

IDAHO FORECAST DESCRIPTION

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

The current Idaho economic forecast contains a mix of good and bad news. To get the bad news out of the way, the outlook has been downgraded once again. However, and this is the good news, the reductions from the previous forecast are relatively modest. For example, Idaho nonfarm employment is lower in the last three years compared to the April 2009 forecast. By 2009, it is down by 4,300 jobs. While this is disappointing, it is smaller than the revision from January 2009 to April 2009. Over that period, employment was lowered in each year of the forecast, and it was down by 28,400 in 2012 compared to the January 2009 forecast. The change to Idaho personal income is similar. The July 2009 forecast for Idaho real personal income in 2012 is \$42.6 billion, which is about \$570 million lower than was predicted for the same year in April 2009. In comparison, in April 2009, the forecast of Idaho real personal income was \$1.3 billion lower in 2012 than the forecast released in January 2009. The news about the economy is getting less bad, and that is good news.

The economic downturn that began in 2008 is forecast to continue through this year and next. Idaho nonfarm employment decreased by 1.0% last year—its first annual drop since 1986. The decrease in this year is worse. Hit by declines in almost all of its major sectors, Idaho nonfarm employment is forecast to fall nearly 5.0% in 2009. Idaho nonfarm employment will begin improving in 2010, but it will not be strong enough to offset the impact of the previous year's job losses. As a result, it falls by 0.8% in that year. The last time Idaho experienced three consecutive years of job declines was nearly three decades ago.

Idaho personal income growth is also expected to be soft over 2009 and 2010. Idaho nominal personal income is forecast to actually decrease 0.6% this year—its first recorded drop since 1953. After adjusting for inflation, this year's Idaho personal income decline is about 1%. It is greater than the nominal decline because of prices at the end of last year and beginning of this year. This deflation reinforces the nominal personal income decline. Nominal personal income is expected to advance a modest 2.1% in 2010 and real personal income should grow 0.7%.

Other measures also attest to the state's economic challenges. Housing starts are expected to shrink another 3,000 units in 2009 from an already soft 7,900 units in 2008. However, it will make up most of this in 2010 when starts jump to 7,600 units. The weak economy will dampen Idaho population growth by lowering net-inmigration. Last year, the state's population advanced 1.8% thanks to net-inmigration of about 12,400. It is predicted that this year there will be virtually no net-inmigration into Idaho, which will cause the population growth rate to slow to just 1.0%.

Idaho's economy is expected to shift into higher gear in the last two years of the forecast, but this growth will be modest by recent historical standards. Nonfarm employment should advance by 1.7% in 2011 and by 3.6% in 2012 in response to recovering national and global economies. Idaho nominal personal income growth also accelerates during this time, advancing 2.1% in 2011 and 4.0% in 2012. Idaho real personal income grows 0.7% in 2011 and 2.1% in 2012. Housing starts, which had been pummeled during the recession, begin growing in 2010 and climb to 13,500 units in 2012. The stronger growth should once again make Idaho a draw for those seeking economic opportunities. As a result, net-inmigration increases annually and reaches 15,000 persons by 2012. Idaho's population growth rate, which had dropped to 1.0% in 2009, is forecast to be 1.2% in 2010, 1.7% in 2011, and 2.0% in 2012.

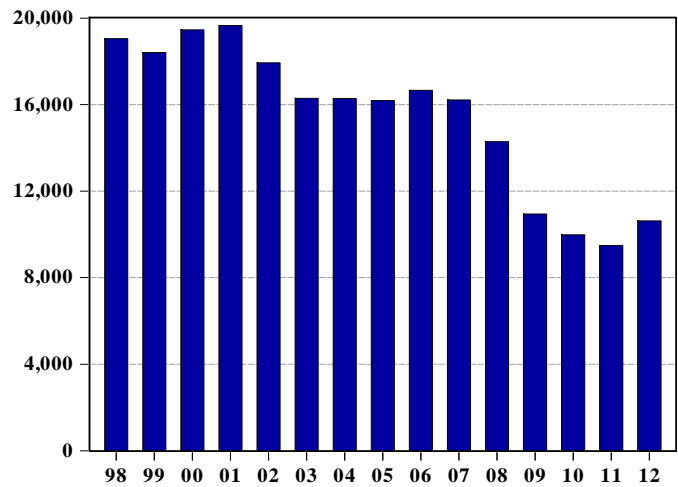
SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: The current decade has proven to be much more challenging for this sector than the previous one. During the 1990s this sector's employment grew so consistently that it seemed it was immune to business cycle downturns. Thanks to those steady gains, the computer and electronics sector became the state's largest manufacturing employer in 1997 and rose above 19,000 jobs in 1998. It has not been so fortunate in the current decade. In fact, even before the start of the new millennium, its employment slipped by about 600 jobs in 1999. However, this proved to be a temporary setback, as the job count rallied to 19,565 by 2001, which is the high-water mark for this sector. Since

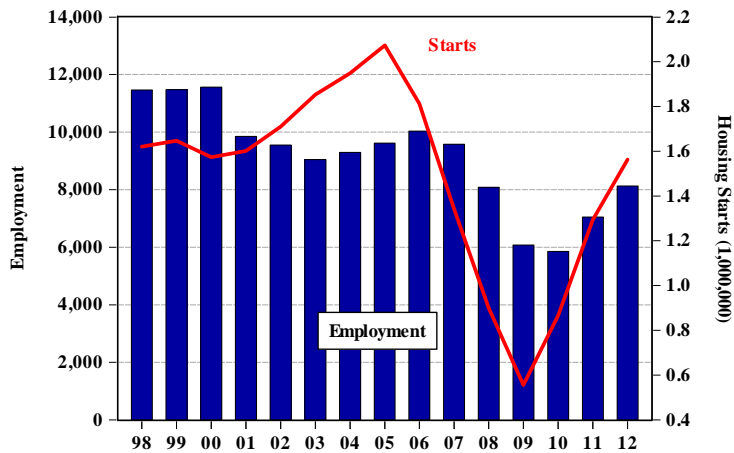
then, the protracted slowdown in the electronics sector has made annual job gains the exception rather than the rule. Specifically, since 2001, employment increased just once in 2006 by about 500 jobs, which was not enough to offset the cumulative job loss. The situation has recently worsened, with jobs being shed at double-digit rates in both 2008 and 2009. These declines result from a series of layoffs at one of the state's largest employers. In 2007, Micron Technology reduced its Idaho work force by 1,100. The company announced in October 2008 it would reduce its Boise work force by 1,500 jobs in response to the worldwide glut of memory products had driven prices below their manufacturing costs. However, this was not the end of the bad news. Micron Technology announced on February 23, 2009 that it planned to further reduce its payroll by as many as 2,000 jobs by this 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. Other Idaho companies have also 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. Unfortunately, this sector's employment base is expected to continue shrinking through 2011 due largely to the soft forecast for business equipment investment. Specifically, Idaho computer and electronic employment falls from 14,285 jobs in 2008 to a low of 9,500 jobs in 2011. Hoku Scientific, Inc. is building a \$390 million plant to produce polysilicon in Pocatello. Recently, the company reported problems finding financing to finish the plant. It was able to work out a deal with its partners to push back initial delivery dates in exchange for some price concessions, but the company still needs additional funding.

Logging and Wood Products: The worst national housing downturn in a generation is exacting a heavy toll on the state's logging and wood products industry. A defining feature of the housing implosion is how quickly it has taken place. Four years ago, national housing starts exceeded 2-million units. That same year, Idaho logging and wood products employment rose just above 9,600 jobs. It did even better the next year. Employment rose above 10,000 jobs for the first time since 2000, despite national housing starts falling slightly to 1.8 million units in 2006. Housing starts have been falling since then, and so has

Idaho Computer and Electronic Products Employment



Idaho Wood Product Employment and U.S. Housing Starts



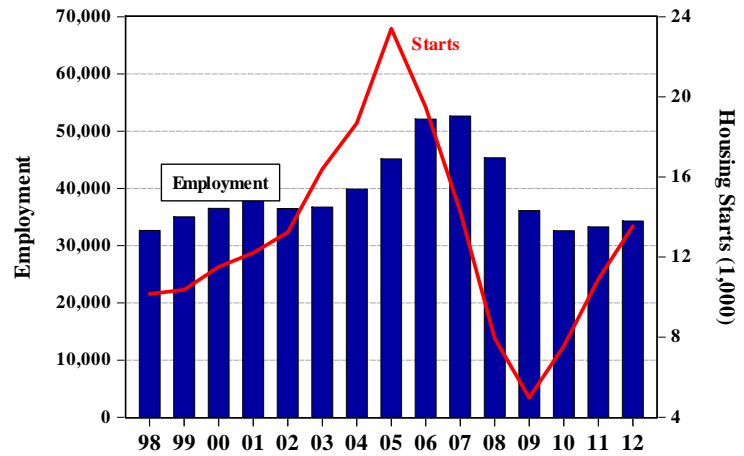
Idaho lumber and wood products employment. By 2008, there were half as many housing starts (900,000) as there were in 2006—the first time its fallen below a million annual units since records began a half decade ago. Idaho employment dropped to about 8,100 jobs. Unfortunately, housing starts are expected to be cut by nearly half again this year to about 550,000 units. This year will be the bottom of the current housing cycle; starts should begin rising again in 2010. The Idaho employment recovery will take slightly longer, though. It is expected to decline to 6,075 jobs in 2009 and to 5,858 jobs in 2010—its lowest level since at least 1991. National housing starts will

eventually make their way to 1.6 million units by 2012. While this is well above their 2009 trough, it is still below the 2005 peak. The lower housing demand means this sector’s outlook will be dominated by 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 8,130 jobs by 2012.

Construction: The outlook for the state’s construction sector has changed. It has been revised down for 2009 and 2010, but revised up in 2011 and 2012. Looked at another way, the current forecast predicts its trough will be deeper and its recovery will be slightly stronger than was predicted in April 2009. This change resulted from a review of more current historical housing and employment data, as well as the new national economic forecast. Estimates based on U.S. Census building permit data show Idaho housing starts in Idaho were much weaker than had been predicted earlier. In the April 2009 forecast, it was projected there would be just over 4,600 annualized single-unit housing starts in Idaho in the first quarter of this year. After that quarter, single-starts were expected to advance steadily to an average of 11,224 units in 2012. The revised estimate shows there were about 800 fewer single-unit housing starts in the first quarter than had been predicted. The lower starting point is one of the reasons the short-term housing outlook is lower. Another factor is the lower expectations for the economy. This can be seen in the personal income numbers for Idaho. For example, Idaho nominal personal income is lower in each year except 2012. As a result, the starting point for the current forecast is lower than it was in the previous forecast. Another factor limiting housing starts is the slower population growth, tight credit markets, and weak employment growth. The result is there are expected to be 830 fewer single-unit starts this year and 670 fewer starts next year than had been previously forecasted. The forecast for Idaho construction employment has also been reduced. As was the case with housing starts, the previous

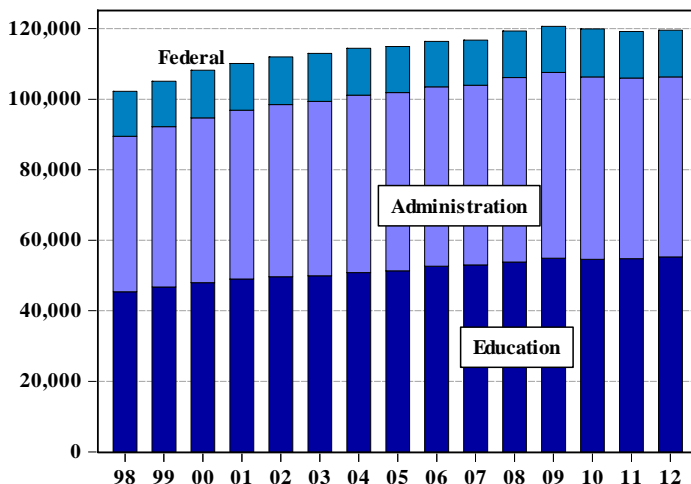
employment forecast for the start of this year was too optimistic. Instead of declining at an annualized 21.1% rate, construction employment dropped at a 24.9% clip. Because of the anticipated weaker housing growth, employment is expected to decline more steeply and hit its cyclical bottom with 32,384 jobs in the third quarter of next year. This is a slightly deeper downturn than had been forecast in April 2009. In that forecast, construction employment hit a trough of 34,970 jobs in the second quarter of 2010. It should be pointed out the employment forecast would have been weaker were it not for construction projects funded by the federal stimulus spending. The housing sectors outlook improves in the second half of the forecast horizon. Idaho single-unit housing starts advance in both 2011 and 2012. Not only does it recover ground lost during 2008 and 2009, but housing starts are actually about 430 units higher in 2012 compared to the previous forecast. The turnaround in housing starts leads to faster construction employment, so that by 2012 it is just 1,835 jobs lower than in the previous forecast.

Idaho Construction Employment and Housing Starts



Government: Expected slower population growth and strained state and local government budgets will limit government employment gains in Idaho over the next few years. Population increases fuel the need for employment growth, while the fiscal situation undermines the means to fund this need. The Gem State’s population growth has been slowing in recent years and is expected to remain subdued over the forecast period. The most recent U.S. Census Bureau estimate shows Idaho’s population expanded 1.8% in 2008—the first time since 2003 that the population has expanded by less than 2% and the third year in a row it has decelerated. It is expected to slow even further this year before beginning a slow recovery next year. Specifically, it is forecast to expand 1.0% in 2009, 1.2% in 2010, 1.7% in 2011, and 2% in 2012. As in the past, most of the population growth reflects the ebb and flow of migration. For example,

Idaho Government Employment



the state’s population grew by 1.9% in 2004 when immigration was about 13,000 persons. In 2006, a net influx of over 24,000 new residents helped population jump by 2.7%. Of course, it can also go the other way, such as in the mid-1980s when net-outmigration caused the state’s population to decline. A repeat of this outmigration is not expected over the forecast period. However, the forecasted immigration will still be weaker than the state experienced during the first part of the decade. This change results from the cooling of the state’s economy. In previous slowdowns, Idaho’s relatively strong economy was a safe harbor that drew newcomers seeking shelter from the

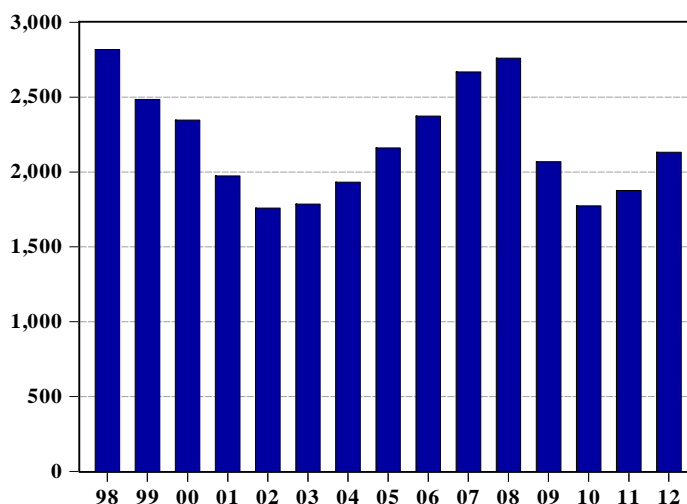
national economic tempest. But the current recession is different. Idaho, like most other states, is struggling, and this will reduce immigration. At its weakest, this year, immigration is less than 100 persons. However, it should improve as the state's economy warms back up. At its height in 2012, it is just over 15,000 persons. State revenue woes will also hinder government employment growth. The Division of Financial Management's revised revenue forecast shows General Fund revenue will decline 12% in FY 2009 and by 0.4% in FY 2010—the first time it has declined for two consecutive years. (Actual FY 2009 revenue was down 15.2% from the previous fiscal year.) 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 had been forecast to decline 8.8% in FY 2009 and 1.5% in FY 2010. Actual results for FY 2009 came in at a 10.5% decline, and a forecast for FY 2010 will be released and will not offer relief. 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 by about 1,000 persons in the second quarter of 2010 as a result of local hiring for the U.S. census.

Mining: The state's mining sector is expected to suffer declines over the next couple of years due to the global recession and the outlook for tight credit. These drops mark the end of six straight years of employment growth, where its payroll grew from 1,800 jobs to nearly 2,800 jobs. This expansion was fueled by rising mineral prices caused by the strong global demand. The price of silver nearly tripled from \$4.62 per Troy ounce in 2002 to \$13.38 per ounce in 2007. Over this same period, zinc prices climbed from 36 cents per pound to \$1.47 per pound. The price of lead soared from 21 cents per pound to \$1.17 per pound and molybdenum increased from \$18.23 per pound to \$40.19 per pound. As the global economy cooled,

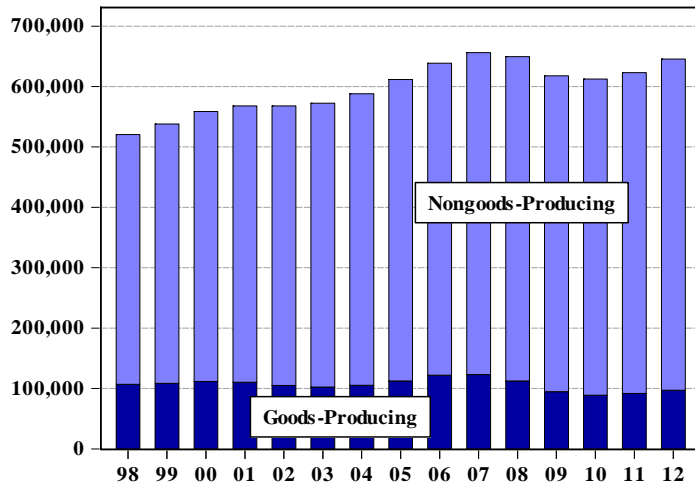
mineral prices descended from their lofty peaks. Unfortunately, the global slump will not reverse quickly, and neither are mineral prices anticipated to return to their previous heights in the near future. And low prices are not the only factor limiting this sector's future. Financial troubles caused 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 reach just over 2,100 jobs in 2012.

Nongoods-Producing Industries: After suffering a rare decline this year, Idaho's private nongoods-producing employment is forecast to enjoy modest growth beginning next year. This sector can be broken into its two main categories: services and trade. The services category had an average of

Idaho Mining Employment



Idaho Nonfarm Employment



306,900 jobs in 2008 and there were 110,500 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. Both services and trade got off to a bad start this year. Services, traditionally one of the state's most consistent job engines, declined at a 3.9% annual rate in the first quarter. Almost all of its components contributed to this drop. Not surprisingly, the exception was

the education and health care category, sectors that are relatively insulated from economic downturns. Information employment had the biggest drop (29.2%) of the quarter, but this decline resulted from employees being reassigned to the professional and business services category and not the recession. The weak economy was to blame for the nearly 12% drop in transportation, warehousing, and utilities employment and the 10% slide in leisure and hospitality jobs. The former's fall reflects continued problems in the housing and retail sectors. The latter was impacted by the disappointing holiday season, as travelers extended their staycations through the winter, leaving many of the state's resorts with more vacancies than normal. This industry suffered another 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. On the other hand, professional and business services employment fell just 0.9%. But it should be remembered that it benefitted from an influx of nearly a thousand reassigned information workers. Had these workers not been transferred, professional and business employment would have declined at a 5.9% annual pace. The weak economy caused Idaho trade employment to decline over 10% in the first quarter. Unfortunately, this was just the most recent in a series of declines. Since the last quarter of 2007, when the recession began, Idaho trade employment has shed about 7,200 jobs. The good news is this year will be the worst for the services and trade sector. Next year is expected to be a transition year with services employment growing a modest 0.4% and trade shrinking just 0.2%. Beginning in 2011, both sectors are expected to resume more robust growth.