

Idaho Economic Forecast

The following tables and text are taken from the

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a publication produced by the

Division of Financial Management.

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EXECUTIVE SUMMARY

A review of Idaho's economic performance last year shows why we are glad it is behind us. The preponderance of evidence shows it was one of the worst years in memory. Idaho nonfarm employment, which is one of the most closely watched indicators of the state's economic health, shrank an estimated 0.9% in 2008, its weakest showing since 2002 and its first decline since 1986. Idaho real personal income receded 0.1% in 2008. The bad news is this year is expected to be worse than last year. Idaho nonfarm employment is forecast to drop 2.1% in 2009. Construction employment is anticipated to shrink another 5,800 jobs due to continued problems in the housing sector. The worldwide glut of computer memory products and collapse in business investment contribute to the expected 2,000-job loss forecast for the state's computer and electronics sector. Logging and wood products employment is expected to lose nearly 1,400 jobs. Professional and business employment is expected to post a second consecutive year of job losses. Interestingly, Idaho real personal income advances by 2.7% in 2009 despite the employment decline. This gain does not reflect strong income growth, but weak prices. Idaho nominal personal income is expected to grow just 2.0% this year, which is slower than in 2008. However, instead of inflation, the weak economy leads to a rare bout of deflation. Adjusting the nominal income for falling prices boosts the real personal income growth to 2.7%. The economy is expected to begin moving forward in 2010, but the recovery will be modest. Idaho nonfarm employment grows a meager 0.5%. Idaho real personal income is expected to rise 0.5%. Local economic conditions improve notably during the last two years of the forecast. For the first time since 2007, nonfarm employment growth rises above 2%. Like jobs, Idaho real personal income rebounds, growing 2.7% in 2011 and 4.0% in 2012.

The current U.S. recession is already a year old, and could turn out to be the longest recession in the past six decades. Global Insight predicts U.S. output will shrink through the first half of 2009. If this forecast holds, the recession would be about 18 months long—almost twice as long as the average for post-war recessions. The anticipated decline will also test another six-decade old record. The back-to-back declines in real GDP predicted for the fourth quarter of 2008 (5.0%) and first quarter of 2009 (3.8%) are the worst since the 1982 recession. The U.S. is not alone. Japan and some European countries (Ireland, Italy, and Germany) are also in recession, and other continental economies are expected to join them soon. With U.S. interest rates already headed to zero, the Federal Reserve is running out of policy tools. As a result, it is likely the onus from restarting the economy will move from monetary policy to fiscal policy. In its most recent forecast, Global Insight assumes a \$550 billion package which consists of tax cuts, infrastructure spending, and other provisions. The economy will take its first, tentative steps toward recovery in the second half of this year, but not hit its stride until 2010. Hence, real GDP is forecast to decline by 1.8% in 2009 and increase 2.1% in 2010. It will pick up more steam and average about 3.0% growth in the final two years of the forecast. Employment does not fare as well. Not only did nonfarm employment begin declining before the recession began, it is not expected to recover until a half year after the downturn ends. While the economy is forecast to begin adding jobs again in 2010, most of the quarterly gains will be meager. Hiring will pick up in 2011 and 2012, however. Real personal income does not retreat over the forecast period, but it comes close in 2010.

IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
U.S. GDP (BILLIONS)												
Current \$	10,128	10,470	10,961	11,686	12,422	13,178	13,808	14,287	14,241	14,728	15,438	16,165
% Ch	3.2%	3.4%	4.7%	6.6%	6.3%	6.1%	4.8%	3.5%	-0.3%	3.4%	4.8%	4.7%
2000 Chain-Weighted	9,891	10,049	10,301	10,676	10,990	11,295	11,524	11,662	11,456	11,692	12,063	12,422
% Ch	0.8%	1.6%	2.5%	3.6%	2.9%	2.8%	2.0%	1.2%	-1.8%	2.1%	3.2%	3.0%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	33,054	33,849	34,816	38,079	40,853	44,389	47,536	49,045	50,024	51,217	53,871	57,148
% Ch	5.6%	2.4%	2.9%	9.4%	7.3%	8.7%	7.1%	3.2%	2.0%	2.4%	5.2%	6.1%
Idaho Nonfarm (Millions)	32,039	32,921	34,099	37,100	39,993	43,748	46,497	48,156	48,908	50,074	52,687	56,021
% Ch	5.2%	2.8%	3.6%	8.8%	7.8%	9.4%	6.3%	3.6%	1.6%	2.4%	5.2%	6.3%
U.S. (Billions)	8,724	8,882	9,164	9,727	10,270	10,994	11,663	12,122	12,315	12,632	13,226	13,904
% Ch	3.5%	1.8%	3.2%	6.2%	5.6%	7.1%	6.1%	3.9%	1.6%	2.6%	4.7%	5.1%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	32,376	32,690	32,970	35,127	36,608	38,705	40,400	40,341	41,423	41,646	42,768	44,487
% Ch	3.5%	1.0%	0.9%	6.5%	4.2%	5.7%	4.4%	-0.1%	2.7%	0.5%	2.7%	4.0%
Idaho Nonfarm (Millions)	31,382	31,795	32,290	34,223	35,838	38,147	39,517	39,610	40,499	40,716	41,827	43,610
% Ch	3.1%	1.3%	1.6%	6.0%	4.7%	6.4%	3.6%	0.2%	2.2%	0.5%	2.7%	4.3%
U.S. (Billions)	8,545	8,578	8,678	8,973	9,203	9,587	9,912	9,971	10,198	10,271	10,500	10,824
% Ch	1.4%	0.4%	1.2%	3.4%	2.6%	4.2%	3.4%	0.6%	2.3%	0.7%	2.2%	3.1%
HOUSING STARTS												
Idaho	12,207	13,229	16,393	18,671	23,383	19,452	14,262	8,358	7,556	9,346	11,154	14,958
% Ch	6.1%	8.4%	23.9%	13.9%	25.2%	-16.8%	-26.7%	-41.4%	-9.6%	23.7%	19.3%	34.1%
U.S. (Millions)	1,601	1,710	1,854	1,950	2,073	1,812	1,341	0,921	0,662	0,969	1,347	1,571
% Ch	1.8%	6.8%	8.4%	5.2%	6.3%	-12.6%	-26.0%	-31.3%	-28.1%	46.4%	39.0%	16.7%
TOTAL NONFARM EMPLOYMENT												
Idaho	568,035	568,047	572,552	588,072	611,729	638,916	656,300	650,652	637,195	640,591	656,206	678,280
% Ch	1.7%	0.0%	0.8%	2.7%	4.0%	4.4%	2.7%	-0.9%	-2.1%	0.5%	2.4%	3.4%
U.S. (Thousands)	131,830	130,340	129,996	131,419	133,695	136,092	137,618	137,377	134,794	134,910	136,917	139,193
% Ch	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	-0.2%	-1.9%	0.1%	1.5%	1.7%
SELECTED INTEREST RATES												
Federal Funds	3.9%	1.7%	1.1%	1.3%	3.2%	5.0%	5.0%	2.0%	0.1%	1.2%	3.7%	4.8%
Bank Prime	6.9%	4.7%	4.1%	4.3%	6.2%	8.0%	8.1%	5.1%	3.1%	4.2%	6.7%	7.8%
Existing Home Mortgage	7.0%	6.5%	5.7%	5.7%	5.9%	6.6%	6.5%	6.1%	5.5%	5.7%	6.8%	7.2%
INFLATION												
GDP Price Deflator	2.4%	1.7%	2.1%	2.9%	3.3%	3.2%	2.7%	2.3%	1.4%	1.3%	1.6%	1.7%
Personal Cons Deflator	2.1%	1.4%	2.0%	2.6%	2.9%	2.8%	2.6%	3.3%	-0.7%	1.8%	2.4%	2.0%
Consumer Price Index	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	3.8%	-1.5%	2.4%	3.1%	2.3%

National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2008

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 2009

	2008				2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
U.S. GDP (BILLIONS)												
Current \$	14,151	14,295	14,421	14,283	14,201	14,171	14,252	14,338	14,457	14,628	14,823	15,003
% Ch	3.5%	4.1%	3.6%	-3.8%	-2.3%	-0.8%	2.3%	2.4%	3.4%	4.8%	5.4%	5.0%
2000 Chain-Weighted	11,646	11,727	11,712	11,563	11,450	11,431	11,451	11,490	11,544	11,638	11,744	11,843
% Ch	0.9%	2.8%	-0.5%	-5.0%	-3.8%	-0.7%	0.7%	1.4%	1.9%	3.3%	3.7%	3.4%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	48,280	49,055	49,394	49,450	49,772	49,956	50,104	50,266	50,569	50,918	51,432	51,948
% Ch	-2.0%	6.6%	2.8%	0.5%	2.6%	1.5%	1.2%	1.3%	2.4%	2.8%	4.1%	4.1%
Idaho Nonfarm (Millions)	47,415	48,358	48,309	48,540	48,768	48,817	48,940	49,106	49,404	49,780	50,303	50,809
% Ch	-0.4%	8.2%	-0.4%	1.9%	1.9%	0.4%	1.0%	1.4%	2.5%	3.1%	4.3%	4.1%
U.S. (Billions)	11,961	12,152	12,157	12,217	12,263	12,291	12,327	12,381	12,457	12,562	12,688	12,821
% Ch	3.0%	6.6%	0.2%	2.0%	1.5%	0.9%	1.2%	1.7%	2.5%	3.4%	4.1%	4.3%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,139	40,360	40,128	40,738	41,267	41,523	41,477	41,427	41,468	41,538	41,705	41,871
% Ch	-5.4%	2.2%	-2.3%	6.2%	5.3%	2.5%	-0.4%	-0.5%	0.4%	0.7%	1.6%	1.6%
Idaho Nonfarm (Millions)	39,420	39,786	39,247	39,988	40,434	40,576	40,513	40,471	40,514	40,609	40,789	40,953
% Ch	-3.9%	3.8%	-5.3%	7.8%	4.5%	1.4%	-0.6%	-0.4%	0.4%	0.9%	1.8%	1.6%
U.S. (Billions)	9,944	9,998	9,876	10,064	10,168	10,216	10,205	10,204	10,216	10,248	10,288	10,334
% Ch	-0.6%	2.2%	-4.8%	7.8%	4.2%	1.9%	-0.4%	0.0%	0.5%	1.3%	1.6%	1.8%
HOUSING STARTS												
Idaho	9,153	9,290	7,798	7,192	7,336	7,398	7,682	7,809	8,130	9,035	9,873	10,347
% Ch	-57.3%	6.1%	-50.3%	-27.7%	8.3%	3.4%	16.3%	6.8%	17.5%	52.5%	42.6%	20.6%
U.S. (Millions)	1.053	1.025	0.877	0.728	0.643	0.614	0.652	0.738	0.766	0.902	1.035	1.173
% Ch	-30.0%	-10.2%	-46.4%	-52.4%	-39.4%	-16.6%	27.2%	64.2%	15.9%	91.8%	73.4%	65.5%
TOTAL NONFARM EMPLOYMENT												
Idaho	655,618	652,185	650,127	644,678	640,894	637,496	635,353	635,036	637,119	639,037	641,598	644,610
% Ch	-1.9%	-2.1%	-1.3%	-3.3%	-2.3%	-2.1%	-1.3%	-0.2%	1.3%	1.2%	1.6%	1.9%
U.S. (Thousands)	137,917	137,699	137,371	136,519	135,567	134,838	134,434	134,335	134,386	134,668	135,057	135,530
% Ch	-0.3%	-0.6%	-1.0%	-2.5%	-2.8%	-2.1%	-1.2%	-0.3%	0.2%	0.8%	1.2%	1.4%
SELECTED INTEREST RATES												
Federal Funds	3.2%	2.1%	1.9%	0.7%	0.2%	0.0%	0.0%	0.2%	0.5%	0.9%	1.4%	2.0%
Bank Prime	6.2%	5.1%	5.0%	4.1%	3.2%	3.0%	3.0%	3.2%	3.5%	3.9%	4.4%	5.0%
Existing Home Mortgage	6.0%	6.1%	6.4%	5.9%	5.3%	5.4%	5.6%	5.7%	5.7%	5.6%	5.6%	5.9%
INFLATION												
GDP Price Deflator	2.6%	1.1%	4.2%	1.0%	1.6%	-0.2%	1.6%	1.0%	1.4%	1.5%	1.6%	1.5%
Personal Cons Deflator	3.6%	4.3%	5.2%	-5.4%	-2.5%	-1.0%	1.6%	1.8%	2.0%	2.1%	2.4%	2.4%
Consumer Price Index	4.3%	5.0%	6.7%	-9.0%	-4.0%	-1.7%	2.2%	2.6%	2.6%	2.7%	3.1%	3.2%

National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the **THIRD** Quarter of 2008

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NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2008 through the Fourth Quarter of 2012

While all years bring challenges, this year promises to have more than its fair share of them. The current U.S. recession is already a year old, and could turn out to be the longest recession in the past six decades. Global Insight predicts U.S. output will shrink through the first half of 2009. If this forecast holds, the recession would be about 18 months long—almost twice as long as the average for post-war recessions. The anticipated decline will also test another six-decade old record. The back-to-back declines in real GDP predicted for the fourth quarter of 2008 (5.0%) and first quarter of 2009 (3.8%) are the worst since the 1982 recession. The U.S. is not alone. Japan and some European countries (Ireland, Italy, and Germany) are also in recession, and other continental economies are expected to join them soon. This downturn will be the biggest European economic contraction since the early 1990s and the first for the Eurozone. Japan will suffer its nastiest setback since the Asian crises in 1998. Few large economies will escape the global slowdown. Even global economic wunderkind China will see its growth slow from nearly 12% in 2007 to “just” 7% in 2009.

Central banks have already begun to respond in an effort to minimize economic woes. The Federal Reserve’s Federal Open Market Committee (FOMC) lowered its federal funds rate target to the range of 0.25% to 0.0% on December 16, 2008—a move that was bolder than most Fed watchers expected. On December 4, the European Central Bank cut its overnight rate by 75 basis points to 2.5%. On the same day, the Bank of England dropped its rate by 100 basis points to 2.0%. It is assumed these central banks will drop their respective rates further to 1.0% and 0.5%. However, cutting them to zero is also possible. On December 19, 2008 the Bank of Japan lowered its uncollateralized overnight call rate by 20 basis points to 0.1%. The People’s Bank of China lowered rates 108 basis points on November 26—its largest cut in 11 years.

With U.S. interest rates already headed to zero, the Federal Reserve is running out of policy tools. As a result, it is likely the onus from restarting the economy will move from monetary policy to fiscal policy. It remains to be seen what will be the final size and shape of the fiscal policy. The incoming Obama administration has been looking at a stimulus package of between \$500 billion and \$750 billion (about 3% to 5% of GDP). In its most recent forecast, Global Insight assumes a \$550 billion package which consists of tax cuts, infrastructure spending, and other provisions. The only other country considering a major stimulus program is China. It has announced a \$586-billion plan (16% of GDP) that should add substantially to growth. The fiscal stimulus plans discussed by other countries are more modest. For example, plans being considered by the United Kingdom and Eurozone are only between one and one-half percent of GDP.

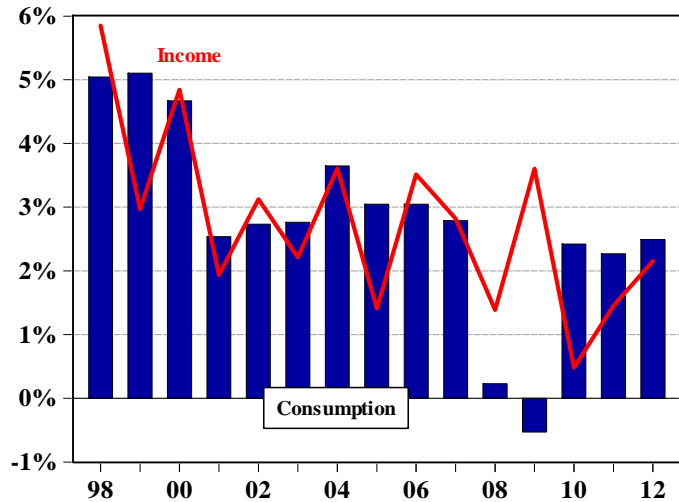
The economy will take its first, tentative steps toward recovery in the second half of this year, but not hit its stride until 2010. Hence, real GDP is forecast to decline by 1.8% in 2009 and increase 2.1% in 2010. It will pick up more steam and average about 3.0% growth in the final two years of the forecast. Employment does not fare as well. Not only did nonfarm employment begin declining before the recession began, it is not expected to recover until a half year after the downturn ends. While the economy is forecast to begin adding jobs again in 2010, most of the quarterly gains will be meager. Hiring will pick up in 2011 and 2012, however. Real personal income does not retreat over the forecast period, but it comes close in 2010.

SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending: The consumer spending retreat is expected to continue into early 2009. The predicted 2.3% peak-to-trough drop in real spending will be the biggest setback since the 1980 recession. This decline would have been more drastic were it not for the anticipated new round of fiscal stimulus and lower energy prices. This forecast assumes a \$550-billion fiscal package that includes \$250 billion in tax cuts and \$55 billion in other personal transfer payments over three years. The expected decline in gasoline prices from their 2008 third quarter peak is equivalent to a \$230-billion tax cut for consumers. The lower gasoline prices help the share of consumers' disposable income spent for energy to drop from 6.6% in the third quarter of 2008 to 4.1% this spring. Thus, despite falling employment, real disposable income is projected to rise 3.6% in 2009.

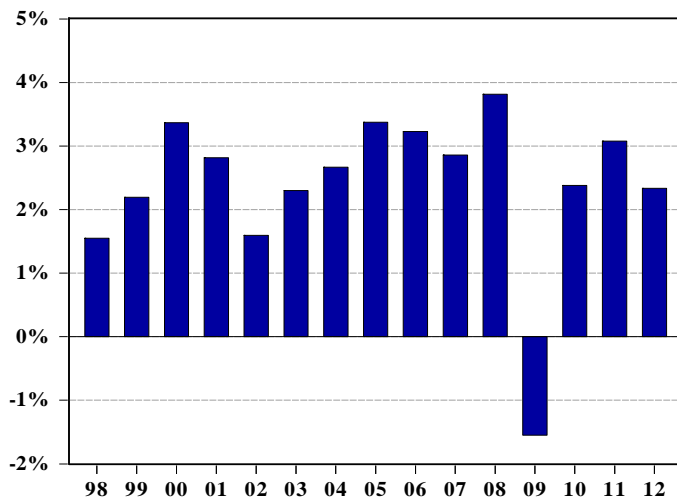
Households are expected to spend cautiously, resulting in the personal savings rate rising from 1.8% in 2008 to 5.8% in 2009—its highest level since 1992. However, the protracted decline in home prices, the expected upturn in oil prices, and rising unemployment should dampen spending growth in late 2009 and early 2010. On an annual basis, after declining 0.5% in this year, real consumer spending growth averages about 2.4% annually through 2012. One of the reasons for jittery consumers can be traced to their balance sheets. It is estimated real net worth plunged 13.0% in 2008 due in large part to the decline in housing prices and the stock market collapse. Household real net worth is expected to recover slowly, and not reach its 2007 level until after 2011.

U.S. Real Consumption and Disposable Income Growth



Source: Global Insight

Consumer Price Inflation



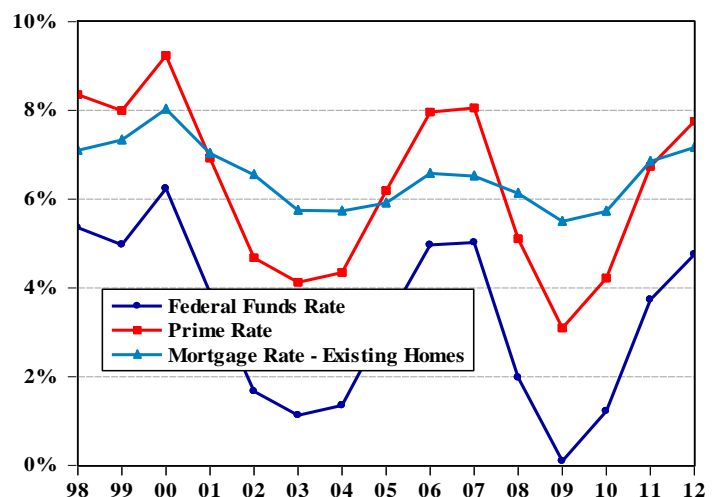
Source: Global Insight

Inflation: The energy price freefall is putting immense downward pressure on every inflation index. The U.S. Department of Labor reported the closely watched Consumer Price Index for all urban consumers dropped 1.7% in November 2008. Driving this decline was the 17.0% drop in the energy component of the index. (Excluding energy, the index was virtually flat.) According to the Department of Labor, the gasoline index fell 29.5% in November alone and is down a whopping 47.0% from its July 2008 peak. Consumers have experienced this decline in the form of gasoline prices which have fallen from a peak of \$3.91 per gallon in the third quarter of 2008 to \$2.28 per gallon in early November 2008. Oil prices should continue retreating due to weak global demand.

OPEC has not managed the downturn in global demand very well. From an average of \$100 per barrel in 2008, the price of West Texas Intermediate crude is forecast to average just \$43 per barrel this year. Unfortunately, oil prices are expected to rise as when the economy recovers. Specifically, its average price goes from \$57 per barrel in 2010, to \$79 in 2011, and to \$87 in 2012. Gasoline prices display a similar pattern. After averaging \$3.33 per gallon last year, the pump price for gasoline is expected to average \$1.99 this year, \$2.44 in 2010, \$2.95 in 2011, and \$3.14 in 2012. The energy index should decline 27.2% this year, rise 12.9% next year, increase 13.2% in 2011, and grow another 4.6% in 2012. Overall consumer inflation is less volatile. Prices should rise 3.8% in 2008, drop 1.5% in 2009—the first decline in 54 years, increase 2.4% in 2010, grow 3.1% in 2011, and increase 2.3% in 2012. The more modest swings in the overall index compared to the energy index largely reflects the calming influence of slower, consistent employment costs which are expected to rise about 2% annually. The low employment cost growth reflects the downward pressure of relatively high unemployment.

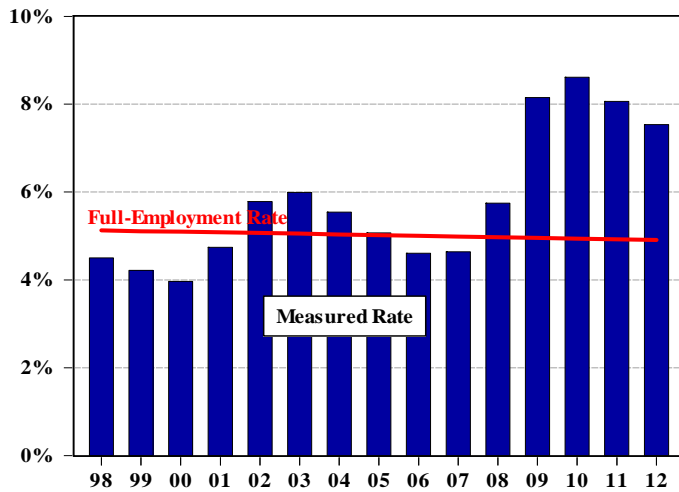
Financial Markets: The Federal Reserve’s Federal Open Market Committee (FOMC) lowered its federal funds rate target to the range of 0.25% to 0.0% on December 16, 2008. While the FOMC was expected to lower this rate, the change was more aggressive than the consensus expectation of economists that the target rate would be 0.50%. Global Insight is in this camp. It assumed the FOMC would lower the federal funds rate to 0.50% in December followed by another move in late January 2009 that would reduce this rate to zero. In the press release announcing its move, the FOMC stated, “Since the committee’s last meeting, labor market conditions have deteriorated, and the available data indicate consumer spending, business investment, and industrial production have declined. Financial markets remain quite strained and credit conditions tight. Overall, the outlook for economic activity has weakened further.” Clearly, the nation’s central bank has made propping the economy and supporting financial markets its top priorities. One of the reasons the FOMC can act so aggressively is inflation pressures have eased dramatically this fall. The U.S. central bank was not alone in loosening its monetary policy. The Bank of England slashed its key interest rate by 100 basis points to 2.00% in early December. Consequently, interest rates match their lowest levels since the bank’s founding in 1694. The European Central Bank cut its key interest rate by 75 basis points to 2.50% about the same time the Bank of England dropped its rate. This was the European Central Bank’s largest-single move since it assumed responsibility for the Eurozone’s monetary policy in January 1999. The Bank of Canada lowered its key interest rate by 75 basis points to 1.5% in an attempt to improve its ailing economy. Sweden’s central bank, the Riksbank, also cut its policy interest rate recently. It appears these cuts are not the final shots in the salvo against each country’s recession. With the federal funds rate at zero, the FOMC may have to engage in direct purchases of long-term Treasuries. It is already engaging in nontraditional measures to stimulate the economy such as buying commercial paper, mortgage-backed securities, credit card debt, and loans to small businesses, students, and car buyers. The FOMC is expected to hold the federal funds rate at zero through the third quarter of next year, then it will gradually raise rates as the economy begins to recover.

Selected U.S. Interest Rates



Source: Global Insight

U.S. Civilian Unemployment Rate



Source: Global Insight

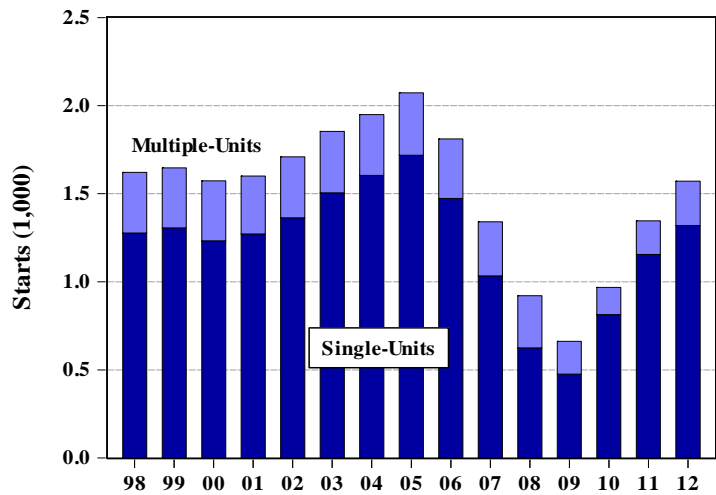
Employment: The nation's employment situation is expected to worsen through 2009 before starting a modest recovery in 2010. The U.S. economy has posted net job losses in every month of 2008. The latest jobs' report was particularly troubling. The consensus among economists was that nonfarm payrolls would shrink about 350,000 jobs in November 2008. The U.S. Department of Labor reported November's job base shrank by 533,000 jobs—its worst percentage drop since May 1980. The November report contained more bad news in the form of revisions that lowered the September and October estimates by a combined 199,000 jobs. Since December 2007, 1.9 million jobs have been lost. Over the same time period, the U.S. civilian unemployment rate has climbed from 5.0%

to 6.7%. The unemployment rate increase means the country's work force has gone from being nearly full employed to clearly underemployed. One statistic that is often overlooked when assessing the labor market's health is discouraged workers. These are people who would like to have a job but have stopped looking for work, so they are not included in the labor force. The Labor Department estimates the number of discouraged workers swelled by 400,000 in November 2008. Had these persons kept looking for jobs, the November 2008 civilian unemployment rate would have been even higher than had been reported. Unfortunately, payrolls are expected to keep retreating another year, resulting in a peak-to-trough drop of 3.7 million jobs from the fourth quarter of 2007 through late 2009. Job growth is forecast to resume in 2010, although average annual payrolls in that year are little different from the 2009 levels. However, more robust gains should push annual tallies between 2.0 million and 2.3 million jobs thereafter. National nonfarm employment is forecast to shrink 0.2% in 2008 and another 1.9% in 2009. It is expected to advance a meager 0.1% in 2010, 1.5% in 2011, and 1.7% in 2012. Not surprisingly, the unemployment rate also gets worse before improving. It is projected to climb another two percentage points from November's 6.7% to 8.7% in early 2010. The job recovery is anticipated to be tepid, so the U.S. unemployment rate will remain above the full-employment level.

Housing: The nation's housing sector is not near its bottom, and it is expected to continue sliding through most of next year. This prognosis is disappointing because a recovering housing industry is critical to the nation's economic recovery. The housing market weakness is expected to erase one percentage point of growth in both the last quarter of 2008 and first quarter of 2009. While some recent statistics may provide hope the worst is behind this sector, the preponderance of evidence point to more challenges ahead. The small decline in the Pending Home Sales Index seems to point to modest declines in existing homes sales over the rest of 2009. However, seasonally adjusted housing starts fell to a record low of 791,000 units in October 2008. In addition, housing permits dropped 12.0% in October, which increased the possibility of double-digit housing starts declines in the remaining two months of that year. On an annual basis, housing starts were forecast to drop below one million units in 2008, for the first time since 1945. They are expected to fall further to 662,000 in 2009. This year's drop reflects declines in the first half of the year followed by a rebound fueled by renewed economic growth and lean inventories. Housing starts rise to 969,000 units in 2010, 1.347 million units in 2011, and 1.571 million units in 2012. Existing home sales will also display weakness during the early years of the forecast.

Weighed down by job losses, tight credit, and low consumer confidence, existing home sales are expected to dip below five million units in the last quarter of 2008 and keep falling through 2010's first quarter. New home sales are projected to fall proportionately more than existing homes because builders, who must cover their costs, will have trouble competing in markets with high foreclosure rates. The average price for existing homes is expected to decline in all but the last two years of the forecast. Two observations regarding prices are worth noting. First, the biggest projected year-over-year decline is in 2009, which means there are harder times ahead. Second, the anticipated housing price appreciation during the last two years of the forecast will come nowhere near to offsetting the price depreciation suffered since existing home prices peaked at nearly \$270,000 in 2006.

U.S. Housing Starts

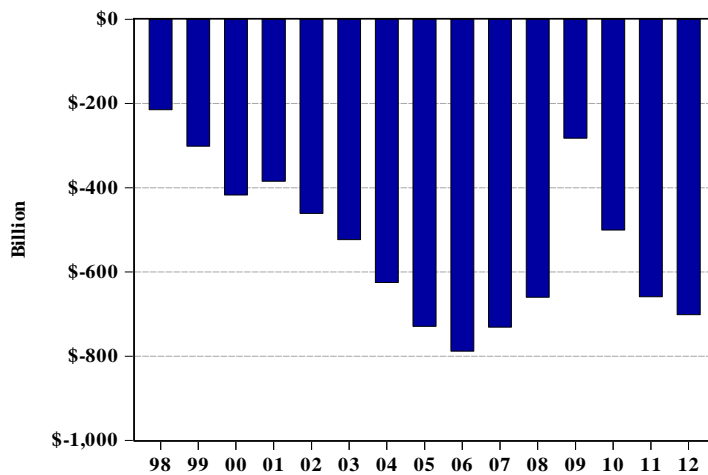


Source: Global Insight

International: The U.S. and world economies are expected to experience some of the worst recessions in the postwar period. The United States is now officially in a recession that started in December 2007. Japan and some European countries (Ireland, Italy, and Germany) are also in recession. Other European economies are expected to turn down soon. For Europe, this will be the most severe business contraction since the early 1990s. For Japan, it will be the nastiest recession since the depths of the Asian crises in 1998. In 2009, output is expected to decline 1.0% in Europe, 1.3% in Japan, and 1.8% in the United Kingdom. Unfortunately, the developing countries will not be immune from the economic contagion from the developed world. There are at least three transmission vectors to the emerging world. One, the collapse in commodity prices, which is already hurting countries such as Russia, Iran, Venezuela, and South Africa. Two, capital flows have dried up, which is harming economies with large current-account

balances. Three, the precipitous decline in world trade, will damage growth for the major exporting countries (almost all of which are in Asia). As a result, GDP in most emerging markets during 2009 will be roughly half the rate of 2007 and early 2008. For example, the Chinese economy, which surged 11.9% in 2007, is expected to grow just 6.9% in 2009. One positive consequence of the emerging trade picture is global trade imbalances should improve markedly. For example, the U.S. current-account deficit, which was \$731 billion in 2007, should drop to \$282 billion in 2009. It is important to remember the large deficits in the past two years have masked the significant improvement in the non-oil

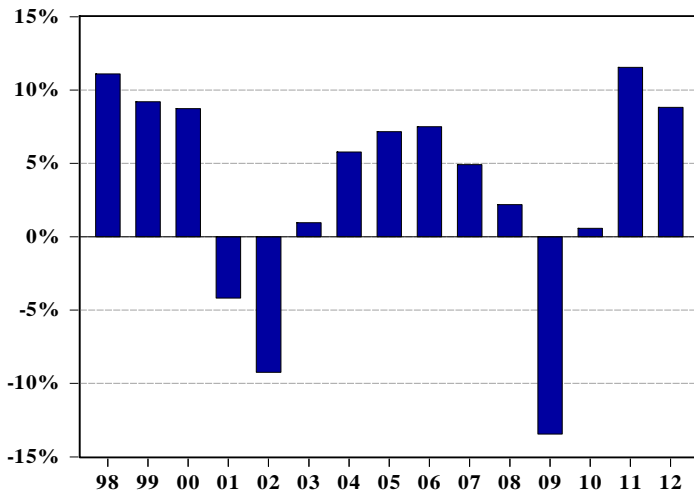
U.S. Current Trade Deficit



Source: Global Insight

deficit, which resulted from the sharp rise in the oil import bill. With the collapses in oil prices, the U.S. current account deficit will plummet about 50%. The huge drop in commodity prices also points to a major shift in the terms of trade, in favor of the developed countries, and represents a rebalancing of growth and current account deficits, with commodity-importing countries being the major beneficiaries. After 2009, the current account deficit is forecast to rise to \$500 billion in 2010, \$659 billion in 2011, and \$702 billion in 2012.

Real Business Investment



Source: Global Insight

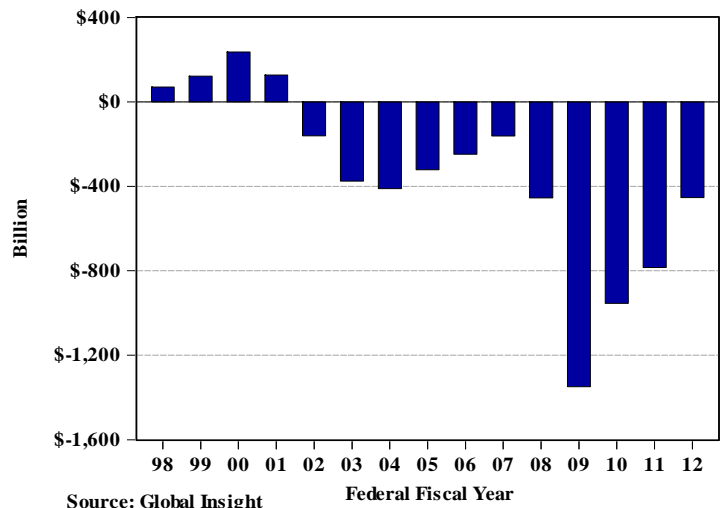
Business Investment: Current conditions do not bode well for business investment. Businesses have few reasons to start new buildings or renovate existing ones. The economy is in recession, job losses are mounting, too many hotels and malls were put up during the most recent expansion, the securitization market for commercial real estate loans is frozen, credit is tight, and oil prices have collapsed. As a result, nonresidential construction spending is expected to drop over the first seven quarters of the forecast horizon. The decline is widespread and deep. All major building categories fall at double-digit rates this year. In summary, real nonresidential investment is projected to shrink 13.4% this year, eke out 0.6% growth next year, advance by 11.5% in

2011, and increase another 8.8% in 2012. The credit crunch is also hitting businesses in other ways. They are finding it hard to finance solid projects and are opting to preserve cash rather than fund projects they would normally undertake. One example is spending on equipment and software. In the forecast, real spending on equipment and supplies drops at about a 20% annualized rate in the last quarter of 2008, despite the boost provided by the accelerated depreciation allowances that were part of last year’s stimulus package. Overall, real spending on equipment and software is anticipated to drop 2.1% in 2008, plunge 12.2% in 2009, rise 7.7% in 2010, increase 13.9% in 2011, and advance 8.6% in 2012.

Government: The Obama administration is expected to flex its fiscal policy muscle early in an attempt to end the recession. The President-elect has already started assembling his economic team and putting together a large-scale stimulus plan. The incoming administration has been talking about a fiscal plan package of about \$500 billion to \$700 billion. This forecast assumes a \$550 billion package over three years that includes a mixture of infrastructure spending, support for state and local governments, transfer payments to individuals, and a permanent middle-class tax cut. (However, given how quickly the economy is deteriorating, the final fiscal package could be much larger.) Specifically, the assumed plan includes \$135 billion in infrastructure spending channeled through the states, \$110 billion in other transfers to the states to support Medicaid and other current spending, \$55 billion in targeted transfer payments to the personal sector (e.g., food stamps, extended unemployment insurance), and \$250 billion in tax cuts for the personal sector. The infrastructure spending is expected to directly create jobs, but its impact will not be immediate because it will take time to ramp up these projects. The stimulus plan should be easily recognizable to anyone who has read an introductory college economics text. This fiscal

policy strategy is a standard Keynesian response when the monetary policy is facing a liquidity trap (i.e., the financial sector mops up liquidity without increasing lending) and private-sector spending is contracting. In addition, the U.S. Treasury has the authority to purchase up to \$700 billion in assets through the Troubled Asset Relief Program (TARP). It is assumed in the current forecast that \$350 billion of this amount will be used as capital infusions into financial institutions. The remaining \$350 billion is expected to be used to purchase troubled assets and to fund a foreclosure prevention program. The estimated net loss of these activities is around \$102 billion, which is included in the fiscal 2009 federal budget deficit. In total, the federal budget deficit should swell above \$1.3 trillion in 2009 and be close to \$1 trillion in 2010.

**U.S. Federal Government Surplus
Unified Basis**



IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2008 through the Fourth Quarter of 2012

A review of Idaho's economic performance last year shows why we are glad it is behind us. The preponderance of evidence shows it was one of the worst years in memory. Idaho nonfarm employment, which is one of the most closely watched indicators of the state's economic health, shrank an estimated 0.9% in 2008, its weakest showing since 2002 and its first decline since 1986. Contributing to this decline were ailing sectors that took a turn for the worse last year. Weighed down by the housing industry troubles, Idaho construction employment shed an estimated 6,800 jobs last year, a nearly 13% drop. This reversal of fortune came quickly; in 2006 construction employment increased over 15%. Idaho's computer and electronic sector's payroll declined about 12% last year, reflecting a major reduction at Micron Technology and cuts at other local high-tech manufacturers. The national housing collapse took its toll on the state's logging and wood products sector. After shrinking about 5% in 2007, its employment base plunged nearly 16% in 2008. Two nongoods-producing sectors also stumbled last year. Professional and business employment fell an estimated 2% and trade employment slipped about 1% beneath its 2007 level. Idaho real personal income dropped slightly last year.

The bad news is this year is expected to be worse than last year. Idaho nonfarm employment is forecast to drop 2.1% in 2009, with a chunk of the decline coming from the same industries as in 2008. Construction employment is anticipated to shrink another 5,800 jobs due to continued problems in the housing sector. The worldwide glut of computer memory products and collapse in business investment contribute to the expected 2,000-job loss forecast for the state's computer and electronics sector. Logging and wood products employment is expected to lose nearly 1,400 jobs. Professional and business employment is expected to post a second consecutive year of job losses, but not as severe as in 2008. However, it needs to be pointed out that other large nongoods-producing sectors' employment growth will slow considerably this year. Trade employment, which fell about 1% last year, will fall another 1% this year. Interestingly, Idaho real personal income advances by 2.7% in 2009 despite the employment decline. This gain does not reflect strong income growth, but weak prices. Idaho nominal personal income is expected to grow just 2.0% this year, which is slower than in 2008. However, instead of inflation, the weak economy leads to a rare incidence of deflation. Adjusting the nominal income for falling prices boosts the real personal income growth to 2.7%.

The economy is expected to begin moving forward in 2010, but the recovery will be modest. Idaho nonfarm employment grows a meager 0.5%. This increase results from slowing job losses (-2.5%) in the goods-manufacturing sector plus a small gain (1.1%) in the nongoods-producing sector. Logging and wood products loses another 200 jobs, computer and electronics sheds 700 jobs, and construction falls by nearly 1,400 jobs. In that year, all components of the nongoods-producing sectors, except state and local government, are expected to add jobs. Idaho real personal income is expected to rise 0.5%.

Local economic conditions improve notably during the last two years of the forecast. For the first time since 2007, nonfarm employment growth rises above 2%. This first is made possible by another first for this forecast; the goods-producing sector begins adding jobs in 2011. Accelerating nongoods-producing employment growth adds to this recovery. Like jobs, Idaho real personal income rebounds, growing 2.7% in 2011 and 4.0% in 2012.

SELECTED IDAHO ECONOMIC INDICATORS

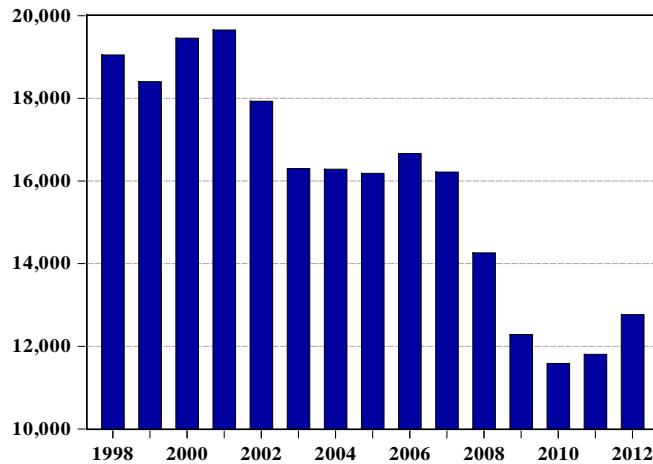
Computer and Electronics: The protracted downturn in the computer memory industry continues to wreak havoc with the state's largest private employer. Micron Technology announced in early October that it was reducing its global work force by 15% in response to depressed prices for its products.

According to company officials, about 1,500 jobs at the Boise plant will be lost by the beginning of this year as a result of the company shutting down its NAND memory operations. The company made this move because the worldwide glut of these products has driven prices below their manufacturing costs. This is not the first time depressed prices have forced the company to reduce its payroll. In 2007, the

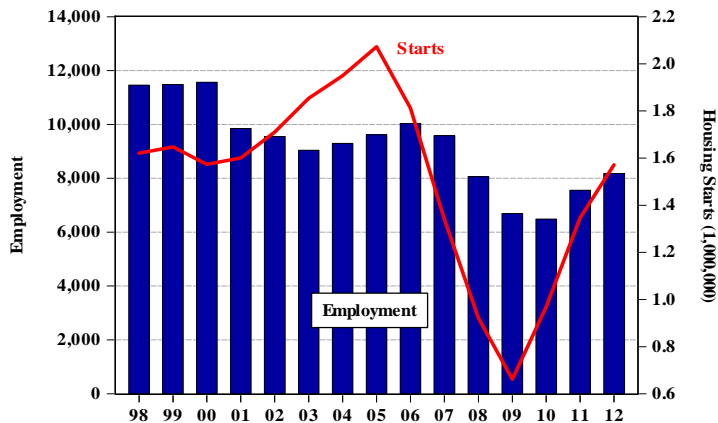
company reduced its Idaho work force by 1,100. The news of the latest round of job cuts came a week after the company released its 2008 fourth quarter earnings report that showed the company had a net loss of \$344 million on net sales of \$1.45 billion. The company lost \$1.6 billion on sales of \$5.8 billion over the entire fiscal year, compared to a loss of \$320 million the previous fiscal year. Unfortunately, the company started its current fiscal year with a \$706 million loss on net sales of \$1.4 billion—its eighth consecutive quarterly loss. Falling global DRAM and NAND prices continue to bedevil this industry, causing hardships for other memory producers. For example, Hynix announced in July 2008 it would close its Eugene, Oregon facility. The plant produced 200mm silicon wafers and employed about 1,100 persons. The company is also seeking financial help from the South Korean government. Infineon has been trying to unload its huge stake in chip maker Qimonda. This unit has been suffering huge losses but was recently granted a reprieve in the form of a line of credit. However, it remains to be seen whether the company will remain viable long enough to introduce its next generation of products. All these companies will continue to be challenged over the next few years. The worldwide imbalance of supply and demand that has depressed prices is not expected to right itself quickly. In addition, this sector's recovery will be hamstrung by the expected declines in U.S. real investment on software and equipment. Specifically, investment is estimated to have fallen 2.1% in 2008 and is forecast to drop 12.2% in 2009 then increase 7.7% in 2010, 13.9% in 2011, and 8.6% in 2012. Idaho computer and electronics employment shrinks over the next two years to a near-term low of about 11,600 jobs, which is down significantly from its 2001 peak of nearly 19,700 jobs. Employment recovers modestly in 2011 and 2012, so that it is at 12,763 jobs in 2012. While the news of Micron Technology's most recent round of layoffs dominate this sector, it should be noted there are a few bright spots. Hoku Scientific, Inc. is building a \$390 million plant to produce polycilicon in Pocatello. The plant is expected to start shipping product in 2009. Pocatello is also the new home for wind turbine manufacturer Nordic Windpower, Ltd.

Logging and Wood Products: Having ridden the national housing boom to a peak of just over 10,000 jobs in 2006, Idaho's logging and wood products sector now finds itself floundering in the after wash of its collapse. To provide some perspective of this change a short history is in order. National housing starts grew strongly most of this decade, topping the 2-million unit level in 2005. This expansion fueled the demand for lumber and wood products, which is evident in the 6.5% cumulative increase in the

Idaho Computer and Electronic Products Employment



Idaho Wood Product Employment and U.S. Housing Starts



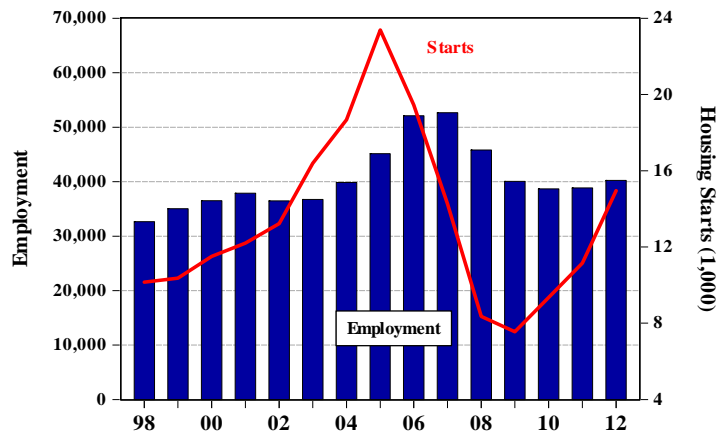
wood production index over the first half of this decade. Idaho logging and wood product employment was slow to respond to the increased demand, but finally produced job gains beginning in 2004. National housing starts slipped to 1.8 million units in 2006 from its previous year’s peak, but remained at high historical levels. Despite this drop, U.S. wood products output was virtually unchanged in 2006 as it was in 2005. Idaho payroll increased to just over 10,000 jobs that year. The next year would be much different. In 2007, the U.S. housing starts decline was twice as steep as the previous year, causing output to retreat nearly 10%. Unlike the

previous year, Idaho’s logging and wood products sector was not able to avoid losses and its employment shrank to about 9,600 jobs. Unfortunately, the national housing retreat is expected to continue through 2009, which is anticipated to reduce Idaho payrolls further. For example, Potlatch Corporation laid off 160 employees at its St. Maries plywood plant for two weeks in November 2008. The company also laid off 220 workers at its Lewiston wood products mill during the last three weeks of the same month. Housing woes were also to blame for the Idaho Forest Group shut down of its Moyie Springs mill during Thanksgiving week. The housing sector’s ebb means the logging and wood products sector’s future will once again be dominated by unfavorable supply factors. They include dwindling timber supplies from Idaho national forests. According to U.S. Forest Service estimates, the harvest from national forests fell by 69% from 1997 to 2006. As a result, the national forests’ share of Idaho’s timber harvest shrank from 20% in 1997 to 8% in 2006. Idaho is not the only area suffering; the combined harvest from Washington and Oregon national forests has dropped nearly 60% over the same period, and their employment has fallen by over 25%. 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. The industry’s increased productivity means mills need fewer workers. National housing starts are forecast to begin recovering modestly in 2010. Idaho logging and wood sector employment is expected to decline through 2010, and then it posts a modest recovery to around 8,200 jobs in 2012.

Construction: Expected declines in Idaho construction employment over most of the forecast period means the state will lose one of its most important growth engines. Fueled by the Idaho housing boom, construction employment advanced an amazing 5% annually from 1997 to 2007—about twice as fast as overall employment. As a result of this strong showing, construction’s share of total employment climbed from 6.4% in 1997 to 8.0% in 2007. This growth spurt was made possible by the healthy housing market that expanded from just 8,888 housing starts in 1997 to a peak of nearly 23,400 units in 2005. Although housing starts began declining the next year, Idaho construction employment continued growing thanks to the strong commercial sector. However, this boost ran out of fuel in 2007, causing construction employment to stall. Unfortunately, this sector’s fortunes have not yet bottomed out. Future housing activity will be hampered by the combined impacts of the cooling economy, tight credit conditions, and slower population growth. The next two years will be particularly devastating. Housing

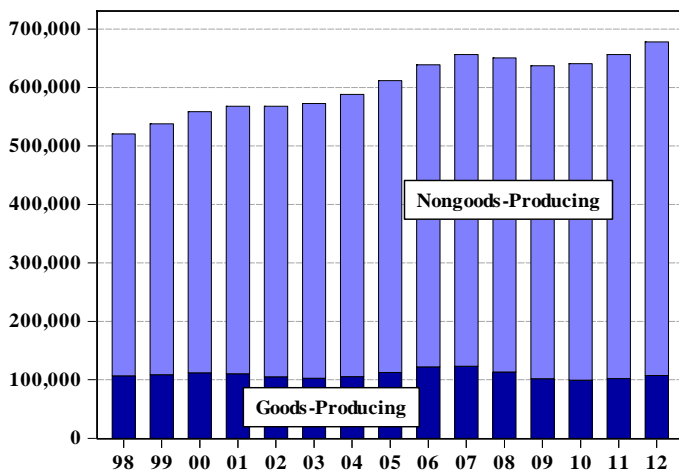
starts are expected to have dropped to 7,192 units by the end of 2008, about 2,000 units lower than at the year's start. Housing starts should then begin recovering modestly in 2009. Housing starts are projected to post their first year-over-year gain in 2010 and continue growing thereafter to about 5,000 units in 2012, which is much lower than its 2005 peak. Idaho construction employment is forecast to slide during the first three years of the forecast to 38,660 jobs in 2010 and remain near that level in 2011. Idaho construction employment enjoys its first significant increase to 40,205 jobs in the last year of the forecast. During the forecast period, construction's share of total nonfarm employment slips from 8.0% in 2007 to just under 6.0% in 2012.

Idaho Construction Employment and Housing Starts



Nongoods-Producing Industries: As the state's manufacturing, construction, and mining sectors struggle over the next few years, modest job growth is expected to come from Idaho's services and trade sectors. The services category had an average of 304,484 jobs in 2007 and there were 111,657 trade jobs. Together they accounted for about 80% of the state's nonfarm 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 two categories, advancing an average of 3.7% annually over the last five years versus 2.8% for trade employment. Education and health services are consistent performers because they are driven more by demographics than economics. This category should add jobs at a 3.3% average annual pace from 2008 to 2012. Professional and business services employment should expand an average of 1.6% per year over the same period. Leisure and hospitality services should grow 1.5% annually over the next few years. This industry suffered a setback when the owners of Tamarack Resort filed for bankruptcy protection last year. In addition, Andre Agassi and Steffi Graf dropped their plans for a resort hotel at Tamarack. Not surprising, staffing levels at the resort this winter are lower than last winter. Financial services employment will feel the pinch of the cooling housing market and tighter credit. After expanding by an average of around 6.5% in both 2005 and 2006, financial service's payroll should average 0.6% annual growth over the forecast period. Transportation, warehousing, and utilities sector employment is expected to average 1.0% growth. Information service employment should rise at a 2.4% annual pace. Employment in the other services category

Idaho Nonfarm Employment



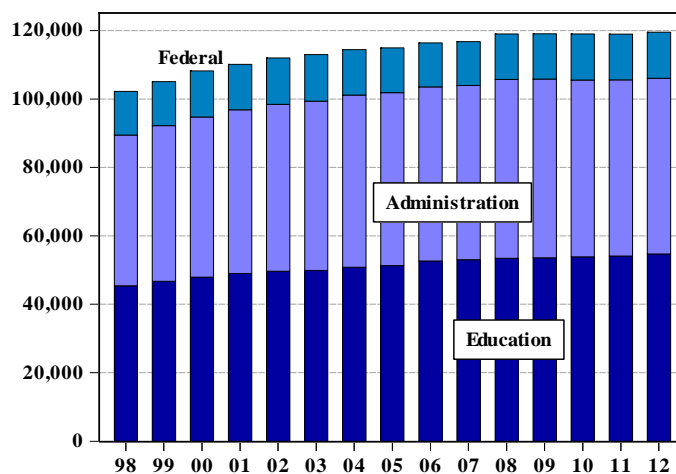
Employment in the other services category

increases over the forecast period from 19,463 jobs to 22,171 jobs. Readers are reminded that other services employment sprinted at a nearly 25% annual pace during last year's first quarter because a new employment survey that revealed there were more noncovered jobs in this sector than had been previously reported. This new data creates a series break that results in a one-time boost to the first quarter's growth rate. After a slow start, total services employment growth is expected to accelerate beginning in 2010. Prognostications for one of the weakest holiday shopping seasons in years have led to fears that Idaho trade employment will repeat last year's disappointing showing. Indeed, final and preliminary data show both wholesale and retail trade employment shrank through the first three quarters of 2008. Trade employment is expected to shrink again this year before expanding in the last three years of the forecast. Walmart plans to close its Lewiston, Idaho store when it opens its new store across the river in Clarkston, Washington. Interestingly, this will have little impact on Idaho retail employment because Clarkston employment is included in the Idaho statistics. The Idaho store's closure will have another impact on Lewiston, however. It will cut Nez Perce County revenue from its half-cent local option sales tax by an estimated 10%, or about \$330,000 per year.

Government: On December 22, 2008 the U.S. Census Department reported Idaho's population on July 1, 2008 was 1,523,816. This change equates to a 1.8% growth rate, which is down from the previous year's 2.4% clip. The state's population growth is projected to slow further, as its economy cools. The main reason for this slowing is the anticipated drop in net immigration. Idaho's population grows fastest when net migration is strong and slowest when net migration is weak. For example, the state's population grew by 1.9% in 2004 when immigration was about 13,000 persons. The next year, a net influx of over 24,000 new residents helped population jump by 2.7%.

Over the next few years net immigration is expected to swing from a low of about 3,100 in 2009 to a high of about 16,400 in 2012. Under these conditions, total population growth should average 1.7% per year over the forecast period, which is well below the pace of the last few years. The anticipated slower population growth should translate to slower demand for government services and reduced government employment growth. In addition, Idaho state and local government employment will be held in check by tight budgets, especially during the next two years. Over the forecast period, Idaho state and local governments will add less than 400 jobs. All of the job gains (1,270) will be in education-related jobs, while the noneducation-related jobs will shrink (-901). There are about 13,300 federal government jobs in Idaho. It should remain near this level throughout the forecast period except for 2010 when hiring associated with the U.S. census takes place early in that year.

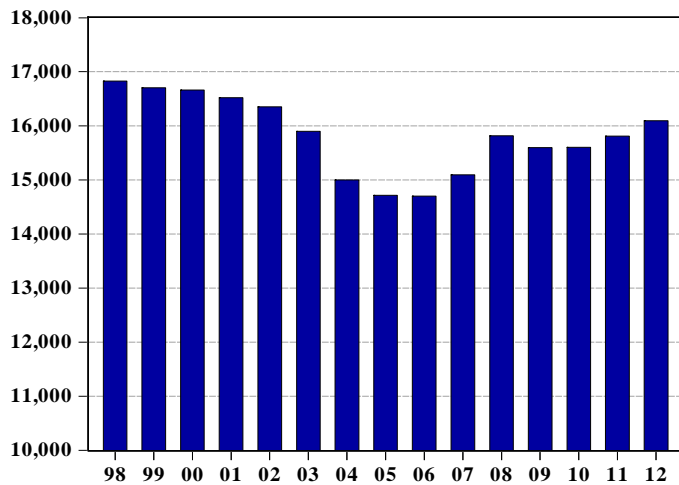
Idaho Government Employment



Mining: Idaho's mining sector employment is forecast to suffer declines over the next two years as the national and global economies cool. These declines will mark the end of six consecutive years of growth. After suffering several years of decline, Idaho mining employment increased from a low of 1,759 jobs in 2002 to nearly 2,800 jobs in 2008—its highest level in over a decade. This expansion was largely fueled by a run up of metal prices. Kathryn Tacke, the Idaho Department of Labor's Regional Economist for North Idaho, reported that at one time the prices of lead and zinc were so high that the

Lucky Friday Mine could make a profit on sales of these two byproducts alone. These high prices led to increased exploration activity in the state. SNS Silver is looking at the possibility of bringing the Crescent Mine near Kellogg back into production. The Crescent, which closed in the 1980s, lies between two of the world's greatest silver producers—the Sunshine and Bunker Hill mines. It appears there are ample mineral supplies for further expansion. However, metal prices have been falling recently, so this sector's short-term fortunes will be driven more by economics than by geology. After exploding 7.1% in 2008, U.S. metal ore mining production is forecast to decrease this year and next. As a result, mining employment is forecast to drop just below 2,000 jobs in 2010. Mining production is forecast to pick up again once the economy starts expanding. This recovery will help Idaho mining employment to start growing in 2011, after suffering two years of losses.

Idaho Food Processing Employment



Food Processing: One of Idaho's cornerstone industries, food processing, is poised to retake the title of the state's largest manufacturing employer. This sector's last employment peak was 17,300 jobs in 1997. Ironically, it was the same year the computer and electronics sector passed it to become Idaho's largest manufacturing employer. After that year, food processing employment shrank for several years as several of this sector's long-time employers began to curtail their local operations. For example, nearly 360 jobs were lost when the J.R. Simplot Company closed 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. However, the passing of time suggests these painful contractions were not symptoms of this sector's demise, but part of its ongoing evolution. Already, new factories have replaced older ones. For example, the former Swift and Company beef processing plant has been reopened by XL Foods, Inc. 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 opened its Mountain Home plant. Idaho Milk Products is building a new 185,000-square-foot facility in Jerome County. Once operational, the plant will process about 3 million gallons of milk per day into protein powders, lactose permeate, and cream. The new plant is expected to employ 75 workers. Sorrento Lactalis is planning to add 40 to 50 manufacturing jobs when it completes its \$50-million whey processing plant. This sector is expected to experience two notable achievements. Its employment will top 16,000 jobs in 2012—for the first time since 2002—and it will once again become the state's largest manufacturing employer in 2008. Employment is but one measure of the food processing industry's importance to the state. The average value of food manufacturing output accounted for more than half (55.8%) of the total Idaho nondurable manufacturing output from 1997 to 2006 and about 2.4% of the state's total gross domestic product. Its relative importance can be seen when it is compared to its national counterpart, which accounts for just 1.5% of the country's economic output.

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its December 2008 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 1.2% in 2008, drops 1.8% in 2009, expands 2.1% in 2010, and grows 3.2% in 2011;
- U.S. nonfarm employment falls 0.2% in 2008, drops another 1.9% in 2009, grows 0.1% in 2010, and increases 1.5% in 2011;
- the annual U.S. civilian unemployment rate peaks at 8.6% in 2010 then gradually declines to 8.1% in 2011;
- consumer inflation is 3.8% in 2008, negative 1.5% in 2009, 2.4% in 2010, and 3.1% in 2011;
- the current account deficit is \$660 billion in 2008, \$282 billion in 2009, \$500 billion in 2010, and \$659 billion in 2011;
- the federal unified budget deficit is \$455 billion in 2008, \$1,349 billion in 2009, \$954 billion in 2010, and \$785 billion in 2011.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 5% probability of occurrence. In this scenario, the rapid response of the Federal Reserve to the crisis in financial markets, coupled with the U.S. Treasury's rescue plan and help from foreign central banks, help avert a severe U.S. economic downturn. In addition, stronger total factor productivity growth is stronger than in the baseline forecast, which helps rein in inflation despite the stronger expected growth. Credit flows more freely in this scenario, helping housing starts average 748,000 units this year, compared to the 662,000 units projected in the baseline case. Likewise, nonresidential fixed investment is stronger in the *Optimistic Scenario*. It suffers a 10.3% contraction in 2009 followed by a 6.5% expansion in 2010. In the baseline, it retreats 13.4% this year followed by an anemic 0.6% rise next year. Both foreign economic growth and the dollar are stronger in this scenario. Finally, thanks to stronger demand, energy prices are higher in this scenario than in the baseline. However, they are lower in the long run, reflecting more-optimistic assumptions about supply.

On net, these assumptions paint a much brighter future for the economy compared to the *Baseline* and *Pessimistic* scenarios. Real GDP declines 0.5% in the third quarter of 2008, 4.3% in the fourth quarter, and by 3.1% in the first quarter of this year. However, it is expected to recover to a 3-percent pace in the second half of this year. On an annual basis, real GDP shrinks 0.6% in 2009 versus 1.8% in the baseline. It expands 3.5% in 2010, compared to the baseline's 2.1%. Under these conditions the unemployment rate never exceeds 8% and falls under 7% by 2011. In short, this scenario is similar to the baseline, with more muted cycle dynamics, but a quick bounce-back.

Under these conditions Idaho's economy does not avoid a downturn, but it is less severe than the one projected in the baseline case. Idaho nonfarm employment declines 0.8% in 2008 and 1.6% in 2009, compared to drops of 0.9% and 2.1%, respectively, in the *Baseline Scenario*. As a result of these more modest declines, there are roughly 3,100 more jobs in 2009 compared to in the baseline. This gap widens to over 11,600 jobs in 2011, however, because of the stronger U.S. economic recovery assumed in the *Optimistic Scenario*. Interestingly, Idaho real personal income growth is virtually the same in the first two years of the forecast, but grows significantly faster in 2010 and 2011. This late rally pushes Idaho real personal income to \$43.2 billion in 2011—about \$450 million higher than in the *Baseline Scenario*.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2009

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
U.S. GDP (BILLIONS)												
Current \$	14,287	14,241	14,728	15,438	14,293	14,452	15,256	16,066	14,279	13,995	14,216	14,911
% Ch	3.5%	-0.3%	3.4%	4.8%	3.5%	1.1%	5.6%	5.3%	3.4%	-2.0%	1.6%	4.9%
2000 Chain-Weighted	11,662	11,456	11,692	12,063	11,667	11,593	11,996	12,391	11,656	11,283	11,366	11,708
% Ch	1.2%	-1.8%	2.1%	3.2%	1.2%	-0.6%	3.5%	3.3%	1.1%	-3.2%	0.7%	3.0%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	49,045	50,024	51,217	53,871	49,047	50,272	52,004	54,892	49,048	49,740	50,301	52,711
% Ch	3.2%	2.0%	2.4%	5.2%	3.2%	2.5%	3.4%	5.6%	3.2%	1.4%	1.1%	4.8%
U.S. (Billions)	12,122	12,315	12,632	13,226	12,123	12,435	13,018	13,713	12,119	12,198	12,281	12,846
% Ch	3.9%	1.6%	2.6%	4.7%	3.9%	2.6%	4.7%	5.3%	3.9%	0.6%	0.7%	4.6%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,341	41,423	41,646	42,768	40,336	41,363	41,824	43,219	40,358	41,522	41,352	41,909
% Ch	-0.1%	2.7%	0.5%	2.7%	-0.2%	2.5%	1.1%	3.3%	-0.1%	2.9%	-0.4%	1.3%
U.S. (Billions)	9,971	10,198	10,271	10,500	9,970	10,231	10,469	10,797	9,973	10,183	10,096	10,213
% Ch	0.6%	2.3%	0.7%	2.2%	0.6%	2.6%	2.3%	3.1%	0.6%	2.1%	-0.9%	1.2%
TOTAL NONFARM EMPLOYMENT												
Idaho	650,652	637,195	640,591	656,206	650,738	640,261	650,144	667,854	650,626	634,382	631,989	645,018
% Ch	-0.9%	-2.1%	0.5%	2.4%	-0.8%	-1.6%	1.5%	2.7%	-0.9%	-2.5%	-0.4%	2.1%
U.S. (Thousands)	137,377	134,794	134,910	136,917	137,393	136,074	138,311	140,670	137,348	133,938	132,645	134,285
% Ch	-0.2%	-1.9%	0.1%	1.5%	-0.2%	-1.0%	1.6%	1.7%	-0.2%	-2.5%	-1.0%	1.2%
GOODS-PRODUCING SECTOR												
Idaho	113,379	101,819	99,323	102,220	113,388	102,849	102,410	105,789	113,344	100,557	96,270	98,586
% Ch	-8.1%	-10.2%	-2.5%	2.9%	-8.1%	-9.3%	-0.4%	3.3%	-8.1%	-11.3%	-4.3%	2.4%
U.S. (Thousands)	21,451	19,887	18,996	19,338	21,452	20,210	19,929	20,487	21,440	19,617	18,167	18,465
% Ch	-3.5%	-7.3%	-4.5%	1.8%	-3.5%	-5.8%	-1.4%	2.8%	-3.5%	-8.5%	-7.4%	1.6%
NONGOODS-PRODUCING SECTOR												
Idaho	537,273	535,375	541,268	553,986	537,350	537,412	547,734	562,065	537,282	533,825	535,719	546,432
% Ch	0.8%	-0.4%	1.1%	2.3%	0.8%	0.0%	1.9%	2.6%	0.8%	-0.6%	0.4%	2.0%
U.S. (Thousands)	115,926	114,907	115,914	117,579	115,942	115,864	118,381	120,183	115,909	114,320	114,478	115,819
% Ch	0.5%	-0.9%	0.9%	1.4%	0.5%	-0.1%	2.2%	1.5%	0.4%	-1.4%	0.1%	1.2%
SELECTED INTEREST RATES												
Federal Funds	2.0%	0.1%	1.2%	3.7%	2.0%	0.4%	1.4%	3.3%	2.0%	0.0%	1.1%	4.9%
Bank Prime	5.1%	3.1%	4.2%	6.7%	5.1%	3.4%	4.4%	6.3%	5.1%	3.0%	4.1%	7.9%
Existing Home Mortgage	6.1%	5.5%	5.7%	6.8%	6.1%	5.6%	5.8%	6.7%	6.2%	5.3%	5.7%	7.6%
INFLATION												
GDP Price Deflator	2.3%	1.4%	1.3%	1.6%	2.3%	1.7%	2.0%	1.9%	2.3%	1.2%	0.8%	1.8%
Personal Cons Deflator	3.3%	-0.7%	1.8%	2.4%	3.3%	0.0%	2.3%	2.1%	3.3%	-1.4%	1.5%	3.4%
Consumer Price Index	3.8%	-1.5%	2.4%	3.1%	3.8%	-0.7%	2.9%	2.6%	3.8%	-2.5%	2.0%	4.3%

Forecast Begins the THIRD Quarter of 2008

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 40% probability of occurrence. It should be pointed out this probability is much higher than the 25% used in the October 2008 forecast, which is consistent with the deteriorating conditions since then. This scenario assumes the financial crisis worsens, sending the economy into its worst downturn since the Great Depression. Credit markets remain clogged, both domestically and across the world. Without access to credit, domestic spending contracts and the housing market falls into an even deeper hole. The spread between 30-year fixed mortgage rates and the 10-year Treasury note yield remains wider than normal into 2010. Housing starts slip below one million units in 2008 (909,000), 2009 (586,000), and 2010 (807,000). The median price of existing homes and home sales are much weaker than in the baseline case. This weakness undermines consumer confidence which, along with the drop in household wealth and job market fears, cause consumers to retrench. Businesses scuttle long-term projects, causing business fixed investment to slide over seven-straight quarters. The economic malaise is not limited to the U.S., however. Real GDP among the United States' major-currency trading partners (excluding China) falls for seven quarters, starting with the second quarter of 2008. As a result, exports deduct 0.8 and 0.3 percentage point from GDP growth in 2009 and 2010. One positive aspect of the weaker outlook is inflation is lower than anticipated in the *Baseline Scenario*.

In this scenario, real GDP contracts 3.2% in 2009 and rebounds only 0.7% in 2010. Employment drops for ten straight quarters, manufacturing output falls for ten straight quarters, and real GDP shrinks for six quarters. This recession takes a much higher toll than the previous two recessions. Peak to trough, real GDP contracts 4.3%, which is worse than the losses during the 1973-75 and 1981-82 recessions. Unlike those recessions, however, the economy emerges from this downturn weaker, and facing more trouble ahead.

Not surprisingly, the outlook for the state's economy is the weakest here of all the scenarios. Nonfarm employment, which is expected to reach 656,200 jobs in 2011 in the baseline case and 667,900 jobs in the *Optimistic Scenario*, barely tops 645,000 in this scenario. Compared to their baseline counterparts, there are about 3,600 fewer goods-producing jobs in 2011 and 7,600 fewer nongoods-producing jobs. The lower job count is partly to blame for both nominal and real personal income being weaker in 2011 than in the *Baseline Scenario*.