

ECONOMIC RECOVERY?

A COMPARISON OF INDICATORS FOR UTAH AND THE UNITED STATES SINCE MARCH 2001

This economic recovery looks similar to the aftermath of the 1990 recession when it took 33 months nationally for employment to rebound to pre-recession levels. While the employment picture looks similar between the two recession, other key indicators tell a different story.

Gross domestic product (GDP) has grown at more robust rates during this recovery, and consumer spending has been stronger, as has consumer confidence. Locally, Utah has experienced an interesting paradox. Job creation has been minimal; only 11,600 were added in the state during the most recent 12 months, a growth rate of 1.1%, yet unemployment declined over the same time period and is now at levels close to those of March 2001, when the recession began. Finally, while there has been much concern about federal government spending, expenditures in 2003 were 6.9% of GDP, about the same level as in 1995 and well below historic levels. Defense spending accounted for 65.6% of total federal spending, equivalent to percentages in 1997 and 1998.

In October 2003, the National Bureau of Economic Research (NBER), the entity responsible for dating economic recessions, released a statement saying the recession that began March 2001 had ended in November 2001. Including the month of March, this recession lasted nine months, about the same length of time as the recessions of 1990-91 and 1957-58. Figure 1 details the length of recessions and recoveries since 1945 and shows that this cycle is in its 35th month without employment rebounding to its pre-recession levels. The past two recessions have seen very long employment recovery periods.

This report will examine key business and consumer indicators to determine how well the country is recovering as well as the impacts

this recession has had on components of personal income. Additionally, this report will focus on comparing Utah economic indicators to national data. Where possible, there will be an emphasis on what is happening within Utah's metropolitan areas and counties.

A concluding section will discuss federal government expenditures.

Figure 1: Recessions and Recoveries Since 1945

Recession Dates	Months to Recession End	Months to Full Recovery*
November 1948-October 1949	12	20
July 1953-May 1954	11	23
August 1957-April 1958	9	12
April 1960-February 1961	11	20
December 1969-November 1970	12	18
November 1973- March 1975	17	26
January 1980- July 1980	7	12
July 1981-November 1982	17	28
July 1990-March 1991	9	33
March 2001- November 2001	9	Not Yet Recovered
Average Length of Recession	11.4	22.3

*Full recovery is defined as reaching the same level of employment as at the beginning of the recession. Source: National Bureau of Economic Research (NBER) and calculations by Utah Foundation.

NATIONAL INDICATORS

When examining the health of the national economy, Utah Foundation uses key indicators for the business and consumer sector. These indicators have been used in previous Utah Foundation work on the topic. Figure 2 tracks the indexed change in business and consumer sector indicators since March 2001. Total non-farm employment is the area that has caused the greatest amount of

concern, since very few new jobs have been generated in the economy over the last two years. While the graphs show that in October and November of 2002, employment briefly climbed to pre-recession levels, that growth was not sustained, and since that point, employment has hovered around 0.99 of its March 2001 level.

Fixed investment by businesses, investment in land, buildings, computers and equipment, is another area of concern. This indicator

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Figure 2: 2001 Recession Indicators

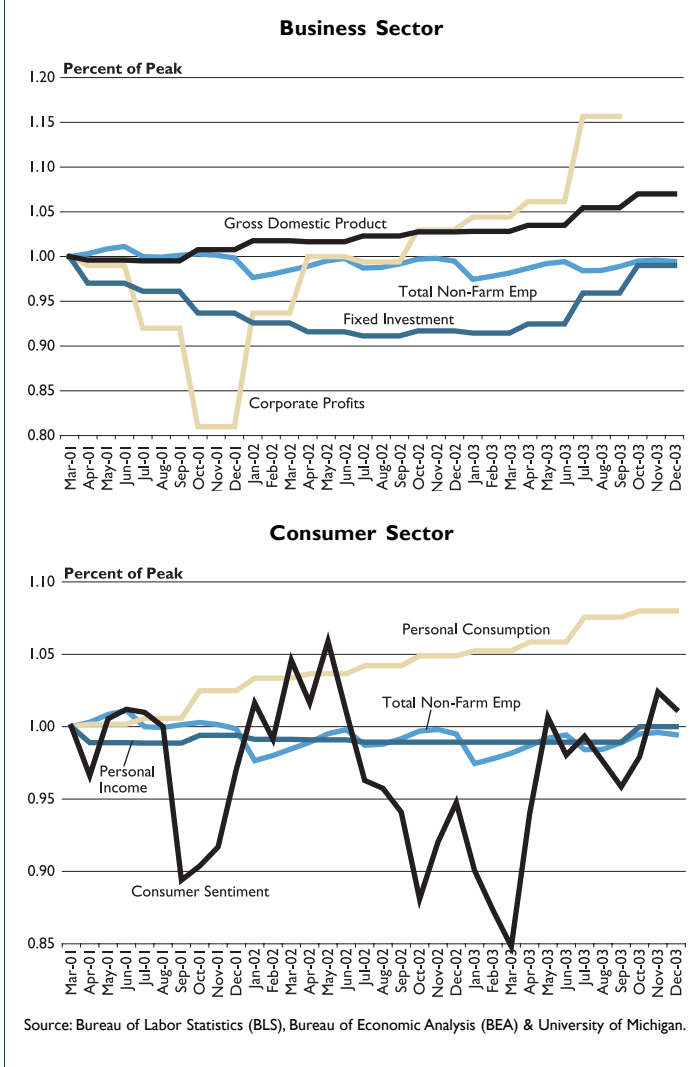
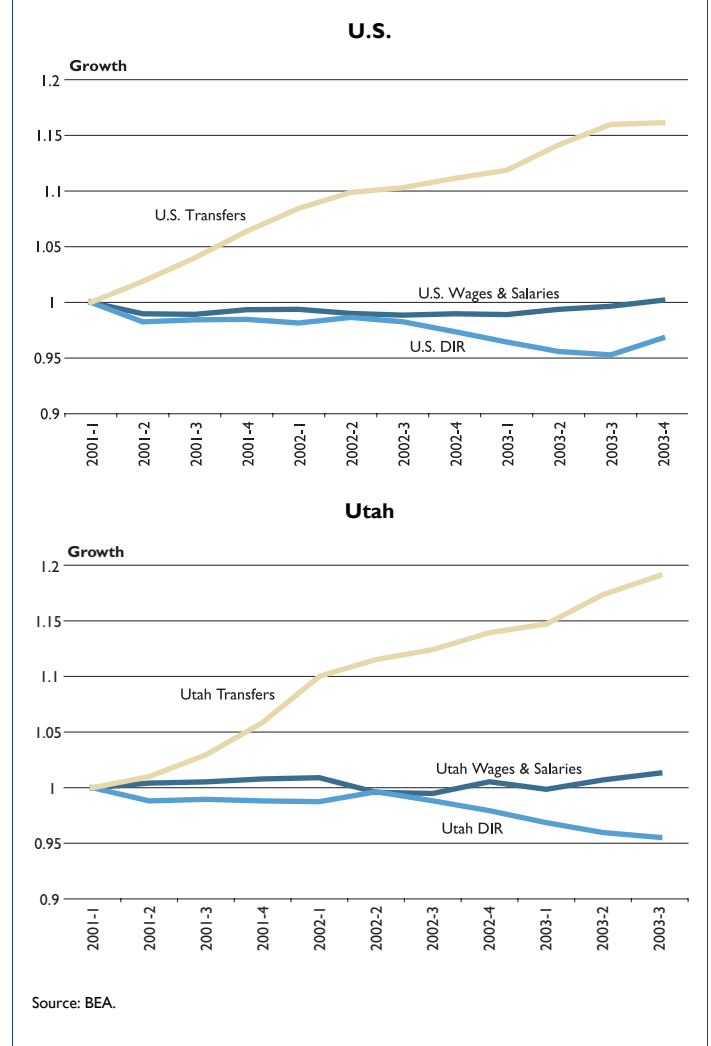


Figure 3: Indexed Growth of Components of Personal Income
1st Quarter 2001 to 4th Quarter 2003



dropped to a low of 0.92 in April 2002 and only reached 0.99 in the last quarter of 2003. Fixed investment is a key indicator as it gauges corporate willingness to “put down roots.” A company that invests in medium- to long-term assets rather than holding large amounts of cash is one that is optimistic about the future economic growth of its community.

The consumer sector graph highlights the main driver of the current economic recovery, personal consumption. Due to low interest rates and many consumers either refinancing high rate credit card debt or cashing out the equity in their homes, consumption has been robust during this recession, despite the fact that personal income did not rebound to pre-recession levels until October 2003.

Important to understanding the indexed growth in personal income is an understanding of its underlying components. The major components are: 1.) Wages and salaries, 2.) Dividends, interest and rents (abbreviated DIR in the graphs), and 3.) Transfer payments. For the purposes of the graphs in Figure 2, the money received from transfer payments is removed. This is critical, because transfer payments are monies received by individuals from government programs such as unemployment

insurance, social security, and welfare payments. During economic downturns, demand for these services increases and the growth in this component of personal income can mask declines in the other two.

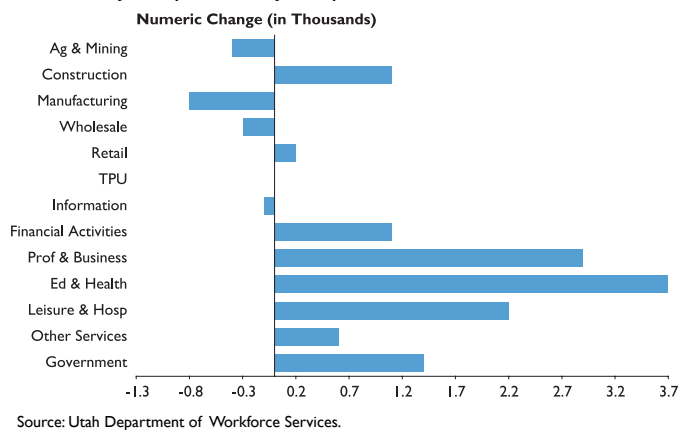
Wages and salaries are by far the largest component of personal income, and in order for income to return to pre-recession levels, aggregate wages must do so. Nationally, in the fourth quarter of 2003, wages finally reached that peak. Despite recent increases in the stock market, DIR have yet to achieve their pre-recession levels while transfer payments have increased at a significant rate.

Comparing Utah’s components of personal income to the national figures tells a similar story. Wages and salaries began rebounding over the summer of 2003 and by fall had exceeded their pre-recession levels while DIR income began to fall. Transfer payments have reached a higher growth rate in Utah than nationally, indexed at 1.19 compared to 1.16 for the U.S.

UTAH INDICATORS

The above comparison of Utah’s personal income to the nation provides a partial view of Utah’s position in the economic recovery process. However, it isn’t complete. One of the important insights

Figure 4: Utah Job Growth By Sector
January 2003 to January 2004



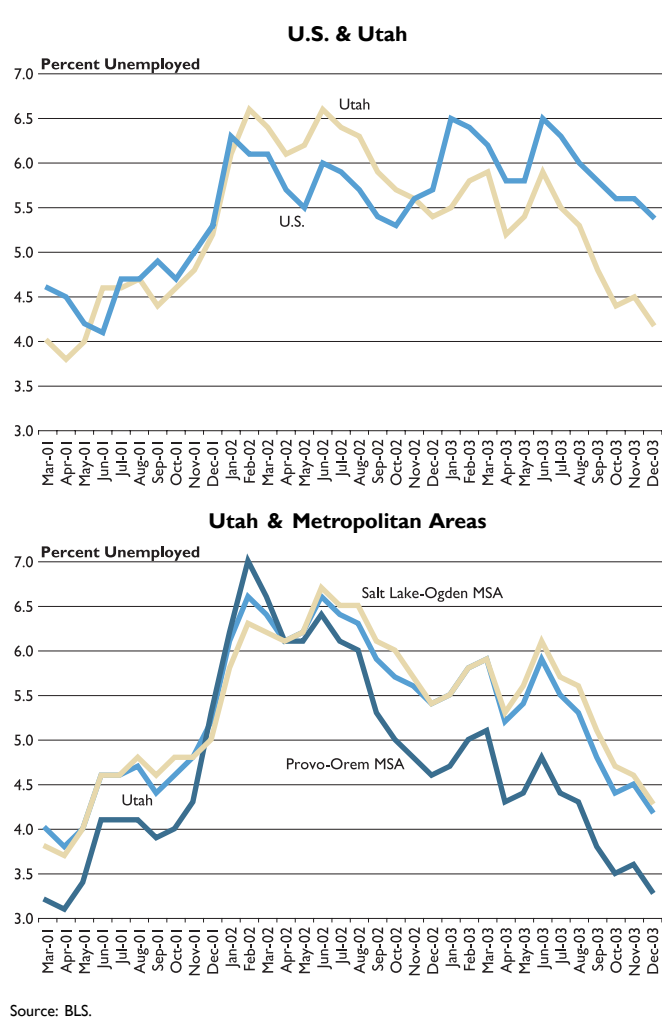
about Utah provided by the personal income series is the fact that the average Utahn is more dependent on wage and salary income than the average U.S. resident. In 2003, approximately 73% of Utah's personal income came in the form of wages and salaries compared to 68% nationally. This higher dependence on wages means that fluctuations in the job market have a greater impact for Utahns.

From January 2003 to January 2004, 11,600 jobs were created in Utah, a growth of just 1.1%. Figure 4 details job losses and gains by sector. The state's manufacturing interests lost 800 jobs during this time, while health and education gained 3,700 jobs. Within those sectors, durable goods manufacturing saw the greatest losses, accounting for 1,200 of the jobs eliminated while non-durable goods gained 400 jobs. Health care created 3,300 of the 3,700 in the health and education sector. Perhaps the most interesting is where the job growth was located. The Salt Lake-Ogden metropolitan area accounted for a net of 4,100 jobs and the Provo-Orem area gained a net of only 1,600 jobs. This means that the bulk of the employment growth in Utah, 5,900 jobs, occurred outside the Wasatch Front.

Despite this rather modest gain in jobs, the unemployment rates in the state as well as the metro areas have been fairly stable and, in historic terms, low. Utah's unemployment rate in December 2003 was 4.2%, similar to March 2001, when the recession began. Additionally, the state's unemployment rate hit a high of 6.6% in February and June 2002, which is relatively moderate for a recession. Figure 5 compares Utah's unemployment rate to the national average and compares the metropolitan areas with the state as a whole. Again, the metro areas tell the most interesting story. The Provo-Orem area has been the most volatile, with rates starting the recession at 3.2% and hitting a high of 7.0% before declining to current levels of 3.3%. The Salt Lake-Ogden area followed a similar pattern.

This interesting paradox of low job creation and low unemployment has two possible explanations. One is the idea that many workers are "waiting out" the downturn before they come back into the workforce to look for employment. This would keep labor force growth at a lower rate, thus not overwhelming the slow job creation rate. Economists nationally have cited a trend toward self employment

Figure 5: Unemployment Rates
March 2001 to December 2003



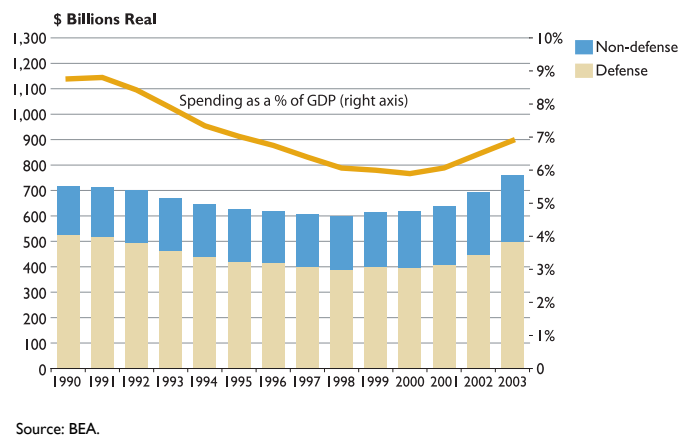
that also is keeping some workers out of the measured labor force. The other explanation may be that Utah's labor force was temporarily expanded during the buildup to the 2002 Olympic Winter Games. After the games, many of these people went back to being full-time students, stay-at-home parents, retirees, or other non-participants in the labor force. Some workers may have also moved into the state during the years before the Olympics and then left the state after the games concluded. With these workers leaving Utah's labor force, the growth in the labor force slowed enough that even a slow rate of job creation was able to reduce unemployment.

FEDERAL GOVERNMENT SPENDING

Policymakers have focused a lot of attention on the fact that federal budgets have turned back to deficit spending, and the projections on the size of those deficits are quite large. There is also a concern about the costs of waging the war against terrorism and how those costs are impacting the budget.

Government plays an important role in times of recession. Not only does government provide income support to citizens who are struggling due to an economic downturn, but through public projects and programs, it can provide much needed stimulus to a weak

Figure 6: Government Spending by Category



economy. The problem is that if the federal government overstimulates the economy, inflationary pressures can begin to build. Also, a country that is spending future revenues is placing the burden on future generations to pay off those debts, thus inhibiting future economic growth.

In light of these concerns, it is important to ask in this recession if the federal government has been spending at reckless rates. As measured

by historical trends, the answer is probably no. Figure 6 shows that federal government spending in 2003 was \$757 billion dollars and the nation's Gross Domestic Product (GDP) was \$10.9 trillion. Therefore, federal government spending amounted to 6.9% of GDP, approximately the same level it was in 1995 while the post-war average of federal spending as a percentage of GDP is 10.1%. Additionally, defense spending in 2003 accounted for \$497 billion dollars or 65.6% of total federal spending, accounting for approximately the same percentage of the budget as in 1997 and 1998, and the post-war average is 75.1%.

What is concerning about federal government spending is the rate of growth. Both defense and non-defense spending grew by approximately 9.0% during 2002 and 2003, growth rates not seen since 1967. These growth rates matter when policymakers start projecting outward and assume these rates are sustainable. Historically, GDP has grown by an annual average of 3.0%, federal government expenditures by 2.3% and defense expenditures by 2.1% in the post-war era. Therefore, in coming years, citizens can anticipate federal spending to contract, or at least the growth rate will decline significantly. The question then becomes which programs will be affected by cutbacks and how will those programs affect Utah, or will the increased federal costs lead to tax increases and how will those taxes affect Utah?

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