Salient Economic Indicators for Utah Cities

Utah League of Cities and Towns
Ken Bullock, Executive Director
Neil Abercrombie, Policy Analyst
Doug Macdonald, Economic Policy Analyst
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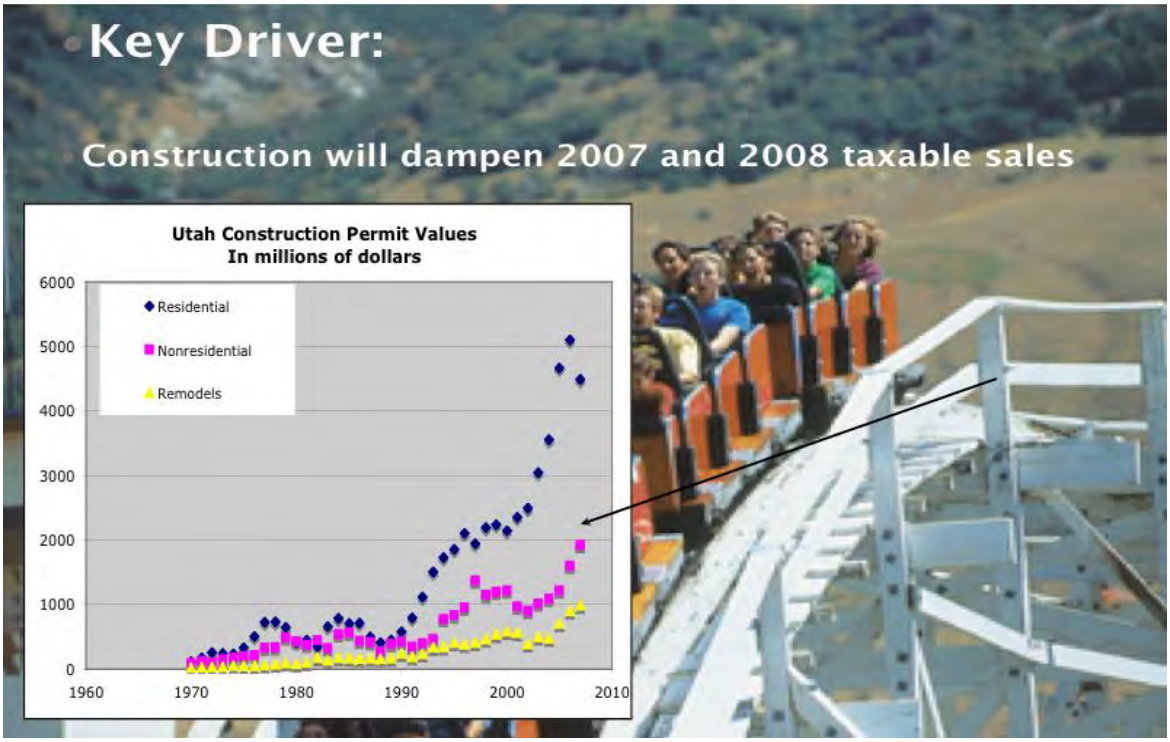
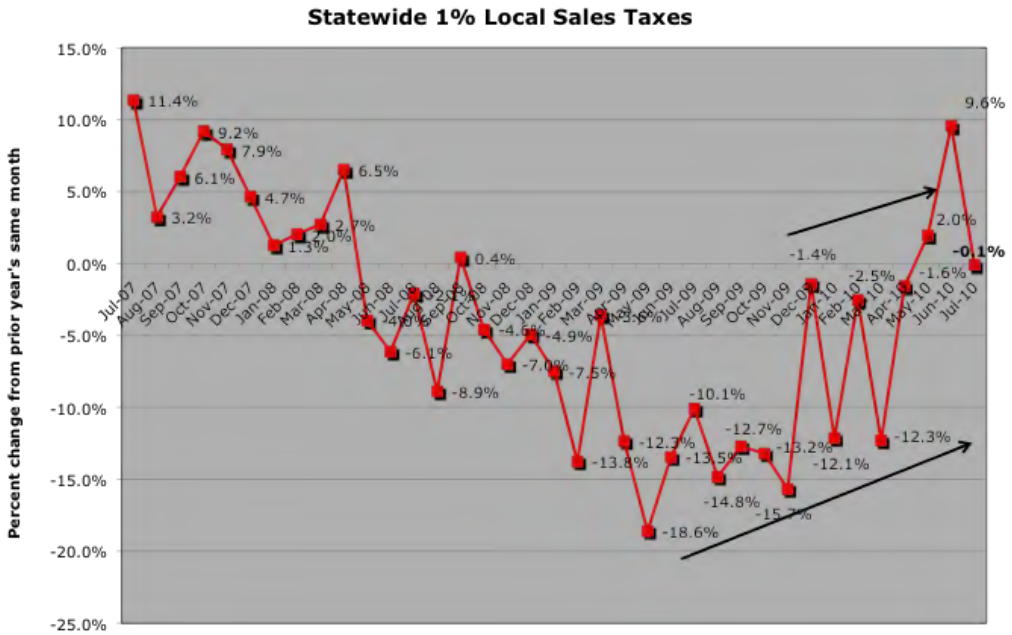


1% Local Option Sales Taxes

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.

July's 1% local tax distribution was slightly under 2009 levels (-0.1%). This followed a near 10% gain in the June distribution. June's 9.6% increase, representing April taxable sales, was significantly higher than the reported April direct sales gain of 4.2% for large filers, suggesting taxpayers made some payments on accounts receivables between June 10th and June 28th. Given the recent volatility in monthly changes, it is probably wise to put more emphasis on the latest 3-month percentage change. May through July distributions rose 3.6% compared to last year. The 1% statewide local sales tax has declined 5.9% in the first 11 months of fiscal year 2009-10. With one month to go our 5.1% fiscal year forecast made last February looks like a real possibility.

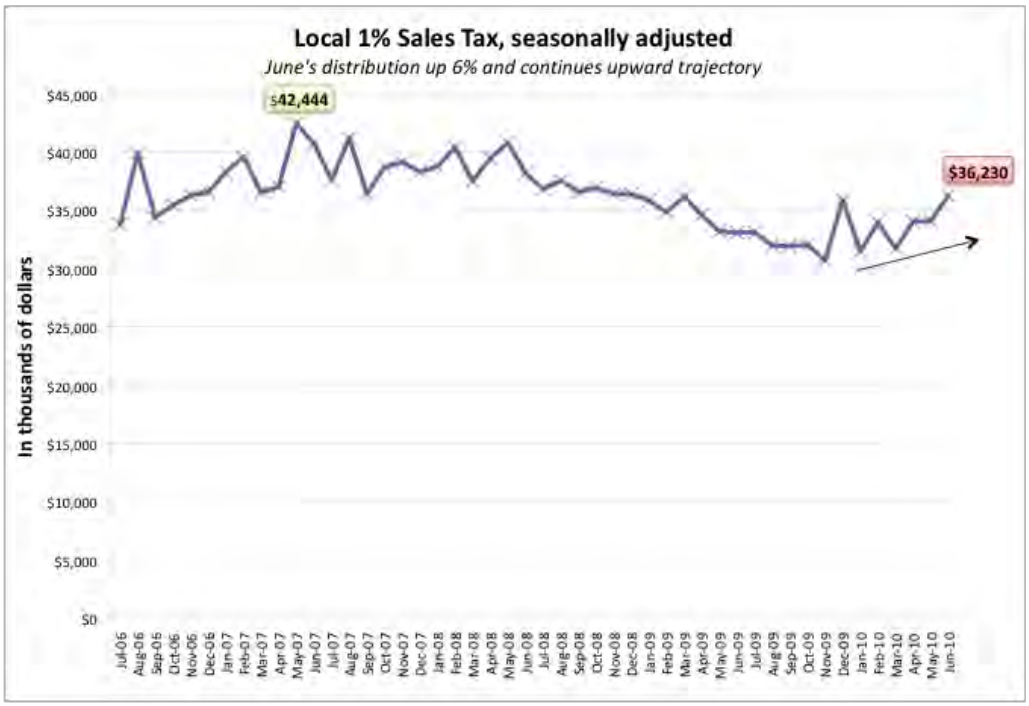
The succeeding charts explain how leading and coincident economic indicators are beginning to improve following 22 to 24 months of declines.



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.**

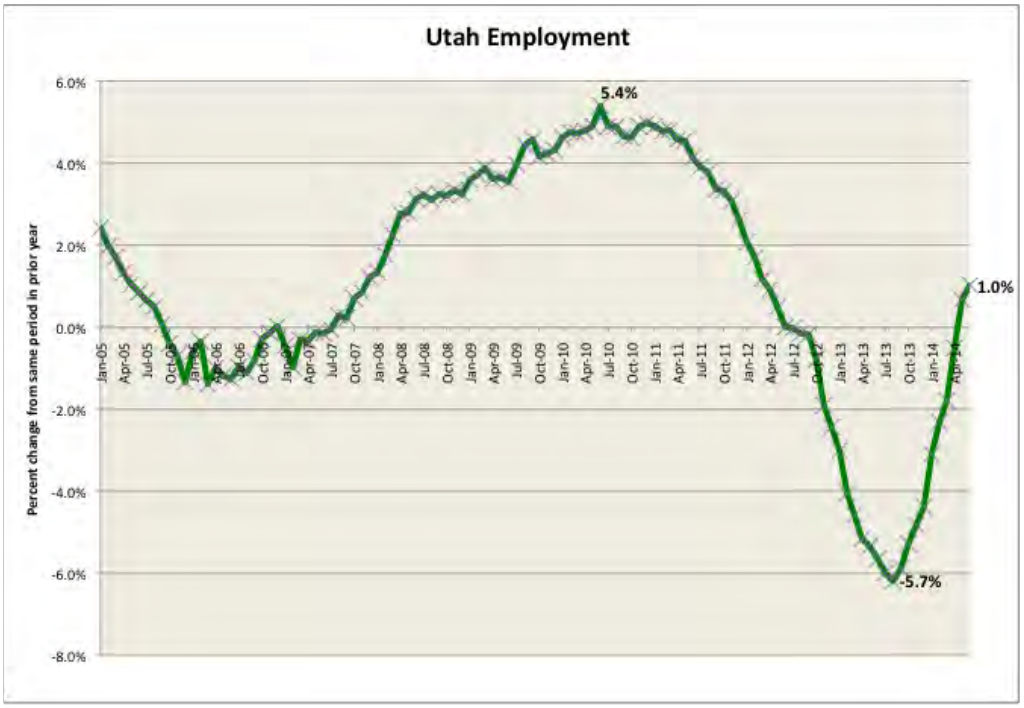


Utah Employment (coincident indicator)

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 the key variable in determining consumer demand and sales tax growth (as opposed to the much broadcasted unemployment rate).**

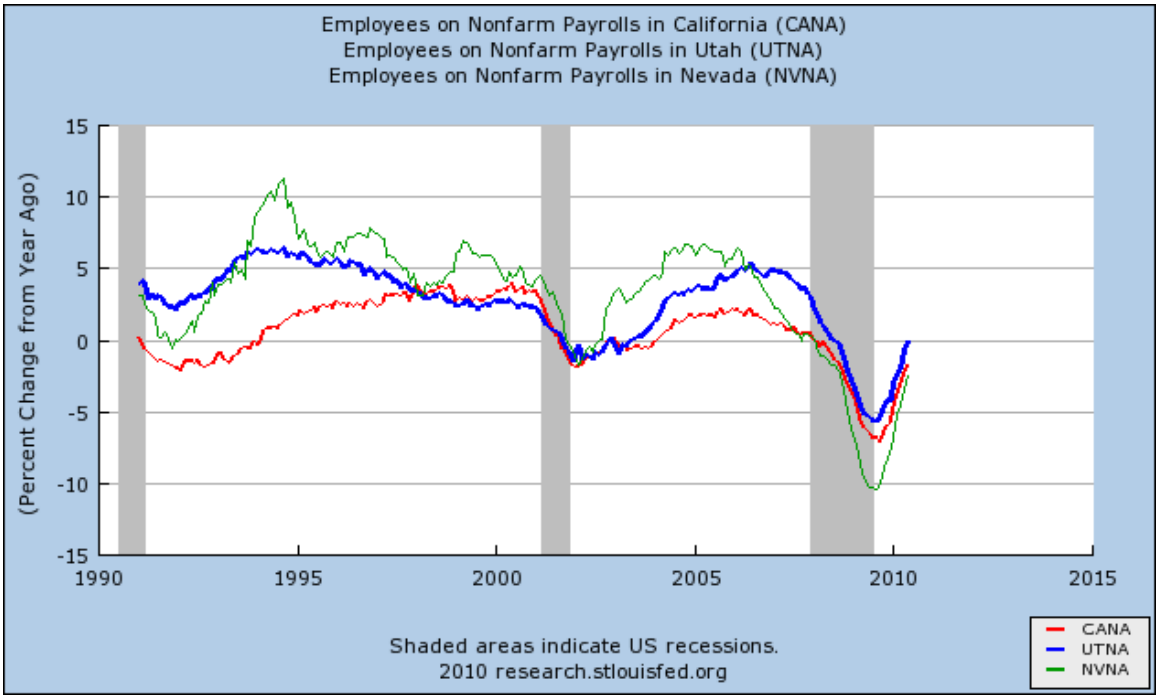
The most recent hard data from employer returns indicate that the 1st quarter 2010 employment statewide fell 2.4%. The Department of Workforce Services (DWS) estimates (based on the 600-sample household survey) that 1st quarter 2010 employment also fell about 2%, suggesting the sample is tracking the hard data better than we had supposed.

DWS estimates that June employment in the state was up 1% compared to June of 2009. This is the second month in a row that Utah employment has increased compared to the same month in the prior year. Prior to that we saw job declines for 22 straight months, beginning in October 2008. On a sector-by-sector basis, employment declines were reported in the manufacturing (-4.8%), construction (-2%), transportation (-1.3), information (-0.8%), finance (-0.5%), and the retail trade (-0.2%) sectors during June 2010. Job gains were reported in five sectors, education and health services (5.5%), business services (4.1%), natural resources and mining (3.9%), wholesale trade (3.7%), and the leisure and hospitality (2.9%) sector. Government employment was flat in June (0%).



Utah, California and Nevada Employment Changes

Over the past 3 years, Utah's employment declines have tended to follow California's declines, 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 has leveled off, while it appears that California and Nevada employment levels are still down about 2% to 3% from 2009.



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.

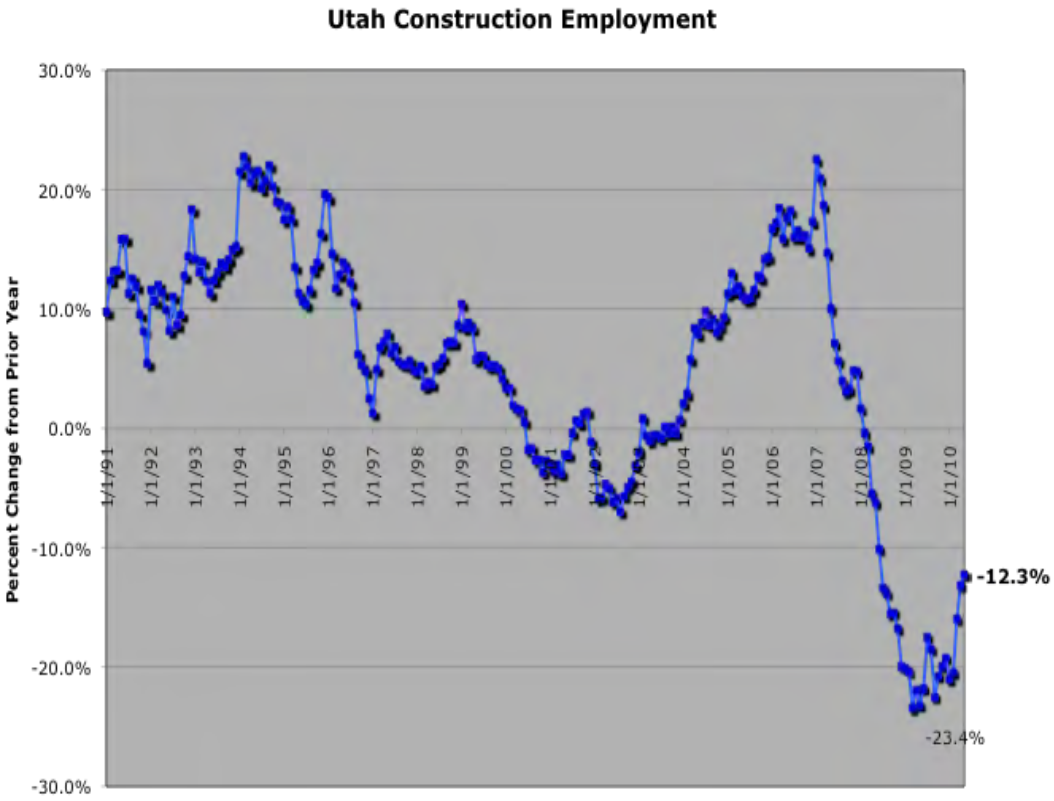
In January 2009, unemployment claims exceeded the 10,000 record monthly-levels experienced in the 2001-03 recession and in April 2009 reached a new peak of 14,934. After April 2009 claims were falling until March 2010. Between March and August 2010, initial claims have been stalled at the 10,700 to 11,000-level. The August three month average of 10,747 was almost identical to May's 10794, June's 10,740, and July's 10,760. This suggests the Utah's economic recovery, at least with respect to jobs, is stuck in the mud.

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.

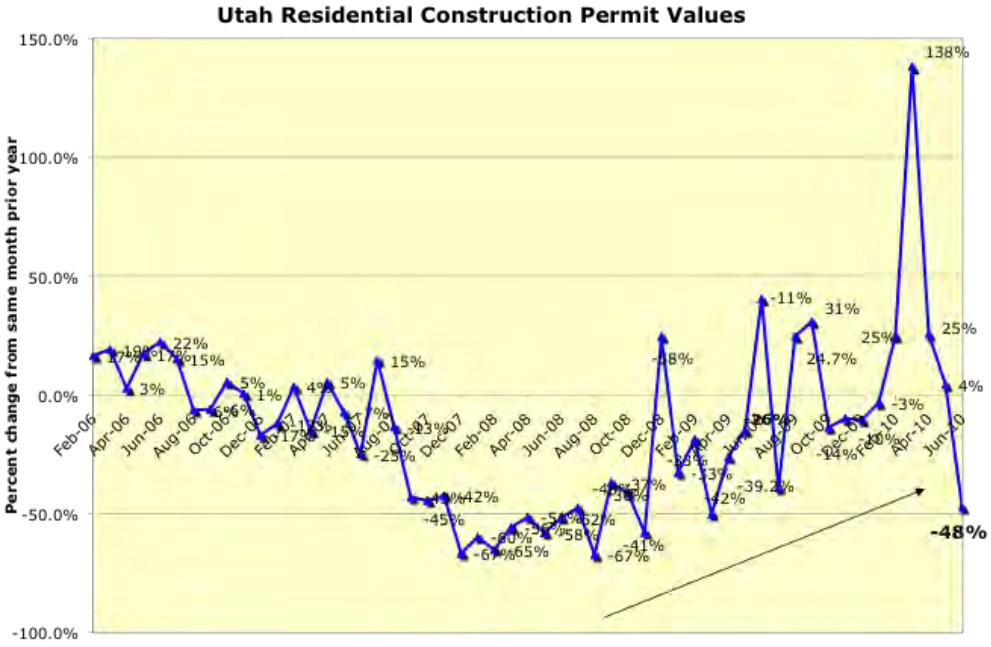
The 65,000- to 66,000-level, where Utah construction employment has ranged in 2010, is down another 12% to 20% compared to 2009. The May 2010 decline of 12.3% at 65,800 is 38% below the December 2007 peak of 105.700.



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.

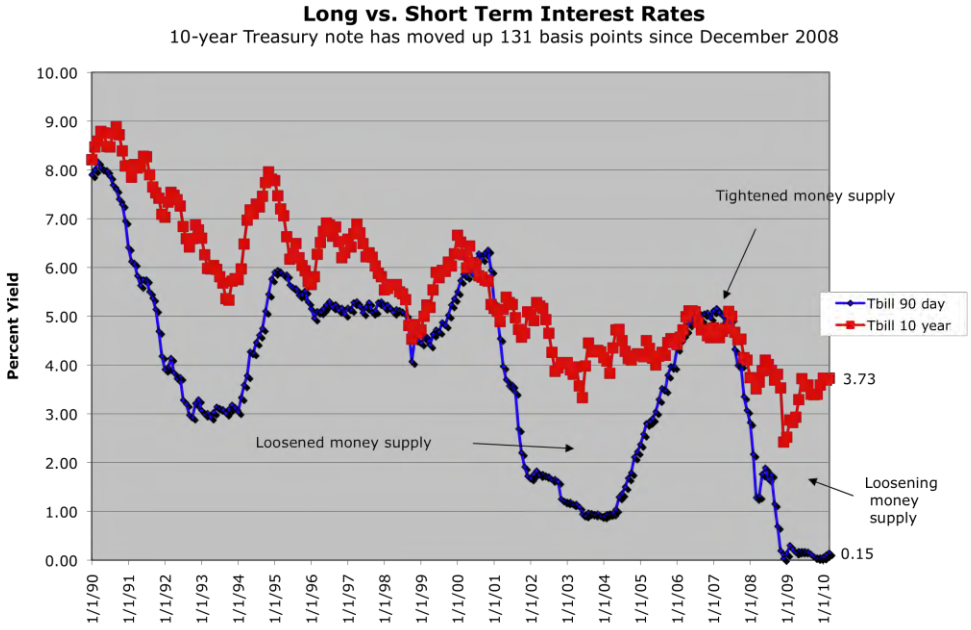
Following three months of substantial growth (February through April), residential construction permit values appear to be declining again. Following the May uptick of 4.4%, June permit values for homes, condos and apartment buildings dropped almost 50%. Year to date through June, permit values were up 6.8% over 2009 levels. But residential permit values in 2009 were down 66% from the peak of $5 billion in 2006.



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.

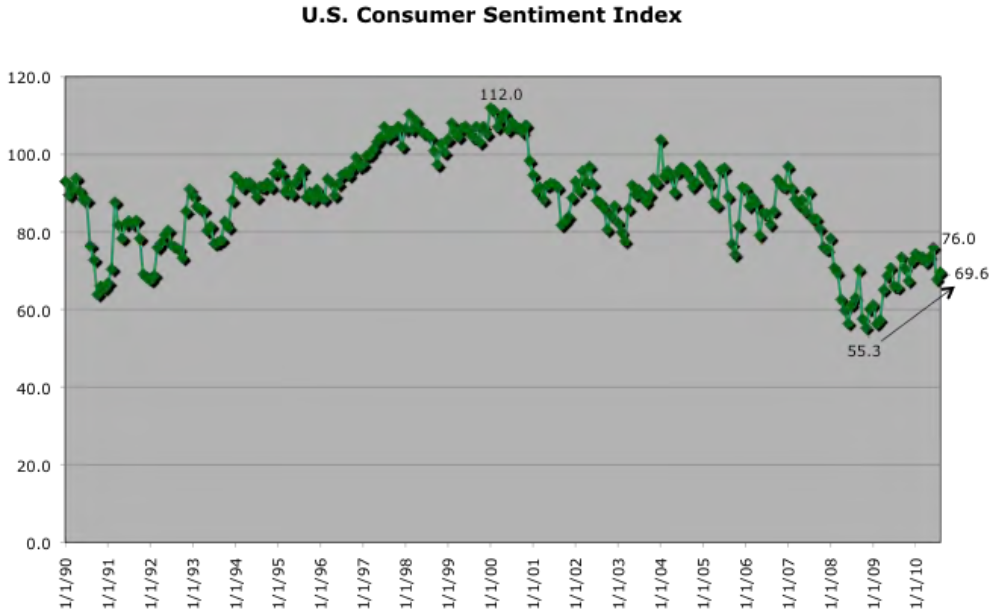


U.S. Consumer Sentiment Index (coincident)

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.

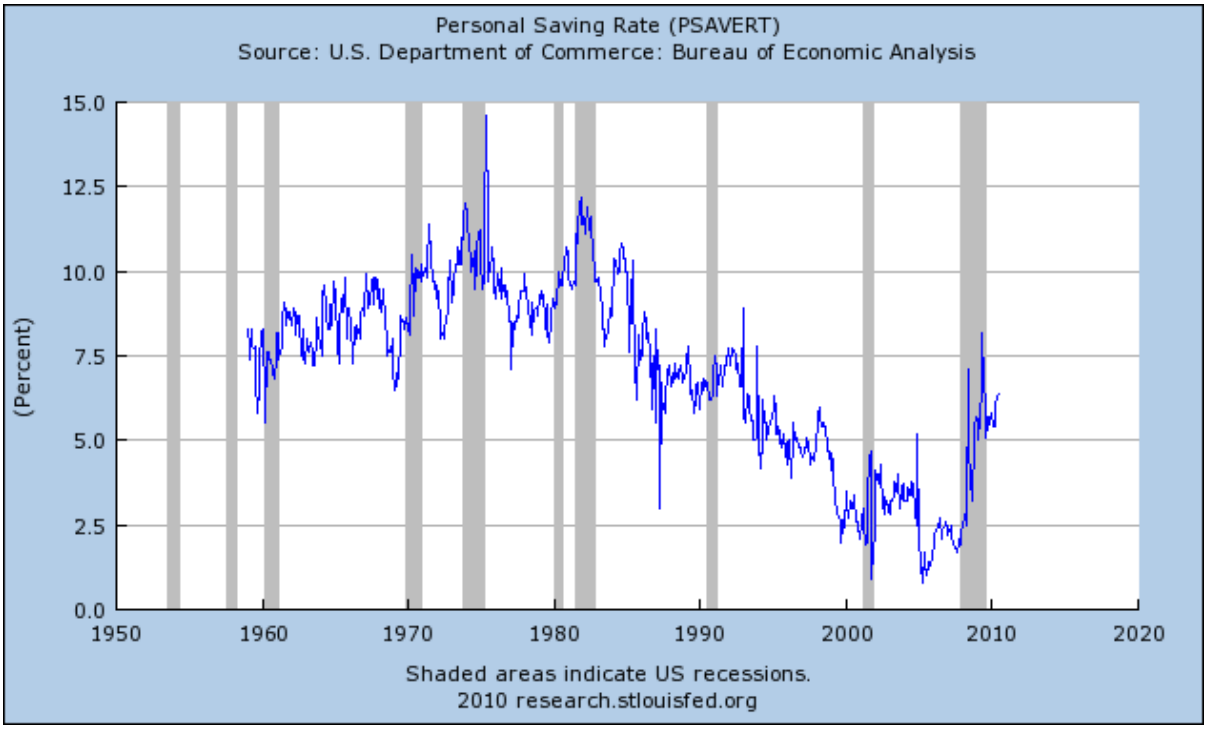
Since February 2009, American households' confidence has improved from the mid 50's to a range between 65 and 74. The early August 2010 index reading of 69.6 suggests that consumers felt more wary of their financial and employment situations relative to the months between January and June (which ranged between 72.5 and 76). An index below 90 suggests that consumers will continue to be cautious in their spending. Still, the distinct upward trend from late 2008 should help 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.

Recently, the U.S. Department of Commerce revised the U.S. personal savings rate back to January 2007. The saving rates were adjusted up almost 2 percentage points each month. Between February 2010 and June 2010, the rate has moved upwards about 1%, cutting into consumer spending.



Salient Economic Indicator Charts for Utah Cities

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 (red) and Utah (blue). It appears that Utah and California are virtually tied in their recent upturns. Both have surpassed last year's levels. Most of the variables that are used in these indices are based on employment and wages data from the Bureau of Labor Statistics.