

Executive Summary

Overview

Utah's economy grew very rapidly during 2006. For the third consecutive year, the state outperformed the nation. Utah's job growth was 5.2%, the fastest since 1995, compared to 1.4% nationally. After three years of solid performance, Utah appears to be repeating the long expansion of the 1990s.

While 2005 was remarkable in its own right, the economy's acceleration during 2006 was astounding. Total construction value set another all-time high. While dwelling-unit permits were down slightly from 2005, the 2006 level was still higher than any year before 2005. As a result, Utah's home price appreciation was among the highest in the nation. With continued high energy prices, mining and energy production--principally natural gas, coal, and oil--accelerated dramatically during 2006.

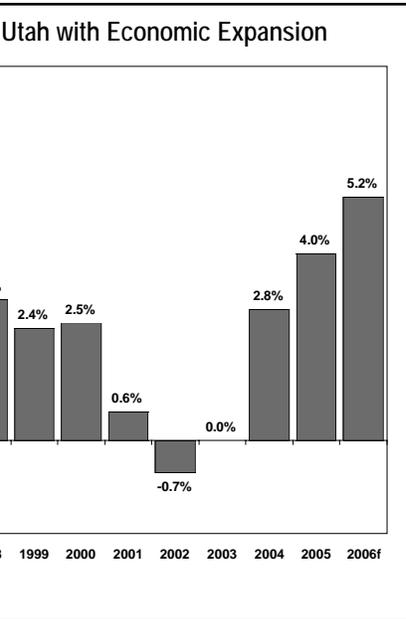
Outlook

The outlook anticipates very strong growth during 2007. Employment growth of 4.7% will be above the long-term average of 3.3%. Population growth will be 2.8%, the third consecutive year the population has expanded by around 3.0%. Net immigration will remain strong at 33,000, because the Utah economy will continue to outperform the national economy. Construction will be up, with 11.6% job growth and slightly higher valuation.

National and Regional Context

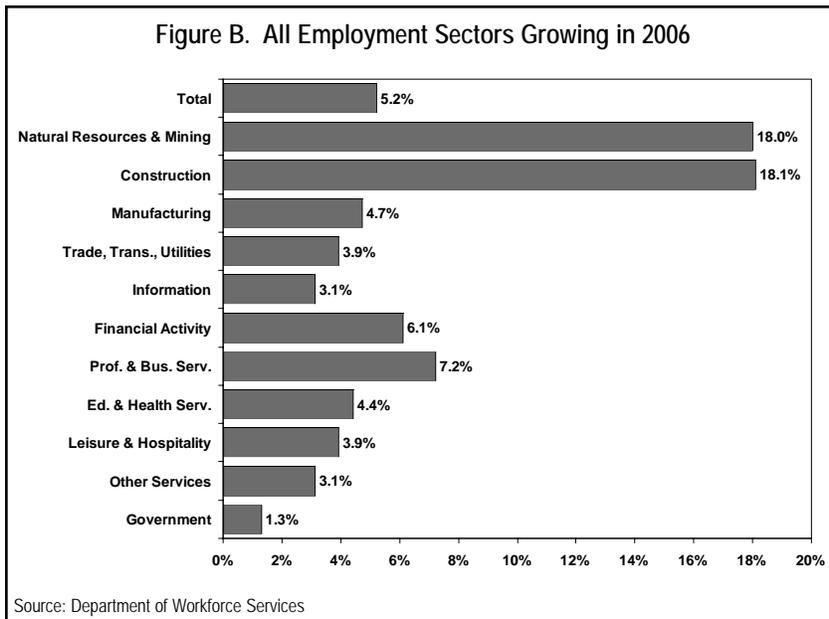
Slowing National Expansion. Tighter monetary policy appears

to be slowing national economic growth. Housing price appreciation has begun to reverse with home prices flat or falling, and with home construction and housing sales down. Job growth was 1.4% in 2006 and is expected to drop to 1.1% in 2007. After remaining below the February 2001 peak for almost four years, U.S. nonagricultural payroll employment began to grow in January 2005. As 2006 closed, employment was more than 3 million jobs above the previous peak. Oil prices are expected to remain above \$60 per barrel, which means consumers will spend more for gasoline and less on other goods and services. With tighter monetary policy, growth in consumer spending is expected to slow, and the amount of business investment is expected to decline.



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GDP is expected to grow 2.4% in 2007, down slightly from 3.3% in 2006, and below potential. Accordingly, the unemployment rate is expected to rise to 4.8% in 2007, from 4.6% in 2006.



Robust Mountain States Expansion.

The mountain division is expanding more rapidly than the nation as a whole and is emerging as a growth center. Comparing September 2006 to September 2005, mountain state employment grew 3.4%, more than twice the national rate of 1.4%. Further, the top five fastest growing states in the country were in this division. As has been the case for most of the past decade, Nevada was the fastest growing

state in the nation. In order of growth Utah, Arizona, Wyoming, and Idaho, were the next fastest growing states. However, the mountain division continues to pay lower wages, with only Colorado above the national average.

Population

Utah's population grew 2.7% during 2006, three times the national rate. With a strong economy, net migration was almost 29,000, accounting for over 40.0% of Utah's population growth. Births rose dramatically in 2006, 52,368 this year compared to 50,431 in 2005. Since Utah continues to lead the nation in total fertility, or the number of births each woman can expect during her lifetime, births should remain above 50,000 for the foreseeable future.

Education

In 2006, there were an estimated 526,000 students in Utah's public education system, an increase of 16,075, or 3.2% over 2005. The student population is becoming increasingly diverse. Utah students score respectably with their national peers. In 2006, Utah's per pupil expenditure was \$5,000, the lowest in the nation. However, Utah's total current expenditure as a percent of total personal income was 4.2%, ranking Utah 36th highest in the nation.

Jobs and Wages

Employment grew 5.2% in 2006, exceeding the 3.3% long-term average for the second year in a row. This was the fastest growth since 1995. At 4.7%, employment growth is expected to remain very strong during 2007. The rapid job growth during 2006 drove the unemployment rate down to 3.3%, but the gradual deceleration of growth is expected to raise the rate to 3.5% in 2007.

Each of Utah's major employment sectors grew during 2006, with growth rates ranging from 1.3% in government to 18.1% in construction. Natural resources and mining grew 18.0%, profession-

al and business services grew 7.2%, and financial activity grew 6.1%. The other sectors grew between 3.1% and 4.7%.

Utah's average annual nonagricultural pay was \$34,600 during 2006, up 5.4% from 2005. For the third consecutive year, wages exceeded inflation during 2006. From 1994 to 2000, wage growth increased significantly

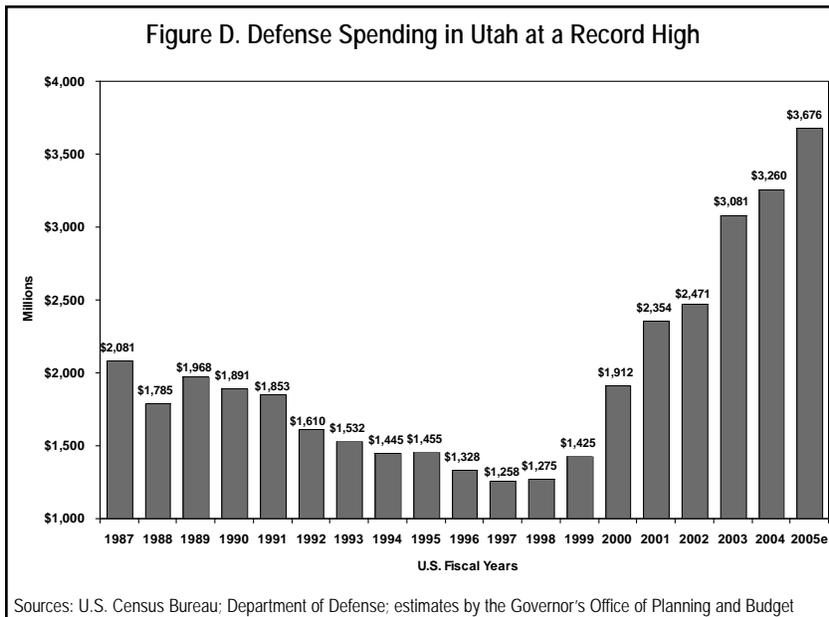
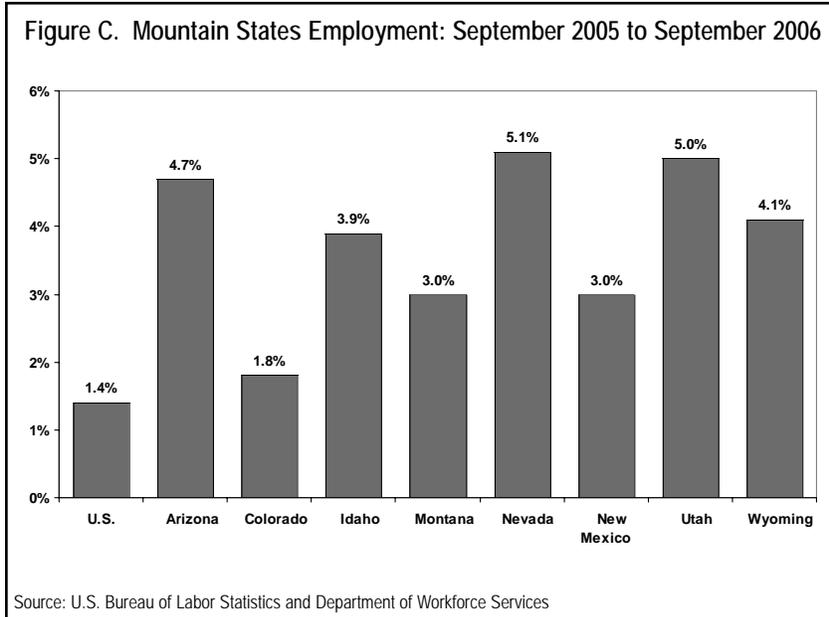
faster than inflation. In contrast, wages essentially matched inflation from 2001 to 2003. With the economy growing strongly, wages should outpace inflation for a fourth year in a row during 2007, thereby improving Utah's standard of living.

Economic Performance is Up in All Sectors

For the second year in a row, all sectors of Utah's economy performed strongly during 2006. Strong demand and prices boosted agriculture. Continuing low interest rates combined with employment and population growth powered construction to another all-time high. The ongoing world geopolitical situation and the role Hill Air Force Base plays in air logistics kept defense growing in Utah. Minerals were up as well, with global economic growth accelerating. Higher energy prices led to more production of natural gas, coal, and oil. Most other sectors had varying levels of improvement.

Agriculture. Utah's agricultural production and sales rose in 2005 and 2006. With normal weather, the value of agricultural production in Utah during 2007 should hit

record levels once again, with most sectors growing. Cash receipts, which grew 5.7%, from \$1,253 million in 2004 to \$1,326 million in 2005, appear to have set a record in 2006 and should



continue growing in 2007. Relatively high prices for livestock and crops are generating welcome sales growth for Utah's ranchers and farmers.

Construction. Continuing low interest rates and a growing economy powered construction value to another all-time high, from \$6.6 billion in 2005 of \$7.6 billion in 2006, an increase of 15.0%. Residential construction led the way with a record \$5.1 billion in new construction activity. The number of new dwelling units receiving building permits totaled 27,000, down from the record high of 28,285 in 2005. Relatively low mortgage rates throughout 2006 drove demand for new, single-family homes to a near record high of 20,500 units. From 1998 to 2004, Utah had the lowest rate of price appreciation of existing homes in the nation. This trend completely reversed by third quarter 2006, when home prices grew 17.4% over the previous year, ranking Utah second in the nation. With long-term interest rates below 7.0%, 2007 should be another good year, though value is expected to climb less than 1.0% to \$7.7 billion.

Defense. Against a background of ongoing international tensions, Utah's defense industry continued to expand in 2006. Having survived the BRAC process with the Deseret Chemical Depot, Hill Air Force Base and Fort Douglas essentially intact, these installations continued to carry out their assigned missions. Hill AFB picked up additional missions to maintain and modify the F-16, F-22, and A-10 aircraft. Defense related spending in Utah in FY 2005 was estimated at \$3.7 billion, rising 12.8% from the previous year. The current level of defense activity is expected to continue in 2007, a result of military involvement overseas and base realignment.

Minerals. Continuing the growth trend begun in 2004, energy and mineral production grew to \$7.6 billion in 2006. The previous peak of \$4.9 billion in 1981 was largely due to the rise in the price of oil at that time. Higher production and prices of natural gas, copper, and molybdenum contributed to the strong growth. With commodity prices expected to remain high, strong growth should continue in 2007.

Energy. Utah experienced a significant increase in all areas of energy production in 2006. Production of coal and natural gas continues to satisfy increasing demand. Crude oil production,

despite its recent rebound, is still only 34% of Utah's total petroleum-product consumption. Increased energy prices in Utah are related to world events and have been driven up by high demand, foreign conflicts, and lingering effects from last year's Gulf Coast hurricanes.

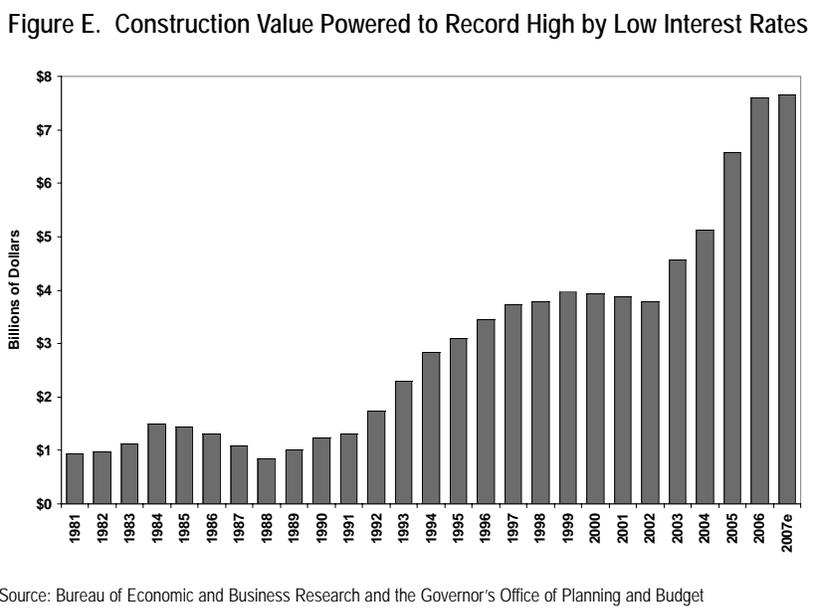
Tourism. The travel and tourism industry in Utah improved during 2006. Each of the five major tourism sectors--transportation, eating and drinking, hotels and lodging, amusement and recreation, and car rentals--experienced gains. For the third consecutive year, the Utah ski industry experienced an all-time record skier visits. Hotel occupancies were also up. Visitation decreased slightly at national parks and state-operated welcome centers but increased slightly at state parks. Overall, the Utah tourism industry benefited from higher traveler spending and increased travel-related employment in 2006. There are still concerns about consumer confidence, gasoline prices, home heating costs, terrorism,

the war in Iraq, and the U.S. image abroad, so industry experts forecast slower growth in 2007. The outlook for the industry for 2007 is good, as it is expected that travel among business and leisure travelers, both international and domestic, should increase.

Exports. Utah's merchandise exports grew from \$6.1 billion in 2005 to an estimated \$6.8 billion in 2006, an increase of 12.9%. Utah's exports have been at or above \$3.0

billion since 1999 and above \$4.0 billion since 2002. Shipments of gold accounted for approximately 42% of the total during 2006, an increase over 2005 when gold accounted for 35% of Utah exports. Utah exports to Canada were strong and exports to China exceeded \$100 million for the fourth year in a row. As the world economic recovery strengthens during 2007, Utah's exports should continue to grow.

High Technology. Utah's technology sector posted a remarkable gain of 3,650 workers in 2005, bringing total average employment in the sector to 60,600. By the end of 2005, employment in the technology sector accounted for 5.3% of nonagricultural employment in Utah. During the first six months of 2006, average employment increased by an additional 1,800 workers--a gain of almost 3.0%. With ten consecutive quarters of positive employment growth, Utah's technology sector appears to be rebounding.



Over the long term, Utah's technology sector could get a further boost by a state-funded Utah Science, Technology and Research Initiative. USTAR is designed to jump start technology spin-off companies by recruiting leading research teams from around the globe to conduct cutting-edge research facilities at Utah's universities and colleges.

Significant Issues: Downtown Rising, Tax Reform, Skiing and Growth

Downtown Rising. In the next five years, investment in the central business district of Salt Lake City will approach \$2 billion. There has been no other time when so much investment has occurred downtown in such a concentrated time period. This investment creates significant opportunity for a renewed downtown--both in the actual environment and in the psyche of residents and visitors. With this in mind, the Salt Lake Chamber and its affiliate the Downtown Alliance have embarked on a regional effort called "Downtown Rising" to leverage this new investment. Downtown Rising will reaffirm the central role of the capital and largest city and will create a blueprint for future growth. About 60 projects are in the design, planning, or construction phase for downtown. When fully developed and adopted, the Downtown Rising vision and extensive development will form the basis for an energized and renewed central place for generations to come.

Tax Reform. Targeted reform of Utah's individual income tax can have powerful dynamic effects. Economic research indicates that marginal tax rates significantly influence the business decisions of entrepreneurs and corporate leaders. Based upon this research, the Governor's Office of Planning and Budget developed a dynamic growth analysis under the assumption that a lower marginal tax rate would induce additional corporate relocation to Utah over and above current projections for economic growth. Tax reform could enable more effective corporate recruiting, resulting in 6,000 direct high paying jobs in 2020, with over 25,000 throughout the economy when the multiplier effect is considered. The overall economy, as measured by Utah's GDP, could be 1.8% larger, and the net revenue gain could be \$30 million per year.

Ski and Snowboard Industry. Utah had a tremendous 2005-2006 ski season, with skier days growing 4.3% to 4.1 million--topping the four million mark for the first time ever. Utah's growth rate was higher than the national rate of 3.3%, but lower than the 5.8% growth in the Mountain Division (Montana, Idaho, Wyoming, Utah, Colorado and New Mexico). Non-resident skiers and snowboarders spent \$563 million in Utah during the 2005-2006 season, generating substantial economic impact over and above the actual dollars spent. In total, about 12,700 jobs have been supported by out of state visitors to Utah's ski resorts.

Growth. Utah is facing unprecedented population growth. Projections indicate that Utah's population will double by 2050 to over 5.4 million residents. Utah has a choice: growth can happen and the state can respond reactively; or alternatively, individuals can come together to discuss and plan for the challenges and

opportunities of population growth. Actions taken now to address growth in these and other critical areas will have significant implications for long term quality of life in Utah.

Looking Ahead

Utah's economy is coming off two remarkable years. The growth path that began in 2004 will continue through 2007 with employment increasing 4.7%. With strong in-migration, the unemployment rate is expected to increase from its current very low 3.3% to a more sustainable 3.5% in 2007. Replicating the trend of the 1990s, for the fourth consecutive year, wages will increase faster than inflation during 2007, thereby improving Utah's standard of living.