Idaho Economic Forecast

C.L. "Butch" Otter, Governor

Division of Financial Management

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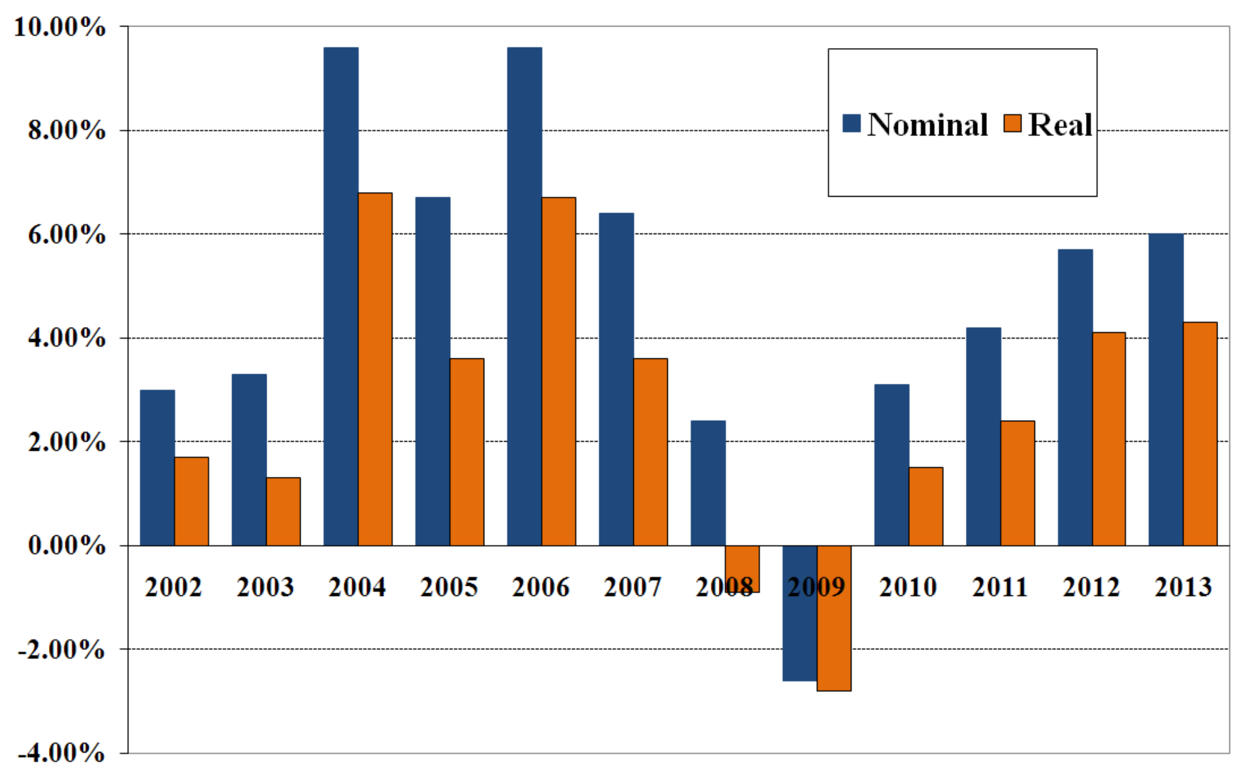
Idaho Nominal & Real Personal Income Growth



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IDAHO ECONOMIC FORECAST 2009 - 2013

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 local shoppers, as well as those 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 December 2009 IHS Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the October 2009 IHS 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*. It helps to show just how uncharacteristically soft Idaho's economy has been in recent years. This chart helps illustrate the economic challenge facing the Gem State over the next few years. It shows that after averaging 6.3% growth from 2000 to 2007, Idaho nominal personal income growth managed to grow just 2.4% in 2008 and actually retreated an estimated 2.6% last year. Adjusting for inflation shows personal income shrank in both years—the only time it has experienced back-to-back declines. Real income is forecast to experience modest growth this year, followed by stronger growth in the remaining years of this forecast.

FEATURE

The current economic and financial crisis hit globally, but its impact differed across countries. Understanding why some countries were more severely affected than others would provide valuable lessons. A particular feature of the crisis is that financial institutions were affected in much more direct and severe ways than in a conventional recession. Banks were by far the institutions most affected by the crisis, and linkages among banks played an important role in the way the crisis spread from the U.S. subprime mortgage market to the rest of the global financial system. This article explores whether international linkages among banks help differences in how economies were affected. The article was written by Julian Caballero, Christopher Candelaria, and Galina Hale. Caballero is a graduate student at the University of California Santa Cruz. Candelaria and Hale 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 1996 to 2013 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). The changes between the current and previous job data that were reported in October 2009 are minor because the current data is essentially the previous data with a few minor revisions. For example, the current job count for the first quarter of 2009 is down just 30 jobs compared to the previous count and down 40 jobs in the second quarter. The biggest difference between the current and previous estimates is in the third quarter of 2009, where the current estimates shows 455 more jobs than the previous estimate.

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. These are the same estimates that were used in the October 2009 *Idaho Economic Forecast* because they were the most current estimates available when the forecast was being prepared. The BEA released its Idaho personal income estimates through the third quarter of 2009 on December 17, 2009. Although these data will not be published in the *Idaho Economic Forecast*, they will be available at BEA's website. This data release will be followed by a new set of estimates in March 2010 that will be incorporated into the April 2010 *Idaho Economic Forecast*.

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