It's the Economy, Stupid!

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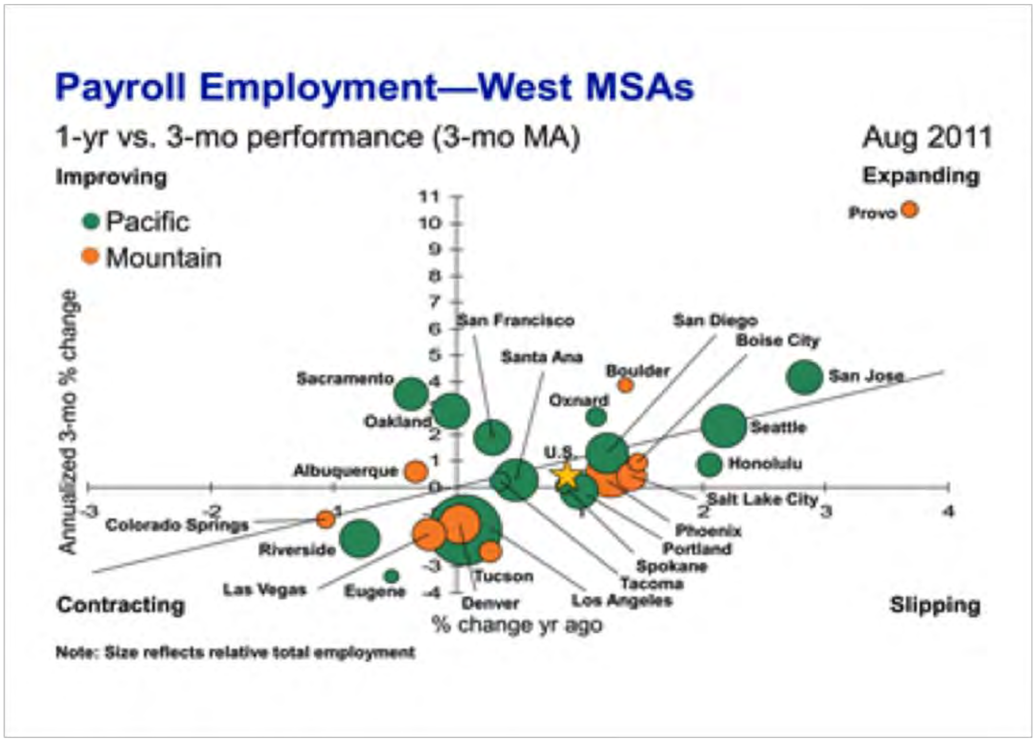
But Isn't Utah's Economy Doing Better than Everyone Else's?



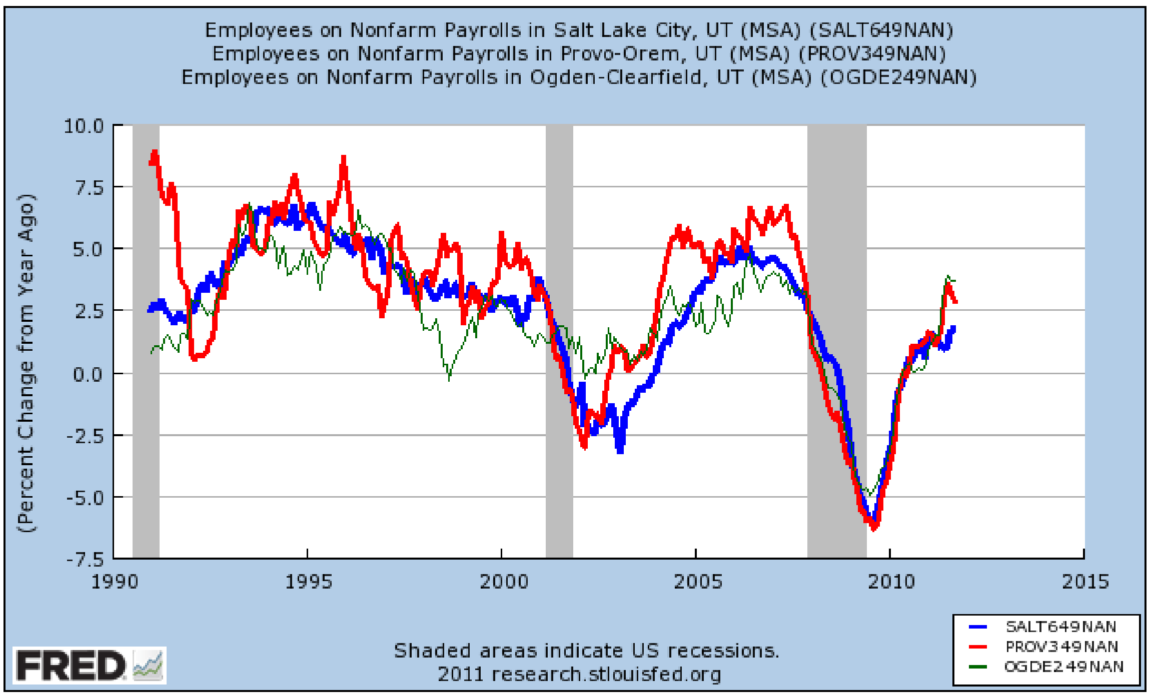
Just like in Lake Woebegone ("where all our children are above average"), we like to think of ourselves as doing better than all of our neighbors. And, in Utah, because of our super high birth rate, our population tends to grow faster than most states, and to a certain extent, and under the right conditions, this can drive a higher than average job growth rate. For example, right now, Utah's job growth rate is running between 2.5% to 2.9% depending on who is counting. This is about a 1.5 percentage points higher than the national employment growth rate of 1.1%. The chart above, although a bit complex, indicates how the Salt Lake City Metro (SLC) and Provo Metro area job machines are faring with competitive metros across the West.

1) Salt Lake Metro's job engine is doing well relative to last year, but is starting to level off relative to three months ago, as negative stock market and construction news hit from August and September. So based on the chart above it is "improving", but not "expanding" much.
2) In contrast, the Provo Metro job area appears to be running full tilt, both with respect to last year and with respect to three months ago. Check the upper, far right part of the chart where Provo is all by itself.

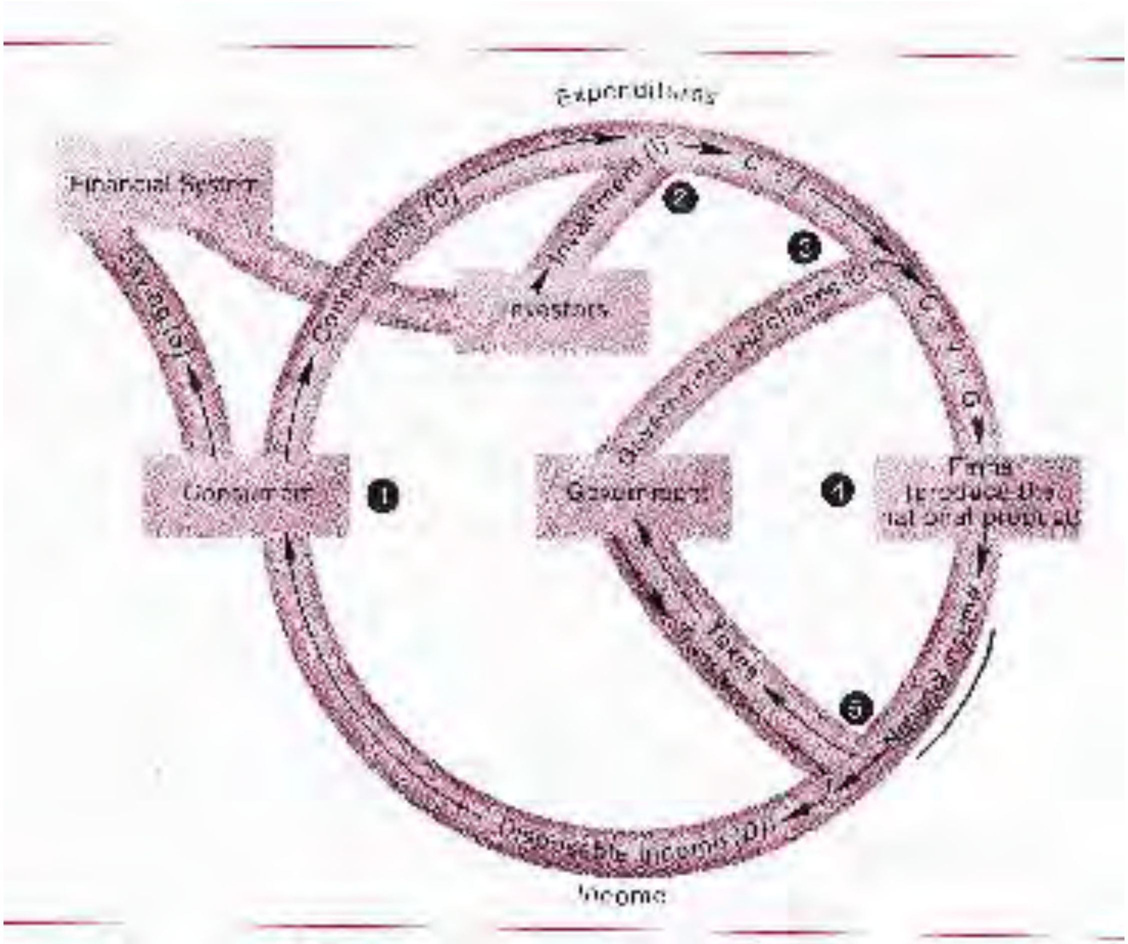
Another nice feature of this chart from Moody's Analytics is that the size of each Metro's circle reflects total employment size. So L.A. is the biggest circle.

We tried to replicate Moody's data but couldn't do it without a lot more work. But the following graph, using U.S. Bureau of Labor Statistics (BLS) data from the St. Louis FED, indicates that both the Provo Metro (Utah and Juab counties) and the Ogden Metro (Davis, Weber and Morgan counties) were outperforming the Salt Lake City Metro area (Salt Lake, Tooele and Summit counties) on the last data point of September 2011.

It appears that the Ogden-Clearfield Metro was growing at a 3.7% year-over-year-clip in September 2011 (green), compared to growth rates of 2.8% for the Provo-Orem Metro (red) and 1.7% for the Salt Lake City Metro (blue).



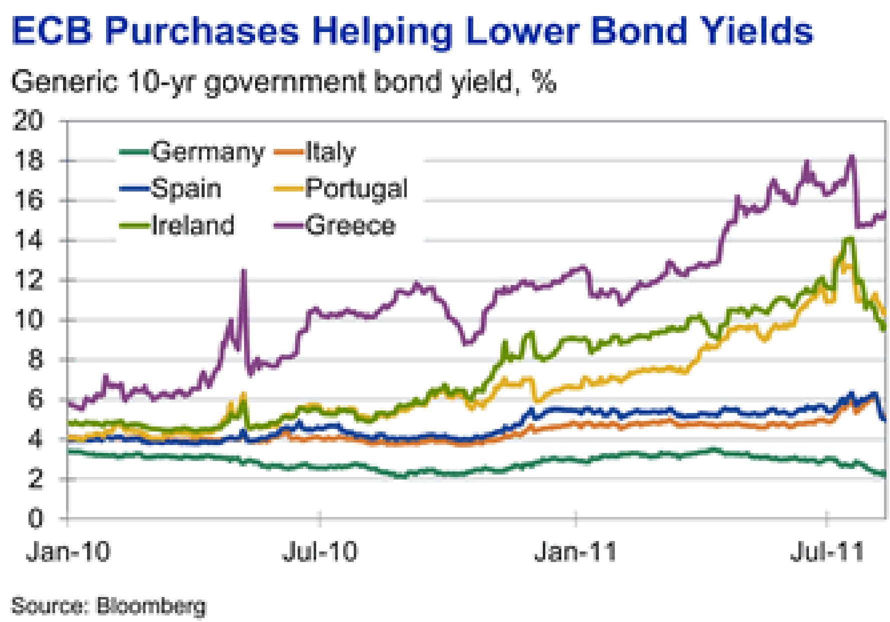
Why the Stock Market is Just One Factor to Watch in the Economy



In the Circular Flow model of the economy above Consumers tend either to spend in Consumption (C) or invest in Savings (S) their disposable income (income after taxes). These Savings feed or inject capital to investors into the flow, which is turning clockwise from income to expenditures. We call consumer spending Consumption (C) and investors spending on equipment and buildings Investment (I). Combined with Government purchases, C+ I +G constitutes “aggregate demand” and equals more than 90% of the Gross Domestic Product (GDP).

An important point here is that even if the stock market takes a tumble, it does not completely impact what consumers, investors or government spending. On the other hand, if the major parts of the Financial System stop lending or cashing checks, the economy can come to a standstill. It does impact business confidence.

How Will a Financial Crisis in Europe Affect Us?



The immediate impacts to the European debt crisis can be viewed from the vantage point of their 10-year bond rates. Rates have doubled for those countries whose fiscal situation is in peril: Greece (15%), Ireland (10%) and Portugal (10%). Recently, due to fiscal cutbacks those countries' rates have fallen, but remain on the high side.

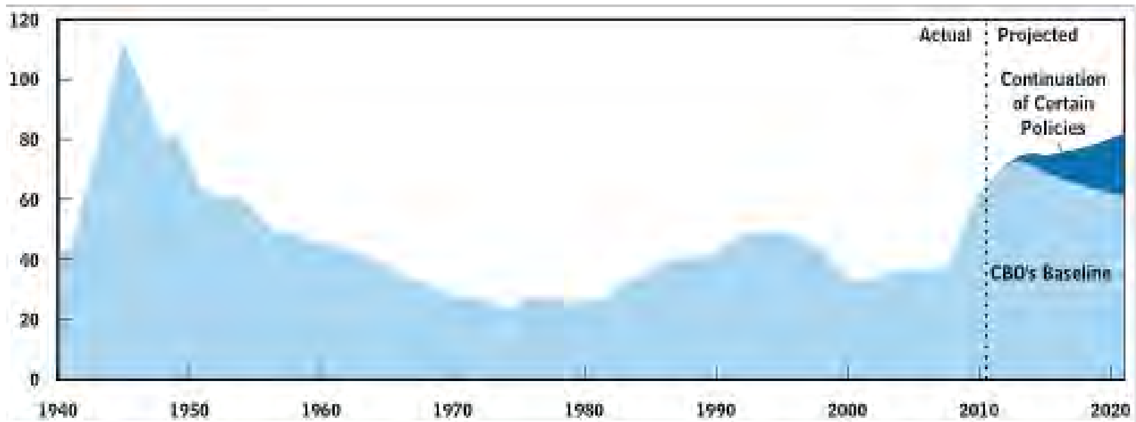
The fear from the rest of the world is that if any of these countries default, as Iceland did a few years ago, it may take many banks down with them (for those that hold the debt). The Lehman Brothers default is often cited as the type and scope of events that could occur during those frightful days.

According to Enam Ahmed, a London economist with Moody's Analytics, there is now a 50/50 change that there will be a European recession in the next 12 months. He states, "the sovereign debt crisis persists, and investors are also anxious about the banking sector. The recent weakening in the Euro area is also due to slowing global demand, driven by the U.S. and by emerging markets such as China."

How Bad is the Federal Deficit?

Federal Debt Held by the Public—Historically, in CBO's Baseline, and with a Continuation of Certain Policies

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: The projected debt with the continuation of certain policies is based on several assumptions: first, that most of the provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312) that originally were enacted in 2001, 2003, 2009, and 2010 do not expire on December 31, 2012, but instead continue; second, that the alternative minimum tax is indexed for inflation after 2011; and third, that Medicare's payment rates for physicians are held constant at their 2011 level.

Economists measure the extent of our federal debt by dividing it by the Gross Domestic Product (GDP). This allows us to measure debt relative to the ability to pay it back based on the total economy of the United States. The chart above measures our federal debt as a percentage of GDP back to 1940.

The Federal budget deficit, while increasing at impressive rates recently, still is ½ of the level we needed to go to win WWII. The Congressional Budget Office's (CBO) recent assessment of the deficit even estimates that the deficit will fall in the next 10 years if the 2001 tax decreases are allowed to expire next year.

Did the American Recovery and Reinvestment Act Work?

Estimated Macroeconomic Impact of the American Recovery and Reinvestment Act, 2009 to 2012

	Change Attributable to ARRA							
	Real Gross Domestic Product (Percent)		Unemployment Rate (Percentage points)		Employment (Millions of people)		Full-Time-Equivalent Employment (Millions)[a]	
	Low Estimate	High Estimate	Low Estimate	High Estimate	Low Estimate	High Estimate	Low Estimate	High Estimate
				2009 (Calendar Year Quarter)				
Q1	0.1	0.1	*	*	*	*	*	0.1
Q2	0.8	1.4	-0.2	-0.3	0.3	0.5	0.4	0.7
Q3	1.2	2.5	-0.3	-0.6	0.6	1.2	0.9	1.7
Q4	1.5	3.4	-0.5	-1.1	0.9	1.9	1.4	2.8
				2010 (Calendar Year Quarter)				
Q1	1.8	4.4	-0.7	-1.5	1.3	2.8	1.8	4.0
Q2	1.7	4.6	-0.8	-1.9	1.4	3.4	2.0	4.9
Q3	1.4	4.1	-0.8	-2.0	1.4	3.6	2.0	5.2
Q4	1.1	3.5	-0.7	-1.9	1.3	3.5	1.8	5.0
				2011 (Calendar Year Quarter)				
Q1	1.1	3.2	-0.6	-1.8	1.2	3.3	1.6	4.7
Q2	0.8	2.5	-0.5	-1.6	1.0	2.9	1.4	4.0
Q3	0.7	2.1	-0.5	-1.3	0.8	2.5	1.1	3.4
Q4	0.4	1.4	-0.4	-1.1	0.6	2.0	0.8	2.6
				2012 (Calendar Year Quarter)				
Q1	0.3	1.0	-0.3	-0.8	0.5	1.5	0.6	2.0
Q2	0.3	0.9	-0.2	-0.6	0.4	1.2	0.4	1.4
Q3	0.3	0.7	-0.2	-0.5	0.3	1.0	0.3	1.1
Q4	0.2	0.6	-0.1	-0.4	0.3	0.8	0.2	0.8
				Calendar Year Average				
2009	0.9	1.9	-0.3	-0.5	0.5	0.9	0.7	1.3
2010	1.5	4.2	-0.7	-1.8	1.3	3.3	1.9	4.8
2011	0.8	2.3	-0.5	-1.4	0.9	2.7	1.2	3.7
2012	0.3	0.8	-0.2	-0.6	0.4	1.1	0.4	1.3

Source: Congressional Budget Office.

Note: * = Between -0.05 and 0.05.

a. A year of full-time-equivalent employment is 40 hours of employment per week for one year.

Estimates from CBO economist using several different economic models show that, contrary to some opinions by radio and talk show hosts, the economic impacts of the American Recovery and Reinvestment Act of 2009 & 2012 (ARRA) were more positive than is currently believed by most of the American public.

Real GDP increased between 1% and 4% during the second and third years of the bill's impact, 2010 and 2011. The unemployment rate would be -0.5% to 2% higher without the federal dollars passing through the economy. ARRA impacted employment favorably too by increasing it 1% to 2% in 2010 and 2011.

How the Government Spending Affects the Economy

Gross Domestic Product (GDP) = Personal Consumption (C) + Investment (I) + Government (G) + Net Exports (X)

Or in mathematical terms,

$$GDP = C + I + G + X$$

So if G (government spending) drops, what happens to GDP? Simple, it drops by the cut in government purchases times the multiplier.

So what's the multiplier?

It is the estimate that economists make of the final impact that a particular fiscal policy makes after that money churns through the economy, usually between 0.5 and 2.5 times.

This means that if a taxpayer or business receives a tax refund or cut in taxes, he will immediately increase his spending by some percentage of that tax cut. In so doing, this spending will increase sales to businesses where the taxpayer shops, such as grocery stores, department stores or even car dealers. As more cars are sold due to the tax rebate or cut, then car dealers may increase the number of salesman on the car lot. If more cars are sold, salespersons' commissions increase, and they in turn spend more on groceries, clothes and restaurants.

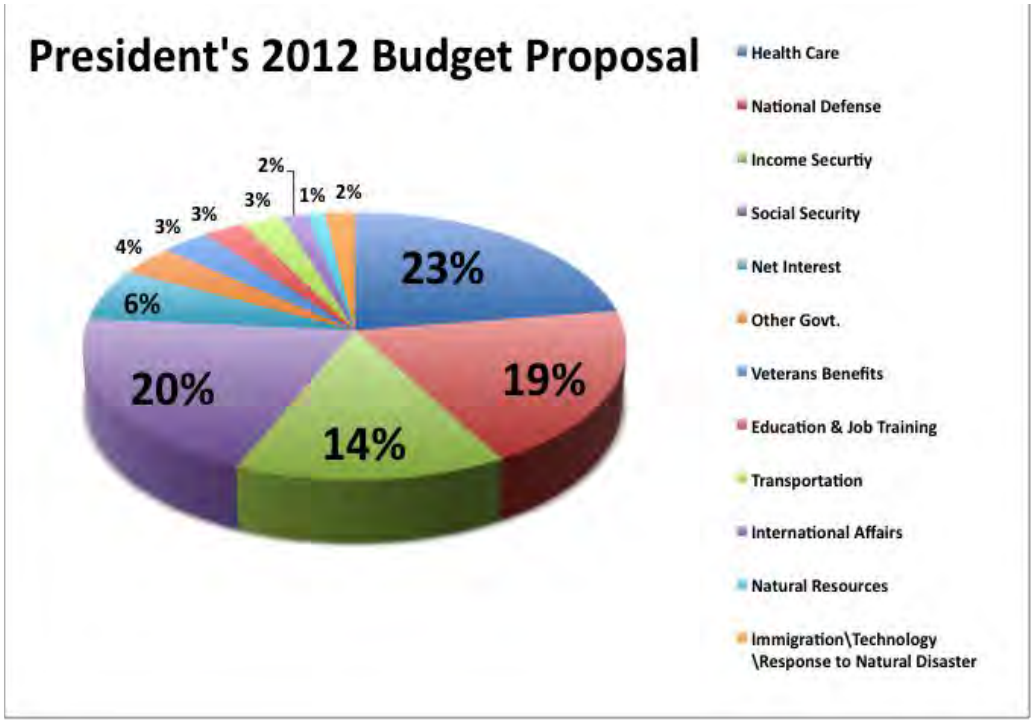
Estimated Output Multipliers of Major Provisions of the American Recovery and Reinvestment Act of 2009

Type of Activity	Estimated Output Multipliers[a] Low Estimate	High Estimate	Major Provisions of ARRA
Purchases of Goods and Services by the Federal Government	1.0	2.5	Division A, Title II: Other; Title IV: Energy Efficiency and Renewable Energy; Title IV: Innovative Technology Loan Guarantee Program; Title IV: Other Energy Programs; Title V: Federal Buildings Fund; Title VIII: National Institutes of Health; Title VIII: Other Department of Health and Human Services
Transfer Payments to State and Local Governments for Infrastructure	1.0	2.5	Division A, Title VII: Clean Water and Drinking Water State Revolving Funds; Title XI: Other Housing Assistance; Title XII: Highway Construction; Title XII: Other Transportation
Transfer Payments to State and Local Governments for Other Purposes	0.7	1.9	Division A, Title VIII: Education for the Disadvantaged; Title VIII: Special Education; Title IX: State Fiscal Stabilization Fund; Division B, Title V: State Fiscal Relief Fund
Transfer Payments to Individuals	0.8	2.1	Division A, Title I: Supplemental Nutrition Assistance Program; Title VIII: Student Financial Assistance; Division B, Title I: Refundable Tax Credits;[b] Title II: Unemployment Compensation; Title III: Health Insurance Assistance[c]
One-Time Payments to Retirees	0.1	1.0	Division B, Title II: Economic Recovery Payments
Two-Year Tax Cuts for Lower- and Middle-Income People	0.6	1.5	Division B, Title I: Making Work Pay Credit; American Opportunity Tax Credit
One-Year Tax Cut for Higher-Income People	0.2	0.6	Increase in Individual AMT Exemption Amount
Extension of First-Time Homebuyer Credit	0.3	0.8	Extension of First-Time Homebuyer Credit

If we are going to use federal economic (fiscal policy) tools to jump-start the economy again, the above table highlights which ones have the biggest positive multipliers (an economic multiplier means that if the federal government spends $1 then the impact might grow to say $2.50 over the short term).

The table above shows that transfer payments to local governments in the form of water, transportation, and housing projects have the biggest potential multipliers at 1.0 to 2.5 (equal to purchases of goods and services by the Federal Government). The state and local government multiplier is estimated to be larger than: payments to schools, individuals, retirees, tax cuts to lower- and middle-income people, tax cuts to higher income people and extensions to first-time home buyers.

Will the Super Committee Have an Easy Time Cutting $2Trillion to $4Trillion?



The chart above illustrates the difficulty in cutting $200 billion or $400 billion per year from the federal budget. But there are some tips for analyzing the process.

1) The top four areas (Health Care, National Defense, Income Security, Social Security and Net Interest) comprise 77% of the budget.
2) More than half of the talk-show rhetoric abused programs are in the smaller budgets, which comprise 17% of the budget.
3) The top 4 programs have significant constituents and lobbies. For example, the 19% spent by the Defense Department hire contractors, some of which are the biggest corporations in the country. Second, people more than 65 (years of age) vigorously support the Social Security (20%) and the Medicare program (13%, within the Health Care slice of the pie).

Rule #1 in federal budgeting: Most program costs are often cited run over a10 year period, so divide by 10 to ascertain the annual cost. Politicians like the bigger numbers because they get attention and headlines. We are not saying that presenting fiscal notes over a ten-year period is misleading, it is necessary, but when people look at annual revenue and hear trillion dollar impacts there can be a disconnect.