

## EXECUTIVE SUMMARY

Last year was a transitional period for the Idaho economy. After stalling in 2002, the Gem state's economy began showing signs of recovery in 2003. In 2002, Idaho nonfarm employment grew by just two jobs. Like its U.S. counterpart, the state took tentative steps toward recovery during the first half of 2003. Nonfarm employment showed promise early that year by increasing at a 1.8% annual rate in the first quarter. Unfortunately, this was followed by a 2.7% employment loss in the second quarter. However, this setback proved temporary. Idaho nonfarm employment advanced 1.0% in the third quarter of 2003 and 2.3% in the fourth quarter. The momentum displayed in the latter half of 2003 is expected to lift Idaho's economy to a higher and more solid footing over the forecast period. For example, Idaho nonfarm employment is expected to grow 1.6% in 2004. While this is slower growth than was experienced in the 1990s, it is twice as fast as the 2003's growth rate of 0.8%. Another feature of employment growth is it accelerates over time. Specifically, it advances 1.7% in 2005, 2.1% in 2006, and 2.2% in 2007. Looked at another way, Idaho is expected to enjoy a net job gain of nearly 45,000 from 2003 to 2007. Idaho real personal income expands 3.5% in 2004, 3.3% in 2005, 3.9% in 2006, and 3.5% in 2007. It should also be pointed out that this job outlook is an improvement to the one reported in the previous *Idaho Economic Forecast*. In April 2004, it was projected Idaho nonfarm employment growth would average 1.8% annually. In the July 2004 *Forecast* it averages 1.9% per year. As a result, Idaho nonfarm employment is about 4,000 higher in 2007 compared to the previous forecast. The outlook for Idaho personal income has also improved. Compared to the previous forecast, Idaho real personal income is \$365 million higher in 2004, \$322 million higher in 2005, \$221 million higher in 2006, and \$97 million higher in 2007.

It appears the national economy has successfully transitioned from policy-supported growth to self-sustaining growth. Stimulative monetary and fiscal policies kept the recovery moving ahead despite the lackluster job market. Well-timed tax cuts put money in consumers' hands and kept spending from retreating. As a result, the consumer sector kept the economy afloat. Record low interest rates also helped. The Federal Reserve lowered its federal funds rate to 1.0% in order to keep the economy from sinking. Other interest rates followed suit. Mortgage interest rates also dropped to a generational low, and the housing market boomed as a result. Despite this growth, inflation remained tame. One of the reasons price increases remained subdued was because of the weak labor market. During the "jobless recovery" there was little inflationary pressure from wages. One of the concerns about the "jobless recovery" was that policy makers were quickly running out of options. The hope was that U.S. job creation would kick into higher gear. The robust job growth would increase income. The stronger income growth would be an important component in the engine propelling future growth. The outlooks for several factors suggest the economy is back in a self-sustained growth mode. Over the forecast period U.S. nonfarm employment is projected to grow 1.2% in 2004, 2.1% in 2005, 1.4% in 2006, and 1.1% in 2007. The last year the number of U.S. jobs increased was in 2000. The U.S. economy is projected to expand over the forecast period. Specifically, U.S. real GDP is anticipated to increase 4.9% this year, 3.8% next year, 2.9% in 2006, and 3.4% in 2007. National real personal income should grow 3.4% this year, 3.8% next year, 3.6% in 2006, and 3.5% in 2007.

**IDAHO ECONOMIC FORECAST  
EXECUTIVE SUMMARY  
JULY 2004**

|                                  | 1997    | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>GDP (BILLIONS)</b>            |         |         |         |         |         |         |         |         |         |         |         |
| Current \$                       | 8,304   | 8,747   | 9,268   | 9,817   | 10,101  | 10,481  | 10,988  | 11,766  | 12,426  | 12,989  | 13,687  |
| % Ch                             | 6.2%    | 5.3%    | 6.0%    | 5.9%    | 2.9%    | 3.8%    | 4.8%    | 7.1%    | 5.6%    | 4.5%    | 5.4%    |
| 2000 Chain-Weighted              | 8,704   | 9,067   | 9,470   | 9,817   | 9,867   | 10,083  | 10,398  | 10,909  | 11,320  | 11,652  | 12,043  |
| % Ch                             | 4.5%    | 4.2%    | 4.5%    | 3.7%    | 0.5%    | 2.2%    | 3.1%    | 4.9%    | 3.8%    | 2.9%    | 3.4%    |
| <b>PERSONAL INCOME - CURR \$</b> |         |         |         |         |         |         |         |         |         |         |         |
| Idaho (Millions)                 | 25,367  | 27,287  | 29,068  | 31,290  | 32,963  | 34,217  | 35,403  | 37,448  | 39,342  | 41,539  | 43,907  |
| % Ch                             | 4.1%    | 7.6%    | 6.5%    | 7.6%    | 5.3%    | 3.8%    | 3.5%    | 5.8%    | 5.1%    | 5.6%    | 5.7%    |
| Idaho Nonfarm (Millions)         | 24,628  | 26,371  | 28,075  | 30,474  | 31,968  | 33,130  | 34,344  | 36,278  | 38,189  | 40,270  | 42,662  |
| % Ch                             | 5.0%    | 7.1%    | 6.5%    | 8.5%    | 4.9%    | 3.6%    | 3.7%    | 5.6%    | 5.3%    | 5.4%    | 5.9%    |
| U.S. (Billions)                  | 6,915   | 7,423   | 7,802   | 8,430   | 8,713   | 8,910   | 9,208   | 9,733   | 10,273  | 10,809  | 11,425  |
| % Ch                             | 6.1%    | 7.3%    | 5.1%    | 8.0%    | 3.4%    | 2.3%    | 3.3%    | 5.7%    | 5.6%    | 5.2%    | 5.7%    |
| <b>PERSONAL INCOME - 2000 \$</b> |         |         |         |         |         |         |         |         |         |         |         |
| Idaho (Millions)                 | 26,666  | 28,429  | 29,788  | 31,289  | 32,303  | 33,081  | 33,611  | 34,780  | 35,942  | 37,360  | 38,654  |
| % Ch                             | 2.4%    | 6.6%    | 4.8%    | 5.0%    | 3.2%    | 2.4%    | 1.6%    | 3.5%    | 3.3%    | 3.9%    | 3.5%    |
| Idaho Nonfarm (Millions)         | 25,890  | 27,475  | 28,770  | 30,473  | 31,328  | 32,031  | 32,607  | 33,693  | 34,888  | 36,218  | 37,558  |
| % Ch                             | 3.3%    | 6.1%    | 4.7%    | 5.9%    | 2.8%    | 2.2%    | 1.8%    | 3.3%    | 3.5%    | 3.8%    | 3.7%    |
| U.S. (Billions)                  | 7,269   | 7,734   | 7,996   | 8,429   | 8,539   | 8,615   | 8,742   | 9,040   | 9,385   | 9,722   | 10,059  |
| % Ch                             | 4.3%    | 6.4%    | 3.4%    | 5.4%    | 1.3%    | 0.9%    | 1.5%    | 3.4%    | 3.8%    | 3.6%    | 3.5%    |
| <b>HOUSING STARTS</b>            |         |         |         |         |         |         |         |         |         |         |         |
| Idaho                            | 8,863   | 10,112  | 10,341  | 11,522  | 12,237  | 13,178  | 16,333  | 15,810  | 15,092  | 14,583  | 13,777  |
| % Ch                             | -3.9%   | 14.1%   | 2.3%    | 11.4%   | 6.2%    | 7.7%    | 23.9%   | -3.2%   | -4.5%   | -3.4%   | -5.5%   |
| U.S. (Millions)                  | 1.475   | 1.621   | 1.647   | 1.573   | 1.601   | 1.710   | 1.853   | 1.895   | 1.692   | 1.634   | 1.651   |
| % Ch                             | 0.4%    | 9.9%    | 1.6%    | -4.5%   | 1.8%    | 6.8%    | 8.3%    | 2.3%    | -10.7%  | -3.4%   | 1.0%    |
| <b>TOTAL NONFARM EMPLOYMENT</b>  |         |         |         |         |         |         |         |         |         |         |         |
| Idaho                            | 507,423 | 520,477 | 538,095 | 558,539 | 567,975 | 567,977 | 572,556 | 581,463 | 591,493 | 603,784 | 617,212 |
| % Ch                             | 3.4%    | 2.6%    | 3.4%    | 3.8%    | 1.7%    | 0.0%    | 0.8%    | 1.6%    | 1.7%    | 2.1%    | 2.2%    |
| U.S. (Thousands)                 | 122,767 | 125,924 | 128,992 | 131,791 | 131,837 | 130,343 | 129,937 | 131,492 | 134,195 | 136,040 | 137,580 |
| % Ch                             | 2.6%    | 2.6%    | 2.4%    | 2.2%    | 0.0%    | -1.1%   | -0.3%   | 1.2%    | 2.1%    | 1.4%    | 1.1%    |
| <b>SELECTED INTEREST RATES</b>   |         |         |         |         |         |         |         |         |         |         |         |
| Federal Funds                    | 5.5%    | 5.4%    | 5.0%    | 6.2%    | 3.9%    | 1.7%    | 1.1%    | 1.3%    | 2.8%    | 3.5%    | 3.5%    |
| Bank Prime                       | 8.4%    | 8.4%    | 8.0%    | 9.2%    | 6.9%    | 4.7%    | 4.1%    | 4.3%    | 5.8%    | 6.5%    | 6.5%    |
| Existing Home Mortgage           | 7.7%    | 7.1%    | 7.3%    | 8.0%    | 7.0%    | 6.5%    | 5.7%    | 6.1%    | 6.8%    | 6.8%    | 6.8%    |
| <b>INFLATION</b>                 |         |         |         |         |         |         |         |         |         |         |         |
| GDP Price Deflator               | 1.7%    | 1.1%    | 1.4%    | 2.2%    | 2.4%    | 1.5%    | 1.7%    | 2.1%    | 1.8%    | 1.6%    | 2.0%    |
| Personal Cons Deflator           | 1.7%    | 0.9%    | 1.7%    | 2.5%    | 2.0%    | 1.4%    | 1.8%    | 2.2%    | 1.7%    | 1.6%    | 2.2%    |
| Consumer Price Index             | 2.3%    | 1.5%    | 2.2%    | 3.4%    | 2.8%    | 1.6%    | 2.3%    | 2.7%    | 1.6%    | 1.3%    | 1.9%    |

**National Variables Forecast by GLOBAL INSIGHT  
Forecast Begins the FIRST Quarter of 2004**

**IDAHO ECONOMIC FORECAST  
EXECUTIVE SUMMARY  
JULY 2004**

|                                  | 2004    |         |         |         | 2005    |         |         |         | 2006    |         |         |         |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                                  | Q1      | Q2      | Q3      | Q4      | Q1      | Q2      | Q3      | Q4      | Q1      | Q2      | Q3      | Q4      |
| <b>GDP (BILLIONS)</b>            |         |         |         |         |         |         |         |         |         |         |         |         |
| Current \$                       | 11,460  | 11,671  | 11,875  | 12,060  | 12,227  | 12,372  | 12,491  | 12,613  | 12,757  | 12,897  | 13,064  | 13,239  |
| % Ch                             | 7.2%    | 7.6%    | 7.2%    | 6.4%    | 5.7%    | 4.8%    | 3.9%    | 3.9%    | 4.7%    | 4.5%    | 5.3%    | 5.5%    |
| 2000 Chain-Weighted              | 10,716  | 10,842  | 10,974  | 11,102  | 11,205  | 11,291  | 11,357  | 11,427  | 11,511  | 11,595  | 11,699  | 11,804  |
| % Ch                             | 4.4%    | 4.8%    | 5.0%    | 4.8%    | 3.8%    | 3.1%    | 2.4%    | 2.5%    | 3.0%    | 3.0%    | 3.6%    | 3.6%    |
| <b>PERSONAL INCOME - CURR \$</b> |         |         |         |         |         |         |         |         |         |         |         |         |
| Idaho (Millions)                 | 36,640  | 37,276  | 37,691  | 38,184  | 38,684  | 39,097  | 39,553  | 40,034  | 40,641  | 41,264  | 41,839  | 42,413  |
| % Ch                             | 4.3%    | 7.1%    | 4.5%    | 5.3%    | 5.3%    | 4.3%    | 4.7%    | 5.0%    | 6.2%    | 6.3%    | 5.7%    | 5.6%    |
| Idaho Nonfarm (Millions)         | 35,441  | 36,027  | 36,555  | 37,088  | 37,558  | 37,963  | 38,386  | 38,849  | 39,356  | 39,982  | 40,583  | 41,159  |
| % Ch                             | 5.3%    | 6.8%    | 6.0%    | 6.0%    | 5.2%    | 4.4%    | 4.5%    | 4.9%    | 5.3%    | 6.5%    | 6.2%    | 5.8%    |
| U.S. (Billions)                  | 9,518   | 9,664   | 9,804   | 9,946   | 10,096  | 10,218  | 10,330  | 10,449  | 10,586  | 10,730  | 10,885  | 11,035  |
| % Ch                             | 6.0%    | 6.3%    | 5.9%    | 5.9%    | 6.2%    | 5.0%    | 4.4%    | 4.7%    | 5.4%    | 5.5%    | 5.9%    | 5.6%    |
| <b>PERSONAL INCOME - 2000 \$</b> |         |         |         |         |         |         |         |         |         |         |         |         |
| Idaho (Millions)                 | 34,383  | 34,685  | 34,858  | 35,195  | 35,539  | 35,776  | 36,064  | 36,388  | 36,802  | 37,217  | 37,553  | 37,868  |
| % Ch                             | 1.3%    | 3.6%    | 2.0%    | 3.9%    | 4.0%    | 2.7%    | 3.3%    | 3.6%    | 4.6%    | 4.6%    | 3.7%    | 3.4%    |
| Idaho Nonfarm (Millions)         | 33,258  | 33,523  | 33,807  | 34,185  | 34,505  | 34,738  | 35,000  | 35,311  | 35,639  | 36,061  | 36,426  | 36,748  |
| % Ch                             | 2.2%    | 3.2%    | 3.4%    | 4.5%    | 3.8%    | 2.7%    | 3.1%    | 3.6%    | 3.8%    | 4.8%    | 4.1%    | 3.6%    |
| U.S. (Billions)                  | 8,932   | 8,993   | 9,067   | 9,167   | 9,275   | 9,350   | 9,419   | 9,497   | 9,586   | 9,677   | 9,770   | 9,853   |
| % Ch                             | 2.9%    | 2.8%    | 3.3%    | 4.5%    | 4.8%    | 3.3%    | 3.0%    | 3.4%    | 3.8%    | 3.9%    | 3.9%    | 3.4%    |
| <b>HOUSING STARTS</b>            |         |         |         |         |         |         |         |         |         |         |         |         |
| Idaho                            | 16,461  | 16,070  | 15,397  | 15,312  | 15,362  | 15,084  | 15,099  | 14,825  | 14,661  | 14,682  | 14,591  | 14,398  |
| % Ch                             | -31.5%  | -9.2%   | -15.7%  | -2.2%   | 1.3%    | -7.1%   | 0.4%    | -7.1%   | -4.3%   | 0.6%    | -2.4%   | -5.2%   |
| U.S. (Millions)                  | 1,947   | 1,972   | 1,856   | 1,804   | 1,749   | 1,697   | 1,669   | 1,655   | 1,644   | 1,632   | 1,629   | 1,632   |
| % Ch                             | -16.2%  | 5.3%    | -21.5%  | -10.8%  | -11.6%  | -11.3%  | -6.5%   | -3.2%   | -2.8%   | -2.7%   | -0.7%   | 0.6%    |
| <b>TOTAL NONFARM EMPLOYMENT</b>  |         |         |         |         |         |         |         |         |         |         |         |         |
| Idaho                            | 577,961 | 580,053 | 582,517 | 585,323 | 587,934 | 590,149 | 592,572 | 595,319 | 598,434 | 602,060 | 605,618 | 609,025 |
| % Ch                             | 2.3%    | 1.5%    | 1.7%    | 1.9%    | 1.8%    | 1.5%    | 1.7%    | 1.9%    | 2.1%    | 2.4%    | 2.4%    | 2.3%    |
| U.S. (Thousands)                 | 130,367 | 131,216 | 131,863 | 132,521 | 133,226 | 134,015 | 134,560 | 134,978 | 135,407 | 135,795 | 136,267 | 136,690 |
| % Ch                             | 1.1%    | 2.6%    | 2.0%    | 2.0%    | 2.1%    | 2.4%    | 1.6%    | 1.2%    | 1.3%    | 1.2%    | 1.4%    | 1.2%    |
| <b>SELECTED INTEREST RATES</b>   |         |         |         |         |         |         |         |         |         |         |         |         |
| Federal Funds                    | 1.0%    | 1.0%    | 1.4%    | 1.7%    | 2.2%    | 2.6%    | 3.0%    | 3.4%    | 3.5%    | 3.5%    | 3.5%    | 3.5%    |
| Bank Prime                       | 4.0%    | 4.0%    | 4.4%    | 4.7%    | 5.2%    | 5.6%    | 6.0%    | 6.4%    | 6.5%    | 6.5%    | 6.5%    | 6.5%    |
| Existing Home Mortgage           | 5.6%    | 5.8%    | 6.4%    | 6.5%    | 6.6%    | 6.8%    | 6.9%    | 7.0%    | 6.9%    | 6.9%    | 6.8%    | 6.8%    |
| <b>INFLATION</b>                 |         |         |         |         |         |         |         |         |         |         |         |         |
| GDP Price Deflator               | 2.6%    | 2.6%    | 2.1%    | 1.6%    | 1.8%    | 1.7%    | 1.5%    | 1.4%    | 1.6%    | 1.5%    | 1.6%    | 1.8%    |
| Personal Cons Deflator           | 3.0%    | 3.4%    | 2.5%    | 1.4%    | 1.3%    | 1.6%    | 1.4%    | 1.3%    | 1.5%    | 1.6%    | 2.0%    | 2.1%    |
| Consumer Price Index             | 3.6%    | 4.8%    | 2.6%    | 1.1%    | 1.1%    | 1.5%    | 1.2%    | 1.0%    | 1.2%    | 1.3%    | 1.7%    | 1.9%    |

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Forecast Begins the FIRST Quarter of 2004**