



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

OCTOBER 2011

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

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ECONOMY: Holiday Sales

Edward H. Boss, Jr., Chief Economist

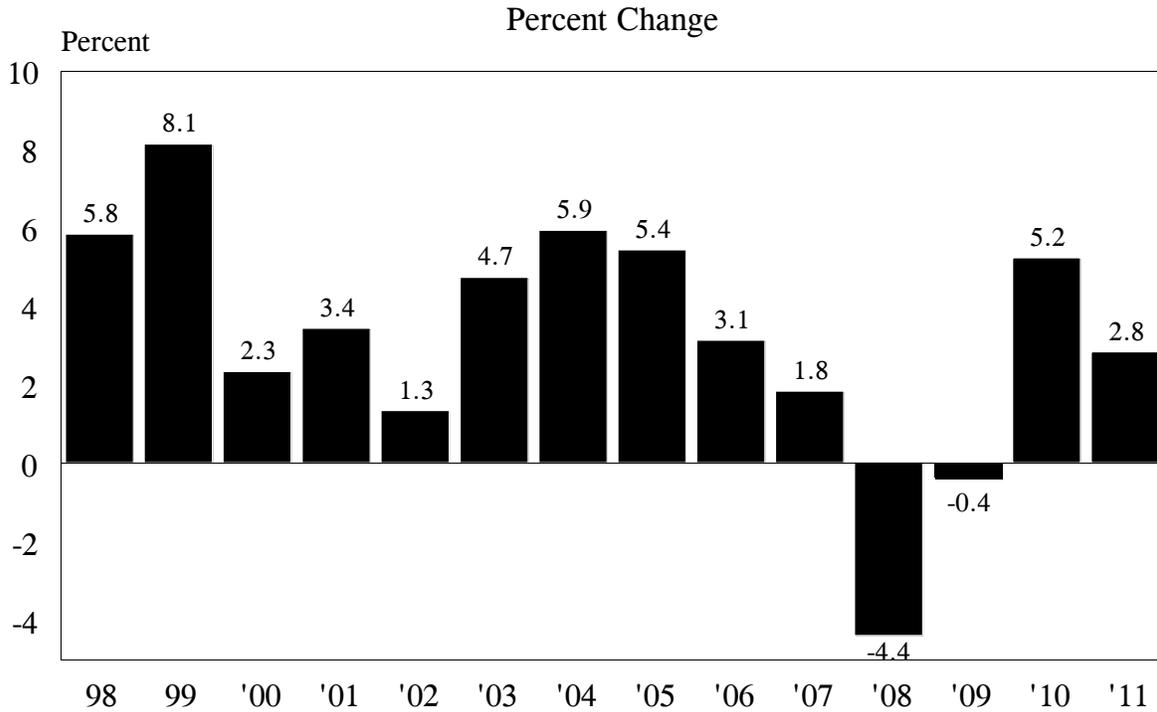
It's that time of the year when retailers speculate about the most critical period for them – the holidays. Forecasts of expected sales results have been released in recent days with most foreseeing only modest gains that are well below what actually occurred last year. This is despite evidence that the pace of economic growth in the country showed improvement in the third quarter with real GDP rising at a 2.5% annual rate compared to a slight 1.3% rate in the second quarter. Moreover retail sales have risen for 14 consecutive months and there has been a substantial reduction in consumer debt. Even so, many business reports have weakened in recent months leading to a soft patch and renewed discussion that the economy could experience a double-dip recession. Indeed, odds of a double-dip recession remained at 40% in October according to the Commission's forecasting service, Global Insight.

One explanation for the more pessimistic holiday sales estimates for this year compared to last may well lie in the performance of the Misery Index, that is measurement of the combination of the inflation rate and unemployment rate. The latest reading of the Misery Index is 13.0, consisting of a 9.1% unemployment rate and a 3.9% inflation rate. At this level, it is higher than at any time during recent business cycles and has not been above that level since the May 1983 during the last double dip recession. Moreover, while a year ago it appeared the Misery Index had leveled off and was not getting worse, since the beginning of this year it has been on a rising trend.

The pessimism on the part of consumers has been reflected in measures of consumer attitudes. Despite the fact the recession officially ended in June 2009, some 27 months ago, the consumer is more pessimistic today than then. The

CHART 1

HOLIDAY RETAIL INDUSTRY SALES



SOURCE: National Retail Federation

CGFA

Conference Board Index of Consumer Confidence in October 2011 was at 39.8 compared to 49.3 in June 2009 as the recovery began, and the University of Michigan's Index of Consumer Sentiment recently was at 60.9, much lower than the 70.8 reading in June 2009. Since the consumer accounts for two-thirds-to-70% of total spending, recent attitude readings do not augur well for a strong holiday spending period.

The industry's National Retail Federation predicts holiday retail sales will increase 2.8% to \$465.6 billion this year. As shown in the accompanying chart, this is far less than

the 5.2% gain last year, although it would be on a par with the 10-year average holiday sales increase of 2.6%. Even so, sales performance has been quite erratic in recent years and not always accurate. For example, last year's prediction at this time was for a slight gain of 2.3%, but as noted came in much stronger. Moreover any gain this year looks good in comparison with the actual declines that were recorded in 2008 and 2009.

Even though the National Retail Federation (NRF) forecast missed the mark last year, there seems to be wide spread confirmation of their forecast for this year. The research firm Shopper

Track is predicting a 3% rise in retail sales in November and December; Kantar Retail sees a 2.8% gain, the same as the NRF, while the International Council of Shopping Centers expect the gain to be 2.2%. Some of the trends occurring in recent years also are expected to continue, reflecting a broadening of the methods in which people do their purchasing. For example, according to the NRF 46.7% will buy on line compared to 38.3% seven years ago with the largest group being 25-to-34 year olds. Gift cards remain popular with 57.7% wanting them, up from 50.2% in 2004. At the same time purchases of CDs, DVDs, videos and books are likely to fall to 44.4% versus 53.1% seven years

ago. The more users of the new technology, the greater the use of it for shopping i.e., 70.5% of tablet computer owners plan to research and shop using the tablet while 52.6% will do the same with their smart phones.

There seem to be several reasons for the consensus of a more restrained holiday shopping season this year. The major one being that a year ago things appeared to have bottomed and was showing improvement while today things appear to have gotten worse or at best stagnant. Like last year, things could change and these forecasts could prove to be too pessimistic, however, odds of that happening without a quick reversal in consumer sentiment appear low.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>SEPT. 2011</u>	<u>AUG. 2011</u>	<u>SEPT. 2010</u>
Unemployment Rate (Average)	10.0%	9.9%	8.8%
Annual Rate of Inflation (Chicago)	1.8%	2.2%	3.1%
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (September)	6,619	0.3%	-0.3%
Employment (thousands) (September)	5,956	0.2%	-0.6%
New Car & Truck Registration (September)	45,885	-0.7%	10.5%
Single Family Housing Permits (September)	644	-14.6%	-4.7%
Total Exports (\$ mil) (August)	5,548	-2.4%	34.7%
Chicago Purchasing Managers Index (October)	58.4	-3.3%	-3.6%

REVENUE

October Revenues Up Despite Falloff in Federal Sources

Jim Muschinske, Revenue Manager

October revenues grew \$295 million despite another poor month for federal reimbursements. Personal income taxes grew due to higher tax rates as compared to last year, while the sales tax continues to perform surprisingly well despite economic uncertainty. October had the same number of receipting days as last year.

Personal income tax receipts again led the gainers as gross receipts grew \$425 million, or \$388 million net of refunds. Sales tax continues to be surprisingly resilient with receipts up \$55 million for the month. Gross corporate income tax rose \$4 million, while insurance taxes and other sources each managed to grow \$1 million.

A few sources experienced declines in October as inheritance tax fell \$14 million, public utility \$11 million, corporate franchise taxes \$2 million, and interest income \$2 million.

Overall transfers declined \$33 million. Other transfers declined \$18 million, lottery by \$6 million, and riverboat \$9 million. Finally, as mentioned, federal sources dropped \$92 million reflecting reimbursable spending as well as a lower rate of reimbursement when compared to last year.

Year to Date

Through the first third of the fiscal year, absent short-term borrowing and Budget

Stabilization Fund transfers, base general funds revenues are up \$1.052 billion. The increase continues to be fueled by comparatively higher income tax receipts stemming from the January 2012 rate increases, as well as continued strong sales tax receipts. Those items have been more than enough to overcome a significant falloff in federal sources that resulted from less reimbursable spending as well as a return to a lower federal matching rate [under ARRA, states enjoyed approximately two years of higher reimbursable match—that has now ended].

To date, gross personal income taxes are up \$1.954 billion, or \$1.783 billion net of refunds. Gross corporate income taxes are up \$257 million, or \$212 million net of refunds. Sales taxes have increased \$269 million, while all other revenue sources net a decline of \$113 million mainly due to the expected falloff in inheritance tax receipts.

Overall transfers are down \$101 million as the result of \$202 million of interfund borrowing that took place last fiscal year. The comparative falloff was more than enough to offset the gain of \$6 million in regular riverboat transfers as well as the final payment of \$73 million related to the 10th license. Federal source receipts have suffered a significant drop falling \$998 million due to lower reimbursable spending as well as lower reimbursement rates previously enjoyed under ARRA.

GENERAL FUNDS RECEIPTS: OCTOBER

FY 2012 vs. FY 2011

(\$ million)

<u>Revenue Sources</u>	<u>Oct. FY 2012</u>	<u>Oct. FY 2011</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$1,133	\$708	\$425	60.0%
Corporate Income Tax (regular)	78	74	\$4	5.4%
Sales Taxes	598	543	\$55	10.1%
Public Utility Taxes (regular)	72	83	(\$11)	-13.3%
Cigarette Tax	30	30	\$0	0.0%
Liquor Gallonage Taxes	13	13	\$0	0.0%
Vehicle Use Tax	2	2	\$0	0.0%
Inheritance Tax (Gross)	3	17	(\$14)	-82.4%
Insurance Taxes and Fees	1	0	\$1	N/A
Corporate Franchise Tax & Fees	14	16	(\$2)	-12.5%
Interest on State Funds & Investments	3	5	(\$2)	-40.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	25	24	\$1	4.2%
Subtotal	<u>\$1,972</u>	<u>\$1,515</u>	<u>\$457</u>	<u>30.2%</u>
Transfers				
Lottery	49	55	(\$6)	-10.9%
Riverboat transfers & receipts	31	40	(\$9)	-22.5%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Other	54	72	(\$18)	-25.0%
Total State Sources	<u>\$2,106</u>	<u>\$1,682</u>	<u>\$424</u>	<u>25.2%</u>
Federal Sources	<u>\$360</u>	<u>\$452</u>	<u>(\$92)</u>	<u>-20.4%</u>
Total Federal & State Sources	<u>\$2,466</u>	<u>\$2,134</u>	<u>\$332</u>	<u>15.6%</u>
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$99)	(\$62)	(\$37)	59.7%
Corporate Income Tax	(\$13)	(13)	\$0	0.0%
Subtotal General Funds	<u>\$2,354</u>	<u>\$2,059</u>	<u>\$295</u>	<u>14.3%</u>
Short-Term Borrowing	\$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	<u>\$2,354</u>	<u>\$2,059</u>	<u>\$295</u>	<u>14.3%</u>
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Nov-11

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2012 vs. FY 2011
(\$ million)

<u>Revenue Sources</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>CHANGE FROM FY 2011</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$4,797	\$2,843	\$1,954	68.7%
Corporate Income Tax (regular)	652	395	\$257	65.1%
Sales Taxes	2,418	2,149	\$269	12.5%
Public Utility Taxes (regular)	340	348	(\$8)	-2.3%
Cigarette Tax	118	118	\$0	0.0%
Liquor Gallonage Taxes	56	54	\$2	3.7%
Vehicle Use Tax	10	10	\$0	0.0%
Inheritance Tax (Gross)	7	107	(\$100)	-93.5%
Insurance Taxes and Fees	83	85	(\$2)	-2.4%
Corporate Franchise Tax & Fees	68	74	(\$6)	-8.1%
Interest on State Funds & Investments	3	8	(\$5)	-62.5%
Cook County IGT	0	0	\$0	N/A
Other Sources	121	115	\$6	5.2%
Subtotal	\$8,673	\$6,306	\$2,367	37.5%
Transfers				
Lottery	184	190	(\$6)	-3.2%
Riverboat transfers & receipts	126	120	\$6	5.0%
Proceeds from Sale of 10th license	73	0	\$73	N/A
Other	383	557	(\$174)	-31.2%
Total State Sources	\$9,439	\$7,173	\$2,266	31.6%
Federal Sources	\$917	\$1,915	(\$998)	-52.1%
Total Federal & State Sources	\$10,356	\$9,088	\$1,268	14.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$420)	(\$249)	(\$171)	68.7%
Corporate Income Tax	(\$114)	(\$69)	(\$45)	65.2%
Subtotal General Funds	\$9,822	\$8,770	\$1,052	12.0%
Short-Term Borrowing	\$0	\$1,300	(\$1,300)	-100.0%
Tobacco Liquidation Proceeds	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$275	\$0	\$275	N/A
Total General Funds	\$10,097	\$10,070	\$27	

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

CGFA

2-Nov-11