Tenth District Economic Developments

By Alan D. Barkema

The Tenth District economy posted a healthy gain in 1995, although growth slowed from the vigorous tempo the year before. The district slowed sharply in the spring, but activity rebounded somewhat later in the year, in a pattern similar to that in the national economy. The district's main economic engines in 1994—construction, manufacturing, trade, and services—downshifted to a more moderate pace of growth in 1995. Activity in the district's energy industry remained sluggish, due to weak prices for crude oil and natural gas, and financial losses in the cattle industry held down the income of district farmers, despite a surge in crop prices.

Growth varied widely across the district. New Mexico was again the star performer, leading the district for the second consecutive year. Growth in Oklahoma, Kansas, and Colorado also was strong, while growth in Missouri, Nebraska, and Wyoming was more moderate.

The outlook for the district economy in 1996 points to continued moderate growth, probably slightly below the 1995 pace. The economy's healthy tone overall should support further modest gains in services and trade. Activity in the construction industry may rebound slightly from the slowdown in 1995, with a modest recovery in homebuilding and a steady pace of commercial and public works projects. Manufacturing activity may slip somewhat, as the mountain states' industrial expansion slows. Flat energy prices, however, are unlikely to encourage much exploration and drilling activity in the district's energy industry. For the district's farm economy, higher crop prices brighten the outlook, even though the profit picture for the cattle industry remains relatively bleak.

This article reviews developments in the district economy. The first section compares the overall performance of the district and national economies in 1995. The second section considers the recent performance and outlook for the district's key industries. The third section assesses the outlook for the seven district states in the year ahead.

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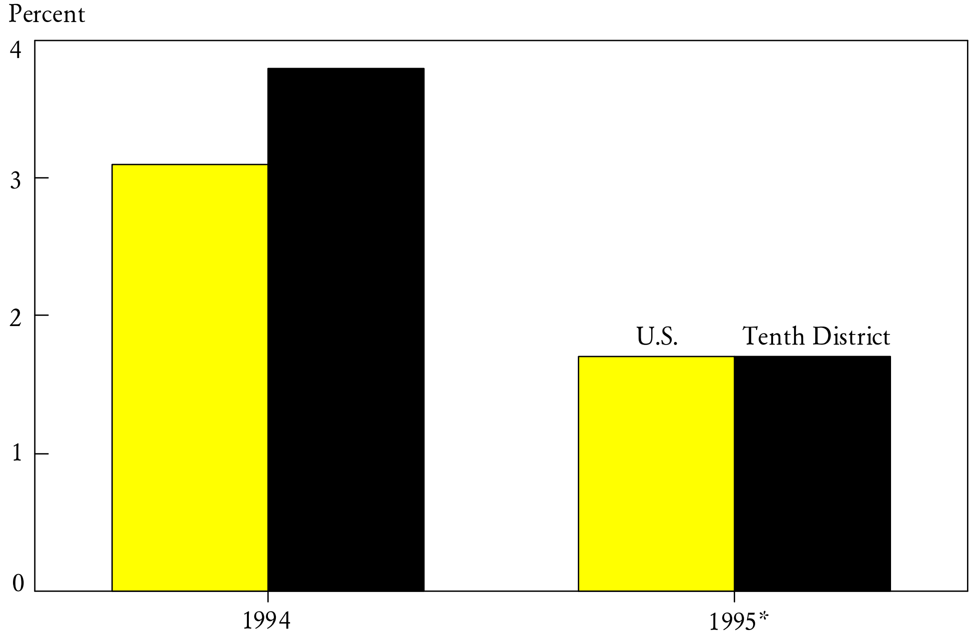
Chart 1
GROWTH IN NONAGRICULTURAL EMPLOYMENT
U.S. and Tenth District



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

A MORE MODERATE PACE IN 1995

The district economy slowed to a moderate growth rate in 1995 compared with the robust pace of 1994.[1] The slowdown was sharp in the spring, but preliminary data suggest growth picked up again later in the year. Similar to the district pattern, the national economy also slowed in 1995 from the rapid pace of the year before, especially in the second quarter. Nevertheless, the lead the district held over the nation in 1994 eroded in 1995.

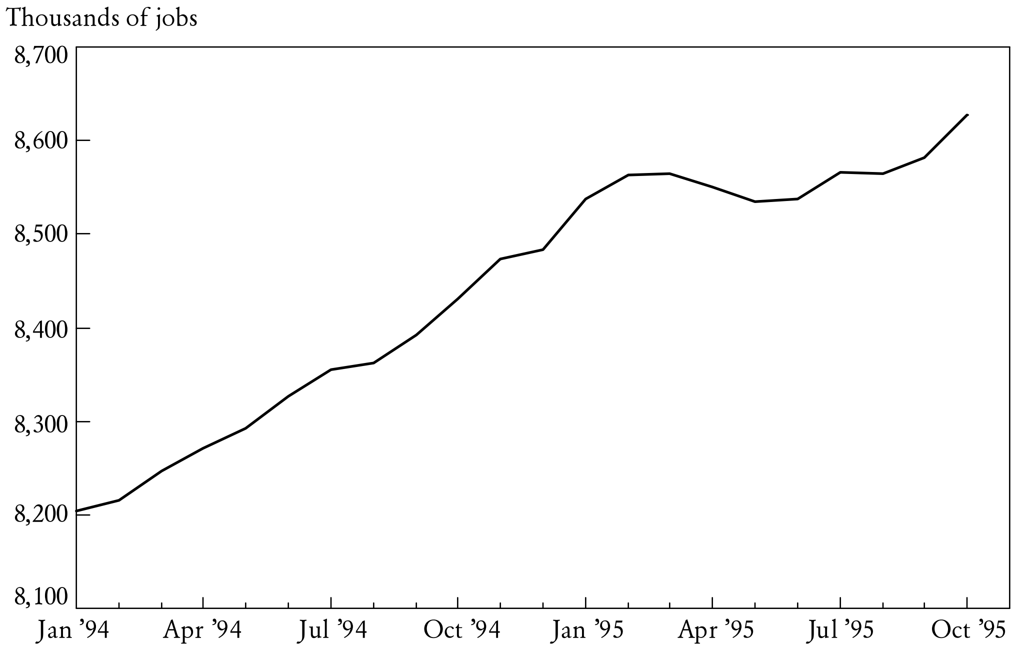
Employment growth, an indicator of overall economic performance, reveals the slowdown in the district economy and provides a useful gauge for comparing the district and the nation. During the first three quarters of 1995, total nonfarm employment in the district grew at an annual rate of 1.7 percent, less than half the vigorous pace of the year before (Chart 1).[2] The pattern of employment gains during the year, however, suggests job gains in the district picked up again in the second half of the year after a sharp downturn in the spring (Chart 2). Thus when data for the entire year are available, the district's average job gains through the first three quarters may prove to be an underestimate of gains for the year as a whole.

Employment growth also slowed in the nation, as the national economy downshifted to a more sustainable pace. As a result, the district and

Chart 2

TOTAL NONFARM EMPLOYMENT

Tenth District



Source: Department of Labor.

nation added jobs at the same pace, unlike the previous year when the district held a healthy lead on the nation. The district's unemployment rate remained almost steady at 4.5 percent, about 1.1 percentage points below the national average.

Employment growth slowed in all seven district states in 1995 (Chart 3). Nevertheless, New Mexico's solid 3.8 percent gain was more than double the national rate and led the district states for the second consecutive year. Job growth in Oklahoma, Kansas, and Colorado also outpaced the national average, but slower job gains in Missouri, Nebraska, and Wyoming were well behind the national pace. Wyoming was the only district state to log a slight loss of jobs in 1995.

Income growth, another broad measure of economic performance, paralleled the slower job gains in the district. During the first half of 1995, real personal income in the district rose 1.7 percent per year, down from 3.9 percent the previous year (Chart 4).[3] As a result, district income growth during the first half of the year was weaker than the national increase of 2.9 percent. New Mexico was the only district state to record stronger income growth than the year before or to exceed the national average (Chart 5).

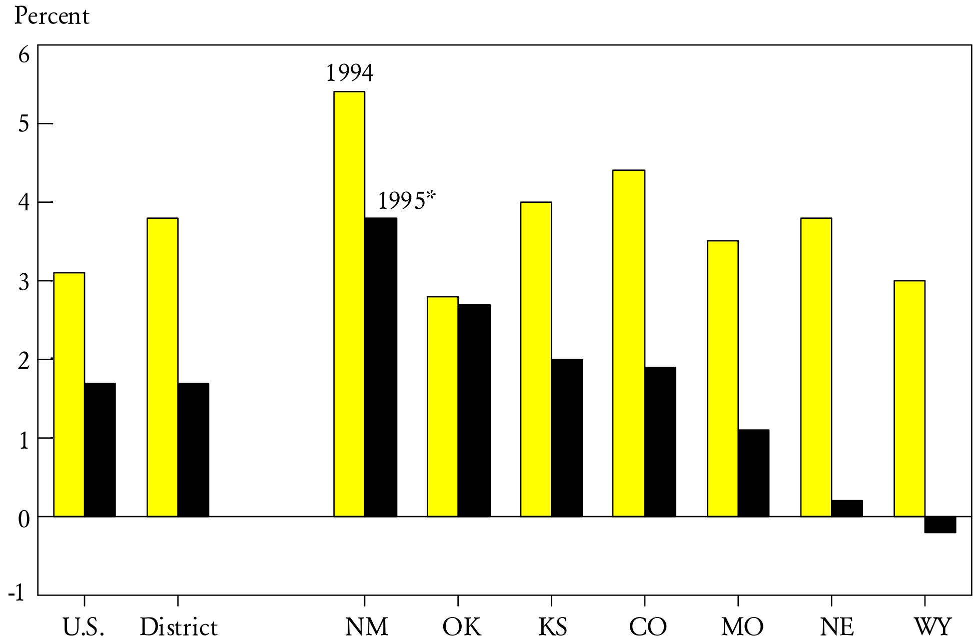
REVIEW AND OUTLOOK BY SECTOR

Growth was broad-based in the district economy in 1995. The district's services and trade

Chart 3

GROWTH IN NONAGRICULTURAL EMPLOYMENT

Tenth District States



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

sectors scored the strongest growth, supported by healthy economic growth overall. A decline in residential construction activity slowed the district's building boom. Modest gains in durables manufacturing offset weakness in the nondurables industries. The district's two weakest sectors in 1995 were energy and agriculture. The district energy industry remained weak due to low energy prices, and district agriculture struggled with another year of losses in the cattle industry.

Services and trade

Growth in the services and trade sectors, which account for about half of total nonfarm employment in the district, led the district in 1995 despite slowing from the year before. Following stellar gains in 1994, the slowdown in services and trade reflects the overall downshift in the district economy. The district's services industries, including health care and a wide range of general business and management services, added jobs at a healthy pace of 2.4 percent in 1995 (Table 1). Nevertheless, service job growth was less than half the pace of the year before and was also well below the national average. Growth in the district's trade sector continued to outpace the national average, however, as sluggishness in wholesale trade was offset by modest gains in the much bigger retail trade component.

The outlook for the year ahead points to further moderate growth in the services and

Table 1

GROWTH IN NONAGRICULTURAL EMPLOYMENT BY SECTOR

Tenth District states

(Percent change)

	1994*	1995†
Total nonagricultural	3.8	1.7
Manufacturing	3.0	0.5
Durable goods	4.3	1.6
Transportation equipment	-.3	4.9
Nondurable goods	1.4	-1.1
Food processing	2.8	.0
Printing and publishing	2.0	.3
Mining	-2.3	-2.2
Construction	9.2	1.0
Transportation and public utilities	1.9	1.4
Wholesale trade	3.1	1.3
Retail trade	4.7	2.5
Finance, insurance, and real estate	1.7	.8
Services	5.2	2.4
Government	2.2	1.7
Federal government	-1.8	-.4
State and local government	3.0	2.1

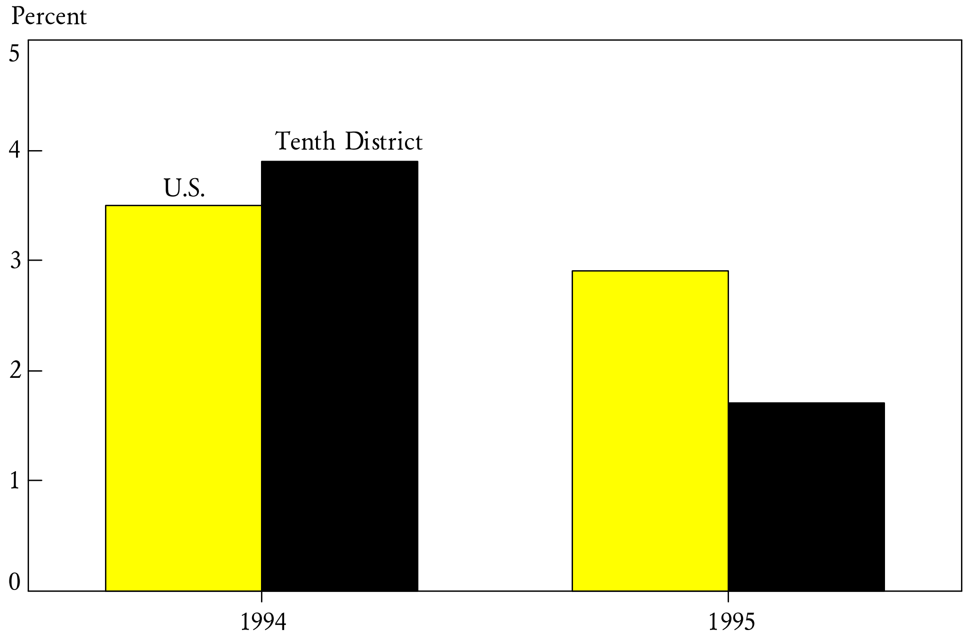
* From fourth quarter 1993 to fourth quarter 1994.

† First three quarters, seasonally adjusted annual rate.

Source: Department of Labor.

trade sectors. The solid performance expected in the national economy should provide a steady foundation for further gains in both business services and trade. Teleservice firms—such as travel reservation operations, computer firms offering technical support by telephone, and back-office accounting operations—continue to expand in the district, especially in New Mexico and the other mountain states. In addition, a continuing trend toward corporate downsizing and outsourcing will support demand for a wide range of business and management services. A healthy national economy should also lend support to the large and growing tourism industry in the mountain states and southern Missouri. Employment gains in health care, however, may slow. Health care providers have found the district a favorable location for their businesses, and demand for health care services is likely to continue to expand with further growth in the district's retirement communities. Even so, health care providers may be reluctant to expand employment until the national debate on curtailing health care costs is resolved.

Chart 4
GROWTH IN INCOME
U.S. and Tenth District



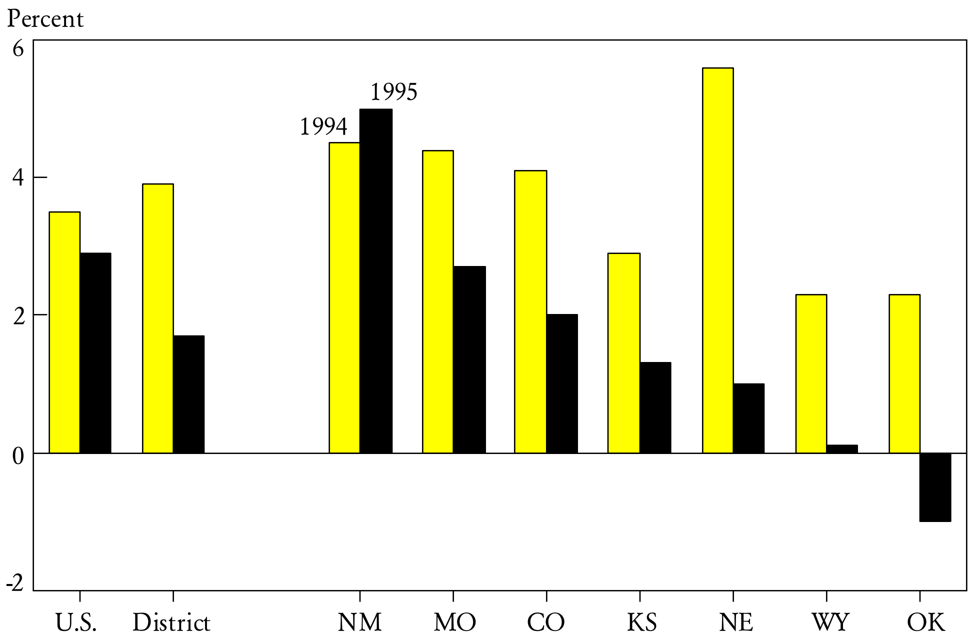
Notes: Income growth rates are based on real nonfarm personal income. For 1995, annualized growth rates reflect only seasonally adjusted data through the first two quarters.
Source: Department of Commerce.

Construction

Construction activity in the district remained brisk in 1995, even though the district's residential building boom sagged. Mortgage interest rates surged briefly in late 1994, damping homebuilding activity well into 1995. Although mortgage interest rates subsequently declined again, homebuilding activity was slow to rebound. During the first three quarters of 1995, the value of new residential construction contracts awarded in the district was down nearly 15 percent compared with the same period the previous year.

Although homebuilding activity was soft in 1995, nonresidential construction activity picked up the slack. Business expansion continued to absorb the overhang of 1980s-vintage commercial space, shrinking office vacancy rates throughout the district and encouraging new construction. Nonresidential construction contracts were up 17 percent during the first three quarters of the year compared with the same period the year before. Nonbuilding construction projects—primarily public works projects including roads, sewers, and other kinds of infrastructure—remained steady, providing a supporting foundation of construction activity across

Chart 5
GROWTH IN INCOME
Tenth District States



Notes: See notes, Chart 4.
Source: Department of Commerce.

the district. With strength in commercial and public works construction offsetting weakness in homebuilding, overall construction employment was up 1 percent in 1995, following a 9 percent surge in 1994.

Construction activity in the district may strengthen modestly in 1996. Lower mortgage interest rates should contribute to a modest rebound in homebuilding activity, especially in rural trade centers where housing remains in tight supply. In addition, the generally healthy tone of the district economy should maintain a good business climate for commercial construction projects. A shift in activity in the mountain states from residential to commercial construction, however, signals a further tapering off of the region's building boom. The pace of commercial and public works projects may quicken in the mountain states in response to the rapid population growth of recent years. But residential construction—especially building of single-family homes—appears to have crested and is likely to slow along with the declining inflow of new mountain-state residents.

Manufacturing

The district's manufacturing rebound slowed in 1995, after a surge the previous year that strained the industry's capacity. Employment in the district's plants and factories rose a slight 0.5 percent, markedly less than the strong gain the year before. Nevertheless, the slight growth in district manufacturing employment compared favorably with the slight decline in manufacturing employment across the nation.

Most of the job gains in district manufacturing in 1995 were in the durable goods industries. The addition of popular new car and truck models to product lines was a boon to district automobile plants. Moreover, the district's general aviation industry, centered in Wichita, Kansas, appeared on the upswing again after years of decline. Nearly 2,500 aviation workers in the Wichita area, however, were idled in a machinist union strike that began in early October and was finally resolved in mid-December. These strike-related job losses are not reflected in the data of Table 1, which include only the first three quarters of the year.

Nondurables employment declined modestly in 1995. Shoe and apparel manufacturers trimmed jobs further, under pressure from stiff foreign competition. In addition, employment in food processing and printing and publishing leveled off after strong gains in 1994.

Manufacturing activity may ease a bit further in 1996. Domestic demand for manufactured goods may slip somewhat as growth in the national economy moderates. However, modest improvement in the global economy should support export demand. The resolution of the machinist-union strike brightens the outlook for the district's general aviation industry. Strong-selling models of cars and trucks should help cushion district automobile plants from the automobile industry's planned production cutbacks. Job gains among the mountain states' dynamic high-tech firms, however, may taper off from the surge in recent years, which was driven partially by the now completed Intel plant near Albuquerque.

Government

In the district's government sector, employment gains at state and local offices in 1995 more than offset job losses in federal offices, continuing the pattern of recent years. Employment in state and local government rose in all sates except Nebraska, while federal government employment declined in all states except Missouri and New Mexico. The modest job gains in state and local government reflect growing demand for government services and the generally healthy fiscal condition of the district states. In contrast, efforts to scale back government spending account for the further decline in federal jobs in the district, which have fallen about 7 percent in the past five years.

The district states generally remained in good fiscal condition in 1995, although their fiscal health overall eroded somewhat. One useful benchmark suggests a state is fiscally healthy when its general fund balance is 5 percent or more of annual spending. This indicator of fiscal health declined somewhat in Colorado, Kansas, New Mexico, and Wyoming, pulling down the district average. Nevertheless, general fund balances remained well above the 5 percent threshold in all states except New Mexico and Wyoming.[4]

In the year ahead, federal jobs in the region are likely to erode further with continued efforts to cut federal spending. While state and local government may add more workers, job gains may be less than in recent years as fiscal conditions tighten for most district states. The ratio of fund balances to annual spending is expected to erode in 1996 in all district states except Oklahoma, with only four states clearing the 5 percent benchmark.

Mining

The district mining industry remained sluggish in 1995, due to weak energy prices. Overall mining employment in the district slipped 2.2 percent, the fifth consecutive yearly decline. Crude oil and natural gas prices moved in fairly narrow ranges during the year and generally remained too weak to justify significant new exploration and drilling activity. The average number of drilling rigs operating in the district during the first three quarters of the year was down nearly 15 percent compared with the same period the year before. The decade-long decline in crude oil production in the district continued during the first half of the year, with a drop of about 5 percent. In contrast, natural gas production continued to increase, and district coal production was headed for another new record, up nearly 7 percent for the year ended in September.

The outlook for energy prices suggests few gains in exploration and drilling activity in the year ahead. Energy use will climb gradually with the moderate growth expected in the U.S. and global economies. But world oil production is likely to keep pace with demand. Thus, the balance of demand and supply is likely to limit improvement in crude oil prices. Flat oil prices will likely keep a lid on natural gas prices. In the district's coal industry, however, production will probably rise to yet another record, fueled by rising demand by eastern utilities for clean burning coal. Coal mining, though, is a highly efficient, capital intensive enterprise that generates few additional jobs. Overall, the district energy industry is likely to remain stable, with few real gains for the communities that depend on it.

Agriculture

In the district's agricultural sector, weak profits in the cattle industry held down farm incomes in 1995, despite a surge in crop prices. Weak cattle prices and rising feed costs triggered operating losses in district feedlots for much of the year. As beleaguered cattle feeders bid less for young cattle entering their feedlots, the long string of annual profits in the district ranching industry came to an abrupt end. With profits in the cattle industry weak, the rate of repayment on farm loans at district agricultural banks fell to the lowest levels in a decade (Ryckman and Barkema).

The year was also a rough one for many district crop producers. Corn, soybean, and wheat crops in much of the district and the nation were smaller than normal in 1995, due to a growing season shortened by late planting and early frost. With smaller crops and strong global demand, however, crop prices soared as the harvest wound down. The higher crop prices lessened the sting of crop losses in much of the district, while farm balance sheets were bolstered by a solid 4.1 percent gain in farmland values during the year ending in the third quarter.

Higher crop prices are likely to linger into the new year, brightening the outlook for farm incomes in 1996. Fed cattle prices are not expected to remain much above break-even levels, however, trapping the district cattle industry between weak cattle prices and high feed costs. Strong balance sheets should enable most cattle producers to ride out the rough times. Nevertheless, further erosion in equity will probably lead some ranchers to trim herds or exit the industry completely. Thus, another year of weak profits in the cattle industry is likely to limit improvement in district farm income in 1996, despite higher crop prices.

GROWTH SLOWS AROUND THE DISTRICT

Economic gains in all seven district states downshifted to a more moderate pace in 1995. With the slowdown, job growth among the district states bracketed the national average. New Mexico remained the district's most vibrant economy, with job growth more than double the national average. In contrast, job growth in Missouri, Nebraska, and Wyoming fell below average. In 1996, continued moderate growth appears likely in the district states, at a pace slightly below that of 1995.

New Mexico

The New Mexico economy, one of the most dynamic in the nation, led the Tenth District states again in 1995. New Mexico's employment gain of nearly 4 percent and income gain of 5 percent outpaced other district states and national averages. Despite New Mexico's impressive gains in employment and income, the state's unemployment rate of 6.0 percent in the third quarter remained the highest in the district. The state's relatively high unemployment rate may stem, in part, from the rapid in-migration the past few years that has boosted the state's labor force.

New Mexico's growth was again fueled by its thriving high-tech manufacturing industry. The state's 3.2 percent gain in manufacturing employment, with durable goods industries leading the way, was stronger than in any other district state. With the Los Alamos and Sandia national research laboratories creating a foundation of high-caliber human capital, leading high-tech firms, including Intel, Motorola, and Phillips, have chosen the Albuquerque area for expansion. More recently, the high-tech expansion has shifted to industries that supply important inputs, such as silicon chips, to other high-tech manufacturers.

An expanding services sector also supported New Mexico's gains in 1995. Teleservices businesses continue to be attracted to New Mexico's scenic amenities. As a result, Albuquerque has become a center for such businesses as telemarketing firms, back-office accounting operations, and airline reservation centers. In addition, an expanding health care industry, including both regional and national health care companies, contributed to growth in New Mexico's services sector.

The solid gains in manufacturing and services, in turn, sustained New Mexico's construction boom, which began nearly four years ago. Construction employment in the state shot up about 9 percent in 1995, easily outpacing gains in any other sector. While some major industrial projects were completed, such as a new Intel plant that once required nearly 3,000 construction workers, other new commercial construction projects were begun, including a large new shopping mall in the Albuquerque area. Residential construction sagged somewhat in the first half of the year but then picked up again with continued strength in multifamily construction and a modest rebound in single-family construction.

Most indicators suggest New Mexico's economic boom has reached a plateau, pointing to slower—albeit still solid—growth in 1996. Manufacturing activity will remain robust, although job gains will probably be somewhat smaller than the year before, as the state's industrial expansion slows to a more measured tempo. While durable goods production will remain the foundation of manufacturing in the state, a growing dairy industry will support gains in food processing. Construction activity has probably already peaked, but homebuilding and commercial and public works projects will sustain a solid pace of construction activity in the state. The state's dynamic services sector looks forward to another good year, bolstered by further expansion in business and health services. In contrast, the government sector may be the weakest in the state. Substantial job cuts have been announced for the state's national defense laboratories. In addition, the state faces a fiscal pinch caused by aggressive capital spending and an unexpected shortfall in state revenues. As a result, gains in state and local employment may slow.

Oklahoma

Oklahoma scored solid job gains in 1995, moving up in the district rankings from the previous year. Total employment rose 2.7 percent in 1995, the second strongest pace in the district and nearly equaling the healthy pace of 1994. The steady employment gains further shrank the state's unemployment rate to 4.7 percent in the third quarter, down from 5.6 percent in the fourth quarter of 1994. Despite solid employment growth, real income declined modestly.

Gains in the Oklahoma economy were widespread, with employment up in all sectors except mining and federal government. The important services and trade sectors, which grew most rapidly, benefited from the positive tone of the state economy. Employment was up 4.7 percent in services and 3.1 percent in trade, both only slightly slower than the year before. Of all the new jobs created in the state in 1995, slightly more than half were in the services sector and nearly a fourth were in retail trade.

Manufacturing activity picked up in Oklahoma in 1995, with stronger employment gains than in 1994. Employment in durables manufacturing, which accounts for nearly twice as many workers as nondurables, rose 2.5 percent, nearly a percentage point stronger than in 1994. In contrast, employment in the nondurables industries was virtually flat.

Construction activity in the Sooner state slowed markedly. Compared with the same period in 1994, the value of new contracts established during the first three quarters of 1995 declined for residential, commercial, and public works construction. The only positive construction indicator was a slight rise in the number of multifamily housing permits issued. With construction activity weaker, construction employment was virtually flat, following a surge of about 10 percent in 1994.

Oklahoma's mining industry weakened further in 1995, with employment in the industry dropping 5.3 percent, roughly double the decline in 1994. The average number of drilling rigs operating in the state's energy patch during the first three quarters of 1995 declined about 10 percent compared with the same period the year before. The long downward trend in Oklahoma crude oil production continued during the first half of the year, and natural gas production was down for the second consecutive year.

Further growth appears in store for the Oklahoma economy in 1996, though the gains may be somewhat smaller than in 1995. A steady national economy will support further modest growth in the state's services and trade sectors. Oklahoma's manufacturing rebound, however, may lose some of its steam as the national economy grows at a more moderate pace. A modest uptick in homebuilding may strengthen the construction sector somewhat, although commercial activity may have already peaked. The state's mining sector is likely to remain in the doldrums, with an energy price outlook that fails to generate much additional exploration and development activity.

Kansas

The Kansas economy was a relatively strong performer in the district in 1995, despite growing less than in 1994. Employment grew at a 2 percent annual rate during the first three quarters of the year, slightly stronger than the district and national average but still only about half the state's 1994 pace. Despite a slower pace of employment growth, the state's unemployment rate still fell to 4.5 percent in the third quarter of 1995, down from 5.2 percent in the fourth quarter of 1994. Income growth also slowed in 1995, according to preliminary data for the first half of the year.

Construction was by far the strongest industry in Kansas in 1995, with activity rising after a strong gain the previous year. The total value of new construction contracts in the state during the first three quarters of the year was up about 5 percent compared with the same period the year before. Solid gains in commercial projects more than offset a dip in homebuilding. Overall, construction employment in the state was up 7 percent, slightly stronger than in 1994.

The services and trade sectors remained sources of growth in the Kansas economy in 1995, bolstered by healthy gains in jobs and incomes across the state. Services employment was up a solid 2 percent, although down considerably from the 5 percent gain in 1994. Employment in the trade sector grew a modest 1.4 percent, with both wholesalers and retailers adding jobs.

Growth in manufacturing activity slowed in 1995 after strong gains in 1994. Overall manufacturing employment grew only about 1 percent, only a quarter of 1994's pace. Growth was strongest among makers of durable goods. Employment in the nondurables industries, including the state's important food processing industry, was up slightly.

The Kansas mining sector, which after years of decline now accounts for only about 1 percent of the state's employment, was stable in 1995. Oil and natural gas exploration activity, which dominates the Kansas mining industry, was steady in 1995 with the average number of drilling rigs operating in the state during the first three quarters of the year down only slightly compared with the same period the previous year. Through the first half of 1995, both natural gas and crude oil production in the state were down about 5 percent.

The year was a rough one for the Kansas farm economy. Cold, wet weather trimmed the state's important wheat crop by a third compared with the bumper harvest the year before. Usually the state is the nation's leading wheat producer, but the small crop left Kansas in second place behind North Dakota in 1995. A surge in wheat prices to the highest level in nearly two decades cushioned the sting of the disappointing crop for some Kansas farmers, but many others had already sold their crops before prices soared. Weak cattle prices and rising feed costs took their toll on the state's cattle industry, which accounts for about 60 percent of all farm product sales in the state. Many Kansas cattle feeders and ranchers operated at a loss for much of the year, and some will probably leave the industry in the year ahead. Strong balance sheets, however, will enable many other producers to ride out these rough times.

Further growth appears in store for the Kansas economy in 1996, at slightly less than the moderate pace of 1995. Growth in overall construction activity may ease somewhat from the vigorous gains of the past two years, despite a modest rebound in homebuilding. Prospects remain relatively bright for the state's general aviation manufacturing industry in the Wichita area, following the recent settlement of the Boeing strike with a four-year labor contract. Prospects for low cattle prices and strong consumer meat demand point to solid profits for the state's big meat processing industry. Steady gains in wage and income growth, in turn, should lead to further moderate growth in the services and trade sectors, with the Kansas City suburbs in Johnson County leading the way.

Colorado

The expansion in the Colorado economy continued at a healthy clip in 1995, albeit somewhat slower than the previous year. Growth in both employment and real personal income was markedly slower than in 1994 but remained above the district average. The slower pace of job growth did not keep pace with the state's expanding labor force, in part fueled by in-migration, and the unemployment rate edged up to 4.0 percent in the third quarter of 1995 from 3.6 percent in the fourth quarter of 1994.

The strongest components of the Colorado economy in 1995 were the services and trade sectors. While job growth in each slowed considerably from the year before, employment in both sectors still climbed a healthy 3 percent. The state's solid income growth supported gains in wholesale and retail trade, while a strong national economy supported the state's growing sports and recreation industry, with skier visits off only slightly from the 1994 record. The high-tech slant of Colorado's manufacturing sector maintained solid demand for engineering services, and the generally healthy tone of the Colorado economy contributed to further gains in business services, especially those provided by temporary help firms.

Manufacturing employment was virtually flat during the first three quarters of 1995, as modest gains among durable goods producers offset losses in nondurables industries. In the durable goods industries, the fastest growing segments were the manufacturers of high-tech electronic components—especially those used in the rapidly growing telecommunications industry—and metal fabrication, bolstered by strong demand for materials used in commercial construction. Flat employment in the brewing and food processing industry and further job losses in the chemicals and petroleum products industry contributed to the weakness in the nondurables industries.

Colorado's construction sector weakened somewhat in 1995, in contrast to its impressive gains in recent years. Construction employment sagged slightly, a marked turnaround from the 9 percent surge the year before. The slight drop in construction employment in 1995 was due to a decline in homebuilding activity, in turn reflecting a gradually slowing inflow of new residents. The number of single-family housing permits issued during the first three quarters of 1995 was down about 5 percent from the same period in the previous year. New commercial projects maintained a healthy tempo of construction activity in the state, with the value of commercial contracts established during the first three quarters of the year up nearly 14 percent from the same period in 1994.

Colorado's mining sector remained stable in 1995. Employment in the industry leveled off at 15,500, following a decline of about 3 percent in 1994. With energy prices low, the average number of drilling rigs operating in the state during the first three quarters was down about 40 percent from the same period the year before. Following the trend of recent years, the state's crude oil production declined further in the first half of the year, while natural gas production was up about a tenth.

Further growth is in store for the Colorado economy in 1996, although a modest further slowing from the 1995 pace appears likely. The services and trade sectors may again be the fastest growing parts of the Colorado economy. The drive to hold down costs may slow employment gains in Colorado's important health services industry, but gains in business services will remain brisk. Manufacturing employment may rise modestly, with virtually all of the growth coming in the state's high-tech durable goods industries. The declining inflow of new residents points to a weaker pace of homebuilding activity. But the tempo of commercial and public works projects will remain brisk, as contractors catch up with the support needs of the recently expanded residential communities across the state. The energy price outlook points to few if any gains in exploration and drilling activity in the state's mining industry, which after years of decline accounts for only about 1 percent of the state's employment.

Missouri

Growth in the Missouri economy slowed to a more modest pace in 1995 from a strong showing in 1994. Employment growth of 1.1 percent was about a third the 1994 pace and slightly below the district average. With the slower pace of job formation, the state's unemployment rate climbed to 5.1 percent in the third quarter from 4.3 percent in the fourth quarter of 1994. Income growth also slowed somewhat in 1995 but still remained above the district average.

With the state's economy slowing overall, employment gains in services and trade were decidedly more modest than in 1994. Still, trade employment grew at a 2.3 percent rate, leading all other sectors. Most of the growth in the trade sector occurred in retail establishments, anchored by the booming tourism trade of southern Missouri. Services employment edged up only slightly after a strong gain the year before.

Growth in Missouri's construction industry slowed in 1995, following gains that outpaced all other sectors in 1994. The construction slowdown was caused by a dip in residential construction activity. The number of new housing permits issued in the state during the first three quarters was down about 15 percent compared with the same period in the previous year. Activity in other kinds of construction projects picked up, however, with strong gains in the value of new contracts for commercial and public works projects. Overall, construction employment rose 1.2 percent, about an eighth of the 1994 gain.

Manufacturing was flat in Missouri in 1995 after a strong gain in 1994. The Missouri economy is more industrial than the other district states, with a larger share of its employment base in manufacturing. Thus, the flat manufacturing performance was a key factor in the state's overall slowdown. Employment in the state's durable goods industries rose at a modest 1.5 percent rate during the first three quarters of 1995. But that gain was offset by employment losses in the nondurables industries.

The Missouri economy should continue to grow moderately in 1996. A modest upturn in homebuilding after the dip in 1995 should strengthen construction activity somewhat, while commercial and public works projects should increase steadily. The state's big manufacturing sector should stay on track. Models produced in the state's automobile plants have generally been selling well, which may help cushion the local plants from a possible cutback in national production. Gradual improvement in the global economy should also support export demand for the state's manufactured products. Steady gains in wage and income growth, in turn, should lead to modest growth in the services and trade sectors, with the strong tourism trade in the Branson area leading the state.

Nebraska

The Nebraska economy grew only slightly in 1995, much slower than in 1994. Employment was virtually flat, after a solid gain of nearly 4 percent the previous year. Growth in real personal income also slowed sharply to a 1 percent rate, well below the district average. The state's unemployment rate declined further to only 2.3 percent in the third quarter, remaining the lowest in the nation.

The chief engine of growth in Nebraska in 1995 was the services sector. Services employment climbed at a moderate 2.1 percent pace during the first three quarters, down sharply from the strong 5.8 percent gain in 1994. Trade employment was almost flat, with a slight uptick in employment in retail establishments offsetting modest employment losses in wholesaling. Some evidence suggests part of the gain in retail employment was due to a shift of retail workers to large chain stores from small, rural, family-owned stores that were not previously counted in the employment data.

The expansion in Nebraska's manufacturing sector continued in 1995, albeit at a slower pace. Overall manufacturing employment in the state rose 1.1 percent, less than a fourth of the pace in 1994. Most of the job gains were in the nondurables industries, while employment was up only slightly among durable goods manufacturers.

Nebraska's construction sector sagged in 1995. The total value of construction contracts established during the first three quarters of the year, including residential, commercial, and public works projects, dropped about a fifth compared with the same period in 1994. The only positive indicator of construction activity was an uptick in permits issued for multifamily home construction. Overall construction employment fell 8 percent, a big reversal from a 6 percent gain in 1994. These data for the first three quarters of the year, however, may overstate the decline in Nebraska's construction sector, since a wet spring delayed some construction activity until later in the year. Data for the entire year may subsequently show flat to slightly higher construction employment in the state.

The Nebraska farm economy was battered by rough weather and weak cattle prices in 1995. A wet spring and early autumn frost trimmed the state's corn and soybean crops by a fourth compared with the previous year's big crops. In contrast, the Nebraska wheat crop was one of the best on record, about a fifth larger than the 1994 crop. A surge in crop prices as the fall harvest wound down generally offset the shortfall in the corn and soybean crops, while boosting profits for wheat producers. Profits remained lean at best in the Nebraska cattle industry, however, which accounts for about half of all farm product sales in the state. Weak prices for fed cattle and rising feed costs encouraged cattle feeders to bid less for the young cattle raised in the Nebraska Sandhills. With losses accumulating, some Nebraska ranchers will likely trim herds or go out of business in the year ahead. Many other producers will weather the hard times, cushioned by balance sheets that have been strengthened by a string of solid financial gains in previous years.

In 1996, the Nebraska economy is likely to stay on the moderate growth track that emerged in 1995, with perhaps a slight further slowing. The services sector will probably again be the fastest growing in the state economy, anchored by gains in the Lincoln-Omaha corridor. Both durables and nondurables industries, supported by gains in the state's big food processing industry, may contribute to further modest gains in manufacturing employment. Construction activity will probably remain stable after the transition to slower growth in 1995. Overall, growth in the state economy may be constrained by the state's difficulty in maintaining a pool of available workers, as suggested by the state's unusually low unemployment rate.

Wyoming

The Wyoming economy was flat in 1995. Growth in both employment and income stalled after solid gains in 1994. Despite the slowdown in job growth, the unemployment rate shrank to an average of 4.4 percent in the third quarter of 1995 from 4.9 percent in the fourth quarter of 1994.

Widespread sluggishness affected most sectors of the Wyoming economy. Construction employment was flat after an 8.5 percent surge the year before. The only gain in construction activity was in commercial projects, where the total value of contracts established during the first three quarters of the year was up about a third compared with the same period in 1994. But homebuilding and public works activity sagged.

The services and trade sectors reflected the generally lackluster performance of the state economy. Employment at retail establishments declined slightly, despite a healthy tourism season, while the much smaller work force at wholesale establishments grew slightly. Services employment edged down, after a strong gain in 1994.

The mining sector, which accounts for a bigger share of employment in Wyoming than in any other state in the nation, was generally stable, with employment sagging only slightly. Exploration and drilling activity declined, however, with the average number of drilling rigs operating in the state during the first three quarters of the year down nearly a third compared with the same period in 1994. The decade-long drop in Wyoming's crude oil production continued during the first half of the year, but natural gas production climbed slightly and coal production was up nearly 9 percent. Soda ash, or trona, production in the Green River area also rose, after several years of flat production.

Slow growth appears likely for the Wyoming economy in 1996. The state's slow but steady diversification from its old energy base will continue, as manufacturing and services gradually become more important components of the Wyoming economy. Further moderate growth in the national economy should support a healthy tourism industry, in turn bolstering the important trade sector. But the mining industry is likely to generate few additional jobs, despite further gains in natural gas and coal production.

SUMMARY

The expansion in the Tenth District economy slowed to a more moderate pace in 1995 after vigorous growth in 1994. The pattern of job gains in the district showed a sharp drop in the spring and then a rebound entering the second half of the year. Thus, data for the entire year, which are not yet available, may show somewhat stronger gains than current estimates, which are based on data through the third quarter. While economic activity downshifted in all seven district states, employment growth in the district still matched the national average. All of the district's primary economic engines scored more modest gains in 1995 than in 1994, including construction, manufacturing, trade, and services. Mining activity remained sluggish, and financial losses in the cattle industry held down farm incomes.

Further growth appears in store for the district economy in 1996, with only a slight further slowing from the moderate pace that emerged in 1995. Construction activity may strengthen modestly, as homebuilding rebounds somewhat from its 1995 dip. District manufacturing activity may edge down slightly, as the national economy levels off at a moderate growth rate. Moderate growth in the national economy should, in turn, provide a solid foundation for further modest gains in business services and trade. The energy industry will likely remain stable, providing few gains in business activity in the communities that still depend on it. The outlook for the district farm economy is brightened by higher crop prices, although profits will probably remain weak in the cattle industry.

ENDNOTES

[1] This article assesses district economic performance using the most recent data available at the time of writing. Preliminary employment data are available for the first three quarters of 1994; income data for the first two quarters. Other data are available for various time periods. The article emphasizes employment data more than income data because they provide an additional quarter of information about economic performance in 1995.

[2] In this article, all discussions of employment growth are based on growth in 1994, calculated from the fourth quarter of 1993 to the fourth quarter of 1994, and growth in 1995, calculated as the annual rate of change from the fourth quarter of 1994 to the third quarter of 1995. 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] In this article, all discussions of income growth are based on growth in 1994, calculated from the fourth quarter of 1993 to the fourth quarter of 1994, and growth in 1995, calculated as the annual rate of growth from the fourth quarter of 1994 to the second quarter of 1995. The income data are seasonally adjusted real nonfarm personal income data obtained from Data Resources, Inc.

[4] These preliminary estimates of 1995 fund balances and general fund expenditures are from the National Governors' Association.

REFERENCES

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