IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO | DIVISION OF FINANCIAL MANAGEMENT | AUGUST 2007 VOLUME XXX NO. 2

Idaho's economy is expected to grow slightly slower than had been forecast this spring. In April 2007, we predicted nonfarm employment would expand at a 2.4% annual clip over the 2007-2010 period. We now expect this important measure to advance at a 2.3% yearly pace over the same period. Likewise, the Idaho personal income growth rate has been slightly reduced. Specifically, Idaho nominal personal income growth averages 6.3% over the forecast horizon, compared to the 6.5% pace that was projected in April 2007.

The major difference between the two forecasts is the current forecast includes the impact of Micron Technology's job reductions, while the previous forecast did not include them. The restrucutring came in two stages. Earlier this summer the company announced it reduced its 11,000-person Idaho work force by about 10%. It later reduced its payroll by another 5%. Considering these reductions, employment in the state's computer and electronics sector is forecast to dip from around 16,500 jobs in 2007 to 14,900 jobs in 2010. The decline was less steep in the April 2007 forecast, going from 16,900 jobs in 2007 to 16,300 in 2010.

Micron's job reductions will ripple through the economy. A reasonable estimate is that for every job lost at Micron Technology, another one will be lost somewhere else in the economy.

It should be noted that while Micron Technology's layoffs will dampen future Idaho employment and income growth, it will not stop them. Idaho nonfarm employment is forecast to rise from 638,902 jobs in 2006 to 698,348 jobs in 2010. Idaho nominal personal income is projected to grow from $44.2 million to $56.5 million over the same period.

The nation's real GDP grew just 0.6% in this year's first quarter. This disappointing showing has divided economists into two major camps. The pessimistic one believes the economy's first quarter performance was a preview of things to come. The optimistic camp believes real GDP growth will quickly bounce back from its trough and soon expand more rapidly.

While there are risks to the economy, their impacts may be overstated. First, the increased market volatility since late February has led some to predict an impending credit crunch. But despite retreating this summer, major stock indexes still remain well above their year-ago levels. Second, subprime mortgage problems seem to be contained. Third, the threat to consumer spending by rising oil and gasoline prices will be dampened by the positive impact of continuing job growth and decent real wage increases. Fourth, consumer debt, while high, is not a serious constraint on spending. Fifth, the current account deficit is smaller than had been thought. Sixth, it is not likely foreign central banks will dump their dollar holdings; the share of dollar assets held as reserves by central banks has been stable for the last three years. Foreign central banks are not interested in triggering a sharp rise in U.S. interest rates and a sharp drop in the dollar.

Real GDP increased at a 3.4% annual pace in the second quarter of 2007. But this turnaround does not guarantee robust future growth. In fact, although the economy is forecast to expand both this year and next, its projected pace is less than 3.0%. Real GDP growth is anticipated to breach 3.0% in 2009, but then slip back to 2.8% in 2010. While the economy is not expected to perform as strongly as it did in recent years, it should out perform the dire predictions of the pessimists.

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General Fund Update

As of July 31, 2007

	$ Millions		
Revenue Source	FY08 Executive Estimate[3]	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,392.5	90.4	93.9
Corporate Income Tax	189.1	8.4	8.4
Sales Tax	1,172.2	104.4	110.6
Product Taxes[1]	26.7	2.3	2.3
Miscellaneous	124.8	13.3	13.7
TOTAL GENERAL FUND[2]	**2,905.3**	**218.8**	**229.0**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2007

This *Outlook* presents the mid-summer update of the FY 2008 General Fund revenue forecast. It also incorporates the full impact of the sales tax rate change from 5% to 6% effective October 1, 2006. Since the 6% rate was only in effect for eight months of FY 2007, the FY 2008 growth rate for both sales tax and total General Fund is artificially high.

The current forecast is $97.6 million (3.5%) above the forecast released last January. This increase is due to two principal factors. First, revenue in FY 2007 was $106.2 million higher than was forecast last January ($2,812.5 million actual versus $2,706.3 million predicted), yielding a higher starting point for FY 2008 revenue. Second, the growth rate from the FY 2007 revenue base is down slightly, from 3.7% forecasted last January to 3.3% in the current forecast. This lower growth rate is due primarily to the Micron job cuts announced earlier this summer, and the worsening outlook for the construction and real estate related sectors of the economy.

The first month of the new fiscal year has produced revenue that is $10.2 million higher than expected. This strength is primarily coming from the sales tax and the individual income tax.

Individual income tax revenue was $3.4 million higher than expected in July. The bulk of this gain ($2.5 million) was from higher than expected withholding collections. Filing collections were $0.7 million higher than predicted. On the payout side, refunds were $0.3 million higher than expected and miscellaneous diversions were $0.5 million lower than expected.

Corporate income tax revenue was virtually dead on target for July. Filing collections were $1.7 million higher than expected, but estimated payments were $1.1 million lower than expected. Refunds were $0.7 million higher than expected while miscellaneous diversions were $0.1 million below expectations.

Sales tax revenue was $6.2 million higher than expected in July. This reflects June sales, and therefore does not reflect the fallout of the Micron job cuts. Also, the nationwide housing and real estate slump has not yet impacted Idaho to the extent it has in some of the more over-heated markets, but it is expected that Idaho will eventually feel the impacts of the correction. As a result, sales tax growth is expected to soften in the months ahead as the impacts of falling home sales and rising interest rates are felt in construction materials and durable goods sales.

Product taxes were on target in July, while miscellaneous revenue was a modest $0.5 million higher than expected for the month.