

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

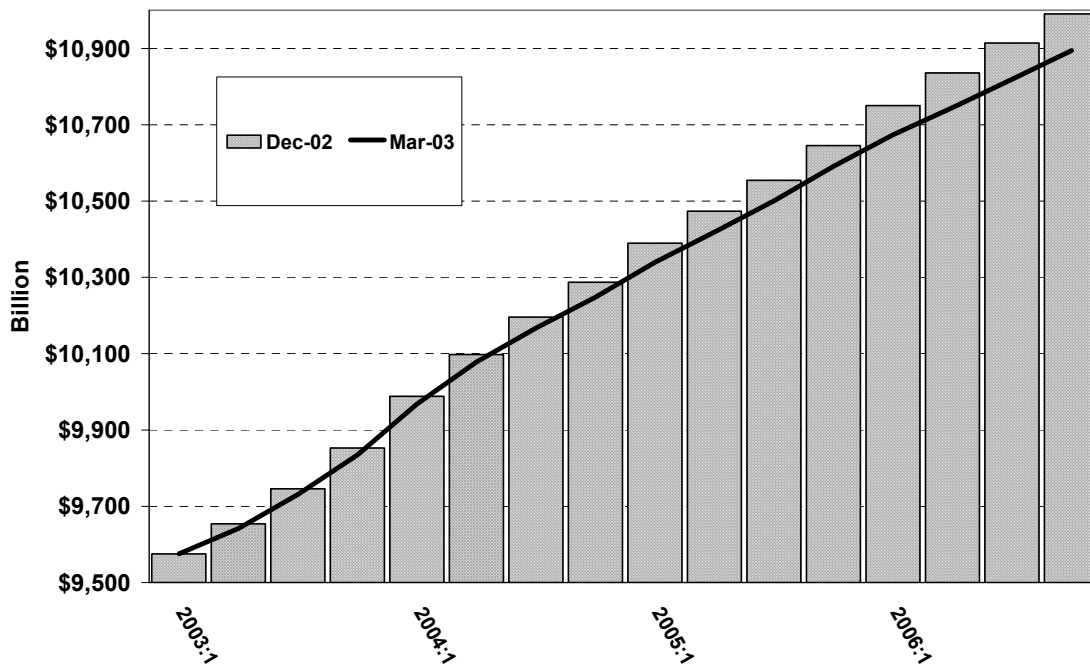
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- Forecast 2002-2006
- House Price Bubbles
- Alternative Forecasts

**U.S. Real Gross Domestic Product
December 2002 versus March 2003 Forecasts**



**IDAHO
ECONOMIC
FORECAST
2002 - 2006**

State of Idaho
DIRK KEMPTHORNE
Governor

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PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho. These challenges include competition among agriculture, fisheries, and expanding population, for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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TABLE OF CONTENTS

Preface.....	iii
Introduction.....	2
Executive Summary.....	5
Idaho and U.S. Forecast Summary Tables.....	6
Forecast Description:	
National.....	8
Idaho	14
Forecasts Comparison.....	20
Alternative Forecasts	22
Feature Article	
House Price Bubbles.....	25
Forecast Detail	29
Annual Forecast	30
Quarterly Forecast	44
Appendix.....	59
Global Insight U.S. Macroeconomic Model.....	60
Idaho Economic Model.....	62
Equations	64
Endogenous Variables	68
Exogenous Variables	70

INTRODUCTION

The national forecast presented in this publication is the March 2003 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the December 2002 Global Insight baseline national forecast.

The cover graph compares the December 2002 and March 2003 forecasts of real GDP. In December, real GDP was forecast to grow 2.9% this year, 4.5% next year, 3.7% in 2005, and 3.4% in 2006. After reviewing actual data available since then, economists have produced a new forecast. Specifically, real GDP rises 2.7% in 2003, 4.3% in 2004, 3.4% in 2005, and 3.1% in 2006. As a result, the gap between the previously and currently projected real GDP widens over the forecast period. Real GDP in 2006 is 0.8% lower than had been previously forecasted. This gap would have been even wider were it not for the lower projected inflation in the most recent forecast.

FEATURE

The feature article is entitled “House Price Bubbles.” The possibility of a “bubble” in house prices has received considerable attention lately. A key concern about a house price bubble is that gains in housing wealth—either unrealized gains or gains extracted through home sales or refinancing—may be partly responsible for the relative strength of consumer spending. In this article, two methods are introduced to determine whether a housing price bubble exists and its magnitude. This article was written by John Krainer. He is an Economist with the Federal Reserve Bank of San Francisco.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1987 to 2006 and for every quarter from 2000 through 2005. The solution of the Idaho Economic Model (IEM) for this forecast begins with the fourth quarter of 2002.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The employment numbers that appear in this publication are based on monthly data collected by the Idaho Department of Labor. The historical data run through the end of 2002. All of these data have been seasonally adjusted and converted into quarterly estimates by the Division of Financial Management (DFM). These current data show that DFM’s previous forecasts of Idaho nonfarm employment in both the third and fourth quarters of 2002 were too optimistic. Specifically, actual nonfarm employment in the third quarter of 2002 was 4,625 (0.8%) lower than DFM had published in January 2003 and the fourth quarter of 2003 was 4,825 (0.9%) lower.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the third quarter of 2002. In addition to the 2002 third quarter income estimates, the historical Idaho quarterly income estimates for the first two quarters of 2002 were revised. The BEA released its latest Idaho personal income estimates in late April 2003.

The Federal Reserve Board released its revised estimates of industrial production in December 2002. Since several of these indices are used in the IEM, all the equations in the IEM were re-estimated with the revised data. These equations can be found in the Appendix to this *Forecast*.

The *Idaho Economic Forecast* is available on the Internet at http://www.state.id.us/dfm/econ_pub.html. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at http://www.state.id.us/dfm/econ_pub.html.

Printed copies of the *Idaho Economic Forecast* may be requested by contacting:

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