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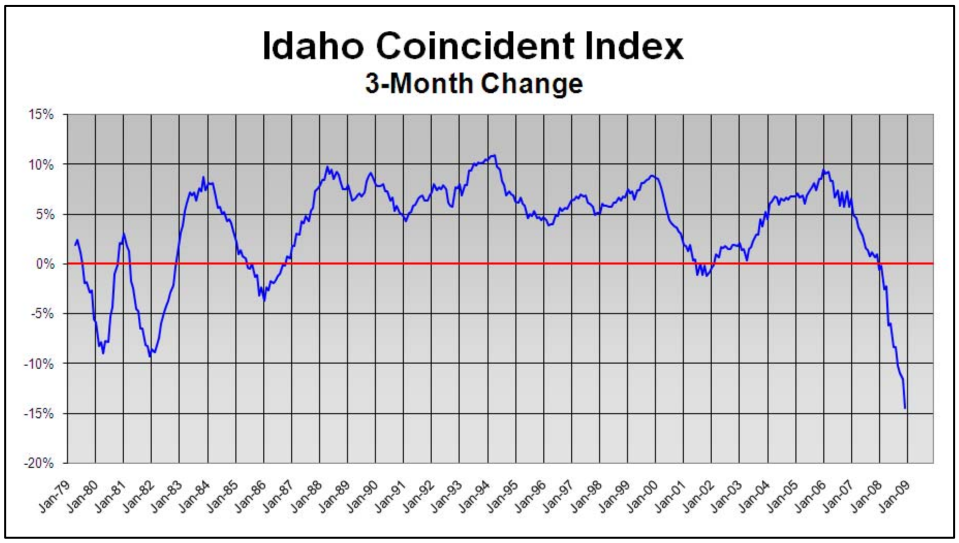
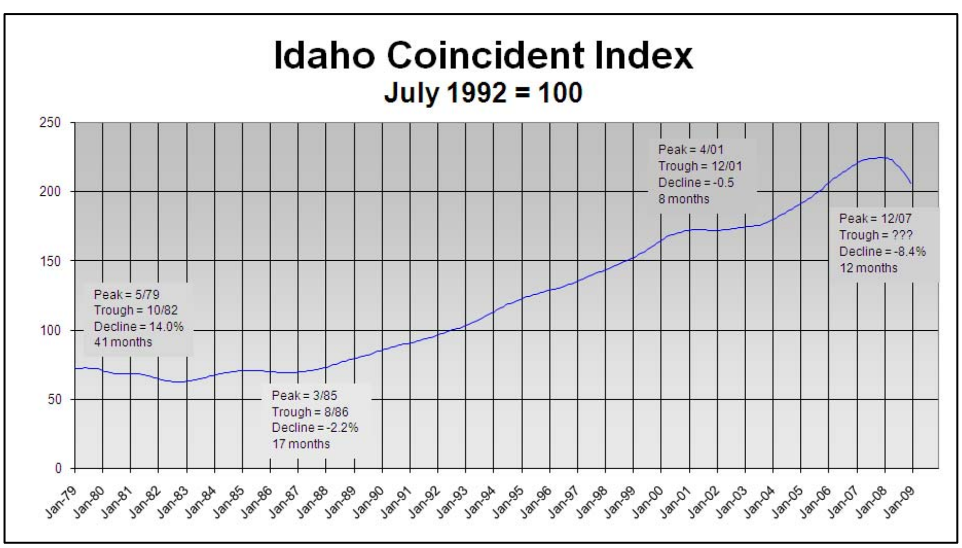
DIVISION OF FINANCIAL MANAGEMENT **JANUARY 2009 VOLUME XXXI NO. 7**

In this issue of the *Idaho Outlook* we use the coincident index developed by the Federal Reserve Bank of Philadelphia to chart the state's economic voyage since the late 1970s. The coincident index combines four state-level indicators to summarize current economic conditions in a single statistic. The four state-level variables in the coincident index are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average). The trend for the state's coincident index is set to match the trend of its real gross domestic product (GDP), so long-term growth in the state's index matches long-term growth in its GDP. It is also one of the timeliest indicators of the state's health, so it provides valuable insights into current economic conditions.



To help illustrate the state's economic history, we have prepared the chart below which shows the Idaho index's value over the last three decades. The chart shows the state's economy began a 41-month long downturn beginning in June 1979. Over this period, the index declined a record 14.0%. The economy did enjoy a brief respite in late 1980 and early 1981. This pause is evident in the second chart that plots changes in the index, which shows a brief, positive blip beginning at the end of 1980. However, it was too meager to halt the economy's slide. Near the end of 1982 Idaho's economy finally resumed growing. However, growth during this period was not enough to regain the previous peak before another downturn began in April 1985. The coincident index finally reached its previous peak level (set in May 1979) in December 1987—8 years and 7 months later.

The second half of the 1980s ushered in what was to become one of the most prosperous periods in the Gem State's history. As the index chart shows, except for a minor dip during the 2001 national recession, Idaho's economy steadily expanded for over two decades. Over this period, the coincident index expanded 259%. Idaho's momentum during this time was remarkable. For example, the U.S. economy was in a recession from July 1990 to March 1991, yet the Gem State's economy grew steadily over this period (see chart). Although it was not able to escape the next national recession, the second chart clearly shows Idaho's decline was short and shallow; it lasted eight months and declined a mere 0.5%—the mildest decline over the last three decades. Fueled by the construction boom, the state's economy soared again after that. Although it was growing, there were signs of problems. Most notably, as the charts show, growth has been slowing since 2006. Those same charts show the economy began retreating in January 2008, and it has been shrinking since then.



Although it is still too early to gauge the ultimate severity of the current Idaho economic downturn, we can use the index to provide us with some perspective. Thanks to the timeliness of the coincident index, we know it has been declining for the past 12 months, which makes it the longest retreat since the mid-1980s. We also know it has dropped 8.4% during the current downturn, which is already triple the decline of the mid-1980s. Unfortunately, it is likely to drop further. What remains unknown is how much longer it will drop and by how much it will fall.

Idaho General Fund Update

As of December 31, 2008

Revenue Source	FY 2009 Executive Estimate[3]	DFM Predicted to Date	Actual Accrued to Date
	$ Millions		
Individual Income Tax	1,268.0	587.7	576.2
Corporate Income Tax	157.1	66.1	69.6
Sales Tax	1,068.9	560.9	555.3
Product Taxes[1]	29.7	15.7	16.0
Miscellaneous	110.1	49.8	52.8
TOTAL GENERAL FUND[2]	**2,633.8**	**1,280.3**	**1,269.8**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes

2 May not total due to rounding

3 Revised Estimate as of January 2009

This edition of the *Idaho Outlook* is the first that is based on the new General Fund revenue forecast that was released as part of the FY 2010 Executive Budget. This Forecast is $132.5 million lower than the previous forecast that was released in August 2008. The reduction is due to deteriorating economic conditions.

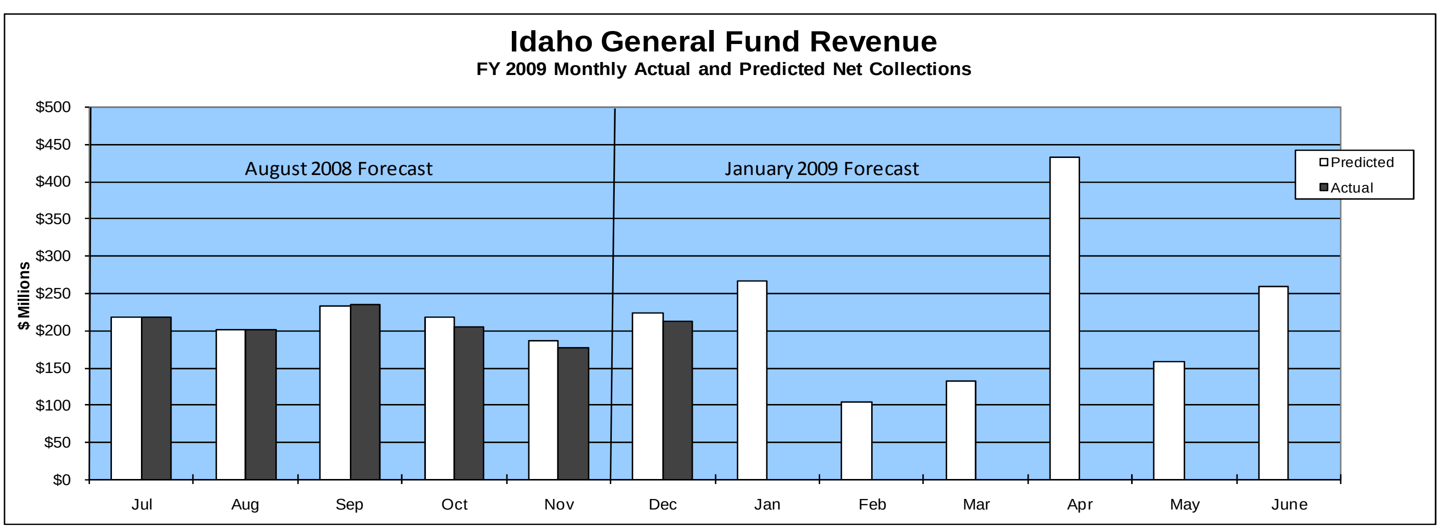
Overall General Fund revenue fell $10.5 million short of expectations in December. The majority of December's weakness was from the individual income tax, but this was compounded by a large shortfall in the sales tax. These are the only two revenue categories that were below expectations in December.

Individual income tax collections fell $11.6 million short of expectations in December. The bulk of the weakness in the individual income tax was due to filing collections that were $7.8 million lower than expected. This was compounded by refunds that were $0.7 million higher than expected and withholding collections that were $2.9 million lower than expected. The latter is worrisome, but it may be an unusual seasonal hit due to very weak retail activity (and hiring) at the end of 2008. If that's correct, January will also be below expectations.

The corporate income tax returned to stronger than expected performance in December, despite being the only revenue category that had its forecast increased. In fact, even with a forecast that was increased from $150.2 million to $157.1 million, December's gap of $3.5 million was the largest monthly surplus so far this fiscal year. All components contributed to December's strong result, but estimated payments were the dominant item at $2.8 million higher than expected.

Sales tax revenue fell $5.7 million below expectations for the month of December. This occurred despite a 5.7% reduction in the forecast for FY 2009 sales tax revenue to the General Fund. Sales tax gross receipts for December were 13.9% below a year earlier, and receipts for the first half of FY 2009 (July-December) were 8.4% below the same period a year earlier. There have only been two other times since FY 1970 that sales tax receipts in the first six months of the fiscal year (adjusted for rate changes) were lower than a year earlier: a 0.3% decline in FY 1983 and a 0.2% decline in FY 1987. The current forecast for FY 2009 calls for a reduction in gross collections of 7.3% (the General Fund reduction is 6.5% due to distribution formula impacts). There were also only two years since FY 1970 that had actual declines in sales tax gross collections for the full fiscal year: a decline of 1.2% in FY 1987 and a decline of 1.2% in FY 2008. It should be noted that December tax receipts actually reflect November sales, so this does not reflect retail activity in the month of December. Based on national reports of retail sales in December, another disappointing month is likely when January sales tax receipts are reported in February.

Product taxes were $0.3 million higher than expected in December, based on higher-than-expected tobacco tax collections. Miscellaneous revenue was $2.9 million above expectations, with $2.5 million due to higher-than-expected unclaimed property receipts.



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