

## IDAHO FORECAST DESCRIPTION

### **The Forecast Period is the Third Quarter of 2011 through the Fourth Quarter of 2015**

A review of our projections from last year for 2011 show we captured the direction of the economy's performance better than its scope. In January 2011 we predicted, "...after suffering a weak year in 2010, the economy should take small steps to recovery in 2011." The economy did improve, but its steps were smaller than we anticipated. For example, we expected nonfarm employment to expand 1.0% in 2011. It grew an estimated 0.2%. Idaho nonfarm employment enjoyed an unexpected uptick in the fourth quarter of 2010, which raised confidence that our forecast for stronger job growth in 2011 would hold. Instead, employment stalled through most of the year. By the third quarter of 2011 not only was job growth weaker than had been anticipated, but there were actually 960 fewer jobs in the third quarter of 2011 than there were in the fourth quarter of 2010. On an annual basis, it is estimated there are 4,600 fewer jobs in 2011 than had been previously forecasted. Wage and salary payments grew an estimated 2.3% in 2011, which is lower than the 3.9% pace predicted a year ago.

Given last year's performance, it should come as no surprise that the direction of our forecast remains the same, but its pace has been reduced. We still believe Idaho's economy growth will pick up speed over the forecast period, but it will not accelerate as much as we thought it would last year. In January 2011 we predicted nonfarm employment would expand 2.7% in 2012, 2.8% in 2013, and 2.6% in 2014. In the current forecast the number of jobs grow 1.6% this year, 2.5% in 2013, and 2.6% in 2014. As a result of its lower starting point in 2011 and slower growth in the remaining years of the forecast, there are 13,400 fewer jobs in 2014 in the current forecast than in the previous one.

The nongoods-producing category is expected to be the state's largest job generator over the next few years. It is forecast to expand 2.2% this year, 3.3% next year, 2.9% in 2014, and 3.1% in 2015. This return to growth is important to the state's economy, as this sector accounts for two-thirds of Idaho's total nonfarm payroll. Put another way, over the forecast period, the nongoods-producing sector is forecast to add over 51,500 jobs, which is more than 85% of the anticipated total nonfarm job gain for the state.

The goods-producing category consists of manufacturing, mining, and construction. Its employment is expected to remain virtually unchanged in 2012 from the previous year, as job gains in mining employment are offset by expected construction job losses. However, construction employment is forecast to improve for the first time in six years in 2013 and manufacturing should revive from its recent lull, which should fuel faster goods-producing employment growth. Specifically, goods-producing employment is projected to fall 0.4% in 2012, increase 1.6% in 2013, grow 4.6% in 2014, and rise 3.4% in 2015.

Government employment in Idaho should be relatively flat through 2015. As a result of slower population growth and shrinking budgets, Idaho state and local government employment should hover near 105,000 jobs over most of the forecast period. Federal government employment is forecast to gradually shrink from 12,600 jobs in 2011 to 12,400 jobs in 2015.

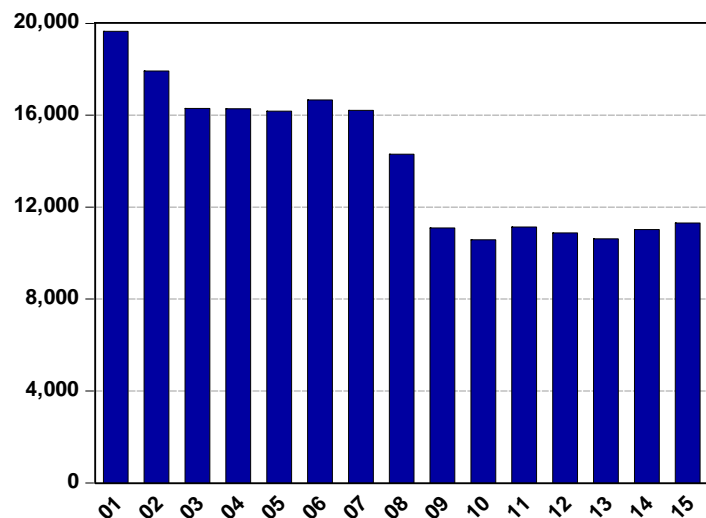
Idaho personal income is estimated to have risen 4.7% in 2011. Part of this gain is due to the two-percentage point reduction of the federal payroll tax rate last year. Contributions for social insurance

dropped 6.0% in 2011. Since the contributions for social insurance reduces personal income, last year's rate reduction resulted in a smaller-than-usual reduction from overall personal income. This forecast assumes the payroll tax rate will rise slowly over the forecast period. Idaho nominal personal income is projected to grow 3.1% in 2012, 3.8% in 2013, and 5.4% in both 2014 and 2015. Inflation-adjusted personal income should advance 1.8% this year, 2.2% next year, 3.5% in 2014, and 3.3% in 2015.

## SELECTED IDAHO ECONOMIC INDICATORS

**Computer and Electronics Manufacturing:** After experiencing both a steep ascent and descent over the last two decades, Idaho's computer and electronics employment settled at about 11,000 jobs in 2011, and it is expected to hover around this level over the next few years. This sector's employment grew an average of 7% annually from 1991 to 2000, which was almost twice as fast as overall nonfarm employment's annual growth of 4%. At this pace, employment nearly doubled from 10,700 jobs to 19,700 jobs. Along the way, this sector overtook food processing to become the Gem State's largest manufacturing employer in 1997. Computer and electronics employment peaked in 2001. Worldwide high-tech troubles contributed to this sector's 9% employment declines in both of the next two years. Unfortunately, job declines were common in the following years. It shed jobs in six of the next seven years, with the most severe declines coming in 2008 (11.8%) and 2009 (22.5%). After holding onto its title for a dozen years, the computer and electronics title of the state's top manufacturing employer reverted to the food processing sector in 2008. A tally of this sector's "lost decade" shows all of the jobs added in the 1990s were lost by 2010. Future employment is expected to be less volatile for several reasons. First, employment should be less influenced by market swings because this sector is moving away from production towards research and development. Micron Technology, one of the state's largest private employers, recently made this transition. Hewlett-Packard, another major high-tech player in the state, made this same change about a decade before Micron when it shut down its hard drive and printer component manufacturing operations in Boise. Second, companies are diversifying their product lines. For example, Micron is partnering with several other companies to develop a new memory technology called the hybrid memory cube. This new technology will considerably outperform the current synchronous double-data DRAM, while using less energy. In addition, the company acquired Numonyx, a Swiss manufacturer that produces NOR memory which is used in mobile devices markets. Micron is also moving into new markets by leveraging its decades of manufacturing expertise in developing new solar power technology with Australian-based Origin Energy. Other Idaho companies are also

**Idaho Computer and Electronic Products Employment**

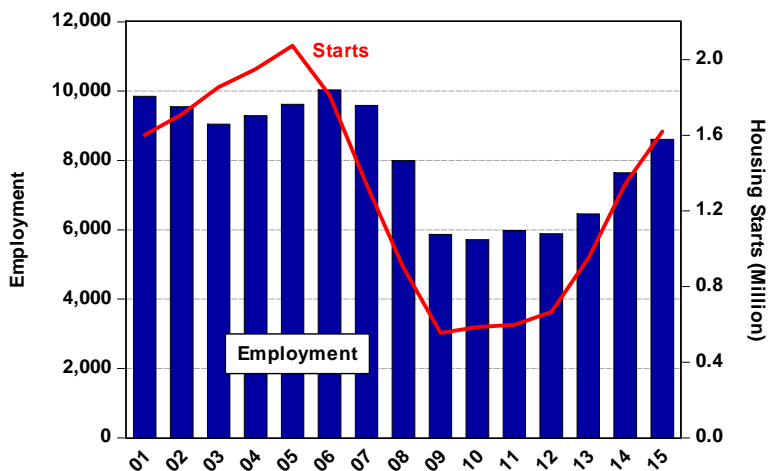


involved in green energy. Inovus Solar is a Boise-based renewable outdoor lighting company that manufactures LED (light-emitting diode) lighting.

**Logging and Wood Products:** Idaho logging and wood products employment is expected to recover slowly after suffering heavy losses under the weight of the U.S. housing collapse. This sector had 9,600 jobs in when U.S. housing starts peaked at 20.9 million units in 2005. Five years later there were fewer than 600,000 U.S. housing starts and Idaho employment had fallen to about 5,700 jobs. This sector’s job situation began turning around in 2011, as housing starts leveled off. Starts are expected to post gains in every year of the forecast, but they will not come close to their peak of over two million units in 2005. In fact, U.S. housing starts are expected to remain under one million units until 2014. In 2015 there should be 1.62 million housing starts, which is near their 2001 level. Strong demand helps keep a lid on the relentless downward pressures supply factors exert on employment. These factors include the unpredictable supply of logs from traditional sources. According to the U.S. Forest Service, the timber harvest from Idaho national forests averaged 124 million board feet (Scribner scale) from 2000 to 2010, but harvest varied from 167 million board feet in 2000 to 89 million board feet in 2006. The harvest from all sources in Idaho fell from 1.2 billion board feet in 2000 to 0.8 billion board feet in 2009. The June 2008 edition of *Random Lengths Yardstick* reported there are about half as many mills in the inland region as there were 20 years ago, and the inland region’s share of North American (United States and Canada) production has dwindled from 18% to 8%. Despite this decline, over capacity is a problem. It has been estimated the industry can produce

20% to 25% more lumber than is being consumed in North America. One of the reasons for this is logging and wood products employees have grown more productive over time. Output per worker was 152.9 thousand board feet of softwood lumber in 2000. In 2009, productivity jumped to 212.5 thousand board feet per worker. Idaho logging and wood products employment is forecast to rise 4.6% in 2011, decline 1.6% in 2012, increase 9.8% in 2013, grow 18.3% in 2014, and increase 12.6% in 2015. There are expected to be about 8,600 jobs in 2015. This is about 2,900 more jobs than in 2010, but about 1,000 fewer jobs than in 2005.

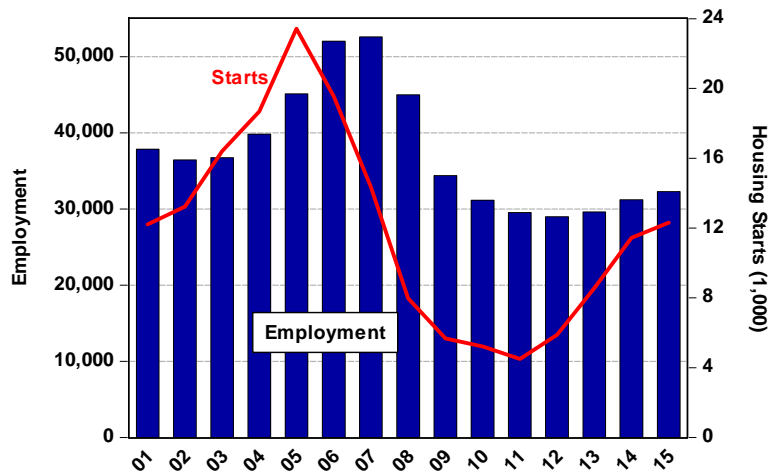
**Idaho Wood Product Employment and U.S. Housing Starts**



**Construction:** Idaho construction will be one of the last job categories to recover. Most industries will be growing by 2012, but construction employment is not expected to post its next gain until a year later. The last few years have been very hard on this sector. At its peak in 2007, there were 52,600 construction jobs in Idaho. It was a major growth engine for the economy, accounting for nearly one out of every five jobs created from 2002 to 2007. Fueling this rise was the boom in Idaho housing starts. From the beginning of the decade to its middle, the number of Idaho housing starts doubled from 11,501 units to 23,416 units. Housing starts began declining in 2006, but construction employment did not begin retreating until 2008. Nearly 23,000 jobs disappeared over the next three

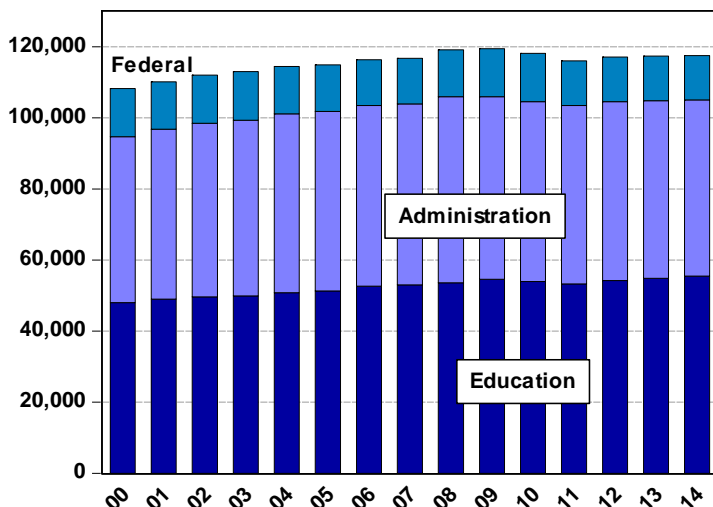
years. Housing starts are predicted to continue falling in 2011 and 2012, and so will construction employment. At its trough in 2012, there will be about 29,000 jobs. The frustrating thing is housing starts are low even though affordability is rising. Home prices continue to fall and mortgage interest rates are at record lows, which should invigorate the housing markets. Ironically, falling home prices could be doing the opposite. After watching prices fall for several years, even well-qualified buyers could be delaying purchases until they are convinced home prices have hit bottom. Second, sellers whose home values have dropped precipitously may not be able to afford to sell their homes. In addition, both home buyers and sellers may be reluctant to make the largest purchase of their lives until they feel more comfortable with their job situations. Idaho housing starts are forecast to be 5,882 units this year, 8,561 units next year, 11,437 units in 2014, and 12,316 units in 2015. There are expected to be 29,013 construction jobs in 2012, 29,623 jobs in 2013, 31,231 jobs in 2014, and 32,293 jobs in 2015.

**Idaho Construction Employment and Housing Starts**



**Government:** The employment outlook for Idaho’s public sector will continue to be shaped by slower-than-usual population growth and tighter public agency budgets. Population expands a couple of ways. The first is natural growth, or births less deaths. For example, Idaho Vital Statistics reports there were 23,202 births in Idaho and 11,411 deaths. Thus, the natural growth was 11,791 persons. The other factor fueling population is migration. Migration is important because it can contribute to large swings in the state’s population. For example, migration accounted for nearly

**Idaho Government Employment**

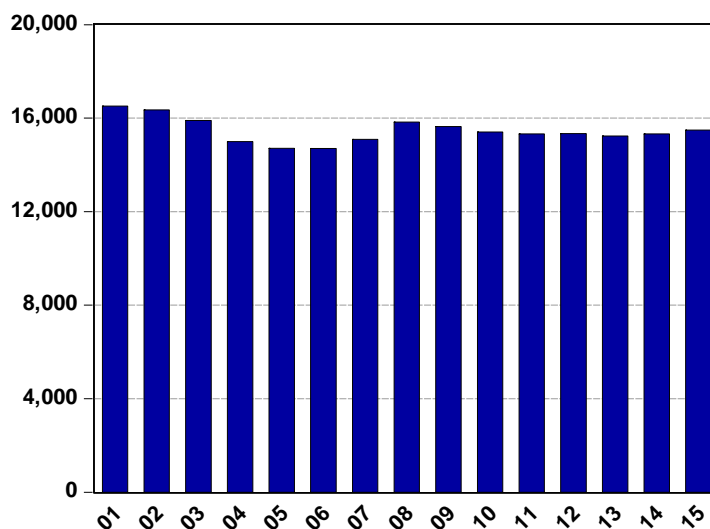


two-thirds of this state’s decade-high 2.6% population increase in 2006. In contrast, the Gem State’s population grew just 1.2% in 2009—its smallest gain in over two decades. In that year migration accounted for just over a third of the population change. There were a couple of reasons migration was so low. First, few states escaped the Great Recession. With limited opportunities to improve their economic situation somewhere else, most job seekers hunkered down and rode out the downturn at home. Second, the housing market collapse kept many Americans tethered to their homes, even if jobs were available in

other states. Idaho’s population is expected to increase 1.3% in 2011 and average 1.7% annual growth thereafter. As the state’s population increases, governments tend to expand to meet the demands of their citizens. However, these expansions are limited by government budget constraints. The state’s recent revenue challenges serve as an example. Although Idaho’s population was growing, General Fund revenues plunged 15.2% in FY 2009 and by another 8.2% in FY 2010. Not surprisingly, General Fund expenditures also declined during those two years. State General Fund revenue increased 7.9% in FY 2011. This strong growth contributed to state revenues ending the fiscal year with \$85.3 million above the forecast. Most of this balance (\$59.9 million to public schools and \$7.5 million to community colleges) was sent to the schools per an agreement between the state and federal government. This cash infusion will help Idaho education-related employment avoid another decline in FY 2012. On a calendar-year basis, state and local government employment is predicted to grow 0.5% per year over the forecast period. All this growth will be generated by education-related government employment that should advance 1.3% annually. Noneducation-related government employment, on the other hand, is not as robust. In fact, it is expected to decline in three of the next four years and have about 1,000 fewer jobs in 2015 than it did in 2011. Federal employment in Idaho enjoyed a banner year in 2010 thanks to the once-a-decade boost from the U.S. census. The federal job count rose to nearly 13,600 jobs that year. With the census complete, Idaho federal employment is expected to be in the 12,700- to 12,400-job range. Like Idaho government employment, federal employment levels depend on funding. It could be lower than anticipated in this forecast, depending on the austerity measures adopted to reduce the federal budget deficit.

**Food Processing:** Idaho’s largest manufacturing employment sector has recently been the source of both good and bad news. First the good news. Agro Farma announced it had chosen Idaho for its first expansion outside of New York. The company will build a \$128 million plant in Twin Falls to produce its signature Chobani Greek yogurt. The company is the largest manufacturer of Greek yogurt in the United States. The plan is for the plant to initially employ 400 workers, and its work force could triple over time. The plant will add value to one of Idaho’s largest commodities: milk. In 2010, Gem State dairies produced 12.8 billion pounds of milk, making it the nation’s third largest producer of milk. The cash receipts from milk marketed in that year was \$1.9 billion, which was the highest of any commodity produced in the state. The next two largest cash commodities were cattle and calves (\$1.2 billion) and potatoes (\$0.7 billion). The bad news is two major plants either closed or announced they were closing. Nampa’s XL Four Star Beef, Inc. meat packing shut down in June 2011, which idled about 500 workers. The plant processed cows that were no longer used for calving. In November, the J.R. Simplot Co. announced it will lay off up to 1,000 workers over the next three years as it closes three aging potato-processing plants and builds a new one. The three

**Idaho Food Processing Employment**



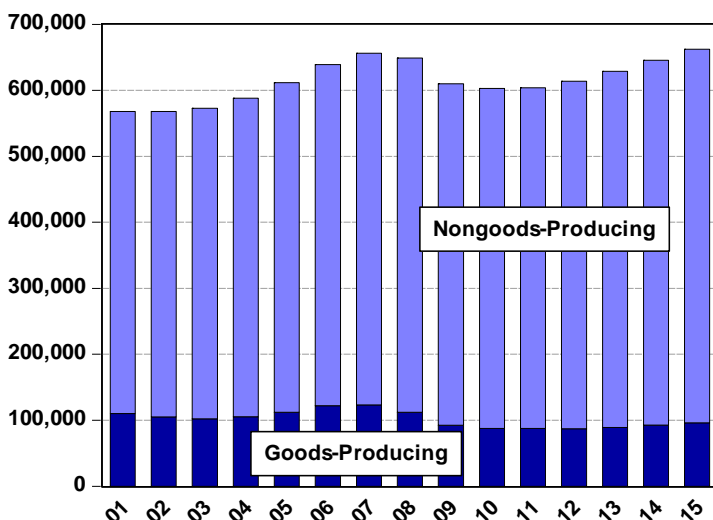
plants scheduled to be closed are in Aberdeen, Caldwell, and Nampa. The new plant will be located in Caldwell. It is expected to be completed by 2014, and it will employ about 250 workers. Food processing employment is expected to remain near 15,300 jobs through 2014 then rise to 15,500 jobs in 2015.

**Other Manufacturing Sectors:** Manufacturing is usually considered to consist of expansive plants and huge payrolls. But most Idaho manufacturing establishments do not fit this traditional mold. According to the U.S. Census Bureau, in 2009 only two Idaho manufacturing plants employed more than 1,000 workers. Fewer than 100 establishments had at least 100 employees. The vast majority of the state’s manufacturing activity took place at sites with fewer than ten employees. These small manufacturers are important, but often overlooked, contributors to Idaho’s economy. After suffering job losses during the last few years, most of the smaller manufacturing sectors will expand during the forecast period. For example, machinery employment shrank from just over 3,100 jobs in 2008 to 2,500 jobs in 2010. This sector’s employment is expected to have climbed to about 2,600 jobs in 2011. Last year’s growth should be the first in a string of gains for this sector. By 2015, there is predicted to be nearly 2,800 machinery jobs in Idaho. The Gem State’s metal fabrication sector enjoyed a 65-job gain in 2010. It should continue adding to its payroll over the forecast period, so that by 2015 there should be about 5,400 jobs, which is a new record for this sector. The other durable manufacturing sector’s employment peaked at 10,700 jobs in 2007. Three consecutive years of losses left it with just 7,800 jobs in 2010. It began adding workers in 2011 and should continue expanding over the next few years, so that by 2015 its payroll should consist of 9,200 jobs. Miscellaneous nondurable-goods manufacturing actually posted a small job gain in 2010, but it is predicted to be on hiatus in 2011 before resuming growth this year. Not all sectors are expected to expand over the forecast period, however. The printing sector’s contraction that began in 2007 is projected to continue through 2015. After experiencing gains in 2011 and 2012, chemical manufacturing employment is forecast to decline in the remaining years of the forecast, leaving it with about 120 fewer jobs in 2015 than it had in 2008.

**Nongoods Producing:** Employment in the state’s largest private sector, nongoods, is expected to post a small gain (0.8%) in 2011 after suffering back-to-back declines in 2009 and 2010. Job growth is

forecast to accelerate thereafter, growing 2.2% this year, 3.3% next year, 2.9% in 2014, and 3.1% in 2015. This return to growth is important to the state’s economy, as this sector accounts for two-thirds of Idaho’s total nonfarm payroll. It consists of two main components: services and trade. 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. The trade category is split between its retail and wholesale components. Retail is the larger of the

**Idaho Nonfarm Employment**



two, accounting for almost three quarters of total trade employment. Of the two major categories, services employment is expected to grow faster than trade employment over the forecast period, 2.6% versus 2.2%. At the projected pace, the services employment should top 336,000 jobs in 2015. The professional and business services category is expected to pick up steam over the next few years and it should be one of the state's important job producers. Contributing to this components near-term growth will be the 300-worker expansion to the C3 call center in Twin Falls and the new Allstate service center in Chubbuck that is expected to add 500 jobs. The health and private education category should enjoy steady, above-average job growth of 3.3% per year. While not experiencing the strong growth of its professional and business and education and health cohorts, the leisure and hospitality sector's employment should expand an average of 2.1% annually over the next few years. The trade sector employment is expected to be flat in 2011. However, it should add jobs faster in the remaining years of the forecast, so that there are 11,500 more jobs in 2015 than there were in 2010. Contributing to this job gain is the Walmart's return to Moscow. The original store closed in September 2010 when the company opened its Pullman, Washington store. The \$7 million renovation has expanded the store's floor space by 30%. It will employ 200 workers. Over the forecast period, the nongoods-producing sector is forecast to add 51,600 jobs, which is more than 85% of the anticipated total nonfarm job gain for the state.

**Mining:** Idaho mining employment is expected to continue growing over the forecast period, and recover all of the jobs it lost during its last employment downturn. The mining sector's employment recently peaked at 2,750 jobs in 2008. It shed nearly 600 jobs the following year. However, its losses were short lived thanks to surging metal prices. Employment posted strong gains in each of the two following years and by 2011 it had recovered all but 200 of the jobs that had been lost in 2009. This momentum should carry over into 2012, when mining employment is forecast to add another 150 jobs. Growth will cool in the following years, but it will still overtake its previous peak in 2014. It should climb to nearly 3,000 jobs in 2015—a level last scene in 1997. Higher metal prices have not only fueled jobs, but they have also increased renovation and exploration activity. The Idaho Department of Labor has reported, "Renovation has begun at the Star Mine, which was shut down for over 15 years. The project could create a connection to the existing development at the Lucky Friday Mine and coincides with the recent approval of the Lucky Friday #4 Shaft Project, which is expected to extend the life of the mine by more than 20 years." Further south, Dutch Gold Resources has leased the Minnie Moore Mine near Bellevue. The ore from the mine was 75% lead and contained 74.4 ounces of silver per ton and 0.112 ounce of gold.

**Idaho Mining Employment**

