Idaho's Job Recovery Slow but Improving
Economic Outlook and Revenue Assessment Committee
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There is some good news. The unemployment rate is dropping like a rock.

Idaho was hit late by the recession so when the National Bureau of Economic Research declared the recession ended in June 2009, our unemployment rate was still rising. Over the next two years, Idaho's jobless rate rose faster than all but Nevada and Mississippi – jumping a point and a half from 7.4 percent to 8.9 by August 2010, where it essentially stayed until July 2011.

Since then, the rate has plummeted, falling over two points to 6.8 percent in November. Only four other states have seen larger percentage-point declines – Nevada, Mississippi, Florida and South Carolina – and each had double-digit rates in mid-2011, giving them more room for improvement. The December rate will be released in two weeks, and then the monthly rates will be reviewed in light of more recent statistics and updated. The revised rates will be issued in March.

But even with the dramatic decline in the unemployment rate, there are still over 50,000 workers off the job, although that's progress from the record 68,000 idled workers in mid-2011.

From this standpoint, the improvement is across the board. The number of long-term unemployed – those out of work 15 weeks or more – is down. So is the number of workers who have been laid off from either permanent or temporary jobs. And the number of discouraged workers who have just given up trying to find jobs began dropping a year ago.

But while people are finding jobs, too many are having to settle for part-time work when they need a full-time paycheck. There are still 50,000 workers in that situation – two and a half times the number during the expansion and down only two thousands from the recession peak three years ago.

All this has benefited the Unemployment Insurance Trust Fund. The fund brought it about $300 million last year and paid out about $177 million. Another $118 million was paid in federal extended benefits, which Congress continued for another year this week. About 6,300 workers received extended benefit payments during the final week of December.

Over the last five and a half years, more than $800 million in federal extended benefits has been pumped into the Idaho economy – money that was being spent almost immediately with local businesses at a time they needed the traffic more than ever. Well over 100,000 Idaho workers in every corner of the state received extended benefits during the recession including 32,000 in the last year.

That accounts for half the workers who received regular unemployment benefits during and since the recession – benefits that totaled more than $1.3 billion in the last five years. The$800 million in federal payments is on top of that.

At the height of the recession, unemployment insurance benefits were the difference in Idaho seeing a fractional increase in personal income. Without them, personal income would have declined as it did in several quarters even with the infusion of jobless benefits. Nearly 80,000 workers received benefit payments in 2012, just two thirds of the 117,000 who received benefits in 2009.

Part of the reason for the decline has been the tough job market. At the peak of the recession more than half the eligible unemployed workers exhausted their regular state benefits – 10 to 26 weeks – without finding work. That exhaustion rate has been dropping steadily over the past two years to 41 percent in November. In fact, the number of unemployment benefit payments the state made last week finally dropped below the payment total for the last week of 2007 – just as the recession was taking hold.

Because the demand on the fund has lessened and payrolls are again growing, albeit slowly, employer tax rates were reduced this year 18 percent. That will save employers millions of dollars and is more evidence that the changes the Legislature made two years ago when it authorized bonding are moving the trust fund to a point of solvency that will withstand all future economic slides for generations. The volatility in tax rates that marked 2005 through2010 has been eliminated, and tax rates should continue dropping for the next five years absent any economic catastrophe.

The trust fund balance at the end of December was around $370 million – essentially matching the balance when the Great Recession began in December 2007 with a $50 million cushion to cover the next bond payment.

The first payment on the $202 million in bonds used to repay the federal loan three years ago was made last August. The next payment will be made this coming August, and the money is already earmarked. The interest rate of just over 1 percent remains very favorable compared to the government rate for repaying loans and even to the rates available now in the bond market.

The precipitous decline in the unemployment rate, however, does not track with what has been happening with jobs. Instead of idled workers finding new jobs, the rate has been driven down in the last six months, to a large extent, by jobless workers dropping out of the labor force.

Since May, the number of unemployed workers has dropped by nearly 8,200 while the number of people employed has risen by just 800. The net result is a decline in the labor force of nearly

7,500. This is the first time since 1980 when the severe recessions of that decade began that the labor force in the fall has been smaller than in the spring. The labor force and total employment traditionally peak during the late spring and summer and then ease off heading into winter.

This shrinking labor force comes as Idaho's population growth – among the top five in the nation during the boom times of the mid-2000s – has slumped to its lowest level in more than two decades. The Census Bureau's latest population estimate for Idaho was just under 1.6 million – an increase of just eight-tenths of a percent.

The report also confirmed that more Idahoans moved out of the state than people from other states moved in – nearly 700 between mid-2011 and mid-2012. That's three times the outmigration the state experienced between the 2010 census and mid-2011, and it's the largest outmigration since the late 1980s.

Regional Economist Alivia Metts has been looking into this phenomenon and found that the labor force is leaking from the bottom, not the top as many suspected. Instead of simply retiring rather than continuing to look for work, the ranks of workers over 54 rose 10 percent – or 6,600 – between 2008 and 2011 while workers under 35 fell 10 percent – or 25,000.

Ms. Metts found that from 2008 to 2011, the population of 16 to 24 year-olds in Idaho rose 9,400 while the number in the labor force dropped 8,300. There was a four percentage-point increase in those attending school – from 26 percent to 30 percent. But participation in the labor force fell seven percentage points – from 67 percent to 60 percent. That differential translates into thousands of young people whose skills are not being tapped.

And they do have skills. Census data show that between 2007 and 2011, the number of people in the labor force under 30 with associate or bachelor's degrees fell by 6,500. What happened in 2012 won't be known until late this year, but the downward labor force trend in the last half of 2012 suggests this decline is continuing.

Workers holding on to jobs longer makes it more difficult for new workers to break into the labor market, and the exodus of younger workers for whatever reasons could present manpower problems for Idaho employers over the next couple of decades.

New hires are finally off the bottom where they were in 2010 and 2011. But they still lag behind the years following the 2001 recession, and most new hires involve replacing workers who have retired, died or been fired.

Unfortunately, the recession has officially been over for 3½ years now, and Idaho is still looking for that next step in the recovery.

Compared to other states, Idaho has made only marginal progress toward recovering the nearly 60,000 jobs lost to the recession. Although the ratio of unemployed workers per job postings is less than half what it was at the peak of the downturn in November 2009, the Conference Board reports there are still more than two idled workers for every job posting in Idaho. That's only slightly better than the national average and in the bottom half of the states.

While we have recovered some jobs, most states are well ahead of us. Idaho ranks 12th from the bottom in job recovery since the recession ended. Nevada, which is still running below mid-2009 job levels, is the only border state that has done more poorly.

During the year after the recession officially ended, Idaho continued to lose both production and service jobs compared to year-earlier totals. Then finally in the summer of 2010 the economy began to stabilize. While the goods-producing sector continued to shrink for another six months, service-sector jobs started slowly increasing.

It was not until last spring that current job levels began exceeding the year-earlier levels by over 1 percent – a small milestone but one step closer to real recovery.

June is the peak job month for both the United States and Idaho. The U.S economy had 139 million jobs in 2007. It lost 8 million jobs by June 2010 – about 5.6 percent – and had recovered 3 million of them by June 2010 – about 2.4 percent. (131 million June 2010, 134 million June 2012)

The national private sector had 116.6 million jobs in June 2007. By June 2010 it had lost 8.4 million of those jobs – 7.2 percent – and recovered 4 million by June 2012 – about 3.6 percent. (108.2 million in June 2010, 112.2 million in June 2012)

That is a little less than halfway back from the brink. Idaho has not done nearly as well.

The Idaho economy had 669,000 in 2007. It lost over 59,000 of those jobs by June 2010 – 8.8 percent – and had recovered only about 10,000 of those jobs by June 2012 – only 1.6 percent. (610,000 June 2010, 620,000 June 2012)

Idaho's private sector had 551,500 jobs in June 2007. It lost 61,000 by June 2010 – 11.1 percent – and had recovered 12,000 by June 2012 – just 2.4 percent. (400,000 in June 2010, 411,000 in June 2012)

Idaho's job recovery is running at about a fifth of the losses compared to around half nationally.

Idaho had 128,000 goods-producing jobs in June 2007. That dropped to 90,000 by June 2010 – a nearly 30 percent loss – and just a thousand of those jobs were recovered by June 2012 – 1.4 percent.

The service sector has done slightly better. After dropping from 542,000 jobs in June 2007 to 521,000 in June 2010 – a loss of 3.9 percent – it has recovered 8,000 – a gain of 1.6 percent. Because of the losses in government employment in the last several years, the private sector service recovery has been stronger – a 2.6 percent gain after a 5.5 percent loss to the recession to stand at 411,000 in June 2012. (424,000 in June 207, 400,000 in June 2010, 411,000 in June 2012)

The source of job growth is part of the reason the recovery has been sluggish. The fact is the average wage for goods-producing jobs is $10,000 a year higher than for service sector jobs.

The service sector has been the biggest piece of the Idaho economy for decades. But in the last 20 years, it has grown from 74 percent of all jobs to over 81 percent. The growth rate has been 68 percent since 1990 while there are only about 8 percent more production jobs. Had production jobs grown at just half the pace service jobs have over the last 20 years, Idaho would have had more than $270 million in additional wages during 2011 alone not to mention the billions of dollars in added wages over the previous 19 years – money subject to the income tax that would have been spent generating sales taxes and more robust economic activity. That's why the kind of jobs is just as important – if not more important – than the number of jobs.

After losing about a billion and a half dollars in wages to the recession, Idaho has regained most of those paychecks, but again the bulk of the wage gain has come from more jobs in services. The wage rebound on the production side of the economy has been limited.

Business operators have pulled their way out of the recession since suffering a 15 percent decline in profits in 2009. Profits were up more than 12 percent in 2010 and over 12 percent again in 2011. Profits were up another 5.5 percent to $6.8 billion, on an annualized basis, in the first quarter of last year and held steady through the second quarter.

The growth in total wages, however, has been substantially less, running at just 1 percent in 2010 and 2 percent in 2011. The increase during the first half of 2012 was around 1 percent on an annualized basis.

Idaho created more jobs on a percentage basis than nearly every other state during the expansion of the mid-2000s. Idaho's over 15 percent growth from 2002 through 2007 trailed only Nevada, Arizona, Utah and Wyoming. But the state's median wage – the wage at which half the workers are paid more and the other half less – has been steadily falling in relation to the national median wage.

Idaho's median wage was over 91 percent of the national median in 2001. It was less than 88 percent in 2012. Only three other states saw their median wages slide more – Indiana, Ohio and Michigan – and all three remained over 90 percent of the national median. Even Nevada, for all the economic problems it has had in the past five years, fell only slightly – from 95.4 percent to 94.7 percent of the national median.

Still the job picture is improving slowly.

The department projects annual job growth of 1.5 percent through mid-2014 – about 10,000 jobs a year over the two years. While still modest, that projection is about twice the projection of a year ago. The department projected annualized growth of seven-tenths of a percent from mid-2011 to mid-2012, and it came in twice as strong. But it's likely that the problems in the European Union and the continued debate over taxes, spending and the deficit in Washington – regardless of the outcome on the fiscal cliff and its aftermath – will stall job growth to some extent during the next six months before the economy resumes its slow grind toward expansion.

Recovering to prerecession job totals will not occur before 2015 and then the issue will be the job mix.

While growth in wood products and computer manufacturing will be limited, other manufacturing and construction will grow at about 2 percent off the severely reduced base, and it will still be 20 years or more before construction reaches pre-recession levels. Agriculture, leisure services and trucking should all grow at 2 percent to 3 percent. The only losses should be in information services and federal government employment, which could have a direct impact on some of Idaho's rural communities.

This growth should continue to keep unemployment in check over the next 18 months. We won't know the final rate for 2012 until March, but the preliminary numbers bring it in around 7.5 percent, over a percentage point below the rate in 2011 and nearly a full percentage point lower than we projected last January.

The adjusted rate for the fiscal year through June should drop to 7.8 percent from 8.8 percent in Fiscal Year 2011 and then continue falling to 7.4 percent for Fiscal Year 2013 and 7.1 percent for Fiscal Year 2014.

Questions.