

WESTERN ECONOMIC DEVELOPMENTS

September 1999

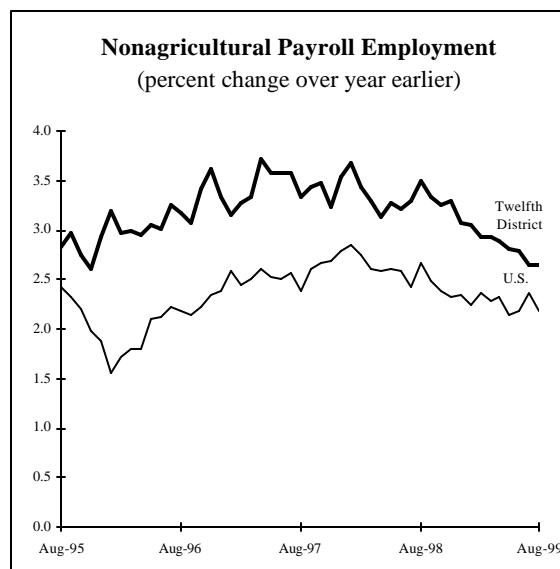
Executive Summary

- *The Twelfth District's economic expansion gained momentum in recent months. Following moderate growth in the first quarter, total nonfarm employment grew by 2.8 percent on an annual basis between March and August.*
- *Strong employment growth this year has reduced the District unemployment rate to 4.9 percent in August, the lowest rate in over 20 years. The tight labor market is reflected in an upward trend in compensation costs.*
- *California's economy has grown at a strong pace this year. Growth has been most rapid in the construction industry, where employment and output gains have outpaced their performance in other District states.*
- *Among other states, growth picked up recently in Washington, Nevada, and Hawaii and remained rapid in Arizona, but it has become more modest in Idaho, Oregon, and Alaska.*
- *High-tech manufacturing remains the primary weak spot for the District economy, with substantial ongoing job losses in computer-related and aerospace manufacturing. However, in the key states of California and Washington, this weakness has been offset by strong growth in high-tech services.*

District Update

Following slight slowing early in the year, the Twelfth District's economic expansion gained momentum in recent months. Total nonfarm payroll employment grew 2 percent on an annual basis during the first quarter; for the five months from March to August, the growth rate increased to 2.8 percent. Moreover, after remaining nearly constant in 1998, the District unemployment rate resumed its decline this year. The latest figure was 4.9 percent, which represents the lowest unemployment rate in the Twelfth District since the U.S. Bureau of Labor Statistics (BLS) began publishing state-level unemployment rates in 1978.

California's powerful expansion is the key engine driving the District economy, with employment in the state growing by 3 percent on an annual basis since the first quarter. The state unemployment rate has fallen substantially this year; as of August it was 5.1 percent, 0.8 percentage point below its December 1998 level. Job gains have been most rapid in the construction sector. California's expansion has drawn residents and business activity from other states, including those in the District; as



a result, residential and nonresidential construction activity have expanded more this year in California than in other District states.

Among other states, the Washington state economy has exhibited substantial strength recently, despite extensive job losses in the state's aircraft manufacturing industry. Nevada's expansion has accelerated, spurred by further development in the gaming industry throughout the state; Arizona has continued its rapid population-based expansion; and even the Hawaiian economy has shown signs of renewed life this year. In contrast, growth has become more modest in Idaho, Oregon, and Alaska.

The manufacturing sector, especially high tech, remains the primary weak spot for the District economy. In California, a substantial number of computer manufacturing jobs in the San Francisco Bay Area and aerospace jobs in Southern California have been lost since early 1998. Washington state has lost nearly 15,000 aircraft manufacturing

jobs this year alone, with more losses on the way as Boeing proceeds with planned output reductions and job cuts. Since the manufacturing employment peak in May 1998, the District has lost nearly 40,000 manufacturing jobs. Underlying these problems is weak international demand, which also has plagued the resource-extraction industries (gold and oil) and the agricultural sector in several District states. Despite these concerns, employment and income growth remains strong overall, due in large part to rapid expansion in the services sector.

Financial conditions

Performance measures for Twelfth District commercial banks were stellar in the second quarter, but thrift profitability was off slightly. Annualized second-quarter return on average assets (ROAA) for all banks headquartered in the District was 1.6 percent and return on equity (ROE) was 16.4 percent. These are the highest rates of return in three years. In contrast, ROAA for large thrifts headquartered in the District (those with assets over \$1 billion) was 1 percent; although respectable, this is down slightly from the previous quarter and the year prior.

Large and small banks headquartered in California showed lower profit rates than banks in the District as a whole. Performance of large California banks remained solid; their ROAA of 1.3 percent and ROE of 13.9 percent represent improvement over the previous quarter and the previous year. In contrast, second-quarter profitability for small banks in California was weak, with ROAA of 0.9 percent and ROE of 8.4 percent; these matched the first quarter figures but fell below those from the year prior. A decline in aggregate net interest income largely was responsible for the falloff from a year ago, but shrinking fee income also contributed.

Capitalization and loan quality generally were good throughout the District, but past-due ratios in some categories have been climbing. The aggregate capital ratio for District banks of all sizes was strong in the second quarter, and the aggregate past-due ratio for total loans was below the national average. In addition, the District's past-due ratio for total loans has been declining due to improvements in the quality of real estate and consumer loans. In contrast, past-due ratios are up for agricultural loans and, to a lesser degree, for business

District Employment by Industry

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Aug-99	Jul-99	Aug-98		
Total	23,811.6	23,747.9	23,201.1	3.3	2.6
Mining	70.1	71.1	77.8	-15.6	-9.9
Construction	1,285.2	1,283.7	1,205.2	1.4	6.6
Manufacturing	3,052.7	3,050.0	3,088.1	1.1	-1.1
Transportation	1,252.4	1,247.1	1,209.5	5.2	3.5
Trade	5,509.7	5,486.5	5,405.6	5.2	1.9
F.I.R.E.	1,376.9	1,372.3	1,348.0	4.1	2.1
Services	7,351.9	7,328.9	7,059.5	3.8	4.1
Government	3,912.7	3,908.3	3,807.4	1.4	2.8

Seasonally adjusted payroll employment data

District Employment by State

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Aug-99	Jul-99	Aug-98		
Alaska	277.3	276.7	275.5	2.6	0.7
Arizona	2,163.1	2,162.2	2,091.0	0.5	3.4
California	14,025.5	13,977.1	13,648.4	4.2	2.8
Hawaii	532.0	529.4	531.2	6.1	0.2
Idaho	530.9	531.9	523.2	-2.2	1.5
Nevada	979.0	969.9	931.9	11.9	5.1
Oregon	1,587.3	1,589.9	1,559.5	-1.9	1.8
Utah	1,054.0	1,053.0	1,027.9	1.1	2.5
Washington	2,662.5	2,657.8	2,612.5	2.1	1.9
District	23,811.6	23,747.9	23,201.1	3.3	2.6
U.S.	128,905.0	128,781.0	126,170.0	1.2	2.2

Seasonally adjusted payroll employment data

loans in the District, as well as in the nation as a whole. For California banks overall, the second quarter's average past-due ratio for total loans was lower than for the District as a whole, but similar trends in loan quality were evident. The past-due ratio for total loans at small banks in California was higher than that for all banks in California and the District but lower than that for all banks in the nation as a whole. A recent decline in the past-due ratio for real estate loans made by small California banks is particularly notable.

Prospects for the District expansion

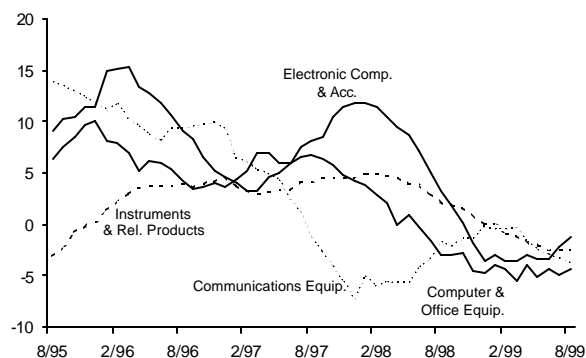
The Twelfth District's economic expansion has moderated a bit this year. Measured employment growth has been slower than in past years, with weakness in the durable manufacturing sector (especially high-tech and aerospace) being the main source of restraint. The slowdown has been very minor, however, with the manufacturing slowdown offset by substantial strength in high-tech services and other industries. Labor markets in most areas of the District are tight, and construction activity in the District remains at high levels.

The high-tech and aerospace sectors

The high-tech manufacturing and aerospace sectors had been a key source of rapid job, output, and income gains during the Twelfth District's prolonged expansion. During 1998, however, expansion in both sectors was held down by weak international demand conditions. These conditions have become less severe this year but have not been reversed.

Figure 1 shows employment growth in the four industry subsectors that constitute the bulk of high-tech manufacturing in California. Following the sharp slowdown in 1998, makers of computers and office equipment have continued to shed jobs this year. Although a turnaround is evident for makers of electronic components and accessories, including semiconductors—employment grew by about 2 percent on an annual basis during the first 8 months of 1999—as of August 1999 employment in this sector was 4,500 jobs below its February 1998 peak of about 162,000 jobs. Similar trends are evident in these industries in Oregon and Washington.

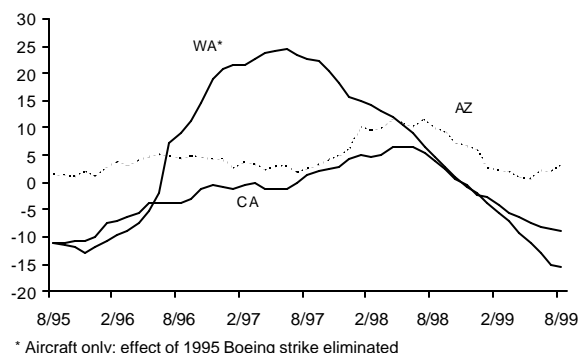
Figure 1
High-Tech Employment Growth in California
(Year-over-Year Percent Change)



In other high-tech manufacturing segments, employment in the communications equipment manufacturing sector has been declining since mid-1997, and, following solid growth in 1996–97, employment among makers of instruments and related products has been falling since mid-1998 (Figure 1). Although the communications equipment industry has benefited from rapidly growing demand for Internet connectivity, rapid productivity gains in this sector have served to increase output substantially without corresponding rapid increases in employment. Within the instruments sector, a key subsector, search and navigation equipment, has been hampered by weak conditions in the aerospace industry.

The recent decline in District aerospace manufacturing activity is reflected in the employment data (Figure 2). The aircraft and parts sector in Washington has been shedding jobs since early 1998, and the decline in California's aerospace sector resumed in mid-1998. Underlying the losses in Washington state and California are cutbacks in production at Boeing Aircraft (which acquired McDonnell-Douglas and its extensive operations in Southern California in late 1997). Since February 1998, when Boeing employment stood at 238,600, attrition and layoffs have eliminated 34,800 jobs (as of September 1999); the targeted cutback is 53,000 jobs by the end of 2000. Most of the cuts so far have been in Washington state, where Boeing employment has been reduced by nearly 20 percent since the early 1998 peak. The company has been cutting jobs in California at a slower pace thus far: 4,000 jobs, about 11 percent of Boeing employment in the

Figure 2
Aerospace Manufacturing Employment Growth in
California, Washington, and Arizona
 (Year-over-Year Percent Change)



state, have been eliminated. However, this pace accelerated recently, with 1,100 jobs eliminated in September alone. In contrast, employment in Arizona's aerospace sector has grown by 4 percent over the past twelve months, although the number of new jobs created there is small compared to losses in Southern California and Washington.

Weak export performance was a key factor underlying District manufacturing cutbacks in 1998. Export performance has improved a bit this year in California. For the first half of 1999, state exports declined more slowly than they did in 1998. The state's East Asian export performance stabilized in the first half of this year, with a slight increase over last year's depressed level. This was offset largely by a drop in exports to Western Europe. By commodity group the most noticeable improvement was in the industrial and electrical machinery sectors, which consist largely of computers and semiconductors.

In Washington state, exports were about the same during the first seven months of this year as they were during the same period last year, following sharp growth during the past several years (including 1998). The state's exports primarily are Boeing aircraft, for which foreign orders have declined. Exports from District states other than California and Washington are up about 10 percent for the first seven months of this year, but combined they contribute only about 15 percent of District exports. Overall, in the near term exports of manufactured

goods will not provide the strong impetus for growth in the District that they provided prior to 1998.

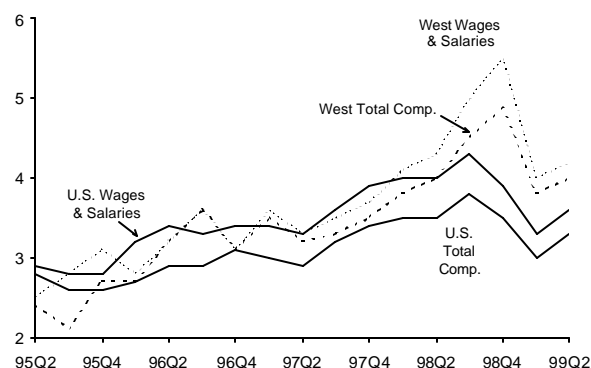
In contrast to high-tech manufacturing, computer-related services remain a bright spot for the District economy. Torrid expansion in the computer and data processing services industry has been offsetting job losses in high-tech manufacturing and keeping the Silicon Valley and Seattle-area economies healthy. In California, employment in this sector has been growing in excess of 10 percent annually in recent years, and the growth rate of this industry in Washington state has fallen below 10 percent but remains rapid. As of the first quarter of 1999, this sector accounted for 267,000 jobs in California, which exceeds the number of jobs in the state's computer-related manufacturing sectors (computer and office equipment, electronic components and accessories). Moreover, wages in the computer services sector are very high, and substantial wealth creation is associated with the investment value of firms in this sector.

Labor market developments

The labor market has tightened further on net this year in the District, although the degree of labor market tightness varies across states in the District. The unemployment rate in the District outside of California had been tracking the national rate but has been a bit above it since late 1997, with a slight upward drift (0.2 percentage point) since the beginning of this year. The unemployment rate in California has been well above the national rate throughout the decade. With the exception of 1998, however, when the state unemployment rate was largely unchanged, this gap has been falling substantially. During the first eight months of this year, the California unemployment rate fell by 0.8 percentage point; as of August, it was 5.1 percent, 0.9 percentage point above the national rate. For the District as a whole, the unemployment rate fell by half a point during the same period; the rate was 4.9 percent in August, the first reading below 5 percent since the BLS began publishing state unemployment rates in 1978.

Employment cost inflation in the western part of the U.S. indicates substantial wage pressures associated with low unemployment in the District (Figure 3). Since the middle of 1998, the rate of increase in

Figure 3
ECI Change for U.S. & West Region
 (Year-over-Year Percent Change)



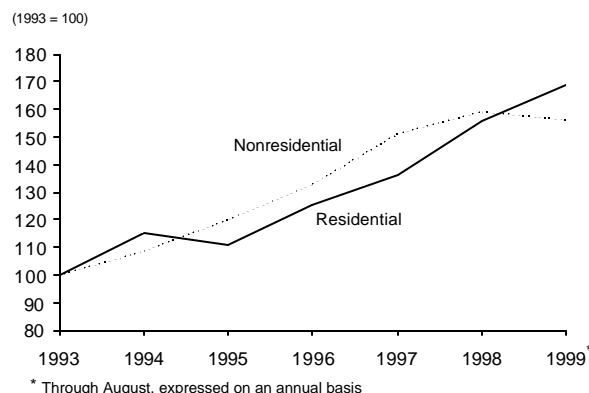
the Employment Cost Index (ECI) for the West region has exceeded that for the U.S. ECI, for both the total compensation and wage and salary ECI measures.¹ Yearly growth in wage and salary costs in the West peaked at over 5 percent in the fourth quarter of last year. Although all of the measures have come down this year, an upward trend is evident over the longer term.

Housing and real estate

High levels of construction activity continue to be an important feature of the current expansion. Figure 4 shows the monthly value of new residential and nonresidential construction permits recorded in the District. Each has grown substantially over the past six years.² However, nonresidential construction plans have leveled-off this year. This is due to a slowdown in states other than California; in that state, nonresidential permits are up about 7 percent this year. For the District as a whole, residential permits for the first eight months of 1999 are up by 11 percent (relative to the same period in 1998).

Regarding residential real estate sales, the rates of home sales and price appreciation remain rapid in most areas of the District, but they have slowed somewhat this year. According to the California

Figure 4
District Residential & Nonresidential Permit Values
 (Annual Totals)



* Through August, expressed on an annual basis

Association of Realtors, the median sales price for single-family detached homes in the San Francisco Bay Area as of July was about 15 percent above its level from a year earlier. However, the July price appreciation figure for the state of California as a whole was in single digits after being in double-digits earlier this year, and the rate of growth of home sales in the state is slower this year than it was last year. Similar slowing in sales growth and price appreciation is evident in several other District states (based on figures through the second quarter from the National Association of Realtors).

Conclusion

Although the District's high-tech manufacturing sector remains a weak spot, the District expansion shows only limited signs of slowing this year. Rapid expansion by high-tech service providers has offset the restraining effects of the high-tech manufacturing slowdown, especially in the San Francisco Bay Area and the Seattle area. Labor markets are tight, and a pronounced upward trend in compensation costs is evident in the Twelfth District and nearby states. Real estate markets have cooled a bit, but continued robust activity in the residential and nonresidential sectors indicate substantial confidence on the part of businesses and households in the District.

¹ The West region includes the Twelfth District plus Colorado, Montana, New Mexico, and Wyoming. The unemployment rate for this region was 4.8 percent as of August 1999.

² The number of new housing permits in the District remains low compared to the pre-1990 peak, primarily due to much lower levels in California compared to that state's 1980s peak.

ALASKA, OREGON, AND WASHINGTON

Economic growth in **Alaska** has been up and down in recent months but slow overall. Solid job gains in July and August exactly offset losses in June, leaving total nonfarm payroll employment unchanged for the period. Payroll employment has grown by less than 1 percent on an annual basis so far this year, more than a percentage point slower than the growth rate in 1998. Slower job growth this year has loosened the state's labor market. As of August the unemployment rate was 6.1 percent, up from 5.6 percent at the end of last year.

Employment growth during July and August owed almost entirely to job gains in the manufacturing and transportation sectors. In the manufacturing sector, excellent salmon harvests and higher prices for salmon boosted payrolls among seafood processors, particularly those in Southeast Alaska and Prince William Sound. Employment growth in the transportation sector was spurred by rapid growth in state exports. In contrast, payrolls in Alaska's two largest sectors, natural-resource extraction and government, continued to contract in recent months, held down by sustained weakness in oil prices.

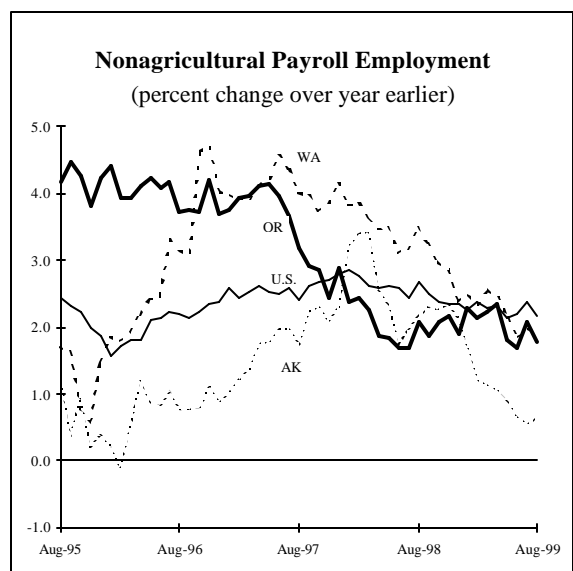
Oregon's economy grew modestly on net in recent months. Total nonfarm payroll employment grew just under 1 percent on an annual basis during the three months ending in August, slightly below the pace for 1999 thus far. During the past twelve months, the total job count grew 1.8 percent, about

equal to the growth rate in 1998. The state unemployment rate has been stable in 1999, hovering around 5½ percent since late last year. Overall, the Oregon economy appears to be in a holding pattern this year, with job gains in the service-producing sectors offsetting losses in manufacturing and construction and generating modest gains in the total job count.

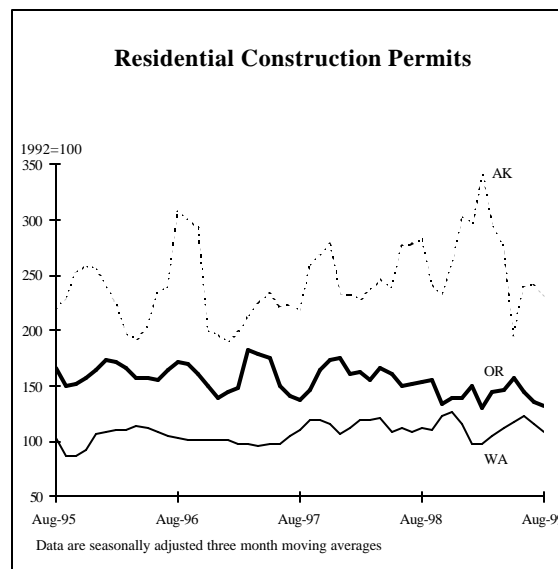
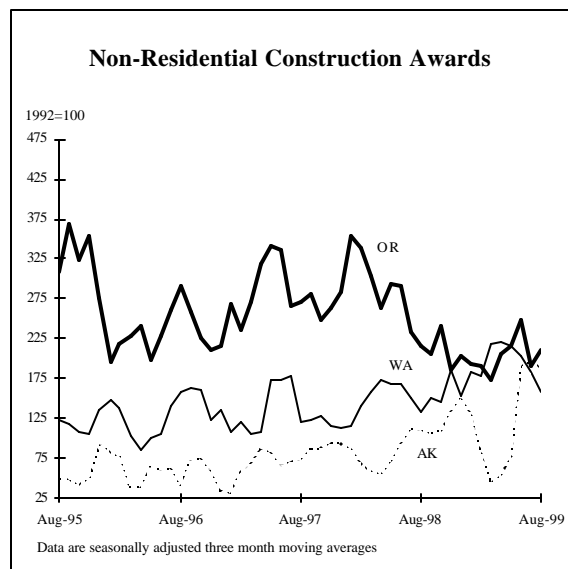
Despite tentative signs of improvement earlier this year, Oregon's high-tech manufacturing sector shed jobs in recent months. Employment among makers of computers and office equipment contracted by nearly 18 percent at an annual rate during the three months ending in August, more than offsetting small job gains among makers of electronic and electrical equipment. Together, these sectors have eliminated about 2,300 jobs since early 1998, about 5 percent of their combined workforces.

Economic growth in **Washington** picked up slightly in recent months. Payroll employment grew by 2.7 percent at an annual rate during the three months ending in August, more than a percentage point faster than the growth rate during the first half of the year. The recent pickup is due to rapid job gains in the state's construction industry, as well as solid growth in the services and trade sectors. Construction employment grew 8.6 percent on an annual basis between May and August, boosted by strong demand for new housing, residential and commercial remodeling, and industrial development. In the services sector, computer and data processing employment surged in recent months, putting that subsector on track to exceed its 1998 pace of expansion. In contrast, Washington's manufacturing sector remained weak, as extensive job losses at Boeing were reinforced by job cuts in other durable and nondurable manufacturing sectors.

Despite the loss of thousands of manufacturing jobs, Washington's economy has shown surprising resilience this year. The state's success lies in its decreasing dependence on manufacturing in general and Boeing in particular. The share of aircraft production in total employment fell from 5½ percent in 1990 to 3½ percent currently, and the ratio of aircraft jobs to computer services jobs now is less than 2-to-1, compared to 8-to-1 in 1990.



CONSTRUCTION



EMPLOYMENT

	Number Employed (thousands)			Annualized % Change	% Change
				From	From
	Aug-99	Jul-99	Aug-98	Previous Month	Previous Year
Alaska					
Total	277.3	276.7	275.5	2.6	0.7
Mining	8.6	8.7	10.4	-13.0	-17.3
Construction	13.2	13.3	13.1	-8.7	0.8
Manufacturing	15.3	14.4	14.4	107.0	6.3
T.C.P.U.	27.0	26.2	25.9	43.5	4.2
Trade	57.7	57.5	57.0	4.3	1.2
F.I.R.E.	12.9	12.9	12.6	0.0	2.4
Services	70.0	70.3	68.8	-5.0	1.7
Government	72.6	73.4	73.3	-12.3	-1.0

Oregon

Total	1587.3	1589.9	1559.5	-1.9	1.8
Mining	2.0	2.0	1.8	0.0	11.1
Construction	83.5	83.4	82.5	1.4	1.2
Manufacturing	239.2	238.5	243.2	3.6	-1.6
T.C.P.U.	81.0	79.9	76.1	17.8	6.4
Trade	386.4	387.8	384.2	-4.2	0.6
F.I.R.E.	97.1	97.1	95.5	0.0	1.7
Services	432.5	434.2	420.2	-4.6	2.9
Government	265.6	267.0	256.0	-6.1	3.8

	Number Employed (thousands)			Annualized % Change	% Change
				From	From
	Aug-99	Jul-99	Aug-98	Previous Month	Previous Year
Washington					
Total	2662.5	2657.8	2612.5	2.1	1.9
Mining	3.3	3.4	3.4	-30.1	-2.9
Construction	151.5	151.7	143.0	-1.6	5.9
Manufacturing	362.6	364.1	380.4	-4.8	-4.7
T.C.P.U.	141.2	141.2	137.1	0.0	3.0
Trade	645.9	643.5	627.8	4.6	2.9
F.I.R.E.	141.6	140.6	136.6	8.9	3.7
Services	738.6	736.5	714.7	3.5	3.3
Government	477.8	476.8	469.5	2.5	1.8

Unemployment Rates (%)

	Aug-99	Jul-99	Jun-99	Aug-98	Jul-98
Alaska	6.1	6.0	6.2	5.6	5.7
Oregon	5.7	5.5	5.5	5.7	5.6
Washington	4.7	4.8	4.8	4.8	4.8
U.S.	4.2	4.3	4.3	4.5	4.5

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

ARIZONA, CALIFORNIA, AND HAWAII

The pace of economic growth in **Arizona** remained strong in recent months. Payroll employment grew by about 2¾ percent at an annual rate in July and August, following a rapid increase of 5½ percent at an annual rate in the second quarter. Almost all of the jobs added to Arizona payrolls so far this year have been in the service-producing industries, particularly in locally oriented industries such as retail trade and finance, insurance, and real estate. Growth in construction employment also has been rapid throughout the year. In contrast, the Arizona manufacturing sector has contracted slightly this year, owing primarily to job cuts by electronic equipment manufacturers.

Much of the strength in construction employment derives from large gains in residential building activity this year. Issuance of residential construction permits jumped in the first quarter to a level about 20 percent above the same period a year earlier and since then has remained at elevated levels. Demand for homes has remained strong; so far this year sales of existing homes are up sharply relative to last year, and the median sales price for homes in Phoenix increased more than 5 percent.

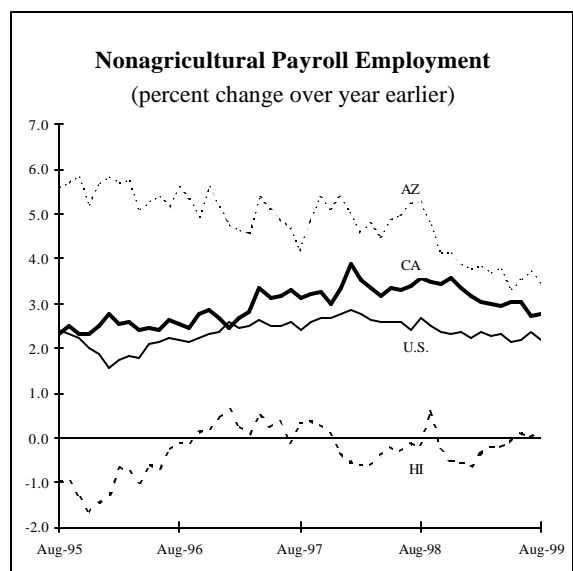
California's powerful economic expansion has continued this year. Payroll employment increased by about 2½ percent on an annual basis in July and August, following a 3½ percent rise in the second quarter. Job growth has been particularly strong in the real estate and construction industries and in

business services, which includes software development. Private sector job growth has been attracting new residents to the state, increasing both the demand for housing and the demand for government services such as public education. The strong economy and rising population have increased state and local government's fiscal capacity for providing these services, and state and local government expenditures have increased accordingly. During the past several years, public sector job growth has been concentrated in school teacher hiring. This year, local education payrolls again have posted strong gains, and growth in state government education and other state jobs also picked up.

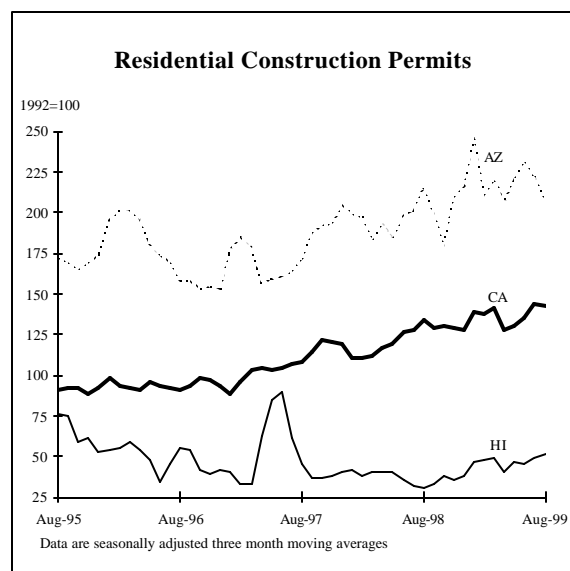
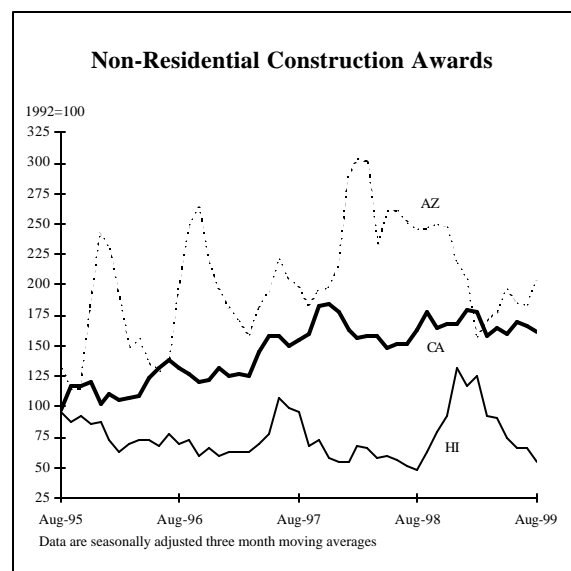
The recent public school hiring has been distributed throughout the state, roughly in proportion to each region's share of state population. For example, the Los Angeles Area accounted for almost one-half of the growth in local government education jobs in the state in recent years, reflecting its dominant share of state population and school children. In contrast, the Los Angeles Area has captured fewer of the recent additions to state government payrolls than Sacramento, which is the state capital.

Economic conditions in **Hawaii** have improved slightly. Payroll employment increased by 1½ percent on an annual basis in July and August, following a 2½ percent gain in the second quarter. However, the recent employment growth largely was confined to the state government sector, which cannot be the sole source of sustainable growth. Among private industries, strong growth in business services jobs has been one of the few bright spots.

Tourism-related employment at hotels and retail trade establishments has posted only slight gains this year, although this represents improvement compared to the losses posted during the past several years. In the first seven months of 1999, overall visitor arrivals to Hawaii showed a small increase of 1 percent relative to the same period a year earlier. A 6 percent increase in arrivals of persons traveling westbound (primarily from the U.S. mainland) largely was offset by a 7 percent drop in arrivals of persons traveling eastbound (primarily from Japan).



CONSTRUCTION



EMPLOYMENT

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Aug-99	Jul-99	Aug-98		
Arizona					
Total	2163.1	2162.2	2091.0	0.5	3.4
Mining	10.0	10.4	12.8	-37.5	-21.9
Construction	158.8	158.0	145.2	6.2	9.4
Manufacturing	218.1	218.1	217.4	0.0	0.3
T.C.P.U.	106.5	105.9	101.4	7.0	5.0
Trade	520.7	517.4	502.5	7.9	3.6
F.I.R.E.	147.1	146.2	141.4	7.6	4.0
Services	653.2	651.3	634.5	3.6	2.9
Government	348.7	354.9	335.8	-19.1	3.8

California

Total	14025.5	13977.1	13648.4	4.2	2.8
Mining	23.8	23.7	25.2	5.2	-5.6
Construction	662.6	661.7	612.0	1.6	8.3
Manufacturing	1947.6	1945.0	1964.6	1.6	-0.9
T.C.P.U.	719.7	717.5	695.0	3.7	3.6
Trade	3184.0	3168.0	3135.5	6.2	1.5
F.I.R.E.	814.8	812.6	803.6	3.3	1.4
Services	4441.7	4426.5	4245.7	4.2	4.6
Government	2231.3	2222.1	2166.8	5.1	3.0

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Aug-99	Jul-99	Aug-98		
Hawaii					
Total	532.0	529.4	531.2	6.1	0.2
Mining
Construction	19.8	20.2	21.3	-21.3	-7.0
Manufacturing	16.1	16.1	16.2	0.0	-0.6
T.C.P.U.	40.5	40.3	41.1	6.1	-1.5
Trade	130.8	130.0	131.8	7.6	-0.8
F.I.R.E.	34.9	34.9	35.5	0.0	-1.7
Services	174.9	175.6	172.7	-4.7	1.3
Government	115.0	112.3	112.6	33.0	2.1

Unemployment Rates (%)

	Aug-99	Jul-99	Jun-99	Aug-98	Jul-98
Arizona	4.5	4.4	4.3	4.2	4.1
Hawaii	5.3	5.4	5.6	6.2	6.3
California	5.1	5.3	5.4	5.9	5.9
U.S.	4.2	4.3	4.3	4.5	4.5

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

IDAHO, NEVADA, AND UTAH

Idaho's rate of economic growth has been slowing. Total nonfarm employment fell by nearly 2 percent on an annual basis during the second quarter, and the pace of job loss accelerated a bit in July and August. Thus far in 1999, employment is down about 0.5 percent, although the year-over-year tally is up 1.5 percent due to a very strong showing in late 1998. Job losses this year have been most pronounced in the services, trade, and construction sectors. Accompanying these job losses, however, have been declines in the size of the labor force; as a result, the unemployment rate was 4.9 percent in August, equal to the rate at the end of 1998.

High-tech production remains a bright spot for the state economy. In contrast to the loss of high-tech manufacturing jobs in other District states, employment in Idaho's electronics sector expanded at a solid pace last year and a vigorous pace so far in 1999. Most of the state's high-tech manufacturing and service activity has centered around Boise, where semiconductor industry leader Micron is headquartered. High-tech manufacturing and service activity also have grown in Pocatello and in North Central Idaho, the latter associated with a business technology development center at the University of Idaho in Moscow.

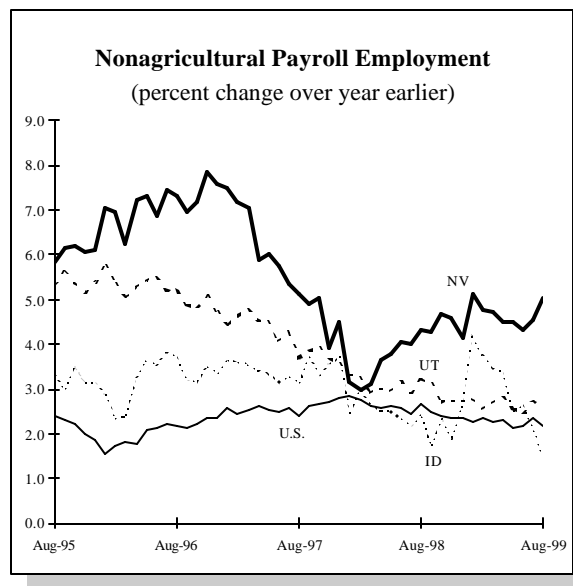
Nevada's rapid economic expansion has gained additional momentum this year. The pace of total nonfarm job growth steadily increased from about

2½ percent on an annual basis during the first quarter to about 10 percent on average in July and August. Growth in most major sectors has picked up this year. The key exception is the construction industry; although construction employment surged in July, the pace of growth is below that of past years, and plans for new residential and nonresidential construction have declined somewhat from very high levels. Despite the pickup in overall employment growth, the unemployment rate has been stable, hovering around 4 percent for most of the year.

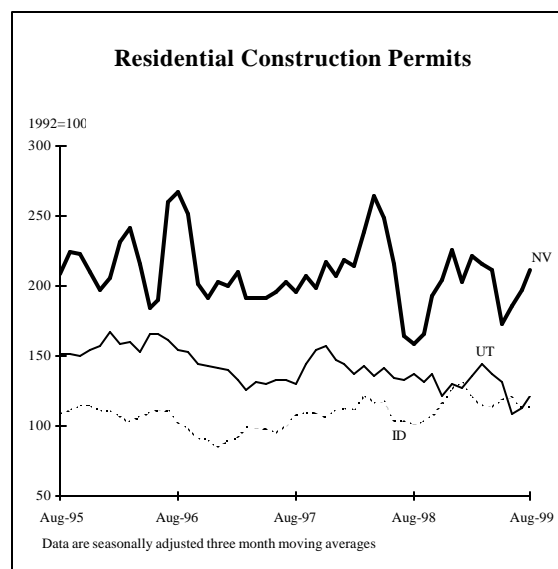
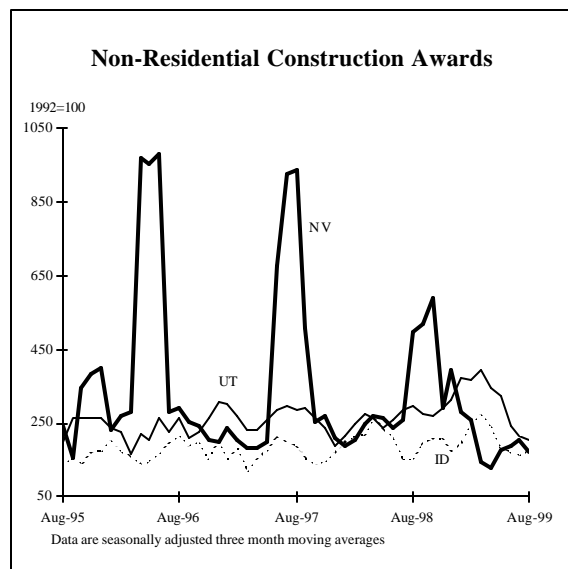
The hotel, gaming, and recreation sector remains the primary fuel for the state's hot economy, creating 9,000 new jobs this year and expanding at an annual rate of about 6 percent. Although employment growth in this sector has been fastest outside of Las Vegas, the opening of the Paris-Las Vegas resort on September 1 is likely to produce a surge in Las Vegas that month. Growth in gaming revenue and taxable retail sales has been most rapid in Las Vegas, and gaming win for the state as a whole has grown at its fastest rate since 1994.

Utah's economy has been growing at a solid pace. For the first eight months of 1999, total nonfarm employment grew by 2.5 percent on an annual basis, exactly equal to the year-over-year growth rate; the pace picked up a bit in July and August. Population-dependent industries such as services, trade, and finance, insurance, and real estate have been expanding most rapidly. Following nearly flat performance last year, employment growth in the retail trade sector has rebounded this year, as commercial development and consumer spending have expanded. Despite these sources of strength, Utah's rate of overall job growth has not been this slow since early 1992. Labor force growth has slowed this year as well, holding the unemployment rate just below 3½ percent in recent months.

According to a recent report from the American Electronics Association, Utah ranked seventh among all states in high-tech employment growth between 1990 and 1997. Some of these gains, however, have eroded. Employment in the state's electronics manufacturing sector declined by 2½ percent last year and nearly 4 percent on an annual basis thus far in 1999.



CONSTRUCTION



EMPLOYMENT

	Number Employed (thousands)			Annualized % Change	
				From	From
	Aug-99	Jul-99	Aug-98	Previous Month	Previous Year
Idaho					
Total	530.9	531.9	523.2	-2.2	1.5
Mining	2.9	2.9	3.0	0.0	-3.3
Construction	33.7	33.6	32.8	3.6	2.7
Manufacturing	76.6	76.5	75.9	1.6	0.9
T.C.P.U.	26.1	26.3	25.9	-8.8	0.8
Trade	133.1	133.5	132.9	-3.5	0.2
F.I.R.E.	23.8	23.7	23.0	5.2	3.5
Services	128.5	129.2	126.9	-6.3	1.3
Government	106.2	106.2	102.8	0.0	3.3

Nevada					
Total	979.0	969.9	931.9	11.9	5.1
Mining	11.9	12.2	13.2	-25.8	-9.8
Construction	88.7	88.4	86.6	4.1	2.4
Manufacturing	43.3	43.0	42.4	8.7	2.1
T.C.P.U.	50.5	50.0	47.9	12.7	5.4
Trade	201.8	200.1	190.5	10.7	5.9
F.I.R.E.	45.8	45.6	43.6	5.4	5.0
Services	420.0	413.4	394.6	20.9	6.4
Government	117.0	117.2	113.1	-2.0	3.4

	Number Employed (thousands)			Annualized % Change	
				From	From
	Aug-99	Jul-99	Aug-98	Previous Month	Previous Year
Utah					
Total	1054.0	1053.0	1027.9	1.1	2.5
Mining	7.6	7.8	8.0	-26.8	-5.0
Construction	73.4	73.4	68.7	0.0	6.8
Manufacturing	133.9	134.3	133.6	-3.5	0.2
T.C.P.U.	59.9	59.8	59.1	2.0	1.4
Trade	249.3	248.7	243.4	2.9	2.4
F.I.R.E.	58.9	58.7	56.2	4.2	4.8
Services	292.5	291.9	281.4	2.5	3.9
Government	178.5	178.4	177.5	0.7	0.6

Unemployment Rates (%)

	Aug-99	Jul-99	Jun-99	Aug-98	Jul-98
Idaho	4.9	5.0	5.3	4.9	5.0
Nevada	4.2	3.8	4.2	4.2	4.4
Utah	3.4	3.4	3.4	3.8	4.0
U.S.	4.2	4.3	4.3	4.5	4.5

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

1999 Issues

January
March
May
June
August
September
November
December

Mailing Date

February 5
April 2
May 21
July 2
August 27
October 8
November 19
December 24



**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, CA 94105**

**PRESORTED
FIRST-CLASS MAIL
U.S. POSTAGE PAID
PERMIT NO. 752
San Francisco, CA**