

Idaho Economic Update

January 2009



ECONOMIC DECLINE DEEPER THAN EXPECTED IN 2008, EVEN DEEPER IN 2009

The economic slowdown that was anticipated through 2008 was clearly deeper than expected. This full-blown recession is mirroring the unemployment pattern of the 2001 recession. But nonfarm jobs, which stalled but did not decline during the 2001 recession and its aftermath, have been dropping steadily since last spring and will continue falling behind year-earlier levels while the unemployment rate escalates through much of 2009.

In December 2007 Idaho had the lowest unemployment rate in the nation at 2.7 percent. There may have been some question about the quality of the jobs the economy was generating. But based on the fact that help-wanted signs were just about everywhere, there was no question that there were jobs for people who wanted to work.

The change over the past year could not be more stark as shown in Chart 1 on page 2.

By December 2008 Idaho's unemployment rate had shot up nearly four full percentage

points to 6.6 percent. It was up nine-tenths of a point from November, when 18 other states had lower unemployment rates and the economy was beginning to shed jobs at a serious rate. No other state saw an unemployment rate increase as great as Idaho's on a percentage basis, and only two states – Rhode Island and North Carolina – posted increases of more than Idaho's three percentage points from November 2007 to November 2008.

For the first time ever, the Unemployment Insurance Trust Fund paid more than \$6 million a week in benefits during the first three weeks of December, \$7.5 million in the last week, \$9 million in the first week of January and over \$10 million in the second.

The national rate has been climbing as well, but the gap between Idaho and the nation has narrowed from over two percentage points at the end of 2007 to just six-tenths of a point at the close of 2008. But for all Idaho's economic problems, the state does not appear to face as

Graphic 1: Shift in unemployment Rates 2007 Compared to 2008

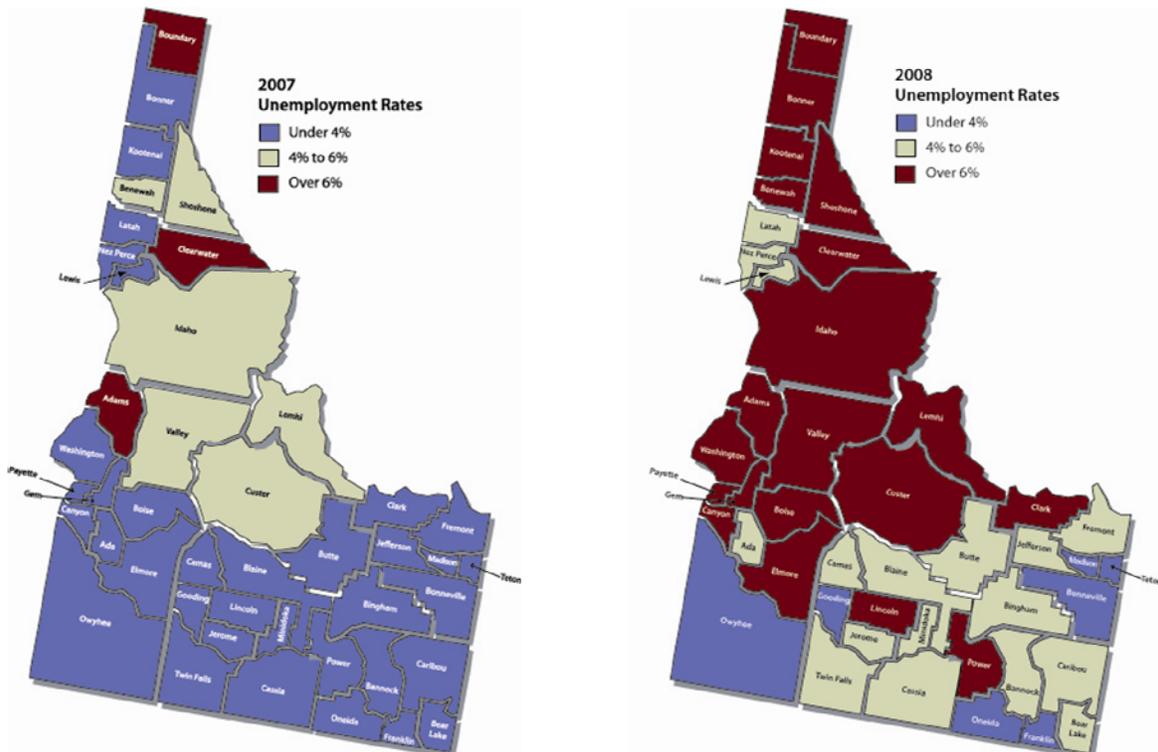
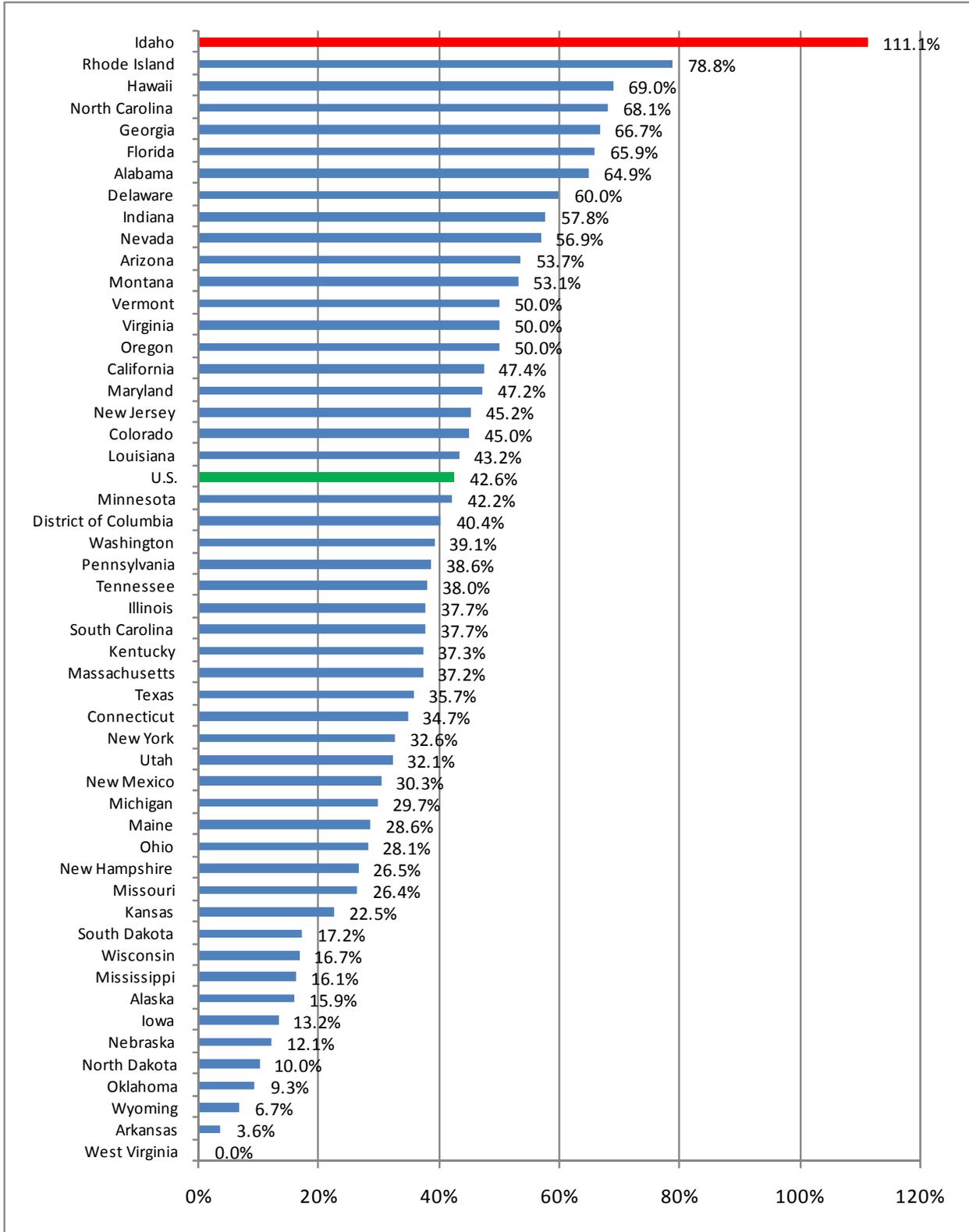


Chart 1: Percentage Increase in November Unemployment Rates 2007-2008



severe a set of circumstances as many others and could still remain below the national rate as it has for over seven years.

The economic deterioration Idaho experienced in 2008 will continue well into 2009. The unemployment rate will exceed 7 percent at some point and could hit 8 percent before topping out and beginning to subside.

The state's nonfarm jobs began disappearing last May compared to a year earlier. Total nonfarm jobs in May were a third of a percentage point below May 2007. By December, that gap had widened to 4.1 percent. It is expected to remain around 4 percent into spring before stabilizing and beginning to narrow. By June 30, 2010 – the end of Fiscal Year 2010 – the Idaho economy will have essentially the same number of nonfarm jobs as it did in July 2008 – around 728,000 including 65,000 self-employed.

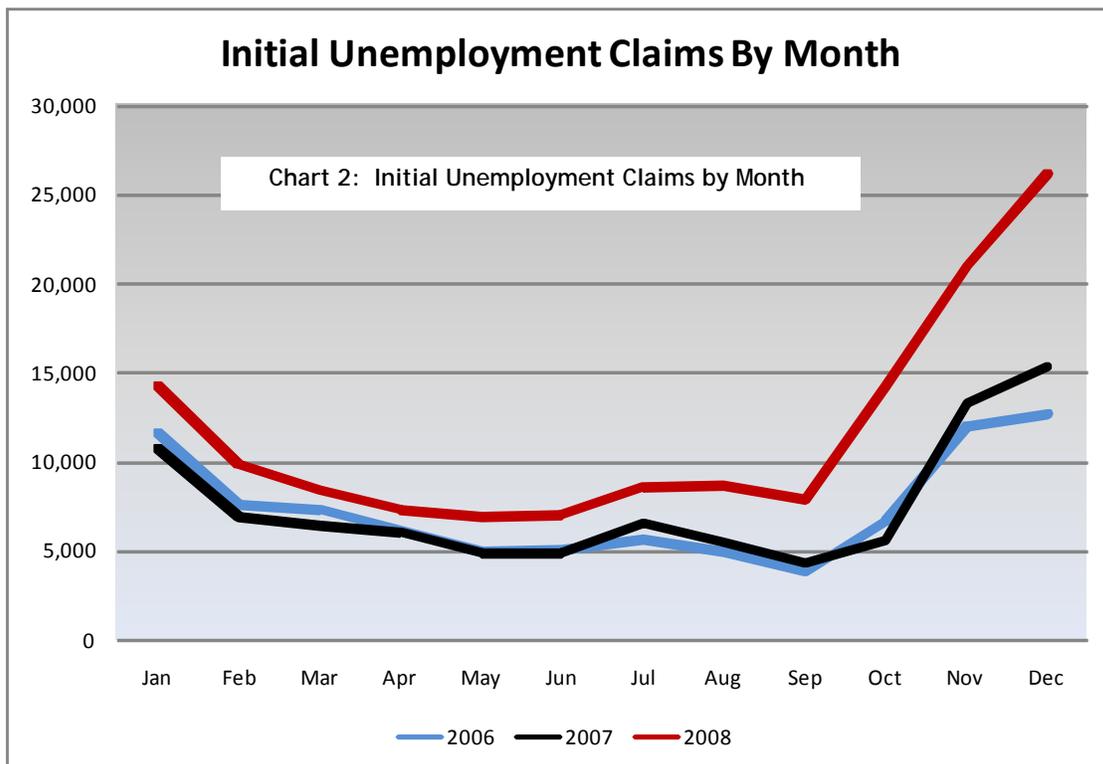
The continued slide in construction, manufacturing and financial services will be offset by what should be comparatively normal growth in health care and education and modest growth in some sectors on the service-side of the economy. While Idaho's population growth has

slowed significantly from three and four years ago, the state remains among the fastest growing in the nation. This should keep health care and education growing while limiting the erosion in retail trade and some other service sectors.

Nonfarm jobs in 2008 averaged 0.9 below 2007, the first annual job loss since 1986. They will continue to run below 2008 levels into 2009 before bottoming out and beginning a slow recovery.

The impact of this recession on Idaho has been broad-based. In November 2007 the vast majority of counties had unemployment rates below 4 percent. Several were between 4 percent and 6 percent, and three were over 6 percent

But in the past year every county has seen its unemployment rate rise at least a full percentage point, and 25 have had rates more than double. The highest rates have been in northern and north central Idaho, where mill closures have been significant, and in the counties east, north and west of Ada, where manufacturing has been hit hard.



By November 2008, counties with rates under 4 percent had dwindled significantly while those over 6 percent approached half. Graphic 1 shows the shift in unemployment rates by county in one year.

Overall, the state lost 27,300 jobs between December 2007 and December 2008, and nearly 27,000 fewer people were working.

Over 26,000 workers filed initial claims for unemployment benefits in December – a record number although not a record in relation to the size of the labor force. See Chart 2 on page 4.

That followed 21,000 initial claims in November, the first back-to-back months of 20,000 or more claims each. The only other month initial claims have exceeded 20,000 was in December 2002. For 2008, 140,000 workers filed initial claims for jobless benefits from a covered labor force of around 629,000. While significant, the ratio is still below 2002 and less than half the ratios posted in the 1980s.

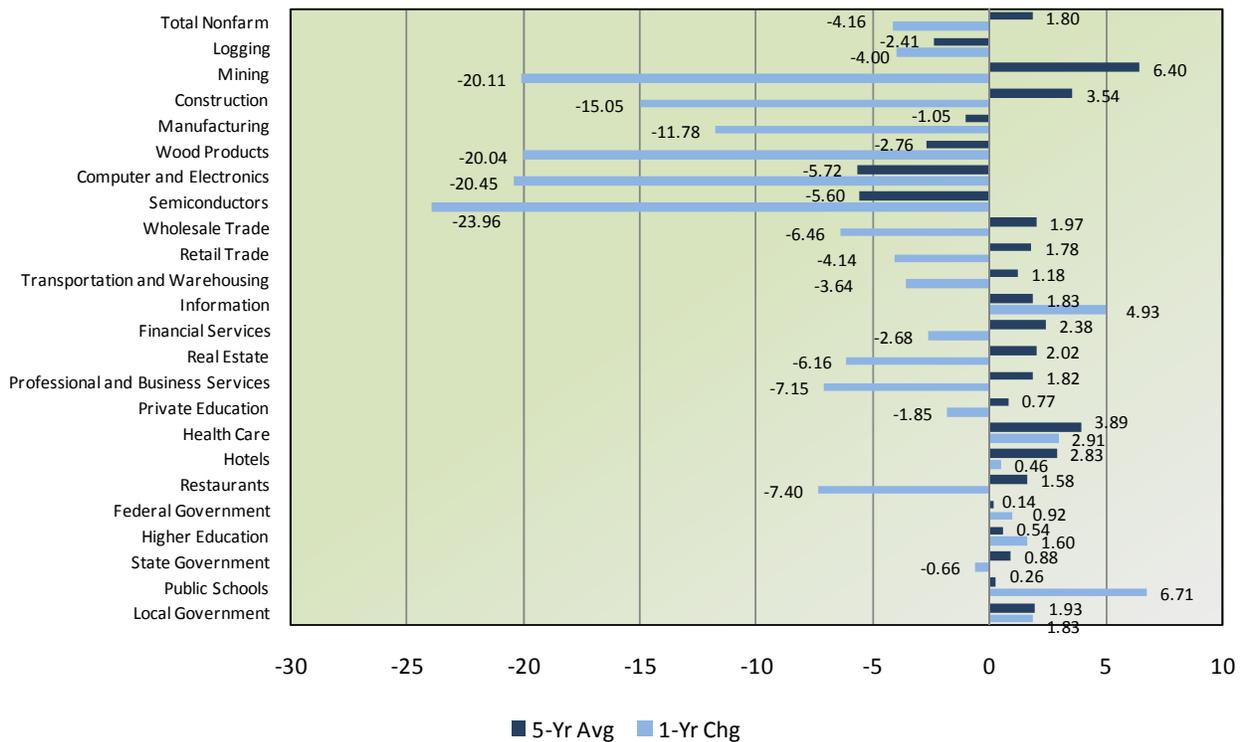
Since the economy peaked in 2006, the state has lost 8,500 construction jobs, 9,000 manufacturing jobs and 1,500 financial services jobs. Those losses rippled into other sectors. In the last year, about 5,400 retail and wholesale trade jobs have disappeared along with 6,000 in professional and business services, 3,300 in hotels and restaurants and 700 in trucking and warehousing. See Chart 3 on page 5 for details.

Job loss began accelerating last spring and will likely continue for the next six to 10 months.

Exports running at another record pace through the first nine months of this year may have muted to some extent manufacturing job losses. But with foreign sales still being driven overwhelmingly by high-tech goods, the global nature of the recession is likely to see many international markets rein in their purchases and further reduce export-linked jobs in Idaho.

Taking into consideration the jobs lost since mid-year, the economy will end up in mid-2010 with fewer than 1,000 more jobs than there

Chart 3: Percent Change in November Jobs, 2007-2008 Compared to Five-Year Average



were last summer. But the mix will have shifted. Manufacturing jobs will be down 5,200, construction another 3,300 and financial services over 1,000. See Chart 4 on page 6.

Offsetting that will be 7,400 new jobs in health care and education and about 1,100 more in professional and business services. More modest growth will be seen in several other service sectors.

But while there should be a net gain in jobs by mid-2010, the value of those jobs is less than the ones they're replacing.

At 2008 average wage rates, the job losses in construction and manufacturing, particularly in high technology, along with those in financial services will suck almost \$600 million out of the economy annually while the jobs replacing them – mainly in health care and education – will add less than \$400 million. See Chart 5 on page 7.

The net impact is a loss in total payroll of \$210 million.

UNEMPLOYMENT INSURANCE TRUST FUND IMPACT

The economic contraction is taking a toll on the unemployment insurance system. See Chart 6 on page 8.

Unemployment benefit claims are already at record levels and will continue climbing over the next six months to a year, depending on the effect from any extraordinary action taken by the federal or state governments to create jobs.

With claims in recent months running well ahead of the 2003 record both in number of claimants and amounts paid, the Unemployment Insurance Trust Fund is being drained.

The unemployment rate has risen steadily since the fiscal year began in July – from 4.1 percent to 6.6 percent in December – averaging 4.2 percent for 2008, well above the record low 2.7 percent rate in 2007. The rate will continue rising into the summer before stabilizing and beginning to drop. It will likely average around 6

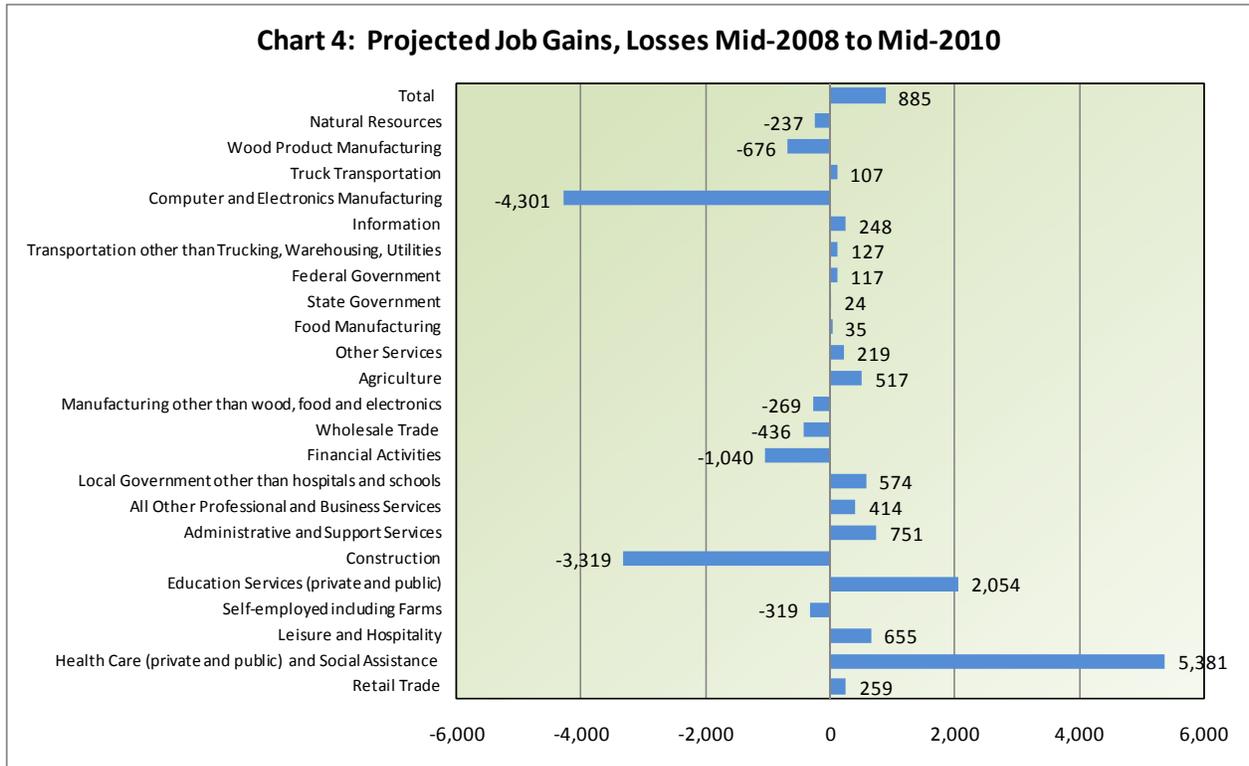
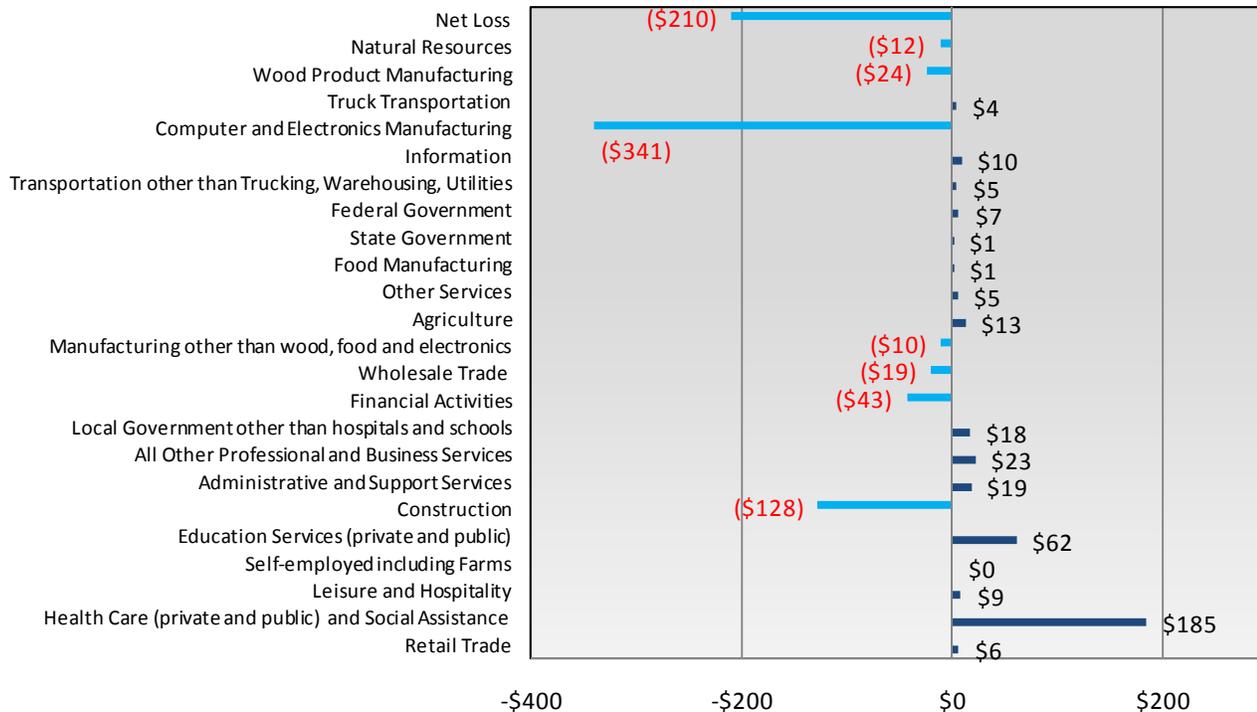


Chart 5: Annual Payroll Loss, Gain -- Q2 '08 to Q2 '10
Based on Average 2008 Wage
 (in millions)



percent for 2009. That would be the highest annual average since the early 1990s.

Aside from more than doubling in the past year as the economy contracted, there has been slightly higher unemployment benefit activity from retail and wholesale trade and hotels and restaurants. The largest percentage of claimants still comes from construction and manufacturing as it did a year ago – just twice as many now. See Chart 7.

The fund, which stood at nearly \$320 million in November 2007, slipped below \$190 million at the end of December. That has triggered a 70 percent increase in employer tax rates in general for 2009, and some employers will pay even higher rates if they change rate classes due to increased benefit claims against their accounts. See Chart 8.

This increase, however, will raise only about \$50 million in additional revenue for the fund –

just one-sixth of the savings employers have experienced since the unemployment law was rewritten in 2005.

Based on projections made before the unprecedented \$9 million and \$10 million weekly payouts, the fund was likely to be drawn down to just \$22 million during the first few months of 2010 before beginning to rebuild its balance. As a precaution, the department will prepare to secure a bridge loan from the U.S. Department of Labor that will be repaid without interest before December 2010. But the continued pressure on the fund will cause another sizeable tax rate increase in 2010. The actual amount will not be determined until next fall.

Overall, Idaho’s job situation will continue to deteriorate, and the unemployment rate rise through much of 2009 before finding bottom, putting the trust fund to the test.

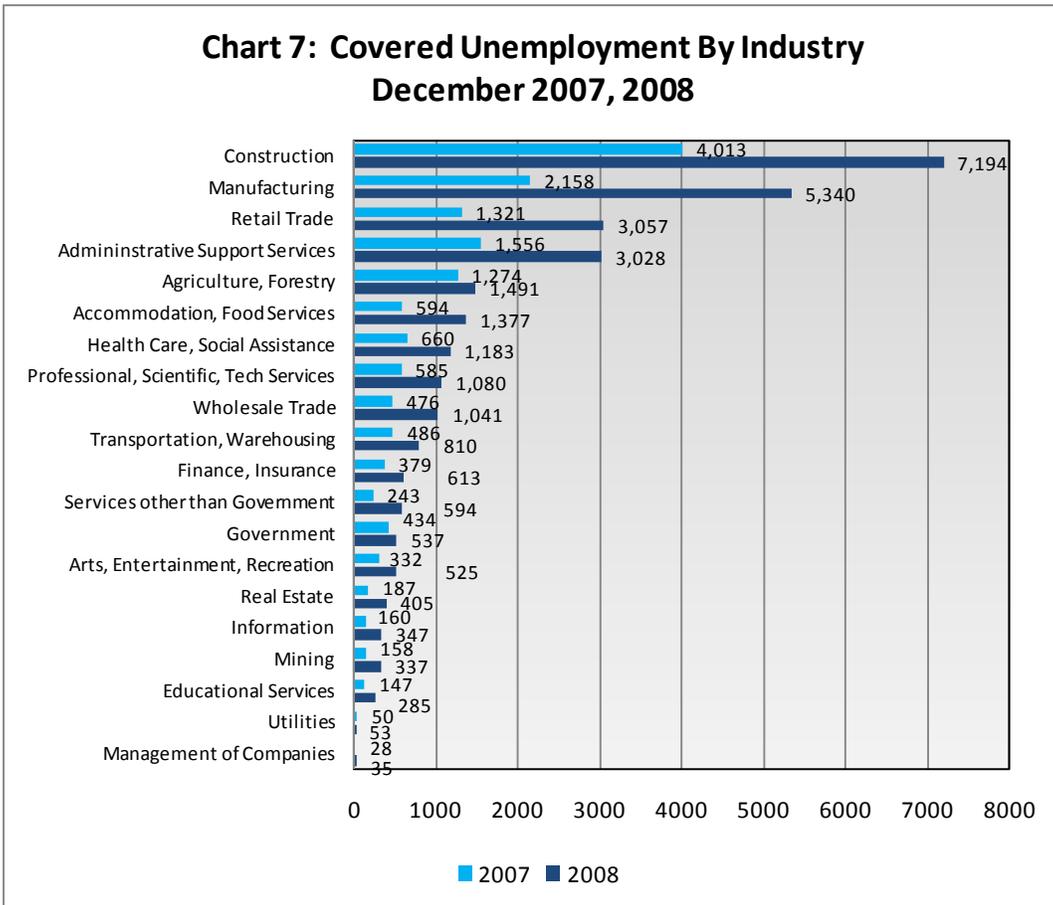
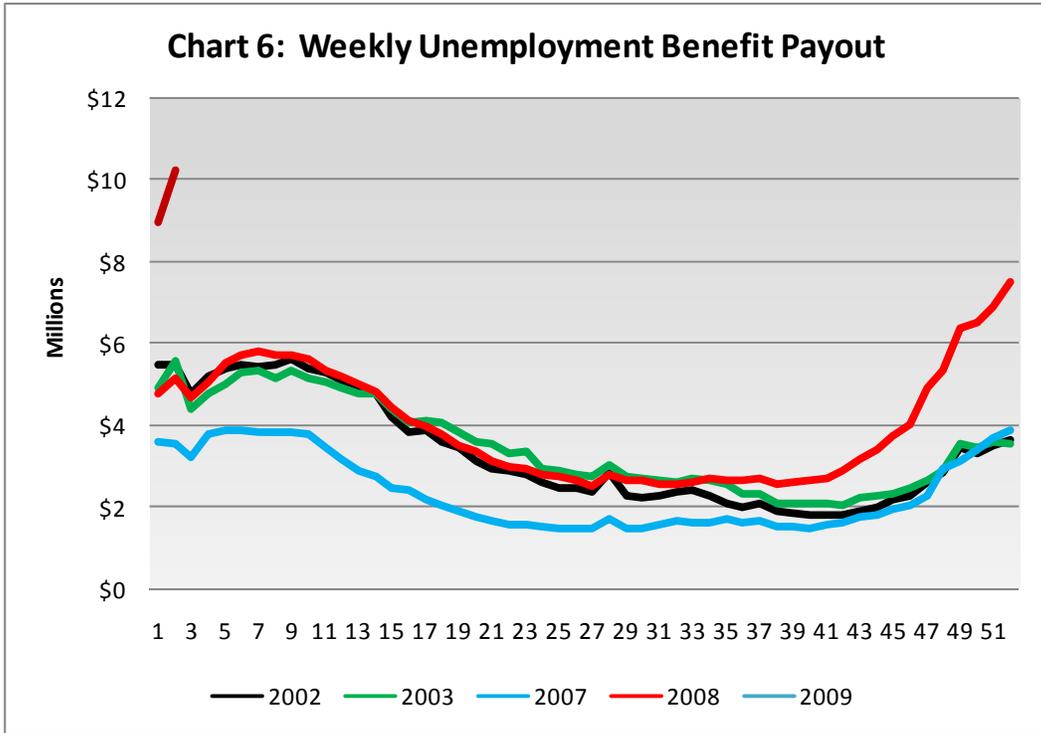


Chart 8: Unemployment Insurance Trust Fund Balance
(in millions)

