Jonathan Schechter – "Corpus Callosum" Column
***Jackson Hole News&Guide* – May 18, 2011**

As I write this, the sun has been shining for four straight days. More or less. It's spring, so the glory of the newly-emergent sunshine has been tempered by rain, wind, and general crumminess. But still – the flowers are blooming; a neighbor's mowing his lawn; and my aspens have started to push out their buds. So let's find something to celebrate.

How about the fact that, when judged by taxable sales, the local economy, too, is showing signs of life. Not uniformly – as with the weather, things are far from even. But on balance, there's reason to be optimistic.

Graph 1 shows Teton County's taxable sales over the last 14 years. During that time, our taxable economy has gone through five basic phases:

Phase I – 4 years of extraordinary growth.
Phase II – 2 years of stagnation
Phase III – 5+ years of strong growth
Phase IV – 2 years of extraordinary collapse
Phase V – our current 9 months of tepid recovery

The key here is the last word of the last sentence: it may be tepid, but taxable sales are recovering, rising 1.7 percent since bottoming out last July. Annualized, that's a 2.2 percent growth rate; not great, but about what the nation's doing. More importantly, it sure beats the previous two years, when total taxable sales declined 20 percent.

Perversely, it's even more encouraging that the recovery is wildly uneven. As Graph 2 and Tables 1 and 2 show, three of the six basic categories of taxable sales are actually doing quite well: Over the last nine months, restaurant sales are up 12 percent, overall retail (less building supplies) is up 5 percent, and the catch-all "all other" category is up over 4 percent. Even auto sales are showing some life.

The problem lies in two industries: lodging and construction.

Local lodging sales hit their peak in the fall of 2008. During the following year, not only did the world's financial markets collapse, so did the local lodging industry: between September 2008 and September 2009, their revenues declined 20 percent. Since then, although no longer hemorrhaging, the lodging industry continues to bleed: Even with this year's big jump in skier days, local lodging revenues have declined around 3 percent/year for the past 19 months.

Which rocks when compared to our construction industry.

Lodging is highly sensitive to overall economic trends. In contrast, construction lags. As a result, even after the overall local economy started to slump, local construction kept growing. In early 2009, however, construction went into freefall, with taxable sales declining nearly 40 percent over the following year. Since last spring, that decline has slowed to "only" 15 percent per year.

Because it's the second-biggest contributor to taxable sales, the decline in lodging knocked 3 percent off our total taxable sales revenues during the past year, single-handedly wiping out the retail sector's 7 percent gain. Construction – with its much bigger drop but much smaller dollar value – knocked off another 2 percent. Get rid of these two deadweights, and the local taxable economy is growing at an annualized rate of over 8 percent. That's almost as glorious as the weather last weekend. (Graph 3)

But of course you can't simply wish away lodging or construction, for both are integral to the local economy. Furthermore, there's reason to be optimistic about lodging's future. Two reasons in fact. Reason

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one is that, in the same way local eateries adjusted to the new economic realities, hotels also seem to be adapting. Hence their much-slower decline this past year.

Reason two is that Wall St. is flush again. As a result, investment banks have reverted to their ethically-challenged ways and are once again spending zillions on junkets. The crumbs from their "let them eat cake" junkets have benefitted Jackson Hole in the past, and all indications are that we'll soon be getting new infusions of Wall Street's crumbs. Laissez les bons temps rouler.

Adding to the optimism is that, over the next few years lodging tax expenditures should start luring more folks into our hotel rooms. This won't make a huge difference, but when combined with hoteliers' improved business practices and investment bankers' crumbs, the lodging industry's bleeding should be fully stanched within a year or so.

Unfortunately, construction is another story altogether. Simply put, there's no reason to be optimistic about our construction economy. Why? Because between 2004 and 2009, we crammed 1-2 decades' worth of construction into one glorious boom, and we'll be living with the consequences for quite a while to come.

In particular, when corrected for inflation, between the spring of 2004 and the beginning of 2009, Teton County's construction-related sales taxes climbed an average of 1.3 percent per *month*. Since then, they've declined twice as fast: -2.7 percent per *month* for the past 27 months. As a result, construction-related taxable sales today are about half of what they were at their peak; four years' of growth wiped out in just two. And without much new construction in the pipeline, things will only continue to decline. (Graph 4)

There are two glimmers of sunshine here. The pathetic glimmer is that at least we're not Teton County, Idaho, which had a far more explosive boom, and became far more dependent ton construction for its jobs, wages, and taxable sales. They're in desperate trouble; we're merely struggling. The hopeful glimmer is that we're going into the summer building season, so the rate of decline will likely slow for the next several months.

But the reality is that, when it comes to our construction economy, during the latter part of the last decade we were on a rip-snorting bender. And like anyone who's been on a rip-snorting bender can tell you, recovery takes far longer than you'd like – usually far longer than the bender itself.

In particular, when it comes to the local construction economy, we won't be getting back to "normal" any time soon, if ever. If you'd like to learn more, take a look at the *Jackson Hole Compass* in today's *Jackson Hole News&Guide*, or come to the "State of the Community" symposium on Thursday, May 19, from 1-5 pm at Snow King's Grand View Lodge ballroom. More information is available at JHCompass.com.

Table 1
Teton County, WY: Taxable Sales by Category
Changes since Hitting Bottom in July 2010

Category	Dollar Change Since July 2010	Percentage Change Since July 2010	Annualized Change Since July 2010
Retail	$12,326,385	5.0%	6.8%
Lodging	($12,152,359)	-5.7%	-7.5%
All Other	$8,042,007	4.2%	5.6%
Restaurants	$15,084,066	12.4%	16.8%
Construction	($9,225,553)	-10.8%	-14.1%
Autos	$782,285	1.9%	2.6%
Total	$14,856,831	1.7%	2.2%

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Table 2
Teton County, WY: Taxable Sales by Category
Compounded Annual Growth Rate During Growth Phases

	Phase I *Apr. 97- Jul. 01*	Phase II *Jul. 01 - Apr. 03*	Phase III *Apr. 03 - Sep. 08*	Phase IV *Sep. 08 - Jul. 10*	Phase V *Jul. 10 - today*
Retail	8.4%	-1.9%	5.3%	-9.9%	6.8%
Lodging	11.9%	1.8%	14.4%	-11.1%	-7.5%
All Other	20.8%	0.7%	-1.3%	-7.4%	5.6%
Restaurants	0.3%	-1.9%	6.7%	-6.6%	16.8%
Construction	9.5%	-7.3%	16.2%	-22.4%	-14.1%
Autos	4.9%	1.3%	3.5%	-23.2%	2.6%
Total	10.3%	-0.8%	6.4%	-11.4%	2.2%
Total w/o Construction	10.4%	-0.3%	5.4%	-10.0%	4.0%
Total w/o Lodging	10.0%	-1.3%	4.6%	-11.6%	5.3%
Total w/o Construction and Lodging	10.1%	-0.7%	3.1%	-9.6%	8.1%

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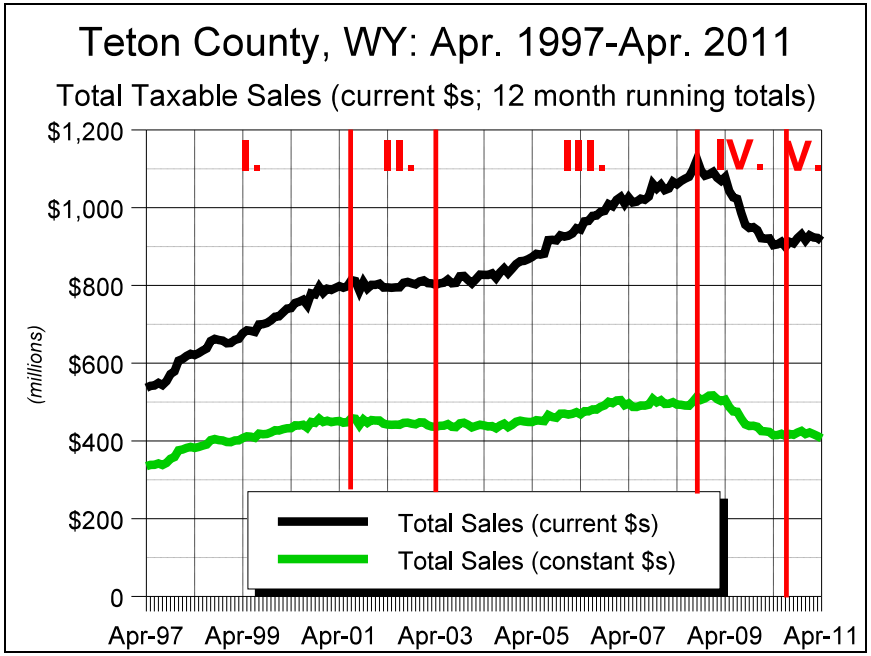
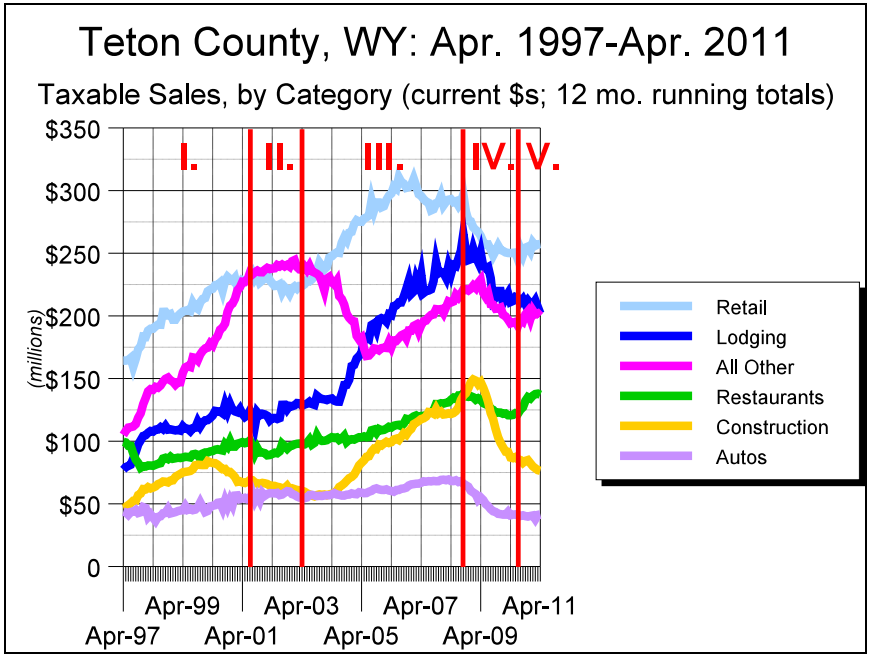
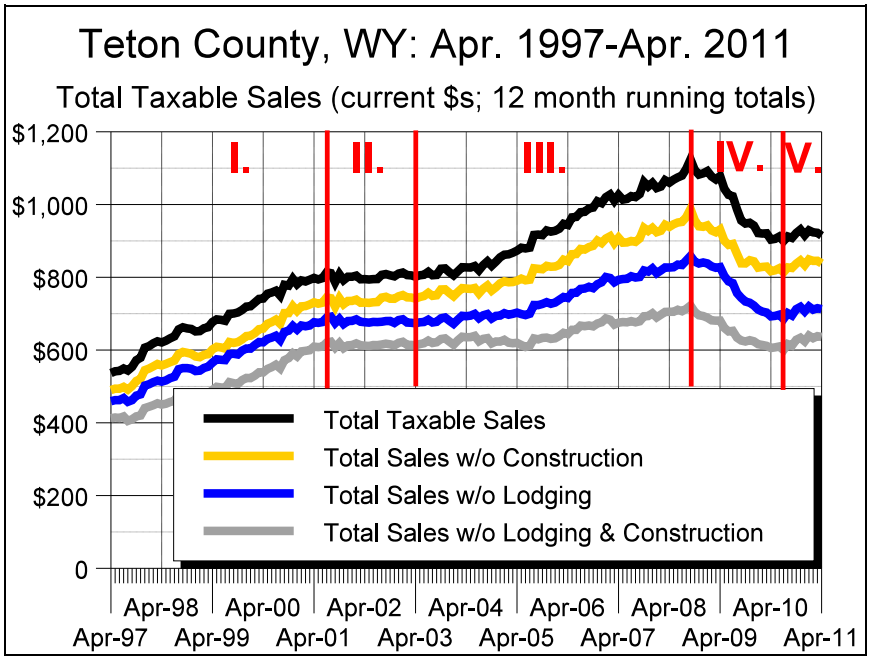


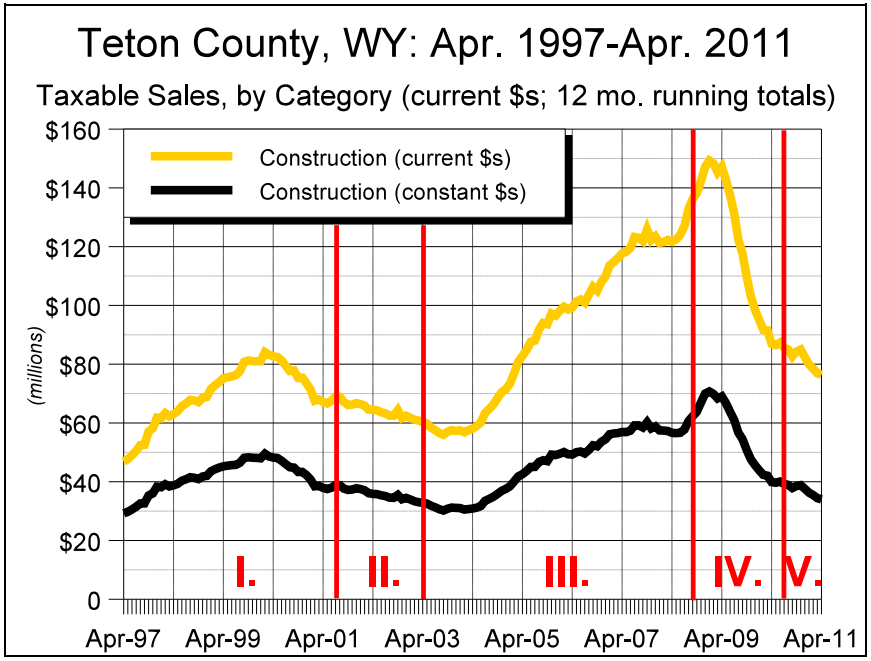
Graph 1



Graph 2



Graph 3



Graph 4