

Executive Summary

Utah's economy continued to perform well in 1999, but the pace of growth continues to moderate. The rate of job growth has fallen gradually since 1994 in each year, dropping from a peak of 6.2% to 2.6% in 1999. This orderly deceleration appears now to have stabilized and analysts expect job growth rates to remain similar in the next couple of years.

During 1999, economic activity in the state maintained the pattern of recent years. Construction activity remains the major catalyst for growth, the national economic expansion continues to augment economic activity, and the growth in international exports remains quite flat as it has now for six consecutive years. Most dramatic, however, is the continuing structural shift within the Utah economy away from natural resource extraction and defense activity toward emerging, information-based and service industries. This transformation continued in 1999 as evidenced by contraction in the oil, gas, mineral, and agricultural industries, and rapid growth in service industries where 11,600 new jobs were created.

The outlook calls for the state to weather a few disruptions as the current construction boom subsides and the state prepares for, hosts, and moves past the 2002 Olympic Winter Games. As Utah enters the new millennium, however, the state appears to be well-positioned to prosper in an information age where an attractive workforce, quality infrastructure, and favorable quality of life become increasingly more important.

International, National, and Regional Context

Utah's current prosperity occurs within a backdrop of a rebounding international economy, a sizzling national economy, and a slowing, but still expanding regional economy. The world economy appears to be recovering from the troubles of the last two years. The worst of the Asian financial crisis seems to have ended and Utah's currently flat level of exports should increase slightly in 2000.

The national economy remains poised to post its longest expansion on record in February of 2000. As of December 1999, the current expansion is nearly nine years old and shows few signs of abating. Jobs remain plentiful, real wages are rising, and inflation is low.

Worker productivity continues to grow. Inflation-adjusted gross domestic product increased by a very respectable 3.8% during 1999. The main concerns at present are the potential downside risks of tight labor markets, a widening trade deficit, low household savings rates, a severe correction in the stock market, and accelerating prices and wages if productivity does not keep pace. Still, the U.S. economy appears to have more to give and federal budget surpluses, strong productivity gains, minimal inflation, upbeat consumers, and an improving global marketplace bode well for the U.S. economy during 2000.

Within the United States the rate of growth in the West remains the strongest of the four regions. The California economy remains vibrant with a rate of job growth that ranks 8th fastest in the country (November 1998-November 1999). The Mountain States continue

to perform well with population, employment, pay, and per capita income growth rates above the national average.

Themes of the Past Year

In many respects, 1999 was a repeat of recent years. The economy remains strong, but has moderated steadily and significantly, just as it has in each of the previous five years. Despite the tempering of activity, growth remains a dominant theme of the past year. *Even though the economy is slowing, growth is still occurring and the economy remains prosperous.*

Other themes include a slight turnaround in the key industries of defense and tourism, leveling-off in growth of high tech and export activity, and contractions in energy, minerals and agricultural industries.

Figure A. Utah's Rate of Job Growth has Fallen for the Past Five Years

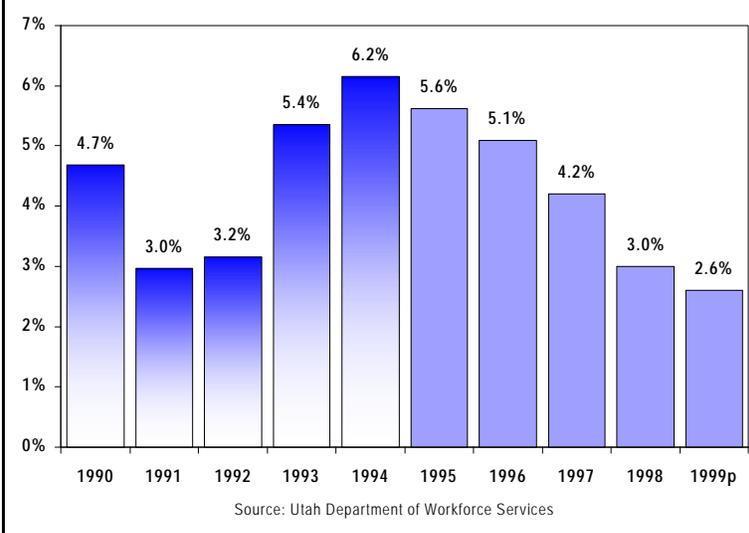
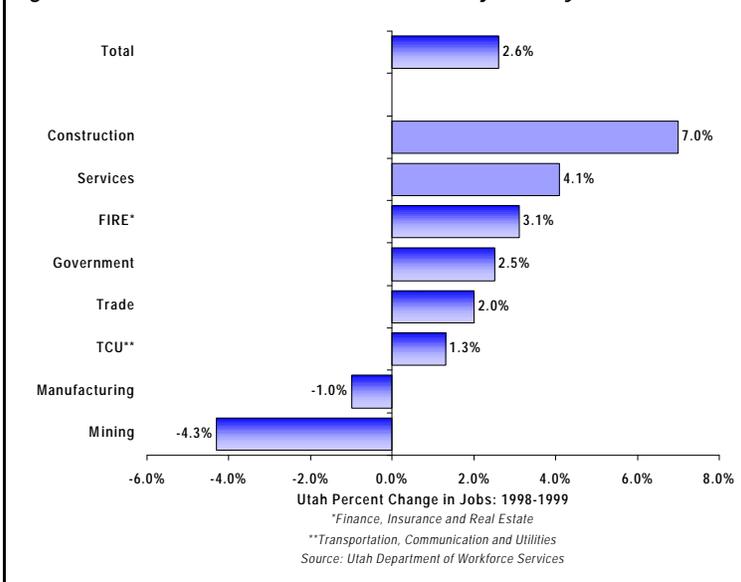


Figure B. Construction and Services are the Major Catalysts for Growth



Growth Continues

Population

Utah's population reached just over 2,121,000 persons in 1999, with an increase of 38,500 persons. The 1.9% rate of annual increase is lower than the state's trend rate of 2.3% over the past 50 years, but continues to exceed that of the nation. During 1999, births reached a record level of 45,434 and net in-migration remained positive for the ninth consecutive year. The state continues to have a distinctive demographic profile, as compared to other states. Utah residents, on average, are younger, live longer, have higher fertility rates and have larger households.

On April 1, 2000, Utahns, like their counterparts in other states, have the opportunity to be counted in the 2000 Census. The Census is expected to further document Utah's growth— an estimated 2.16 million residents are expected to be counted in what is the largest peacetime undertaking of the federal government.

And, over the longer term, newly released long term economic and demographic projections also confirm Utah's growth trajectory. It is expected that Utah's population will reach approximately 2.7 million in 2010, surpass 3.0 million by 2020, and tally roughly 3.7 million by 2030.

Jobs and Wages

Economic activity in Utah, as measured by the rate of job growth, has slowed for the past five years, falling from 6.2% in 1994 to 2.6% in 1999. Despite this moderation, however, Utah is currently the sixth fastest growing state in terms of job creation (November 1998–November 1999). During 1999, Utah added 29,400 net new jobs, and the unemployment rate remained unchanged at 3.8%. The majority of these new jobs were in the service sector which now comprises slightly more than one in every four jobs in the state.

The average Utah wage increased by 3.6% in 1999. This is slightly slower than 1998's 4.4% rate, but still more rapid than the 2.2% increase in consumer prices. Wages have now increased faster than inflation for five consecutive years.

Better Year for Defense and Tourism

Defense

Utah's defense industry rebounded slightly in 1999, as base closures and realignments in other states shifted jobs and military spending to Utah. Hill Air Force Base has been selected as

headquarters for one of 10 new "expeditionary" forces to deal with trouble spots around the world. Consequently, the base is expected to add between 2,700 and 3,000 new jobs from 1999 through 2001. These additions are in sharp contrast to the downward trend the defense industry has experienced since the end of the Cold War. During 1998, defense spending in Utah totaled \$1.27 billion, an increase of 1.3% and only the second increase in the past decade. Even with this increase, Utah's defense industry is still much smaller than it once was, and is a smaller portion of total economic activity.

Tourism

Utah's tourism industry posted a slightly better year in 1999. During 1999, an estimated 18.2 million non-resident travelers visited the state, an increase of approximately 2% from 1998. These visitors spent an estimated \$4.2 billion, generating \$336 million in state and local tax revenues. And, best of all, growth in visitor spending outpaced visitor arrivals once again, indicating a shift toward higher quality tourism. Travel and tourism-related industries provided an estimated 118,500 direct and indirect jobs during 1999. This means that tourism jobs account for nearly one in nine jobs in the state, making tourism one of the state's largest industries.

Level Performance of Exports and High Tech

Exports

International merchandise exports from Utah have remained at approximately \$3.6 billion for six consecutive years. While this measure of exports excludes business services (such as financial services or computer software), educational services (international students studying in Utah), and tourist services (an estimated 700,000 foreigners visited Utah during 1999), it is clear that exports of primary metals, transportation equipment, electric and industrial

Figure D. International Exports from Utah have been Flat for Five Years

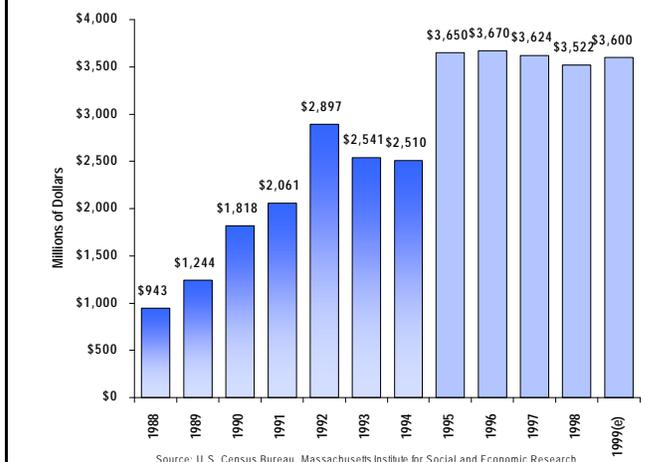
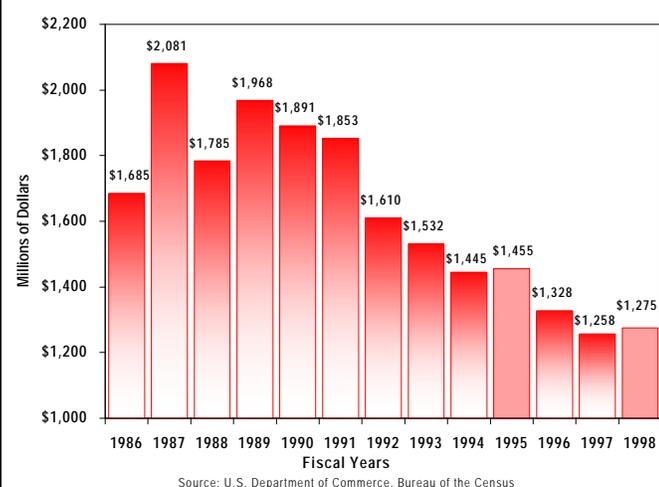


Figure C. Defense-Related Spending in Utah Increased for Only the Second Time in the Past Decade



machinery, instruments, chemicals, food, coal, and other manufactured merchandise have not been a source of new growth for Utah since 1995. Still, even a stable level of exports is a positive sign in light of the recent Asian economic crisis. The share of Utah's exports to Asia has fallen from 43% in 1996 to under 25% for 1999 without a significant drop in export activity. With improving economies throughout Asia and progress in opening up the vast market in China, Utah's exports are expected to increase in coming years.

High Technology

Utah's high technology sector has been on a decade-long roller coaster ride that shows signs of continuing into the next century. Many segments within the industry have undergone a series of peaks, valleys, and steady decline over the past 10 years. Most notable has been the rapid drop in aerospace activity, along with the rise and fall of software development. Offsetting these negative trends has been growth in the medical instruments sector and the emergence of a healthy automotive components sector.

Intel Corporation's decision to build a research campus in the city of Riverton is a very positive development for Utah's high tech industry. If fully developed, Intel will build a seven-building research facility that may eventually employ 6,000 to 8,000 people. An estimated 80% of Intel's workforce will be engineers and other technical workers who will earn an average wage of \$50,000. Still, Utah's high tech sector requires money and innovation to grow. Utah scores average in these areas with a ranking among states of 22nd in the amount of venture capital as a percent of gross state product, and 13th among states in patents per 1,000 workers.¹

Contraction in the Energy, Mineral, and Agricultural Industries

Energy

Crude oil and natural gas production declined in 1999 after several years of stabilized production. Crude oil production dropped a significant 14% below the 1998 level and natural gas production dropped 2%. Oil and gas drilling fell off in response to sustained low oil prices. Wellhead prices are tracking between \$13 and \$20 per barrel and remain too low to spur significant exploration. Fortunately, in the coming years, new production from coalbed methane will likely boost statewide production.

Utah coal production decreased slightly in 1999, falling from 26.6 million tons in 1998 to 26.3 million tons in 1999. Coal mining employment continues to trend downwards from 2,091 in 1997 to 1,950 in 1998 and to 1,917 in 1999.

Mineral

The value of mineral production in Utah during 1999 is estimated to be \$1.79 billion, a decrease of \$64 million from the previous year. Base-metal production (which includes resources like copper, magnesium metal, molybdenum, and beryllium) was essentially the same as last year. Precious metal production (which includes gold and silver) was split with gold production being slightly higher and silver production being lower. Industrial mineral production (which includes resources like sand, gravel, crushed stone, potash, lime, gypsum, and others) reached a new high in 1999 largely because of Utah's construction boom.

Agriculture

Utah's agricultural industry experienced many challenges during 1999. While the industry as a whole is very solvent, with the lowest debt to equity ratio in many years, low lamb, wool, and crop prices have hurt Utah farmers. The cold wet spring in 1999 also had a major impact on crop production in Utah. Apple production was essentially zero in some areas because of killing frosts and the value of a large volume of hay was diminished by low prices.

Significant Issues

The dominant characteristics of the past year have been growth and the expansion, leveling, and contraction of key industries. However, analysts are also carefully watching two other significant economic issues: construction cycles and Utah's placement in the emerging economic environment of the information age.

Construction Cycles

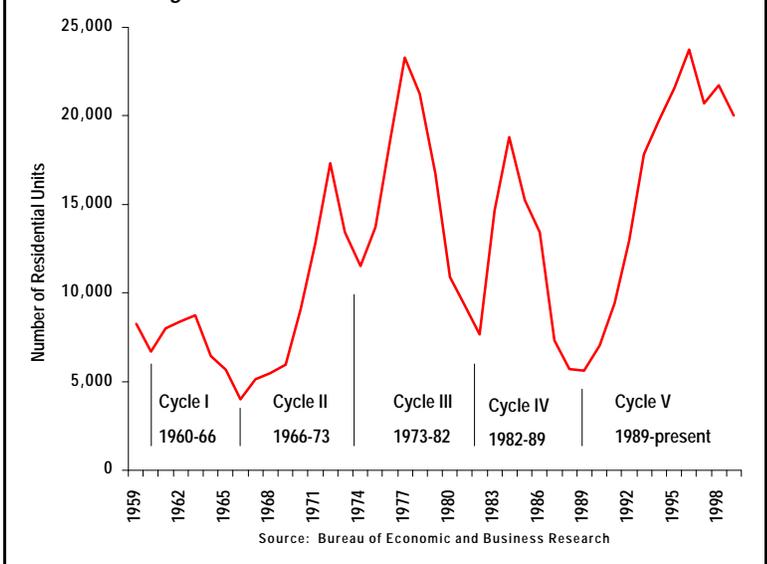
Once again, Utah's construction industry reached new highs during 1999. The total value of permit-authorized construction reached a record level of \$3.8 billion. This includes \$2.2 billion in residential construction – an all-time high; \$1.1 billion in non-residential construction; and, \$550 million in additions, alterations and repairs – also an all-time high.

Utah's construction boom is now in its ninth year. There are currently 73,000 construction jobs in the state, nearly three times as many as existed at the start of the decade. The volume of residential construction has been so pronounced that one in every six housing units that presently exist in the state was built since 1990. And, non-residential construction was strong as well during 1999, with the \$312 million TRAX light rail line completed, the \$240 million LDS Conference Center nearly completed, and the \$1.6 billion I-15 reconstruction project now over 60% complete.

The present residential construction cycle demonstrates extraordinary post-peak strength. For example, in the 1982-1989 period, the three-year post-peak decline registered a drop in residential construction activity of 61%. In sharp contrast, the current cycle, which peaked in 1996, has registered only a 16% decline in the past three years. Reasons for this strength include relatively low mortgage rates, a slow-down in the increase in housing prices which has improved housing affordability, the stock market boom and associated wealth effect, and more lenient down payment requirements for first-time buyers.

Despite the gradual softening of the current construction boom, analysts remain concerned about the drop-off of construction jobs in future years. Indeed, construction has been the major catalyst for growth in the state for nine years running. The current boom is already four years longer than the previous two cycles (1973-1982 and 1985-1989). Moreover, analysts recognize an acceleration

Figure E. Utah's Residential Construction Cycle Shows Extraordinary Post-Peak Strength



¹ Progressive Policy Institute, *The State New Economy Index*, July 1999

effect associated with Utah's hosting of the 2002 Olympic Winter Games and worry about losing as many as 25,000 construction jobs as the current boom shifts to a pause. Opinions remain mixed on the timing, duration, and severity of the expected contraction, however, currently and for the upcoming year, construction activity is expected to remain solid and will be another source of growth during 2000, extending the current cycle to an entire decade.

Utah and the Information Economy

Economists continue to debate whether new economic rules have emerged that defy past theories about economic growth. Evidence of some sort of structural transformation continues to mount as the U.S. economy keeps generating real growth in an environment of very low inflation. The advent of a knowledge economy in place of an industrial economy, increasing globalization, more intense competition, and an accelerating pace of technological change have been identified as salient features of a new economic environment.

Technology is at the center of this debate. The emergence of personal computers, wireless phones, fiber optic networks, the Internet, and e-commerce continue to impact economic activity. And, it is not just the accelerated pace of technological change, but the rapid diffusion of technology and the effective implementation of it that continue to shape market activity.

Market activity is also influenced by an even more competitive landscape which has forced several mega-mergers and buyouts to occur. In Utah, the union of Zion and First Security Bank, American Stores and Albertsons, and ZCMI and May Company will result in an estimated total loss of 2,000 to 3,000 jobs in Utah during 1999 and 2000. Clearly, the changing economy has the potential to diminish as well as create new jobs.

So where does Utah fit in this new economic environment? A variety of studies and statistics illuminate Utah's position in this rapidly changing economy vis-a-vis other states. While flat growth in exports and high tech activity would suggest Utah is not leading this trend, Utah's workforce, investment in infrastructure, and attention to quality of life issues bode well for the state's future.

Utah's Workforce and Information Technology Firms

Information technology firms comprise 11% of total jobs in the state, ranking Utah 15th among states and employing approximately 111,000 people.¹ As evidenced by Intel and Gateway's decision to operate here, Utah's workforce continues to be very attractive to new and expanding information technology companies. Many call centers have also found Utah attractive. Ebay Inc., Marketing Ally,

Reesebrothers Inc., McLeodUSA, and Communications & Commerce are call centers in Utah that increased employment by a 100 or more workers in 1999.

Information technology firms are attracted to locate and expand in Utah because of the workforce. Utah ranks 13th among states in the percentage of the population with a Bachelor's degree or higher and 11th in the percentage of civilian scientists and engineers in the workforce.² In addition, Utah has a very computer-literate population. An estimated 46% of the adult population is on-line. This ranks Utah 4th among the states.³ The benefits of a well-educated workforce and computer-literate population are further strengthened by sufficiently low business costs, where Utah ranks 18th lowest among states.⁴

Infrastructure Investment

In addition to the \$100 million worth of ongoing annual investment in Utah's highways, the state is now in its second year of an ambitious ten-year, \$2.6 billion plan to improve Utah's transportation

infrastructure. The largest of these, I-15 (\$1.6 billion), is 60% complete. Moreover, a \$312 million light rail system has begun operations; and construction will start on another \$105 million spur this Spring if federal dollars are appropriated. And, the Salt Lake International Airport is planning a \$1.26 billion expansion in coming years.

Also, in anticipation of the 2002 Olympic Winter Games, communication companies are spending \$200 million to install more than 400 miles of fiber optic cable, 10 high-speed SONET telecommunications rings, and an extensive high-speed network system. These and other infrastructure

investments will help keep Utah competitive in the future.

Quality Growth Planning

The state has partnered with Envision Utah, a public/private community partnership, to invite residents to think more pro-actively about growth issues such as traffic congestion, air quality, housing affordability, land conservation, and taxes. After two and a half years of study, including over 150 public meetings, Envision Utah has now released a Quality Growth Strategy for the northern metropolitan region. The strategy includes seven goals and 32 strategies intended to maintain and enhance the quality of life.

The state has also established a Quality Growth Commission to advise and recommend to the Legislature principles of quality growth and implementation policies. The Commission has participated in the funding of several planning activities, held public meetings around the State, and begun the process of making

Figure F. Utah Ranks Favorably Among States in Several Measures of Readiness for the Information Economy

<u>Measure</u>	<u>Ranking</u>
Concentration -- Information Technology Jobs as a Share of Total Jobs	15
Workforce Education -- Weighted Measure of Workforce Education Considering Advanced, Bachelor's, and Associate Degrees, and other College Work	3
Innovation Capacity -- Civilian Scientists and Engineers as a Percent of the Workforce	11
Digital Economy -- Percent of Adult Population with Internet Access	4
Business -- Number of Commercial Internet Domain Names Per Firm	5
Education Technology -- Weighted Measure of % of Classrooms Wired for the Internet, Teachers with Technology Training, and Teachers with School-Based E-Mail Accounts	5

Source: Regional Financial Associates and The Progressive Policy Institute

¹ Regional Financial Associates, *Regional Financial Review*, "Information Economy I", September 1999. Note that the information technology industry is defined to be industries that intensively use IT-related labor and capital in their production process. It includes both IT producing and IT using industries. See the *Review* for a listing of 3-digit SIC codes included in this definition.

² Progressive Policy Institute, *The State New Economy Index*, July 1999

³ *Ibid.*

⁴ Regional Financial Associates, *Regional Financial Review*, "Cost of Doing Business", November 1999.

legislative recommendations regarding quality growth. A preliminary allocation of approximately \$2 million has been designated for the preservation of agricultural land and open space. Further, nearly \$200 thousand have been granted to 21 communities statewide to conduct quality growth planning activities.

Together, these very purposeful, inclusive, broad, and coordinated efforts to improve the quality of life in Utah have the potential to benefit Utah's economy long term as residents take pro-active steps to keep Utah attractive.

Poised for the New Millennium

Utah enters the new millennium in the midst of a sustained period of economic prosperity. Many things are right about the state currently. Chief among these is the state's investment in infrastructure, educational attainment, and focus on quality growth planning. However, many challenges remain.

Two of the most important are a construction boom which will eventually turn negative (i.e., job losses in construction) and the potential for the national economy to slow significantly. The state's official forecast assumes the same level of construction jobs next year and no national recession in 2000.

The outlook for 2000 is for slower construction activity to dampen job growth slightly. Job growth is also expected to slow due to lower net in-migration; a tight labor market; expensive housing compared to the national average; building moratoriums and restrictions; and, continued improvement in the business climates and economies of other states (especially California). Job and population growth in 2000 is forecast to be 2.4% and 1.7%, respectively. Unemployment is expected to remain low at 3.9%. The average wage is forecast to once again outpace inflation.

If these indicators prove correct, Utah will once again be among the most prosperous states in the country next year.