

## ALTERNATIVE FORECASTS

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

- Real GDP shrinks 2.8% in 2009, expands 1.5% in 2010, increases 3.1% in 2011, and grows 3.8% in 2012;
- U.S. nonfarm employment falls 3.6% in 2009, drops another 0.5% in 2010, grows 1.6% 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 8.1% in 2012;
- consumer prices fall 0.6% in 2009, rise 1.8% in 2010, 2.4% in 2011, and 2.2% in 2012;
- the current account deficit is \$478 billion in 2009, \$639 billion in 2010, \$685 billion in 2011, and \$743 billion in 2012;
- the federal unified budget deficit is \$1.59 trillion in 2009, \$1.23 trillion in 2010, \$914 billion in 2011, and \$756 billion in 2012.

### OPTIMISTIC SCENARIO

IHS 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 596,000 units this year, compared to the 556,000 units projected in the baseline case. Likewise, nonresidential fixed investment is stronger in the *Optimistic Scenario*. After suffering a 16.6% contraction in 2009, it rebounds by 6.5% in 2010. In the baseline, it retreats 18.3% 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. 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 just 0.6% in the second quarter of this year. However, it rebounds smartly, growing at a 3.1% annual pace in the third quarter of 2009 and at a 3.5% clip in the fourth quarter. In the baseline, real GDP retreats 2.1% in the second quarter, followed by 0.6% growth the following quarter, and advances less than 2.0% in each of the next two quarters. Employment also fares better in this scenario; the civilian unemployment rate peaks at 9.5% in late 2009 and is down to 7.3% by the end of 2012. In short, this scenario is similar to the baseline, with more muted cycle dynamics, and a quick bounce-back.

The stronger national outlook causes Idaho's economy to recover quicker and more strongly than in the baseline case. For example, Idaho nonfarm employment is not expected to grow again on an annual-average basis until 2011 in the *Baseline Scenario*. In the *Optimistic Scenario*, it advances a year earlier. One of the reasons for this improvement is goods-producing employment is not as hard hit in 2010 as it is in the baseline case, a 1.4% decline versus the baseline's 5.7% drop. Nongoods employment also fares

**IDAHO ECONOMIC FORECAST**  
**BASELINE AND ALTERNATIVE FORECASTS**  
**JULY 2009**

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
<b>U.S. GDP (BILLIONS)</b>												
Current \$	14,091	14,456	15,131	15,934	14,212	14,913	15,715	16,537	14,014	14,008	14,580	15,331
% Ch	-1.2%	2.6%	4.7%	5.3%	-0.4%	4.9%	5.4%	5.2%	-1.8%	0.0%	4.1%	5.1%
2000 Chain-Weighted	11,331	11,500	11,860	12,305	11,416	11,770	12,176	12,639	11,263	11,156	11,415	11,749
% Ch	-2.8%	1.5%	3.1%	3.8%	-2.0%	3.1%	3.4%	3.8%	-3.3%	-0.9%	2.3%	2.9%
<b>PERSONAL INCOME - CURR \$</b>												
Idaho (Millions)	48,561	49,594	51,602	54,645	48,571	50,148	52,358	55,865	48,324	48,836	50,488	53,061
% Ch	-0.6%	2.1%	4.0%	5.9%	1.4%	3.2%	4.4%	6.7%	0.9%	1.1%	3.4%	5.1%
U.S. (Billions)	12,108	12,375	12,873	13,553	12,158	12,682	13,312	14,000	12,074	12,103	12,462	13,148
% Ch	0.1%	2.2%	4.0%	5.3%	0.5%	4.3%	5.0%	5.2%	-0.2%	0.2%	3.0%	5.5%
<b>PERSONAL INCOME - 2000 \$</b>												
Idaho (Millions)	39,845	40,126	40,954	42,638	39,731	40,222	41,279	43,480	39,751	39,733	39,890	40,757
% Ch	-0.9%	0.7%	2.1%	4.1%	0.8%	1.2%	2.6%	5.3%	0.9%	0.0%	0.4%	2.2%
U.S. (Billions)	9,935	10,013	10,217	10,575	9,945	10,171	10,495	10,896	9,932	9,847	9,846	10,099
% Ch	-0.2%	0.8%	2.0%	3.5%	-0.1%	2.3%	3.2%	3.8%	-0.2%	-0.9%	0.0%	2.6%
<b>TOTAL NONFARM EMPLOYMENT</b>												
Idaho	617,721	612,600	623,308	645,585	618,911	622,992	636,111	658,470	616,044	603,119	606,792	622,081
% Ch	-4.9%	-0.8%	1.7%	3.6%	-4.7%	0.7%	2.1%	3.5%	-5.1%	-2.1%	0.6%	2.5%
U.S. (Thousands)	132,075	131,442	133,505	136,703	132,628	134,223	136,972	139,979	131,818	129,388	130,218	132,834
% Ch	-3.6%	-0.5%	1.6%	2.4%	-3.2%	1.2%	2.0%	2.2%	-3.8%	-1.8%	0.6%	2.0%
<b>GOODS-PRODUCING SECTOR</b>												
Idaho	94,537	89,117	91,886	97,354	95,253	93,958	97,173	100,766	93,922	85,506	86,037	90,913
% Ch	-16.1%	-5.7%	3.1%	6.0%	-15.5%	-1.4%	3.4%	3.7%	-16.6%	-9.0%	0.6%	5.7%
U.S. (Thousands)	18,895	17,416	17,628	18,504	19,095	18,361	18,840	19,550	18,791	16,701	16,481	17,336
% Ch	-11.7%	-7.8%	1.2%	5.0%	-10.8%	-3.8%	2.6%	3.8%	-12.2%	-11.1%	-1.3%	5.2%
<b>NONGOODS-PRODUCING SECTOR</b>												
Idaho	523,183	523,482	531,422	548,231	523,658	529,034	538,938	557,704	522,122	517,613	520,755	531,168
% Ch	-2.5%	0.1%	1.5%	3.2%	-2.4%	1.0%	1.9%	3.5%	-2.7%	-0.9%	0.6%	2.0%
U.S. (Thousands)	113,180	114,026	115,877	118,198	113,533	115,862	118,132	120,429	113,027	112,687	113,737	115,498
% Ch	-2.1%	0.7%	1.6%	2.0%	-1.8%	2.1%	2.0%	1.9%	-2.3%	-0.3%	0.9%	1.5%
<b>SELECTED INTEREST RATES</b>												
Federal Funds	0.2%	0.2%	1.7%	3.3%	0.2%	0.6%	1.3%	3.0%	0.2%	0.1%	2.2%	4.7%
Bank Prime	3.3%	3.3%	4.7%	6.3%	3.3%	3.7%	4.3%	6.0%	3.3%	3.2%	5.2%	7.7%
Existing Home Mortgage	5.2%	5.4%	5.6%	6.2%	5.2%	5.5%	5.5%	6.0%	5.2%	5.3%	6.2%	7.7%
<b>INFLATION</b>												
GDP Price Deflator	1.5%	1.1%	1.5%	1.5%	1.6%	1.8%	1.9%	1.4%	1.6%	0.9%	1.7%	2.2%
Personal Cons Deflator	0.2%	1.4%	1.9%	1.7%	0.5%	2.0%	1.7%	1.3%	0.0%	1.1%	3.0%	2.9%
Consumer Price Index	-0.6%	1.8%	2.4%	2.2%	-0.2%	2.5%	2.1%	1.6%	-1.0%	1.3%	3.6%	3.5%

**Forecast Begins the SECOND Quarter of 2009**

better in this scenario, advancing by 1.0% compared to the baseline's 0.1%. Idaho total nonfarm employment growth is significantly stronger in 2011 and about the same in 2012. The net result is Idaho nonfarm employment is about 13,000 higher in 2012 in this scenario than in the *Baseline Scenario*. But employment is not the only measure of Idaho's vigor. Idaho personal income grows faster in each year of the forecast, so by 2012, nominal personal income is ahead of its baseline counterpart by about \$1.2 billion. Adjusted for inflation, personal income is forecast to be \$43.480 billion, which is about \$840 million above the amount forecasted in the *Baseline Scenario*.

## **PESSIMISTIC SCENARIO**

The *Pessimistic Scenario* has been assigned a 20% probability of occurrence. This simulation assumes the financial crises worsens, which sends the economy into a downturn nearly twice as deep as any other since the Great Depression. Credit markets remain clogged, both domestically and across the world. The housing recession drags on. The median price of existing homes falls 12.0% below the baseline in 2010. Home sales are also much lower and its recovery is sluggish. The weakness in housing undermines consumer confidence. This, along with the drop in household wealth from falling home prices and a slowdown in job growth, causes consumers to retrench sharply. Capital spending drops for nine consecutive quarters as firms scuttle long-term projects due to the bleaker outlook. The lower investment contributes to lower productivity growth, which lowers the nation's potential economic growth. The economy receives no relief from exports, as foreign economic growth is also in peril. As a result, exports deduct 2.0% and 0.2 percentage points from real GDP growth in 2009 and 2010, respectively. Weaker world demand translates into lower oil prices compared to the baseline. It also helps keep inflation relatively low over the forecast period.

In this scenario, real GDP contracts 3.3% in 2009 and 0.9% in 2010. In comparison, in the *Baseline Scenario* it declines 2.8% in 2009 and increases 1.5% in 2010. Employment drops for 11 straight quarters, shedding 8.9 million jobs. The unemployment rate peaks at 11.4% in the second half of next year, compared to 10.3% in the baseline. Peak to trough, real GDP drops 5.1%, which is much worse than the losses during the 1973-75 and 1981-82 recessions. Unlike those recessions, however, the economy emerges from the current downturn weaker and facing more troubles ahead.

Idaho's current slowdown is prolonged in the *Pessimistic Scenario*. This can be seen in both the employment and personal income numbers. Idaho goods-producing employment retreats by 9.0% in 2010, which is much steeper than in the baseline case. After next year, it begins to recover, but more slowly than in the *Baseline Scenario*, so that by 2012 there are about 6,400 fewer goods-producing jobs. The forecast for nongoods-producing employment is not much better. It continues shedding jobs in 2010, a year longer than in the baseline. It grows slowly thereafter to about 531,200 jobs in 2012, or roughly 17,000 fewer jobs than in the baseline case. In total, there are about 622,100 nonfarm jobs in 2012, compared to the baseline's 645,585 jobs. In that year Idaho nominal personal income is \$53.1 billion, which is down significantly from the baseline's \$54.6 billion.