

Utah's Economy - 2007

“All good things must come to an end.” So the adage goes. That applies to the Utah economy also. On paper, 2007 will go down as a very positive year. Employment growth averaged 3.9 percent, and wage growth recorded possibly its best year ever at 5.6 percent. Yet dark and ominous economic storm clouds were gathering on the horizon throughout the year, and as the year entered its final months, those clouds broke forth with a powerful negative economic deluge. Although that deluge came late enough in the year that it only minimally affected the 2007 numbers.

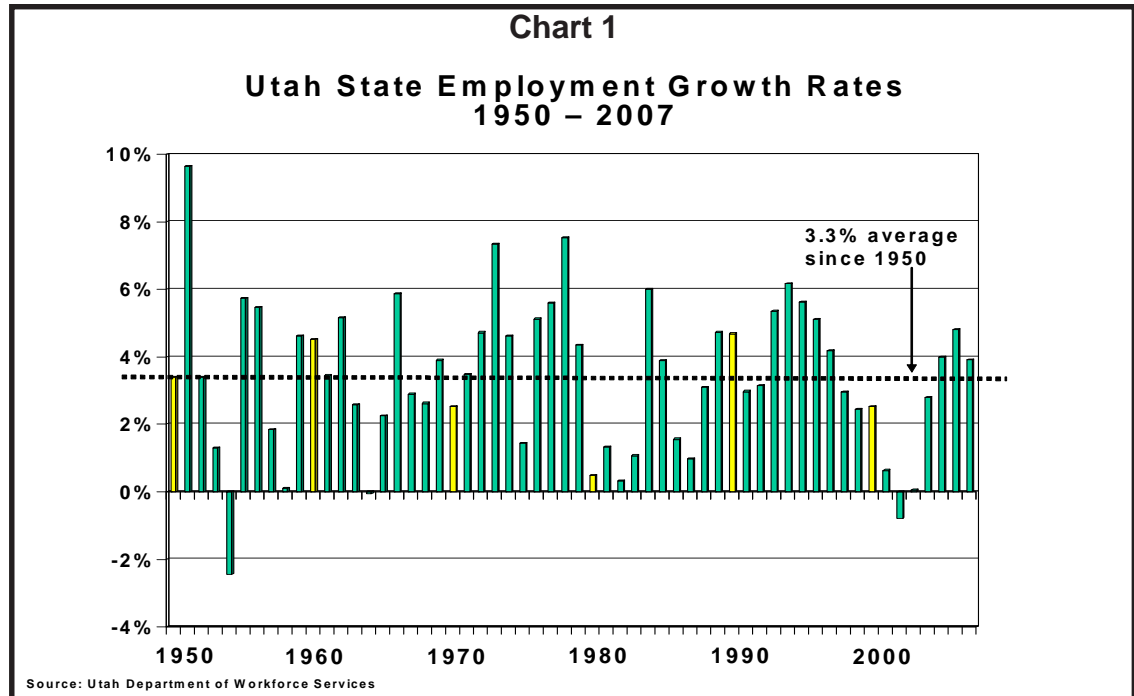
Because of the economic factors taking a late-year slump, 2007 needs to be portrayed as a “tale of two halves.” The 3.9 percent growth rate for the whole year suggests start-to-finish prosperity, but that static yearly average does not speak to the economy’s trend, which turned downward in 2007. The economy began the year with a robust 4.9 percent year-to-year growth rate in January. By December, that rate had slid to 2.6 percent, and is set to further drop like a rock.

Although the economic storm clouds broke late in the year, they were of such significance that they will later become part of this 2007 profile’s narrative.

Employment by Industry

Mining High energy prices have delivered another good year for the mining industry in Utah. This industry has had its share of rough times in the past, so it is enjoying the good times while it can. The bulk of the 1,000 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 Last year, the words “boom time” were used to describe this industry. This year, the “bust” word must be introduced. Not the entire year, because 8,285 jobs will be the recorded gain for the calendar year over 2006. But these were gains garnered across late 2006 and into the first half of 2007. Construction jobs began to be shed in earnest around September of 2007, and 2007’s year-to-year employment numbers began to fall from highs of 13,000 jobs gained at the year’s onset, to the actual loss of 600 jobs by December. Residential construction declines



are the primary weak point, as non-residential construction employment enjoyed its best year ever. Residential construction also reached its all-time high in early summer 2007, but then rapidly pulled back as the year progressed.

Manufacturing Job growth here continues to buck 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. Utah's manufacturing job gains for 2007 numbered 4,600. 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 largest employment sector in Utah, accounting for nearly 20 percent of all jobs. It also was the best job producer in 2007, adding nearly 11,000 new jobs to the economy. Most of these gains came within the trade component. That should come as no surprise, with growth in both Utah's population and labor force. Most consumer spending is captured in the trade sector, so numerous and prospering consumers mean more for the trade sector.

Information This is the state's weakest industrial sector, with the loss of 90 jobs. Some of this is less activity from the movie indus-

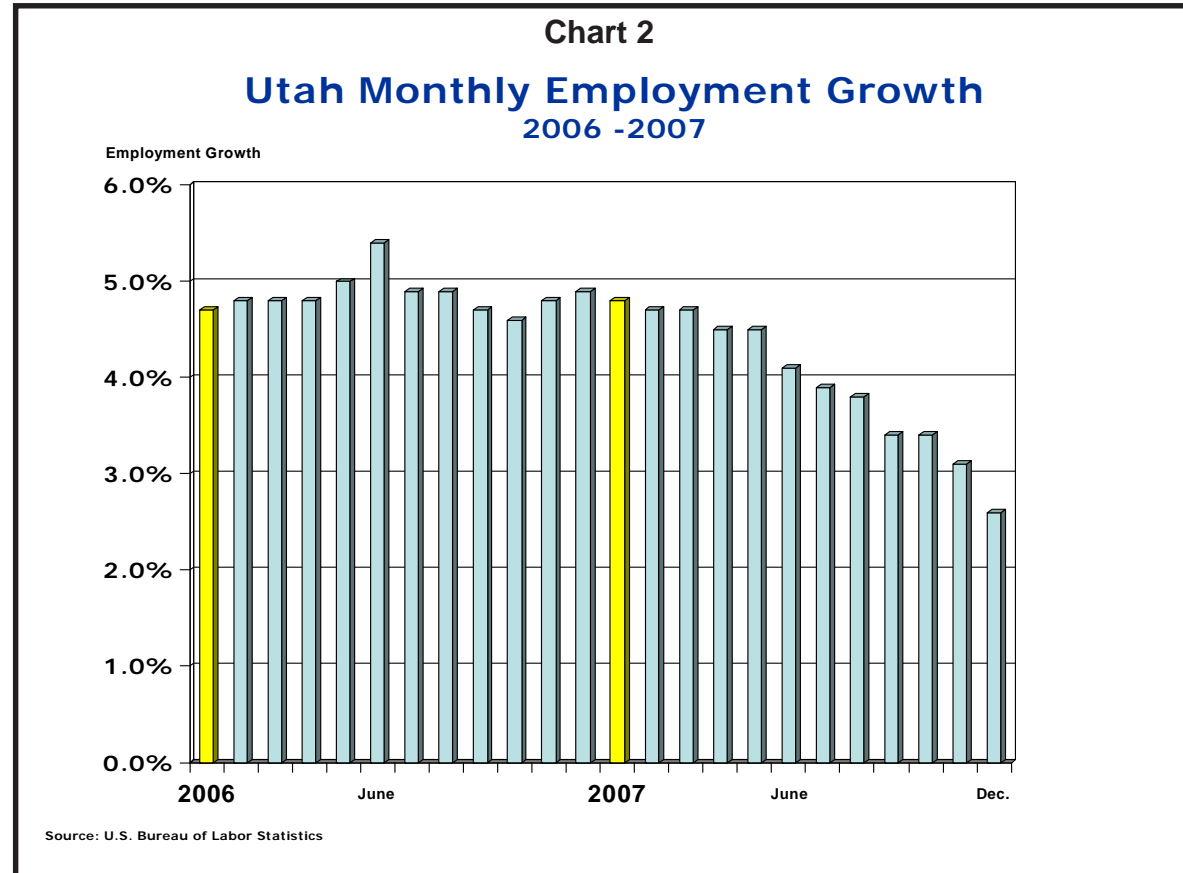
try, which had a better year in Utah in 2006. Internet services are also down with AOL closing in the Ogden area, but most of its employment was taken over by Teleperformance, and thus those jobs are now classified in the professional and business services sector.

Financial Activity With all the residential construction and home buying that characterized most of this year, the financial sector added 3,275 new jobs to Utah's payrolls.

Professional and Business Services Those businesses whose major input is hu-

man 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 6,200 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 overall economy. This sector had, and still has, no room for pause, particularly on the healthcare side. As long as Utah's population continues to grow at a healthy pace, so will healthcare.

This sector added 5,585 new jobs to Utah's payrolls. This marks every year this decade where this industry has year-to-year growth of 4 percent or higher.

Leisure and Hospitality This sector was constructed to be a proxy for tourism, and so its 4,350 new jobs and 4.0 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 35,700 workers. It experienced a net increase of over 1,000 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 all industries.

This sector added 2,400 new jobs over the past year, a growth rate of 1.2 percent—the lowest growth rate within any industry sector, except Information.

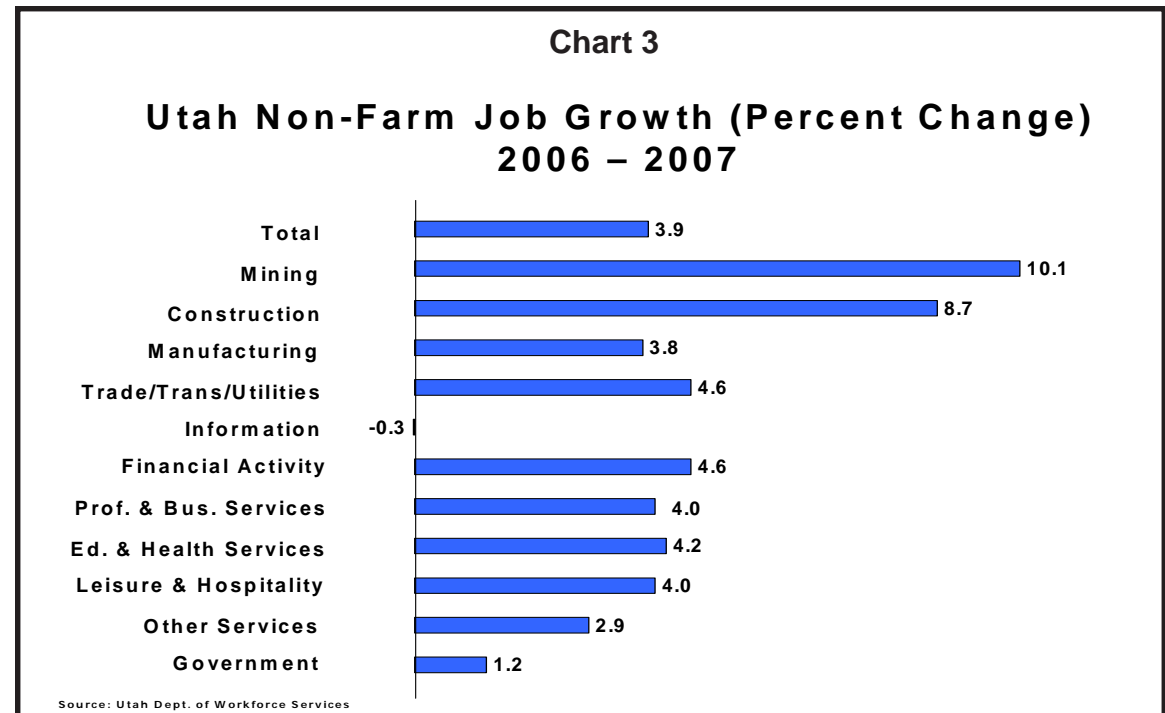
Wage Growth Remains Strong This Year

Utah's unemployment rate averaged 2.7 percent in 2007, the lowest unemployment rate ever. A labor market this tight naturally translates into strong wage gains, as employers must be wage-price aggressive in this environment to not only attract new labor, but to

retain existing labor. This year's 5.5 percent increase may be Utah's highest ever, and coupled with last year's 5.4 percent increase makes for a very robust two-year wage-price increase.

With energy prices at historic highs, it shouldn't be surprising to see that the largest wage gain by industry came in the mining sector, which is largely being driven upward by oil and gas activity. This industry's year-over-year wage gain totaled 8.1 percent.

The trade and transportation areas enjoyed a 7.2 percent wage gain this year. A still-robust economy kept consumers spending, and the trade sector benefited, as many new



establishments sprang into existence this year.

Surprisingly, the lowest sector for wage gains was education and health services, with only a 2.7 percent increase observed this year. This is surprising in that this is, and has been, a very dynamic and robust industry in Utah for more than a decade.

The First Steps of the Economy Heading Toward Significant Trouble

The national economy took a marked turn for the worse in 2007. The seeds of this downturn were long in coming, laid across many years. A downturn that will be this strong does not happen by events that occur overnight. Much of the problem is a lot of easy and cheap credit being made available over an extended period of time. Easy credit translates into easy money, and easy money can blossom into excess money. And that excess money began to chase the housing market.

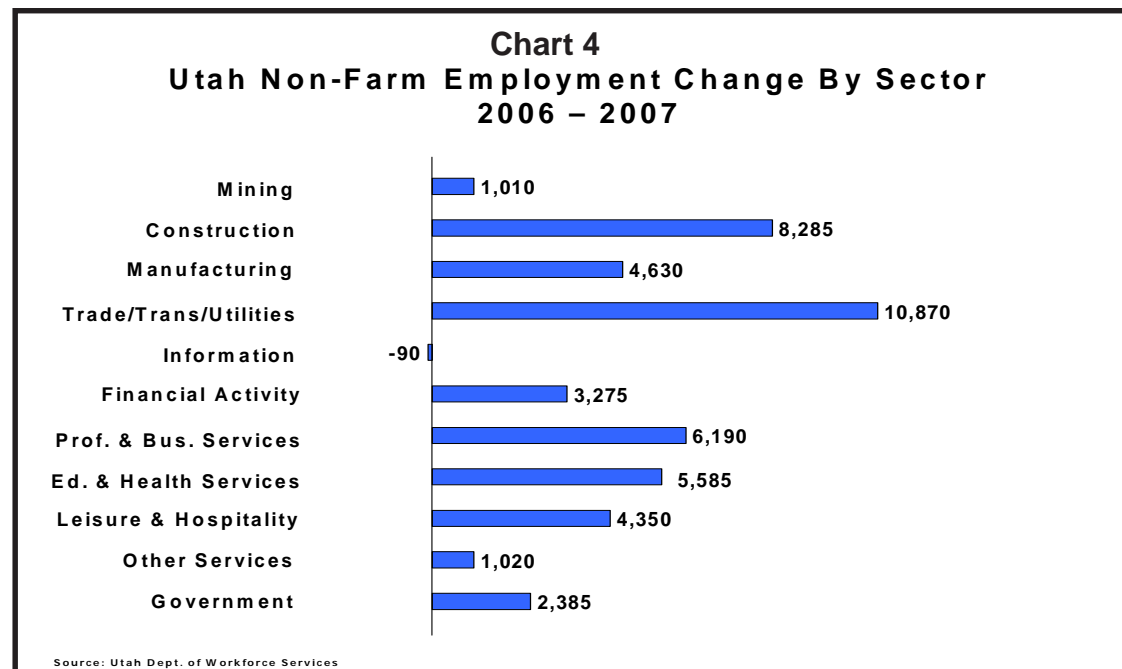
Home prices naturally rose in response, and prices rose above affordability. To close this gap, the financial industry became more creative in its mortgage lending vehicles. This continued to push home prices even higher, until finally creative mortgage financing could no longer close this gap.

The large housing price run-up was not rooted in real asset appreciation that only comes in proportion with real income gains by consumers. Instead, prices were driven by speculative asset appreciation and easy money, which has no long-term staying power.

The first mortgage rate re-adjustments on the huge quantity of subprime mortgages began in earnest in 2007. Teaser subprime rates put lower income people into homes, or enticed middle income people to buy homes beyond their means. Now the payment on that loan just took a dramatic shift upward. For many, this was too much of a financial burden to bear. This exposed

the market to its lending folly, and it created a wave of borrower defaults that flooded the market with foreclosed homes. The financial markets quickly awoke to their financial peril, and a reversal emerged in the housing market. Whereas before money flowed freely and indiscriminately, the market now nearly went into shutdown. This stifled mortgage lending and eliminated easy financing. In response, the housing market nearly ground to a halt.

This national malaise immediately impacted the Utah housing market. Whereas home building in Utah over the past three years rose to unprecedented levels, by the second half of 2007, the numbers had fallen in an historic decline. By year's end, new



home building had slowed to more than half its former pace, and home builders were facing a market that could no longer sustain their expansions of the previous three years. The construction industry reacted swiftly and dramatically, and construction job losses ensued. With this, Utah's housing-driven economic boom came to a screeching halt.

The entire economy did not react negatively in 2007. It began with construction, and it

largely remained isolated to construction. But construction's fall was so drastic that the overall economic numbers turned downward by this sudden and dramatic collapse. While construction employment shed jobs aggressively, nearly all other Utah industries remained strong. Yet the financial and housing crisis is too large, and thus the stage is set for a dramatic economic downturn in 2008.

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