

EXECUTIVE SUMMARY

Idaho's economy is forecast to improve this year as the national economy recovers. Indeed, some promising signs have already emerged. Recent Idaho Department of Labor data show nonfarm employment may have leveled off after declining most of last year. The local economy's improvement is confirmed by another indicator. The Federal Reserve Bank of Philadelphia's Coincident Economic Activity Index shows Idaho's economy has remained stable for several months beginning last fall. This year should be a transition year for the state's economy. Idaho nonfarm employment is expected to drop 1.1% from last year. While any decline is disappointing, it must be pointed out that this is a huge improvement from the previous year's 6.1% decrease. Idaho nominal personal income is forecast to rise 3.1% and real personal income increases 1.5%. Last year, both of these income measures declined by nearly 3%. Idaho housing starts are projected to grow 31.7%, but this is from last year's very low level. Idaho's economy should shift into a higher gear after this year, but it will still be a rather low gear. Instead of a quick reversal, the Gem State expected to climb gradually out of its most severe economic calamity in decades. Nonfarm employment is forecast to rise 1.8% in 2011, 3.2% in 2012, and 3.0% in 2013. At this pace, Idaho nonfarm employment will climb to just 650,000 jobs in 2013. While it is much higher than its projected trough of 602,000 jobs in 2010, it is still lower than its recent peak of 656,000 jobs in 2007. Idaho nominal personal income growth accelerates each year, going from 4.2% in 2011, to 5.7% in 2012, to 6.0% in 2013. Likewise, Idaho real personal income growth also picks up speed over time. However, neither nominal nor real personal incomes grow fast enough to match the pace they experienced earlier this decade. Idaho housing starts are expected to grow at double-digit rates over the forecast period and reach 16,400 units in 2013. While they are below their 2005 peak, they are a vast improvement from the 2009 trough.

It appears that after about a year and a half on the ropes, the national economy is on the rebound. The most convincing argument for the start of the recovery came in the form of the 2.8% annual growth in GDP during last year's third quarter, which ended a four-quarter slide in output. Even better news is it is estimated real GDP grew 2.7% in last year's fourth quarter, which suggests the recovery has legs. However, it must be noted that some of the strength in last year's second half was the result of special factors that will not be available in the future. Real GDP benefited from the federal government's Car Allowance Rebate System. In addition, sales of both new and existing homes jumped in the third quarter thanks in part to the federal first-time homeowner's tax credit. The real test for the economy should come this year when it is expected to stand on its own two feet. Three areas bear watching to see whether it will pass muster. Retrenching consumers have curtailed spending over the last few quarters, creating a huge drag on the economy. Its outlook is shaped by high consumer debt burdens, depleted wealth, tight credit, and incomes being squeezed by a weak job market. Given these conditions, spending is more likely to grow in line with income than it has in the recent past. The anticipated gradual improvement in the job market should help consumers beginning this year. A tough question is how far companies can push existing workers before they must hire additional ones. With productivity soaring, firms will likely hire workers sooner than they did after the last recession. The nation's job engine is expected to restart this spring. The nation's housing sector has been a severe drag on the economy since 2006, and the economy cannot prosper until this burden is lifted. The median price for existing homes has retreated 21% and the new home price has dropped 9%. These falling prices will improve the affordability of homes, which in turn stimulates sales that help work off the huge inventory overhang. Once the demand and supply of homes is in better balance, companies (and construction workers) will resume building. The improvements to these factors helps paint a picture of cautious optimism. The economy is expected to advance gradually over the next few years. Admittedly, risks to the economy exist, but it appears the worst is behind us.

IDAHO ECONOMIC FORECAST
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JANUARY 2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
U.S. GDP (BILLIONS)												
Current \$	10,642	11,142	11,868	12,638	13,399	14,078	14,441	14,239	14,723	15,384	16,193	16,970
% Ch	3.5%	4.7%	6.5%	6.5%	6.0%	5.1%	2.6%	-1.4%	3.4%	4.5%	5.3%	4.8%
2000 Chain-Weighted	11,553	11,841	12,264	12,638	12,976	13,254	13,312	12,973	13,264	13,647	14,162	14,599
% Ch	1.8%	2.5%	3.6%	3.1%	2.7%	2.1%	0.4%	-2.5%	2.2%	2.9%	3.8%	3.1%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	34,916	36,082	39,559	42,215	46,273	49,231	50,399	49,100	50,621	52,744	55,761	59,106
% Ch	3.0%	3.3%	9.6%	6.7%	9.6%	6.4%	2.4%	-2.6%	3.1%	4.2%	5.7%	6.0%
Idaho Nonfarm (Millions)	33,848	35,259	38,226	41,040	45,183	47,696	48,735	48,076	49,509	51,551	54,504	57,784
% Ch	3.2%	4.2%	8.4%	7.4%	10.1%	5.6%	2.2%	-1.4%	3.0%	4.1%	5.7%	6.0%
U.S. (Billions)	9,060	9,378	9,937	10,486	11,268	11,894	12,239	12,066	12,464	12,984	13,648	14,384
% Ch	2.0%	3.5%	6.0%	5.5%	7.5%	5.6%	2.9%	-1.4%	3.3%	4.2%	5.1%	5.4%
PERSONAL INCOME - 2005 \$												
Idaho (Millions)	37,649	38,131	40,737	42,210	45,033	46,661	46,226	44,934	45,624	46,742	48,655	50,740
% Ch	1.7%	1.3%	6.8%	3.6%	6.7%	3.6%	-0.9%	-2.8%	1.5%	2.4%	4.1%	4.3%
Idaho Nonfarm (Millions)	36,499	37,261	39,363	41,035	43,973	45,207	44,700	43,997	44,623	45,685	47,558	49,605
% Ch	1.8%	2.1%	5.6%	4.2%	7.2%	2.8%	-1.1%	-1.6%	1.4%	2.4%	4.1%	4.3%
U.S. (Billions)	9,770	9,911	10,233	10,485	10,966	11,273	11,225	11,042	11,234	11,506	11,908	12,348
% Ch	0.6%	1.4%	3.3%	2.5%	4.6%	2.8%	-0.4%	-1.6%	1.7%	2.4%	3.5%	3.7%
HOUSING STARTS												
Idaho	13,230	16,395	18,677	23,418	19,527	14,323	7,974	5,890	7,756	10,354	13,202	16,385
% Ch	8.4%	23.9%	13.9%	25.4%	-16.6%	-26.7%	-44.3%	-26.1%	31.7%	33.5%	27.5%	24.1%
U.S. (Millions)	1,710	1,854	1,950	2,073	1,812	1,342	0,900	0,558	0,812	1,239	1,590	1,711
% Ch	6.8%	8.4%	5.2%	6.3%	-12.6%	-25.9%	-32.9%	-38.0%	45.5%	52.6%	28.3%	7.6%
TOTAL NONFARM EMPLOYMENT												
Idaho	568,042	572,544	588,052	611,691	638,869	656,268	647,933	608,354	601,576	612,264	631,552	650,593
% Ch	0.0%	0.8%	2.7%	4.0%	4.4%	2.7%	-1.3%	-6.1%	-1.1%	1.8%	3.2%	3.0%
U.S. (Thousands)	130,340	129,996	131,419	133,699	136,098	137,604	137,046	131,927	130,754	133,120	136,775	139,976
% Ch	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	-0.4%	-3.7%	-0.9%	1.8%	2.7%	2.3%
SELECTED INTEREST RATES												
Federal Funds	1.7%	1.1%	1.3%	3.2%	5.0%	5.0%	1.9%	0.2%	0.2%	1.7%	3.3%	3.6%
Bank Prime	4.7%	4.1%	4.3%	6.2%	8.0%	8.1%	5.1%	3.3%	3.3%	4.7%	6.3%	6.6%
Existing Home Mortgage	6.5%	5.7%	5.7%	5.9%	6.6%	6.5%	6.2%	5.1%	5.2%	5.6%	6.2%	6.5%
INFLATION												
GDP Price Deflator	1.6%	2.2%	2.8%	3.3%	3.3%	2.9%	2.1%	1.2%	1.2%	1.6%	1.4%	1.7%
Personal Cons Deflator	1.4%	2.0%	2.6%	3.0%	2.7%	2.7%	3.3%	0.2%	1.5%	1.7%	1.6%	1.6%
Consumer Price Index	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	3.8%	-0.3%	1.7%	2.0%	1.9%	1.9%

National Variables Forecast by IHS GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2009

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	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
U.S. GDP (BILLIONS)												
Current \$	14,178	14,151	14,266	14,361	14,512	14,647	14,793	14,941	15,113	15,284	15,478	15,663
% Ch	-4.6%	-0.8%	3.3%	2.7%	4.3%	3.8%	4.1%	4.1%	4.7%	4.6%	5.2%	4.9%
2000 Chain-Weighted	12,925	12,902	12,990	13,076	13,146	13,224	13,302	13,385	13,475	13,583	13,705	13,824
% Ch	-6.4%	-0.7%	2.8%	2.7%	2.2%	2.4%	2.4%	2.5%	2.7%	3.2%	3.6%	3.5%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	48,750	48,944	49,157	49,548	49,740	50,460	50,898	51,387	51,787	52,379	53,025	53,786
% Ch	-10.6%	1.6%	1.8%	3.2%	1.6%	5.9%	3.5%	3.9%	3.2%	4.7%	5.0%	5.9%
Idaho Nonfarm (Millions)	47,785	47,946	48,125	48,446	48,721	49,365	49,774	50,177	50,613	51,190	51,838	52,566
% Ch	-6.7%	1.4%	1.5%	2.7%	2.3%	5.4%	3.4%	3.3%	3.5%	4.6%	5.2%	5.7%
U.S. (Billions)	11,953	12,049	12,089	12,174	12,259	12,398	12,539	12,661	12,781	12,905	13,050	13,199
% Ch	-8.9%	3.3%	1.3%	2.8%	2.8%	4.6%	4.6%	3.9%	3.8%	4.0%	4.6%	4.6%
PERSONAL INCOME - 2005 \$												
Idaho (Millions)	44,952	44,980	44,873	44,931	45,049	45,607	45,798	46,044	46,190	46,524	46,879	47,376
% Ch	-9.3%	0.2%	-0.9%	0.5%	1.0%	5.1%	1.7%	2.2%	1.3%	2.9%	3.1%	4.3%
Idaho Nonfarm (Millions)	44,062	44,062	43,931	43,932	44,126	44,617	44,787	44,960	45,142	45,467	45,829	46,301
% Ch	-5.3%	0.0%	-1.2%	0.0%	1.8%	4.5%	1.5%	1.6%	1.6%	2.9%	3.2%	4.2%
U.S. (Billions)	11,021	11,073	11,035	11,039	11,103	11,206	11,283	11,345	11,399	11,462	11,538	11,625
% Ch	-7.5%	1.9%	-1.4%	0.2%	2.3%	3.8%	2.8%	2.2%	1.9%	2.2%	2.6%	3.1%
HOUSING STARTS												
Idaho	5,191	5,020	6,629	6,720	7,043	7,449	8,038	8,494	9,129	9,931	10,831	11,526
% Ch	-30.7%	-12.5%	204.0%	5.6%	20.7%	25.1%	35.5%	24.7%	33.4%	40.1%	41.4%	28.3%
U.S. (Millions)	0.528	0.540	0.589	0.577	0.705	0.787	0.828	0.930	1.044	1.176	1.317	1.420
% Ch	-58.6%	9.7%	41.2%	-7.8%	123.1%	55.0%	22.5%	59.3%	59.0%	60.8%	57.6%	35.2%
TOTAL NONFARM EMPLOYMENT												
Idaho	621,231	608,650	603,153	600,383	599,054	602,107	601,802	603,339	606,384	610,059	613,957	618,657
% Ch	-10.3%	-7.9%	-3.6%	-1.8%	-0.9%	2.1%	-0.2%	1.0%	2.0%	2.4%	2.6%	3.1%
U.S. (Thousands)	133,662	132,125	131,235	130,686	130,384	130,648	130,805	131,177	131,857	132,678	133,540	134,404
% Ch	-5.9%	-4.5%	-2.7%	-1.7%	-0.9%	0.8%	0.5%	1.1%	2.1%	2.5%	2.6%	2.6%
SELECTED INTEREST RATES												
Federal Funds	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%	0.5%	1.0%	1.4%	1.9%	2.5%
Bank Prime	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.5%	4.0%	4.4%	4.9%	5.5%
Existing Home Mortgage	5.2%	5.0%	5.3%	5.0%	5.0%	5.2%	5.2%	5.4%	5.5%	5.6%	5.6%	5.8%
INFLATION												
GDP Price Deflator	1.9%	0.0%	0.5%	0.1%	2.1%	1.3%	1.7%	1.5%	1.9%	1.3%	1.5%	1.3%
Personal Cons Deflator	-1.5%	1.4%	2.7%	2.7%	0.5%	0.8%	1.8%	1.7%	1.9%	1.7%	1.9%	1.5%
Consumer Price Index	-2.4%	1.3%	3.6%	3.3%	0.3%	0.7%	1.9%	1.8%	2.1%	2.1%	2.4%	1.9%

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