

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its April 2009 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP shrinks 3.5% in 2009, expands 1.4% in 2010, increases 3.5% in 2011, and grows 4% in 2012;
- U.S. nonfarm employment falls 3.6% in 2009, drops another 0.8% in 2010, grows 1.5% in 2011, and increases 2.4% in 2012;
- the annual U.S. civilian unemployment rate peaks at 10.2% in 2010 then gradually declines to 8.5% in 2012;
- consumer prices fall 1.4% in 2009, rise 1.6% in 2010, 2.1% in 2011, and 2.3% in 2012;
- the current account deficit is \$406 billion in 2009, \$544 billion in 2010, \$646 billion in 2011, and \$747 billion in 2012;
- the federal unified budget deficit is \$1.91 trillion in 2009, \$1.69 trillion in 2010, \$973 billion in 2011, and \$470 billion in 2012.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 20% probability of occurrence. In this scenario, the rapid response of the Federal Reserve to the crisis in financial markets, coupled with the U.S. Treasury's rescue plan, Congress' stimulus package, and help from foreign central banks, helps limit the downside of the U.S. economic downturn. This simulation contains no additional economic stimulus above the level in the baseline, but the primary difference is the wheels of stimulus start to achieve traction more quickly in the *Optimistic Scenario*, producing growth in this year's third quarter. Credit flows more freely in this scenario, helping housing starts average 620,000 units this year, compared to the 551,000 units projected in the baseline case. Likewise, nonresidential fixed investment is stronger in the *Optimistic Scenario*. After suffering a 16.1% contraction in 2009, it rebounds by 6.6% in 2010. In the baseline, it retreats 18.8% this year followed by a 0.1% drop next year. Thanks to the anticipated stronger demand, energy prices are higher in this scenario than in the baseline. However, they are lower in the long run, reflecting more-optimistic assumptions about supply. Stronger total factor productivity growth is stronger than in the baseline forecast, which helps rein in long-term inflation despite the stronger expected growth.

On net, these assumptions paint a brighter future for the economy compared to the *Baseline* and *Pessimistic* scenarios. Real GDP declines by 5.7% in the first quarter of this year and 0.9% in the second quarter. However, it rebounds smartly, growing at 1.5% annual pace in the third quarter of 2009 and at a 3.2% clip in the fourth quarter. Employment also fares better in this scenario; the civilian unemployment rate peaks at 9.2% in late 2009 and is down to 7.1% by the end of 2012. In short, this scenario is similar to the baseline, with more muted cycle dynamics, and a quick bounce-back. This scenario's misery index (inflation plus the unemployment rate) is 1.25 percentage points lower than in the baseline from 2010 to 2012.

The milder national recession and stronger recovery improves Idaho's economic outlook compared to its baseline counterpart. Idaho nonfarm employment is forecast to shrink 4.5%, which is slightly better than the 4.9% decline expected in the baseline case. In the *Optimistic Scenario*, nonfarm employment has a 0.6% gain next year. In comparison, nonfarm employment drops another 0.5% in the *Baseline Scenario*. Employment is expected to begin growing in the baseline in 2011, but its pace will be about

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
APRIL 2009

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
U.S. GDP (BILLIONS)												
Current \$	13,983	14,321	15,008	15,816	14,163	14,821	15,588	16,421	13,842	13,820	14,474	15,270
% Ch	-2.0%	2.4%	4.8%	5.4%	-0.7%	4.6%	5.2%	5.3%	-3.0%	-0.2%	4.7%	5.5%
2000 Chain-Weighted	11,247	11,403	11,799	12,271	11,379	11,702	12,111	12,605	11,138	11,047	11,394	11,787
% Ch	-3.5%	1.4%	3.5%	4.0%	-2.3%	2.8%	3.5%	4.1%	-4.4%	-0.8%	3.1%	3.4%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	48,860	49,757	51,934	54,852	49,065	50,487	52,844	56,104	48,627	48,774	50,661	53,208
% Ch	-0.2%	1.8%	4.4%	5.6%	0.2%	2.9%	4.7%	6.2%	-0.7%	0.3%	3.9%	5.0%
U.S. (Billions)	12,120	12,340	12,821	13,488	12,207	12,699	13,273	13,927	12,050	12,011	12,398	13,110
% Ch	0.1%	1.8%	3.9%	5.2%	0.9%	4.0%	4.5%	4.9%	-0.4%	-0.3%	3.2%	5.7%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,320	40,553	41,617	43,208	40,330	40,772	42,059	44,061	40,305	40,057	40,520	41,375
% Ch	0.1%	0.6%	2.6%	3.8%	0.2%	1.1%	3.2%	4.8%	0.1%	-0.6%	1.2%	2.1%
U.S. (Billions)	10,002	10,057	10,274	10,625	10,034	10,255	10,564	10,937	9,988	9,865	9,916	10,194
% Ch	0.5%	0.6%	2.2%	3.4%	0.8%	2.2%	3.0%	3.5%	0.3%	-1.2%	0.5%	2.8%
TOTAL NONFARM EMPLOYMENT												
Idaho	617,341	613,948	627,510	649,887	620,312	623,973	639,108	663,219	615,499	603,338	611,981	627,329
% Ch	-4.9%	-0.5%	2.2%	3.6%	-4.5%	0.6%	2.4%	3.8%	-5.2%	-2.0%	1.4%	2.5%
U.S. (Thousands)	132,054	131,024	132,947	136,162	133,004	134,335	136,616	139,520	131,595	128,759	129,858	132,867
% Ch	-3.6%	-0.8%	1.5%	2.4%	-2.9%	1.0%	1.7%	2.1%	-4.0%	-2.2%	0.9%	2.3%
GOODS-PRODUCING SECTOR												
Idaho	96,931	92,110	95,325	100,330	97,861	95,874	99,270	103,898	96,158	88,342	89,827	93,686
% Ch	-14.3%	-5.0%	3.5%	5.3%	-13.5%	-2.0%	3.5%	4.7%	-15.0%	-8.1%	1.7%	4.3%
U.S. (Thousands)	18,825	17,354	17,508	18,437	19,073	18,327	18,652	19,352	18,648	16,538	16,377	17,399
% Ch	-12.1%	-7.8%	0.9%	5.3%	-10.9%	-3.9%	1.8%	3.8%	-12.9%	-11.3%	-1.0%	6.2%
NONGOODS-PRODUCING SECTOR												
Idaho	520,410	521,839	532,185	549,556	522,450	528,099	539,838	559,321	519,341	514,995	522,153	533,643
% Ch	-3.0%	0.3%	2.0%	3.3%	-2.6%	1.1%	2.2%	3.6%	-3.2%	-0.8%	1.4%	2.2%
U.S. (Thousands)	113,229	113,670	115,439	117,726	113,931	116,008	117,964	120,168	112,947	112,221	113,481	115,469
% Ch	-2.1%	0.4%	1.6%	2.0%	-1.5%	1.8%	1.7%	1.9%	-2.3%	-0.6%	1.1%	1.8%
SELECTED INTEREST RATES												
Federal Funds	0.1%	0.2%	1.7%	3.3%	0.1%	0.4%	1.0%	2.7%	0.1%	0.1%	2.2%	4.7%
Bank Prime	3.3%	3.3%	4.7%	6.3%	3.3%	3.5%	4.0%	5.7%	3.3%	3.2%	5.2%	7.7%
Existing Home Mortgage	5.1%	5.1%	5.9%	6.3%	5.1%	5.2%	5.7%	5.9%	5.2%	5.1%	6.4%	7.7%
INFLATION												
GDP Price Deflator	1.5%	1.0%	1.3%	1.3%	1.6%	1.8%	1.6%	1.2%	1.4%	0.7%	1.5%	2.0%
Personal Cons Deflator	-0.3%	1.2%	1.7%	1.7%	0.1%	1.8%	1.5%	1.3%	-0.8%	0.9%	2.7%	2.9%
Consumer Price Index	-1.4%	1.6%	2.1%	2.3%	-0.8%	2.2%	1.7%	1.8%	-1.9%	1.1%	3.3%	3.6%

Forecast Begins the FIRST Quarter of 2009

0.2 percentage points slower than in the *Optimistic Scenario*. The slightly quicker growth in this scenario results in about 13,300 more jobs than in the *Baseline Scenario*. Idaho real personal income also grows faster in each year of the forecast, so by 2012 it is \$853 million higher than in the *Baseline Scenario*.

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 20% probability of occurrence. This simulation assumes the financial crisis worsens, which sends the economy into a downturn nearly twice as deep as any other since the Great Depression. Credit markets remain clogged. Without access to credit, domestic spending contracts and the housing market falls into an even deeper slump. Housing starts drop from 903,000 units in 2008 to 515,000 units in 2009 (compared with 551,000 in the baseline), and 693,000 units in 2010 (compared with 848,000 in the baseline). The weakness in housing undermines consumer confidence. This, along with the drop in household wealth caused by falling home prices, causes consumers to retrench sharply. Capital spending is also weaker because firms scuttle projects due to the weaker economic outlook. Foreign economic growth is also weaker, which cuts into export growth. As a result, exports deduct 2.2 and 0.5 percentage points from GDP growth in 2009 and 2010, respectively. The weaker global economic growth keep oil prices lower than in the baseline.

In this scenario, real GDP contracts 4.4% this year and 0.8% next year. Employment drops for eleven straight quarters, manufacturing output falls for ten straight quarters, and real GDP decreases for seven consecutive quarters. Unlike the previous two recessions, those of 1991 and 2001, this one exacts a heavy toll. Peak to trough, real GDP shrinks 6.4%—nearly twice as large as the losses during the 1973-75 and 1981-82 recessions. Unlike those recessions, however, the economy emerges from this downturn weaker and facing more troubles ahead.

In this scenario, Idaho's economy contracts more sharply and recovers more weakly than in the baseline case. Specifically, nonfarm employment shrinks 5.2% this year, 2% next year, then it grows 1.7% in 2011, and 2.5% in 2012. In comparison, it drops 4.9% in 2009, 0.5% in 2010, but increases 2.2% in 2011, and 3.6% in 2012 in the baseline. As a result, there are 22,600 fewer jobs in 2012 than in the baseline case. Not surprisingly, Idaho real personal income is lower in each year of the forecast.