Federal Reserve Bank of San Francisco

WESTERN ECONOMIC DEVELOPMENTS

August 1996

Executive Summary

- *Economic growth in California accelerated in the second quarter, and the state unemployment rate fell about ½ percentage point.*
- *The Washington state economy is beginning to show the effects of a pickup in business at Boeing Aircraft Co..*
- *Relatively rapid growth continued in Oregon and in the Intermountain states, but a few major high-tech employers in these areas recently announced the scaling back of planned operations.*
- *Fast expansion of high-technology businesses has fueled rapid growth in parts of California, the Pacific Northwest, and the Intermountain states. An analysis of the diverse trends among high-tech firms suggests that parts of California and the Pacific Northwest are better-positioned than the Intermountain states to take advantage of further near-term growth in high-tech industries.*

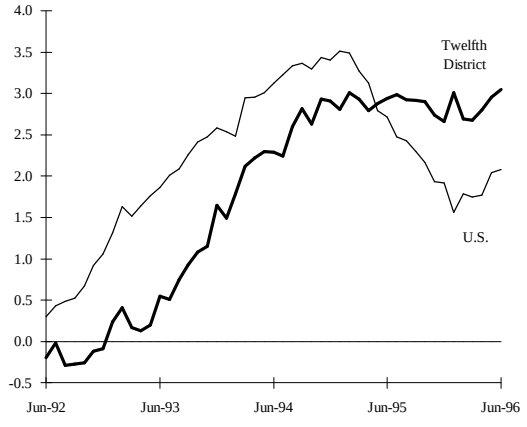
District Update

District economic activity accelerated in the second quarter, owing to a pickup in growth in California and Washington states. Economic conditions in Hawaii appear to have stabilized, after deteriorating last year, and what has been a slow-growing Alaska economy is beginning to show renewed vigor. Elsewhere in the District, relatively rapid growth continued in Oregon and in the Intermountain states of Arizona, Nevada, Idaho, and Utah. However, new signs of possible future slowing in some of these rapidly-growing states emerged. The torrid pace of construction employment growth has cooled a bit in several areas, and the locus of manufacturing and business service job growth appears to be shifting towards California and Washington states.

Overall District payroll employment increased at a 3¾ percent annual rate in the second quarter, up from roughly 3 percent in the previous quarter and from 2¾ percent in 1995. In California and Washington, job growth accelerated last

Nonagricultural Payroll Employment

(percent change over year earlier)



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quarter about 1 percentage point at an annual rate. Nevada, Idaho, and Utah each posted second quarter job growth in excess of 7 percent at an annual rate. In Arizona and Oregon, employment growth last quarter was near 3½ percent at an annual rate.

Increased employment in California accounted for about one-half of the roughly 200,000 jobs added to District payrolls between March and June of this year. Washington state employment increased by about 20,000 jobs over the course of the second quarter, and each of the other District states except Alaska and Hawaii also posted gains of roughly 10,000 to 15,000 jobs.

Among the major sectors, the pickup in second-quarter District job growth was most evident for construction and manufacturing. Construction employment increased about 10 percent at an annual rate, owing partly to an increase in California of 12 percent at an annual rate. In contrast, second-quarter construction job growth slowed a bit in Arizona and Oregon and was little-changed in Utah, after a large rise. Earlier this year, district manufacturing employment increased about 2½ percent at an annual rate in the second quarter, up from a 2 percent pace in the first quarter and a 1 percent gain during 1995. California's manufacturing sector expanded at a 2¾ percent annual rate in the second quarter, whereas Washington manufacturing employment increased about 5 percent at an annual rate. Employment in the business service sector, which includes software development and other computer-related services, also posted large increases in California and Washington during the second quarter.[1]

District Employment by State

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Jun-96	May-96	Jun-95		
Alaska	265.7	263.5	263.4	10.5	0.9
Arizona	1,856.0	1,851.8	1,778.0	2.8	4.4
California	12,734.0	12,701.2	12,426.5	3.1	2.5
Hawaii	529.2	529.5	533.7	-0.7	-0.8
Idaho	502.1	498.9	475.1	8.0	5.7
Nevada	846.4	838.0	783.7	12.7	8.0
Oregon	1,470.8	1,466.9	1,413.9	3.2	4.0
Utah	961.2	954.1	904.9	9.3	6.2
Washington	2,402.9	2,393.2	2,354.0	5.0	2.1
District	21,568.3	21,497.1	20,933.2	4.0	3.0
U.S.	119,532	119,293	117,100	2.4	2.1

Seasonally adjusted payroll employment data

District Manufacturing and Construction Idicators

	Jun-96	May-96	Jun-95	% Change From Previous Month	% Change From Previous Year
Aerospace Employment (1992=100)	62.7	62.4	63.9	0.5	-1.9
Electronics Employment (1992=100)	107.0	107.0	101.1	0.1	5.8
U.S. Semiconductor Orders ($ Million)	3090.0	3080.0	4330.0	0.3	-28.6
Non-Residential Awards (1992=100)	151.4	145.2	117.8	4.3	28.6
Residential Permits (Thousands)	23.7	24.4	22.5	-3.0	5.5
Western Housing Starts (Thousands)	33.8	32.6	29.9	3.7	13.0

[1] Due to temporary inavailability of statistical data, the Financial Conditions section does not appear in this issue of Western Economic Developments and will not reappear until further notice.

District Employment by Industry

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Jun-96	May-96	Jun-95		
Total	21,568.3	21,497.1	20,933.2	4.0	3.0
Mining	81.5	81.5	81.6	0.0	-0.1
Construction	1,042.0	1,031.4	977.5	13.1	6.6
Manufacturing	2,858.5	2,850.9	2,808.0	3.2	1.8
Transportation	1,104.5	1,102.2	1,085.8	2.5	1.7
Trade	5,146.8	5,134.6	5,004.3	2.9	2.8
F.I.R.E.	1,221.1	1,218.8	1,207.7	2.3	1.1
Services	6,463.8	6,428.1	6,141.6	6.9	5.2
Government	3,650.1	3,649.6	3,626.7	0.2	0.6

Seasonally adjusted payroll employment data

Technology Stocks and the Outlook for Western States

Fast expansion of high-technology businesses has fueled rapid growth in parts of California, the Pacific Northwest, and the Intermountain states. An improved outlook for high-tech businesses contributed to a large run-up in high-tech stock prices in early 1995. More recently, diminished prospects for the profitability of some types of high-tech manufacturing and a dropback in the broader equity market apparently have contributed to a decline in some high-tech firms' equity prices. The less favorable news on the earnings outlook underlying the recent relatively large decline in some technology stock prices raises the question of whether fast expansion of high-tech businesses is likely to continue to fuel rapid growth in western states.

In the broader equity markets, the dropback in the NASDAQ national market composite was apparent by early June. The price decline accelerated in early July, and the composite price index remained low through late July, before rebounding in early August. The S&P 500 index—which focuses on larger capitalization stocks traded on several major exchanges—has experienced less volatility than the NASDAQ this year, but there is great similarity across the two indexes in recent moves and in the cumulative changes in prices since the beginning of the year.

Standard and Poor's recently began making available additional equity price indexes which areuseful for studying high-technology stock developments in more detail. The readily available data pertain to closing equity prices at month-end and include an S&P 1500 composite index, which augments the large-capitalization firms in the S&P 500 with value-weighted composites of 400 middle-capitalization firms and 600 small-capitalization firms traded on various exchanges. Although the S&P 500 and S&P 1500 have exhibited a similar pattern since the beginning of 1995, it is useful to refer to the broader composite (S&P 1500) and its industry group subcomponents for better representation of high-tech industries than in the S&P 500.

The composite equity price of the technology stock group of the S&P 1500 posted a 48.7 percent increase in early 1995, was little changed in the latter half of last year, and increased a bit further in early 1996 before dropping back in June and July. Owing to the strong gains in early 1995, the cumulative increase since January 1995 is larger for technology stocks than for the overall market indices.

In early 1996, stock analysts began revising downward their earnings forecasts for a broad range of computer-related companies. In the first few weeks of July, the sell-offs of technology stocks coincided with announcements of

Selected Stock Price Indexes
(percent change over period indicated)

	Jan-95 to Jul-95	Jul-95 to Jan-96	Jan-96 to Jul-96
S&P 500	19.5	13.2	.6
S&P 1500	19.9	12.0	.6
Technology Stocks	48.7	-1.3	2.9
Computer-related			
Networking equipment	52.0	41.0	-2.9
Software	45.3	5.9	13.3
Hardware	43.6	4.1	-.3
Peripherals	52.5	-4.5	-6.9
Semiconductors	94.4	-24.7	4.8
Equipment for semiconductors	138.8	-31.2	-32.1
Communications equipment	30.7	-18.7	6.1
Electronics components distributors	28.7	-5.2	-1.3

Computer-Related Technology Stock Prices by State of Firm's Business Address
(percent change over period indicated)

	Jan-95 to Jul-95	Jul-95 to Jan-96	Jan-96 to Jul-96
Arizona	72.1	-5.2	-12.7
California (53 firms)	133.8	10.7	40.1
Idaho (Micron)	463.8	-45.1	-94.5
Oregon (Mentor, Sequence, Lattice)	50.5	-28.1	-14.2
Utah (Novell)	2.1	-25.5	-20.8
Washington (Microsoft, Wall Data)	51.5	2.2	27.5

weaker-than-expected earnings at a major hardware manufacturer—Apple—component producers Motorola and Texas Instruments—and a supplier to semiconductor manufacturers—Applied Materials. Although the market was cheered toward the end of last month when other high-tech firms—notably industry giants Intel and Microsoft—announced solid recent earnings performance, other news—such as Hewlett-Packard's announcement of disappointing orders for a wide range of products—has emerged as a reminder that recent fortunes differ substantially on a company-by-company basis.

To sort through the diversity of experience, it is helpful to review the performance of the various subgroups of computer-related technology stocks. Since January, 1995, the best performance has been for producers of networking equipment and software, two business lines which could benefit the most from the explosive growth of Internet connectivity and content, such as multi-media products. Producers of networking equipment have experienced a 108 percent increase in equity values over the last year and a half, and software company stock prices have appreciated 75 percent. Although both these groups of technology stocks experienced some weakness in July, they remained among the highest performing stocks in terms of cumulative returns over longer time periods.

Makers of computer hardware, as a group, experienced a 49 percent increase in equity values from January, 1995 to July, 1996. Makers of computer peripherals experienced even faster stock price appreciation than this through May, but a dropback in June and July left the cumulative increase at 35.6 percent, which is roughly the rate of increase in the broader S&P indexes.

Some of the largest increases in equity prices in early 1995 were for makers of semiconductors and equipment for semiconductor manufacturing plants. As many firms rushed to build capacity in a tight chip market, the composite stock price index for semiconductor manufacturers increased 94.4 percent in the first half of 1995, and equipment suppliers' equity prices increased 138.8 percent! In the latter half of 1995, as some additional worldwide semiconductor capacity began to come on line, and demand growth for memory chips was not as strong as anticipated, product prices began to slide, and semiconductor and equipment manufacturers equity prices began to retrace part of the earlier run-up. Recently, equity prices have stabilized for the overall semiconductor group, which includes both makers of central processor chips, such as Intel, who have continued to report relatively strong earnings, and makers of (DRAM) memory chips, whose earnings generally continued to slide.

Stock prices of manufacturers of communications equipment—such as cellular phones--and of distributors of electronics components—such as memory chips—are among those which have underperformed relative to both the broader technology stock group and the S&P 500 and S&P 1500 composite indexes over the last year and a half. However, these types of businesses were not a particularly notable source of weakness in the most recent period, and they are not a large fraction of the overall high-tech industry.

In summary, rapid growth of network-related segments of the high-technology industries has been mirrored in substantial increases in stock prices of firms making networking equipment and software. Makers of hardware, peripherals, and semiconductors also have posted equity price gains over the last year and a half that at least match those in broader stock market indexes, although there has been a partial reversal for some firms in late 1995 or early 1996.

In and of itself, this pattern does not tell us much about the outlook for high-tech businesses in various western states. At least three major issues remain: (1) whether this pattern (of faster growth in software development and networking equipment than in other types of hardware and components) is likely to continue, (2) whether the geographical distribution of activity in these various businesses differs substantially by state, and (3) whether determinants other than product composition also matter a lot in explaining performance of high-tech businesses within particular states.

Many high-tech firms have establishments in several states and in other parts of the world. Although we do not have comprehensive, readily-available data on the geographic distribution of the operations of the high-tech firms in the S&P technology group, other sources at least indicate the states which some high-tech firms use for their business address, which is usually where the corporate headquarters is located. Among computer-related high-tech firms, electronic filings with the SEC readily identified 53 firms with California business addresses. The only identified firms headquartered in Idaho and Utah are Micron and Novell, respectively. Oregon is the headquarters for three identified firms (Mentor, Sequent, and Lattice), and Microsoft and a much smaller technology firm (Wall Data) are headquartered in Washington state.

Composite (market-value weighted) indexes of high-tech computer-related stock prices by state show some interesting patterns. The indexes for Idaho, Oregon, and Utah have declined sharply over the past year and a half, including declines in the most recent six month period. In contrast, Microsoft's continued stock price appreciation shows through in the data for Washington state. The composite stock price index for California-headquartered firms also has increased a lot over the past year and a half. The California index jumped sharply in the first half of 1995, edged down in the second half of last year, and rebounded a bit so far this year. Given the diversity of high-tech businesses headquartered in the state, the pattern in the index for California is somewhat similar to that in the overall S&P technology stock index. However, California firms have moderately outperformed the broader technology group over the past year and a half, in part reflecting the greater prevalence of networking equipment and software development firms in the state.

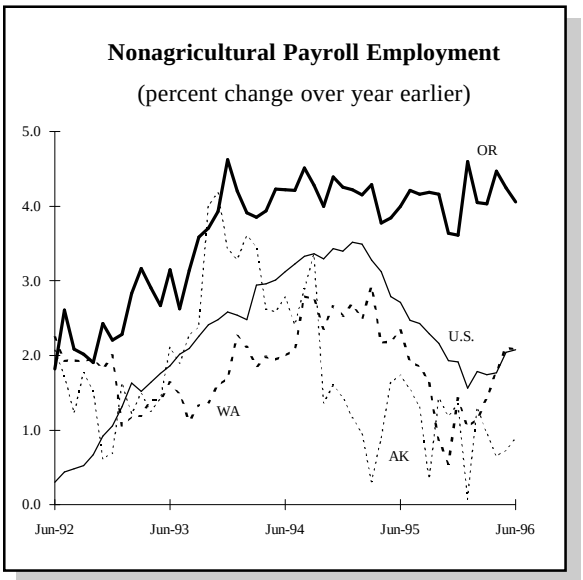
Going beyond the formal data, other considerations suggest that the composition of high-tech manufacturing and business service employment growth may be shifting toward major urban centers in parts of California and the Pacific Northwest and away from the smaller cities there and in the Intermountain states. Many high-tech firms with multi-state operations have geographically concentrated their research and development activities in California (primarily in the San Francisco Bay Area) while locating manufacturing fabrication facilities for more mature productlines in places with lower costs for key inputs such as production worker labor, electricity, and water. Elsewhere in the West, there is a notable research and development cluster (anchored by Intel) near Portland, Oregon, and Microsoft's presence near Seattle, Washington has helped establish a research and development cluster there. Because this pattern of geographic specialization appears likely to continue, the intensity of research and development activity relative to production of mature products is important to the regional outlook.

Recently, the pace of technological advancement and of growth in market penetration has been particularly rapid for network-related products. Internet and corporate "intranet" usage reportedly has grown tremendously over the past year, and the full spectrum of high-tech computer firms—from software developers to hardware manufacturers and makers of components and peripherals—appear to be scrambling to develop new product lines which will remain competitive (or be an industry leader) as further network developments unfold. The industry appears to be going through a period in which the potential returns to research and development activity are very large, so this augers well for high-tech related growth in those parts of California and the Pacific Northwest which have a research and development focus. Concurrently, the rapid pace of technological change also is rendering some product lines and production methods obsolete; until uncertainty diminishes about which products and production methods are the most successful, the rapid technological change limits the incentives to expand mass-production at some of the fabrication plants in the inland areas.

ALASKA, OREGON, AND WASHINGTON

Economic growth picked up in some key sectors in **Alaska** in recent months**.** Payroll employment increased about 4 percent at an annual rate in the second quarter, after edging down in early 1996. A pickup in government, services, and retail and wholesale trade job growth offset continued large declines in manufacturing employment. Construction employment growth also was strong in the second quarter, bringing the gain over the past twelve months to about 13 percent.

Relatively rapid economic growth continued in **Oregon**, but the pace was a bit slower in recent months. Payroll employment increased 3.2 percent at an annual rate in the second quarter, down about 1 percentage point from the first quarter pace. Construction employment continued to post double-digit gains, but its growth slowed compared with the 18 percent annualized pace of the first quarter. Growth of services jobs also slowed, and government sector employment was little changed. Manufacturing employment fell about 3 percent at an annual rate in the second quarter, as growth in computer and electronic industries slowed and payrolls were trimmed in a broad range of other manufacturing industries.

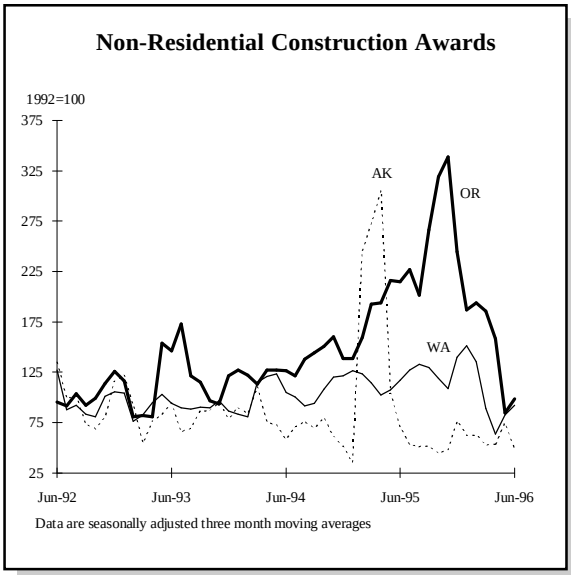


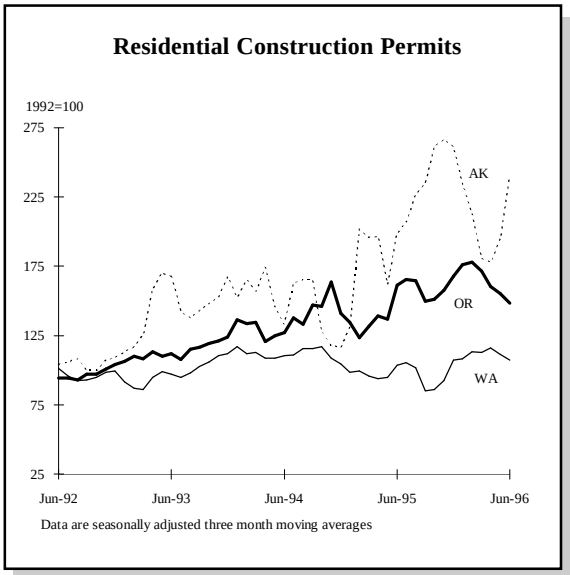
Various producers of computer-related equipment and components are among the largest manufacturing employers in the Portland metropolitan area. Intel Corp. has the largest facility, with about 7,200 workers, and Tektronix Inc. and Hewlett-Packard Co. also are among the five largest Portland area manufacturers, with more than 2,000 workers each. Intel Corp. is one of several semiconductor manufacturers with expansions underway in the Portland area, and recent corporate reports show continued strong growth in the firm's core business lines. However, other firms with expansion plans for Oregon have fallen victim to continued low prices for some types of memory chips; for example, Fujitsu Ltd. is delaying the expansion of its Gresham, Oregon memory chip fabrication facility.

Economic growth in **Washington** state picked up in the second quarter, and the near-term outlook looks bright. Payroll employment increased at almost a 4 percent annual rate in the second quarter, following a 2½ percent gain in the first quarter. This is well above the 1½ percent pace of job growth in 1995, when construction employment was flat, and manufacturing employment fell 2 percent, owing largely to cutbacks at Boeing Aircraft Co.. So far this year, construction employment has increased about 3 percent at an annual rate, and manufacturing payrolls also have expanded, owing to a rebound in the aircraft industry and to additional jobs at makers of computers and electronic equipment and components.

Boeing's cutbacks in production and employment last year were partly in response to a declining backlog of unfilled orders for airplanes. Net new orders for aircraft had slumped from 236 planes in 1992 to 36 planes in 1993 and rebounded only to a 150 airplane annual rate in 1994 and the first half of 1995. In the subsequent four quarters, Boeing received 327 net new orders for airplanes, and the backlog of unfilled orders increased substantially. Now, Boeing is ramping up production and plans to continue increasing output of key planes through 1998.

CONSTRUCTION





EMPLOYMENT

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Jun-96	May-96	Jun-95		
Alaska					
Total	265.7	263.5	263.4	10.5	0.9
Mining	10.1	10.1	10.0	0.0	1.0
Construction	13.7	13.4	13.0	30.4	5.4
Manufacturing	15.3	15.2	16.8	8.2	-8.9
T.C.P.U.	22.0	22.3	22.9	-15.0	-3.9
Trade	56.2	55.3	54.9	21.4	2.4
F.I.R.E.	11.7	11.6	11.7	10.8	0.0
Services	62.9	62.1	60.9	16.6	3.3
Government	73.8	73.5	73.2	5.0	0.8
Oregon					
Total	1470.8	1466.9	1413.9	3.2	4.0
Mining	1.8	1.8	1.7	0.0	5.9
Construction	74.6	73.8	67.3	13.8	10.8
Manufacturing	229.4	230.3	227.3	-4.6	0.9
T.C.P.U.	73.0	73.0	71.3	0.0	2.4
Trade	373.7	371.0	358.4	9.1	4.3
F.I.R.E.	90.5	89.8	87.1	9.8	3.9
Services	393.0	390.6	361.7	7.6	8.7
Government	234.8	236.6	239.1	-8.8	-1.8

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Jun-96	May-96	Jun-95		
Washington					
Total	2402.9	2393.2	2354.0	5.0	2.1
Mining	3.3	3.2	3.3	44.7	0.0
Construction	125.3	124.0	123.2	13.3	1.7
Manufacturing	336.7	334.0	337.0	10.1	-0.1
T.C.P.U.	122.1	122.2	120.1	-1.0	1.7
Trade	591.6	590.9	583.0	1.4	1.5
F.I.R.E.	124.5	124.3	121.3	1.9	2.6
Services	649.9	646.2	620.3	7.1	4.8
Government	449.5	448.4	445.8	3.0	0.8

Unemployment Rates (%)

	Jun-96	May-96	Apr-96	Jun-95	May-95
Alaska	7.5	6.8	7.2	7.1	6.9
Oregon	5.1	5.2	5.3	4.9	5.0
Washington	6.0	6.2	6.3	6.4	6.4
U.S.	5.3	5.6	5.4	5.6	5.6

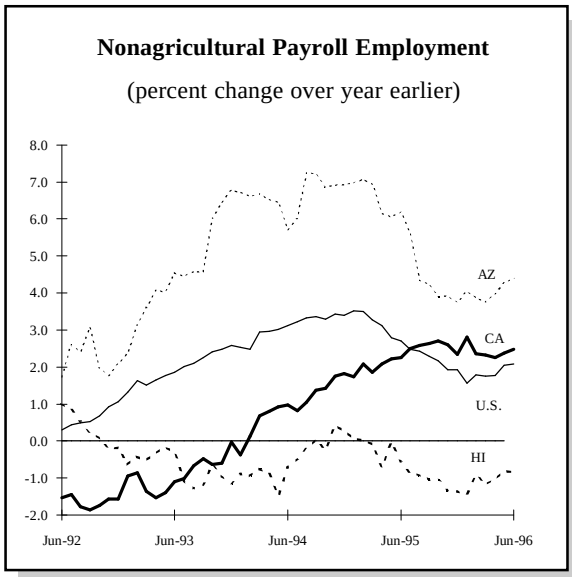
Unemployment rates are from the household employment survey, all other data are for nonagricultural payroll employment.
All data are seasonally adjusted.

ARIZONA, CALIFORNIA, AND HAWAII

Relatively strong economic growth continued in **Arizona** in the second quarter, albeit at a slightly slower rate than earlier. Payroll employment increased at an average annual rate of about 3½ percent in the second quarter, down a bit from the 5 percent average pace in the preceding two quarters. The earlier gains were led by large increases in construction, manufacturing, and business services employment, which have slowed in recent months. However, this was partly offset by a pickup in government sector job growth.

Given the earlier strong gains in private sector economic conditions, state government budget analysts indicate that the state's capacity to raise general fund revenues has increased about 11 percent this fiscal year, taking last year's tax laws as given. However, recent legislative changes substantially reduce the scope of the individual and corporate income tax bases, limiting the actual revenue gains to about 4 percent. State government payrolls are expected to expand only moderately in the near term.

In **California**, economic growth accelerated in the second quarter. The official estimates of payroll employment showed an average gain of 3 percent at an annual rate in the second quarter, up about 1½ percentage points from the average pace in the preceding two quarters. The recent pickup in job growth was broad-based, with construction, manufacturing, and business service employment posting particularly large gains. Of the 163,000 jobs added to state payrolls so far this year, about 35,000 jobs were in business services, which includes software development and other computer-related services. Given the increased overall job availability in recent months, the state unemployment rate is estimated to have fallen about ½ percentage point over the course of the second quarter.

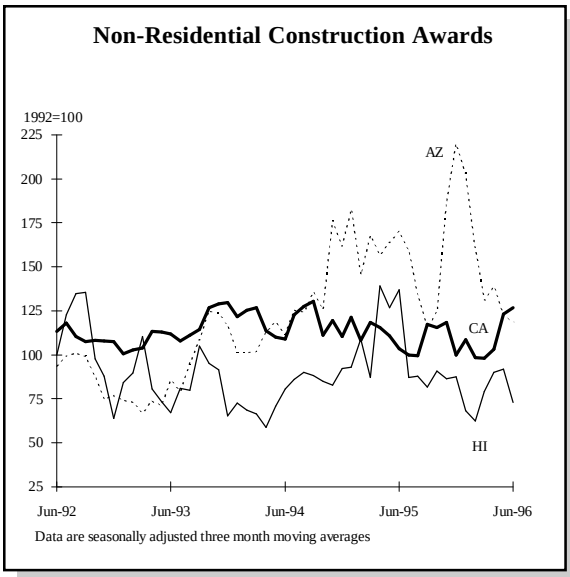


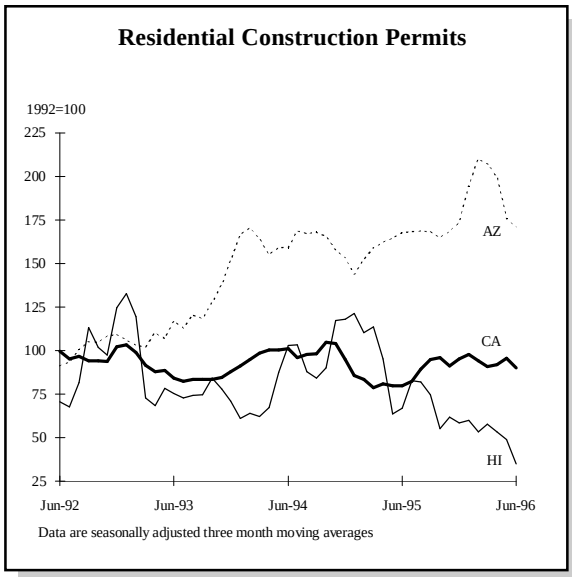
Federal government jobs in California have continued to decline this year, and state and local government payrolls have been expanding more slowly than those in the private sector. However, some local fiscal stimulus is expected in the near term; the Governor and Legislature enacted a state government budget which includes a 4 percent increase in expenditures from the General Fund this year, with particularly large increases in funding for K-12 education. Resulting increases in payroll jobs are likely to begin appearing in the September job count. Further ahead, however, the state is likely to experience a fiscal drag from reduced federal funding for welfare programs, as recent legislation reduces immigrant eligibility for benefits.

Economic conditions appear to have stabilized in **Hawaii**. Non-agricultural employment was little changed in both the first and second quarter, after falling 1½ percent over the course of 1995. So far this year, a continued loss of construction jobs has been offset by employment increases in the government sector, at hotels, and in retail trade.

Hotels and retail stores are benefiting from increased tourism activity. Hotel occupancy rates have improved this year, and the number of visitors in early 1996 (through April) was up 8.4 percent relative to the same period a year earlier, with the largest gains in eastbound travel. Overall state gross business receipts from retailing were strong in the first quarter, at a level 14 percent above a year earlier. State government general excise tax collections also began to increase noticeably in early 1996.

CONSTRUCTION





EMPLOYMENT

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Jun-96	May-96	Jun-95		
Arizona					
Total	1856.0	1851.8	1778.0	2.8	4.4
Mining	12.5	12.4	12.4	10.1	0.8
Construction	123.2	123.2	116.1	0.0	6.1
Manufacturing	197.9	198.1	192.3	-1.2	2.9
T.C.P.U.	88.5	87.8	85.8	10.0	3.1
Trade	463.1	462.5	448.7	1.6	3.2
F.I.R.E.	108.8	108.5	106.6	3.4	2.1
Services	548.6	545.6	519.7	6.8	5.6
Government	313.4	313.7	296.4	-1.1	5.7
California					
Total	12734.0	12701.2	12426.5	3.1	2.5
Mining	28.8	29.1	30.0	-11.7	-4.0
Construction	510.6	504.5	487.7	15.5	4.7
Manufacturing	1819.4	1814.9	1787.5	3.0	1.8
T.C.P.U.	638.5	636.8	630.3	3.3	1.3
Trade	2999.8	2995.7	2926.1	1.7	2.5
F.I.R.E.	735.8	735.4	736.9	0.7	-0.1
Services	3897.9	3880.4	3722.8	5.5	4.7
Government	2103.2	2104.4	2105.2	-0.7	-0.1

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Jun-96	May-96	Jun-95		
Hawaii					
Total	529.2	529.5	533.7	-0.7	-0.8
Mining	.	.	.	.	.
Construction	24.2	24.4	26.3	-9.4	-8.0
Manufacturing	16.6	16.5	16.9	7.5	-1.8
T.C.P.U.	40.6	40.5	40.9	3.0	-0.7
Trade	135.0	135.2	135.8	-1.8	-0.6
F.I.R.E.	36.7	37.0	37.0	-9.3	-0.8
Services	165.5	165.7	164.7	-1.4	0.5
Government	110.6	110.2	112.1	4.4	-1.3

Unemployment Rates (%)

	Jun-96	May-96	Apr-96	Jun-95	May-95
Arizona	5.3	5.2	4.7	5.2	5.4
Hawaii	6.2	6	5.8	5.9	5.8
California	7.1	7.3	7.3	7.8	7.9
U.S.	5.3	5.6	5.4	5.6	5.6

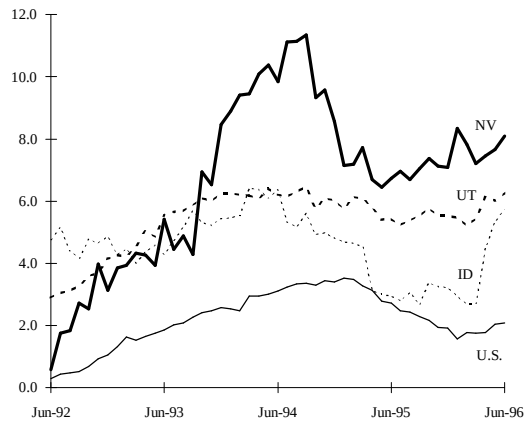
Unemployment rates are from the household employment survey, all other data are for nonagricultural payroll employment.
All data are seasonally adjusted.

IDAHO, NEVADA, AND UTAH

Economic activity in **Idaho** continued to expand rapidly in the second quarter, although recent developments suggest that the fast current pace of growth may not be sustainable. Nonfarm payroll employment increased at an average annual pace of 12 percent in the second quarter, following increases of about 3 percent in 1995 and in the first quarter of 1996. The recent pickup in job growth was broad-based, with particularly large gains in construction, services, and government sector employment.

Residential building permit issuance was up, and new home sales were strong through June. However, housing markets around the state are reported to have softened a little in July, and other recent economic indicators also are less bright than the payroll figures. Although the state unemployment rate is low, at 5.2 percent in June, it actually edged up over the course of the second quarter. Also, job growth in the state's high-tech manufacturing sector is likely to taper off or decline in coming months. On July 10th, Hewlett-Packard announced the closure of its disk drive mechanism division, including a facility employing 1,150 workers in Boise. Another large Boise computer component maker (Micron Technology) recently announced a hiring freeze, as earnings from its core semiconductor memory chip business continued to decline.

Nonagricultural Payroll Employment
(percent change over year earlier)



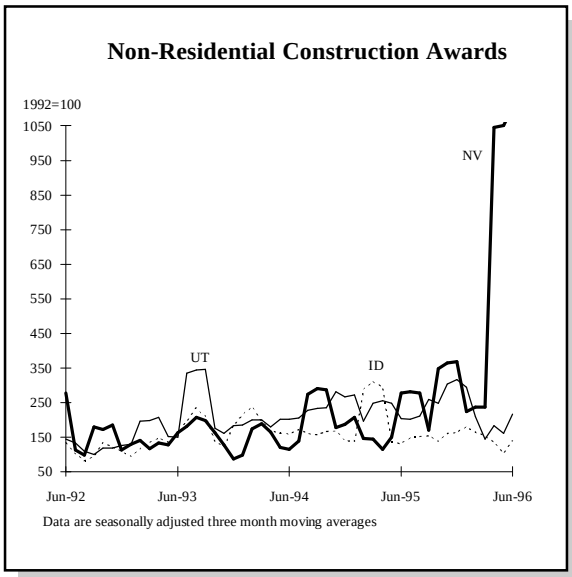
Nevada's booming economy continued to post phenomenal gains. Payroll employment increased about 7½ percent at annual rate in the second quarter, about the same pace as in 1995 and in the first quarter of this year. The composition of employment growth has shifted a bit lately, with slowing construction job gains being offset by increased hiring for the operation of hotel-casino facilities. Construction employment increased about 11 percent at an annual rate in the first half of 1996, following 15 to 20 percent increases in each of the three preceding years. Hotel employment growth picked up to an 8 percent annual pace in the first half of this year, up from a 3½ percent pace last year.

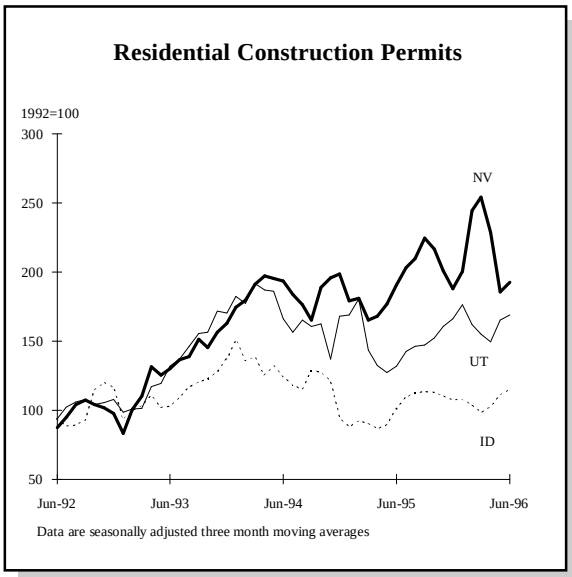
The state's key gaming sector is accelerating as additional casino facilities come on line. In 1994, when an earlier wave of additional facilities opened, net gaming revenues on the Las Vegas strip jumped about 20 percent. Gaming revenues slowed to a 3½ percent gain in 1995 but are expected to pick up again this year and next as another round of resort capacity comes on line. The effects are expected to ripple throughout the state economy and spur continued strong growth in sectors related to gaming, such as retail trade.

Utah continued its rapid, broad-based expansion in the second quarter, as payroll employment increased 7 percent at an annual rate. Construction employment edged down, but this followed a huge gain in the first quarter. The only major sector with notably weak second quarter job growth was the government sector, where reductions in federal employment have been sizable.

Utah ranks near the top of all states in recent personal income growth. Retail sales have been very strong of late, with the latest state figures indicating double-digit increases overall.

CONSTRUCTION





EMPLOYMENT

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Jun-96	May-96	Jun-95		
Idaho					
Total	502.1	498.9	475.1	8.0	5.7
Mining	2.9	3.0	2.7	-33.4	7.4
Construction	35.2	34.9	29.5	10.8	19.3
Manufacturing	73.9	73.4	70.2	8.5	5.3
T.C.P.U.	23.3	23.5	22.6	-9.7	3.1
Trade	126.0	125.2	121.5	7.9	3.7
F.I.R.E.	23.9	23.8	24.2	5.2	-1.2
Services	118.8	118.0	109.0	8.4	9.0
Government	98.1	97.1	95.4	13.1	2.8
Nevada					
Total	846.4	838.0	783.7	12.7	8.0
Mining	14.1	14.0	13.2	8.9	6.8
Construction	72.8	71.2	60.9	30.6	19.5
Manufacturing	38.9	38.7	36.3	6.4	7.2
T.C.P.U.	42.7	42.5	40.4	5.8	5.7
Trade	170.0	169.2	156.4	5.8	8.7
F.I.R.E.	38.2	38.0	35.5	6.5	7.6
Services	370.2	365.2	345.2	17.7	7.2
Government	99.5	99.2	95.8	3.7	3.9

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Jun-96	May-96	Jun-95		
Utah					
Total	961.2	954.1	904.9	9.3	6.2
Mining	8.0	7.9	8.3	16.3	-3.6
Construction	62.4	62.0	53.5	8.0	16.6
Manufacturing	130.4	129.8	123.7	5.7	5.4
T.C.P.U.	53.8	53.6	51.5	4.6	4.5
Trade	231.4	229.6	219.5	9.8	5.4
F.I.R.E.	51.0	50.4	47.4	15.3	7.6
Services	257.0	254.3	237.3	13.5	8.3
Government	167.2	166.5	163.7	5.2	2.1

Unemployment Rates (%)

	Jun-96	May-96	Apr-96	Jun-95	May-95
Idaho	5.2	5	5	5.3	5.4
Nevada	4.7	5.4	5.0	5.4	5.6
Utah	3.4	3.3	3.1	3.7	3.7
U.S.	5.3	5.6	5.4	5.6	5.6

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

1996 Issues	Mailing Date
January	February 1
March	March 28
May	May 23
July	July 5
August	August 22
September	September 26
November	November 14
December	December 19

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