

American Economics Group

Clear and Effective Economic Analysis

Presentation for:

Federation of Tax Administrators 9/24/01

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www.AmericanEconomics.com

Regional Forecasts After Terrorist Attacks: We are in Recession

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



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

- Award winning forecaster, **Michael K. Evans, Ph.D.** AEG's Chief Economist, has constructed AEG's national and regional models and prepared the U.S. Forecasts.
- For more than 25 years, our economists have provided clear, concise economic analysis.



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AEG is headquartered in Washington, D.C., with offices in New York, Boston, Philadelphia, and Boca Raton.

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National Forecast: **Overview 09/24/01**

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- U.S. is in **RECESSION**
- Recovery is 3 to 4 quarters away
- Real Growth will average 0% to -1% each of these quarters
- Global Recession Looming



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Expected Employment Change* From 2001 Q1

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2001 Q4	-1.21%
2002 Q2	-1.77%
2002 Q4	-0.73%
2003 Q2	-0.43%



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*Compound change from 2001-Q2

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National Forecast: **Overview**

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



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National Forecast: **Overview**

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High tech equipment will be pounded:

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



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National Forecast: **Overview**

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Let's Examine Components of Demand:

- Consumption (flat)
- Capital spending (down)
- Exports (down)
- Government/Defense purchases (up)

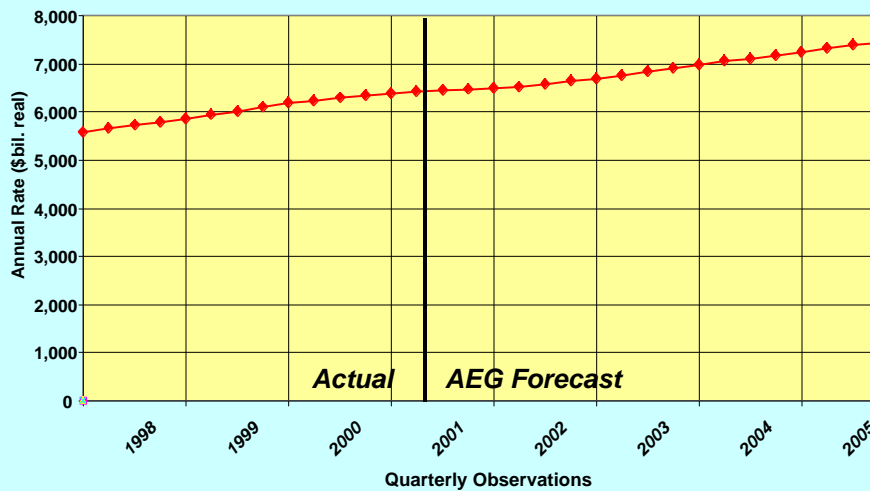


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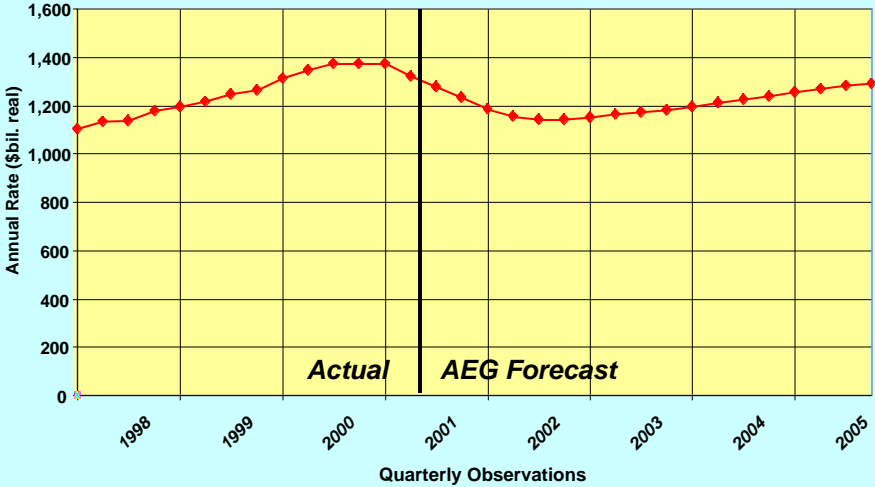
TOTAL CONSUMPTION



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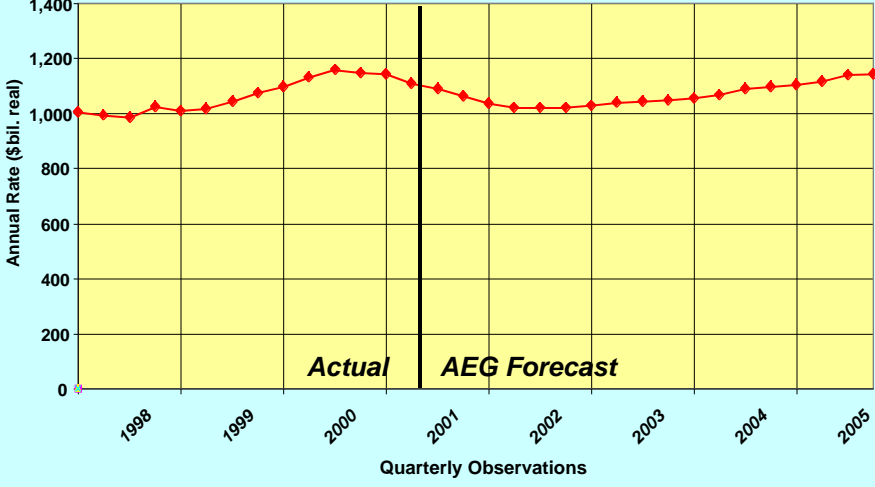
CAPITAL SPENDING



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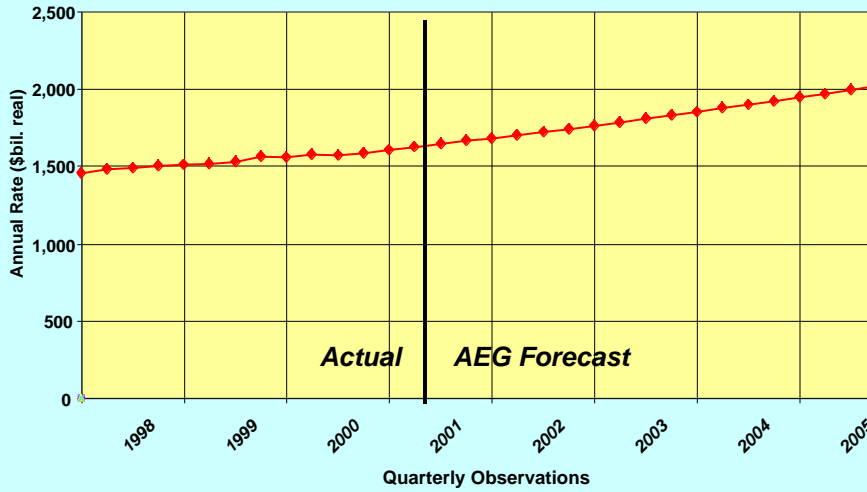
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EXPORTS



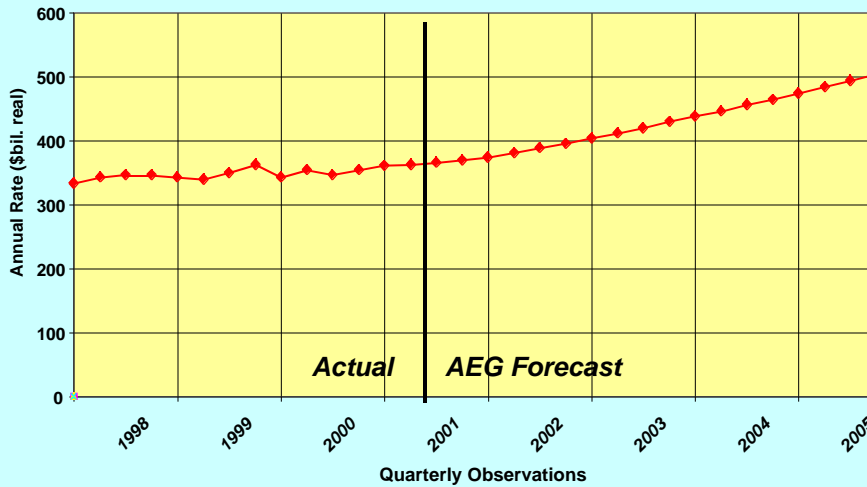
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GOVERNMENT PURCHASES



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DEFENSE SPENDING



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National Forecast: **Overview**

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Let's Examine Prices and Compensation:

- Consumer prices (dip to 1.5%, then rise to 2.5%)
- Compensation (drop to 4.2% wages and benefits)

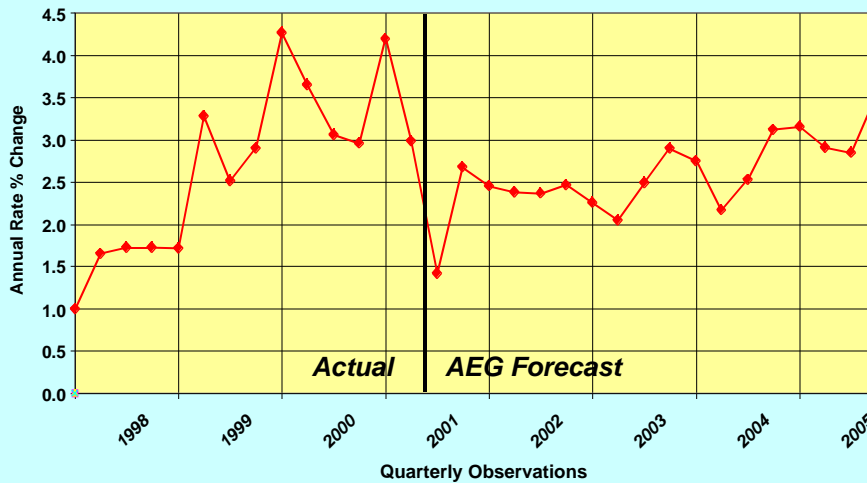


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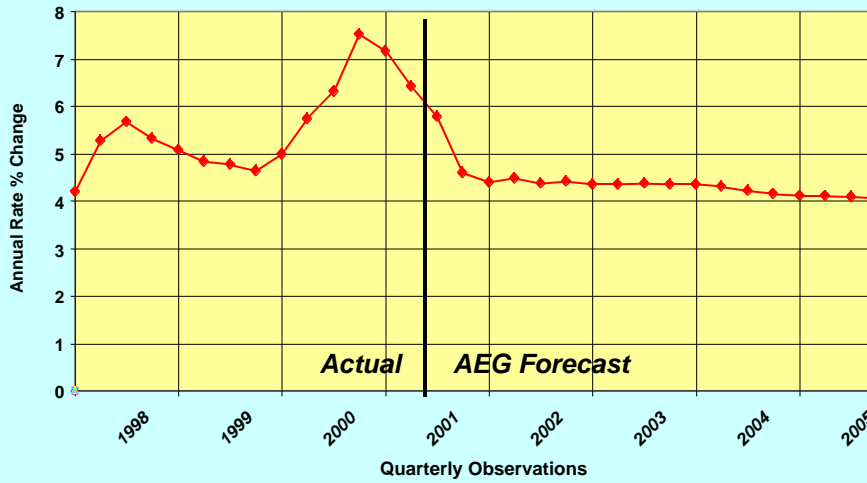
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Consumer Price Index



Hourly Compensation



National Forecast: **Overview**

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Major Federal Taxes To Fall

Most States Will Follow Federal Decline:

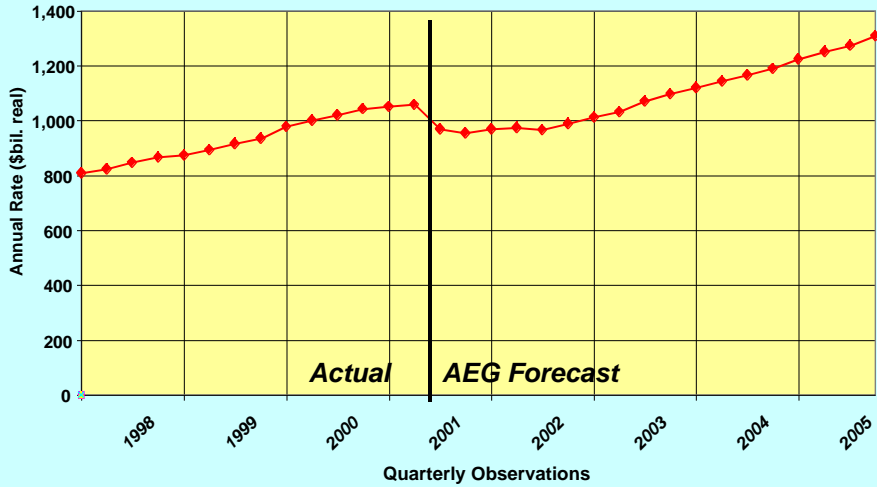
- **Personal Income Tax**
- **Corporate Profits Tax**



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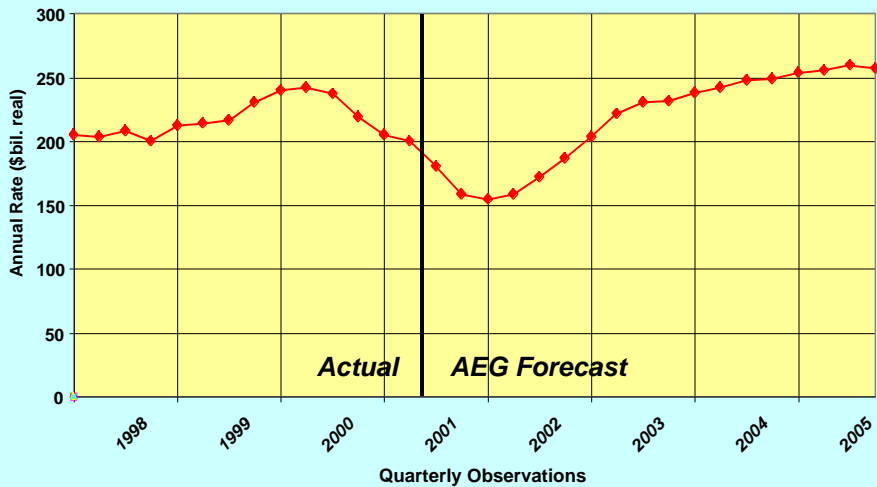
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PERSONAL INCOME TAX (Fed.)



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CORPORATION INCOME TAX (Fed.)



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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 Travel will suffer
- DC with large Government Sector will not



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Economic Forecast for The States:

Let's Sort Industries into Four Groups Expected During This Recession to:

- **Tier 1: Perform Best**
- **Tier 2: Perform 2nd Best**
- **Tier 3: Perform 2nd Worst**
- **Tier 4: Perform Worst**

(Growth rates in next four charts are expected change in employment 2001-Q2 to trough for each industry)



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INDUSTRIES EXPECTED TO PERFORM BEST (Tier 1)

Petroleum Extraction	4.7%
Government	2.7%
Coal Mining	0.9%
Food	-0.3%
Other Services	-0.4%
Financial Services	-0.7%
Petroleum Refining	-0.8%

INDUSTRIES EXPECTED TO PERFORM 2nd BEST (Tier 2)

Chemicals	-1.1%
Lumber	-1.2%
Construction	-1.6%
Trade	-1.7%
Nonmetallic Minerals	-2.0%
Transportation (NON AIR) and Comm.	-3.3%
Stone, Clay and Glass	-3.4%
Printing	-3.6%
Textiles	-3.8%

INDUSTRIES EXPECTED TO PERFORM 2nd WORST (Tier 3)

Rubber and Plastics	-5.6%
Paper	-5.7%
Furniture	-5.8%
Misc Manufacturing	-6.1%
Instruments	-6.5%
Tobacco	-6.9%
Fabricated Metals	-8.2%
Transportation Equipment	-8.3%
Motor Vehicles	-8.6%

INDUSTRIES EXPECTED TO PERFORM WORST (Tier 4)

Leather	-9.7%
Industrial Machinery	-10.8%
Apparel	-11.1%
Electrical Machinery	-11.9%
Primary Metals	-12.5%
Semiconductors	-14.9%
Computers	-15.1%
Metal Mining	-17.0%
Hotels and Lodging Plac	-24.1%
Air Transportation	-25.1%

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Economic Forecast for The States:

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Let's Sort States into Four Groups expected to:

- **Tier 1: Perform Best**
- **Tier 2: Perform 2nd Best**
- **Tier 3: Perform 2nd Worst**
- **Tier 4: Perform Worst**



(Growth ranges in next four charts are expected change in employment 2001-Q2 to trough for each state)

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

District of Columbia	Alaska
Maryland	Virginia
Delaware	Oklahoma
Louisiana	Nebraska
North Dakota	Kansas
West Virginia	Wyoming
New Mexico	Montana

STATES EXPECTED TO PERFORM 2nd BEST (Tier 2)
(-1.5% to -1.7%)

New York	Iowa
Texas	Maine
Washington	Georgia
Idaho	California
Rhode Island	Massachusetts
Colorado	New Jersey
Florida	Oregon
Alabama	

STATES EXPECTED TO PERFORM 2nd WORST (Tier 3)
(-1.8% to -2.0%)

Utah	Pennsylvania
Connecticut	Mississippi
Missouri	North Carolina
South Carolina	Illinois
Arkansas	Kentucky
South Dakota	

**STATES EXPECTED TO PERFORM WORST (Tier 4)
(-2.1% to -6%)**

Minnesota

New Hampshire

Arizona

Tennessee

Ohio

Vermont

Hawaii

Indiana

Wisconsin

Nevada

Michigan

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After Recession 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 rate declines**
- **Increased federal spending on security/defense/bailouts**
- **Consumer confidence will not return quickly**



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Other Observations and Assumptions II

- **No significant tax cuts**
- **Trade-weighted value of dollar declines**
- **Federal surplus drops to near zero by 2002-Q3**
- **Increase in non-residential construction**



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Thank You for Participating

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