The Tenth District Economy: Picking Up the Pace

By Tim R. Smith

The Tenth District economy improved overall during 1993 thanks to a booming construction sector and healthy growth in services. The district's gain was uneven, however, because other major sectors of the region's economy remained mixed. The agricultural and mining sectors were flat, while manufacturing continued to struggle.

Economic performance diverged considerably across the seven district states. The New Mexico economy surged due to strong growth in construction and services. Oklahoma, Colorado, and Kansas also recorded strong growth, but Missouri, Wyoming, and Nebraska did not fare as well. Weak manufacturing continued to buffet Missouri, and sluggish trade and service sectors hampered growth in Wyoming and Nebraska.

The district economy in 1994 will probably improve slightly as the national economy continues to strengthen. District manufacturing should improve somewhat, but construction may slacken from its recent vigorous pace. The district should not expect to gain additional strength from two of the region's key industries—agriculture and energy. Overall, the district economy is expected to grow moderately in 1994.

This article reviews the district's economic performance in 1993 and explores the outlook for 1994. The first section compares the overall performance of the district and the nation in 1993. The second section focuses on the recent performance and outlook for the district's key industries. The third section surveys the divergent growth pattern across district states in 1993 and discusses each state's outlook for the year ahead.

THE DISTRICT ECONOMY ACCELERATES IN 1993

Growth in the district economy accelerated in 1993. But despite the improvement, the district economy was unable to maintain its lead over the national economy as the nation's expansion gathered momentum.[1]

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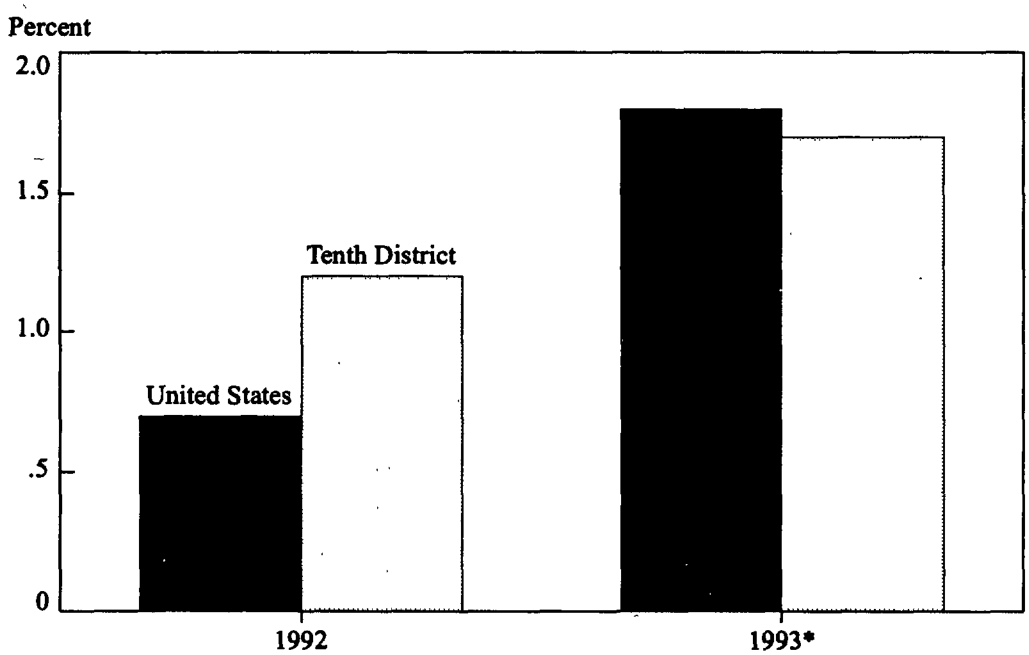
Chart 1
Growth in Nonagricultural Employment
U.S. and Tenth District



*First three quarters, seasonally adjusted annual rates.
Source: Bureau of Labor Statistics.

The strongest evidence of improvement in the district economy comes from employment growth, a broad measure of economic performance. Nonfarm employment in the district grew 1.7 percent in 1993, a half percentage point more than in 1992 (Chart 1).[2] National employment growth was 1.8 percent. The average civilian unemployment rate in the district for the first three quarters of 1993 stood at 5.6 percent, well below the nation's 6.9 percent rate.

Real personal income growth, another broad measure of economic performance, paints a less sanguine picture of the district economy. Real nonfarm personal income grew just 0.3 percent in the first half of 1993, much slower than the 4.1 percent gain recorded in 1992 (Chart 2).[3] Yet even this small gain in the district's real income compared favorably with the nation's real income, which declined in 1993.

The rise in district employment in 1993 was not shared evenly among district states. Jobs grew faster in 1993 than in 1992 in New Mexico, Oklahoma, Kansas, and Missouri (Chart 3). Job rolls continued to grow in Colorado, but not quite as fast as in 1992. In Wyoming, the already slow pace of job growth lost even more steam. And in Nebraska, employment ebbed slightly after rising in 1992.

Growth in real nonfarm personal income also ranged widely across district states. Only New Mexico had stronger growth in 1993 than in 1992 (Chart 4). Income growth slowed or stayed the same in Wyoming, Colorado, Nebraska, and Oklahoma, while it fell in Missouri and Kansas.

REVIEW AND OUTLOOK BY SECTOR

The Tenth District has a rich mix of industries, which helped it achieve moderate growth in 1993 (Table 1). The strongest force behind the district economy was construction. The service and trade sectors also helped the district add jobs during the year. The mining sector stabilized due to a pickup in natural gas drilling. The farm economy was steady overall, despite uneven conditions across district states brought by flooding. In the government sector, strong job growth at the state and local levels balanced losses at the federal level. The manufacturing sector continued to lose jobs in 1993, but losses were less severe than during the previous year.

Growth in the national economy remained sluggish in the first half of 1993, but then picked up. The national economy in 1994 may slacken somewhat from its robust yearend pace, but it still is expected to grow moderately.[4] The district economy is unlikely to outperform the national economy, but most sectors of the district economy will benefit from improvement nationwide.

District *construction* activity swelled in 1993, lifting economic performance across the region. District construction jobs grew 5.9 percent, following a 4.6 percent gain in 1992. The strong job gain in the district was a full two percentage points higher than in the nation. The value of district construction contracts awarded in the first three quarters of 1993 was up slightly from the already high value recorded in the same period a year earlier. Continued strong activity in homebuilding accounted for the recent strength in the region.

Spurred by lower mortgage interest rates and population growth in the mountain states, residential construction in the district rose sharply in 1993 after another sharp jump the previous year. Most of the activity in residential construction remained in single-family dwellings, while multifamily construction was sluggish. All indicators of residential construction activity were markedly stronger in the district than in the nation.

By contrast, nonresidential construction across the region was flat in 1993. Office vacancy rates fell significantly in all major district cities, some of which were previously plagued with an overhang of office space. Yet vacancy rates did not fall enough to stimulate commercial building. In fact, the value of nonresidential con-

Table 1

Growth in Nonagricultural Employment by Sector, Tenth District States

	Percent change	
	1992*	1993**
Manufacturing	-1.2	-.8
Durable goods	-2.5	-2.2
Transportation equipment	-2.9	-12.3
Nondurable goods	.5	1.1
Food processing	-.1	1.6
Printing and publishing	.8	1.0
Mining	-8.5	.0
Construction	4.6	5.9
Service	2.8	2.3
Wholesale trade	.7	.4
Retail trade	.8	1.7
Federal Government	-.3	-2.7
State and local government	2.5	3.4
Transportation	-.6	1.7
Finance, insurance, real estate	.8	1.3

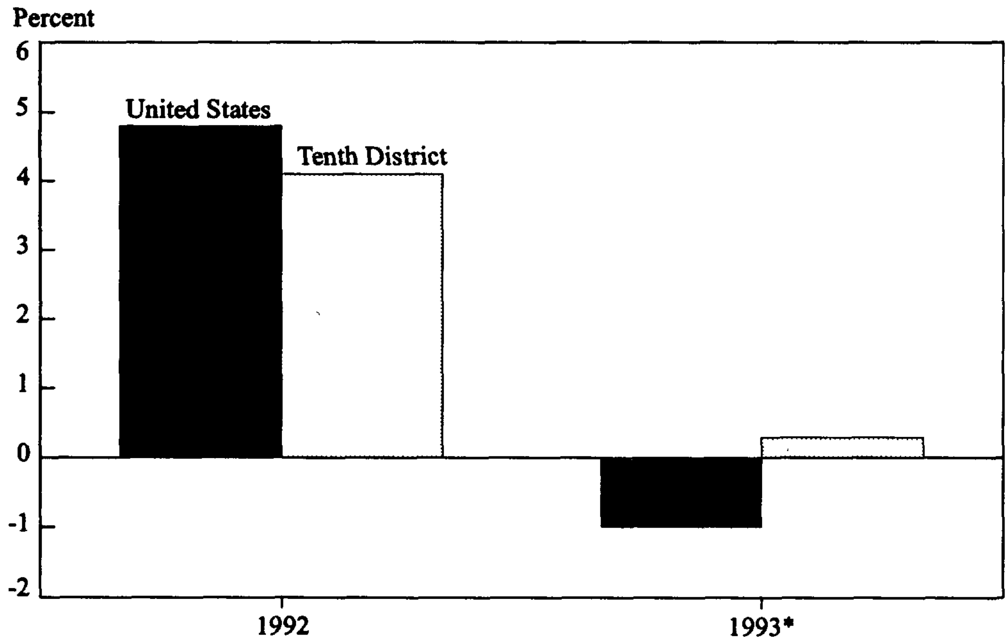
* From fourth-quarter 1991 to fourth-quarter 1992.
**First three quarters, seasonally adjusted annual rate.

Source: Bureau of Labor Statistics.

Chart 2

Income Growth

U.S. and Tenth District



Notes: Income growth rates are based on real nonfarm personal income. For 1993, annualized growth rates reflect only seasonally adjusted data through the first two quarters.
Source: Data Resources, Inc.

tract awards in the first three quarters of 1993 was 3.7 percent lower than the same period a year earlier. In the nation, the value of nonresidential building contracts fell 7.1 percent.

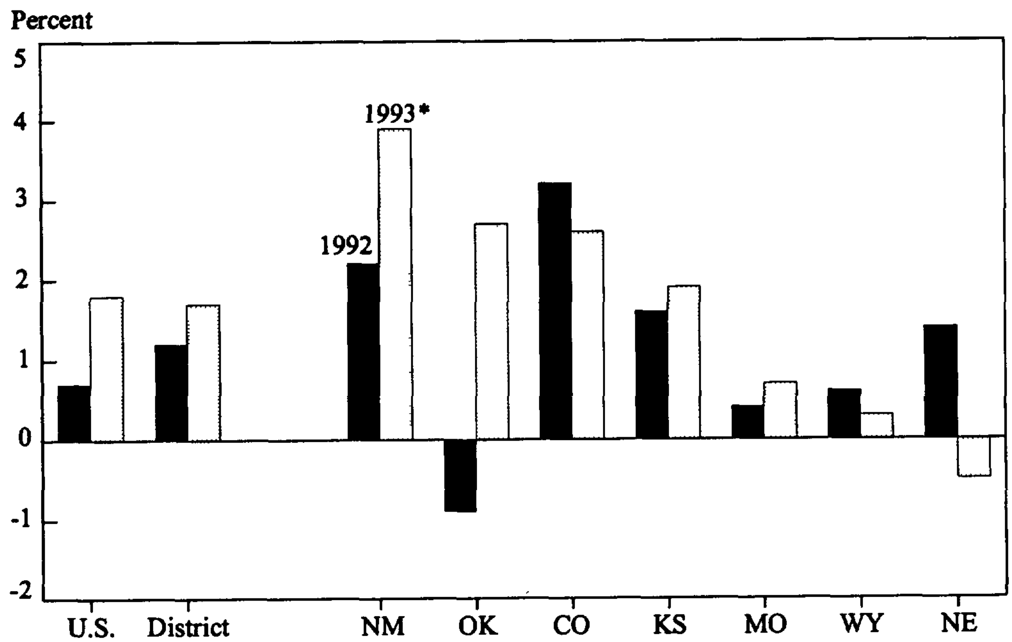
Construction activity probably will expand again in 1994, but at a slower pace. High inventories of new homes may curb homebuilding in some parts of the region, but inmigration will continue to propel activity in the mountain states. While office vacancy rates have fallen across the district, they remain generally high enough to limit gains in commercial building. The Denver International Airport has been a big boost to district nonbuilding and nonresidential construction, but the completion of this massive public project in early 1994 will eliminate thousands of construction jobs. Some of these layoffs will be offset by robust residential building in the district's mountain states.

The *service and trade* sectors were solid forces in the district economy in 1993. Although slipping some from its 1992 pace, service job growth remained healthy (Table 1). The district added service jobs at a rate two percentage points below the nation. Business and health services flourished in some parts of the district, such as the Kansas City suburbs and the metropolitan areas of the mountain states. Tourism—centered

Chart 3

Growth in Nonagricultural Employment

Tenth District States



*First three quarters, seasonally adjusted annual rates.
Source: Bureau of Labor Statistics.

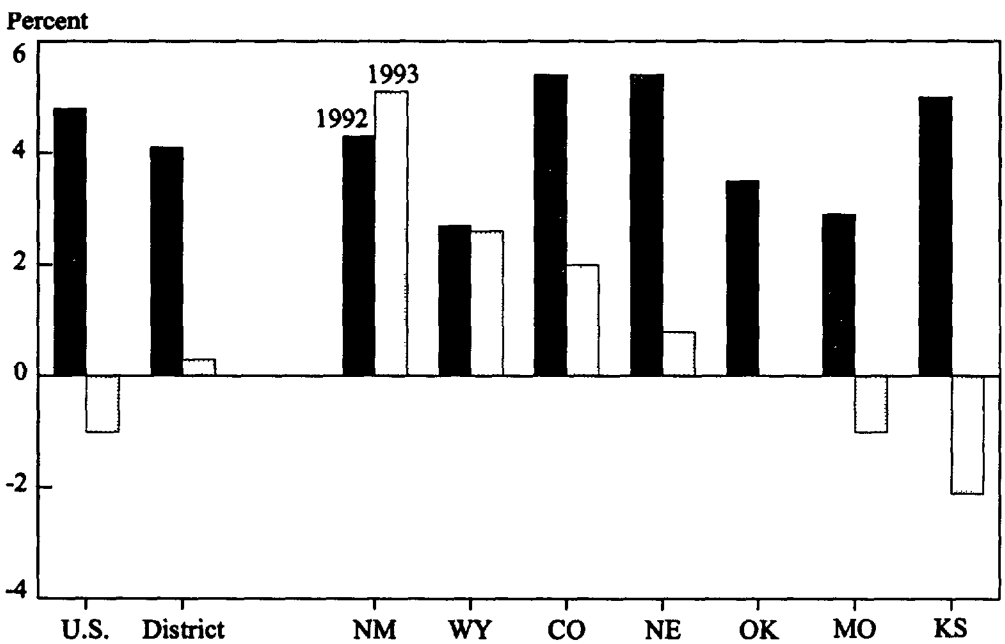
in the Rocky Mountains and southern Missouri—helped boost both service and retail establishments in the region. Although growth in wholesale jobs slowed in 1993, growth in retail jobs returned to a moderate pace, reflecting the overall gains in the district economy.

If the national economy continues to improve, the district's service and trade sectors may grow somewhat faster in 1994. Business and health services are expected to continue bringing new jobs to the region. Moreover, tourism and expansion of discount retail establishments, such as Wal-Mart, will probably boost retail trade.

The district *mining* sector leveled off in 1993. After several years of decline, mining employment held steady as natural gas drilling and production propped up the energy industry (Table 1). Meanwhile, nationwide mining employment continued to decline.

The region's mining sector is dominated by energy activity, which turned in a mixed performance in 1993. Preliminary data for the first half of 1993 suggest that crude oil production in the district continued to slide, as it did across the nation's other oil-producing regions. By contrast, district coal production jumped 2.8 percent in the first ten months of 1993, after rising only slightly the previous year.

Chart 4
Growth in Income
Tenth District States



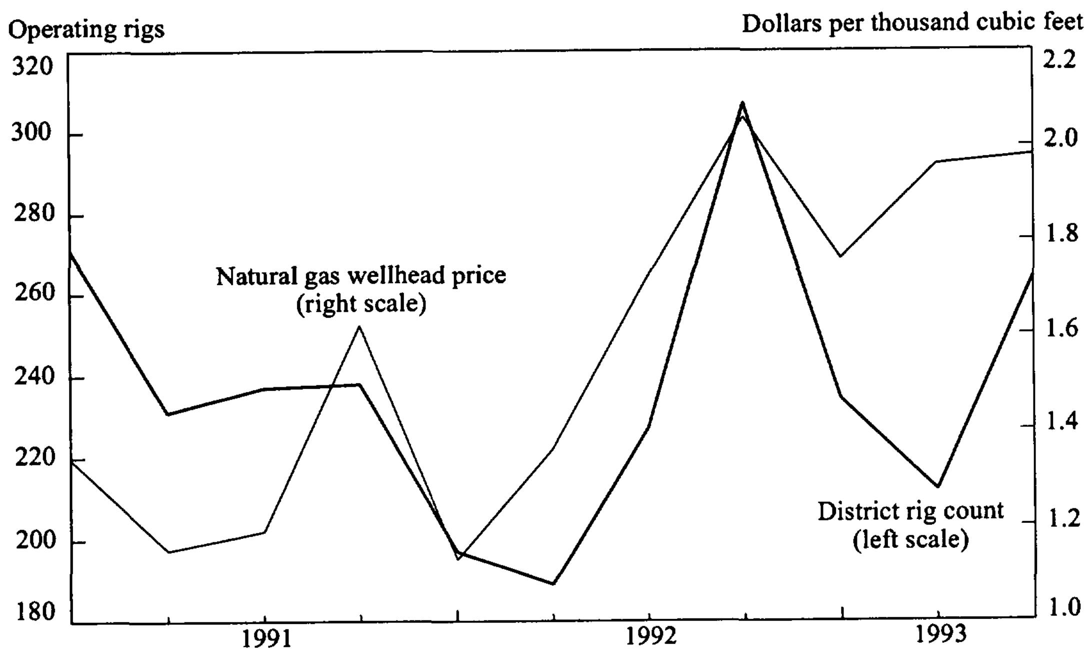
Notes: (See notes, Chart 2.)
Source: Data Resources, Inc.

The primary force in the district's mining sector in 1993 was natural gas. Natural gas prices rose sharply in 1992 and remained high this past year, boosting drilling activity in the region (Chart 5). After tax credits for coal-seam methane gas expired at the end of 1992, the average number of gas and oil drilling rigs operating in the district fell. Drilling activity began to pick up again in April 1993, and throughout the summer the rig count averaged about 20 percent higher than year-earlier levels.

The district's energy industry appears to have stabilized. Despite being a large producer of oil, natural gas, and coal, the region has relatively few energy jobs. Therefore, the sizable job losses of past years will not be repeated; nor is mining employment likely to grow appreciably in 1994. The district's output of low-sulphur coal may increase due to environmental regulations that encourage its use, but productivity improvements will continue to limit job gains. Moreover, oil exploration and development probably will continue to trend downward with weak oil prices in prospect. While environmental concerns and new pipelines will continue to support the region's natural gas producers, drilling for natural gas may subside somewhat if natural gas prices fall with oil prices in the year ahead.

The district's *farm* economy was steady overall in 1993, but flooding created uneven performance across the district states. Farm income

Chart 5
Natural Gas Wellhead Price and District Rig Count



Source: Hughes Tool Company and *Oil and Gas Journal.*

improved slightly, but flooding left some regions with much lower income than in 1992. Hardest hit were areas in the eastern part of the district, especially in Missouri. Parts of the district that harvested normal crops benefited from the higher crop prices. Meanwhile, the district's cattle industry turned in another good year.

The district's farm economy should hold steady again in 1994 (Drabenstott and Barkema). A return to normal crops will restore farm incomes in the areas hit hardest by harsh weather and flooding. But profits in the livestock industry may be squeezed by higher feed costs. Despite the unevenness, the district's farm sector will remain financially healthy overall.

The district's important *government* sector remained stable overall in 1993. Substantial job gains at the state and local levels offset large job losses at the federal level (Table 1). The net result was an increase in total government employment of 2.4 percent.

While government jobs grew in all district states except Wyoming, the fiscal health of the individual states varied widely in 1993. The size of a state's general fund balance in relation to its spending provides a simple measure of fiscal health. By this measure, fiscal conditions in 1993 improved in Colorado, Kansas, and Missouri while conditions deteriorated in Nebraska, New Mexico, Oklahoma, and Wyoming. Fund balances remained above 5 percent in five states, a level of reserves generally considered desirable.[5]

The government sector will probably grow even more slowly in 1994. Defense spending cuts will continue to curtail federal government employment, particularly in states where military hardware is manufactured. State and local government employment may continue to increase in 1994 as improved economic conditions bring more favorable fiscal conditions. As a percent of general fund spending, fund balances are projected to be larger in five district states in 1994. And six district states are expected to maintain balances greater than 5 percent of spending (National Governors' Association).

Manufacturing activity improved somewhat in 1993, but still remained a drag on district job growth. The total number of manufacturing jobs slipped 0.8 percent, after dropping 1.2 percent the previous year (Table 1). In both years, the district lost manufacturing jobs at a slower rate than the nation.

The weakest segment of the region's manufacturing sector remained durable goods production. Jobs in the district's important transportation equipment industry dropped sharply, due to continuing layoffs at manufacturers of military aircraft and a new round of layoffs at Boeing's commercial aircraft assembly facility in Wichita. These layoffs overwhelmed small gains in general aviation manufacturing, which saw a pickup in domestic and foreign sales of business aircraft. Dollar sales of general aviation aircraft in the first three quarters of the year rose almost 4 percent, reversing a decline in 1992. Automobile and light truck assembly plants in the district also increased production during the 1993 model year, but the rate of increase in the region was much smaller than in the nation.

Nondurables manufacturing helped offset the weakness in durables manufacturing in the district by posting slow, steady growth in 1993. Food processing, the region's largest nondurables industry, added jobs at a rate of 1.6 percent in 1993, reversing a slight decline in 1992. Another important nondurables industry—printing and publishing—added jobs at a moderate pace in 1993.

The district's manufacturing base should improve further in 1994, but job gains will probably be limited. While the automobile industry may benefit from more consumer spending nationwide, the aircraft industry will remain hampered by defense spending cuts and ailing commercial airlines. Moreover, productivity growth is high for most manufacturers, permitting production increases with limited job gains.

DIVERGENT PERFORMANCE IN DISTRICT STATES

Economic growth improved on average in the district in 1993, but individual states did not share equally in the regional gains. Employment growth picked up in New Mexico, Oklahoma, Kansas, and Missouri but slowed in Colorado, Wyoming, and Nebraska.

New Mexico

The New Mexico economy surged ahead of the other district states in 1993. Employment in the state increased 3.9 percent, up from 2.2 percent in 1992 (Chart 3). Despite robust job growth, an expanding labor force pushed the state's unemployment rate from 6.4 percent at the end of 1992 to 7.4 percent in the third quarter of 1993. Growth in wages, salaries, and transfer payments propelled New Mexico's growth in nonfarm personal income well above growth in other district states.

Construction activity led the growth in the New Mexico economy in 1993. The total value of construction contracts awarded in the first three quarters soared 17.6 percent above the same period in 1992. As a result, construction employment grew more than three times faster than the previous year. The large gains were driven by single-family homebuilding and industrial construction.

New Mexico's mining sector also helped boost the state economy in 1993. Employment in this important sector increased sharply, reversing a steep decline the previous year. Most of the gains in the state's mining sector came from natural gas, where higher prices and improved pipeline access to important western markets boosted production and drilling activity. The average number of drilling rigs operating in the state during November was up 23.3 percent from a year earlier. Coal production also surged during the year, up 16.8 percent in the first ten months from the same period a year earlier. In contrast, low prices brought layoffs to the state's potash industry.

The manufacturing sector staged a solid recovery in New Mexico during 1993. Factory jobs rose sharply following a modest decline in 1992. Durables and nondurables industries both added jobs, but most of the strength came from durables, which are dominated by the state's high-technology manufacturers. The $1.5 billion expansion at Intel's microchip manufacturing plant in the Albuquerque area—one of the nation's largest industrial expansions—is clear evidence of the turnaround in manufacturing underway in New Mexico.

The overall strength of the New Mexico economy fueled the state's trade and service sectors. Both wholesale and retail trade added jobs at a healthy pace. And employment in services surged, led by social, health, business, and educational services. The state's buoyant tourism industry also remained a source of strength.

In 1994, New Mexico's economy is expected to continue its rapid expansion. A housing shortage in Albuquerque and strong industrial expansion will continue to boost construction activity. Service employment should continue to benefit from tourism and Medicaid-related spending on health care in the state. Some uncertainty surrounds the future effects of the defense build-down on the New Mexico economy, but the state has escaped major defense spending cuts so far.

Oklahoma

The Oklahoma economy improved in 1993 from a lackluster performance the previous year. The clearest evidence of improvement is employment growth of 2.7 percent, a turnaround from the modest decline in 1992 (Chart 3). On the other hand, growth of real nonfarm income was flat (Chart 4). The civilian unemployment rate increased from 5.1 percent at the end of 1992 to 6.2 percent in the third quarter of 1993.

Oklahoma's construction sector benefited from lower mortgage interest rates and a general improvement in state economic conditions. Construction employment jumped 2.4 percent in the first three quarters of 1993, after declining slightly in 1992. Data on construction contracts and housing permits not only reflect robust construction activity but also suggest most of the strength was in single-family housing.

Mining activity in Oklahoma stabilized in 1993 but remained low by historical standards. After several years of trending downward, mining employment increased, due primarily to renewed interest in natural gas. In contrast, declining oil prices continued to depress oil production and exploration. Preliminary data for 1993 suggest production of natural gas rose slightly, while oil production continued its downward slide. Overall, the average number of drilling rigs operating in the state in the third quarter edged up to 99 from 91 a year earlier.

Oklahoma's manufacturing sector improved during 1993 but failed to stage a meaningful recovery. Factory employment was flat, compared with a 1.8 percent decline in 1992. The only employment gains came from the state's nondurable goods plants. Meanwhile, the state's durable goods industries continued to suffer job losses. While durables manufacturing was generally weak, auto production increased slightly. The Oklahoma City General Motors plant stepped up production by 5 percent during the 1993 model year, following a 34 percent jump the previous year.

The trade and service sectors improved markedly, in step with the overall improvement in the state economy. Employment in retail and wholesale trade increased 3.7 percent in the first three quarters of 1993, reversing a moderate slide the previous year. Growth in service employment also jumped in 1993 from an anemic pace in 1992. Moreover, large gains in state and local government employment pushed job growth in the government sector well ahead of its 1992 pace.

The Oklahoma economy in 1994 may not sustain the same rapid pace it achieved in 1993. The state's increasingly diversified economy will benefit from expansion in the national economy. Agriculture will remain a steady force, and the momentum in homebuilding probably will continue through at least the first half of the year. But prospective weakness in oil prices will limit further gains in the mining sector. As in other states, recovery in the manufacturing sector will be hampered by sluggish exports, restructuring, and defense spending cuts.

Colorado

Colorado's economy grew at a healthy pace in 1993, but slowed somewhat from rapid growth in 1992. Both employment and income growth fell from their 1992 rates (Charts 3 and 4). Despite the slowdown, employment grew fast enough to lower the state's unemployment rate from 5.8 percent at the end of 1992 to 5.5 percent in the third quarter of 1993. Meanwhile, the labor force continued to expand as people moved into the state from struggling regions such as California.

Construction remained the strongest sector of the Colorado economy during 1993. Construction jobs grew 12.7 percent in the first three quarters, up from 9.8 percent in 1992. As in 1992, the strength was spread across all parts of the sector. Strong population growth and low mortgage interest rates boosted residential construction. And ongoing construction at Denver International Airport continued to fuel nonresidential and nonbuilding construction.

Colorado's manufacturing sector remained weak in 1993. Employment in the state's factories slipped 0.5 percent, following a similar decline in 1992. Job losses were confined to durable goods industries. Nondurable goods industries added jobs at a moderate pace.

While the mining sector stabilized in several district states during 1993, Colorado's mining sector continued to shrink. The state's mining employment dropped 3.4 percent, following a much bigger drop the previous year. The average number of drilling rigs operating in the state fell in the first part of 1993 but increased in the third quarter, probably due to a rise in natural gas exploration and development activity. Despite the recent increase, drilling activity remained nearly 14 percent below its year-ago level.

Trade and services benefited from the overall strength in the Colorado economy. A record 1992-93 ski season, strong summer tourism, and the Pope's visit helped retail trade and services add jobs at a moderate pace. These sectors were also helped by the arrival of major league baseball in Denver. Observers credit the Colorado Rockies with creating 3,000 new jobs in 1993. The strong regional economy continued to fuel growth in business services, and the Denver International Airport project supported growth in engineering services.

The Colorado economy is likely to slow somewhat in 1994 but will continue to grow moderately. Nonresidential and nonbuilding construction will drop off with the completion of the Denver airport, but strong population growth should continue to boost homebuilding. Federal government employment will continue to shrink with federal budget cuts. Moreover, the effects of Amendment 1, which requires voter approval of state and local spending increases, will begin to constrain growth in state and local government. The state's manufacturing sector may pick up if national consumer markets improve significantly. Trade and services are expected to remain strong overall, but the repeal of the tourism tax used for advertising may limit gains in industries linked to recreation.

Kansas

The Kansas economy sent mixed signals in 1993. Although preliminary data show a decline in real personal income, employment grew 1.9 percent (Charts 3 and 4). Despite the moderate employment growth, the state's unemployment rate increased to 4.8 percent in the third quarter from 4.2 percent at the end of 1992.

One of the reasons for the improvement in employment growth in 1993 was solid construction activity. The total value of construction contracts awarded in the first three quarters fell somewhat from the same period in 1992, but the decline was concentrated in nonresidential building. Homebuilding and public infrastructure construction continued at a healthy pace. As a result, construction employment advanced 3.7 percent in 1993, following a similar increase in 1992.

The service sector remained a source of strength in the Kansas economy but slowed considerably in 1993. Employment in Kansas service industries grew 1.9 percent, compared with 4.0 percent the previous year. Weak income growth may account for the slowing in services, particularly in Wichita, where thousands of high-paying manufacturing jobs were lost.

Kansas manufacturing remained weak in 1993. Massive layoffs at Boeing's Wichita assembly plant dealt a blow to the state's durables industries. In addition, new car production fell 2.8 percent at the Kansas City General Motors plant during the 1993 model year after increasing 17.9 percent the previous year. Net billings for general aviation aircraft, on the other hand, increased in the first three quarters of the year compared with the same period a year earlier. Nondurables industries—dominated by food processing—also fared much better, adding jobs at a healthy pace.

Employment in the Kansas mining sector continued to slide in 1993. Mining employment fell 6.6 percent, after an even sharper decline the previous year. Higher natural gas prices spurred a gradual increase in drilling activity, with the average number of active drilling rigs increasing from 24 in the first quarter to 33 in the third quarter. Nonetheless, the state's rig count remained slightly below its level a year earlier.

The Kansas economy will probably maintain moderate employment growth in 1994, but income growth may be weak as the state's manufacturing sector continues to struggle. Food processing should remain a bright spot as it benefits from an improving national economy. Higher crop prices are likely to help the state's crop growers in 1994 but will lead to higher feed costs for livestock producers. The state's natural gas fields may see some increase in activity, but those gains will probably be offset by lower oil prices. Construction will likely continue to lend strength to the state's economy, and growth in services will probably level off at a moderate rate.

Missouri

The Missouri economy remained sluggish in 1993. Growth in employment was a modest 0.7 percent, up slightly from 1992 (Chart 3). Despite the small advance in employment growth, real personal income fell in 1993 after achieving moderate growth the previous year (Chart 4). Moreover, the state's unemployment rate climbed from 5.7 percent in 1992 to 6.3 percent in 1993.

One contributing factor in Missouri's sluggish performance was the summer flood. Flooding ravaged parts of the state along the Missouri and Mississippi rivers and their tributaries. While rail and highway transportation was interrupted for a short time, the brunt of the disaster fell on the state's farmers. The Missouri corn crop was down 34 percent from 1990-92 average yields. On the other hand, rebuilding in the late summer and fall after the floods helped boost construction activity in the state.

Notwithstanding the flood's impact, the manufacturing sector was chiefly responsible for constraining the Missouri economy. The rate of job loss at the state's factories worsened in 1993, with most of the deterioration in the important durable goods industries. Defense spending cuts continued to batter the aerospace industry, and weak exports hampered other durable goods producers. One exception was production of automobiles and light trucks, which increased slightly during the 1993 model year on the heals of a big increase the previous year.

Construction activity continued to support the Missouri economy in 1993. The value of construction contracts awarded in the first three quarters increased somewhat from the previous year. Some of the gain in homebuilding and nonresidential construction can be attributed to rebuilding after the summer floods. While construction contracts suggest a solid construction sector in Missouri, they led to only a moderate number of new jobs. Construction employment rose only 1.8 percent in 1993, following a 4.1 percent jump in 1992.

Missouri's trade and services sectors were lackluster in 1993. Wholesale and retail employment grew slightly, reflecting the overall sluggishness in the state economy. Service employment fared somewhat better, but still grew much more slowly than in the nation and in most other district states. Booming tourism in southern Missouri continued to prop up the state's retail trade and service sectors.

The Missouri economy is unlikely to improve substantially in the year ahead. Improvement in the state's flood-battered farm sector should help the economy, and improved economic conditions nationwide may boost the important manufacturing sector. Nonetheless, defense spending cuts will continue to depress the state's factory employment.

Wyoming

The Wyoming economy was steady but lackluster in 1993. Employment rose slightly, following modest growth in 1992 (Chart 3). The state's unemployment rate jumped to 5.9 percent in the third quarter from 4.9 percent at the end of 1992. Despite the sluggish job growth, Wyoming's nonfarm personal income surged in the first two quarters, outpacing all other district states except New Mexico.

The state's important mining sector remained stable in 1993. Strength in natural gas markets helped sustain drilling activity. Although the average number of operating oil and gas drilling rigs more than doubled during the first three quarters, the level of activity was just equal to the level a year earlier. Coal production increased 1.4 percent in the first ten months of 1993, reversing an unexpected decline in 1992. And strong construction activity in the nation continued to boost the state's production of soda ash—used in glassmaking.

Wyoming construction indicators were generally strong in 1993. The value of construction contracts awarded in the first three quarters jumped considerably from the previous year. Permits for single-family homes soared, as did contract awards for public structures. But these signs of strength in Wyoming's construction sector did not translate into new jobs. In fact, construction employment fell 5.9 percent following a similar drop in 1992.

The trade and service sectors reflected the lackluster state economy. Employment at retail establishments grew solidly, while employment at wholesale establishments fell. The solid growth in retail employment can be traced in part to strong tourism. Service employment, meanwhile, changed little from its 1992 level.

The Wyoming economy is expected to grow slowly in 1994. Higher feed prices may squeeze profits for the state's cattle ranchers, and slumping oil prices may put further downward pressure on oil drilling. But if natural gas prices remain relatively high, recently expanded pipeline capacity should continue to support activity in the state's natural gas fields. In addition, another year of strong tourism should prop up the state's trade and service sectors.

Nebraska

The Nebraska economy slowed in 1993. Employment fell slightly after a moderate gain in 1992 (Chart 3). Despite the dip in jobs, Nebraska's third-quarter unemployment rate of 2.5 percent remained the lowest in the district and was far below the national rate of 6.7 percent. The slower state economy was also reflected in sluggish income growth. Real nonfarm personal income grew much more slowly during the first half of 1993 than during the previous year (Chart 4).

Nebraska's non-goods-producing sectors slipped further in 1993. Employment in retail and wholesale trade fell 2.4 percent after a slight gain the previous year. Service employment also fell, reversing moderate growth in 1992. The weak employment picture possibly reflects the overall weakness in the rural parts of the state.

Nebraska's manufacturing sector grew solidly. Manufacturing employment jumped 2.3 percent. Job growth in nondurables industries, dominated by food processing, slowed somewhat but was offset by a considerable pickup in durables industries.

Construction helped buoy the Nebraska economy in 1993 but did not contribute nearly as much strength as the previous year. The total value of construction contracts in the first three quarters remained flat compared with the same period in 1992. A modest jump in homebuilding balanced declines in nonresidential and nonbuilding construction. The jump in homebuilding was strong enough to push up construction employment 3.0 percent, about half the increase of the previous year.

The Nebraska economy probably will improve in the year ahead. Some observers who expect the state's economy to grow moderately in 1994 believe the state economy is stronger than suggested by the 1993 employment data.[6] Improvement in the national economy should benefit the state's manufacturing sector. The service sector, which includes services such as telemarketing that are sold to customers outside the state, may also benefit from improving economic conditions elsewhere in the nation. While higher crop prices benefited the state's farmers in 1993, they will hurt profits of livestock producers in the year ahead.

SUMMARY

The Tenth District economy improved in 1993, but growth was uneven across economic sectors and states. Employment grew moderately while income growth was weak. Overall, economic performance in the district about matched that in the nation. While construction continued to boom, manufacturing faltered. The transportation equipment industry was hit particularly hard by defense spending cuts and a financially troubled commercial airline industry. Harsh weather and flooding hurt the farm economy in the eastern part of the district but brought higher crop prices and better incomes to other parts of the district. While the mining sector stabilized in 1993, it had little overall impact on the regional economy because of its small share of total employment.

As the national expansion gathers momentum in 1994, the district economy should continue to improve. A strengthening national economy is likely to help the region's manufacturing and service sectors. And expected population growth in the mountain states should lend continued support to the region's construction sector. As the imbalances caused by last year's flooding are corrected, agriculture should continue to provide a stable underpinning to the region's economy but contribute little additional growth. Lower oil prices may dim prospects for the region's energy industry. But potential losses in the energy sector will be offset by the positive effects of lower energy costs on the region's other industries.

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 1993; income data, for the first two quarters. Other data are available for various time periods. This article places more emphasis on employment data than on income data because it provides an additional quarter of information about 1993 economic performance.

2 Discussions of employment growth in this article are based on growth for 1992, calculated from the fourth quarter of 1991 to the fourth quarter of 1992, and growth for 1993, calculated as the annual rate of growth from the fourth quarter of 1992 to the third quarter of 1993. The employment data are from the Bureau of Labor Statistics, seasonally adjusted at the Federal Reserve Bank of Kansas City. While agriculture is an important sector of the district economy, nonfarm employment is used to measure district economic performance because the number of direct farm jobs is small and difficult to measure. Nonfarm employment, however, does capture the indirect effects of agriculture on other sectors of the region's economy.

3 Discussions of income growth in this article are based on growth for 1992, calculated from the fourth quarter of 1991 to the fourth quarter of 1992, and growth for 1993, calculated as the annual rate of growth from the fourth quarter of 1992 to the second quarter of 1993. The income data are seasonally adjusted real nonfarm personal income data from Data Resources, Inc. Income growth recorded in the second half of 1993 is expected to be much higher than in the first half. Therefore, first-half data are probably not good indicators of 1993 economic performance. This article emphasizes employment data which, although subject to revision, are more complete for 1993.

4 This view reflects the consensus estimate published in the December 10, 1993, *Blue Chip Economic Indicators*. The estimate is for real GDP growth of 2.8 percent in 1992 and 2.9 percent in 1993.

5 These estimates of 1993 fund balances and general fund expenditures are from the National Governors' Association. The five states with fund balances of 5 percent of general fund expenditures or above were Colorado, Kansas, Missouri, Nebraska, and Oklahoma.

6 The Labor Department made major revisions to the national employment data in June. Corresponding revisions to state data have not yet been made. Nebraska analysts expect a substantial upward revision, and upward revisions are possible in other district states.

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