



# Economic Summary: 4Q08



Economic Analysis Division

State of Wyoming

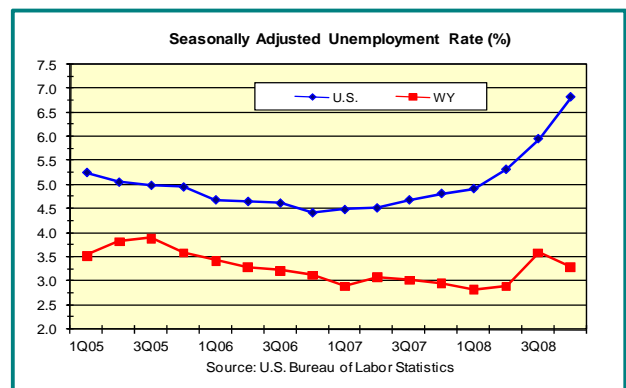
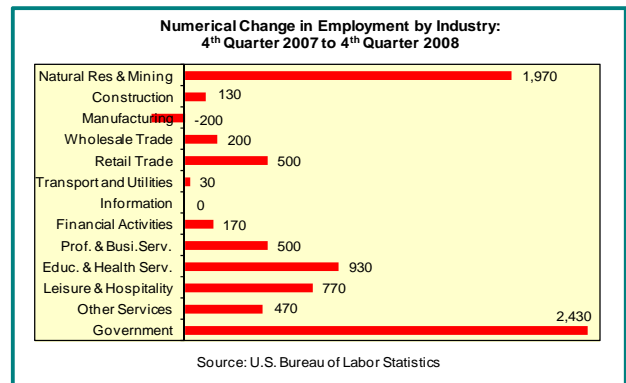
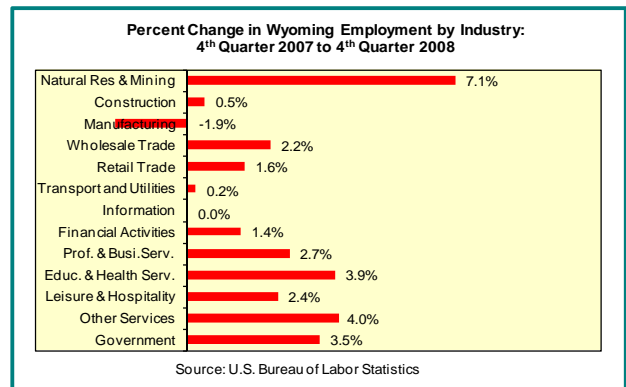
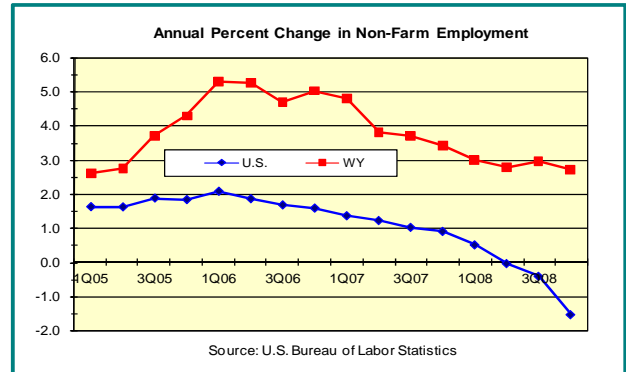
## Employment

The global economy is contracting, with most developed economies in recession while emerging economies are growing far below potential. The economic downturn in the U.S. is becoming increasingly severe, lengthy and broad-based. The number of unemployed and underemployed workers is climbing fast, and real GDP is contracting sharply. Consumer spending, housing, business investment, and exports are also declining dramatically. Government spending is the economy's only source of growth. The recession appears to be growing deeper and wider.

As the recession is hurting nearly every region in the country, the Cowboy State's job market growth continued to hold well for the fourth quarter of 2008. Compared to fourth quarter 2007, employment in the State increased by 8,860 jobs or 3.0 percent. It was the slowest growth since the second quarter of 2005, but still the fastest in the nation. The unemployment rate declined slightly to 3.2% in the quarter, while it jumped to 6.8 percent in the U.S. for the same period. Wyoming's employment growth was spread out across many industries. The natural resources & mining demonstrated the fastest increase with 8.8 percent, or 2,430 jobs, while government added 2,870 jobs, or 4.2 percent over the year. All, but the manufacturing, information, and transportation & utilities industrial super sectors recorded annual job growth during the fourth quarter 2008. Wholesale trade, and educational & health services industries also grew 3.8 and 5.0 percent, respectively. With the completion of commercial construction and public projects, plus continued weak residential building, the construction industry in the State slowed down quickly.

Wyoming's employment growth continues, and labor demand is still robust, which will prevent a sizeable downturn in consumer spending. The jobless rate is still low, and employers remain willing to absorb some job seekers. However, the precipitous drop in energy prices, particularly natural gas price prompted certain producers to curtail exploration and production. The statewide unemployment insurance claims in the fourth quarter of 2008 were the highest in decades, and were 46 percent more than the figure recorded in the fourth quarter of 2007. The opportunity for mining activity increases may be limited in the near future because of the weakening global economy.

Although the State's economy has made impressive gains despite the intensifying global weak economy and national recession, declining energy demand and weakening housing market may dampen its expansion in the near future. One difference between this recession and others is that nationwide, there is no refuge from the national economic pain. Even the stronger economies in the Farm Belt and energy-producing states are weaning with the collapse in farm and energy prices.



## Income and Earnings

Wyoming's total personal income declined 0.5 percent in the fourth quarter of 2008. The contraction was the first since the first quarter of 1994, and a contrast with a 1.3 percent increase in the third quarter of 2008. U.S. personal income declined 0.2 percent from the third 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. Despite the \$29 million loss in farm earnings as a consequence of raised production expenses for livestock growers, and declines of earnings in a few other industries, total earnings in the State still increased slightly at 0.1 percent for the quarter. The decline in personal income for Wyoming in the fourth quarter was mainly attributed to the tremendous drop of nearly \$200 million in dividend, interest, and rental income.

## Housing

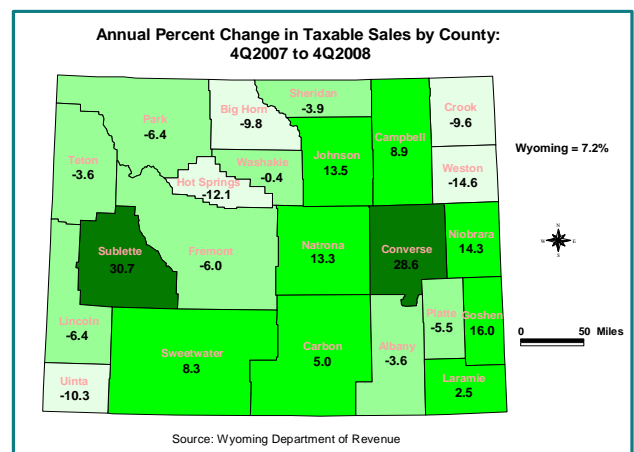
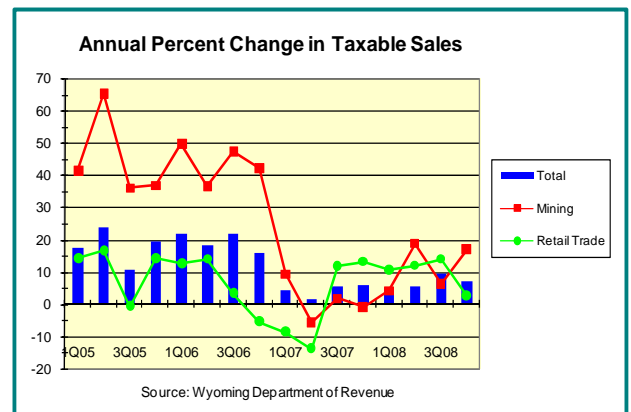
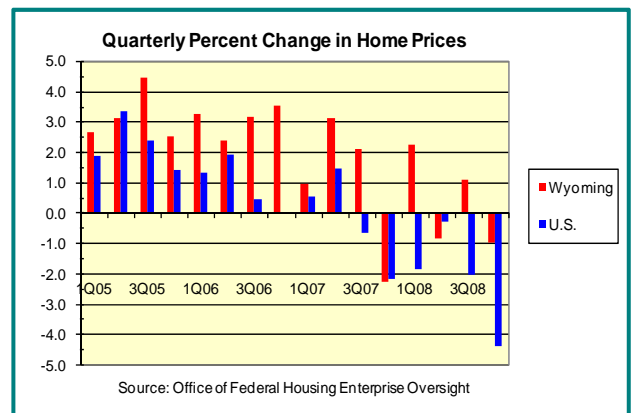
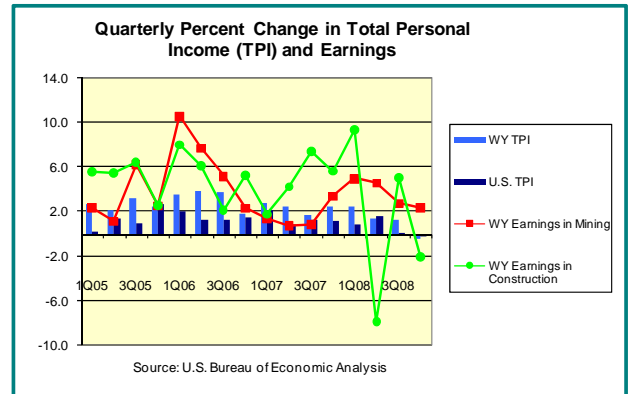
Driven by booming energy exploration, Wyoming's housing market thrived along with the strong economy from 2002 to 2007. During this span, residential building permits more than doubled, and home prices increased nearly 70 percent, making the affordability degrade fast, particularly for workers in low paying industries.

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 the existing home sales declined over 20 percent in 2008 from the previous year level. The home price appreciation also quickly slowed down. The price contraction in the third quarter of 2008 in the State was the first home price decline since the second quarter of 1998. However, for the whole year of 2008, home prices still grew 3.5 percent, the second highest in the nation.

Thanks to the minimal exposure of subprime mortgages, low levels of household debt, and a robust labor market, Wyoming's delinquency and foreclosure rates continue to rank low in the nation for the quarter. However, both figures are rising fast.

## Taxable Sales

Based on sales and use tax collections, total taxable sales in the State reached approximately \$4.9 billion in the fourth quarter of 2008, an increase of 7.2 percent from the fourth quarter of 2007, attributing mainly to heightened mining activities. 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 extracting the minerals. 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 fourth quarter of 2008, however, it still expanded 17.3 percent from a year earlier. The retail trade taxable sales slowed down to an annual growth rate of 2.6 percent in the fourth quarter of 2008. The declines during the period between the third quarter 2006 and second quarter 2007 for the retail trade sector were mainly caused by the exemption of the sales tax on grocery food, which was implemented in July 2006.

### Tourism

Despite the national recession, the State's tourism activities held well during the fall and early winter. The number of recreational visitations to Yellowstone and Grand Teton National Parks were 174,511 and 223,760 in the fourth quarter of 2008, down 0.6 percent and up 3.8 percent, respectively, from the previous year level. The lodging sales in the State for the fourth quarter of 2008 were 5.7 percent higher than one year ago. As the State's main tourism attraction area, Teton County's lodging sales experienced a notable annual growth of 10.8 percent during the quarter. Some of the lodging sales in mineral rich areas such as Carbon, Natrona, and Sweetwater counties were not attributed to tourism, but rather to out-of-state mining workers who occupied blocks of lodging spaces on a regular basis, which has been the case in recent years of energy development.

### Agriculture

The price index received by ranchers for all Wyoming livestock and products in the fourth quarter of 2008 was down substantially from the previous quarter, and it was 9.5 percent lower than the fourth quarter of 2007. The U.S. average livestock price was also much lower than the previous quarter, but was above the level in Wyoming. With the increasing cost of feeding livestock due to high corn and fuel prices during the summer, earnings for Wyoming farms suffered losses in every quarter since the second quarter of 2008, ranging from \$18 million to \$29 million. The commodity prices have plummeted since financial crisis started. As a result, reduced input costs for ranchers may help their operation.

### Revenue

Investment income, including the Permanent Wyoming Mineral Trust Fund (PWMTF) and pooled income accounts, declined to \$15.9 million in the fourth quarter of 2008. This was just about one-sixth of 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 \$320.6 million in mineral severance taxes in the fourth quarter of 2008 was 63.7 percent higher than a year ago. This was one of the highest increases since the oil boom in the early 1980s. The growth was mainly due to the echo of the surged prices for energy resources, particularly natural gas during the summer.

