Tenth District Economic Developments

By Ricardo C. Gazel

The Tenth District economy posted lower employment growth in 1997, marking the first time since 1988 that the district underperformed the nation. Employment gains were healthy in services; finance, insurance, and real estate; manufacturing; and state and local governments. These gains compensated for weaker performances by wholesale and retail trades and transportation and public utilities. District agriculture posted solid gains in 1997, with big harvests and major improvements in the cattle industry. Overall, labor markets remained tight in most of the district, most likely limiting job growth in the region.

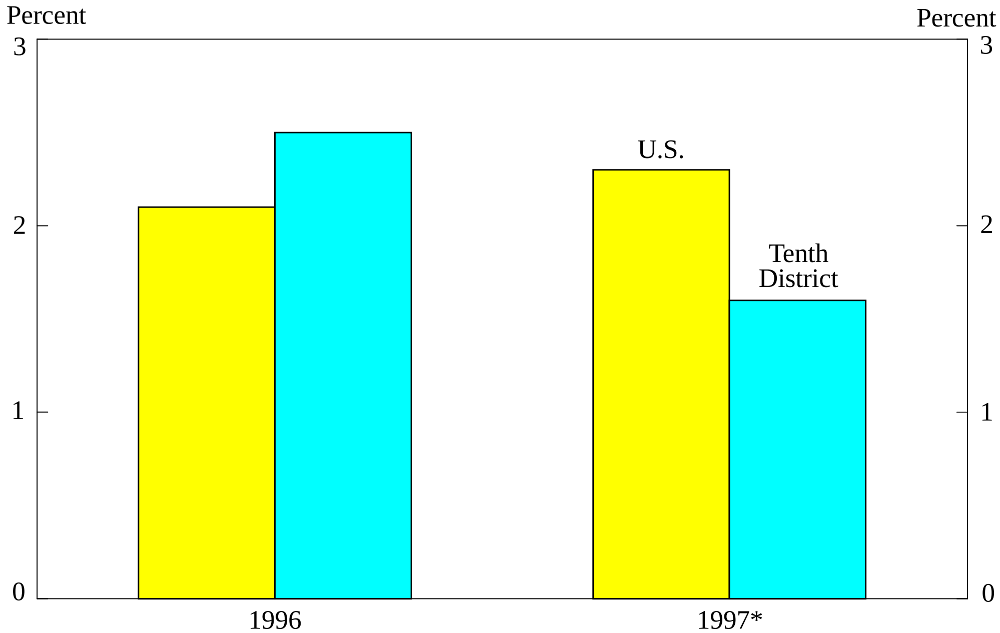
Across the seven district states, growth rates varied substantially. Oklahoma led the district in employment growth, followed by Kansas, and New Mexico. Job growth in Nebraska was near the district average, while Colorado and Missouri experienced lower job growth than the district as a whole. Wyoming was the only district state to suffer a net loss of jobs in 1997.

The district economy is likely to grow moderately in 1998, nearly matching the 1997 pace. Tight labor markets throughout the district and slower growth at the national level will be major factors behind the slowdown. The region's economic growth in 1998 will be well-balanced. Manufacturing activity is likely to expand at the same pace as 1997, driven by gains in the production of durable goods. The service sector should grow moderately again in 1998, supported by solid performance in business and professional services. Retail and wholesale trade may be slowed by lower job and income growth across the district. Construction activity may weaken in 1998, although housing may improve somewhat. The district farm economy should remain relatively strong in 1998.

This article reviews the major economic developments in the district economy in 1997 and examines the outlook for 1998. The first section reviews district and national economic performances in 1997. The second section examines the recent performance and outlook for the

Ricardo C. Gazel is an economist at the Federal Reserve Bank of Kansas City. *Jason Henderson, a research associate at the bank, helped prepare the article. This article benefited from discussions held at the bank's Regional Economic Roundtable in November 1997. The Roundtable was attended by David Black (Wyoming Department of Administration and Information), Robert C. Dauffenback (University of Oklahoma), Charles Krider (University of Kansas), F. Charles Lamphear (University of Nebraska-Lincoln), Brian McDonald (University of New Mexico), Edward H. Robb (University of Missouri), and Richard Wobbekind (University of Colorado).*

Chart 1
GROWTH IN NONAGRICULTURAL EMPLOYMENT
U.S. and Tenth District



* First three quarters, seasonally adjusted annual rate.
Source: Department of Labor.

district's major industries. The third section focuses on the economic conditions of the district seven states in 1997 and assesses each state's outlook for 1998.

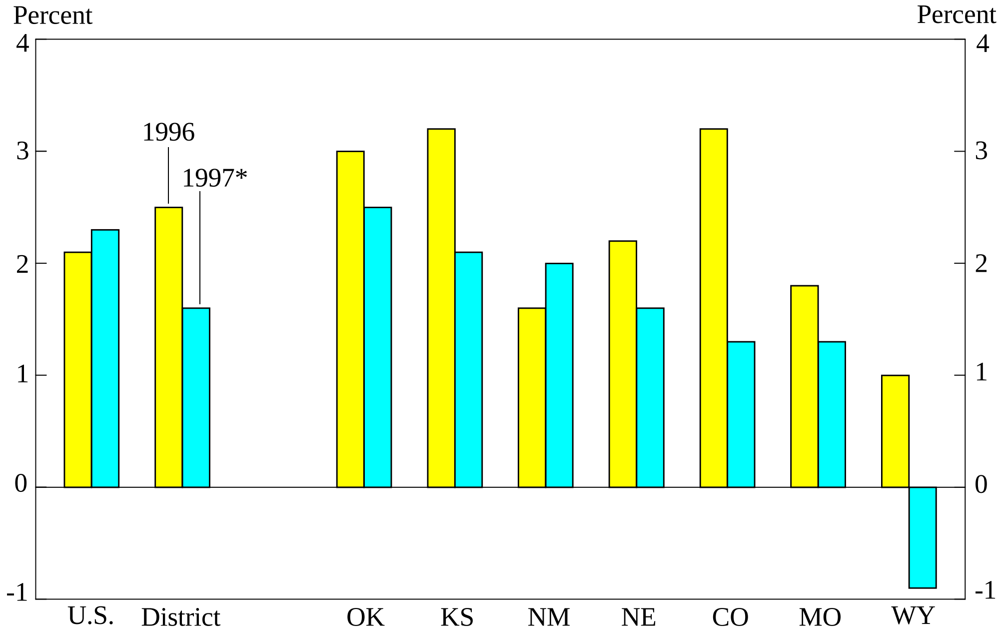
I. A SLOWER PACE OF GROWTH IN 1997

The district economy moderated in 1997, following strong growth in 1996.[1] After a promising start, the district economy lost steam in the second quarter but regained some of its momentum in the third quarter. At the national level, the economy continued to grow vigorously, reducing the lead the district had held over the nation the last few years.

Employment growth, one broad measure of economic activity at state level, confirmed that the district economy weakened relative to the nation in 1997. Nonfarm employment in the district grew 1.6 percent in 1997, substantially slower than in 1996 (Chart 1).[2] In the nation, employment grew by 2.3 percent, slightly higher than in the previous year.

The slowdown in employment growth in 1997 may not necessarily indicate a weakening of the district economy. Rather, it is likely to be capturing the increasing constraints that district employers face in hiring more workers in extremely tight labor markets. Confirming that, the civilian unemployment rate averaged 3.9

Chart 2
GROWTH IN NONAGRICULTURAL EMPLOYMENT
Tenth District states



* First three quarters, seasonally adjusted annual rate.
Source: Department of Labor.

percent in the first three quarters, a whole percentage point below the national average.[3]

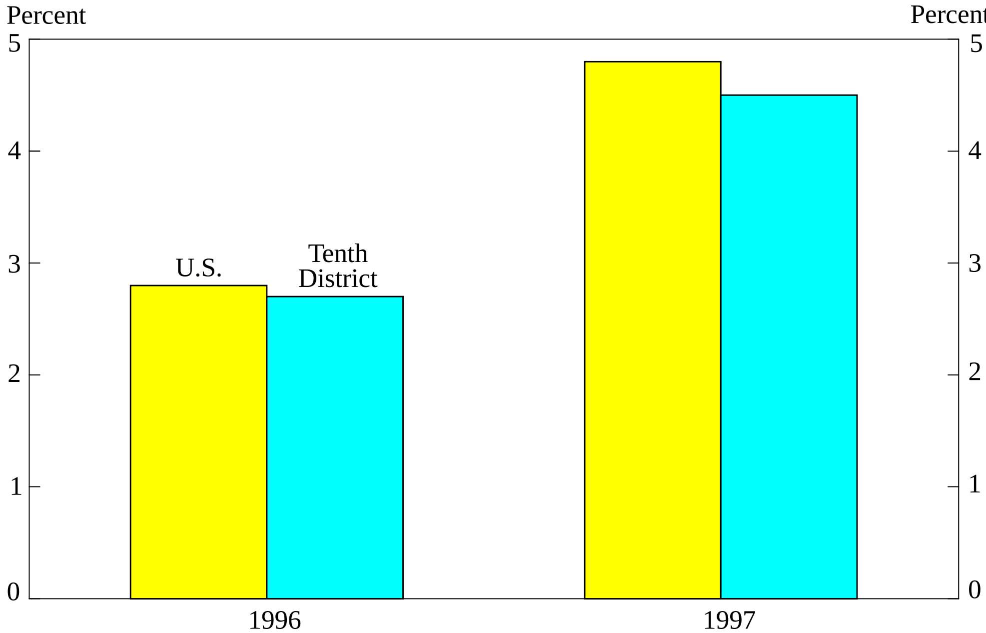
Most district states experienced positive, but slower, employment growth in 1997 (Chart 2). Colorado showed the sharpest rate of decline, followed by Kansas, Missouri, and Nebraska. Oklahoma also experienced slower employment growth, but only slightly slower than in 1996. New Mexico employment grew slightly faster in 1997 than in 1996, while Wyoming experienced a net job loss.

District real personal income, also an important broad indicator of economic performance, grew faster in 1997 than in 1996 (Chart 3).[4] Growth in district real nonfarm personal income, only slightly below the national average, increased to 4.5 percent in 1997 from 2.7 percent the previous year. In spite of the slower employment growth, all district states experienced faster real personal income growth in 1997.

II. REVIEW AND OUTLOOK BY SECTOR

Growth was broad-based in the district economy in 1997, although gains diverged substantially across sectors. For example, finance, insurance, and real estate posted strong job gains, while trade was much weaker than the district average. Among the main sectors, services led the district

Chart 3
GROWTH IN INCOME
U.S. and Tenth District



Notes: Income growth rates are based on real nonfarm personal income. For 1997, annualized growth rates reflect only seasonally adjusted data through the first two quarters.
Source: Department of Commerce.

employment growth. Durable goods manufacturing grew at a healthy rate, while nondurables suffered job losses. Construction employment increased moderately in 1997 but at a rate well below the 1996 level.

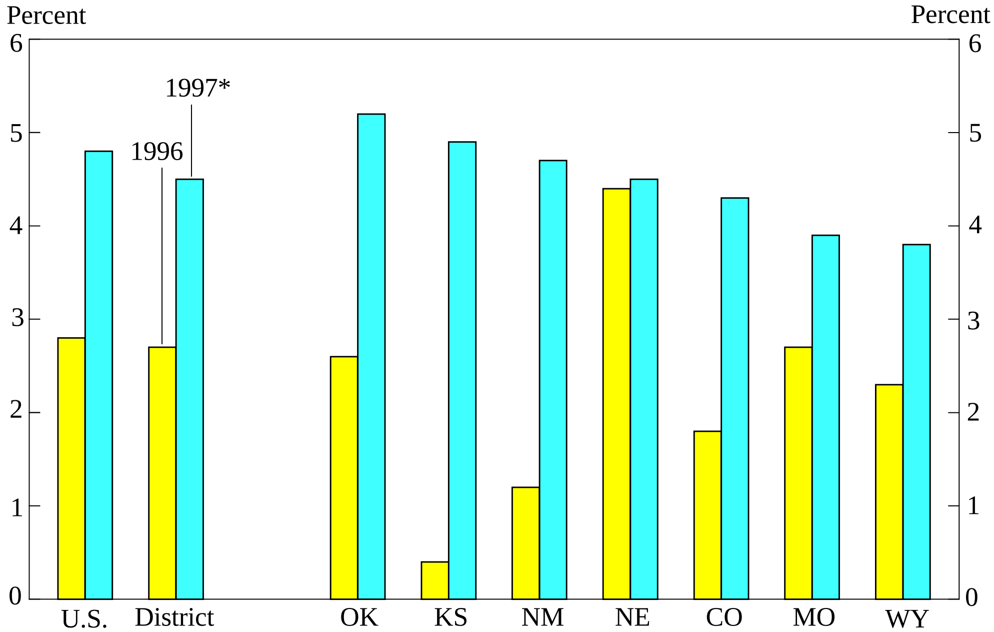
Services and trade

The service sector performed well in 1997, while the trade sector grew only marginally. Service jobs grew a solid 2.5 percent, providing close to 40 percent of all new jobs in the district in 1997 (Table 1).[5] This growth rate was much slower than the impressive 4.3 percent growth posted in 1996, however, and fell below the national average of 3.6 percent in both 1996 and 1997.

Employment in the district trade sector grew by less than 0.5 percent in 1997 due to low employment growth in retail establishments and job losses in wholesale establishments (Table 1). Trade job growth in 1997 was pale compared with the 2.1 percent growth rate in the previous year. Nationally, the trade sector experienced a healthy 2.5 percent increase in employment in 1997, only slightly lower than the year before.

The service sector will remain a major engine of growth in the district. However, growth will probably slow to a more moderate pace in 1998. Business and professional services and back-office operations will continue to drive growth in the service sector. Retail sales will grow slower

Chart 4
GROWTH IN INCOME
Tenth District states



Notes: (See notes, Chart 3)
Source: Department of Commerce.

in response to overall lower employment and income growth in the district. Additionally, tight labor markets will continue to reduce the ability of employers in the service and trade sectors to hire additional workers.

Government

The district's government sector grew solidly in 1998. Job gains in government followed the same pattern as in recent years, with gains at state and local offices more than offsetting losses at federal offices. Overall, government employment grew by a solid 2.2 percent in 1997, slightly higher than the national average (Table 1). All district states except Missouri and Wyoming reported fewer federal employment jobs, while employment in local and state government increased in all district states expect Kansas. Fiscal conditions remained healthy in six of the district states as measured by the ratio of the state's general fund balance relative to its spending. Missouri was the only state in the district to show an estimated general fund balance below 5 percent of its spending level for the 1997 fiscal year.[6]

Little change is expected in the government sector in 1998. The federal government, despite an expected budget surplus, is likely to further reduce employment within the district, led by additional military cutbacks. Employment at local and state government offices will remain strong

Table 1
GROWTH IN NONAGRICULTURAL EMPLOYMENT BY SECTOR
Tenth District states
(percent change)

	1996*	1997†
Total nonagricultural	2.5	1.6
Manufacturing	.8	1.3
Durable goods	1.6	2.8
Transportation equipment	3.7	2.7
Nondurable goods	-.3	-.8
Food processing	.3	.01
Printing and publishing	-1.5	1.2
Mining	-3.1	.9
Construction	5.1	1.9
Transportation and public utilities	1.1	-.7
Wholesale trade	1.8	-.7
Retail trade	2.1	.8
Finance, insurance, and real estate	2.4	3.6
Services	4.3	2.5
Government	1.8	2.2
Federal government	-3.0	-1.5
State and local government	2.7	2.8

*From fourth quarter 1995 to fourth quarter 1996.
†First three quarters, seasonally adjusted annual rate.
Source: Department of Labor.

in order to catch up with increased demand for public services prompted by solid population growth in the past few years. Fiscal conditions remain healthy in most of the district states. In fact, some district states, including Missouri and Kansas, are considering tax cuts in the near future.

Construction

District construction activity slowed considerably in 1997. Growth of construction jobs plunged to 1.9 percent in 1997 from 5.1 percent in the previous year (Table 1). Other indicators confirm this slower trend in construction activity. For example, the district value of total construction through September of 1996 declined 3.1 percent compared with the same period a year earlier.

Residential construction was the primary reason for the overall weak performance of the construction sector. The value of residential construction contracts in the first nine months of 1997 declined 6.3 percent from the same period a year earlier. Moreover, total housing permits authorized in the first three quarters of 1997 declined 4.4

percent from the same period in 1996. The relative magnitude of the decline was the same for both single and multifamily dwellings.

Nonresidential construction in the district grew at a moderate rate, but not strong enough to compensate for the decline in the district value of residential construction. Nonresidential construction contracts were up 2.7 percent in the first three quarters of the year compared with the same period in 1996. Continued growth of the service sector helped fuel the demand for office and other commercial spaces, stimulating new office construction. The rebound of commercial and industrial construction in the first half of the year offset the drop in nonbuilding construction activity. Nonbuilding construction projects, such as roads, sewers, and other infrastructure works, declined by 5 percent in the first nine months of 1997 compared with the same period the year before.

Construction activity is likely to maintain the moderate pace of growth experienced in 1998. The most recent data show the number of housing permits in the district is picking up speed again, suggesting stronger residential construction activity in 1998. Moreover, there is no evidence of an abnormal buildup in housing inventory, suggesting that any additional increase in demand will trigger new starts. Nonresidential construction is also likely to grow moderately in 1998 in response to stable demand for industrial and commercial spaces. Industrial vacancy rates remain low in most major metropolitan areas in the district. Commercial vacancy rates also remain relatively low, although closer to the national average. Public projects such as highways, prisons, and other infrastructure projects will help support the expected moderate growth of construction.

Manufacturing

District manufacturing activity improved slightly in 1997 and remained a primary source of strength to the region's economy. Employment in the district's plants and factories rose 1.3 percent in 1997, almost twice as fast as the national average (Table 1). A survey of manufacturing plants across the district showed consistent improvement in production activity during the first two quarters and a healthy expansion later in the year.

Within the manufacturing sector, job gains were mixed in 1997. Producers of durable goods added jobs at a healthy 2.8 percent rate. Transportation equipment remained a major source of employment growth in the district, driven by strong performances in the auto and aircraft sectors. Meanwhile, employment continued to decline in the district's plants producing nondurable goods.

Manufacturing activity in 1998 is likely to sustain the moderate pace of growth it reached in 1997. Tight labor markets, however, and the resulting scarcity of skilled labor could limit job growth in 1998, especially in the high-tech electronic components and aircraft industries. A slower national economy is likely to have a negative impact in the district manufacturing sector. Moreover, the recent Asian financial turmoil may trim export demand for manufacturing production within the district in the coming year.

Mining

The district mining industry improved somewhat in 1997 after a sluggish performance the previous year. Employment rose close to 1.0 percent in 1997 (Table 1). The sector, heavily dominated by energy activity, responded to more favorable prices during the first quarter of 1997. Prices for crude oil and natural gas declined substantially in the second quarter and, despite some third quarter gains, were still below their peaks achieved at the end of 1996. Reflecting the fluctuations in energy prices, drilling activity quickened in the first quarter but slowed as the year progressed. Nonetheless, the district rig count was 16.5 percent higher during the first three quarters of the year compared with the same period in 1996. District coal production increased faster than the national average, rising 6.2 percent in the first half of the year compared with the same period a year earlier. In contrast, district natural gas production declined 1.8 percent in the first three quarters of the year compared with same period a year earlier. Oil production through the first nine months declined even further, running almost 15 percent below the 1996 pace.

The mining sector is likely to flatten in 1998. Prices for crude oil and natural gas remain below the peaks reached at the end of 1997. The recent OPEC announcement that it will increase production quotas for its member countries may put some downward pressure on crude oil prices. Thus, oil production is likely to decline in 1998 as it has in recent years. Natural gas prices rose considerably after the strong decline in the first quarter of 1997, although prices are still about 20 percent below the levels achieved in December 1996. The end of the winter heating season and downward pressures on oil prices are likely to limit further increases in natural gas prices, suggesting that the district production may remain at 1997 levels. Coal production is also likely to stay at 1997 levels as demand for low-sulfur coal remains stable. Overall, mining employment is likely to be flat in 1998 after a surprising increase of 1.0 percent in 1997.

Agriculture

The district's agriculture sector performed well in 1997, with farm income experiencing strong gains. Cattle production, the largest component of district gross farm receipts, registered healthy profits in 1997 after three consecutive bad years. Ranchers enjoyed high prices for feeder calves, while conditions also improved for feedlot operators, who faced moderate corn prices and, on average, higher prices for fed cattle in 1997 than in 1996.

Crop producers also enjoyed a good year, with relatively strong prices and big harvests. Prices for corn and wheat were less volatile in 1997, although below levels reached in 1996. Corn production was large but less spectacular than the results observed for winter wheat. The district posted a record harvest of winter wheat in 1997, with Kansas, Oklahoma, and New Mexico almost doubling 1996 production. Additionally, farmers received the second of the seven annual transition payments established under the 1996 farm bill.

District farm financial conditions were solid in 1997. Farm assets grew faster than farm debt in 1997, resulting in a lower debt-asset ratio. The value of the district nonirrigated farmland rose about 6 percent for the year ended September 30, 1997, led by large gains in Oklahoma, Kansas, and Nebraska. Additionally, lenders to agriculture producers reported higher repayment rates in 1997.

District agriculture should have a good year in 1998 but profits may be lower than in 1997. Crop prices may decline slightly in 1998 due to higher stocks resulting from large harvests in 1997 and expected lower export demand. Cattle prices are likely to rise and feed costs should remain relatively stable in 1998, resulting in higher profits for both cattle ranchers and feeders. In contrast, prices for pork and poultry may slide, tightening profit margins.

III. SLOWER GROWTH AROUND THE DISTRICT

The overall slowdown in the district economy in 1997 was evident across the states of the Tenth District. Indeed, economic growth slowed in six of the seven district states in 1997. Oklahoma was the only district state where job growth was slightly above the national average. While the region's economy remains solid, overall economic growth is likely to moderate further in the year ahead.

Oklahoma

The Oklahoma economy expanded in 1997, although at a pace slightly slower than in 1996. Total nonagricultural employment rose 2.5 percent, the strongest employment growth among the district states and slightly above the national average (Chart 2). The solid employment growth led to a further decline in the state's unemployment rate to 3.8 percent. Contributing to the decline was slower growth in the Oklahoma labor force, likely reflecting slower immigration. Although the state experienced faster real income growth in 1997 than in the previous year, it ranked last within the district.

Job gains were widespread in Oklahoma, with all sectors experiencing growth except the federal government. The service industry was the main engine of economic growth in the state, accounting for 45 percent of all jobs added in 1997. Service employment rose a solid 4.2 percent, down from the robust 6 percent the year before. Repeating the pattern from the previous year, employment in the trade sector grew at a slower pace than the state as a whole. In 1997, wholesale employment rose 2.2 percent compared to a pale growth rate of 0.7 percent in 1996. In contrast, retail employment growth slowed from 2.3 percent in 1996 to 1.4 percent in 1997.

Manufacturing activity in Oklahoma outpaced both the district and national averages in 1997, although growing at a slower pace than during the previous year. Producers of durable goods continued to add jobs at a solid rate, slightly faster than in 1996, while employment growth slowed substantially in the nondurable industries.

Construction activity grew at a slower pace in 1997, adding jobs at half of the rate of 1996. The value of contracts awarded through the first three quarters of the year was 5 percent lower than during the same period a year earlier. The strong growth in the value of contracts for commercial and industrial construction did not offset the substantial decline of public work and residential projects. Additionally, the number of total housing permits issued in the first three quarters of 1997 was down about 1 percent from the same period in 1996 due to a 6 percent decline in the number of permits issued for single-family housing.

Oklahoma's mining industry held steady in 1997, with employment virtually flat. The average number of drilling rigs was essentially unchanged during the first three quarters of 1997 compared with the same period the year before. Oil production continued to decline and, as in previous years, slowed slightly from the year before. Production of natural gas and coal also declined in 1997.

The Oklahoma economy should grow moderately in 1998, at a pace at or slightly below that of 1997. Manufacturing activity is likely to hold steady, with small gains in the durable goods offsetting small losses in the nondurable goods. Service sector employment should continue to expand, although more modestly than the impressive rates of the last few years. Recent declines in the number of housing permits suggest that construction activity is likely to slow from 1997 levels.

Kansas

The Kansas economy expanded at a healthy pace in 1997, although somewhat slower than in

1996. Kansas ranked second among district states in employment growth, slightly below the national average (Chart 2). In spite of slower employment growth, real income grew faster in 1997, but at a pace slower than the district and national averages. Employment growth outpaced labor force growth in 1997, reducing the state's unemployment rate to 3.8 percent from 4.6 percent in the last quarter of 1996.

Gains in the Kansas economy were widespread in 1997, with all sectors except government adding new jobs. Manufacturing of durable goods led the state in job growth, accounting for about 30 percent of all jobs gained in 1997. Transportation equipment companies, such as Boeing, Cessna, Ratheon, and Lear Jet, remained the primary source of job gains, registering a thriving 12 percent employment growth, following an even faster expansion in 1996. In contrast, employment in the manufacturing of nondurables goods was virtually flat. Healthy employment and income gains helped the retail sector add jobs at a solid 2.5 percent rate, while wholesale employment growth slowed to 1 percent in 1997. Employment in the service industry grew a modest 1.7 percent, down considerably from the 4.8 percent gain in 1996.

Construction activity was strong in Kansas during the first quarter of 1997, but slowed substantially as the year progressed. Following a 6.7 percent increase in 1996, construction employment rose 4.9 percent. Job gains were concentrated in the first months of the year. Value of total construction contracts was down 8.3 percent during the first three quarters of the year compared with the same period the year before, due to a substantial decline in the value of contracts for residential housing and public projects. The total number of housing permits authorized in Kansas was down about 14 percent through the third quarter, including a 9.3 percent decline in single-family housing permits and a 21.6 percent drop in permits issued to multifamily projects.

The Kansas economy is likely to grow moderately in 1998, slightly slower than in 1997. Service, manufacturing, and construction will continue to be the major engines of growth. The durable goods industries should lead manufacturing employment gains as the transportation equipment sector continues to improve, driven by strong aircraft production. The service sector is expected to grow at a pace close to that of 1997, led by expansion of business services. Large declines in housing permits issued in 1997 are likely to limit construction activity in the first half of 1998. Expenditures on public projects, such as highways, coupled with moderate gains in commercial and industrial construction, should partly offset the negative impact of housing on construction activity. Employment and income growth should maintain a moderate growth of the trade sector in 1998. Overall, tight labor markets in the state's major metropolitan areas will continue to limit the ability of employers to hire additional workers.

New Mexico

The New Mexico economy improved in 1997, growing at a slightly faster pace than in the previous year. In 1996, New Mexico's economic boom of 1993-95 lost steam due primarily to the end of Intel's expansion, persistent cuts in the federal government spending in the state, and layoffs in the apparel industry. In 1997, however, the state experienced higher employment gains than in 1996 (Chart 2). Real personal income rose 4.7 percent, up from a meager 1.2 percent the year before. Employment grew faster than the labor force, resulting in a lower unemployment rate, 6.2 percent in the third quarter of 1997. Nevertheless, New Mexico's unemployment rate remains the highest in the district.

Economic growth in New Mexico was broad-based, with employment up in all sectors except federal government and manufacturing of non-durable goods. The important service and trade sectors continued to add jobs to the state's economy, close to half of all new jobs gained in 1997. Although slower than in 1996, service employment rose almost 2 percent due to the attraction of new businesses to the Albuquerque area and expansion of existing telemarketing and back-office operations. In 1997, retail trade employment growth slowed slightly to 1.8 percent, while wholesale growth slowed substantially more to 0.8 percent.

Manufacturing of durable goods improved substantially in 1997. After a net loss of jobs in 1996, employment grew 4.7 percent in 1997, well above the district and the national averages. The majority of the jobs added in manufacturing occurred in the electronic equipment sector concentrated in the Albuquerque metropolitan area. In contrast, employment declined 3.3 percent in the production of nondurables in 1997.

Construction activity continued to struggle in New Mexico in 1997. Construction employment rose 2 percent in 1997, after a decline of 5 percent in 1996, but most of the jobs were added in the first half of the year. The value of construction contracts awarded in the first three quarters of 1997 fell 20 percent from the same period the year before. The value of contracts decreased 7 percent for residential construction, a moderate fall compared to the 31 percent drop in nonresidential construction. Single-unit housing permits issued in the first three quarters of the year declined 2.8 percent from the same period the year before. The only positive indicator of construction activity was an increase in the number of permits issued to multifamily housing projects.

The New Mexico economy is expected to grow in 1998 at the same pace observed in 1997. Growth is likely to be more concentrated in the Albuquerque area, driven by employment gains in high-tech manufacturing, back-office operations, and business and healthcare services. Nondurable goods industries will experience some job losses with the closing of the Levi Strauss plant in Roswell. The mining industry is also expected to lose jobs with the closing of another potash mine in Carlsbad.

Nebraska

The Nebraska economy grew moderately in 1997, keeping pace with the district average. Employment growth slowed to 1.6 percent in 1997, below the national average (Chart 2). Despite the lower employment growth, the unemployment rate declined further to 2.5 percent, the lowest in the district. Tight labor markets reduced the ability of employers to hire new workers, limiting job growth in the state. Real income growth accelerated to 4.3 percent in 1997, up from just 1.8 percent the year before.

Nebraska's economic strength was concentrated in a few sectors in 1997, with the service industry providing the major source of job growth. Service employment rose 3.7 percent in 1997, well above the district average and virtually the same as the national average. The strong employment growth in the service industry accounted for 62 percent of all new jobs added to the state economy in 1997. In contrast, the trade sector lost jobs in 1997, posting a 1.3 percent decline after growing 2.2 percent in 1996. The larger decline took place in wholesale establishments, while retail employment declined less than 1.0 percent.

Manufacturing activity held steady in 1997. Employment growth edged up to 1.5 percent in 1997. Job gains occurred in the production of durable goods, with employment in the transportation equipment industry rising 4.4 percent, up from 1.5 percent in 1996. Employment in the nondurables industries, dominated by food processing, was virtually unchanged from the previous year.

Construction activity grew slower in 1997 than in 1996. Employment growth rose 1.1 percent, less than half of the pace registered in the previous year. The value of total construction contracts increased 4.3 percent in the first three quarters of 1997 compared with same period in 1996. The value of residential construction increased faster than the value of nonresidential projects due to slow growth in the construction of nonbuilding projects, such as roads, bridges, sewers, and other infrastructure works. On the other hand, commercial and industrial construction held steady in 1997. The negative news came from the number of housing permits issued in the first three quarters of 1997, down 15.4 percent from the same period the year before. Nebraska will likely grow at a slightly slower pace in 1998 than in 1997. Employment growth will continue to be limited by severely tight labor markets. The service sector should expand at a solid pace, followed closely by transportation, communications, and public utilities. Manufacturing of durable goods is expected to post job gains at a slightly slower pace than in 1997, while employment in the production of nondurable goods should be flat. In 1998, expected declines in the housing sector, suggested by declines in housing permits issued in 1997, could be offset by gains in industrial and commercial construction.

Colorado

Growth in the Colorado economy slowed substantially in 1997, after a strong performance in 1996. Employment growth slowed substantially to 1.3 percent in 1997 (Chart 2). In spite of some growth in the labor force, the jobs added to the economy pushed the unemployment rate down to 3.3 percent in the third quarter of 1997. As in Nebraska, Colorado's tight labor markets may have reduced employers' ability to hire additional workers and most likely limited job growth in 1997. Real personal income continued to grow rapidly, 4.5 percent in 1997, virtually the same rate as in the previous year.

The Colorado service industry ranked first in job creation in 1997. Service employment rose 2.1 percent in 1997, led by strong growth in business services, good performance by the amusement and recreation services, and solid growth of health services. The service industry accounted for half of the new jobs created in the Colorado's economy in 1997. In spite of a strong performance, service employment growth was down from an impressive 5.3 percent increase in 1996. Trade, the second largest employment sector in Colorado, weakened substantially in 1997. Retail employment rose only 0.8 percent, way down from a healthy 2.9 percent the year before. Wholesale performance was even weaker, with employment practically flat after a strong 2.5 percent expansion in 1996.

Manufacturing activity improved substantially in 1997. Employment rose 2.0 percent in 1997, up significantly from the 0.6 percent the year before. Producers of durable goods, dominated by high-tech electronic components, added new jobs at a 2.0 percent annualized rate in 1997, about the same as in 1996. Employment in the nondurable goods industry also rose 2.0 percent in 1997, up from a net decline of 5.3 percent in 1996.

Construction activity carried the strong growth of 1996 into the first quarter of 1997 but slowed considerably as the year progressed. Following a spectacular 8.8 percent employment growth in 1996, construction added new jobs at a more modest, although healthy, 2.8 percent rate in 1997. The value of total construction contracts rose 4.9 percent in the first three quarters of the year compared with the same period the year before. Fueled by large gains in value of contracts for public work projects, the increase in the value of construction contracts for nonresidential projects more than offset the drop in the value of contracts for residential construction. Housing permits issued for single-family units rose 3.2 percent through September compared with the same period in 1996, while permits for multifamily projects declined 3.2 percent during the same period.

The transportation, communications, and public utilities sector has become increasingly important to the state's economy, representing close to 6 percent of its total employment in 1997. Employment in the sector declined 5.3 percent in 1997 due primarily to mergers, relocations, and restructuring of many firms, such as railroad companies, and technology-driven downsizing of public utility companies.

The moderate economic growth observed for Colorado in 1997 is likely to continue in 1998, or even slow a bit further. Employment growth should be led by the service sector, with larger gains expected in the business services area. The telecommunications, airline, and trucking services are also expected to add new jobs to the state economy, compensating for continuing problems faced by the rail industry and public utilities. Construction activity is likely to grow at a slower pace than in the recent past, as lower immigration may result in lower demand for housing. Nonresidential construction is expected to grow at a slower pace than in 1997 but somewhat faster than residential construction. As the state economy slows and demand for large consumer items declines, retail sales should slow as well. For example, retail sales of building materials and furniture, which reported strong growth in 1997, is likely to be hampered in 1998 by slower construction activity.

Missouri

The Missouri economy slowed further during 1997. Employment grew 1.2 percent, down from 1.8 percent the year before (Chart 2). In spite of lower employment growth, the unemployment rate declined substantially to 3.7 percent in the third quarter of 1997 due to a decrease in the labor force. Growth of real personal income, however, grew 5.3 percent, the fastest pace in the district and twice as fast as in 1996.

The government and the service sectors were the main sources of job growth in 1997. Employment at local and state offices rose 5.6 percent, up from a strong 3.5 percent the year before. Missouri was one of two district states to experience job gains at federal government offices, 1.4 percent higher in 1997 after a 4.5 decline in 1996. Service employment rose 2.2 percent in 1997, driven by a strong performance by business services. In contrast, the trade sector, the largest employer in Missouri, sagged in 1997. Trade employment fell 0.8 percent, half its growth in the previous year. Within the trade sector, wholesale establishments experienced job losses, while employment in retail establishments was virtually flat.

Employment in the manufacturing sector declined in 1997 due to losses of jobs in production of nondurable goods not entirely offset by gains in durable goods. Employment in durable goods rose 0.9 percent in 1997, up from a 2 percent decline in 1996. The aerospace industry added jobs in 1997, while the auto industry suffered job losses. Employment declined 2.9 percent in the nondurable goods industries, following a 2.1 percent decline in 1996, due to weak performances of chemicals and printing industries.

The construction industry slowed in 1997, after growing strongly the year before. Employment was virtually flat, following a 6.2 percent increase in 1996. The value of total construction contracts fell 5.2 percent in the first three quarters of the year compared with the same period the year before. Permits for multifamily housing rose 12.3 percent, but not strong enough to offset a decline of 11.2 percent in the large single-family segment of construction.

In 1998, the Missouri economy will likely grow at the same moderate pace of 1997, below both the district and the national averages. The service sector should lead growth in the state due to gains in the business and professional services. Manufacturing employment is expected to flatten or decline slightly. Manufacturing job losses are likely to be concentrated in the durable goods sector, although the auto and aerospace industries are likely to remain stable. Employment should rise in chemicals and food processing, while printing and publishing may face employment losses. Recent large declines in housing permits, especially in the single-family sector, suggest slower construction activity in the near future.

Wyoming

The Wyoming economy performed poorly in 1997. Employment declined somewhat, following a small increase in 1996. The labor force also declined, but at a faster pace than job losses, resulting in an unemployment rate that shrank to 4.5 percent in the third quarter of 1997. While real personal income rose 4.9 percent in the first half of the year, the average for the whole year is likely to be less than that due to job losses.

The sluggish economic performance in Wyoming was broad-based, with employment flat or declining in all sectors except mining, wholesale trade, and federal government. Mining activity improved in 1997, with small job gains during the first three quarters. The number of drilling rigs operating in the state rose 72 percent through September compared with the same period a year earlier, the first increase in the rig count in the state since 1992. On the production side, however, the scenario was less optimistic. Production of coal rose 2.5 percent in the first two quarters compared with the same period in 1996, while natural gas production was virtually unchanged. Oil production continued to fall, with a decline of nearly 15 percent in the first nine months of the year compared with the same period the year before.

Manufacturing activity in 1997 was flat. Employment in the nondurable goods industries rose, but at a lower pace than in 1996. However, the few jobs added in the nondurable goods sector were not enough to compensate for the positions lost in the durable goods industries. As a result, total manufacturing employment edged down after a moderate increase in 1996.[7]

The trade sector repeated the same pattern of 1996: small improvement at the wholesale level and slight decline at the retail level. Employment edged up at wholesale establishments, while employment at retail establishments was flat. The service sector followed the general direction of the state economy, with employment declining slightly in 1997.

Economic growth in Wyoming is likely to be small in 1998. The larger employment gains should be observed in services, manufacturing, and trade. The service sector is likely to improve and remain the largest state employer. Gains in employment and personal income, even if small, will help the trade sector add jobs in 1998, especially at the retail level. In spite of expected job gains in coal and nonmetallic sites, the mining sector as a whole is likely to perform poorly due to declines in oil and gas employment. A reduction or elimination of population outflows could also improve the state's prospects in 1998.

IV. SUMMARY

The Tenth District economy performed well in 1997 although growth slowed from the strong pace of recent years. Tight labor markets may have limited job growth in the district. The service industry, state and local governments, and finance, insurance, and real estate, all experienced solid job gains. Manufacturing activity improved substantially, well above the national average, driven by strong gains in the transportation equipment sector. In contrast, wholesale and retail trade, manufacturing of nondurable goods, and transportation, communications, and public utilities performed poorly in 1997.

Employment grew more slowly than in the previous year in all district states except New Mexico. Oklahoma was the only district state to experience employment growth in 1997 above the national average. Employment in Oklahoma, Kansas, and New Mexico rose above the district average, while Nebraska's employment grew at the same pace as the district as a whole. Job growth in Colorado, Missouri, and Wyoming fell below the district average.

The Tenth District economy is likely to post modest gains in 1998, similar to those observed in 1997. Tight labor markets are likely to limit job growth in many parts of the district. The service industry will remain the growth engine of the district, although growth will take place at a slower pace than in the recent past. The trade sector and construction activity will grow only moderately in 1998. Manufacturing activity will remain stable in spite of possible declines in export demands for durable goods produced in the district. Employment is likely to grow at the state and local government offices as fiscal conditions remain healthy in most of the district states. Mining employment will be flat as energy prices are likely to remain at or below current levels. Agriculture should enjoy another solid year in 1998.

ENDNOTES

[1] This article reviews the district economic performance using the most recent quarterly data available at the time of writing. Preliminary employment data are available for the first three quarters of 1997; income data, for the first two quarters. Other data are available for various time periods. This article emphasizes employment data more than income data because they provide an additional quarter of information on the economic performance of the district in 1997. It is important, however, to note that preliminary data are subject to future revisions and may change some of the conclusions presented in this article.

[2] All discussions of employment growth in this article are based on growth in 1996, calculated from the fourth quarter of 1995 to the fourth quarter of 1996, and growth in 1997, calculated as the annual rate of change from the fourth quarter of 1996 to the third quarter of 1997. The employment data are from the Bureau of Labor Statistics, seasonally adjusted at the Federal Reserve Bank of Kansas City. The discussion focuses on nonfarm employment as a measure of economic performance because the number of direct farm jobs is small and difficult to measure. Nevertheless, nonfarm employment captures the indirect effects of the district's important farm sector on other sectors of the economy.

[3] The district experienced lower than the national average unemployment despite the fact that the labor force increased faster in the district than in the nation as a whole. For the five-year period ended in September 1997, the district labor force grew by 15.9 percent compared with 6.2 percent in the United States. Additionally, the district labor force participation rate has been consistently higher than the national average. In 1996, the district labor force participation rate was 69.7 percent compared with 66.8 percent for the nation as a whole. For comparison purposes only, applying the district labor force participation rate to the national economy and keeping the same number of employed people, the U.S. unemployment rate would have been 9.4 percent in 1996 instead of the measured 5.4 percent.

4 All discussions of income growth in this article are based on growth in 1996, calculated from the fourth quarter of 1995 to the fourth quarter of 1996; and growth in 1997, calculated as the annual rate of change from the fourth quarter of 1996 to the second quarter of 1997. The income data are seasonally adjusted real nonfarm personal income obtained from Data Resources, Inc.

5 In this article, new jobs are assumed to be the sum of the net change in employment in all sectors in 1997. In reality, this is the minimum number of new jobs created in the economy, since it accounts only for net changes in the stock of jobs and not for changes in the flow of jobs during the year.

6 These preliminary estimates of fiscal year 1997 fund balances and general fund expenditures are from the National Governor's Association.

7 The manufacturing employment rose by over 8 percent in 1996. However, most of the employment growth was the result of noneconomic code change which moved about 900 jobs from the nonmetallic mining to the manufacturing sector.

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