

# COUNCIL OF ECONOMIC ADVISORS

## MINUTES

Monday, March 10, 2003

2:00 - 4:00 p.m.

State Capitol - Room 223

### MEMBERS PRESENT:

ASHDOWN, Neil	DEA/GOPB
ROBSON, Jim	DWS
BURKS, Jeff	UEO
BARBER, Brad	Wquirh Institute
JEX, Doug	DCED
WOLCOTT, Andrea	Federal Reserve
MATTHEWS, Kelly	Wells Fargo
ROVIG, Lance	DEA/GOPB

### OTHERS PRESENT:

JOHNSON, Sara	Global Insight Inc.
LAUBE, Doug	Global Insight Inc.
HOUSTON, Janice	Utah Foundation
KEMP, Jon	DCED/Travel
WILLIAMS, Tom	Tax Commission
KATAYEMA, Leslee	Tax Commission
DALTON, Jamie	DNR/Parks & Rec.
BRILL, Thomas	DNR/Utah Energy Office
FARR, Justin	DEA/GOPB
DONNER, Peter	DEA/GOPB
VERMA, Neena	DEA/GOPB
DICARO, Sophia	DEA/GOPB
WALTERS, Clara	DEA/GOPB

### Call to Order/Introductions

Neil called the meeting to order and introduced Sara Johnson and Doug Laube of Global Insight Inc.

Sara is Managing Director of the Global Macroeconomics Group at Global Insight (formerly DRI-WEFA). She assists Global Insight's clients by evaluating worldwide business and financial risks and opportunities. The Global Macroeconomics Group provides economic forecasts and analyses of over 150 countries as well as research studies of critical economic issues.

### Resolving Uncertainties: The U.S. Economic Outlook - Sara Johnson

**Global Insight Inc.**

Sara reported about the U.S. economic outlook. Highlights of her presentation are listed below:

- The U.S. recovery lost momentum in late 2002. Consumer spending is driving an expansion; income continues to rise, but household finances and confidence have weakened. Investment and hiring plans are on hold until the Iraq situation is resolved.
- There were 1.9 million jobs lost from March 2001 to February 2003. The jobless rate will decline for the 1<sup>st</sup> quarter and then show modest growth through the 2<sup>nd</sup> and 3<sup>rd</sup> quarters. The recovery forces are in place and a successful outcome in Iraq will set the stage for solid growth in late 2003 and 2004.
- The U.S. expansion will strengthen and show a 2.5% growth, rising to 4% throughout the summer. The overall picture is growth at 3.5% in 2004 and then settling back to 3% by 2007. Unemployment rates will go upward to 6.1% in the spring quarter, then the economy will strengthen and even out at 5% for 2004.
- World economic growth and global imbalances show too much dependence on the U.S. as a locomotive. There are asymmetric risks occurring across the globe. These include:

Another major terrorist attack, nuclear weapons in Asia, housing market bubbles, and policy inflexibility in Europe and Japan.

- Oil prices should remain in the \$35.00 range through the 2<sup>nd</sup> quarter and then retreat to a \$25.00 range by the end of the year and fluctuate in that general area for several more years. Natural gas prices have spiked. An unexpectedly cold winter, very low storage rates and disappointment on the supply side have created a tight market for natural gas. As a result, there is very little working gas in storage and supplies have been depleted. By the end of March it is projected that storage will be down sharply, about half the level of a year ago. Prices may go to the \$4.00 range by the end of the year. The tightest supply situation is in the Eastern states, so prices will be highest there over the next few months. The problems on the East coast will cause ripple effects in the West.
- Overall price and wage inflation will stay in the moderate range. The projected consumers price increase will be 2 to 4%. The spike in inflation right now reflects energy cost increases and as energy prices retreat, inflation will come back down. Labor costs are not expected to decelerate below 3% and will increase to the 3/5% range.
- Military spending has peaked back to the 1980's level, with Utah benefitting from defense contracts. Federal and state budget balances are in deficit. The swing in the federal balance will dwarf the adjustments taking place in state and local governments. After this year the federal stimulus will begin to wind down and the federal budget will remain in deficit for the remainder of this decade.
- The first Federal Reserve increase will come in September, if the economy strengthens later this summer. By 2006 the Federal Funds rates will get back to about 5%. Mortgage rates are expected to raise back up to 8% by 2006. As the economy strengthens, housing will become more vulnerable.
- There may be capital losses for a couple of years. State and federal government have sustained losses that can off-set future gains, so they are not looking for significant revenue gains for awhile.

Sara also discussed equity values, corporate profits, debt burdens, and consumer spending. The stock market will rebound, and consumer spending growth will pick up. One of the driving factors of the recovery will be the automotive market. She mentioned structures are down sharply and this was the worst post war business cycle for business investment in structures. Office vacancy rates are up due to too much construction during the 1990s creating a problem when hi-tech markets turned downward. On the equipment side of investments, there will be a long-range upward trend in computers and software's share and the GDP (Gross Domestic Product) will come back strongly.

The final piece of her presentation concerned foreign trade. This will be one factor supporting the economy this year. The U.S. will continue to see import growth, but should see a recovery in export growth. The dollar's depreciation will help to facilitate that recovery, as will strong growth in the Asian markets and a gradual turn-around in the Latin American markets. There won't be much change in Europe and Japan, but most of the major markets will see some growth and that will translate into a new demand for U.S. exports.

- The U.S. current account deficit is widening. The dollar in the past year has depreciated about 12% and will depreciate more. The dollar will rebound once the Iraq conflict is over, but then resume depreciating. In December the dollar should be no lower than it is today.
- The western and southern regions lead in job growth. Utah's downturn has been greater than the nation's as a whole, but it is expected to get back on track this year, with employment growth beginning this spring and continuing on until 2004.

Sara gave the website for Global Insight as, [www.globalinsight.com](http://www.globalinsight.com) and invited those present to visit their website and access various studies Global Insight has posted.

**Other Business:**

Neil told the group they could access the CEA web page for agendas, minutes, and presentations of meetings.

**Adjourn:**

The meeting adjourned at 3:15 p.m. The next meeting will be announced at a later date.