

How COVID-19 Changed Utah's Economic Forecast

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This research brief examines the economic impact of COVID-19 on the Utah economy by comparing the pre-COVID forecast, completed in February 2020, to the COVID forecast completed in June 2020. Utah's Revenue Assumptions Working Group (RAWG) produces quarterly forecasts of the Utah economy.¹ RAWG's February forecast anticipated another year of solid economic growth for Utah, but by early April, it became apparent that the 2020-2021 forecast needed to be revised. Two additional RAWG forecast meetings, one in April and another in June, produced another set of forecasts. The June forecast benefited from March, April, and May economic data and limited most economic damage from COVID-19 to 2020. The June forecast also assumed that Utah's recovery begins in the third and fourth quarters of 2020 and that no further shutdowns of local businesses would be necessary in 2020 or 2021.

Key Findings

- **Mixed Impact** – According to the June forecast, COVID-19 will have a mixed impact on Utah's economy. Some indicators show a sizeable swing from growth before COVID-19 to contraction due to the virus; others show a COVID induced deceleration in growth despite the spread of virus, while others show that COVID-19 accelerates a decline already underway, and in one notable exception, the rate of growth of the indicator accelerates after the outbreak of the virus, seemingly oblivious to the impacts of COVID-19.
- **Utah's GDP and Jobs** - Of Utah's major economic indicators, COVID-19 has the greatest impact on gross domestic product (GDP) and the number of nonagricultural jobs. Before COVID-19, Utah's GDP was forecast to grow by 5.9%, but after COVID-19, GDP shrinks by 5.4%, a swing of nearly \$16 billion. Similarly, the change in nonagricultural jobs in 2020 goes from an increase of 42,000 before COVID-19 to a decline of 31,000 after COVID-19, a swing of 73,000 jobs.
- **Unemployment Rate** – Utah's unemployment rate in 2020 will likely increase from the pre-COVID forecast of 2.7% to COVID forecast of 5.7%, adding over 50,000 workers to the number of unemployed. The strong job recovery drives the unemployment rate down to 3.9% in 2021.
- **Construction: Residential and Nonresidential** – The February forecast showed modest declines for both residential and nonresidential construction in 2020. COVID-19 will accelerate those declines. Residential construction, originally forecast to drop by 5%, looks to drop by 10% in 2020. The value of nonresidential construction in 2020 goes from a 19% decline in the February forecast to a 23% decline in the June forecast.
- **Home Sales** - The February forecast for home sales showed a 5% decline in 2020 due primarily to a lack of listings. COVID-19 will push the decline even lower to 10% as uncertainty causes some potential sellers to postpone listing their homes until 2021.
- **Home Prices** – Utah's housing shortage and the lowest mortgage rates in 50 years will support a moderate increase in housing prices of 5% in 2020. The emergence of COVID-19 has not changed the forecast for housing prices.
- **Personal Income** – The growth in total personal income will be slowed in 2020 and 2021 by COVID-19. In the February forecast, total personal income for Utah was forecast to increase by 5.6%, from \$155.1 billion to \$163.9 billion in 2020. This almost \$9 billion increase in the February forecast has been cut nearly in half to \$4.7 billion in the June forecast.
- **Taxable Retail Sales** – Of all the post-COVID-19 forecasts of major indicators, the most surprising is the taxable retail sales forecast. The initial 2020 forecast, in February, had retail sales increasing by around 4%. The June forecast has retail sales increasing by 8.1% to \$39.8 billion in 2020, \$1.6 billion above the February forecast.

Assessing the Economic Impact of COVID-19

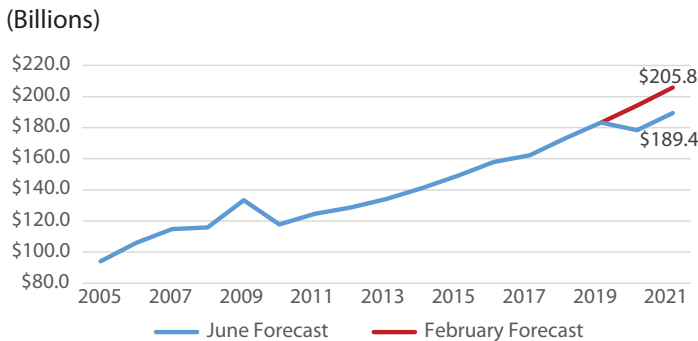
COVID-19 impacts the Utah economy in myriad ways. One way to assess this impact is to compare Utah’s economic forecast pre- and post-COVID-19. This research brief compares Utah state government’s official economic forecast in February 2020 with that of June 2020. These forecasts are made by what is called the Revenue Assumptions Working Group or RAWG. RAWG – which includes analysts from the Office of the Legislative Fiscal Analyst, Governor’s Office of Management and Budget, Utah State Tax Commission, BJO Capital Management, and Kem C. Gardner Policy Institute – produces quarterly forecasts to assist with state revenue forecasting. The comparison yields instructive information about the expected impact of the pandemic on Utah’s GDP, jobs, unemployment rate, construction, home sales and prices, personal income, and taxable retail sales.

The following charts and tables show the trend for each major indicator from 2005 to 2021, including the initial pre-COVID-19 forecast for 2020 (produced in February) and the COVID-19 forecast (produced in June).

Utah’s Gross Domestic Product

As an indicator of economic performance, gross domestic product (GDP) continues to be, despite its shortcomings, the most widely accepted measure of the value of finished goods and services produced by a state or country. As measured by GDP, the Utah economy produced \$183 billion in finished goods and services in 2019. Utah’s GDP was initially forecast in February to grow by \$11 billion to \$194.1 billion in 2020. The

Figure 1: Utah’s Gross Domestic Product



Source: FRED, Federal Reserve Bank of St. Louis, and Revenue Assumptions Working Group.

Table 1: Change in Gross Domestic Product in Utah—Comparison of February and June Forecasts

Year	Percent Change		Numeric Change (billions)	
	2020	2021	2020	2021
February Forecast	5.9%	6.1%	\$194.1	\$205.8
June Forecast	-5.4%	6.2%	\$178.3	\$189.4
Numeric Difference	---	---	-\$15.8	-\$16.4

Source: Revenue Assumptions Working Group

June forecast shows that GDP will likely contract, due to COVID-19, by 5.4% to \$178.3 billion. In both 2020 and 2021, GDP is expected to be \$16 billion less than it otherwise would have been in the absence of COVID-19.

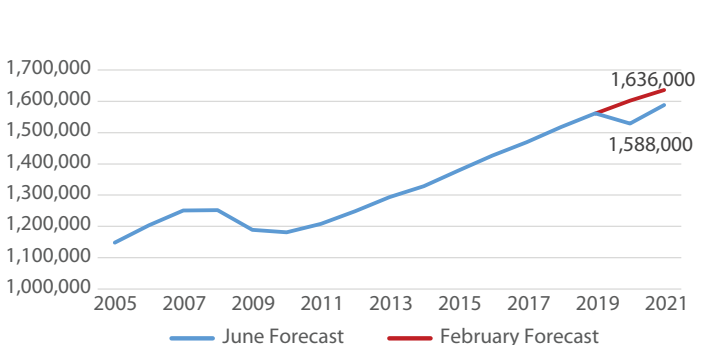
Nonagricultural Employment in Utah

Utah’s employment forecast, before COVID-19, anticipated job growth of 2.6%, an increase of 42,000 jobs in 2020. However, public confidence and policy measures such as Gov. Herbert’s “Stay Safe, Stay Home Directive” adopted in March to combat COVID-19 produced a sharp contraction in economic activity. Consequently, rather than another year of solid job growth, the forecast for 2020 shows a 2% decline in nonagricultural jobs. The direct loss of 31,000 jobs, however, measures only part of COVID-19’s impact on the job market. In the absence of COVID-19, the number of jobs in 2020 in Utah was forecast at 1,602,000, but the current forecast has nonagricultural jobs at 1,529,000; 73,000 fewer jobs than anticipated in February. The economy suffers a contraction of 31,000 jobs as well as the loss of expected job growth of 42,000 jobs. And in 2021, despite a strong 3.8% increase, Utah will still have 48,000 fewer jobs than initially forecast for 2021. Recessions and pandemics are not short-term events. They have lasting consequences that lower the long-run trajectory of job growth and impact investment, entrepreneurial activity, business formation, and job opportunities.

Unemployment Rate and Unemployment Insurance Claims

The economic shock from COVID-19 will likely send Utah’s unemployment rate to 5.3% in 2020, the highest level since

Figure 2: Nonagricultural Employment in Utah



Source: Utah Department of Workforce Services and Revenue Assumptions Working Group

Table 2: Change in Nonagricultural Employment in Utah—Comparison of February and June Forecasts

Year	Percent Change		Numeric Change (billions)	
	2020	2021	2020	2021
February Forecast	2.6%	2.1%	1,602,000	1,636,000
June Forecast	-2.0%	3.8%	1,529,000	1,588,000
Numeric Difference	---	---	-73,000	-48,000

Source: Revenue Assumptions Working Group

2012 but well below the peak unemployment rate during the Great Recession of 8.1% in 2010. COVID-19 abruptly ended the longest economic expansion in U.S. history. In Utah, the expansion had created a severe labor shortage, driving down the annual unemployment rate to 2.6%, tied with 2006 for the lowest rate in 70 years. Utah's anticipated strong job recovery in 2021 will likely feature a return to a tight labor market, as the annual unemployment rate is forecast to fall to 3.9%.

Although not included in the RAWG forecast, unemployment insurance (UI) claims provide an important measure of COVID-19's employment impact. Unemployment insurance claims during the COVID-19 pandemic, far exceed the 43,500 peak in claims during the Great Recession. Since the week ending March 21, the number of workers claiming unemployment insurance increased rapidly for the following six weeks peaking at 116,768, about 7.5% of Utah's labor force. Unemployment insurance claimants must file weekly for their benefit; consequently, those returning to the workforce reduce the number of weekly claims. The return to work of some claimants has gradually reduced the number of workers on unemployment insurance to 88,965 by the week ending June 27. The gradual decline reflects the early beginnings of the recovery, but the number of claimants is still nine times the average number in 2019.

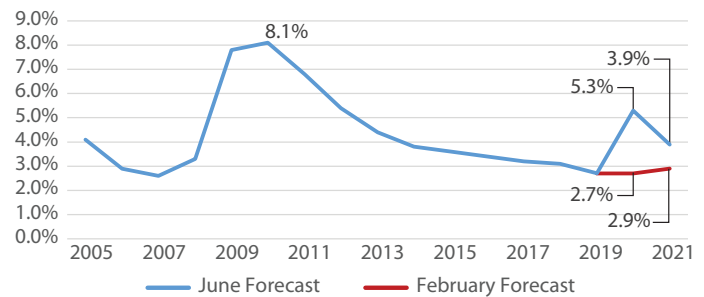
Personal Income in Utah

Personal income includes wages, salaries, social security, and other government transfer payments, dividends and interest, and proprietor's income. Personal income is the major revenue source for state funding of public and higher education. COVID-19 will likely slow the growth in personal income from 5.6% in 2020 to 3.0%. Total personal income in Utah will be \$4.1 billion less than forecast in February and \$7.1 billion less in 2021. COVID-19 will not lead to a decline in total personal income in Utah, but rather a slowdown in the rate of growth. Since 2011, personal income in Utah has been increasing at 6.1% annually. COVID-19 will likely cut the personal income growth to 3%-3.5% in 2020 and 2021.

Taxable Retail Sales

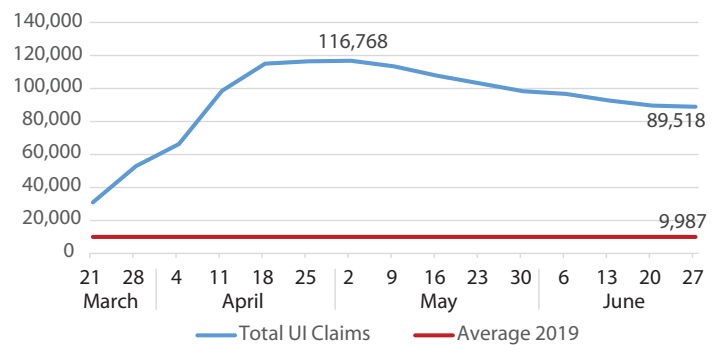
Taxable retail sales, according to the June forecast, are an anomaly. Sales are higher in the June forecast than the February forecast. The June forecast assumes that COVID-19 will not dampen retail sales, but redistribute sales among retail categories and boost overall retail spending. Grocery, general merchandise, and building and garden establishments have been big beneficiaries of the shifting distribution of retail sales, while restaurants and drinking establishments have seen their sales plummet. Taxable retail sales are forecast to increase by 8.1% in 2020 and 5.9% in 2021, with sales increasing to \$42.1 million by 2021.

Figure 3: Unemployment Rate in Utah



Source: Utah Department of Workforce Services and Revenue Assumptions Working Group

Figure 4: Total Workers Receiving Unemployment Insurance in Utah



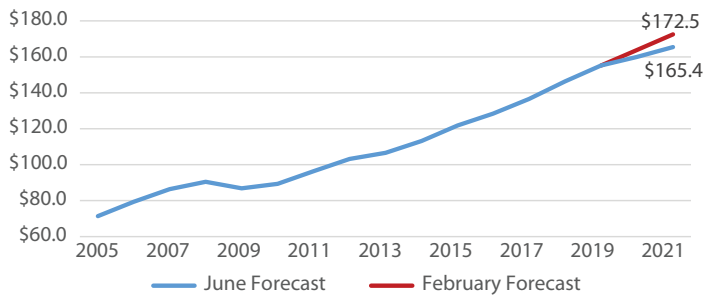
Source: Utah Department of Workforce Services.

Table 3: Weekly Traditional Unemployment Insurance Claims in Utah*

Week Ending	UI New Claimants	Total Weekly Claims	Total on Unemployment Insurance
21-March	19,591	11,321	30,912
28-March	28,560	24,424	52,984
4-April	33,076	33,290	66,366
11-April	24,171	74,441	98,612
18-April	19,571	95,376	114,947
25-April	11,380	105,010	116,390
2-May	9,057	107,711	116,768
9-May	7,135	106,337	113,472
May 16	6,275	101,389	107,664
May 23	5,455	97,570	103,025
May 30	4,996	93,276	98,272
6-June	5,452	91,146	96,598
13-June	4,847	87,837	92,684
20-June	4,961	84,557	89,518
27-June	5,006	83,959	88,965
4-July	4,850	81,545	86,395
11-July	4,828	80,048	84,876
18-July	4,514	77,324	81,838
Average for 2019	1,131	8,856	9,987

*Does not include claims under the Pandemic Unemployment Assistance Program (PUA).
Source: Derived from Utah Department of Workforce Services data

Figure 5: Personal Income in Utah
(Billions)



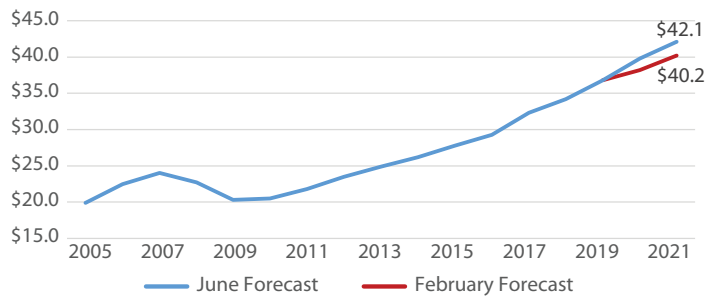
Source: U.S. Bureau of Economic Analysis and Revenue Assumptions Working Group.

**Table 4: Change in Personal Income in Utah—
Comparison of February and June Forecasts**

Year	Percent Change		Numeric Change (billions)	
	2020	2021	2020	2021
February Forecast	5.6%	5.3%	\$163.9	\$172.5
June Forecast	3.0%	3.5%	\$159.8	\$165.4
Numeric Difference	---	---	-\$4.1	-\$7.1

Source: Revenue Assumptions Working Group

Figure 6: Taxable Retail Sales in Utah
(Billions)



Source: U.S. Bureau of Economic Analysis and Revenue Assumptions Working Group.

**Table 5: Change in Taxable Retail Sales in Utah —
Comparison of February and June Forecasts**

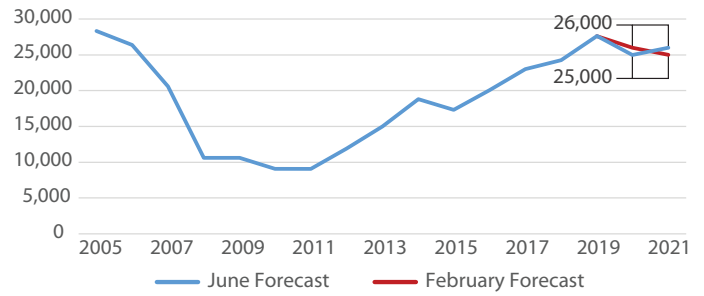
Year	Percent Change		Numeric Change (billions)	
	2020	2021	2020	2021
February Forecast	3.8%	5.2%	\$38.2	\$40.2
June Forecast	8.1%	5.9%	\$39.8	\$42.1
Numeric Difference	---	---	\$1.6	\$1.9

Source: Revenue Assumptions Working Group

Residential Construction

The February forecast had residential construction declining in 2020 by 5.8% due to slower employment and demographic growth as well as unsustainable high rates of multifamily construction. Both apartments and condominium units set record highs in 2019. Some reduction in new units was likely without COVID-19. The June forecast shows that COVID-19 will

Figure 7: Permits for Residential Dwelling Units in Utah



Source: Kem C. Gardner Policy Institute and Revenue Assumptions Working Group

**Table 6: Change in Permits Issued for Residential Dwelling
Units in Utah—Comparison of February and June Forecasts**

Year	Percent Change		Numeric Change (billions)	
	2020	2021	2020	2021
February Forecast	-5.8%	-3.8%	26,000	25,000
June Forecast	-9.4%	4.0%	25,000	26,000
Numeric Difference	---	---	-1,000	1,000

Source: Revenue Assumptions Working Group

push residential construction down a bit more, to 25,000 units, 9.4% below 2019, and about 1,000 units less than the February forecast. The anticipated strong recovery in 2021 will likely generate demand for 26,000 residential units, a modest 4% increase in residential construction.

The housing sector has been less impacted by COVID-19 than expected. Unlike the Great Recession, COVID-19 has had little impact, at least to this point, on financial markets. The interest rate on a 30-year mortgage is at the lowest level in 50 years, which seems to have offset, along with Utah's housing shortage, any impact of COVID-19 on housing demand.

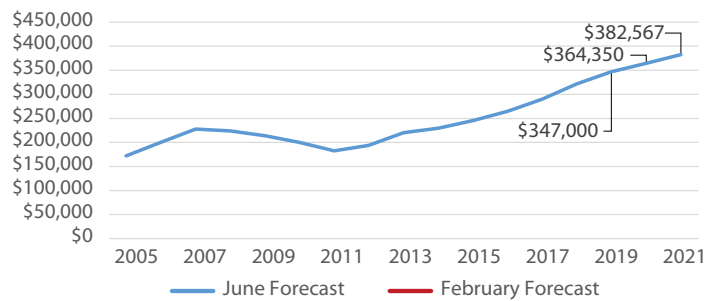
Median Sales Price and Sales of Single Family Homes

COVID-19 will have little impact on housing prices in 2020, provided the anticipated job recovery, in the third and fourth quarters, arrives on schedule. In 2020, the statewide median sales price for a single-family home was \$347,000. The price increase in 2020 will likely be modest at 5%. Since 2012 the average annual increase in the median sales prices has been nearly 9%. The COVID-19 recession may create reluctance on the part of some sellers to enter the market or to pull their listings. Lack of listing will create an imbalance between supply and demand, which will support higher prices, but reduced sales. Thus, the uncertainty created by COVID-19 is expected to push sales lower in 2020, possibly by 10%. Sales in 2021 should rebound, as the recovery and low interest rates make for an attractive market; however, prices will not likely increase more than 5% due to affordability.

Nonresidential Construction

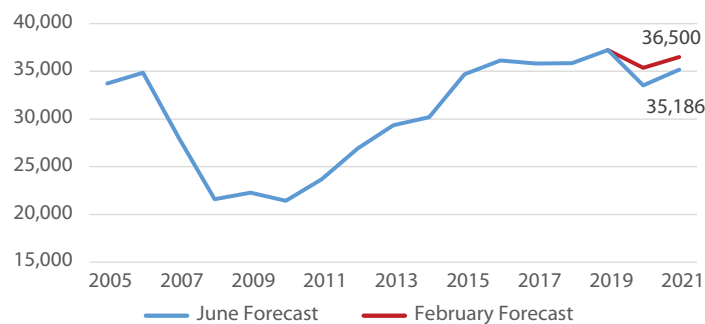
The value of permit authorized nonresidential construction has been at record levels since 2016. Last year was the second-highest year ever with \$2.6 billion in value, just slightly below the record year of 2016 (\$2.7 billion). During this period of high activity, hospitals, office buildings, and industrial buildings set record highs, easing the need for similar construction in the next few years.

Figure 8: Median Sales Price of Single-Family Homes in Utah (Unchanged from February Forecast)



Source: UtahRealEstate.com

Figure 9: Sales of Single Family Homes in Utah



Source: UtahRealEstate.com and Kem C. Gardner Policy Institute

Table 7: Change in Sales of Single-Family Homes in Utah—Comparison of February and June Forecasts

Year	Percent Change		Numeric Change (billions)	
	2020	2021	2020	2021
February Forecast	-5.0%	3.2%	35,370	36,500
June Forecast	-10.0%	5.0%	33,510	35,186
Numeric Difference	---	---	1,860	1,314

Source: Kem C. Gardner Policy Institute

Table 9: Comparison of Pre-COVID-19 and COVID-19 2021 Forecast

Year	2021 Forecast		Difference	Average Annual Growth 2014-2019
	Pre-COVID-19	COVID-19		
GDP (billion)	\$205.8	\$189.4	-\$16.4	\$8.4
Employment	1,636,000	1,588,000	-48,000	46,500
Personal Income (billion)	\$172.5	\$165.4	-\$7.1	\$8.4

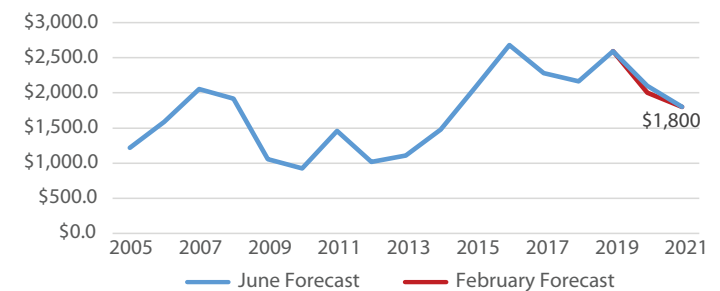
Source: Revenue Assumptions Working Group

Consequently, nonresidential activity before COVID-19 was forecast to see a decline in activity. COVID-19 will have only a marginal impact on permit authorized nonresidential construction, reducing the value of permits from \$2.1 billion to \$2.0 billion in 2020. Permit authorized nonresidential construction does not include federal, state, local government or school district sponsored projects. COVID-19 will likely impact the timing of some of these public projects, as local governments struggle with declining tax revenue.

Conclusion: COVID-19 and the Lost Year of Output, Employment, and Income

While the economic damage from COVID-19 has not been as severe as first anticipated, the Utah economy has suffered a significant setback. Due to COVID-19, the Utah economy will likely experience the loss of roughly a year's worth of output (GDP), employment, and income. By 2021, according to the forecast, Utah's gross domestic product will be \$16.4 billion lower than it otherwise would have been in the absence of the pandemic, the number of jobs will be 48,000 fewer, and total personal income will be less by \$7.1 billion.

Figure 10: Value of Nonresidential Construction in Utah (Millions)



Source: Kem C. Gardner Policy Institute

Table 8: Change in Value of Nonresidential Construction in Utah—Comparison of February and June Forecasts

Year	Percent Change		Numeric Change (billions)	
	2020	2021	2020	2021
February Forecast	-19.0%	-14.3%	\$2,100	\$1,800
June Forecast	-22.8%	-10.0%	\$2,000	\$1,800
Numeric Difference	---	---	-\$100	\$0

Source: Kem C. Gardner Policy Institute

Despite the economic shock of COVID-19, some positive signs of recovery have emerged lately. Notably, the surprising drop in Utah's June unemployment rate to 5.1% and the strength of state's sales and use tax revenues, which are up nearly 7% during the critical March to June period. But, the recent surge of virus cases and deaths in both Utah and the nation underscores the economic recovery's fragility. Furthermore, uncertainty surrounds the reopening of schools,

the extension of initial federal assistance programs, and the scale of additional assistance in the fourth phase of fiscal stimulus. Notwithstanding this uncertainty, the Revenue Assumptions Working Group developed a consensus forecast for the June special session of the Utah Legislature. This forecast represents the best judgment of the participants at that time. The forecast for selected economic indicators is provided in Table 10.

Table 10: Change in Utah's Economic Indicators (June 9, 2020 Forecast)

Economic Indicator	2019	2020	2021	Percent Change		
				2018-19	2019-20	2020-21
Utah GDP (Billions)	\$188.5	\$178.3	\$189.4	5.8%	-5.4%	6.2%
Nonagricultural Employment (Thousands)	1,560.0	1,529.0	1,588.0	2.8%	-2.0%	3.8%
Unemployment Rate (Percent)	2.6%	5.3%	3.9%	---	---	---
Taxable Retail Sales (Billions)	\$36.8	\$39.8	\$42.1	7.5%	8.1%	5.9%
Personal Income (Billions)	\$155.1	\$159.8	\$165.4	6.0%	3.0%	3.5%
Dwelling Unit Permits	27,606	25,000	26,000	13.9%	-9.4%	4.0%
Nonresidential Permit Value (Billions)	\$2.59	\$2.00	\$1.80	19.7%	-22.8%	-10.0%
Median Sales Price of Single-Family Home	\$347,000	\$364,350	\$382,567	7.8%	5.0%	5.0%
Single-Family Home Sales (Units)	37,234	33,510	35,186	3.9%	-10.0%	5.0%

Source: Utah Revenue Assumptions Working Group, Utah Department of Workforce Services, Utah State Tax Commission, Kem C. Gardner Policy Institute.

Endnotes

1. RAWG includes economists from the Office of the Legislative Fiscal Analyst, Governor's Office of Management and Budget, Utah State Tax Commission, BJO Capital Management, and Kem C. Gardner Policy Institute. The Governor's Office of Management and Budget and the Legislative Fiscal Analyst's office use the RAWG quarterly forecasts to develop state revenue forecasts.

This report, which compares Utah's official economic forecast pre- and post-COVID-19, helps Utah decision-makers make INFORMED DECISIONS™ during the pandemic. The Kem C. Gardner Policy Institute has also helped author four Utah Leads Together Plans for a health and economic recovery, authored economic and demographic briefs and fact sheets, made presentations to policymakers, and contributed to a navigating COVID-19 webinar series led by the Marriner S. Eccles Institute for Economics and Quantitative Analysis. Visit gardner.utah.edu/covid-19 to access these research products. navigating COVID-19 webinar series led by the Marriner S. Eccles Institute for Economics and Quantitative Analysis. Visit gardner.utah.edu/covid-19 to access these research products.