



Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: AUGUST 2013

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INSIDE THIS ISSUE

PAGE 1 - **ECONOMY:** Divergent
Employment Trends

PAGE 3: Illinois Economic Indicators

PAGE 4 - **REVENUE:** August
Revenues Reflect Strong Transfers and
Sales Taxes

PAGE 5-6: Revenue Tables

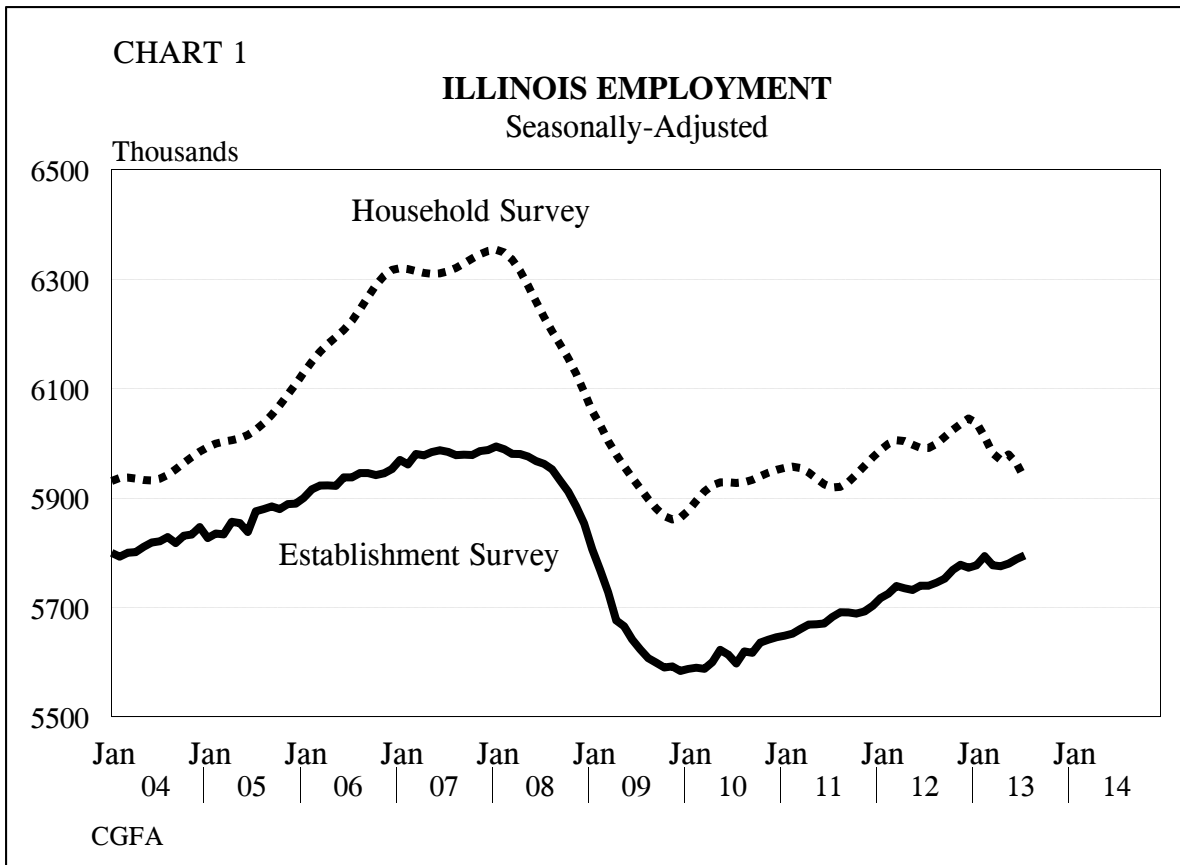
ECONOMY: Divergent Employment Trends

Edward H. Boss, Jr., Chief Economist

Employment measures for Illinois have gone on different paths this year with the Household Survey, used to determine the unemployment rate, showing a sharp downturn in employment with a rising unemployment rate. At the other extreme is the Establishment Survey that measures nonfarm payroll employment from the records of businesses and government. This survey generally shows a continuation of the upward trend of employment begun early in 2010 following the beginning of the national economic recovery in June 2009.

The chart at the top of the next page shows that the two measures over time tend to track each other. Often the Household Survey, however, may lead the direction of the Establishment Survey, in part because the majority of new jobs come from small businesses and it may take some time before those jobs would be captured in the Establishment Survey data. There have been other times when the two have diverged although the current disparity seems particularly pronounced. Several possibilities can be raised to help explain this phenomenon.

The Household Survey shows the number employed in Illinois fell by 110,000 on a seasonally adjusted basis in the first seven months of the year and the unemployment rate rose from 8.6% in December 2012 to 9.2% in July this year, second highest in the nation surpassed only by Nevada with a rate of 9.5%. Illinois' unemployment rate would have been even higher had it not been for shrinkage in the labor force, which fell during the 7-month period by 77,200. This contrasts with the national unemployment rate, which fell from 7.8% last December to 7.4% in July. Indeed, both the national and Illinois' unemployment rates may be understated because of a falling labor force participation rate that this year reached its lowest level in about 35 years.



The Establishment Survey shows continued growth in Illinois' nonfarm payroll jobs. Such jobs rose by 55,500 in July 2013 from a year earlier, although the pace slowed from a gain of 33,100 in the first six months of the period to 22,400 in the second six months. The strongest job gains in order of importance over the year were in Professional and Business Services, Education and Health Services, Construction, and Leisure and Hospitality. The major job decliners were in Manufacturing and Government.

The rise in nonfarm payroll employment could be distorted, however, because of the growing number of part time workers that now

has reached a record high. One possibility for this growth in part-time employment is the change in the definition of a full-time job in Obama Care from a 40-hour week to a 30-hour week. (The Bureau of Labor Statistics refers to those who worked 1 to 34 hours as part-time work). This has caused some employers, which have more than 50 full-time or full-time equivalents employees and must provide them with insurance or pay a fine, to cut their hours. Should those newly part-time employees then get another part-time job they could be double counted in the Establishment Survey.

There can be little doubt that the current business expansion, now in its fifth year, has fallen far short in

many ways, but particularly in terms of jobs. By either employment measure, job levels have failed to return to their pre-recession levels. Moreover, while unemployment rates remain high, there is evidence that even at these levels they may be understated. With recent growth continuing lethargic, it may be insufficient to absorb population increases yet alone make significant reductions in unemployment any time soon.

Currently there are many uncertainties that appear to be holding back business confidence in

hiring. On the fiscal front is the unknown impact of the implementation of Obama Care, the impact of impending release of increased rules and regulations, as well as issues surrounding the raising of the debt ceiling. On the monetary front is the uncertainty and impact of the Federal Reserve's tapering of its policy of quantitative easing not to mention who will be appointed the new Federal Reserve Chairman and how policy directives might be altered. It is likely that some clarity on these issues must surface before a climate of faster economic growth and hiring can occur.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>JULY 2013</u>	<u>JUNE 2013</u>	<u>JULY 2012</u>
Unemployment Rate (Average)	9.2%	9.1%	9.0%
Annual Rate of Inflation (Chicago)	-2.6%	1.2%	1.7%
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (July)	6,540	-0.3%	-0.6%
Employment (thousands) (July)	5,935	-0.4%	-0.9%
New Car & Truck Registration (July)	52,087	-7.1%	8.0%
Single Family Housing Permits (July)	1,007	9.2%	20.7%
Total Exports (\$ mil) (June)	5,282	-6.6%	-10.3%
Chicago Purchasing Managers Index (August)	53.0	1.3%	-0.7%

REVENUE

August Revenues Reflect Strong Transfers and Sales Taxes

Jim Muschinske, Revenue Manager

Overall base revenues jumped \$469 million in August. The main driver of the increase was a one-time transfer of \$397 million from the Income Tax Refund Fund into the General Fund. A surplus had built up in the Refund Fund, and as directed by statute, any end of fiscal year surplus is transferred into the General Fund. The FY'14 budget conservatively assumed that only \$300 million would be available for transfer. In addition, August sales taxes were surprisingly strong, thus adding to the monthly growth. There was one less receipting day as compared to the same month last year.

For the month, sale tax receipts grew an impressive \$65 million. Gross personal income tax revenues rose \$25 million, or \$26 million net of refunds. While the cigarette tax posted an \$8 million increase, the gain was due to last July/August falloff related to the "stockpiling" effect of that year's rate increase. This year, cigarette taxes to the general funds returned to statutory levels. Insurance taxes and fees managed to post a modest \$2 million gain.

A few sources experienced declines for the month. Public utility taxes fell \$12 million, other sources \$4 million, corporate income taxes \$4 million, inheritance tax \$2 million, and corporate franchise taxes \$1 million.

Meanwhile, overall transfers jumped \$400 million in August, although nearly all of that gain was due to the \$397 million one-time Income Tax Fund transfer. Lottery transfers grew \$10 million, riverboat

taxes rose \$13 million, but other transfers fell \$20 million. Federal sources suffered a minor loss, falling \$9 million in August.

Year to Date

Through the first two months of FY 2014, base general funds are up \$444 million. Again, most of that growth can be attributed to the surge in August transfers as described above. However, sales tax enjoyed a good start to the fiscal year, growing \$108 million. Personal income tax, while not spectacular, posted modest gains of \$68 million, or \$67 million net of refunds. And cigarette tax, due to the stockpiling effect of last year, returned to its statutory levels, which translates into a gain of \$25 million.

A few sources have suffered year to date declines to begin the fiscal year. Inheritance tax is down \$41 million, although the falloff was expected and is attributed to an earlier tax change which resulted in an exceptionally large July in 2012. Gross corporate income tax is down a modest \$6 million, or \$4 million net of refunds. Other sources are off \$5 million, while corporate franchise taxes dipped \$1 million.

Through August, and due to the surge in July, overall transfers are up \$399 million. Absent the \$397 million from the Income Tax Refund Fund, the only other change comes from a \$2 million increase in lottery transfers. Federal sources are down \$109 million thus far, reflecting somewhat lower reimbursable spending.

GENERAL FUNDS RECEIPTS: AUGUST

FY 2014 vs. FY 2013

(\$ million)

Revenue Sources	August FY 2014	August FY 2013	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$1,202	\$1,177	\$25	2.1%
Corporate Income Tax (regular)	64	68	(\$4)	-5.9%
Sales Taxes	648	583	\$65	11.1%
Public Utility Taxes (regular)	84	96	(\$12)	-12.5%
Cigarette Tax	29	21	\$8	38.1%
Liquor Gallonage Taxes	12	12	\$0	0.0%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	22	24	(\$2)	-8.3%
Insurance Taxes and Fees	21	19	\$2	10.5%
Corporate Franchise Tax & Fees	18	19	(\$1)	-5.3%
Interest on State Funds & Investments	1	1	\$0	0.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	33	37	(\$4)	-10.8%
Subtotal	\$2,137	\$2,060	\$77	3.7%
Transfers				
Lottery	47	37	\$10	27.0%
Riverboat transfers & receipts	46	33	\$13	39.4%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	397	0	\$397	N/A
Other	37	57	(\$20)	-35.1%
Total State Sources	\$2,664	\$2,187	\$477	21.8%
Federal Sources	\$174	\$183	(\$9)	-4.9%
Total Federal & State Sources	\$2,838	\$2,370	\$468	19.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$114)	(\$115)	\$1	-0.9%
Corporate Income Tax	(\$9)	(9)	\$0	0.0%
Subtotal General Funds	\$2,715	\$2,246	\$469	20.9%
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	\$2,715	\$2,246	\$469	20.9%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				3-Sep-13

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2014 vs. FY 2013

(\$ million)

<u>Revenue Sources</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>CHANGE FROM FY 2013</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$2,412	\$2,344	\$68	2.9%
Corporate Income Tax (regular)	149	155	(\$6)	-3.9%
Sales Taxes	1,306	1,198	\$108	9.0%
Public Utility Taxes (regular)	169	166	\$3	1.8%
Cigarette Tax	59	34	\$25	73.5%
Liquor Gallonage Taxes	29	29	\$0	0.0%
Vehicle Use Tax	6	5	\$1	20.0%
Inheritance Tax (Gross)	34	75	(\$41)	-54.7%
Insurance Taxes and Fees	23	22	\$1	4.5%
Corporate Franchise Tax & Fees	31	32	(\$1)	-3.1%
Interest on State Funds & Investments	2	2	\$0	0.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	69	74	(\$5)	-6.8%
Subtotal	\$4,289	\$4,136	\$153	3.7%
Transfers				
Lottery	87	85	\$2	2.4%
Riverboat transfers & receipts	62	62	\$0	0.0%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	397	0	\$397	N/A
Other	104	104	\$0	0.0%
Total State Sources	\$4,939	\$4,387	\$552	12.6%
Federal Sources	\$477	\$586	(\$109)	-18.6%
Total Federal & State Sources	\$5,416	\$4,973	\$443	8.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$229)	(\$228)	(\$1)	0.4%
Corporate Income Tax	(\$20)	(\$22)	\$2	-9.1%
Subtotal General Funds	\$5,167	\$4,723	\$444	9.4%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund Transfer	\$50	\$0	\$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	\$5,492	\$4,998	\$494	9.9%

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

CGFA

3-Sep-13