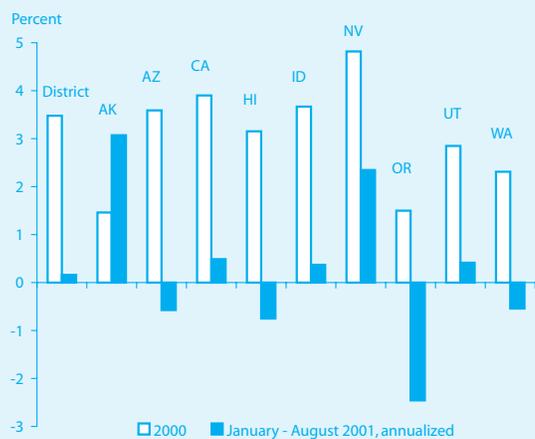


# Western Economic Developments



## Tragedy reduces Twelfth District economic growth prospects

Figure 1: District employment growth by state



Source: Bureau of Labor Statistics

Figure 2: Total nonagricultural employment (annualized growth over previous quarter)



Source: Bureau of Labor Statistics

The September 11<sup>th</sup> attacks on New York City and Washington, D.C., were tragic and horrifying, and their human toll is beyond measure. The shock of the events had the immediate effect of sharply curtailing consumer spending and travel. In the weeks since the attacks, there has been some recovery, but economic activity overall remains depressed. The recent slowdown along with heightened uncertainty will weigh heavily on a District economy that already had slowed substantially prior to September.

For example, before September the high-tech slowdown had deepened and spread broadly across the Twelfth District economy. Moreover, with the slowing economy and rising unemployment, consumers already were in a more cautious frame of mind, as reflected in declining consumer confidence and cooling housing markets.

The most clear negative impact of the attacks has been and will continue to be focused on the air travel and tourism sectors. Reports indicate that airline bookings have been running 50 percent or more below normal. As a result, substantial layoffs are underway or planned by airports, airlines, and firms in other segments of the travel industry. Due to the reliance on travelers who arrive by air in

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many parts of the District, hotel occupancy rates also have been well below normal. These effects have been felt throughout the District, although they are likely to be most severe in states with the largest dependence on tourism, notably Hawaii and Nevada. Due to the bleak outlook for air travel going forward, Boeing immediately cut its estimated deliveries of commercial aircraft next year by 20 percent, with substantial additional cuts possible in 2003. In Washington, as many as 20,000 Boeing jobs could be lost by the end of next year, up to nearly one-fourth of the current total in that state.

The anxiety following the attacks also led to an immediate, sharp reduction in general retail spending in the District. Reports indicate that retail sales were down 10 to 30 percent during the week of the attacks (including the weekend following). Since then, retail sales among large discount stores have recovered, although sales at department stores generally have remained depressed. As a result, for some apparel manufacturers, clothing orders for spring reportedly are running well below pre-attack expectations.

The post-attack effects on high-tech manufacturers are likely to be mixed. Reports indicate that sales increased immediately for certain high-tech products, notably data storage devices and services, wireless communications products for consumers and businesses, and teleconferencing and videoconferencing equipment. Sales of military technology and equipment and other high-tech data and security devices also are likely to increase in coming months, as the federal government explores military options and businesses and individuals alter their behavior in response to newly perceived security threats.

Overall, the primary economic impact of the terrorist attacks in the Twelfth District will be a potentially large dampening effect on consumer confidence. It is difficult to assess how that will translate into effects on consumer spending and overall economic activity. However, the outlook going forward has been substantially weakened.

**Economic Conditions Prior to September 11, 2001**

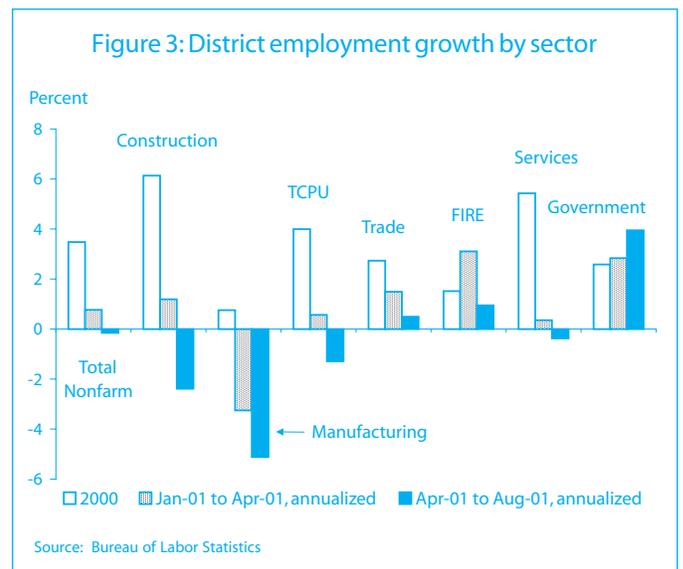
**District employment growth slows further**

The District's expansion has slowed substantially in 2001 (see Figure 1, page 1). Continuing deceleration has been evident as the year has progressed, as the economic slowdown that began in the technology sector has spread to other sectors.

The slowdown in District employment growth initially lagged behind and was not as pronounced as that for the rest of the nation. Since early this year, however, District employment growth has been nearly as sluggish as growth in the remainder of the nation, and it worsened in the last two months (see Figure 2, page 1). Following slight job gains in the second quarter, District total nonagricultural employment fell 1 percent at an annual rate over the past two months. Employment in the rest of the nation also fell on net during those two months, but not as much as in the Twelfth District.

District job cuts in recent months continued to be most pronounced in the durable manufacturing sector, as high-tech manufacturing firms reduced payrolls to adjust to ongoing weak worldwide demand for computer and communications equipment (Figure 3). District durable manufacturing firms have reduced payrolls at about a 5 percent annual rate this year; this pace was relatively constant during the months of April through August. Nondurable manufacturers also have been shedding jobs this year, with especially large losses recorded in July and August (primarily in the apparel manufacturing and food processing sectors). On net, about 85,000 District manufacturing jobs have been lost so far this year.

As of the second quarter, job losses had spread to sectors besides manufacturing, notably construction and transportation, and these losses have accelerated as the year has progressed. Following modest job cuts in the second quarter, construction firms throughout the District reduced employment substantially in July and August, as did providers of



transportation services by truck, train, and air. Among other sectors, wholesale and retail trade, finance, insurance, and real estate (FIRE), and services all have exhibited slower employment growth in recent months, with each recording net losses District-wide during the months of July and August.

Within California, conditions remain much weaker in the tech-dominated northern portion of the state than in Southern California. Total nonagricultural employment in the broad Southern California area has grown 1.3 percent on an annual basis this year, with weakness in the spring followed by a pickup in June and July. By contrast, Northern California has seen five consecutive months of job losses since February, with employment contracting at a 2.4 percent pace in the second quarter and a 1.8 percent pace in June and July.

The different growth performance between Northern and Southern California reflects the technological focus of the ongoing slowdown. High-tech manufacturing and services jobs account for 26 percent of the value of total payrolls in Northern California, compared to 9.6 percent in Southern California, about the same as the national average (the aerospace sector is not included among high-tech industries for this calculation). Moreover, the San Francisco Bay Area, as the recipient of the largest nationwide share of internet-related venture capital financing and IPOs during the dot-com boom, has experienced the largest adverse consequences of the dot-com implosion.

Among other District states, those with extensive technology sectors have experienced the earliest and most significant slowing this year. The states with the largest growth swings this year compared to last year have been Arizona and Oregon, with growth slowing about 4 percentage points in each. However, employment growth last year was much slower in Oregon than in Arizona, so the slowdown this year implies employment losses at a 2.5 percent pace in Oregon, compared to losses at a 0.6 percent pace in Arizona.

Growth in virtually all other District states has slowed substantially this year. In states such as Idaho, Washington, and Utah, job losses in high-tech manufacturing and services have been key restraining factors. However, growth also has slowed noticeably in Nevada and Hawaii, which are much less tech-intensive than the national average. Both states grew more slowly during the first half of the year than in 2000, and both experienced sharp net job losses in July and August. In Nevada, the state's key hotel and gaming

sector has been contracting all year, and the restraining effects on Nevada's economy were reinforced by reduced construction employment in July and August. In Hawaii, the recent contraction was broadbased. Hawaiian hotel occupancy rates in August were about 2 percentage points below their level from the same month last year, and hotels have been reducing payrolls at about a 1 percent pace this year. Underlying this weakness in Hawaii's tourism sector is a decline in domestic visitor days for the first eight months of this year compared to the same period last year, which has mostly offset an increase in international visitor days.

Rising job losses and slower economic activity have produced increased slack in labor markets and commercial real estate markets in the District. The District unemployment rate has risen from a low of 4.5 percent in January 2001 to 5.2 percent in August. It changed very little between June and August, rising only one-tenth of a point. Underlying this, however, was very weak growth in the civilian labor force combined with slight losses in civilian employment; these underlying trends indicate more labor market weakness than is reflected in the unemployment rate alone. Nonetheless, the District unemployment rate remains low by historical standards. At 5.2 percent, it is only slightly above the low of 5.0 percent reached shortly after the end of the 1980s cyclical expansion (in early 1990).

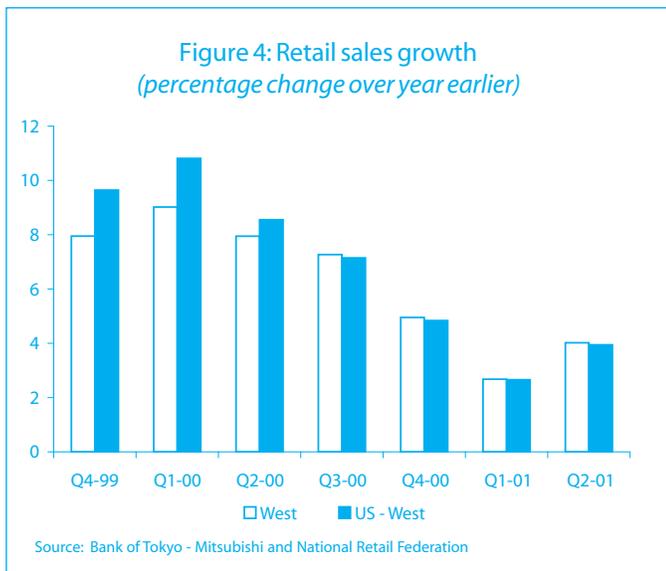
Vacancy rates for office and industrial space have risen in most major metropolitan areas in the District this year, with especially large increases in the previously very tight office markets of San Francisco/Silicon Valley and Seattle. In San Francisco, office vacancies rose from a low of 1.6 percent in the first half of 2000 to 10.3 percent in 2001.Q2; in Seattle, they rose from 2.4 percent to 9.4 percent between 2000.Q2 and 2001.Q2. Even the Los Angeles area, where vacancy rates for office and industrial space had been declining through the end of 2000, has seen an increase of about 1 to 1½ points this year.

### **Consumer spending, housing demand ease**

Although District consumer spending remained at high levels in recent months, growth in retail spending had slowed substantially even prior to September. Available data for the West region<sup>1</sup> and the nation indicate that growth in nominal retail sales slowed substantially in 2001.Q1, falling from a growth rate of about 10 percent in the first quarter of

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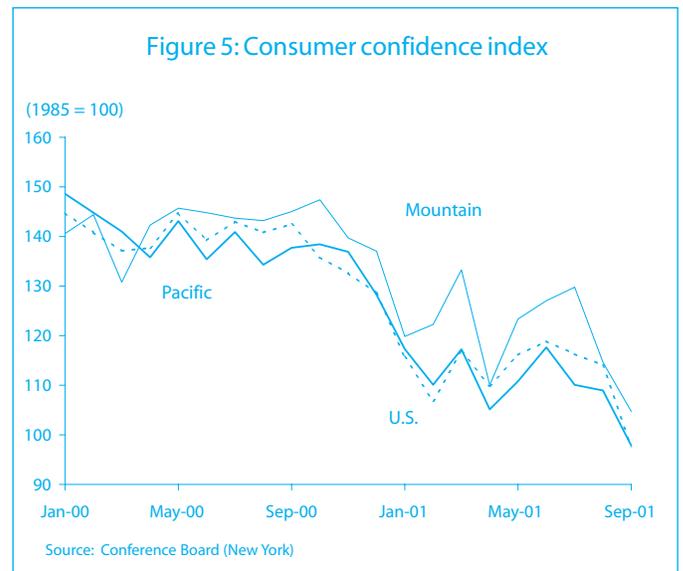
<sup>1</sup> The West includes the Twelfth District, Colorado, New Mexico, Montana, and Wyoming.



2000 to about 2.5 percent in the first quarter of 2001 (Figure 4). However, the pace picked up again in the second quarter. The U.S. Commerce Department's national retail sales figures for July and August point to growth only slightly below the second quarter pace, which is likely to hold for the West region as well.

Moreover, the Conference Board's consumer confidence indices were showing some signs of recovery prior to September. For the nation as a whole and the Mountain and Pacific regions, the overall index (which combines an assessment of the present situation and future expectations) dropped sharply in late 2000 and early 2001 (Figure 5). Between September 2000 and April 2001, the drop in the consumer confidence index was close to 25 percent for the nation as a whole and the two regions that contain the Twelfth District. During the months of May through August, the overall confidence indices recovered somewhat. However, the September report on consumer confidence, which is based on survey information mostly collected prior to the September 11<sup>th</sup> terrorist attacks, was very negative, with one-month drops of 14 percent in the national confidence index and 9 to 10 percent in the Mountain and Pacific confidence indices. Thus, despite evidence of solid consumer spending in the District during the summer months, the prospects looking forward for District consumer spending were downbeat even prior to the terrorist attacks.

Available evidence suggests that District housing demand has eased as well. Appreciation in the median price of existing homes sold has slowed this year (through the second quarter) in most metropolitan areas of the District, as has



growth in the pace of home sales in most District states (see State Highlights). The key exception is Nevada, which has seen an acceleration in sales growth and price appreciation this year. Within California, sharp differences are evident between the northern and southern portions of the state. The San Francisco Bay Area has seen a sharp slowdown in price appreciation and sales since late last year, whereas price appreciation picked up in the Los Angeles area late last year and has remained at an elevated pace.

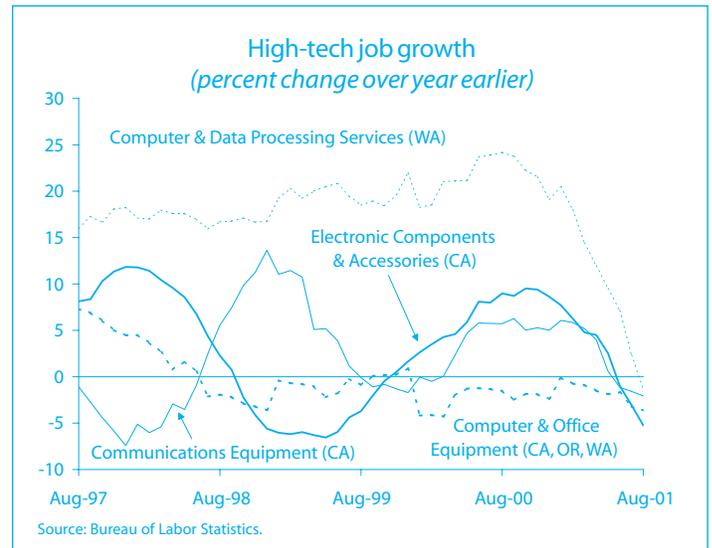
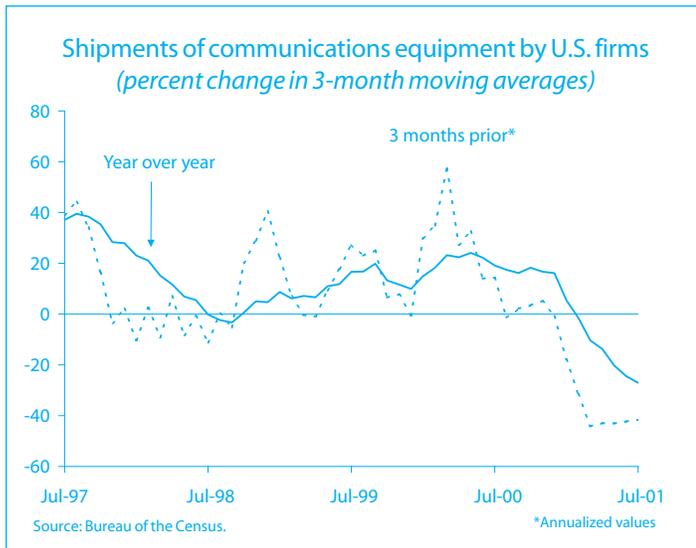
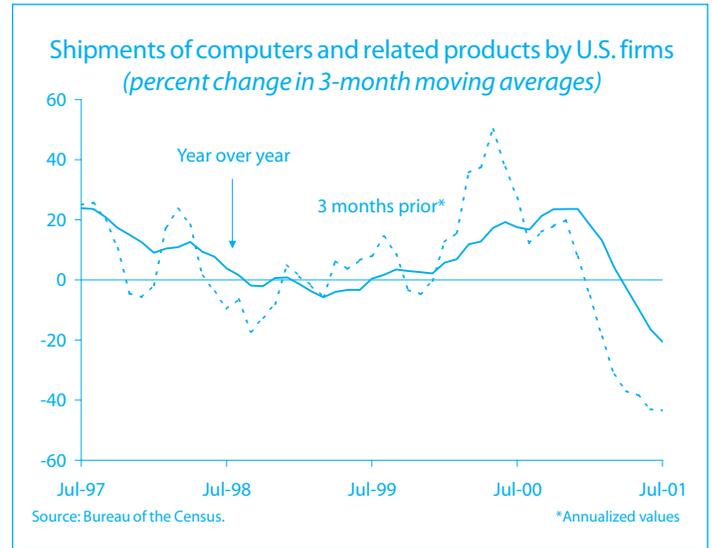
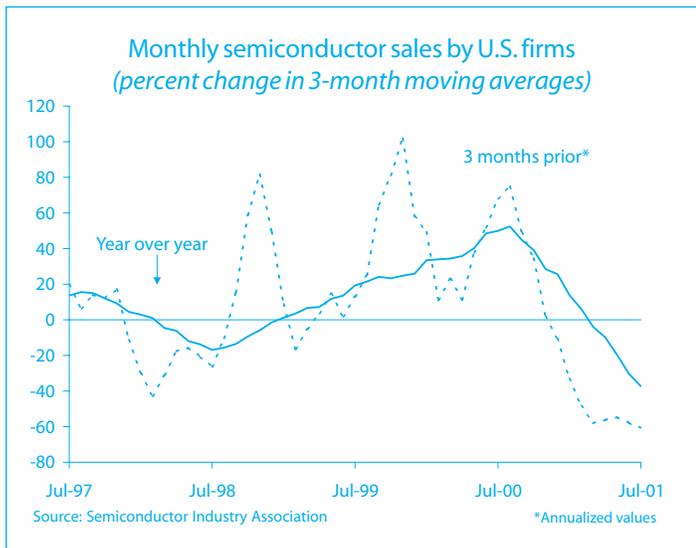
The net status of housing demand relative to supply, and builders' expectations for the future, is largely reflected in plans for new home construction. After increasing substantially in late 2000, the number of new residential building permits issued in California has dropped sharply this year (see State Highlights). According to data from the Construction Industry Research Board, the slowdown in planned home building in California primarily is due to the San Francisco Bay Area, where the number of new residential permits recorded for the first eight months of 2001 is about 13 percent below the number for the same period last year. The pattern for the District excluding California has been similar but less pronounced than that in California, with a slight pickup in late 2000 followed by slowing this year. In contrast, in the nation excluding the District, the pace of homebuilding has been increasing slowly since late last year. On net, housing demand appears to have eased more in the District than in the rest of the nation so far this year.

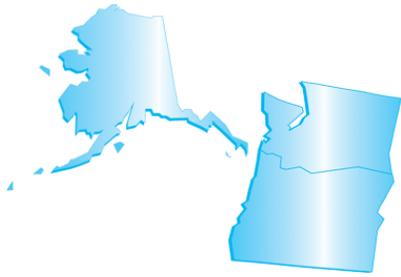
Contributions by Rob Valletta, Regional Studies Section  
Economic Research Department, FRBSF

# High-tech Watch

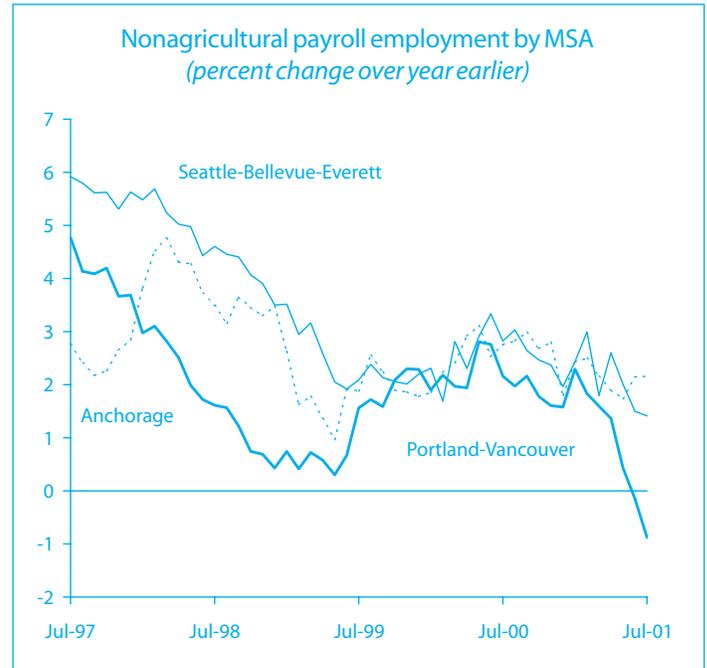
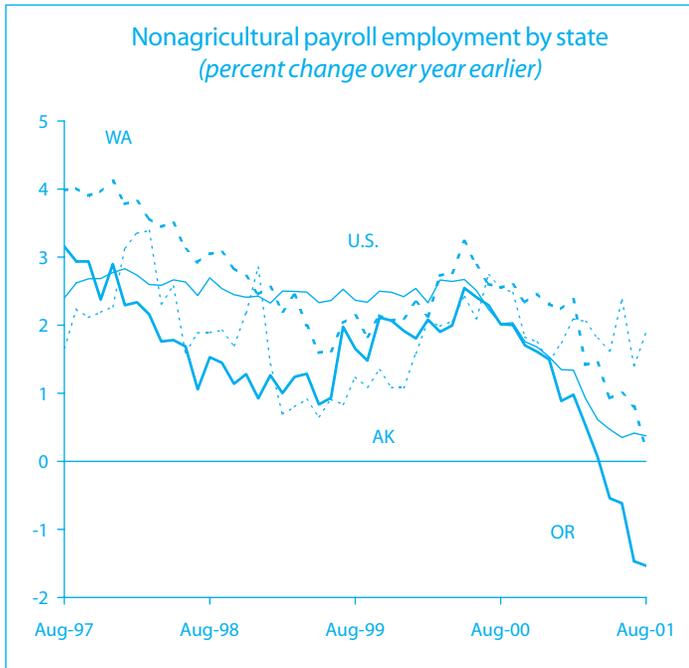
Conditions remained very weak in the District technology sector in recent months, although sales and shipment data through July suggest that the pace of decline may be stabilizing for high-tech equipment manufacturers. For semiconductors, computers and related products, and communications equipment, the values of new orders and shipments nationwide have been running well below their year-earlier levels. As of July, semiconductor sales were down 37 percent, and shipments of computers and related products and communications equipment were down 21 percent and 27 percent, respectively. On a year-earlier basis, the pace of decline has accelerated steadily this year. On a 3-month basis, the pace of decline has stabilized in the last

few months, although it has remained rapid for each of these series. As a result of continued sales declines, District high-tech companies have reduced payrolls substantially. For example, California makers of electronic components and accessories (including semiconductors) have reduced payrolls by about 11,000 jobs this year. The pace of decline accelerated during the summer, with cuts at double-digit rates recorded in the tech-related manufacturing sectors in California, Arizona, and Oregon. In the computer and data processing services sector in Washington, job counts began to fall a bit in the second quarter of this year, followed by large cuts—equal to 5.4 percent of total employment in the sector—in the months of July and August.





# Alaska • Oregon • Washington



## Employment by Industry

	Total Employed (thousands)	Percent Change				
		Aug-01	1-mo. <sup>a</sup>	3-mo. <sup>a</sup>	YTD <sup>a</sup>	12-mo.
		<b>Alaska</b>				
Total	290.5	6.0	3.4	3.1	1.9	
Mining	11.6	10.9	3.5	5.4	10.5	
Construction	15.0	8.4	8.4	6.3	4.9	
Manufacturing	13.5	151.8	31.8	5.8	-0.7	
T.C.P.U.	27.5	9.2	0.0	2.8	0.4	
Trade	58.2	2.1	-0.7	-0.3	0.7	
F.I.R.E.	12.8	9.9	3.2	1.2	0.8	
Services	76.8	4.8	6.5	6.4	3.9	
Government	75.1	-7.7	-0.5	1.4	0.3	

<b>Oregon</b>					
Total	1,586.1	-3.5	-3.0	-2.5	-1.5
Mining	1.8	0.0	0.0	-7.8	-5.3
Construction	81.6	-17.3	-17.4	-10.7	-5.4
Manufacturing	231.0	-9.8	-9.0	-8.6	-4.5
T.C.P.U.	79.3	-7.3	0.0	-2.8	-1.5
Trade	389.5	-1.5	-2.4	-1.7	-1.4
F.I.R.E.	95.5	6.5	1.3	1.4	1.6
Services	437.3	-6.6	-3.8	-2.3	-1.2
Government	270.1	7.4	5.5	3.5	0.5

	Total Employed (thousands)	Percent Change				
		Aug-01	1-mo. <sup>a</sup>	3-mo. <sup>a</sup>	YTD <sup>a</sup>	12-mo.
		<b>Washington</b>				
Total	2,731.7	-4.7	-1.8	-0.5	0.2	
Mining	3.6	-28.0	-10.4	4.3	0.0	
Construction	164.1	0.0	-1.4	-0.2	1.9	
Manufacturing	334.9	-11.7	-4.4	-4.9	-4.5	
T.C.P.U.	146.7	-9.3	-6.0	-3.4	-0.8	
Trade	654.4	-3.9	-1.3	-1.1	0.0	
F.I.R.E.	139.1	-1.7	-1.7	1.1	1.9	
Services	798.0	-4.5	-2.1	0.3	1.3	
Government	490.9	-1.9	1.0	2.2	1.2	

### Unemployment Rates (%)

	Aug-01	Jul-01	Jun-01	May-01	Aug-00
Alaska	6.7	6.2	5.8	5.6	6.5
Oregon	6.3	6.1	5.5	5.6	4.9
Washington	6.0	5.8	6.0	5.5	5.3
U.S.	4.9	4.5	4.5	4.4	4.1

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

<sup>a</sup> Annualized.

Source: Bureau of Labor Statistics.

### Residential permits—July 2001

	3-mo. average	Moving average percent change	
	number	3-mo. <sup>a</sup>	12-mo. <sup>a</sup>
Alaska	236.4	-5.1	40.8
Oregon	1,592.5	-8.1	5.8
Washington	3,261.9	-2.7	4.5

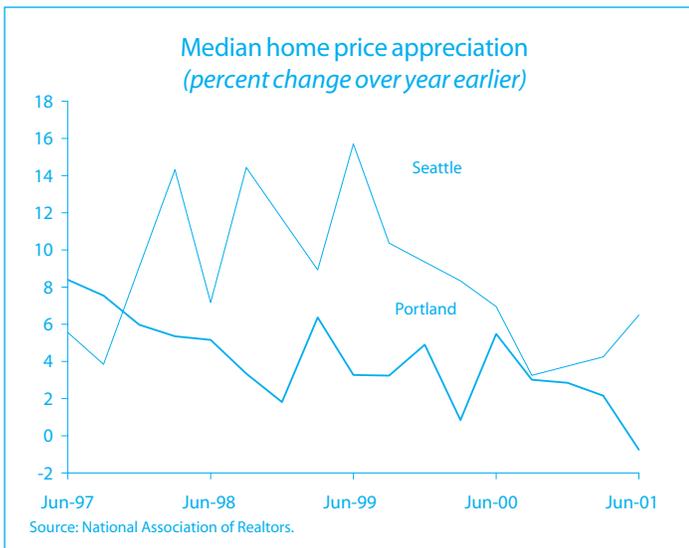
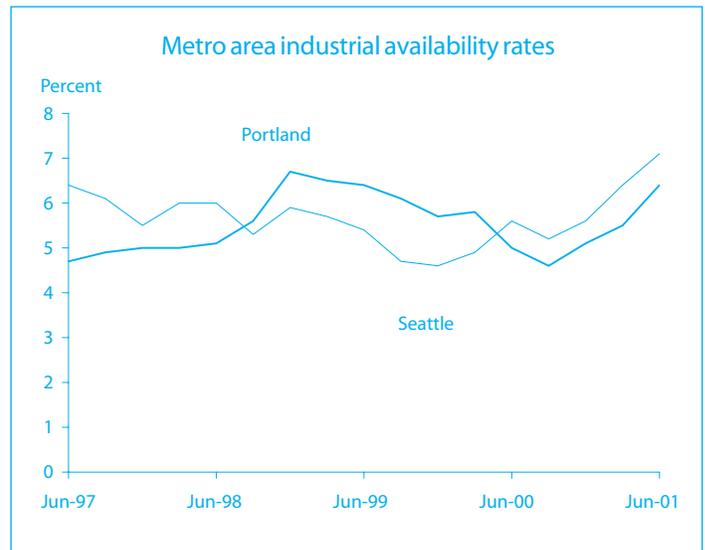
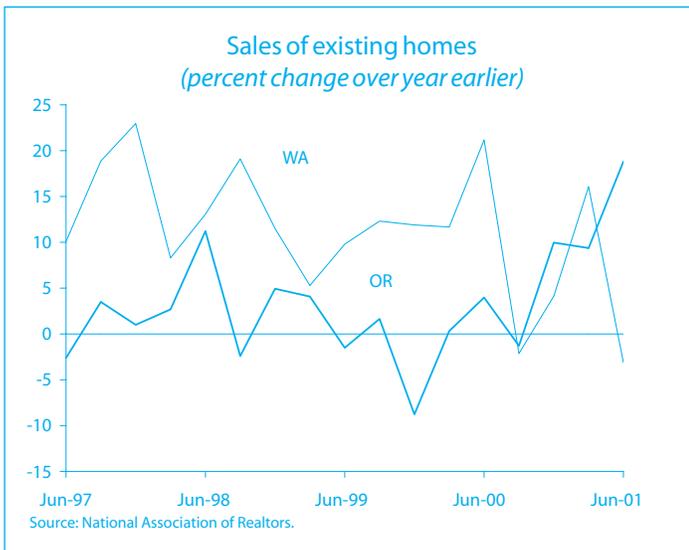
Source: Bureau of the Census.

### Non-residential construction awards—July 2001

	3-mo. average	Moving average percent change	
	\$ millions	3-mo. <sup>a</sup>	12-mo. <sup>a</sup>
Alaska	43.0	14.8	38.5
Oregon	176.2	-21.9	10.2
Washington	231.8	-58.1	12.8

<sup>a</sup> Underlying data are seasonally adjusted moving averages.

Source: F.W. Dodge.



**Export update—July 2001**

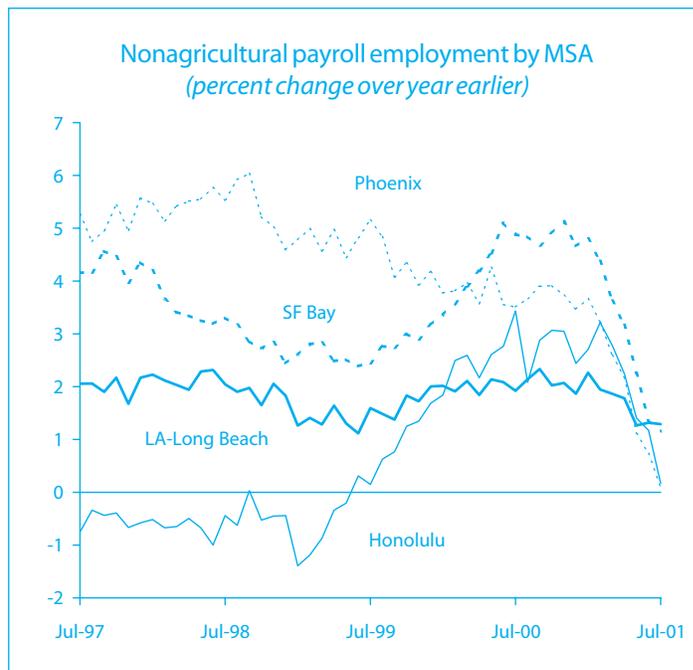
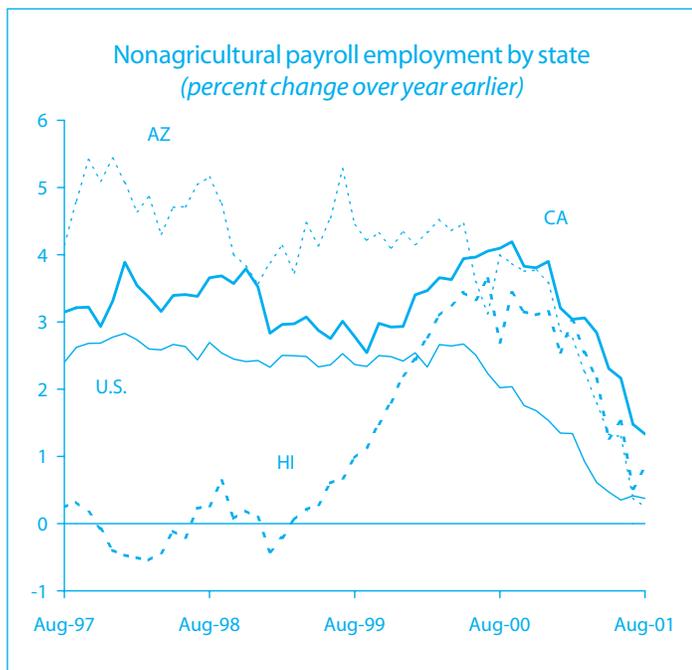
	\$ billions		Percent Change		
	2000	YTD	1999	2000	YTD <sup>a</sup>
Alaska	2.4	1.3	32.7	-5.6	-8.5
Oregon	10.5	4.7	15.3	6.6	-23.0
Washington	31.2	20.6	-4.1	-13.1	13.0

<sup>a</sup> 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			
		Aug-01	1-mo. <sup>a</sup>	3-mo. <sup>a</sup>	YTD <sup>a</sup>
<b>Arizona</b>					
Total	2,271.6	2.5	-0.9	-0.6	0.2
Mining	9.4	0.0	-4.1	-4.6	-4.1
Construction	163.7	-12.9	-9.4	-1.4	-0.1
Manufacturing	210.4	-4.5	-6.6	-4.4	-2.7
T.C.P.U.	109.6	-3.2	-1.4	-1.5	0.2
Trade	534.3	-1.1	1.1	0.8	1.0
F.I.R.E.	146.7	-1.6	0.3	1.1	1.7
Services	711.2	1.7	-5.9	-3.9	-1.9
Government	386.3	25.7	13.9	6.5	4.8
<b>Hawaii</b>					
Total	556.6	-2.1	-0.9	-0.7	0.8
Mining	.	.	.	.	.
Construction	23.2	5.3	-6.6	-5.0	-3.3
Manufacturing	17.7	7.0	2.3	3.5	1.7
T.C.P.U.	42.9	2.8	0.0	-1.4	0.5
Trade	139.8	0.9	-0.9	0.5	1.2
F.I.R.E.	33.5	-6.9	-5.8	0.4	0.9
Services	186.2	3.3	-2.1	-0.9	0.8
Government	113.3	-16.4	3.2	-2.0	1.3

	Total Employed (thousands)	Percent Change			
		Aug-01	1-mo. <sup>a</sup>	3-mo. <sup>a</sup>	YTD <sup>a</sup>
<b>California</b>					
Total	14,806.7	1.0	-0.2	0.5	1.3
Mining	23.3	5.3	0.0	-0.6	-0.9
Construction	764.0	1.7	-2.5	0.5	3.1
Manufacturing	1,901.3	-5.3	-6.3	-4.0	-2.6
T.C.P.U.	760.3	0.6	-2.0	0.1	1.2
Trade	3,368.7	2.2	0.3	1.5	1.4
F.I.R.E.	842.4	-0.3	0.0	2.1	2.2
Services	4,747.1	-0.3	0.0	-0.1	1.8
Government	2,399.6	7.4	5.2	3.7	2.8

### Unemployment Rates (%)

	Aug-01	Jul-01	Jun-01	May-01	Aug-00
Arizona	4.2	3.9	4.3	4.2	3.8
Hawaii	4.2	4.5	4.2	4.3	4.1
U.S.	4.9	4.5	4.5	4.4	4.1
California	5.2	5.0	5.1	4.9	5.0

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

<sup>a</sup> Annualized.

Source: Bureau of Labor Statistics.

### Residential permits—July 2001

	3-mo. average number	Moving average percent change	
		3-mo. <sup>a</sup>	12-mo. <sup>a</sup>
Arizona	4,800.7	-8.5	-2.6
California	10,989.2	-9.6	5.4
Hawaii	364.2	-14.9	18.2

Source: Bureau of the Census.

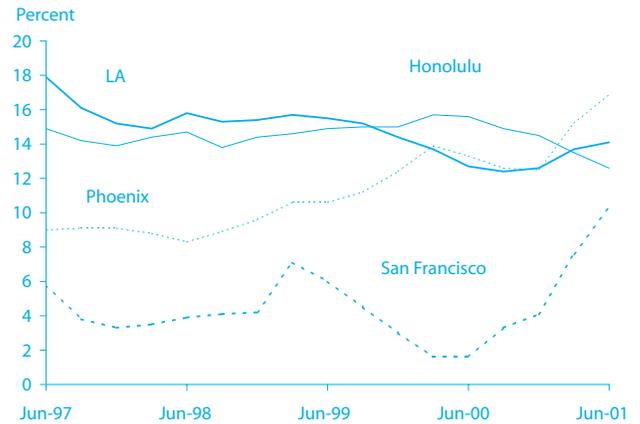
### Non-residential construction awards—July 2001

	3-mo. average \$ millions	Moving average percent change	
		3-mo. <sup>a</sup>	12-mo. <sup>a</sup>
Arizona	283.0	-17.4	-1.5
California	1,558.5	-5.9	20.3
Hawaii	38.2	20.8	-19.3

<sup>a</sup> Underlying data are seasonally adjusted moving averages.

Source: F.W. Dodge.

### Metro area office vacancy rates



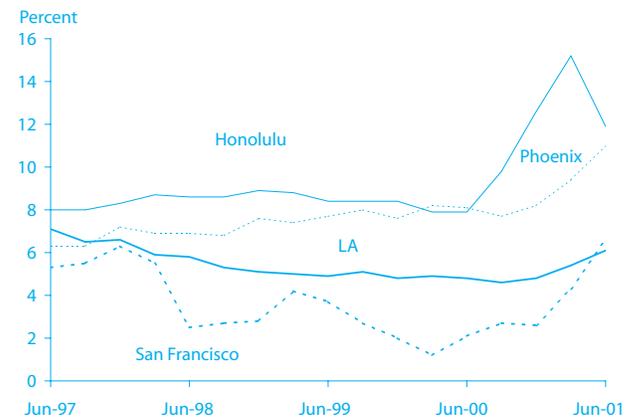
Source: Torto Wheaton Research.

### Sales of existing homes (percent change over year earlier)



Source: National Association of Realtors.

### Metro area industrial availability rates



Source: Torto Wheaton Research.

### Median home price appreciation (percent change over year earlier)



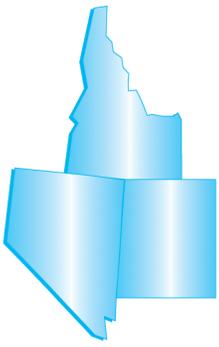
Source: National Association of Realtors.

### Export update—July 2001

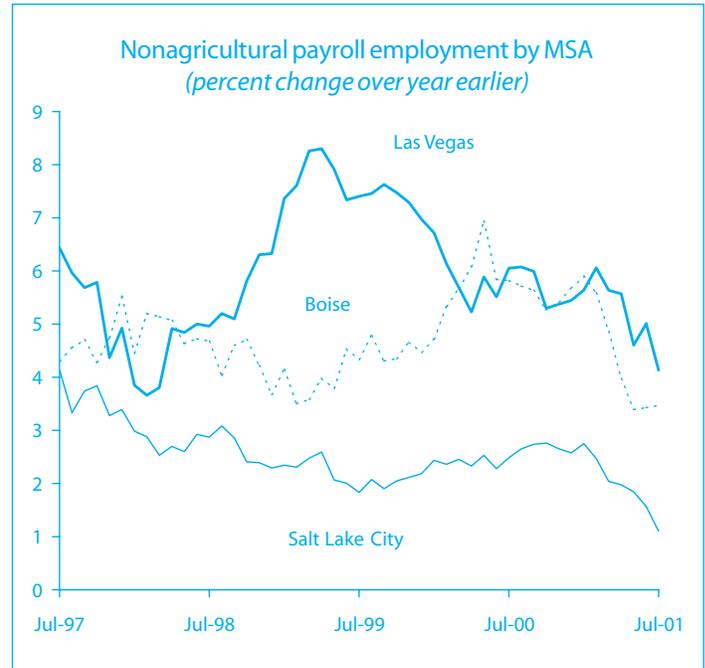
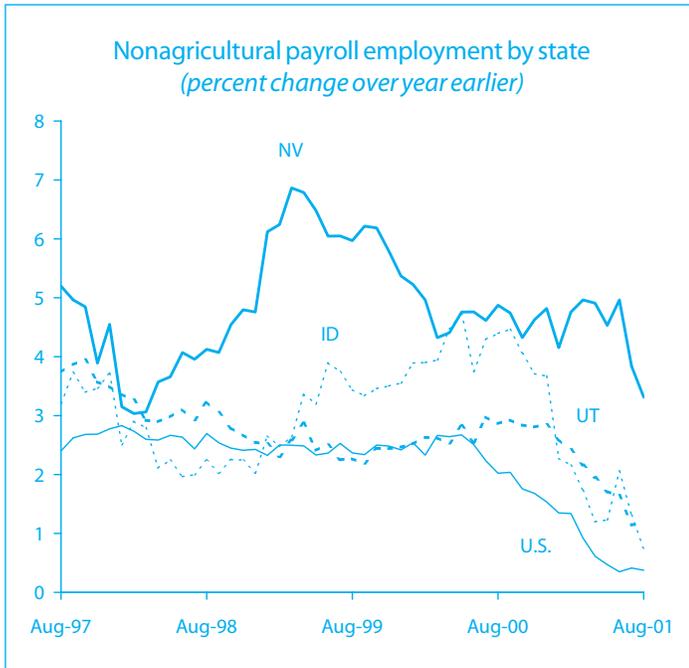
	\$ billions		Percent Change		
	2000	YTD	1999	2000	YTD <sup>a</sup>
Arizona	13.2	6.9	3.8	19.0	-8.3
California	100.9	55.9	0.1	19.5	1.7
Hawaii	0.3	0.2	0.0	33.4	19.5

<sup>a</sup> 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			
	Aug-01	1-mo. <sup>a</sup>	3-mo. <sup>a</sup>	YTD <sup>a</sup>	12-mo.	
<b>Idaho</b>						
Total	569.5	-2.5	0.9	0.4	0.7	
Mining	2.3	0.0	-15.7	-11.8	-8.0	
Construction	36.9	-9.3	14.1	0.4	0.8	
Manufacturing	76.0	-1.6	2.1	-1.0	-1.3	
T.C.P.U.	28.9	-4.1	7.2	4.3	2.1	
Trade	143.2	-6.5	-2.5	-2.0	-0.8	
F.I.R.E.	23.9	10.6	3.4	0.6	1.3	
Services	148.8	2.5	1.1	2.3	2.8	
Government	109.5	-4.3	-1.4	1.1	1.3	

	Total Employed (thousands)		Percent Change			
	Aug-01	1-mo. <sup>a</sup>	3-mo. <sup>a</sup>	YTD <sup>a</sup>	12-mo.	
<b>Utah</b>						
Total	1,093.7	1.7	0.1	0.4	1.2	
Mining	7.9	0.0	-13.9	-3.7	-4.8	
Construction	69.1	1.8	-7.2	-9.2	-5.3	
Manufacturing	129.3	-6.3	-1.8	-2.7	-1.9	
T.C.P.U.	62.1	10.2	6.7	2.2	1.3	
Trade	254.7	7.3	-0.2	0.2	1.0	
F.I.R.E.	59.3	2.0	3.4	3.9	3.7	
Services	321.0	-0.4	-1.1	1.7	3.0	
Government	190.3	0.6	4.3	3.1	2.4	

<b>Nevada</b>					
	Total	1-mo. <sup>a</sup>	3-mo. <sup>a</sup>	YTD <sup>a</sup>	12-mo.
Total	1,069.4	1.0	-0.4	2.3	3.3
Mining	10.3	-10.9	-10.8	-8.1	-5.5
Construction	90.6	-1.3	-2.2	2.7	3.1
Manufacturing	45.8	-2.6	-4.3	0.7	2.7
T.C.P.U.	58.6	2.1	-6.5	1.3	4.3
Trade	230.6	2.6	3.2	4.9	5.9
F.I.R.E.	49.6	-2.4	0.8	3.4	4.0
Services	456.9	-1.8	-2.3	1.0	1.9
Government	127.0	14.2	6.9	4.2	4.3

	<b>Unemployment Rates (%)</b>				
	Aug-01	Jul-01	Jun-01	May-01	Aug-00
Idaho	4.6	5.0	4.8	4.8	4.8
Nevada	4.8	4.7	4.6	4.4	3.8
Utah	3.8	3.9	3.6	4.0	3.2
U.S.	4.9	4.5	4.5	4.4	4.1

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

<sup>a</sup> Annualized.

Source: Bureau of Labor Statistics.

### Residential permits—July 2001

	3-mo. average number	Moving average percent change	
		3-mo. <sup>a</sup>	12-mo. <sup>a</sup>
Idaho	932.8	-11.5	6.8
Nevada	2,703.9	-19.1	16.5
Utah	1,561.1	-1.6	-1.4

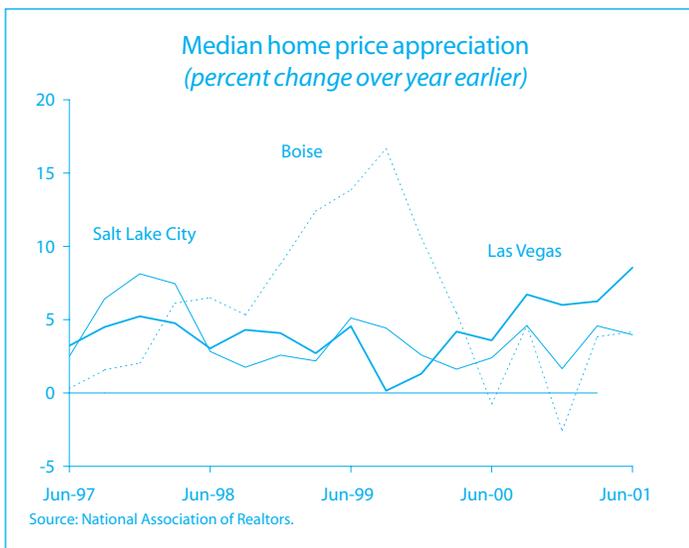
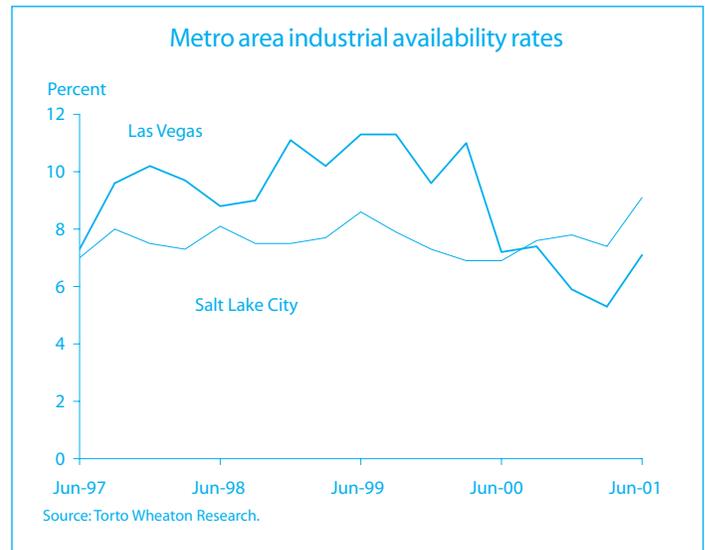
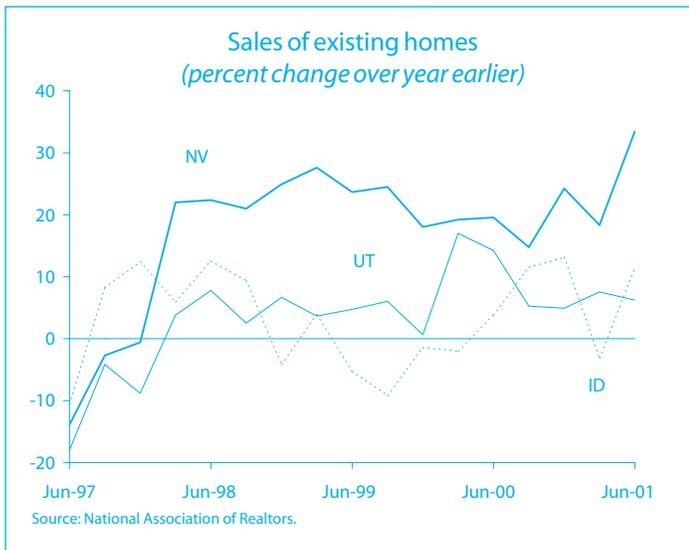
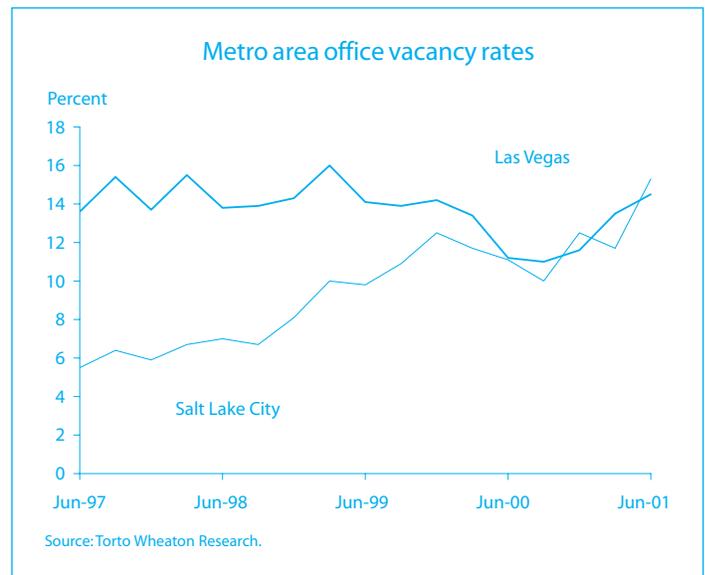
Source: Bureau of the Census.

### Non-residential construction awards—July 2001

	3-mo. average \$ millions	Moving average percent change	
		3-mo. <sup>a</sup>	12-mo. <sup>a</sup>
Idaho	76.4	42.1	-8.0
Nevada	120.9	-15.4	-10.8
Utah	107.3	-23.9	0.9

<sup>a</sup> Underlying data are seasonally adjusted moving averages.

Source: F.W. Dodge.



### Export update—July 2001

	\$ billions		Percent Change		
	2000	YTD	1999	2000	YTD <sup>a</sup>
Idaho	3.2	1.2	42.6	53.6	-21.6
Nevada	1.0	0.6	41.5	21.8	34.1
Utah	3.1	1.9	5.1	1.7	2.1

<sup>a</sup> 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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