

WESTERN ECONOMIC DEVELOPMENTS

September 1998

Executive Summary

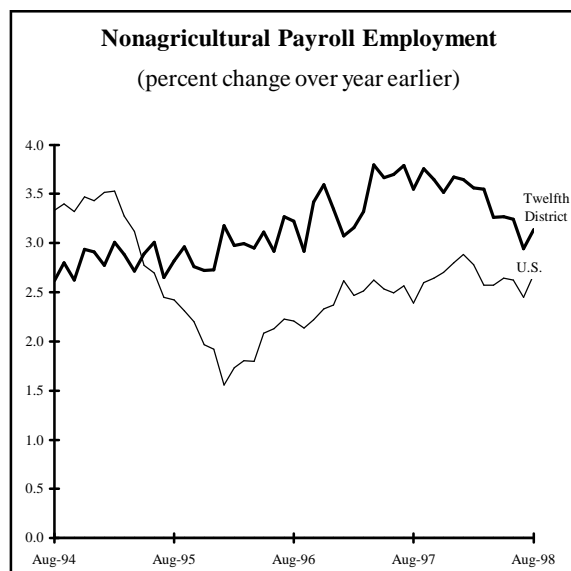
- *The Twelfth District economy grew at a solid pace in recent months, although growth has slowed from earlier in the year.*
- *Payroll employment expanded by 2.3 percent at an annual rate during June through August, well below the 3.7 percent annual pace for 1997.*
- *Despite the recent slowdown, employment in the district is growing more rapidly than nationally. In addition, the District contains four of the eight fastest growing states in the nation.*
- *Slackening demand for exports and a downturn in high-tech manufacturing have combined to damp growth in manufacturing employment in many District states. However, rapid growth in construction and services employment have helped keep the District's expansion on track.*

District Update

The Twelfth District economy continued to expand at a solid pace in recent months, although growth has slowed since the first quarter. District nonfarm payroll employment expanded by 2.3 percent at an annual rate during June through August, slightly off the 2.7 percent annual pace for 1998. Despite the recent slowdown, employment growth in most District states continues to outpace growth for the nation as a whole. As measured by growth in employment over the past 12 months, only Alaska, Idaho, and Hawaii are expanding at a pace below the national rate of 2.3 percent. Four District states—Arizona, Nevada, Washington, and California—are among the eight fastest growing states in the nation.

Leading the District's expansion are the construction, finance, insurance, and real estate, and services sectors. Employment in the construction sector surged between June and August, growing by 10.5 percent at annual rate. Although slower manufacturing growth has put some non-residential building on hold, residential construction awards remain at very high levels. The finance, insurance, and real estate sector added jobs at a rapid pace during June through August, boosting annualized employment growth in the sector to 4.4 percent for 1998, a full percentage point higher than the 1997 rate. Employment growth in the services sector also remained strong, as slower growth in tourism-related sectors was more than offset by rapid growth in business and personal services.

In contrast, other sectors of the District's economy weakened in recent months. The manufacturing sector shed jobs, while employment growth in the transportation and communications, and trade sectors was flat. Slowing in these sectors owes in part to weakness in East



Asia and a downturn in high-tech manufacturing.

In 1996 and 1997 strong growth in manufacturing employment helped the District expand more rapidly than the nation. In 1998, slackening demand for exports and a more general slowdown in high-tech manufacturing have combined to damp employment growth in manufacturing in many District states. As a result, District manufacturing employment growth has fallen from 3.7 percent last year to -0.2 percent for the first 8 months of 1998. The decline in the District's manufacturing sector has reduced overall payroll employment growth by about ½ percentage point, and narrowed the gap between the District and the U.S. pace of expansion.

	Number Employed (thousands)			Annualized % Change	% Change
	Aug-98	Jul-98	Aug-97	From	From
				Previous Month	Previous Year
Alaska	274.8	276.1	269.5	-5.5	2.0
Arizona	2,075.2	2,064.2	1,983.3	6.6	4.6
California	13,623.3	13,586.2	13,224.5	3.3	3.0
Hawaii	526.7	522.6	533.0	9.8	-1.2
Idaho	520.8	519.4	511.5	3.3	1.8
Nevada	934.3	931.8	893.8	3.3	4.5
Oregon	1,568.0	1,564.5	1,527.0	2.7	2.7
Utah	1,024.3	1,022.0	997.4	2.7	2.7
Washington	2,616.4	2,606.1	2,522.8	4.8	3.7
District	23,163.8	23,092.9	22,462.8	3.7	3.1
U.S.	126,184.0	125,819.0	122,894.0	3.5	2.7

Seasonally adjusted payroll employment data

	Number Employed (thousands)			Annualized % Change	% Change
	Aug-98	Jul-98	Aug-97	From	From
				Previous Month	Previous Year
Total	23,163.8	23,092.9	22,462.8	3.7	3.1
Mining	82.3	82.3	84.8	0.0	-2.9
Construction	1,203.9	1,201.1	1,127.9	2.8	6.7
Manufacturing	3,039.8	3,059.3	3,029.3	-7.4	0.3
Transportation	1,189.0	1,187.2	1,126.4	1.8	5.6
Trade	5,404.2	5,394.8	5,277.4	2.1	2.4
F.I.R.E.	1,328.7	1,326.0	1,280.2	2.5	3.8
Services	7,070.3	7,036.4	6,790.4	5.9	4.1
Government	3,829.7	3,805.8	3,746.4	7.8	2.2

Seasonally adjusted payroll employment data

Financial Conditions

District bank earnings were strong in the second quarter. Banks headquartered in the District reported average return on assets (ROA) of 1.5 percent and average return on equity (ROE) of 14.3 percent. District ROA was slightly higher than the national average, while ROE was slightly lower. Banks headquartered in California recorded average ROA equal to the nation; ROE was lower than the national average. For small banks in California, second-quarter results shared an average ROA was 1.1 percent and average ROE was 10.5 percent, an improvement from the second quarter. Performance of small banks varied across the state, with small banks in the Central Valley and Southern California performing worse than small banks in Northern California.

Asset quality across the District improved in the second quarter, as the average past-due loan ratio continued on a downward trend. The District's average past-due credit card loan ratio also declined, but, as in the nation as a whole, remained high.

A survey of large District banks showed basically unchanged demand for business loans over the past three months. Overall, demand for home mortgages strengthened, while demand for consumer loans and home equity loans weakened somewhat. Demand for commercial real estate loans picked up slightly.

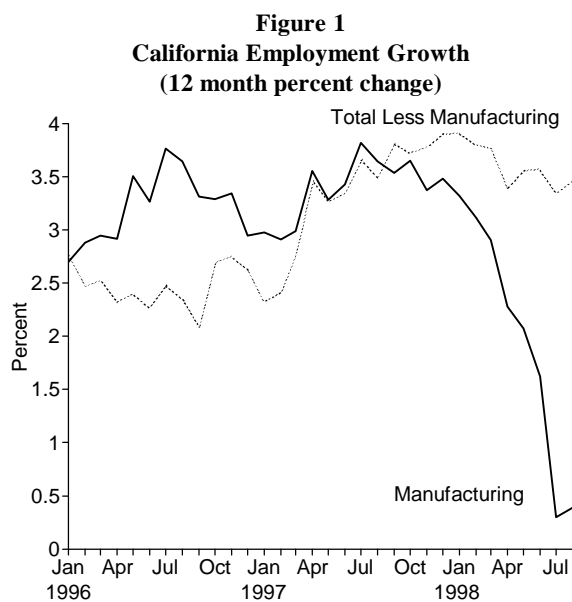
Slowing Growth in California: The Role of Manufacturing

Over the past few years robust growth in manufacturing employment has helped California expand more rapidly than the nation. Recently, however, the East Asian financial crisis and excess supply and manufacturing overcapacity in some high-tech sectors have combined to damp growth in the state's manufacturing sector. As a result, total payroll employment growth in California is slowing, drawing closer to the national rate. Within California, the San Francisco Bay Area has experienced the largest deceleration. This is serving to equalize regional growth rates across California, although at a slower overall growth rate than last year.

Manufacturing's Contribution to California's Slowing Economy

After growing by 3.5 percent during the 12 months ending August 1997, payroll employment growth in California slowed to just 3.0 percent over the past 12 months ending in August. Although a number of sectors in the state's economy decelerated, the bulk of the downturn owes to large and ongoing declines in manufacturing employment growth. Figure 1 shows 12 month growth rates for manufacturing employment and for total employment less manufacturing in California. Growth in manufacturing employment began to slow in the third quarter of 1997, a period when most other sectors of California's economy were expanding. By September 1997, 12 month growth in manufacturing employment had dipped below the average rate of employment growth for the state's other sectors. Since that time, manufacturing employment growth in California has declined almost steadily, and as of August (on a 12 month basis) was well below the 3.5 percent rate of the remaining sectors of the state's economy.

To understand the direct effect of the downturn in manufacturing on California payroll employment growth, it is useful to consider how rapidly the state would have grown if manufacturing had continued to expand at its earlier pace. Between August 1996 and August 1997 manufacturing growth in California averaged 3.6 percent. If manufacturing employment had continued to expand at this pace during the 12 months



ending in August 1998, California's total non-agricultural employment would be growing 3.5 percent per year, rather than the actual 3.0 percent realized. Thus, the slowdown in manufacturing has shaved nearly 0.5 percentage point off growth in the state.

Factors Damping Manufacturing Employment Growth

East Asia. The slowdown in manufacturing, in part, reflects California's exposure to developments in East Asia. California merchandise exports represent about 11 percent of state GSP and nearly 50 percent of those exports are shipped to countries in East Asia (WED, August 1997). Merchandise exports from California to East Asia have fallen rapidly in 1998 (Table 1). During the first half year of 1998 California's exports to East Asia fell 17.5 percent compared to the first half year of 1997. The largest contractions were to the ASEAN(4) and South Korea, but exports to the other NIEs and Japan also declined significantly.

Exacerbating California's vulnerability to East Asia is the fact that state exports are dominated by three industry categories: industrial machinery and equipment (SIC 35), electronic and electrical equipment (SIC 36), and instruments and related products (SIC 38), which contain most of the state's high-tech manufacturers. Collectively, these three industry categories

Table 1
Merchandise Export Growth, California
by Destination Country
(year to date, percent change relative to same period a year ago)

	through December 1997	through June 1998
Total, to world	4.8	-0.1
Western Europe	6.1	12.0
Canada	2.9	12.5
Mexico	32.6	22.2
East Asia ^a	-2.5	-17.5
Japan	-7.7	-15.2
ASEAN(4) ^b	-1.3	-26.9
China	17.4	28.7
South Korea	-19.8	-40.5
Other NIE ^c	11.0	-10.7

^aEast Asia: Japan, China, ASEAN(4), and the NIE(4)

^bASEAN(4): Malaysia, Thailand, Philippines, Indonesia

^cOther NIE: Taiwan, Singapore, Hong Kong

Source: Census FT900 and MISER Series 1 (includes re-exports).

ries account for more than 60 percent of California's total exports to East Asia.

In 1995 and 1996, while Asia was investing heavily in high-tech capital equipment, computers, and telecommunications products, exports from these three manufacturing categories grew rapidly. However, ongoing weakness in many Asian nations has significantly damped demand for these exports. Compared to last year, 1998 numbers reveal a 2.1 percent decline in total exports of industrial machinery, a 2.3 percent decline in exports of electrical machinery, and a substantial slowing in total export growth of instruments and related products.¹ State exports of these products to East Asia declined by much more, 17.0, 18.4, and 5.3 percent, respectively.

Slowing High-tech. Weakening East Asian demand for manufactured high-tech products has aggravated a more general imbalance in supply and demand growth in the industry. By most measures the high-tech manufacturing industry never fully recovered from the product-cycle downturn in 1996. This left the industry particularly vulnerable to market disruptions brought on by East Asia. These circumstances have combined to produce an industry-wide slump at least as severe as the decline experienced in 1996.

Indicators of industry-wide trends show ongoing weakness in both the semiconductor and equipment manufacturing sectors. In July, worldwide semiconductor sales fell to about \$9.8 billion, down 17 percent (nearly \$2 billion) from year ago levels. Although sales in all regions declined, the Asian market experienced the greatest weakness. July 1998 sales to Asia were 23 percent lower than July 1997 sales. In the Americas, sales fell by 17 percent, while in Europe, sales dropped by 4 percent. Declining sales figures have resulted in manufacturing overcapacity problems.

Declining sales and worsening overcapacity problems have significantly affected the industry's investment in new plant and equipment. Indicative of the decline in purchases of new equipment is the monthly North American Semiconductor Equipment Industry's "book-to-

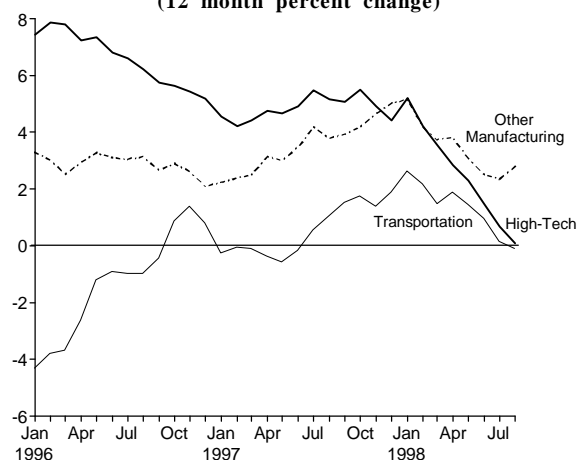
¹ California's exports of these products began to weaken in 1997 (WED, August 1997).

bill" ratio. The semiconductor equipment "book-to-bill" is the ratio of semiconductor equipment orders to shipments, from U.S. based semiconductor equipment manufacturers. After making a partial recovery from the 1996 industry downturn, the equipment "book-to-bill" began to decline steadily in July of last year. In January 1998 it fell below 1 and currently rests at 0.69, representing \$69 of new orders for every \$100 of shipments.

Effects on Manufacturing in California

As East Asian developments and the high-tech slowdown have softened demand for manufactured products, California's employment growth in this sector has decelerated. While the deceleration has been broad-based, producers of high-tech products have been particularly hard hit. Figure 2 illustrates the disproportionate decline in high-tech manufacturing growth (defined as SIC categories 35, 36, and 38) relative to other manufacturing sectors. Figure 2 compares 12 month growth for three categories: high-tech, transportation, and all other, which includes a variety of non-high-tech durable manufacturing sectors such as primary and fabricated metals and furniture and fixtures.² Figure 2 shows that all manufacturing sectors slowed in recent quarters, but the deceleration in high-tech was particularly large. Twelve month employment growth in high-tech fell from an average of about 5

Figure 2
California Employment Growth
by Manufacturing Sectors
(12 month percent change)



² Specifically, the "other" category includes the 2-digit SIC groups: Furniture and Fixtures; Stone, Clay, and Glass products; Primary Metal Industries; Fabricated Metal Industries; and Miscellaneous Manufacturing Industries.

percent in 1997 to just 0.1 percent in August. In contrast, the slowdown in most other areas of manufacturing, the exceptions being transportation and lumber and wood products (not shown), was more modest, falling only about one percentage point, from 3.5 percent on average in 1997 to 2.8 percent in August.

Effects on Employment Growth in California

As noted earlier, California’s slowing manufacturing sector shaved approximately 0.5 percentage point off state payroll employment growth over the past 12 months ending in August. To better understand which sectors contributed to this slowing, Table 2 compares the employment shares of various manufacturing sectors with their contributions to the 0.5 percentage point reduction attributable to manufacturing. Calculation of these contributions accounts for changes in the growth rates of various sectors and differences in their share of total employment.

Within manufacturing, both the durable and non-durable sectors slowed, with each reducing growth nearly proportional to its employment share. Durable manufacturing, which constitutes about 60 percent of total manufacturing employment, accounted for about 75 percent of the total decline in employment growth, or 0.37 percentage point. Non-durable manufacturing accounted for the remaining 0.13 percentage point, or about 25 percent of the total decline.

A more detailed look at durable manufacturing reveals that the vast majority of the durable manufacturing decline is attributable to

industries containing high-tech manufacturers, namely industrial machinery and equipment, electronic and electrical components, and instruments and related products. Taken together these sectors account for nearly 80 percent of the slowdown in durable manufacturing and 56 percent of the deceleration in total manufacturing. In contrast, these high-tech sectors make up only 35 percent of manufacturing employment. The remaining sectors of durable manufacturing account for a much smaller share of the total decline and account for less of the slowdown than their employment shares would predict.

Effects on Growth by Region

The disproportionate slowdown in high-tech is changing regional pattern of growth in the state. Employment growth in the San Francisco Bay Area fell from 4.8 percent between July 1996 and July 1997 to 2.1 percent over the 12 subsequent months. Both San Jose and San Francisco experienced the sharpest slowing. San Jose’s job growth fell from 5.9 percent on a year-over-year basis during the 12 months ending in July 1997 to 2.4 percent over the 12 months ending in July 1998. In San Francisco, growth dropped from 4.5 percent in July 1997 to 1.5 percent in July 1998. This slackening in the Bay Area reflects its high-tech specialization and strong ties to East Asia. In contrast, the deceleration in growth in Southern California has been much smaller. Growth in Southern California fell from 3.5 percent to 3.1 percent on a year ago basis. Growth in the Los Angeles-Long Beach area actually accelerated, climbing from 2.6 percent over the 12 months ending in July 1997 to 2.8 percent over the 12 months ending in July 1998.

Summary

After being a leading contributor to California’s rapid payroll employment growth, the state’s manufacturing sector has weakened. Manufacturing employment growth has declined, and many of the state’s manufacturers are shedding jobs. Although manufacturing declines have been broad-based, producers of high-tech products have been particularly hard hit. Regionally, the Bay Area has felt a larger share of the impact than other parts of the state. This is equalizing growth across California, although overall growth is slower than last year.

Table 2
Sector Contributions to Slowing Manufacturing
Employment Growth in California
(August 1997-August 1998)

	Employment Share of Manufacturing	Percentage Point Contribution to Slowing Growth
Manufacturing	100.0	0.50
Durable Sector	62.0	0.37
Non-Durable Sector	38.0	0.13
<i>Selected Subsectors of Durable Manufacturing</i>		
High-Tech	35.0	0.28
Transportation	8.5	0.02
Lumber and Wood Products	3.0	0.02
Other Durables	15.5	0.05

Other durables include the 2-digit SIC categories Furniture and Fixtures; Stone, Clay, and Glass Products; Primary Metal Industries; Fabricated Metal Industries; and Miscellaneous Manufacturing Industries.

ALASKA, OREGON, AND WASHINGTON

The **Alaskan** economy continued its on again off again performance in recent months. Payroll employment was little changed in June, grew rapidly in July, and contracted in August. Despite these monthly swings, total payroll employment grew 3.7 percent at an annual rate over the eight months ending in August, nearly 2½ percentage points faster than growth in 1997. Solid job growth has tightened state labor markets. As of August the state unemployment rate was 5.9 percent, down more than a percentage point from last year.

Robust growth in Alaska's construction, trade, and services industries is helping the state weather low oil prices, shrinking exports, and a second year of below average salmon harvests. In the past, when oil prices declined or fishing deteriorated, so did the state's economy. This time, however, Alaska's economy is accelerating, demonstrating that the state is no longer strictly a resource-based economy.

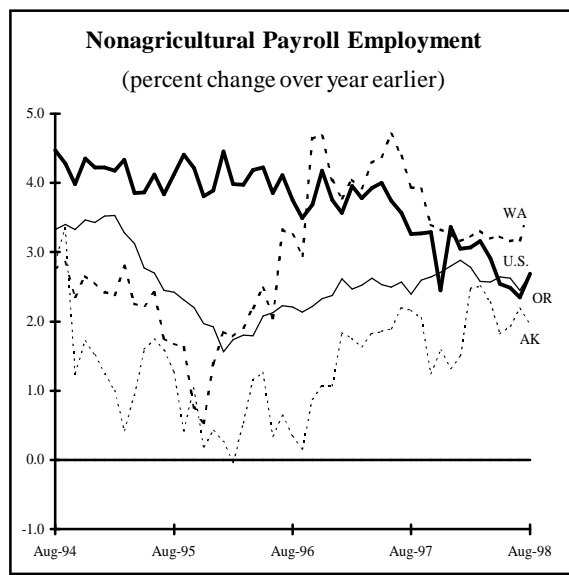
Economic growth in **Oregon** remained sluggish in recent months. Total nonfarm payroll employment grew by less than 1 percent at an annual rate during June through August, slightly slower than the 1.6 percent annual rate so far this year. Growth slowed in many sectors during the past three months. Manufacturing and trade establishments shed jobs, and employment in construction, and transportation was little changed. Only the finance, insurance, and real estate and

services sectors added jobs at their 1997 pace. Slowing growth has pushed the state unemployment rate to 5.7 percent, a 0.8 percentage point increase over the first quarter of this year.

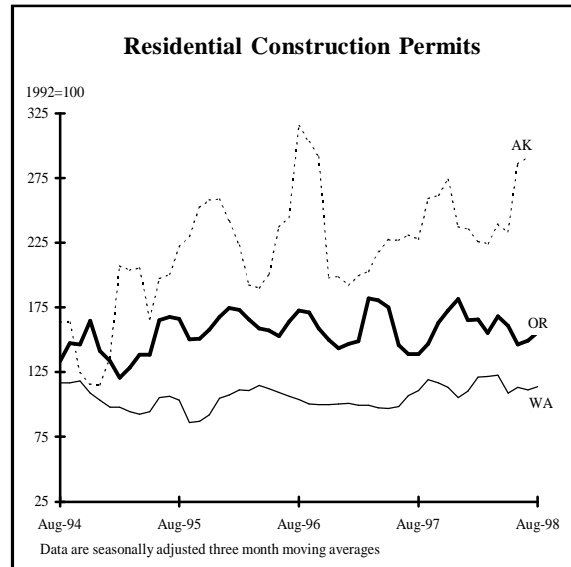
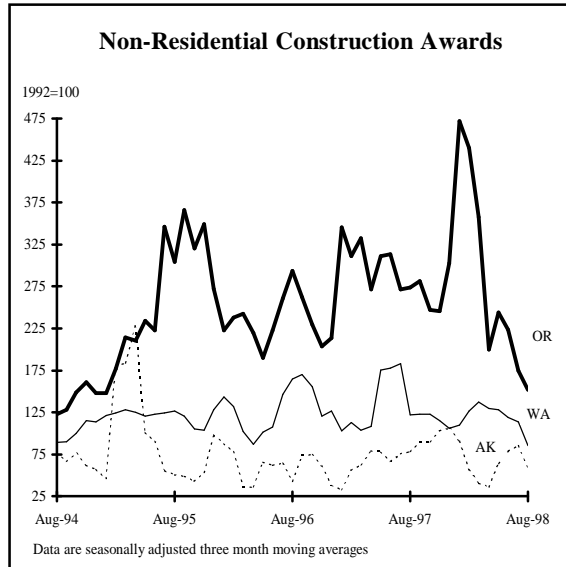
Economic difficulties in East Asia are affecting Oregon's exports. During the first half of 1998, nominal exports from the state declined by 5.7 percent compared to the same period in 1997. Among the state's most important export commodities, which include industrial machinery and computing equipment, electrical and electronic equipment, lumber and wood products, and processed foods, nominal export declines were even larger. As a result, employment in these industries has contracted steadily. Combined, manufacturers in these industries have trimmed 2,500 jobs from their payrolls this year.

Washington's economy grew rapidly during the past three months. Total nonfarm payroll employment increased at an annual rate of 4.5 percent during the three months ending in August, above the 4 percent pace for the first half of the year. Recent strength owes to expansions in the construction, transportation, trade, finance, insurance, and real estate, and services sectors. Despite rapid employment growth, the state's labor market has loosened this year; the state unemployment rate in August was 4.7 percent, 0.3 percentage point higher than last year.

Although Washington's diversified manufacturing sector and booming software industry have damped the impact of East Asia on state employment growth, state export numbers have weakened. During the first half of 1998, exports to East Asia declined by nearly 11½ percent. The largest declines were for agricultural, forestry, fishing, and processed food commodities, as well as industrial machinery and computing equipment. Exports of transportation equipment continued to increase, although the pace of growth has slowed since last year. Declining export demand is affecting Washington's manufacturing sector. Employment growth in manufacturing grew by less than 1 percent at an annual rate during the 8 months ending in August, significantly decline below the 5.1 percent rate for 1997.



CONSTRUCTION



EMPLOYMENT

	Number Employed (thousands)			Annualized %	%
	Aug-98	Jul-98	Aug-97	% Change From Previous Month	Change From Previous Year
Alaska					
Total	274.8	276.1	269.5	-5.5	2.0
Mining	10.6	10.5	10.1	12.0	5.0
Construction	13.2	13.2	12.8	0.0	3.1
Manufacturing	14.7	15.9	14.8	-61.0	-0.7
T.C.P.U.	25.5	25.3	24.2	9.9	5.4
Trade	57.1	57.1	56.4	0.0	1.2
F.I.R.E.	12.7	12.6	12.4	10.0	2.4
Services	68.0	67.9	65.8	1.8	3.3
Government	73.0	73.6	73.0	-9.4	0.0

	Number Employed (thousands)			Annualized %	%
	Aug-98	Jul-98	Aug-97	% Change From Previous Month	Change From Previous Year
Washington					
Total	2616.4	2606.1	2522.8	4.8	3.7
Mining	3.4	3.4	3.5	0.0	-2.9
Construction	143.1	143.2	137.0	-0.8	4.5
Manufacturing	378.2	379.8	373.2	-4.9	1.3
T.C.P.U.	138.2	137.3	131.0	8.2	5.5
Trade	630.5	628.5	609.0	3.9	3.5
F.I.R.E.	136.6	135.6	129.6	9.2	5.4
Services	717.2	712.8	680.2	7.7	5.4
Government	469.2	465.5	459.3	10.0	2.2

	Number Employed (thousands)			Annualized %	%
	Aug-98	Jul-98	Jun-98	% Change From Previous Month	Change From Previous Year
Oregon					
Total	1568.0	1564.5	1527.0	2.7	2.7
Mining	1.8	1.8	1.9	0.0	-5.3
Construction	82.9	82.0	82.5	14.0	0.5
Manufacturing	244.5	246.8	242.1	-10.6	1.0
T.C.P.U.	75.7	75.3	71.2	6.6	6.3
Trade	386.2	388.4	378.8	-6.6	2.0
F.I.R.E.	98.0	97.3	95.5	9.0	2.6
Services	420.9	417.2	403.8	11.2	4.2
Government	258.0	255.7	251.2	11.3	2.7

	Unemployment Rates (%)				
	Aug-98	Jul-98	Jun-98	Aug-97	Jul-97
Alaska	5.9	6.2	6.4	7.9	8.0
Oregon	5.7	5.4	5.4	5.7	5.8
Washington	4.7	4.7	4.7	4.6	4.7
U.S.	4.5	4.5	4.5	4.9	4.9

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

Arizona's economy slowed noticeably in recent months, following a very strong second quarter. Although payroll employment was little changed in July and August, employment is up 4 percent at an annual rate for the first eight months of 1998. The pace so far in 1998 is about ½ percentage point less than in 1997, owing in part to a slowdown in manufacturing job growth. Recently the weakness in Arizona manufacturing has been in the electrical and non-electrical machinery group, where employment fell about 8 percent at an annual rate in July and August.

Nominal exports from the state weakened substantially in recent months. For first half of 1998, exports were up only 3 percent from a year earlier, after growing by 17 percent during the first quarter. Japan is Arizona's second largest export market, following Mexico. About two-thirds of Arizona's exports to Japan have been of electrical equipment and components. The electrical equipment and components industry accounts for about one-half of Arizona's overall exports. The largest private employer in the state, the electronic component manufacturer Motorola, is in the midst of an announced 10 percent reduction in worldwide employment and has cited the Asian economic situation as a significant drag on its profitability.

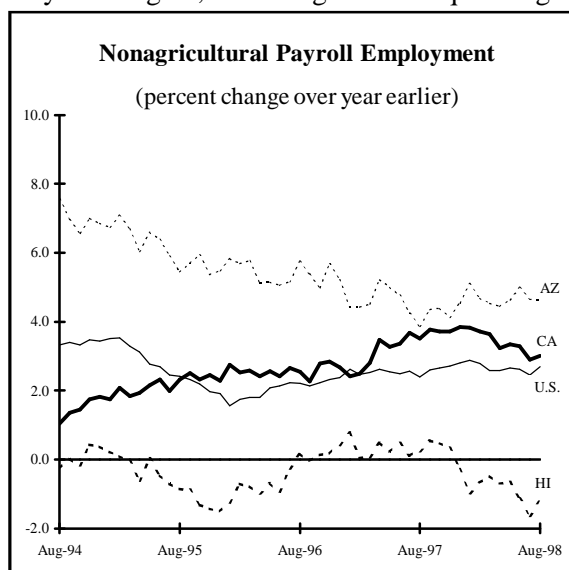
The pace of economic growth in **California** slowed in recent months. Payroll employment increased about 1¾ percent at an annual rate in July and August, following a second-quarter gain

of about 3 percent at an annual rate. State manufacturing employment is declining, and the pace of job loss there worsened in recent months; the second-quarter decline of about ½ percent at an annual rate in manufacturing jobs was followed by a drop of about 3½ percent at an annual rate in July and August. Among other sectors, construction, real estate, and business services continued to experience rapid job growth through August.

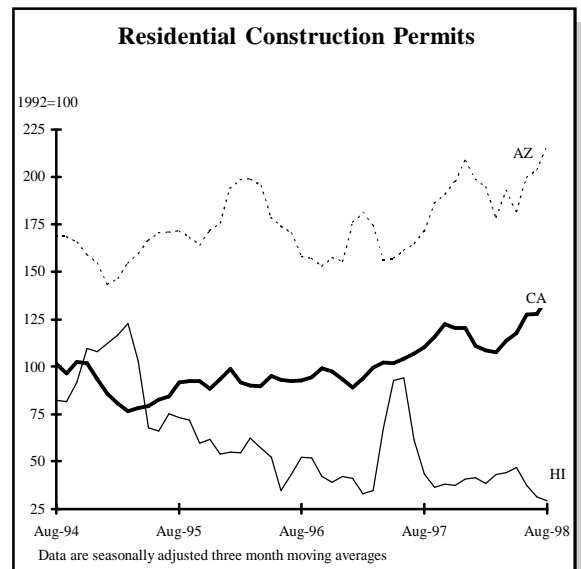
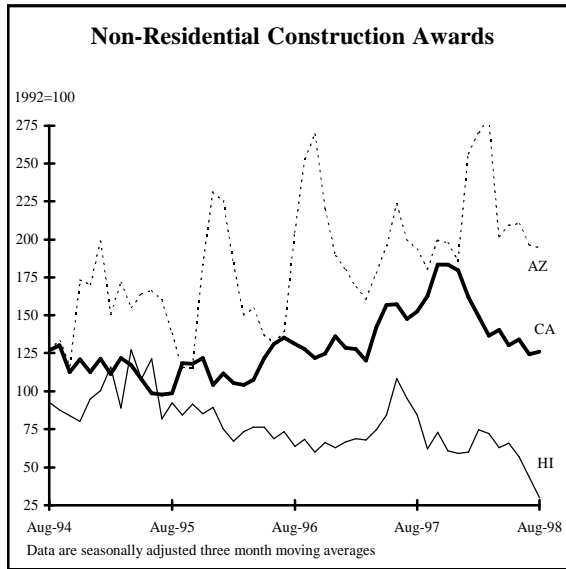
The recent declines in California manufacturing employment have been broad-based. Among durable manufacturers, some of the most noticeable job losses have been in the aerospace, lumber and wood products, computing equipment, and electronic components industries. Within nondurable manufacturing, large job declines in the food, paper, and petroleum-related industries have been only partly offset by moderate growth elsewhere.

The underlying contraction of the economy in **Hawaii** was very apparent in the payroll employment data through July; however, the preliminary report on labor market conditions in August was more favorable. Taken together, the reported increase in jobs in August more than offset the loss in July. However, over the first eight months of the year, employment in Hawaii has fallen about 1 percent at an annual rate. Recent weakness is in sectors serving a declining number of visitors. Employment at hotels fell about 9 percent at an annual rate in July and August, following a decline of 3 percent at an annual rate in the second quarter. Retail trade employment also is down. Employment at air transportation firms fell 6 percent at an annual rate in the second quarter, was little changed in July, and rebounded a bit in August.

More declines in air transportation sector appear imminent, as several airlines have announced plans to reduce staffing levels this fall. Airlines are reducing traffic capacity quickly; eastbound lift capacity has declined 10 percent so far this year. Eastbound arrivals for the first half of 1998 are down 8 percent. Despite a pickup in westbound traffic, as of June, total visitor arrivals were down 3 percent from a year earlier.



CONSTRUCTION



EMPLOYMENT

	Number Employed (thousands)			Annualized	%
	Aug-98	Jul-98	Aug-97	% Change	Change
				From Previous Month	From Previous Year
Arizona					
Total	2075.2	2064.2	1983.3	6.6	4.6
Mining	13.2	13.2	14.1	0.0	-6.4
Construction	136.7	137.7	131.2	-8.4	4.2
Manufacturing	216.7	216.3	208.1	2.2	4.1
T.C.P.U.	99.5	98.9	92.5	7.5	7.6
Trade	501.0	496.5	480.8	11.4	4.2
F.I.R.E.	135.7	135.1	127.6	5.5	6.3
Services	637.0	632.6	603.3	8.7	5.6
Government	335.4	333.9	325.7	5.5	3.0

	Number Employed (thousands)			Annualized	%
	Aug-98	Jul-98	Aug-97	% Change	Change
				From Previous Month	From Previous Year
Hawaii					
Total	526.7	522.6	533.0	9.8	-1.2
Mining
Construction	21.3	20.9	22.0	25.5	-3.2
Manufacturing	15.9	16.0	16.7	-7.2	-4.8
T.C.P.U.	40.5	40.5	41.5	0.0	-2.4
Trade	131.5	130.6	134.3	8.6	-2.1
F.I.R.E.	35.0	35.2	36.1	-6.6	-3.0
Services	169.6	168.3	169.7	9.7	-0.1
Government	112.9	111.1	112.7	21.3	0.2

	Number Employed (thousands)			Annualized	%
	Aug-98	Jul-98	Jun-98	% Change	Change
				From Previous Month	From Previous Year
California					
Total	13623.3	13586.2	13224.5	3.3	3.0
Mining	28.3	28.4	29.3	-4.1	-3.4
Construction	614.8	613.1	562.1	3.4	9.4
Manufacturing	1933.3	1931.6	1925.8	1.1	0.4
T.C.P.U.	679.0	679.7	642.8	-1.2	5.6
Trade	3136.4	3132.3	3070.3	1.6	2.2
F.I.R.E.	786.5	786.0	760.0	0.8	3.5
Services	4258.3	4241.8	4089.0	4.8	4.1
Government	2186.7	2173.3	2145.2	7.7	1.9

	Unemployment Rates (%)				
	Aug-98	Jul-98	Jun-98	Aug-97	Jul-97
Arizona	4.2	3.8	4	4.4	4.5
Hawaii	5.7	5.8	6.0	6.4	6.5
California	5.8	5.7	5.8	6.2	6.2
U.S.	4.5	4.5	4.5	4.9	4.9

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

Idaho's economy grew at solid pace in recent months. Total nonfarm payroll employment expanded by about 3.7 percent at an annual rate during the months of June through August; on the same basis, employment thus far in 1998 has expanded by 2 percent. Growth during the last three months was led by a surge in services sector employment, which more than offset sharp losses earlier this year. Employment growth also has remained strong lately in the finance, insurance, and real estate sector, and among local government agencies. Overall employment growth has been adequate to hold the state unemployment rate around 5 percent this year.

Following expansion of 3 percent annually during 1996-97, manufacturing employment in Idaho has fallen by nearly 1 percent at an annual rate thus far in 1998, with particularly sharp losses in the last several months. The slowdown has been concentrated in the durable manufacturing sector and has been especially pronounced for wood products, metal products, and industrial machinery. Weak export demand appears to be playing a role; for the first half of 1998, total state exports were below their 1997 level.

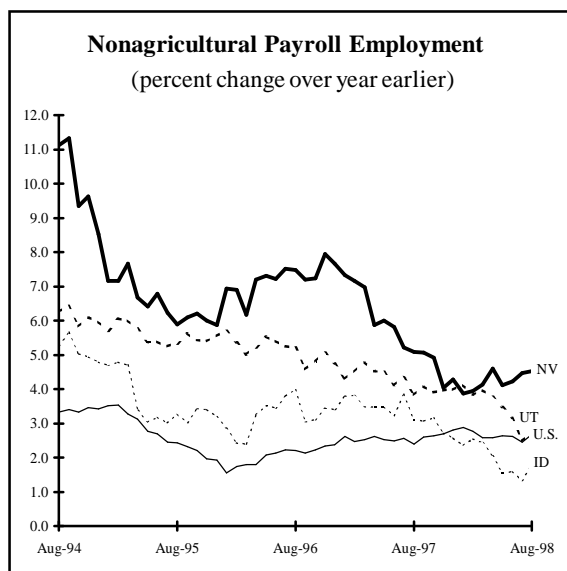
Economic growth in **Nevada** has been rapid in recent months, and the state is listed second in the national employment growth ranking. Total nonfarm payroll employment expanded by 5½ percent at an annual rate during June through August, which is above the pace from earlier in

the year. Growth was broad based, but it was particularly rapid in the construction, finance, insurance, and real estate, and local government sectors. In contrast, the state's key hotels and amusement sector on net lost a substantial number of jobs in recent months, although rapid expansion of hotel and casino capacity has continued in Las Vegas. Overall rapid job growth has tightened state labor markets since the spring; as of August the state unemployment rate was 4.2 percent, nearly down to its low point from last year.

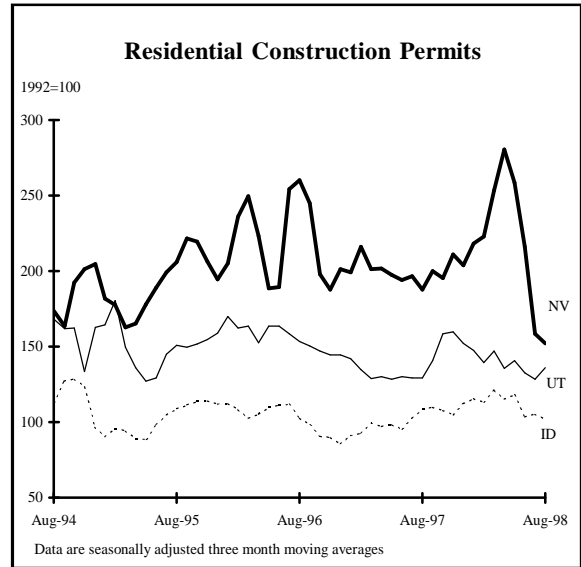
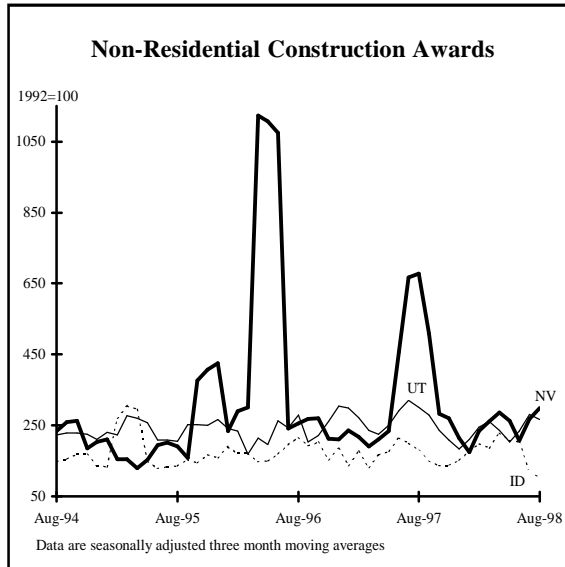
The state's durable manufacturing sector has performed very well this year. Job growth during the first eight months of 1998 was 4.7 percent at an annual rate, about 2/3 of a percentage point above last year's pace. In the key subsectors, producers of stone, clay, and glass products and metal products appear to be benefitting from rapid construction activity in the state. The state is somewhat insulated from the economic downturn in East Asia by the small share of its output that is exported to that region.

Utah's expansion slowed further in recent months. Total nonfarm payroll employment fell by nearly one percentage point at an annual rate during June through August, and growth for 1998 has been 1.5 percent on the same basis. On the plus side, construction jobs have grown at a solid pace this year, to help meet the demands of substantial nonresidential building plans. Moreover, state and local governments continue to post strong job gains. However, growth has slowed substantially in all major sectors except the government this year. The slowdown has loosened labor markets slightly; the state unemployment rate has risen to 3.3 percent, from a low of just below 3 percent at the end of 1997.

Employment in the state's durable manufacturing sector has fallen a bit this year, and on net the job losses became more pronounced in recent months. Job losses were most rapid among makers of primary metal products and electronics manufacturers. Exports do not yet appear to be playing a key role in this slowdown; Utah's total exports have grown so far this year.



CONSTRUCTION



EMPLOYMENT

	Number Employed (thousands)			Annualized % Change	% Change
	Aug-98	Jul-98	Aug-97	From Previous Month	From Previous Year
Idaho					
Total	520.8	519.4	511.5	3.3	1.8
Mining	3.1	3.2	3.1	-31.7	0.0
Construction	32.8	32.2	32.4	24.8	1.2
Manufacturing	75.4	75.7	74.5	-4.7	1.2
T.C.P.U.	24.4	24.3	23.9	5.1	2.1
Trade	130.5	130.6	128.1	-0.9	1.9
F.I.R.E.	26.9	26.9	25.7	0.0	4.7
Services	125.5	124.1	123.7	14.4	1.5
Government	102.2	102.4	100.1	-2.3	2.1

	Number Employed (thousands)			Annualized % Change	% Change
	Aug-98	Jul-98	Aug-97	From Previous Month	From Previous Year
Utah					
Total	1024.3	1022.0	997.4	2.7	2.7
Mining	8.0	8.0	8.3	0.0	-3.6
Construction	68.3	68.3	65.4	0.0	4.4
Manufacturing	134.1	134.3	133.4	-1.8	0.5
T.C.P.U.	58.5	58.3	54.4	4.2	7.5
Trade	243.3	243.1	239.3	1.0	1.7
F.I.R.E.	54.5	54.4	52.9	2.2	3.0
Services	279.3	277.7	271.7	7.1	2.8
Government	178.3	177.9	172.0	2.7	3.7

	Number Employed (thousands)			Annualized % Change	% Change
	Aug-98	Jul-98	Jun-98	From Previous Month	From Previous Year
Nevada					
Total	934.3	931.8	893.8	3.3	4.5
Mining	13.9	13.8	14.5	9.1	-4.1
Construction	90.8	90.5	82.5	4.1	10.1
Manufacturing	42.9	42.9	40.7	0.0	5.4
T.C.P.U.	47.7	47.6	44.9	2.6	6.2
Trade	187.7	187.7	180.4	0.0	4.0
F.I.R.E.	42.8	42.9	40.4	-2.8	5.9
Services	394.5	394.0	383.2	1.5	2.9
Government	114.0	112.4	107.2	18.5	6.3

	Unemployment Rates (%)				
	Aug-98	Jul-98	Jun-98	Aug-97	Jul-97
Idaho	4.9	4.9	5.0	5.4	5.3
Nevada	4.2	4.2	4.4	3.9	4.0
Utah	3.3	3.6	3.2	3.1	3.1
U.S.	4.5	4.5	4.5	4.9	4.9

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

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