

ALTERNATIVE FORECASTS

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

- Real GDP shrinks 2.5% in 2009, expands 2.1% in 2010, increases 2.9% in 2011, and grows 3.7% in 2012;
- U.S. nonfarm employment falls 3.8% in 2009, drops another 0.7% in 2010, grows 1.9% in 2011, and increases 2.5% in 2012;
- the annual U.S. civilian unemployment rate peaks at 10.1% in the beginning of 2010 then gradually declines to 8.2% by the end of 2012;
- consumer prices fall 0.4% in 2009, rise 1.4% in 2010, 2.2% in 2011, and 2.0% in 2012;
- the current account deficit is \$450 billion in 2009, \$544 billion in 2010, \$619 billion in 2011, and \$685 billion in 2012;
- the federal unified budget deficit is \$1.49 trillion in 2009, \$1.34 trillion in 2010, \$1.05 trillion in 2011, and \$867 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, 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 4.0% growth in this year's third quarter. This scenario also assumes total factor productivity grows faster than in the baseline. This assumption causes lower inflation and stronger income growth over the long term. Credit flows more freely in this scenario, helping housing starts average 596,000 units this year, compared to the baseline's 586,000 units. Housing starts climb to one million units next year, which is significantly higher than the 873,000 units in the baseline. Likewise, nonresidential fixed investment is also stronger in the *Optimistic Scenario*. After suffering a 16.7% contraction in 2009, it rebounds by 7.0% in 2010. In the baseline, it retreats 17.3% this year followed by a small 0.3% gain 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.

On net, these assumptions paint a brighter future for the economy compared to the *Baseline* and *Pessimistic* scenarios. After real GDP declines 0.7% in the second quarter of this year, it rebounds smartly, growing at a 4.0% annual pace in the third quarter of 2009 and at a 4.9% clip in the fourth quarter. In the baseline, real GDP advances 3.6% in the third quarter of 2009 and 2.6% in the fourth quarter. Employment also fares better in this scenario; the civilian unemployment rate peaks at 9.6% 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.

The stronger national economy does not prevent Idaho job losses this year and next, but it softens them compared to the baseline case. Specifically, in the *Baseline Scenario* Idaho nonfarm employment is projected to shrink 6.2% this year and 1.5% next year. In the optimistic case this measure falls 6.1% in 2009 and 1.1% in 2010. As a result, there are about 2,500 more jobs in 2010 than in the baseline case. As in the baseline case, nonfarm employment is expected to resume growing in 2011. However, at a slightly quicker pace. This faster clip and the higher starting point in 2010 results in there being about

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
OCTOBER 2009

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
U.S. GDP (BILLIONS)												
Current \$	14,267	14,723	15,385	16,186	14,305	15,096	15,935	16,758	14,241	14,409	14,872	15,615
% Ch	-1.2%	3.2%	4.5%	5.2%	-0.9%	5.5%	5.6%	5.2%	-1.4%	1.2%	3.2%	5.0%
2005 Chain-Weighted	12,985	13,258	13,648	14,148	13,010	13,514	14,004	14,546	12,956	12,970	13,171	13,550
% Ch	-2.5%	2.1%	2.9%	3.7%	-2.3%	3.9%	3.6%	3.9%	-2.7%	0.1%	1.5%	2.9%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	48,944	50,132	52,081	55,117	48,953	50,225	52,187	55,717	48,899	50,011	51,936	54,470
% Ch	-2.9%	2.4%	3.9%	5.8%	-2.9%	2.6%	3.9%	6.8%	-3.0%	2.3%	3.8%	4.9%
U.S. (Billions)	11,976	12,310	12,801	13,469	11,985	12,512	13,178	13,866	11,961	12,137	12,452	13,106
% Ch	-2.1%	2.8%	4.0%	5.2%	-2.1%	4.4%	5.3%	5.2%	-2.3%	1.5%	2.6%	5.3%
PERSONAL INCOME - 2005 \$												
Idaho (Millions)	44,816	45,312	46,223	48,117	44,774	45,084	46,085	48,636	44,820	45,399	45,889	46,852
% Ch	-3.1%	1.1%	2.0%	4.1%	-3.1%	0.7%	2.2%	5.5%	-3.0%	1.3%	1.1%	2.1%
U.S. (Billions)	10,966	11,127	11,362	11,759	10,962	11,231	11,637	12,104	10,963	11,018	11,002	11,273
% Ch	-2.3%	1.5%	2.1%	3.5%	-2.3%	2.4%	3.6%	4.0%	-2.3%	0.5%	-0.1%	2.5%
TOTAL NONFARM EMPLOYMENT												
Idaho	607,969	599,062	609,312	628,919	608,179	601,520	611,981	632,978	607,561	596,091	602,446	616,177
% Ch	-6.2%	-1.5%	1.7%	3.2%	-6.1%	-1.1%	1.7%	3.4%	-6.2%	-1.9%	1.1%	2.3%
U.S. (Thousands)	131,893	130,953	133,462	136,784	131,990	132,869	136,466	139,805	131,819	129,590	130,556	133,112
% Ch	-3.8%	-0.7%	1.9%	2.5%	-3.7%	0.7%	2.7%	2.4%	-3.8%	-1.7%	0.7%	2.0%
GOODS-PRODUCING SECTOR												
Idaho	91,785	86,304	87,974	92,992	92,046	89,701	91,796	94,887	91,465	83,217	82,773	87,983
% Ch	-18.3%	-6.0%	1.9%	5.7%	-18.1%	-2.5%	2.3%	3.4%	-18.6%	-9.0%	-0.5%	6.3%
U.S. (Thousands)	18,937	17,689	17,958	18,818	19,002	18,233	18,858	19,595	18,891	17,211	17,133	17,961
% Ch	-11.5%	-6.6%	1.5%	4.8%	-11.2%	-4.0%	3.4%	3.9%	-11.8%	-8.9%	-0.5%	4.8%
NONGOODS-PRODUCING SECTOR												
Idaho	516,184	512,759	521,338	535,926	516,133	511,819	520,185	538,091	516,096	512,874	519,673	528,193
% Ch	-3.6%	-0.7%	1.7%	2.8%	-3.6%	-0.8%	1.6%	3.4%	-3.6%	-0.6%	1.3%	1.6%
U.S. (Thousands)	112,956	113,264	115,504	117,966	112,989	114,635	117,608	120,210	112,928	112,379	113,423	115,151
% Ch	-2.3%	0.3%	2.0%	2.1%	-2.3%	1.5%	2.6%	2.2%	-2.3%	-0.5%	0.9%	1.5%
SELECTED INTEREST RATES												
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%	3.2%	3.2%	5.2%	7.7%
Existing Home Mortgage	5.1%	5.2%	5.6%	6.2%	5.1%	5.3%	5.4%	5.9%	5.2%	5.2%	6.3%	7.8%
INFLATION												
GDP Price Deflator	1.3%	1.1%	1.5%	1.5%	1.3%	1.6%	1.9%	1.2%	1.3%	1.1%	1.6%	2.1%
Personal Cons Deflator	0.2%	1.3%	1.8%	1.7%	0.3%	1.9%	1.6%	1.2%	0.1%	1.0%	2.7%	2.7%
Consumer Price Index	-0.4%	1.4%	2.2%	2.0%	-0.2%	2.1%	2.0%	1.5%	-0.5%	0.9%	3.2%	3.2%

Forecast Begins the THIRD Quarter of 2009

4,100 more jobs in 2012 in the *Optimistic Scenario* than in the *Baseline Scenario*. Interestingly, Idaho real personal income growth is slightly slower in 2010 compared to the baseline case, as higher predicted inflation takes a bigger bite from nominal income. However, by 2012 Idaho real personal income is \$500 million higher than its baseline counterpart.

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has also been assigned a 20% probability of occurrence. This simulation assumes the financial crisis worsens, which prolongs the worst recession since the Great Depression. The recession is W-shaped and lasts 11 quarters. Credit markets remain clogged, both domestically and across the world. The housing recession drags on. The median price of existing homes falls 10.0% below the baseline in 2010 and 2011. Home sales are also much lower. Housing starts begin to turn around from record-low levels, but the 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. Weaker world demand translates into lower oil prices compared to the baseline. It also help keeps inflation relatively low over the forecast period.

In this scenario, real GDP contracts 2.7% in 2009 and rises just 0.1% in 2010. In comparison, in the *Baseline Scenario* it declines 2.5% in 2009 and increases 2.1% in 2010. Peak to trough, real GDP drops 3.8%, 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. Employment drops for 11 straight quarters, shedding 8.6 million jobs. The unemployment rate peaks at 10.7% in the second half of next year, compared to 10.1% in the baseline.

Idaho's economic performance is weaker in every year of the forecast period compared to the baseline case. For example, Idaho nonfarm employment declines 6.2% in 2009 and another 1.9% in 2010. It then grows by a modest 1.1% in 2011 and 2.3% in 2012. In the *Baseline Scenario*, nonfarm employment falls 6.2% in 2009 and 1.5% in 2010, followed by increases of 1.7% in 2011 and 3.2% in 2012. The net impact of the slower growth is there are 12,700 fewer jobs in 2012 in the *Pessimistic Scenario* than in the baseline case. Idaho real personal income is \$1.3 billion lower in 2012 in the *Pessimistic Scenario*.