

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

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What goes up must come down, but not necessarily at the same speed. This statement can be proven by watching the movement of unemployment rates. Both national and Idaho unemployment rates have climbed quickly over the last year. The seasonally-adjusted U.S. civilian unemployment rate rose from 4.8% in February 2008 to 8.1% in February 2009. Closer to home, Idaho's unemployment rate nearly doubled from 3.9% to 6.8% over the same period. Unfortunately, neither the U.S. nor Idaho employment rates are projected to fall nearly as quickly or as steeply as they rose. To make our point we employ a regional outlook that is based on IHS Global Insight's January 2009 macroeconomic forecast.

Unemployment rates are expected to rise even further before they start to slowly decline. The U.S. economy is forecast to begin recovering during the second half of this year, but employment will take longer to improve because of expected job losses through this year's

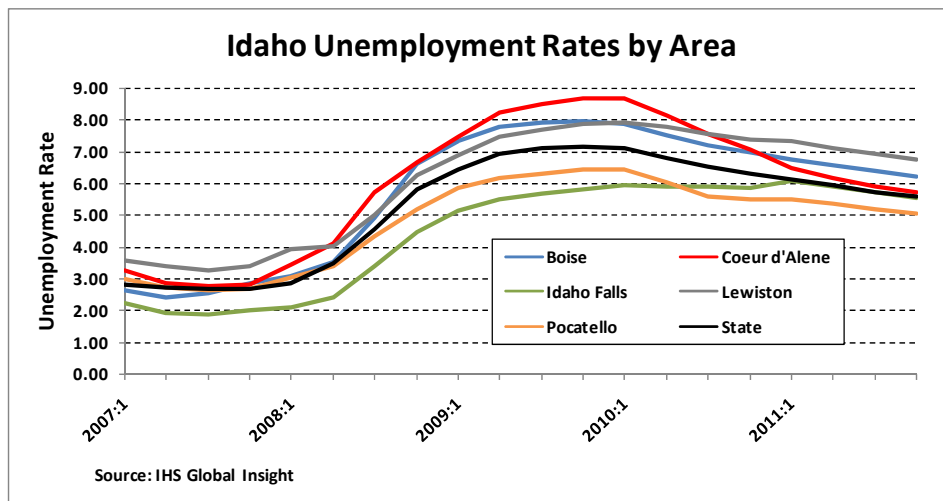
end followed by anemic job growth during most of next year. Specifically, the U.S. civilian unemployment rate is forecast to peak at 9.2% in the first half of 2010, about a year after the recession's expected end. A year after hitting its peak, the unemployment rate is still expected to be well above eight percent—more than three percentage points higher than the five percent considered to be full employment.

Like its national counterpart, Idaho's unemployment rate is expected to climb even after the recession ends, to a peak of 7.2% at the end of this year. Also consistent with the national unemployment outlook, Idaho's rate climbs rapidly to its peak, but improves slowly thereafter. This can be seen in the chart below. By the end of 2011 the rate is 5.6%, but still more than twice as high as it was at the end of 2007.

IHS Global Insight also prepares unemployment rate forecasts for the Idaho metropolitan statistical areas (MSAs). The Office of Management and

Budget defines an MSA as a county with an urban core of at least 50,000 persons and any adjacent counties that have a high degree of social and economic integration with the urban core. The Boise MSA contains Ada, Boise, Canyon, Gem, and Owyhee counties. The Coeur d'Alene MSA is Kootenai County. The Idaho Falls MSA consists of Bonneville and Jefferson counties. The Lewiston MSA also includes two counties, but they are in different states: Nez Perce in Idaho and Asotin in Washington. Bannock and Power counties make up the Pocatello MSA. The unemployment rates for these areas are shown in the graph below.

This graph illustrates three features consistent among the areas covered. First, no area was spared the sharp increase in the unemployment rate. Second, unemployment rates have not yet peaked. Boise (blue line) shows the first signs of improvement in the first quarter of next year. It is joined in the next quarter by Coeur d'Alene (red line). The remaining Idaho MSAs unemployment rates begin dropping in next year's third quarter. Idaho Falls (green line) has the lowest unemployment rate over most of the period. Third, like the entire state, the unemployment rates remain above 2007 levels for the foreseeable future. However, we remind readers that unemployment rates were unusually low during that year, so it is a hard threshold to meet. It is fairer to compare the predicted unemployment rates with their long-run (1990-2006) averages. Of the MSAs, only Coeur d'Alene's and Pocatello's unemployment rates are lower at the end of 2011 than their respective long-run rates. Lewiston is expected to be the furthest from its long-run average, 6.7% versus 4.5%.



Idaho General Fund Update

As of February 28, 2009

\$ Millions			
Revenue Source	FY 2009 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,222.6	753.4	714.0
Corporate Income Tax	156.5	76.1	81.1
Sales Tax	1,041.6	721.5	720.5
Product Taxes ¹	29.7	20.2	20.6
Miscellaneous	110.1	49.1	58.3
TOTAL GENERAL FUND²	2,560.4	1,620.3	1,594.5

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of March 2009

General Fund revenue results for February 2009 are based on new economic and revenue forecasts that were released on March 6, 2009. These new forecasts were prepared as a consequence of continued deterioration in both current economic conditions and the economic outlook. Adobe PDF copies of these new forecasts can be found at the DFM website (<http://dfm.idaho.gov/Publications/EAB/Outlook/IO2009/FebForecast/ForecastIndex.html>).

The outlook for Idaho job growth in 2009 has declined from -2.1% to -3.5%. The General Fund revenue growth rate for FY 2009 has been reduced from -9.5% to -12.0%. Based on this new forecast, actual General Fund revenue in February was \$2.7 million below the predicted amount. Although this may at first blush suggest the revised forecast is too high, closer examination suggests otherwise.

The individual income tax forecast has been reduced by \$45.4 million, from a

decline of 11.3% to a decline of 14.5%. Under this new forecast it accounts for \$7.6 million of shortfall in February. Refunds dominated the month's weakness, coming in \$9.8 million higher than expected for the month. This was partially offset by filing collections that were \$2.7 million higher than expected in February. Withholding collections were off a scant \$0.3 million in February. The timing of refunds has been extremely difficult to predict in recent years, with a structural shift occurring as a result of technological changes (the internet, turbo-tax type programs, new software being used by the Tax Commission, etc). February's share of total fiscal year refunds has gone from 4.4% twenty years ago to 10.5% ten years ago to 26.3% last year. This year's predicted share (based on a linear time trend) was 24.4%.

The corporate income forecast was reduced by a scant \$0.7 million, from a decline of 17.0% to a decline of 17.3%. February saw this category come in \$3.8 million above the predicted amount. This

amounts to the sixth out of eight months so far this fiscal year that the corporate income tax has exceeded expectations.

The sales tax forecast was reduced by \$27.4 million, from a decline of 6.4% to a decline of 8.8%. February sales tax collections were expected to be down 8.0% from a year earlier, but actually came in 10.9% lower. This amounts to a \$2.3 million shortfall for the month. Cumulative sales tax collections were expected to be down by 8.7% through February, but have actually declined by 8.8%.

The forecasts for product and miscellaneous revenue remain unchanged, and both categories came in above their respective estimated amounts for the month of February. Product tax revenue was a mere \$0.1 million higher than expected for the month, while miscellaneous revenue was \$3.3 million higher than expected for the month on the basis of higher-than-expected interest earnings.

