

Idaho Economic Forecast

The following tables and text are taken from the

January 2008 *Idaho Economic Forecast*,

a publication produced by the

Division of Financial Management.

EXECUTIVE SUMMARY

The current Idaho economic outlook remains similar to the previous forecast, although some of the details have changed. In the October 2007 *Idaho Economic Forecast* nonfarm employment growth was expected to dip to 1.4% this year then accelerate through 2010. Over the 2007-2010 period, it was forecast to average 2.1% per year. In the current forecast, as in the previous one, Idaho nonfarm employment growth slows in 2008, and then it picks up speed thereafter. However, its average growth over the forecast period is slightly higher (2.3% versus 2.1%). By 2010, there are nearly 5,400 (0.8%) more jobs in the current forecast compared to the previous one. Most of the differences in employment reflect data revisions. In October it was reported there were an estimated 651,033 jobs in the third quarter, while the revised data show employment were 659,820 jobs. The data revisions have raised the starting point for the employment forecast, but they did not change its trajectory. As was mentioned above, Idaho nonfarm employment is expected to advance an average of 2.3% per year, which is just 0.2 percentage point faster than in the previous forecast. The Idaho personal income forecast has changed little since October 2007. For example, Idaho nominal personal income advances about 6.3% annually over the forecast period, compared to 6.4% in the previous forecast. In 2010, it is \$200 million (-0.4%) lower than in the previous forecast. Even after adjusting for inflation, Idaho personal income is just 0.5% lower in 2010 than the October amount. Since none of the historical personal income data were revised, none of these changes to the forecasts are attributable to a higher starting point. Instead, they reflect the impacts caused by economic fundamentals. Idaho's economy is expected to slow this year, and then it will gradually pick up speed during the remaining years of the forecast. As in the previous forecasts, Idaho is projected to expand faster than the national economy.

The national economic forecast comes with the warning that the economy's recent showing is not indicative of its future performance, especially in the short term. Rapid growth in the third quarter and a resilient labor market may suggest that the economy is doing just fine, but the storm clouds are still gathering. Growth is slowing, and the credit crisis has returned, threatening a more severe tightening in credit to households and businesses. Under these conditions, growth is expected to be zero in the fourth quarter, followed by weak but positive growth in the first quarter, before gradually improving over the rest of 2008. Key ingredients for this improvement are continuing robust export growth, lower oil prices, and a bottoming-out of housing starts by midyear. Housing remains the biggest drag on growth. Housing starts are forecast to hit bottom at just below 1.0 million units (annual rate) in the first half of 2008. Home prices will react more slowly than starts, but are heading lower too. Consumer spending growth will run at less than 1.5% annualized over the next three quarters. Slower growth in consumer and housing demand will make businesses more cautious about capital spending. The incentive to spend will be greatest for businesses who are selling into export rather than domestic markets. Nonresidential construction has boosted GDP growth throughout 2007. But the decline in home-building and the recent sharp tightening in credit conditions will begin to weigh on commercial construction. Fortunately, the falling dollar and relatively strong global economic growth should boost real net exports enough for the U.S. economy to skirt a recession. Falling prices should help gradually work off the huge housing inventory overhang, which will take an enormous weight off the economy's shoulders. Relieved of this burden, real GDP is expected to grow nearly 3.0% in each of the next three years.

**IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2008**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
U.S. GDP (BILLIONS)												
Current \$	9,817	10,128	10,470	10,961	11,686	12,434	13,195	13,827	14,315	14,966	15,691	16,468
% Ch	5.9%	3.2%	3.4%	4.7%	6.6%	6.4%	6.1%	4.8%	3.5%	4.5%	4.8%	5.0%
2000 Chain-Weighted	9,817	9,891	10,049	10,301	10,676	11,004	11,319	11,563	11,779	12,118	12,469	12,832
% Ch	3.7%	0.8%	1.6%	2.5%	3.6%	3.1%	2.9%	2.2%	1.9%	2.9%	2.9%	2.9%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	31,290	33,054	33,849	34,816	38,123	40,414	43,917	47,294	49,986	52,894	56,164	59,874
% Ch	7.6%	5.6%	2.4%	2.9%	9.5%	6.0%	8.7%	7.7%	5.7%	5.8%	6.2%	6.6%
Idaho Nonfarm (Millions)	30,448	32,039	32,921	34,099	37,136	39,539	43,266	46,330	48,963	51,840	55,082	58,759
% Ch	8.5%	5.2%	2.8%	3.6%	8.9%	6.5%	9.4%	7.1%	5.7%	5.9%	6.3%	6.7%
U.S. (Billions)	8,430	8,724	8,882	9,164	9,727	10,301	10,983	11,662	12,204	12,797	13,458	14,163
% Ch	8.0%	3.5%	1.8%	3.2%	6.2%	5.9%	6.6%	6.2%	4.6%	4.9%	5.2%	5.2%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	31,289	32,376	32,690	32,970	35,167	36,214	38,295	40,234	41,717	43,423	45,286	47,424
% Ch	5.0%	3.5%	1.0%	0.9%	6.7%	3.0%	5.7%	5.1%	3.7%	4.1%	4.3%	4.7%
Idaho Nonfarm (Millions)	30,447	31,382	31,795	32,290	34,256	35,429	37,727	39,414	40,863	42,558	44,414	46,541
% Ch	5.9%	3.1%	1.3%	1.6%	6.1%	3.4%	6.5%	4.5%	3.7%	4.1%	4.4%	4.8%
U.S. (Billions)	8,429	8,545	8,578	8,678	8,973	9,231	9,578	9,922	10,185	10,506	10,852	11,219
% Ch	5.4%	1.4%	0.4%	1.2%	3.4%	2.9%	3.8%	3.6%	2.7%	3.2%	3.3%	3.4%
HOUSING STARTS												
Idaho	11,501	12,207	13,226	16,381	18,638	23,312	19,410	15,110	15,991	16,239	16,753	18,296
% Ch	11.0%	6.1%	8.3%	23.9%	13.8%	25.1%	-16.7%	-22.2%	5.8%	1.5%	3.2%	9.2%
U.S. (Millions)	1,573	1,601	1,710	1,854	1,950	2,073	1,812	1,346	1,035	1,312	1,540	1,717
% Ch	-4.5%	1.8%	6.8%	8.4%	5.2%	6.3%	-12.6%	-25.7%	-23.1%	26.8%	17.4%	11.5%
TOTAL NONFARM EMPLOYMENT												
Idaho	558,582	568,035	568,046	572,550	588,067	611,720	638,902	657,721	668,407	682,257	698,550	718,073
% Ch	3.8%	1.7%	0.0%	0.8%	2.7%	4.0%	4.4%	2.9%	1.6%	2.1%	2.4%	2.8%
U.S. (Thousands)	131,792	131,832	130,347	129,990	131,423	133,696	136,175	137,994	139,152	140,872	142,675	144,536
% Ch	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.9%	1.3%	0.8%	1.2%	1.3%	1.3%
SELECTED INTEREST RATES												
Federal Funds	6.2%	3.9%	1.7%	1.1%	1.3%	3.2%	5.0%	5.0%	3.6%	4.0%	4.8%	4.8%
Bank Prime	9.2%	6.9%	4.7%	4.1%	4.3%	6.2%	8.0%	8.1%	6.6%	7.0%	7.8%	7.8%
Existing Home Mortgage	8.0%	7.0%	6.5%	5.7%	5.7%	5.9%	6.6%	6.5%	6.0%	6.4%	7.0%	7.0%
INFLATION												
GDP Price Deflator	2.2%	2.4%	1.7%	2.1%	2.9%	3.2%	3.2%	2.6%	1.6%	1.6%	1.9%	2.0%
Personal Cons Deflator	2.5%	2.1%	1.4%	2.0%	2.6%	2.9%	2.8%	2.5%	1.9%	1.7%	1.8%	1.8%
Consumer Price Index	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	2.1%	1.6%	1.9%	1.8%

**National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2007**

**IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2008**

	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
U.S. GDP (BILLIONS)												
Current \$	13,552	13,769	13,967	14,021	14,126	14,238	14,374	14,524	14,704	14,876	15,054	15,231
% Ch	4.9%	6.6%	5.9%	1.5%	3.0%	3.2%	3.9%	4.2%	5.1%	4.7%	4.9%	4.8%
2000 Chain-Weighted	11,413	11,520	11,659	11,660	11,683	11,734	11,807	11,891	11,985	12,074	12,164	12,252
% Ch	0.6%	3.8%	4.9%	0.0%	0.8%	1.8%	2.5%	2.9%	3.2%	3.0%	3.0%	2.9%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	46,384	46,818	47,611	48,363	49,074	49,626	50,290	50,956	51,795	52,499	53,253	54,030
% Ch	11.1%	3.8%	6.9%	6.5%	6.0%	4.6%	5.5%	5.4%	6.8%	5.6%	5.9%	6.0%
Idaho Nonfarm (Millions)	45,384	45,994	46,622	47,320	48,002	48,563	49,300	49,988	50,693	51,455	52,213	53,000
% Ch	8.4%	5.5%	5.6%	6.1%	5.9%	4.8%	6.2%	5.7%	5.8%	6.1%	6.0%	6.2%
U.S. (Billions)	11,469	11,577	11,742	11,861	12,010	12,137	12,262	12,405	12,562	12,716	12,874	13,038
% Ch	10.0%	3.8%	5.8%	4.1%	5.1%	4.3%	4.2%	4.8%	5.1%	5.0%	5.1%	5.2%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	39,942	39,898	40,406	40,692	41,153	41,510	41,898	42,308	42,821	43,197	43,612	44,063
% Ch	7.3%	-0.4%	5.2%	2.9%	4.6%	3.5%	3.8%	4.0%	4.9%	3.6%	3.9%	4.2%
Idaho Nonfarm (Millions)	39,081	39,196	39,567	39,815	40,254	40,621	41,073	41,505	41,910	42,337	42,760	43,223
% Ch	4.7%	1.2%	3.8%	2.5%	4.5%	3.7%	4.5%	4.3%	4.0%	4.1%	4.1%	4.4%
U.S. (Billions)	9,876	9,866	9,965	9,979	10,071	10,152	10,216	10,300	10,385	10,462	10,543	10,633
% Ch	6.3%	-0.4%	4.1%	0.6%	3.7%	3.2%	2.6%	3.3%	3.3%	3.0%	3.1%	3.5%
HOUSING STARTS												
Idaho	16,636	15,656	13,766	14,381	15,293	16,100	16,267	16,305	16,424	16,569	16,109	15,852
% Ch	41.4%	-21.6%	-40.2%	19.1%	27.9%	22.8%	4.2%	0.9%	3.0%	3.6%	-10.6%	-6.2%
U.S. (Millions)	1,460	1,464	1,304	1,156	0,985	0,992	1,057	1,106	1,194	1,288	1,357	1,410
% Ch	-22.1%	1.1%	-37.2%	-38.2%	-47.3%	3.0%	29.1%	19.7%	35.8%	35.3%	23.1%	16.6%
TOTAL NONFARM EMPLOYMENT												
Idaho	652,120	656,831	659,820	662,115	664,253	666,598	669,844	672,932	676,367	680,385	684,239	688,038
% Ch	4.2%	2.9%	1.8%	1.4%	1.3%	1.4%	2.0%	1.9%	2.1%	2.4%	2.3%	2.2%
U.S. (Thousands)	137,447	137,864	138,160	138,504	138,744	138,955	139,264	139,645	140,139	140,674	141,123	141,554
% Ch	1.5%	1.2%	0.9%	1.0%	0.7%	0.6%	0.9%	1.1%	1.4%	1.5%	1.3%	1.2%
SELECTED INTEREST RATES												
Federal Funds	5.3%	5.3%	5.1%	4.5%	3.8%	3.5%	3.5%	3.5%	3.5%	3.8%	4.2%	4.5%
Bank Prime	8.3%	8.3%	8.2%	7.6%	6.8%	6.5%	6.5%	6.5%	6.5%	6.8%	7.2%	7.5%
Existing Home Mortgage	6.4%	6.5%	6.8%	6.5%	6.1%	6.0%	5.9%	6.0%	6.0%	6.2%	6.5%	6.8%
INFLATION												
GDP Price Deflator	4.2%	2.6%	0.9%	1.5%	2.3%	1.4%	1.4%	1.3%	1.8%	1.7%	1.8%	1.8%
Personal Cons Deflator	3.5%	4.3%	1.7%	3.5%	1.3%	1.0%	1.6%	1.4%	1.7%	1.9%	1.9%	1.7%
Consumer Price Index	3.8%	6.0%	1.9%	4.5%	1.2%	0.6%	1.5%	1.2%	1.8%	2.1%	2.0%	1.7%

**National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2007**

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2007 through the Fourth Quarter of 2011

The current forecast comes with the warning that the economy's recent showing is not indicative of its future performance, especially in the short term. Rapid growth in the third quarter and a resilient labor market may suggest that the economy is doing just fine, but the storm clouds are still gathering. Growth is slowing, and the credit crisis remains, threatening a more severe tightening in credit to households and businesses. Under these conditions, growth is expected to stall in the fourth quarter, followed by weak but positive growth in the first quarter, before gradually improving over the rest of 2008. Key ingredients for this improvement are continuing robust export growth, lower oil prices, and a bottoming-out of housing starts by midyear.

The economy is vulnerable to a potential double shock. The first shock is from housing and the credit crunch. Credit fears have re-emerged over the past month, while housing remains in a slump. Still threatening is a second shock from oil, although this risk has eased slightly over the past month, as prices have backed away from \$100/barrel. It is assumed that prices will slide down to \$75/barrel by the second quarter of 2008. Third-quarter GDP growth was impressive at 4.9%, revised up from 3.9%, but part of that revision came from stronger inventory accumulation—which is unlikely to be repeated. Growth dips to zero in the fourth quarter, as the decline in residential construction accelerates, consumer spending growth slows, and inventories become a drag, largely on production adjustments by automakers. Over the next three quarters, growth runs at an annual average pace of just 0.9%.

Housing remains the biggest drag on growth. The newly unveiled plan to freeze interest rates for some subprime borrowers, thereby limiting foreclosures, may reduce the downside risks to housing in 2008, but there is no magic solution to the overhang of unsold properties and no way to avoid further declines in home prices. Housing starts are forecast to hit bottom at just below 1.0 million units (annual rate) in the first half of 2008. Home prices will react more slowly than starts, but are heading lower too. The housing sector's blues will be shared by other parts of the economy.

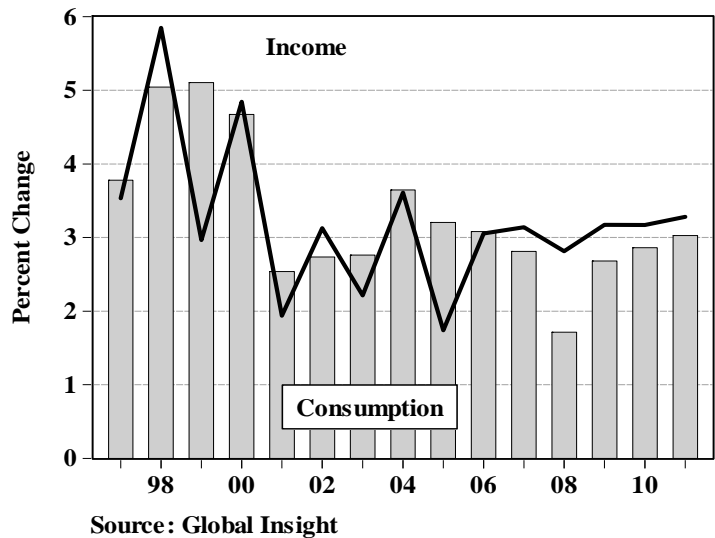
Slower employment gains, falling home prices, tighter credit availability, and high energy prices squeeze the consumer. As a result, spending growth is forecast to run at less than 1.5% annualized over the next three quarters. Indeed, 2007 is likely to be the first year since 2002 in which consumer spending growth falls short of income growth. Next year, consumer spending growth slips to 1.7%, well below the 2.8% gain in incomes. Slower growth in consumer and housing demand will make businesses more cautious about capital spending. Equipment spending growth is running around a 5.5% average pace in the second half of 2007, but should slow to just 2.2% in the first half of 2008. The incentive to spend will be greatest for businesses who are selling into export rather than domestic markets. Nonresidential construction has boosted GDP growth throughout 2007. But the decline in home-building and the recent sharp tightening in credit conditions will begin to weigh on commercial construction.

Fortunately, the falling dollar and relatively strong global economic growth should boost real net exports enough for the U.S. economy to skirt a recession. Falling prices should help gradually work off the huge housing inventory overhang, which will take an enormous weight off the economy's shoulders. Relieved of this burden, real GDP is expected to grow nearly 3.0% in each of the next three years.

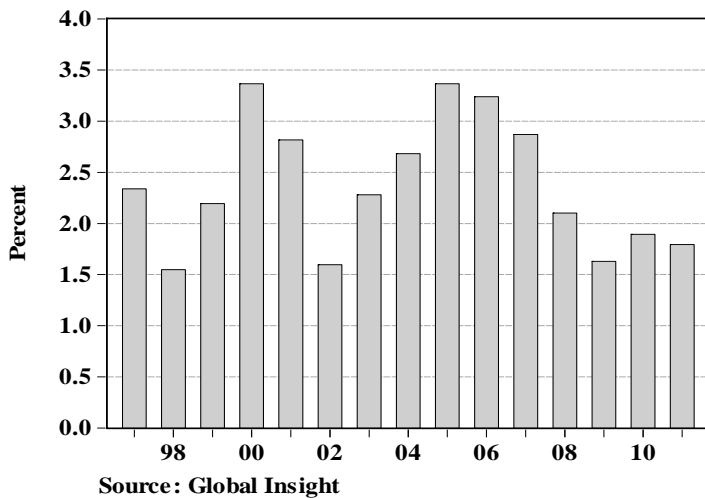
SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending: The nation's 16-year consumer spending spree is expected to continue despite threats in the form of the deepening housing slump, high energy prices, and a slowdown in job growth. After growing at a healthy 2.7% annual rate in the third quarter of 2007, real spending growth is expected to downshift, falling to a nadir of 0.8% in the first quarter of 2008. The housing situation's impact on spending deserves further clarification. Falling home prices are expected to erode household net worth and cause consumers to cut back on discretionary purchases. After declining 0.5% in 2007, real net worth is anticipated to eke out just 0.3% growth in 2008 followed by 1.1% growth in 2009. In addition, purchases of certain goods and services closely tied with the housing sector, such as appliances, furniture, and landscaping services, will also cool. Fortunately, total spending should be kept afloat by continued spending on electronics, health care, and recreation. It needs to be pointed out that high oil prices pose a significant risk to the consumer spending outlook. In November 2007 it was assumed a gradual retreat in the West Texas Intermediate crude oil price, from an average of \$90 per barrel in the current quarter to \$75 per barrel in the spring of 2008. It was calculated if oil prices were \$10/barrel higher in 2008, real disposable income would be reduced by 0.4% and real consumption would be 0.3% lower. It was also determined the economy would have 100,000 fewer jobs and 190,000 fewer light vehicles would be sold. Over the forecast period, real consumer spending should grow more in line with income than it has in the past. Real spending is forecast to increase 2.8% in 2007, 1.7% in 2008, 2.7% in 2009, 2.9% in 2010, and 3.0% in 2011. Real disposable income is expected to expand 3.1% in 2007, 2.8% in 2008, and around 3.2% in each of the remaining years of the forecast.

U.S. Real Consumption and Disposable Income Growth



Consumer Price Inflation



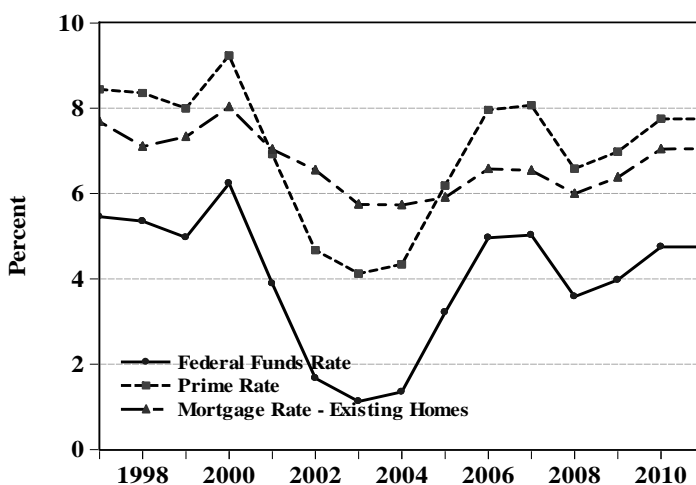
Inflation: Headline inflation should moderate over the forecast period, despite a flare up in late 2007. Inflation, as measured by the consumer price index, surged 4.5% in the fourth quarter due to pressures from its energy and food components. Food prices rose at a nearly 5.0% annual pace in that quarter and energy prices jumped at a 21.6% clip. However, when the impacts of these prices are removed from the index, core inflation rose just 2.3%. This moderate increase is good news. First, the impacts of rising energy and food prices remain well contained. While the prices of some consumer goods, such as airline tickets, have risen with fuel costs, the impacts have

been surprisingly benign. One of the reasons for this is global competition makes it harder for domestic businesses to pass rising costs on to their customers. Second, employer costs increases have been relatively low. For example, they have risen at about a 3% pace in recent quarters. This is important because these costs are a major determinant of core inflation. Employer labor costs, and, therefore, core consumer inflation, are expected to remain modest because of the slackening job market. Specifically, employment costs are forecast to increase 3.1% in 2007, 3.0% in 2008, 2.8% in 2009, 3.0% in 2010, and 3.2% in 2011. Core inflation should increase 2.3% in 2007, 2.1% in 2008, 1.9% in 2009, 2.0% in 2010, and 2.0% in 2011. The current forecast assumes energy prices will retreat then remain relatively stable over the next few years. Thus, overall inflation is expected to recede over most of the next few years. Overall consumer price inflation is projected to run 2.9% in 2007, 2.1% this year, 1.6% next year, 1.9% in 2010, and 1.8% in 2011.

Financial Markets: The recent aggressive policy action by the nation's central bank seems to be having some positive impact on the credit crises and the stability of the financial markets. As of early December, the Federal Reserve had lowered its federal funds rate a cumulative 75-basis points since September 18, 2007. This reduction resulted in lowered borrowing costs. For example, fixed-rate mortgages dropped about 50 basis points to near 6.2% in early November. While the effective reduction of borrowing costs is a positive development, in several other critical dimensions the recent distress in the financial and credit markets actually turned south. First, the major debt-rating

agencies continued to downgrade the ratings of mortgage-backed securities. The lower ratings continues to put severe downward pressure on mortgage-backed securities prices, which is putting more bank capital at risk beyond the write-downs that have already been taken. Second, the volume of asset-backed commercial paper outstanding declined through early November. Third, credit conditions have tightened. A Federal Reserve survey of senior loan officers in October showed tighter credit conditions for mortgages rose to a historical high this fall. Unfortunately, not only did credit conditions tighten for mortgages, but they also tightened significantly for commercial loans, commercial real estate loans, and other consumer loans. Not surprisingly, consumer credit growth has slowed. Until recently, consumers had been tapping credit card and auto loans to offset tighter credit conditions on home equity loans and refinancings. It now appears even these borrowing sources are drying up. Given the softening economic conditions, the question this fall was not if the Federal Reserve would loosen, but when and by how much. The answer came on December 11, 2007 when the Central Bank lowered its federal funds rate by 25 basis points. This move was anticipated and is built in to this forecast. This forecast also assumes the Federal Reserve will lower its federal funds rate by another 75 basis points to 3.5% over the first quarter of this year, and it will remain there through the rest of 2008. Once the Federal Reserve is convinced the economy has negotiated this rough patch, it will begin to tap on the monetary brakes, with the federal funds rate climbing to 4.8% by the end of 2010.

Selected U.S. Interest Rates



Source: Global Insight

U.S. Civilian Unemployment Rate



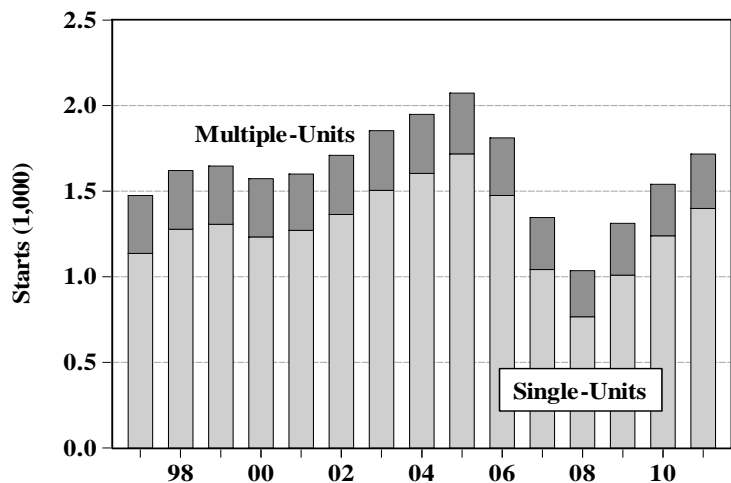
Source: Global Insight

of 2007. Unfortunately, this will be the high-water mark for several quarters. Nonfarm employment growth is forecast to slip below one percent in each of the first three quarters of this year. This slower job growth will further loosen labor markets, sending the unemployment rate to 5.2% by this year's third quarter. The hiring rate rises back above 1.0% beginning in the fourth quarter of 2008, once companies are convinced the economy is again on solid footing. Unfortunately, nonfarm employment does not improve fast enough to make a significant dent in the unemployment rate until later in the forecast horizon. After peaking at 5.2% in this year's third quarter, the civilian unemployment rate is still around 5.0% in 2010. It drops to 4.7% in 2011. It should be pointed out that the unemployment rate is higher than what is considered full-employment over most of the next few years.

Housing: Housing remains the biggest drag on the U.S. economy. Residential investment reduced economic output growth by 0.3 percentage point in 2006 and an estimated one percentage point in 2007. The housing industry is already two years into its recession, and it has yet to find its trough. Existing home sales plunged 4.7% in August and another 8.0% in September—to its lowest level since this data has been published. Other data also expose this sector's recent weaknesses. Housing starts sank 10.2% in September to their lowest level since March 1993. Single-family permits fell 7.1% that same month, portending another drop in housing starts in the fourth quarter of 2007. The inventory outlook also worsened this fall. The supply of existing single-family homes rose from 9.3 months to 10.2 months—its highest reading since February 1988. This inventory glut has pushed down housing

Employment: While labor markets are expected to cool over the next few quarters, they should remain warm enough to help keep the economy afloat. Many economists were pleasantly surprised when the U.S. Department of Labor reported nonfarm payroll employment increased by 94,000 jobs in November 2007 and the unemployment rate held steady at 4.7%. The report pointed out job growth continued in the professional and technical services, health care, and food services sectors. On the other hand, manufacturing continued to shed jobs, as did several other housing-related sectors, including construction, credit intermediation, and real estate. Overall, nonfarm employment is forecast to have increased 1.0% in the last quarter

U.S. Housing Starts



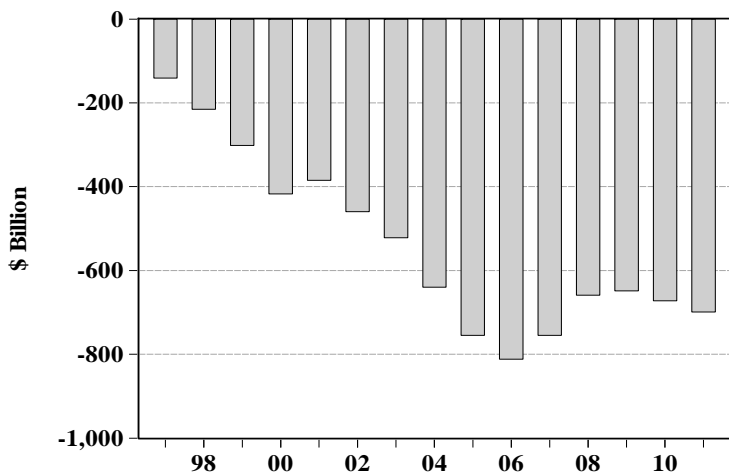
Source: Global Insight

prices. For example, the Office of Federal Housing Enterprise Oversight reported at the end of November its quarterly Housing Price Index (HPI) shrank for the first time in nearly 13 years in the third quarter of 2007. Unfortunately, housing prices are expected to slide further. The newly unveiled plan to freeze interest rates for some subprime borrowers may reduce the downside risks to the housing sector in 2008, but it is not a silver bullet solution to the inventory over hang and falling prices. The HPI is forecast to fall another 6.3% this year and 3.8% next year. While unpleasant, these declines are necessary for this industry’s eventual recovery. Lower housing prices should eventually stimulate new and existing homes sales in the second half of 2008. The rebound in sales will help work off bloated inventories and set the stage for a rebound in single-family housing starts. Housing prices are expected to rise again in 2010. In summary, US housing starts are forecast to fall to 1.035 million units in 2008, but increase to 1.312 million units in 2009, 1.540 million units in 2010, and 1.717 million units in 2011.

International: International trade should be an important counterweight to the faltering housing sector. Unlike construction, real exports are expected to be a positive contributor to real GDP growth over the next few years. Specifically, net exports add 0.6 percentage point to real output in 2007, 0.9 percentage point in 2008, and 0.3 percentage point in 2009. This change marks a significant reversal. Up until last year, real exports were a drag on economic growth. The expected turnaround in real exports is being fueled by robust global growth and the weakening dollar. Growth in Asia is most promising. The mild global slowdown will only put a small dent in China’s rapid growth rate. However, the Chinese government may have to tighten conditions later this year in order to prevent its economy from over heating. Of course, this policy runs the risk of overshooting the target, which could make for a harder-than-expected landing. This is important because the fates of several other Asian economies are tied to China’s economy. Another Asian powerhouse is India. Thanks to domestic-led growth, this country should be able to sustain around 8.5% growth over the next few years. Not all the world’s economies will grow this fast, however. Except for commodity-exporting countries, world economic growth is expected to “recouple” with the United States and slow down. Europe will be hit by multiple headwinds, including the global slowdown, a stronger currency, the continuing credit crunch, high oil prices, and housing problems in some countries. Japan will be similarly afflicted, although there is little evidence of fallout from the subprime and housing-related problems of the United States. For Canada and Mexico, weak U.S. growth will be offset by strong oil prices. Real exports will also benefit from the falling

dollar that tips the scale in favor of U.S. goods and services in the global market. The greenback has lost about one-fifth of its value over the last five years, and its slide is not over. Sentiments on the dollar should begin to improve in the second half of this year and early 2009, as the economy recovers. The Canadian dollar may have already peaked against the greenback, if oil prices keep falling. This forecast assumes the euro peaks at around \$1.55 next summer and falls to \$1.49 by year end. However, both the Japanese yen and Chinese renminbi should continue to rise against the dollar because of the large current-account surpluses in both countries.

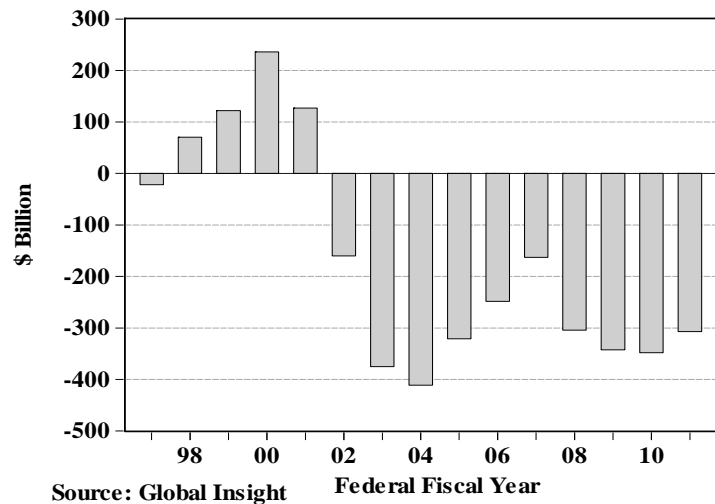
U.S. Current Trade Deficit



Source: Global Insight

Government: The current forecast assumes Congress will not allow all of the Bush tax cuts to expire as scheduled at the end of 2010. The income tax burden is expected to increase, however, through the capricious impact of the Alternative Minimum Tax or through some kind of tax reform that raises revenues. However, no major tax initiatives are anticipated before the 2008 presidential election. The unified federal budget deficit shrank to \$162.8 billion in 2007—its third straight annual decline. Unfortunately, the streak of declining deficits is expected to end soon. Predicted faster federal spending growth and slower revenue growth point to growing deficits in the future. The unified federal budget deficit swells to \$304.5 in 2008, to \$342.8 billion in 2009 and \$348.3 billion in 2010 and then shrinks to \$307.1 billion in 2011.

U.S. Federal Government Surplus Unified Basis



IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2007 through the Fourth Quarter of 2011

The current Idaho economic outlook remains similar to the previous forecast, although some of the details have changed. In the October 2007 *Idaho Economic Forecast* nonfarm employment growth was expected to dip to 1.4% this year then accelerate through 2010. Over the 2007-2010 period, it was forecast to average 2.1% per year. In the current forecast, as in the previous one, Idaho nonfarm employment growth slows in 2008, and then it picks up speed thereafter. However, its average growth over the forecast period is slightly higher (2.3% versus 2.1%). By 2010, there are nearly 5,400 (0.8%) more jobs in the current forecast compared to the previous one.

Most of the differences in employment reflect data revisions that occurred after the October 2007 *Idaho Economic Forecast* was published. In October it was reported there were 648,520 jobs in the second quarter of 2007 followed by an estimated 651,033 jobs in the third quarter. The revised data show employment was 656,831 jobs in the second quarter and 659,820 jobs in the third quarter. Thus, employment was actually about 1.3% higher in each quarter than was previously reported. The sectors with the largest upward revisions in the third quarter include construction (2,768 jobs), professional and business services (2,321 jobs), leisure and hospitality services (1,371 jobs), and noneducation-related government (1,108 jobs).

The data revisions may have raised the starting point for the employment forecast, but they did not change its trajectory. As was mentioned above, Idaho nonfarm employment is expected to advance an average of 2.3% per year, which is just 0.2 percentage point faster than in the previous forecast. It should also be noted that most of these gains come early in the forecast cycle. For example, nonfarm employment expands 2.9% in 2007 and 1.6% in 2008. In the previous forecast employment rises just 1.9% in 2007 and 1.4% in 2008. However, it rises faster in the last two years. As a result, the gap between the two employment forecasts goes from 6,823 jobs in 2007, to 8,623 jobs in 2008, to 8,340 jobs in 2009, and shrinks to 5,372 jobs in 2010.

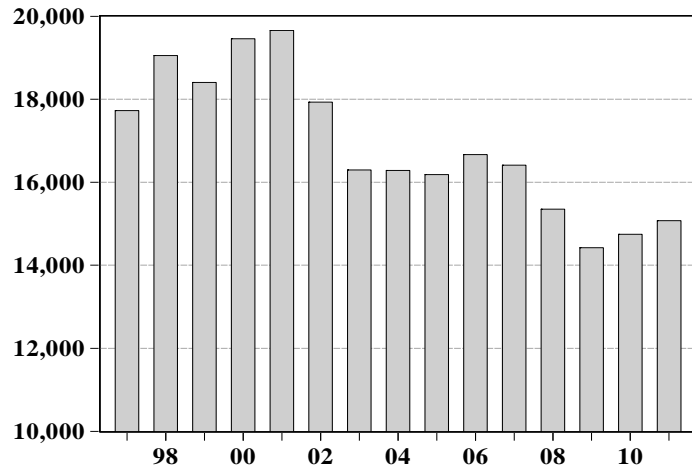
The Idaho personal income forecast has changed little since October 2007. For example, Idaho nominal personal income advances about 6.3% annually over the forecast period, compared to 6.4% in the previous forecast. In 2010, it is \$200 million (-0.4%) lower than in the previous forecast. Even after adjusting for inflation, Idaho personal income is just 0.5% lower in 2010 than the October amount. Since none of the historical personal income data were revised, none of these changes to the forecasts are attributable to a higher starting point. Instead, they reflect the impacts caused by economic fundamentals.

Idaho's economy is expected to slow this year, and then it will gradually pick up speed during the remaining years of the forecast. As in the previous forecasts, Idaho is projected to expand faster than the national economy. From 2007 to 2011, Idaho nonfarm employment is forecast to average 2.4%, which is twice as fast as the average for the nation. Idaho real personal income should increase at a 4.4% annual clip. National real personal income grows 3.2% per year.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: The outlook for the state's largest manufacturing sector has changed little since the last forecast. In October 2007, Idaho computer and electronics employment was forecast to shed over 1,900 jobs over the three-year period from 2006 to 2009 and add fewer than 100 jobs in 2010. This malaise is present in the current forecast. Namely, 2,200 jobs are lost from 2006 to 2009 and about 300 jobs in 2010. As in the previous forecast, the current scenario is dominated by the 1,100-job reduction by Micron Technology. Company officials made this move to reduce production costs in order to stem the flow of red ink caused by falling prices for memory devices due to a worldwide glut of these products. For example, Micron Technology lost \$158 million in the last quarter of its fiscal year 2007, and a total of \$320 million last year. It lost \$262 million in the first quarter of its fiscal year 2008, as the prices of memory products continued to slide. Unfortunately, the worldwide imbalance of supply and demand that has depressed prices is not expected to right itself quickly. Idaho computer and electronics manufacturing employment is expected to be 16,411 in 2007, 15,350 in 2008, 14,424 in 2009, 14,746 in 2010, and 15,075 in 2011.

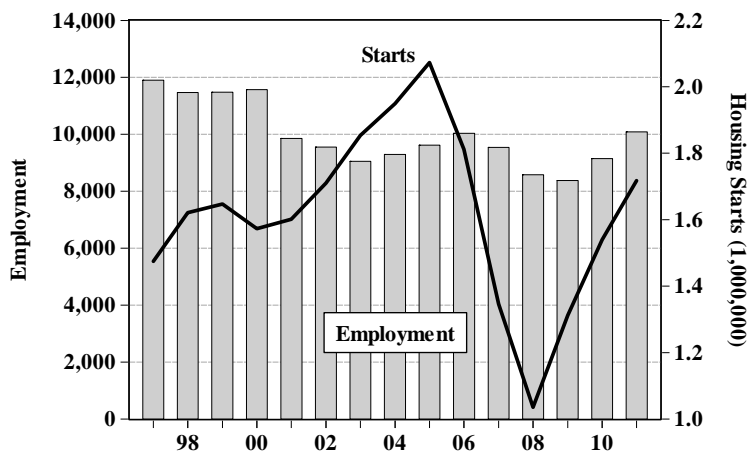
Idaho Computer and Electronic Products Employment



Logging and Wood Products: Idaho lumber and wood products employment is expected to continue straining under the weight of the national housing retreat. The state's second largest durable manufacturing sector shed jobs during most of 2007, as falling lumber and wood product prices and higher costs caused several mills to curtail their operations. Riley Creek Lumber Company shut down its Moyle Springs sawmill in November, idling 75 employees for two weeks. It also shut down at Christmas

for a week. The Welco cedar mill near Naples also experienced layoffs and shutdowns in 2007. Stimson Lumber ran reduced shifts for most of last year. Unfortunately, this sector's declines have been occurring for some time. It appears Idaho's lumber and wood products sector responded much faster to U.S. housing declines than to its increases. Employment began falling in the third quarter of 2006—just one quarter after U.S. housing starts began retreating. National housing starts began taking off in 2002 and peaked at 2.07 million units in 2005. National wood production expanded 11.1% over this

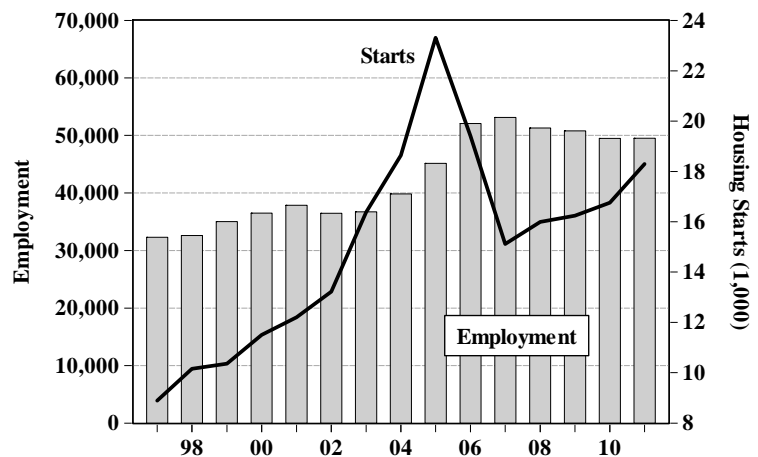
Idaho Wood Product Employment and U.S. Housing Starts



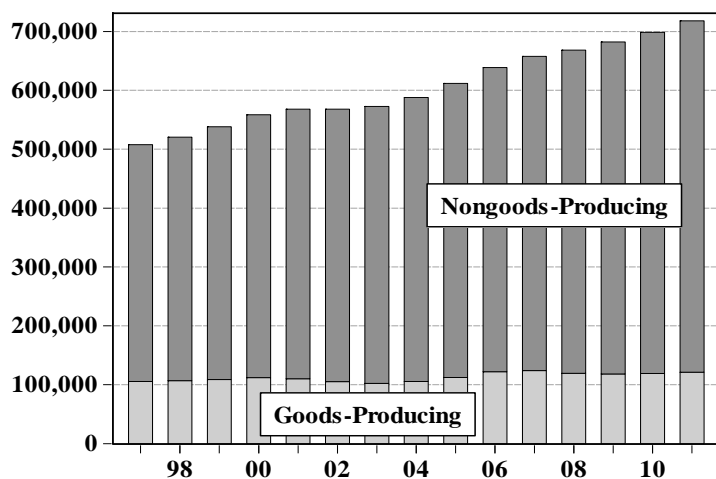
same period. The strong housing sector also led to a run up in lumber prices. Despite these strong conditions, the Gem State’s lumber and wood products sector shed about 800 jobs from 2001 to 2003. Its first year-over-year job gain was delayed until 2004. The job expansion lasted until the second quarter of 2006 when employment peaked at around 10,200 jobs. The strong demand caused employment to offset a trend which had been exerting downward pressure on this sector for years. As demand continues ebbing, supply factors will once again dominate this sector’s future. The biggest challenge Idaho’s lumber and wood products sector faces is the dwindling timber supply from public forests. The U.S. Forest Service estimates the harvest from Idaho national forests fell by 60% from 1994 to 2005. As a result, the national forests’ share of Idaho’s timber harvest shrank from 28.5% in 1994 to 13.9% in 2005. This decline resulted in the closure of several mills around the state. Ironically, these closings have increased the lumber and wood products sector’s overall efficiency. For example, Idaho’s lumber and wood products sector produced 1.849 million board feet of lumber in 1994, which comes to about 157 thousand board feet per job. By 2005, output per worker climbed to 211 thousand board feet, a 34.1% increase. This trend is expected to continue, so it appears fewer workers will be needed in the future. 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 be 9,537 jobs in 2007; 8,579 jobs in 2008; 8,374 jobs in 2009; 9,146 jobs in 2010; and 10,080 jobs in 2011.

Construction: The Idaho construction employment forecast has improved slightly compared to the previous forecast. This increase partially stems from revisions to the historical data that raised the starting point for the forecast. The previous data show construction employment falling around 11% in both the second and third quarters of last year. At this pace, employment was 50,489 in the third quarter of 2007. The revised data show Idaho construction employment was 53,257 in the third quarter, which is nearly 2,800 more jobs than in the previous forecast. The revised data also suggest Idaho construction may be more resilient than had been previously believed. This explains why it remains stronger over the forecast period, despite housing starts being lower in the current forecast. Specifically, construction employment declines an average of 1.3% annually through 2010 in the current forecast, while it drops 1.7% in the October 2007 forecast. Although the construction employment outlook has improved, it still pales in comparison to its recent performance. Construction employment growth expanded 5.4% annually from 1997 to 2006, and it was especially strong in the last two years when it grew by 13.3% and 15.4%, respectively. What is particularly remarkable is 2006’s employment gain occurred in a year when Idaho housing starts shrank nearly 17.0%. Employment expanded thanks to robust nonresidential building. Unfortunately, this buffer is not likely to buoy employment for long. Idaho housing starts are estimated to have declined by 22.2% last year. Beginning this year, housing starts are forecast to grow again, albeit slowly. After increasing 2.0% in 2007, Idaho construction employment is expected to decline 3.4% in 2008, 1.1% in 2009, 2.5% in 2010, and remain flat in 2011.

Idaho Construction Employment and Housing Starts



Idaho Nonfarm Employment



Nongoods-Producing Industries:

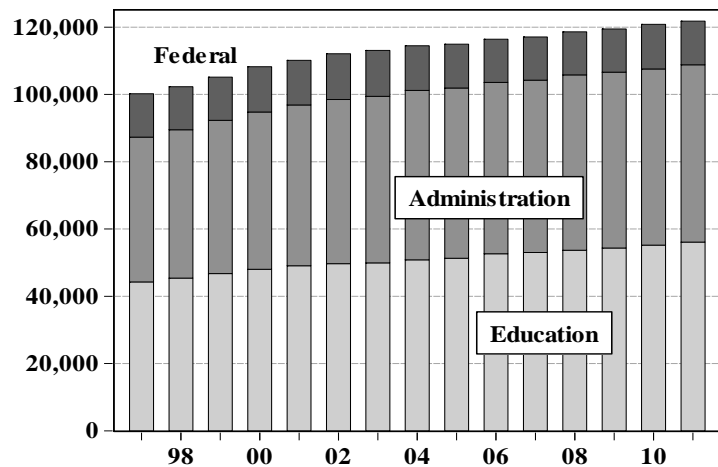
Idaho's largest private employment sector, nongoods, will also be its fastest growing sector over the forecast period. Its importance should come as no surprise given its huge size. It accounted for roughly two-thirds of last year's job gain. Industries in this sector can be divided into two broad categories: services and trade. The services category had 292,726 employees in 2006 and there were 107,466 trade 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. Services employment has traditionally been the faster growing of the categories, advancing an average of 3.2% annually over the last five years versus 1.8% for trade employment. One of the services category's strongest performers is professional and business services. This category's employment should expand an average of 3.7% per year over the forecast period. Other hot performers include education and health services and leisure and hospitality services. An interesting trait of the former is that it is driven more by demographics than economics, so it is relatively immune to business cycle swings. This category should add jobs at a 3.9% average annual pace over the forecast period. Leisure and hospitality services should grow at a 3.6% clip. Financial services employment will feel the impact of the cooling local housing market. After expanding by an average of around 6.5% in both 2005 and 2006, its payroll growth will slow to 2.7% annually over the forecast period. After posting a 2.8% showing in 2007, transportation, warehousing, and utilities sector employment will also fall victim to the housing sector's woes and stall. Other services will expand. Information service employment should rise at a 2.3% annual pace. The other services category includes call centers such as Dial 411's new operation that has begun hiring in the Meridian area. Its payroll could reach 300 jobs within its first year of operation. Miscellaneous services employment growth is projected to accelerate over the forecast period. The trade sector's employment should grow an average of 3.8% per year. Employment will benefit from the opening or expansion of several large retailers. North Idaho retailers also hope more favorable exchange rates will draw more Canadian shoppers into their stores.

Government: The outlook for Idaho state and local government employment growth has improved slightly compared to the October 2007 *Idaho Economic Forecast*. It is important to note, however, that this increase stems primarily from a revision to historical data, not a significant improvement to economic fundamentals. Last October it was reported that there were 103,754 state and local government jobs in the third quarter of 2007. The revised data show this estimate was too low. The quarter's job count was actually 104,775, a 1,021 increase over the previous estimate. This increase is the net impact of about a 1,100 upward revision to noneducation-related employment and less than 100 jobs reduction to education-related employment. These revisions raised the current starting point for Idaho state and local government employment by about 1,000 jobs. While the starting point of the forecast has been raised, state and local government employment's growth rate is not expected to be much different than in the previous forecast because it is still expected to cool as the state's population

growth slows. The correlation between population and government employment is well established. From 1991 to 2000, Idaho's population increased about 2.5% per year. Over this same period, Idaho state and local government expanded 3.0% annually. This relationship exists because the demands of the growing population puts pressure on existing government resources. Government employment expands apace to meet this demand. An example from the recent past illustrates this point. From 1999 to 2004 population growth slowed to a 1.7% annual pace. State and local government employment growth followed suit, slowing to an average 1.9% annual pace.

Idaho Government Employment



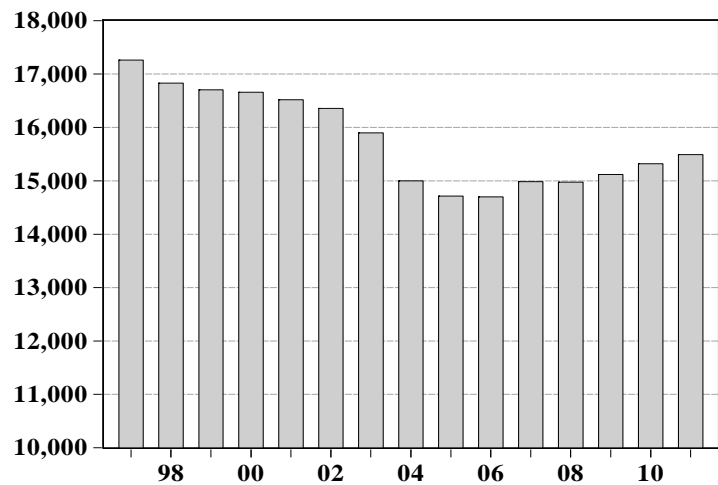
Idaho's population growth jumped above 2.5% in both 2005 and 2006 thanks to an influx of over 24,000 new residents in each of both of these years. These new residents accounted for around two-thirds of the total population growth in those years. As Idaho's economy cools, net migration will fall to its lowest point in 2009, accounting for just under half of that year's population growth. Idaho's population is forecast to increase 2.5% in 2007, 2.2% in 2008, 1.9% in 2009, and 2.0% in both 2010 and 2011. Idaho state and local government employment is projected to rise about 1.0% annually over this same period. However, growth rates will differ between the education- and noneducation-related pieces. Idaho education employment is expected to advance about 1.3% per year from 2007 to 2010. During this same period, noneducation-related government employment should expand just under 0.7% annually. Federal government employment in Idaho has hovered near 13,000 jobs over the last few years, and it is projected to continue doing so over most of the forecast horizon. The exception being 2010, when hiring for the U.S. census pushes employment above 13,300.

Mining: High metal prices have had a couple of noticeable impacts on the Idaho mining sector. First, it has turned around this sector's employment situation. Previous to 2003, Idaho mining employment decreased for five years, dropping from nearly 3,000 jobs in 1997 to about 1,750 jobs in 2002. This downward streak ended in 2003 when mining employment grew by 1.5%. This small increase proved to be the first step in an expansion that would see employment eventually top 2,700 jobs in 2007. Second, higher metal prices have increased expansion and exploration. Using the record profits it earned the last couple of years, Hecla Mining is expanding production at and exploration around its Lucky Friday Mine, where it employs 200 people. U.S. Silver Corp. is mining new finds at the Galena Mine, where another 200 people work, and it now is exploring the feasibility of reopening the Dayrock, a lead and zinc mine three miles northeast of Galena that closed in 1977. Sterling Mining Co. plans to re-open the Sunshine Mine, which closed in 2001, this winter. SNS Silver plans to spend \$3.5 million exploring the Crescent Mine. New Jersey Mining Co. is exploring at the Golden Chest, and its potential looks enormous. Timberline Resource Corp., headquartered in Coeur d'Alene, is exploring the Snowstorm, a historic silver-copper mine, and adjoining properties. Not all of the new activity is taking place north of the Salmon River, however. Standard Silver Corporation of Texas acquired the King Gold Mine that is 50 miles north of Boise. The J.R. Simplot Company is exploring for phosphate in the Dairy Sink Line area near the southeastern corner of the state. All of these projects could increase employment down the road. However, the cooling U.S. economy will make it difficult for mining employment to maintain its

stride in the near term. Specifically, Idaho mining employment is expected to increase 2.2% in 2008, then gradually decline over the remaining years of the forecast.

Food Processing: It appears that one of Idaho’s manufacturing giants is stirring after a long slumber. Food processing employment grew in 2007 for the first time in a decade. Nearly 360 jobs were lost when the J.R. Simplot Company decided to close its Nampa meat packing plant in the fall of 2003 and shuttered its Heyburn potato processing plant that had run continuously since 1960. More recently, about 400 jobs were lost when the Swift and Company beef processing plant closed. Fortunately, conditions seem to have improved. For example, the Swift and Company beef processing plant has been reopened by XL Foods, Inc. It is anticipated that it will replace all

Idaho Food Processing Employment



the jobs lost from Swift’s closure once the plant is running at full capacity. Gossner Foods, Inc. opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Brewster Dairy, Inc. has taken over the former Kraft plant in Rupert. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant’s employment should climb to twice that many jobs in five years. Another new plant is High Desert Milk in Burley. When completed, this plant will employ 30 workers to manufacture powdered milk. Idaho Milk Products broke ground on a 180,000-square-foot facility in Jerome in late October. Once operational, the plant will process about 3 million gallons of milk per day into protein powders, lactose permeate, and cream. This recovery is important because food processing is an essential part of the Gem State’s economy. This sector had 14,700 jobs in 2006, making it the state’s second largest manufacturing employer. Other measures also point to its importance. The value of food manufacturing output accounted for more than half (55.7%) of the total Idaho nondurable manufacturing output from 1997 to 2004 and about 2.6% of the state’s total gross domestic product. While 2.6% of output may appear to be a small part of the economy, it masks the state’s dependence on this sector. Its relative importance can be seen when it is compared to its national counterpart. Food processing accounted for just 1.6% of U.S. economic output. Food processing employment accounted for 2.3% of the state’s nonfarm jobs in 2006, while it accounted for just 1.1% of national nonfarm employment. Clearly, Idaho’s economy is more dependent on food processing than the nation. After declining for several years, Idaho food processing employment is expected to expand over the forecast period.

ALTERNATIVE FORECASTS

Global Insight has assigned a 50% probability of occurrence to its December 2007 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.2% in 2007, 1.9% in 2008, and 2.9% annually thereafter;
- U.S. nonfarm employment grows 1.3% in 2007, 0.8% in 2008, 1.2% in 2009, and 1.3% in both 2010 and 2011;
- the annual U.S. civilian unemployment rate peaks at 5.1% then gradually declines to 4.7% in 2011;
- consumer inflation is 2.9% in 2007, 2.1% in 2008, 1.6% in 2009, 1.9% in 2010, and 1.8% in 2011;
- the current account deficit is \$755 billion in 2007, \$659 billion in 2008, \$649 billion in 2009, \$673 billion in 2010; and \$699 billion in 2011;
- the federal unified budget deficit is \$163 billion in 2007, \$305 billion in 2008, \$343 billion in 2009, \$348 billion in 2010, and \$307 billion in 2011.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 10% probability of occurrence. In this scenario, the fortunate alignment of several positive factors results in a prosperous path for the economy. In this scenario, enhanced productivity results in higher economic and employment gains and lower inflation and budget deficits. Business fixed investment is stronger than in the baseline case and the residential investment contraction is less severe. Housing starts begin to recover early in 2008 and average 1.15 million units, compared to 1.04 million units in the *Baseline Scenario*. Foreign economic growth is also stronger, boosting U.S. exports and strengthening domestic manufacturing. As a result, real net exports grow faster over the forecast period, despite a stronger dollar. This scenario also assumes oil prices are around \$10 per barrel lower than in the baseline case, while wellhead natural gas prices are also lower.

Under these assumptions, the economic outlook is much brighter than in the baseline case. Real output rises 2.7% this year, 3.7% next year, and 3.4% in 2010. In comparison, it increases just 1.9% in 2008 and by 2.9% in both 2009 and 2010 in the *Baseline Scenario*. Despite the stronger growth, inflation is actually lower in the *Optimistic Scenario* thanks to the higher productivity. Year-on-year consumer price inflation falls into the middle range of the Federal Reserve's 1%-2% tolerance band and remains there throughout most of the forecast period, rather than hovering near the upper boundary, as in the baseline case. As a result, inflation shifts to the back burner as an item for the central bank to worry about.

The stronger national economy lifts Idaho's outlook. This improvement is clearly evident in the employment and income data. First, Idaho nonfarm employment rises faster than in the baseline case in all years except 2011. As a result, Idaho nonfarm employment tops the 722,000-job level in 2011, which is about 4,000 higher than its baseline counterpart. As the table shows, Idaho goods-producing employment does not decline as deeply in 2008 and 2009 and it grows stronger in 2010, and by 2011 there are about 1,500 more of these jobs than in the baseline case. Nongoods-employment has about 2,500 more jobs than in the baseline case in 2011. Idaho real personal income is also stronger in 2011, topping its baseline counterpart by nearly \$100 million.

**IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2008**

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
U.S. GDP (BILLIONS)												
Current \$	14,315	14,966	15,691	16,468	14,409	15,119	15,875	16,680	14,091	14,644	15,408	16,289
% Ch	3.5%	4.5%	4.8%	5.0%	4.1%	4.9%	5.0%	5.1%	2.0%	3.9%	5.2%	5.7%
2000 Chain-Weighted	11,779	12,118	12,469	12,832	11,876	12,316	12,736	13,150	11,596	11,793	12,103	12,449
% Ch	1.9%	2.9%	2.9%	2.9%	2.7%	3.7%	3.4%	3.2%	0.3%	1.7%	2.6%	2.9%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	49,986	52,894	56,164	59,874	49,724	52,464	55,499	58,994	50,634	54,092	57,872	62,484
% Ch	5.7%	5.8%	6.2%	6.6%	5.2%	5.5%	5.8%	6.3%	7.0%	6.8%	7.0%	8.0%
U.S. (Billions)	12,204	12,797	13,458	14,163	12,273	12,929	13,593	14,300	12,109	12,632	13,315	14,130
% Ch	4.6%	4.9%	5.2%	5.2%	5.2%	5.3%	5.1%	5.2%	3.8%	4.3%	5.4%	6.1%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	41,717	43,423	45,286	47,424	41,756	43,548	45,405	47,521	41,984	43,905	45,824	48,214
% Ch	3.7%	4.1%	4.3%	4.7%	3.8%	4.3%	4.3%	4.7%	4.2%	4.6%	4.4%	5.2%
U.S. (Billions)	10,185	10,506	10,852	11,219	10,306	10,732	11,121	11,520	10,041	10,253	10,543	10,903
% Ch	2.7%	3.2%	3.3%	3.4%	3.8%	4.1%	3.6%	3.6%	1.2%	2.1%	2.8%	3.4%
TOTAL NONFARM EMPLOYMENT												
Idaho	668,407	682,257	698,550	718,073	668,894	684,814	702,532	722,041	668,044	681,667	698,012	718,289
% Ch	1.6%	2.1%	2.4%	2.8%	1.7%	2.4%	2.6%	2.8%	1.6%	2.0%	2.4%	2.9%
U.S. (Thousands)	139,152	140,872	142,675	144,536	139,985	142,577	144,741	146,692	137,873	138,475	140,145	142,426
% Ch	0.8%	1.2%	1.3%	1.3%	1.4%	1.9%	1.5%	1.3%	-0.1%	0.4%	1.2%	1.6%
GOODS-PRODUCING SECTOR												
Idaho	119,447	118,168	118,865	121,142	119,744	119,642	120,861	122,658	117,707	115,031	116,118	118,607
% Ch	-3.5%	-1.1%	0.6%	1.9%	-3.3%	-0.1%	1.0%	1.5%	-4.9%	-2.3%	0.9%	2.1%
U.S. (Thousands)	21,873	21,603	21,757	22,108	21,996	22,022	22,356	22,792	21,657	20,808	20,756	21,197
% Ch	-2.3%	-1.2%	0.7%	1.6%	-1.8%	0.1%	1.5%	1.9%	-3.3%	-3.9%	-0.2%	2.1%
NONGOODS-PRODUCING SECTOR												
Idaho	548,960	564,090	579,685	596,931	549,150	565,172	581,671	599,384	550,337	566,637	581,894	599,681
% Ch	2.8%	2.8%	2.8%	3.0%	2.9%	2.9%	2.9%	3.0%	3.1%	3.0%	2.7%	3.1%
U.S. (Thousands)	117,279	119,269	120,918	122,428	117,989	120,555	122,385	123,900	116,217	117,667	119,389	121,229
% Ch	1.5%	1.7%	1.4%	1.2%	2.1%	2.2%	1.5%	1.2%	0.6%	1.2%	1.5%	1.5%
SELECTED INTEREST RATES												
Federal Funds	3.6%	4.0%	4.8%	4.8%	4.3%	4.4%	4.5%	4.5%	3.4%	5.2%	6.0%	6.0%
Bank Prime	6.6%	7.0%	7.8%	7.8%	7.3%	7.4%	7.5%	7.5%	6.4%	8.2%	9.0%	9.0%
Existing Home Mortgage	6.0%	6.4%	7.0%	7.0%	6.2%	6.4%	6.7%	6.7%	6.8%	7.4%	7.9%	7.9%
INFLATION												
GDP Price Deflator	1.6%	1.6%	1.9%	2.0%	1.4%	1.2%	1.5%	1.8%	1.7%	2.2%	2.5%	2.8%
Personal Cons Deflator	1.9%	1.7%	1.8%	1.8%	1.3%	1.2%	1.5%	1.6%	2.6%	2.2%	2.5%	2.6%
Consumer Price Index	2.1%	1.6%	1.9%	1.8%	1.4%	1.2%	1.5%	1.5%	3.0%	1.9%	2.5%	2.5%

Forecast Begins the THIRD Quarter of 2007

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 40% probability of occurrence. This scenario assumes the housing recession deepens even more than in the baseline case and near-term oil prices spike above \$100 per barrel. This combination sends the economy into a recession. Housing starts drop to 857,000 units in 2008, compared with 1,035,000 units in the baseline. The median existing home price falls more than 10% below the baseline forecast in 2009. Homes sales are also much lower. The housing weakness leads to a consumer confidence retreat. This contraction, along with the drop in wealth associated with falling home prices, causes consumer spending to slow to a crawl in 2008. The bleaker outlook causes businesses to scuttle long-term projects. These weaknesses cause the economy to slip into a three-quarter recession that begins in this year's last quarter. But output is not the only thing to suffer declines in the near future. Employment drops for four straight quarters, losing 186,000 jobs from peak to trough. Industrial production falls for five quarters.

The Federal Reserve lowers the federal funds rate to 3.0% in early 2008 in an attempt to revive the flagging economy. In 2008, the productivity slowdown, high energy prices, and a weakening dollar, rekindle inflation. The Federal Reserve hikes rates to head off inflation, but its efforts prove to be too little, too late. Core inflation creeps upwards, then settles just above 3.0%, which is a full point above the baseline level. Inflation is higher in this scenario because of the lower productivity gains and the weaker dollar, and because the central bank decides to live with inflation at 3.0% rather than risk another recession.

Idaho nonfarm employment is virtually unchanged from the *Baseline Scenario*. In 2011, there are about 200 more jobs than in the baseline case. This difference is the net effect of the lopsided performances of the goods- and nongoods-producing sectors. Goods-producing employment finishes the forecast period with about 118,600 jobs, which is about 2,500 fewer jobs than in the baseline. On the other hand, there are nearly 600,000 nongoods-producing jobs in 2011, or 2,750 more jobs than in the baseline case. This improvement is fed by higher Idaho real personal income which occurs because the lower productivity raises producers' costs, e.g., wages per job. Idaho real personal income is \$790 million higher in 2011 than in the *Baseline Scenario*.