

Federal Reserve
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Brighter Western Economy

The economy of the western United States, although slow to begin its recovery, grew with increased vigor as 1983 progressed. In keeping with the national pattern, gains in employment first came mainly from a turnaround in the demand for interest-sensitive spending, particularly housing. All nine western states, for example, experienced a sharp increase over 1982 in the number of residential construction permits issued. This was true even after the slowdown in homebuilding activity in the second half of 1983. For the year, the total number of housing starts in the West was nearly double the 1982 figure.

Rising consumer spending also provided a major stimulus for the regional economic recovery as consumers sharply increased their outlays for all retail goods and services, but especially for automobiles, appliances and other durable goods.

Employment gains

One key indicator of the strength of the West's recovery was a 4.3 percent rate of employment growth over the course of the year, surpassing the nation's performance. Among the western states, Arizona was the star performer with employment growth of just over 8 percent, but employment in Nevada, Washington, Idaho, Utah and California also grew faster than the national average (Chart 1). As a result, nearly all of those states—which began the recovery with unemployment rates higher than the nation's—experienced a larger absolute decline in their unemployment rates than the nation as a whole. Utah was an exception because of the high growth of its labor force. Only in Hawaii, Oregon and Alaska was employment growth over the course of 1983 below the national average. Oregon's poor performance was due to the renewed weakness which developed in national homebuilding and related industries—especially lumber—in the second half of

1983. Hawaii showed signs of significant improvement late in the year. As of December 1983, the unemployment rates in Arizona and California had dropped well below the national average, while in Utah and Hawaii, the unemployment rates remained below the national average throughout the 1981-82 recession and subsequent recovery (Chart 2).

Recovery's progress

The states in the Pacific Northwest were among the first to bounce back from the recession as the turnaround in national housing boosted employment in local construction, lumber and other housing-related industries. This early strength provided a major impetus to the recovery throughout the West although the slowdown in western and national housing activity, which began after August, adversely affected Oregon's economy.

In the second quarter of 1983, the manufacturing sector began to revive as the recovery started to boost employment in basic materials industries such as chemicals and paper, and to spread to capital goods industries such as non-electrical machinery. At the same time business capital spending began to revive, the demand for consumer durables continued to pick-up, spurring employment in both retail trade and automobile manufacturing. The rise in personal income throughout the nation spurred tourism in the West, particularly in Hawaii. This growth in visitor expenditures, along with increased defense spending, helped to lower that state's unemployment rate which, despite an increase in 1982 and early 1983, was already the lowest in the region.

The aerospace and electronics industries became major sources of strength to the regional economy as 1983 progressed. Because the West is home to numerous military bases and many of the nation's leading

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aerospace and electronic equipment manufacturing firms, the region benefitted throughout the year from the higher level of federal government defense spending. In Hawaii, this stimulus took the form of increased expenditures for military payrolls and local purchases. Other states—including California, Washington, Arizona and Utah—experienced an increase in the federal government's demand for aerospace equipment, including aircraft, missiles and space vehicles, and electronic products.

Employment in the aerospace and electronics industries accelerated in the second quarter of 1983, when business demand for electronic products picked up. Between April and December, the huge California aerospace-electronics complex added 23,000 workers to its payrolls, for example. The only exception was in Washington where the aerospace equipment industry reduced its payrolls by about 9,500 over the year. But the industry received a heavy inflow of new commercial aircraft orders after mid-year that began to arrest the decline in commercial order backlogs. As a result, at year-end, industry officials there were optimistic that continued gains in defense business would combine with growing commercial aircraft orders from the world's airlines not only to halt the aerospace industry layoffs that had been underway in that state since 1981, but to lead to increased hirings in 1984.

Persistent weaknesses

Despite the general strength of the region's recovery, some sectors showed unusual or persistent weakness. The mining sector, and related primary and fabricated metals manufacturing industries, for example, comprise an important area of the Twelfth District economy that for the most part still has failed to experience significant recovery. Although the nation's automobile, housing and appliance manufacturers have increased their consumption of copper, lead and zinc, foreign producers have been boosting production in excess of worldwide demand.

As a result, western producers of those metals—located mainly in the Intermountain states—have been confronted with extremely low prices and were forced in 1983 to operate at close to the low levels of capacity utilization reached during the 1981-82 recession.

In the case of gold and silver, although the demand for consumption purposes increased, speculative demand weakened because of the reduction in the U.S. inflation rate. As a result, prices for these metals fell sharply in 1983. All these influences acted to reduce metal mining and processing industry employment in Arizona, Utah, Nevada and Idaho. The Pacific Northwest aluminum industry is the only metal industry to have experienced a significant increase in prices and operating rates, and that improvement came after mid-year.

Abundant supplies and relatively low prices for energy products reduced coal production and synthetic fuel development in Utah, while opposition to the construction of nuclear plants continued to depress uranium mining in that state. Cutbacks in oil drilling and exploration activity, caused by a drop in the world price of oil, hurt Alaska which also suffered from weakness in logging and fish processing industries.

The West's key agriculture sector also failed to experience a significant improvement in net income after several consecutive years of decline. Heavy rains and flooding at various times throughout the year seriously damaged crops, particularly in California and Utah. The federal government's payment-in-kind program also reduced the acreage of wheat, corn, rice and cotton planted. In fact, in California, farm production dropped 11 percent in 1983 to around 47 million tons, the smallest harvest since 1978.

These weather-related and government-induced production cutbacks helped to push prices for fruits, vegetables, cotton and

grains above levels a year ago—but not high enough to offset lower production. Agricultural exports of both crops and livestock products also fell off due to the strong foreign exchange value of the dollar and weak global economies. As a result, farm cash receipts throughout the West declined in 1983, with the decline in California estimated at around 4 percent. Net farm income probably rose slightly above the level of a year earlier, but this increase was due to lower energy, interest and other operating costs and not to increased farm receipts. The continued weakness in the mining and agricultural sectors kept western rural communities depressed in comparison with metropolitan areas as 1983 drew to a close.

The outlook

Further growth seems assured for the western economy in 1984. Increased defense and business capital spending should increase employment in the West's capital goods industries as well as those related to industrial and commercial construction. Further boosts in consumption expenditures as disposable income continues to rise should help the retail trade, service and tourist-related industries.

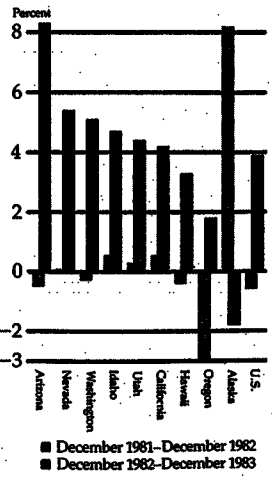
The farm sector, and related food processing and supplying industries, should also exper-

ience improvement. Producers of grains and cotton should benefit from high demand and rising prices as a result of the Midwestern drought and last year's inventory reduction. Demand and prices for fruits and vegetable crops should be up as a result of the losses sustained elsewhere in this Winter's freezes. Exports of agricultural products also may rise as foreign economies strengthen.

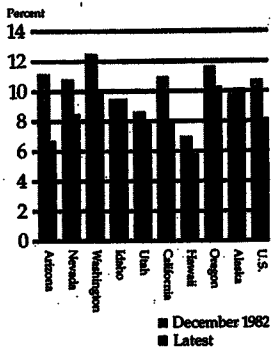
The huge increase in housing starts last year promises to make homebuilding less of a stimulus in 1984. Nevertheless, the sharp increase in residential building permits issued in the West in December of last year, as well as such factors as strong pent-up demand, rising incomes and the availability of a variety of mortgage instruments, suggests that housing starts in the West could rise moderately in 1984 and outperform the national pattern. Some further increase in western and national homebuilding activity this year will be a fundamental requirement for Oregon's further economic recovery because of its heavy dependence on the lumber industry. Prospects for significant recovery in the West's metal and energy mining operations are not promising given the likelihood of continued worldwide surplus supplies. On balance, however, the West should do at least as well as the nation in 1984.

Yvonne Levy

Growth of Employment



Unemployment Rates



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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
 (Dollar amounts in millions)

Selected Assets and Liabilities	Amount Outstanding	Change from	Change from	
			Dollar	Percent
Large Commercial Banks	1/18/84	1/11/84		
Loans, Leases and Investments ¹	174,389	- 460	1,525	0.9
Loans and Leases ²	153,942	- 259	2,655	1.8
Commercial and Industrial	45,098	- 119	369	0.8
Real estate	58,904	- 83	833	1.4
Loans to Individuals	26,590	6	1,963	7.9
Leases	5,050	- 5	248	4.7
U.S. Treasury and Agency Securities ²	12,274	- 204	929	8.2
Other Securities ²	8,173	3	NA	NA
Total Deposits	184,502	-2,317	4,012	2.2
Demand Deposits	43,194	-1,955	2,324	5.7
Demand Deposits Adjusted ³	29,315	-2,349	NA	NA
Other Transaction Balances ⁴	12,069	- 349	NA	NA
Total Non-Transaction Balances	129,239	- 13	NA	NA
Money Market Deposit				
Accounts—Total	39,636	- 56	NA	NA
Time Deposits in Amounts of				
\$100,000 or more	38,330	87	10,960	22.2
Other Liabilities for Borrowed Money⁵	20,923	2,463	4,579	18.0
Weekly Averages of Daily Figures	Week ended 1/18/84	Week ended 1/11/84	Comparable year-ago period	
Member Bank Reserve Position				
Excess Reserves (+)/Deficiency (-)	69	386	393	
Borrowings	22	56	0	
Net free reserves (+)/Net borrowed (-)	47	330	393	

¹ Includes loss reserves, unearned income, excludes interbank loans

² Excludes trading account securities

³ Excludes U.S. government and depository institution deposits and cash items

⁴ ATS, NOW, Super NOW and savings accounts with telephone transfers

⁵ Includes borrowing via FRB, TT&L notes, Fed Funds, RPs and other sources

⁶ Includes items not shown separately

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