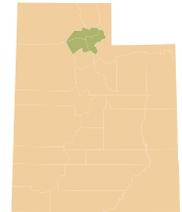




## A Study of Private Sector Firms by Size in Wasatch Front North



BY ERIC MARTINSON, ECONOMIST

The Unemployment Insurance program provided the basis for the last issue of Local Insights. In it we discussed the amount of time that certain individuals had received Unemployment Insurance. For this issue, data from the UI program once again provides some looks into the labor market, this time in an evaluation of employers. These data have yielded some interesting findings that show the relationships that exist between firm sizes, economic phenomena, seasonal trends and other variables.

In the state of Utah, 95 percent of firms are small employers (firms that employ

fewer than 50 individuals). These 95 percent of firms are responsible, however, for just 35 percent of all employment in the state. Furthermore, while large employers represent only less than 1 percent of all firms in Utah (0.3 percent, to be exact) these large firms are responsible for 30 percent of total employment in the state. To what extent is this the case in the Wasatch Front North Economic Service Area (Davis, Morgan and Weber counties)? To what extent are larger firms shielded from economic shocks (booms and busts), and to what extent do other economic considerations affect different sizes of businesses? A study of employers by firm size yields answers to these and

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*How is employment addressed within firms of different sizes? A look at local employment by firm size provides a vision of how firms of different sizes react to the economic environment.*

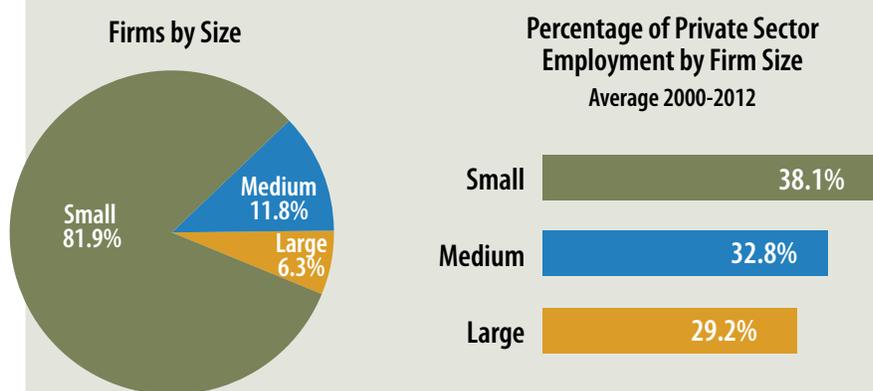
**Steady Labor Market Improvement** ..... 5

*Employment growth was good in the Wasatch Front North Economic Service Area for the second quarter of 2012.*

**Small Business Job Creation**..... 8

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

**Figure 1: Wasatch Front North Firm Size and Employment in the Private Sector**





## A Study of Private Sector Firms... Cont.

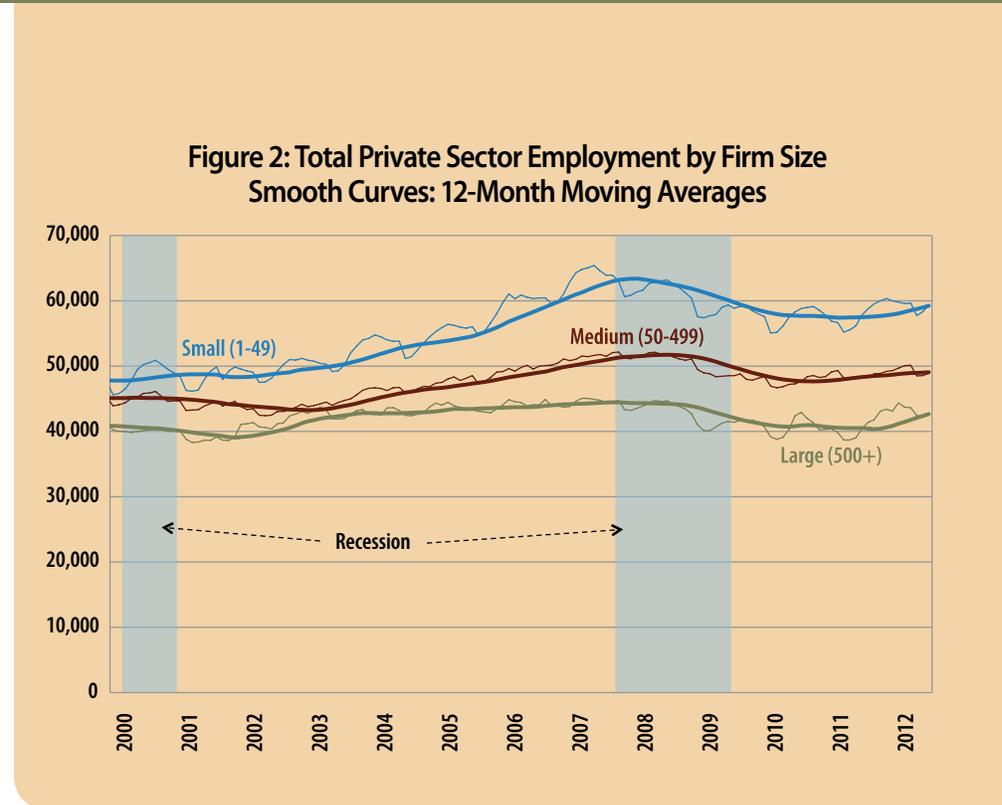
other questions. It is important to note that while government has a strong presence in the Wasatch Front North ESA (four of the largest five employers in Weber County are government), the analysis in this article involves only the private sector. It is also important to first acknowledge the nature of the data as well as its power to explain these answers.

### Caveats

The data used in this analysis come from employers registered in the Unemployment Insurance program. This means that the data will capture much of the employer landscape but some of the picture is not available. For instance, self-employed individuals are not included in UI. As such, the portrait may or may not be the same for self-employed individuals. This data set also excludes the public sector; only the private sector is analyzed here.

Another issue is that of defining small, medium and large firm sizes. Unless otherwise explicitly defined, the definitions of firm size follow those used by the Bureau of Labor Statistics. Small refers to firms that employ between 1 and 49 individuals, medium-sized firms employ between 50 and 499 individuals and large firms employ a total of 500 or more individuals. A consistent definition across areas regarding firm size facilitates cross-comparisons, despite the fact that rural areas tend to not have very many firms that employ more than 500 individuals.

A final consideration when defining the parameters of this analysis was the question of how to evaluate those firms who have multiple establishments in various areas.



Under the UI program, firms who have more than a single establishment are given a master UI account. This master account is connected to the county in which that master account is filed. To illustrate, suppose Bank X, a firm that employs over 500 individuals in total, has a master UI account in Salt Lake County. These 500+ employees are spread across 50 different establishments throughout Utah. While a particular establishment, say Branch 6 in Davis County, may only employ 15 individuals, that establishment (Branch 6) belongs to the master account of Bank X, which resides in Salt Lake County that employs over 500 people. Branch 6, therefore, would be numbered among large firms in Davis County despite the fact that Branch 6 employs only 15 individuals. To say that Bank X (represented in Davis County by Branch 6) is a small employer may misrepresent the overall effect of large employers in a particular area.

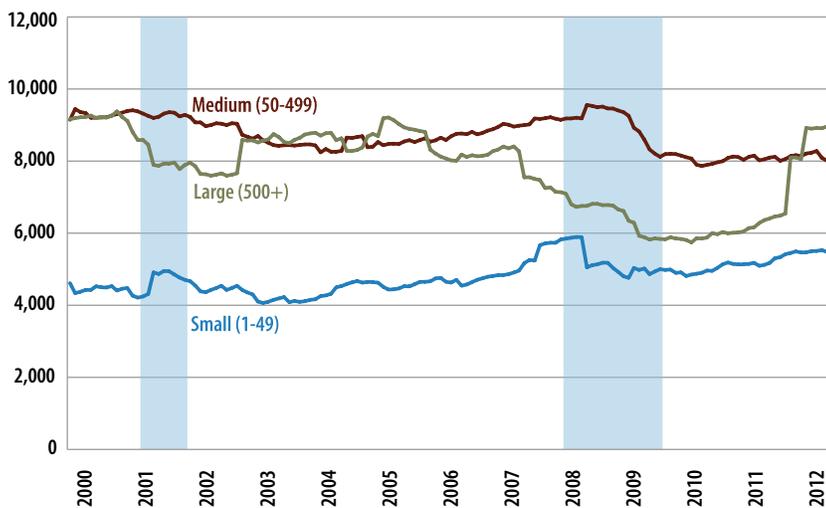
### Employment Trends by Firm Size

In Wasatch Front North, 82 percent of private sector employers are small firms, 12 percent are medium firms and 6 percent are large firms. While just 6 percent of

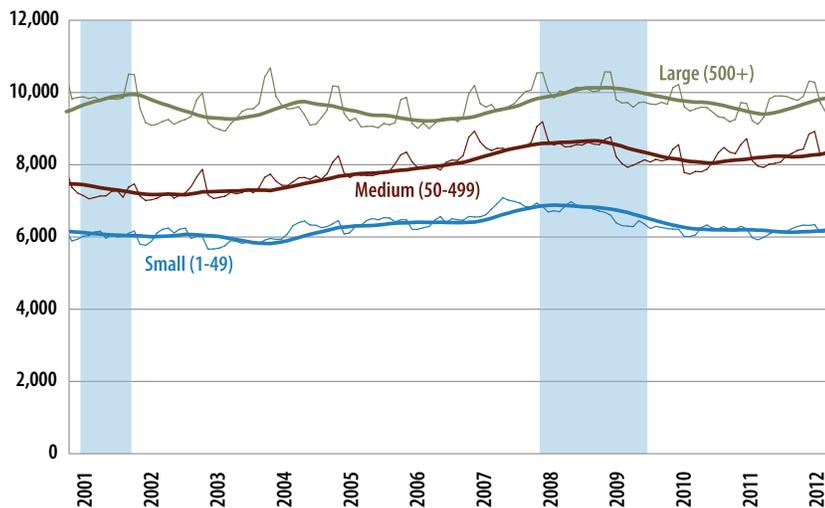
private sector businesses are large firms, these 6 percent are responsible for 29 percent of private sector jobs in the Wasatch Front North region. Small employers provide jobs to 38 percent of all private sector employees with mid-size firms making up the balance of private sector employees in the area. These numbers are comparable to employment at the state level. In fact, statewide less than one-half of one percent of all firms are large but still account for 30 percent of total private sector employment [Figure 1]. These statistics underscore an important reality for both the state as well as the Wasatch Front North region: large employers are a vital source of employment in the area.

At the beginning of the last decade, small, medium and large employers each provided between 40,000 and 50,000 private sector jobs. As the decade progressed, the gap between the three employer size-classes widened, with small employers clearly leading the pack. The Great Recession had a clear negative impact on employment within the three size classes. Since then, all three groups have seemed to turn the corner and are on their way to recovering the jobs lost in the recession's aftermath. [Figure 2].

**Figure 3: Private Sector Manufacturing Employment by Firm Size**



**Figure 4: Private Sector Retail Employment by Firm Size  
Smooth Curves: 12-Month Moving Averages**



### Industry Trends

In the Wasatch Front North region, an all-important industry is manufacturing. At the beginning of the past decade, manufacturing was responsible for almost 18 percent of all private sector jobs. A continuing downward trend of employment in that industry saw the level of jobs dip to below 13 percent by 2009. However, this industry seems poised for a renaissance as the historically downward employment trend in manufacturing has reversed. In March 2012 the rate of manufacturing jobs as a percentage of total private sector jobs has increased to 15 percent. But what could explain the gradual decline in manufacturing jobs in the area from 2000 to 2009? Illustration 3 reveals that large private sector manufacturing employers were mostly responsible for the trend [Figure 3]. A gradual decline from 2000 to 2005 shows large employers divesting in employees. In 2005, a much more rapid rate of decline in the number of private sector manufacturing jobs among large employers prevails until early 2010, when the trend begins to reverse. It is hard to say what impact the 2008 recession had on large manufacturers in the region since the decline in jobs seems to have followed the same rate in decline that was present before the recession hit. The Great Recession clearly impacted small and medium manufacturers in the region, who have yet to regain their pre-recession employment levels.

Another important industry to the area in terms of employment is retail trade. Retail employers in all three size classes saw measurable gains in employment leading up to the Great Recession. As the recession hit, employment among large, medium and small private sector firms fell. What is interesting to note are the differences in timing between the divesting of employees between firms sizes. This can be seen most clearly in a 12-month moving average adjustment [Figure 4]. The drop in employment seems to occur the soonest among small retailers, followed by the drop in employment among mid-size firms and then finally employment within



## A Study of Private Sector Firms... Cont.

large employers drops. While small private sector retailers seemed to be the first to be affected by the recession, the effects have taken the longest for these small retailers to wear off. Mid-size retailers had reversed the downward trend early in 2010, which was before large retailers started hiring again in the area almost one year later.

What should not be surprising is that the healthcare and social services industry saw relatively little impact from the Great Recession of 2008 [Figure 5]. Employment in all size classes within the private sector saw steady and consistent growth in employment over the last 11 years. A look into employment by employer size within the industry reveals that gaps in the level of employment among the distinct size classes that was present in January of 2000 all but dissolves by 2012, each class employing between 7,300 and 7,500 employees in March 2012.

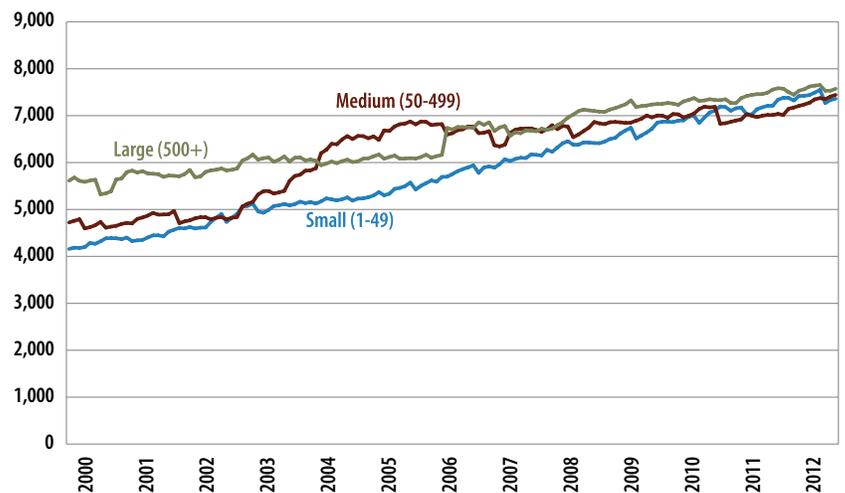
Employers of all size classes drive employment in the Wasatch Front North region. Small, medium and large private sector employers alike were hit by the recent recession, yet all have shown signs that recovery is in progress. While the area saw steady decline in manufacturing jobs (mostly among large employers) over much of the past decade in one of the area's most important industries, recent trends show a manufacturing revival in the area that has brought the job level among large employers back to levels not seen since 2005. This and other phenomena reveal some differences in how different sizes of firms are able to react given various conditions in the different markets.

Studying employers by firm size over time allows one to see the evolving nature of the

labor market. Analyzing these dynamics at the sub-state level lends itself to unique, localized perspectives into regional economies, which is essential for employers, prospective employees and policy-shapers tasked with making big decisions. The effect of economic shocks, for example, can be seen in the historical series, and the effects of these shocks are different within different industries. These differences are based not only on firm size but also on regional economies. The way firms decide to deal with an ever-changing economic landscape, in turn, influences other firms around them as well as the broader economy.

Studying employers by firm size over time allows one to see the evolving nature of the labor market.

Figure 5: Healthcare/Social Services Private Sector  
Employment by Firm Size





## Steady Labor Market Improvement

BY JOHN KRANTZ AND JIM ROBSON,  
ECONOMISTS

Employment growth was good in the Wasatch Front North Economic Service Area for the second quarter of 2012. Utah posted a 3.4 percent year-over employment growth rate for nonfarm wage and salary workers in the second quarter, and WFN was somewhat slower at 2.6 percent. Although total employment as a whole is still slightly below the peak reached in the closing months of 2007, by the end of this year the ESA is projected to reach the same annual average employment as 2007, the pre-recession peak year. As Figure 6 reveals, Davis County was the best performing county in this service area. Weber County created jobs at a rate higher than the national average, but is still growing at a rate significantly below that of Davis County and Utah. Morgan County, which accounts for less than 1 percent of employment in the ESA, has shed 24 jobs in second quarter 2012 compared to one year ago.

All of the WFN counties had lower rates of unemployment than the nation in September, illustrated in Figure 7. The seasonally adjusted unemployment rate for the region is 5.4 percent, which is the same as the statewide average and considerably lower than the 7.8 percent national average.

Construction permit data suggests that residential activity continues to gain traction along WFN, but non-residential construction is falling behind. The number of permitted dwelling units in the region is up by 29.1 percent and new residential construction value is up by roughly 22.7 percent through July (year-to-date). At the same time, total construction value (residential and non-residential) is still down by 4.3 percent from one year ago.

Figure 6: Year-Over Employment Growth Second Quarter 2012

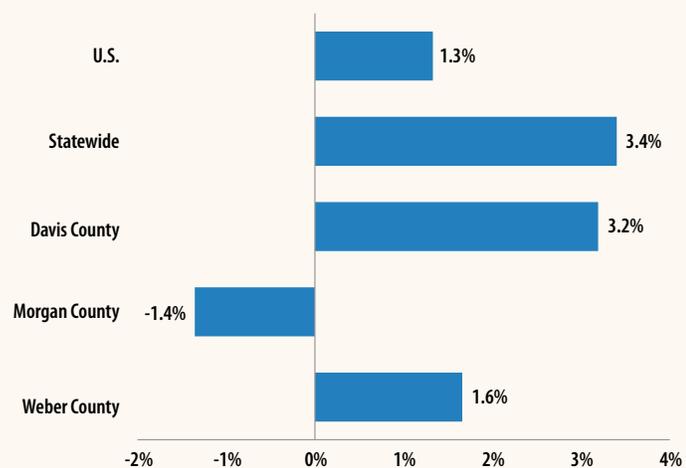
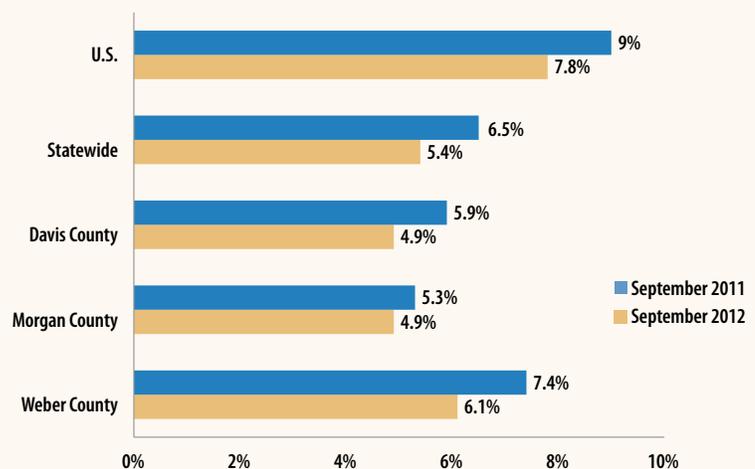


Figure 7: Unemployment Rate Comparison with Wasatch Front North Counties September 2011–September 2012



**Steady Labor Market Improvement Cont.**

Taxable sales for the second quarter of 2012 were up by 6.1 percent for WFN as compared to 2011. The reduction in consumption spending resulting from the Great Recession caused taxable sales to drop by roughly 10 percent from the fourth quarter of 2007 to the third quarter of 2010. Since then, the region has seen seven quarters of consecutive growth in taxable sales.

**Davis County**

Davis County continues to demonstrate very strong employment growth and is responsible for the majority of economic growth within the area. While the WFN region is still slightly below pre-recession levels of employment, Davis County June 2012 employment is currently at an all-time high, roughly 4.2 percent higher than the previous peak attained in June 2007.

A total of 3,369 new positions were created as of the second quarter of 2012, and most of those jobs came from five industry sectors. Among the goods producing sectors, manufacturing produced 1,049 new jobs, while construction added 401 new jobs. Construction grew by 5.9 percent in the second quarter and is expected to grow by roughly 5 percent throughout the year. Manufacturing employment grew by an impressive 11.1 percent in the second quarter, but this rate of growth is not expected to continue. As Davis County's level of manufacturing is now nearly back to the pre-recessionary level, it is reasonable to expect a rate of employment growth between 1.5 and 1.7 percent as occurred between 2002 and 2005.

In the service sector of the economy, retail trade accounted for the second largest number of jobs at 604. Retail trade is expected to add jobs at a growth rate of roughly 3.5 percent on average throughout the year. The third and fourth

highest numbers of jobs created were in arts/entertainment/recreation sector (509 jobs) and the healthcare sector (417 jobs). The first quarter growth rates for arts/entertainment/recreation and healthcare were 18.0 and 4.0 percent, respectively.

As for other economic indicators, construction-permit data shows dwelling units up 36.6 percent and residential construction value up 35.4 percent through July (year-to-date). Nevertheless, total construction value is still below 2011 levels. Taxable sales, on the other hand, grew by 6.4 percent in the second quarter of this year, which is just somewhat below the state average of 8.0 percent. Yet, taxable sales have not fully returned to the peak achieved in the fourth quarter of 2007.

**Weber County**

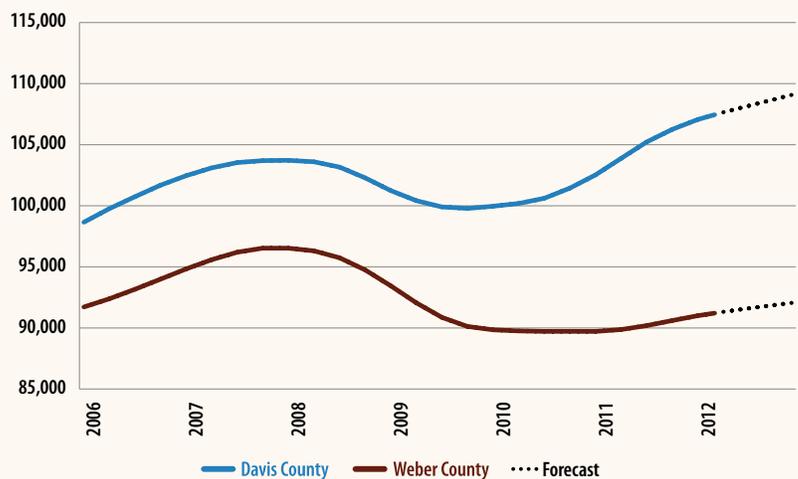
Compared to Davis County and the statewide average, Weber County's employment growth is sluggish. While Davis

County is setting new highs in employment, Weber County is still roughly 5.4 percent below the highest employment levels reached in 2007. Nevertheless, employment in the county is trending upward and is expected to continue growing throughout the year, albeit at a lower rate than the statewide average.

Weber County has added 1,500 jobs as of the second quarter compared to one year ago. Construction added the second-most jobs of any sector with 438, and manufacturing created 180. The growth rate for construction employment was 10.6 percent in the second quarter and is expected to be above 6.0 percent on average through the rest of the year, possibly maintaining an average as high as 8.5 percent. Manufacturing, on the other hand, grew by only 1.5 percent and is not expected to grow significantly for the rest of 2012.

The leading job producer among the service industry sectors was the administrative,

**Figure 8: Seasonally Adjusted Employment Forecasts**



support and waste remediation sector (NAICS 56). This sector grew by 8.5 percent through the second quarter of this year and added 467 jobs. The sector is expected to continue growing at a rate of over 6.0 percent through 2012. The third highest job creator was the food and accommodations sector with 285 jobs, and the fourth highest was healthcare with 212 jobs.

The other economic indicators for the county suggest that the climb out of the recession continues to be slow for Weber County. Taxable sales grew by 5.2 percent in the second quarter of this year, which is lower than the state average of 8.0 percent. Construction permit data through July of this year shows that construction activity is still weak as total construction value is down by 26.3 percent compared to 2011.

### **Morgan County**

Job losses in Morgan County appear to have ceased after a long decline from peak-level employment reached in the middle of 2007. From June 2007 to June 2012, about 257 jobs have been lost, which amounts to a 12.6 percent contraction of total employment. Most of these losses have come from the construction industry, which is down roughly 149 jobs since June of 2007. Residential construction is down 29.4 percent as of July year-to-date, although construction employment is showing an upward trend in employment by 19.3 percent and 49 jobs in second quarter 2012 compared to levels one year before. Construction employment is expected to show some gains through the rest of the year, though not much job growth is expected for the county.

### **Outlook**

The WFN region began the year with remarkably strong employment growth. The year-over growth rate for the first quarter

was a solid 2.9 percent. However, this level of employment growth was not expected to continue through the end of the year. Second quarter year-over growth moderated to 2.5 percent, still a healthy increase. The most recent Current Employment Statistics data for the Ogden-Clearfield MSA taken in conjunction with several forecasts suggest that the growth rate has likely reached a peak and that the growth rate will fall to a slightly lower level for the remainder of the year. Barring any major negative economic events, annual average employment in the WFN region is expected to be 2.4 percent higher in 2012 as compared to 2011.

The majority of the expected employment growth in the WFN region will occur in Davis County. Annual average employment in Davis County for 2012 is expected to grow by 2.8 to 3.0 percent as compared to 2011, while employment growth in Weber County is expected to grow by only 1.6 to 1.8 percent. Figure 8 shows the seasonally adjusted employment forecasts through December 2012, which are based on the more conservative annual average growth rates of 2.8 and 1.6 percent for Davis and Weber counties, respectively.

**The majority  
of expected  
employment  
growth will be in  
Davis County.**



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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](http://jobs.utah.gov/employer/bridge/index.html).*