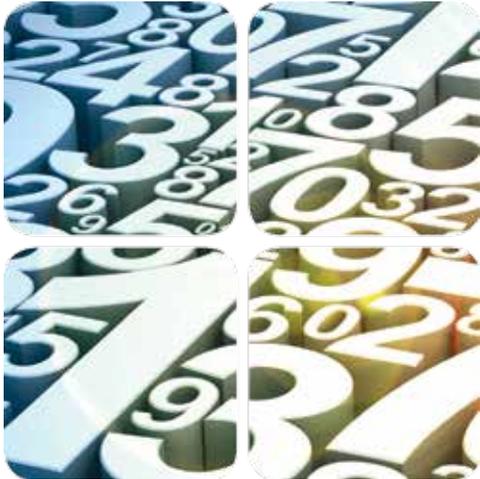


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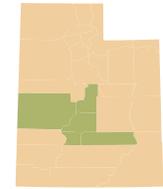


An economic and labor market analysis of the Central Utah Area

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Jobs, Small Companies and the Most Recent Business Cycle in Central Utah



BY LECIA PARKS LANGSTON, ECONOMIST

It's become a mantra repeated so often that it has become "a truth universally acknowledged" that small businesses create the most new jobs. Is this really true? Part of the answer must be linked to the definition of a "small" firm. The Small Business Administration (SBA) uses different employment and revenue levels for different industries. A small business under SBA standards can have up to 500 employees. On the other hand, some laws consider companies with fewer than 50 employees to be "small." There's just no consensus.

This study uses the ranges established by the U.S. Bureau of Labor Statistics in its studies of employment size class. In some small counties, a firm with 50 employees may be considered a major employer and on the Wasatch Front it may indeed appear to be a small employer. However, the ranges are fixed to maintain consistency in comparisons. Employment ranges are as follows:

- Small — Fewer than 50 employees
- Medium — More than 50, but fewer than 500 employees
- Large — 500 or more employees

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Jobs, Small Companies and the Most Recent Business Cycle in Central Utah..... 1

In Central Utah, small firms dominate the economic landscape, adding and losing the most jobs as the economy progressed through the most current business cycle.

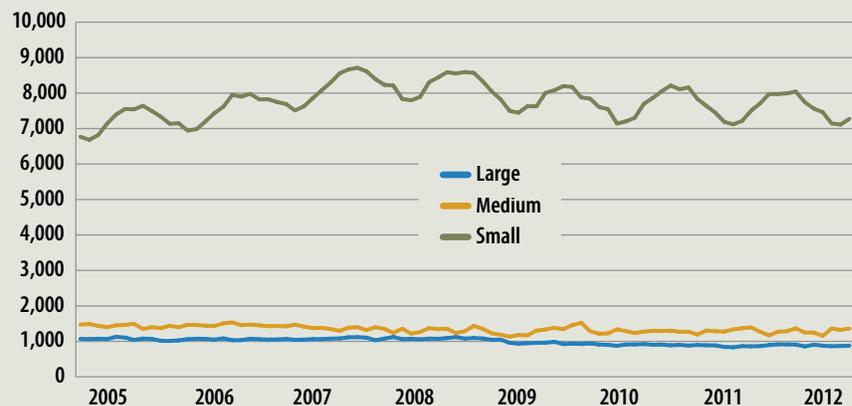
What's Up or Down in Central Utah's Economy? 5

Sanpete is the only county in Central Utah to have solidly maintained robust employment expansion in 2012.

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In just three months, the Bridge program has already helped small businesses throughout Utah create almost 300 jobs.

Figure 1: Private Employment by Firm Size





Jobs, Small Companies... Cont.

Size classes were applied based on statewide company employment as opposed to local worksite employment. For example, a bank with a significant level of statewide employment may only maintain a few employees in a small county, yet these few employees still work for a large organization. Therefore they are classified based on the company's statewide employment. If possible, the best results would be obtained using national employment figures. However, such information is not currently available.

Another difficulty arises in tracking employment creation/destruction by firm size. Companies may move in and out of a particular size class during the course of the study's time frame. There are several methodologies to address this issue. This particular study uses the cohort method, which averages employment over the study period as opposed to making point-in-time comparisons.

Finally, employing companies in the study are all privately owned. No government, public education or state-run higher education entities are included.

This article tracks the employment performance records of differently sized companies in Central Utah over the boom-to-bust-to-recovery years of 2005 to 2011. The 2005–2009 timeframe covers the initial expansion, contraction and recovery phase of the most recent business cycle. Most counties in Central Utah had not entered the expansionary phase of the cycle at this point. However, Sanpete County began steadily creating new jobs in 2011. Central Utah includes Millard, Piute, Sanpete, Sevier and Wayne counties. Here's a brief summary of findings:

- In Central Utah, small firms account for the largest share of employment. Therefore, their overwhelming contributions to both job gains during the expansion and job losses during the recession are hardly surprising.
- While accounting for far less employment, both medium and large firms provided stability through the business cycle.
- Small firms did end 2011 with higher levels of employment than in 2005. Both medium and large companies showed employment contractions.
- In most of the area's counties, small-firm employment spurred the overall boom-to-bust gains and losses in private employment. However, in Millard and Sevier counties, large firms contributed notably to recessionary losses.
- The smallest of the small firms in Central Utah created the largest proportion of

new jobs as the economy expanded. However, mid-sized small companies accounted for the highest share of job losses during the downturn.

Winners and Losers

Figure 1 tracks the total employment levels of small, medium and large firms in the area from January 2005 through March 2012. The first, most obvious, observation from the data is that small firms encompass the lion's share of total employment in Central Utah. Over the studied timeframe, small firms accounted for just under 80 percent of all private employment, medium firms comprised 13 percent and large firms rounded out the field with 10 percent. The domination of small firms in these less-populated counties should be expected. Large, private employers are rarely found in rural Utah. Unlike other areas in the state during the boom-to-bust cycle, a notable change occurred. Small firms' share of

Figure 2: Private Employment Year-Over Change by Firm Size

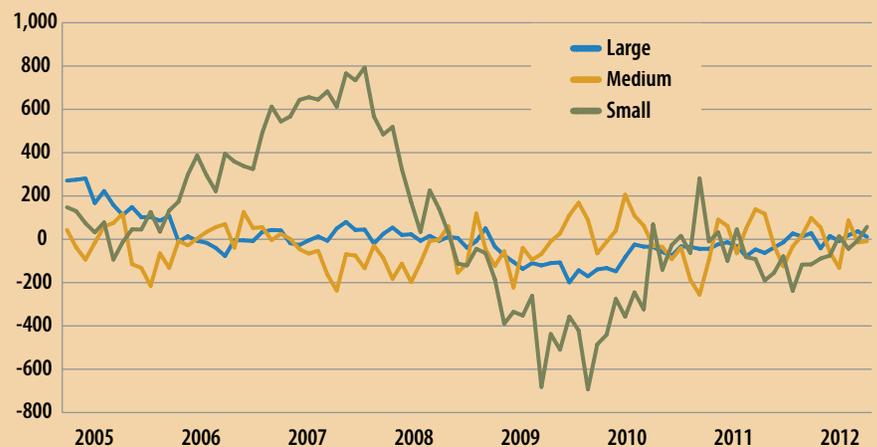


Figure 3: Annual Change in Private Employment by Firm Size

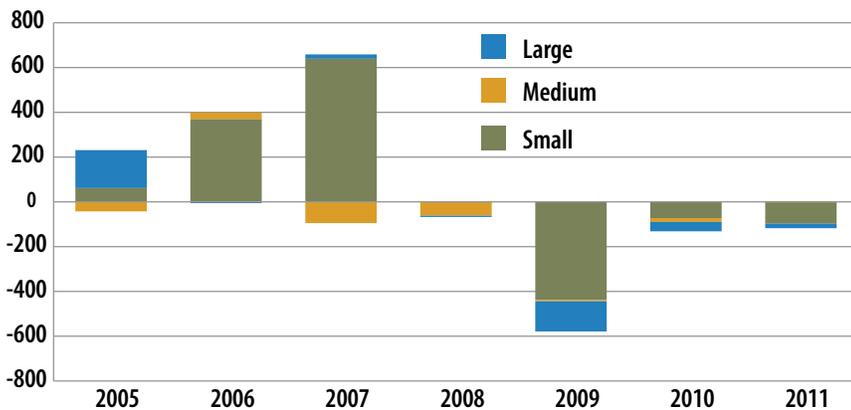
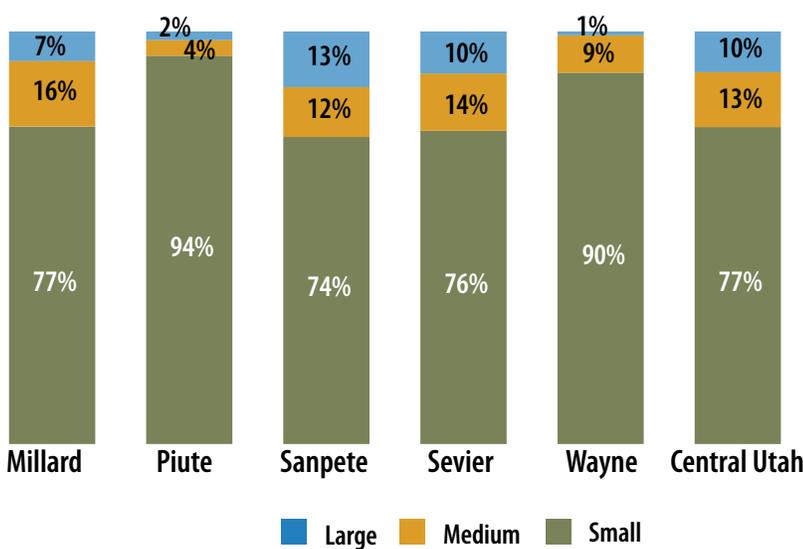


Figure 4: 2005–2011 Private Employment Share by Firm Size



employment actually increased during the recession rather than contracted.

Boom-to-Bust; Gains-to-Losses

As illustrated in Figure 2, small firms did indeed create the most new jobs during the early boom years in Central Utah. The race for employment bragging rights wasn't even close. However, these firms also lost the largest number of positions during the ensuing recession. Nevertheless, compared to 2005 employment levels, 2011 small-firm employment rose by 403 positions, while medium and large companies lost 180 and 150 jobs respectively. Of all the size classes, small firms did show the most employment volatility over the course of the economic cycle.

Medium-sized companies kept up a steady pattern of relatively small job losses and small job gains during economic sunshine and economic rain. Large-firm employment exhibited the same pattern with a slightly higher level of recessionary effects. However, the most important part of this pattern remains that medium and small firms provide the most economic stability during the fluctuations of the business cycle.

Interestingly, in the months leading up to the end of the study (March 2012), the job performance among the three size classes seemed to converge. Overall in the first quarter of 2012, the employment gains and losses of the three size categories proved marginal and huddled around the no-change mark.

The County Perspective

While for the most part Central Utah could be considered rural, its counties embrace a notable variety of economic experiences and industry structures. This diversity is reflected in the relative importance of small firms and their behavior from boom to bust.

Central Utah's two least-populated counties, Piute and Wayne, also have a dearth of large private employers. In Piute County, large employers accounted for only 2 percent of employment (2005–2011); in Wayne County, the large-company job portion dropped to



Jobs, Small Companies... Cont.

a minuscule 1 percent. In these counties, understandably, small firms, with their 90-percent-plus share of total employment, governed job losses and gains. However, in Wayne County, medium-sized firms actually generated a notable number of new jobs during the height of the national recession.

Millard County's small companies account for less than 80 percent of total private employment, while large firms account for 7 percent of employment. Again, not surprisingly, small firms also dictated expansion and recessionary job changes. However, a few notable exceptions occurred. Medium-sized companies added (in 2005) and then lost jobs (in 2006) before the recession firmly took hold. Large companies also produced job losses over-and-above what their employment share would suggest during the worst year of the recession, 2009.

Of all the counties in Central Utah, Sanpete maintained the largest share of large-firm employment. This 13-percent stake is almost equal to the share of mid-sized company jobs (12 percent). In addition, Sanpete

remains the only county in the area to have achieved full-fledged expansionary status. Even though small firms in Sanpete County sustain a smaller share of private shares than most neighboring counties, smaller firms were once again behind the expansionary increase in employment and losses during the downturn. Mid-sized firms did play a larger roll than anticipated in job losses before the recession hit in full bloom.

In Sevier County, only 10 percent of private jobs were with large employers over the study's examined time period. Another 14 percent of employment resided in mid-sized firms. When it came to expansion, small firms definitely created the most new jobs, in particular during 2007. However, in the recessionary year of 2009, large-companies generated significantly more job losses than did small firms. By 2010, medium-sized firms accounted for the largest share of job declines.

Refining the Data

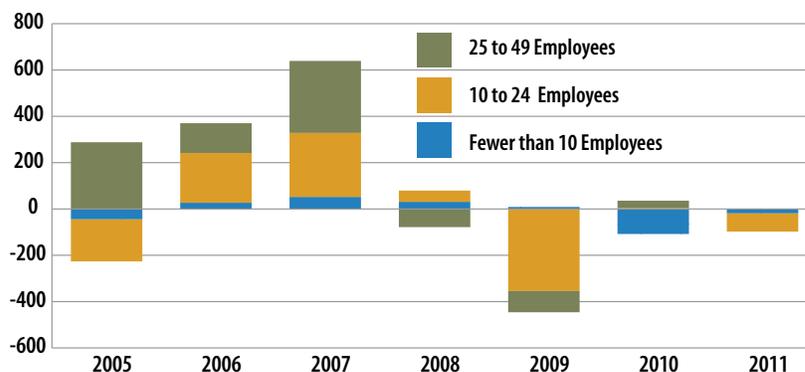
Since small firms employ such a huge portion of Central Utah's private workers, a

brief analysis of employment levels within the small category appears in order. The smallest firms (fewer than 10 employees) and middle-sized small firms (10 to 24 employees) both accounted for roughly 40 percent of the "fewer than 50 employees" company grouping in the area.

Although the smallest firms generated the largest share of new jobs in 2005, as the economy heated up, middle-sized small firms shouldered a larger share of job-growth duties. However, these same middle-sized small companies (10 to 20 employees) accounted for most of the small-firm recessionary job losses.

While small companies accounted for the bulk of employment growth during the boom years, this group also generated the most losses during the downturn. Each business cycle is unique. The previous downturn and recovery shows far less variation in the new-job contribution of the various size classes. In addition, most counties in the area have yet to fully reach the expansion phase. This is a subject that should be revisited in the future.

Figure 5: Small-Firm Change in Employment by Number of Employees





What's Up or Down in Central Utah's Economy?

BY LECIA PARKS LANGSTON, ECONOMIST

A Quick Peek at Construction Employment

The latest long story of boom to recession to recovery traces its roots to the construction industry. Typically, construction pulls the economy out of an economic downturn. Not so with the Great Recession. The massive economic damage created by speculation in the housing market has meant construction has lagged behind other industries on the road to recovery. Has Central Utah seen its construction employment begin to recover? The answer is (unfortunately) no.

Figure 6 displays the 12-month moving average of a decade's worth of construction employment for four of the five counties in central Utah (Piute County's construction employment is not publishable).

This type of averaging provides an easy method to eliminate seasonality and illuminate the underlying "trend." In a very seasonally-oriented industry such as construction, patterns may be obscured by the typical rise and fall of employment during the year.

The region's two most populated counties (Sanpete and Sevier) show construction employment trends fairly similar to most areas throughout the United States. Employment bubbled up in 2007 and 2008 only to collapse in the recessionary years. Obviously, this employment trend mimics the pattern of home building.

Sanpete County's construction employment seems to have turned the corner in 2012 and is trending upward. Ironically, the county's home-building permits have yet to show any sustained improvement and are down substantially for the first seven months of the year. Nonresidential permitting did surge in 2011 and most likely accounts for the early 2012 uptick in construction employment. In addition, public projects are not typically permitted and may be contributing to the construction employment increase. However, if Sanpete County is to continue on an upward path,

Figure 6: Construction Employment 12-Month Moving Average

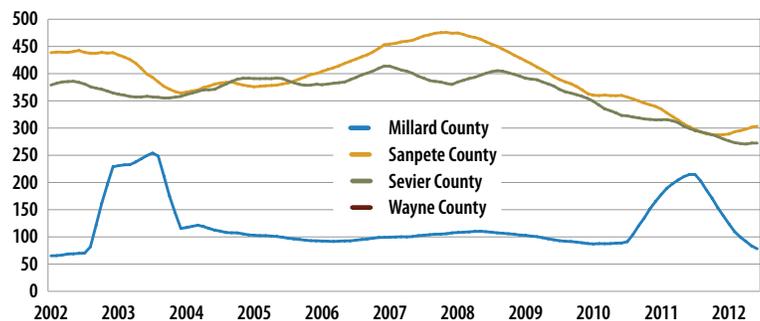
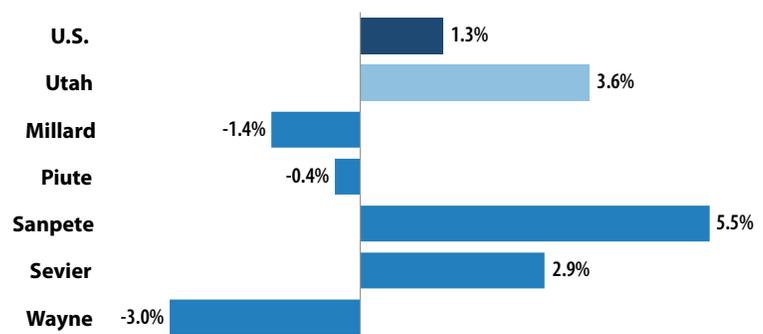


Figure 7: Change in Nonfarm Jobs June 2011–June 2012





What's Up or Down in Central Utah's Economy? cont.

it will need improvement in residential building authorizations. Not only is Sanpete County the only county in Central Utah to experience an uptick in construction employment, but it is also the overall job-growth star of the area.

On the other hand, construction employment in Sevier County has yet to clearly signal any improvement. Here, employment reflects the continued decline in construction permitting activity. In addition, Sevier County has yet to find a firm foothold in employment generation overall.

Construction employment in both Millard and Wayne counties seemed far less subject to the boom-to-bust pattern established in other areas. Wayne County experienced only a mild increase in boom-related construction employment. However, it did join the construction job-loss crowd. Currently, building-related employment appears to be improving slightly.

Millard County also participated in the bubble market to a lesser degree. Its construction employment history is marked

by twin bookends of employment spurts related to large construction projects. The underlying trend in construction employment is not yet clear and bears watching in the months ahead.

Millard County

- Millard County showed net losses of almost 60 jobs between June 2011 and June 2012. However, the current 1.4 percent year-to-year decline does mark an improvement from early 2012 when job losses registered at the 5-percent level.
- Most of this current spate of job contraction is related to the loss of temporary construction positions.
- Private education/health/social services, mining and leisure/hospitality also lost significant numbers of payroll jobs.
- Expansion in manufacturing, wholesale trade and professions/business services offset a portion of the aforementioned losses with notable job gains.
- As of September, Millard County's jobless rate registered at 4.2 percent, significantly below the state and national averages.

- In the first seven months of 2012, home permits were down almost 60 percent. Nonresidential permitting isn't picking up the slack. Overall, permit values are down 66 percent for January to July 2012.
- The 3-percent second-quarter 2012 sales drop marks the fifth straight quarter of declining sales. Part of the sales declines also relate to previous business expenditures related to construction projects.

Piute County

- Between June 2011 and June 2012, Piute County lost just one job. Hopefully, this sets the stage for some employment expansion in the months ahead.
- Second quarter data reveal that the county was dogged by the loss of 20 private education/health/social services jobs in the 12 months since June 2011.
- A few industries stepped up to the plate and added nearly enough positions to offset the aforementioned loss. Leisure/hospitality services, other services, government and trade all contributed to the offsetting job gains.
- As of September 2012, Piute County's unemployment rate estimate registers 5.3 percent — slightly lower than the comparable Utah average.
- Piute County's second quarter 2012 gross taxable sales registered the first decline in two years. Sales expansion has been the one bright spot in an otherwise rather bleak economic picture. The current second quarter 8-percent decline shouldn't be seen as an economic problem unless the pattern continues.

Sanpete County

- Between June 2011 and June 2012, Sanpete County's nonfarm jobs expanded at a robust 5.5 percent, almost 2 percentage points higher than the statewide average. The year-to-year

Not only is Sanpete County the only county in Central Utah to experience an uptick in construction employment, but it is also the overall job-growth star of the area.

addition of just more than 380 net new jobs follows trends set earlier in the year.

- Most of the county's major industries are sharing in the current growth.
- Manufacturing and public sector gains proved particularly strong. However, retail trade, transportation, private education/healthcare/social, leisure/hospitality services and professional/business services generated at least 30 jobs each.
- Only three major industries registered employment contractions — information, wholesale trade and financial activities — and the declines in wholesale trade and information proved minor.
- In September 2012, the county's jobless rate stood at 6.8 percent. While somewhat higher than the statewide average of 5.8 percent, Sanpete generally runs higher unemployment rates because of the seasonality of its labor market.
- No signs of life yet for construction permitting. For the first seven months of the year, new home permits are down a whopping 86 percent and total permit values have slipped by 78 percent.
- Gross taxable sales continued to reflect economic expansion. Compared to the second quarter of 2011, second quarter 2012 sales are up by more than 8 percent. This marks the fifth straight quarter of improving sales.

Sevier County

- Between June 2011 and June 2012, Sevier County's nonfarm employment base grew by roughly 3 percent, just in that moderate range that economists like to see. This increase translates into more than 230 net new jobs for Sevier County.
- On the other hand, not all industries shared in the employment joy. Almost half of the new employment additions occurred in just one industry: trucking/warehousing. Other notable job contributors included private healthcare/social services, professional/business services and construction.
- The remaining major industries either added a few jobs or lost a few jobs.
- As of September 2012, the county's unemployment rate measured at 5.6 percent — not significantly higher than the state average and far below the U.S. figure.
- For the first seven months of 2012, new home permits in Sevier County were down a remarkable 76 percent. Homebuilding has contracted since before the recession officially began. Overall, permitting values are down 35 percent compared to the first seven months of 2011.
- Sales reflect the progress evidenced in the labor market. Sevier County has generated sales gains in five out of the past six quarters. Compared to second quarter 2011, second quarter 2012 gross taxable sales are up by 7 percent.

Wayne County

- As a result of Aspen Health Group job losses working their way through the numbers, Wayne County showed an employment drop of "only" 3.0 percent between June 2011 and June 2012. Overall, jobs dropped by 34 positions year to year. Layoffs began over one year ago, so the employment-loss rate has improved slightly in recent months. However, keep in mind that the Wayne County economy continues to suffer in the wake of this closing.
- The private education/health/social services industry (which includes the Aspen Group) continues to generate the bulk of the decline in payroll jobs. However, several other industries also joined the job-loser club, most notably the public sector and other services.
- Net job gains are showing up in several industries, most prominently in leisure/hospitality services and construction.
- The county's September 2012 jobless figure registered 10.5 percent, far above both the state and national averages.
- Figures for the first seven months of 2012 show home permits down 10 percent. Overall, construction permit values decreased 6 percent in comparison with the same time period in 2011.
- Wayne County second quarter 2012 gross taxable sales are up 9 percent from second quarter 2011. In the past two years, Wayne County has experienced only two quarters of declining sales.

For a more thorough analysis of county economic data, please check out our blog:
<http://economyutah.blogspot.com/search/label/Region--Central>



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Small Business Job Creation

BY MELAUNI JENSEN

In August of this year, DWS turned out a new program created specifically for small businesses — that is businesses that have at least 2 employees but fewer than 100. The department recognized the challenges these businesses face in creating new jobs and helping to build their business in a profitable way. To help strengthen the economy, the program focuses on small-business job creation. This program is called BRIDGE, an acronym for Business Opportunity, Readiness Skills, Implementation, Demand, Growth and Employment Creation.

As revealed in the Fall 2012 issues of Local Insights, the Department of Workforce Services is responsible for protecting the investment of employers who contribute to the Unemployment Insurance fund and the employees who work for them. In Utah, there are currently over 84,000 business locations that are covered by the Employment Security Act, and 94 percent of those are private businesses with fewer than 100 employees. Of that group, 90 percent of businesses employ fewer than 20 people. This equates to just over 1,100 business locations, both public and private, which employ 250 or more workers.

Owning a small business can bring difficulties that large businesses do not share. Essentially they need to employ enough workers to sufficiently cover the essentials but still bring in enough money to make a profit. This can be difficult when coming up against unforeseen expenses: equipment breaks down, the cost of goods rise or a natural disaster hits. A small business will also need to manage

time efficiently as it tries to grow and run its everyday operations. This can be even more essential in industries that have trouble finding skilled labor and need to provide on-the-job training. The Bridge Program was designed to help offset the cost associated with hiring a new employee, such as advertising, interviewing and training. In just over three months since its inception, 82 companies throughout the state have applied for this program, creating 277 new jobs in the workforce.

This program is funded entirely by penalty and interest payments that have been collected from the Utah Unemployment Compensation Fund and thus requires all approved applicants to participate and be current on all Unemployment Insurance payments. Bridge funds are also provided on a first-come, first-served basis, and businesses are only allowed to apply once per year. As the goal is to create new jobs, a new hire cannot replace an existing position and must be retained for at least 12 months after creation. Qualifying jobs must also pay at least 80 percent of the County Small Business Average Wage; these guidelines can be found in the master packet on the DWS website. Each approved applicant will receive a reimbursement according to the wage and employment status from their new hire, helping alleviate the cost for these businesses.

For more details on how you can participate in this program, contact the nearest employment center, call 1-888-920-9675 or look online at jobs.utah.gov/employer/bridge/index.html.