Presented to:

Senate Subcommittee on Economic Development

FY 2014 Economic and Unemployment Update

Presented by:
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CGFA Background & Responsibilities

- Bi-Partisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State.
- Preparation of annual revenue estimates with periodic updates;
- Analysis of the fiscal impact of revenue bills;
- Preparation of State Debt Impact Notes;
- Periodic assessment of capital facility plans;
- Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- Implement the provisions of the State Facility Closure Act;
- Annual estimates of public pension funding requirements and preparation of pension impact notes.

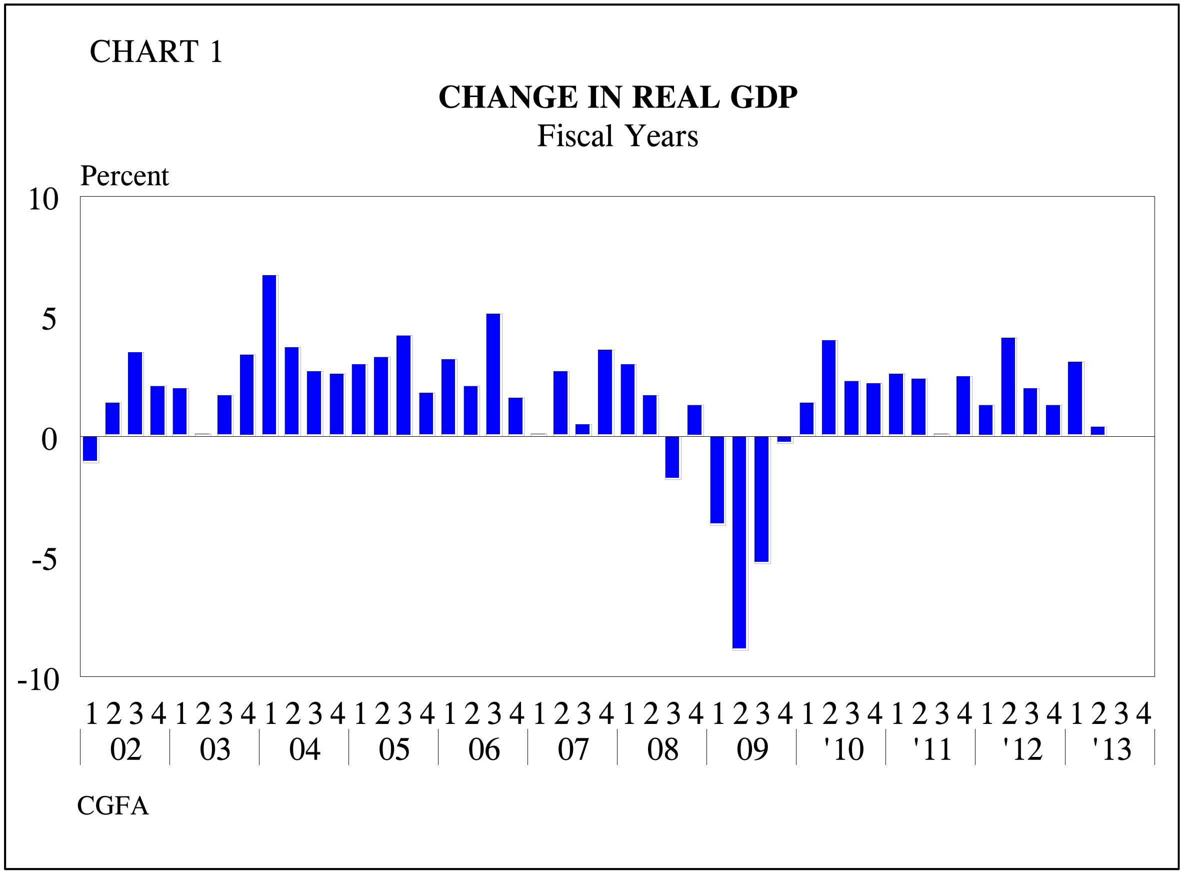
CHANGE IN REAL GDP

- As shown in the attached Chart 1, economic growth normally surges following a recession, and the deeper the recession in the past, the sharper has been the turnaround.

- In contrast, following the recession that began at the end of 2007 and didn't end until June 2009, the recovery has exhibited the weakest growth in at least the post WWII era.

- GDP rose at a 2.4% rate in calendar 2010, 1.8% in 2011, 2.2% in 2012 with estimates it will rise 1.9% this year. In the latest quarter a recent revision showed an increase of 0.4%.

- However, it takes sustained growth of 2.5% to 3% to make any dent in today's high unemployment rate.



RETAIL SALES

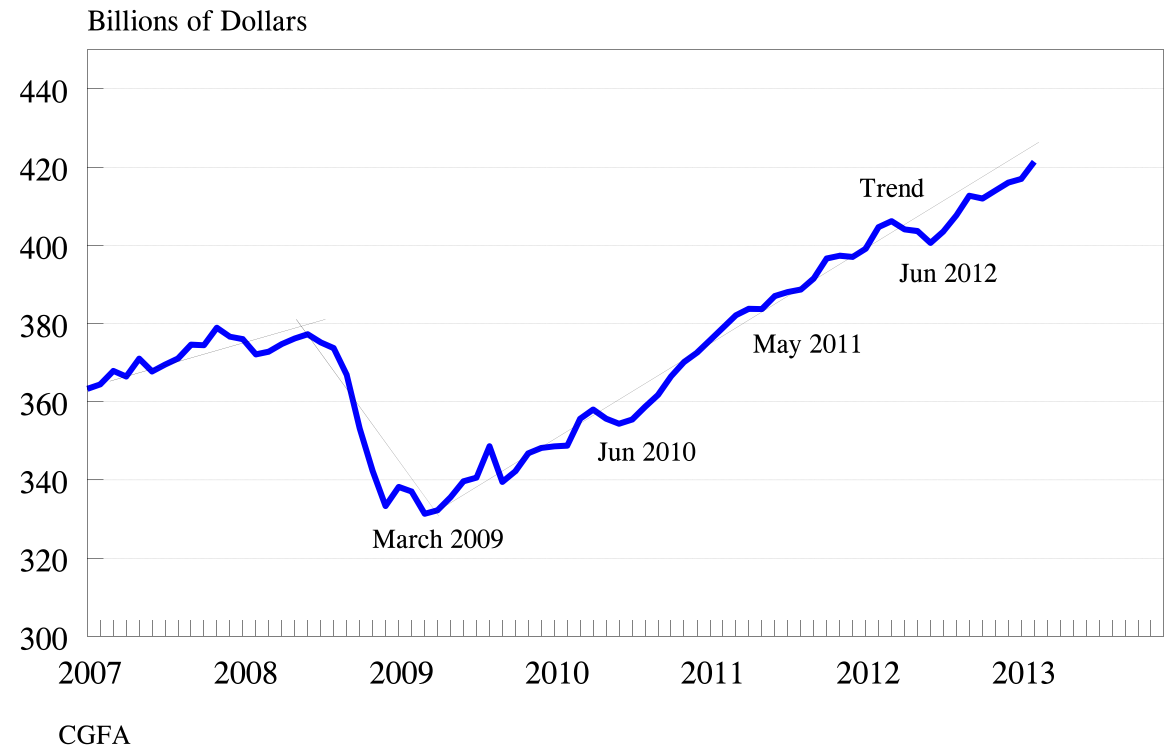
- The major slowdown in growth in the final quarter of last year was due to a decline in government expenditures, particularly defense. At the same time, consumer spending also slowed.

- As shown in chart 2, holiday sales rose a modest 3% according to the National Retail Federation, about half of that recorded in each of the previous two years. Moreover, January sales showed only a modest gain of 0.1% from December although February recorded a decent gain

- Even so, retail sales have fallen below a trend established during even this weak economic recovery.

CHART 2

RETAIL SALES



ILLINOIS NEW VEHICLE SALES

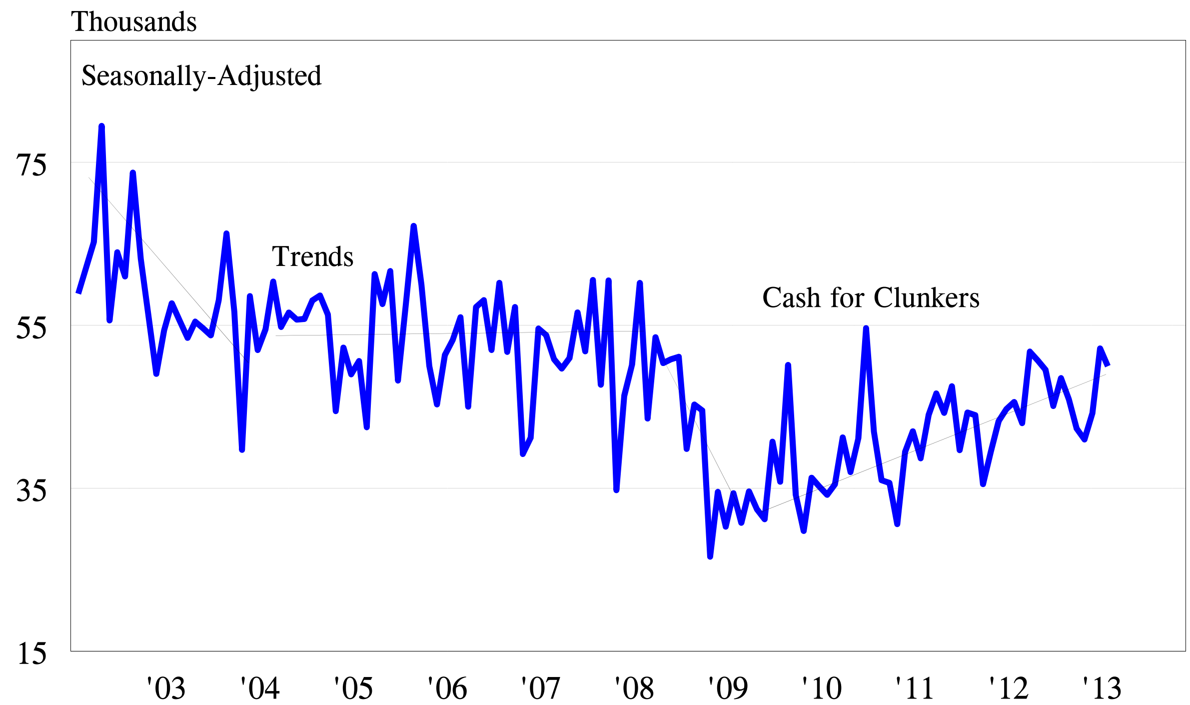
- While retail sales have been lackluster, new vehicle sales have improved, as illustrated by car and truck registrations in Illinois in Chart 3. In part this reflects the aging of existing cars on the road, which has reached about 11 years, the highest since 1995.

- Note, however, such programs as "cash for clunkers" did little to have a long lasting impact but rather fell off sharply after the program ended before eventually going back to trend.

- In addition to increased auto sales, consumer spending will be determined not only by income but also by the confidence they have in increasing spending.

CHART 3

ILLINOIS NEW CAR & TRUCK REGISTRATIONS



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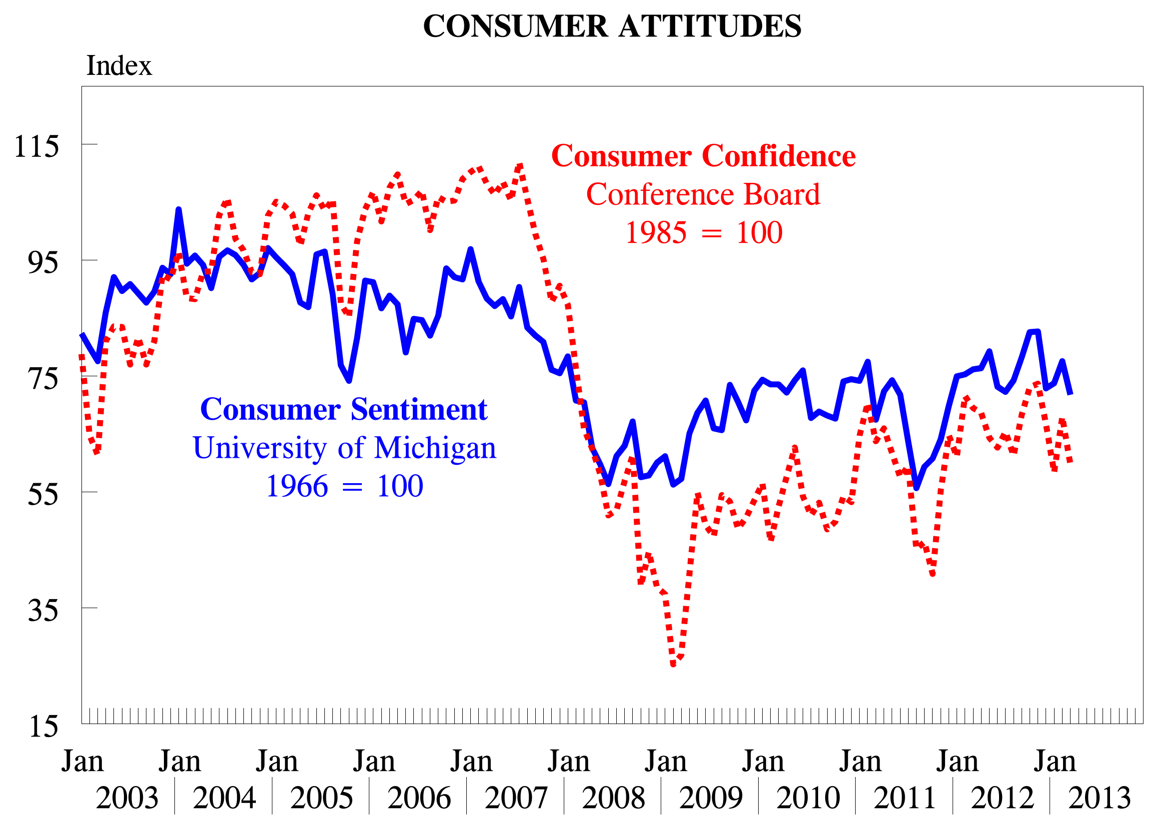
CONSUMER ATTITUDES

- Chart 4 shows measures of consumer attitudes, which are signals as to their comfort level in increasing spending. Consumer attitudes as measured by either the University of Michigan's Consumer Sentiment Index or the Conference Board's Consumer Confidence Index had improved sharply from the lows reached in early in 2009 although there were several interruptions as the economy hit soft patches.

- Even so, both the University of Michigan and Conference Board indices began to rise again, so that by March of last year they had recouped the ground lost during the previous summer's slump.

- While volatile on a month to month basis so far this year, levels in March were somewhat lower than a year-earlier, but basically stuck, showing no trend since improving early in 2012.

CHART 4



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DOW JONES AVERAGE

- Despite a tepid consumer, there are some encouraging signs, and in areas that have not always been very supportive in recent years.

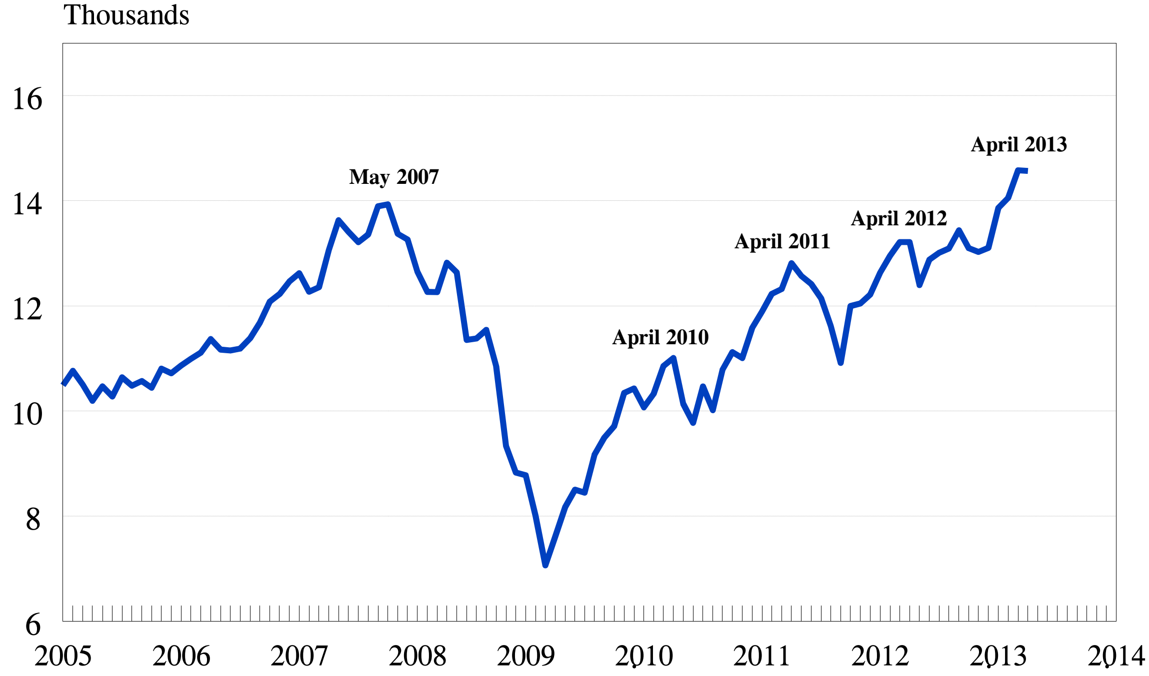
- The stock market has been on an up trend, bringing levels back to those seen prior to the past severe recession. This has restored values lost in many 401Ks during the severe market downturn.

- Even so, as shown in Chart 5, the stock market has hit a soft patch in each of the past three years. In each case, however, the market resumed its upward path.

- Resurgence in the market late last year and through March has brought the level to record highs. Still, many expect a correction after such a sharp move upward. Interestingly, we are at a time when in each of the past three years a correction has occurred.

CHART 5

DOW JONES AVERAGE



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U.S. NEW HOME PRICES

- Another major improving factor has been an end to the decline in home prices that occurred during the recession and continued well into the recovery.

- To most consumers the value of their home is the most important asset, and the sharp falloff in value that had occurred brought many to levels below what they owed, depressing attitudes.

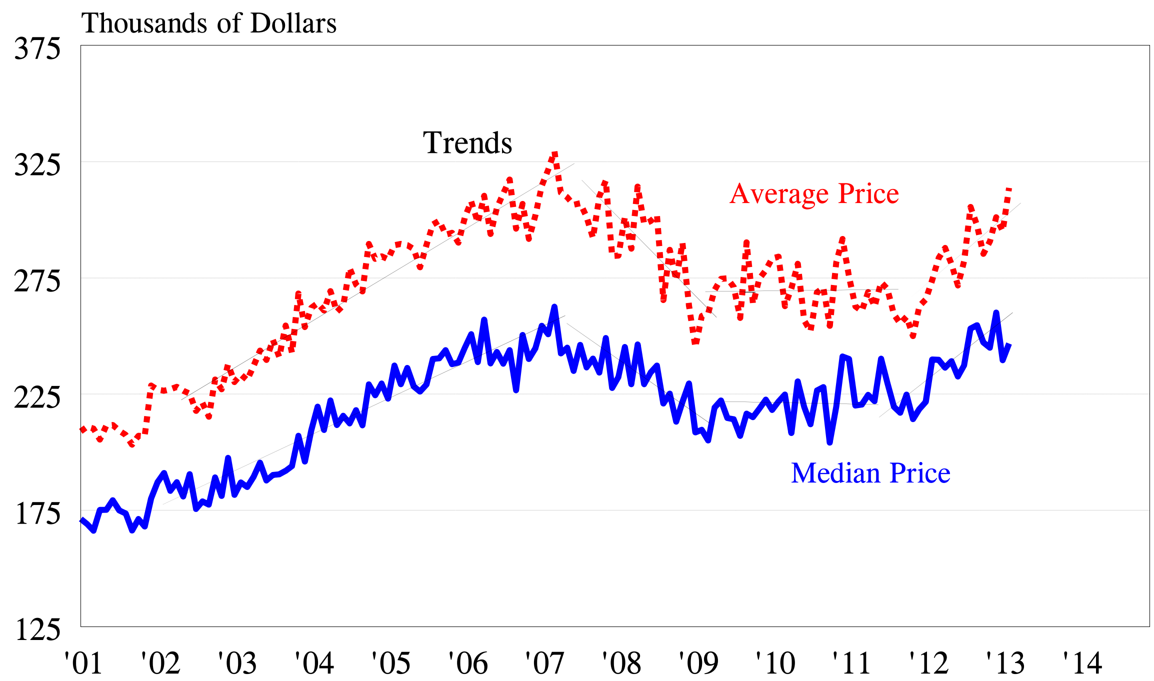
- As shown in Chart 6, however, prices have been on the rise, ending the prolonged period of sharp declines. It should be stressed, however, that there are substantial differences by region.

- As noted in a recent study on Illinois commissioned by CGFA, Moody's Analytics blames in part the lack of any noticeable improvement in Illinois housing as a factor causing the State to lag the economic recovery shown by the nation and region.

- Many believed that a true recovery could not occur without a contribution from the housing sector.

CHART 6

NEW HOME PRICES IN THE U.S.



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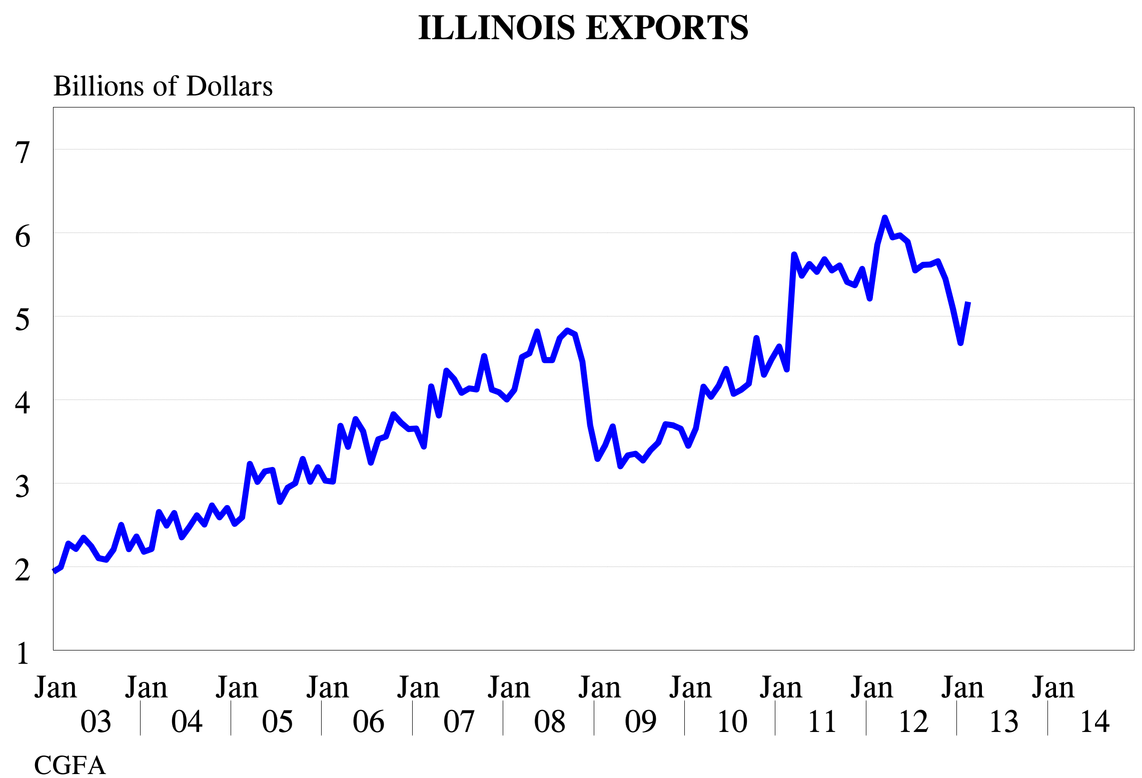
ILLINOIS EXPORTS

- Another favorable factor has been our reduced level of imports. Much of the reduction reflects lessening dependence on imported oil as new methods of extraction, mainly on private lands, have increased U.S. oil and gas production.

- While our import demand has slowed, however, so have our exports. This affects the State as we have been the fifth largest U.S. exporter.

- As shown in chart 7, Illinois export growth has slowed, reflecting recessions in much of Europe, which account for about 20% of U.S. exports, and slowing in growth in some of the more important emerging countries.

CHART 7



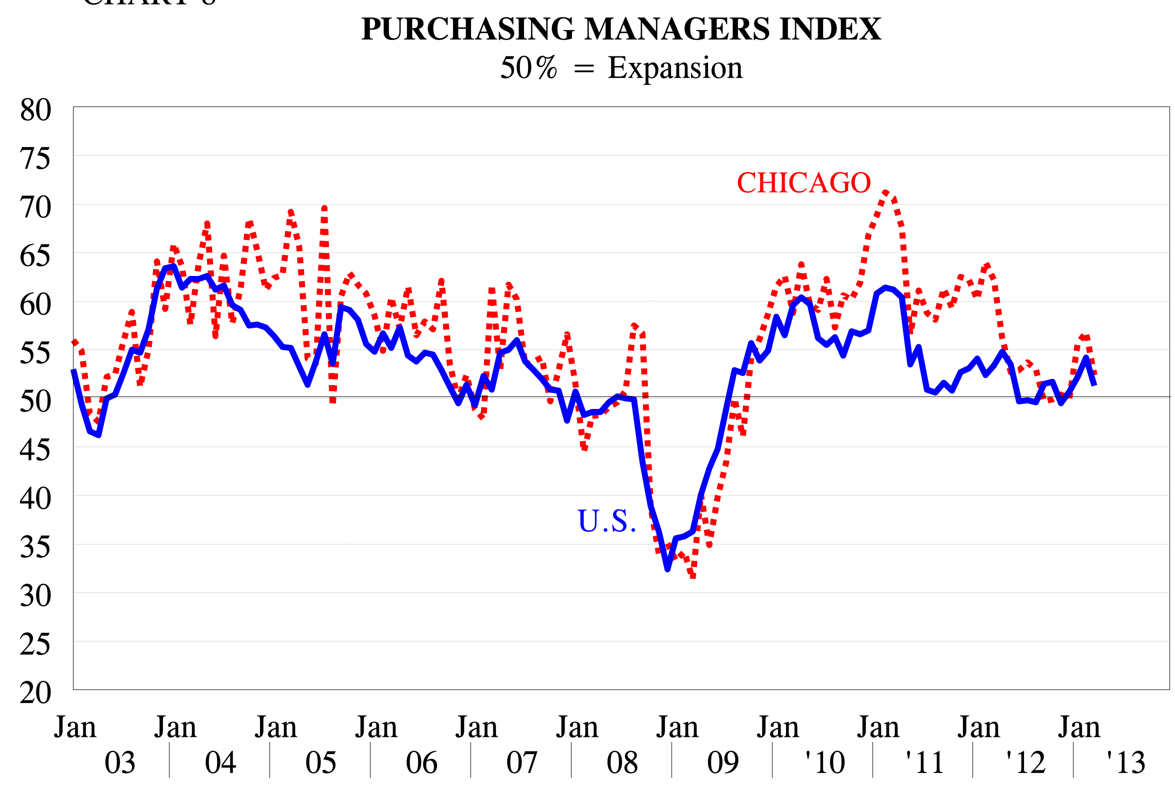
PURCHASING MANAGERS INDEX

- While the consumer accounts for the majority of spending in the economy and has been lethargic, business spending had been expanding for some time, helped in part by the continuing rise in corporate profits.

- There had been significant improvement in both the national and Chicago rate. As Chart 8 shows, the index of manufacturing had expanded (with more than 50% reporting that) for 34 consecutive months from August 2009, slightly after the recovery got underway in June of that year, to January 2012, following a year of contraction.

- The strength of the index weakened the past three summers, reflecting soft patches the economy entered, but since last fall manufacturing had been trading around neutral, neither expanding nor contracting. Early this year both the national and Chicago numbers broke out from neutrality and rose to the highest levels since last spring before softening in March, back to the lowest levels since December.

CHART 8



SOURCE: Institute for Supply Management CGFA

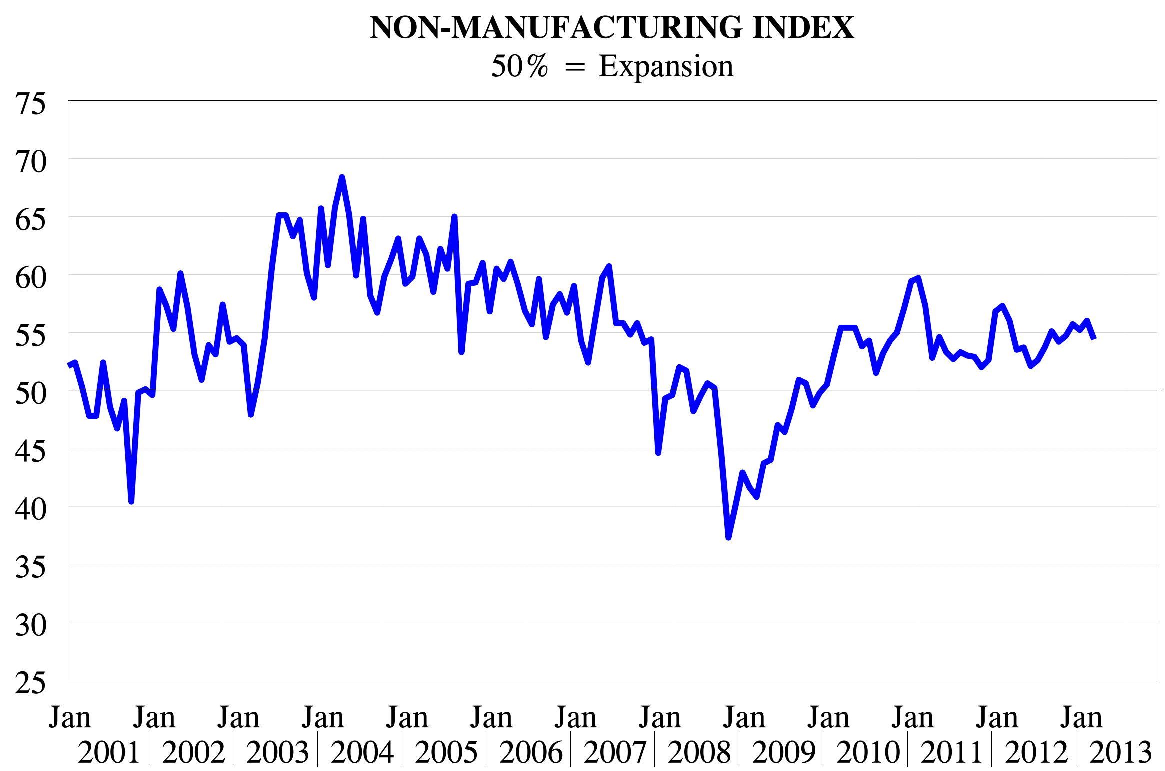
NON-MANUFACTURING INDEX

- A growing share of business has been in the non-manufacturing, or service sector. Chart 9 takes a look at this growing share of the economy.

- Economic activity in the non-manufacturing sector, which had declined for 11 straight months through October 2009, steadily worked its way back to neutral, or the 50% level, by January 2010. The index continued to expand erratically through February 2011.

- Then its strength weakened as the economy hit a soft patch, held flat for six months, before rising again. In February of this year the index was 56, highest since March of last year, however, a drop this March brought the level back to that of last fall.

CHART 9



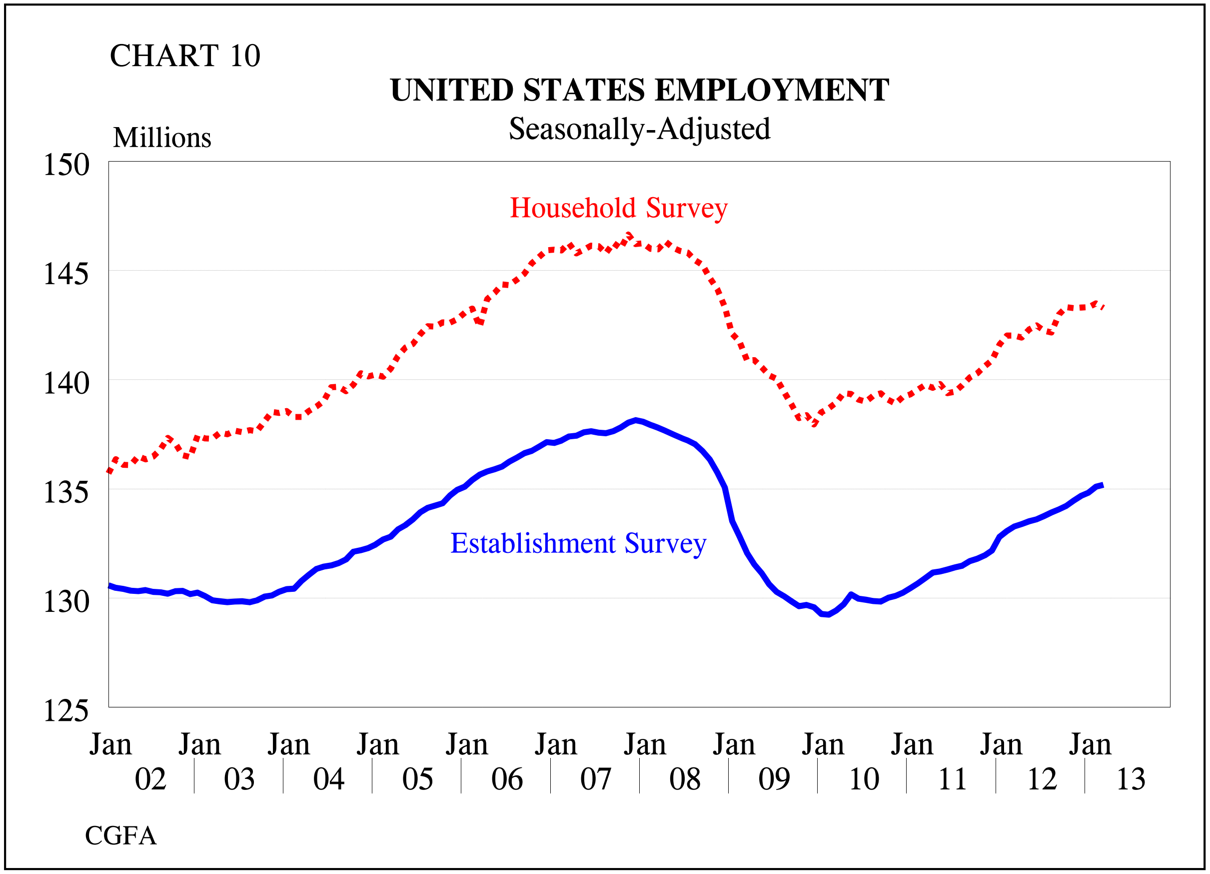
SOURCE: Institute for Supply Management CGFA

UNITED STATES EMPLOYMENT

- Perhaps the largest deterrent to faster growth is the lack of significant progress on the job front.

- Non-farm payroll employment grew on average 182,750 per month in 2012 according to new benchmark data, higher than the average job gain of 175,250 in 2011. Even so, the labor participation rate remained the lowest since the twin recessions of the early 1980s. And, in the first three months of this year, jobs rose an average of 168,000, with a meager 88,000 gain in March.

- Even while United States employment have been rising, since its low at the end of 2009 to early 2010, as measured by both the Household and the Establishment Surveys, employment remains below the level in December 2007 at the beginning of the last recession. (See Chart 10.)

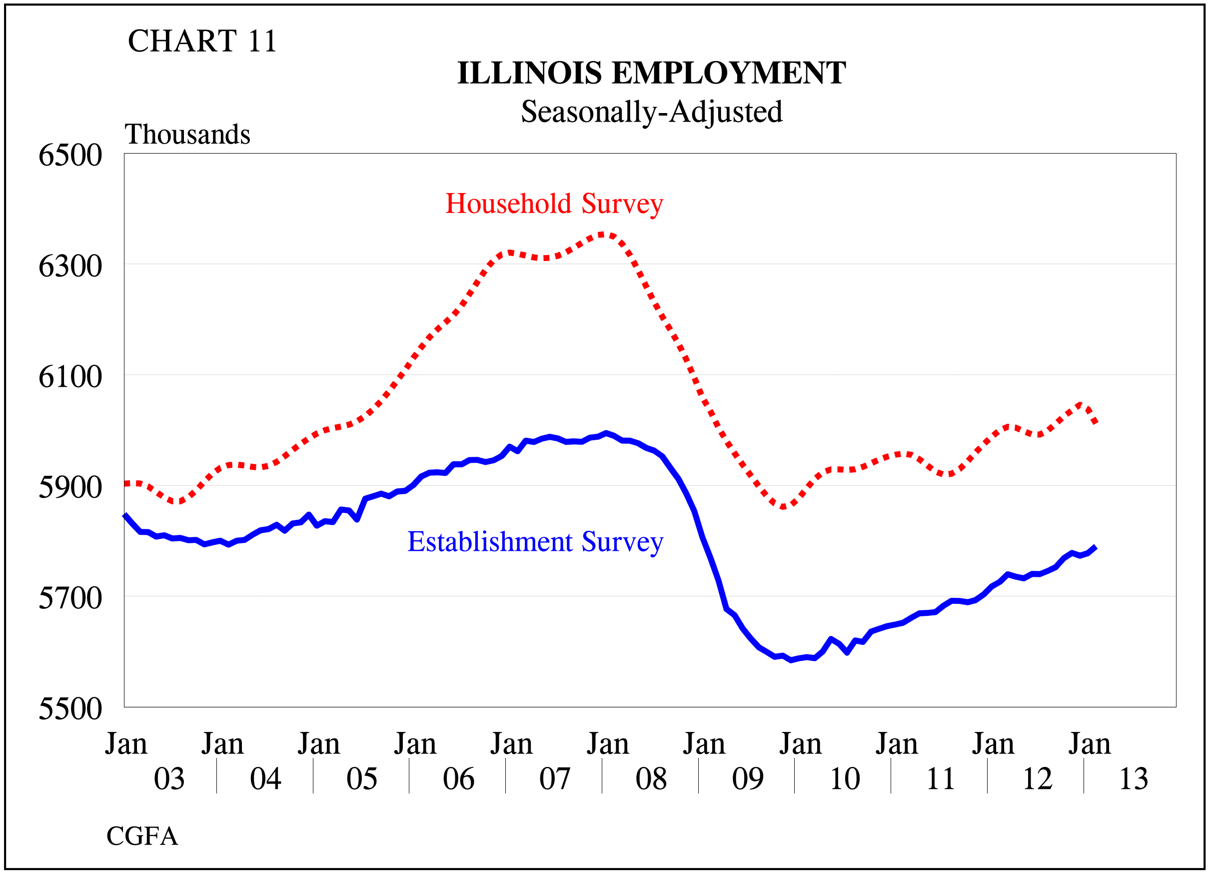


ILLINOIS EMPLOYMENT

- Illinois employment, like the U.S., also has shown gains but remains at extremely low levels as illustrated in Chart 11.

- Comparing Illinois to the nation, the more comprehensive establishment, or payroll, employment data for the nation had recovered its pre-recession level following the 2001 recession by early 2005, although Illinois never did recoup those losses before the last recession set in.

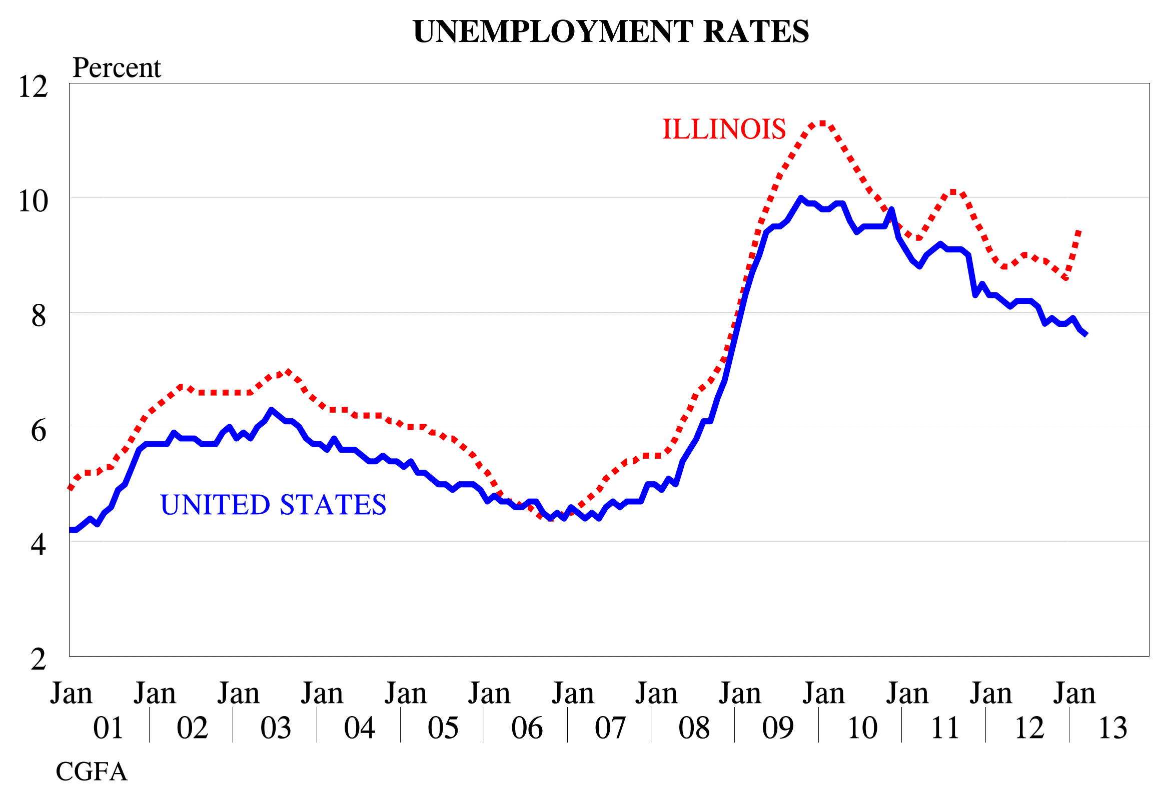
- Thus, the gap to reach a new high in employment in the current recovery is even more difficult for Illinois than for the nation as a whole.



UNEMPLOYMENT RATES

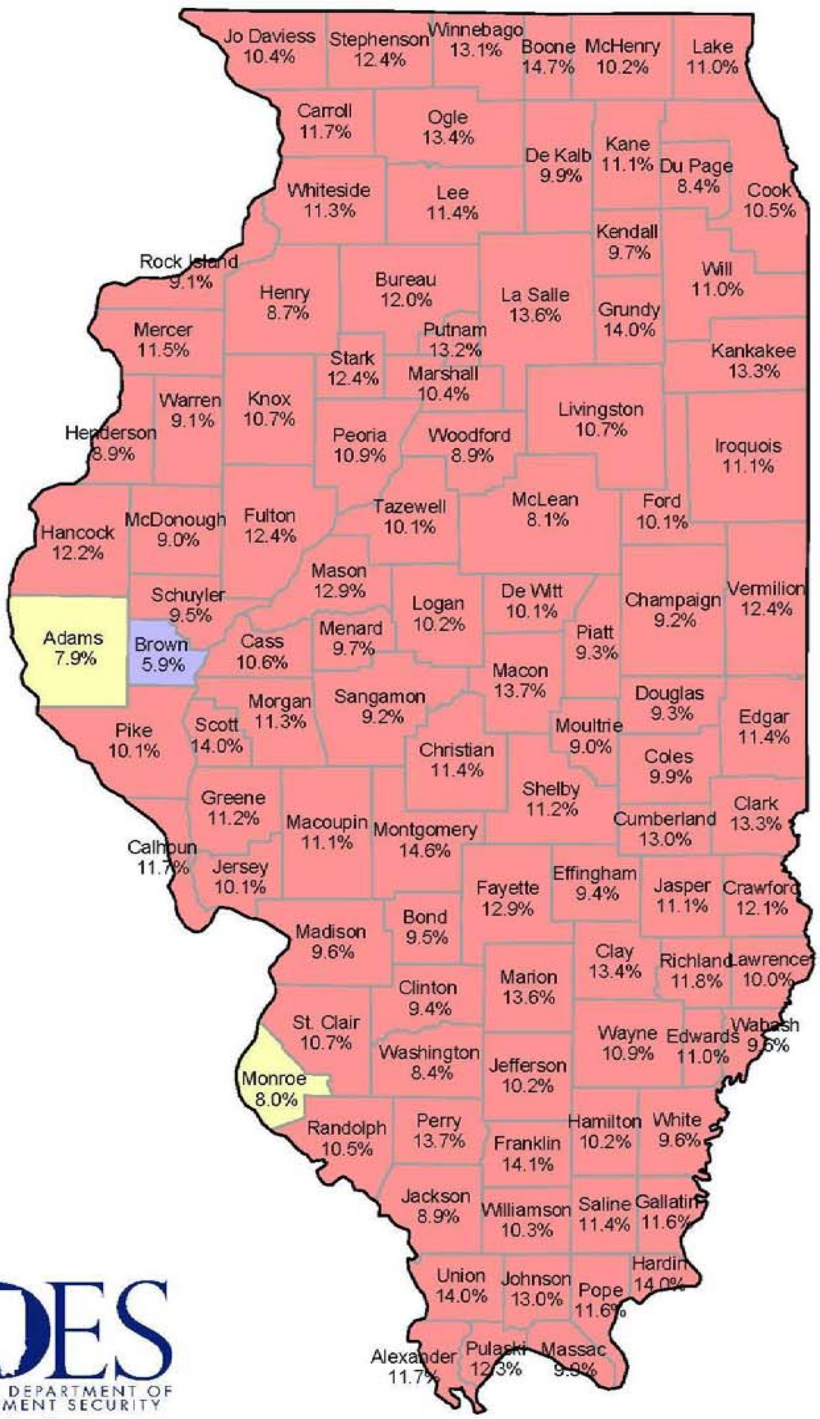
- As shown in Chart 12, as a result of job losses during the recession, the national unemployment rate rose from a low of 4.4% in early 2007 to a high of 10.1% by October 2009.
- In the recovery that began in mid 2009, however, the unemployment rate has shown only modest improvement. By January 2012 the unemployment rate had edged down to 8.1% but was still at a high 7.6% in March of this year.
- Moreover, much of the recent decline came from people dropping out of the labor force as the participation rate fell to the lowest level since late 1979.
- As shown, the unemployment rate in Illinois continues to trail the U.S. with the gap widening. Illinois' rate hit 9.5% in February, the latest data available, and at its highest level since November 2011.
- With the economic growth seemingly stagnating at 2% or less, little if any major improvement can be expected in the months ahead.

CHART 12



Illinois Unemployment Rate by County
February, 2013 - Not Seasonally Adjusted

IL Dept. of Employment Security, Economic Information & Analysis Division



Unemployment Rates

	Not Seasonally Adjusted	Seasonally Adjusted
United States :	8.1%	7.7%
Illinois:	10.5%	9.5%

Unemployment Rate

- <= 5.0%
- 5.1% - 6.5%
- 6.6% - 8.0%
- >=8.1%

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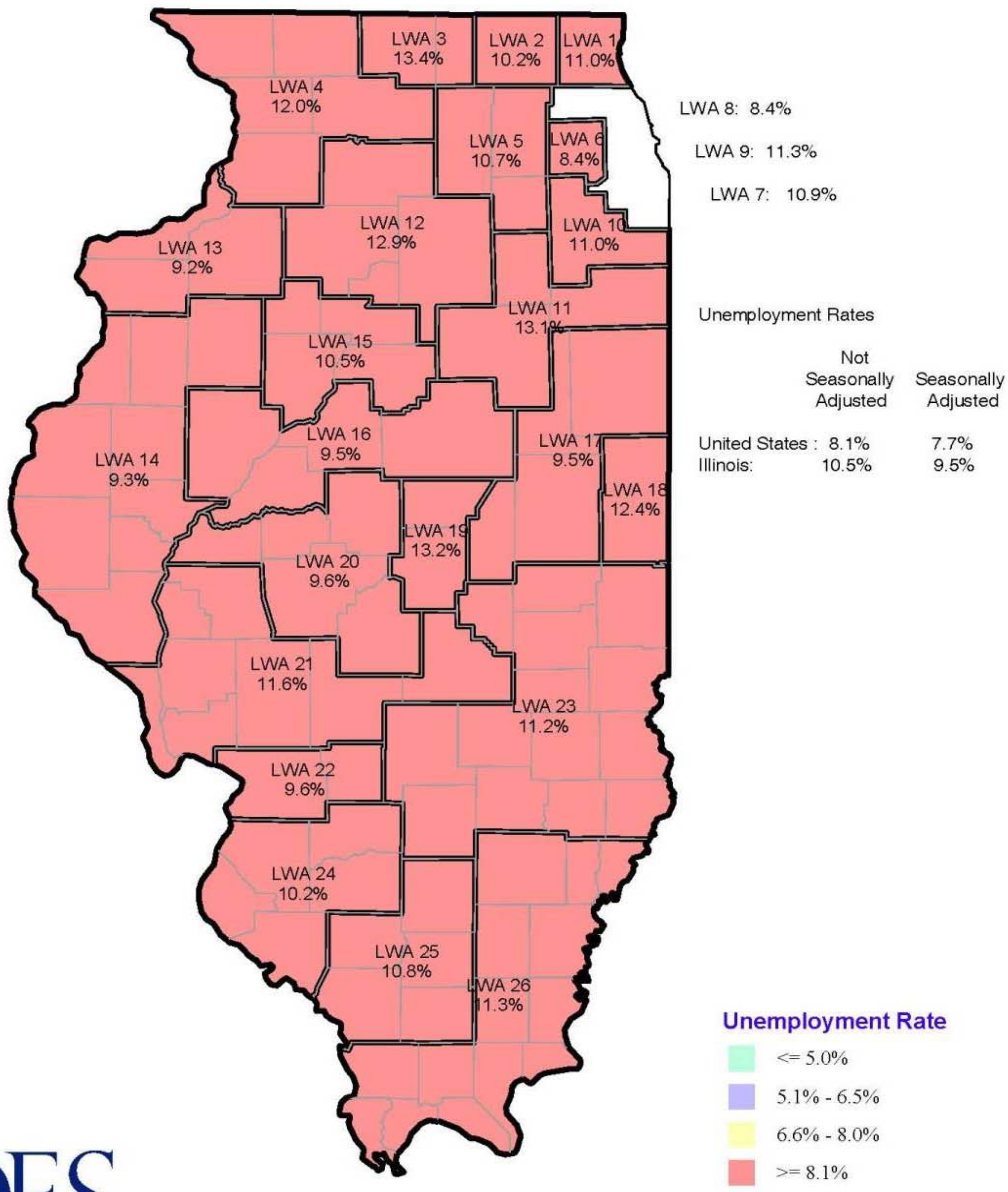
Illinois Unemployment Rate by Local Workforce Area

February, 2013 - Not Seasonally Adjusted

IL Dept. of Employment Security, Economic Information & Analysis Division



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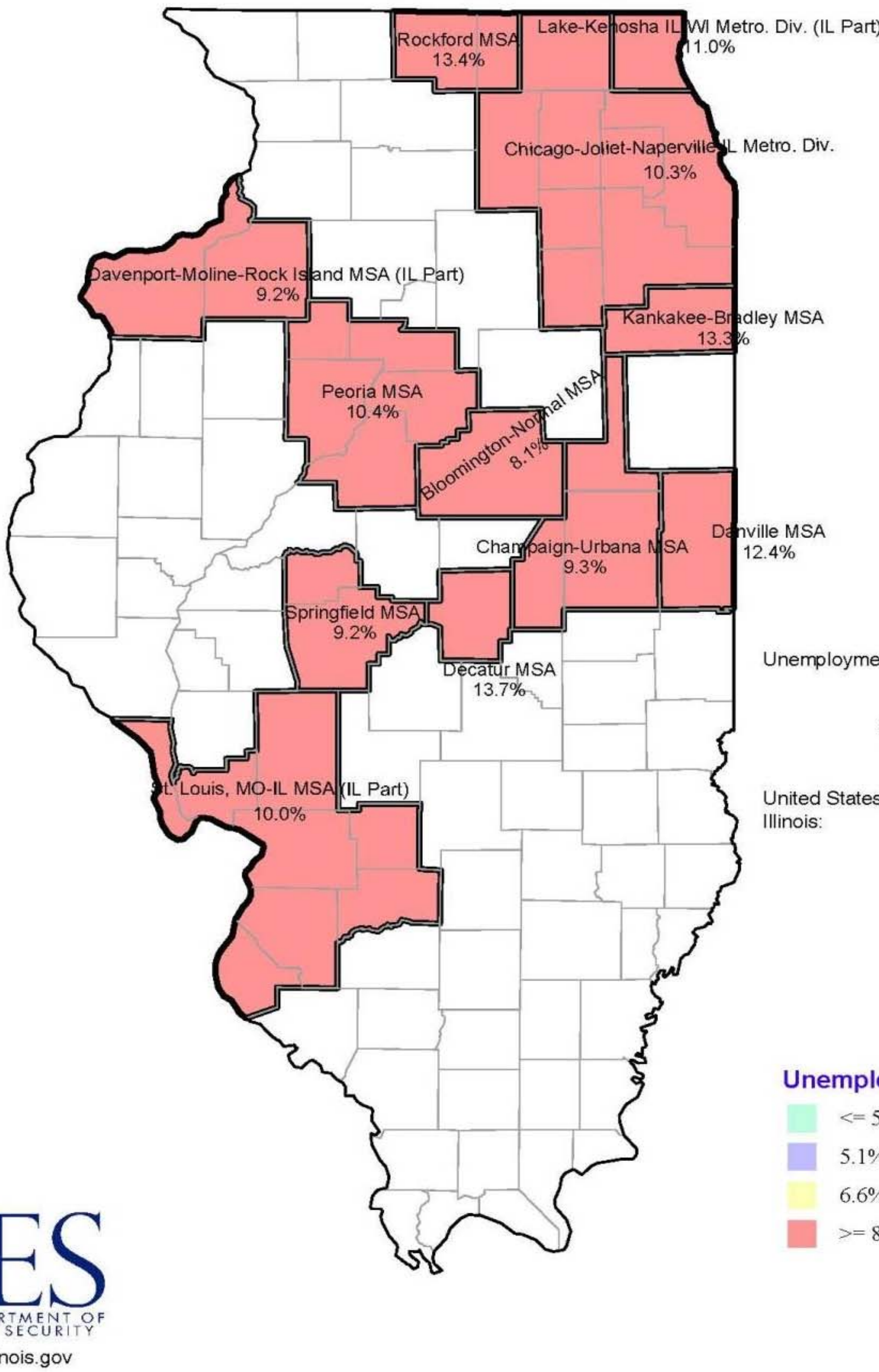
Illinois Unemployment Rate by Metropolitan Statistical Areas
February, 2013 - Not Seasonally Adjusted

IL Dept. of Employment Security, Economic Information & Analysis Division



Unemployment Rates

	Not Seasonally Adjusted	Seasonally Adjusted
United States :	8.1%	7.7%
Illinois:	10.5%	9.5%

Unemployment Rate

- <= 5.0%
- 5.1% - 6.5%
- 6.6% - 8.0%
- >= 8.1%

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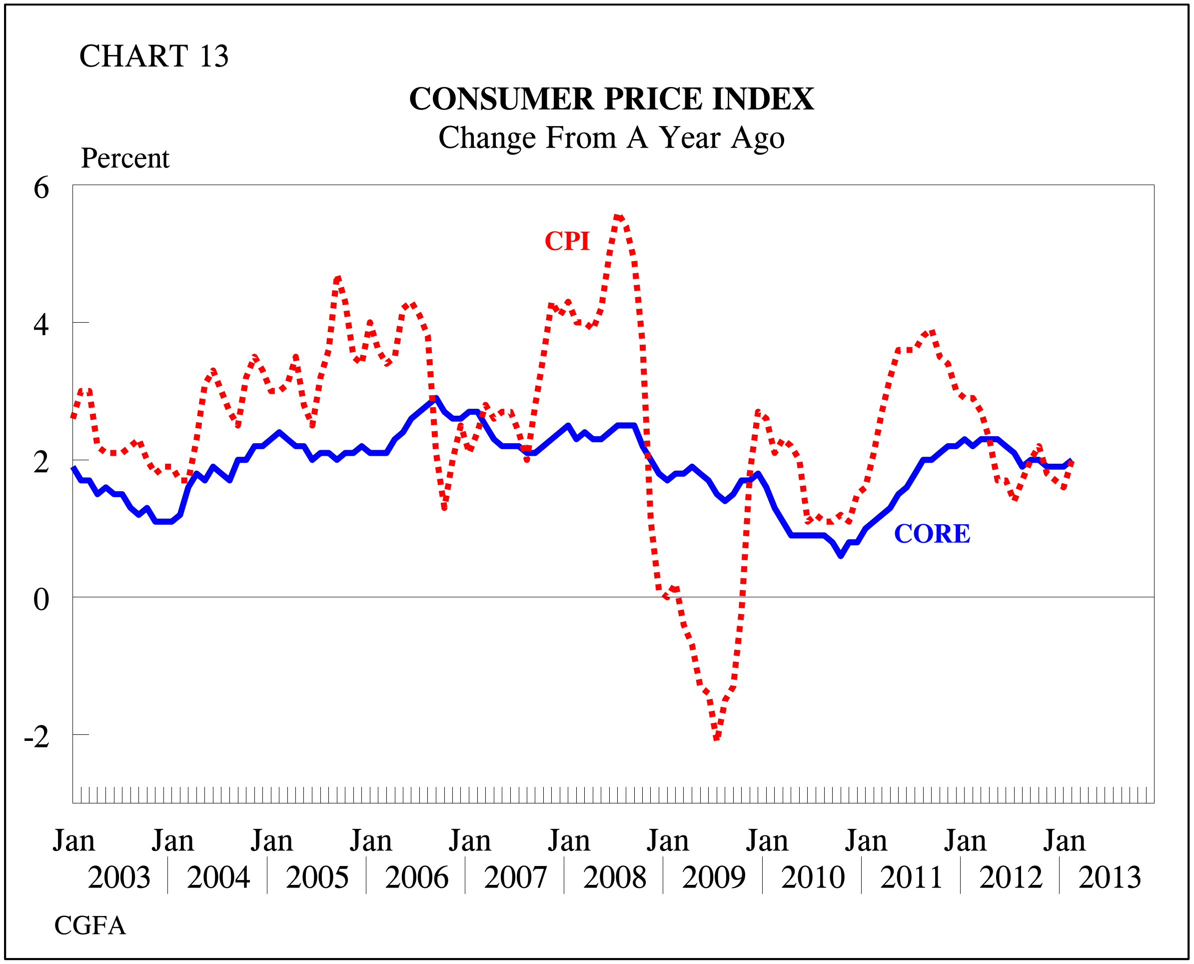
CONSUMER PRICE INDEX

- While monetary policy remains in a position to stimulate the economy, there remains the potential that inflationary pressures eventually could emerge should the economy pick up steam. Too often in the past the Federal Reserve has overstayed an easy policy stance only to have to make severe corrections later. However, such fears seem far off.

- As shown in Chart 13, consumer prices were 2.0% higher than a year earlier and the core rate, which exclude the volatile food and energy sectors and followed closely by the Fed, also was 2.0% higher than a year earlier.

- The Federal Reserve is unlikely to veer away from an overall stimulative credit policy and has indicated it would keep interest rates it can influence at current levels as long as inflation remains on target and the unemployment rate is above 6 1/2%.



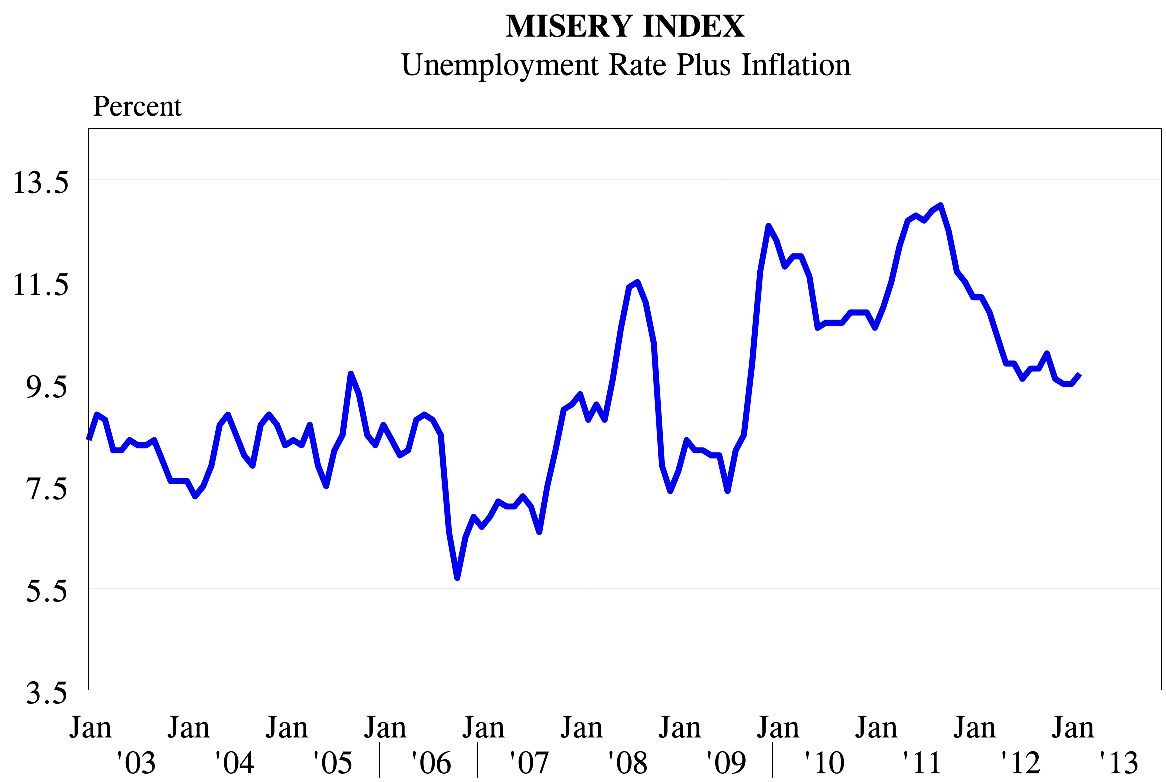
MISERY INDEX

- It has been the combination of a high unemployment rate and rising prices that has revived the concept of the "Misery Index" and raises the question as to whether you are better off today than you were before.

- As shown in Chart 14, the Misery Index was at a reading of 9.5% in December and January, rising to 9.7% in February with a 2.0% inflation rate and a 7.7% unemployment rate.

- The peak rate during the past recession was 12.7%, and prior to then held in a range of 6-8%. Thus, while improving in recent months, it is still at a relatively high level.

CHART 14



CHANGE IN REAL GDP

- Chart 15 shows three alternative forecasts of the U.S. economy in the years FY 2013 and FY 2014. The **BASELINE** shows the most likely solution with a 60% chance of occurrence. This forecast has the economy rising at a slow pace through FY 2013 followed by slightly stronger gains in FY 2014.

- A more **OPTIMISTIC** scenario, with a 20% chance of happening, however, shows stronger gains continuing through FY 2014. (A so-called **V** shaped recovery).

- Finally a **PESSIMISTIC** alternative is provided, also with a 20% chance, which shows a decline in growth for at least one quarter followed by meager growth.

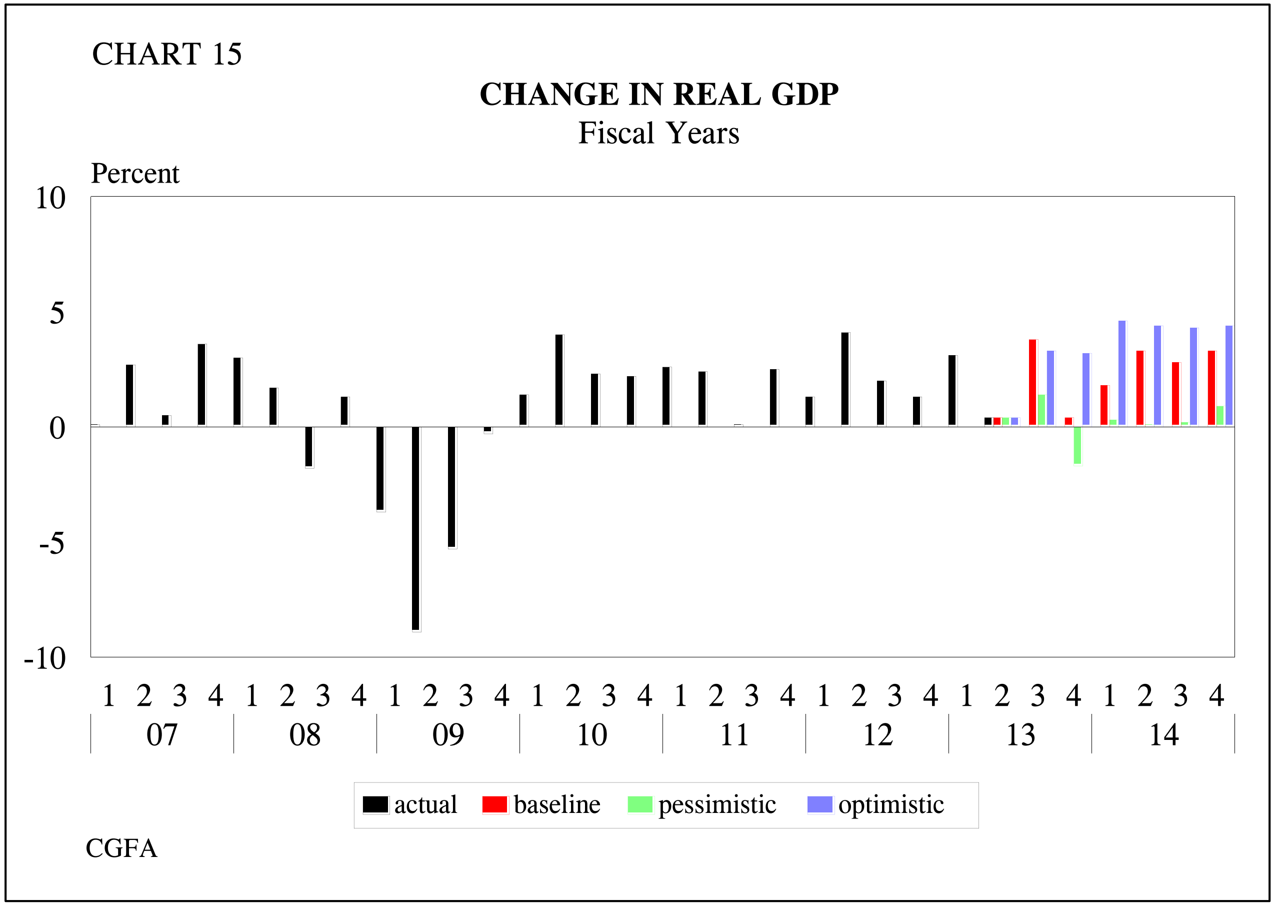


CHART 16: BASELINE FORECAST -- MARCH 2013

($ Change from prior year levels)

REAL (2005 $)	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimated	FY 2014 Estimated
Gross Domestic Product	0.2	2.2	2.0	1.9	2.4	3.1
Personal Consumption	0.1	2.6	2.0	1.9	2.3	2.6
Durable	2.8	7.6	6.6	7.8	4.9	5.3
Nondurable	0.7	2.7	1.2	1.2	2.3	1.9
Services	-0.5	1.8	1.6	1.2	1.8	2.4
Fixed Investment	-6.7	10.0	9.3	5.4	8.5	10.6
Exports	2.8	9.2	4.8	2.2	4.4	5.2
Imports	0.0	10.0	3.2	1.0	4.5	5.2
Government	3.0	-1.7	-2.9	-0.9	-2.1	-0.2
Federal	5.6	1.0	-3.5	-2.7	-2.1	-1.8
State & Local	1.3	-3.4	-2.5	-0.9	-0.7	0.5
OTHER MEASURES						
Personal Income (Current $)	-1.3	5.5	3.6	3.3	4.2	4.9
Personal Consumption (Current $)	1.4	4.6	4.4	3.3	3.5	4.1
Before Tax Profits (Current $)	30.8	13.9	7.7	1.9	0.8	2.6
Consumer Prices	1.0	2.0	2.9	1.7	1.5	1.6
Unemployment Rate (Average)	9.7	9.3	8.6	7.9	7.6	7.0

CHART 17: ILLINOIS FORECASTS

Calendar Years	2009 Actual	2010 Actual	2011 Actual	2012 Estimated	2013 Estimated	2014 Estimated
Total Employment (Ths)	5,656.8	5,613.2	5,665.4	5,700.0	5,762.6	5,845.2
% Change	-4.9	-0.8	0.9	0.6	1.1	1.4
Population (Ths)	12,802.1	12,841.2	12,861.4	12,877.7	12,900.2	12,931.7
% Change	0.4	0.3	0.2	0.1	0.8	0.2
Personal Income (Bil $)	522.9	539.7	562.6	580.2	591.8	617.9
% Change	-5.6	3.2	4.2	3.2	2.0	4.4
OTHER MEASURES						
Private Housing Starts	10.9	10.9	11.3	13.8	19.2	24.4
Unemployment Rate Avg.	10.0	10.5	9.8	8.8	8.3	7.9

SOURCE: Global Insight March 2013