

# UTAH'S ECONOMY

A monthly report produced for COMMERCE REAL ESTATE SOLUTIONS by Jim Wood, Bureau of Economic and Business Research University of Utah



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## SLOWDOWN IN ECONOMIC GROWTH

**In the past few months, the rate of growth in the Utah economy unexpectedly slowed down.**

In three of the last four months, employment growth dropped below 3 percent. For 16 consecutive months (January 2012 through April 2013) employment growth was between 3 and 4 percent, *Figure 1*.

State tax revenues slowed to a 1.9 percent first quarter increase while motor fuel taxes and fees fell 9.3 percent.

Residential building permits through September are down nearly 7 percent, 9,075 compared to 9,723 in 2012. The weakness in residential construction is due entirely to the decline in multifamily construction.

Multifamily permits (apartments and condominiums) issued through September are down 56 percent. Permits have been issued for only 1,150 multifamily units (primarily apartments) statewide. The renter-occupied inventory in Utah is 260,000 units. Hence the increase in the rental inventory in 2013 will be well below 1 percent; very sluggish growth. Apartment construction activity has declined despite favorable market conditions; vacancy rates are low and rental rates are increasing.

Utah Economy Issue 106 September 2013

The state's general and education fund revenues are up only 1.9 percent through the first quarter of the fiscal year. Sales tax revenues indicate retail sales growth has slowed the past few months. Sales tax revenues are up 1.5 percent. In 2012 retail sales tax revenue increased by nearly 8 percent. Individual income tax revenue shows a modest growth of 3.2 percent in the first quarter.

The likely causes of the slowdown are multiple: higher interest rates, the sequester, lower confidence in job market conditions, and uncertainty created by budget differences in Congress. One revealing number is government employment. Government employment in Utah is down 6,000 jobs in the past year. Most of this job loss is in state government however many state government jobs are related or tied to federal funding.

As a result of the recent slowdown, the forecasts for 2014 by the State Revenue Assumption Committee have been lowered. The committee met in May and again in October. Tables 1-2 show the change in the absolute and relative growth rates from the two forecasts. Most significant downgrades are: lower employment forecast by 8,000 jobs, lower net migration forecast by 3,200 individuals and lower residential construction forecast by 4,500 units.

On the positive side:  
Permits for single family homes are up nearly 12 percent. Home builders are optimistic.

To date the value of single family construction is 18 percent higher than last year. Of course a sizeable share of this increase represents higher construction and material costs.

Median sales price of homes in the Wasatch Front Counties in the third quarter is up 13 percent to \$215,000. The rapid rise in housing prices has reduced the number of underwater mortgage loans in Utah. A year ago, 19 percent of mortgages in Utah were underwater. In the second quarter of this year the share of underwater or negative equity mortgages has dropped to 8 percent.

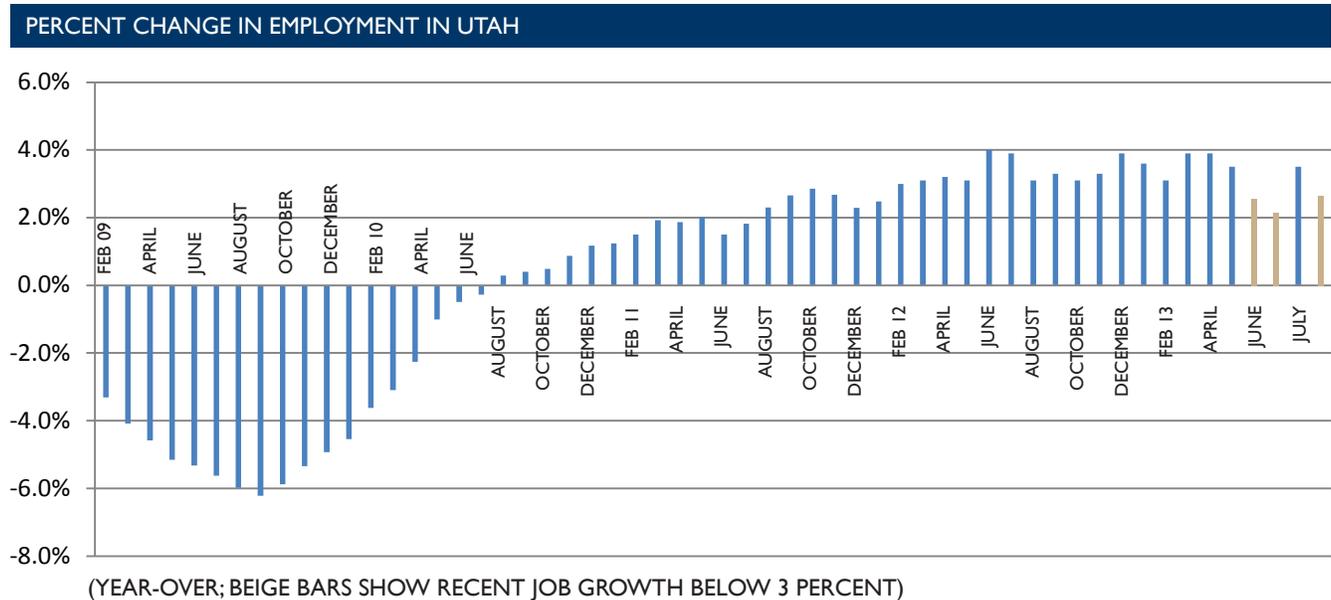
New auto and truck sales are improving with sales expected to hit 106,000 vehicles, nearly 10 percent high than 2012.

Residential building permits through September are down nearly

**7%**,

9,075 compared to 9,723 in 2012.

Figure 1



The sale of REO (real estate owned by financial institutions) has dropped by 70 percent.

This mixed economic picture is not unique to Utah. A similar pattern exists at the national level. And when measured by the important indicator of job growth, Utah's economic performance remains impressive. Among all states Utah ranks third in job growth, *Table 3*. Only North Dakota and Idaho have higher rates of job growth. Utah's unemployment rate at 4.7 percent is the seventh lowest among all states.

While the slowdown has shaved a little off expected growth rates for 2014, Utah's fundamentals remain strong. The employment growth forecast for 2014 and 2015 shows job growth above 3 percent in both years and the unemployment rate dropping below 4 percent by 2015.



Table 1

COMPARISON OF 2014 FORECASTS FOR MAJOR ECONOMIC INDICATORS		
	2014 FORECAST IN MAY	2014 FORECAST IN OCT
Residential Dwelling Unit Permits (000)	18.5	14.0
Utah Residential Permit Value (mil)	\$4,000	\$3,134
Nonresidential Permit Value (mil)	\$1,300	\$1,100
Net Migration (000)	14.9	11.7
Utah Additions Alterations & Repairs (mil)	\$700	\$800
Utah Taxable Retail Sales (mil)	\$26,281	\$26,134
Utah Nonagricultural Employment (000)	1,338	1,330
Utah Average Pay	\$42,929	\$42,276
Utah Nonag. Wages (mil)	\$57,433	\$56,085
Utah Personal Income (mil)	\$109,317	\$110,814

Source: Utah Revenue Assumption Committee.

Table 2

COMPARISON OF 2014 FORECASTED PERCENT CHANGE OF MAJOR ECONOMIC INDICATORS		
	2014 FORECAST IN MAY	2014 FORECAST IN OCT
Residential Dwelling Unit Permits (000)	23.3%	7.7%
Utah Residential Permit Value (mil)	28.1%	15.2%
Nonresidential Permit Value (mil)	30.0%	22.2%
Utah Additions Alterations & Repairs (mil)	7.7%	6.7%
Utah Taxable Retail Sales (mil)	5.2%	5.1%
Utah Nonagricultural Employment (000)	3.6%	3.1%
Utah Average Pay	3.1%	2.5%
Utah Nonag. Wages (mil)	6.7%	5.4%
Utah Personal Income (mil)	6.3%	5.3%

Source: Utah Revenue Assumption Committee.

Table 3

TOP FIVE STATES BY PERCENT CHANGE IN JOBS - AUGUST 2013	
	AUGUST RATE
North Dakota	3.2
Idaho	2.8
Utah	2.7
Texas	2.5
Colorado	2.5

Source: Source: U.S. Bureau of Labor Statistics.



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