IDAHO ECONOMIC FORECAST
FISCAL YEAR EXECUTIVE SUMMARY
JANUARY 2013

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
U.S. GDP (BILLIONS)										
Current $	12,231	13,030	13,688	14,267	14,071	14,192	14,783	15,387	15,960	16,576
% Ch	*6.3%*	*6.5%*	*5.0%*	*4.2%*	*-1.4%*	*0.9%*	*4.2%*	*4.1%*	*3.7%*	*3.9%*
2005 Chain-Weighted	12,440	12,813	13,055	13,293	12,871	12,897	13,183	13,451	13,700	14,014
% Ch	*3.1%*	*3.0%*	*1.9%*	*1.8%*	*-3.2%*	*0.2%*	*2.2%*	*2.0%*	*1.9%*	*2.3%*
PERSONAL INCOME - CURR $										
Idaho (Millions)	40,852	44,273	47,750	50,380	49,220	48,410	51,009	52,875	54,240	56,543
% Ch	*8.4%*	*8.4%*	*7.9%*	*5.5%*	*-2.3%*	*-1.6%*	*5.4%*	*3.7%*	*2.6%*	*4.2%*
Idaho Nonfarm (Millions)	39,604	43,193	46,428	48,607	47,745	46,937	49,160	50,613	52,510	54,980
% Ch	*8.3%*	*9.1%*	*7.5%*	*4.7%*	*-1.8%*	*-1.7%*	*4.7%*	*3.0%*	*3.7%*	*4.7%*
U.S. (Billions)	10,212	10,887	11,599	12,271	12,165	12,010	12,676	13,145	13,629	14,245
% Ch	*6.0%*	*6.6%*	*6.5%*	*5.8%*	*-0.9%*	*-1.3%*	*5.5%*	*3.7%*	*3.7%*	*4.5%*
PERSONAL INCOME - 2005 $										
Idaho (Millions)	41,501	43,589	45,913	46,918	45,211	43,917	45,421	46,008	46,577	47,937
% Ch	*5.5%*	*5.0%*	*5.3%*	*2.2%*	*-3.6%*	*-2.9%*	*3.4%*	*1.3%*	*1.2%*	*2.9%*
Idaho Nonfarm (Millions)	40,232	42,525	44,643	45,269	43,857	42,581	43,775	44,041	45,091	46,612
% Ch	*5.4%*	*5.7%*	*5.0%*	*1.4%*	*-3.1%*	*-2.9%*	*2.8%*	*0.6%*	*2.4%*	*3.4%*
U.S. (Billions)	10,374	10,720	11,153	11,428	11,174	10,896	11,287	11,438	11,703	12,077
% Ch	*3.2%*	*3.3%*	*4.0%*	*2.5%*	*-2.2%*	*-2.5%*	*3.6%*	*1.3%*	*2.3%*	*3.2%*
HOUSING STARTS										
Idaho	21,513	23,111	16,571	10,936	5,795	6,231	4,163	5,930	7,907	9,662
% Ch	*25.1%*	*7.4%*	*-28.3%*	*-34.0%*	*-47.0%*	*7.5%*	*-33.2%*	*42.4%*	*33.3%*	*22.2%*
U.S. (Millions)	2.016	2.036	1.546	1.132	0.646	0.594	0.570	0.686	0.859	1.127
% Ch	*3.7%*	*1.0%*	*-24.1%*	*-26.8%*	*-42.9%*	*-8.1%*	*-4.1%*	*20.4%*	*25.3%*	*31.2%*
TOTAL NONFARM EMPLOYMENT										
Idaho	599,285	626,190	649,457	655,737	629,267	603,674	603,090	608,899	618,899	632,743
% Ch	*3.6%*	*4.5%*	*3.7%*	*1.0%*	*-4.0%*	*-4.1%*	*-0.1%*	*1.0%*	*1.6%*	*2.2%*
U.S. (Thousands)	132,469	135,010	136,971	137,731	133,889	129,667	130,517	132,300	134,180	136,413
% Ch	*1.5%*	*1.9%*	*1.5%*	*0.6%*	*-2.8%*	*-3.2%*	*0.7%*	*1.4%*	*1.4%*	*1.7%*
SELECTED INTEREST RATES										
Federal Funds	*2.2%*	*4.2%*	*5.3%*	*3.7%*	*0.7%*	*0.2%*	*0.2%*	*0.1%*	*0.2%*	*0.2%*
Bank Prime	*5.2%*	*7.2%*	*8.3%*	*6.7%*	*3.9%*	*3.3%*	*3.3%*	*3.3%*	*3.2%*	*3.3%*
Existing Home Mortgage	*5.8%*	*6.3%*	*6.5%*	*6.3%*	*5.7%*	*5.1%*	*4.8%*	*4.3%*	*3.6%*	*4.0%*
INFLATION										
GDP Price Deflator	*3.1%*	*3.4%*	*3.1%*	*2.4%*	*1.8%*	*0.7%*	*1.9%*	*2.0%*	*1.8%*	*1.5%*
Personal Cons Deflator	*2.8%*	*3.2%*	*2.4%*	*3.2%*	*1.4%*	*1.3%*	*1.9%*	*2.3%*	*1.3%*	*1.3%*
Consumer Price Index	*3.0%*	*3.8%*	*2.6%*	*3.7%*	*1.4%*	*1.0%*	*2.0%*	*2.9%*	*1.5%*	*1.6%*

Idaho Economic and Revenue Assessment Committee

January 3, 2013

Derek Santos, Chief Economist

Idaho Division of Financial Management

Chairmen and members of the Economic Outlook and Revenue Assessment Committee, thank you for this opportunity to share the national and Idaho economic forecasts. I will start by providing a review of the national outlook, and then follow it with the Idaho forecast. We'll go in this order because outputs from the national forecast are used as inputs into the Idaho Economic Model. The national forecast was prepared and published by IHS Global Insight in November 2012. Instead of preparing a national economic forecast in house, we purchase their forecast and focus our efforts on the Idaho economic forecast.

For those of you who were here last year, this presentation may seem like a case of déjà vu. Indeed, the outlook has changed little since a year ago. Previously we projected both the national and Idaho economies would gradually expand. That also summarizes this year's forecast.

Let's start our review of the national forecast with Real Gross Domestic Product, or real GDP. Real GDP is the inflation-adjusted value of all the goods and services produced in the US in a given fiscal year. The chart illustrates how it has grown and is expected to grow over the next few years. From this slide the Great Recession clearly had its biggest impact in FY2009 when real GDP shrank over 3%. The chart also shows the economy barely grew in the following year. The economy has been growing since FY2011. And it is expected to continue expanding over the next few years. This is good news, but how good is it?

The next slide helps to answer this important question. In it we include a concept known as Potential GDP. This measure estimates how fast real GDP would have grown if the economy was at full employment. In a way, it is the speed limit of the economy. Driving above its speed limit is good for the economy and driving under it is not good for it. If we think of it this way, not only was the economy below its speed limit in FY2009, it was actually travelling in reverse. It moved forward in FY2010, but stayed in very low gear. Real GDP growth is expected to exceed its potential over the forecast, but not by much. It should also be pointed out the speed limit is lower over the forecast period compared to the mid-2000s. The economy is recovering, but slowly.

One of the reasons the economy has not recovered faster is the housing sector has not lead the economy out of the recession as it usually does. In fact, this chart shows US housing starts actually declined for two years after FY2009. Home prices declined for three years. The housing sector has been sorely missed. However, the housing market appears to have hit bottom, and both housing starts and prices are forecast to slowly rise over the next few years. The next few slides will help show why we think housing will improve.

After shedding jobs in both FY2009 and FY2010, the economy added jobs in both FY2011 and FY2012. Not only has job growth been positive, it has accelerated. The stronger employment growth should contribute to the demand for housing by boosting household formations The recent soft labor market contributed to the slowing of formations. It hit bottom in FY 2010 at 0.2%, which is well below the population growth rate. It jumped by about 1.7% the next year, which is a sign that formations had recovered. It should grow at about the same pace as the population over the forecast period.

The improved jobs outlook should boost personal income. This slide shows that after falling for two consecutive fiscal years, personal income should expand over the next few years. This rising income, along with still low housing prices and low mortgage interest rates, should increase housing affordability.

This is illustrated in the next chart which shows the National Association of Realtors' Single-Family Home Affordability Index. This index measures the ratio of how much family income is available compared to the amount needed to qualify for a mortgage for an averaged priced home. For example, an index of one means there is just enough income to qualify for a mortgage. An index of two means family income is two times higher than the qualifying amount. The higher the index, the more affordable are homes. The current chart shows that affordability should rise over time. One of the reasons for this is housing prices are expected to just rise gradually over the next few years, and they should remain well below their FY 2007 bubble peak.

Housing affordability will also be helped by low mortgage interest rates. These rates are represented by the red line in the *Selected Interest Rates* chart. Notice rates have been falling since FY 2007, when they were 6.5%. They should hit bottom out at about 3.5% in FY 2013 and rise to about 4% in FY 2014, which is still well below the FY 2007 peak.

This chart also includes the federal funds rate, so it's a good time to talk about monetary policy. The federal funds rate is the interest rate banks charge each other for overnight loans. The Federal Open Market Committee sets the target for this rate in order to meet its goals of economic growth and low inflation. The Committee has been very accommodating. As the blue bars in the chart show, since FY 2010 this target for this short-term is essentially 0%. Because the federal funds rate cannot go lower, the nation's central bank has implemented other policies to help the economy expand. These include several rounds of quantitative easing, where it purchases securities in order to lower interest rates. Another program was called "Operation Twist," where it sold short-term securities to purchase long-term ones in order to ease long-term interest rates. All of this easing has led to concerns that Federal Reserve might not be able to accomplish its other goal of controlling inflation once the economy takes off.

However, it appears inflation should be relatively tame over the next couple of years. The current chart shows that the consumer inflation rate, as measured by the Consumer Price Index. Notice that it did not top 4% during this period. However, it did experience volatility due to swings in energy and food prices.

This is illustrated in the next chart. The blue bars represent total inflation, the same as in the previous graph. The red bars are inflation stripped of the influences of energy and food prices. Notice that these bars are generally shorter and swing less than the blue bars.

The next chart helps to show why this is so. The core or red bars in the previous chart are primarily determined by labor costs. The Employment Cost Index is a good measure of these costs. This index covers total compensation, or both wages and benefit costs. Note that in recent years it has grown by less than 2.5%. The reason for this is the soft labor market has taken pressure off of employee compensation. The labor market, though improving, should remain relatively soft.

This can be seen in the next graph that shows the US unemployment rate in blue bars. As you can see it was nearly 10% in FY 2010. It is expected decline gradually to 7.6% in FY 2014. The red line provides some perspective. It is the estimated full rate of unemployment. As you can see full employment hovers around 5%. It is not 0% because in a healthy economy a certain portion of the labor force is between jobs. A blue bar above the red line means the economy is not at full employment. Notice that over time the blue bars get shorter because the unemployment rate is falling, but they do not drop below the red line. Thus, while the unemployment rate is expected to improve, the economy is not projected to return to full employment over the forecast period.

It's now time to shift our focus to the Idaho economy. The first chart shows the Gem State's nominal personal income. This is measure is the amount of income Idahoans have to spend. As such, it is highly correlated with Idaho tax revenue. Its largest component is wages and salaries. It also includes transfer payments from the government, such as food stamps and social security payments.

After declining in both FY 2009 and FY 2010, it posted a 5.4% gain in FY 2011. That year's recovery reflected the strength in several non-wage categories. Farm proprietors' income was up 47%. Nonfarm proprietors' income grew 6%. Dividends, interest, and rent income climbed 6.4%. And government transfer payments advanced 5.2%.

Non-wage categories also provided a buffer against slowing wage and salary growth in FY 2012. Notably, farm proprietors' income increased an estimated 30%. Dividends, interest, and rent income grew 6.6%. In addition, the federal payroll tax cut helped reduced contributions for social insurance by nearly 5%, which left more money in Idahoan's pockets. Personal income increased 3.7% in that year.

Personal income growth is forecast to slow to 2.6% in FY 2013. This reflects farm proprietors' income falling from its record level to just over a billion dollars in next year and the assumed phase out of the payroll tax cut. However, wage and salary payments do grow an anticipated 4%, as the labor market improves.

Wage and salary payments are projected to grow 4.6% in FY 2014, which offsets the expected decline in farm proprietors' income and the increase in payroll taxes. Idaho nominal personal income should rise 4.2% that year.

The next chart shows Idaho nonfarm employment is also improving. Three years of job declines should be followed by three years of increases. But this growth should be put in perspective. Although, employment growth is expected to accelerate during the forecast period, it will not match the pace it enjoyed during the middle of the last decade. And the level of employment is not projected to top its FY 2008 peak until FY 2016. The sectors adding the most jobs during the forecast period are: Health care and private education (7,100 jobs). Leisure and hospitality (4,600 jobs). And both professional services and retail payrolls should each expand by about 4,100 jobs. Over this same period the number of federal jobs in Idaho is projected to fall by about 600. Printing employment is expected to decline by about 160 jobs. And both information and noneducation-related government employment should be flat.

Our next chart covers Idaho housing sector. The good news here is that housing starts finally began improving in the FY2012. And, as is the case with its national counterpart, we expect Idaho housing starts should gradually improve over the next two years.

One of the questions that has come up is how well will Idaho's economy perform compared to other states. The short answer is: pretty well. A forecast for all of the individual states published by Global Insight in November shows Idaho will have the second fastest job growth in the nation from calendar 2012 to calendar year 2014. Its personal income growth will rank 12th in the nation. And housing starts will be the ranked 17th.

Another outsider's view shows how Idaho's economy compares to other states. The Federal Reserve Bank of Philadelphia has created coincident indexes of economic activity for every state. The change in the index from three months prior provides a useful of how state's economy is performing is performing. One of the most useful features of the index is its consistency. Because they are prepared the same way for all states, all states can be compared. The most recent indexes that run through November 2012 are shown in the chart. The dark green states have grown the fastest over the last three months, while the red and pink states are declining. Notice that Idaho is one of the dark green states. The next graph shows how fast each state is expected to be growing in the next six months. Again, Idaho is in the dark green group.

Joint Legislative Economic Outlook and Revenue Assessment Committee

National and Idaho Economic Forecasts FY2013 and FY2014

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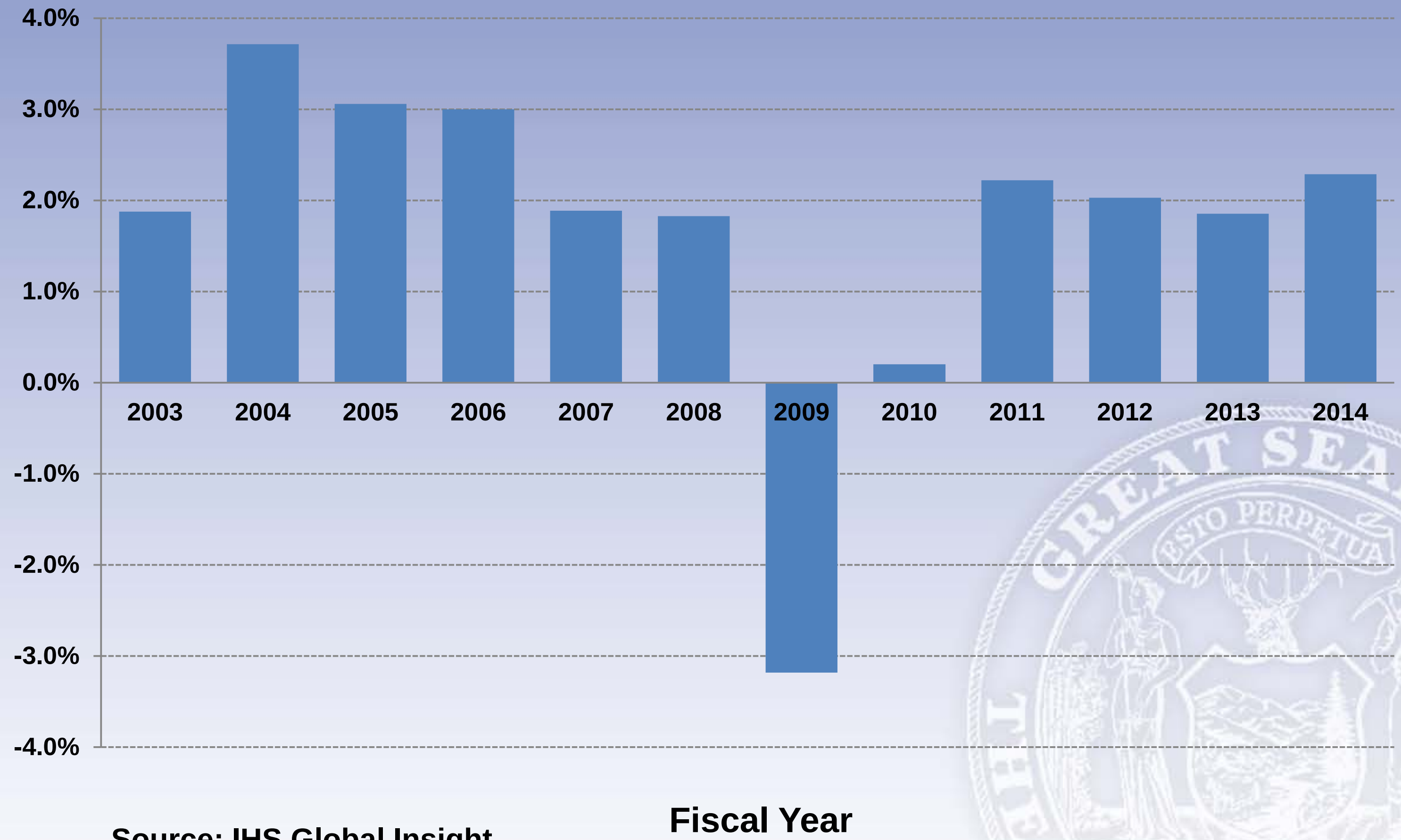
Idaho Division of Financial Management

January 3, 2013

DFM Idaho Division of Financial Management
Executive Office of the Governor

Real GDP Growth



Source: IHS Global Insight

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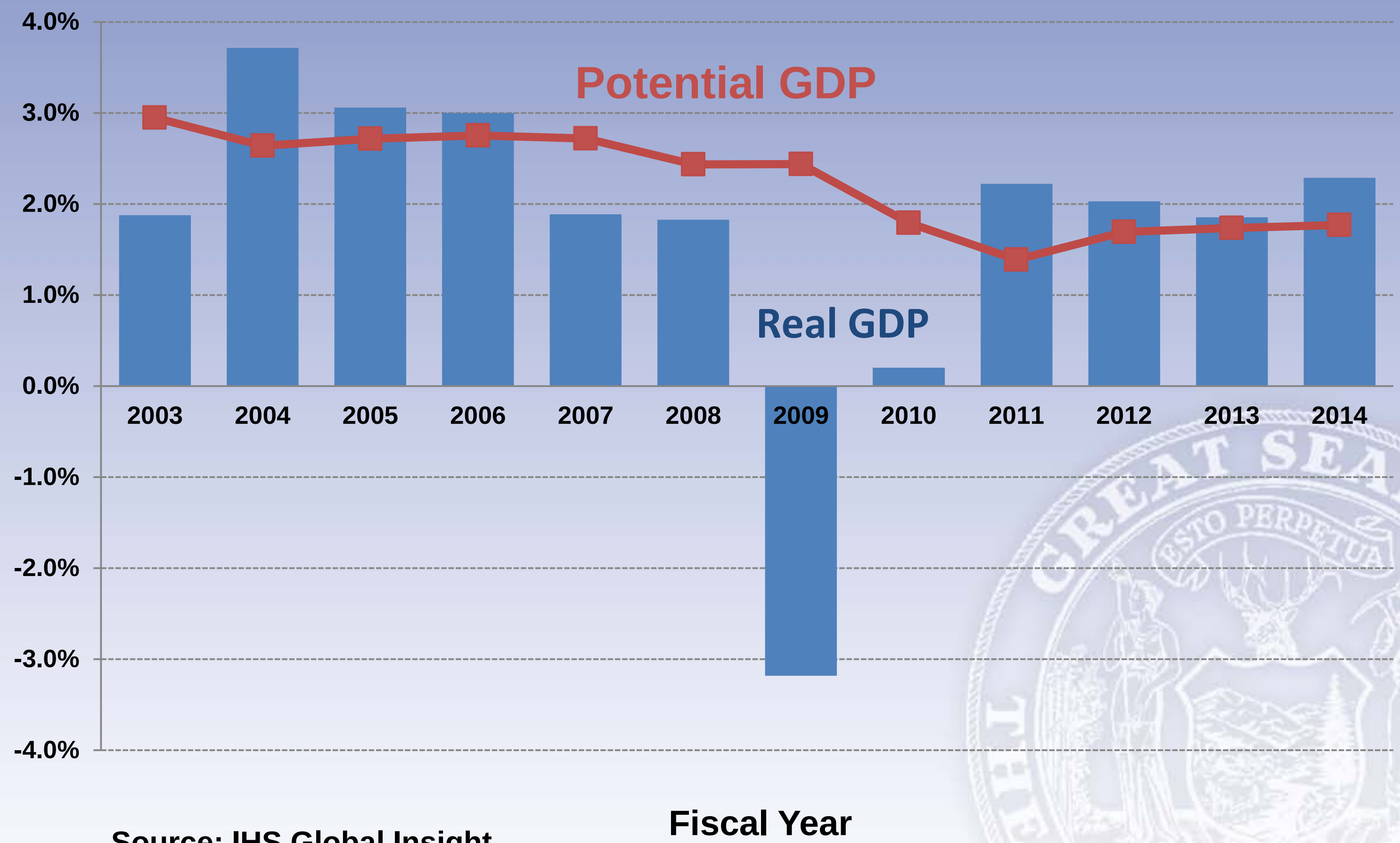
National GDP
Projected versus Potential



Source: IHS Global Insight

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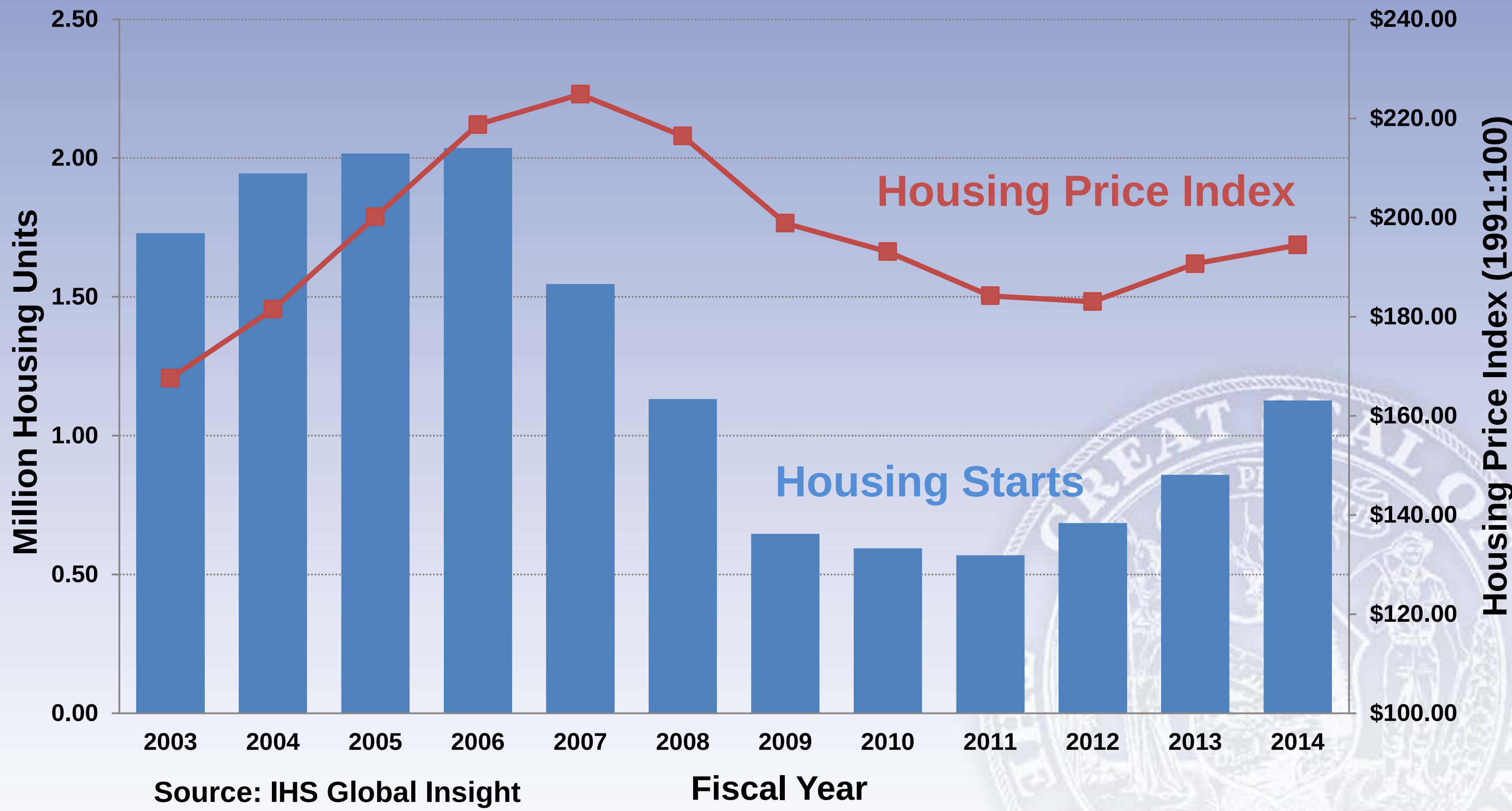
US Housing Starts and Prices



Source: IHS Global Insight

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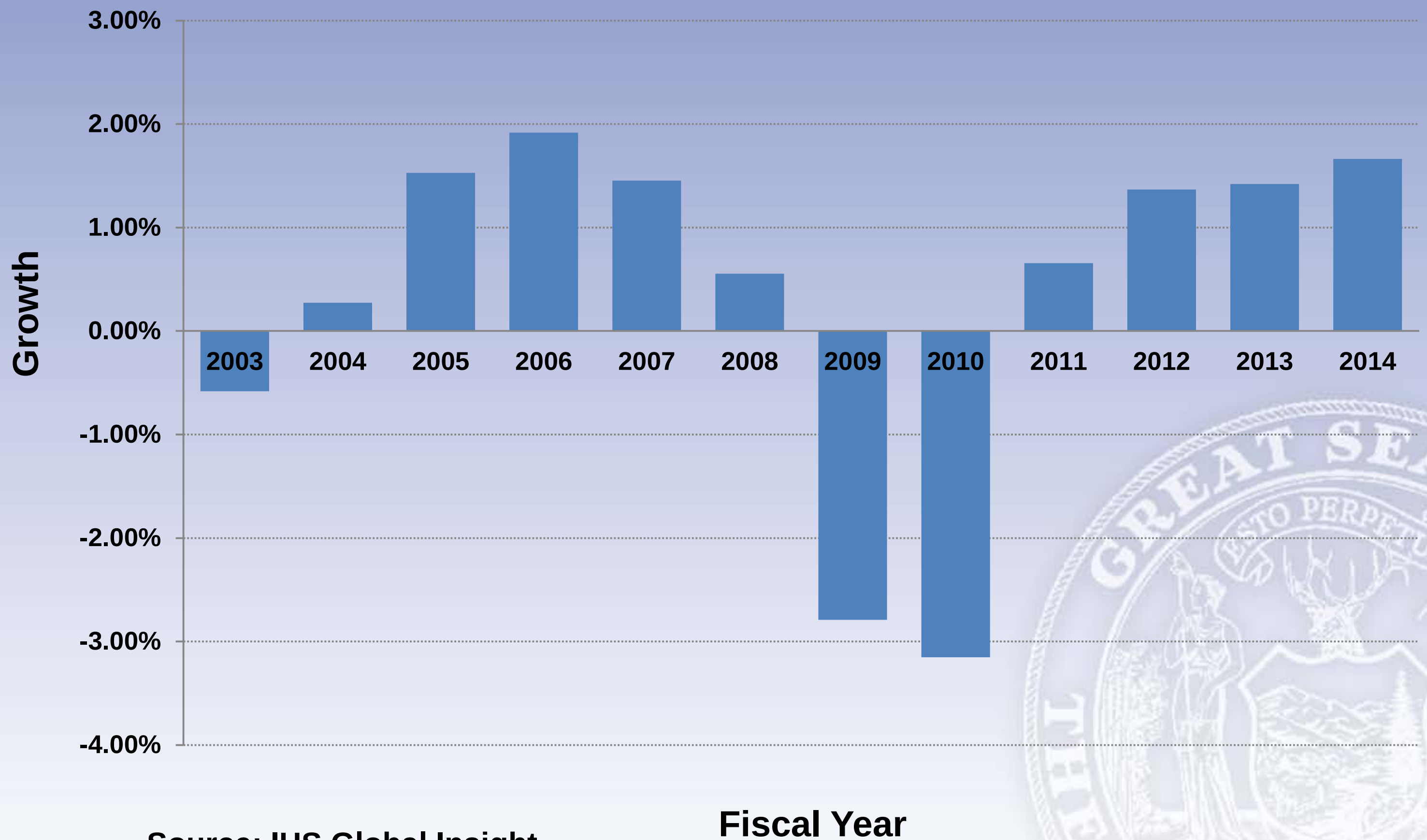
US Nonfarm Job Growth



Source: IHS Global Insight

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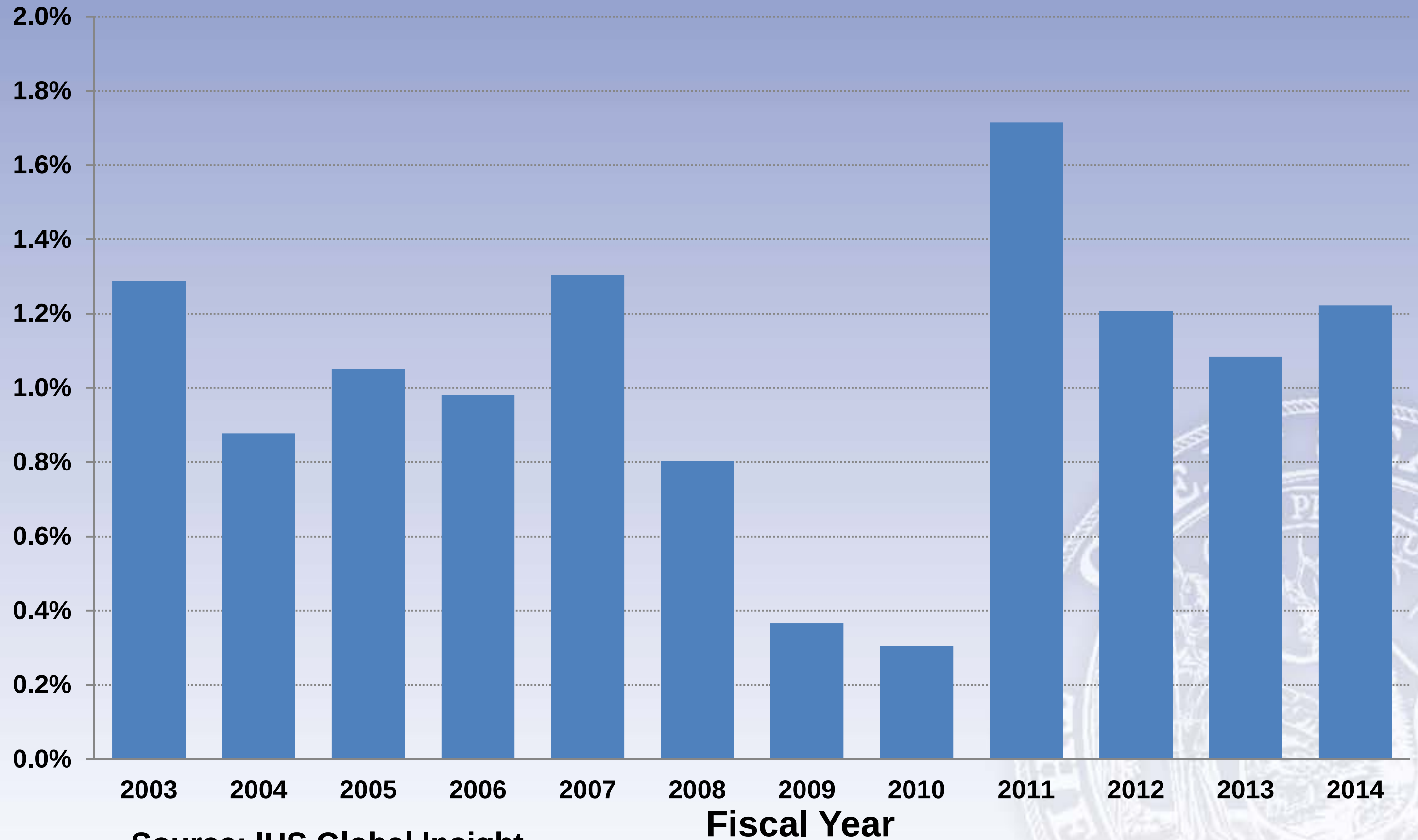
US Household Formation Growth



Source: IHS Global Insight

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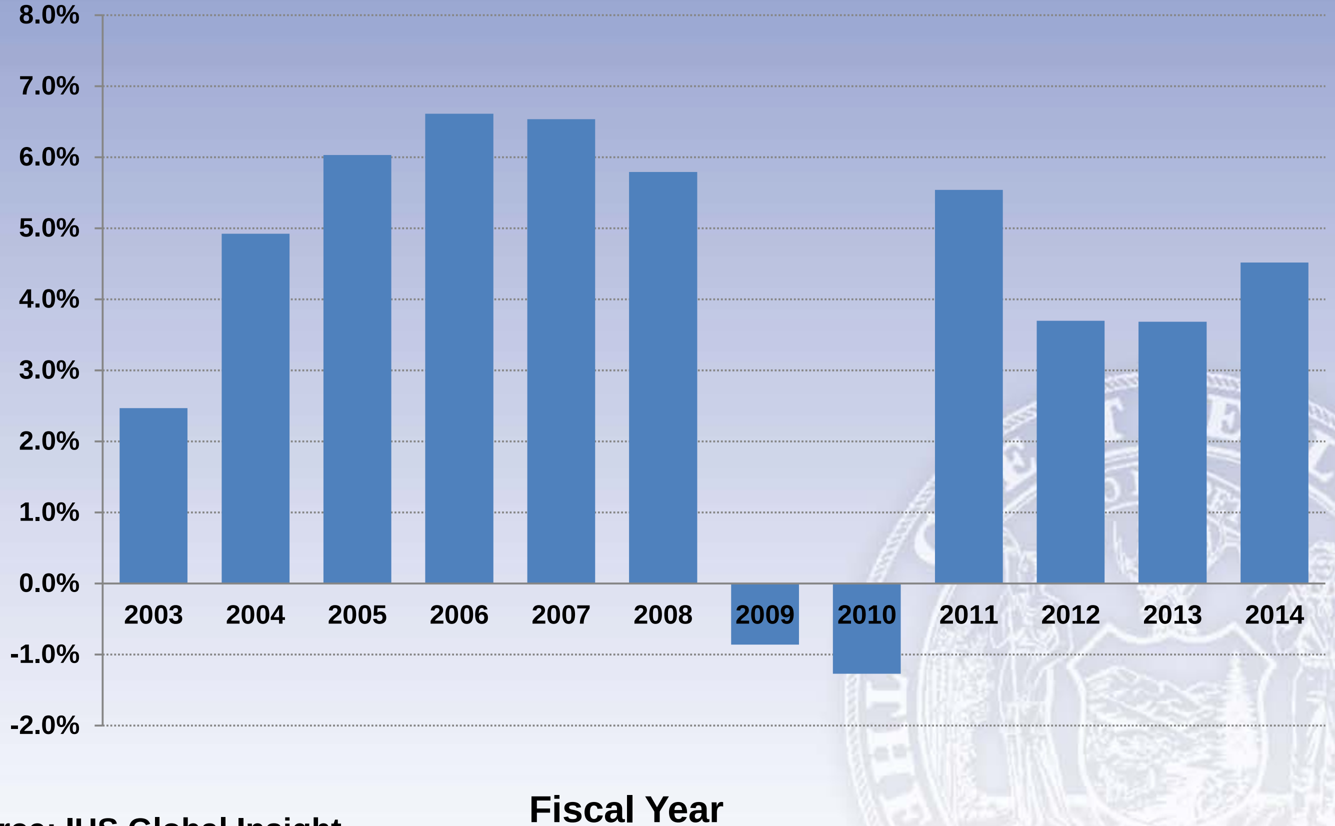
US Personal Income Growth



Source: IHS Global Insight

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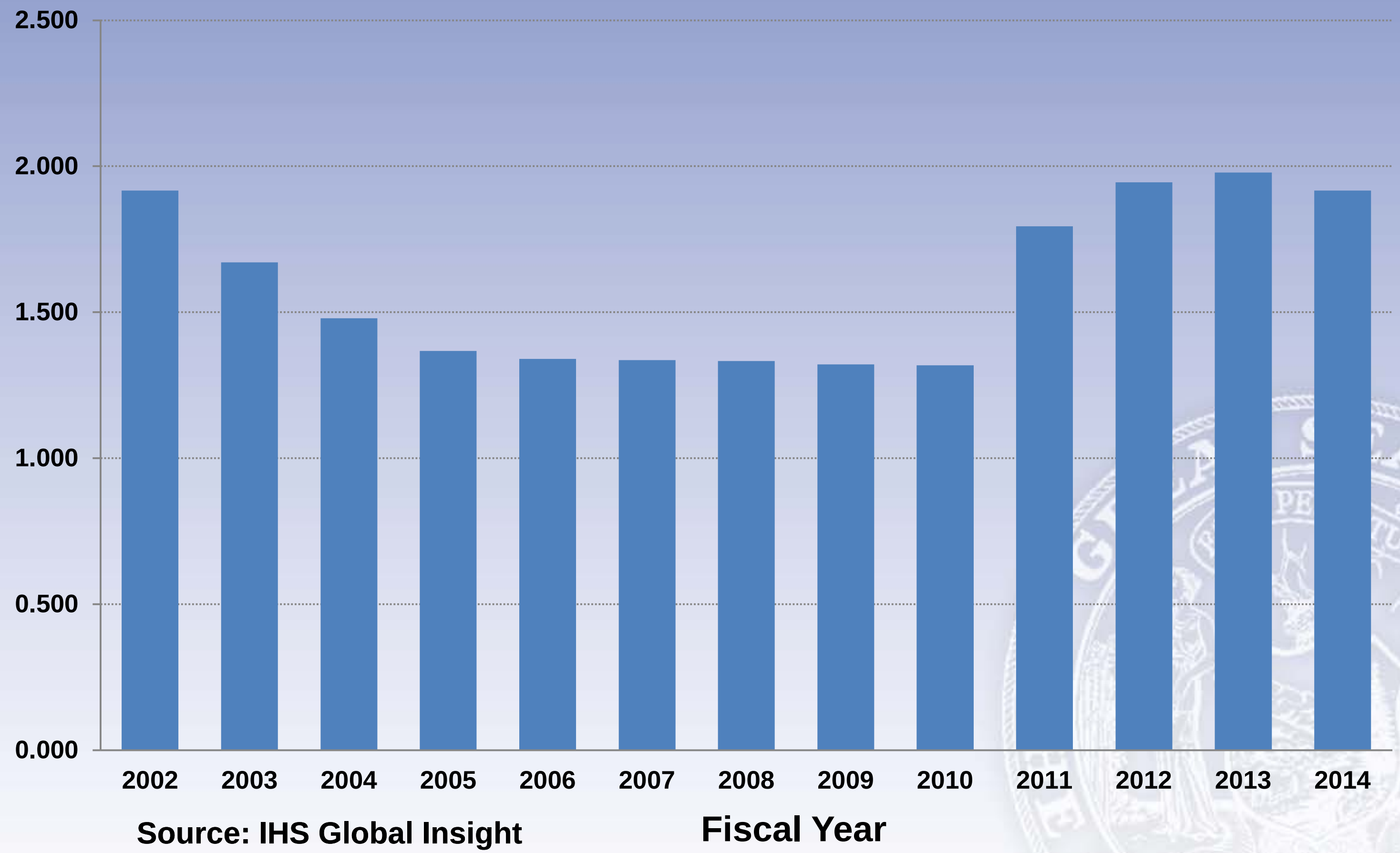
US Single-Family Home Affordability



Source: IHS Global Insight

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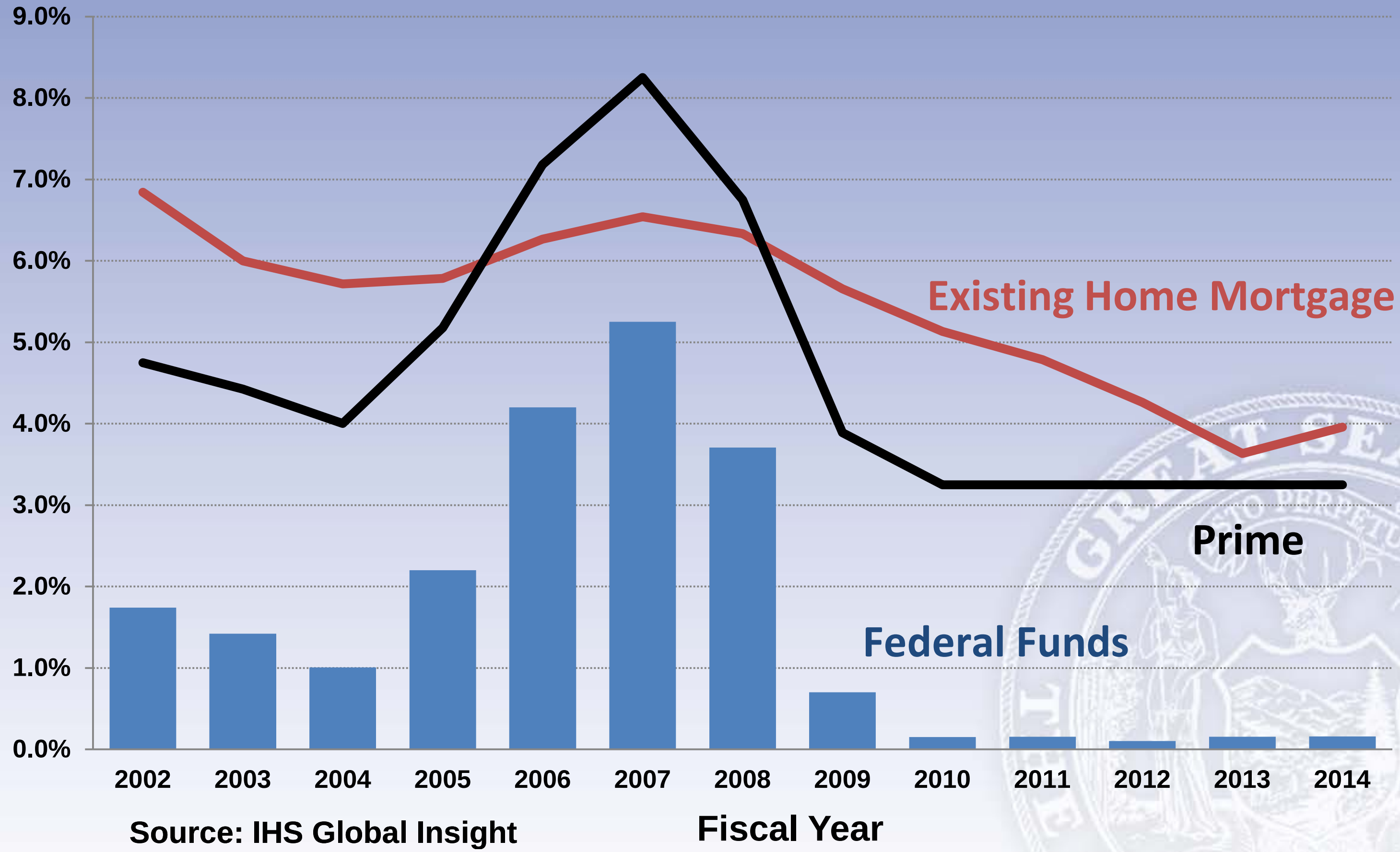
Selected Interest Rates



Source: IHS Global Insight

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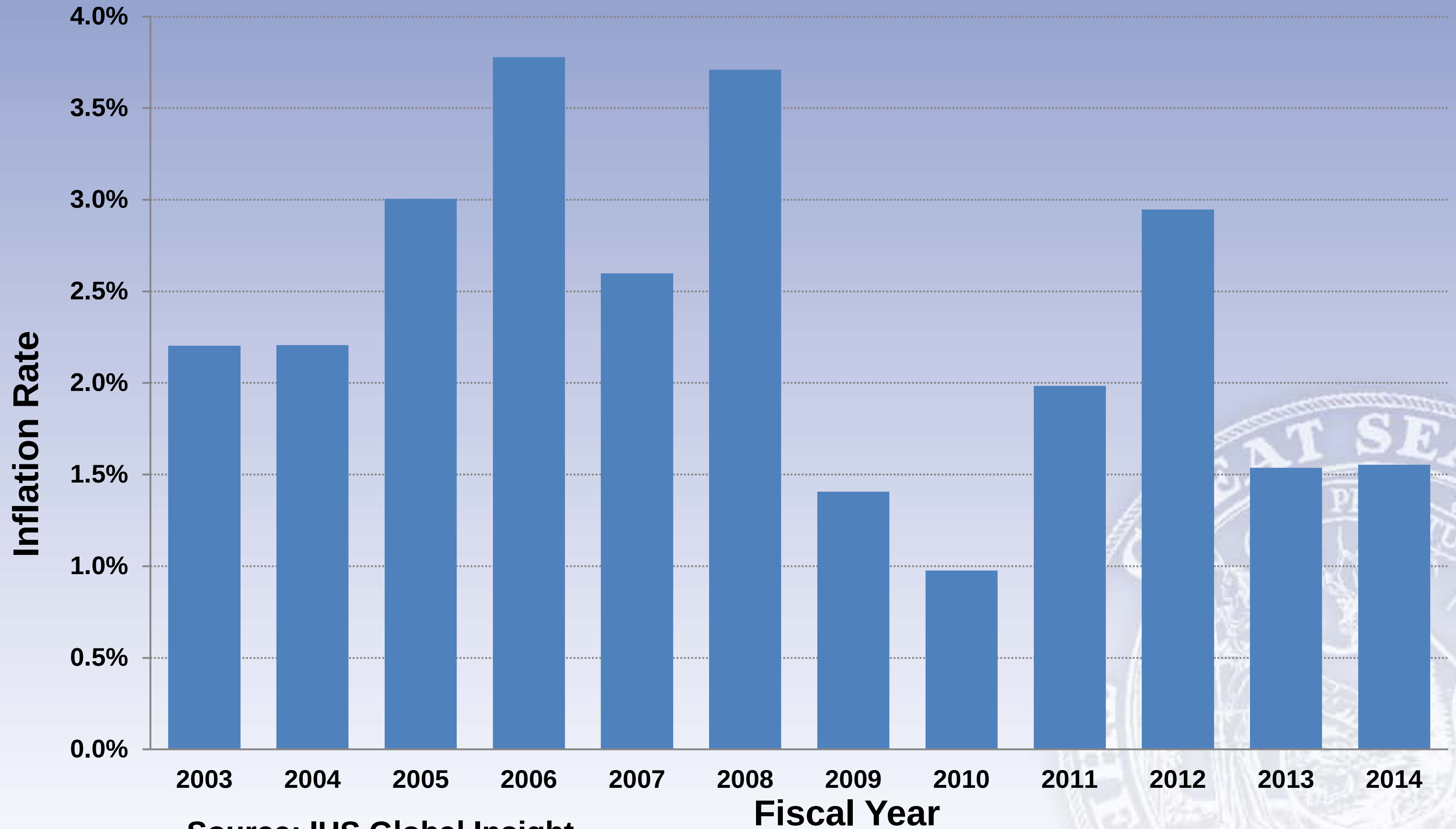
US Consumer Price Inflation



Source: IHS Global Insight

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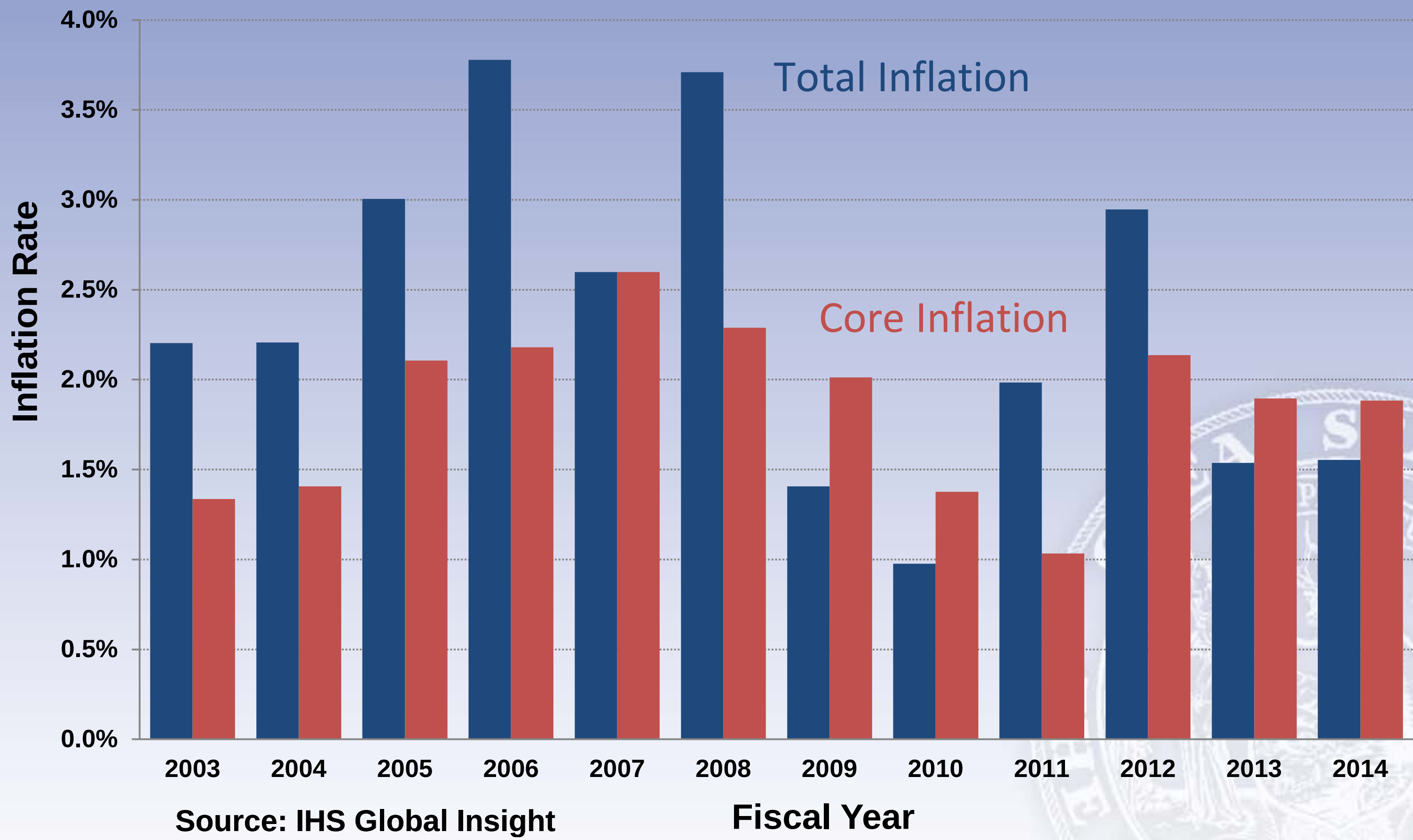
US Consumer Price Inflation
Total and Core



Source: IHS Global Insight

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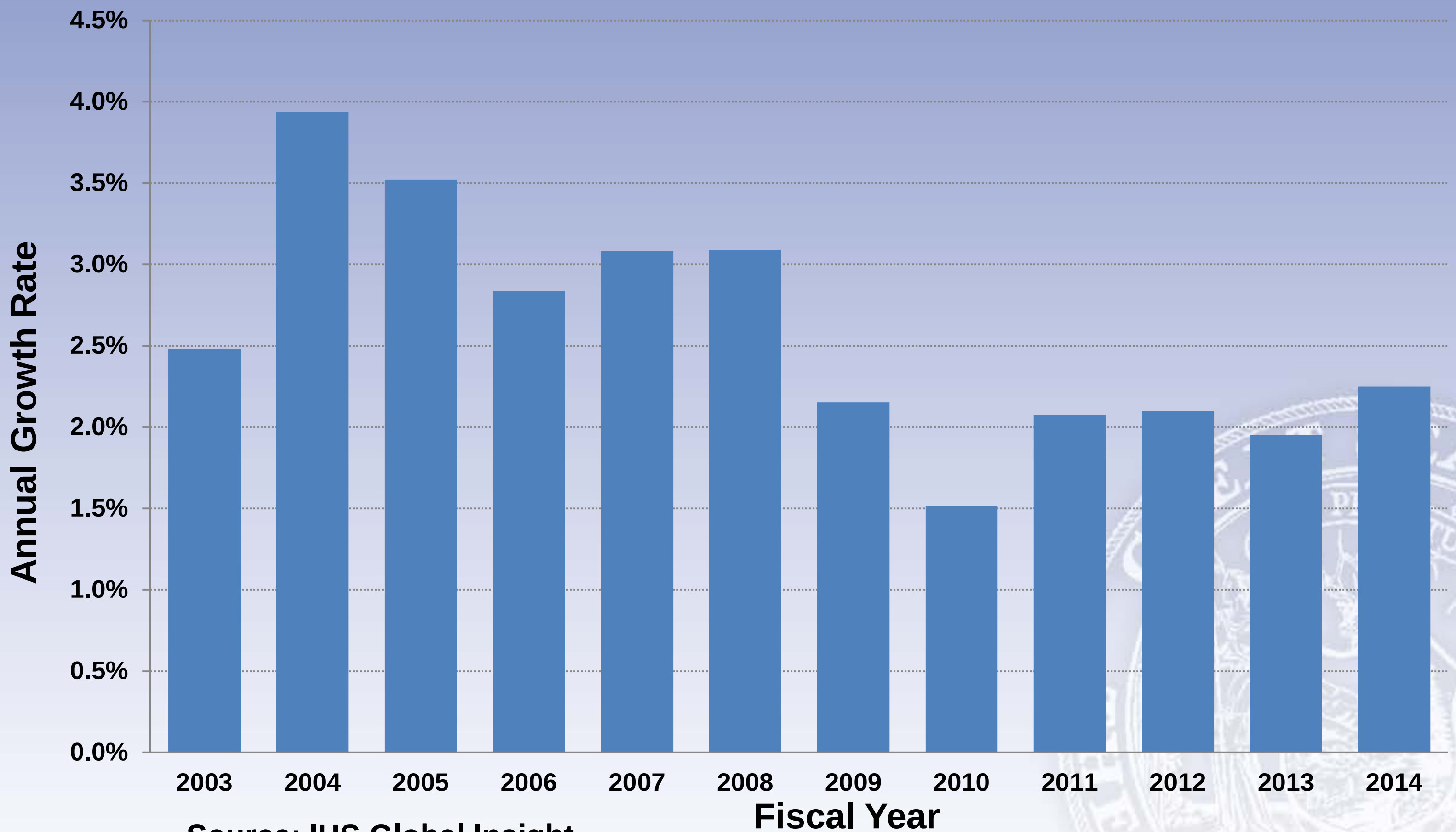
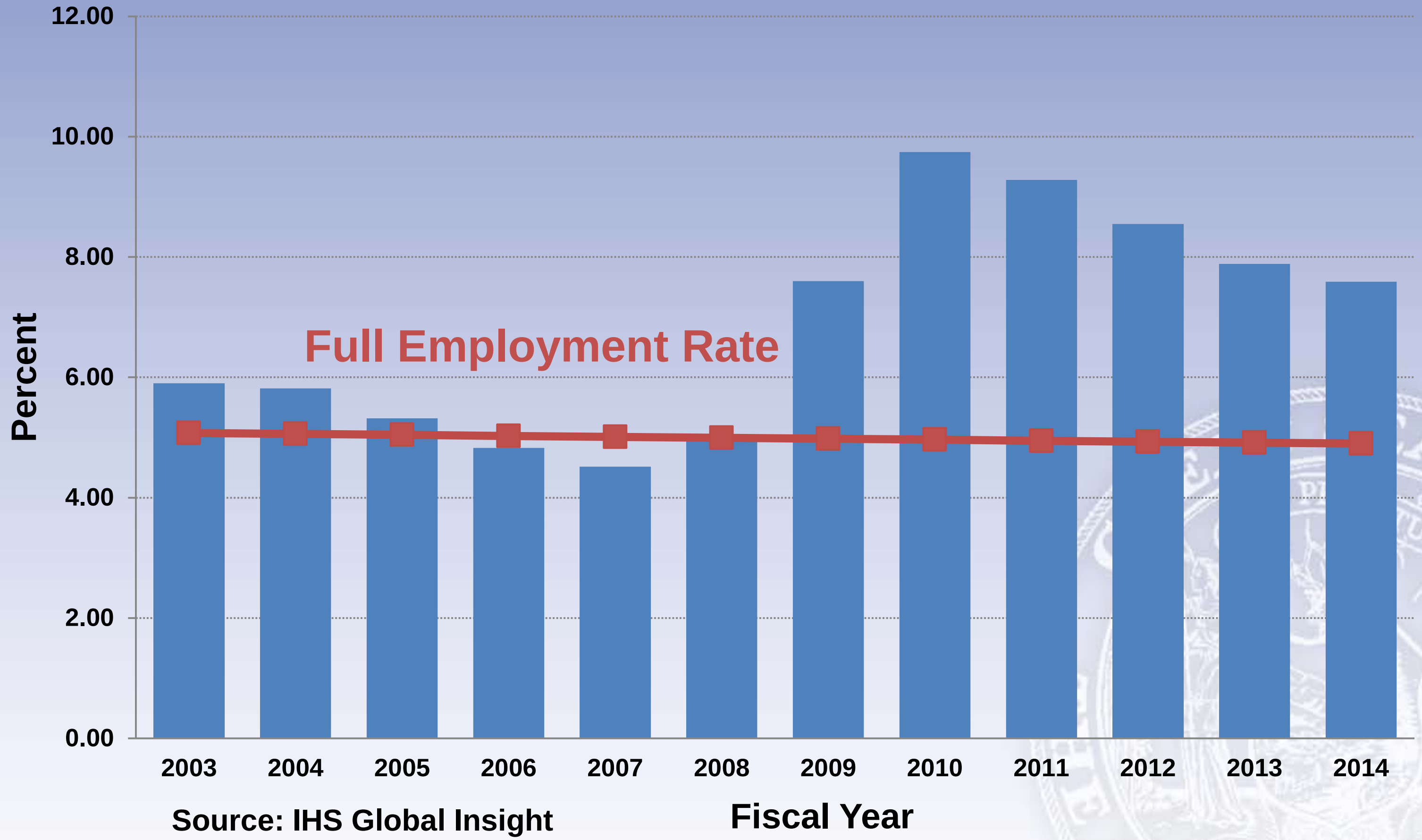
Employment Cost Index



Source: IHS Global Insight

US Unemployment Rate



Source: IHS Global Insight

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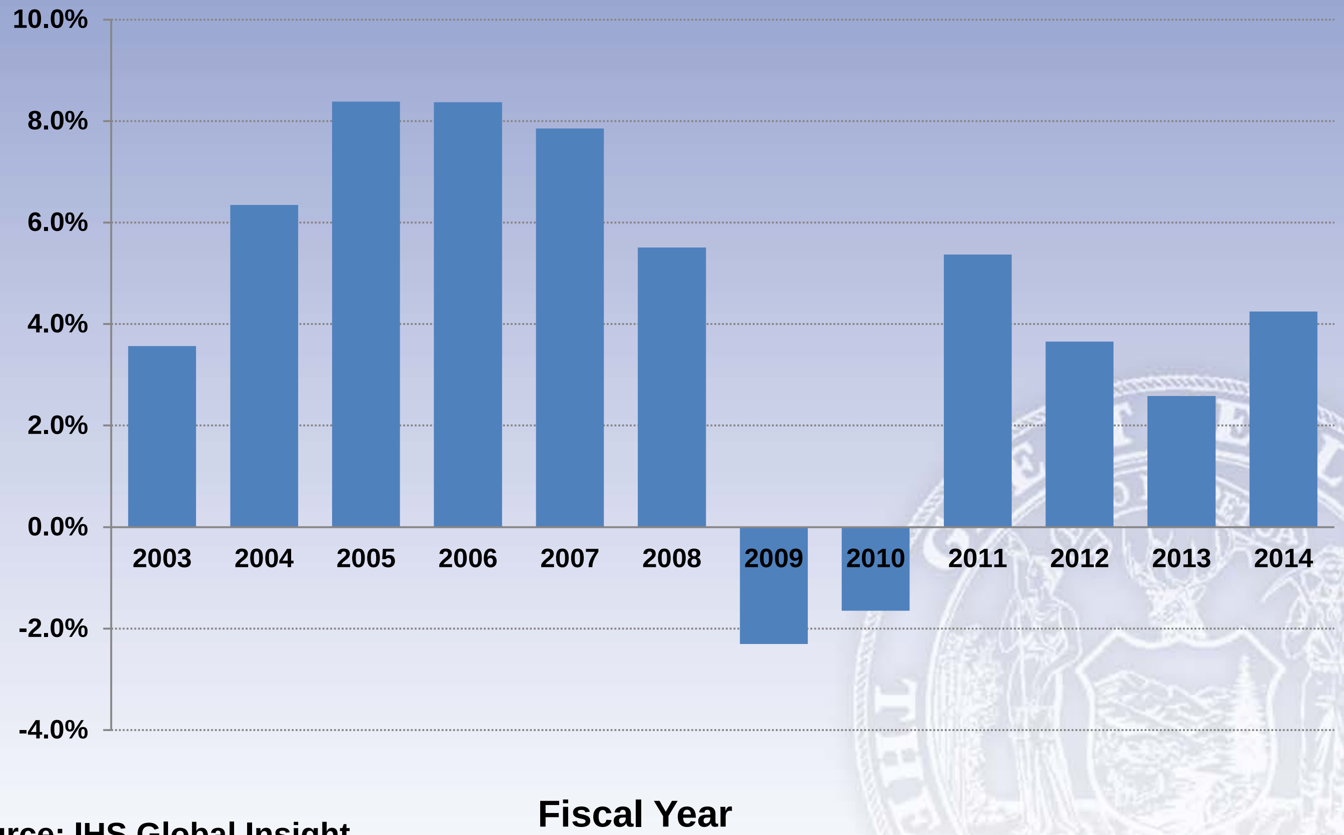
Idaho Nominal Personal Income Growth



Source: IHS Global Insight

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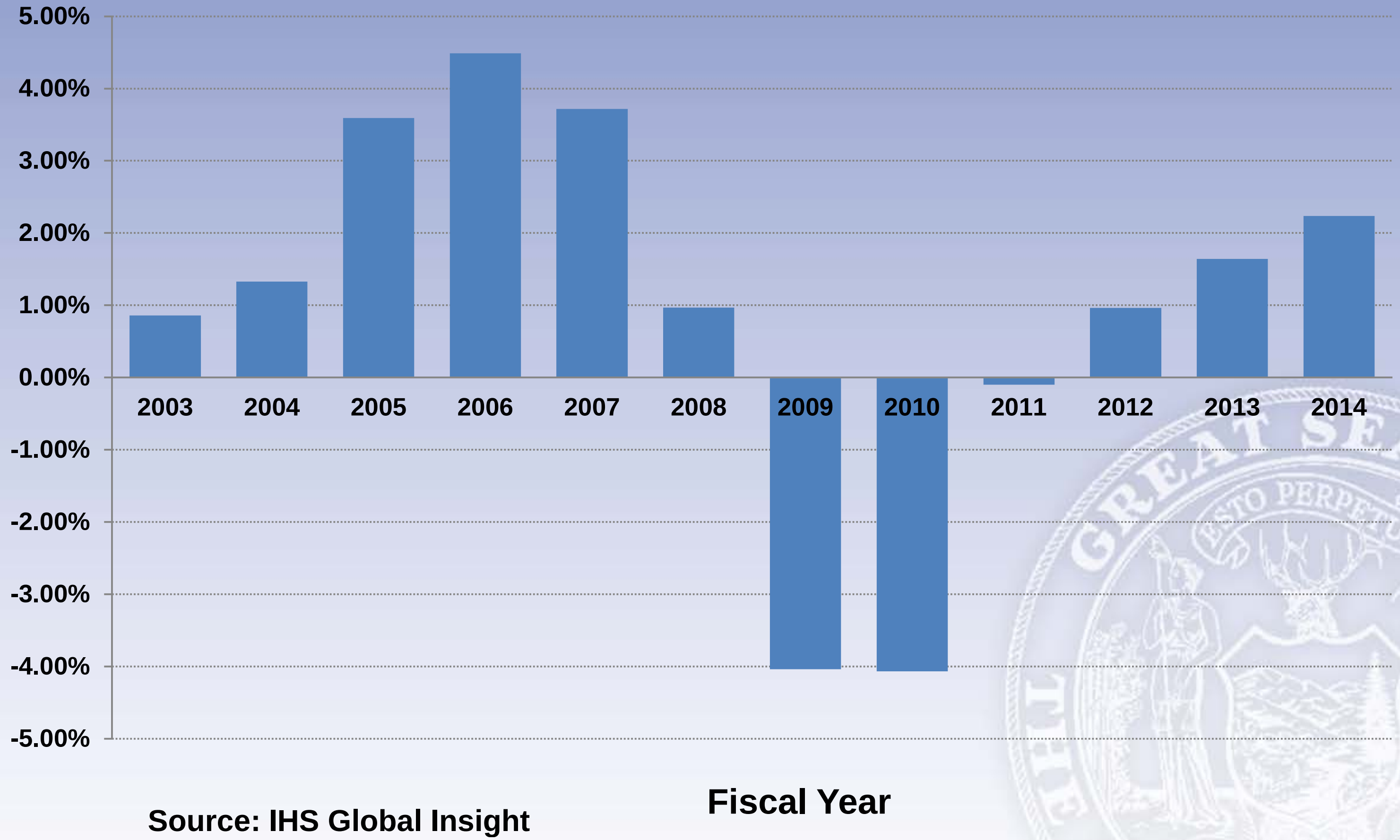
Idaho Nonfarm Employment



Source: IHS Global Insight

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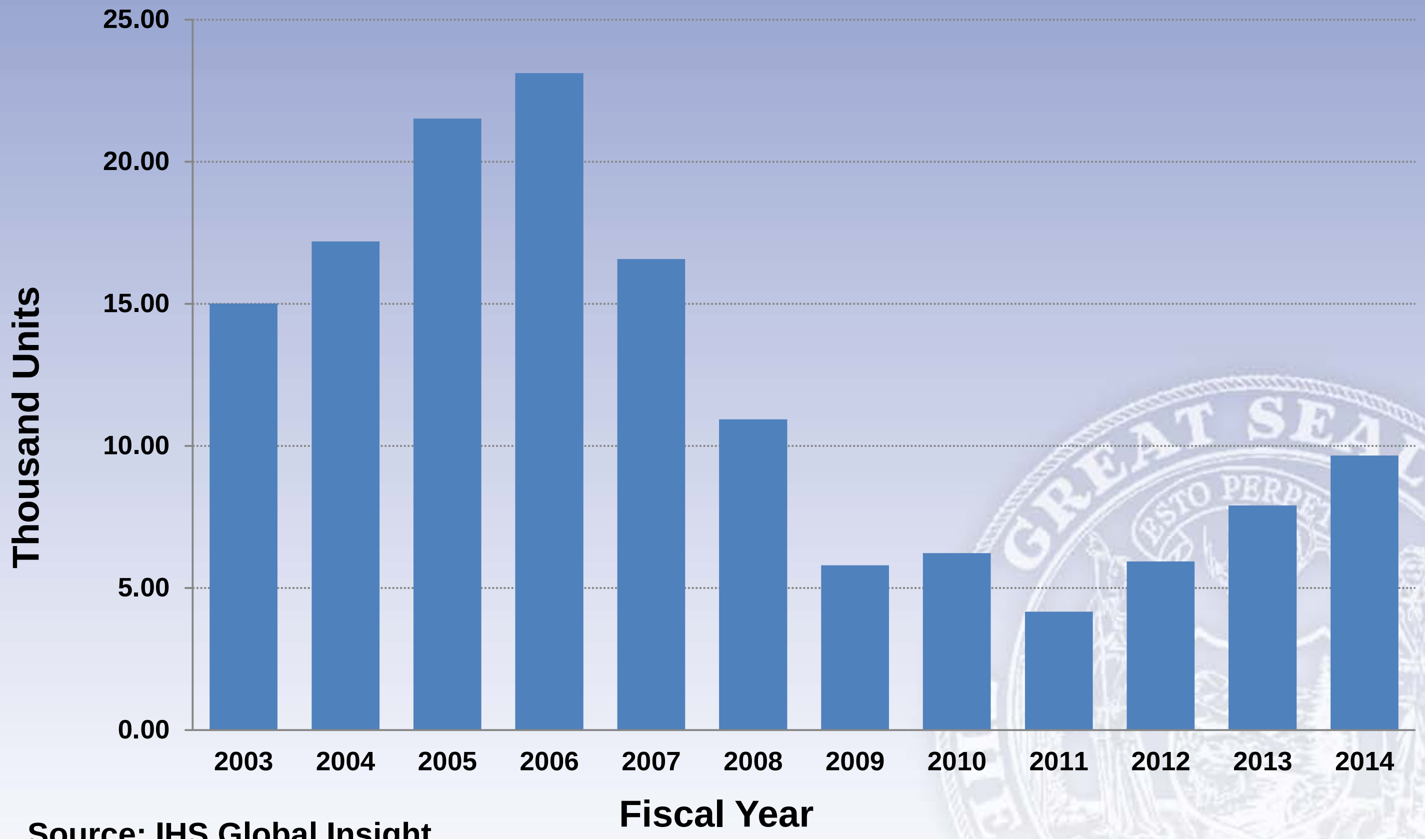
Idaho Housing Starts



Source: IHS Global Insight

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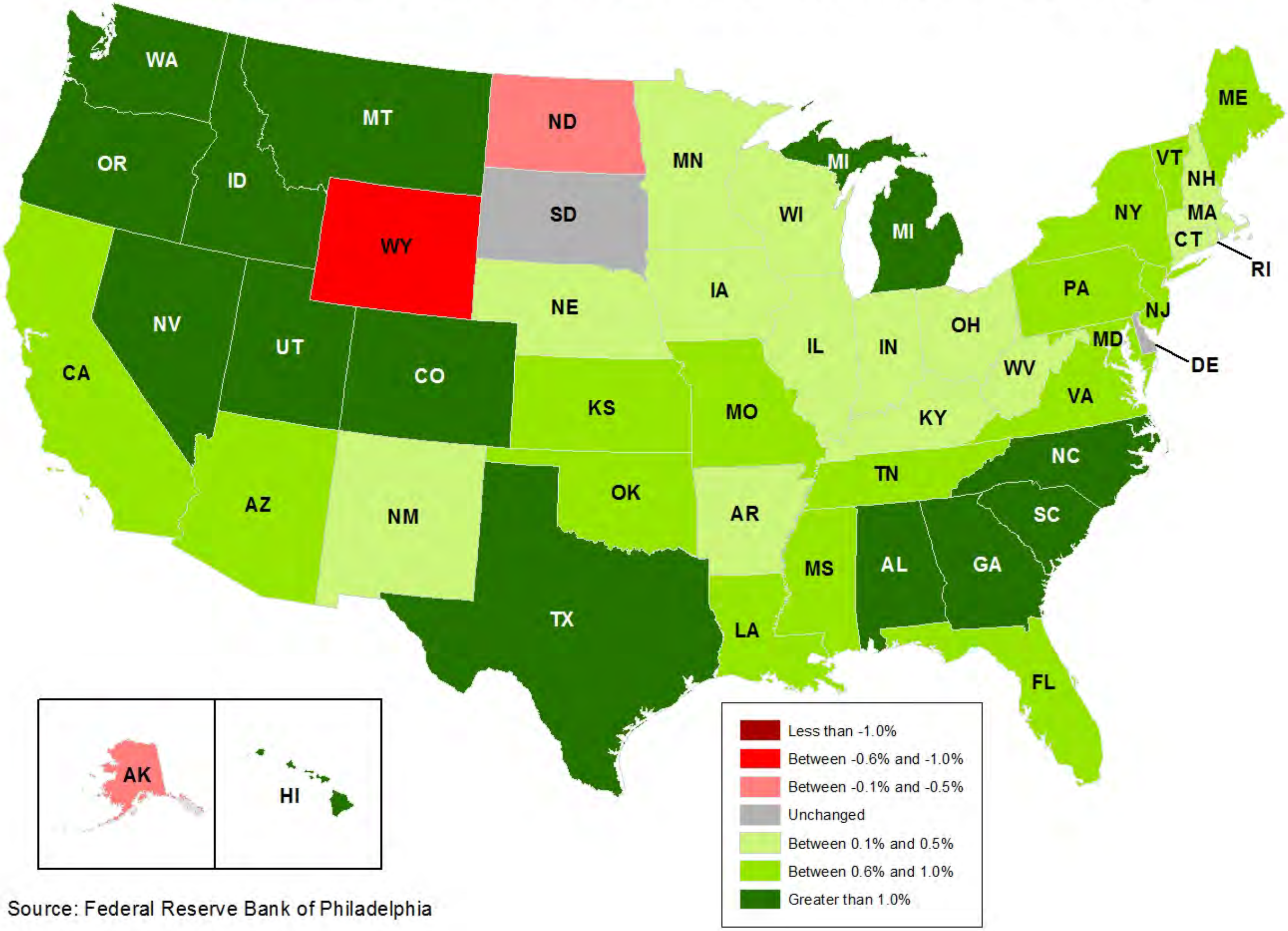
November 2012 State Coincident Indexes: Three-Month Change



Source: Federal Reserve Bank of Philadelphia

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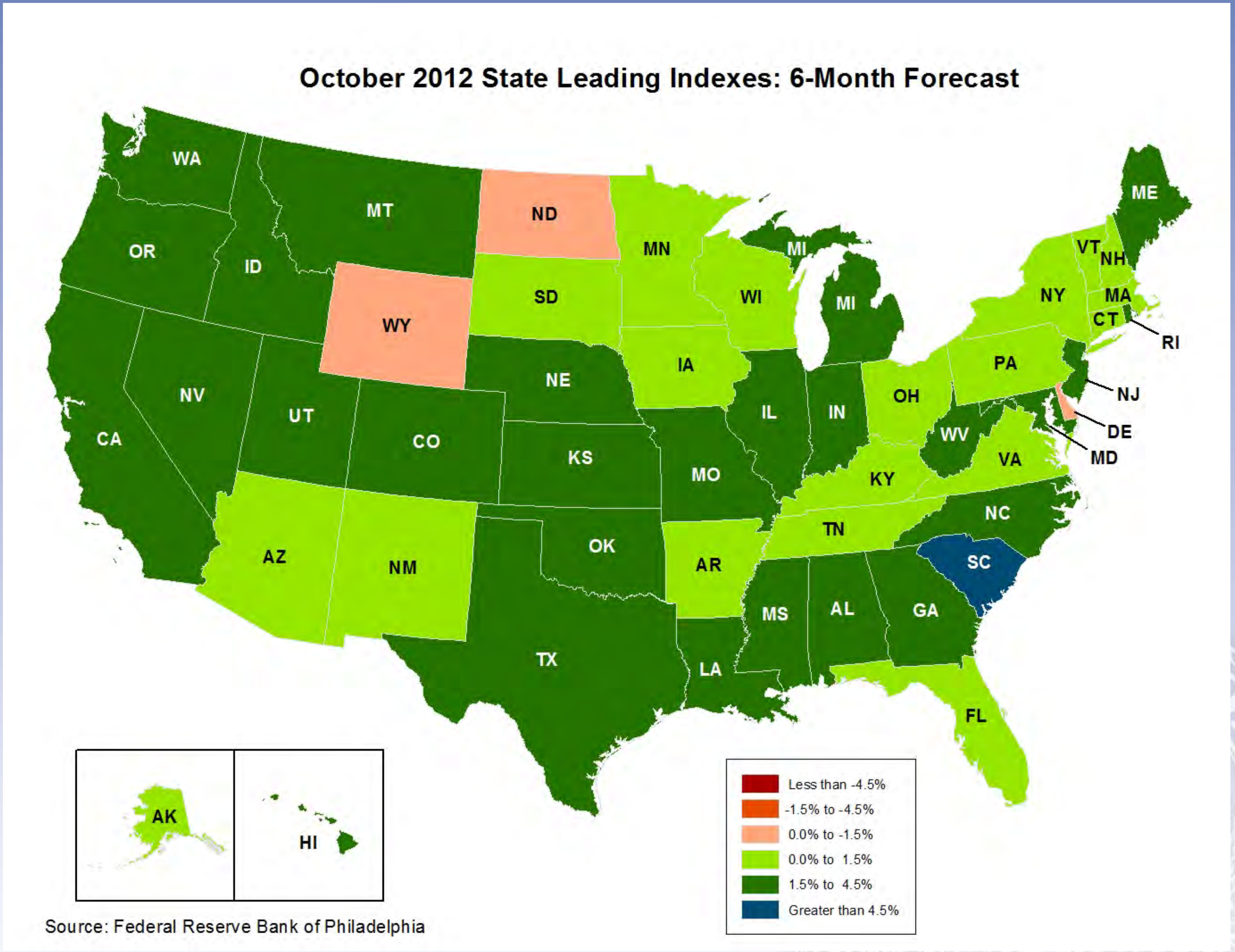

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