

American Economics Group

Clear and Effective Economic Analysis

Presentation for:

Federation of Tax Administrators

By Charles W. de Seve, Ph.D.

Retail Sales / Sales Taxes:

- **The Current Recession Halts Retail**
- **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:

- **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.

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- **National Forecast: Overview**

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- 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



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Expected Employment Change From 2001 Q1

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



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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 decline further**
- **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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- **Major Federal Taxes To Fall:**
 - **Personal Income Tax**
 - **Profits Tax**



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Economic Forecast for The States:

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- **Results will depend heavily on each state's mix of industry**
- **States dependent on TRAVEL will lag**
- **DC with large Government Sector will lead**



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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	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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Economic Forecast for Consumer Purchases:

- **Expected Growth Rates for Sales Varies by Item**
- **Diverse Impact: from -15.8% to +12% Growth**



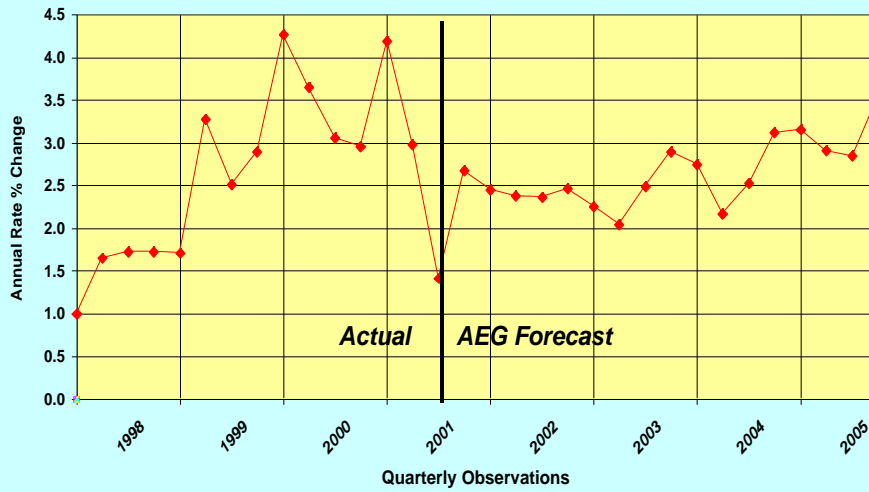
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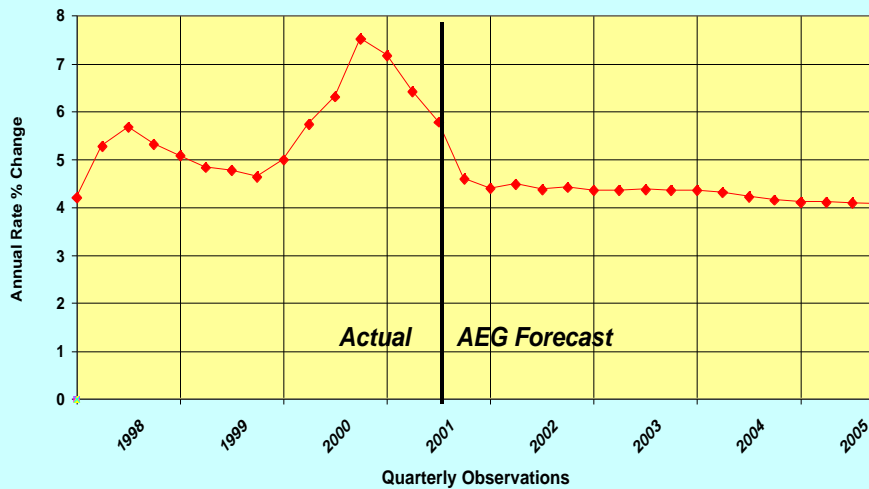
Consumer Price Index



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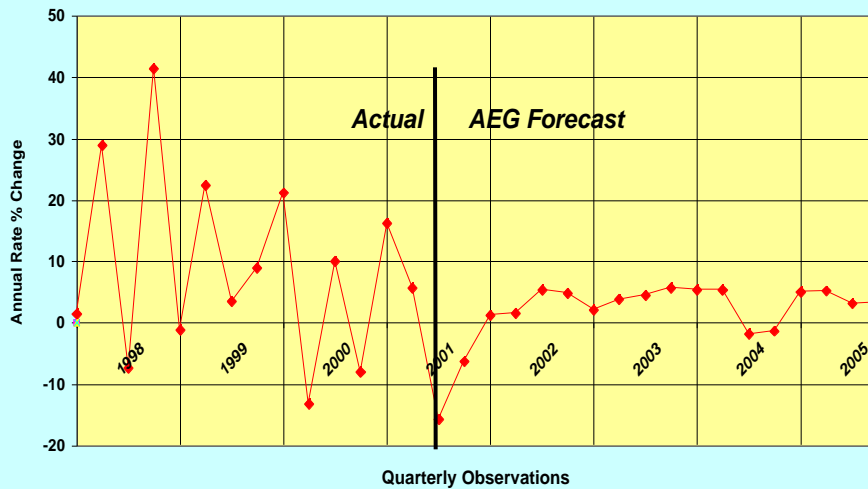
Hourly Compensation



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Motor Vehicles & Parts



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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

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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

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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

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Worst Growth Consumer Purchases (Tier 4) **(-4% to -15.8%)**

Tobacco
Fuel Oil and Coal
Transportation Services
Jewelry
Computers, Peripherals and Software
U.S. Air Travel for Foreign Travel
Boats
Motorcycles
Domestic Airline Travel

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