



Idaho Division of Financial Management  
Executive Office of the Governor

# Idaho Economic Forecast



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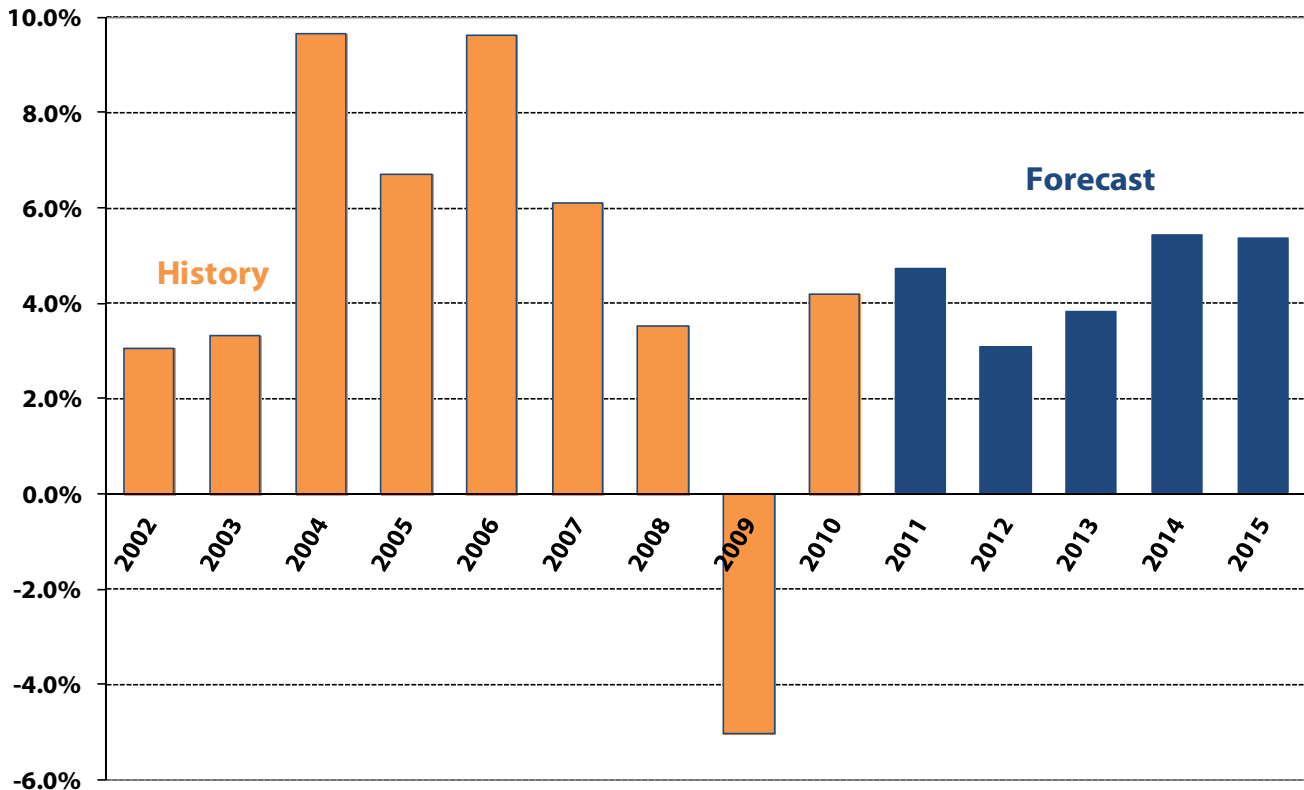
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- **Forecast 2011-2014**
- **When Will Residential Construction Rebound?**
- **Alternative Forecasts**

## Idaho Nominal Personal Income Growth



History provided by U.S. Department of Commerce.  
Forecast prepared by Idaho Division of Financial Management.

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**IDAHO  
ECONOMIC  
FORECAST  
2011-2014**

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 second decade of 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 Idaho's history. The 1990s saw a flood of new residents move into the state, expanding the population by an astounding 29% from 1990 to 2000. Idaho personal income nearly doubled during the same period, and the state's economy underwent structural changes that continue to this day.

One of the biggest changes is the rise of Idaho'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 also was transformed. The past 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 to serve local shoppers as well as those from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. As is the case nationally, the service sector accounts for most of the nonfarm jobs in Idaho. While such traditional factors as increasing discretionary income continue to fuel the demand for services, other influences also 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, credit card companies, and a wide-range of service-based businesses.

While many changes are taking place, traditional resource industries still play a major role in Idaho's economy. These industries are more resilient to downturns than in the past, but they 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 have experienced some challenging economic conditions. However, recently most commodity-based industries have seen the start of what might turn out to be a resurgence in the value of their products.

Other factors that are external to Idaho's economy will keep challenging decision makers. Public policy decisions made in Washington, D.C., affect the 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 November 2011 IHS Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the October 2011 IHS Global Insight baseline national forecast.

The recent past and near-term future growth rates for Idaho nominal personal income are highlighted in this issue's cover chart. It shows the future should be better than the past. After suffering a rare decline in 2009, personal income expanded by 4.7% in 2011. It is expected to continue growing over the forecast period. It is expected to grow 3.1% this year and 3.8% next year. Idaho nominal personal income accelerates to 5.4% growth in both 2014 and 2015.

## **FEATURE**

In the feature article, William Hedberg and John Krainer estimate a model of housing supply and explored what would have to happen for housing starts to return to the levels that prevailed before the housing boom. Demand for housing could rise as a result of an improvement in the job market, growing confidence in the recovery, an entry into the market of households that have delayed homeownership, or any combination of these factors. These demand factors affect real house prices, which in turn influence the rate of housing starts. However, their analysis suggests that even an unusually strong period of real house price appreciation would not, on its own, lift starts to long-run average levels. The model indicates that a significant easing of the drag on housing stemming from the inventory of foreclosed homes is also needed. Both authors 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 United States are presented in the tables in the middle section of this report. Detail is provided for every year from 1998 to 2015 and for every quarter from 2009 through 2014. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2011.

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).

A review of the changes between the current and previous job estimates that were reported in October 2011 shows there were 3,300 fewer jobs in the third quarter of 2011 than DFM had previously forecast. As a result, the starting point for the current jobs forecast has been lowered compared to the previous forecast.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) September 22, 2011 estimates of Idaho quarterly personal income through the second quarter of 2011. These data were revised back through the first quarter of 2008. The next round of Idaho personal income estimates is scheduled to be released on December 19, 2011.

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