentive for small businesses to maintain their payrolls. If a business meets certain retention criteria, then the Small Business Administration will forgive the loans used for eligible expenses. The use of these funds to maintain payroll has allowed Illinois to continue to receive income tax revenues from these businesses, thereby helping to mitigate potential reductions in income tax receipts.

Regardless of the reason, the decline in jobs that Illinois has experienced over the past year has not had a similar corresponding impact on related tax revenues--thus far. This has been a welcomed outcome in an otherwise tumultuous time period. However, a cautious outlook should continue due to the number of questions that still remain, such as the duration of the virus and its various strands, the uncertain success of the immunizations, and the lasting economic impact that the pandemic will have on Illinois businesses. It also remains unclear what additional federal or state government incentives will be used to spur the economy along.

REVENUE: JANUARY RECEIPTS FLAT OVERALL—FALLOFF IN FEDERAL SOURCES CONCEALS STRONG TAX RECEIPTING

Jim Muschinske, Revenue Manager

Base general funds revenues grew a modest $21 million in January. While federal sources experienced a very weak month coming off of December's phenomenal performance, the drop of $279 million was more than made up for by continued strength demonstrated by income and sales taxes as well as other state tax sources. January had two less receipting days than the prior year.

For the month, gross personal income taxes increased $212 million, or $186 million on a net basis. Gross corporate income taxes experienced growth of $70 million, or $56 million net, while gross sales taxes posted $29 million in gains, or $30 million on a net basis. A number of other sources fared well in January as timing for the Cook County IGT resulted in a $56 million increase, inheritance tax continued to surge with a gain of $51 million, insurance taxes jumped $28 million, and corporate franchise managed to post $4 million in growth.

Despite two less receipting days for the month, only a few areas saw monthly declines. Other sources fell $17 million, while public utility tax receipts dropped $16 million. Interest earnings had a poor showing as returns were down $9 million, and cigarette tax receipts dipped $1 million.

Overall January transfers into the general funds declined $68 million. While Lottery transfers were up $4 million, a continued lack of riverboat transfers resulted in a year-over-year decline of $32 million. In addition, all other miscellaneous transfers were down $40 million.

Due to last month's large surge in federal source revenue stemming from reimbursable spending made possible from December's short-term borrowing, it was not surprising for January federal source levels to pause and drop significantly, as receipts were down $279 million.

Year To Date

Excluding borrowing related activity, through the first seven months of the fiscal year base receipts are up $2.390 billion. In addition to the December surge in federal sources, that growth also reflects the timing of income tax receipts related to the filing deadline extension. Through January, combined net income tax receipts are up $1.923 billion. While over half of those gains can be attributed to the shift of FY 2020 final payments into early FY 2021, surprisingly strong underlying base income tax receipting must be recognized as well. So too must the $129 million net growth in sales tax receipts be commended. At this point in most fiscal years, a year-to-date growth rate hovering around 2% would be all but ignored, but given that growth rate reflects against a pre-pandemic period, sales tax performance becomes all the more impressive.

All of the other revenue sources combined have declined a net $122 million. While exceptional performance has been seen from inheritance tax and insurance tax, those gains have been more than erased by lower public utility tax receipts as well as timing related to one-time court settlement proceeds receipted last fiscal year.

Overall transfers are off considerably, down $860 million, reflecting the lack of riverboat gaming transfers [$194 million] significantly lower Income Tax Refund transfer levels [$336 million], as well as lower other miscellaneous transfers [$416 million]. Despite a down January, with an impressive showing in November and December, federal sources are up $1.320 billion year to date.

JANUARY **FY 2021 vs. FY 2020** **($ million)**				
Revenue Sources	Jan. FY 2021	Jan. FY 2020	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$2,452	$2,240	$212	9.5%
Corporate Income Tax (regular)	155	85	70	82.4%
Sales Taxes	815	786	29	3.7%
Public Utility Taxes (regular)	66	82	(16)	-19.5%
Cigarette Tax	18	19	(1)	-5.3%
Liquor Gallonage Taxes	19	19	0	0.0%
Vehicle Use Tax	2	2	0	0.0%
Inheritance Tax	70	19	51	268.4%
Insurance Taxes and Fees	30	2	28	1400.0%
Corporate Franchise Tax & Fees	57	53	4	7.5%
Interest on State Funds & Investments	1	10	(9)	-90.0%
Cook County IGT	56	0	56	N/A
Other Sources	12	29	(17)	-58.6%
Subtotal	$3,753	$3,346	$407	12.2%
Transfers				
Lottery	$65	$61	$4	6.6%
Riverboat transfers & receipts	0	32	(32)	N/A
Proceeds from Sale of 10th license	0	0	0	N/A
Refund Fund transfer	0	0	0	N/A
Other	55	95	(40)	-42.1%
Total State Sources	$3,873	$3,534	$339	9.6%
Federal Sources	$74	$353	($279)	-79.0%
Total Federal & State Sources	$3,947	$3,887	$60	1.5%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($221)	($213)	($8)	3.8%
Corporate Income Tax	(22)	(12)	(10)	83.3%
LGDF--Direct from PIT	(135)	(117)	(18)	15.4%
LGDF--Direct from CIT	(9)	(5)	(4)	80.0%
Downstate Pub/Trans--Direct from Sales	(49)	(50)	1	-2.0%
Subtotal General Funds	$3,511	$3,490	$21	0.6%
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	$3,511	$3,490	$21	0.6%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Feb-21

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	$13,846	$12,072	$1,774	14.7%
Corporate Income Tax (regular)	1,977	1,498	479	32.0%
Sales Taxes	5,548	5,448	100	1.8%
Public Utility Taxes (regular)	419	487	(68)	-14.0%
Cigarette Tax	168	153	15	9.8%
Liquor Gallonage Taxes	111	112	(1)	-0.9%
Vehicle Use Tax	20	18	2	11.1%
Inheritance Tax	281	156	125	80.1%
Insurance Taxes and Fees	282	185	97	52.4%
Corporate Franchise Tax & Fees	215	185	30	16.2%
Interest on State Funds & Investments	42	97	(55)	-56.7%
Cook County IGT	56	56	0	0.0%
Other Sources	115	382	(267)	-69.9%
Subtotal	$23,080	$20,849	$2,231	10.7%
Transfers				
Lottery	$426	$340	$86	25.3%
Riverboat transfers & receipts	0	194	-194	-100.0%
Proceeds from Sale of 10th license	0	0	0	N/A
Refund Fund transfer	281	617	-336	-54.5%
Other	262	678	(416)	-61.4%
Total State Sources	$24,049	$22,678	$1,371	6.0%
Federal Sources	$3,057	$1,737	$1,320	76.0%
Total Federal & State Sources	$27,106	$24,415	$2,691	11.0%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($1,246)	($1,147)	($99)	8.6%
Corporate Income Tax	(277)	-214	-63	29.4%
LGDF--Direct from PIT	(764)	-629	-135	21.5%
LGDF--Direct from CIT	(117)	-84	-33	39.3%
Downstate Pub/Trans--Direct from Sales	(175)	-204	29	-14.2%
Subtotal General Funds	$24,527	$22,137	$2,390	10.8%
Treasurer's Investments	$400	$400	$0	0.0%
Interfund Borrowing	$0	$150	($150)	N/A
Short Term Borrowing	$1,998	$0	$1,998	N/A
Total General Funds	$26,925	$22,687	$4,238	18.7%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Feb-21