

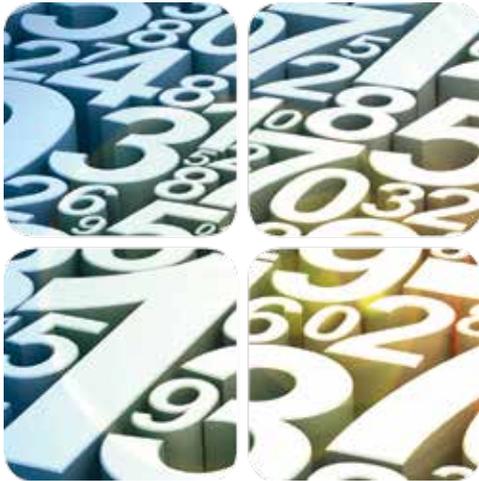
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The Influence of Company Size on the Utah Economy



BY MARK KNOLD, CHIEF ECONOMIST

Utah's economy is comprised of roughly 65,000 companies. Companies, as opposed to worksites, are considered the corporate entity — the business as a whole. For instance, we label Intermountain Healthcare as one company, even though it has numerous locations throughout Utah.

The size of a company can be measured in several ways. One is through money (sales, revenues, wealth, etc.), but that can be hard to quantify and less transparent than the alternatives. A more preferred way is by the number of employees. This determination probably has a more pervasive impact on the Utah economy than do monetary accomplishments. It is possible for a company with limited employment to generate a lot in sales or revenues. That's great, yet how much of those earnings and income flow into the Utah economy?

Measuring through employment reflects how the local economy benefits through wage and salary disbursements to workers who in turn spend much throughout the rest of the local economy. So looking at business size by number of employees probably gives a better proxy of a business' impact in Utah than will most other measures.

Determining Company Size Classifications

So who has more impact as a cumulative group, little companies or big ones? That question requires a question preceding it. How are you going to define your company

size? How many employees constitute a small company? The U.S. Small Business Association generally classifies businesses with fewer than 500 employees as a small business. That categorization might suitably profile New York City or the like, but does it elucidate well in Utah? Is Utah's economy large enough to characterize a business like Alta Ski Resort as a small business?

Definitions establish the parameters, but perceptions influence the definitions. So with an analogy that all of Utah is an economy in size roughly equal to the lower tip of Manhattan Island, maybe a smaller view of company size works better in Utah. And in addition, Utah is a mix of rural and urban makeup, unlike Manhattan, with the understanding that rural area businesses are mostly small.

For Utah, it probably fits better to put companies into three categories: small, medium and large. Even then it still boils down to definitions. For the sake of this article small means fewer than 50 employees, medium means 50 to 499 and large means 500 or more.

Government Excluded

Governments will not be included in this profile, only private sector businesses. Government, particularly at the federal and state level, is large and has always been large. There isn't much variation in its profile. And how would you classify the federal government, with its variety like the Post Office, the Park Service or the

in this issue:

The Influence of Company Size on the Utah Economy 1

Not all companies are of equal employment size. When grouping companies by size, interesting patterns emerge as to how they impact the Utah economy.

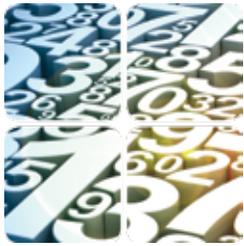
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The Utah economy's performance is estimated monthly via an employer survey. Other employment data suggests that this monthly survey is noticeably underestimating current growth in the Utah economy.

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





The Influence of Company... Cont.

Department of Justice? They are all different branches (akin to a worksite), but they are still the federal government (akin to one company). This is not meant to discount the impact of government employment in Utah, but the private sector accounts for 82 percent of Utah employment, and that is where the heart and soul of the state's economic dynamics develop.

Profiling By Company Class Size

So how does profiling the private sector make Utah look? Like Figure 1. The vast majority (95 percent) of Utah's companies employ fewer than 50 workers each, yet their total employment accounts for only 36 percent of all employment. At the opposite end, less than 1 percent of all companies employ 500 or more people, but they employ 30 percent of all Utah workers. In the middle lie just fewer than 5 percent of all Utah companies (size 50 to 499), and they account for 34 percent of all employment. So small companies constitute the bulk of Utah's companies, but they do not hold the bulk of Utah's employment.

These size classes were not selected so that employment would fall out in roughly equal thirds across each size class. Instead, the size classes were selected through intuitive judgment, and then by circumstance the employment levels fell out in roughly equal thirds.

Really small companies are the majority within Utah's small company class (fewer than 50). The average company size is five. In the medium classification, the average is 122. For large companies, the average is

1,500. The small companies are really small, the mediums lean toward the small end of its range, but the big companies are big. Through recent history, aggregate employment in small companies is more than that of medium or the

large companies (Figure 2). Medium employment isn't far behind though. Below these is the large company aggregation. All these size classes are important in the Utah economy. All also come with defining characteristics.

Figure 1: Utah Company Size Class 2005–2012 Average

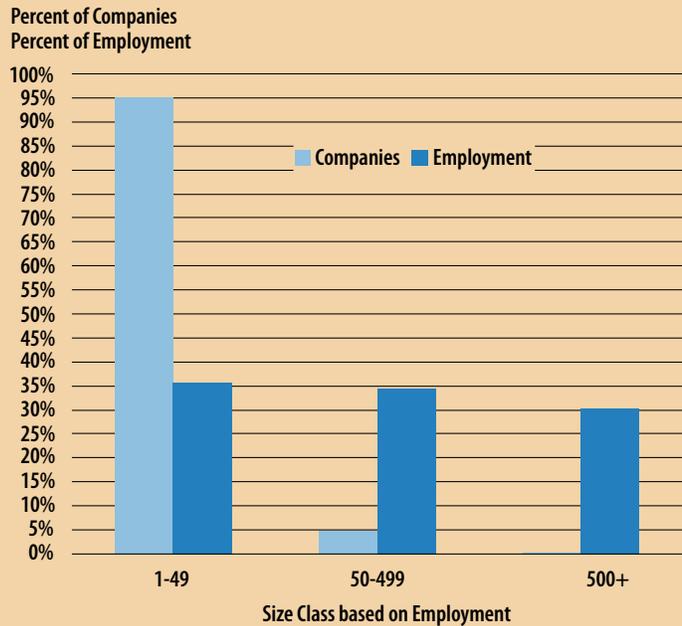
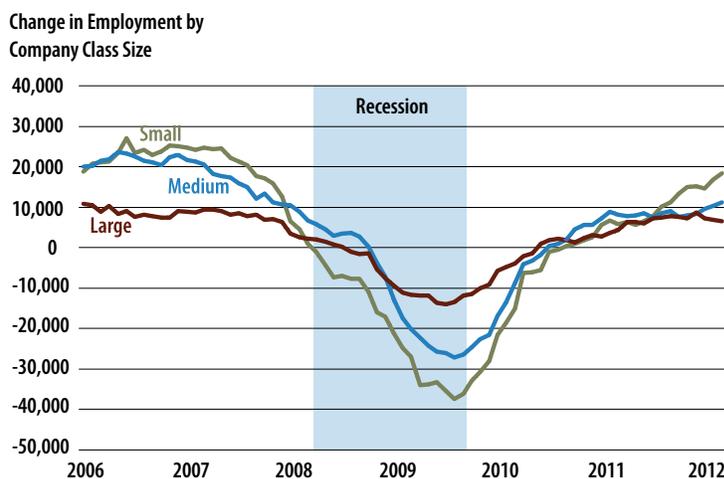


Figure 2: Utah Employment by Company Class Size 2005–2012



Source: U.S. Bureau of Labor Statistics, QCEW data.

**Figure 3: Utah Employment by Company Class Size
Numeric Change 2006–2012**

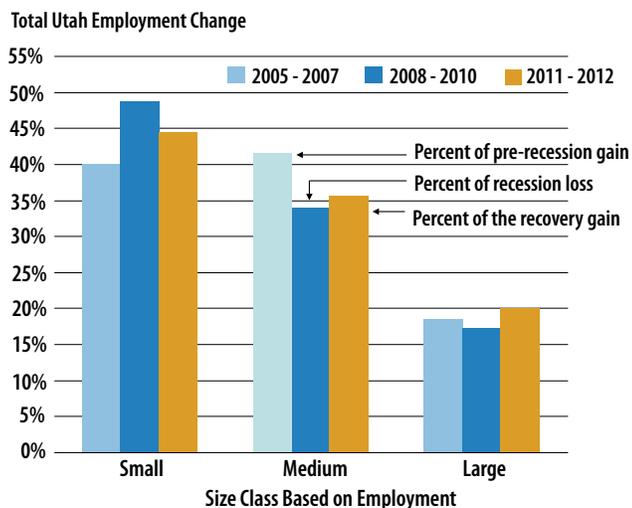


Source: U.S. Bureau of Labor Statistics, QCEW data.

Note: The percent change is the moving 12-month average for any particular month.

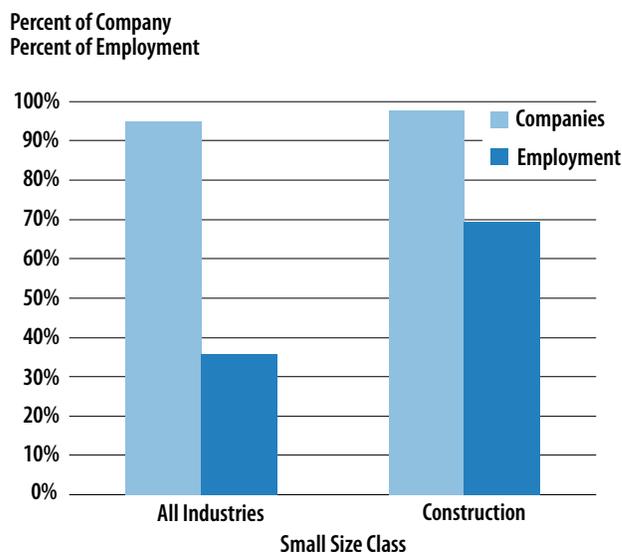
**Figure 4: Utah Company Size Class
Percent Contribution to Overall Utah Employment Change**

2005–2007 Growth; 2008–2010 Contraction; 2011–2012 Recovery



Source: U.S. Bureau of Labor Statistics, QCEW data.

**Figure 5: Utah Company Small Size Class
2005–2012 Average**



Source: U.S. Bureau of Labor Statistics.

Defining Characteristics

Small companies, though they employ the most, appear to be more sensitive to overall economic conditions and thus more volatile. This comes to light in the hyper boom-and-bust environment between 2005 and 2012. Strong economic times from 2005

through 2008 saw employment grow in all class sizes, but employment gains were more numerous in small companies. Conversely, when the recession hit in early 2008, it was the small businesses that experienced the most employment loss, illustrated by Figures 2 and 3.

This makes economic sense. Many, but not all, small companies are start-ups or companies that have only been operating for several years. They may not have as deep of financial roots as larger companies nor the assets to ride out cyclical economic downturns. Conversely, good economic



The Influence of Company... Cont.

times are the environment in which new businesses come to life, blossom and grow with the expanding overall economic environment.

Profiling Through The Business Cycle

Before the recession, in the Utah employment expansion between 2005 and 2007, 80 percent of the employment growth came through small and medium companies, both roughly around 40 percent (Figure 4). Large companies contributed around 18 percent of total growth.

Now transition to the recession decline (2008–2010) and it is these same small and medium companies that dropped roughly 80 percent of all lost Utah jobs. In this case, the smalls lost even more than the mediums (49 percent and 34 percent respectively). Large companies dropped only 17 percent of all lost employment. This underscores the volatility more inherent in smaller companies than in larger, more established companies.

This same pattern characterizes the employment recovery of the past two years. Around 80 percent of the recovery employment gains are through small and medium companies, and, as during the recession, small companies have the biggest share of employment gains (44 percent).

There is one thing to note about large companies: since 2005, the number of large companies in Utah is largely unchanged, though the number of small and medium companies has increased. Yet, total employment in the big companies has still grown across that time period in Utah (Figure 2).

Seasonal Factors

There is another characteristic of note in the small company class. Figure 2 illustrates periodic highs and lows within the flow of employment in each company size class. These highs and lows are normal seasonal patterns that occur every year, but the highs and lows are more prominent in small businesses. This is largely due to the construction industry — high employment in the summer, low in winter. Construction has the largest percentage of its composition and the largest percentage of its employment within small companies (Figure 5). Whereas 95 percent of Utah companies are small yet have only 36 percent of all employment, 98 percent of construction companies are small, and they have 69 percent of all construction employment.

If you look even closer at Figure 2, you can also see subtle seasonal increases in the large class size at the tail end of every year. This is the cumulative effect of large retail companies, such as Wal-Mart or Nordstrom, adding more holiday employees followed by their post-holiday departure.

County Profiling

This same company profiling can be done at the county level and is analyzed and profiled in other current Local Insights segments. Many Utah counties have small communities, especially in the state's rural south and east. These communities generally do not have large businesses, but that doesn't mean they don't have large companies. For example, the local Wells Fargo bank branch may only employ 10 people, but Wells Fargo is a large company in Utah. The local branch may be small, but that local branch

is not going to receive tax breaks as a small business because the force behind that bank is large.

Summary

It is a common colloquialism that small businesses create the most new jobs in America. Well, that depends upon your definition of a small business. According to the U.S. Small Business Association definition of fewer than 500 employees, that colloquialism holds true in Utah. But if your perception of a small business is something smaller, like fewer than 50 employees, then that colloquialism comes into question. With this tighter definition of a small business, the super majority of all Utah companies are still small, but they don't have the super majority of all Utah employment — and they don't always add the most new jobs in any given year. In some years they experience the most job loss.

What we have learned is that company size has its role and influence within the Utah economy, and that role and influence is more volatile in small and medium companies through the ups and downs of a business cycle. The large companies are a more stabilizing influence through these same up and down cycles.



Utah's Recovery Doing Better Than Originally Thought

BY MARK KNOLD, CHIEF ECONOMIST

Monthly estimates of Utah's employment change are made and published by the U.S. Bureau of Labor Statistics, revealing either growth or contraction. These estimates coupled with unemployment rates represent the current profile of Utah's economy. Oftentimes this information makes the headline in the next day's newspaper as the current performance of the Utah economy, yet this estimation may or may not reflect the actual performance of the Utah economy, especially the employment estimate. This appears to currently be the case. These estimations come through employer and household surveys. The actual Utah employment count isn't available for confirmation until several months thereafter. Utah's actual employment counts are quantified through a comprehensive "census" of Utah employers, this being the state's Unemployment Insurance program. All Utah employers who hire workers are required to report employee identifications and wage payments on a quarterly basis so unemployment benefit eligibility and payments can be ascertained and administered if workers get laid off.

How We Count Jobs

In the UI system, Utah companies are branded with an industry and geographic location, and then the number of their reporting of employees is added up. This way, we ascertain a count of banking employment in Salt Lake County or hotel

employment in Washington County. But there is a drawback — it takes time to gather and quantify this data.

For example, January, February and March constitute a calendar quarter. Notices for need of employment counts are sent out in April, and it can be as late as July before the information is returned and the number of jobs is quantified. Yet people want to know in January, February and March what is happening in January, February and

March. In order to accommodate this desire for a more timely profile, BLS conducts a monthly survey of Utah employers as a proxy.¹

¹ It is actually a nationwide survey of employers undertaken by the U.S. Bureau of Labor Statistics. All states are proportionally represented, and each state is given an estimation of their total employment in addition to industry employment and metropolitan area summarizations.

Figure 6: Utah Monthly Survey—UI Data
June 2011–September 2012



Source: U.S. Bureau of Labor Statistics.

*The percent change is the moving 12-month average for any particular month.



Utah's Recovery Doing Better Than Originally Thought Cont.

Monthly employment estimates are generated from a survey of employers, and as with all surveys, they come with a degree of error. These monthly employment estimates will not, in the end, be the official count and performance of the Utah economy. That instead will come through the more comprehensive “census” of employment through the UI program, and the original survey estimates will eventually be revised to match this UI data.

This employment quantification is herein described because the recent accrual of Utah UI data for the first half of 2012 is revealing a different employment picture than that period's initial Utah survey estimates.

Sometimes the Survey Misses the Mark

The survey is hoped to be a good reflector of the eventual UI data, and throughout most of its history it is. Yet there have been periods when the survey does not measure the full magnitude of an employment change or trend. These generally occur at initial stages of accelerating growth during economic recoveries or collapses during recessions.

The employer survey has encountered one of those phases here in Utah. UI employment counts are showing a more robust Utah economy than the original survey estimates suggested. June 2012 marks the most recent UI data. Original survey estimates for June projected Utah's employment growth at 2.6 percent. The UI data has instead come in at 3.6 percent (Figure 6). This is an additional 15,000 more jobs than the survey had estimated, and the total number of new jobs created between June 2011 and June 2012 was 44,000.

How can the survey estimates noticeably diverge from the UI employment reality?

The survey lays the foundation for an estimate, yet a fair amount of analyst judgment is still necessary toward that estimate. The analysis is done in Washington, D.C., not in Utah, so subtle local knowledge may be absent. Also, the further the survey gets from its last coordination with the UI data, the greater its possibility for divergence.

Anchoring a Survey

At the beginning of each year, the survey undergoes coordination with the lagging UI data. The survey is stopped after its December estimation and the latest available 12 months of UI data replace the survey's prior results. For example, in January 2013, UI data will be available through September 2012. So UI data from September 2011 through September 2012 will now populate the survey's foundation. From there, the survey will remake estimates for October, November and December 2012 and thereafter through 2013.

You may have observed that the last time the survey was anchored to the UI data was with September 2011 data. We are currently in the final months of 2012, so it has been one year since the survey was last coordinated and populated with UI data. As with any navigational system, the further one gets from its starting point, the higher the probability of wandering off course — especially when the course is unknown and has to be estimated as you go. The 2013 coordination will bring the Utah survey back to a better course, but until then, the survey will understate the employment rebound in Utah.

Utah Economy Doing Better Than Thought

With the data that we have through 2012, let's take a look at Utah's economic

recovery. For June 2012, Utah employment is 1,255,000—that's 3.6 percent higher than the June 2011 count. It is also only 6,500 lower than the previous peak June employment of 2008, just before the recent recession unfolded. Continuing with that job growth pace, Utah should finally equal its pre-recession employment count with the September 2012 data (Figure 7).

Does that mean the recession's negative impacts are over? No, because the labor force has grown much since the recession and those people still need to be employed. With the anticipated September employment count, on paper, we will have re-employed all the people employed before the recession. But the labor force has grown by approximately 100,000 since the recession began, so those people will also have to be employed to wipe out the recession's full negative impact. This is why the unemployment rate is still high. And while the job growth going forward will have to absorb these 100,000 potential workers, it will have to do that as more people continue to age into the labor force. So it will be a multi-year task to wipe away the recession's impact and a moving target.

But we will take the growth we are currently generating and be happy for it (Figure 8). The pleasant surprise is construction. Construction was the first industry to slide into recession and the last to come out. The current data reveals that construction finally began rebuilding jobs during the first half of 2012, pun intended. As of June, Utah construction employment is 8.5 percent higher than June 2011, nearly 6,000 new jobs over that 12-month period. This data confirms anecdotal information from other sources throughout 2012 that homebuyer foot traffic was increasing, inventory was drawing down, sales and prices were up,

and new home-building permits were climbing — all variables one would need to surmise an improving housing market. The construction employment growth summarizes its impact.

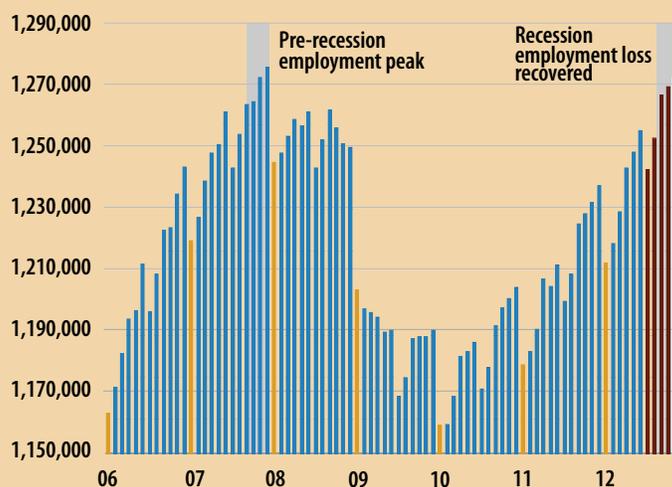
Another hard-hit industry during the recession now bouncing back is manufacturing. Its growth is up 3.2 percent across the 12 months that began in June 2012. Both construction and manufacturing employment levels are considerably below their pre-recession levels, but at least they have moved beyond their recession employment low points and are making contributions to the Utah employment picture.

The cherry on top of job growth is the 5.6 percent gains in professional and business services. A good portion of this sector is filled with high-knowledge, high-paying professional service jobs, such as accounting, engineering, computer programming, specialized design and consulting. The economy needs these high-paying sectors to lead the job rebound as they have a higher trickle down effect through the economy. Higher-paying jobs produce more disposable income for spending. More spending means more economic activity, which leads to more job creation and the cycle expands.

Summary

Utah's economy is on the mend. The initial recovery phase has almost been achieved with the recapturing of pre-recession job counts. Growing the economy over and above moves the Utah economy into economic expansion territory and also pushes the economy further along in its needed path of drawing down the ranks of idle and underutilized labor in Utah.

Figure 7: Utah Monthly Employment 2006–2012f



Source: U.S. Bureau of Labor Statistics; forecast—Utah Department of Workforce Services; October 2012.

Figure 8: Utah Nonfarm Industry Profile (Numeric Change) June 2011–2012



Source: U.S. Bureau of Labor Statistics, QCEW data.



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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.