ZIONS BANK

# INSIGHT

ECONOMIC NEWS OF UTAH AND THE NATION

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# UTAH ECONOMIC OUTLOOK

## GETTING BETTER

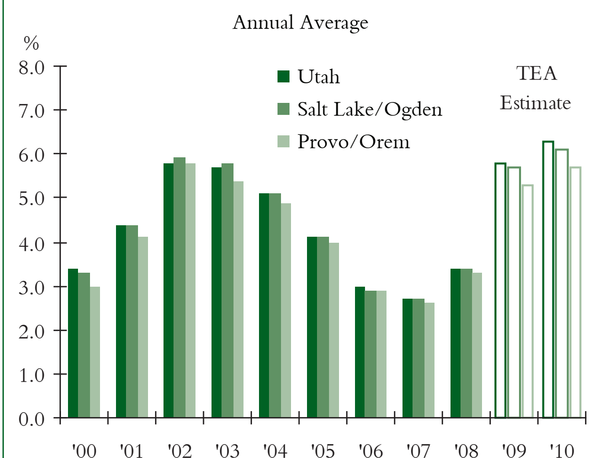
During 2010, the Utah economy is expected to continue a transition from its most painful recession since the Great Depression to modest economic growth. Such expected improvement will be in line with slow but steady improvement in a majority of the nation's states, including most of Utah's neighbors.

All 50 states have recorded employment declines during the most recent 12-month period. Note: Washington DC has added a modest number of new jobs as the expansion of government continues. Such declines have ranged from 1.5% or lesser declines in North Dakota, Alaska, and Montana to declines exceeding 6.0% in Nevada, Michigan, and Arizona.

Utah's job decline during the most recent 12-month period is estimated at 3.3%, placing the state in the "middle third" of the states. Utah's year-over-year decline two months prior was 4.5%.

The state's net loss of roughly 41,000 jobs during the past 12 months, while enormously painful, compares favorably to a loss of 57,000 jobs just two months ago. Such comparisons will continue to "improve" in coming months, with the state likely to see monthly employment gains by the summer.

### UTAH UNEMPLOYMENT RATES




## LOST JOBS

Utah job losses have been concentrated in construction and manufacturing, with five of every eight jobs lost from these sectors. Additional losses have primarily occurred in trade, transportation & utilities and leisure & hospitality. A net gain of 10,000 jobs was recorded in education & health care, government, and information sectors during the past year.

The Beehive State unemployment rate remains relatively low when compared to other states,

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although revised data during 2010 is likely to reduce the difference. The Utah Department of Workforce Services estimated a 6.5% jobless rate in the most recent month, as compared to the nation's 10.0% jobless rate in November. By comparison, the Utah jobless rate one year earlier was 3.5%.

## TWO PRECONDITIONS

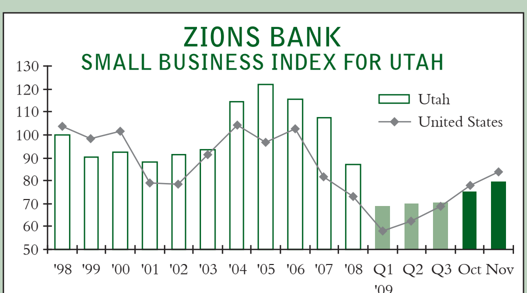
As noted previously, two events must take place before the Utah economy can begin to grow again. The first of these is a return of U.S. economic growth, which has been underway since last summer. The second event is a return of global economic growth, a development now seemingly underway.

## ECONOMIC DEVELOPMENT

More concrete signs of renewed economic growth during 2010 will heighten competition between states to attract jobs. Too much of the focus will be on enticing employers from higher-cost states to lower-cost states, with costly incentives a key part of the equation.

## ZIONS BANK SMALL BUSINESS INDEX FOR UTAH

The Index is a monthly numerical measure of the challenges and opportunities facing small business in the state of Utah. The Index measures business conditions from the viewpoint of the small business owner or manager. A higher number reflects a greater chance for small business success. The Index includes 14 different factors that influence Utah small business success, including the unemployment rate, retail sales, personal income, bankruptcies, and the strength of the regional economy. Each factor carries a different impact weighting.




The Index has improved in recent months, a result of stronger U.S. and global economic performance and a decline in the pace of Utah employment losses.

Rocky Mountain states will focus on California companies. Smaller states in the Northeast and the Midwest will focus on employers in New York, Massachusetts, Illinois, and Michigan. While any successes in enticing out-of-state employers make for good "front page" news, two other components of economic development too often get the short ends of the stick.

Economic development is a three-part process…attraction of outside existing or new employers, retention of existing employers, and expansion by existing employers. What can Utah's political and business leaders do to entice outside employers at reasonable costs? What can such leaders do to keep Utah employers in place, even as other states are focusing on Utah's best companies? And what can such leaders do to entice existing employers to expand their operations in Utah?

## MORTGAGE RATES

Thousands of Utah's struggling homeowners, like those in all states, can benefit from the most attractive 30-year fixed rate conventional mortgages in 40 years. National rates have averaged below 5.00% in recent weeks, in part tied to aggressive buying of mortgage-backed securities by the Federal Reserve.

Such mortgage rates may not be available later in the year as the Fed concludes its purchase program and, at some point, begins to sell such securities. Painful job losses and home price weakness in Utah and around the nation have reduced the number of people who can refinance a mortgage or finance a new home. Still, timing is critical to "lock in" such enormously attractive mortgage interest rates.

## UTAH IN 2010

Better days are ahead! More signs of Utah and regional economic rebound from the painful recession will be seen as 2010 matures.

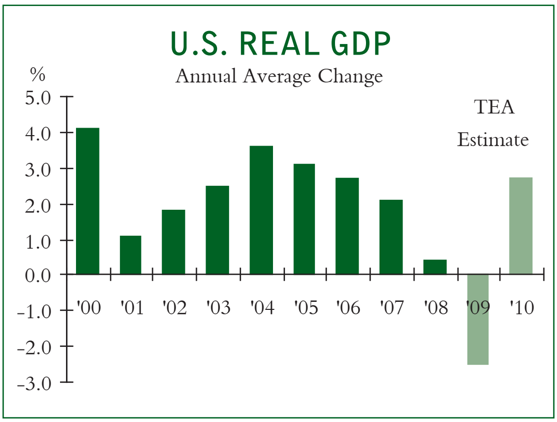
A return of U.S. and global economic growth provides the framework for renewed Utah economic growth later in 2010 and especially during 2011. The state's longer-term economic potential, tied to the nation's youngest workforce, solid population gains, moderate cost of doing business, business-friendly public sector and outstanding recreational opportunities ranks with any in the country.

# U.S. ECONOMIC OUTLOOK

## THE U.S. ECONOMY

…growth has returned

The American economy finally returned to "growth mode" during 2009's second half, fueled in part by extremely aggressive fiscal and monetary stimulus. Pent-up demand by consumers, combined with stronger global performance, also added to growth numbers. A return to positive U.S. economic growth does not imply that problems with commercial real estate, housing, and emotional financial markets are finally behind us, but it clearly helps.




The revised 2.8% inflation-adjusted annual *growth* pace during the third quarter was a major departure from the 6.4% real annual rate of *decline* during 2009's first quarter. A similar 2.6%-3.0% real growth pace seems likely in coming quarters.

The longest, deepest, most painful, and most pervasive recession since the Great Depression has been with us since December 2007. Good Riddance!

## BUDGET DEFICITS

…the record books

Financial realities tied to the Great Recession, combined with aggressive spending by both the Bush and Obama Administrations to stabilize the economy, contributed to a budget deficit of $1.4 trillion during fiscal year 2009, which ended last September 30, easily the largest on record. A similar deficit is likely this fiscal year as well.

Perhaps the greatest challenge to be addressed over the next 12-18 months is how to reduce estimated deficits averaging $1 trillion annually during the next eight years, which are simply unaffordable. The President will face rising opposition to his aggressive spending agenda by more and more members of his own party, many who fear having to defend such spending to voters in 2010 elections.

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## UNEMPLOYMENT

…more job pain

For the first time since the Great Depression, total job losses during a recession have wiped out total employment gains during the prior expansion. More than seven million people have lost jobs since the recession began two years ago, with millions more shifted to part-time employment. Even more job losses are expected during the next few months, followed by a mix of good and bad employment reports as 2010 matures.

The latest 10.0% U.S. jobless rate could approach 10.5% in coming months. Unfortunately, high jobless rates will be the norm during the next few years, with hundreds of thousands of jobs in construction and manufacturing lost for good.

## INFLATION

…a major debate

The Consumer Price Index (CPI) declined 0.2% during the most recent 12-month period. This followed a 0.1% rise during 2008, the smallest rise since 1954. Most forecasts expect the CPI to rise roughly 2.0% in both 2009 and 2010.

Where we go from there is the subject of intense debate. One vocal group of economists sees a Japanese-style deflation unfolding in coming years, tied to weak residential and commercial real estate values, strong productivity gains, major slack in labor markets, and nervous consumers. The other camp sees major inflation pressures resulting from highly aggressive monetary policy and massive budget deficits.

## THE FEDERAL RESERVE

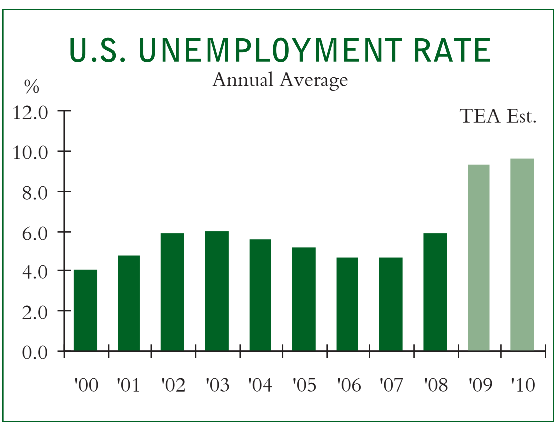
…how to exit

The Fed's critical federal funds rate, now at an all-time low of 0.00%-0.25% for a year, will likely remain at that level well into 2010. The Fed has enacted one program after another, known as "quantitative easing," to address the near-paralysis that, at times, plagued financial markets during the past 30 months. Whether the Fed will be able to effectively reverse such steps in coming quarters without economic disruption remains unclear.

## LONG-TERM INTEREST RATES

…time is now

NOW is a great time to refinance a mortgage or buy a new home or foreclosed property. Mortgage rates for conventional loans have been at or near 40-year lows in recent weeks. Mortgage finance for higher-priced homes remains spotty in too many communities. Unfortunately, one in four U.S. home owners are now "underwater" on their mortgages…owing more than the home is worth.




## THE GLOBAL ECONOMY

…a solid 2010?

The global economy returned to growth faster than expected during 2009's final few months, led by an Asian resurgence. Renewed growth follows the first global recession since just after World War II.

China's economic growth engine reaccelerated in recent months, following weaker performance 9-12 months ago. Powerful growth has been fueled by massive government spending and aggressive bank lending. China is making efforts to boost domestic demand within its economy, while lessening its dependence upon exports.

Japan returned to modest growth during the most recent quarter, following this nation's most painful recession since just after World War II. Even so, ongoing economic growth prospects are limited, tied to a massive public debt, an aging (and declining) population, and millions of disillusioned consumers.

India's economy has picked up speed in recent months after recession-induced slowing. Solid growth is likely over the next 12 months.

The European economy returned to modest growth during the most recent quarter, led by Germany. Even so, euro strength versus the dollar has led anxiety levels sky-high in export and tourism-focused sectors.

Russia continues to struggle with an overdependence upon energy and commodity prices. Various Middle Eastern nations are trying to limit the damage from Dubai's recent major debt challenges.

Most South American nations have seen more signs of recent economic improvement. Major oil finds off Brazil's coast could impact global energy dynamics in coming years.

Mexico remains mired in recession, tied to declining oil revenue and hits to its critical tourism sector. Aggressive pricing in resort communities should help limit the pain during 2010. The Canadian economy seems in transition to modest growth following recession. Even so, total employment is down 350,000 from its October 2008 peak.

## THE BOTTOM LINE?

The painful and lengthy U.S. recession has finally given way to a reasonable growth pace, although serious challenges remain. We also expect…unprecedented budget deficits in coming years…mixed employment news…modest inflation pressures…extremely low short-term and attractive long-term interest rates…and a steadily improving global economy.

# THE DOLLAR

One of the first critical tests a potential candidate to serve as Secretary of the U.S. Treasury must pass is the ability to say "the U.S. supports a strong dollar" with a straight face…no smirking…no snickering…no giggles. The current U.S. Treasury Secretary Tim Geithner serving under President Obama, as well as his predecessor Henry Paulson who served under George Bush, both have/had such an ability, as did most former occupants of this powerful position.

*"It is very important to the United States that we have a strong dollar,"* stated Geithner at a recent news conference in Singapore. That is well and good, and as it should be stated. At the same time, however, Obama and Geithner and others in positions of authority know that reasonable weakness of the U.S. dollar, at times, is a beneficial economic development, one that is useful in helping the economy escape the brutal winds of recession.

## THE BENEFITS...

- Current moderate weakness of the American dollar versus other major global currencies, particularly versus the euro and the yen, leads prices of U.S. exports to the world to be lower when compared against other currencies…hence greater U.S. exports and stronger U.S. manufacturing performance than if the dollar was stable or strengthening

- A weaker dollar pushes U.S. import prices higher, hence we as American consumers are more apt to buy U.S.-made equivalent products (if possible), again helping the U.S. economy

- A weaker dollar makes it more expensive for Americans to visit other parts of the world on vacation (remember vacations?)…hence we find it more attractive to vacation within the U.S.

- And a weaker U.S. dollar makes it more affordable for Europeans, Asians and many others to visit the U.S. on vacation, as well as take advantage of bargain-priced American real estate or perhaps even get Holiday shopping done at U.S. stores where bargains are aplenty

How 'bout the flipside? Given current weakness of the U.S. dollar, how do the Europeans, the Japanese, the Canadians, etc. feel about their "strong" currencies? They are scared to death.

A strong currency leads to just the opposite of those "benefits" noted above…a more difficult time selling, for example, German manufactured goods in the American market. It's also more expensive for Americans to visit foreign tourist destinations, hurting hotels, restaurants, tour companies, etc. in other nations.

This is NOT to say that a weak dollar is a positive development over a longer period of time. A weak dollar can effectively shift wealth between nations.

The U.S. dollar was stronger a year ago as global anxiety about another possible Depression was sky-high. Scared money at that time went in search of the world's strongest, most liquid (marketable) currency and securities…yes, the dollar and U.S. Treasury debt securities.

## TOO STRONG

We have short memories. A major concern in global currency markets just a decade ago was that the U.S. dollar was toooooo strong. U.S. manufacturers were screaming bloody murder as to how the strong dollar was limiting their ability to sell U.S.-produced goods around the world.

U.S. travel industry executives were complaining that the strong dollar was limiting the number of Europeans and Asians and South Americans, etc. who were willing to travel to "expensive" America. A global agreement at that time did help lead the dollar somewhat lower versus other major currencies.

The dollar is a commodity, like so many others. Sometimes up…and sometimes down.

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