Policy Brief
February 2023

Kem C. Gardner
POLICY INSTITUTE
THE UNIVERSITY OF UTAH
DAVID ECCLES SCHOOL OF BUSINESS

An Economic Overview for Utah and U.S.

By: Phil Dean, Chief Economist and Public Finance Senior Fellow, Gardner Institute;
Nate Talley, Deputy Commissioner and Chief Financial Officer, USHE

Utah enters 2023 facing significant economic uncertainty as decision-makers continue to grapple with ever-changing pockets of economic strength and weakness. The post-pandemic economy has altered many traditional economic relationships. These economic transformations make accurate predictions challenging because it's unclear if or when old patterns will return, or if new arrangements will chart a different economic course.

Current economic challenges amid an overheated economy include stubbornly high inflation, rapidly rising interest rates, low consumer sentiment, and unmistakable construction and real estate slowdowns. At the same time, many often-under-appreciated economic buffers exist. Extremely low unemployment coupled with improving supply chains and very strong overall household, firm, and state and local government financial reserves combine to provide a hedge against economic challenges that could spiral into a recession. Economic performance in 2023 will depend on economic decisions made in this complex new environment.

Policy Responses to High Inflation

Beginning in Spring 2021 amid a continuing pandemic and supply-chain-challenge backdrop, overall consumer prices steadily increased at rates not seen in four decades. Stubbornly high inflation and the related policy responses remained the predominant economic story in 2022, even as most direct pandemic-related disruptions ended.

In 2022, year-over U.S. inflation as measured by the consumer price index (CPI) began the year at 7.5% and peaked in June at 9.0%. Mountain Region inflation peaked several months earlier, at an even-higher 10.4% year-over increase (see Figure 2). However, much lower monthly CPI readings since July 2022 moderated year-over inflation to 6.5% in December and provide hope for future relief from high inflation levels. In fact, annualizing the monthly CPI readings since July provides year-over inflation rates a little under 2%, consistent with norms in recent decades, if these recent trends were to continue through 2023 (see Figure 3). However, it's unclear if this price moderation will continue at the current pace.

Interest Rate Increases Slow Housing and Construction Markets, While Housing Affordability Concerns Remain

In response to high (and non-transitory) inflation, in early 2022 the Federal Reserve began shifting away from highly expansionary monetary policy, rapidly increasing interest rates from historically-low levels. Interest rate increases impact the economy by reducing purchases of financed goods and services and affecting the psyche of consumers. With higher rates, households that finance major purchases such as homes or cars buy less. Similarly, businesses that finance equipment or buildings purchase less because higher interest costs make more capital purchases uneconomical. The cumulative effect is to moderate economic activity.

The Federal Reserve began increasing the very short-term (overnight loan) federal funds rate in March 2022, from slightly above zero early in 2022 to about 4.3% by year-end. Given the continuing overheated economy, future rate increases seem likely in 2023, although the pace of increases may moderate.

Beginning in January 2022, 30-year conventional mortgage interest rates increased from a little over 3% to nearly 6% by June, a remarkable near-doubling of rates over six months (see Figure 4). While market participants anticipated rate increases given the abnormally low mortgage rates during the pandemic, the rapid pace of increase surprised many. Spiking above 7% in late October 2022, 30-year conventional mortgage rates have since dropped to about 6.4% as of year-end.

Interest rate increases led to slowdowns in overheated housing and construction markets. Although Utah year-over price changes remain positive, year-over home price growth rates rapidly decelerated in 2022. Home prices could decline somewhat in 2023 as high interest rates continue to drive many would-be buyers out of the market. However, Utah's overall housing under-supply issues have not evaporated and will likely offset price declines that may otherwise occur.

Major housing affordability challenges remain, particularly among the 30% of Utah households on the outside looking in on homeownership. Those missing out on homeownership's benefits generally include Utahns who are younger, have lower

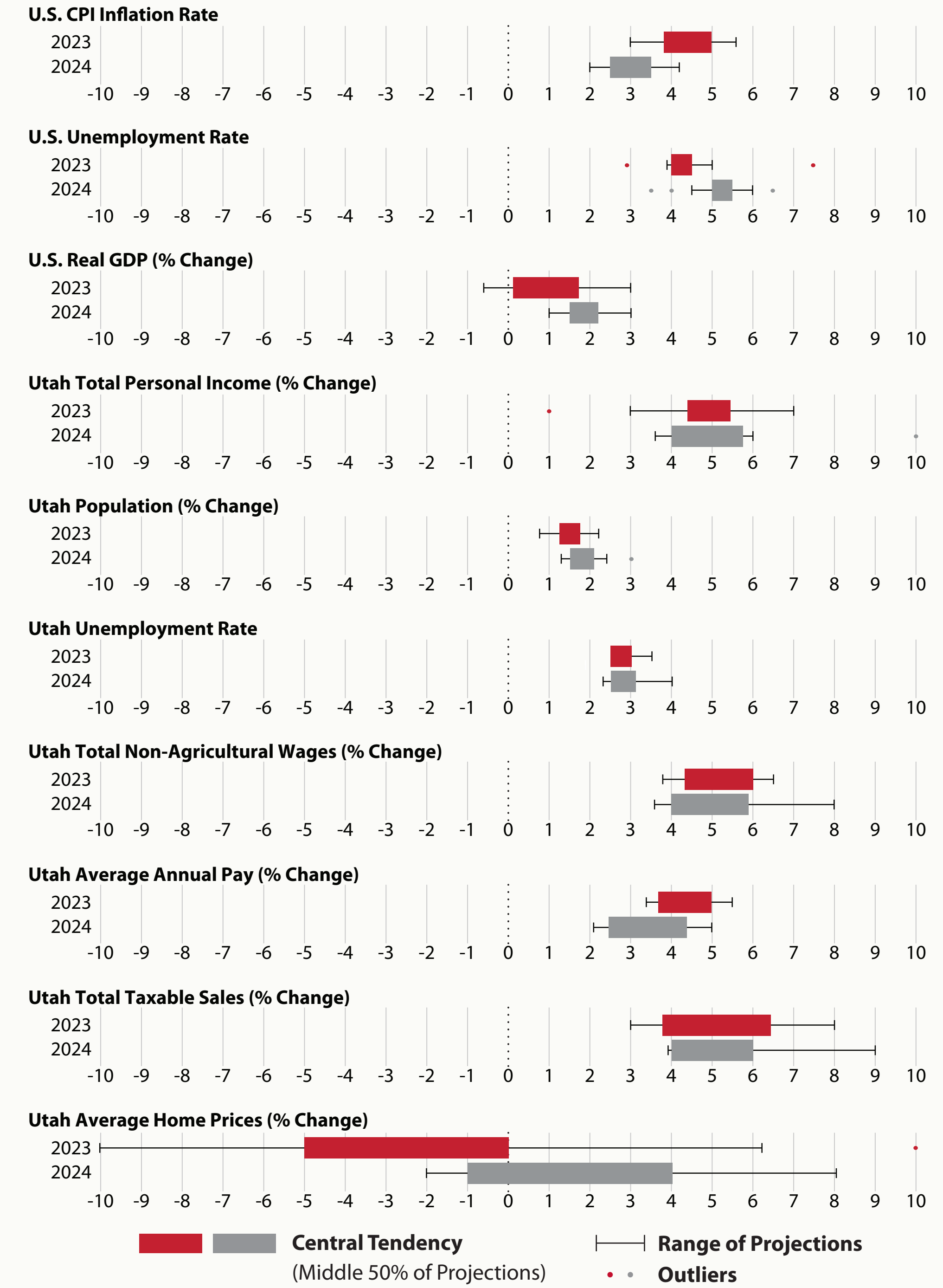
Table 1: Utah Economic Council Economic and Business Indicators

Utah and the United States, December 2022

				Percent Change		Utah Economic Council Forecast		Percent Change	
DEMOGRAPHICS	2020 Actual	2021 Actual	2022 Estimate	20-21	21-22	2023	2024	22-23	23-24
Utah July 1st Population (Thousands)	3,285	3,344	3,405	1.8	1.8	3,456	3,514	1.5	1.7
Utah Net Migration (Thousands)	26.1	34.9	38.1	–	–	26.2	32.9	–	–
U.S. July 1st Population (Millions)	331.8	332.2	333.1	0.1	0.3	334.5	336.1	0.4	0.5
EMPLOYMENT, WAGES, AND INCOME									
Utah Nonagricultural Employment (DWS) (Thousands)	1,539	1,616	1,676	5.0	3.7	1,709	1,739	2.0	1.7
Utah Total Nonagriculture Wages (DWS) (Millions)	$83,223	$92,010	$101,958	10.6	10.8	$108,075	$112,615	6.0	4.2
Utah Average Annual Pay (DWS) (Dollars)	$54,079	$56,944	$60,849	5.3	6.9	$63,223	$64,740	3.9	2.4
Utah Unemployment Rate (DWS) (Percent)	4.7	2.7	2.0	–	–	2.6	2.7	–	–
Utah Personal Income (BEA) (Millions)	$171,385	$186,991	$195,707	9.1	4.7	$207,449	$217,822	6.0	5.0
U.S. Establishment Employment (BLS) (Millions)	142	146	152	2.8	4.1	153	152	0.6	-0.3
U.S. Total Wages & Salaries (BEA) (Billions)	$9,457	$10,290	$11,164	8.8	8.5	$11,701	$12,191	4.8	4.2
U.S. Average Annual Pay (BEA)	$66,533	$70,431	$73,423	5.9	4.2	$76,502	$79,987	4.2	4.6
U.S. Unemployment Rate (BLS) (Percent)	8.1	5.4	3.7	–	–	4.5	4.2	–	–
U.S. Personal Income (BEA) (Billions)	$19,832	$21,295	$21,752	7.4	2.1	$22,736	$23,786	4.5	4.6
PRODUCTION AND SALES									
Utah Real GDP (2012 Chained, Millions)	$174,955	$186,910	$191,186	6.8	2.3	$194,863	$200,364	1.9	2.8
Utah Taxable Sales (Millions)	$74,731	$90,105	$100,407	20.6	11.4	$106,432	$111,327	6.0	4.6
Utah Exports (Millions)	$17,713	$18,060	$15,738	2.0	-12.9	$16,907	$17,956	7.4	6.2
U.S. Real GDP (2012 Chained, Billions)	$18,509	$19,610	$19,983	5.9	1.9	$20,183	$20,587	1.0	2.0
U.S. Total Retail Sales (Billions)	$6,210	$7,435	$8,149	19.7	9.6	$8,308	$8,476	2.0	2.0
U.S. Real Exports (2012 Chained, Billions)	$2,232	$2,367	$2,538	6.1	7.2	$2,623	$2,745	3.4	4.6
REAL ESTATE AND CONSTRUCTION									
Utah Dwelling Unit Permits (Units)	31,797	40,144	29,500	26.3	-26.5	22,750	23,500	-22.9	3.3
Utah Home Price Index (FHFA) (1991Q1 = 100)	540	661	792	22.4	19.8	783	798	-1.2	2.0
Utah Residential Permit Value (Millions)	$6,785	$8,850	$7,097	30.4	-19.8	$5,300	$6,000	-25.3	13.2
Utah Nonresidential Permit Value (Millions)	$2,567	$2,930	$3,256	14.1	11.1	$2,600	$2,200	-20.2	-15.4
U.S. Private Residential Investment (Billions)	900.8	1,107.6	1,131.1	23.0	2.1	1,009.8	1,090.1	-10.7	7.9
U.S. Home Price Index (FHFA) (1991Q1 = 100)	290	339	386	16.8	13.8	365	362	-5.5	-0.8
ENERGY & NATURAL RESOURCE PRODUCTION AND PRICES									
West Texas Intermediate Crude Oil Price (Per Barrel)	$39	$68	$96	73.2	40.7	$82	$82.5	-13.8	0.1
Utah Oil Price (Per Barrel)	$35	$61	$84	74.0	38.3	$75	$64.0	-10.7	-14.7
Utah Coal Price (Per Short Ton)	$37	$34	$37	-8.7	8.8	$39	$35.0	5.4	-10.3
Utah Natural Gas Price (Per MCF)	$2.0	$4.1	$6.4	109.2	56.1	$5.4	$4.5	-15.6	-16.7
Utah Copper Price (Per Pound)	$2.8	$4.3	$3.7	51.8	-12.9	$4.0	$4.1	8.1	2.5
Utah Crude Oil Production (Million Barrels)	31	36	43	14.6	21.9	46	48	6.2	4.3
Utah Coal Production (Million Tons)	13.3	12.3	11.0	-7.4	-10.9	12.5	13.0	13.6	4.0
Utah Natural Gas Production Sales (Billion Cubic Feet)	243	240	260	-1.1	8.4	275	290	5.8	5.5
Utah Copper Mined Production (Million Pounds)	309	351	353	13.6	0.6	450	451	27.5	0.2
INFLATION AND INTEREST RATES									
U.S. CPI Urban Consumers (BLS) (1982-84 = 100)	258.8	271.0	292.8	4.7	8.1	305.4	314.0	4.3	2.8
U.S. Federal Funds Rate (FRB) (Effective Rate)	0.4	0.1	1.7	–	–	4.8	4.3	–	–
U.S. 3-Month Treasury Bills (FRB) (Discount Rate)	0.4	0.0	2.0	–	–	4.7	4.0	–	–
U.S. 10-Year Treasury Notes (FRB) (Yield (Percent))	0.9	1.4	3.0	–	–	3.6	3.3	–	–
30 Year Mortgage Rate (FHLMC) (Percent)	3.2	3.0	5.4	–	–	6.3	5.6	–	–

Sources: Utah Economic Council, GOPB, Moody's, Economy.com, and IHS Markit

Range Forecast for Selected Economic and Business Indicators, 2023 and 2024



Source: Utah Economic Council

Economic Council Member Survey

Percent indicating Utah currently in recession

0%

Percent indicating U.S. currently in recession

5%

Median probability of Utah recession in 2023

30%

Median probability of U.S. recession in 2023

60%

incomes, and are more racially and ethnically diverse than current homeowners. During the pandemic, Utah homeowner wealth collectively increased by about $50 billion, improving the financial fortunes of homeowners. Moreover, with very low interest rates, many refinanced into lower monthly payments, freeing up monthly funds for other consumption increases. Conversely, most renters generally saw nothing but downside from the pandemic in the form of increased rents that grew faster than wages, heavily constraining other consumption. If not fully addressed, Utah's continuing home affordability challenges will exacerbate Utah employers' existing challenges to retain and attract labor. Housing affordability remains a leading risk to Utah's long-term economic performance.

Tighter Labor Markets Likely Permanent

Another major theme emerging from the post-pandemic economy is tight labor markets. In 2022, Utah's economy hit an all-time low unemployment rate at 1.9%, and hovered in the low 2s the entire year. While this sounds good on the surface, labor constraints limited Utah's economic growth as open jobs went unfilled and some firms struggled to meet high consumer demand.

Baby Boomer retirements created a sizable share of this strain, both in Utah and the U.S. overall. Given its large cohort size, the ripple effects of this long-term structural change throughout the economy may reverberate for decades. While various viable paths to dealing with this labor challenge exist, employers need to reconcile themselves to the new normal of constrained labor availability and plan accordingly. Higher real wages over time for scarce labor is a likely outcome. As one of the youngest states with an age structure that differs from that of the U.S. overall, Utah may experience different impacts than other states, but is subject to the same pressures.

Nominal wages increased sizably in 2022, particularly for job switchers. However, after adjusting for high inflation's impacts, real wages declined, contributing to low consumer sentiment.

Strong Overall Household Balance Sheets Support Continued Spending

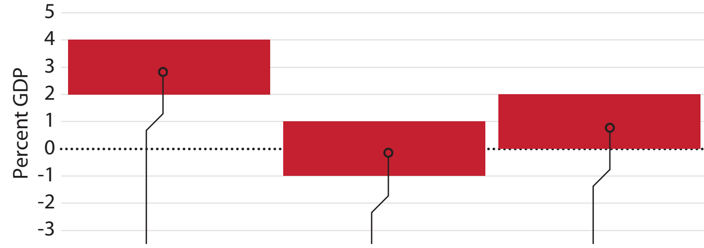
Although softening somewhat toward the end of 2022, U.S. households overall emerged in a far stronger financial position than from the Great Recession of 2007-2009. This strength has supported strong consumer spending in the midst of economic disruption. During the pandemic, personal saving rates spiked to unprecedented levels. Households saved as much as a third of disposable income (juiced by fiscal stimulus) during the early pandemic - in part due to forced saving amidst constrained economic activity. This created a massive stock of liquid household savings that continued increasing through the third quarter of 2022 and that created a massive amount of unused spending capacity capable of supporting continued consumption for some time (see Figures 6 and 7). Moreover, household monthly debt service levels dropped to multi-decade lows and even with recent upticks remain below pre-pandemic levels, further facilitating continued consumption (see Figure 8).

However, this household financial strength is not universal. Many low-income households in particular are heavily pinched financially by inflation, leading to recent loan payment delinquency upticks – although still well below pre-pandemic levels.

Figure 1 shows three potential economic scenarios for 2023: continuing growth, shallow recession, and declerating growth. Wise decisionmakers will prepare to respond to any of the three scenarios, allowing them to capture market share and prosper under any scenario. Given its fundamental economic strengths, Utah appears well positioned to respond to economic shifts, but is not an island and will be impacted by national economic trends.

Figure 1: Preparing for Three Plausible Scenarios for 2023

Given recent trends, three core economic scenarios seem viable for 2023.



Scenario 1
2% to 4%
Continuing Growth

- Inflation recedes at pace
- Interest rate hikes stabilize
- Consumer spending remains strong
- Employers retain workforce
- Geopolitical and supply chain challenges stabilize

Scenario 2
-1% to 1%
Shallow Recession

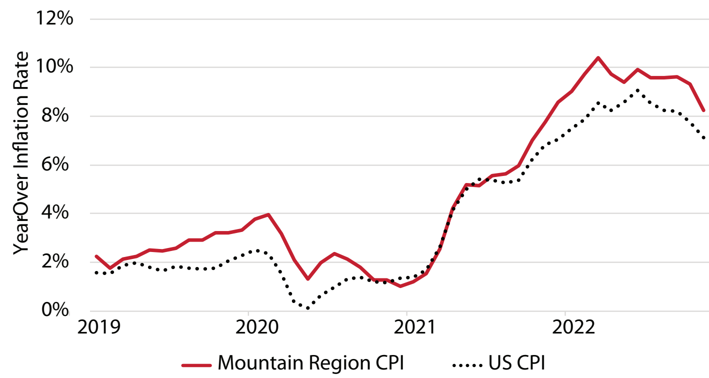
- Inflation recedes slowly
- Interest rate hikes take toll on firm and consumer spending
- Sizable construction slowdown/layoffs impact other industries
- Layoffs take hold
- International challenges continue at 2022 levels

Scenario 3
0% to 2%
Decelerating Growth

- Inflation moderates
- Interest rate hikes continue but slow
- Household financial buffers only partially offset economic challenges
- Layoffs occur in interest-rate-sensitive sectors

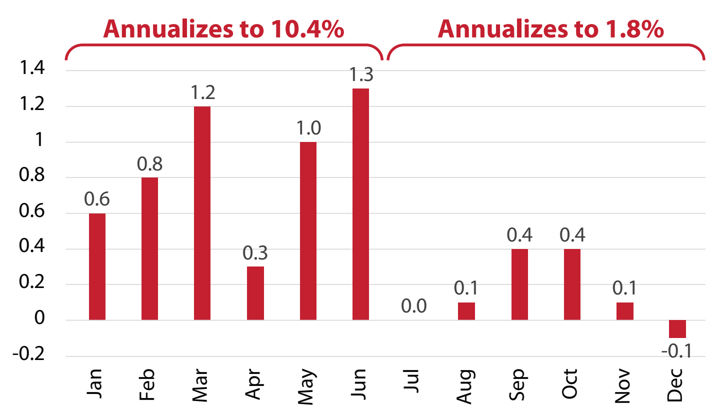
Source: Kem C. Gardner Policy Institute

Figure 2: Mountain Region and U.S. Year-over Consumer Price Index Change, 2019–2022



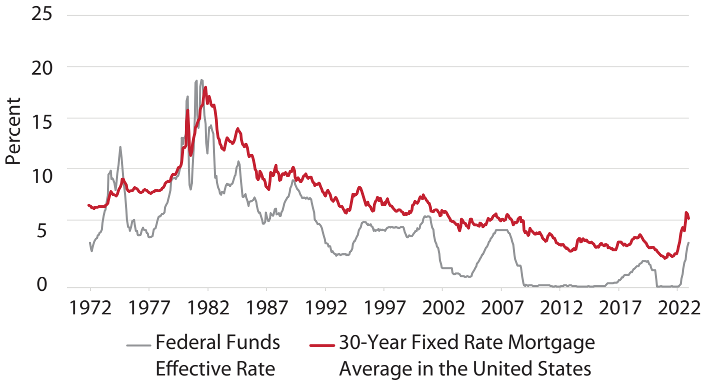
Source: U.S. Bureau of Labor Statistics

Figure 3: One-month Percent Change in CPI for All Urban Consumers (CPI-U), Seasonally Adjusted, January 2022 – December 2022



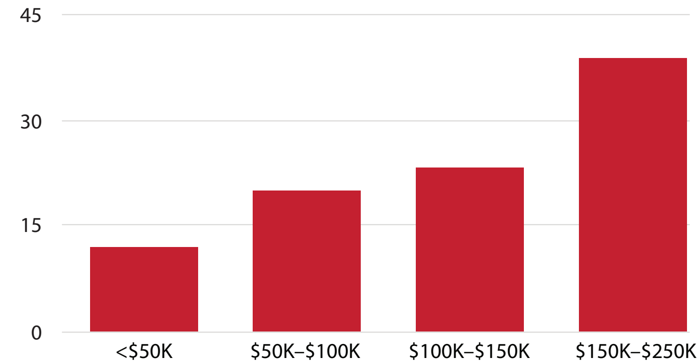
Source: Bureau of Labor Statistics

Figure 4: 30-Year Conventional Fixed Rate Mortgage and Effective Federal Funds Interest Rates, 1972–2022



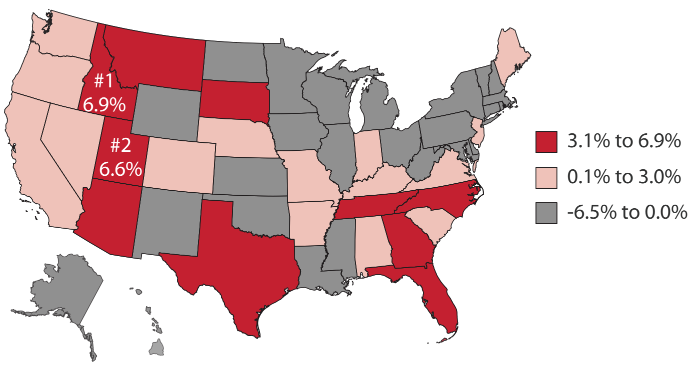
Source: Freddie Mac (FHLMC), Federal Reserve Bank of New York

Figure 7: Months for Median Deposit to Return to Average 2019 Level Given Rate of Decline in Last Three Months



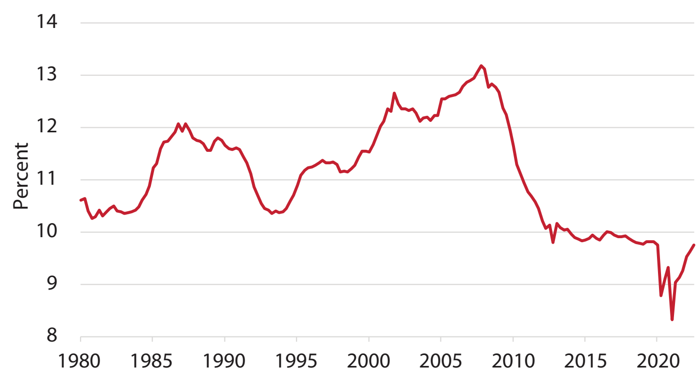
Source: Bank of America

Figure 5: State Pandemic Jobs Recovery, February 2020 – November 2022



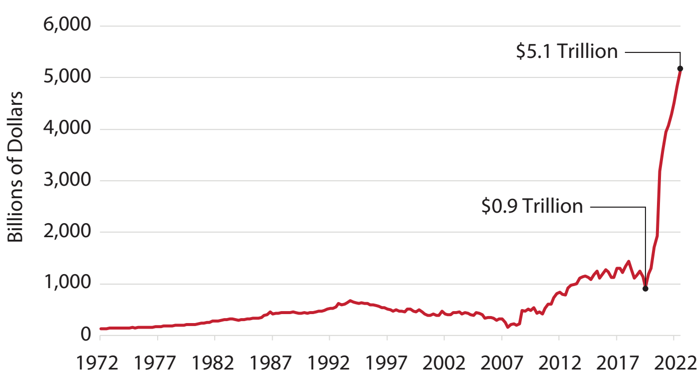
Source: U.S. Bureau of Labor Statistics

Figure 8: U.S. Household Debt Service Payments as Percent of Disposable Personal Income, 1980–2022



Source: Board of Governors of the U.S. Federal Reserve System

Figure 6: Household and Nonprofit Checkable Deposits and Currency Levels, 1972–2022



Source: Board of Governors of the U.S. Federal Reserve System

Note: This policy brief was originally published in the 2023 Economic Report to the Governor. This version incorporates minor changes, including data updates.

Kem C. Gardner
POLICY INSTITUTE
THE UNIVERSITY OF UTAH

DAVID ECCLES SCHOOL OF BUSINESS

Partners in the Community

The following individuals and entities help support the research mission of the Kem C. Gardner Policy Institute.

Legacy Partners

The Gardner Company
Christian and Marie Gardner Family
Intermountain Healthcare
Clark and Christine Ivory Foundation
KSL and Deseret News
Larry H. & Gail Miller Family Foundation
Mountain America Credit Union
Salt Lake City Corporation
Salt Lake County
University of Utah Health
Utah Governor's Office of Economic Opportunity
WCF Insurance
Zions Bank

Executive Partners

Mark and Karen Bouchard
The Boyer Company
Clyde Companies
Salt Lake Chamber

Sustaining Partners

Dominion Energy
Staker Parson Materials and Construction
Wells Fargo

Kem C. Gardner Policy Institute Advisory Board

Kem C. Gardner Policy Institute Staff and Advisors

Leadership Team

Natalie Gochnour, Associate Dean and Director
Jennifer Robinson, Associate Director
Mallory Bateman, Director of Demographic Research
Phil Dean, Chief Economist and Public Finance Senior Research Fellow
Shelley Kruger, Accounting and Finance Manager
Colleen Larson, Administrative Manager
Dianne Meppen, Director of Survey Research
Nicholas Thiriot, Communications Director
James A. Wood, Ivory-Boyer Senior Fellow

Staff

Eric Albers, Research Associate
Samantha Ball, Senior Research Associate
Max Becker, Research Associate
Andrea Thomas Brandley, Senior Education Analyst
Kara Ann Byrne, Senior Research Associate
Mike Christensen, Scholar-in-Residence
Nate Christensen, Research Associate
Dejan Eskic, Senior Research Fellow
Enas Farag, Research Assistant
Emily Harris, Senior Demographer
Michael T. Hogue, Senior Research Statistician
Mike Hollingshaus, Senior Demographer
Thomas Holst, Senior Energy Analyst
Jennifer Leaver, Senior Tourism Analyst
Nate Lloyd, Deputy Director of Economic and Public Policy Research
Levi Pace, Senior Research Economist
Praopan Pratoomchat, Senior Research Economist
Heidi Prior, Research Associate
Natalie Roney, Research Economist
Shannon Simonsen, Research Coordinator
Paul Springer, Senior Graphic Designer
Laura Summers, Senior Health Care Analyst

Faculty Advisors

Matt Burbank, College of Social and Behavioral Science
Elena Patel, David Eccles School of Business
Nathan Seegert, David Eccles School of Business

Senior Advisors

Jonathan Ball, Office of the Legislative Fiscal Analyst
Silvia Castro, Suazo Business Center
Gary Cornia, Marriott School of Business
Wes Curtis, Community-at-Large
John C. Downen, Camoin Associates
Dan Griffiths, Community-at-Large
Emma Houston, University of Utah
Beth Jarosz, Population Reference Bureau
Darin Mellott, CBRE
Pamela S. Perlich, University of Utah
Chris Redgrave, Community-at-Large
Wesley Smith, Northbound Strategy
Juliette Tennert, Community-at-Large

INFORMED DECISIONS™

Kem C. Gardner Policy Institute | 411 East South Temple Street, Salt Lake City, Utah 84111 | 801-585-5618 | gardner.utah.edu