

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

C.L. "Butch" Otter, Governor
Wayne L. Hammon, Administrator

Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

DIVISION OF FINANCIAL MANAGEMENT

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As go consumers, so goes the economy. Consumers account for about two-thirds of the nation's real output. In recent years their influence has intensified, rising to a high of over 70% in 2007. After that year, this ratio dropped slightly as real consumer spending retreated. Changes such as these raise concerns about how much consumers will support the economy in the near future. This is not a trivial issue because the trajectory of the recovery largely depends on how much consumers spend. In this issue of the *Outlook* we look at the macroeconomic factors likely to influence future consumer spending.

American consumers kept the economy afloat during the first half of this decade. They kept it growing by resorting to creative ways to finance their spending. A look at the data shows they were spending money faster than they were earning it. For example, real consumer spending soared 3.4% while real disposable income increased just

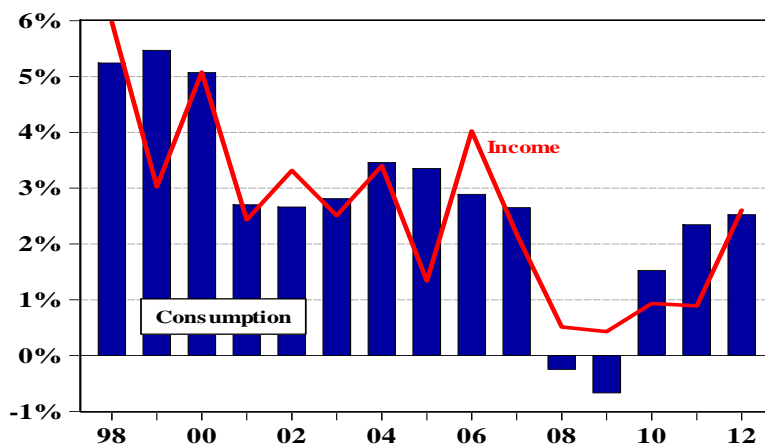
1.3%. In order to bridge this gap, consumers tapped into other sources. The most popular ones were inexpensive and easily available credit and home equity financing. Soaring home prices transformed many consumers' homes into cash machines. From 2000 to 2007, the percentage of disposable personal income to monthly financial obligations increased from 17.4% to 18.7%. The rise in home values also had another impact. Consumers not only saw their homes as a cash machine, but also as an automatic savings account. With home values growing so robustly, there was less need to save. As a result, the personal savings rate dropped from 2.9% to 1.7%. And rising equity from soaring home values provided consumers with another source of funds. Real consumer spending grew faster than the economy in all years except for 2004 and is one of the reasons the 2001 recession was one of the mildest on record.

Last year was different. Real spending actually decreased in

2008, making it a drag on the economy for the first time this decade. It is expected to decline more steeply and be a bigger drag in 2009. Specifically, soft consumer spending stripped nearly two-tenths of a percentage point from overall growth in 2008 and is forecast to reduce it by nearly one-half percentage point in 2009. The reason for this change is a reversal in the factors that made strong spending possible earlier this decade. Credit standards have already begun tightening in response to lenders' fears. Falling home values have erased much of the equity available to homeowners for spending. The savings rate has begun to rise, as it traditionally does during recessions. Another factor reducing consumers' appetites is the fear of job losses, as the national unemployment rate climbed above 10% this fall.

Consumer spending is expected to begin expanding in 2010, but not return to the levels experienced earlier this decade. This frugality reflects more limited sources of funding than in the beginning of the decade. Absent these resources, consumer spending is more likely to grow in line with real disposable income. Specifically, real spending is forecast to grow 1.5% in 2010, 2.3% in 2011, and 2.5% in 2012. In comparison, real disposable personal income is projected to increase 0.9% in both 2010 and 2011 and 2.6% in 2012. It is admirable that consumers are getting their financial houses in order by spending less and saving more, but the lower spending will reduce consumers' contribution to output growth. Over this period, spending is forecast to add between 1 to 1.8 percentage points to overall growth. This is more than in the last two years, but still less than during the 2000-2007 period.

U.S. Real Consumption and Disposable Income Growth



Source: IHS Global Insight

Idaho General Fund Update

As of October 31, 2009

\$ Millions			
Revenue Source	FY 2010 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,137.1	341.1	353.9
Corporate Income Tax	132.1	35.5	30.2
Sales Tax	963.3	347.2	344.3
Product Taxes ¹	40.7	14.9	15.2
Miscellaneous	104.0	32.5	32.1
TOTAL GENERAL FUND²	2,377.2	771.2	775.8

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

General Fund revenue collections were below expectations for the second straight month in October. A \$4.7 million shortfall for the month leaves the fiscal year-to-date collections ahead by just \$4.6 million. The largest hit came from the sales tax, down by \$2.8 million for the month. The individual income tax was close behind, coming in \$2.2 million below expectations for the month of October.

The \$2.2 million shortfall in individual income tax in October was the first time this fiscal year that this category failed to exceed expectations. On a fiscal year-to-date basis this category is still \$12.8 million ahead of target. October's weakness was due to a combination of withholding collections that were \$3.9 million lower than expected and refund payments that were \$1.6 million higher than expected. Filing collections mitigated a portion of this weakness, coming in \$3.3 million

higher than expected for the month. October's withholding collections were 11.4% lower than the same month a year earlier, and this marks only the third month of this recession that withholding suffered a double-digit rate of decline (the other two were -14.4% in December 2008 and -14.3% in June 2009).

Corporate income tax was \$0.8 million above expectations for October, and is now \$5.3 million low for the fiscal year to date. In October, filing payments and quarterly estimated payments were each \$0.2 million higher than expected and refunds were \$0.3 million lower than expected. The fiscal year-to-date weakness is due to a combination of filing collections that are \$2.3 million lower than expected and quarterly estimated payments that are \$2.9 million lower than expected.

Sales tax revenue was low by \$2.8 million in October, almost

double the weakness of the prior month. This is the third consecutive month of sales tax underperformance. Gross receipts for the month are down 11.2% compared to October 2008, while the fiscal year-to-date receipts are 12.7% below the same period a year earlier. The rate of decline is diminishing, but just not fast enough. The forecasted decline in the amount of sales tax for all of FY 2010 is 5.8%. The projected decline through October is 11.8%.

Product tax revenue was essentially on target for the month of October, but due to rounding effects the fiscal year-to-date excess slipped to \$0.3 million.

Miscellaneous revenue was short of expectations by \$0.4 million for the month, and it is now \$0.4 million below expectations on a fiscal year-to-date basis.

