

The Tenth District Economy: Trailing the Nation

By Tim R. Smith

Economic performance in the states of the Tenth Federal Reserve District—Colorado, Kansas, Missouri, Nebraska, New Mexico, Oklahoma, and Wyoming (Figure 1)—continued to lag significantly behind U.S. economic performance during 1988. Key sectors of the district economy turned in a mixed performance in 1988. Despite improvements in agriculture and manufacturing, ongoing weakness in energy and construction left most district states with only slight gains.

The outlook for 1989 suggests more of the same slow growth across the region. Additional improvements in agriculture and manufacturing will be partly offset in the year ahead by renewed problems in the district's important energy industry. The district still lacks a strong, dominant sector to help it catch up with the nation.

This article reviews recent economic performance in the district and explores the 1989

outlook. The first section of the article surveys the district's 1988 economic performance and summarizes the economic trends in the individual states. The second section focuses on the district's important sectors and presents a brief outlook for employment in those sectors. The third section discusses the contributions of the sectors to recent and prospective economic growth in each of the Tenth District states.

Recent performance in the district

The overall performance of the district economy improved modestly in 1988.¹ The gains were evident in many economic indicators. Average employment in the district increased 0.7 percent in the first three quarters of 1988, compared with

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¹ This article assesses the Tenth District's 1988 economic performance using the most recent data available at the time of writing. For most economic concepts, such as employment, data for the third quarter were available. For some concepts, however, data were not as recent. The various treatments of economic concepts and historical comparisons are discussed in other footnotes.

FIGURE 1
Tenth District states

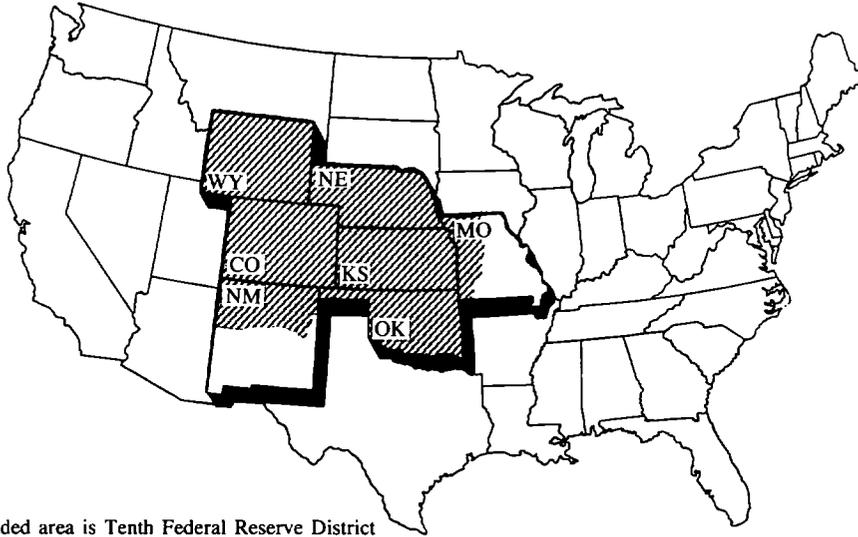
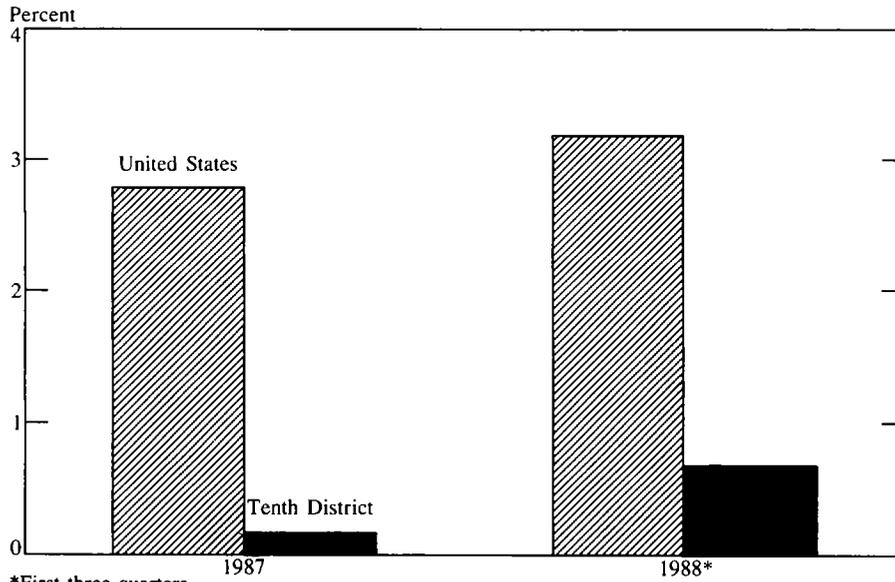
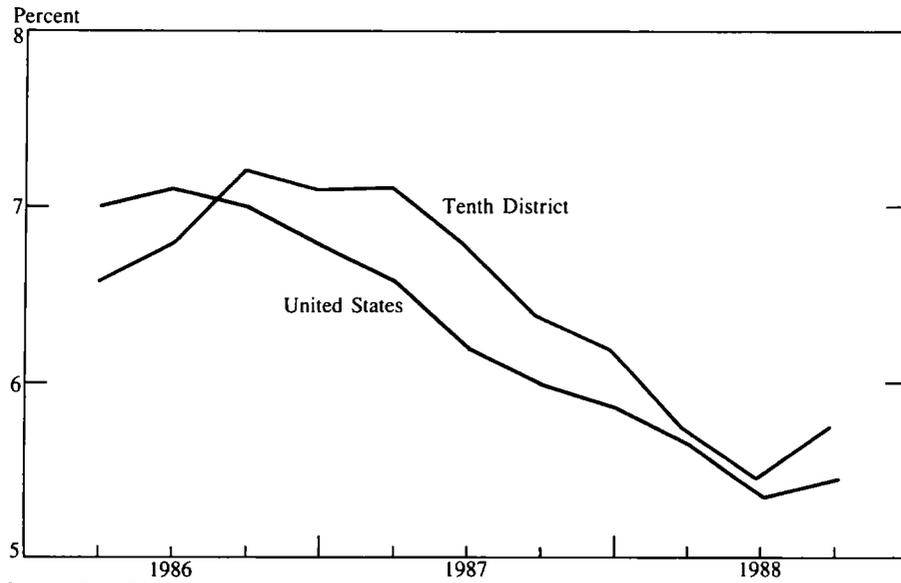


CHART 1
Growth in nonagricultural employment, U.S. vs. Tenth District



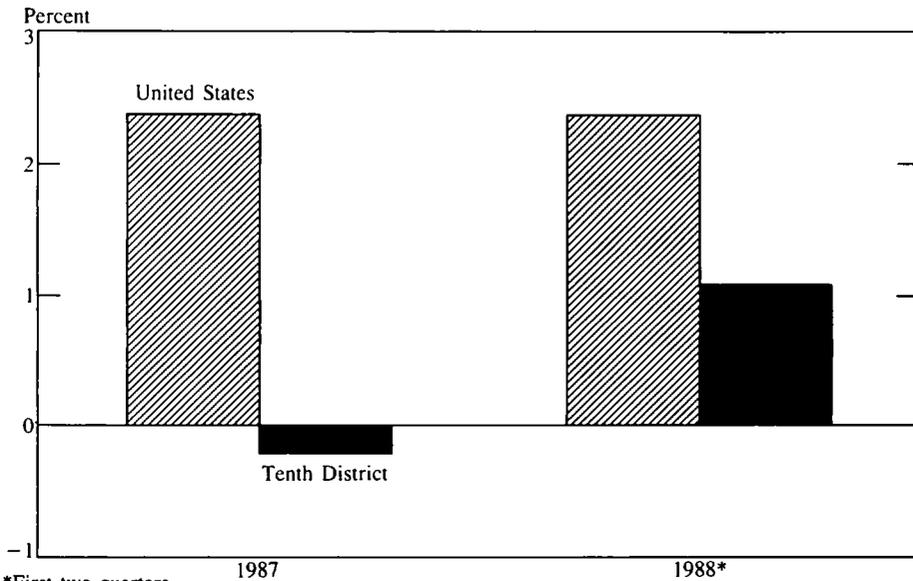
*First three quarters
 Source: Data Resources, Inc.

CHART 2
Unemployment rates



Source: Data Resources, Inc.

CHART 3
Growth in real personal income, U.S. vs. Tenth District



*First two quarters

Source: Data Resources, Inc.

a 0.2 percent increase in 1987 (Chart 1). The small improvement in job growth and significant outmigration caused the district's unemployment rate to fall from 6.6 percent in 1987 to 5.7 percent in the first three quarters of 1988 (Chart 2).² Real personal income in the district rose 1.1 percent in the first half of 1988, reversing the small decline in income recorded in 1987 (Chart 3).³ This pattern of limited improvement in employment and income growth is expected to continue in the final quarter of 1988 and into 1989.

The gains achieved by the district economy in 1988 were rooted in a narrow base. District employment and income growth were propelled by only two sectors, manufacturing and agriculture. The district benefited from both the direct employment gains in manufacturing and the indirect effects of strong farm income on retail and wholesale trade.

The district economy continued to lag well behind the national economy in 1988. The nation's total employment increased 3.2 percent in 1988, much better than the 0.7 percent gain in district employment (Chart 1). Moreover, real personal income grew more than twice as fast in the nation as in the district during the first half

of 1988 (Chart 3). While some of the district's important employment sectors continued to improve in 1988, other sectors weakened, causing the gap between U.S. and district employment growth to narrow only slightly.

Economic performance improved in most states of the Tenth District in 1988. Employment declined in Colorado, Oklahoma, and Wyoming by smaller percentages in the first three quarters of 1988 than in the previous year (Chart 4). In the other district states of Kansas, Nebraska, and New Mexico, employment gains were larger in 1988 than in 1987. Only one state, Missouri, showed a smaller increase in employment in the first three quarters of 1988 than in 1987.

Real personal income in most district states increased more during the first half of 1988 than in 1987 (Chart 5). Real personal income growth improved in Colorado, Kansas, Nebraska, and Oklahoma. Wyoming income fell again in the first half of 1988, but by a much smaller percentage than in 1987. Real personal income in Missouri and New Mexico increased less in the first half of 1988 than in the previous year.

Review and outlook by sector

Performance was mixed in the key sectors of the Tenth District economy in 1988 and will likely remain mixed in 1989. The sectors that contributed strength to the district economy in 1988 are expected to remain positive factors in 1989. However, weak sectors will probably not gain much strength in the coming year.

Recent sector performance

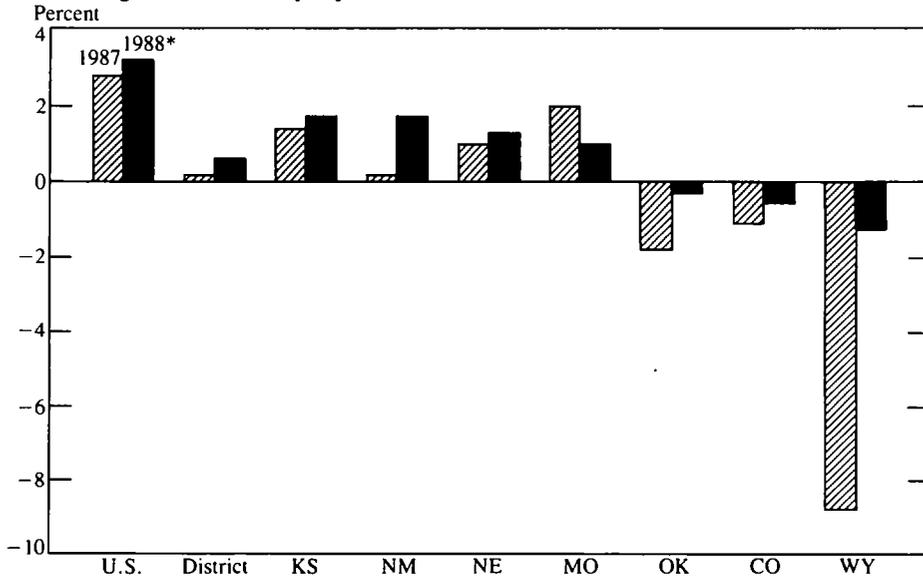
Improvements in agriculture and manufacturing were positive influences on district job growth. The important energy sector was stable but did not add strength to the district economy. On the negative side, construction remained weak and service job growth slowed.

² All employment growth rates in this article, including those for individual sectors, are calculated by comparing the average level of employment in the first three quarters of 1988 with the average level of employment for 1987 using seasonally adjusted, quarterly employment data from Data Resources, Inc. Data for the third-quarter of 1988 are estimates based on two months of historical data, the latest available at the time of writing. Irregularities in the third-quarter 1988 estimates made it necessary to average the quarterly employment data to provide a more accurate picture of economic activity during the year.

³ All income growth rates in this article are calculated by comparing the average real personal income in the first two quarters of 1988 with the average for 1987 using seasonally adjusted real personal income data from Data Resources, Inc. At the time of writing, the latest available personal income data were through the second quarter.

CHART 4

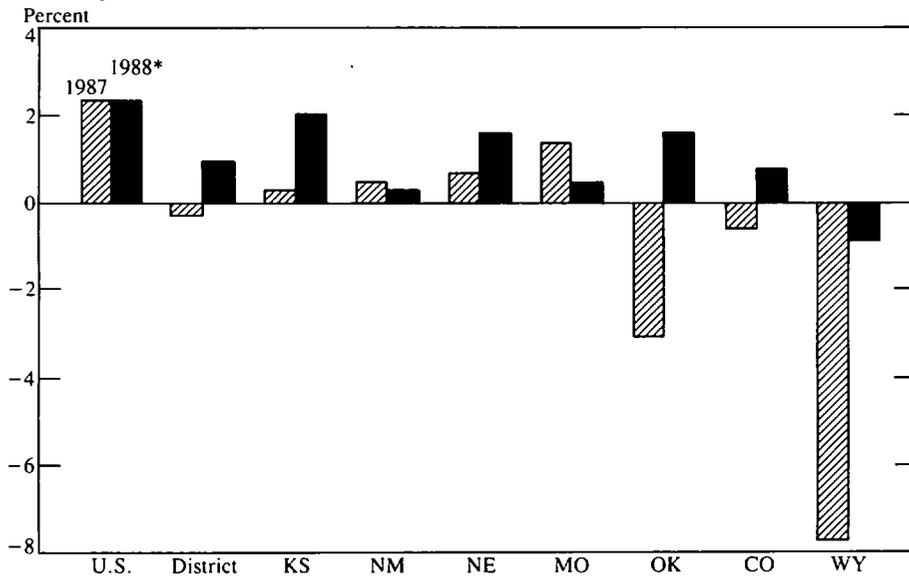
Growth in nonagricultural employment in Tenth District states



*First three quarters Source: Data Resources, Inc.

CHART 5

Growth in real personal income in Tenth District states



*First two quarters Source: Data Resources, Inc.

Agriculture. Conditions in the district's important agricultural sector improved in 1988. The drought affected relatively few parts of the district, leaving many areas with average or above-average crops. Coupled with solid livestock profits, significantly higher crop prices brought another year of strong farm income and continued recovery for the district farm economy. In addition, higher farmland values across the region fueled a continuing financial turnaround for farmers and their lenders.

Manufacturing. The district's manufacturing sector began a slow turnaround in late 1987 and early 1988. Improved international competitiveness resulting from the decline in the U.S. dollar appeared to be the major reason for the better performance of the industrial base. Manufacturing employment in the district increased 1.4 percent in the first three quarters of the year, weaker than the national increase of 2.2 percent.

High technology was a notable source of strength for the district's manufacturing sector. As a result of the decline in the dollar, district makers of high-tech products were able to compete more effectively with foreign producers in domestic and foreign markets. Although the pace slowed somewhat toward yearend, the semiconductor industry continued to expand at a healthy pace in 1988.

The district's general aviation industry also benefited from the decline in the dollar and the resulting increase in foreign sales. Unit sales of new aircraft rose about 6 percent in the first three quarters of 1988 from the same period in 1987, while the value of aviation production was up about 12 percent. Sales of big-ticket jet and turbo-prop aircraft continued strong, but sales of smaller piston-engine aircraft declined.

Automobile assembly weakened further in district states in 1988. Layoffs at district plants continued, and the closing of the Leeds General Motors plant near Kansas City further reduced the district's share of U.S. auto production. Plants

in district states produced about 20 percent fewer units in the 1988 model year, pushing the district's share of total U.S. auto production below 15 percent.

Energy and mining. The stability established in the district's energy sector during 1987 continued into the first half of 1988. Although oil prices trended downward through the first half of the year, they remained high enough to limit further energy-related job losses in the district. In the second half of the year, however, a large increase in OPEC production quickly pushed oil prices below \$15 a barrel, jeopardizing the stable condition of the industry. Mining employment, which is mostly related to oil and gas extraction, fell only about 1 percent in the first three quarters of 1988 after falling more than 11 percent in 1987.

Oil and gas exploration and development improved slightly in the Tenth District during 1988. The weekly average number of drilling rigs in operation increased from 265 in the first three quarters of 1987 to 272 in the first three quarters of 1988. This improvement in district drilling activity reflects an increase in the nation's rig count from 866 in the first three quarters of 1987 to 942 in the first three quarters of 1988.

The district's energy production was mixed in 1988. Production of oil and natural gas increased slightly. But coal production declined, and uranium mining made no significant improvements during the year. Other mining in the district generally improved due to higher metals prices. But even with more active mines, copper and molybdenum mining continued below capacity in 1988. Both soda-ash and bentonite production remained stable during the year.

Construction. Continued weakness of construction activity in the district in 1988 was a principal factor in explaining the disappointing performance of the region's economy. District construction employment fell more than 4 percent in the first three quarters of the year. Generally higher mortgage interest rates and the

sluggish regional economy caused the value of residential construction to fall about 10 percent in the first three quarters of 1988 from the same period in 1987.⁴

Nonresidential construction also weakened in 1988. Improvement in the district's manufacturing sector helped reduce vacancy rates in industrial buildings, but high vacancy rates in office buildings persisted in many district cities. Through the third quarter of 1988, the value of nonresidential building contracts was down almost 6 percent from the same period a year earlier.

Services, retail trade, and wholesale trade. Growth in the district's service sector slowed significantly in 1988. Although the service sector drew some strength from tourism, service employment increased only 1.4 percent in the first three quarters of 1988, compared with an increase of 2.5 percent in 1987. The recent slowing of service employment growth in the district reflects similar slowing across the nation. However, district service employment growth was much slower than the 4.5 percent service employment growth in the nation.

Growth in the district's wholesale and retail trade sector improved slightly in 1988. Trade was generally strong in the region's metropolitan areas. An improving farm sector contributed to activity in medium and large trade centers across the district, but trade in the smallest rural communities remained weak. District employment in trade grew 1.1 percent in the first three quarters of 1988, compared with growth of 0.9 percent in 1987. By contrast, trade employment in the nation increased 3.6 percent during the first three quarters.

⁴ The value of construction in the first three quarters of 1988 is compared with the same period in 1987 because the construction data are not seasonally adjusted. Similar comparisons are made throughout this article whenever data are not seasonally adjusted.

Government. Federal government spending continued to be an important influence on the district economy in 1988, although government spending gave further signs of slowing. Total government employment in the district grew about 1 percent in both 1987 and 1988. Defense spending still accounts for more than a quarter of total federal government spending in the district. This component is especially important in Missouri, Colorado, and Kansas.

The fiscal condition of most district states improved in 1988, largely due to "windfalls" from federal tax reform and strong farm income. Nonetheless, state budgets remain tight compared with the late 1970s and early 1980s, especially in states that depend heavily on severance tax revenues. Most district states continued efforts in 1988 to broaden their tax bases by attracting new businesses and encouraging the growth of existing businesses. Those efforts met with limited success, and economic development remains a long-term objective across the region.

Sector outlook

Many segments of the district economy are likely to benefit from improvements in agriculture and manufacturing that are expected to continue in 1989. However, renewed problems in the oil-patch and ongoing weakness in construction will dampen the overall improvement in the district economy. The outlook for individual states will depend largely on their mix of sectors.

Recent increases in world oil supplies will likely depress oil prices and restrain drilling activity in the district in 1989. Despite an agreement by OPEC members to reduce output, the large crude-oil inventories built up during the last half of 1988 will take several months to work off, holding down oil prices for much of 1989. Other district mining will continue to benefit from higher metals prices and increased demand from the U.S. manufacturing sector.

The agricultural sector is expected to continue to improve in 1989. Farm income will be strong for the district due to prospects for strong crop and livestock prices. Farm financial conditions will continue to strengthen as additional farm debt is paid down and farmland values move somewhat higher. Overall, a strong recovery appears likely to continue for the district's agricultural sector.

Manufacturing in the district should continue to benefit from improvements in the nation's trade balance. High-tech firms in the district are poised to take advantage of strong market opportunities both at home and abroad. Although defense spending will not be a source of growth to district manufacturing, increased foreign direct investment—especially by Japanese firms—will probably add some manufacturing jobs. District auto plants will continue to adjust to scaled-down production schedules, but the auto plants will benefit from any increase that might develop in domestic auto sales in 1989. Further gains will accrue to general aviation aircraft manufacturers from increased foreign sales. The district's oilfield and farm-equipment manufacturing industries are expected to remain weak.

District construction activity will probably remain flat through 1989. High vacancy rates in commercial buildings and the generally sluggish regional economy will continue to delay a rebound in nonresidential construction. Lower mortgage interest rates toward the end of 1988 could boost residential construction in some areas of the district during the first half of 1989, but large housing inventories in many district cities, including Denver and Oklahoma City, will likely prevent a rebound in overall residential construction in 1989.

Growth in district service and trade employment will likely remain very slow in 1989. Further slowdown in national service employment growth and slow overall regional economic growth will limit gains in the district's service sector. Employment growth in financial services

is expected to remain especially weak in the coming year. Retail and wholesale trade may gain some jobs due to the improvement in agriculture and manufacturing, but regional trade growth is likely to continue lagging behind the nation's growth in trade.

The government sector will expand only slightly in 1989 and may begin to shrink in some states. Although expected to remain an important influence on the district economy in 1989, federal government spending will probably add little additional strength to the region. Concern about the federal budget deficit will limit defense spending, which will affect many areas in the district. State governments will continue to seek new revenue sources to further improve their fiscal conditions.

Limited gains ahead for district states

Most Tenth District states made limited gains in 1988. Looking ahead, improvement will likely continue in many states, with the size of gains determined largely by the mix of sectors in individual states. Despite the prospect for continued improvement, however, overall economic activity across the district will remain sluggish in 1989.

Kansas

Kansas economic conditions improved somewhat in 1988. The employment gain in Kansas during the first three quarters of 1988 was among the largest of all seven district states. But while the state's modest 1.8 percent increase in employment was well above the district average, it was also well below the nation's employment increase. The increase in Kansas real personal income during the first half of 1988 exceeded the districtwide increase in income and nearly matched the U.S. increase. A recovering farm economy was a positive influence on the Kansas economy during 1988, while the performance of

other major sectors was mixed.

The state's manufacturing sector received a boost in 1988 from the increased sales of general aviation aircraft and defense-related aircraft production in the Wichita area. High-tech industries continued to strengthen during the year, especially the assembly of civilian jet-aircraft components. In contrast, automobile production in Kansas City continued to slide. However, a new, more automated plant will bring some stability to the long-term outlook for auto production in Kansas.

The weakening of oil prices in 1988 began to erode some of the stability established by the Kansas energy industry in 1987. Although production increased, exploration and development activity declined significantly. Oil production for the first half of 1988 was slightly higher than for the same period a year earlier, but natural-gas production increased over 13 percent. And the state's relatively small coal production doubled in the first eight months of the year, compared with the same period in 1987. Despite the improvement in energy production, however, the average number of active drilling rigs in the first three quarters of 1988 was nearly 20 percent below the level from the same period in 1987.

Continued gains in agriculture and manufacturing will probably contribute to another year of moderate economic growth in Kansas. High-tech and general aviation manufacturing stand to benefit further from favorable exchange rates. The energy industry, however, will likely weaken further as low prices force additional closings of the state's numerous high-cost stripper wells—those producing less than ten barrels of oil a day.

New Mexico

New Mexico's economy improved considerably in 1988. Employment increased 1.8 percent during the first three quarters of the year, compared with a small 0.2 percent increase in 1987. Income growth, however, slowed slightly in the first half

of 1988 from its already sluggish pace in 1987. The rural parts of the state continued to lag behind the metropolitan areas of Albuquerque and Santa Fe, which benefited from improvements in manufacturing and tourism.

New Mexico's mining and energy sector was stable in 1988. Despite the lower oil prices, crude-oil production and exploration activity remained stable throughout the first half of the year. Coal and natural-gas production increased in the state in the first part of 1988. Higher copper prices benefited the state's copper industry, but uranium mining remained depressed. Overall, mining employment increased almost 4 percent in the first three quarters, after falling almost 8 percent in 1987.

Manufacturing was the strongest employment sector in the state in 1988, due largely to continued improvements in high-tech industries. Manufacturing jobs increased 4.6 percent in the first three quarters of 1988, compared with a 2.4 percent increase in 1987. Defense-related research and manufacturing continued to be an important influence on the New Mexico economy, especially near the Sandia and Los Alamos research laboratories.

The service and trade sectors fared better in New Mexico than in most district states. The improvement in these sectors in 1988 was due largely to tourism. The gains in services and trade, however, were spread unevenly across the state. As in other parts of the district, larger service and trade centers benefited, while the smallest communities continued to decline.

The New Mexico economy should continue to outpace other district states in 1989. The state will benefit from stronger agriculture and manufacturing sectors. Tourism will sustain the comparatively strong growth in services and trade. However, only moderate overall growth can be expected because of the dim prospects for the mining sector and the leveling off of defense spending in the state.

Nebraska

Overall economic performance in Nebraska improved in 1988. Employment increased 1.4 percent in the first three quarters, slightly more than in 1987. Real personal income in the first half of 1988 grew 1.7 percent, almost twice as fast as in the previous year. Improvements in the state's important agricultural sector and significant improvements in manufacturing combined to bolster the state's economy. Other sectors failed to show much improvement in 1988.

Nebraska's manufacturing sector was largely responsible for the improvement in the state's overall performance in 1988. The food-processing industry contributed significant strength to the manufacturing sector. During the first three quarters of 1988, manufacturing employment in Nebraska increased 4.5 percent, almost twice as much as in 1987.

Growth in the service sector continued to slow in 1988, reflecting a pattern repeated in most district states. Although telemarketing businesses continued to gain importance in the state, growth in finance and insurance slowed significantly. Despite the recent slowing in service sector employment, Nebraska was able to attract and retain businesses that export a large share of their services to customers outside the state. This growing base of service firms bodes well for long-run growth prospects for Nebraska.

The construction sector in Nebraska showed some improvement during 1988. Both residential and nonresidential construction increased in the first three quarters of 1988 from the same period a year earlier. Construction employment continued to decline in the first three quarters of 1988, but the decline was smaller than in 1987.

Nebraska's economy should continue to improve modestly. The state's outlook is buoyed by the improved condition of the agricultural sector and the prospects for additional strength in the manufacturing sector. A favorable outlook for

food processing, coupled with Nebraska's aggressive economic development programs, will likely lead to further gains in manufacturing employment.

Missouri

The Missouri economy slowed slightly in 1988, and the gap widened between the district's most diversified state and the nation. Employment growth in the state slowed from 2.0 percent in 1987 to 1.1 percent in the first three quarters of 1988, due largely to poor performance in manufacturing, a slowdown in construction, and considerable weakening of the service sector. Real personal income also grew less in the first half of 1988 than in 1987.

Missouri did not participate fully in the revival of U.S. manufacturing during 1988. Manufacturing employment increased less than 1 percent in the first three quarters. While this small gain was an improvement from the manufacturing job losses incurred in 1987, the export-led manufacturing recovery largely eluded Missouri. Most of the gains in export-dependent industries were offset by slowing in the state's automobile production and defense-related manufacturing.

Construction, a victim of the state's generally sluggish economy, continued to slow in 1988. The value of residential construction in the first three quarters of the year fell about 4 percent from the same period in 1987, and the value of nonresidential construction fell about 12 percent. Construction employment grew less than 1 percent in the first three quarters of 1988, compared with an increase of 1.4 percent in 1987.

Missouri's service sector slowed significantly in 1988. Average service employment increased 1.5 percent in the first three quarters of the year, a job gain of less than half that of 1987. Employment growth in finance, insurance, and real estate slowed even more. Employment in these industries together grew only 0.8 percent in the first

three months of 1988, compared with an increase of 3.7 percent in 1987.

The Missouri economy will probably continue to lag behind the nation in the year ahead. A weak construction sector will likely remain a drag on the state's economic performance. But business conditions will continue to improve for Missouri manufacturers as they participate more fully in the export-led rebound in national manufacturing. Although the drought affected Missouri more than other district states, it will probably cause only a short pause in the state's farm recovery. Solid livestock profits and generally strong farm income should benefit Missouri in 1989.

Oklahoma

Despite some modest improvements, the Oklahoma economy failed to strengthen significantly in 1988. During the first three quarters, employment fell 0.2 percent, a smaller job loss than in 1987. Another positive sign for the Oklahoma economy was the turnaround in income growth. Real personal income in the state increased 1.7 percent in the first half of the year following a 2.9 percent decline in 1987.

Oklahoma's energy industry proved somewhat resilient to the downward movement in oil prices during the first part of the year. The average number of drilling rigs operating in the first three quarters fell only 4 percent from the same period in 1987. Although crude-oil production fell slightly in the first half of 1988 from the same period in 1987, natural-gas production edged upward. Mining employment fell 4.3 percent in the first three quarters of 1988, far less than the 11.5 percent decline in 1987.

The manufacturing sector in Oklahoma began to turn around in 1988. Despite little growth in the state's auto production during the 1988 model year and a weak oilfield equipment manufacturing industry, manufacturing employment increased in Oklahoma. The increase of 1.6 per-

cent in the first three quarters of 1988 is especially significant following a 3.8 percent decline in 1987.

There is little chance that robust growth will be restored to Oklahoma in 1989. Sharply lower oil prices late in 1988 may threaten the stability of the state's energy industry in the coming year. And renewed weakness in the energy industry could offset the potential gains from stronger agriculture and manufacturing sectors. The year ahead promises to be another difficult one for the Oklahoma economy.

Colorado

The Colorado economy was weaker than expected in 1988. Nonetheless, small improvements were perceptible in the overall condition of the state economy. Although employment fell in the first three quarters of the year, the 0.4 percent decline was smaller than the 1.0 percent decline in 1987. And real personal income growth in the state turned around from -0.4 percent in 1987 to 0.9 percent in the first half of 1988. Overall, some improvement in the manufacturing sector was offset by continuing weakness in construction and mining.

High-tech manufacturing continued its recovery in 1988. Favorable international market conditions boosted sales of the state's restructured microchip and computer peripheral manufacturers. In total, manufacturing employment in Colorado rebounded from a 3.9 percent decline in 1987 to register a 0.5 percent increase in the first three quarters of 1988.

Construction activity remained weak in the first half of 1988, but began to improve in the last half of the year as a large retail project and the new convention center in Denver got underway. However, high office-vacancy rates continued to restrain office construction in Denver. The value of nonresidential construction increased 7 percent in the first three quarters, compared with the same

period in 1987. All of the increase in the value of nonresidential construction occurred in the third quarter. Residential construction was considerably weaker, falling 22 percent in value terms in the first three quarters from a year earlier.

Colorado's mining sector began to stabilize in 1988 at a much lower level of activity than before the 1986 oil price decline. Drilling activity in the first three quarters improved slightly from the same period in 1987. The production of crude oil and natural gas also increased in the first part of the year. Metal mining in the state was aided by higher prices, but mines generally continued to operate below capacity. Overall, mining employment fell 2.0 percent in the first three quarters of 1988. This reduction in mining employment was a big improvement over the 17.6 percent reduction in 1987.

Substantial improvement will probably elude the Colorado economy again in 1989. Recently lower oil prices will limit further gains in the mining sector, and construction is expected to remain weak. These problems will likely continue to offset gains in manufacturing, curbing overall economic growth in the state.

Wyoming

Although Wyoming turned in the weakest performance of the seven Tenth District states in 1988, some significant improvements were evident in the state's economy. Employment declined 1.1 percent in the first three quarters of 1988, a dramatically smaller loss than in 1987. Wyoming real personal income fell 0.8 percent in the first half of 1988, comparing favorably with the 7.6 percent decline in 1987. Although most sectors still lost jobs in 1988, every sector improved from its 1987 performance.

After two years of wrenching decline, Wyoming's mining industry showed some signs of stability in 1988. Production of crude oil and

natural gas remained constant in the first part of the year, and drilling activity improved in the first three quarters of 1988 from the same period in 1987. Moreover, coal production in the state through August 1988 was almost a sixth higher than in the same period in 1987. Non-energy mining, such as mining of soda-ash and bentonite, remained relatively stable. Together, these factors contributed to a 2.3 percent increase in mining employment in the first three quarters of 1988, a substantial turnabout from the decline of over 10 percent in 1987.

Wyoming's construction sector continued to weaken in 1988. The values of both residential and nonresidential construction in the first three quarters fell from the values in the same period in 1987. The number of construction jobs fell almost 17 percent in the first three quarters of 1988. The decline, though disappointing, was far less than the decline of more than 38 percent in 1987.

Agriculture was a positive influence on the Wyoming economy in 1988. Solid livestock profits brought continued improvement to the financial conditions of the state's ranches. Strong farm income helped shore up general economic conditions across much of the state.

The Wyoming economy is unlikely to stage a recovery in 1989. Even so, the worst employment losses are over. The state will likely continue putting in place the foundation for a smaller, more stable economy. Declining oil prices late in 1988 promise to threaten the stability of the Wyoming oilpatch, but further recovery in agriculture should allow improvement to continue at a slow pace.

Conclusion

Economic performance in the seven-state region of the Tenth Federal Reserve District continued to lag behind national economic performance in 1988. Nonetheless, the sluggish growth in most

district states was an improvement from growth in 1987. The performance of individual states varied according to the mix of industries in each state. Improvements in agriculture and manufacturing were the most positive factors influencing the district in 1988.

The district's economic performance will probably continue to improve in 1989, but it is unlikely that the gap between district performance and

national performance will narrow substantially. The district's important energy sector may lose some of the stability achieved in 1988, diluting potential gains in agriculture and manufacturing. As in 1988, the performance of the individual district states will be determined largely by their industrial mix. Each of the seven states is expected to continue trailing the nation in 1989.