Retail Sales / Sales Taxes:

- The Current Recession Halts Retail
- Implications for The States

American Economics Group, Inc. (AEG) is a firm of professional economists serving clients in business, government, and the legal profession:

- For more than 25 years, our economists have provided clear, concise economic analysis and forecasts.
- Award winning forecaster, Michael K. Evans, AEG’s Chief Economist, has constructed AEG’s national and regional models.

AEG is headquartered in Washington, D.C., with offices in New York, Boston, Philadelphia, and Boca Raton.
American Economics Group
Clear and Effective Economic Analysis

• National Forecast: Overview

• U.S. is in RECESSION

• Recovery 3 to 4 quarters away

• Real Growth will average 0% to –1% each of these quarters

• Global Recession Looming

Expected Employment Change From 2001 Q1

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 Q4</td>
<td>-1.21%</td>
</tr>
<tr>
<td>2002 Q2</td>
<td>-1.77%</td>
</tr>
<tr>
<td>2002 Q4</td>
<td>-0.73%</td>
</tr>
<tr>
<td>2003 Q2</td>
<td>-0.43%</td>
</tr>
</tbody>
</table>
American Economics Group
Clear and Effective Economic Analysis

• National Forecast: Overview

  • Unemployment to reach 6% by mid 2002
  • Discretionary consumer purchase to plummet
  • Capital spending to decline further
  • Motor vehicle production to drop from 16.6 million units to 14.8 million by 2002 Q1

American Economics Group
Clear and Effective Economic Analysis

• National Forecast: Overview

  • High tech equipment will be pounded:
    • Computers
    • Software
    • Telecommunications
National Forecast: Overview

• Major Federal Taxes To Fall:
  • Personal Income Tax
  • Profits Tax

Economic Forecast for The States:

• Results will depend heavily on each state’s mix of industry
• States dependent on TRAVEL will lag
• DC with large Government Sector will lead
Economic Forecast for Consumer Purchases:

- A State’s Results Depends on:
  - Its Sales Tax Base
  - It’s Employment During The Recession

STATES EXPECTED TO PERFORM BEST (Tier 1) (Zero % to -1.4%)

- District of Columbia
- Maryland
- Delaware
- Louisiana
- North Dakota
- West Virginia
- New Mexico
- Alaska
- Virginia
- Oklahoma
- Nebraska
- Kansas
- Wyoming
- Montana
### STATES EXPECTED TO PERFORM 2nd BEST (Tier 2)
\((-1.5\% \text{ to } 1.7\%)\)

<table>
<thead>
<tr>
<th>New York</th>
<th>Iowa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>Maine</td>
</tr>
<tr>
<td>Washington</td>
<td>Georgia</td>
</tr>
<tr>
<td>Idaho</td>
<td>California</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>Massachusetts</td>
</tr>
<tr>
<td>Colorado</td>
<td>New Jersey</td>
</tr>
<tr>
<td>Florida</td>
<td>Oregon</td>
</tr>
<tr>
<td>Alabama</td>
<td></td>
</tr>
</tbody>
</table>

### STATES EXPECTED TO PERFORM 2nd Worst (Tier 3)
\((-1.8\% \text{ to } -2.0\%)\)

<table>
<thead>
<tr>
<th>Utah</th>
<th>Pennsylvania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connecticut</td>
<td>Mississippi</td>
</tr>
<tr>
<td>Missouri</td>
<td>North Carolina</td>
</tr>
<tr>
<td>South Carolina</td>
<td>Illinois</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Kentucky</td>
</tr>
<tr>
<td>South Dakota</td>
<td></td>
</tr>
</tbody>
</table>
STATES EXPECTED TO PERFORM WORST (Tier 4)
(-2.1% to -6%)

- Minnesota
- Arizona
- Ohio
- Hawaii
- Wisconsin
- Michigan
- New Hampshire
- Tennessee
- Vermont
- Indiana
- Nevada

Economic Forecast for Consumer Purchases:

- Expected Growth Rates for Sales Varies by Item
- Diverse Impact: from –15.8% to +12% Growth
Motor Vehicles & Parts

Actual | AEG Forecast

Quarterly Observations

Highest Growth Consumer Purchases (Tier 1)
(+2% to +12%)

- TVs, VCRs, and Videotapes
- Video and Musical Instruments
- Newspapers and Magazines
- Audio Equipment, Media and Instruments
- Floor Coverings
- Durables Excluding Motor Vehicles and Parts
- Electricity and Gas
- Food and Beverages
- Medical Care Services
- Household Appliances
### Next to Highest Growth Consumer Purchases (Tier 2)

(+1% to +2%)

- Total Consumer Spending
- Consumer Durables
- Consumer Nondurables
- Furniture
- Clothing and Shoes
- Sports and Photo Equipment

### Next to Lowest Growth Consumer Purchases (Tier 3)

(-1.4% to +1%)

- Durable House Furnishings
- Gasoline
- Tires and Tubes
- Prescription Drugs
- Furniture and Household Durables
- China, Glassware, Tableware and Utensils
- Motor Vehicles and Parts
- Recreational Services
### Worst Growth Consumer Purchases (Tier 4)

(-4% to -15.8%)

<table>
<thead>
<tr>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
</tr>
<tr>
<td>Fuel Oil and Coal</td>
</tr>
<tr>
<td>Transportation Services</td>
</tr>
<tr>
<td>Jewelry</td>
</tr>
<tr>
<td>Computers, Peripherals and Software</td>
</tr>
<tr>
<td>U.S. Air Travel for Foreign Travel</td>
</tr>
<tr>
<td>Boats</td>
</tr>
<tr>
<td>Motorcycles</td>
</tr>
<tr>
<td>Domestic Airline Travel</td>
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</tbody>
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