

Idaho Economic Forecast

C.L. "Butch" Otter, Governor

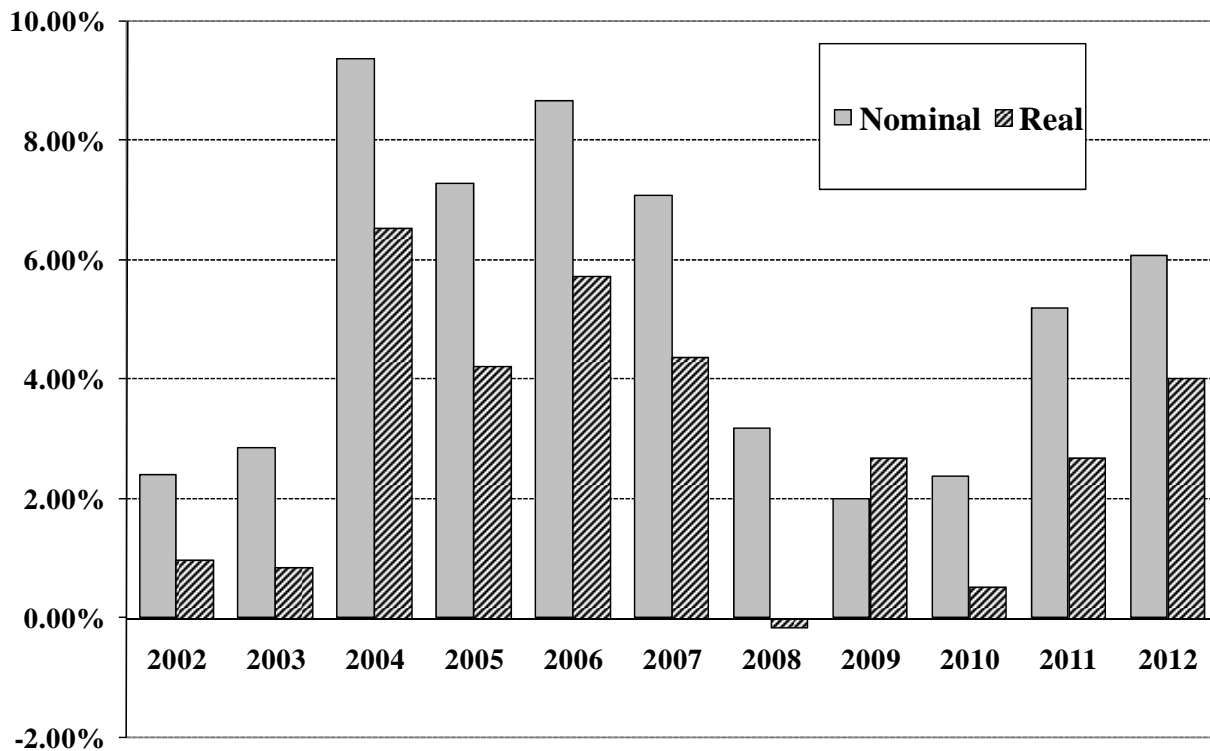
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- Forecast 2008-2012
- Monetary Policy and Asset Prices
- Alternative Forecasts

Idaho Nominal & Real Personal Income Growth



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**IDAHO
ECONOMIC
FORECAST
2008 - 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 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, 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. 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. The 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 December 2008 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the October 2008 Global Insight baseline national forecast.

The recent history and current forecast for Idaho nominal and real personal incomes are highlighted on the cover graph of this *Idaho Economic Forecast*. This chart helps illustrate the economic challenge facing the Gem State over the next few years. It shows that after averaging 6.2% growth from 2000 to 2007, Idaho nominal personal income growth is expected to slow to 3.2% in 2008, 2.0% in 2009, and 2.4% in 2010. It does accelerate in 2011 and 2012, but remains below the average pace established during the first part of the decade. Idaho real personal income is expected to retreat slightly in 2008—for the first time since 1986. Inflation is expected to decline next year, which pushes the real growth rate (2.7%) above the nominal rate (2.0%). Real growth slips to 0.5% in 2010, but picks up speed in both 2011 and 2012.

FEATURE

House prices peaked in 2006 and have since reversed course dramatically. The bursting of the housing bubble has been followed by a sharp rise in delinquencies and foreclosures, massive write-downs in the value of mortgage-backed securities and derivatives, the collapse of a number of large financial institutions, and, most recently, a serious financial crisis prompting unprecedented government intervention in U.S. private capital markets. An important unsettled question in economics is whether policymakers should take deliberate steps to prevent or deflate asset price bubbles. Those who advocate leaning against bubbles point out that excessive asset prices can distort economic and financial decisions, creating costly problems that can take many years to dissipate. Others argue that it is difficult for policymakers to detect a bubble in real time, and that policies intended to prick a suspected bubble could send the economy into a recession, thereby forgoing the benefits of the boom that might otherwise continue. In this *Forecast's* feature article, author Kevin J. Lansing examines the potential role of monetary policy in responding to asset prices. Mr. Lansing is a Senior 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 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 third quarter of 2008.

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 second quarter of 2008 and estimates for the third quarter of this year. These data show there were 951 fewer jobs in this year's third quarter than had been reported in the October 2008 *Idaho Economic Forecast*.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) September 18, 2008 estimates of Idaho quarterly personal income through the second quarter of 2008. The most recent Idaho quarterly personal income estimates which runs through the third quarter of 2008 were published on December 18, 2008. Unfortunately, these estimates were released too late to be included in the current *Idaho Economic Forecast*. The next round of estimates is scheduled for release on March 24, 2009, and they will be incorporated into the April 2009 *Idaho Economic Forecast*.

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