

Western Economic Developments



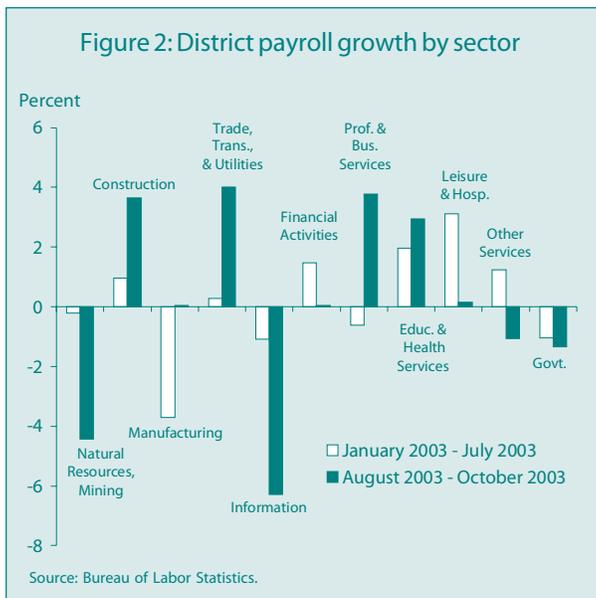
Economy on the upswing in the Twelfth District



After facing a stagnant job market and lackluster demand earlier this year, the theme for the Twelfth Federal Reserve District's economy in recent months is solid growth. Recent data show improvements on many fronts, including the labor market, consumer spending, commercial real estate, and the information technology (IT) manufacturing and service industries.

District employers begin to expand

After a long hiatus, employers in all District states and in some major sectors have begun to add employees in recent months. Figure 1 shows payroll job growth for the District and the rest of the U.S. in 2003. The District and most District states follow the national pattern, with flat to negative job growth during the first seven months of the year, followed by job gains in August, September, and October. Overall, District employment has done slightly better than the rest of the U.S.



DECEMBER 2003

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Within the District, several states—Arizona, Hawaii, Idaho, Nevada, and Utah—have been adding jobs throughout the year. With the exception of Hawaii, the pace of job growth in these states has accelerated of late. The remaining states—Alaska, California, Oregon, and Washington—lost jobs earlier in the year, but have been adding jobs since August.

Recent job additions in the District were broad-based, occurring in several major sectors (Figure 2). Gains in construction, trade, transportation, and utilities, and professional and business services were especially strong. New home construction and the start of a number of major infrastructure projects in the District boosted construction payrolls. Professional and business services employment rose with demand for temporary support services and a pickup in business investment in advertising, marketing, and IT support. Even manufacturers added jobs in recent months, after nearly two years of consistent reductions. Reflecting ongoing weakness in the budgets of many District states, government employment has fallen so far this year.

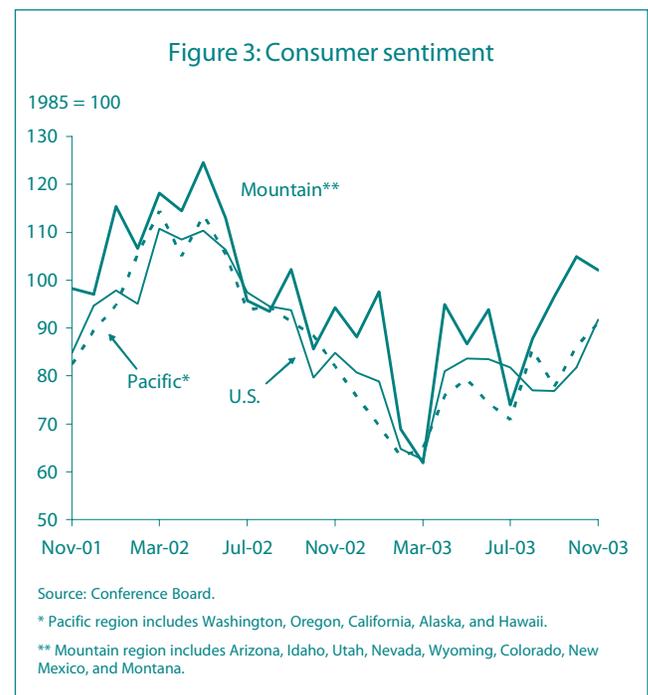
Separate state data on initial claims for unemployment insurance support the positive turnaround in District job markets. The four-week moving average of initial claims in California and the rest of the District has been falling since early September. In most states, claims are near their ten-year average.

Information from District contacts suggests that the pickup in employment is not transitory but indicative of a more fundamental change in business conditions. Contacts note that they will soon have to add workers to meet production requirements if demand continues to grow. That said, they plan to expand cautiously, increasing payrolls gradually as the economy gains momentum.

Consumers gain confidence and spend

Following the national trend, consumer sentiment rose in much of the West in November (Figure 3). More confident consumers hit the stores in force over the Thanksgiving weekend, boosting optimism among retailers. District contacts reported that nominal sales gains in the West generally followed the U.S. pattern. As in the nation, the best-selling items among District retailers reportedly were DVD players, DVDs, CDs, and toys. Apparel also sold relatively well, as did home furnishings and home decorations.

In contrast to last year, when the “hot” or heavily discounted items were the only consistent sellers, contacts reported solid sales of the full range of products they carry.



Several noted that when a “hot” or discounted item sold out customers purchased a less popular or nondiscounted substitute. This is good news for retailers since several noted that early best-sellers and heavily discounted items were one-time offerings (e.g., the \$29 DVD player) and are not likely to be restocked.

Retailers noted a conscious decision to manage their inventory differently this year. Last year retailers were left with considerable excess inventory that they had to work off by offering deep discounts. This year’s tactic seems to be to order less and limit unplanned discounting. Improved warehousing and distribution networks reportedly are also helping to keep retail inventories lean. The cautious attitude among retailers has tempered seasonal hiring. With better inventory management and more online sales, retailers have been able to satisfy customer demand without dramatic increases in staffing.

Consumers also have been spending on travel. The early start to the ski season in many states has helped this trend. In addition, international travelers appear to be returning to Hawaii after being kept away by anxiety over the war in Iraq and the fear of SARS. In April and May, there were around 45% fewer international travelers going to the Aloha State than in 2000. However, by October, the gap had narrowed to 18%. Domestic travelers to Hawaii are currently running a bit below last year’s level, though domestic travel activity was particularly strong during the summer months.

Manufacturing on the mend

The latest economic downturn was largely focused in manufacturing, so it is especially good news that a weaker dollar and stronger domestic business investment have boosted orders for a wide range of goods manufactured in the District. Consistent with the positive anecdotes from District contacts are results from the Arizona Business Conditions survey produced by Arizona State University, which show many firms reporting for the past three months that conditions are improving.

Lumber and wood product makers report a pickup in orders associated with home building and improved export demand. Machine tool makers report strong growth in orders and shipments associated with the restarting of several state and federal government infrastructure projects. In the IT sector, contacts report increased sales and orders and rising output. Separate data for California on hours worked in the IT sector show an increase in the computer and peripherals, semiconductors, and electronics sectors. Finally, the pace of job losses in IT manufacturing has slowed (see High-tech Watch, page 5).

The latest data from the semiconductor industry have been positive, especially for firms based in the District. For example, worldwide shipments of microprocessors have increased sharply this year; Intel, the world's largest producer of microprocessors, has two primary microprocessor plants in the District. Intel also recently announced that revenues in the fourth quarter will show an increase over the third. This has improved the picture for firms that produce the

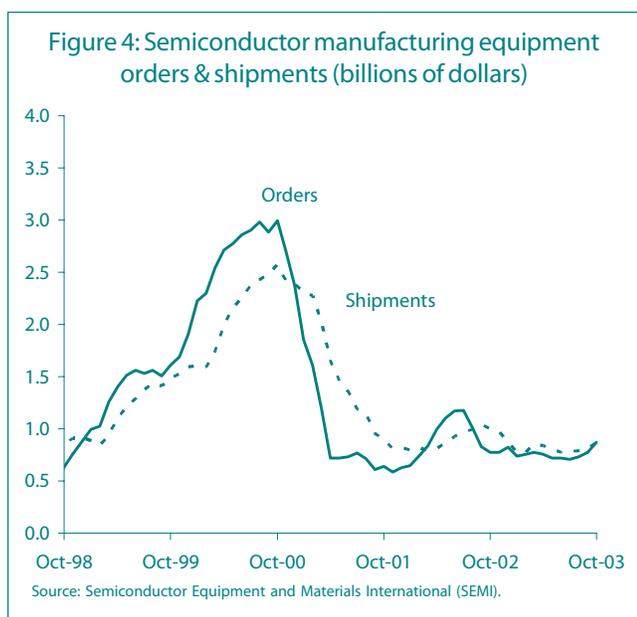
equipment used by semiconductor makers, most of which are based in the District, such as Applied Materials and KLA-Tencor in Silicon Valley. Until recently, orders and shipments for semiconductor equipment remained at low levels following the IT bust. In October, new orders for North American semiconductor equipment makers showed a noticeable increase, and orders are now 12% higher than a year ago (Figure 4). Additionally, orders had been running below shipments for a considerable time; in October, orders and shipments reached parity, implying that the backlog of orders has stabilized.

Business services, real estate reflect recovery

The recovery is showing through to other parts of the economy as well, including business services and real estate. Improved business investment in IT products reportedly has boosted demand for IT support services. While a number of contacts have raised concerns that IT support functions will be moved offshore, the recent decision by Dell computer to move its corporate technical support from Bangalore, India, to Idaho suggests that companies may find value in domestic support services.

Housing. District housing markets remained highly active in recent months. Data through September show a surge in home sales in many District states as buyers try to beat anticipated interest rate increases. District contacts report that this trend continued in recent months. Data from the Office of Federal Housing Enterprise Oversight (OFHEO) show nominal house price appreciation remains relatively robust in most areas, although the pace has slowed from earlier in the year. Rising home sales and solid price appreciation continue to spur growth in residential permits and construction throughout the District (see State Highlights).

Commercial real estate. Improved business conditions are beginning to show through to commercial real estate. Vacancies and lease rates have leveled off, and contacts report that businesses have begun to renew rather than relinquish leases on existing spaces. The latest data show that although vacancy rates remain high in many areas, they appear to have plateaued or have started inching down in some of the hardest-hit areas. For instance, after two years of steady increases, vacancy rates ticked down in San Francisco (Figure 5); in part, this may reflect a relative adjustment in the commercial rental rates for San Francisco compared to the Bay Area as a whole. Vacancy rates in the Phoenix area continued to move down, reflecting the above-average performance of the Arizona economy. However, vacancy rates in Port-





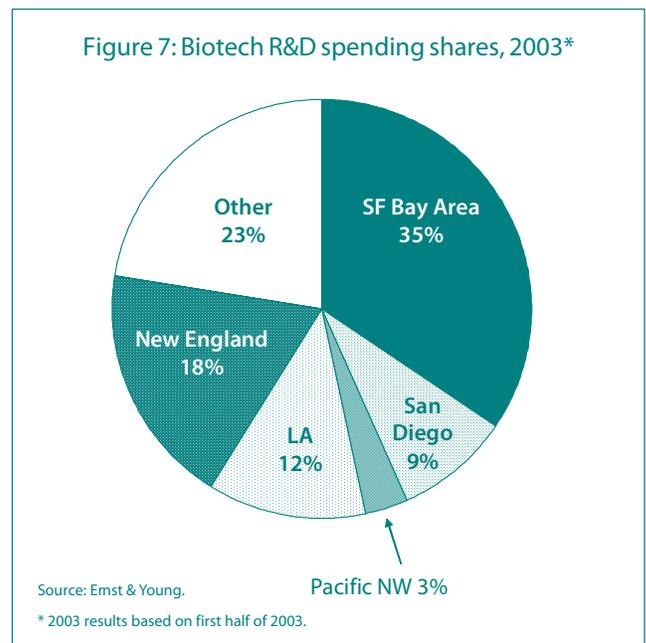
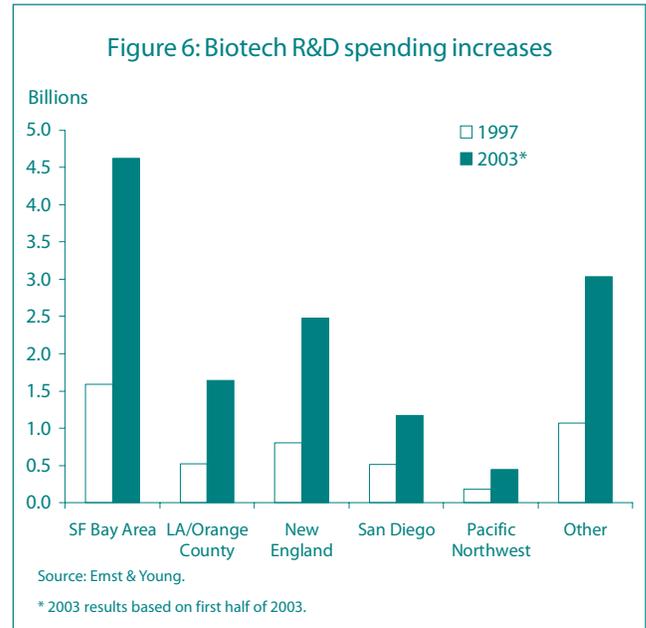
land and Salt Lake City, two of the cities with the highest vacancy rates in the District, have yet to improve. Vacancy rates in the Los Angeles/Long Beach area have improved slightly after drifting up slowly for nearly two years.

Biotechnology boosts R&D spending

According to figures from Ernst & Young, the Twelfth District is home to many of the nation's 318 publicly traded biotech companies: the Bay Area is home to 62; San Diego, 28; the Pacific Northwest, 17; and Los Angeles/Orange County, 13. There are several reasons why there is such interest in biotech companies. First, between 1989 and 2002, revenues for these companies increased at an average annual rate of 16%. Second, biotech companies undertake a lot of innovative effort. Based on results from the first half of 2003, publicly traded biotech companies will likely spend over \$13 billion on research and development (R&D) this year.

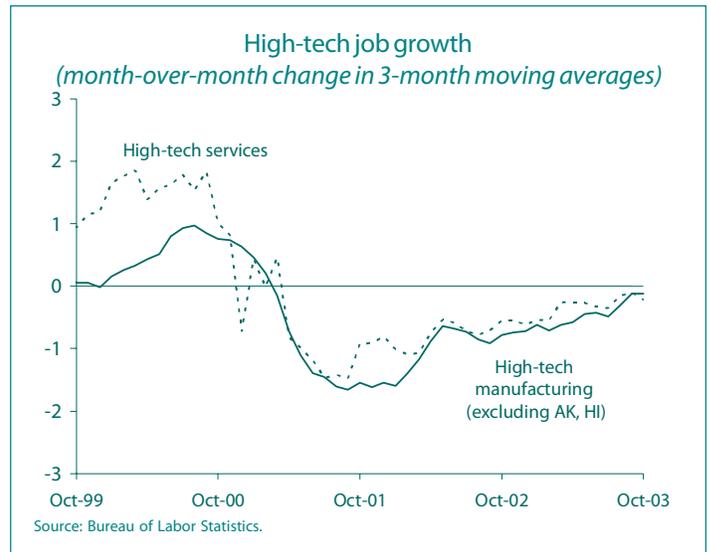
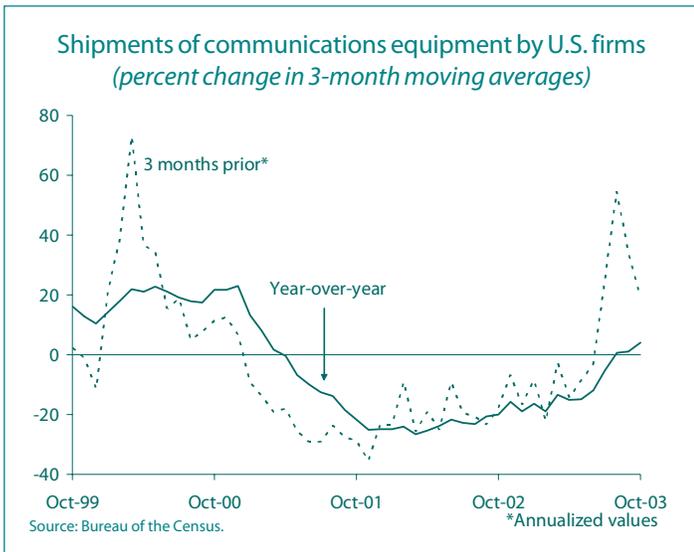
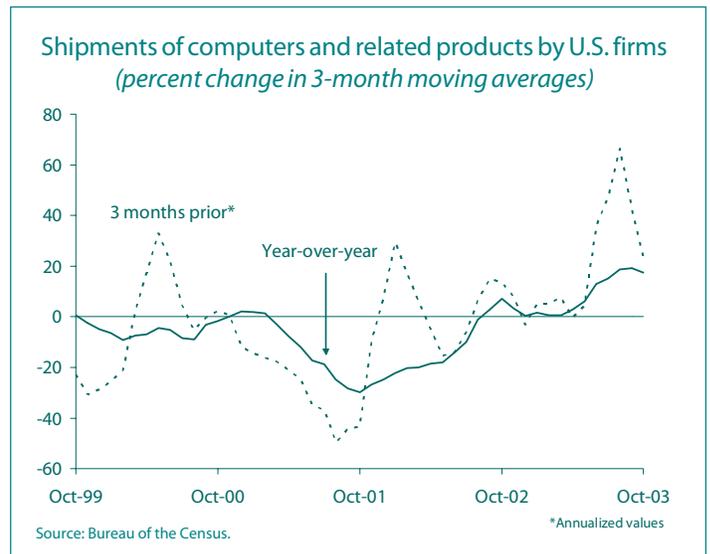
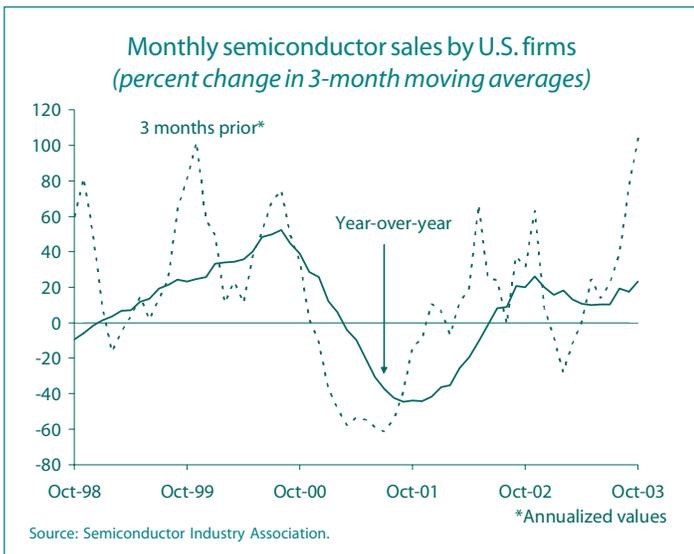
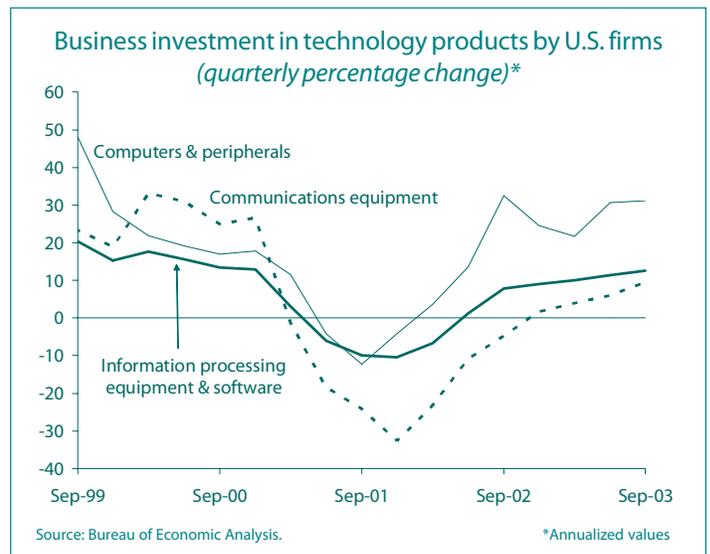
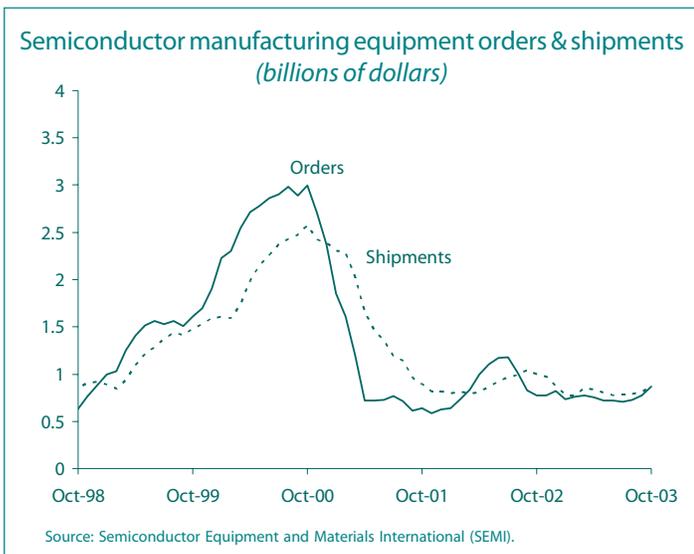
The District is home to a majority of this innovative effort, and has been for some time. Further, between 1997 and 2003, R&D conducted by publicly traded biotech companies increased dramatically, with an overall increase of 186%. The Bay Area's share of this spending is a little over one-third. The District's second largest R&D center for biotech is the Los Angeles area (boosted noticeably by Amgen). Meanwhile, San Diego area companies have reduced their

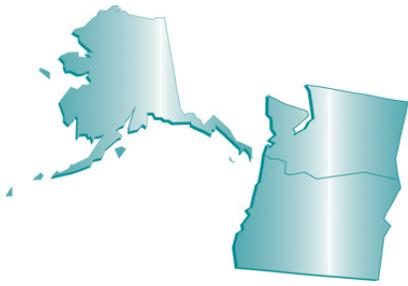
R&D share from 11% in 1997 to 9% in 2003. Taken together, the District's biotech centers make up more than half of the R&D activity for the country as a whole (Figure 7).



Contributions by Mary Daly, Mark Doms, Fred Furlong, Lily Hsueh, and Ashley Maurier, Financial and Regional Research, Economic Research Department, FRBSF.

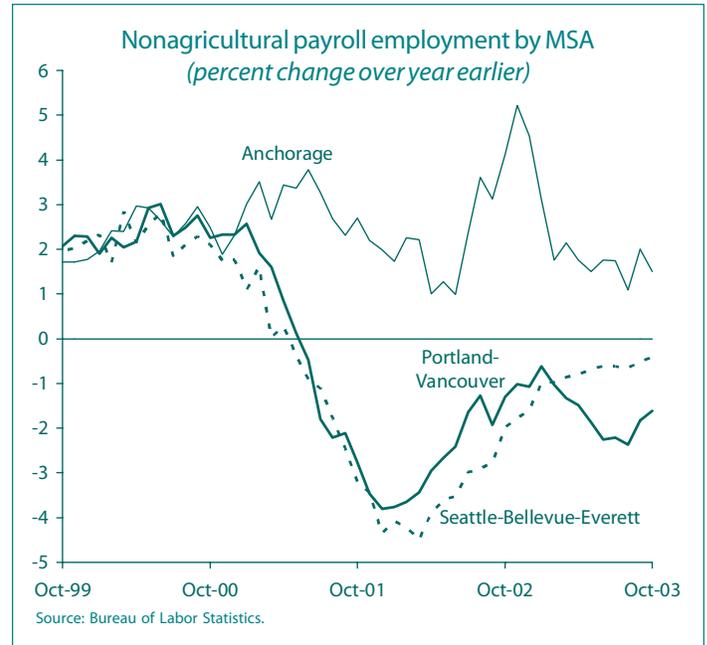
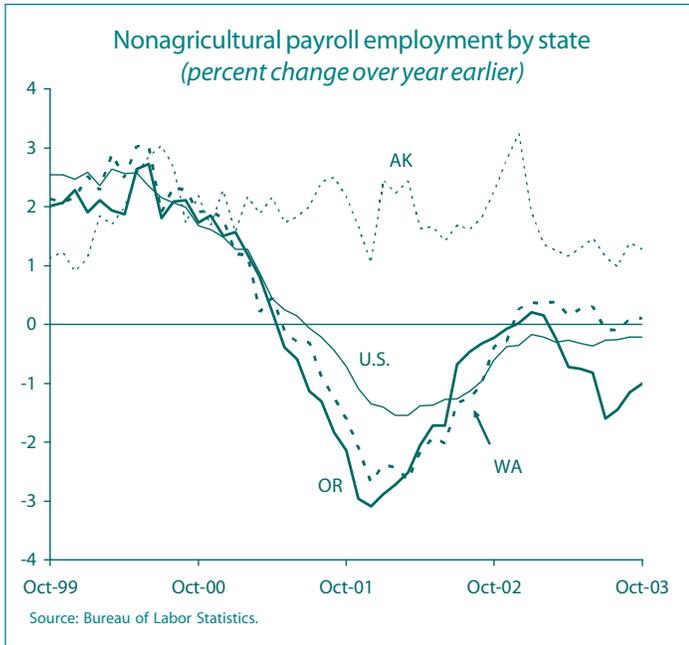
High-tech Watch





STATE HIGHLIGHTS

Alaska • Oregon • Washington



Employment by Industry

	Total Employed (thousands)	Percent Change			
		Oct-03	1-mo. ^a	3-mo. ^a	YTD ^a 12-mo.
Alaska					
Total	301.6	3.2	3.8	0.8	1.3
Natural Resources & Mining	9.8	0.0	-14.8	-3.6	-8.4
Construction	16.2	-19.8	-7.1	0.0	1.3
Manufacturing	11.7	64.6	34.2	1.5	4.1
Trade, Transportation & Utilities	61.3	-3.8	4.0	0.0	0.3
Information	7.2	6.4	5.9	0.2	0.0
Financial Activities	14.2	11.4	12.9	5.0	3.7
Professional & Business Svcs.	24.4	-4.8	3.3	6.8	3.0
Educational & Health Svcs.	32.8	7.6	9.0	7.8	6.8
Leisure & Hospitality	29.4	-15.0	-6.5	0.0	0.7
Other Services	12.6	9.5	-3.1	1.3	0.8
Government	82.4	-5.6	-1.4	-0.1	0.2
Oregon					
Total	1,558.2	-1.5	0.7	-0.8	-1.0
Natural Resources & Mining	9.1	-58.9	-12.2	-10.7	-8.1
Construction	75.9	-9.0	-5.6	-7.1	-5.0
Manufacturing	198.3	18.6	11.0	-0.6	-1.5
Trade, Transportation & Utilities	309.2	-7.4	-1.7	-0.7	-1.8
Information	35.0	-23.7	5.7	-2.9	-4.5
Financial Activities	93.0	8.1	5.8	-2.2	1.3
Professional & Business Svcs.	175.0	14.0	1.2	2.7	1.1
Educational & Health Svcs.	188.4	-2.5	-4.7	2.6	2.1
Leisure & Hospitality	150.1	4.9	3.8	0.1	-0.1
Other Services	57.4	0.6	-4.0	-1.4	-0.5
Government	266.5	-14.5	-0.6	-2.8	-2.5

	Total Employed (thousands)	Percent Change			
		Oct-03	1-mo. ^a	3-mo. ^a	YTD ^a 12-mo.
Washington					
Total	2,670.4	4.7	1.8	0.2	0.1
Natural Resources & Mining	9.5	13.5	4.3	5.3	0.0
Construction	159.8	5.4	6.0	2.9	2.6
Manufacturing	261.8	-7.5	-5.2	-6.1	-6.3
Trade, Transportation & Utilities	509.6	4.6	2.0	-1.4	-0.4
Information	93.1	1.3	0.0	0.4	1.0
Financial Activities	149.3	5.8	3.6	0.6	1.8
Professional & Business Svcs.	295.5	3.7	3.7	2.6	1.3
Educational & Health Svcs.	315.8	2.7	1.0	2.2	2.8
Leisure & Hospitality	248.0	-2.9	2.0	1.4	-0.4
Other Services	98.4	-12.5	-14.4	1.2	0.2
Government	529.6	21.1	6.4	1.0	0.7

Unemployment Rates (%)

	Oct-03	Sep-03	Aug-03	Jul-03	Oct-02
Alaska	7.3	7.8	7.9	7.9	8.2
Oregon	7.6	8.0	8.0	8.2	7.2
Washington	7.0	7.6	7.6	7.5	7.1
U.S.	6.0	6.1	6.1	6.2	5.8

Note: Unemployment rates are from the household employment survey; all other data are for nonagricultural payroll employment. All data are seasonally adjusted.

^a Annualized.

Source: Bureau of Labor Statistics.

Residential permits—October 2003

	3-mo. average number	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Alaska	284.3	-13.2	3.4
Oregon	2,118.2	-1.9	16.5
Washington	3,604.3	2.8	10.5

Source: Bureau of the Census.

Nonresidential construction awards—October 2003

	3-mo. average \$ millions	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Alaska	35.4	-33.0	-7.0
Oregon	171.4	19.0	-3.3
Washington	266.3	-16.3	-4.5

^a Underlying data are seasonally adjusted moving averages.

Source: F.W. Dodge.

Metro area office vacancy rates



Source: Torto Wheaton Research.

Sales of existing homes (percent change over year earlier)



Source: National Association of Realtors.

Metro area office gross rents (percent change over year earlier)



Source: Torto Wheaton Research.

Home price index (percent change over year earlier)



Source: Office of Federal Housing Enterprise Oversight.

Export update

	\$ billions		Percent Change**		
	2002	Sep-03*	Sep-01	Sep-02	Sep-03
Alaska	2.5	2.1	-5.9	1.7	6.2
Oregon	9.3	7.2	-19.6	2.3	11.5
Washington	33.7	23.7	3.9	-0.3	-5.0

* Year-to-date values.

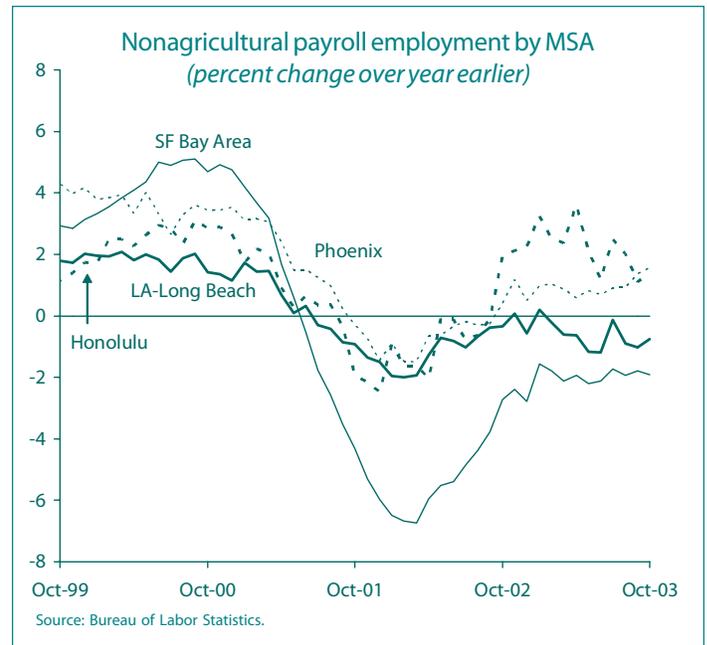
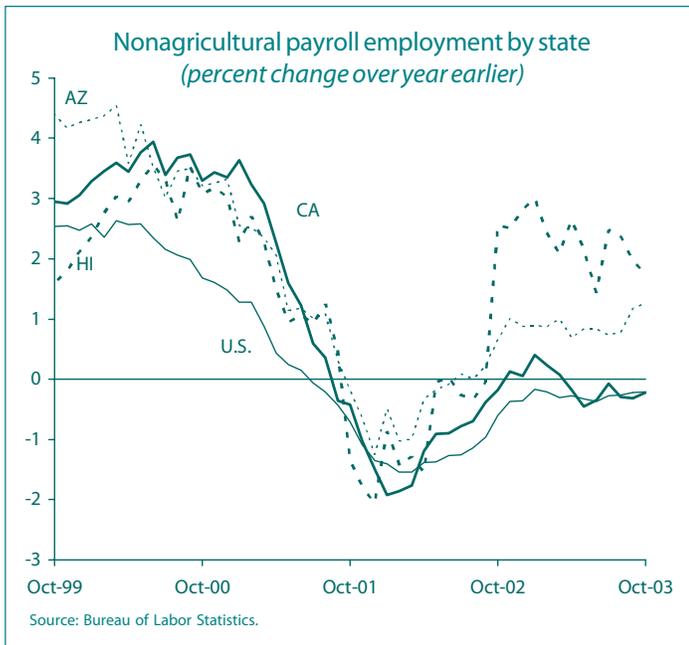
** Percent change from past 12 months relative to prior 12 months.

Source: Census FT900 Supplement, Origin of Movement Series.



STATE HIGHLIGHTS

Arizona • California • Hawaii



Employment by Industry

	Total Employed (thousands)	Percent Change			
		Oct-03	1-mo. ^a	3-mo. ^a	YTD ^a 12-mo.
Arizona					
Total	2,300.1	2.4	2.3	1.9	1.3
Natural Resources & Mining	8.4	-1.2	-2.4	-3.2	-5.7
Construction	178.9	0.0	3.7	3.2	3.4
Manufacturing	173.4	-4.7	-3.6	-3.6	-4.0
Trade, Transportation & Utilities	449.4	4.2	1.9	2.0	1.1
Information	49.1	8.0	4.4	-2.5	-3.5
Financial Activities	153.3	0.0	-4.8	1.7	0.4
Professional & Business Svcs.	323.9	6.5	3.9	5.2	1.4
Educational & Health Svcs.	252.3	12.2	11.0	6.0	5.8
Leisure & Hospitality	232.6	8.6	0.5	1.8	1.3
Other Services	89.7	7.6	7.8	4.7	4.5
Government	391.1	2.5	4.1	0.2	0.7
Hawaii					
Total	572.1	5.8	1.4	2.1	1.7
Natural Resources, Mining & Construction	27.3	11.7	0.6	4.4	4.4
Manufacturing	14.8	-1.3	-4.2	-0.7	-0.6
Trade, Transportation & Utilities	109.4	-1.1	1.1	6.8	1.1
Information	11.2	2.8	-15.3	-1.7	-2.6
Financial Activities	28.3	-2.5	-4.0	1.7	1.1
Professional & Business Svcs.	69.3	6.4	1.8	1.5	1.9
Educational & Health Svcs.	65.6	0.0	4.4	4.4	2.7
Leisure & Hospitality	100.4	-2.4	2.4	2.2	1.9
Other Services	24.3	6.5	-1.3	2.0	1.3
Government	120.5	22.2	1.7	1.0	0.8

	Total Employed (thousands)	Percent Change			
		Oct-03	1-mo. ^a	3-mo. ^a	YTD ^a 12-mo.
California					
Total	14,459.6	2.9	0.4	0.0	-0.2
Natural Resources & Mining	23.4	10.8	1.7	3.7	-0.4
Construction	793.6	12.2	3.8	1.5	2.8
Manufacturing	1,575.2	-0.5	-0.6	-2.4	-2.7
Trade, Transportation & Utilities	2,761.4	14.4	5.1	1.9	0.6
Information	464.2	-4.3	-9.1	-3.4	-3.9
Financial Activities	864.6	-0.8	-0.3	0.7	0.9
Professional & Business Svcs.	2,117.5	5.2	2.7	-1.0	-0.8
Educational & Health Svcs.	1,529.9	-0.6	1.3	1.3	1.2
Leisure & Hospitality	1,413.0	2.7	-0.1	2.6	1.7
Other Services	501.5	0.2	-0.3	-0.3	-0.8
Government	2,415.3	-5.9	-4.8	-2.2	-1.6

Unemployment Rates (%)

	Oct-03	Sep-03	Aug-03	Jul-03	Oct-02
Arizona	5.0	5.6	6.0	6.1	6.1
Hawaii	4.2	4.2	4.3	4.0	3.9
California	6.6	6.5	6.7	6.7	6.8
U.S.	6.0	6.1	6.1	6.2	5.8

Note: Unemployment rates are from the household employment survey; all other data are for nonagricultural payroll employment. All data are seasonally adjusted.

Source: Bureau of Labor Statistics.

^a Annualized.

Residential permits—October 2003

	3-mo. average number	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Arizona	6,558.5	9.8	14.0
California	16,604.1	10.6	20.5
Hawaii	400.1	-13.7	24.4

Source: Bureau of the Census.

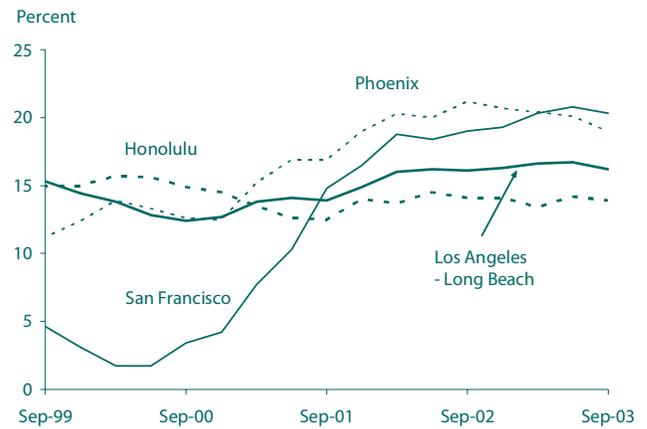
Nonresidential construction awards—October 2003

	3-mo. average \$ millions	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Arizona	630.3	174.3	48.1
California	1,198.3	-14.2	13.1
Hawaii	43.0	46.0	25.1

^a Underlying data are seasonally adjusted moving averages.

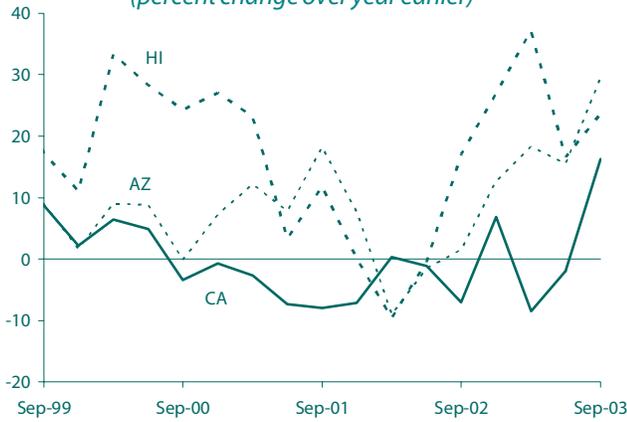
Source: F.W. Dodge.

Metro area office vacancy rates



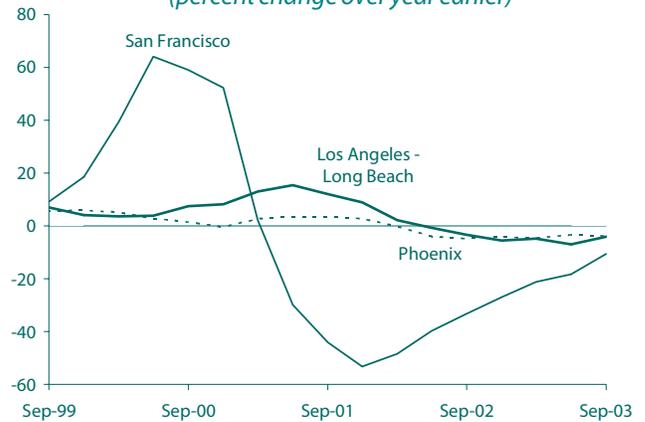
Source: Torto Wheaton Research.

Sales of existing homes (percent change over year earlier)



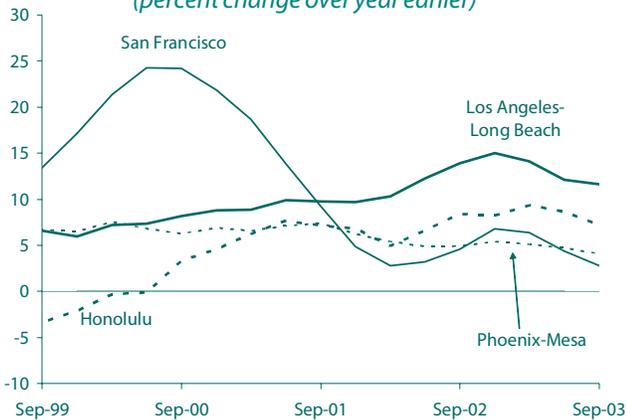
Source: National Association of Realtors.

Metro area office gross rents (percent change over year earlier)



Source: Torto Wheaton Research.

Home price index (percent change over year earlier)



Source: Office of Federal Housing Enterprise Oversight.

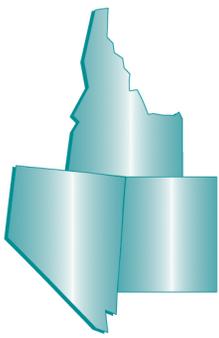
Export update

	\$ billions		Percent Change**		
	2002	Sep-03*	Sep-01	Sep-02	Sep-03
Arizona	10.5	8.5	-5.8	-13.4	6.9
California	77.5	56.2	1.9	-19.5	-4.2
Hawaii	0.5	0.2	4.8	31.0	-7.6

* Year-to-date values.

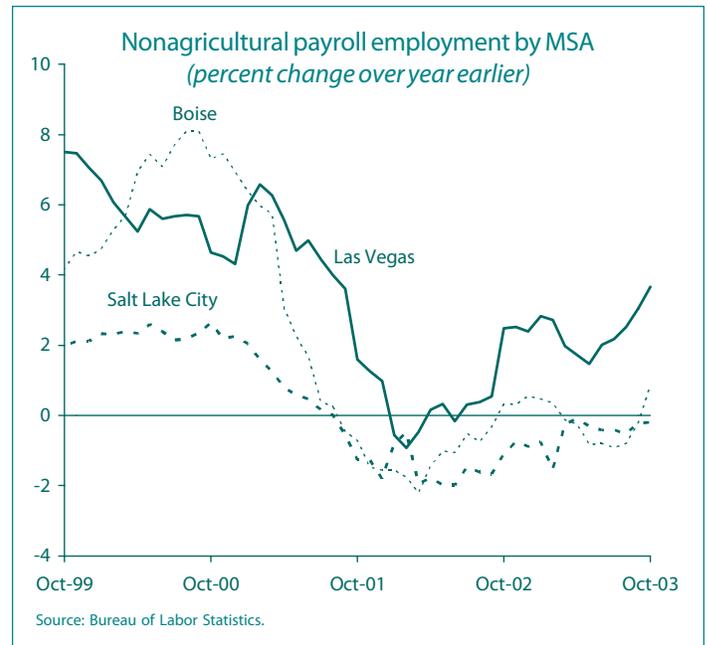
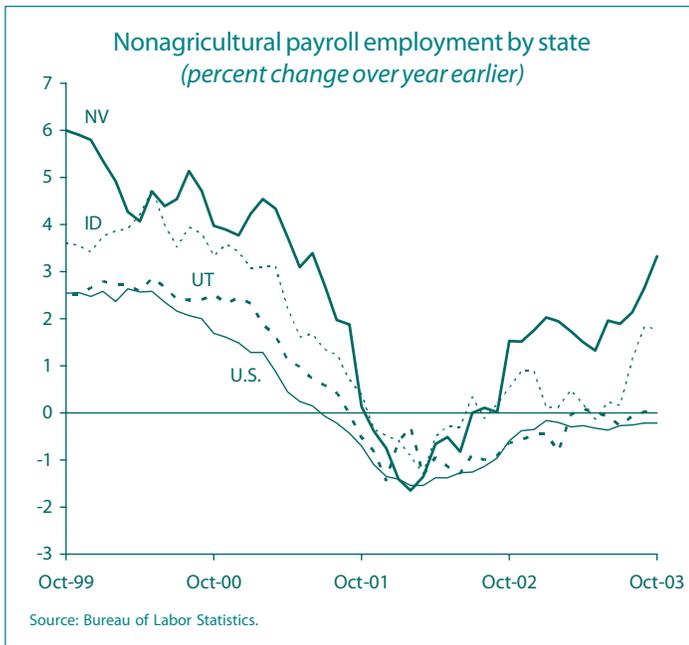
** Percent change from past 12 months relative to prior 12 months.

Source: Census FT900 Supplement, Origin of Movement Series.



STATE HIGHLIGHTS

Idaho • Nevada • Utah



Employment by Industry

	Total Employed (thousands)	Percent Change				
		Oct-03	1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
Idaho						
Total	579.3	0.2	6.8	2.1	1.8	
Natural Resources & Mining	3.4	0.0	-10.9	-12.5	-19.0	
Construction	37.4	-6.2	0.0	2.3	3.9	
Manufacturing	61.4	-16.0	6.8	-4.1	-5.1	
Trade, Transportation & Utilities	118.2	-2.0	8.9	1.9	1.9	
Information	9.2	-7.7	0.6	0.9	1.1	
Financial Activities	27.5	3.2	10.0	11.5	7.1	
Professional & Business Svcs.	75.2	8.3	19.7	9.9	7.7	
Educational & Health Svcs.	61.1	1.8	-0.9	0.8	1.2	
Leisure & Hospitality	54.2	-6.4	-8.4	-0.4	1.1	
Other Services	17.9	-5.6	3.3	2.1	0.6	
Government	113.4	17.3	10.5	1.5	1.7	
Nevada						
Total	1,092.2	8.4	6.2	4.1	3.3	
Natural Resources & Mining	8.6	0.0	-4.5	0.0	-1.1	
Construction	100.4	16.9	19.1	10.8	8.1	
Manufacturing	43.6	13.9	7.7	2.6	2.1	
Trade, Transportation & Utilities	197.7	17.2	13.1	1.0	2.9	
Information	15.7	-19.9	-13.1	-4.0	-8.7	
Financial Activities	57.7	11.0	-5.4	3.4	4.0	
Professional & Business Svcs.	119.9	8.4	8.4	6.0	4.7	
Educational & Health Svcs.	77.0	5.5	7.1	6.6	6.2	
Leisure & Hospitality	304.8	2.0	1.5	4.6	2.5	
Other Services	30.8	16.7	5.5	0.8	1.7	
Government	136.1	7.3	4.2	2.2	2.3	

	Total Employed (thousands)	Percent Change				
		Oct-03	1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
Utah						
Total	1,070.8	1.2	0.8	0.5	0.0	
Natural Resources & Mining	6.8	7.3	-3.7	-3.2	-4.1	
Construction	66.3	5.6	-8.0	-2.6	-2.1	
Manufacturing	111.4	0.0	0.0	-0.6	-1.4	
Trade, Transportation & Utilities	213.8	-0.6	-1.5	0.6	-0.4	
Information	30.5	4.4	-6.7	-1.1	0.5	
Financial Activities	64.5	2.3	1.4	3.0	2.2	
Professional & Business Svcs.	132.2	11.6	12.7	-0.3	-1.2	
Educational & Health Svcs.	120.1	17.5	24.9	2.1	2.3	
Leisure & Hospitality	97.4	-12.6	-6.7	-2.1	0.1	
Other Services	32.9	12.2	7.9	2.4	1.6	
Government	197.4	-2.4	-0.6	0.9	0.9	

Unemployment Rates (%)

	Oct-03	Sep-03	Aug-03	Jul-03	Oct-02
Idaho	5.3	5.4	5.6	5.6	5.8
Nevada	5.0	5.3	5.2	5.4	4.9
Utah	4.7	5.1	5.1	5.2	6.1
U.S.	6.0	6.1	6.1	6.2	5.8

Note: Unemployment rates are from the household employment survey; all other data are for nonagricultural payroll employment. All data are seasonally adjusted.

Source: Bureau of Labor Statistics.

^a Annualized.

Residential permits—October 2003

	3-mo. average number	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Idaho	1,342.0	14.8	32.2
Nevada	3,989.7	3.2	29.3
Utah	2,008.2	25.2	16.8

Source: Bureau of the Census.

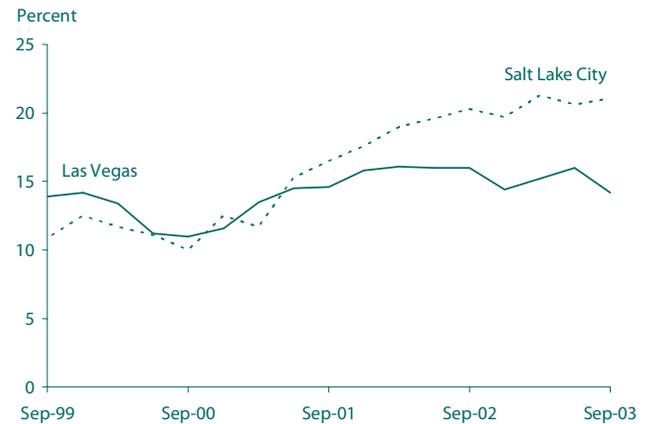
Nonresidential construction awards—October 2003

	3-mo. average \$ millions	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Idaho	63.8	48.6	12.5
Nevada	118.8	-31.5	-0.3
Utah	70.4	-46.8	-25.8

^a Underlying data are seasonally adjusted moving averages.

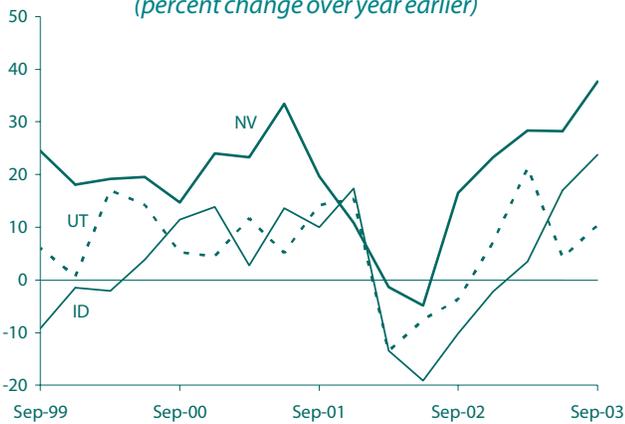
Source: F.W. Dodge.

Metro area office vacancy rates



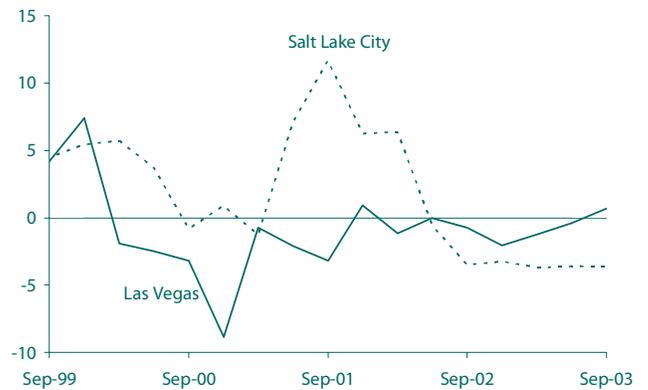
Source: Torto Wheaton Research.

Sales of existing homes (percent change over year earlier)



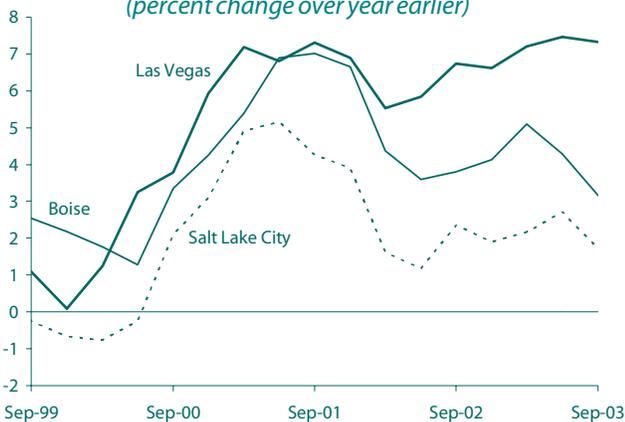
Source: National Association of Realtors.

Metro area office gross rents (percent change over year earlier)



Source: Torto Wheaton Research.

Home price index (percent change over year earlier)



Source: Office of Federal Housing Enterprise Oversight.

Export update

	\$ billions		Percent Change**		
	2002	Sep-03*	Sep-01	Sep-02	Sep-03
Idaho	1.6	1.4	-11.8	-39.0	18.9
Nevada	0.9	1.2	22.9	-6.5	37.9
Utah	4.3	3.0	1.0	24.5	6.3

* Year-to-date values.

** Percent change from past 12 months relative to prior 12 months.

Source: Census FT900 Supplement, Origin of Movement Series.

2003 Issues

Mailing Dates

March

April 3

June

July 1

September

September 23

December

December 16

Monthly updates to statistical charts are available online at
<http://www.frbsf.org/publications/economics/wed/index.html>

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