



# Commission on Government Forecasting and Accountability

**MONTHLY BRIEFING FOR THE MONTH ENDED: DECEMBER 2012**

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

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## ECONOMY: Policy by the Numbers

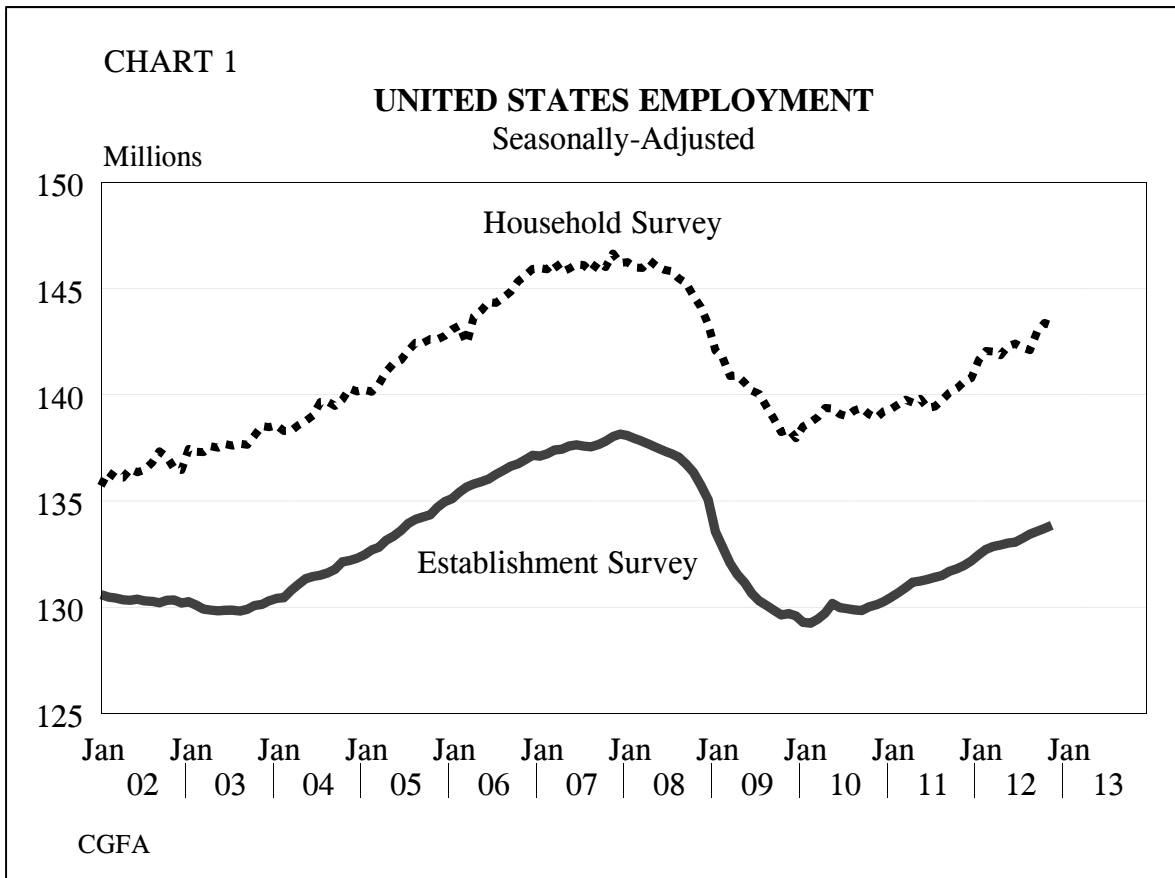
Edward H. Boss, Jr., Chief Economist

The Federal Reserve introduced a new benchmark at its latest Open Market Committee Meeting, the unemployment rate. *"The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored."*

In its mandate, the Federal Reserve sets the nation's monetary policy to promote the objectives of maximum employment, stable prices, and moderate long-term interest rates. Even so, the inclusion for the first time of a specific numerical target for the unemployment rate and increasing the upper limit for inflation has raised some questions.

The unemployment rate is derived from a monthly survey, called the Household Survey, and is calculated as those who have been looking for work but have been unsuccessful during the survey week as a percent of those in the labor force. For example, the credit markets reacted favorably when November's unemployment fell to 7.7%, the lowest since December 2008. In Illinois, the unemployment rate also fell a tad, but at 8.7% in November was a full point above the national rate and 9<sup>th</sup> highest in the nation.

Despite the November drop in the overall unemployment rate, employment in this national survey actually fell by 122,000 from October but the size of the labor force fell an



even larger 350,000, thus the rate of unemployment dropped. The participation rate was a low 63.6%, implying that only two-thirds of the labor force was at work. That rate fell below 64% last December for the first time since the twin recessions of the early 1980s, and this at a time when the economy is in an official recovery that began in June 2009.

Coupled with what was a surprising decline in the unemployment rate was the announcement that non-farm payrolls jumped by a larger than expected 146,000 in the Establishment Survey. Great attention is paid to the payroll, or Establishment Survey, as it is considered a more comprehensive report since it incorporates 140,000 businesses and government agencies

representing approximately 410,000 worksites, with an active sample including approximately one-third of all non-farm payroll employees. In contrast, the Household Survey is a sample of 60,000 households including the self-employed, unpaid family workers, agricultural workers, and private household workers who are excluded from the Establishment Survey. Chart 1 illustrates both measures. While the November increase in Establishment employment was larger than expected, the prior two months were revised down by a combined 49,000.

Overall, since the beginning of this year, employment growth averaged 151,000 per month, about the same as the average monthly job gain of

153,000 in 2011. As shown in the chart, however, the economy has yet to recover to the level of jobs from that existed prior to the last recession by either measure.

In addition to monitoring the unemployment rate, the FOMC, in unwinding operation twist, decided to continue the \$45 billion of Quantitative easing constituted entirely of Treasury securities purchases together with continuing \$40 billion in mortgage-backed security purchases, so that open-ended quantitative easing will be \$85 billion per month. The concern of course is what happens when the monetary authorities begin to unwind their quantitative easing stance while money turnover increases when the

pace of economic activity picks up momentum. While this hardly seems likely any time soon as the current recovery is the slowest in at least the post WWII period, the Fed has often overstayed a policy stance and once inflation starts, it has proven difficult to reign in. Thus, raising the inflation target to 2-½ % from 2% concerns some policy observers.

With little help from fiscal policy, it has been left to the Federal Reserve to promote its objectives of maximum employment, stable prices, and moderate long-term interest rates. Only time will tell whether it's newly announced targets on the unemployment rate and inflation will help in that endeavor.

<b>INDICATORS OF ILLINOIS ECONOMIC ACTIVITY</b>			
<u>INDICATORS</u>	<u>NOV. 2012</u>	<u>OCT. 2012</u>	<u>NOV. 2011</u>
Unemployment Rate (Average)	8.7%	8.8%	9.8%
Annual Rate of Inflation (Chicago)	-4.3%	-2.1%	1.5%
<b>—————</b>			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (NOV.)	6,635	0.1%	0.8%
Employment (thousands) (NOV.)	6,060	0.2%	2.1%
New Car & Truck Registration (NOV.)	40,464	-17.1%	3.7%
Single Family Housing Permits (NOV.)	677	-31.9%	21.7%
Total Exports (\$ mil) (OCT.)	5,658	0.7%	4.6%
Chicago Purchasing Managers Index (DEC.)	51.6	2.3%	-17.0%

**REVENUE**  
**Revenues End 2012 on Positive Note**  
Jim Muschinske, Revenue Manager

Overall base revenues grew \$261 million in December. Revenue performances of the larger economic sources as well as federal sources were quite strong to end the calendar year. The positive performance took place despite having one less receipting day this month as compared to last year.

Gross corporate income taxes grew \$87 million, or \$90 million net of refunds. Gross personal income tax revenues rose \$87 million, or \$66 million net of refunds. Sales tax managed a \$20 million advance, while insurance taxes grew \$6 million. Public utility taxes and corporate franchise taxes each grew \$2 million. Interest income eked out a \$1 million gain.

A few revenue sources experienced a drop in December. Other sources dropped \$10 million, inheritance \$9 million, and liquor taxes \$1 million.

Overall transfers fell \$7 million for the month. Riverboat transfers dropped \$19 million [the drop reverses a similar gain posted in November, indicating that

timing was largely the cause of the swings], while other transfers grew \$10 million and lottery transfers gained \$2 million. Federal sources posted decent gains in December, growing \$101 million.

**Year to Date**

**T**hrough the first half of FY 2013, overall base revenues grew \$793 million. Gross personal income taxes were up \$428 million, or \$315 million net of refunds. Gross corporate income taxes increased \$275 million, or \$276 million net of refunds. Due to lagged timing of receipts related to a prior tax change, inheritance tax was up \$76 million. All other tax sources totaled a net gain of \$30 million.

Overall transfers were down \$265 million. The falloff was due in part to the one-time \$73 million sale of the 10<sup>th</sup> license last year, as well as timing related to last year's settlement of protested liquor taxes. Federal sources have managed to post a \$361 million gain through December.

## GENERAL FUNDS RECEIPTS: DECEMBER

FY 2013 vs. FY 2012

(\$ million)

<b>Revenue Sources</b>	<b>Dec. FY 2013</b>	<b>Dec. FY 2012</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$1,341	\$1,254	\$87	6.9%
Corporate Income Tax (regular)	517	430	\$87	20.2%
Sales Taxes	655	635	\$20	3.1%
Public Utility Taxes (regular)	80	78	\$2	2.6%
Cigarette Tax	30	30	\$0	0.0%
Liquor Gallonage Taxes	14	15	(\$1)	-6.7%
Vehicle Use Tax	2	2	\$0	0.0%
Inheritance Tax (Gross)	23	32	(\$9)	-28.1%
Insurance Taxes and Fees	69	63	\$6	9.5%
Corporate Franchise Tax & Fees	15	13	\$2	15.4%
Interest on State Funds & Investments	1	0	\$1	N/A
Cook County IGT	0	0	\$0	N/A
Other Sources	28	38	(\$10)	-26.3%
<b>Subtotal</b>	<b>\$2,775</b>	<b>\$2,590</b>	<b>\$185</b>	<b>7.1%</b>
<b>Transfers</b>				
Lottery	63	61	\$2	3.3%
Riverboat transfers & receipts	34	53	(\$19)	-35.8%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Other	52	42	\$10	23.8%
<b>Total State Sources</b>	<b>\$2,924</b>	<b>\$2,746</b>	<b>\$178</b>	<b>6.5%</b>
<b>Federal Sources</b>	<b>\$296</b>	<b>\$195</b>	<b>\$101</b>	<b>51.8%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$3,220</b>	<b>\$2,941</b>	<b>\$279</b>	<b>9.5%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$131)	(\$110)	(\$21)	19.1%
Corporate Income Tax	(\$72)	(75)	\$3	-4.0%
<b>Subtotal General Funds</b>	<b>\$3,017</b>	<b>\$2,756</b>	<b>\$261</b>	<b>9.5%</b>
<b>Short-Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>FY'13 Backlog Payment Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Tobacco Liquidation Proceeds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$3,017</b>	<b>\$2,756</b>	<b>\$261</b>	<b>9.5%</b>
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Jan-13

## 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>
<b>State Taxes</b>				
Personal Income Tax	\$7,578	\$7,150	\$428	6.0%
Corporate Income Tax (regular)	1,400	1,125	\$275	24.4%
Sales Taxes	3,695	3,655	\$40	1.1%
Public Utility Taxes (regular)	483	503	(\$20)	-4.0%
Cigarette Tax	176	177	(\$1)	-0.6%
Liquor Gallonage Taxes	86	84	\$2	2.4%
Vehicle Use Tax	14	15	(\$1)	-6.7%
Inheritance Tax (Gross)	158	82	\$76	92.7%
Insurance Taxes and Fees	158	148	\$10	6.8%
Corporate Franchise Tax & Fees	107	100	\$7	7.0%
Interest on State Funds & Investments	8	10	(\$2)	-20.0%
Cook County IGT	56	56	\$0	0.0%
Other Sources	183	188	(\$5)	-2.7%
<b>Subtotal</b>	\$14,102	\$13,293	\$809	6.1%
<b>Transfers</b>				
Lottery	308	300	\$8	2.7%
Riverboat transfers & receipts	221	207	\$14	6.8%
Proceeds from Sale of 10th license	0	73	(\$73)	N/A
Other	257	471	(\$214)	-45.4%
<b>Total State Sources</b>	\$14,888	\$14,344	\$544	3.8%
<b>Federal Sources</b>				
<b>Total Federal &amp; State Sources</b>	\$16,690	\$15,329	\$361	27.2%
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$739)	(\$626)	(\$113)	18.1%
Corporate Income Tax	(\$196)	(\$197)	\$1	-0.5%
<b>Subtotal General Funds</b>	\$15,643	\$14,850	\$793	5.3%
<b>Short-Term Borrowing</b>	\$0	\$0	\$0	N/A
<b>FY'13 Backlog Payment Fund Transfer</b>	\$264	\$0	\$264	N/A
<b>Tobacco Liquidation Proceeds</b>	\$0	\$0	\$0	N/A
<b>Pension Contribution Fund Transfer</b>	\$0	\$0	\$0	N/A
<b>Budget Stabilization Fund Transfer</b>	\$275	\$275	\$0	0.0%
<b>Total General Funds</b>	\$16,182	\$15,125	\$1,057	7.0%

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

CGFA

2-Jan-13