Idaho Economic Forecast

JAMES E. RISCH, Governor

Division of Financial Management

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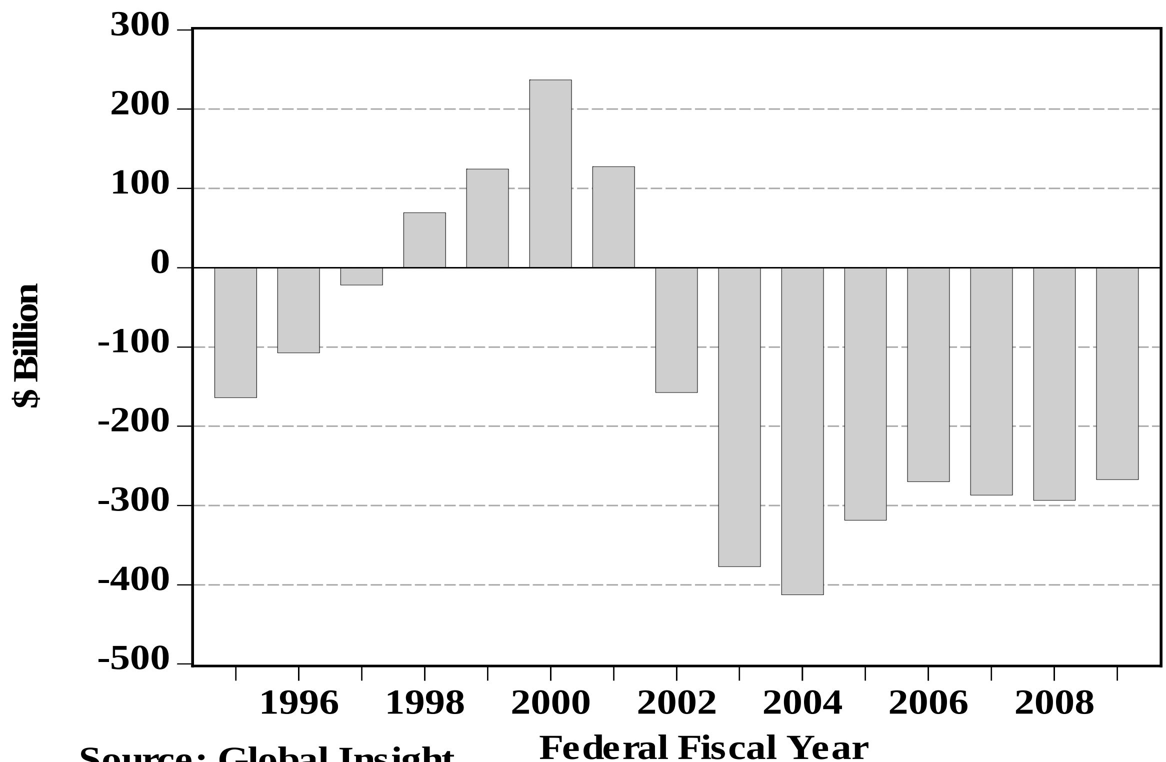
- Forecast 2006-2009
- Oil Prices and the U.S. Trade Deficit
- Alternative Forecasts

U.S. Federal Government Surplus Unified Basis



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IDAHO ECONOMIC FORECAST 2006 - 2009

State of Idaho
JAMES E. RISCH
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 has 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 card 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.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National 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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INTRODUCTION

The national forecast presented in this publication is the October 2006 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the July 2006 Global Insight baseline national forecast.

As the cover chart shows, the nation's trade deficit soared over the last decade. The good news is the deficit is expected to stabilize. The bad news is that it will stabilize at a very high level. Ten years ago the national trade deficit was well below $200 billion. It is estimated to be $875 billion when the books are closed for 2006. Anyone expecting the deficit to fall quickly from this year's peak will be disappointed, as it is forecast to hover well above $800 billion over the foreseeable future.

FEATURE

The surge in oil prices has had impacts beyond the price at the pump. One concern about these higher import prices relates to their implications for the U.S. trade balance. The feature article, "Oil Prices and the U.S. Trade Deficit," explores the relation between the surge in oil prices and the trade deficit. It then examines how the U.S. trade deficit might evolve in response to higher oil prices. Finally, it considers a model that can help explain why, surprisingly, the volume of U.S. petroleum imports has remained essentially constant, despite the remarkable increase in their cost and what that implies for the trade deficit. This article was written by Michele Cavallo who 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 1992 to 2009 and for every quarter from 2004 through 2009. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2006.

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 historical employment data used in this forecast was provided by the Idaho Department of Commerce and Labor and was seasonally adjusted by the Idaho Division of Financial Management (DFM). The data consists of final employment estimates through the first quarter of 2006 and preliminary data for the following quarter. Idaho nonfarm employment grew at a 7.4% annual rate during the first quarter to 631,807 jobs. The growth paced cooled to a still healthy 2.8% in the second quarter of 2006, taking the number of jobs to 636,219.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) September 2006 estimates of Idaho quarterly personal income through the second quarter of 2006. The BEA made significant revisions to this data back through 2003. Notably, Idaho farm proprietors' income was slashed over 50% (one-half billion dollars) in 2005. This change was more than offset by $1.3 billion increase to dividends, interest, and rent income the same year. Contributions for social insurance were raised $183 million in 2005, while other labor income was decreased $164 million. The net impact of these and other changes was Idaho nominal personal income was $306 million (0.8%) higher in 2005 than had been previously reported.

The stochastic equations in the Idaho Economic Model were reestimated to incorporate the personal income revisions and new employment data. The results of this exercise can be found in the appendix of this publication. The model is not due for another update until the spring or summer of 2007. The actual date depends on data availability.

The *Idaho Economic Forecast* is available on the Internet at http://dfm.idaho.gov/Publications/Econ_Publications.html. Readers with any questions should contact Derek Santos at (208) 854-3070 or at dsantos@dfm.idaho.gov.

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