

Quarterly Forecast Report

Winter 2008

Forecast Highlights

BBER refined our models for the US forecast and the regional forecast prior to this release. We feel the results are better and will continue to test and validate our models as more data become available. We added a probability of recession for North Dakota in this forecast. The brief highlights of our latest forecast are:

- The US economy slipped into recession in Q1-2008 but this one will be mild. Recovery starts in the second half of the year so that overall real GDP growth in 2008 will be 0.48%.
- Inflation, while contained mostly due to consumer fears and asset market uncertainty will accelerate towards the end of 2008 and become a serious problem in 2009 and 2010 unless policy reverses itself in the second half of 2008.
- The BBER model predicts a rise in the unemployment rate over the next two years with a decline after that.
- Strong state/regional growth in nonfarm personal income will continue into the future. While forecasts for North Dakota indicate they are at the back of the pack the average over the next three years is for better than 3% annual growth.,
- The probability of recession in North Dakota is rising, hardly surprising given the current economic climate in the nation, though there is no prediction of an actual recession in the growth forecasts.
- The unemployment report indicates continued low unemployment in North Dakota and the three urban centers of Bismarck, Fargo and Grand Forks.

Significant asset market risks persist and further institutional meltdowns such as the one at Bear Stearns represent downside risks that could prolong negative growth activity beyond the first half of 2008. The Federal Reserve's recent actions indicate their understanding that the current crisis mentality on Wall Street cannot be solved simply by injecting liquidity into the financial system, and for their creative thinking they are to be applauded. The value of the dollar against key currencies is likely to soon become a limiting factor on interest rate moves by the Fed, raising the question of what may happen locally to the North Dakota economy if there are sudden or unexpected reversals from the Fed. Overall the robust growth North Dakota currently enjoys should continue regardless of this change, but it bears watching.

US Forecast

Table 1. Annual forecast growth rates for key US variables

Year	GDP	INFL	INDPRO	ISRATIO	UNRATE
2008	0.48	1.43	-1.97	1.25	5.30
2009	2.37	2.55	1.25	1.21	5.88
2010	2.79	2.91	2.69	1.22	5.61

Figure 1. Actual and predicted period-over-period growth rates in US real GDP

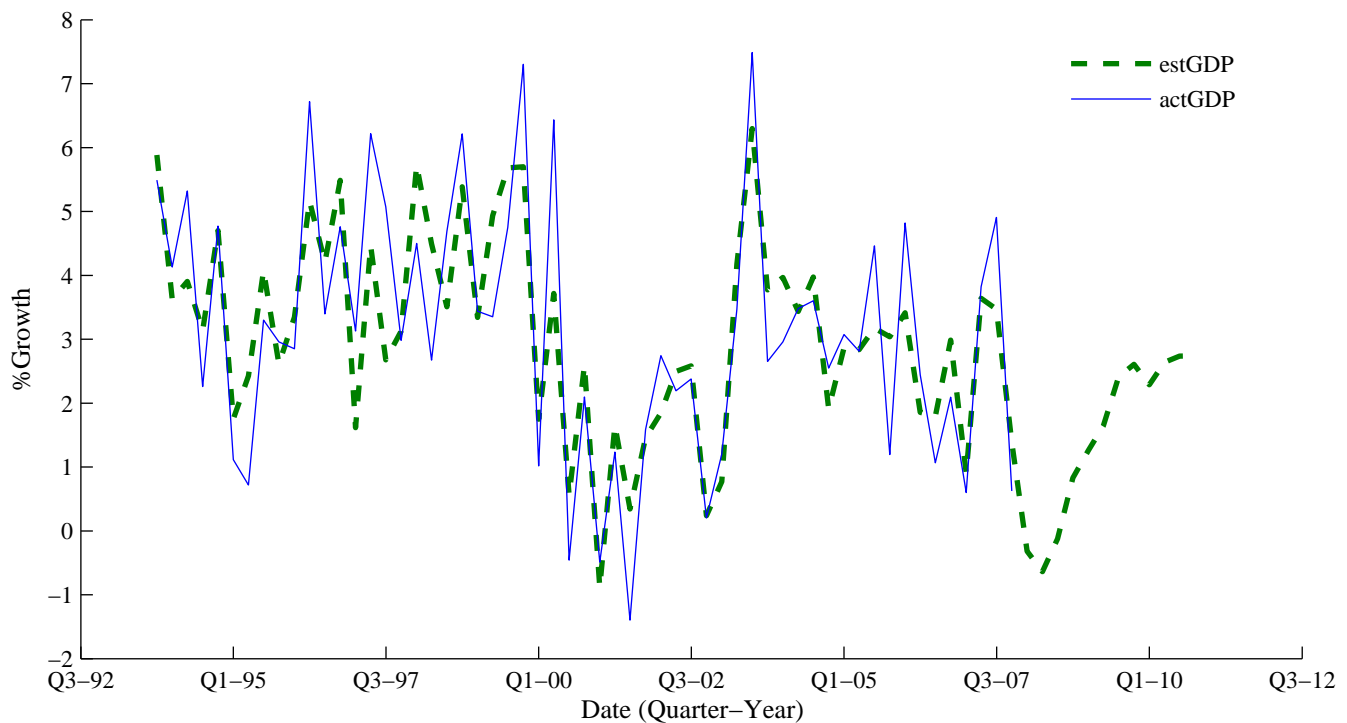


Figure 2. Actual and predicted US inflation rates

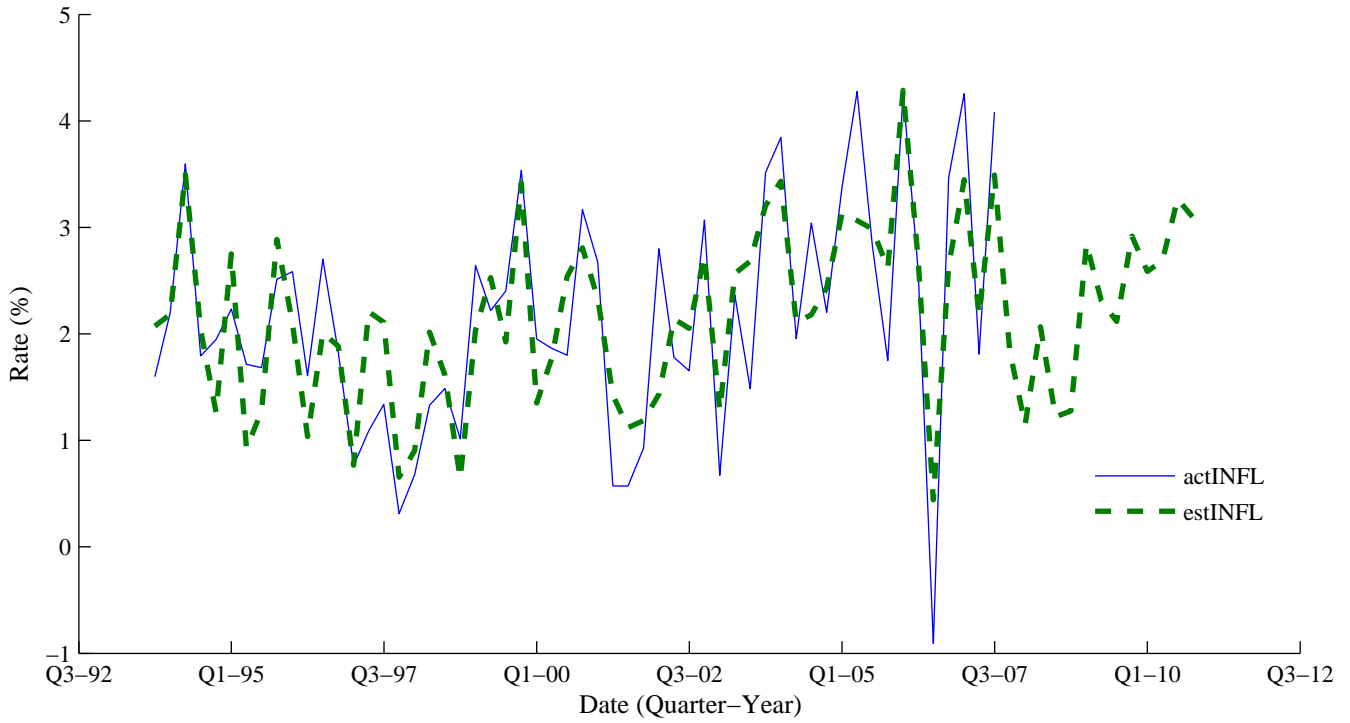


Figure 3. Actual and predicted US unemployment rates

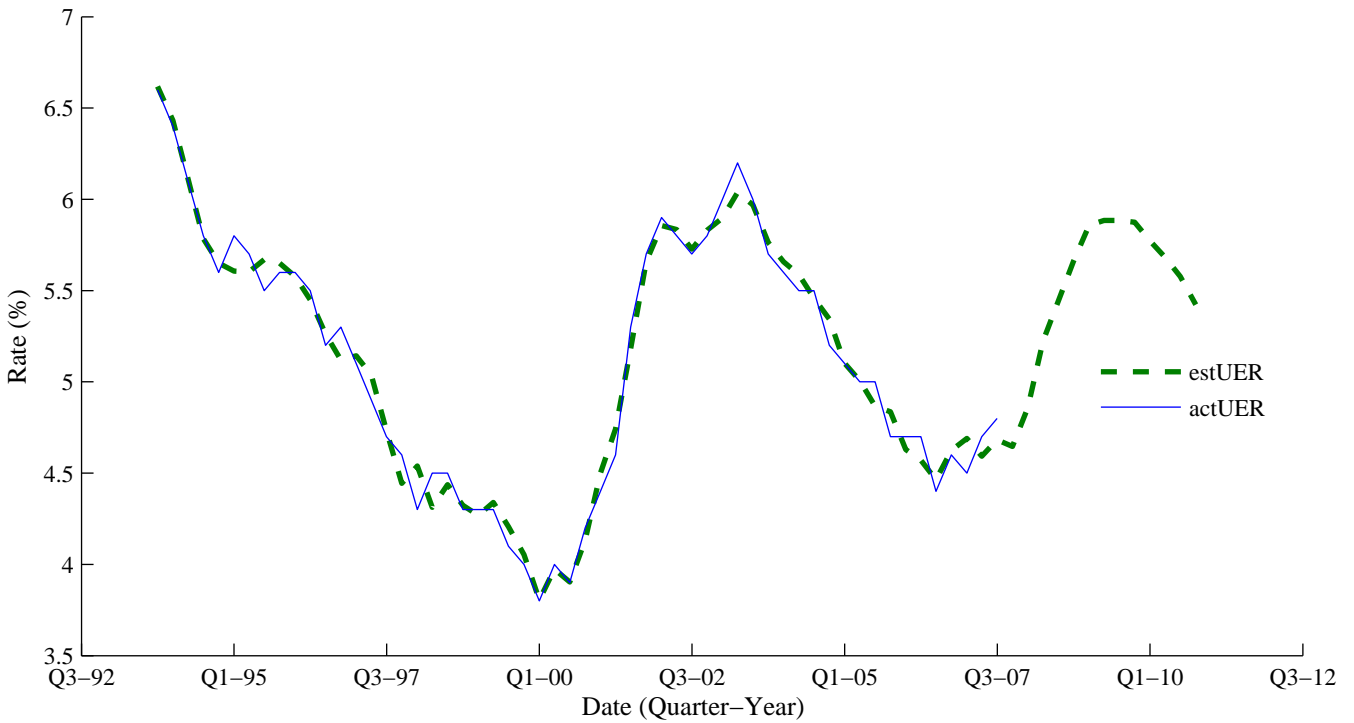


Figure 4. Actual and predicted industrial production growth.

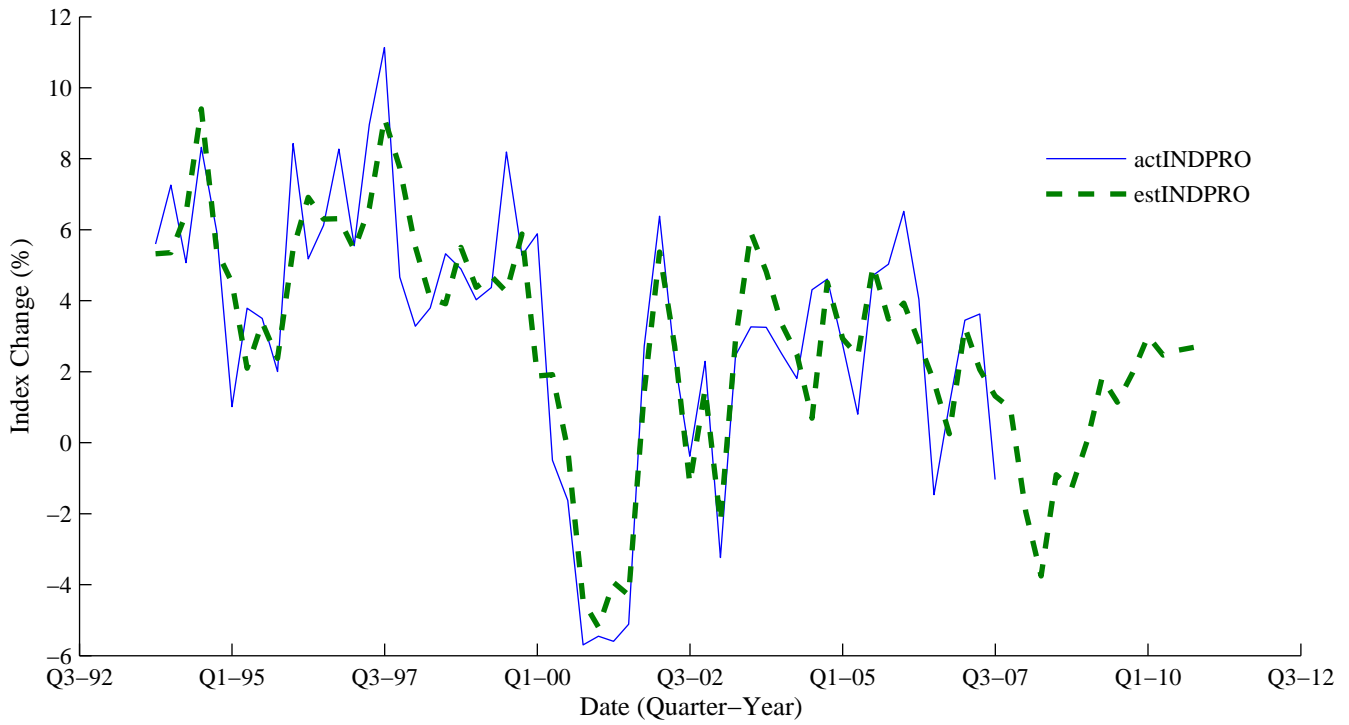
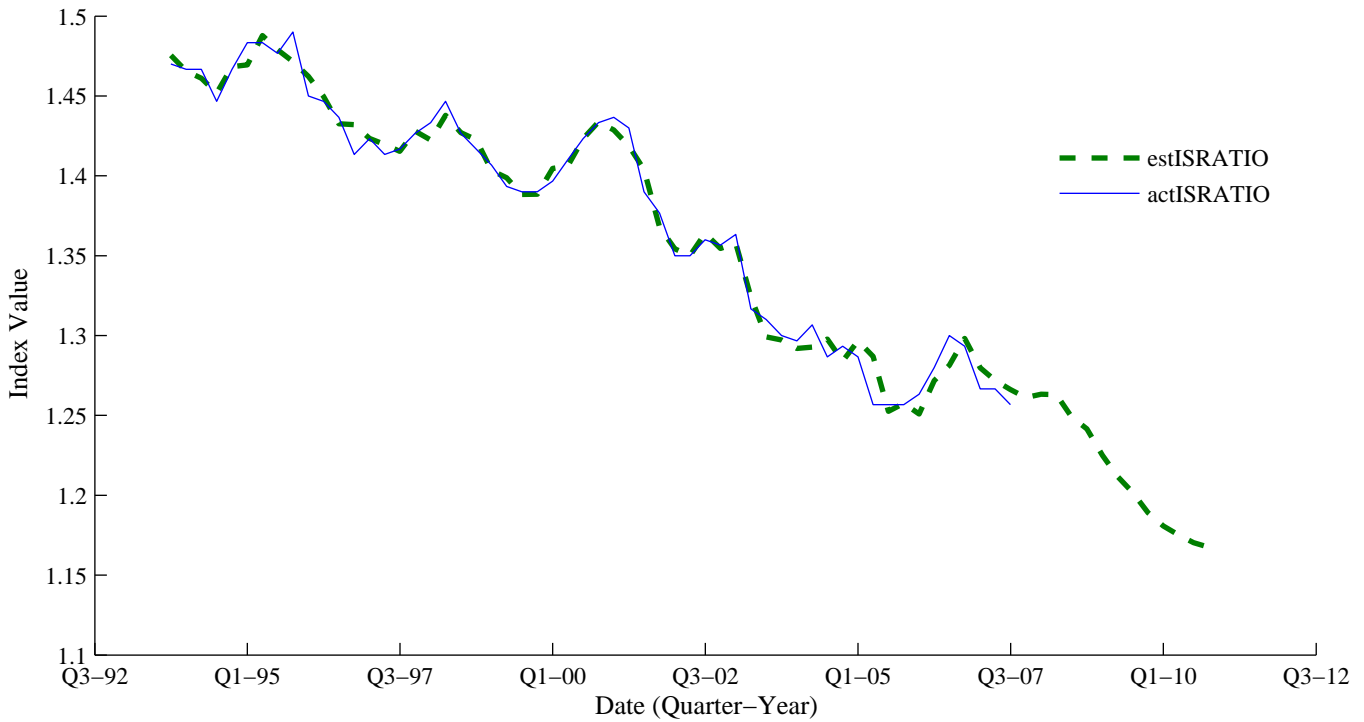


Figure 5. Actual and predicted inventory to sales ratio.



State/Regional Forecast

Table 2. Annual forecast growth rates for NFPI in region

Year	MN	MT	ND	SD	WY
2008	3.24	3.69	3.26	3.27	5.48
2009	3.32	3.57	2.95	3.43	4.37
2010	3.34	3.58	3.03	3.50	4.37

Figure 6. Actual and predicted growth rates for MN nonfarm personal income.

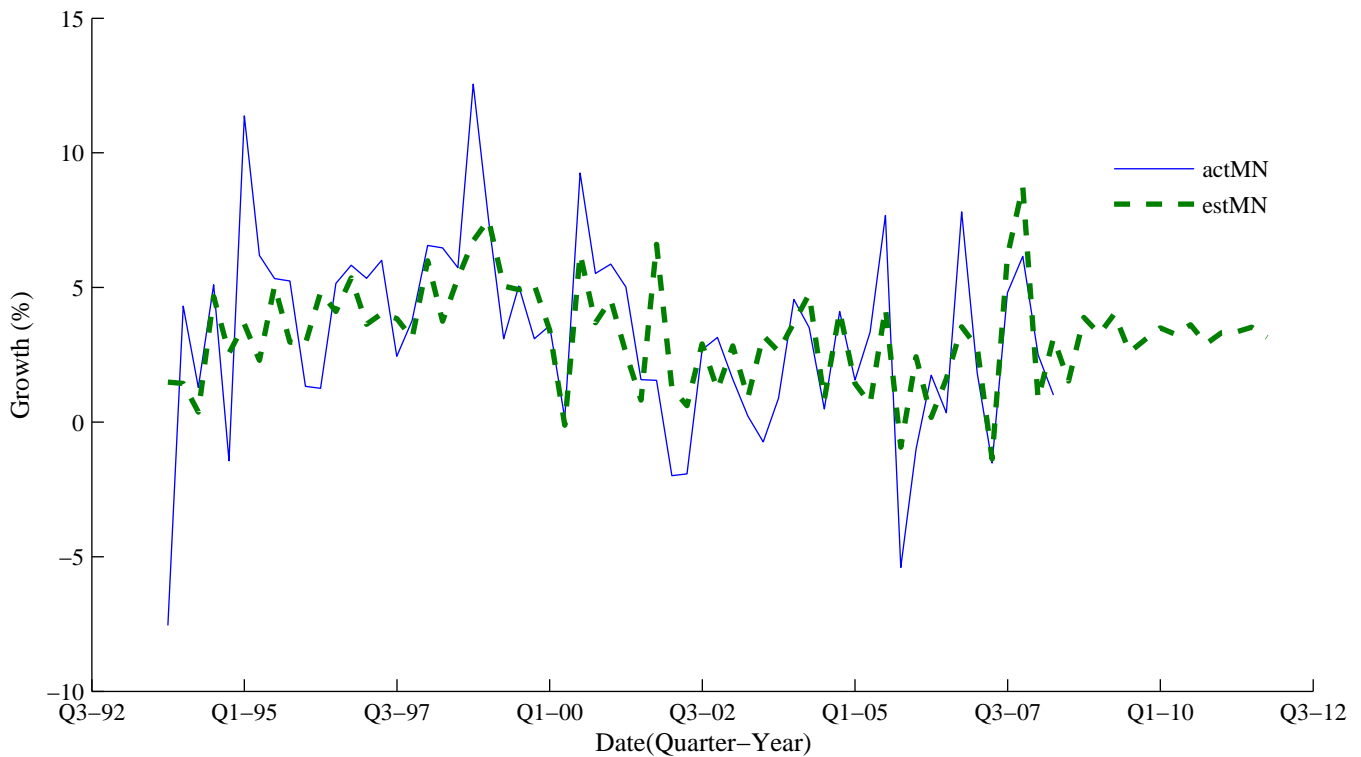


Figure 7. Actual and predicted growth rates for MT nonfarm personal income

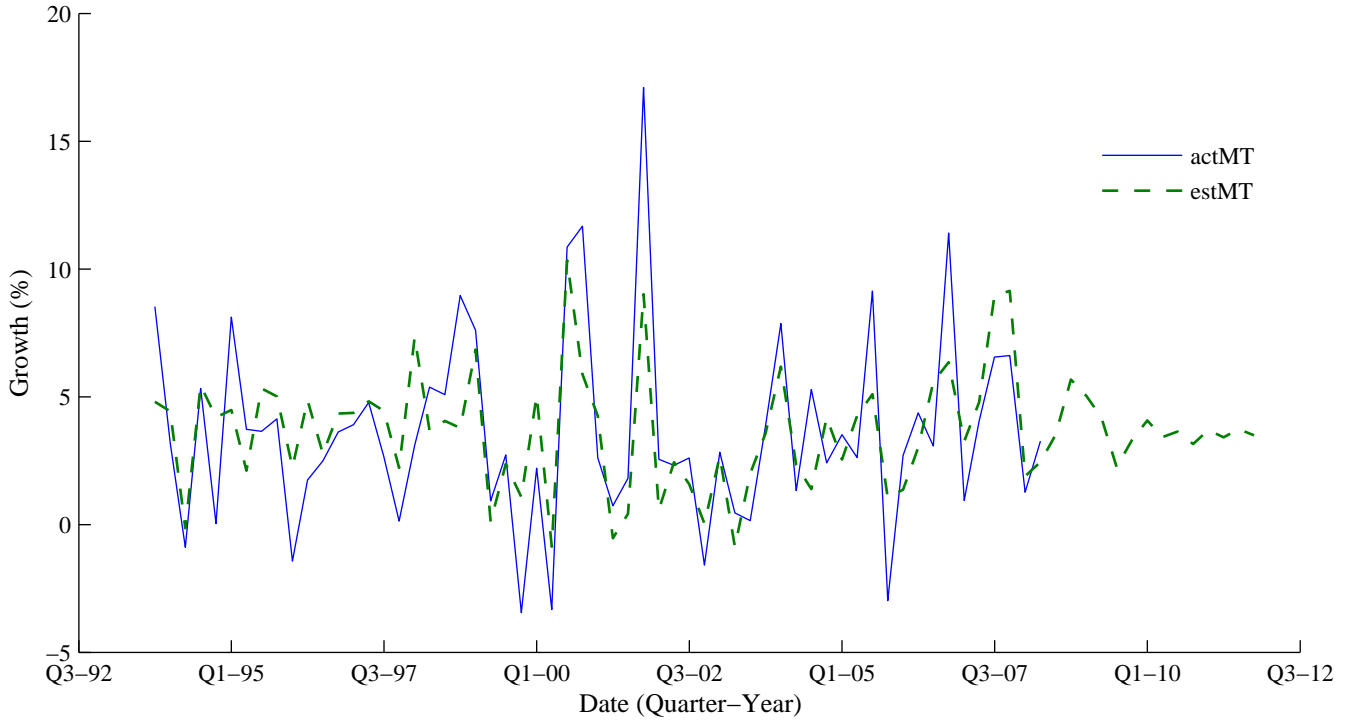


Figure 8. Actual and predicted growth rates for ND nonfarm personal income

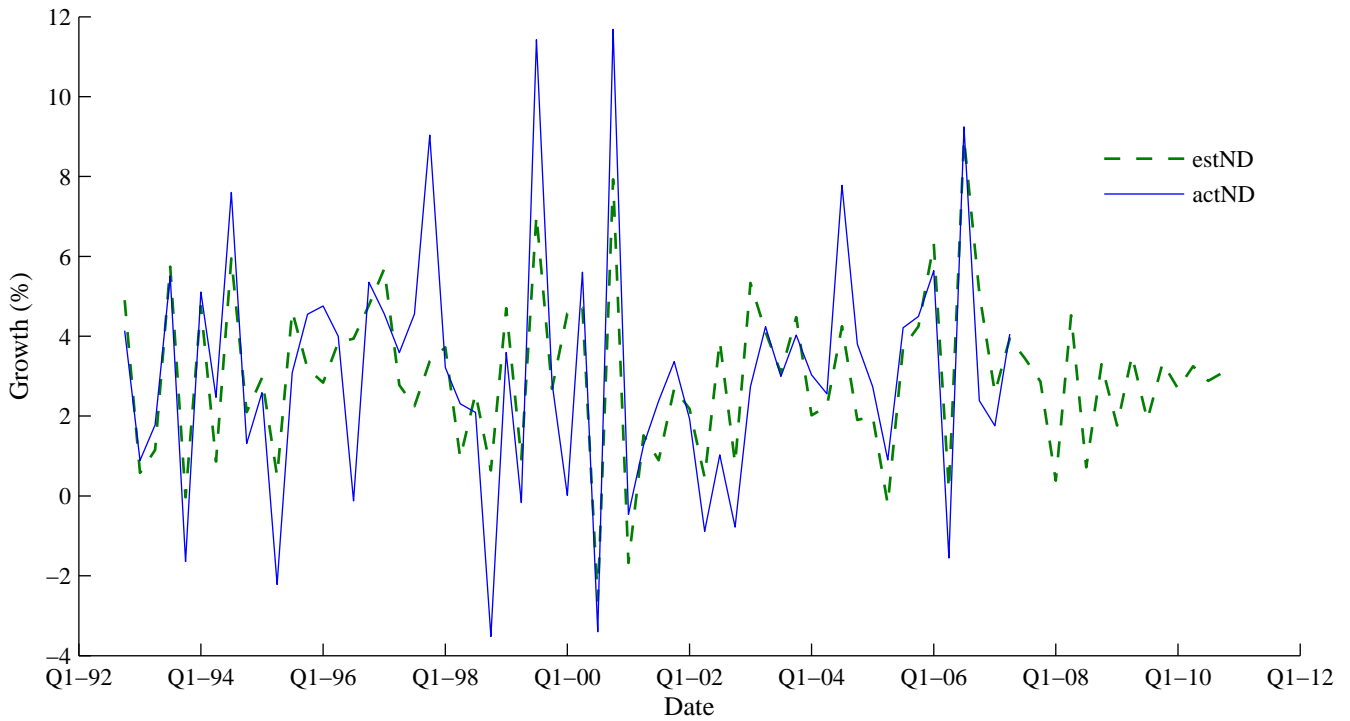


Figure 9. Actual and predicted growth rates for SD nonfarm personal income

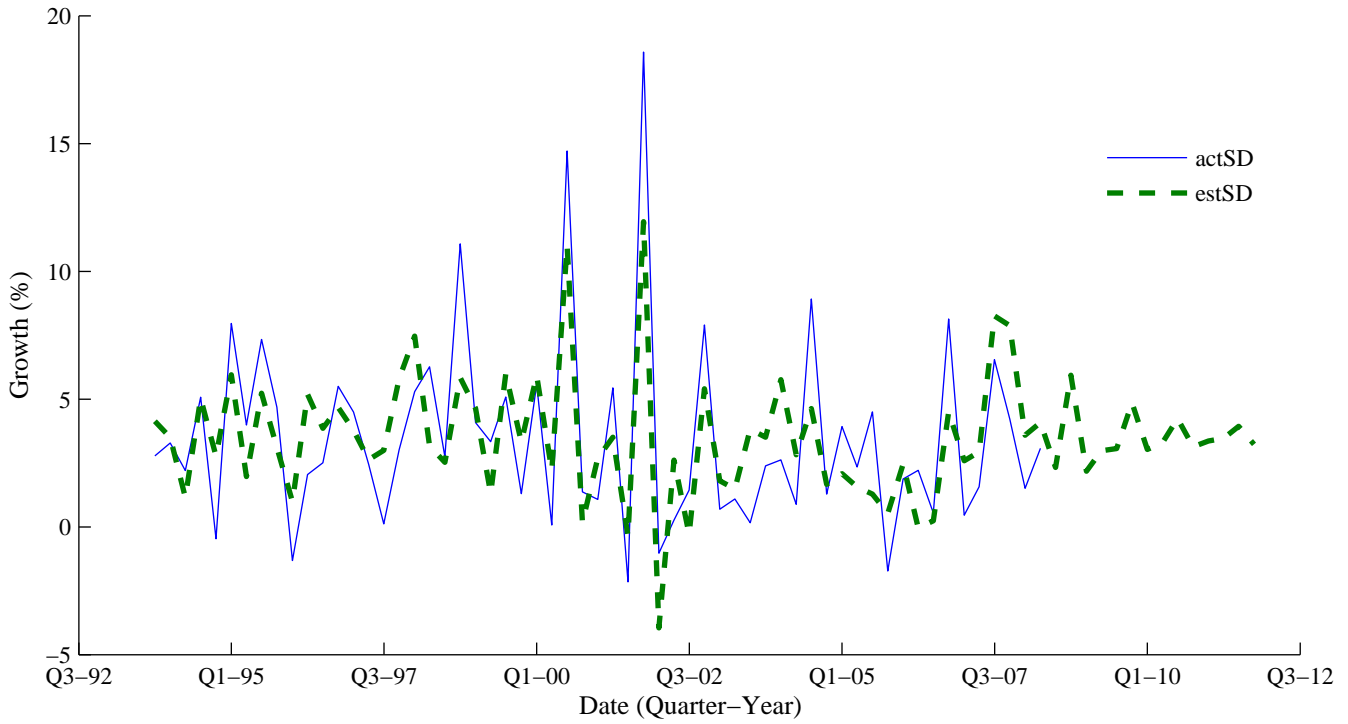
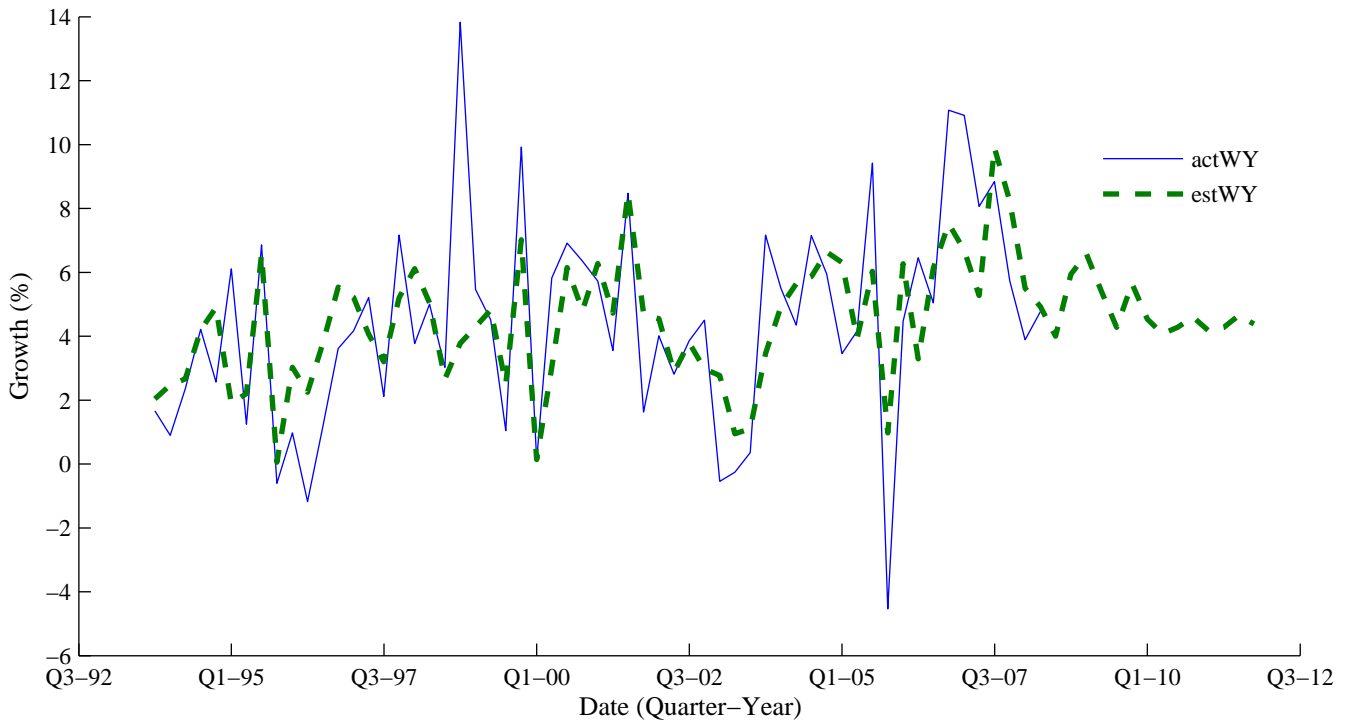
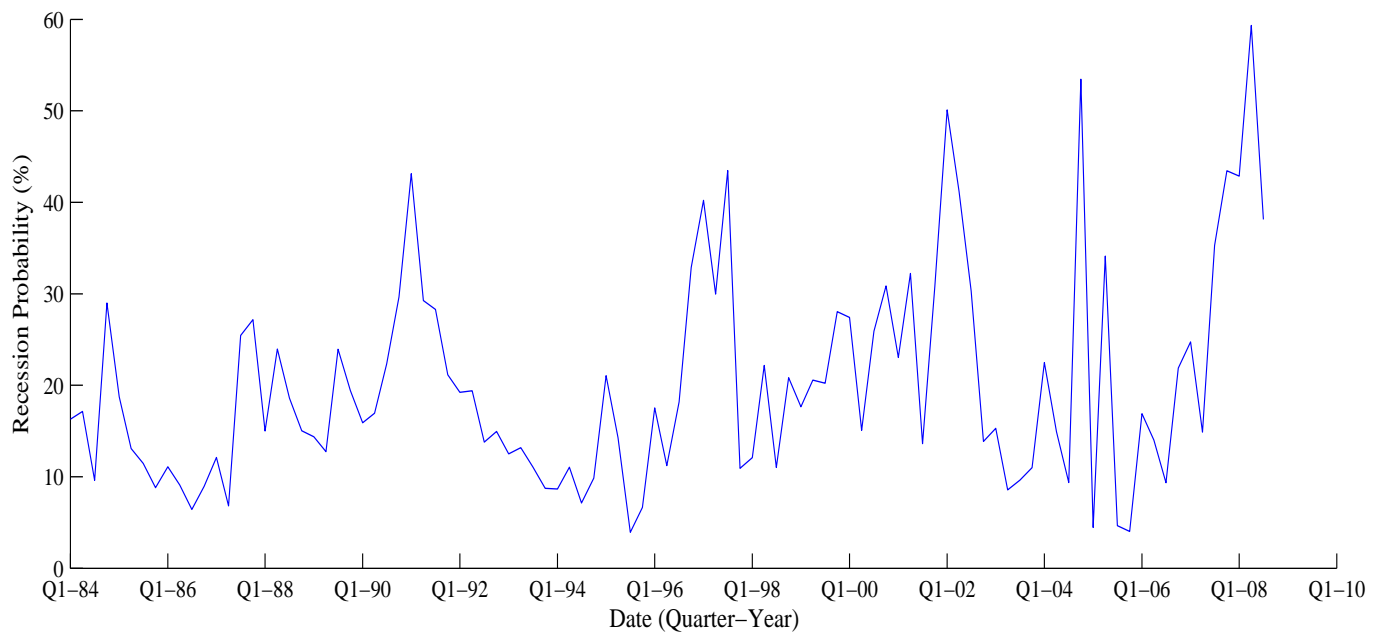


Figure 10. Actual and predicted growth rates for WY nonfarm personal income



North Dakota Recession Probability

Figure 11. Recession Probability for ND, in percent



Local Area Forecast - Unemployment

Table 3. Unemployment rate by metropolitan area

Year	Bismarck	Fargo	Grand Forks	ND
2008	2.82	2.72	3.54	3.23
2009	2.90	2.80	3.65	3.31
2010	2.93	2.85	3.68	3.33
Average	2.88	2.79	3.62	3.29

Figure 12. Bismarck actual and predicted unemployment rate.

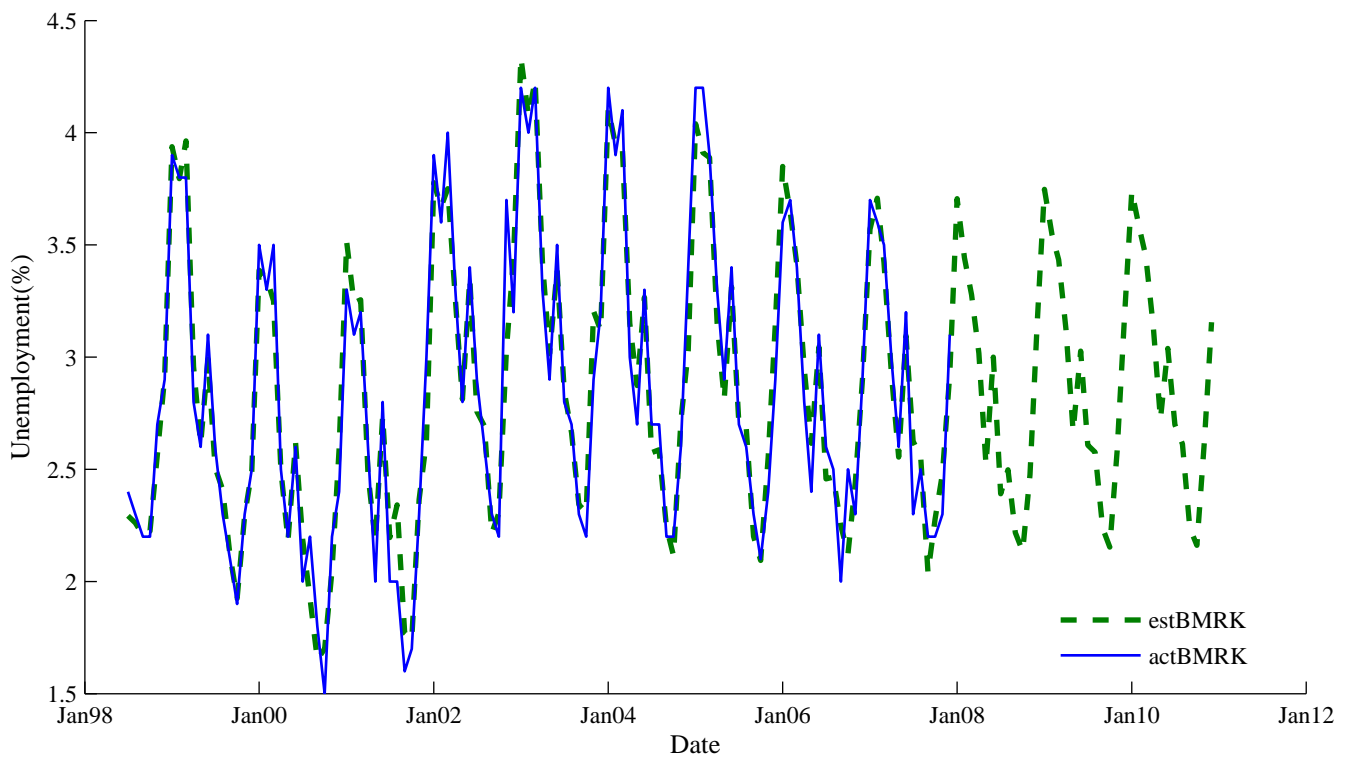


Figure 13. Fargo actual and predicted unemployment rate.

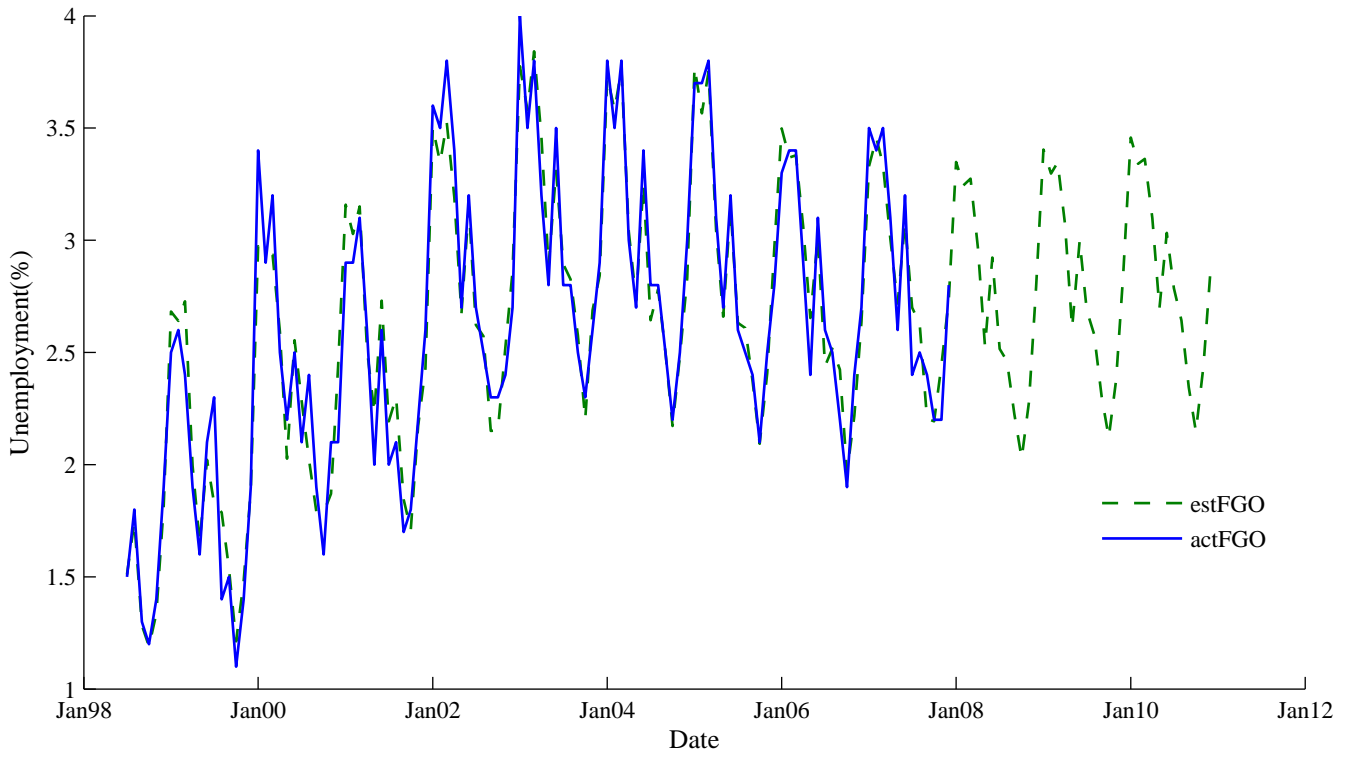


Figure 14. Grand Forks actual and predicted unemployment rate.

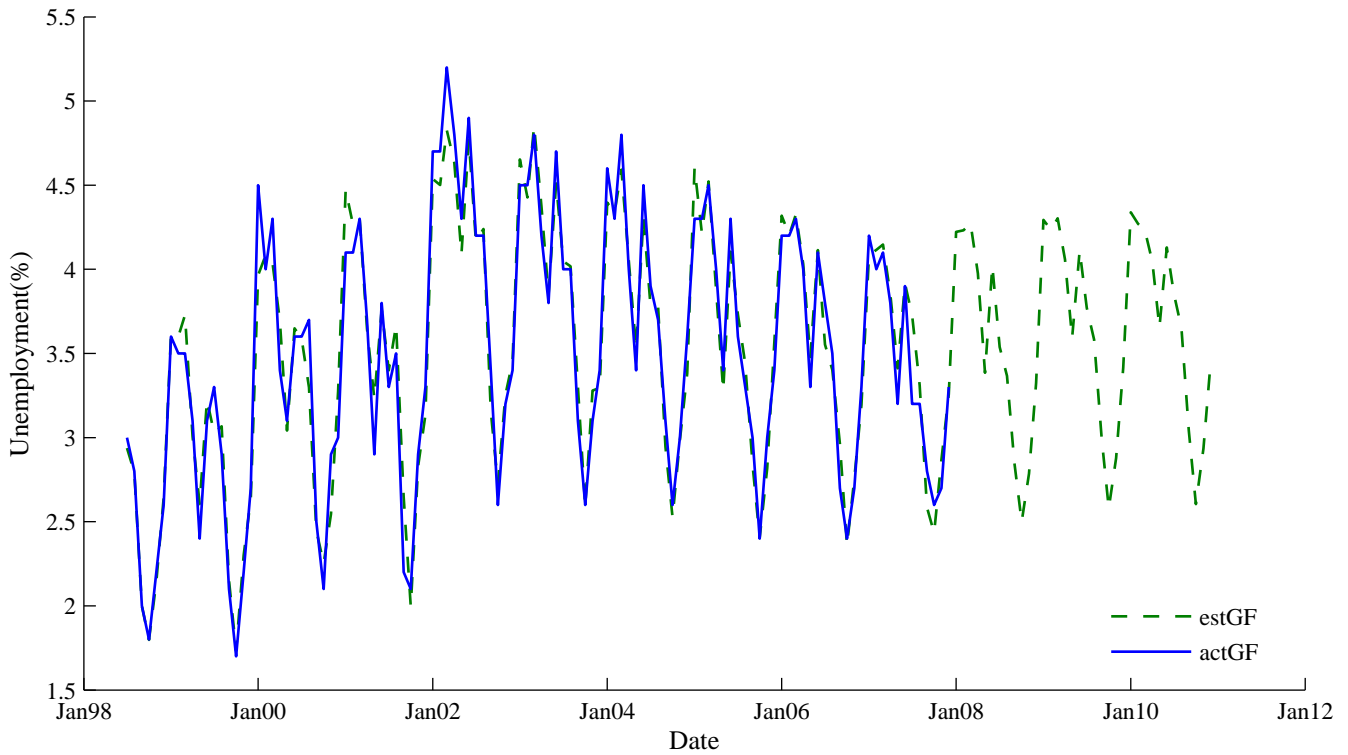
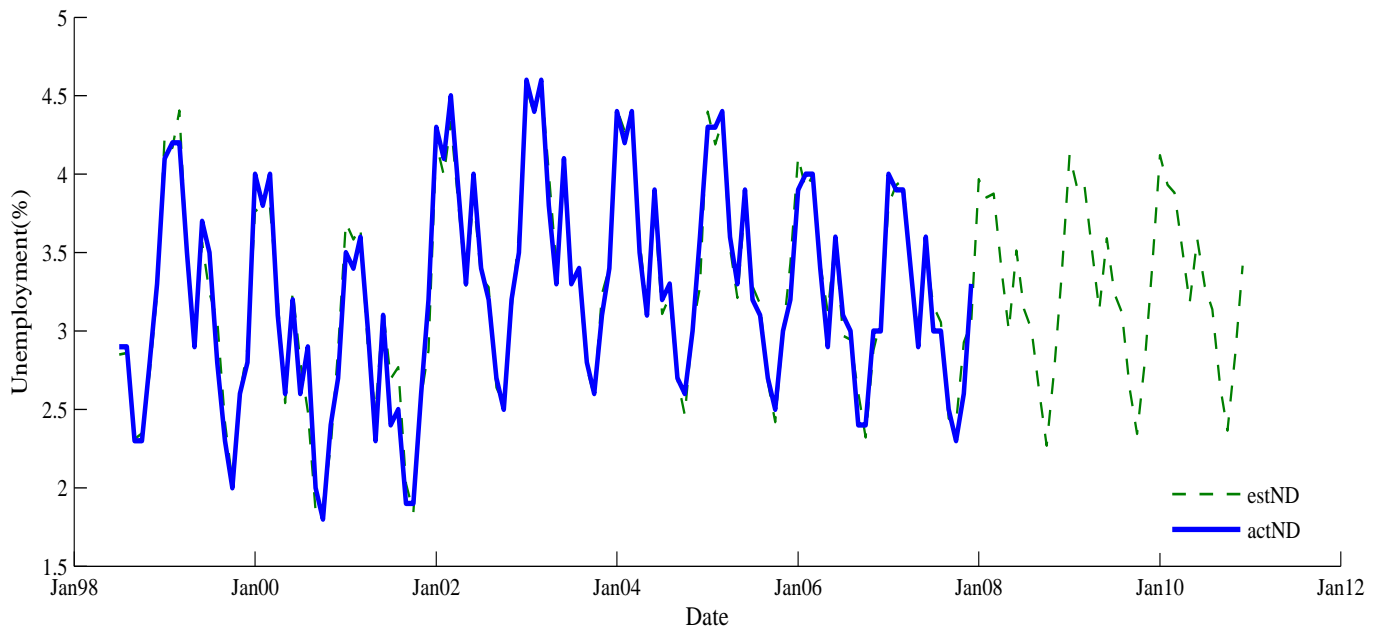


Figure 15. North Dakota actual and predicted unemployment rate.



Data Sources

The data employed in the forecasting model are publicly available from a variety of sources. The most comprehensive resource for the macroeconomic variables is the FRED database at the St. Louis Federal Reserve Bank web site (www.stlouisfed.org). Much of the data are available also from the Bureau of Economic Analysis (www.bea.gov) the Bureau of Labor Statistics (www.bls.gov), both of which are an excellent resource for state and local data. If you have suggestions regarding data sources please send them to us.

Next Forecast Release

BBER updates its forecast models as data become available. Please contact us with questions about revisions. The next scheduled *Quarterly Forecast Report* will be in May/June.



David T. Flynn, Ph.D. is Director of the Bureau of Business and Economic Research at the University of North Dakota. Dr. Flynn is also the Clow Banking Fellow and an Associate Professor in the Department of Economics, College of Business & Public Administration. He also serves as the Associate State Director of the North Dakota Small Business Development Center.

He can be contacted at:

*David T. Flynn, Director
Bureau of Business & Economic Research
College of Business & Public Administration
293 Centennial Drive, Stop 8369
Grand Forks, ND 58202-8369*

Phone: 701.777.3356

Fax: 701.777.3365

E-mail: david.flynn@mail.business.und.edu

BBER web site: www.business.und.edu/bber





Bureau of Business & Economic Research,
College of Business & Public Administration
University of North Dakota