

Idaho Economic Forecast

C.L. "Butch" Otter, Governor

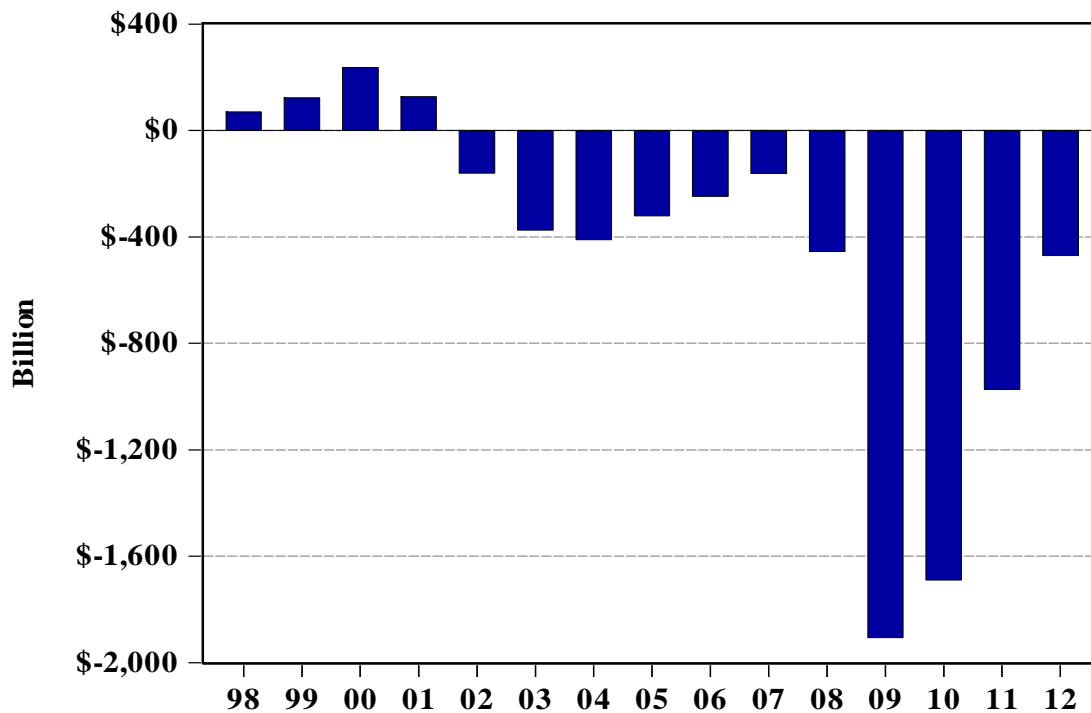
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- Forecast 2009-2012
- The Risk of Deflation
- Alternative Forecasts

U.S. Federal Government Surplus Unified Basis



Source: Global Insight

Federal Fiscal Year

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**IDAHO
ECONOMIC
FORECAST
2009 - 2012**

State of Idaho
C.L. "BUTCH" OTTER
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 economic expansions in the state's history. Since 1987, nonfarm employment has expanded 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 as well as the emergence and expansion of a multitude 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. 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.

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 April 2009 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the December 2008 Global Insight baseline national forecast.

After several years of improvement, the unified federal deficit is expected to balloon over the next few years. The deficit shrank from \$411.1 billion in 2004 to \$161.5 billion in 2007. It is expected to nearly triple next year to \$454.8 billion as the cooling economy caused government revenue growth to slow while outlays accelerated. However, the deficit's jump from 2007 to 2008 pales in comparison to what is expected this year, when the stimulus program and an ambitious executive budget drives the deficit to \$1.9 trillion. The deficit is projected to be \$1.7 trillion in 2010, \$973.1 billion in 2011, and \$470.1 billion in 2012. The cover of this *Idaho Economic Forecast* features a graph that illustrates the recent past and near-term outlook for the unified federal budget deficit.

FEATURE

The worsening global recession has heightened concerns the United States and other economies could enter a sustained period of deflation. Indeed, a popular version of the well-known Phillips curve model predicts the economy is on the cusp of a deflationary spiral in which prices will fall at ever-increasing rates over the next several years. This article examines the risk of deflation in the United States by reviewing the evidence from past episodes of deflation and inflation. This article was written by Dr. John C. Williams. He is the Executive Vice President and Director of Research at 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 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 1995 to 2012 and for every quarter from 2006 through 2011. The solution of the Idaho Economic Model (IEM) for this forecast begins with the first quarter of 2009.

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 Idaho Department of Labor provides monthly historical employment data that are seasonally adjusted and converted to quarterly frequencies by the Idaho Division of Financial Management (DFM). These adjusted data include final employment numbers through the third quarter of 2008 and estimates for the final quarter of that year.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) March 24, 2009 estimates of Idaho quarterly personal income through the fourth quarter of 2008. This release includes revised estimates going back to the beginning of 2005. The next round of estimates is scheduled for release on June 18, 2009, and they will be incorporated into the July 2009 *Idaho Economic Forecast*.

This forecast includes components of the Food and Agricultural Policy Research Institute's most recent baseline agricultural forecasts. These variables are used to drive the Idaho Economic Model's agricultural sector. In addition to the new forecast, some of the historical agricultural data were revised since last year. These new data were used to update the agriculture-related equations of the Idaho Economic Model (IEM). These equations, as well as the other equations of the IEM, can be found in the Appendix of this publication.

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