



Economic Summary: 3Q09



Economic Analysis Division

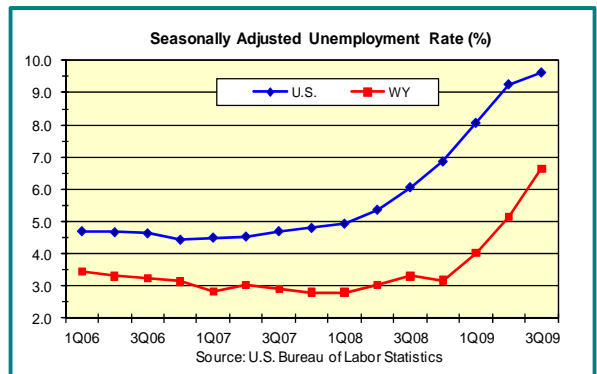
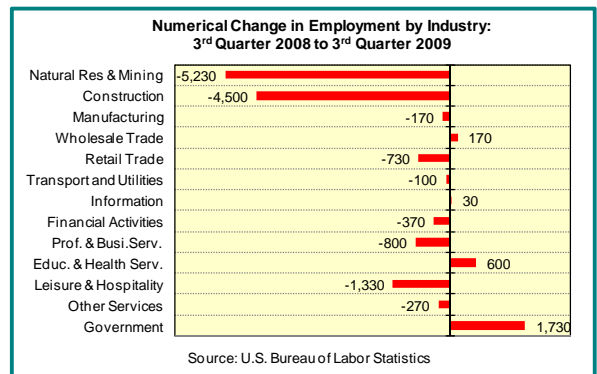
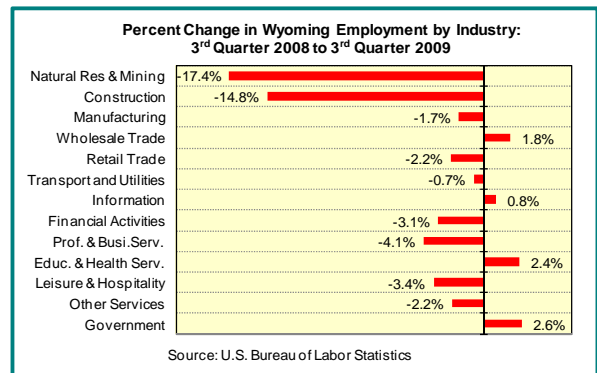
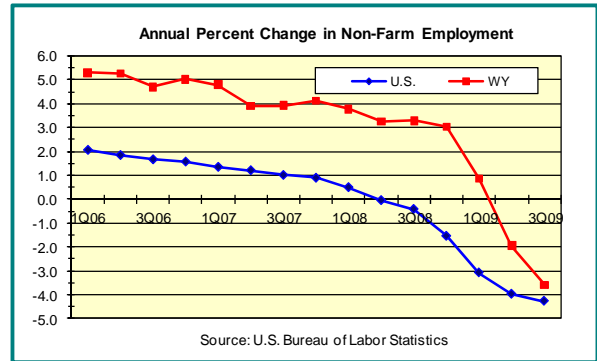
State of Wyoming

Employment

The global economy is recovering, and the revival is being led by the major emerging economies, notably China, India, and Brazil. The U.S., Western Europe, and Japan are also on a path to recovery, but are proceeding more slowly. However, private demand is still too weak to propel self-sustaining growth, and a premature ending of fiscal and monetary stimulus could stall the nascent recovery. The sturdy 2.8 percent annualized gain in real GDP in the U.S. during the third quarter shows that the recovery has indeed begun. Advances were broad in consumer spending, homebuilding, business investment in equipment and software, exports, and federal government spending. While layoffs have slowed, business hiring remains dormant. Without more hiring, the job market will not improve enough to generate the income households need to support spending growth.

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 third quarter 2009, the recession in the State deteriorated due to diminished mining activities, resulting in a dramatically weakened labor market, particularly in the mining and construction industries. Compared to the third quarter of 2008, employment in the State decreased by 10,970 jobs, or 3.6 percent. It was the worst performance since 1987 (the bust of the oil industry). The unemployment rate climbed quickly to 6.6 percent in the quarter, while it grew to 9.6 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 among private industries with 2.4 percent, or 600 jobs, while government added 1,730 jobs, or 2.6 percent over the year. Faced with extremely low commodity prices, the mining industry lost 5,230 jobs, or 17.4 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 4,500, or 14.8 percent from last year. Residential building permits were at the lowest level since early 1990s, and were about 20 percent less than the third quarter of 2008.

As the driving force of Wyoming's economy, energy prices determine exploration and development. Both low demand and an increase in supply have pushed the natural gas price to a seven-year low this summer. 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. However, with a recent inventory decline due to both the global and national economic recovery and the cold weather, growing demand for natural gas is lifting the prices. Consequently, the stabilization of the energy industry will help to sustain other industries in the State.



Personal Income and Earnings

After three consecutive quarters of decline, Wyoming's total personal income grew slightly in the third quarter of 2009. U.S. personal income increased 0.3 percent from the previous quarter. Personal income is the income received by all residents from all sources. It is the sum of net earnings by place of residence, rental income, dividend income, interest income, and current transfer receipts. Total earnings in the State remained the same for the quarter. The improvement in personal income for Wyoming was mainly attributed to less drastic decrease in dividend, interest, and rental income, and much slower decline of earnings in the State's most important industries - mining and construction. Earnings from these two industries experienced contraction of 2.4 and 2.8 percent, respectively, while all other industries' earnings registered increases in the quarter.

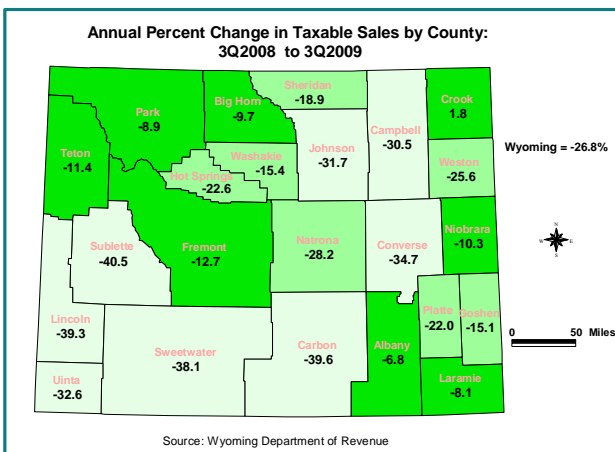
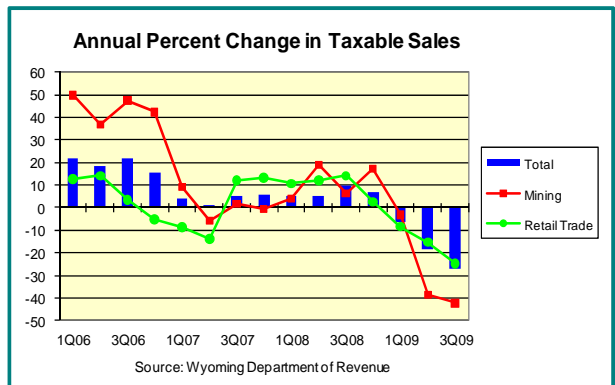
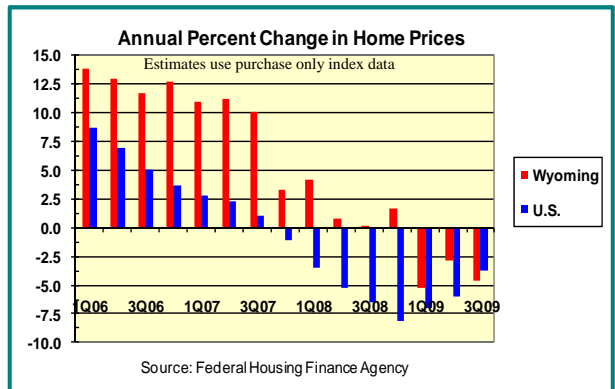
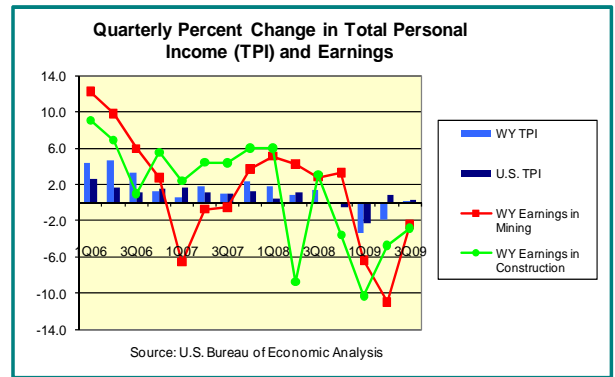
Housing

Lagging the national trend, Wyoming's hot residential real estate markets have eased somewhat since late 2007 with increased inventories and lower transactions in many communities. Building permits and existing home sales declined over 42 and 22 percent, respectively, in 2008 from the previous year level. Immense layoffs and tight credit have made homebuilders cautious. Inventory build-up and weak demand have led home sellers to accept lower prices. However, Wyoming was still one of only a few states in the nation where home prices showed appreciation in 2008. 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 price contraction in 2009 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. Indeed, Wyoming was still in first place throughout the country in terms of cumulative five-year home price appreciation in the third quarter of 2009.

Taxable Sales

Based on sales and use tax collections, total taxable sales in the State reached approximately \$4.0 billion in the third quarter of 2009, a staggering decline of 26.8 percent from the third 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 beginning of the year. For the third quarter of 2009, sales decreased 42.3 percent from a year earlier. Retail trade taxable sales dropped at an annual rate of 24.9 percent for the quarter. Statewide, every county, except Crook, suffered declines in total taxable sales, with even deeper drops in areas with heavy mineral exploration.

Tourism

With a record breaking number of visitations to national parks, the State's summer tourism activities were much less affected by the global and national recession. The number of recreational visitations to Yellowstone and Grand Teton National Parks were 2,142,936 and 1,584,040 in the third quarter of 2009, up 7.2 percent and 8.4 percent, respectively, from the previous year level. However, the lodging sales in the State for the third quarter of 2009 were still 8.6 percent lower than one year ago. As the State's main tourism attraction area, Teton County's lodging sales experienced an annual increase of 3.4 percent for the quarter. During an economic recession, the growth in the expenditures from tourists is usually lower than the expansion 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 third quarter of 2009 was higher than the previous quarter, but was 19.3 percent lower than the third quarter of 2008. The U.S. average livestock price was slightly lower than the previous quarter, and was the same as the level in Wyoming. With the increasing cost of feeding livestock due to high corn and fuel prices, Wyoming's farm proprietors have experienced negative income in nearly every quarter since 2006. Total annual farm earnings in the state were below \$100 million in recent years. 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, declined to \$49.4 million in the third quarter of 2009. This was also 12.2 percent less than the amount received one year ago. Much of the increase before the recession was attributed to the infusion of the additional severance taxes into the PWMTF principal. The collection of \$153.2 million in mineral severance taxes in the third quarter of 2009 was 57.7 percent lower than a year ago. This was the steepest drop in the history of severance tax collections. The contraction was mainly due to the dramatic price drop for energy resources, particularly natural gas since the fall of 2008.

