



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING FOR THE MONTH ENDED: MARCH 2013

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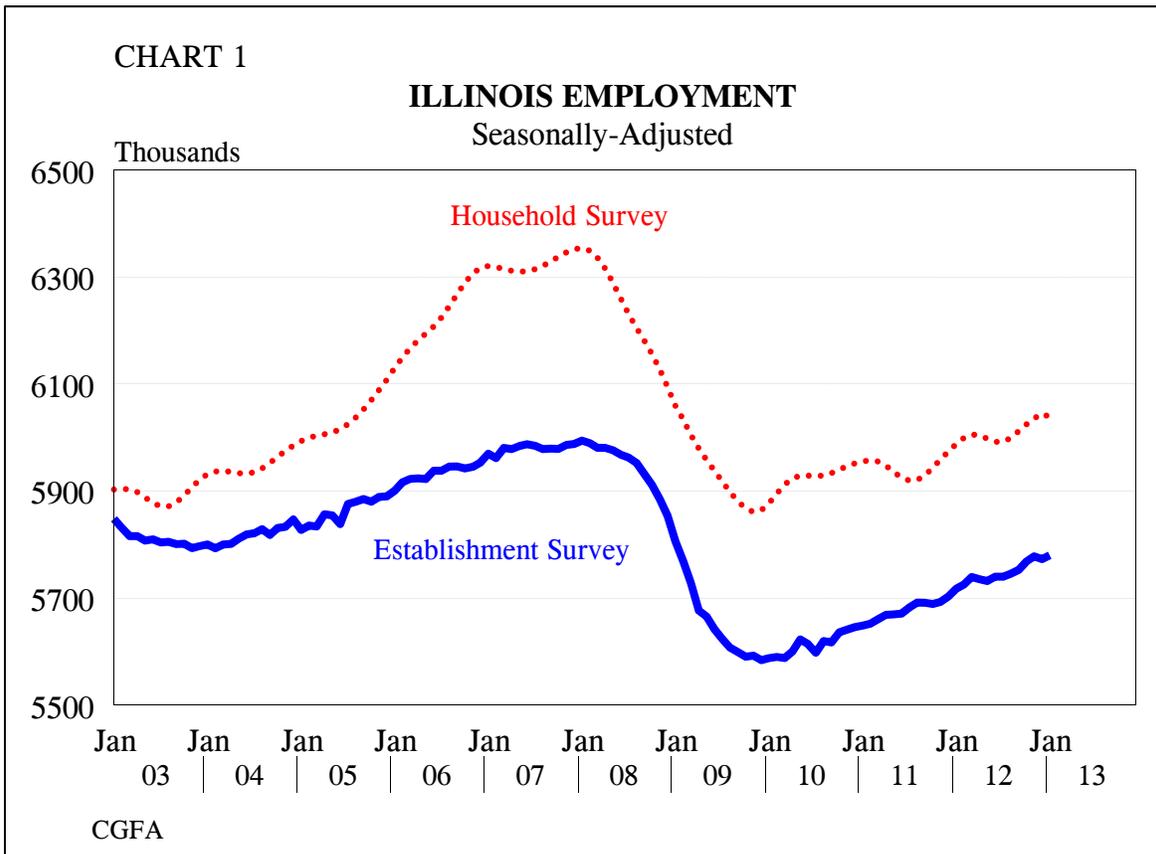
ECONOMY: Illinois Employment Situation

Edward H. Boss, Jr., Chief Economist

There are many ways to describe the employment situation for the nation as well as the State. Even so, the one number that tends to grab the headlines, as well as recently being designated as a new specific policy target by the Federal Reserve, is the unemployment rate. The rate is produced monthly by the Bureau of Labor Statistics through a survey conducted of 60,000 households 16 years of age and older with the estimate of employment including the unincorporated self employed, unpaid family workers, agriculture and related workers, and workers absent without pay. While limited in the size of the survey, denoted as the Household Survey, this measure avoids double counting from multiple jobholders and often is seen by analysts as a precursor to upcoming changes in the larger payroll survey.

The latest unemployment reports for both the nation and Illinois are for the month of February, and the results were substantially different. The national unemployment rate dropped to 7.7% in February from 7.9% in January, the lowest rate since December 2008, as employment rose by 300,000 thousand while the labor force fell by 130,000 thousand. In contrast, the Illinois unemployment rate jumped to 9.5% in February from 9% in January as employment fell by 25,700 and the labor force rose by 9,100. Illinois' 9.5% rate was the second highest among all the states last month, surpassed only by California and Mississippi which had rates of 9.6%. In the 12 months ended February 2013, the national rate fell 0.6%, from 8.3% to 7.7%, while the Illinois unemployment rate rose 0.6%, from 8.9% to 9.5%.

Even these continuing high unemployment rates understate what many analysts point to would be even higher if other



factors such as the labor force participation rate are considered. The national participation rate was 63.5% in February 2013, the lowest rate since the early 1980s, and compares with 63.9% a year earlier and 66.0% in December 2007 when the recession began. The decline in participation reflects 8 million working part time because their hours had been cut back or they had been unable to find a full-time job. In addition 2.6 million were marginally attached to the labor force but not counted as unemployed, although they wanted and were available for work, but had not searched for 4 weeks prior to the survey. Finally, there are discouraged workers, which numbered 885,000 last month, who believe there are no jobs available for them and have dropped out of the labor force.

The other BLS survey is the Establishment, or Payroll Survey that is considered more comprehensive since it

has a much larger sample size of 557,000 business establishments covering approximately one-third of total nonfarm employment. While considered harder data and less subjective than the Household survey, it has some difficulties as well. Already mentioned was the double counting of multiple job holders, but also, since most new jobs are created by small businesses, often newly-formed, it may take a period of time for these to be included in the monthly survey data. (This in turn may be a factor leading to the Household Survey often reflecting the future direction of employment measured by the Establishment Survey). The attached Chart depicts Illinois employment as measured by both surveys incorporating newly-released benchmark data.

As the chart shows, employment in the State has been on the rise since shortly after the economic recovery began

in June of 2009. The Household Survey shows a job gain of 176,900 from its recession low in November 2009 to its February 2013 level. And, the Establishment Survey shows a gain of 195,800 from its low in December 2009 to last month's total. As can be seen, however, there is still a long way to go before all the jobs lost during the recession are recouped. The Household Survey showed a loss of 493,000 jobs during the last recession and the Establishment Survey's a loss of 410,300. Moreover, it is important to note that unlike national employment data when job losses during the 2001 recession were recouped by early 2005, all the loss of jobs during the 2001 recession in Illinois were not recouped before the new recession began, making it even more difficult to achieve the job level seen before the past two recessions.

Early this year, an independent report on the economy of Illinois was completed by Moody's Analytics at the

request of the CGFA and is available on our web site. In the report, looking at Illinois' recent performance, "Illinois' inferior economic recovery is reflected in the lagging performance of its labor market. Between mid-2009 and early 2011, statewide job growth mirrored regional and national trends. Since then, however, the States' relative performance has slipped; payroll employment has underperformed the nation since early 2011 and the region since early 2012." The report concludes that the State is underperforming primarily due to "its comparatively weak housing market and poor state finances." This is reflected in the States' debt downgrades and, despite signs of a national housing recovery, continuation of a reduction in Illinois construction jobs. The report concludes, "Longer term, Illinois has a lot of what businesses need to thrive - talent, access to customers and capital, and transportation - but painful fiscal reforms are needed before it can fully capitalize on these strengths."

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>FEB. 2013</u>	<u>JAN. 2013</u>	<u>FEB. 2012</u>
Unemployment Rate (Average)	9.5%	9.0%	8.9%
Annual Rate of Inflation (Chicago)	13.1%	1.1%	2.3%
—————			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (February)	6,641	0.1%	0.8%
Employment (thousands) (February)	6,011	-0.4%	0.2%
New Car & Truck Registration (February)	37,262	-27.8%	9.7%
Single Family Housing Permits (February)	469	14.6%	14.6%
Total Exports (\$ mil) (January)	4,678	-8.0%	-10.2%
Chicago Purchasing Managers Index (March)	52.4	-7.7%	-15.7%

REVENUE

March Revenues Dip Modestly

Jim Muschinske, Revenue Manager

Overall base revenues fell \$25 million in March. The performance of the larger economic sources was mixed but an expectedly weak month for federal sources contributed to the decline. In addition, March had one less receipting day compared to the same month last year.

Gross corporate income taxes performed quite well in March, as receipts grew \$102 million, or \$106 million net of refunds. Gross personal income tax managed only a \$18 million gain, or \$1 million net of refunds. However, a slowing in growth was not surprising given the timing impact of last year's final payment surge [related to receipt timing attributed to the FY 2011 tax increase]. Other sources managed to post gains of \$6 million for the month.

A number of sources experienced declines in March, although in a couple instances their falloffs may prove to be more timing related than a true indication of performance. Nonetheless, insurance taxes fell \$26 million, public utility taxes were off \$24 million, inheritance tax fell \$23 million, sales taxes were down \$6 million, and liquor taxes and interest income each fell \$1 million.

Overall transfers grew \$9 million for the month. Both lottery transfers and riverboat transfers each fell \$6 million, but were offset by a \$11 million gain in other transfers as well as \$10 million from the sale of the tenth license [the State receives approximately \$10 million a year from the sale of the tenth license].

As expected, federal sources, after experiencing strong growth thus far in FY 2013 finally took a break, falling \$66 million in March.

Year to Date

Through three-fourths of the fiscal year, overall base revenues have grown \$1.284 billion. Gross personal income taxes were up \$643 million, or \$463 million net of refunds. Gross corporate income taxes increased \$414 million, or \$419 million net of refunds. Sales tax has increased \$62 million. All other tax sources totaled a net gain of \$19 million.

The performance of both personal and corporate income taxes has been quite good. However, expectations should be tempered by certain timing issues that have just started to be realized as well as numerous legislative changes that may interrupt historic receipt patterns.

Overall transfers were down \$220 million. The falloff was due in part 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 managed to post a \$541 million gain through March due to higher general funds spending on Medicaid bills. However, it is anticipated that Medicaid spending will begin to slow as well as shift to non-GRF funding sources. As a result, current rates of growth of federal sources are expected to continue to slow over the remaining months of FY 2013.

GENERAL FUNDS RECEIPTS: MARCH

FY 2013 vs. FY 2012

(\$ million)

<u>Revenue Sources</u>	<u>March FY 2013</u>	<u>March FY 2012</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$1,505	\$1,487	\$18	1.2%
Corporate Income Tax (regular)	625	523	\$102	19.5%
Sales Taxes	569	575	(\$6)	-1.0%
Public Utility Taxes (regular)	96	120	(\$24)	-20.0%
Cigarette Tax	29	29	\$0	0.0%
Liquor Gallonage Taxes	11	12	(\$1)	-8.3%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	16	39	(\$23)	-59.0%
Insurance Taxes and Fees	35	61	(\$26)	-42.6%
Corporate Franchise Tax & Fees	15	15	\$0	0.0%
Interest on State Funds & Investments	2	3	(\$1)	-33.3%
Cook County IGT	0	0	\$0	N/A
Other Sources	37	31	\$6	19.4%
Subtotal	\$2,943	\$2,898	\$45	1.6%
Transfers				
Lottery	66	72	(\$6)	-8.3%
Riverboat transfers & receipts	12	18	(\$6)	-33.3%
Proceeds from Sale of 10th license	10	0	\$10	N/A
Other	69	58	\$11	19.0%
Total State Sources	\$3,100	\$3,046	\$54	1.8%
Federal Sources	\$298	\$364	(\$66)	-18.1%
Total Federal & State Sources	\$3,398	\$3,410	(\$12)	-0.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$147)	(\$130)	(\$17)	13.1%
Corporate Income Tax	(\$87)	(91)	\$4	-4.4%
Subtotal General Funds	\$3,164	\$3,189	(\$25)	-0.8%
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	\$3,164	\$3,189	(\$25)	-0.8%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Apr-13

GENERAL FUNDS RECEIPTS: YEAR TO DATE
FY 2013 vs. FY 2012
(\$ million)

Revenue Sources	FY 2013	FY 2012	CHANGE FROM FY 2012	% CHANGE
State Taxes				
Personal Income Tax	\$12,393	\$11,750	\$643	5.5%
Corporate Income Tax (regular)	2,207	1,793	\$414	23.1%
Sales Taxes	5,454	5,392	\$62	1.1%
Public Utility Taxes (regular)	765	789	(\$24)	-3.0%
Cigarette Tax	265	265	\$0	0.0%
Liquor Gallonage Taxes	125	124	\$1	0.8%
Vehicle Use Tax	20	21	(\$1)	-4.8%
Inheritance Tax (Gross)	216	173	\$43	24.9%
Insurance Taxes and Fees	213	228	(\$15)	-6.6%
Corporate Franchise Tax & Fees	159	148	\$11	7.4%
Interest on State Funds & Investments	16	15	\$1	6.7%
Cook County IGT	150	150	\$0	0.0%
Other Sources	301	298	\$3	1.0%
Subtotal	\$22,284	\$21,146	\$1,138	5.4%
Transfers				
Lottery	462	451	\$11	2.4%
Riverboat transfers & receipts	275	264	\$11	4.2%
Proceeds from Sale of 10th license	15	73	(\$58)	N/A
Other	400	584	(\$184)	-31.5%
Total State Sources	\$23,436	\$22,518	\$918	4.1%
Federal Sources	\$2,758	\$2,217	\$541	24.4%
Total Federal & State Sources	\$26,194	\$24,735	\$1,459	5.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$1,208)	(\$1,028)	(\$180)	17.5%
Corporate Income Tax	(\$309)	(\$314)	\$5	-1.6%
Subtotal General Funds	\$24,677	\$23,393	\$1,284	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	\$25,216	\$23,668	\$1,548	6.5%

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

CGFA

2-Apr-13

Updated FY 2013 and FY 2014 Estimates

On March 6th, the Governor presented his FY 2014 budget as well as updated FY 2013 revenue forecast. On March 12th, the Commission presented its updated estimate of FY 2013 and released its official forecast for FY 2014. While the full report can be viewed under the “Latest Reports” heading on the Commission’s website, a brief comparison of the estimates of CGFA and GOMB follows:

CGFA and GOMB FY 2013 ESTIMATES

The table on the following page demonstrates the differences between the updated CGFA and GOMB estimates for FY 2013. As shown, while GOMB is higher than the Commission by \$379 million, virtually all of that difference stems from the estimate of federal sources (\$351 million). Absent that category, there are very little overall differences in the remaining estimates.

For federal sources, GOMB assumes that all of the FY 2013 appropriation will be spent within the fiscal year. However, continuing cash flow difficulties may very well hinder the Comptroller’s ability to meet that spending expectation. For example, through March, the average monthly Federal source revenue has totaled \$306 million. In order to reach the GOMB estimate, average monthly federal source receipts must increase to \$464 million (an increase over 51%). At this time, based on current receipt patterns established to date, it would appear that the GOMB federal source estimate is somewhat optimistic.

It should also be noted that neither forecast presented here includes \$264 million in transfers to the FY 2013 Backlog Payment Fund as those monies are not viewed as true additional revenue.

FY 2013 GENERAL FUNDS REVENUE COMPARISON: CGFA vs. GOMB

(\$ Millions)

<u>Revenue Sources</u>	FY 2013 CGFA Feb-13	FY 2013 GOMB March-13	\$ Difference
State Taxes			
Personal Income Tax	\$17,325	\$17,358	(\$33)
Corporate Income Tax	\$3,200	\$3,088	\$112
Sales Taxes	\$7,265	\$7,335	(\$70)
Public Utility (regular)	\$1,030	\$1,101	(\$71)
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$164	\$166	(\$2)
Vehicle Use Tax	\$27	\$29	(\$2)
Inheritance Tax (gross)	\$260	\$227	\$33
Insurance Taxes & Fees	\$350	\$315	\$35
Corporate Franchise Tax & Fees	\$199	\$204	(\$5)
Interest on State Funds & Investments	\$20	\$15	\$5
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$402</u>	<u>\$394</u>	<u>\$8</u>
Subtotal	\$30,841	\$30,831	\$10
Transfers			
Lottery	\$656	\$656	\$0
Riverboat transfers and receipts	\$353	\$350	\$3
Proceeds from sale of 10th license	\$10	\$14	(\$4)
<u>Other*</u>	<u>\$758</u>	<u>\$782</u>	<u>(\$24)</u>
Total State Sources	\$32,618	\$32,633	(\$15)
Federal Sources	\$3,800	\$4,151	(\$351)
Total Federal & State Sources	\$36,418	\$36,784	(\$366)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.75%]	(\$1,689)	(\$1,692)	\$3
Corporate Income Tax [14.0%]	(\$448)	(\$432)	(\$16)
Subtotal General Funds	\$34,281	\$34,660	(\$379)
NOTE: Totals exclude Budget Stabilization transfers, and other cash flow transfers.			
CGFA			
*Other transfers do not include \$264 million from the FY'13 Backlog Payment Fund			

A LOOK AHEAD TO FY 2014

The table on the following page presents the Commission's forecast for FY 2014 General Funds Revenues. Unfortunately, most views are that FY 2014 will be saddled with continued struggles related to employment gains and overall unspectacular economic performance. As shown in the table, revenues in FY 2014 are expected to grow just over \$800 million, or 2.3%.

- In terms of income taxes, at this early juncture, base personal income taxes are expected to post 2.3% growth, and base corporate income taxes are expected to be flat. Due to year-over-year impacts of federal bonus depreciation, corporate tax growth rates will be adjusted positively, thereby able to produce somewhat higher gains than base growth.
- Sales tax is expected to continue to struggle, likely in the neighborhood of 1.1%. The tepid growth reflects a full-year of higher federal payroll taxes as well as unimpressive consumer activity.
- Very little growth can be expected from non-economic sources as well as transfers.
- Federal sources are dependent on reimbursable spending which are in turn dependent on appropriations as well as available resources. At this time, federal sources are assumed to grow approximately 5% in the upcoming fiscal year – reflecting a continued effort to pay down old bills.

FY 2014 GENERAL FUNDS REVENUE CGFA ESTIMATES

(millions)

Revenue Sources	FY'14 CGFA Feb-13	FY'13 CGFA Feb-13	\$ Difference
State Taxes			
Personal Income Tax	\$17,713	\$17,325	\$388
Corporate Income Tax	\$3,391	\$3,200	\$191
Sales Taxes	\$7,348	\$7,265	\$83
Public Utility (regular)	\$1,032	\$1,030	\$2
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$164	\$1
Vehicle Use Tax	\$27	\$27	\$0
Inheritance Tax (gross)	\$210	\$260	(\$50)
Insurance Taxes & Fees	\$350	\$350	\$0
Corporate Franchise Tax & Fees	\$203	\$199	\$4
Interest on State Funds & Investments	\$20	\$20	\$0
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$410</u>	<u>\$402</u>	<u>\$8</u>
Subtotal	\$31,468	\$30,841	\$627
Transfers			
Lottery	\$669	\$656	\$13
Riverboat transfers and receipts	\$356	\$353	\$3
Proceeds from sale of 10th license	\$10	\$10	\$0
<u>Other</u>	<u>\$780</u>	<u>\$758</u>	<u>\$22</u>
Total State Sources	\$33,283	\$32,618	\$665
Federal Sources	\$4,000	\$3,800	\$200
Total Federal & State Sources	\$37,283	\$36,418	\$865
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.75%]	(\$1,727)	(\$1,689)	(\$38)
Corporate Income Tax [14.0%]	(\$475)	(\$448)	(\$27)
Subtotal General Funds	\$35,081	\$34,281	\$800
NOTE: Totals exclude Budget Stabilization transfers, \$264m transfers from FY 2013 Backlog Payment Fund, and other cash flow transfers.			
CGFA			