

FRBSF WEEKLY LETTER

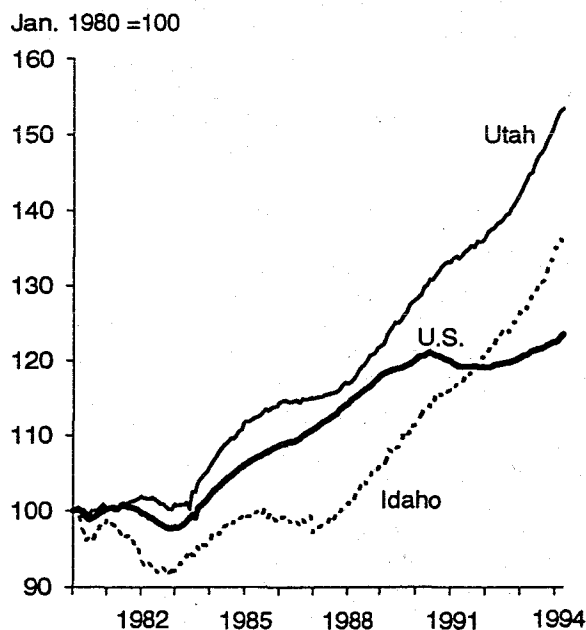
Number 94-23, June 24, 1994

An "Intermountain Miracle"?

During the past several years of expansion, recession, and recovery in the national economy, Idaho and Utah consistently have been among the fastest growing states in the nation.

Figure 1 shows that Utah and Idaho began to outpace the national economy by a significant margin around the middle of 1987, when the national expansion of the 1980s was still going full tilt. Utah and Idaho continued to see strong growth through the national recession of 1990-91, and the subsequent slow recovery. During that nearly seven-year period, the number of jobs rose 38 percent in Idaho and 33 percent in Utah, compared with job growth of only 10 percent nationally. Among the states, only Nevada posted stronger employment growth during this period (42 percent).

Figure 1
Payroll Employment: Jan. 1980–Apr. 1994



Why are these states' economies doing so well? This *Weekly Letter* examines the patterns of economic growth in Utah and Idaho, in an attempt to determine their sources of economic strength.

Industry mix?

When a region performs much better (or worse) than others, it is natural to wonder whether the difference in performance is due to an industry or group of industries that is especially important to the region. To determine whether industry mix factors contributed to strength in Utah and Idaho, we use a procedure called "shift-share." This technique disaggregates employment changes into three components: national growth, industry mix, and a residual. The national growth component is the growth that the region would have seen if its rate of growth were identical to the national economy's during the period. The industry mix component is calculated using *national* growth rates for each industry, weighted by the industry's share of *regional* employment. Thus, the industry mix component is a measure of the extent to which the region's industrial composition has helped or hurt it during the sample period. The residual is calculated by subtracting the national growth and industry mix components from total growth.

We did separate shift-share analyses for Utah and Idaho for the period of rapid growth from June 1987 through March 1994. The national growth component accounts for 26 percent of total growth in Idaho, and 30 percent in Utah. Industry mix accounts for less than 1 percent of total growth in both states. Therefore, the residual, which captures factors specific to the region, accounts for 70 to 75 percent of the employment growth seen in Utah and Idaho during the past seven years.

These results suggest that the vast majority of Utah and Idaho's exceptional growth during the past seven years cannot be explained by a fortuitous industry mix. These conclusions from the shift-share analysis are not surprising, since employment growth in Utah and Idaho has been much stronger than the national average across a wide range of industries.

However, it is possible that industry mix has been more important to economic success in Utah and Idaho than our shift-share analysis suggests, because available data do not allow us to separate high-technology activities from other

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manufacturing or service industries. In Utah, the period since 1987 has been characterized by strong growth in the software industry. WordPerfect alone currently employs more than 4,700 north of Salt Lake City. The area around Salt Lake City also is home to many other software firms, large and small, including Novell. In Idaho, electronic components manufacturing has become more important, as Micron Technologies has added workers at its Boise plant. Nevertheless, these firms account for a relatively small share of the total job growth in the region.

A population boom

The broad-based growth in employment appears to reflect a general shift in migration patterns toward Idaho and Utah. Since 1987, both Idaho and Utah have seen population grow at annual rates of 1.6 percent, well above the national average of 1.0 percent. And the rate of population growth was even faster in 1992, around 2½ percent. This shift suggests that many individuals and firms have chosen to relocate or expand operations in these two states.

Population growth is both a cause and a result of strength in employment. As new residents move to the area, they stimulate demand for a wide range of goods and services, from houses and furniture to banks and haircuts. The construction industry provides an especially dramatic example of strength associated with population growth. Since 1987, construction employment has more than doubled in Idaho, and increased by 75 percent in Utah.

Favorable economic climate

Many observers argue that the population boom is due at least in part to "lifestyle" characteristics such as recreational opportunities and low crime rates. In addition, anecdotal information suggests that the public sectors in Utah and Idaho are more accommodating to development and expansion plans than are their counterparts elsewhere. In fact, these states actively recruited new firms from California by selling their low costs and relatively lower social problems.

For manufacturers, employment has grown faster than the national average in both Utah and Idaho, even during the national downturn. One explanation for this stronger performance is low production costs. Hourly earnings in manufacturing generally have been lower than the U.S. average in both Utah and Idaho. Moreover, the proportion of working-age residents with high school diplomas is higher in both Utah and

Idaho than it is nationally, suggesting that the quality of the manufacturing work force is relatively high.

Why now?

The good business climate and low manufacturing costs are consistent with strong growth in Idaho and Utah, but by themselves they do not explain why the boom occurred when it did. After all, these factors also were present during difficult times in the mid-1980s. Several observations are consistent with the timing of the boom, including technological changes, relatively low housing costs, catch-up from earlier problems, and economic weakness in California.

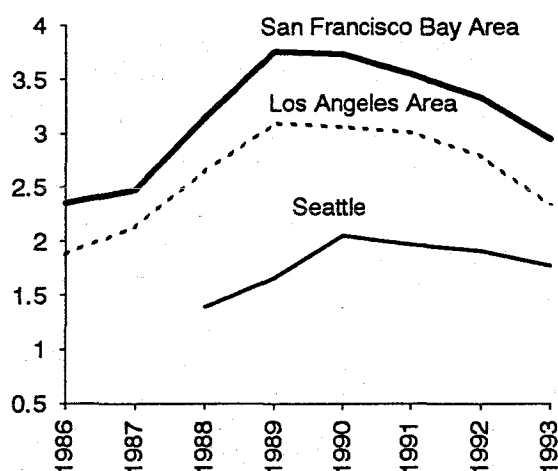
Technological changes. It is possible that the "lifestyle" and business climate factors had a greater impact starting in the late 1980s because of changes in communications technology and the relationship between value added and transportation costs. The region's growing business services industries—airline reservations, telemarketing, and credit card processing—depend on good communications, rather than on geographic proximity to customers. Moreover, in the past, high transportation costs limited economic growth in Utah and Idaho because they are far from the largest population centers. Now, some of the region's fastest growing industries are producing high value added products with low transportation costs, such as microchips and software.

Housing costs. Figure 2 shows median housing prices in San Francisco, Los Angeles, and Seattle, relative to the median price in Salt Lake City. (Boise's relative housing prices are not included, but they follow a pattern similar to Salt Lake City's.)

During the 1986 to 1989 period, the median housing price shot up by 67 percent in Los Angeles and 62 percent in San Francisco. At the same time, the median home price in Salt Lake City rose only 0.7 percent. By 1989, the median price reported in San Francisco was nearly four times the Salt Lake City median. Moreover, the relative housing price also was rising in Seattle.

For potential residents, the low cost of housing is a major attraction. Even with substantial increases in housing prices that have come with the boom, both Boise and Salt Lake City still have median home prices well below the national average. In Boise, where the median price has risen by about a third since 1990, it is still around 15 percent lower than the national average. In Salt Lake City, the median price has risen 22 percent since 1990, but is still 20 percent below the national average.

Figure 2
Median Home Price Relative
to Salt Lake City Median



One reason for the low housing costs in Idaho and Utah is that land costs are low. Both Utah and Idaho simply have lots of room to expand. Even after the rapid population growth of recent years, Idaho has an average of only 13 people per square mile, and Utah has only 22. By way of comparison, the 48 contiguous states have a population density of 106 people per square mile, and California's population density is 200 per square mile.

Catching up. Another factor holding down housing and land costs before 1987 was the economic difficulties the two states shared in the early and mid-1980s. In Idaho, the economy stagnated through much of the early 1980s, and saw a modest decline from 1985 through the first half of 1987, when the national expansion was going full steam. Agriculture was especially hard hit, and the state lost population as residents left in search of better opportunities elsewhere.

Utah did not see the decline that Idaho did, but the economy stagnated from the middle of 1985 through the middle of 1987. During that period, construction activity tumbled, and the rate of growth in trade and financial services slowed to a crawl.

Some of the acceleration in growth that Utah and Idaho saw during the late 1980s represented "catching up" to where they would have been if they had not experienced such problems during the middle part of the decade.

Troubles in California. Another factor that probably contributed to the rapid growth in Utah and Idaho is the dramatic shift in California's migration patterns. As recently as 1991, more people moved to California from other states than moved from California. In 1992, however, 95,000 more people moved out of California than moved in from other states. One reason for this change in migration patterns is that, by 1990, housing prices in California were extremely high relative to housing prices in other areas.

In addition, the change in migration pattern is due at least in part to economic troubles in California. California's economy suffered through a long and deep recession, resulting in job losses in a wide range of industries. Rising land and housing costs, which had characterized the late 1980s, made the region a less attractive place in which to live or operate a business, and budget problems at all levels of government reduced the perceived quality of public services. At the same time, strong economies elsewhere in the West—including Idaho and Utah—made relocation to those areas especially attractive.

Consequently, 72,000 people moved to Idaho from other states in 1992, and 22,000 left. Of the 72,000 in-migrants, 56,000 came from other western states. Similarly, of 90,000 domestic migrants to Utah, 70,000 came from the West. Data from California's Department of Motor Vehicles suggest that a significant proportion of these migrants came from California. Washington, another large western state that has suffered through hardships in recent years, also probably contributed to the trend.

Conclusions

The current booms in Idaho and Utah can be attributed to a large number of factors. The timing of the boom coincides with the sharp run-up in relative housing costs in other western cities during the late 1980s, and with the severe California recession. These events have highlighted the relatively low costs of Idaho and Utah for potential migrants. Moreover, as technological changes give firms more choices about where to locate, firms have become more inclined to take advantage of the attractive business climates and favorable environmental amenities that Utah and Idaho have to offer.

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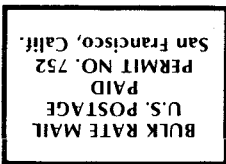
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The *FRBSF Weekly Letter* appears on an abbreviated schedule in June, July, August, and December.