

## **Idaho's Job Recovery to Remain Slow In 2011**

Idaho Department of Labor

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Economic Outlook and Revenue Assessment Committee

Record-breaking job losses that marked Idaho's economy in 2009 ended last winter. Limited growth in early 2010 brought a return of seasonal job patterns. But what few job gains we experienced came in fits and starts, stalling last spring not just below the depressed levels of 2009 but below the levels of 2005.

You've lived through these statistics. The economy shed over 50,000 jobs by the time it hit bottom in August 2009 – a year-over-year loss of 7.3 percent.

Wages plunged by \$1.5 billion, a 6.4 percent loss.

And there was a net loss of more than 2,500 employers from the beginning of the recession at the end of 2007 through the beginning of 2010 – a 4.3 percent decline.

Small businesses – those with fewer than 50 workers – bore the brunt of the recession. They provide nearly half the jobs and 44 percent of the wages in Idaho. From mid-2008, when the state finally started to really feel the recession, through last June, the number of small businesses dropped by 2,500. Three-quarters of that loss – almost 1,900 – came in Fiscal Year 2009 and translated into nearly 21,000 jobs.

Our state's job loss has slowed, but even so another 650 small businesses disappeared in Fiscal Year 2010 – taking with them another 5,300 jobs.

Idaho's job loss since the recession began was among the worst nationally and regionally.

At 8.1 percent, Idaho's job loss from October 2007 through this October was second only to Nevada among the bordering states and sixth among all the states. Nevada posted the highest job loss at over 14 percent followed by Arizona, Florida, Michigan and California.

The state unemployment rate pushed to 9.5 percent last February – one tenth of a point short of the record set in December 1982 through February 1983.

Idaho's unemployment rate slipped back to 8.8 percent last summer before moving higher to 9.4 percent in November. The forecasted December rate will be released tomorrow, but there is no reason to believe it will vary much from November's 9.4 percent – just two tenths below the record of the early 80s.

The job statistics underscore the state's unemployment rate and Idaho's standing nationally. With one of the worst job losses in the country during this recession, Idaho has also experienced the greatest increase in its unemployment rate.

The state's unemployment rate soared from 3.4 percent in November 2007, the month before the recession began, to 9.4 percent last November – over 176 percent.

By contrast, the national rate rose 109 percent from 4.7 percent to 9.8 percent.

It's old news now that unemployment benefits have been running at or near record levels from the state Unemployment Insurance Trust Fund for the past three years – and those amounts have been augmented by federally financed extended benefits.

Regular benefit payments hit a record \$224 million in 2008, and Idaho didn't feel the brunt of the recession until the second half of that year.

We broke that record in 2009 with regular benefits totaling over \$400 million, and while the total was down in 2010, it was still the second highest payout ever at \$290 million. More than 116,000 workers received benefits in 2009 and another 114,000 in 2010. In all, over 165,000 workers have received benefits since the recession began – a quarter of the state labor force.

The state had to borrow \$202 million from the federal government to pay benefits through the middle of 2010 when claims finally fell back in line with revenue from employer taxes.

Nearly three dozen states had to borrow from the federal government after their trust funds went broke. It does not look like we will have to borrow any additional money under the current outlook, which does not contemplate the economy slipping back into another recession anytime soon.

Depleting the trust fund and resorting to federal loans pushed employer tax rates to their legal maximum in 2010 – just two years after they were at a record low. Rates will remain at the maximum and the maximum benefit for workers at its legal minimum for the next five years.

Individual employers will see rate increases and decreases however, as they move among the 14 rate classes based on their experience with unemployment claims. Today's average effective rate, despite recent large increases, is still below the average effective rates employers experienced from 1983 through 1988.

With anywhere from three to five unemployed workers for every job opening in Idaho over the past two years, new employment is eluding tens of thousands of the people laid off during this downturn. In November, just over 52.9 percent of unemployment claimants exhausted regular benefits of 10 to 26 weeks without finding work – matching the record exhaustion rate of 52.9 percent in May 1983.

Employers were hiring in 2010, but at the slowest pace since they began reporting their new hires in late 1997. Employers hired only 141,100 new employees last year. That was 400 fewer than the dismal hiring statistics of 2009.

Up until this recession, the lowest level of new hiring was 172,000 in 2003, and the annual average for all those up through 2008 was over 200,000.

Extended benefits of 28 to 73 weeks, paid by the federal government, have been important to Idaho's long-term unemployed workers in these conditions. Our state's jobless benefit program helps keep qualified workers in Idaho by providing limited resources so they can continue to pay the rent or mortgage, buy food for their families, clothes for their kids and pay the utility bills.

The hundreds of millions of dollars idled Idaho workers have received over the past three years have gone directly to businesses in their communities, helping many keep their doors open. Economic Modeling Specialists in Moscow estimates that one job is saved for every \$80,000 paid in unemployment benefits.

The millions of dollars in benefits pumped back into Idaho's economy have eased the recession's economic drag. But they by no means eliminated the financial struggle for idled Idaho workers, whose average benefit was less than \$240 a week last year – about \$6 an hour.

Personal income – the total of all wages, business profits, investment earnings and payments like pensions and Social Security – declined for four consecutive quarters from mid-2008 to mid-2009.

It was the only time in over 40 years that there have been consecutive quarterly declines in personal income.

The average annual wage dropped 4 percent from nearly \$33,900 in 2008 to just over \$32,500 in 2009.

The Census Bureau reported that median household income fell from 2008 to 2009 in 26 Idaho counties and was essentially stagnant in six more.

At the same time, the poverty rate rose in 35 counties. Only seven counties saw their poverty rates decline in 2009 while two held their own against the recession.

Clearly the recession had a much more stinging impact than the department analysts anticipated a year ago. Job growth that was expected to begin in the second half of 2010 has yet to occur, and except for three months last summer, the unemployment rate has insistently been at or above 9 percent.

Idaho fell into this deep recession relatively quickly compared to other states, and it will be a slow grind coming back.

From the time the economy began to lose steam in mid-2006, it took 22 months for jobs to erode to the point the monthly totals fell below the year-earlier levels. Sixteen months later – during July and August 2009 – year-over-year job losses bottomed out at 7.3 percent.

A fairly rapid improvement during the fall of 2009 and winter of 2010 sputtered out last spring, and the economy has been stuck since.

There are, however, some signs that the economy is ready to finally begin moving up.

Last spring total wages, using a four-quarter rolling total, increased after six straight quarterly losses. Obviously it was not the result of hiring. Employers appeared to have begun restoring the hours they cut to cope with the recession and rewarding some remaining employees for taking on extra responsibilities.

The number of employers also took its first significant upturn this spring since the end of 2008. The net increase was only modest – just a few hundred. But it is an indication of returning optimism about the future and prospects for turning a profit.

Still there has been no change in the projection that Idaho's nonfarm job total will not return to prerecession levels until 2014, and the recovery of construction, which drove Idaho's expansion from 2004 through 2007, is still 15 to 20 years away.

The outlook is for growth but limited growth.

Through mid-2012 Idaho's job growth on an annualized basis will be about eight-tenths of a percent - 10,000 jobs over the next 18 months starting this spring or early summer.

Construction and financial services traditionally linked to construction remain extremely weak spots in the Idaho economy. The recession's impact on the tax structure – and the politics surrounding it – will mean fewer government jobs.

Manufacturing - another source of good-paying job growth following the 2001 recession - has stabilized outside wood products and is expected to provide fractional growth.

Sluggishness will continue in the administrative and support services sector that relies on business expansion for its growth, and retail trade will hold its own as consumers continue to adjust to what many believe is a new – and more reserved – economic reality.

Population growth drives job increases in education and health care – the only two Idaho sectors that road out the recession without losing ground.

Idaho's slow job growth will continue to prop up the unemployment rate. The rate in 2009 averaged 8 percent. The only higher rates since the current statistical method was adopted in the mid-1970s were during the 1980s double dip recession – 9 percent in 1982, 8.8 percent in 1983 and 8.1 percent in 1986.

Adjusted for the state's fiscal year, the rate in FY2010, which ended last June, was 8.6 percent. Since unemployment is a lagging indicator, the average rate for FY 2011 could hit 8.9 percent before beginning to recede in the FY2012, dropping to around 8.3 percent.

While subject to revision as more statistical information becomes available, the jobless rate will remain high, especially compared to the record low rates Idaho experienced in the months leading up to the recession.

But we still believe it is unlikely that Idaho's unemployment rate will exceed the national jobless rate. Idaho's rate has been below the national rate for more than nine years now.