

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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WHAT'S HAPPENED TO HOUSING DEMAND?

From 1970 to 2010 the number of households in Utah increased at an annual growth rate of 2.6 percent. This rate of growth nearly matches the average annual increase in the inventory of occupied housing units in Utah of 2.7 percent, *Figure 1*. Long-term, the increase in households equals or nearly

equals the increase in occupied housing units. Of course, in the short-term, annual increases may vary significantly from the long-term trend. For example, in 1977 new residential construction increased the housing inventory by almost six percent in a single year. And the years on either side of 1977 also had

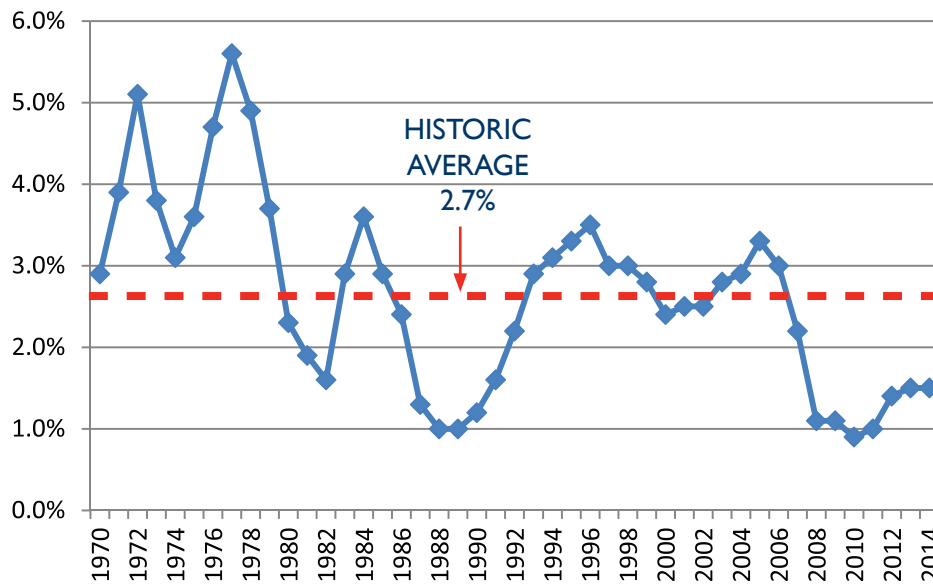
Photography by Jared Medley

very high rates of new construction. This overbuilding in the late 1970s contributed, in part, to several years of below average home building in the 1980s and very weak housing prices. Over the 1980s housing prices in Utah increased by only 15 percent compared to 60 percent nationally.

Since the onset of the Great Recession, new residential construction has added, on average, only 1.3 percent to Utah's housing inventory. The years 2007 to 2014 have been the most prolonged period of low levels of housing expansion or growth and suggest household growth of less than 1.5 percent annually. However, the state demographer estimates household growth is closer to 2 percent. With an inventory of one million occupied housing units, a 2 percent increase in the inventory (consistent with household growth) equals demand for 20,000 new housing

units rather than the 16,000 units receiving permits in 2014. The significant mismatch between new housing units and the increase in households is explained primarily by doubling-up of households and represents pent-up demand for housing i.e., unless there's a structural change underway that will result in a persistently greater share of doubled-up households over the long-term. It's unlikely that even a structural change would subdue the demand for housing to 1.5 percent, about 15,000 new units annually. The several years of very low housing production and likely underbuilding should give way to improved levels of residential construction. The average annual increase in households for the 2010 to 2020 period is projected by the state demographer to be 2.1 percent, indicating a demand for new housing units of around 20,000 units annually.

FIGURE I - SHARE OF HOUSING INVENTORY ADDED ANNUALLY IN UTAH



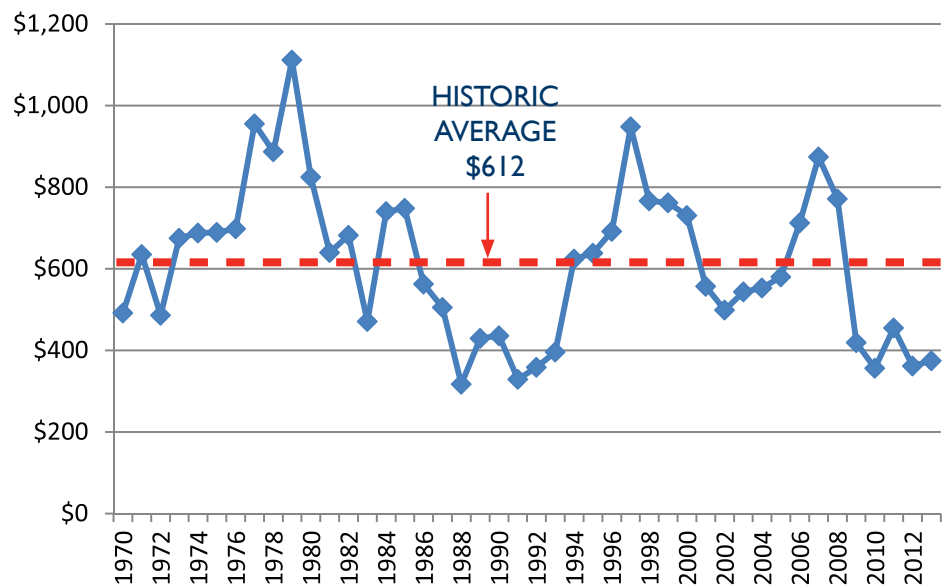
Source: Bureau of Economic and Business Research, University of Utah.



HOUSEHOLD GROWTH, HOUSING AND NON-RESIDENTIAL CONSTRUCTION



FIGURE 2 - PER CAPITA PERMIT AUTHORIZED CONSTRUCTION VALUATION IN UTAH (2013 DOLLARS)



Source: Bureau of Economic and Business Research, University of Utah and Construction Monitor.

Household growth and housing demand also affect nonresidential construction activity. Retail development, churches, hospital and other types of nonresidential construction are related to an increasing number of households. The slowest recovering retail subsectors are furniture, building, and garden, while in manufacturing the construction related subsectors of wood products, nonmetallic minerals (sand, gravel, aggregates, etc.) and furniture, are well below pre-recession levels. Subdued household growth is one factor accounting for the weak performance of the permit authorized nonresidential construction sector.

On a per capita basis, in inflation adjusted dollars, non-residential construction has been below \$600 annually for the past five years, Figure 2. The historic average is \$612. Per capita non-residential construction activity is at the lowest level in 20

years. A return to more normal rates of household growth and residential construction levels will help support a recovery in nonresidential construction.

Residential and nonresidential construction sectors have been performing well below their historic averages, but both sectors will see improvement in 2015 as the Utah economy records the third consecutive year of strong employment growth. The forecast for employment growth in 2014 is 3.6 percent, which follows 3.3 percent and 3.4 percent gains in 2012 and 2013 respectively. In both August and September 2014, job growth was 3.7 percent in Utah and the unemployment rate has dropped to 3.5 percent. In September Utah ranked second among all states in the percent gain in job growth.



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