

Price Inflation and Cost of Living

Overview

Inflation remained steady at an estimated 3.3% in 2006, compared to 3.4% in 2005, as measured by the Consumer Price Index (CPI). The Gross Domestic Product chain-type price deflator was also stable at an estimated 2.9% in 2006, from 3.0% in 2005.

2006 Summary

Consumer Price Index. The national rate of inflation remained steady in 2006. The CPI for Urban Consumers (CPI-U) increased by 3.3% in 2006, measured on an annual average basis, compared with 3.4% in 2005. Inflation is expected to slow in the near term, as forecasts project the index to increase at a lower rate of 2.1% through 2007.

Price Deflators. The United States shifted from measuring economic production with the Gross National Product (GNP) to Gross Domestic Product (GDP) in 1991. GNP is the market value of goods and services produced by property and labor supplied by residents of the United States. GDP is the market value of goods and services produced by labor and property in the United States, regardless of nationality. These measures are used to produce price deflators which account for the way prices change in the economy. These price deflators differ slightly in accounting for inflation versus alternative methods, such as the CPI. While the CPI measures price changes for a fixed basket of goods and services, the price deflators allow for substitution among changing goods and services in the economy along with changing prices.

Gross Domestic Product. In 2006, the GDP chain-type implicit price deflator increased by an estimated 2.9%. The GDP personal consumption deflator in 2006 increased by an estimated 2.9% the same growth experienced in 2005. Beginning in 1996, the real GDP has been reported using a chain-weighted inflation index. Under this method, the composition of economic output (weighting) is updated annually.

Utah Cost of Living. The Wells Fargo Cost of Living Index is prepared monthly and includes comparative data for the Wasatch Front. Price data for this index are produced by Case Research, an independent research firm. The methodology employed in the design of this index is reportedly similar to the Bureau of Labor Statistics CPI.

Cost of living along the Wasatch Front grew at a slower rate during much of 2006, moving from 158.6 in October of 2005 to 157.1 in October of 2006. The cost of transportation declined 15.3% during this period, likely in response to lower gas prices, while the cost of housing increased 3.1% reflecting the robust housing market. In comparison to the national figures, Utah's prices appeared to be more stable at 0.8% growth

in the first ten months of 2006 than the prices throughout the country which grew by 3.4% over the same period.

Significant Issues

Labor Market. The state's unemployment rate decreased in 2006, dropping from 4.3% in 2005 to a near record low of 3.3% in 2006. Utah's rate declined at a faster rate than the nation, which decreased from 5.1% in 2005 to 4.6% in 2006. Unemployment is expected to increase slightly during 2007, though it will continue to remain near historic lows. The average annual wage growth for Utah in 2005 was revised to 81.9% of the nation's average, up from an estimated 81.7% for 2004. The ratio of Utah's average annual pay to the nation's annual pay in 2006 declined to 81.2%. However, the wage growth in 2006 was above that of inflation, as the real wage grew at 2.1%. Utah nonagricultural job growth also increased 5.2% in 2006, compared to an increase of 4.0% in 2004. Because of the pace of the current expansion, the labor market may experience some friction in the near term due to labor shortages.

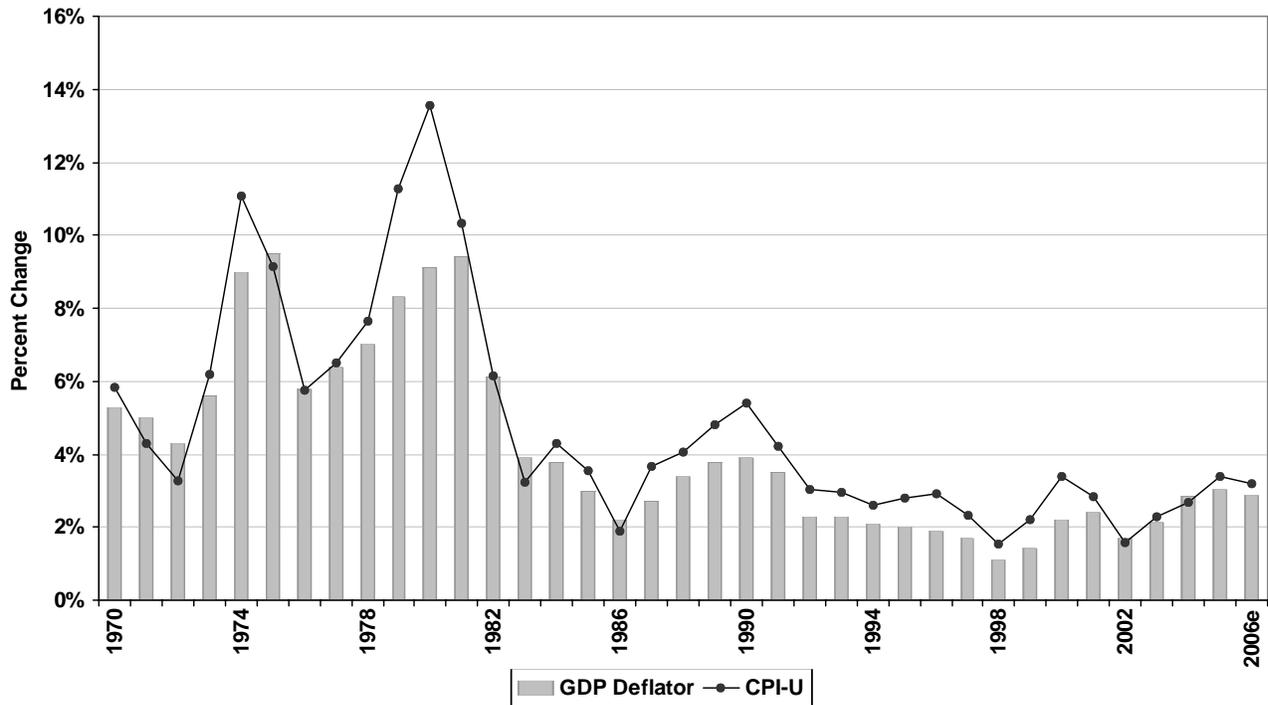
Housing. Freddie Mac reported interest rates on 30-year and 15-year fixed-rate mortgages in 2006 continued to be among the lowest rates in three decades. However, mortgage rates are expected to ease upward throughout 2007. Whether these modest increases will dampen the booming growth in residential construction will depend on the relative price movements of other housing markets and migration. The Office of Federal Housing Price Oversight indicated that Utah's housing price appreciation is still accelerating, even with cooling national prices. Moving from 50th in the nation in the third quarter of 2004, 22nd in the nation in the third quarter of 2005, to second in the nation in the third quarter of 2006.

Federal Reserve. In 2006, the Federal Open Market Committee halted increases in the federal funds rate after two years and 17 consecutive quarter-point increases. While fears of inflation remain the Committee's greatest concern, the federal funds rate could remain at its 5.25%-level through 2007 or even fall if economic growth slows. Regardless, interest rates in 2006 and those projected through 2007 remain relatively low, from a historical perspective.

Conclusion

Economic indicators show a growing, if softening, national economy in 2007. Inflation fears still seem to have been contained, while a weaker housing market and high energy prices have not derailed the economy. National worries of a sharp correction in housing markets seem to have diminished, but are still cautious through 2007. Unemployment is expected to remain stable, perhaps inching upward throughout the year.

Figure 41
Consumer Price Index and Gross Domestic Price Deflator



e = estimate

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, estimates by Governor's Office of Planning and Budget

Table 50
Wells Fargo Cost of Living Index Wasatch Front-Area

Year	Month	Housing	Transportation	Health Care	Food at Home	Clothing	Food Away	Utilities	Recreation	Education & Communications	Other Goods & Services	All Categories
2005	Oct	177.1	158.1	157.3	189.5	120.7	162.2	131.4	129.9	117.2	104.2	158.6
	Nov	177.1	143.9	157.4	190.0	114.1	162.2	130.0	129.9	117.2	104.2	155.7
	Dec	177.1	142.1	157.3	193.0	121.5	162.2	130.0	129.9	117.2	104.3	156.1
2006	Jan	177.1	148.0	157.4	191.3	118.8	162.2	130.0	129.9	117.2	104.3	156.9
	Feb	177.1	147.7	157.4	188.9	121.4	162.2	130.0	132.6	119.1	104.3	157.0
	Mar	177.1	148.1	157.3	189.2	121.7	162.2	130.0	132.6	119.1	104.3	157.1
	Apr	178.5	149.6	157.3	190.4	117.3	162.2	130.0	132.6	119.1	104.3	157.7
	May	178.5	152.1	157.3	189.8	117.3	162.2	130.0	132.6	119.1	104.3	158.1
	Jun	178.5	153.1	157.3	190.6	121.2	162.2	130.0	135.6	124.6	104.3	159.0
	Jul	182.4	154.9	157.4	188.5	116.4	162.2	130.0	135.6	124.6	104.3	160.0
	Aug	182.4	152.2	157.4	191.7	118.0	162.2	130.0	135.6	124.6	104.3	159.9
	Sep	182.6	143.3	157.4	191.5	121.2	162.2	130.0	135.6	124.6	104.3	158.5
	Oct	182.6	134.0	157.4	194.6	119.1	162.2	130.0	139.1	124.6	104.3	157.1
Oct-Oct % Change		3.1%	-15.3%	0.1%	2.7%	-1.3%	0.0%	-1.0%	7.1%	6.3%	0.1%	-0.9%

Source: Wells Fargo Bank

Table 51

United States Consumer Price Index for All Urban Consumers (1982-1984=100): (Not Seasonally Adjusted)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Avg. Index	Dec-Dec Percent Change	Annual Avg. Percent Change
1959	29.0	28.9	28.9	29.0	29.0	29.1	29.2	29.2	29.3	29.4	29.4	29.4	29.1		
1960	29.3	29.4	29.4	29.5	29.5	29.6	29.6	29.6	29.6	29.8	29.8	29.8	29.6	1.4%	1.5%
1961	29.8	29.8	29.8	29.8	29.8	29.8	29.8	30.0	29.9	30.0	30.0	30.0	29.9	0.7%	1.1%
1962	30.0	30.1	30.1	30.2	30.2	30.2	30.3	30.3	30.4	30.4	30.4	30.4	30.2	1.3%	1.2%
1963	30.4	30.4	30.5	30.5	30.5	30.6	30.7	30.7	30.7	30.8	30.8	30.9	30.6	1.6%	1.2%
1964	30.9	30.9	30.9	30.9	30.9	31.0	31.1	31.0	31.1	31.1	31.2	31.2	31.0	1.0%	1.3%
1965	31.2	31.2	31.3	31.4	31.4	31.6	31.6	31.6	31.6	31.7	31.7	31.8	31.5	1.9%	1.6%
1966	31.8	32.0	32.1	32.3	32.3	32.4	32.5	32.7	32.7	32.9	32.9	32.9	32.4	3.5%	3.0%
1967	32.9	32.9	33.0	33.1	33.2	33.3	33.4	33.5	33.6	33.7	33.8	33.9	33.4	3.0%	2.8%
1968	34.1	34.2	34.3	34.4	34.5	34.7	34.9	35.0	35.1	35.3	35.4	35.5	34.8	4.7%	4.3%
1969	35.6	35.8	36.1	36.3	36.4	36.6	36.8	37.0	37.1	37.3	37.5	37.7	36.7	6.2%	5.5%
1970	37.8	38.0	38.2	38.5	38.6	38.8	39.0	39.0	39.2	39.4	39.6	39.8	38.8	5.6%	5.8%
1971	39.8	39.9	40.0	40.1	40.3	40.6	40.7	40.8	40.8	40.9	40.9	41.1	40.5	3.3%	4.3%
1972	41.1	41.3	41.4	41.5	41.6	41.7	41.9	42.0	42.1	42.3	42.4	42.5	41.8	3.4%	3.3%
1973	42.6	42.9	43.3	43.6	43.9	44.2	44.3	45.1	45.2	45.6	45.9	46.2	44.4	8.7%	6.2%
1974	46.6	47.2	47.8	48.0	48.6	49.0	49.4	50.0	50.6	51.1	51.5	51.9	49.3	12.3%	11.1%
1975	52.1	52.5	52.7	52.9	53.2	53.6	54.2	54.3	54.6	54.9	55.3	55.5	53.8	6.9%	9.1%
1976	55.6	55.8	55.9	56.1	56.5	56.8	57.1	57.4	57.6	57.9	58.0	58.2	56.9	4.9%	5.7%
1977	58.5	59.1	59.5	60.0	60.3	60.7	61.0	61.2	61.4	61.6	61.9	62.1	60.6	6.7%	6.5%
1978	62.5	62.9	63.4	63.9	64.5	65.2	65.7	66.0	66.5	67.1	67.4	67.7	65.2	9.0%	7.6%
1979	68.3	69.1	69.8	70.6	71.5	72.3	73.1	73.8	74.6	75.2	75.9	76.7	72.6	13.3%	11.3%
1980	77.8	78.9	80.1	81.0	81.8	82.7	82.7	83.3	84.0	84.8	85.5	86.3	82.4	12.5%	13.5%
1981	87.0	87.9	88.5	89.1	89.8	90.6	91.6	92.3	93.2	93.4	93.7	94.0	90.9	8.9%	10.3%
1982	94.3	94.6	94.5	94.9	95.8	97.0	97.5	97.7	97.9	98.2	98.0	97.6	96.5	3.8%	6.1%
1983	97.8	97.9	97.9	98.6	99.2	99.5	99.9	100.2	100.7	101.0	101.2	101.3	99.6	3.8%	3.2%
1984	101.9	102.4	102.6	103.1	103.4	103.7	104.1	104.5	105.0	105.3	105.3	105.3	103.9	3.9%	4.3%
1985	105.5	106.0	106.4	106.9	107.3	107.6	107.8	108.0	108.3	108.7	109.0	109.3	107.6	3.8%	3.5%
1986	109.6	109.3	108.8	108.6	108.9	109.5	109.5	109.7	110.2	110.3	110.4	110.5	109.6	1.1%	1.9%
1987	111.2	111.6	112.1	112.7	113.1	113.5	113.8	114.4	115.0	115.3	115.4	115.4	113.6	4.4%	3.7%
1988	115.7	116.0	116.5	117.1	117.5	118.0	118.5	119.0	119.8	120.2	120.3	120.5	118.3	4.4%	4.1%
1989	121.1	121.6	122.3	123.1	123.8	124.1	124.4	124.6	125.0	125.6	125.9	126.1	124.0	4.6%	4.8%
1990	127.4	128.0	128.7	128.9	129.2	129.9	130.4	131.6	132.7	133.5	133.8	133.8	130.7	6.1%	5.4%
1991	134.6	134.8	135.0	135.2	135.6	136.0	136.2	136.6	137.2	137.4	137.8	137.9	136.2	3.1%	4.2%
1992	138.1	138.6	139.3	139.5	139.7	140.2	140.5	140.9	141.3	141.8	142.0	141.9	140.3	2.9%	3.0%
1993	142.6	143.1	143.6	144.0	144.2	144.4	144.4	144.8	145.1	145.7	145.8	145.8	144.5	2.7%	3.0%
1994	146.2	146.7	147.2	147.4	147.5	148.0	148.4	149.0	149.4	149.5	149.7	149.7	148.2	2.7%	2.6%
1995	150.3	150.9	151.4	151.9	152.2	152.5	152.5	152.9	153.2	153.7	153.6	153.5	152.4	2.5%	2.8%
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	156.9	3.3%	2.9%
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	160.5	1.7%	2.3%
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	163.0	1.6%	1.6%
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	166.6	2.7%	2.2%
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	172.2	3.4%	3.4%
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	177.1	1.6%	2.8%
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	179.9	2.4%	1.6%
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	184.0	1.9%	2.3%
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.8	189.9	190.9	191.0	188.9	3.3%	2.7%
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	199.6	196.8	195.3	3.4%	3.4%
2006e	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	200.6	203.0e	201.6e	3.2%	3.3%

e = estimate

Sources: Bureau of Labor Statistics, estimates by the Governor's Office of Planning and Budget

Table 52

Gross Domestic Product Price Deflators: 2000=100

Year	Gross Domestic Product (Chain-Type) Deflator	Change from Previous Year	Personal Consumption Expenditures (Chain-Type) Deflator	Change from Previous Year
1969	26.1		25.3	
1970	27.5	5.3%	26.4	4.7%
1971	28.9	5.0%	27.6	4.3%
1972	30.2	4.3%	28.5	3.5%
1973	31.8	5.6%	30.1	5.4%
1974	34.7	9.0%	33.2	10.3%
1975	38.0	9.5%	36.0	8.3%
1976	40.2	5.8%	37.9	5.5%
1977	42.8	6.4%	40.4	6.5%
1978	45.8	7.0%	43.2	7.0%
1979	49.5	8.3%	47.1	8.8%
1980	54.0	9.1%	52.1	10.7%
1981	59.1	9.4%	56.7	8.9%
1982	62.7	6.1%	59.9	5.5%
1983	65.2	3.9%	62.4	4.3%
1984	67.7	3.8%	64.8	3.8%
1985	69.7	3.0%	66.9	3.3%
1986	71.3	2.2%	68.6	2.4%
1987	73.2	2.7%	70.9	3.5%
1988	75.7	3.4%	73.8	4.0%
1989	78.6	3.8%	77.0	4.4%
1990	81.6	3.9%	80.5	4.6%
1991	84.4	3.5%	83.4	3.6%
1992	86.4	2.3%	85.8	2.9%
1993	88.4	2.3%	87.8	2.3%
1994	90.3	2.1%	89.7	2.1%
1995	92.1	2.0%	91.6	2.1%
1996	93.9	1.9%	93.5	2.2%
1997	95.4	1.7%	95.1	1.7%
1998	96.5	1.1%	96.0	0.9%
1999	97.9	1.4%	97.6	1.7%
2000	100.0	2.2%	100.0	2.5%
2001	102.4	2.4%	102.1	2.1%
2002	104.2	1.7%	103.5	1.4%
2003	106.4	2.1%	105.6	2.0%
2004	109.4	2.8%	108.4	2.6%
2005	112.7	3.0%	111.5	2.9%
2006e	116.0	2.9%	114.7	2.9%

e = estimate

Sources: Bureau of Economic Analysis, estimates by the Governor's Office of Planning and Budget