

IDAHO FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 2009 through the Fourth Quarter of 2012

This *Idaho Economic Forecast* lends credence to the adage that bad news comes in threes. After several years of strong growth, Idaho's economy shrank last year, and it is expected to turn in disappointing performances in both this year and next. The extent of last year's decline can be seen in several indicators. Idaho nonfarm employment shrank 1% in 2008, which is its weakest performance since 1987. The state's goods-producing sector was disproportionately hard hit in 2008. Weighed down by double-digit declines in its construction, lumber and wood products, and computer and electronics sectors, the goods-producing sector fell over 8% last year. The nongoods-producing sector's employment did not decline, but advanced by a meager 0.6%—its weakest showing according to records that go back through 1991. Given the softness in employment (and higher inflation), it is no surprise Idaho real personal income declined slightly last year for the first time since 1986. Other factors also confirm the economy's weakness last year. Idaho housing starts were reduced by nearly half, going from 14,300 units in 2007 to 7,900 in 2008. Idaho's population growth fell under 2% for the first time since 2004, as net in-migration fell to 12,400 persons in 2008 from 20,300 persons the previous year. Idaho's economic performance last year was one of the weakest in recent memory.

Last year was bad, but this year is expected to be worse. Idaho nonfarm employment is forecast to decline almost 5% in 2009. This decline reflects continued weaknesses in several sectors being joined by employment drops in other sectors that were spared last year. As was the case in 2008, goods-producing employment is especially hard hit. It is forecast to decline over 14%, as several of its components continue to face difficulties. Construction employment is forecast to decline another 17%. Lumber and wood production is projected to fall 23%. Computer and electronics manufacturing, which is weighed down by layoffs, declines 20%. Mining employment, which grew last year, decreases 30%. Job losses are also expected to be widely distributed among the categories of the heretofore immune nongoods-producing sector. In fact, of all its categories, only information and state and local governments post job gains. But these increases do not offset the expected decreases. As a result, services employment is forecast to be down 3.7% and trade employment is down 4.4%. Government employment is up slightly. Overall, nongoods-employment should fall 3% in 2009. Idaho nominal personal income falls 0.2%, but grows 0.1% after adjusting for deflation. Housing starts are expected to fall to about 5,700 units. In 2009, in-migration is forecasted to slow significantly, causing Idaho population to expand just 1% that year.

It appears almost anything would be an improvement over 2009, and 2010 is a better year. However, it is still sub-par compared to the earlier years of the decade. Nonfarm employment is expected to experience its third consecutive year of losses, but the job drop is just 0.5%. The goods-producing sector's employment drops just 5%, as losses in troubled categories slow. Nongoods-producing employment manages a gain of 0.3%, as its major sectors begin to stabilize. After several years of steep declines, housing starts advance to about 8,400 units and population increases 1.2%. Idaho real personal income growth (0.6%) also picks up speed. These mixed signals are consistent with an economy in the early stages of recovery.

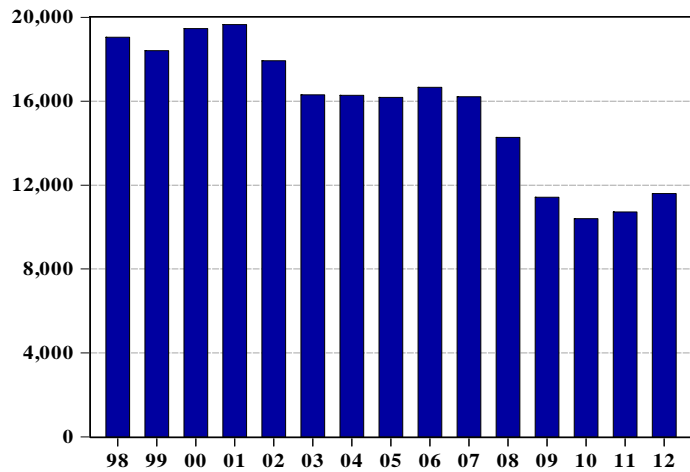
Toward the end of the forecast period, all signs point toward a sustained recovery. Idaho nonfarm employment is forecast to increase 2.2% in 2011 and 3.6% in 2012. Real Idaho personal income should advance 2.6% and 3.8%. Housing starts are anticipated to grow each year to just over 11,200 units in 2012. And the Gem State's population grows about 1.9% in each year, as net in-migration recovers. After a trying three years, Idaho's economy returns to growth.

SELECTED IDAHO ECONOMIC INDICATORS

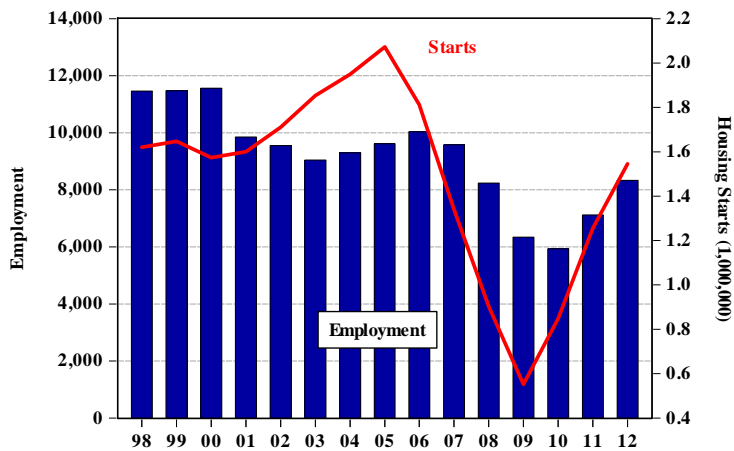
Computer and Electronics: The state's high-tech sector received another major blow when Micron Technology announced on February 23, 2009 that it planned to reduce its near-term payroll by 500 jobs and by as many as 2,000 jobs by August. The company reported that after these moves it will employ about 5,000 persons in the state. It cited deteriorating market conditions and decreased demand for its 200 millimeter DRAM products for this move. The company is in the process of phasing out its 200 millimeter wafer manufacturing. However, the company plans to continue operating its 300 millimeter research and development facility in Boise. This job reduction is the latest in a series for the nation's only

computer memory producer. Last October Micron Technology announced it was reducing its global work force by 15% in response to depressed prices for its products. The company was planning to shut down its NAND memory operations which would translate into about 1,500 jobs lost at its Boise campus early this year. The company made this move because the worldwide glut of these products has driven prices below their manufacturing costs. This is not the first time depressed prices have forced the company to reduce its payroll. In 2007, the company reduced its Idaho work force by 1,100. But Micron Technology is not the only company to fall on hard times. For example, Hynix announced in July 2008 it would close its Eugene, Oregon facility. The plant produced 200mm silicon wafers and employed about 1,100 persons. Hynix is also seeking financial help from the South Korean government. Unfortunately, the depressed prices that have bedeviled these companies are expected to be around for awhile because demand is expected to remain soft. Real investment in information processing equipment is forecast to drop 10.2% this year, and its computer and peripheral equipment component is expected to fall twice as fast (22.4%). Investment is expected to expand again starting in 2010, but does not hit its stride until 2011. The weak investment picture contributes to the expected drops in U.S. computer and electronics products manufacturing activity this year and next year. Other Idaho companies have fallen on hard times. MPC Computers shuttered its doors late last year after nearly two decades of operation, idling about 200 employees. Mor Manufacturing, a custom electronics producer in Post Falls, laid off 50 employees at the beginning of this year. It should be pointed out that not all the manufacturing news has been bad. Hoku Scientific, Inc. is building a \$390 million plant to produce polysilicon in Pocatello. It recently announced that it would have 16 Siemen process reactors at its site by spring. These reactors are essential to their manufacturing process. The plant is expected to start shipping product in 2009. Pocatello is also the new home for wind turbine manufacturer Nordic Windpower, Ltd. While neither Hoku or Nordic Windpower are classified as computer and electronics manufacturers for employment reporting purposes, they are included in this summary because they are manufacturing products that are used in high-tech applications. It should be pointed out that their employment is not reported in the computer and electronics sector, but in the respective sectors assigned to them by the Idaho Department of Labor. The computer and electronics sector is expected to shed another 3,900 jobs by 2010. After that year, this sector is expected to embark on a recovery that takes employment to 11,600 jobs in 2012.

Idaho Computer and Electronic Products Employment



Idaho Wood Product Employment and U.S. Housing Starts



Logging and Wood Products: The booming U.S. housing sector lifted Idaho logging and wood products employment to just over 10,000 jobs in 2006, after suffering several years of decline. Employment has been falling since then, following the housing industry’s reversal of fortune to generation-low levels. National housing starts grew rapidly most of this decade, topping the 2-million unit level in 2005. This expansion fueled the demand for lumber and wood products, which fueled the 6.5% cumulative increase in the wood production index over the first half of this decade. National housing starts slipped to 1.8 million units in 2006 from

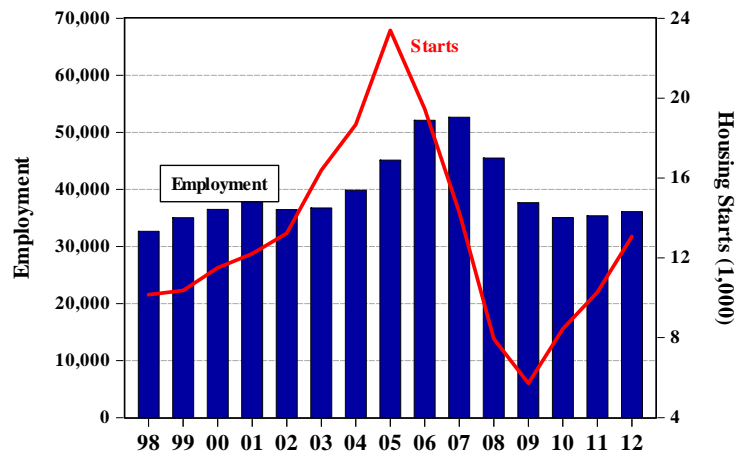
its previous year’s peak, but remained at high historical levels. Despite this drop, U.S. wood products output was virtually unchanged in 2006 as it was in 2005. Housing starts declined sharply in 2007, causing production to slip another 10%. Housing starts decreased another half million units in 2008, to 900,000 units—the first time its fallen below a million annual units since records began a half decade ago. A drop of this magnitude has raised fears of a return to conditions of the early 1980s, and with good reason. Prices dropped significantly last year. According to *Random Lengths*, its composite lumber price index fell 11.3% in 2008, and its structural panel price index fell 2%. These weak prices lead to curtailed production and layoffs at Idaho mills. For example, Potlatch Corporation laid off 160 employees at its St. Maries plywood plant for two weeks in November 2008. It also laid off 220 workers at its Lewiston wood products mill during the last three weeks of the same month. *Random Lengths* also reported North American lumber production fell to its lowest level since 1984 last year. The company also reported, “...Inland lumber production dropped to its lowest level in at least 40 years.” Unfortunately, housing starts are expected to fall even further to just over one-half million units as the industry continues to work through its previous excesses. Housing starts post a weak gain in 2010 before rising above one million units in 2011. The housing sector’s ebb means the logging and wood products sector’s future will once again be dominated by unfavorable supply factors. They include dwindling timber supplies from Idaho national forests. According to U.S. Forest Service estimates, the harvest from national forests fell by 69% from 1997 to 2006. As a result, the national forests’ share of Idaho’s timber harvest shrank from 20% in 1997 to 8% in 2006. Idaho is not the only area suffering; the combined harvest from Washington and Oregon national forests has dropped nearly 60% over the same period, and their employment has fallen by over 25%. The June 2008 edition of *Random Lengths Yardstick* reported there are about half as many mills in the inland region as there were twenty years ago and the inland region’s share of North American (U.S. and Canada) production has dwindled from 18% to 8%. Despite the industry’s downsizing, excess capacity remains a challenge. It is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. Idaho lumber and wood products employment is forecast to drop to a low of 5,900 jobs in 2010 then recover to 8,300 jobs by 2012.

Construction: The construction industry shakeout that began in 2007 is expected to continue through most of the forecast period. Fueled by the Idaho housing boom, construction employment advanced 5% annually from 1997 to 2007—about twice as fast as overall employment. Thanks to its above-average growth, construction’s share of total employment climbed from 6.4% in 1997 to 8% in 2007. This

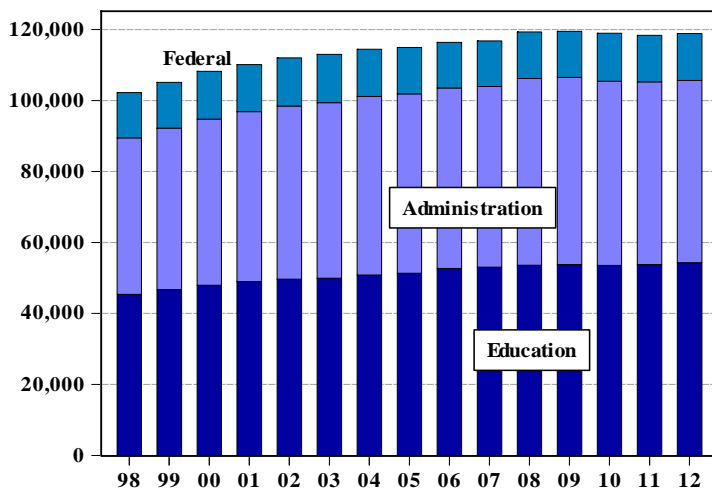
growth was made possible by the strong housing market that expanded from just 8,888 housing starts in 1997 to a peak of nearly 23,400 units in 2005. Although housing starts began declining the next year, Idaho construction employment continued advancing because of the state's still strong nonresidential construction sector. Eventually, this sector also softened, and construction employment started to shrink in the second quarter of that year. There was enough momentum in that year for employment to post a small gain in 2007, but by 2008 the depth of the housing sector's problems was obvious. In that year construction payrolls declined

13.6%—its largest annual drop in recent memory. It also marks the first in a series of forecasted declines resulting from a weak local housing market that results from the combination of a cooling economy, lower population growth, and tight credit. Under these conditions, Idaho housing starts are forecast to hit a nadir of 5,713 units this year then grow gradually to just over 13,000 units by 2012. Looked at another way, after four years of growth, housing starts will be more than 10,000 units below their 2005 peak. Against this backdrop of a weak housing recovery, Idaho construction employment is expected to turn in a disappointing performance. While the 2008 employment decline was bad, 2009 is forecast to be even worse. The combination of negative factors should cause this sector's employment to decline another 17.2% this year followed by a 6.8% drop in 2010. The year after next is a transition year, where construction employment grows a meager 0.9%. This sector's employment growth picks up speed in the last year of the forecast, causing employment to rise to about 36,100 jobs. But despite this gain, Idaho construction employment emerges from its recent downturn with 16,500 fewer jobs than it had at its peak. As a result, construction's share of total nonfarm employment slips from 8% in 2007 to just under 6% in 2012.

Idaho Construction Employment and Housing Starts



Idaho Government Employment



Government: Government employment growth in Idaho will be limited by slowing population growth and budget constraints. The U.S. Census Bureau estimates Idaho's population expanded 1.8% in 2008. Last year marks the first time since 2003 that the population has expanded by less than 2% and the third year in a row it has slowed. Population growth is expected to remain below this threshold over the forecast period, with this year projected to be the worst. In 2009, the state's population is forecast to grow just 1%, as Idaho's projected net in-migration falls well below 1,000 persons. This is a major change from recent years. For example, the state's

population grew by 1.9% in 2004 when immigration was about 13,000 persons. The next year, a net influx of over 24,000 new residents helped population jump by 2.7%. The change reflects the cooling of the state's economy. In previous slowdowns, Idaho was often seen as an oasis in an economic desert, and it attracted newcomers hoping to improve their economic lot. But the current recession is different. Idaho, like most other states, is struggling. However, after slowing to 1% this year, the state's population growth is likely to pick up speed each year. Specifically, it is forecast to expand 1.2% in 2010, 1.8% in 2011, and 2% in 2012. It is important to keep in mind that even at its fastest pace, it will grow slower than it did during the middle of the decade. The slower population growth will reduce the demand for additional government services, which should limit government employment growth. Employment growth will also be limited by government budget woes. The Division of Financial Management's revised revenue forecast shows General Fund revenue will decline 12% in its current fiscal year and by 0.4% in FY 2010. Some of the sting from falling revenues will be avoided thanks to federal stimulus funds, but the next few years will not be completely painless. For example, in order to help balance the budget, the state is cutting its public schools budget for the first time. And the pain extends beyond state government. Idaho cities and counties participate in revenue sharing from the state sales tax. This revenue source is expected to decline this year and next. Already, some of the state's local governments have announced plans to make the cuts necessary to balance their budgets. There are about 13,300 federal government jobs in Idaho. Employment will temporarily rise above this level in 2010 as a result of hiring for the U.S. census.

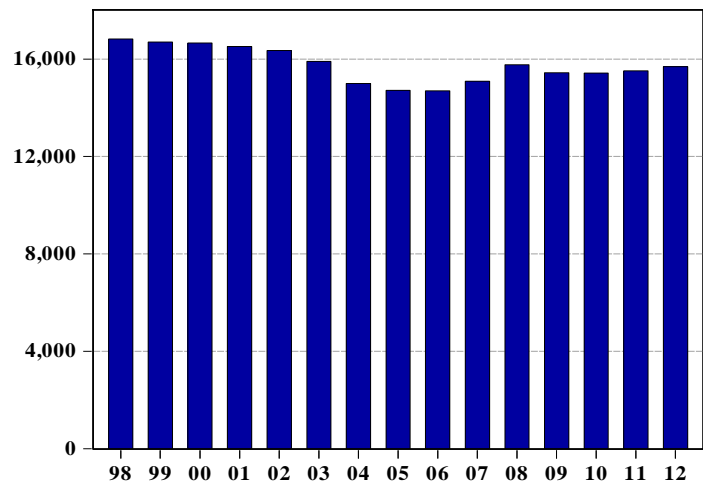
Mining: After expanding for six years, Idaho's mining sector employment is expected to contract over the next two years as the national and global economies cool. This year employment is expected to decline over 30%, as softer mineral prices and financial challenges impact Idaho producers. Unfortunately, a quick turnaround is not expected. Employment is forecast to drop another 18% in 2010. These two years are a major setback to its recent expansion in which Idaho mining employment increased from a low of 1,800 jobs in 2002 to nearly 2,800 jobs in 2008—its highest level in over a decade. This expansion was largely fueled by a run up of metal prices. Nationally, ore mining production expanded 2.8% from 2003 to 2008. However, base metal prices have been falling recently, and this does not bode well for this sector's near-term fortunes. Since the spring of 2008 to this winter, the price of lead has dropped from \$1.75 per pound to 54 cents per pound. Zinc dropped from \$1.65 per pound to 53 cents per pound. The price of copper declined from \$4.00 per pound to \$1.65 per pound. Financial troubles caused Sterling Mining to cease operations at the Sunshine Mine. Employment at the mine has dropped to a maintenance crew of less than 20 jobs. U.S. Silver cut its employees' pay 10%. The cut will be rescinded if silver prices recover or the general climate for mining improves. After growing 3.3% in 2008, U.S. metal ore mining production is forecast to decrease this year and next. Not surprisingly, U.S. mining employment is also forecast to drop in both years. Idaho is hit even harder. Mining production is forecast to pick up again once the economy starts expanding. This recovery will help Idaho mining employment to start growing in 2011. It is expected to be just over 1,900 jobs in 2012, which is about the same level it was in 2004.

Food Processing: Idaho's food processing sector is forecast to grow slowly over the next few years, and it is expected to experience a notable achievement. Its employment will top 16,000 jobs in 2012—for the first time since 2002. Last year, it once again became the state's largest manufacturing employer. In fairness, it regained this title primarily because of the shrinking computer and electronics employment. The food processing sector's last employment peak was 17,300 jobs in 1997. This was the same year the computer and electronics sector passed it to become Idaho's largest manufacturing employer. After that year, food processing employment shrank for several years as several of this sector's labor force went through painful restructurings. For example, nearly 360 jobs were lost when the J.R. Simplot Company closed its Nampa meat packing plant in the fall of 2003 and shuttered its Heyburn potato processing

plant that had run continuously since 1960. More recently, about 400 jobs were lost when the Swift and Company beef processing plant closed. However, the passing of time suggests these painful contractions were not symptoms of this sector's demise, but part of its ongoing evolution. Already, new factories have replaced older ones. For example, the former Swift and Company beef processing plant has been reopened by XL Foods, Inc. Gossner Foods, Inc. opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Brewster Dairy, Inc. has taken over the former Kraft plant in Rupert. Marathon Cheese opened its Mountain Home plant.

Idaho Milk Products is building a new 185,000-square-foot facility in Jerome County. Once operational, the plant will process about 3 million gallons of milk per day into protein powders, lactose permeate, and cream. The new plant is expected to employ 75 workers. Sorrento Lactalis is planning to add 40 to 50 manufacturing jobs when it completes its \$50-million whey processing plant. Employment is but one measure of the food processing industry's importance to the state. The average value of food manufacturing output accounted for more than half (55.8%) of the total Idaho nondurable manufacturing output from 1997 to 2006 and about 2.4% of the state's total gross domestic product. Its relative importance can be seen when it is compared to its national counterpart, which accounts for just 1.5% of the country's economic output. Idaho food processing employment is expected to remain stable at about 15,500 jobs over the forecast period.

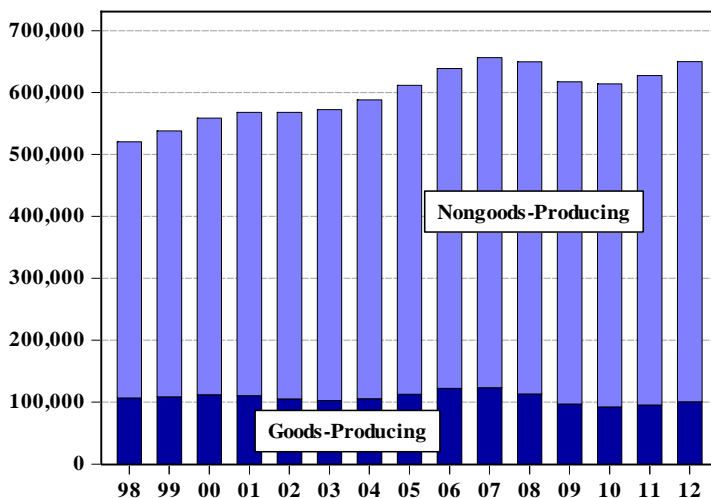
Idaho Food Processing Employment



Nongoods-Producing Industries: As the state's manufacturing, construction, and mining sectors struggle over the next few years, modest job growth is expected to come from Idaho's services and trade sectors. The services category had an average of 306,624 jobs in 2008 and there were 110,388 trade

jobs. Together they accounted for about 80% of the state's private nonfarm jobs. The services category consists of information services; financial activities; transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. Services employment has traditionally been the faster growing of the two categories, advancing an average of 3.4% annually over the last five years versus 2.6% for trade employment. Education and health services are consistent performers because they are driven more by demographics than economics.

Idaho Nonfarm Employment



However, this category is not immune from the impacts of the ailing economy. For example, Nampa's Mercy Medical Center recently laid off 70 employees. Despite scattered setbacks, this category should be one of the state's most consistent performers over the next few years, growing at a 2.2% average annual pace from 2008 to 2012. Professional and business services employment should expand an average of 1% per year over the same period. Leisure and hospitality services should grow 0.5% annually over the next few years. This industry took a blow when the owners of Tamarack Resort filed for bankruptcy protection last year. The Resort closed on March 5, 2009. It was the first major ski resort built in North America in the last two decades and the first to fail in over three decades. The cooling housing market and tighter credit will keep the lid on financial services employment. After expanding by an average of about 6.5% in both 2005 and 2006, financial service's payroll should average 0.7% annual growth over the forecast period. Transportation, warehousing, and utilities sector employment is expected to average 0.1% growth. Information service employment should rise at a 1.3% annual pace. Recent data confirm the weakness of the trade sector. In the last quarter of 2008, its employment retreated at a staggering 11.4% annual rate. On a year-over-year basis, trade employment was down 4.4%. It is expected to shrink again this year before expanding in the last three years of the forecast. Walmart plans to close its Lewiston, Idaho store when it opens its new store across the river in Clarkston, Washington. Interestingly, this will have little impact on Idaho retail employment because Clarkston employment is included in the Idaho statistics. The Idaho store's closure will have another impact on Lewiston, however. It will cut Nez Perce County revenue from its half-cent local option sales tax by an estimated 10%, or about \$330,000 per year.