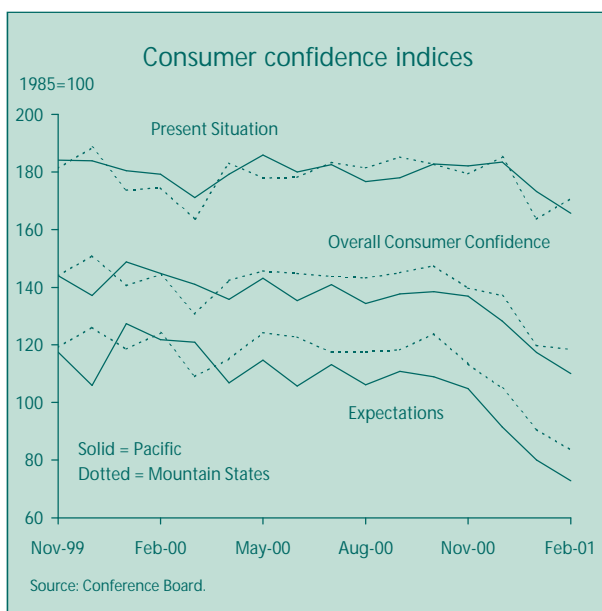


Western Economic Developments

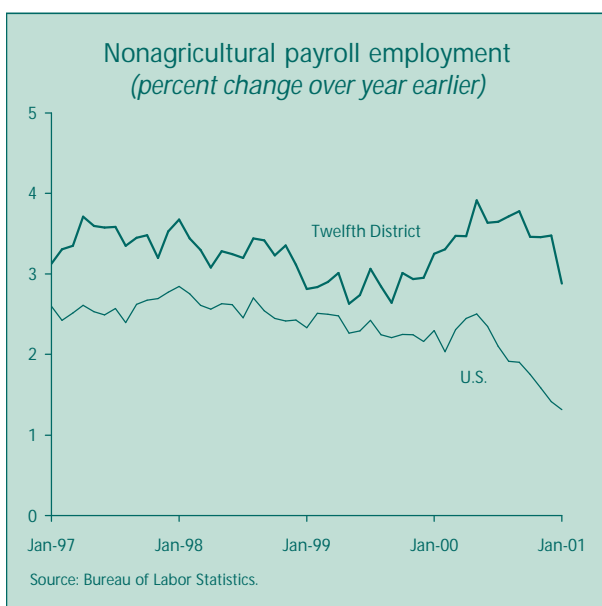


Signs of economic slowing follow blockbuster year for West



Several factors are working to slow the economy in the West following a period of rapid expansion in 2000. The 2000 benchmark for nonfarm payroll employment reflected a noteworthy increase in the Twelfth District's employment growth in 2000, pushing growth for the year up to 3.5 percent, more than twice the national pace of 1.4 percent.

Still, signs of slowing are evident in the District so far this year. Regional consumer confidence indices for the Pacific states have declined, and retail sales are weaker in the West than nationally. The fall in stock prices has lowered consumers' spendable wealth and will affect tax revenues if capital gains and options earnings decline as expected in 2001. The District's high-tech sector has experienced weaker sales, higher inventories, and lower earnings, prompting a series of announced job reductions. Higher energy costs throughout the District also may slow the District's economic expansion in 2001.



MARCH 2001

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Benchmarked 2000 employment data revised up

Newly released benchmarked employment data for 2000 indicate that the Twelfth District added jobs at an even faster pace last year than earlier reported. The benchmark resulted in a 0.6 percentage point increase in job growth to 3.5 percent for 2000 (see table below). The benchmark also raised the level of total nonagricultural jobs in the District by 141,000 as of December 2000. California and Oregon recorded the largest benchmark revisions in total jobs among District states, moving upward by about 111,000 and 15,000 jobs, respectively. The benchmark revisions added 0.8 and 0.9 percentage points to California and Oregon's respective 2000 employment growth rates. The benchmark also added 1 percentage point to Hawaii's job growth rate in 2000 and increased employment levels in Alaska, Idaho, Utah, and Washington. Nevada and Arizona, the nation's two fastest growing states based on pre-benchmark data, recorded small downward revisions in job levels, which resulted in a growth rate reduction of 0.1 percentage point for both.

Among the business sectors in the Twelfth District, services and manufacturing employment recorded noteworthy upward revisions. The benchmark increased the level of service sector jobs by about 89,000, boosting the rate of growth 1.2 percentage points, to 5.4 percent for 2000. The benchmark revisions increased the level of service sector employment by about 68,000 for California, 7,500 for Washington, and 7,000 for Oregon. Business services accounted for a large share of the upward revisions in service sector jobs

2000 payroll employment benchmark revisions¹

	Change in Number Employed (thousands)	Growth Rate	
		Percentage Point Change	Revised Growth Rate for 2000 (%)
District	141.0	0.6	3.5
Alaska	0.4	0.2	1.5
Arizona	-3.6	-0.1	3.6
California	111.1	0.8	3.9
Hawaii	5.4	1.0	3.2
Idaho	0.8	0.2	3.7
Nevada	-1.3	-0.1	4.8
Oregon	14.7	0.9	1.5
Utah	4.9	0.4	2.8
Washington	8.6	0.3	2.3

Source: Bureau of Labor Statistics.

1 Comparisons are for December 2000 over December 1999. The benchmark changed the level of the employment series in both years.

in California and Washington; this fast-growing job classification includes high-tech software and computer services jobs, as well as Internet employment.

The 2000 benchmark revision increased District manufacturing payrolls by about 25,000, with the largest increases occurring in California. Most of the additional manufacturing jobs in California were in the sectors producing electronic components and accessories (semiconductors) and measuring and controlling devices.

Consumer confidence, spending weaken

National consumer confidence, as measured by The Conference Board, fell again in February 2001 as consumers' expectations about the next six months fell to the lowest level since late 1993. The other key component of this series, consumers' evaluation of the present economic situation, generally remained high despite declines in recent months. The continued strength of the present situation component suggests that the economy is expanding, albeit more slowly.

Consumer confidence indices declined in February for both the Pacific and Mountain regions, but the decline in the Mountain index was slight, reflecting an improvement in consumers' evaluation of their present situation (see figure on page 1).² In contrast, the Pacific region index recorded continued deterioration in consumers' perception of their present economic situation. Furthermore, the continued deterioration in both the Mountain and Pacific states' expectations indices continues to raise concerns about future consumer spending patterns.

This lower level of consumer confidence over the past several months coincides with moderate-to-weak retail sales figures in the West.³ Over the five months ending in February 2001, seasonally adjusted retail sales in the West have been modest and have lagged the national pace. Sales at general merchandise, apparel, and furniture stores in the West have been weaker than nationally. The Federal Reserve

2 The Conference Board, Survey of Consumer Confidence. The Pacific index includes Alaska, California, Hawaii, Oregon, and Washington. The Mountain index includes the District states of Arizona, Idaho, Nevada, and Utah, as well as Colorado, Montana, New Mexico, and Wyoming.

3 U.S. Regional Retail Sales, compiled from U.S. Department of Commerce (national data), Bank of Tokyo-Mitsubishi, Ltd. (regional estimates), and the National Retail Federation. Published by Bank of Tokyo-Mitsubishi, Economic Research, March 13, 2001. The West includes the nine Twelfth District states, plus Colorado, Montana, New Mexico, and Wyoming.

System's March 2001 Beige Book respondents in the District also noted slow sales of big-ticket items, including automobiles and trucks.

Options, capital gains boost California revenues

Stock options and capital gains have played an expanded role in boosting consumer spending and government revenues over the past several years. The downward movement in the equity markets over the past year likely will affect the wealth and spending of households and businesses and may lower state government tax receipts from stock options and capital gains. A recent report by the California Department of Finance indicates that stock options and capital gains account for more than one-fifth of the state's General Fund revenues in 2000. The same report estimates that income from exercising options accounted for up to 13 percent of the wage and salary income in the state last year.⁴

California's increased dependence on revenues from these sources has made the General Fund and the state budget more sensitive to movements in the equity market. The falling income from options and capital gains would be hitting at a time when the state's surplus is shrinking because of its purchases of energy. So far this year, the state's purchases of electricity have totaled about \$3.0 billion. Although the state expects to cover the cost of the electricity with revenue bonds, it likely will have fewer surplus funds to direct toward other areas of spending.

Housing, construction remain brisk

Residential housing markets in the Twelfth District continue to show strength, despite concerns about consumer confidence and spending. Twelfth District residential housing permits, on a seasonally adjusted year-over-year basis, rose by more than 11 percent at an annual rate in January, the fastest pace of growth since August 1998.⁵ The recent strength was broadbased; January 2001 housing permits increased in every District state except for Arizona. Recently released fourth quarter housing price data indicate that appreciation continued in a number of metropolitan areas, especially the San Francisco and Los Angeles markets. How-

4 California Department of Finance, 2001-2002, Governor's Budget Summary, Economic Outlook. <http://www.dof.ca.gov/HTML/Budgt01-02/EconomicOutlook-T.htm> (accessed March 2001). The report noted that the corresponding figure for 1995 was less than 2 percent.

5 Residential housing permit series used here are calculated on a seasonally adjusted 3-month moving average. Data can be found in the State Highlights section of this document.

ever, house prices softened noticeably in Boise, Portland, and Seattle. Housing sales activity in the fourth quarter was mixed on a year-over-year basis, increasing in Alaska, Hawaii, Nevada, and Oregon, remaining essentially flat in Arizona, California, and Idaho, and declining in Utah and Washington.

The commercial real estate sector remains basically sound, although a few signs of caution have emerged. Nonresidential construction activity was strong for most of the District in January 2001. However, dot-com layoffs and closings have increased availability of commercial office space in the District, most notably in California and Washington. Reports show subleasing is increasing, vacancy rates are edging up, and rents have been falling in some office markets. Still, office vacancy rates remain relatively tight, under 6 percent for the San Francisco Bay Area and Seattle.

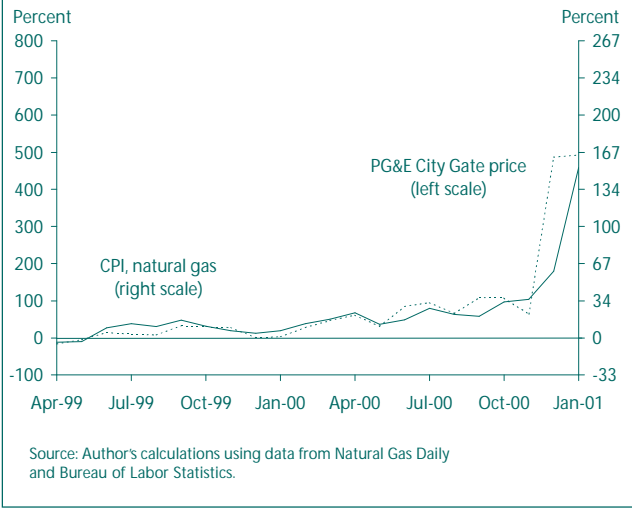
Energy costs show through to consumers

Wholesale prices of natural gas and electricity have risen dramatically in the West in recent months. These wholesale price increases are showing through to rates paid by households and businesses, particularly for natural gas.

The U.S. natural gas industry is largely deregulated, with the price of gas determined by supply and demand, and the consumer's monthly bill determined by price and the volume of gas delivered to the residence.⁶ The commodity portion of the bill fluctuates one-for-one with the price of natural gas. As a result of this structure, rising wholesale prices for natural gas show through to consumer prices almost immediately. Figure 1 shows the change in natural gas prices at the PG&E City Gate pricing point (left scale) and the change in the natural gas component of the CPI for the San Francisco Bay Area (right scale). The PG&E City Gate price for natural gas increased by about 500 percent between January 2000 and January 1999. At the same time, the natural gas component of the CPI covering part of PG&E's service area increased by about 160 percent. Given that natural gas represents, on average, about one-third of the consumer's bill, the change in the CPI reflects a near total pass-through of the increase. In other parts of the West, where natural gas prices have risen less rapidly, consumers have seen more

6 A consumer's bill consists of three main parts: transmission (cost of moving gas from the well-head to the utility); distribution (cost of bringing gas to the residence); and the commodity (the cost of the gas itself). On average, the commodity cost accounts for about one-third of the bill, or 34 percent, with distribution costs accounting for 47 percent and transmission costs accounting for 19 percent.

Figure 1: Natural gas—PG&E City Gate price and San Francisco Bay Area CPI (year-over-year change)

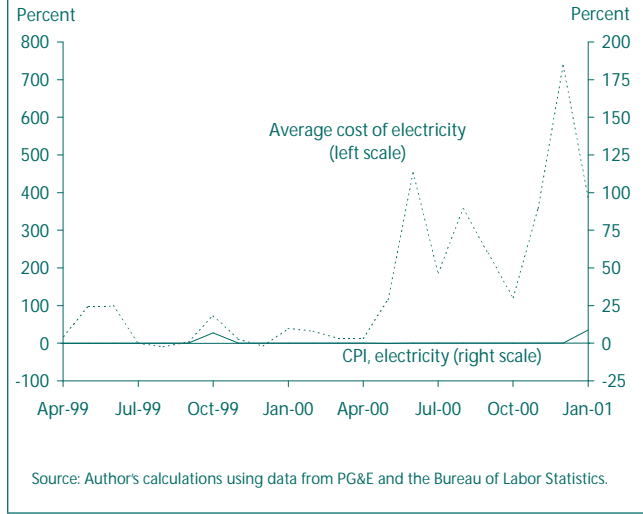


modest price increases. In the Los Angeles area and San Diego, consumer prices for natural gas increased by 54 and 34 percent, respectively. In the Pacific Northwest, price increases were highest in the Seattle area where consumer gas prices rose by 46 percent; in Portland, prices rose by 18 percent. Overall, in western cities other than the San Francisco Bay Area, the increase in consumer natural gas prices over the past year was a bit lower than the average increase in the U.S.

Unlike natural gas, retail prices for residential electricity consumers largely are subject to regulation. In most areas in the West this means local utilities must apply for rate increases. Such applications must show increases in the average cost of providing electricity. For a given utility, the impact on average cost of a rise in the wholesale spot price of electricity depends on a number of factors including the utility's generation capacity, the type of generation it uses, and its long-term contracts with fuel and power suppliers. Although cost-based increases typically are allowed, there frequently is a lag between wholesale price increases and retail price hikes. Finally, the cost of electricity represents about 40 percent of the consumer's bill, with the remainder being made up of transmission and distribution.

While cost-based pricing is allowed in most Western states, retail rates in many areas of California have been frozen well below average cost. The result of this cap on prices is apparent in Figure 2, which shows the average cost of electricity to PG&E (left scale) and the electricity component of the CPI for the San Francisco Bay Area (right scale). Compared

Figure 2: Electricity—PG&E average cost and San Francisco Bay Area CPI (year-over-year change)



to natural gas, the rise in electricity prices for Bay Area consumers has been modest. While the average cost of electricity for PG&E increased by about 385 percent between January 2000 and January 2001, the electricity component of the CPI rose by about 10 percent. One exception to the modest electricity increases is in San Diego, where the electricity component of the CPI increased by about 55 percent between December 1999 and December 2000; this largely reflects the change in the commodity charge from 3.5 cents to 6.5 cents per kilowatt-hour, the cap restored after the summer price surge.

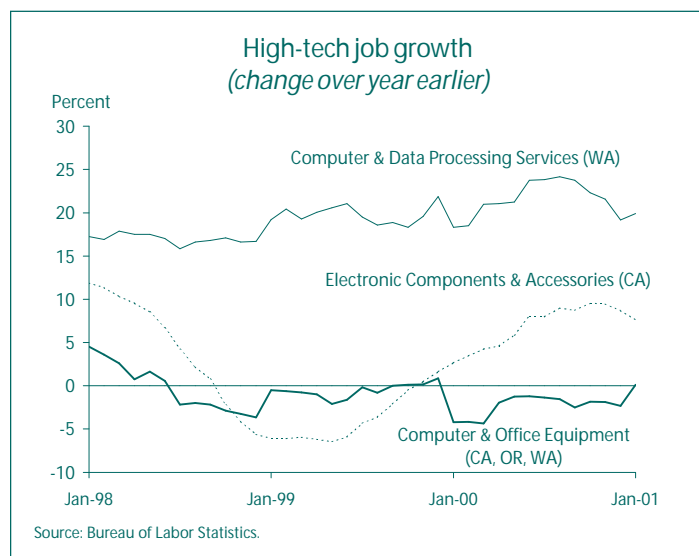
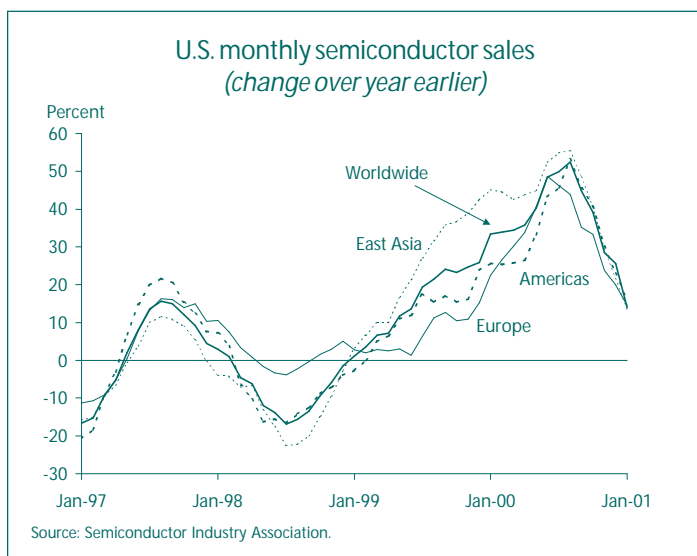
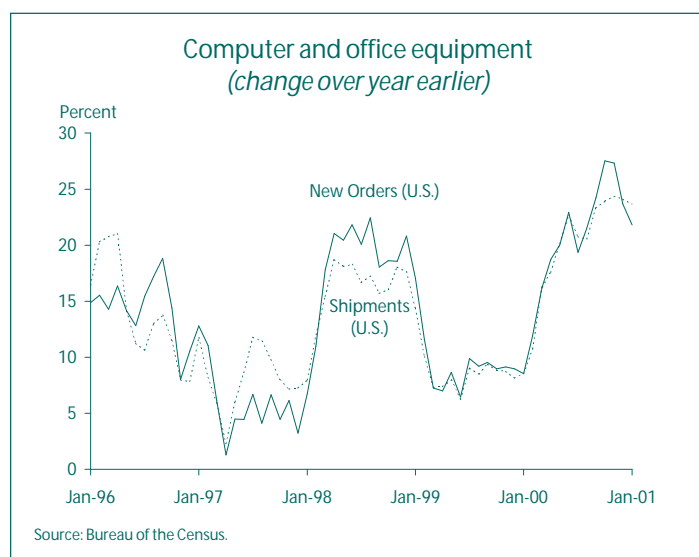
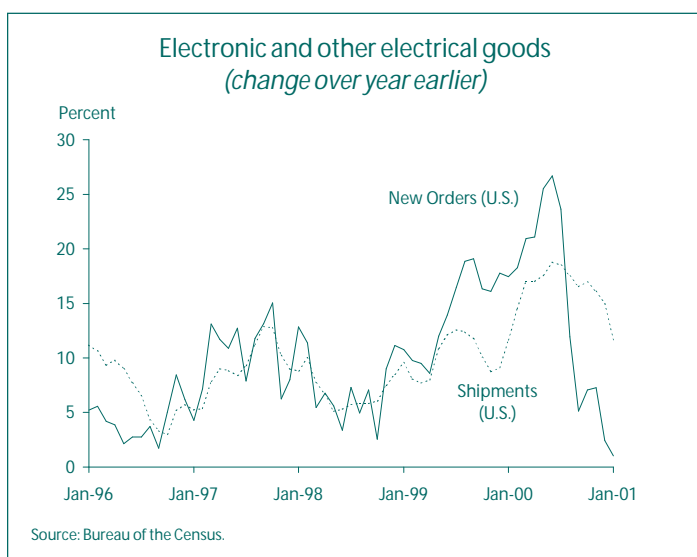
In the rest of the West, increases in electricity prices have been relatively modest on balance, although somewhat higher than the U.S. average. However, some communities have announced notable increases in future rates. For example, Seattle City Light has received two electricity rate increases in the past three months in order to offset the rising cost of acquiring electricity. A number of other electric utilities in the West have applied for and received cost-based retail rate increases for the coming year.

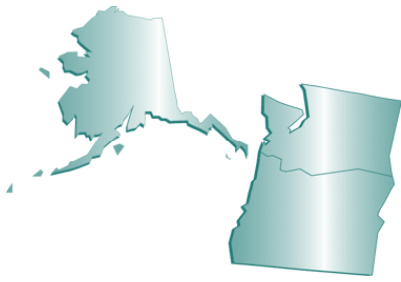
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High-tech Watch

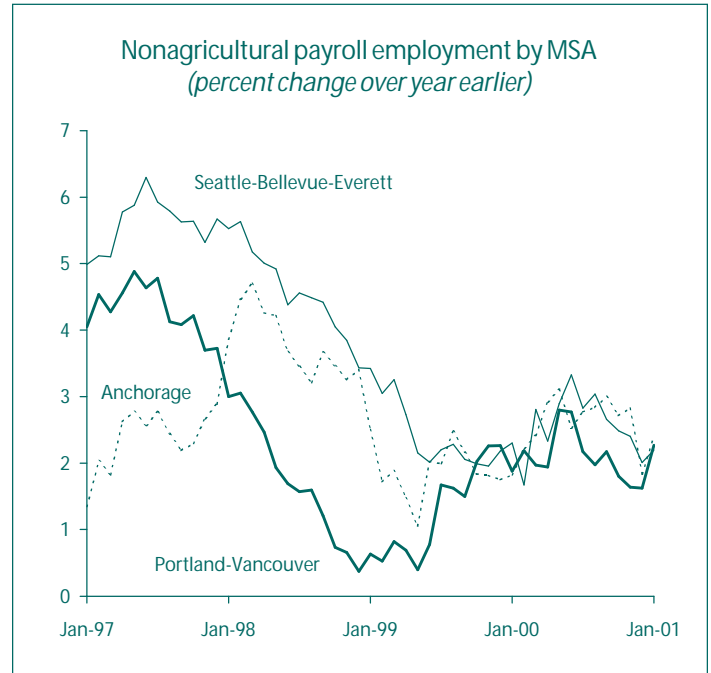
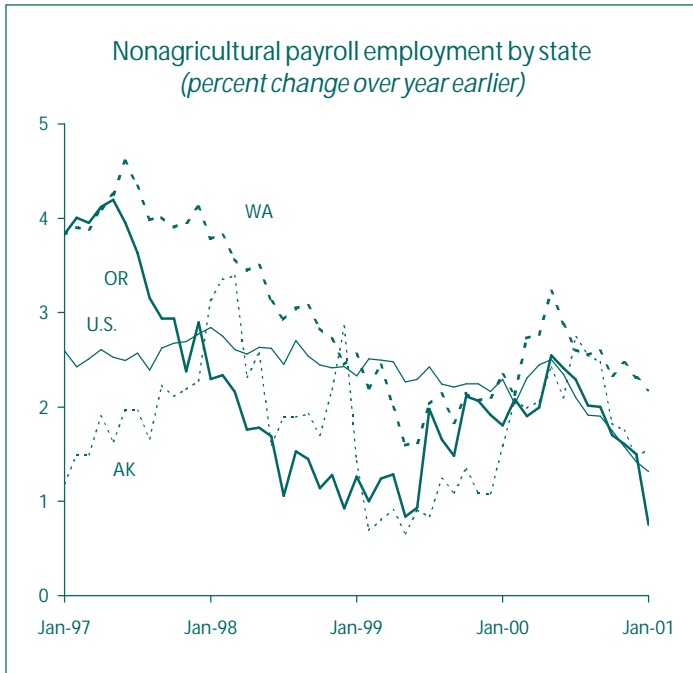
The high-tech sector softened in recent months. Dot-com layoffs continued, as Internet firms were squeezed by the need to generate more cash flow (if not profits) and attract increasingly limited venture capital funding. Despite some downsizing in the sector, California continued to add Internet jobs through the third quarter of 2000, although at much reduced rates from early in the year. Cutbacks at Internet firms have contributed to weakness among producers of Internet infrastructure and communications equipment, including servers and networking equipment. The high-technology manufacturing sector has been hurt by slower sales of computers, cell phones, and Internet-related equipment, driving up inventories, intensifying price pressures, and narrowing profit margins.

Many District computer, semiconductor, and high-tech infrastructure manufacturers have reported weaker than expected sales and earnings and issued warnings about job reductions. In the most recent period, semiconductor sales reported by the Semiconductor Industry Association (SIA) fell 5.7 percent from December 2000 to January 2001; lower sales were reported across all areas of the globe. Semiconductor sales growth on a year-over-year basis remains positive, however it has fallen sharply in recent months. The slowdown in sales growth reflects a sharp decline in new orders for electronic and other electrical goods. New orders have fallen from a growth rate of over 25 percent in 2000 to nearly zero in January 2001.





Alaska • Oregon • Washington



Employment by Industry

	Total Employed (thousands) Jan-01	Percent Change			
		1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
Alaska					
Total	285.7	4.3	2.4	4.3	1.6
Mining	11.2	0.0	3.7	0.0	19.1
Construction	14.7	28.1	8.6	28.1	1.4
Manufacturing	14.2	188.5	33.9	188.5	-2.7
T.C.P.U.	27.3	14.2	7.7	14.2	1.1
Trade	57.7	-11.7	-2.7	-11.7	0.7
F.I.R.E.	12.7	0.0	0.0	0.0	-0.8
Services	74.1	6.7	5.0	6.7	3.1
Government	73.8	-9.3	-3.7	-9.3	0.0
Oregon					
Total	1602.1	-7.5	-2.5	-7.5	0.8
Mining	1.8	-47.7	-19.4	-47.7	-5.3
Construction	89.6	24.1	7.5	24.1	7.2
Manufacturing	241.3	-17.5	-3.1	-17.5	-0.6
T.C.P.U.	80.3	-7.2	-2.5	-7.2	2.0
Trade	390.6	-9.9	-5.3	-9.9	-0.2
F.I.R.E.	94.7	1.3	2.6	1.3	0.5
Services	439.0	-12.9	-4.8	-12.9	1.2
Government	264.8	3.7	1.2	3.7	0.3

	Total Employed (thousands) Jan-01	Percent Change			
		1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
Washington					
Total	2747.7	2.7	2.5	2.7	2.2
Mining	3.7	94.8	24.9	94.8	8.8
Construction	165.2	6.8	6.0	6.8	4.0
Manufacturing	347.2	3.5	-0.3	3.5	-2.9
T.C.P.U.	149.8	-2.4	2.7	-2.4	4.7
Trade	658.3	-1.6	0.9	-1.6	2.1
F.I.R.E.	138.8	6.3	3.8	6.3	0.7
Services	798.7	3.7	3.9	3.7	4.6
Government	486.0	5.3	2.5	5.3	1.3

Unemployment Rates (%)

	Jan-01	Dec-00	Nov-00	Oct-00	Jan-00
Alaska	6.1	5.9	6.2	6.3	7.0
Oregon	4.4	4.2	4.4	4.7	5.2
Washington	5.0	5.0	5.1	5.2	5.0
U.S.	4.2	4.0	4.0	3.9	4.0

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—January 2001

	3-mo. average number	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Alaska	221.2	9.3	-5.6
Oregon	1946.0	21.7	-6.0
Washington	4116.3	17.1	-1.9

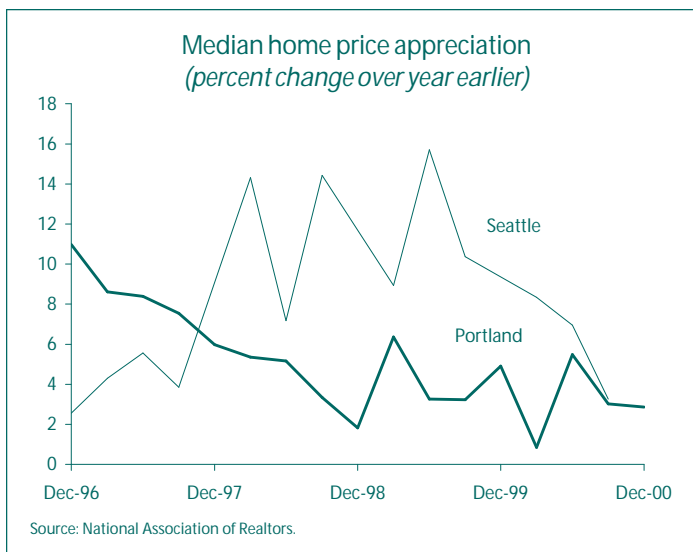
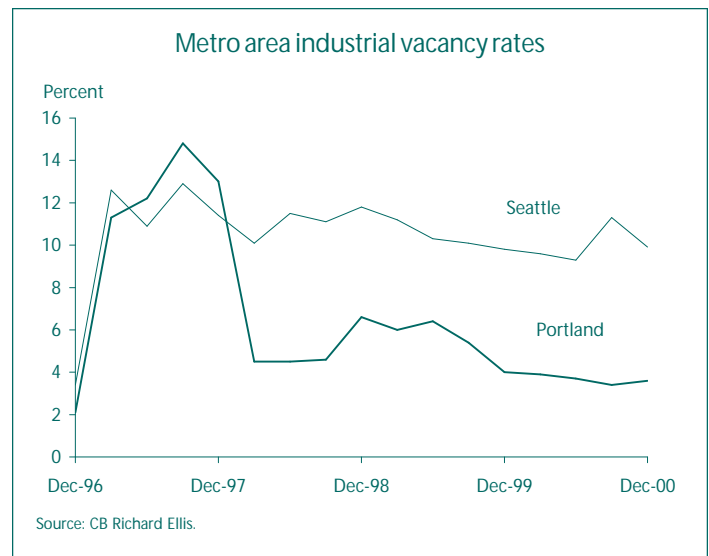
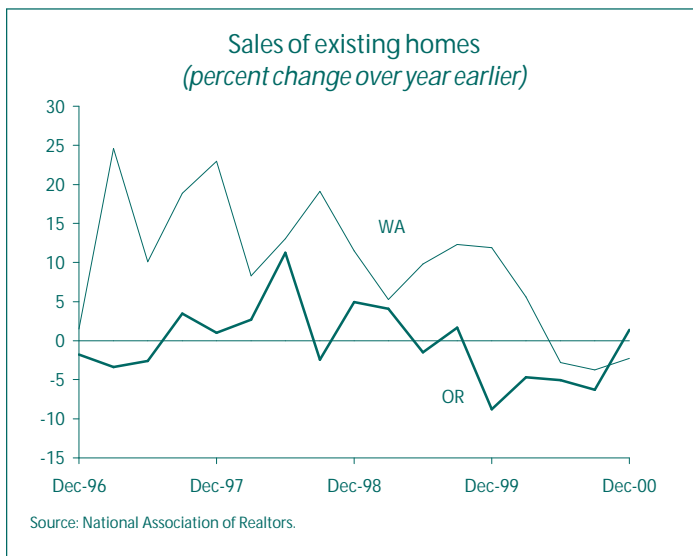
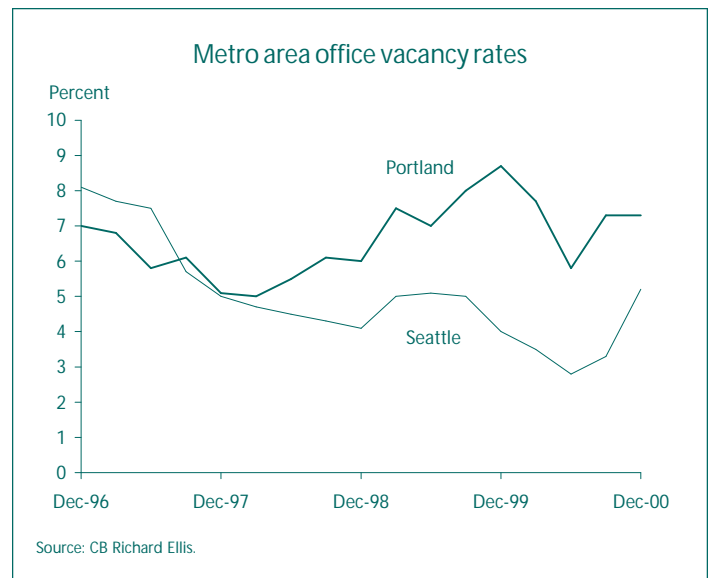
Source: Bureau of the Census.

Non-residential construction awards—January 2001

	3-mo. average \$ millions	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Alaska	46.2	53.1	7.9
Oregon	163.3	-20.7	8.2
Washington	430.0	18.4	4.6

^a Underlying data are seasonally adjusted moving averages.

Source: F.W. Dodge.



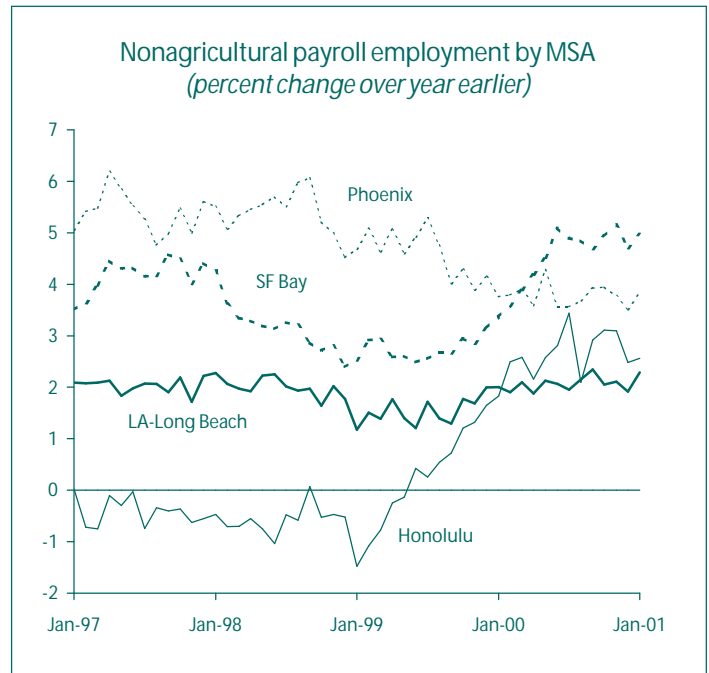
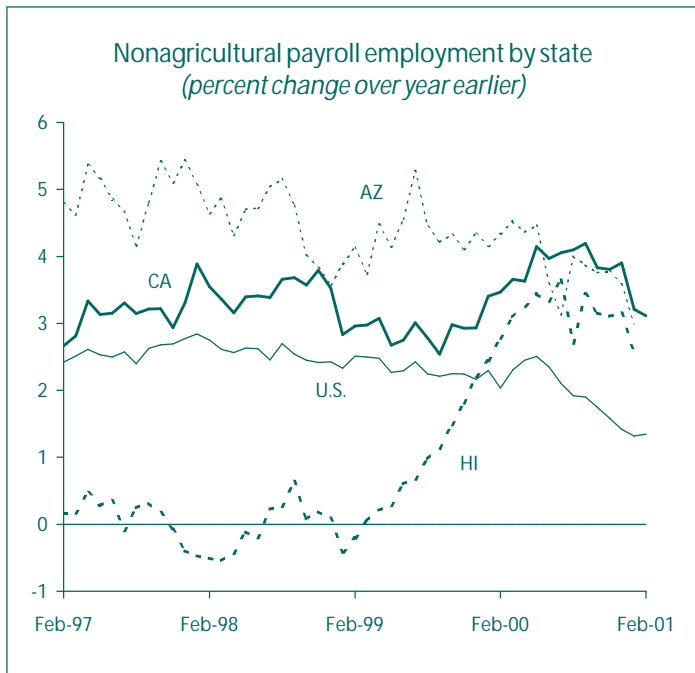
Export update—January 2001

	\$ billions		Percent Change		
	2000	YTD	1999	2000	YTD ^a
Alaska	2.4	0.1	32.7	-5.6	-71.2
Oregon	10.5	0.8	15.3	6.6	-24.1
Washington	31.2	1.9	-4.1	-13.1	-30.0

^a Percent change from same period a year earlier.
Source: Census FT900 Supplement, Origin of Movement Series.



Arizona • California • Hawaii



Employment by Industry

	Total Employed (thousands)		Percent Change		
	Jan-01	1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
Arizona					
Total	2,273.2	-3.7	0.4	-3.7	3.0
Mining	9.7	0.0	-4.0	0.0	-1.0
Construction	165.8	4.4	1.7	4.4	4.9
Manufacturing	216.6	-1.1	0.4	-1.1	1.5
T.C.P.U.	109.8	-9.3	-1.1	-9.3	2.3
Trade	528.5	-6.4	-0.8	-6.4	1.9
F.I.R.E.	144.5	-8.7	-1.6	-8.7	1.6
Services	727.7	-4.5	1.1	-4.5	4.3
Government	370.6	0.6	1.9	0.6	2.9
Hawaii					
Total	543.8	-9.2	-0.9	-9.2	2.6
Mining
Construction	22.8	0.0	0.0	0.0	6.2
Manufacturing	17.0	7.2	0.0	7.2	3.0
T.C.P.U.	41.7	-2.7	2.8	-2.7	4.9
Trade	135.5	-5.0	1.7	-5.0	2.9
F.I.R.E.	33.9	7.4	3.7	7.4	-1.2
Services	179.5	-5.6	1.1	-5.6	4.4
Government	113.4	-28.8	-9.8	-28.8	-1.2

	Total Employed (thousands)		Percent Change		
	Feb-01	1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
California					
Total	14,751.7	3.1	0.9	3.1	3.1
Mining	23.7	5.2	0.0	5.2	3.0
Construction	761.9	2.9	2.5	2.9	6.5
Manufacturing	1,946.0	-2.5	-0.4	-2.5	0.6
T.C.P.U.	761.0	-0.2	4.1	-0.2	3.5
Trade	3,344.9	5.8	-0.2	5.8	2.4
F.I.R.E.	837.4	5.8	1.1	5.8	2.2
Services	4,729.7	4.9	0.4	4.9	4.6
Government	2,347.1	1.0	3.0	1.0	2.6

Unemployment Rates (%)

	Jan-01	Dec-00	Nov-00	Oct-00	Jan-00
Arizona	3.9	3.7	3.7	3.8	4.2
Hawaii	4.1	4.2	4.1	4.1	4.8
U.S.	4.2	4.0	4.0	3.9	4.0
	Feb-01	Jan-01	Dec-00	Nov-00	Feb-00
California	4.5	4.6	4.7	4.8	4.9

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—January 2001

	3-mo. average number	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Arizona	4,468.5	-12.9	-5.7
California	14,278.9	25.0	10.6
Hawaii	418.0	28.8	11.3

Source: Bureau of the Census.

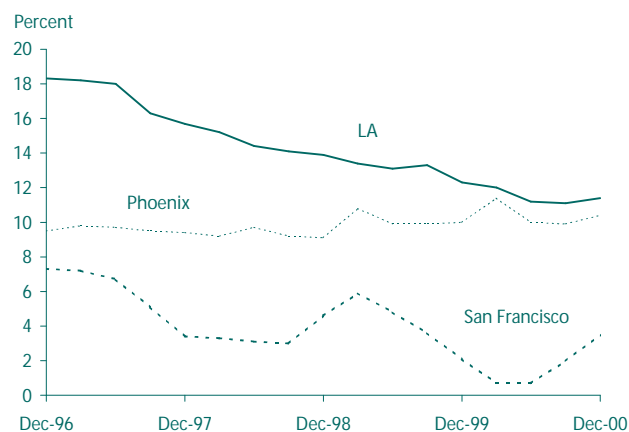
Non-residential construction awards—January 2001

	3-mo. average \$ millions	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Arizona	406.6	37.9	21.3
California	1,703.5	8.3	16.1
Hawaii	25.5	21.4	-59.2

^a Underlying data are seasonally adjusted moving averages.

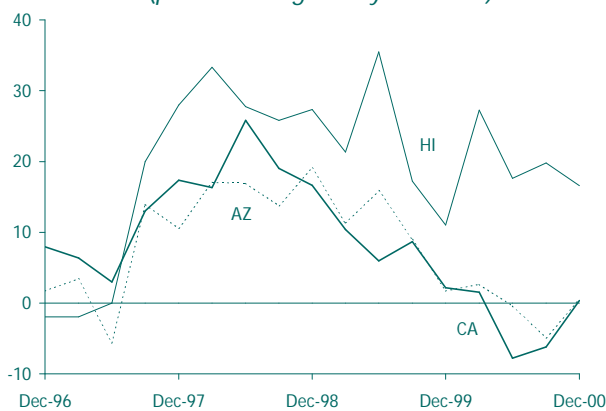
Source: F.W. Dodge.

Metro area office vacancy rates



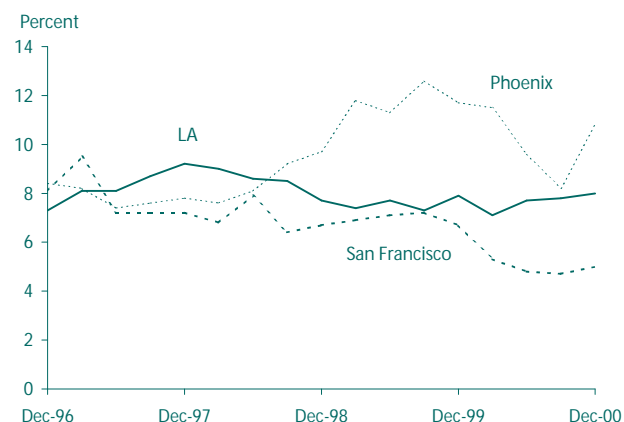
Source: CB Richard Ellis.

Sales of existing homes (percent change over year earlier)



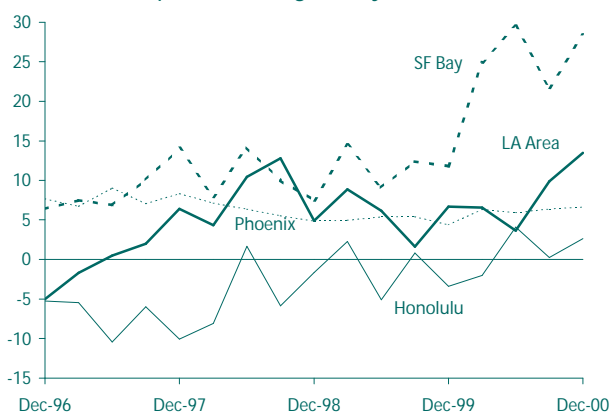
Source: National Association of Realtors.

Metro area industrial vacancy rates



Source: CB Richard Ellis.

Median home price appreciation (percent change over year earlier)



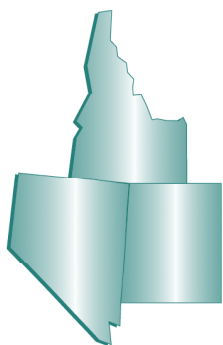
Source: National Association of Realtors.

Export update—January 2001

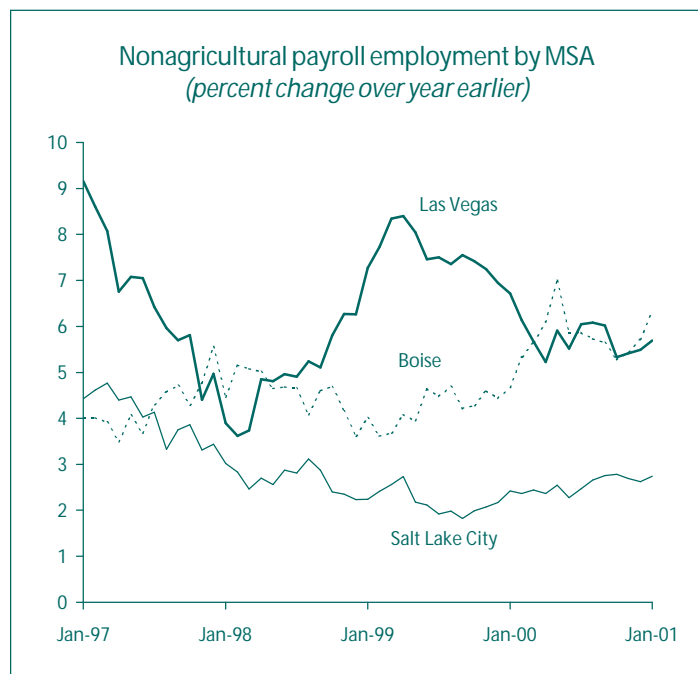
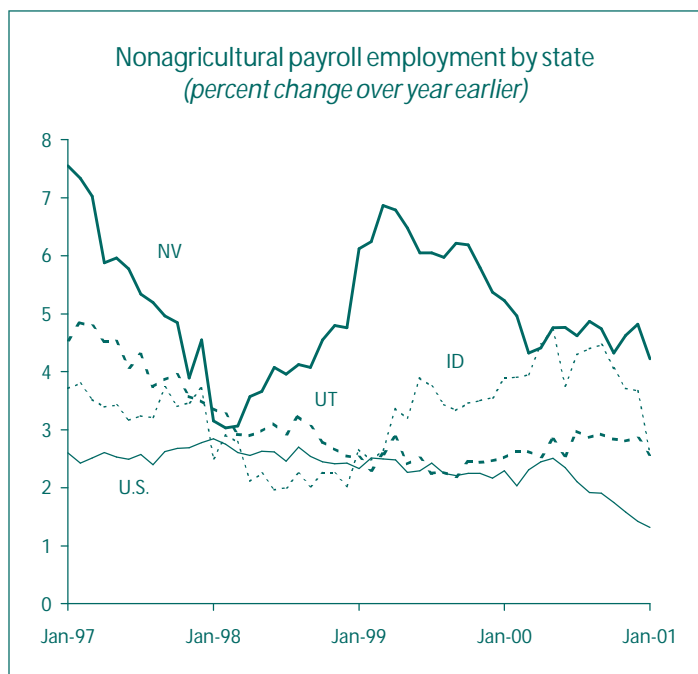
	\$ billions		Percent Change		
	2000	YTD	1999	2000	YTD ^a
Arizona	13.2	1.2	3.8	19.0	19.1
California	100.9	8.6	0.1	19.5	24.0
Hawaii	0.3	0.0	0.0	33.4	-4.9

^a Percent change from same period a year earlier.

Source: Census FT900 Supplement, Origin of Movement Series.



Idaho • Nevada • Utah



Employment by Industry

	Total Employed (thousands)	Percent Change				
		Jan-01	1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
Idaho						
Total	564.0	-8.3	-1.6	-8.3	2.6	
Mining	2.5	0.0	0.0	0.0	0.0	
Construction	35.5	-35.1	-12.5	-35.1	-1.7	
Manufacturing	76.9	6.5	2.1	6.5	0.3	
T.C.P.U.	27.9	-8.2	-5.5	-8.2	1.5	
Trade	143.7	-11.0	-3.8	-11.0	3.8	
F.I.R.E.	23.6	-9.6	-1.7	-9.6	0.4	
Services	144.8	-13.8	-0.3	-13.8	4.9	
Government	109.1	4.5	1.9	4.5	2.2	
Nevada						
Total	1051.6	-1.6	3.6	-1.6	4.2	
Mining	10.8	-10.5	-3.6	-10.5	-3.6	
Construction	88.8	-2.7	5.6	-2.7	2.7	
Manufacturing	45.9	8.2	8.2	8.2	5.3	
T.C.P.U.	58.2	2.1	7.2	2.1	6.4	
Trade	224.3	5.5	7.7	5.5	7.0	
F.I.R.E.	48.7	5.1	4.2	5.1	6.1	
Services	451.6	-6.2	0.5	-6.2	3.0	
Government	123.3	-2.9	3.6	-2.9	3.4	

	Total Employed (thousands)	Percent Change			
		Jan-01	1-mo. ^a	3-mo. ^a	YTD ^a
Utah					
Total	1,090.4	-0.3	1.5	-0.3	2.6
Mining	8.2	15.9	0.0	15.9	3.8
Construction	73.2	-7.8	0.5	-7.8	0.1
Manufacturing	131.6	-0.9	-0.9	-0.9	0.3
T.C.P.U.	60.1	-19.6	-7.6	-19.6	0.5
Trade	254.1	-0.9	0.6	-0.9	1.7
F.I.R.E.	58.6	17.9	8.6	17.9	2.3
Services	317.2	-0.8	3.0	-0.8	5.1
Government	187.4	5.9	3.5	5.9	2.9

Unemployment Rates (%)

	Jan-01	Dec-00	Nov-00	Oct-00	Jan-00
Idaho	4.5	4.8	4.8	4.8	5.0
Nevada	4.2	4.4	4.4	4.3	4.2
Utah	3.5	3.2	3.2	3.2	3.4
U.S.	4.2	4.2	4.0	4.0	4.0

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—January 2001

	3-mo. average number	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Idaho	946.8	8.5	-2.8
Nevada	3,012.1	8.9	3.2
Utah	1,326.1	-0.8	-7.5

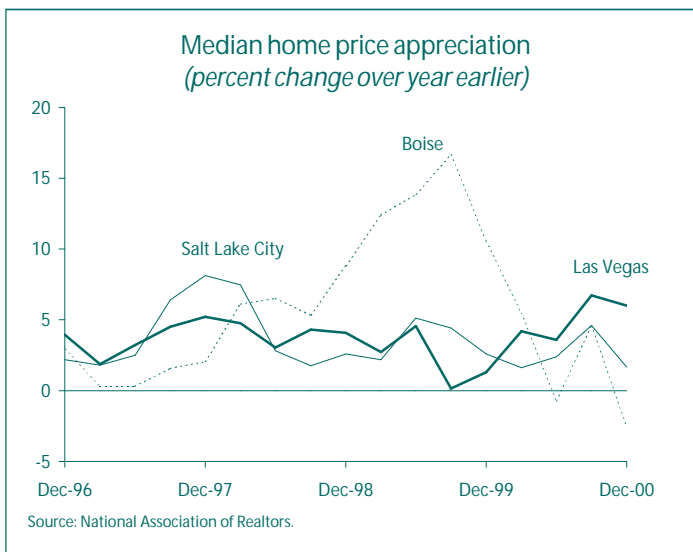
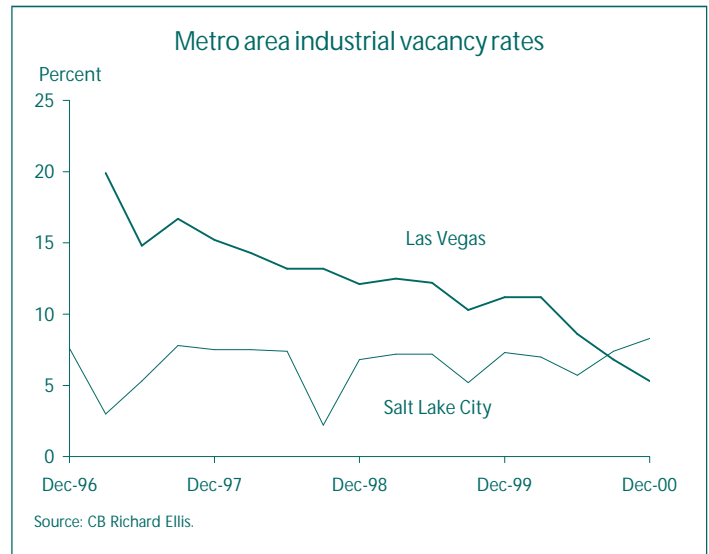
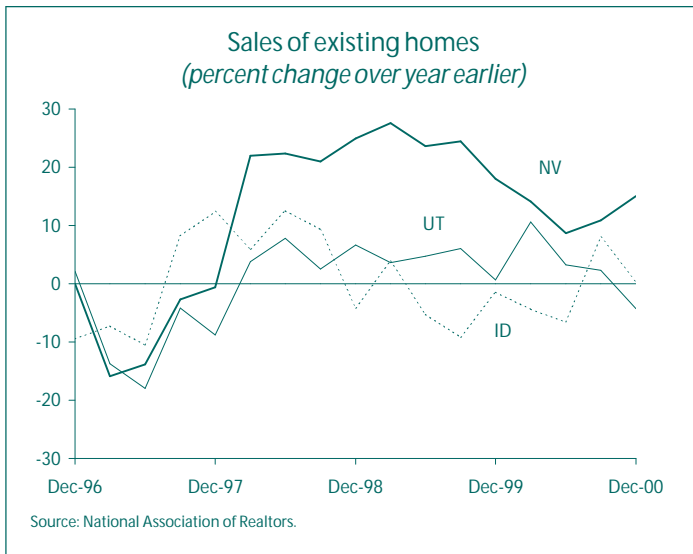
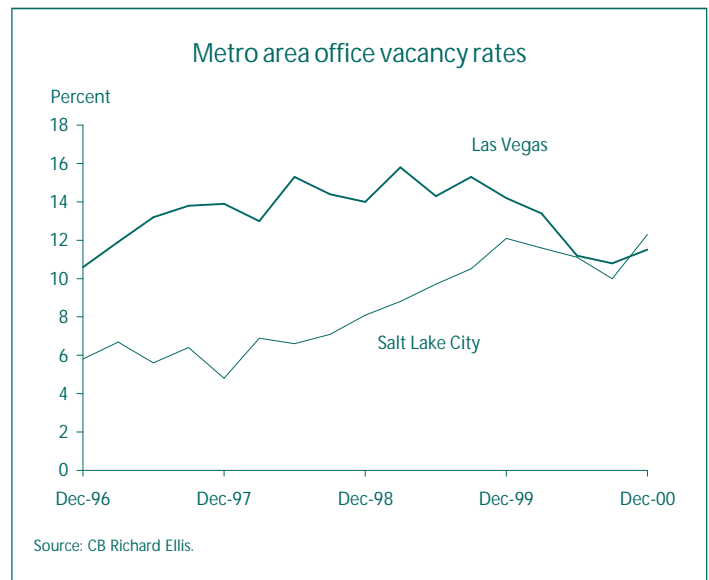
Source: Bureau of the Census.

Non-residential construction awards—January 2001

	3-mo. average \$ millions	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Idaho	57.1	-19.7	-2.4
Nevada	178.9	-2.7	34.5
Utah	124.9	-13.1	-14.2

^a Underlying data are seasonally adjusted moving averages.

Source: F.W. Dodge.



Export update—January 2001

	\$ billions		Percent Change		
	2000	YTD	1999	2000	YTD ^a
Idaho	3.2	0.2	42.6	53.6	29.8
Nevada	1.0	0.1	41.5	21.8	49.2
Utah	3.1	0.3	5.1	1.7	1.7

^a Percent change from same period a year earlier.
Source: Census FT900 Supplement, Origin of Movement Series.

2001 Issues

Mailing Dates

March	March 30
June	July 3
October	October 9
December	December 18

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