

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

SEPTEMBER 2009 VOLUME XXXII NO. 3

Early this fall the U.S. Department of Labor released *The Employment Situation - August 2009*. At 9.7% August's national civilian unemployment rate was the highest since 1983. As is usually the case, most of the attention was focused on this rate. This makes sense because it is an important, concise metric of the economy's health. Unfortunately, other estimates published by the Department of Labor that provide further insights into the nation's labor market are often overlooked. In this issue of the *Idaho Outlook* we explore some of these less-famous employment measures in order to gain a better grasp of the current recession.

We start with an important definition. What is the unemployment rate? The much-publicized civilian unemployment rate is the ratio (expressed as a percentage) of unsuccessful job seekers to the total labor force. The labor force is defined as all job seekers over 15 years of age, both the unsuccessful and the successful. For example, the August 2009 U.S. labor force was 154.6 million persons. It is estimated that 14.9 million of the labor force sought jobs but did not find them. If we take this amount and divide it by the labor force we get about 0.097, which is the reported 9.7%. It is estimated that the full-employment rate is around 5%. (It is not 0% because in a dynamic economy a portion of the labor force is between jobs.) The graph shows that the U.S. civilian unemployment rate rose above the full-employment threshold in mid-2008, about six months after the recession's official start.

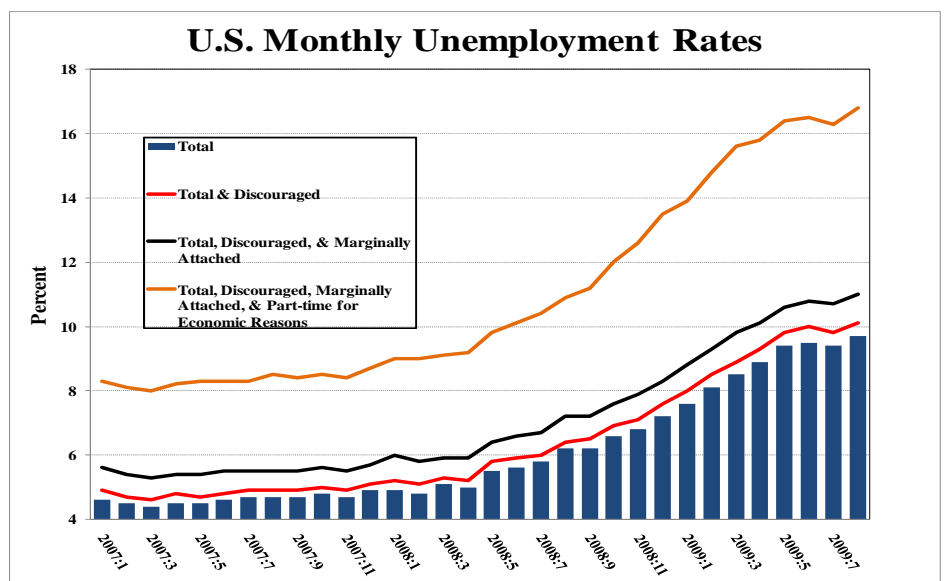
Remember, however, the above rate only includes those who are actively seeking work. What about discouraged workers who have given up

trying to find jobs? They are not included in the official unemployment rate because they are not actively seeking work, but one could argue they should be included because they would take a job if one were offered. The U.S. Department of Labor estimates that including these discouraged workers in the number unemployed would raise the unemployment rate to 10.1%. Adding other marginally attached workers would increase the rate further to 11%.

It should also be noted that even accounting for all marginally attached workers does not fully capture the job situation. It only measures how many persons are employed or unemployed, but it does not account for those who may be under-employed. Granted, coming up with a simple definition is not easy. Should it refer to someone who is working but would like to do another job instead? Does it mean someone who is working but believes they are underpaid? The U.S. Department of Labor estimates persons employed part-time for economic

reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. Accounting for this group causes the August 2009 unemployment rate to jump to nearly 17%. It would be useful to compare this rate to those of severe past recessions, but the data only go back to 1994.

Another important measure of the recession's severity is the length of time workers are unemployed. Of particular concern are those who have been unemployed for more than 26 weeks. In January 2008, just under one in five (18.1%) unemployed workers was unemployed for more than half a year. By August 2009, one in every three unemployed workers was unemployed for over half a year. To provide some perspective to this number, the long-term unemployed peaked at about one of every four job seekers in the early 1980s. In fact, this August's long-term unemployment percent is the highest for the six decades that estimates are available.



Idaho General Fund Update

As of August 31, 2009

\$ Millions			
Revenue Source	FY 2010 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,137.1	165.4	178.4
Corporate Income Tax	132.1	5.6	5.6
Sales Tax	963.3	175.1	176.6
Product Taxes ¹	40.7	8.3	8.5
Miscellaneous	104.0	20.9	19.9
TOTAL GENERAL FUND²	2,377.2	375.2	389.0

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

General Fund revenue collections were \$12.1 million higher than expected for the month of August, bringing the fiscal year-to-date excess to \$13.7 million two months into the fiscal year. The bulk of August's strength came in the form of individual income tax collections that were \$12.0 million higher than expected for the month. All other major components of the General Fund revenue stream were essentially at or very near their targets for August.

Individual income tax was a surprising \$12.0 million higher than expected for the month, and the combined July/August excess is now \$13.1 million. Two-thirds of the fiscal year-to-date excess (\$8.4 million) is due to higher-than-expected filing payments, with slightly over \$6 million of that coming in August. Processing staff at the Idaho State Tax Commission report that August's filing collection gain consisted entirely of payments associated with amended returns,

meaning that it reflects the correction of underpayments from prior tax years. As such, it should be viewed as a one-time event and not reflective of current income tax revenue conditions. The remainder of August's individual income tax strength was in the form of withholding collections that were \$3.9 million higher than expected and refunds that were \$1.5 million lower than expected. Withholding collections for August were expected to be down by 7.6%, but actually fell by only 3.3%. On a fiscal year-to-date basis the expected decline through August was 6.1%, but the actual decline is 5.8%. In essence, August's withholding strength offset the weakness that occurred in July.

Corporate Income Tax was \$0.4 million ahead of expectations for August, exactly offsetting the \$0.4 million weakness in July. This revenue category is now exactly on target on a fiscal year-to-date basis. Within the corporate income tax, filing payments

are \$1.4 million lower than expected for the first two months of the fiscal year, but this weakness is offset by refunds that are low by the same amount.

Sales Tax revenue was low by a modest \$0.4 million in August, but is still ahead of expectations by \$1.5 million on a fiscal year-to-date basis. The expected decline in gross sales tax receipts for the first two months of FY 2010 was 14.4%, but the actual drop so far is slightly lower at 13.9%.

Product tax revenue was slightly ahead of target for the month, coming in \$0.2 million ahead of expectations on strong tobacco tax collections. They are up by the same amount and for the same reason on a fiscal year-to-date basis. Miscellaneous revenue was almost exactly on target in August, with weakness in the mine license tax and insurance premium tax being offset by strength in the kilowatt hour tax, interest earnings, and unclaimed property.

