

Monthly Illinois Economic Review

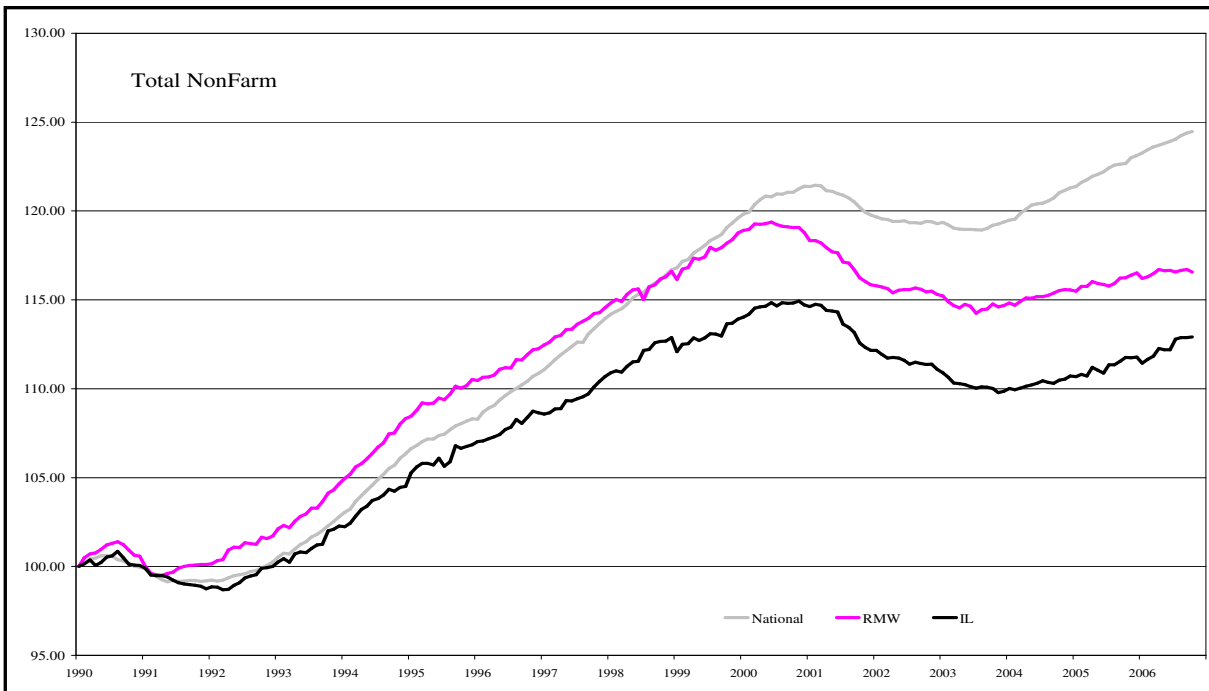
❖ **Employment**

October 2006 Positive	Total non-farm employment	Sep 2006 – Oct 2006		Last 12 months	
		Growth Rate %	Number of Jobs	Growth Rate %	Number of Jobs
	Nation	+0.07	+92,000	+1.47	+1,967,000
	RMW*	- 0.13	- 26,200	+0.27	+53,700
Illinois	+0.02	+1,100	+1.03	+60,900	

*RMW stands for Rest of the Midwest including six states, Indiana, Iowa, Michigan, Missouri, Ohio and Wisconsin.

Talking Points

- Continuing the sluggish growth of job creation since July, Illinois added only 1,100 jobs in October. However, total number of jobs in Illinois recovered up to the level recorded in October 2001.
- The growth of Illinois last month, 0.02% is only one third of the 0.08% average rate for the recent recovery period since early 2004 and very slow compared to the growth of 0.19% in Illinois for the corresponding month in the previous year.
- For the last 16 months since July 2005, Illinois surpassed RMW in terms of 12-month job growth while Illinois showed slower growth than the Nation. Narrowing the gap between the indices of RMW and Illinois since the beginning of 2006 led to the lowest gap of 3.66 in more than 4 years (since April 2002).
- For the last 12-month period, Illinois created more than half (53%) of TNF jobs created in Midwest. This is mainly due to the faster job growth in Illinois compared to RMW for the last few months, especially when RMW had massive losses and Illinois experienced net gains (July and October).
- Since late 2003 when Illinois started to recover from the recession, the average monthly growth rate of Illinois is 0.08% higher than 0.05% in RMW; however it still lags behind the national rate of 0.12%.



❖ Shadow Unemployment

Unemployment Rate: Official and Shadow

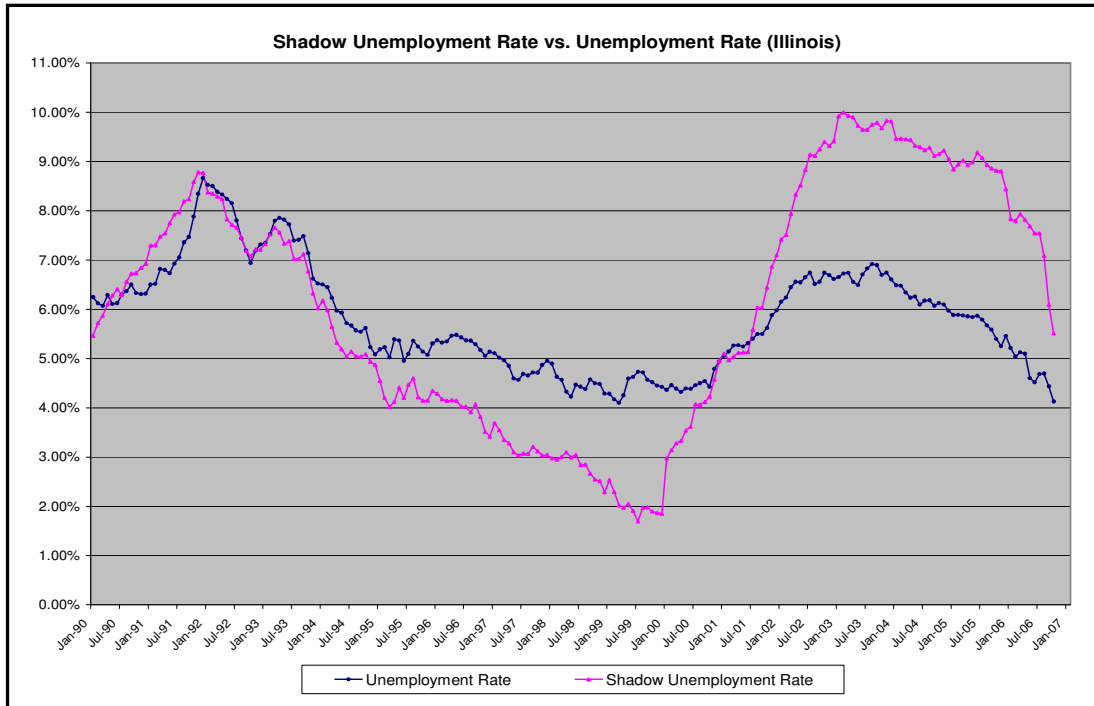
The unemployment rate estimates the percentage of workers in the labor force who are currently unemployed but who are seeking work. The labor force participation rate is the percentage of the population 16 and older who are either working or actively seeking work. The participation rate has declined since the 1990s and thus a number of analysts feel that the official unemployment rate does not account for a larger number of people who have dropped out of the labor force.

REAL has estimated a *shadow unemployment rate*; this is calculated as the unemployment rate that would be observed if labor force participation rates matched the average for the 15-year period from 1990 to 2004.

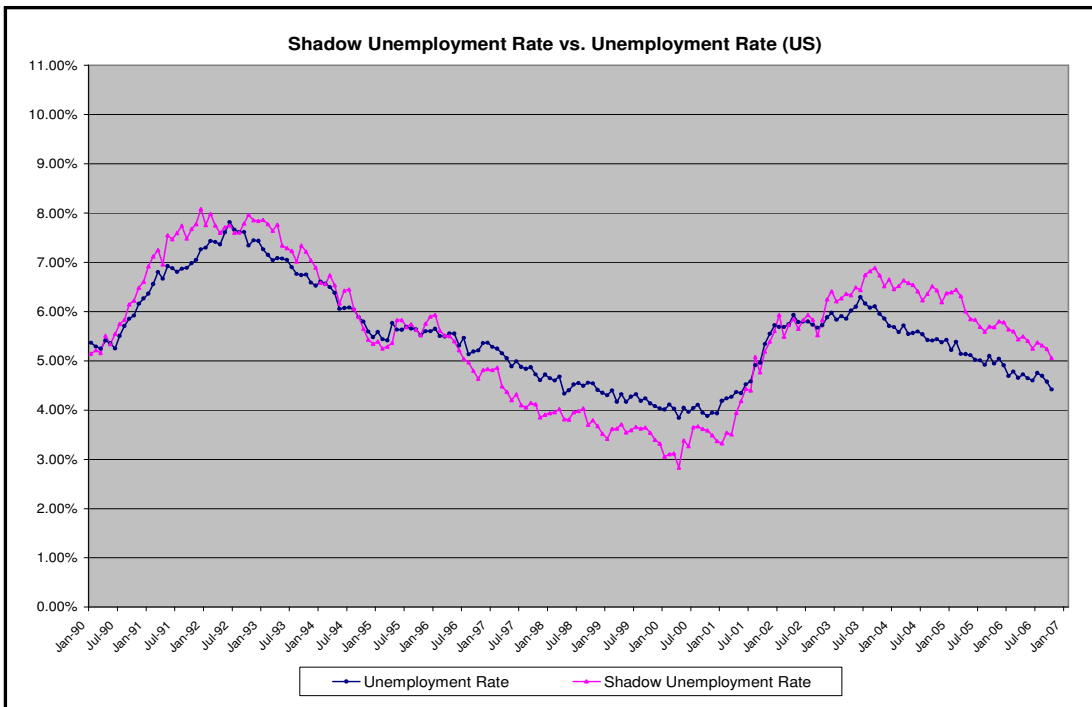
- In the 1990s, the average participation rate was 67.9% in Illinois whereas in 2006, it has been only 65.5%.
- For the 15 years from 1990 to 2004, the average participation rate was 67.4% in Illinois.
- In the 1990s in the US, the average participation rate was 66.7% whereas in 2006, it has been 66.1%; for the 15 years from 1990 to 2004, the average participation rate was 66.6%.
- The figures on the next page show the difference between the two rates for Illinois (top figure) and the US as a whole (bottom figure).
- Since 2000, the gap between the official and shadow unemployment rate has increased.
- To bring the two together a further 94,000 jobs would need to be created in Illinois.
- The gap at the national level is much smaller.

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▪ **Illinois**

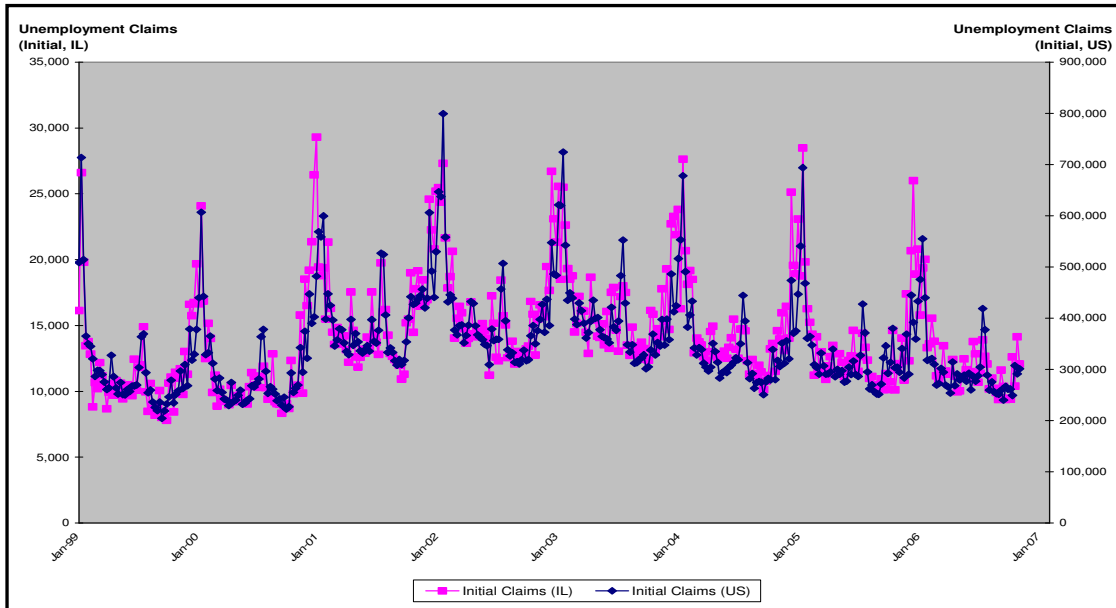


▪ **US**



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❖ **Unemployment Claims (Initial)**



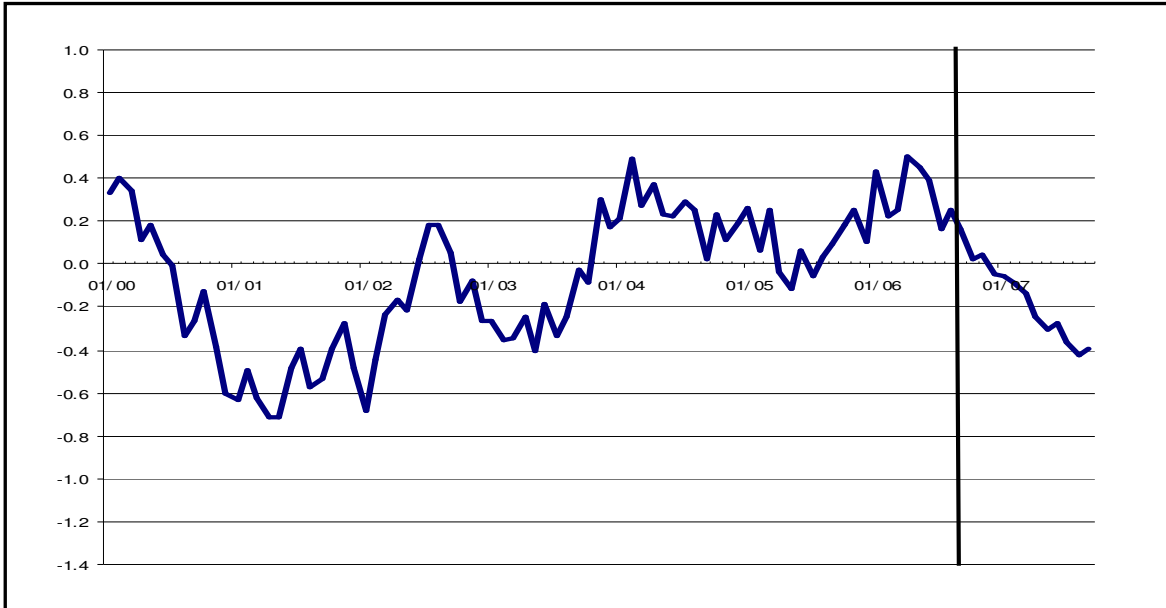
❖ **CBAI in September**

This index is based on national indices of leading indicators and is a barometer for the economy, tracing the path of growth or contraction through to the current period and then forecasts up to 24 months into the future.

- The Chicago Business Activity Index (CBAI) was 0.167 in September, the fourteenth consecutive positive reading since August 2005.
- This was mainly attributed to the increase of retail sales and construction. Considering that the CBAI leads the local business cycle and positive values of this index are associated with above-trend growth, the Chicago economy seems to continue on a normal growth expansion.
- However, the CBAI prediction suggests that the Chicago economy seems to be losing momentum for the expansion to continue over the next 12 months.
- In September, the national economy presented some negative features. Construction and retail sales decreased 1.2 percent and 1.0 percent, respectively, while the overall employment held constant. Further, the coincident index of the Conference Board stopped increasing trend since mid 2005 in September.
- The economic performance in Chicago showed a mixed feature in September. Retail sales and construction increased 1.7 percent and 1.2 percent, respectively. However, the Chicago Fed Midwest Manufacturing Index and manufacturing employment decreased 1.1 percent and 0.1 percent, respectively.
- The national economy and regional economy are expected to continue to grow at a slow pace, but raising the possibility that adjustments to the current slowing can trigger a recession in the future. For the national economy, despite the increase (0.1 percent) in September, the leading index of the Conference Board fell by 0.9 percent during the six-month span through September. In addition, real GDP growth slowed to the weakest pace in more than three years in the third quarter. For the local economy, the CBAI index suggests that economic growth will be below its historical trend over the coming year, in large part because of the increasing signs of weakness in the nation’s economic performance. However, both the national and local economy could bounce back after the recent slowdown, especially with the recent decline in energy prices.

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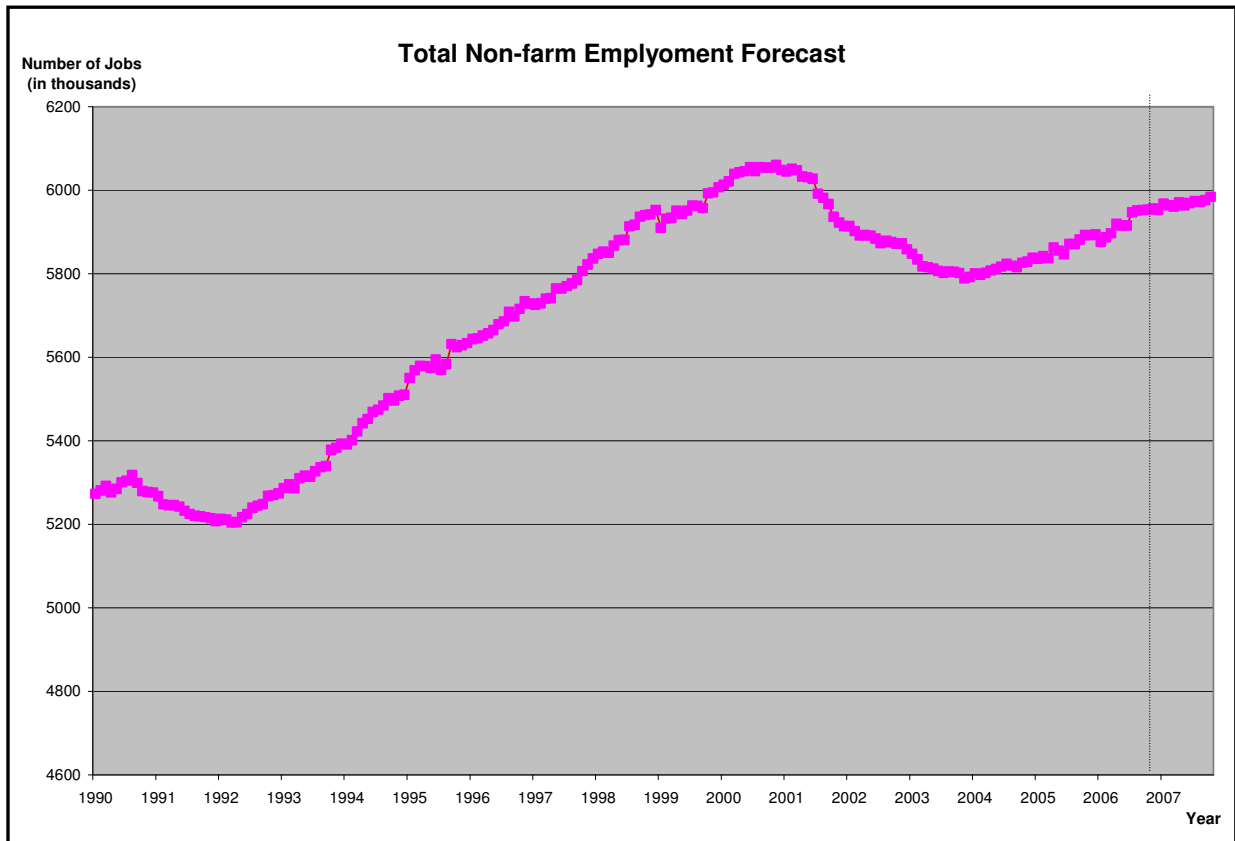
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❖ **Employment Forecast**

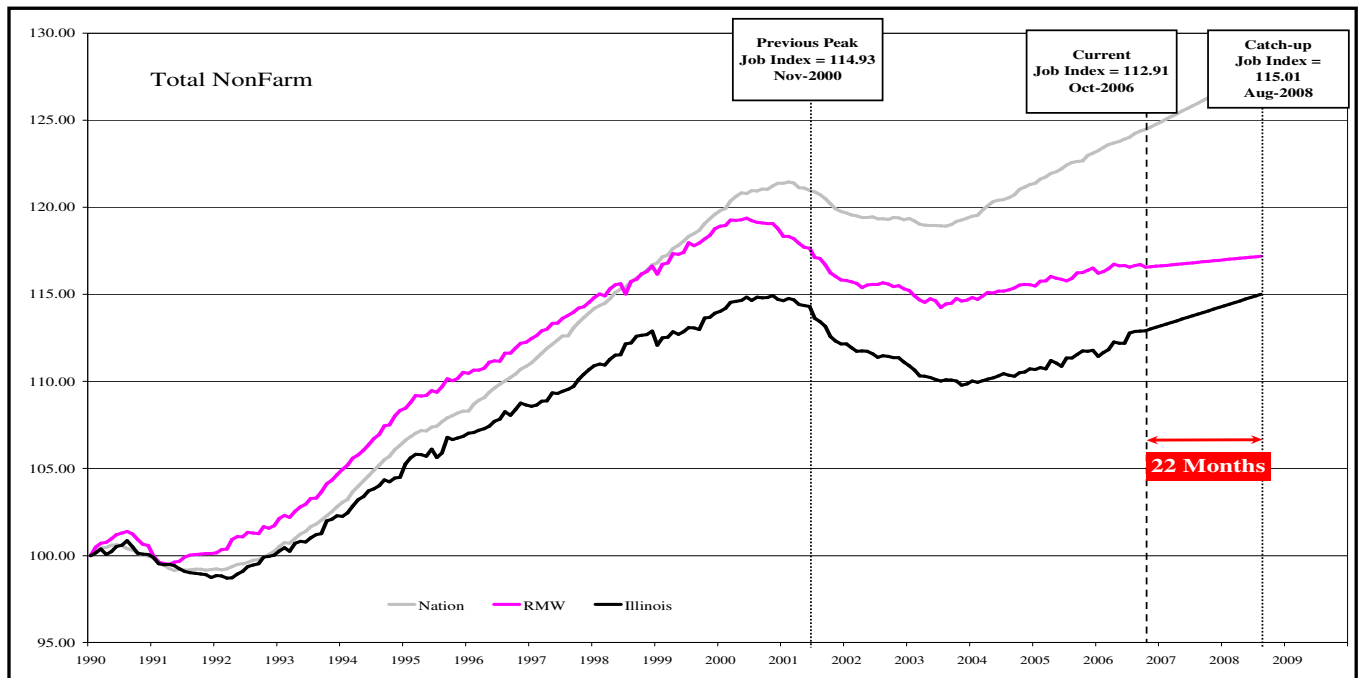
	Oct 2006	Oct 2007 (p)	Number of Jobs	Growth Rate %
Total non-farm	5,953,400	5,983,719	+30,319	+0.51%
Construction	277,700	278,942	+1,242	+0.45%
Manufacturing	678,100	652,356	- 25,744	- 3.80%
Trade, transportation & utilities	1,198,600	1,204,605	+6,005	+0.50%
Information	116,000	112,143	- 3,857	- 3.32%
Financial Activities	413,700	413,655	- 45	- 0.01%
Professional & business services	859,600	872,304	+12,704	+1.48%
Education & health	758,400	764,990	+6,590	+0.87%
Leisure & hospitality	536,100	541,489	+5,389	+1.01%
Other services	260,400	260,947	+547	+0.21%
Government	844,500	851,087	+6,587	+0.78%



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❖ **Catch-up Scenario of Previous Peak Job Index in Illinois**

	Previous Peak	Current	Catch-up	Periods for Catch-up
IL*	114.93 (Nov-2000)	112.91 (Oct-2006)	115.01 (Aug-2008)	22 months
RMW*	119.37 (Jun-2000)	116.56 (Oct-2006)	119.39 (Nov-2014)	97 months
Nation**	121.45 (Feb-2001)	124.46 (Oct-2006)	121.62 (Feb-2005)	20 months ago



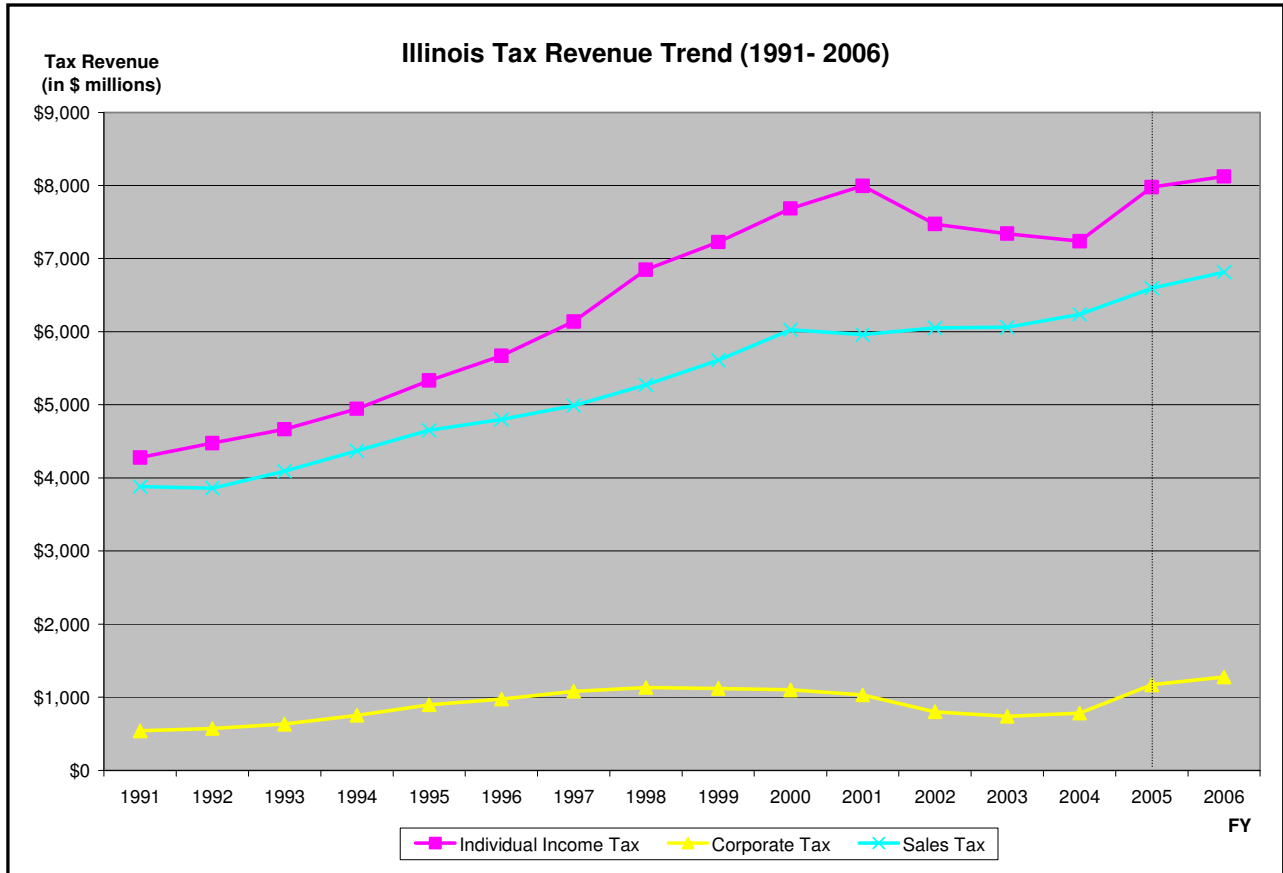
	Periods for Catch-up	
	IL	RMW
Sep-2006	18 months	78 months
Oct-2006	22 months	97 months
Difference	△ 4 months	△ 19 months

* Catch-up scenarios for Illinois and RMW are based on average monthly growth rate over the previous 12 months.

** Nation already passed its previous peak in February 2005.

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❖ **Tax Revenue Forecast (FY 2006)**



	REAL (IGPA)	OMG*	CGFA**
Net Personal Income Tax	8,123	8,363	8,235
Net Corporate Income Tax	1,277	1,331	1,267
Sales Tax	6,815	6,915	6,873
Public Utilities Tax	1,157	1,072	1,069
Other Tax Sources	2,349	2,270	2,257
Total Net Taxes	19,721	19,951	19,701
Transfers	2,098	2,098	2,179
Federal Aid	4,791	4,791	4,791
Total Net Revenue	26,610	26,840	26,671

(unit: \$ millions)

*OMG: Office of Management and Budget

**CGFA: Commission on Government Forecasting and Accountability