

# Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

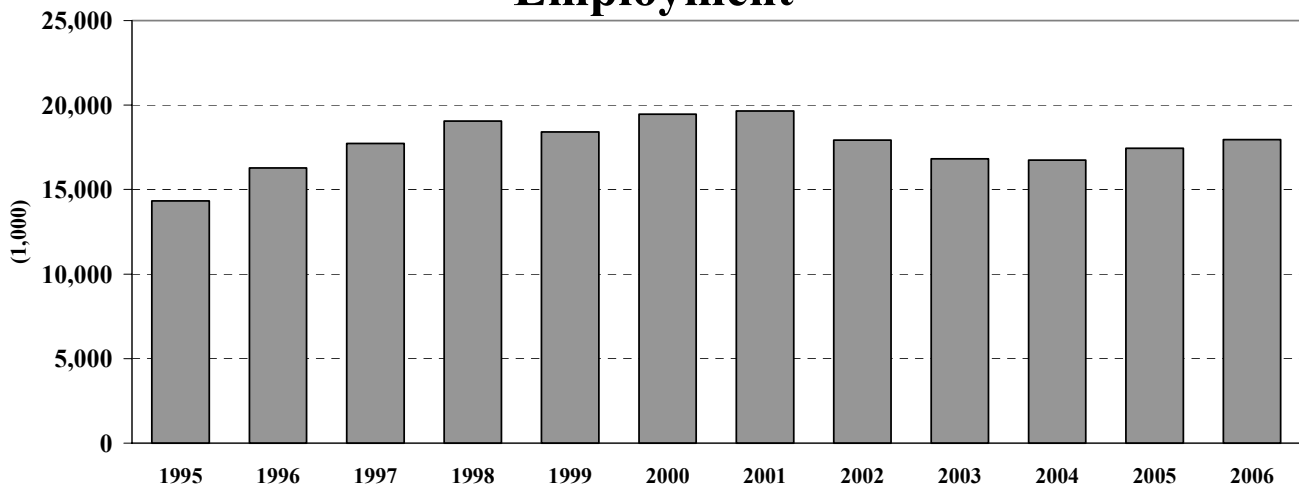
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- Forecast 2003-2006
- Changing the Way We Classify Industries
- Alternative Forecasts

## Idaho Computer & Electronic Products Employment



**IDAHO  
ECONOMIC  
FORECAST  
2003 - 2006**

State of Idaho  
DIRK KEMPTHORNE  
Governor

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## PREFACE

Idaho's economy continues to grow and evolve as it enters the 21<sup>st</sup> 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.

**Division of Financial Management**  
700 W. Jefferson, Room 122  
P.O. Box 83720  
Boise, Idaho 83720-0032

**Economic Analysis Bureau**  
Michael H. Ferguson, Chief Economist  
Derek E. Santos, Economist  
(208) 334-3900

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## INTRODUCTION

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

The recent history and short-term outlook for Idaho's high-tech sector employment is featured on the cover of this *Forecast*. After enjoying stellar success during the 1990s, this sector has suffered setbacks this decade. The chart shows this sector should face challenges this year and next, but it will add jobs beginning in 2005.

## FEATURE

The switch from the Standard Industrial Classification to the North American Industry Classification System is finally completed. Hardly a simple project, this change represents several years of arduous work on the part of the Idaho Department of Labor. Given its staff did all of the heavy lifting for this transition, they are clearly the most qualified to describe the changes and its impacts. The Idaho Department of Labor published a series of reports in order to keep its clients apprised during the transition. The feature article in this *Forecast* is a compilation of these reports.

## 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 1991 to 2006 and for every quarter from 2000 through 2005. The solution of the Idaho Economic Model (IEM) for this forecast begins with the first quarter of 2003.

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 biggest change from the previous forecast to this one is also one the most significant changes in the history of the *Idaho Economic Forecast*. **Beginning with this forecast, the Idaho nonfarm employment is categorized using the new North American Industry Classification System (NAICS).** Employment had previously been categorized according to the Standard Industrial Classification (SIC) that has been around since the 1930s. For a more detailed discussion of the differences between the old and new classifications, readers are directed to the feature article in this *Forecast*.

While total nonfarm employment is the same under both classification systems, there are significant differences in the detail. This is due to differences in the way employment is classified. For example, under the old system, publishing employment was included with manufacturing, in the new system; it is included in the information category. The treatment of auxiliary services is also different. In the past, management

and administrative parts of businesses were counted with a company's main industry. For instance, employment in the accounting department of a wood products company was included in manufacturing, although the staff was clearly not involved in manufacturing. Under the new system they are counted in nonmanufacturing.

Although the benefits to adopting the new system clearly outweigh the costs, the transition will not be painless. A major "cost" of the new system is the lack of historical data. Previously, over 30 years of detailed Idaho nonfarm employment data was available. Under NAICS, the historical data goes back to 1991. Thus, the NAICS data is at a disadvantage relative to the SIC information when trying to determine long-term employment trends.

The change in data classification has had an enormous impact on the Idaho Economic Model, requiring one of the most significant rewrites. The wealth of new employment data presented a blank slate. All aspects of the model's structure were scrutinized. The specifications for all equations were examined and all stochastic equations were reestimated. (The equations of the IEM are included in the appendix of this *Forecast*.) The model's coverage was expanded to provide more detailed forecasts of the non-manufacturing industries. Notably, the state's huge service sector has been broken out into its major components. In addition, the trade sector contains both its retail and wholesale components. All of the employment tables have been modified to include the NAICS data. The coverage of the remaining tables has not been changed.

The tables in this forecast also include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the last quarter of 2002. In addition to the 2002 fourth quarter income estimates, the historical Idaho quarterly income estimates since the first quarter of 1999 were revised. The BEA will release its next Idaho personal income estimates in late July 2003.

The *Idaho Economic Forecast* is available on the Internet at [http://www.state.id.us/dfm/econ\\_pub.html](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](mailto: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](http://www.state.id.us/dfm/econ_pub.html).

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

**Idaho Economic Forecast  
Division of Financial Management  
700 W. Jefferson, Room 122  
P.O. Box 83720  
Boise, Idaho 83720-0032**

**Or email to [ahamann@dfm.state.id.us](mailto:ahamann@dfm.state.id.us)**

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