

# Utah's Economy - 2008

It was a powerful economic tsunami that rolled over the state of Utah in 2008. The consequences of the national subprime mortgage meltdown that began in late 2007 overwhelmed Utah. There were times in the past when national economic woes did not translate into a Utah slowdown. But this national downturn was too powerful. It came in two waves. The first wave actually began in late 2007, when new home building permitting was basically reduced by half, and this resulted in the residential construction workforce being cut back in an aggressive fashion.

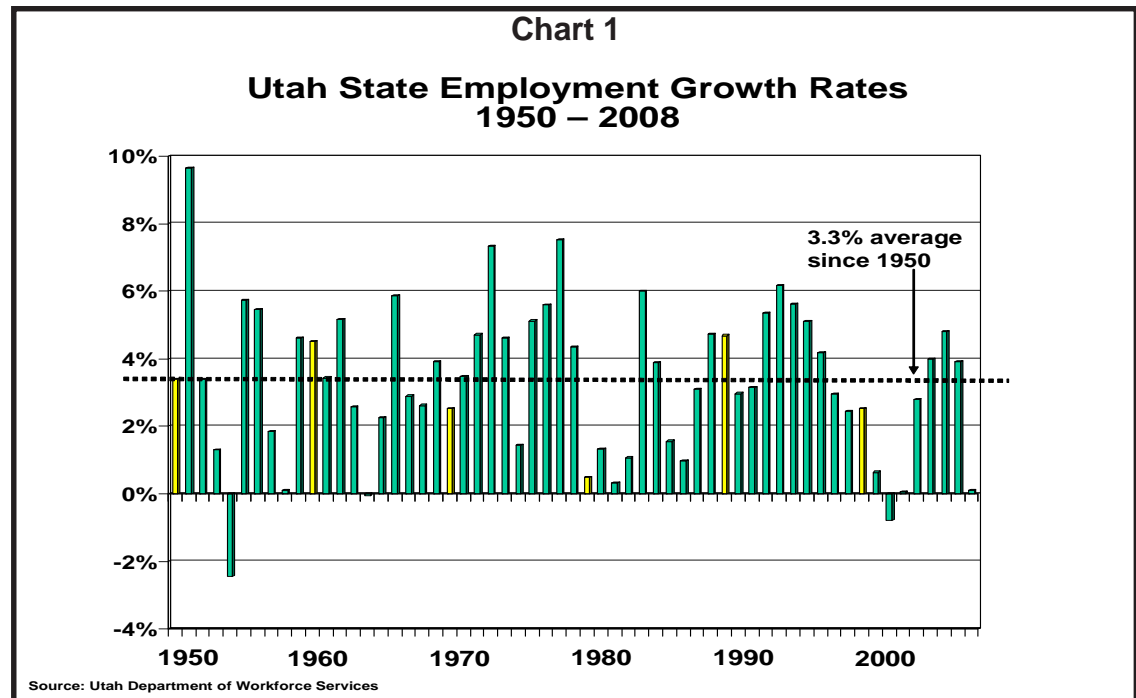
The second wave emerged in late 2008, after the deep-seated unraveling of the subprime mortgage labyrinth finally made it clear who within the financial market was impacted and by how much. The result was that the mortgage woes now permeated throughout the greater economy, causing a deep-seated employment contraction throughout the nation's and Utah's economies. The year ended on a very sour note. This will set the stage for a very weak 2009 economy. Also, that year-end decline was quite dramatic, yet its impacts will not be fully appreciated by looking at the overall numbers for 2008, as they are buoyed upward by the comparatively modest results of the year's first three quarters.

For the year, the Utah economy was able to chalk up job growth of a minimal 0.1 percent--the addition of 1,150 jobs. But when one considers that the employment growth for 2007 was 4.0 percent, that's a pretty significant employment decline between one year (2007) and the next (2008).

## Employment by Industry

**Mining** This year recorded the historically highest oil prices, to date. This translated into high energy prices across the board, and sig-

nificantly spurred the ongoing production and search for additional supplies of oil and natural gas in Utah. An energy boom marked this industry's profile of 2008, and the industry added close to 1,500 new jobs. Most of mining's growth is in the Uintah Basin, with oil jobs in Duchesne County and natural gas driving Uintah County. However, as rapidly as energy prices rose, they collapsed at the very end of the year, and though the year was characterized with a boom, by December the stage was cleared and set for an energy bust to ripple through 2009.



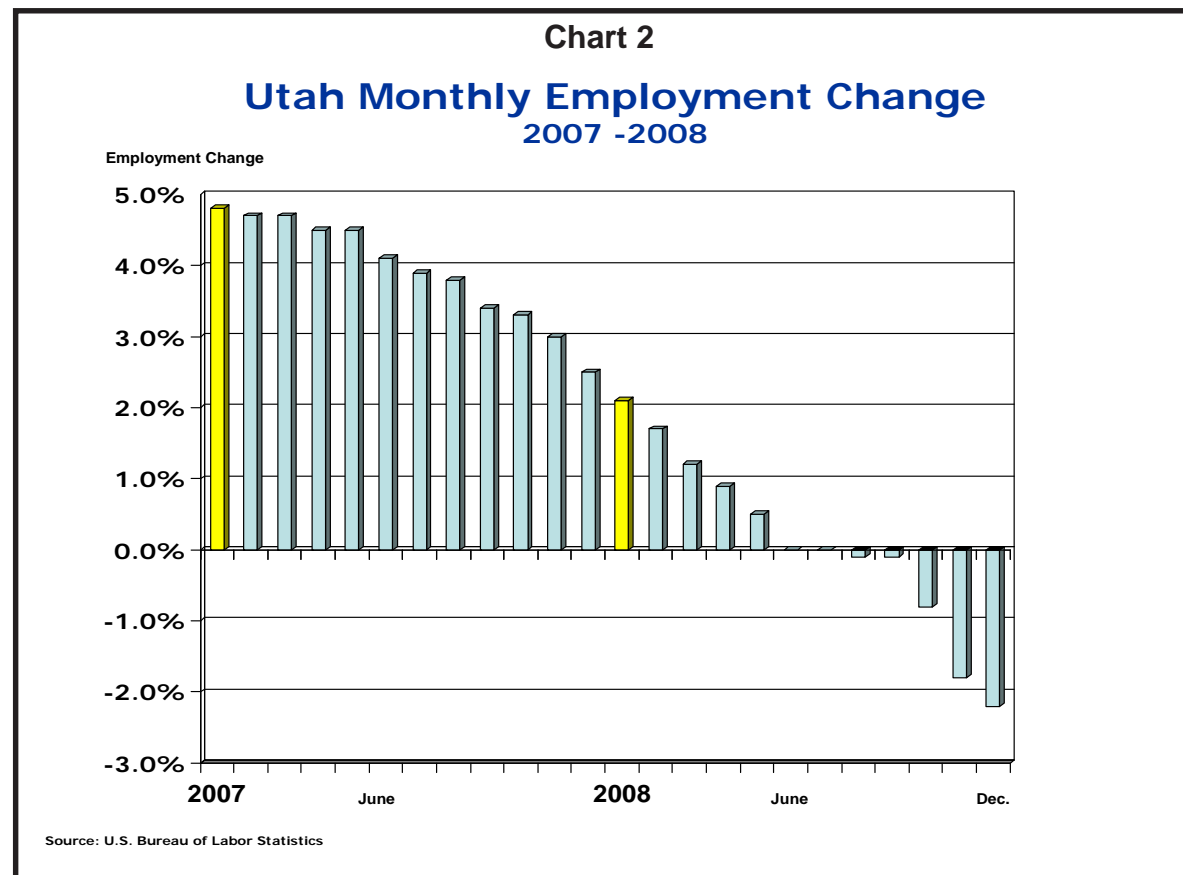
**Construction** The subprime mortgage problem took its toll on this industry in 2008. Job losses totaled just under 13,000, a significant amount of employment loss for Utah in any one industry. Nearly all of this is in residential construction, as nonresidential construction was still going strong in 2008. In fact, 2008 saw one of the highest amounts of valuation approved for nonresidential projects. This is still a remnant of the 2006 residential building boom. Historically we see that when residential valuation reaches a peak value (as it did in 2006), roughly two years later nonresidential valuation will have a peak of its own. That peak was reached in 2008. Fortunately, the nonresidential sector did well, therefore it helped to temper some of the job losses seen on the residential side.

**Manufacturing** The national recession is starting to impact this industry in 2008, particularly in the last several months of the year. When recessions hit, it doesn't matter within which industry the spark was started, the flames always and quickly find their way into the manufacturing sector. This industry principally produces big ticket items to which businesses and consumers make significant adjustments in order to acquire a product. These items are some of the first to be sacrificed when a recession emerges. For the year, the industry is only down 1,800 positions, but even more widespread losses have emerged after October, unfortunately setting the stage for what will probably be a rough year for this industry in 2009. For 2008, this industry employed 125,800 Utahns.

**Trade, Transportation, Utilities** This is the largest employment sector in Utah, accounting for nearly 20 percent of all jobs. But it is also one succumbing to the national recession. Granted the industry recorded a calendar year growth rate of 0.9 percent, but as of the last three months of the year, this industry was losing jobs precipitously. This is the primary industry to capture consumer spending dollars. After the September 2008 stock market crash, consumers became very skittish about spending. Therefore, the Christmas season was very weak, negatively affecting

the prime spending period for the retail trade sector, a key sub-component within this sector.

**Information** This was a weak industry in 2007, and it became an even weaker industry in 2008. The loss of 1,700 additional jobs in 2008 accelerated job losses in this industry. It is one of the smaller industries in Utah, accounting for only 2.5 percent of all employment. Only the mining industry makes up a smaller percentage at 1 percent.



**Financial Activity** It was the meltdown of the subprime mortgage lending that tipped the U.S. and Utah economies into recession. Therefore, one would think this would be the hardest-hit industry in this downturn. That is not the case. Yes, it has lost close to 700 jobs in 2008, but considering the scope of the nation's financial problems and all of the bank and securities bailouts that were issued by the federal government, this industry is actually holding up surprisingly well in Utah, considering. One of the reasons is that the Utah financial sector did not have a large Wall Street presence within its industry base. The only one it did have of any size is Morgan Stanley, and it was only one of two Wall Street securities firms to emerge relatively unscathed. The financial sector comprises around 6 percent of the Utah employment base.

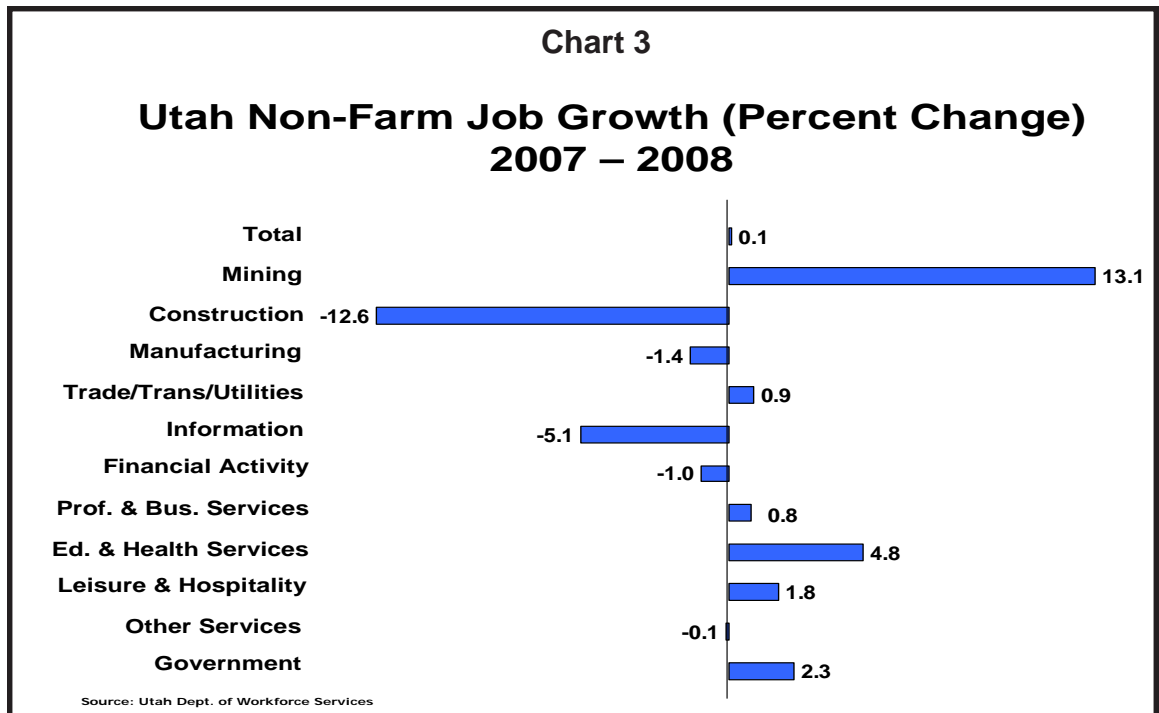
**Professional and Business Services** Those businesses whose major input is human capital are grouped together within this sector. It consists of high-paying professional services, and lesser-paying business services. This industry showed growth this year of 1,170 positions, but like most other industries, the growth weakened noticeably by year's end. The high-paying professional services did well this year, adding 3,260 new jobs to the economy. But the lesser-paying business services recorded job losses of 2,200. This comes as no surprise, as one of the major aspects within business services is the employment placement agencies, which includes temporary help services. This indus-

try is built to be as flexible as the economy demands. When the economy is expanding, this becomes an expansion industry as employers can bring workers on quickly, and also use this employment vehicle as a way of "trying out" workers. Conversely, as in the environment of 2008, it is also an industry where workers can be shed. A declining business environment, such as in 2008, will result in employment declines in this industry. The numbers certainly reflect that.

**Education and Health Services** This sector is Utah's most consistent. It has been a continuous grower, and this year is no exception. Even in the face of the early 2000s recession when many other industrial sectors

were shedding jobs or pausing to gauge the surrounding environment, this industry expanded at full force. This sector continued that strong pace again this year, added over 6,600 new jobs to Utah's employment base. This continues the distinction that this industry has had year-to-year growth of 4 percent or higher throughout this decade.

**Leisure and Hospitality** This sector was constructed to be a proxy for tourism, and so nearly 2,000 new jobs and a 1.8 percent growth rate would suggest that tourism had a respectable 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 tourism for their economic vital-



ity. But the last quarter of 2008 showed the recessionary economy catching up with this industry. As a result of the declining economy after September 2008, the tourism industry (particularly the onset of the 2008-2009 ski season) experienced a setback in tourism trips, and thus tourism spending.

**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 35,600 workers. It experienced a slight job loss of 40 positions 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 17 percent of Utah's employment base, the second highest among all industries.

This sector added 4,800 new jobs over the past year, a growth rate of 2.8 percent. The biggest driver of this growth is local government, in particular K-12 education. Utah is experiencing a large influx of K-6 year-old children throughout this decade, so it is only natural to see the education payrolls increase.

## Wage Growth Stays Positive This Year

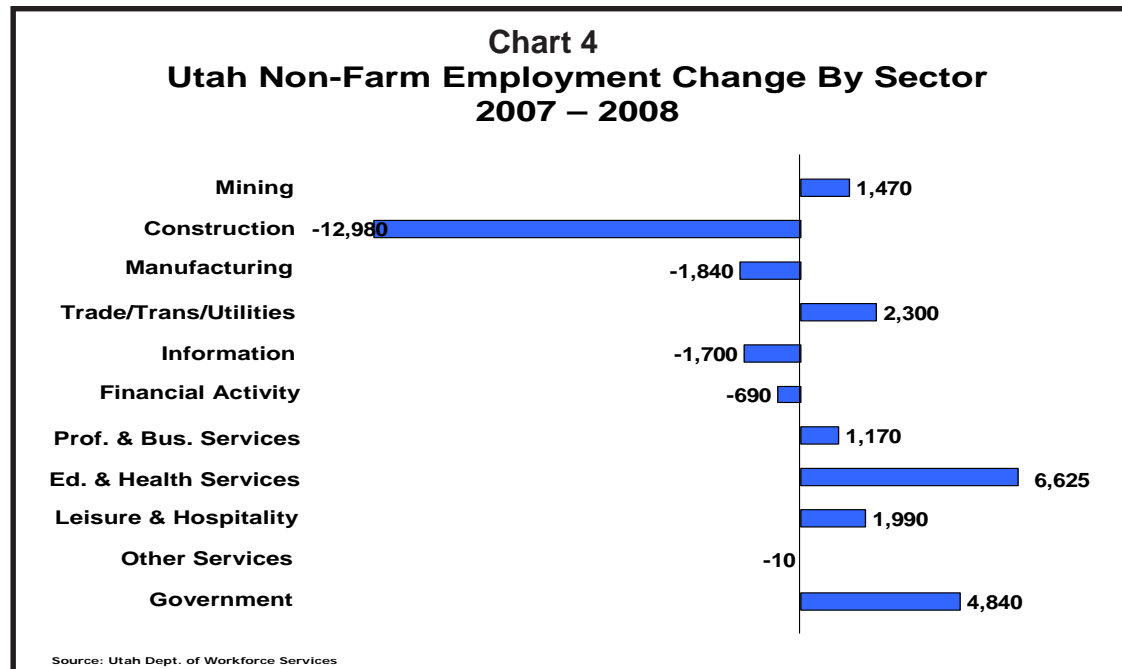
In 2007, Utah's unemployment rate averaged 2.7 percent, its lowest unemployment rate ever. A labor market that tight naturally translates into strong wage gains, as employers must be wage-price aggressive in this environment to not only attract new labor, but to retain existing workers.

The tightness of that 2007 labor market began to unwind in 2008, but there was so much "tightness" to unwind that it will probably take more than a year to see a wage environment that will look like a 180 degree turn from 2007,

as one would expect with the onset of a strong national recession.

The unemployment rate for 2008 only measured 3.4 percent. The labor market entered the year tight, but loosened as the months progressed. As a result, 2008's year-over average monthly wage gain measured 2.6 percent. This is a positive in a down economy, yet only half the record 5.5 percent wage gain recorded in 2007 and a signal that the labor/wage market unwound progressively as 2008 advanced.

At times there can be an irony within the average wage calculation. Take, for example, the construction industry's 4.5% average wage gain in 2008, even with the loss of nearly



13,000 jobs for the year. The job losses might lead one to believe that the average wage would fall. But not if the ones who are losing their jobs are the lower-paid workers within that industry. That is probably the case with construction, as the more skilled, and thus higher-paid workers, are the ones who are managing to hang on to their jobs. Where one will ultimately see the wage impact from the lost 13,000 construction jobs is in total wages earned throughout this industry. Whereas this industry produced \$3.9 billion in payroll wages in 2007, that number had slipped to \$3.6 billion in 2008.

Total wages paid by all industries into the Utah economy totaled \$46.9 billion. That is up from 2007's \$45.7 billion. Most industries saw total wage gains over their 2007 payrolls, but with a recession taking hold in 2008, there were some who did not. These include the aforementioned construction, trade/transportation/utilities, information, and financial activities.

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