

Presentation to the Economic Outlook & Revenue Assessment Committee

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Today's Agenda



Focus 2008

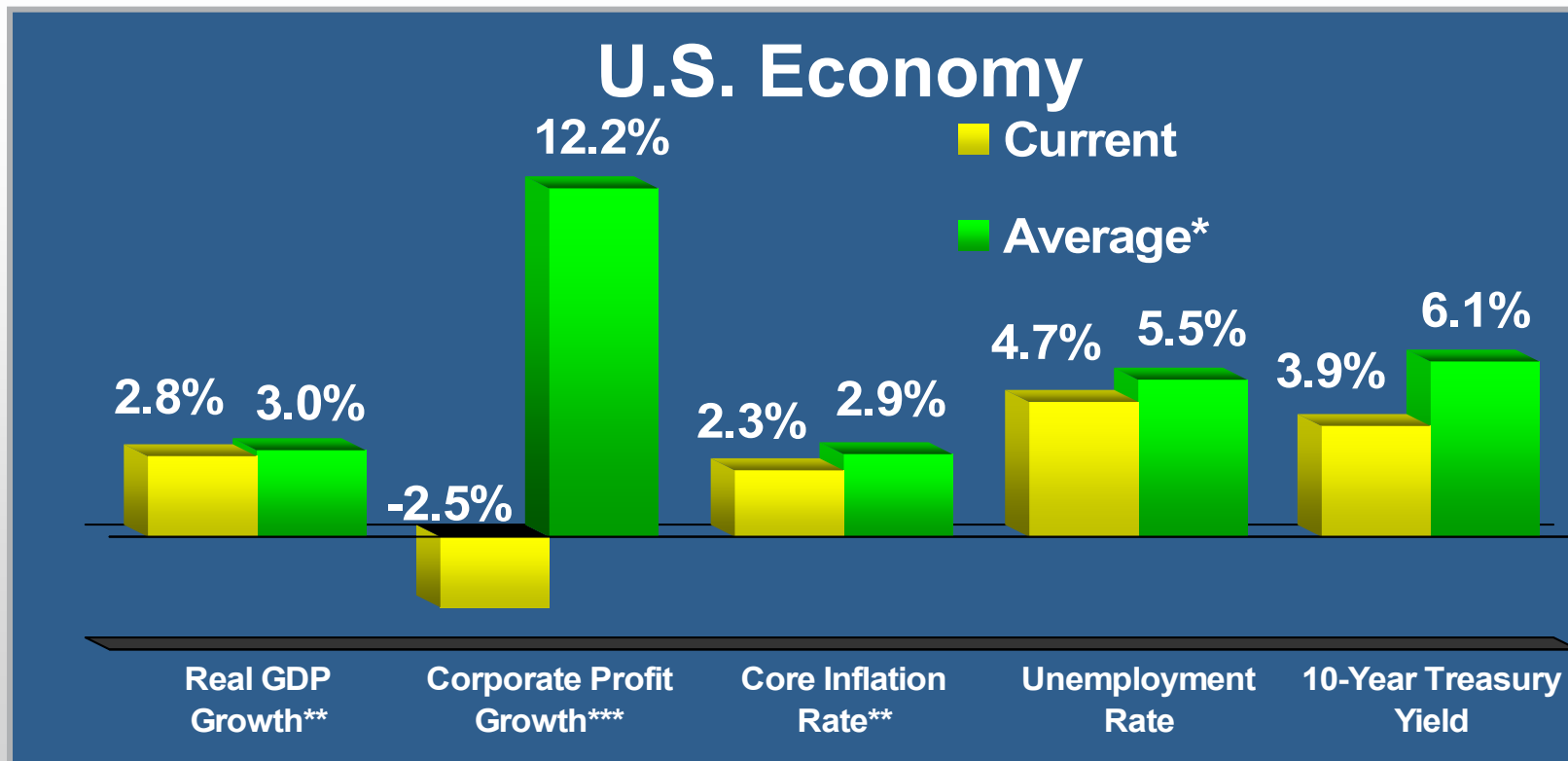
National Outlook

Idaho Outlook

Market Outlook

The U.S. Economy Today

Where do we stand?



*20-year average, except corporate profit growth average, which covers 16 years (1991-2006)

**Year-over-year growth rate

***3Q07 year-over-year S&P500 earnings for 491 companies reporting earnings as of 11/30/07

Source: Bloomberg, ISI Group Inc., 11/07

Our Thoughts on 2008:

Positives

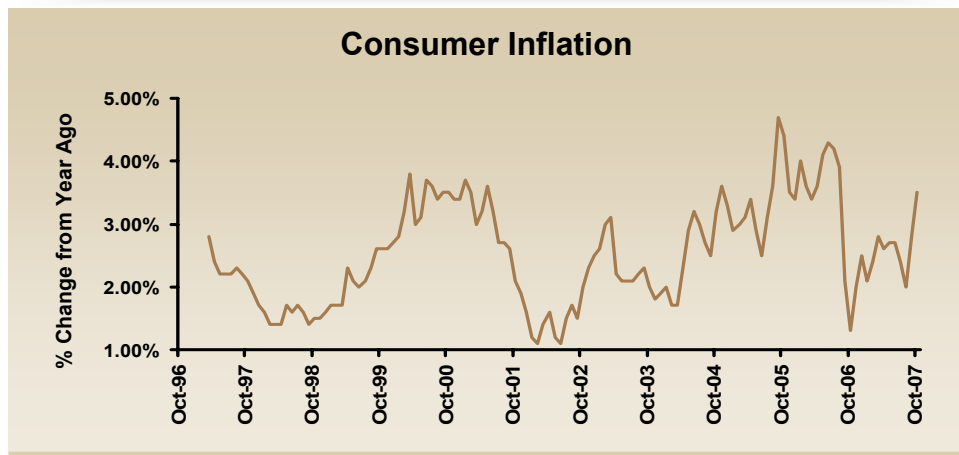
- Low Unemployment
- Strong Exports
- Fed Policy
- Strong Service Sector
- Balance Sheet Strength

Negatives

- Higher Inflation
- Slowing Consumer Spending
- Housing Slump
- Credit Squeeze
- Uncertain Political Outcome

Economic Overview

The U.S. economy is growing moderately despite the housing downturn.

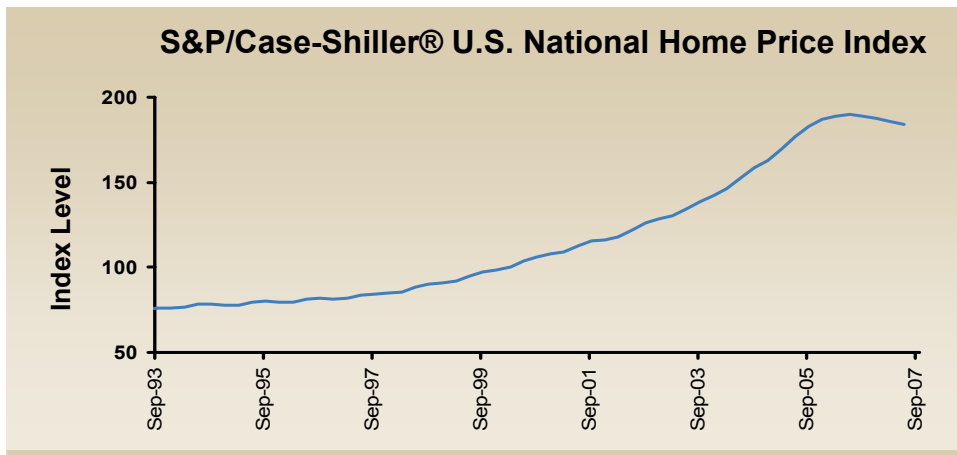
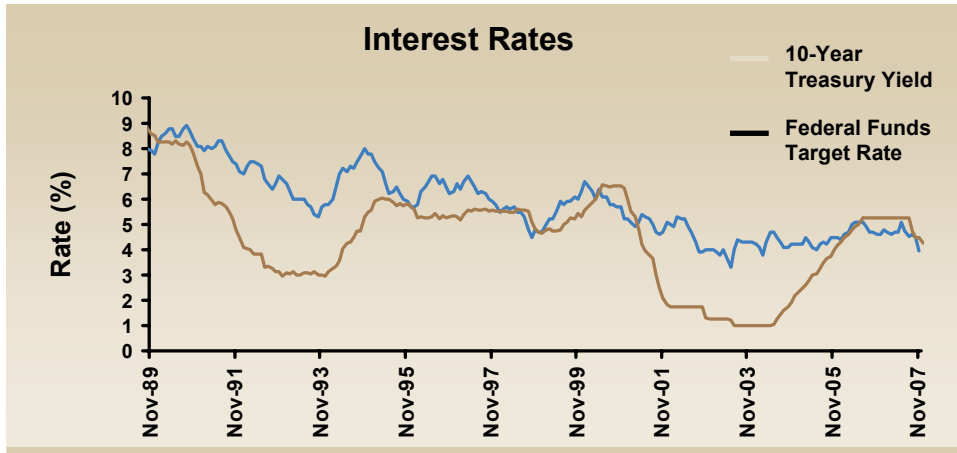


- Job growth—which remains modest—has helped keep unemployment at a low 4.7%.
- Going forward, unemployment may edge up as job growth has started to decelerate. The recent increase in jobless claims also suggests a softening, but not an unraveling of the labor market.
- In November, core consumer inflation (CPI) was 2.3% year-over-year.
- Going forward, consumer inflation is likely to range around 3%, as the slowing economy limits companies from pushing through higher input costs.
- In October, exports rose 0.9%—an eighth consecutive record.
- Going forward, a weak U.S. dollar and healthy global economic growth should continue to spur exports. Rising exports should in turn help shrink the trade deficit and give a boost to U.S. economic growth.
- Consumer spending has slowed this year but remains respectable.
- Going forward, moderate job growth and a reduction in housing wealth may compel consumers to tighten their wallets further.

Source: Bloomberg (12/07)

Economic Overview

U.S. economic growth is likely to remain modest in the months ahead.

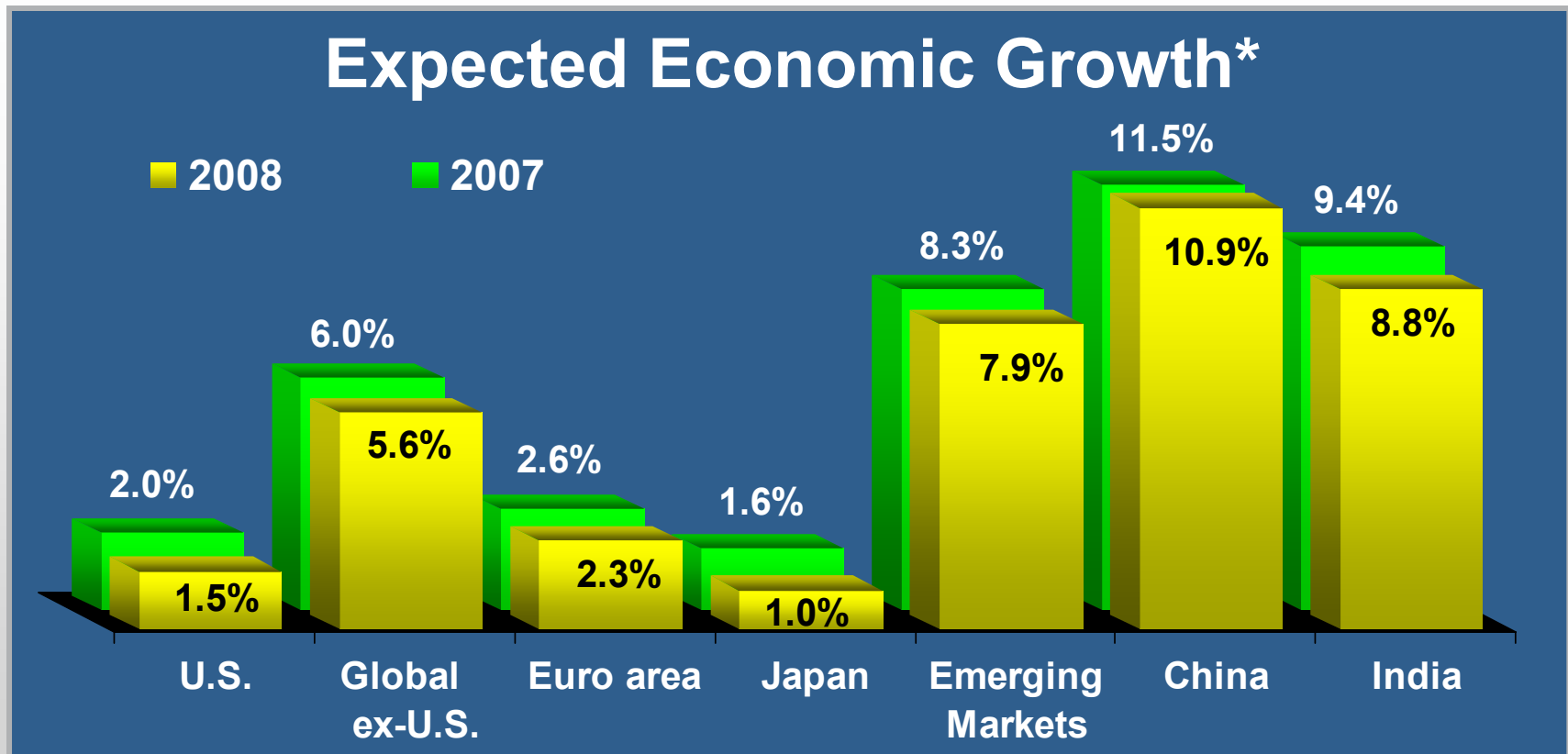


Source: Bloomberg (12/07)

- On 12/12/2007, the Federal Reserve cut its rate by a quarter point.
- Going forward, the Fed will likely continue to cut rates in order to boost economic activity and alleviate the short-term financial crunch.
- Inventory of unsold homes on the market remain at record levels.
- Going forward, fewer potential buyers and record inventory of unsold homes are likely to force certain sellers to lower home prices.
- Business activity in the service sector grew in November for the 56th straight month.
- Going forward, new orders in the service sector bode well for future business activity in the sector.
- Real U.S. economic growth in the third quarter was 2.8% above a year earlier.
- Going forward, real GDP growth will moderate because of the continued housing market correction and softer consumer spending, offset by strong growth in exports.

The Global Economy Today

How is the world doing?



*Economic forecast

Source: Merrill Lynch , *GEM Monthly Wrap*, 11/1/07

Our Outlook for 2008

We expect:

- **Vibrant international/modest U.S. growth**
- **Respectable profit growth, albeit slower**
- **Moderate consumer spending/weak housing**
- **Federal Reserve to continue easing**
- **Dollar trends lower/improving trade**

The Economy: Bending, But Not Breaking

Today's Agenda



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Our Thoughts on 2008:

Positives

- Low Unemployment
- Low business costs
- Population growth/strong demographics
- Housing affordability
- High tech research

Negatives/Risks

- Credit squeeze
- Weak housing market
- Tight labor market
- Slowing consumer spending/Inflation
- High tech manufacturing

Today's Agenda



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Equity Outlook

- **More Volatility**
- **Reasonable Valuations**
- **Lower Earnings Expectations**
- **Change in Leadership**
- **Moderate Returns**

Suggestions as of 10/31/07

We expect:

- **Federal Reserve to continue easing**
- **Yield curves to steepen**
- **Yield difference between high-yield bonds and Treasuries to continue increasing**
- **Municipal bonds to remain attractive for high tax-bracket investors**

Our Suggestions for 2008:

- Globalize your portfolio across asset classes
- Rebalance towards growth vs. value
- Rebalance towards large cap vs. mid & small cap
- Pay attention to sector weightings, especially U.S. consumer exposure
- Maintain suitable exposure to non-traditional assets
- Plan for likely increase in tax rates

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