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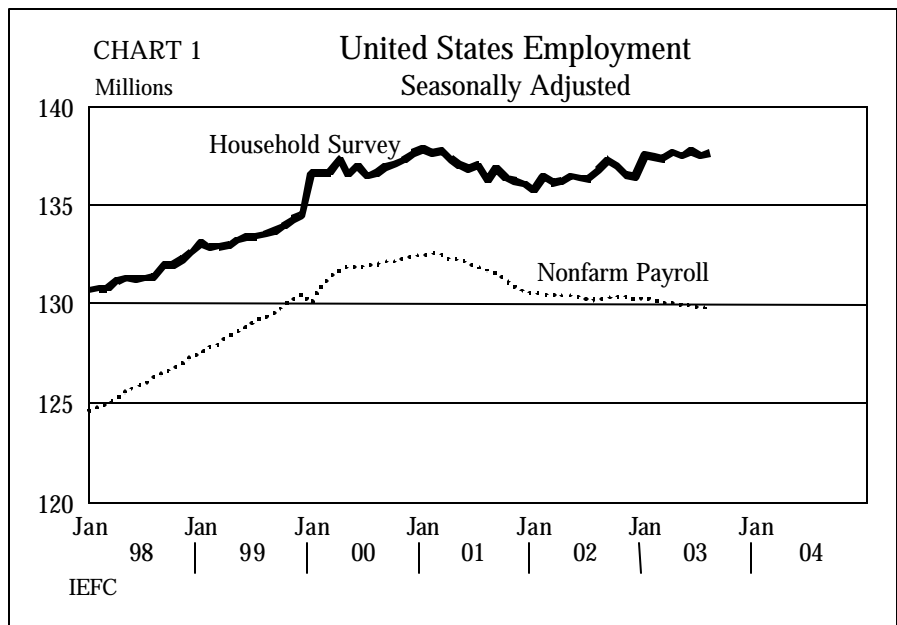
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ECONOMY: Employment Situation In Review

Edward H. Boss, Jr., Chief Economist

Economists, politicians, market analysts, and people in general await the first Friday of each month for the release of the Labor Department's report on *The Employment Situation*. While the last recession was declared officially over in November 2001, there is general agreement that conditions in the labor markets have not improved. Indeed, the current period has been labeled "the jobless recovery", and even by some observers the "job loss" recovery.

On Friday, September 5, 2003, the Bureau of Labor Statistics reported that the nation's unemployment rate fell to 6.1% of the labor force in August, down from 6.2% in July and a recent high of 6.4% in June. Not necessarily good news, however, as it was reported that payroll employment declined by 93,000 in the same month. On September 16, 2003, the Illinois Department of Employment Security reported that Illinois' unemployment rate in August jumped to 6.8% from 6.5% in July and the total number of people employed dropped for the first time since February. At the same time, payroll employment was down a sharp 53,900 from a year earlier. An in-depth look at these various measures may prove useful in getting a handle on the current employment situation.



The unemployment rate is defined as the number unemployed as a percent of the labor force. Employment, however, is measured by two different surveys that can yield varying results at times -- the household survey, from which the unemployment rate is derived, and the establishment survey, which measures payroll employment. Both measures are illustrated in Chart 1 and, while the general pattern is similar for both measures over time, there are periods when the two diverge. This is the case currently. For example, the household survey shows that in the 12-months ended August 2003, seasonally adjusted employment was up 868,000, even while payroll employment had fallen by 463,000 during the same time period. Similarly in Illinois, the household survey shows an increase in employment of 51,500 during the past year, while payroll employment declined by an almost similar amount-- 53,900.

The household survey is based upon a sample of 60,000 persons 16 years of age or older, providing information on the labor force, employment and unemployment. People are considered employed if they worked for pay during the survey week; worked in their own business, on their farm or worked at least 15 hours without pay in a family business or farm; were temporarily absent due to illness, vacation, strike; or for personal reasons. The establishment survey, consisting of 160,000 responses, measures nonfarm payrolls of businesses such as factories, offices, stores, federal, and state and local governments. Persons who received pay for any part of the survey period or were on paid leave are

counted. From these definitions, it is quite clear differences can emerge.

The household survey's major weakness is that it relies on individual responses to the questions asked and, therefore, subject to some discrepancies due to misunderstanding of the questions or human error. On the other hand, while it would appear that you could get "hard" data from surveying company payrolls, there are several weaknesses here as well. One major flaw is that there would be double counting of individuals who held down more than one job, even if the second job was part time. Payroll employment also excludes agricultural workers, household help, and the self employed, together estimated at almost 13 million workers. Another major problem with the establishment survey is its inability to capture on a timely basis employment generated by new firms. Both surveys are subject to sampling and nonsampling errors, but both provide important information on the status of the labor markets.

It is often true that in the past the household survey has led the establishment, or payroll, survey. This in large part may reflect the time lag in recording employment at small firms, where most new jobs originate, and the self employed in the establishment survey. It generally has taken real growth of 3% or more to create new jobs. The economy achieved that pace in the second quarter of this year and expectations are for even faster growth in the quarter just ended. These differences in coverage plus the others mentioned between the two surveys

undoubtedly are major factors in the current discrepancies between the two series. If the rise in household employment repeats its leading pattern, it may well mean some improvement in

payroll employment lies ahead. The next national employment report will be released on Friday, October 3rd, with Illinois' numbers released on Wednesday, October 15th.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>August 2003</u>	<u>July 2003</u>	<u>August 2002</u>
Unemployment Rate (Average)	6.8%	6.5%	6.5%
Annual Rate of Inflation (Chicago)	2.6%	0.0%	1.6%
—————			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (August)	6,435	0.0%	1.2%
Employment (thousands) (August)	5,997	-0.3%	0.9%
New Car & Truck Registration (August)	67,004	19.4%	-4.8%
Single Family Housing Permits (August)	4,211	-3.7%	14.1%
Total Exports (\$ mil) (July)	2,102	-6.4%	1.9%
Chicago Purchasing Managers Index (Sept.)	51.2	-31.1%	3.6%

REVENUE

Federal Sources up Again in
September—Remaining Sources Mixed
Jim Muschinke, Revenue Manager

September general revenue receipts, excluding Pension Contribution Fund transfers, rose \$89 million. The increase once again was due entirely to higher federal sources. Absent those federal gains, other revenue sources were mixed, with half experiencing gains while the other half suffered losses. If \$152 million in Pension Contribution Fund transfers are included, overall general funds revenues were up \$241 million. September had one more receipting day as compared to the same month last year.

While overall receipts were up, a number of sources experienced declines in September. Gross corporate income tax receipts were down \$18 million (down \$21 million net of refunds). Inheritance tax revenues fell by \$8 million, while gross personal income tax was off \$7 million (down \$32 million net of refunds). Both vehicle use tax and interest earnings each fell \$1 million for the month.

The other sources were either flat or generated small gains. Sales tax receipts recorded a \$21 million increase, while both public utility and cigarette tax receipts gained \$7 million each. Insurance taxes and fees rose by \$5 million and corporate franchise taxes and fees brought in \$3 million more

than last September. Other general funds sources managed a \$2 million increase.

Overall transfers declined \$25 million in September. While riverboat transfers and receipts were up \$14 million, the decrease was attributed to lottery transfers which fell by \$2 million and from a \$37 million decline in other transfers. The decline in other transfers was due to approximately \$26 million in re-transfers stemming from "administrative chargebacks" initiated in August, but then rescinded in early September. Federal sources experienced another good month as receipts rose by \$132 million. The increase reflected a good month for receipts as well a poor September last year.

Year to Date

Through the first quarter, excluding revenues attributed to short-term borrowing and Budget Stabilization and Pension Contribution funds transfers, receipts are up \$646 million over the same period of last fiscal year. However, all of that increase is attributed to the growth in federal sources. Federal sources aside, base growth for the most part has continued to be virtually absent.

While gross personal income tax is up \$21 million year to date, after factoring in the higher refund percentage, net receipts are down \$48 million. Sales tax has managed to post a relatively modest \$16 million gain during the first quarter, while insurance taxes and fees continue to do well as first quarter revenues were up \$11

million. All other sources experiencing gains through September total an additional \$13 million.

While recently passed legislation decoupled the State from the federal phase-out of inheritance taxes, due to a natural lag in estate settlements, receipts are still on a declining trend, off \$34 million. Gross corporate income taxes are down \$17 million (down \$22 million net of refunds). Public utility taxes are down by \$3 million and other sources are off by \$2 million.

Through the first quarter, overall transfers are up \$58 million. While lottery transfers are down \$11 million, that decline was more than offset by a \$36 million increase in riverboat transfers and receipts as the result of the increased wagering and admission tax. In addition, other transfers are up \$33 million. Finally, as mentioned, federal sources are up significantly for the year-- \$657 million. *[As anticipated, the second installment of \$211 million in federal flexible grants stemming from the Jobs and Growth Tax Relief Reconciliation Act of 2003 were received October 1st, and will be counted as October federal receipts.]*

With the first quarter of FY 2004 now ended and base revenues experiencing a \$646 million or 11.6% increase, it appears at first glance that the revenue picture is improving. However, on closer inspection, it is quite clear that, absent gains experienced by federal receipts, base revenues continue to struggle. Until the employment picture starts to improve, it will be very difficult to reverse that trend.

GENERAL FUNDS RECEIPTS: SEPTEMBER

FY 2004 vs. FY 2003
(\$ million)

Revenue Sources	SEPT. FY 2004	SEPT. FY 2003	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$689	\$696	(\$7)	-1.0%
Corporate Income Tax (regular)	147	165	(\$18)	-10.9%
Sales Taxes	528	507	\$21	4.1%
Public Utility Taxes (regular)	79	72	\$7	9.7%
Cigarette Tax	33	26	\$7	26.9%
Liquor Gallonage Taxes	10	10	\$0	0.0%
Vehicle Use Tax	3	4	(\$1)	-25.0%
Inheritance Tax (Gross)	12	20	(\$8)	-40.0%
Insurance Taxes and Fees	59	54	\$5	9.3%
Corporate Franchise Tax & Fees	15	12	\$3	25.0%
Interest on State Funds & Investments	4	5	(\$1)	-20.0%
Cook County IGT	23	23	\$0	0.0%
Other Sources	15	13	\$2	15.4%
Subtotal	\$1,617	\$1,607	\$10	0.6%
Transfers				
Lottery	38	40	(\$2)	-5.0%
Riverboat transfers & receipts	74	60	\$14	23.3%
Other	(7)	30	(\$37)	-123.3%
Total State Sources	\$1,722	\$1,737	(\$15)	-0.9%
Federal Sources	\$397	\$265	\$132	49.8%
Total Federal & State Sources	\$2,119	\$2,002	\$117	5.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$81)	(\$56)	(\$25)	44.6%
Corporate Income Tax	(\$47)	(44)	(\$3)	6.8%
Subtotal General Funds	\$1,991	\$1,902	\$89	4.7%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$152	\$0	\$152	N/A
Total General Funds	\$2,143	\$1,902	\$241	12.7%

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

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GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2004 vs. FY 2003

(\$ million)

Revenue Sources	FY 2004	FY 2003	CHANGE FROM FY 2003	% CHANGE
State Taxes				
Personal Income Tax	\$1,812	\$1,791	\$21	1.2%
Corporate Income Tax (regular)	197	214	(\$17)	-7.9%
Sales Taxes	1,577	1,561	\$16	1.0%
Public Utility Taxes (regular)	229	232	(\$3)	-1.3%
Cigarette Tax	100	93	\$7	7.5%
Liquor Gallonage Taxes	32	31	\$1	3.2%
Vehicle Use Tax	10	9	\$1	11.1%
Inheritance Tax (Gross)	42	76	(\$34)	-44.7%
Insurance Taxes and Fees	74	63	\$11	17.5%
Corporate Franchise Tax & Fees	36	33	\$3	9.1%
Interest on State Funds & Investments	20	19	\$1	5.3%
Cook County IGT	77	77	\$0	0.0%
Other Sources	45	47	(\$2)	-4.3%
Subtotal	\$4,251	\$4,246	\$5	0.1%
Transfers				
Lottery	108	119	(\$11)	-9.2%
Riverboat transfers & receipts	196	160	\$36	22.5%
Other	259	226	\$33	14.6%
Total State Sources	\$4,814	\$4,751	\$63	1.3%
Federal Sources	\$1,653	\$996	\$657	66.0%
Total Federal & State Sources	\$6,467	\$5,747	\$720	12.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$212)	(\$143)	(\$69)	48.3%
Corporate Income Tax	(\$63)	(\$58)	(\$5)	8.6%
Subtotal General Funds	\$6,192	\$5,546	\$646	11.6%
Short-Term Borrowing	\$0	\$700	(\$700)	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	0.0%
Pension Contribution Fund Transfer	\$521	\$0	\$521	N/A
Total General Funds	\$6,939	\$6,472	\$467	7.2%

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

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GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2004 ESTIMATE vs. FY 2003 ACTUAL

(\$ million)

Revenue Sources	Sept-05 ESTIMATE FY 2004	FYTD 2004	AMOUNT NEEDED FY 2004 EST.	FYTD 2003	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$8,220	\$1,812	\$6,408	\$1,791	\$220	3.6%
Corporate Income Tax (regular)	1,095	197	\$898	214	\$101	12.7%
Sales Taxes	6,265	1,577	\$4,688	1,561	\$190	4.2%
Public Utility Taxes (regular)	1,000	229	\$771	232	(\$3)	-0.4%
Cigarette Tax	400	100	\$300	93	(\$7)	-2.3%
Liquor Gallonage Taxes	125	32	\$93	31	\$1	1.1%
Vehicle Use Tax	35	10	\$25	9	\$0	0.0%
Inheritance Tax (Gross)	225	42	\$183	76	\$22	13.7%
Insurance Taxes and Fees	332	74	\$258	63	\$8	3.2%
Corporate Franchise Tax & Fees	150	36	\$114	33	\$5	4.6%
Interest on State Funds & Investments	75	20	\$55	19	\$8	17.0%
Cook County IGT	400	77	\$323	77	\$45	16.2%
Other Sources	1,403	45	\$1,358	47	\$1,056	349.7%
Subtotal	\$19,725	\$4,251	\$15,474	\$4,246	\$1,646	11.9%
Transfers						
Lottery	540	108	\$432	119	\$11	2.6%
Riverboat transfers & receipts	717	196	\$521	160	\$127	32.2%
Other	915	259	\$656	226	\$293	80.7%
Total State Sources	\$21,897	\$4,814	\$17,083	\$4,751	\$2,077	13.8%
Federal Sources	\$4,950	\$1,653	\$3,297	\$996	\$353	12.0%
Total Federal & State Sources	\$26,847	\$6,467	\$20,380	\$5,747	\$2,430	13.5%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$965)	(\$212)	(\$753)	(\$143)	(\$258)	52.1%
Corporate Income Tax	(356)	(63)	(\$293)	(58)	(\$78)	36.3%
Subtotal General Funds	\$25,526	\$6,192	\$19,334	\$5,546	\$2,094	12.1%
Short-Term Borrowing	\$0	\$0	\$0	\$700	(\$975)	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	\$226	\$0	N/A
Proceeds from Pension Obligation Bonds	\$1,600	\$521	\$1,079	\$0	\$779	N/A
Total General Funds	\$27,352	\$6,939	\$20,413	\$6,472	\$1,898	10.3%
IEFC						2-Oct-03