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THE UNIVERSITY OF UTAH

DAVID ECCLES SCHOOL OF BUSINESS

U.S. and Utah Economic Overview

2023 Summary and 2024 Outlook

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The U.S. and Utah economies remain deeply interconnected. Even with some minor differences in composition and in particular indicators such as unemployment or GDP growth, the state and national economies generally move in tandem. This policy brief summarizes 2023 performance in the U.S. and Utah economies and provides a 2024 outlook.

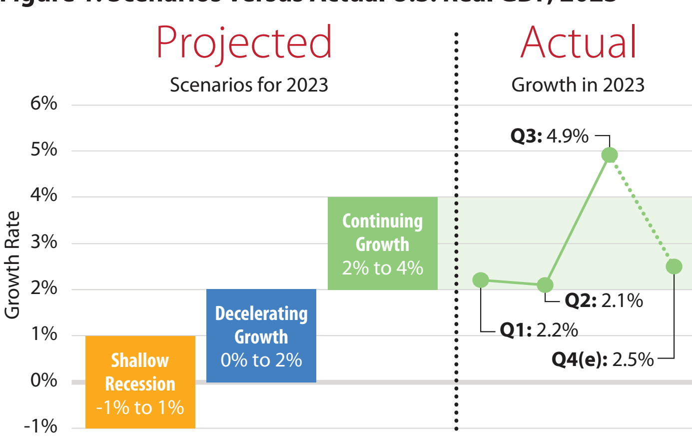
YEAR IN REVIEW – REMARKABLE RESILIENCY

United States

The remarkably resilient U.S. economy successfully navigated 2023's choppy waters of rising interest rates, banking turmoil, and moderating-but-still-elevated inflation. Seemingly oblivious to widespread predictions of sinking economic activity, the economy surprised many by keeping its sea legs to avoid the most over-predicted recession of all time. Rather than contracting, the U.S. economy expanded in all four quarters as inflation fell, buoyed by strong labor markets (with employers resistant to shed scarce employees), continued robust consumer spending, and carryover effects from massive pandemic-era economic stimulus.

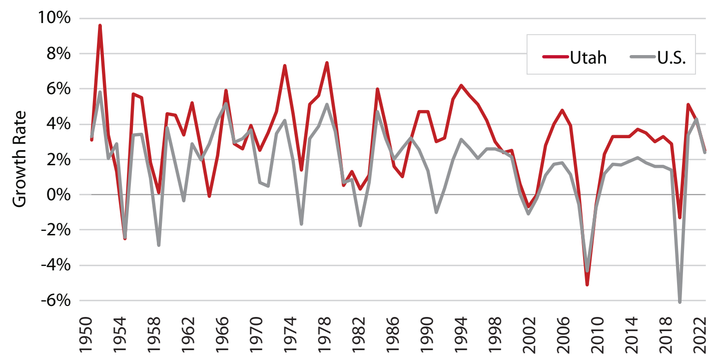
Emerging from 2022's highest inflation peak in four decades, in 2023 the Federal Reserve continued the push to return inflation to its 2% target. The Federal Reserve did so by

Figure 1: Scenarios versus Actual U.S. Real GDP, 2023



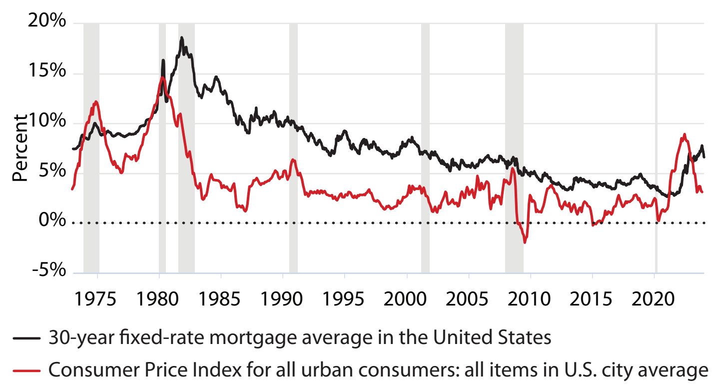
Sources: Kem C. Gardner Policy Institute, U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta GDPNow January 3, 2024 e=estimate

Figure 2: Annual Average Job Growth Rate in Utah and the U.S., 1950–2023e



Source: U.S. Bureau of Labor Statistics e=estimate

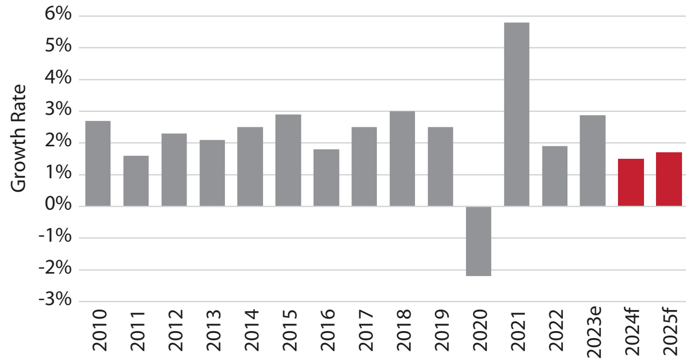
Figure 3: 30-Year Conventional Fixed Rate Mortgage and Consumer Price Index Year-over Change, 1973–2023



Sources: FHLMC (Freddie Mac), U.S. Bureau of Labor Statistics

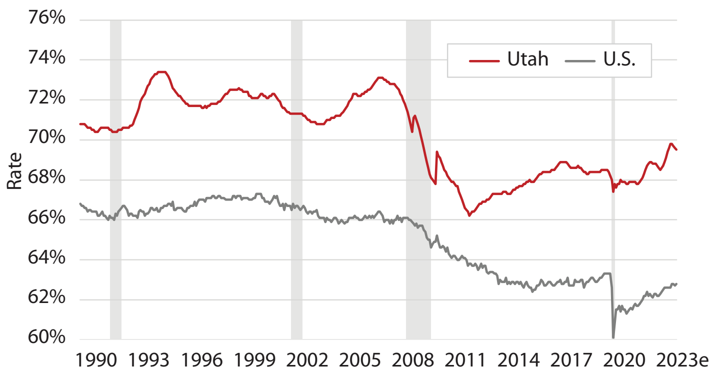
increasing its short-term interest rate target, which influences short- and long-term rates without directly changing them. Rising rates over the past two years affected the economic sectors most sensitive to interest rates, including construction, banking and other financial services, and tech, as the constant flow of cheap money in previous years subsided. Offsetting these sectors' challenges, other parts of the economy such as oil and gas extraction, public construction, tourism, and health care remained strong.

Figure 4: U.S. Real Gross Domestic Product (GDP) Percent Change From Preceding Period, 2010-2025f



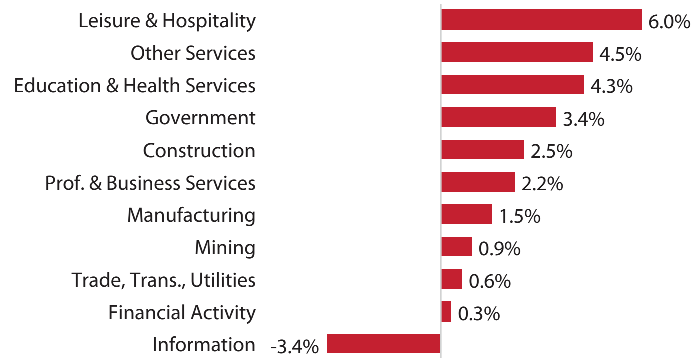
e=estimate f=forecast
Sources: U.S. Bureau of Economic Analysis, Utah Economic Council

Figure 5: Utah Labor Force Participation Rate, 1990-2023e



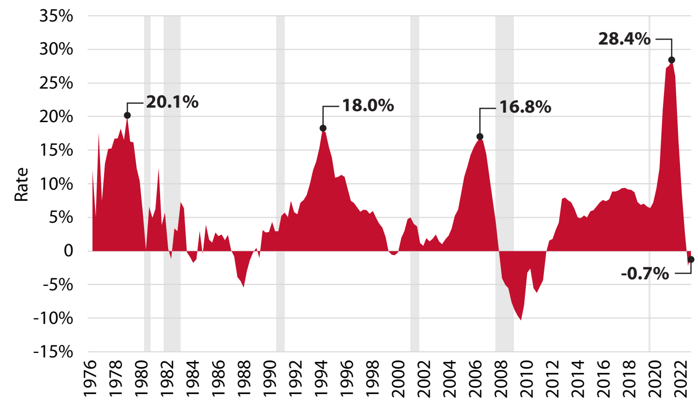
Source: U.S. Bureau of Labor Statistics, seasonally adjusted e=estimate

Figure 6: Utah's Employment Change by Industry, 2022-2023e



Source: U.S. Bureau of Labor Statistics, seasonally adjusted e=estimate

Figure 7: Year-over Growth Rate in Utah Home Prices (FHFA Index), 1976–2023



Note: Data through Q3 2023
Source: Federal Housing Finance Agency

Banks that poorly managed the risk of rising interest rates faced major challenges. Banking turmoil began in March 2023 with the notable failures of medium-sized Silicon Valley Bank and Signature Bank, followed by First Republic Bank in May. The upheaval remained isolated to mid-size and small banks and largely settled down fairly quickly in response to decisive banking regulator actions, which calmed depositor bank runs and financial markets.

Despite financial sector challenges, the U.S. economy continued growing through all four quarters of 2023, including a very strong 3rd quarter real gross domestic product (GDP) increase of about 5%. If year-end data comes in as expected, 2023 real GDP growth will total nearly 3%, a far cry from doom and gloom predictions many held at the start of the year.

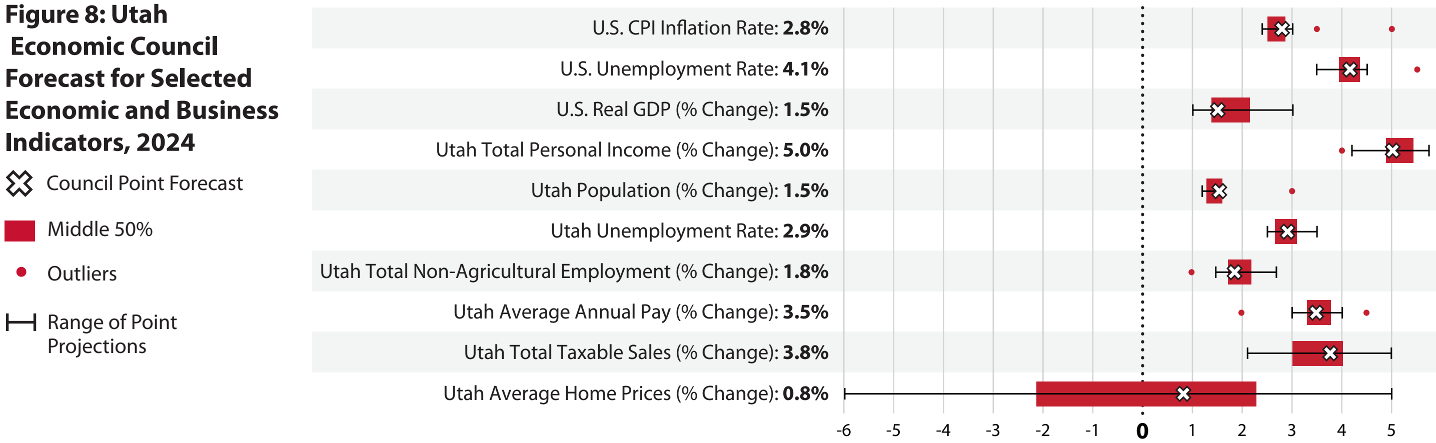
Labor markets also remained quite strong overall throughout the year, even with some softening in certain sectors. The U.S. unemployment rate posted five-decade lows of 3.4% in January and April 2023. Although not quite as undersupplied as earlier in the year, economists generally consider December 2023's 3.7% unemployment rate as below the full employment rate, signaling that labor markets remain quite strong. Notably, despite economic uncertainty, employers may be "hoarding" labor, given extensive hiring difficulties in recent years. Robust labor markets, together with continuing effects of pandemic-era economic stimulus, support ongoing consumer spending even with higher interest rates.

Utah

Utah's strong economic performance continued in 2023, although with some year-end tapering. Preliminary estimates show Utah with its highest labor force participation rate since 2010, suggesting the combined effects of robust job opportunities, higher-than-usual inflation, and higher wages drew many workers into Utah's strong labor markets. While interest-rate-sensitive sectors like construction, banking, and tech felt pressure, many other industries enjoyed healthy growth, including tourism, public construction, oil and gas extraction, and health care. Job growth tapered toward the end of 2023, from about 3% midyear to around 2% at year end.

High housing costs continue to present a major challenge to Utah's economy. Incumbent homeowners locked into low mortgage rates generally continue to enjoy budget flexibility

Figure 8: Utah Economic Council Forecast for Selected Economic and Business Indicators, 2024



Note: "Council Point Forecast" (X) represents the median value. "Middle 50%" (red box) represents the 25th to 75th percentile range of values. "Range of Point Projections" (whiskers) represents the range of values falling within the limits calculated as 1.5 times the Middle 50% range below and above the 25th and 75th percentile values, respectively. "Outliers" (red dot) show forecasts outside the "Range of Point Projections".
Source: Utah Economic Council

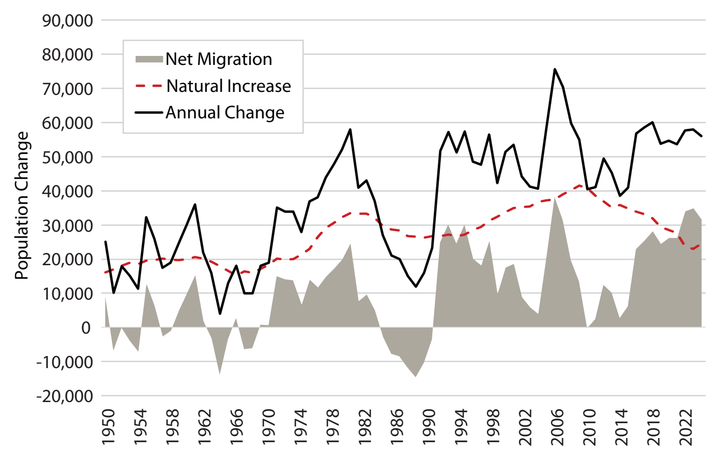
and benefit from high home prices. But renters and those looking to buy a home face much different prospects as they confront current-market prices and interest rates. Wages simply misalign with Utah's high housing costs, making it increasingly difficult for employers to retain and attract workers at current wage levels. If public policy choices disallow affordable housing options for young Utahns, unaffordable housing costs will chip away at Utah's notably strong middle class, undermining Utah's continued prosperity. Utah's wage-to-housing-cost mismatch will increasingly constrain economic growth moving forward if unaddressed.

2024 OUTLOOK – UNSETTLED NORMALCY

Entering 2024 amid full employment, the U.S. economy sails into unsettled normalcy. While many economic indicators drift toward historic norms, some still haven't fully stabilized. Many key questions remain as policymakers chart a course for the storied soft landing on solid economic ground, including the following:

- **Inflation –** Head-fake or trending to normal?
- **Interest Rates** – Settle in, dip, or finally fully bite?
- **Labor Markets** – Remain robust or soften?
- **Household Wealth** – Drawn down or supporting further consumption?
- **Federal Debt and Deficit** – Movement toward sustainability or more fiscal mayhem?
- **Geopolitical Events** – Calming or disruptions to supply chains and confidence?
- **Consumer Sentiment** – Staying low or realigning with actual consumer behavior?
- **Leap Year Surprise** – Known unknowns or unknown unknowns?

Figure 9: Utah Components of Population Change, 1950–2023



Source: Utah Population Estimates Committee and Utah Population Committee

Looking forward to 2024, the Utah Economic Council projects continued economic growth, albeit at a decelerated pace compared to 2023. Forecasts call for slowing inflation, and moderate growth in job markets, personal income, consumer purchases, and home prices. Utah's residential construction could begin to rebound if interest rates continue to drop, potentially offsetting tempering commercial construction.

In sum, with the U.S. and Utah economies continuing their return to normalcy, uncertainties still abound.

Please visit gardner.utah.edu to read the full 2024 Economic Report to the Governor.

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