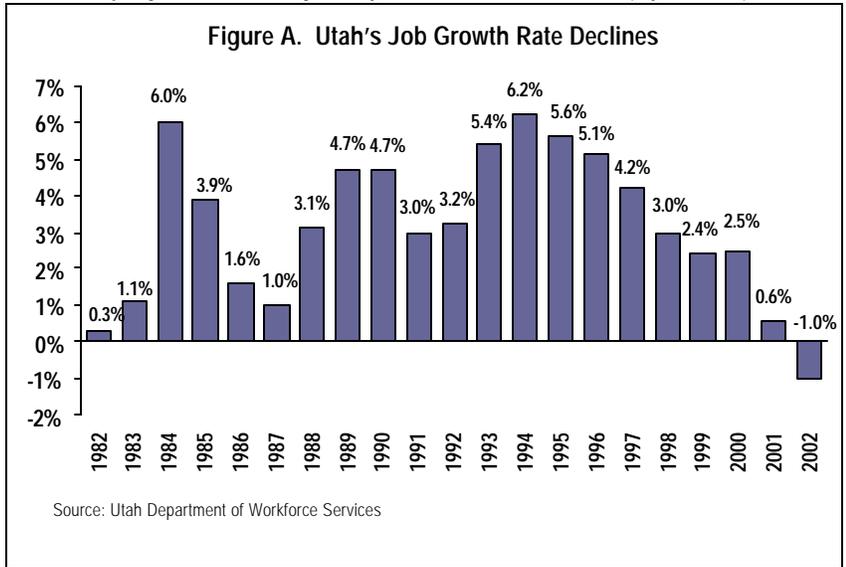


# Executive Summary

Utah's economy slowed significantly in 2002. The national recession, the end of the 2002 Olympic Winter Games, and a degeneration in Utah's relative position compared to California and other states, have all contributed to the slow down. Income, jobs, population, exports, construction, and housing prices, all had slower growth, or outright declines, during 2002. The rate of job growth has fallen gradually from 6.2% in 1994, the peak year of the current cycle, to -1.0% in 2002. The last time employment contracted was 1964, when jobs fell slightly at -0.2%. The last time the rate of change for job growth dipped significantly into negative territory was in 1954, when the state experienced a -2.5% decline. Current expectations are that employment growth in Utah and the U.S. will resume at a modest pace in mid-2003.

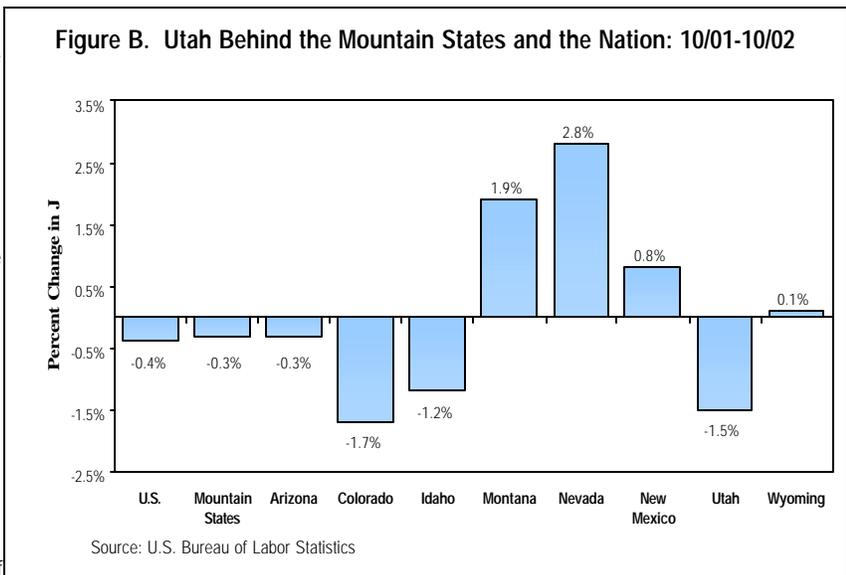


Games. Job growth in construction increased in the two quarters prior to the 2002 Olympic Winter Games and then fell abruptly in the quarter of the Olympics and the quarter after the Olympics. This is similar to the experience of Atlanta during the 1996 Summer Olympics. Construction job growth accelerated going into the Summer Olympics and then decelerated abruptly for four quarters after the Olympics in Atlanta.

**Outlook.** The outlook calls for a return to moderate growth during 2003, accelerating into 2004. Utah's job growth is currently below the nation's, and the unemployment rate is above. During 2003, however, this dynamic should switch as Utah returns to higher job growth than the U.S. and a lower unemployment rate. Utah performs better than the nation over the long run due to strong internal population growth, a young, well-educated workforce, low business costs, and a strong work ethic. Service industries will remain the largest source

**End of Construction Boom.** Construction is the most volatile of Utah's major industries. Construction employment began to contract during 2000, and should continue declining into 2003. Nonetheless, construction jobs in 2003 will still be 5.8% of total nonfarm jobs, slightly above the 1978 to 2002 average of 5.5%. The total value of construction permits peaked at a historic high of \$3.97 billion in 1999, and has since declined to \$3.7 billion in 2002. Value should increase to \$3.85 billion during 2003, however, if a multi-year \$325 million project were permitted in stages, instead of entirely during 2003, value would likely decline.

of new jobs in the state in 2003. Manufacturing job growth will be flat, while the mining and construction industries will continue to contract in 2003. Overall, employment should grow 0.7%. With record-high births, but near-zero migration, population growth should remain around 1.6% during 2003.



## International, National, and Regional Context

**Global Slowdown.** Utah's current slowdown occurs against the backdrop of a very weak international economy and a continuing U.S. slump. All the world's major industrial economies are declining or growing slowly with the exception of China. Japan's economy grew at less than 1% per year during the 1990s, one-fourth the rate of the 1970s and 1980s. Though Europe's performance over the past decade was better than Japan's, its major economies are currently

**Olympics-Related Construction.** Few if any projects were built solely for the 2002 Olympic Winter Games. Still, most Olympics-related projects had accelerated construction schedules to coincide with the Games. Construction and job growth rates would have been lower in the years preceding 2002 were it not for the Games. A significant amount of activity, scheduled for the 2002 Olympic Winter Games between 2002 and 2003, was shifted to the period before the

growing slowly, if at all. The industrializing economies, which depend on the industrial world to purchase their exports, are slumping too. As the U.S. recovers during 2003, the world economy should pick up as well. With the current slack in world demand, Utah's exports are about \$1 billion, or 25% lower than would be the case with robust growth overseas.

**National Recovery.** For the U.S., 2003 will be a year of moderate growth as the recession ends. Consumer spending will grow 2.2%, GDP 2.6%, and investment 2.2%. Since investment fell from 2000 through 2002, a return to growth during 2003 suggests businesses are beginning to anticipate better profit opportunities. Falling unemployment should boost consumer confidence. The geopolitical situation is a negative influence that continues to dampen consumer spending and business investment. Positives for both business and consumers include low interest rates and a stable inflation outlook.

**Utah Behind the Mountain States.**

While Utah and the mountain states experienced robust economic growth in the 1990s, with each state in the region growing rapidly, the region has begun to grow less uniformly. For the mountain states as a whole, jobs fell 0.3% during 2002, compared to -0.4% for the nation. Within the region, Nevada grew almost 3.0%, Montana grew almost 2.0%, and Wyoming and New Mexico grew less than 1.0%. Utah, Idaho, and Colorado all fell 1.0% or more. Arizona matched the region's -0.3% decline.

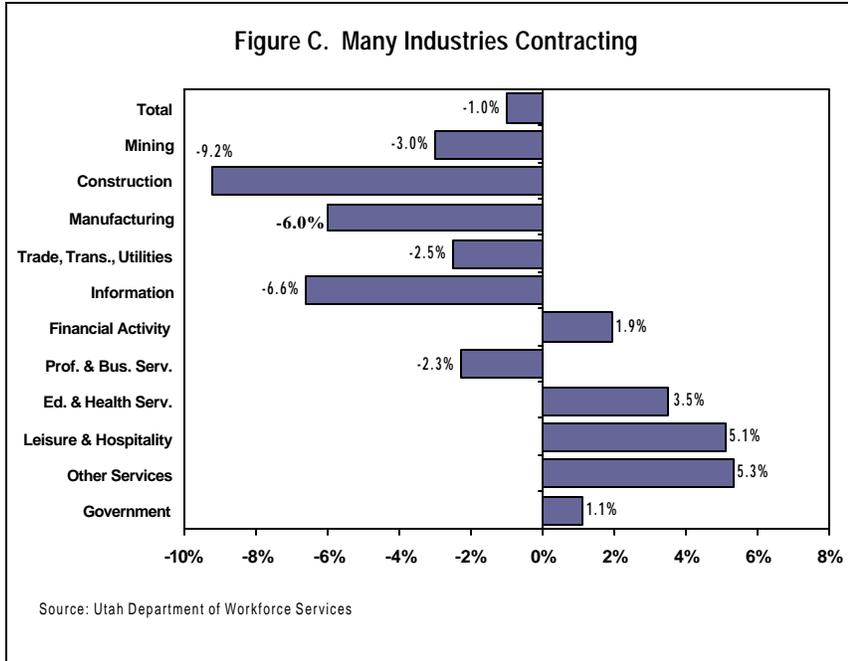
Personal income growth of 2.9% in the mountain states was higher than the nation's 2.6%. Income growth was positive in all states of the region, though it varied from a low of 1.5% in Colorado to a high of 5.2% in Wyoming, with Utah near the bottom at 2.2%.

**Population**

Utah's population grew a robust 1.9% during 2002, down from the 1990s, but still about twice the national average. With the closing of the Olympics, net migration fell from over 14,000 during 2001, to 7,400 during 2002. Although in-migration rates have slowed over the past few years, natural increase continues its strong growth path due to a record number of births in 2002 and Utahns living longer.

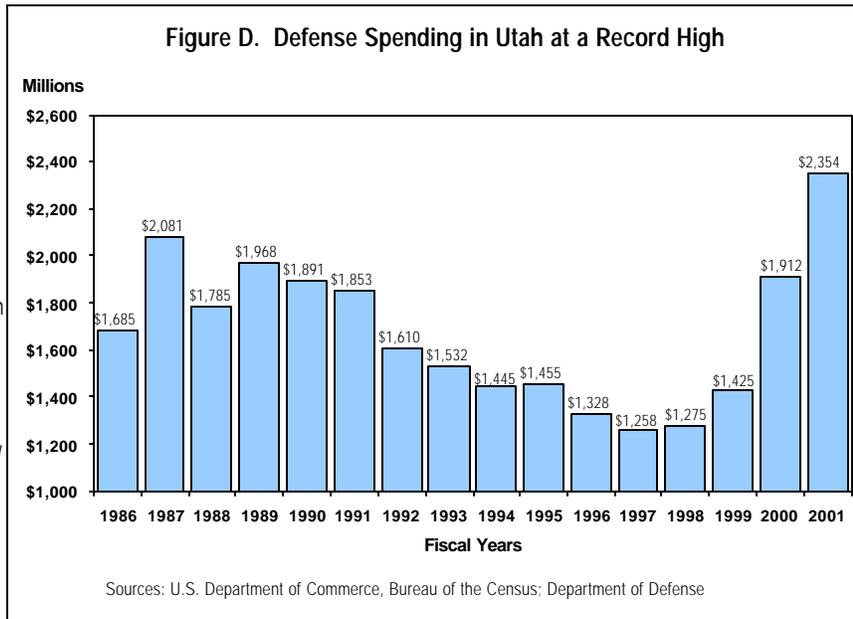
**Jobs and Wages**

During 2002, Utah's economy experienced its worst slump since the 1950s. Nonfarm employment fell by over 10,000 jobs, a contraction rate of -1.0%. This is Utah's worst job contraction since 1954. Correspondingly, Utah's unemployment rate rose to 6.0% from 4.4%, the highest in a decade. A monthly average of about 70,000 people were out of work in 2002.



The 2002 rate of job change by division in Utah's major industries ranged from -9.2% in construction, to 5.3% in miscellaneous services. Information fell -6.6%, manufacturing -6.0%, mining -3.0%, and trade, transportation and utilities, -2.5%. Finance grew at a rate of 1.9%, education and health 3.5%, and leisure and hospitality grew by 5.1%. Growth in finance resulted from low interest rates encouraging mortgage refinancing and other interest-sensitive transactions. In 2003, construction will continue to fall, though not as rapidly, and most industries should see improvement.

Utah's average annual nonagricultural pay was \$30,400 during 2002, up 2.6% from 2001. This is the eighth year in a row that wages have grown faster than inflation.



**Economic Performance by Sector**

Economic performance varied across sectors during 2002. Given ongoing geopolitical events, it is not surprising that defense was up. Other sectors range from mixed to down.

**Defense Up**

**Defense.** Utah's defense industry continued with a solid pattern of growth during 2002, as base closures and realignments in other states shifted jobs and military spending to Utah, and as the military build-up accelerated. Hill Air Force Base has become the Air Force's new "center of excellence" for low-observable technology. This new classification, the result of a prime military contractor relocating to Hill, will help ensure the viability of this large Utah employer. Although the

defense industry experienced reductions during most of the 1990s, this trend was reversed in the latter end of the decade. Defense spending in Utah in 2001 totaled \$2.35 billion, rising 23% from the previous year. Increased activity is expected to continue in 2003 as a result of the geopolitical situation.

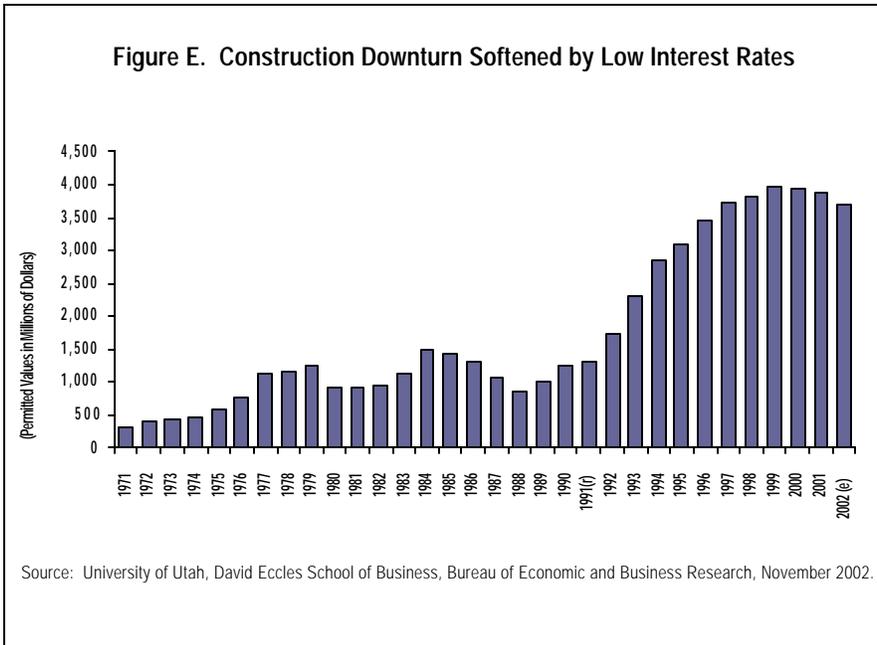
**Energy, Minerals, and Tourism Mixed**

**Energy.** Utah's 2002 crude oil production was less than half of its peak year production in 1985. This decline can only be offset in the event of new well drillings in the future. If not, Utah's consumers will increasingly have to look elsewhere for both crude oil and other petroleum products. On the other hand, Utah's natural gas capacity has risen steadily over the years, primarily due to an increase in its coal bed methane fields. The state's electricity consumers were spared the sharp price spikes faced by their west coast neighbors in 2001. Overall, Utah's electricity industry and market environment have drastically changed over the last decade as a result of evolving federal policy and an increasingly competitive electricity market.

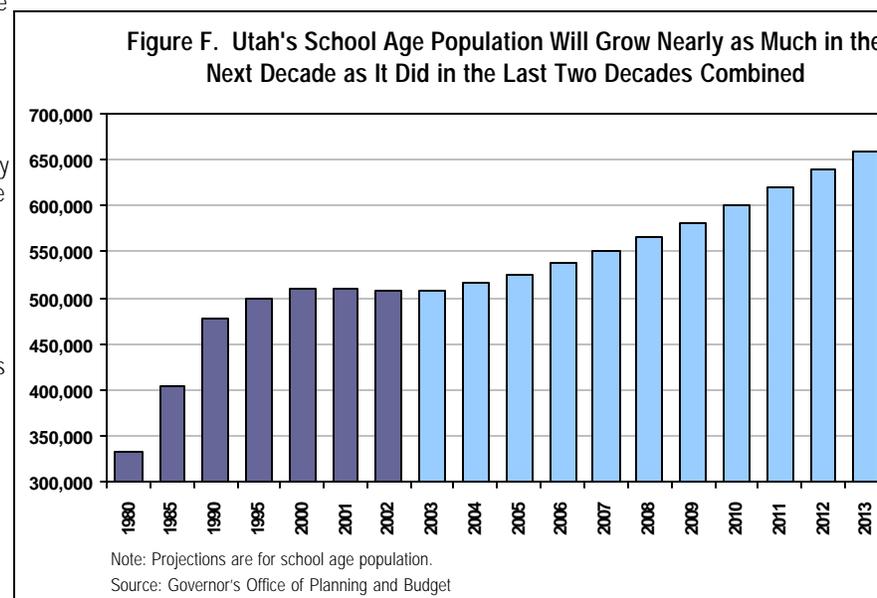
**Minerals.** At \$1.8 billion during 2002, the value of mineral production dropped only slightly from 2001. The value of industrial minerals was up, while the value of base metals, coal, and precious metals all declined. Lower values resulted from a combination of low prices, lower production, and slack demand in the national and international economy. In decreasing order of value, contributions from the major industry segments were: base metals (\$612 million), industrial minerals (\$560 million), coal (\$420 million), and precious metals (\$173 million). In 2002, the Utah Geological Survey estimates that 89 Large Mines (including coal) will report the same level

of production as 80 mines in 2001. Nationally, Utah ranked ninth in the value of nonfuel mineral production, and 12th in coal production in 2001. It is likely that these rankings will be lower for 2002 as production and prices were both down slightly. The state contributed about 3.5% of the U.S. total value of nonfuel minerals production in 2001.

**Tourism.** The lingering effects of 9/11, heightened geopolitical tensions, and uncertain economic conditions presented a challenging set of circumstances for Utah's travel industry in 2002. Helping to mitigate the negative effects of uncertainty in the marketplace was a successful Olympic Games, which provided much needed growth during the first quarter of 2002, and improved the state's visibility around the world. The domestic leisure travel segment provided the only source of growth in 2002, as both business travel and international travel suffered declines. As a result, tourism employment and traveler spending were



both constant during 2002. Given the recession and geopolitical concerns, it appears the Olympics prevented a severe downturn for tourism in the state.



**Agriculture, Construction, and High-Tech Down**  
**Agriculture.** Drought and lower prices reduced farm income during 2002. A sharp decline in cattle and milk prices, coupled with increasing input costs, especially feed, resulted in lower incomes. The high feed prices had a negative impact for ranchers, but increased income for farmers growing grain and hay. If the drought had not cut hay, forage and grain production in many areas of the state, these sectors of Utah agriculture probably would have experienced near record incomes. These differences have a larger impact in some parts of the state than in others.

**Construction.** Construction employment fell 9%, from 71,600 to 65,000, during 2002. Despite the decline in employment, the value of permit authorized construction was \$3.7 billion, only 4% below last year's \$3.9 billion. Most of the strength in construction is in the residential sector, where value reached \$2.4 billion in 2002, a record high. The number of new dwelling units receiving building permits was 19,000. The residential sector benefited from low interest rates, which fell from 7% at the start of the year to 6% by midsummer, providing a significant financial incentive for new homebuyers. Lower interest rates did not have the same impact in the nonresidential sector. Nonresidential construction activity fell 7% in 2002 to \$900 million, however nonresidential valuation did finish higher than projected, gaining strength in the latter half of the year.

**High-Tech.** The downturn in Utah's high technology sector that began in 2001 gained momentum in 2002. For the first six months of the current year, employment in Utah's technology sector declined by 9%, representing a net loss of nearly 5,000 jobs. Companies that manufacture computers and peripheral products, and those that design computer systems, experienced the largest employment drop in absolute numbers with a combined job loss of almost 3,200 workers. Only two industries, Medical Equipment and Supplies, and Scientific Research and Development Services, reported job gains.

### **Significant Issues: Education and Census 2000 Income and Poverty Results**

**Education.** Education is always a significant issue in Utah because children represent such a large portion of the population. Although Utah is near the middle when compared to states in terms of household income, it is near the bottom in terms of per capita income. When compared to other states, Utah has larger households, so, inevitably, less income is available per child. Consequently, Utah is near the top when compared with other states when measuring the share of income devoted to education, and currently is the state with the lowest per-pupil funding. The past decade was a period where the growth in the school age population actually slowed, as the grandchildren of the baby boomers had not yet entered the school system. Coincidentally, the 1990s were the most prosperous decade in 30 years or more, generating rapid growth in state revenue. A strong economy and slow enrollment growth allowed greater investment in education. Now that the boomers' grandchildren are entering the schools, and the economy has slowed, the next decade promises to be more of a funding challenge than the last.

**Census 2000 Income and Poverty Results.** Census 2000 results demonstrate that Utah's economic growth during the 1990s was more equitable than that of the nation's, as well as most states. Significant income growth occurred in all of Utah's income groups from 1989 to 1999. The top fifth's income grew fastest, (26%), while the bottom fifth grew second fastest (22%). Utah ranked highest among all states in its proportion of households with "middle range" incomes. Further, the state's poverty data demonstrate that the trend of increasing economic disparity that characterized most of the 1980s, slowed in the 1990s. The proportion of "severely poor," "near poor," and "officially non-poor, but needy" Utahns declined, as did the state's overall poverty rate. Various poverty measures place the state at much lower rankings than a majority of other states, since the 1990 census. Utah fares especially well in the alleviation of poverty among its most vulnerable populations -- children, the elderly, as well as female-headed households.

### **Looking Ahead**

As the recession ends, Utah's economy should resume moderate growth during 2003. After contracting in 2002 for the first time since 1964, employment should grow during 2003 at a rate of 0.7% for the year. The unemployment rate is expected to fall from the current 6.0% to 5.3%, levels not seen since the early 1990s. For the ninth year in a row, wages should increase faster than inflation.

After a decade of good progress in education, Utah is confronted with lower state revenues and burgeoning school enrollment. Maintaining, if not advancing, improvements in education over the next decade will be one of the state's biggest challenges.