Economic Insights – Current Conditions & Outlook

Amid Headwinds, Utah’s Fundamentals Remain Strong

January 12, 2023
Economic Report to the Governor
Utah’s strong economic fundamentals help us through the business cycle.

Under-appreciated economic strengths provide economic buffers, while increased interest rates generate risk.

Key Takeaway - To prosper, proactively scenario plan to adapt quickly when conditions change.

“May You Live in Interesting Times”
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

Date of forecast

Source: Federal Reserve Bank of Atlanta
Blue Chip Forecasts Missed Q3 Growth

Source: Federal Reserve Bank of Atlanta

Range of top 10 and bottom 10 average forecasts — Blue Chip consensus
Blue Chip Forecasts Missed Q3 Growth

3.2%

Actual GDP Growth 2002 Q3

- Third Estimate – 3.2% real (7.7% nominal)
- Second Estimate – 2.9% real (7.3% nominal)
- Advance Estimate – 2.6% real (6.7% nominal)

Source: Federal Reserve Bank of Atlanta
Blue Chip Forecasts Missed Q4 Growth Even More

Source: Federal Reserve Bank of Atlanta
Blue Chip Forecasts Missed Q4 Growth Even More

Source: Federal Reserve Bank of Atlanta
Blue Chip Forecasts Missed Q4 Growth Even More

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’

Optimism Makes Comeback on Wall Street With Soft Landing Eyed

Dimon says more dealmaking on Wall Street may return this year

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 growth 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

- Mining: 8.5%
- Construction: 21.2%
- Manufacturing: 7.5%
- Trade, Trans., Utilities: 11.3%
- Information: 13.2%
- Financial Activity: 1.0%
- Prof. & Bus. Services: 2.4%
- Education & Healthcare: 7.6%
- Leisure & Hospitality: 4.2%
- Other Services: 3.6%
- Government: 0.3%

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

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 Incents 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

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

Year-Over CPI Inflation Rate

Mountain Region CPI

US CPI

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

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

Source: Kem C. Gardner Policy Institute
Disruptions Remain, but Supply Chain Conditions Improved

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

Total Residential Housing Units Constructed

Source: Federal Housing Finance Agency
Strength Signal: Demographic Tailwinds Support Housing Markets

Share of Population by Age

Source: Kem C. Gardner Policy Institute
Interest Rates on Mortgages Outstanding as of 2022Q2

Locked Into Lower Rates

Source: FHFA, National Mortgage Database (NMDB®)
Warning Signal:
A Decade of Rent Increases in Two Years

Absolute Increase in Monthly Asking Rent by County

<table>
<thead>
<tr>
<th>County</th>
<th>2000-2010</th>
<th>2010-2020</th>
<th>2020-2022</th>
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<tbody>
<tr>
<td>Salt Lake</td>
<td>$135</td>
<td>$274</td>
<td>$321</td>
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<tr>
<td>Utah</td>
<td>$104</td>
<td>$213</td>
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<td>Davis</td>
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<tr>
<td>Weber</td>
<td>$91</td>
<td>$270</td>
<td>$289</td>
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</table>

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

Source: U.S. Census Bureau
2023 & 2024 Forecast
Utah Economic Council

U.S. CPI Inflation Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
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<tr>
<td>2023</td>
<td>-0</td>
</tr>
<tr>
<td>2024</td>
<td>-2</td>
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U.S. Unemployment Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>2023</td>
<td>3</td>
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<tr>
<td>2024</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Utah Economic Council
2023 & 2024 Forecast
Utah Economic Council

U.S. Real GDP (% Change)

- 2023
- 2024

Utah Total Personal Income (% Change)

- 2023
- 2024

Source: Utah Economic Council
2023 & 2024 Forecast
Utah Economic Council

Utah Population (% Change)

2023
2024

-10 -9 -8 -7 -6 -5 -4 -3 -2 -1 0 1 2 3 4 5 6 7 8 9 10

Utah Unemployment Rate

2023
2024

-10 -9 -8 -7 -6 -5 -4 -3 -2 -1 0 1 2 3 4 5 6 7 8 9 10

Source: Utah Economic Council
2023 & 2024 Forecast
Utah Economic Council

Utah Total Taxable Sales (% Change)

-2023
-2024

Utah Average Home Prices (% Change)

-2023
-2024

Source: Utah Economic Council
In Short, For 2023
Prepare YOUR Responses to Each Scenario

**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