

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its July 2006 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 3.4% in 2006, 2.6% in 2007, 3.1% in 2008, and 3.2% in 2009;
- U.S. nonfarm employment grows 1.4% in 2006, 1.3% in 2007, 1.4% in 2008, and 1.2% in 2009;
- the annual U.S. civilian unemployment rate remains below 5.0% through 2009;
- consumer inflation is 3.3% in 2006, 2.1% in 2007, 1.7% in 2008, and 1.6% in 2009;
- the current account deficit is \$884 billion in 2006, \$894 billion in 2007, \$873 billion in 2008, and \$850 billion in 2009; and
- the federal unified budget deficit is \$289 billion in 2006, \$281 billion in 2007, \$322 billion in 2008, and \$289 billion in 2009.

OPTIMISTIC SCENARIO

Global Insight has assigned its *Optimistic Scenario* a 20% probability of occurrence. Seven assumptions distinguish this scenario from the baseline. First, total factor productivity is stronger. Underlying this assumption is the belief the information-driven technology boom will continue. Second, foreign economic growth is stronger, which causes U.S. exports to grow faster in most years in this scenario. Third, the U.S. dollar is stronger in this scenario. Fourth, business investment is stronger. This is not hard to imagine because the current level of business spending is below the historical average at a time when businesses are running out of industrial capacity. Fifth, the federal budget deficit is lower thanks to higher revenues and lower federal transfer payments. Also contributing to the smaller deficit is lower interest payments because of lower interest rates. Sixth, the lower interest rates also contribute to stronger housing starts. Seventh, the *Optimistic Scenario* assumes energy prices are lower than in the baseline.

These assumptions produce a rosier forecast than the baseline. Real GDP grows 0.1 percentage point faster than in the baseline in 2006 and 0.9 percentage point faster in 2007. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and the higher productivity gains. The lower inflation allows the Federal Reserve to keep its federal funds rate below the *Baseline Scenario's* rate, averaging 4.75% versus 5.00% in the baseline. Since productivity is stronger, potential GDP is higher. Job growth is also stronger, which keeps the unemployment rate below its baseline counterpart over the forecast period.

The stronger U.S. economy boosts the outlook for the Gem State's economy. Idaho nonfarm employment advances much faster over the forecast period in this scenario compared to the baseline case. After growing at the same pace (4.5%) in 2006 as in the baseline, nonfarm employment advances 3.4% in 2007, 2.8% in 2008, and 2.5% in 2009 in this scenario. In the *Baseline Scenario* Idaho nonfarm employment grows 3.0% in 2007, 2.3% in 2008, and 2.1% in 2009. As a result, there are 8,300 more jobs in the *Optimistic Scenario* than in the *Baseline Scenario* at the end of the forecast period. Interestingly, Idaho nominal personal income grows slower than its baseline counterpart. However, this is due to the lower inflation resulting from improved productivity. When both the optimistic and baseline incomes are adjusted for inflation, the former grows faster in each year of the forecast.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JULY 2006

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
GDP (BILLIONS)												
Current \$	13,297	13,947	14,655	15,418	13,311	14,033	14,798	15,586	13,241	13,715	14,424	15,331
% Ch	6.5%	4.9%	5.1%	5.2%	6.6%	5.4%	5.5%	5.3%	6.0%	3.6%	5.2%	6.3%
2000 Chain-Weighted	11,513	11,808	12,179	12,565	11,525	11,926	12,396	12,854	11,469	11,557	11,822	12,169
% Ch	3.4%	2.6%	3.1%	3.2%	3.5%	3.5%	3.9%	3.7%	3.0%	0.8%	2.3%	2.9%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	42,711	45,913	48,955	52,185	42,671	45,638	48,616	51,720	42,830	46,488	49,614	53,274
% Ch	6.0%	7.5%	6.6%	6.6%	5.9%	7.0%	6.5%	6.4%	6.3%	8.5%	6.7%	7.4%
U.S. (Billions)	10,801	11,403	12,068	12,773	10,800	11,426	12,131	12,851	10,796	11,354	11,999	12,786
% Ch	5.5%	5.6%	5.8%	5.8%	5.5%	5.8%	6.2%	5.9%	5.5%	5.2%	5.7%	6.6%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	37,335	39,367	41,248	43,246	37,369	39,446	41,470	43,563	37,302	39,184	40,645	42,422
% Ch	3.2%	5.4%	4.8%	4.8%	3.3%	5.6%	5.1%	5.0%	3.1%	5.0%	3.7%	4.4%
U.S. (Billions)	9,442	9,777	10,168	10,585	9,459	9,876	10,347	10,824	9,404	9,571	9,830	10,182
% Ch	2.7%	3.5%	4.0%	4.1%	2.8%	4.4%	4.8%	4.6%	2.2%	1.8%	2.7%	3.6%
TOTAL NONFARM EMPLOYMENT												
Idaho	639,126	658,232	673,638	688,116	639,247	660,680	679,357	696,432	639,065	652,726	660,245	668,053
% Ch	4.5%	3.0%	2.3%	2.1%	4.5%	3.4%	2.8%	2.5%	4.5%	2.1%	1.2%	1.2%
U.S. (Thousands)	135,383	137,175	139,096	140,785	135,382	137,724	140,389	142,552	135,204	135,700	136,579	138,278
% Ch	1.4%	1.3%	1.4%	1.2%	1.4%	1.7%	1.9%	1.5%	1.3%	0.4%	0.6%	1.2%
GOODS-PRODUCING SECTOR												
Idaho	120,423	120,731	119,300	117,749	120,423	121,766	121,369	120,067	120,365	118,367	115,098	112,806
% Ch	7.2%	0.3%	-1.2%	-1.3%	7.2%	1.1%	-0.3%	-1.1%	7.2%	-1.7%	-2.8%	-2.0%
U.S. (Thousands)	22,420	22,426	22,322	22,275	22,405	22,532	22,662	22,761	22,439	22,088	21,403	21,295
% Ch	1.3%	0.0%	-0.5%	-0.2%	1.2%	0.6%	0.6%	0.4%	1.4%	-1.6%	-3.1%	-0.5%
NONGOODS-PRODUCING SECTOR												
Idaho	518,703	537,501	554,338	570,367	518,824	538,914	557,988	576,365	518,700	534,359	545,147	555,247
% Ch	3.9%	3.6%	3.1%	2.9%	3.9%	3.9%	3.5%	3.3%	3.9%	3.0%	2.0%	1.9%
U.S. (Thousands)	112,963	114,748	116,774	118,510	112,977	115,192	117,727	119,790	112,765	113,612	115,176	116,983
% Ch	1.5%	1.6%	1.8%	1.5%	1.5%	2.0%	2.2%	1.8%	1.3%	0.8%	1.4%	1.6%
SELECTED INTEREST RATES												
Federal Funds	5.1%	5.2%	4.8%	4.9%	5.0%	5.0%	4.5%	4.5%	5.4%	7.5%	7.3%	6.4%
Bank Prime	8.1%	8.2%	7.8%	7.9%	8.0%	8.0%	7.5%	7.5%	8.4%	10.5%	10.3%	9.4%
Existing Home Mortgage	6.7%	6.9%	7.0%	7.3%	6.6%	6.5%	6.6%	6.7%	7.0%	8.5%	7.7%	8.1%
INFLATION												
GDP Price Deflator	3.0%	2.3%	1.9%	2.0%	3.0%	1.9%	1.5%	1.6%	2.9%	2.8%	2.8%	3.3%
Personal Cons Deflator	2.8%	2.0%	1.8%	1.7%	3.0%	1.9%	1.5%	1.6%	3.1%	3.3%	2.9%	2.9%
Consumer Price Index	3.3%	2.1%	1.7%	1.6%	3.0%	1.4%	1.3%	1.2%	3.7%	3.2%	2.4%	2.6%

Forecast Begins the SECOND Quarter of 2006

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 25% probability of occurrence. In this scenario, core inflation is higher than in the baseline case. One of the reasons for the price acceleration is this alternative assumes there is less spare capacity in the world. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. This alternative forecast also assumes the dollar weakens as foreign investors flee the greenback over concerns of the huge U.S. trade deficit. The Federal Reserve raises interest rates more steeply in this alternative compared to the baseline. Despite this more aggressive stance, both the bond and stock markets slip on signs the Federal Reserve may have responded to rising inflation too slowly. Both of these factors point to higher interest rates than in the baseline. The rising interest rates result in a deeper housing downturn than in the baseline case. The central bank may concede the round, but not the match, and it continues to raise rates in order to stop inflation. As a result, the federal funds rate averages 6.59% in the fourth quarter of this year, compared to 5.50% in the baseline.

Consumer confidence suffers from the higher interest rates and persistently high energy prices. Consumer confidence is dented further under the combined weight of slow job growth and increasing debt loads. As a result of these combined concerns, consumers reel in their discretionary spending, which causes the economy to suffer. The economy does not sink into a recession in this alternative, but merely fails to come as close to its potential as in the baseline. The weaker dollar causes production to shift from satisfying domestic demand to serving foreign demand

Idaho's economy is noticeably weaker in this scenario compared to the baseline case. Idaho nonfarm employment grows slower than in the baseline. In the forecast's terminal year, employment is 668,053, which is more than 20,000 lower than in the baseline. Personal income is more complex. Idaho nominal personal income benefits from surging inflation and rises by 8.5% in 2007, 6.7% in 2008, and 7.4% in 2009. In 2009, Idaho nominal personal income of \$53.3 billion is \$1.1 billion higher than in the baseline case. However, this advantage evaporates when income is adjusted for inflation. Idaho real personal income in 2009 is \$1.0 billion lower than in the *Baseline Scenario*.