

State Forecasting Strategy and Economic Insights

Idaho Economic Outlook and Revenue Assessment Committee
January 2, 2025



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Setting the Stage

- 1. Exercising sovereign state fiscal powers**
- 2. With price uncertainty in 2025, nominal revenue forecast of +/-6% growth (range 4.5%-7.5%) before any hedge or adjustments**
- 3. Consider your forecasting strategy**

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State Fiscal Processes Critical to Exercising State Sovereignty

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State Role in U.S. System of Federalism

- Under U.S. Constitution, states and federal government both employ sovereign fiscal powers
- Each independently tax, spend, and borrow
- Federal government leverages its funding as an incentive to influence state fiscal decisions

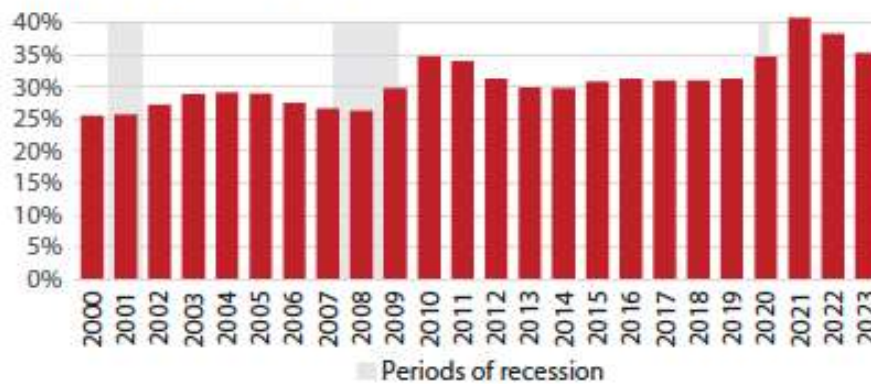
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Budgeting Practices

States	Federal
Budget balance	Deficit spending
1 or 2 year “budget window”	10 year “budget window”
Regular budget adoption through standard appropriation processes	Most spending outside of a regular appropriation process
Contingency planning – rainy day funds, budget stress testing, etc.	Debt to cover contingencies

Federal Funds Make Up Sizable Portion of State Budgets, Vary Over the Business Cycle

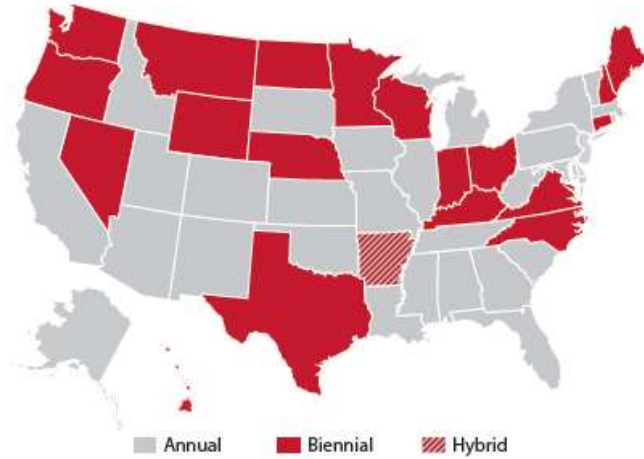
Figure 5: Federal Funds as a Percentage of State Total Budgets, FY 2000–2023



Source: National Association of State Budget Officers

States Budget Annually or Biennially

Figure 8: State Budget and Fiscal Year Cycle

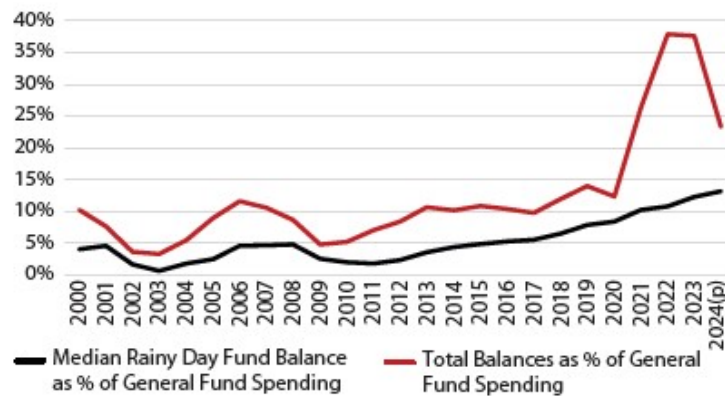


Note: With four exceptions, state fiscal years begin on July 1. The other four states are Texas (September 1), New York (April 1), Michigan and Alabama (October 1).
 Source: National Association of State Budget Officers

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Contingency Planning – State Reserves at Healthy Levels

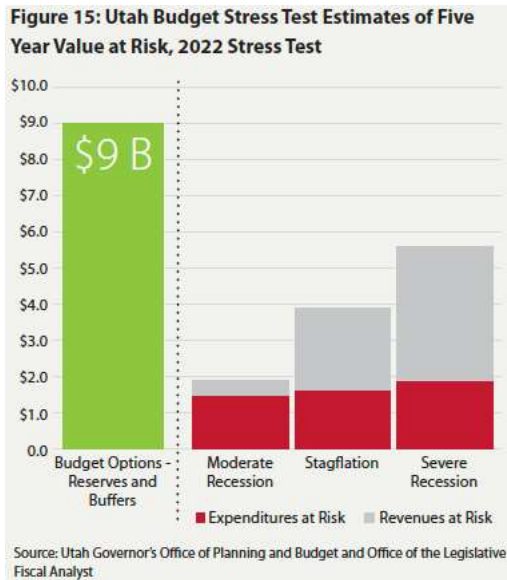
Figure 14: State Formal Rainy Day Fund and Total Balances as a Percentage of General Fund Spending, FY 2000 to 2024



Note: 2024 reflects preliminary estimates based on enacted budgets
 Source: National Association of State Budget Officers

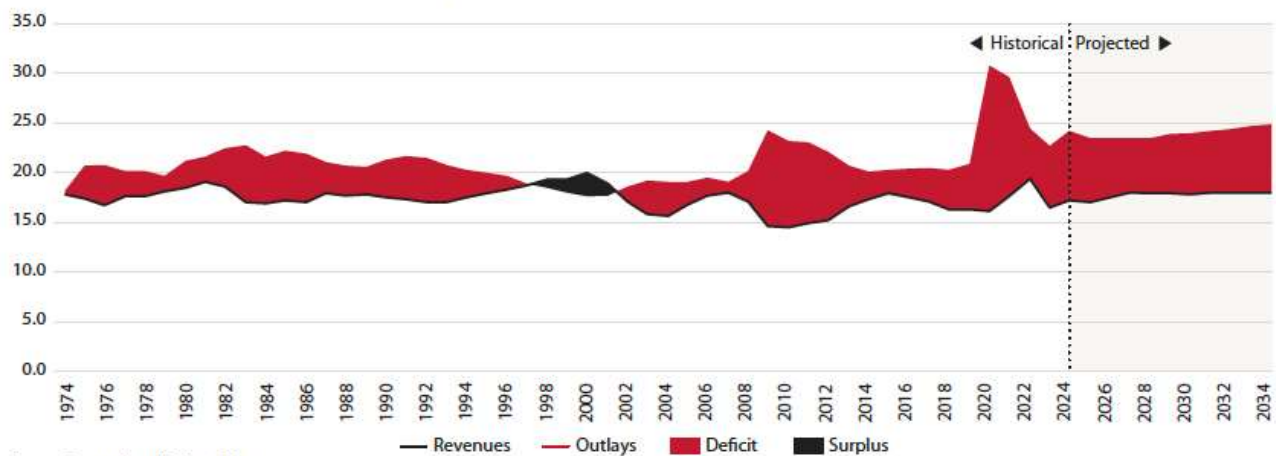
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Contingency Planning – Utah Budget Stress Testing



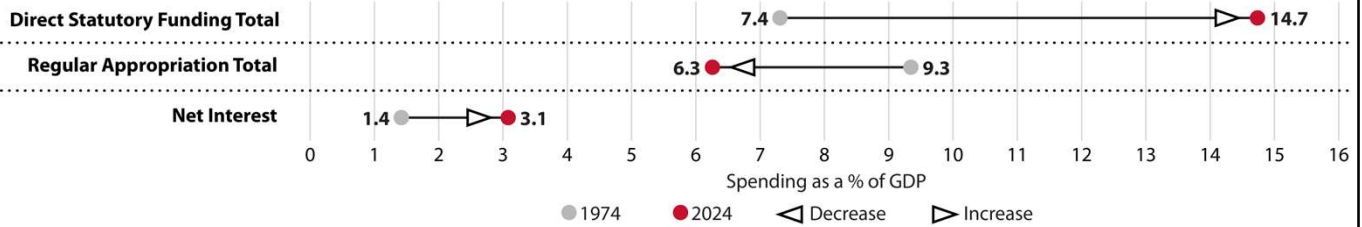
Federal Spending Regularly Exceeds Revenues

Figure 17: Federal Revenues and Spending as a Percentage of GDP, Federal Fiscal Year 1974 to 2034(p)



Autopilot Federal Spending Increasing, Regular Appropriation Spending Decreasing Over Time as % of GDP

Figure 22: Federal Direct Statutory Funding and Regular Appropriation Spending as % of GDP, Federal Fiscal Year 1974 to 2024



Source: Congressional Budget Office

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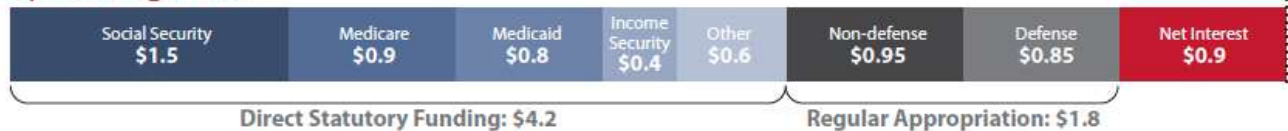
Federal FY 2024 Spending 40% Higher Than Revenues

Figure 21: The Federal Budget in Fiscal Year 2024 (\$ in trillions)

Revenues: \$4.9



Spending: \$6.9

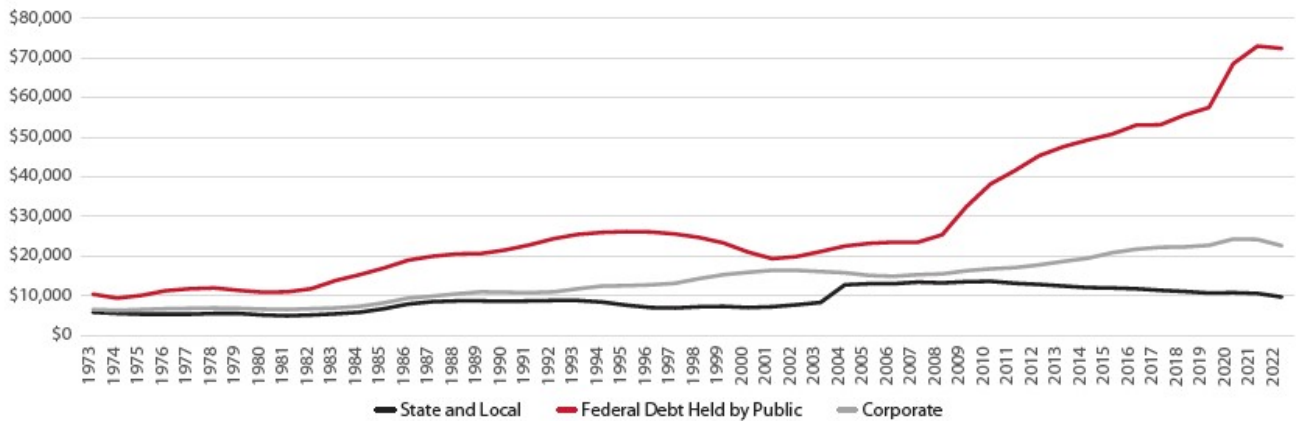


Source: Congressional Budget Office

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State Debt Declined in Recent Decades, Federal Debt Increased Dramatically

Figure 24: Real Per-Capita U.S. Federal, State and Local, and Corporate Bonded Debt, 1973-2022

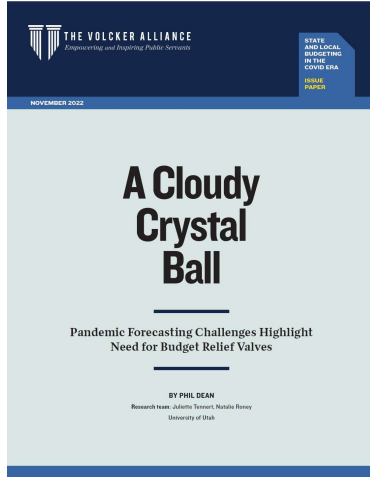


Source: Federal Reserve Economic Data (FRED)

Budget Forecast Strategy

A Cloudy Crystal Ball

Pandemic Forecasting Challenges Highlight Need for Budget Relief Valves



- Highlights forecasting and budget management lessons learned from the pandemic
- Tool kit on various best practices and how states forecast budgets

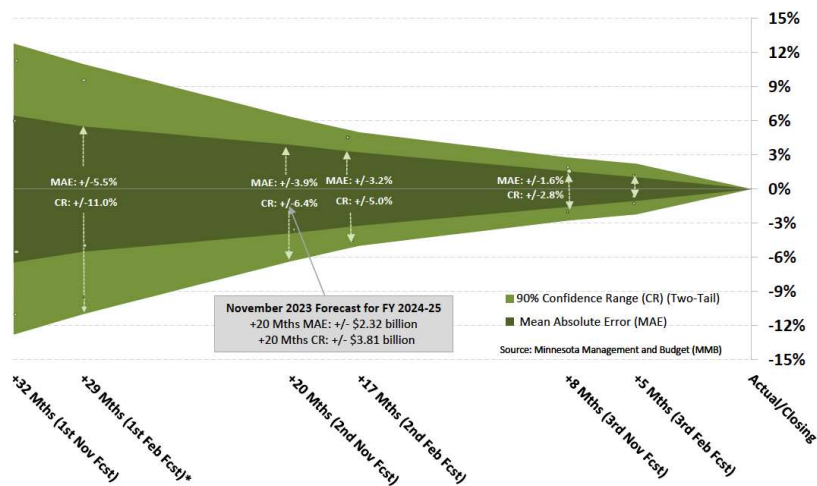
https://www.volckeralliance.org/sites/default/files/2022-11/ACloudyCrystalBall_113022.pdf

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Forecasts Inherently Uncertain

Average Revenue Forecast Uncertainty over Minnesota's Budget Cycle

% of Net Non-Dedicated Revenue, Sample Period: FY1990-91 to FY2022-23



* +29 Mths (1st Feb) represents the MMB forecast on which the original budget for the biennium was based. Notes: Adjusted for the effects of legislation. MMB uses the mean-absolute error (MAE) as a measure of accuracy in its evaluation of forecast uncertainty. MAE is calculated by averaging forecast deviations from actual without regard to arithmetic sign. Under the assumption that tax policies do not significantly change, a 90% confidence range (CR) is a measure based on our sample budget data, reporting that 90% of the times the lightest range will contain the actual value for total revenues.

SOURCE Minnesota Office of Management & Budget

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Forecast Represents One Point in a Range of Possibilities – What’s Your Risk Tolerance Level?

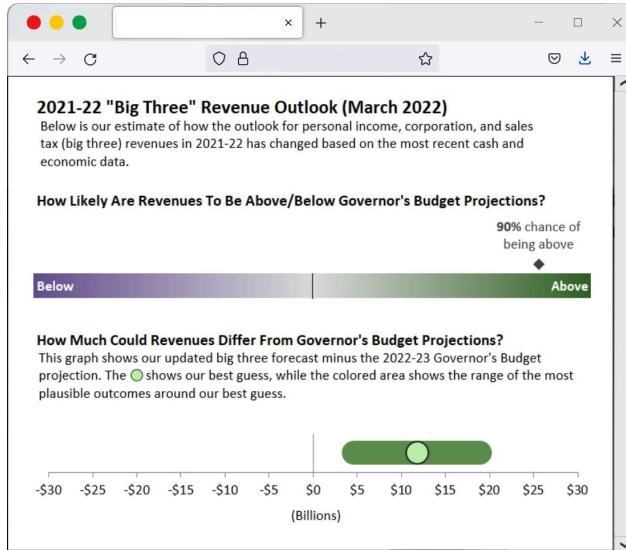
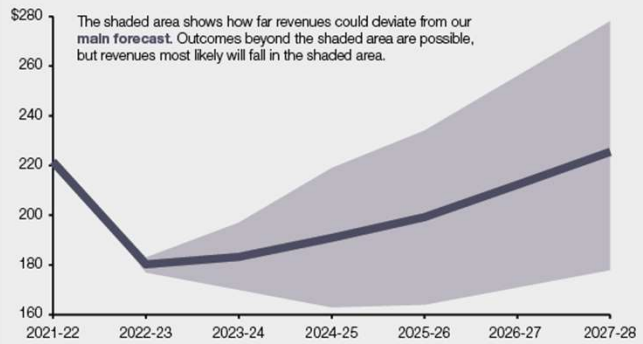


Figure 2

LAO Revenue Outlook

Total Revenue Excluding Federal Cost Recovery (In Billions)



SOURCE California Legislative Analyst's Office

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Select Forecast Risk Considering Overall Fiscal Health (Strength or Weakness of Other Budget Tools)

STRENGTH OF OTHER BUDGET MANAGEMENT TOOLS

(including revenue stability, reserve accounts, and long-term liabilities)

WEAK

STRONG

EMPLOY VERY LOW-RISK FORECAST

EMPLOY 50-50 FORECAST

States control broad range of budget management tools

- Revenue system design
- Budget reserves
 - Formal rainy day funds
 - Other balances in special/restricted accounts
- Cash flow management
- State spending levels

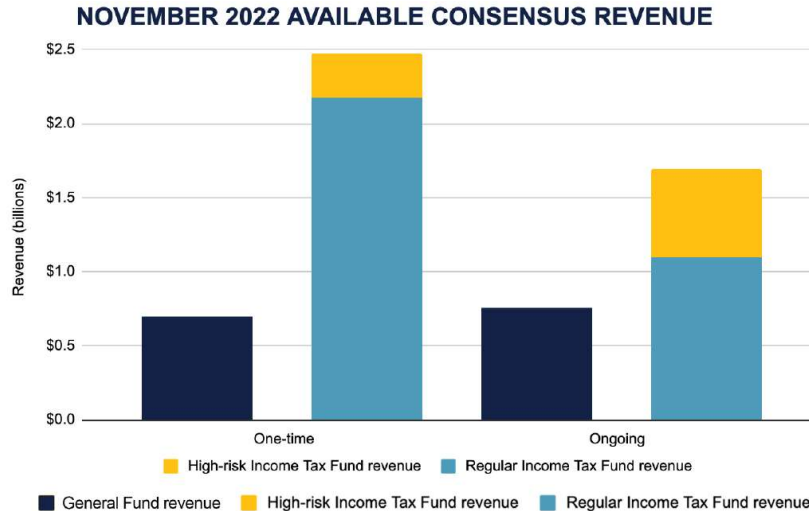
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Utah Formally Incorporated Risk Assessment into FY 2023 Forecast



SOURCE Utah Governor's Office of Planning and Budget

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High and Low Missed Forecasts Carry Different Risks

Revenue forecast too high (year-end shortfall)

- Risks future budget cuts or tax increases
- Forecast miss leads to drawing down rainy day funds or other reserves
- Most states hedge slightly to avoid shortfalls
- Managing from budget crisis to crisis undermines long-term strategic management, shifting focus to short-term pressures

Revenue forecast too low (year-end surplus)

- Risks missing opportunities to productively use funds in high-inflation economy
- May shift funding from ongoing people-oriented programs to one-time object-oriented programs
- Consistent large under-forecast undermines credibility
- Collected funds spendable later
- Avoids forecast-driven future budget cuts or tax increases

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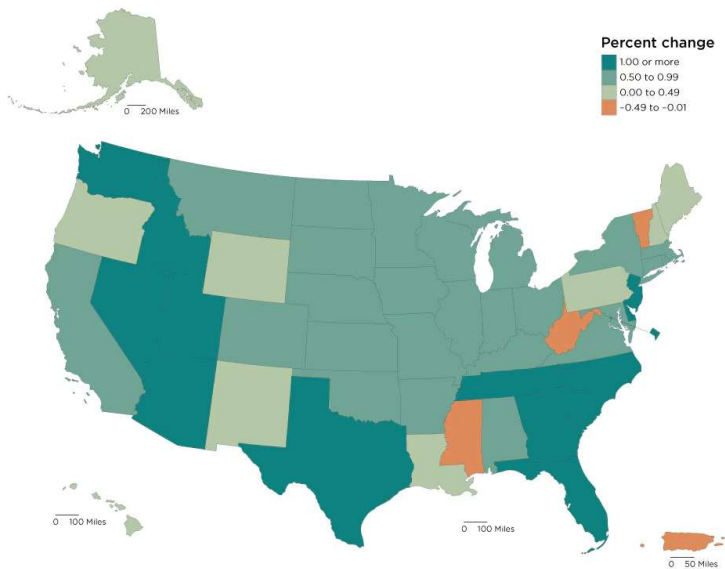
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Current Economic Conditions & Forecast

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Mountain Region and South Continue to Lead Population Growth

July 1, 2023, to July 1, 2024



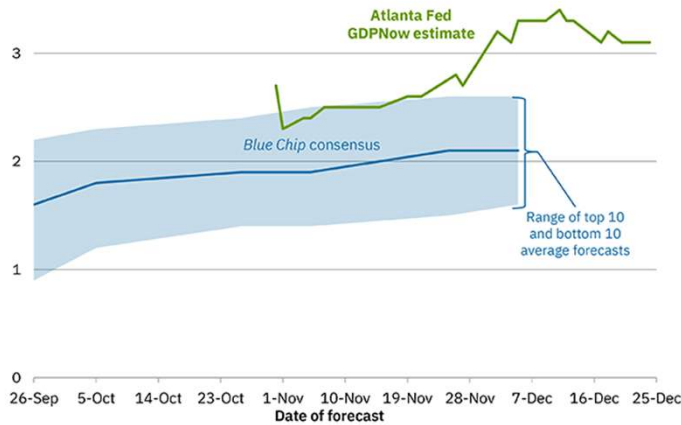
State/District	Population Growth Rate
DC	2.2
Florida	2.0
Texas	1.8
Utah	1.8
South Carolina	1.7
Nevada	1.7
Idaho	1.5
North Carolina	1.5
Delaware	1.5
Arizona	1.5

Source: U.S. Census Bureau

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Major National Forecasts Underestimating U.S. Economic Growth (Still)

Evolution of Atlanta Fed GDPNow real GDP estimate for 2024: Q4
Quarterly percent change (SAAR)



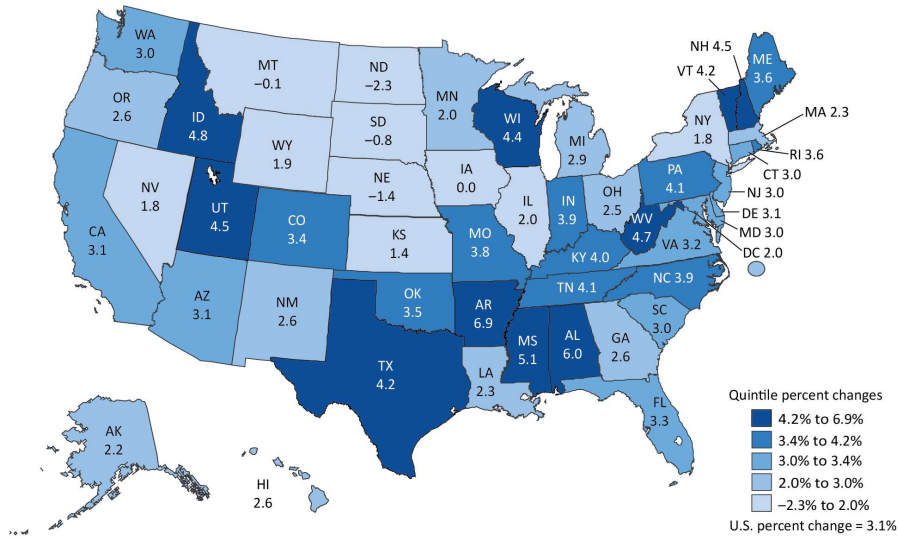
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: Federal Reserve Bank of Atlanta GDPNow

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Idaho GDP Growth Strong in 2024

Real GDP: Percent Change at Annual Rate, 2024:Q2–2024:Q3



U.S. Bureau of Economic Analysis

Source: U.S. Bureau of Economic Analysis

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Broad-Based Idaho GDP Growth

Year-over Growth Rate by Sector



Source: U.S. Bureau of Economic Analysis

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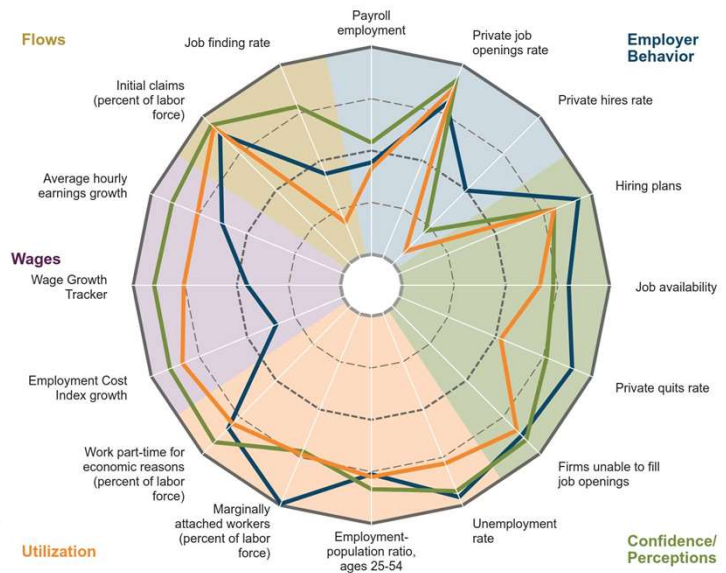
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Softer but Still-Tight U.S. Labor Markets

Labor Market Distributions Spider Chart

Data since March 1994

- █ November 2019
- █ maximum (outer ring)
- █ November 2023
- █ minimum (inner ring)
- █ November 2024
- median (middle ring)



Sources: U.S. Bureau of Labor Statistics, U.S. Department of Labor, National Federation of Independent Business, The Conference Board, and Haver Analytics
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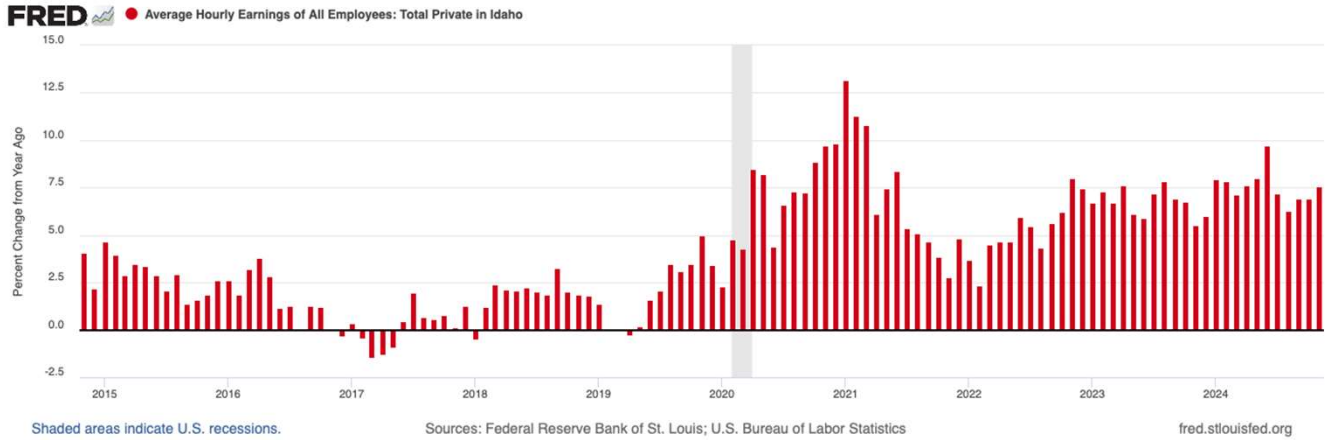
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Strong Idaho Wage Growth Continues



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Inflation Sticking Above Target?



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Long-Term and Short-Term Rates Diverging Recently

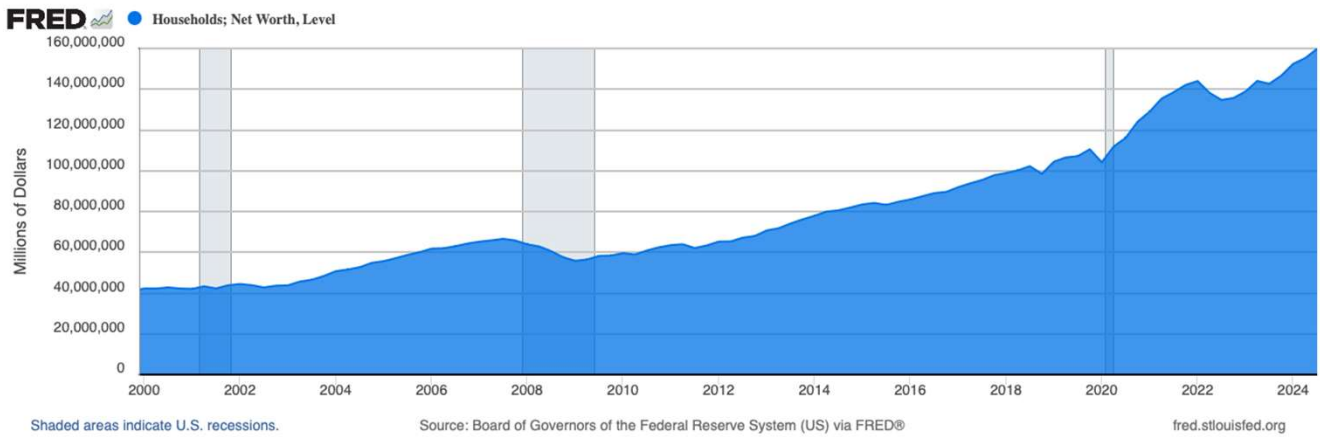


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Households Spend from Both Accumulated Wealth & Annual Income Flows



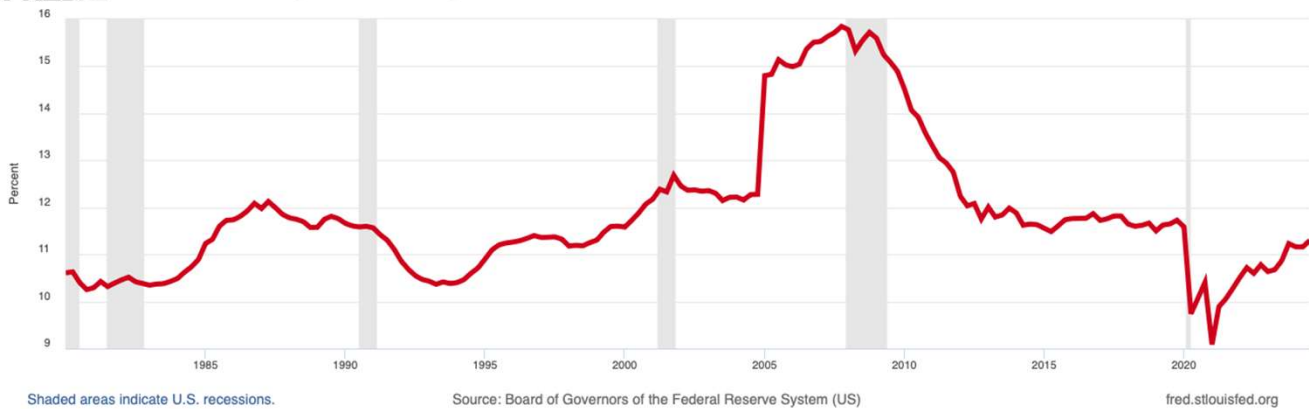
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Household Debt Up, Payments Appear Manageable on Average...

FRED  Household Debt Service Payments as a Percent of Disposable Personal Income



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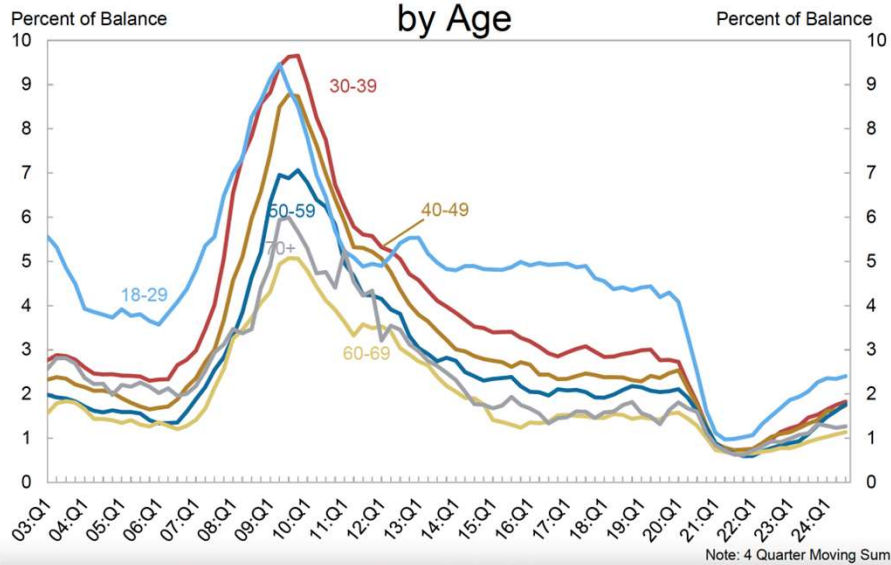
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...But Younger Generations Face Challenges

Transition into Serious Delinquency (90+) by Age



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Simple Nominal Revenue Forecast

Indicator	Growth Rate
Population Growth	1.0 - 2.0%
Inflation	2.5 - 3.0%
<u>Real Economic Growth</u>	<u>1.0 - 2.5%</u>
Total Growth Rate	4.5 - 7.5%
<p>+6% nominal revenue growth midpoint, adjust down for any explicit hedge, scheduled tax cuts, misalignment of GF revenues with economy, etc.</p>	

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Amid Uncertainty, Build Budget Resiliency

- Interpreting past and present conditions challenging due to complex and uncertain economic environment. **Forecasting future events even harder.**
- **Scenario plan** and develop **early warning** systems so not overly reliant on forecast perfection.
- Consider how you need to **design your budget systems** to enhance resiliency:
 - (a) build appropriate protective buffers
 - (b) reliably deliver value during economy's ups and downs
 - (c) seize opportunities that arise during uncertain times

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