

## American Economics Group

Clear and Effective Economic Analysis

Presentation for:

**Federation of Tax Administrators 9/30/02**

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[www.AmericanEconomics.com](http://www.AmericanEconomics.com)

### **Regional Economic Forecast:**

#### **Mired in The Mud of The Ending Recession**

- **The National Economic Setting**
- **Implications for The States**



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**American Economics Group, Inc. (AEG) provides full service economics analysis to the states:**

- 1. Revenue Forecasting Systems**  
(with Michael Evans)
- 2. Sales & Use Tax Gap Measurement**  
(with ChainBridge Software and Evans)
- 3. Tax Policy Analysis Via Micro Simulation Models**  
(with ChainBridge Software)



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### National Forecast: **Overview 09/30/02**

- U.S. is **MIRED** in **AFTERMATH** of **RECESSION**
- Firm Recovery Path is 2 -3 quarters away
- Real Growth will average 2.0% to 3.0% over next 6 quarters
- Possible Military Action Clouds Horizon



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*"I think the economy's turning around. That guy looked as if he were about to give me something."*

. New Yorker 9/30/02



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### National Forecast: **Overview**

- **Weak employment growth**
- **Consumer purchase to weaken**
- **Capital spending not robust yet**
- **Motor vehicle sales to fall**
- **Higher federal spending offset by state cutbacks**



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### National Forecast: **Overview**

#### **High tech equipment still lagging:**

- **Computers**
- **Software**
- **Telecommunications**



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### National Forecast: **Overview**

#### Official GDP Overstated:

- **Bad Data (Walmart effect adds 1%)\***
- **Significant Revisions (1% per year)**
- **Productivity Overstated**
- **Growth is 2% GDP / 1.5% Productivity / .5% Employment**



\*Michael Evans Points this out.

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### Real GDP (\$96)

<b>2002 Forecast</b>	<b>2.0%</b>
<b>2003 Forecast</b>	<b>3.0%</b>



\*Compound change from 2001-Q2

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### Nominal GDP

2002 Forecast	3.0%
2003 Forecast	4.1%



\*Compound change from 2001-Q2

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### National Forecast: **Overview**

#### Let's Examine Components of Demand:

- **Consumption (weakening)**
- **Capital spending (negative – will turn up)**
- **Exports (strong)**
- **Government/Defense purchases (up)**
- **State Spending (down)**



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### Personal Consumption Expenditures (chg in \$96)

<b>2002 Forecast</b>	<b>3.1%</b>
<b>2003 Forecast</b>	<b>3.0%</b>



\*Compound change from 2001-Q2

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### Non-Residential Fixed Investment (chg in \$96)

<b>2002 Forecast</b>	<b>-6.0%</b>
<b>2003 Forecast</b>	<b>7.0%</b>



\*Compound change from 2001-Q2

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### Housing Starts (mil.)

<b>2002 Forecast</b>	<b>1.67</b>
<b>2003 Forecast</b>	<b>1.65</b>



\*Compound change from 2001-Q2

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### Industrial Production (chg in \$96)

<b>2002 Forecast</b>	<b>0.0%</b>
<b>2003 Forecast</b>	<b>3.5%</b>



\*Compound change from 2001-Q2

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### Automobile / Truck Sales (mil.)

<b>2002 Forecast</b>	<b>17.2</b>
<b>2003 Forecast</b>	<b>17.1</b>



\*Compound change from 2001-Q2

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### Corporate Profits (chg in nominal)

<b>2002 Forecast</b>	<b>8.7%</b>
<b>2003 Forecast</b>	<b>9.0%</b>



\*Compound change from 2001-Q2



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### National Forecast: **Overview**

## Let's Examine Prices and Compensation:



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### Consumer Price Index (chg)

<b>2002 Forecast</b>	<b>1.6%</b>
<b>2003 Forecast</b>	<b>3.4%</b>



\*Compound change from 2001-Q2

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### GDP Price Index (chg)

2002 Forecast	1.0%
2003 Forecast	1.1%



\*Compound change from 2001-Q2

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### National Forecast: **Overview**

### Let's Examine Interest Rates:



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### Treasury Bills (3 mo.)

<b>2002 Forecast</b>	<b>1.7% avg.</b>
<b>2003 Forecast</b>	<b>1.8% avg.</b>



\*Compound change from 2001-Q2

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### Treasury Notes (10 yr.)

<b>2002 Forecast</b>	<b>4.75% avg.</b>
<b>2003 Forecast</b>	<b>4.25% avg.</b>



\*Compound change from 2001-Q2

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### National Forecast: **Overview**

### Major Tax Revenue: **Slow Growth**

- **Personal Income Tax**
- **Corporate Profits Tax**



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### Economic Forecast for The States:

**Results will depend heavily on each state's mix of industry**

**For example:**

- **States dependent on Agriculture will suffer**
- **Deep low means higher growth numbers for some (eg: Nevada)**



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### Economic Forecast for The States:

#### Let's Sort Industries into Four Groups :

- **Tier 1: Perform Best**
- **Tier 2: Perform 2<sup>nd</sup> Best**
- **Tier 3: Perform 2<sup>nd</sup> Worst**
- **Tier 4: Perform Worst**



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### *INDUSTRIES EXPECTED TO PERFORM BEST (Tier 1)*

**Petroleum Refining**

**Instruments**

**Other Services**

**Utility Services**

**Construction**

**Transportation & Communication**

**Trade**



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### *INDUSTRIES EXPECTED TO PERFORM 2nd BEST (Tier 2)*

**Stone, Clay, Glass**

**Industrial Machinery**

**Misc Manufacturing**

**Medical Related**

**Semiconductors**

**Electrical Machinery**

**Paper & Paper Products**

**Government & Other**



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### *INDUSTRIES EXPECTED TO PERFORM 2nd Worst (Tier 3)*

**Recreation**

**Finance, Insurance, Real Estate**

**Lumber**

**Computers**

**Furniture**

**Mining / Extractive**

**Transportation Equipment**

**Rubber & Plastics**

**Fabricated Metals**



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### **INDUSTRIES EXPECTED TO PERFORM WORST (Tier 4)**

**Printing**

**Leather**

**Chemicals**

**Apparel**

**Textiles**

**Food & Tobacco Production**

**Agriculture**

**Primary Metals**



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### **Economic Forecast for The States:**

#### **Let's Sort States into Four Groups :**

- **Tier 1: Perform Best**
- **Tier 2: Perform 2<sup>nd</sup> Best**
- **Tier 3: Perform 2<sup>nd</sup> Worst**
- **Tier 4: Perform Worst**

**(Forecast Growth Rate in Employment 2002 to 2003)**



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### ***STATES EXPECTED TO PERFORM BEST (Tier 1) (Above 0.65% Employment Growth)***

**Nevada**  
**District of Columbia**  
**Colorado**  
**Maryland**  
**Utah**  
**New Hampshire**



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### ***STATES EXPECTED TO PERFORM 2nd BEST (Tier 2) (0.60% to 0.65% Employment Growth)***

**Connecticut**  
**Arizona**  
**New York**  
**Florida**  
**Louisiana**  
**Hawaii**  
**New Mexico**  
**Virginia**





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### **STATES EXPECTED TO PERFORM Average (Tier 3) (0.50% to 0.60% Employment Growth)**

Vermont	Illinois	Oklahoma
Texas	Michigan	Delaware
Rhode Island	Pennsylvania	Wisconsin
Alaska	Wyoming	Tennessee
Minnesota	Georgia	Oregon
California	Ohio	Missouri
Massachusetts	Maine	Washington
New Jersey	Nebraska	Montana



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### **STATES EXPECTED TO PERFORM Worst (Tier 4) (Below 0.5% Employment Growth)**

Kansas	Kentucky
Indiana	Idaho
South Carolina	North Dakota
West Virginia	South Dakota
North Carolina	Arkansas
Alabama	Mississippi
Iowa	



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### **After General Recovery Farm Belt Will Gain**

- **Lower dollar will spur exports**
- **Ethanol use will increase**
- **Corn, Soybeans and Wheat prices will rise strongly**
- **Recovery from the Farm Belt “depression” can occur**



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### **Other Observations and Assumptions I**

- **The response to both fiscal and monetary policy will be weak**
- **Further interest rates stabilize**
- **Increased federal spending on defense**
- **Consumer spending will weaken**
- **State tax increases**



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### **Problems with Forecasts Using NIPA Accounts**

- **High Error Rate on First-Released Data**
- **Alternative State-Level Data More Useful**



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**Thank You for Participating**

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