

ALTERNATIVE FORECASTS

IHS Global Insight has assigned a 50% probability of occurrence to its November 2011 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP expands 1.8% in 2011, 1.6% in 2012, 2.5% in 2013, 3.5% in 2014, and 3.3% in 2015;
- U.S. nonfarm employment grows 1.0% in 2011, increases 0.9% in 2012, rises 1.4% in 2013, grows 2.0% in 2014, and 2.1% in 2015;
- The U.S. civilian unemployment rate is 9.1% in 2011, 9.2% in 2012, 9.0% in 2013, 8.2% in 2014, and 7.4% in 2015;
- Consumer inflation is 3.2% in 2011, 1.5% in 2012, 1.7% in 2013, 2.0% in 2014, and 2.1% in 2015;
- Current account deficit is \$459 billion in 2011, \$463 billion in 2012, \$438 billion in 2013, \$452 billion in 2014, and \$494 billion in 2015; and
- The federal unified budget deficit is \$1.30 trillion in 2011, \$1.06 trillion in 2012, \$799 billion in 2013, \$653 billion in 2014, and \$578 billion in 2015.

OPTIMISTIC SCENARIO

IHS Global Insight's *Optimistic Scenario* has been assigned a 10% probability of occurrence, the same as it was in the October 2011 forecast. The assumptions and outcomes are also similar to the *Optimistic Scenario* included in the previous forecast. Like its predecessor, in this scenario the economic recovery is sparked by pickups in business and consumer confidence, which leads to increased investment and spending. Greek debt restructuring is unavoidable, but the rest of the Eurozone provides sufficient, credible, and early support to stabilize financial markets. In addition, as the U.S. recovery picks up steam, Congress stokes the fire by extending the payroll tax cut into 2012. It also reduces the employee portion of the Social Security tax rate further, to 3.1% (instead of the baseline's 4.2%). The cuts amount to roughly \$62.0 billion in 2012. Construction fares better in this scenario. Housing starts reach 914,000 units in 2012, compared to 665,000 units in the baseline. Real GDP advances 1.9% in 2011, 3.6% in 2012, 4.0% in 2013, 3.8% in 2014, and 3.4% in 2015.

As a result of the stronger economy, long-term interest rates initially climb more rapidly than in the baseline. In light of the stronger-than-expected growth, the Federal Reserve rethinks its pledge to keep interest rates near zero through mid-2013 and begins hiking rates in the first quarter of 2013. This move calms bond markets and bolsters confidence that inflation will remain tame over the longer term. In short, this scenario sees an immediate pickup in consumer confidence and spending, more stable equity markets as the Eurozone's debt issues are addressed, and much stronger growth than in the baseline, without adverse consequences for the long-term inflation outlook.

Idaho's economy improves modestly from the baseline case in this scenario. In the *Baseline Scenario*, nonfarm employment rises at a 1.9% annual pace from 2010 through 2015, adding about 60,000 jobs over this five-year period. In comparison, it adds just over 67,000 jobs during this period in the *Optimistic Scenario*. Idaho's goods-producing sector enjoys a growth spurt in 2013, when its employment jumps by 4.1%, compared to the baseline's 1.6% expected gain. Nongoods-producing employment takes longer to pull away from its baseline counterpart, but by 2015 there are about 6,000 more jobs than in the *Baseline Scenario*. The stronger employment helps lift Idaho real personal income slightly above its baseline counterpart. Specifically, it is about \$1.0 billion higher in 2015 in the *Optimistic Scenario*.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2012

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
U.S. GDP (BILLIONS)												
Current \$	15,554	16,129	16,974	17,865	15,900	16,800	17,675	18,538	15,190	15,431	16,156	16,922
% Ch	3.0%	3.7%	5.2%	5.2%	5.2%	5.7%	5.2%	4.9%	0.7%	1.6%	4.7%	4.7%
2005 Chain-Weighted	13,537	13,871	14,362	14,837	13,815	14,370	14,911	15,422	13,244	13,371	13,792	14,161
% Ch	1.6%	2.5%	3.5%	3.3%	3.6%	4.0%	3.8%	3.4%	-0.5%	1.0%	3.1%	2.7%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	54,264	56,337	59,405	62,590	54,717	56,538	59,775	63,462	53,145	54,904	57,687	60,080
% Ch	3.1%	3.8%	5.4%	5.4%	3.9%	3.3%	5.7%	6.2%	1.0%	3.3%	5.1%	4.1%
U.S. (Billions)	13,394	13,870	14,595	15,372	13,650	14,331	15,178	15,941	13,042	13,239	13,840	14,550
% Ch	3.1%	3.6%	5.2%	5.3%	5.0%	5.0%	5.9%	5.0%	0.5%	1.5%	4.5%	5.1%
PERSONAL INCOME - 2005 \$												
Idaho (Millions)	47,082	48,137	49,812	51,468	47,086	47,986	50,128	52,504	46,510	47,316	48,475	49,327
% Ch	1.8%	2.2%	3.5%	3.3%	1.9%	1.9%	4.5%	4.7%	0.6%	1.7%	2.5%	1.8%
U.S. (Billions)	11,621	11,851	12,238	12,641	11,746	12,163	12,729	13,188	11,414	11,409	11,629	11,946
% Ch	1.8%	2.0%	3.3%	3.3%	3.0%	3.6%	4.6%	3.6%	0.0%	0.0%	1.9%	2.7%
TOTAL NONFARM EMPLOYMENT												
Idaho	613,771	628,817	645,430	662,170	615,739	632,723	649,135	669,976	608,631	617,571	630,713	640,764
% Ch	1.6%	2.5%	2.6%	2.6%	2.0%	2.8%	2.6%	3.2%	0.8%	1.5%	2.1%	1.6%
U.S. (Thousands)	132,205	134,037	136,774	139,613	133,772	137,271	140,625	143,387	130,796	130,855	132,788	135,258
% Ch	0.9%	1.4%	2.0%	2.1%	2.0%	2.6%	2.4%	2.0%	-0.2%	0.0%	1.5%	1.9%
GOODS-PRODUCING SECTOR												
Idaho	87,447	88,869	92,949	96,133	89,260	92,917	95,517	97,333	85,693	84,587	88,535	91,568
% Ch	-0.4%	1.6%	4.6%	3.4%	1.7%	4.1%	2.8%	1.9%	-2.4%	-1.3%	4.7%	3.4%
U.S. (Thousands)	18,021	18,187	18,997	20,070	18,505	19,395	20,374	21,118	17,721	17,384	18,000	19,106
% Ch	0.0%	0.9%	4.5%	5.6%	2.7%	4.8%	5.0%	3.6%	-1.7%	-1.9%	3.5%	6.1%
NONGOODS-PRODUCING SECTOR												
Idaho	526,324	539,948	552,481	566,037	526,480	539,806	553,618	572,643	522,938	532,984	542,179	549,196
% Ch	2.0%	2.6%	2.3%	2.5%	2.0%	2.5%	2.6%	3.4%	1.3%	1.9%	1.7%	1.3%
U.S. (Thousands)	114,183	115,849	117,776	119,543	115,267	117,876	120,250	122,269	113,075	113,472	114,788	116,152
% Ch	1.0%	1.5%	1.7%	1.5%	1.9%	2.3%	2.0%	1.7%	0.0%	0.4%	1.2%	1.2%
SELECTED INTEREST RATES												
Federal Funds	0.1%	0.1%	1.2%	3.3%	0.1%	1.3%	3.4%	4.0%	0.1%	0.1%	0.1%	0.8%
Bank Prime	3.3%	3.3%	4.2%	6.3%	3.3%	4.3%	6.4%	7.0%	3.2%	3.3%	3.3%	3.8%
Existing Home Mortgage	4.3%	4.6%	5.3%	6.2%	4.8%	5.4%	5.9%	6.4%	3.9%	4.3%	5.2%	6.5%
INFLATION												
GDP Price Deflator	1.4%	1.2%	1.6%	1.9%	1.5%	1.6%	1.4%	1.4%	1.2%	0.6%	1.5%	2.0%
Personal Cons Deflator	1.3%	1.5%	1.9%	2.0%	2.0%	1.4%	1.2%	1.4%	0.4%	1.5%	2.6%	2.3%
Consumer Price Index	1.5%	1.7%	2.0%	2.1%	2.4%	1.6%	1.4%	1.5%	0.4%	1.7%	2.9%	2.6%

Forecast Begins the THIRD Quarter of 2011

PESSIMISTIC SCENARIO

The odds of the U.S. economy slipping into a recession remain high. The *Pessimistic Scenario* has been assigned a 40% probability of occurrence. In this scenario, bad domestic policy decisions impose unnecessary fiscal contractions on vulnerable consumers, leading to depressed confidence and extremely weak spending. For example, this scenario assumes the payroll tax cut and emergency unemployment benefits are allowed to expire. Their combined impact would be the equivalent of a \$165 billion tax hike in 2012, and that would shave 0.6 percentage point off real GDP growth. Businesses facing low demand will cut wages and reduce their payroll, pushing the unemployment rate up. Abroad, European policymakers do not resolve its financial crisis in an orderly manner. On the housing front, the excess supply and weak demand conditions do not improve. Housing starts drop back to 518,000 units in 2012, compared with the baseline's 665,000 units. The U.S. economy contracts for three consecutive quarters starting in the first quarter of 2012. On an annual basis, real GDP falls 0.5% in 2012. In the baseline, real GDP rises 1.0% in 2013, grows 3.1% in 2014, and expands 2.7% in 2015.

When the economy starts to pull out of the recession, a new set of troubles emerges. As frozen demand thaws, spare capacity proves insufficient, leading to production bottlenecks. Shortages of skilled labor appear. Production shortages, weak productivity growth, a renewed surge in energy prices, and a still-weakening dollar, fuel higher inflation. Consumer price inflation is higher than its baseline counterpart in the last two years of the forecast. Monetary tightening eventually stabilizes core inflation at around 2.5%-3.0%, which is higher than the Federal Reserve's target of just under 2.0%.

The national recession has a devastating impact on Idaho. Under the baseline conditions, Idaho's economy was expected to experience modest growth over the next few years. Nonfarm employment would have 662,200 jobs in 2015 and real personal income would grow to \$51.5 billion. In the *Pessimistic Scenario*, nonfarm employment growth stalls in 2012, then ekes out a weak recovery beginning in 2013. As a result of the lower growth, there are 21,400 (3.2%) fewer jobs in 2015 than in the baseline. The goods-producing sector is particularly hard hit, suffering losses in both 2012 and 2013. The nongoods-producing sector advances less than 2.0% annually during this period. Given the employment situation, it is not surprising that real Idaho personal income is down \$2.2 billion in 2015, \$49.3 billion versus the baseline's \$51.5 billion.