

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

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We are not alone. The U.S. economy is in a recession, but so are most of its trade partners. As the table prepared by IHS Global Insight shows, five of the seven covered foreign economies are expected to contract this year. China's output is projected to advance 7.2%, but even at this pace, it too is in a recession. The global economy is forecast to shrink 2.6% this year.

The global slowdown will suppress trade. Real exports, which began shrinking in late 2008, are expected to continue contracting through most of this year. Specifically, they fall at a 30.6% annual rate in the first quarter of 2009, by 11.8% in the second quarter, and 1.1% in the third quarter. Interestingly, real imports into the U.S. are more impacted during the first half of this year than exports. They fall at a 36.4% annual clip in the first quarter of 2009 followed by a 17.5% drop in the second quarter. As a result, the real net export (export less imports) deficit actually slips just below \$300 billion in the first quarter and falls further to \$262 billion in the second quarter, which is its low point for the next few years. The U.S. trade deficit grows in this

year's second half as rising domestic demand boosts imports.

On an annual basis, the real net exports deficit is forecast to improve from \$390 billion in 2008 to \$317 billion in 2009. The deficit jumps to \$406 billion the next year. But after this increase, the real net exports deficits are expected to drop to \$402 billion in 2011 and to \$389 billion in 2012, as growing demand in recovering foreign economies causes real exports to grow faster than real imports. As a result, net exports will be less of a drag on the U.S. economy than they had been in the recent past.

Real net exports will largely be determined by how well our trade partners' economies recover. Each will have its own shape and its own risks. Europe is expected to have an "L-shaped" recovery. There are growing fears that Europe's recovery will not only start after the U.S. recovery, but it will be weaker. There are several reasons for this disappointing outlook. First, because this economy is much more dependent than the U.S. on exports, its recession will be deeper. Second, banking problems in Europe are

as bad, if not worse, than in the U.S. In addition, they are not nearly as far as the U.S. toward solving their financial troubles. Third, the region's fiscal and monetary response to its recession has been more measured than in the U.S.

China is at risk of experiencing a "W-shaped" recovery. While China has been the first major economy to improve, the recent softening of exports suggest it may still face challenges. In fact, after rebounding strongly, China's purchasing managers' index has begun to flatten out in recent months. The large government stimulus program has had a strong impact on capital spending, but almost no impact on retail sales and consumer spending. The liquidity injections into the economy have helped out but are beginning to moderate. China is forecast to grow 7.2% this year and 8.3% next year. Nevertheless, it remains vulnerable to a "double-dip" recession if growth falters when the massive stimulus wears off, consumer demand does not grow rapidly, and exports fail to expand at a double-digit pace.

Japan's economy must clear several high hurdles in the near future. Its recession probably ended this spring. However, the second and third quarters of 2009 are likely to be flat. Domestic demand remains weak, with fixed investment and construction spending falling, and consumer spending moving sideways. In addition, deflation still plagues the world's second largest economy. While its government has promised large amounts of fiscal stimulus, in reality it is only likely to amount to 2.0% to 2.5% of its GDP. Japan's real output is expected to drop 6.8% this year and rise just 0.9% next year. Even after the global business cycle improves, continued structural problems in Japan will threaten an extended period of anemic growth.

Projected Real GDP			
	2008	2009	2010
United States	1.1%	-2.8%	1.5%
Canada	0.4%	-2.3%	2.3%
Japan	-0.7%	-6.8%	0.9%
Europe	0.6%	-4.6%	0.1%
Mexico	1.4%	6.0%	2.4%
South America	4.9%	-1.0%	2.6%
Asia except Japan	5.7%	3.2%	5.7%
China	9.0%	7.2%	8.3%
World	2.2%	-2.6%	2.0%

Source: IHS Global Insight

# Idaho General Fund Update

As of June 30, 2009

\$ Millions				
Revenue Source	FY 2008 Actual	FY 2009 Executive Estimates Jan. 2008	Feb. 2009 <sup>1</sup>	FY 2009 Actual
Individual Income Tax	1,430.2	1,423.4	1,222.6	1,167.9
Corporate Income Tax	189.3	187.8	156.5	141.0
Sales Tax	1,142.5	1,249.3	1,041.6	1,022.2
Product Taxes <sup>2</sup>	26.8	37.7	29.7	29.7
Miscellaneous	120.7	113.7	110.1	104.7
<b>TOTAL GENERAL FUND<sup>3</sup></b>	<b>2,909.4</b>	<b>3,011.9</b>	<b>2,560.4</b>	<b>2,465.6</b>

*1 Executive estimate as adjusted for 2008 legislative action* *3 May not total due to rounding*  
*2 Product Taxes include beer, wine, liquor, and cigarette taxes*

General Fund revenue finished FY 2009 \$94.8 million lower than expected based on the February 2009 Executive Revenue Forecast. The month of June contributed a net of -\$19.7 million to this weak finish. June's weakness was across the board, with each of the five main revenue categories coming in lower than expected. The bulk of June's weakness was spread across the big three—individual and corporate income tax and sales tax. Only the product tax category managed to complete the full fiscal year ahead of the forecast—by a tiny \$0.1 million margin. Over half of the fiscal year revenue shortfall was due to weakness in the individual income tax (-\$54.7 million), but the corporate income tax and sales tax each contributed substantially to the shortfall as well.

Individual income tax revenue was \$8.2 million lower than expected in June, and finished the fiscal year \$54.7 million below the February 2009 forecast. Instead of falling by 14.5% (per the February 2009 forecast), individual income tax receipts finished FY 2009 18.3% below the FY 2008 level. This

outcome was due to a combination of filing collections that were down 25.8% (versus a forecasted decline of 24.6%), withholding collections that were down 6.2% (versus a forecasted decline of 3.8%), and refunds that were up 13.3% (versus a forecasted increase of 5.2%). FY 2009 actual individual income tax collections fell below the levels attained in each of the preceding three fiscal years.

Corporate income tax revenue was \$4.5 million below expectations in June and finished the fiscal year \$15.4 million below the February 2009 forecast. Instead of falling by 17.3% (per the February 2009 forecast), corporate income tax revenue actually fell by 25.5% in FY 2009. This outcome was due to a combination of filing collections that were down 27.6% (versus a forecasted decline of 10.2%), estimated payments that were down 13.3% (versus a forecasted decline of 14.0%), and refunds that were up 42.2% (versus a forecasted increase of 25.8%). This is the third consecutive year of decline. FY 2009 actual corporate income tax collections fell below the levels attained in each of the preceding three fiscal years (and barely

exceeded the FY 2005 level by a mere \$1.5 million).

Sales tax revenue was \$3.9 million lower than expected in June, and finished the fiscal year \$19.4 million below the forecasted amount. Instead of falling by 8.8% (per the February 2009 forecast), sales tax revenue actually fell by 10.5% in FY 2009. This is the second year of decline for the sales tax on a normalized basis (i.e., adjusted for rate and distribution changes), and as in the case of the income taxes, the FY 2009 level of sales tax was lower than each of the past three fiscal years.

Product taxes were slightly behind target (\$0.1 million) in June and slightly ahead of the forecast (\$0.1 million) for the full fiscal year. Miscellaneous revenues were \$3.1 million lower than expected in June and finished the fiscal year \$5.4 million lower than forecast. Within the miscellaneous category interest earnings were \$3.2 million lower than expected in June and \$5.3 million lower than the forecast for the full fiscal year.

