

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 79 JUNE 2011

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UTAH ECONOMY AT MID-YEAR 2011: HOUSING TROUBLE SLOWS RECOVERY

The most recent forecast for the Utah economy was completed in June by the Utah Revenue Assumption Committee. The forecast shows improvement in every major indicator in 2011 with the exception of residential construction, [Table 1](#).

Table 1 Forecast of Major Economic Indicators for Utah

	2010	2011	Percent Change
Nonagricultural Employment (000)	1,180.0	1,207.1	1.7%
Unemployment Rate	7.6%	7.4%	---
Total Wages (billion)	\$ 45.7	\$ 47.6	2.4%
Average Annual Wage	\$38,665	\$39,581	2.4%
Total Personal Income (billion)	\$ 90.1	\$ 94.8	5.2%
Utah Exports (billion)	\$ 13.5	\$ 16.1	18.6%
Net Migration (000)	1.0	3.5	---
New Auto/Truck Sales (000 vehicles)	69.1	75.4	9.1%
Residential Units (000)	9.3	8.0	-14.0%
Residential Valuation (billion)	\$ 1.7	\$ 1.5	-13.0%
Nonresidential Valuation (million)	\$ 925	\$ 950	2.7%
Taxable Retail Sales (billion)	\$ 25.2	\$ 26.5	4.9%

Source: Governor's Office of Planning and Budget.

Exports are up 18.6 percent with international exports supporting about 75,000 jobs in Utah. Utah's most important export, in terms of job creation, is electronic integrated circuit memory (IM Flash) with over one billion in export value in 2010. Retail sales and auto sales also expected to register solid increases of 4.9 percent and 9.1 percent respectively while residential construction is projected to decline by 14 percent, confirming a double-dip for the home building industry.

Nonfarm employment forecast for 2011: 20,000 new jobs with Professional and Business Services (includes wide array of occupations: attorneys to Kinko's employees) increasing by 6,400 followed by Health Services with a projected gain of nearly 5,300. No sector loses jobs in 2011, [Table 2](#).

As noted, the employment contraction seems to have ended, but it will be several years to get back to 2007 employment levels. The 20,000 new jobs in 2011 is only a fraction of the 70,000 jobs lost in 2009 and 2010.

By 2012 construction employment will still be 34,150 jobs or down one-third below the 2007 level, [Figure 1](#). Manufacturing is the other persistently weak sector; by 2012 it will still be down 13,400 jobs or 10 percent. By 2012 statewide nonfarm employment will be nearly 22,000 below the 2007 level.

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Table 2 Nonfarm Employment Projections for Utah

Sector	2010	2011 Forecast	Change
Total Nonfarm	1,181,519	1,201,700	20,181
Mining	10,442	11,000	558
Construction	65,237	66,300	1,063
Manufacturing	111,080	112,700	1,620
Trade, Transportation & Utilities	229,128	232,100	2,972
Information	29,268	30,000	732
Financial Activity	67,998	68,000	2
Professional & Bus. Services	152,374	158,800	6,426
Health Services & Priv. Education	155,019	160,300	5,281
Leisure & Hospitality	110,675	111,800	1,125
Other Services	33,630	33,700	70
Government	216,668	217,000	332

Source: Utah Department of Workforce Services.

Table 3 Employment Change in Selected Manufacturing Subsectors

Subsector	2007	2010	Absolute Change	Percent Change
Wood Product Manufacturing	4,258	1,753	-2,505	-58.8%
Nonmetallic Mineral Product Manufacturing	6,509	4,656	-1,853	-28.5%
Fabricated Metal Product Mfg	12,300	11,118	-1,182	-9.6%
Furniture & Related Product Manufacturing	8,939	4,858	-4,081	-45.7%

Source: Utah Department of Workforce Services.

The health of Utah's manufacturing sector is closely tied to the local construction industry. Nearly 60 percent of the job loss in manufacturing has been concentrated in four of the 21 manufacturing subsectors: wood products, nonmetallic mineral production (sand and gravel), fabricated metal and furniture, *Table 3*. Improvement in the construction sector is a precondition for recovery in manufacturing. See manufacturing and construction employment trends *Figures 2-3*.

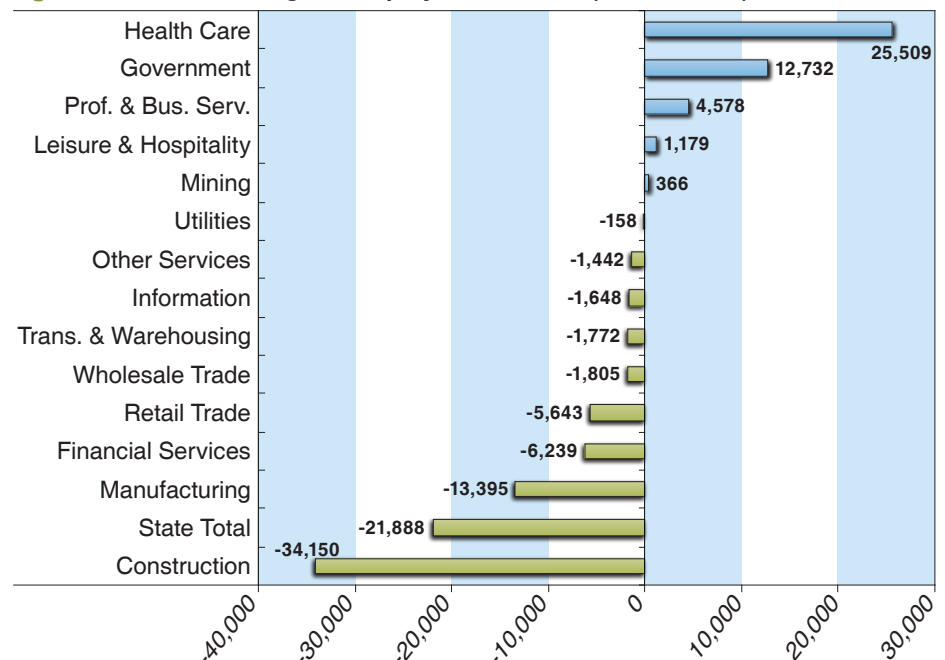
Utah Department of Workforce Services forecasts a slight gain of 1,000 jobs in construction employment in 2011. There is doubt

there will be a gain given the continued weakness in the residential sector. Construction employment in 2011 will likely fall below the 65,000 level, lowest since 1997.

Residential construction continues to be very weak. New single-family home construction is down nearly 30 percent through April. It should be noted however that last year new home construction was artificially high due to the Federal Tax Credit program. Nevertheless, when compared to 2009, when there was no tax credit program, 2011 is down 20 percent. Multifamily development is a little stronger but not strong enough to offset the weakness in home building. *Figure 4* shows the double-dip in residential construction.

Traditionally, construction growth leads an economic recovery but not always. In five of the past seven Utah recessions construction employment has contributed significantly to the job turnaround. However, in two cases

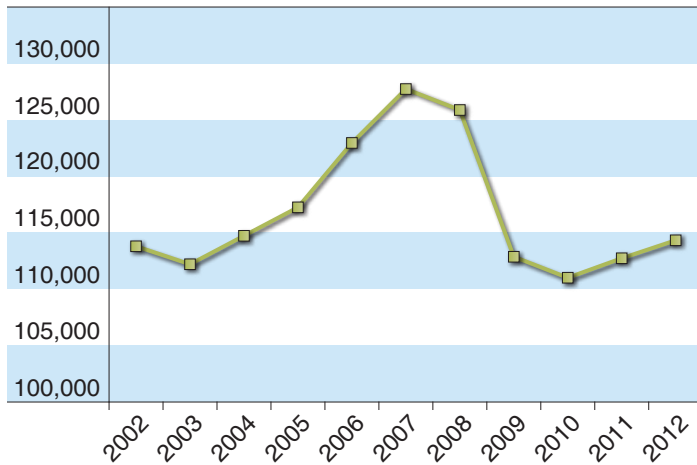
Figure 1 Forecast Change in Employment in Utah (2007 to 2012)



Source: Mortgage Bankers Association.

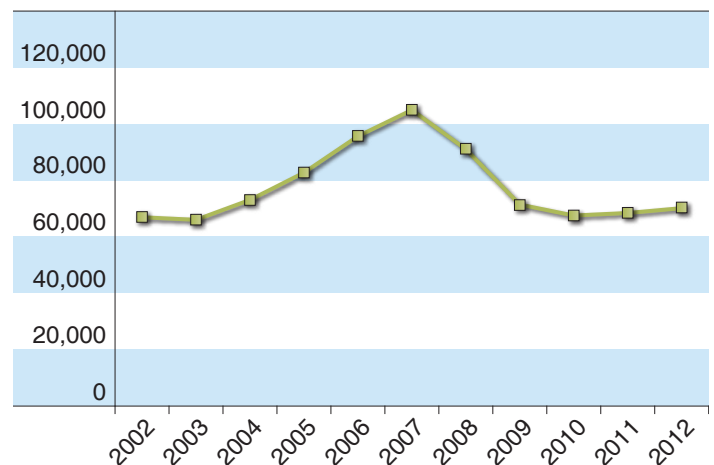
UTAH ECONOMY AT MID-YEAR 2011: HOUSING TROUBLE SLOWS RECOVERY

Figure 2 Manufacturing Employment in Utah (2002 to 2012)



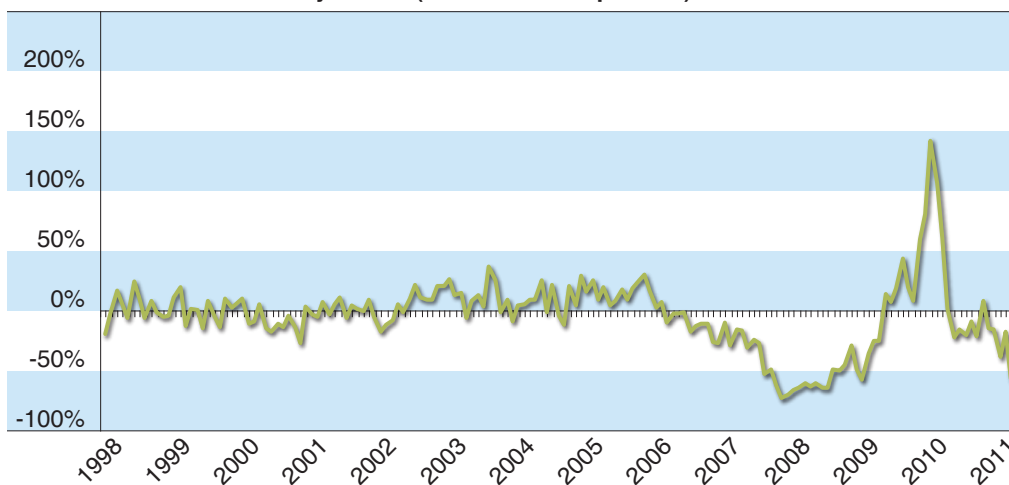
Source: Mortgage Bankers Association.

Figure 3 Construction Employment in Utah (2002 to 2012)



Source: Mortgage Bankers Association.

Figure 4 Percent Change in Building Permits Issued for Residential Units in Utah by Month (Year-over Comparison)



Source: Mortgage Bankers Association.

1965 and 1988 construction employment continued to decline while overall jobs increased at 2-3 percent, *Table 4*. A return to overall job growth can occur without construction increases but the construction weakness will suppress the rate of growth.

New home building will remain weak due to the inventory of foreclosed and short sale homes. Troubled properties are putting downward pressure on prices and represent fierce competition for home builders. Forty percent of all listed single-family homes sold in the Wasatch Front in the first quarter of 2011 were either short sales or real estate owned (REO) sales,

Table 4 Percent Change in Construction Employment in First Year of Economic Recovery

First Year of Job Expansion	Percent Change in Construction Employment
1955	25.7%
1959	5.6%
1965	-6.2%
1976	14.7%
1983	7.0%
1988	-6.3%
2004	7.0%
2011	1.7% (f)

Source: Utah Department of Workforce Services.

Table 5. Consequently, home building will likely be at its lowest level since 1966; a 45 year low.

The number of foreclosure appears to be cresting. On a quarterly basis the inventory of foreclosed homes has dropped from about 15,000 in the first quarter of 2010 to 12,500 in the first quarter of 2011, *Figure 5*. However, this level is still double the rate of the 2002 recession and sufficiently large to put pressure on housing prices for several quarters. For a bank, it takes on average 400 days to complete the full foreclosure process. The process begins with the notice of default and ends when the bank sells the property as real estate owned (REO).

Table 5 Short Sales and REO Sales as Percent of Total Existing Home Sales

County	Short Sales & REO Sales	Total Sales	Percent of Short Sales & REO Sales
Davis	183	511	36%
Salt Lake	687	1800	38%
Utah	423	913	46%
Weber	165	432	38%
Total	1,458	3,656	40%

Source: WRMLS.

Housing prices continued to decline in the first quarter of 2011. The slide in prices is now approaching four years. Depending of the price measure, home prices in Utah and metropolitan counties have dropped from 21-27 percent since the peak in the third quarter of 2007, *Table 6*.

Currently, the Utah economy is a two-tracked economy; (1) housing and (2) the rest of the economy. There are signs of modest improvement for most sectors of the Utah economy. One of the best measures of overall economic improvement is tax revenues. At the state level, tax revenues are up 11.9 percent however,

Table 6 Housing Prices

	Peak Value	Peak Quarter	1st Quarter 2011	Percent Change
FHFA* Index (statewide)	\$324,300	3rd Qtr 2007	\$236,600	-27.0%
NAR* Median (metro)	\$246,600	3rd Qtr 2007	\$190,500	-22.7%
WFRMLS* Median SL County	\$252,500	3rd Qtr 2007	\$200,000	-20.8%

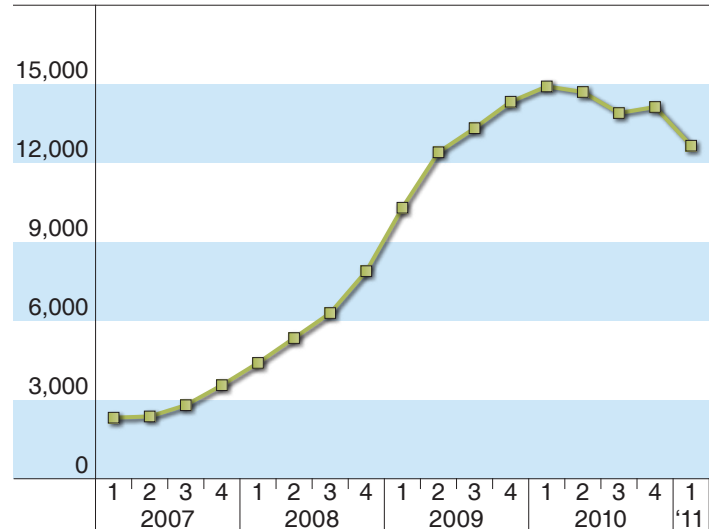
Source: FHFA = Federal Housing Finance Agency, NAR = National Association of Realtors, WFRMLS = Wasatch Front Regional Multiple Listing Service.

Table 7 Tax Revenue in Utah (Millions)

	FY 2010 Revenue 6/7/2010	FY 2011 Revenue 6/7/2011	Percent Change	Absolute Change
Sales and Use Taxes	\$1,302.02	\$1,479.13	13.6%*	\$177.11*
Individual Income Taxes	\$1,976.69	\$2,154.82	9.0%	\$178.13
Corporate Taxes	\$ 207.86	\$ 218.27	5.0%	\$ 10.41
Beer, Cigarette & Tobacco Taxes	\$ 52.67	\$ 117.28	122.7%	\$ 64.61
Insurance Premium Taxes	\$ 80.14	\$ 75.57	-5.7%	-\$ 4.57
Severance Taxes	\$ 77.27	\$ 89.85	16.3%	\$ 12.58
Total	\$3,696.64	\$4,134.93	11.9%*	\$438.29*

*These numbers reflect a one-time reduction (2011) in an earmark of sales tax revenue to the Centennial Highway Fund generated by sales of vehicles and vehicle related products. After adjustment sales tax revenue up \$45 million or 3.5% and total revenue up \$300 million or 8.1 percent. Source: Utah State Tax Commission.

Figure 5 Inventory of Homes in Foreclosure in Utah by Quarter



Source: Mortgage Bankers Association.

this number is not strictly comparable to 2010 revenues. An adjusted number shows sales taxes up 3.5 percent and total taxes up about 8 percent, *Table 7*. Nevertheless, a very good sign of improving consumer confidence (sales taxes) and job market (income taxes and corporate taxes).