

Economic Update

How much hope should we have?

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ULCT Mid-year, April 8th 2010

“the League’s Latest”

Monthly economic and policy updates

www.ulct.org

Which economic indicators are improving?

How does Utah compare?

What is our forecast for FY 2011?



Fiscal Year 2011 Economic Outlook

the League’s Latest
April 2010



For over two years the budget has dominated federal, state, and local policy discussions

Photo source: Salt Lake Tribune

WILL THE NEW FISCAL YEAR BE MUCH BETTER?

The 2011 fiscal year begins July 1st, only three months away. There are signs indicating that the current recession is over, and it would be hard for FY 2011 to be worse than the previous two years...but when will it be much better for Utah’s cities and towns?

The natural disasters that have wrecked havoc across the world in the past few years have become metaphors to the massive financial storm that has created one of the most severe recessions in American history. The “Great Recession” of the past two years has set a number of historic marks (longest since the Great Depression, largest decline in production since 1939, fastest decline in housing values since the 1920’s, for example). However, it now appears that a ray of sunshine is appearing through the stormy economic clouds. As difficult as it may be to forecast the future during this nearly unprecedented fiscal storm it is still an important process to help managers and elected officials make difficult budget decisions. There are a couple of reasons why economic forecasts are critical to budgeting:

1. Identify key variables that can change the amount of revenue,
2. Evaluate potential financial risk, and
3. Assess the likelihood that services can be maintained.

The Government Finance Officers Association recommends that governments at all levels forecast revenues and expenditures. *So what is the forecast for FY2011? Let’s go with partly cloudy.* But first it is important to review what we do know, before speculating on the future.

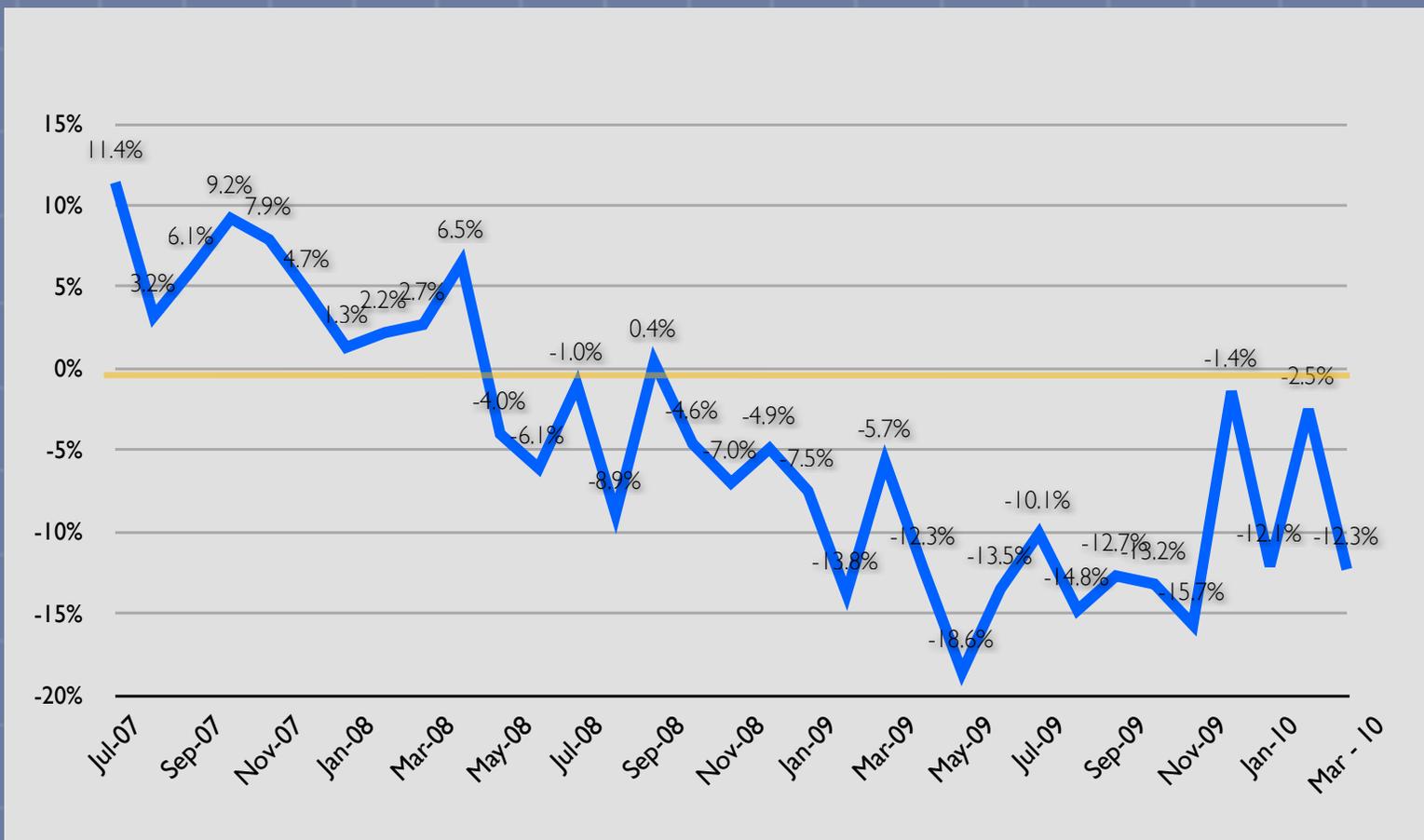


Partly Cloudy Forecast for 2010

The storm, or worst part of the recession, is over. But things are not completely sunny yet. The economy for 2010 will be a period of slow improvement.

Sales Tax Distribution

Monthly Year over Year change



FY 2010 sales tax revenue

City Cluster	FY 2010	Last 3 Months
Major Population	-10.9%	-9.5%
Commercial Centers	-14.7%	12.7%
High Growth	3.4%	2.1%
High Income	-5.4%	-1.5%
NR/ Mining Based	-24.5%	-24.6%
Small Towns	-6.2%	-6.3%
State Average	-10.0%	-8.4%

How did we get here?

- 🌐 Wages down - 5%
- 🌐 Personal savings up - 2%
- 🌐 Consumer confidence dropped - 5%
- 🌐 Business spending down - 2%
- 🌐 Residential construction slowly improving - 1%
- 🌐 Add these factors together sales tax down 10 to 16%



November 2007

The Economist

APRIL 3RD-9TH 2010

Economist.com

Europe's Tory nightmare
Defaming religion
The Moscow bombs
Korea's triumphant chaebol
Tinkering with the climate

Hope at last

A 14-PAGE SPECIAL REPORT
ON REBALANCING THE
AMERICAN ECONOMY



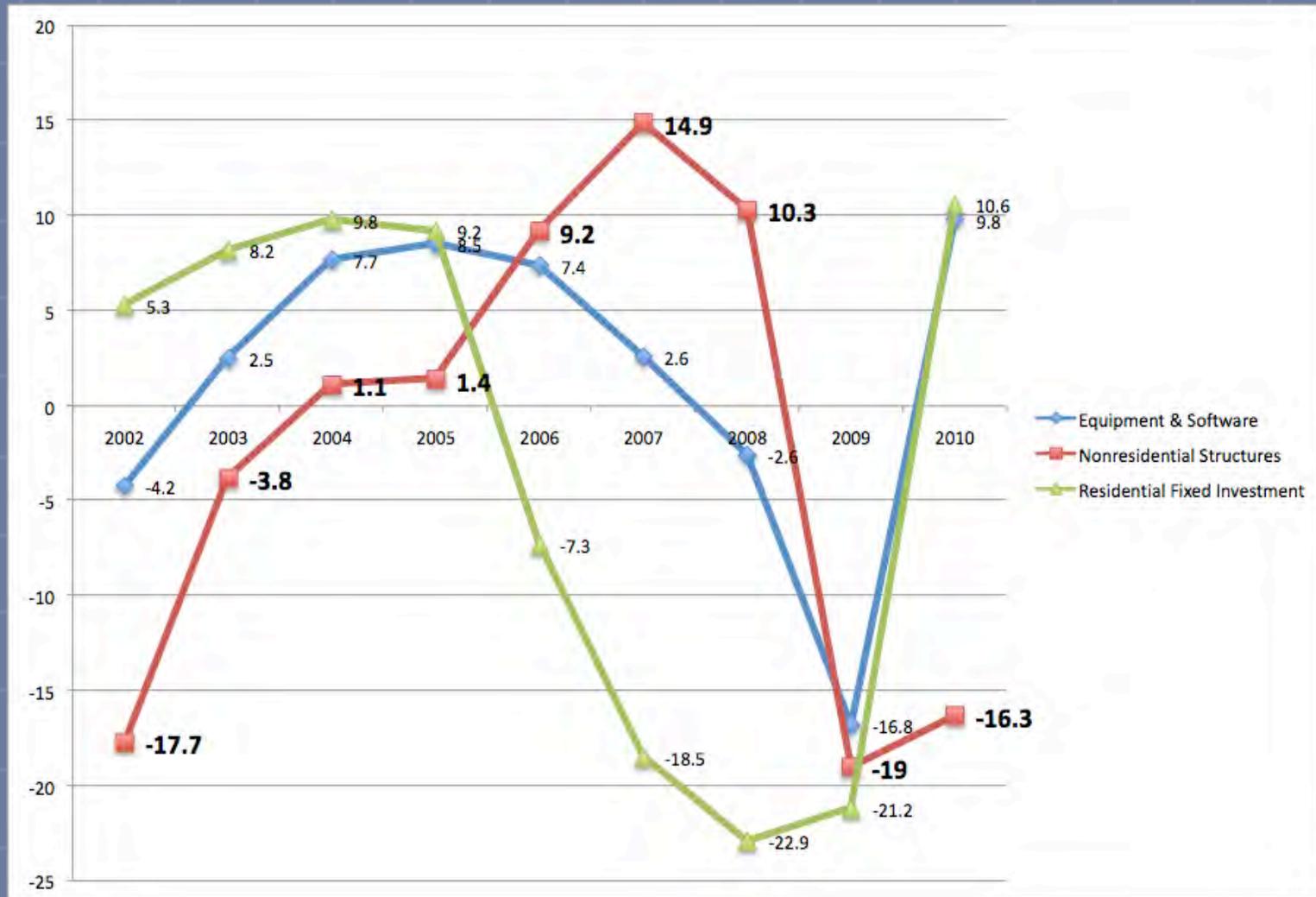
April 2010

Tailwinds

Indicators propelling the economy forward

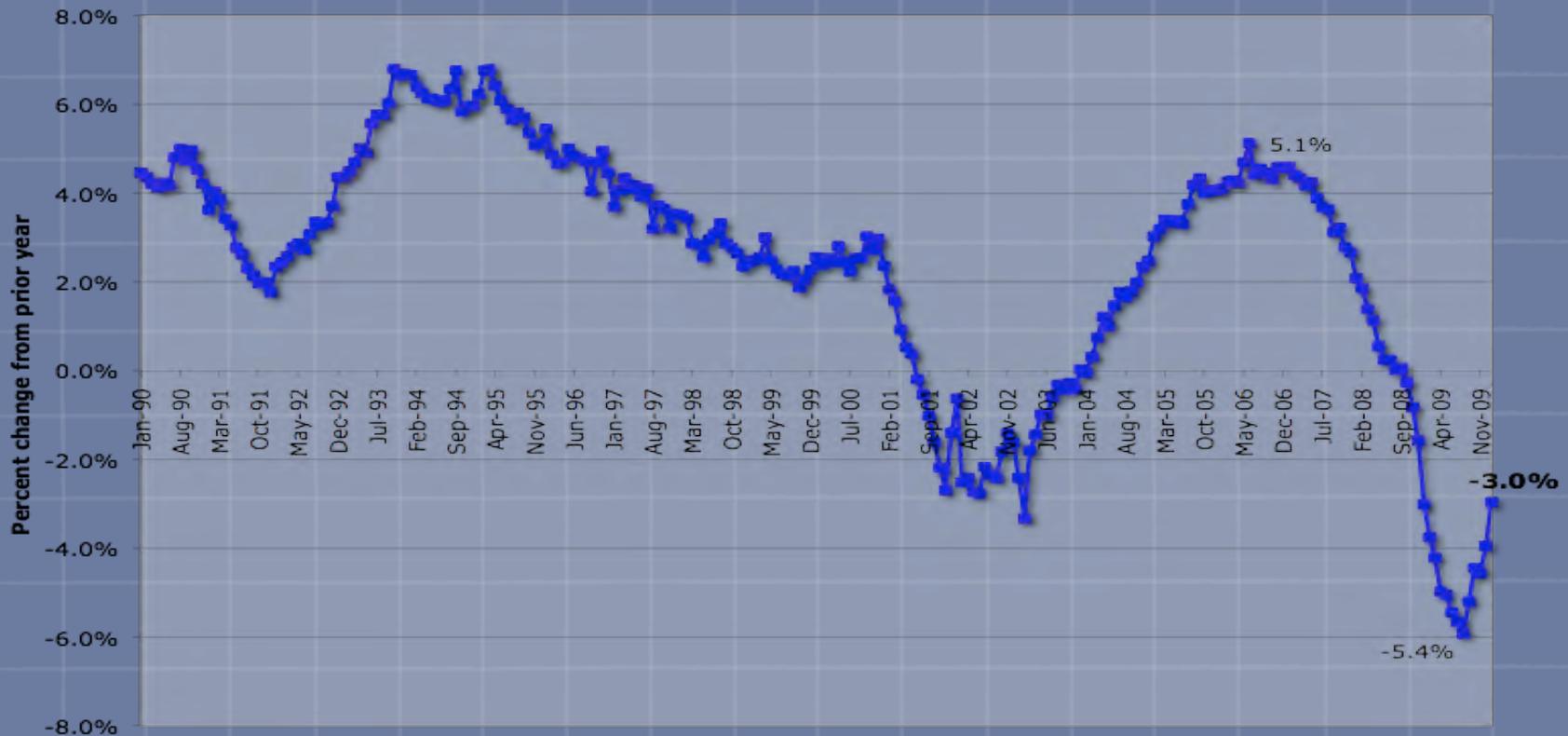
- 🌐 Lower commodity prices good for consumers
- 🌐 Higher stock market prices helping confidence
- 🌐 Large bank rescue packages
- 🌐 Monetary stimulus huge plus (short-term interest rates down near zero)
- 🌐 Fiscal policy makes up part of consumption drag
- 🌐 Pent-up demand building - tendency to forget this

Residential Investment & Equipment Purchases Will Rebound in 2010, But Not Nonresidential Structures



Employment is down -4.5% in 2009

Salt Lake County Employment



Headwinds

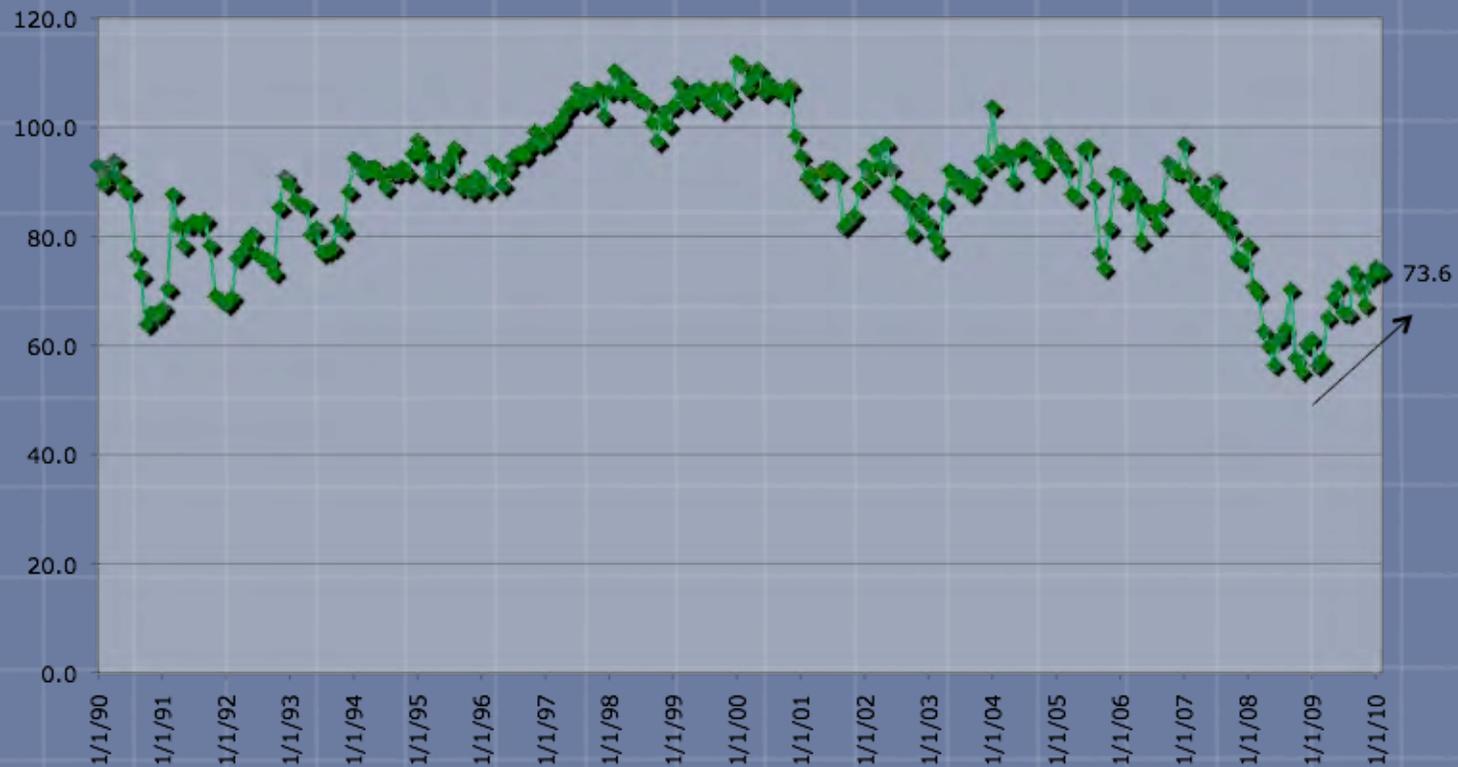
Issues of concern keeping us back from a full recovery

- 🌐 Unemployment rates very high in many parts of the world
- 🌐 De-leveraging (going from debt-led spending to savings is hurting consumption of goods)
- 🌐 Housing issues still a concern
- 🌐 Commercial Real Estate will drag
- 🌐 Excess capacity everywhere due to recession

Consumer confidence is down 25% from 2003 – 06 levels

U.S. Consumer Sentiment Index

February 2010 reading of 73.5 continues uneven, but upward trend

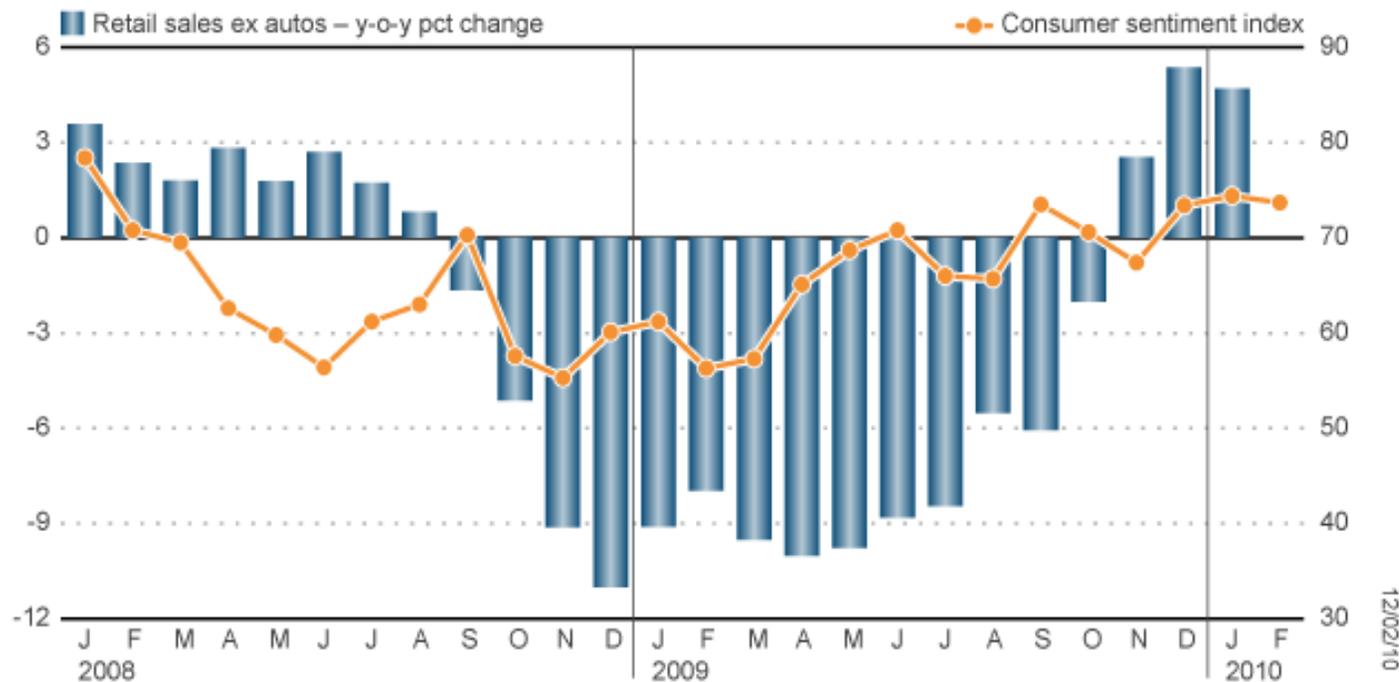


Consumer Sentiment and Retail Sales

Sentiment improving, but stalling in low 70s last 3 months

U.S. retail sales

Retail sales stronger than expected in January, but February consumer sentiment slips



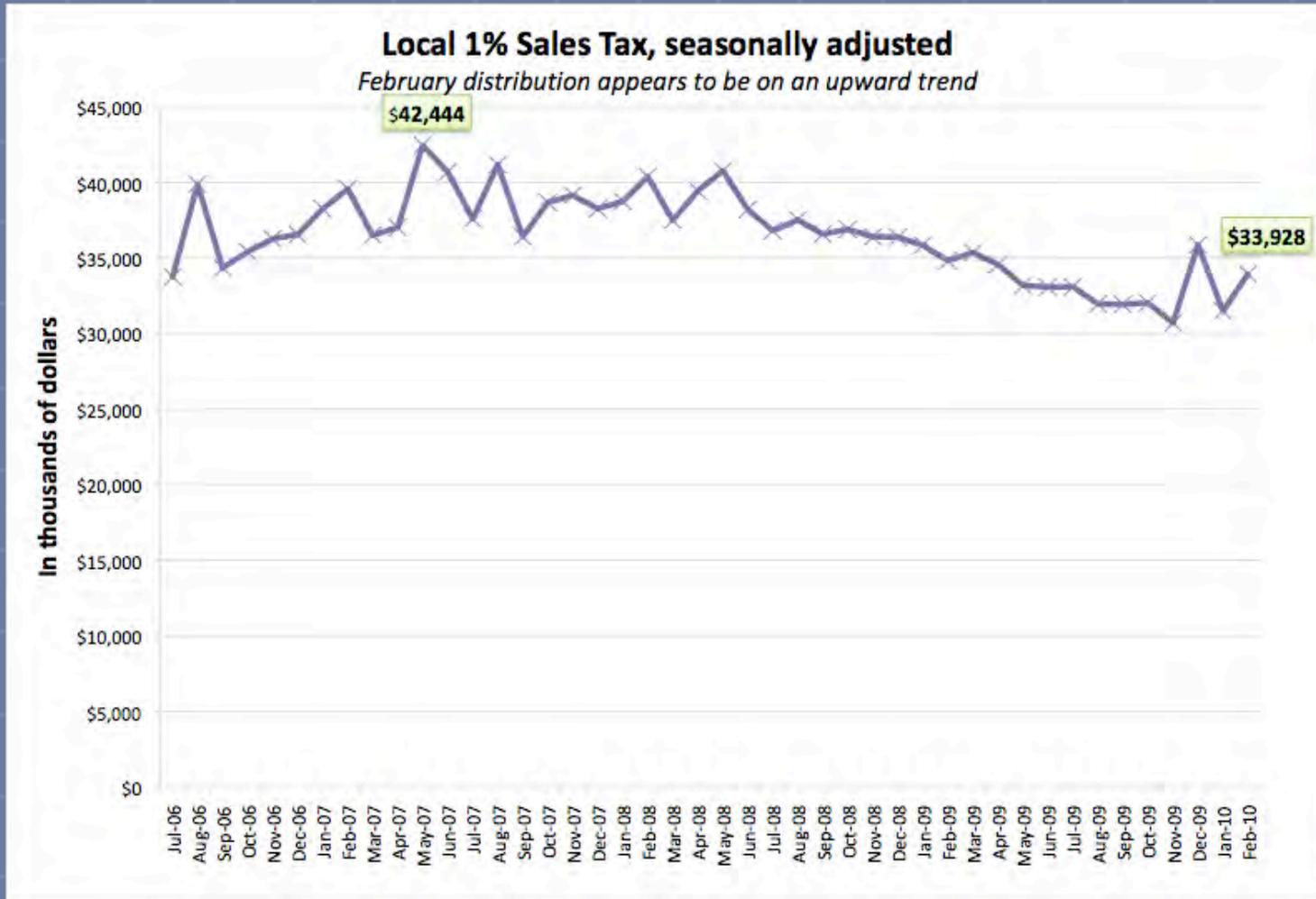
Sources: U.S. Census Bureau, University of Michigan, Thomson Reuters Datastream

Reuters graphics/Stephen Gulp



Last 3 months appears to be recovering

now only(?) 20% below peak level in 2007



More Good News

Nationally March Sales Up



“American consumers are finally coming out of hiding.”

-- NY Times, April 6, 2010

Retail sales gains this March compared with March 2009.



Luxury goods

+22.7%



Home furnishings, furniture

+13.8%



Specialty apparel

+ 5.2%

Source: SpendingPulse/
MasterCard Advisors

THE NEW YORK TIMES

Public perception... economists and Utahns

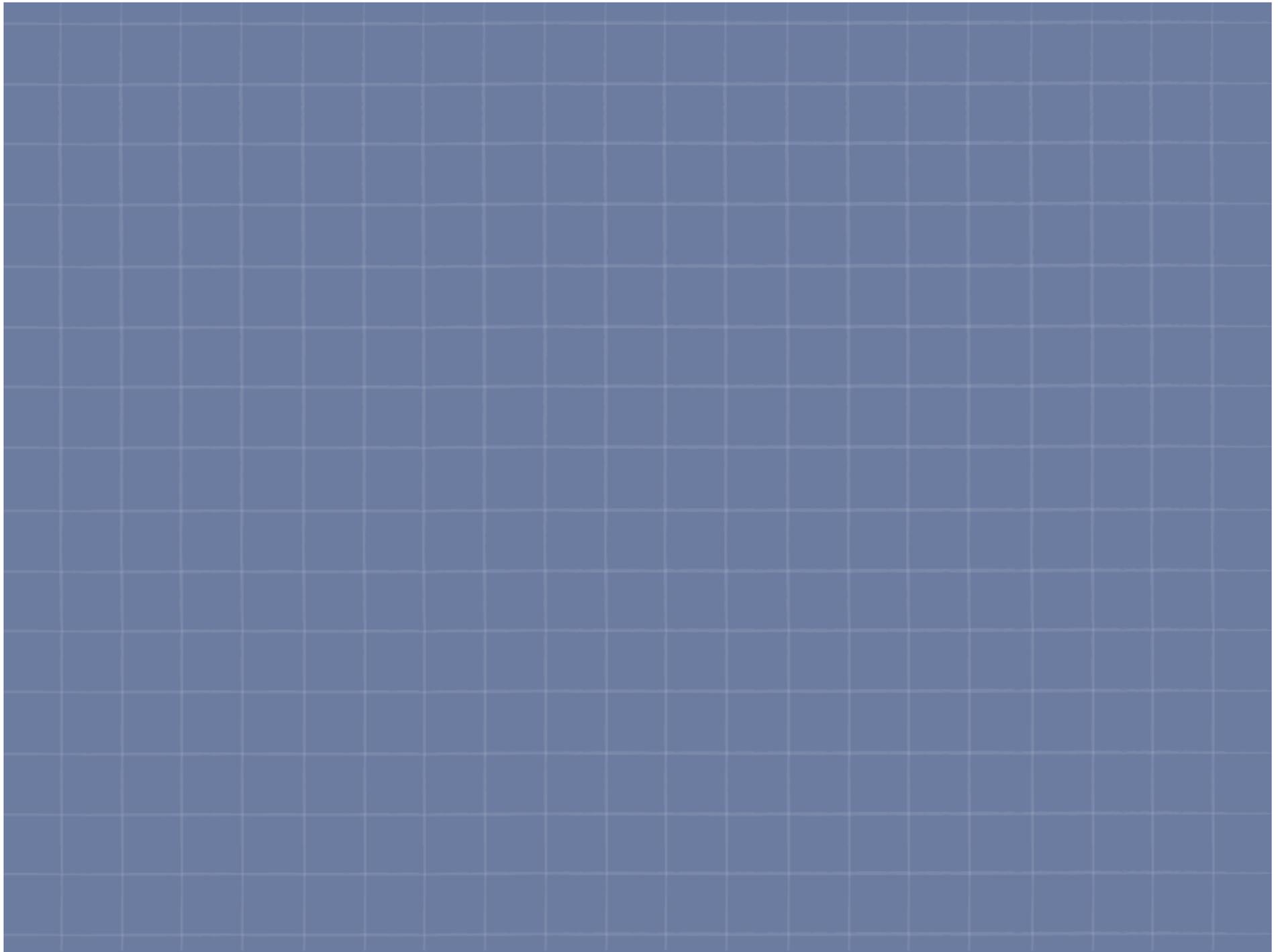
What presents the biggest risk to the U.S. economic recovery (WSJ survey)?

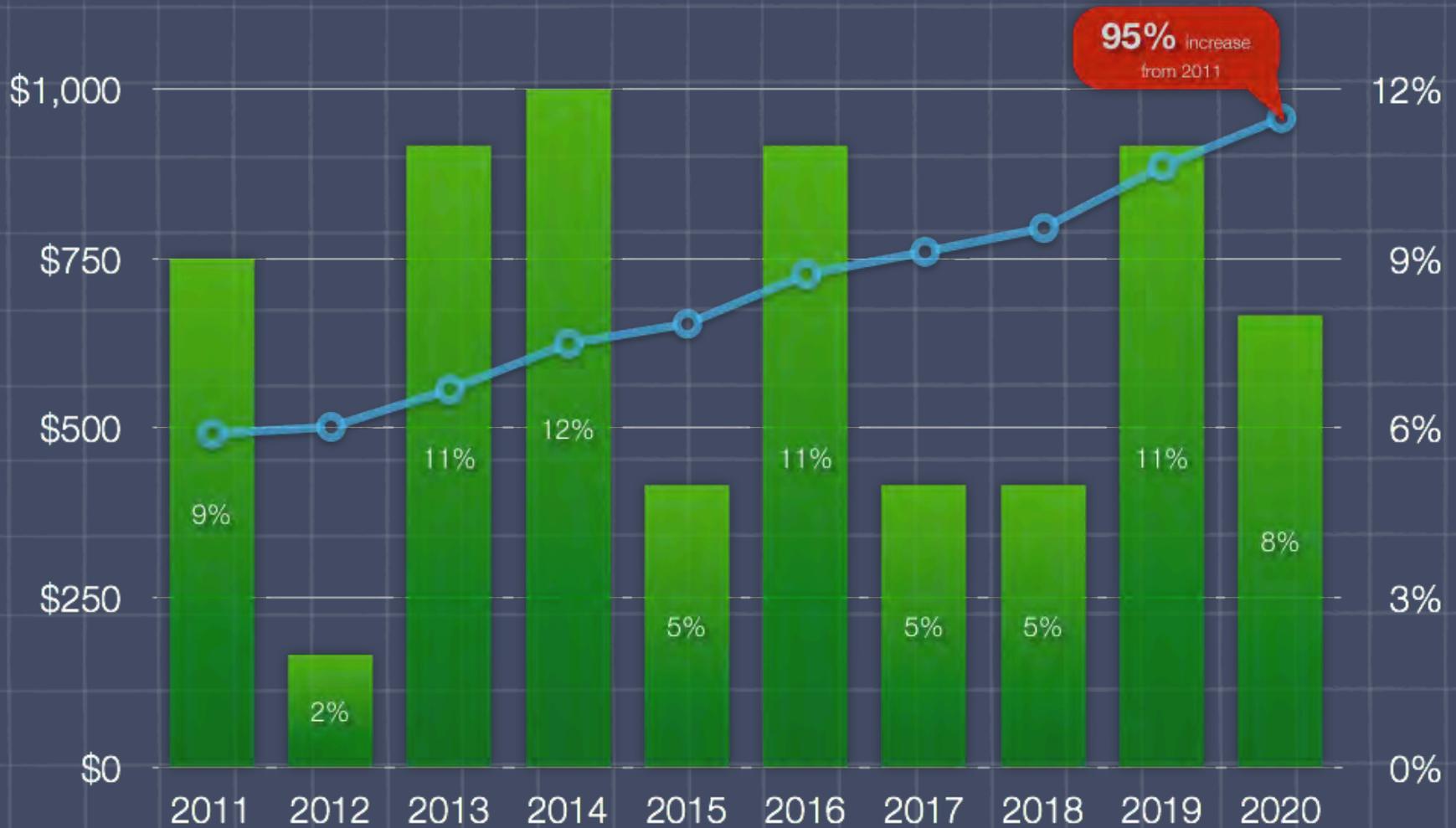
-  Consumer retrenchment (25%)
-  Lack of credit for small/mid size businesses (23%)
-  Another shoe falling in the housing market (23%)
-  The U.S. deficit (19%)
-  Losses in commercial real estate (10%)

What issue concerns you most about the national economy (Dan Jones Survey)?

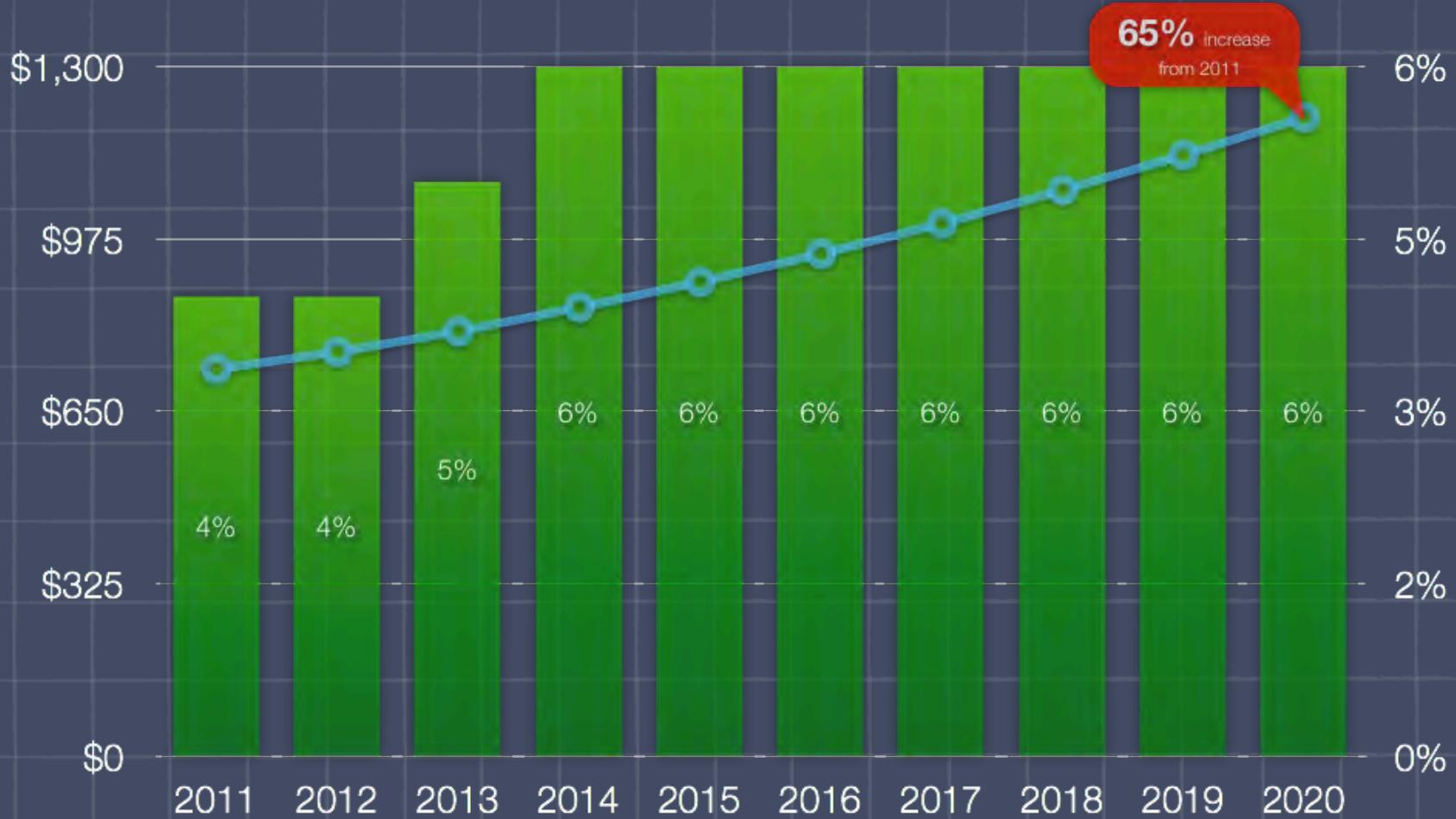
-  U.S. deficit / Federal spending (28%)
-  Cost of health care (26%)
-  Unemployment (19%)
-  Debt held by foreign countries (11%)
-  Lack of consumer saving (5%)
-  Inflation (5%)

**Why should we care
about the federal budget?**

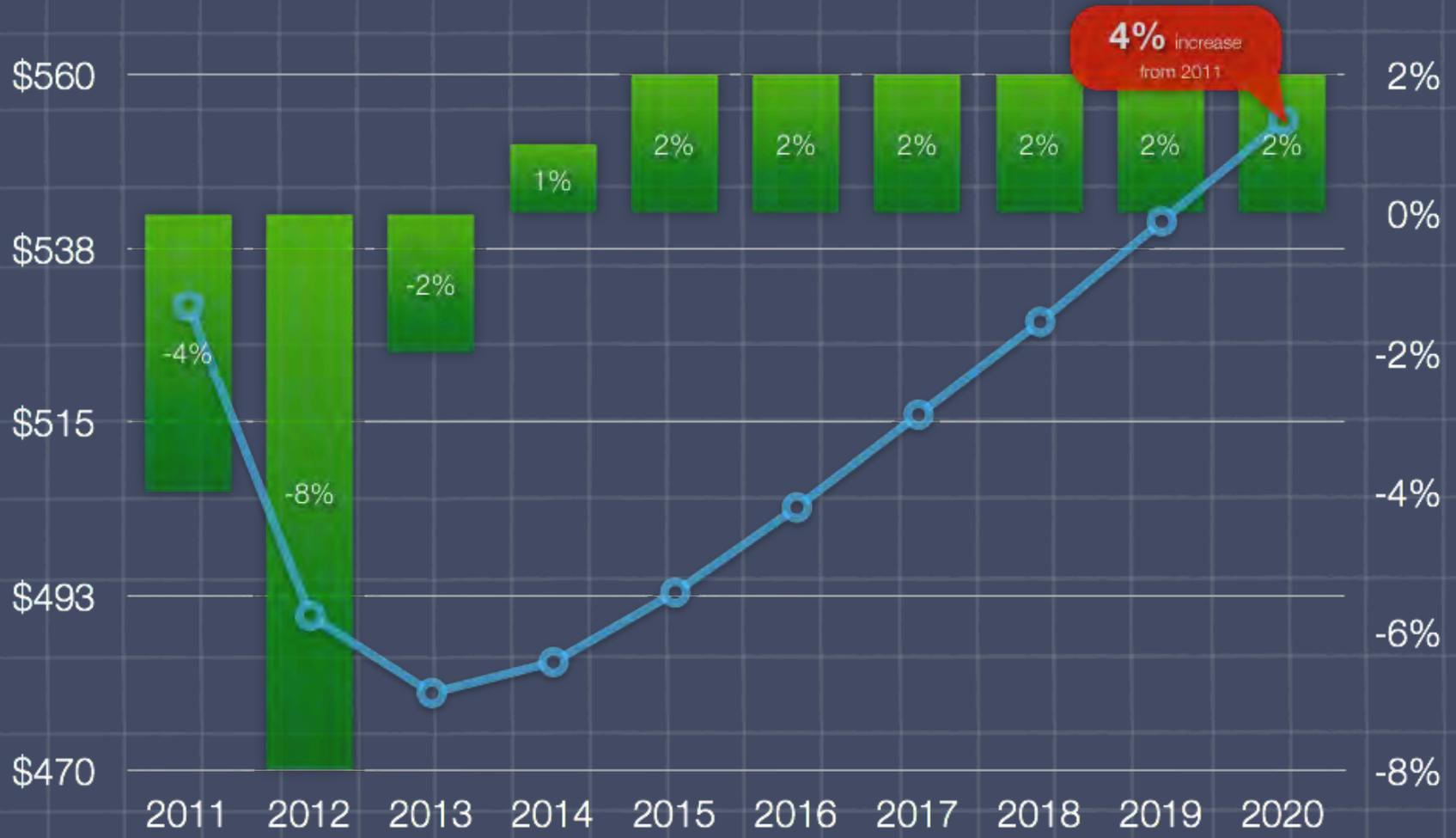




Medicare Spending
(in billions of dollars)



Social Security Spending
(in billions of dollars)



Nonsecurity Discretionary Spending
(in billions of dollars)

So where to now?

- 🌐 What is our responsibility as citizens?
- 🌐 What is our responsibility as community leaders?
- 🌐 What is our role in managing public money?

One lesson learned during this fiscal crisis is the danger of too much debt.

In 1960 personal debt equaled 55% of income.

In 2007 personal debt equaled 133% of income.

Thank you.

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