



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING FOR THE MONTH ENDED: OCTOBER 2012

<http://www.ilga.gov/commission/cgfa2006/home.aspx>

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ECONOMY: Holiday Sales

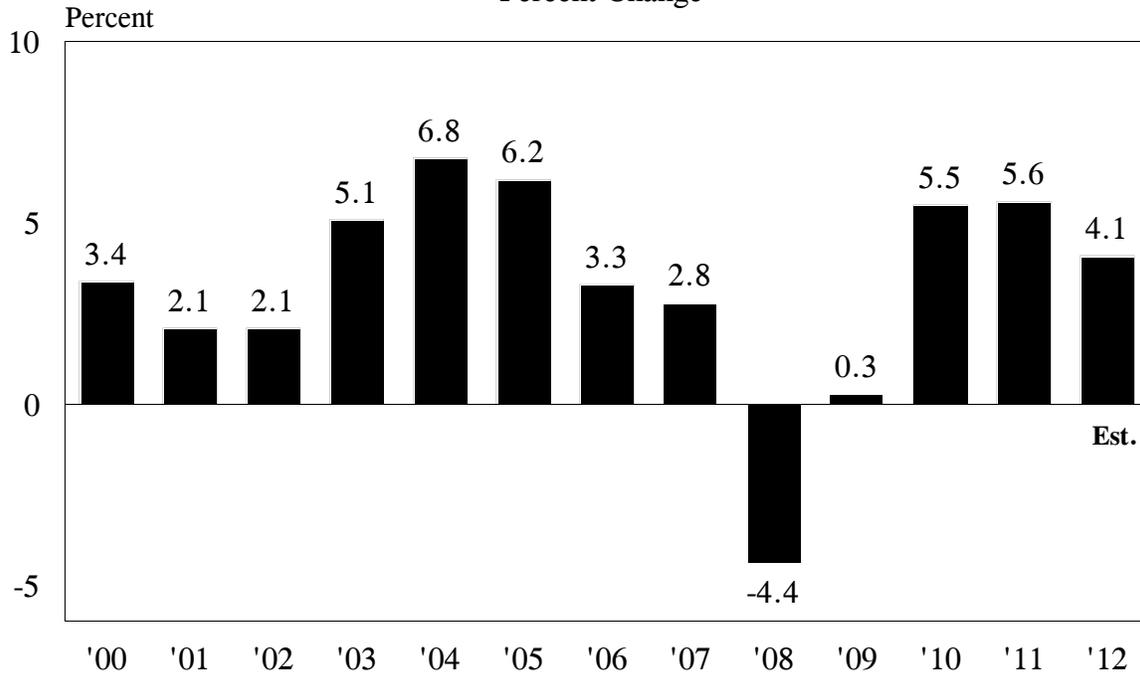
Edward H. Boss, Jr., Chief Economist

It's that time of the year when retailers speculate about the most critical period for them – the holidays. The period tallies industry sales for November and December – 61 days total - that incorporate Thanksgiving, Christmas, Hanukkah and more recently Kwanzaa. It is a period that can account for as much as 20-40% of a retailer's annual sales, with the day after Thanksgiving, Black Friday, being a point at which some retailer's first begin to turn a profit, or are "in the black". While it may seem too early for such forecasts, the strength of the period can be foreshadowed by the second most active sales period, the back-to-school and college season. Moreover, according to the National Federation of Retailers (NFR) one in four Americans will begin holiday shopping before Halloween that is consistent with experience over the past decade.

The NFR's forecast is based on an economic model using indicators such as housing data, unemployment, previous monthly retail sales reports, and consumer attitudes including how they may have an impact from upcoming events. The latter this year including the elections and concerns over if and how the "fiscal cliff" will be resolved. This is the eleventh holiday season that NFR has partnered with BIGinsight to provide holiday data to identify year-over year trends. The surveys conducted are completed by thousands of consumers with a "very low margin of error." Among the positive factors cited are: some recent improvement in consumer sentiment, an increase in home sales, prices, and construction, albeit from extremely low levels, a decline in the unemployment rate, although largely due to a decrease in the participation rate, and low interest rates and inflation.

CHART 1

HOLIDAY RETAIL INDUSTRY SALES
Percent Change



SOURCE: National Retail Federation

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In contrast, the business sector, which earlier had been a support to growth, has weakened sharply in recent months leading to actual declines in manufacturing employment in the past two months after rising for 10 consecutive months. At the same time budget difficulties will cause spending at both the federal and state level to remain restrained.

With most of Europe in recession and growth slowing in China, U.S. exports also are likely to be constrained. Finally, economic growth has remained tepid this year with real growth at a meager 1.3% annual rate in the second quarter and not much improvement for

the third quarter where the advance reading was 2.0% as federal government spending temporarily rose. As, a result, shoppers are likely to be conservative in their holiday shopping.

The National Federation of Retailers forecast a sales increase of 4.1% in 2012, above the ten-year average, which includes two recessionary periods, of 3.5%, but well below that achieved in the past two years of 5.5% and 5.6%, respectively as shown in Chart 1. Even this forecast, however, suggests a stronger sales performance than some other forecasters. For example, the International Council of Shopping Centers projects a 2.9%

holiday sales gain, which excludes most brick-and-mortar retailer's online sales, this year. As with the NFR's sales forecast, their latest forecast is below the 3.7% gain last year although above its 2.1% ten-year average. And, a Chicago-based analyzer of retail foot traffic, ShopperTrak forecasts a gain of 3.3% over the holiday period.

With most analysts projecting only moderate holiday sales gains,

given the political and fiscal uncertainties that lie ahead, they could of course be off the mark. For example, this year there are 33 days between Thanksgiving and Christmas, three more than last year. And, with Christmas falling on a Tuesday this year, consumers who procrastinate will have an extra weekend to complete their shopping needs. Even so, NFR rarely revises its forecast and at this time has no plans to change its holiday forecast for 2012.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>SEPT. 2012</u>	<u>AUG. 2012</u>	<u>SEPT. 2011</u>
Unemployment Rate (Average)	8.8%	9.1%	10.1%
Annual Rate of Inflation (Chicago)	19.6%	7.3%	3.0%
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (September)	6,585	0.4%	0.1%
Employment (thousands) (September)	6,003	0.7%	1.5%
New Car & Truck Registration (September)	47,932	-5.3%	4.4%
Single Family Housing Permits (September)	809	-20.0%	25.6%
Total Exports (\$ mil) (August)	5,614	1.2%	1.2%
Chicago Purchasing Managers Index (October)	49.9	0.4%	-19.8%

REVENUE

Decent October Revenue Growth

Jim Muschinske, Revenue Manager

Overall base revenues grew \$270 million in October, fueled in part by two extra receipting days. The larger economic sources were the main drivers of the increase although some revenue sources were able to improve due to receipt timing that had negatively impacted September's performance.

Gross personal income tax revenues rose \$159 million, or \$132 million net of refunds. Gross corporate income tax continued to perform well, and grew \$102 million, or \$90 million net of refunds. Sales taxes clearly benefited from the two extra receipting days and rose \$31 million. Inheritance taxes gained \$24 million as a consequence of tax changes that went into effect January 2011 [and which were accompanied with an approximate ten month timing delay]. Insurance taxes grew \$21 million; however most of that growth was likely due to receipt timings as last month receipts were down by a similar amount. Public utility taxes managed to post an advance of \$13 million, and cigarette taxes grew \$12 million, making up for some of the shortfall related to the stockpiling effect that took place prior to the June tax increase. Corporate franchise also benefited from a timing issue, growing \$10 million—as last month receipts were down the same amount. Other sources grew an additional \$6 million, while vehicle use tax eked out a \$1 million advance. Only interest on investments experienced a loss in October, and that being only \$2 million.

Overall transfers fell \$11 million for the month. Both riverboat transfers and other transfers each dropped \$4 million in October, while lottery transfers were down \$3 million. Federal sources suffered its first monthly decline for the fiscal year, falling \$57 million.

Year to Date

Through the first-third of FY 2013, overall base revenues grew \$536 million. Gross personal income taxes were up \$267 million, or \$193 million net of refunds. Gross corporate income taxes increased \$181 million, or \$178 million net of refunds. Due to lagged timing of receipts related to a prior tax change, inheritance tax was up \$114 million. All other tax sources totaled a net gain of \$11 million.

Overall transfers were down \$262 million. The falloff was due to the one-time \$73 million sale of the 10th license last year, as well as timing related to last year's settlement of protested liquor taxes. Federal sources, after experiencing a very weak beginning to last fiscal year, managed to post a \$302 million gain through October.

While some variability exists in most revenue lines, receipts have performed about as expected at this point in the fiscal year. In terms of the larger economically related sources, slightly weak sales tax has been offset by stronger than expected performance

from corporate income taxes. And, while public utility taxes are not quite meeting expectations, inheritance tax receipts have more than made up for that weakness. Federal sources also are somewhat ahead of expectations.

That being said, a great deal of uncertainty still remains heading

into the final two-thirds of the fiscal year. Elections, federal fiscal and tax policies, European recession, and the yet to be determined national economic impact of Sandy all serve to create uncertainty in the near term. It will likely be several more months before the course of FY 2013 can be confirmed.

GENERAL FUNDS RECEIPTS: OCTOBER

FY 2013 vs. FY 2012

(\$ million)

Revenue Sources	Oct. FY 2013	Oct. FY 2012	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$1,292	\$1,133	\$159	14.0%
Corporate Income Tax (regular)	180	78	\$102	130.8%
Sales Taxes	629	598	\$31	5.2%
Public Utility Taxes (regular)	85	72	\$13	18.1%
Cigarette Tax	42	30	\$12	40.0%
Liquor Gallonage Taxes	13	13	\$0	0.0%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	27	3	\$24	N/A
Insurance Taxes and Fees	22	1	\$21	N/A
Corporate Franchise Tax & Fees	24	14	\$10	71.4%
Interest on State Funds & Investments	1	3	(\$2)	N/A
Cook County IGT	0	0	\$0	N/A
Other Sources	31	25	\$6	24.0%
Subtotal	\$2,349	\$1,972	\$377	19.1%
Transfers				
Lottery	46	49	(\$3)	-6.1%
Riverboat transfers & receipts	27	31	(\$4)	-12.9%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Other	50	54	(\$4)	-7.4%
Total State Sources	\$2,472	\$2,106	\$366	17.4%
Federal Sources	\$303	\$360	(\$57)	-15.8%
Total Federal & State Sources	\$2,775	\$2,466	\$309	12.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$126)	(\$99)	(\$27)	27.3%
Corporate Income Tax	(\$25)	(13)	(\$12)	92.3%
Subtotal General Funds	\$2,624	\$2,354	\$270	11.5%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13 Backlog Payment Fund	\$0	\$0	\$0	N/A
Tobacco Liquidation Proceeds	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,624	\$2,354	\$270	11.5%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Nov-12

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2013 vs. FY 2012

(\$ million)

<u>Revenue Sources</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>CHANGE FROM FY 2012</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$5,064	\$4,797	\$267	5.6%
Corporate Income Tax (regular)	833	652	\$181	27.8%
Sales Taxes	2,429	2,418	\$11	0.5%
Public Utility Taxes (regular)	330	340	(\$10)	-2.9%
Cigarette Tax	110	118	(\$8)	-6.8%
Liquor Gallonage Taxes	56	56	\$0	0.0%
Vehicle Use Tax	10	10	\$0	0.0%
Inheritance Tax (Gross)	121	7	\$114	N/A
Insurance Taxes and Fees	89	83	\$6	7.2%
Corporate Franchise Tax & Fees	73	68	\$5	7.4%
Interest on State Funds & Investments	4	3	\$1	33.3%
Cook County IGT	0	0	\$0	N/A
Other Sources	127	121	\$6	5.0%
Subtotal	\$9,246	\$8,673	\$573	6.6%
Transfers				
Lottery	186	184	\$2	1.1%
Riverboat transfers & receipts	140	126	\$14	11.1%
Proceeds from Sale of 10th license	0	73	(\$73)	N/A
Other	178	383	(\$205)	-53.5%
Total State Sources	\$9,750	\$9,439	\$311	3.3%
Federal Sources	\$1,219	\$917	\$302	32.9%
Total Federal & State Sources	\$10,969	\$10,356	\$613	5.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$494)	(\$420)	(\$74)	17.6%
Corporate Income Tax	(\$117)	(\$114)	(\$3)	2.6%
Subtotal General Funds	\$10,358	\$9,822	\$536	5.5%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13 Backlog Payment Fund Transfer	\$264	\$0	\$264	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	\$10,897	\$10,097	\$800	7.9%

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

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2-Nov-12