



Keepers of Utah's Flame

ECONOMIC OPPORTUNITY FOR THE NEW UTAH

Economic Development and Workforce Services Interim Committee

Presented by Phil Dean | Kem C. Gardner Policy Institute | June 19, 2024

Today's Presentation Outline

- *What's the economic outlook?*

Moderating growth

- *What drives economic expansion?*

Fundamental “factors of production”

- *What key flashpoints impair future prosperity?*

Housing, workforce, mental health

The New Utah – A Lens for Understanding Broader Economic Shifts

OLD		NEW
Growing Small State	➡	More Populous Mid-Sized State
Internal Growth	➡	External Growth & Much Lower Fertility
Less Multicultural	➡	More Multicultural
Young	➡	Getting Older
Strong Economy	➡	Elite Economy
Affordable Housing	➡	Unaffordable Housing

Source: Kem C. Gardner Policy Institute

What's Changed?

- **More people** – Utah added 56,000 more people in 2023. That's approximately 150 more Utahns each day.
- **Continued net in-migration and declining fertility** – An estimated 32,000 more people moved into Utah than moved out. That's about 88 per day. Fertility in Utah continues a 15-year slide.
- **Utah's job growth slowing** – Utah now ranks 10th among states in job growth. The Utah and national economy remain resilient, but fragile.
- **Flashpoints** – Old and new flashpoints require a watchful eye and action. These include housing accessibility, inflation, consumer sentiment, mental health, and socio-economic disparities.
- **Policy prescriptions** – Plant Utah's seed corn, focus on quality over quantity, and be vigilant amid success.



Economic Outlook

Megatrend – Declining Fertility Rates

The economy is moving us back into the 19th century as fertility rates plunge

BY SYDNEY LAKE

April 26, 2024 at 2:31 PM MDT

FORTUNE

Declining fertility rates will transform global economy, report says **FINANCIAL TIMES**

U.S. Fertility Rate Falls to Record Low

Fewer babies were born in the U.S. in 2023 than any year since 1979

THE WALL STREET JOURNAL.

US fertility rate dropped to lowest in a century as births dipped in 2023

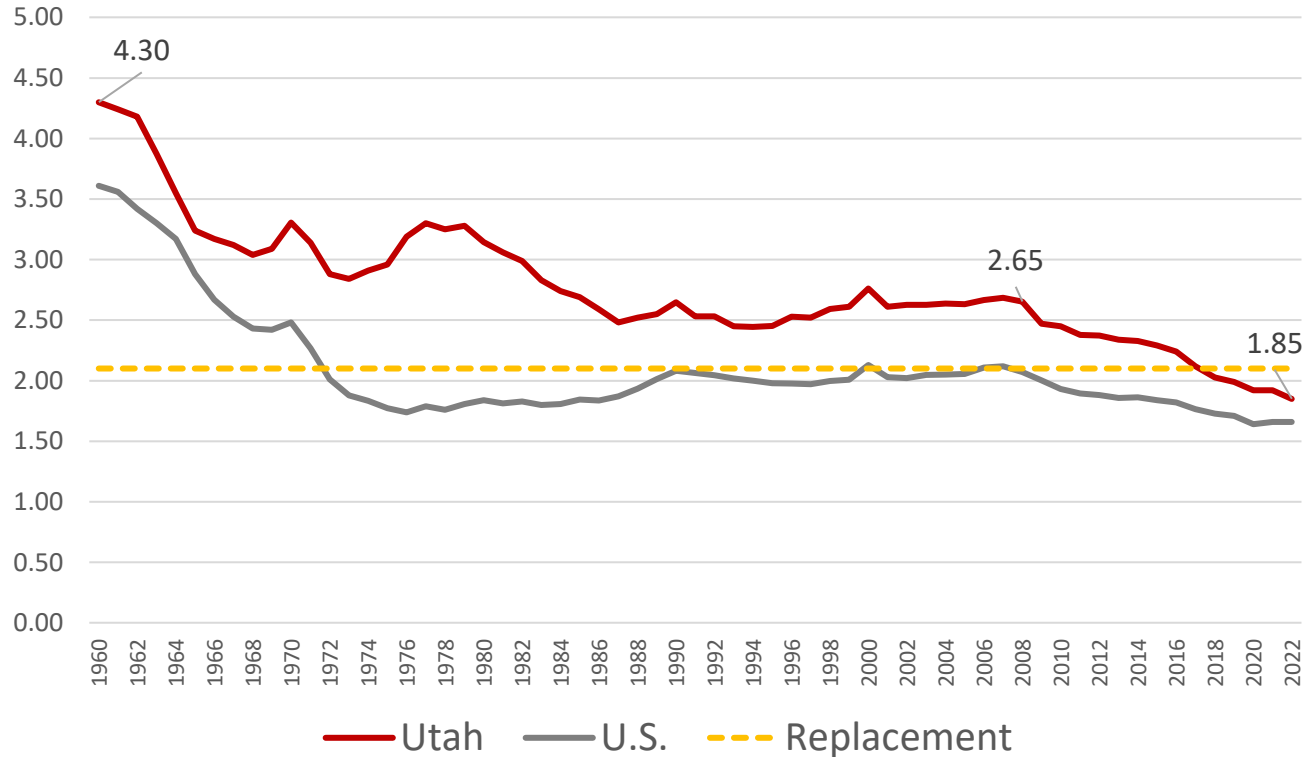
CNN Health

The Lancet: Dramatic declines in global fertility rates set to transform global population patterns by 2100

Published March 20, 2024

Total Fertility Rate

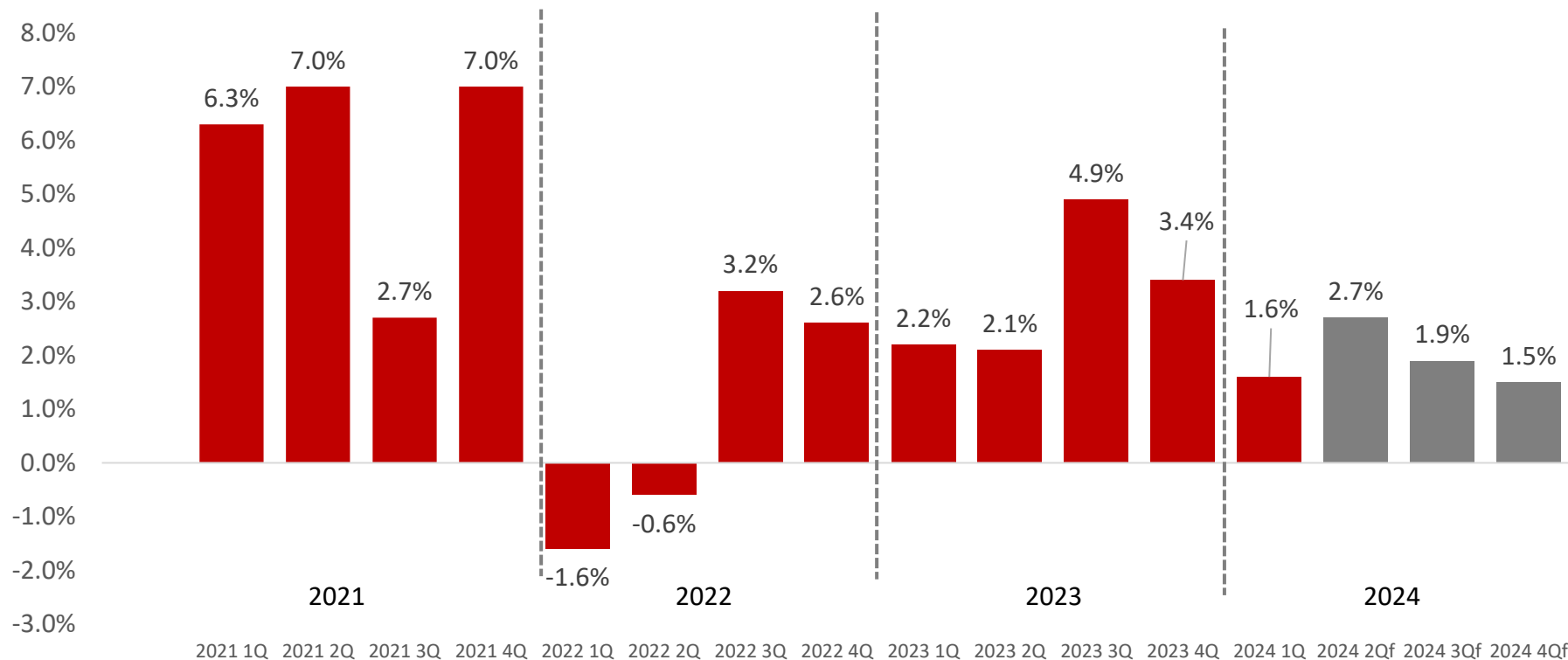
1960-2022



Source: National Center for Health Statistics

U.S. Real GDP Growth

Quarter-over, seasonally adjusted annual rate



Source: Bureau of Economic Analysis and Wells Fargo Economics

Utah Economic Council

March 2024 Economic Forecast

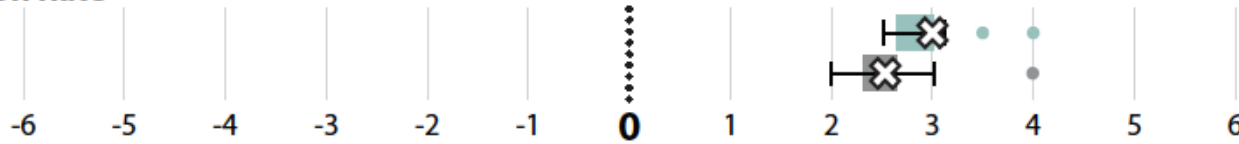
March 2024 Forecast

U.S.

U.S. CPI Inflation Rate

2024: 3.0%

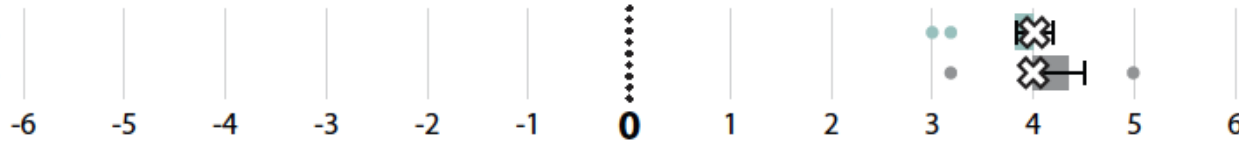
2025: 2.5%



U.S. Unemployment Rate

2024: 4.0%

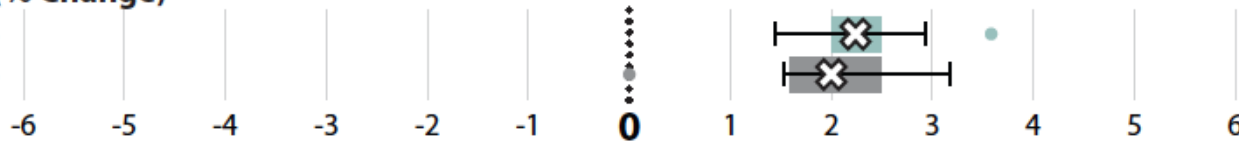
2025: 4.0%



U.S. Real GDP (% Change)

2024: 2.3%

2025: 2.0%



Economic Council Member Survey

Percent indicating
Utah currently in recession

0%

Percent indicating
U.S. currently in recession

0%

Median probability
of Utah recession in next
6-12 months

15%

Median probability
of U.S. recession in 2024

25%

Utah Economic Council

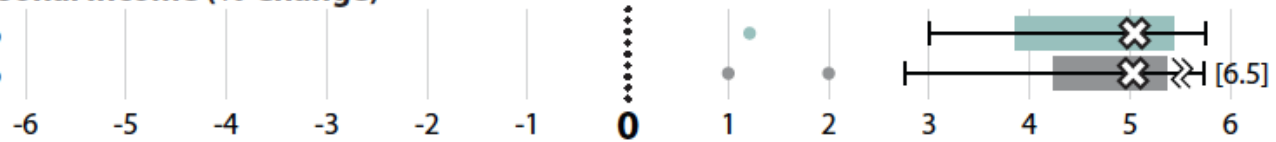
March 2024 Economic Forecast

Utah

Utah Total Personal Income (% Change)

2024: 5.1%

2025: 5.1%



Utah Population (% Change)

2024: 1.5%

2025: 1.5%



Utah Unemployment Rate

2024: 2.9%

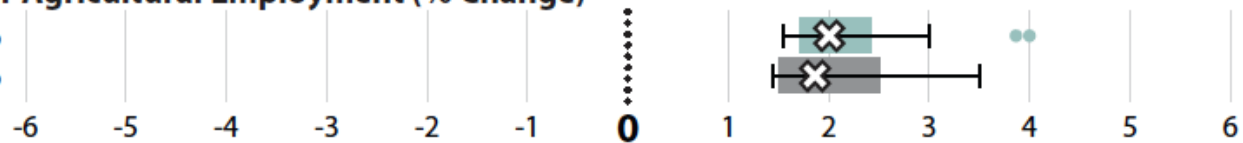
2025: 3.0%



Utah Total Non-Agricultural Employment (% Change)

2024: 2.0%

2025: 1.8%



Utah Economic Council

March 2024 Economic Forecast

Utah Average Annual Pay (% Change)

2024: 4.0%

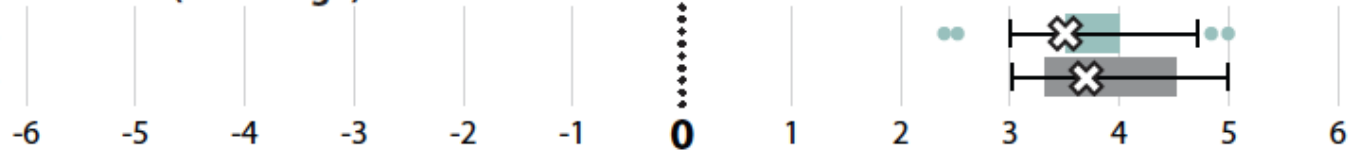
2025: 3.6%



Utah Total Taxable Sales (% Change)

2024: 3.5%

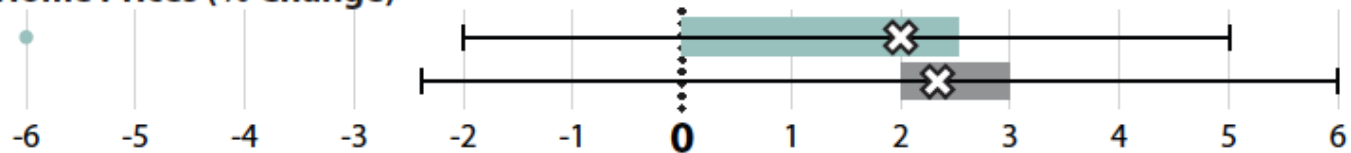
2025: 3.7%



Utah Average Home Prices (% Change)

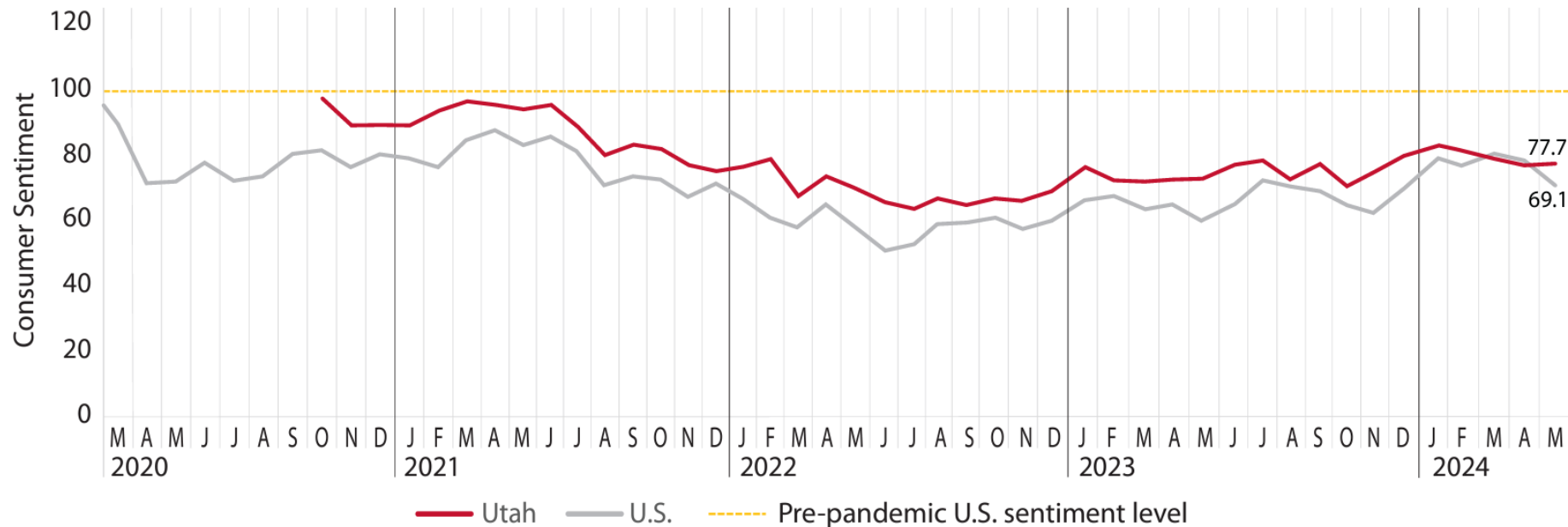
2024: 2.0%

2025: 2.3%



Consumer Sentiment Flat and Still Low

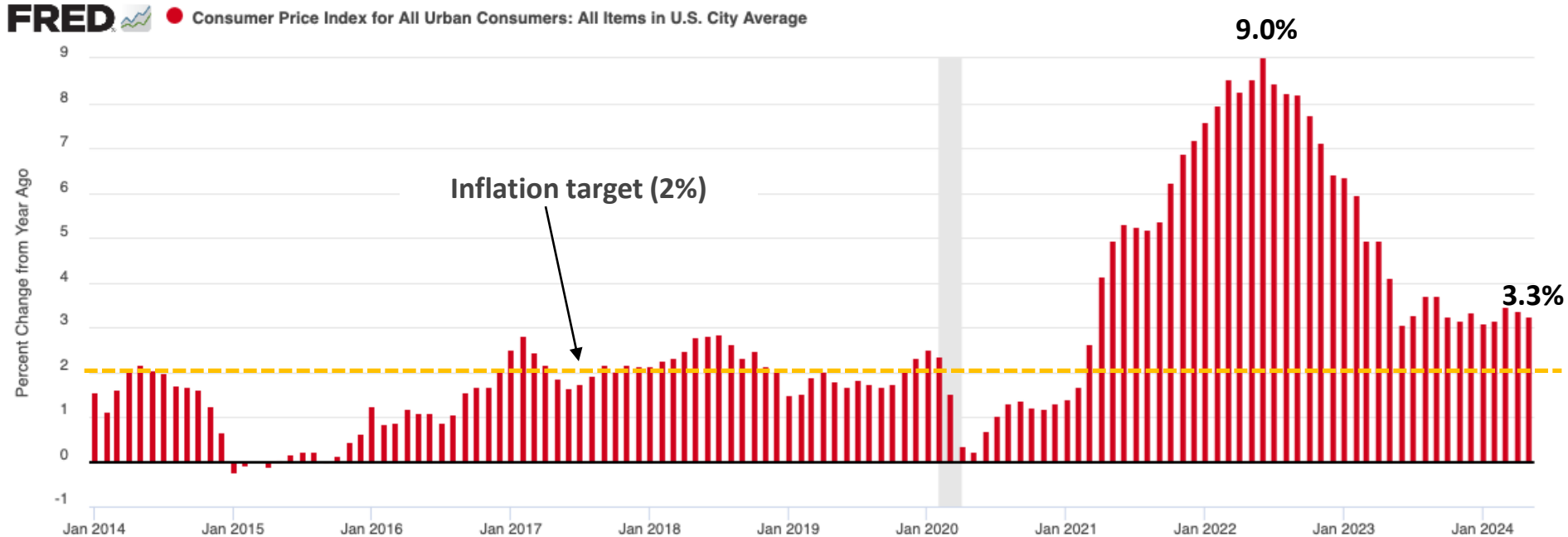
Consumer Sentiment Index: Utah and U.S.



Source: Kem C. Gardner Policy Institute and University of Michigan

U.S. Consumer Price Inflation

Year-over % change



Shaded areas indicate U.S. recessions.

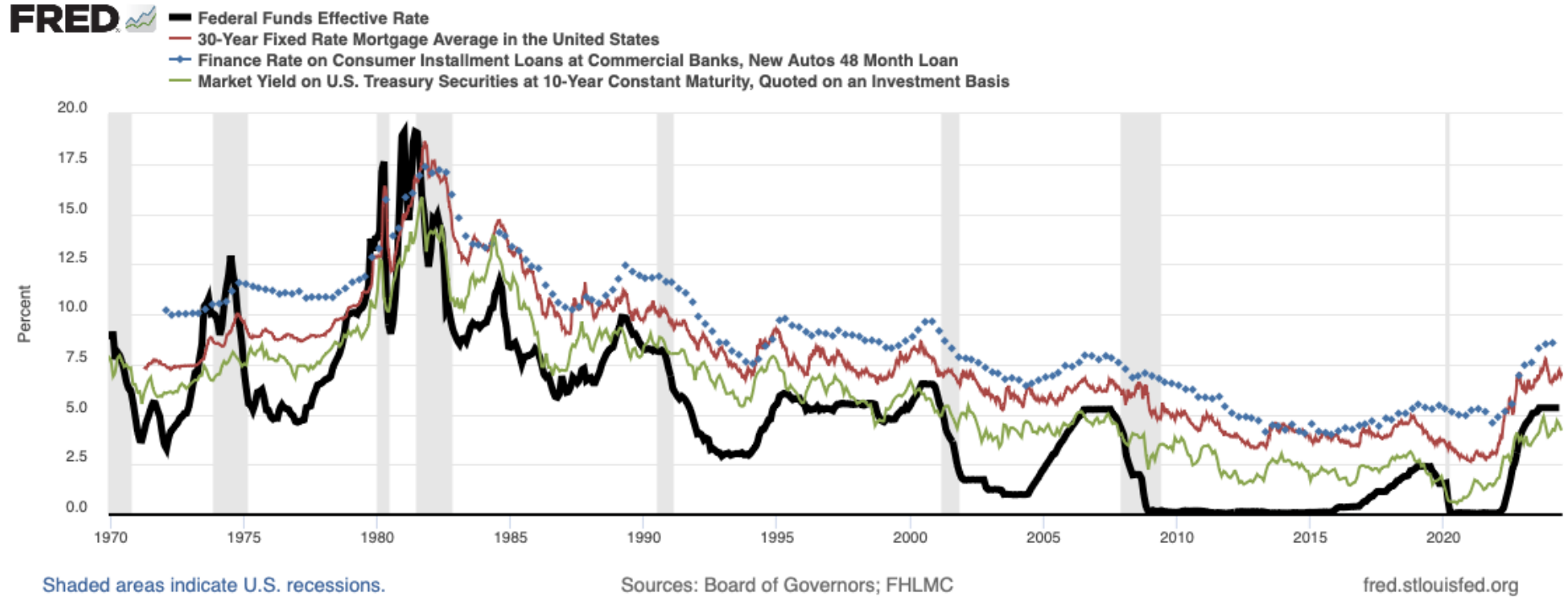
Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

*"We are navigating by the **stars**
under **cloudy skies**."*

- Jerome Powell, August 2023

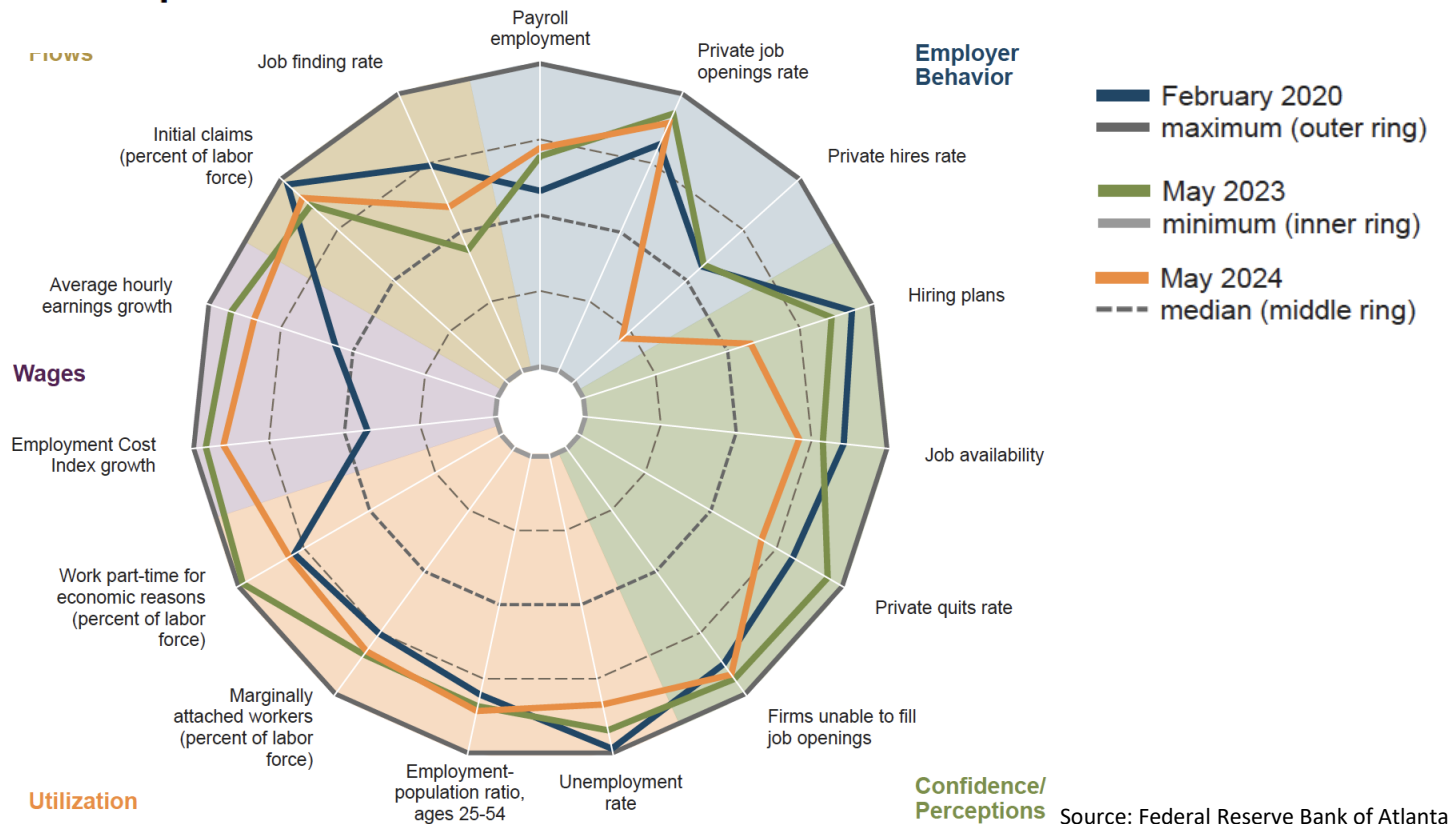
Historical Context for Elevated Interest Rates



Labor Markets - Still Tight But Job Growth Moderating

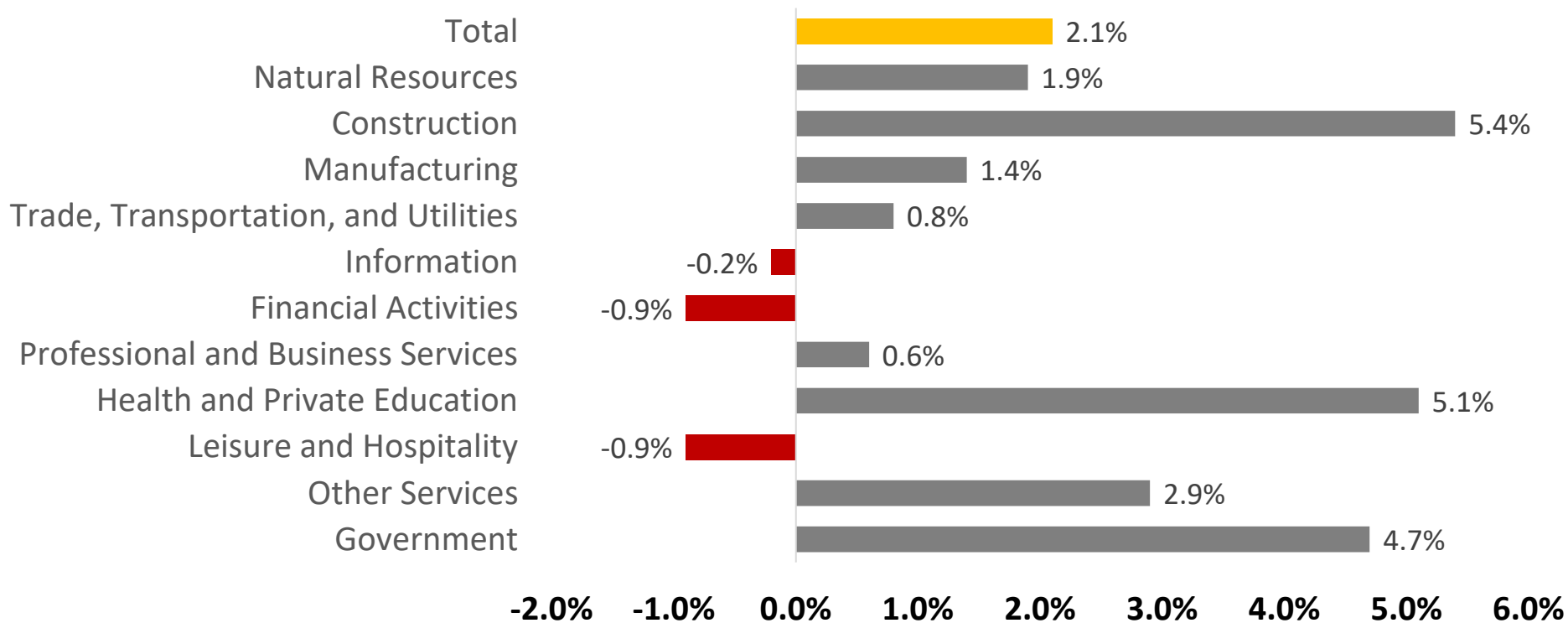
Labor Market Distributions Spider Chart

Data since March 1994



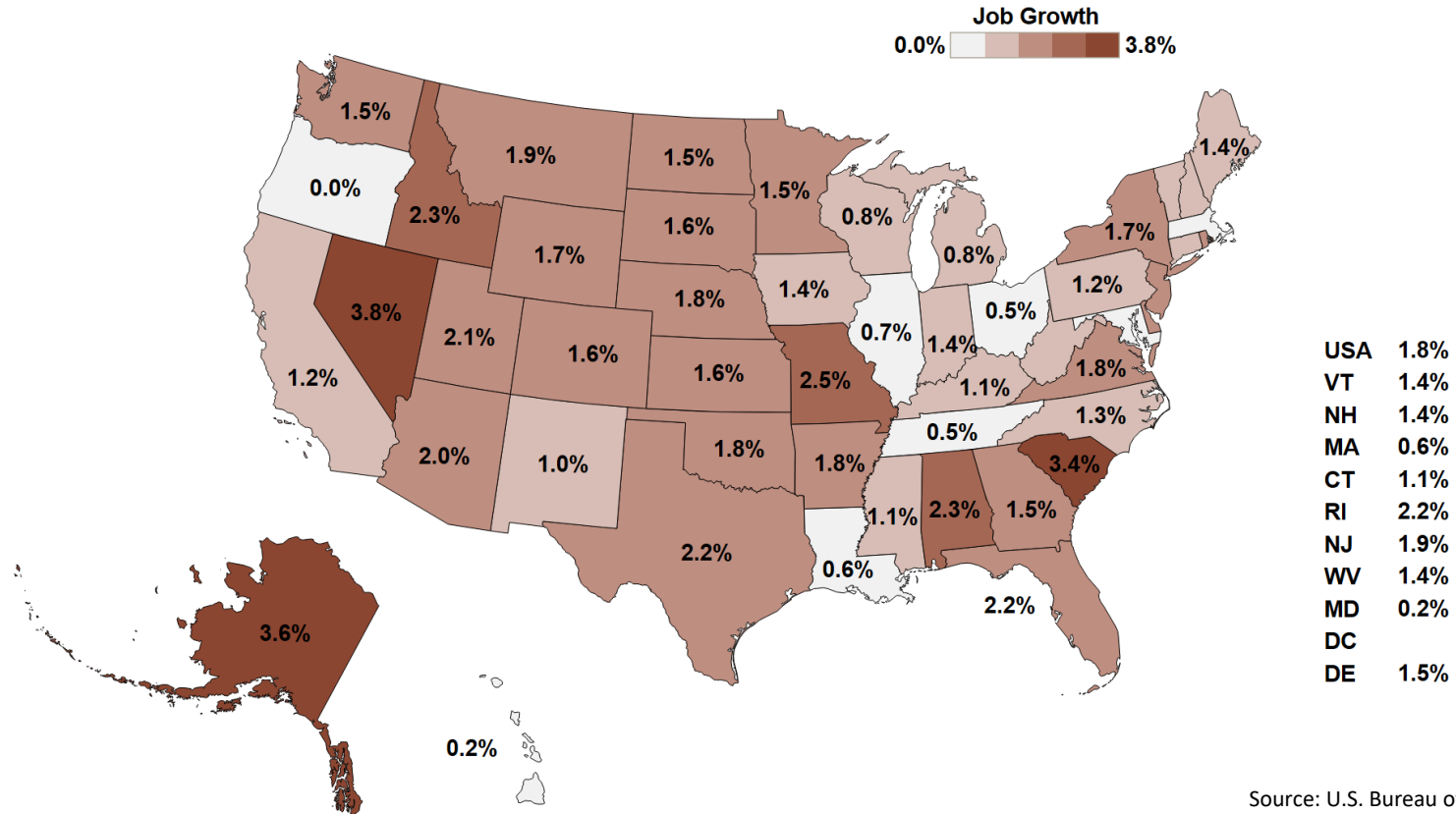
Utah Job Growth

Year-over % change, April 2024



Source: U.S. Bureau of Labor Statistics

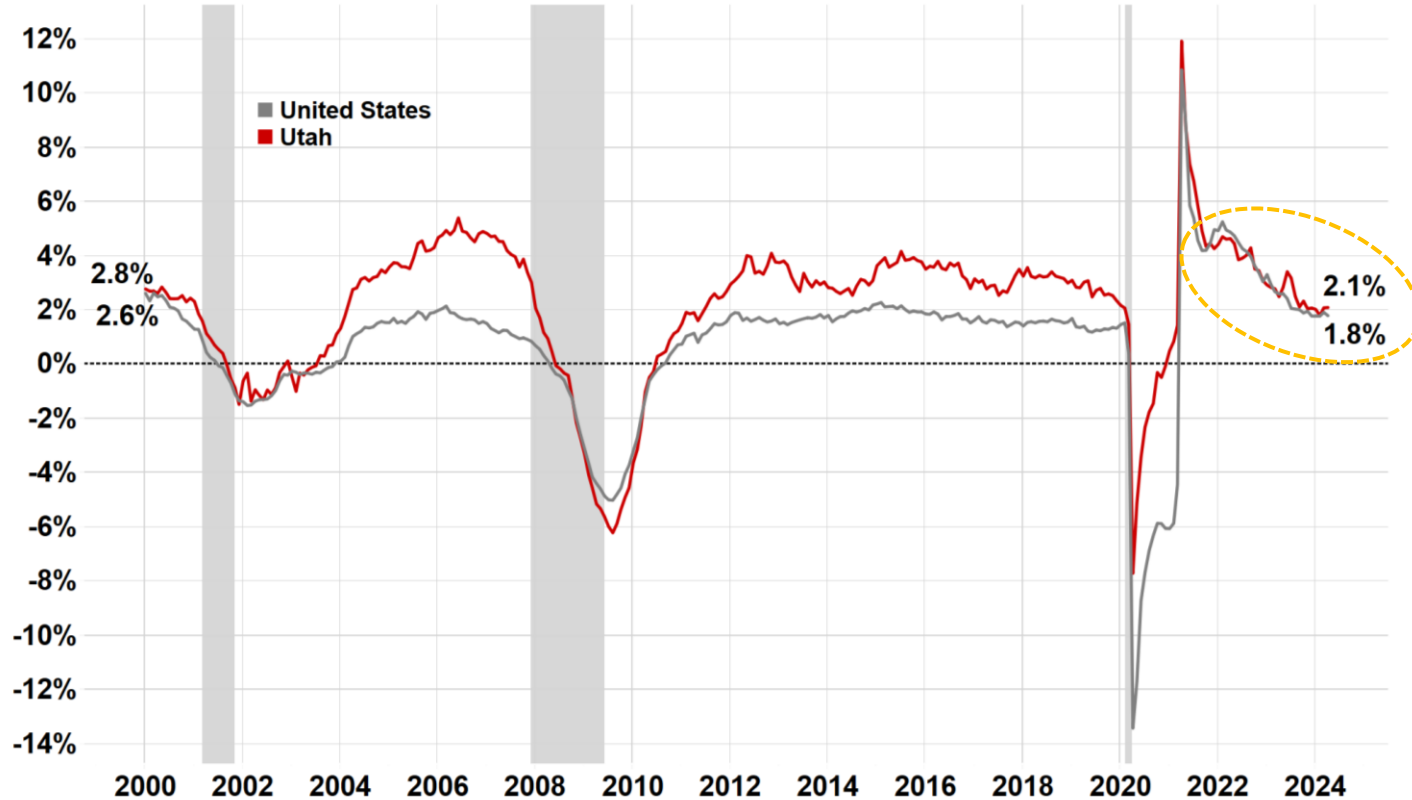
Year-Over % Change in Jobs, April 2024



Source: U.S. Bureau of Labor Statistics

U.S. and Utah Monthly Job Growth

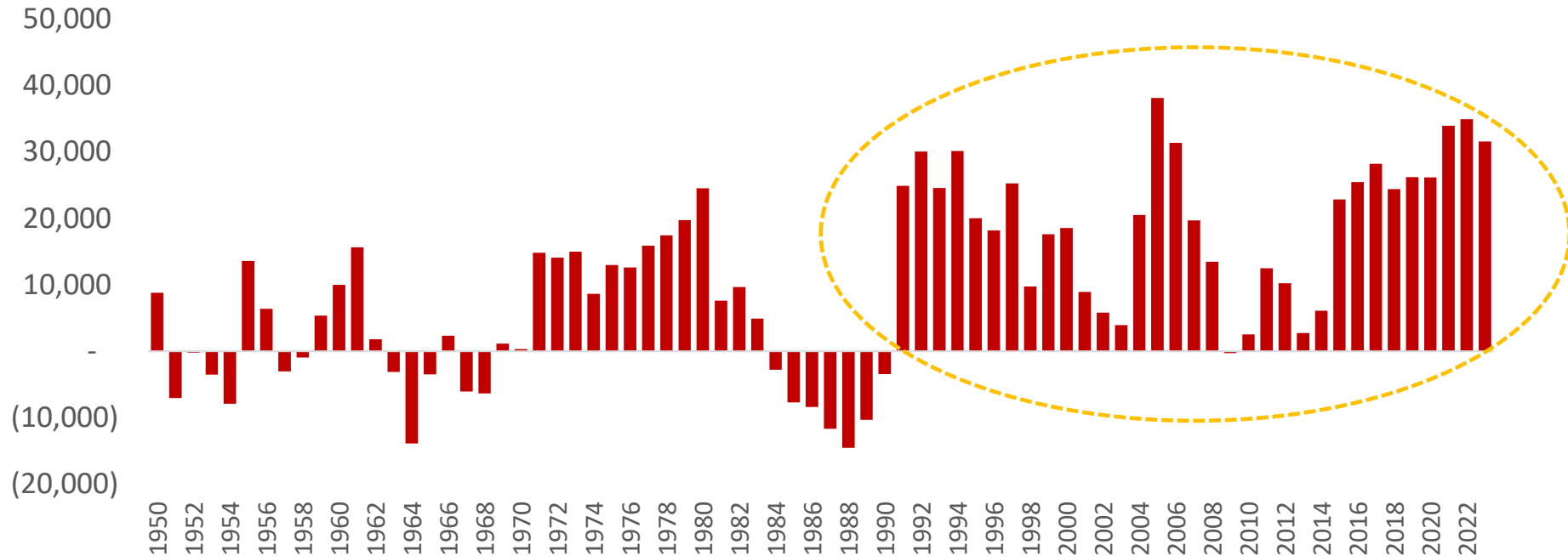
Year-Over Percent Change, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Utah Net Migration

Utah experienced positive net migration in 32 of the past 33 years



Source: Kem C. Gardner Policy Institute, and Utah Population Committee



What Drives an Area's Economic Expansion?

What Motivates Investment in Utah?

Households: Quality of Life

- Opportunity
- Affordability
- Amenities
- Access

Firms: Profit

- Profit motive underlies investment motivation
- Access to quality and quantity of labor, and physical capital, and natural endowments
- Access to markets
- Stable and competitive tax and regulatory environment
- Utah's secret sauce – social capital

Source: Kem C. Gardner Policy Institute

What is the Goal of Economic Development?

Begin With the End in Mind

- **What is the underlying goal?**
 - Assumption: **Sustainably improve quality of life**
 - To what extent is current economic growth meeting this goal?
 - To what extent are government economic development efforts?
- **Carefully consider the appropriate role of free markets and government in allocating scarce economic resources**
- **Contemplate the extent of alignment between “fundamental” economic development and corporate recruitment**

What Creates Economic Strength?

Factors of production

- Natural endowments / raw materials (“Land”)
- Human capital (“Labor”)
- Tools of production (“Capital”)
- Entrepreneurship

Quality and quantity of these factors fundamentally drive economic strength

Source: Kem C. Gardner Policy Institute

Growing the Economic Pie



Seen and Unseen Effects on Ecosystem

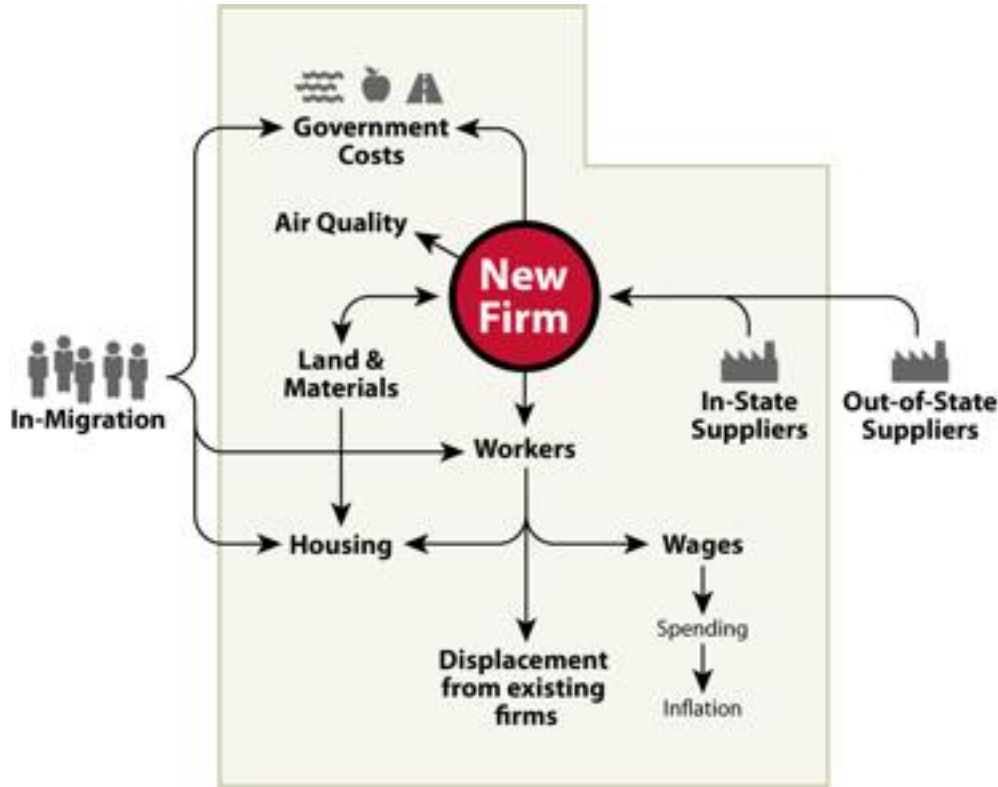


The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.

— *Henry Hazlitt* —

AZ QUOTES

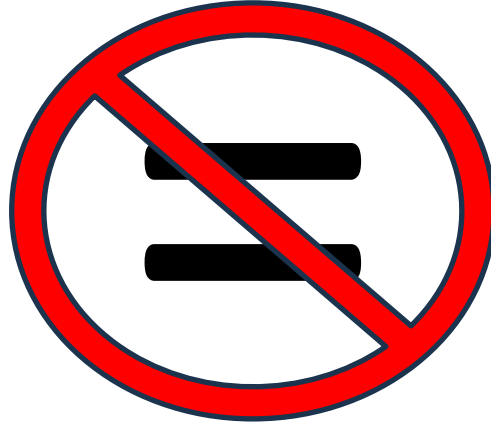
Utah's Economy Functions Like an Ecosystem



- **Countless interconnections**
 - Linkages
 - Leakages
- Important to **consider NET economic impacts on the entire economic ecosystem** with all linkages and leakages incorporated
- A new/expanding firm directly impacts some parts of the economy and indirectly impacts others – look beyond the immediate impacts

Not all New Activity Generates Growth

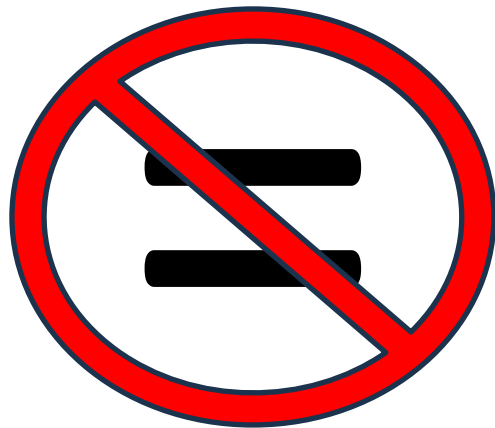
New
economic
activity



Economic
growth

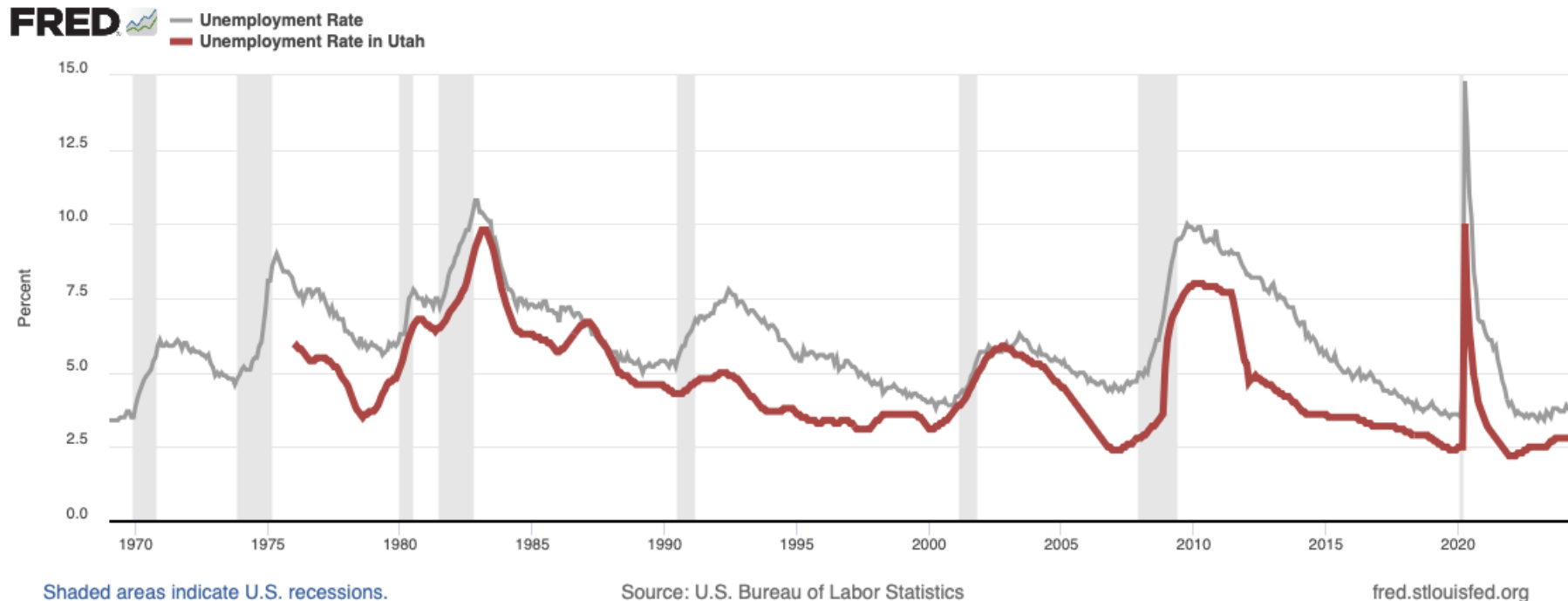
Think in “Real” Terms

Higher
prices



Economic
growth

Utah Unemployment Near All-Time Lows - Where Are Firms Finding “New” Labor?



New Jobs

- **Where do the “new job” workers come from?**
 - In-state
 - Option 1 – Idle Utah labor
 - Option 2 – Displaced from other Utah firm
 - Out-of-state
 - Option 3 – In-migration
- **“New” job and Utah economic growth level often differ**

Seen v. Unseen: “New” Job

Option 1 – Use Idle In-State Labor

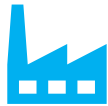
Firm A



+\$80K

Option 2 – Displace In-State Labor

Firm A



+\$80K

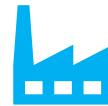
Firm B



-\$75K

Option 3 – Create In-migration

Firm A



+\$80K

Imposes series
of diffuse new
societal costs

- Housing
- Government
- Water, land &
raw materials

The *Utah* Economist

► SPECIAL REPORT

Utah in top 5 for economic diversity

Wilford Clyde: A Giant in our City

Rents rising across Utah

MAY 9-14, 2023

NEW UTAH BENEFITS



Utah's economic diversity is a key factor in its success. The state's economy is built on a strong foundation of innovation and entrepreneurship. This is reflected in the state's high ranking for economic diversity. The state's economy is built on a strong foundation of innovation and entrepreneurship. This is reflected in the state's high ranking for economic diversity.

The *Utah* Economist

► SPECIAL REPORT

Migration drives Utah's growth

Federal Reserve 2022

Utah is the place for AI

MAY 22-26, 2023

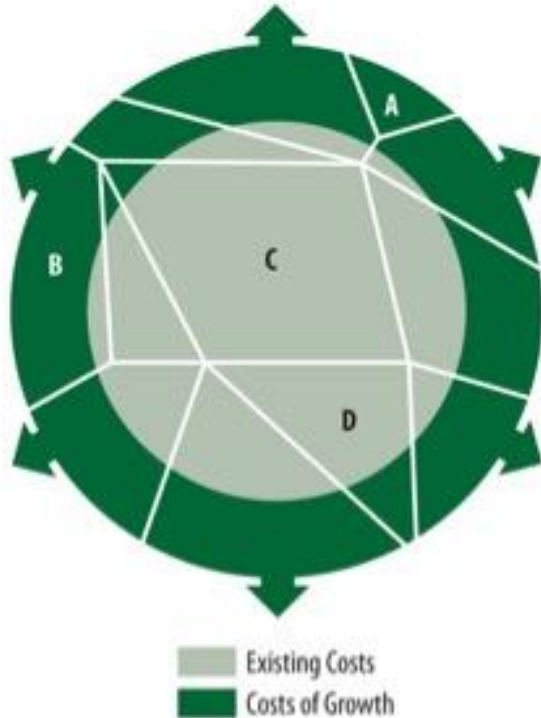
NEW UTAH COSTS



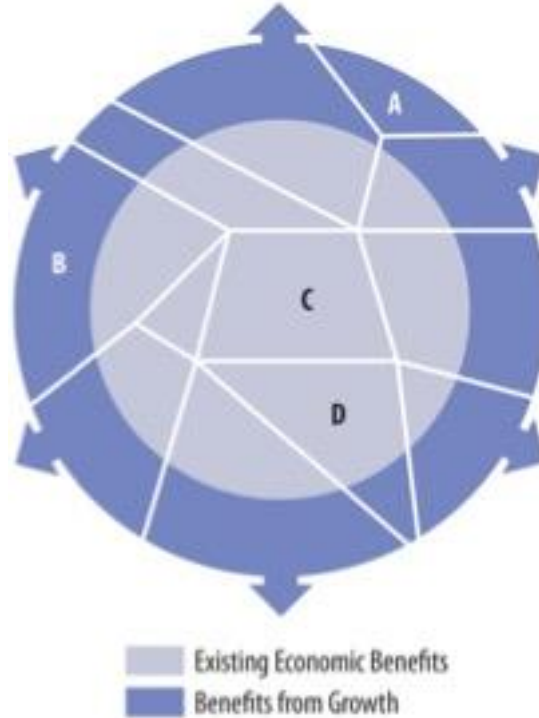
Utah's economic diversity is a key factor in its success. The state's economy is built on a strong foundation of innovation and entrepreneurship. This is reflected in the state's high ranking for economic diversity. The state's economy is built on a strong foundation of innovation and entrepreneurship. This is reflected in the state's high ranking for economic diversity.

Slicing the Economic Pie – Who Bears the Costs and Reaps the Benefits of Growth?

Costs



Benefits



- Are economic costs and benefits closely aligned?
- How do fundamental economic incentives and government intervention slice the economic pie?
- If government intervention is used, carefully evaluate **FULL** impacts (seen and unseen)

Carefully Weigh Benefits and Costs



Consider Both Reality and Perception of Distribution of Costs and Benefits

“Large majorities of the middle class and below, for example, say that the working class is being left behind when it comes to economic development, while 80% of the upper class say that everyone is benefiting equally.”

HarrisX-Deseret News Poll, Cited in June 4, 2023 Article



Think Regionally

- **Economies respond heavily to availability and strength of basic economic resources** (“factors of production”)
- **Location matters**
 - Local availability of required factors of production
 - Consider pockets of idle existing capacity
 - Regional economic linkages
 - Broader societal costs, such as for public infrastructure or housing costs
- **But....economies do not necessarily care about political boundaries** if boundaries do not constrain economic flows





Public Policy Backdrop – Key Utah Strengths and Flashpoints

Three Economic Development Axioms

1. **Plant seed corn** – Consider making investment in Utah's people and infrastructure the top economic development priority.
2. **Quality over quantity** – Consider even greater focus and selectivity. Seek multi-generational impacts.
3. **Vigilance amid success** – Complacency represents a huge risk for any successful enterprise. Consider doing more to address Utah's flashpoints, such as housing, workforce, and mental health.

Plant Seed Corn by Investing in Human and Physical Capital

Factors of production

- Natural endowments / raw materials (“Land”)
- Human capital (“Labor”)
- Tools of production (“Capital”)
- Entrepreneurship



Quality and quantity of these factors fundamentally drive economic strength

Source: Kem C. Gardner Policy Institute

Play the Long Game

Favor strategic investment over short-term gain

What makes an economy grow?

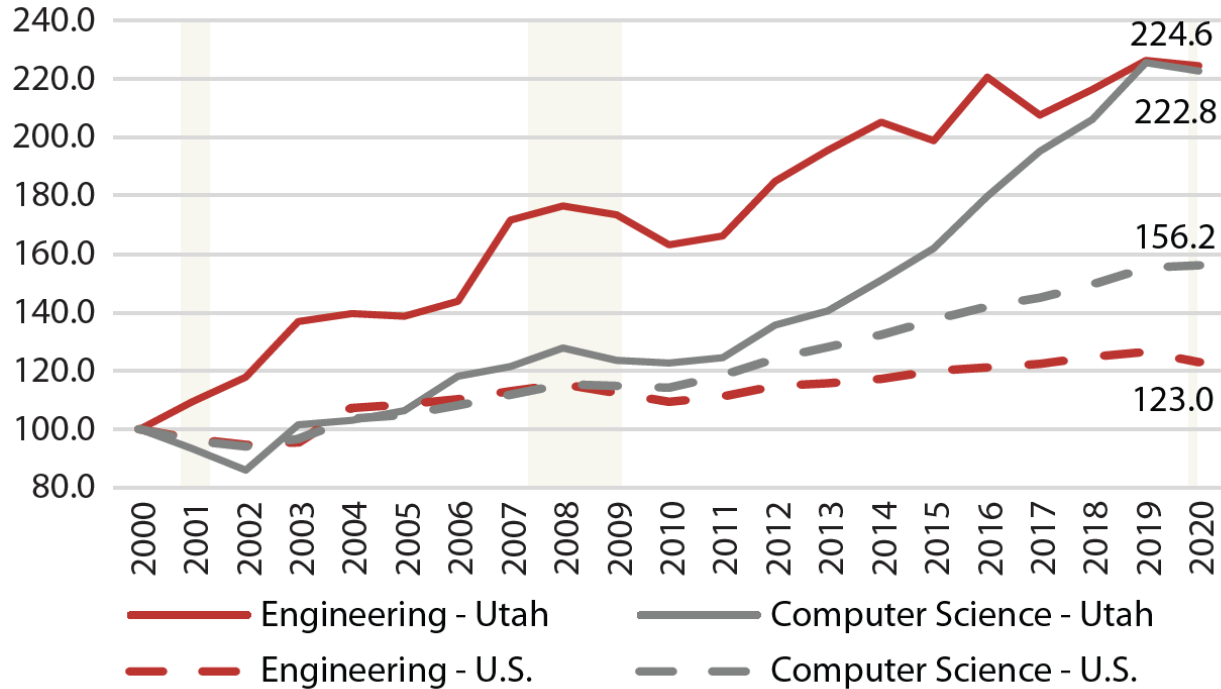


Some harvests occur years (and decades) after the seed corn planted



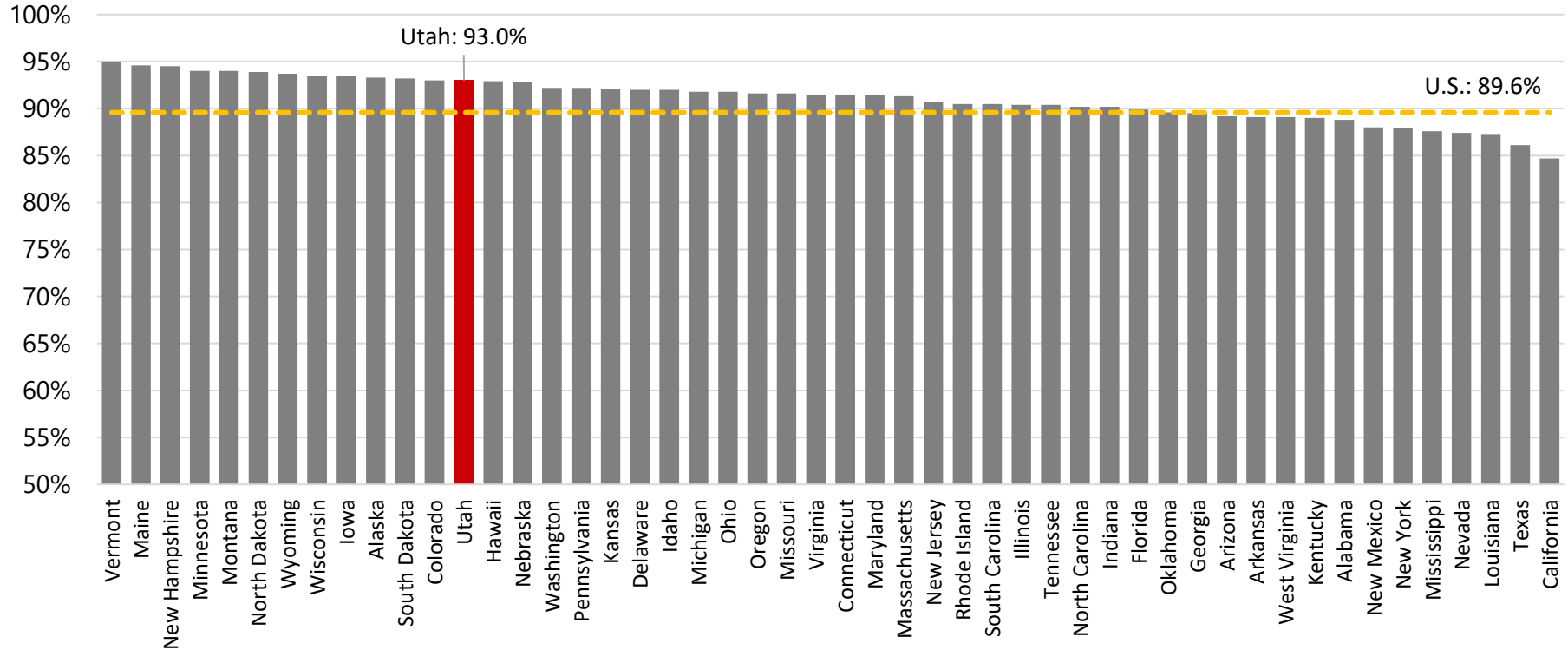
Engineering Focus: A Utah Success Story

Computer Science and Engineering; 100=Number of Jobs in 2000



Source: Compiled by Kem C. Gardner Policy Institute, based on U.S. Bureau of Labor Statistics data

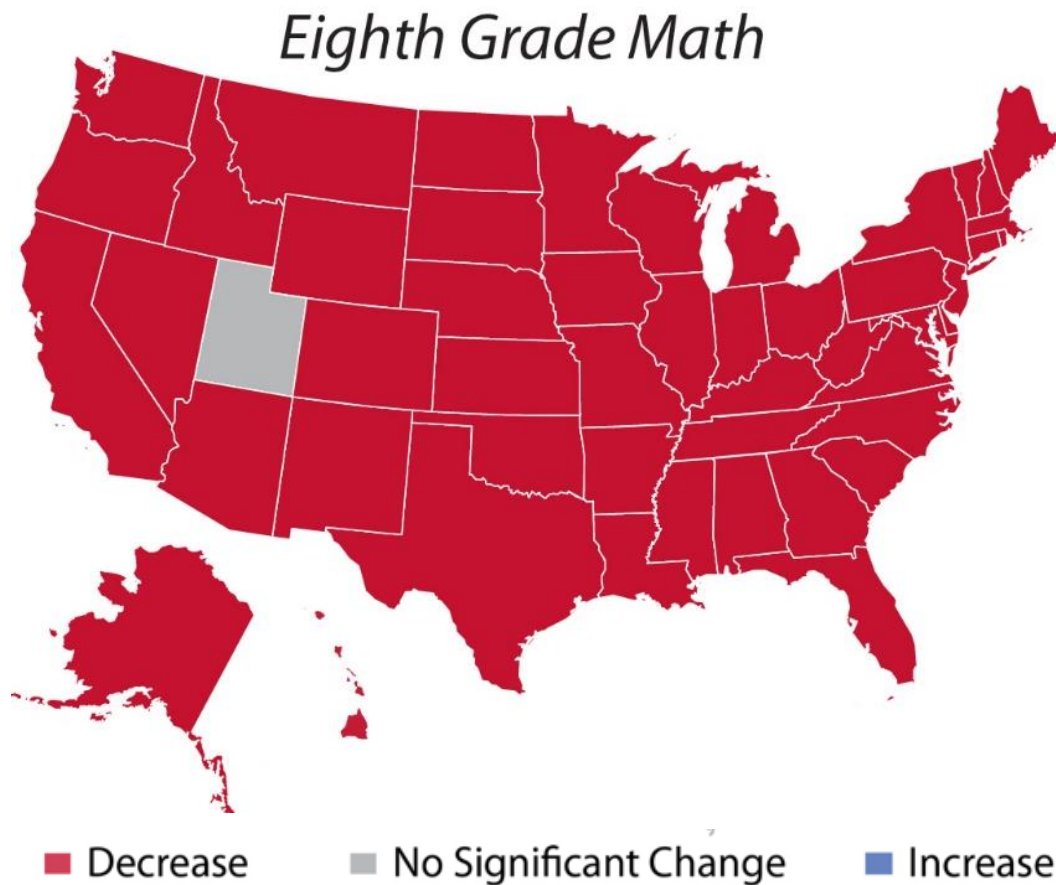
Share of Adults 25+ with a High School Diploma or Higher by State, 2022



Note: Includes high school equivalency, y-axis does not begin at zero
Source: U.S. Census Bureau American Community Survey 2022 1-Year Estimates

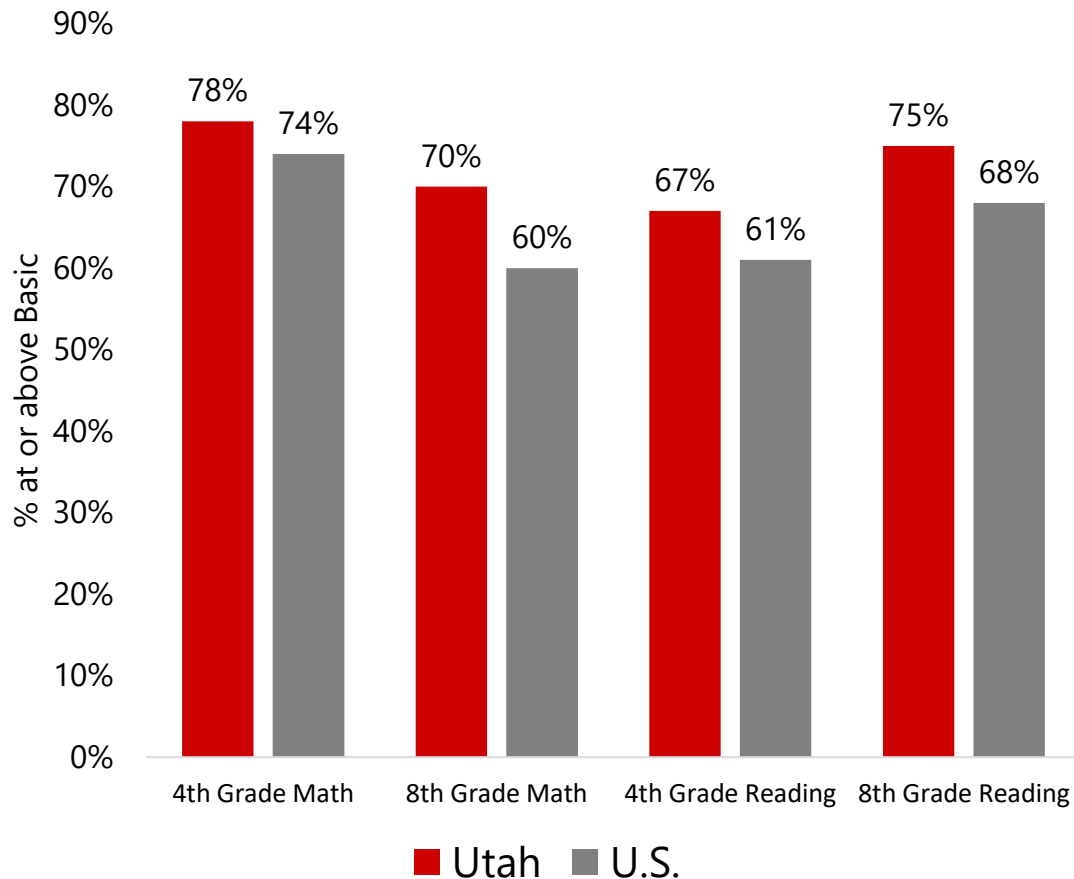
Change in Average Scores between 2019 and 2022 for Public School Students

Source: The Nation's Report Card National
Assessment of Educational Progress (NAEP)

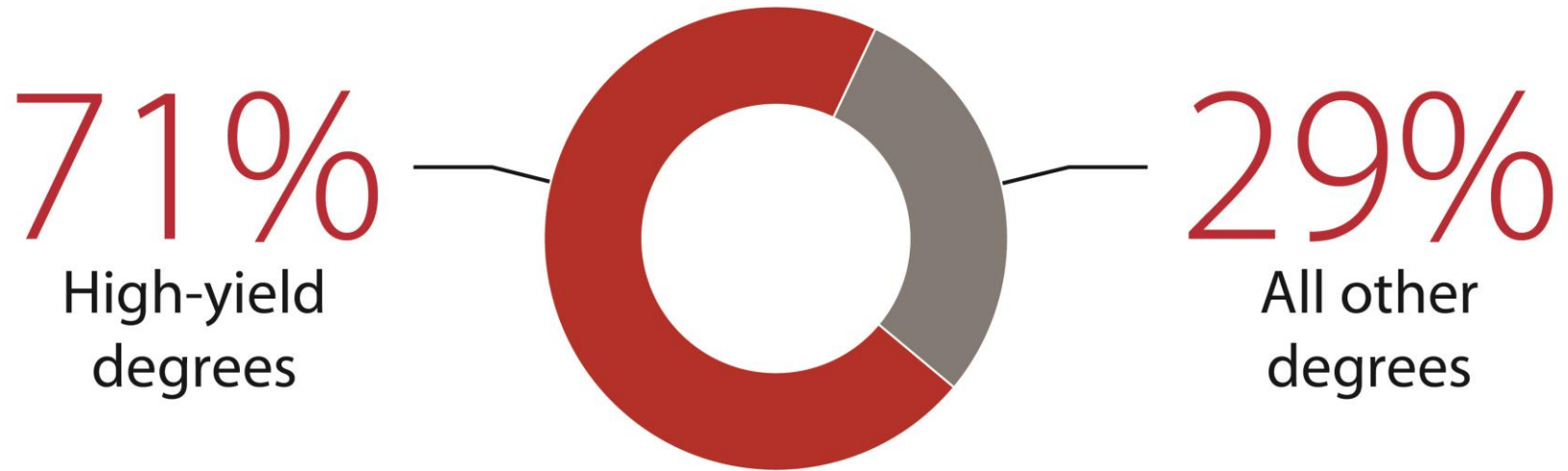


Share of Students at or Above Basic in Reading and Math in Utah and the U.S., 2022

Source: The Nation's Report Card National Assessment of Educational Progress (NAEP)

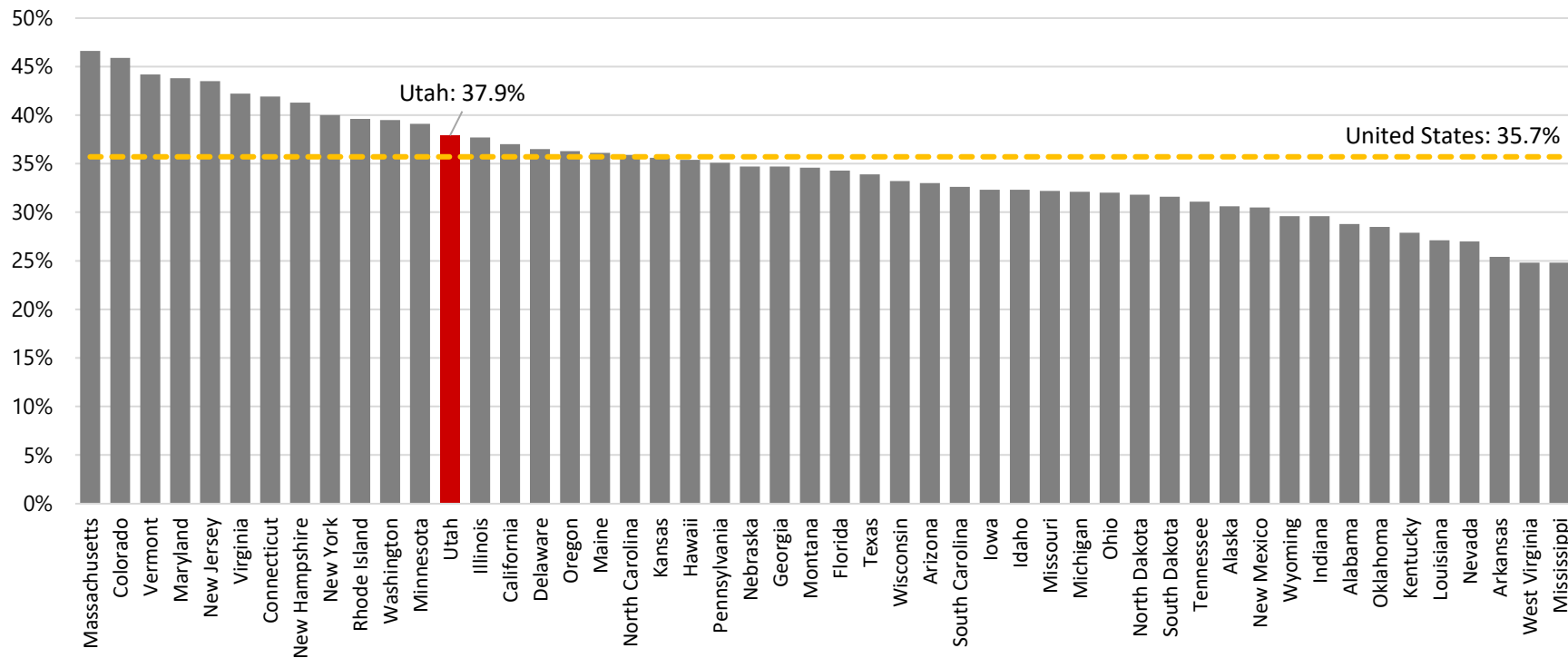


Share of High-yield Degrees Awarded to USHE Graduates, 2022



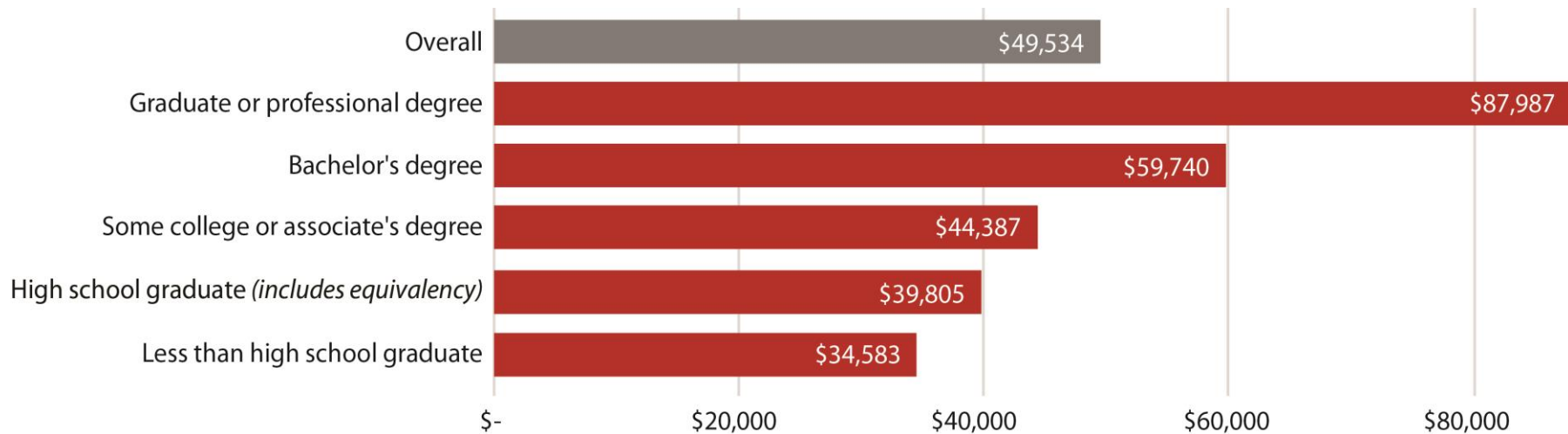
Note: High-yield degrees are degrees or awards that map to high-wage/high-demand jobs as defined by DWS' biennial four-and-five-star jobs publication.
Source: Utah System of Higher Education

Share of Adults 25+ with a Bachelor's Degree or Higher by State, 2022



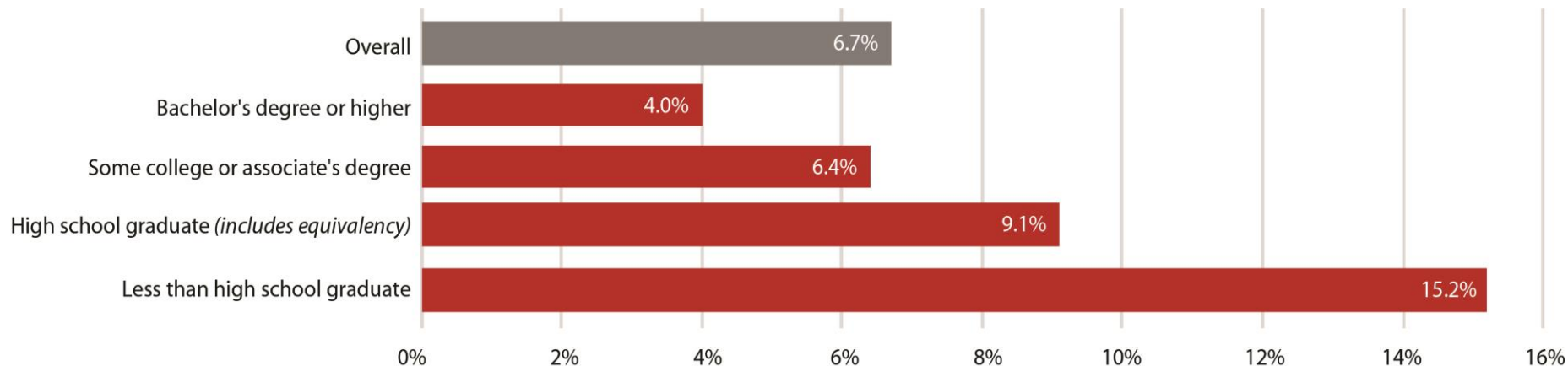
Source: U.S. Census Bureau American Community Survey 2022 1-Year Estimates

Utah Adult Median Earnings by Educational Attainment, 2022



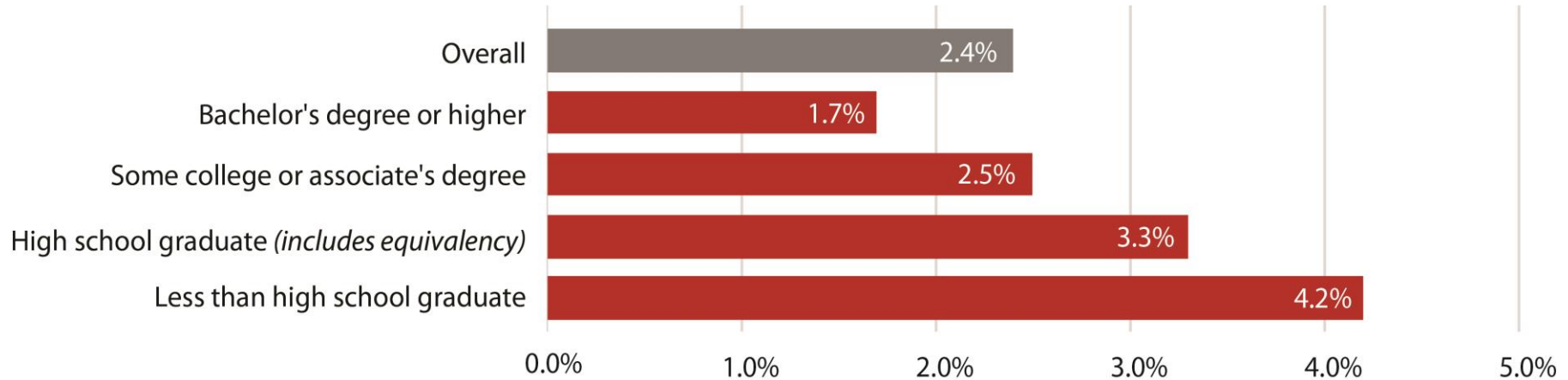
Source: U.S. Census Bureau, 2022 5-Year American Community Survey estimates

Utah Adult Poverty Rate by Educational Attainment, 2022



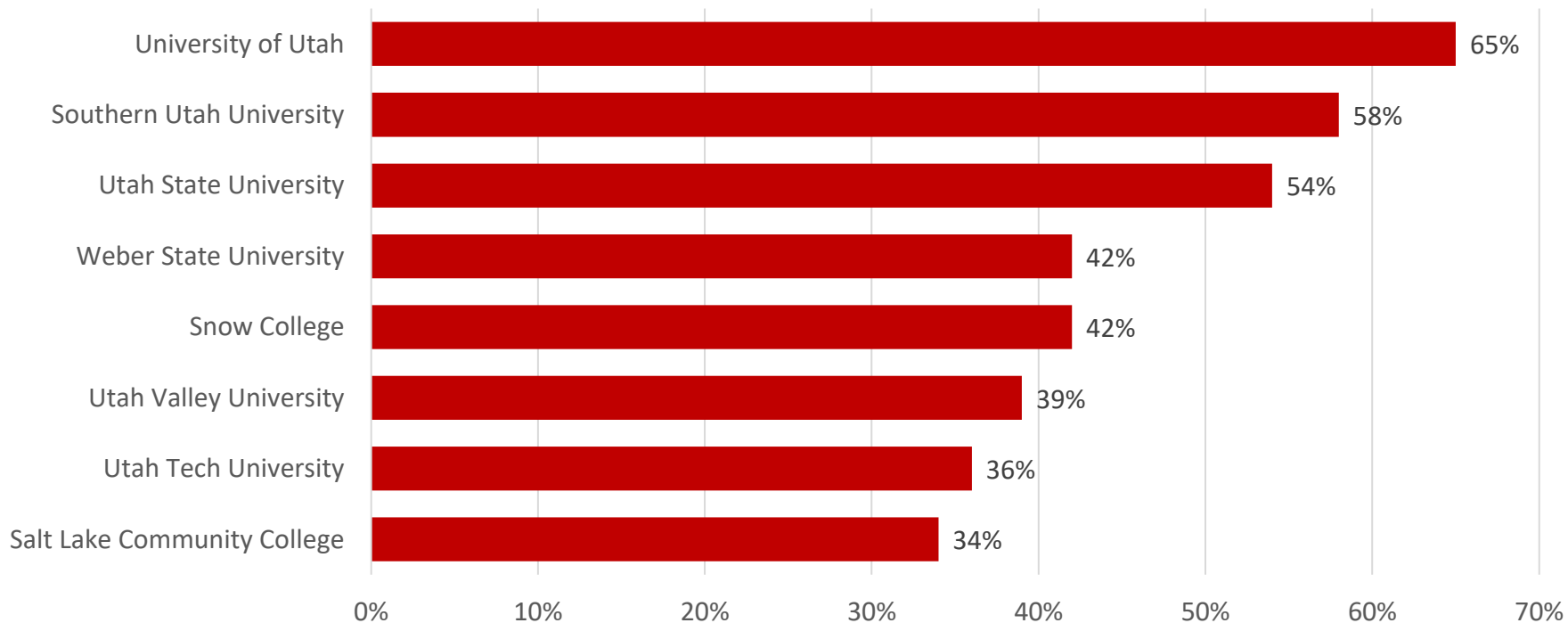
Source: U.S. Census Bureau, 2022 5-Year American Community Survey estimates

Utah Adult Unemployment Rate by Educational Attainment, 2022



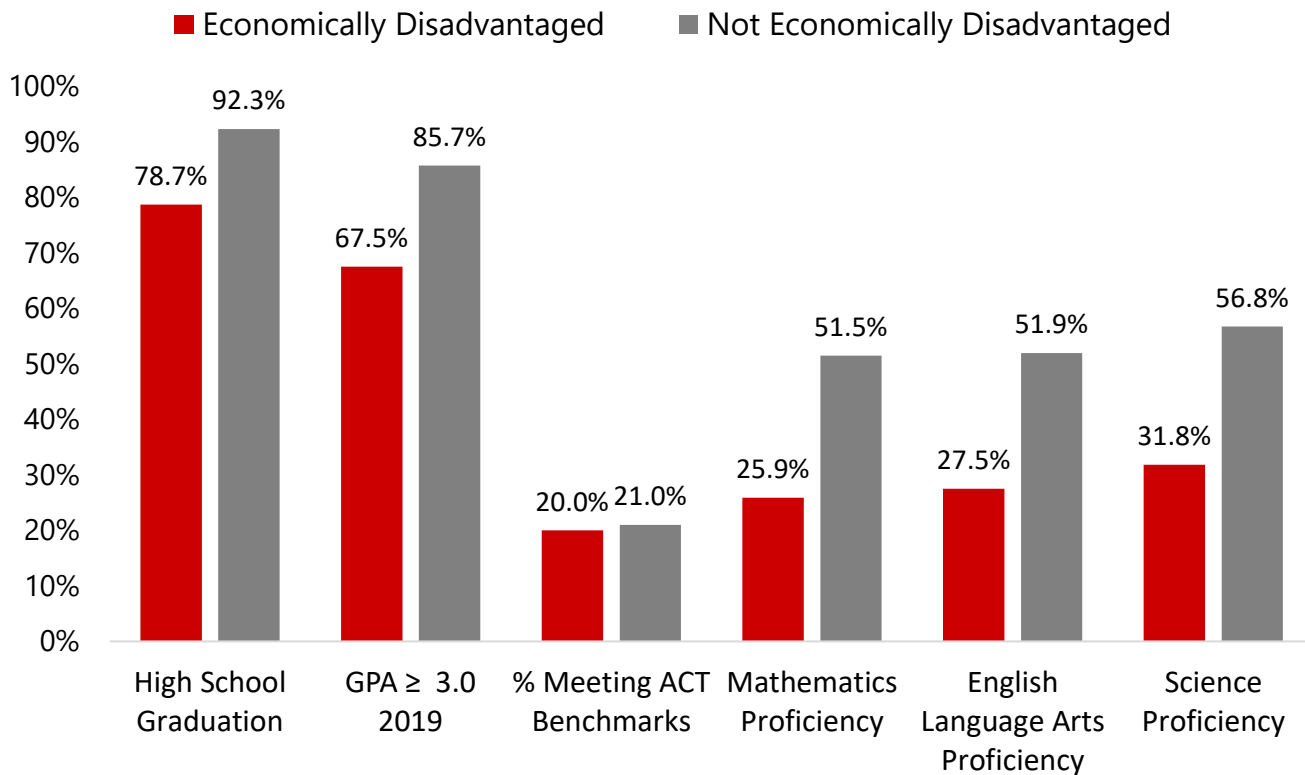
Source: U.S. Census Bureau, 2022 5-Year American Community Survey estimates

Graduation Rates at USHE Degree-Granting Institutions, 2022



Source: Utah System of Higher Education

Utah K-12 Student Achievement by Economic Disadvantage, 2023

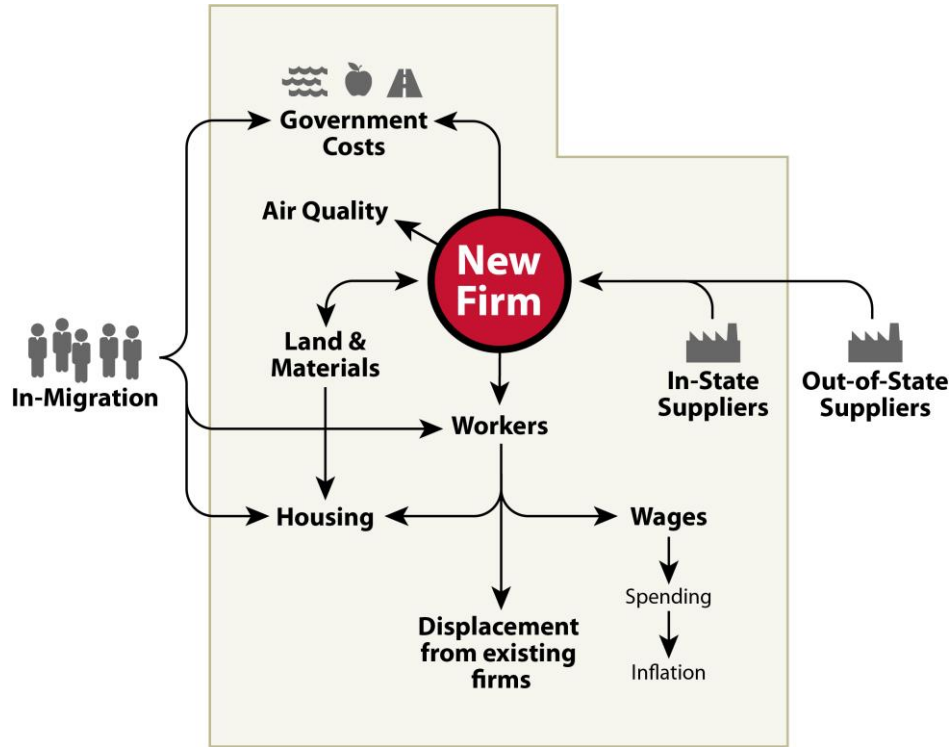


Note: The most recent GPA data is from 2019, the rest of the metrics use 2023 data. Math, ELA, and Science proficiencies as measured by the RISE test, grades 3-8. Economically disadvantaged for ACT measured as household income of \$36,000 or less, measured as qualifying for free or reduced-price lunch for the remaining metrics.

Source: Kem C. Gardner Policy Institute analysis of Utah State Board of Education data and ACT

Prioritize Quality Over Quantity

Economic Development Policies



Source: Kem C. Gardner Policy Institute

Continually Improve Amid Recent Successes

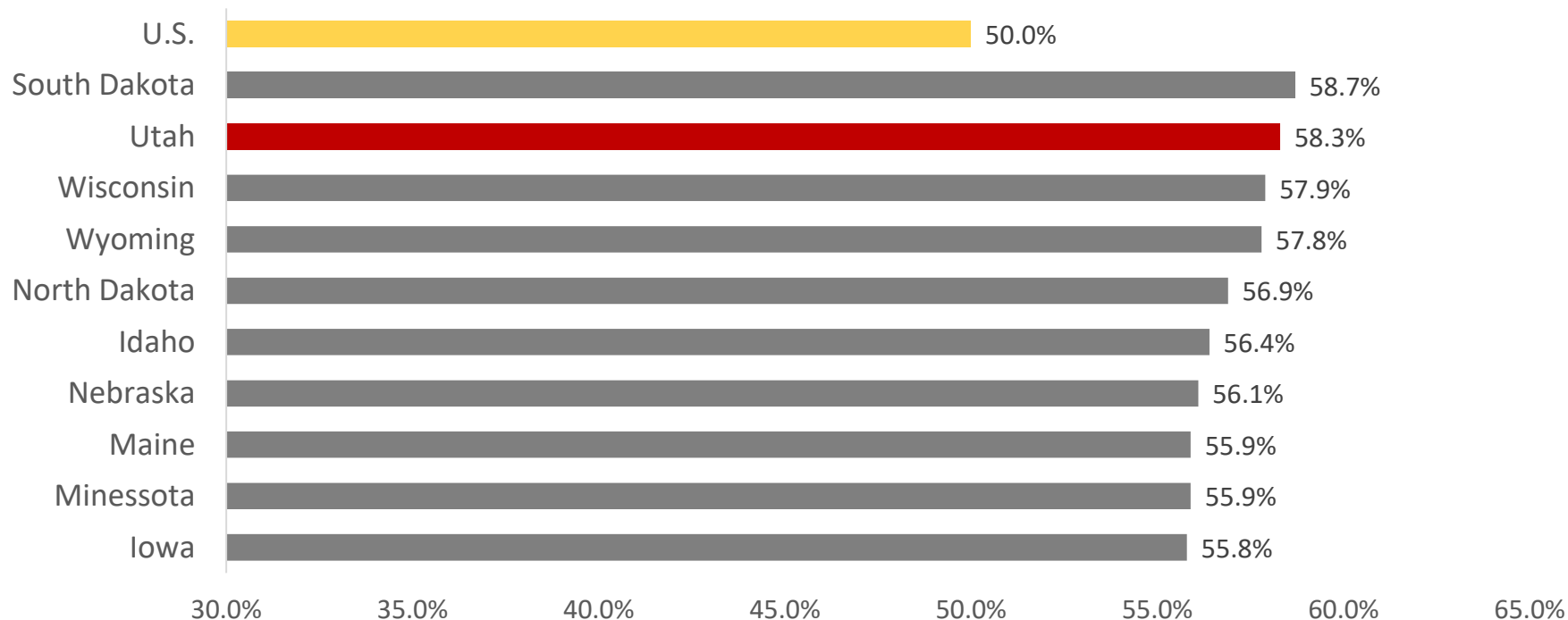
*Success breeds complacency -
Pay attention to real-time flashpoints*

UTAH ACCOLADES

- **Hottest Job Market in America**
 - Wall Street Journal
- **Best State & Best Economy**
 - U.S. News & World Report
- **Best Economic Outlook**
 - Rich States Poor States
- **Best State for Middle Class**
 - SmartAssest
- **Top State for Social Mobility**
 - Archbridge Institute
- **Best State to Start a Business**
 - WalletHub
- **Best Performing Cities**
 - Milken Institute

Middle Class, Top Ten States

Share of households that make between two-thirds or double the median household income

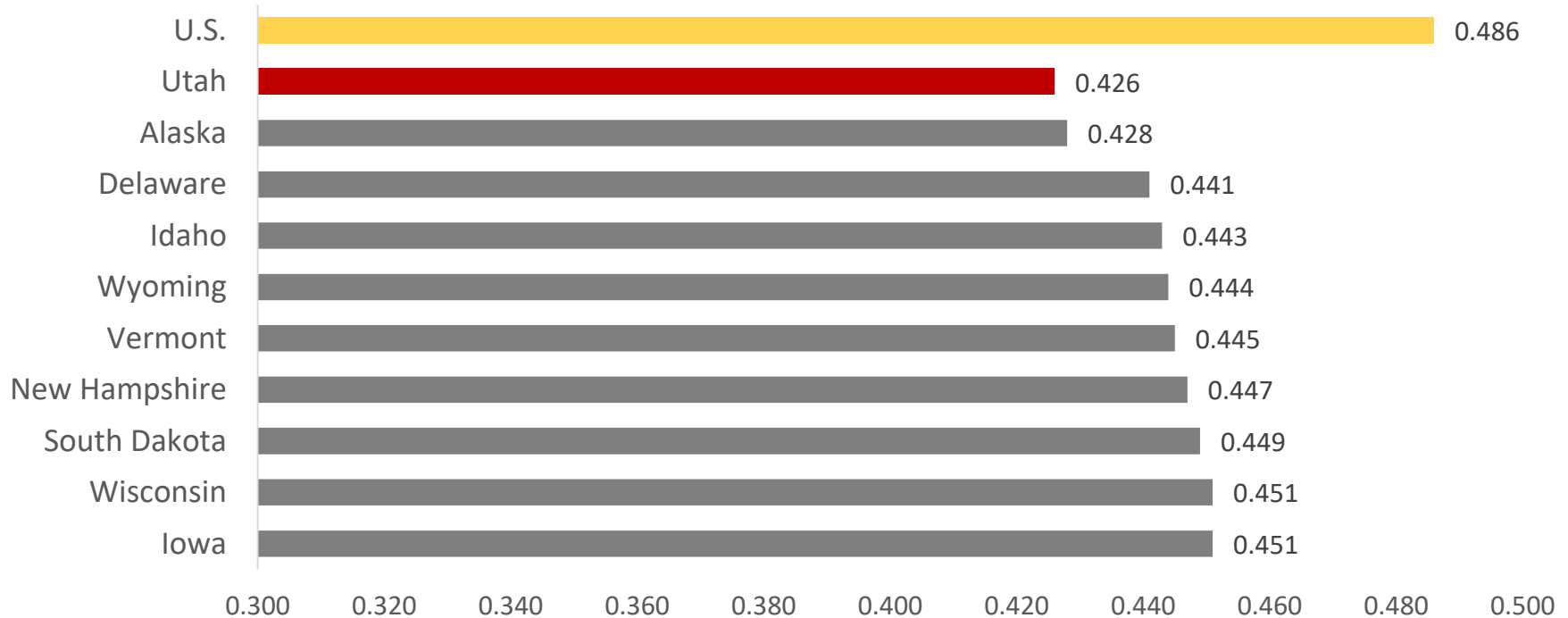


Note: Income measures adjusted for household size..

Source: Census Bureau, 1-Year, American Community Survey, 2019

Equality of Income, Top Ten States

Gini Coefficient, 2022

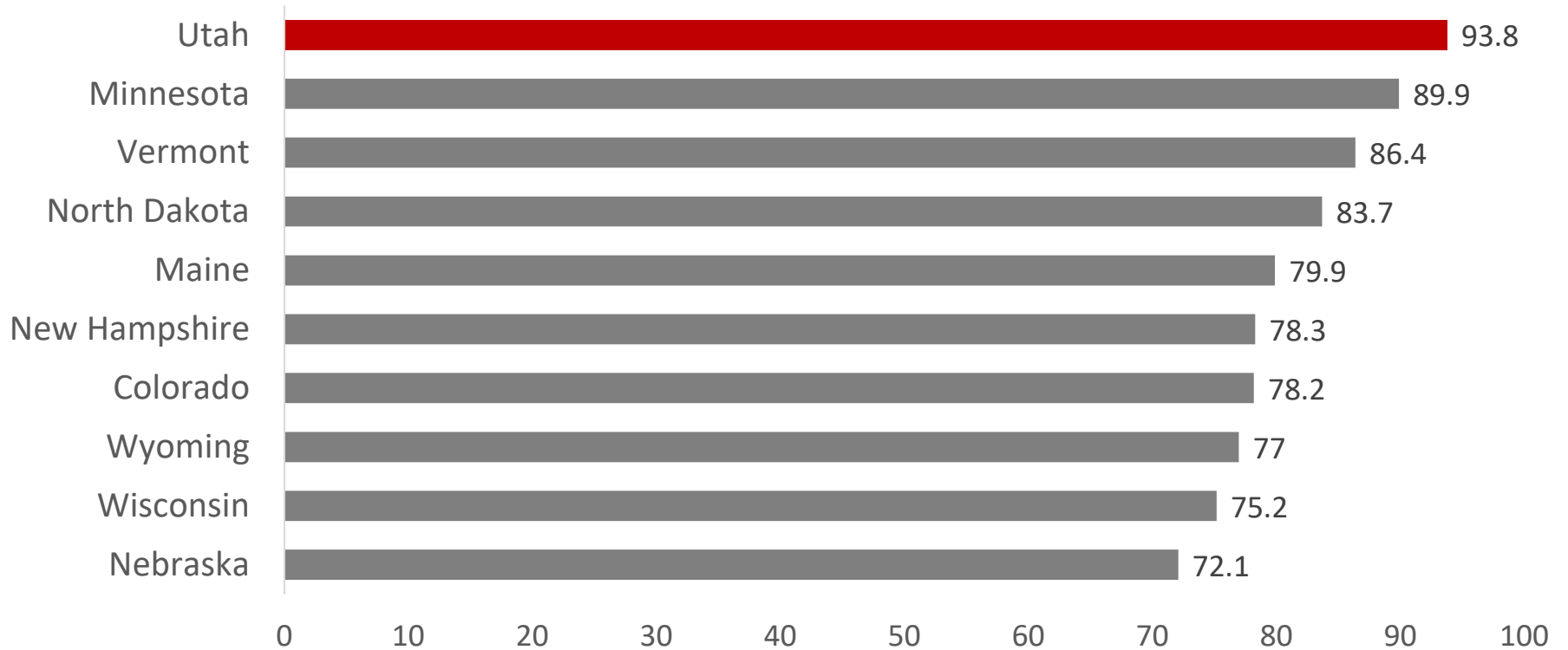


*A higher Gini coefficient indicates greater income inequality.

Note: Axis starts at 0.3 to show differences.

Source: Census Bureau, 1-Year, American Community Survey

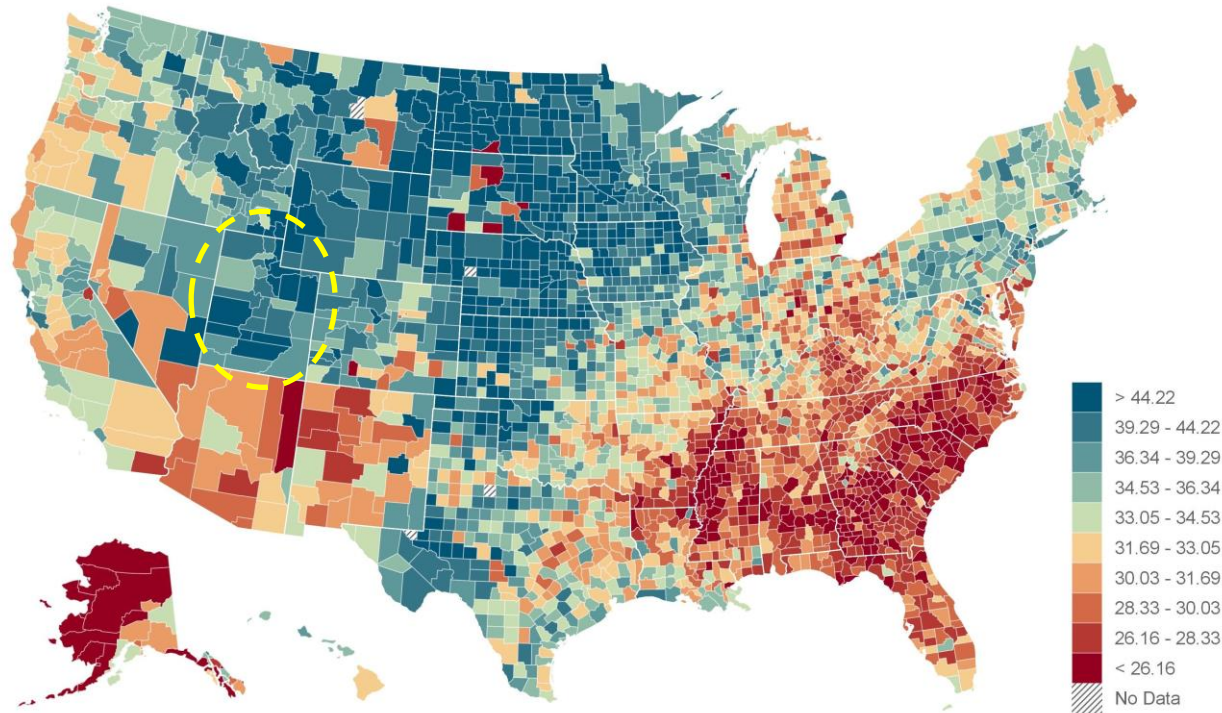
Social Capital Index, 2021



Source: Utah Foundation

Upward Mobility, 2018

Mean Income Rank at Age 35 for Children whose Parents Earned \$27,000



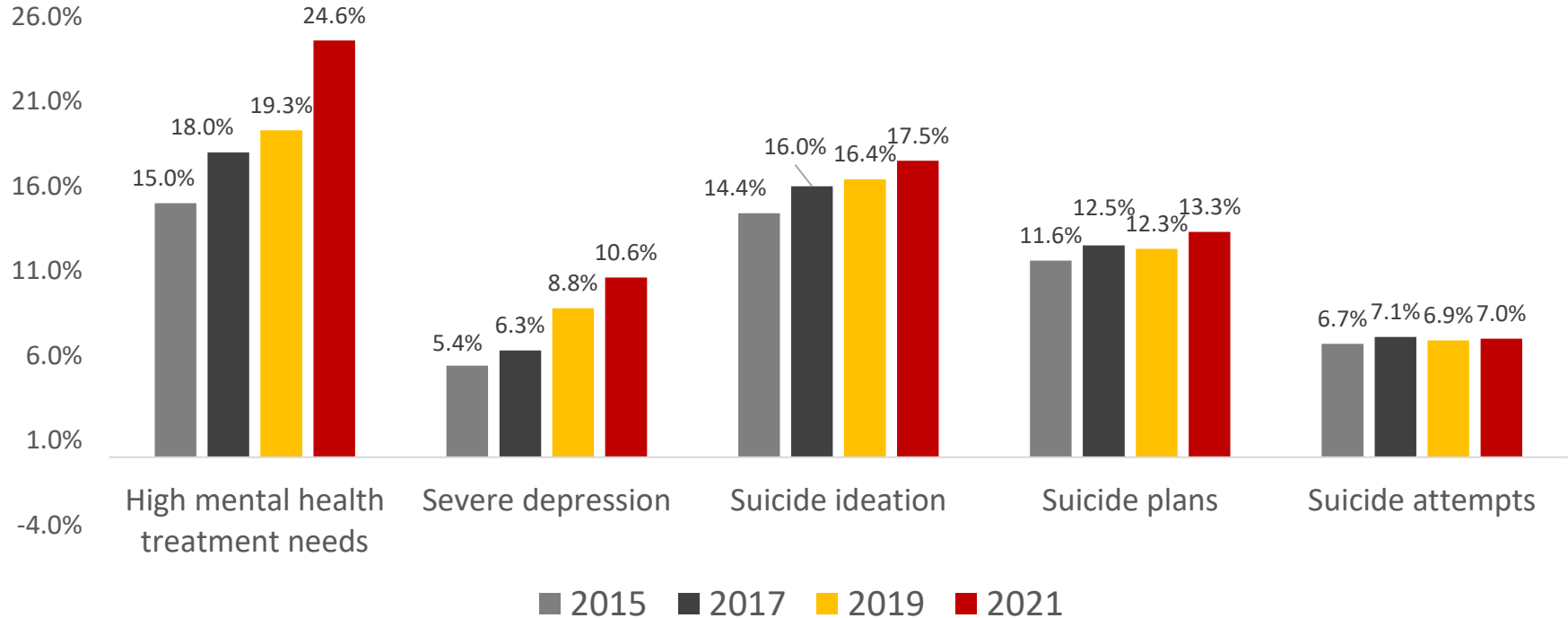
Source: Opportunity Insights (Chetty, Hendren, Jones, Porter)

*The danger of success is
complacency. It comes in two
forms: arrogance and inflexibility.*

- Anonymous

Major Flashpoint – Our Future Workforce

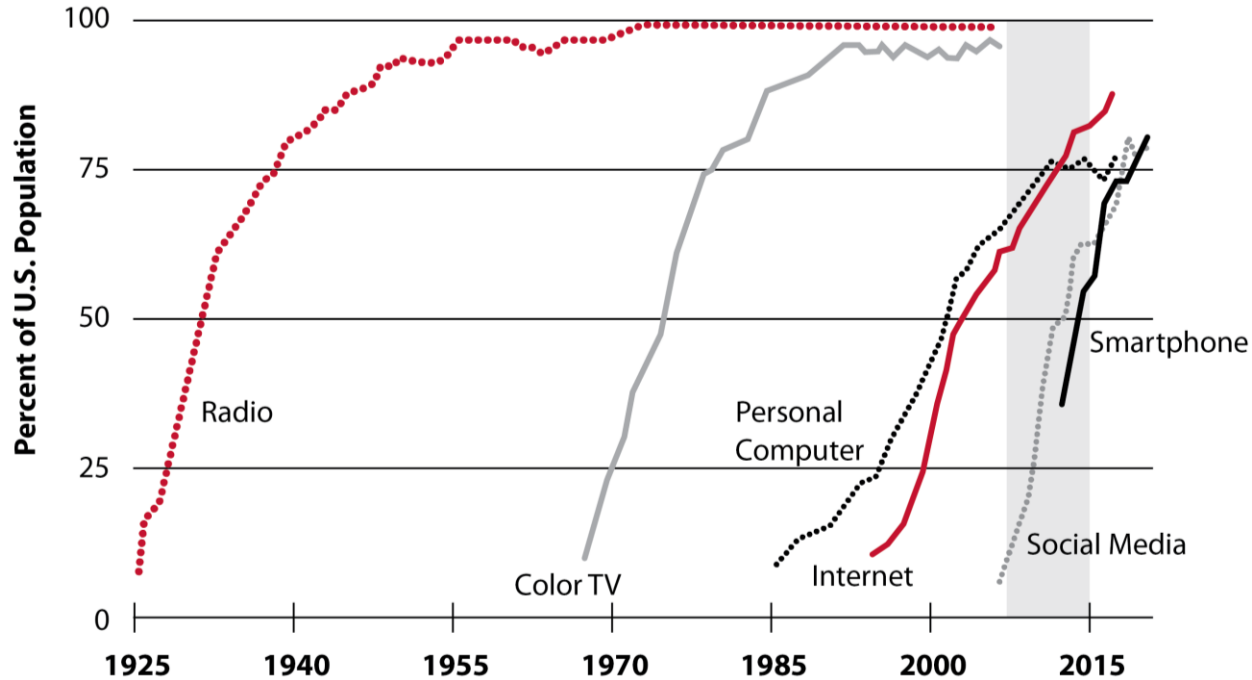
Share of Utah Middle and High School Students with Select Mental Health Needs, 2015–2021



Note: Survey responses are from students in grades 6, 8, 10, and 12.

Source: Student Health and Risk Prevention: Prevention Needs Assessment Survey. Utah Division of Substance Abuse and Mental Health

Communication Technology Adoption, U.S.

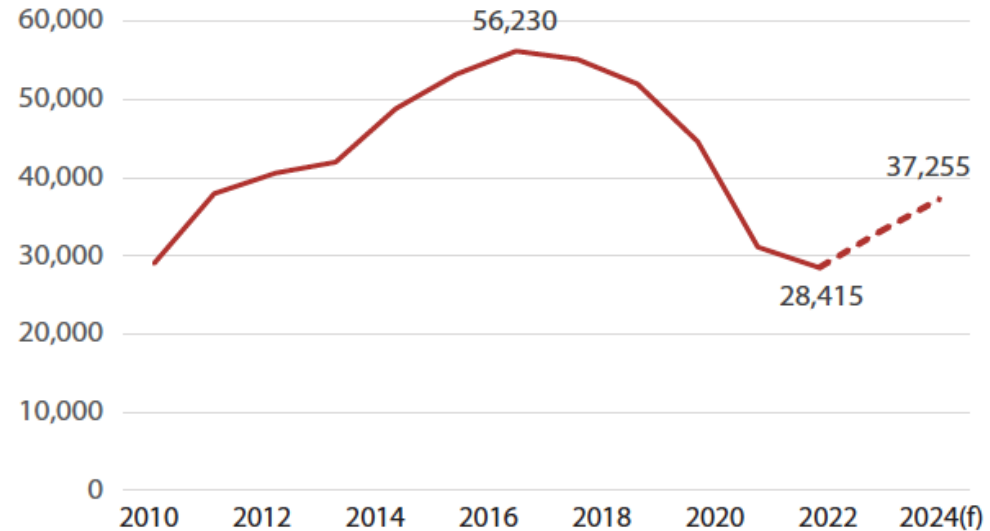


Note: The share of U.S. households using specific technologies. The smartphone was adopted faster than any other communication technology in history.

Source: Our World Data

Major Flashpoint - Something's Got to Give

Utah Housing Shortage, 2010-2024(f)

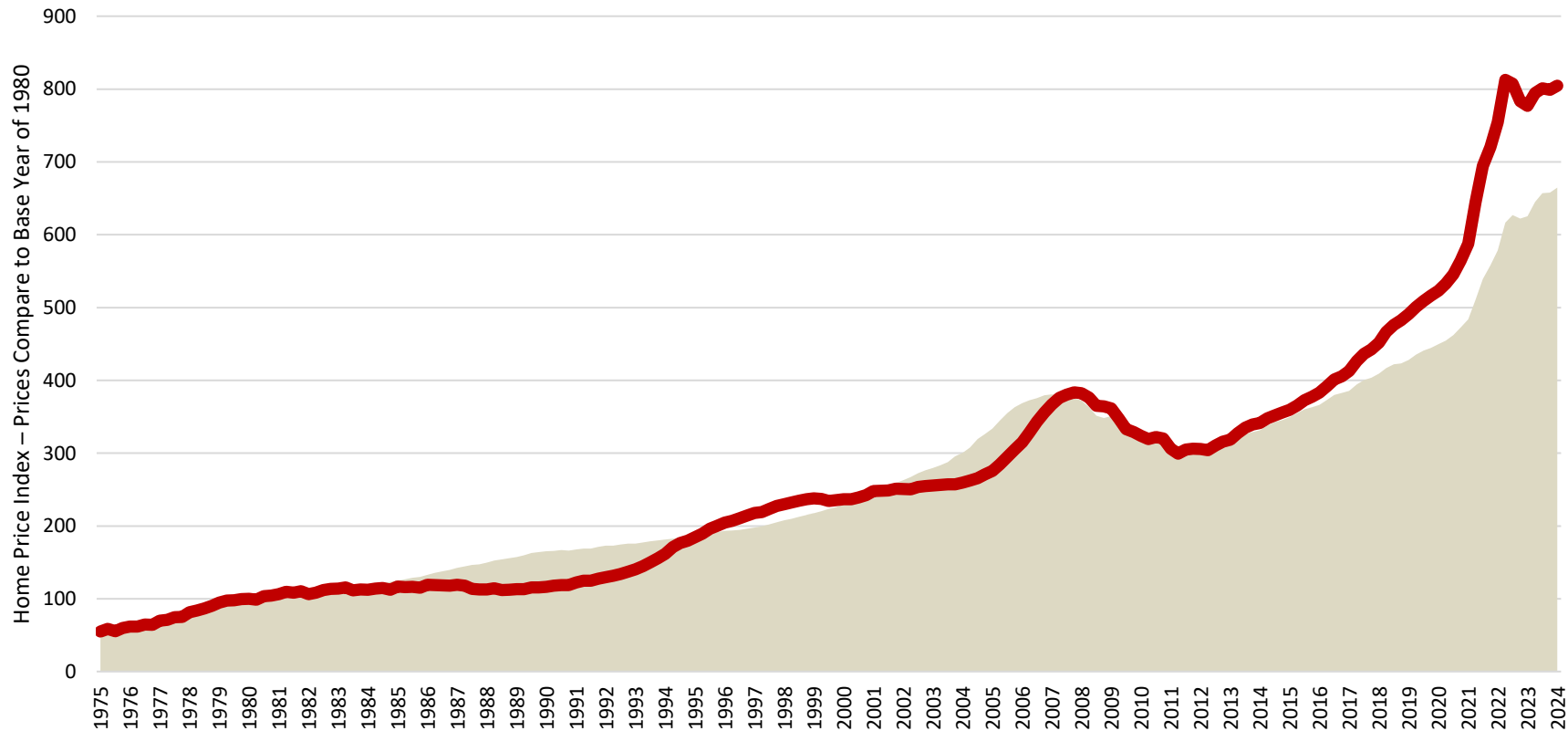


(f) = forecast (2023–2024)

Source: Kem C. Gardner Policy Institute

Utah's Home Prices Well Above National Norms

Making Utah Uncompetitive for New Workers



Source: U.S. Federal Housing Finance Agency

Median Sales Price by State

April 2024

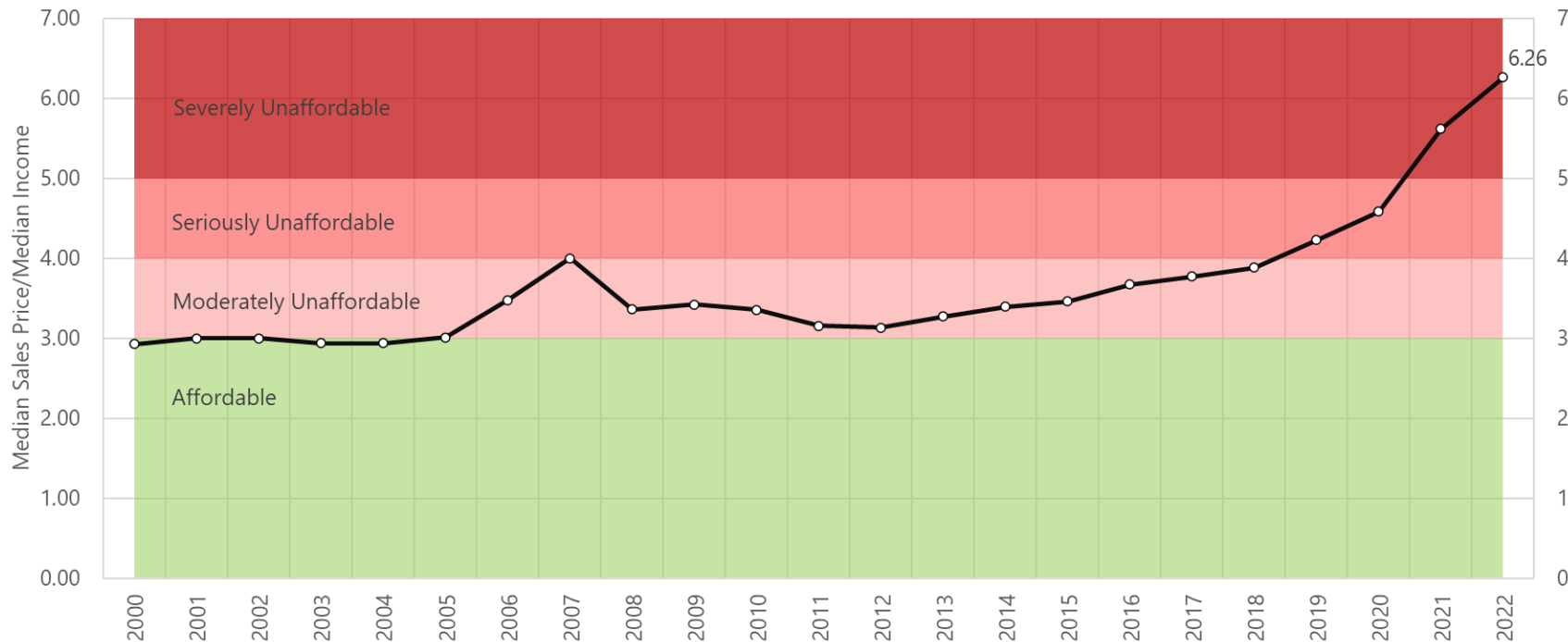
- | | |
|---------------------------|----------------------------|
| 1. California (\$853K) | 7. New York (\$542K) |
| 2. Hawaii (\$785K) | 8. Montana (\$517K) |
| 3. Washington (\$654K) | 9. Oregon (\$514K) |
| 4. Massachusetts (\$634K) | 10. New Jersey (\$510K) |
| 5. Colorado (\$622K) | 11. Rhode Island (\$489K) |
| 6. Utah (\$562K) | 12. New Hampshire (\$484K) |

Note: Washington, D.C. price \$699K

Source: Redfin

Utah's Most Unaffordable Market in State History

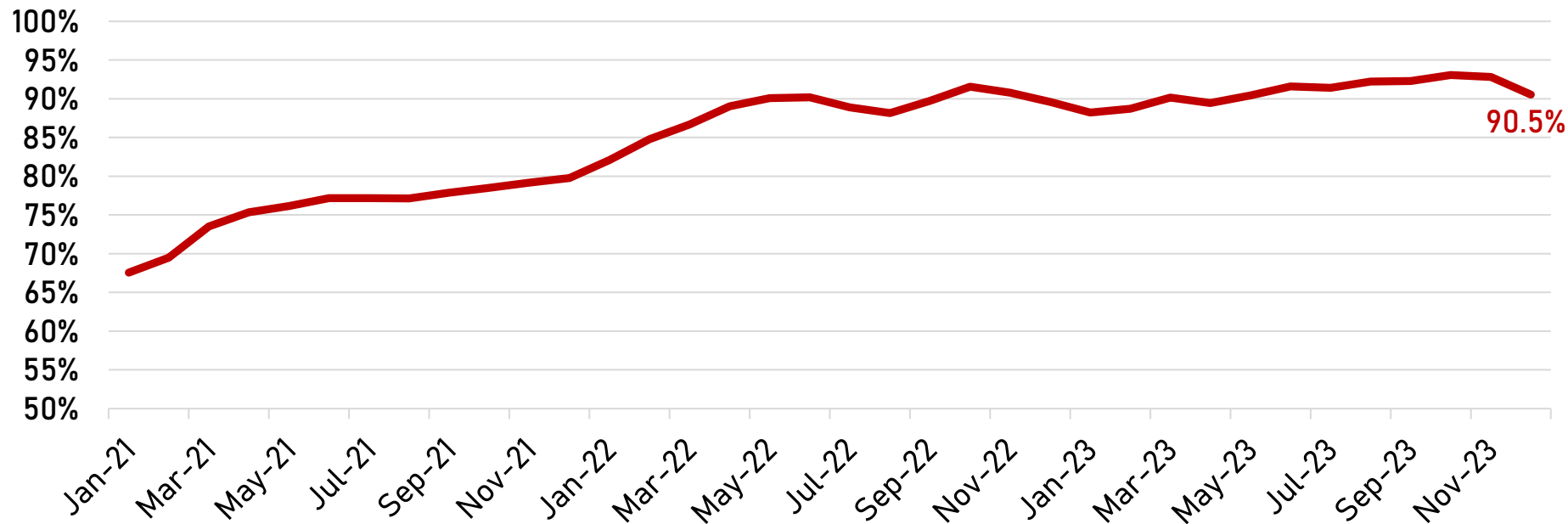
Utah Median Multiple Affordability Rating, 2000-2022



Source: U.S. Census Bureau & UtahRealEstate.com

Eroding Affordability - Renters Stuck Renting

Share of Renter Households that Can't Afford a Median Priced Home



Note: Assumes 30% debt-to-income, PMI, annual property tax, and 30-yr rate.
Source: Calculations based on U.S. Census Bureau 2021 1-year ACS Survey Income Data (adjusted to 2022), UtahRealEstate.com Median Sales Price data. Y-axis does not begin at zero.

Mixed Affordability Signals?

New report ranks Utah as one of the least affordable places to buy a home in the U.S.

Mar 25, 2024 9:05 AM | Updated: Apr 1, 2024, 2:12 pm

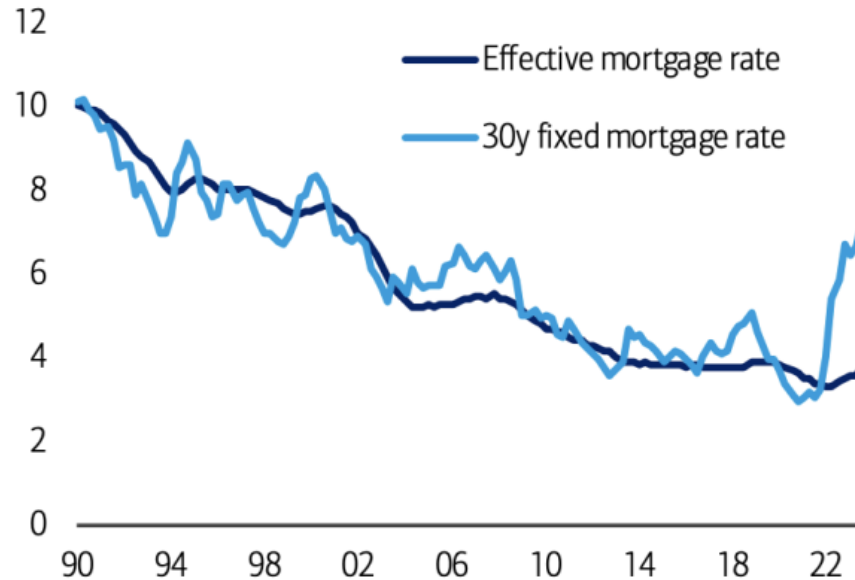
New study says Utah is the most affordable state — and why that's not necessarily true

Mar 27, 2024, 1:00 PM

Affordability for Existing Homeowner v. Marginal Homebuyer Differs Dramatically

Exhibit 1: Spot mortgage rate versus effective mortgage rate (%)

The mortgage rate has surged due to Fed hikes, but the average rate that households are paying (the effective rate) has increased by less than 50bp



Source: Bureau of Economic Analysis (BEA), Mortgage Bankers Association of America (MBA)

BofA GLOBAL RESEARCH

Source: Bank of America

Summary

- **“New Utah” continues** – Midsized, external growth, multi-cultural, aging, elite economy, and less affordable. Continued net in-migration and declining fertility.
- **No longer strongest job growth** – Utah now ranks 10th among states in job growth. Expect the U.S. and Utah economies to remain resilient, but fragile, with moderating growth this year.
- **Factors of production** fundamentally drive economic growth
- **Three axioms to guide action:**
 - Plant seed corn
 - Quality over quantity
 - Vigilance amid success