National Outlook

Overview

The current economic recession is most evident in manufacturing, inventory liquidation, and capital spending. Despite the decline in employment growth, consumer spending remained relatively strong in 2001, growing by 2.7%. However, this represents a slowdown from 2000's growth of 4.8%. 2002 will be a year of moderate economic rebuilding. GDP will grow a small 0.4% with a decline in business fixed investment (5.3%) and an additional drop in the rate of consumer spending growth (1.3%). Growth should become stronger in the second half of 2002.

2001-- Summary of Economic Conditions

The current economic recession is most evident in manufacturing, inventory liquidation, and capital spending. With the deterioration of the NASDAQ index, the IPO (initial public offering) business has been put on hold. This has strongly impacted business investment. Real (adjusted for inflation) business fixed investment in 2000 grew 7.6%. By contrast, in 2001 it fell by 2.4%. The strong U.S. dollar and weakening foreign economies have softened demand for U.S.-produced goods, thus hurting exports. Although productivity growth remains healthy, business profits are down. In 2000, before-tax profits grew by 8.9%; in 2001 they reversed course and fell 16.7%.

Annual average 2001 employment grew a trepid 0.4%, a marked drop from 2000's 2.2% growth. Concurrently, the unemployment rate jumped from 4.0% in 2000 to 4.8% for 2001. Despite the decline in employment growth, consumer spending remained relatively strong in 2001, posting growth of 2.7%. However, 2000's growth was a robust 4.8%. In addition to slowing employment, the stock market's dip reduced consumer spending. For example, many baby-boomers slowed their spending and increased savings to offset losses to their retirement portfolios. The September 11th terrorist attacks on Washington and New York finally pushed a weak economy into recession as consumers retrenched and businesses scrambled to deal with the negative impacts.

Despite all the bad news, monetary stimulus by the Federal Reserve has positively affected consumers and tempered downward pressures on the economy. Due to lower mortgage rates, residential investment remained strong in 2001 with growth of 5.1%. This was down only slightly from the 2000 level of 5.3% growth. Consumers were also helped by refinancing and considerably lower oil and natural gas prices.

2002-- Economic Outlook

2002 will be a year of moderate economic rebuilding. GDP will grow a small 0.4% with a decline in real business fixed investment of 5.3% and an additional drop in consumer spending to 1.3%. However, growth will become stronger in the second half of 2002. Positives for both businesses and consumers include low long-term and short-term interest rates and a stable inflation outlook.

Businesses have lowered previously built-up inventories to more acceptable levels. This will help manufacturers ramp-up production and bring temporarily laid-off workers back to work. Still, real business fixed investment will decline 5.3% in 2002 due to low capacity utilization of existing plants and equipment. Capacity utilization should increase in the second half of 2002 due to lower inventories and growth in consumer demand. This will spur business investment. Even so, the unemployment rate in 2002 will climb to 6.2% with declines occurring after mid-year.

Stored-up demand from the previous two years will boost consumer spending in the second half of 2002. Export growth will be weak in the first half of the year but should recover in the second half. Uncertainty surrounds oil prices as OPEC and non-OPEC nations make moves to reduce output.

Significant Issues

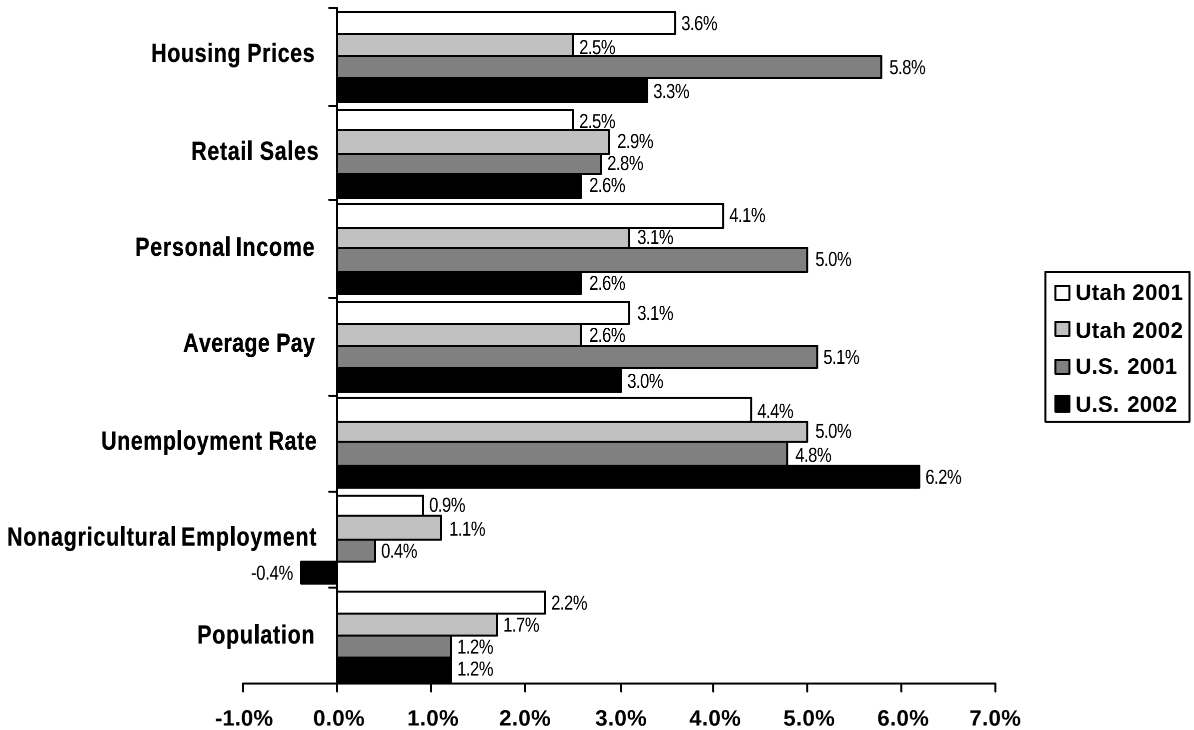
The National Bureau of Economic Research, the official arbiter of business cycles, has established that the current U.S. recession began in March of 2001. The sound fundamentals of the economy (accelerated pace of technological change and productivity growth) will help restore growth following this downturn. This recession should be short-lived and moderate in magnitude when compared to previous recessions since World War II.

The current War on Terror is a potential risk to the economy in 2002. The war could have a negative effect on both consumer and business confidence and spending if additional terrorist attacks occur. Security concerns regarding global business connections could also affect the recovery. Congress is working on a compromise economic stimulus package. If a package passes Congress, it will help boost economic recovery.

Conclusion

Real business fixed investment fell by 2.4% in 2001. It will drop by an additional 5.3% in 2002. Personal consumption growth will also remain weak at 1.3% in 2002. Nonetheless, investments, exports, and consumer spending will rebound during the second half of 2002. Monetary and fiscal stimulus along with a fundamentally sound economy indicates that this recession should be short-lived and moderate in magnitude.

Figure 1
Comparison of Utah and U.S. Economic Indicators
2001 Estimates and 2002 Forecasts



Source: Council of Economic Advisors' Revenue Assumptions Committee