How are Economic Forecasts for 2012 Shaping Up?

Recent data from local sales tax distributions and taxable sale from the Tax Commission paint a Utah economy that is shifting into second gear. This was confirmed by the Commerce Department third quarter GDP report, which estimates that sales and services grew 2.5%.\(^1\) In Utah, taxable sales are 5% to 6% ahead of last year’s levels. Utah consumers, at least those who have steady incomes, have put off buying new cars and trucks since the financial crisis in 2008. So recently some of that pent-up demand was unleashed. The latest taxable sales figures from the second quarter of 2011 indicate that motor vehicle sales were up 25% (see table).\(^2\) Apparel store sales were up 11% in the second quarter. Apparently, those consumers with steady incomes are replenishing their F-150s and clothing wardrobes.

Behind the increased spending on autos and clothes is a job market that is shifting into second gear. Following the 5% decline in 2009 and a 0.6% drop in 2010, Utah job growth will range between 2.2% and 2.5% in 2011. In fact, the August and September increases in job growth in Utah were up 2.9% and 2.8%, respectively (see chart below). Hot sectors, increasing 3% or more so far through September 2011 were: natural resources & mining (+6.2%), manufacturing (+5.7%), professional and business services (+7%), and leisure and hospitality services (+4.2%).\(^3\) Construction and government employment, which fell 0.4% and 0.8%, respectively, dragged down job market growth in September 2011.

\(^1\) http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
\(^2\) http://tax.utah.gov/esu/sales-quarterly
\(^3\) http://jobs.utah.gov/wi/pubs/une/
Since 2010 U.S. businesses have been retooling their plant and equipment, perhaps a bit faster than they have rehired workers. Purchases of equipment and software, a key variable in forecasting Utah’s taxable business purchases, increased 15% in 2010 and may increase another 9% in 2011. These purchases may slow down in 2012 to 7% due to troubles in Europe.

Will slowdowns in the U.S. and a financial crisis in Europe combine to trip up the Utah job market? Though it seems remote, the odds are pretty high. The EuroCrisis, a noxious concoction of excess sovereign debt (Greece, Portugal) and undercapitalization by major banks (Belgium, France), may spin out of control over the next few months. This would dampen U.S. and Asian exports to Europe and require recapitalization among some of the U.S.’s largest banks (JP Morgan, Citi Bank, Wells Fargo, Goldman Sachs and Bank of America all hold major positions in the Euro and European stocks and bonds).

It’s difficult to put a number on the impact of a major European financial crisis, but it could drag down taxable sales 4% or more.
Barring a major EuroCrisis, we expect taxable sales to grow between 2.4% and 6.4% in 2012, following a 4.2% gain in 2011 (see table). Currently, Utah’s job market appears to be shifting into second gear and Utah consumers who have steady employment are spending on trucks, clothing and eating out. Based these views, expect the state’s revenue outlook to be positive for the remainder of FY2012 and into FY2013.

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