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An economic and labor market analysis of the Southwest Utah Area

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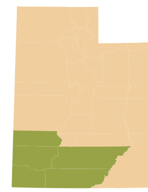
in this issue

Jobs, Small Companies

and the Most Recent Business Cycle in Southwest Utah



BY LECIA LANGSTON, ECONOMIST

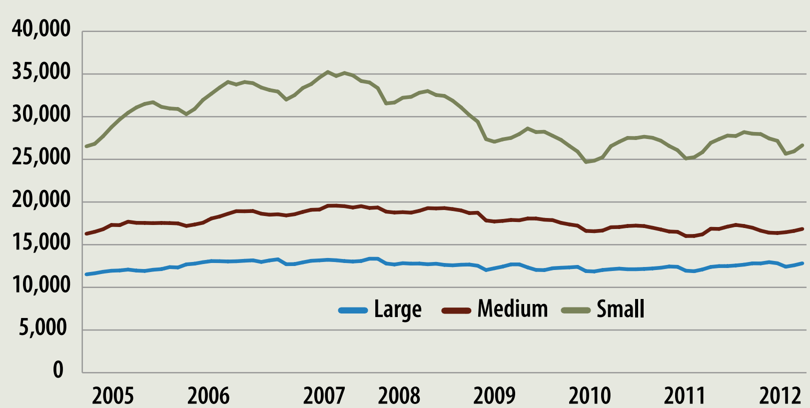
It's become a mantra repeated so often that it has become "a truth universally acknowledged" that small businesses create the most new jobs. Is this really true? Part of the answer must be linked to the definition of a "small" firm. The Small Business Administration (SBA) uses different employment and 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.

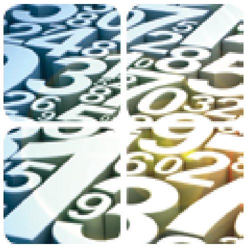
This study uses the ranges established by the U.S. Bureau of Labor Statistics in its studies of employment size class. In some small counties, a firm with 50 employees may be considered a major employer and on the Wasatch Front it may indeed appear to be a small employer. However, the ranges are fixed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

Size classes were applied based on statewide company employment as opposed to local worksite employment.

Figure 1: Southwest Private Employment by Firm Size





Jobs, Small Companies... Cont.

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 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 difficultly 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 Southwest Utah over the boom-to-bust-to-recovery years of 2005 through 2011. The 2005–2011 time frame covers the initial expansion, contraction and recovery phase of the most recent business cycle. Most counties in Southwest Utah had not entered the expansionary phase of the cycle at this point. However, Washington County began steadily creating new jobs in 2011. With 70 percent of private employment in the region, Washington County dominates the job counts for this area. As you'll see, the answer to the question of whether small businesses create the most new jobs in Southwest Utah is that it depends. The Southwest Utah study area includes Beaver, Iron, Garfield, Kane and Washington counties. Here's a brief summary of findings:

In Southwest Utah, small businesses did create the most new jobs during the employment boom created by a speculative housing bubble.

However, small businesses were also responsible for the lion's share of recessionary job losses.

Large firms provided the most economic stability in Southwestern Utah. While their job creation proved moderate in the upswing, their job losses were small in the downturn. In fact, large firms proved the only size category to end 2011 with higher employment totals than in 2005.

The area's two largest counties, Iron and Washington, dictated the area's overall trend in size-class employment growth and contraction. Beaver County's figures are clouded by large construction projects. In Garfield County, medium-sized firms drove employment creation and destruction. In Kane County, employment grew in both the medium and small categories.

Construction industry employment precipitated much of the wild swings in small-company employment levels in the boom-to-bust period.

Winners and Losers

Figure 1 tracks the total employment levels of small, medium and large firms in the area between January 2005 and March 2012. The most obvious observation from the data must be that small firms encompass the largest share of total employment in Southwest Utah. Over the time frame studied, small firms accounted for almost half of all private employment, medium firms comprised 30 percent and large firms rounded out the field with 20 percent. During the phases of the boom-to-bust cycle, some notable changes occurred. Small firms' share of employment was highest during the boom and lowest during the bust.

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. However, these firms also lost the largest number of positions during the ensuing recession. In fact, compared to 2005 employment levels, small firms were down more than 2,700 positions in 2011. Of all the size classes, small firms showed the most employment volatility over the course of the economic cycle.

Interestingly, during the explosive employment-growth years, job gains in medium-sized firms remained fairly constant. Though these firms lost employment during the downturn, their declines more closely mirrored their previous gains than did those of small companies. Comparing data for 2005 and 2011 finds medium firms with a 590-position decline.

Large firms added to the stability of the Southwest Utah economy. Job gains at these firms proved fairly moderate on the upswing. In addition, job decreases proved very small as the economy tanked. Only the large-employer size class ended 2011 with more employment than it registered in 2005.

Perhaps the most curious occurrence appeared in the final month of the study (March 2012). At that point, job gains among the three size classes virtually converged. Small employers showed a year-over gain of 800 jobs, medium firms had added 600 jobs and large-firm employment increased by more than 700 jobs.

The County Perspective

It seems sensible to take a closer look at each county's experience. Not surprisingly,

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

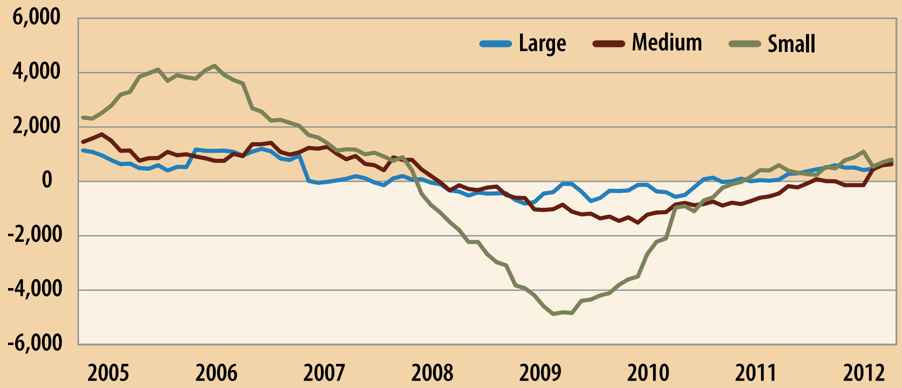


Figure 3: Annual Change in Southwest Utah Private Employment by Firm Size

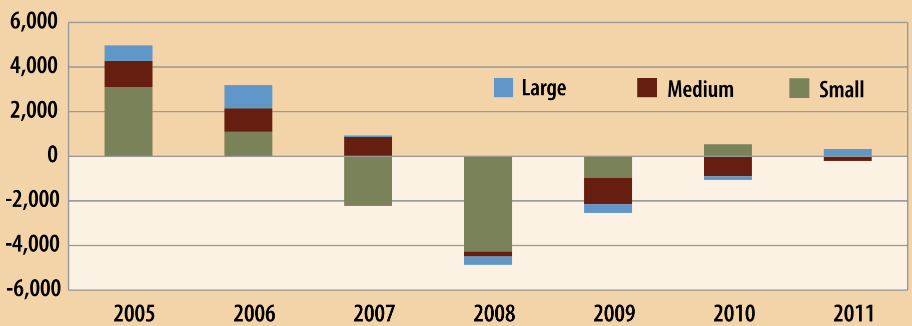
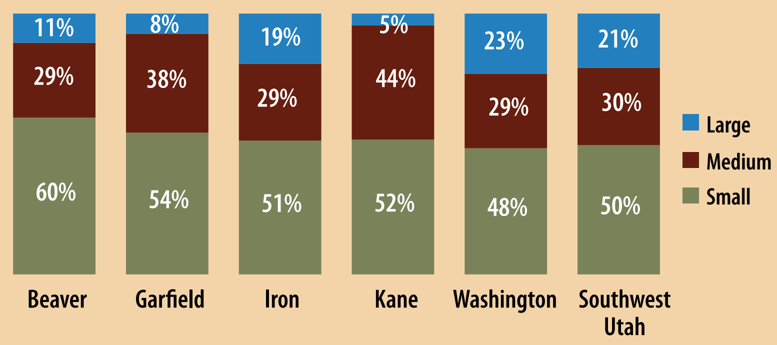


Figure 4: Private Employment Share by Firm Size • 2005–2011



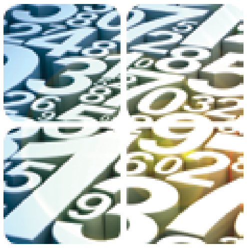
smaller counties tend to show a smaller percentage of employment contributions from large firms. Iron County's large-employer share of employment closely mimics the area average (19 percent). On the other hand, Beaver and Garfield counties display shares of 11 and 8 percent, respectively. Kane County maintains only 5 percent of private jobs in the large category, but shows a significantly higher share of medium-size firm employment.

The spread in the small-employer employment share among counties seems fairly narrow. Beaver County exhibits the highest percentage of small-employer jobs. The remaining counties show shares clustered fairly tightly around the 50-percent mark.

Between 2005 and 2011, Beaver County produced polar opposite results in size class employment gains and losses than the region overall. Small firms actually ended up with substantially higher employment levels over the six-year period. No doubt the two phases of wind farm construction occurring during the study period have greatly affected these results. Much of the bulge in temporary construction employment occurred in small firms.

In Garfield County, medium-sized firms played the largest roll in both job creation and job destruction. However, at the end of the study period, medium-sized firm employment had increased by more than 80 jobs compared to 2005. Large firm employment proved static, and small-firm employment had dropped by roughly 10 positions. In addition, small firms did show the largest employment decreases in the pivotal recession year of 2009.

Iron County joined Washington County in contributing to skyrocketing small-firm employment in the boom years and employment fatalities in the bust years.



Jobs, Small Companies… Cont.

Medium firms added significantly to payrolls during the upswing years, but lost fewer jobs during the recession. In 2011, employment levels for both medium and large firms measured noticeably higher than their 2005 totals. On the other hand, small-firm employment dropped by a whopping 1,100 jobs.

Kane County, with its minute share of large-employer private employment, saw medium and small firms dominate the employment landscape during the past business cycle. Small firms added a sizeable number of new jobs during economic surge, but didn't lose all that many positions during the economic collapse. Medium-sized firms gained and lost far more jobs in the swing from prosperity to recession. In Kane County, large firms took a decided employment hit. This category ended up with almost 50 fewer jobs in 2011 than it showed in 2005. On the other hand, medium- and small-firm employment increased by between 80 and 90 positions.

The fact that Washington County's firm-size employment experience echoes the region's overall performance should come as no bombshell. Nevertheless, the county evidences some notable variances. The prime attention-grabbing difference occurred in 2011 when small firms seemed to be making the largest employment contributions. Washington County's head start in the economic expansion race no doubt accounts for the resurgence of small-employer job growth. Nevertheless, large firms added 530 jobs between 2005 and 2011, while small firms lost 1,800 jobs and medium-sized firms lost 900 positions.

The Driving Force

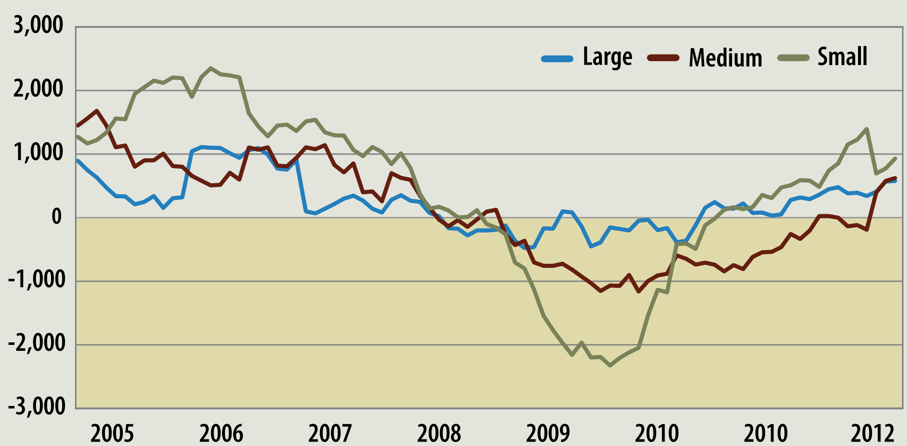
The prime factor in the United States most recent brush with economic calamity can be laid at the feet of a speculative housing/construction bubble market. Therefore, it seems reasonable to expect that much of the pattern in size class expansion and contraction can be attributed to changes in the construction industry. This does indeed appear to be the case.

The construction industry is dominated by small firms. In Southwest Utah almost 90 percent of construction jobs were housed in small firms compared to about 50 percent for the entire private sector. Construction is dominated by small firms and was also a primary driver in the boom-to-bust cycle.

When construction employment is removed from the mix (see Figure 5), small-firm employment continues to show a stronger boom-to-bust trend than the other two size classes. However, that effect is softened dramatically. In addition, non-construction employment for small firms actually shows a 1,200-job gain between 2005 and 2011. Large-firm employment also showed a notable employment increase—more than 1,100 net new positions. Only medium-sized firms in the non-construction group experienced a decrease in jobs.

While small companies certainly accounted for the bulk of employment growth during the boom years, this group's losses more than offset its gains during the recession in Southwest Utah. Of course, 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: Southwest Utah Private Nonconstruction Employment Year-Over Change by Firm Size



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

BY LECIA LANGSTON, ECONOMIST

A Quick Peek at Construction Employment

The latest long story of the business cycle can trace 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 as the housing market slowly righted itself. Has southwestern Utah seen its construction employment begin to recover?

Figures 6 and 7 display the 12-month moving average of a decade's worth of construction employment for the five counties in southwest Utah. This type of averaging provides an easy method of eliminating seasonality and illuminating 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.

While the less-populated counties in the area (Beaver, Garfield and Kane) show the rise of construction employment during the home-building boom, they also show some atypical increases in construction employment not necessarily related to the business cycle. The most obvious anomalies occur in Beaver County where twin towers of construction employment levels reflect two phases of wind farm construction. Garfield and Kane counties also show bulges related to specific projects. However, there is no clear indication that "base" construction employment has improved in these counties, although there does appear to be a smidgen of hope for Garfield County. Construction permitting activity supports this thesis. All the smaller counties continue to experience declines in residential home permitting.

In the area's two largest counties (Iron and Washington), the course of construction employment appears to run more smoothly. Building-related jobs bubbled right along with new home building during the boom, only to collapse along with the housing market. Iron County's construction jobs continue to edge down with no apparent bottoming out.

On the other hand in 2012, Washington County's construction employment began to show an inkling of improvement although the jury is certainly still out. Supporting evidence for the beginning of a turnaround can be found in the county's 25-percent increase in home permitting for the first seven months of the year. On the other hand, Iron County's home-permitting continues to slide.

Beaver County

- Overall, Beaver County lost 45 positions between June 2011 and June 2012, almost entirely the result of a 64-percent decline in project-specific construction employment.
- Reopening the copper mine contributed to the 71-position gain in mining. Retail trade and leisure/hospitality services also displayed notable expansions. In addition, covered agriculture added a significant number of positions which are not included in the nonfarm totals.
- Take out the loss of temporary construction jobs, add in the covered-agriculture gains and Beaver County would have shown a net increase of more than 100 jobs.
- As of September 2012, the county's estimated unemployment rate measured 5.7 percent — only slightly higher than the statewide average.
- For the first seven months of 2012, total permit values are down 84 percent, primarily the result of an 83-percent decline in home permitting.
- Currently, Beaver County is marking its fourth straight quarter of declining year-to-year sales, due chiefly to the decline in business expenditure sales related to large construction projects.

Garfield County

- Between June 2011 and June 2012, Garfield County's nonfarm jobs decreased by about 1 percent — a decline of 26 positions, illustrating an economy that has yet to fully recover.
- Blame it on the public sector. Government lost more than 50 positions at both the federal and local levels. The only other job loss of note occurred in wholesale trade.
- Retail trade picked up some of the employment slack along with a little help from gains in the information industry.
- Currently, the county's September 2012 seasonally-adjusted unemployment rate stands at 10.0 percent, decidedly higher than the state or national averages due to the county's seasonal labor market.
- For the first seven months of 2012, home permits are down 25 percent and overall construction values have slipped a whopping 65 percent.
- Between the second quarters of 2011 and 2012, sales jumped by 8 percent. In eight out of the last nine quarters, the county has experienced year-to-year sales increases.

What's Up or Down in Southwest Utah's Economy? Cont.

Iron County

- Between June 2011 and June 2012, Iron County showed a net gain of nearly 90 jobs (up 0.6 percent).
- Jobs in April 2012 dropped by a minute amount compared to April 2011 totals, while jobs were up in both May and June. However, Iron County has moved into job creation territory before, only to take a step backward in the next quarter.
- The county's goods-producing industries — mining, manufacturing and construction — all showed contraction in the second quarter of 2012. In addition, professional/business services (the source of most temporary jobs) took a substantial hit in June.
- Net job gains did outweigh net job losses. Wholesale trade, retail trade, transportation/warehousing, leisure/hospitality and the public sector each generated more than 30 new jobs between June 2011 and June 2012.
- At 6.7 percent, Iron County's September jobless rate does register below the national unemployment rate (7.8 percent) but considerably higher than that of the state (5.4 percent).
- Home permits are down 19 percent for the first seven months of 2012. Iron County has not seen an increase in home permitting since 2006.
- Second quarter 2012 gross taxable sales increased by 4 percent compared to the previous year, marking this the fourth straight quarter of improving figures. In addition, car sales almost doubled in the second quarter of 2012 as consumers acted on pent-up demand.

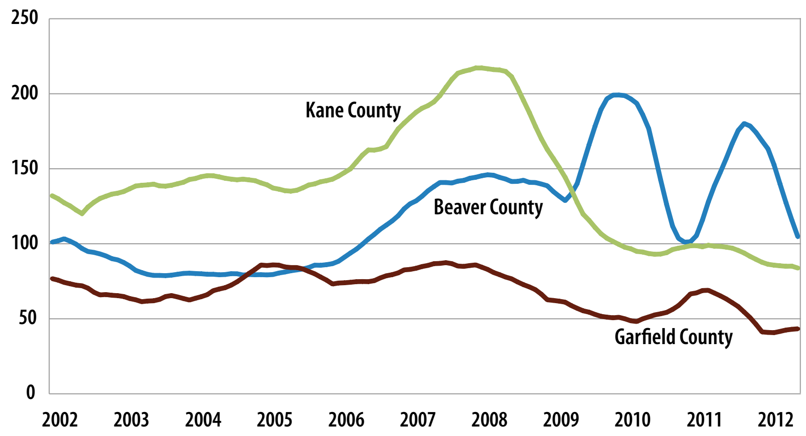
Kane County

- Job growth stood at 1.5 percent for the twelve months ending June 2012 (up roughly 50 jobs). However, the county still has a way to go to achieve the moderate expansion that is indicative of a healthy economy.
- Most new jobs were added in the leisure/hospitality sector where positions are more likely to be part-time and seasonal.
- Job losses in other sectors offset roughly two thirds of the gains in leisure/hospitality services. Construction, retail trade, private educational/health/social services and the public sector all took notable employment hits.
- A slight blip in the county's unemployment rate earlier in the year seems to have evaporated. As of September 2012, Kane County's jobless rate stood at 6.2 percent, down more than one full percentage point from last year.
- Home permitting for the first half of 2012 dropped 40 percent from the previous year. The last time the county experienced an uptick in home building was 2006.
- Kane County has displayed year-to-year expansions in sales for the past five quarters. On the other hand, second quarter 2012 gain measured a meager 0.5 percent.

Washington County

- Between June 2011 and June 2012, Washington County added 2,530 net new jobs. This 5.4-percent increase places Washington County at its long-term average for employment growth.
- Washington County's job expansion measures notably higher than either the

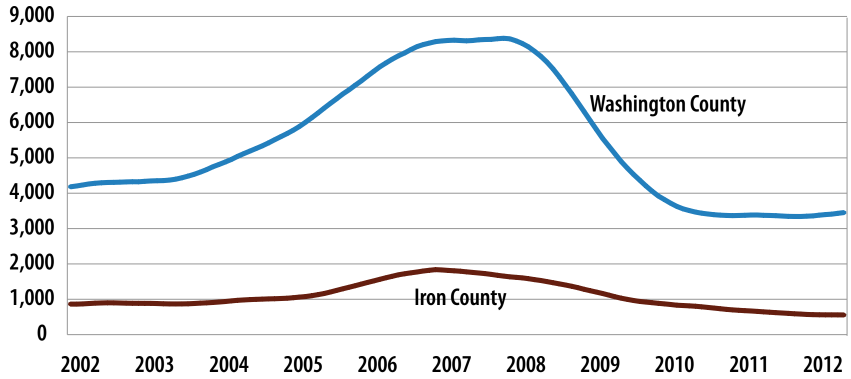
Figure 6: Construction Employment
12-Month Moving Average



Utah (3.6 percent) or U.S. (1.3 percent) figures for the June-to-June period.

- All major industries added jobs between June 2011 and June 2012. This positive performance by all sectors represents a broad-based and therefore more sustainable expansion.
- Professional/business services, leisure/hospitality services, retail trade, construction (yes, construction) private education/health/social services, the public sector (includes public education) and manufacturing each contributed more than 200 jobs.
- Two industries experienced double-digit growth rates: wholesale trade and professional/business services.
- Unemployment rates continue to trend downward. Washington County's September 2012 jobless rate of 6.5 percent is nestled in between the national average (7.8 percent) and the statewide rate (5.4 percent).
- Home permits are up 25 percent for the seven months of the year. On the other hand, always-sporadic nonresidential construction values are down from last year, pulling total permit values down by a negligible 4 percent.
- The county's second quarter 2012 7-percent gain in gross taxable sales marks the sixth straight quarter of year-to-year increases.

Figure 7: Construction Employment
12-Month Moving Average



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

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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.