Salient Economic Indicators for Utah Cities

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Key Driver:

Construction will dampen 2007 and 2008 taxable sales

Utah Construction Permit Values
In millions of dollars

- Residential
- Nonresidential
- Remodels
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 in the past six months. 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.

During the last three months revenues from the 1% local sales tax declined 12.9% relative to the same period a year earlier. These receipts represented taxable sales from the months from February through April. June distribution receipts, representing April’s taxable sales, were down 13.5%. Expect another near 10% decline here in July’s distribution before consumer spending improves, i.e., the declines shrink, for second quarter sales.

The succeeding charts explain how leading and coincident economic indicators have worsened in 11 of the past 12 months spelling a serious economic downturn and resulting in a declines for Utah cities’ major revenue source – sales taxes.

Statewide 1% Local Sales Taxes
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 the key variable in determining consumer demand and sales tax growth.

Employment in Utah has been falling from the economic expansion 4% to 5% range from 2005 to 2007. Utah employment growth fell from near 2% gains at the beginning of 2008 to negative 1.5% by December 2008. It still appears to be still heading downward.

By May 2009, Utah employment had fallen 3.3% from a year earlier. A slowdown in the number of initial unemployment claims in succeeding pages of this report indicate that May’s 3.3% decline may mark the trough of this recession damage to Utah job growth.

On a sector-by-sector basis, employment declines were reported in the construction (-18.2%), manufacturing (-10.3%), information (-5.3%), leisure and hospitality (-4.3), and finance (-2.7%) and the professional and business service (-4.3%) sectors during May 2009. In contrast, employment gains were reported by natural resources (+12%), education and health services, (+2.9%) and government (+3.1%).
Over the past 24 months, Utah’s employment declines have tended to follow California’s declines.

(Source: St. Louis Federal Reserve Bank)
Salt Lake City Economic Indicators and Commentary

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 is 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.

Unemployment claims have now risen past the 10,000 record monthly-levels experienced in the 2001-03 recession to a new 15,000 peak. May’s claims slid a bit down to the 14,000-level, either for another run up or maybe a leveling off. If claims do level off, it would be good news for Utah’s employment outlook over the next six months.

Nevertheless, the huge, unprecedented run up in unemployment claims in the past 12 months indicates that Utah employment will continue to decline over the near future.

Utah Initial Unemployment Claims

[Graph showing unemployment claims over time]
Salient Economic Indicator Charts for Utah Cities

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. In May 2009, it had fallen 23% compared to a year earlier (the source of this data is from the U.S. Bureau of Labor Statistics through the St. Louis Federal Reserve Bank website and appears 5% worse than data listed on the previous page from Utah’s Department of Workforce Services).

During the last three months, March through May, Utah construction employment fell 22.8%. March’s 23.4% decline may end up being the low point for this recession as construction employment appears to have stabilized at the 75,000 to 80,000 level. Expect it to continue to fall relative to 2008 levels about 20% over the next few months, and then expect lower declines later this year.
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. 

Until December’s 25% increase, residential construction permit values fell between 40% and 70% per month since late 2007. During the last three months, residential construction values fell 32.5% compared to a year earlier. April’s 26.2% decline, followed by March’s 50% drop and February’s 19% decline, seem to extend the upward trend of declines (chart below), at least compared to early 2008’s 60% decreases. Hopefully, we are in the early stages of a “bottoming out”. When these declines turn into positive gains, sales taxes will start improving.
Long versus Short Term Interest Rate Spread (leading indicator)

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.

Since August 2008, the 90-day Treasury bill rate has steadily declined from 1.75% down to 0.18% in May 2009 due to an international flight to safety. Similarly, November’s long-term (10 year) rate of 3.53% slipped 72 basis points to 2.93% in April 2009. Usually, mortgage rates tend to follow the 10-year Treasury bill. In May 2009 the 10-year notes turned up 36 basis points (0.36%) to 3.29% as mortgage banks have perceived a long-term increase in their basic cost of funds. A recent special advisory committee to Treasury warned that the government’s huge and rapidly escalating need to borrow money would weigh heavily on the financial markets and that investors will demand higher rates.¹

U.S. Consumer Sentiment Index

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.

With the unusual drop of gasoline prices in the fall of 2008, rampant inflation turned into zero to slightly negative price changes. This rapid fall in demand for gasoline is an indication that this recession is different, more severe and may last longer than any of the post-war downturns.

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. The 2008-09 20% to 30% declines from the 90’s into the mid 50’s and 60’s readings have been a headwind against consumer spending on durable goods. Since February, American households’ confidence has improved from the mid 50’s to June’s reading of 70.8. In addition, Global Insight expects improvements in this confidence during the next few quarters.
Chart of the Month

Personal Savings Rate

The U.S. personal savings rate, which had moved to the record low of near 0% in the past few years jumped up to almost 6.9% in May 2009. This implies that consumers have taken 4% to 5% of their incomes off the table 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 macroeconomic basis it hurts demand for goods and services.