

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2008 through the Fourth Quarter of 2012

A review of Idaho's economic performance last year shows why we are glad it is behind us. The preponderance of evidence shows it was one of the worst years in memory. Idaho nonfarm employment, which is one of the most closely watched indicators of the state's economic health, shrank an estimated 0.9% in 2008, its weakest showing since 2002 and its first decline since 1986. Contributing to this decline were ailing sectors that took a turn for the worse last year. Weighed down by the housing industry troubles, Idaho construction employment shed an estimated 6,800 jobs last year, a nearly 13% drop. This reversal of fortune came quickly; in 2006 construction employment increased over 15%. Idaho's computer and electronic sector's payroll declined about 12% last year, reflecting a major reduction at Micron Technology and cuts at other local high-tech manufacturers. The national housing collapse took its toll on the state's logging and wood products sector. After shrinking about 5% in 2007, its employment base plunged nearly 16% in 2008. Two nongoods-producing sectors also stumbled last year. Professional and business employment fell an estimated 2% and trade employment slipped about 1% beneath its 2007 level. Idaho real personal income dropped slightly last year.

The bad news is this year is expected to be worse than last year. Idaho nonfarm employment is forecast to drop 2.1% in 2009, with a chunk of the decline coming from the same industries as in 2008. Construction employment is anticipated to shrink another 5,800 jobs due to continued problems in the housing sector. The worldwide glut of computer memory products and collapse in business investment contribute to the expected 2,000-job loss forecast for the state's computer and electronics sector. Logging and wood products employment is expected to lose nearly 1,400 jobs. Professional and business employment is expected to post a second consecutive year of job losses, but not as severe as in 2008. However, it needs to be pointed out that other large nongoods-producing sectors' employment growth will slow considerably this year. Trade employment, which fell about 1% last year, will fall another 1% this year. Interestingly, Idaho real personal income advances by 2.7% in 2009 despite the employment decline. This gain does not reflect strong income growth, but weak prices. Idaho nominal personal income is expected to grow just 2.0% this year, which is slower than in 2008. However, instead of inflation, the weak economy leads to a rare incidence of deflation. Adjusting the nominal income for falling prices boosts the real personal income growth to 2.7%.

The economy is expected to begin moving forward in 2010, but the recovery will be modest. Idaho nonfarm employment grows a meager 0.5%. This increase results from slowing job losses (-2.5%) in the goods-manufacturing sector plus a small gain (1.1%) in the nongoods-producing sector. Logging and wood products loses another 200 jobs, computer and electronics sheds 700 jobs, and construction falls by nearly 1,400 jobs. In that year, all components of the nongoods-producing sectors, except state and local government, are expected to add jobs. Idaho real personal income is expected to rise 0.5%.

Local economic conditions improve notably during the last two years of the forecast. For the first time since 2007, nonfarm employment growth rises above 2%. This first is made possible by another first for this forecast; the goods-producing sector begins adding jobs in 2011. Accelerating nongoods-producing employment growth adds to this recovery. Like jobs, Idaho real personal income rebounds, growing 2.7% in 2011 and 4.0% in 2012.

SELECTED IDAHO ECONOMIC INDICATORS

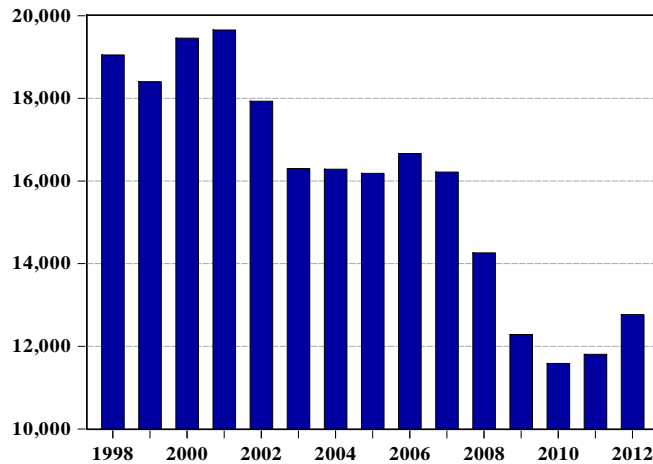
Computer and Electronics: The protracted downturn in the computer memory industry continues to wreak havoc with the state's largest private employer. Micron Technology announced in early October that it was reducing its global work force by 15% in response to depressed prices for its products.

According to company officials, about 1,500 jobs at the Boise plant will be lost by the beginning of this year as a result of the company shutting down its NAND memory operations. 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

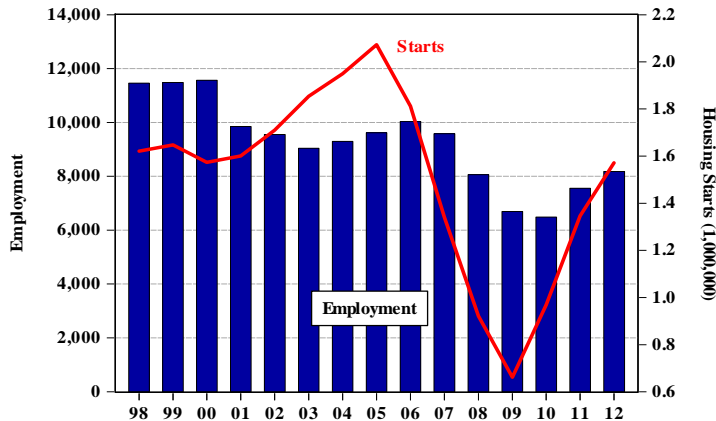
company reduced its Idaho work force by 1,100. The news of the latest round of job cuts came a week after the company released its 2008 fourth quarter earnings report that showed the company had a net loss of \$344 million on net sales of \$1.45 billion. The company lost \$1.6 billion on sales of \$5.8 billion over the entire fiscal year, compared to a loss of \$320 million the previous fiscal year. Unfortunately, the company started its current fiscal year with a \$706 million loss on net sales of \$1.4 billion—its eighth consecutive quarterly loss. Falling global DRAM and NAND prices continue to bedevil this industry, causing hardships for other memory producers. 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. The company is also seeking financial help from the South Korean government. Infineon has been trying to unload its huge stake in chip maker Qimonda. This unit has been suffering huge losses but was recently granted a reprieve in the form of a line of credit. However, it remains to be seen whether the company will remain viable long enough to introduce its next generation of products. All these companies will continue to be challenged over the next few years. The worldwide imbalance of supply and demand that has depressed prices is not expected to right itself quickly. In addition, this sector's recovery will be hamstrung by the expected declines in U.S. real investment on software and equipment. Specifically, investment is estimated to have fallen 2.1% in 2008 and is forecast to drop 12.2% in 2009 then increase 7.7% in 2010, 13.9% in 2011, and 8.6% in 2012. Idaho computer and electronics employment shrinks over the next two years to a near-term low of about 11,600 jobs, which is down significantly from its 2001 peak of nearly 19,700 jobs. Employment recovers modestly in 2011 and 2012, so that it is at 12,763 jobs in 2012. While the news of Micron Technology's most recent round of layoffs dominate this sector, it should be noted there are a few bright spots. Hoku Scientific, Inc. is building a \$390 million plant to produce polycilicon in Pocatello. The plant is expected to start shipping product in 2009. Pocatello is also the new home for wind turbine manufacturer Nordic Windpower, Ltd.

Logging and Wood Products: Having ridden the national housing boom to a peak of just over 10,000 jobs in 2006, Idaho's logging and wood products sector now finds itself floundering in the after wash of its collapse. To provide some perspective of this change a short history is in order. National housing starts grew strongly most of this decade, topping the 2-million unit level in 2005. This expansion fueled the demand for lumber and wood products, which is evident in the 6.5% cumulative increase in the

Idaho Computer and Electronic Products Employment



Idaho Wood Product Employment and U.S. Housing Starts



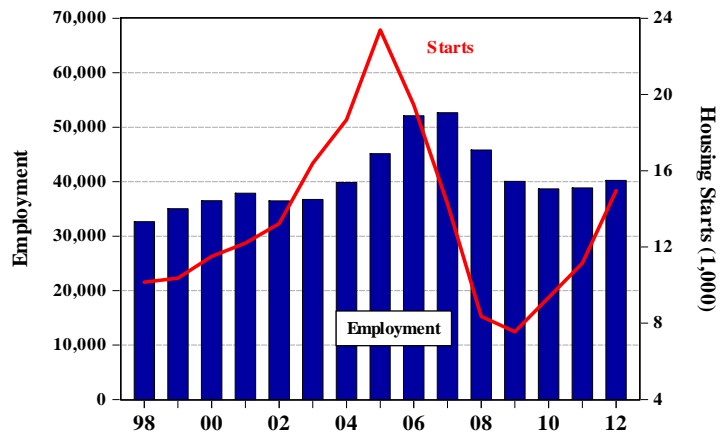
wood production index over the first half of this decade. Idaho logging and wood product employment was slow to respond to the increased demand, but finally produced job gains beginning in 2004. National housing starts slipped to 1.8 million units in 2006 from its previous year’s peak, but remained at high historical levels. Despite this drop, U.S. wood products output was virtually unchanged in 2006 as it was in 2005. Idaho payroll increased to just over 10,000 jobs that year. The next year would be much different. In 2007, the U.S. housing starts decline was twice as steep as the previous year, causing output to retreat nearly 10%. Unlike the

previous year, Idaho’s logging and wood products sector was not able to avoid losses and its employment shrank to about 9,600 jobs. Unfortunately, the national housing retreat is expected to continue through 2009, which is anticipated to reduce Idaho payrolls further. For example, Potlatch Corporation laid off 160 employees at its St. Maries plywood plant for two weeks in November 2008. The company also laid off 220 workers at its Lewiston wood products mill during the last three weeks of the same month. Housing woes were also to blame for the Idaho Forest Group shut down of its Moyie Springs mill during Thanksgiving week. 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. The industry’s increased productivity means mills need fewer workers. National housing starts are forecast to begin recovering modestly in 2010. Idaho logging and wood sector employment is expected to decline through 2010, and then it posts a modest recovery to around 8,200 jobs in 2012.

Construction: Expected declines in Idaho construction employment over most of the forecast period means the state will lose one of its most important growth engines. Fueled by the Idaho housing boom, construction employment advanced an amazing 5% annually from 1997 to 2007—about twice as fast as overall employment. As a result of this strong showing, construction’s share of total employment climbed from 6.4% in 1997 to 8.0% in 2007. This growth spurt was made possible by the healthy 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 growing thanks to the strong commercial sector. However, this boost ran out of fuel in 2007, causing construction employment to stall. Unfortunately, this sector’s fortunes have not yet bottomed out. Future housing activity will be hampered by the combined impacts of the cooling economy, tight credit conditions, and slower population growth. The next two years will be particularly devastating. Housing

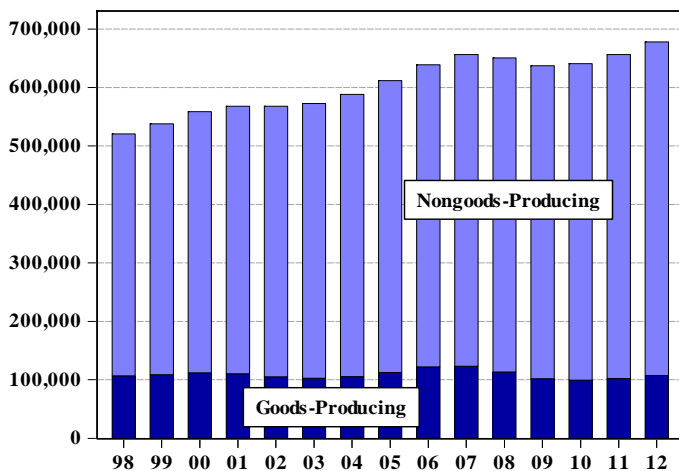
starts are expected to have dropped to 7,192 units by the end of 2008, about 2,000 units lower than at the year's start. Housing starts should then begin recovering modestly in 2009. Housing starts are projected to post their first year-over-year gain in 2010 and continue growing thereafter to about 5,000 units in 2012, which is much lower than its 2005 peak. Idaho construction employment is forecast to slide during the first three years of the forecast to 38,660 jobs in 2010 and remain near that level in 2011. Idaho construction employment enjoys its first significant increase to 40,205 jobs in the last year of the forecast. During the forecast period, construction's share of total nonfarm employment slips from 8.0% in 2007 to just under 6.0% in 2012.

Idaho Construction Employment and Housing Starts



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 304,484 jobs in 2007 and there were 111,657 trade jobs. Together they accounted for about 80% of the state's 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 3.7% annually over the last five years versus 2.8% for trade employment. Education and health services are consistent performers because they are driven more by demographics than economics. This category should add jobs at a 3.3% average annual pace from 2008 to 2012. Professional and business services employment should expand an average of 1.6% per year over the same period. Leisure and hospitality services should grow 1.5% annually over the next few years. This industry suffered a setback when the owners of Tamarack Resort filed for bankruptcy protection last year. In addition, Andre Agassi and Steffi Graf dropped their plans for a resort hotel at Tamarack. Not surprising, staffing levels at the resort this winter are lower than last winter. Financial services employment will feel the pinch of the cooling housing market and tighter credit. After expanding by an average of around 6.5% in both 2005 and 2006, financial service's payroll should average 0.6% annual growth over the forecast period. Transportation, warehousing, and utilities sector employment is expected to average 1.0% growth. Information service employment should rise at a 2.4% annual pace. Employment in the other services category

Idaho Nonfarm Employment



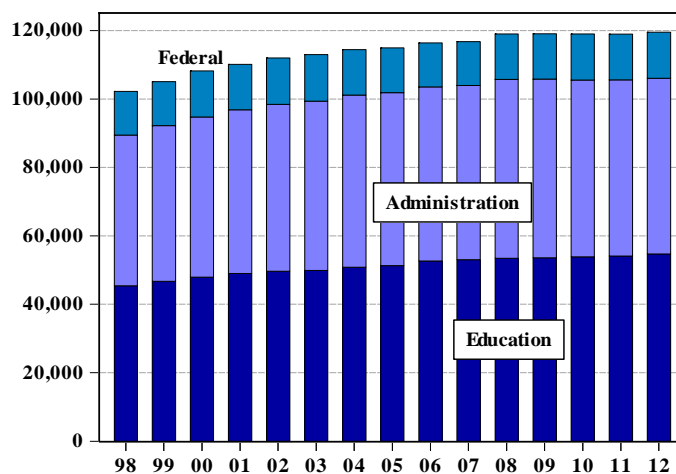
Employment in the other services category

increases over the forecast period from 19,463 jobs to 22,171 jobs. Readers are reminded that other services employment sprinted at a nearly 25% annual pace during last year's first quarter because a new employment survey that revealed there were more noncovered jobs in this sector than had been previously reported. This new data creates a series break that results in a one-time boost to the first quarter's growth rate. After a slow start, total services employment growth is expected to accelerate beginning in 2010. Prognostications for one of the weakest holiday shopping seasons in years have led to fears that Idaho trade employment will repeat last year's disappointing showing. Indeed, final and preliminary data show both wholesale and retail trade employment shrank through the first three quarters of 2008. Trade employment 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.

Government: On December 22, 2008 the U.S. Census Department reported Idaho's population on July 1, 2008 was 1,523,816. This change equates to a 1.8% growth rate, which is down from the previous year's 2.4% clip. The state's population growth is projected to slow further, as its economy cools. The main reason for this slowing is the anticipated drop in net immigration. Idaho's population grows fastest when net migration is strong and slowest when net migration is weak. 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%.

Over the next few years net immigration is expected to swing from a low of about 3,100 in 2009 to a high of about 16,400 in 2012. Under these conditions, total population growth should average 1.7% per year over the forecast period, which is well below the pace of the last few years. The anticipated slower population growth should translate to slower demand for government services and reduced government employment growth. In addition, Idaho state and local government employment will be held in check by tight budgets, especially during the next two years. Over the forecast period, Idaho state and local governments will add less than 400 jobs. All of the job gains (1,270) will be in education-related jobs, while the noneducation-related jobs will shrink (-901). There are about 13,300 federal government jobs in Idaho. It should remain near this level throughout the forecast period except for 2010 when hiring associated with the U.S. census takes place early in that year.

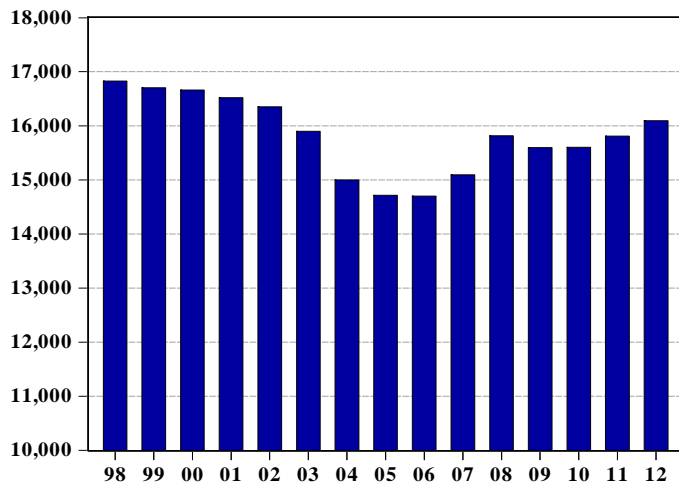
Idaho Government Employment



Mining: Idaho's mining sector employment is forecast to suffer declines over the next two years as the national and global economies cool. These declines will mark the end of six consecutive years of growth. After suffering several years of decline, Idaho mining employment increased from a low of 1,759 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. Kathryn Tacke, the Idaho Department of Labor's Regional Economist for North Idaho, reported that at one time the prices of lead and zinc were so high that the

Lucky Friday Mine could make a profit on sales of these two byproducts alone. These high prices led to increased exploration activity in the state. SNS Silver is looking at the possibility of bringing the Crescent Mine near Kellogg back into production. The Crescent, which closed in the 1980s, lies between two of the world's greatest silver producers—the Sunshine and Bunker Hill mines. It appears there are ample mineral supplies for further expansion. However, metal prices have been falling recently, so this sector's short-term fortunes will be driven more by economics than by geology. After exploding 7.1% in 2008, U.S. metal ore mining production is forecast to decrease this year and next. As a result, mining employment is forecast to drop just below 2,000 jobs in 2010. 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, after suffering two years of losses.

Idaho Food Processing Employment



Food Processing: One of Idaho's cornerstone industries, food processing, is poised to retake the title of the state's largest manufacturing employer. This sector's last employment peak was 17,300 jobs in 1997. Ironically, it 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 long-time employers began to curtail their local operations. 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. This sector is expected to experience two notable achievements. Its employment will top 16,000 jobs in 2012—for the first time since 2002—and it will once again become the state's largest manufacturing employer in 2008. 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.