

Economic Insights – Current Conditions & Outlook

Amid Headwinds, Utah's
Fundamentals Remain Strong

January 12, 2023

Economic Report to the Governor



DAVID ECCLES SCHOOL OF BUSINESS

“May You Live in Interesting Times”

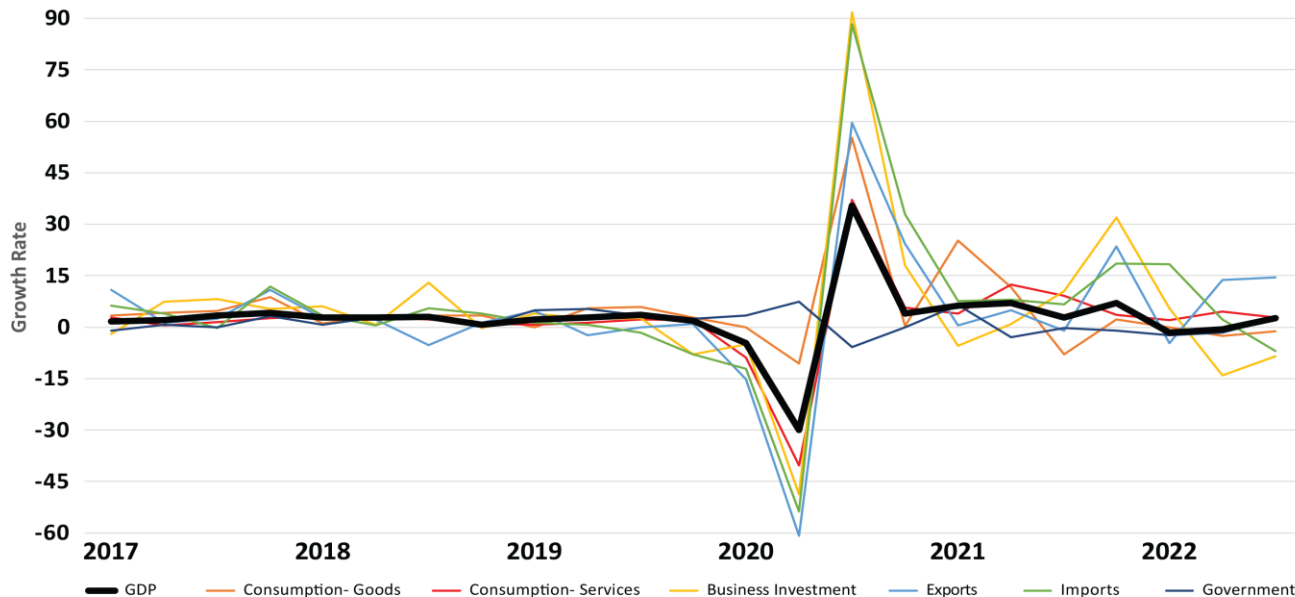
1. **Utah’s strong economic fundamentals** help us through the business cycle
2. **Under-appreciated economic strengths** provide economic buffers, while **increased interest rates** generate risk
3. **Key Takeaway - To prosper**, proactively **scenario plan to adapt quickly** when conditions change

The Challenge of Gauging Mixed Signals Amid Pockets of Strength and Weakness

“Give me a one-handed economist! All my economists say, ‘on one hand ... on the other.’ ”

Harry Truman (attributed)

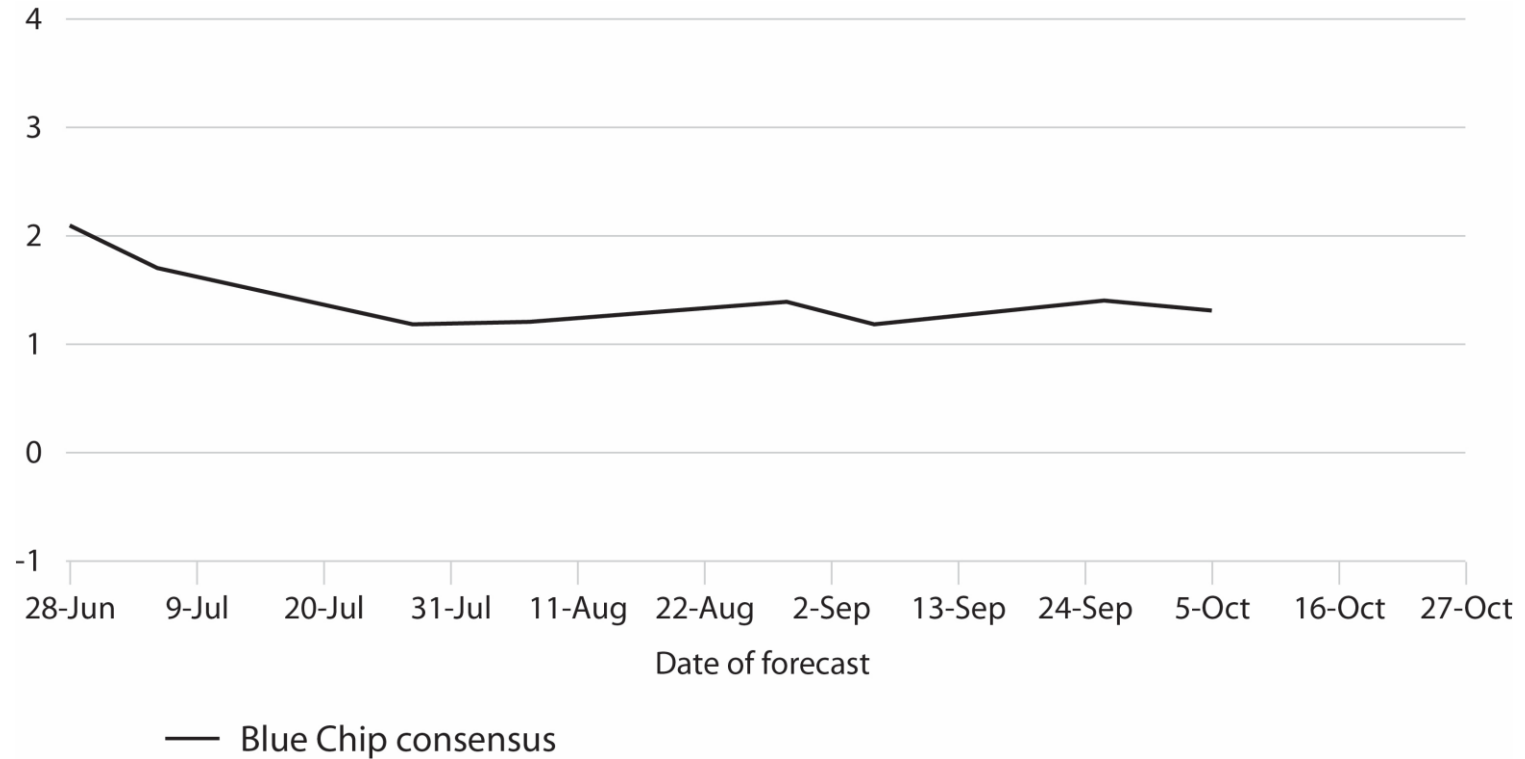
Ever-Shifting Pockets of Strength & Weakness in Components of U.S. Real GDP 2017-2022



- Total inflation-adjusted household consumption increased every quarter in 2022
- **BUT** shifted from goods to services

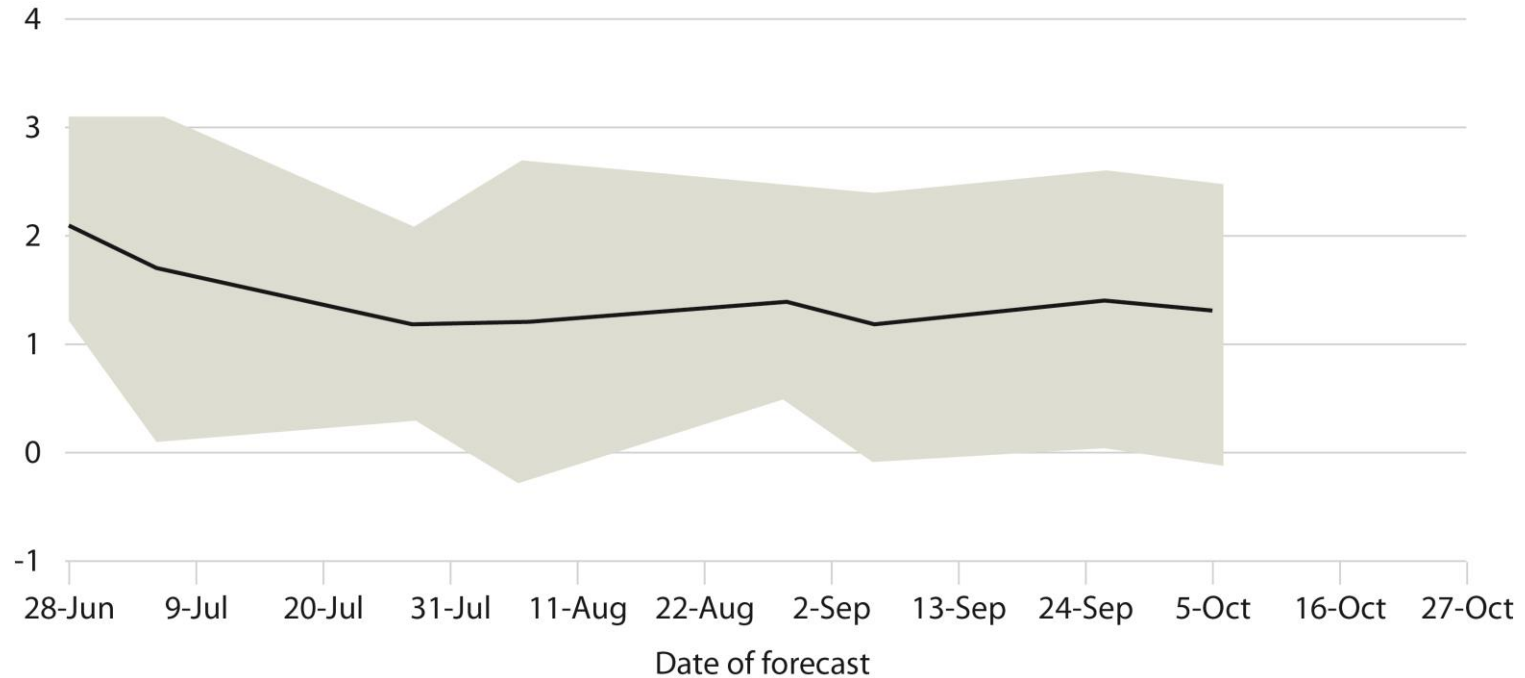
Source: U.S. Bureau of Economic Analysis

Blue Chip Forecasts Missed Q3 Growth



Source: Federal Reserve Bank of Atlanta

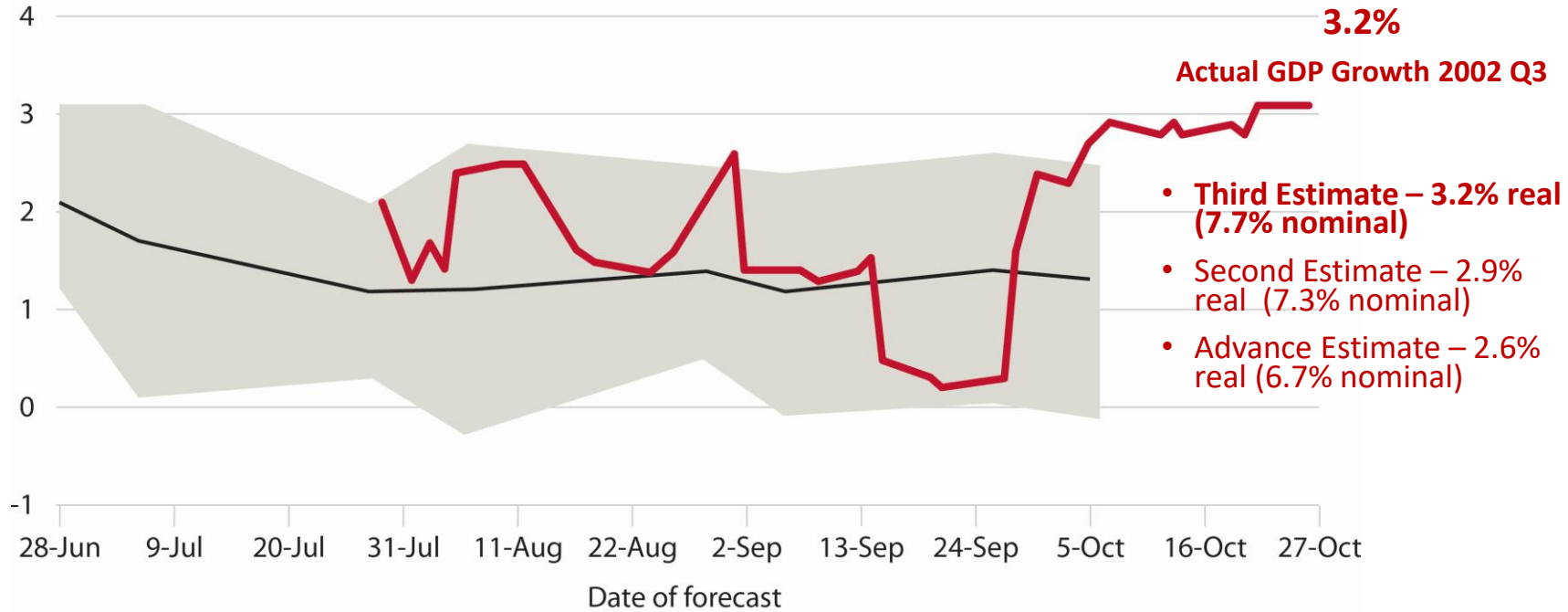
Blue Chip Forecasts Missed Q3 Growth



■ Range of top 10 and bottom 10 average forecasts — Blue Chip consensus

Source: Federal Reserve Bank of Atlanta

Blue Chip Forecasts Missed Q3 Growth



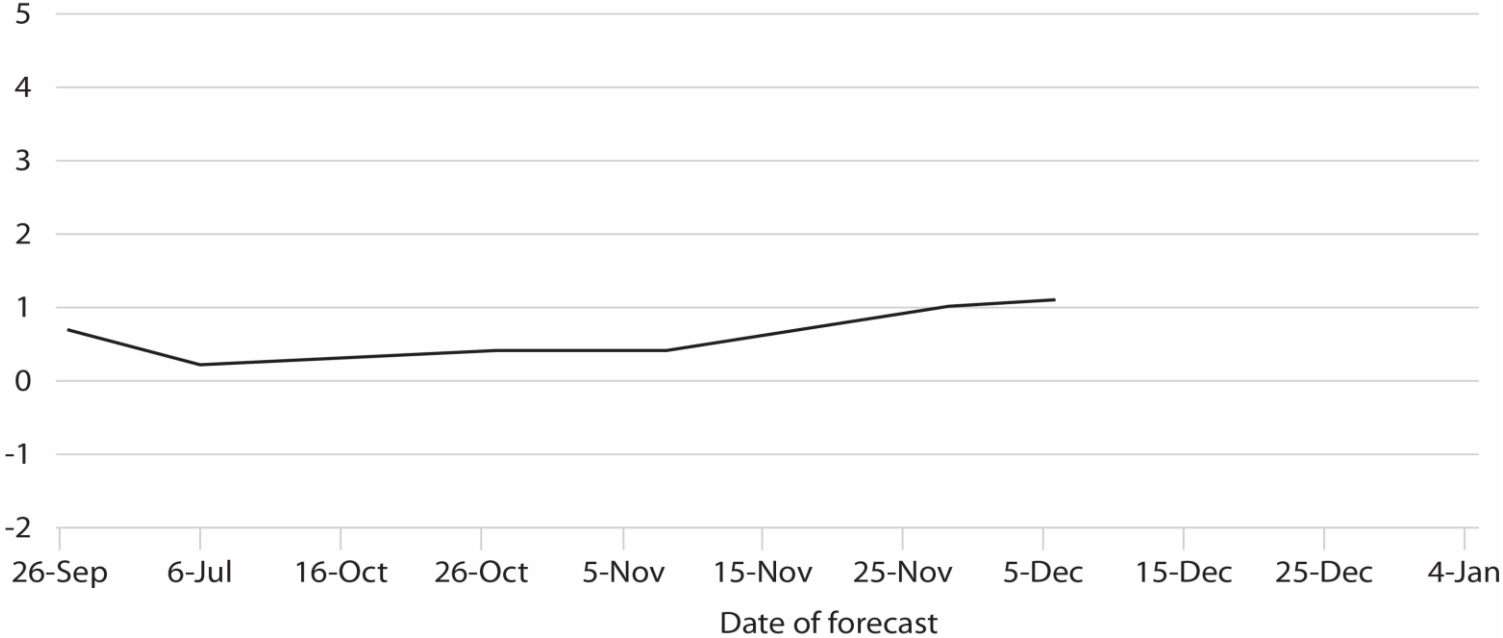
Range of top 10 and bottom 10 average forecasts

Blue Chip consensus

Atlanta FED GDPNow estimate

Source: Federal Reserve Bank of Atlanta

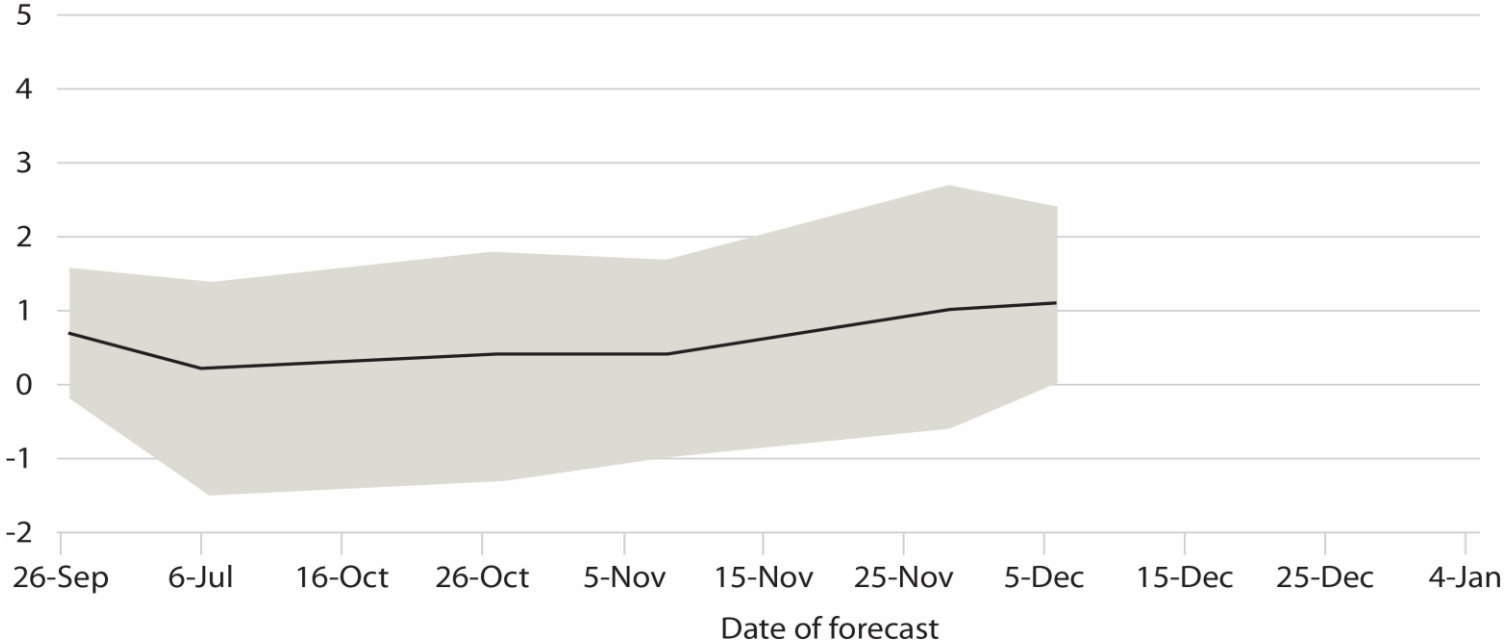
Blue Chip Forecasts Missed Q4 Growth Even More



— Blue Chip consensus

Source: Federal Reserve Bank of Atlanta

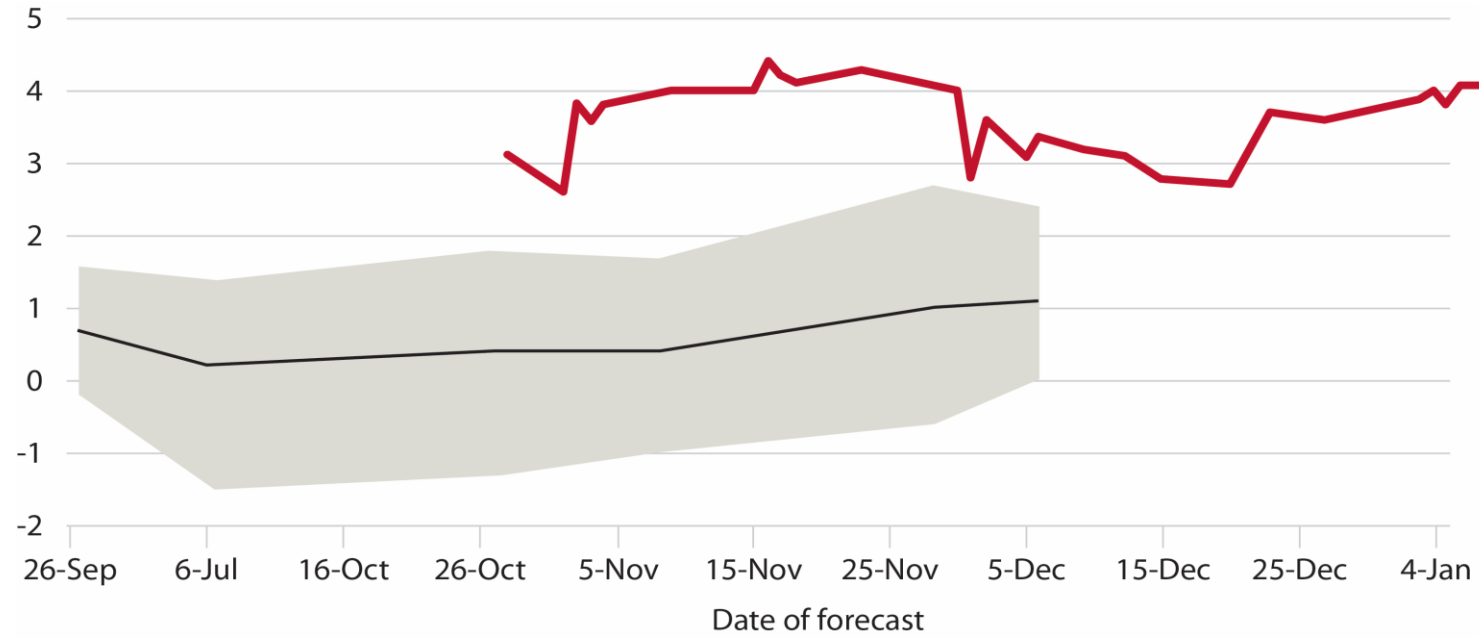
Blue Chip Forecasts Missed Q4 Growth Even More



■ Range of top 10 and bottom 10 average forecasts — Blue Chip consensus

Source: Federal Reserve Bank of Atlanta

Blue Chip Forecasts Missed Q4 Growth Even More



Range of top 10 and bottom 10 average forecasts
 Blue Chip consensus
 Atlanta FED GDPNow estimate

Source: Federal Reserve Bank of Atlanta

What Do We “Know” About the Economy?

“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”

Mark Twain (attributed)

A Three-Handed Utah Economist

“Forget Truman’s one-handed economist - Let’s go big in 2023! In fact, give me a three-handed economist! Wise leaders will proactively chart a course to not just survive, but thrive, long-term by preparing for different near-term scenarios.”

Gov. Cox (Imagined Quote)



Scenario 1 – Continuing Growth

Changing Forecast Tunes Recently....

JPMorgan Chase CEO Jamie Dimon sticks to hiring plans and dials back prediction of economic 'hurricane'

Published: Jan. 10, 2023 at 11:09 a.m. ET

By Steve Gelsi

Dimon says more dealmaking on Wall Street may return this year

Optimism Makes Comeback on Wall Street With Soft Landing Eyed

Kelly says pessimism is creating opportunities

FINANCE · ECONOMY

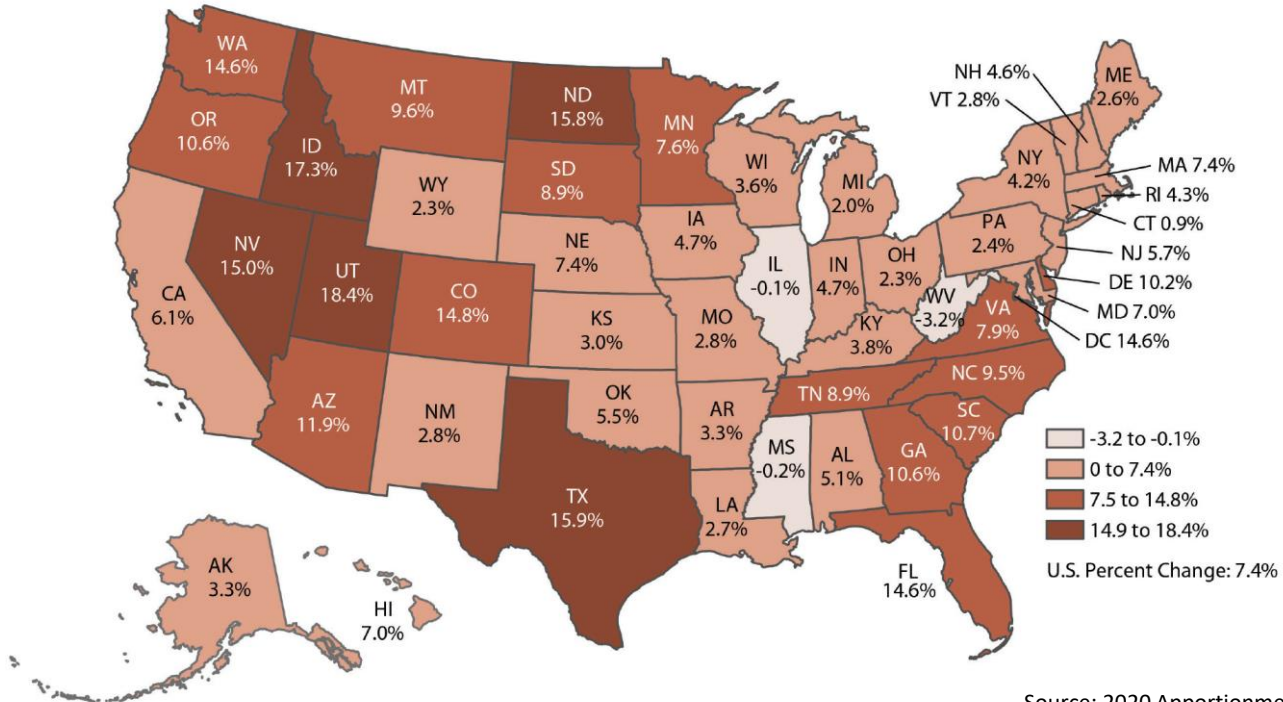
America might just do the impossible and avoid a recession, according to top economist Mark Zandi

BY WILL DANIEL

January 9, 2023, 10:43 AM MST

Mountain West and South Population Growth Led the Nation 2010 to 2020

Percent Change, 2010 to 2020 Census



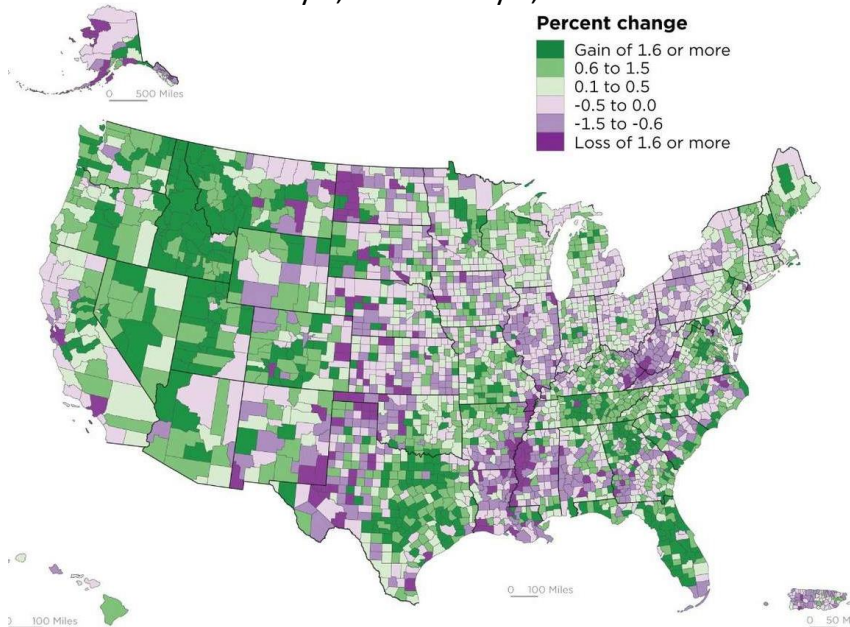
Source: 2020 Apportionment Data, U.S. Census Bureau

Mountain West and South Population Growth Continue to Lead the Nation

Percent Change, 2021 and 2022

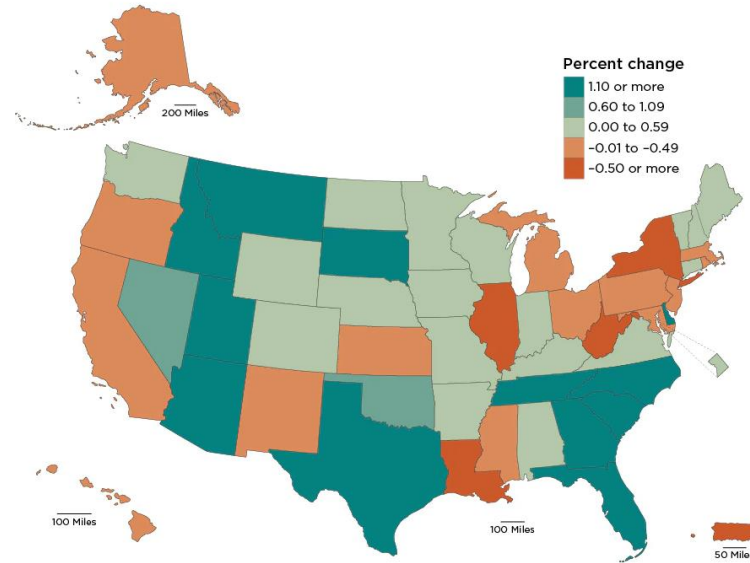
Percent Change in County Population:

July 1, 2021 to July 1, 2022



Percent Change in State Population:

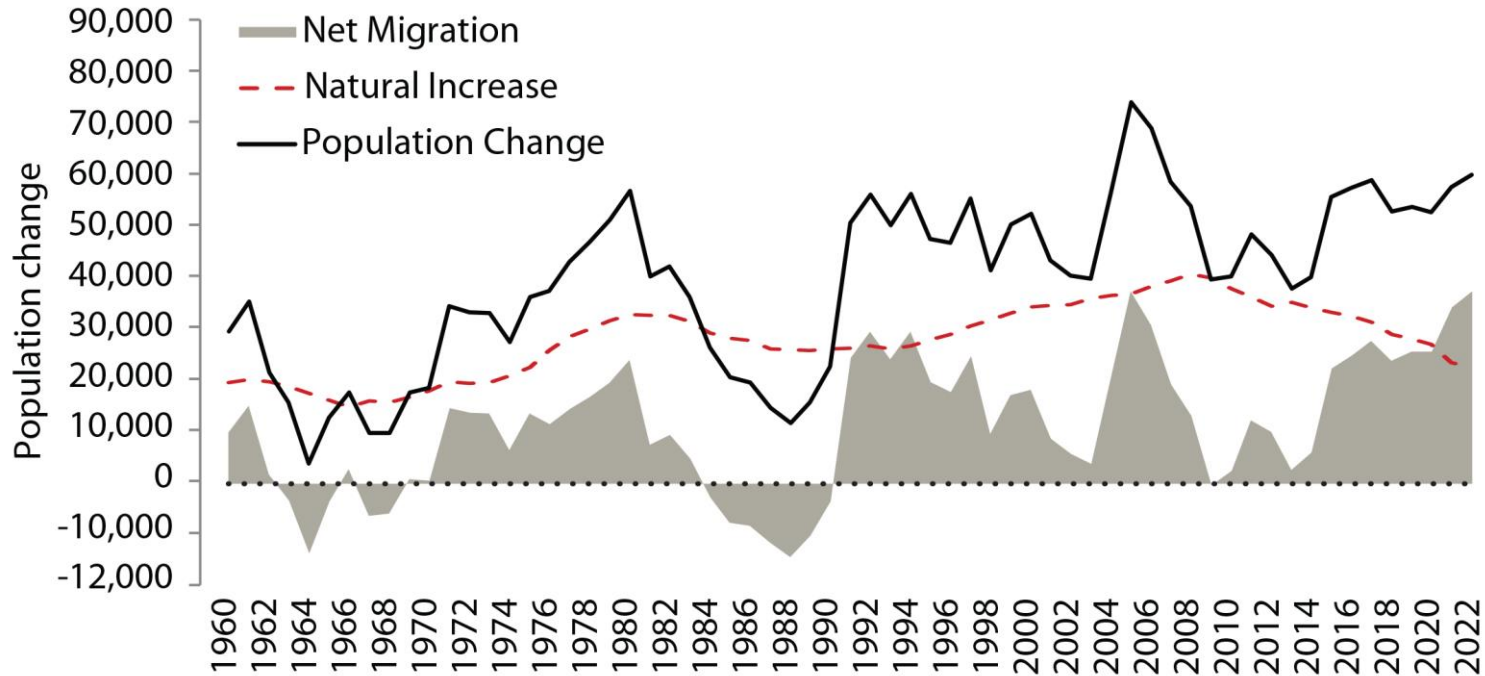
July 1, 2021 to July 1, 2022



Source: U.S. Census Bureau

More Growth From In-Migration

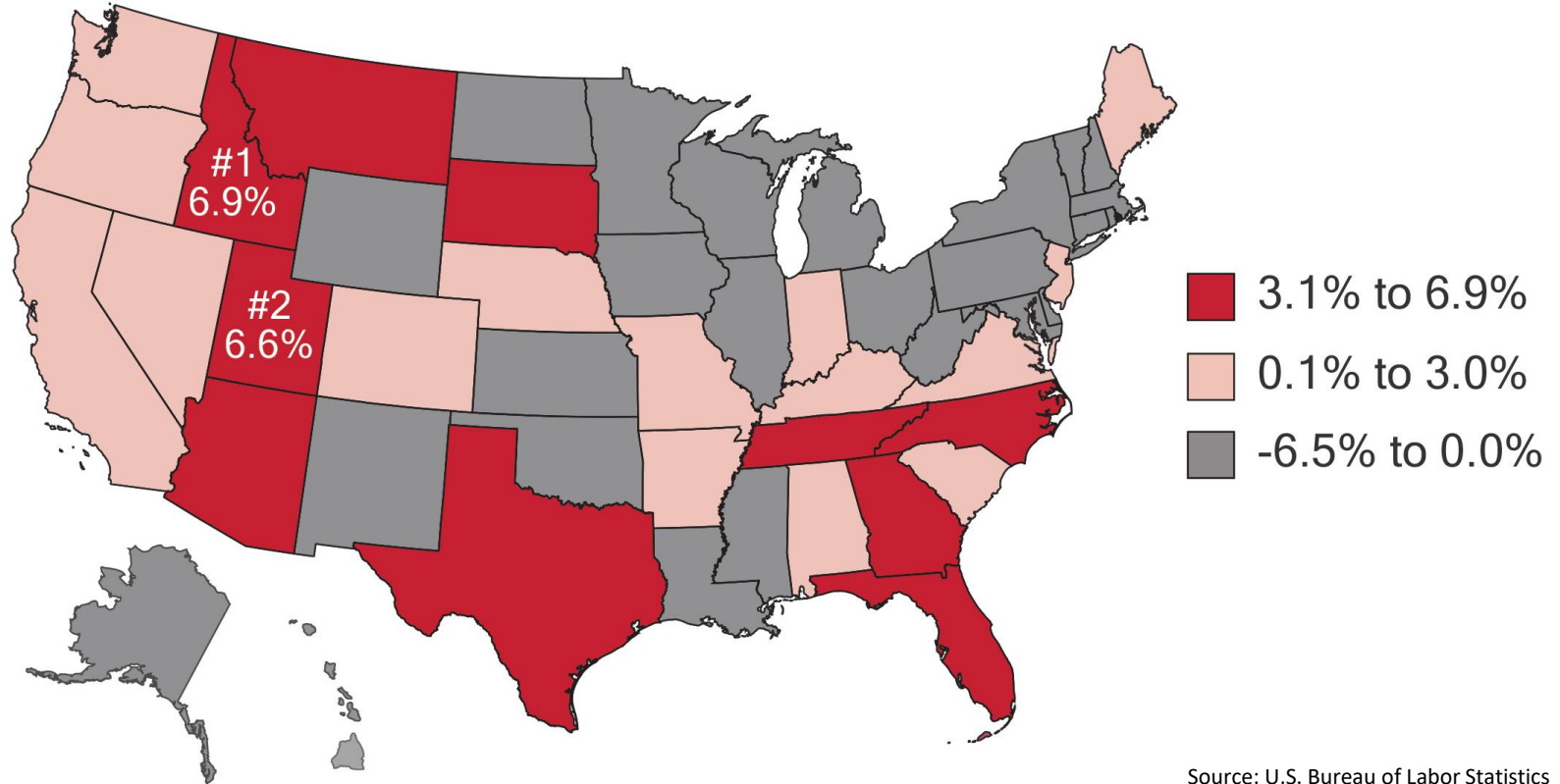
Utah Components of Population Change, 1960–2022



Source: Kem C. Gardner Policy Institute

Land of Opportunity = Mountain West & South

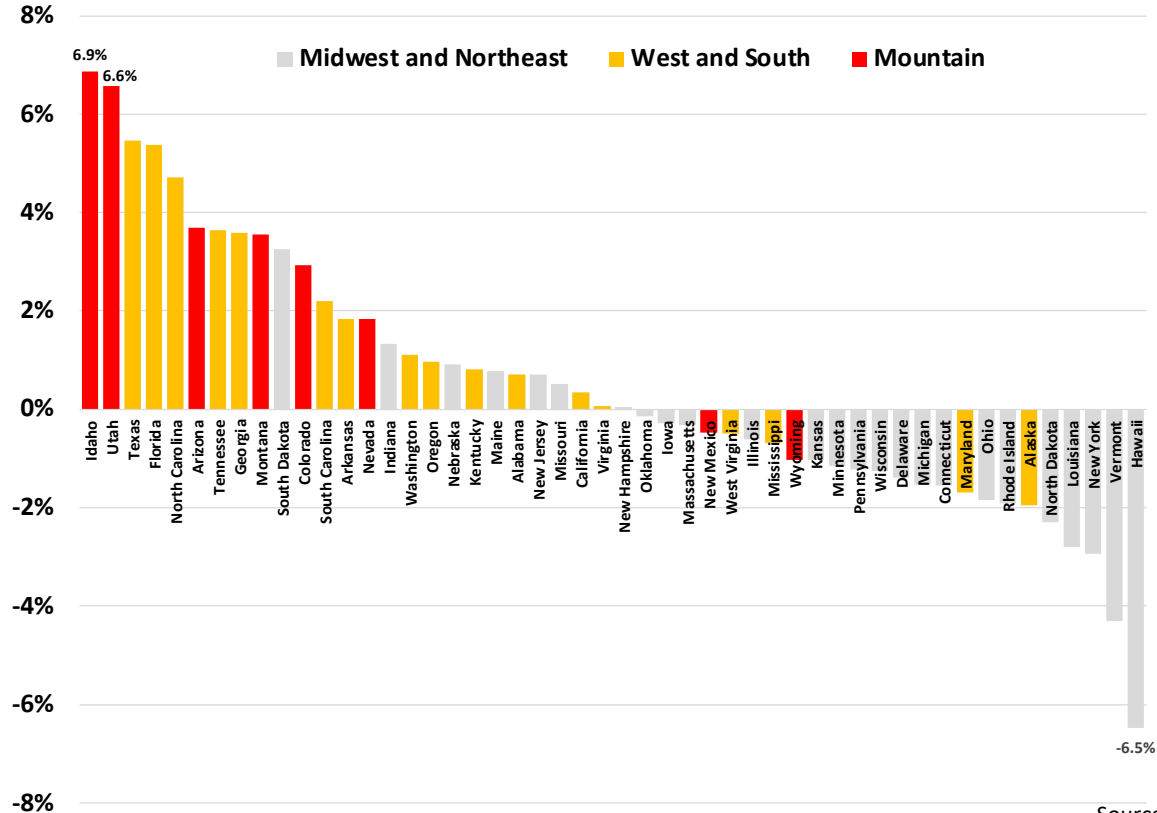
State Pandemic Jobs Recovery



Source: U.S. Bureau of Labor Statistics

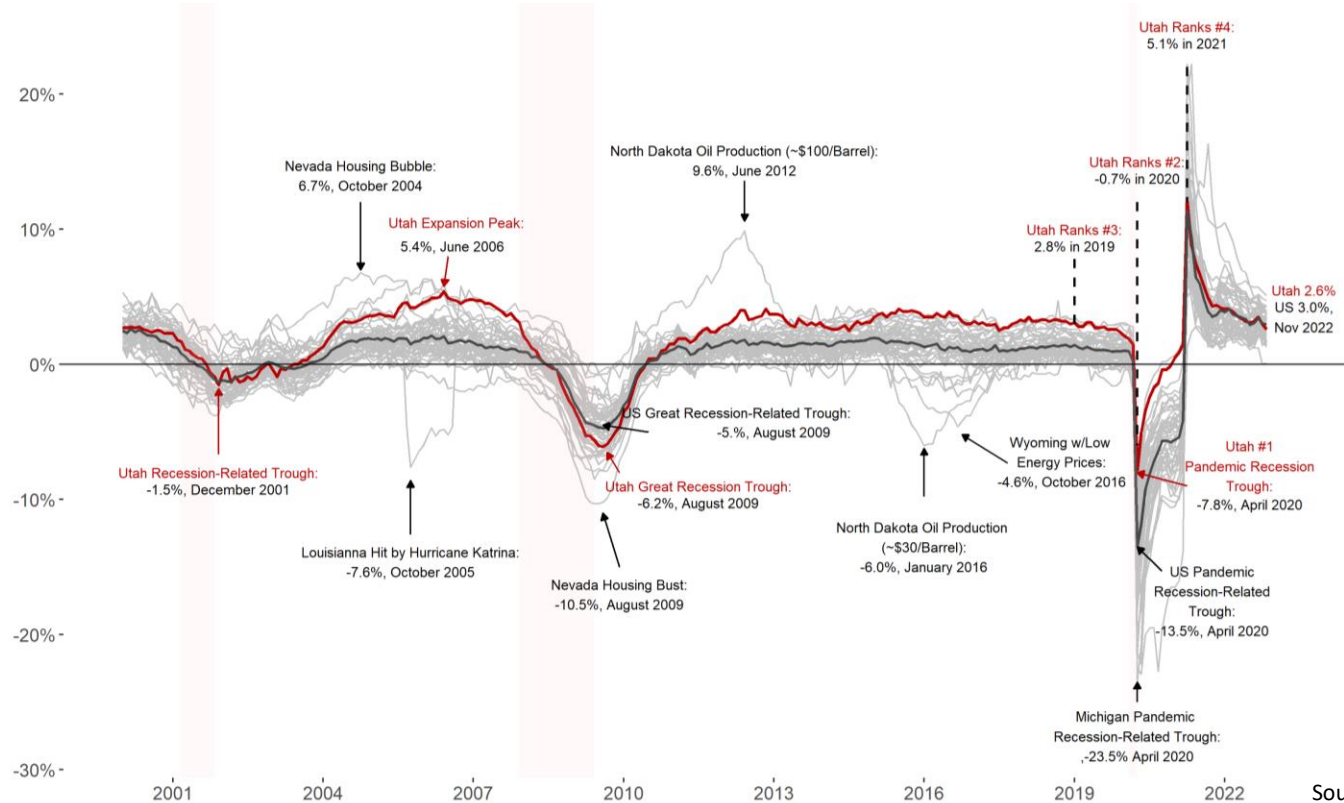
State Pandemic Jobs Recovery – Mountain West & South Lead

Employment Percent Change, Feb 2020 to Nov 2022



Source: U.S. Bureau of Labor Statistics

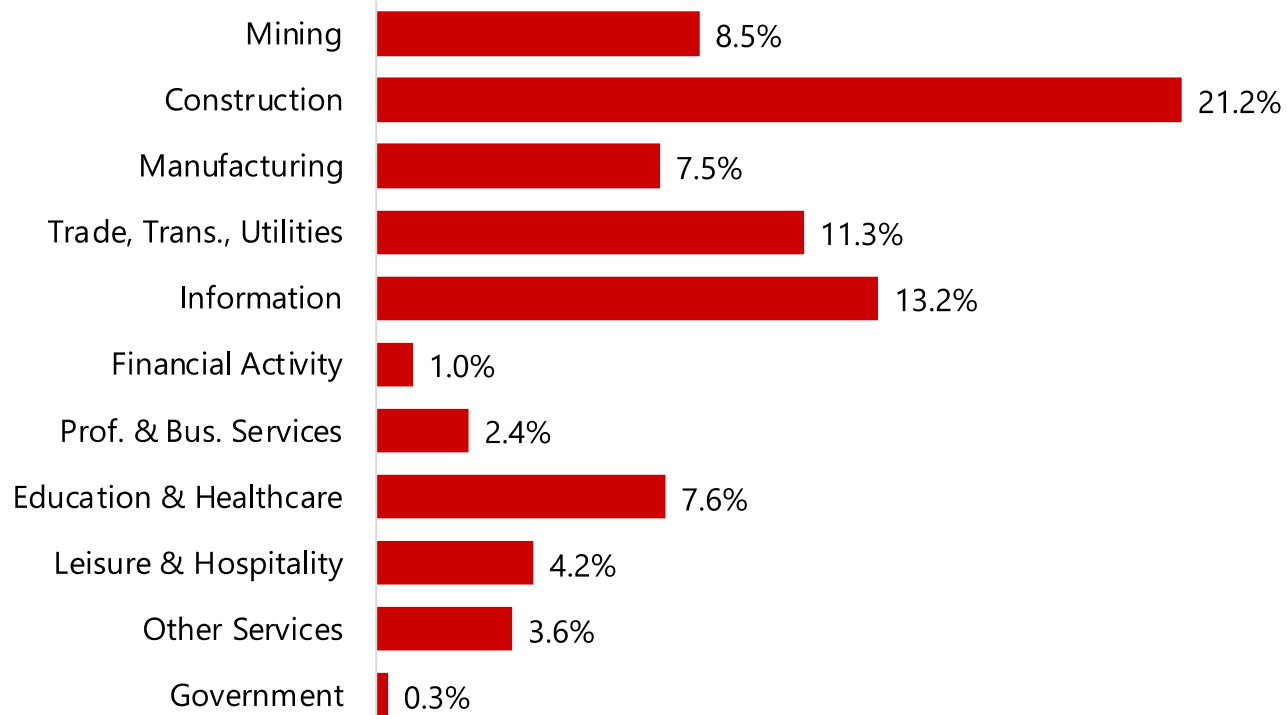
Strength Signal: Utah's Strong Long-Term Job Growth



- **Utah job grow consistently among highest state growth since Great Recession through pandemic**
- **Utah's early pandemic recovery obscures recent comparisons**

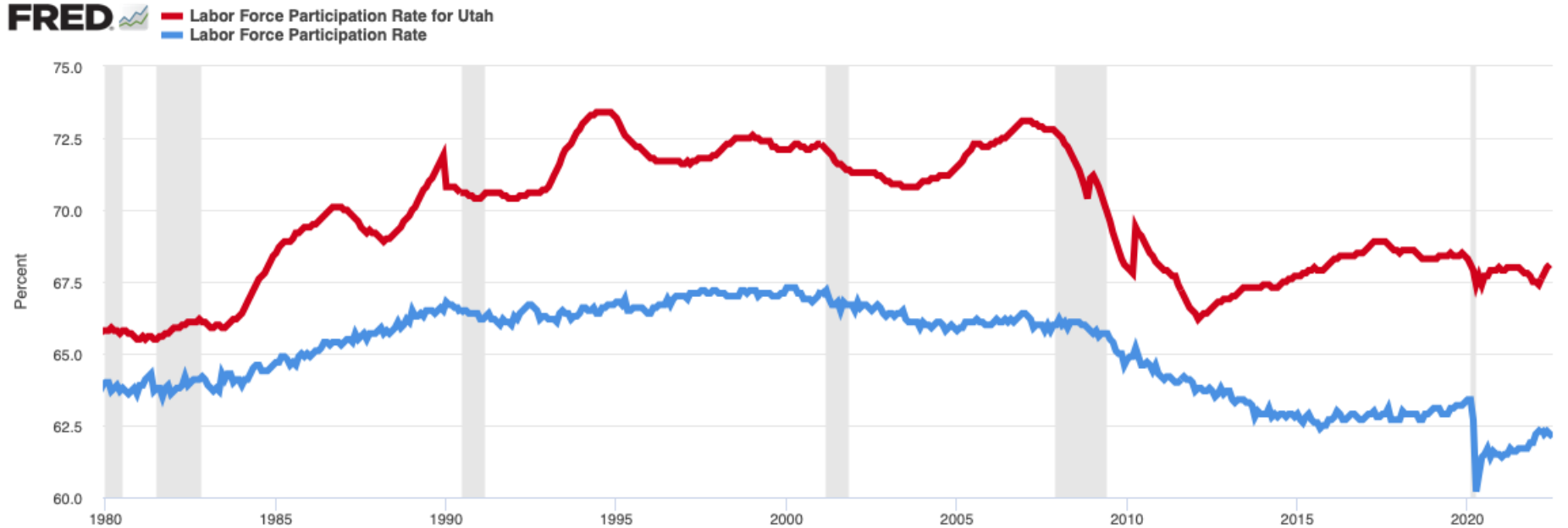
Source: Utah Governor's Office of Planning and Budget

Strength Signal: Broad-Based Utah Industry Growth Since Pandemic



Source: Utah Department of Workforce Services

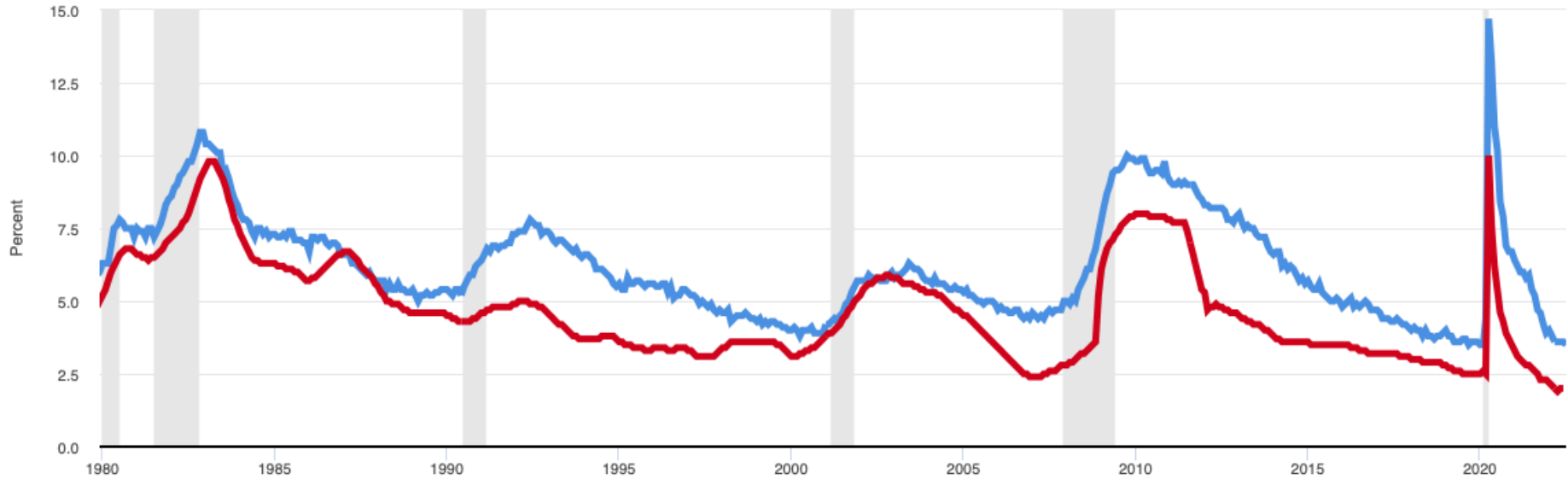
Strength Signal: Higher Utah Labor Force Participation



Source: U.S. Bureau of Labor Statistics

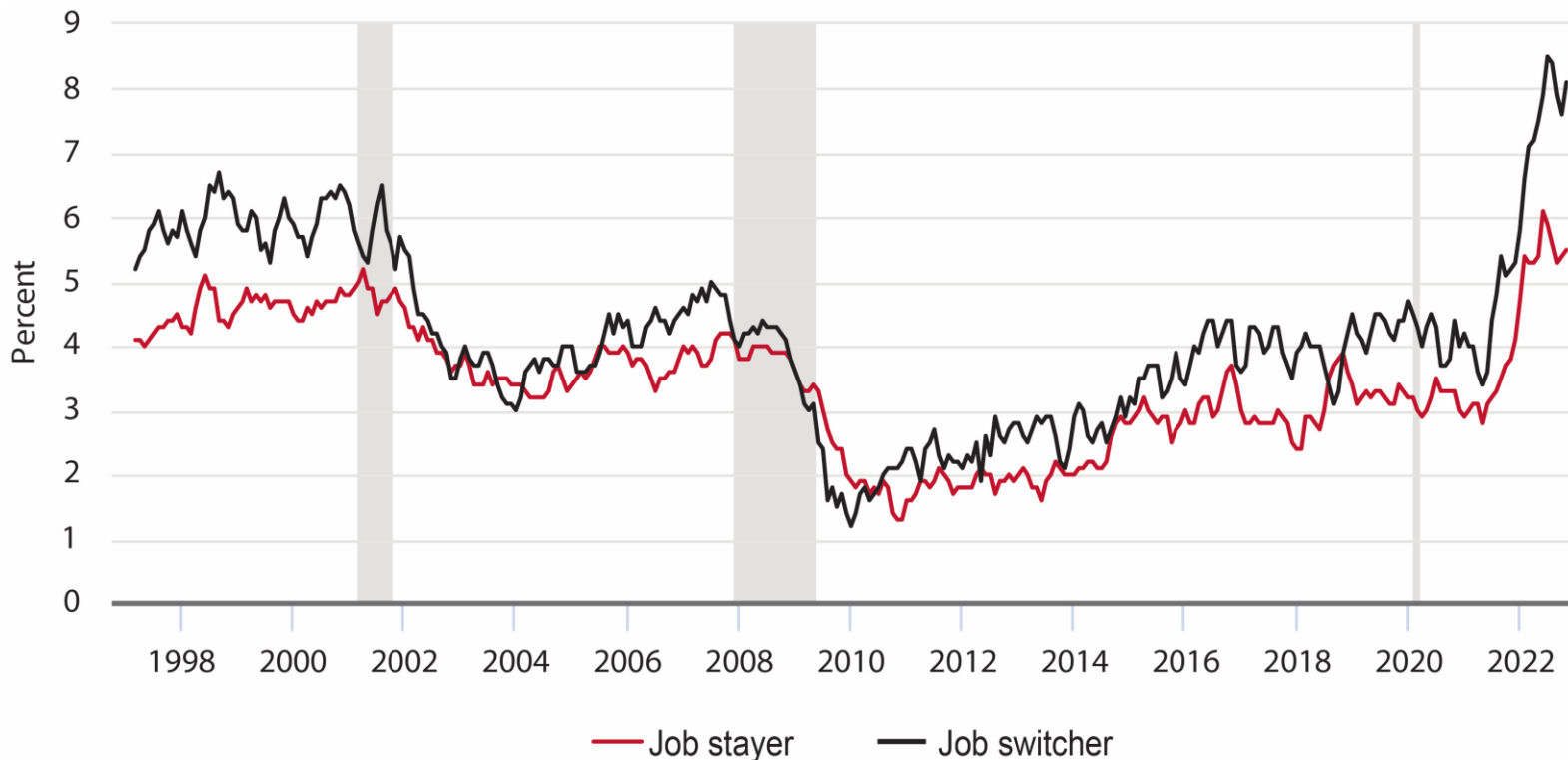
Mixed Signal: Tight Labor Markets

FRED  Unemployment Rate
Unemployment Rate in Utah



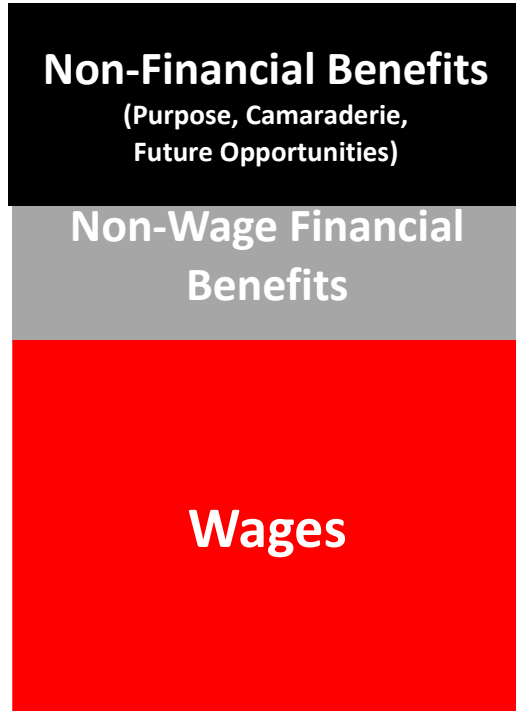
Source: U.S. Bureau of Labor Statistics

Mixed Signal: With Tight Labor Markets, Nominal Wages Increasing...



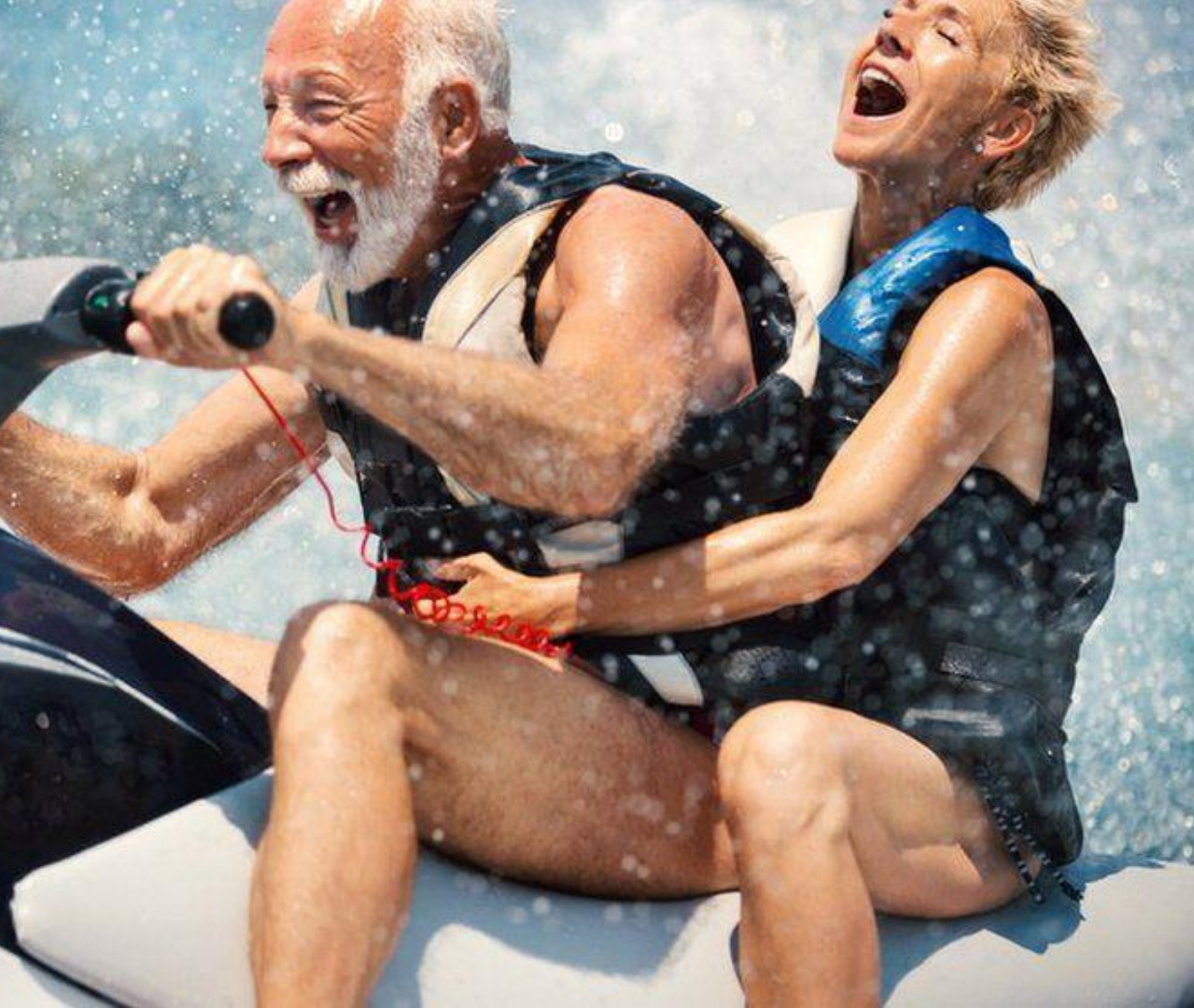
Source: Federal Reserve Bank of Atlanta from U.S. Bureau of Labor Statistics

What Incentives Employees to Work?

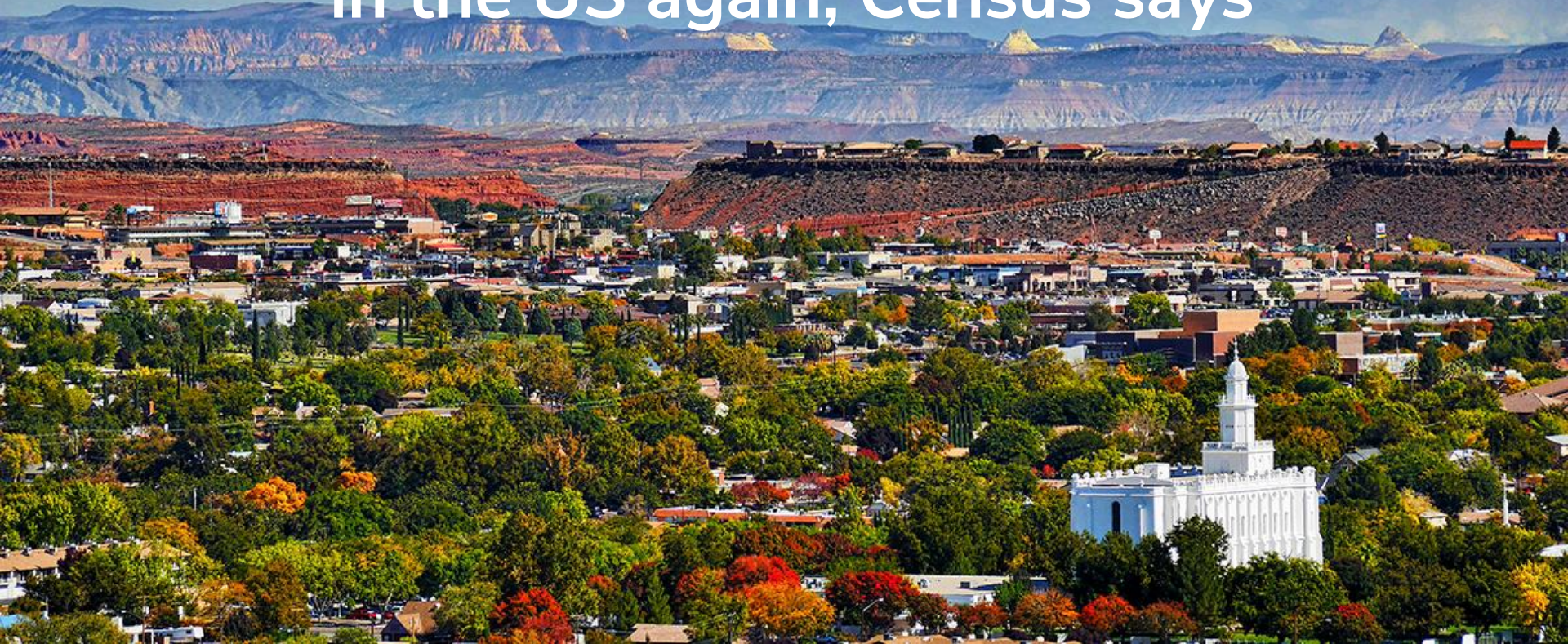


- **The days of always having cheap, readily available labor are over in Utah**
- **If needed, change your business model to strategically plan to attract and retain employees using:**
 - **Wages**
 - **Other Financial Benefits**
 - **Non-Financial Benefits**

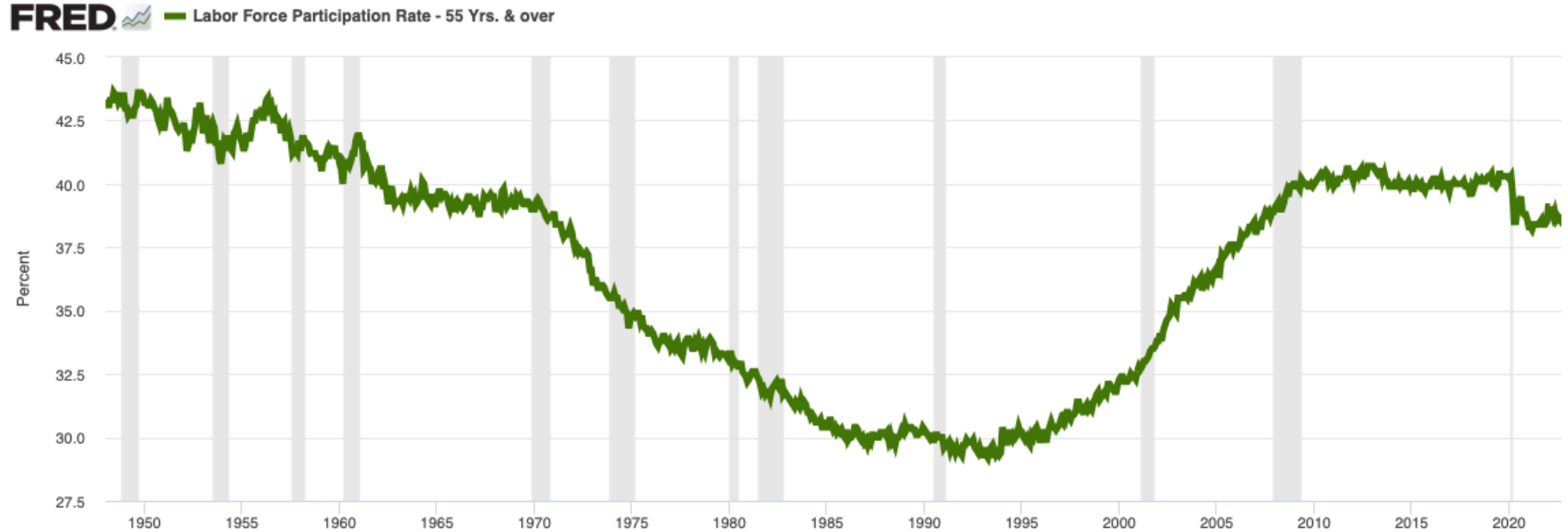
Where Did All the Workers Go?



St. George is the fastest-growing metro
in the US again, Census says

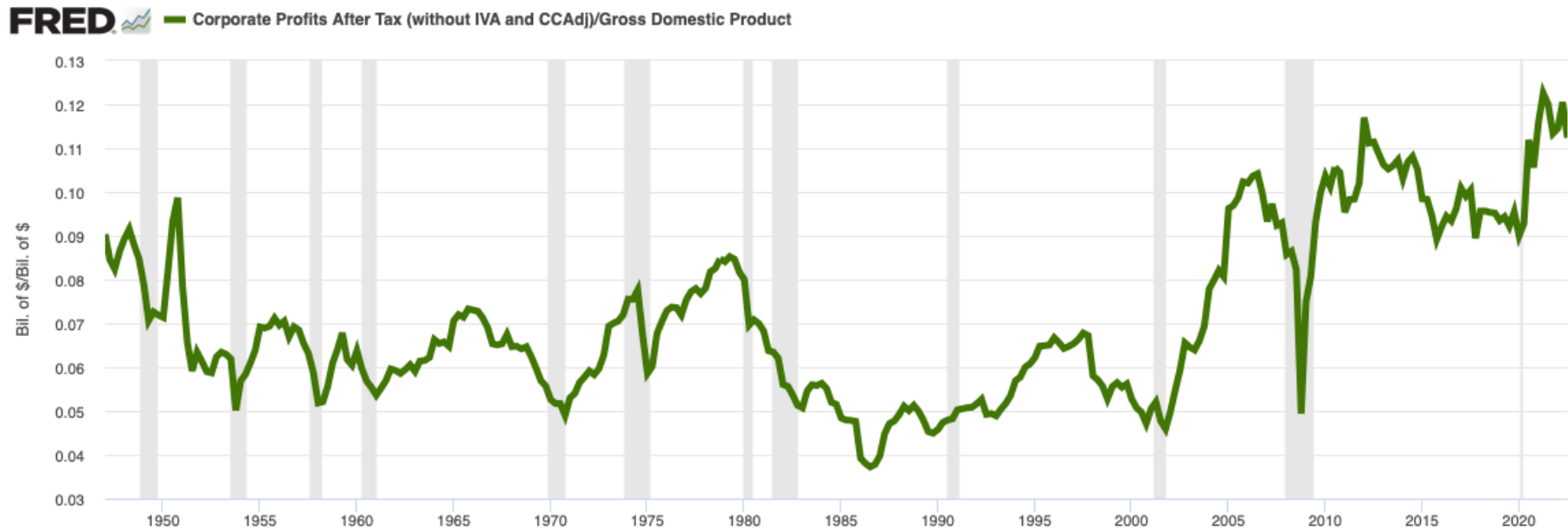


Baby Boomer Retirements Heavily Influence Labor Availability



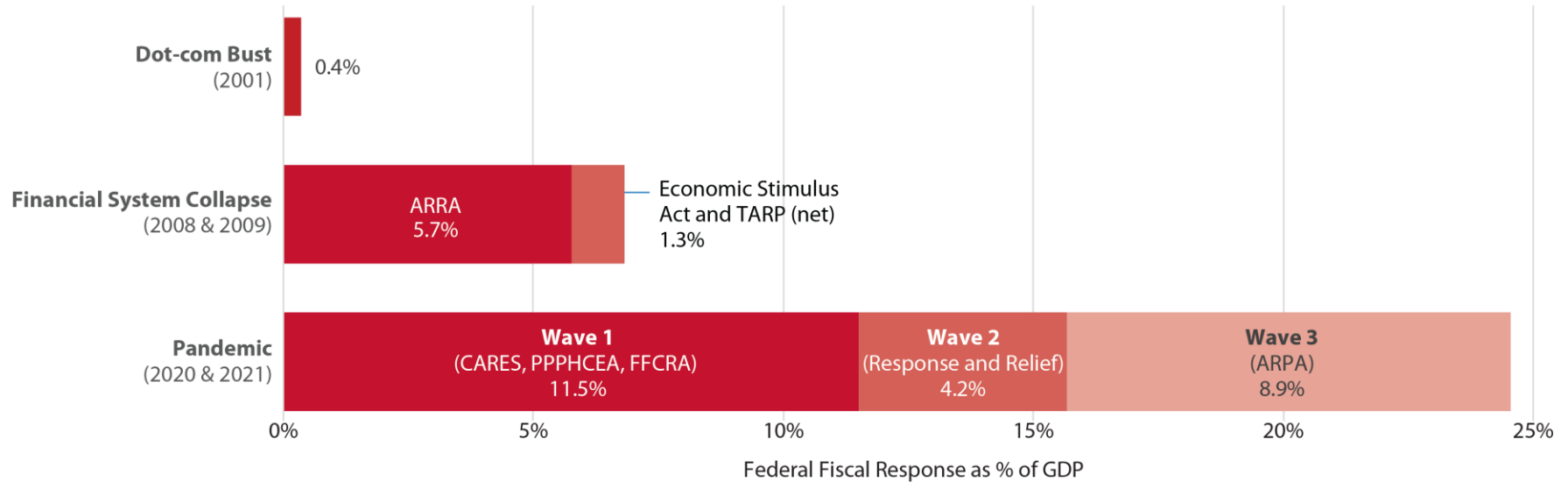
Source: U.S. Bureau of Labor Statistics

Mixed Signal: Corporate Profits as % of GDP Near All-Time Highs



Source: U.S. Bureau of Economic Analysis

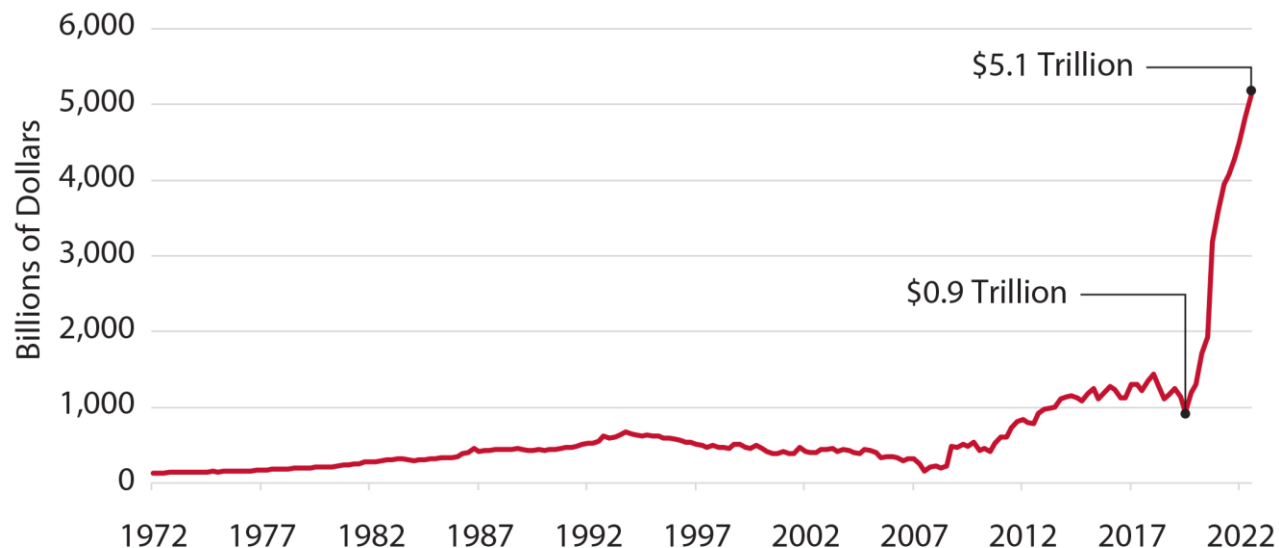
“Unprecedented” Federal Fiscal Support



Source: Congressional Budget Office and U.S. Bureau of Economic Analysis

Strength Signal: Household Reserves High & Growing through 2022Q3

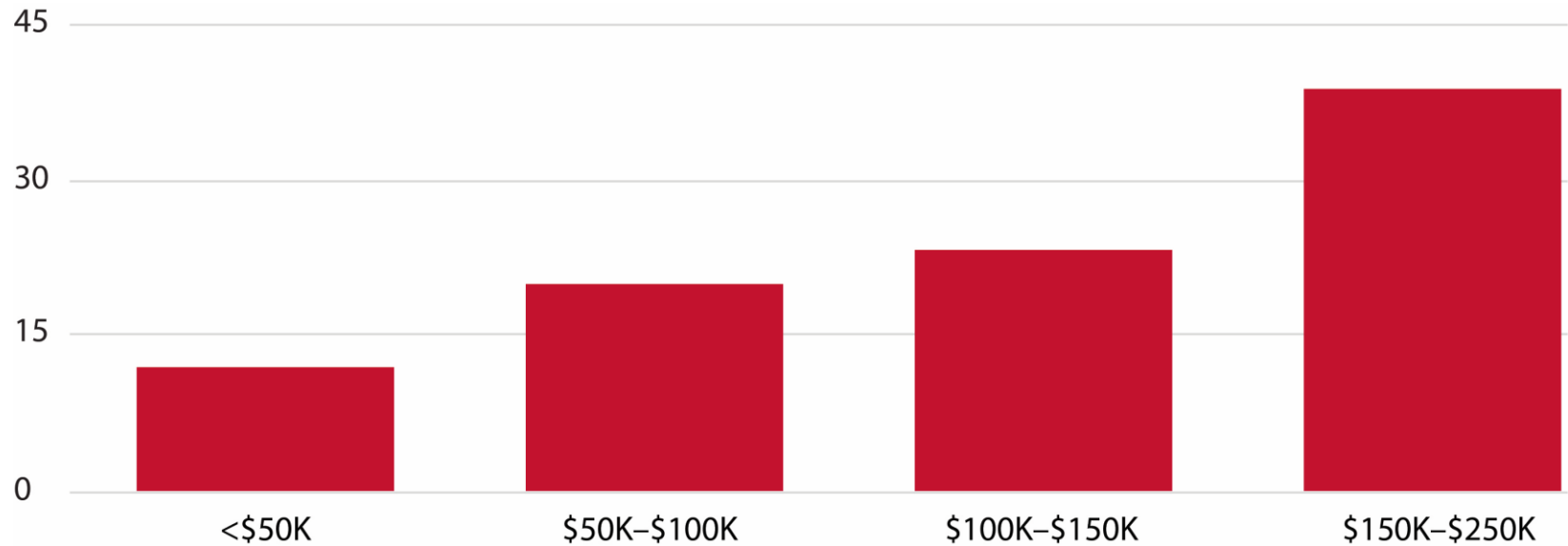
Household and Nonprofit Deposits and Currency Levels, 1972–2022



Source: Board of Governors of the Federal Reserve System

How Long Can the High Consumer Spending Last?

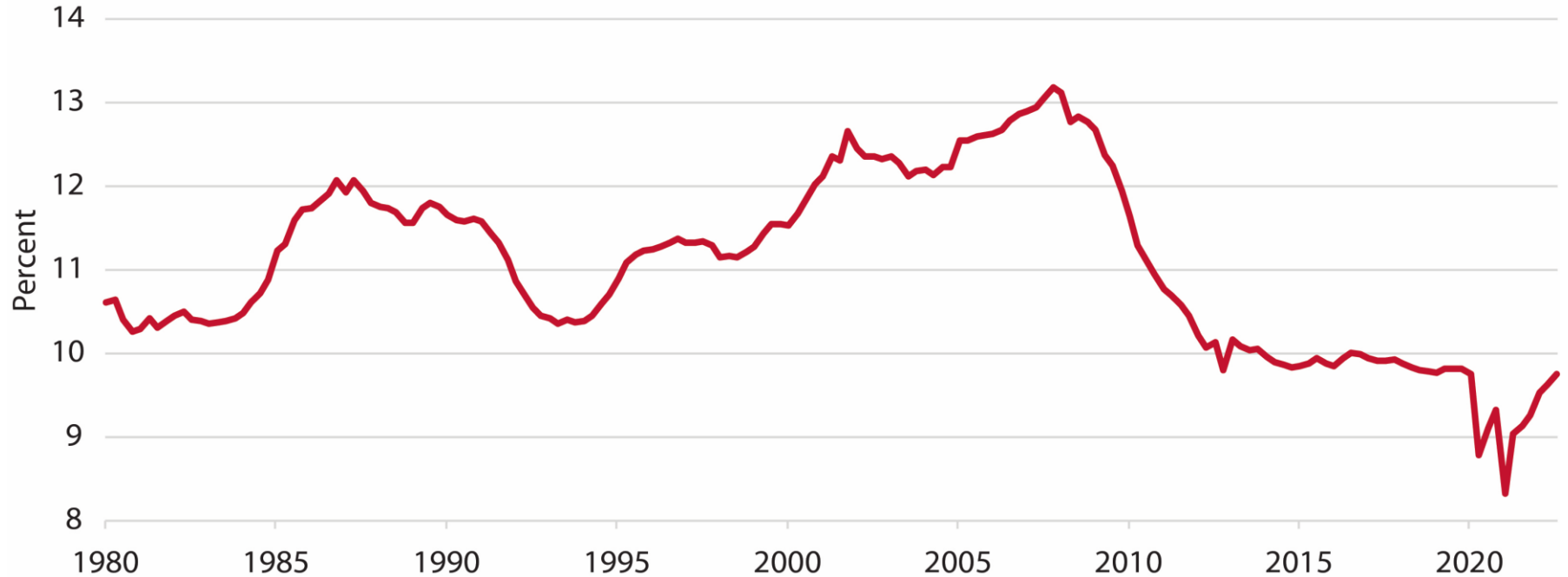
Months for Median Deposit to Return to Average 2019 Level Given Rate of Decline in Last Three Months



Source: Bank of America

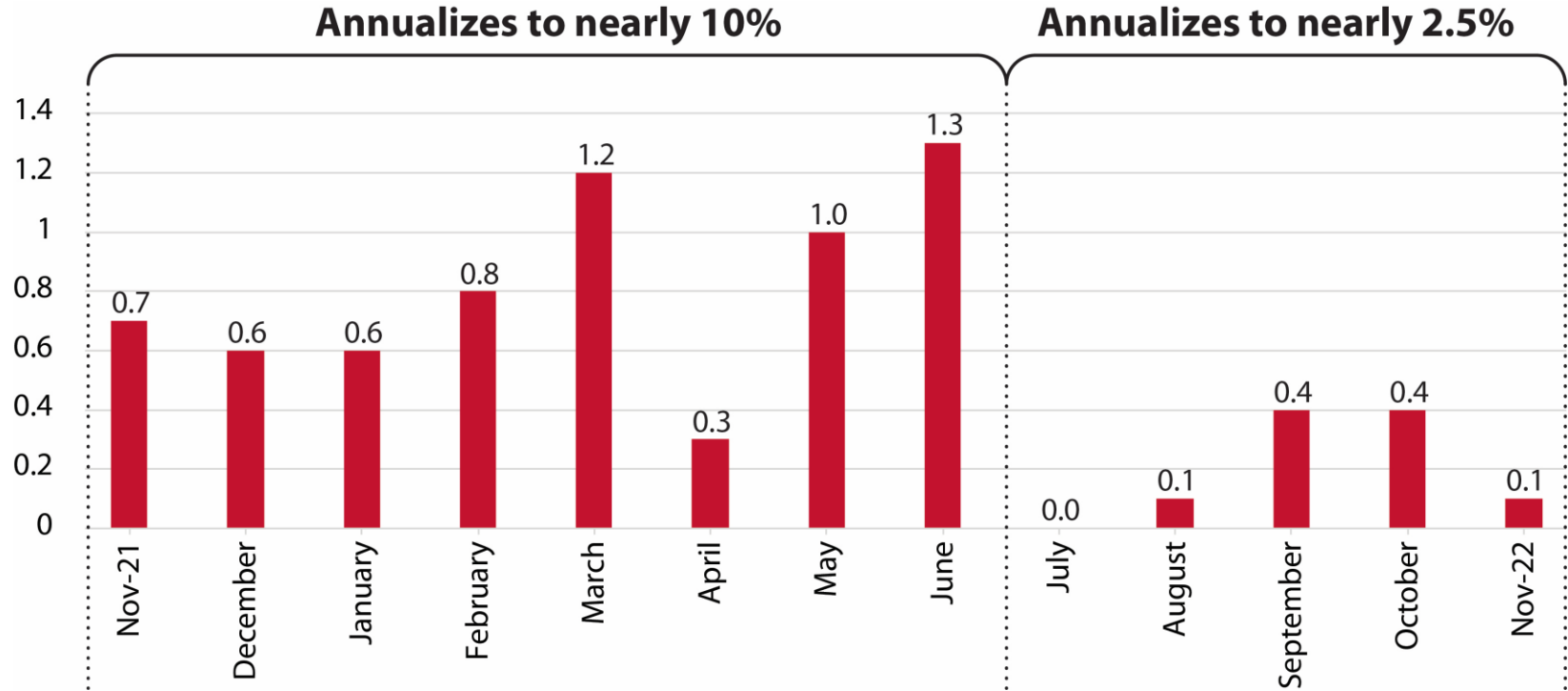
Strength Signal: Low Monthly Debt Service Payments

Household Debt Service Payments as % of Disposable Income, 1980 - 2022



Source: Board of Governors of the Federal Reserve System

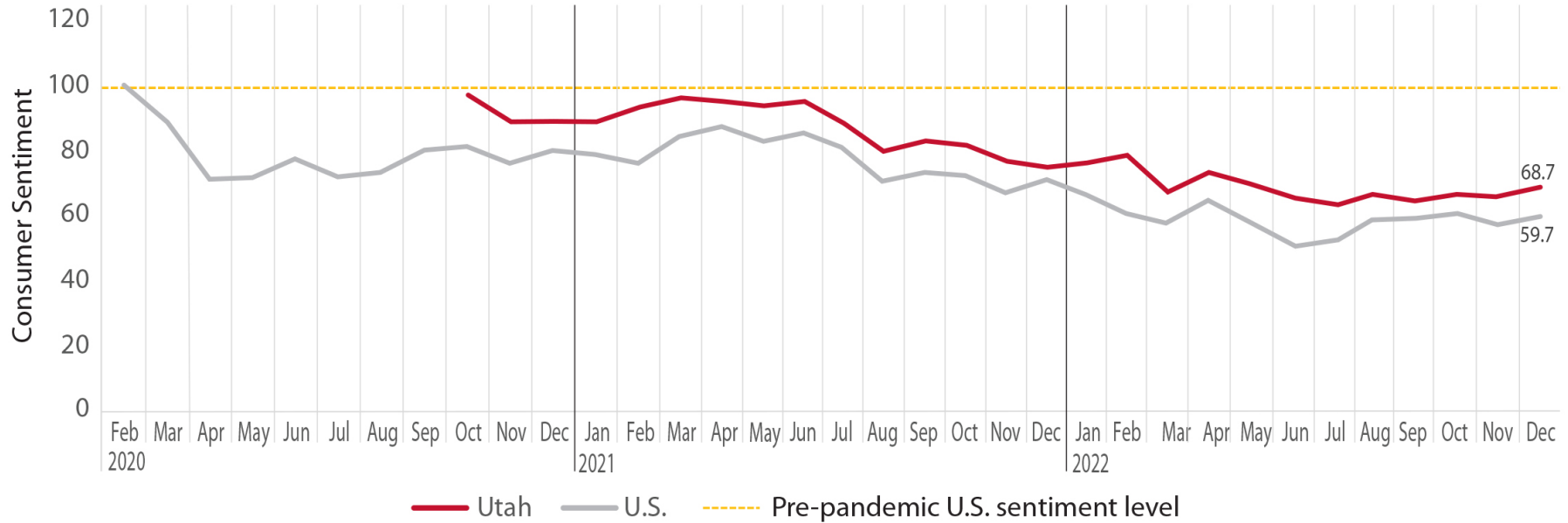
Much Lower Monthly Inflation July - November



Source: U.S. Bureau of Labor Statistics

Scenario 2 – Shallow Recession

Warning Signal: Low Utah and U.S. Consumer Sentiment

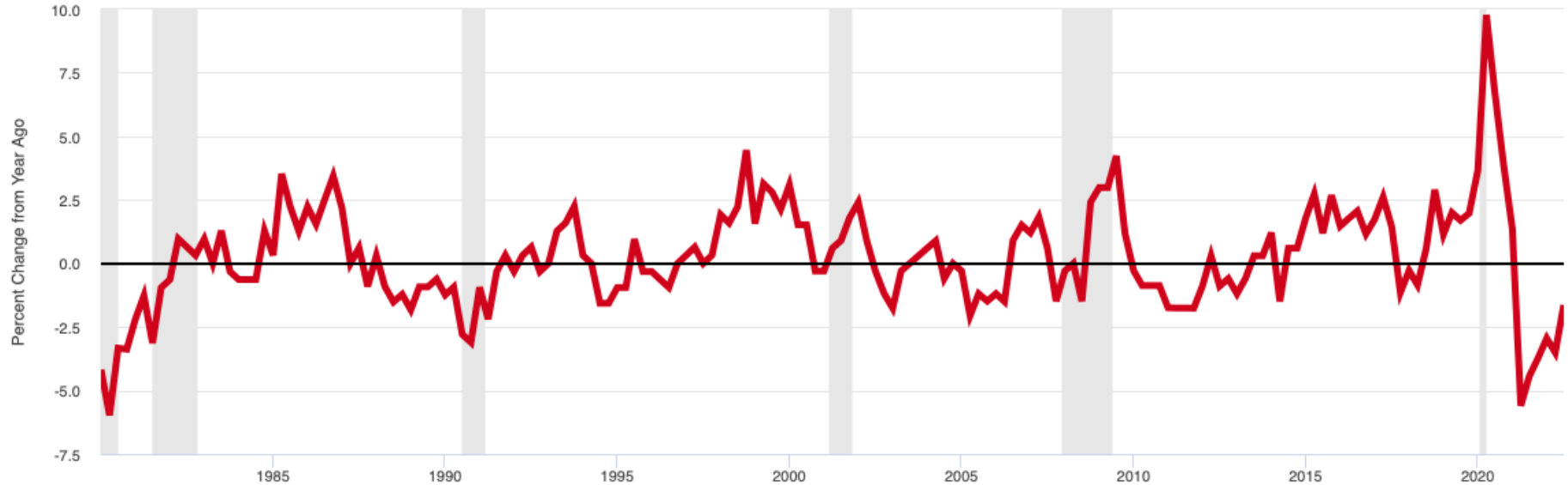


Source: Kem C. Gardner Policy Institute and University of Michigan

Warning Signal: Real (Inflation-Adjusted) Wages Decrease

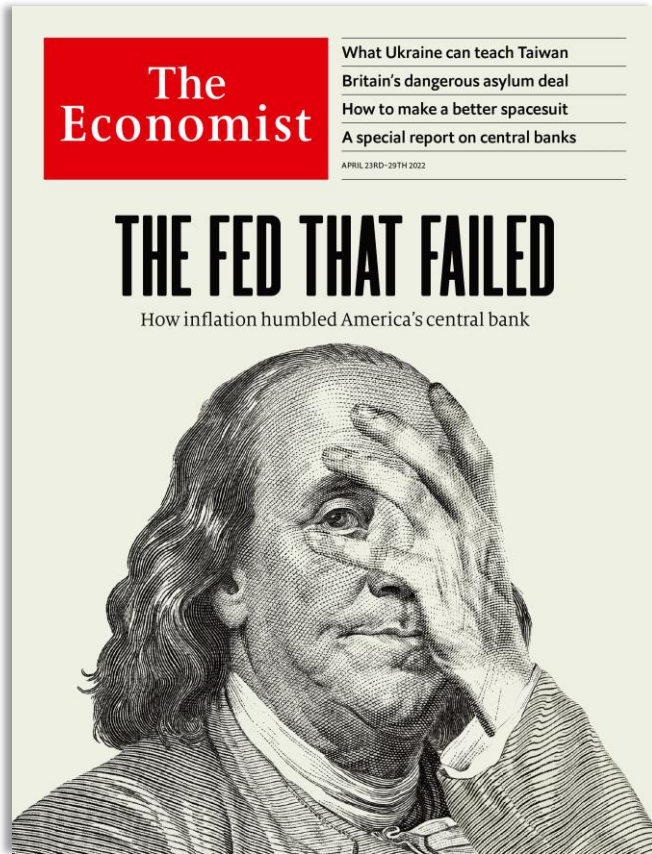
FRED

— Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over



Source: U.S. Bureau of Labor Statistics

Monetary Policy Fell Behind the Curve



“I think we now understand better how little we understand about inflation.”

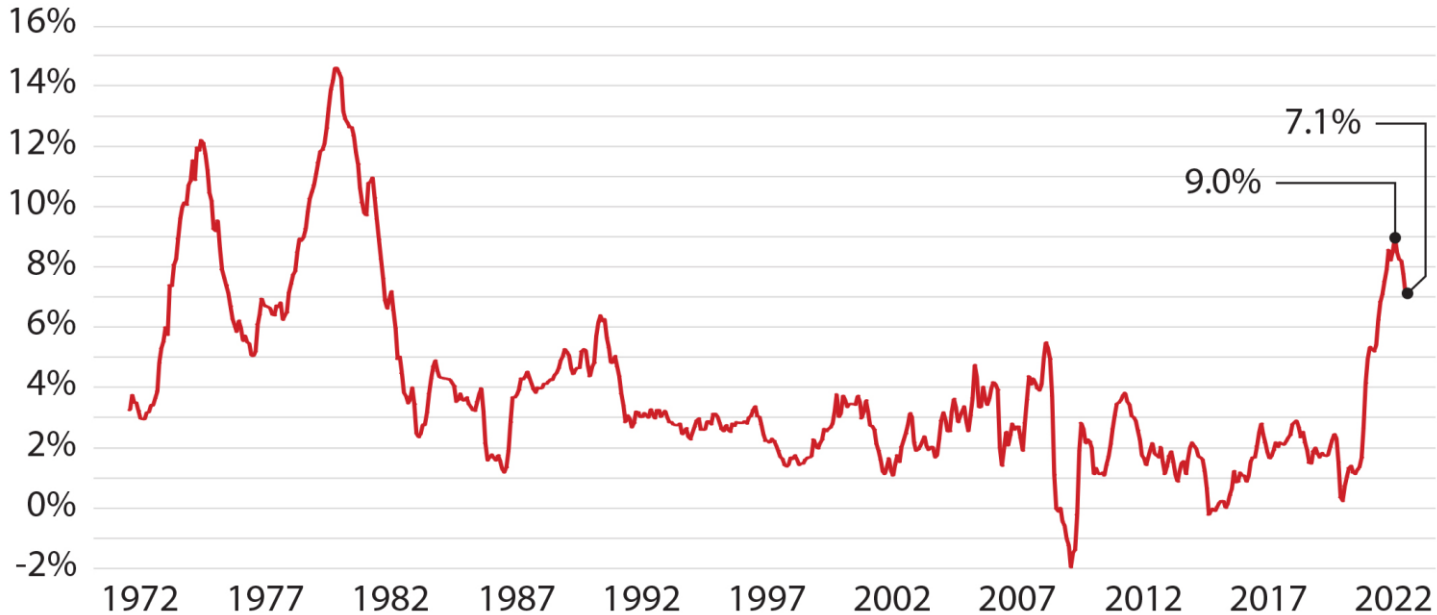
Jerome Powell, Chair of the Federal Reserve, June 2022

“We see today that there is a bit of a savings buffer still sitting for households, that may allow them to continue to spend in a way that keeps demand strong. This suggests we may have to keep at this for a while.”

Esther George, President, Federal Reserve Bank of Kansas City, November 2022

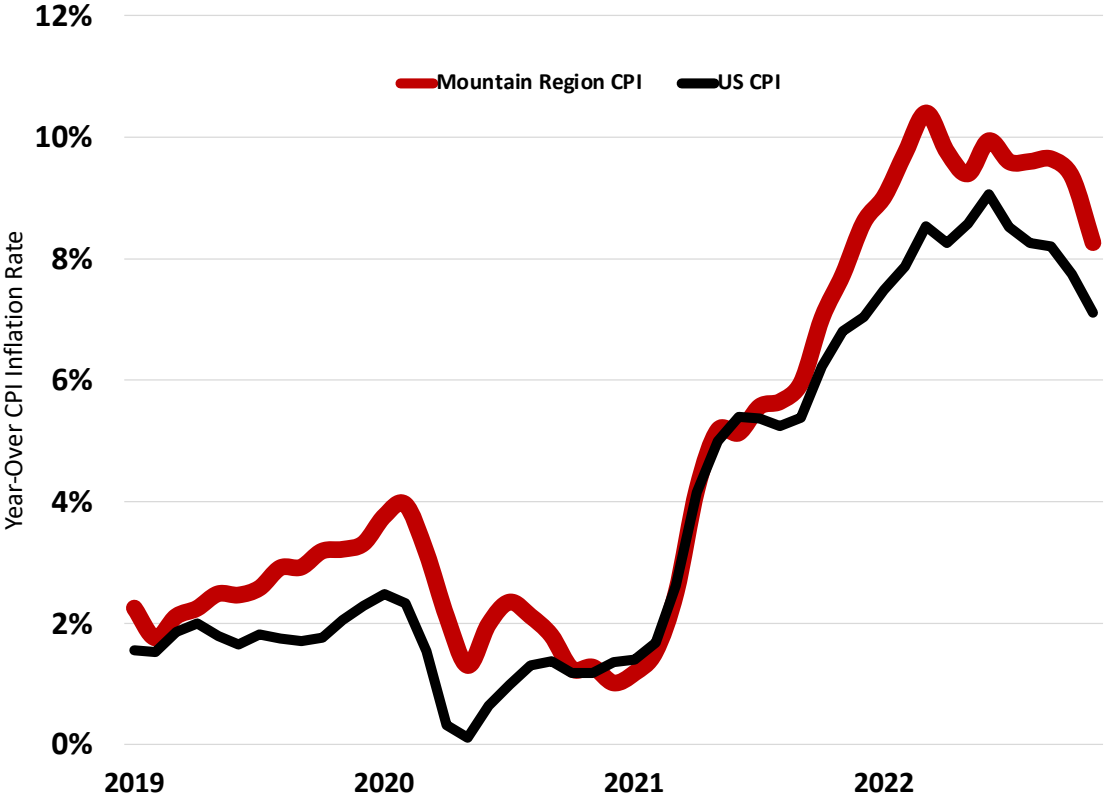
Warning Signal: The Continued Sting of High Inflation

Consumer Price Index Year-over Change, 1972–2022



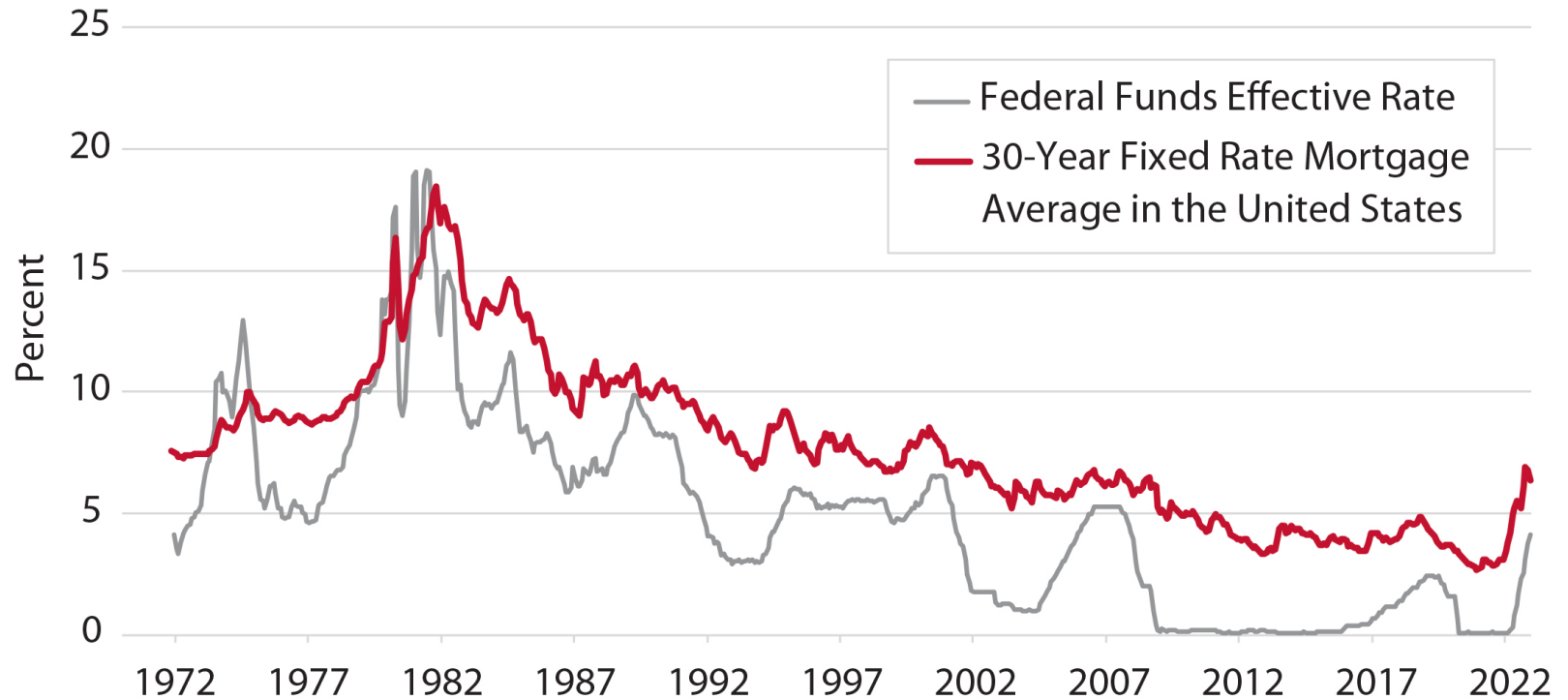
Source: U.S. Bureau of Labor Statistics

Mountain Region Inflation Even Higher than U.S.



Source: U.S. Bureau of Labor Statistics

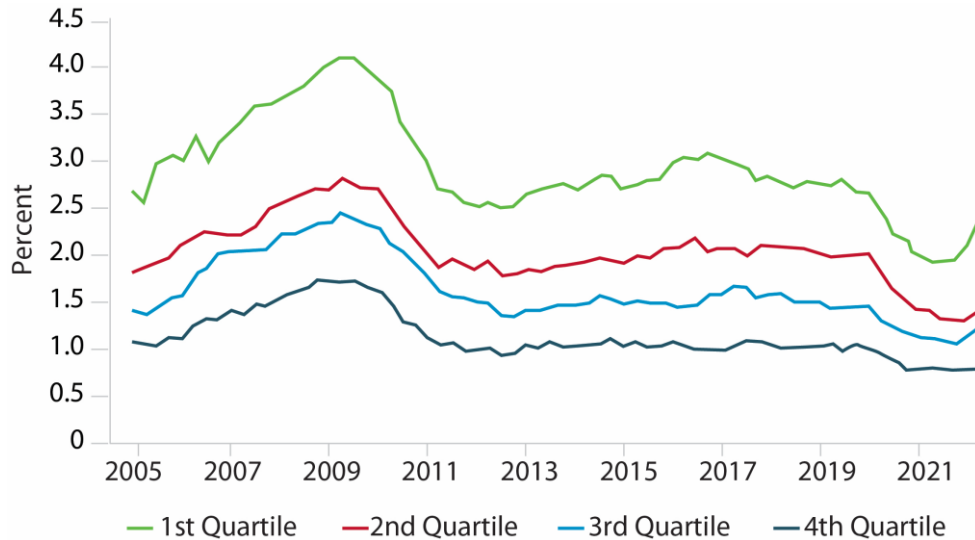
Warning Signal: Rising Interest Rates



Source: Freddie Mac and Federal Reserve Economic Data

Warning Signal: Increasing Delinquencies & Debt

Credit Card Delinquency Levels by Quartile



Although still below pre-pandemic levels:

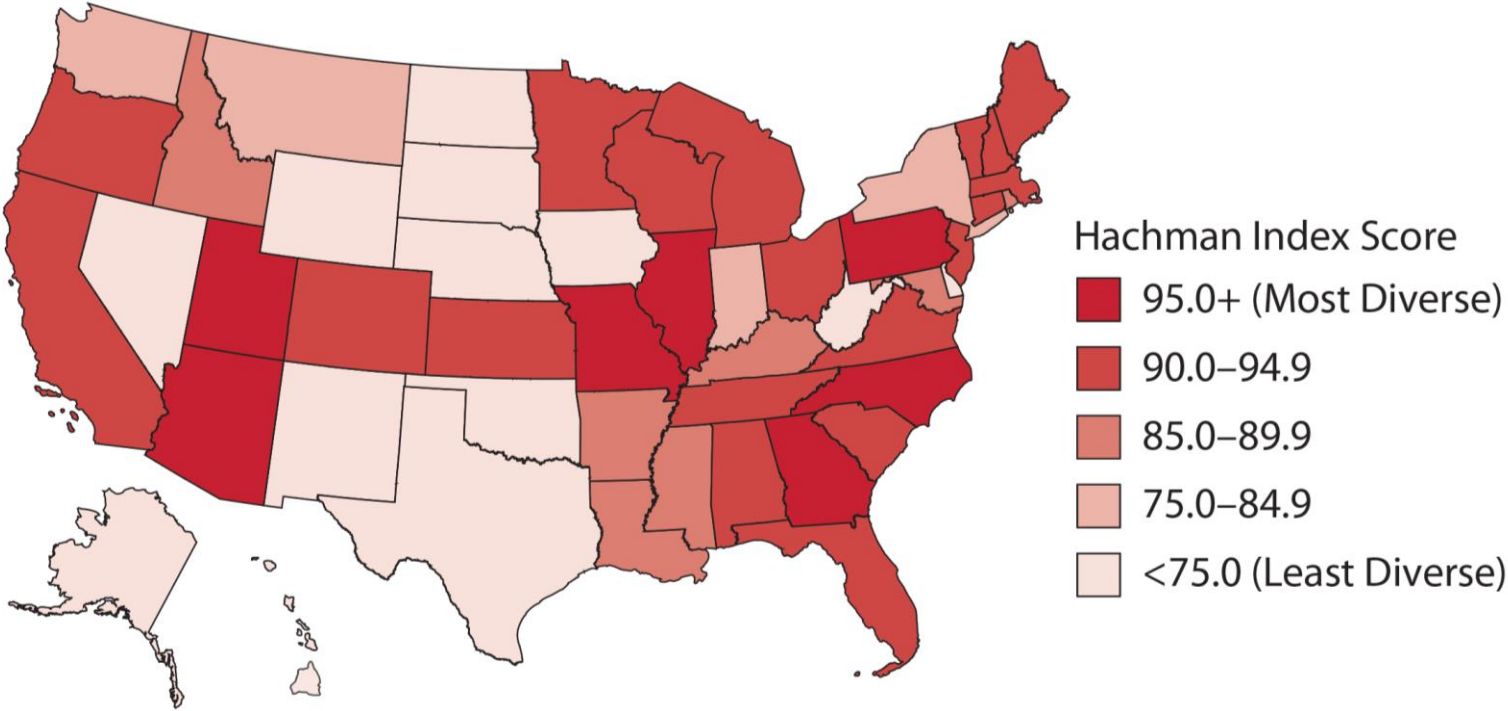
- Delinquencies increasing, especially among low-income households
- Inflation led to increasing household debt in 2022

Source: Federal Reserve Bank of New York

Scenario 3 – Decelerating Growth

Utah's Diverse Economy Helps to Balance Economy Between Sectors

(When Some Weak, Others Strong)



Source: Kem C. Gardner Policy Institute

Energy Prices Slowing but Still Elevated, Encouraging Production in 2023

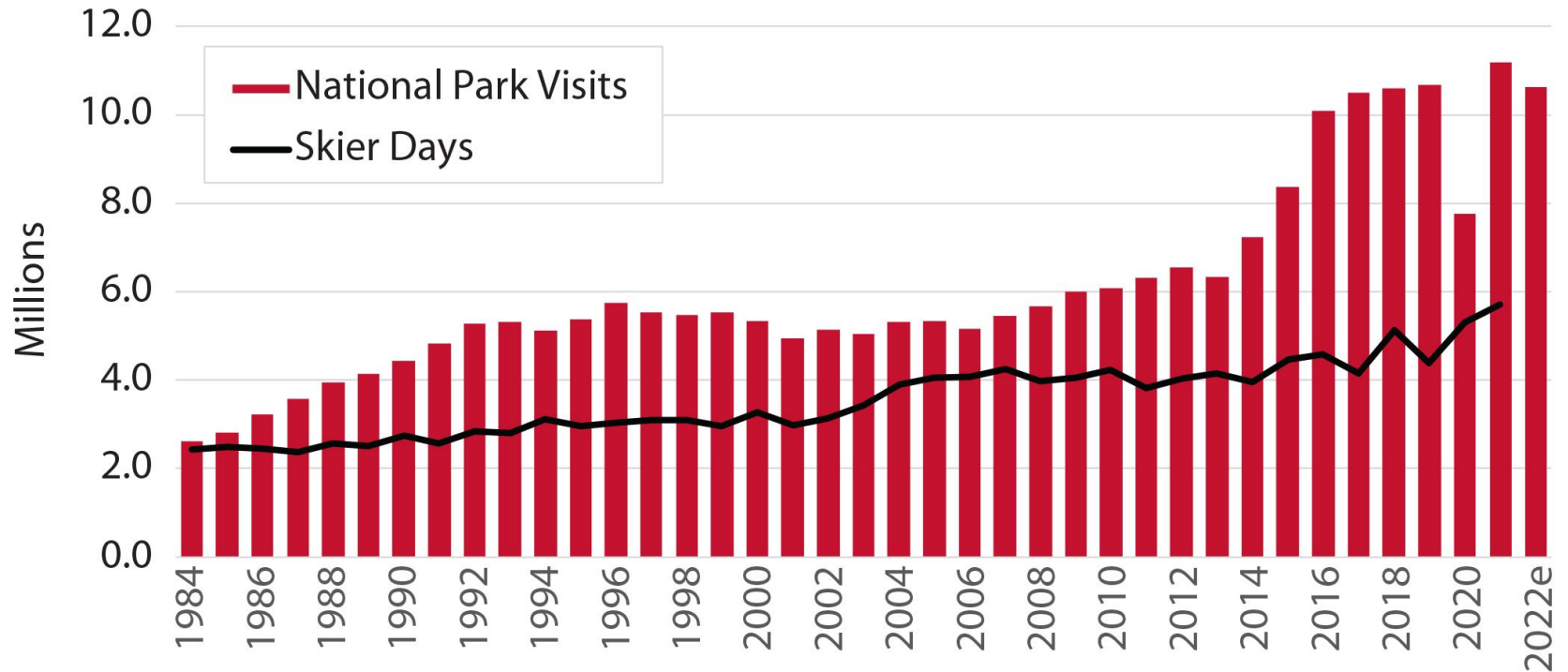
FRED  Global price of Natural Gas, US Henry Hub Gas



Source: International Monetary Fund

fred.stlouisfed.org

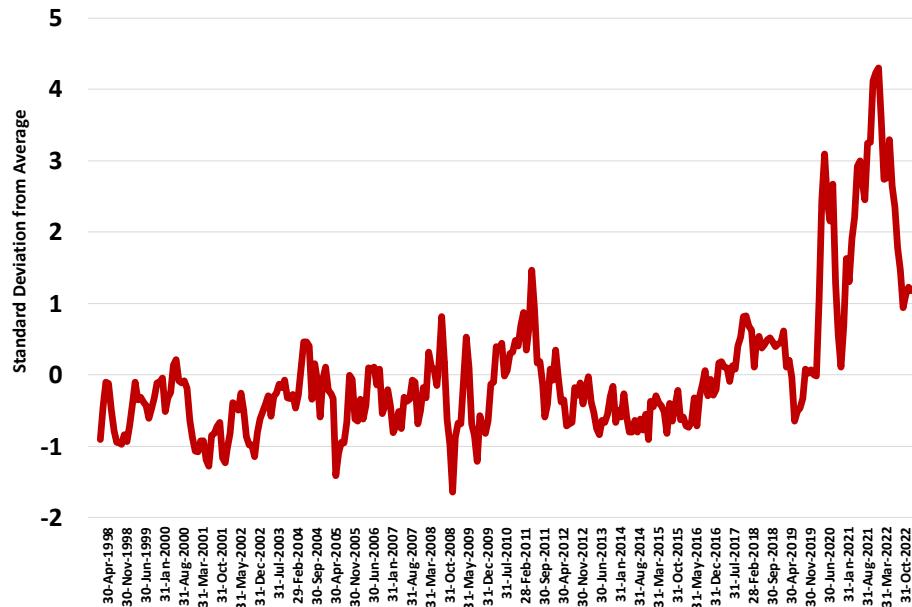
Tourism Visits Continue (with Potentially a Long 2023 Ski Season??)



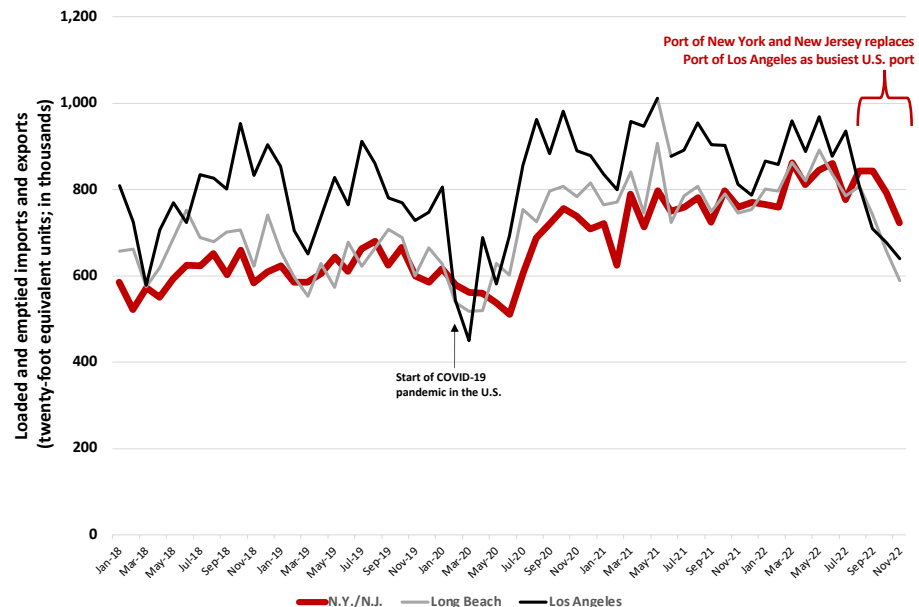
Source: Kem C. Gardner Policy Institute

Disruptions Remain, but Supply Chain Conditions Improved

Global Supply Chain Pressure Index



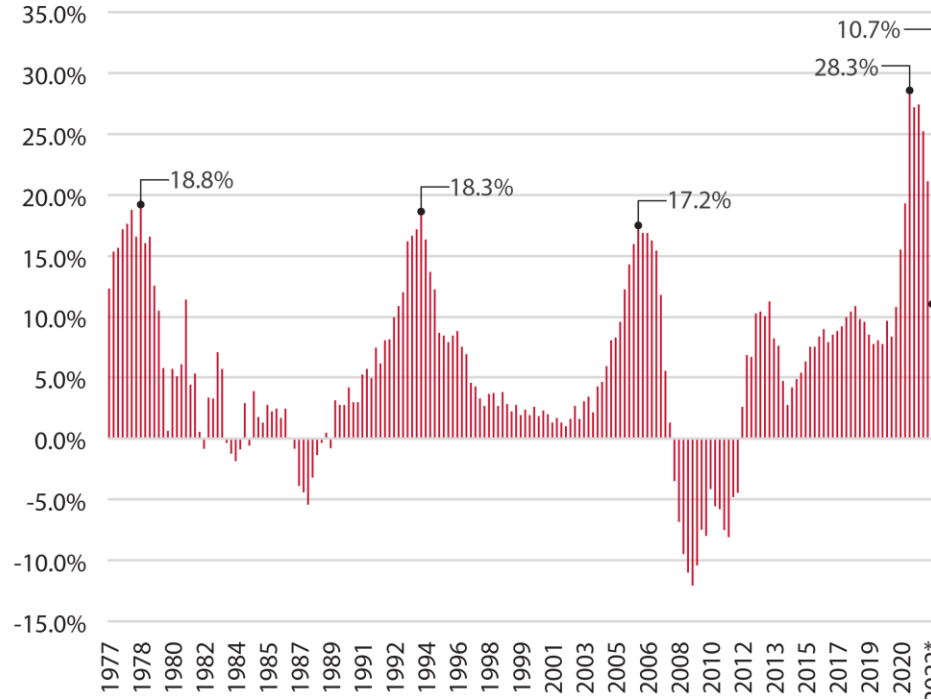
Goods Shifting Away From West Coast Ports



Source: Federal Reserve Bank of New York and Ports of Los Angeles, Long Beach, and New York / New Jersey

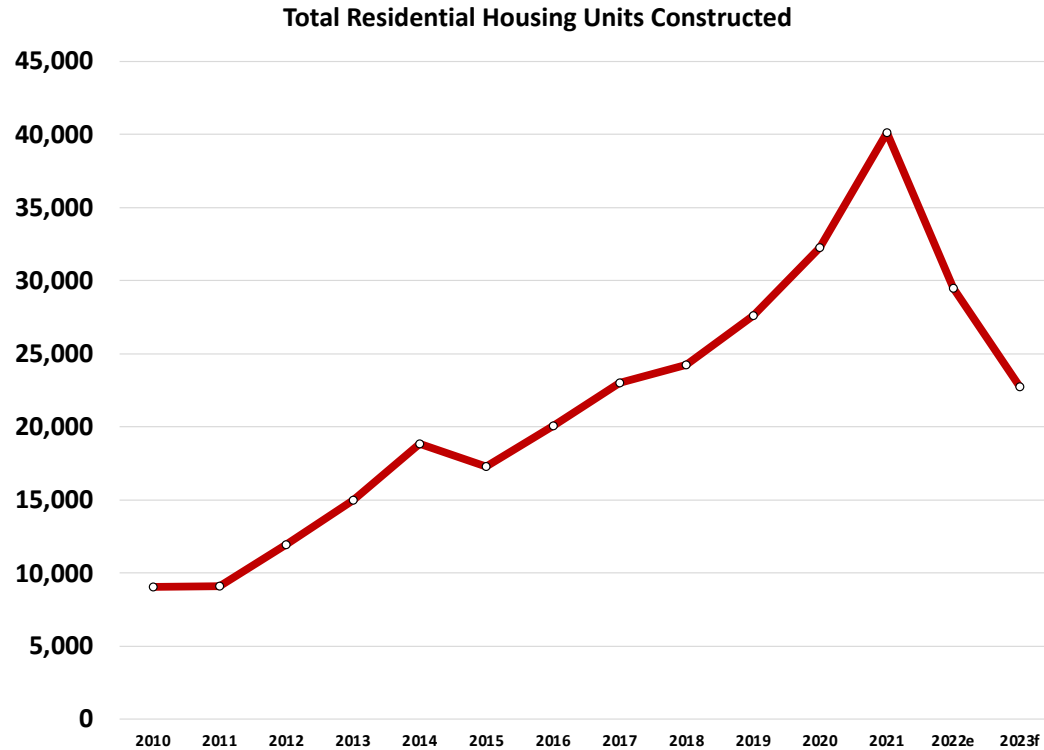
Mixed Signal: Moderating Home Prices

Year-over Growth Rate in Utah Home Prices (FHFA Index),
1977–2022e



Source: Federal Housing Finance Agency

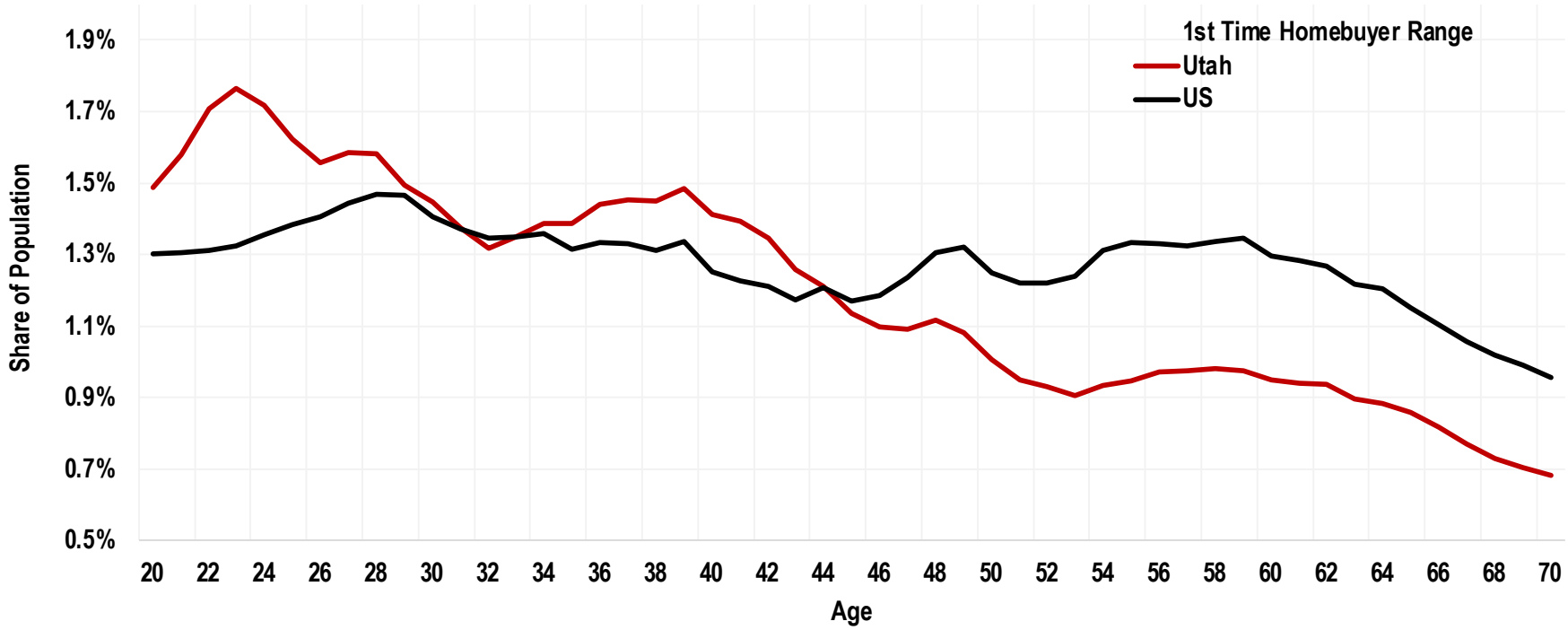
Warning Signal: Slowing Construction and Real Estate Markets



Source: Federal Housing Finance Agency

Strength Signal: Demographic Tailwinds Support Housing Markets

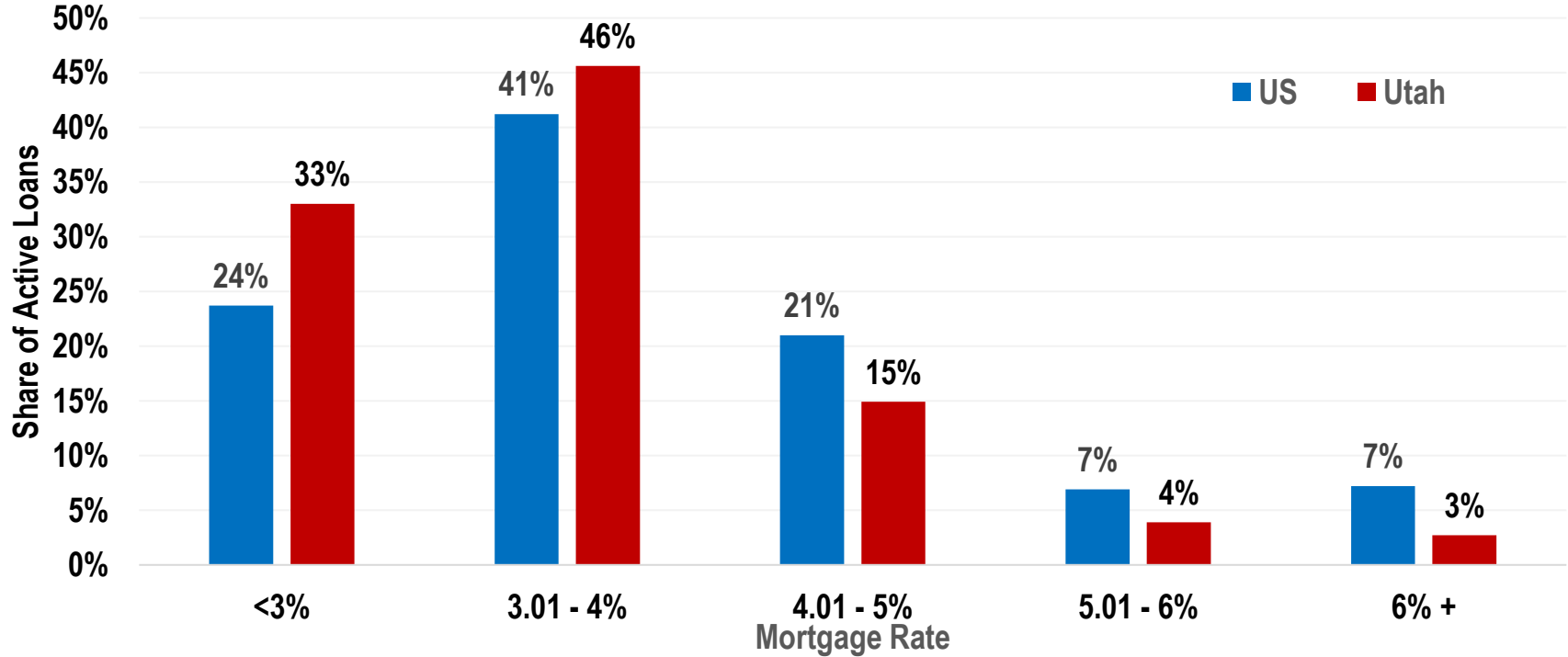
Share of Population by Age



Source: Kem C. Gardner Policy Institute

Locked Into Lower Rates

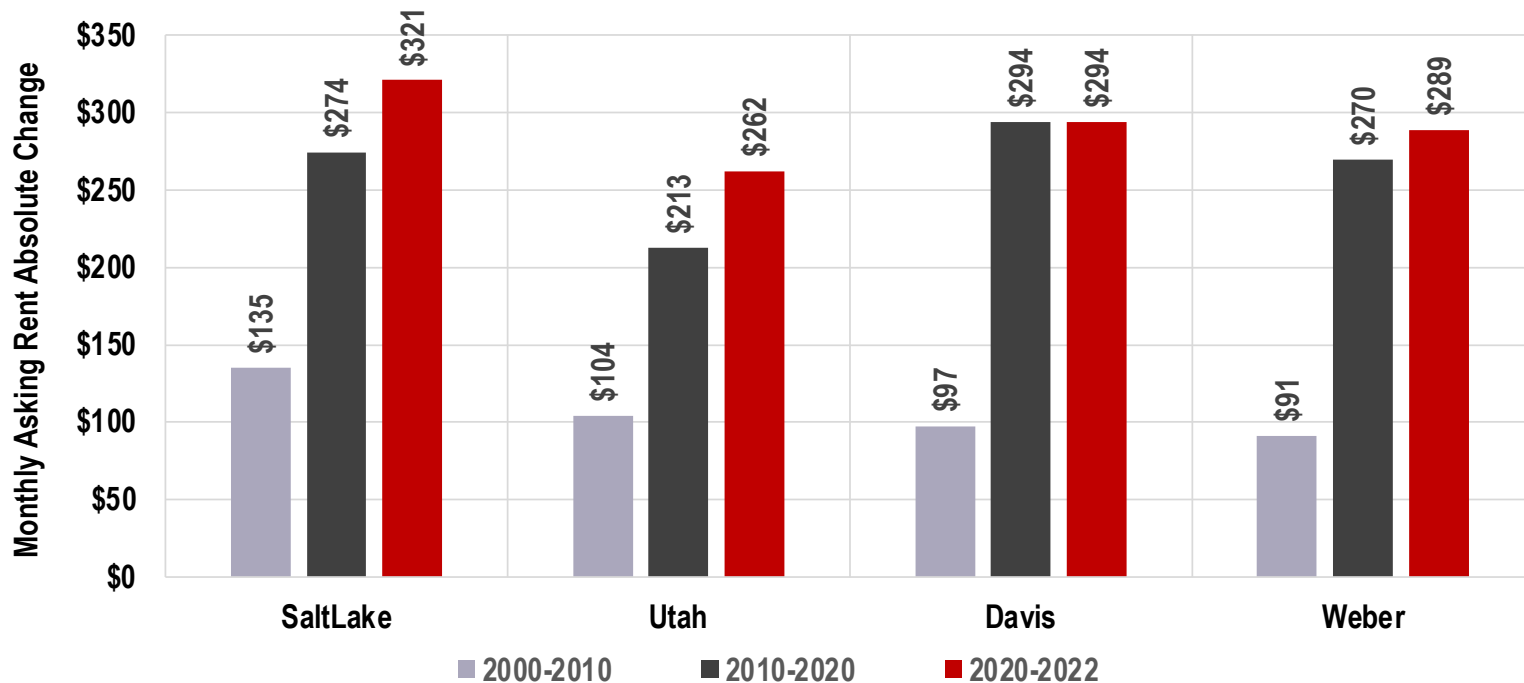
Interest Rates on Mortgages Outstanding as of 2022Q2



Source: FHFA, National Mortgage Database (NMDB®)

Warning Signal: A Decade of Rent Increases in Two Years

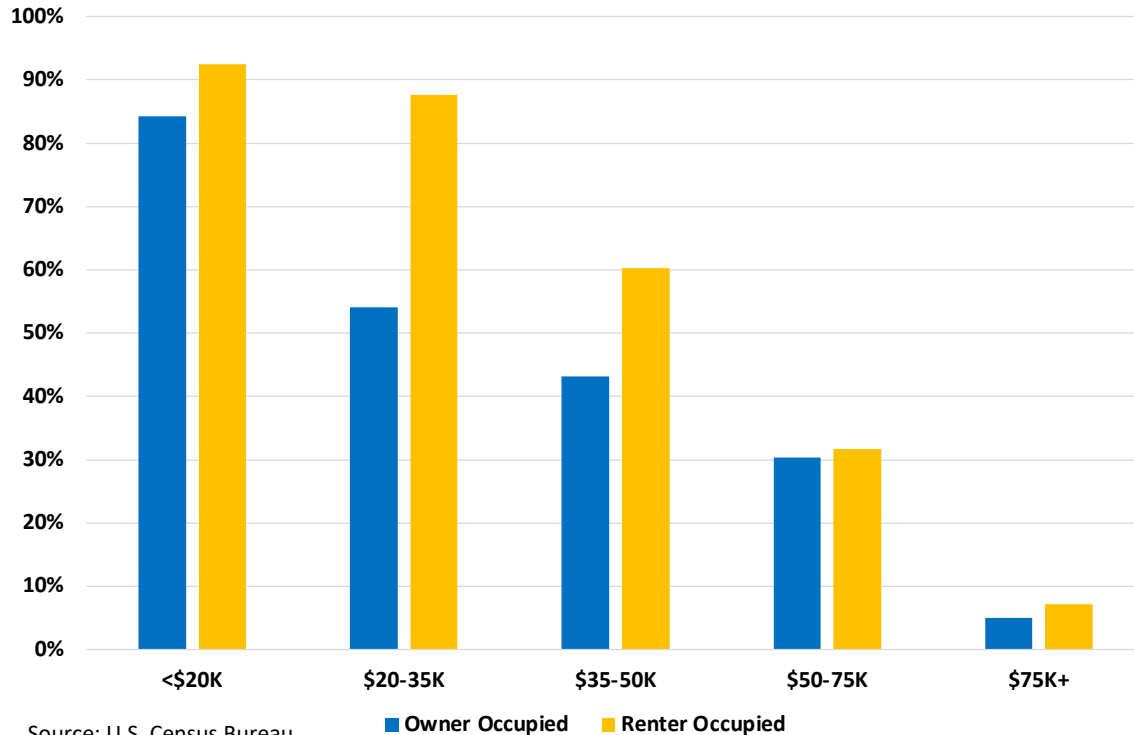
Absolute Increase in Monthly Asking Rent by County



Source: CoStar, Inc.

Who is Utah Housing Policy Failing?

% of Households by Income Category with Housing Costs Over 30% of Income



- Many Utah homeowners could not afford to purchase their home at current prices and rates - but they bought years ago, so they don't actually feel the pain of buying today
- **About 30% of Utah households have unaffordable monthly housing costs (above 30% of income). Who are these 30% that face the greatest housing challenges?**
 - Younger generations
 - Low-income households
 - Racially/ethnically diverse populations
- The 70% of Utahns who own homes benefit from high housing prices and like zoning laws that keep housing prices high

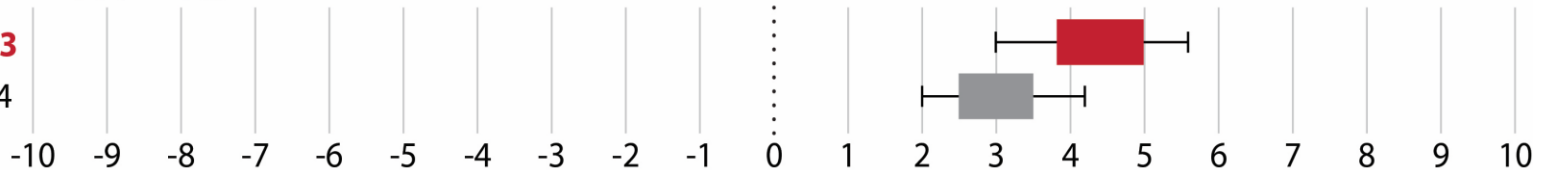
2023 & 2024 Forecast

Utah Economic Council

U.S. CPI Inflation Rate

2023

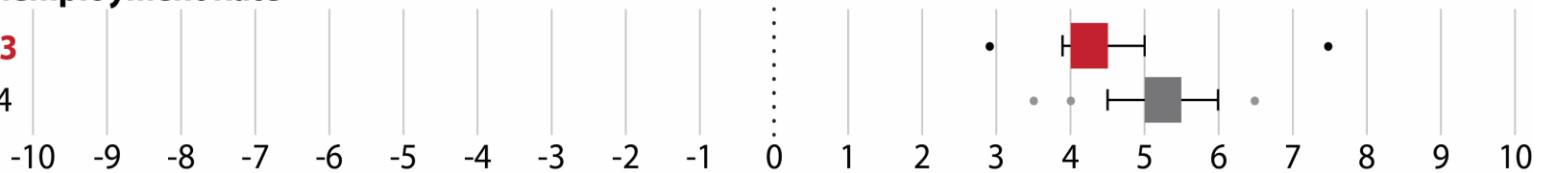
2024



U.S. Unemployment Rate

2023

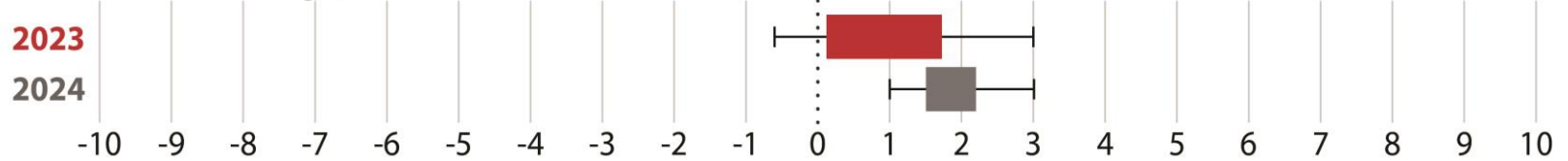
2024



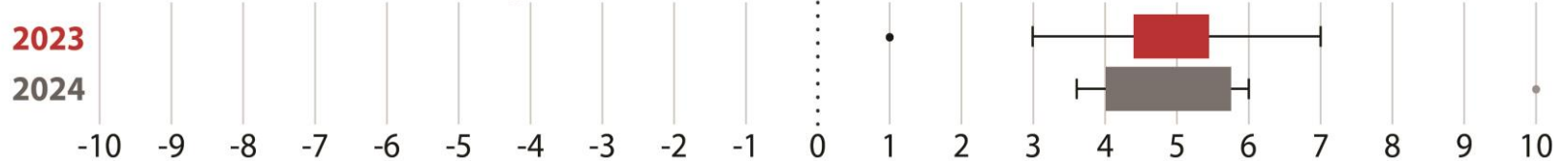
Source: Utah Economic Council

2023 & 2024 Forecast Utah Economic Council

U.S. Real GDP (% Change)



Utah Total Personal Income (% Change)



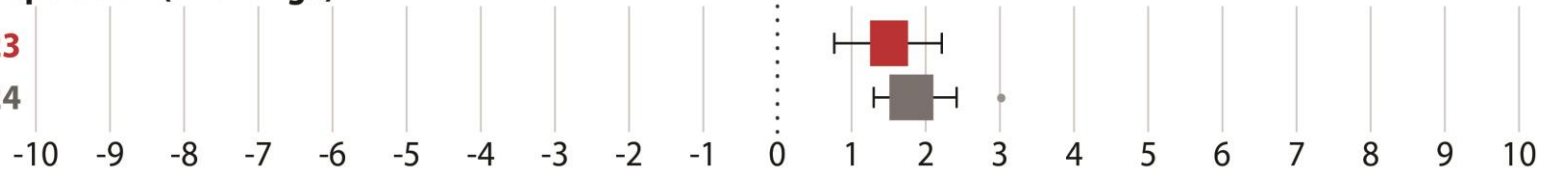
Source: Utah Economic Council

2023 & 2024 Forecast Utah Economic Council

Utah Population (% Change)

2023

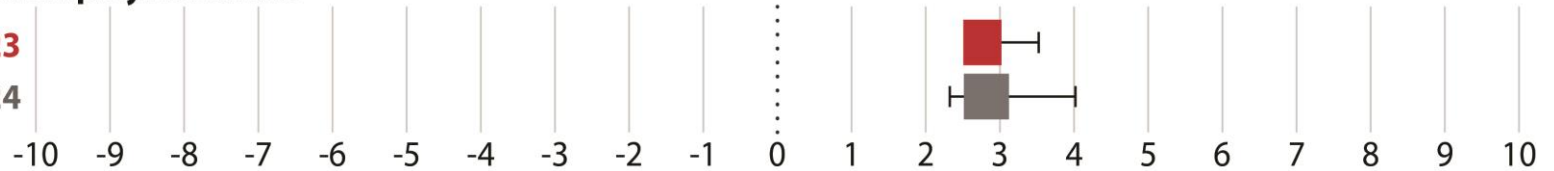
2024



Utah Unemployment Rate

2023

2024

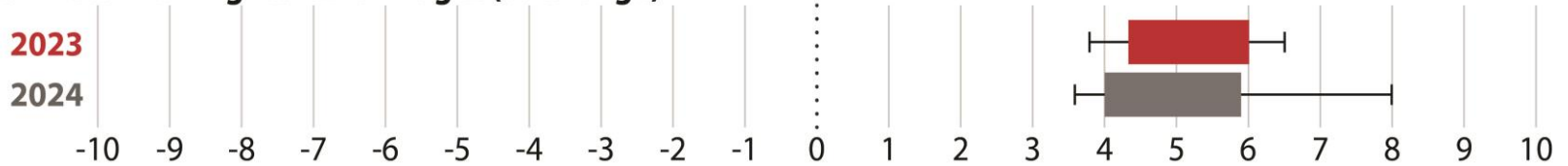


Source: Utah Economic Council

2023 & 2024 Forecast

Utah Economic Council

Utah Total Non-Agricultural Wages (% Change)



Utah Average Annual Pay (% Change)

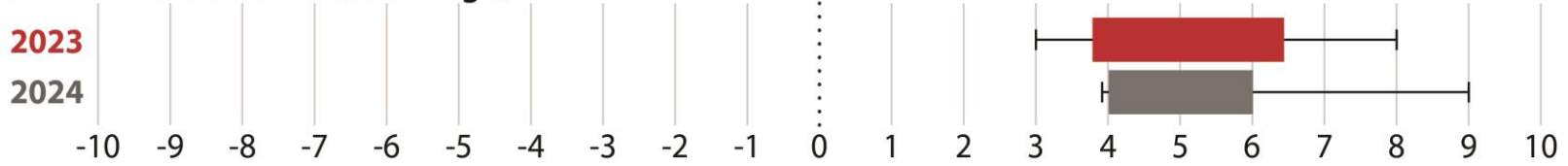


Source: Utah Economic Council

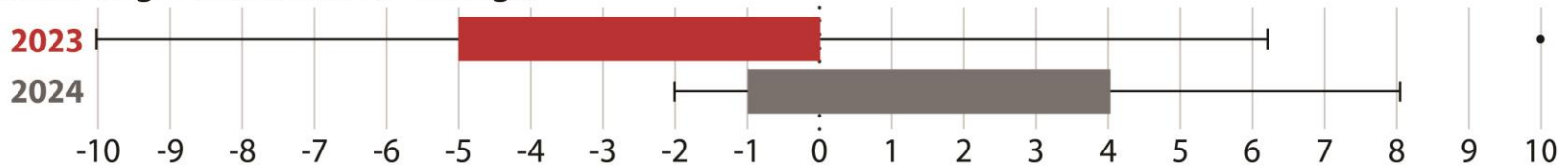
2023 & 2024 Forecast

Utah Economic Council

Utah Total Taxable Sales (% Change)



Utah Average Home Prices (% Change)



Source: Utah Economic Council

In Short, For 2023

Prepare YOUR Responses to Each Scenario

