

Conference of State Revenue Forecasters

September 23, 2003

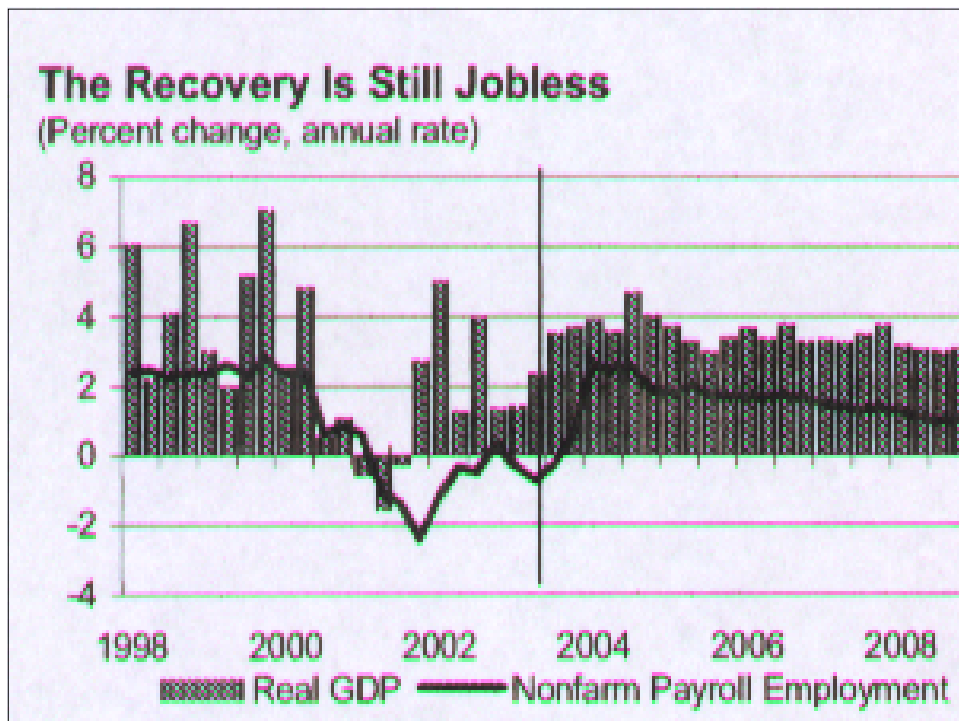
Dr. Loren C. Scott
Loren C. Scott & Associates, Inc.

Short & Shallow Made it All Up in 01-IV

<u>Quarter</u>	<u>RGDP</u>
01-I	-0.6%
01-II	-1.6%
01-III	-0.3%
01-IV	2.7%

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%!



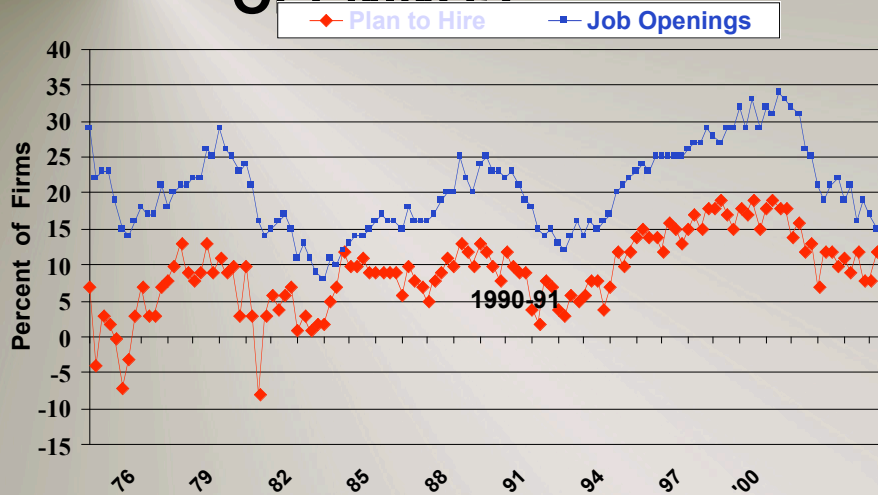
Job Losses So Far

- **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)**

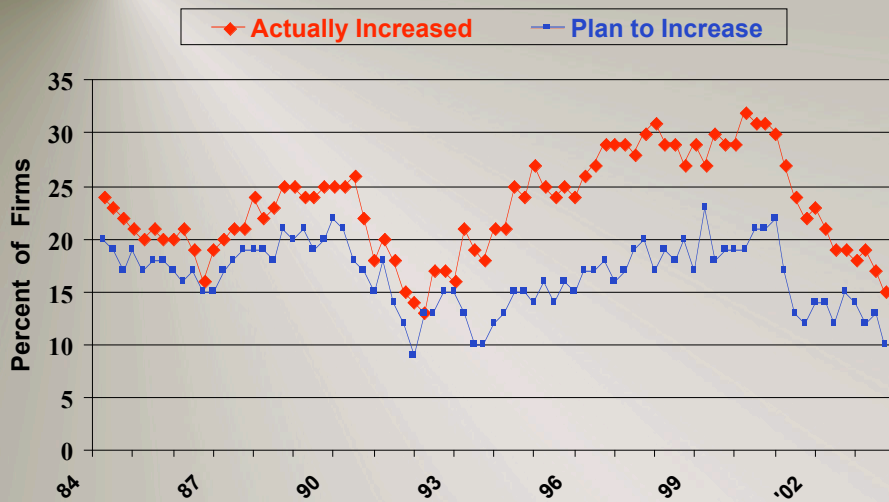
Reminder: Labor Market Changes Ahead

- **Before Recession: Very tight**
- **Now: Very loose**
- **Soon: Very, very tight**

HIRING PLANS & JOB OPENINGS



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



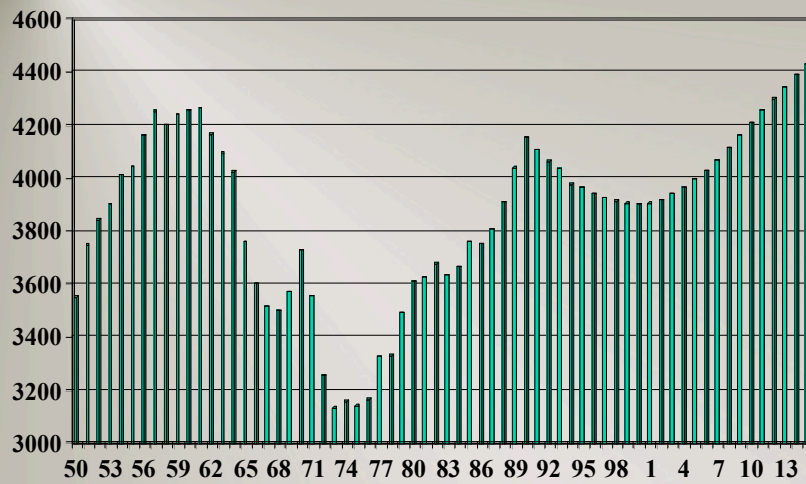
Trends In Fertility Rates

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

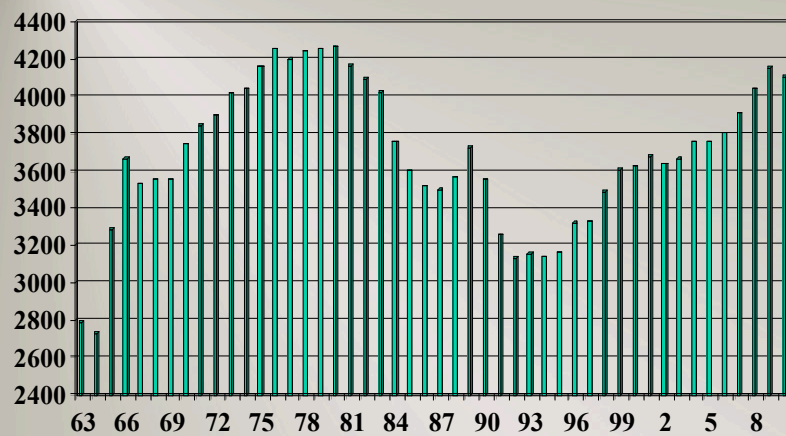
Age Composition: 1996-2006

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

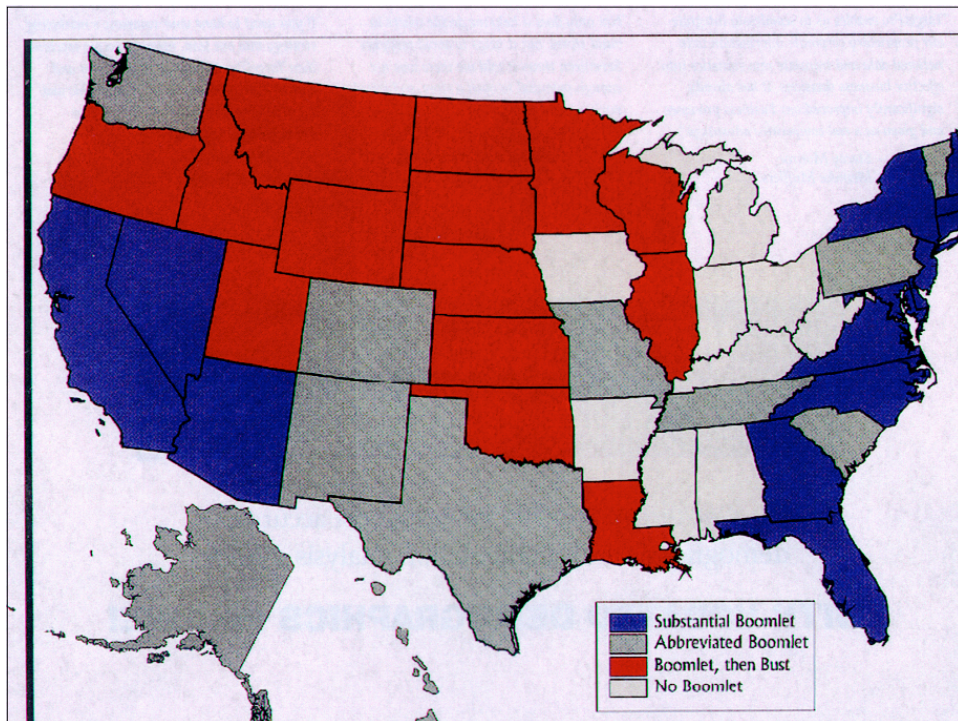
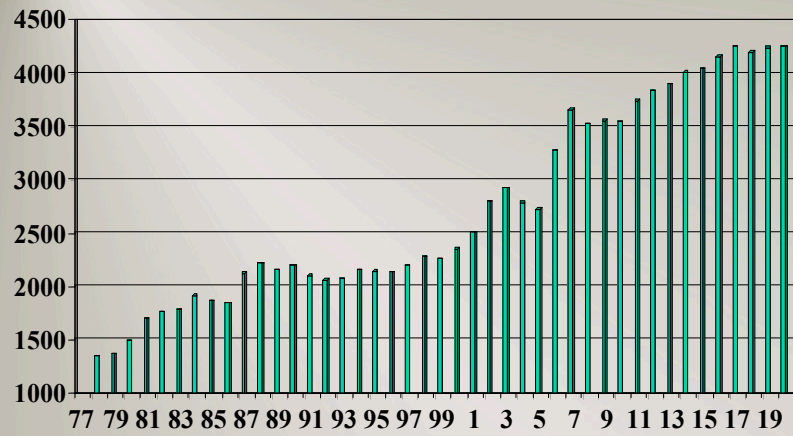
New Births - U.S.



Approximate # Becoming 19



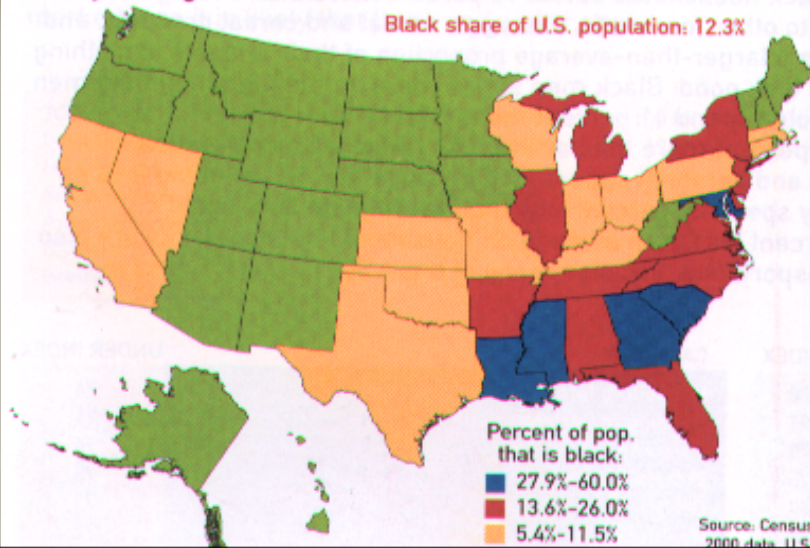
Number Becoming 60



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.

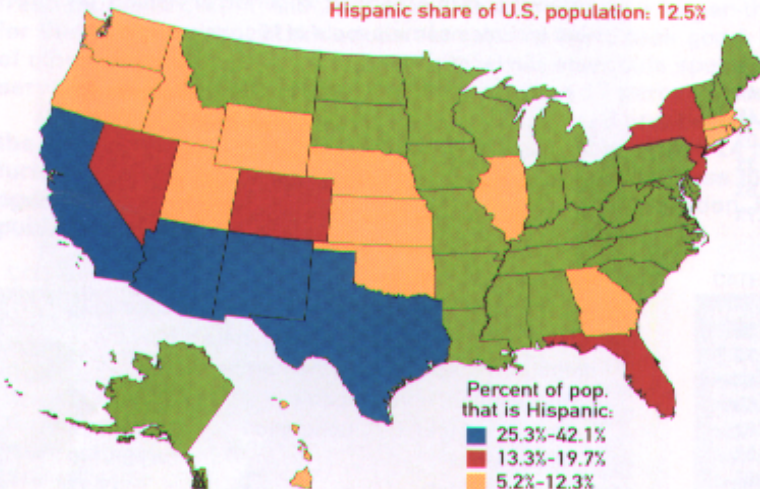
Black share of U.S. population: 12.3%

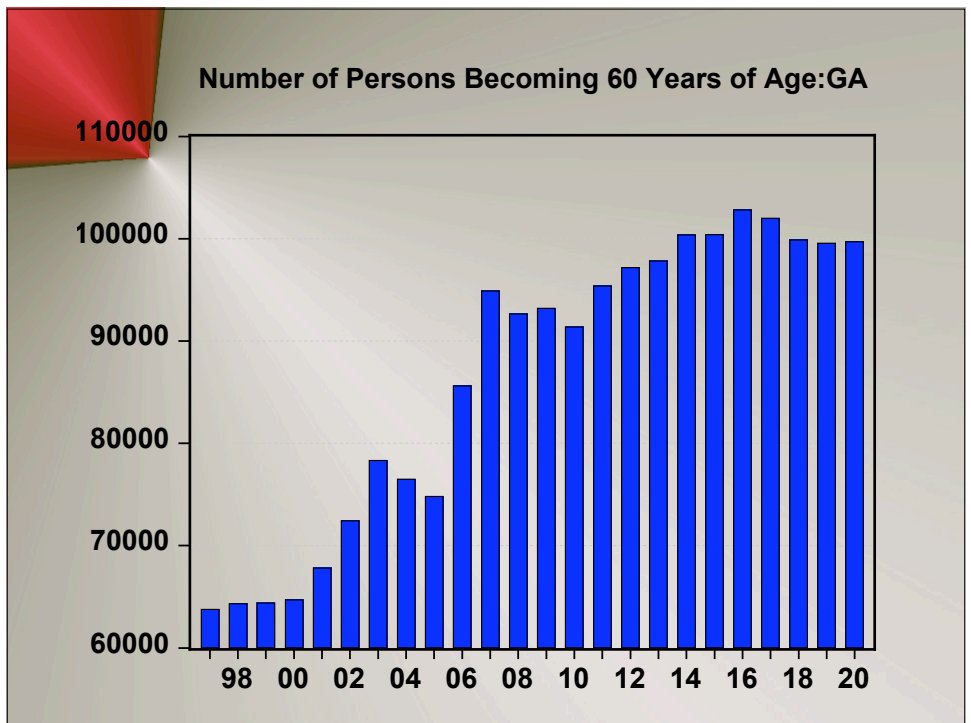
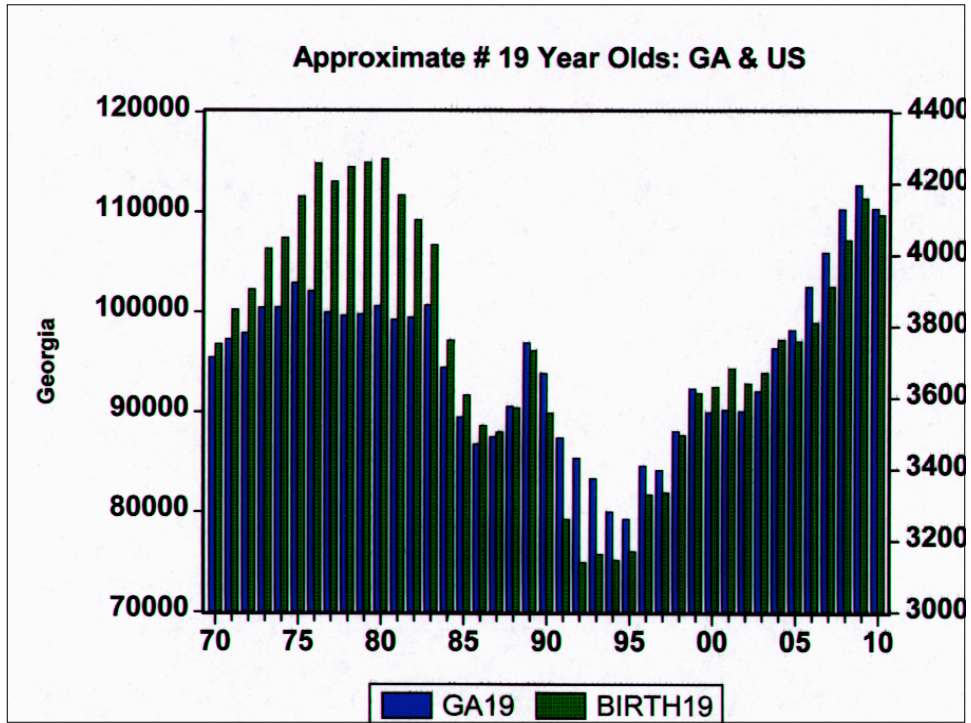


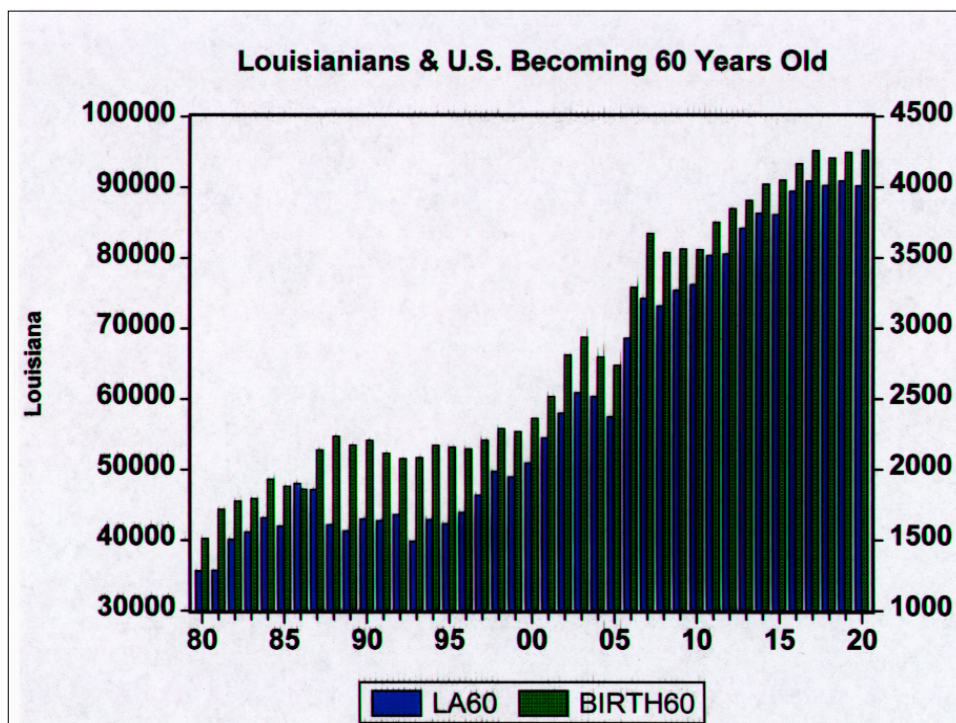
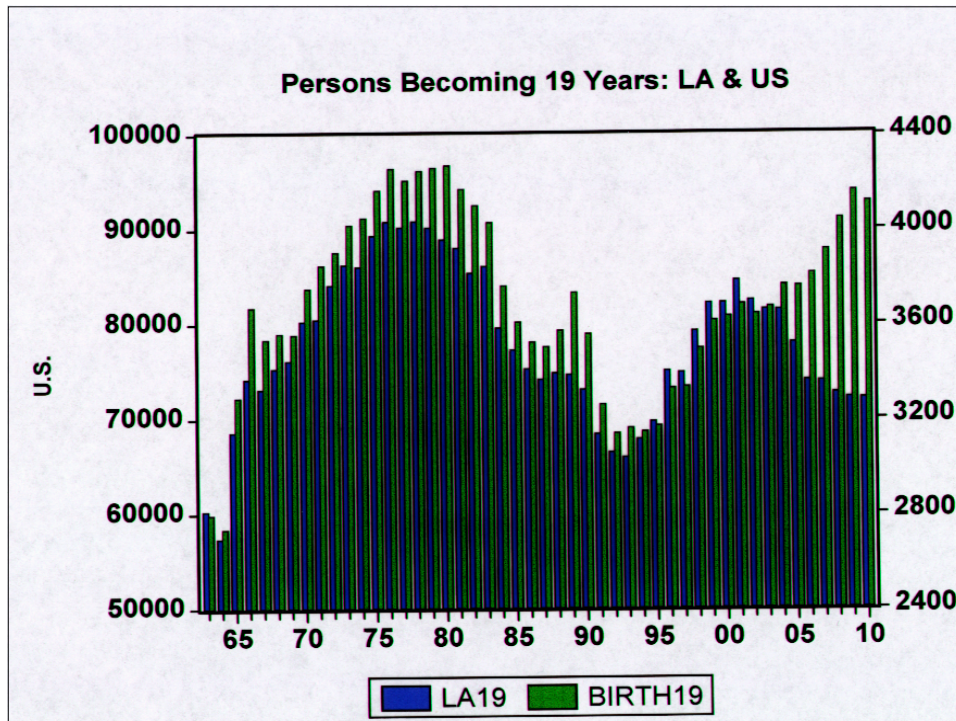
Latino Locales

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%







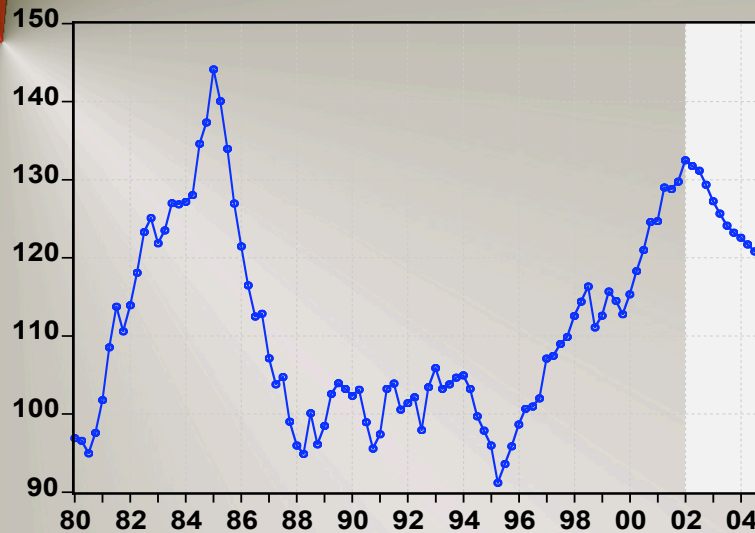
Great “Truths” in Life

- **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.**
- **Its 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...**

Fig. 2: Real Exchange Value of the Dollar

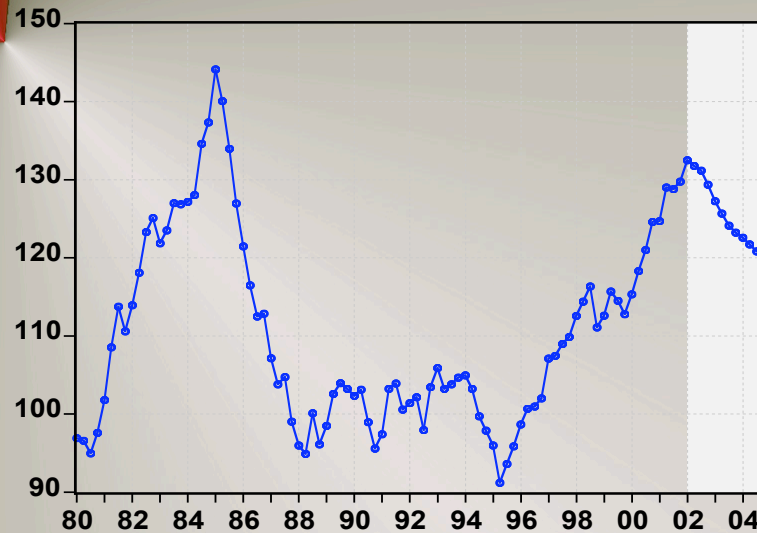


Source: DRI-WEFA, July 2002

Why Value of \$ Rose?

- **Foreign investors looking for place:**
 - Safe
 - Prosperous
 - Business transactions transparent
 - Business decisions profit-driven

Fig. 2: Real Exchange Value of the Dollar



Source: DRI-WEFA, July 2002

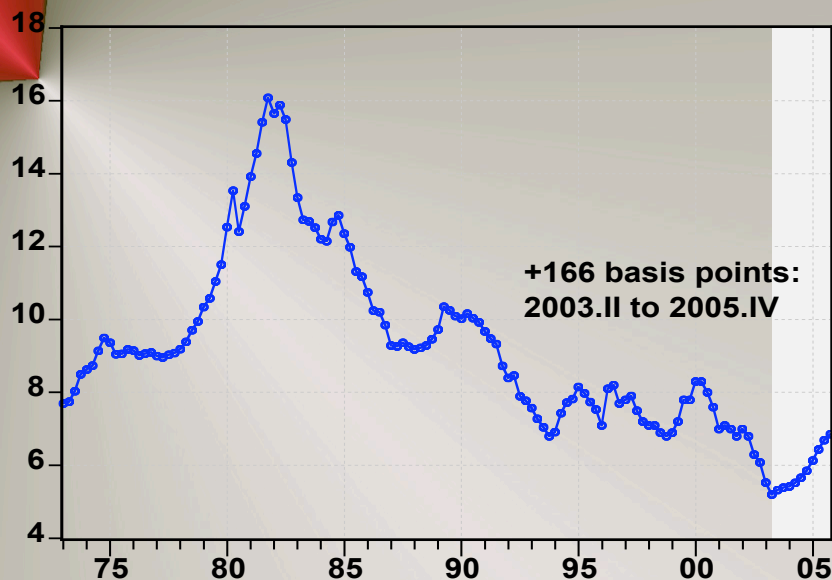
Why Value of \$ Falling?

- **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 of 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



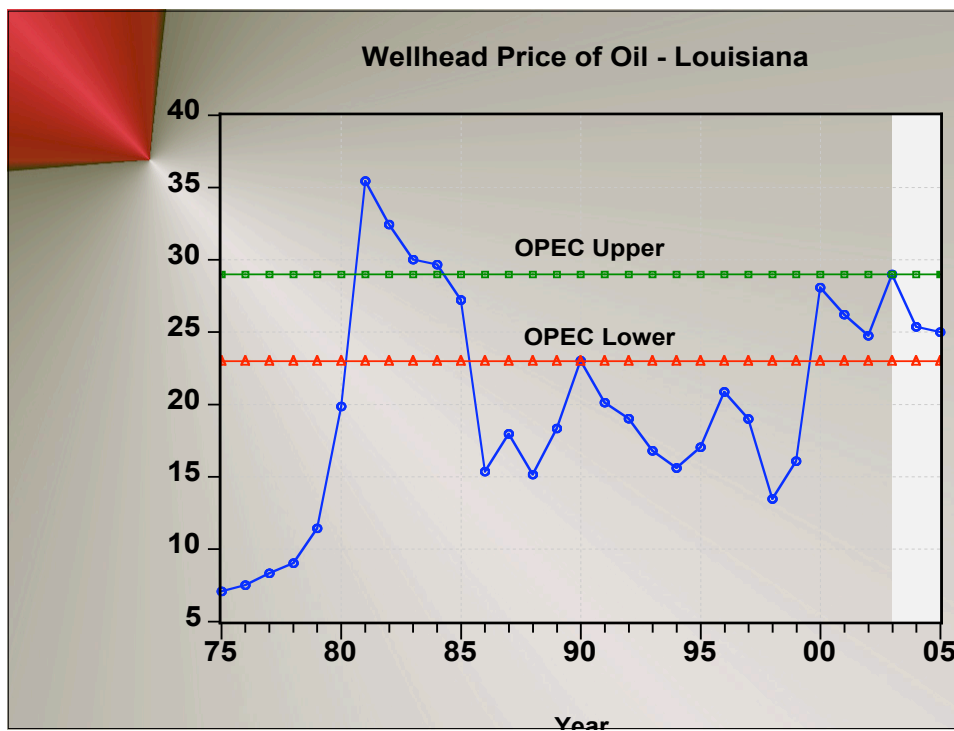
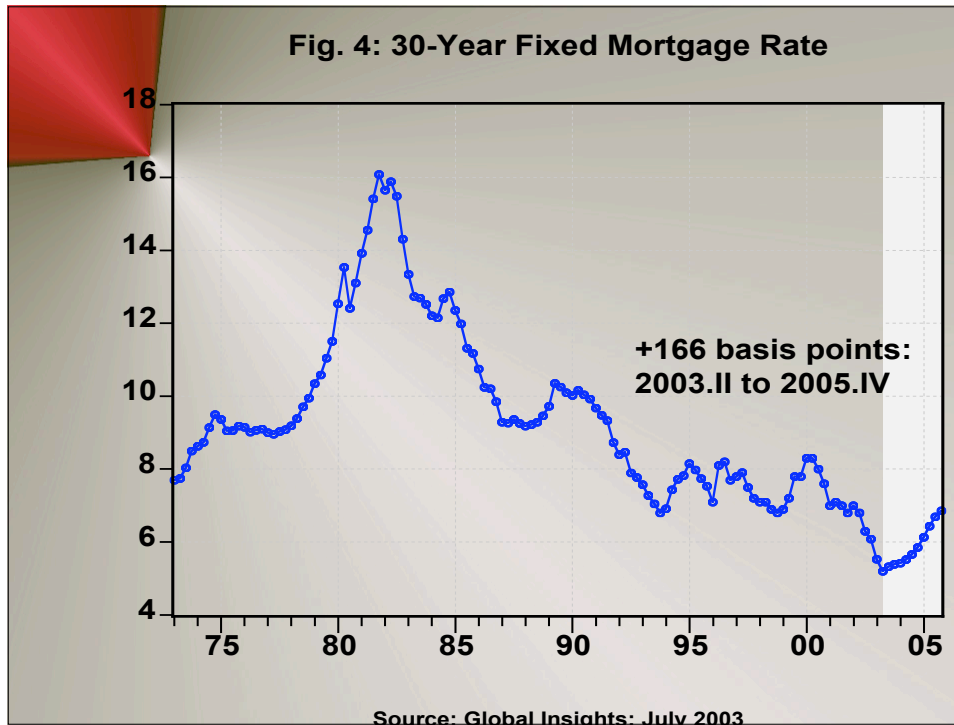
Source: Global Insights: July 2003

Components of Interest Rate

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

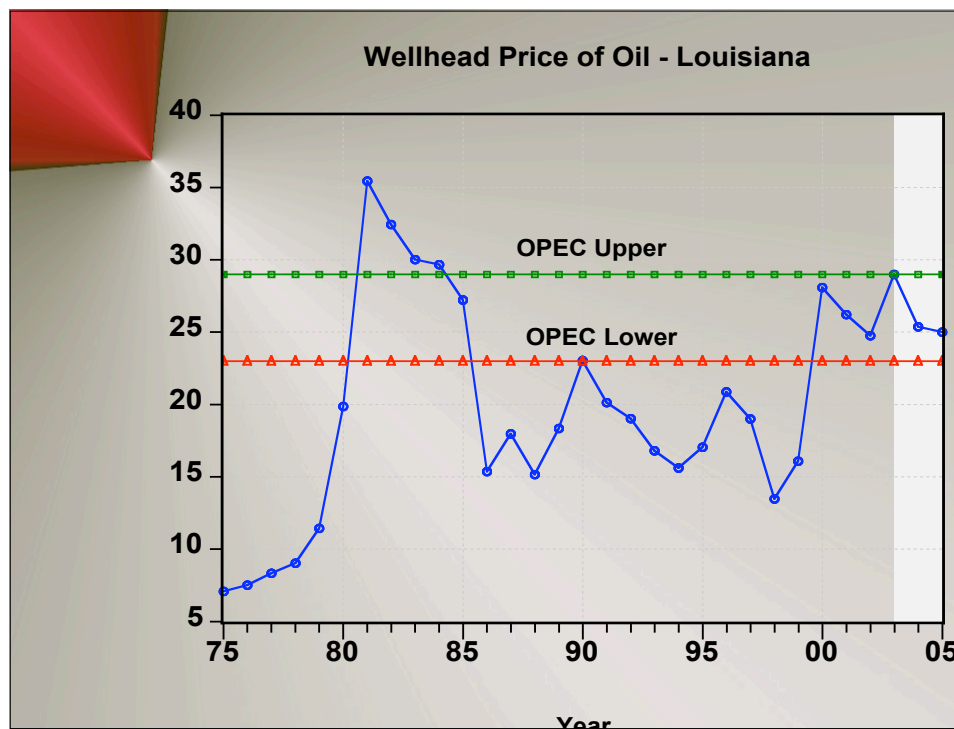
CPI Forecasts: Global Insights

- | <u>YEAR</u> | <u>CPI</u> |
|-------------|------------|
| • 2001 | 2.8% |
| • 2002 | 1.6% |
| • 2003 | 2.2% |
| • 2004 | 1.2% |
| • 2005 | 1.9% |



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)**

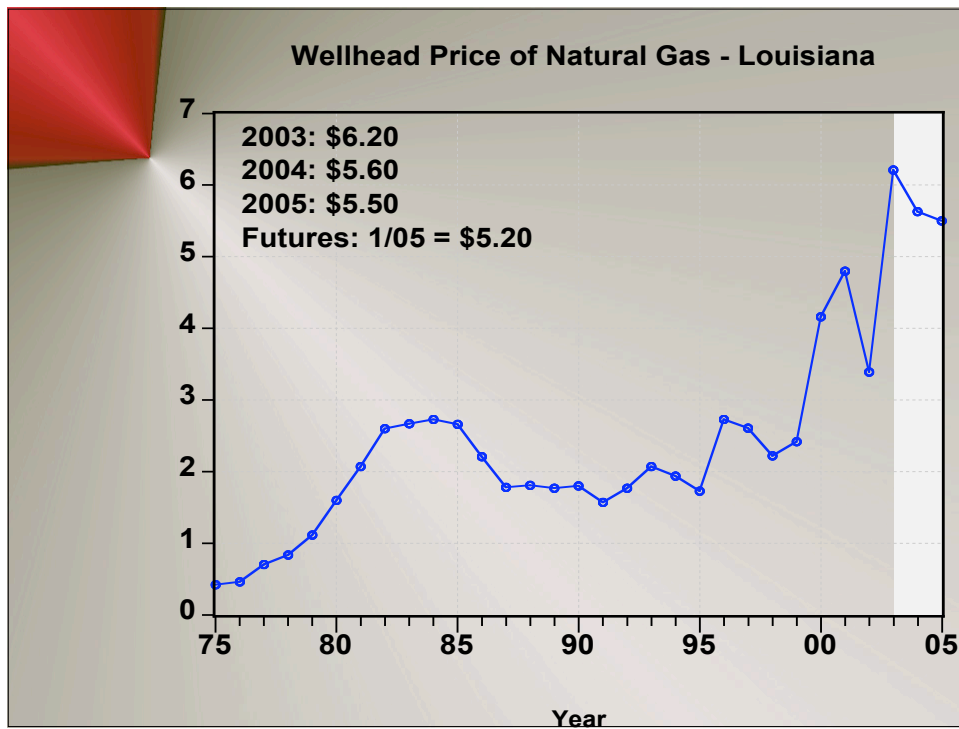
Latest “Blonde” Story

“I lost my 710 cap.”



Oil: Worldwide Market

Natural Gas: Regional Market



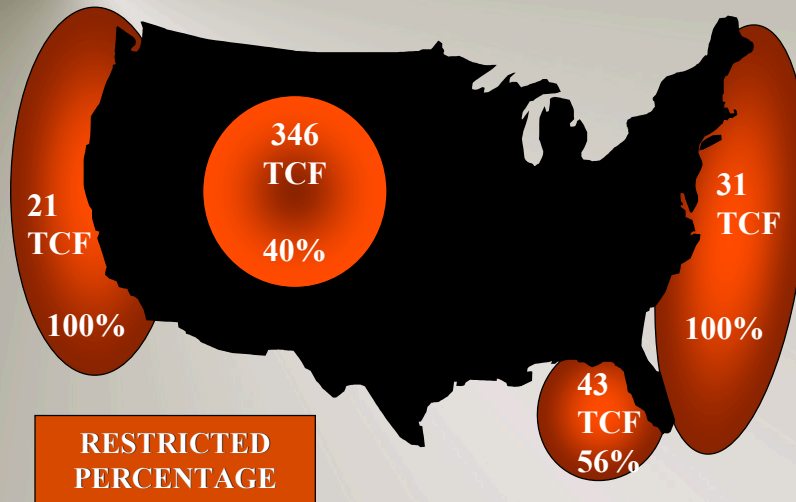
Demand Side:

- **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

Resource Estimates - Restricted Areas Estimated Percentage Restricted



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

<u>Quarter</u>	<u>Global Insight</u>	<u>Concensus</u>
03-I	1.4%	1.4%
03-II	3.1%	3.1%
03-III	4.6%	4.7%
03-IV	3.8%	4.0%
04-I	4.2%	3.9%
04-II	3.5%	3.8%
04-III	5.0%	3.8%
04-IV	4.1%	3.5%

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!**



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