

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its December 2008 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 1.2% in 2008, drops 1.8% in 2009, expands 2.1% in 2010, and grows 3.2% in 2011;
- U.S. nonfarm employment falls 0.2% in 2008, drops another 1.9% in 2009, grows 0.1% in 2010, and increases 1.5% in 2011;
- the annual U.S. civilian unemployment rate peaks at 8.6% in 2010 then gradually declines to 8.1% in 2011;
- consumer inflation is 3.8% in 2008, negative 1.5% in 2009, 2.4% in 2010, and 3.1% in 2011;
- the current account deficit is \$660 billion in 2008, \$282 billion in 2009, \$500 billion in 2010, and \$659 billion in 2011;
- the federal unified budget deficit is \$455 billion in 2008, \$1,349 billion in 2009, \$954 billion in 2010, and \$785 billion in 2011.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 5% 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 and help from foreign central banks, help avert a severe U.S. economic downturn. In addition, stronger total factor productivity growth is stronger than in the baseline forecast, which helps rein in inflation despite the stronger expected growth. Credit flows more freely in this scenario, helping housing starts average 748,000 units this year, compared to the 662,000 units projected in the baseline case. Likewise, nonresidential fixed investment is stronger in the *Optimistic Scenario*. It suffers a 10.3% contraction in 2009 followed by a 6.5% expansion in 2010. In the baseline, it retreats 13.4% this year followed by an anemic 0.6% rise next year. Both foreign economic growth and the dollar are stronger in this scenario. Finally, thanks to 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.

On net, these assumptions paint a much brighter future for the economy compared to the *Baseline* and *Pessimistic* scenarios. Real GDP declines 0.5% in the third quarter of 2008, 4.3% in the fourth quarter, and by 3.1% in the first quarter of this year. However, it is expected to recover to a 3-percent pace in the second half of this year. On an annual basis, real GDP shrinks 0.6% in 2009 versus 1.8% in the baseline. It expands 3.5% in 2010, compared to the baseline's 2.1%. Under these conditions the unemployment rate never exceeds 8% and falls under 7% by 2011. In short, this scenario is similar to the baseline, with more muted cycle dynamics, but a quick bounce-back.

Under these conditions Idaho's economy does not avoid a downturn, but it is less severe than the one projected in the baseline case. Idaho nonfarm employment declines 0.8% in 2008 and 1.6% in 2009, compared to drops of 0.9% and 2.1%, respectively, in the *Baseline Scenario*. As a result of these more modest declines, there are roughly 3,100 more jobs in 2009 compared to in the baseline. This gap widens to over 11,600 jobs in 2011, however, because of the stronger U.S. economic recovery assumed in the *Optimistic Scenario*. Interestingly, Idaho real personal income growth is virtually the same in the first two years of the forecast, but grows significantly faster in 2010 and 2011. This late rally pushes Idaho real personal income to \$43.2 billion in 2011—about \$450 million higher than in the *Baseline Scenario*.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2009

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
U.S. GDP (BILLIONS)												
Current \$	14,287	14,241	14,728	15,438	14,293	14,452	15,256	16,066	14,279	13,995	14,216	14,911
% Ch	3.5%	-0.3%	3.4%	4.8%	3.5%	1.1%	5.6%	5.3%	3.4%	-2.0%	1.6%	4.9%
2000 Chain-Weighted	11,662	11,456	11,692	12,063	11,667	11,593	11,996	12,391	11,656	11,283	11,366	11,708
% Ch	1.2%	-1.8%	2.1%	3.2%	1.2%	-0.6%	3.5%	3.3%	1.1%	-3.2%	0.7%	3.0%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	49,045	50,024	51,217	53,871	49,047	50,272	52,004	54,892	49,048	49,740	50,301	52,711
% Ch	3.2%	2.0%	2.4%	5.2%	3.2%	2.5%	3.4%	5.6%	3.2%	1.4%	1.1%	4.8%
U.S. (Billions)	12,122	12,315	12,632	13,226	12,123	12,435	13,018	13,713	12,119	12,198	12,281	12,846
% Ch	3.9%	1.6%	2.6%	4.7%	3.9%	2.6%	4.7%	5.3%	3.9%	0.6%	0.7%	4.6%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,341	41,423	41,646	42,768	40,336	41,363	41,824	43,219	40,358	41,522	41,352	41,909
% Ch	-0.1%	2.7%	0.5%	2.7%	-0.2%	2.5%	1.1%	3.3%	-0.1%	2.9%	-0.4%	1.3%
U.S. (Billions)	9,971	10,198	10,271	10,500	9,970	10,231	10,469	10,797	9,973	10,183	10,096	10,213
% Ch	0.6%	2.3%	0.7%	2.2%	0.6%	2.6%	2.3%	3.1%	0.6%	2.1%	-0.9%	1.2%
TOTAL NONFARM EMPLOYMENT												
Idaho	650,652	637,195	640,591	656,206	650,738	640,261	650,144	667,854	650,626	634,382	631,989	645,018
% Ch	-0.9%	-2.1%	0.5%	2.4%	-0.8%	-1.6%	1.5%	2.7%	-0.9%	-2.5%	-0.4%	2.1%
U.S. (Thousands)	137,377	134,794	134,910	136,917	137,393	136,074	138,311	140,670	137,348	133,938	132,645	134,285
% Ch	-0.2%	-1.9%	0.1%	1.5%	-0.2%	-1.0%	1.6%	1.7%	-0.2%	-2.5%	-1.0%	1.2%
GOODS-PRODUCING SECTOR												
Idaho	113,379	101,819	99,323	102,220	113,388	102,849	102,410	105,789	113,344	100,557	96,270	98,586
% Ch	-8.1%	-10.2%	-2.5%	2.9%	-8.1%	-9.3%	-0.4%	3.3%	-8.1%	-11.3%	-4.3%	2.4%
U.S. (Thousands)	21,451	19,887	18,996	19,338	21,452	20,210	19,929	20,487	21,440	19,617	18,167	18,465
% Ch	-3.5%	-7.3%	-4.5%	1.8%	-3.5%	-5.8%	-1.4%	2.8%	-3.5%	-8.5%	-7.4%	1.6%
NONGOODS-PRODUCING SECTOR												
Idaho	537,273	535,375	541,268	553,986	537,350	537,412	547,734	562,065	537,282	533,825	535,719	546,432
% Ch	0.8%	-0.4%	1.1%	2.3%	0.8%	0.0%	1.9%	2.6%	0.8%	-0.6%	0.4%	2.0%
U.S. (Thousands)	115,926	114,907	115,914	117,579	115,942	115,864	118,381	120,183	115,909	114,320	114,478	115,819
% Ch	0.5%	-0.9%	0.9%	1.4%	0.5%	-0.1%	2.2%	1.5%	0.4%	-1.4%	0.1%	1.2%
SELECTED INTEREST RATES												
Federal Funds	2.0%	0.1%	1.2%	3.7%	2.0%	0.4%	1.4%	3.3%	2.0%	0.0%	1.1%	4.9%
Bank Prime	5.1%	3.1%	4.2%	6.7%	5.1%	3.4%	4.4%	6.3%	5.1%	3.0%	4.1%	7.9%
Existing Home Mortgage	6.1%	5.5%	5.7%	6.8%	6.1%	5.6%	5.8%	6.7%	6.2%	5.3%	5.7%	7.6%
INFLATION												
GDP Price Deflator	2.3%	1.4%	1.3%	1.6%	2.3%	1.7%	2.0%	1.9%	2.3%	1.2%	0.8%	1.8%
Personal Cons Deflator	3.3%	-0.7%	1.8%	2.4%	3.3%	0.0%	2.3%	2.1%	3.3%	-1.4%	1.5%	3.4%
Consumer Price Index	3.8%	-1.5%	2.4%	3.1%	3.8%	-0.7%	2.9%	2.6%	3.8%	-2.5%	2.0%	4.3%

Forecast Begins the THIRD Quarter of 2008

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 40% probability of occurrence. It should be pointed out this probability is much higher than the 25% used in the October 2008 forecast, which is consistent with the deteriorating conditions since then. This scenario assumes the financial crisis worsens, sending the economy into its worst downturn since the Great Depression. Credit markets remain clogged, both domestically and across the world. Without access to credit, domestic spending contracts and the housing market falls into an even deeper hole. The spread between 30-year fixed mortgage rates and the 10-year Treasury note yield remains wider than normal into 2010. Housing starts slip below one million units in 2008 (909,000), 2009 (586,000), and 2010 (807,000). The median price of existing homes and home sales are much weaker than in the baseline case. This weakness undermines consumer confidence which, along with the drop in household wealth and job market fears, cause consumers to retrench. Businesses scuttle long-term projects, causing business fixed investment to slide over seven-straight quarters. The economic malaise is not limited to the U.S., however. Real GDP among the United States' major-currency trading partners (excluding China) falls for seven quarters, starting with the second quarter of 2008. As a result, exports deduct 0.8 and 0.3 percentage point from GDP growth in 2009 and 2010. One positive aspect of the weaker outlook is inflation is lower than anticipated in the *Baseline Scenario*.

In this scenario, real GDP contracts 3.2% in 2009 and rebounds only 0.7% in 2010. Employment drops for ten straight quarters, manufacturing output falls for ten straight quarters, and real GDP shrinks for six quarters. This recession takes a much higher toll than the previous two recessions. Peak to trough, real GDP contracts 4.3%, which is worse than the losses during the 1973-75 and 1981-82 recessions. Unlike those recessions, however, the economy emerges from this downturn weaker, and facing more trouble ahead.

Not surprisingly, the outlook for the state's economy is the weakest here of all the scenarios. Nonfarm employment, which is expected to reach 656,200 jobs in 2011 in the baseline case and 667,900 jobs in the *Optimistic Scenario*, barely tops 645,000 in this scenario. Compared to their baseline counterparts, there are about 3,600 fewer goods-producing jobs in 2011 and 7,600 fewer nongoods-producing jobs. The lower job count is partly to blame for both nominal and real personal income being weaker in 2011 than in the *Baseline Scenario*.