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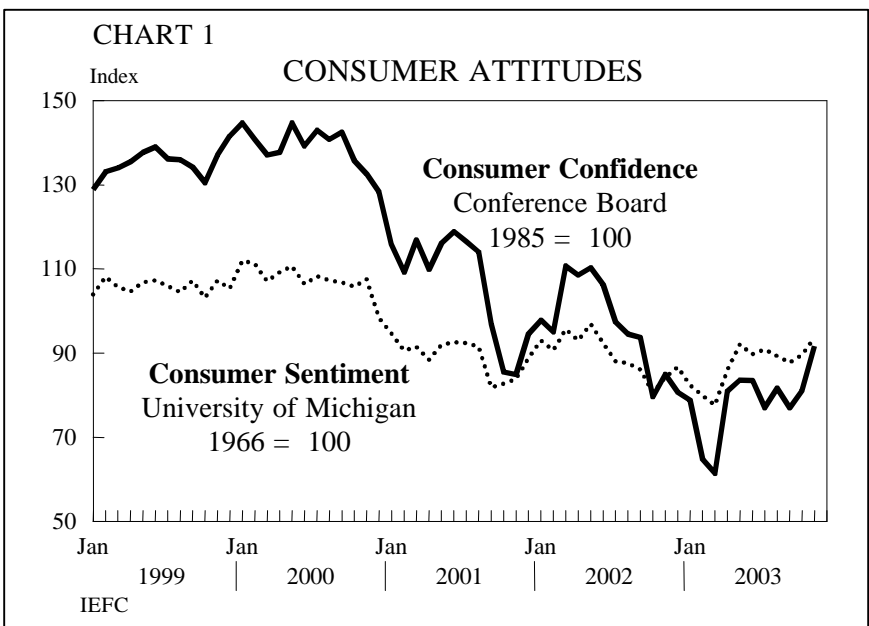
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ECONOMY: Confidence on the Rise as Holiday Spending Begins
Edward H. Boss, Jr., Chief Economist

With Thanksgiving come and gone, the holiday buying season is underway. In some cases these sales can represent to a retailer as much as a third to one half of all its sales for the year, with an even greater impact on its overall profits. While many factors will come into play in determining the sales outcome, several positive indicators are emerging.

One such indicator is the continuing strength of consumer spending throughout this business recovery as well as a recent surge in overall spending. Revised data on real gross domestic product in the third quarter is now estimated at an 8.2% annual rate, the fastest pace since the first quarter of 1984 when the economy was emerging from the twin recessions of the early 1980s. Extremely important within the data is the further gain in business spending which doubled its rate of growth, rising at a 14% annual rate in the third quarter from a little over 7% in the previous quarter and following actual declines in nine out of the previous ten quarters. This broadening of the economic expansion lends credibility to the belief that it is sustainable.



More recent data also indicate that the outlook for holiday sales is bright, particularly reports showing improvement in consumer confidence, depicted in Chart 1. Both the University of Michigan and Conference Board consumer surveys recorded readings in the 90s in November, the first time this has occurred since mid-2002. Moreover, both measures are up sharply from their recent lows reached in March. The biggest monthly gain came in the *Conference Board Index of Consumer Confidence*, which rose more than 10 points from 81.1 in October to 91.7 in November, and up almost 50% from its low of 61.4 in March. *The University of Michigan Consumer Sentiment Index* was reported at 93.7 in November, up from 89.6 in October and 20% higher than its low of 77.6 reached in March.

Within the Conference Board Index, perhaps the most noteworthy feature was the change in the composition of the index between consumer assessment of present and future conditions. Indeed, in recent months most of the improvement had been due to increased expectations for the future. In November, however, by far the greatest gain came in consumer assessment of

current conditions. Future expectations rose from 91.5 in October to 99.4 in November, while present conditions soared to 80.1 from 67. In the Michigan survey, the expectations component rose to 88.1 from 83 in October while current conditions reached a level of 102.5. Undoubtedly the key to the improvements in these measures of present conditions is the reported three-month increase in employment as well as the reduced level of initial unemployment claims.

Finally, it is interesting to note from the chart that these consumer measures were weakening in each of the past three years as the holidays approached, in sharp contrast to the current period when these measures have been on the rise. This alone is leading some analysts to forecast the best holiday sales performance in 2003 in four years. Some concerns, however, remain. In particular, the low level of inventories may mean the loss of some sales due to lack of merchandise, as retailers remain cautious but hopeful, as well as fewer after-Christmas sales. Moreover the threat of terrorism will continue to be a negative. Even so, overall prospects for good holiday sales appear bright at this time.

| INDICATORS OF ILLINOIS ECONOMIC ACTIVITY | | | |
|---|---------------------|-----------------------|---------------------|
| <u>INDICATORS</u> | <u>October 2003</u> | <u>September 2003</u> | <u>October 2002</u> |
| Unemployment Rate (Average) | 6.7% | 7.1% | 6.8% |
| Annual Rate of Inflation (Chicago) | -1.9% | 10.4% | 1.6% |
| | | | |
| | <u>LATEST</u> | <u>% CHANGE</u> | <u>% CHANGE</u> |
| | <u>MONTH</u> | <u>OVER PRIOR</u> | <u>OVER A</u> |
| | | <u>MONTH</u> | <u>YEAR AGO</u> |
| Civilian Labor Force (thousands) (October) | 6,476 | 0.4% | 1.7% |
| Employment (thousands) (October) | 6,045 | 0.9% | 1.8% |
| New Car & Truck Registration (October) | 55,936 | -17.8% | -10.3% |
| Single Family Housing Permits (October) | 4,843 | 15.0% | 7.2% |
| Total Exports (\$ mil) (September) | 2,207 | 6.0% | 4.8% |
| Chicago Purchasing Mgr's Index (November) | 64.1 | 16.5% | 16.5% |

FY 2004 TAX AMNESTY

Eric Noggle, Senior Revenue Analyst

On June 20, 2003, Governor Blagojevich signed into law P.A. 93-0026 which created the Tax Delinquency Amnesty Act. This legislation established a tax amnesty program for all taxpayers owing any taxes imposed by reason of or pursuant to authorization by any law of the State of Illinois and collected by the Department of Revenue (excluding motor fuel use taxes). The amnesty program began on October 1, 2003 and ended November 15, 2003. During this period the Department of Revenue did not collect any interest or penalties on those taxes or pursue the taxpayer either by civil suit or criminal prosecution for those taxes if amnesty was granted to the taxpayer.

For the most part, monies collected under the amnesty program were deposited to the areas that would have originally received this money if the taxes were paid on time. However, there are two changes in P.A. 93-0026 that affected how the tax

amnesty receipts were distributed. The first change is that 2.0% of the amnesty monies collected were deposited into the Tax Compliance and Administration Fund. The second change is that, receipts that otherwise would have been deposited into the General Revenue Fund were deposited as follows: i) one-half into the Common School Fund; ii) one-half into the General Revenue Fund.

Through the month of November, \$9.6 million in individual income tax receipts and \$96.6 million in corporate income tax receipts were deposited due to tax amnesty for a total of \$106.2 million. In addition, \$50.5 million in corporate replacement tax receipts were also deposited due to tax amnesty. On a General Funds net revenue basis (excluding deposits into the Income Tax Refund Fund, the Tax Compliance Administration Fund, and the Personal Property Tax Replacement Fund), \$8.3 million in individual income tax receipts and \$63.8 million in corporate income tax receipts were collected for a net total of \$72.1 million.

FY 2004 Tax Amnesty Figures (thru Nov.)

| Fund | Personal Income Tax | Corporate Income Tax | Total |
|--------------------------------------|------------------------|-------------------------|----------------------|
| Refund Fund | \$1,128,176 | \$30,917,206 | \$32,045,382 |
| General Revenue | \$3,857,018 | \$29,555,882 | \$33,412,900 |
| Education Assistance | \$607,470 | \$4,654,972 | \$5,262,442 |
| Common School | \$3,857,018 | \$29,555,882 | \$33,412,900 |
| Tax Compliance & Admin | \$192,851 | \$1,932,325 | \$2,125,176 |
| Total Revenues: | \$9,642,533 | \$96,616,267 | \$106,258,800 |
| <hr/> | | | |
| General Fund Gross Revenues:* | \$9,449,682 | \$94,683,942 | \$104,133,624 |
| <hr/> | | | |
| General Fund Net Revenues:* | \$8,321,506 | \$63,766,736 | \$72,088,242 |

*Gross receipts exclude deposits into the Tax Compliance & Administration Fund, whereas net receipts also exclude deposits into the Income Tax Refund Fund.

Note: In addition to these totals, \$50.5 million in corporate replacement tax receipts were deposited due to tax amnesty, which included \$16.2 million to the Income Tax Refund Fund, \$1.0 million to the Tax Compliance & Administration Fund, and \$33.3 million to the Propoerty Tax Replacement Fund.

At the time of signage, the Department of Revenue estimated that the FY 2004 tax amnesty period could generate between approximately \$120 million and \$228 million. However, they pointed out that this estimate was an order of magnitude only, and as was the case in 1984, the vast majority of revenue would be an acceleration of tax revenue the Department of Revenue would ultimately collect in FY 2004. The Department estimated that approximately \$40 million of the amounts collected would be State revenues that would not have been otherwise collected in FY 2004 had the amnesty period not been established.

It is difficult at this time to determine how much of the total amount of

amnesty tax receipts collected thru November were revenues that the State would have received anyway in FY 2004 and how much can be considered “new” revenues. For example, some insiders point out that many taxpayers may have put off their early FY 2004 tax payments until the amnesty period, knowing that there would be no penalty for the delays. Therefore, part of the amnesty totals experienced could have been delayed payments and not necessarily new revenues. In the upcoming months, the Department of Revenue will be attempting to analyze these amnesty period payments to try to determine how much of the amnesty receipts are actually “new” revenues and how much are revenues that would have been collected anyway in FY 2004.

REVENUE

Federal Sources and Tax Amnesty
Result in November Revenue Jump
Jim Muschinske, Revenue Manager

November general revenue receipts, excluding Pension Contribution Fund transfers, rose \$261 million. The increase was due to yet another month of higher federal sources, as well as the receipt of owed taxes stemming from the tax amnesty period that ran from October 1st to November 15th. If \$148 million in Pension Contribution Fund transfers are included, overall general funds revenues were up \$409 million. November had the same number of receipting days as the same month last year.

Revenues attributed to the tax amnesty program were instrumental in generating

the monthly increase. Gross corporate income tax was up \$151 million for the month, of which approximately \$95 million was due to tax amnesty (on a net of refund basis, overall corporate income tax was up \$101 million). Gross personal income taxes were up \$31 million and included approximately \$9 million in tax amnesty revenue (on a net of refund basis, overall receipts were up only \$8 million).

Thanks to a surge on the last receipting day of the month, sales tax receipts also performed well in November, rising \$39 million. Inheritance tax rose \$8 million, while both insurance taxes and the Cook County IGT each contributed \$1 million to the monthly increase.

Several sources experienced declines in November, albeit relatively minor dips.

Interest income continued to drop with receipts off \$2 million. Liquor and vehicle use taxes as well as corporate franchise taxes and fees each fell \$1 million.

Overall transfers rose \$15 million in November. The gain was led by a \$9 million increase in other transfers, followed by a \$5 million increase in lottery transfers and a \$1 million rise in riverboat transfers and receipts. As mentioned earlier, federal sources experienced another strong month as receipts rose by \$93 million.

Year to Date

Through the first five months of the fiscal year, excluding revenues attributed to short-term borrowing and Budget Stabilization and Pension Contribution funds transfers, receipts are up \$1.15 billion over the same period of last fiscal year. However, virtually all of that increase was attributed to the growth in federal sources. Federal sources aside, base growth for the most part has continued tepid.

While the tax amnesty program caused a jump in November receipts, until the Department of Revenue can isolate how much of those revenues were “new” and how much were simply either owed from earlier this fiscal year or an acceleration of monies the State would have received later in FY 2004, it’s difficult to conclude how much base receipts have improved. Sales taxes, with year-to-date growth of \$74 million, has made some progress, although it’s still uncertain how better

holiday sales reports coupled with a shortened shopping season will reconcile in terms of revenues. Otherwise, only receipts from insurance taxes and fees have done measurably well as revenues are up \$14 million.

Due to the lag associated with the State’s decoupling from the federal phase-out of inheritance taxes, receipts are still down \$30 million. Interest earnings are off \$5 million, and public utility taxes down \$2 million.

Through the first five months, overall transfers are up \$19 million. While other transfers are down \$21, that decline is more than offset by a \$39 million increase in riverboat transfers and receipts as the result of the increased wagering and admission tax, as well as a \$1 million increase in lottery transfers. Finally, as mentioned, federal sources are up dramatically for the year-- \$1.073 billion. That remarkable increase is due to \$422 million in flexible federal grants, a higher Medicaid reimbursement rate, and a concerted effort to spend down the Medicaid payment cycle.

In order to reach the Commission’s estimate, base revenues must increase \$1.59 billion or 11.4% over the remainder of the fiscal year. That high rate of growth is significantly dependent on the future performance of many of the revenue adjustments used to craft the FY 2004 budget. For a detailed breakdown of those adjustments, please see the Commission’s latest report “FY 2004 Economic and Revenue Update”, which was presented November 20th.

GENERAL FUNDS RECEIPTS: NOVEMBER

FY 2004 vs. FY 2003

(\$ million)

| Revenue Sources | NOV. FY 2004 | NOV. FY 2003 | \$ CHANGE | % CHANGE |
|---|-------------------------|-------------------------|----------------------|---------------------|
| State Taxes | | | | |
| Personal Income Tax | \$562 | \$531 | \$31 | 5.8% |
| Corporate Income Tax (regular) | 169 | 18 | \$151 | 838.9% |
| Sales Taxes | 534 | 495 | \$39 | 7.9% |
| Public Utility Taxes (regular) | 74 | 74 | \$0 | 0.0% |
| Cigarette Tax | 33 | 33 | \$0 | 0.0% |
| Liquor Gallonage Taxes | 11 | 12 | (\$1) | -8.3% |
| Vehicle Use Tax | 3 | 4 | (\$1) | -25.0% |
| Inheritance Tax (Gross) | 25 | 17 | \$8 | 47.1% |
| Insurance Taxes and Fees | 1 | 0 | \$1 | N/A |
| Corporate Franchise Tax & Fees | 10 | 11 | (\$1) | -9.1% |
| Interest on State Funds & Investments | 3 | 5 | (\$2) | -40.0% |
| Cook County IGT | 23 | 22 | \$1 | 4.5% |
| Other Sources | 14 | 14 | \$0 | 0.0% |
| Subtotal | \$1,462 | \$1,236 | \$226 | 18.3% |
| Transfers | | | | |
| Lottery | 40 | 35 | \$5 | 14.3% |
| Riverboat transfers & receipts | 61 | 60 | \$1 | 1.7% |
| Other | 24 | 15 | \$9 | 60.0% |
| Total State Sources | \$1,587 | \$1,346 | \$241 | 17.9% |
| Federal Sources | \$374 | \$281 | \$93 | 33.1% |
| Total Federal & State Sources | \$1,961 | \$1,627 | \$334 | 20.5% |
| Nongeneral Funds Distribution: | | | | |
| Refund Fund | | | | |
| Personal Income Tax | (\$66) | (\$43) | (\$23) | 53.5% |
| Corporate Income Tax | (\$55) | (5) | (\$50) | 1000.0% |
| Subtotal General Funds | \$1,840 | \$1,579 | \$261 | 16.5% |
| Short-Term Borrowing | \$0 | \$0 | \$0 | N/A |
| Budget Stabilization Fund Transfer | \$0 | \$0 | \$0 | N/A |
| Pension Contribution Fund Transfer | \$148 | \$0 | \$148 | N/A |
| Total General Funds | \$1,988 | \$1,579 | \$409 | 25.9% |

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

2-Dec-03

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 | \$2,915 | \$2,886 | \$29 | 1.0% |
| Corporate Income Tax (regular) | 391 | 247 | \$144 | 58.3% |
| Sales Taxes | 2,636 | 2,562 | \$74 | 2.9% |
| Public Utility Taxes (regular) | 402 | 404 | (\$2) | -0.5% |
| Cigarette Tax | 166 | 166 | \$0 | 0.0% |
| Liquor Gallonage Taxes | 54 | 54 | \$0 | 0.0% |
| Vehicle Use Tax | 16 | 16 | \$0 | 0.0% |
| Inheritance Tax (Gross) | 88 | 118 | (\$30) | -25.4% |
| Insurance Taxes and Fees | 81 | 67 | \$14 | 20.9% |
| Corporate Franchise Tax & Fees | 58 | 56 | \$2 | 3.6% |
| Interest on State Funds & Investments | 25 | 30 | (\$5) | -16.7% |
| Cook County IGT | 153 | 152 | \$1 | 0.7% |
| Other Sources | 79 | 79 | \$0 | 0.0% |
| Subtotal | \$7,064 | \$6,837 | \$227 | 3.3% |
| Transfers | | | | |
| Lottery | 201 | 200 | \$1 | 0.5% |
| Riverboat transfers & receipts | 319 | 280 | \$39 | 13.9% |
| Other | 308 | 329 | (\$21) | -6.4% |
| Total State Sources | \$7,892 | \$7,646 | \$246 | 3.2% |
| Federal Sources | \$2,597 | \$1,524 | \$1,073 | 70.4% |
| Total Federal & State Sources | \$10,489 | \$9,170 | \$1,319 | 14.4% |
| Nongeneral Funds Distribution: | | | | |
| Refund Fund | | | | |
| Personal Income Tax | (\$341) | (\$231) | (\$110) | 47.6% |
| Corporate Income Tax | (\$126) | (\$67) | (\$59) | 88.1% |
| Subtotal General Funds | \$10,022 | \$8,872 | \$1,150 | 13.0% |
| Short-Term Borrowing | \$0 | \$700 | (\$700) | N/A |
| Budget Stabilization Fund Transfer | \$226 | \$226 | \$0 | 0.0% |
| Pension Contribution Fund Transfer | \$817 | \$0 | \$817 | N/A |
| Total General Funds | \$11,065 | \$9,798 | \$1,267 | 12.9% |

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 | ESTIMATE FY 2004 | FYTD 2004 | AMOUNT NEEDED FY 2004 EST. | FYTD 2003 | GROWTH NEEDED | % CHANGE |
|---|-----------------------------|----------------------|---|----------------------|--------------------------|---------------------|
| State Taxes | | | | | | |
| Personal Income Tax | \$8,220 | \$2,915 | \$5,305 | \$2,886 | \$212 | 4.2% |
| Corporate Income Tax (regular) | 1,095 | 391 | \$704 | 247 | (\$60) | -7.9% |
| Sales Taxes | 6,265 | 2,636 | \$3,629 | 2,562 | \$132 | 3.8% |
| Public Utility Taxes (regular) | 1,000 | 402 | \$598 | 404 | (\$4) | -0.7% |
| Cigarette Tax | 400 | 166 | \$234 | 166 | \$0 | 0.0% |
| Liquor Gallonage Taxes | 125 | 54 | \$71 | 54 | \$2 | 2.9% |
| Vehicle Use Tax | 35 | 16 | \$19 | 16 | \$1 | 5.6% |
| Inheritance Tax (Gross) | 225 | 88 | \$137 | 118 | \$18 | 15.1% |
| Insurance Taxes and Fees | 332 | 81 | \$251 | 67 | \$5 | 2.0% |
| Corporate Franchise Tax & Fees | 150 | 58 | \$92 | 56 | \$6 | 7.0% |
| Interest on State Funds & Investments | 75 | 25 | \$50 | 30 | \$14 | 38.9% |
| Cook County IGT | 400 | 153 | \$247 | 152 | \$44 | 21.7% |
| Other Sources | 1,403 | 79 | \$1,324 | 79 | \$1,054 | 390.4% |
| Subtotal | \$19,725 | \$7,064 | \$12,661 | \$6,837 | \$1,424 | 12.7% |
| Transfers | | | | | | |
| Lottery | 540 | 201 | \$339 | 200 | (\$1) | -0.3% |
| Riverboat transfers & receipts | 717 | 319 | \$398 | 280 | \$124 | 45.3% |
| Other | 915 | 308 | \$607 | 329 | \$347 | 133.5% |
| Total State Sources | \$21,897 | \$7,892 | \$14,005 | \$7,646 | \$1,894 | 15.6% |
| Federal Sources | \$4,950 | \$2,597 | \$2,353 | \$1,524 | (\$63) | -2.6% |
| Total Federal & State Sources | \$26,847 | \$10,489 | \$16,358 | \$9,170 | \$1,831 | 12.6% |
| Nongeneral Funds Distribution: | | | | | | |
| Refund Fund | | | | | | |
| Personal Income Tax | (\$965) | (\$341) | (\$624) | (\$231) | (\$217) | 53.3% |
| Corporate Income Tax | (356) | (126) | (\$230) | (67) | (\$24) | 11.7% |
| Subtotal General Funds | \$25,526 | \$10,022 | \$15,504 | \$8,872 | \$1,590 | 11.4% |
| 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 | \$817 | \$783 | \$0 | \$483 | 161.0% |
| Total General Funds | \$27,352 | \$11,065 | \$16,287 | \$9,798 | \$1,098 | 7.2% |
| IEFC | | | | | | 2-Dec-03 |