

COUNCIL OF ECONOMIC ADVISORS

MINUTES

Monday, September 23, 2002

2:00 - 4:00 p.m.

State Capitol - Room 223

MEMBERS PRESENT:

ASHDOWN, Neil	DEA/GOPB
NELSON, Ray	BYU
GOCHNOUR, Natalie	Governor's Office
MACDONALD, Doug	Utah Tax Commission
KNOLD, Mark	Workforce Services
JEX, Doug	DCED
GODFREY, Bruce	USU
WOLCOTT, Andrea	Federal Reserve
MATTHEWS, Kelly	Wells Fargo
ROVIG, Lance	DEA/GOPB

OTHERS PRESENT:

ABEBE, Berhanie	SLC Corp
ROBERTS, Susan	SLC Corp
ZANDI, Mark	Economy.com
VAN DER VATE, Barbara	Census Bureau
KATAYAMA, Leslie	Utah Tax Commission
DEVINE, Jason	Census Bureau
WARD, Lynne	GOPB
CANNON, Matt	GOPB
SANCHEZ, Sara	Utah Foundation
ALLRED, Jon	DNR - Energy
WILLIAM, Tony	USTC
COX, Neil	JVWCD
HOUSTON, Janice	Utah Foundation
ANDERSON, Rich	SLC Corp
WOOD, James	U of U BEBR
KEMP, Jon	Utah Travel Council
BON, Roger	UGS
PERLICH, Pam	U of U BEBR
SPENDLOVE, Robert	DEA/GOPB
DONNER, Peter	DEA/GOPB
VERMA, Neena	DEA/GOPB
DICARLO, Sophia	DEA/GOPB
FRISBY, Scott	DEA/GOPB
WALTERS, Clara	DEA/GOPB

Call to Order/Introductions

Neil called the meeting to order and mentioned the 2003 production schedule that had been placed at each member's seat. He reminded them of the timetable for topic chapters and then turned the time over to Sophia to explain how she would like the material sent to her.

Neil requested that the Economic Report to the Governor (ERG) drafts be in by the end of November, which will allow all the chapters to be distributed at the December CEA meeting for discussion before they are sent in for printing.

Economic Outlook for Utah and the Nation - Economy.com - Mark Zandi

The nation is in a tentative economic recovery, but there is fragile investor confidence and that is a significant economic threat. The nation was on track through June and July until the CEO scandals came to the forefront. It short circuited the recovery.

The recovery will struggle and remain intact, supported by resilient productivity growth, low interest rates, and a stimulating fiscal policy. The recession began in 2000 and will probably not end until December of 2003. By this time next year he expects revenues to improve. The leading economic indicators fell and that suggested the economy is still struggling, but tax

revenues are expected to rebound as the recovery gains traction.

One of the pre-conditions of recovery is financial market improvement. The nature of job recovery thus far has been poor, so far it's currently comparable to a decade ago. The key to the similarity is a decade ago the problem was the banking system or thrifts, this time the problem is similar because it's the financial system again, but now it's a credit crunch.

Many states are still in recession. Some are expanding, others are in a deep recession, and then there are those with flat economies. Utah could still be in a deep recession, though it may also be flat. Jobs are the most important statistic when measuring a recession.

Revenue growth data shows a negative growth year. There is a decline in corporate, as well as personal, taxes. Consumers have been a bright spot in the economy, but there is a negative wealth effect. When wealth declines, consumers hold back on spending.

There are several reasons for optimism,

- 1) Productivity growth remains resilient. It's different from ten years ago, consumers have been able to hold out because they didn't lose jobs and there was solid stable competition with income growth.
- 2) Corporate profits have stabilized and if consumers buy products, it will keep productivity from going down.
- 3) Lower interest rates are supporting the housing demand. New and existing home sales are strong. Price gains help offset the slowdown in actual number of sales. That in turn lifts homeowners' equity and ignites mortgage borrowing. Housing is more important to people than stock right now.
- 4) Significant fiscal stimulus in spending growth. While the revenue growth has gone down, spending growth has risen. This could possibly be the strongest growth in spending since World War II.
- 5) Profits have stabilized and will soon rise. Stabilization of labor costs shows a difference between labor and pricing. Labor costs are the most important costs and there is cost saving in labor now.

Business should step up, but that won't happen soon in the financial markets. One of the three conditions for a pick up in business that has moved into place is, stabilization of profits and has happened because of cost cuts. Businesses have sliced costs. Labor costs are falling too, in part, because of continued growth and competition, falling at a rate that's well below even this low rate of inflation. The difference between them is a very good proxy for which way profit margins are heading.

Right now consumers, the federal government, and inventory rebuilding are all adding to growth and subtracting from growth are business investment and the trade balance. To get to a higher level of growth all that's required is business investment to stop falling.

Business investment will lead us out of the recession. There needs to be a spark and confidence and credibility are important to recovery. It will take time for this economic change to happen, hopefully change will be seen by next year.

Drought will also have an effect on the economy. Water will continue to be a large issue for economic development for the next 10 to 25 years.

**Census Bureau Estimates & How They Relate to Utah: - U.S. Census Bureau
Jason Devine and
Barbara van der Vate**

The Census Bureau uses data already present and puts them together. Utah was ranked 34th in overall population size on July 1, 2001. It ranked 20th in numeric and 11th in percent change between Census 2000 and July 1, 2001. It was estimated to have 2,269,789 people, showing an increase of 36,620 people since Census 2000. Utah has the largest ratio of birth to deaths, 2.7 births for every death. Utah's increase in population was mainly due to natural increase.

The federal law requires the Census Bureau to do estimates. They use population estimates from states and counties and local areas of a certain size to fulfill that requirement. Uses of the estimates are for controls for federal surveys, denominators for statistical rates, number of Senate clerk hires and general program planning. All data can be accessed from the Census Bureau's website (www.census.gov). The data is in either Excel or PDF format.

The Federal-State Cooperative Program for Population Estimates (FSCPE) was formalized in 1973 and put in place to promote cooperation between states and the Census Bureau, prepare consistent county and subcounty estimates, improve and advance estimates methodology, and enhance the recognition of local demographic work.

The national methodology looks basically at births, deaths, net international migration, and net federal movement (federal government employees and people in the military living outside the United States).

The state and county methodology looks at the national, state, and county levels and uses a basic component method: Population = Beginning Population + Births - Deaths + Net Migration ($P^2 = P^1 + B - D + NM$). Census 2000 is the base for this methodology, with a different source used for the under 65 and over 65 in the Net Migration Component. Group quarter populations are calculated separately.

The State and County Component Method is used to regulate the county population to a national estimate and the sum is the controlled county population for each state, with the data distributed to the controlled county population and on down to the sub-county level.

Subcounty subdivision methodology is based on the change in housing units from the last Census at the subcounty level and is used to distribute the estimated county population. The basic components of the housing unit changes are: residential construction, mobile home placements, and housing unit loss. The Subcounty Group Quarters data are taken from the same source as County Group Quarters data.

Estimated residential construction is based on building permits (compiled by the Census Bureau's Manufacturing and Construction Division - MCD). Non-permitted construction is estimated from the annual survey of construction and Census 2000 data.

Mobile home placements are based on state mobile home shipment data distributed to the subcounty area's share of the state's mobile homes in 1990. The Census 2000 short form did not contain mobile home data, it's only in the long form, so they are waiting for the long form data to come out. The mobile home data are no longer a 100% Census item.

The subcounty distributive housing unit method is calculated as: sub-county housing units = residential construction + mobile home placements - housing unit loss. The Census uses each subcounty area's housing unit, based on household population estimate to distribute the county household population. It is then added to the Group Quarters Population and the sum of the housing unit estimates to state and county level housing unit estimates. This is a new area for Jason's group. In the past they only calculated housing units estimates of households to the state levels. They have incorporated this level of data due to the huge demand of data users requesting that information.

National, state, and county housing unit estimates are used to get national, state, and county estimates. Corrections are made at the county level to ensure that housing unit estimates are consistent with county population estimates.

Future directions for the Census are:

- 1) Improve dissemination of estimates by improving design of the web releases, meet the needs of data viewers and "data crunchers", use the American Fact Finder where appropriate, increase use of analytical materials to accompany releases, and expand production of analytical reports.
- 2) Introduce methodological enhancements by improving estimates of international migration, use the latest boundaries in subcounty estimates, improve state and county age, sex, race, and Hispanic origin estimates, increase involvement of FSCPE and SDC, and integrate ACS and Special Census Results with estimates.
- 3) Maintain timeliness of estimate releases:
 - a) National and state totals (July 2002 estimates in December 2002)
 - b) County totals (July 2002 estimates in April 2003)
 - c) Subcounty totals (July 2002 estimates in July 2003)
 - d) State and county age, sex, race, and Hispanic origin (July 2002 estimates in July 2003)
 - e) State and county housing units (July 2002 estimates in August 2003)

Jason gave his address and telephone number for anyone wishing to contact him:

Jason Devine - jason.e.devine@census.gov (301) 763-2385