Economic Update

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Revenue and Taxation Interim Committee
Utah State Legislature
April 22, 2019
National Economy
Utah has the most diverse economy in the nation

Hachman Index of Economic Diversity

Source: Kem C. Gardner Policy Institute
Most diverse economy = Industrial structure mirrors US

Distribution of Employment by Industry
Utah and the United States

- Government
- Other Services
- Accommodation and food services
- Arts entertainment and recreation
- Health care and social assistance
- Educational services
- Administrative and waste services
- Management of companies and enterprises
- Professional and technical services
- Real estate and rental and leasing
- Finance and insurance
- Information
- Transportation and warehousing
- Retail Trade
- Wholesale trade
- Manufacturing
- Construction
- Utilities
- Mining
- Agriculture forestry fishing and hunting

Utah vs United States

- Government: 13.4% vs 10.4%
- Other Services: 5.0% vs 2.0%
- Accommodation and food services: 3.6% vs 3.0%
- Arts entertainment and recreation: 3.2% vs 3.0%
- Health care and social assistance: 6.8% vs 10.4%
- Educational services: 4.8% vs 6.0%
- Administrative and waste services: 2.0% vs 2.0%
- Management of companies and enterprises: 2.0% vs 2.0%
- Professional and technical services: 2.0% vs 2.0%
- Real estate and rental and leasing: 2.0% vs 2.0%
- Finance and insurance: 4.0% vs 4.0%
- Information: 2.0% vs 2.0%
- Transportation and warehousing: 2.0% vs 2.0%
- Retail Trade: 3.6% vs 3.6%
- Wholesale trade: 2.0% vs 2.0%
- Manufacturing: 6.8% vs 6.8%
- Construction: 4.8% vs 4.8%
- Utilities: 0.8% vs 1.0%
- Mining: 0.2% vs 0.2%
- Agriculture forestry fishing and hunting: 0.2% vs 0.2%
As long as the nation is in expansion, Utah will be in expansion.
State of the US Economy: Moderating Growth

Monthly Change in US Nonfarm Payrolls
July 2009 – May 2019

National expansion will be the longest on record

Duration of United States Economic Expansion
(and annualized employment growth rates)

- October 1945: 37 months (5.1%)
- October 1949: 45 months (4.3%)
- May 1954: 39 months (2.5%)
- April 1958: 24 months (3.6%)
- February 1961: 106 months (3.2%)
- November 1970: 36 months (3.4%)
- March 1975: 58 months (3.5%)
- December 1982: 92 months (2.8%)
- March 1991: 120 months (2.0%)
- November 2001: 73 months (0.9%)
- July 2009: JUNE 2019: 120 months (1.5%)

The million (billion? trillion?) dollar question...

Wall Street Journal Monthly Survey of Economists

What is the probability of a recession in the next 12 months? June 2017 – June 2019 Surveys

Source: Wall Street Journal
What could flip gains to losses???

Monthly Change in US Nonfarm Payroll
July 2009 – May 2019

Expansions don’t die of old age.

Risks to US Economic Outlook

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<tr>
<th>Macroeconomic Imbalance</th>
<th>Shocks &amp; Sentiment</th>
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<td>➢ Overheated labor market</td>
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Very tight labor market, still a little room

US unemployment: Lows in previous expansions and today
Headline, underemployed, and total rates

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<th>Q4 2000</th>
<th>Q4 2006</th>
<th>Today</th>
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<tr>
<td>Underemployment Rate</td>
<td>3.0%</td>
<td>3.6%</td>
<td>3.5%</td>
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<tr>
<td>Headline Unemployment Rate</td>
<td>3.9%</td>
<td>4.4%</td>
<td>3.6%</td>
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Price pressures are tame

Core Inflation
Annual change in Consumer Price Index for all items except food and energy

Confidence seems unrattled

Consumer Confidence Index
1985 = 100

Source: Conference Board
Expansions don’t die of old age.

## Risks to US Economic Outlook

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Utah Economy
Utah Economic Summary
Revenue and Taxation Interim Committee

June 2019

Mark Knold
Supervising Economist

Utah Department of Workforce Services
Utah Job Count

Source: U.S. Bureau of Labor Statistics
Anatomy of a Business Cycle

- Peak
- Trough
- Contraction
- Expansion
- Recovery
- Prosperity
State by State Employment Expansion

From Pre-Recession High to Current

Employment Gain Over Pre-Recession Peak

15%+

10.0% to 14.9%

5% to 9.9%

0% to 4.9%

< 0%

Source: U.S Census Bureau
The Main Reason for Utah’s Economic Expansion

Utah’s Population by Age and Sex: 2016

U.S. Population by Age and Sex: 2016

Dominating the Labor Force

Source: U.S. Bureau of the Census
Net Utah Migration

Sources: Utah Population Estimates Committee; U.S. Census Bureau
Utah is in the Center of the Fastest Growing Region in the Country

Percent Change in Population for States: 1990 to 2018
U.S. Rate = 31.0%

Source: U.S Census Bureau
Employment Count Still Below Pre-Recession Peak

Source: Bureau of Labor Statistics
Source: U.S. Bureau of the Census
Utah Avg. Wage Growth and Unemployment Rate
1991 - 2018

Source: Utah Department of Workforce Services
Utah Labor Force Participation Rate
1990 – 2018

Source: U.S. Bureau of Labor Statistics; Local Area Unemployment Statistics
Utah U-3 and U-5
2003 - 2018

U-5 Rate: total unemployed plus discouraged workers, plus all other marginally attached workers.

Discouraged are persons not in the labor force, want and are available for work, and had looked for a job sometime in the prior 12 months but not the past two months.

Marginally attached are workers who want and are available for work who cite any other reason than discouraged for not looking for a job within the past two months.

Source: U.S. Bureau of Labor Statistics; Utah Department of Workforce Services
Utah Avg. Wage Growth and Underutilization (U-5) Unemployment Rate
2003 - 2019

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Source: U.S. Bureau of Labor Statistics; Utah Department of Workforce Services
Headwinds Facing the Utah Economy

Unemployment Rate
U.S., Utah
Headwinds Facing the Utah Economy

Affordability Index (0 – 100) – Share of Affordable Homes to a Family Earning the Local Median Income

Source: National Association of Home Builders
The biggest Utah headwind is what will happen within the national economy.
Economy still doing well. Probably at the height of the business cycle. The best way to see it is the job and labor market.

The economy is creating a lot of jobs; all industries except brick-and-mortar retail.

Unemployment the lowest since 1969. The story is a very tight labor market.

No debate about wage growth. Around 3-3.5%. Inflation 2%. Real gain 1.5%.

The strongest wage growth has shifted to the bottom of the wage distribution. Labor markets are very tight for the low-skill market.

The wage growth is the immediate reason for optimism.

Another reason for optimism is that inflation is low; below the Fed target.
United States Unemployment Rate

Lowest unemployment rate since 1970.
• Inflation rises occur when wage growth is higher than the underlying productivity gains. He feels we have reached that level.

• Profit margins were strong due to the tax cuts. Once you feed that beast (high profit margins), businesses want to maintain that. Therefore, he thinks businesses will pass along the wage increases, and he expects higher inflation this time next year.

• If the trade war stops, Fed will probably raise rates. If trade war continues, Fed will probably have to cut rates.
• Trade war. The effective current tariff rate on China is 6%. President Trump threatened 25% during the election campaign. Continued rising tariffs will cut into GDP.
• Tariff war also has a price on business sentiment and confidence. There is no clear picture to what will happen or to where this will go. This in turn will cause businesses to sit on their hands. Capital expenditures are currently going nowhere.
• Other: budget and debt limit extensions coming up later this year.
• Geopolitical: Brexit. Zandi thinks a no-deal Brexit will cause a European recession but not a U.S. recession.
• Iran and Middle East tensions.
The Next Recession

• He facetiously says June 2020.
• He has been holding to this date for two years. He tongue-in-cheek jokes, but the risks are rising.
• He says expansions can die of old age. Not because of the calendar, but instead because getting beyond full employment is getting into old age.
• Three years is the average length between full employment and recessions. We have been at full employment since the summer of 2017 (two years).
United States Unemployment Rate

Full Employment
June 2017
The Next Recession

• Yield Curve inversions have always made for a recession.
• It takes about a year for the inversion to give way to a recession.
• We are currently just starting an inversion (He predicted this last year).
• Watching for a “hard” inversion (down 25 basis points for three months or more).
Some consistent negative relationship with subsequent real economic activity in the United States, with a lead time of about four to six quarters. The measures of the yield curve most frequently employed are based on differences between interest rates on Treasury securities of contrasting maturities, for instance, ten years minus three months (the dashed line in the chart below). This metric has been found to be consistently predictive of real economic activity including GNP and GDP growth, growth in consumption, investment and industrial production, and economic recessions as dated by the National Bureau of Economic Research (NBER).
GDP growth, growth in consumption, investment and industrial production, and economic recessions as dated by the National Bureau of Economic Research (NBER).
The Next Recession

• This places the intersection of these two trends in the early summer of 2020, thus, his summer 2020 recession.
• A normal garden-variety recession.
What Fundamental Bothers Him the Most?

- He does not think it will be the consumer.
- He is most worried about the shadow banking system; the lending system outside of regulation. (ex. Rocket Mortgage, Quicken Loans, etc.)
- About half of current mortgage origination volume is in shadow banking.
The Shadow System Expands

% of mortgage originations originated by nonbanks

Sources: Federal Reserve, Brookings, Moody’s Analytics
Summary

• A national recession does not have to translate into a Utah recession.
• We have skimmed over past national “garden variety” recessions before.
• Slowing the growth rate would be expected, but we do not necessarily have to cross into job loss.
• If a national recession occurred, it will probably be a V-shaped look; meaning quick and noticeable job loss (around -1%), and then quick employment rebound.
• Current risks of such arising within the next two years are increasing but not yet alarming.