Idaho's Labor Force Outlook for SFY 2010 – SFY 2011

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Senator Geodde, Representative Bayer, members of the committee, thank you for the invitation to present what we know about Idaho's most recent labor force figures. My name is Bob Uhlenkott and I serve as the chief research officer for the Idaho Department of Labor. Also here with me today are John McAllister, chief deputy director; Georgia Smith, Communications & Research administrator; and Salvador Vazquez, unemployment research unit supervisor.

The department's communications and research team has worked hard to prepare today's information, which is a concise overview of where Idaho stands and what we think may occur during the coming state fiscal year in the areas of business establishments, employment, unemployment, unemployment insurance benefit payouts, nonfarm jobs, employment projections, wages and population growth.

It wasn't until the spring of 2009 that department analysts were able to capture substantive data reflecting the extent of the job losses due to the recession officially called in December of 2007. At the time, Idaho's economic slowdown was showing signs and characteristics of two prior recessions that were more benign – one in 1986 and the other in 2001-2002. It wasn't until the spring of 2009 that we knew the current recession – which really took hold in the fourth quarter of 2008 – was going to be far greater than those experienced during the last 25 years.

Idaho Businesses

Now known as the Great Recession, the last two years have taken a toll on Idaho's businesses, especially small- to medium-sized firms – those with 50 or fewer employees – resulting in significant losses in jobs and wages for the Gem State.

The greatest loss occurred between the second quarters of 2008 and 2009 when the number of covered Idaho employers dropped by 2,115 to 45,580; the number of covered employees decreased by 45,907 and wages paid dropped by $385 million. Small- to medium-sized firms experienced the greatest hit, where the number of covered employers dropped by 1,956; average covered employment decreased by 20,683; and wages dropped by nearly $150 million.

Nonfarm Jobs, Unemployment and Employment

Idaho lost 42,000 nonfarm jobs between the second quarters of 2008 and 2009 and a two-year total of 54,200 to date. Idaho industries hit hardest by the recession include retail trade, construction, financial activities and computer and electronic products manufacturing. Nearly 50 percent of those jobs were in construction (-12,339/28.3 percent) and manufacturing (-9,491/21.7 percent). Retail trade accounted for 15 percent of the job loss (-6,567), as did professional and business services at -14.8 percent (-6,455) and leisure and hospitality at -12.3 percent.

All these industries experienced average annual wage declines ranging from -1.24 percent to -2.39 percent.

Idaho's labor pool currently stands at about 755,000 people. Although approximately 686,500 of these people are working, that's the lowest number since February of 2002. It first dropped below 700,000 in March of this year after four years of levels exceeding 700,000.

In the western United States, where Idaho once had the lowest unemployment rate, five states now have lower rates – Utah is the lowest at 6.3 percent – and four – California, Nevada, Oregon and Washington have higher rates at 12.3 percent, 11.1 percent and 9.2 percent respectively.

The state's average unemployment rate for July 2008 to July 2009 was 6.5 percent. And while Idaho's forecasted unemployment rate for December won't be available until this Friday, our seasonally adjusted unemployment rate climbed to 9.1 percent in November. That's up from 5.8 percent during November of the previous year and 2.7 percent the year before, yet still below the national average of 10 percent. November's rate is the highest state rate since May of 1983 and includes a record number of unemployed – 68,897 people.

Nineteen counties experienced double-digit unemployment rates in November – the largest number since 1986. For all of FY2009, five rural counties are expected to have average double-digit rates with a high of 13.4 percent in Clearwater County, to a low of 3.7 percent in Teton County.

Unemployment Insurance Claims and Benefit Payouts

High levels of unemployment are continuing to take a toll on Idaho's unemployment insurance system. The number of people who collected unemployment insurance benefits jumped from 81,000 in 2008 to 116,750 in 2009.

Last year, unemployment insurance provided millions of dollars in relief to the thousands of Idahoans out of work and pumped more than a half billion dollars – $643 million – into Idaho's economy, an all-time record high for any payout year in the state's history and far exceeding 2008's then-record total of $247 million. Broken down, $403 million of 2009's total benefit payout was in regular benefits – those held at the state level by the Idaho Trust Fund – with the remaining $240 million paid in federal extended and supplemental benefits.

Moody's Economy.com estimates that every dollar paid in jobless benefits has an economic impact of $1.63 because unemployment checks are cashed and spent - not saved - in local communities on house payments and rent, keeping the heat and the lights on, putting food on the table and buying gas to look for work.

Today, approximately 30,000 checks are being issued each week for regular benefits, following seasonal patterns and hovering at the same levels of early 2009 but still way above January of 2008. And while weekly reports show signs of a move toward more seasonal patterns for regular benefit payments, it is by no means a certain indicator that the economy is heading for a full and robust recovery.

Nearly 850 people a week are exhausting regular state benefits and are starting to receive federally funded extended benefits, which are rising steadily. The number of checks issued for federal benefits jumped from 6,494 during the first week of January 2009 to nearly 26,136 the last week of December. Currently about half the workers receiving state-funded benefits exhaust before finding new jobs and move to receiving federally funded benefits.

By the end of 2010, we anticipate the regular benefit payout will reach around $265 million; $138 million lower than what was paid in 2009.

2010 Unemployment Insurance Tax Rates

Idaho businesses are feeling the impact of last year's demand on the state trust fund that finances regular benefits. With only $130 million in tax collections from businesses, 2009's record payout of $403 million in regular benefits forced the state to start tapping interest-free loans from the federal government. And since regular benefit payouts in 2009 outstripped tax receipts paid by businesses by more than three to one – despite a 70 percent increase in tax rates – employers will continue to feel the pinch in 2010. Unemployment insurance tax rates for 2010 have doubled from 2009 levels and are expected to remain at 2010 levels into 2011 and potentially into 2012 depending on the timing and magnitude of an economic recovery. Current unemployment insurance tax code does not allow for taxes to exceed current 2010 levels. If the existing law did not cap base rates at 3.36 percent, the formula would be implementing base rates of almost 5 percent to bring the trust fund to a more solvent level. The 5 percent rate would have been comparable to rates under previous tax code before tax relief measures were taken in 2005. Therefore even though employers are experiencing a heavy tax burden in 2010 it is significantly lower than in previous decades. In fact legislation enacted in 2005 has resulted in around $350 million being left in the hands of business owners.

Idaho's unemployed will feel the pinch, too. The 2010 decrease in the maximum weekly benefit amount from $362 to $334 – another result of the measure unanimously passed by the Legislature in 2005 to keep more money in the hands of business and balance the ownership of the unemployment insurance trust system between business and labor during both economic expansions and declines – is expected to save the state more than $18.2 million in regular unemployment insurance payouts. This move will also reduce the average weekly benefit amount by roughly 8 percent from $261 to $240 per week – the lowest average weekly benefit amount since mid-2006.

To cope with an ever-increasing demand for benefits and because the department can earn interest on the state-managed fund, a decision was made to weather the recession by taking advantage of no-cost federal loans to pay benefits. As of Jan. 4, Idaho has borrowed more than $108 million in interest-free loans. Since employer tax receipts are typically low in January we expect to borrow another $80 million or more during the first four months of 2010, and if necessary, $10 million in the first half of 2011, bringing the total amount to total nearly $190 million. This year's higher tax rates are expected to generate nearly $120 million more than in 2009 – enough to pay anticipated claims and start repaying federal loans. We anticipate more than half the loans will be repaid when the interest-free provision expires at the end of 2010. Loans accrued in 2011 may fall under regular federal borrowing procedures should the interest free provision not be extended past 2010.

Looking Forward

So where do we see Idaho's economy going in the next fiscal year?

We believe Idaho may have hit a statistical low point for many of its indicators and is starting to see increased signs of economic recovery, but it's still too early to tell. We'll know more next week after we forecast the December unemployment rate and look at our winter nonfarm job numbers.

As a lagging indicator, we anticipate Idaho's unemployment rate may continue rising slightly in the coming months, leveling off in the 8 – 9 percent range by the end of the second or third quarter of 2010 before beginning a slow descent and staying in the 8 percent range through mid-2011.

Unemployment projections for 2010 identify 13 counties with double-digit unemployment rates as high as 17.2 percent in Clearwater County. Canyon County is the only urban county expected to experience double-digit unemployment. Bear Lake County is projected to have the lowest rate at 4.8 percent. For 2011 we anticipate the number of counties in double-digit rates to fall to 10, the highest being Valley County at 16.9 percent and again with Canyon as the only urban county to remain above the 10 percent level. Bear Lake County is projected to have the lowest rate at 3.8 percent.

For the first time since September of 2008 initial claims for unemployment insurance benefits are currently below previous year levels. Claims during the last half of 2009 were on average 25 percent higher than the year before, however initial claims for regular state-funded benefits during the first half of 2010 are expected to run about 20 percent lower.

We anticipate year-over-year job gains will occur in late summer or early fall of 2010 at the earliest. Year-over-year, Idaho's job losses went from an extreme of a -7.5 percent in August down to -5.2 percent in November, three consecutive months of losses slowing – the first marked decline in losses since April of 2008. The latest figures indicate Idaho's loss of nonfarm jobs are beginning to level off and are now beginning to follow pre-recession seasonal patterns.

By industry, six sectors are projected to keep Idaho's total employment in positive territory – healthcare, education, administrative and support services, agriculture, the federal government and the self-employed. But with a projected annualized total employment growth rate of .36 percent between mid-2009 to mid-2011, most of the new job growth forecasted for this period is expected to occur in the latter half of 2010. Healthcare and social assistance will continue to experience steady growth, although it will slow down to an annualized rate of 2.8 percent versus an average annual growth rate of 3.6 percent which we have experienced over the last decade.

Population growth will play a role, although not at the record levels of the past – at least not for a while. After decades of exponential growth where housing developments sprouted in Idaho's farmlands and deserts, the burst of the housing bubble and subsequent recession has slowed the number of people moving into the state.

Since the 2000 Census, Idaho's population has increased by nearly 252,000 people – nearly 19.5 percent – the fifth fastest rate nationally behind Nevada, Arizona, Utah and Georgia. About 116,000 of that increase came from natural growth and the rest from in-migration.

As the recession wore on, Idaho's population growth slowed considerably from 1.8 percent in July 2008 to 1.2 percent in July 2009, the slowest growth rate for Idaho since 2002 following the last national recession, but still outpacing the national rate of 0.9 percent. Just over 18,000 more people lived in Idaho in July of 2009 than the year before, increasing the state's total population to 1,545,801 and placing our state as the 12th fastest growing in the country – down from sixth the year before.

Where the state saw the greatest decline is in the number of people moving into the state. In-migration slowed from nearly 15,000 in July 2008 to only 3,734 in July 2009. This slower growth pattern is expected to continue over the next couple of years until more robust growth is projected out five and 10 years. During the next decade demographers expect Idaho's population to grow around 13 percent while the nation is predicted to only grow around 10 percent.

In Conclusion

In spite of record-level job losses and unemployment insurance benefit payouts at an all-time high, there are glimmers of hope on the horizon, but the overriding question remains: "When will our economy turn around and begin to recover at both the state and national levels?"

On a national level, economists are mixed.

Some remain cautiously optimistic, speculating that due to continued economic uneasiness and uncertainty, the U.S. economy will get slightly worse before it gets better, due in large part to weak consumer spending. There's speculation that growth will begin to slow to anemic levels in the coming year, but still enough to keep the momentum of economic recovery going.

Still others are encouraged by short-term increases in business orders, consumer spending, exports and personal income. And while a large portion of the growth in personal income for the last quarter is due to unemployment insurance and social security benefits, some see hope in a recent national drop in the number of new jobless claims, reflecting a trend that began late last summer for Idaho as well – job losses are slowing.

For Idaho, the recovery could look much different. Our economy experienced dramatic, unprecedented growth between 2006-2007 – largely based on high tech manufacturing and construction. The earliest department analysts expect to see year-over-year employment gains is into late summer or early fall of 2010, and a full recovery to pre-recession employment levels could be realized near the end of 2013. For those industries hit the hardest during the recession like construction it could be after 2025 before we return to the employment levels of 2007. Idaho's current recession has been the deepest we've felt since the 1940's, and while there are signs of economic recovery no one has declared it officially over yet.

At the same time many of the core fundamentals necessary for job retention and economic development – quality of life, low cost of living, reasonable business costs – have corrected to levels that will make Idaho an attractive business climate for future wealth creation and economic expansion.

With that, we're ready for questions.