

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

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The midsummer update of the FY 2011 Idaho General Fund revenue forecast is presented on the back page of this month's *Outlook*. This update is based on the Division of Financial Management's July 2010 *Idaho Economic Forecast (IEF)*, which can be found at the following link: <http://dfm.idaho.gov/Publications/EAB/Forecast/2010/July/iefjul2010.html>. Given the economic forecast's important influence on the state's near-term revenues outlook, we summarize its key findings on the front page of this *Outlook*.

One departure from the July *IEF* is all the data reported here are on an Idaho fiscal-year basis instead of a calendar-year basis. The fiscal-year basis was adopted for the economic data to help provide a more consistent measure with the revenue forecast. (It must be emphasized that both the fiscal-year and calendar-year numbers are based on the same quarterly data. The only difference is the former is based on the average of the last two quarters of the previous year and the first two quarters of the current year, where the latter is the average of the four quarters in the current year.)

The Gem State's economy should grow over the next two fiscal years, but the recovery will be modest. However, any improvement from FY 2010 is welcome. A short review of that year shows why. Idaho nonfarm employment is estimated to have dropped 3.6% in FY 2010, which follows FY 2009's 4% drop. Likewise, Idaho nominal personal income retreated in both years. These income declines are even greater when they are adjusted for inflation. One of the reasons for the state's disappointing performance during these years is the collapse of its housing

sector. Housing starts fell by over two-thirds from its FY 2006 peak to 6,700 units in FY 2010. As a result, construction employment peaked at 53,100 jobs in FY 2007, but was down to about 32,300 jobs in FY 2010.

Idaho's economy should be more prosperous over the next two years than it was in the last two. For example, total nonfarm employment is forecast to rise 1% in FY 2011 and 2.9% in FY 2012. However, growth rates will vary by sector.

Manufacturing employment should expand slightly faster than average, advancing 2% in FY 2011 and 5.6% in FY 2012. One of the reasons for its relatively strong showing is the Gem State's computer and electronics category is expected to stabilize in FY 2011 after suffering three years of double-digit job losses. It is then projected to grow about 3.3% (350 jobs) in FY 2012. Other manufacturing categories should also start growing. Idaho's logging and wood products sector is anticipated to bottom out at about 5,600 jobs in FY 2011 and gain about 1,500 jobs in FY 2012. After stalling in FY 2010, food processing employment is expected to add 400 jobs over the next two years.

The state's mining sector is also expected to add jobs over the forecast period, but not enough to replace the ones lost over the previous couple of years. Construction will be the last goods-producing sector to recover; it should shed another 1,600 jobs in FY 2011. However, this loss is expected to be recovered in the following year.

Idaho's giant nongoods-producing employment should revive this year. After experiencing back-to-back job

losses in FY 2009 and FY 2010, its collective payroll should expand 1.2% in FY 2011 and 2.4% in FY 2012. The state's huge services sector is a major contributor to this gain, adding an estimated 8,100 jobs this fiscal year and another 10,000 jobs next fiscal year. All service sector categories should experience job growth over the next two years, but most of the growth will be from its three largest categories. Combined, the professional and business; education and health; and leisure and hospitality sectors should account for 14,800 of the 18,100-job gain over the forecast period. The trade sector is projected to add 3,900 jobs over the next two years. The prospects for government employment in Idaho are not as bright.

State and local employment is forecast to drop to 102,600 jobs in FY 2011 and remain there in FY 2012 because of tight budgets and slower population growth. Thanks to the U.S. census, federal employment in the Gem State actually expanded in FY 2010. However, the census' influence will wane as the decennial count is completed. Absent this boost, federal government employment is expected to decline slightly in both forecast years.

Both nominal and real Idaho personal income declined in FY 2009 and FY 2010. The biggest hits took place in FY 2009, when nominal personal income shrank 1.1% and real income dropped 2.6%. In FY 2010, nominal income slid 0.3% and real income decreased 1.3%. However, no declines are anticipated in the near future. As the economy revives, nominal income should increase about 4.5% in each of the next two years. Inflation-adjusted personal income should grow 3.4% this fiscal year and 2.8% next fiscal year.

Idaho General Fund Update

As of July 31, 2010

\$ Millions			
Revenue Source	FY 2011 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,130.2	82.9	85.7
Corporate Income Tax	123.5	4.6	6.5
Sales Tax	976.5	90.1	90.5
Product Taxes ¹	41.9	3.2	3.2
Miscellaneous	97.8	16.7	16.0
TOTAL GENERAL FUND²	2,369.9	197.6	202.1

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes *3 Revised Estimate as of August 2010*
2 May not total due to rounding

This Outlook presents the mid-summer update of the FY 2011 General Fund revenue forecast. The previous forecast was produced in December 2009.

The current FY 2011 General Fund revenue forecast is \$63.0 million (2.6%) below the forecast produced last December. This reduction in the amount of revenue forecasted for FY 2011 is due to a combination of lower actual revenue in FY 2010 than was forecasted in December (\$2,264.5 million actual versus \$2,349.1 million forecasted, a 3.6% shortfall), and a higher forecasted growth rate for FY 2011 (4.7% in the current forecast versus 3.6% in the December 2009 forecast). The higher forecasted revenue growth rate is a result of both better actual economic performance than was anticipated last December and an improved economic outlook (relative to December 2009; the last few months have seen a bit of deterioration in the economic outlook, but it remains better than was anticipated in December 2009).

July General Fund revenue results have exceeded the predicted amount for the first month of FY 2011 by a healthy margin of \$4.5 million. Most of the gain came from the individual and corporate income tax, with only the miscellaneous revenue category falling short of the month's target. Sales tax

and product tax receipts for July exceeded their respective predicted amounts by relatively small margins.

The FY 2011 individual income tax forecast has been decreased by 3.5%, from \$1,170.6 million to \$1,130.2 million. However, the growth rate for FY 2011 has increased from 4.1% to 6.4%. July revenue from this source was \$2.8 million (3.4%) higher than expected. Two elements of the income tax accounted for the majority of this gain—filing collections were \$0.9 million higher than expected, and refunds were \$1.5 million lower than expected. Withholding collections were exactly on target, coming in a scant \$7,681 higher than the \$84,505,102 that was predicted. Another very positive aspect of July's result is that although withholding is only expected to grow by 2.8% for the full fiscal year, the predicted growth for July (over July 2009) was 6%, and that's exactly how much it grew.

The FY 2011 corporate income tax forecast has been decreased by 6.9%, from \$132.7 million to \$123.5 million. As with the individual income tax, the growth rate has been increased, in this case from 1.5% to 27.3%. July's actual corporate income tax revenue was \$1.8 million higher than expected. The gain consisted of quarterly estimated payments that were

\$1.2 million higher than expected, and refunds that were \$0.8 million lower than expected. This was partially offset by filing collections that were \$0.2 million lower than expected.

The FY 2011 sales tax forecast has been reduced by 1.2%, from \$988.7 million to \$976.5 million. The growth rate has been decreased from 4.1% to 2.2%. July receipts were \$0.4 million higher than expected. Although the full fiscal year growth rate is expected to be 2.2%, the July year-over-year predicted growth was -0.1%, but the month actually grew by 0.6%.

The FY 2011 product tax forecast has been increased by 1.0%, from \$41.5 million to \$41.9 million. The growth rate has been increased from 1.5% to 1.9%. July's receipts were slightly (\$0.1 million) higher than expected for the month.

The FY 2011 miscellaneous revenue forecast has been reduced by 1.6%, from \$99.5 million to \$97.8 million. The forecasted rate of decline has been reduced from -2.9% to -9.8%. July's miscellaneous receipts came in \$0.7 million lower than expected. The weakness consisted of the insurance premium tax (\$0.2 million low), unclaimed property (\$0.2 million low), and miscellaneous transfers (\$0.3 million low).

