

Idaho Economic Forecast

The following tables and text are taken from the

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EXECUTIVE SUMMARY

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

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

IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2010

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

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

IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2010

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

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

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NATIONAL FORECAST DESCRIPTION

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

It appears that after about a year and a half on the ropes, the national economy is on the rebound. The most convincing argument for the start of the recovery came in the form of the 2.8% annual growth in GDP during last year's third quarter, which ended a four-quarter slide in output. (From the recession's start in 2008 to the second quarter of 2009, real output has declined 3.7%.) Even better news is it is estimated real GDP grew 2.7% in last year's fourth quarter, which suggests the recovery has legs. However, it must be noted that some of the strength in last year's second half was the result of special factors that will not be available in the future. Real GDP benefitted from the federal government's Car Allowance Rebate System. More commonly known as "cash for clunkers," this program issued nearly 680,000 vouchers worth about \$3 billion. They helped new motor vehicle sales jump at a 112% annual pace in last year's third quarter. In addition, sales of both new and existing homes jumped in the third quarter thanks in part to the federal first-time homeowner's tax credit. The real test for the economy should come this year when it is expected to stand on its own two feet. Three areas bear watching to see whether it will pass muster.

The economy cannot sustain growth without consumers. Consumer spending traditionally accounts for about two-thirds of GDP and has been a weak link. Retrenching consumers have curtailed spending over the last few quarters, creating a huge drag on the economy. The "cash for clunkers" program showed Americans can be induced with the right incentives to spend. However, absent these incentives, last summer's spending jump will not be repeated. Instead, it should expand gradually. This outlook is shaped by high consumer debt burdens, depleted wealth, tight credit, and incomes being squeezed by a weak job market. Given these conditions, spending is more likely to grow in line with income than it has in the recent past. Specifically, real consumer spending expands 1.8% in 2010, 2.4% in 2011, 2.7% in 2012, and 2.2% in 2013.

The anticipated gradual improvement in the job market should help consumers beginning this year. A tough question is how far companies can push existing workers before they must hire additional ones. A couple of items suggest they may be near that point. One is the much better-than-expected November employment report that showed nonfarm employment fell by just 11,000 jobs. The second factor is the soaring output per worker. Productivity cannot continue to grow by 8% as it did late last year. With productivity soaring, firms will likely hire workers sooner than they did after the last recession. The nation's job engine is expected to restart this spring. As a result, after peaking at 10.4% in 2010's first quarter, the unemployment rate falls gradually to 7.5% by the end of 2013.

The nation's housing sector has been a severe drag on the economy since 2006, and the economy cannot prosper until this burden is lifted. After peaking at over 2 million starts in 2005, housing starts dropped below 600,000 units last year. Since 2005, the sales of existing homes has fallen nearly 27%. New home sales dropped almost 70%. The median price for existing homes retreated 21% and new home prices dropped 9%. Ironically, these falling prices are one of the cornerstones of the recovery. They improve the affordability of homes, which in turn stimulates sales that help work off the huge inventory overhang. Once the demand and supply of homes is in better balance, companies (and construction workers) will resume building. After last year's trough, housing starts climb to about 1.7 million units in 2013.

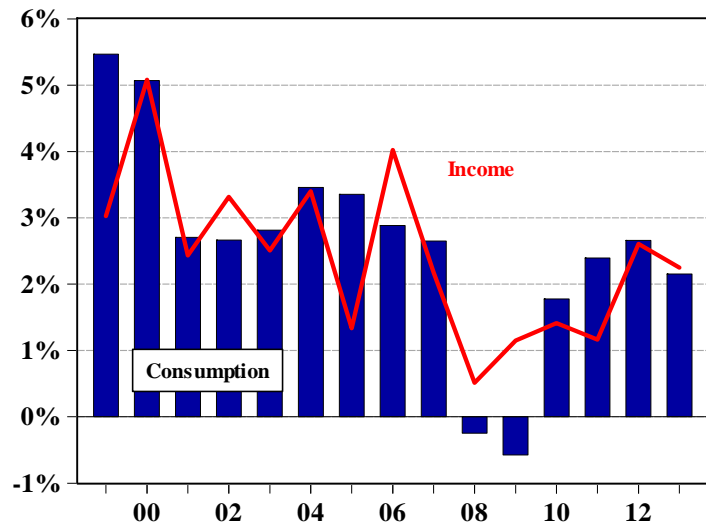
The improvements to these factors helps paint a picture of cautious optimism. The economy is expected to advance gradually over the next few years. Admittedly, risks to the economy exist, but it appears the worst is behind us.

SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending: After declining for two consecutive years, real consumer spending is expected to begin expanding in 2010. This reversal is significant because consumer spending accounts for about two-thirds of the economy, so it would be impossible to sustain a recovery without it. This point is further illustrated by looking at its recent contributions to real GDP growth. After the 2000 recession, consumer spending was virtually the only source of economic growth. The U.S. economy started its current recession at the beginning of 2008. Not coincidentally, real spending shrank 0.2% that year. It is forecast to decline another 0.6% in 2009 and real GDP is expected to retreat 2.5%. To break it down further, real spending stripped 0.2% from GDP growth in 2008 and by an estimated 0.4% in 2009. Obviously, real GDP cannot advance while spending retreats.

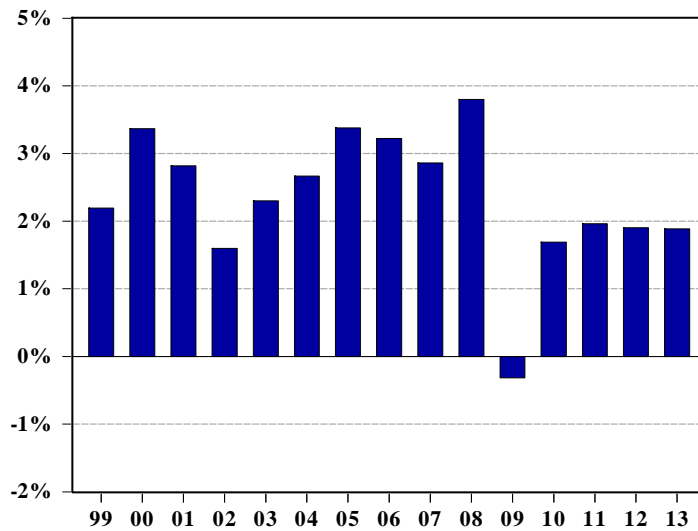
The good news is spending is forecast to resume growing this year. However, it is not expected to return to the heady pace experienced earlier this decade when spending growth often eclipsed income growth. This spending spree was made possible by easily available credit and strong net household wealth gains. From 2000 to its peak in 2007, monthly financial obligations as a percent of disposable personal income increased from 17.4% to 18.7%. Interestingly, over this period there were already signs of household financial stress. For example, the percent of credit card accounts that were at least 30 days delinquent increased from 3.2% in 2000 to a peak of 4.8% in 2005 before settling at 4.3% in 2008. Another source of funds was homes. The housing boom caused prices to increase about 7% annually from 2000 to 2007, which was better than the stock market whose wild swings netted investors a 0.5% average gain over this same period. As a result of the strong housing prices, U.S. household net worth climbed from 5.7 times disposable income in 2000 to 6.4 times disposable income in 2006. With their household portfolios doing so well, consumers felt less compelled to put aside money for the future. As a result, the personal savings rate was halved from 2.9% in 2000 to 1.4% in 2006. Eventually, however, these sources that augmented income began to dry up. Most notably, the housing bust sent prices south. They dropped 5.8% in 2008 and an estimated 4.5% in 2009. The 2008 housing price drop and nearly 35% decline in equities caused household net worth to fall 17.2% in 2008. It is estimated to have expanded almost 6% in 2009 thanks to a 30.6% recovery in equities. However, net worth in 2009 was 5.1 times disposable personal income, which is significantly below its 2006 peak. One result of the falling net worth is that consumers are saving more. The personal savings rate had already climbed to 2.6% in 2008 and is estimated to rise further to 4.5% in 2009. The current forecast assumes this newfound thriftiness will continue through the forecast period. Some of it is voluntary and some of it is not. For example, credit has become tighter. In addition, the lingering weak housing market should make consumers more cautious about spending. As a result, they are more likely to spend within their means. This translates into real consumer spending growth mirroring real disposable income growth in the future. Real disposable income is expected to rise 1.4% this year, 1.2% next year, 2.6% in 2012, and 2.2% in 2013. Real spending is forecast to advance 1.8% in 2010, 2.4% in 2011, 2.7% in 2012, and 2.2% in 2013.

U.S. Real Consumption and Disposable Income Growth



Source: IHS Global Insight

Consumer Price Inflation



Source: IHS Global Insight

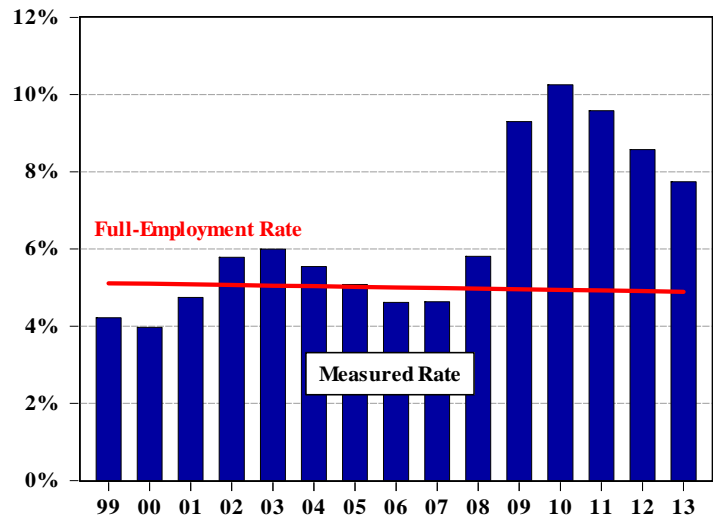
Inflation: During the next few years, one item low on the list of economic concerns will be inflation. Inflation did spike at 3.8% in 2008, but this was largely due to the huge run up in energy prices that is not expected to recur during the forecast period. Given its role in shaping overall inflation, a review of energy prices is in order. According to the Energy Information Agency, world crude oil prices, which had been hovering between about \$20 and \$40 per barrel, began to take off in the middle of the decade. In early 2004 it topped \$30 per barrel and a year later it was over \$40 per barrel. But these gains would pale against what would follow. Fueled by strong demand, the price of oil soared over the next few years, causing the weekly price to climb above \$100 per barrel in March 2008. It

would peak at almost \$150 per barrel that July. This increase pushed the energy commodity component of the consumer price index to climb at a whopping 37.3% pace in the third quarter of that year. The overall consumer price index advanced at a 6.2% annual pace that same quarter, its biggest jump since the last quarter of 1990. Consumers were reminded of these increases every time they fueled their cars. The price of gasoline rose from under \$2.00 per gallon at the start of 2005 to over \$4 per gallon in the summer of 2008. However, energy prices have retreated significantly since then and are not expected to return to the heights of the summer of 2008. By the end of 2008, oil was down to \$36 per barrel. At the time of this writing, the world price of crude oil was just below \$80 per barrel and the domestic price for gasoline was about \$2.70 per gallon. Given the demand for petroleum is expected to grow slowly over the forecast period, energy prices should advance gradually. The per barrel price of West Texas Intermediate crude oil is projected to average \$61.98 in 2009, \$68.25 in 2010, \$77.17 in 2011, \$83.16 in 2012, and \$87.02 in 2013. As a result, the energy commodity component of the consumer price index is forecast to drop 27.4% in 2009, then it rises 10.2% in 2010, 8.1% in 2011, 5.4% in 2012, and 3.1% in 2013. But even with these increases, the overall consumer price index does grow faster than 2.0% over the forecast period. Removing the volatile food and energy components from the consumer price index results in a core inflation rate that is expected to average 1.7% over the forecast period. This measure is being held in check by anticipated slow employment cost gains resulting from the lackluster labor market. Specifically, the employment cost index increases 1.5% in 2009, 1.8% in 2010, 1.6% in 2011, 1.8% in 2012, and 2.5% in 2013.

Employment: The Obama Administration received an early Christmas gift this year in the form of one of the most favorable national employment reports (i.e., least negative) in the last two years. The day after the President convened his jobs summit, the U.S. Department of Labor released its November *Employment Situation* report which showed the employment situation was healthier than most economy watchers had expected. On December 4, 2009, the Labor Department reported the U.S. unemployment rate actually fell to 10% in November from the previous month's 10.2%, which marks just the fourth time it has declined since the recession started. The job's number was better than expected in November. The consensus was the number of nonfarm jobs would decline by 150,000 in that month. Instead, 11,000 jobs were lost. This drop was the smallest of the recession. (The largest drop of over 740,000 jobs

occurred at the beginning of 2009.) Other good news came in the form of revisions which showed the number of job losses in recent months were lower than had been previously reported. September's decline was reduced by 80,000 and October's drop shrank by 59,000. In addition to the brighter job picture, the average workweek increased 0.2 hours in November. While this news may raise hopes for an earlier start for the jobs recovery, it may be premature to declare the bottom of the jobs cycle. In fact, other data from the U.S. Department of Labor show the level of stress is still high in the job market. The Job Opening and Labor Turnover Survey and the recent monthly jobs reports can be combined to put the job market into perspective. These data show there were 15.7 million persons seeking work and 4.38 million job openings. As a result, there were 6.3 seekers per job opening, compared to 1.7 seekers per job opening when the economy last peaked in December 2007. The large number of seekers relative to jobs helps make the case that the job recovery will be gradual. In fact, nonfarm employment is not expected to attain its previous peak until the last quarter of 2012. The civilian unemployment rate is expected to rise again and peak at 10.4% early this year. It is expected to recede to 7.7% in 2013, which is still well above the full employment threshold.

U.S. Civilian Unemployment Rate

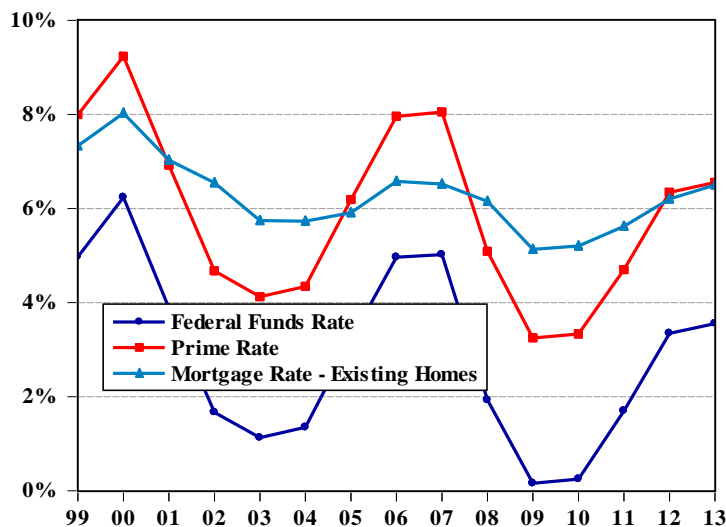


Source: IHS Global Insight

Financial Markets: Perhaps the biggest challenge Chairman Bernanke currently faces may not be the economy but, instead, Congress. On December 3, 2009 the Chairman testified before the Senate Banking Committee in his re-nomination hearing. Despite a grilling by the committee members, it is

likely he will be re-nominated. While the chairman's job seems safe, the Federal Reserve faces major threats from proposed legislation that would have a major impact on its mandate and scope. There is a proposed bill in the House that subjects the Federal Reserve's monetary policy decisions to some kind of audit review. Another proposal in the Senate removes banking and financial regulation and supervision from the central bank's mandate. Bernanke has defended the Federal Reserve's current role in an article in the *Washington Post*, but it remains to be seen whether it sways the thinking of other policy makers. Bernanke remains committed to price stability and that the Federal Reserve will not monetize the federal debt. (Monetizing the debt occurs when the

Selected U.S. Interest Rates

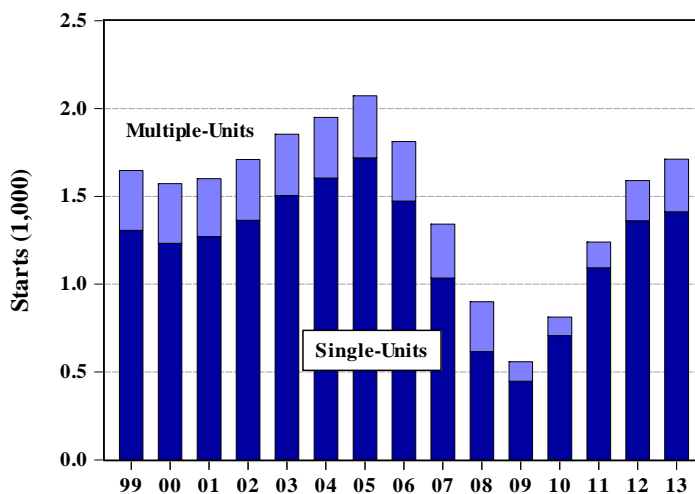


Source: IHS Global Insight

central bank purchases debt instruments of the federal government. In essence, the Federal Reserve creates money to finance the national debt.) Bernanke pointed out the rapid rise of entitlement spending as a risk to the fiscal outlook, and that healthcare reform must include a major focus on controlling costs. These are longer term policy issues. In the short-run, the central bank is expected to keep its bellwether federal funds rate near 0% through the first half of this year, then begin to increase it gradually as the economy improves. It can afford to keep interest rates low because inflation is not a threat. Specifically, the inflation measure preferred by the Federal Reserve, the core personal consumption deflator, is expected to remain well below the two-percent ceiling favored by the central bank. The federal funds rate is projected to average 0.24% this year, 1.7% next year, 3.3% in 2012, and 3.6% in 2013.

Housing: The housing sector continues to improve, which bodes well for the overall economy because a strong housing sector is an essential cog in the recovery. Since 2006, housing has been a drag on the overall economy, and the economy simply cannot soar until the burden of a weak housing sector is removed. The key to the housing recovery is to work off inventories of unsold houses to bring demand and supply more in line, so that new residential investment can take place. Several years of robust growth left the housing sector with too many homes when demand collapsed. Housing starts were near 2 million units from 2003 through 2006. By 2009, starts fell to under 600,000 units. But housing starts were not the only indicator to sink. The average price of existing single-family houses tumbled from \$270,000 in 2006 to an estimated \$217,000 in 2009, as prices bore the brunt of the supply/demand imbalance. These were the only three years on records (that go back to 1968) that housing prices have declined. By last year, the housing sector was near bottom and ripe for recovery. Ironically, tumbling prices were an essential ingredient. Lower housing prices made housing more affordable, which stimulated demand. Demand also was pushed by the federal first-time homeowner’s tax credit that expired in November 2009. After falling to a low of 4.9 million units in the second quarter of 2008, sales of existing homes gradually expanded. They took a noticeable jump in the third quarter of 2009 coincident with the termination of the original federal credit. This helped to push the number of unsold new homes to 239,000 units—the 30th straight monthly decline and the lowest level since 1971. This first-time homebuyer tax credit has been extended to include sales with a binding contract occurring between January 1, 2010 and April 30, 2010. A tax credit of up to \$6,500 is available to non-first time buyers meeting certain requirements. These credits should temporarily boost sales in the first part of this year, but the annual sales should be the same as in 2009. Single-family housing starts and new home sales gradually improve despite the expiration of these two credits. They are propelled by the need to replenish inventory, a gradual pick up in household formation, and job growth. Household formation is an interesting factor. U.S. Census Bureau data show household formations has slowed recently due to lower immigration and the weak economy, which has forced some Americans to move back in with family. The latter is likely to reverse once job growth takes off. The forecast calls for housing starts to grow to 812,000 starts this year, 1.2 million starts next year, 1.6 million starts in 2012, and 1.7 million units in 2013. Over this same period, sales of existing homes climb from 5.2 million units to 6.4 million

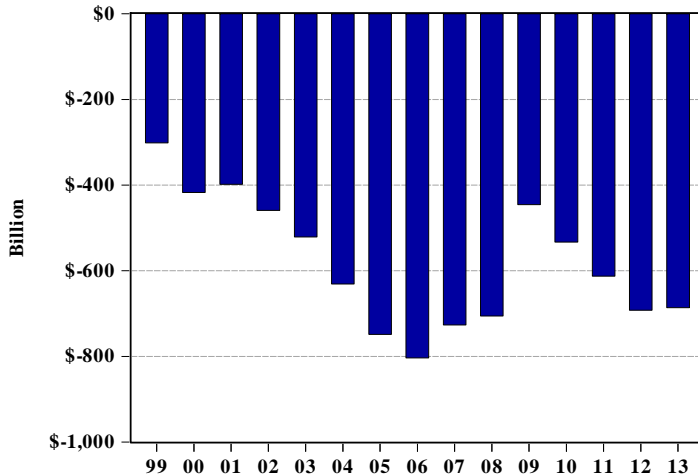
U.S. Housing Starts



Source: IHS Global Insight

units. The average sales price for an existing home goes from \$216,000 to \$238,000. After being a drag on real GDP growth for four consecutive years, real residential fixed investment becomes a contributor to growth beginning in 2010.

U.S. Current Trade Deficit



Source: IHS Global Insight

International: After bottoming out in the second quarter of last year, the trade deficit is expected to climb steadily through 2011. In fact, by late 2011, the real trade gap will be as large as it was when the recession began in early 2008. The real trade deficit is anticipated to stabilize in early 2012 as import growth slows down. A major factor shaping the trade situation is inventories. Net exports (exports less imports) and inventory changes have been almost mirror images of each other over the last few years, and they should remain so for the next few years. For example, when businesses cut inventories imports plunge, and this causes net exports to rise. Conversely, imports rise with growing inventories, so net

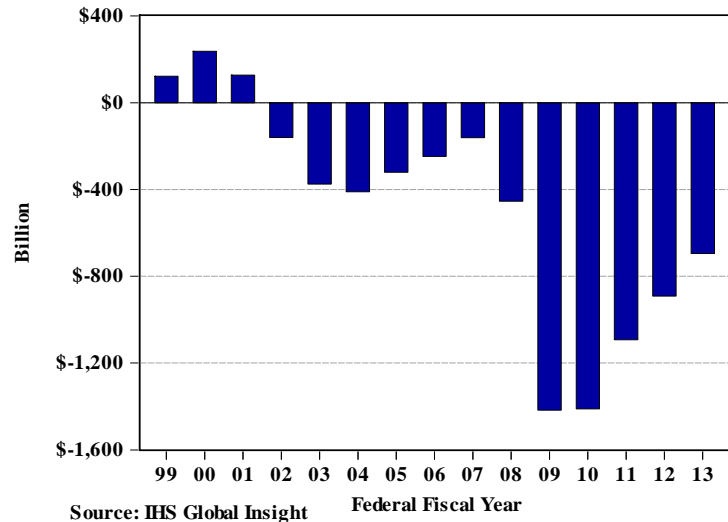
exports fall. After about a year of sideways movement, the rebound of foreign demand for U.S. products will begin to whittle down the real trade deficit with help from both a weak dollar and restrained domestic demand. After enjoying a slight recovery last year, the greenback is expected to slide gradually through 2013. Strong exports also reflect the stronger demand from recovering foreign economies. After a dismal 2009, most major economies are anticipated to pick up steam in 2010. And most of them are expected to grow even faster after this year. The major exception is China. It grew 8.5% in 2009. It is projected to advance nearly 10% this year, but average 8.6% growth from 2011 to 2014. The nominal net exports deficit improved drastically in 2009, dropping by over \$300 billion from the previous year. This decline was due in large part to the reduced bill for petroleum imports. It is estimated this component of imports dropped from \$453 billion in 2008 to \$264 billion in 2009. It also benefitted by the drop in non-automotive capital goods. After 2009, the nominal net exports deficit is forecast to rise again, but not approach its 2008 deficit. Because recent nominal deficits were heavily influenced by volatile prices, it is useful to look at the inflation-adjusted net exports deficit. As expected, it shows a smaller swing from 2008 to 2009—\$494 billion to \$365 billion. After 2009, it expands to a peak of \$461 billion in 2012, but drops to \$410 billion in 2013, making it a drag on real GDP growth during most of the forecast period.

Government: The full fiscal stimulus package is valued at around \$787 billion over ten years. It is assumed that \$561 billion of the total will be injected during the first two calendar years. It is assumed in this forecast that the government will not allow emergency unemployment benefits to expire at the end of 2009. It also includes the impacts of the expanded homeowners’ tax credit that was passed in November 2009 as part of the “Worker, Homeownership, and Business Assistance Act of 2009.” Another part of that bill that has been incorporated in the forecast is the corporate tax provisions that temporarily increase the carry-back period for net operating losses, but postpone a planned corporate tax break. The corporate tax measures raise about \$10 billion over the 2010-19 period, but they initially reduce revenues by \$33 billion in fiscal year 2010. Another important assumption is the top marginal tax rates of income tax, including the top marginal rate on capital gains and dividends, increase in 2011. The

rest of the Bush tax cuts are left in place. Beyond 2011, it is assumed a further increase in the income tax burden that is not confined to the top brackets. The U.S. Treasury has \$700 billion in budget authority under the Troubled Asset Relief Program. This forecast assumes the Treasury spends only \$615 billion, or a net of \$520 billion after repayments of \$95 billion by some banks. This amount is assumed to be distributed as follows: \$73 billion to the auto sector, \$467 billion to the financial sector, and \$75 billion for the housing plan. One of the most publicized programs was the Car Allowance Rebate System (CARS) that was more commonly known as the “cash for clunkers” program. According to the federal government, as of the beginning

of November 2009, 678,024 CARS vouchers (with a price tag of \$2.9 billion) were either paid or approved for payment. This program contributed to the estimated 112% annualized increase in real spending on new motor vehicles during last year’s third quarter. The stimulus package, financial bailout costs, and recession will lift the federal budget deficit to \$1.4 trillion in both 2009 and 2010. (It was less than one-half trillion dollars in 2008.) The deficit is not expected to drop below one trillion dollars until after 2012. However, the lasting effects of these deficits can be seen in the national debt. For the first half of this decade the amount of publicly held debt as a percentage of GDP hovered near 35%. It was 44% of GDP in 2008, but it is expected to climb to 70% by 2013.

U.S. Federal Government Surplus Unified Basis



IDAHO FORECAST DESCRIPTION

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

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

Idaho's economy is forecast to improve this year as the national economy recovers. Indeed, some promising signs have already emerged. Recent Idaho Department of Labor data show nonfarm employment may have leveled off after declining most of last year. The updated employment data also show the October 2009 *Idaho Economic Forecast* may have been too pessimistic because there were about 500 more jobs in the third quarter than had been projected. Idaho housing starts were also higher in the third quarter than had been predicted. The local economy's improvement is confirmed by another indicator. The Federal Reserve Bank of Philadelphia's Coincident Economic Activity Index is a composite measure representing Idaho's economic performance. It shows Idaho's economy had been in freefall since the summer of 2007. But the monthly declines ended abruptly last fall, and the index has remained stable for several months.

This year should be a transition year for the state's economy. Idaho nonfarm employment is expected to drop 1.1% from last year. While any decline is disappointing, it must be pointed out that this is a huge improvement from the previous year's 6.1% decrease. It should also be noted that it will experience some growth spurts during the year. Specifically, on an annualized basis, it shrinks 0.9% in the first quarter of 2010, expands 2.1% in the second quarter, falls 0.2% in the third quarter, and rises 1.0% in the fourth quarter. The prospects for Idaho personal income are also brighter this year. Idaho nominal personal income is forecast to rise 3.1% and real personal income increases 1.5%. Last year, both of these income measures declined by nearly 3%. Idaho housing starts are projected to grow 31.7%, but this is from last year's very low level. To provide some perspective, this translates to about 7,800 units in 2010, which is slightly lower than in 2008 and is just a third of their peak in 2005.

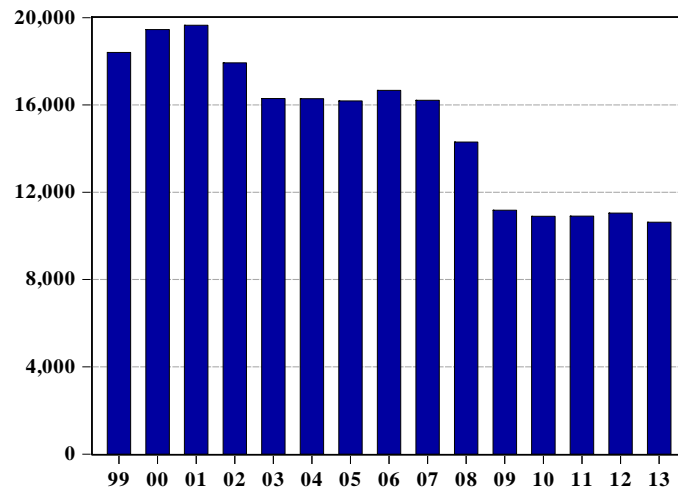
Idaho's economy should shift into a higher gear after this year, but it will still be a rather low gear. Instead of a quick reversal, the Gem State expected to climb gradually out of its most severe economic calamity in decades. Nonfarm employment is forecast to rise 1.8% in 2011, 3.2% in 2012, and 3.0% in 2013. At this pace, Idaho nonfarm employment will climb to just 650,000 jobs in 2013. While it is much higher than its projected trough of 602,000 jobs in 2010, it is still lower than its recent peak of 656,000 jobs in 2007. Idaho nominal personal income growth accelerates each year, going from 4.2% in 2011, to 5.7% in 2012, to 6.0% in 2013. Likewise, Idaho real personal income growth also picks up speed over time. However, neither nominal nor real personal incomes grow fast enough to match the pace they experienced earlier this decade. Idaho housing starts are expected to grow at double-digit rates over the forecast period and reach 16,400 units in 2013. While they are below their 2005 peak, they are a vast improvement from the 2009 trough.

SELECTED IDAHO ECONOMIC INDICATORS

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

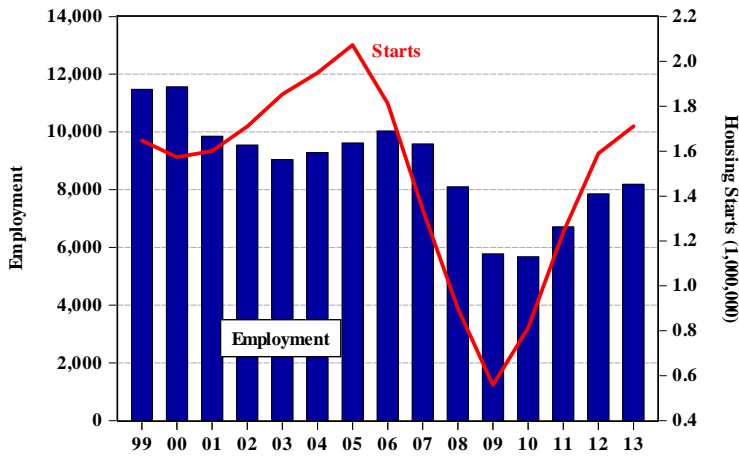
milestones. It became the state's largest manufacturing employer in 1997 and its payroll exceeded 19,000 jobs in 1998. Its employment slipped by about 600 jobs in 1999, but then rallied to a peak of 19,565 jobs in 2001. Since then, the protracted slowdown in the global high-tech sector has made local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

Idaho Computer and Electronic Products Employment



Logging and Wood Products: The nation's recent housing boom helped interrupt the long decline in Idaho logging and wood products employment. Thanks to strong demand, Idaho logging and wood products employment expanded by about 1,000 jobs from 2003 to 2006—the first time it had grown three years in a row since the mid-1990s. However, the housing bust is having the opposite effect. A defining feature of the housing implosion is how quickly it has taken place. Four years ago, national housing starts exceeded 2-million units. By 2008, there were half as many housing starts (900,000) as there were in 2006—the first time its fallen below a million annual units since records began a half century ago. It is estimated they dropped further in 2009 to about 558,000 units. Idaho logging and wood

Idaho Wood Product Employment and U.S. Housing Starts

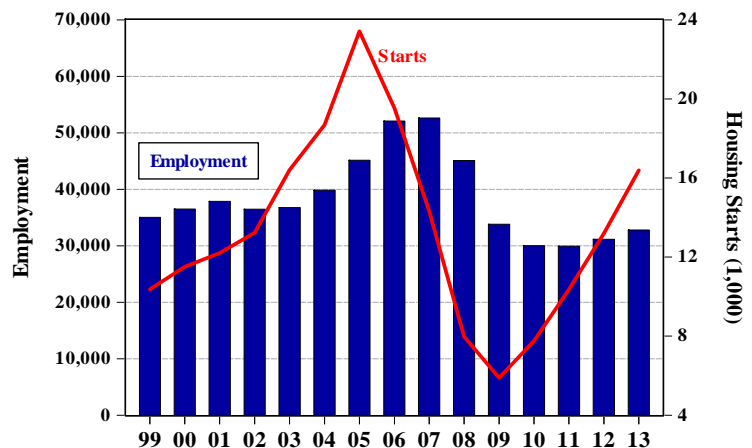


products employment dropped from 10,000 jobs in 2006 to an estimated 5,800 jobs in 2009. As demand recedes, the supply factors that have contributed to the protracted employment decline are expected to resurface as the primary drivers of this sector’s outlook. The major supply factor is the dwindling supply of logs from national forests. According to the U.S. Forest Service, the timber harvest from Idaho national forests dropped from 239.8 million board feet in 1998 to 121.1 million board feet in 2007. This drop represents a halving of the national forest’s share of the Idaho timber harvest from 20% in 1998 to 11% in 2007. Over this same

period, the total harvest from all Idaho sources shrank 16%. This situation is not unique to Idaho; it is prevalent throughout the Northwest. For example, the combined harvest from Washington and Oregon national forests has dropped nearly 44% over the same period and their total harvest has fallen by nearly 18%. These supply factors have exacted a heavy toll from one of the region’s iconic industries. The combined employment for Oregon and Washington dropped 30% from 1998 to 2007. In Idaho the drop was 16%, or about 2,300 jobs. The June 2008 edition of *Random Lengths Yardstick* reported there are about half as many mills in the inland region as there were twenty years ago and the inland region’s share of North American (U.S. and Canada) production has dwindled from 18% to 8%. Despite the industry’s downsizing, excess capacity remains a challenge. It is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. Local employment will eventually benefit from the anticipated national housing starts recovery, but the turnaround is not expected to recover all of the jobs lost since 2006. In 2013, there should be about 8,200 logging and wood products jobs in the Gem State, which is about 1,800 lower than its most recent peak.

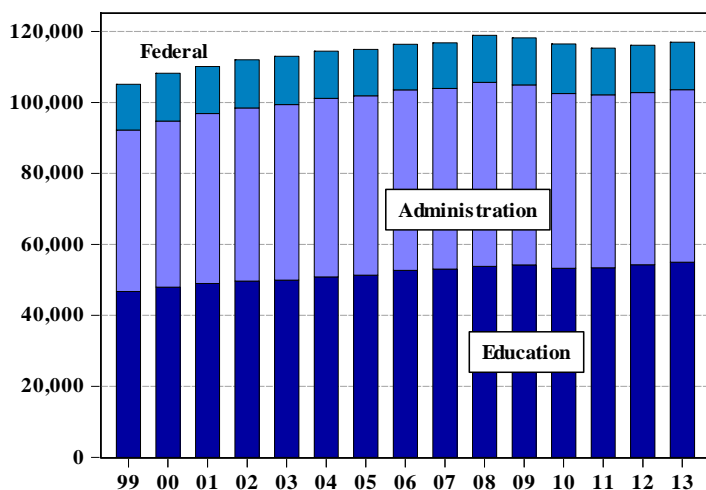
Construction: The forecast for Idaho’s construction sector is slightly brighter than had been previously projected. It is still believed it is in the midst of a shakeout that will continue through most of the forecast period. However, it will not be as severe as had been previously forecast. In the October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

Idaho Construction Employment and Housing Starts



about 1,600 units higher in the third quarter than was reported in October. While this is not expected to fuel a job recovery on par with that which occurred earlier this decade, it is a step in the right direction. Fueled by the Idaho housing boom, construction employment advanced an amazing 5% annually from 1997 to 2007—about twice as fast as overall employment. Thanks to its above-average growth, construction’s share of total employment climbed from 6.4% in 1997 to 8% in 2007. This growth spurt was made possible by the strong housing market that expanded from just 8,900 housing starts in 1997 to a peak of nearly 23,400 units in 2005. Although housing starts began declining the next year, Idaho construction employment continued advancing because of the state’s still strong nonresidential construction sector. Eventually, this sector also softened, and construction employment started to shrink in the second quarter of 2006. Idaho housing starts are believed to have hit a bottom of 5,900 units in 2009. Idaho construction employment does not begin growing again until 2012. Specifically, it is forecast to drop by 25.0% in 2009, 11.3% in 2010, and 0.3% in 2011, and then rise by 4.1% in 2012 and 5.2% in 2013. In that year, the construction sector accounts for 5% of all nonfarm jobs.

Idaho Government Employment



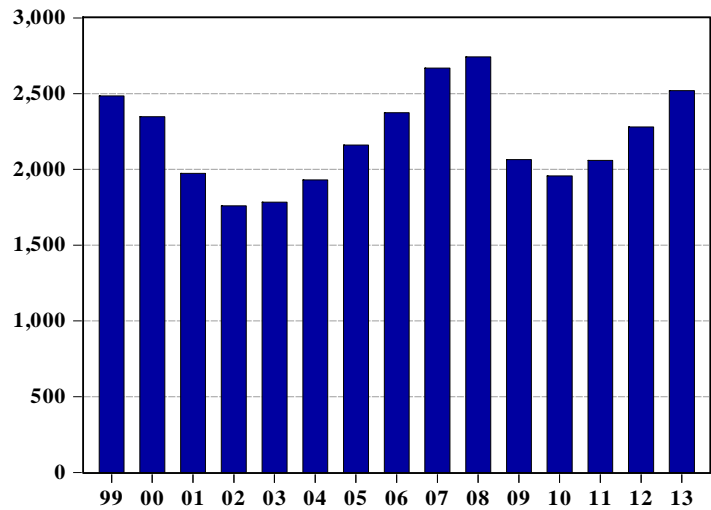
Government: Idaho’s population growth slowed last year. According to the U.S. Census Bureau, there were 1,545,801 residents on July 1, 2009, which was a 1.2% increase from the previous year. This pace was much slower than the 1.9% increase from 2007 to 2008, and it was also the lowest year-to-year change of the decade. The biggest difference between the two years was the falloff of net migration into the state. From 2007 to 2008, 14,700 more persons entered the state than left it. In comparison, net migration was just 3,700 persons from 2008 to 2009. Population is an important determinant of the level of government employment in Idaho. Simply put, rising populations make more demands on

governments which must hire more employees. Idaho’s experience during the last half of the 1990s provides an example of this relationship. From 1994 to 2000, the Gem State’s population grew from 1.145 million persons to 1.299 million persons, an average annual increase of 2.1%. Over this same period, state and local government employment increased at a 2.8% clip. Most of the population growth resulted from newcomers pouring into the state in search of economic opportunities. In 1995 alone, 22,700 more persons moved into the Gem State than moved out of it. Of course, it can also go the other way, such as in the mid-1980s when net outmigration caused the state’s population to decline. While a repeat of this outmigration is not anticipated, neither is a return to the quick-paced 1990s, either. Instead, the state’s population growth rate is forecast to hit 1.1% this year and gradually pick up speed to 2.0% in 2013. The slow population growth last year and this year reflects low net immigration to the state. For example, in 2006 about 24,000 more people moved into the state than left it. It is predicted that net immigration will be less than 4,000 persons in 2010. It is expected to move back into double digits again when the economy recovers, but not top the levels experienced earlier this decade. Neither is total population growth forecast to resume its earlier pace. As a result of this slower population growth, the demand for public services should not be as robust, which implies slower future government employment growth in the Gem State. Job growth is also being constrained by weak government revenues. Last year the state’s General Fund revenue declined 15.2% in FY 2009. It is predicted to fall

another 4.7% in FY 2010. In order to balance its budget, the state took unprecedented measures. For example, for the first time ever the state cut its public schools funding for FY 2010. And the pain extends beyond state government because Idaho cities and counties participate in revenue sharing from the state sales tax. Already, some of the state’s local governments have announced plans to make the cuts necessary to balance their budgets. One bright, but temporary, spot is the hiring for the decennial census. There are about 13,300 federal government jobs in Idaho, but employment will jump to about 15,500 persons in the second quarter of 2010, before settling back and remaining steady over the forecast horizon.

Mining: After climbing for six consecutive years, Idaho mining employment has fallen victim to the cooler global economy. The mining sectors recent expansion was fueled by rising metal prices caused by strong worldwide demand. For example, the Comex Spot Settlement price of silver nearly tripled from \$4.60 per Troy ounce in 2002 to \$13.38 per ounce in 2007. Over this same period, zinc prices climbed from 36 cents per pound to \$1.47 per pound. The price of lead soared from 21 cents per pound to \$1.17 per pound and molybdenum increased from \$18.23 per pound to \$40.19 per pound. Idaho mining employment increased from about 1,800 jobs to about 2,700 jobs over this same period. It added another 80 jobs in 2008.

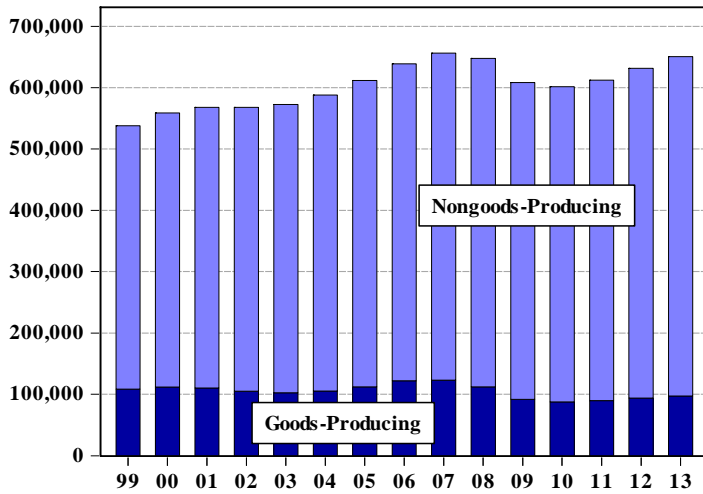
Idaho Mining Employment



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

Services and Trade: This year marks a transition year for the state’s huge services sector. After shedding jobs in 2009, it is expected to begin adding jobs in 2010. These gains will initially be slow, but they should accelerate with time. In fact, services employment promises to be one of the stronger job engines during the next few years. The services category consists of information services; financial activities; transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. In 2008, it consisted of 306,400 jobs, or about half of all the jobs in Idaho. It began declining in the first quarter of 2008 coincident with the start of the U.S. recession. It did expand modestly during that year’s interior quarters, but these gains were erased by the huge 5.6% annualized decline in the last quarter of that year. On an annual basis, Idaho services employment grew an anemic 0.6% in 2008—its worst showing in records that go back to 1991. Unfortunately, last year was even worse. Services suffered job losses in the first half of 2009. It is

Idaho Nonfarm Employment



estimated employment shrank nearly 4% last year—its first ever decline. All service categories suffered losses, except health and education. (Information employment dropped 29.2% in 2009’s first quarter, but this decline resulted from employees being reassigned to the professional and business services category and not poor business conditions.) This year, more service categories should expand and help overall services employment eke out 0.2% growth. By 2011, all services employment categories are expected to advance, which causes this sector’s hiring to kick into higher gear. Specifically, Idaho services sector employment increases 2.7% in 2011, 3.7% in 2012,

and 3.6% in 2013. Idaho trade employment takes longer to recover and is not as robust. This sector is made up of both retail and wholesale components that together accounted for 17% of total nonfarm employment last year. As is the case with the service sector, the trade sector began shedding jobs in the first quarter of 2008. A major difference between these two is the pace of job losses has been considerably higher in the trade sector. The number of trade sector jobs is estimated to have dropped 6.5% last year and it is projected to fall another 1.3% this year. This sector is forecast to expand 1.8% in 2011, 2.8% in 2012, and 3.7% in 2013.

ALTERNATIVE FORECASTS

IHS Global Insight has assigned a 60% probability of occurrence to its December 2009 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP shrinks 2.5% in 2009, expands 2.2% in 2010, increases 2.9% in 2011, grows 3.8% in 2012, and advances 3.1% in 2013;
- U.S. nonfarm employment falls 3.7% in 2009, drops another 0.9% in 2010, grows 1.8% in 2011, increases 2.7% in 2012, and rises 2.3% in 2013;
- the annual U.S. civilian unemployment rate peaks at 10.4% in the beginning of 2010 then recedes to 7.5% by the end of 2013;
- consumer prices fall 0.3% in 2009, then rise 1.7% in 2010, 2.0% in 2011, and 1.9% in both 2012 and 2013;
- the current account deficit is \$446 billion in 2009, \$533 billion in 2010, \$613 billion in 2011, \$692 billion in 2012, and \$687 billion in 2013;
- the federal unified budget deficit is \$1.42 trillion in 2009, \$1.41 trillion in 2010, \$1.09 trillion in 2011, \$861 billion in 2012, and \$695 billion in 2013.

OPTIMISTIC SCENARIO

IHS Global Insight's *Optimistic Scenario* has been assigned a 20% 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, the stimulus package, and help from foreign central banks, limit the downside of the U.S. economic downturn. This simulation contains no additional economic stimulus above the level in the baseline, but the primary difference is the wheels of stimulus start to achieve traction more quickly in the *Optimistic Scenario*, producing 4.0% growth in this year's third quarter. This scenario also assumes total factor productivity grows faster than in the baseline. This assumption causes lower inflation and stronger income growth over the long term. Credit flows more freely in this scenario, helping housing starts average 981,000 units this year, compared to the baseline's 812,000 units. Likewise, nonresidential fixed investment is also stronger in the *Optimistic Scenario*. After suffering a 17.1% contraction in 2009, it rebounds by 5.3% in 2010. In the baseline, it retreats another 1.4% this year. Thanks to the anticipated 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 brighter future for the economy compared to the *Baseline* and *Pessimistic* scenarios. After real GDP declines 2.5% in 2009, it rebounds more smartly than in the baseline. In 2010 it advances 4.1% compared to the baseline's 2.2%. National nonfarm employment also fares better in this scenario; by 2013 there are about 4.5 million more jobs than in the *Baseline Scenario*. The civilian unemployment rate declines more steeply, so that it is down to 6.4% by the end of 2013, versus 7.7% in the baseline case. In short, this scenario sees a quicker turn in the cycle than in the baseline, but without the adverse consequences for the long-term inflation outlook.

The stronger national economy does not prevent Idaho job losses this year, but it softens the blow compared to the baseline case. Specifically, in the *Baseline Scenario* Idaho nonfarm employment is projected to shrink 1.1% in 2010. In the optimistic case this measure falls just 0.8%. But this improvement is not limited to this year alone; employment grows faster in each year of the forecast. As a result, there are 11,000 more jobs in 2013 compared to the *Baseline Scenario*. Idaho real personal income growth is slightly slower in 2010 compared to the baseline case, the result of slightly higher

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2010

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
U.S. GDP (BILLIONS)												
Current \$	14,723	15,384	16,193	16,970	15,051	15,921	16,756	17,512	14,455	14,890	15,642	16,391
% Ch	3.4%	4.5%	5.3%	4.8%	5.6%	5.8%	5.2%	4.5%	1.6%	3.0%	5.0%	4.8%
2005 Chain-Weighted	13,264	13,647	14,162	14,599	13,513	14,040	14,616	15,142	13,006	13,168	13,554	13,877
% Ch	2.2%	2.9%	3.8%	3.1%	4.1%	3.9%	4.1%	3.6%	0.3%	1.2%	2.9%	2.4%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	50,621	52,744	55,761	59,106	50,782	52,894	56,135	60,006	50,348	52,215	54,758	57,288
% Ch	3.1%	4.2%	5.7%	6.0%	3.4%	4.2%	6.1%	6.9%	2.6%	3.7%	4.9%	4.6%
U.S. (Billions)	12,464	12,984	13,648	14,384	12,643	13,356	14,054	14,733	12,325	12,653	13,296	14,077
% Ch	3.3%	4.2%	5.1%	5.4%	4.7%	5.6%	5.2%	4.8%	2.2%	2.7%	5.1%	5.9%
PERSONAL INCOME - 2005 \$												
Idaho (Millions)	45,624	46,742	48,655	50,740	45,539	46,776	49,155	52,133	45,489	45,992	47,005	48,051
% Ch	1.5%	2.4%	4.1%	4.3%	1.4%	2.7%	5.1%	6.1%	1.3%	1.1%	2.2%	2.2%
U.S. (Billions)	11,234	11,506	11,908	12,348	11,338	11,811	12,307	12,800	11,136	11,145	11,413	11,807
% Ch	1.7%	2.4%	3.5%	3.7%	2.7%	4.2%	4.2%	4.0%	0.9%	0.1%	2.4%	3.4%
TOTAL NONFARM EMPLOYMENT												
Idaho	601,576	612,264	631,552	650,593	603,498	616,813	637,245	661,661	598,748	603,511	615,414	625,628
% Ch	-1.1%	1.8%	3.2%	3.0%	-0.8%	2.2%	3.3%	3.8%	-1.6%	0.8%	2.0%	1.7%
U.S. (Thousands)	130,754	133,120	136,775	139,976	132,442	136,144	140,152	143,351	129,698	130,347	133,104	135,821
% Ch	-0.9%	1.8%	2.7%	2.3%	0.3%	2.8%	2.9%	2.3%	-1.7%	0.5%	2.1%	2.0%
GOODS-PRODUCING SECTOR												
Idaho	87,590	89,616	94,097	97,108	89,778	93,746	97,059	99,129	85,706	85,381	89,124	92,083
% Ch	-4.6%	2.3%	5.0%	3.2%	-2.3%	4.4%	3.5%	2.1%	-6.6%	-0.4%	4.4%	3.3%
U.S. (Thousands)	17,791	18,044	18,965	19,858	18,189	18,859	19,803	20,622	17,519	17,405	18,203	19,087
% Ch	-6.0%	1.4%	5.1%	4.7%	-4.0%	3.7%	5.0%	4.1%	-7.4%	-0.7%	4.6%	4.9%
NONGOODS-PRODUCING SECTOR												
Idaho	513,985	522,648	537,455	553,484	513,720	523,067	540,186	562,532	513,042	518,130	526,291	533,545
% Ch	-0.5%	1.7%	2.8%	3.0%	-0.5%	1.8%	3.3%	4.1%	-0.7%	1.0%	1.6%	1.4%
U.S. (Thousands)	112,963	115,075	117,809	120,119	114,252	117,285	120,349	122,729	112,179	112,942	114,901	116,734
% Ch	0.0%	1.9%	2.4%	2.0%	1.1%	2.7%	2.6%	2.0%	-0.7%	0.7%	1.7%	1.6%
SELECTED INTEREST RATES												
Federal Funds	0.2%	1.7%	3.3%	3.6%	0.5%	1.3%	3.0%	3.2%	0.1%	2.2%	4.7%	5.3%
Bank Prime	3.3%	4.7%	6.3%	6.6%	3.6%	4.3%	6.0%	6.2%	3.2%	5.2%	7.7%	8.3%
Existing Home Mortgage	5.2%	5.6%	6.2%	6.5%	5.3%	5.4%	5.9%	6.1%	5.2%	6.4%	7.8%	8.6%
INFLATION												
GDP Price Deflator	1.2%	1.6%	1.4%	1.7%	1.5%	1.8%	1.1%	0.9%	1.3%	1.7%	2.1%	2.3%
Personal Cons Deflator	1.5%	1.7%	1.6%	1.6%	2.0%	1.4%	1.0%	0.8%	1.3%	2.6%	2.6%	2.3%
Consumer Price Index	1.7%	2.0%	1.9%	1.9%	2.3%	1.6%	1.3%	1.0%	1.4%	2.9%	3.0%	2.6%

Forecast Begins the THIRD Quarter of 2009

inflation. Nevertheless, it advances faster in the remaining years of the forecast, so it is about \$1.4 billion higher in 2013.

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has also been assigned a 20% probability of occurrence. This simulation assumes the financial crises worsens, which prolongs the worst recession since the Great Depression. The recession is W-shaped and lasts 11 quarters. Credit markets remain clogged, both domestically and across the world. The housing recession drags on. The median price of existing homes falls nearly 8% below the baseline in 2010 and 2011. Home sales are also much lower. Housing starts begin to turn around from record-low levels, but the recovery is sluggish. The weakness in housing undermines consumer confidence. This, along with the drop in household wealth from falling home prices and a slowdown in job growth, causes consumers to retrench sharply. Light-vehicle sales are especially hard hit. Capital spending drops as firms scuttle long-term projects due to the bleaker outlook. The lower investment contributes to lower productivity growth, which lowers the nation's potential economic growth. The economy receives no relief from exports, as foreign economic growth is also in peril. Weaker world demand translates into lower oil prices in the short run compared to the baseline.

In this scenario, real GDP rises just 0.3% in 2010. In comparison, in the *Baseline Scenario* it increases 2.2% in 2010. From peak to trough, real GDP drops 3.8% and the decline lasts almost three years, which is much worse than the losses during the 1973-75 and 1981-82 recessions. Unlike those recessions, however, the economy emerges from the current downturn weaker and facing more troubles ahead.

Idaho's economic performance is weaker in every year of the forecast period compared to the baseline case. For example, Idaho nonfarm employment declines 1.6% in 2010. It then grows by a modest 0.8% in 2011, 2.0% in 2012, and 1.7% in 2013. In the *Baseline Scenario*, nonfarm employment falls 1.1% in 2010, but it is followed by increases of 1.8% in 2011, 3.2% in 2012, and 3.0% in 2013. The net impact of the slower growth is there are about 25,000 fewer jobs in 2013 in the *Pessimistic Scenario* than in the baseline case. Idaho real personal income is \$2.7 billion lower in 2013 in the *Pessimistic Scenario*.