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Economic Outlook and Revenue Assessment Committee
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Idaho Department of Labor
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The economic slowdown that everyone anticipated through 2008 was clearly deeper than expected. It's become a full-blown recession. Unemployment is mirroring the recession year of 2001. But nonfarm jobs, which stalled but did not decline during the 2001 recession and its aftermath, have been dropping steadily since last spring with the worst yet to come. They will continue falling behind year-earlier levels while the unemployment rate escalates through 2009.

The rate will be rising steadily through next summer or early fall – exceeding 7 percent at some point – and jobs will continue disappearing – running as much as 4 percent below the year-earlier level before beginning a slow recovery next summer or fall. The net result will be an increase of just a few hundred jobs between mid-2008 and mid-2010 with this trough of lost jobs in between.

The first week of 2009 suggests the bottom is still a ways off. While the unemployment benefit payout was expected to continue rising, it jumped $1.5 million from the last week of 2008 to the first week of 2009. The total payout in regular unemployment benefits last week was just short of $9 million – an amount no one had contemplated even a month ago.

Add to that the $1.7 million paid in federal extended benefits and in just one week Idaho pumped nearly $11 million into communities throughout the state at a time of severe economic stress. It's money that helps struggling families pay the rent or mortgage, buy food, pay utility bills and continue supporting the local businesses that make their communities what they are.

Almost 34,000 workers received regular state unemployment benefit checks last week, and another 6,500 got federal extended benefit payments.

This economic decline has been dramatic.

In November 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 with help-wanted signs displayed just about everywhere, there was no question that there were jobs for people who wanted to work.

But by this past November, Idaho's unemployment rate had shot up three full percentage points to 5.7 percent. Eighteen other states had lower unemployment rates, and our economy was beginning to shed jobs at a serious rate.

In the West where Idaho once had the lowest rate, four states now have lower rates and five – mainly on the coast – have higher rates.

But no other state has seen its unemployment rate increase as much 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.

The national rate has been climbing as well. But while the gap between the Idaho and national unemployment rates has narrowed, Idaho – for all its economic problems – does not appear to face as severe a set of circumstances as many other states.

While the economic deterioration of 2008 is accelerating, it would appear that Idaho's unemployment rate – even as it exceeds 7 percent at some point in 2009 – will continue running below the national rate as it has for the past seven years.

The state's nonfarm jobs began disappearing last May compared to year-earlier levels. Total nonfarm jobs in May were a third of a percentage point below May 2007. By November, that gap had widened to 3.1 percent. It is expected to continue growing to between 3.5 percent and 4 percent next summer before stabilizing and beginning to narrow. By June 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 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 FY 2009 will average a tenth of a percent below FY2008, and FY2010 will average a scant 0.05 percent above FY2009.

This negative performance could be blunted by a major public works program as the new administration has been discussing, but the degree to which the outlook is affected will depend on the details. A department analysis conducted last summer concluded that every $100 million invested in highway improvements generates between 1,900 and 2,500 jobs.

The recession has been felt in every corner of. In November 2007, the vast majority of Idaho counties – those in blue – had unemployment rates below 4 percent. Those in cream were between 4 percent and 6 percent, and the three in dark red were over 6 percent

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.

This was Idaho unemployment – county by county – in November 2008. Blue counties have dwindled significantly and the dark red counties – those over 6 percent – approached half.

Overall, the state lost 17,600 jobs between November 2007 and November 2008, and 19,500 fewer people were working.

December's unemployment rate won't be known until Friday, but there is clear evidence that it will be up again. The number of people hired by Idaho employers in December was under 10,400. That was not just the worst December for new hires since 1998 – the first full year the statistic was gathered. Even during and after the 2001 recession, December new hires were more than 1,000 higher. But this is also the second worst new hire total of any month. The worst was under just 9,500 in May 1999.

In a reflection of this sluggish hiring, preliminary figures show over 26,000 workers filed initial claims for unemployment benefits in December.

That followed nearly 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 7,500 construction jobs, 7,500 manufacturing jobs and 1,200 financial services jobs. Those losses rippled into other sectors. In the last year, about 4,500 retail and wholesale trade jobs have disappeared along with 3,400 in professional and business services, 3,000 in hotels and restaurants and 1,100 in trucking and warehousing.

Job loss began accelerating last spring and will 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 overwhelming by high-tech goods, this global 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 Idaho economy will end up in mid-2010 with less than 1,000 more jobs than there were last summer. On top of this anemic growth will come a shift in the job mix. Manufacturing jobs will be down 5,200, construction another 3,300 and financial services over 1,000.

Replacing them 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.

So there may be a net gain in jobs by mid-2010, but the value of those jobs is less.

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.

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

With unemployment rising and the mix of jobs shifting, the Department of Labor continues to provide resources to train and educate workers needing to improve existing skills or acquire new ones so they can get the jobs the economy will be producing. In the last six months nearly 2,000 workers have participated in training provided through the department even though the federal grant that finances the broadest based training program – the Workforce Investment Act – has been slashed from over $15 million in 2002 to less than $7 million today.

All of this is taking a toll on the unemployment insurance system.

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 ahead of the 2003 record both in number of claimants and amounts paid, the Unemployment Insurance Trust Fund is being drained. Benefit payouts have exceeded $6 million a week since December began – the first time that plateau has been reached – and they hit $7.5 million the last week of December. Including federally paid extended benefits, the weekly total was over $9 million to end 2008. Then there was nearly $11 million in combined benefits paid in the opening week of 2009.

The unemployment rate has risen steadily since the fiscal year began in July – from 4.1 percent to 5.7 percent in November – and it will continue rising through the next two quarters, approaching – if not exceeding – 7 percent to average 5.7 percent for the 2009 fiscal year. That would be the highest annual average since 1993.

The rate is expected to continue rising through much of the last half of 2009 – the first half of fiscal 2010 – again near or above 7 percent before the Idaho economy finally hits bottom and prepares for what will likely be a slow recovery. The unemployment rate for Fiscal Year 2010 will average around 6.8 percent, the highest annual average since 1987.

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.

The fund, which stood at nearly $320 million in November 2007, was down to $232 million this past November. 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.

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 and not enough to bring revenue in balance with the anticipated payout.

Based on current projections – and these were made before the $9 million payout last week – the fund will be drawn down to just $22 million during the first few months of 2010 before beginning to rebuild its balance. The continued pressure on the fund will cause another sizeable tax rate increase in 2010, but the actual amount will not be determined until next fall.

Overall, Idaho's job situation will continue to decline and the unemployment rate rise through much of 2009 before finding bottom.