

ALTERNATIVE FORECASTS

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

- Real GDP shrinks 2.5% in 2009, expands 2.2% in 2010, increases 2.9% in 2011, grows 3.8% in 2012, and advances 3.1% in 2013;
- U.S. nonfarm employment falls 3.7% in 2009, drops another 0.9% in 2010, grows 1.8% in 2011, increases 2.7% in 2012, and rises 2.3% in 2013;
- the annual U.S. civilian unemployment rate peaks at 10.4% in the beginning of 2010 then recedes to 7.5% by the end of 2013;
- consumer prices fall 0.3% in 2009, then rise 1.7% in 2010, 2.0% in 2011, and 1.9% in both 2012 and 2013;
- the current account deficit is \$446 billion in 2009, \$533 billion in 2010, \$613 billion in 2011, \$692 billion in 2012, and \$687 billion in 2013;
- the federal unified budget deficit is \$1.42 trillion in 2009, \$1.41 trillion in 2010, \$1.09 trillion in 2011, \$861 billion in 2012, and \$695 billion in 2013.

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, the 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 981,000 units this year, compared to the baseline's 812,000 units. Likewise, nonresidential fixed investment is also stronger in the *Optimistic Scenario*. After suffering a 17.1% contraction in 2009, it rebounds by 5.3% in 2010. In the baseline, it retreats another 1.4% this 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 2.5% in 2009, it rebounds more smartly than in the baseline. In 2010 it advances 4.1% compared to the baseline's 2.2%. National nonfarm employment also fares better in this scenario; by 2013 there are about 4.5 million more jobs than in the *Baseline Scenario*. The civilian unemployment rate declines more steeply, so that it is down to 6.4% by the end of 2013, versus 7.7% in the baseline case. In short, this scenario sees a quicker turn in the cycle than in the baseline, but without the adverse consequences for the long-term inflation outlook.

The stronger national economy does not prevent Idaho job losses this year, but it softens the blow compared to the baseline case. Specifically, in the *Baseline Scenario* Idaho nonfarm employment is projected to shrink 1.1% in 2010. In the optimistic case this measure falls just 0.8%. But this improvement is not limited to this year alone; employment grows faster in each year of the forecast. As a result, there are 11,000 more jobs in 2013 compared to the *Baseline Scenario*. Idaho real personal income growth is slightly slower in 2010 compared to the baseline case, the result of slightly higher

**IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2010**

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
U.S. GDP (BILLIONS)												
Current \$	14,723	15,384	16,193	16,970	15,051	15,921	16,756	17,512	14,455	14,890	15,642	16,391
% Ch	3.4%	4.5%	5.3%	4.8%	5.6%	5.8%	5.2%	4.5%	1.6%	3.0%	5.0%	4.8%
2005 Chain-Weighted	13,264	13,647	14,162	14,599	13,513	14,040	14,616	15,142	13,006	13,168	13,554	13,877
% Ch	2.2%	2.9%	3.8%	3.1%	4.1%	3.9%	4.1%	3.6%	0.3%	1.2%	2.9%	2.4%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	50,621	52,744	55,761	59,106	50,782	52,894	56,135	60,006	50,348	52,215	54,758	57,288
% Ch	3.1%	4.2%	5.7%	6.0%	3.4%	4.2%	6.1%	6.9%	2.6%	3.7%	4.9%	4.6%
U.S. (Billions)	12,464	12,984	13,648	14,384	12,643	13,356	14,054	14,733	12,325	12,653	13,296	14,077
% Ch	3.3%	4.2%	5.1%	5.4%	4.7%	5.6%	5.2%	4.8%	2.2%	2.7%	5.1%	5.9%
PERSONAL INCOME - 2005 \$												
Idaho (Millions)	45,624	46,742	48,655	50,740	45,539	46,776	49,155	52,133	45,489	45,992	47,005	48,051
% Ch	1.5%	2.4%	4.1%	4.3%	1.4%	2.7%	5.1%	6.1%	1.3%	1.1%	2.2%	2.2%
U.S. (Billions)	11,234	11,506	11,908	12,348	11,338	11,811	12,307	12,800	11,136	11,145	11,413	11,807
% Ch	1.7%	2.4%	3.5%	3.7%	2.7%	4.2%	4.2%	4.0%	0.9%	0.1%	2.4%	3.4%
TOTAL NONFARM EMPLOYMENT												
Idaho	601,576	612,264	631,552	650,593	603,498	616,813	637,245	661,661	598,748	603,511	615,414	625,628
% Ch	-1.1%	1.8%	3.2%	3.0%	-0.8%	2.2%	3.3%	3.8%	-1.6%	0.8%	2.0%	1.7%
U.S. (Thousands)	130,754	133,120	136,775	139,976	132,442	136,144	140,152	143,351	129,698	130,347	133,104	135,821
% Ch	-0.9%	1.8%	2.7%	2.3%	0.3%	2.8%	2.9%	2.3%	-1.7%	0.5%	2.1%	2.0%
GOODS-PRODUCING SECTOR												
Idaho	87,590	89,616	94,097	97,108	89,778	93,746	97,059	99,129	85,706	85,381	89,124	92,083
% Ch	-4.6%	2.3%	5.0%	3.2%	-2.3%	4.4%	3.5%	2.1%	-6.6%	-0.4%	4.4%	3.3%
U.S. (Thousands)	17,791	18,044	18,965	19,858	18,189	18,859	19,803	20,622	17,519	17,405	18,203	19,087
% Ch	-6.0%	1.4%	5.1%	4.7%	-4.0%	3.7%	5.0%	4.1%	-7.4%	-0.7%	4.6%	4.9%
NONGOODS-PRODUCING SECTOR												
Idaho	513,985	522,648	537,455	553,484	513,720	523,067	540,186	562,532	513,042	518,130	526,291	533,545
% Ch	-0.5%	1.7%	2.8%	3.0%	-0.5%	1.8%	3.3%	4.1%	-0.7%	1.0%	1.6%	1.4%
U.S. (Thousands)	112,963	115,075	117,809	120,119	114,252	117,285	120,349	122,729	112,179	112,942	114,901	116,734
% Ch	0.0%	1.9%	2.4%	2.0%	1.1%	2.7%	2.6%	2.0%	-0.7%	0.7%	1.7%	1.6%
SELECTED INTEREST RATES												
Federal Funds	0.2%	1.7%	3.3%	3.6%	0.5%	1.3%	3.0%	3.2%	0.1%	2.2%	4.7%	5.3%
Bank Prime	3.3%	4.7%	6.3%	6.6%	3.6%	4.3%	6.0%	6.2%	3.2%	5.2%	7.7%	8.3%
Existing Home Mortgage	5.2%	5.6%	6.2%	6.5%	5.3%	5.4%	5.9%	6.1%	5.2%	6.4%	7.8%	8.6%
INFLATION												
GDP Price Deflator	1.2%	1.6%	1.4%	1.7%	1.5%	1.8%	1.1%	0.9%	1.3%	1.7%	2.1%	2.3%
Personal Cons Deflator	1.5%	1.7%	1.6%	1.6%	2.0%	1.4%	1.0%	0.8%	1.3%	2.6%	2.6%	2.3%
Consumer Price Index	1.7%	2.0%	1.9%	1.9%	2.3%	1.6%	1.3%	1.0%	1.4%	2.9%	3.0%	2.6%

Forecast Begins the THIRD Quarter of 2009

inflation. Nevertheless, it advances faster in the remaining years of the forecast, so it is about \$1.4 billion higher in 2013.

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has also been assigned a 20% probability of occurrence. This simulation assumes the financial crises 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 nearly 8% 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. Light-vehicle sales are especially hard hit. Capital spending drops 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 in the short run compared to the baseline.

In this scenario, real GDP rises just 0.3% in 2010. In comparison, in the *Baseline Scenario* it increases 2.2% in 2010. From peak to trough, real GDP drops 3.8% and the decline lasts almost three years, 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 economic performance is weaker in every year of the forecast period compared to the baseline case. For example, Idaho nonfarm employment declines 1.6% in 2010. It then grows by a modest 0.8% in 2011, 2.0% in 2012, and 1.7% in 2013. In the *Baseline Scenario*, nonfarm employment falls 1.1% in 2010, but it is followed by increases of 1.8% in 2011, 3.2% in 2012, and 3.0% in 2013. The net impact of the slower growth is there are about 25,000 fewer jobs in 2013 in the *Pessimistic Scenario* than in the baseline case. Idaho real personal income is \$2.7 billion lower in 2013 in the *Pessimistic Scenario*.