

# INSIGHT

ECONOMIC NEWS OF UTAH AND THE NATION

ZIONS BANK

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## UTAH ECONOMIC OUTLOOK

### EXPANSION

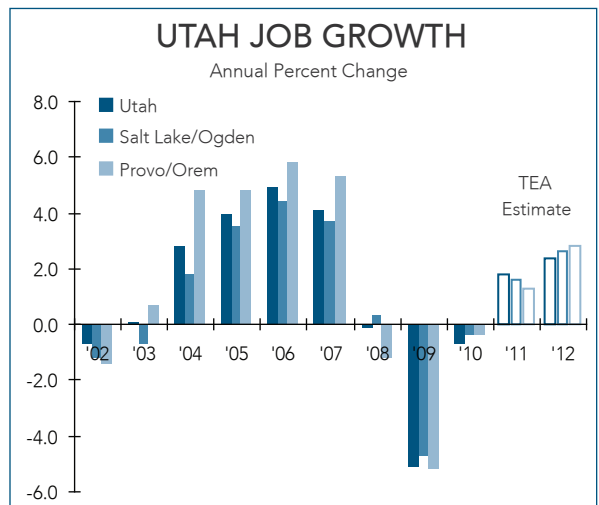
Utah continues to build a foundation for stronger economic growth, a welcome departure from the painful recession of much of the past three years. The state's economic rebound should maintain its current pace through the end of 2011, with stronger performance on tap during 2012 and especially during 2013.

The vast majority of states have now returned to minimal or modest levels of job creation. This follows all 50 states experiencing recession at some point since 2008. Utah's current annualized pace of job creation would rank with the strongest in the West and also rank among the nation's "top 10."

### JOBS REBOUND

The Utah economy added an estimated 18,000 net new jobs during the most recent 12-month period, a 1.6% growth pace. By comparison, Utah lost more than 60,000 jobs during 2008 and 2009.

The state's goods production sector added an estimated 3,100 net new jobs during the most recent 12-month period, a 1.7% growth rate. Gains of 3,500 jobs in manufacturing and 800 jobs



in natural resources more than offset the loss of another 1,200 construction jobs.

Utah's service providing sector added 14,900 net new jobs, a 1.5% growth pace. The addition of 9,300 jobs in professional & business services; 3,700 net new jobs in education & health services; 1,500 new jobs in both the trade, transportation & utilities and leisure & hospitality sectors offset a decline of 1,100 jobs in financial activities. Employment in information, other services, and government was flat.

The state's unemployment rate has averaged 7.6% in recent months, after peaking at a revised

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8.0% level in early 2010. The unemployment rate is expected to move noticeably lower in coming years as employment gains return to more traditional levels.

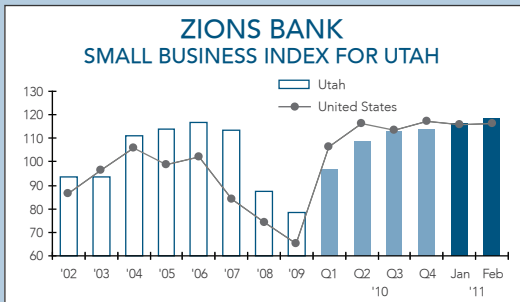
## EXPORT SURGE

A key to Utah economic growth in coming years will be to expand export opportunities around the globe. Export growth was also an important factor in keeping Utah's recession of recent years from having an even wider, and more painful, impact.

Utah was the only state in the nation to see exports double during the past five years, with export-related employment now accounting for 93,000 Utah jobs, twice the level during 2006 (*U.S. International Trade Administration*). More than 2,800 Utah companies exported nearly \$14 billion worth of goods last year, a 31% rise from the prior year, according to the Governor's Office of Economic Development. The Governor's goal of doubling exports again during the next five years is similar to President Obama's desired objective for American firms.

### ZIONS BANK SMALL BUSINESS INDEX FOR UTAH

The Index is a monthly numerical measure of the challenges and opportunities facing small business in the state of Utah. The Index measures business conditions from the viewpoint of the small business owner or manager. A higher number reflects a greater chance for small business success. The Index includes 14 different factors that influence Utah small business success, including the unemployment rate, retail sales, personal income, bankruptcies, and the strength of the regional economy. Each factor carries a different impact weighting.



The Utah Small Business Index has been rising during the past year, a result of stronger regional economic performance and strengthening Utah job creation.

The top five Utah exports included primary metals manufacturing, electronics, transportation equipment, minerals & ore, and food & kindred products. The top five destinations included the United Kingdom, Canada, China (including Taiwan), India, and Switzerland.

## CONSTRUCTION PAIN

Utah has clearly not been immune from the new home construction weakness found across the nation. The state has lost roughly two of every five construction jobs that existed five years ago. Various forecasts suggest that new single-family housing starts will rise modestly this year, followed by solid gains in 2012 and 2013.

## EXCEPTIONAL "U"

The University of Utah recently ranked first of the nation's 181 major research universities in regard to creating start-up companies based on university technology. The annual survey by the Association of University Technology Managers noted the "U of U's" creation of 19 companies in 2009. Such companies can create hundreds of high-quality jobs and substantial revenue to the University.

The "U of U" had tied with the Massachusetts Institute of Technology (MIT) the year before and was second to MIT in the two prior years. The University's top ranking resulted despite the fact that MIT's research budget is nearly four times larger.

## UTAH VIEW

Recent issues of the *Insight* have noted the wide array of high rankings the state has garnered during the past year in such areas as business environment and opportunities, quality of life, effectiveness of government, and best places to live and find a job. Such accolades will pay dividends for years to come. Delta Air Lines' *Sky* magazine's March 2011 feature of more than 50 pages about Utah—seen by hundreds of thousands of people every day—will also pay dividends, especially for tourism.

Utah's economic outlook is clearly favorable. The state is well-positioned to build on current growth and favorable news to re-establish its position among the top handful of economic performers in coming years.

# U.S. ECONOMIC OUTLOOK

Just wondering...how does one attempt an economic and financial forecast in the wake of major uncertainties...

How will the three-legged catastrophe of a 9.0 earthquake, destructive tsunamis, and potential nuclear meltdown in Japan impact the global economy? How quickly will Japan recover?

How will political and social upheaval (including the deaths of thousands of Libyan citizens seeking freedom) in Northern Africa and the Middle East ultimately impact the global economy? Will such developments spread further across the region? Will oil supplies be disrupted more than is the case so far? When all is said and done, will oil prices be higher...or lower?

How will financial developments across southern Europe ultimately play out? Will Greece, Ireland, Spain, and Portugal restructure their massive sovereign (national) debt levels? How many additional billions of euros will the Germans and the French have to provide in order to achieve greater euro-zone financial stability?

How will the major developments above impact U.S. corporate and consumer confidence? Will each back off from more recent levels of stronger investment and spending?

How will volatile U.S. gasoline prices ultimately play out? Will the combination of factors above lead us to \$4.00 or \$5.00 per gallon...or back to \$2.75?

Will many poll-watching members of the U.S. Congress ever get serious about long-term budget deficit containment? Will they soon recognize that the spending and deficit crisis in this country is our potential earthquake, our financial tsunami? Must another financial crisis occur to finally get their attention regarding the unavoidable need to slow the future growth rate of entitlement spending?

Forecasting the future is never for the faint-hearted. Most forecasting economists hope prior forecasts are rarely revisited.

Given the nearly unprecedented list of uncertainties above, here is our view of where we are...and where we may be headed...

## THE AMERICAN ECONOMY

U.S. economic growth has now been positive for seven consecutive quarters. Such growth, which stalled a bit during mid-2010, is likely to continue at a moderate pace this year and next. The vibrancy of such growth will be determined by the list above.



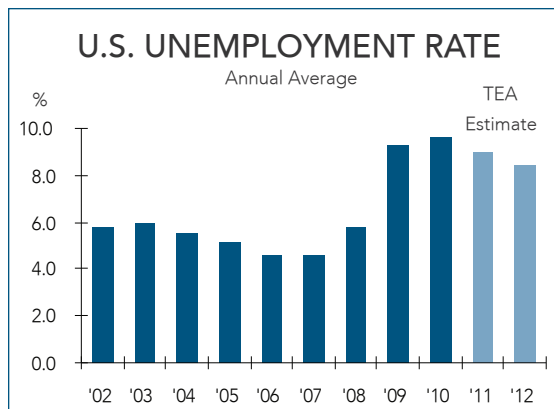
Many forecasters, who boosted growth expectations for this year and next following the November elections and the December extension of the 2001 and 2003 tax cuts for all Americans, are now trimming those forecasts slightly because of the issues noted above, especially prospects for higher energy prices and lower confidence levels. Economic growth around a 3.0%-3.5% real (after inflation) annual rate this year and next remains the consensus view.

## AMERICAN GOVERNMENT

The U.S. Congress, in cahoots with the Administration, is currently borrowing 40 cents of every dollar it spends. That spending, estimated at \$3,800,000,000,000 this fiscal year, has doubled during the past 10 years. The estimated budget deficit this year of \$1.6 trillion is simply mind-boggling at more than \$180,000,000 every 60 minutes...and is financial cancer.

## AMERICAN EMPLOYMENT

The surprising and welcome plunge in the nation's unemployment rate between November 2010 (9.8%) and February 2011 (8.9%) is unlikely to continue. Unemployment is likely to average perhaps 8.7%-9.2% over the balance of the year, with a slightly lower average in 2012.



Employment gains in coming months may be muted somewhat by the uncertainties now impacting businesses. Still, gains averaging 150,000-200,000 net new jobs monthly seem achievable.

## AMERICAN INFLATION

The Federal Reserve's intention to create a bit of inflation has borne fruit. In fact, the harvest may be more than the Fed bargained for, with consumer inflation accelerating in recent months.

Higher commodity prices of all stripes and rising energy prices tied to the issues above will see inflation likely exceed the 1.5%-2.0% annual goal of the Fed. More and more companies have been able to boost prices, while more and more consumers face stretched budgets.

## THE FEDERAL RESERVE

The Federal Reserve's Open Market Committee's latest official view of the economy

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was released in mid-March, noting "The economic recovery is on a firmer footing, and overall conditions in the labor market appear to be improving gradually." The FOMC statement also noted that the Fed "will pay close attention to the evolution of inflation and inflation expectations."

Financial market players see the Fed concluding its \$600 billion purchase of U.S. Government securities, affectionately known as QE2, in June. Given the Fed's more optimistic assessment of the economy than in prior months, most financial market players would NOT like to see the announcement of QE3, noting the high level of monetary stimulus already in the financial system.

The Fed's critical federal funds rate has been at an historic low target range of 0.00%-0.25% for the past 28 months. It could easily stay at that level for another year.

## HOUSING

One of the most anticipated and long-delayed developments within the U.S. economy has been stability in home prices. Most economists see U.S. home prices stabilizing this year, with modest gains during each of the next few years. As usual, some markets will perform better than others.

Stability and modest home price appreciation will be most welcome following painful downward moves between 2006 and 2010. Conventional mortgage rates still starting with a "4" will benefit those willing (and able) to refinance a home or finance a new or foreclosed property.

## THE GLOBAL ECONOMY

Reasonably solid global growth is likely to continue, with stronger or weaker performance a function of the items above. China and India are growing at a rapid pace, with both addressing uncomfortable inflation. Northern Europe is growing, while southern Europe deals with austerity. South America is growing, led by Brazil. Mexico struggles with cartel violence, while Canadian growth is reasonable.

Uncertainties...unknowns...waiting for whatever is next

# U.S. MANUFACTURING...PAIN & PROMISE

The common wisdom emerging from the national media frequently notes that the American economy has lost its ability to “make things” ...that we lost most of our manufacturing capability to China and to Mexico. The common wisdom notes that we have simply become a nation of hamburger flippers, as well as a nation where we merely trade information with each other.

There is no question that employment losses within the U.S. manufacturing sector over the past 30 years have been massive. Total U.S. manufacturing employment peaked in 1979 at 19.6 million people. That total has fallen consistently and painfully to 11.6 million now...a loss of eight million jobs...a loss of 40% of all manufacturing positions.

The common wisdom notes that most of these jobs left in search of less costly havens, initially Mexico and then China. This is certainly true for a share of the jobs. However, the most important factor leading to lesser employment was major gains in worker productivity...we simply make more goods with fewer bodies.

## WITHIN THE U.S.

- It might surprise you that the U.S. continues to lead the world in manufacturing output. We produce more than the Chinese, the Japanese, the Germans, etc. U.S. output exceeds that of China by 40%
- It might surprise you that the U.S. share of global manufacturing output, at 20%-25%, is essentially the same as it was 40 years ago
- It might surprise you that output per U.S. worker is three times what it was in 1980 and twice as high as it was in 1990

## MAKING A COMEBACK?

U.S. manufacturing employment actually rose by 136,000 net new jobs during 2010, the first annual increase since 1997. The manufacturing sector's rise of 97,000 net new jobs since December 2010 was the strongest three-month gain in 16 years.

Estimates suggest the manufacturing sector could easily add one million jobs over the next 4-5 years. Such a rise clearly won't make up for the loss of two million manufacturing jobs in the Great Recession, but it helps.

## OUTSOURCING OF JOBS

American companies have continued the exodus of former American jobs to other less costly parts of the world, although the pace has slowed. The rationale has also changed somewhat.

Hundreds of American firms had sent production and jobs to China, with products then shipped back to the U.S. The current environment finds more of that production sold within China, or within other Asian nations. This is identical to major foreign automakers who build billion dollar facilities in various communities within the U.S., with the intent of selling those cars within the U.S. market.

One favorable development within the U.S. manufacturing sector involves decisions by more American companies to bring back production and jobs previously sent to China, Mexico, and other low cost production locations. Companies such as Ford, General Electric, and dozens of others have seen the costs of operations climb dramatically across China, while shipping costs have surged.

## DOWN THE ROAD

Despite more recent successes, major challenges remain. Millions of lost jobs will never return. At the same time, ninety percent of manufacturers report having difficulty in finding skilled production workers.

Greater cooperation between local universities, community colleges, and high schools to provide quality training for local manufacturers remains a challenge largely unmet. Parents and educators need to promote a career in manufacturing as a highly desirable outcome for tens of thousands of new graduates.

Issues remain...Opportunities abound



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