

UTAH'S Economy

A monthly report produced for COMMERCE REAL ESTATE SOLUTIONS by Jim Wood, Bureau of Economic and Business Research University of Utah

ISSUE 97 DECEMBER 2012

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HOW GOES THE RECOVERY?

Utah's economic recovery has been underway for two years. Some sectors finished very strong in 2012. Employment for the year was up 3.3 percent, an increase of 40,000 jobs. New auto and truck sales were up 17 percent and single-family home construction up over 30 percent. All very welcome news. At this point in the recovery it is worthwhile to broaden the comparisons from year-over to a longer perspective; back to the pre-recession peak of 2007, to get a sense of just how far the recovery has come.

Employment

Utah's job market is near full recovery, just two-tenths of one percent below the peak of 2007, *Table 1*. Only a handful of states have done as well. Although not all employment sectors in Utah have recovered. Manufacturing is off 8.0 percent from its peak and construction is still down 32 percent. However, both healthcare and government employment are well above 2007 levels. Government growth is due almost entirely to increases in local government employment, which has jumped by 15,000 jobs since 2007. Healthcare is near recession proof and continues to grow regardless of general economic conditions. Surprisingly, average annual pay is up 2.0 percent in inflation adjusted dollars to \$40,956. The unemployment rate has come down from a high of 8.0 percent in 2010 to 5.9 percent, still far above the 2.7 percent rate of 2007. In fairness, the 2007 rate is the lowest annual unemployment rate on record. The historic (1950 to present) average unemployment rate

Table 1 Change in Utah Employment in Selected Sectors

	2007	2012	Percent Change
Employment (thousands)	1,251.3	1,248.9	-0.2%
Manufacturing Employment	127,484	114,900	-8.3%
Retail Employment	145,831	141,836	-2.7%
Government Employment	209,695	222,700	6.2%
Construction Employment	105,291	71,700	-31.9%
Healthcare	108,694	125,352	15.3%
Utah Average Annual Pay*	\$40,171	\$40,956	2.0%
Unemployment Rate	2.7%	5.9%	

*Inflation adjusted; 2012 dollars

Source: Utah Department of Work Force Services

for Utah is 5.1 percent, probably a reachable rate for the Utah labor market by 2015.

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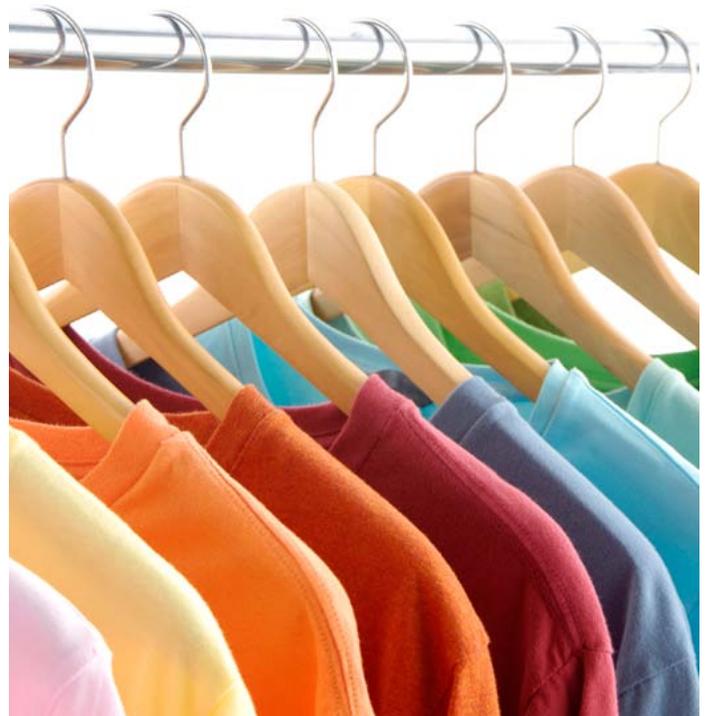


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Energy and Mining

The oil and gas boom in eastern Utah has driven down the unemployment rate in Uintah County to 5.1 percent and in Duchesne County to 3.9 percent. Although oil production is not at record levels it is the highest in over 20 years. Utah oil production was as high as 41 million barrels in the early 1980s considerably higher than the 27.5 million barrels in 2012, *Table 2*. Natural gas production in 2012 is the second highest year ever, just slightly lower than the production level of 2011. Coal production has declined for the seventh consecutive year as electric power plants, motivated by cheap natural gas prices, move to gas rather than coal-fire plants. Copper production is at high levels and profitable as Rio Tinto announced in 2012 a \$660 million expansion of the Bingham Canyon mine, which will extend the life of the mine to 2029, an additional 11 years, and give access to another 700 million tons of copper.



Retail Sales and Exports

Retail sales are still down 10 percent from the peak of \$29.4 billion (inflation adjusted) in 2007 but sales have rebounded nicely after hitting bottom in 2010 and should fully recover to pre-recession peaks by 2014, *Table 3*. New auto and truck sales will take at least two more years to duplicate the sales level of 2007. This sector was particularly hard hit during the recession, dropping over 40 percent. Sales are now about half-way back. Utah export activity was not really affected by the recession, registering annual gains over the past four years. Utah's highest value, non-gold export, is computer memory devices.



Table 2 Change in Energy and Mining Production in Utah

	2007	2012	Percent Change
Coal (million tons)	24.3	17.3	-28.8%
Oil (million barrels)	19.5	27.5	41.0%
Natural Gas (billion cubic feet)	344.5	415.0	20.5%
Copper (million pounds)	497.0	569.1	14.5%

Source: Utah Tax Commission

Table 3 Change in Retail Sales and Exports in Utah

	2007	2012	Percent Change
Retail Sales (billion dollars)	\$29.2	\$26.2	-10.3%
New Aute & Truck Sales (thousands)	115.2	95.5	-17.1%
Exports (billion)	\$8.6	\$20.4	137.2%

Source: Utah Tax Commission

Construction and Real Estate Activity

Residential construction activity and value is still down 40-50 percent compared to 2007, *Table 4*. Despite the rather large difference between 2007 and 2012 there is cause for optimism. New home construction began its rebound about 18 months ago. On a year-over basis new home construction is up as much as 40 percent in 2012. In contrast to new construction, the sales level of existing homes has pretty much recovered. Real estate agents are pleased as the total number of home sales in Wasatch Front counties in 2012 totaled 21,247 homes, just 7.5 percent below 2007.

Table 4 Change in Construction and Real Estate Activity
(Inflation Adjusted 2012 Dollars)

	2007	2012	Percent Change
Construction of Dwelling Units in Utah (000)	20.5	12.0	-41.5%
Residential Construction Value in Utah (billions)*	\$4.4	\$2.15	-51.1%
Existing Home Sales (Wasatch Front Counties)	22,978	21,247	-7.5%
Median Price (Wasatch Front Counties)	\$257,783	\$199,000	-22.8%
Monthly Average Rental Rate (SL County)*	\$800	\$814	1.8%
July Vacancy Rate (SL County)	3.2%	3.8%	--
Nonresidential Const. Value in Utah (billions)*	\$2.25	\$1.00	-55.6%

*Inflation adjusted; 2012 dollars

Source: Bureau of Economic and Business Research, University of Utah, Wasatch Front Regional Multiple Listing Service



The median sales price of an existing home in the Wasatch Front counties, in inflation adjusted dollars, is 23 percent below 2007. There was substantial price improvement in 2012 and it is expected that home prices will improve by 10-12 percent in 2013. In inflation adjusted dollars home prices probably will not fully recover for another three years.

The rental market was hit hard in 2009 as job losses drove up vacancy rates but the market quickly recovered. Demand for rentals has grown as many families have been excluded from home ownership due to their credit worthiness. Vacancy rates are below 4 percent and rental rates are rising. Both vacancy and rental rates compare favorably with 2007.

Nonresidential construction activity always lags the residential market. In 2012 the value on permit authorized nonresidential construction is down 55 percent to \$1 billion. The historic average for nonresidential construction is \$1.5 billion in inflation adjusted dollars. It will probably be 2015 before this sector gets back to its historic average.

Mortgage Foreclosures

Although the inventory of foreclosures has fallen from a high of 15,000 mortgages to 7,900 it is still a long ways from the 2,800 in pre-recession 2007, *Table 5*. It will likely be several years before the foreclosure inventory matches the level of 2007. In that year the mortgage inventory was only 0.66 percent of all mortgages, the historic average is 1.22 percent or the equivalent of 5,100 mortgages in 2012. It is conceivable that the foreclosure inventory could get back to the historic average in the next two years. A positive sign is the number of foreclosures started in the third quarter of 2012 of 1,929, the lowest quarterly number in 19 quarters.

Table 5 Change in Foreclosures in Utah (Third Quarter)

	2007	2012	Percent Change
Inventory of Foreclosures	2,800	7,900	182.1%
Foreclosures Started	1,648	1,929	17.1%

Source: Mortgage Bankers Association

Demographic Change

In 2012 Utah's population increased by 40,940, a 1.5 percent rate of growth, which was exactly half the rate of growth in 2007. The lower growth rate is due primarily to a much lower level of net in-migration, 5,000 in 2012 versus 44,300 in 2007—the all-time record. The population of Utah, despite the recession, has increased by 5.8 percent or 157,000 since 2007, *Table 6*. The number of births in Utah has declined for four consecutive years as young households postponed adding children during rough economic times. The number of births, after peaking in 2008 at 55,600, is expected to level off in 2013 at 51,000.

Table 6 Demographic Changes in Utah

	2007	2012	Percent Change
Population (thousands)	2,700	2,857	5.8%
Births (thousands)	55	51	-7.3%
Net Migration (thousands)	44.3	5	-88.7%

Source: Governor's Office of Management and Budget

Commercial Real Estate

Lease rates for commercial real estate in Salt Lake County have not fully recovered. In inflation adjusted dollars the lease rate for retail space is still off nearly 15 percent, *Table 7*. The current retail lease rate is \$16.93 per square foot compared to \$19.84 in 2007. Industrial lease rates are down 7.5 percent and office rates down just under 6 percent. While lease rates have fallen vacancy rates have risen. It will take a few more years of solid employment growth to bring commercial vacancy rates down to the levels of 2007. Currently commercial vacancy rates are at or near double digit levels, *Table 8*.



Table 7 Commercial Lease Rates in Salt Lake County (Inflation Adjusted 2012 Dollars)

Type	2007	2012	Percent Change
Office*	\$21.10	\$19.87	-5.8%
Industrial**	\$0.40	\$0.37	-7.5%
Retail	\$19.84	\$16.93	-14.7%

*Full service asking lease rate

**Triple net, per square foot, per month and include tenant build-out

Source: Cushman & Wakefield | Commerce

Table 8 Commercial Vacancy Rates in Salt Lake County

Type	2007	2012
Office	10.14%	14.86%
Industrial	5.41%	9.05%
Retail	7.25%	8.8%

Source: Cushman & Wakefield | Commerce

Office buildings have the highest vacancy rate in Salt Lake County at 14.9 percent in 2012 compared to 10.1 percent in 2007.

In Summary:

- Utah's job market, the most important economic indicator, appears to have fully recovered but some sectors are still struggling, e.g. manufacturing and construction. Government and healthcare are well above 2007 employment levels.
- Oil and gas production are booming and are above 2007 estimates while exports were unaffected by the recession and have grown by 137 percent in five years, reaching \$20.4 billion; not an insignificant component of Utah's \$115 billion economy.
- New home construction and housing prices are on the way back and registering strong growth but still a few years from complete recovery.
- It will be a couple of more years before the inventory of mortgage foreclosures gets back to what would be considered a typical level.
- Retail sales are getting close to 2007 level, but new vehicle sales have not recovered as quickly.
- Nonresidential construction and commercial real estate conditions are lagging but office and industrial sectors should respond to employment growth.
- Demographic growth is still respectable but considerably lower than the historic average but should also pick up as employment growth generates higher levels of net in-migration.