

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

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The U.S. Department of Commerce's preliminary estimate of GDP growth in the second quarter of this year was revised up to 3.3% from its advance estimate of 1.9%. Two major contributors to this improvement were stronger consumer expenditures and exports. On its surface this is good news, but it is important not to read too much into this release. This revision should not lead to major changes in the short-term economic forecast. In fact, it may provide further evidence that the economy will slow in future months, as had been projected earlier this year.

Global Insight, Inc.'s July 2008 forecast showed real GDP growing in the first half of this year, which was a change from its previous forecasts that showed recessions in the first half of this year. The expansion during the first half of this year does not mean a recession has been avoided; it has simply been postponed. The economy is expected to slump at the end of this year and early next year. Ironically, the stronger growth in the second quarter reconfirms this forecast.

The economy's fate during the next few months will largely be determined by if and when Americans spend their collective \$100 billion in federal tax rebates. It is believed these rebates will have had their biggest impact in the second quarter of this year, helping spending jump 2.7%. The impact of

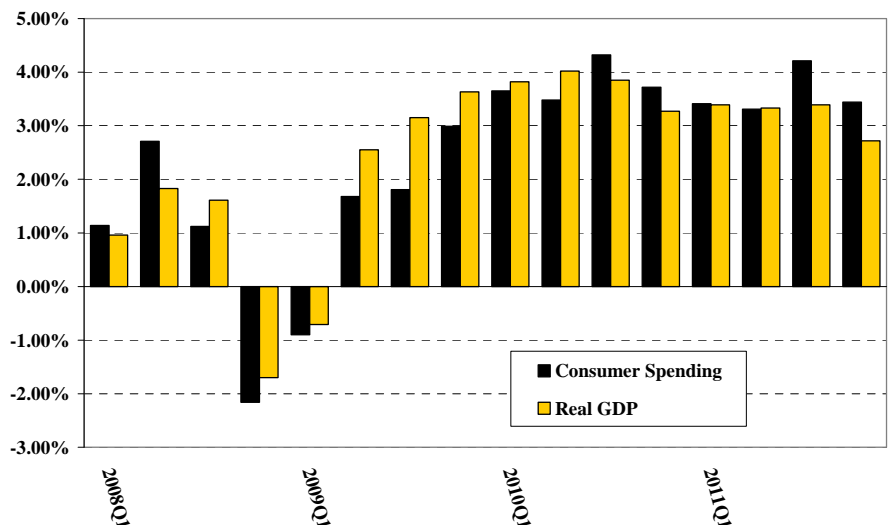
the rebates should fade after that, so that by end of the year real consumer spending is projected to actually decline 2.2%. Spending is expected to drop an additional 0.9% at the start of next year. This retreat drags down real GDP, contributing to its forecasted 1.7% drop in the last quarter of 2008 and 0.7% decline in the first quarter of 2009.

The stronger-than-anticipated consumer spending in the second quarter is open to interpretation. It could mean consumers are more resilient than previously believed and this will help buoy future spending. However, given the challenges facing U.S. households (high energy and food costs, rising unemployment, falling net worth, etc.), it's difficult to make the case that Americans will be in the mood to continue their recent spending spree. Indeed, a case could

be made that the stronger spending in the second quarter will result in even weaker future spending. Whether out of necessity or desire, it seems Americans may have been spending even before their rebate checks were in the mail. As a result, they may run out of this found money sooner than later.

Like the previous recession, the forecasted slowdown should be mild compared to other post-war slowdowns. On an annual basis, real GDP is forecast to advance just 1.6% this year and 0.9% next year—its slowest growth since 2001. However, real GDP does accelerate in the middle of next year as inflation moderates, hiring improves, credit becomes more available, and housing recovers. As a result, real GDP is projected to advance 3.6% in 2010 and 3.4% in 2011.

Real Consumer Spending and GDP Growth



Source: Global Insight, Inc.

Idaho General Fund Update

As of July 31, 2008

\$ Millions			
Revenue Source	FY 2009 Executive Estimate³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,334.7	91.3	89.1
Corporate Income Tax	150.2	5.3	6.3
Sales Tax	1,134.0	103.0	105.5
Product Taxes ¹	29.7	2.4	2.2
Miscellaneous	117.7	16.2	15.7
TOTAL GENERAL FUND²	2,766.3	218.2	218.8

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes *3 Revised Estimate as of August 2008*
2 May not total due to rounding

This *Idaho Outlook* presents the mid-summer update of the FY 2009 General Fund revenue forecast. The previous forecast was produced in February 2008.

The current forecast is \$174.3 million or 5.9% below the forecast released last February. This decrease in the revenue forecast is due in large measure to lower-than-expected economic performance. That resulted in significant softening in sales tax receipts and individual income tax withholding receipts over the past several months. Another factor was reduced individual income tax and corporate income tax associated with House Bill 588 (grocery tax credit), House Bill 615 (bonus depreciation), and other bills passed by the Legislature in 2008.

The first month of the new fiscal year produced revenue that is

\$0.5 million higher than expected. Sales tax and corporate income tax receipts outpaced expectations. However, individual income tax, product taxes and miscellaneous revenues were lower than expected.

Most of the shortfall in individual income tax revenue resulted from withholding collections that were \$4.9 million below expectations. Refunding \$0.5 million more than expected in July also contributed to the shortfall, but filing collections that were \$3.1 million higher than predicted partially offset the weakness and resulted in overall individual income tax revenue that was \$2.2 million less than expected.

Corporate income tax revenue was \$1.0 million higher than expected in July. Filing collections were \$0.2 million lower than

expected and estimated payments were \$0.3 million lower than expected. Refunds more than offset that weakness, coming in \$1.4 million lower than expected in July.

Sales tax revenue was \$2.4 million higher than expected in July. But that was largely due to a very soft forecast for July, which was expected to be the weakest month of the fiscal year for sales tax in terms of year-over-year growth. The projected 6.9% decline in gross collections did not materialize. The actual decline was 4.7%.

Product taxes were \$0.1 million below the July forecast due to lower-than-expected cigarette tax collections. Miscellaneous revenue was \$0.5 million lower than expected for the month due to weakness in interest earnings, insurance premium tax, and unclaimed property.

