Salient Economic Indicators for Utah Cities

Utah League of Cities and Towns

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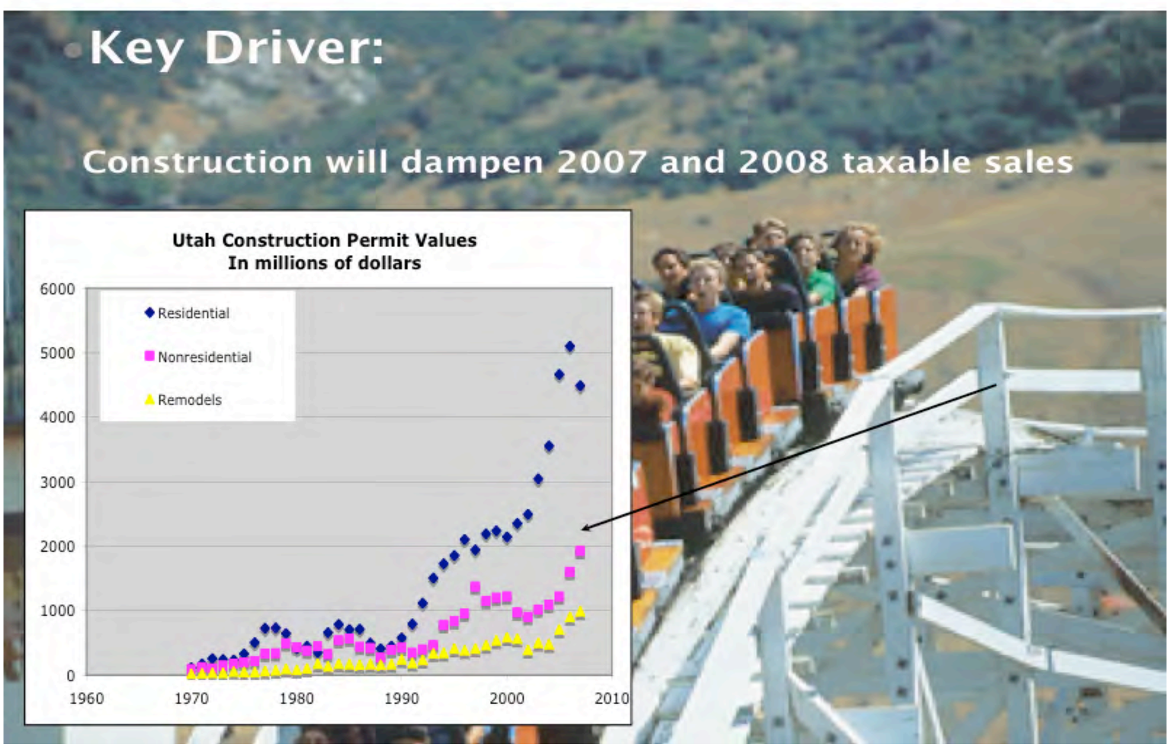
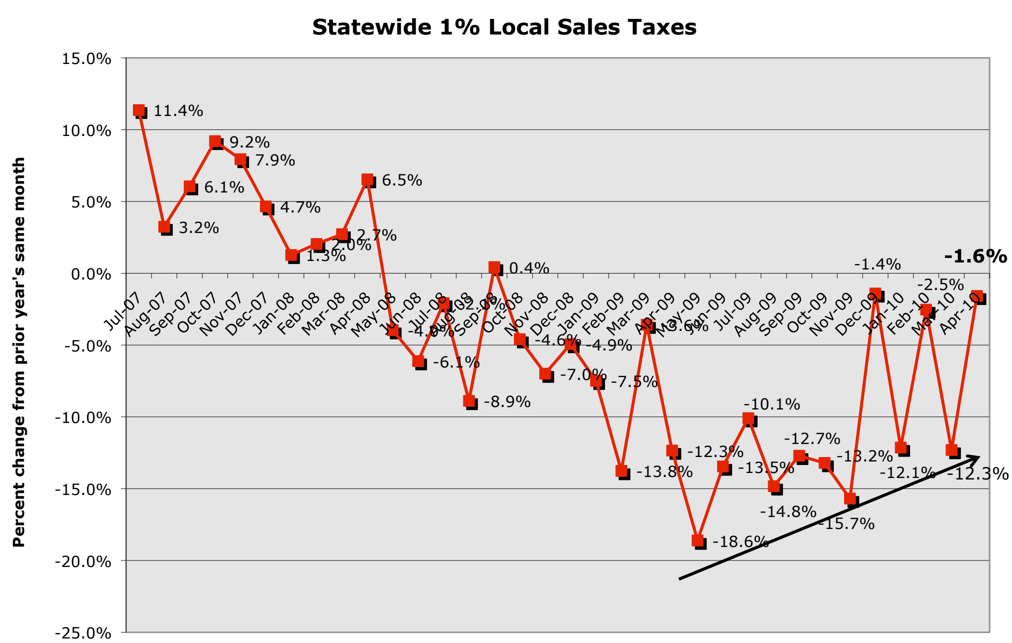


1% Local Option Sales Taxes

The 1% city and county option sales tax is one of the major funding sources for Utah cities. Following several years of 9% to 11% growth, city sales taxes have declined for almost two years now. The statewide percent change is important to almost all of Utah cities since it determines the growth of the 50% population share of the tax during its distribution by the Tax Commission.

February taxable sales only fell 1.6% based on the April distribution. This is good news given that, as the chart below depicts, the last six months of distributions have been -12% or lower, or between -1% and -2%, looking like jagged teeth. The 1% statewide local sales tax has declined 5.3% over the last three months, which represented sales between December and February. This compared favorably to the 14.4% drop in taxable sales during the third quarter of 2009. For calendar year 2009, taxable sales were off 11.3%.

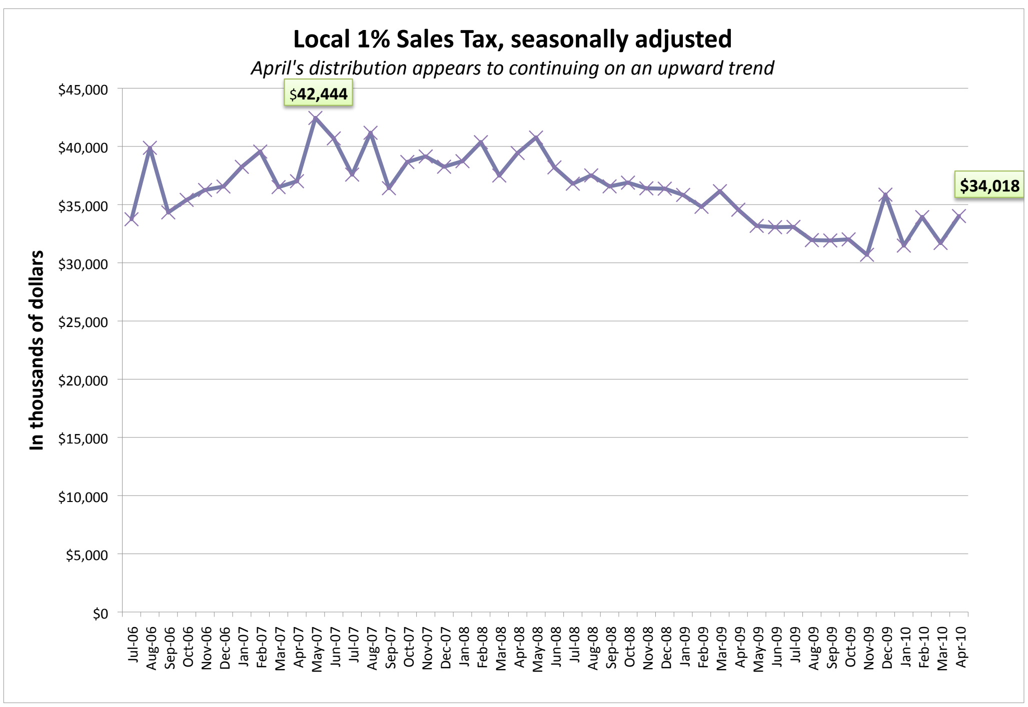
The succeeding charts explain how leading and coincident economic indicators have worsened in 23 of the past 24 months spelling a serious economic downturn and resulting in a declines for Utah cities' major revenue source – sales taxes.



1% Local Option Sales Taxes, seasonally adjusted

In order to comprehend more fully how the latest monthly distributions compare to each other and to levels in prior years it is useful to examine them without any monthly seasonal variation. We have calculated monthly seasonal factors and have divided these factors into each month's distribution revenue. For example, the factor for February's distribution, representing December sales, is 1.218, or 21.8% higher than average.

The resulting seasonally adjusted series indicates how far Utah cities' number one revenue source has dropped during this recession. **Indeed, the 1% tax yield fell 27.7% from a high of $42.4 million in May 2007 to a low of $30.69 million in November 2009. April's smaller decrease narrowed the decline to 19.9 percent at $34 million. Importantly, the persistent, declining trend appears to be abating over the last five distributions.**

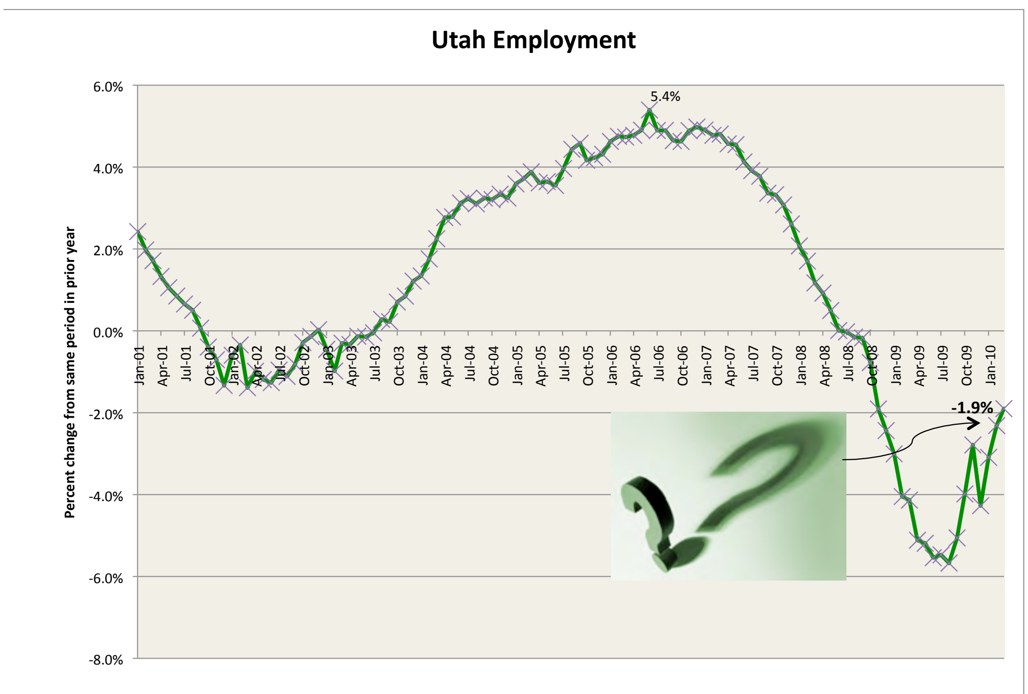


Utah Employment (coincident indicator)

The number of people employed is a critical factor in determining demand for personal consumption and hence, sales taxes. **When multiplied by the average wage, Utah wages and salaries becomes <u>the key variable</u> in determining consumer demand and sales tax growth (as opposed to the much broadcasted unemployment rate).**

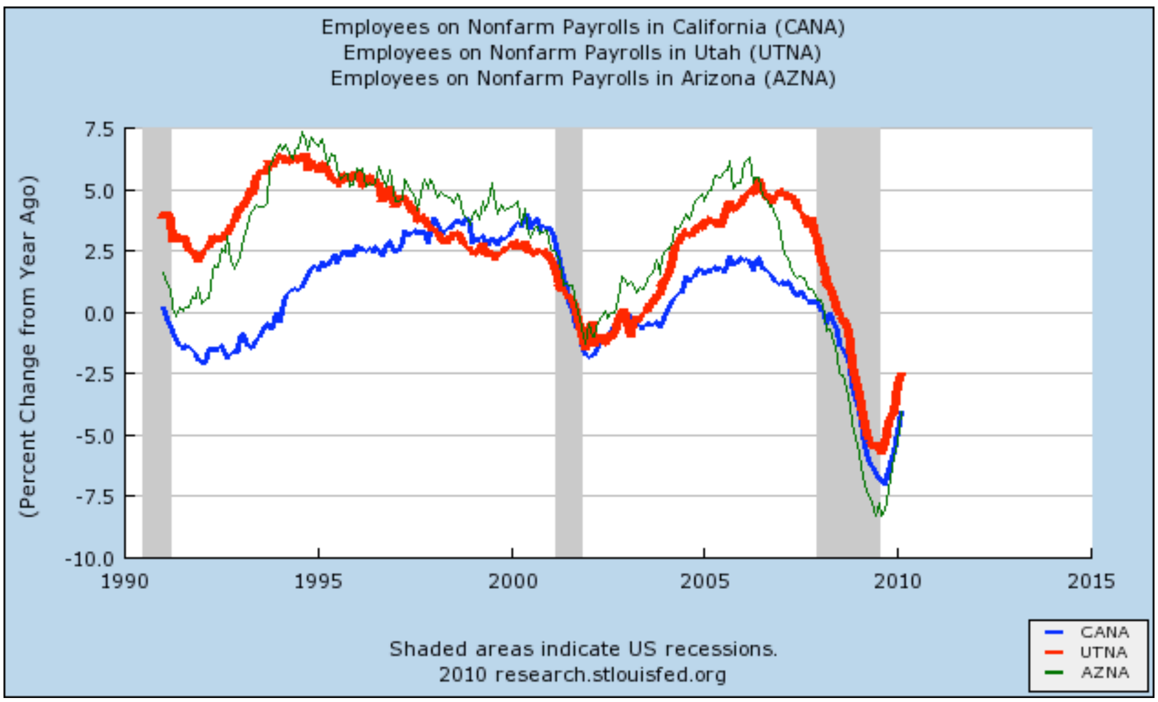
Employment in Utah has been falling from the economic expansion 4% to 5% range from 2005 to 2007 to -5.1% in 2009. **Even though it appears that employment declines are improving, the last three months of -3% (January) to -1.9% (March) decreases are just estimates based on the 600-sample household survey. Fourth quarter employment fell -4.9% based on (hard data) employer returns from the unemployment insurance tax.**

On a sector-by-sector basis, employment declines were reported in the construction (-13%), manufacturing (-9.4%), leisure and hospitality (-4.8%), information (-2.1%), finance (-2%), and the professional and business services (-0.2%) sectors during February 2010. Job gains were reported in two sectors, education and health services (+5.2%) and government (+0.2).



Utah, California and Arizona Employment Changes

Over the past 3 years, Utah's employment declines have tended to follow California's and Arizona's, albeit Utah's job recession turned down four or five months after California. It appears from the chart below that Utah's low point is was not as bad as the other two states. In the past six months all three states' employment losses narrowed. Utah's employment drop shrunk to -2.5%, while it appears that California and Arizona employment declines have slowed down to about -3.5%.

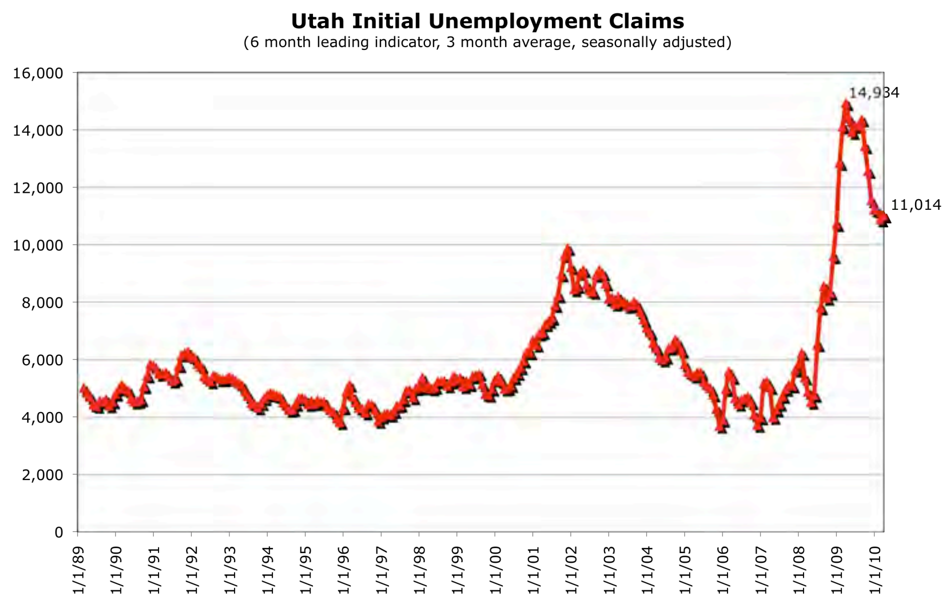


Source: St. Louis Federal Reserve Bank

Utah Unemployment Claims (leading indicator)

When unemployment claims start increasing significantly it means that employers are laying off people and not hiring. Unemployment claims tend to lead employment by three to six months and are therefore considered a "leading" economic indicator. Because monthly claims can be a little volatile, the last three months or quarterly average is considered as the best indicator for to gauge future employment trends.

In January 2009, unemployment claims exceeded the 10,000 record monthly-levels experienced in the 2001-03 recession. In April 2009 it reached a new peak of 14,934. Since April 2009 claims have been edging downwards. But, following March 2010's three-month average at 10,875, the April 2010 average moved back up to 11,014. This suggests that Utah's economic recovery, at least with respect to jobs, has stalled a bit. While some sectors have improved, government sector employment is beginning to decline.

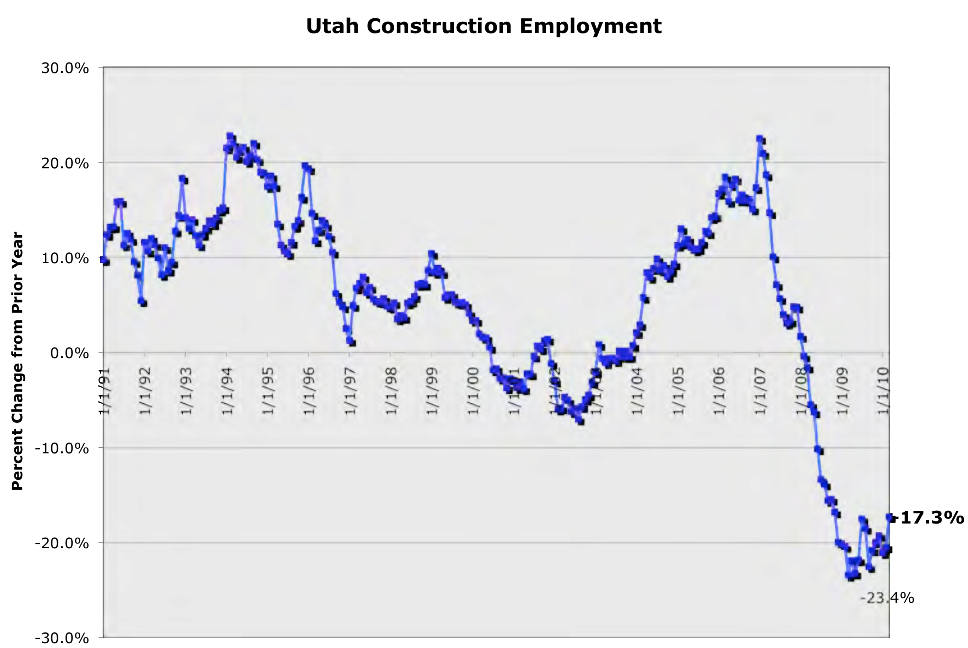


Utah Construction Employment (leading indicator)

Even though the construction sector represents a relatively small portion of Utah total employment (about 8%), it plays a key role in determining where the economy might turn in the future. Construction purchases are sales taxable. In addition, the economic multiplier for construction purchases is relatively high compared to other sectors.

After a sustained four-year boom, construction employment in Utah began to decline in February 2008. By March 2009, it had fallen 23.4% compared to a year earlier.

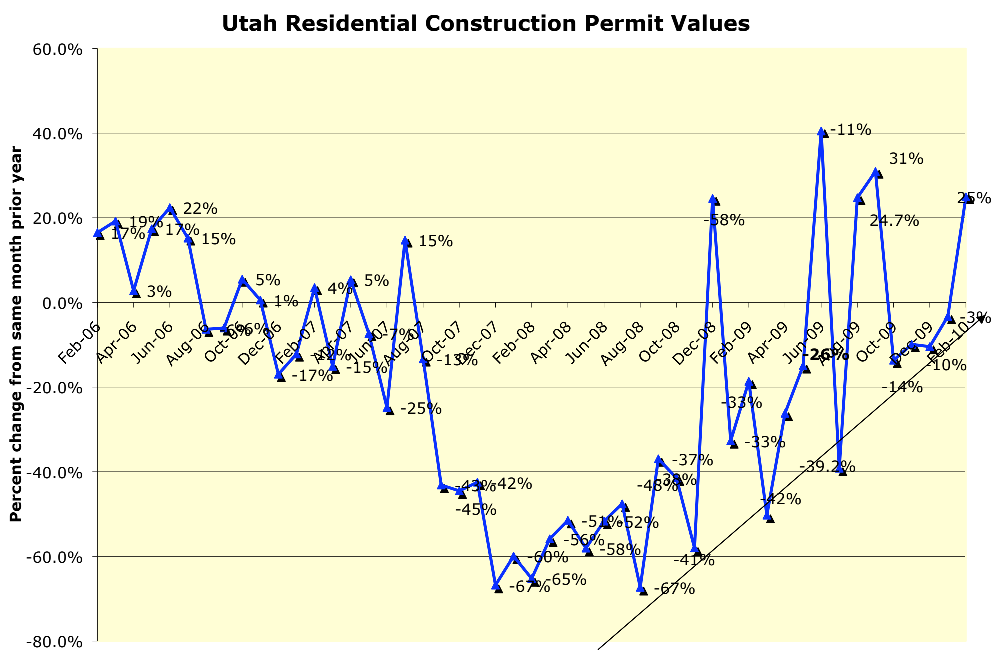
The U.S. Bureau of Labor Statistics (BLS), which created this data series, recently re-benched Utah construction employment data. The revised estimates decreased from -17% (as reported in February) to -20% for the winter months. March construction employment fell 17.3% from the same month in 2009. Construction employment has been falling now for 25 months, since February 2008. At 64,600, it is now almost 40% below the peak of 105,700 in December 2007.



Utah Residential Construction Values (leading indicator)

Construction permit values ring through the economy more than twice. Once a project is permitted, purchases of taxable items commence. From the foundation that includes cement, lumber and steel to furnishings, drapes and landscaping most items are taxable for sales tax purposes. In addition, once new residential subdivisions are completed demand for nonresidential retail outlets follow a year or two later.

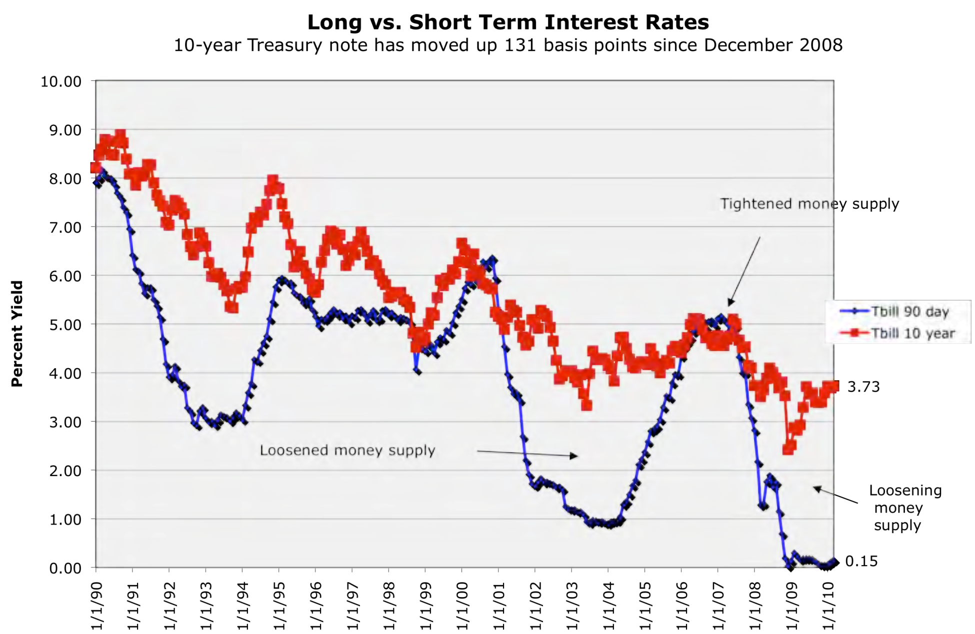
Residential construction permit values appeared to be trending up late in 2009. After falling four months in a row, residential permit values rose 24.9% in February 2010 compared to the same month in of 2009. During calendar year 2009 residential permit values fell -11.2% compared to 2008's decline of -53%. The chart below illustrates that permit values are beginning to improve from -40% to -60% declines in 2007 and 2008. Many of the new permits are in multi-family units, not single-family homes. **Because of the six to 12 month lag between letting out the construction permits and purchasing home materials, sales taxes finally began to improve in December 2009. In fact, construction-related retail furniture stores sales increased 9.4% and retail building and garden store sales increased 3.9% in December 2009 according to the Tax Commission.**



Long versus Short Term Interest Rate Spread (leading)

The difference between long- (10-year Treasury note) and short- term (90-day Treasury note) interest rates indicates whether the Federal Reserve Bank is trying to loosen or tighten the money supply. Between 2001 and into late 2006, the spread was loosened dramatically to help move the U.S. economy out of the 2001 recession and past the 9-11 attack. Instead of closing the gap, short-term interest rates were kept extremely low at 1% until the middle of 2004. Because there was a lot of money chasing fewer projects a financial bubble was created, leading to the current financial headwinds we are experiencing now. Late in 2007, the Federal Reserve Bank began lowering short-term rates in a move intended to loosen money supply. However, huge financial losses incurred by residential and hedge fund lenders have constrained lending at present.

The near zero rate (0.15%) of the 90-day Treasury note, reflects the continued intent by the Fed to increase the money supply. This should eventually spur commercial and consumer lending. March 2010's gap of almost 360 basis points implies that the Fed still has its foot down on the gas pedal, hoping to boost the economy.

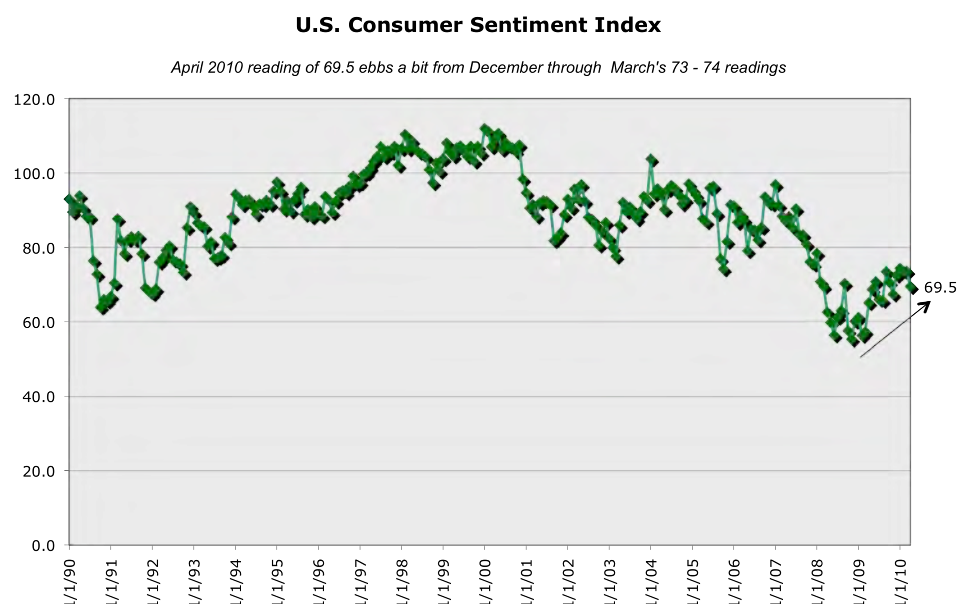


U.S. Consumer Sentiment Index (coincident)

Since the large shares of economy switched from the federal government to the consumers once the GIs returned from WWII, economists at the University of Michigan have surveyed American households with respect to their propensity to buy appliances and automobiles in the future. This measure of consumer confidence normally runs counter to the Misery Index pictured above.

The chart below of U.S. Consumer Sentiment portrays the impact of recent consumers' concerns with their financial status and ability and desire to purchase large appliances and automobiles. Since mid-2007 sentiment dropped from the 90's (a good level) down to the mid 50's late in 2008. Consumer confidence or sentiment in the 50s and 60s create a psychological headwind against spending on durable goods, especially autos and trucks.

Since February 2009, American households' confidence has improved from the mid 50's to a range between 65 and 74. The April 2010 index reading of 69.5 suggests that consumers felt a bit more wary of the nascent economic recovery than they did between December and March (which ranged between 72.5 and 74.4). An index below 90 suggests that consumers will continue to be cautious in their spending. However, the distinct upward trend from late 2008 should continue to nudge consumer spending a bit more in future months.



U.S. Personal Savings Rate (coincident)

The U.S. personal savings rate, which had moved to the record low of 1% to 2% over the past few years jumped up to 6.2% in May 2009 and then backed down to 3.3% in September 2009. This implies that consumers had taken 4% to 5% of their incomes off the table during May in fear of further job losses that would otherwise go to **consumer spending and taxable sales**. Although this is good personal finance policy on an individual basis, on a short-term, macroeconomic basis it hurts demand for goods and services.

Between September and December 2009 the savings rate narrowly ran between 3.9% and 4.2%. Then, in January 2010, the rate dropped down to 3.5%, followed by a drop in February to a revised 3%, and then down to 2.7% in March. Moody's Economy.com thinks increased U.S. retail sales between January and March (up 3% to 6%) were fueled by consumers who dipped into their savings. This may have been true in Utah as well, as taxable sales have narrowed from double-digit to single-digit declines in two out to last four months.

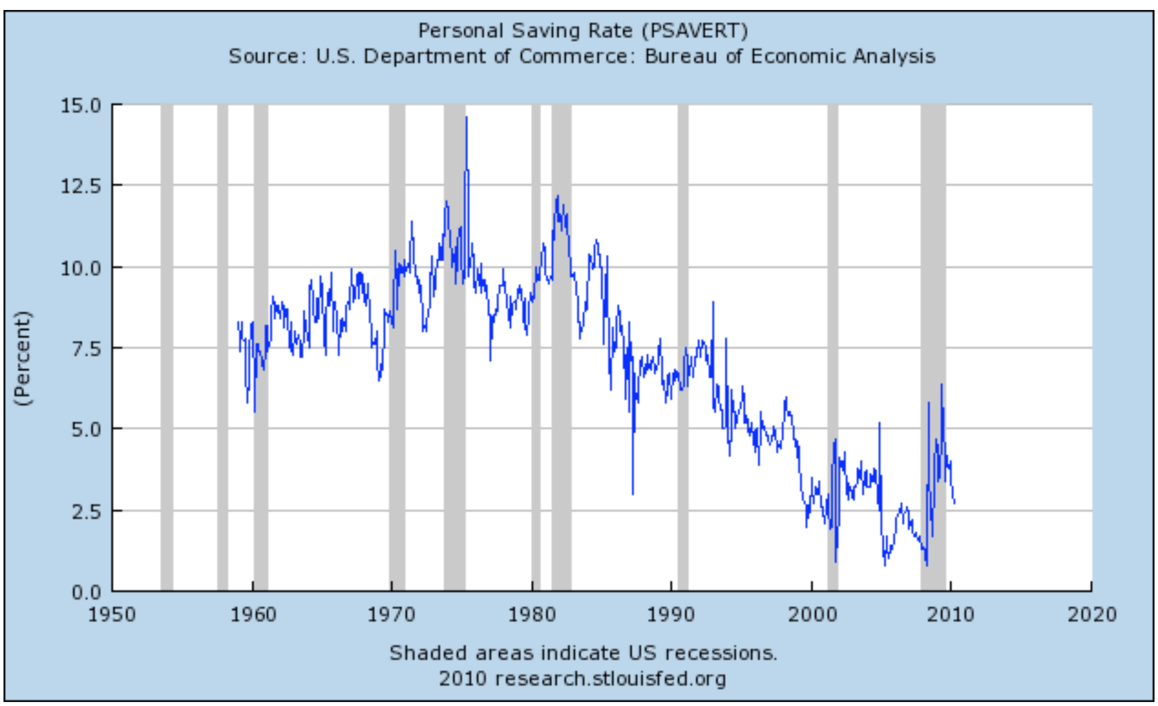
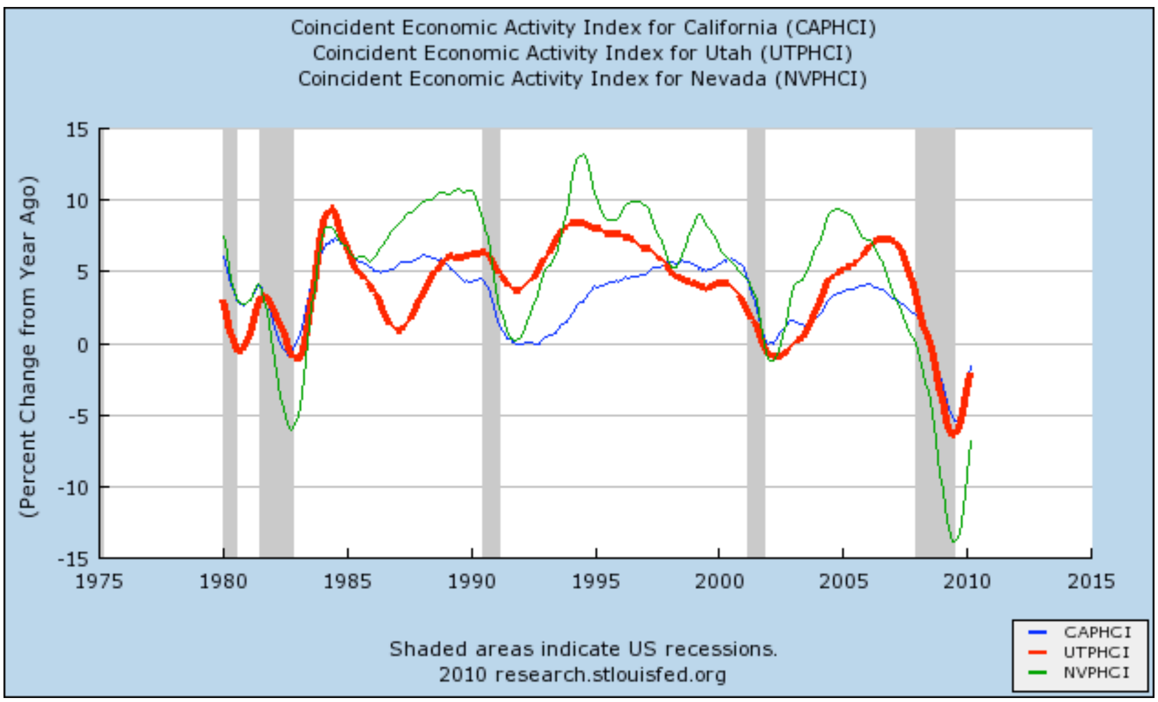


Chart of the Month

Selected Western State Coincident Economic Indices

The Philadelphia Federal Reserve produces monthly economic activity indices for each state in the U.S. Below we chart the percent change from the prior year in these indices for Nevada (green), California (blue) and Utah (red) [no political meaning intended]. It appears that Utah and California are virtually tied in their recent upturns, which are still, however lower than last year. California improved slightly more in March. Most of the variables that go into these indices are based on employment and wages data from the Bureau of Labor Statistics.



(2nd) Chart of the Month

U.S. Consumer Spending Improves Faster than Wage Growth

"Consumer spending is outpacing measured income at present, although it is not clear how long that can last," according to Moody's Economy.com.