Conference of State Revenue Forecasters

September 23, 2003

Dr. Loren C. Scott

Short & Shallow
Made it All Up in 01-IV

<table>
<thead>
<tr>
<th>Quarter</th>
<th>RGDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-I</td>
<td>-0.6%</td>
</tr>
<tr>
<td>01-II</td>
<td>-1.6%</td>
</tr>
<tr>
<td>01-III</td>
<td>-0.3%</td>
</tr>
<tr>
<td>01-IV</td>
<td>2.7%</td>
</tr>
</tbody>
</table>
Since End of Recession

- 01-IV  2.7%
- 02-I   5.0%
- 02-II  1.3%
- 02-III 4.0%
- 02-IV  1.4%
- 03-I   1.4%
- 03-II  3.1%
- 1st four quarters: 2.1%! Last 4: 2.5%!
Job Losses So Far

• Since peak in March 2001: down 2,598,000 jobs
• In 12 months ending in June, 2003: -421,000.
• Rate of decline is slowing noticeably (-44,000 in July)

Reminder: Labor Market Changes Ahead

• Before Recession: Very tight
• Now: Very loose
• Soon: Very, very tight
HIRING PLANS & JOB OPENINGS

Plan to Hire  Job Openings

PLANNED & ACTUAL LABOR COMPENSATION CHANGES
( NET PERCENT OF FIRMS)

Actually Increased  Plan to Increase
Trends In Fertility Rates

- Prior to 1947: 2.1
- 1947-61: 3.8
- Post 1961: 1.8

Age Composition: 1996-2006

- 0-4 -3.0%
- 5-24 11.8%
- 25-44 -6.5%
- 45-64 34.6%
- 65-74 -0.6%
- 74+ 14.7%
Number Becoming 60

[Bar graph showing data]

[Map of the United States with different states colored to indicate substantial boomlet, abbreviated boomlet, boomlet then bust, and no boomlet]
Southern Exposure
The states with the largest share of African Americans are south of the Mason-Dixon line, while other population centers include states in the Northeast and Midwest: New York, New Jersey, Michigan and Illinois.

Black share of U.S. population: 12.3%

Percent of pop. that is black:
- 27.9%–40.0%
- 13.6%–26.0%
- 5.4%–11.5%

Source: Census
2000 April, U.S.

Latino Locales
Just nine states are home to a higher-than-average share of Latinos. Some of these states are close to the Mexico–United States border (New Mexico, California, Texas and Arizona, for example), while others are noted for their large, diverse populations (Florida, New York and New Jersey).

Hispanic share of U.S. population: 12.5%

Percent of pop. that is Hispanic:
- 25.3%–42.1%
- 13.5%–19.7%
- 5.2%–12.3%
Approximate # 19 Year Olds: GA & US

Number of Persons Becoming 60 Years of Age: GA
Great “Truths” in Life

- If you must choose between two evils, pick the one you’ve never tried before..
- Men are from earth. Women are from earth. Deal with it.
- No man has ever been shot while washing dishes.
- There is always one more imbecile than you counted on.
- It’s not the jeans that make your butt look fat.

Forecasting Great Truths

- Forecasting is easy…unless you are talking about the future.
- Never round off; Always carry it out at least three digits.
- Some damn thing always happens…
Why Value of $ Rose?

- Foreign investors looking for place:
  - Safe
  - Prosperous
  - Business transactions transparent
  - Business decisions profit-driven
Why Value of $ Falling?

• Foreign investors looking for place:
  – Safe (9/11)
  – Prosperous (*Recession*)
  – Business transactions transparent (*corporate wrong-doing*)
  – Business decisions profit-driven
**Impacts of Falling Dollar**

- **More exports** – U.S. goods cheaper from foreigner’s standpoint. VIP since 26% of corporate profits come from overseas.
- **Makes it harder for foreign companies to compete on U.S. soil.** More power to raise prices here.
- **Instant hit to bottom line** when selling abroad.
  - Ford sells for 50,000 euros 2002 = $20,000
  - Ford sells for 50,000 euros 2003 = $22,600

---

**Fig. 4: 30-Year Fixed Mortgage Rate**

+166 basis points: 2003.II to 2005.IV

*Source: Global Insights: July 2003*
Components of Interest Rate

- Basic Rate: 3%
- Risk Factor: 0%
- Inflationary Premium: 3%
- TOTAL RATE: 6%

CPI Forecasts: Global Insights

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2.8%</td>
</tr>
<tr>
<td>2002</td>
<td>1.6%</td>
</tr>
<tr>
<td>2003</td>
<td>2.2%</td>
</tr>
<tr>
<td>2004</td>
<td>1.2%</td>
</tr>
<tr>
<td>2005</td>
<td>1.9%</td>
</tr>
</tbody>
</table>
Fig. 4: 30-Year Fixed Mortgage Rate

+166 basis points: 2003.II to 2005.IV

Source: Global Insights: July 2003

Wellhead Price of Oil - Louisiana

OPEC Upper

OPEC Lower

Year
Why Was Price So High?

- Threat of war with Iraq: +$3 to $5
- Strike in Venezuela: From 3,100,000 down to 200,000 back up to 1,400,000 bbls
- Civil unrest – Nigeria (-800,000 bbls)
- Backwardation effects
- No lead weight from natural gas
Impact of War With Iraq?

• 2 mmbd temporarily eliminated
• Will Iraqi fields be open to private exploration companies?
• If so, when?
• If so, who controls production?
  – Still in OPEC?: 2 mmbd
  – Wide open market? 3.5 to 7 mmbd!
  – 2nd largest reserves in world

Russia Serious Long Term Problem for OPEC

• Russia output rising fast
  – 7.95 mmbd in 2000
  – 9.17 mmbd in 2002
• NE section of Caspian Sea off Kazakhstan
  – super giant field
  – 10 billion bbls oil; 25 tcf gas
  – Thunder Horse: 1 billion boe
New Development: Iran

- Reports of discovery of 3 new, giant oil fields.
- Estimated reserves: 38 billion BOE
- Remember Thunder Horse? 1 billion BOE

Oil Future’s Price??

Heading toward $25.57: 12/05
(Commodity Cycle)
Latest “Blonde” Story

“I lost my 710 cap.”
Oil: Worldwide Market

Natural Gas: Regional Market

Wellhead Price of Natural Gas - Louisiana

2003: $6.20
2004: $5.60
2005: $5.50
Futures: 1/05 = $5.20
Demand Side:

• National Recovery
• Power plants

Supply Side Considerations

• Canadian production declining
  – 2002: estimated –3%
  – 2003: estimated –4%
  – Ladyfern Field NE BC likely down 50%
  – Canadian gas rig count; –30%
• U.S. gas production falling
  – 2002: –6.4%
• “Off-Limits” problem
Help From LNG?

- Requires more terminals & super tankers
- We have 5 terminals
- 5 new/expansions apps pending
- All 5 built?
  - +2.2 bcf
  - Consumption: 24 tcf
- 10 years for LNG to = 10% of consumption
Help From Other Areas?

- EIA estimates LNG imports to rise to 1.6 tcf by 2020 (out of 25 tcf total)
- Alaska pipeline available by 2021?
- MacKenzie Delta pipeline (Canada) by 2016.

The Great Threat

Price Controls
(Encourages demand; discourages supply)
### RGDP Forecasts

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Global Insight</th>
<th>Consensus</th>
</tr>
</thead>
<tbody>
<tr>
<td>03-I</td>
<td>1.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>03-II</td>
<td>3.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>03-III</td>
<td>4.6%</td>
<td>4.7%</td>
</tr>
<tr>
<td>03-IV</td>
<td>3.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td>04-I</td>
<td>4.2%</td>
<td>3.9%</td>
</tr>
<tr>
<td>04-II</td>
<td>3.5%</td>
<td>3.8%</td>
</tr>
<tr>
<td>04-III</td>
<td>5.0%</td>
<td>3.8%</td>
</tr>
<tr>
<td>04-IV</td>
<td>4.1%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

### Reasons for Strong 2nd Half Recovery

- Rebuild military inventory - $100 billion
- Export boost from falling dollar
- Homeland security expenditures
- Consumer confidence up = increase in consumption spending.
- Better earnings = return of corporate investment spending
- Tax cut stimulus
Careful!

Don’t look for the easy way out!

Conference of State Revenue Forecasters

September 23, 2003

Dr. Loren C. Scott