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Utah outlook

State's strong economy breeds optimism for '07

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The Salt Lake Tribune
Salt Lake Tribune

Article Last Updated: 12/30/2006 01:20:30 PM MST

With a strong job market and rising home values in the state, a lot of Utahns felt prosperous in 2006.

And all signs point to another year of financial well-being for those who live and work here.

True, there are Utahns without jobs - but not many. Utah's economy, which is creating jobs at one of the highest rates in the country, is at or near full employment. Just about anyone who wants a job can find something to do.

And workers here are making more money than ever before. Many employers raised wages and increased benefits this past year to keep and recruit the workers they need.

Utah's stellar employment growth is expected to slow, but only a bit - from 5 percent in 2006 to the 4 percent range in 2007, said Mark Knold, senior economist with the Utah Department of Workforce Services. A shortage of workers that even in-migration and immigrant labor cannot fulfill, and not a softer economy, will trigger the slowdown.

The labor shortage will cast a shadow over almost every segment of the state's economy, but the lower rate of job growth will go virtually unnoticed by most Utahns.

Expect Utah's economy to benefit this coming year from numerous corporate expansions by companies that pay well and offer good benefits.

Fresenius Medical Care, an employer in the Ogden area with a reputation for paying well, plans on hiring 350 to 700 people over the next five years. Global furniture retailer IKEA, recognized as one of the most employee-friendly companies in the world, will hire about 300 Utahns for its new Draper store, set to open in the spring. SkyWest Airlines, which added 4,000 jobs nationwide in 2006, expects to hire a similar number in 2007.

Joey Nelson of Herriman is hoping he can land one of those jobs.

Nelson, who manages a store in Sandy, wants to find a better-paying position outside the retail industry.

"You hear the economy is so great and there are so many jobs, but I'm having a hard time finding anything. I still feel like every week is a struggle to make ends meet. We live paycheck to paycheck."

Home values rise. Although he feels left out of the hot job market, Nelson, who owns a home in Herriman with his wife, has benefitted from Utah's robust residential real estate market.

Nearly every homeowner along the Wasatch Front shared in the bounty in 2006.

Home values in the third quarter rose 17.4 percent, compared with the same period in 2005, according to the Office of Federal Housing Enterprise Oversight. The increase was the second-highest nationwide. Three Utah cities made the list of metropolitan areas with the highest increases. St. George was at No. 9, Salt Lake City was 10th and the Provo-Orem area was 18th. Nationally, home prices rose only 7.7 percent.

But in 2007, some Utahns undoubtedly will be disappointed. Homes probably will take longer to sell, and appreciation is expected to fall from the double to single digits.

Yet it is important to keep things in perspective, said John Hayes, president of Homevestors, a property investment company. He thinks Utah real estate will continue to be a good investment in 2007, and beyond.

Again, job growth will be the driving force. More jobs mean more people and more home purchases.

"Home prices [in Utah] have not overappreciated as some market have," he said. And that bodes well for continued appreciation, because Utah doesn't have a large inventory of houses for sale.

Mortgage rates are expected to remain reasonable and will help keep Utah's real estate market robust.

Salt Lake City economist Jeff Thredgold, a Zions Bank consultant, thinks mortgage rates could even decline. The rate for a 30-year mortgage is in the low-6 percent range, which could decrease to the high 5 percent range by mid-2007.

Pump inflation. Like mortgage rates, gas prices could remain relatively stable this coming year.

A lot of factors contribute to the prices Utah drivers pay at the pump, so forecasting is difficult. But one key is the cost of crude oil. "If we want to assume that crude oil prices will remain somewhere around \$60 a barrel, then basically the consumer sector [of Utah's economy] should remain pretty darn solid," said Kelly Matthews, an economist for Wells Fargo's Intermountain region.

Exactly how that will play out remains to be seen, but one thing is certain - after peaking at \$2.99 on Aug. 21, the average cost of an unleaded gallon of gasoline in Utah has fallen to \$2.30, below the national average of \$2.33.

If these lower prices persist, it will put millions of dollars back into the hands of Utah consumers to purchase products other than gasoline - an important development given that consumer spending makes up two-thirds of the state's economy.

Retailers already are taking note of the state's economic strength, which should continue to fuel interest in Utah as a good place to do business, said Darrell Tate, a retail property specialist at Commerce CRG in Salt Lake City.

Tate predicts Utah will see a modest slowdown in new retail developments in 2007 but only because 2006 marked a record-breaking year that will be hard to top.

"What we are poised to see is the beginning of the redevelopment of our older regional malls - Valley Fair, Cottonwood, Crossroads and the ZCMI Center," Tate said. "Those will all be longer-term projects but they speak well of what will be happening in 2007."

Expect other key segments of Utah's economy to continue to prosper, as well.

Utah's technology sector is on a roll heading into the new year, led by the ramping up of operations at the all-but-dormant Micron memory chip-manufacturing plant in Lehi.

In a joint venture with Intel, the IM Flash Technologies complex in northern Utah County is getting ready to make flash memory for iPods and other digital devices. The facility is expected to add 2,000 employees in the first quarter.

Utah's Office of Tourism will continue with a two-year, \$14 million effort launched in April to attract more out-of-state visitors, while the state's ski industry, coming off its third consecutive record season, appears ready to benefit from increased spending on infrastructure and promotions.

Five resorts added lifts, and Snowbird Ski & Summer Resort opened North America's first skier-transport tunnel earlier this month, linking Peruvian Gulch and Mineral Basin.

Although Utah's largest air carrier, Delta Air Lines, continued to struggle under Chapter 11 bankruptcy, the company is poised to emerge from that cloud in 2007. Looming, though, is a hostile takeover bid from US Airways that poses more than a mere disruption.

That turbulence aside, St. George-based SkyWest Inc., the holding company that owns SkyWest Airlines and Atlantic Southeast Airlines, is poised for more growth after expanding rapidly in 2006.

Roughly 15 months after it bought ASA from Delta, SkyWest's revenues and net income have soared. In November, Delta said it was shifting the flying of 12 regional jets from its Comair subsidiary to SkyWest. And last month, SkyWest struck a deal to supply and fly as many as 25 regional jets for Midwest Airlines, a Milwaukee-based specialty carrier.

SkyWest has put in bids to fly more Comair jets. It also plans to hire about 300 pilots in the first half of 2007, though the ones already at SkyWest Airlines are threatening to unionize.

Shrinking ag. Out of the skies and back on the earth, Utah will continue to lose farmland in 2007 as agriculture remains on the fringes of the state's economy. In fact, the state has lost 2 million acres of farm and grazing land in the past 40 years - about the size of Rhode Island and Delaware combined.

Farm families and laborers make up less than 1 percent of the personal earnings of all Utahns, which will remain unchanged this coming year.

Farmers and ranchers who haven't cashed in their land for retirement have moved to outlying, less-fertile areas - where it takes more fuel, fertilizers and water to feed animals, grow crops and transport products to market.

These changes have altered farming operations from growing food for human consumption to investing in raising secondary products such as feed grains and hay that help support poultry and livestock operations.

Unlike farming, Utah's multibillion supplements industry made big strides in 2006, progress that is expected to continue. The industry began resolving key regulatory issues with Congress and strengthened its ties to Asia, especially China.

Attempts to dissolve a federal ban on ephedra failed. Congress passed legislation requiring supplement makers to report serious side effects to the government. And voters returned control of Congress to Democrats, who tend to want more regulation of herbal remedies.

The supplements industry needed to get past the ephedra problem, said Loren Israelsen, head of the Salt Lake City-based United Natural Products Alliance. The bill requiring companies to report serious problems associated with their products was championed by UNPA and other industry cheerleaders. And more congressional scrutiny "won't be pleasant but it will help the industry focus on how to resolve lingering issues with Congress, the media and the consumer base," Israelsen said.

The governor's trade mission to China in October, dominated by dietary supplement representatives, was a success. In August, Nu Skin received its direct sales license for Shanghai. And three delegations from the Szechuan province visited Utah in 2006.

From investments abroad to those closer to home, Utahns with the financial wherewithal to play the stock market might want to approach the coming year with care, said Toby Levitt, CEO of Albion Financial Group in Salt Lake City.

"A lot is going to depend on the performance of the U.S. and global economies, and right now they're on the fence. If the economy slows slightly and interest rates remain steady or come down a bit, then the stock market will do fine."

If the economy slows enough to put the country into a recession, then bonds would be a better place for investors' money. "If the economy picks up too much steam and the Fed has to raise interest rates, that could be bad for the stock market, as well."

Levitt said he is leaning toward the view that the economy will slow slightly. "If you look at a range of economic indicators, what you'll see is slowing in some areas and strength in others. Nothing seems to be wildly out of balance."

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