COUNCIL OF ECONOMIC ADVISORS
MINUTES
Thursday, November 20, 2003
2:00 - 5:00 p.m.
State Capitol - Room 223

MEMBERS PRESENT:

ASHDOWN, Neil	DEA/GOPB
BURKS, Jeff	UEO
MACDONALD, Doug	Tax Commission
MATTHEWS, Kelly	Wells Fargo
ROVIG, Lance	DEA/GOPB
JEX, Doug	DCED
WOLCOTT, Andrea	Federal Reserve Bank
KROES, Steve	Utah Foundation
BARBER, Brad	Barber Consulting

OTHERS PRESENT:

ZANDI, Mark	Economy.Com
SARGENT, Austin	DWS
WOOD, Jim	BEBR/U of U
HARVEY, John	PSC
ALLRED, Jon	DNR/Energy
KATAYEMA, Leslie	Tax Commission
DEPAULIS, Palmer	Tax Commission
ROBERTS, Susan	Salt Lake City
KONTGIS, Susi	Salt Lake City
ROBSON, Jim	DWS
ELLIS, Richard	GOPB
DEGIVLIO, Terrah	GOPB
HOUGH, Megan	GOPB
JEFFERY, Phil	GOPB
QUICKSTROM, Arlene	GOPB
WALSH, David	GOPB
BENNETT, John	GOPB
CHECKETTS, Nate	GOPB
JARDINE, Stephen	GOPB
SPENDLOVE, Robert	DEA/GOPB
DONNER, Peter	DEA/GOPB
DICARO, Sophia	DEA/GOPB
FARR, Justin	DEA/GOPB
SUZUKI, Paul	DEA/GOPB

Call to Order/Introductions: Neil Ashdown

Neil called the meeting to order, asked the group to review past minutes and requested comments. There were no changes to the minutes. He asked Paul Suzuki to give an overview of the progress on the Economic Report to the Governor.

ERG Overview and Time Line: Paul Suzuki

Paul discussed when drafts of the chapters for the ERG needed to be turned in and edited. The release date for the ERG is January 8, 2004 at University Park Hotel. Governor Walker will accept the report and speak to those attending. Afterwards there will be a panel discussion on "Tax Structure and Reform" with Gary Conrnia leading the panel. Pat Bagley from the Salt Lake Tribune will be the luncheon speaker.

Economic Outlook: Mark Zandi, Chief Economist, Economy.com

Mark began with a short question and answer period on different subjects including, AT&T job loss, productivity growth, loss of coal production, real estate prices, budget deficits, and how they might affect Utah.

The broader economy looks like it's in good shape to build on the beginnings of the recent economic expansion. Mark does feel Utah's recovery may not be as strong as the rest of the country.
GDP growth was down in 2001, with small to mid-size companies closing. The trade gap

widened because of China’s trade and Mark believes it will grow wider in the coming months.

Regionally, the economy is improving, but on the whole, the country has been put through a lot. One common denominator in states that are still in recession is their dependence on big manufacturing companies, which have suffered because of the widening trade gap.

There are some states that remained flat (including Utah) and some states in the Southwest are beginning to grow due to defense contracts. Florida has done well because of defense and foreign money flowing into the southern part of the state and the Washington D.C. area and along the East coast are also doing well again because of defense and being health care oriented states. Several big pharmaceutical companies are headquartered there, plus health care oriented universities. Health care and educational services have been the two job growth generators throughout the recession recovery, because they are driven by demographics.

The near-term prospects for the national economy are positive for two fundamental reasons. First, very aggressive monetary stimulus (low rates) which will continue throughout 2004, and fiscal stimulus (tax cuts and increased Federal Government spending).

Long-term interest rates should rise early next year, probably between February and May and the dollar will rise with them. There has been less global demand for US stocks and bonds.

There was a question if terrorism will affect the investment system, but Mark feels the public won’t allow terrorism to interrupt their investment plans.

Mark discussed states’ past deficit spending by telling the group that states’ budget cuts would put a drag on the economy, but only by a small amount. Three years ago Utah was in surplus, since then the state has gone from a source of growth to constraint.

The economic expansion will not be led by vehicle and housing, rather they will put a constraint on Utah’s economy. Utah’s housing industry will go through some changes. The housing market will be very sensitive to the increase in interest rates. There has been too many houses constructed and mortgage rates will rise. Building will remain strong until late 2004 and early 2005.

There is another conduit by which the economy can be influenced. Homeowners are now being allowed to pull money out of their homes. A home has turned into a cash machine. Cash can be taken out in 3 ways, home equity borrowing, lines of credit, and cash out re-buys (refinance a home purchased). People use this money to pay off credit card debt, home improvement, and purchasing appliances, etc. Household debt is higher now than it has been in the past. If a family’s median household income is above the average of $50,000 (two incomes), they are doing fine, but if the median household income is below the average, there are a lot of bankruptcies across the nation.

Utah’s bankruptcy rate has been high, but will go down in 2004 because of job growth and reduction of unsecured credit (credit card debt). The key reason bankruptcies soared was due to credit card debt.

Doug Macdonald passed out a paper on forecasts produced by the Council and asked Mark to comment on the 2004 figures. Mark responded by going over the figures with the group one by one (See Consensus Forecasts sheet). With the exception of Retail Sales being slightly low, Mark said the figures looked acceptable.

Two things we have concerns about. One is loss of factories and back office, or call center jobs. That is a problem for some cities throughout the U.S. including Salt Lake City, because they depend on a low cost structure and now these cities are high cost. The second problem is distribution of income. The benefits should be spread widely among the population and the tax code doesn't help.

In summarizing, Mark said we should be optimistic. Businesses are hesitant to hire new workers now and some companies are using outsourcing for jobs. Fundamentally companies use these methods to keep costs down, because that trend will produce benefits that will be dispersed. Companies will become more aggressive and expand with jobs that are good paying jobs.

Products won't be produced as much in the United States, but the benefit comes in the support these products will require. The U.S. will be doing the financing, logistics, advertising, accounting, human resources, etc. These are all things around the product and services for the products that we will be doing for the companies outside of the U.S. This is where the value of the item rests and the reasons are we are the best-educated and skilled workforce, our infra-structure, and our stable political system. Productivity numbers are proof that it's happening now.

We should not be fearful of foreign countries catching up to us, because we will grow along with them through the services we provide. There is every reason to be optimistic for the long run.

Neil thanked Mark for his presentation and to those attending for their participation. The meeting was adjourned.

Adjourn:

The next meeting will be announced at a later date.