

Economic Insights – Current Conditions & Outlook

Amid National Headwinds, Utah's
Fundamentals (Still) Remain Strong

March 15, 2023

American Insurance Design Conference

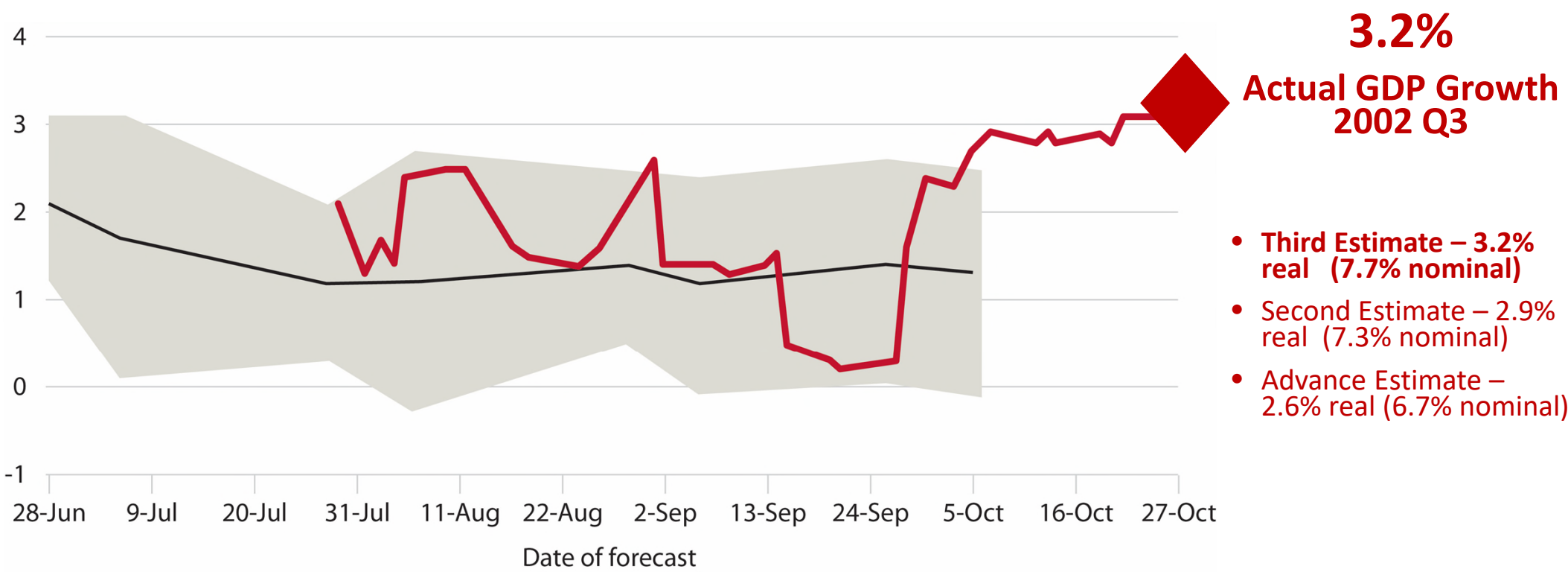


DAVID ECCLES SCHOOL OF BUSINESS

“May You Live in Interesting Times”

1. **Utah’s strong economic fundamentals** help us through the business cycle
2. **Under-appreciated economic strengths** provide economic buffers, while **increased interest rates** generate risk
3. **Key Takeaways**
 - **Invest time** to gain economic insights
 - **Proactively scenario plan** for different economic scenarios
 - **Adapt quickly** when conditions change

Blue Chip Forecasts Missed Q3 Growth



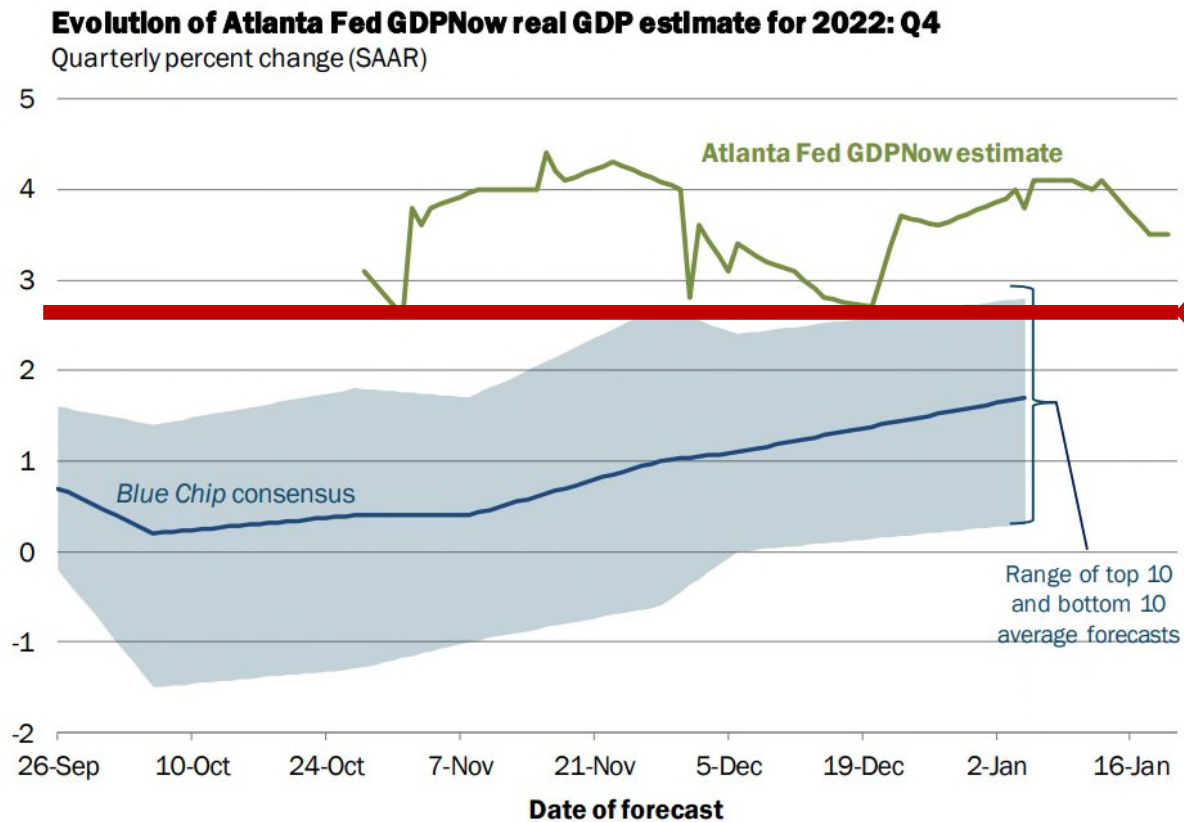
3.2%
Actual GDP Growth
2002 Q3

- **Third Estimate – 3.2% real (7.7% nominal)**
- **Second Estimate – 2.9% real (7.3% nominal)**
- **Advance Estimate – 2.6% real (6.7% nominal)**

Range of top 10 and bottom 10 average forecasts
 Blue Chip consensus
 Atlanta FED GDPNow estimate

Source: Federal Reserve Bank of Atlanta

Blue Chip Forecasts Missed Q4 Growth



2.7%

**Actual GDP Growth
2022 Q4**

- Second Estimate 2.7% real (6.7% nominal)
- Advance Estimate 2.9% real (6.5% nominal)

Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

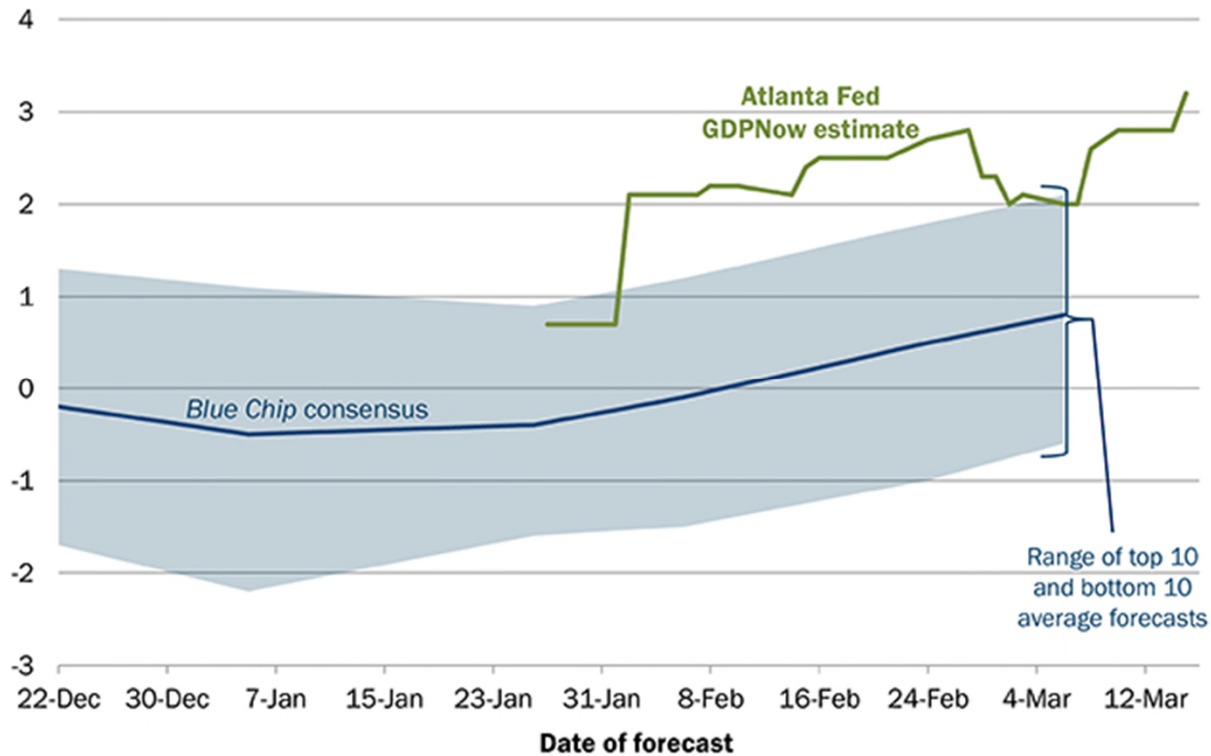
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: Federal Reserve Bank of Atlanta

2023 Q1 Estimate

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q1

Quarterly percent change (SAAR)



3.2%

GDP Now Estimate
2023 Q1

Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: Federal Reserve Bank of Atlanta

A Few Changing US Forecast Tunes Recently....

FINANCE · STOCK MARKET

Goldman Sachs thinks the economy will actually pull off a soft landing—but adds the S&P will stay flat for a whole year

What is a 'no landing' scenario? The latest buzzword that's 'all about inflation'

JPMorgan Chase CEO Jamie Dimon sticks to hiring plans and dials back prediction of economic 'hurricane'

Published: Jan. 10, 2023 at 11:09 a.m. ET

By Steve Gelsi

Dimon says more dealmaking on Wall Street may return this year

Optimism Makes Comeback on Wall Street With Soft Landing Eyed

Kelly says pessimism is creating opportunities

FINANCE · ECONOMY

America might just do the impossible and avoid a recession, according to top economist Mark Zandi

BY WILL DANIEL

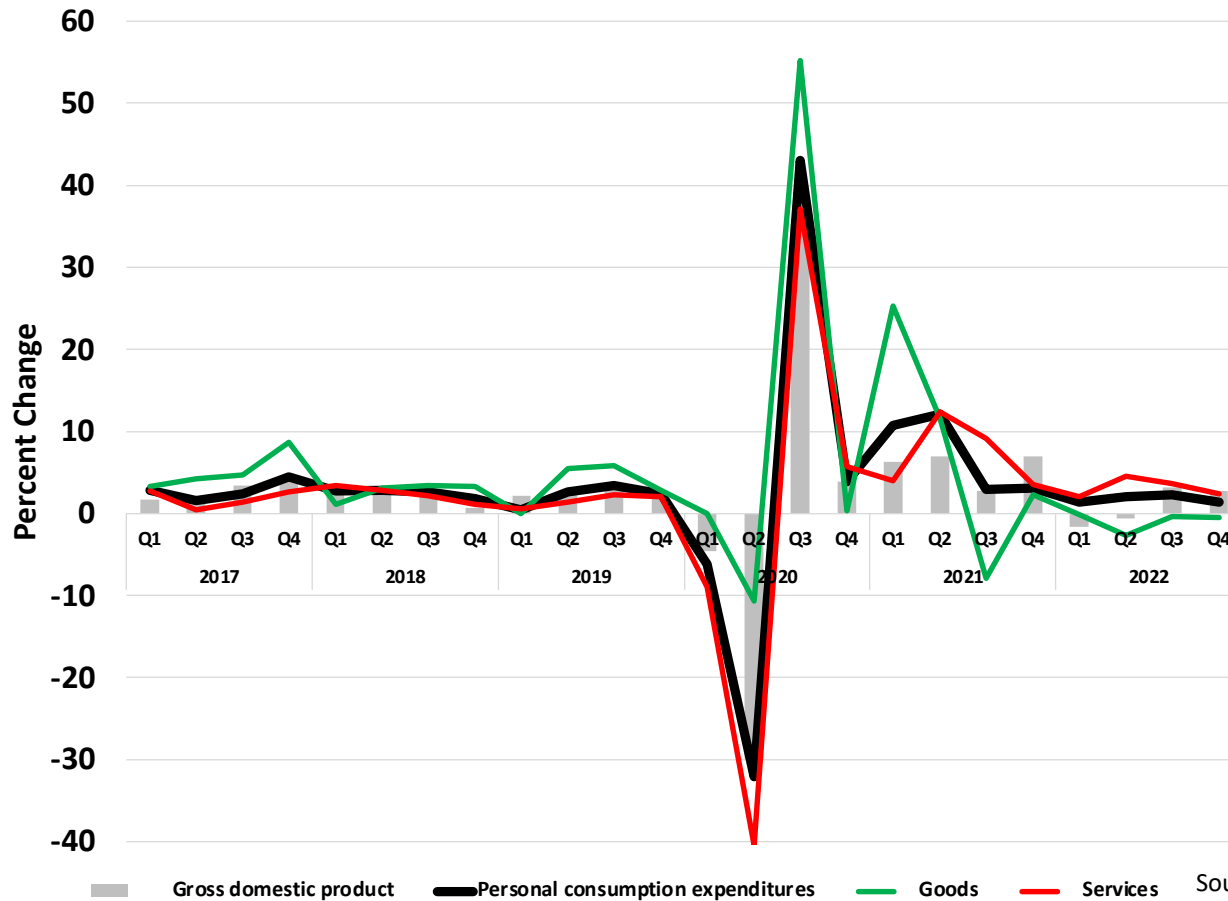
January 9, 2023, 10:43 AM MST

What Do We “Know” About the Economy?

“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”

Mark Twain (attributed)

Due to Services, Total Inflation-Adjusted Household Consumption Increased Every Quarter Since 2020 Q2



Source: U.S. Bureau of Economic Analysis

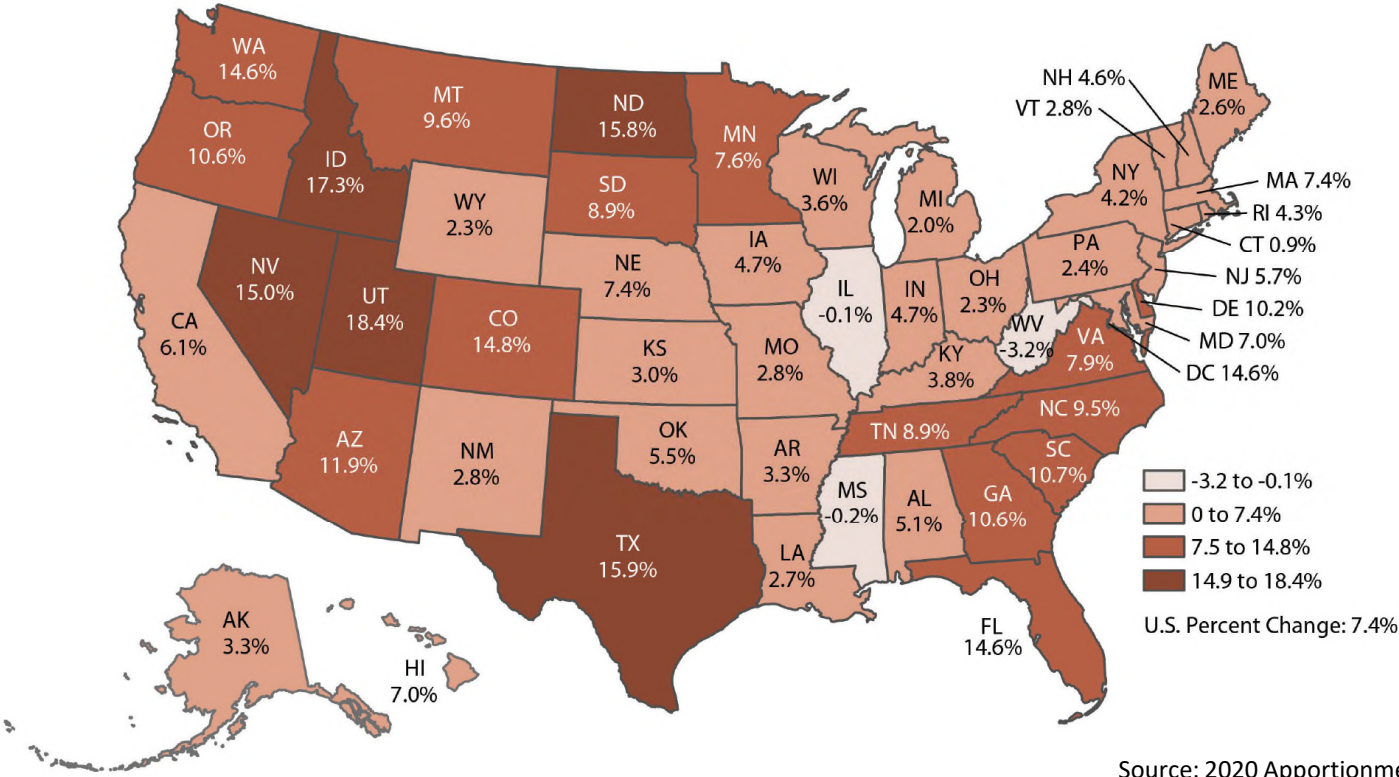
A Three-Handed Utah Economist



Scenario 1 – Continuing Growth

Mountain West and South Population Growth Led the Nation 2010 to 2020

Percent Change, 2010 to 2020 Census



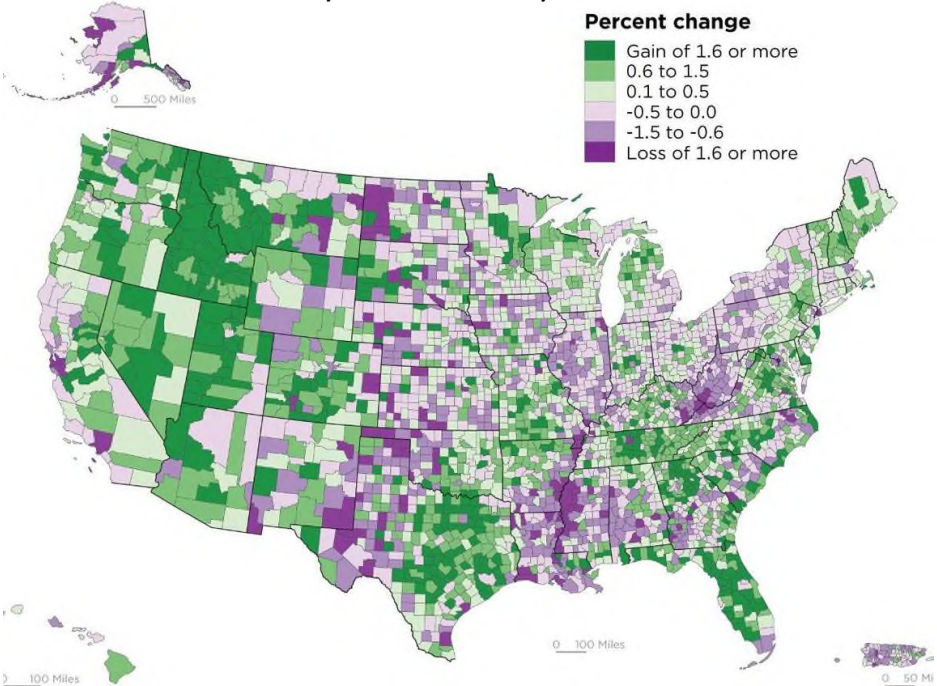
Source: 2020 Apportionment Data, U.S. Census Bureau

Mountain West and South Population Growth Continue to Lead the Nation

Percent Change, 2021 and 2022

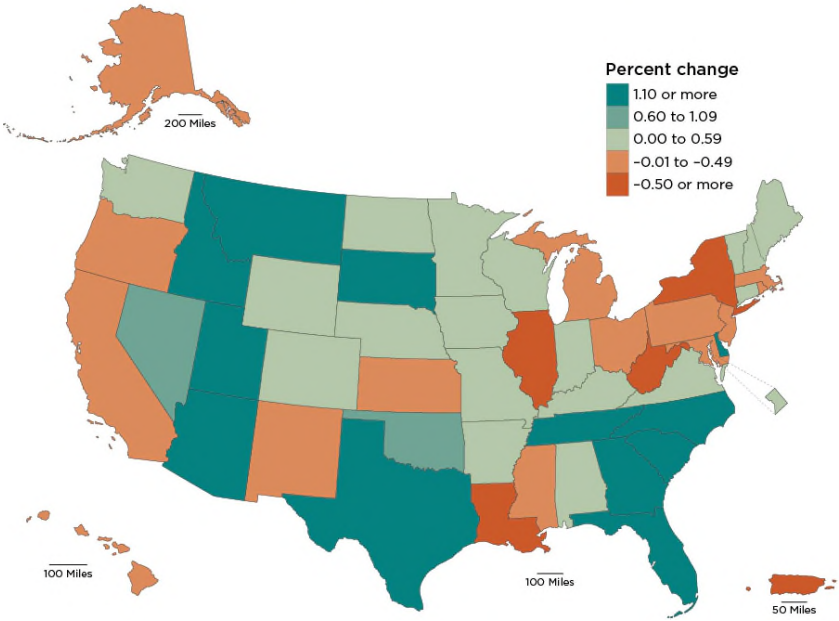
Percent Change in County Population:

July 1, 2021 to July 1, 2022



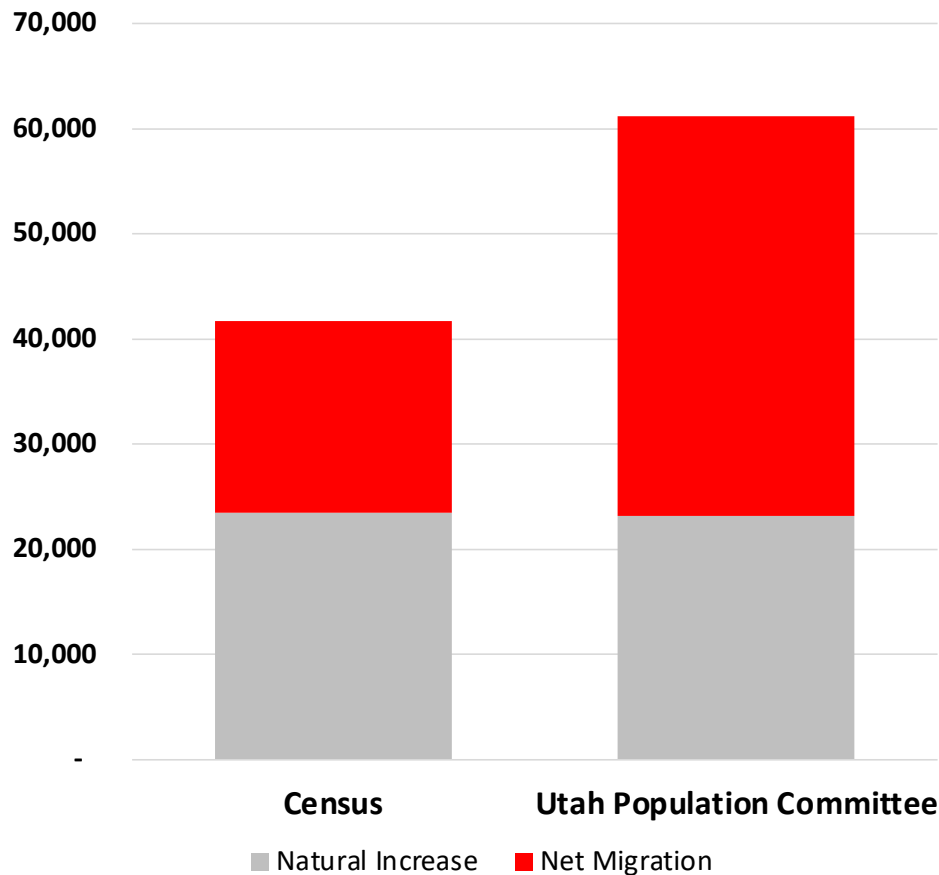
Percent Change in State Population:

July 1, 2021 to July 1, 2022



Source: U.S. Census Bureau

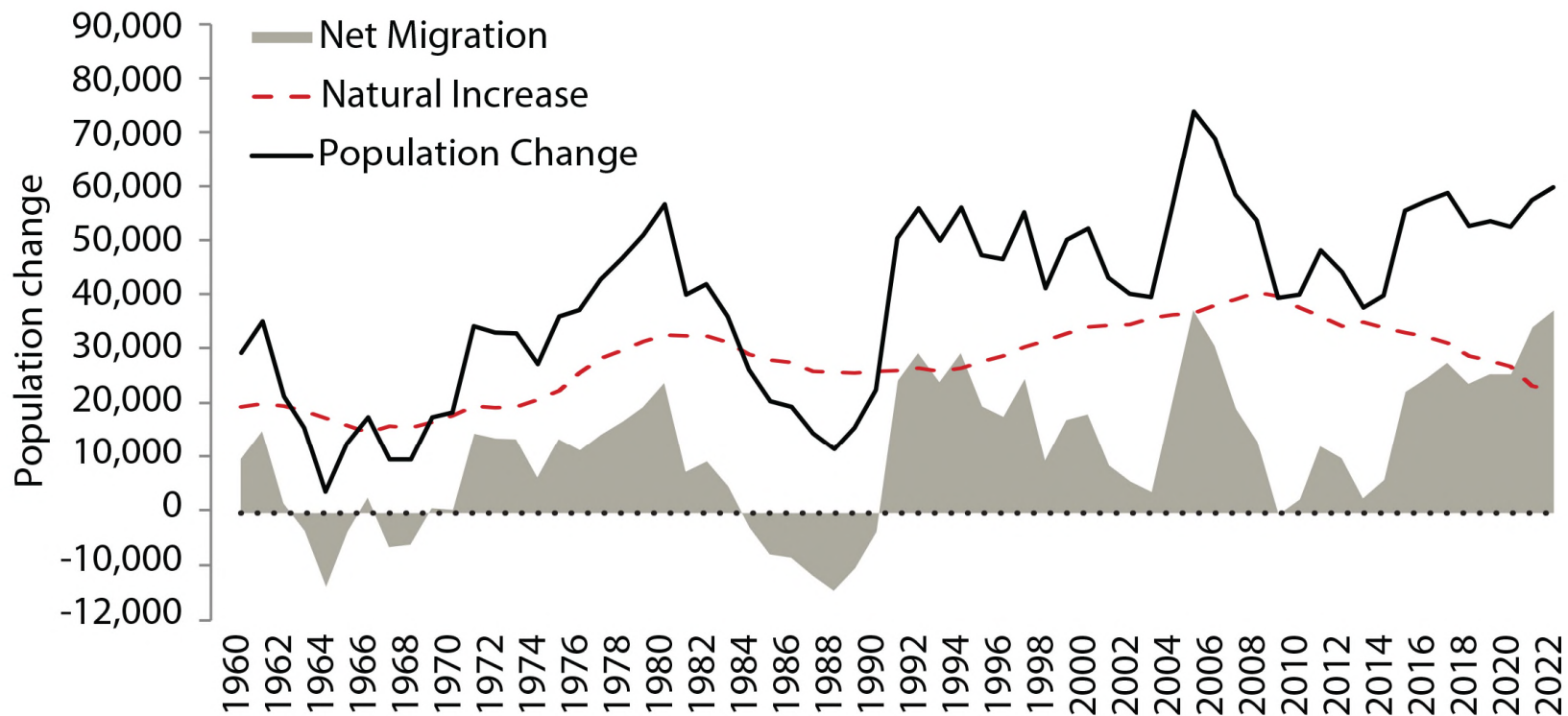
How Much Did Utah's Population Grow in 2022?



- Lowest natural increase since 1975
- Census Bureau net in-migration estimates for Utah (18K) less than half of Utah Population Committee (38K) estimates
- Early BEA population estimates similar to Utah Population Committee estimates, although may be revised going forward to conform to Census

More Utah Growth From In-Migration

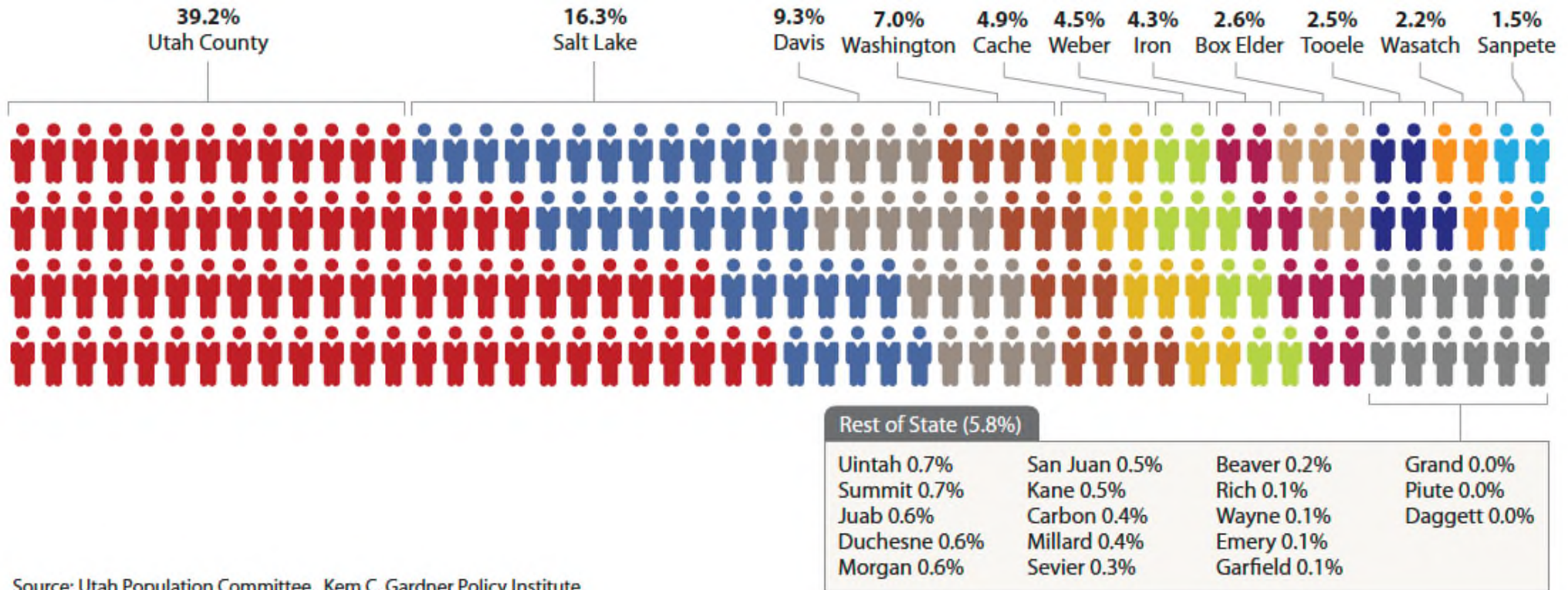
Utah Components of Population Change, 1960–2022



Source: Kem C. Gardner Policy Institute

Where is Utah's Population Growth Occurring?

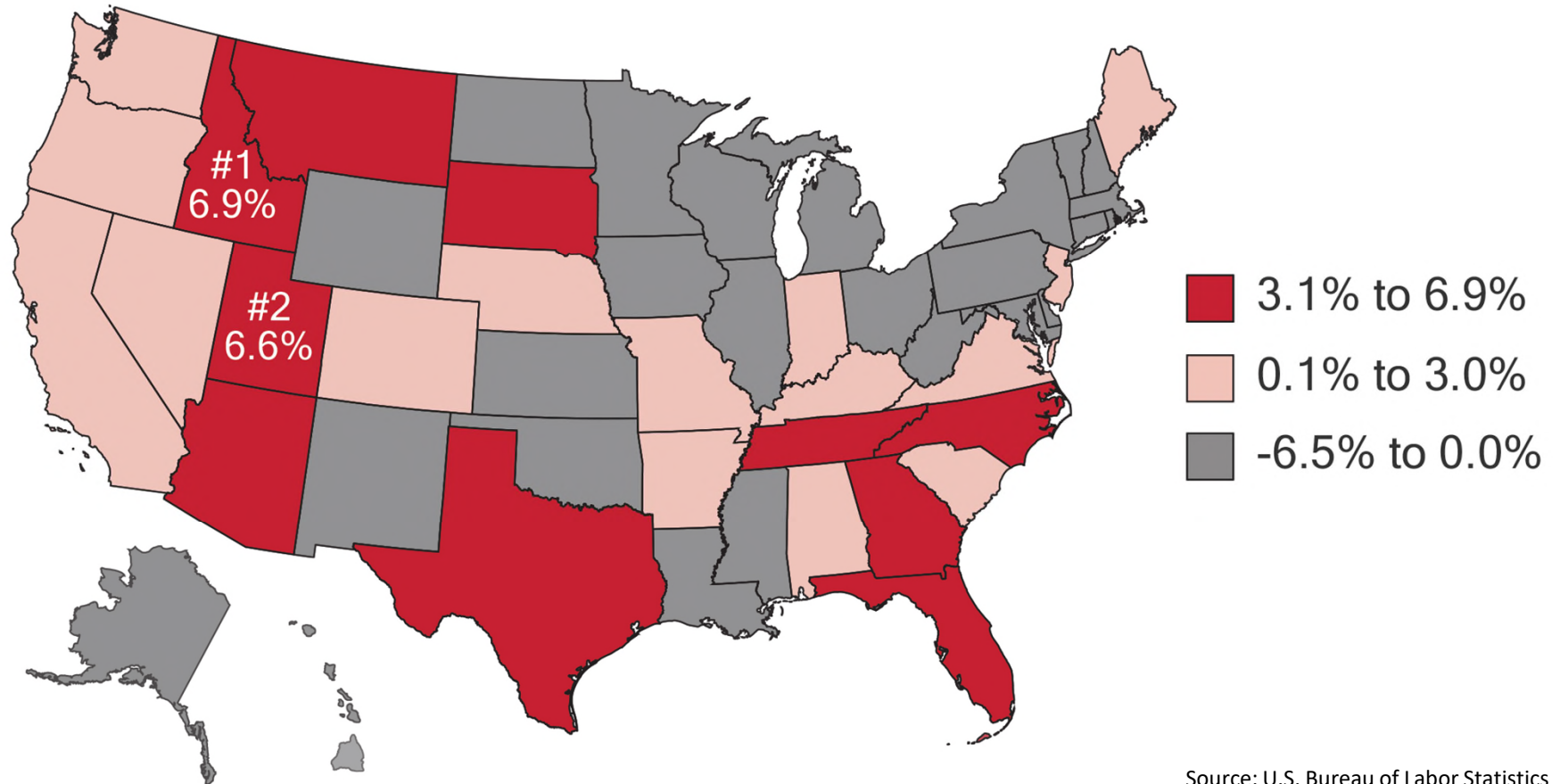
Share of Utah Population Growth by County, 2022



Source: Utah Population Committee, Kem C. Gardner Policy Institute

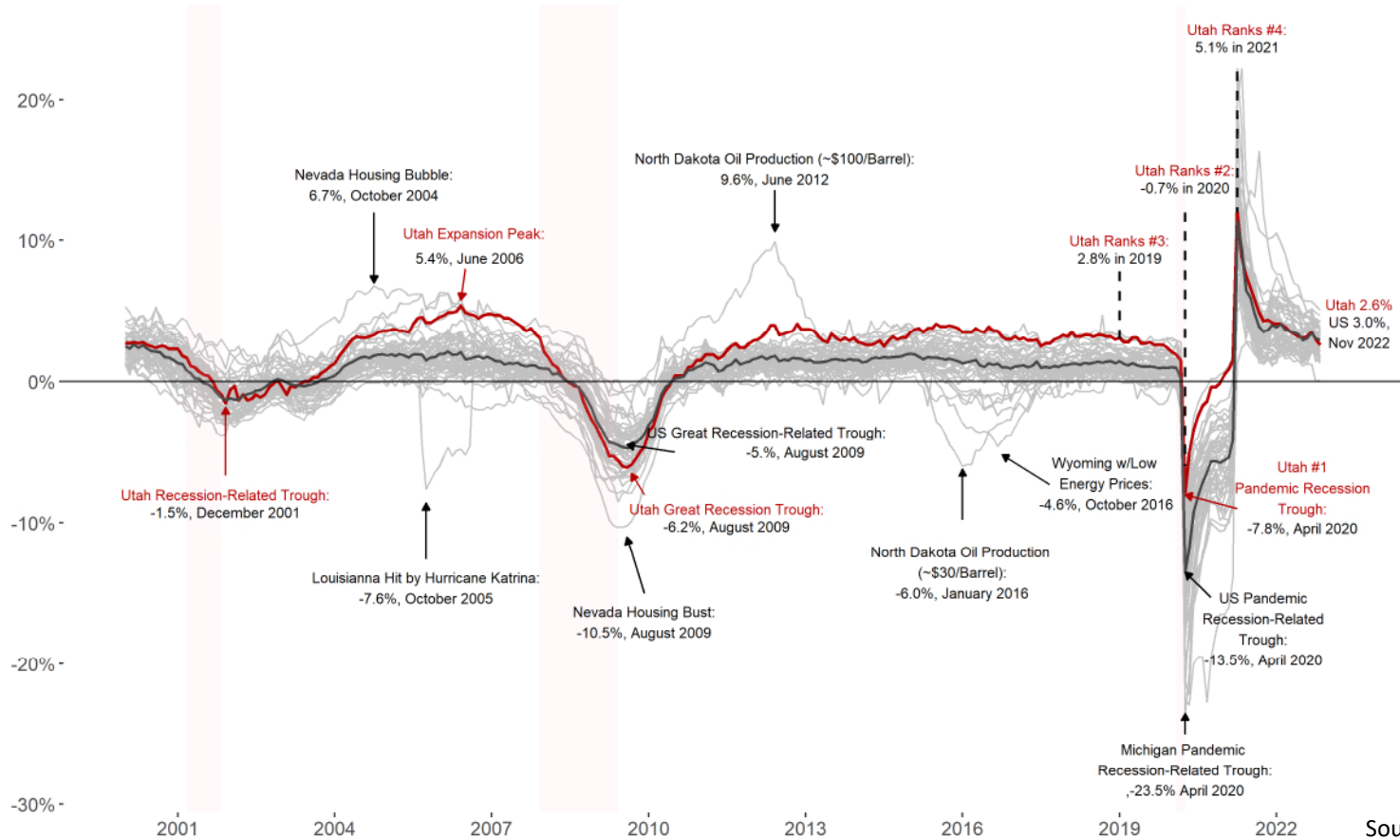
Lands of Job Opportunities = Mountain West & South

State Pandemic Jobs Recovery through Nov 2022



Source: U.S. Bureau of Labor Statistics

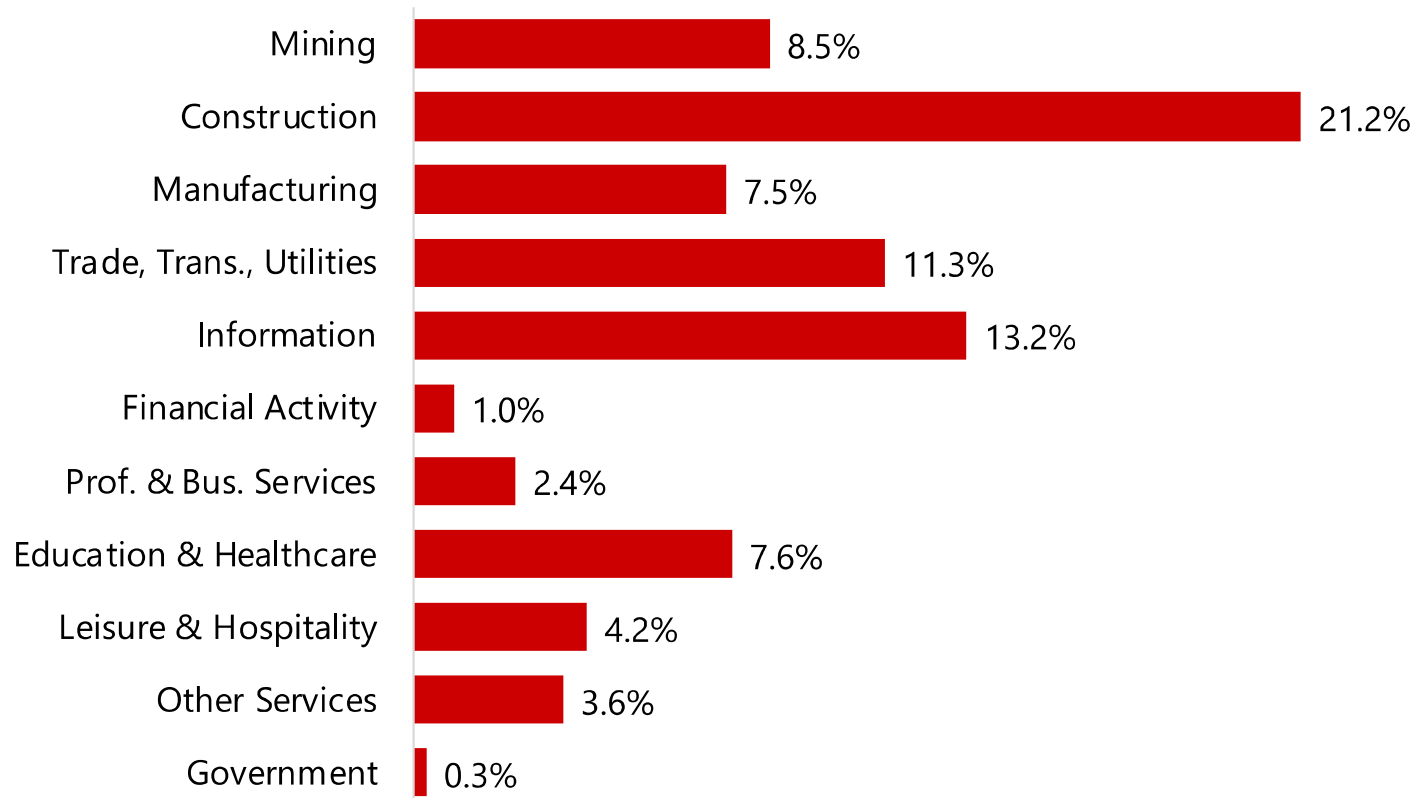
Strength Signal: Utah's Strong Long-Term Job Growth Rate



Source: Utah Governor's Office of Planning and Budget

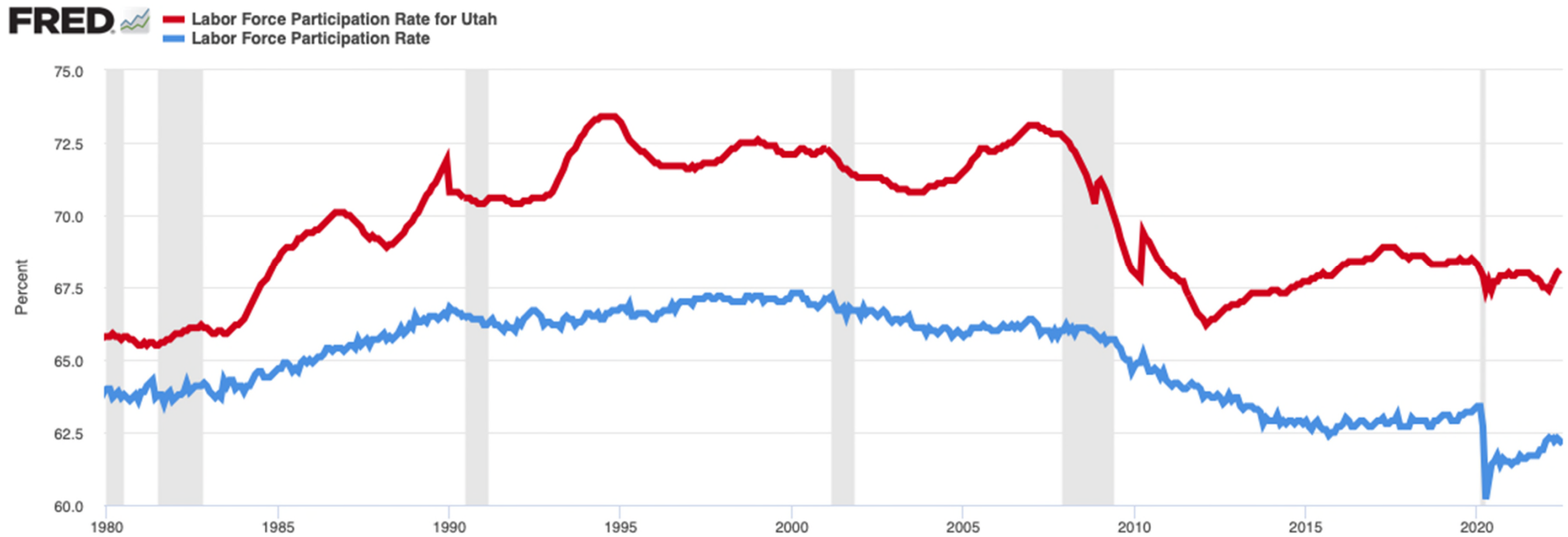
- **Utah job growth consistently among highest state growth since Great Recession through pandemic**
- **Utah's early pandemic recovery obscures recent comparisons**

Strength Signal: Broad-Based Utah Industry Growth Since Pandemic



Source: Utah Department of Workforce Services

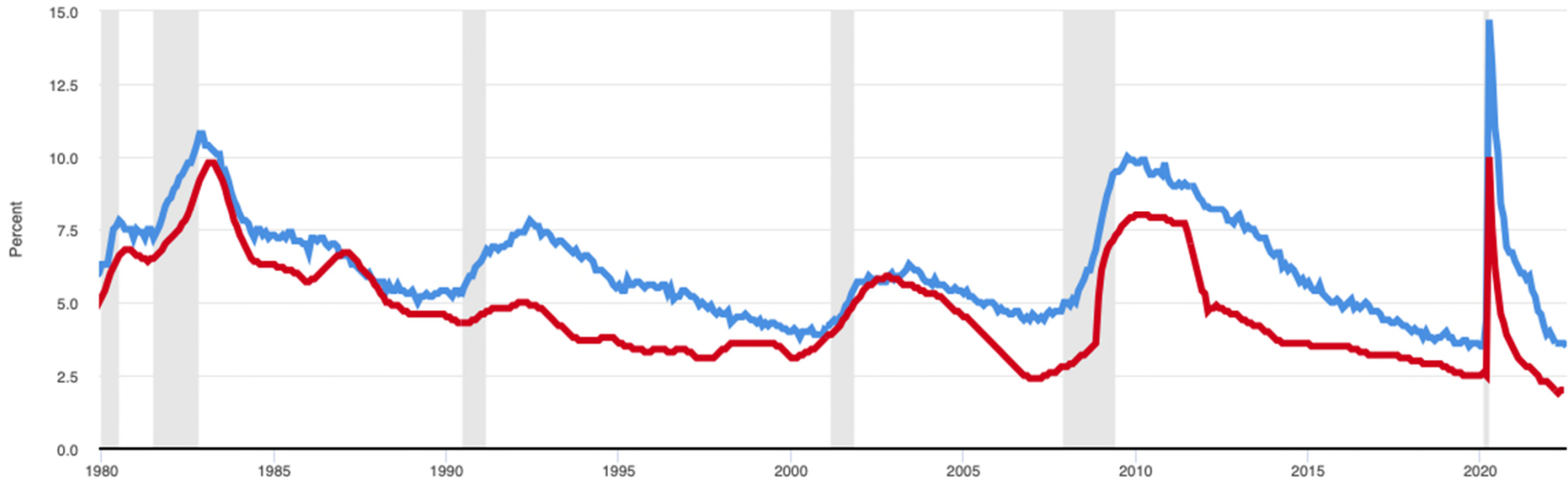
Strength Signal: Higher Utah Labor Force Participation



Source: U.S. Bureau of Labor Statistics

Mixed Signal: Labor Markets (Too) Tight

FRED  — Unemployment Rate
— Unemployment Rate in Utah

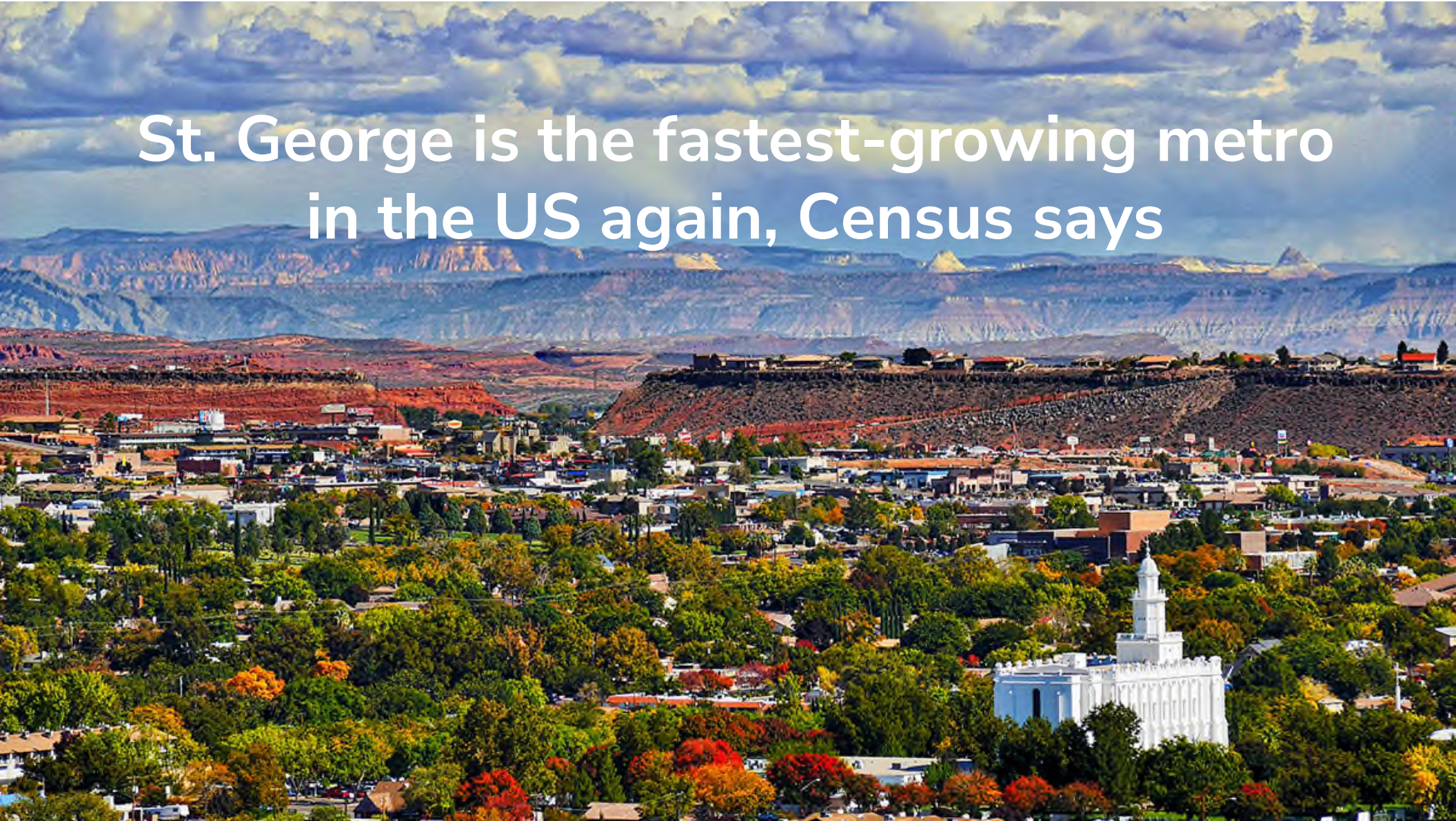


Source: U.S. Bureau of Labor Statistics

Where Did All the Workers Go?



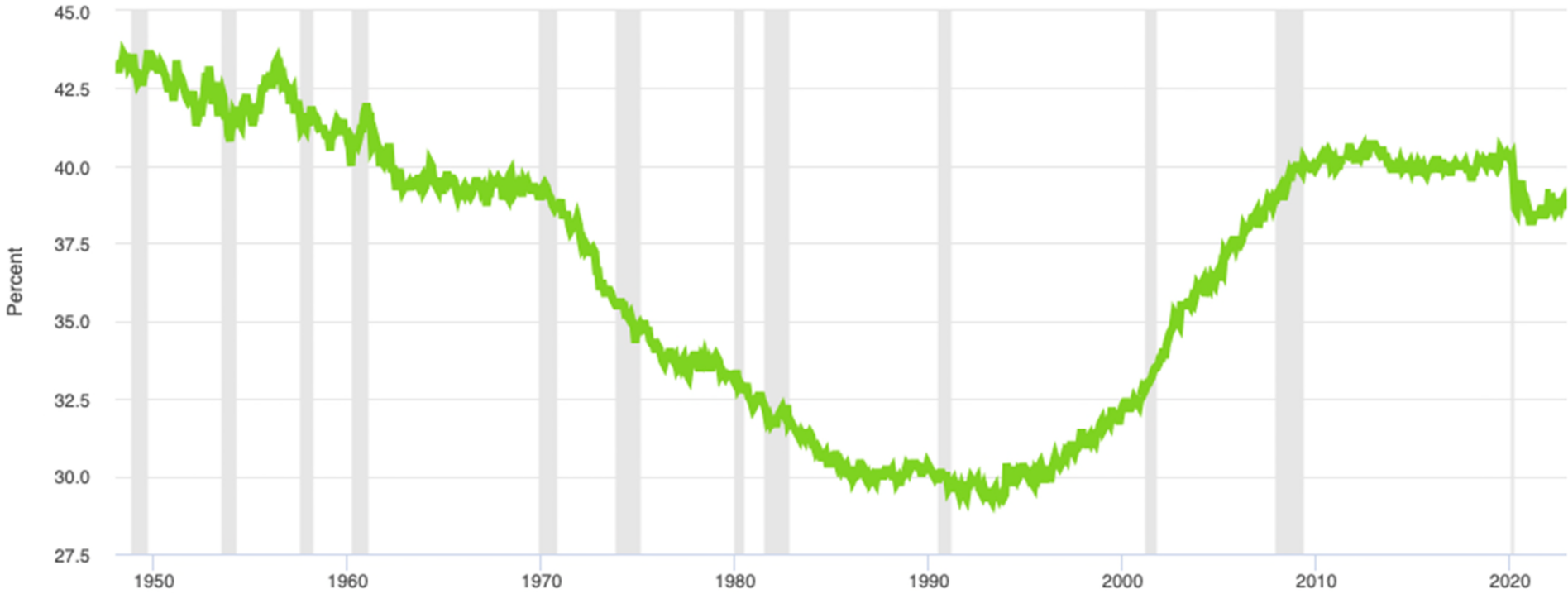
**St. George is the fastest-growing metro
in the US again, Census says**



Baby Boomer Retirements Heavily Influence U.S. Labor Availability

FRED

Labor Force Participation Rate - 55 Yrs. & over

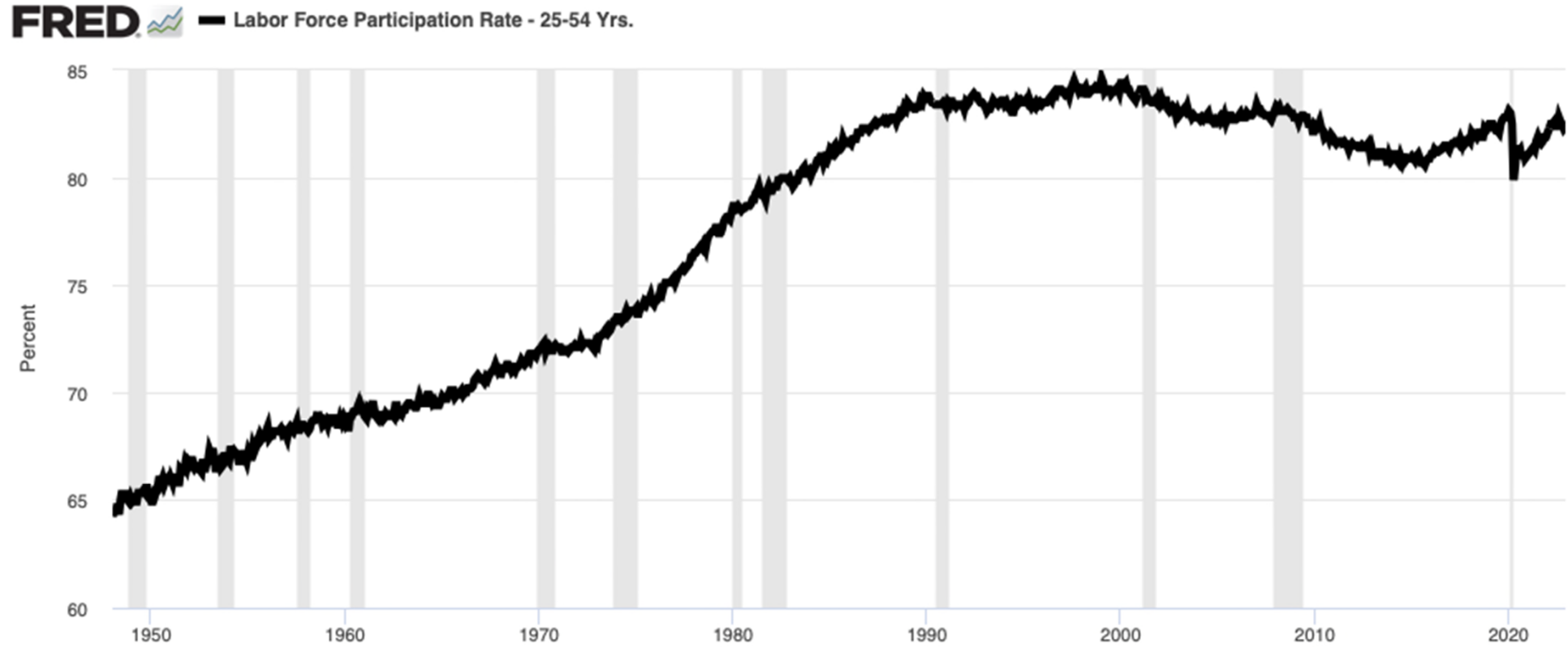


Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

U.S. Prime-Age Workers Largely Back



Shaded areas indicate U.S. recessions.

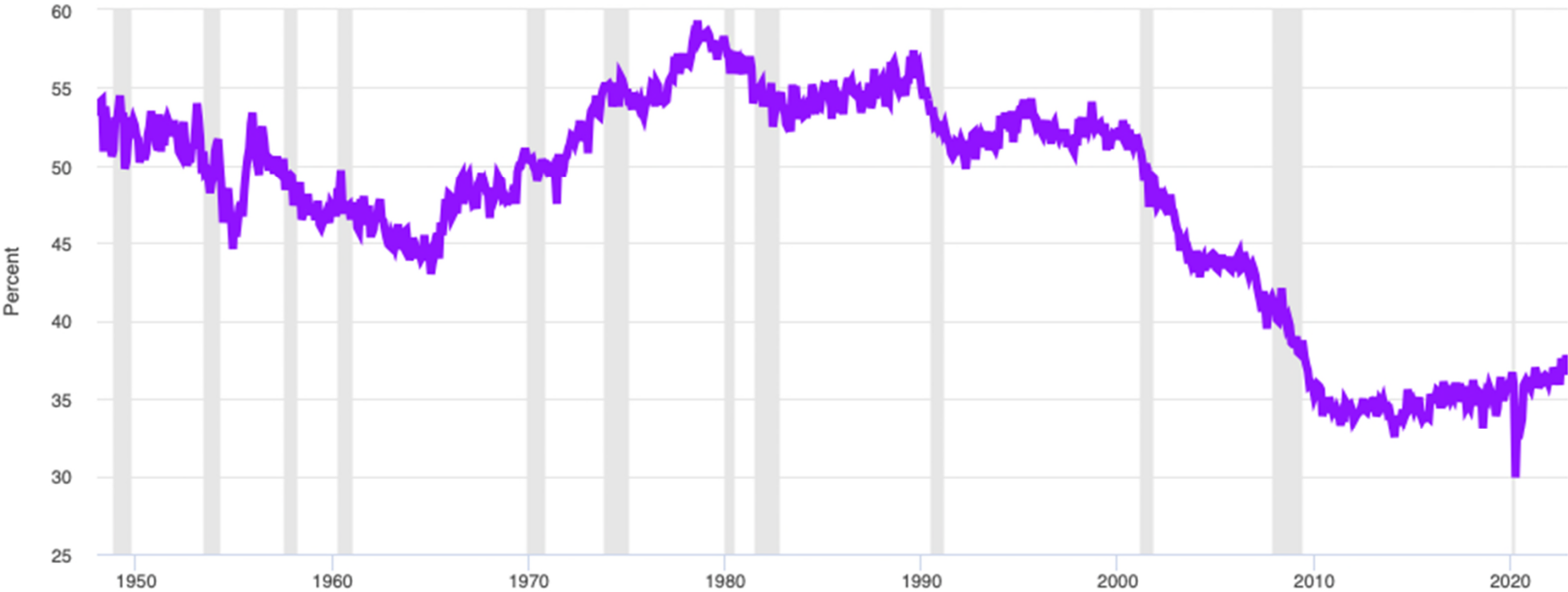
Source: U.S. Bureau of Labor Statistics

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U.S. Teenagers More Than Back



Labor Force Participation Rate - 16-19 Yrs.



Shaded areas indicate U.S. recessions.

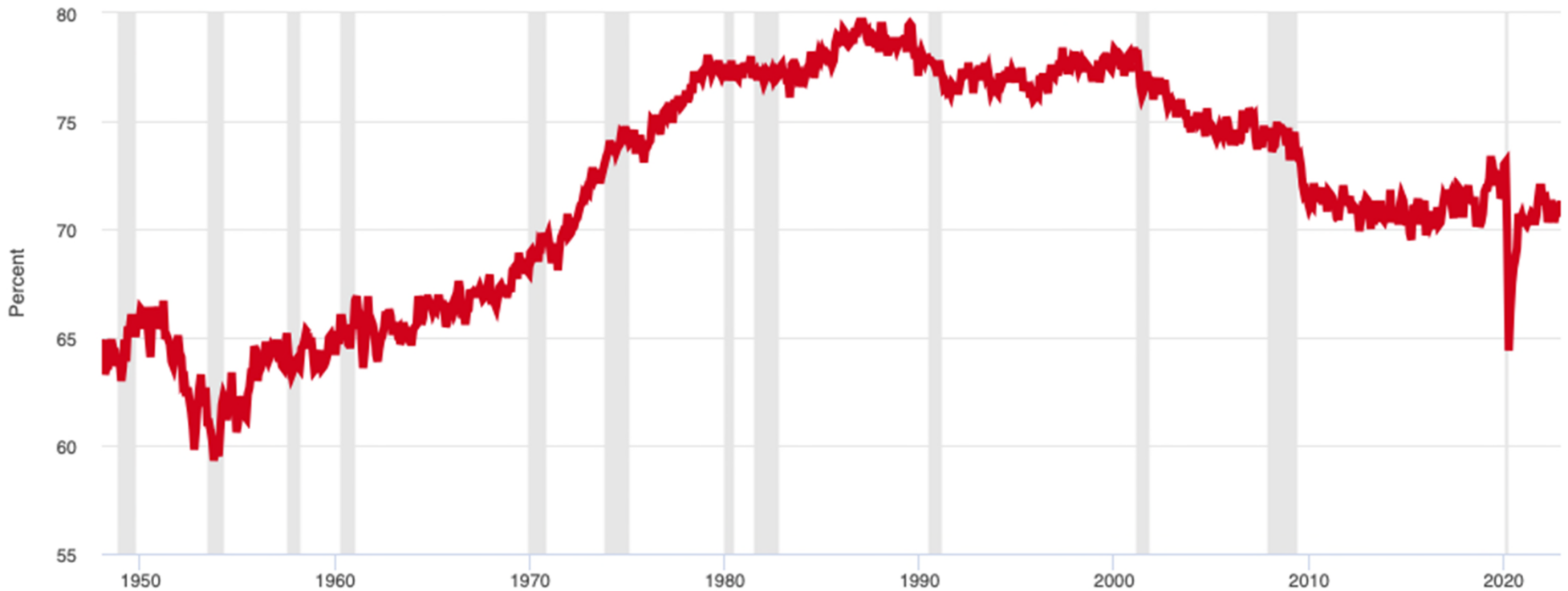
Source: U.S. Bureau of Labor Statistics

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U.S. College-Age Population = Opportunity to Attract Labor

FRED 

— Labor Force Participation Rate - 20-24 Yrs.

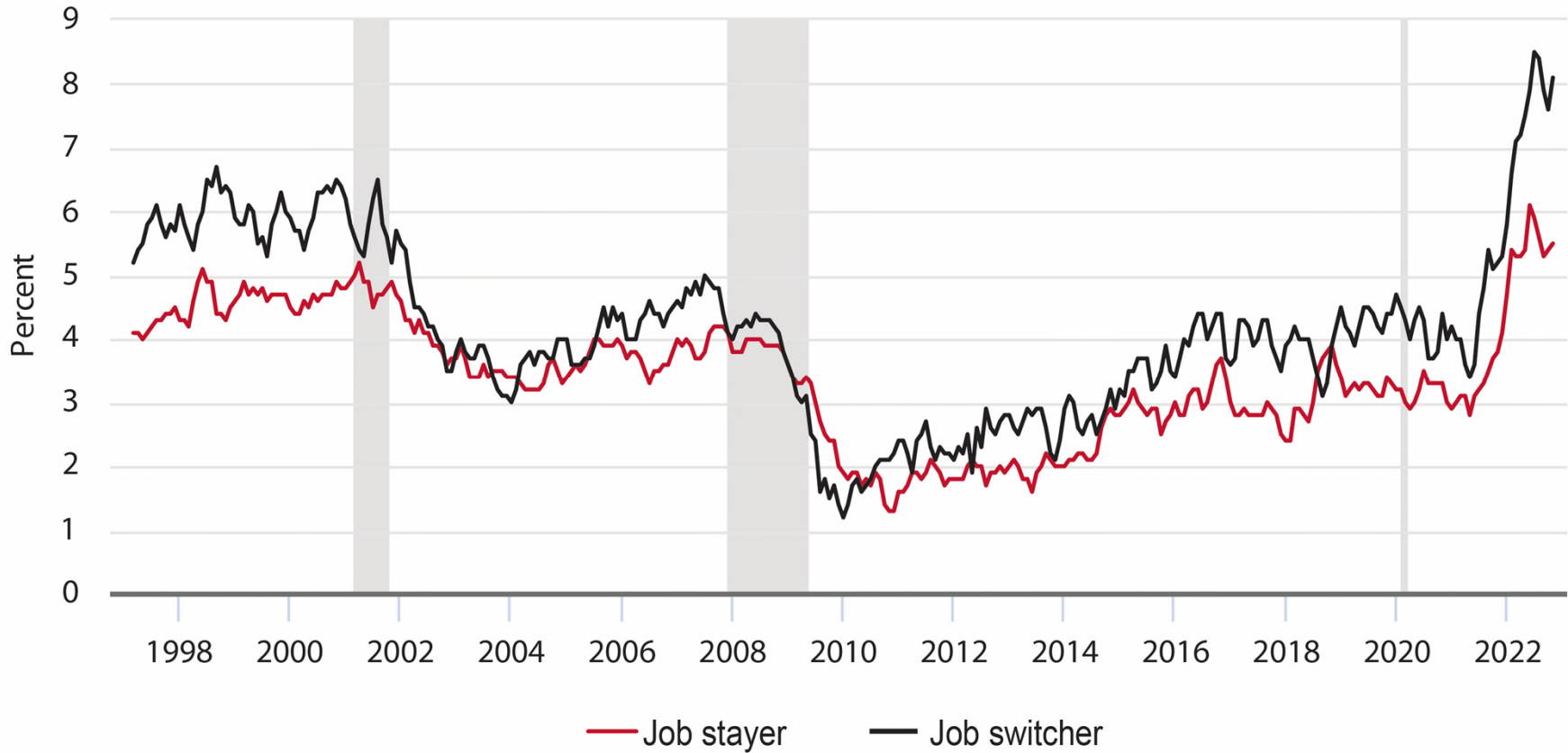


Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

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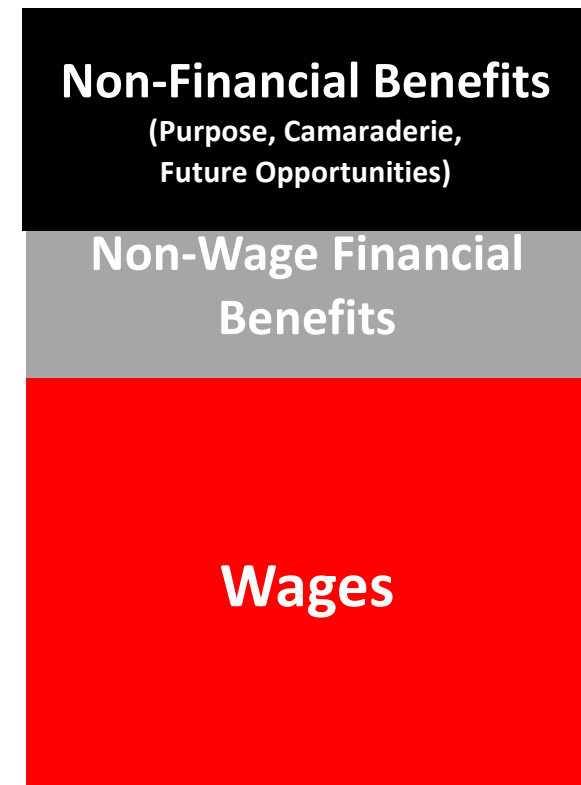
Mixed Signal: With Tight Labor Markets, Nominal Wages Increasing...



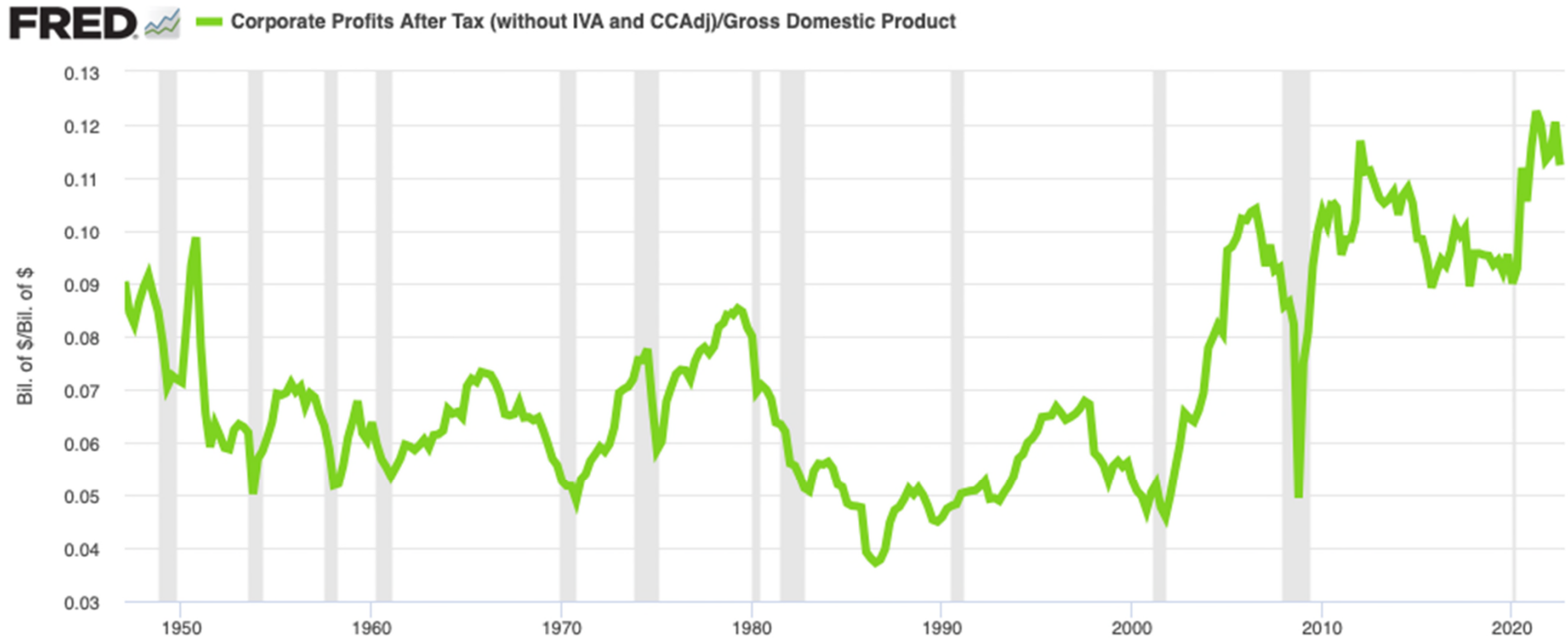
Source: Federal Reserve Bank of Atlanta from U.S. Bureau of Labor Statistics

What Incentives Employees to Work?

- **The days of always having cheap, readily available labor are over in Utah – adapt your systems to this new reality**
- Governments also struggling to attract employees
- If needed, change your business model to strategically plan to attract and retain employees using:
 - Wages
 - Other Financial Benefits
 - Non-Financial Benefits



Corporate Profits as % of GDP (Still) Near All-Time Highs

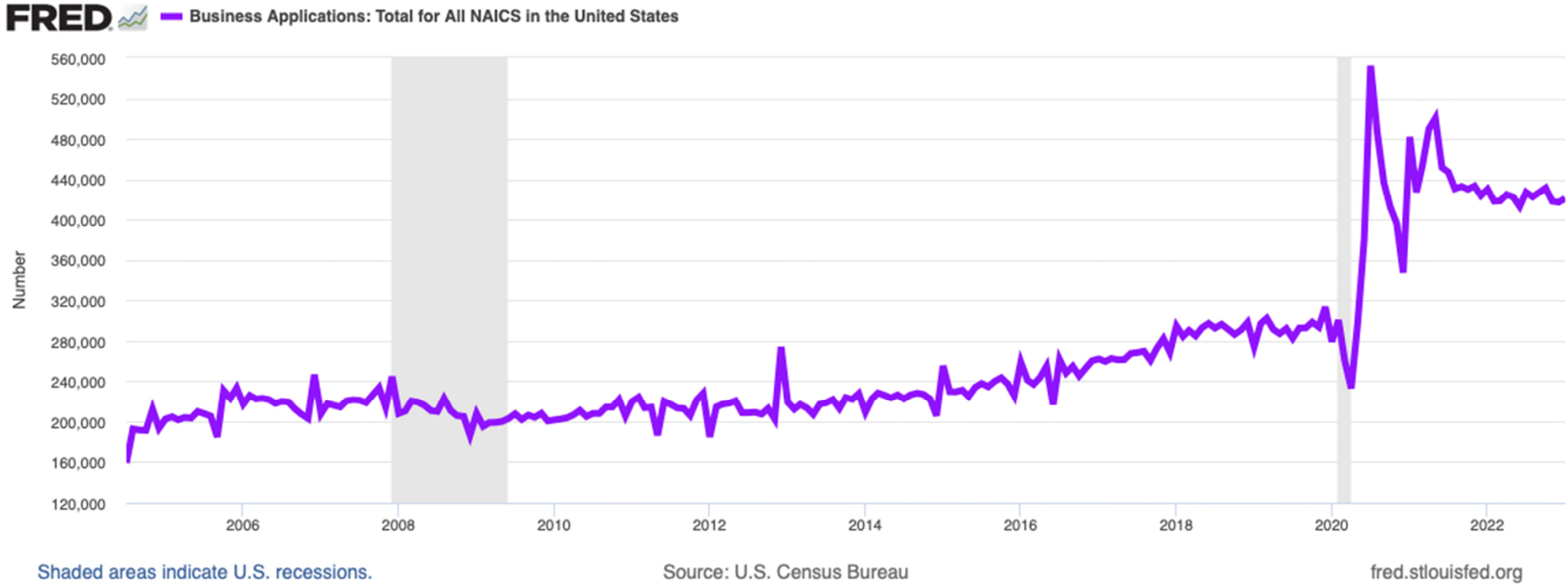


Shaded areas indicate U.S. recessions.

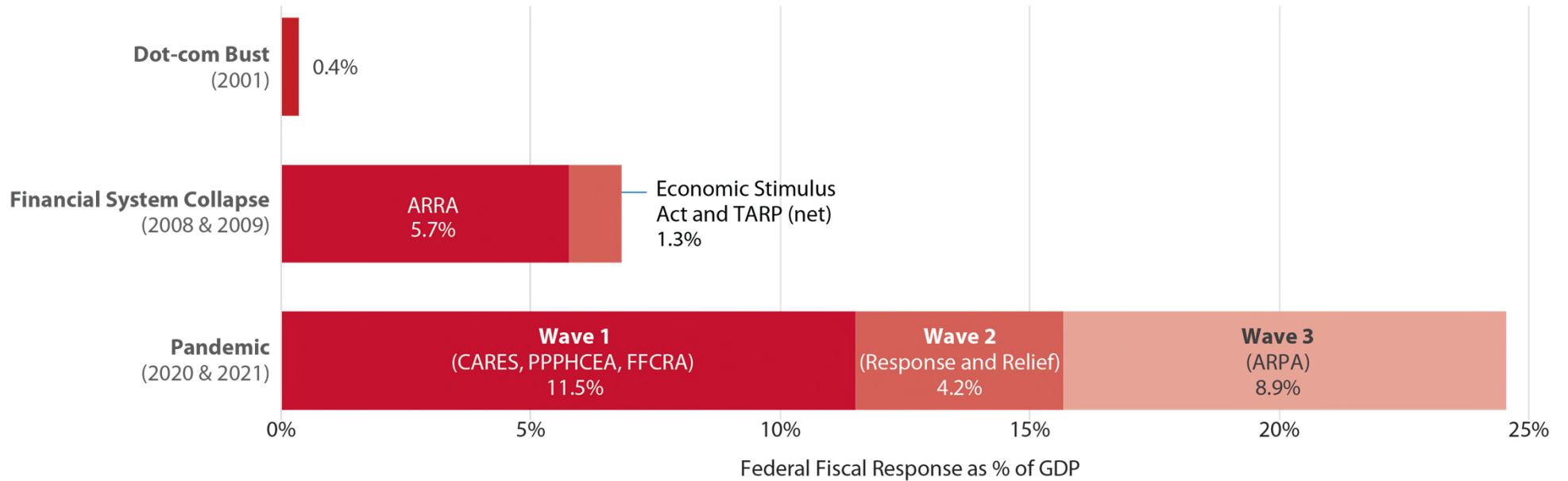
Source: U.S. Bureau of Economic Analysis

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U.S. New Business Formation Remains Elevated

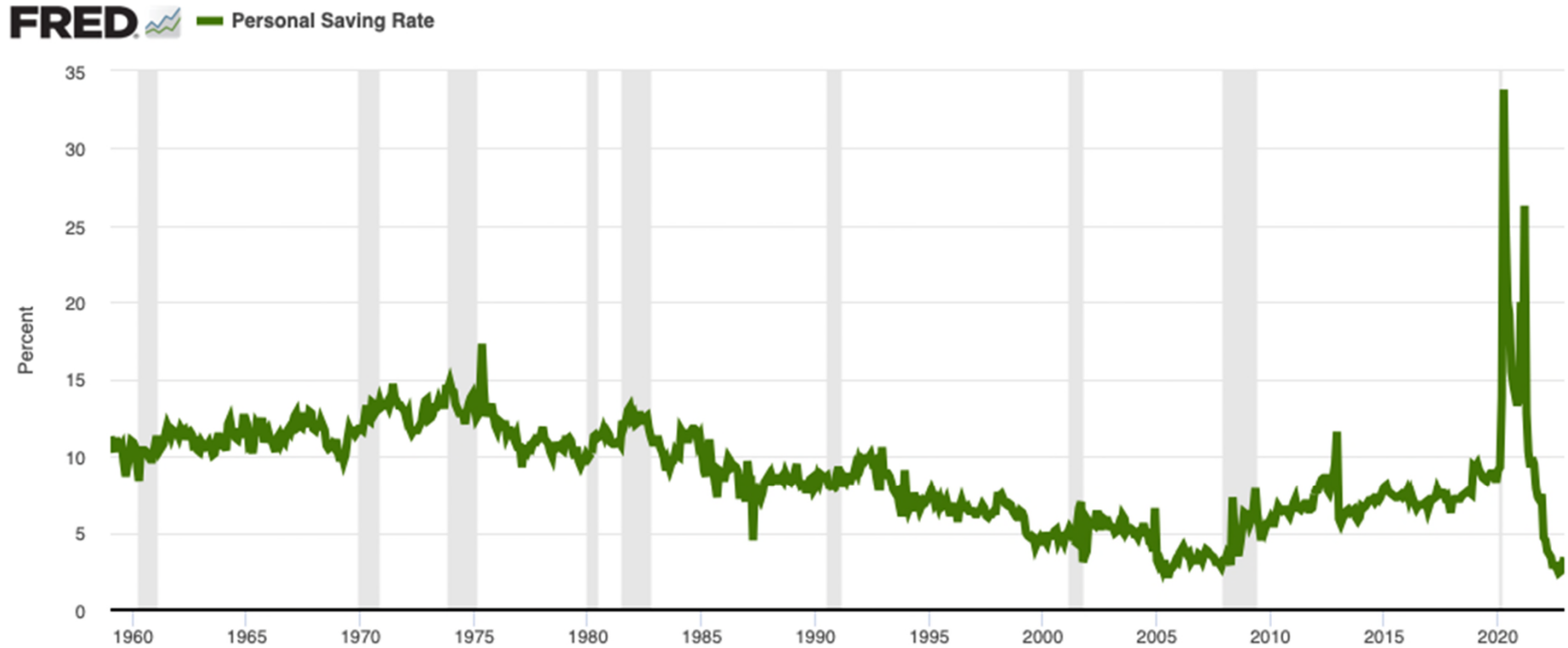


“Unprecedented” Federal Fiscal Stimulus During Pandemic



Source: Congressional Budget Office and U.S. Bureau of Economic Analysis

Personal Saving Spiked During the Pandemic



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

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Source: U.S. Bureau of Economic Analysis

Strength Signal: Household Reserves High through 2022Q4



Shaded areas indicate U.S. recessions Source: Board of Governors of the Federal Reserve System (US)

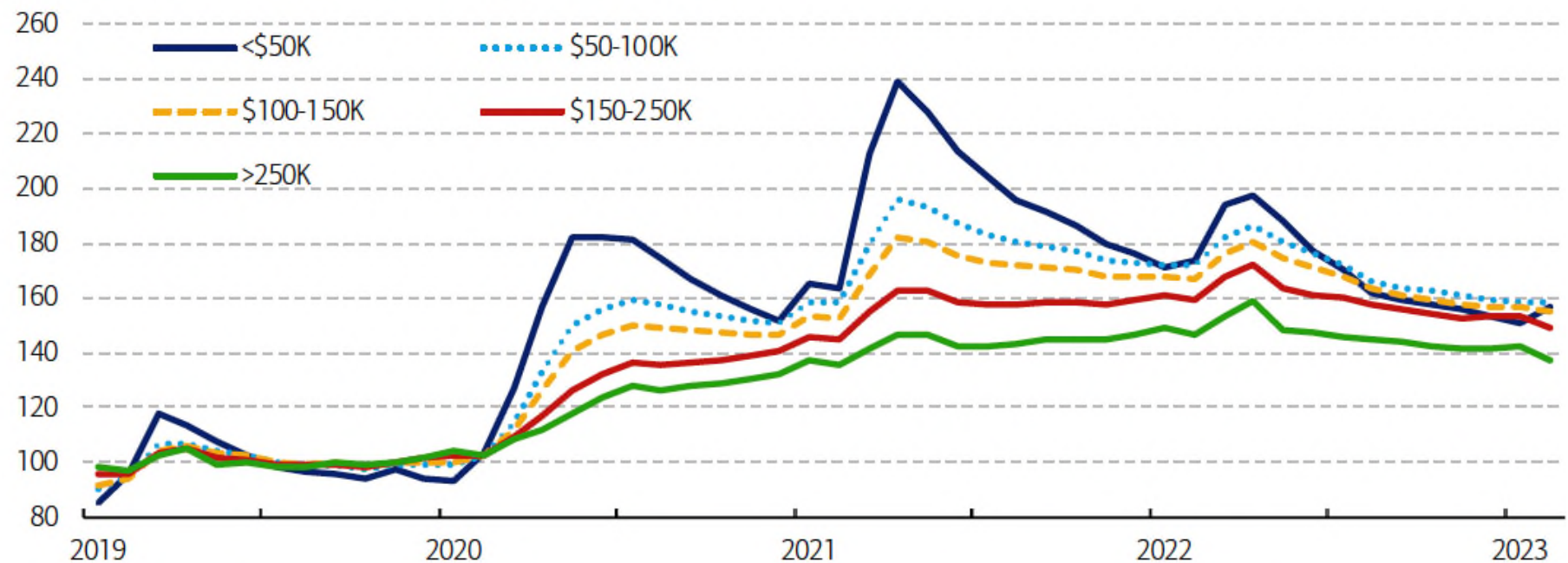
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Source: Board of Governors of the Federal Reserve System

How Long Can High Consumer Spending Last?

Exhibit 4: Monthly median household savings and checking balances by income (2019=100) for a fixed group of households

Deposits remain well above pre-pandemic levels across income cohorts



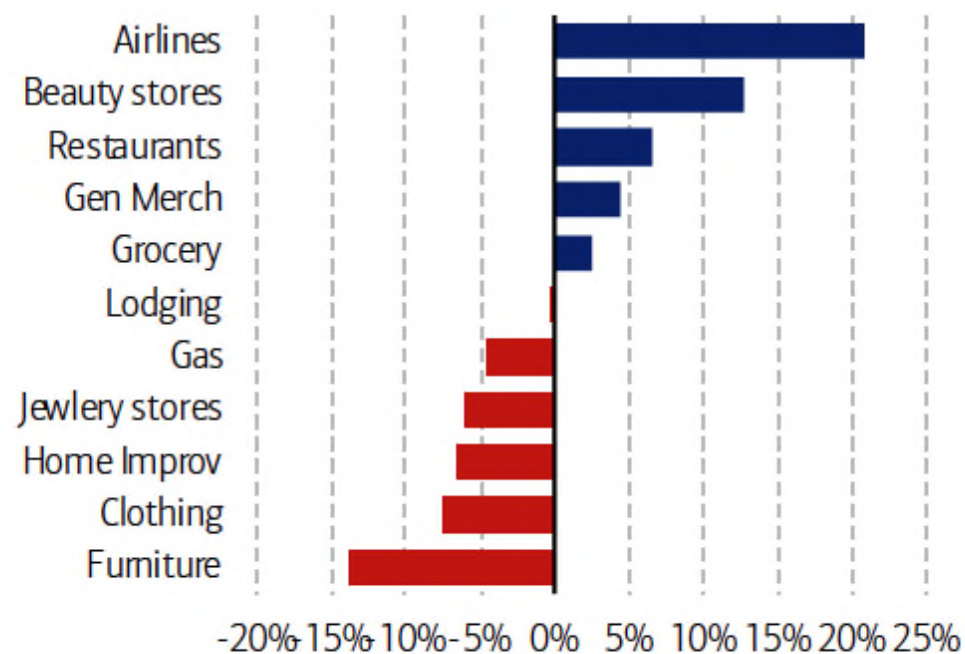
Source: Bank of America internal data. Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through February 2023.

Source: Bank of America

What Are Consumers Spending On?

Exhibit 3: Total credit and debit card spending per household on select sectors (%YoY, SA, for February 2023)

Home related categories saw the biggest contraction on a YoY basis in February

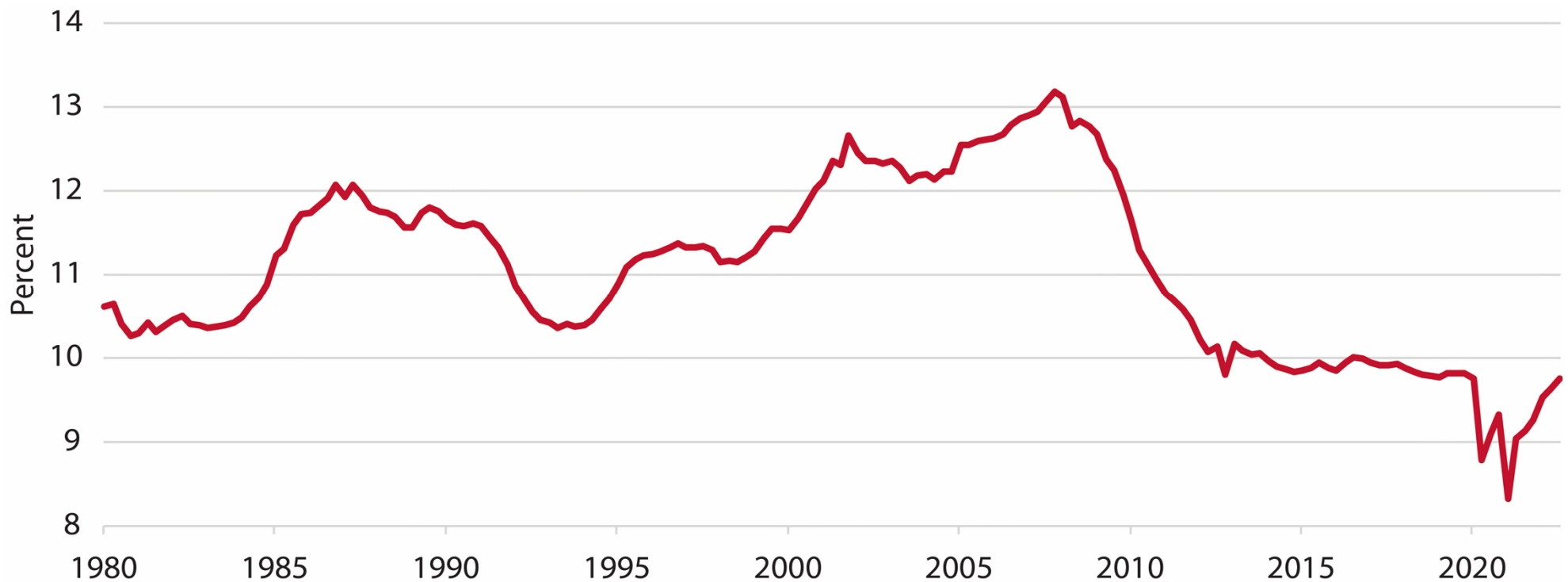


Source: Bank of America internal data

Source: Bank of America

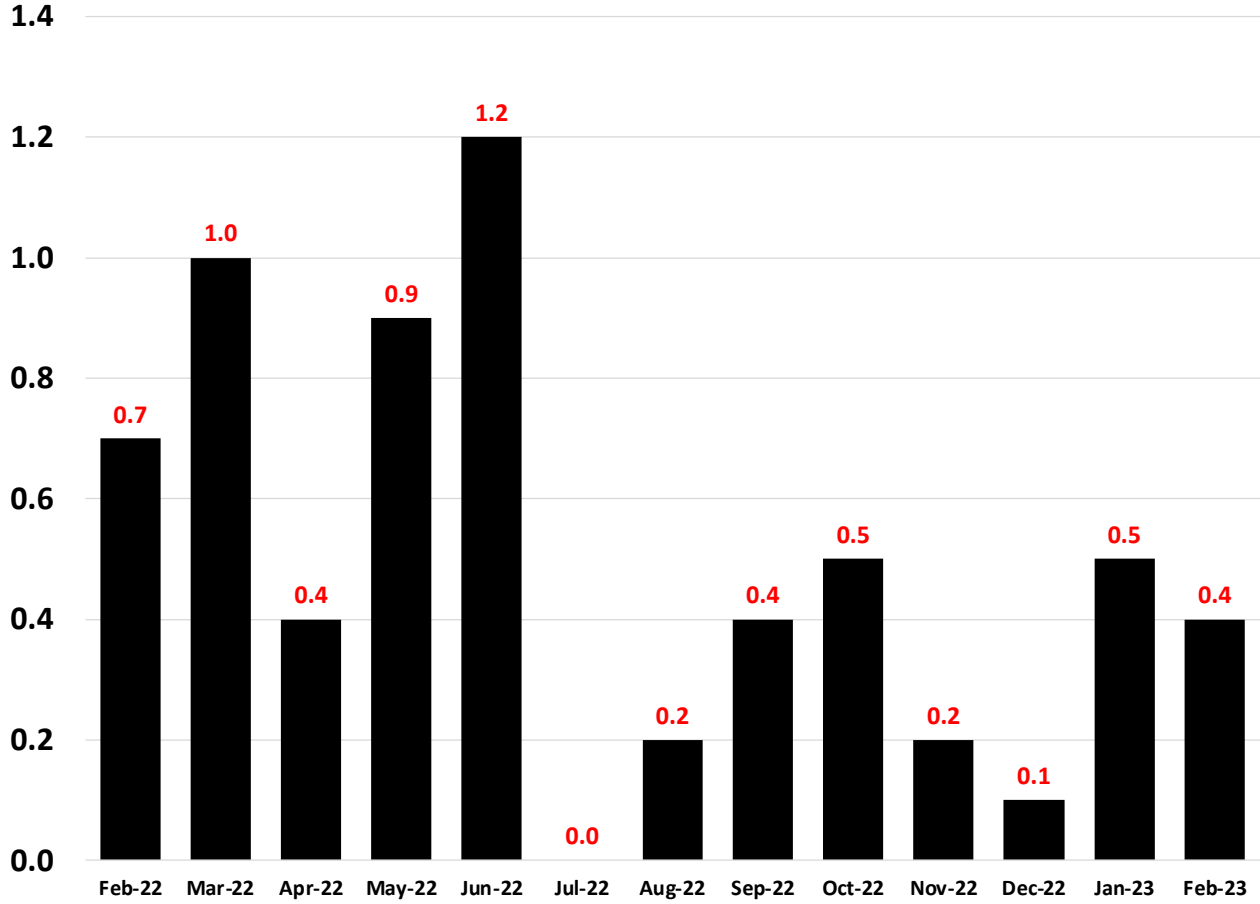
Mixed Signal: Low Monthly Debt Service Payments

Household Debt Service Payments as % of Disposable Income, 1980 - 2022



Source: Board of Governors of the Federal Reserve System

Much Lower Monthly Inflation

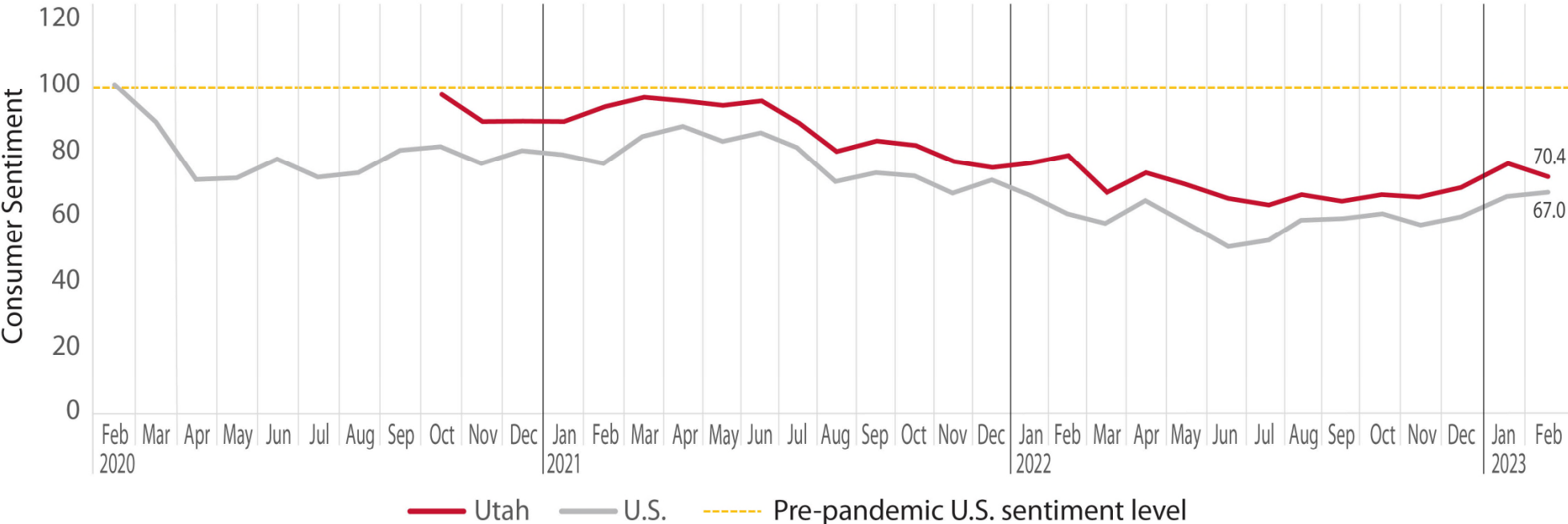


Source: U.S. Bureau of Labor Statistics

Scenario 2 – Shallow Recession

Warning Signal: Low Utah and U.S. Consumer Sentiment

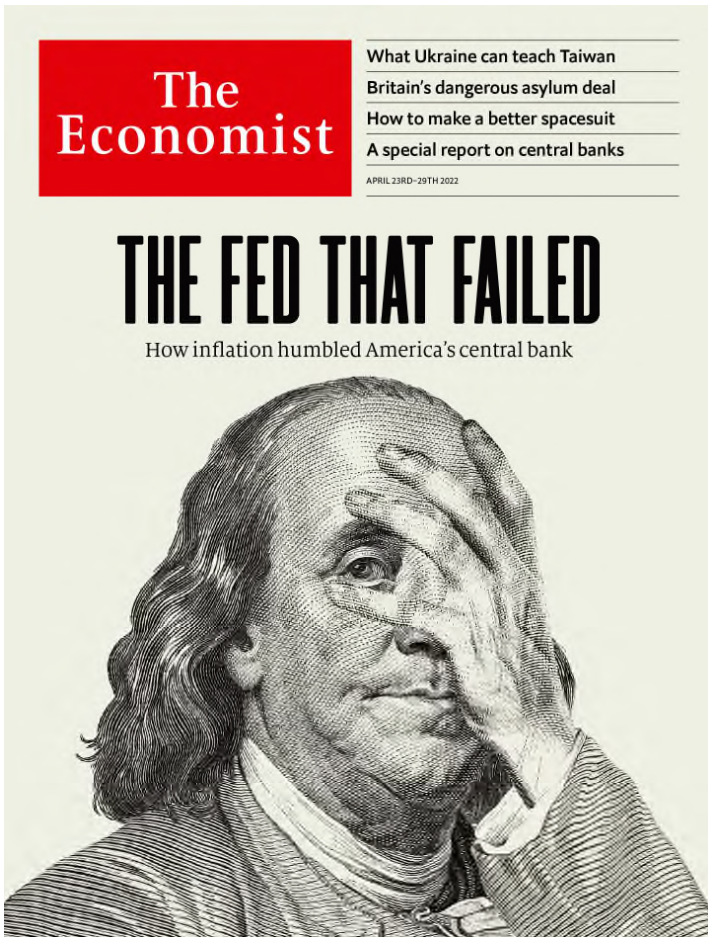
Consumer Sentiment Index: Utah and U.S.



Source: Kem C. Gardner Policy Institute and University of Michigan

Source: Kem C. Gardner Policy Institute and University of Michigan

Monetary Policy Fell Behind the Curve



“I think we now understand better how little we understand about inflation.”

Jerome Powell, Chair of the Federal Reserve, June 2022

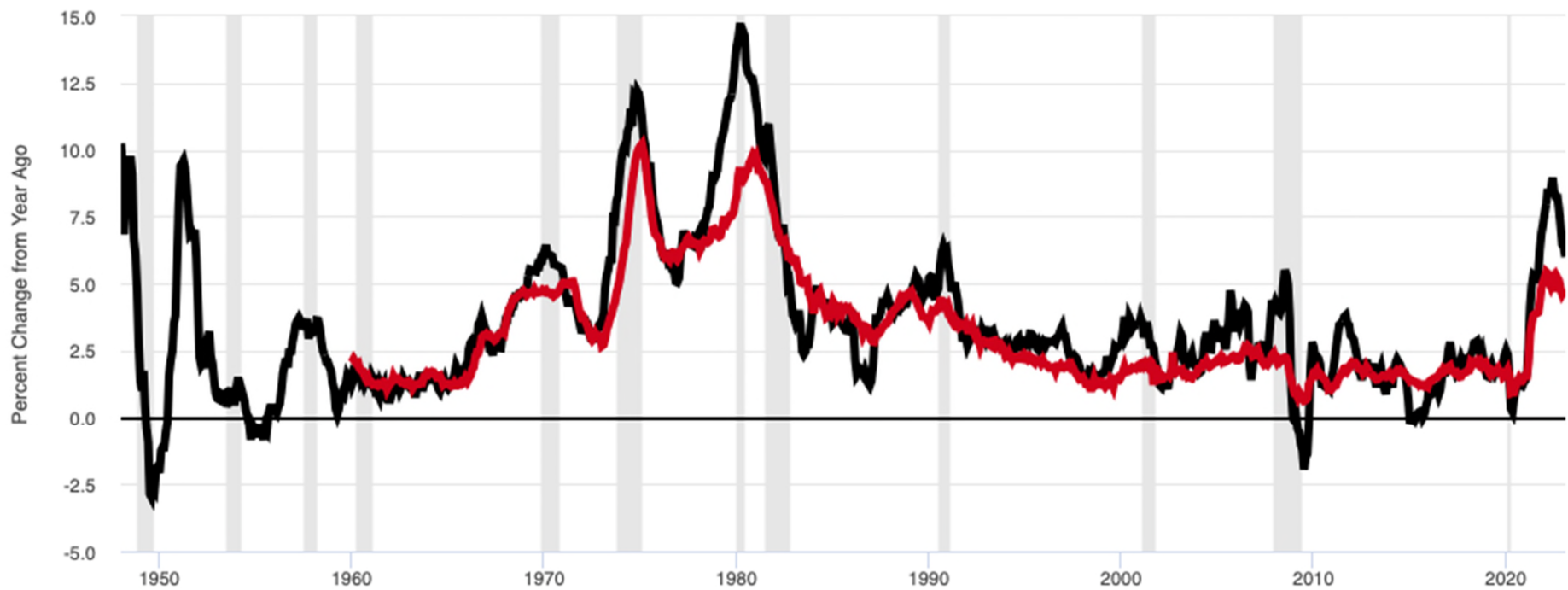
“We see today that there is a bit of a savings buffer still sitting for households, that may allow them to continue to spend in a way that keeps demand strong. This suggests we may have to keep at this for a while.”

Esther George, President, Federal Reserve Bank of Kansas City, November 2022

Warning Signal: The (Continued) Sting of High Inflation

FRED

— Consumer Price Index for All Urban Consumers: All Items in U.S. City Average
— Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)

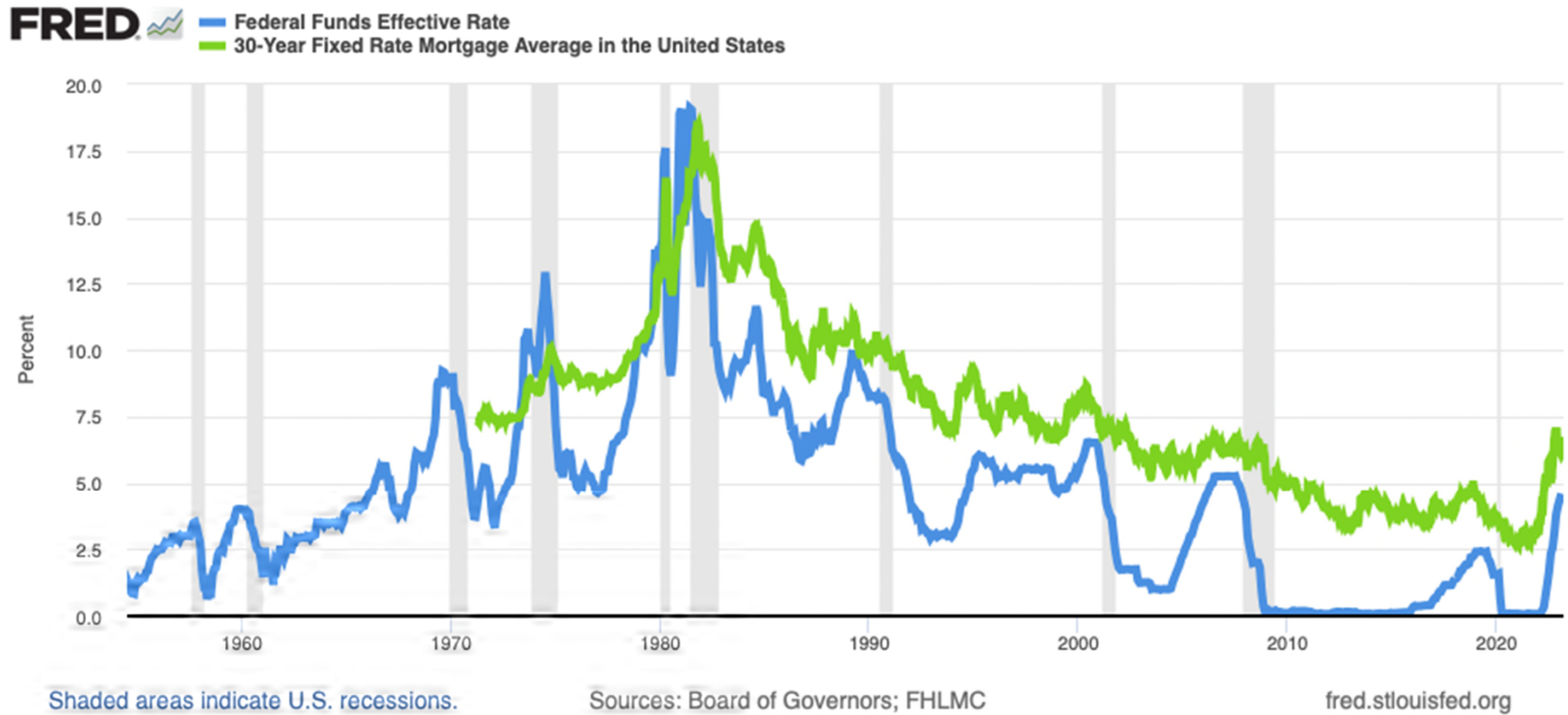


Shaded areas indicate U.S. recessions.

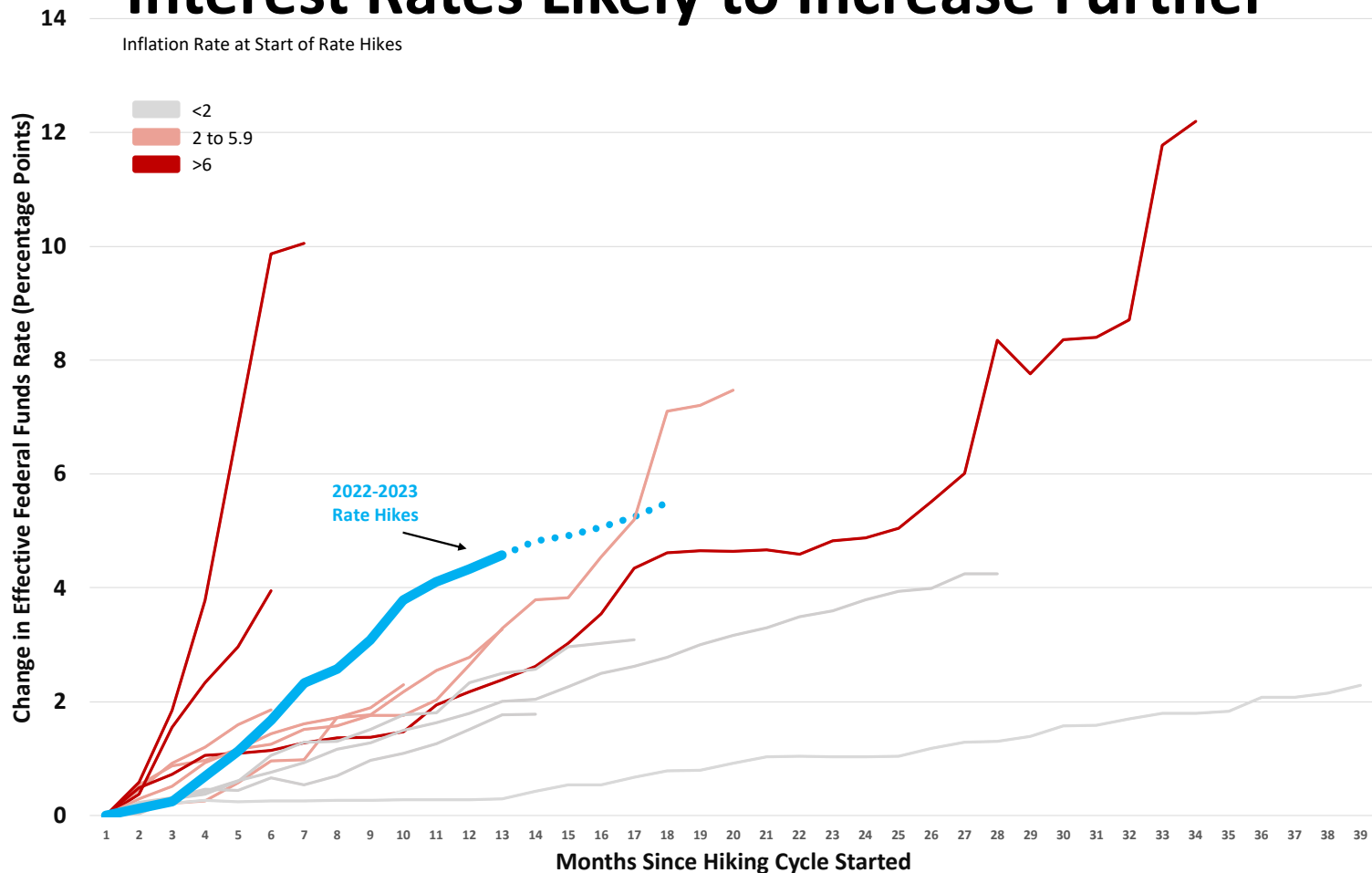
Sources: BLS; BEA

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Warning Signal: Increasing Interest Rates

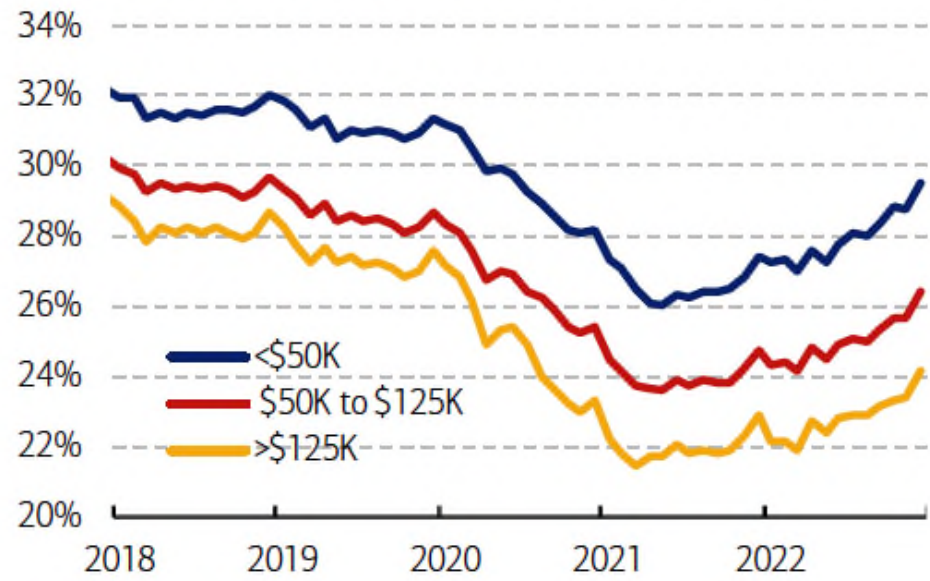


Warning Signal: Interest Rates Likely to Increase Further



Mixed Signal: Increasing Debt

Exhibit 8: Average credit card utilization rates by household income based on Bank of America internal data (%)
Utilization rates have edged higher but remain below pre-pandemic levels

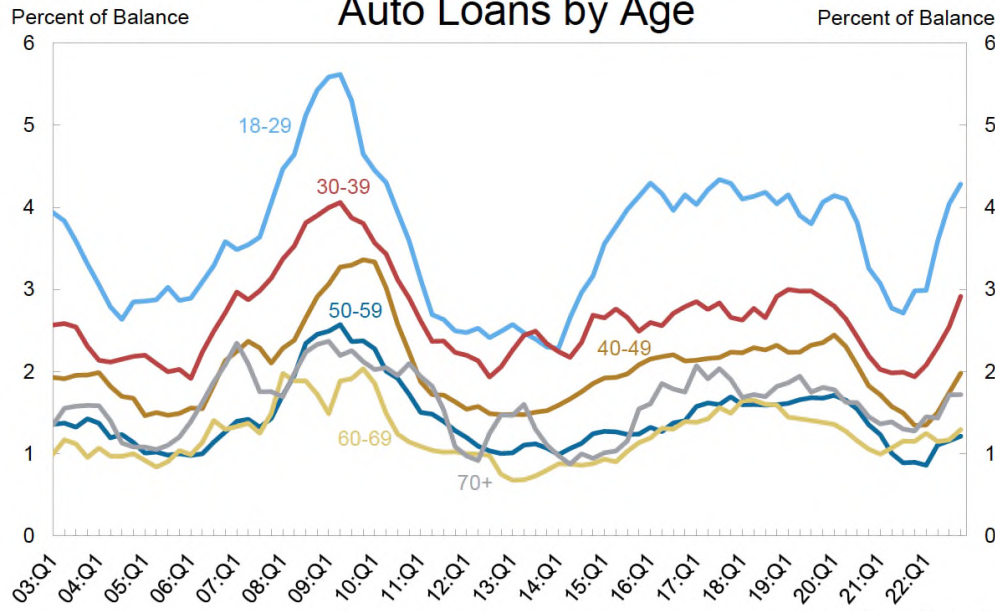


Source: Bank of America internal data

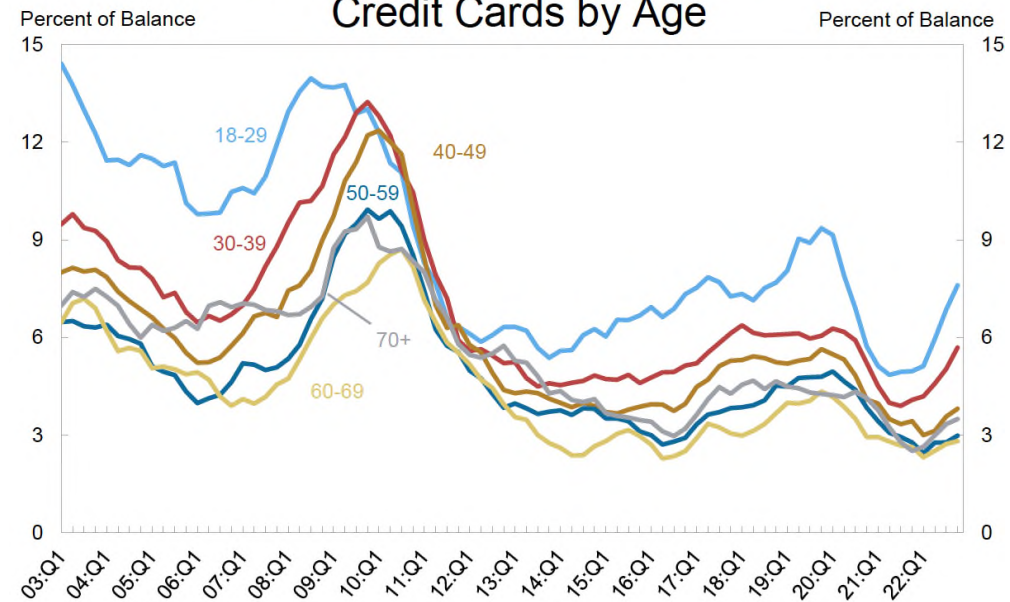
Source: Bank of America

Warning Signal: Increasing Delinquency Among Younger Households

Transition into Serious Delinquency (90+) for Auto Loans by Age

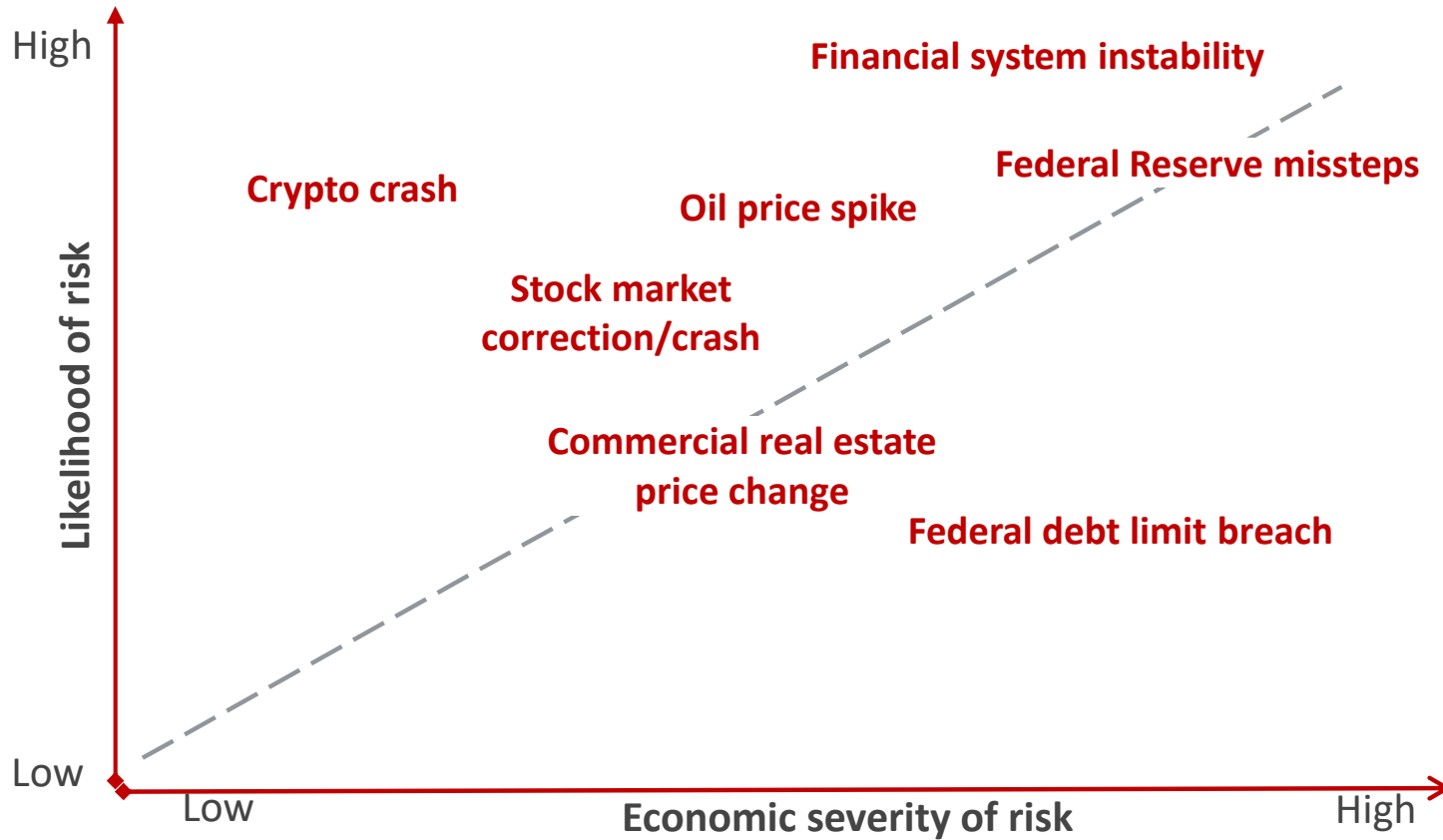


Transition into Serious Delinquency (90+) for Credit Cards by Age



Source: Bank of America

Financial Risk Matrix



ADDITIONAL RISKS

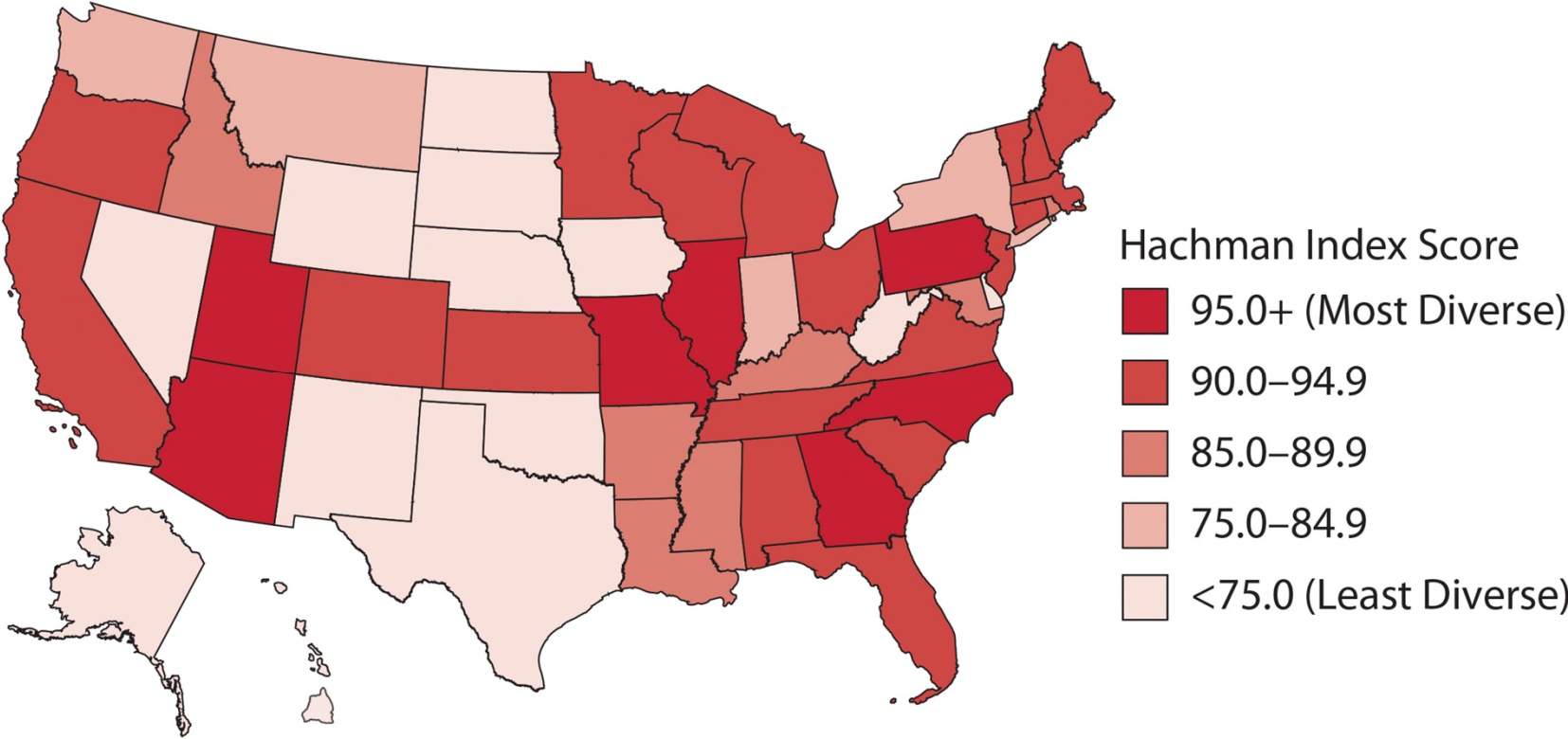
- Social and political unrest
- Heightened Russian aggression
- U.S.-China tensions boil over
- Other geopolitical conflict
- Pandemic re-intensifies
- Geopolitical conflict
- Major cyberattack
- Forbearance cliff
- Oil price spikes
- Sovereign debt crisis
- House prices correct
- Climate change
- China slowdown

Source: Moody's Analytics

Scenario 3 – Decelerating Growth

Utah's Diverse Economy Helps to Balance Economy Between Sectors

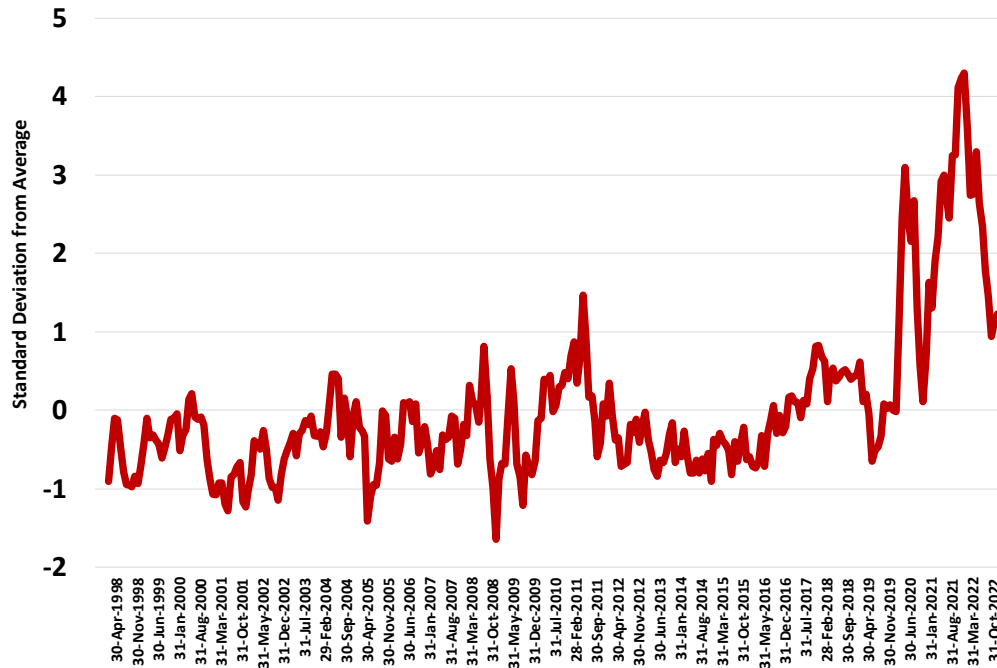
(When Some Weak, Others Strong)



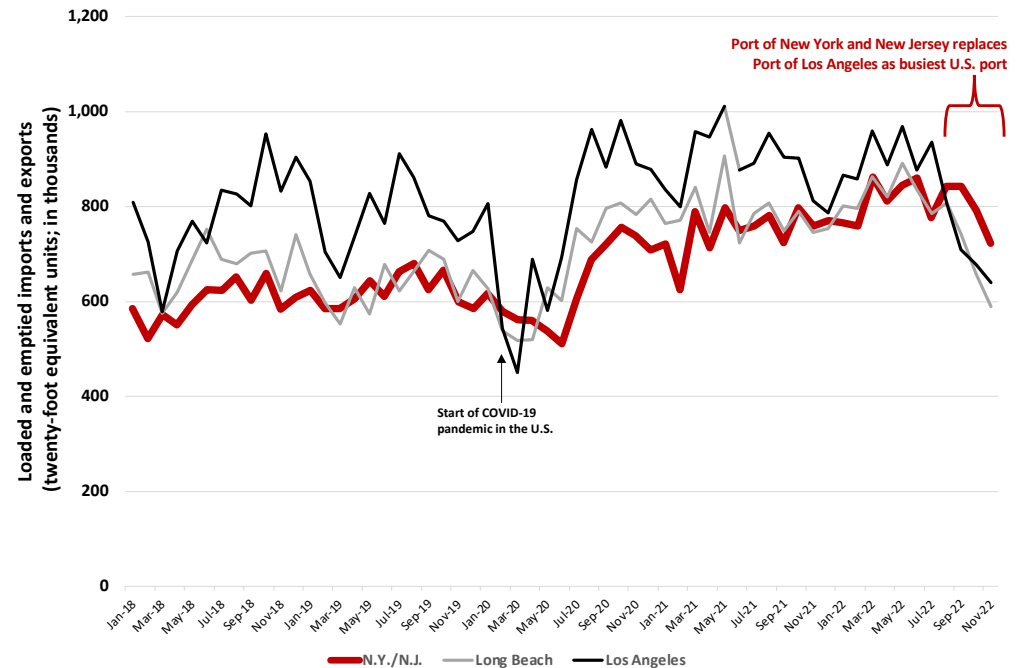
Source: Kem C. Gardner Policy Institute

Disruptions Remain, but Supply Chain Conditions Improved

Global Supply Chain Pressure Index

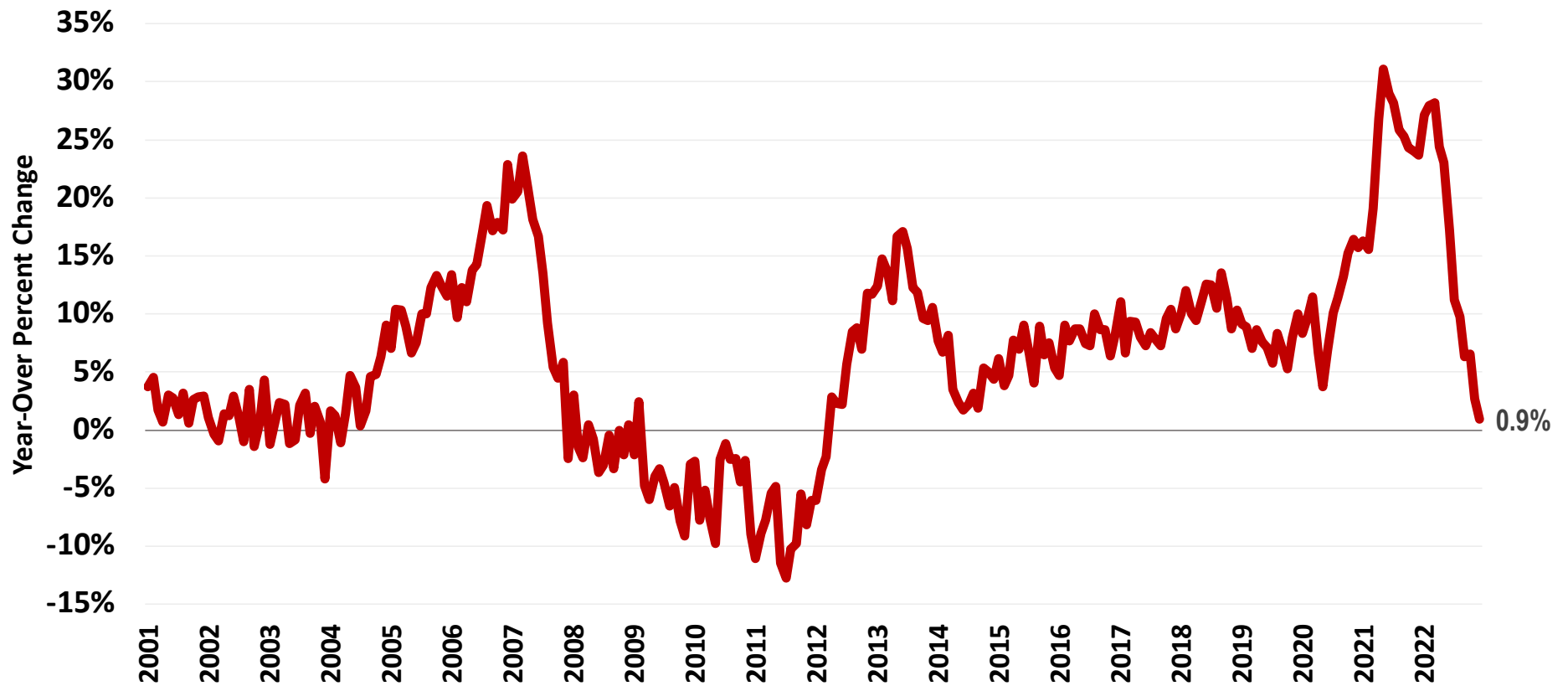


Goods Shifting Away From West Coast Ports



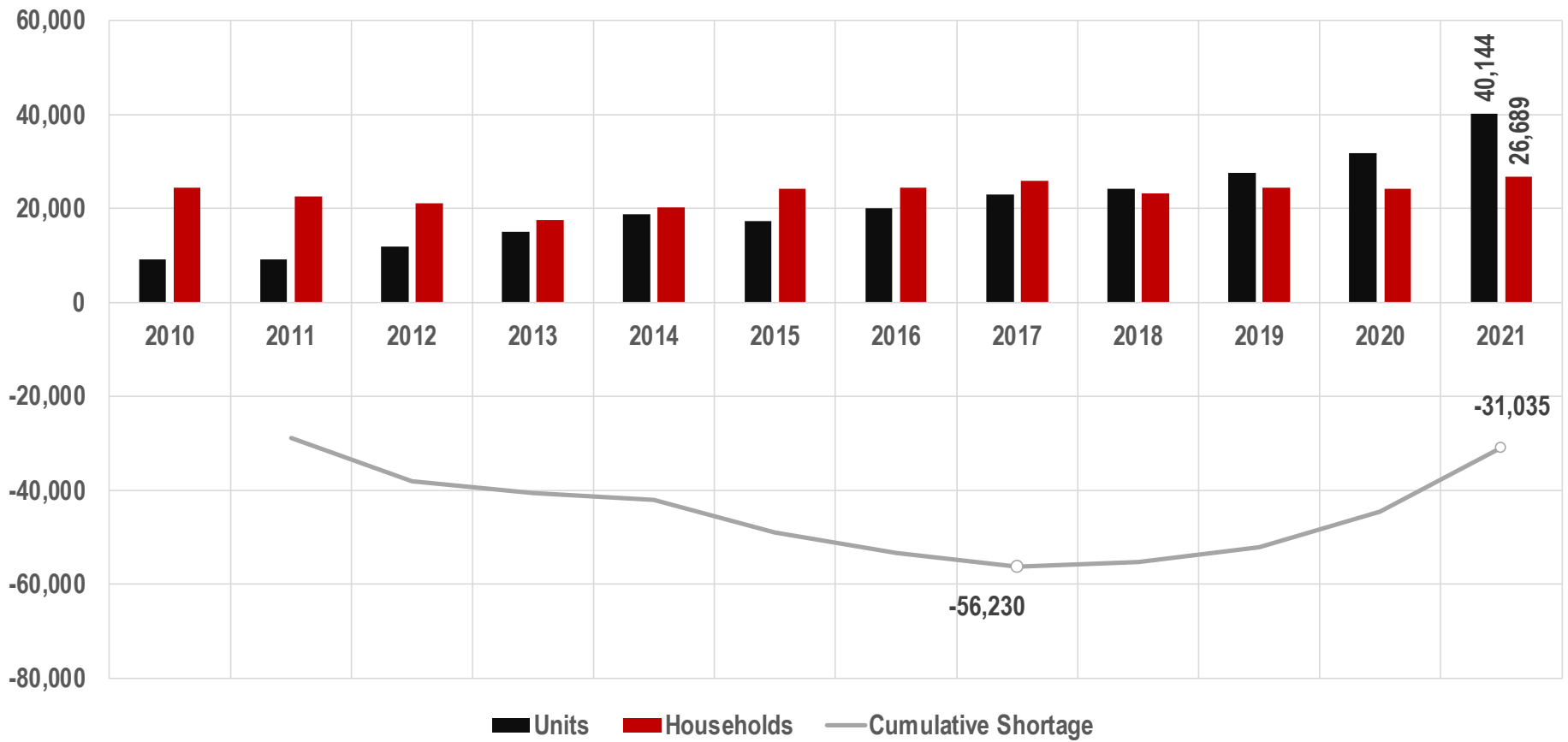
Source: Federal Reserve Bank of New York and Ports of Los Angeles, Long Beach, and New York / New Jersey

Mixed Signal: Moderating Home Price Increases



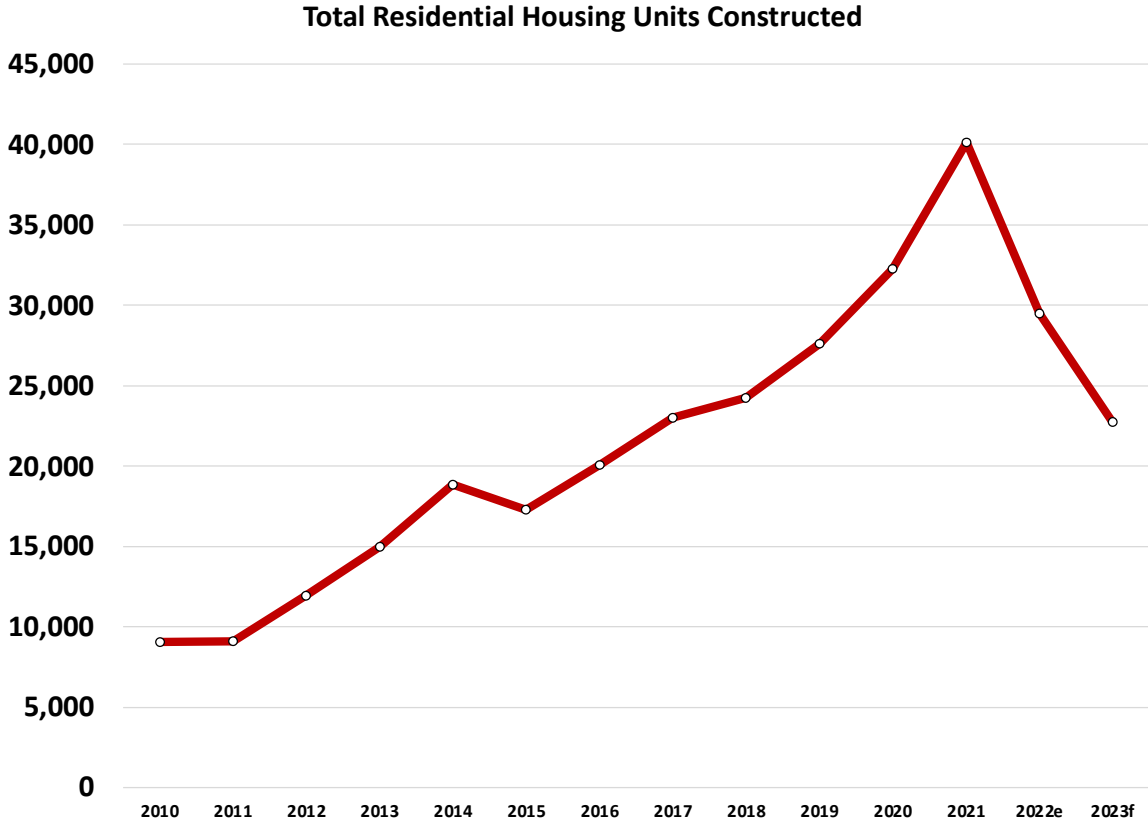
Source: Kem C. Gardner Policy Institute, UtahRealEstate.com Sales Data

Warning Signal: Housing Shortage Improved, but Persists



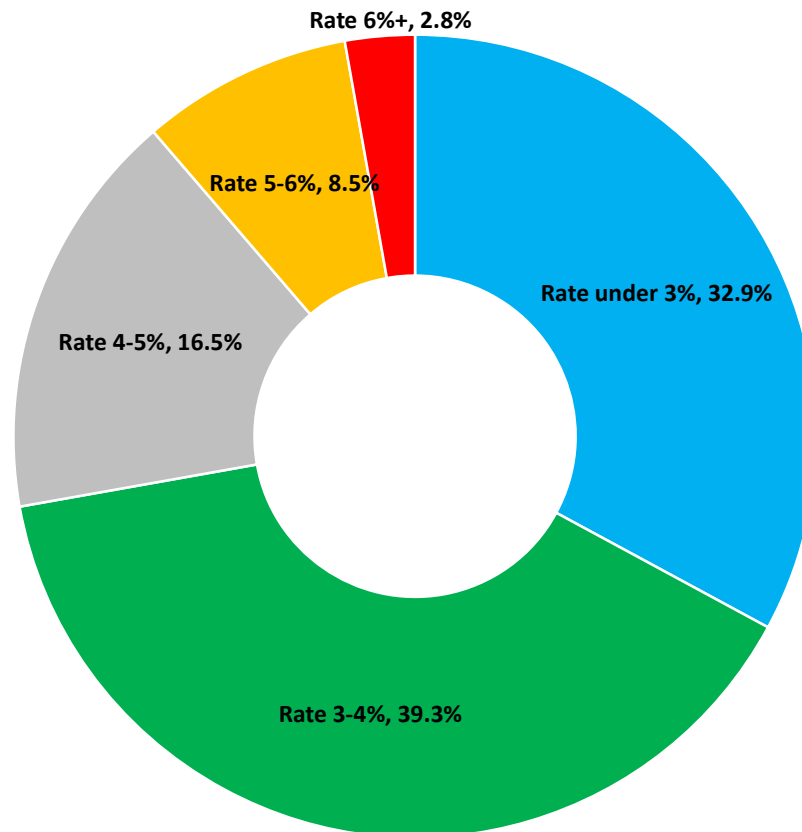
Source: Kem C. Gardner Policy Institute

Warning Signal: Slowing Utah Construction and Real Estate Markets



Source: Kem C. Gardner Policy Institute

Understanding Utah's Housing Affordability Challenge: Most Homeowners Locked Into Lower Rates



Source: FHFA, National Mortgage Database (NMDDB®)

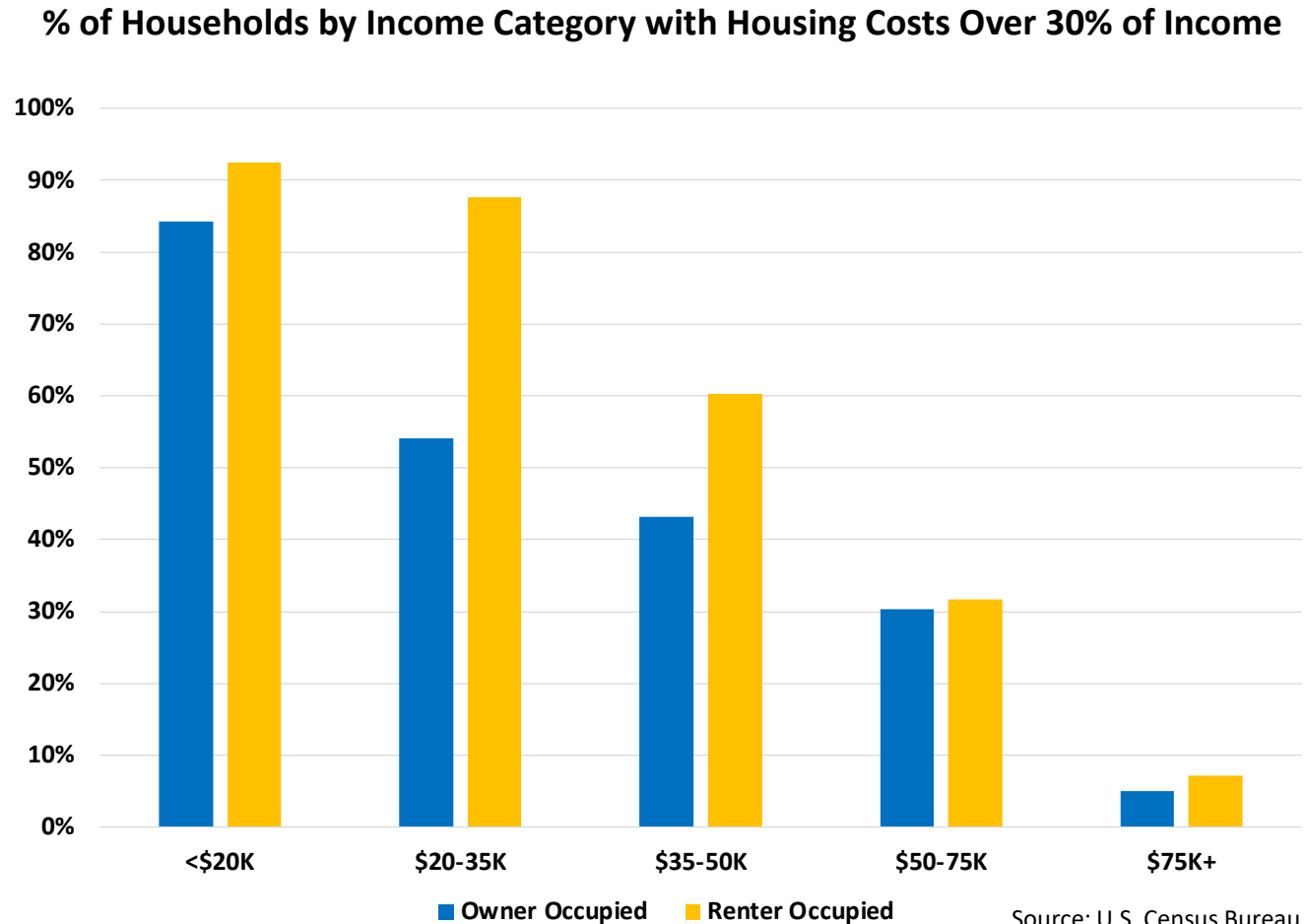
Commercial Real Estate Risk

- **COVID resiliency** – Observed real estate properties surprisingly resilient during pandemic.
- **New environment** – Trend expected to change as the hybrid work environment takes hold and new leases come due.
- **Headwinds** – Property owners face dual headwinds of lower demand and higher financing costs.

Source: Moody's and Kem C. Gardner Policy Institute

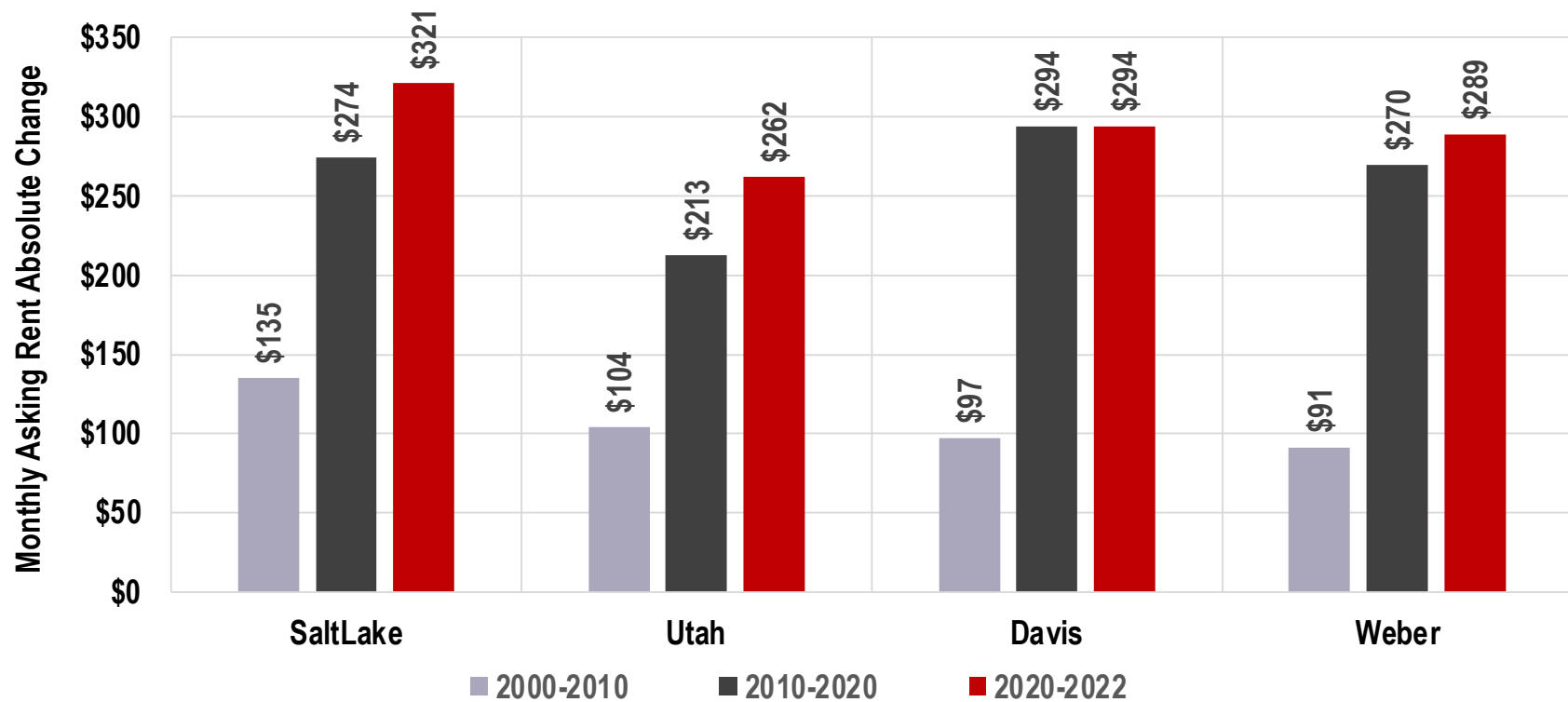
Understanding Utah's Housing Affordability Challenge

- **Only about 30% of Utah households have actual monthly payment over 30% of income**
- Households with lower incomes and who rent face greatest housing challenge
- Theoretical median homeowner payment (today's prices and interest rates) about \$2,700. **Actual** median payment (at 3.5% average rate) about \$1,425.



Warning Signal: A Decade of Wasatch Front Rent Increases in Two Years

Absolute Increase in Monthly Asking Rent by County



Source: CoStar, Inc.

Strength Signal: Public Construction May Partially Offset Private Construction Slowdowns

- State / local allocations of one-time federal ARPA money to infrastructure
- Allocation of one-time and ongoing state/local General Fund and Transportation Fund money
- Federal infrastructure and climate bills

Strength Signal: State Tax Collections

MONTHLY STATE REVENUE SNAPSHOT MAR 2023

based on the Utah State Tax Commission Monthly Revenue Summary (Report TC-23)

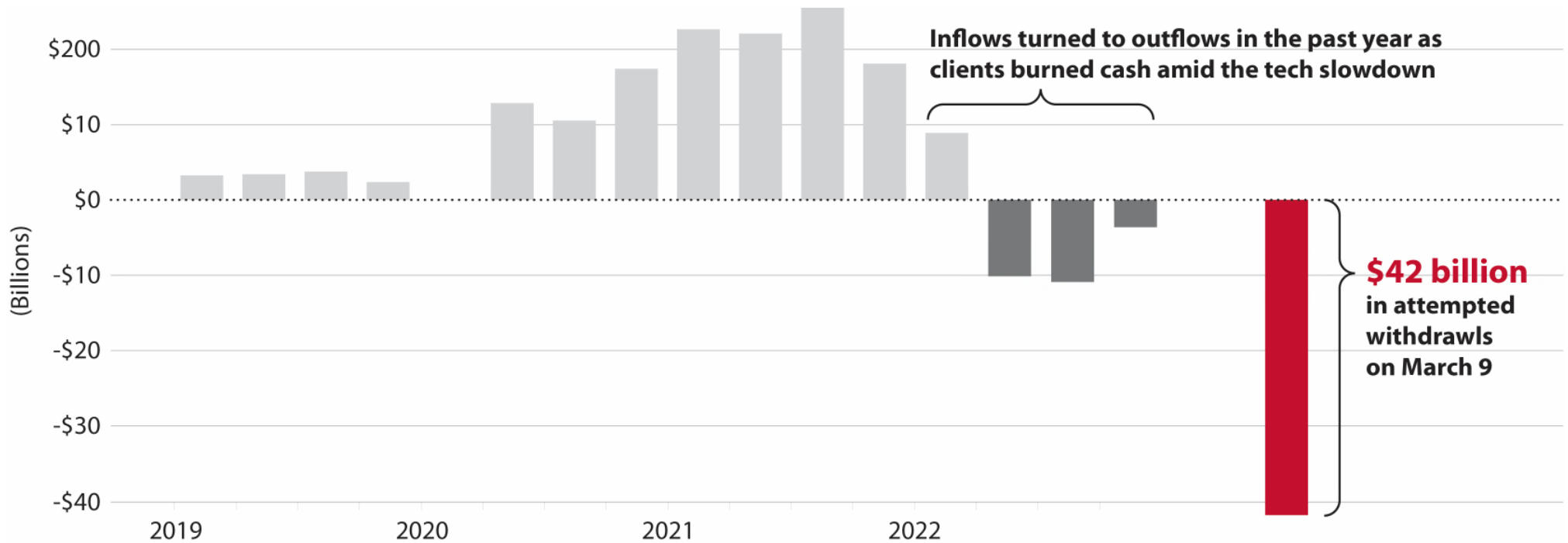
	Projected Growth Rate - February Estimates (Annual)	YoY Growth Rate
General Fund		
Sales & Use Tax	6.4%	9.1%
All Other Sources	28.9%	34.8%
Subtotal General Fund	10.2%	12.9%
Sales & Use Tax Set-Asides	10.9%	11.6%
Income Tax Fund/Uniform School Fund		
Individual Income Tax	-1.6%	21.5%
Withholding - Passthrough SALT		
Individual Income Tax Excluding Passthrough SALT		4.4%
Corporate Tax	-16.5%	-11.2%
All Other Sources	19.3%	85.3%
Subtotal Income Tax Fund	-3.1%	18.3%
Subtotal GF/ITF/USF	1.2%	14.9%

2023 Hard to Predict - Calendar Quarters and Sectors Could Easily Fit Each Scenario



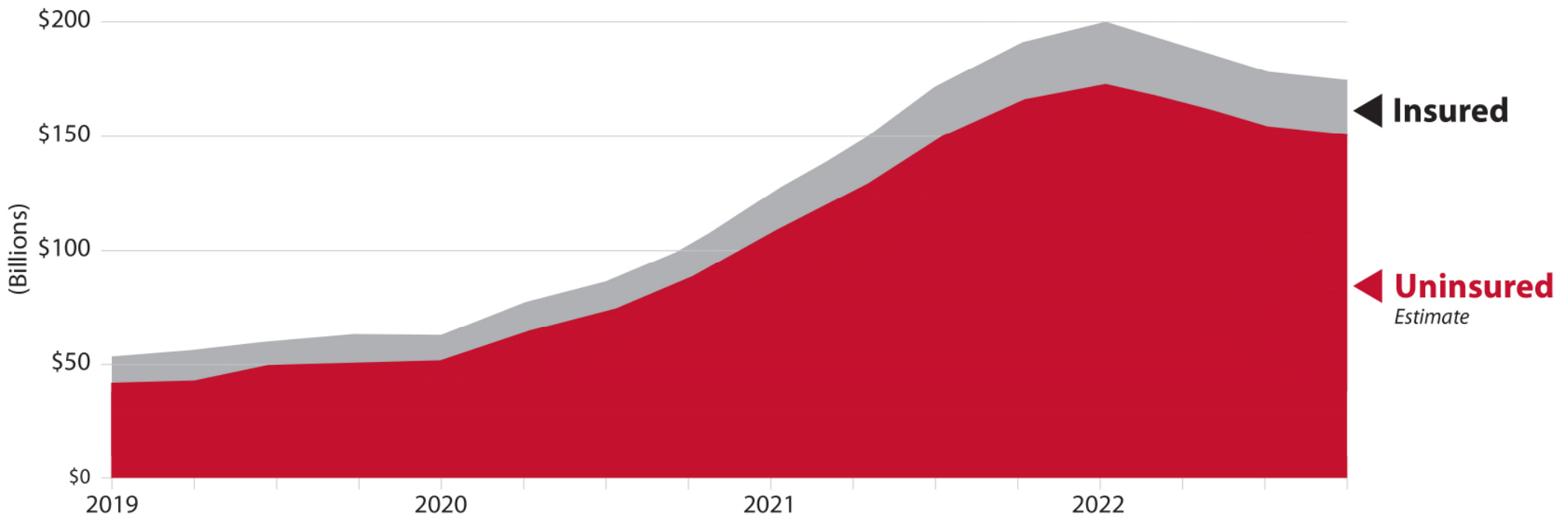
Silicon Valley Bank Financial Deposits

Quarterly Net Change



Source: Company filings (quarterly); California regulators (March 9, 2023)

Silicon Valley Bank Estimated Deposits



Source: Federal Financial Institutions Examination Council