

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Second Quarter of 2005 through the Fourth Quarter of 2008

The employment surge at the end of last year and the beginning of this year has once again raised expectations for the Idaho economy. Estimates based on data provided by the Idaho Department of Commerce and Labor show Idaho nonfarm employment expanded at a 2.8% annual pace in the fourth quarter of 2004 and at a 2.2% rate in the first quarter of 2005. At this pace, Idaho nonfarm employment should have crossed the 600,000-job threshold this spring, which is well ahead of schedule. In the April 2005 *Idaho Economic Forecast* nonfarm employment is forecast to expand at a 1.4% annual rate in the last quarter of 2004 and by 1.3% in the first quarter of 2005. At this slower rate, Idaho nonfarm employment was expected to hit the 600,000-level in late 2005.

Idaho's nonfarm employment rally reflects the strong showings of several sectors. The most noteworthy is construction. In the previous *Forecast*, construction was expected to advance by a strong 5.4% in 2004's last quarter followed by a 1.6% increase in 2005's first quarter. This was too low. According to the new data, Idaho construction employment achieved an astonishing 11.9% growth rate in both quarters. As a result, actual construction employment was nearly 2,400 higher in the fourth quarter than had been forecast in April 2005. This strength is consistent with the recent performance of the state's residential and business construction sectors. For example, Idaho housing starts grew at a 29.3% annual rate in the last quarter of 2004 and by an astonishing 55.8% annual pace in the first quarter of 2005. As was the case with construction employment, this is well above previous expectations. The construction sector's strength was complimented by better-than-anticipated performances by the state's services and government employment categories. Specifically, services employment is up about 1,100 in the first quarter of 2005 compared to the previous forecast and government employment is up nearly 300.

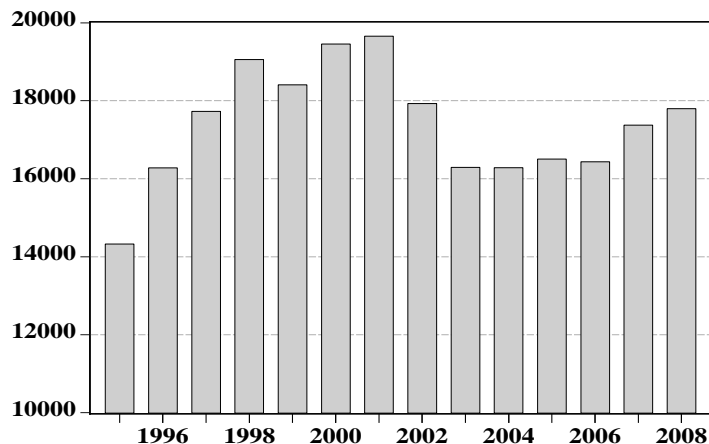
Employment was not the only indicator that has surged recently; Idaho nominal personal income also spiked late last year. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Idaho nominal personal income advanced at a 15.6% annual rate in the last quarter of 2004. This income flood was largely the result of late-year distribution of bonuses and raises. This can be seen in the wage and salaries portion of personal income that increased a whopping 14.7% in last year's fourth quarter. Idaho personal income also benefited from the influx of dividends, interest, and rent that increased at a nearly 22% annual pace in the same quarter. Other sources that contributed to fourth quarter personal income growth include government transfers to individuals (9.7%) and other labor income (13.8%).

The current Idaho outlook is the result of two major factors. First, Idaho's recent strong economic growth has raised the starting points for the forecasts of nonfarm employment and nominal personal income relative to their counterparts in the April 2005 *Idaho Economic Forecast*. Second, the fundamentals fueling the state's economy have change little since the previous forecast. The combination of these two factors jump-starts the state's near-term economic forecast. Specifically, Idaho nonfarm employment grows by 2.5% in 2005, which is about one-half percentage point higher than in the previous forecast. Idaho nominal personal income is projected to rise 6.5% this year compared to the previous forecast's 5.3%. After this year, both Idaho nonfarm employment and personal income should rise roughly in line with their respective counterparts from the previous forecast.

SELECTED IDAHO ECONOMIC INDICATORS

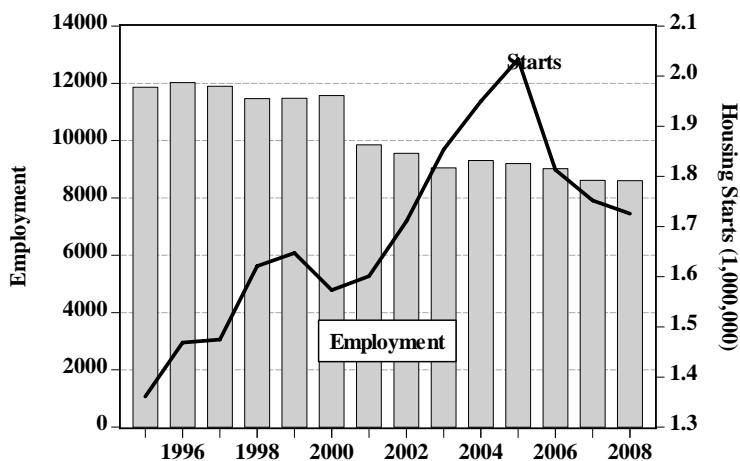
Computer and Electronics: Last year was important for the state's computer and electronics sector. After suffering severe back-to-back declines in 2002 and 2003, employment in Idaho's largest manufacturing sector stabilized in 2004. A short review of this sector's history reveals the significance of last year's turnaround. Idaho computer and electronics has been one of the strongest sectors during the state's protracted expansion that began in the late 1980s. Over this period, computer and electronics employment sped along much faster than overall Idaho nonfarm growth, passing several mileposts along

Idaho Computer and Electronic Products Employment



the way. Near the beginning of the expansion, this sector overtook the lumber and wood products sector to become the state's largest durable manufacturing employer. It then topped the food processing sector to become the state's largest manufacturing employer in 1997. During the decade from 1991 to 2001, Idaho computer and electronics employment advanced an average of 6.3% per year. The national investment boom for business equipment bolstered this sector's growth. Fueled by the demands of the Telecommunications Act of 1996, concerns over Y2K, and the popularity of the Internet, real investment in computer equipment advanced by at least 40% each year from 1995 through 1999. Unfortunately, Idaho computer and electronics employment suffered when real business investment collapsed near the beginning of the millennium. In 2001, Jabil Circuit, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard reduced their staffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to plunge 8.8%. Despite being hard hit by the reeling high-tech sector, Micron Technology avoided layoffs until 2003, when it reduced its Idaho workforce by about 1,000. All told, this sector lost about 4,700 jobs during the 11-quarter downturn. Industry conditions improved in 2004, and this sector's employment grew in three of that year's four quarters. In fact, Micron recently announced its payroll is back to its pre-layoff level. Businesses are again investing in equipment, and this should translate into high-tech jobs in the Gem State. However, employment growth is not expected to return to the white-hot pace it enjoyed during the 1990s. Instead, this sector's employment should rise 1.4% in 2005, decrease 0.4% in 2006, expand 5.7% in 2007, and grow 2.4% in 2008. This forecast does carry a couple of downside risks. Hewlett-Packard recently announced it plans to reduce its company workforce by about 15,000 over the next 18 months. However, the company has not released details of the impacts this move will have on the Boise site. Because of this lack of data, no impacts from the company's latest round of restructuring have been built into this forecast. Another challenge this sector faces is the potential glut of supply in the global semiconductor market. It appears the delicate balance between supply and demand may have been upset recently, and this has resulted in lower memory prices. Micron Technology cited the 30% decline in memory prices for its disappointing earning performance.

Idaho Wood Product Employment and U.S. Housing Starts

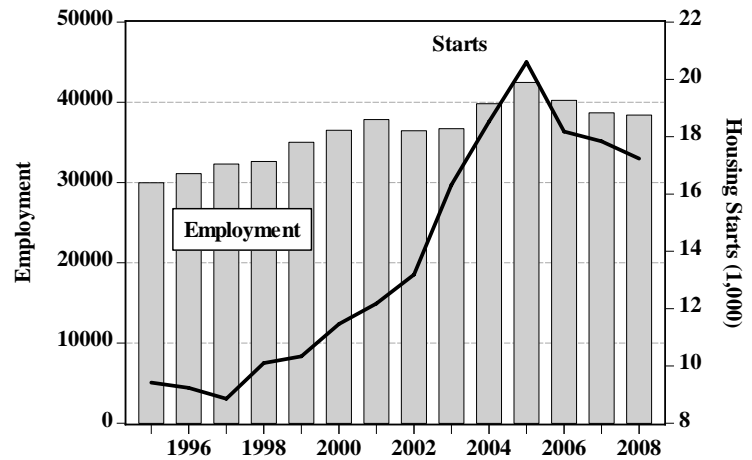


Resource-based Sectors: The state’s lumber and wood products sector experienced a short break from its recent string of employment losses. In 2004 this sector gained roughly 250 jobs. However, this respite should be short lived, and this sector should begin shedding jobs again beginning with this year. Unfortunately, job losses have been an all-too-familiar occurrence for this sector. The number of lumber and wood products jobs peaked in 1996 and, except for two minor gains in 1999 and 2000, declined until 2004. The worst year was 2001, when employment declined a whopping 14.9%. Employment shrank further in 2002 and

2003. Perhaps the most frustrating part of the recent declines is they occurred when the U.S. housing demand was booming. Usually, employment would increase under these conditions. Instead, several mills closed, resulting in permanent job losses. Idaho’s wood and lumber products sector’s performance is being predominately shaped by long-term supply factors rather than short-term demand factors. One of the factors having the biggest impact is the dwindling supply of timber from public lands. According to the U.S. Forest Service, just over half the timber harvested in Idaho came from public lands in 1993. By 2003, public timber accounted for less than 30% of the total harvest. A significant part of this decline is due to reduced harvests from national forests. The U.S. Forest Service estimates the harvest from Idaho national forests fell from 586.2 million board feet in 1993 to 123.2 million board feet in 2003, a decline of nearly 80%. Looked at another way, in 1993 timber from national forests accounted for more than a third of the total harvest, but just over 12% in 2003. Another concern is the current manufacturing over capacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. It should also be noted that new plants are more efficient and use less labor than older plants. For example, each Idaho lumber and wood products employee produced about 172,000 board feet of lumber in 1993, but in 2003 each employee produced 215,000 board feet. In addition, unresolved fair trade issues between the U.S. and Canada also weigh down this industry. Idaho’s mining industry has experienced a welcome bout of success recently. The Gem State’s mining sector is no stranger to the ebb and flow of the business cycle. In recent years it has been more ebb than flow. Idaho mining employment fell from the beginning of 1991 until it hit a trough in 1993. Its next employment peak came in 1997. It then continued to shed jobs through 2002, but experienced small gains in both 2003 and 2004. Mining employment is projected to expand again in 2005, but decline thereafter. Agriculture in Idaho is undergoing stress from a variety of quarters, with water issues being of primary concern to southeastern Idaho farmers. A recent order issued by the Director of Water Resources requires that ground water pumpers from the Snake River Plain Aquifer supply senior water rights holders with 133,400 acre-feet of water in order to be allowed to continue pumping groundwater. While this issue is far from settled, agriculture experts at the University of Idaho believe the water issues will have more impact on the composition of Idaho agriculture than the monetary value of output. Put simply, high valued uses are expected to find the water needed to operate. Agriculture received some temporary relief thanks to an unusually wet spring that delayed the irrigation season’s start and helped refill reservoirs.

Construction: A steady stream of positive housing sector news results in increased expectations for both Idaho housing starts and construction employment. A review of the Idaho housing data shows starts continued to accelerate through the first quarter of this year, and it easily eclipsed previous expectations. Specifically, Idaho housing starts climbed at a 43.1% annual pace in the third quarter of 2005 and expanded at a 29.3% in the fourth quarter. This was followed by an astonishing 55.8% annual advance in this year's first quarter—its strongest quarterly showing in over two years. As a result of this steady expansion, Idaho housing starts

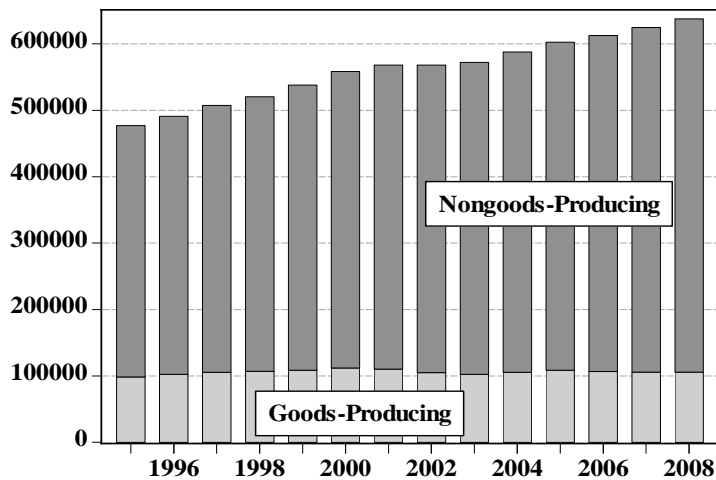
Idaho Construction Employment and Housing Starts



set a new record at just under 23,000 units in the first quarter of 2005. By comparison, the April 2005 *Idaho Economic Forecast* reported Idaho housing starts would peak at just over 20,000 units in the fourth quarter of 2004. Idaho construction employment also enjoyed strong growth at the end of last year and the beginning of this year. Construction employment was lifted well above 40,000 jobs in this year's first quarter thanks to 12% annualized increases in both the fourth quarter of 2004 and the first quarter of 2005. A large portion of the housing sectors strength results from generation-low mortgage interest rates and the relatively strong Idaho population growth. These two factors will also shape the housing sector's future. Specifically, housing growth will yield to rising interest rates and the slower population growth. The current forecast assumes the mortgage interest rates are near their nadirs and will rise gradually over the forecast period. For example, the rate for a 30-year mortgage on an existing home is anticipated to go from 5.7% at the end of 2004 to about 7% by the end of 2008. Idaho's population growth, which was nearly 2% in 2004, should taper down to 1.5% in 2008. Forecasts of rising mortgage interest rates and slower population growth can stir fears of a housing collapse, especially when the housing market has been so strong for so long. While the future courses of interest rates and population will have a dampening affect on the state's housing sector, a collapse is not anticipated. First, interest rates and population growth are expected to change gradually, giving the industry ample time to adjust. Second, although the Idaho housing sector has been robust, there does not appear to be a serious excess inventory of properties in the state. Third, recent studies to identify communities vulnerable to "housing bubbles" show no Idaho communities are at significant risk. Fourth, Idaho could benefit from a boom in second homes. In light of these mitigating factors, Idaho's housing sector is not expected to suffer an abrupt reversal from its recent prosperity. Instead, both Idaho housing starts and construction employment should decline gradually from their respective record levels over the forecast period.

Nongoods-Producing Industries: The state's nongoods-producing sector should also be one of its fastest growing sectors over the forecast period. The importance of the state's nongoods-producing sector cannot be overstated. Like its national counterpart, the nongoods-producing sector accounts for the lion's share of nonfarm Idaho jobs. Nongoods-producing employment accounts for eight of every ten nonfarm jobs in Idaho. The two largest nongoods employers are services and trade that together represent three-fourths of nongoods-producing employment. The services category is the larger of the two. The three largest services components are: professional and business services; education and health services; and leisure and hospitality services. The next largest group consists of financial

Idaho Nonfarm Employment

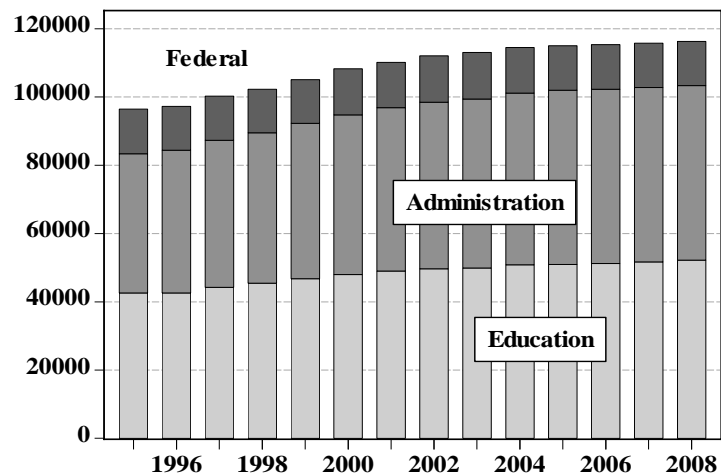


services; transportation, warehousing, and utilities; and other services. The smallest sector is information services. Overall, total service-related employment should advance about 3.3% annually, which is faster than total nonfarm employment growth. Professional and business services should be one of Idaho's strongest performers during the next few years. After experiencing a relatively anemic showing in 2003, professional and business services employment should expand an average of 3.8% per year through 2008. Education and health services employment should benefit from increased demand for health

services caused by the aging population. Education and health services should grow 3.3% annually. Leisure and hospitality services employment is forecast to increase an average of 3.4% annually. Financial services employment growth is projected to average 2.8%, while transportation, warehousing, and utilities are expected to average 1.6% growth. Other services should advance 2.2% yearly. The number of information services jobs is predicted to increase 3.9% annually. The trade sector consists of its retail and wholesale components. The retail component accounted for over 73,000 jobs in 2004, which is roughly three times the size of the wholesale component. Retail trade should average 2.8% growth over the forecast period, while wholesale trade advances at a 2.3% rate. Overall, Idaho nongoods-producing employment is projected to advance an average of 2.5% per year through 2008.

Government: Idaho government employment growth is expected to slow over the next few years as the state's population growth cools. The relationship between government employment and population is well established. The decade of the 1990s serves as excellent example. Idaho's population grew about twice as fast as the nation's from 1990 to 2000. The state's population surge resulted from the flood of new residents moving into the state. In fact, Idaho net migration was higher than the natural population (births less deaths) increase in every year from 1991 to 2000. The main reason the Gem State proved to be so attractive to newcomers is because in the 1990s it was viewed as economic oasis in an economic desert. The Gem State proved especially enticing to Californians whose state was suffering its worst downturn since the Great Depression. Newcomers pouring into Idaho stretched the state's infrastructure. In an attempt to meet the fast growing population's demands for public services, the Idaho state and local employment payroll expanded an average of 3.0% per year from 1991 to 2000. Prosperity returned to other states in the second half of the 1990s, and this

Idaho Government Employment



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narrowed the once-wide economic gap between Idaho's economic performance and the nation's. Migration slowed as a result. By 2001, Idaho's natural population growth was actually above the migration increase. Idaho's population growth is expected to continue slowing over the forecast period. Specifically, The Gem State's population is anticipated to rise 1.7% this year, 1.6% next year, and 1.5% in both 2007 and 2008. Idaho state and local government employment is projected to increase 0.8% in 2005, 0.3% in 2006, 0.5% in 2007, and 0.6% in 2008. Over this period, education-related employment should fare better than noneducation-related employment. Specifically, Idaho education employment should advance 0.7% percent annually and noneducation employment should rise 0.4% per year. Federal government employment is expected to be even weaker. Unlike state and local employment, the number of federal jobs in Idaho is set by federal budget writers in Washington, D.C. This being the case, the return of federal deficits does not bode well for Idaho federal government employment. As a result, federal government employment in Idaho is expected to decline from 13,310 in 2004 to 12,948 in 2008. One uncertainty not accounted for in this forecast is the current round of proposed base realignments and closures. Although, Mountain Home Air Force Base was not on the list of recommended closures, realignments in Idaho could result in a net loss of about 560 jobs. No final actions have been taken at this point.