

State of Illinois Forecast Report

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State Economic Outlook

January 2006

Illinois

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SUMMARY

The Illinois economy finally began recovering from the recession at the beginning of 2005. After a strong first half of the year, however, growth has slowed in recent months and lags well behind the U.S. average. The state must still generate 188,000 jobs to return to its pre-recession peak. Such service industries as education/healthcare, financial services and leisure/hospitality drive growth, though industries that depend on the flow of goods such as wholesale trade and transportation have also begun to rebound. Manufacturing payrolls have stabilized. Accordingly, the jobless rate has been falling throughout the year and currently stands at 5.3%. Given the weak pace of Illinois's labor market recovery, the outlook has been revised downward. Employment will reach its pre-recession peak slightly later than was anticipated earlier- by the second half of 2008. Over the long term, Illinois will remain a below-average performing economy due primarily to its sub-par demographic trends and concentration of slow growing and secularly declining industries. Service-producing industries, a more efficient and smaller manufacturing core and transportation/distribution industries will drive the modest pace of growth.

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RECENT PERFORMANCE

- The Illinois economy expanded throughout 2005 although the pace of growth slowed in recent months and, as seen in the chart below, the pace of expansion has consistently lagged the U.S. pace. Payroll employment bottomed out at the end of 2003 but only in 2005 did the economy gain some momentum. During the 12 months ending in November, Illinois generated about 66,000 on net. However, it still has to create 188,000 jobs to return to its pre-recession peak.

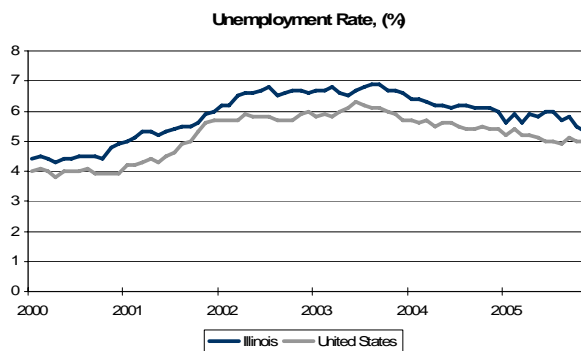
- Despite only a modest pace of recovery, the unemployment rate has declined by 160 basis points since peaking in 2003. Most recently, joblessness in the state stood at 5.3%, equal to the average for the Midwest



Source: Bureau of Labor Statistics

region, but slightly higher than the nation average of 5.0%. Not only have more unemployed workers been reabsorbed into the workforce but job creation has been vigorous enough to draw in more new entrants as well. As a result, the estimated employment-to-population ratio has increased from 46.8% in early 2003 to 48.2% most recently. This actually compares favorably with the U.S. where the estimated employment-to-population ratio is 47.9%. The difference between the U.S. and Illinois stems from the generally higher labor force participation rate in the state compared to the U.S. as well as weaker population trends.

- Although the labor force has now fully rebounded to its pre-recession size, the population has grown by about 2%. Therefore, the labor force participation rate still remains below pre-recession levels. This is consistent with national trends.



Source: Bureau of Labor Statistics

- Such service industries as business/professional, education/healthcare, financial services and leisure/hospitality drive growth, though industries that depend on the flow of goods such as wholesale trade and transportation have begun to rebound as well. Detracting from growth are the state's retail trade and information services. For example, Sears laid off at least 500 workers from its headquarters operations, in part the result of its merger with Kmart.

Illinois Employment, Recent Performance November 2005					
	Annualized growth rate				
	3-mo	6-mo	12-mo	5 yr	10 yr
Total	0.3	0.7	1.1	-0.6	0.4
Construction	1.1	-1.2	0.3	-0.2	1.8
Manufacturing	0.0	0.6	-1.0	-4.3	-2.5
Wholesale Trade	2.0	1.3	0.9	-1.3	-0.1
Retail Trade	-1.3	-0.7	0.4	-1.0	-0.2
Transportation and Utilities	1.9	2.8	2.3	-1.1	0.3
Information	-0.3	-0.7	-1.8	-4.8	-1.7
Financial Activities	0.2	1.3	1.2	0.0	0.7
Professional and Business Services	1.3	1.9	4.3	-0.3	2.1
Education and Health Services	1.7	2.4	1.0	1.6	1.7
Leisure and Hospitality	-2.1	-0.8	2.4	1.3	1.4
Government	-0.2	1.0	0.4	0.0	0.5
	Percent				
Unemployment rate	5.5	5.7	5.8	6.1	5.4

- Only business/professional and leisure/hospitality services are creating jobs more rapidly than the nation as a whole. Public sector payrolls have trended flat over the past two years, following the large reduction in state government payrolls in 2002 and 2003. State government employment has declined by about 18,000. Most of the cuts were accomplished through early retirement and attrition, which has helped to minimize the impact. The capital has borne a high share of these cuts, losing 3,600 state government jobs.

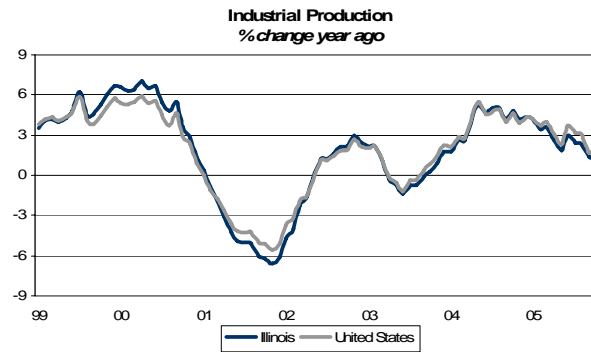
- Business services have led growth. Since much of this growth is in temporary help services, this implies that the demand for workers has improved in a variety of industries, but that businesses remain wary about committing to permanent hires. Following business services, restaurants and professional services have had the most industries have created the most jobs over the past year. However, the paths of growth for these two industries are quite different. Leisure/hospitality, which include restaurants, dipped only briefly in 2001 and have been expanding at a solid pace since. In contrast, the important professional services industry has only come to life in the past year. Since restaurant jobs are among the lowest paying and are often part time, employers are much more willing to hire more workers than employers in the highly compensated professional services industry. The types of professional service jobs that are being created are in computer systems, management and technical consulting services.

- The employment recovery has been less apparent among goods-producing industries. Although construction activity, particularly home construction, has been buoyant over the past year, there have been few payroll gains statewide in contrast to nationwide performance.

- Rising demand for such Illinois products has not resulted in a return to hiring. Illinois has lost more than 185,000 manufacturing jobs since 2000, most of which are permanently gone. Estimated production in the state is rising by 1.4% year over year boosted by strong demand for capital goods but employment has been stable on net for most of the year, and is down from a year ago. The latest Chicago purchasing managers report indicates a strong level of activity for the region's manufacturers. Production is rising for nearly two-thirds of surveyed companies, but

there are few accompanying net employment gains as continued churn and productivity improvements offset any new hiring. It should be pointed out also that despite stronger activity in the state's manufacturing sector, estimated industrial production is rising half as strongly as in the nation as a whole.

- Among Illinois's largest manufacturing industries, fabricated metals, industrial machinery, chemicals and transportation equipment, only industrial machinery and fabricated metals manufacturers have added to payrolls since the



Source: Economy.com Inc.

manufacturing downturn began in 2000. Payrolls in industrial machinery have risen by about 4,800 since bottoming out in early 2004, but are still down some 28,500 since 2000. Similarly, the 1,600 increase in fabricated metals payrolls does little to recover the loss of 27,400 jobs in the industry since the beginning of the decade.

- While manufacturing payrolls in the state as whole have been largely flat since the beginning of the year, payrolls continue to weaken in many of the state's manufacturing centers. A recent blow to the state's manufacturing concentration was in Lake County where Abbot Labs cut 700 jobs. Offsetting these losses is the addition of about 3,700 jobs in Peoria and 1,000 in Decatur since the middle of 2003, primarily in industrial machinery manufacturing.
- Agriculture conditions have been better than expected despite a drought in mid-2005 as the corn and soybean harvest was slightly ahead of the average pace. One possible explanation for the strong yields despite the drought is the increasing use of genetically modified seeds. However, since the hurricanes hit the Mississippi delta, barge traffic down the Mississippi has been affected and transportation costs have sky rocketed. As such exports have been affected. Further raising costs for farmers are higher energy costs.

- Among the state's metro areas, Chicago continues to expand at a respectable pace with growth even accelerating recently though, like the state's, its recovery is still far from complete. Moreover, its recovery remains unbalanced. Business/professional services continue to lead growth, accounting for more than two-thirds of net new jobs created in the metro division during the past 12 months – compared with less than a quarter nationally. While the majority of this new employment is in the business services part of this concentration (much of this temporary help services), growth in better quality professional service employment has picked up recently as well. Other parts of the economy contributing to Chicago's recovery include health services and restaurants.

- The Lake County-Kenosha metropolitan division continues to enjoy a healthy pace of growth just below the national average. Service industries are supporting growth countering the declining manufacturing industry. An active housing market is lending support to construction payrolls.

- Among downstate metro areas, the picture is mixed. Peoria continues to benefit from strong demand for industrial machinery; Decatur also is seeing some boost to payrolls, while recovery remains elusive for most other metro areas, especially Bloomington, Rockford and Springfield. While service industries are expanding, the decline in manufacturing payrolls is weighing on top-line performance. This dichotomy is particularly evident in Rockford though the recent decline in manufacturing payrolls is due to the temporary furlough of Chrysler workers, which ended in early December.

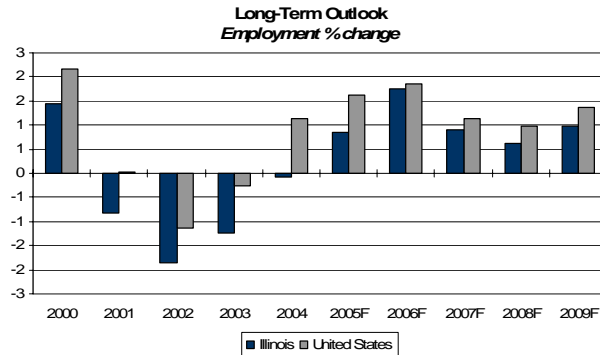
NEAR-TERM OUTLOOK

- The recovery of the Illinois economy is expected to accelerate in 2006, although the state will not be able to match the U.S. in growth as its lagging population trends will constrain the growth potential of its consumer industries. Employment growth is expected to exceed 2% on an annualized basis during the first half of 2006 after which it will decelerate. Employment will not return to its pre-recession peak until 2008; the U.S. passed this threshold at the end of 2004. Real output is expected to grow at better than 3% for most of 2006.
- Slightly less than a quarter of all net new jobs in 2006 will be in business and professional services. While some of the highest paying jobs are in this industry concentration, many of new jobs will be in temporary help services and other outsourced business services, where average earnings are fairly low. Leisure/hospitality and education/healthcare will account for about one-third of net new jobs. Wages in leisure and hospitality industries, which include restaurants, tend to be low. Educational and healthcare services in general generate well paying jobs, but also many very low paying jobs in such fields as home healthcare aides
- Growth will lag national trends in just about every industry with the exception of wholesale trade and manufacturing. As higher interest rates dampen homebuilding activity over the next year and considerable slack in the commercial market constrains a recovery in the nonresidential real estate market, construction payrolls are expected to fall, but less sharply than in the nation, since over building has not occurred in the state as in some parts of the nation.
- Near-term manufacturing activity will remain buoyant as order growth is rising for more than two-thirds of companies surveyed for the Chicago purchasing managers index, while at the same time, inventories are low. The outlook for industrial machinery is optimistic for at least the next year as the global economy strengthens and domestic capital spending increases. In November new order for machinery were 13% higher than a year earlier.

- Such state manufacturers as Illinois Tool Works and Deere reported much stronger sales growth for the fourth quarter than anticipated and have revised higher their expectations for 2006. Caterpillar enjoys record revenues and profits boosted in particular by strong machinery and engine sales. Strong orders have enabled Caterpillar to remain highly profitable despite the fact that it is paying surcharges on steel and higher transportation costs. Capacity bottlenecks suggest that some additional expansion could occur in central Illinois, although, at the same time, higher material costs could stymie payroll additions and the quest for efficiency improvements is unrelenting. Caterpillar has been relocating many workers to the Peoria area. However, the risk of over expanding may limit the amount of investment that is done.

LONG-TERM OUTLOOK: POSITIVE FACTORS

- The state will continue to diversify into service-producing industries while nurturing its more efficient and smaller traditional manufacturing core. Chicago will continue to develop as the transportation/distribution and financial services center for the Midwest. The best growth prospects for downstate are found in agriculture-related projects such as food processing facilities, energy projects and distribution facilities.



Sources: BLS, Economy.com, Inc.

Business Services

- Business and professional services are expected to drive growth and indeed be the strongest growing industry growth in coming years, accounting for 27% of all net new jobs to be created in the state in the next five years. Most of the growth will take place in northern Illinois, where Chicago nurtures a vast array of management consulting, legal, advertising, accounting and other services. Downstate Illinois has few possibilities in developing well-paying business service jobs such as business consulting; it is more likely to attract low-end business service such as call centers, especially due to a high share of high school graduates.
- Although business and professional industries will lead growth, Illinois will lag the national pace of expansion in this cluster of industries; the pace of growth will lag the average for the second half of the 1990s as well. Growth will average 2% annually in the state over the next five years, compared to 2.4% nationwide
- Chicago's large concentration of corporate headquarters, outsourcing, the growth of the consulting industry, which serves both national and international clients; and

the growth of information technology should help boost the business and professional services industry going forward.

- Although Chicago has been losing headquarter operations over the past decade, it has also has some recent successes, which will bolster the need for business services. For example, Boeing moved its headquarters to Chicago several years ago. OfficeMax Inc., which is already based in the Chicago area (Itasca), will consolidate its headquarters operations in Naperville. The office products retailer will move 700 jobs to the area from its Shaker Heights, OH retail headquarters. The Naperville operations will house 1,500 employees.

High technology

- In addition to business services, the success of the state's economy (particularly the Chicago metro area) will depend on the strength of its high-tech services, which include communications services, computer and data processing, and research and testing. Outside of Chicago, much of the development and activity in high-tech services is in Champaign, centered on the University of Illinois. Like business services, the expected expansion of this cluster will be more modest than during second half of the 1990s.
- Illinois's also has high exposure to telecommunications equipment manufacturing through such companies as Motorola, Tellabs, Lucent Technologies, and Andrew Corp. After enduring very difficult conditions since 2000, the industry has enjoyed a bit of a turnaround over the past year thanks to stronger business spending and sustained consumer spending. Motorola, for example, has benefited from strong sales of its cell phones.
- Longer term, the information technology industries that will benefit include telecom equipment as well as network hardware and software. In addition, businesses in a variety of industries will look to IT companies to help improve efficiencies. Tech companies that are able to meet the needs of Illinois's vast manufacturing base will be most successful. However, investment will be slower and more selective than during the 1990s. Companies will also continue to face global competitive pres-

asures as well as competition from other tech centers in the nation. In a rebound, Chicago's tech companies will not duplicate the growth of the 1990s, and it is unclear whether the current restructuring efforts will be sufficient and successful.

- A promising area of high-tech growth for state is life sciences, nurtured at such institutions as Northwestern University, University of Illinois, Fermi National Accelerator Laboratory and Argonne National Laboratory. Development at universities and other research institutions often evolves into commercial applications through partnerships with businesses. Northwestern University recently completed a new nanofabrication facility, which could lead to the development of man-made soft tissue, and a life sciences building for biologists and doctors to perform biomedical research. The governor earmarked \$64 million to build the Advanced Chemical Technology Laboratory at the University of Illinois Chicago, which will allow for the creation of an interdisciplinary Institute of Environmental Science and Policy. The University of Chicago's Howard T. Ricketts Laboratory is proposed for construction on Argonne National Laboratory's DuPage County campus. Funded by the National Institute of Allergy and Infectious Diseases, the Ricketts Laboratory is one of nine regional biocontainment laboratories that the National Institutes of Health plan to fund for the study of organisms important to national biodefense efforts as well as those causing emerging infectious diseases.

- Work on the \$73.5 million Post Genomic Institute at the University of Illinois in Urbana-Champaign is also under way, and is due to be completed in 2006. The University of Illinois, in partnership with the U.S. Dept. of Defense, plans to research and develop the next stage of the Internet at the park.

- In downstate, a number of public/private initiatives, such as Heartland Partnership, Peoria NEXT and Peoria Regional BioCollaborative have been initiated. The Peoria Regional BioCollaborative initiative is a consortium that includes the area's hospitals, universities, the National Center for Agricultural Utilization Research and Caterpillar, designed to foster the growth of the local biotech industry. Caterpillar's Tech Center and Ag Lab are developing an exoskeleton. For example, plans for two high tech incubators are on the table.

Tourism and conventions

- Tourism and business visitors are important to the state's economy, particularly to Chicago, through tourist attractions, conventions and gaming. Through November 2005, the state's hotel occupancy rate of 63% is highest since 2000, according to Smith Travel Research. This has helped support growth in room revenues, which are highest since 2000 and have risen by 10% year to date. Similarly, Chicago's hotel occupancy rate has reached 66% year to date and room revenues have risen by 11%.
- The lower dollar has spurred more inflows of international tourists, which made up 15% of all passengers arriving at O'Hare International Airport in 2004; the number of international travelers increased by 17% in 2004, following a modest 4% increase in 2003. Through October 2005 total passenger travel is up only modestly while the number of international travelers has increased by more than 7%. Cargo tonnage is up by 3%.
- Stronger travel activity is spurring a new wave of downtown Chicago hotel construction. At least 15 projects are on the drawing boards, which would increase downtown inventory by 10%. The increase in luxury space, in particular, will likely heat up competition. Some developers plan condo space above floors designated for hotels.
- The convention business was not as strong as other indicators of tourism activity in 2005, but booking are higher for 2006 and Chicago will benefit somewhat from the transfer of convention business from New Orleans. The three conventions to make the move are the National School Boards Association with 13,000 delegates, the American Academy of Orthopedic Surgeons with 28,000 delegates, and the Society of Thoracic Surgeons with 5,000 expected attendees. These three conventions alone generate an impact of about \$100 million for the city.
- To bolster the convention business longer term, Chicago's McCormick Place is undergoing an \$880 million expansion, which will be completed in 2008. The expan-

sion will add 600,000 sf of exhibit space. According to local estimates, the project will have an \$8.4 billion economic impact on the economy and created 21,000 jobs.

- Casinos are also an important element of tourism in Illinois. Gaming activity approached the end of 2005 on a strong note. November revenues were 9% higher than a year earlier for Illinois's nine casinos, which have benefited from the sun setting of a temporary tax increase at the end of August 2005. A bill that expands gaming in the state remains dormant. The proposal includes 1) an increase the number of casino licenses, with one city owned facility in Chicago and three other new licenses in for the suburbs of Chicago - Rockford, Waukegan, and Des Plaines; 2) an increase in the number of gaming positions for the existing operators to 2,000 from 1,200 (including a significant percentage located in their land based facilities; and 3) slots at racetracks.
- The Illinois House recently voted recently to close the state's riverboat casinos, arguing that the benefits go to few people. The measure is unlikely to pass in the Senate, however, since the casinos produce substantial revenue use for the state's educational system. It is unlikely that the state would be willing to give up this source of revenue, which brings in \$800 million to state and local government coffers and supports 9,000 states jobs directly and as many as 50,000 indirectly. The bill will be open for consideration through May 2006.
- Tourism is an important source of revenue for central Illinois, but its economic potential is bounded by attractiveness primarily to travelers from nearby, the volume of which is bounded by downstate's weak demographic profile. Peoria has had some success in developing its convention business in recent years, which could improve further when the reconstruction of the civic center is completed. Tourism brings the area in hundreds of millions of dollars in revenue and nearly two million visitors each year. The area's attractions for both business and leisure travelers include a riverboat casino, the complementary ongoing riverfront development, minor league teams and Peoria's status as retailing center for central Illinois. Riverfront development includes numerous restaurants, retail outlets and entertainment spots.

Transportation/distribution

- Even though manufacturing is declining in the Illinois economy, its distribution and transportation network remains an Integral part of the economy to facilitate the movement of both domestic and imported goods throughout the Midwest as well as to support the state's manufacturing industries and export activities.
- Distribution, warehousing, wholesale and transportation activities make up an estimated 10% of Illinois's output and 11% of Chicago's output. Among the nation's largest metro areas only Dallas and Houston are more dependent on this cluster of industries. O'Hare International Airport is the nation's second busiest airport, after Hartsfield in Atlanta, handling about 70 million passengers annually. The airport has generated directly and indirectly 500,000 jobs.
- As the nation's fifth largest exporter, exports are crucial to the long-term prospects for the area's manufacturers, and transportation and distribution industries. Exports account for nearly half of Illinois's manufacturing output. Industrial machinery, electrical equipment, chemicals and transportation equipment make up the majority of all exports. As is the case in the entire Midwest, Canada is Illinois's largest trading partner by a large margin. Asia accounts for about one-quarter of Illinois's exports.
- Through the third quarter of 2005, exports were 15% higher than for the same period in 2004 and accounted for 6.2% of nominal output, up from a low of 5.2% in 2003. ; exports have just about returned to their pre-recession peak. Exports of machinery and fabricated metals have been particularly strong. The value of machinery exports from the state were up 24% year to date through the third quarter. Exports of fabricated metals are just about equal to their year-ago pace year to date, though there has been palpable strengthening during the past two quarters. Much of the increase is accounted for by the state's largest companies, which can sell directly to customers overseas in foreign currencies, such as Caterpillar and Deere.
- Chicago's transportation network, however, is reaching capacity and, thus the state's status as a convention, tourism and distribution center is threatened unless O'Hare is expanded or another airport is built. To this end, a \$6 billion expansion of

O'Hare was proposed, which includes enlargement to six parallel runways, and new gates. The expansion of the airport would create an estimated 195,000 jobs in the state over the next two decades. However, the plan has been challenged for years due to the changes to the area around the airport. Challenges have continued even after FAA approved the first phase of the project in September. A federal judge issued a temporary restraining order that bars the city from bulldozing homes and businesses and relocating graves. Work has nonetheless begun on a new runway. As opposition to the project remains stiff, a formal funding decision will not be made until the FAA completes a cost-benefit analysis of the plan.

- As an alternative to the expansion of O'Hare airport, or in addition to it, plans are also moving forward for a third airport in Will County, in Peotone. The proposed Abraham Lincoln National Airport will at first include a roughly 10,000-foot-long landing strip, a terminal, five gates and a road link to Illinois Highway 50. Public funds are unlikely to be used for the \$200 million project. Longer term plans include four runways and 12 gates.
- Midway Airport, Chicago's second, less congested airport has been expanding in recent years as well and has diverted a fair amount of business away from O'Hare. With the bankruptcy of ATA, Southwest has taken over ATA flights and is making Midway Airport its largest hub in the country by boosting its Chicago operations by 30%. While the expansion would be beneficial for Chicago's business community, it would likely hurt Chicago struggling carriers, United Air Lines and American Airlines, both of which have been losing market share to low-cost carriers.
- Northern Illinois also remains the nation's rail hub. Despite the corporate restructuring that eliminated the headquarter operations of Chicago and Northwest Transportation Company and Santa Fe Pacific Corp., a large portion of the operations have remained in Illinois. Southwestern Illinois, as part of the bi-state St. Louis region, is the second largest rail center in the U.S. The region is served by nine trunk-line railroads, with more than 40 rail lines radiating to all parts of North America.
- Chicago's rail hub handles more than 37,500 rail cars daily. Almost three-quarters of national rail freight passes through Chicago and much of the physical plant re-

mains in Chicago. However, like the air network, rail congestion could divert traffic to other hubs, such as Memphis, TN.

- Intermodal traffic is the fastest growing part of the rail industry as most railway yards have been converted to handle intermodal traffic. A number of intermodal terminals have been built in recent years in Chicago, Rockford and Davenport (Rock Island). The Quad City Railport serves as a truck-rail transfer yard and is planned to be the largest in the Midwest outside of Chicago; it will also hold a container storage yard and a maintenance facility. The developers have also planned a rail-served industrial park in the area.

- CSX Transportation Inc. is planning a major expansion of its freight operations in the Chicago area, a move that would generate hundreds of new jobs for the area. CSX is eyeing sites in either the far south suburbs, Northwest Indiana or both. The railroad may build two freight centers—one in Indiana to serve CSX's main route to New York and one in the south suburbs to serve its routes to the Southeast and Florida. The company may instead opt to build a single massive hub. Illinois may have the edge due to a new tax-increment financing program for rail yards, which allows developers to divert property tax increases on new yards to cover their infrastructure costs. Each new intermodal terminal would create an estimated 200 to 300 railroad jobs, plus perhaps 500 to 800 additional jobs in equipment leasing, maintenance, trucking and other businesses.

- The recently passed federal transportation bill will also enhance Chicago's infrastructure. In addition to road and bridge projects, funding is included for a project dubbed CREATE, which involves the reconfiguration of freight railroad lines and road intersections to reduce bottlenecks. The \$100 million provided, however, is only the initial cost of the \$1.5 billion cost of this undertaking. The bill also clears the way for two extensions of the commuter railroad and the Chicago Transit Authority's Circle line. Over the five-year life of the bill, the state is expected to get \$1.5 billion more than it did in the prior six-year highway measure. The bills will provide work not only for the construction industry, but for various consultants and engineers. According to Illinois's senators, 24,000 new state jobs could be generated by the projects.

- In addition to the above projects, the Dan Ryan Expressway is undergoing a \$600 million reconstruction project that will include an additional lane in each direction, a reconfigured Skyway interchange and reconstructed ramps.
- Illinois supports a huge distribution industry anchored by Chicago's transportation infrastructure. Much of the industrial development in recent years has occurred in Will County, where land is more plentiful and cheaper than in the city of Chicago itself. Warehouse and distribution facilities are cropping up as companies, in trying to improve the efficiency of their operations have been consolidating their warehouse facilities around the county's intermodal facilities, such as the facilities in Joliet. According to the Chicago Area Transportation Study, intermodal activity is expected to grow by 7.5% per annum over the next 20 years in the area.
- Downstate Illinois is benefiting from the addition of a number of new distribution centers as well. For example, Krispy Kreme opened an 187,000 sf manufacturing and distribution center in Effingham. The company chose the area due to easy access to I-57 and I-70. The new plant also attracted one of its suppliers, Oracle Packaging to supply donut boxes. PETSMART will build a new 1 million sf distribution center in Ottawa and bring 214 new jobs to the area. The state granted the company a package of incentives. In southern Illinois, the Route 13 Growth Corridor, named for the state highway that runs east-west from the Ohio River almost to the Mississippi River, is being formed. Distribution activities will become increasingly more prominent in the area due to proximity to three interstates. For example, Circuit City recently opened a 700,000 sf distribution center in Marion with expansion potential to 1 million sf.
- Southwestern Illinois is developing its logistics industry. Gateway Commerce Center in Madison County is being developed by Tri-Star Communities. Not yet fully completed, the Center is planned to have 4.7 million completed sf of industrial space when finished. Companies such as Dial, Hershey Foods, Buske Lines Inc., Unilever Home and Personal Care, Lanter and Flying J Inc. have recently opened or will open distribution facilities in the area.

Education

- Other service-based industries that will support growth in the state include health-care facilities and educational institutions. This group of industries is expected to generate more than one-fifth of all net new jobs in the state over the next five years. The University of Illinois-Champaign, Illinois State University in Bloomington and South Eastern Illinois University will provide long-term stability to the downstate economy. Chicago also supports a number of universities including Northwestern the University of Chicago, the University of Illinois in Chicago and Loyola, but they are not as vital to the Chicagoland economy as they are to downstate. With the school-age population rising, downstate universities will likely be able to increase enrollment throughout the current decade. In addition to providing direct educational services, the universities also spur new avenues of growth through spin-off from university research.

Healthcare

- Healthcare will support growth throughout the state as the population ages. This will be a driver of growth in downstate, in particular. While the share of employment in healthcare in the state as a whole is slightly lower than the national average, at 10.5%, it is much higher than average in Kankakee, Peoria, Rockford and Springfield. However, growth will lag the national average primarily due to Illinois's relatively weaker population trends.

Agriculture

- The outlook for Illinois's large agricultural sector is fairly optimistic as U.S. agriculture has a decidedly positive long-term outlook. Despite the strong competition from agricultural powerhouses Brazil, Argentina, India and China, U.S. farmers will benefit from a growing global economy. Trade agreements will open new markets for agricultural commodities.
- In addition, the combination of high oil prices and the prospect of the passage of new energy incentives have increased interest in renewable fuels, such as ethanol and biodiesel. Developing alternative energy sources, including renewable sources

that are eligible for tax breaks, are expanding markets for agricultural products. High oil prices are making ethanol and biodiesel production more economically viable.

- Illinois leads the nation in ethanol production from corn. The high price of oil has been a boon for the state's ethanol makers such as Archer Daniels Midland and Adkins Energy. Ethanol sales are up 10% compared to a year ago and profit margins are rising. Demand for ethanol powered SUV's, for example, is surging. As many as six new plants are being added in the state, doubling the current number and current ones are expanding capacity. However, ethanol is usually more expensive than gasoline and once gas prices begin to fall, demand for ethanol will likely slip leading to potential over supply of the fuel.
- Illinois stands to benefit from increased demand for biodiesel made from soybeans. The Illinois Soybean Association will serve as the first major retail outlet for biodiesel in Illinois. Biodiesel is becoming the fuel of choice among Illinois farmers. If all agriculture operations in Illinois used a 2% mix of biodiesel fuel, it would require two million bushels of soybeans, and it would take 18 million bushels of soybeans if the state's service stations used a 2% biodiesel mix. Increased biodiesel usage would have a modest impact on soybean prices.
- Farm subsidies will remain an integral component of U.S. agriculture. The ballooning budget deficit could result in a reduction in subsidies down the road. Not only could farmers see cutbacks in obvious expendable programs, such as conservation set-asides, but farmers could actually see sharp cuts in both price supports and insurance. Last spring's budget resolution required Congress to find \$3 billion in savings over the next five years from agricultural programs.
- The House and Senate have yet to reconcile proposed cuts in agricultural spending. The Senate passed a bill that would cut direct, marketing loan and counter-cyclical payments to producers by 2.5% and reduce conservation spending for a total of \$3 billion, while the House passed only a 1% reduction in payments to farmers.

Coal

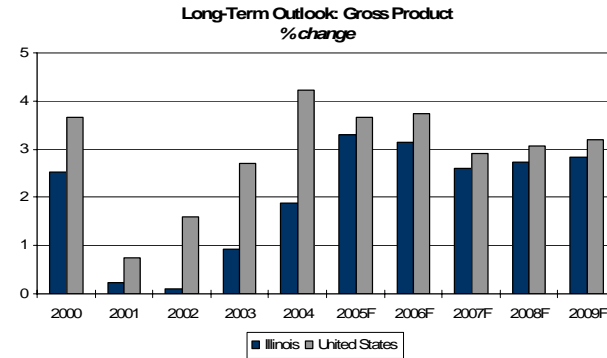
- The state's coal industry is poised to make a comeback, stoked by the demand for affordable electricity and the rising price of other fuels. Many plants and mines have been resurrected as states attempt to keep electricity prices low, and boost energy security by offering an alternative to foreign oil and gas. Recent studies show the Illinois Basin is on the verge of a major upswing in demand because of the amount of new scrubbing going online to meet sulfur emission limits.
- Illinois leads the nation with ten proposed coal-fired plants that would create eight gigawatts of new power capacity. While all these proposals are a positive for the region, it can take seven to ten years for a coal power plant to go from planning to construction, with legal and public protests as additional hindrances.
- Three coal gasification plants currently are being proposed in the state. Steelhead is developing the Southern Illinois Clean Energy Center in Williamson County, which will be a coal gasification production facility for electricity and substitute natural gas. The project has been modernized from a conventional power plant and will eventually use 2.8 million tons of Illinois coal per year. Gov. Blagojevich is investing \$2.5 million in this project that will create 400 construction jobs, almost 100 full-time and nearly 300 part-time jobs. Two other projects to make electric power or chemicals from coal have also been proposed, one in Williamson County and a second near Taylorville in Christian County.
- In addition, Illinois and Indiana will bid together to attracting the \$1 billion FutureGen project to the Illinois Coal Basin. The Memorandum of Understanding between Illinois Gov. Rod R. Blagojevich and Indiana Gov. Mitch Daniels states that Illinois would be ideal host for the federally supported FutureGen project – the near-zero emissions power plant that will also produce hydrogen fuel and allow capture and possible use of carbon dioxide. Through the agreement, Indiana supports Illinois' application to site the state-of-the-art, public-private electric generating facility in Illinois, while Illinois supports carbon dioxide sequestration projects related to FutureGen in Indiana. An ongoing collaboration over the past two years will continue to develop sequestration in Indiana, Illinois and Kentucky to ensure that FutureGen

can meet its near-zero emissions goal. The FutureGen Industrial Alliance, an industrial consortium, was recently designated by the U.S. Department of Energy (DOE) to choose a site for what is being described as the coal-fueled power plant of tomorrow. The Alliance and DOE will launch the site selection effort in 2006, start construction within three years and make the plant operational by 2012. Illinois and Indiana are competing with 14 other states for the plant.

LONG-TERM OUTLOOK: NEGATIVE FACTORS

- Illinois will remain a below-average performing economy due primarily to its sub-par demographic trends and mix of industries despite its high diversity (see Table below). Illinois has among the most diverse of state economies but this alone does not insure a strong outlook.

- The outlook for the Illinois economy is closely tied to the outlook for the nation. This is indicated below by the systemic volatility, which measures how much of the state's employment volatility is explained by the national business cycle.



According to Economy.com, 96% of the variation in the Illinois economy is related to variations in the national economy.

- Although Illinois's business cycle closely tracks the nation's business cycle, job growth has trailed the national pace for the last 10 years. A beta higher than 1 indicates that cyclical swings have greater amplitude than the national average. Unfortunately for Illinois, that amplitude has been evident in downswings in the business cycle but not in upswings.

Employment Diversity and Volatility					
	Diversity ¹	Volatility 1995-2004			Beta ⁴
	2003-2004	Total ²	Systematic ³	Nonsystematic ³	
Illinois	0.90	107	96	4	1.03
Indiana	0.70	113	86	14	0.97
Ohio	0.86	112	95	5	1.07
Michigan	0.67	140	92	8	1.28
Wisconsin	0.75	104	98	2	1.01
Iowa	0.67	104	92	8	0.95
United States	1.00	100	100	0	1.00
Median	0.72	104	89	11	0.95

Notes:

- 1) Diversity is defined as the extent to which an state's industrial structure approximates that of the nation. The more closely the state's economy resembles the national economy, the higher the value. The diversity measure is bounded between 0 and 1. 1 means the state has the same industrial structure as the U.S., 0 means it has a totally different industrial structure than the U.S. Diversity is estimated using data for 2003 and 2004.
- 2) Total volatility is the standard deviation of an state's employment growth. This relative deviation has been indexed to the United States = 100. Volatility is estimated using data between 1995 and 2004.
- 3) Systematic fluctuation is that portion of an area's economy that is associated with national economic fluctuations. Nonsystematic volatility is that portion of an area's volatility not associated with national economic fluctuations.
- 4) Beta measures the magnitude of an area's sensitivity to national economic conditions. The U.S. average, by definition, is 1. A one percentage point increase in national employment will cause that portion of a metro area's employment base to rise by the percentage value of beta.

Headquarters

- One factor that weighs on the outlook for Illinois's business services industry has been the loss of headquarters operations in the Chicago area. Chicago's concentration of headquarters operations has decreased steadily during the past 25 years. While the metro area is still in second place after New York in terms of the number of Fortune 500 headquarters. It currently has 30 such headquarters operations. Mergers have cost Chicago the headquarters of such venerable companies as Banc One, Borg Warner, Newell Rubbermaid, Dean Foods, Morton International, Amoco, Dominick's, Waste Management Inc., Illinois Central, Ameritech, and Fort James. The number of headquarters of companies with more than 500 employees, a broader measure, has fallen every year since peaking in the late 1990s but re-

mains close to 200. The loss of headquarters goes hand-in-hand with the secular decline of manufacturing and, as such, the weakness of the Midwest economy.

Manufacturing

- Manufacturing will continue to occupy a greater than average position in the Illinois economy, but the state will have to fight to hold on to its manufacturing base. While the share of employment in manufacturing in the state as a whole is only somewhat higher than the national average, at 11.8% vs. 10.6% nationally, the share outside of Chicago is much higher, at 14.2%. About 220,000 jobs have been lost since early 1998, or 24%; this is higher than the loss of 19% nationally.
- Most of the manufacturing job cuts are permanent since they resulted in many cases from the closure of facilities. Illinois's largest manufacturing industries (industrial machinery, fabricated metals, electrical equipment and printing/publishing) are also those that have been hardest hit. Areas such as Peoria, Decatur and Davenport-Moline have particularly high exposure to these industries.
- A cyclical upturn in demand has not led to more jobs on net. While some manufacturers are beginning to take on new workers, cost cutting measures still more than offset any additions. The number of companies adding workers just barely offsets the number cutting back and cutbacks at companies cutting back tend to be larger than additions to payrolls. Manufacturers have implemented various productivity improvements that have precluded hiring and they have been particularly cautious about taking on new workers in view of high input and healthcare costs.
- Churn continues to characterize manufacturing. For example, Wrigley's will close a South Side Chicago chewing gum plant at a cost of 600 jobs and Alcoa Inc. plans to close a plastic packing plant in Wheaton that will eliminate 120 jobs in June. As a result of its acquisition by Whirlpool Corp., Maytag Corp. is expected to reduce its 1,100 workforce in Herrin. In addition, Solo Cup Co. decided not to build a 1,000 employee plant in the Southeast Side of Chicago, an expansion that had been announced in 1999 with the help of \$31 million in incentives and much fanfare. Nonetheless, with strong export growth as the dollar continues to weaken, particularly

against the yen, and productivity growth slows, manufacturers may be increasingly forced to take on new workers. The weaker dollar is also improving the competitiveness of domestic products in the U.S. market relative to imported goods.

- Even though the weaker dollar is helping to spur more exports of the state's products, many companies have yet to benefit. Smaller exporters that depend on distributors do not see the exchange rate benefits as readily, unless overseas buyers increase their orders since the distributors absorb the currency gains. Overseas buyers are unlikely to increase their orders unless the prices of imported goods, but U.S. manufacturers have little inclination to drop prices especially since they are paying more this year for raw materials.

- Illinois's manufacturers will continue to face daunting competition in the global marketplace long term. They have been forced to shift operations to lower cost regions of the world to remain competitive and the depreciating dollar does not reduce the cost advantage sufficiently to reverse this process though it may slow it. Much of the state's low value added manufacturing, with the exception of food processing industries, is likely to leave the state.

- Vehicle manufacturing is an important concentration for the state and one that faces the greatest uncertainty over the next year as vehicle sales are expected to weaken to 16 to 16.5 million units in 2006 and 2007. The Chicago metro division retains significant exposure to ailing Ford Motor Company. The Chicago assembly plant, which employs 2,600 directly and 1,400 at an adjacent supplier park, is not expected to be targeted in the restructuring move to be announced at the beginning of 2006. In fact, the plant will likely pick up new models as production is moved from other plants. A \$400-million overhaul completed in 2004 enables the plant to build as many as eight models. The models currently assembled at the plant, the Ford Five Hundred and Mercury Montego sedans as well as the hybrid Ford Freestyle, have not been selling well. Ford still plans to build a Mercury version of the Freestyle at the Chicago plant in late 2006 or early 2007. If Ford does not shift new models to the plant, its viability could be in question. Meanwhile, DaimlerChrysler is expanding and reconfiguring its Belvidere plant to produce models from the Dodge and Jeep lines. The plant recently added 1,100 workers though this did not

involve new hires but rather transfers from other plants. The 2007 Jeep Compass will be built at the plant on the same production line as the 2007 Dodge Caliber, which began production in January 2006. The plant will be adding a second shift to build both the Caliber and Compass, which will mean 600 new jobs.

- Meanwhile the Mitsubishi operations in Normal, which went through a traumatic downsizing in 2004, could see a brighter future since Mitsubishi may use the plant to build a new model. At one time, the plant was threatened with complete closure as Mitsubishi sales plummeted in the U.S.
- Some new auto related expansions are occurring as well. For example, auto parts maker Pollmann North America Inc. expects to triple the size of its workforce in the Chicago area over the next two years. However, such expansions will be insufficient to offset the continued decline in the auto parts industry – the result of import competition, the loss of market share for domestic manufacturers and pressures from automakers.
- Illinois's pharmaceuticals industry, headed by Abbott Labs and Baxter International, has not escaped the restructuring that has thinned the ranks of workers in other industries. Both companies have cut their operations in the states by thousands of workers. However, Abbott still plans to spend more than \$450 million over the next several years to expand manufacturing facilities and build new operations to support future products in its development pipeline.

Airlines

- Illinois's important air transport industry is in flux as its airlines struggle under the weight of over capacity in the airline industry, competition from low-cost carriers such as Southwest, high jet fuel costs and the legacy costs. Ongoing difficulties face Illinois's largest air carriers. Both United Airlines and American Airlines, O'Hare's largest carriers, have cut back flights through Chicago's O'Hare International Airport, both to relieve congestion and to cut costs amid overcapacity in the industry. United Airlines continues to seek ways in which to emerge from bank-

ruptcy. It has been operating under bankruptcy protection since December 2002. United employs about 15,400 workers in the Chicago metro area.

- The airline has renegotiated its union contracts and lowered labor expenses. The airline plans further cuts to maintenance spending, airport operations, sales and distribution, from call centers, fuel consumption and from its regional carriers. The company decided to shed its employee pension plans, transferring its pension assets and liabilities to the federal Pension Benefit Guaranty Corp. The airline is expected to emerge from bankruptcy in January.

Financial services

- Financial services, which employ nearly 7% of the state's workforce and 8% of Chicago's workforce, will continue to be among the state's core industries, although the growth will continue to lag the national pace of expansion, as key components of Chicago's concentration (insurance, exchanges and banks) face various challenges. Commercial banks have increased payrolls by only 5% since 2000, compared to 15% nationally.
- Commercial banks will benefit from stronger business loan demand, but this boost could be offset by weaker loan demand for homes and vehicles. Financial services are expected to expand more weakly in the state than nationwide over the forecast horizon, constrained also by weaker population trends.
- Chicago's commodities exchanges are in flux, though the industry has had some successes in recent years and employment is up nearly 2,500 in recent years. The Chicago Board of Exchange (CBOE), the oldest U.S. options exchange, is vying with its chief rival, the all-electronic International Securities Exchange Inc. for the title of largest U.S. options market. The hybrid open-outcry/electronic trading model is working well and could help the CBOE regain business lost to ISE in recent years. The exchange is now considering demutualization. The Chicago Board of Trade (CBOT) itself migrated to a new electronic trading platform and to a new clearing link with the Chicago Mercantile Exchange (CME), the nation's largest futures exchange. The two exchanges have been cooperating, particularly after the

2004 launch of a deal in which the CME's clearing division processes derivatives trades for the CBOT. CBOT went public in October with a highly successful IPO. Chicago Mercantile Exchange recently approached CBOT about a potential partnership. A combined CME and CBOT would become by far the world's largest derivatives exchange. At the same time, some infrastructure at the two exchanges, located less than a mile from each other in Chicago's financial district, would likely be consolidated. The larger risk to Chicago's exchanges stems from the need to maintain as large an employment base if all trading becomes electronic.

- The state's largest insurance companies, State Farm, Allstate, Aon and CNA Financial Corp, have restructured some of their operations and will be under further pressure in the near term now that motor vehicle and home demand is expected to slacken and due to payouts associated with the recent hurricanes. Allstate is facing a loss of market share as competitors cut prices and Aon is reorganizing its operations to cut costs. Chicago-based CNA Financial Corp. restructured its property/casualty and life operations, discontinued its variable life and annuity business and consolidating locations, and trimmed its workforce by nearly 2,000 in Chicago.
- Although Bloomington-based State Farm has been restructuring in recent years with a loss of some 1,300 jobs, no more major layoffs are expected. State Farm plans to expand its life insurance operations in Bloomington by consolidating more of its life insurance activity from other locations over the next several years. State Farm employs 15,000 workers in Bloomington.

Military

- Compared to many other parts of the nation, Illinois has a relatively low exposure to federal government spending and a low concentration of military installations with about 56,000 military personnel, or less than 1% of the employment base. Although the state's exposure to federal spending is relatively low, this also means that the state benefits less from federal government largesse. In 2004, Illinois ranked 44th in terms of prime contract awards. The dollar value of contracts amounted to 0.5% of state GSP compared to the 1.8% average for all states.

- The recently announced recommendations of the Base Closure and Realignment commission will affect Chicago's bases. Scott Air Force Base in the emerged as the big winner, gaining about 800 military and civilian jobs. The base has also benefited from \$265.3 million to expand the mission of the 932nd Airlift Wing. Meanwhile, Great Lakes Naval Training Center in North Chicago is slated to lose 2,022 jobs.

Index of Relative Business Costs								
	Labor Cost		Tax Burden		Energy Cost		Overall Index	
	Index	Rank	Index	Rank	Index	Rank		Rank
Illinois	104	22	96	29	98	16	102	22
Indiana	102	24	96	31	77	42	98	30
Ohio	102	25	107	11	95	20	102	24
Michigan	112	7	101	16	92	22	108	10
Wisconsin	105	18	114	4	88	26	103	19
Iowa	94	42	101	17	83	37	93	43

Notes:

- 1) Rank is for all states plus District of Columbia.
- 2) U.S. average = 100.
- 3) Labor Costs are measured by total earnings per employee at the 3-digit NAICS level.
- 4) Tax Burdens are measured by all taxes excluding severance, education, and hospital taxes relative to personal income.
- 5) Energy costs are measured by cents per kwh for industrial and commercial users.
- 6) In the overall Index, Labor Costs have 75% weight, Energy Costs have 15% weight, and Taxes have 10% weight.

Structural deficiencies

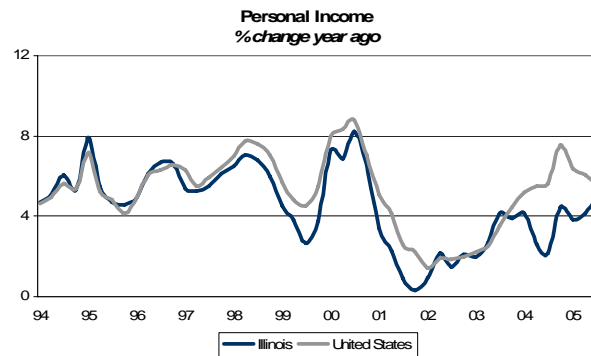
- In addition to risks and weak outlook facing some of Illinois's weaker performing industries, the state's outlook is tarnished by such structural problems as a lack of strong growth drivers, slow growing industries, uncompetitive business costs and weaker population trends. As seen above, the state costs of doing business are higher than the national average due to higher unit labor costs. This makes it difficult for the state to attract expanding companies.
- Among the state's metro areas, however, overall business costs are above average only in Chicago. Moody's Economy.com's measure of metro business costs includes an index of office rents, which is measured as rent per square foot. In par-

particular, energy costs are much higher in northern Illinois than in downstate. Labor costs are above-average in every metro area with the exception of Springfield.

INCOME

- After tracking the nation earlier in the decade, Illinois' personal income growth diverged from the national average in mid-2003. This corresponds to the late start that the state has had in jump starting its employment growth compared to the nation. However, in line with the stronger employment trends in 2004, growth has been accelerating. During the four quarters ending in third quarter of 2005 personal income grew by 4.9% for Illinois residents, compared with 5.6% nationally. However, per capita trends in the state and nation are more in line with each other, at about 4.5%.

- Adjusted for inflation, income has grown by about 2%; the state has enjoyed real income gains over the past year. Over the next year, real personal income growth is expected to remain steady, growing by about 2%.



Sources: BEA, Economy.com, Inc.

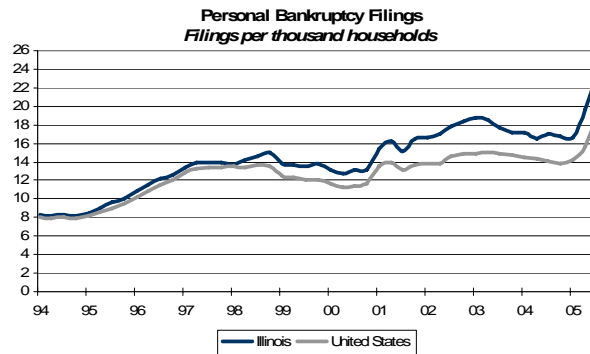
- Wages and salaries adjusted for inflation have grown by 1.5% over the past year, slightly more weakly than the national average. As the labor market continues to recuperate over the next four quarters, growth in wages and salaries will be stronger, rising in line with strengthening demand for workers by 2.6% in real terms.
- At about \$48,000, Illinois's median household income is about 4% higher than average. In the Midwest, only Minnesota ranks higher than Illinois. However, Illinois's gap had been as wide as 14% during the late 1990s. As a result, Illinois's ranking relative to other states has fallen as the state has lost high-paying jobs in financial services, high tech, manufacturing, transportation and distribution. Going forward, Illinois's household income will improve only slightly relative to the national average. While Illinois's income exceeds the national average, this is almost entirely due to the well-paying jobs in Chicagoland and Bloomington; downstate incomes in aggregate are below average.

BALANCE SHEET

- The improvement in personal balance sheets was interrupted over the past year as the change in bankruptcy law, which went into effect in mid-October and was designed to shift more households into payment plans rather than total liquidation, spurred more filing ahead of the law. As a result, 2.3% of Illinois households filed for bankruptcy in the four quarters ending with the third quarter of the year, up from 1.67% a year earlier. Due to the shift in filing, bankruptcy filings are expected to come down sharply over the next year. However, this will only be a temporary adjustment. Moody's Economy.com believes that the new law will not change filing dynamics as much as was expected when the new law was enacted. Therefore, by 2007, the filing rate will return to about 1.9% of households.

- During the 1990s, the filing rate in Illinois tracked the U.S. rate closely. However, since the mid-1990, credit quality deteriorated in the state relative to national average. Some of this could be tied to the dramatic erosion of the state manufacturing base.

- Other measures of credit quality do not indicate appreciably different behavior in the state than in the national average. The composite delinquency rate (share of loans that are past due more than 30



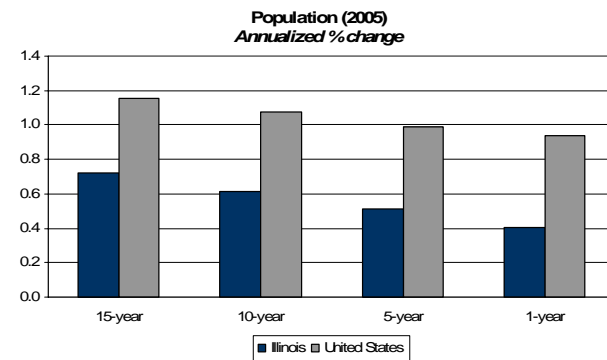
Source: Administrative Office of U.S. District Courts

days) on a variety of loans is around 2.2%, just about equal to the national rate. However, earlier in the decade, Illinois fared better on average than the nation. Delinquencies on auto loans, personal loans and revolving credit are much lower than the national average, but the delinquencies on real estate loans have trended higher in the state than in the nation as a whole. The relatively lower rate of house price appreciation in Illinois in recent years provides a partial explanation since households have been less able to draw on home equity than in other parts of the nation.

DEMOGRAPHIC TRENDS

- An important determinant of the prospects for the Illinois economy is its demographic profile, which is considerably weaker than the national average. Population trends have been weakening steadily since 1992 when they population growth stood at about 1.1%. In the year ending in July 2005, the state population grew by a paltry 0.4%, more weakly than had been expected.
- Population growth is expected to stabilize in 2006 before resuming its steady erosion in subsequent years.

- Population growth has weakened measurably in the Chicago economy in recent years—from 1% during the expansion of the 1990s to 0.6% in 2004. It is expected, however, that its population trends will improve in step with a stronger economy,



Source: BOC

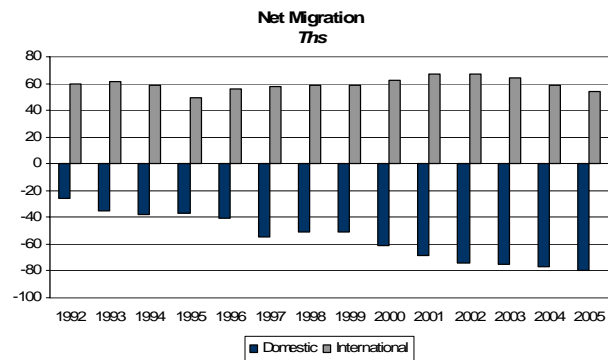
driven by less domestic out migration combined with positive net international immigration and Chicago's big city attractiveness relative to more rural parts of the state. In 2004, about 55,000 net international migrants moved into the metro area, partially offsetting the loss of 68,000 net domestic out-migrants.

- Population trends in the remainder of the state have improved slightly since the beginning of the decade. However, what this means is that its population is no longer declining but is basically flat. The impetus behind the improvement is some abatement in out-migration compared to earlier in the decade.
- Population trends differ quite a bit across metro areas in the state. Rockford and Lake County enjoy relatively strong growth of at least 1% annually. Trends have weakened in recent years in Bloomington and Springfield in line with the lack of recovery in their economies. Peoria's economy, which has enjoyed more of a recovery, is now experiencing the best population growth in 10 years, although it remains

quite modest. Most other metro areas in the state are growing at between 0.1% and 0.5% annually. The population in Decatur continues to contract. Population remains flat in rural Illinois with few drivers of growth.

- Most of the weakness in the state’s population trends can be explained by persistent net domestic out-migration, which has been steadily rising – from about 50,000 in 1991 to nearly 80,000 in 2005. Fortunately, Illinois has been able to attract international migrants to partially offset this drag on the state’s economy. However, as the state economy has been slow recovery from the recession, net international in migration has weakened as well – from 67,000 at the start of the decade, to less than 54,000 in 2005. Most international migrants settle in the Chicago metro area. Metro and county level data are not yet available for 2005, but the changes in 2005 suggest that population trends in downstate are likely to look weaker as well.

- The table below of domestic flows is compiled on the basis of IRS tax returns, and, therefore, the numbers are somewhat different than the estimates derived by the Bureau of Census. Illinois’s aging residents continue to flock to Florida and Arizona.



Source: BOC

Other popular midwestern destinations of out-migrants are Indiana and Wisconsin, which enjoy lower costs of living. While Illinois attracts many migrants from such states as California and Texas, on net the state loses residents to the South and West Coast. Indeed, there are just a few states with which Illinois enjoys a net in-flow including Ohio, Nebraska, North Dakota, Delaware and New Jersey.

Migration Flows - Illinois					
Into Illinois	Number of Migrants	Median Income	From Illinois	Number of Migrants	Median Income
California	13,464	26,355	Florida	22,186	26,252
Indiana	13,228	22,037	Indiana	21,651	24,982
Missouri	12,115	23,635	Wisconsin	17,460	26,589
Wisconsin	10,856	23,423	California	16,208	25,042
Florida	10,079	20,325	Missouri	14,201	22,391
Texas	9,951	22,733	Texas	14,123	23,993
Michigan	7,920	22,020	Arizona	9,332	25,301
Iowa	7,025	21,040	Michigan	8,588	28,286
Ohio	6,415	24,541	Iowa	7,972	19,598
New York	5,049	27,652	Georgia	6,820	21,928
Inmigration	169,816	21,700	Outmigration	230,572	24,472
			Net Migration	-60,756	-2,772

Note:
Net Migration: Number of Migrants is the net flow of migrants.
Income is the difference between the weighted average of the median income of in-migrants and that of out-migrants.
Source: Moody's Economy.com calculation from 2004 IRS data

- Over the long term, Illinois is expected to lose many residents as baby boomers retire and move to warmer climates. Population growth will gradually weaken to only 0.4% by the end of the decade as a result. Population growth will be maintained at a slightly higher pace in such areas as Bloomington, Chicago, Kankakee and Rockford. Elsewhere, population growth will gradually cease altogether. Decatur is expected to lose population over the next ten years. Weak population trends secularly reduce demand for a variety of population-based industries such as housing and retail trade.
- The age structure of the population is another important determinant of labor force and consumer trends in the state. Nationally, the median age of the population is 35.3 years. Illinois's median age is lower, at 34.7, but there are large differences across metro areas. Median population is below the state average in Bloomington, Champaign and Chicago and higher than average in every other metro area. Median age is highest in Decatur, Peoria and Springfield. A higher median is indicative of a larger elderly population, implying weaker demand for housing and consumer goods, a low birth rate and weaker labor force trends.

Population Profile	% of total Population, 2003	
	Illinois	US
Age 5-19	21.8	21.1
Age 25-44	29.3	29.0
Age 45-64	22.9	23.6
Over age 65	12.0	12.4
Birth Rate, (# of Births per 1000)	14.5	13.8
Death Rate, (# of Births per 1000)	8.6	8.5
Median Age (2000 Census)	34.7	35.3

- Another demographic determinant of Illinois's outlook is the education attainment of the population. According to Census 2000 data, 26.1% of Illinois residents age 25 or older hold bachelor's degrees or higher. This compares with 24.4% nationally, though the high educational attainment levels in northern Illinois explain the above-average rank for the most part. The metro areas that have a high dependence on manufacturing all have below average educational attainment levels. Davenport, Decatur, Kankakee, Peoria and Rockford all have below average educational attainment. Champaign and Bloomington have the best educated labor forces. While college graduation rates are low, every metro area in the state boasts an above average share of high school graduates.

RESIDENTIAL REAL ESTATE

- Through November the state's housing market has remained buoyant with sales likely to set a new record for the fourth year running. Home sales have increased by 2.2%, to nearly 170,000. However, some signs of slowing are emerging. November sales were slightly off from the year earlier pace and inventory is rising. The market will weaken further in 2006 as higher interest rates tamp down demand.
- New homebuilding activity is steady. Permitting is slightly higher than the 2004 pace, representing the fifth consecutive year of increases. As demand weakens over the next year, homebuilding activity will shift downward as well. Moody's Economy.com expects single-family permitting activity to decline by 13% next year. Multifamily building will weaken as well but less sharply.
- Low interest rates, strong demand for second homes and investment purchases as well as some contribution from the improving economy have fueled Chicago's housing market, but sales in November fell short of the year ago pace by 3% and other signs point to a weakening market. In addition, inventories of unsold homes are rising, prices are being cut and builders are offering incentives to spur sales. The condominium market remains strong but growth in sales and prices has decelerated from the double-digit pace of recent years to high single-digits.
- Although Chicago's home sales for the whole year will be ahead of the 2004 total, a decline is expected in 2006. New homebuilding will weaken as well in line with statewide trends.
- The Chicago market has become highly overpriced, according to Moody's Economy.com calculations. Driven by speculative buying, Chicago's housing market is at risk of a correction; the gap between house price growth and income gains has widened. Since 2000, the median existing home has increased in price by 70%, slightly more than the U.S. average. The median single-family home price was \$267,000 in November, up 11% over the 12-month period. Meanwhile, household income in Chicago has grown by just 3%. The market is at risk of a correction once

as higher interest rates erode demand. However, our baseline forecast calls for a deceleration in price growth over the next year rather than an outright decline.

- As a result of the soaring prices, affordability has fallen sharply. A median earning household can afford to purchase an existing home costing 7% more than the median. While affordability is lowest among midwestern metro areas, Chicago's housing market remains far more affordable than that of most other large metro areas in the Northeast and West Coast. Declining affordability in the metro area has pushed homebuyers further out from the city.
- Condo conversions have diminished the stock of apartments in downtown. The decline in the apartment stock combined with falling home affordability in the Chicago area is allowing the apartment market to improve. The tightening apartment market is also allowing rents to rise again and the need for concessions is diminishing. New apartment construction is improving as well. Permitting is nearly 50% higher than in 2004.
- The housing market in downstate differs considerably from Chicago's juiced up activity. Homebuilding activity is weakening this year having reached a cyclical peak last year. Only the Champaign area is seeing stronger activity in both its single-family and multifamily markets. Weaker building activity will continue over the next few years.
- In every downstate metro area affordability is much higher than average. In most metro areas in the state, a household earning the median income can afford to purchase a home that costs about twice as much as the median priced existing home. What has kept affordability high has been the weak rate of house price appreciation in the metro areas in downstate Illinois, which have averaged about 4%. Only in Champaign, consistent with stronger building activity, is home price appreciation strong, at 8%. Even this stronger rate, however, compares very unfavorably to national trends. High housing affordability will act as a buffer against rising interest rates, since it will take longer to price potential homebuyers out of the market. As a result of high affordability, easy credit and policies that encourage homeownership, homeownership in the state has continued to increase throughout the last decade

and is higher than the national average. Nearly 73% of Illinois households owned their own homes in 2004, compared to 69% nationally, and 64% ten years ago. However, homeownership is higher in every other Midwestern state. The expensive Chicago market as well as Chicago's large immigrant community is behind this result. The homeownership rate in Chicago is 70%.

- The high affordability combined with unfavorable demographic trends limit the prospects for the multifamily market in downstate. Nearly 80% of the state's multifamily permitting is in the Chicago area. Downstate construction has improved this year relative to a year ago but this follows a sharp decline in 2004. Activity was stronger only in Champaign and Peoria in 2005.

COMMERCIAL REAL ESTATE CONDITIONS

- Activity in Illinois's commercial real estate market remains subdued. Demand and construction of industrial space, stores and hotels has remained modest, while the office market remains over supplied despite the creation of an estimated 24,000 office-using jobs in 2005.
- In particular, the Chicago office market remains weak as most activity is generated by the movement of tenants from older buildings to newer buildings rather than the creation of net new jobs. Moreover, more space is coming on line with the construction of two new downtown office buildings under way. In addition, plans for yet a new tower have been submitted. Meanwhile, there is no new office construction in the suburbs though improving absorption reflects the firming employment situation in the metro area. Conditions may begin to firm up over the next year with the creation of an estimated 33,500 office-using jobs in the state.
- Chicago's industrial vacancy rate has fallen below 10%, below the average of metropolitan areas. Larger warehouses are being building along Route 80, where more land is available and cheaper. The development of industrial space is disproportionately centered along I-55 in Will County although demand seems to be lagging behind. And more space is being added. The area has evolved into a warehousing and distribution hub for the region, thanks to consolidation of smaller warehouses and the presence of several intermodal facilities.
- Most new industrial development involves warehousing and distribution rather than manufacturing. The city is expanding tax-increment financed planned manufacturing districts in an effort to promote industrial development; otherwise, these areas would compete with more lucrative residential and retail development. According to a recent study, 300 manufacturers in the city plan to expand in the next three to five years, but lack enough space at their current locations. Such government programs can do little to stem the inevitable decline of manufacturing in the city, however, and will likely have only a marginal effect. With the possibility of a new airport in Peotone, Will County's commercial real estate markets are preparing for long-term

gains. The area around the site is becoming more attractive for commercial and industrial development. The Illinois Department of Transportation's (IDOT) plans to start acquiring land for the project. Communities in the area are annexing land near the airport so that they will be able to benefit from future tax revenues. Possible development around Peotone follows a pattern of industrial space construction further from the city, in areas where land is cheap and available and exurban growth is taking place.

- Outside of Chicago, distribution activities focus on traditional old-line manufacturing and the distribution of consumer products, such as the Kmart facility in Kankakee and a 1.2 million sf Wal-Mart Stores distribution center in Spring Valley in Bureau County and the expansion of a Supervalu distribution center in Urbana. In the South, East St. Louis's distribution industry is expanding and supporting the construction of build-to-suit warehouses.
- Throughout the state retail development involves grocery stores, discount outlets and home improvement stores. The western suburbs of Chicago, for example, have seen a lot of the new development due to the availability of land there. Among recent expansions, Cabela's Inc., the hunting and fishing store, is scouting the metro area for a location. Among the areas under consideration are Hoffman Estates and an area in Kane County.
- Wal-Mart was thwarted from expanding in the city last year, but now plans forays into the outer suburbs of the metro area, betting on continued residential development. Wal-Mart has announced plans to open at least 10 new stores.
- Downtown Chicago will see more retail development also. A major redevelopment plan for a project linking the Mag Mile with River North has been proposed. A multi-level shopping mall is proposed for a block that was cleared for an office building eight years ago that was never built. Water Tower Place, also in the city, plans a \$15 million renovation this year. Urban Investment Trust, Inc. wants to build a \$40 million shopping center, anchored by a Dominick's and Lowe's on the Far South Side of Chicago. Chicago's retail industry has only begun to recover after going through progressive waves of shake-outs of weaker chains.

- Hotel construction is expected to increase over the coming year in Chicago as at least 15 projects are planned, which would increase the room supply by 10%. Some of the properties will include condominiums on the upper floors. The new activity, much of which involves high end hotels, has been spurred by improving vacancies and room revenues as well as the expansion of McCormick. However, over building is a risk.

- Considerable road construction is taking place in downstate Illinois. In particular, Routes 55, 155, 72 are being refurbished in central Illinois in the vicinity of Springfield and Routes 72, 57 and 70 in the eastern part of the state.

- The federal transportation bill that was passed in 2005 will fund \$3 billion worth of infrastructure projects in the state. In addition to the rail projects described earlier in the report, road projects include \$152 million for a new connector highway for I-80 and I-88; \$55 million for a Route 34 interchange in northern Illinois; and \$140 million for an access road for O'Hare International Airport. The bill also funds the 33-mile Prairie Parkway project, which runs through this far west suburban Fox Valley district, as well as bridges in St. Charles and Elgin and much larger bridges across the Mississippi River at East St. Louis and the Quad Cities.

FORECAST RISKS

- The outlook for the Illinois economy is for a modest rebound in output during the next few quarters. The biggest downside risk for the state are persistently elevated energy and other input costs, which would dampen the wherewithal of the state's employers to strengthen hiring despite rebounding production. The waning of the replacement cycle is also a threat to the performance of Illinois's capital goods producers.
- Restructuring domestic automotive operations could have an impact on the state, both directly through Ford's Chicago operations and the many auto parts suppliers in the state. In vehicle sales fall more than expected over the next few years, more Illinois operations would be at stake.
- The possibility that United Airlines does not successfully restructure also creates problems for the state in terms of lost jobs and a reduction of services at O'Hare airport. . If the airline shuts down, this would have very serious consequences for Chicago, since United is one of the main tenants at O'Hare, business travel is integral to the health of Chicago's industries and many thousands of jobs could be affected.
- An improved outlook for the state, particularly northern Illinois, depends on reenergizing former drivers of growth including business travel and conventions, telecommunications, high tech industries, and financial and business services.
- Chicago's large business services industry is at risk due to the loss of the headquarters operations on which this industry depends. Ultimately, Chicago is at risk of becoming not only the second city, but a second rate city as the locus of development moves more into the South and West.
- In the real estate market, Chicago's office markets remain at risk due to high vacancies and continued construction activity. A rebound in commercial real estate will lag other improvements in the economy. In particular, a rebound will depend on strengthening job growth. Chicago's housing market is at risk of a correction since

it is highly over priced. In addition, the downtown condo market is at risk of becoming overbuilt given the new wave of construction activity, some of which is speculative.

- Farm subsidies will remain an integral component of U.S. agriculture. After the current farm bill expires in 2006, lawmakers will have a hard time gathering support for increased funding given the ballooning federal budget deficit. In addition, as an increasingly smaller share of the voting population is involved in commercial agriculture, the farm lobby will lose some of its influence. Not only could farmers see cut-backs in obvious expendable programs, such as conservation set-asides, but farmers could actually see sharp cuts in both price supports and insurance. Last spring's budget resolution required Congress to find \$3 billion in savings over the next five years from agricultural programs.

- The House and Senate have yet to reconcile proposed cuts in agricultural spending. The Senate passed a bill that would cut direct, marketing loan and countercyclical payments to producers by 2.5% and reduce conservation spending for a total of \$3 billion, while the House passed only a 1% reduction in payments to farmers.

MAJOR EMPLOYERS

Rank	Employer	Industry	Employee
1	Wal-Mart Stores, Inc.	Retail Trade	39,900
2	Jewel-Osco Stores	Retail Trade	39,201
3	Advocate Health Care System	Education or Health Service	24,974
4	SBC Communications, Inc.	Information	22,400
5	Caterpillar, Inc.	Manufacturing	20,052
6	United Parcel Service, Inc.	Trans./Warehouse/Utilities	19,373
7	United Airlines, Inc.	Trans./Warehouse/Utilities	18,276
8	Motorola, Inc.	Manufacturing	18,000
9	Archdiocese of Chicago	Other Service	17,964
10	Abbott Laboratories	Manufacturing	17,333
11	Kmart Corporation	Retail Trade	16,938
12	Target Corporation	Retail Trade	16,300
13	Walgreen Company	Retail Trade	14,743
14	State Farm Insurance Company	Financial Activities	14,723
15	Dominick's Finer Foods	Retail Trade	14,000
16	Bank One Corporation	Financial Activities	13,904
17	Sears, Roebuck & Company*	Retail Trade	13,000
18	University of Illinois	State Government	12,676
19	American Airlines	Trans./Warehouse/Utilities	12,151
20	Exelon Corporation	Trans./Warehouse/Utilities	12,126
21	Northwestern University	Education or Health Service	12,125
22	University of Chicago	Education or Health Service	12,073
23	Allstate Insurance Company	Financial Activities	10,157
24	ABN Amro Bank N.V.	Financial Activities	9,686
25	Rush-Presbyterian-St. Luke's Medical Center	Education or Health Service	8,593

Source: Crain's Chicago Business, 2003

*2002 figure

DEMOGRAPHIC PROFILE

Illinois Demographic Profile

Indicator	Units	Illinois	U.S.	Rank	Year
Households					
Households, % change (1999-2004)	Ann. % change	0.6	1.0	37	2004
Population w/ B.S. degree or higher	% of adult population	26.1	24.4	15	2000
Median household income	\$	46,132	44,389	18	2004
<i>% change year ago</i>		2.2	2.5	29	2004
Population					
Per capita income	\$	34,725	33,041	14	2004
<i>% change year ago</i>		2.8	4.9	49	2004
Population	thousands	12,714	293,655	5	2004
<i>% change year ago</i>		0.5	1.0	36	2004
White	%	73.5	75.1	35	2000
Black or African American	%	15.1	12.3	14	2000
Hispanic	%	12.3	12.6	10	2000
Asian	%	3.5	3.8	10	2000
Net domestic migration, rate	Persons/th. pop.	-5.6	0.0	48	2004
International migration, rate	Persons/th. pop.	5.0	4.2	9	2004
Poverty rate	%	10.7	12.4	22	1999
Median age	years	34.7	35.3	13	2000
Household Cost Indexes					
Housing affordability index	Index: U.S.=100	139.0	144.4	33	2004
Median existing home price	\$ ths	196.8	193.5	15	2004
<i>% change year ago</i>		-5.02	-3.79	32	2004

HISTORY

Illinois

Source: BEA, BLS, BOC, Economy.com

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Compound Growth	
												94-04	99-04
Gross State Product (Bil. Constant\$)	371.9	382.1	395.5	425.0	439.8	452.8	464.3	465.3	465.8	470.1	479.0	2.6	1.1
<i>% Change</i>	5.8	2.7	3.5	7.5	3.5	3.0	2.5	0.2	0.1	0.9	1.9		
Total Employment (Ths.)	5,462.8	5,593.1	5,684.4	5,771.7	5,898.2	5,958.0	6,044.5	5,995.3	5,883.8	5,810.8	5,806.1	0.6	-0.5
<i>% Change</i>	2.5	2.4	1.6	1.5	2.2	1.0	1.5	-0.8	-1.9	-1.2	-0.1		
Manufacturing	878.0	893.6	898.7	902.1	905.8	882.1	870.6	815.4	754.0	714.1	697.7	-2.3	-4.6
Chemical, Energy, Plastic, & Rubber	118.8	121.5	119.9	121.5	124.4	124.3	124.4	119.3	115.0	110.8	107.3	-1.0	-2.9
Electronic & Electrical	124.0	129.6	130.9	131.9	129.6	117.0	114.6	106.4	91.7	81.8	76.1	-4.8	-8.2
Food, Beverages, & Tobacco	94.9	95.7	95.0	94.6	93.5	93.8	93.4	93.2	91.5	88.1	86.2	-0.9	-1.7
Furniture & Miscellaneous	63.2	61.3	59.0	58.6	58.4	58.4	58.2	54.6	52.4	51.1	50.0	-2.3	-3.0
Metals & Mining-Based	187.3	194.6	191.9	193.8	199.0	195.5	194.7	177.7	161.0	153.6	151.8	-2.1	-4.9
Textile, Fiber, & Printing	123.7	124.1	121.4	120.3	118.4	115.5	114.0	107.6	100.0	95.5	92.4	-2.9	-4.4
Construction	215.2	223.0	229.1	235.4	244.8	255.9	269.7	277.3	277.5	274.8	267.2	2.2	0.9
Services	1,884.2	1,959.8	2,009.1	2,064.2	2,153.0	2,200.4	2,255.6	2,259.9	2,246.1	2,247.1	2,289.1	2.0	0.8
Professional & Business Services	633.3	665.8	688.8	729.4	781.5	812.9	842.6	820.6	791.5	777.4	795.8	2.3	-0.4
Education & Health Services	604.0	621.0	635.6	642.7	661.4	664.9	681.1	697.1	710.6	718.0	728.2	1.9	1.8
Leisure & Hospitality	428.6	449.6	457.0	461.0	472.8	479.1	486.6	491.1	492.0	497.3	506.3	1.7	1.1
Other Services	218.2	223.5	227.7	231.1	237.4	243.4	245.3	251.1	252.0	254.4	258.8	1.7	1.2
Wholesale/Retail Trade	910.8	935.0	940.0	946.1	947.9	958.8	971.4	959.9	939.0	928.3	924.1	0.1	-0.7
Wholesale	296.1	305.5	305.2	307.2	313.6	317.1	320.8	316.5	307.3	303.0	299.7	0.1	-1.1
Retail	614.7	629.5	634.8	638.9	634.3	641.8	650.6	643.4	631.7	625.3	624.4	0.2	-0.5
Transportation & Utilities	257.6	253.5	258.5	262.0	268.7	271.4	276.1	271.7	258.7	254.5	254.9	-0.1	-1.2
Information	138.5	138.9	143.0	147.3	150.2	147.9	147.6	147.2	137.2	127.5	120.8	-1.4	-4.0
Finance	377.7	376.6	383.7	394.4	400.7	405.6	404.1	403.6	400.6	401.8	399.5	0.6	-0.3
Government	786.0	798.6	809.3	808.2	816.0	825.5	839.7	850.4	861.1	853.2	843.4	0.7	0.4
Natural Resources & Mining	14.8	13.9	12.7	11.8	11.1	10.6	9.9	10.0	9.7	9.4	9.2	-4.6	-2.8
Total High-Tech Employment	247.6	257.8	262.3	271.9	278.8	274.6	286.2	281.1	255.2	238.9	232.8	-0.6	-3.3
<i>% Change</i>	4.8	4.1	1.7	3.7	2.5	-1.5	4.2	-1.8	-9.2	-6.4	-2.6		
Labor Force (Ths.)	6,121.3	6,178.8	6,239.0	6,290.8	6,330.7	6,429.5	6,471.8	6,473.0	6,378.6	6,361.5	6,395.8	0.4	-0.1
<i>% Change</i>	0.8	0.9	1.0	0.8	0.6	1.6	0.7	0.0	-1.5	-0.3	0.5		
Unemployment Rate (%)	5.8	5.2	5.3	4.8	4.5	4.5	4.5	5.4	6.6	6.7	6.2	Average Level	
												5.4	5.6
Personal Income (Bil. \$)	285.5	301.7	320.1	337.9	360.1	373.4	400.4	407.3	414.0	427.2	441.5	Compound Growth	
<i>% Change</i>	5.3	5.7	6.1	5.6	6.6	3.7	7.2	1.7	1.7	3.2	3.3	4.5	3.4
Median Household Income (\$)	35,081.0	38,071.0	39,554.0	41,283.0	43,178.0	46,330.0	46,064.0	46,171.0	42,710.0	45,153.0	46,132.0	2.8	-0.1
<i>% Change</i>	6.8	8.5	3.9	4.4	4.6	7.3	-0.6	0.2	-7.5	5.7	2.2		
Wages & Salaries (Bil. \$)	163.8	173.4	182.7	195.4	209.7	222.1	236.0	240.3	240.1	242.6	253.1	4.5	2.6
<i>% Change</i>	4.9	5.9	5.3	7.0	7.3	5.9	6.2	1.8	-0.1	1.1	4.3		

HISTORY

Illinois

Source: BEA, BLS, BOC, Economy.com

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Compound Growth	
												94-04	99-04
Population (Ths.)	11,912.6	12,008.4	12,102.0	12,185.7	12,271.8	12,359.0	12,439.7	12,518.4	12,585.2	12,649.1	12,713.6	0.7	0.6
<i>% Change</i>	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.5	0.5	0.5		
Age: <5	922.7	923.4	913.4	903.6	890.5	881.7	877.1	879.0	881.9	881.2	881.6	-0.5	0.0
Age: 5-19	2,515.5	2,561.4	2,614.9	2,658.8	2,689.6	2,715.8	2,732.7	2,746.9	2,754.6	2,761.8	2,773.3	1.0	0.4
Age: 20-24	840.1	825.0	810.7	808.7	818.0	833.5	855.8	865.3	875.0	888.1	892.8	0.6	1.4
Age: 25-44	3,835.3	3,847.8	3,858.8	3,850.7	3,841.9	3,823.4	3,800.8	3,773.6	3,739.3	3,703.4	3,672.1	-0.4	-0.8
Age: 45-64	2,308.0	2,352.4	2,403.1	2,464.0	2,531.0	2,605.3	2,671.1	2,746.2	2,824.4	2,898.5	2,971.9	2.6	2.7
Age: >65	1,491.0	1,498.4	1,501.1	1,499.9	1,500.8	1,499.3	1,502.1	1,507.4	1,510.0	1,516.1	1,521.9	0.2	0.3
Households (Ths.)	4,389.4	4,427.2	4,464.3	4,497.7	4,532.1	4,566.9	4,599.3	4,628.4	4,653.1	4,676.7	4,700.6	0.7	0.6
<i>% Change</i>	0.9	0.9	0.8	0.7	0.8	0.8	0.7	0.6	0.5	0.5	0.5		
Retail Sales (Bil. \$)	103.1	110.1	115.2	121.1	125.6	134.9	141.4	145.1	147.7	152.3	163.2	4.7	3.9
<i>% Change</i>	9.1	6.7	4.7	5.1	3.8	7.4	4.9	2.6	1.7	3.2	7.1		
Personal Bankruptcies (#)	36,531	38,502	48,307	59,219	63,624	64,310	60,909	67,961	77,658	84,983	80,565	8.2	4.6
<i>% Change</i>	-5.1	5.4	25.5	22.6	7.4	1.1	-5.3	11.6	14.3	9.4	-5.2		
Total Residential Permits (Ths.)	49.3	47.5	49.6	46.3	48.0	54.0	51.9	54.8	61.0	62.2	59.8	1.9	2.1
<i>% Change</i>	10.2	-3.7	4.5	-6.6	3.6	12.5	-3.8	5.6	11.2	2.0	-4.0		
Single-family Permits	38.5	35.4	35.9	32.8	36.2	39.2	37.8	39.4	42.5	45.4	46.2	1.8	3.3
Multifamily Permits	10.8	12.1	13.7	13.5	11.8	14.7	14.1	15.5	18.4	16.8	13.5	2.3	-1.7
Median Existing Home Price (Ths. \$)	112.4	115.6	120.2	125.6	131.9	136.7	141.7	155.0	169.7	179.7	196.8	5.8	7.6
<i>% Change</i>	2.1	2.9	3.9	4.5	5.1	3.7	3.6	9.4	9.5	5.9	9.5		
Affordability Index	138.5	134.5	137.7	141.9	152.1	152.0	141.6	136.4	139.9	146.4	139.0	0.0	-1.8

FORECAST

Illinois

Source: BEA, BLS, BOC, Economy.com

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Compound Growth	
											04-09	04-14
Gross State Product (Bil. Constant\$)	494.8	510.4	523.7	538.0	553.3	568.2	583.1	597.7	611.9	626.1	2.9	2.7
<i>% Change</i>	3.3	3.1	2.6	2.7	2.8	2.7	2.6	2.5	2.4	2.3		
Total Employment (Ths.)	5,855.5	5,955.9	6,012.8	6,051.6	6,111.1	6,165.1	6,216.7	6,264.2	6,306.1	6,347.0	1.0	0.9
<i>% Change</i>	0.8	1.7	1.0	0.6	1.0	0.9	0.8	0.8	0.7	0.6		
Manufacturing	691.5	693.0	689.9	684.9	684.5	683.8	682.4	681.2	679.4	677.6	-0.4	-0.3
Chemical, Energy, Plastic, & Rubber	106.1	105.9	105.4	104.8	104.7	104.5	104.2	103.9	103.5	103.2	-0.5	-0.4
Electronic & Electrical	73.9	74.0	73.3	72.4	72.4	72.4	72.2	72.1	72.0	71.9	-1.0	-0.6
Food, Beverages, & Tobacco	84.9	85.5	85.9	86.1	86.5	86.9	87.2	87.4	87.5	87.6	0.1	0.2
Furniture & Miscellaneous	49.7	49.1	48.7	48.3	48.1	47.9	47.7	47.6	47.4	47.2	-0.8	-0.6
Metals & Mining-Based	151.5	150.6	149.6	147.7	147.2	146.6	145.8	145.1	144.3	143.6	-0.6	-0.6
Textile, Fiber, & Printing	90.0	90.8	90.5	90.1	90.2	90.2	90.1	90.1	89.9	89.8	-0.5	-0.3
Construction	267.1	265.3	263.4	263.2	265.5	267.8	270.3	272.8	275.1	276.4	-0.1	0.3
Services	2,338.6	2,399.5	2,443.7	2,479.6	2,524.0	2,568.1	2,610.7	2,651.2	2,689.4	2,727.8	2.0	1.8
Professional & Business Services	821.4	848.6	862.7	873.2	889.7	906.4	923.4	939.1	954.6	970.3	2.3	2.0
Education & Health Services	735.0	751.8	765.5	777.9	791.5	804.4	816.3	828.6	839.6	850.5	1.7	1.6
Leisure & Hospitality	522.7	535.5	548.7	559.6	571.0	582.7	593.9	604.3	614.3	624.2	2.4	2.1
Other Services	259.5	263.5	266.7	269.0	271.8	274.6	277.0	279.1	281.0	282.8	1.0	0.9
Wholesale/Retail Trade	925.0	941.4	952.6	954.5	958.9	963.1	967.8	971.6	974.7	977.9	0.7	0.6
Wholesale	300.7	309.2	313.2	315.2	318.9	322.4	325.6	328.7	331.5	334.2	1.3	1.1
Retail	624.3	632.2	639.4	639.3	640.0	640.7	642.1	642.9	643.2	643.7	0.5	0.3
Transportation & Utilities	259.7	263.1	263.1	262.6	263.1	263.5	263.7	263.3	262.7	262.1	0.6	0.3
Information	117.3	118.0	118.9	119.8	120.5	121.2	121.9	122.6	123.4	124.1	0.0	0.3
Finance	401.9	408.4	410.7	412.4	414.9	417.0	418.7	420.3	421.2	422.6	0.8	0.6
Government	845.2	857.6	861.0	865.5	870.4	871.5	872.3	872.3	871.4	869.6	0.6	0.3
Natural Resources & Mining	9.2	9.6	9.4	9.3	9.2	9.1	9.1	9.0	8.9	8.8	0.0	-0.4
Total High-Tech Employment	229.9	235.5	239.1	242.1	246.3	250.6	254.9	259.2	263.3	267.5	1.1	1.4
<i>% Change</i>	-1.2	2.5	1.6	1.2	1.7	1.8	1.7	1.7	1.6	1.6		
Labor Force (Ths.)	6,473.7	6,554.4	6,619.9	6,643.8	6,671.7	6,722.8	6,778.7	6,828.5	6,873.8	6,917.5	0.8	0.8
<i>% Change</i>	1.2	1.2	1.0	0.4	0.4	0.8	0.8	0.7	0.7	0.6		
Unemployment Rate (%)	5.8	5.8	5.9	5.9	5.7	5.6	5.7	5.7	5.7	5.7	Average Level	
											5.9	5.8
Personal Income (Bil. \$)	462.5	485.5	505.7	525.4	546.7	568.2	590.1	611.8	633.3	655.0	Compound Growth	
<i>% Change</i>	4.8	5.0	4.2	3.9	4.1	3.9	3.9	3.7	3.5	3.4	4.4	4.0
Median Household Income (\$)	47,439.8	49,128.8	50,784.4	52,375.8	54,022.9	55,647.1	57,302.1	58,936.8	60,555.9	62,192.7	3.2	3.0
<i>% Change</i>	2.8	3.6	3.4	3.1	3.1	3.0	3.0	2.9	2.7	2.7		
Wages & Salaries (Bil. \$)	268.7	282.2	295.7	308.7	322.8	336.8	351.1	364.9	378.6	392.4	5.0	4.5
<i>% Change</i>	6.2	5.0	4.8	4.4	4.5	4.4	4.2	3.9	3.8	3.6		

FORECAST

Illinois											Compound Growth	
<i>Source: BEA, BLS, BOC, Economy.com</i>												
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	04-09	04-14
Population (Ths.)	12,773.1	12,833.7	12,894.2	12,952.5	13,002.6	13,049.7	13,093.4	13,120.0	13,144.3	13,168.1	0.5	0.4
<i>% Change</i>	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.2		
Age: <5	883.2	886.2	890.9	897.0	903.6	911.1	918.8	925.7	932.0	937.5	0.5	0.6
Age: 5-19	2,779.6	2,785.2	2,791.3	2,793.9	2,790.5	2,780.1	2,767.5	2,752.8	2,741.6	2,733.5	0.1	-0.1
Age: 20-24	893.2	894.2	893.2	896.1	906.7	919.1	933.3	946.0	953.2	954.4	0.3	0.7
Age: 25-44	3,644.9	3,617.9	3,593.1	3,571.6	3,547.2	3,533.6	3,528.8	3,524.4	3,527.0	3,533.1	-0.7	-0.4
Age: 45-64	3,044.9	3,115.2	3,178.0	3,221.4	3,266.9	3,305.2	3,335.1	3,317.6	3,304.4	3,291.4	1.9	1.0
Age: >65	1,527.2	1,534.9	1,547.7	1,572.5	1,587.8	1,600.7	1,609.9	1,653.5	1,686.1	1,718.0	0.9	1.2
Households (Ths.)	4,729.6	4,760.4	4,789.6	4,817.7	4,844.6	4,871.8	4,898.6	4,919.5	4,939.9	4,958.7	0.6	0.5
<i>% Change</i>	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.4	0.4	0.4		
Retail Sales (Bil. \$)	173.3	181.4	190.2	198.3	206.7	214.3	221.9	229.6	237.6	245.8	4.8	4.2
<i>% Change</i>	6.2	4.6	4.9	4.3	4.2	3.7	3.5	3.5	3.5	3.5		
Personal Bankruptcies (#)	84,756	77,473	81,690	88,473	92,334	96,833	103,864	108,052	111,037	113,863	2.8	3.5
<i>% Change</i>	5.2	-8.6	5.4	8.3	4.4	4.9	7.3	4.0	2.8	2.5		
Total Residential Permits (Ths.)	65.1	63.3	52.6	50.8	50.0	50.1	50.7	51.9	51.5	50.4	-3.5	-1.7
<i>% Change</i>	9.0	-2.8	-16.9	-3.5	-1.5	0.1	1.2	2.4	-0.9	-2.0		
Single-family Permits	47.5	47.8	39.4	36.7	36.0	35.5	35.5	36.2	36.5	36.1	-4.9	-2.5
Multifamily Permits	17.6	15.5	13.2	14.1	14.0	14.6	15.2	15.7	15.0	14.4	0.7	0.6
Median Existing Home Price (Ths. \$)	215.7	224.1	226.6	229.9	234.3	239.7	246.0	253.0	260.3	267.9	3.5	3.1
<i>% Change</i>	9.6	3.9	1.1	1.5	1.9	2.3	2.7	2.8	2.9	2.9		
Affordability Index	125.0	112.8	114.3	116.1	115.6	116.0	118.2	118.0	117.6	117.1	-3.6	-1.7

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