

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2009 through the Fourth Quarter of 2013

As was predicted a year ago, 2009 was one of the worst years for Idaho's economy. Unfortunately, it was worse than expected. We predicted last January that Idaho nonfarm employment would decline 2.1% in 2009. It was much worse; it is estimated to have dropped 6.1% last year. The declines were spread among several sectors. Manufacturing employment fell 13.2%, compared to the forecast of 8.1%. Construction employment retreated by 25%, which is about twice as much as was predicted last year. Mining employment also declined about 25%, which was slightly higher than the 20% that was forecast. Services employment was down about 4%, which was much more than the 0.3% predicted. Due in large part to the weaker-than-expected employment, instead of growing by a predicted 2.7% last year, Idaho real personal income actually decreased by that amount. Instead of falling 10%, Idaho housing starts dropped 26%.

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 updated employment data also show the October 2009 *Idaho Economic Forecast* may have been too pessimistic because there were about 500 more jobs in the third quarter than had been projected. Idaho housing starts were also higher in the third quarter than had been predicted. The local economy's improvement is confirmed by another indicator. The Federal Reserve Bank of Philadelphia's Coincident Economic Activity Index is a composite measure representing Idaho's economic performance. It shows Idaho's economy had been in freefall since the summer of 2007. But the monthly declines ended abruptly last fall, and the index has remained stable for several months.

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. It should also be noted that it will experience some growth spurts during the year. Specifically, on an annualized basis, it shrinks 0.9% in the first quarter of 2010, expands 2.1% in the second quarter, falls 0.2% in the third quarter, and rises 1.0% in the fourth quarter. The prospects for Idaho personal income are also brighter this year. 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. To provide some perspective, this translates to about 7,800 units in 2010, which is slightly lower than in 2008 and is just a third of their peak in 2005.

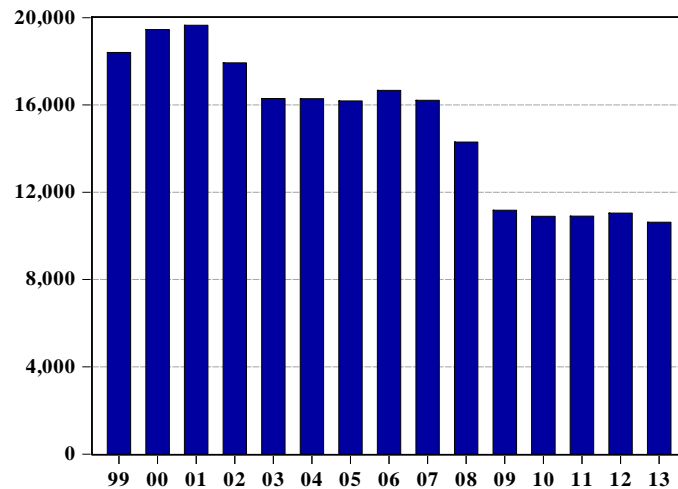
Idaho's economy should shift into a higher gear after this year, but it will still be a rather low gear. Instead of a quick reversal, the Gem State expected to climb gradually out of its most severe economic calamity in decades. Nonfarm employment is forecast to rise 1.8% in 2011, 3.2% in 2012, and 3.0% 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.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: After suffering significant setbacks in the first decade of the new millennium, Idaho's computer and electronics manufacturing sector should enter a period of relative stability in the initial years of the second decade. However, it is important to note that while it appears the period of huge employment losses is over, a return to late 1990's payroll levels are not likely. During the 1990s this sector's employment grew so consistently that it seemed it was immune to business cycle downturns. Indeed, it helped insulate the Gem State economy from the 1990-91 recession. Thanks to those steady gains, the computer and electronics sector achieved a couple of impressive

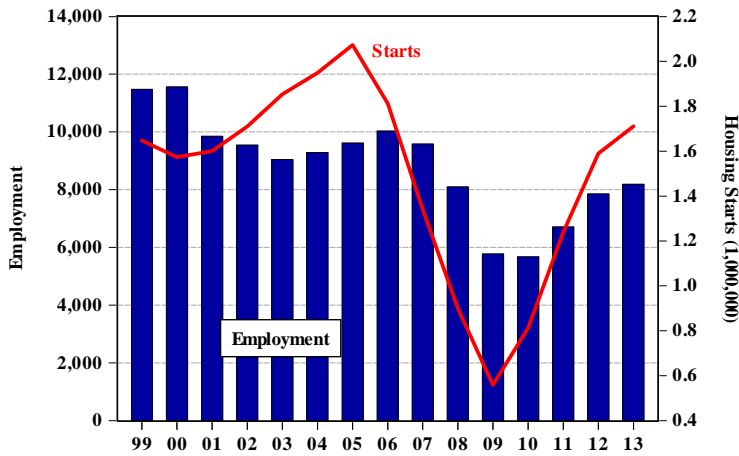
milestones. It became the state's largest manufacturing employer in 1997 and its payroll exceeded 19,000 jobs in 1998. Its employment slipped by about 600 jobs in 1999, but then rallied to a peak of 19,565 jobs in 2001. Since then, the protracted slowdown in the global high-tech sector has made local job gains rare, with employment decreasing in every year except 2006. The largest declines occurred in 2008 and 2009. These declines primarily resulted from a series of layoffs at Micron Technology, as the company took actions in response to weak prices caused by a worldwide, chronic surplus of computer memory products. Micron Technology reduced its Idaho work force by 1,100 jobs in 2007. In addition, it announced in October 2008 it would further reduce its Boise work force by 1,500 jobs. This was not the last layoff for the company, however. Micron Technology announced on February 23, 2009 that it planned to further reduce its payroll by as many as 2,000 jobs by August of that year. The cumulative impact of these reductions is the company's Idaho employment will settle at about 5,000 jobs. More recently, the company has shared some good news. On December 22, 2009 it reported a quarterly profit for the first time in about three years. Micron Technology noted that its positive bottom line resulted from improved prices for its products. These stronger prices are a welcome change from the soft prices which have plagued this industry for years. The current forecast for Idaho computer and electronics employment is slightly more optimistic than the previous one. In October 2009 it was predicted this sector's employment would decline about 11% in 2010, 5% in 2011, and then grow 3.5% in 2012. In the current forecast employment drops 2.5% in 2010, is stable in 2011, and rises 1.3% in 2012. As a result, there are 11,045 jobs in 2012, which is about 400 higher than in the previous forecast. In 2013, employment shrinks about 4% to 10,600 jobs.

Idaho Computer and Electronic Products Employment



Logging and Wood Products: The nation's recent housing boom helped interrupt the long decline in Idaho logging and wood products employment. Thanks to strong demand, Idaho logging and wood products employment expanded by about 1,000 jobs from 2003 to 2006—the first time it had grown three years in a row since the mid-1990s. However, the housing bust is having the opposite effect. 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 century ago. It is estimated they dropped further in 2009 to about 558,000 units. Idaho logging and wood

Idaho Wood Product Employment and U.S. Housing Starts

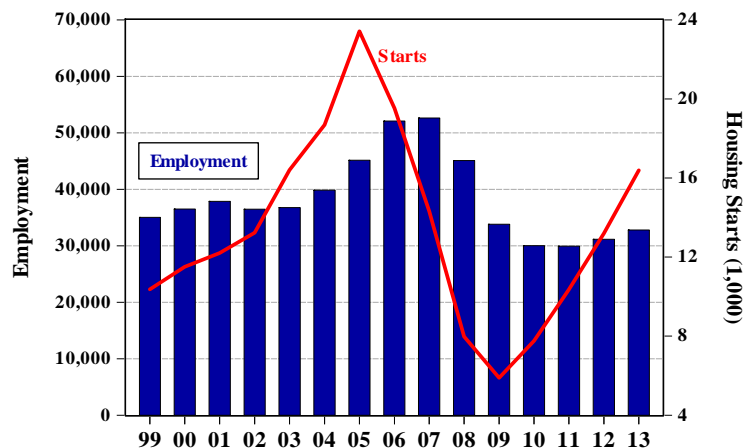


products employment dropped from 10,000 jobs in 2006 to an estimated 5,800 jobs in 2009. As demand recedes, the supply factors that have contributed to the protracted employment decline are expected to resurface as the primary drivers of this sector’s outlook. The major supply factor is the dwindling 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 halving of 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 not unique to Idaho; it is prevalent throughout the Northwest. For example, 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%. These supply factors have exacted a heavy toll from one of the region’s iconic industries. 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%. 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. Local employment will eventually benefit from the anticipated national housing starts recovery, but the turnaround is not expected to recover all of the jobs lost since 2006. In 2013, there should be about 8,200 logging and wood products jobs in the Gem State, which is about 1,800 lower than its most recent peak.

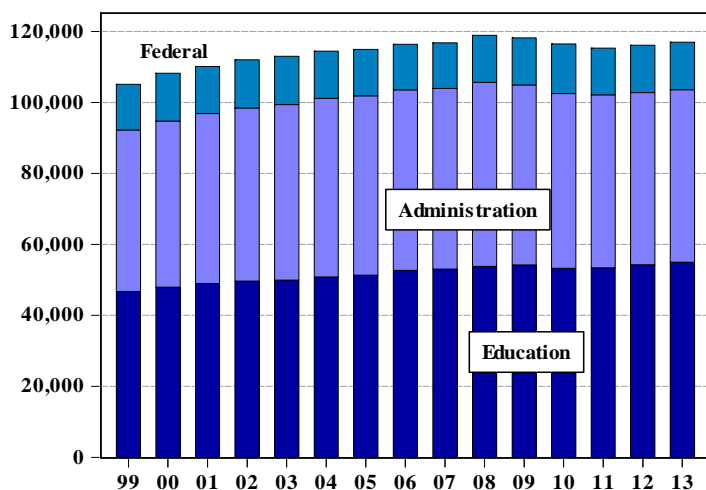
Construction: The forecast for Idaho’s construction sector is slightly brighter than had been previously projected. It is still believed it is in the midst of a shakeout that will continue through most of the forecast period. However, it will not be as severe as had been previously forecast. In the October 2009 *Idaho Economic Forecast* it was reported construction employment would slide from 45,100 jobs in 2008 to 30,700 jobs in 2012. In the current forecast, employment declines less steeply, from 45,100 jobs to 31,100 over the same period. While this is a modest change, it is a welcome break from the series of downward revisions. The stronger outlook reflects recent data that show construction employment was stronger than had been forecast. Another positive factor is housing starts were

Idaho Construction Employment and Housing Starts



about 1,600 units higher in the third quarter than was reported in October. While this is not expected to fuel a job recovery on par with that which occurred earlier this decade, it is a step in the right direction. 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 8,900 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 2006. Idaho housing starts are believed to have hit a bottom of 5,900 units in 2009. Idaho construction employment does not begin growing again until 2012. Specifically, it is forecast to drop by 25.0% in 2009, 11.3% in 2010, and 0.3% in 2011, and then rise by 4.1% in 2012 and 5.2% in 2013. In that year, the construction sector accounts for 5% of all nonfarm jobs.

Idaho Government Employment



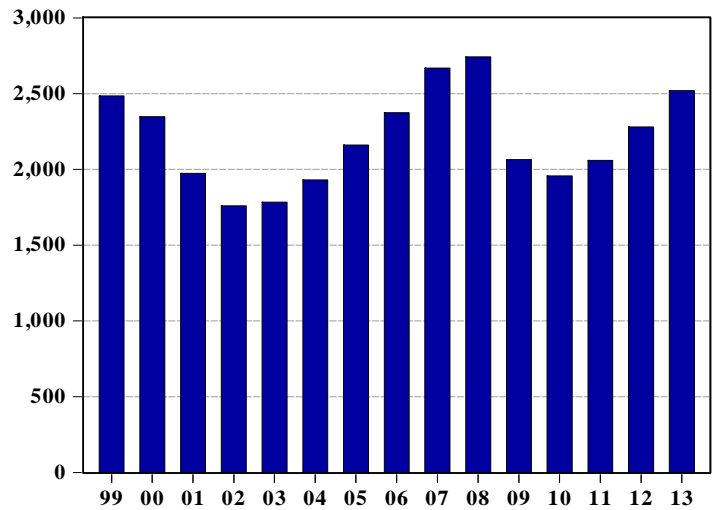
Government: Idaho’s population growth slowed last year. According to the U.S. Census Bureau, there were 1,545,801 residents on July 1, 2009, which was a 1.2% increase from the previous year. This pace was much slower than the 1.9% increase from 2007 to 2008, and it was also the lowest year-to-year change of the decade. The biggest difference between the two years was the falloff of net migration into the state. From 2007 to 2008, 14,700 more persons entered the state than left it. In comparison, net migration was just 3,700 persons from 2008 to 2009. Population is an important determinant of the level of government employment in Idaho. Simply put, 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 1.1% this year and gradually pick up speed to 2.0% in 2013. The slow population growth last year and this year reflects low net immigration to the state. For example, in 2006 about 24,000 more people moved into the state than left it. It is predicted that net immigration will be less than 4,000 persons in 2010. It is expected to move back into double digits again when the economy recovers, but not top the levels experienced earlier this decade. Neither is total population growth forecast to resume its earlier pace. As a result of this slower population growth, the demand for public services should not be as robust, which implies slower future government employment growth in the Gem State. Job growth is also being constrained by weak government revenues. Last year the state’s General Fund revenue declined 15.2% in FY 2009. It is predicted to fall

another 4.7% in FY 2010. In order to balance its budget, the state took unprecedented measures. For example, for the first time ever 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. One bright, but temporary, spot is the hiring for the decennial census. There are about 13,300 federal government jobs in Idaho, but employment will jump to about 15,500 persons in the second quarter of 2010, before settling back and remaining steady over the forecast horizon.

Mining: After climbing for six consecutive years, Idaho mining employment has fallen victim to the cooler global economy. The mining sectors recent expansion was fueled by rising metal prices caused by strong worldwide demand. For example, the Comex Spot Settlement price of silver nearly tripled from \$4.60 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. Idaho mining employment increased from about 1,800 jobs to about 2,700 jobs over this same period. It added another 80 jobs in 2008.

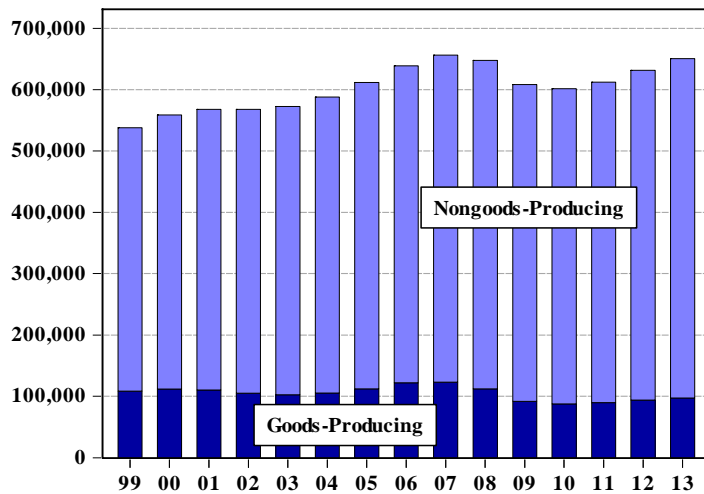
Idaho Mining Employment



Unfortunately, the U.S. slipped into a recession in 2008 and mineral prices retreated. The softer prices and financial difficulties caused the mining sector to shed about 700 jobs in 2009. Prices have recovered lately, and this has stirred renewed interest in exploration. Notably, SNS Silver Corporation has entered into an agreement with Syringa Exploration, Incorporated to reopen northern Idaho’s Crescent Mine that has been closed for nearly 25 years. Over the next three years Syringa plans to invest \$8.2 million in the mine. In other positive news, Hecla Mining reported the Lucky Friday Mine has experienced record drilling results, which increases its potential for future development. It is predicted U.S. mining activity will improve this year, but not enough to prevent Idaho from shedding another 100 jobs. However, the mining sector does return to growth in 2011 and by 2013 there are 2,500 jobs—just 250 fewer jobs than at its 2008 peak.

Services and Trade: This year marks a transition year for the state’s huge services sector. After shedding jobs in 2009, it is expected to begin adding jobs in 2010. These gains will initially be slow, but they should accelerate with time. In fact, services employment promises to be one of the stronger job engines during the next few years. 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. In 2008, it consisted of 306,400 jobs, or about half of all the jobs in Idaho. It began declining 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 5.6% annualized decline in the last quarter of that year. On an annual basis, Idaho services employment grew an anemic 0.6% in 2008—its worst showing in records that go back to 1991. Unfortunately, last year was even worse. Services suffered job losses in the first half of 2009. It is

Idaho Nonfarm Employment



estimated employment shrank nearly 4% last year—its first ever decline. All service categories suffered losses, except health and education. (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 poor business conditions.) This year, more service categories should expand and help overall services employment eke out 0.2% growth. By 2011, all services employment categories are expected to advance, which causes this sector’s hiring to kick into higher gear. Specifically, Idaho services sector employment increases 2.7% in 2011, 3.7% in 2012,

and 3.6% in 2013. Idaho trade employment takes longer to recover and is not as robust. 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. The number of trade sector jobs is estimated to have dropped 6.5% last year and it is projected to fall another 1.3% this year. This sector is forecast to expand 1.8% in 2011, 2.8% in 2012, and 3.7% in 2013.