



Prosperity in Utah: **What's it going to take?**

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FUTURE WORK IN ADVANCED ECONOMIES

At the present time, decision makers in both the public and private sectors are dealing with a tremendous amount of uncertainty. In addition to uncertainty, organizations are operating in a fast-paced global business climate. There will be both risks and opportunities as organizations move to adapt to new realities. While the state of Utah can take pride in recent accomplishments and accolades, there can be no room for complacency in such a dynamic environment.

One area where complacency cannot be allowed is in relation to Utah's workforce. It is important to consider what types of jobs the state will be producing and what skills such jobs will require. Many changes in the economic landscape are associated with rapid advancements in technology. Globalization coupled with technology enables organizations to execute work requiring little skill in the most cost effective locations.¹ This trend impacts developed economies such as the United States and will influence future job growth in profound ways. As low-skilled work is carried out in cheaper locations, developed economies continue to produce goods and services requiring a higher degree of skills. In short, a surplus of low-skilled workers and a shortage of high-skilled workers is developing in advanced economies. This development will also impact Utah.

According to the McKinsey Global Institute, by 2020, the surplus of non-college educated workers in advanced economies could reach 35 million workers. In other words, there will be more workers than low-skilled positions available. At the same time, such economies could face a shortage of workers with a college education in the range of 16 to 18 million workers.² In the United States alone, a surplus of non-college educated workers could reach 6 million by 2020; however, a shortage of college graduates may reach 1.5 million workers over the same period.¹

The bottom line is this: an evolving global economy will create a shortage of highly-skilled workers. Although current economic conditions create a general perception of employees chasing employers, the opposite will become an increasingly common reality as employers struggle to find and retain skilled workers. Due to this shortage, areas that are able to provide a highly-educated workforce will attract new employers and investment to their communities.

CURRENT STATE OF AFFAIRS

Recent reports are providing some evidence that there is already a shortage of high-skilled workers in Utah, negatively affecting the development of local businesses. Richard Nelson, President of the Utah Technology Council (UTC), was quoted expressing his concerns when he said: "Talent is our issue. We can't find enough talent to fuel the growth of these 7,000 (tech) companies. We need to be better preparing our students..."³ Similar frustration was expressed by Bryce Williams, CEO of Extend Health, in a CNBC report when he said: "We like being in Utah but at a certain point you max out on the total pool of people that you can tap. So, we're going to have to look at other states."⁴ While these reports do not provide a definitive look at the state of Utah's workforce, they should not be ignored. At the very

¹ McKinsey Global Institute, Help wanted: The future of work in advanced economies, March 2012

² McKinsey Global Institute, The world at work: Jobs, pay, and skills for 3.5 billion people, June 2012

³ KSL, Students not acquiring skills needed by tech companies in Utah, August 3, 2012

⁴ CNBC, Jobs Go Unfilled Despite High Unemployment, March 2011

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least, the impact of such negative press must be considered. Furthermore, negative press regarding Utah's ability to provide a workforce for the future is not confined to local media and businesses.

Recently, CNBC rolled out its annual report of "America's Top States for Business 2012." Utah's recognition as the second best state for business was widely publicized. However, additional investigation reveals the state's education ranking was its weakest score in the categories assessed. Utah was ranked 45th in country for education.

Even more discouraging, indicators that measure learning are headed in the wrong direction. From 1996 to 2009, in the critical areas of math and reading, the state lost ground. During that period of time, Utah slipped from 13th to 28th and 15th to 23rd in 8th grade math and reading, respectively.⁵

CONSEQUENCES

If the state does not adequately position its workforce for a modern economy, costly imbalances will develop. The primary imbalance would be a shortage of high-skilled workers and a surplus of low-skilled labor.

What would be the effect of such an imbalance? To answer that question, think of this issue in simple market terms: when supply outpaces demand, prices (or in this case, wages) go down. The opposite is also true. With highly skilled workers in short-supply, wages (price) go up. Such developments can affect social cohesion and also place additional burdens on social safety nets.

Particularly worrisome is the effect of a difficult economic environment on young people. On a national level, there are 6.7 million youth (ages 16-24) who are not in school and do not participate in the labor force. If there is no resolution to this situation, the aggregate cost of this group, taking into account factors such as lost tax revenues and increased burden on social safety nets, will reach into the trillions of dollars over its lifetime.⁶

FUTURE TRENDS

The downside risks of not strategically developing Utah's workforce are clear. However, while it is important for policymakers to understand what can go wrong, it is equally important to understand what can go right. For example, if future trends are recognized and the state is prepared, Utah can disproportionately benefit from such trends.

One example of where there will be future opportunities is in manufacturing. Increasing costs for products manufactured in China will begin driving some jobs back to the U.S. where advantages such as low energy costs make America a more attractive place to produce goods. As a result, 10 to 30 percent of goods imported from China today could end up being produced in the U.S. by 2020.⁷

Within five years, several industries will begin reaching a point where shifting manufacturing back to the U.S. will make more sense than maintaining production in China. Production of electronics, appliances,

⁵ Utah Foundation, School Testing Results: How Utah Compares to States With Similar Demographics, September 2010

⁶ Clive R. Belfield, Henry M. Levin, & Rachel Rosen, The Economic Value of Opportunity Youth, January 2012

⁷ Boston Consulting Group Perspectives, U.S. Manufacturing Nears the Tipping Point, March 22, 2012

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machinery, fabricated metals, plastics, and transportation goods are all poised to make a return to the U.S. As a result an estimated 600,000 to 1,000,000 manufacturing jobs could be created as production returns to the United States. Also important to consider, for every single job in manufacturing brought back to America, an additional 2.5 to 3.5 jobs will be created in other sectors.⁷

As firms begin to relocate the production of goods to the U.S., Utah can aggressively pursue relocation projects. While incentives are helpful for corporate recruiting, perhaps the most crucial selling point for any metro area is the quality of their workforce.

PUBLIC-PRIVATE PARTNERSHIPS

One way Utah can strategically position its workforce and facilitate an increased level of economic development is through public-private partnerships, particularly in education. Prominent firms such as G.E., Boeing, Microsoft and Google are all partnering with schools.⁸ As these types of organizations become involved in places of learning, three important things can occur: first, curriculum can be optimized to meet the “real world” needs of the end-user (business);¹ second, companies often fund projects and research, allowing stressed budgets to go farther; and the third benefit is experience for students. In addition to experiences, students gain access to a professional network. In short, outcomes after graduation are better for both students and employers.⁹

There are examples of such programs being successfully implemented in the United States, but Germany is especially effective in employing this type of public-private partnership. Almost two-thirds of workers in Germany received training at learning institutions where public-private partnerships exist to train workers.⁹

Employers in Utah are willing to partner in such ventures. In a recent interview, Richard Nelson, President of the Utah Technology Council, spoke of the tech industry’s desire to get more involved in classrooms. Going even further, the UTC formally recognized the superintendent of the Canyons School District for its advanced degree program, which seeks to better equip students with skills needed for jobs or higher-education.³

Outside of direct involvement in education, there are other ways private organizations can employ resources to improve local economies. Such opportunities should be sought out by local policymakers where a need exists and mutually beneficial outcomes are possible. For example, the private equity firm Blackstone committed millions of dollars to LaunchPad, a program started at the University of Miami four years ago, which supports entrepreneurial students with advice and mentors.¹⁰ Recently, it was announced that a Goldman Sachs initiative (10,000 Small Businesses), will be investing \$15 million in Utah over the next five years. The financial commitment by the firm will provide capital to local businesses and fund mentoring programs.¹¹

⁸ Bloomberg, Companies Shape Curricula in New University Partnerships, June 10, 2012

⁹ Wall Street Journal, Germany’s New Export: Jobs Training, June 14, 2012

¹⁰ Blackstone Press Release, Blackstone Foundation Joins White House Entrepreneurship Initiative, January 31, 2011

¹¹ Salt Lake Tribune, Goldman Sachs pledges millions to help small businesses in Utah, July 17, 2012

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INNOVATIVE SOLUTIONS

At a time when Utah's unique demographics are stressing public education budgets, unconventional approaches that will free up resources must be examined. New resources can then be reinvested in economic development initiatives. Such efforts would expand far beyond education and economic development policy. In a general sense, the state should look at whether or not its operations are executed in the most efficient manner possible. A few general points that deserve consideration include:

- Are best practices being employed to ensure an efficient delivery of services?
- Does the state own assets that do not have strategic importance for the operation of government?
- Can functions in government be outsourced to private industry?
- Are there practices from the private sector that can be implemented in government?

In essence, the question should be: is government delivering its services and conducting business in the most up-to-date and efficient manner possible?

CONCLUSION

Utah is, generally speaking, a well-managed state with considerable natural resources and favorable demographics. However, the state must focus on developing its human capital to fully exploit opportunities of the future. If nothing is done in this regard, opportunities will be lost and human potential not realized. Downside risks to Utah's future will increase if education is not prioritized at the highest level. However, the opposite is also true.

If education and strategically positioning Utah's workforce for the future is consistently and aggressively addressed, Utah will be poised to take advantage of an evolving and complex global economy. If Utah's workforce is prepared for the future, organizations in need of skilled-workers will be attracted to the state. When businesses choose to expand or relocate in Utah, it translates into new jobs and money that will be invested in communities around the state. In summary, the key to economic development in the state over the long-term is education.

Utah's history is full of can-do optimism and examples of exceptional collaboration. The Beehive State can and should lead the nation when it comes to innovative solutions to enable continued economic growth.