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FRBSF ECONOMIC LETTER

1996-10 | March 8, 1996

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This Weekly Letter summarizes Twelfth District economic conditions as reported in the latest edition of the Federal Reserve Bank of San Francisco's Western Economic Developments, which was authored by Robert Ingenito, Joe Matthey, and Rob Valletta.

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The District economy showed some vigor near year-end 1995, as District payroll employment grew at a 2.4 percent annualized pace in December and outpaced the nation's performance. Nevada, Utah, Oregon, and Arizona ranked first, second, fourth, and sixth among the 50 states in terms of twelve-month job growth ending in December. Moderate-paced expansions continued in California, Idaho, and Washington. In contrast, the economies of Alaska and Hawaii remained stagnant in recent months.

Many sectors have contributed to the recent District job growth. Of the roughly 56,000 jobs added to District payrolls in November, almost half were in the services sector, and almost a third were in wholesale and retail trade. Government sector jobs also edged up in recent months, and—excluding the striking Boeing workers—manufacturing managed to post small gains. Moreover, District construction employment continues to expand rapidly, fueled by the building of additional manufacturing plants and housing in many of the fast-growing states.

Most District states benefited from rapid growth in overall exports in 1995. Exports from states that traditionally ship to rapidly growing Asian markets increased particularly fast, but the prominence of high-technology manufacturing industries in the West also helps explain the region's relatively strong export performance.

The state economy showed signs of a pickup near year-end 1995 and expanded faster than the national economy. (See [Figure 1](#)) (*this file requires Adobe Acrobat*). Payroll employment in December showed a gain of 1.9 percent at an annual rate, following an upward-revised November increase of 2.4 percent. For the fourth quarter as a whole, employment growth was 2 percent at an annual rate, slightly higher than in the third quarter and well above the first-half pace. (An alternative interim employment series for California also shows a recent pickup from the first half pace, but places the overall annual job gains through December at 2-1/4 percent, higher than the official estimate of 1.5 percent.) Recent job gains were large in the services and trade sectors, and construction employment continued to expand rapidly; however, job losses in other areas, such as aerospace and the government sector, increased in recent months.

Other economic indicators are consistent with moderate overall growth in the state economy near year-end. State sales tax receipts in December were almost 5 percent above a year earlier, and payroll withholding tax receipts also were strong. Selected retailers in some areas of the state—particularly San Diego—reported sizeable gains in holiday season sales relative to last year. However, retail sales in other areas of Southern and Central California reportedly were weak, and the federal government shutdown of parks and visa offices disrupted visitor buying in some tourist areas.

Nevada, Utah, Oregon, and Arizona ranked among the top six states in the nation in terms of employment growth during 1995. (See [Figure 2](#)) (*this file requires Adobe Acrobat*).

Nevada continues to be the fastest-growing state in the country, with job growth in 1995 averaging 6 percent. The figures for state manufacturing employment growth were up 4.6 percent—much slower than in 1992-1994, but much better than the national figures. Annualized monthly growth in construction employment averaged near 30 percent during the second half of 1995. The strength in residential building is apparent in residential permit issuance figures, and nonresidential construction awards also have increased substantially, in part because of resort expansions in the Reno area. Substantial increases in construction awards during October and November suggest continued strength in this sector. Other indicators also suggest substantial economic strength in the state. The unemployment rate averaged 4.9 percent in October and November. The retail sector added a large number of workers to its payrolls early in the holiday season, and subsequent holiday retail sales were reported to be even stronger than expected by some observers.

Utah's labor market remains tight, as indicated by the remarkably low December unemployment rate of 2.8 percent. Employment jumped 5.7 percent at an annual rate in December, after strong growth in November, bringing the 12-month employment growth rate to 5.3 percent, second fastest in the nation. The December growth was led by sharp increases in service, trade, and financial sector employment. Solid expansion in the construction sector is likely to continue; nonresidential construction awards have been at high levels and increased lately relative to midsummer, and residential permit issuance has continued to climb. Retail sales were reported moderate to strong during the holiday season. The underlying strength of the local economy was masked somewhat by a slow start for the skiing industry, due to warm, dry weather. However, snow-making capabilities and non-refundable airfares reportedly helped to mitigate the weather-related reduction in tourist revenue, and several small storms in late December and January improved ski conditions substantially.

Oregon's economic growth continued in December, with the number of jobs up 3.9 percent from a year earlier, placing Oregon fourth in growth among the 50 states. Every sector added to payrolls in December. The service sector showed strong gains in December, while the pace of growth slowed in the wholesale and retail trade and manufacturing sectors. Construction employment has trended up, and there was a sharp rise recently in both nonresidential construction awards and residential construction permits. Contacts report that Oregon's merchants posted sizeable Christmas holiday retail sales increases compared to last year. In addition to the underlying strength of the consumer sector in the state, spending this holiday season reportedly was buoyed by the November 1 disbursement of 1.1

million tax rebate checks averaging \$141.00 each from the state government. Earlier strong growth in income tax receipts triggered the rebate, and state government income tax withholding reportedly continued to increase rapidly through the fourth quarter.

Arizona posted a 3.5 percent employment gain in 1995, sixth fastest in the nation. The average pace of job growth in November and December was about 7.0 percent. More than half of the most recent job gains have been in the services sector, but the construction, manufacturing, and trade sectors also have posted notable increases. As reported in First Interstate Bank's *Arizona Review*, state retail sales in the first ten months of 1995 increased 7.6 percent compared to a year earlier, and November and December retail sales likely remained more than 5 percent above a year earlier. Activity in the Phoenix area was boosted by increases in air passenger traffic this year. Looking ahead, however, travel-related revenues are expected to be held down slightly by the elimination of 16 Southwest Airlines flights from its Phoenix schedules.

State yearly employment growth was 0.3 percent in 1995. Economic activity apparently remained subdued through most of December, owing to the direct and indirect effects of the just-ended strike at Boeing Aircraft and earlier reductions in aerospace employment. Outside of aerospace, labor demand has been strong, with the most rapid employment gains in the trade and service sectors. Growth also has been strong in selected manufacturing industries, such as electronic equipment, industrial machinery, and plastic products.

The Boeing machinists ended their strike in mid-December, after nearly ten weeks off the job. Their return and receipt of an up-front pay increase reportedly gave a boost to retail sales during the last week of the Christmas shopping season. Nevertheless, overall retail sales reportedly were disappointing.

In the near term, the aerospace business appears less likely to hold down the state economy significantly. Boeing reportedly plans to deliver more planes in 1996 than in 1995, largely to foreign customers. In the years thereafter, the state's aerospace industry may also see a pickup in domestic orders, given the age profile of current fleets.

Although payroll employment growth at 1.5 percent in 1995 moderated relative to 1994's pace of 5.8 percent, the state economy was strong near the end of 1995. A December surge in payroll jobs was led by large increases in transportation and services employment. Construction employment also jumped in November and December, offsetting an October decline. Manufacturing employment edged up, on balance, in recent months, after declining earlier in the year.

Other indicators of recent and prospective economic activity in Idaho are mixed. While state employment rose in November, the state's unemployment rate also increased—to 5.6 percent (from 5.1 percent in September and October)—as estimated labor force growth outstripped the household employment gains. Non-residential construction contract awards recently have remained well below the pace of earlier in the year, but residential construction permit issuance has increased in recent months. Unofficial reports on the pace of holiday season retail sales also were mixed.

Job growth paused in recent months. Nonfarm payroll employment posted a 0.7 percent rise during 1995. The state's resource-based industries were especially sluggish. Pulp mills, lumber processors, and the oil industry all reduced employment levels. Among the state's primary activities, only tourism flourished in December, boosting hotel service jobs and supporting retail trade.

Government employment fell at the federal, state, and local levels during the latter half of 1995. However, the cutbacks at the state level were not as severe as at other levels of government, despite the pressure on the state budget from declining oil-related revenues. This pressure is likely to continue, as state analysts project only slight near-term increases in state oil revenue.

Economic activity remained at a relatively low level near year-end, despite a reported strong flow of

tourist visitors. Payroll employment in December was 1.9 percent below a year earlier. The state unemployment rate was little changed toward the end of 1995 from a 1994 average of 6 percent, which is the highest unemployment rate in Hawaii since 1983. Retail trade employment in Hawaii held steady last year, but jobs were lost in every other major sector. Most of the roughly 4,000 jobs lost in the government sector last year were cut from state government payrolls, reflecting a lagged adjustment to the prolonged period of contraction in private sector activity in the state.

Construction employment fell almost 6 percent in 1995, following similar-sized declines in 1993 and 1994. Much of the ongoing weakness is in nonresidential building, but the residential sector also was down.

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