ECCLES

BUSINESS SURVEY

May 2021

Mac Gaulin | Nathan Seegert | Mu-Jeung Yang

Inside

Executive Summary

In May, the Utah economy continued to grow with expectations for further growth, staying in the boom territory. Despite the expectations for higher growth, the amount of growth expected is slowing down relative to April. Businesses report 6% higher revenues than at this time in 2019, up from 5% in April. They expect revenues to grow to 8% over 2019 revenues, though this expectation is lower than the 10% from April.

Over the next year, Utah businesses expect steady revenue growth relative to 2019. Two industries expect growth to accelerate: "Transportation and Warehousing" and "Arts, Entertainment, and Recreation." Businesses see fewer risks moving forward both from COVID-related items (for example CDC/OSHA mandates) and economic conditions (for example, customer willingness to pay). Inflation risk is slowly increasing but remains low, as there is only a small increase in the percent of businesses considering price changes in May relative to April. The average size of these price changes also increased in May relative to April but this could be a temporary correction to pandemic-induced pricing cuts.

CURRENT BUSINESS CLIMATE

We quantify the general business climate by asking respondents to compare their current revenue and their revenue expectations over the next three months to their revenues in the same month in 2019, to account for the change since pre-pandemic "normal." This relative revenue comparison is also useful since reported values will take seasonality into account: for example, the holiday shopping season in December. Current and expected revenues define four business cycle regions; boom, downturn, recession, and recovery. Specifically, when businesses have current and expected revenues above those of the same month in 2019, we designate them as in a boom. Similarly, when businesses have current and expected revenues below those of the same month in 2019, we designate them as in recession. In contrast, firms are classified as being in a downturn if current revenues are higher than 2019 levels, but

SORENSON IMPACT

Utah Health & Economic Recovery Outreach

MARRINER S. ECCLES INSTITUTE FOR ECONOMIC AND QUANTITATIVE ANALYSIS
THE UNIVERSITY OF UTAH

DAVID ECCLES SCHOOL OF BUSINESS

Figure 1: Business Cycle

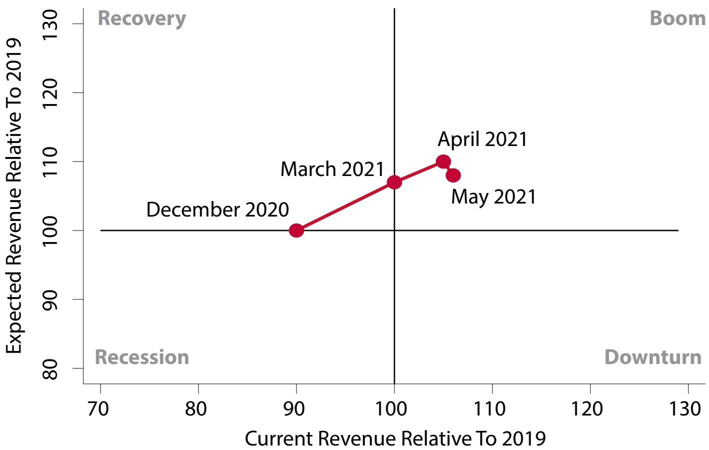
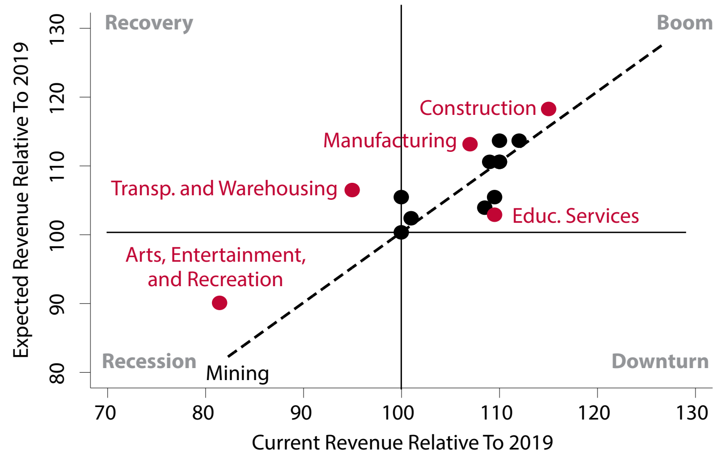


Figure 2: Business Cycle by Industry



expected revenues over the next 3 months are lower than 2019 levels. Similarly, firms reporting that their current revenues are below 2019 levels but are expecting revenues in the next 3 months to be above 2019 levels are classified as being in recovery territory.

Figure 1 shows that Utah remains in the boom territory in May. Relative to April, current revenues are higher, signaling both the continued strength of the economy and the ability of businesses to predict this growth from previous months. However, although expected revenues remain high, they have dropped below expectations from April. All data points in Figure 1 are the median responses across all industries, which we use to minimize the effect of outliers.

Figure 2 shows strong economic growth across almost all industries. Among the few industries still slow to recover are Mining, Quarrying, and Oil and Gas Extraction and Arts, Entertainment, and Recreation. Businesses in the Transportation and Warehousing industry continue to expect higher revenues in the near future but are still lagging some other industries in terms of current revenue growth. In May, relative to April, industries generally moved closer to the dashed line where current revenue growth and expected revenue growth are the same. This suggests a steadily growing economy.

LONGER-TERM BUSINESS EXPECTATIONS

Businesses expect steady growth through next year. **Figure 3** reports the median expected recovery over the next year by industry and in the overall economy. Utah businesses across all industries expect continued growth. Even some slow-to-recover industries are expecting large gains in the next year, including Arts, Entertainment, and Recreation and Transportation and Warehousing.

Figure 3: Longer-term Revenue Expectations

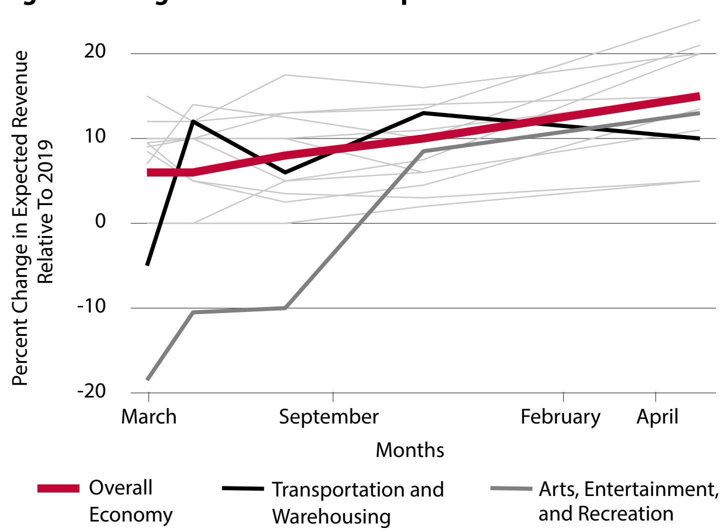


Figure 4: Risk Perceptions

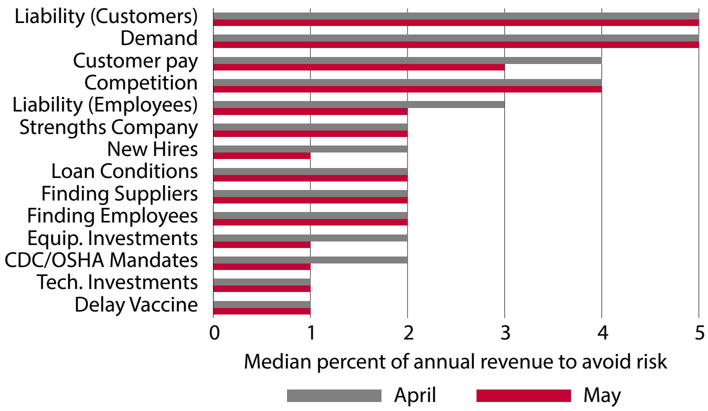


Figure 5: Slow-to-Recover Firms

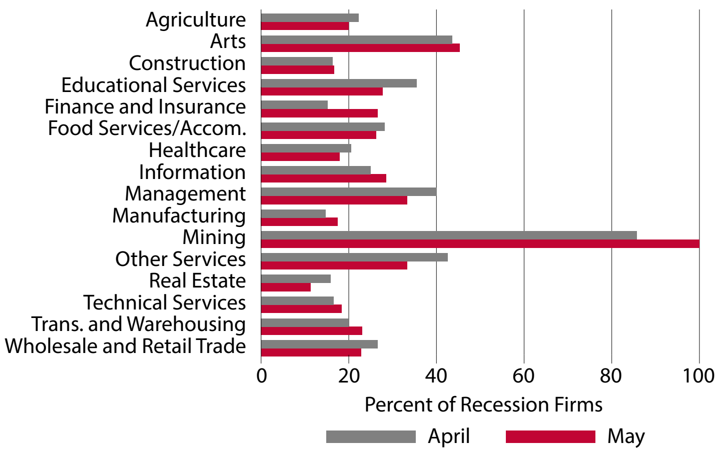


Figure 6: Hiring Expectations

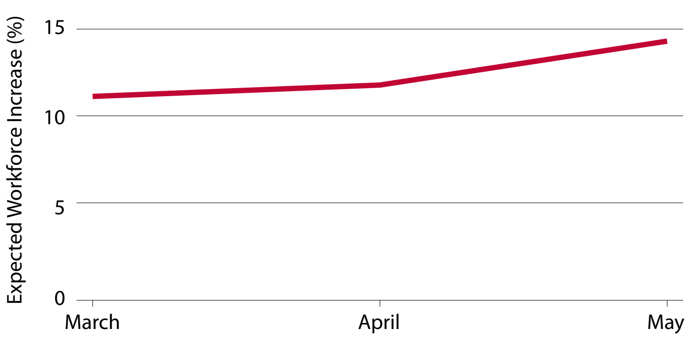
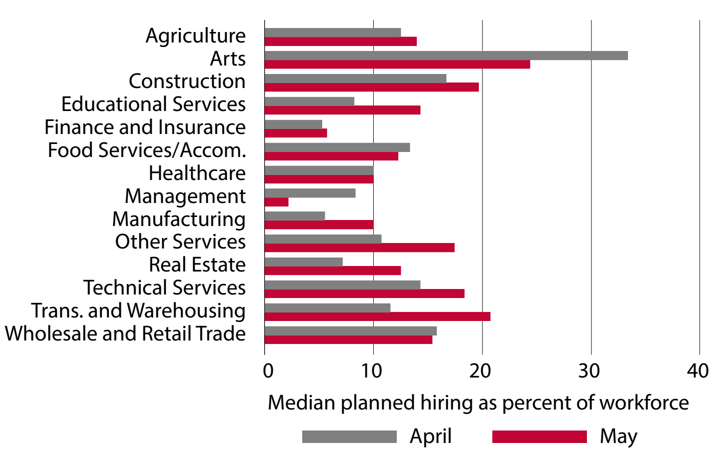


Figure 7: Hiring Expectations by Industry



RISK PERCEPTIONS

To quantify risk perceptions, we ask Utah businesses what percentage of annual revenues they would be willing to forgo to avoid different types of risks, with a higher percentage indicating a higher perceived risk.

Overall, risk perceptions decreased from April in some categories and remained steady in others, as reported in. The top three concerns are uncertainty about liability from customers surrounding COVID-19, uncertainty about overall demand, and uncertainty about competition. Businesses are becoming less concerned about risks from customer willingness to pay, liability from employees, finding new hires, and CDC/OSHA Mandates. These reductions likely reflect lower COVID-19 risks and a strong economy lowering certain types of risks.

SLOW TO RECOVER BUSINESSES

While most industries are in boom territory, many industries contain a substantial number of firms that are slow to recover. In other words, they currently have revenues below their April 2019 levels and expect revenues to remain below the 2019 level in the next 3 months. We report changes in the percentage of these "recession firms" in **Figure 5**. Unsurprisingly, the industry with the highest percentage of slow to recover businesses is in the Mining, Quarrying, and Oil and Gas Extraction industry. Arts, Entertainment, and Recreation, and Management of Companies are also industries with a relatively large number of slow-to-recover businesses. Several industries saw fewer slow-to-recover businesses, including, Accommodation and Food Services, Educational Services, Other services, Management of Companies and Wholesale and Retail Trade.

HIRING

Figure 6 shows that businesses are expecting to increase their workforce, a trend which has accelerated since March. Specifically, businesses reported looking to increase their workforce by more than 10% in April, which grew to nearly 15% in May. Notably, the majority of firms in our sample are small businesses, so large companies might still be hesitant to aggressively hire. The large interest in hiring and the increasing trend are indicative of a strong and growing economy.

Figure 7 highlights differences in planned hiring across industries. For this figure, we calculated the number of planned hires for the next month, relative to the number of existing employees (including the business owner). This percentage tends to be high, as many of the businesses we survey are relatively small in terms of employees. **Figure 7** shows that planned hiring is relatively high across all industries, with Arts, Entertainment, and Recreation and Construction showing the

Figure 8: Price Changes

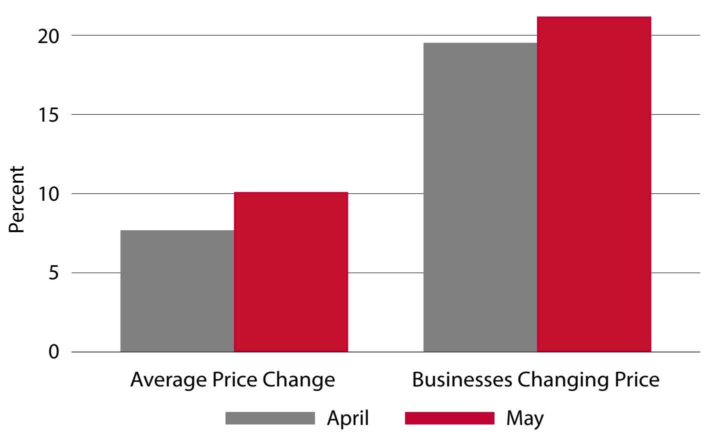
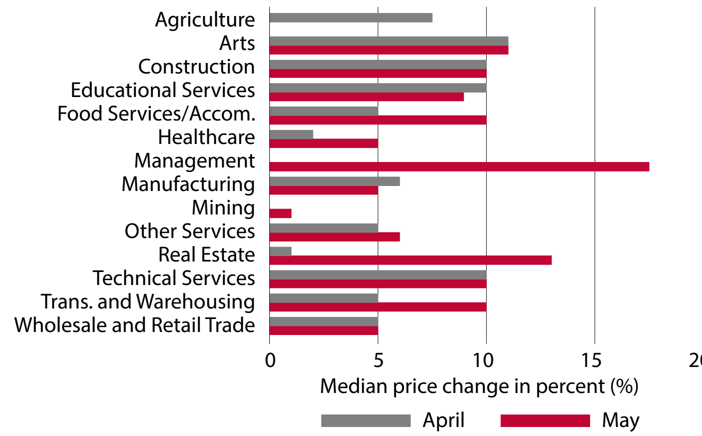


Figure 9: Price Changes by Industry



most substantial ongoing hiring plans. For Arts, Entertainment and Recreation, this is likely to reflect the continuing recovery from low employment levels during COVID-19, while Construction has displayed strong employment growth throughout the pandemic. Another industry that displays strong job growth is Transportation and Warehousing, which is closely related to the ongoing strength of e-commerce.

PRICING AND INFLATION

A key potential concern of a booming economy is inflation. To track the risk of inflation for the Utah economy, we ask businesses whether they changed their average prices last month and, if so, by how much. In the context of firms' pricing behavior, it is useful to keep in mind that most businesses change their prices infrequently and, therefore, also tend to set their prices higher if they expect high future growth or future inflation. **Figure 8** reports both the number of businesses that reported price changes, as well as the median reported price changes (in percent). What we find is that nearly 20% of firms report changing a price last month and this percentage increased slightly, to nearly 22%, in May. Similarly, Figure 8 shows that businesses are increasing prices by an average of 10% in May, up from 7% in April. The implied ("producer price") inflation from these estimates is approximately 2%, but it should be noted that many firms likely cut prices during the COVID-19 recession and that price rises are therefore likely to be temporary efforts to restore previous pricing.

Figure 9 provides additional insight into inflation trends across industries. Overall, price changes are still distributed somewhat unevenly, which is consistent with the view that the Utah economy is not yet suffering from sustained inflation. Among the industries with the biggest increases in inflation are Real estate and rental and leasing and Management of Companies, while inflation has tended to be high in Construction, Professional and Technical Services and Arts, Entertainment, and Recreation. Again, the price increases in Arts, Entertainment and Recreation are likely reflecting reversals of price decreases during the pandemic, while more of the inflation in Construction seems to be due to the current housing boom in the urban areas of Utah.