Idaho Department of Labor
Economic Outlook and Revenue Assessment Committee
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After a slow start, Idaho's economic recovery from the worst recession since World War II picked up significantly in late 2012. Job creation exceeded the national rate by more than a full percentage point during spring 2013.

The unemployment rate has been steadily falling from the recession high 8.8 percent in late 2010 to 3.9 percent in November. Unemployment is now approaching the record lows before the recession although these rates are typically revised in March after additional data gathered over the past year are assessed.

Recognizing that adjustments will be made to the employment data for the past year, based on current data the department estimates the average annual unemployment rate for FY2015 at 4.1 percent, down from 5.5 percent the previous fiscal year. Barring unexpected economic events the following 12 months, the rate should continue falling to average 3.6 percent for Fiscal Year 2016.

Declining unemployment has had a positive impact on the state's Unemployment Insurance Trust Fund. The fund balance was just over $480 million at the end of September, about $90 million more than the balance at the end of 2007 as the state headed into the recession. Weekly claims payments are now slightly below their 2006 low, and the employer tax rate dropped another 17 percent for 2015. The difference between the maximum rates of 2012 and this year's rates is $153 million less in taxes on Idaho businesses.

Compared to the depths of the recession when 47 percent of the unemployed were receiving benefits, only 22 percent were getting benefits in October. In addition the department's intensified verification that claimants are complying with job search requirements led to over 15,000 weekly claims being denied for failure to search for a job between mid-November 2013 and mid-November 2014. That compares to just 1,700 during the previous 12 months.

The state will make the final $50 million payment on the bonds used to cover the $200 million loan taken out in 2009 and 2010 to continue making benefit payments after the trust fund went broke. The revisions in the system made in 2011 with the bonding authorization have put the trust back on solid footing so it can weather another severe recession without the need to resort to a federal loan or to impose the rapid escalation in employer taxes that occurred during the last recession.

Business profits are rising at one of the highest rates among the states. They were up 7.8 percent between mid-2013 and mid-2014 – the sixth strongest rate in the nation – and 48.7 percent from their low in mid-2009 – the seventh strongest gain among the states.

Total wages are more than $2 billion ahead of their prerecession peak after rising 5.8 percent from mid-2013 to mid-2014 – second only to North Dakota. But nearly all of Idaho's increase is the result of job creation. Significant upward revisions in personal income lifted Idaho's per capita income in 2012 to 49th, and gains in 2013 moved it to 47th.

But despite a nation-leading 2.9 percent increase in the average wage from 2012 to 2013, Idaho's average wage remained 50th – ahead of Mississippi – at $36,836 compared to the national average of $49,627. And median annual earnings for a full-time Idaho worker slipped $48 – a tenth of a percent – from 2012 to 2013 to $36,992. That dropped Idaho's national ranking from 47th to 48th.

Idaho's ranking for full-time worker median earnings probably better reflects state wages because the huge number of part-time workers brings the average wage down. In 2013 nearly 24 percent – one in four workers in Idaho or about 173,000 – was in a part-time job – the highest percentage of any state workforce. While that percentage is down almost a half point from 2012, the decline in Idaho was not as great as in other states, and Idaho's ranking moved from sixth to first. Another 7.5 percent of the workforce was classified as full-time but working less than 35 hours a week – many because they could not get more hours.

Annual gross state product exceeded $62 billion in nominal terms and $57 billion in real terms – adjusted for inflation – in 2013. In both cases, the percentage increase from 2012 ranked Idaho among the top six states in the nation.

The composition of the gross product has changed since the recession. Construction, with relatively high-paying jobs, was down two percentage points in 2013 from 2008 to just 4 percent of gross product. Durable manufacturing, government and professional, scientific and technical services – all with comparatively high wages – contributed less to gross product in 2013 than they did in 2008. The wage component is important since over 50 percent of gross product is in employee compensation. That percentage has been declining from 55.5 percent in 2006 to 52 percent in 2012. Gross product in nominal terms was up about $6.5 billion from 2008 to 2013. About $6 billion of that was in the private sector, and a third of that was from significant increases in farm operations.

Exports continue to run at more than $5.5 billion a year, but they have slipped from the $6.1 billion record in 2012 – more a reflection of international issues and the strength of the dollar than of the strength of the Idaho economy.

There has been a shift in the contribution Idaho's two largest export sectors make to total foreign sales. High-tech equipment – particularly semiconductors – has been steadily sliding as a share of total exports – from over 70 percent before the recession to under 50 percent the last two quarters. At the same time, agricultural exports have been increasing as emerging nations see their economies strengthen. Agricultural sales to other nations have essentially doubled from just over 10 percent of all exports in 2007 to over 20 percent in the first half of 2014.

It now appears that the two-year job growth spurt is leveling off. October was the first month in two years that year-over-year job growth has dropped below 2 percent, and November held at 1.9 percent. The department's forecast is for 1.6 percent annual growth through March 2016 – a lower but more sustainable rate. Total jobs in the economy are hovering right around the monthly prerecession peaks, and the 12-month running average is also approaching that level.

One indicator that people are finding jobs more quickly has been the decline in the percentage of unemployment insurance benefit claimants who exhaust their benefits without finding work. At more than 50 percent two years ago, it had fallen to nearly half that this fall.

Compared to the rest of the nation, Idaho is in the middle of the pack in job recovery from the recession but slightly behind the national rate. Using October job statistics, Idaho had 100.6 percent of the jobs it had in October 2007 at 665,600. That ranked 25th among the states but was eight-tenths of a percentage point behind the national job recovery rate.

And the composition of jobs has shifted away from goods production with its typically higher wages to services. Goods production sectors of the economy – primarily manufacturing and construction – were at just 84 percent of their 2007 total in October while the service sector was well ahead of its prerecession peak.

While Idaho has seen an increase in goods production jobs since the recession ended, it was still over 20,000 below that prerecession total in October.

Service sector jobs recovered to their prerecession peak in August 2013 and have continued spiraling upward. In October the service sector had 3 percent more jobs than it did at its peak during the expansion.

This shift is not just an issue in Idaho.

At the peak of the housing boom, one in five Idaho jobs was in goods production, bolstered by dramatic growth in construction. The recession dropped the bottom out of that sector both in Idaho and nationally, and it will be another decade at least before Idaho construction regains its prerecession level. Over the past two years, Idaho has been widening the gap with the U.S. in the share of goods production jobs, primarily because of the increase in food processing in the south central part of the state.

This shift to services is happening across the country. But it has been more pronounced in Idaho. In 2007, the service sector was responsible for just over 81 percent of all Idaho jobs covered by the unemployment insurance system. In 2013 nearly 85 percent of jobs were in the service sector. That three and a half percentage point increase ranked seventh among the states and was over a full percentage point higher than the shift nationally.

Even as employment has been running at record levels in recent months at over 742,000, the statewide labor force has been declining since spring. In November, it was at its lowest level since October 2012.

That is reflected in the labor force participation rate that is now at its lowest level since mid-1976. This is a problem for the nation overall and most states. It reflects the exodus of aging baby boomers from the workforce, and in Idaho's case a significant influx of older workers and retirees from other states.

While Idaho remains a comparatively young state, it is aging faster than most other states. From 2010 to 2013, Idaho's total population grew 2.6 percent, but its population 55 and older was up 10.8 percent. Only seven other states saw their 55 and older populations grow faster. Over this period, Idaho's total population grew 41,418 while the population 55 and older grew 41,023. Nationally, population grew 2.2 percent from 2010 to 2013 while the 55 and up bloc increased 8.7 percent.

Over the relative short term, the department projects growth of about 1.6 percent a year that will generate about 21,000 new jobs by March 2016. While there are no short-term national job projections, the Bureau of Labor Statistics anticipated just over 1 percent annual job growth through 2022. The projected totals in the packets are not seasonally adjusted, and that results in the difference between them and the four-quarter running average of about 10,000.

Health care remains a strong component of the Idaho economy over the next 15 months, and construction continues its rebound from the severe contraction it suffered when the housing bubble burst. Manufacturing, the other major component of the higher-paying goods production sector, should continue to grow albeit slower than jobs overall, and the growth will be outside the mainstays of food processing, wood production and computer chip fabrication. Trade – retail and wholesale – will remain strong, reflecting as with health care population growth.

But Idaho's aging population and declining labor force participation rate pose potential problems over the long term. By 2022, the department projects Idaho's total jobs to hit 781,000 – about 109,000 more than in 2012. This is 1.5 percent annual growth – a half percentage point higher than the national projections.

At the same time, Idaho's work force is forecast to increase by just 14,000. The question is just how many of those additional 95,000 jobs will be generated if there are no additional workers to fill them. There are any number of circumstances that can narrow – or even close – the gap. Investment earnings can slide, forcing some retirees back into the workplace or convincing older workers to stay on the job longer. Wages could rise, making it more attractive for people who have not been in the labor force to enter for those new jobs. Inmigration of younger workers could increase, deepening the overall labor pool.

But the wider that gap remains, the greater the brakes on economic expansion.