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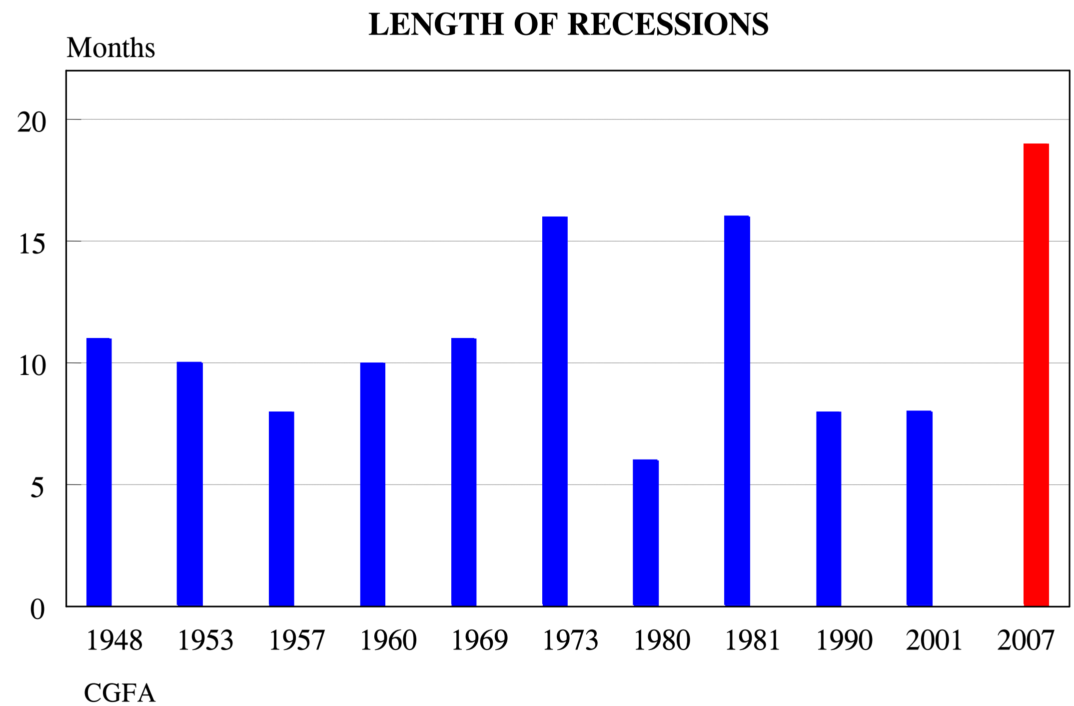
## ECONOMY: Is the Recession Over?
Edward H. Boss, Jr., Chief Economist

There are increasing data suggesting that the recession, which officially started in December 2007, may be ending. If so, this would mark the eleventh recession the U.S. economy has experienced in the post WWII period (see chart on next page). The current recession has been characterized as the worst since the Great Depression of the 1930s. While not dismissing the severity of the current downturn, such a comparison seems extreme.

If it turns out that the current recession ended in June or July of this year, it would have been 18 or 19 months respectively in length. The previous 10 recessions had an average length of 10 months in duration, although there have been wide variations. The prior two recessions each lasted 8 months while the recessions in 1973 and 1981 each lasted 16 months. The shortest recession in the post WWII period was 6 months in duration in 1980 while the longest starting in 1929 lasted 43 months. (Many economists consider the twin recessions in the 1980s as one, which combined would have been 22 months long with a brief interruption).

The harshness of a recession can be judged by conditions in the labor markets. The national unemployment rate stood at 9.4% in July with Illinois' unemployment rate a full percent higher at 10.4%. These are the highest levels in years. Even so, they are not nearly as high as the 25% rate seen during the Great Depression, or even the 10.8% national rate reached in December 1982 or the 12.9% rate reached in Illinois in February 1983. This is not to say, however, that current unemployment rates have peaked. Indeed, the rate tends to have a lagged response, continuing to rise in the early stages of an economic recovery. The continuing rise in the unemployment rate reflects two major responses. First, as economic conditions improve, more workers who have been discouraged from looking, re-enter the labor force. At the same time, employers are hesitant to quickly increase the size of their work force until they are assured improved conditions are likely to last.

CHART 1




Some analysts point out that recent recoveries have been "jobless". However, this is not anything new. In a recent report by the ***Economics Group*** at Wells Fargo, they reached the conclusion that jobless recoveries are not unusual but are the norm. Rather than the trend of jobless recoveries beginning in 2001, actual job growth has lagged economic growth in each recovery since 1970. The report also points out that the decline in blue-collar jobs has been in a secular decline since at least 1983 and labor force growth has slowed over the past forty years.

Signs of recovery appear to be accumulating. Even the normally cautious Federal Reserve Chairman Bernanke at an annual Fed conference in Wyoming was quoted as saying "The prospects for a return to growth in the near term appear good." Perhaps the weakest sector has been in housing, yet there appear to be signs that this is bottoming. The National Association of Realtors reported out a stronger than expected jump of 7.2% in existing home sales in July, the fourth consecutive monthly gain and the highest level since August last year. At the same time, new home sales in July rose 9.6% and June sales were revised upward. Moreover, the Standard & Poor's/Case-Shiller's U.S. Home Price Index indicated home prices rose 3% in the second quarter, the first quarterly gain in three years.

The Conference Board reported its index of leading economic indicators rose in July for its forth consecutive monthly gain, suggesting the economy has bottomed and the recession will end this summer if it hasn't already. The Conference Board Consumer Confidence Index, which had briefly retreated in July, rebounded in August. One of the early indicators of an economic recovery is the stock market, and this bottomed in early March. Finally, the Federal Reserve Board reported that industrial production, a coincident indicator, increased in July, which aside from a hurricane-related rebound in October 2008 was the first increase since December 2007-the beginning of the recession. If the recession has truly ended, the question is what shape the recovery will take. Much of how this is determined will depend on the course of monetary and fiscal policies and how they are employed.

## INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

| INDICATORS | JULY 2009 | JUNE 2009 | JULY 2008 |
|---|---|---|---|
| Unemployment Rate (Average) | 10.4% | 10.3% | 6.7% |
| Annual Rate of Inflation (Chicago) | -0.6% | 6.8% | -3.0% |

| | LATEST MONTH | % CHANGE OVER PRIOR MONTH | % CHANGE OVER A YEAR AGO |
|---|---|---|---|
| Civilian Labor Force (thousands) (July) | 6,645 | -0.1% | -0.7% |
| Employment (thousands) (July) | 5,952 | -0.2% | -4.7% |
| New Car & Truck Registration (July) | 42,498 | 27.4% | -20.4% |
| Single Family Housing Permits (July) | 995 | 16.2% | -22.1% |
| Total Exports ($ mil) (June) | 3,352 | 0.6% | -25.1% |
| Chicago Purchasing Managers Index (August) | 50.0 | 15.2% | -13.0% |

## Short-Term Borrowing

Lynnae Kapp, Bond Analyst

On March 27, 2009, the Office of the Governor notified the Legislature and the Secretary of State of a proposed short-term borrowing due to a failure of revenues. The Illinois Constitution (Section 9 (d)) allows State debt to be incurred in an amount not exceeding 15% of the State's appropriations for the current fiscal year to meet deficits caused by emergencies or failures of revenue. The debt must be repaid within one year of the date it is incurred.

The total amount issued equaled approximately $2.25 billion. The sale was broken up into two issuances. The first $1 billion was sold in May 2009 and will be paid off in two installments in

April and May of 2010. Interest will equal $28.8 million.

The State sold the second G.O. Certificates in August 2009 in the amount of $1.25 billion. Payments will be made March, April and June of 2010. Interest will equal approximately $16.6 million. Proceeds of the G.O. Certificates will be deposited into the General Revenue Fund and used to supplement revenues during FY 2010 and to relieve general cash flow pressures.

**HISTORY OF SHORT TERM BORROWING**

| Date Issued | Date Retired | Purpose | Amount (millions) |
|---|---|---|---|
| June-July 1983 | May 1984 | To maintain adequate cash balances caused by revenue shortfalls | $200 |
| February 1987 | February 1988* | To improve the cash position of the General Funds | $100 |
| August 1991 | June 1992 | For cash flow purposes | $185 |
| February 1992 | October 1992* | To pay Medicaid providers through the Medicaid Developmentally Disabled Provider Participation Fee, Medicaid Long-Term Care Provider Participation Fee, and Hospital Services Trust Funds | $500 |
| August 1992 | May 1993 | To improve the payment cycle to Medicaid service providers | $600 |
| October 1992 | June 1993 | For cash flow purposes | $300 |
| August 1993 | June 1994 | For cash flow to pay Medicaid service providers through the Hospital Provider Fund | $900 |
| August 1994 | June 1995 | To pay Medicaid service providers through the Long-Term Care and Hospital Provider Funds | $687 |
| August 1995 | June 1996 | To GRF for cash flow and payment to Medicaid service providers through the Long-Term Care Provider Fund and Hospital Provider Fund | $500 |
| July 2002 | June 2003 | For Cash Flow; payments for medical assistance; to medical providers for long-term care; to pay Income Tax Refunds | $1,000 |
| May 2003 | May 2004* | For Cash Flow; payments for medical assistance; to medical providers for long-term care; for Income Tax Refunds; for State Aid to K-12 school districts | $1,500 |
| June 2004 | October 2004* | For Medicaid service providers and the Children’s Health Insurance Program | $850 |
| March 2005 | June 2005 | For Cash Flow; for payments to Medicaid Service Providers through the Hospital Provider Fund. | $765 |
| November 2005 | June 2006 | For Cash Flow; for payments for Medicaid and the Children’s Health Insurance Program. | $1,000 |
| February 2007 | June 2007 | For the Hospital Provider Assessment Tax Program; health care related funds; General Revenue Fund liquidity. | $900 |
| September 2007 | November 2007 | For the Hospital Provider Assessment Tax Program; health care related funds; General Revenue Fund liquidity. | $1,200 |
| April 2008 | June 2008 | For the Hospital Provider Assessment Tax Program; health care related funds; General Revenue Fund liquidity. | $1,200 |
| December 2008 | June 2009 | To relieve General Revenue Fund cash flow pressures. | $1,400 |
| May 2009 | May 2010* | Failure of Revenues | $1,000 |
| August 2009 | June 2010 | Failure of Revenues | $1,250 |

Source: Governor's Office of Management & Budget
*Across fiscal year borrowing

## REVENUE

### Federal Sources Boost August Revenues – Offsets Decline in Other Areas

Jim Muschinske, Revenue Manager

Excluding $1.250 billion in short-term borrowing, base general funds revenues grew $209 million in August. The increase was due almost entirely to a strong performance in federal sources stemming from increased reimbursable spending [as well as a comparatively weak month last year]. Unfortunately, the economically related sources continue to falter with income and sales taxes experiencing large falloffs. August had the same number of receipt days as last year.

Sales tax dropped $69 million for the month, while gross personal income tax fell $58 million, or $52 million net of refunds. Public utility tax experienced a falloff of $16 million, inheritance tax dropped $10 million, gross corporate income tax fell $7 million ($2 million net of refunds), interest income down $6 million, insurance and other sources were both down $3 million, and vehicle use tax dipped $1 million.

The only sources to generate a monthly gain were liquor taxes and corporate franchise taxes, with each source raising a modest $1 million.

Overall transfers posted a gain of $1 million due to a $10 million gain in riverboat transfers. Unfortunately, those gains were virtually wiped out by a $5 million loss in lottery transfers and a $4 million drop in other transfers. As mentioned, Federal sources posted a sizable gain, up $368 million, due to a large increase in reimbursable spending.

### Year to Date

Through the first two months of the fiscal year, overall base revenues are down $196 million. The larger economically related sources such as income and sales continue to reel from the recession's grip. Despite cautious optimism that the recession is winding down, it will be some time before improvement in receipts can be expected.

Through August, sales tax is down $153 million, while gross personal income tax is off $98 million, or $88 million net of refunds. Public utility tax has declined by $28 million, gross corporate income tax is down $21 million, or $17 million net of refunds, and all other remaining tax sources are off $29 million.

Overall transfers are up $88 million, due to the July fund sweeps. Despite the August boost, federal sources are only a modest $31 million ahead.

## GENERAL FUNDS RECEIPTS: AUGUST
*FY 2010 vs. FY 2009*
*($ million)*

| Revenue Sources | August FY 2010 | August FY 2009 | $ CHANGE | % CHANGE |
|---|---|---|---|---|
| ***State Taxes*** | | | | |
| Personal Income Tax | $633 | $691 | ($58) | -8.4% |
| Corporate Income Tax (regular) | 28 | 35 | ($7) | -20.0% |
| Sales Taxes | 532 | 601 | ($69) | -11.5% |
| Public Utility Taxes (regular) | 66 | 82 | ($16) | -19.5% |
| Cigarette Tax | 29 | 29 | $0 | 0.0% |
| Liquor Gallonage Taxes | 14 | 13 | $1 | 7.7% |
| Vehicle Use Tax | 2 | 3 | ($1) | -33.3% |
| Inheritance Tax (Gross) | 21 | 31 | ($10) | -32.3% |
| Insurance Taxes and Fees | 17 | 20 | ($3) | -15.0% |
| Corporate Franchise Tax & Fees | 14 | 13 | $1 | 7.7% |
| Interest on State Funds & Investments | 3 | 9 | ($6) | -66.7% |
| Cook County IGT | 0 | 0 | $0 | N/A |
| Other Sources | 27 | 30 | ($3) | -10.0% |
| ***Subtotal*** | $1,386 | $1,557 | ($171) | -11.0% |
| ***Transfers*** | | | | |
| Lottery | 30 | 35 | ($5) | -14.3% |
| Riverboat transfers & receipts | 40 | 30 | $10 | 33.3% |
| Other | 21 | 25 | ($4) | -16.0% |
| ***Total State Sources*** | $1,477 | $1,647 | ($170) | -10.3% |
| ***Federal Sources*** | $604 | $236 | $368 | 155.9% |
| ***Total Federal & State Sources*** | $2,081 | $1,883 | $198 | 10.5% |
| ***Nongeneral Funds Distribution:*** | | | | |
| ***Refund Fund*** | | | | |
| Personal Income Tax | ($62) | ($68) | $6 | -8.8% |
| Corporate Income Tax | ($5) | (10) | $5 | -50.0% |
| ***Subtotal General Funds*** | $2,014 | $1,805 | $209 | 11.6% |
| ***Short-Term Borrowing*** | $1,250 | $0 | $1,250 | N/A |
| ***Hopital Provider Fund (cash flow transfer)*** | $0 | $0 | $0 | N/A |
| ***Budget Stabilization Fund Transfer*** | $0 | $0 | $0 | N/A |
| ***Total General Funds*** | $3,264 | $1,805 | $1,459 | 80.8% |

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Sep-09

## GENERAL FUNDS RECEIPTS: YEAR TO DATE

*FY 2010 vs. FY 2009*

*($ million)*

| Revenue Sources | FY 2010 | FY 2009 | CHANGE FROM FY 2009 | % CHANGE |
|---|---|---|---|---|
| ***State Taxes*** | | | | |
| Personal Income Tax | $1,288 | $1,386 | ($98) | -7.1% |
| Corporate Income Tax (regular) | 68 | 89 | ($21) | -23.6% |
| Sales Taxes | 1,078 | 1,231 | ($153) | -12.4% |
| Public Utility Taxes (regular) | 167 | 195 | ($28) | -14.4% |
| Cigarette Tax | 58 | 58 | $0 | 0.0% |
| Liquor Gallonage Taxes | 30 | 29 | $1 | 3.4% |
| Vehicle Use Tax | 5 | 6 | ($1) | -16.7% |
| Inheritance Tax (Gross) | 39 | 58 | ($19) | -32.8% |
| Insurance Taxes and Fees | 23 | 23 | $0 | 0.0% |
| Corporate Franchise Tax & Fees | 28 | 27 | $1 | 3.7% |
| Interest on State Funds & Investments | 8 | 16 | ($8) | -50.0% |
| Cook County IGT | 0 | 13 | ($13) | -100.0% |
| Other Sources | 81 | 71 | $10 | 14.1% |
| ***Subtotal*** | $2,873 | $3,202 | ($329) | -10.3% |
| ***Transfers*** | | | | |
| Lottery | 77 | 81 | ($4) | -4.9% |
| Riverboat transfers & receipts | 75 | 80 | ($5) | -6.3% |
| Other | 153 | 56 | $97 | 173.2% |
| ***Total State Sources*** | $3,178 | $3,419 | ($241) | -7.0% |
| ***Federal Sources*** | $975 | $944 | $31 | 3.3% |
| ***Total Federal & State Sources*** | $4,153 | $4,363 | ($210) | -4.8% |
| ***Nongeneral Funds Distribution:*** | | | | |
| ***Refund Fund*** | | | | |
| Personal Income Tax | ($125) | ($135) | $10 | -7.4% |
| Corporate Income Tax | ($12) | ($16) | $4 | -25.0% |
| ***Subtotal General Funds*** | $4,016 | $4,212 | ($196) | -4.7% |
| ***Short-Term Borrowing*** | $1,250 | $0 | $1,250 | N/A |
| ***Hospital Provider Fund (cash flow transfer)*** | $0 | $0 | $0 | N/A |
| ***Budget Stabilization Fund Transfer*** | $276 | $276 | $0 | 0.0% |
| ***Total General Funds*** | $5,542 | $4,488 | $1,054 | 23.5% |

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

CGFA 1-Sep-09