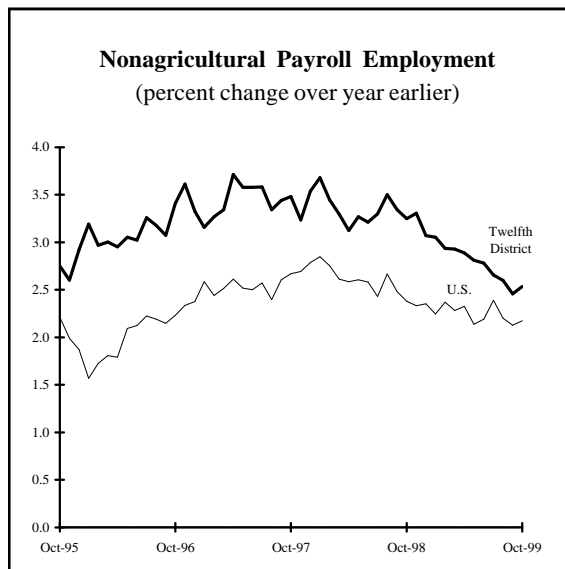


# WESTERN ECONOMIC DEVELOPMENTS

December 1999

## Executive Summary

- *Employment growth in the District has continued to outpace the remainder of the nation in this period of rapid U.S. economic growth.*
- *Although there have been additional losses of a significant number of aerospace manufacturing jobs in Washington and California, District manufacturing employment outside of aerospace has begun to rebound.*
- *Construction activity has been relatively strong in the District as a whole, despite slowing in some areas.*
- *California has been a source of strength in the District economy recently, owing partly to the state's leading role in the use of venture capital and publicly-traded equity to finance growth of young, technology-oriented firms.*



## District Update

The current level of economic activity in the Twelfth District is very high, and fast growth continued in recent months. Overall District payroll employment increased at about a 2¼ percent average annual rate in September and October, following similar-sized gains in the first eight months of the year. Given also the solid increases in District employment in the final two months of 1998, overall District employment has increased 2½ percent over the twelve months ending in October, about ¼ percentage point faster than the national rate of job growth.

District job growth has outpaced the rate of expansion in the labor force. The District unemployment rate fell from 5 percent in August to 4.8 percent in September and October. The District unemployment rate also fell noticeably in the first eight months of the year, bringing the cumulative decline in the unemployment rate to 0.6 percentage point so far this year.

Almost one-half million jobs have been created in the District so far this year. About half of this net gain is in the services sector, where growth has been at a rapid 4 percent annual pace. The construction sector also has been expanding rapidly and has accounted for about 15 percent of District job growth this year. In contrast, manufacturing employment fell 1 percent at an annual rate thus far in 1999, in a contraction that persisted into the beginning of the fourth quarter.

Declines in aerospace employment in Washington and California account for almost all of the 26,000 jobs lost in the District manufacturing sector so far this year. In Washington 17,000 jobs were cut in the aircraft industry, and in California 8,000 jobs were lost at manufacturers of aircraft, missiles, and space equipment. Excluding aerospace, the District's manufacturing sector began to pick up in mid-1999, as a rebound in California manufacturing

employment was only partly offset by slight further declines elsewhere.

Most of this year's weakness in District aerospace employment can be traced to cutbacks at Boeing. The company cut about 33,000 jobs this year worldwide, including 17,540 in Washington state and 4,270 in California. Boeing's space and communications business lost money in 1998 and was only a little better in 1999, and profits from military aircraft and missile production are down recently relative to last year. Also, production of commercial aircraft has come down and is scheduled to drop further; production is scheduled to slow to accommodate deliveries of 480 planes in 2000, down from 620 deliveries in 1999.

Excluding aerospace, manufacturing employment in the District is relatively flat for the year as a

whole, but there have been some signs in recent months that this sector might be picking up. California non-aerospace manufacturing employment began to rebound in the second quarter of 1999, after slowing in 1998 and declining in the first quarter of this year. Much of the weakness in 1998 and early 1999 owed to a drop in exports from the state, which fell about 4 percent last year and remained weak in early 1999. However, exports from California have stabilized over the course of this year, largely owing to a recent pickup in shipments to East Asia. Exports from the California industry groups making computer equipment and electronic components have increased so far in 1999, after falling sharply last year. In the District excluding California and Washington, there also has been a noticeable pickup in nominal exports this year. Overall exports from these states fell about 6 percent in nominal terms last year, but shipments to foreign customers in the first three quarters of this year are up 11 percent relative to the same period a year earlier.

Construction activity has been relatively strong in the District as a whole, despite slowing in some areas. Over the first ten months of the year, about 67,000 construction jobs were added in the District. More than two-thirds of these new construction jobs were in California, where residential building activity increased significantly in early 1999 and was strong in the summer before dropping back in recent months. For the District as a whole, residential permit issuance has declined in recent months. Overall permit issuance in the three months ending in October is down about 7 percent from the same period a year earlier, as the moderate 2 percent decline in California was accompanied by larger declines in most other District states.

With about one-half of District jobs and a 2½ percent employment growth rate so far this year, California has been a source of strength in the District economy. Job growth has been even more rapid in Nevada and Arizona, which were the first and third fastest growing states in the nation this past twelve months. Utah's economy also has grown fast, while in the Pacific Northwest states of Washington and Oregon employment growth has been at a moderate 1½ percent pace. The economies of Alaska and Hawaii have expanded slowly, and Idaho stopped adding jobs this year.

#### District Employment by Industry

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Oct-99	Sep-99	Oct-98		
Total	23,893.3	23,822.4	23,305.2	3.6	2.5
Mining	69.7	69.7	77.2	0.0	-9.7
Construction	1,298.8	1,288.8	1,219.5	9.7	6.5
Manufacturing	3,047.9	3,054.6	3,084.6	-2.6	-1.2
Transportation	1,254.2	1,251.8	1,214.4	2.3	3.3
Trade	5,523.8	5,507.9	5,419.9	3.5	1.9
F.I.R.E.	1,379.0	1,374.9	1,355.3	3.6	1.7
Services	7,394.6	7,362.6	7,108.7	5.3	4.0
Government	3,925.3	3,912.1	3,825.6	4.1	2.6

Seasonally adjusted payroll employment data

#### District Employment by State

	Number Employed (thousands)			Annualized % Change From Previous Month	% Change From Previous Year
	Oct-99	Sep-99	Oct-98		
Alaska	278.3	277.5	276.8	3.5	0.5
Arizona	2,178.2	2,165.5	2,101.3	7.3	3.7
California	14,067.9	14,039.6	13,717.2	2.4	2.6
Hawaii	531.5	537.3	530.7	-12.2	0.2
Idaho	532.0	529.2	525.9	6.5	1.2
Nevada	989.8	982.5	943.3	9.3	4.9
Oregon	1,593.1	1,581.2	1,565.7	9.4	1.8
Utah	1,061.0	1,057.4	1,030.6	4.2	2.9
Washington	2,661.5	2,652.2	2,613.7	4.3	1.8
District	23,893.3	23,822.4	23,305.2	3.6	2.5
U.S.	129,311.0	129,048.0	126,567.0	2.5	2.2

Seasonally adjusted payroll employment data

### **The regional concentration of financing via venture capital and IPOs**

Venture capital investments and the proceeds from initial public offerings (IPOs) of equity are important sources of financing to the District's innovative firms, which have contributed a lot to job growth in recent years. Also, the aftermarket performance of many firms with recent IPOs has been very strong this year, contributing to the overall increase in stock market wealth that has been sustaining rapid consumer spending. Media reports suggest that this wealth effect has been particularly large in California, where many people have directly participated in the run-up in market value of young technology-oriented firms by acquiring stock market options as early employees of these firms. These options can be cashed out to finance consumption if the firms make successful IPOs of equity and sustain high market valuations in aftermarket performance.

#### *Summary of findings*

Relative to earlier periods in history, 1999 truly has been remarkable in terms of the amount of capital being attracted to firms via venture capital and IPOs, and California's share of this activity has remained disproportionately large in 1999. Most of this recent surge in financing probably is very fragile, in the sense that it has been boosted by the prospect that strong aftermarket performance of IPOs will continue, and a downturn in the equity market could change these expectations. However, the financing pipeline for young California firms has seen a flood of money come in at the initial (venture capital) stage recently, so if equity market valuations continue to provide rich prices to private owners, we are likely to continue to see a large number of IPOs from California firms in the next year or two.

#### *Sources of funds: venture capital*

This year has been remarkable in terms of the amount of capital being disbursed to U.S. firms by venture capital funds. The National Venture Capital Association's research group, Venture Economics, reported that about \$30 billion was disbursed by venture capital funds to U.S. firms in the first three quarters of this year. If this pace keeps up in the fourth quarter, the record-breaking amount of venture capital disbursed this year will amount to

about \$40 billion. This is double the amount invested in 1997, quadruple the level of 1996, and an eight-fold increase from 1994.

California's share of venture capital activity has been disproportionately large in recent decades, and the state retained this lead position in 1999. This year, venture investment in the state was running at about a \$16 billion pace, 41 percent of the U.S. total. About one-third of 1999 U.S. venture capital investment was disbursed to firms in Northern California, a slightly larger fraction than last year.

In 1998, about two-thirds of Northern California venture investment was in computer and communications-related industries, including about one-quarter to firms developing computer software and services and 15 percent to firms developing other Internet-specific applications. This year, venture investments have tilted more toward the Internet-specific applications and consumer and biotech firms, away from other computer software and communications.

A separate source, a survey by Price Waterhouse Coopers, provides additional detail on the distribution of venture capital investments across District states. For the third quarter, the District captured about 50 percent of U.S. venture investments. California alone captured 45 percent of U.S. venture investments in the third quarter. Washington was the other District state with a noticeable share of U.S. venture investment, 3 percent.

These statistics on the history of venture capital investment by region provide quantitative evidence that this year the District is at the center of a unique development in the financing of innovation. Private firms have been able to attract quite a lot of venture investment this year, especially private firms in Northern California developing Internet-specific applications.

#### *Sources of funds: proceeds from IPOs*

A common goal of venture funds is to shepherd the most successful of their recipient companies through the process of making an initial public offering of equity. This year also has been remarkable in terms of the large number of firms making initial public offerings and in terms of the level of direct proceeds from these offerings.

Initial proceeds from U.S. IPOs (the product of the number of shares offered and the offering price)

were about \$65 billion at an annual rate in the first eleven months of this year, compared with the previous peak of \$50 billion in 1996. In 1999, the pace of issuance was strong (about 450 issues), but well below previous peaks; the jump in the level of proceeds reflects a large increase in the average proceeds per issue, which was boosted by the \$5½ billion in proceeds from the IPO for UPS, and the \$3¾ billion in proceeds from the IPO for Goldman, Sachs.

Firms headquartered in California raised about \$14 billion at an annual rate this year, which is about 21 percent of overall proceeds in U.S. markets, including the proceeds from some foreign-based firms that issued initial ADRs here. About one-third of overall issues were by firms headquartered in California, up substantially from prior years. The number of California firms with proceeds from IPOs increased to 138 this year, up from 100 in 1998 and 63 in 1997. Cumulatively, we track 301 California firms with proceeds from IPOs in the past three years. Their total direct proceeds from IPOs were about \$21 billion, which is about two-thirds of the amount of venture capital invested in California firms over this three-year period.

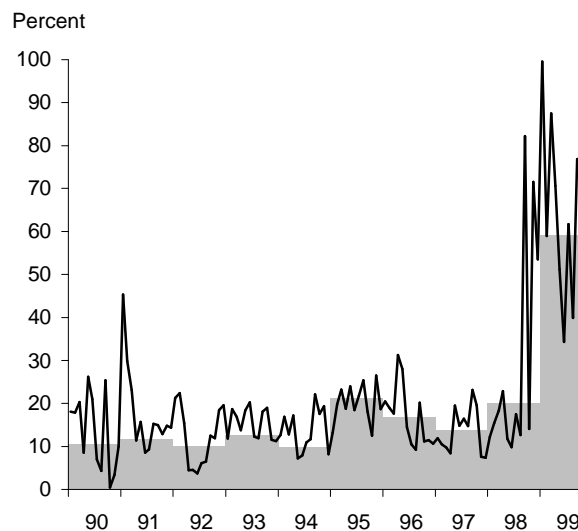
#### *Aftermarket performance of IPOs*

When firms “go public,” they typically distribute through the IPO offering only a noncontrolling fraction of the total shares in the company and retain the right to issue additional shares to the public. The success or failure of an IPO from the perspective of the initial private owners of the firm, including employees with stock and stock options, probably depends less on the initial proceeds and more on whether high market valuations are sustained in aftermarket performance. This year the aftermarket performance of IPOs has been phenomenally strong.

The beginning of the aftermarket period is the first day of trading in the newly issued stock. From 1990 to 1998, the average return on the first day of trading of IPO stocks generally remained in the 10 percent to 20 percent range (Figure 1). However, in late 1998 and continuing into 1999, average first-day returns on many IPO stocks exceeded 50 percent.

Over longer periods, firm operating performance begins to have a more noticeable effect on realized

**Figure 1**  
Aftermarket performance of IPOs in U.S. markets  
Average first-day return



Source: Ritter (1999)

aftermarket returns. Many newly issued stocks suffer large negative returns in the first few years of trading, but a few stocks realize such large gains that the average aftermarket return over longer periods often is positive (at least in bull market years). A capitalization-weighted index of first-year aftermarket performance posted gains of about 90 percent in 1995, 40 to 50 percent in 1996 and 1997, before slipping to 15 percent in 1998. As of early December 1999, stocks that had gone public over the past twelve months increased in price an average of 235 percent.

Data on individual companies shows that about one-third of the roughly 300 California firms that went public in the past three years have seen a decline in their stock price since the IPO (from the IPO date to the beginning of December 1999), even though this has been a period of record performance. Also, the average is boosted by a few firms that experienced gains of several thousand percent. That said, given that about two-thirds of the IPO firms did increase in price, the gains were not narrowly based.

The current market capitalization of these roughly 300 California firms with recent IPOs is about \$450 billion. Most of this market capitalization has been “created” in the last few years; i.e., it represents increased valuation, not just the initial valuation of a firm spun off from a larger, existing corporate

entity. To put this \$450 billion in perspective, it is about 7½ percent of the increase since the beginning of 1997 in the market capitalization of the firms in the November 1999 S&P 500.

#### *Equity option wealth in California IPOs*

Media reports suggest that a sizable number of California employees have accumulated a large amount of wealth by receiving stock market options as early employees of firms with recent IPOs, with the value of these options increasing substantially this year. Although the exact magnitude of this wealth effect cannot be estimated precisely, we can and do take a stab at estimating the order-of-magnitude by drawing on various survey and statistical evidence.

Tabulations of individual firm data reveal that the 301 California firms with recent IPOs have about 158,000 employees. The majority of these employees likely have an equity interest in their firms. In fact, if one uses the result of the 1998 National Center for Employee Ownership (NCEO) study, which showed that about 80 percent of employees in surveyed firms receive some stock options, then this would imply that about 125,000 employees of California-headquartered firms with recent IPOs have stock options on their firms.

One plausible estimate suggests that about 15 percent of the value of the firms is held by employees. Specifically, the 1998 NCEO Broad-Based Stock Option Survey found that West Coast firms had an average overhang (total number of options granted and unexercised as a percentage of outstanding shares) of about 15 percent. On a market capitalization of \$450 billion for the 301 California IPO firms, 15 percent is about \$67 billion. Spreading \$67 billion over 125,000 employees with options implies an average ownership interest of about \$500,000 per employee. The net option value to employees is less than this to the extent that the options can only be exercised at a price; the exercise price usually is the (market or imputed, if still private) price of the stock at the time the option grants were awarded.

Given that IPO firm first-year aftermarket stock prices have more than doubled in the past year, the average exercise price probably is less than one-third the current market price. With exercise prices at one-third the current market prices, the net

option value to employees in recent California IPO firms would average about \$330,000 per employee for 125,000 employees. Other survey results suggest that underneath this average the distribution is likely to be skewed, with the relatively few managers and other key employees of IPO firms typically holding options worth more than a million dollars, and most of the remaining employees holding options worth substantially less than the average.

#### **Financial Conditions**

Twelfth District commercial banks enjoyed continued strong profitability in the third quarter, while thrift profitability was more moderate. Aggregate annualized third-quarter return on average assets (ROAA) for all banks headquartered in the District was 1.8 percent, the same as in the previous quarter and up very slightly from the previous year. Aggregate annualized return on equity (ROE) was 15.9 percent, up slightly from the previous quarter, more so from the previous year. Third-quarter ROAA for large thrifts headquartered in the District (those with assets over \$1 billion) held steady at 1 percent.

Banks headquartered in California showed lower profit rates than in the District as a whole. California banks overall reported ROAA of 1.2 percent and ROE of 10.8 percent, both essentially unchanged from the previous quarter, but down modestly from the year prior. Small California bank profitability remained lackluster in the third quarter, with ROAA at 1 percent and ROE at 9.5 percent, roughly the same as the previous quarter and previous year. Third-quarter results at small banks in southern California were particularly weak, with ROAA at 0.9 percent and ROE at 7.4 percent.

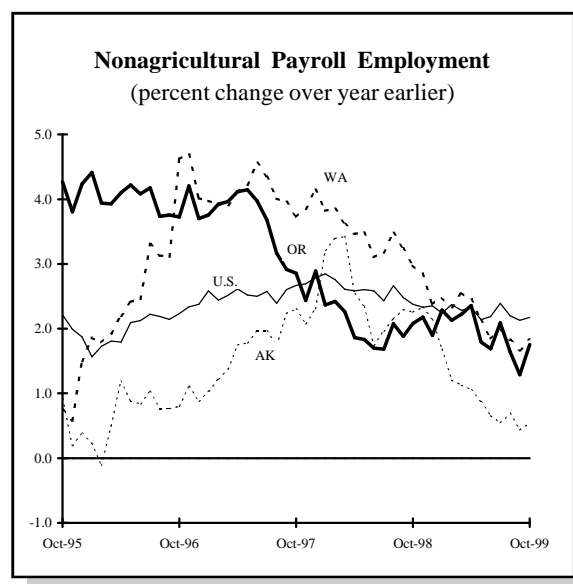
The aggregate capital position for banks of all sizes across the District was strong in the third quarter. Asset quality in the District was good, with the aggregate past-due total loan ratio just below the national average. As in the nation, the past-due total loan ratio held steady between the second and third quarters. However, District banks showed a slight increase in the share of outstanding business loans that are past due, from 2 percent to 2.3 percent in the third quarter, somewhat above the national rate. The District business loan past-due ratio has been climbing since the fourth quarter of last year, and the third-quarter ratio was the highest since the spring of 1997.

## ALASKA, OREGON, AND WASHINGTON

Overall conditions improved in the **Alaskan** economy. Total payroll employment growth was 2.3 percent at an annual rate during the three months ending in October. The recent pace is about 2 percentage points faster than during the first 7 months of the year, and this recent acceleration owes primarily to job gains in Alaska's export-oriented industries; the mining and food processing sectors combined added 900 jobs between August and October, and the tourism-dependent hotel sector expanded by 45.5 percent at an average annual rate, contributing about 600 new jobs to state payrolls. In contrast, employment growth in many of the state's population-based sectors remained sluggish.

Despite slower employment growth in 1999, Alaska's unemployment rate remains near a 20-year low. Net out migration over the past several years as well as significant declines in the number of seasonal workers from the lower 48 states have damped labor force growth in Alaska and have kept the local jobless rate stable.

**Oregon's** pace of economic growth has been moderate this year. Although employment is estimated to have jumped sharply in October, this follows slight declines in the second and third quarters of the year. For the first ten months of the year as a whole, employment growth has averaged a moderate 1½ percent at an annual rate.

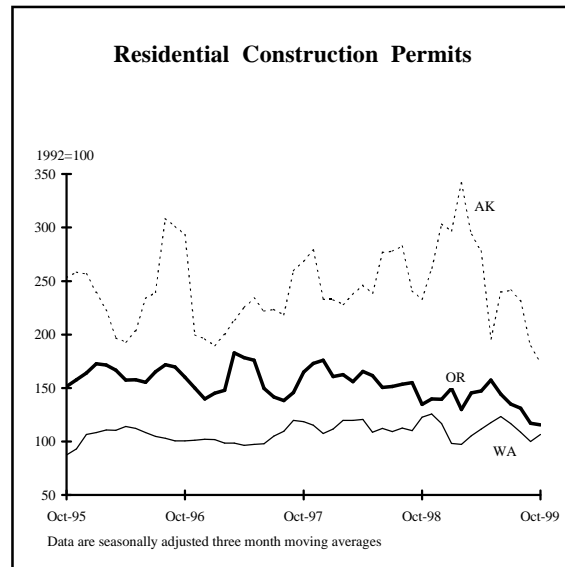
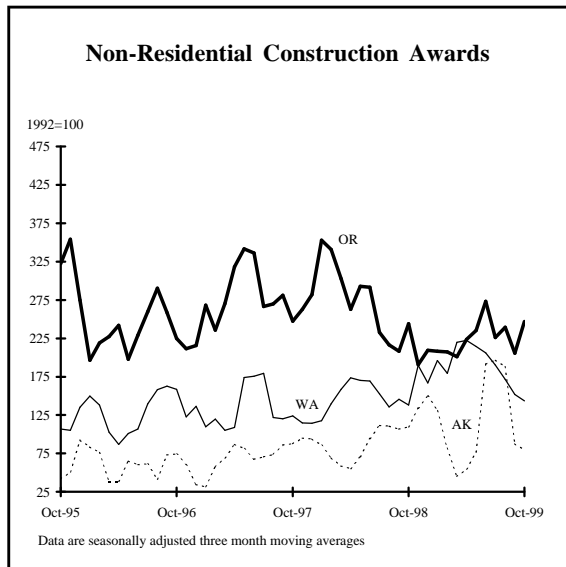


State manufacturing employment fell a bit this year, construction employment has been flat, and most other major sectors posted only moderate job growth. The primary exception is the transportation sector, where employment increased 9 percent at an annual rate. Part of the strength in transportation sector employment likely owes to a rebound in export activity this year. Data through September show that the value of state exports increased by about 15 percent during the first nine months of the year. However, for Oregon manufacturing, renewed export demand has not yet offset other sources of weakness. Manufacturing payrolls are down about 2,000 jobs this year, as increased employment at makers of transportation equipment only partly offset declines at manufacturers of food and other nondurable and durable goods.

**Washington's** economy stalled in recent months, as job cuts among manufacturers offset solid gains in other sectors. Payroll employment increased at a 0.25 percent annual pace during the three months ending in October, bringing employment growth for the year to 1.6 percent, well-below the 2½ percent pace of 1998. Most of the slowdown is attributable to additional job cuts in the aircraft and parts manufacturing sector. During the first 10 months of this year, Washington's manufacturing sector has shed more than 16,000 jobs, as the loss of 17,000 jobs in the aircraft sector was partly offset by slight gains at other manufacturers. Outside of the manufacturing sector, job growth has remained strong; employers in other sectors of Washington's economy have added jobs at a 2.8 percent average annual pace, about the same rate of job growth they experienced in 1998.

Despite slower economic expansion in the state this year, personal income for Washington residents grew by about 6 percent during the first half of 1999. Rapid personal income growth has fueled expansions in retail trade and in residential real estate and construction markets. Strong demand at retail outlets has kept retail vacancies low and average retail rental prices climbing.

# CONSTRUCTION



# EMPLOYMENT

	Number Employed (thousands)			Annualized % Change	% Change
	Oct-99	Sep-99	Oct-98	From Previous Month	From Previous Year
<b>Alaska</b>					
Total	278.3	277.5	276.8	3.5	0.5
Mining	8.9	8.5	10.5	73.6	-15.2
Construction	13.4	13.2	13.2	19.8	1.5
Manufacturing	15.1	15.8	15.1	-41.9	0.0
T.C.P.U.	26.7	26.7	25.8	0.0	3.5
Trade	57.5	57.5	57.0	0.0	0.9
F.I.R.E.	12.6	12.7	12.5	-9.1	0.8
Services	70.8	70.2	69.4	10.8	2.0
Government	73.3	72.9	73.3	6.8	0.0
<b>Oregon</b>					
Total	1593.1	1581.2	1565.7	9.4	1.8
Mining	1.9	2.0	1.8	-46.0	5.6
Construction	84.5	82.8	83.7	27.6	1.0
Manufacturing	239.9	237.4	241.5	13.4	-0.7
T.C.P.U.	81.2	80.9	76.7	4.5	5.9
Trade	389.8	387.7	385.6	6.7	1.1
F.I.R.E.	97.1	97.1	95.6	0.0	1.6
Services	434.7	431.5	423.2	9.3	2.7
Government	264.0	261.8	257.6	10.6	2.5

	Number Employed (thousands)			Annualized % Change	% Change
	Oct-99	Sep-99	Oct-98	From Previous Month	From Previous Year
<b>Washington</b>					
Total	2661.5	2652.2	2613.7	4.3	1.8
Mining	3.3	3.3	3.4	0.0	-2.9
Construction	152.7	151.2	143.5	12.6	6.4
Manufacturing	358.5	360.2	376.4	-5.5	-4.8
T.C.P.U.	140.9	141.9	137.6	-8.1	2.4
Trade	648.9	644.9	631.4	7.7	2.8
F.I.R.E.	141.9	141.8	137.2	0.8	3.4
Services	743.5	740.3	718.2	5.3	3.5
Government	471.8	468.6	466.0	8.5	1.2

### Unemployment Rates (%)

	Oct-99	Sep-99	Aug-99	Oct-98	Sep-98
Alaska	5.7	5.6	6.1	5.6	5.6
Oregon	5.5	5.8	5.7	5.7	5.7
Washington	4.8	5.0	4.7	4.9	5.0
U.S.	4.1	4.2	4.2	4.5	4.5

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 continued to grow rapidly in recent months. Payroll employment increased 3½ percent at an average annual rate in September and October, following similar-sized gains earlier in the year. Much of the recent strength has been in the government and finance, insurance, and real estate sectors. Construction employment also increased rapidly earlier in the year but has dropped back a bit in recent months, largely reflecting an up-and-down swing in residential building activity.

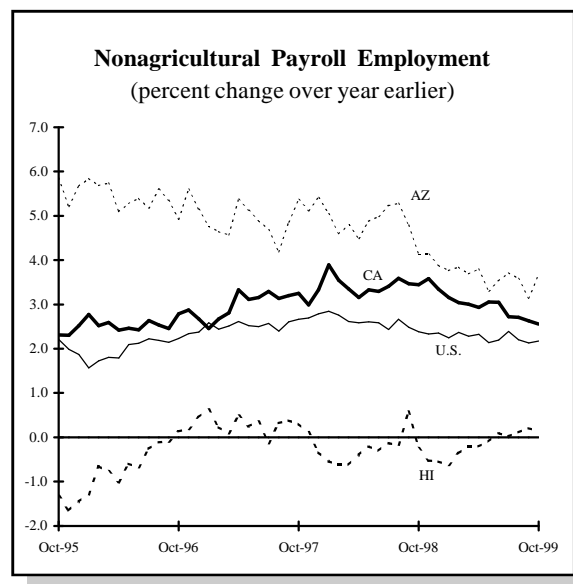
Even with the recent slowing, residential building activity in Arizona remains at a high level. About 50,000 homes were built in the first eight months of the year, which is 5 percent more than the same period a year earlier. Several years of rapid employment gains and attendant population increases have increased housing demand. Employment increased more than 5 percent in each of 1996 and 1997, 4 percent in 1998, and 3½ percent so far this year. Over these last four years the state has added almost 350,000 jobs, which were filled largely by growing the size of the state labor force. State population is estimated to be increasing at about a 3 percent rate this year, bringing in about 140,000 new residents. Thus, demand for additional housing has remained high, and even with the sizeable additions to housing supply, the median price of existing homes has increased significantly, about 6 percent in the past year. Population growth and income gains also have helped boost state retail

sales, which in the first eight months of the year were 9 percent higher than a year earlier.

**California's** pace of economic growth continued to be rapid in recent months. Employment increased about 2 percent at an annual rate in September and October, and the preliminary estimates for November show an additional gain of 4 percent at an annual rate. Excluding substantial layoffs by aerospace manufacturers, the state manufacturing sector began to add jobs again in the second quarter of this year, after contracting in 1998 and the first quarter of 1999. Construction job growth has remained strong throughout this year, and the rapid 4½ percent pace of employment gains in the services sector has accounted for about 175,000 additional jobs in the state.

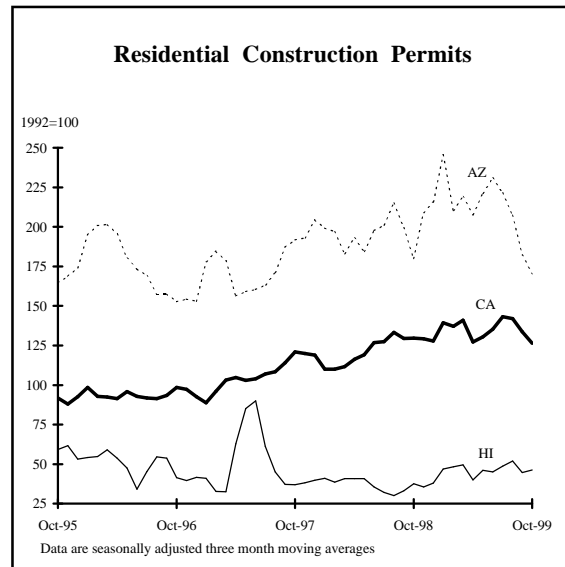
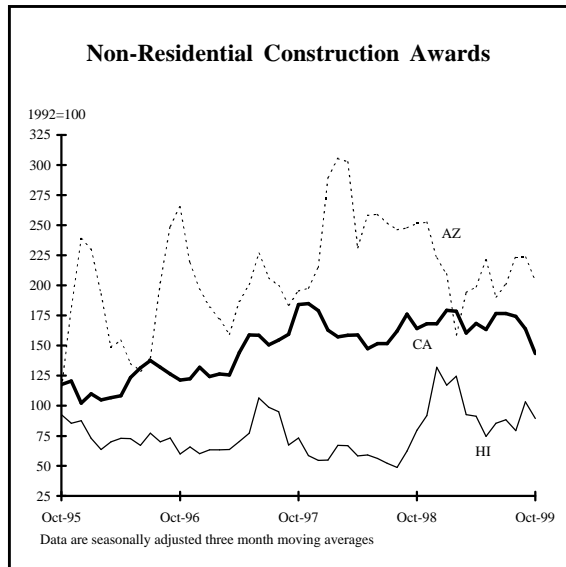
With a resurgence of population growth and a pickup in personal income and stock market wealth, retail sales in California also have been very strong this year. Data on taxable sales at retail outlets through the first half of the year show a gain of 9 percent relative to the same period a year earlier, and in the period from July to October state government retail sales and use tax receipts were strong. Despite the increased retail demand, employment in the retail trade sector has been sluggish this year, perhaps due to the low level of prevailing wages for retail jobs and high demand for labor from other sectors. In the state as a whole, retail employment is estimated to have increased only about ½ percent at an annual rate so far in 1999, but more rapid job growth in other sectors has pushed the state unemployment rate down to 4.8 percent.

**Hawaii's** economy has shown additional signs of renewed life in recent months. Employment increased slightly in the September-October period and is up 1 percent at an annual rate so far this year. Recently, some of the job growth has been in visitor-related industries, such as retail trade and the hotel industry. For the first nine months of the year visitor arrivals were up about 1½ percent relative to a year earlier, and October reportedly was a very strong month for visitor arrivals, owing partly to strong business at the new convention center in Honolulu.





# CONSTRUCTION



# EMPLOYMENT

	Number Employed (thousands)			Annualized % Change	% Change
	Oct-99	Sep-99	Oct-98	From Previous Month	From Previous Year
<b>Arizona</b>					
Total	2178.2	2165.5	2101.3	7.3	3.7
Mining	9.9	9.8	12.7	13.0	-22.0
Construction	157.1	158.2	147.3	-8.0	6.7
Manufacturing	218.3	218.3	218.1	0.0	0.1
T.C.P.U.	107.0	107.2	102.8	-2.2	4.1
Trade	520.9	520.1	504.0	1.9	3.4
F.I.R.E.	148.7	147.4	142.1	11.1	4.6
Services	657.5	654.3	637.5	6.0	3.1
Government	358.8	350.2	336.8	33.8	6.5

	Number Employed (thousands)			Annualized % Change	% Change
	Oct-99	Sep-99	Oct-98	From Previous Month	From Previous Year
<b>Hawaii</b>					
Total	531.5	537.3	530.7	-12.2	0.2
Mining	.	.	.	.	.
Construction	20.0	20.1	20.5	-5.8	-2.4
Manufacturing	16.3	16.2	16.2	7.7	0.6
T.C.P.U.	40.3	40.3	40.7	0.0	-1.0
Trade	131.5	131.6	131.7	-0.9	-0.2
F.I.R.E.	34.9	35.0	35.6	-3.4	-2.0
Services	175.5	175.8	173.4	-2.0	1.2
Government	113.0	118.3	112.6	-42.3	0.4

	Nov-99	Oct-99	Nov-98	Annualized % Change	% Change
<b>California</b>					
Total	14113.5	14067.9	13748.8	4.0	2.7
Mining	23.7	23.7	24.6	0.0	-3.7
Construction	678.6	672.1	625.2	12.2	8.5
Manufacturing	1949.7	1947.5	1960.6	1.4	-0.6
T.C.P.U.	724.1	720.5	699.2	6.2	3.6
Trade	3205.1	3188.5	3148.8	6.4	1.8
F.I.R.E.	814.6	815.0	807.6	-0.6	0.9
Services	4476.4	4464.5	4289.9	3.2	4.3
Government	2241.3	2236.1	2192.9	2.8	2.2

	Unemployment Rates (%)				
	Oct-99	Sep-99	Aug-99	Oct-98	Sep-98
Arizona	4.0	4	4.5	4	4.1
Hawaii	5.3	5.4	5.3	6.2	6.3
U.S.	4.1	4.2	4.2	4.5	4.5
California	4.8	4.9	4.9	5.9	5.9

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

## IDAHO, NEVADA, AND UTAH

**Idaho's** economy has expanded little in recent months. Since April, the state's job count is down about 4,500 jobs, or just over 1 percent on an annual basis. Among key sectors, performance in manufacturing has been mixed recently. High-tech manufacturers in the Boise area have been expanding their payrolls in response to strengthened demand for semiconductors and related products, but this has been offset by losses in the lumber and logging sector in other parts of the state. Construction employment had been falling this year, but about 1,000 new jobs were created in October, more than offsetting earlier losses. Underlying the recent job gains was a pickup in nonresidential construction awards in September and October.

A key indicator of slower growth this year is declining employment in the state's retail trade sector, as slower growth in personal income has reduced consumer spending. New vehicle registrations in September and October were below their year-earlier levels, and sales tax collections in October were below the state's budgetary forecast for the first time this year. Since April, about 2,000 retail jobs have been lost, which represents nearly half of the total employment decline in the state during this period.

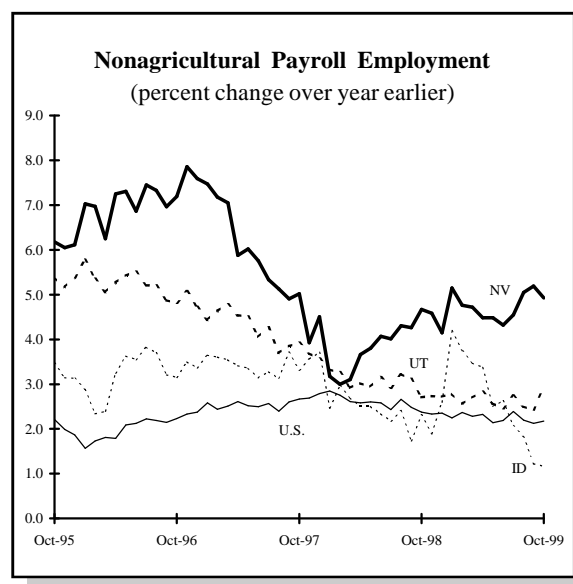
**Nevada's** economic expansion has accelerated since the middle of this year. Following an annual growth rate of around 3½ percent during the first half of the year, total nonfarm employment grew at

about an 8 percent pace during the third quarter and a 9 percent pace in October. The recent surge was propelled by rapid gains in Las Vegas' hotel and amusement sector. Employment at state and local government agencies also has surged in recent months, with growth enabled by rising tax revenues and spurred by infrastructure and service needs associated with the state's rapid population growth.

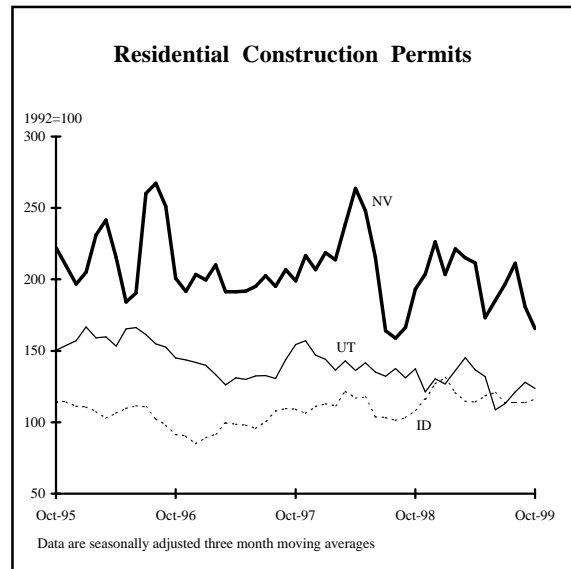
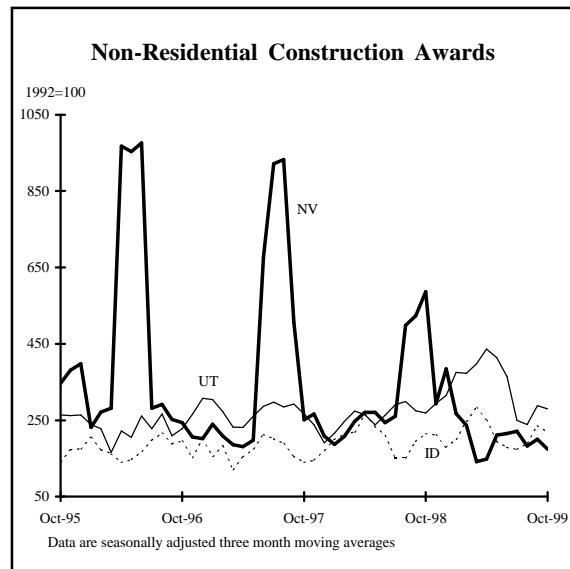
Although the higher level of activity in the state's gaming industry might be maintained, the pace of growth is expected to slow as the number of hotel-casino openings in Las Vegas is reduced. Plans for new nonresidential construction statewide have been well below their levels from recent years, and growth in construction employment has been slower than in past years. Construction of other commercial buildings besides hotel-casinos is likely to be held down by relatively high vacancy rates; for example, measured vacancy rates for office buildings in Las Vegas rose in the third quarter and are high compared to the national average.

**Utah's** economy has been growing at a solid pace, with a temporary surge evident in recent months. Nonfarm employment grew by over 4 percent on an annual basis in September and October, compared to a trend growth rate of 2½–3 percent in 1998 and most of 1999. The surge in the last two months largely was confined to a few sectors, including the state government in September and the construction sector in October. The rate of growth in construction employment has been rapid this year, but it has been slower than last year and is likely to fall further in coming months. Reduced in-migration has contributed to cooling in the state's housing market, with the pace of residential construction activity and home price appreciation both declining. The pace of nonresidential and nonbuilding construction also have declined this year, in the wake of earlier rapid hotel and infrastructure building in anticipation of the 2002 Winter Olympics.

In the Salt Lake City metro area, the completion of several infrastructure projects (light rail and freeway ramps) is helping to reinvigorate downtown commercial activity. Retail activity downtown has been a prime beneficiary, with recent reports from retailers in the Salt Lake City area indicating double-digit growth in Thanksgiving weekend sales compared to last year.



# CONSTRUCTION



# EMPLOYMENT

	Number Employed (thousands)			Annualized % Change	% Change
	Oct-99	Sep-99	Oct-98	From Previous Month	From Previous Year
<b>Idaho</b>					
Total	532.0	529.2	525.9	6.5	1.2
Mining	2.8	2.9	3.0	-34.4	-6.7
Construction	34.6	33.6	33.4	42.2	3.6
Manufacturing	76.4	76.9	75.9	-7.5	0.7
T.C.P.U.	26.3	26.1	26.0	9.6	1.2
Trade	133.0	133.8	133.5	-6.9	-0.4
F.I.R.E.	23.6	23.6	23.2	0.0	1.7
Services	129.9	128.7	127.4	11.8	2.0
Government	105.4	103.6	103.5	23.0	1.8

	Number Employed (thousands)			Annualized % Change	% Change
	Oct-99	Sep-99	Oct-98	From Previous Month	From Previous Year
<b>Utah</b>					
Total	1061.0	1057.4	1030.6	4.2	2.9
Mining	7.4	7.6	7.7	-27.4	-3.9
Construction	75.3	73.4	70.1	35.9	7.4
Manufacturing	132.5	132.8	133.2	-2.7	-0.5
T.C.P.U.	60.3	59.8	59.3	10.5	1.7
Trade	249.5	248.1	243.2	7.0	2.6
F.I.R.E.	59.3	58.7	56.6	13.0	4.8
Services	294.5	293.1	282.6	5.9	4.2
Government	182.2	183.9	177.9	-10.5	2.4

	Number Employed (thousands)			Annualized % Change	% Change
	Oct-99	Sep-99	Oct-98	From Previous Month	From Previous Year
<b>Nevada</b>					
Total	989.8	982.5	943.3	9.3	4.9
Mining	11.8	11.9	13.2	-9.6	-10.6
Construction	89.1	88.9	86.3	2.7	3.2
Manufacturing	43.4	43.4	42.5	0.0	2.1
T.C.P.U.	51.0	51.1	48.2	-2.3	5.8
Trade	204.2	203.1	192.1	6.7	6.3
F.I.R.E.	45.9	45.8	44.2	2.7	3.8
Services	423.7	421.7	403.6	5.8	5.0
Government	120.7	116.6	113.2	51.4	6.6

	Unemployment Rates (%)				
	Oct-99	Sep-99	Aug-99	Oct-98	Sep-98
Idaho	5.1	4.9	4.9	5.0	5.0
Nevada	4.4	4.2	4.2	3.7	3.9
Utah	3.4	3.5	3.4	3.6	3.7
U.S.	4.1	4.2	4.2	4.5	4.5

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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**2000 Issues****Mailing Date**

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