IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO * DIVISION OF FINANCIAL MANAGEMENT * NOVEMBER 2001 VOLUME XXIII NO. 5

DRI*WEFA economists recently completed a study comparing the current recession to the 1990-91 recession. Their results are discussed in this issue of the *Idaho Outlook*. The most obvious similarity is both contain events that pushed the already slowing U.S. economies into a downturn. In the 1990-91 recession it was Iraq's invasion of Kuwait. In the current recession it was the terrorists' attacks on America. The major difference is the current recession is expected to be less severe than the 1990-91 recession. With just two quarters of shrinking real GDP, the current recession barely meets the rule-of-thumb definition of a recession. Real output is expected to decline just 0.5%. In contrast, real GDP fell 1.5% over three quarters during the 1990-91 recession.

The anticipation of a mild recession is based on ample evidence. First, unlike the previous recession, spiking oil prices will not shock consumer confidence and spending. Oil prices were already falling before the September 11, 2001 attacks and are expected to remain soft because of weak world demand. So far, OPEC's attempts to boost oil prices by cutting production have been unsuccessful. Second, the U.S. financial system is in much better shape than it was in the late 1980s. The combination of the savings and loan crisis, the bursting of the speculative construction bubble, and the slump in housing prices weakened the U.S. financial system in the run up to the 1990-91 recession. Third, the current policy environment is more conducive to economic growth. The Federal Reserve began lowering its target federal funds rate in January 2001. In contrast, the central bank was raising interest rates prior to the start of the Gulf War.

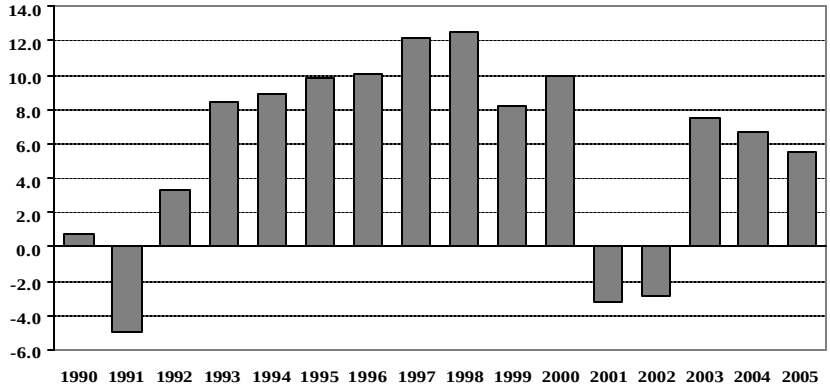
There are five factors that could raise the severity of the current U.S. recession. One, daily reminders of the war on the home front could hurt both consumer and business confidence. Two, with the higher number of countries in recession, there is less hope that another country can take up the slack and help speed up the U.S. economic recovery. Three, the global economy is in the throes of a deflationary cycle. Four, the effects of bursting of the stock market bubble and collapse of Internet companies continue to ripple through our economy, dampening investment. Five, disappointing earnings are also keeping down real business investment.

Ironically, although the current U.S. economic recession is expected to be milder than its predecessor, Idaho's economy will slow more than in the 199-91 recession. Idaho's economy had the right mix of products and services to come through the last recession virtually unscathed. In fact, some industries thrived. For example, high-tech employment advanced an astonishing 13.5% in 1990 followed by nearly 5% growth in 1991. The state's construction sector also flourished in the early 1990s. This sector's payrolls more than doubled during the 1990s, as strong in-migration fueled both residential and nonresidential building. Overall, Idaho nonfarm employment grew 5.3% in 1990 and 3.3% in 1991. Idaho real personal income expanded 4.3% in 1990 and 0.9% in 1991.

Idaho's economy should feel the weight of the collapse in U.S. real business investment. Real business fixed investment declined just 3.6% in the 1990-91 recession. In the current recession, real business fixed investment is expected to decline nearly 5%. However, the weakening investment picture started well before the recession's onset. The U.S. manufacturing sector has been in decline for about a year and investment began declining earlier this year. The investment decline is forecast to last until the beginning of next year. Over this period, real fixed business investment should drop 8.8%. Idaho's high-tech manufacturing sector will be hard hit by this investment-led recession.

The local impacts of the softer national business investment have already surfaced. Since the beginning of the year, local firms have announced plans to cut about 3,000 jobs. Idaho construction employment growth should also slow over the next few years. DFM anticipates Idaho nonfarm employment will expand just 1.6% this year and 0.8% next year. Idaho real personal income is projected to grow 2.2% in 2001 and 2.4% in 2002. Perhaps one of the reasons the slowdown will seem severe is because Idaho's economy did exceptionally well in 2000. Idaho nonfarm employment advanced 3.7% last year and real personal income increased an astounding 9.3%.

Real Business Investment Growth



Source: DRI*WEFA

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General Fund Update

As of October 31, 2001

Revenue Source	$ Millions FY02 Executive Estimate[3]	DFM Predicted To Date	Actual Accrued To Date
Individual Income Tax	973.1	270.3	262.6
Corporate Income Tax	102.5	29.7	21.3
Sales Tax	666.6	234.3	232.1
Product Taxes[1]	20.4	7.2	7.3
Miscellaneous	112.4	29.5	30.3
TOTAL GENERAL FUND[2]	**1,875.0**	**571.0**	**553.6**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2001

General Fund Revenue stabilized in October, coming in a scant $0.3 million higher than expected for the month. Expected weakness in the Sales Tax was more than offset by strong Corporate Income Tax and Miscellaneous Revenue collections. Revenue for the fiscal year to date is now $17.4 million lower than expected.

Individual Income Tax revenue was $0.6 million lower than expected for October. This minor variance masks larger fluctuations in the components of this revenue item. Withholding collections were $3.9 million lower than expected in October, while filing collections were $1.7 million higher than expected and refunds were $1.5 million lower than expected for the month. Overall, the Individual Income Tax is now $7.7 million below the amount expected for the first four months of FY 2002.

Corporate Income Tax revenue was $3.1 million higher than expected for October, and stands $8.4 million below the predicted amount for the fiscal year to date. October's strength came from filing payments that were $1.9 million higher than expected and refunds that were $2.0 million lower than expected. Estimated payments came in $0.9 million below the target for October.

Sales Tax collections were $3.3 million (5.4%) below the target for October, which is actually quite positive considering that this represents September sales activity. Double-digit declines were feared in the aftermath of September 11th. Subsequent automobile financing incentives may yield a significant boost in sales tax receipts for the next month or two.

Product Taxes were exactly on target for October, while Miscellaneous Revenue was $1.2 million higher than predicted for October. The strength in Miscellaneous Revenues was the result of an accounting correction related to an August transfer from DEQ (Division of Environmental Quality) to the General Fund.