

Utah's Economy - 2006

Utah's economy felt and performed as if in a boom period. Employment growth averaged 4.8 percent for the entire year. The unemployment rate began the year at 3.4 percent and by year's end had fallen to a near historic low of 2.6 percent. This naturally signals a very tight labor market, and correspondingly, the average payroll wage increased by 5.4 percent for the year—the largest yearly increase in over 15 years. All industry sectors grew employment, and with the exception of Daggett County, all counties grew their employment base. All in all, as measured by numbers on paper, 2006 was a stellar year for the Utah economy.

It was the second year in a row that the Utah economy performed above its long-term yearly employment growth average of 3.3 percent. The growth, and the momentum of growth, are so strong that they ensure that 2007 will also be another year of above average growth.

Putting the Growth in Perspective

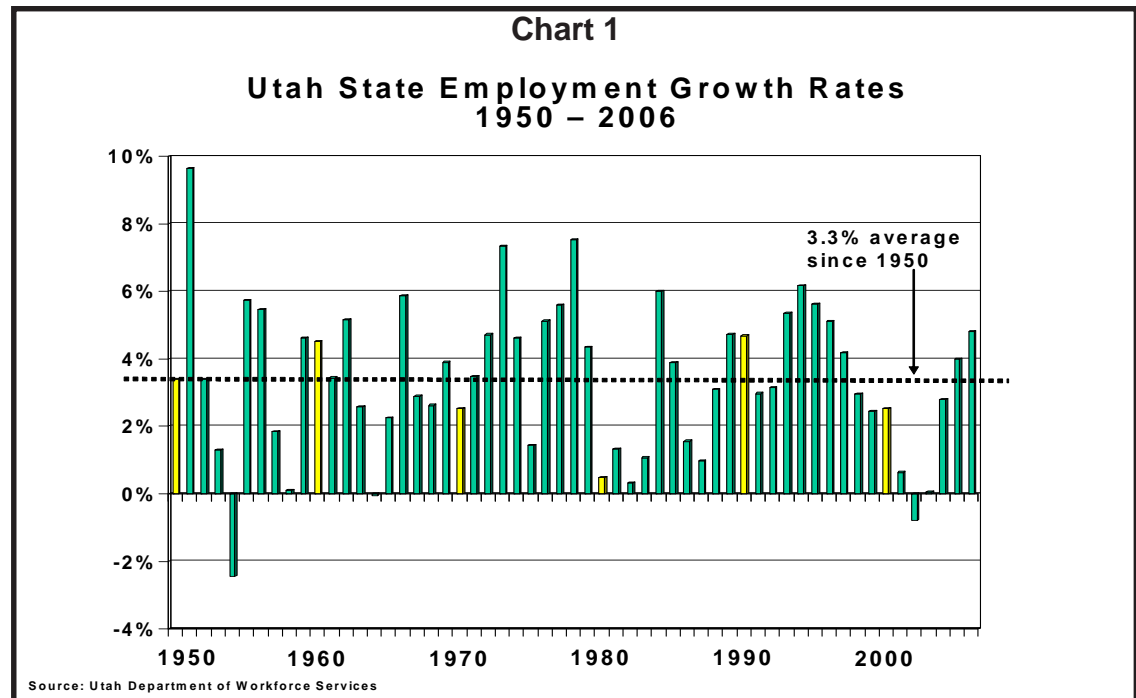
Before proceeding with more specifics about Utah's economic performance, it is important to understand and put in perspective the reasons for Utah's strong economy. There are both long-term and short-term

factors at play, and both have converged to create this remarkable period of employment growth.

Utah's economy has boomed in the past, but the defining characteristics of the current boom are the hyper-low unemployment rate, and the large amount of construction activity. This burst not only creates more construction jobs, but also underscores the building and build-out of Utah and the further expansion of the economic foundation.

As mentioned, both long-term and short-term factors are at play. First the long-term factor will be developed, then this will be merged with an explanation of the short-term factor.

The long-term factor can actually be broken into two components: the changing nature of the United States economy and how that is favorable to the Mountain West, and also the changing age and limited availability of labor in the United States.



The first is the changing nature of the U.S. economy. For most of the 200-plus years of this nation's development, the industrial revolution was the economic umbrella that dictated population distribution. That industrial environment asked for large quantities of labor, massed together in urban settings, working in factories and assembly lines to produce large physical products, i.e. machines and other industrial goods. That economic environment demanded those large physical outputs be shipped cheaply and easily, preferably using water such as rivers, lakes, and oceans. Good roads over flat lands were also a plus when water was unavailable. In this economic environment, mountains were a hindrance, not an asset. Therefore, for most of this country's development, the mountainous region of the western United States remained underdeveloped and underpopulated.

However, one can make the argument that this mountain region is one of the most beautiful and desirable parts of the country. But will the economy allow for large settlement and commerce? The new answer to that question is yes, and that answer is having a profound influence upon Utah and its long-term growth.

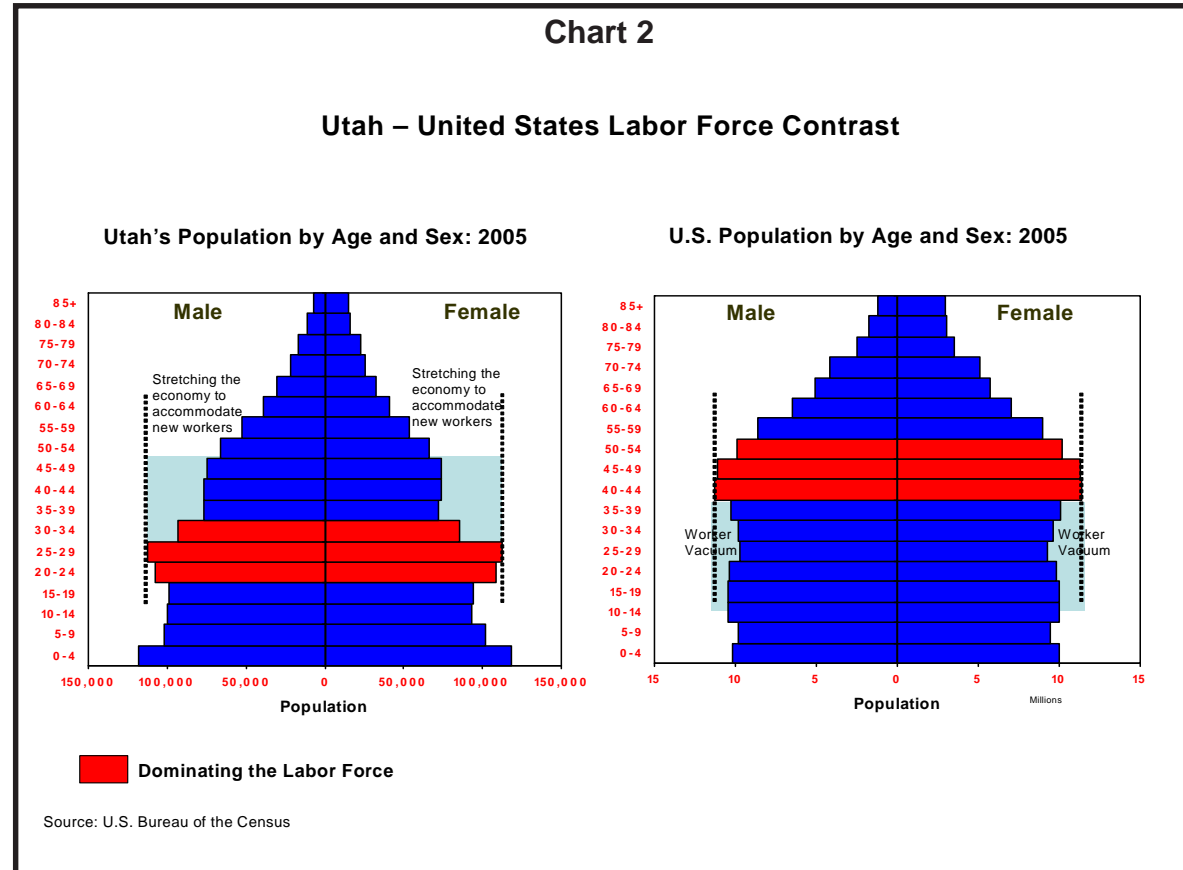
The industrial revolution itself has matured to the point where even it has overcome mountain barriers. With improved highways and related infrastructure, improved trucks and pulling power, and expanding and affordable air transportation, the mountains are not as formidable a barrier. Also, with

the emergence of another economic option—information and communication centered upon the Internet—mountains are anything but a barrier to this expanding commerce genre.

The bottom line is that the economy has changed, and that change has opened the doors for expanding population and commerce in the Mountain West. With Utah lying in the heart of this region, the moral of the story is that what Utah is experiencing, in terms of population growth and its result-

ant economic expansion, is not just a one-time or short-term phenomenon. Instead, it is a change that is only beginning and will continue to be a driving and dominant factor in the development and composition of Utah for many decades to come. Within this long-term framework will be periods of boom and slowdown, but the long-term trend is for continual economic growth.

The second component within the long-term framework is the labor structure of the United States economy. This is represented by the



population tree illustrated on the right side of Chart 2. You will notice that the older age group of 40-to-55 year olds dominates the United States labor force. This is the core of the Baby Boomers. You will also notice how none of the age structures below match the Baby Boom size. The Boomers long ago stretched the U.S. economy to accommodate their presence. Yet, for various reasons, the Baby Boomers did not reproduce themselves in equal or greater numbers. This has created a vacuum, so to speak, of replacement workers. This vacuum is just beginning to have a profound economic impact on not just the United States, but also upon Utah.

The first stage on which this replacement-worker vacuum is manifesting itself is in the low-skill arena. The Boomers long ago educated and experienced themselves beyond these types of jobs. Today's younger domestic workers aren't of sufficient number to fill these low-skill jobs. With the scarcity of replacement workers, they have better options available to them than did the Boomers at that age. This low-skill labor vacuum is the primary reason why this country is seeing such a strong wave of immigration flowing from south of the border. We as a country are struggling with the reality that this low-skill labor vacuum has a very powerful pull.

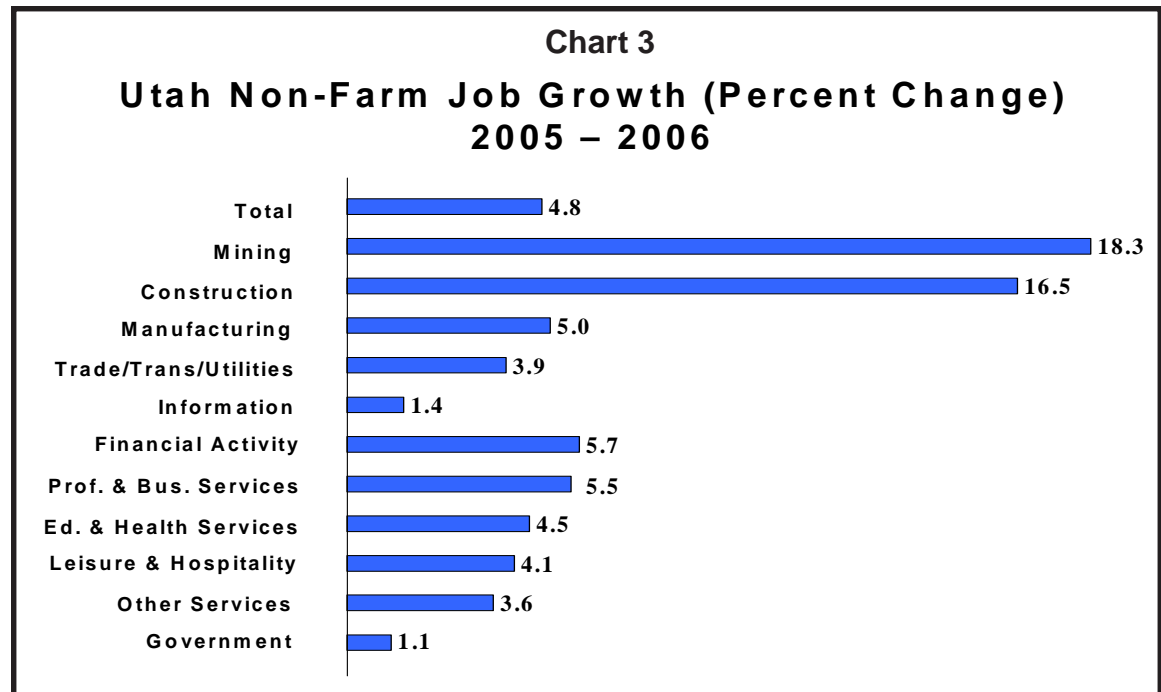
Utah's population age tree runs counter to the U.S. tree and suggests that Utah itself doesn't have that kind of low-skill labor pull. But that would be a naive conclusion. Utah's economy

is just a small component within the larger United States framework. The immigrant labor pull is very strong in the western United States, and Utah lies in the very center of this region. We have seen this labor in-migration become a growing and sizeable component of the Utah labor force over the past ten years. With the face of the shrinking United States labor profile, this attraction should only increase with time.

This now brings us to the short-term phenomenon currently driving the Utah economy. It is that large pool of 20-to-30 year old Utah-born workers asking for entrance into the labor market. They are illustrated in Chart 2, and it's striking how large their size is in

relation to how much they are asking the Utah economy to grow.

This labor group began its entrance largely at the beginning of this decade. But as you'll notice in Chart 1, the Utah economy actually had no net employment growth between 2001 and 2003. The economy wasn't letting them in. If there had to be an economic downturn, the timing may have turned out to be favorable, as many of these emerging workers were young enough to have opted to defer to college and more education while the economy was making its readjustment. But at some point they would come forward and kick the economic door down. And that is what they have been doing for the past two



years and counting. Their presence seems to have reached its crescendo here in 2006. However, they are of such large size and significance that their influence will still be driving the Utah economy forward for several years to come.

One of the major keys to Utah's current powerful economic growth is that this short-term internal labor boom is combining with the long-term economic change described earlier to produce this current period of strong and, somewhat self-sustaining, economic expansion.

Employment by Industry

Mining It is another good year for the mining industry in Utah. This industry has had its share of rough times, so it is enjoying the good times while it can. The bulk of the 1,660 new jobs created this year are the result of a significant rise in the price of oil and gas. Most of mining's growth is in the Uintah Basin, with oil jobs in Duchesne County and natural gas driving Uintah County.

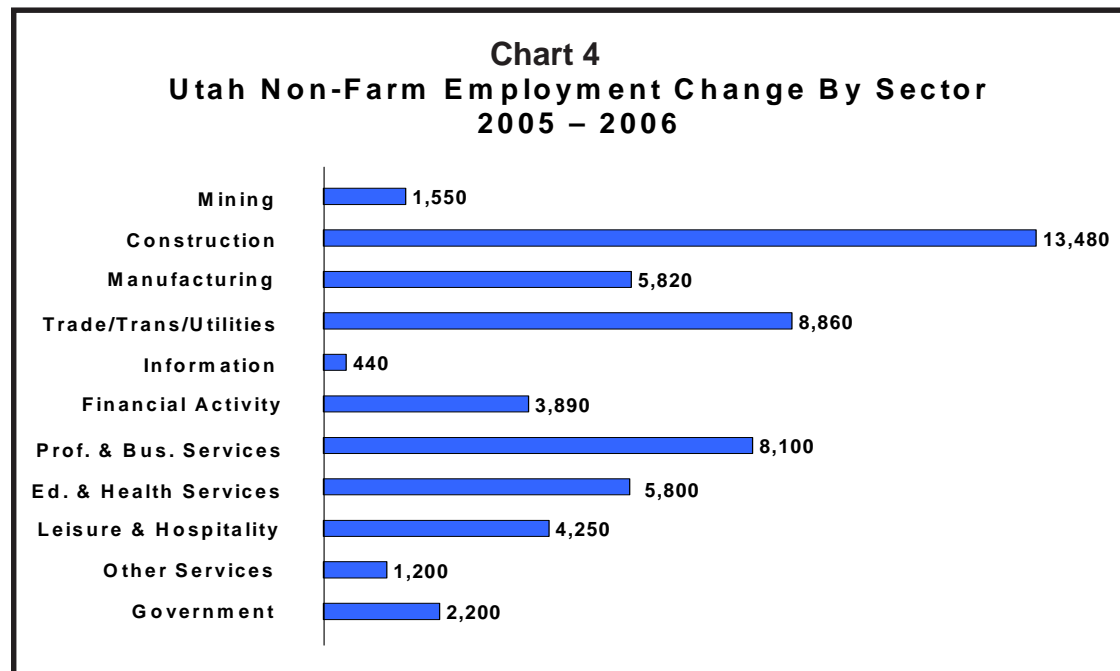
Construction Boom time. Those two words sum it up best. This industry far and away leads all other industries in terms of job creation. Chart 4 illustrates this prominence. With the large number of new entrants into Utah's labor force coupled with historically low mortgage rates, homes are being built in record numbers. Nonresidential building is also beginning to rise, with its peak in growth

probably several years down the road. The outlook for this industry remains favorable.

Manufacturing Job growth here is bucking the national trend. Most of the eastern United States, the manufacturing heartland, is shedding jobs and has been for most of this decade. But Utah's manufacturing sector is quite vibrant. Though rocked with losses beginning about ten years ago and lasting through the early 2000s recession, this industry has since rebounded solidly in Utah. Manufacturers nationwide look to the west as the prime growth region, and they are setting up shop and/or expanding here to be present and active in this region.

Trade, Transportation, Utilities This is the second leading job producer behind the construction sector. Nearly 8,900 new jobs have developed here, most in the trade component. It should come as no surprise, with the growth in both Utah's population and the growth in the labor force with more of the population becoming wage earners, that the trade sector would be aggressively growing. Most consumer spending is captured in the trade sector, so numerous and prospering consumers means more for the trade sector.

Information This is the state's weakest industrial sector, with growth minimal at over 400 new jobs. Some of the weakness comes via the movie industry, which had a better year last year and is thus showing declining em-



ployment this year. Internet services are also down. Countering these are gains in publishing and telecommunications.

Financial Activity With all the residential construction going on in Utah, this industry is also booming. Close to 4,000 new jobs have been added, and much of this is centered upon housing-related business, i.e., mortgage financing, title work, and real estate sales.

Professional and Business Services Those businesses whose major input is human capital are grouped together within this sector. It consists of high-paying professional services, and lesser-paying business services. Fortunately, the majority of this sector's 8,100 new jobs were developed on the professional services side, thus resulting in a healthy quantity of quality, high-paying jobs.

Education and Health Services This sector is Utah's most consistent. Though other sectors have added more jobs this year, this sector has been a continuous grower, even in the face of the early 2000s recession when many other industrial sectors were shedding jobs or pausing to gauge the adjusting environment surrounding the labor market. This sector had and still has no room for pause, particularly on the health services side. As long as Utah's population continues to grow at a healthy pace, so will this sector.

Leisure and Hospitality This sector was established to be a proxy for tourism, and so its 4,300 new jobs and 4.1 percent growth rate would suggest that tourism had a good

year in Utah. Growth in this sector was observed across the state, which is a plus, as many of Utah's rural counties rely heavily upon this sector for their economic vitality.

Other Services This is kind of a catch-all sector on the service-producing side of the ledger. It has a potpourri of businesses within its classification, such as repair services, personal services, and membership organizations. It's not a particularly large sector, employing around 34,600 workers. It experienced a net increase of over 1,200 jobs for the year.

Government Government is a large employer in Utah. It consists of three components—federal, state, and local. Together, they make up just under 18 percent

of Utah's employment base, the second highest among industries.

This sector added 2,200 new jobs over the past year, a growth rate of 1.1 percent—the lowest growth rate within any industry sector.

Wage Growth Strong This Year

With Utah's unemployment rate having fallen into the mid 2-percent range, this tight a labor market has translated into strong wage gains. This year's 5.4-percent increase is Utah's highest in 15 years.

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