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Utah's Economy

Part 1: An Overview of GDP, Jobs and Wages

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Introduction

January saw the release of the 2007 Economic Report to the Governor. This report was full of data and information regarding Utah's economy. The news was exceedingly good, with Utah's unemployment rate among the lowest in the nation at 3.3 percent. Job growth was strong, with the state increasing its employment base by 5.2 percent. Jobs in the Construction and Natural Resources/Mining sectors drove this growth. Both industries saw growth rates of 18.0 percent. Due in part to above average wages paid by the Mining sector, wages in the state grew an estimated 5.4 percent to $34,600 annually. Utah also saw tremendous growth in housing values. In 2002, homes in Utah saw the least change in their year over year value, ranking 51st in the nation. By the 3rd quarter of 2006, home price appreciation rose to 2nd in the nation. To view a copy of the Economic Report to the Governor (ERG) **click here**.

All of this good news makes some of us nervous, wondering when the next downturn in the economic cycle will come and when it does, how will Utah fare? This article is the first of four to be released in the coming months that will detail Utah's economy, its strengths, weaknesses, and how it compares to the national economy and those of its neighboring states. These reports will examine all aspects of the economy including business sectors, exports, educational attainment and income. The purpose of this series is to help policymakers determine the best course of action to assist in keeping Utah's economy strong well into the future.

Gross Domestic Product by State (GDP-S formerly GSP)

The simplest measure of a state's economy is its portion of the gross domestic product. Gross domestic product is simply the value of goods and services produced within a geographic area. For 2005, US GDP was $12.4 trillion while Utah's portion was $91 billion or 0.7 percent. Utah's GDP grew by 60.4 percent from 1997 (the start of this new series) to 2005. Compared to the other states in the Intermountain West, Utah's growth was one of the smallest. During the same time period, Nevada saw the greatest growth with GDP increasing by 86 percent. Arizona, Colorado, Idaho and Wyoming also saw GDP growth greater than that in Utah while New Mexico and Montana had growth rates less than Utah's. The reasons for the differences in growth are still being reviewed and will be addressed later in this series. However, Utah's relatively slow growth rate over this eight- year period means that the state's economy is less important to the region now than it was in 1997. **Figure 1** compares each Intermountain state's GDP as a percentage of regional GDP in 1997 and 2005. The graph shows that Nevada's economy was roughly 12 percent of the region's output during 1997 and that it grew to almost 14 percent by 2005. Meanwhile, New Mexico comprised almost 10 percent of the region's output in 1997 and by 2005 that had declined to 8.5 percent. Figure 1 also shows that Colorado and Arizona together comprise over half the region's GDP. It is interesting to note that while these two states have the same amount of output, Arizona has 2 million more residents than Colorado. The reason for the difference may be the large retiree population that resides in Arizona. Indeed, when GDP is divided by the state's population, the result is $36,457 per person compared to $46,416 for Colorado. Utah is in the middle with $36,758 of GDP per person.

Jobs and Unemployment

Utah has seen tremendous job growth over the past 10 years. In 1996, there were approximately 983,000 jobs in the state. By 2006, that had grown to 1.24 million, a 25.7 percent increase. Unemployment in Utah stayed below 5.5 percent over the entire 10-year period, starting with a rate of 3.3 percent in November 1996 and dipping to 2.3 percent in November 2006. At the local level, Logan, Provo-Orem, and the St. George metropolitan statistical areas (MSAs) had unemployment rates at or below the statewide level during the entire 10-year period. **Figure 2** breaks out the unemployment rates by MSA over the last 10 years.

While low unemployment is good news for workers, a sustained low level of unemployment over a long period of time can cause problems in an economy. First, it makes it difficult for companies to expand since they do not have a large labor pool from which to draw. Second, low unemployment puts upward pressure on wages. While this helps workers in the short run, it has detrimental impacts on the economy in the long term. As wages rise, companies pass the increasing costs of those wages onto its customers in the form of higher prices. These higher prices, in turn, erode the extra purchasing power employees gained from higher wages; in other words, inflation.

When examining job growth at the local level, the Salt Lake MSA added the most jobs during the 10-year period of 1996-2006, with a gain of 119,000. Salt Lake also contributed the most jobs to the overall state economy during this time period. Jobs in Salt Lake accounted for 49.3 percent of all jobs created in Utah. The MSA that saw the greatest growth was St. George, which in 1996 had approximately 28,000 jobs. By 2006, this number had increased by 90 percent to 53,300 jobs. St. George accounted for 1 in 10 new jobs created from 1996 to 2006. On the downside, jobs outside the metropolitan statistical areas declined over the 10-year period. In 1996, there were 103,900 jobs outside the metropolises. By 2005, that number had declined to 95,300. This last year saw a large increase in rural jobs, caused by the oil and natural gas boom, and the number of jobs increased to 103,500—still 400 fewer than in 1996. The years from 2005 to 2006 also saw increases in the Manufacturing, Financial, and Leisure sector jobs. Whether these sectors will continue to see job growth into the future is uncertain.

Utah's mix of jobs and the growth within industry sectors also bears close scrutiny. From November 2005 to November 2006, the construction sector has seen the largest numeric change in jobs, growing from 85,800 to 101,500 jobs—an increase of approximately 16,000. This huge growth also was the second largest in percentage terms, increasing the size of the sector by 18.3 percent. This one-year growth accounted for almost half of the construction sector's growth since 1996. During the ten year time period, construction jobs increased by 38,000 jobs, from 63,500 to the current figure of 101,500.

The construction sector accounted for almost a third of the total job growth within the state during this last year, the single largest contributor to the state's job base, as shown in **Figure 3** While construction employment growth is a strong indicator of overall economic growth, a construction sector that grows too quickly is in danger of over-building and can drive an economy into a recession. Nationally, the housing boom seems to have tapered off without doing so; hopefully, the same will happen in Utah as well.

Figure 4 details job growth by industry sector for Utah from 1996 to 2006. As is shown, the Education and Health Services sector led the state in job gains during that time period, adding almost 46,000 jobs or 49.4 percent. This was followed by the Professional and Business Services, Government, Construction and the Trade, Transportation and Utilities sectors. Manufacturing was the only sector to see a decline, shedding 1,100 jobs during this time period. While job losses in this sector come as no surprise, they are concerning. Manufacturing jobs are well-paying jobs. Additionally, much of Utah's manufacturing sector sells their goods outside the state, thus bringing in wealth to be distributed throughout the state's economy. Declines in the state's manufacturing base hamper the ability of the economy to accumulate wealth.

Wages

While job growth in Utah has been strong, wages have not increased at the same rate. This may be because Utah businesses have been able to control wage costs, even in a tight labor market. This is considered good economic management as it keeps inflation in check. Since the Government sector is Utah's second largest employer, the low growth in wages may have less to do with sound economics and more to do with the reluctance of elected officials to provide employees with raises. Another reason Utah's wage rates may be growing at a relatively slow rate is the mix of jobs within the state. Utah added a large number of retail and construction sector jobs over the past 10 years. Both sectors, with exceptions, have fairly low wage rates. An in-depth examination of Utah's wage rates and job mix will be provided in a later article in this series. In the meantime, Utah's average annual wage in 2005 was $33,328 as reported in the Bureau of Labor Statistics ES202 series. This was 10.8 percent over the wage rate in 2001, giving the state one of the slowest growth rates in the region. Only Colorado saw wages increase at a slower rate (9.6 percent), while Idaho also saw an increase of 10.8 percent. All three states were also below the rate of increase for the nation as a whole, which was 12.3 percent. While these differences may be small, they merit consideration given that of all the states within the region, only Colorado has an average wage that exceeds the national average. Growth at a rate slower than the national average while starting at a lower wage rate to begin with means that wages in Utah are falling further behind the national average. **Figure 5** shows the difference between average annual wages in the Intermountain West compared to the national average for 2005. The differences range from 6.4 percent above the national average in Colorado to over 20 percent below in Montana.

Conclusion

This first article in the series was meant to raise questions about how well Utah's economy is doing. The state is in the middle of the pack when GDP is examined, both in terms of size and growth. Unemployment in Utah is extremely low but the job mix may be relying too heavily on cyclical sectors-construction and extractive industries as well as creating low paying retail and service sector jobs. Wages in Utah are not keeping up with the national average while it can be argued that Utah is no longer an inexpensive place to live. Part 2 of this series will examine Utah's industry sectors paying particular attention to exports relative to the nation and our neighbors. Part 3 will focus on job and wage growth at the local MSA level and across industries. Part 4 will look at components of the state's personal income, again comparing Utah to neighboring states. By drilling down within these indicators, we hope to provide some answers to the question of how well Utah's economy is really performing and where are the weaknesses both now and in the future.

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