Commission on Government Forecasting and Accountability

MONTHLY BRIEFING FOR THE MONTH ENDED: APRIL 2013

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REVENUE

April Surprise – Revenues Skyrocket But Are They One-Time?

Jim Muschinske, Revenue Manager

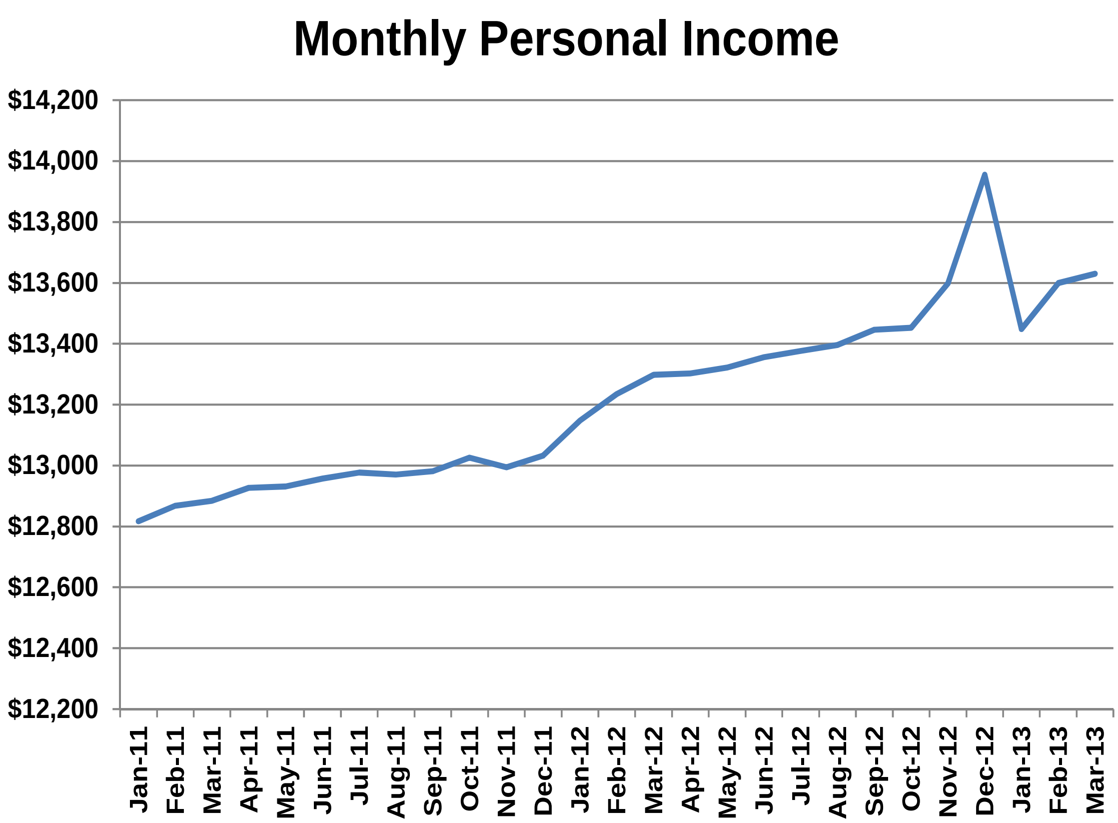
Monthly income tax revenues leaped in April, growing by $1.521 billion. The infusion of cash into the State's coffers allowed for the repayment of a voluminous amount of overdue Medicaid bills. That action subsequently generated a massive amount of federal sources over $1 billion during a single month. Adding to the monthly gain was an extra receipting day this April [which could have had the effect of pulling some of May receipts ahead into April].

For the month, gross personal income taxes grew $781 million, or $681 million net of refunds, and gross corporate income taxes gained $263 million, or $246 million net of refunds. While a component breakout [i.e. withholding, estimated, and final payments] of April's Illinois income tax receipts will not be available from the Dept. of Revenue for several weeks, preliminary Commission assumptions are that gains are strongly related to final and estimated payments stemming from actions taken by taxpayers in efforts to minimize the tax consequences of the higher 2013 federal tax rates. As such, they are not repeatable in future fiscal years, and should be viewed more in terms of a "one-time" event. As will be discussed in a following section, Illinois' employment situation is dominated by less than positive news, offering little in the way of argument for sustainable higher expectations.

Reports from other states also experiencing significant improvement peg the gains from income taxes on actions undertaken by higher income individuals as well as corporations to minimize the tax consequences of higher 2013 federal taxes. As most know, Illinois income taxes are largely based on adjusted gross figures from the federal tax return. While changes in the federal tax rates do not specifically translate to state taxes [as our own rates are applied to the taxable base], changes in taxpayer behavior do.

Basically, it's believed that individuals shifted revenues they would have routinely booked in 2013 and later, into the end of tax year 2012, thereby reducing the higher tax rates effect. Nationally, it's been reported that many wealthy individuals sold investments, even businesses and homes, to avoid higher taxes. If able, some partnerships also distributed monies prior to the higher taxes. On the corporate side, businesses made sure bonus payments were done in 2012 rather than in 2013. In addition, a number of companies were said to have accelerated income and dividends into 2012. The net action of all of those types of transactions was to cause what appears to be a "bubble" of income tax receipts.

Indeed, the following chart, comprised of the most recent data from the U.S. Bureau of Economic Analysis, clearly illustrates the spike in December personal income. It appears that a one month surge is an abnormality, and quickly returned to trend, thereby, supporting the contention that the spike was a one-time phenomenon.



Source: U.S. Bureau of Economic Analysis

Public utility taxes posted growth of $16 million in April, insurance taxes gained $5 million, and corporate franchise taxes managed a $2 million advance.

Not all the news was good for the month as sales tax continues to struggle—falling $8 million, and indicating that the consumer, who represents two-thirds of all economic activity, is still reluctant to engage and contribute meaningfully to economic growth. Inheritance tax declined $8 million in April; while cigarette tax and vehicle use tax each dipped $1 million.

Overall transfers fell $19 million in April as both riverboat transfers and other transfers each fell $10 million. Lottery transfers, however, did eke out a $1 million gain.

In addition to the month's success of income taxes, the story of April is the massive effort made on reimbursable Medicaid spending and the resulting growth of federal sources. A whopping $1.025 billion in federal receipts were captured, representing $608 million in growth. As mentioned in earlier briefings, federal sources are governed by a couple elements—authorized appropriation, available resources, and spending priorities. In April, the surge of income taxes coupled with the Comptroller's efforts to pay down the Medicaid backlog, translated into the record month. Obviously, that level of spending will dramatically slow in the remaining months of the fiscal year as appropriation limiters as well as a shift in spending priorities come into play [i.e. school aid payments, repayment of Budget Stabilization Fund, funding of supplementals].

Year to Date

Through the first ten months of the fiscal year, overall base revenues have grown $2.805 billion. Fueled by the success of April, gross personal income tax is up $1.424 billion, or $1.144 billion net of refunds, while gross corporate income tax is ahead by $676 million, or $664 million net of refunds.

Juxtaposed with income taxes however, is the disappointing performance of sales taxes. Through April, receipts are up only $54 million, or less than one-percent, illustrating that a large part of the State's revenue picture has not been contributing much to the bottom line. Neither have most other revenue sources, as the remaining tax sources combined have only grown $32 million.

Overall transfers were down $238 million to date. The falloff was due to one-time proceeds stemming from the sale of 10th riverboat license last year as well as timing related to last year's settlement of protested liquor taxes.

With the huge spike in April, federal sources are ahead of last year's pace by $1.149 billion. Again, as spending shifts toward other requirements, some of those gains will be given back over the coming months.

Despite April Surge—Caution Urged

As the Commission has spelled out in recent months, the continuing struggle of the State's employment picture, both in terms of numbers of jobs as well as types of jobs, show little sign of near term improvement. In addition, on the corporate side, business profits are expected to slow significantly.

As discussed earlier, the spring strength in income taxes has been explained as a one-time activity at the close of tax year 2012 [anticipating the higher federal taxes beginning in 2013]. In addition, on the corporate side, a number of tax changes—higher rates, 100% federal expensing, suspension/cap of Net Operating Loss, may have had the effect of altering payment timings. All of which may have come at the expense of future performance.

Despite the recent good revenue performance, one cannot dismiss Illinois' melancholy jobs performance and virtually flat consumer activity, factors that directly translate into income tax from withholding and sales tax—the two main revenue pillars of the State. Those disappointing measures coupled with an anticipated drop in corporate profits means it would be dangerous to ignore underlying realities and assume that the current good fortune will continue into the upcoming fiscal year. Economic performance and receipts are expected to again synchronize and, when they do, revenue performance is expected to return to the more modest expectations assumed earlier for FY 2014.

GENERAL FUNDS RECEIPTS: APRIL
FY 2013 vs. FY 2012
($ million)

Revenue Sources	April FY 2013	April FY 2012	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$3,145	$2,364	$781	33.0%
Corporate Income Tax (regular)	824	561	$263	46.9%
Sales Taxes	603	611	($8)	-1.3%
Public Utility Taxes (regular)	87	71	$16	22.5%
Cigarette Tax	29	30	($1)	-3.3%
Liquor Gallonage Taxes	13	13	$0	0.0%
Vehicle Use Tax	2	3	($1)	-33.3%
Inheritance Tax (Gross)	15	23	($8)	-34.8%
Insurance Taxes and Fees	53	48	$5	10.4%
Corporate Franchise Tax & Fees	15	13	$2	15.4%
Interest on State Funds & Investments	2	2	$0	0.0%
Cook County IGT	0	0	$0	N/A
Other Sources	35	35	$0	0.0%
Subtotal	$4,823	$3,774	$1,049	27.8%
Transfers				
Lottery	64	63	$1	1.6%
Riverboat transfers & receipts	17	27	($10)	-37.0%
Proceeds from Sale of 10th license	0	0	$0	N/A
Other	64	74	($10)	-13.5%
Total State Sources	$4,968	$3,938	$1,030	26.2%
Federal Sources	$1,025	$417	$608	145.8%
Total Federal & State Sources	$5,993	$4,355	$1,638	37.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($307)	($207)	($100)	48.3%
Corporate Income Tax	($115)	(98)	($17)	17.3%
Subtotal General Funds	$5,571	$4,050	$1,521	37.6%
Short-Term Borrowing	$0	$0	$0	N/A
FY'13 Backlog Payment Fund	$0	$0	$0	N/A
Tobacco Liquidation Proceeds	$0	$0	$0	N/A
Pension Contribution Fund Transfer	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$5,571	$4,050	$1,521	37.6%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-May-13

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2013 vs. FY 2012

($ million)

Revenue Sources	FY 2013	FY 2012	CHANGE FROM FY 2012	% CHANGE
State Taxes				
Personal Income Tax	$15,538	$14,114	$1,424	10.1%
Corporate Income Tax (regular)	3,031	2,355	$676	28.7%
Sales Taxes	6,057	6,003	$54	0.9%
Public Utility Taxes (regular)	852	860	($8)	-0.9%
Cigarette Tax	294	295	($1)	-0.3%
Liquor Gallonage Taxes	138	137	$1	0.7%
Vehicle Use Tax	22	24	($2)	-8.3%
Inheritance Tax (Gross)	231	195	$36	18.5%
Insurance Taxes and Fees	266	276	($10)	-3.6%
Corporate Franchise Tax & Fees	174	162	$12	7.4%
Interest on State Funds & Investments	17	17	$0	0.0%
Cook County IGT	150	150	$0	0.0%
Other Sources	337	333	$4	1.2%
Subtotal	$27,107	$24,921	$2,186	8.8%
Transfers				
Lottery	526	513	$13	2.5%
Riverboat transfers & receipts	291	291	$0	0.0%
Proceeds from Sale of 10th license	15	73	($58)	N/A
Other	465	658	($193)	-29.3%
Total State Sources	$28,404	$26,456	$1,948	7.4%
Federal Sources	$3,783	$2,634	$1,149	43.6%
Total Federal & State Sources	$32,187	$29,090	$3,097	10.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,515)	($1,235)	($280)	22.7%
Corporate Income Tax	($424)	($412)	($12)	2.9%
Subtotal General Funds	$30,248	$27,443	$2,805	10.2%
Short-Term Borrowing	$0	$0	$0	N/A
FY'13 Backlog Payment Fund Transfer	$264	$0	$264	N/A
Tobacco Liquidation Proceeds	$0	$0	$0	N/A
Pension Contribution Fund Transfer	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$275	$275	$0	0.0%
Total General Funds	$30,787	$27,718	$3,069	11.1%

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

CGFA 1-May-13

Illinois Employment and Wage Picture

Eric Noggle, Senior Revenue Analyst

In March, the Commission's monthly briefing provided an overview of the State's employment situation. This month, even more detailed job and wage information is examined. The latest figure (March 2013) from the Bureau of Labor Statistics places Illinois' seasonally adjusted unemployment rate at 9.5%, which is significantly higher than the U.S. rate of 7.6%. As shown below, Illinois' seasonally adjusted unemployment rate of 9.5% currently places Illinois as having the 2nd highest unemployment rate in the nation (or 50th overall, when including the District of Columbia). Only Nevada has a higher rate, just above Illinois at 9.7%.

March 2013 Unemployment Rates for States and Historical Highs/Lows
Seasonally Adjusted

State	Mar. 2013 Rate	Rate Ranking	Historical High Date	Historical High Rate	Historical Low Date	Historical Low Rate
Alabama	4.2	4	Dec. 1982	14.3	Apr. 2007	3.2
Alaska	6.2	16	June 1986	11.5	Apr. 2007	5.9
Arizona	7.9	33	Jan. 1983	11.6	July 2007	3.5
Arkansas	7.2	29	July 1983	10.1	Nov. 2000	4.0
California	9.4	48	Oct. 2010	12.4	Jan. 2001	4.7
Colorado	7.1	25	Nov. 2010	9.1	Jan. 2001	2.6
Connecticut	8.0	36	Dec. 2010	9.4	Oct. 2000	2.1
Delaware	7.3	30	Dec. 1976	9.3	Feb. 1989	2.8
District of Columbia	8.5	42	Feb. 1983	11.6	May 1989	4.8
Florida	7.5	32	Mar. 2010	11.4	Aug. 2006	3.3
Georgia	8.4	40	Jan. 2010	10.4	Dec. 2000	3.3
Hawaii	5.1	10	Jan. 1976	9.9	Dec. 2006	2.3
Idaho	6.2	16	Feb. 1983	9.6	Mar. 2007	2.7
Illinois	**9.5**	**50**	**Feb. 1983**	**12.9**	**Feb. 1999**	**4.2**
Indiana	8.7	44	Jan. 1983	12.7	Apr. 1999	2.6
Iowa	4.9	6	Mar. 1983	8.6	Oct. 1999	2.5
Kansas	5.6	13	Aug. 2009	7.5	Apr. 1979	3.0
Kentucky	8.0	36	Jan. 1983	12.0	June 2000	4.1
Louisiana	6.2	16	Nov. 1986	12.8	July 2006	3.6
Maine	7.1	25	Jan. 1977	9.0	Jan. 2001	3.1
Maryland	6.6	21	Nov. 1982	8.4	Feb. 2008	3.3
Massachusetts	6.4	19	Jan. 1976	11.1	Oct. 2000	2.6
Michigan	8.5	42	Dec. 1982	16.8	Mar. 2000	3.3
Minnesota	5.4	12	Dec. 1982	9.1	Mar. 1999	2.5
Mississippi	9.4	48	Apr. 1983	13.5	Apr. 2001	4.9
Missouri	6.7	22	Feb. 1983	10.6	Jan. 2000	2.8
Montana	5.6	13	Mar. 1983	8.8	Dec. 2006	3.1
Nebraska	3.8	2	Feb. 1983	6.7	Feb. 1998	2.2
Nevada	9.7	51	Oct. 2010	14.0	Apr. 2000	3.8
New Hampshire	5.7	15	Sept. 1992	7.6	May 1987	2.1
New Jersey	9.0	45	Dec. 1976	10.7	July 2000	3.6
New Mexico	6.9	23	Mar. 1983	10.0	June 2007	3.4
New York	8.2	38	Nov. 1976	10.3	Apr. 1988	4.0
North Carolina	9.2	47	Feb. 2010	11.3	Mar. 1999	3.1
North Dakota	3.3	1	Feb. 1983	6.8	July 2001	2.6
Ohio	7.1	25	Jan. 1983	13.9	Jan. 2001	3.8
Oklahoma	5.0	9	June 1983	9.2	Dec. 2000	2.8
Oregon	8.2	38	Jan. 1983	12.1	Feb. 1995	4.7
Pennsylvania	7.9	33	Mar. 1983	12.9	Mar. 2000	4.0
Rhode Island	9.1	46	Feb. 2010	11.9	July 1988	2.9
South Carolina	8.4	40	Jan. 2010	12.0	Mar. 1998	3.2
South Dakota	4.3	5	Feb. 1983	6.0	Mar. 2000	2.5
Tennessee	7.9	33	Jan. 1983	12.8	May 2000	3.9
Texas	6.4	19	Nov. 1986	9.3	Jan. 2001	4.2
Utah	4.9	6	Mar. 1983	10.0	Mar. 2007	2.4
Vermont	4.1	3	Jan. 1976	8.8	Apr. 2000	2.4
Virginia	5.3	11	Jan. 1983	7.8	Dec. 2000	2.2
Washington	7.3	30	Nov. 1982	12.2	May 2007	4.4
West Virginia	7.0	24	Mar. 1983	18.1	Apr. 2008	3.9
Wisconsin	7.1	25	Jan. 1983	11.5	Feb. 2000	3.0
Wyoming	4.9	6	Jan. 1987	9.1	Apr. 1979	2.3

Note: The March 2013 figures are preliminary. Rates shown are a percentage of the labor force. Data refer to place of residence. Series begin in January 1976. Historical highs and lows show the most recent month that a rate was recorded in the event of multiple occurrences. Estimates for at least the latest five years are subject to revision early in the following calendar year.
Source: http://www.bls.gov/web/laus/lauhsthl.htm

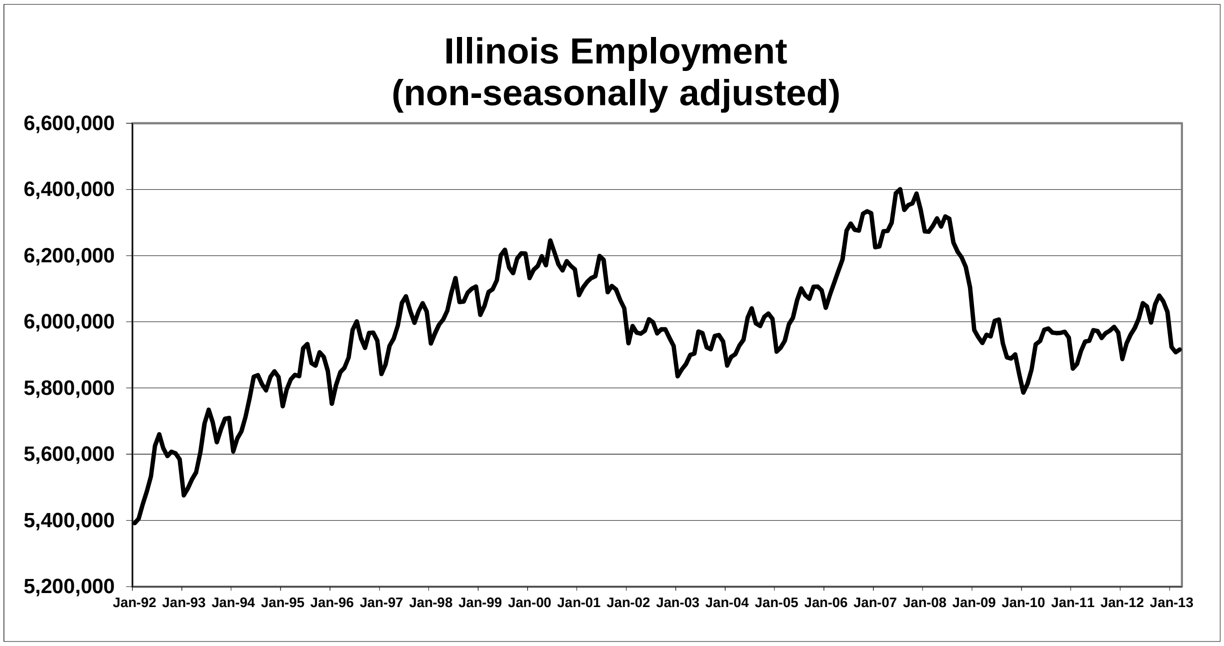
The latest employment data (non-farm, seasonally adjusted) show that there were approximately 5.8 million Illinois residents employed in March 2013. This is an improvement of 0.6% over March 2012 and 3.4% higher when compared to three years ago. However, the number of jobs this month is still 3.4% below the levels of five years ago in March 2008. This 5-year percentage change ranks Illinois as 33rd in the nation in terms of a state's employment change between March 2008 and March 2013. The national rankings can be seen below.

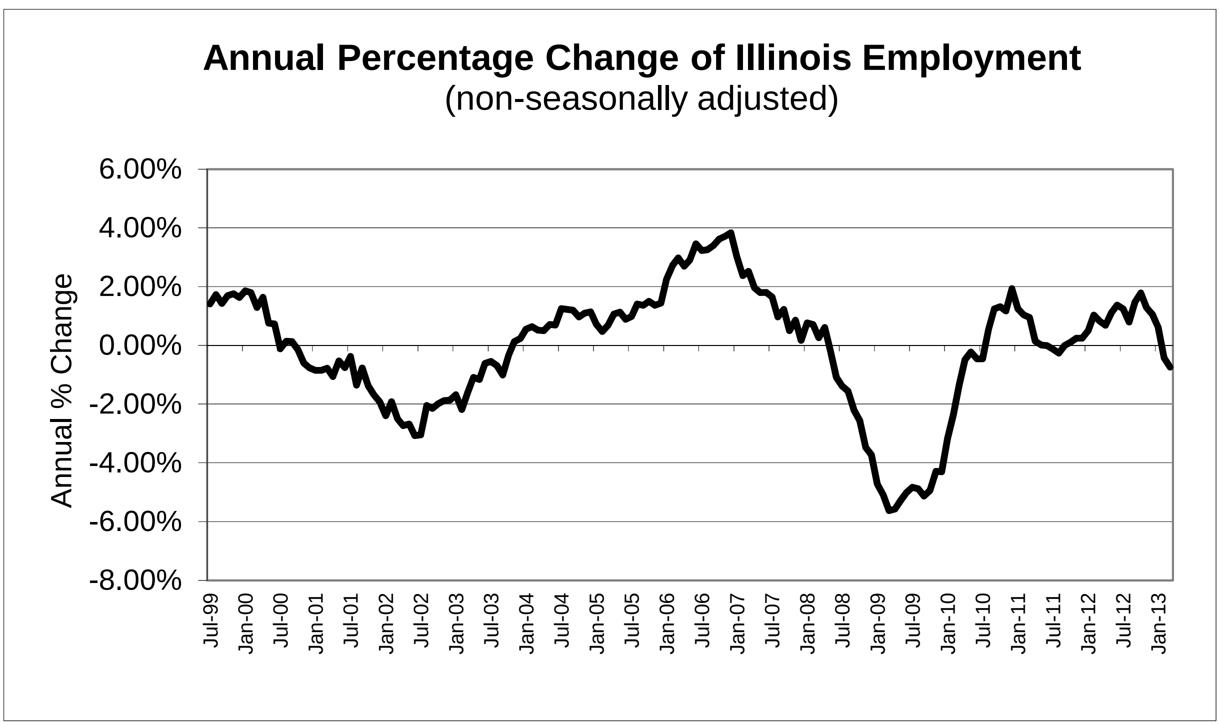
Total Nonfarm Employment Year-Over-Year Change
(Comparisons are by Current Month of March 2013)
(Employment Values in thousands)

	Current Value (Mar 2013)	Current Value vs. 1-Year Ago	Ranking of Change	Current Value vs. 3-Years Ago	Ranking of Change	Current Value vs. 5-Years Ago	Ranking of Change
Alabama	1,888.3	0.3%	43	1.3%	48	-5.9%	49
Alaska	335.2	0.3%	41	4.5%	18	4.9%	3
Arizona	2,496.8	1.8%	11	4.7%	15	-6.2%	50
Arkansas	1,184.1	0.4%	39	2.5%	46	-2.0%	27
California	14,592.1	2.0%	6	5.4%	7	-3.5%	35
Colorado	2,353.6	2.6%	4	6.3%	4	-0.2%	14
Connecticut	1,643.0	0.1%	48	3.1%	41	-4.1%	43
Delaware	423.7	1.2%	25	3.4%	35	-3.9%	42
Dist. Of Columbia	733.1	0.2%	44	3.8%	28	4.7%	4
Florida	7,507.1	1.9%	8	5.0%	12	-4.7%	47
Georgia	4,014.0	1.9%	7	4.4%	19	-3.7%	38
Hawaii	609.3	1.6%	17	4.2%	23	-2.7%	30
Idaho	634.5	2.4%	5	5.2%	10	-3.2%	32
Illinois	**5,776.2**	**0.6%**	**36**	**3.4%**	**37**	**-3.4%**	**33**
Indiana	2,924.0	1.0%	28	5.3%	9	-1.7%	22
Iowa	1,517.2	0.7%	33	3.4%	33	-0.6%	17
Kansas	1,367.4	0.7%	34	3.6%	30	-1.9%	25
Kentucky	1,835.4	0.7%	35	4.3%	21	-1.5%	21
Louisiana	1,944.2	1.3%	22	3.3%	38	0.4%	9
Maine	597.5	0.1%	50	0.8%	50	-3.7%	39
Maryland	2,611.2	1.5%	18	4.4%	20	0.0%	12
Massachusetts	3,311.7	1.2%	23	4.3%	22	0.3%	10
Michigan	4,057.4	0.8%	30	5.9%	6	-3.7%	37
Minnesota	2,770.1	1.7%	13	5.3%	8	-0.3%	15
Mississippi	1,116.6	1.3%	21	2.7%	44	-3.6%	36
Missouri	2,678.1	0.3%	40	1.1%	49	-4.3%	45
Montana	445.4	1.8%	12	4.0%	25	-0.6%	16
Nebraska	965.7	0.5%	38	3.2%	40	-0.1%	13
Nevada	1,156.2	1.7%	14	3.6%	29	-9.9%	51
New Hampshire	638.7	1.1%	27	2.5%	45	-1.8%	23
New Jersey	3,947.5	1.4%	20	2.7%	43	-3.5%	34
New Mexico	808.0	0.3%	42	0.6%	51	-4.9%	48
New York	8,877.1	1.0%	29	4.2%	24	0.8%	8
North Carolina	4,048.6	1.9%	9	5.2%	11	-2.9%	31
North Dakota	441.2	4.4%	1	18.9%	1	20.5%	1
Ohio	5,176.9	0.1%	49	3.5%	31	-3.9%	41
Oklahoma	1,622.4	1.2%	26	5.0%	13	0.2%	11
Oregon	1,657.7	1.4%	19	4.0%	26	-4.6%	46
Pennsylvania	5,742.3	-0.1%	51	2.8%	42	-1.2%	20
Rhode Island	467.0	0.2%	45	1.9%	47	-4.1%	44
South Carolina	1,879.3	1.2%	24	4.6%	17	-3.8%	40
South Dakota	419.7	1.6%	16	4.8%	14	1.9%	6
Tennessee	2,751.8	1.7%	15	6.0%	5	-1.8%	24
Texas	11,114.0	3.1%	3	8.2%	3	5.0%	2
Utah	1,288.3	4.2%	2	9.7%	2	2.2%	5
Vermont	306.3	0.8%	31	3.4%	36	-0.7%	19
Virginia	3,755.5	0.8%	32	3.9%	27	-0.7%	18
Washington	2,909.5	1.9%	10	4.7%	16	-2.3%	28
West Virginia	769.4	0.1%	46	3.4%	32	1.1%	7
Wisconsin	2,804.3	0.5%	37	3.2%	39	-2.7%	29
Wyoming	290.7	0.1%	47	3.4%	34	-1.9%	26
Totals	**135,205.3**						

Source: The Bureau of Labor Statistics at http://www.bls.gov/sae/. Data Compiled by CGFA.

Recent figures from the Illinois Department of Employment Security highlight the stagnant nature of employment over the last several years. As displayed in the first of the two graphs shown below, employment levels in Illinois (non-seasonally adjusted) remain well below the levels seen in the late 2000s. Even more worrisome is the fact that the last two months of actuals are below levels of a year ago (see second chart below). While it is premature to consider this a "downward trend", it is apparent that employment levels are continuing to struggle to improve.





Each month the Bureau of Labor Statistics releases an abundance of job-related data, including Statewide employment totals by subsector, as well as each subsector's average weekly earnings. Adding to employment concerns is the observation that the subsectors of jobs seeing the largest increase are those that offer the lower paying amounts.

Over the last five years (comparing average employment totals of 2007 with 2012), the biggest improvement in the number of jobs in Illinois has been in "Education and Health Services" (up 10.8%) and in "Leisure and Hospitality" (up 0.6%). However, these are two of the lower-paying sectors in terms of weekly earnings, with an average weekly earnings value of $801 and $313, respectively.

As shown below, Illinois' largest employer of jobs is the "Trade, Transportation, and Utilities" subsector, employing over 1.1 million. But, this subsector, too, has one of the lowest average weekly earnings totals in the State (2013 average weekly earnings value of $775).

State Rankings of Illinois' Employment Subsectors
Employment Values, Non-Seasonally Adjusted (in thousands)

	2013 Avg. Employment Totals (thru Mar)	2013 Sector Ranking by # Employed	2007 to 2012 % Change in Jobs	2013 Jobs Ranking by 5-Yr Change	2013 Avg. Weekly Wage (thru Mar)	2013 Sector Earnings Ranking
Mining	9.9	11	1.0%	2	N/A	N/A
Construction	160.3	9	-30.8%	11	$1,221	1
Manufacturing	578.3	5	-13.7%	9	$988	5
Trade, Transportation, and Utilites	1,146.5	1	-4.7%	7	$775	7
Information	99.7	10	-13.7%	10	$1,053	3
Financial Activities	369.0	7	-9.1%	8	$1,098	2
Professional and Business Services	846.0	3	-1.1%	4	$1,031	4
Education and Health Services	877.7	2	10.8%	1	$801	6
Leisure and Hospitality	512.1	6	0.6%	3	$313	9
Other Services	250.5	8	-4.6%	6	$734	8
Government	833.2	4	-2.0%	5	N/A	N/A

Equally troublesome is the fact that those sectors with the highest weekly earnings were the sectors that over the last five years have lost the most jobs in Illinois. For example, the sector with the highest weekly earnings is "Construction", paying, on average, $1,221 per week. However, construction jobs are down 30.8% over the last five years. The next highest paying sectors are "Financial Activities" ($1,098 per week) and "Information" ($1,053 per week), but employment in these categories are down 9.1% and 13.7%, respectively, over the last five years. These statistics suggest that when jobs are added in Illinois, they are migrating from the higher paying sector to lower paying sectors.

As shown in the following table, looking at average jobs by subsector for each calendar year, after a couple years of negative growth, employment levels in Illinois (non-seasonally adjusted) saw some slight improvement, in 2011 and 2012, increasing 1.1% and 1.2%, respectively. A compliment to this slight growth was the fact that overall weekly earnings grew, on average, 2.6% and 3.2%, respectively, in these years. This allowed for some modest improvements in income related tax revenues over the last couple of fiscal years.

However, an area of concern for the immediate future is the fact that through the first three months of 2013, the average number of jobs in 2013 are 1.1% below the average number of jobs in 2012 and that the average weekly wage for 2013, so far, is 0.2% below the 2012 wage average. Admittedly, with only three months of data, these numbers could see significant changes over the remaining nine months of the year. But, if these stagnant trends in employment and weekly earnings continue throughout 2013, they would serve as a drag on income tax revenue for FY 2014.

Average Employment Levels by Subsector in Illinois
Non-Seasonally Adjusted Annual Averages: 2007 to 2013 (in thousands)

	2007 Average	2008 Average	2009 Average	2010 Average	2011 Average	2012 Average	2013 Average (thru Mar)
Mining	10.1	9.8	9.3	9.1	9.6	10.2	9.9
Construction	271.4	258.3	217.2	198.3	195.7	187.9	160.3
Manufacturing	675.3	657.4	576.7	561.0	573.9	582.9	578.3
Trade, Transportation, and Utilites	1,212.3	1,204.8	1,139.5	1,125.6	1,143.8	1,155.7	1,146.5
Information	116.0	114.4	106.4	101.8	100.6	100.1	99.7
Financial Activities	402.8	391.7	372.0	363.7	363.3	366.1	369.0
Professional and Business Services	870.7	859.9	787.8	801.9	831.4	861.5	846.0
Education and Health Services	779.8	801.3	816.4	833.1	848.5	864.0	877.7
Leisure and Hospitality	531.5	532.7	516.6	515.4	522.2	534.8	512.1
Other Services	261.2	263.6	257.9	249.1	249.7	249.3	250.5
Government	849.3	855.6	857.6	853.8	837.9	831.9	833.2
Totals	**5,980.4**	**5,949.5**	**5,657.4**	**5,612.8**	**5,676.6**	**5,744.4**	**5,683.2**
Annual % Change	**N/A**	**-0.5%**	**-4.9%**	**-0.8%**	**1.1%**	**1.2%**	**-1.1%**

Average Weekly Earnings and Employment Change by Subsector in Illinois
Annual Averages: 2007 to 2013

	2007 Average	2008 Average	2009 Average	2010 Average	2011 Average	2012 Average	2013 Average (thru Mar)
Mining*	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Construction	$1,156	$1,137	$1,212	$1,236	$1,278	$1,284	$1,221
Manufacturing	$896	$862	$877	$926	$978	$982	$988
Trade, Transportation, and Utilites	$676	$670	$670	$693	$734	$766	$775
Information	$981	$977	$1,039	$1,040	$1,005	$1,027	$1,053
Financial Activities	$1,079	$1,006	$1,068	$1,036	$1,054	$1,131	$1,098
Professional and Business Services	$997	$997	$1,033	$1,024	$1,007	$1,027	$1,031
Education and Health Services	$693	$699	$720	$724	$757	$792	$801
Leisure and Hospitality	$358	$310	$325	$319	$322	$337	$313
Other Services	$674	$700	$707	$712	$703	$728	$734
Government*	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Statewide Average Weekly Earnings*	**$793**	**$775**	**$792**	**$799**	**$820**	**$846**	**$844**
% Change in Avg. Weekly Earnings	**N/A**	**-2.3%**	**2.1%**	**0.9%**	**2.6%**	**3.2%**	**-0.2%**

* Because the Mining and Government subsectors' weekly earnings are not available from the Bureau of Labor Statistics, "Statewide Average Weakly Earnings" is calculated by using the weekly earnings of the other nine subsectors. The statewide value was calculated by multiplying each subsector's average jobs by its average earnings and divided the sum of these figures by the total number of jobs from these nine subsectors.
Source: www.bls.gov

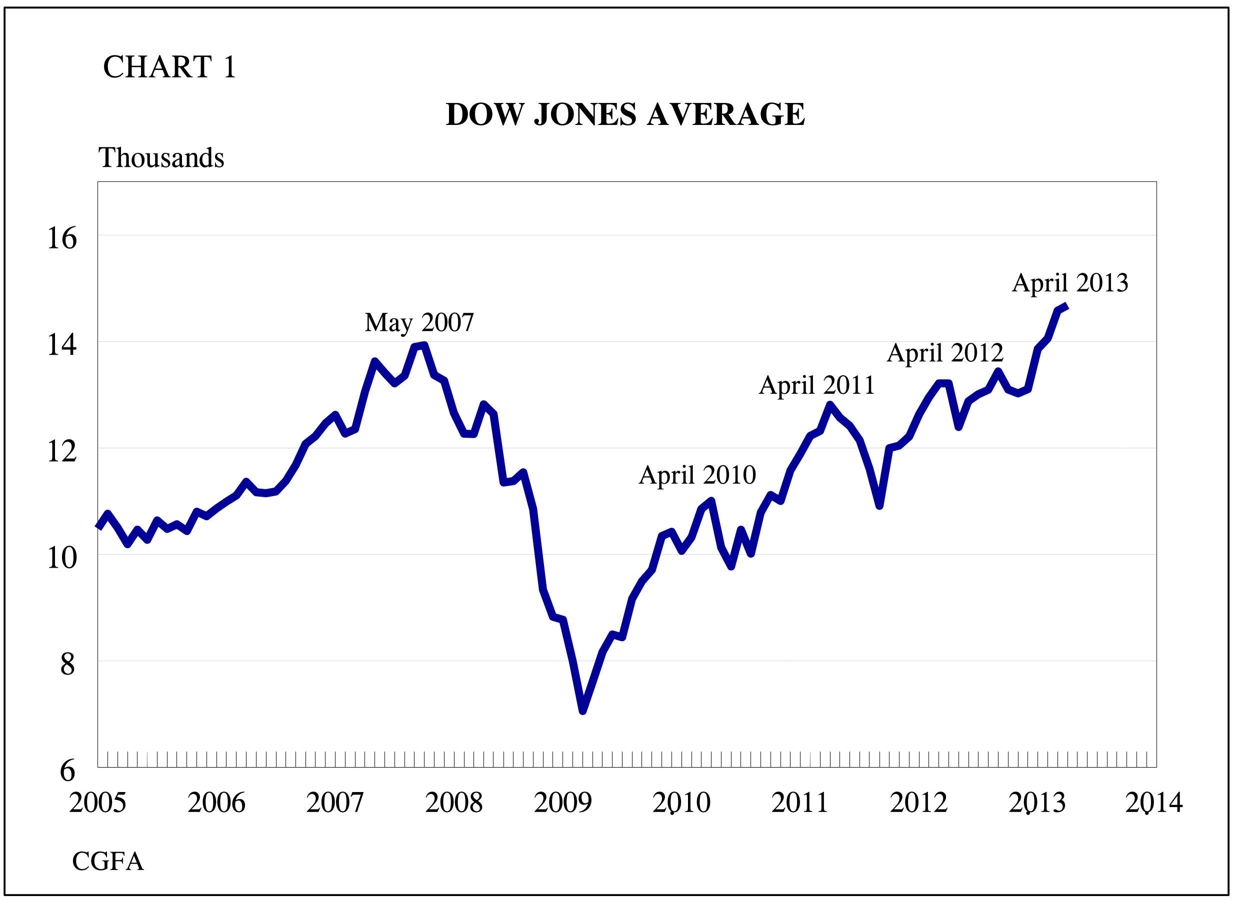
ECONOMY

Recurring Pattern?

Edward H. Boss, Jr., Chief Economist

The economy's performance has an eerie resemblance to the movie, Groundhog Day. For those who did not see the movie, a reporter goes to cover the reaction of the groundhog on that day to determine whether or not there will be six more weeks of winter. During the day he has several interactions with people with various outcomes, several of which he wished he would have acted differently. He goes to sleep that night only to wake up to discover that it is once again Groundhog Day and interacting with the same people. Each time he alters his response to the interactions, only to wake up to find it is Groundhog Day again. Similarly, the economy seems to displaying a recurring pattern.

Ever since the Vice President's proclamation of a "Recovery Summer" at the beginning of summer 2010, sharp economic improvement has failed to develop. The economy as measured by real GDP, which had risen at a strong 4% rate in the fourth quarter of 2009, slowed to annual rates of 2.3% and 2.2% respectively in the first and second quarters of 2010 but showed little improvement in the third and fourth quarters. In 2011, real GDP barely rose at all, 0.1%, in the first quarter of 2011, rising to a rate of 2.5% in the second quarter, but during the summer slowed to a 1.3% rate before rising to 4.1% in the year end quarter. In 2012, real GDP slowed to 2.0% and 1.3% in the first and second quarters, did improve to a 3.1% in the



third, but ended the year at a mere 0.4%. Latest forecasts from the Commission's forecasting service, Global Insight, indicate a recovery in GDP from just 0.4% at the end of last year and 2.5% in the first quarter of 2013 to 1.8% next quarter.

A similar recurring pattern can be seen by reaction of investors in the equity markets during recent years. As shown in the chart on page 12, the widely-followed Dow-Jones Industrial average in each of the past three years has risen, early in the year into spring, with a peak reached in April, only to correct downward during the summer. As seen by the last data point in late April of this year coupled with forecasts indicating a weakening in some of the latest business reports, hopes of a summer of recovery could once again elude us.

The last recession officially ended in June 2009, so that the recovery is nearing its fourth birthday or 48 months. (The average expansion including all 33 business cycles back to 1854 is 38.7 months. Over time expansions have lengthened so that in the post WWII era (1945-2009) they averaged 58.4 months.) While there is no common timing of the length of recoveries and expansions, most would agree the current one is not still in its early stages. One characteristic of recoveries that often is noticed, however, is that after a prolonged and deep recession, growth in the economy usually snaps back. The same, however, cannot be said of the current recovery as it emerged from the longest recession in the post WWII period. Economists characterize this recovery as the weakest in the post war period while others declare it the weakest ever.

As in the movie, policy initiatives like the actor's interactions with people have been attempts to break out of the pattern and move forward, but thus far the economy has been unable to exit from its recurring pattern of slow growth. Policy changes that have been tried include: federal "stimulus" and increased spending, causing the federal deficit to swell; additional regulations to prevent disruptions in the financial markets; several doses of quantitative easing by the Federal Reserve that have held down interest rates; tax increases to raise revenues; and government-directed spending to spark industry investment in such things as electric cars, new battery technology, solar panels and windmills to name a few. Even so these actions have not provided either the spark to economic growth or the number of jobs expected.

Indeed, the major concern by the public, federal and state and local governments and the monetary authorities is the lack of jobs. While the unemployment rate has fallen from a recovery high of 10% hit in October 2009, to 7.6% in March 2013, it is still high historically, and severely underestimates the dire conditions job seekers face. Part of the improvement in the unemployment rate comes from a continuing decline in the civilian labor force participation rate during the recovery, in March reaching the lowest rate since 1979.

In the past 4 years (March 2009 to March 2013), the number of those not in the civilian labor force increased by 9,125,000 from 81,358,000 to 90,383,000. These include 864,000 who want a job now, 220,000 who want a job and are available now, 118,000 discouraged who believe no job is available, and 102,000 who want a job for reasons other than discouragement.

In addition, even those in the labor force and working, are many who are working part-time but desire full time employment. As job conditions improve and people in those categories filter back into the labor force, the participation rate would begin to rise putting the reported unemployment rate under upward pressure. Stressing the importance of the weak job market, for the first time the Federal Reserve in addition to inflation set a specific target for the unemployment rate at 6.5%.

It was cooperation of the federal government, Treasury, and Federal Reserve that played an important role in the form of the financial rescue plan in October 2008, which helped prevent a spiraling out of control of the global financial system. Indeed it is the role of government to assist in stabilizing the economy in a financial crisis to bring about a return to orderly market conditions. Once accomplished, it is the private sector in the free market that is the basis of new job creation. As in the movie, Groundhog Day, the repetitive slow growth pattern that has developed during the economic recovery will change. It is hard to say what will spark this, it may be a sustained turnaround in the housing market or new technology that has increased domestic energy resources, reducing our dependence on imports, or clarification of impending regulation uncertainties, or even none of these, but it will happen, hopefully in a positive direction.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	MAR. 2013	FEB. 2013	MAR. 2012
Unemployment Rate (Average)	9.5%	9.5%	8.8%
Annual Rate of Inflation (Chicago)	-1.3%	13.1%	0.9%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (March)	6,611	-0.4%	0.3%
Employment (thousands) (March)	5,982	-0.4%	-0.4%
New Car & Truck Registration (March)	44,415	5.3%	19.2%
Single Family Housing Permits (March)	813	73.3%	-2.8%
Total Exports ($ mil) (February)	5,173	10.6%	-11.6%
Chicago Purchasing Managers Index (April)	49.0	-6.4%	-12.8%