

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

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	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%

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