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

<table>
<thead>
<tr>
<th>DEMOGRAPHICS</th>
<th>2020 Actual</th>
<th>2021 Actual</th>
<th>2022 Estimate</th>
<th>Percent Change 20-21</th>
<th>Percent Change 21-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah July 1st Population (Thousands)</td>
<td>3,285</td>
<td>3,344</td>
<td>3,405</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Utah Net Migration (Thousands)</td>
<td>26.1</td>
<td>34.9</td>
<td>38.1</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>U.S. July 1st Population (Millions)</td>
<td>331.8</td>
<td>332.2</td>
<td>333.1</td>
<td>0.1</td>
<td>0.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EMPLOYMENT, WAGES, AND INCOME</th>
<th>2023</th>
<th>2024</th>
<th>Percent Change 22-23</th>
<th>Percent Change 23-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah Nonagricultural Employment (DWS) (Thousands)</td>
<td>1,539</td>
<td>1,616</td>
<td>1,676</td>
<td>5.0</td>
</tr>
<tr>
<td>Utah Total Nonagriculture Wages (DWS) (Millions)</td>
<td>583,223</td>
<td>920,900</td>
<td>1,015,958</td>
<td>10.6</td>
</tr>
<tr>
<td>Utah Average Annual Pay (DWS) (Dollars)</td>
<td>54,079</td>
<td>56,944</td>
<td>60,849</td>
<td>5.3</td>
</tr>
<tr>
<td>Utah Unemployment Rate (DWS) (Percent)</td>
<td>4.7</td>
<td>2.7</td>
<td>2.0</td>
<td>–</td>
</tr>
<tr>
<td>Utah Personal Income (BEA) (Millions)</td>
<td>171,385</td>
<td>186,991</td>
<td>195,707</td>
<td>9.1</td>
</tr>
<tr>
<td>U.S. Establishment Employment (BLS) (Millions)</td>
<td>142</td>
<td>146</td>
<td>152</td>
<td>2.8</td>
</tr>
<tr>
<td>U.S. Total Wages &amp; Salaries (BEA) (Billions)</td>
<td>9,457</td>
<td>10,290</td>
<td>11,164</td>
<td>8.8</td>
</tr>
<tr>
<td>U.S. Average Annual Pay (BEA)</td>
<td>66,533</td>
<td>70,431</td>
<td>73,423</td>
<td>5.9</td>
</tr>
<tr>
<td>U.S. Unemployment Rate (BLS) (Percent)</td>
<td>8.1</td>
<td>5.4</td>
<td>3.7</td>
<td>–</td>
</tr>
<tr>
<td>U.S. Personal Income (BEA) (Billions)</td>
<td>19,832</td>
<td>21,295</td>
<td>21,752</td>
<td>7.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRODUCTION AND SALES</th>
<th>2023</th>
<th>2024</th>
<th>Percent Change 22-23</th>
<th>Percent Change 23-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah Real GDP (2012 Chained, Millions)</td>
<td>$174,955</td>
<td>$186,910</td>
<td>$191,186</td>
<td>6.8</td>
</tr>
<tr>
<td>Utah Taxable Sales (Millions)</td>
<td>$74,731</td>
<td>$90,105</td>
<td>$100,407</td>
<td>20.6</td>
</tr>
<tr>
<td>Utah Exports (Millions)</td>
<td>$77,173</td>
<td>$180,600</td>
<td>$157,388</td>
<td>2.0</td>
</tr>
<tr>
<td>U.S. Real GDP (2012 Chained, Billions)</td>
<td>$194,863</td>
<td>$200,364</td>
<td>$205,877</td>
<td>1.0</td>
</tr>
<tr>
<td>U.S. Total Retail Sales (Billions)</td>
<td>$6,210</td>
<td>$7,435</td>
<td>$8,149</td>
<td>2.0</td>
</tr>
<tr>
<td>U.S. Real Exports (2012 Chained, Billions)</td>
<td>$2,232</td>
<td>$2,367</td>
<td>$2,538</td>
<td>6.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REAL ESTATE AND CONSTRUCTION</th>
<th>2023</th>
<th>2024</th>
<th>Percent Change 22-23</th>
<th>PercentChange 23-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah Dwelling Unit Permits (Units)</td>
<td>31,797</td>
<td>40,144</td>
<td>29,500</td>
<td>26.3</td>
</tr>
<tr>
<td>Utah Home Price Index (FHFA) (1991Q1 = 100)</td>
<td>540</td>
<td>661</td>
<td>792</td>
<td>22.4</td>
</tr>
<tr>
<td>Utah Residential Permit Value (Millions)</td>
<td>$6,785</td>
<td>$8,850</td>
<td>$7,097</td>
<td>30.4</td>
</tr>
<tr>
<td>Utah Nonresidential Permit Value (Millions)</td>
<td>$2,567</td>
<td>$2,930</td>
<td>$3,256</td>
<td>14.1</td>
</tr>
<tr>
<td>U.S. Private Residential Investment (Billions)</td>
<td>$900.8</td>
<td>$1,107.6</td>
<td>$1,131.1</td>
<td>23.0</td>
</tr>
<tr>
<td>Utah Home Price Index (FHFA) (1991Q1 = 100)</td>
<td>290</td>
<td>339</td>
<td>386</td>
<td>16.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ENERGY &amp; NATURAL RESOURCE PRODUCTION AND PRICES</th>
<th>2023</th>
<th>2024</th>
<th>Percent Change 22-23</th>
<th>Percent Change 23-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Texas Intermediate Crude Oil Price (Per Barrel)</td>
<td>$39</td>
<td>$68</td>
<td>$96</td>
<td>73.2</td>
</tr>
<tr>
<td>Utah Oil Price (Per Barrel)</td>
<td>$35</td>
<td>$61</td>
<td>$84</td>
<td>74.0</td>
</tr>
<tr>
<td>Utah Coal Price (Per Short Ton)</td>
<td>$37</td>
<td>$34</td>
<td>$37</td>
<td>-8.7</td>
</tr>
<tr>
<td>Utah Natural Gas Price (Per MCF)</td>
<td>$2.0</td>
<td>$4.1</td>
<td>$6.4</td>
<td>109.2</td>
</tr>
<tr>
<td>Utah Copper Price (Per Pound)</td>
<td>$2.8</td>
<td>$4.3</td>
<td>$3.7</td>
<td>51.8</td>
</tr>
<tr>
<td>Utah Crude Oil Production (Million Barrels)</td>
<td>31</td>
<td>36</td>
<td>43</td>
<td>14.6</td>
</tr>
<tr>
<td>Utah Coal Production (Million Tons)</td>
<td>13.3</td>
<td>12.3</td>
<td>11.0</td>
<td>-7.4</td>
</tr>
<tr>
<td>Utah Natural Gas Production Sales (Billion Cubic Feet)</td>
<td>243</td>
<td>240</td>
<td>260</td>
<td>-1.1</td>
</tr>
<tr>
<td>Utah Copper Mined Production (Million Pounds)</td>
<td>309</td>
<td>351</td>
<td>353</td>
<td>13.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INFLATION AND INTEREST RATES</th>
<th>2023</th>
<th>2024</th>
<th>Percent Change 22-23</th>
<th>Percent Change 23-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. CPI Urban Consumers (BLS) (1982-84 = 100)</td>
<td>258.8</td>
<td>271.0</td>
<td>292.8</td>
<td>4.7</td>
</tr>
<tr>
<td>U.S. Federal Funds Rate (FRB) (Effective Rate)</td>
<td>0.4</td>
<td>0.1</td>
<td>1.7</td>
<td>–</td>
</tr>
<tr>
<td>U.S. 3-Month Treasury Bills (FRB) (Discount Rate)</td>
<td>0.4</td>
<td>0.0</td>
<td>2.0</td>
<td>–</td>
</tr>
<tr>
<td>U.S. 10-Year Treasury Notes (FRB) (Yield (Percent))</td>
<td>0.9</td>
<td>1.4</td>
<td>3.0</td>
<td>–</td>
</tr>
<tr>
<td>30 Year Mortgage Rate (FHLMC) (Percent)</td>
<td>3.2</td>
<td>3.0</td>
<td>5.4</td>
<td>–</td>
</tr>
</tbody>
</table>

Sources: Utah Economic Council, GOPB, Moody’s, Economy.com, and IHS Markit
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 decelerating 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 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 5: State Pandemic Jobs Recovery, February 2020 – November 2022

Source: U.S. Bureau of Labor Statistics

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

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

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 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

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