



Economic Summary: 2Q09



Economic Analysis Division

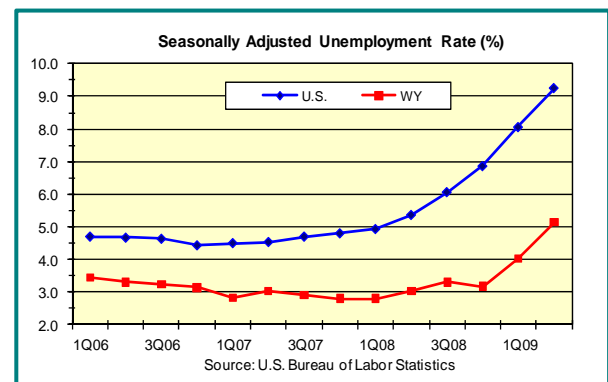
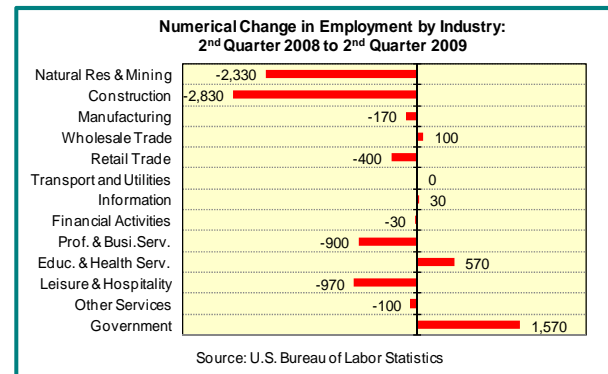
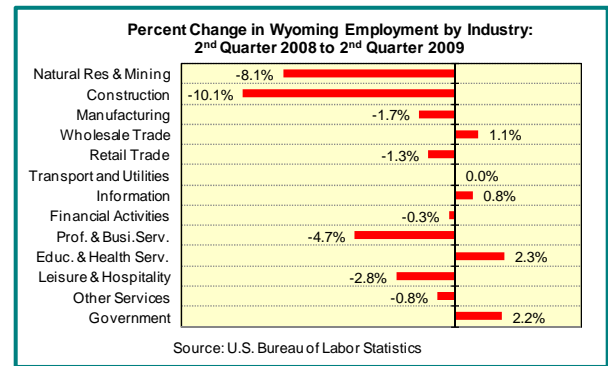
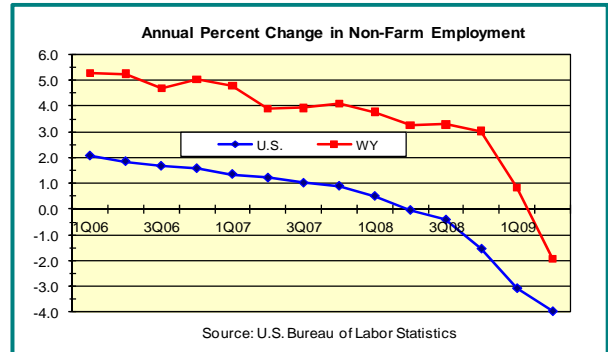
State of Wyoming

Employment

Renewed growth is occurring in Asia's major developing economies – China and India, and the world economy is starting to recover. The recession in Europe, North America, and Latin America is bottoming out. The financial systems in the U.S. and Europe are recovering but are still vulnerable to badly performing assets. The recovery will be gradual for most countries. The world economy will grow slowly in 2010 and is expected to gather speed in 2011. Most economies may not regain their pre-recession levels of employment and output until the end of 2012.

After the longest, broadest, and most severe economic contraction since the 1930s, growth in the U.S. is resuming. Consumer spending is stable, business investment, exports, and homebuilding have turned positive. However, weak labor markets and consequent stagnant incomes could keep the U.S. economy fragile for an extended period. The downturn in energy exploration, particularly natural gas production, dragged Wyoming's economy into a recession earlier this year – more than one year after the U.S. recession began. For the second quarter 2009, the recession in the State deepened due to diminished mining activities, resulting in a dramatically weakened labor market, particularly in the mining and construction industries. Compared to the second quarter of 2008, employment in the State decreased by 5,460 jobs, or 1.8 percent. It was the worst performance since 1987 (the bust of the oil industry). The unemployment rate climbed quickly to 5.1 percent in the quarter, while it jumped to 9.3 percent in the U.S. for the same period. Similar to the nation, Wyoming's job growth occurred only in a few industries. Educational & health services demonstrated the fastest increase with 2.3 percent, or 570 jobs, while government added 1,570 jobs, or 2.2 percent over the year. Faced with extremely low prices, the mining industry lost 2,330 jobs, or 8.1 percent on an annual basis. With energy related industries no longer able to provide the support they once did, momentum in other industries also slowed. Construction struggled with job losses of 2,830, or 10.1 percent in the quarter. Residential building permits were at the lowest level since early 1990s, and were over 40 percent less than the second quarter of 2008.

Wyoming's driving industry, energy, is contracting at a rapid rate, and overall unemployment is rising fast. Low energy prices are deterring exploration and development. As a result, a massive amount of workers have been pushed into the job market. Mining job declines are proving to be particularly brutal because of the industry's relatively high wages. The loss of labor income from mining is magnifying decreases in consumer spending. The overall hiring environment is difficult, and the continuing claims for unemployment insurance benefits rose sharply, and nearly quadrupled over the past year, suggesting laid-off workers were having difficulty securing new jobs.



Energy Industry

Since the start of this century, natural gas exploration has developed rapidly in Wyoming. It has become the primary driver of the State's economy, and turned itself into the single largest revenue source for the state government and for many local governments. However, both low demand and an increase in supply have pushed the natural gas price to a seven-year low recently. Spot prices in the second quarter of 2009 were less than one-third of that a year ago. A flood of natural gas is being pumped out of shale in Appalachia and the Southeast U.S. Thanks to the new drilling technology, these shale wells are producing giant volumes early in their lives, and relatively more efficiently. As a result, national reserves are at their highest level ever. Meanwhile, the great recession has crippled industrial demand for natural gas. But the global economic recovery and the approaching winter season could drive up demand and push prices somewhat higher.

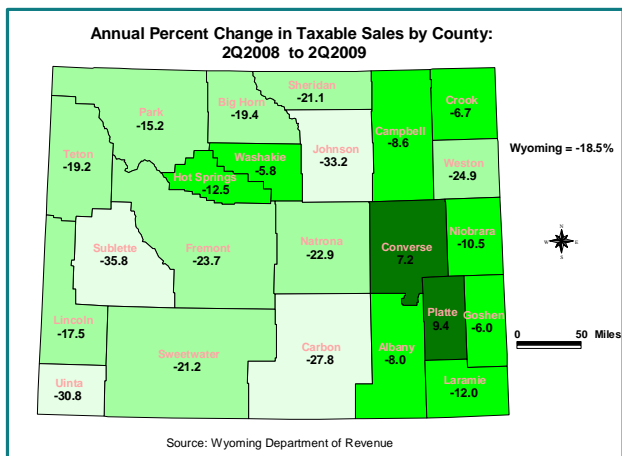
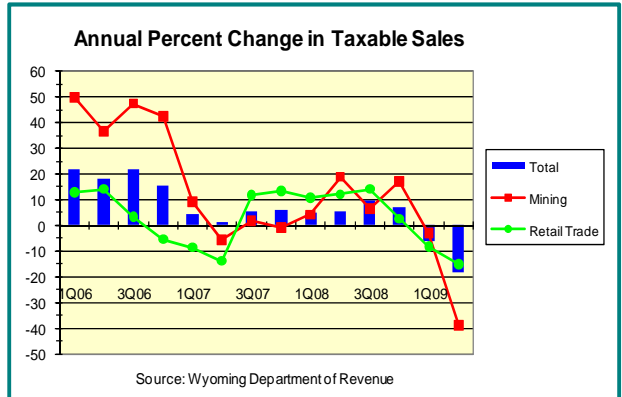
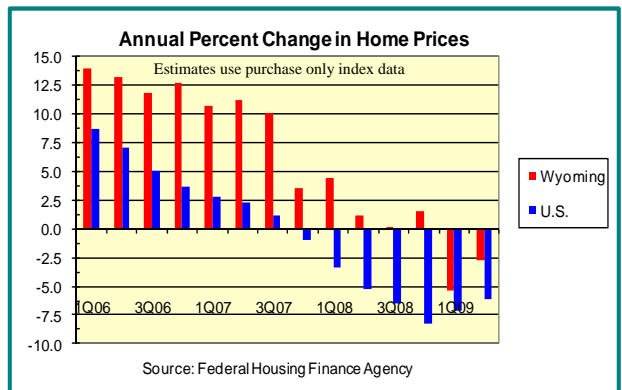
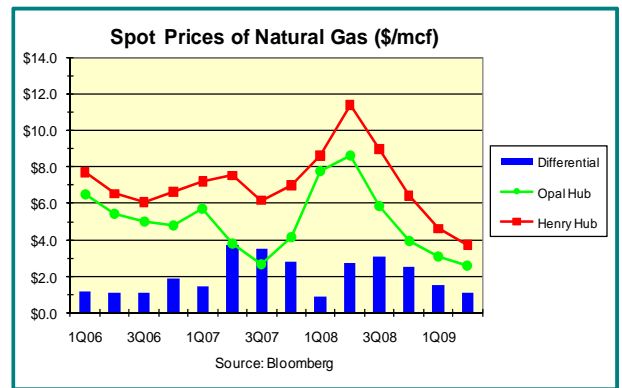
Housing

Driven by booming energy exploration, Wyoming's housing market thrived along with the strong economy from 2002 to early 2007. The hot residential real estate markets in the State have eased somewhat since late 2007 with increased inventories and lower transactions in many communities. Both building permits and existing home sales declined over 20 percent in 2008 from the previous year level. Spreading layoffs and tight credit have made homebuilders cautious. Inventory build-up and weak demand have led home sellers to accept lower prices. Since the beginning of 2009, home construction and existing home prices have dropped even further. Residential construction permits have shrunk back to a level last seen at the beginning of the decade. The 4 percent price contraction in the first half of 2009 from the previous year level in the State was the deepest decline since the late 1980s. However, Wyoming homes will retain most of their value despite the weak pace of sales and prices. Growth in affordability and relatively few foreclosures will help protect residential real estate from significant declines.

Strong population and income gains, and the lack of reliance upon nonprime lending to sustain home sales in recent years, have left Wyoming with few cracks in the foundation of its housing market. The State should experience only a modest dip in house prices, far less than other parts of the country.

Taxable Sales

Based on sales and use tax collections, total taxable sales in the State reached approximately \$4.0 billion in the second quarter of 2009, a significant decline of 18.5 percent from the second quarter of 2008, the steepest ever. Decline in the sales of automobiles, particularly luxury ones, and the fall in energy exploration mainly caused the overall contraction. Nearly half of sales occurred in the mining (including oil and gas extraction) and retail trade industries. The State does not impose a sales tax on the production of minerals, but rather on the supplies and equipment used in mineral extraction. Additionally, certain services rendered within an oil or gas well site are subject to sales and use taxation as well as



services rendered under contract for mining and crushing minerals. Due to the slowdown of mining activities, sales of equipment and services in the mining sector have decelerated dramatically since the fourth quarter 2006. For the second quarter of 2009, sales decreased 38.7 percent from a year earlier. Retail trade taxable sales dropped at an annual rate of 15.3 percent for the quarter. Statewide, every county except Platte and Converse suffered declines in total taxable sales.

Tourism

The State's spring tourism activities were less affected by the national recession. The number of recreational visitations to Yellowstone and Grand Teton National Parks were 930,438 and 661,372 in the second quarter of 2009; up 7.2 percent, but down 1.3 percent, respectively, from the previous year level. However, the lodging sales in the State for the second quarter of 2009 were 17.4 percent lower than one year ago. As the State's main tourism attraction area, Teton County's lodging sales also experienced a notable annual decline of 16.6 percent during the quarter. During an economic recession, the drop in the expenditures from tourists is usually higher than the drop in the number of visitations. Apparently, tourists are also tightening their belts. In addition, the slowdown in energy development has forced some transient mining workers out, and they were not occupying blocks of lodging spaces in certain areas like they have in the past.

Agriculture

The index of prices received by farmers for all Wyoming livestock and products in the second quarter of 2009 remained the same from the previous quarter, but was 2.7 percent lower than the second quarter of 2008. The U.S. average livestock price was slightly higher than the previous quarter, and was also a bit higher than the level in Wyoming. With the increasing cost of feeding livestock due to high corn and fuel prices, Wyoming farmers and ranchers have suffered negative earnings in every quarter since the second quarter of 2008, ranging from \$18 million to \$56 million. Agricultural prices have plummeted since the financial crisis started, but remained above the long-term average. Amid the global recession, the weak demand for quality beef continues to hamper prices.

Revenue

Investment income, including the Permanent Wyoming Mineral Trust Fund (PWMTF) and pooled income accounts, remained at \$56.3 million in the second quarter of 2009. This was nearly 30 percent less than the amount received one year ago. There was a one-time capital gain of \$65 million realized in July 2007, which boosted the income figure for the third quarter of 2007. Much of the increase in the past several years was attributed to the infusion of the additional severance taxes into the PWMTF principal. The collection of \$194.9 million in mineral severance taxes in the second quarter of 2009 was 36.6 percent lower than a year ago. This was the largest decline since 2002. The contraction was mainly due to the dramatic price drop for energy resources, particularly natural gas since the fall of 2008.

