Economic Insights

Even with Headwinds, Utah's Economic Fundamentals Remain Strong

Salt Lake Estate Planning Council Fall Institute
November 2, 2022

Kem C. Gardner
POLICY INSTITUTE
THE UNIVERSITY OF UTAH

DAVID ECCLES SCHOOL OF BUSINESS

Our purpose is to help people make

INFORMED DECISIONS™

Setting the Stage

1. **Utah's Economic Fundamentals Remain Strong, Helping it Through the Business Cycle**

2. **U.S. Economy – Well-Advertised Risks, Underappreciated Strengths**
   - **Supply-side constraints still limit growth**
   - High inflation spurring rapid & ongoing interest rate increases
   - Solid demand continues - but (a) moderating from overheated demand and (b) shifting from goods to services

3. **Utah Not an Island - Mixed Signals & Muddled National Economic Picture Impact Utah**

Recurring Takeaways

- Prepare for continued **economic re-sorting**

- Structural (long-term) and cyclical (short-term) changes create **pockets of strength and weakness**

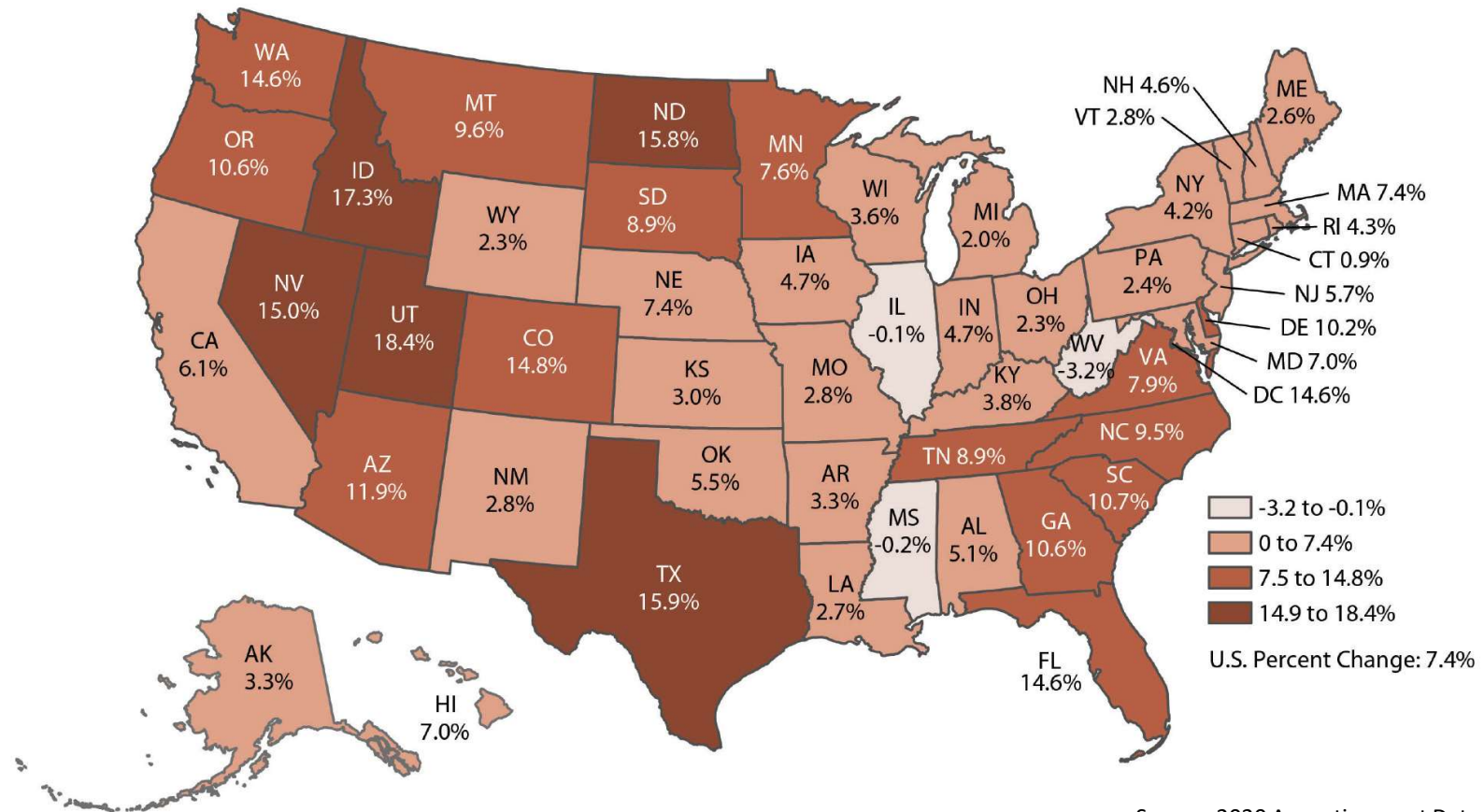- Make your systems highly **adaptable to rapidly changing conditions**

Significant Utah Opportunities and Challenges

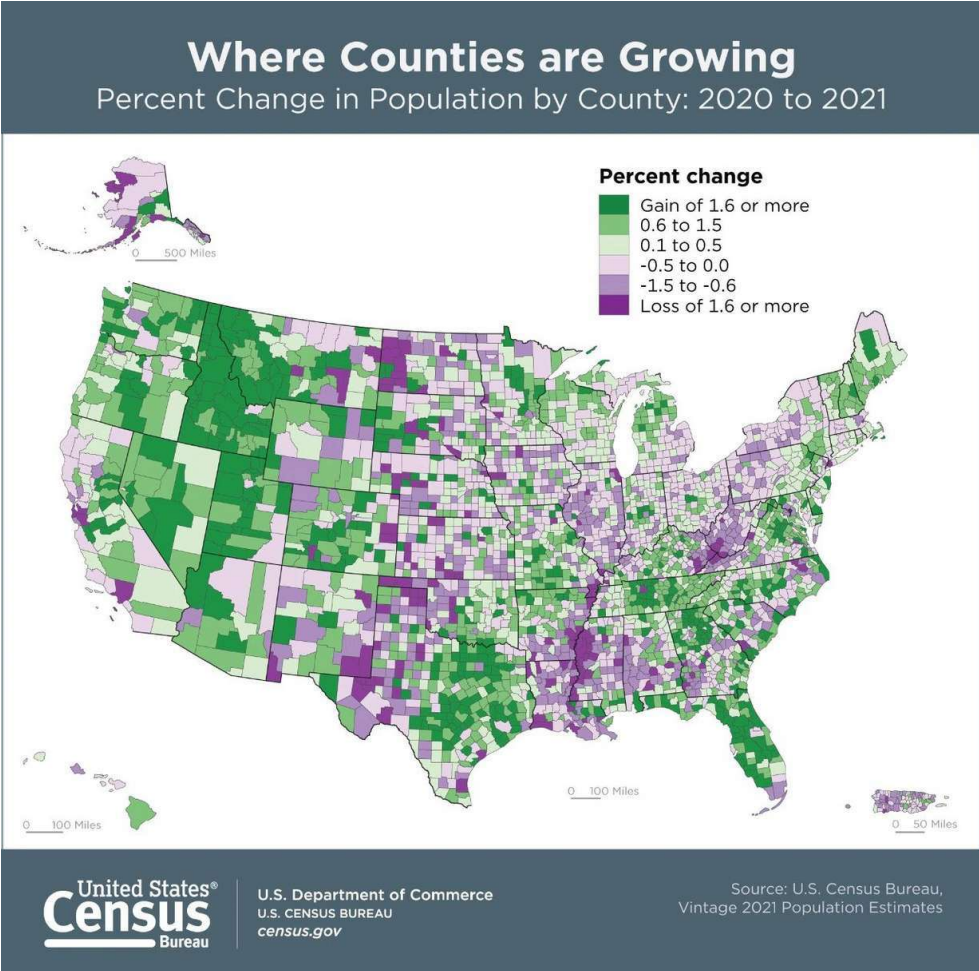| Continuing Growth	Structural Changes in Post-Pandemic Reality	Disadvantaged Utahns
• Life quality • Infrastructure investment • Affordability • Cost of doing business • Air quality and water • Congestion • Crossroads of the West • Young, well-educated population • Declining fertility rate	• Labor shortages • Inflation • Supply chain constraints • Remote work • Relative positioning among states	• Intergenerational poverty • Equitable access to opportunities • Social mobility • Massive untapped potential • Mental health • Homeless services

Source: Kem C. Gardner Policy Institute

Utah's Population Growth Rate Led the Nation

Percent Change, 2010-2020

WA 14.6%
OR 10.6%
MT 9.6%
ND 15.8%
MN 7.6%
ID 17.3%
WY 2.3%
SD 8.9%
WI 3.6%
MI 2.0%
NV 15.0%
UT 18.4%
CO 14.8%
NE 7.4%
IA 4.7%
IL -0.1%
IN 4.7%
OH 2.3%
CA 6.1%
KS 3.0%
MO 2.8%
KY 3.8%
WV -3.2%
AZ 11.9%
NM 2.8%
OK 5.5%
AR 3.3%
TN 8.9%
NC 9.5%
MS -0.2%
AL 5.1%
GA 10.6%
SC 10.7%
TX 15.9%
LA 2.7%
FL 14.6%
AK 3.3%
HI 7.0%
NH 4.6%
VT 2.8%
ME 2.6%
NY 4.2%
MA 7.4%
RI 4.3%
CT 0.9%
NJ 5.7%
PA 2.4%
DE 10.2%
MD 7.0%
DC 14.6%
VA 7.9%

Legend:
- -3.2 to -0.1%
- 0 to 7.4%
- 7.5 to 14.8%
- 14.9 to 18.4%

U.S. Percent Change: 7.4%

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

Intermountain West and South Continue Growing

Where Counties are Growing
Percent Change in Population by County: 2020 to 2021

Percent change
- Gain of 1.6 or more
- 0.6 to 1.5
- 0.1 to 0.5
- -0.5 to 0.0
- -1.5 to -0.6
- Loss of 1.6 or more

United States Census Bureau
U.S. Department of Commerce
U.S. CENSUS BUREAU
census.gov

Source: U.S. Census Bureau, Vintage 2021 Population Estimates

Source: U.S. Census Bureau

Racial and Ethnic Diversification Expected to Continue, Driven by Younger Population

Minority Share of Population, 1900–2060
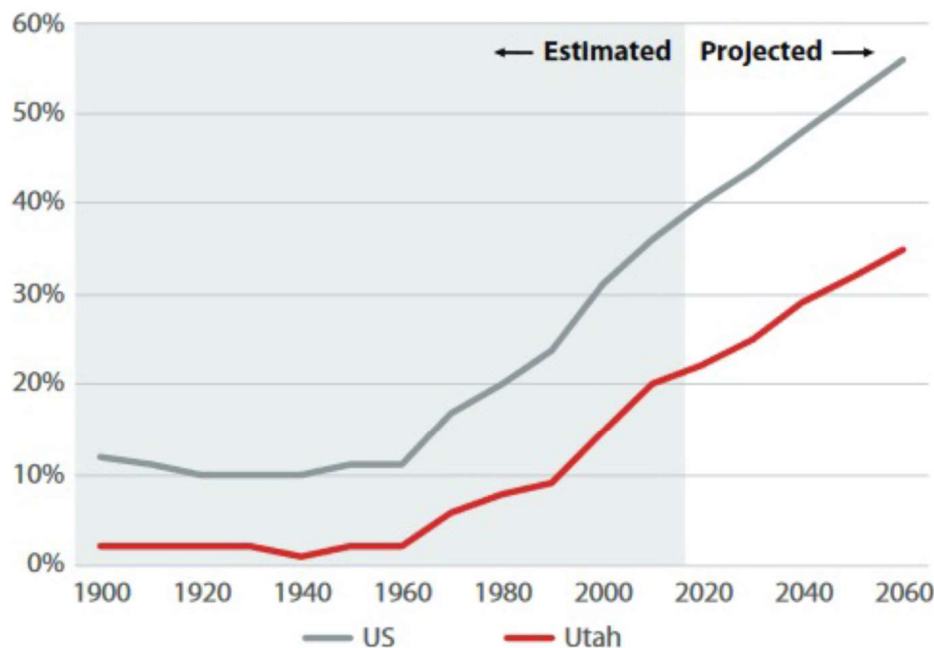
Minority Share of Population, by Age Group
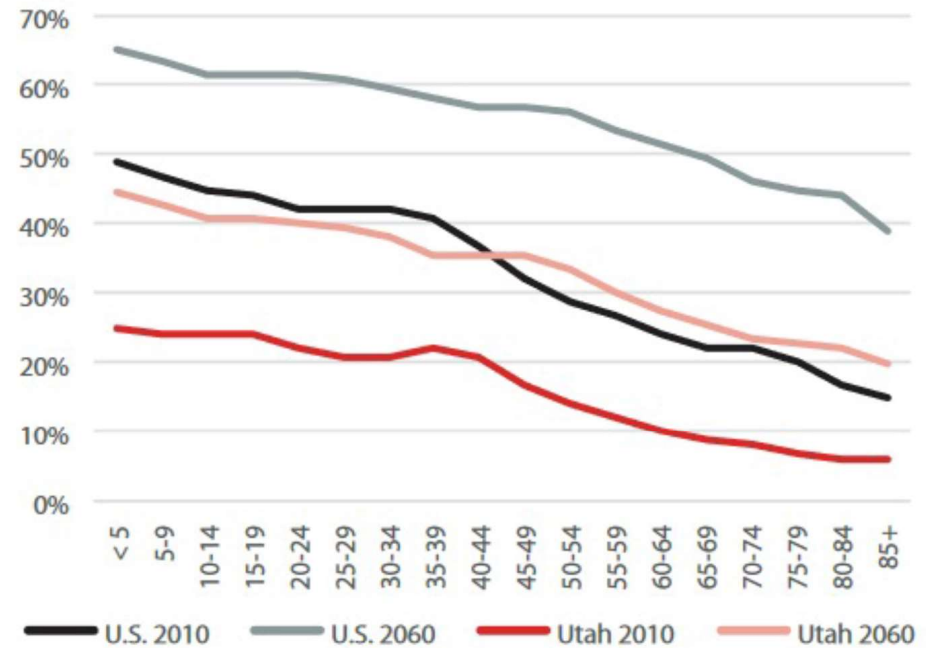
Utah Population in Poverty by Race, Ethnicity, and Sex, 2015-2019

Category	Percent
Total Population	9.8%
Female	10.6%
Male	9.0%
Hispanic or Latino	16.8%
American Indian/Alaska Native	27.1%
Asian	13.3%
Black or African American	27.2%
Native Hawaiian/Pacific Islander	10.7%
Some Other Race	18.8%
Two or More Races	12.1%
White, not Hispanic or Latino	7.9%

0% 5% 10% 15% 20% 25% 30%

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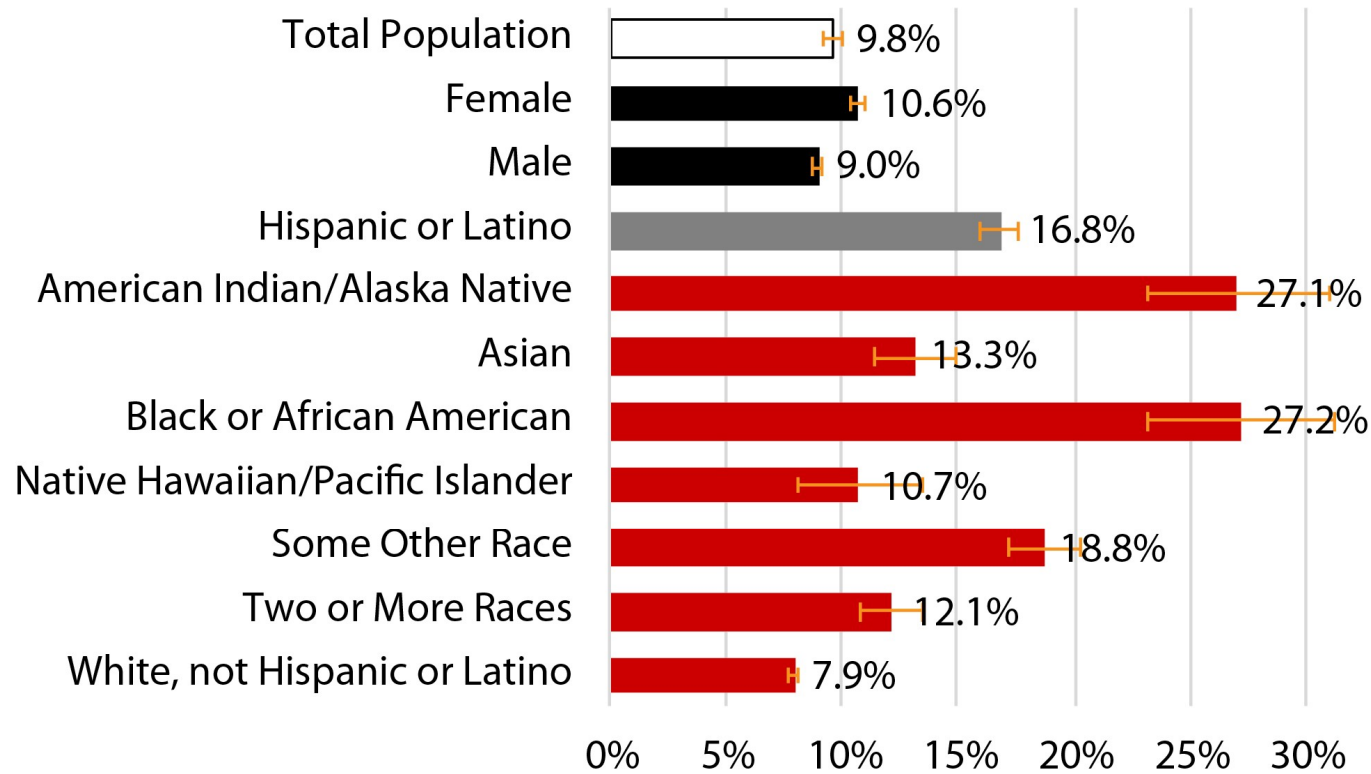
Utah Poverty Rate by Educational Attainment, 2021
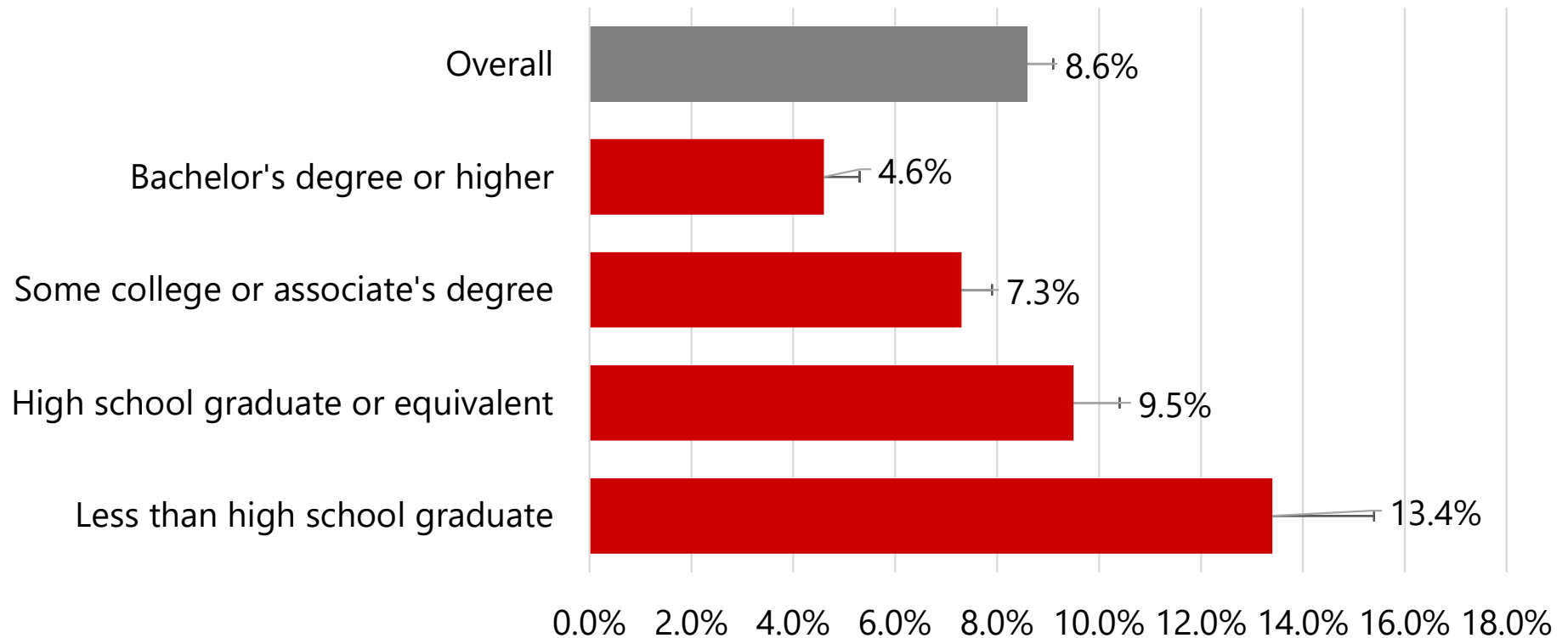
Note: Data are for individuals age 25 and older. These are survey-based estimates subject to sample variation. Each estimate is shown with its 90% confidence interval.
Source: U.S. Census Bureau American Community Survey, 1-Year Estimates

Topographical Constraints Limit Buildable Land Supply
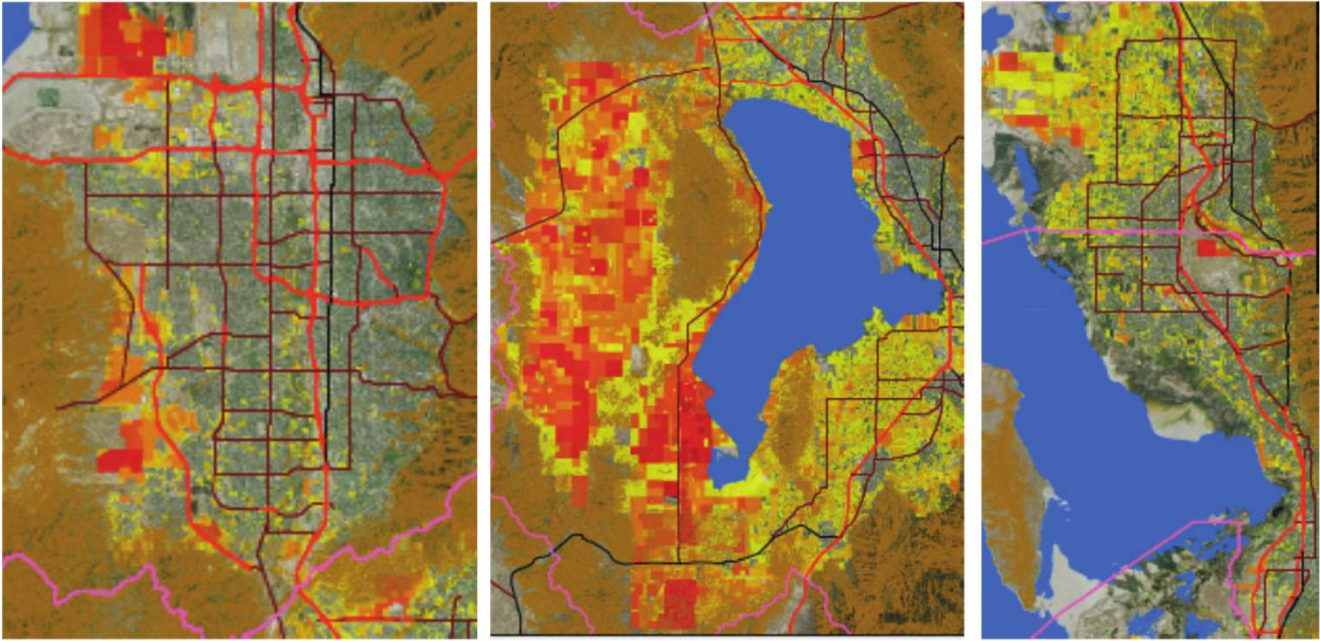
Salt Lake County
≈ 55,000 Acres Currently Developable

Utah County
≈ 240,000 Acres Currently Developable

Davis & Weber Counties
≈ 60,000 Acres Currently Developable

Less Land | More Land | Steep Slope

Source: Envision Utah

Operating Costs
Top 10 Best States for Manufacturing

Weighted Scoring		5%	25%	20%	30%	10%	10%
Overall Ranking	State	Labor Scalability Ranking	Target Skill Sets Ranking	Labor Demand Ranking	Operating Costs Ranking	Organized Labor Ranking	Accessibility Ranking
1	South Carolina	12th	5th	27th	18th	1st	1st
2	**Utah**	**10th**	**6th**	**21st**	**3rd**	**1st**	**27th**
3	Georgia	2nd	2nd	36th	15th	1st	2nd
4	Alabama	38th	9th	8th	17th	26th	3rd
5	Florida	1st	14th	38th	8th	1st	10th
6	North Carolina	5th	16th	39th	1st	1st	7th
7	Tennessee	14th	4th	31st	13th	1st	9th
8	Idaho	11th	7th	5th	28th	1st	28th
9	Texas	3rd	20th	44th	14th	1st	23rd
10	Arkansas	25th	19th	1st	32nd	15th	17th

"Operating Costs" includes utilities, taxes, real estate, and labor costs

Business Friendly Tax Policy

2022 *State Business Tax Climate Index*

WA #15
MT #5
ND #19
VT #43
NH #6
ME #33
OR #22
ID #17
SD #2
MN #45
WI #27
NY #49
WY #1
MI #12
PA #29
NV #7
UT #10
NE #35
IA #38
OH #37
MA #34
CA #48
CO #20
IL #36
IN #9
WV #21
VA #25
RI #40
KS #24
MO #13
KY #18
CT #47
AZ #23
NM #28
OK #26
TN #8
NC #11
NJ #50
AR #44
SC #31
DE #16
TX #14
MS #30
AL #39
GA #32
MD #46
LA #42
FL #4
DC (#48)
AK #3
HI #41
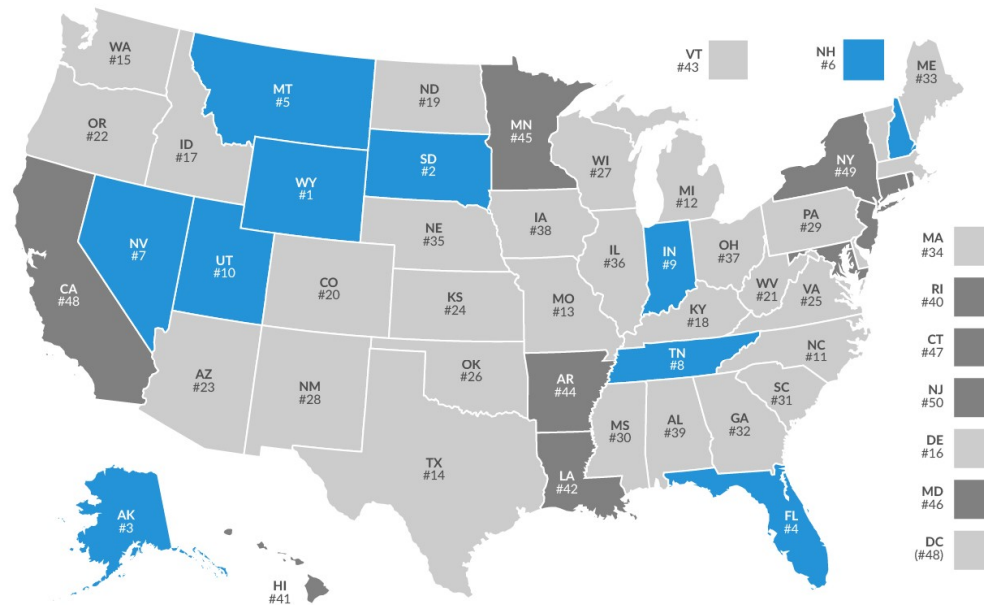
Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2021 (the beginning of Fiscal Year 2022).
Source: Tax Foundation

■ 10 Best Business Tax Climates

■ 10 Worst Business Tax Climates

TAX FOUNDATION   @TaxFoundation

Source: Tax Foundation

Components of U.S. GDP 2017-2022
(Bad Graph With A Purpose)
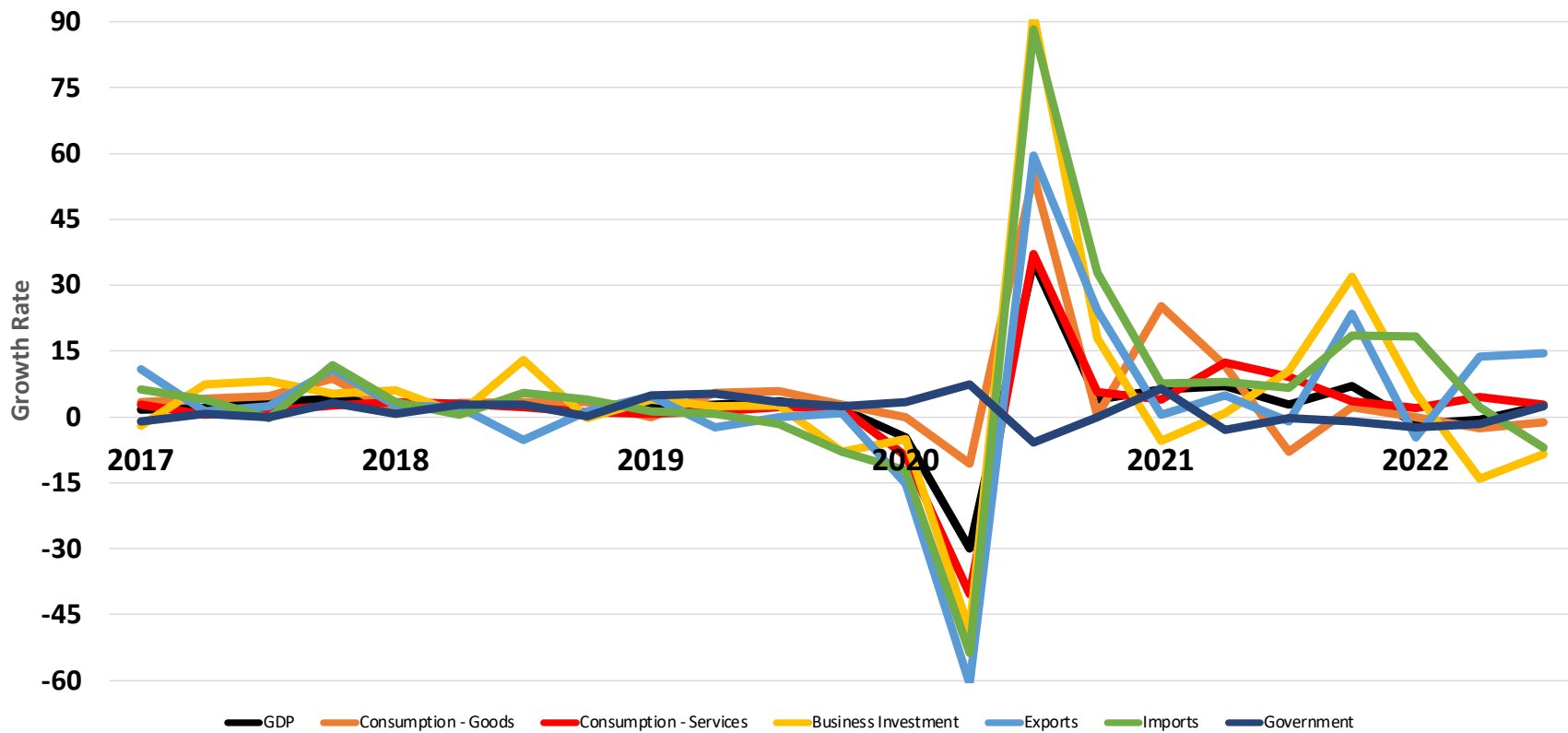
Source: U.S. Bureau of Economic Analysis

Total GDP and Household Consumption 2017-2022

Growth Rate

60
45
30
15
0
-15
-30
-45

2017   2018   2019   2020   2021   2022

GDP   Consumption - Goods   Consumption - Services
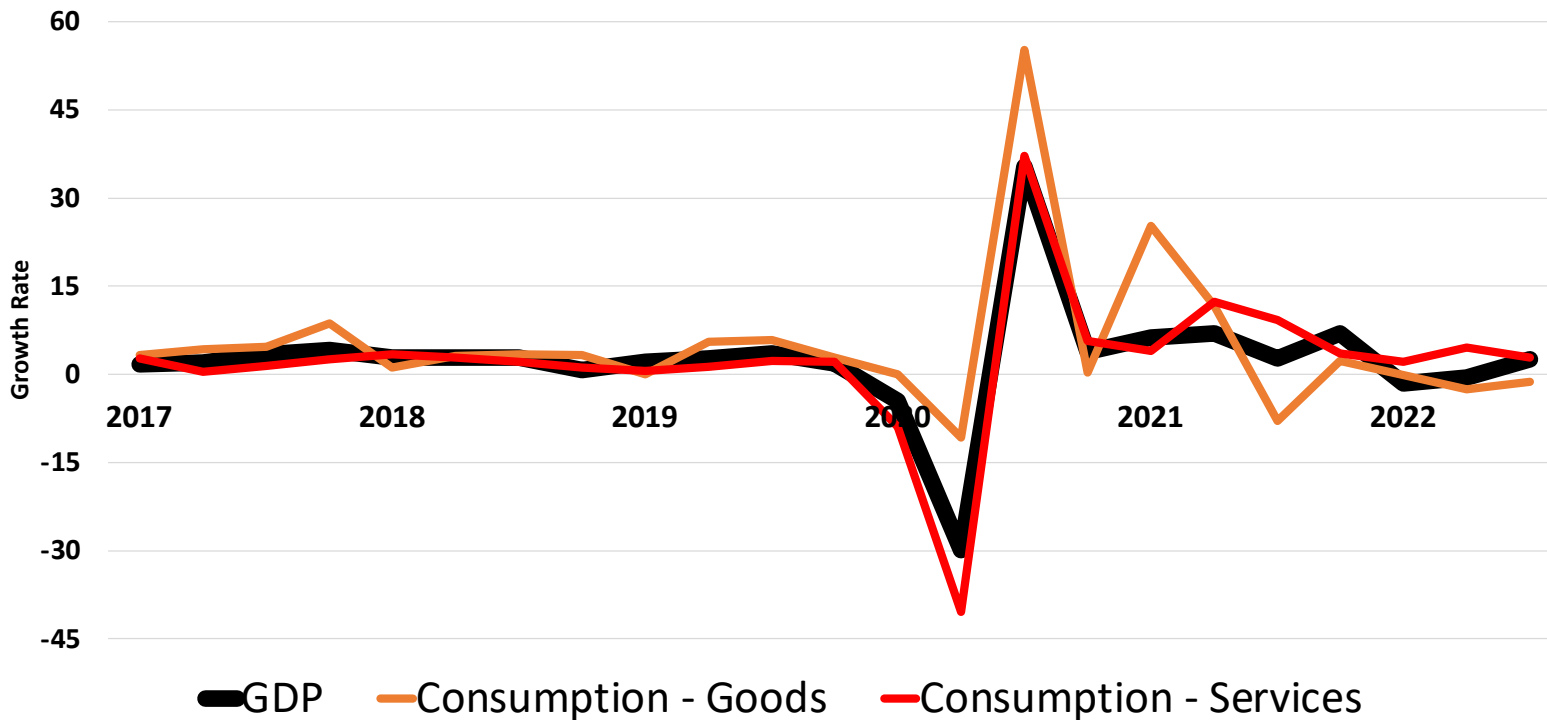
- **Real GDP declined 2022 Q1 and Q2, increased Q3**

- **Household consumption INCREASED each quarter in 2022**

- **BUT services grew, goods declined**

Source: U.S. Bureau of Economic Analysis

Blue Chip Forecast Average Underestimated Q3 GDP
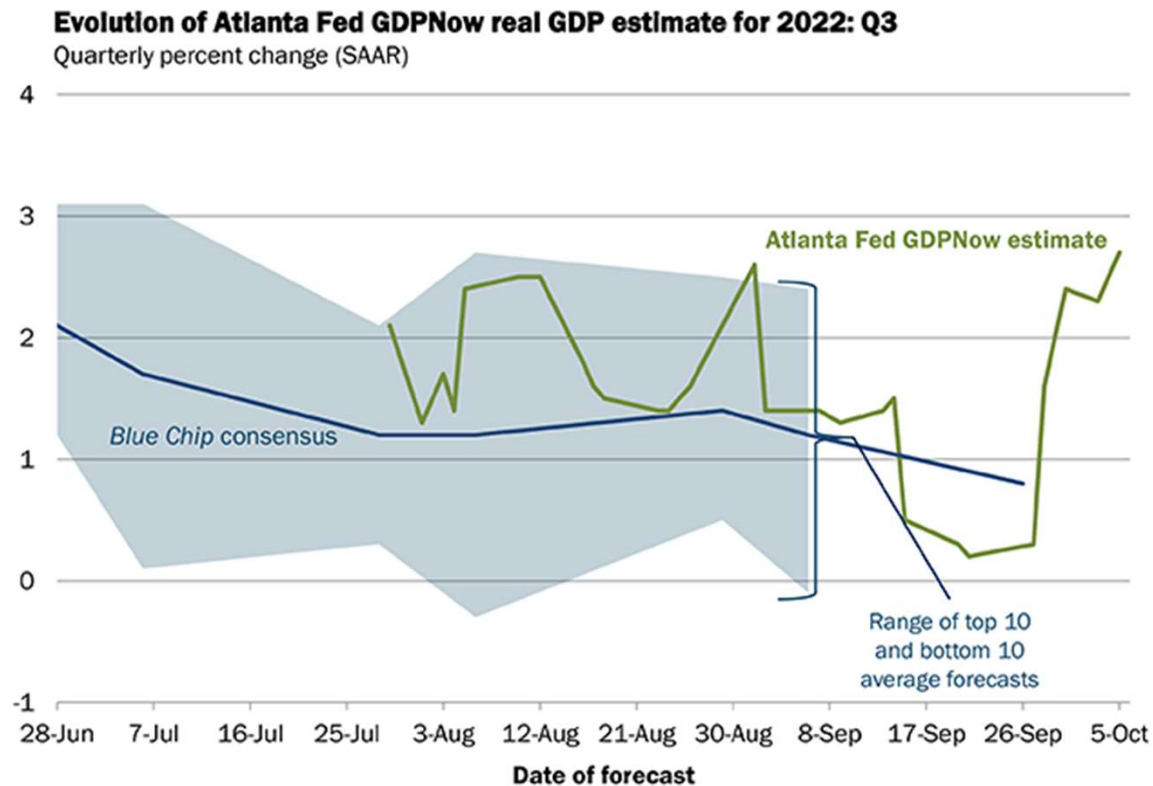
Evolution of Atlanta Fed GDPNow real GDP estimate for 2022: Q3
Quarterly percent change (SAAR)

Atlanta Fed GDPNow estimate

Blue Chip consensus

Range of top 10 and bottom 10 average forecasts

Date of forecast

Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Source: Federal Reserve Bank of Atlanta

Real-Time Q4 GDP "Nowcast"
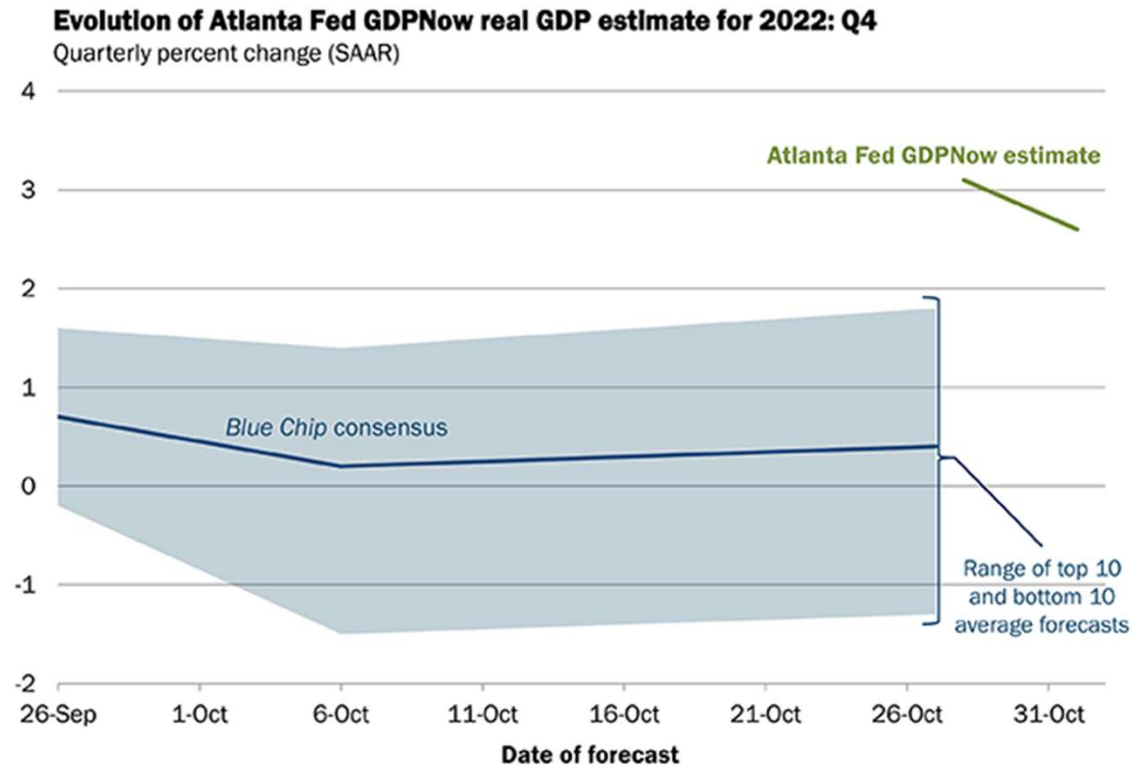
Evolution of Atlanta Fed GDPNow real GDP estimate for 2022: Q4
Quarterly percent change (SAAR)

Atlanta Fed GDPNow estimate

Blue Chip consensus

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Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Source: Federal Reserve Bank of Atlanta

Strength Signal:
Corporate Profits Near All-Time Highs
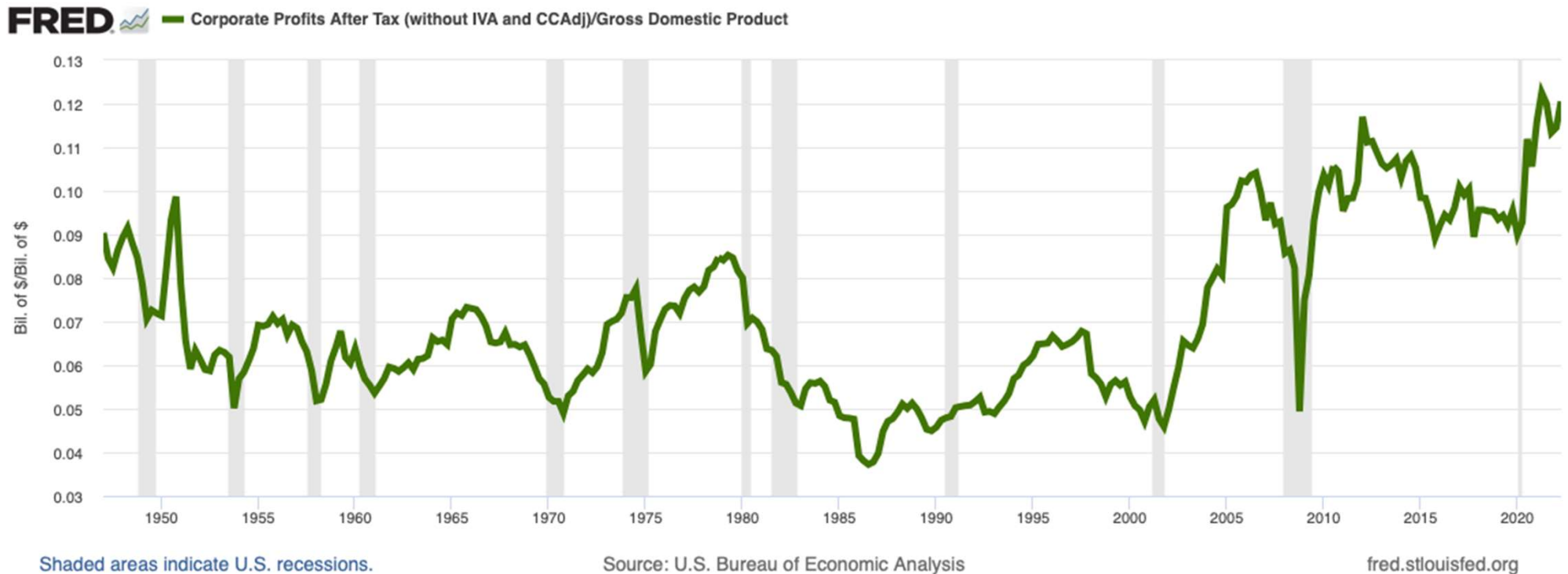
Warning Signal:
Low Utah and U.S. Consumer Sentiment
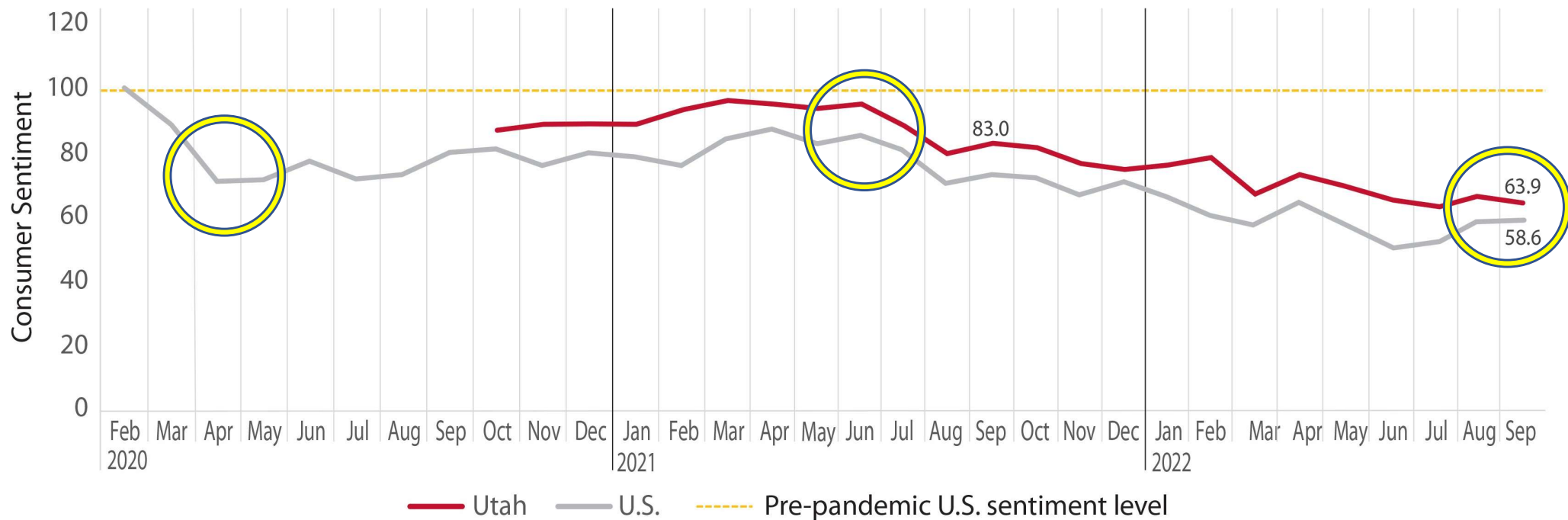
Source: Kem C. Gardner Policy Institute and University of Michigan

Major Warning Signal: High Inflation
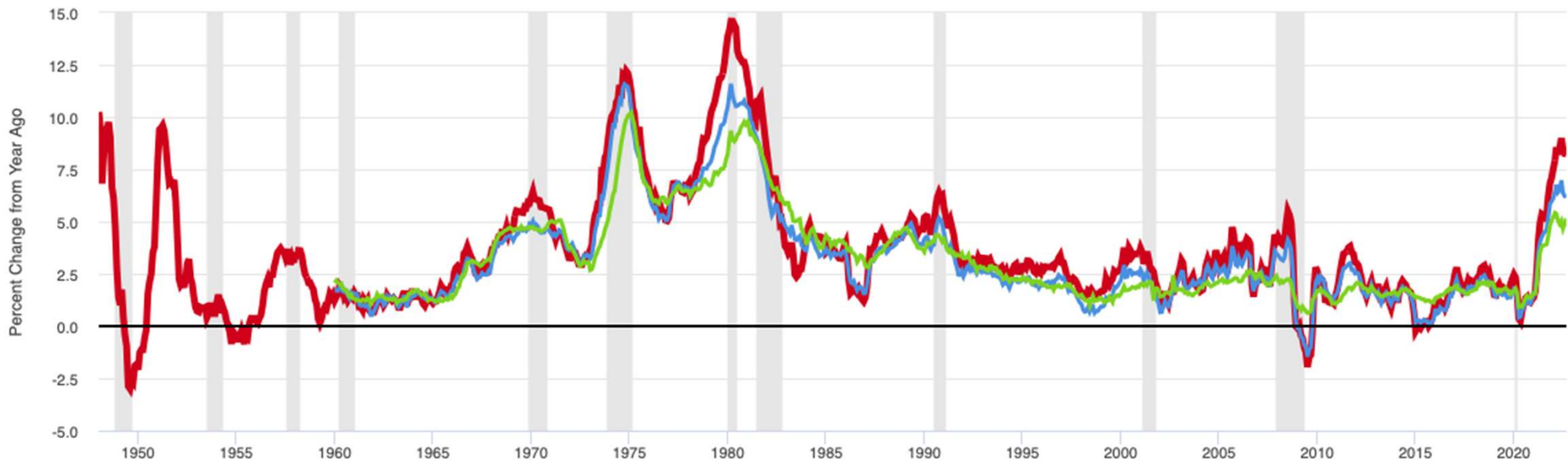
Source: Bureau of Labor Statistics and Bureau of Economic Analysis via FRED

Warning Signal:
Interest Rates Remain Well Below Inflation
& Likely to Continue Increasing

Source: Federal Reserve Economic Data
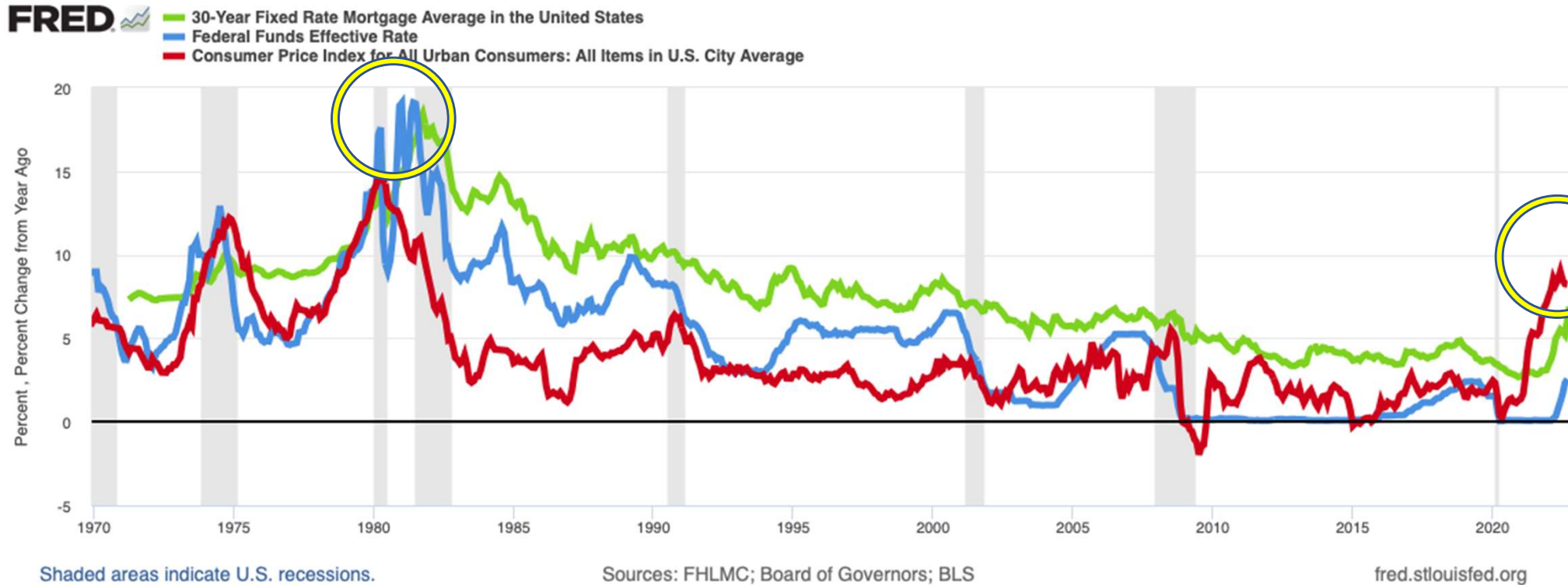
Neutral Financial Conditions

Source: Federal Reserve Economic Data

Monetary Policy Behind the Curve
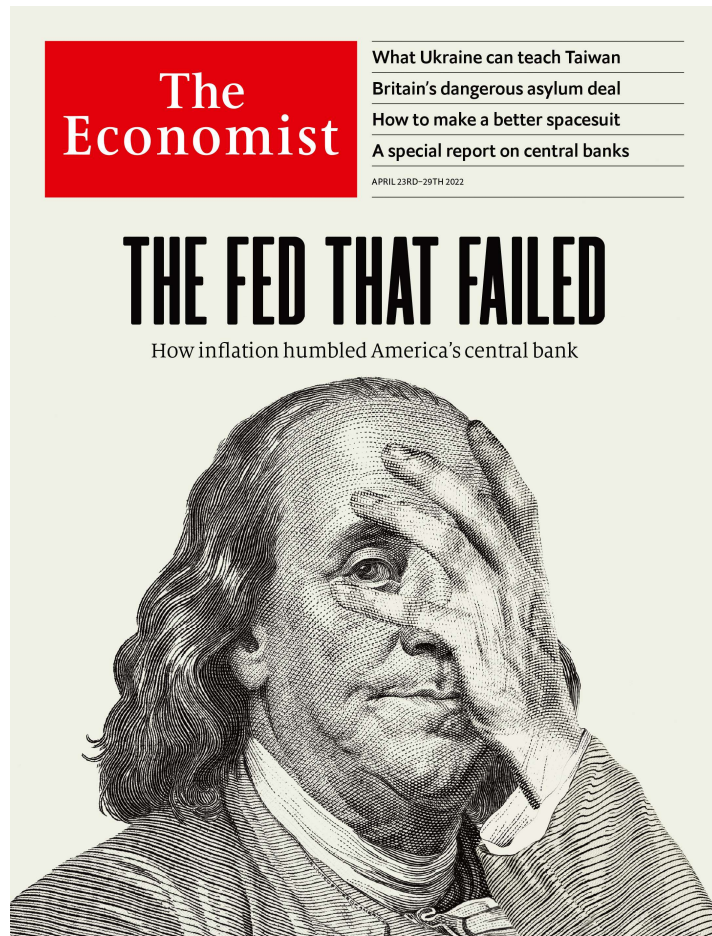
Food for Thought -

With continued expansionary fiscal policy, labor shortages, many consumers still flush with cash, and comfortable debt levels, how will monetary policy work?

Conflicting Fiscal & Monetary Policy

Fiscal Policy = Highly Expansionary Policy

v.

Monetary Policy = Moving Toward (Finally To??) Contractionary Policy

Early Pandemic –
Initial Unemployment Insurance Claims Spiked
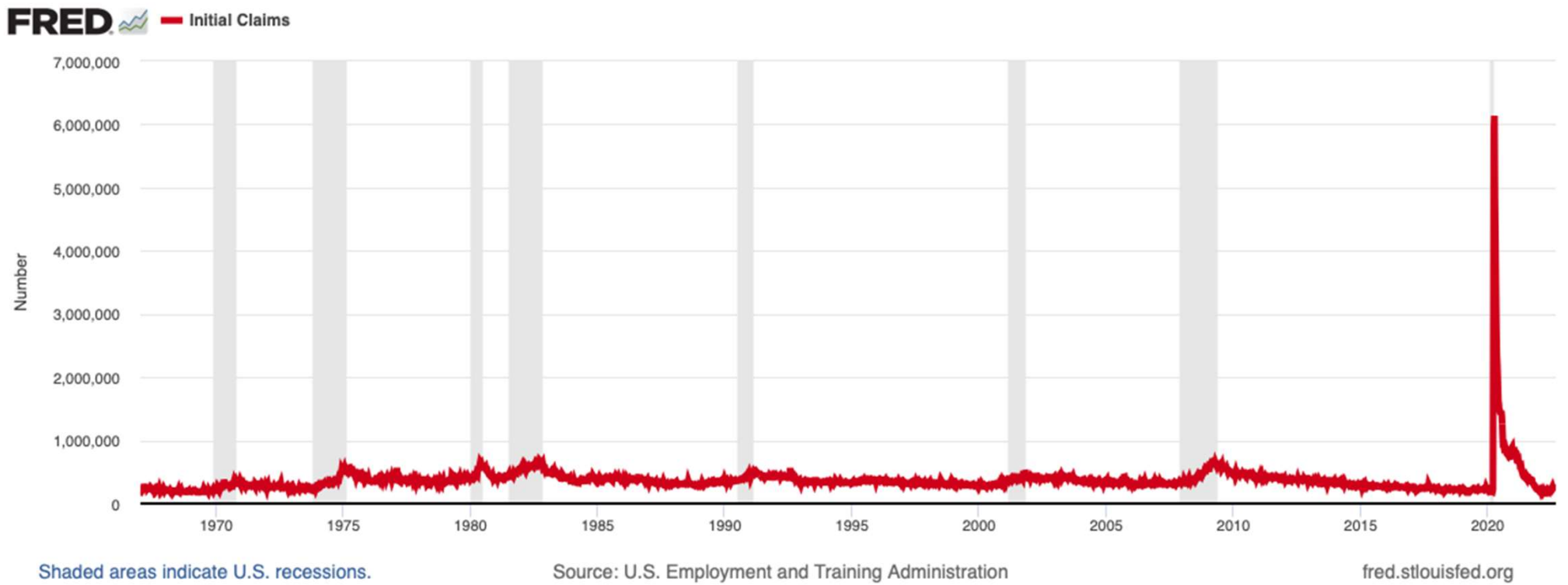
"Unprecedented" Federal Fiscal Support
Massive Fiscal Stimulus Within First Year of Pandemic Beginning
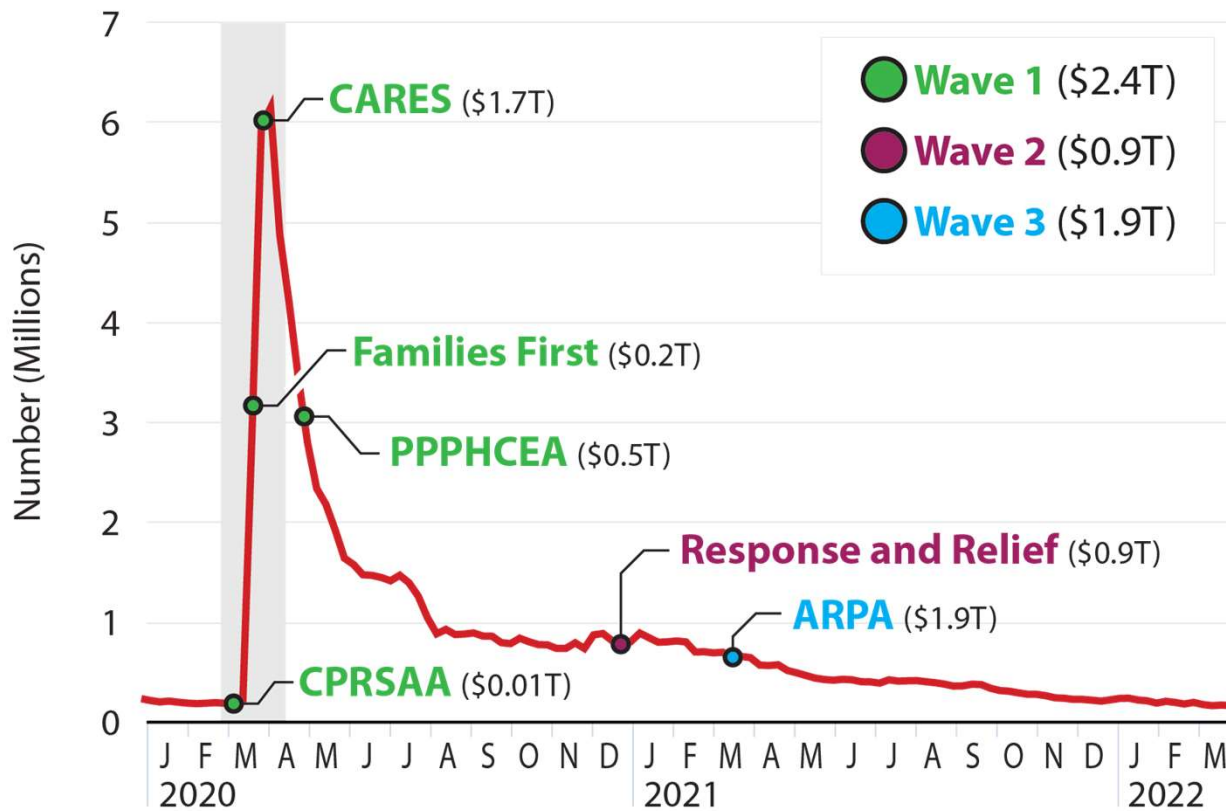
Source: Congressional Budget Office

"Unprecedented" Federal Fiscal Support
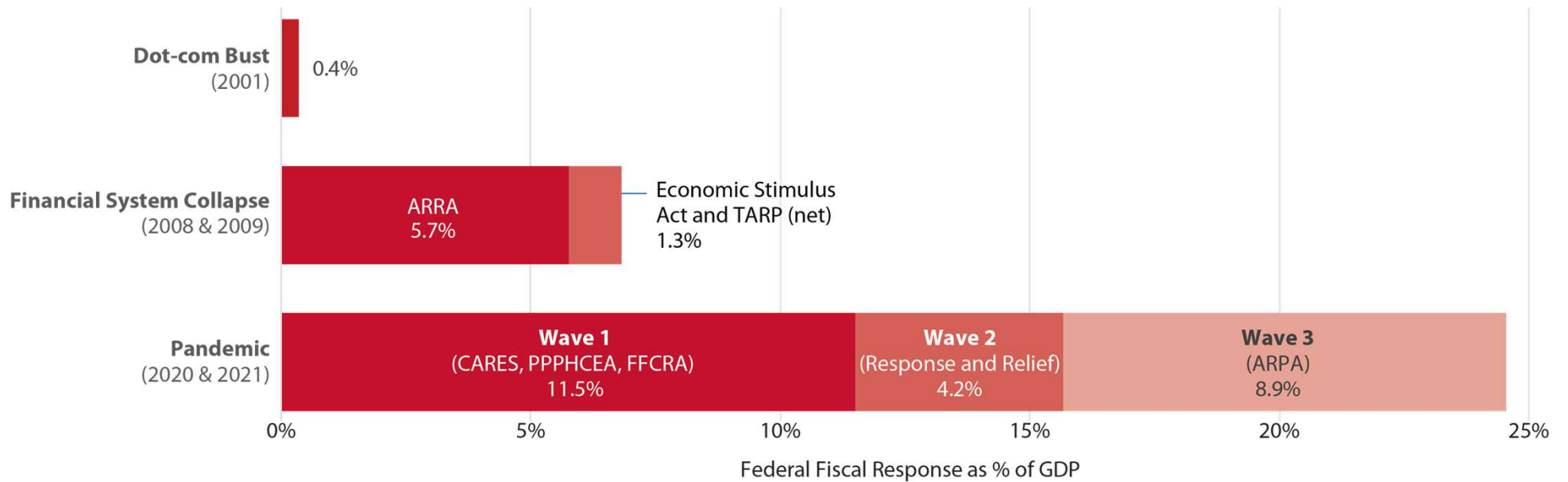
Source: Congressional Budget Office and National Bureau of Economic Research

Strength Signals:
Household Finances Surprisingly Strong <u>in Aggregate</u>

1. **High Savings**

2. **Low Debt Service**

3. **Consumption Spending Continues**

4. **Ample Jobs**

5. **BUT….not everyone is doing well**

Strong Recovery – Transfer Payments Spiked U.S. Personal Income
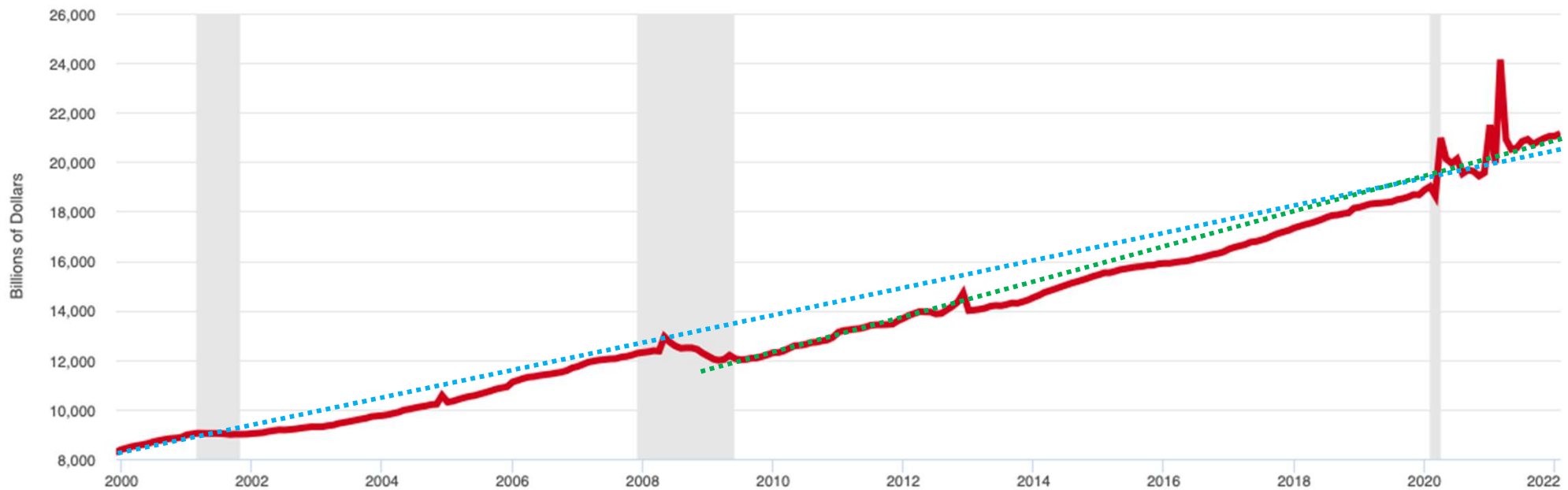
Fiscal Stimulus Impacts –
Personal Saving Spiked & Returned

Strength Signal:
Household Reserves High & Growing through 2022Q2

Source: Board of Governors of the Federal Reserve System (US)
fred.stlouisfed.org
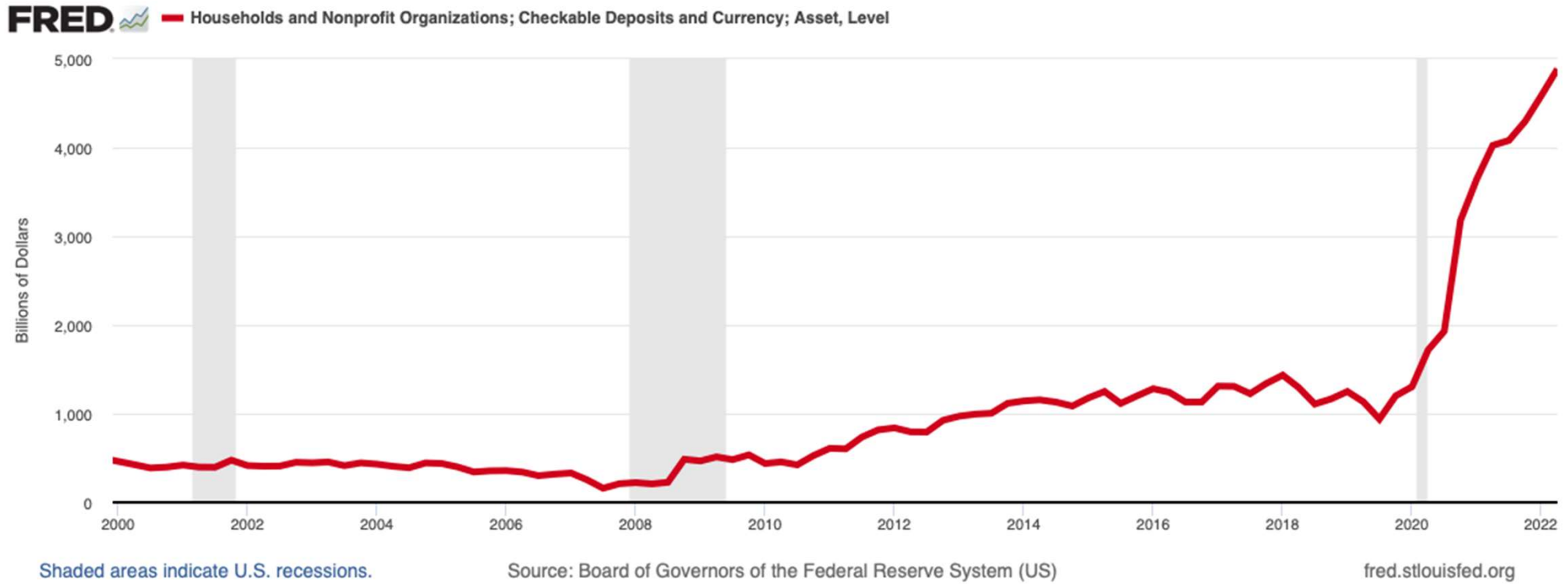
Strength Signal:
Average Credit Card Balances <u>Declined</u> During Pandemic

FIGURE 8.

**Change in Credit Card Utilization after Great Recession and COVID-19 Recession**
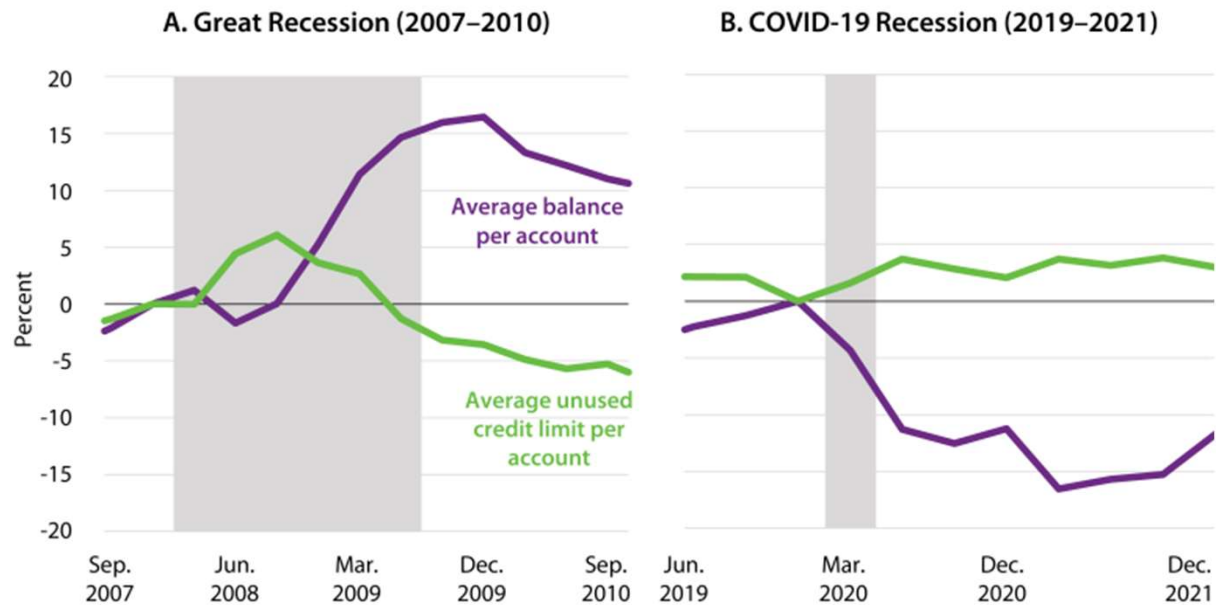
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, 2003 to 2021; authors' calculations.

Note: Both panels are indexed to the peak quarter preceding each recession. Per credit card account averages were calculated by dividing aggregate quarterly measures of credit card balances and unused credit limit by the number of active credit card accounts.

Strength Signal:
Low Monthly Debt Service Payments

FRED — Household Debt Service Payments as a Percent of Disposable Personal Income
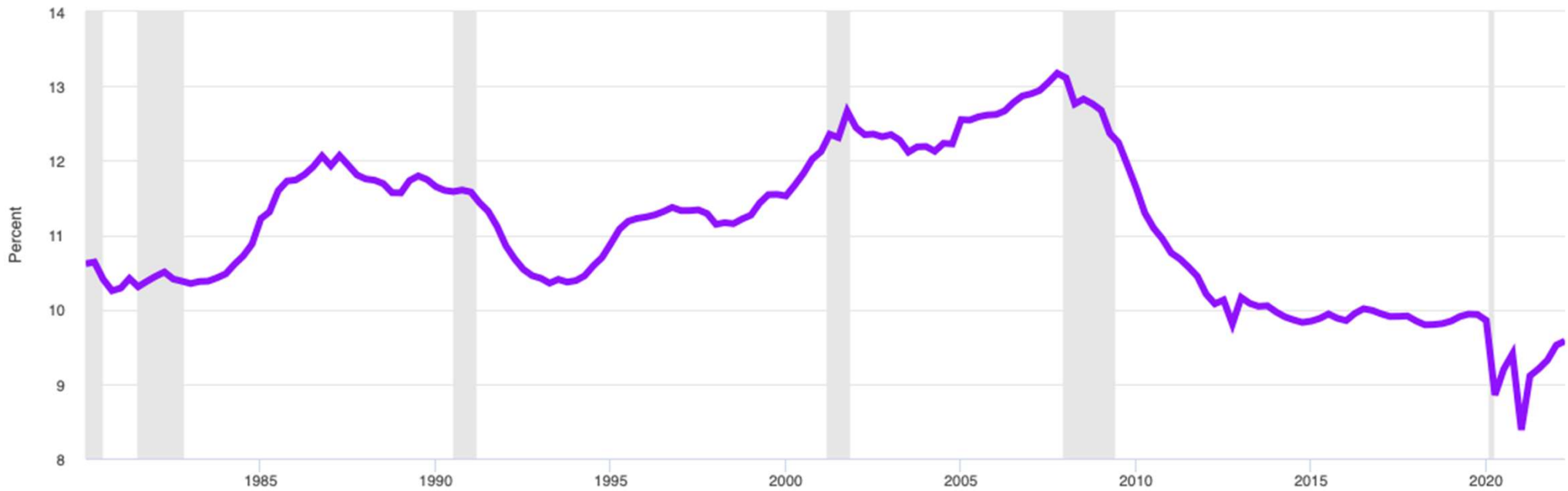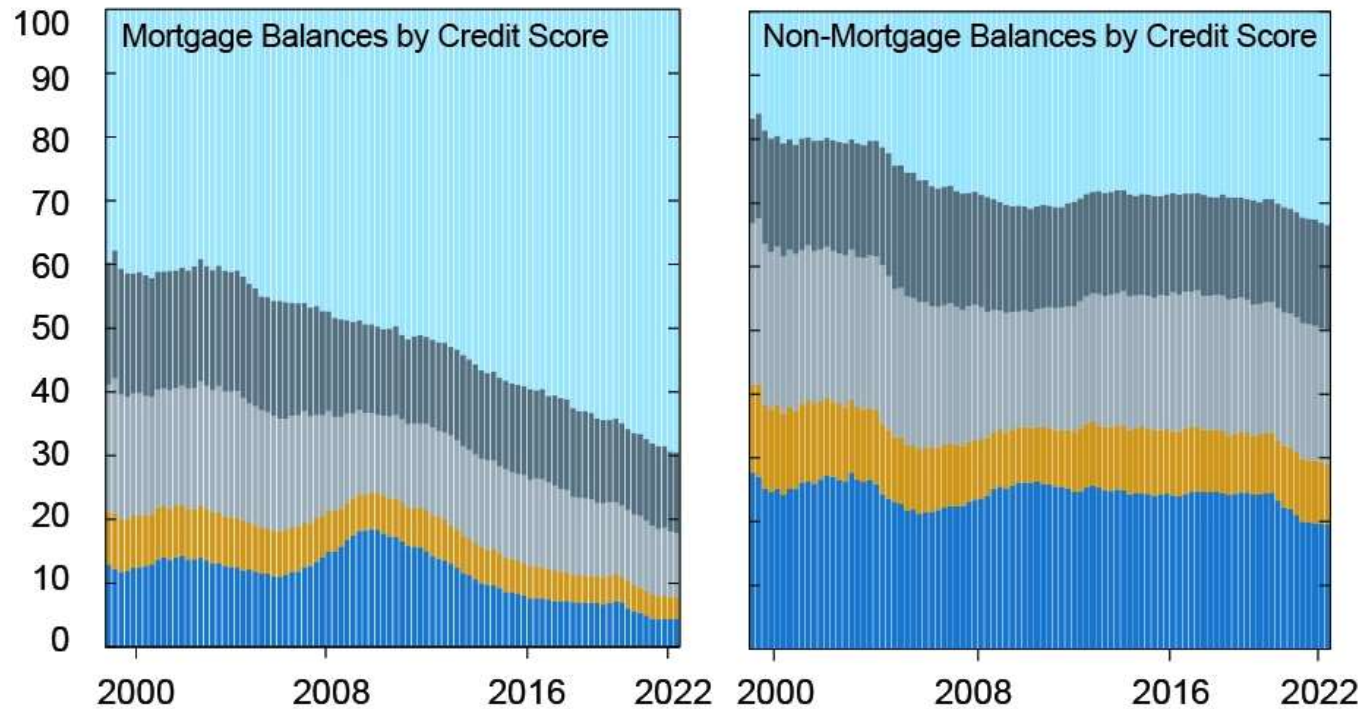
Shaded areas indicate U.S. recessions.   Source: Board of Governors of the Federal Reserve System (US)   fred.stlouisfed.org

Strength Signal:
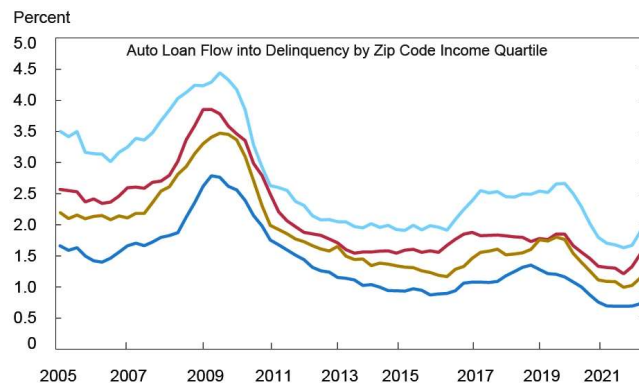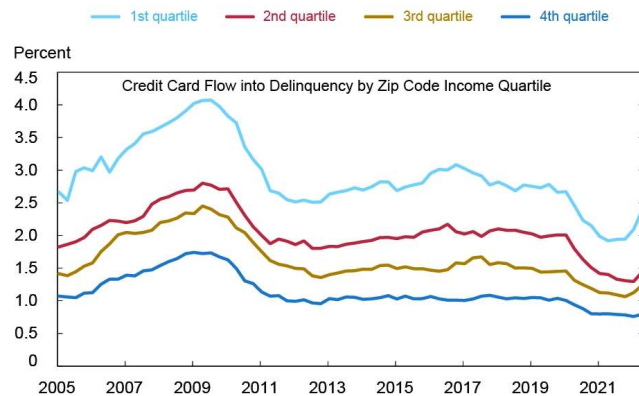# More Debt Held by High Credit Score Borrowers

Source: Federal Reserve Bank of New York

Warning Signal:
Increasing Debt & Delinquencies
Among Low-Income Households

Although still below pre-pandemic levels:

- **Delinquencies increasing**, especially among low-income households

- Inflation led to **increasing household debt** in 2022 Q2
  - $46B new credit card debt
  - $33B new auto loan debt
  - $207B new mortgage debt

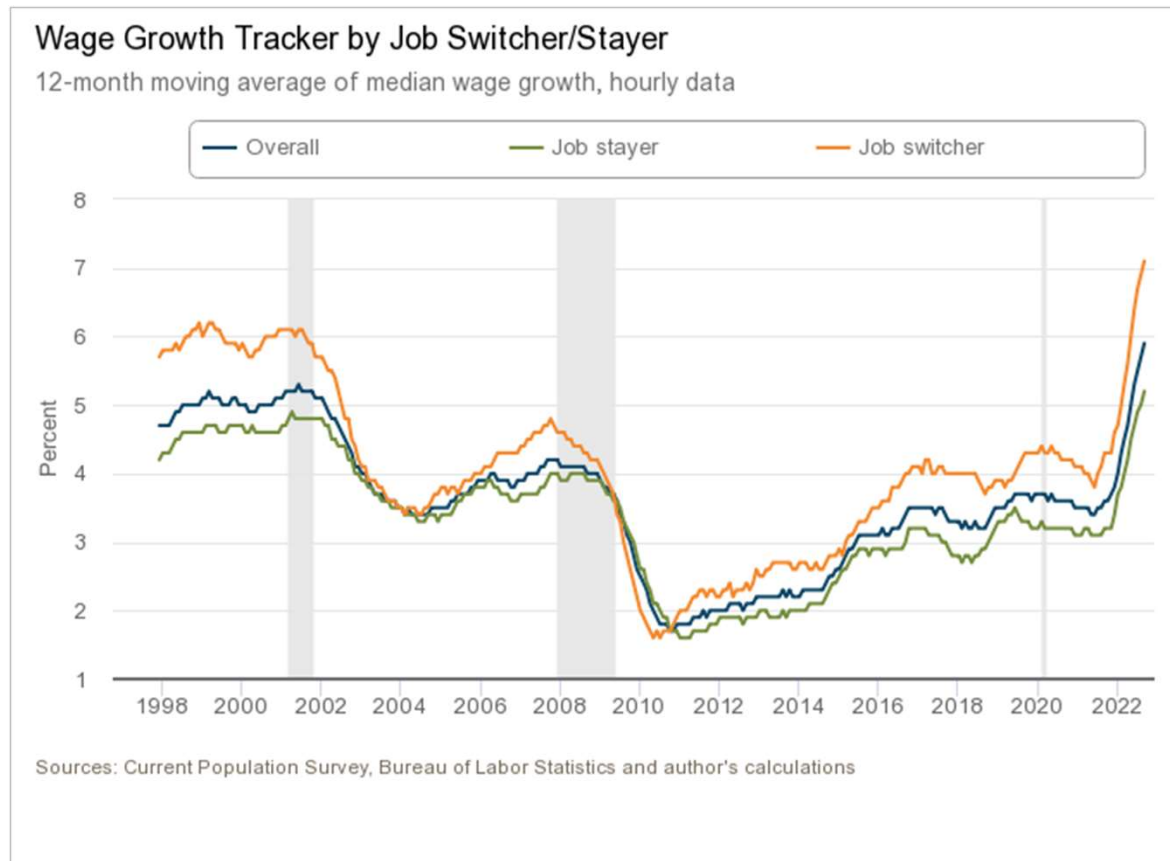Source: Federal Reserve Bank of New York

The Great Resignation / The Great Rethink

- Utah Sept 2022 year-over job growth 54,000 (3.5%)

- Utah Sept 2022 unemployment rate 2.1%

- About **36,000 unemployed** Utahns

- About **65,000 Utah jobs available today**

Source: Utah Department of Workforce Services and Indeed.com

Even Though Nominal Wages Are Increasing...

Wage Growth Tracker by Job Switcher/Stayer
12-month moving average of median wage growth, hourly data

Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations
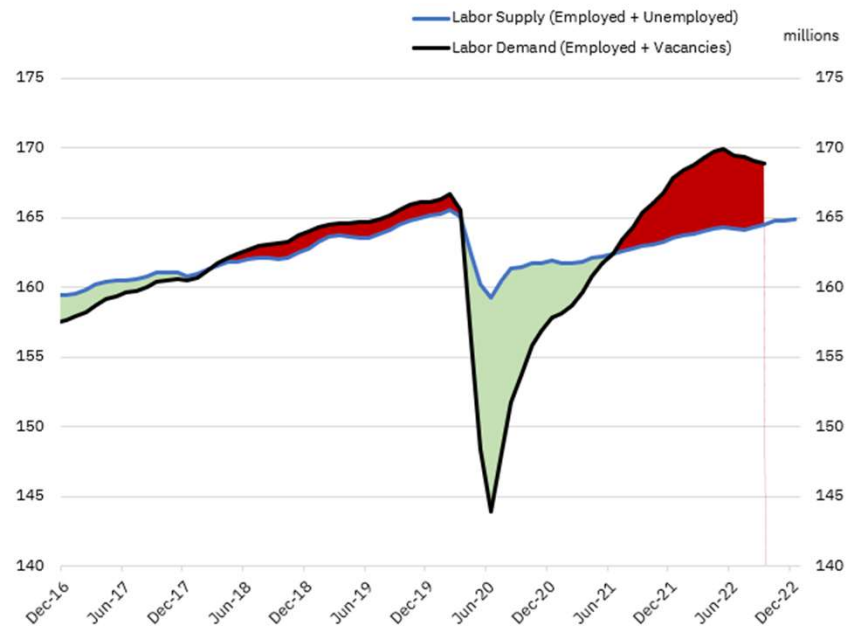
Real (Inflation-Adjusted) Wages Decreasing

Source: Federal Reserve Bank of Atlanta

Fundamental Labor Supply and Demand Imbalance

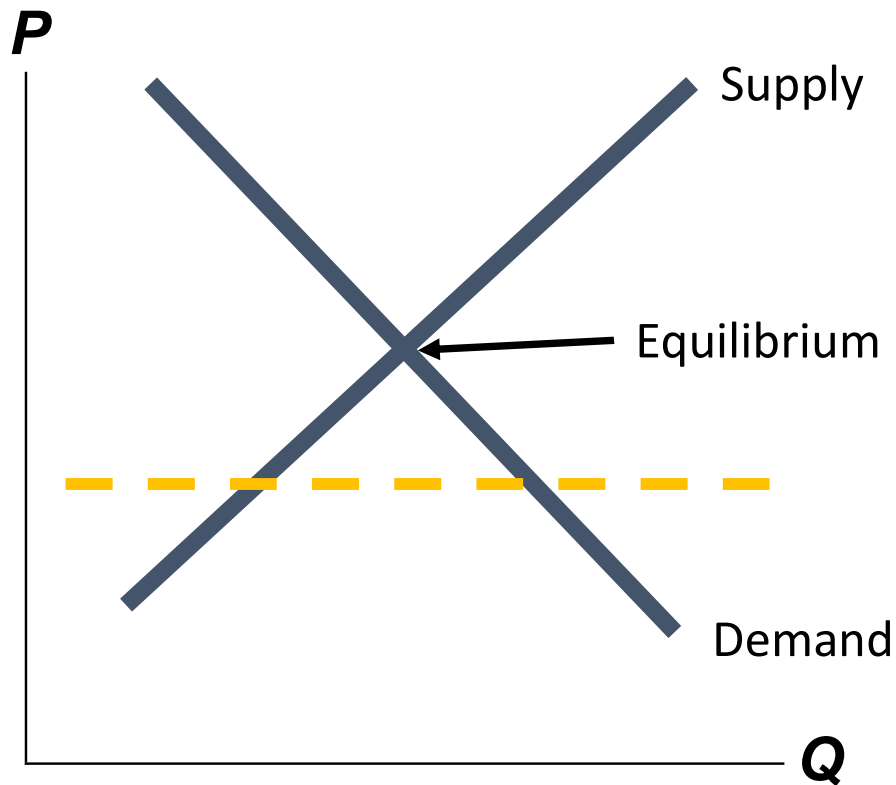Chart 2: Labor Demand versus Supply

Source: Federal Reserve Bank of Atlanta

Labor Shortages (??) – Econ 101

Prices below the market equilibrium result in shortages

(That is, maybe we have a **WAGE shortage**)

Strength Signal:
Utah's Strong Long-Term Job Growth
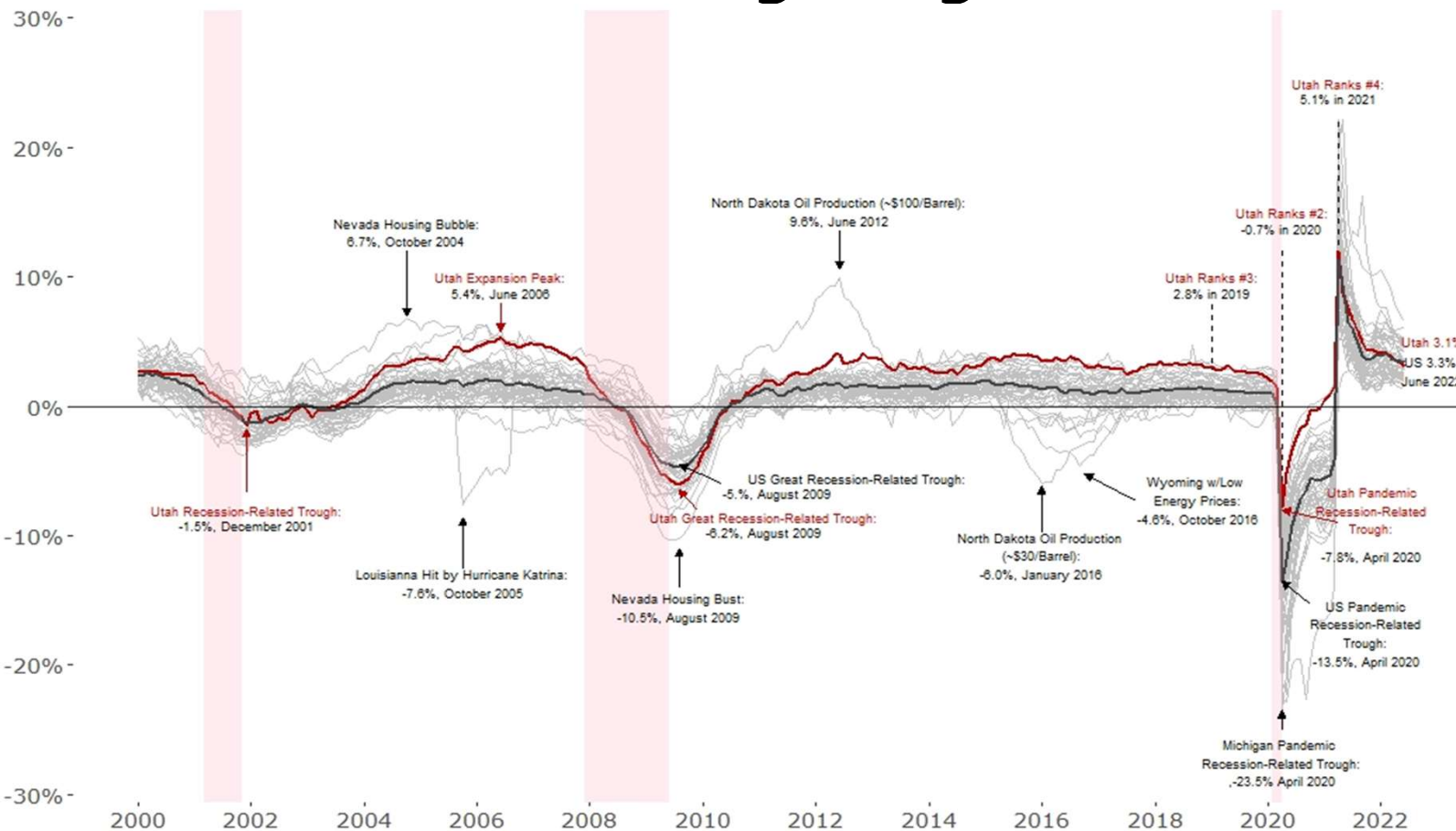
- **Utah job grow consistently among highest state growth since Great Recession through pandemic**

- **Utah's early pandemic recovery obscures recent comparisons**

Source: Utah Governor's Office of Planning and Budget

Strength Signal:
Utah Unemployment Consistently Lower Than U.S.
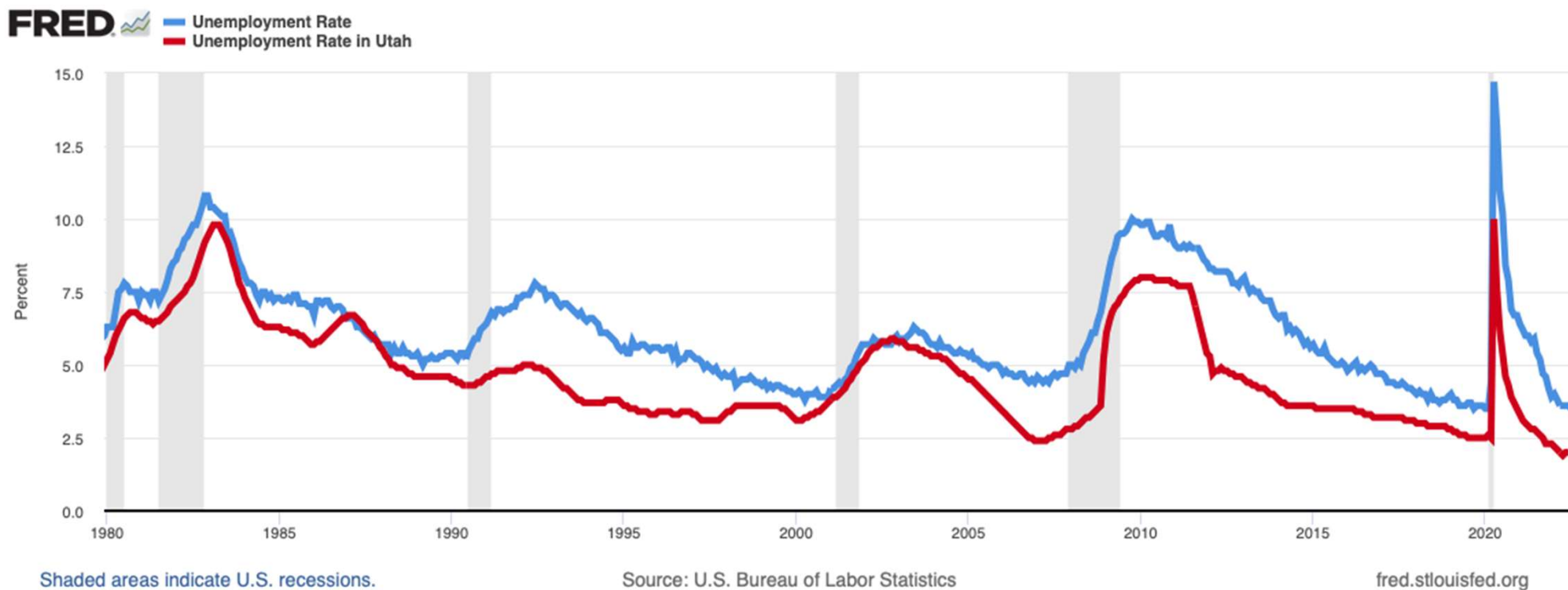
Strength Signal:
Utah Labor Force Participation Consistently Higher Than U.S.
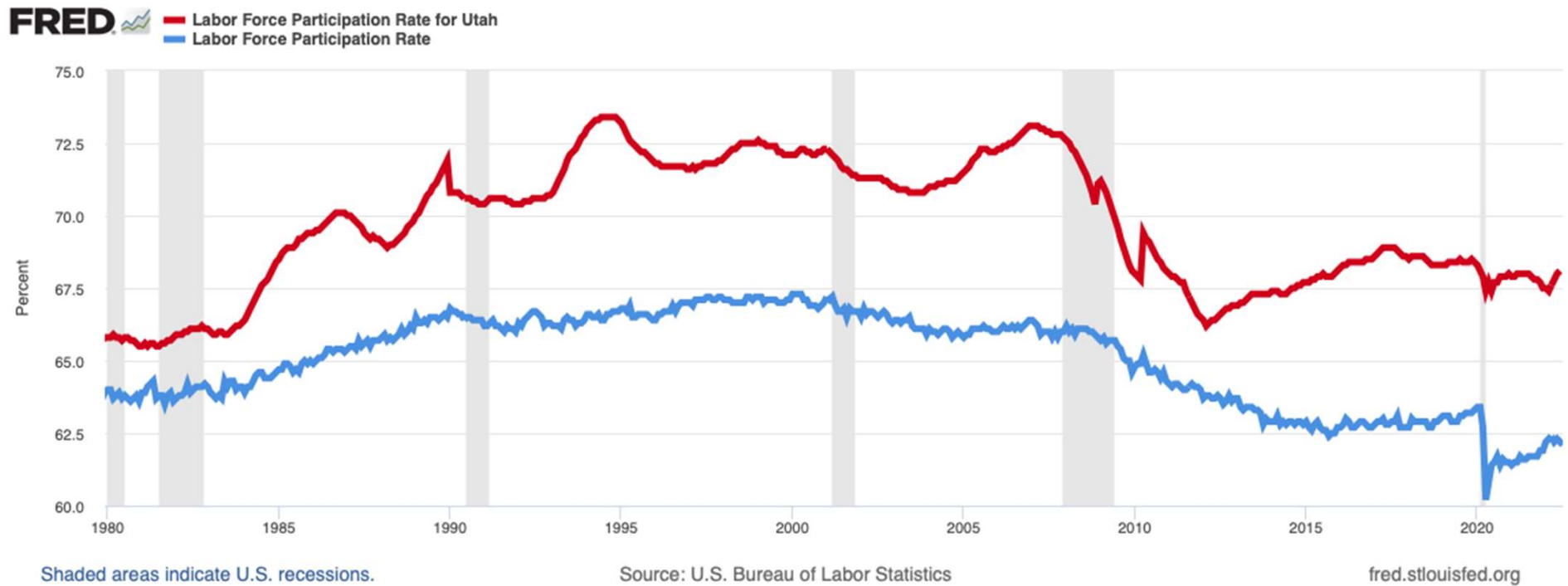
Where Did All the Workers Go?

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

Baby Boomer Retirements Heavily Influence Labor Shortages
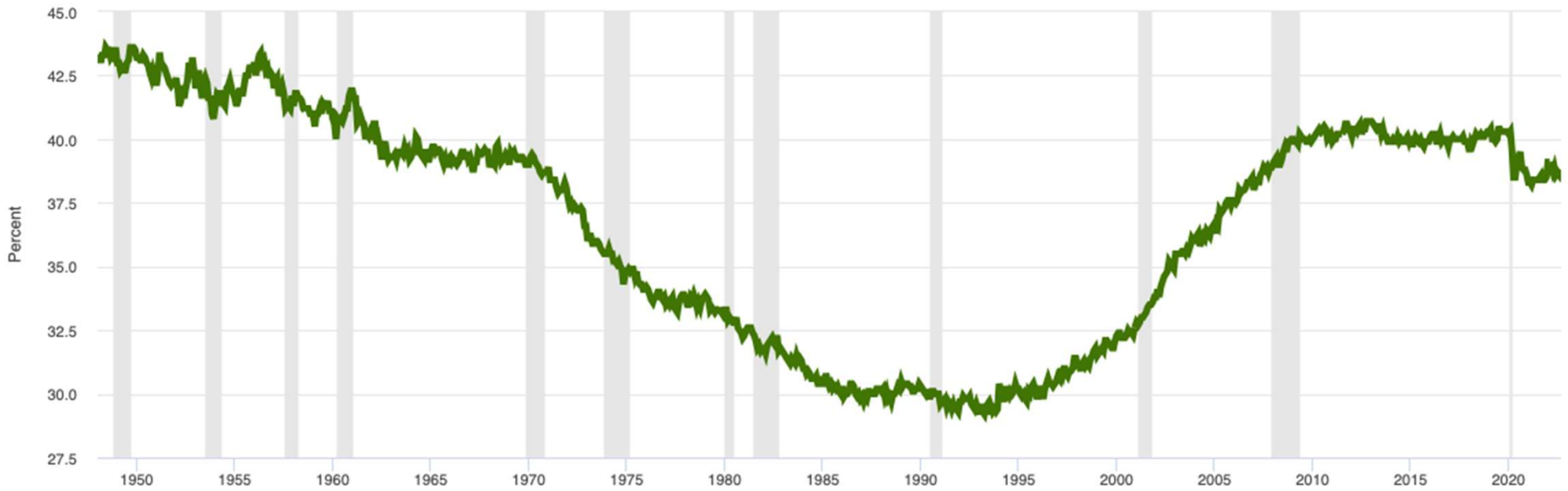
Source: US Bureau of Labor Statistics

Prime Working-Age Workers Largely Back

FRED 📈 — Labor Force Participation Rate - 25-54 Yrs.
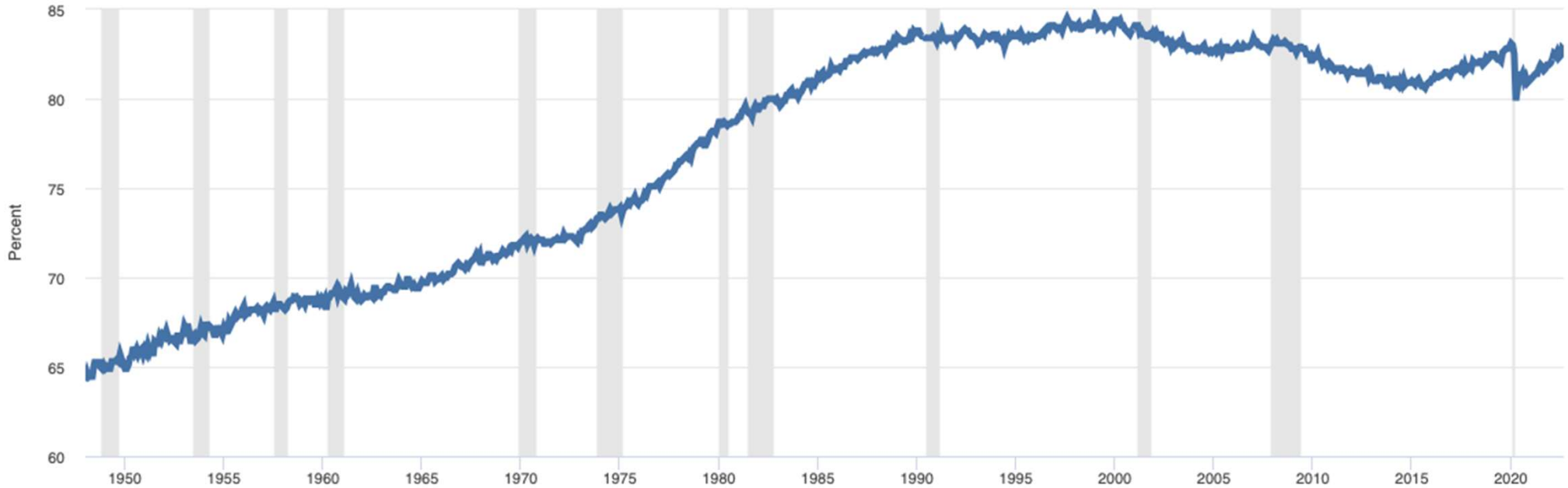
Percent

Shaded areas indicate U.S. recessions.   Source: U.S. Bureau of Labor Statistics   fred.stlouisfed.org

Youngest Workers More Than Back
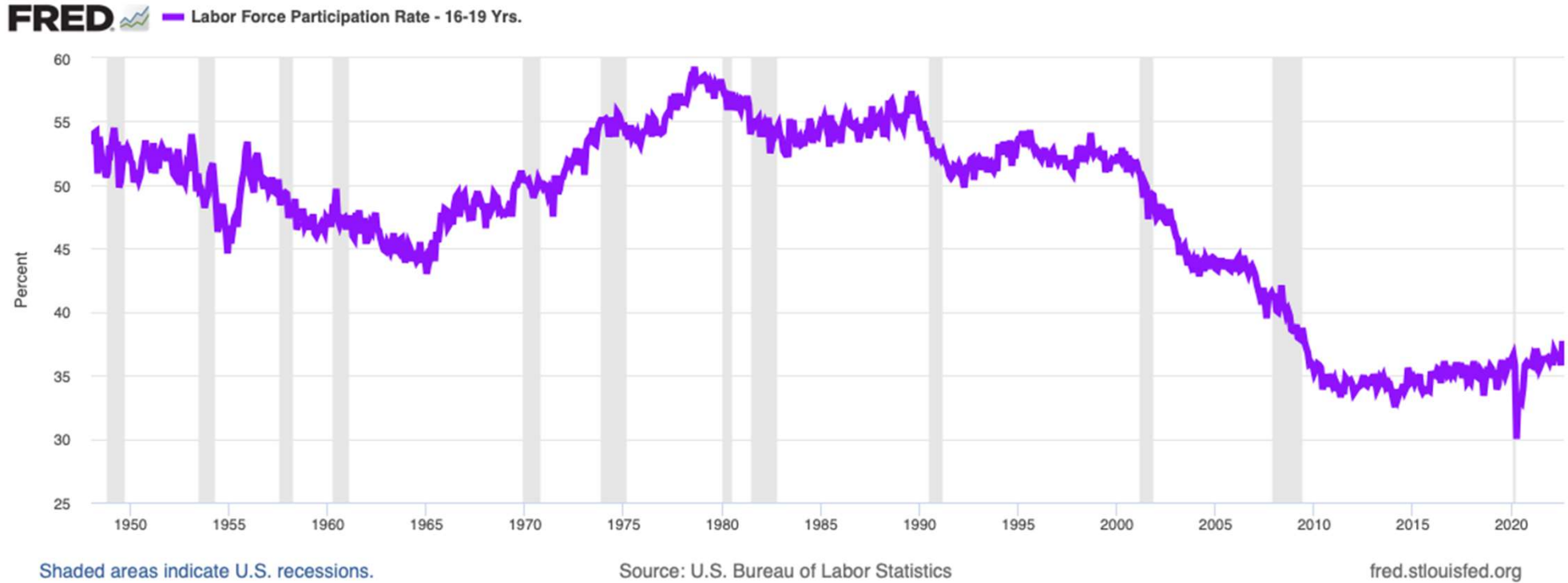
Still Opportunity to Attract College-Age Workers

FRED — Labor Force Participation Rate - 20-24 Yrs.

Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org
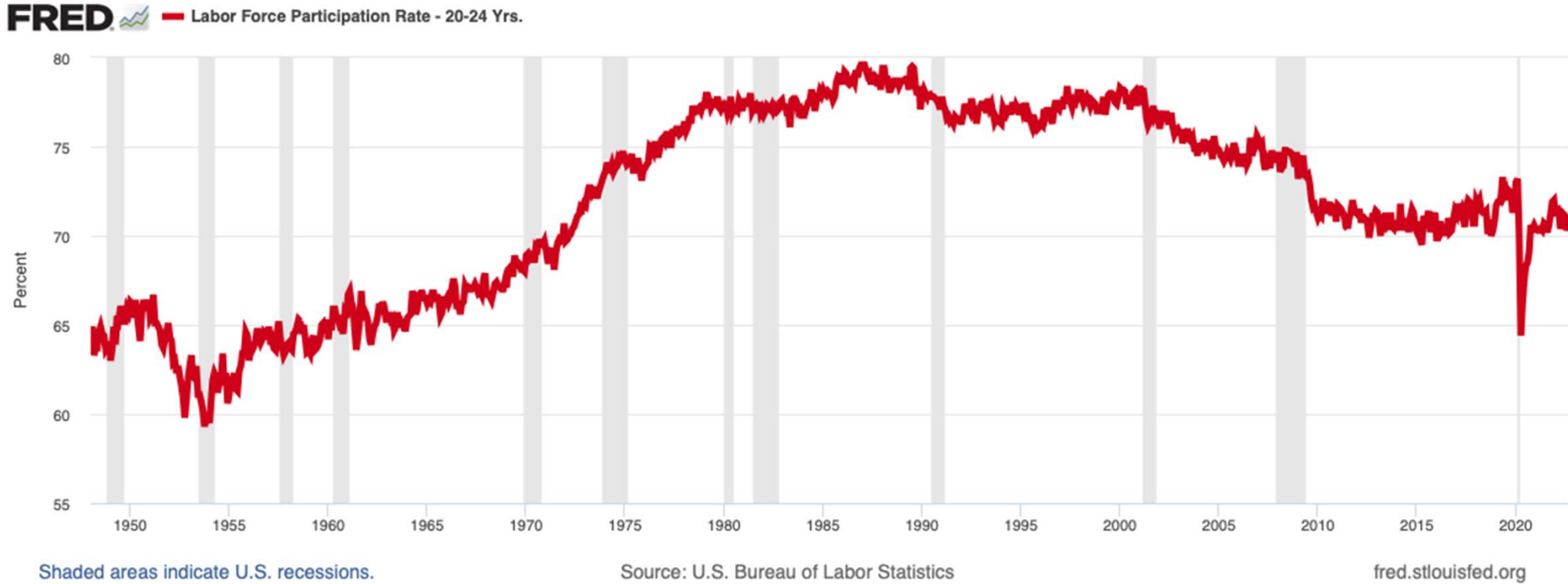
Source: US Bureau of Labor Statistics

Population Age Pyramid

Utah Population 2021

85+	
80 – 84	
75 – 79	
70 – 74	
65 – 69	
60 – 64	
55 – 59	
50 – 54	
45 – 49	
40 – 44	
35 – 39	
30 – 34	
25 – 29	
20 – 24	
15 – 19	
10 – 14	
5 – 9	
Under 5	

180,000   120,000   60,000   0   60,000   120,000   180,000

■ Male ■ Female

United States Population 2021

85+	
80 – 84	
75 – 79	
70 – 74	
65 69	
60 – 64	
55 – 59	
50 – 54	
45 – 49	
40 – 44	
35 – 39	
30 – 34	
25 – 29	
20 – 24	
15 – 19	
10 – 14	
5 – 9	
Under 5	

15,000,000   10,000,000   5,000,000   0   5,000,000   10,000,000   15,000,000

■ Male ■ Female
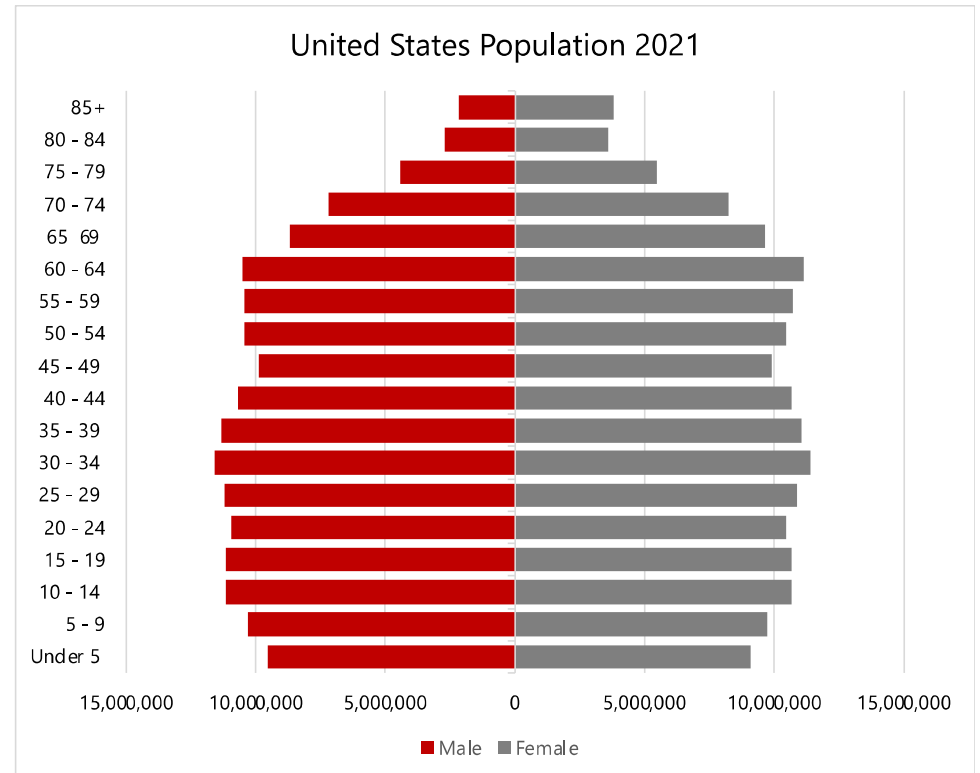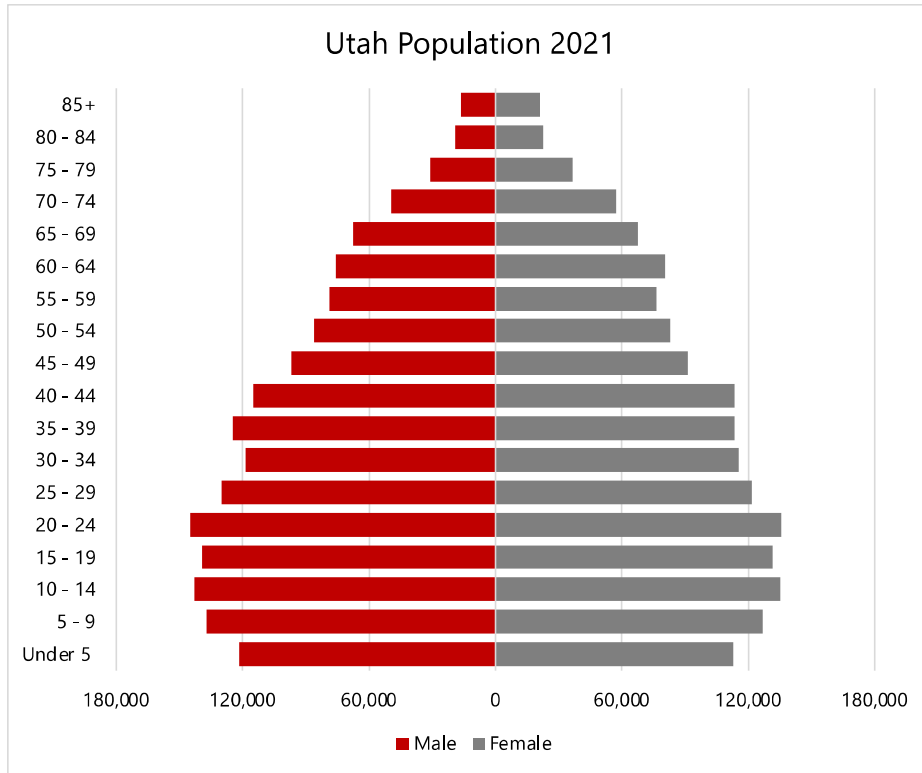
Source: U.S. Census Bureau

Strength Signal:
Utah's Diverse Economy

Hachman Index 2020, 100=Most Diverse

VT	90.7
NH	94.8
MA	89.1
RI	89.0
CT	90.1
NJ	94.5
MD	87.6
DE	64.9
DC	49.5

U.S. = 100
Hachman Index Score

- 95.0+ (Most Diverse)
- 90.0 - 94.9
- 85.0 - 89.9
- 75.0 - 84.9
- <75.0 (Least Diverse)

WA 77.7 · MT 77.9 · ND 37.4 · ME 91.4 · MN 93.8 · OR 92.9 · ID 81.2 · SD 61.2 · NY 76.3 · WI 91.6 · MI 92.4 · PA 95.5 · WY 33.9 · IA 78.7 · OH 92.9 · NV 73.8 · NE 77.0 · IL 96.3 · IN 79.1 · WV 50.8 · VA 90.6 · CA 93.2 · UT 95.5 · CO 94.2 · KS 91.4 · MO 97.4 · KY 89.8 · NC 95.1 · AZ 95.9 · NM 63.2 · OK 70.3 · AR 87.6 · TN 92.4 · SC 92.7 · TX 86.3 · MS 87.3 · AL 91.2 · GA 97.1 · LA 89.4 · FL 90.8 · AK 39.3 · HI 74.4
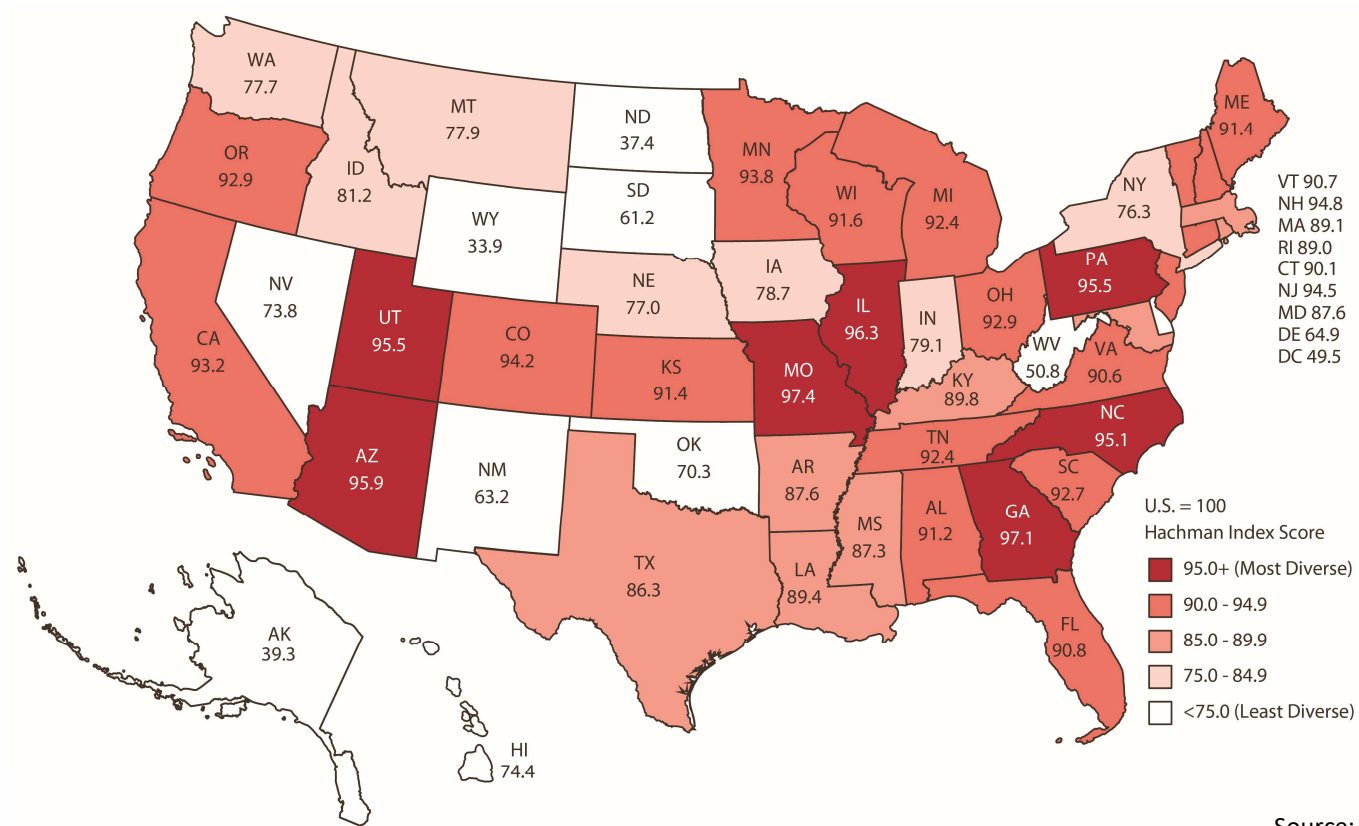
Strength Signal: Crossroads of the West
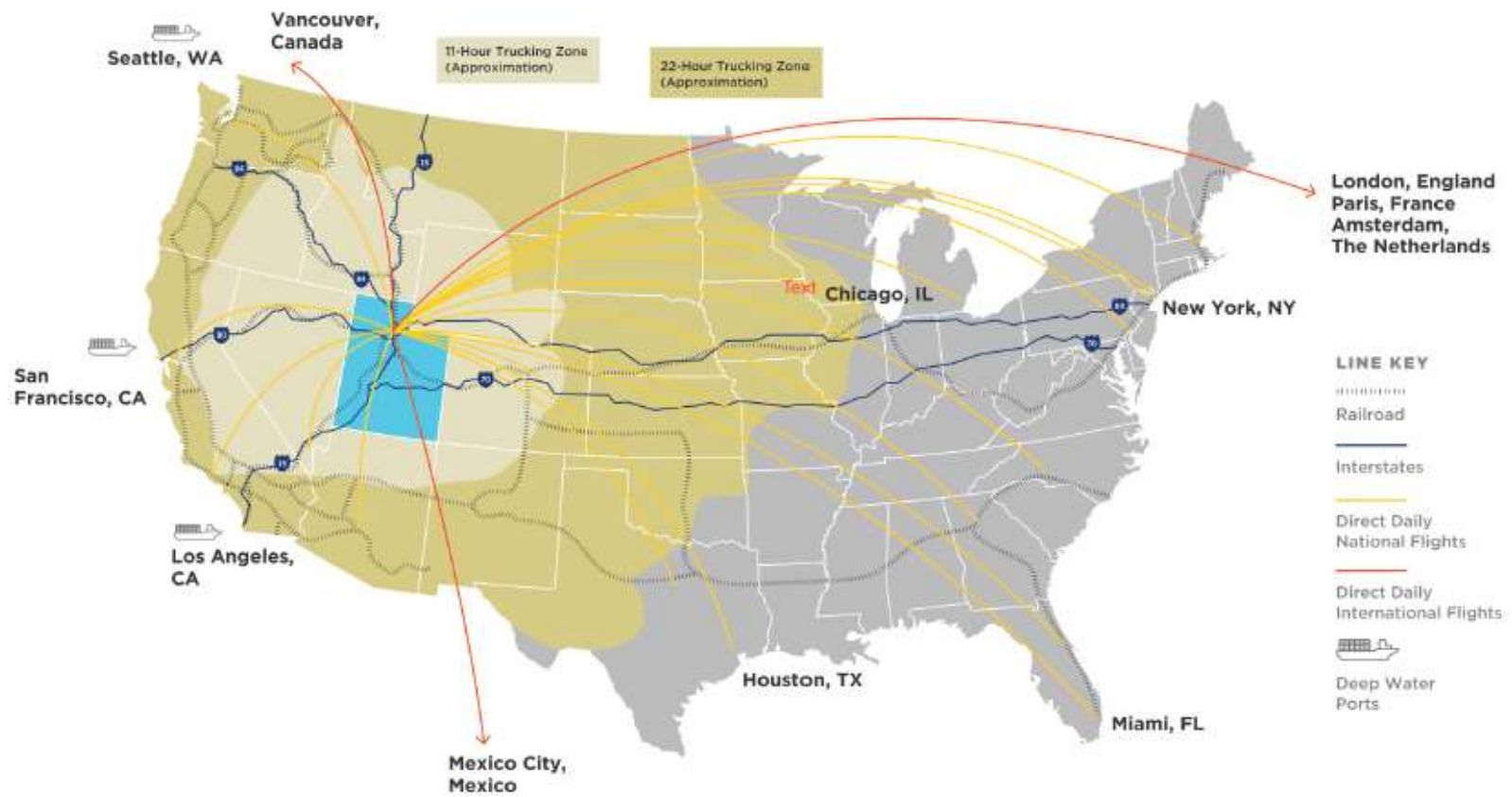
Warning Signal:
Skyrocketing Utah Home Prices
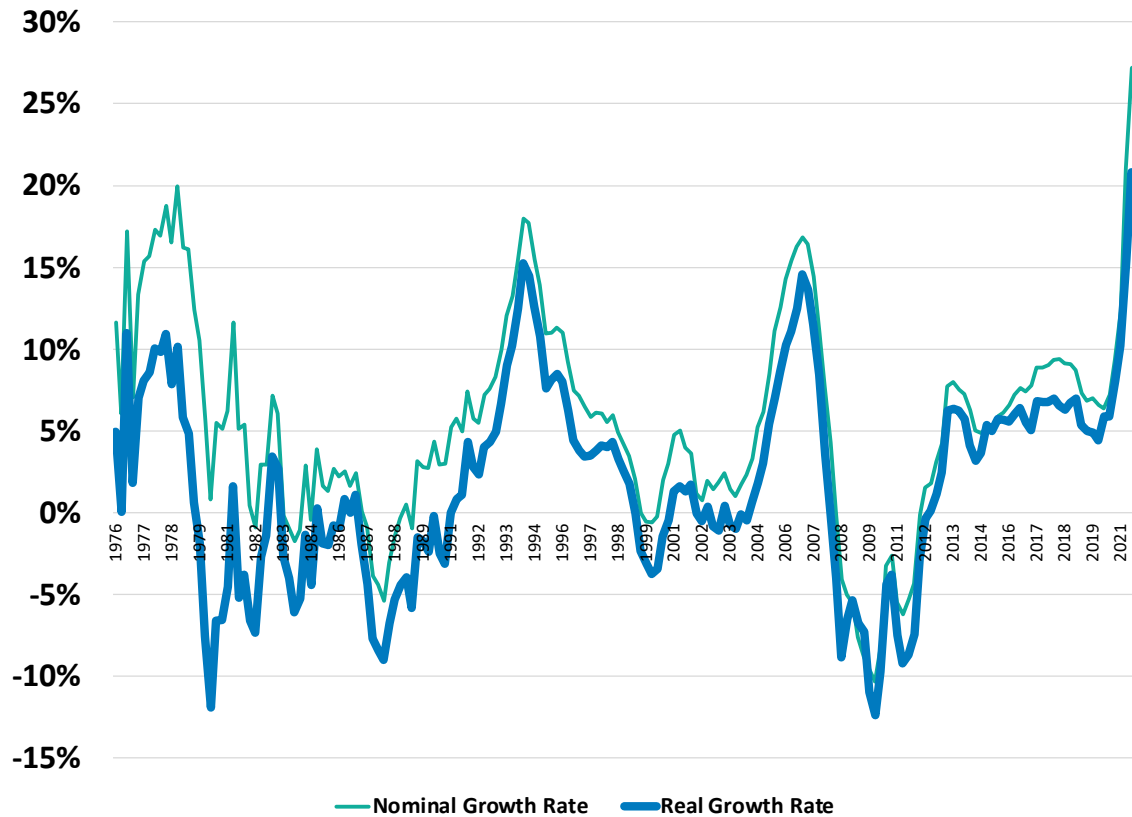
Source: Federal Housing Finance Agency Housing Price Index

Warning Signal: Skyrocketing Rents

Rank	Metro	Percentage change in median rent (2019-2022)	Total change in median rent (2019-2022)	Median rent (2022)	Median rent (2019)
1	Sacramento-Roseville-Folsom, CA	+25.3%	+$369	$1,830	$1,461
2	Las Vegas-Henderson-Paradise, NV	+24.8%	+$295	$1,485	$1,190
3	Salt Lake City, UT	+24.6%	+$291	$1,475	$1,184
4	Phoenix-Mesa-Chandler, AZ	+22.3%	+$283	$1,553	$1,270
5	Jacksonville, FL	+22.0%	+$255	$1,414	$1,159
6	Riverside-San Bernardino-Ontario, CA	+21.6%	+$327	$1,842	$1,515
7	Orlando-Kissimmee-Sanford, FL	+20.3%	+$281	$1,663	$1,382
8	Tampa-St. Petersburg-Clearwater, FL	+20.0%	+$252	$1,511	$1,259
9	Portland-Vancouver-Hillsboro, OR-WA	+19.4%	+$314	$1,932	$1,618
10	Fresno, CA	+19.3%	+$216	$1,337	$1,121

Source: Stessa

Utah's Economy

STRENGTHS
- Young, well-educated population
- Highly diverse economy
- Fiscal and regulatory stability
- Crossroads of the West
- Social cohesion

CHALLENGES
- Housing affordability
- Natural resource limitations (air quality, drought, land availability)
- Tied to U.S. economy with sizable uncertainty

Conclusion

- **Interpreting past and present conditions is challenging**

- **Forecasting the future even harder**

- **Consider how you need to <u>redesign your systems</u> to enhance resiliency:**
  - (a) build appropriate buffers - financial, personnel, supplies, etc.
  - (b) reliably deliver value during economy's ups and downs
  - (c) seize opportunities that arise during tumultuous times