

IDAHO FORECAST DESCRIPTION

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

After stabilizing in July 2009, Idaho's economic outlook has been revised downward. These changes can be seen in the comparisons of the July 2009 and October 2009 forecasts to their respective predecessors. For example, the July 2009 Idaho nonfarm employment forecast for 2009 was a mere 0.1% higher than had been forecast in April 2009. The employment forecasts for the subsequent years were lower by less than 1% than in April 2009. The Idaho nominal personal income forecast in July 2009 was also lower than in April 2009, but the gap between the two never exceeds 1%.

The differences between the October 2009 and July 2009 forecasts are much greater. Due to a recent data revision, the annual employment data show there were about 1,500 fewer jobs than previously reported in 2008. The estimates for early 2009 employment were also revised downward. For example, there were 6,400 fewer jobs in the first quarter of this year than was published in July 2009. In the second quarter, there were 10,800 fewer jobs. These revisions were spread across the different employment categories. For example, manufacturing employment was reduced by nearly 1,100 jobs (1.9%) in the second quarter. Construction employment was lowered by nearly 2,900 jobs (7.8%) in that same quarter. Services was lowered by 4,600 jobs (1.5%), trade employment dropped by 1,300 jobs (1.3%), and state and local government employment was reduced by 1,200 jobs (1.1%).

The revised job data has lowered the starting point for the forecast. Last July, Idaho nonfarm employment was forecast to drop 4.9% in 2009. It declines a projected 6.2% in the current forecast. Idaho nonfarm employment is expected to decline 1.5% in 2010, then grow 1.7% in 2011 and advance 3.2% in 2012. This growth path is flatter than in the July 2009 forecast. As a result of this slower growth, there are 16,700 fewer jobs in 2012 in the current forecast compared to the July 2009 forecast. While the lower starting point contributes to the lower employment forecast, it is not the sole reason. The lower forecast also reflects an anticipated slower recovery. As a result of this slower growth, the October employment forecast for 2009 is 1.6% lower than its July counterpart and this gap widens to 2.6% in 2012.

This forecast also includes the revised estimates of Idaho quarterly personal income through the second quarter of 2009. While changes to these data are common, they are usually minor. However, the revisions published in October 2009 by the U.S. Department of Commerce made major changes to these data. For example, Idaho nominal personal income for 2008 was revised up by 3.1% compared to the July 2009 estimate. This change raises the starting point for the personal income forecast. Unfortunately, the weaker growth causes this advantage to be whittled down to just 0.9% by 2012. Idaho nominal personal income is forecast to drop 2.9% in 2009, then rise 2.4% in 2010, increase 3.9% in 2011, and grow 5.8% in 2012. After adjusting for inflation, Idaho personal income falls 3.1% in 2009, then increases 1.1% in 2010, 2.0% in 2011, and 2.0% in 2012.

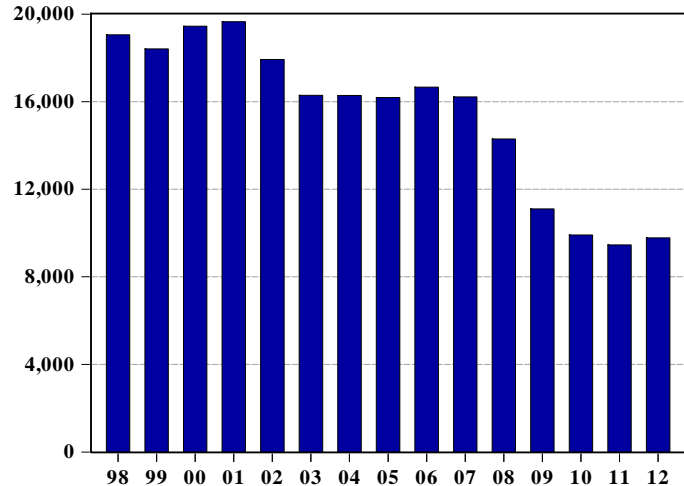
While some of the forecast details have changed since this summer, some similarities remain. First, the current forecast shows that the worst is nearly passed. This year is the weakest in the forecast. Second, next year is a transitional year, with the economy displaying signs of growth. This growth is forecast to pick up speed in both 2011 and 2012, and this will be a welcome relief from the losses of the previous three years.

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

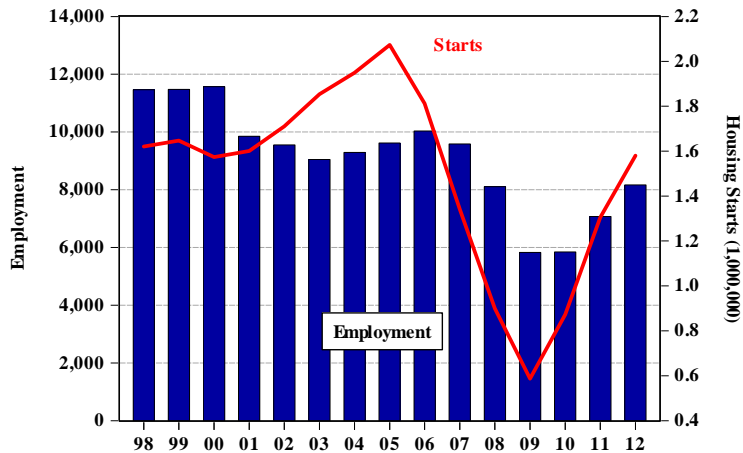
exception rather than the rule. Specifically, since 2001, employment increased just once in 2006 by about 500 jobs, which was not enough to offset the cumulative job loss. The situation has recently worsened, with jobs being shed at double-digit rates in both 2008 and 2009. These declines result from 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. Contributing to these declines is the dearth of investment on business equipment. It is estimated inflation-adjusted spending on equipment and software will plunge over 16% in 2009—its largest single-year drop since records began in 1959. The industrial production index for computers and electronic products is projected to fall nearly 10% this year. Business investment and production are expected to improve after next year, but not enough to prevent Idaho's computer and electronics sector from shedding jobs through 2011. However, it does gain about 350 jobs in 2012. From the second quarter of 2009 to the end of 2012, this sector's employment is forecast to decline from about 11,100 jobs to 9,700 jobs. 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 needed additional funding. In September, Hoku announced it reached a deal with Tianwei New Energy. As part of the deal, Tianwei New Energy becomes a majority stakeholder in Hoku. The deal also provides for \$50 million in debt financing for the company's Pocatello plant. Despite this capital

Idaho Computer and Electronic Products Employment



infusion, Hoku announced in late October that it needed an additional \$71 million to complete the Pocatello facility. However, the company intends to start shipping polysilicon from the plant in the first quarter of next year.

Idaho Wood Product Employment and U.S. Housing Starts



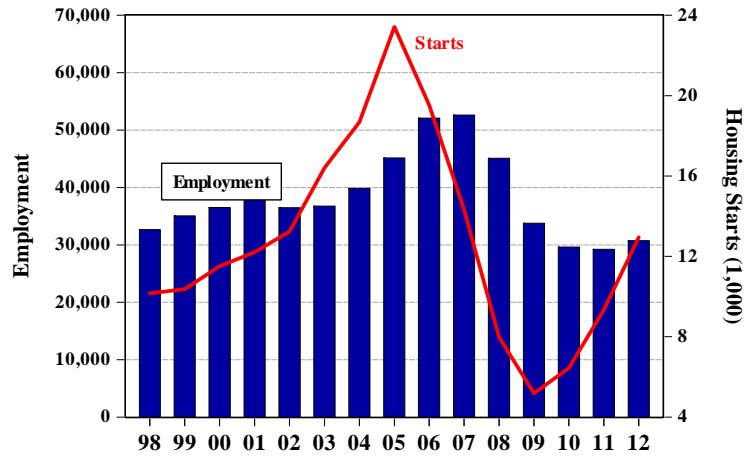
Logging and Wood Products: Idaho’s logging and wood products sectors long-term outlook is shaped by unfavorable supply factors. Factors putting continued downward pressure on this sector’s employment include the dwindling supply of logs from national forests. According to the U.S. Forest Service, the timber harvest from Idaho national forests dropped from 239.8 million board feet in 1998 to 121.1 million board feet in 2007. This drop represents a total decline in the national forest’s share of the Idaho timber harvest from 20% in 1998 to 11% in 2007. Over this same period, the total harvest from all Idaho sources

shrank 16%. This situation is prevalent throughout the Northwest; the combined harvest from Washington and Oregon national forests has dropped nearly 44% over the same period and their total harvest has fallen by nearly 18%. 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. These supply factors have led to calamities. The combined employment for Oregon and Washington dropped 30% from 1998 to 2007. In Idaho the drop was 16%, or about 2,300 jobs. 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%. The long-term trend in Idaho logging and wood products employment was interrupted mid-decade thanks to the national housing boom. The strong demand for lumber and other wood products caused this sector to recover about 1,000 jobs from 2003 to 2006—the first time it had grown three years in a row since the mid-1990s. Unfortunately, after being bolstered by the housing boom it is being badgered by the housing bust. A defining feature of the housing implosion is how quickly it has taken place. Four years ago, national housing starts exceeded 2-million units. 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. Unfortunately, housing starts are expected to be cut by nearly half again this year to about 586,000 units. Housing starts should begin rising again in 2010, but the recovery is expected to be tepid. Starts are not expected to top one million units again until 2011 and it does not come close to matching its recent peak. Like housing starts, Idaho lumber and wood products employment is not forecast to regain its recent acme over the forecast period. Idaho lumber and wood products employment is forecast to drop to a low of 5,800 jobs then expand slowly to nearly 8,200 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 an amazing 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 spurt was made possible by the strong housing market that expanded from just

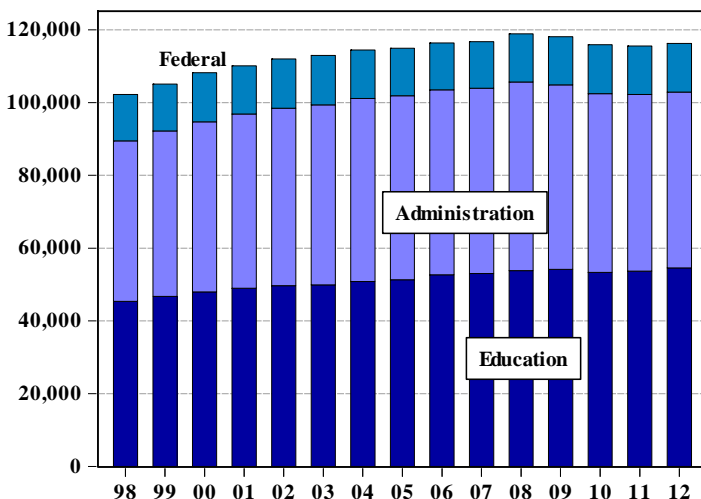
8,888 housing starts in 1997 to a peak of nearly 23,400 units in 2005. Although housing starts began declining the next year, Idaho construction employment continued advancing because of the state's still strong nonresidential construction sector. Eventually, this sector also softened, and construction employment started to shrink in the second quarter of that year. However, 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 14.3% and marked the first in a series of forecasted declines resulting from a weak local housing market that resulted from the combination of a cooling economy, lower population growth, and tighter credit. Idaho housing starts are forecast to hit a bottom of 5,186 units this year then begin a gradual recovery. By the end of the forecast period there is expected to be about 13,000 housing starts. While this is higher than its 2008 trough, it is well below its 2005 peak. Unlike housing starts, Idaho construction employment does not hit bottom until 2011. Specifically, it is forecast to drop by 25.1% in 2009, 12.3% in 2010, and 1.2% in 2011, and then rise by 5.1% in 2012. This engine of job growth will be missed. Thanks to several years of strong growth, construction employment peaked at just over 8% of the state's nonfarm employment in 2006. In 2012, it slips beneath 5% of total jobs.

Idaho Construction Employment and Housing Starts



Government: Idaho state and local government employment is forecast to decline in three of the next four years as the result of slow population growth and tightening budgets. The direct correlation between population and government employment is well established. Rising populations make more demands on governments which must hire more employees. Idaho's experience during the last half of the 1990s provides an example of this relationship. From 1994 to 2000, the Gem State's population grew from 1.145 million persons to 1.299 million persons, an average annual increase of 2.1%. Over this same period, state and local government employment increased at a 2.8% clip. Most of the population growth resulted from newcomers pouring into the state in search of economic opportunities. In 1995 alone, 22,700 more persons moved into the Gem State than moved out of it. 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. While a repeat of this outmigration is not anticipated, neither is a return to the quick-paced 1990s, either. Instead, the state's population growth rate is forecast to hit 0.9% this year and gradually pick up

Idaho Government Employment



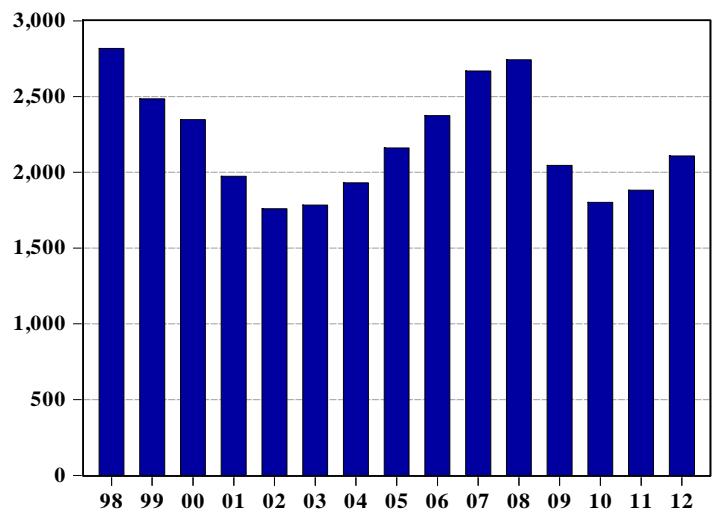
0.9% this year and gradually pick up

speed to 1.9% in 2012. As in the past, population growth is driven by expected net migration. It is not expected to pick up steam until Idaho's economy is recovering. As a result of the more subdued growth, the demand for public services should also grow slower, which will dampen state and local government job prospects. However, population is not the only factor limiting future government employment. One of the most challenging budget environments in years will also keep employment in check. The Idaho Division of Financial Management reported that General Fund revenue declined 15.2% in FY 2009 and it predicts revenue will fall another 3.6% in FY 2010. In order to balance its budget, the state took unprecedented measures. For example, for the first time the state cut its public schools funding for FY 2010. And the pain extends beyond state government because Idaho cities and counties participate in revenue sharing from the state sales tax. 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: After climbing for six consecutive years, Idaho mining employment is expected to fall this year and next before posting a modest recovery in 2011 and 2012. The mining sectors recent expansion was fueled by rising metal prices caused by strong worldwide demand. For example, 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. Over this period, Idaho mining employment increased from about 1,800 jobs to about 2,700 jobs, which implies an average growth rate of 9.3%. Unfortunately,

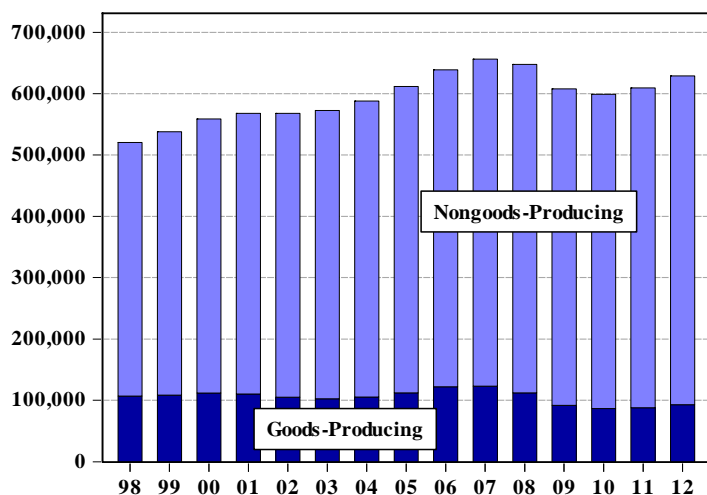
employment began retreating after the first quarter of 2008, and this slide is expected to continue through the first half of 2010. The largest year-over-year drop occurs in 2009, when a 13% decrease in metal ore production, contributes to a 25% decrease in Idaho mining employment. Over the course of its expected contraction, this sector is forecast to shed about 1,000 jobs from its peak in the first quarter of 2008 to its trough in the second quarter of 2010. Employment does begin recovering in 2011, but increases are expected to be modest. Compounding problems associated with weak demand, this sector's outlook is also being shaped by other factors. For example, 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. It should be pointed out that Idaho is not unique with mining problems. National mining employment is also expected to fall this year and next and grow thereafter. The difference between the national and Idaho outlooks is the national mining cycle is milder than the Gem State's cycle. Put another way, national mining employment is expected to follow a U-shaped pattern compared to a V-shaped one for Idaho.

Idaho Mining Employment



Services and Trade: This year is expected to be a tough one for the Gem State's huge services sector, as it is on course to post its first year-over-year job decline on record. The services category consists of

Idaho Nonfarm Employment



information services; financial activities; transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. In 2008, it consisted of 306,393 jobs, or about half of all the jobs in Idaho. The state's services industry employment declines commenced in the first quarter of 2008 coincident with the start of the U.S. recession. It did expand modestly during that year's interior quarters, but these gains were erased by the huge 5.5% annualized decline in 2008's terminal quarter. As a result, on an annual basis, Idaho services employment grew an anemic 0.6% in 2008. Unfortunately, job losses overflowed into the first three

quarters of 2009. As of this year's third quarter, employment is down about 10,000 jobs compared to the end of 2008. This decline has been widespread, with all components, except health and education, suffering job declines. (Information employment dropped 29.2% in 2009's first quarter, but this decline resulted from employees being reassigned to the professional and business services category and not the recession.) Services category employment is forecast to drop again in the last quarter of this year. On an annual basis, it is projected to decline nearly 5% in 2009. This sector is expected to begin expanding its payroll again beginning next year. Gains will be slow at first, but then pick up speed as the national recovery begins to take off. Specifically, Idaho services employment increases 0.1% in 2010, 1.7% in 2011, and 2.8% in 2012. The employment outlook for Idaho's trade sector is not as strong. This sector is made up of both retail and wholesale components that together accounted for 17% of total nonfarm employment last year. As is the case with the service sector, the trade sector began shedding jobs in the first quarter of 2008. A major difference between these two is the pace of job losses has been considerably higher in the trade sector. As a result, the number of trade jobs shrank 1.2% in 2008, compared to the services sector's 0.6% gain. Unfortunately, job losses should be even steeper this year, with an expected decline of 6.5%. This drop reflects severe back-to-back declines during last year's holiday season. Retailers traditionally hire temporary workers to meet the holiday shopping rush. Instead of growing, retail employment dropped by about 2,000 jobs in the last quarter of 2008 and was followed by an additional 2,000-job loss in the first quarter of 2009. This sector is expected to begin growing again the second half of next year. Retail trade is forecast to decline 7.3% in 2009 and 1.7% in 2010. It expands 1.6% in 2011 and 2.9% in 2012. Idaho wholesale trade employment is projected to fall 4.3% this year, drop 0.8% next year, and increase 0.7% in 2011 and 1.8% in 2012.