

# Idaho Economic Forecast

C.L. "Butch" Otter, Governor

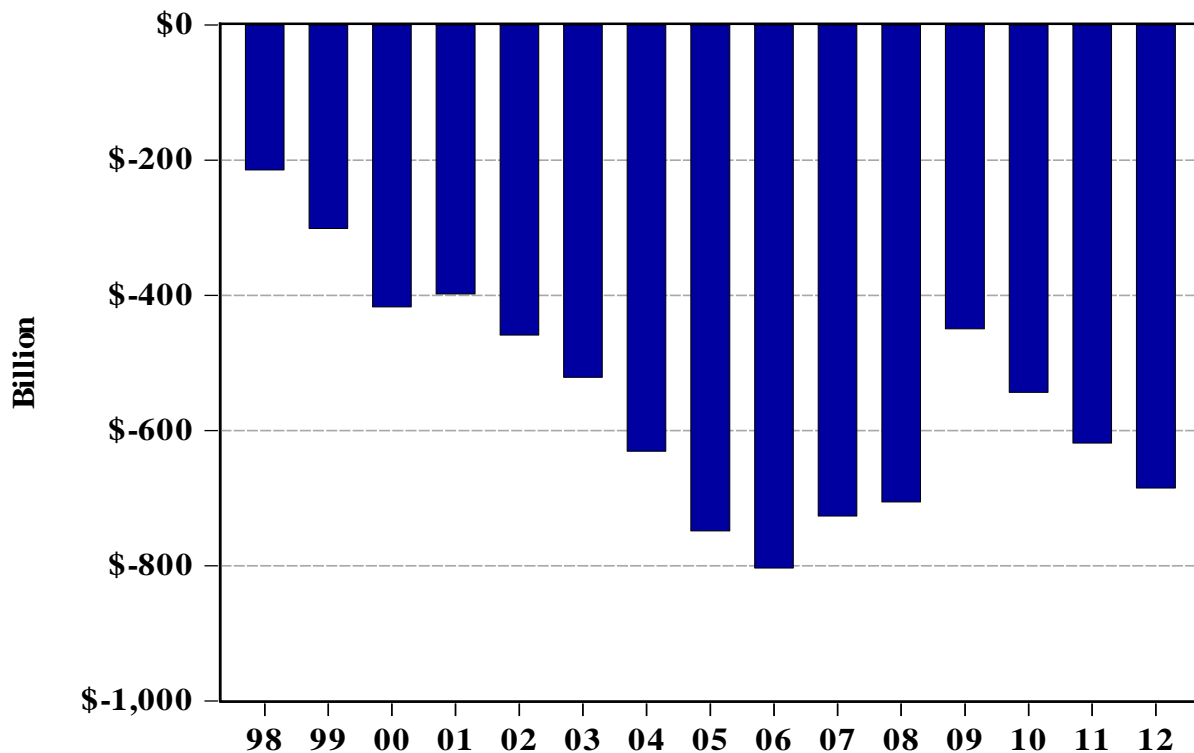
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- Forecast 2009-2012
- Growth Accounting, Potential Output, and the Current Recession
- Alternative Forecasts

## U.S. Current Trade Deficit



Source: IHS Global Insight

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

The cover chart shows the U.S. current account trade balance is expected to improve drastically this year. This change occurs thanks to a favorable inventory cycle that reduced the demand for goods and services, which tilted the trade balance toward exports. On an annual basis, the U.S. current account deficit is estimated to shrink from \$706 billion in 2008 to \$450 billion in 2009. After this year, the deficit should start growing again and hit \$685 billion in 2012.

## FEATURE

The feature article looks at potential output from the perspective of growth accounting, which assesses some of the key supply-side factors determining sustainable, noninflationary potential output. One of its most important findings is that the underlying pace of efficiency improvements—“technological progress,” broadly construed—has remained strong during the recession. This strength offers a reason for cautious optimism about potential output and the long-term health of the American economy. More immediately, stronger potential relative to the same observed output implies substantial slack in the economy. This article was written by John Fernald and Kyle Matoba, both of whom are 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. 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 2007 through 2012. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third 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 run through this year's third quarter. The current data include revisions to 2008 and 2009. Changes to the former result in Idaho nonfarm employment being about 1,500 lower than had been previously reported. Revisions to the 2009 data were much more severe. Specifically, that year's first quarter is down by 6,400 jobs. The second quarter is off by 10,800 jobs. The third quarter is 10,500 jobs lower than had been forecast last summer. These changes lower the starting point for the current forecast.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) October 16, 2009 estimates of Idaho quarterly personal income through the second quarter of 2009. It is important to note that this is not a typical quarterly data release. According to the BEA, "...quarterly estimates (1969:I-2009:I) of state personal income have been revised to incorporate the comprehensive revision of the National Income and Product Accounts (NIPA). Comprehensive revisions, which are undertaken every four to five years, are an important part of BEA's regular process for improving and modernizing its accounts to keep pace with the ever-changing U.S. economy. Such revisions differ from annual revisions because of the scope of the changes and because of the number of years subject to revision. Comprehensive revisions consist of: (1) changes in definitions and classifications that update the accounts to portray more accurately the evolving U.S. economy, (2) statistical changes that introduce new and improved methodologies and incorporate newly available and revised source data, and (3) presentational changes that make the accounts more informative and easier to use and that reflect the definitional, classification, and statistical changes." These data were originally scheduled to be released on September 18, 2009, but complications associated with this revision delayed their publication by a month.

Given the changes to the underlying employment and income data, the stochastic equations of the IEM were re-estimated. The results of this exercise are reported in the appendix of this publication.

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