

JOINT ECONOMIC COMMITTEE

ROBERT F. BENNETT, CHAIRMAN

THE STATE OF UTAH'S ECONOMY

WINTER 2004

Overview

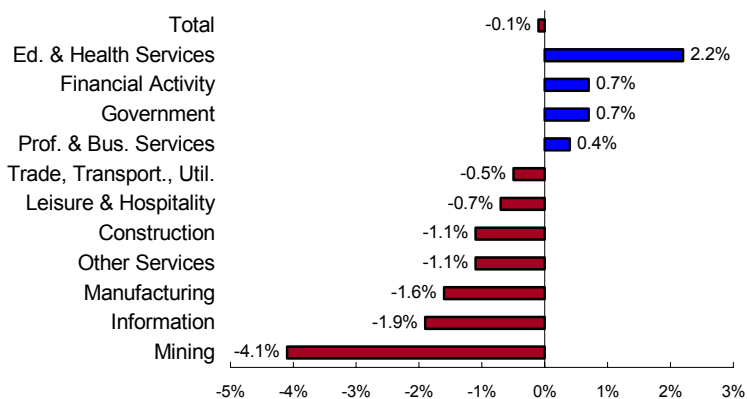
Utah's economy has recently started to pick up steam after suffering from lingering effects of the national slowdown, the burst of the dot-com bubble, and slowdowns associated with completion of the 2002 Olympic Winter Games. Forecasters see a pickup in Utah's economy this year with resumed growth in output and jobs.

The state's economy improved slightly in 2003 after a year of very sluggish economic activity in 2002, the worst by some measures since 1954. Record high defense spending and near record new housing starts helped boost Utah's economy in 2003. While personal income, retail sales, and measures of labor compensation showed modest growth, the financial and housing industries were robust and there were signs of recovery in manufacturing in the state.

Jobs and Wages

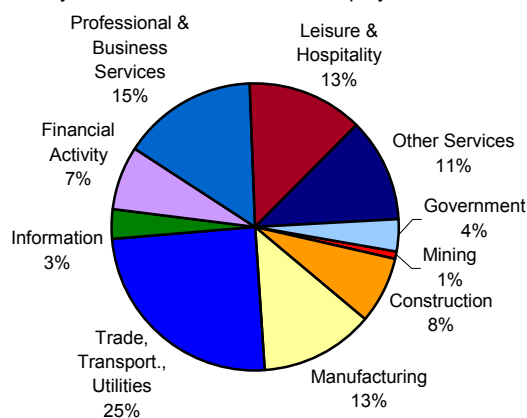
Nonfarm employment in Utah fell by almost 1,000 in 2003 following a decline of close to 8,000 in 2002. Employment changes by industry in 2003 ranged from 2.2% job growth in education and health services to a 4.1% rate of job loss in mining.

Utah Job Growth by Industry
Change in Employment, 2002 - 2003



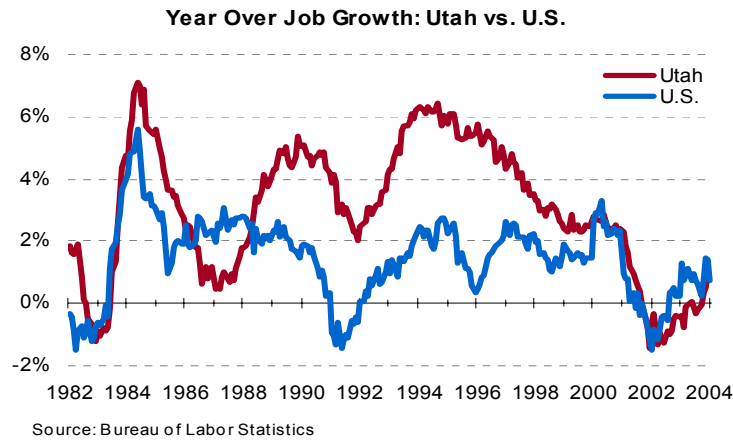
Source: Utah Department of Workforce Services

Who Works Where in Utah
Industry Shares of Total Nonfarm Employment in 2003

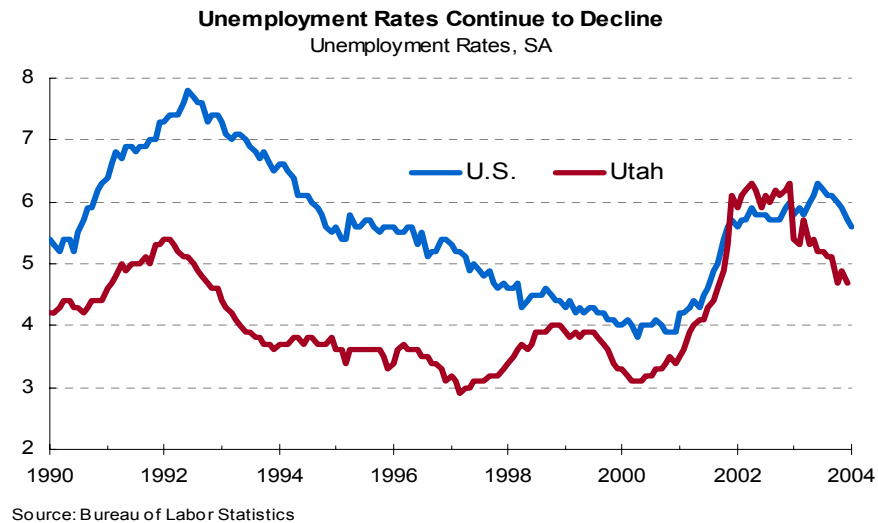


Source: 2004 Economic Report for the Governor

While there were net job losses in the state during 2003, employment began to grow in the last six months of the year. Employment is expected to grow 1.4% in 2004.



Utah's unemployment rate was 4.7% in December 2003, down substantially from 6.3% a year earlier. The unemployment rate rose above that of the nation throughout 2002, but fell below the national rate in 2003.



Personal income growth in Utah has subsided since 2001. In 2003, personal income grew about 2%, the weakest since 1954. Growth is expected to accelerate to an annual pace of around 4% in 2004 as the state economy recovers. Utah's median household income has remained well above that of the nation.

Industry Focus

Defense. Defense spending in Utah was \$2.5 billion in 2002 (the latest period of data availability), an increase of 5% over spending in 2001. Defense spending in the state generally declined in the 1990s but ramped up at the end of the decade to grow 12% in 1999, 34% in 2000, 23% in 2001 and 5% in 2002. Contributing to the recent growth was an acceleration of the national military build-up along with base closures and realignments in other states which shifted jobs and military spending to Utah.

Energy. Crude oil production in 2003 was about one-third of the 1985 peak production year and drilling activity has trended down. Utah's natural gas capacity, though, has risen steadily over the years, mainly because of an increase in coal bed methane fields. Sales of natural gas from Utah fields in 2003 nearly matched a record set in 2002. Average residential electricity prices have trended down since about 1985, but average residential natural gas prices have returned toward a peak observed in the mid 1980s.

Finance. The financial services industry posted positive job and output growth in 2003, assisted by historically low interest rates which have fueled a significant amount of financial activity. Venture capital investment in Utah has started to grow again, reaching \$101 million last year, up from \$88.5 million of funding in 2002 after the technology bubble burst. Another positive financial indicator for the state was a decline in bankruptcy filings in 2003, the first decline in nearly a decade. Utah still has one of the highest bankruptcy rates in the nation.

Minerals. The value of mineral production in Utah increased by almost 3% in 2003. Increases in metals prices and improving global growth helped fuel the growth. The state accounts for around 3% of the U.S. total value of nonfuel mineral production.

Agriculture. The drought that began in 1998 continued to hamper farming in 2003 and the value of farm sales has declined since 2001. Low production levels resulted in significant disaster payments to farmers recently. The USDA's Farm Service Agency reported that more than \$9 million had been paid to Utah producers as of early October of 2003 for crop losses that occurred in 2001 and 2002. The drought continues to threaten agriculture and ground-water levels are low.

Construction. Since peaking in 1999, construction employment fell for the fourth straight year in 2003, down almost 10% from the 1999 high. However, construction permits increased in 2003 and the value of permit-authorized construction rose to a record high of \$4.5 billion, led by residential construction. New home construction in 2003 ranked second to an all-time high as the residential sector continued to benefit from historically low interest rates. The pace of activity in the nonresidential sector, however, continues to lag because of sluggish new business investment and an oversupply of commercial space. Vacancy rates for offices and industrial property remain elevated. The office vacancy rate in Salt Lake County, for example, was 17% by the end of 2003, a ten year high.

High Tech. The downturn in Utah's high tech sector that began in 2001 continued through 2003. Utah was hit hard by the collapse of the technology sector. Between January 2001 and June 2003, Utah's high technology sector lost close to 10,000 jobs, representing a 15% drop in the sector's total employment. However, the pace of job declines in high tech appears to be slowing.

Exports. Utah's exports fell 8.8% in 2003 but are expected to increase again in 2004 as the global economy picks up steam. Reflecting changes in global trade patterns, Utah's exports to China for the first time exceeded \$100 million last year. China ranked as the sixth-largest market for Utah exports.

Tourism. Tourist visitation in Utah in 2003 was down only slightly from 2002 when visitation was boosted by the Olympic Winter Games. 2003 was a solid year for tourism with non-resident tourism arrivals nearly matching 2002 (Olympic-year) levels.

Population, Education and the New Baby Boom

Utah's population grew 2% in 2003, about twice the rate of growth of the nation. In contrast to the 1990s when population growth exceeded 2.5% in most years, Utah's population growth has slowed recently. Looking ahead, forecasters see strong growth in the population in the Greater Wasatch area and very strong increases in populations of school age children and senior citizens.

In the prosperous 1990s, growth in Utah's school age population actually slowed while state revenues grew rapidly. As the boomer's grandchildren enter schools, the years ahead promise to be a funding challenge. Utah's local and state governments are bracing for a demographic tidal wave of roughly 20% growth in K-12 enrollment by 2010 (vs. 5% growth in the 1990s, when the education budget nearly doubled).

State Budget

Beginning with fiscal year 2002, the struggling economy generated declines in state revenues causing officials to curtail services, reduce the state workforce, and tap into various reserves, surpluses, and restricted funds. Some taxes and fees have also been raised, and internal fund reallocations have been made.

Utah was one of only seven or eight states with AAA bond ratings in 2003 from all three nationally-recognized rating agencies (Moody's, Standard and Poor's, and Fitch Investor's Service). This allows the state to borrow at historically low interest rates; e.g., a 10-year Utah bond yielded 2.8% in June 2003, vs. a yield of about 3.2% on a 10-year U.S. Treasury note. Because Utah's AAA rating keeps debt service costs down, and because the state guarantees bonds of local school districts, Utah property taxpayers benefit. This is particularly important because the forthcoming school enrollment boom will likely require additional bond financing to help pay for new classrooms.
