

Idaho Economic Forecast

C.L. "Butch" Otter, Governor

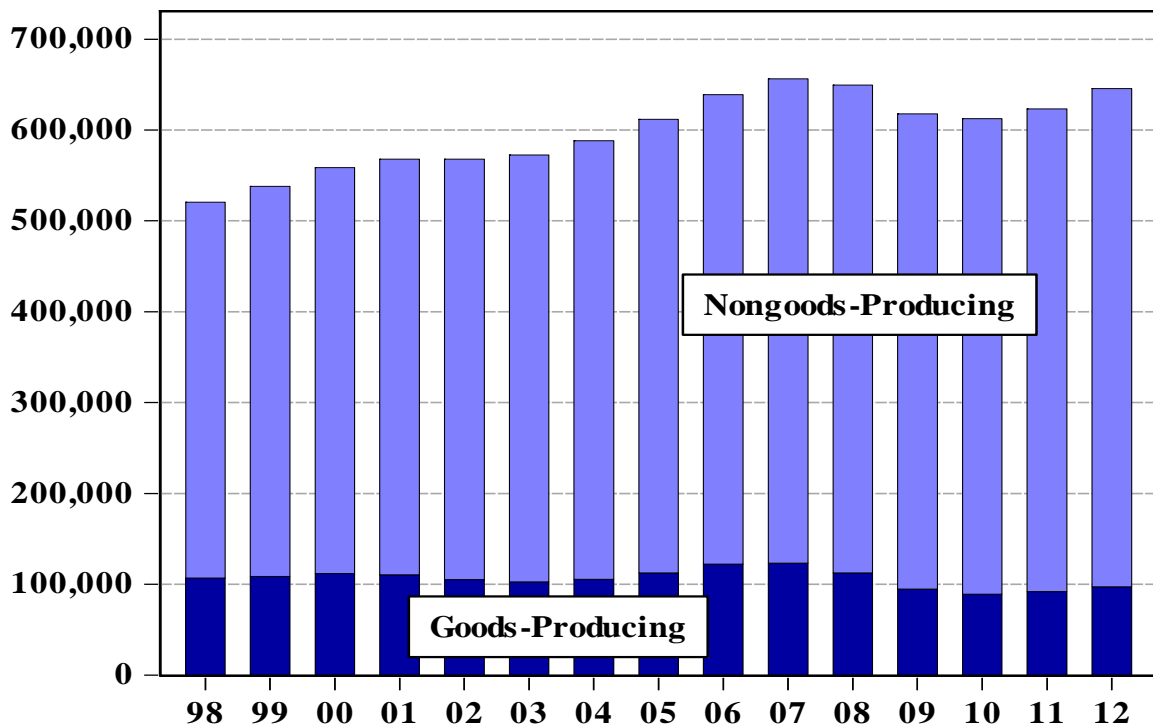
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- Forecast 2009-2012
- Jobless Recovery Redux?
- Alternative Forecasts

Idaho Nonfarm Employment



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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. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s and are once again experiencing challenging economic conditions.

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

The outlook for Idaho nonfarm employment is featured on the cover of this publication. A couple of points from this chart are worth noting. First, after falling in 2008, nonfarm employment is forecast to decline again in 2009 and 2010. This marks the first time in almost 30 years that employment has fallen for three consecutive years. It declined 2.4% in 1980, 0.7% in 1981, and 4.7% in 1982. Second, employment is expected to post modest gains in both 2011 and 2012. As a result, Idaho nonfarm employment in 2012 will still be lower than it was in 2007.

FEATURE

The overall economy is showing hints of stabilization, but most forecasters expect unemployment to continue to increase in coming months and to recede only gradually as recovery takes hold. Is this reasonable? In order to answer this question the authors evaluate this projection using data on three labor market indicators: worker flows into and out of unemployment; involuntary part-time employment; and temporary layoffs. Their analysis generally supports projections that labor market weakness will persist, but their findings offer a basis for even greater pessimism about the outlook for the labor market. Specifically, they suggest that the relatively low level of temporary layoffs and high level of involuntary part-time workers make a jobless recovery similar to the one experienced in 1992, a plausible scenario. Readers are encouraged to review this timely article to gain insights into what could possibly be the biggest challenge of the recovery.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. IHS 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 second quarter of 2009.

Descriptions of the IHS 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 fourth quarter of 2008 and estimates for the first quarter of the current year.

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

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