Economic Outlook and Revenue Assessment Committee

Jan. 2, 2014

Idaho's economic recovery got off to a very slow start. But that appears to be behind us although there still are challenges.

Idaho's job recovery was measured in just tenths-of-a-percentage-point monthly increases year-over-year until mid-2011 when nonfarm jobs finally exceeded the year-earlier total by 1 percent and began matching the national growth at between 1.5 percent and 2 percent.

But in October 2012 year-over-year job growth hit 2 percent and has stayed above that while national growth has been 1.6 percent or 1.7 percent a month.

Idaho's job recovery – at 95 percent of the 2007 peak through 2012 – should catch the state up with the rest of the nation in the coming year. The sluggishness reflects the depth of the recession job loss and the slow initial recovery.

Still, the recovery through this November has yielded only a modest increase in new jobs, and many sectors remain well short of their prerecession peaks. The bright spots have been private education, health care and other services like car repair, which produced new jobs through the recession and have continued to generate more jobs since.

Through late summer employers were hiring near their 2007 level, and November hires were the highest for that month since 2007. Some of this reflects replacement of retiring baby boomers, but the job growth as more and more businesses expand is significant.

As a result the unemployment rate has dropped from its recession peak of 8.8 percent in late 2010 to 6.1 percent in November – the postrecession low. Since fall 2010, only 10 other states have seen that kind of decline.

On an annualized basis, the department projects continuing decline in the jobless rate through Fiscal Year 2015 to 5.5 percent – a slightly slower pace than the past two years.

Unemployment insurance claims have dropped off dramatically from the peak of 51,000 idled workers who got more than $13.7 million in state and federal benefits during the second week of April in 2009.

The trust fund is strengthening after the state had to borrow $200 million from the federal government to keep paying regular benefits in 2009 and 2010. It hit about $390 million at the end of 2013. With past changes and a better economy, the fund can now withstand another recession as severe as the one we just came through.

Employer tax rates are also declining, dropping over 40 percent in the past two years. The 2014 rate reduction will put $75 million back into employer's hands for economic reinvestment. The standard rate is just 1.9 percent on the first $35,200 in wages.

The 29,000 new jobs over the past two years have fueled the decline in the jobless rate. But the labor force has essentially been stagnant for more than a year and a half – likely the result of baby boomer retirees and the growth of Idaho's over-55 population.

Idaho's senior population was unchanged through the 1990s at about 19.5 percent. But between 2000 and 2012 it rose dramatically to over 25 percent. Only Alaska, Nevada, Colorado and Utah exceeded Idaho.

At the same time there has been a marked increase in the percentage of households where neither the householder nor the spouse, if present, was in the labor force – from 16.5 percent in 2007 to 20.1 percent in 2011. That was the largest percentage point increase in the nation. That slipped to 19.8 percent in 2012.

Business profits have been recovering – jumping 47 percent since early 2009 to $7.1 billion last summer.

Total wages have also rebounded, finally exceeding their pre-recession peak in 2012. Wages should top $25 billion in 2013.

There are other signs of recovery as well.

Through the first three quarters of 2013, export value was 2.3 percent ahead of 2012's record pace of $6 billion. Foreign sales are becoming more diversified. While still driven by high technology goods, high-tech has dropped from over 70 percent of exports in 2006 and 2007 to less than 45 percent the past year and a half. Much of that reflects the loss of some manufacturing at Micron Technology.

At the same time agricultural sales to foreign markets have grown from 10 percent to 13 percent of all exports. Mining and other sectors have increased as well.

The U.S. Department of Commerce estimates that about 11,000 Idaho manufacturing jobs are directly tied to exports.

Idaho's gross state product recovered its recession loss the next year and has been growing steadily toward $60 billion.

Adjusted for inflation goods production exceeded its prerecession total on the strength of manufacturing and utilities while services – primarily because of wholesale and retail trade, real estate and government – remained a billion dollars short of prerecession totals. Goods production benefited from increased productivity during the recession and recovery.

The challenge in this recovery appears to be income.

While total personal income in Idaho rose 15.4 percent between summer 2008 and last summer, national personal income was up 17.8 percent. Only nine other states posted smaller gains than Idaho.

Idaho's average annual wage at $36,136 in 2012 ranked 50th among the states.

The increase in total wages from 2007 through 2012 was just six-tenths of a percent to rank 50th.

Per capita income has also dropped to 50th in 2012 at $34,481.

And 7.7 percent of the state's hourly wage jobs paid the minimum wage in 2012 – the highest percentage of any state.

Idaho was among 18 states where the average wage failed to keep pace with even moderately low inflation since the recession began in 2007. Idaho's 2012 average wage was just over 97 percent of the inflation-adjusted 2007 wage. Nationally, the average wage matched inflation almost exactly.

From 2000 to 2007 Idaho business profits rose 43 percent – better than all but seven states and twice the national increase. But from 2007 to 2012, profits were up 21 percent – three percentage points less than the national average to rank 33rd among the states.

Coupled with the increase in Idaho's senior population have been some initial signs of an outmigration of 20 to 29 year olds. Motor Vehicle Division driver's license data show 149 more people 20 to 29 surrendered their Idaho licenses than got Idaho licenses after coming from outside the state. While small, it was the first net outmigration for that age group in two decades. In 2011 there was a net inmigration of 4,700.

At the same time, the 20-to-29 population seems to be getting smaller since the recession. The 20-to-29 age group accounted for just under 14 percent of the population in 2000 and grew markedly during the expansion when Idaho was creating jobs faster than just about every other state. It peaked at 14.8 percent in 2004 and stayed near that point through the expansion before dropping during the sluggish recovery. There was a rebound back to 13.8 percent in 2012, but this is a possible trend that bears watching.

The recovery has produced a significant increase in part-time jobs. From 2007 to 2012, part-time work in Idaho increase from 18.2 percent of jobs to 24.2 percent of jobs – the greatest percentage increase nationally.

The department projects job growth at 2 percent during the current fiscal year and through Fiscal Year 2015. That would mean job totals will finally exceed the prerecession level in late spring 2015.

Job growth in the recovery through 2012 was weighted toward service sector jobs, which average about $10,000 a year less in wages. But the projection through Fiscal Year 2015 suggests more balance between service and goods producing jobs.

About 81.6 percent of the nonfarm jobs in the economy this past year were in the service sector including government. That likely will drop to 81.5 percent based on projected 2 percent growth.

Of the nearly 33,000 new nonfarm jobs through FY2015, more than half will pay above the average statewide wage.

As more jobs are being created, there should be a decline in the number of self-employed and unpaid family workers – the places where a number of workers laid off during the recession turned when new jobs could not be found.

Construction, which took the biggest hit during the downturn, should grow over 13 percent between FY2013 and FY2015. That would recover the sector to the more sustainable job levels of the early 2000 before the housing boom.

After two years of comparatively anemic population growth, Idaho's population grew 1 percent in 2013, again exceeding the national growth rate as it did during the two decades leading up to the worst of the recession. This return to higher population growth will fuel construction jobs as well as employment in leisure and hospitality businesses and health care.

Those three sectors alone will account for over half the new jobs being created through mid-2015.

Wood products manufacturing and natural resources, which includes logging, will also benefit from the resumption in demand for housing.

Growth in financial services, however, will likely be limited by any increase in interest rates as the Federal Reserve gradually ends its quantitative easing policy that has helped contain rates.

The future of government and major elements like the Idaho National Laboratory and Mountain Home Air Force Base rests with Congress and the decision it makes on spending in the coming years.

The job losses are expected to be minimal. But losses will be seen in the highest paying sector of the economy – computer and electronic manufacturing where the average wage is over $80,000 a year. Idaho has benefits from companies like Micron and Hewlett-Packard. But businesses in that sector are repositioning their operations, and Idaho does not have the business composition to provide the extensive collaborative atmosphere that many other areas of the nation offer.

Information – publishing, both traditional and electronic, broadcasting, video and audio production, data processing and Internet-related businesses – will also see a fractional decline. This sector accounts for less than 2 percent of all jobs but they pay about $9,000 a year above the statewide average. Information has been on a steady decline since the recession began.