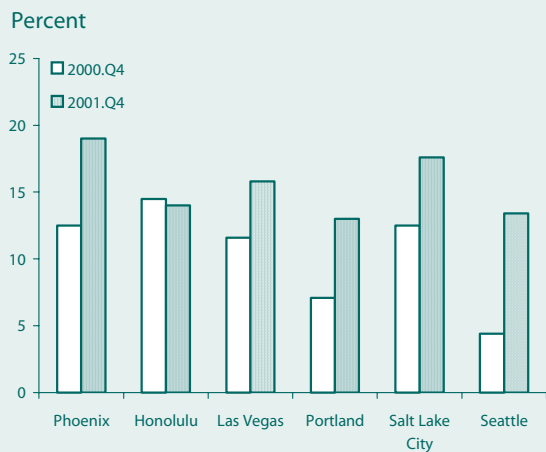


Western Economic Developments



Office market slumps, housing demand remains strong in District

Figure 1, panel A: Commercial office vacancies in selected District metropolitan areas

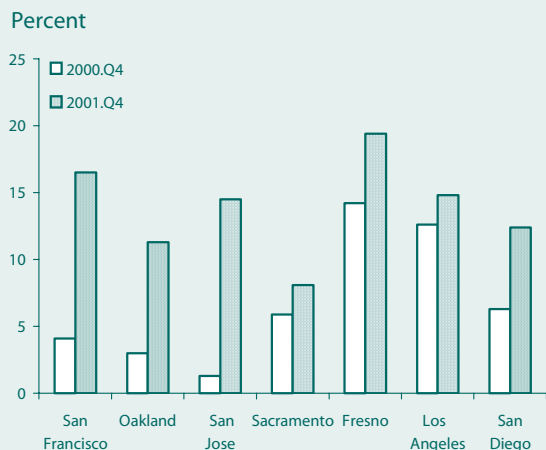


Source: Torto Wheaton Research.

Mirroring the pattern of weak business investment and strong consumer spending that characterized the recession, commercial real estate markets in the Twelfth District slumped in 2001, while housing demand remained strong. District office markets weakened considerably in 2001, with vacancy rates rising and lease rates falling in nearly all metro areas (Figure 1, panels A and B). The most pronounced rise in vacancy rates occurred in information technology intensive areas of the District including Portland, Phoenix, the San Francisco Bay Area, and Seattle. Between 2000:Q4 and 2001:Q4, vacancy rates in Seattle rose from 4.4% to 13.4%. Similar increases were recorded in many Bay Area cities; in San Francisco, vacancy rates jumped from 4.1% to 16.5%, and in San Jose, vacancy rates rose from 1.3% to 14.5%. Vacancies in Portland and Phoenix also increased during this period, although the jumps were less pronounced.

In other areas of the District, increases were more modest. For example, in Las Vegas and Salt Lake City, commercial office vacancies rose by 4.5 and 5.1 percentage points, respectively. Vacancies also rose in Southern California and the Central Valley.

Figure 1, panel B: Commercial office vacancies in selected California metropolitan areas



Source: Torto Wheaton Research.

MARCH 2002

IN THIS ISSUE

District adds jobs in January	3
District export values fall in 2001, led by high-tech	4
High-tech watch	5
STATE HIGHLIGHTS	
Alaska, Oregon, Washington	6
Arizona, California, Hawaii	8
Idaho, Nevada, Utah	10

Consistent with the surge in office vacancies, lease prices on office space fell in 2001 in most areas of the District. Net asking lease prices per square foot fell steeply in San Francisco and San Jose between the fourth quarters of 2000 and 2001, from \$56 to \$33 per square foot in San Francisco and from \$54 to \$33 per square foot in San Jose. Lease prices also fell sharply in Portland and Seattle.

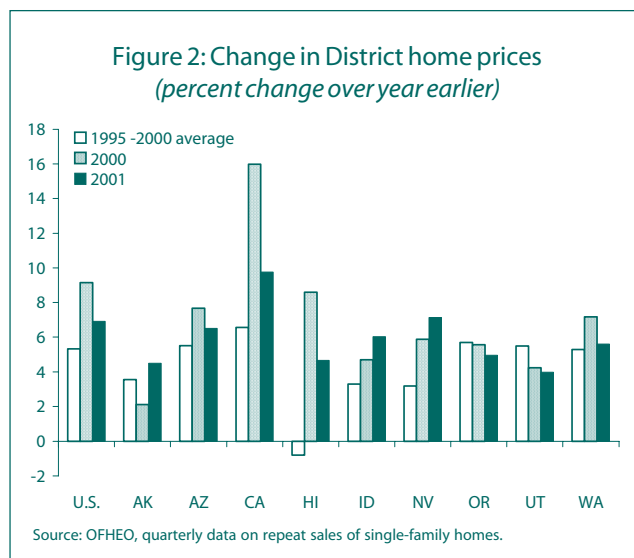
The deterioration of conditions in District office markets showed through to construction permits (see pages 6–11 for state data on nonresidential construction awards). Non-residential construction awards during the 12 months ending in January 2002 fell relative to the same period a year earlier. District nonresidential construction awards declined by about 10% in 2001, compared to about 6.2% in the rest of the U.S. Within the District, only Hawaii reported an increase in nonresidential awards during the 12 months ending in January 2002 relative to the same period a year earlier.

Looking forward, District contacts report that commercial real estate markets have begun to stabilize and that some of the projects put on hold in 2001 likely will start up again in coming months. Data on nonresidential awards for the three months ending in January lend some support to these views, with awards increasing over the previous three months in Alaska, Hawaii, Idaho, Nevada, Utah, and Washington.

Housing markets remain hot, although building stalls

While demand for District office space fell in 2001, no such decline occurred in District housing markets. Nominal price appreciation on housing remained quite rapid in 2001. Figure 2 shows year-over-year home price appreciation among District states in the fourth quarters of 2000 and 2001, and on average for the fourth quarters of 1995–2000.¹ The pace of home price appreciation in most District states in the fourth quarter of 2001 was higher than the 1995–2000 average, with appreciation rates surpassing 2000 levels in some states.

California recorded the fastest pace of appreciation, driven by strong demand for housing in the Central Valley and Southern California; home prices for the state as a whole rose 9.8% in 2001, down from 16% in 2000, but above the 1995–2000 average pace of growth. In the remaining



District states, price appreciation ranged from 4.0% in Utah to 7.1% in Nevada. The average rate of appreciation in 2001 for the U.S. was 6.9%.

Although price appreciation remained strong, growth in the District housing stock, as represented by new housing permits, fell in 2001. Residential permits fell by 3% in the District during the 12 months ending in January 2002 relative to the same period a year earlier. Within the District, new construction permits dropped in Arizona, California, Hawaii, and Washington. In California, declines in residential construction occurred in both Northern and Southern California, with permits falling by 40% in San Francisco, 20% in Los Angeles-Long Beach, and 29% in Orange County. Elsewhere in the District, residential permits increased in 2001.

While the mixed data on residential real estate markets depart from the general expectation that prices and construction should move together, the housing data are consistent with the resiliency of consumer spending during this recession (responding in part to low mortgage interest rates) and the cautious supply response among residential developers evident prior to the recession. Going forward, the imbalance between demand and supply created in 2001 and the improved outlook for the economy going forward likely will induce more residential construction activity in coming quarters. Signs of a pickup already are evident in some states; residential permits grew in Alaska, California, and Utah during the three months ending in January 2002, relative to the previous three months (see pages 6–11 for state data on residential construction permits).

¹ Data are from the Office of Federal Housing Enterprise Oversight (OFHEO) and represent changes in prices on repeat sales of existing homes. National Association of Realtors data for median home prices for District MSAs are displayed on pages 6–11.

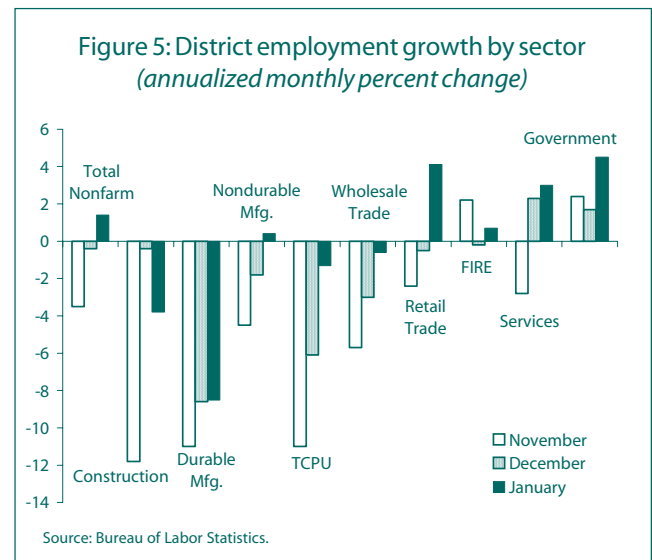
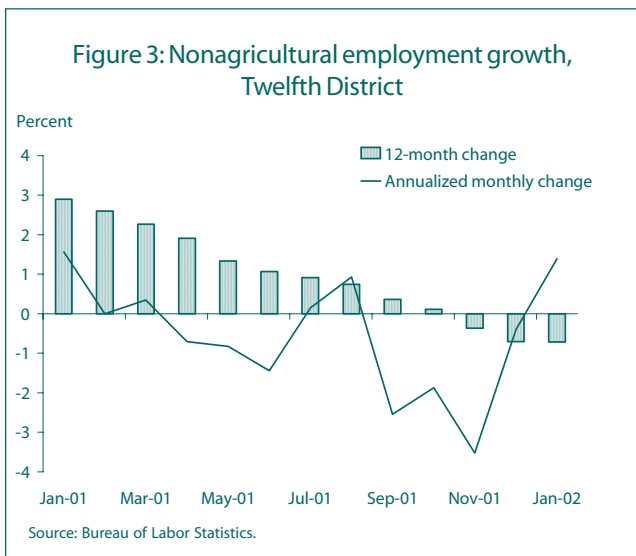
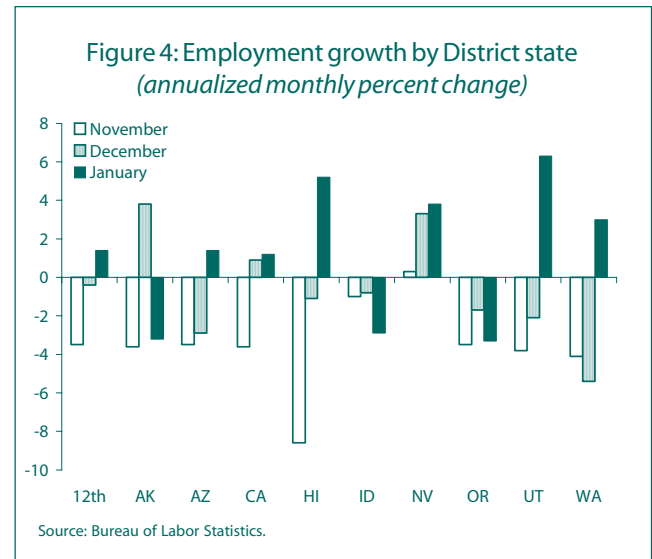
District adds jobs in January

Employment growth in the Twelfth District picked up in January, turning positive for the first time since August (Figure 3, line). Total nonagricultural job growth rose to an annual rate of 1.4% in January, up from -0.4% in December and -3.5% in November. District employers added nearly 30,000 jobs in January. Looking over a longer period, the January job gains ended a relatively steady decline in year-over-year employment growth in the District (Figure 3, bars); year-over-year employment growth in January was down -0.7%, about the same as the decline recorded in December 2001.

January job gains were broad-based, occurring in six of nine District states. Alaska, Idaho, and Oregon were the exceptions (Figure 4). Arizona, California, and Washington, which have been hard hit by the downturn in the information technology sector, posted one-month employment gains of 1.4%, 1.2%, and 3.0%, respectively, as growth in the services side of the economy offset ongoing reductions in durable manufacturing. Job growth was even more rapid in District states that slowed the most following the September 11 terrorist attacks. January job growth in Hawaii and Nevada increased at an annual rate of 5.2% and 3.8%, respectively. In Hawaii and Nevada, job growth was boosted by a substantial pickup in the travel and tourism sectors, which expanded at double-digit rates in January. Nevada's hotel and amusement and air transportation sectors added 2,600 jobs in January, about 80% of the net number of jobs created in the state. In Hawaii, increased visitor numbers helped boost employment in the air transportation and

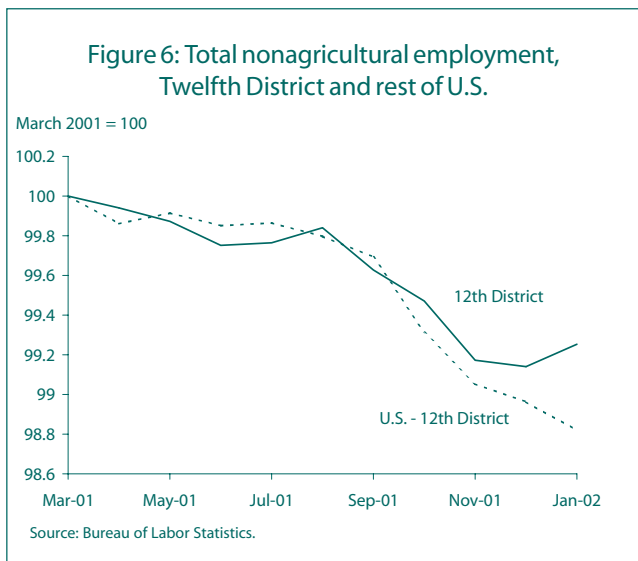
retail trade sectors; jobs in the hotel and lodging sector fell slightly in January following very rapid gains in December. Improvements in the travel and tourism sector also were apparent in Alaska, Arizona, Oregon, and Utah (due largely to the Olympics).

Although the largest one-month increases were in the District's tourism-dependent states, January job gains were not limited to these sectors of the District economy. Figure 5 shows annualized monthly employment growth in the District by sector. As the figure shows, January job gains occurred across a large number of sectors including non-durable manufacturing, retail trade, finance, insurance, and real estate (FIRE), services, and government. In contrast, construction, durable manufacturing, transportation, communications, and public utilities (TCPU), and wholesale



trade continued to shed jobs in January, although for the most part at a slightly slower pace.

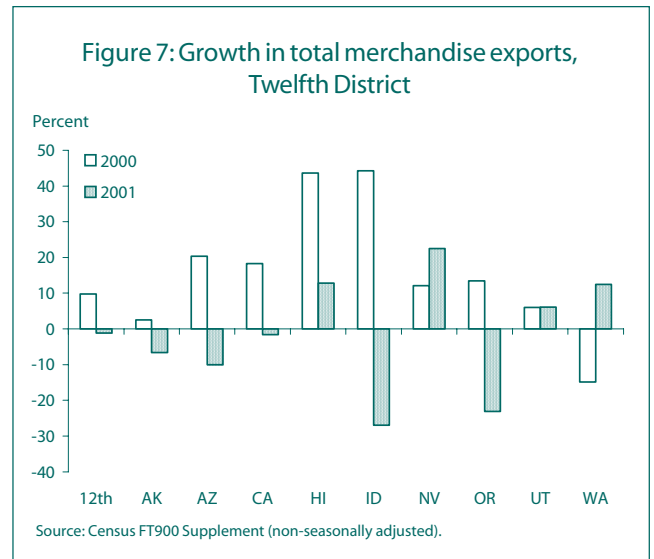
The pickup in employment in January supports the most recent Beige Book report that the District economy has begun to recover. Moreover, the employment gains in the District outpaced employment figures for the rest of the U.S. (Figure 6), suggesting that despite the still weak IT sector, the District economy is recovering with the national economy.



District export values fall in 2001, led by high-tech

The value of merchandise exports from the Twelfth District fell in 2001, damped by global economic weakness and the continued strength of the dollar relative to other currencies. The value of District exports fell by 1.2% in 2001 compared to 2000, following growth of approximately 10% in 2000 (Figure 7). In general, the export picture worsened over the course of the year, with the largest quarterly decline occurring in the fourth quarter.

Detailed data for California and Oregon suggest that the decline in District exports was concentrated in durable manufacturing. In both states, high-tech exports performed poorly. In contrast, exports of agricultural products grew in 2001 relative to 2000. California exports of high-tech manufactured products fell approximately 18%, while agricultural and nondurable exports grew 25.6% and 5.6%, respectively. This represents a reversal from 2000, when high-tech products grew around 25% while the value of agricultural exports fell by 18%. Data for Oregon show a similar pattern, with declines led by sharp drops in exports of computer and electronic products. Weakness also was



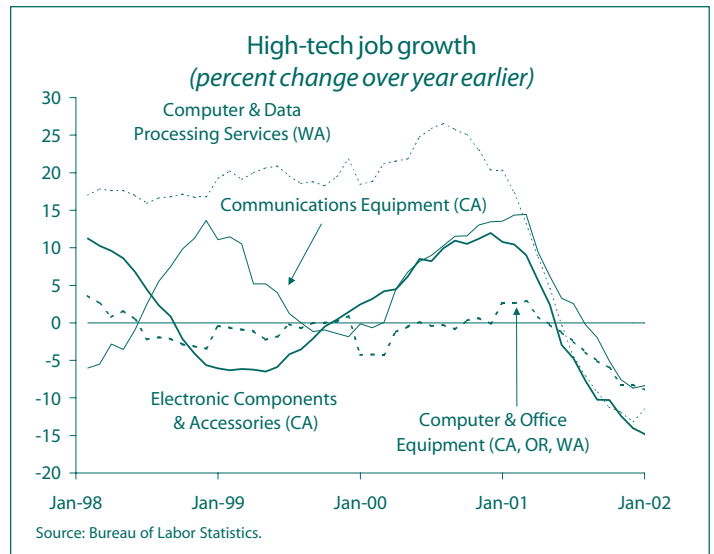
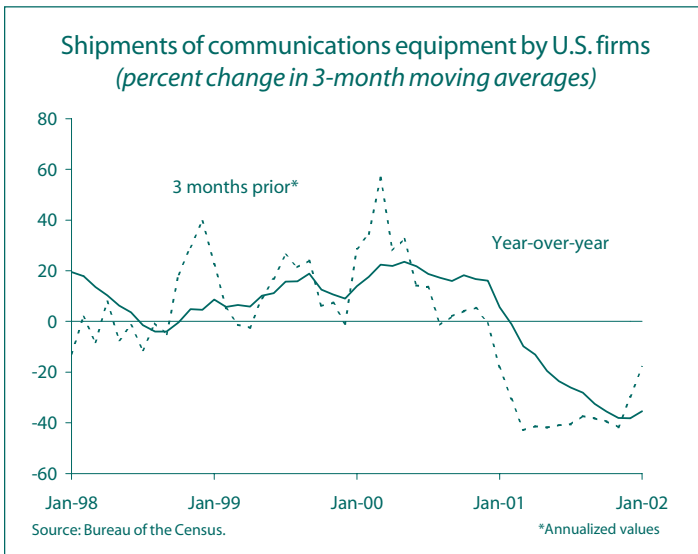
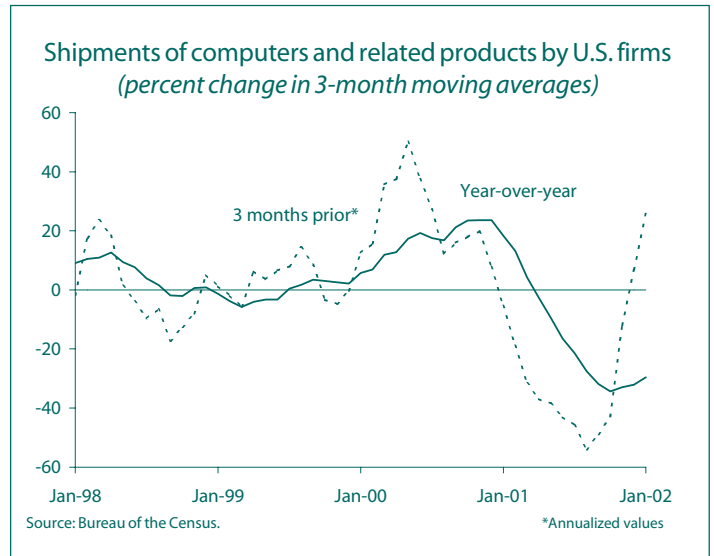
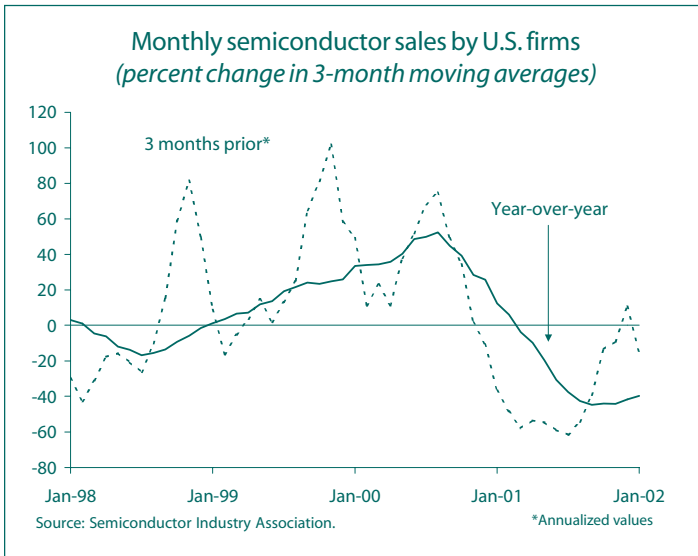
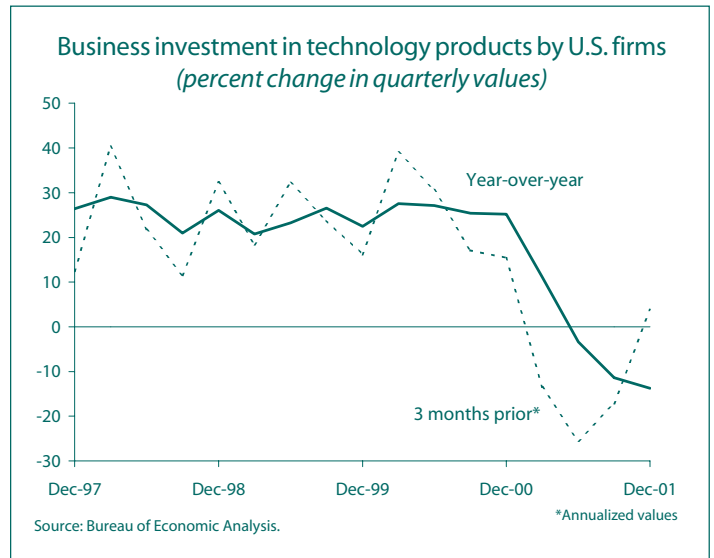
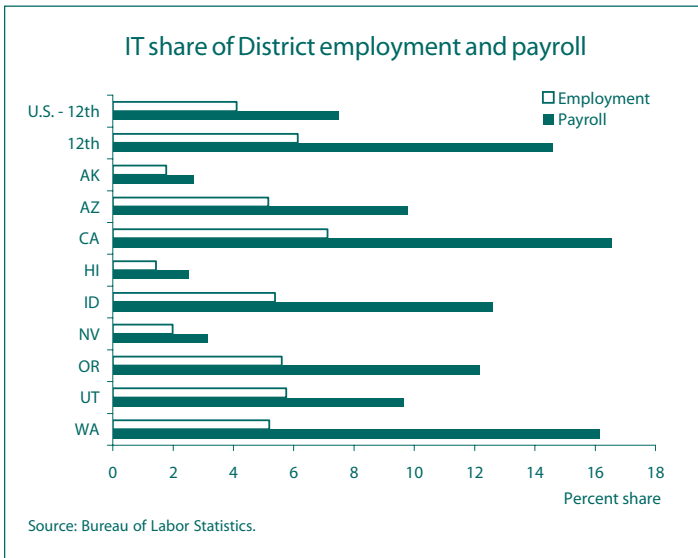
found in transportation equipment and wood products, among other sectors. However, as with California, Oregon saw strength in agricultural exports, including food and kindred products.

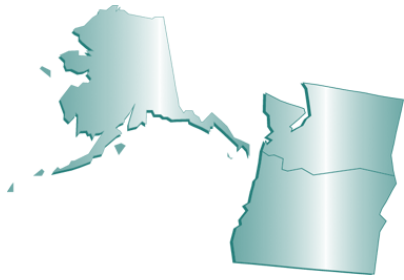
Data on exports by country of destination point to declines across all major trading partners. Exports from California to all countries, including to NAFTA countries, East Asia, and the European Union, fell uniformly. This contrasts with California's export profile in 2000. In 2000, California's exports to all destination countries grew, with exports to East Asia leading California's export growth. However, by the end of 2001, exports to East Asia slowed to the same pace of growth as exports to other destinations. In fact, by the fourth quarter, California's export decline was steepest in exports to East Asia, followed by exports to the European Union. Japan continued to be the largest export market for Oregon, but these exports declined by 13.8% in December 2001 relative to a year ago. Of all Oregon exports to major trading partners, only exports to Singapore and China grew in 2001.

Contributions by Mary Daly and Lily Hsueh,
Financial and Regional Studies, Economic Research Department, FRBSF

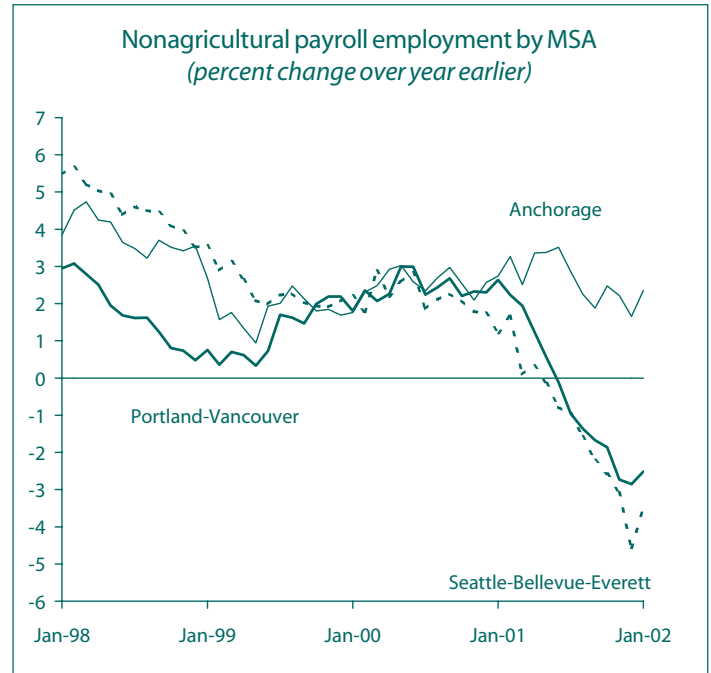
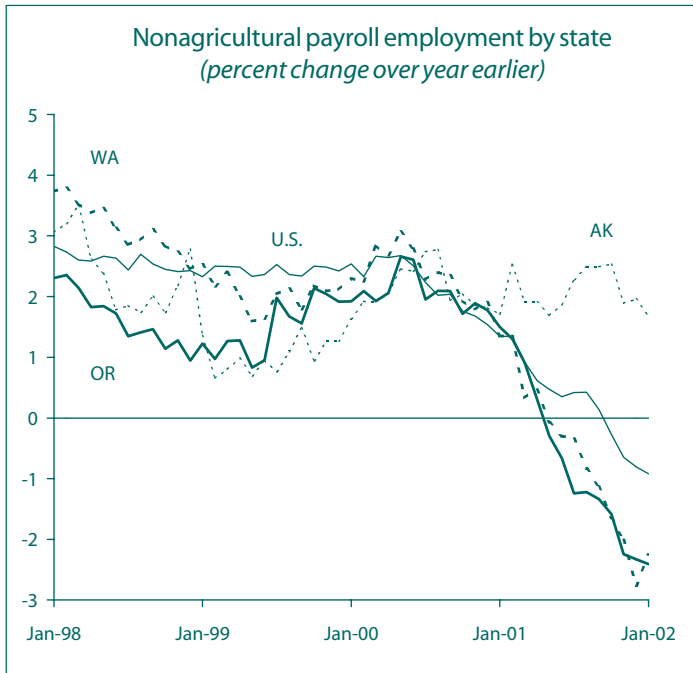
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High-tech Watch





Alaska • Oregon • Washington



Employment by Industry

	Total Employed (thousands)	Percent Change			
		Jan-02	1-mo. ^a	3-mo. ^a	YTD ^a
Alaska					
Total	290.6	-3.2	-1.1	-3.2	1.7
Mining	10.5	12.2	-3.7	12.2	-7.1
Construction	15.3	49.0	14.2	49.0	7.0
Manufacturing	12.0	-68.1	-47.5	-68.1	-11.1
T.C.P.U.	27.9	-8.2	-2.8	-8.2	-0.4
Trade	59.1	6.3	2.1	6.3	2.4
F.I.R.E.	12.7	-17.1	0.0	-17.1	0.8
Services	73.7	0.0	2.2	0.0	2.8
Government	79.4	-1.5	2.0	-1.5	3.5
Oregon					
Total	1,575.7	-3.3	-2.8	-3.3	-2.4
Mining	1.7	0.0	-20.4	0.0	-10.5
Construction	74.0	-9.2	-7.7	-9.2	-11.3
Manufacturing	225.3	-15.1	-11.4	-15.1	-7.9
T.C.P.U.	78.1	1.5	-2.5	1.5	-3.0
Trade	388.0	0.3	-1.3	0.3	-1.3
F.I.R.E.	96.1	12.0	2.1	12.0	2.1
Services	443.2	-4.2	-0.4	-4.2	-1.4
Government	269.3	-0.9	-1.6	-0.9	0.7

	Total Employed (thousands)	Percent Change			
		Jan-02	1-mo. ^a	3-mo. ^a	YTD ^a
Washington					
Total	2,662.1	3.0	-2.2	3.0	-2.3
Mining	3.2	0.0	-11.6	0.0	-5.9
Construction	145.4	-7.9	-11.5	-7.9	-9.0
Manufacturing	317.8	-11.0	-14.9	-11.0	-9.2
T.C.P.U.	140.9	-0.8	-8.6	-0.8	-5.6
Trade	629.0	9.2	0.1	9.2	-2.0
F.I.R.E.	144.2	2.5	2.0	2.5	4.1
Services	766.5	3.2	0.2	3.2	-2.1
Government	515.1	9.3	3.6	9.3	3.5

Unemployment Rates (%)

	Jan-02	Dec-01	Nov-01	Oct-01	Jan-01
Alaska	5.9	6.0	6.1	6.1	6.6
Oregon	8.0	7.8	7.7	7.2	4.9
Washington	7.5	7.4	7.2	6.9	5.5
U.S.	5.6	5.8	5.6	5.4	4.2

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 2002

	3-mo. average number	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Alaska	280.0	9.7	41.4
Oregon	1,675.7	-11.2	2.4
Washington	3,005.4	-4.7	-9.6

Source: Bureau of the Census.

Non-residential construction awards—January 2002

	3-mo. average \$ millions	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Alaska	52.9	55.3	-9.5
Oregon	134.0	-10.7	-1.9
Washington	363.5	18.5	-7.4

^a 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)



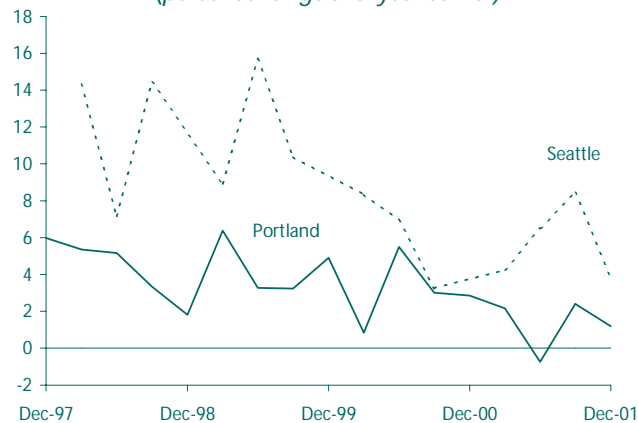
Source: National Association of Realtors.

Metro area industrial availability rates



Source: Torto Wheaton Research.

Median home price appreciation (percent change over year earlier)



Source: National Association of Realtors.

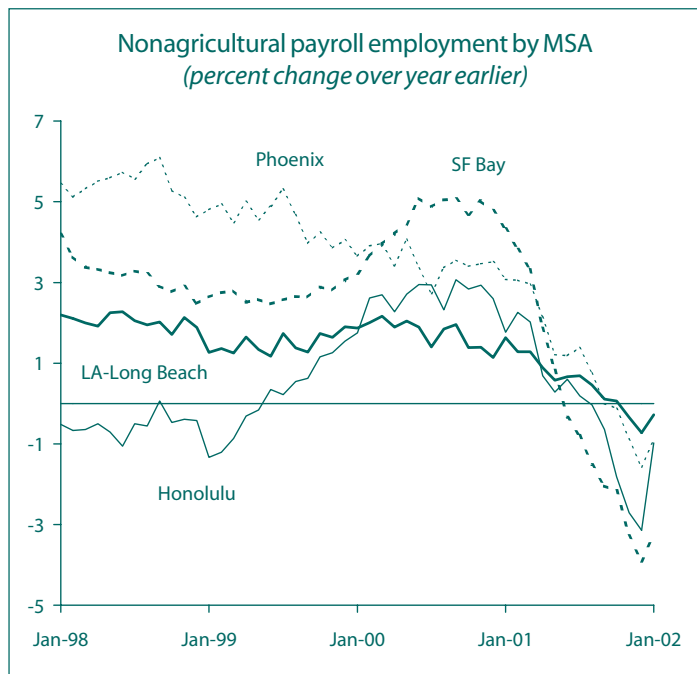
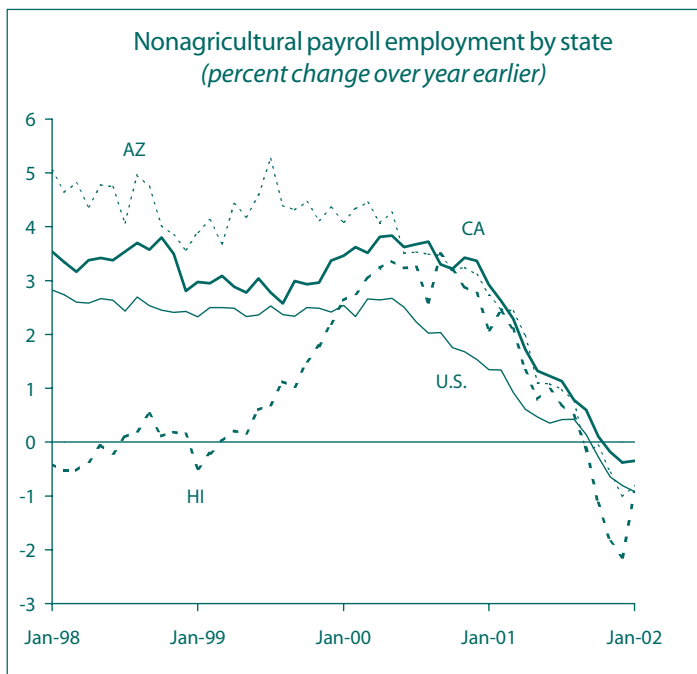
Export update

	\$ billions		12 - month Percent Change		
	2001	Jan-02	2000	2001	Jan-02
Alaska	2.4	0.1	-5.6	-2.0	71.7
Oregon	8.0	0.6	6.6	-24.0	-21.1
Washington	33.9	2.3	-13.1	8.5	23.9

Source: Census FT900 Supplement, Origin of Movement Series.



Arizona • California • Hawaii



Employment by Industry

	Total Employed (thousands)	Percent Change			
		Jan-02	1-mo. ^a	3-mo. ^a	YTD ^a
Arizona					
Total	2,249.7	1.4	-1.7	1.4	-0.8
Mining	8.6	-49.2	-26.9	-49.2	-11.3
Construction	158.1	-14.6	-11.7	-14.6	-4.0
Manufacturing	197.6	-24.6	-14.0	-24.6	-8.9
T.C.P.U.	107.9	-4.3	-6.1	-4.3	-4.3
Trade	533.9	-3.1	-0.6	-3.1	0.1
F.I.R.E.	151.1	-1.6	-0.5	-1.6	2.2
Services	706.0	12.3	0.3	12.3	-1.2
Government	386.5	17.3	6.3	17.3	5.1
Hawaii					
Total	547.8	5.2	-1.7	5.2	-0.9
Mining
Construction	23.8	-9.6	8.9	-9.6	-2.9
Manufacturing	17.6	-6.6	-2.2	-6.6	-1.7
T.C.P.U.	38.6	9.8	-21.4	9.8	-9.4
Trade	132.6	1.8	-4.7	1.8	-3.8
F.I.R.E.	33.0	7.6	1.2	7.6	0.9
Services	184.2	4.7	-1.1	4.7	-1.0
Government	118.0	13.0	6.0	13.0	5.9

	Total Employed (thousands)	Percent Change			
		Feb-02	1-mo. ^a	3-mo. ^a	YTD ^a
California					
Total	14,666.8	-0.4	0.6	0.4	-0.3
Mining	24.0	0.0	-3.3	-2.5	0.0
Construction	771.0	14.2	6.1	8.1	1.3
Manufacturing	1,838.5	-2.7	-2.0	-1.6	-6.4
T.C.P.U.	731.6	-2.1	-3.3	-2.7	-3.2
Trade	3,349.7	2.1	1.4	2.4	0.5
F.I.R.E.	848.8	-2.5	-0.9	-1.5	1.8
Services	4,673.2	-4.4	0.0	-1.7	-0.5
Government	2,430.0	2.9	2.7	2.8	3.5

Unemployment Rates (%)

	Jan-02	Dec-01	Nov-01	Oct-01	Jan-01
Arizona	5.8	5.8	5.6	5.3	3.8
Hawaii	4.7	5.6	5.7	5.4	4.1
U.S.	5.6	5.8	5.6	5.4	4.2
California	6.1	6.4	6.1	6.1	4.7

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 2002

	3-mo. average number	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Arizona	4,304.1	-11.5	-3.1
California	11,788.8	5.5	-6.3
Hawaii	319.9	-20.2	9.4

Source: Bureau of the Census.

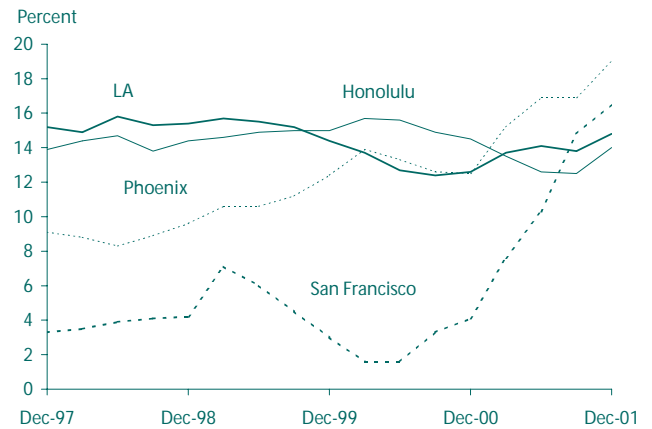
Non-residential construction awards—January 2002

	3-mo. average \$ millions	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Arizona	214.2	-14.9	-23.6
California	1,199.8	-18.8	-9.8
Hawaii	49.6	202.2	34.1

^a Underlying data are seasonally adjusted moving averages.

Source: F.W. Dodge.

Metro area office vacancy rates



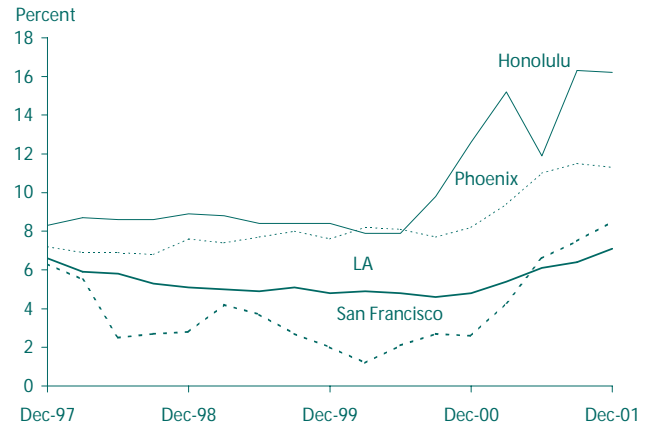
Source: Torto Wheaton Research.

Sales of existing homes (percent change over year earlier)



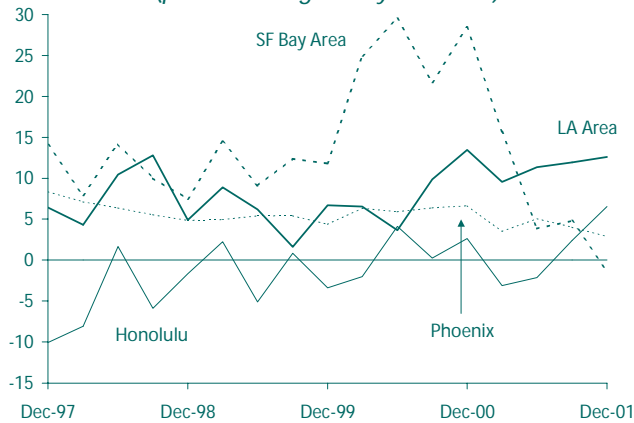
Source: National Association of Realtors.

Metro area industrial availability rates



Source: Torto Wheaton Research.

Median home price appreciation (percent change over year earlier)

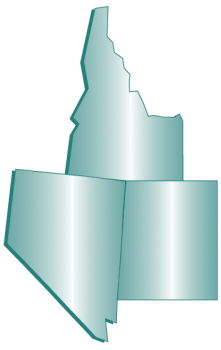


Source: National Association of Realtors.

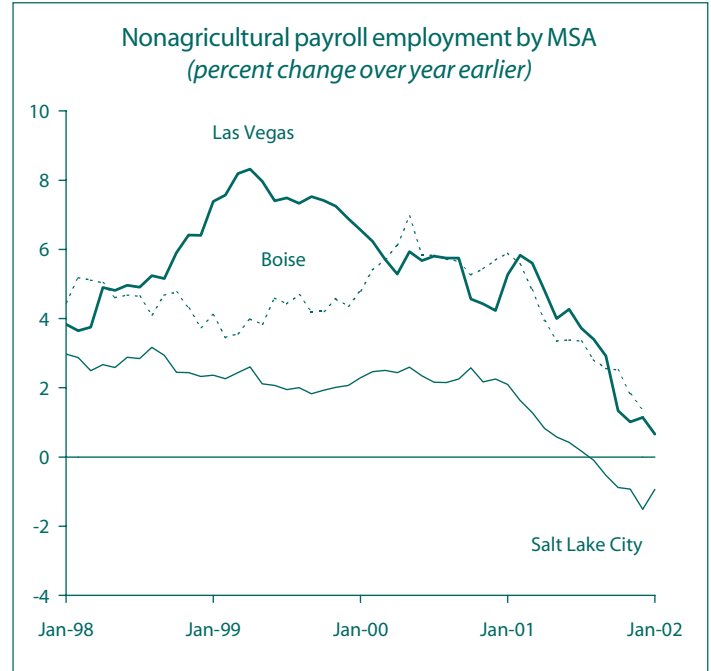
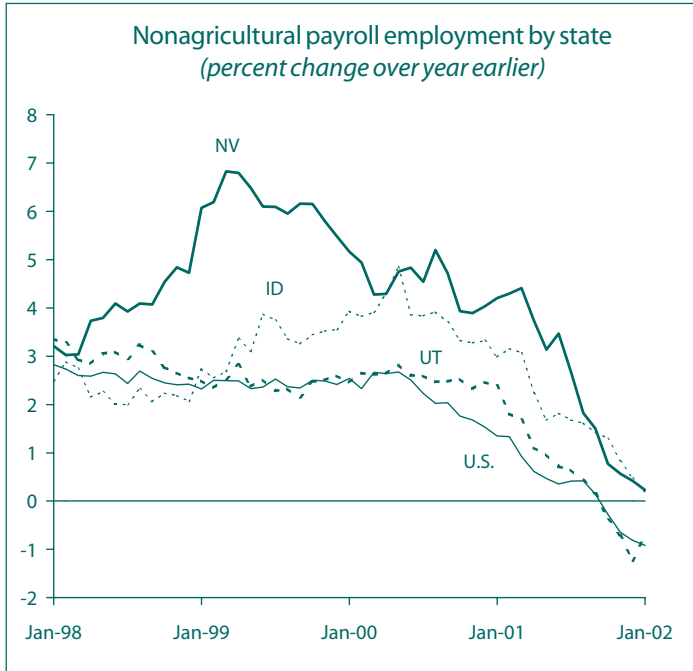
Export update

	\$ billions		12 - month Percent Change		
	2001	Jan-02	2000	2001	Jan-02
Arizona	11.1	0.7	19.0	-15.6	-37.3
California	90.7	6.0	19.5	-10.2	-29.7
Hawaii	0.3	0.0	33.4	8.8	-31.2

Source: Census FT900 Supplement, Origin of Movement Series.



Idaho • Nevada • Utah



Employment by Industry

	Total Employed (thousands)	Percent Change				
		Jan-02	1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
Idaho						
Total	567.5	-2.9	-1.6	-2.9	0.2	
Mining	1.6	-51.7	-59.0	-51.7	-30.4	
Construction	35.9	-36.8	-14.2	-36.8	-5.0	
Manufacturing	71.9	-11.0	-10.9	-11.0	-6.7	
T.C.P.U.	27.2	-23.0	-8.4	-23.0	-3.9	
Trade	139.2	-1.7	-3.1	-1.7	-1.8	
F.I.R.E.	24.7	0.0	3.3	0.0	4.7	
Services	154.1	7.3	5.6	7.3	4.5	
Government	112.9	7.7	3.6	7.7	4.4	

	Total Employed (thousands)	Percent Change				
		Jan-02	1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
Nevada						
Total	1,052.9	3.8	2.5	3.8	0.2	
Mining	9.5	-11.8	-11.7	-11.8	-9.5	
Construction	89.8	-3.9	-2.2	-3.9	3.0	
Manufacturing	45.6	-2.6	-1.7	-2.6	-2.1	
T.C.P.U.	56.9	8.8	2.1	8.8	-1.9	
Trade	223.1	6.7	2.0	6.7	1.6	
F.I.R.E.	50.2	2.4	0.0	2.4	3.5	
Services	450.1	6.9	5.3	6.9	-1.3	
Government	127.7	-3.7	0.6	-3.7	2.7	

	Total Employed (thousands)	Percent Change				
		Jan-02	1-mo. ^a	3-mo. ^a	YTD ^a	12-mo.
Utah						
Total	1,079.2	6.3	0.0	6.3	-0.7	
Mining	7.7	0.0	-5.0	0.0	-2.5	
Construction	70.0	-12.7	-11.2	-12.7	-1.4	
Manufacturing	122.4	-5.7	-7.8	-5.7	-6.4	
T.C.P.U.	59.5	25.1	-1.3	25.1	-3.9	
Trade	249.4	10.1	-0.5	10.1	-1.2	
F.I.R.E.	60.2	2.0	0.7	2.0	1.7	
Services	317.8	14.6	4.9	14.6	0.5	
Government	192.2	0.6	3.0	0.6	2.6	

Unemployment Rates (%)

	Jan-02	Dec-01	Nov-01	Oct-01	Jan-01
Idaho	5.7	5.5	5.3	5.1	4.5
Nevada	6.2	6.9	6.7	6.6	4.4
Utah	5.2	5.9	5.2	4.8	3.6
U.S.	5.6	5.8	5.6	5.4	4.2

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 2002

	3-mo. average number	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Idaho	868.3	-3.3	5.6
Nevada	2,605.1	-9.7	4.4
Utah	1,506.4	8.4	8.1

Source: Bureau of the Census.

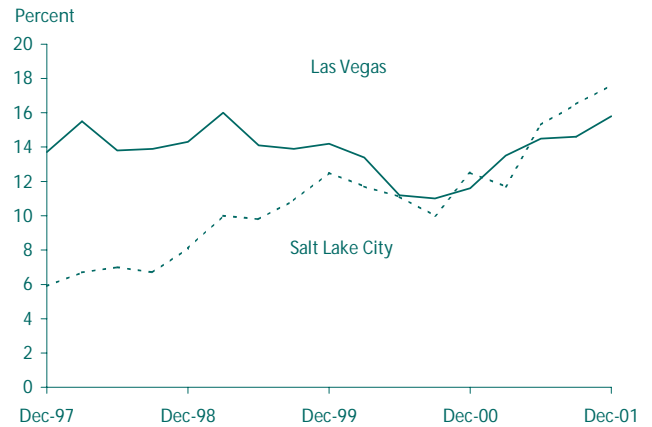
Non-residential construction awards—January 2002

	3-mo. average \$ millions	Moving average percent change	
		3-mo. ^a	12-mo. ^a
Idaho	47.7	28.1	-20.8
Nevada	213.4	1.8	-6.9
Utah	142.6	19.6	-1.1

^a Underlying data are seasonally adjusted moving averages.

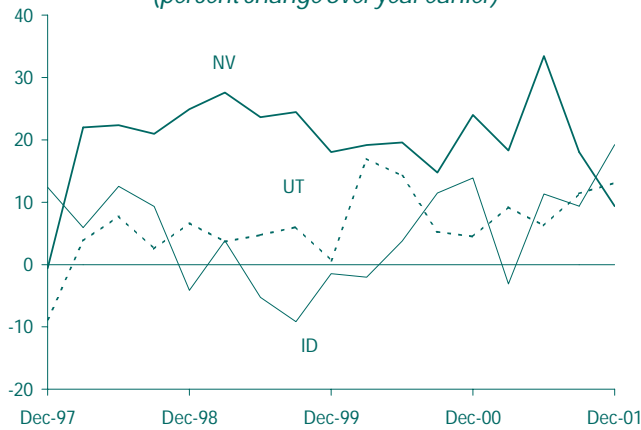
Source: F.W. Dodge.

Metro area office vacancy rates



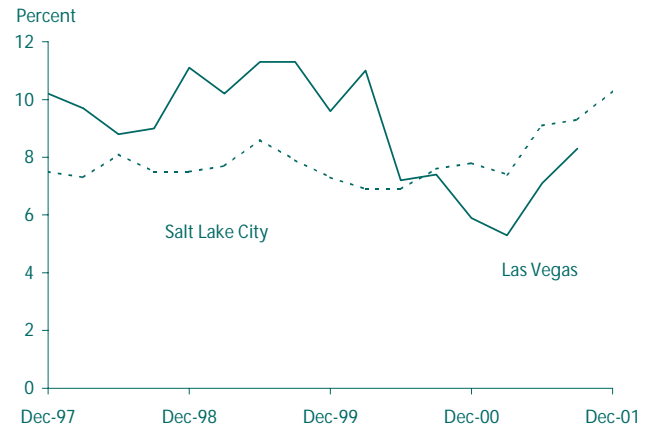
Source: Torto Wheaton Research.

Sales of existing homes (percent change over year earlier)



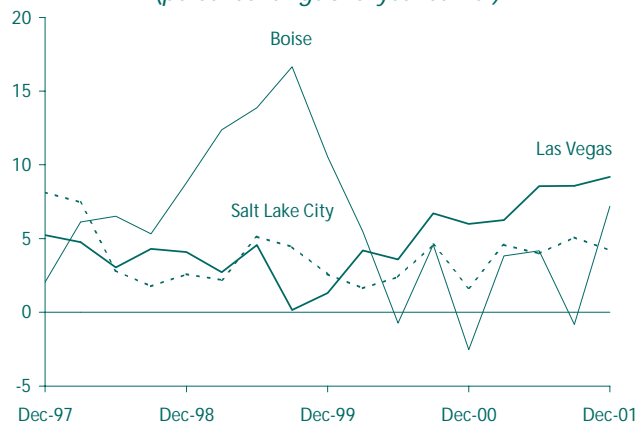
Source: National Association of Realtors.

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

	\$ billions		12 - month Percent Change		
	2001	Jan-02	2000	2001	Jan-02
Idaho	1.9	0.1	53.6	-41.7	-52.0
Nevada	1.1	0.1	21.8	13.9	-6.9
Utah	3.4	0.4	1.7	9.3	43.7

Source: Census FT900 Supplement, Origin of Movement Series.

2002 Issues

Mailing Dates

March

March 26

June

July 2

September

October 1

December

December 17

Western Economic Developments is produced quarterly by the Financial and Regional Studies Section of the Economic Research Department of the Federal Reserve Bank of San Francisco. The publication is managed by Mary Daly and edited by Anita Todd with contributions by Fred Furlong, Lily Hsueh, Christel Magalong, and Jackie Yuen of the Economic Research Department. The analyses represent the views of the staff and do not reflect the official views of the senior bank management of the Federal Reserve Bank of San Francisco or the Federal Reserve System. *Western Economic Developments* is distributed by the Public Information Department, (415) 974-3230. This publication is available on our website, <http://www.frbsf.org>.

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