The District Economic Outlook: Responding to Labor Shortages and Overseas Problems

By Ricardo C. Gazel and Chad R. Wilkerson

The Tenth District economy slowed down in 1998, with employment growing marginally below the national average. Despite very tight labor markets, employment growth remained healthy in many sectors. Construction; trade; transportation, communications, and public utilities; and finance, insurance, and real estate; all posted healthy gains. The manufacturing and service sectors, however, turned in weak growth, a result of the Asian financial turmoil and a shortage of skilled workers throughout the district.[1] District agriculture had a difficult year, as commodity prices plunged in the face of rising supplies and weakening demand. A large aid package from Congress late in the year, however, prevented farm incomes from being considerably less than in 1997.

Ricardo Gazel is a senior economist in the Federal Reserve Bank of Kansas City. Chad Wilkerson is a research associate at the bank. *This article benefited from discussions held at the bank's Regional Economic Roundtable in November 1998. The Roundtable was attended by David Black (Wyoming Department of Administration and Information), Norman Clifford (University of Kansas), F. Charles Lamphear (University of Nebraska-Lincoln), Brian McDonald (University of New Mexico), Dan Rickman (Oklahoma State University), and Richard Wobbekind (University of Colorado). This article is on the bank's Website at* ***www.kc.frb.org****.*

Colorado led the district in employment growth in 1998 with another strong year, followed by Oklahoma and Kansas. Faced with one of the tightest labor markets in the country, Nebraska job rolls grew at less than two-thirds of their 1997 pace. Job growth in New Mexico was relatively stable, only slightly below the rate registered the previous year. Wyoming and Oklahoma were the only district states to experience higher employment growth in 1998 than in 1997, although job gains in Wyoming were still below the district average. Missouri ranked last among district states in employment growth, with the weak economic performance caused mainly by job losses in manufacturing and marginal growth in the service sector.

The district economy is likely to slow further in 1999, growing only modestly compared with the recent past. The expected slowdown of the national economy, continued economic weakness in the rest of the world, and very tight labor markets throughout the district are all likely to play major roles in the district economic slowdown. Some sectors of the district economy, such as manufacturing and mining, are likely to be hurt more than others in the near future. The service sector is likely to repeat its weak 1998 performance, while a reduction in consumer spending will slow growth in retail and wholesale trade in 1999**.** Construction activity may weaken a bit in 1999, and the district farm economy is likely to face a difficult year unless the government acts to further boost subsidies.

I. ASIAN TURMOIL AND TIGHT LABOR MARKETS SLOW GROWTH IN 1998

The district economy grew modestly in 1998, slowing from the previous year.[2] The strong pace of 1997 carried over into the first quarter of 1998, but the district economy lost some steam as the year progressed. As a result, the district economy lost ground vis-à-vis the nation, where the slowdown was not as sharp.

Employment growth, one broad measure of economic activity at the state level, confirmed that the district economy weakened slightly relative to the nation in 1998, after many years of outperforming the country as a whole. Nonfarm employment in the district grew 2.2 percent in 1998, following 2.8 percent growth in 1997 (Chart 1).[3] At the national level, employment grew 2.3 percent, also slightly down from the previous year.

The slowdown in district employment growth in 1998 reflects slower growth in foreign demand for goods, especially for manufactured goods produced in the district. But the slowdown also captures the increasing constraints that district employers face in hiring additional workers. The unemployment rate in the district continues to be below the rate for the nation as a whole. The district experienced average unemployment of 3.8 percent for the year, remaining at least a half percentage point below the national average throughout the year.[4]

All district states except Oklahoma and Wyoming experienced slower employment growth in 1998 than the year before (Chart 2). Missouri added jobs in 1998 at just over half the pace of 1997, as did Nebraska. Extremely tight labor markets in each state, and especially in Nebraska, were likely reasons for the slower growth.

District real personal income, another important broad indicator of economic performance, grew faster in 1998 than in 1997 (Chart 3).[5] Despite slightly slower employment growth than in the nation, growth in district real nonfarm personal income was marginally above the national average in 1998, increasing 4.9 percent compared with 3.9 percent in the previous year. Except for Kansas, all district states experienced faster real personal income growth in 1998 despite slower employment growth (Chart 4).

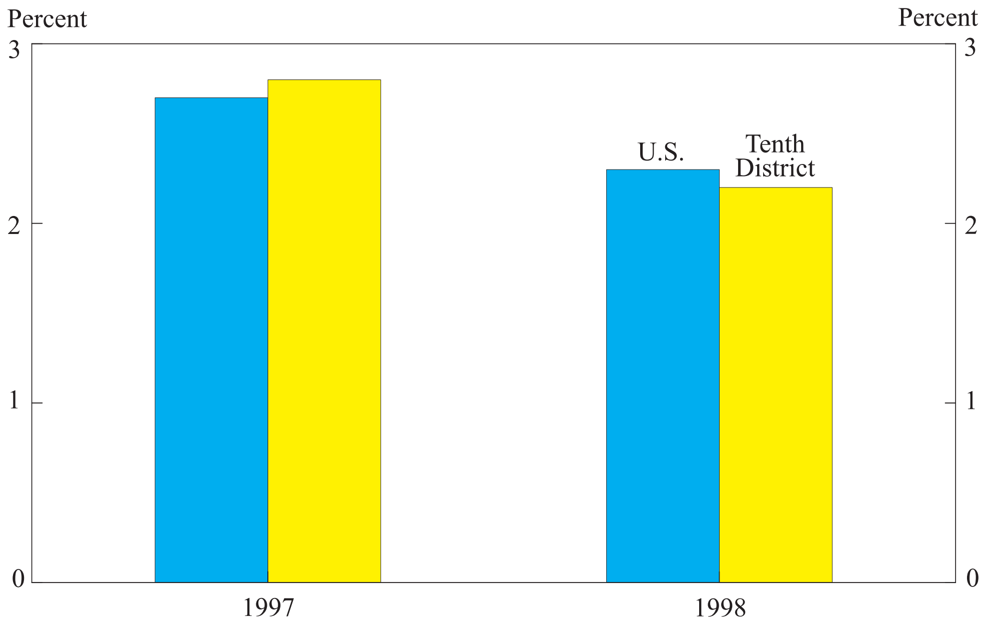
II. WIDE VARIATIONS IN GROWTH ACROSS SECTORS

Growth varied substantially across district economic sectors in 1998. While only mining actually lost jobs during the year, employment growth diverged from brisk gains in construction to anemic performance by manufacturing. Among the larger district sectors, services led the district in number of jobs added to the economy; even so, services grew at barely over half its pace of a year ago.

Services and trade

The modest performance of the service sector set the tone for moderate employment growth in the district in 1998. In contrast, the trade sector improved in 1998 due to faster job gains in retail trade as upbeat consumers generously opened their wallets and charged their credit cards. Both sectors found it hard to hire entry-level employees in the district's tight labor market. Service jobs grew a modest 2.5 percent in 1998, well below the growth rates posted every other year this decade. Tight labor markets throughout the region may have kept district service growth well below the national rate of 3.7 percent (Table 1). Despite the overall slowdown, new jobs in the large service sector represented close to a third of all jobs created in the district in 1998.[6]

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

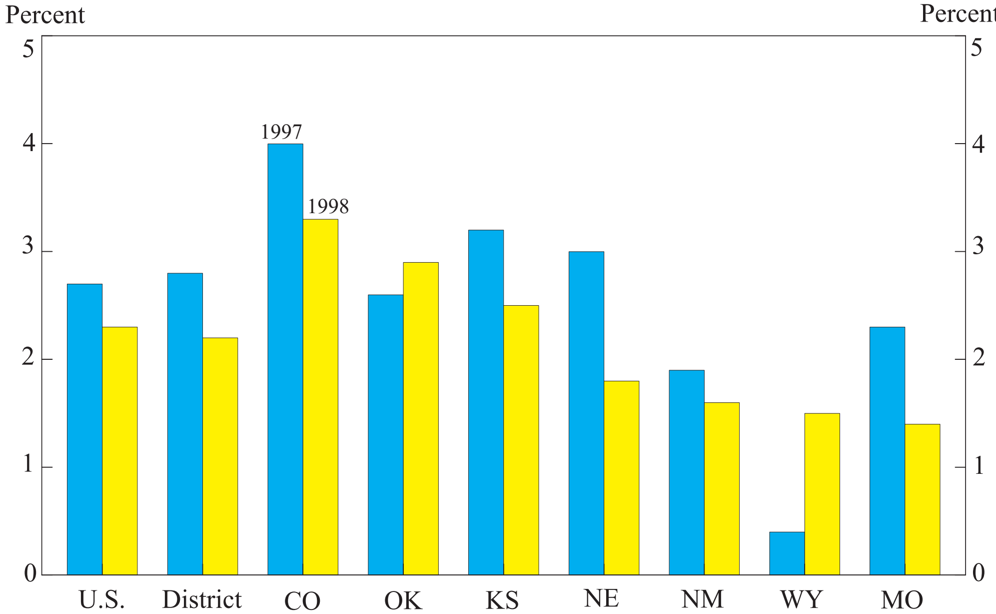


Source: Department of Labor.

Strong consumption expenditures boosted employment in the district trade sector. Retail jobs grew 2.9 percent in 1998, following 1.7 percent growth the year before. Wholesale establishments, in contrast, eased a bit, slowing from 2.8 percent growth to 1.7 percent (Table 1). Since jobs at retail establishments represent more than three-quarters of the total jobs in the trade sector, the sector as a whole posted solid job growth, even outpacing the national rate of 2.1 percent in 1998. Trade employment in both the district and the nation grew 1.9 percent in 1997.

The service sector will remain the primary source of employment growth in the district due to its large share of the area's total employment. However, growth will probably slip further in 1999 as the sector continues to face slower labor supply growth and rising labor costs. As in recent years, business and professional services and back-office operations will continue to drive growth in the service sector. Retail sales will carry strong momentum into 1999 thanks to a solid post-holiday season. However, the sector will experience slower growth as the year progresses and employment and income growth slow in the district. As with the service sector, tight labor markets will continue to reduce the ability of employers in the trade sectors to hire additional workers, especially in entry-level positions.

Chart 2
GROWTH IN NONAGRICULTURAL EMPLOYMENT
Tenth District states



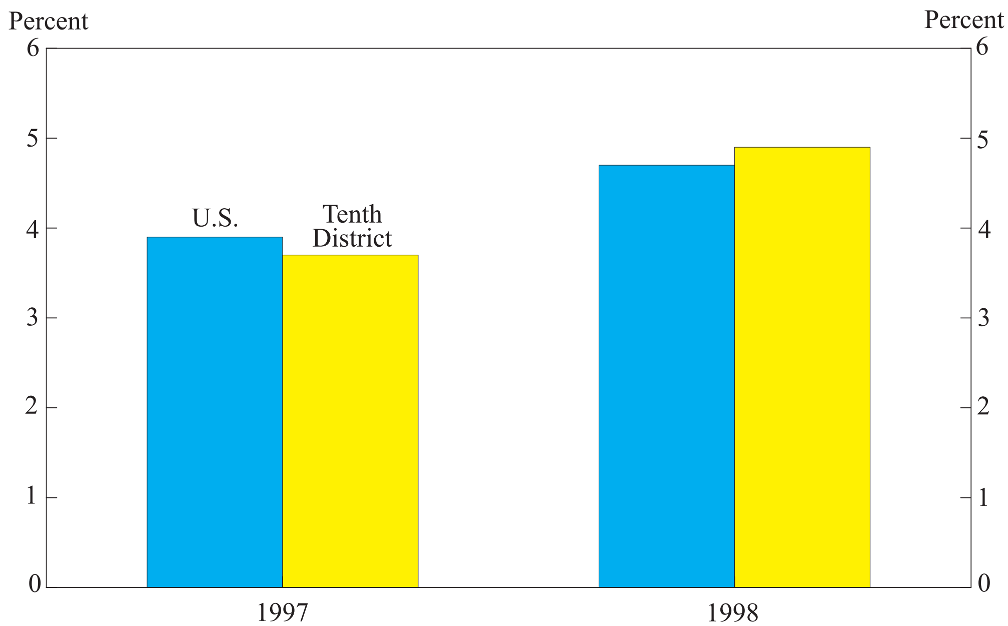
Source: Department of Labor.

Government

The district's government sector grew in 1998 at roughly the same modest pace as in 1997. Once more, job gains at state and local offices substantially outpaced growth at federal offices. Employment at all levels of government in the district grew by 1.6 percent in 1998, just slightly below the national average (Table 1). One marked difference in 1998 was the rise in federal employment in the district following losses in 1997, with the large majority of these jobs in Colorado and Missouri. Except for Nebraska, employment in local and state government increased in all district states. Fiscal conditions, as measured by the ratio of the state's general fund balance relative to its spending, also remained healthy across the district. Nebraska, Kansas, and Colorado have estimated ratios for fiscal year 1998 of over 15 percent, while New Mexico and Missouri were the only district states to post an estimated ratio below the national average of 9 percent.[7]

The government sector is likely to grow in 1999 at a pace similar to 1998. No major changes are expected for federal government activity in the district, so increases in areas such as research and general services are likely to be offset by additional military cutbacks. State and local governments will continue to add jobs steadily, as demand for public services increases with strong population growth in Colorado and in large metropolitan areas such as Kansas City, Denver,

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



Notes: Income growth rates are based on real nonfarm personal income. For 1998, annualized growth rates reflect only seasonally adjusted data through the first two quarters.
Source: Department of Commerce.

and Tulsa. Fiscal conditions remain healthy in most district states, pointing to further expansion of local and state government employment.

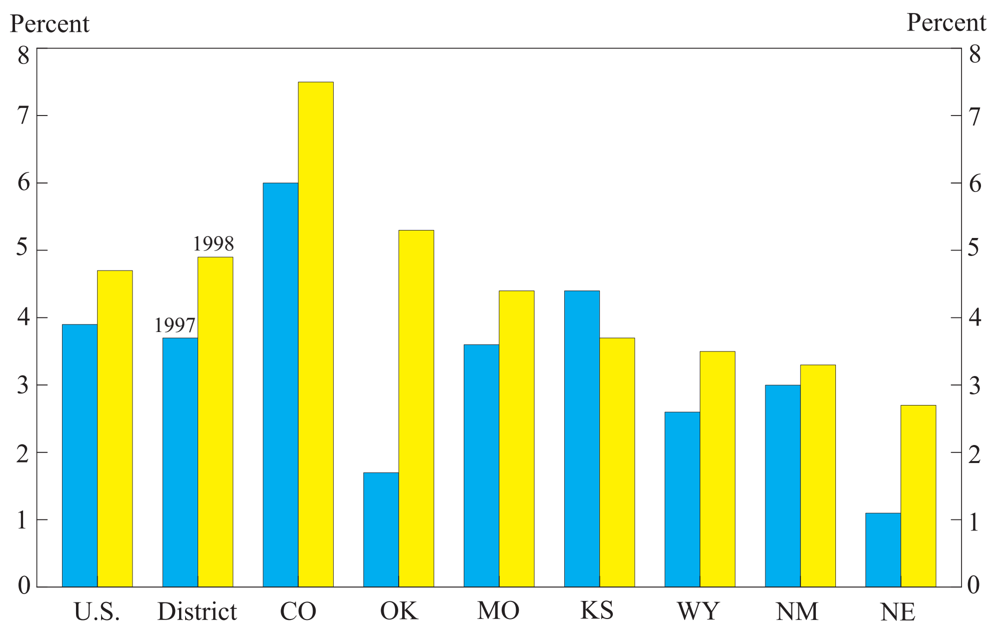
Construction

District construction activity grew briskly in 1998, boosted by a healthy district economy and low interest rates. Construction jobs jumped 5.2 percent in 1998 following already strong 4.6 percent growth the previous year (Table 1). Construction activity was led by strong gains in residential construction as mortgage rates fell, personal income rose, and consumers remained optimistic about the future of the economy. The overall value of construction contracts in the district through September 1998 declined slightly, compared with the same period a year earlier; but contract values were higher than a year ago in Oklahoma, Kansas, and Colorado.

Other indicators confirmed a strong tone for residential building. The value of residential construction contracts increased 7.3 percent (data through September). Additionally, total housing permits rose by almost 10 percent in the first three quarters of 1998, with both single and multifamily dwellings posting strong gains.

Nonresidential construction declined in 1998 after skyrocketing the year before. Nonresidential construction contracts were down 12.6 percent in the first three quarters of the year. A strong buildup of office and other commercial

Chart 4
GROWTH IN INCOME
Tenth District states



Notes: See notes, Chart 3.
Source: Department of Labor.

spaces in 1997 led to higher vacancies and anemic demand for new office construction last year. Moreover, nonbuilding construction projects, such as roads, sewers, and other infrastructure works, increased only modestly in 1998, and were not strong enough to result in an overall positive change for the nonresidential sector.

In the year ahead, construction activity is likely to slow substantially, growing much more moderately than the brisk rates of the past two years. Indicators of future construction activity are mixed. On one hand, the number of housing permits in the district has remained relatively high, suggesting stronger residential construction activity in 1999. On the other hand, the number of houses built and sold in recent years has exceeded the estimated growth in the number of households. Thus, demographics suggest that activity in residential construction should ease in 1999.

Nonresidential construction is also expected to ease in 1999. The expected slower growth of three major economic sectors in the district—services, trade, and manufacturing—will lower the demand for industrial and commercial spaces. In 1998, industrial vacancy rates increased in most major metropolitan areas in the district. And, except for Denver, most large urban areas in the district posted commercial vacancy rates above the national average by the end of the second quarter of 1998. Public construction projects such as highways, prisons, and other infrastructure projects are likely to continue to grow

Table 1

GROWTH IN NONAGRICULTURAL EMPLOYMENT BY SECTOR

Tenth District States (percent change)*

	1997	1998
Total nonagricultural	2.8	2.2
Manufacturing	2.5	.3
Durable manufacturing	3.8	.2
Nondurable manufacturing	.7	.4
Nonmanufacturing	2.9	2.5
Mining	2.5	-1.2
Construction	4.6	5.2
Transportation and public utilities	2.0	3.0
Trade	1.9	2.6
Wholesale trade	2.8	1.7
Retail trade	1.7	2.9
Finance, insurance, and real estate	3.4	2.9
Services	4.5	2.5
Government	1.5	1.6

* From fourth quarter of previous year to fourth quarter of current year.

Source: Department of Commerce.

moderately in 1999 as states seek ways to spend budget surpluses and tobacco settlement money.

Manufacturing

District manufacturing activity weakened substantially in 1998 as the Asian crisis took its toll. Foreign export demand declined, and district producers also faced higher competition from Asian producers in domestic and international markets. Employment in the district's plants and factories rose just 0.3 percent in 1998, a fraction of the solid 2.5 percent growth rate of 1997 (Table 1). Compared with the nation, however, the district's performance was still strong since manufacturing jobs fell more than 1 percent at the national level. A survey of manufacturing plants across the district showed consistent declines in production activity as the year progressed and a decline in producers' expectations for the year ahead.

Job gains were weak across the board in district manufacturing, although the production of durable goods fell substantially more than production of nondurable goods. As the Asian crisis intensified and spread to other countries in the world, district manufacturing exports to foreign countries declined 3.0 percent in the first three quarters of 1998 compared to the same period the year before. Slumping exports led to a drop in district durable goods employment from a strong 3.8 percent growth in 1997 to a meager 0.2 percent in 1998. Exports to Asian countries declined relatively less for district producers than for the country as a whole, but district plants also experienced difficulty exporting to areas outside Asia. A strong dollar during most of the year hurt district factories. Meanwhile, employment growth was marginally higher in the district's plants that produce nondurable goods, at 0.4 percent in 1998, compared to 0.7 percent the year before.

District manufacturing activity in 1999 is likely to slow further as the sector remains weak at the national level, foreign demand continues to deteriorate, and competition increases in domestic and foreign markets. Slow economic growth in Asia and many other areas of the world, including Latin America, will result in even lower export demand and will remain one of the main sources of weakness for the sector in 1999. Moreover, Asian producers faced with declining domestic demand will keep aggressively pricing their goods in the United States and other international markets, which will result in increased competition for district factories and U.S. manufacturers in general. Finally, a scarcity of skilled labor due to tight district labor markets is likely to further limit employment growth, especially in high-tech industries such as electronic components.

Mining

The district mining industry had a tough year in 1998 after a solid performance the previous year. Mining was the only district sector to experience net job losses in 1998, although losses were small compared to the nation (Table 1). Energy comprises a large part of the district mining sector and was badly hurt by declining prices, especially for crude oil, which reached historical lows when adjusted for inflation. Reflecting the low energy prices, drilling activity declined, with the district rig count off more than a fifth in 1998. Consistent with the lower prices, district oil production declined 10 percent in the first half of the year compared with same period a year earlier. Natural gas enjoyed a somewhat better fate, with production virtually flat in the first two quarters of the year compared to the first half of 1997.

The prospects for the mining sector remain bleak in 1999. Real prices for crude oil remain at historical lows and there is no evidence that prices will rise anytime soon.[8] World demand for oil slowed in 1998 due largely to the spread of the Asian crisis. Weak demand will probably continue given the expectations of slow economic growth around the world in 1999. Further, world production of oil did not slow as much as demand in 1998, and cash-starved oil-producing countries, such as Mexico and Venezuela, are unlikely to reduce production anytime in the near future. Thus, district oil producers are likely to face continued difficulties in 1999. Natural gas prices also fell sharply in 1998. A cold winter could lift demand and prices somewhat. However, the end of the winter heating season and continued downward pressures on oil prices probably will limit further increases in natural gas prices in 1999. Thus, district gas production should probably remain at 1998 levels, at best. Overall, mining employment is likely to be flat or edge down further in 1999.

Agriculture

District agricultural producers had a difficult year in 1998, as commodity prices for both crops and livestock plunged in the face of rising supplies and weakening demand. Farm income in the district was down from 1997 due to low commodity prices.[9] In response to low prices and the weakening farm income situation, Congress approved a hefty $6 billion assistance package for agricultural producers late in the year, which boosted overall income but left some producers out of the bailout. With these additional government support payments in place, crop producers ended the year in fair condition.

Farm prices were weak in 1998. Due to healthy stocks and increased plantings, crop prices fell as much as 25 percent at harvest before rebounding slightly at yearend. Corn and soybean production soared with increased plantings and healthy yields. Wheat producers experienced near-record yields, and a large harvest despite decreased wheat plantings.

Large supplies of red meat in the market due to increased cattle and hog production also led to plunging livestock prices. Hog production soared in 1998, resulting in plummeting prices and losses for producers. Cattle producers also had a difficult year, suffering losses from low prices that resulted from large levels of production and declining export markets. In addition, some areas of the district were hit by drought, causing ranchers to sell off calves earlier than expected. Despite low livestock prices, including the lowest hog prices in 60 years, livestock producers were left out of the government aid package.

The farm sector is likely to face a difficult year in 1999. Early indications point to a weak year for farm income if the government does not act again to boost subsidies. Crop prices are not likely to gain much ground in the next year. Stocks of grains and oilseeds are at relatively high levels and will keep downward pressure on crop prices in the next year. Export markets for agricultural products are also expected to remain weak in the coming year. With big pork supplies still headed to market, hog prices are not expected to improve for at least the first half of 1999, and producers will likely suffer substantial losses. However, cattle prices could rebound in the second half and produce a turnaround in profits.

III. SLOWER GROWTH IN MOST DISTRICT STATES

The overall slowdown in the district economy in 1998 reflected weaker growth in most district states. Employment growth slowed in five of the seven states in the district last year, with only Oklahoma and Wyoming growing faster than they had in 1997. Still, total job growth was above the national average in Colorado, Oklahoma, and Kansas. In most states, weaker activity in the manufacturing and services sectors was the primary reason for the more sluggish activity in 1998, as most other sectors grew steadily. Despite maintaining relatively healthy overall positions, the economies of most district states are likely to continue slowing in 1999.

Colorado

The Colorado economy was the strongest in the district in 1998, although the state's 3.3 percent growth in employment was a bit smaller than its gain the year before. Most sectors continued to expand steadily, with construction maintaining especially strong growth. The exceptions were manufacturing and services, which slowed substantially. Despite a small rise in Colorado's unemployment rate, the labor market in Colorado remained very tight and was a likely reason for the smaller employment gains last year. Real personal income in Colorado posted strong gains, well above the district and national averages.

Manufacturing activity in Colorado slowed in 1998, with job levels edging down 0.1 percent. Manufacturers of durable goods such as high--tech electronic components and industrial machinery were the primary sources of the falloff. Factories that produce nondurable goods, like food, clothing, and paper products, also witnessed somewhat slower growth. The Asian crisis was a factor in the slowdowns, especially in Colorado's important computer chip industry, as manufacturing exports to Asia fell 3 percent. Nevertheless, many manufacturers blame last year's slowdown more on shortages of skilled workers and increased labor costs than on declines in world demand.

Colorado's services sector, which includes about a third of the state's jobs, was considerably weaker in 1998. Employment growth dropped to 3.1 percent, substantially slower than in recent years. As in manufacturing, the extreme tightness of the Colorado labor market was likely a significant reason for the slowdown. The state's unemployment rate stayed below 3.5 percent throughout the year, after falling from 4.2 percent in 1996 to 3.3 percent in 1997. In addition to the low unemployment rate, labor force participation rates were at record-high levels in Colorado, meaning that nearly everyone in the state with any desire to work was already working. This made it very difficult for service employers in the state to find qualified workers at reasonable wage levels.

Trade, the second biggest segment of the Colorado economy after services, grew somewhat faster in 1998, with job growth stronger at both retail and wholesale establishments. Employment in the transportation, communications, and public utilities sector also posted a solid gain last year, as did finance, insurance, and real estate.

Construction was especially strong in Colorado last year, with employment rising 8.6 percent. Residential building grew modestly, although the recent trend in Colorado toward smaller new homes may have held back housing activity from greater growth. Nonresidential building slumped, but nonbuilding construction enjoyed another strong year in 1998, as demand for highways and parking lots along the Front Range continued to rise.

Strong economic growth is likely to continue in Colorado in 1999. Employment gains may slow again, however, due in part to the state's tight labor market. Construction employment, in particular, is likely to grow much less rapidly this year. The large number of new homes built in 1998 should result in lower demand for additional housing in 1999 and thus reduce the need for new workers, and growth in public sector construction is also likely to slow from the tremendous gains made the last two years. Colorado manufacturers will probably add few jobs as factories face continued weak demand from Asia and stiffer competition around the globe. The hardest hit areas will likely be electrical and electronic equipment, along with computer and office equipment. Tight labor markets will continue to affect job growth in most services areas, although business services are expected to continue their rapid expansion. Retail trade employment is also likely to face somewhat slower growth in 1999 as entry-level workers become even harder to find.

Oklahoma

The Oklahoma economy expanded faster than the nation as a whole for the fourth straight year in 1998, posting a 2.9 percent increase in jobs. But, like many other district states, Oklahoma experienced much slower growth in manufacturing activity. The state's services sector was not as negatively affected as elsewhere in the district, though, and continued to grow steadily. Oklahoma's unemployment rate rose to 4.3 percent by the fourth quarter of 1998, up from 4.1 percent in both 1996 and 1997. This increase, combined with a low labor force participation rate, bodes well for employers looking to fill new entry-level positions in 1999. Still, the market for skilled workers remains very tight in Oklahoma, and the state is trying to attract more businesses that can utilize its large number of unskilled workers. Income levels in Oklahoma rose considerably in 1998.

Oklahoma manufacturing slowed in 1998, following solid gains the previous two years. Employment at factories in the state rose just 1.7 percent. As in much of the district, producers of durable goods accounted for most of the slowdown, with the summer GM strike likely playing a small role. Employment growth in nondurable industries actually increased modestly over the previous year. Manufacturing exports in Oklahoma were up slightly in 1998, but growth was down considerably from the 16 percent gain of the previous year. Exports to Asia provided the primary drag, falling by more than one-sixth for the year.

The state's large services sector stayed on a strong growth path in 1998, posting 4.5 percent job growth. Growth in trade employment was down slightly, however, as expansion in both wholesale and retail jobs slowed. The transportation, communications, and public utilities sector grew at the same healthy rate as the previous year, while finance, insurance, and real estate jobs made their smallest gain in five years.

Construction activity in Oklahoma was strong in 1998. Construction employment rose 4.3 percent, and the total value of construction contracts in the state jumped by more than a fifth, with sizable gains made in all areas of the industry. Another good sign for future activity was a large gain in the number of housing permits issued in 1998, with authorizations for multiunit residences especially strong.

The Oklahoma energy sector suffered in 1998 from extremely low oil prices. The price of crude oil was around 30 percent below year-ago levels throughout the year and, as a result, the state's rig count was down almost a fifth by the fourth quarter. Actual production levels fell more than 10 percent. Still, jobs in Oklahoma's mining sector rose slightly from 1997 levels, although reductions are expected in the near future.

The Oklahoma economy is likely to slow a bit in 1999 from the steady gains of recent years. Manufacturing employment, in particular, is expected to decline, especially at electrical and electronic equipment factories. The state's mining sector is also likely to suffer some job losses, although state and federal help should keep most wells running. On the positive side, labor markets are not as tight in Oklahoma as in several district states, which should help maintain strong job growth in the service sector and produce larger gains in retail trade. In addition, construction activity should remain strong in 1999, given the higher number of housing permits last year and a commitment by the state to an ambitious highway construction program.

Kansas

The Kansas economy weakened slightly in 1998, but employment growth of 2.5 percent still outpaced the growth of the nation as a whole. The construction and trade sectors continued to expand but, as in most other states in the district, expansion in manufacturing and services slowed considerably. The state's tight labor market was likely a major contributor to the difficulties. By the fourth quarter of 1998, Kansas' unemployment rate had dropped to 3.6 percent, well below the national average and down slightly from the previous year. Like employment, income growth in Kansas was slightly slower than in 1997.

Kansas manufacturing slowed markedly in 1998. Manufacturing jobs, which make up one-sixth of the state's nonagricultural employment, grew 2.1 percent in 1998, half the growth rate of the year before. There was little change among producers of nondurable goods, which in Kansas consist primarily of food-processing plants and printers and publishers. But producers of durable products, such as transportation equipment and fabricated metal, witnessed a significant decline in growth, with job gains tumbling from 5.8 percent in 1997 to 2.2 percent in 1998. A big reason for the decline was the dropoff in world demand for durable goods, especially from Asia. Total manufacturing exports from Kansas fell slightly after rising nearly a fifth in 1997, as exports to Asia dropped considerably. Moreover, the extremely low employment rate in Kansas probably contributed to sluggish factory activity. After dropping from 4.5 percent in 1996 to 3.8 percent in 1997, the unemployment rate had little room to fall without introducing new wage pressures.

Another sector probably damaged by the tight labor market was services, which includes more than a quarter of Kansas employees. The 2.7 percent job growth last year marked the sector's slowest expansion this decade. Wholesale and retail trade, which comprise another quarter of Kansas workers, nearly maintained the employment growth level of the previous year, at 2.9 percent. Growth in retail trade jobs increased moderately, while wholesale employment was flat for the year.

The transportation, communications, and public utilities sector expanded slightly faster in 1998. Government also recovered from a slight fall in 1997 to post a small gain in jobs. All of the growth came at state and local government offices, however, as demand for public services increased. The finance, insurance, and real estate sector in Kansas nearly failed to grow at all in 1998 after expanding moderately in previous years.

Construction activity in Kansas was solid in 1998. Employment levels grew 5.3 percent for the year, while the total value of construction contracts rose 6.6 percent. The increase in contract values, however, was smaller than in the previous year due to a dropoff in nonbuilding construction, while residential construction rose moderately and nonresidential building jumped. The number of housing permits issued in Kansas fell in 1998, indicating that somewhat slower activity may be on the way.

Growth in the Kansas economy will likely slow again in 1999. A good part of the slowdown will be due to a stagnant manufacturing sector. Durable goods production is expected to be flat as a result of slow export growth and higher competition within U.S. domestic markets. The service sector will probably continue to grow at a relatively slow pace, as a tight labor market holds back growth. Retailers may also suffer from a lack of workers, but growth should still be comfortably positive. Construction activity will likely cool from strong gains in 1998, due to slight declines in personal income and a smaller number of housing permits issued.

Nebraska

After growing faster than the district and the nation in 1997, the Nebraska economy eased somewhat in 1998, as employment in the state increased just 1.8 percent. Nebraska's extremely tight labor market was likely a major factor in the slowdown. The unemployment rate was at 2.4 percent by the fourth quarter of 1998, down slightly from the previous year, but it was even lower during most of the year. Most sectors of the Nebraska economy suffered from slower job growth in 1998, including services, manufacturing, and construction. Despite smaller job gains, however, real personal income grew solidly in 1998, possibly as a result of rapid increases in wages and salaries.

As in other district states, manufacturing activity slowed in Nebraska in 1998. Job growth in nondurable industries, such as processed food, were stronger in 1998, but durable manufacturing jobs plummeted. Nebraska's manufacturing exports were virtually unchanged from 1997, with a drop in demand from Asia for durable products being a primary cause for the lack of growth.

The Nebraska service sector, easily the biggest part of the state economy, encountered much slower expansion in 1998 than any time in the recent past. The 2.3 percent gain in jobs was roughly half the average growth rate of the last five years. Tight labor markets were a likely reason, with as many as a third of the services job openings in the state reportedly going unfilled in 1998.

Wholesale and retail trade in Nebraska expanded moderately after slow growth in 1997. Wholesale employment slowed considerably, while retail jobs grew after declining the previous year. Thanks to strong growth in the state's trucking and rail industries, employment in the transportation, communications, and public utilities sector continued to grow steadily, although somewhat slower than the previous year. The finance, insurance, and real estate sector posted strong gains, despite some reductions in rural areas due to banking consolidation.

Nebraska's construction sector slowed by the end of 1998, following rapid expansion in 1997 and early 1998. Job growth slowed and the total value of construction contracts in the state fell considerably after a strong year in 1997. Again, tight labor markets were a likely culprit, as builders found it almost impossible to find enough skilled tradesmen. Despite a significant increase in federal highway funds to Nebraska, nonbuilding construction was slow, as was commercial and industrial building. A sizable decline last year in the number of housing permits issued points to further sluggish activity in the near future.

The Nebraska economy will probably experience slow growth again in 1999 as tight labor markets continue to take their toll. A weakened farm sector will be another factor. Manufacturing job growth should outperform the rest of the district, but gains will still be somewhat slower than in 1998. Job gains in the finance, insurance, and real estate sector are expected to continue, but virtually every other sector will suffer from slower growth than in the recent past. Service and trade jobs will increase at a snail's pace, as employers search in vain for the necessary workers to expand their businesses. Construction employment is likely to remain rather slow as well, especially given the decline in housing permits in 1998.

New Mexico

The New Mexico economy slowed for the fourth straight year in 1998, largely due to a deep slump in manufacturing activity in the state. Overall job growth measured just 1.6 percent, down slightly from the previous year. Most nonmanufacturing sectors, however, expanded at similar or slightly higher rates than the year before. New Mexico's labor force grew somewhat faster than employment, leading to a small rise in the state's unemployment rate to a district-high 6.4 percent by the fourth quarter. Unlike the rest of the Tenth District, little tightness exists in New Mexico labor markets. Reflecting the slow employment growth, real personal income in New Mexico continued to grow at a modest rate.

New Mexico's manufacturing sector took a huge hit in 1998, with employment plunging 5.7 percent. The biggest change was among producers of durable goods, such as high-tech electronic and computer equipment, which were greatly affected by the Asian economic crisis. Jobs at these factories, which had expanded aggressively in 1997, fell 4.4 percent in 1998. Nondurable manufacturers, and especially New Mexico's rapidly declining textile and apparel industries, suffered another bad year in 1998, as several large plants were closed. The 8.8 percent drop in jobs in these industries marked the third straight year of decline.

The economic news was better outside of the relatively small manufacturing sector. Trade employment was up considerably more than in 1997, thanks to a healthy rise in retail jobs. Job growth in the services sector was also higher in 1997, at 3.8 percent. Transportation, communications, and public utility companies had another strong year, spurred by the expansion of several call centers in and around Albuquerque. Also benefiting from the growth in call centers was the finance, insurance, and real estate sector, which rebounded last year from a small decline in jobs in 1997.

Unlike many other states in the district, growth in construction jobs was slow in New Mexico last year. At the same time, the total value of construction contracts in the state declined from 1997 levels. The biggest drag on contract values was a slump in public construction. Residential building continued to grow, however, thanks in part to rising demand for manufactured housing in poor rural areas.

New Mexico's important government sector was flat in 1998, as federal defense downsizing hurt employment at the state's national laboratories and Air Force bases. In addition, growth in state and local government jobs was at its lowest level this decade.

Expectations for the New Mexico economy in 1999 are somewhat more positive than for most of the rest of the district. Several large employers in the manufacturing and service sectors are moving into the state. A lack of labor market tightness is another good sign for future expansion. But the state's large mining sector is likely to shrink further due to low energy prices and reduced copper production. Construction employment is expected to continue to grow at a similar pace despite the sluggish housing market, due to a large influx of federal highway money. In the government sector, federal downsizing is expected to continue, although not as vigorously as in recent years.

Wyoming

The Wyoming economy expanded faster than it had for several years in 1998, as employment in nearly all sectors rose somewhat faster than in the previous year. However, most of the growth occurred in Cheyenne and Casper, and the state's 1.5 percent overall increase in jobs still fell well short of national growth. Unlike most district states, Wyoming's service sector grew considerably more in 1998 than in 1997. One reason for the greater growth might be the smaller degree of labor market tightness in Wyoming. The state's unemployment rate of 4.6 percent in the fourth quarter of 1998 was above the national average and largely unchanged from the same period in 1997. Wyoming's stronger employment growth in 1998 likely helped to boost real personal income slightly from the year before.

The state's important mining sector was mixed in 1998. Jobs grew a solid 3.2 percent thanks to a boom in the coal industry, down slightly from the previous year. But low oil prices hurt overall mining activity. Natural gas production, however, was strong thanks in part to the expansion of several pipelines to the Midwest.

The Wyoming service sector posted its strongest growth in several years in 1998, although the job gains still lagged well behind the national average. The state's slightly larger trade sector also grew moderately, with slower growth in wholesale jobs being more than offset by stronger retail activity. Transportation, communications, and public utilities was flat, while finance, insurance, and real estate grew slightly faster in 1998.

Wyoming construction activity slowed considerably last year. New home building was down slightly, while nonresidential building and public works construction plummeted. Still, growth in construction jobs was stronger than in the recent past. Housing permits, especially for multiunit dwellings, dropped in 1998, pointing to possible continued difficulties in the future.

The Wyoming economy will likely remain sluggish in 1999. The state's important oil and gas sector, in particular, is expected to suffer sizable job losses due to low oil prices and mergers in the oil industry. Factory jobs are expected to remain flat in 1999, as world demand for manufactured goods remains weak, especially for chemicals. But service and trade jobs are likely to grow faster than in the recent past as the state economy becomes more diversified. Construction employment will likely grow much more slowly than in 1998 due to the weakened value of construction contracts around the state.

Missouri

The Missouri economy slowed substantially last year, with job growth falling to 1.4 percent from 2.3 percent in 1997. As in several other district states, the largest declines were in durable manufacturing and services. Most other sectors of the state economy expanded at similar rates to the recent past, with finance, insurance, and real estate jobs increasing much more rapidly. Although employment gains in the state were small, growth in the Missouri labor force was even more limited. As a result, the unemployment rate fell to 3.6 percent by the fourth quarter, further tightening an already difficult labor market. Despite the slow job growth, real personal income increased slightly faster in Missouri than it had in several years.

Missouri's large manufacturing sector has witnessed slow or slightly negative employment growth throughout the 1990s, so last year's 0.4 percent decline in jobs was not as surprising as the slower activity in other states in the district. Durable producers were hardest hit, due in part to the Asian crisis, although Missouri factories are less dependent on exports to Asia than any other Tenth District state. However, greater competition in other areas of the world caused a 12 percent decline in the state's manufacturing exports. Job levels at factories that produce nondurable goods such as food and clothing products fell for the fifth straight year.

The most disturbing aspect of the Missouri economy in 1998 was the anemic growth in the service sector. Jobs increased just 0.6 percent in 1998 after averaging nearly 4 percent annual growth since the 1990-91 recession. The quickly tightening labor market in Missouri likely had a major impact. Missouri's unemployment rate was 6.5 percent as recently as 1993, but dropped to less than 4 percent in the second half of 1998. Likewise, the labor force participation rate in Missouri has risen dramatically in recent years. These occurrences, combined with slow population growth, may have made it difficult for Missouri employers to find qualified workers at normal wages, since nearly everyone in the state that wants to be working already is.

The bright spot in the Missouri economy in 1998 was the finance, insurance, and real estate sector. Jobs in these industries, which account for 6 percent of the state's employment, increased much more quickly than in 1997. Employment gains in transportation, communications, and public utilities were similar to the modest gains of recent years. In the trade sector, both retail and wholesale jobs expanded slightly faster in 1998.

Missouri construction activity slowed in 1998, as the total value of construction contracts dropped 6 percent. The fall in contract values was caused mainly by greatly reduced commercial and industrial construction, as well as by fewer public works projects. Growth in construction employment reflected the slowdown in overall activity, falling from 6.2 percent in 1997 to 4.3 percent last year. On a positive note, residential building recovered from a small decline in 1997 to post a sizable gain last year. Housing permits also continued to grow, especially for single-family units, pointing to continued strength in new home building in the future.

The Missouri economy will likely be sluggish again in 1999. Difficulties in the state's large manufacturing sector will be a primary reason, as further job declines are expected. Most other sectors should continue to grow as in recent years. The service sector should rebound somewhat from a bad year in 1998 but will probably not reach the growth levels of earlier this decade. Trade employment growth should remain modest, especially if the state's labor market continues to tighten. Construction jobs could grow more quickly than last year, thanks to the increase in residential building and issuance of a greater number of new housing permits.

IV. CONCLUSIONS

The Tenth District economy posted solid growth in 1998, although the gains were smaller than in previous years. Tight labor markets may have been a major source of the limited job growth in the district, especially for sectors such as services and manufacturing. Manufacturing activity slowed substantially, although job growth remained above the national average, as foreign demand declined substantially due to the Asian crisis and district producers faced more competition in domestic and international markets.

Construction led the district in relative job growth, while the finance, insurance, and real estate sector nearly repeated its strong performance of the previous year. Transportation, communications, and public utilities also added jobs at a healthy pace in 1998.

Oklahoma and Wyoming were the only district states to experience faster employment growth in 1998 than in 1997. Employment growth slowed in all remaining district states in 1998. Colorado led the district in employment growth, followed by Oklahoma and Kansas, with each posting job gains above the national average. Nebraska, New Mexico, Wyoming, and Missouri all registered job gains below district and national averages.

The Tenth District economy is likely to slow further in 1999, growing somewhat less than in 1998. Tight labor markets are likely to continue limiting job growth in many parts of the district. The service industry will remain the main source of job gains due to its large size, although growth will be slow compared to the recent past. The trade sector is likely to post solid gains in the first quarter of 1999 as the strong holiday and post-holiday momentum continues. However, growth is likely to ease as the year progresses and employment and income gains slow at the national and local levels. Construction activity will continue to post gains as long as mortgage rates remain relatively low, but demographic figures are likely to keep growth at more modest rates. Additionally, demand for commercial and industrial space is likely to be limited due to slower growth in the manufacturing and trade sectors. Manufacturing activity will continue to weaken due to declines in export demand for durable goods and increased competition in domestic markets. Employment is likely to grow at similar pace in state and local government offices as fiscal conditions remain healthy. Mining employment will decline further as energy prices are expected to remain at or below current levels. In the farm economy, oversupplies of commodities will keep prices low, causing difficulties for district producers. The recent Brazilian crisis and its likely spillover to other Latin American economies will add to the problems faced by the manufacturing sector.

ENDNOTES

[1] For a detailed analysis of district labor markets, see Gazel and Wilkerson (1998). For an overview of the impacts of the Asian flu in the district economy, see Gazel and Lamb (1998).

[2] 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 all four quarters of 1998; income data, for only the first two quarters. Other data are available for various time periods. This article emphasizes employment data more than income data because they provide two additional quarters of information on the economic performance of the district in 1998. 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.

[3] All discussions of employment growth in this article are based on growth in 1997, calculated from the fourth quarter of 1996 to the fourth quarter of 1997, and growth in 1998, calculated from the fourth quarter of 1997 to the fourth quarter of 1998. The seasonally adjusted employment data are from the Bureau of Labor Statistics. 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.

[4] The district experienced a lower than the national average unemployment rate 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 December 1998, the district labor force grew by 9.9 percent compared with 6.6 percent in the United States. Additionally, the district labor force participation rate has been consistently higher than the national average. In 1997, the district labor force participation rate was 69.6 percent compared with 67.1 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 8.4 percent in 1997 instead of the measured 4.7 percent.

5 All discussions of income growth in this article are based on growth in 1997, calculated from the fourth quarter of 1996 to the fourth quarter of 1997; and growth in 1998, calculated as the annual rate of change from the fourth quarter of 1997 to the second quarter of 1998. The income data are seasonally adjusted real nonfarm personal income obtained from the Department of Commerce.

6 In this article, new jobs are assumed to be the sum of the net change in employment in all sectors in 1998. 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.

7 These preliminary estimates of fiscal year 1998 fund balances and general fund expenditures are from the National Governors' Association.

8 For more extensive analysis of U.S. oil production, see Lamb and Wilkerson (1999).

9 For more extensive analysis of the district agricultural economy, see Lamb (1999).

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