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Tenth District Economic Developments

By Tim R. Smith

The Tenth District economy grew at a moderate pace during 1996. The district economy expanded vigorously in early 1996 but slowed as the year progressed. Tight labor markets in many parts of the region appeared to limit job growth, particularly in the large trade and services sectors. A slumping cattle industry also curbed overall growth in parts of the district. Nonetheless, construction continued to post healthy gains, energy activity improved somewhat, and manufacturing across the region remained stable.

Economic performance diverged across the seven district states. The New Mexico economy surged again due to strong growth in construction, services, and manufacturing. Growth in Oklahoma, Nebraska, and Kansas was at or near the district average, while growth in Colorado, Missouri, and Wyoming fell below the district average.

In 1997, the district economy will probably continue to grow moderately, about equal to the 1996 pace. Tight labor markets will continue to constrain growth in many parts of the district. District manufacturing will likely remain stable, while trade and services continue to expand at a more sustainable, moderate pace than in previous years. Construction activity may moderate, but the farm economy is expected to improve somewhat, reflecting relatively strong prices and an improving outlook for the cattle industry.

This article reviews the district's economic performance in 1996 and explores the outlook for 1997. The first section compares the overall performance of the district and the nation in 1996. The second section focuses on the recent performance and outlook for the district's key industries. The third section surveys growth across district states in 1996 and discusses each state's outlook for the year ahead.

I. THE DISTRICT ECONOMY SLOWS IN 1996

Growth in the district economy slowed to a moderate pace in 1996 from the robust pace set in 1995.[1] Most of the growth, however, occurred

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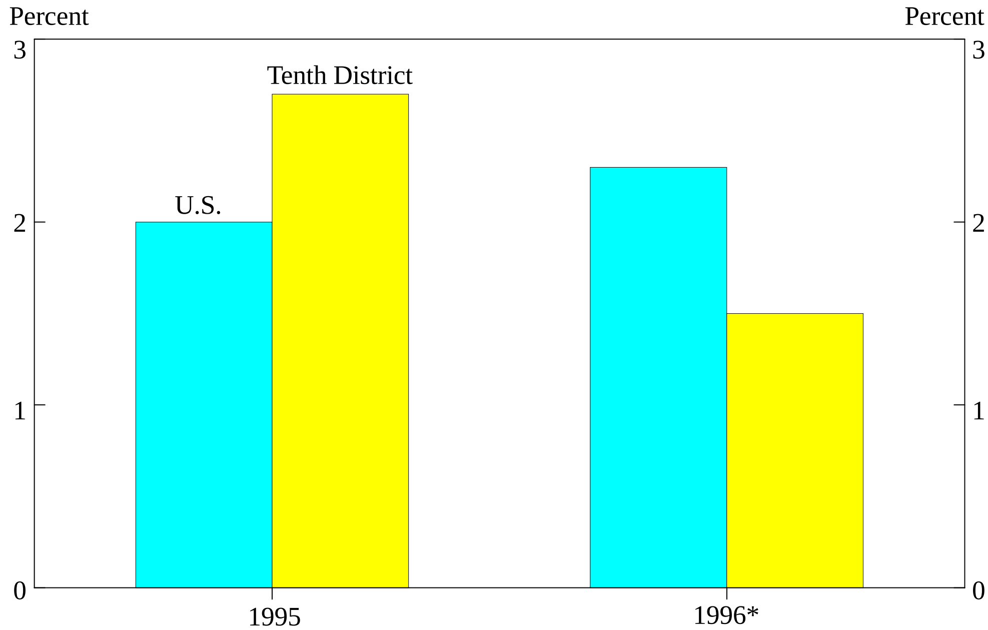
Chart 1
GROWTH IN NONAGRICULTURAL EMPLOYMENT
U.S. and Tenth District



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

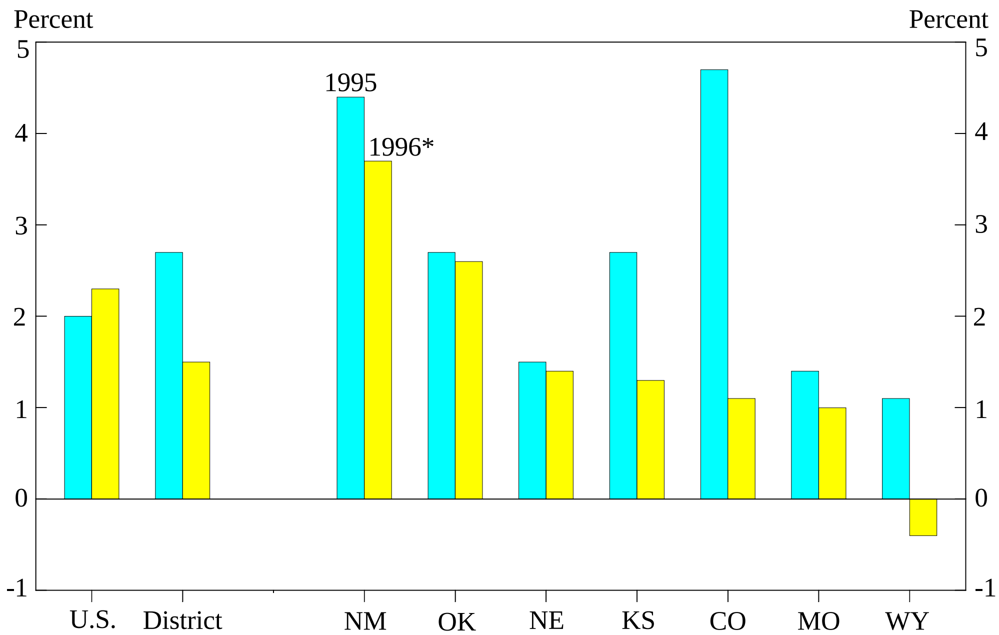
early in the year, with economic activity quickly leveling off. The slowing caused the district economy to lag behind the nation in 1996, after leading the nation in 1995.

Employment growth, one broad measure of economic performance, provides evidence of a slowing district economy. Nonfarm employment in the district grew 1.5 percent in 1996, much slower than in 1995 (Chart 1).[2] In the nation, employment grew 2.3 percent.

A key reason for the slower employment growth appears to be tight labor markets across the district. The civilian unemployment rate in the district averaged only 4.2 percent during the first three quarters, well below the nation's average of 5.4 percent. In many parts of the district, the tight labor markets constrained employers' abilities to hire additional workers during the year. As a result, employment growth may be a somewhat less reliable indicator of the underlying strength of the district economy than in past years.

Employment growth slowed in all district states in 1996 (Chart 2). New Mexico and Oklahoma job growth remained strong, only slightly off the previous year's pace. Job growth was moderate in most other states, with the degree of slowing varying from state to state. For example, job growth slowed sharply in Colorado and Kansas and only modestly in Nebraska and Missouri.

Chart 2
GROWTH IN NONAGRICULTURAL EMPLOYMENT
Tenth District states



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

Employment declined in Wyoming in 1996, after posting moderate gains in 1995.

Real personal income growth, another broad measure of economic performance, also suggests the district economy slowed in 1996. Growth in real nonfarm personal income fell to 2.9 percent from 4.2 percent in 1995 (Chart 3).[3] As a result, district income growth matched income growth in the nation.

Income growth fell in nearly all district states in 1996 (Chart 4). Only in Oklahoma did growth in real nonfarm personal income pick up slightly. In Wyoming, income declined, reflecting the slippage in employment in the state.

II. REVIEW AND OUTLOOK BY SECTOR

Growth in the district economy, while moderate, was broad-based in 1996, with most industries contributing to the region's gains in jobs and income. The strongest force during the year was construction, with services and retail trade also helping to add district jobs. Manufacturing, led by production of durable goods, continued to add jobs at a modest pace. Mining activity improved somewhat during the year, and agriculture was mixed.

Construction

District construction activity remained solid in

Table 1

GROWTH IN NONAGRICULTURAL EMPLOYMENT BY SECTOR

Tenth District states

	Percent change	
	1995*	1996†
Total nonagricultural	2.7	1.5
Manufacturing	.6	.5
Durable goods	2.2	.9
Transportation equipment	5.7	1.5
Nondurable goods	-1.6	-.1
Food processing	1.6	1.8
Printing and publishing	.8	-1.0
Mining	-3.8	.2
Construction	3.4	3.2
Transportation and public utilities	3.6	2.1
Wholesale trade	2.3	.1
Retail trade	4.0	1.2
Finance, insurance, and real estate	1.6	1.8
Services	4.7	2.2
Government	.6	1.4
Federal government	-3.2	-1.2
State and local government	1.3	1.9

* From fourth quarter 1994 to fourth quarter 1995.

† First three quarters, seasonally adjusted annual rate.

Source: Department of Labor.

1996. In a sign of continuing strength, the value of district construction contracts awarded through September was up 14.0 percent from the already high value recorded a year earlier. A surge in homebuilding and continued strong nonresidential construction helped maintain the overall momentum in the construction sector. Construction jobs grew 3.2 percent during the first three quarters, about the same as in 1995 (Table 1).

Residential construction was spurred in 1996 by continued population growth in the mountain states and by healthy job and income growth across the region. The value of residential construction contracts awarded in the first three quarters jumped about 26 percent from the same period in 1995. Both single and multifamily dwellings accounted for the surge in residential construction.

Nonresidential construction remained at high levels across the region in 1996. Office vacancy rates remained below the national average in most major district cities, stimulating new office construction. Activity was especially strong in suburban areas, where commercial real estate markets remained very tight. Spurred by a shortage of industrial space in most major markets across the district, industrial building provided considerable support to nonresidential construction. Public building projects, such as schools, university buildings, and correctional facilities, also helped sustain nonresidential building activity during the year.

Construction activity will probably slow in 1997. Residential construction—especially building of single-family homes—appears to have peaked and is likely to slow along with the general slowing in the region's economy. While slower population growth will bring slower homebuilding to the mountain states, tight supplies of housing in many of the district's rural trade centers should help boost construction in these communities. Commercial construction activity may not expand much in the coming year, but it will likely remain at high levels. Industrial construction will remain robust as the district's factories continue to increase production capacity. Low office vacancy rates are expected to bring some further office construction to the district's metropolitan areas. In addition, a steady stream of public building projects will take up some of the slack in construction labor markets created by slower homebuilding activity. Retail construction appears to have crested, however, with an outlook for much slower expansion of shopping centers and discount outlets.

Services and trade

The service and trade sectors remained solid forces in the district economy in 1996. The district's service industries, including health care and a wide range of business and management services, added jobs at a healthy 2.2 percent in 1996 (Table 1). However, service job growth was less than half the pace of the year before and well below the national average. Growth in the district's trade sector also trailed growth in the national trade sector due to sluggish growth in the district's wholesale trade and only moderate gains in retail trade.

The district's service and trade sectors are likely to grow at a moderate pace again in 1997. Business, health, and engineering services will continue to expand in Kansas City and the metropolitan areas of the Rocky Mountain states, but the pace of expansion may be somewhat slower than in recent years. Gains in tourism—centered in the Rocky Mountains and southern Missouri—will continue to support both service and retail employment in the region. However, overall expansion in the retail sector is expected to remain moderate, with fewer new shopping centers opening across the region.

Government

In the district's important government sector, state and local governments added jobs in 1996, while federal job rolls in the region continued to shrink (Table 1). The net result was an increase in total government employment of 1.4 percent. While the decline in federal jobs reflects continued efforts to reduce federal spending, the gains in state and local employment suggest the demand for government services is still growing and the fiscal condition of most district states remains healthy. A simple measure of fiscal health is the size of a state's general fund balance relative to its spending. Reserves are generally considered adequate if fund balances remain at or above 5 percent. By this measure, fiscal conditions deteriorated slightly in all district states except Oklahoma, but fund balances remained above the 5 percent threshold in Colorado, Kansas, Missouri, Nebraska, and Oklahoma.[4]

In the year ahead, the government sector will probably grow at about the same pace as in 1996.

As efforts continue to curb federal spending, more federal jobs will disappear across the district, but state and local government employment will probably keep rising as state fiscal conditions remain healthy. As a percent of general fund spending in 1997, fund balances are projected to be somewhat larger in Colorado, Kansas, and Nebraska; and most district states are expected to maintain balances of greater than 5 percent.

Manufacturing

Activity in the district's manufacturing sector appears to have reached a plateau. District factories continued to operate at high levels of capacity, but a shortage of skilled workers limited expansion of manufacturing activity during 1996. A survey of manufacturing plants across the district showed a surge in production activity in the spring, followed by more moderate gains later in the year. However, employment in the district's factories rose only 0.5 percent in 1996, about the same as the year before (Table 1). Nevertheless, the slight gain in district manufacturing employment compared favorably with the slight decline in manufacturing employment in the nation as a whole.

The strongest segment of the region's manufacturing sector was durable goods production. Growth in the important transportation equipment industry slowed from its rapid pace of 1995, but still grew moderately in 1996. Car and truck models produced in district states remained popular, and the general aviation industry, centered in Wichita, Kansas, continued to rebound. Expansion in high-technology manufacturing, while not as vigorous as in 1995, also helped generate new factory jobs.

Nondurables employment declined slightly in 1996. Moderate gains in food processing were offset by losses in other industries. For example, employment in the printing and publishing industry declined somewhat after achieving modest gains in 1995.

Manufacturing activity will probably remain at or near its high plateau in 1997, but any growth will likely remain modest as a tight market for skilled labor continues to limit industrial expansion across the district. Domestic demand for manufactured goods may subside somewhat as growth in the national economy moderates. However, improved foreign exports of industrial products from the district should keep the region's manufacturing plants operating at high levels of capacity.

Mining

The district's mining sector, dominated by energy activity, stabilized in 1996 due to higher than expected oil and gas prices. Oil prices, for example, averaged 15 percent higher during the first three quarters compared with the same period in 1995. Natural gas prices fluctuated widely during the year, but averaged two-thirds above year-earlier levels during the first three quarters before moving considerably higher at the end of the year. The higher energy prices helped stabilize exploration and development activity in the district. The average number of drilling rigs operating in the district during the first three quarters of the year was unchanged from the same period in 1995. The stable drilling situation in 1996 was a significant improvement from the 16 percent decline in the district rig count the year before. Nonetheless, the prolonged decline in crude oil production continued during the first half of the year. Following a big increase in 1995, coal production in the first half of 1996 was unchanged from the same period a year earlier. Natural gas production continued to increase, but the gains during the first half of the year were modest compared with those achieved in 1995. The number of mining jobs in the region increased slightly during the year after declining in 1995 (Table 1). Moreover, the job gain in the district compared favorably with continued losses in the nation's mining sector.

The district's mining sector will probably remain stable in the year ahead. The oil price increases of 1996 are likely to be reversed in 1997, providing little additional incentive for drilling in the district. With a United Nations agreement to allow humanitarian sales of oil from Iraq and increased production from other sources, increases in world oil production are expected to put downward pressure on crude oil prices. Natural gas prices rose sharply at the end of 1996, and environmental concerns will continue to stimulate demand for the fuel in commercial and industrial applications. However, declining oil prices and gas imports from Canada should help reverse the runup in natural gas prices once the winter heating season is over. Coal production will probably rise, fueled by rising demand by eastern utilities for clean burning, low-sulfur coal. Even so, the mining sector's job base will remain small and productivity improvements will continue to limit job gains.

Agriculture

The district's important agricultural sector was mixed in 1996, but ended the year with modest gains in farm income. A severe slump in the cattle industry in mid-1996 left cattle feeders and ranchers mired in losses. Cattle prices plunged after producers began to liquidate part of their herds due to drought in the Southwest, including Kansas and Oklahoma, and soaring corn prices. By fall cattle prices had rebounded and many cattle feeders were able to break even or post small gains for the year. District cattle ranchers, however, had big losses in 1996.

The district's crop producers, meanwhile, had a banner year. Wheat and corn prices hit record highs during the summer due to extremely tight stocks of grain. Fall crops were excellent throughout the district, and many wheat growers in the region were able to offset a poor winter wheat crop by planting fields to grain sorghum. Finally, incomes were boosted by the first government payments under the new farm bill signed into law last April. Under that law, farmers will receive payments for seven years regardless of market prices or the crops they plant.

Farm financial conditions across the district reflected the divergence in crop and livestock profits. Lenders to cattle producers reported slowing repayment rates throughout much of the year. Crop growers, meanwhile, were able to pay down credit lines substantially. Farmland values, a good barometer of the financial condition of district farmers, rose 5.3 percent in the district in the 12 months ended in the third quarter of 1996, the most recent information available.

District agriculture should improve somewhat in 1997. Livestock profits, by far the single biggest part of the region's farm income, are expected to widen in the coming year. After a better than expected corn harvest, feed costs will stay below the high levels of 1996. Cattle prices should strengthen as beef production returns to its trend path. Crop producers may not post the record earnings they posted in 1996 due to somewhat weaker crop prices. Grain stocks that are still tight, however, will keep prices at historically strong levels. All in all, district agriculture should have a good year in 1997.

III. SLOWER GROWTH ACROSS DISTRICT STATES

Economic growth decelerated in all seven district states in 1996. New Mexico remained the district's most robust economy, with job growth well above the national average. Even in New

Mexico, however, economic growth slowed compared with 1995. Oklahoma also recorded above-average job gains, but all other states fell below the national average. In 1997, growth could slow slightly but should remain moderate in most district states.

New Mexico

The New Mexico economy downshifted to a more moderate pace in 1996, but the state's economy still outpaced all the other district states in 1996. Employment rose 3.7 percent, down from 4.4 percent in 1995 (Chart 2).[5] The slower employment growth helped nudge New Mexico's unemployment rate up to 6.9 percent during the first three quarters of the year, keeping it the highest in the district. Income growth remained strong, exceeding income growth in all other states (Chart 4).

Construction activity remained robust in New Mexico during 1996. The total value of construction contracts awarded in the first three quarters jumped 17.7 percent above the same period in 1995. Commercial building activity surged with further expansion at many of the state's high-technology manufacturing plants and construction of new shopping centers. Office vacancy rates in the Albuquerque area remained the lowest among the district's major metropolitan areas, lending further strength to commercial building. Modest growth in multifamily construction helped sustain homebuilding activity following a slump the previous year. The generally healthy tone of the state's construction sector boosted construction employment 4.1 percent, yet the gain was less than half the pace of construction employment growth in 1995.

New Mexico's trade and service sectors lost some of their momentum in 1996. Despite the opening of a major new shopping mall in Albuquerque, retail employment growth slowed to 3.8 percent from the rapid 5.8 percent achieved in 1995. As in the past, Albuquerque's important base of telemarketing and back-office accounting expanded, but overall job growth in services reached only 3.9 percent in the state, about half the pace set in 1995.

New Mexico's manufacturing sector also slowed in 1996. Expansion continued at the state's high-technology manufacturers and their suppliers but at a more sustainable pace than in the previous year. Factory jobs rose 2.1 percent, with durable goods industries leading the way. Growth in nondurables industries, led by food processing in the southeast part of the state, was more modest.

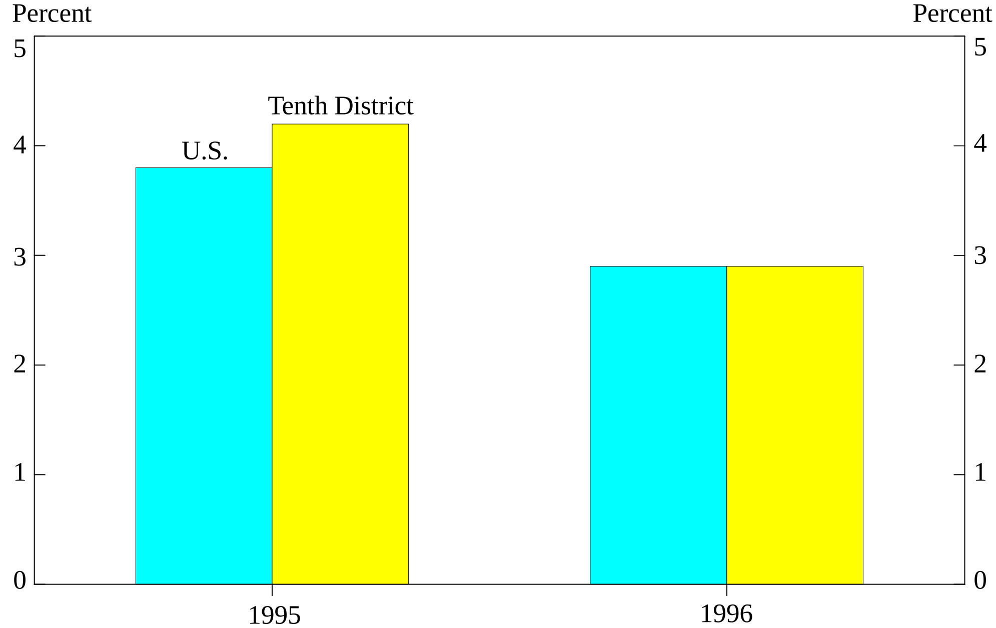
The New Mexico economy should expand at about the same pace in 1997 as in 1996. Manufacturing and services will continue to grow at the more moderate pace reached over the past year. The construction sector probably will not expand much in the year ahead, but building activity should remain at high levels, supported by public infrastructure projects, commercial construction, and moderate homebuilding activity.

Oklahoma

The Oklahoma economy posted solid job gains in 1996, following similar performance in 1995. Total employment rose 2.6 percent, the second strongest pace in the district and about equal to the 1995 pace (Chart 2). The healthy job growth pushed down the state's unemployment rate to 4.4 percent in the first three quarters of the year from 4.7 percent in 1995. Despite the state's solid employment gains, real income growth was unchanged from its moderate pace in 1995 (Chart 4).

The strength in the Oklahoma economy was broad-based, with employment up in all sectors except mining. The service sector remained one

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



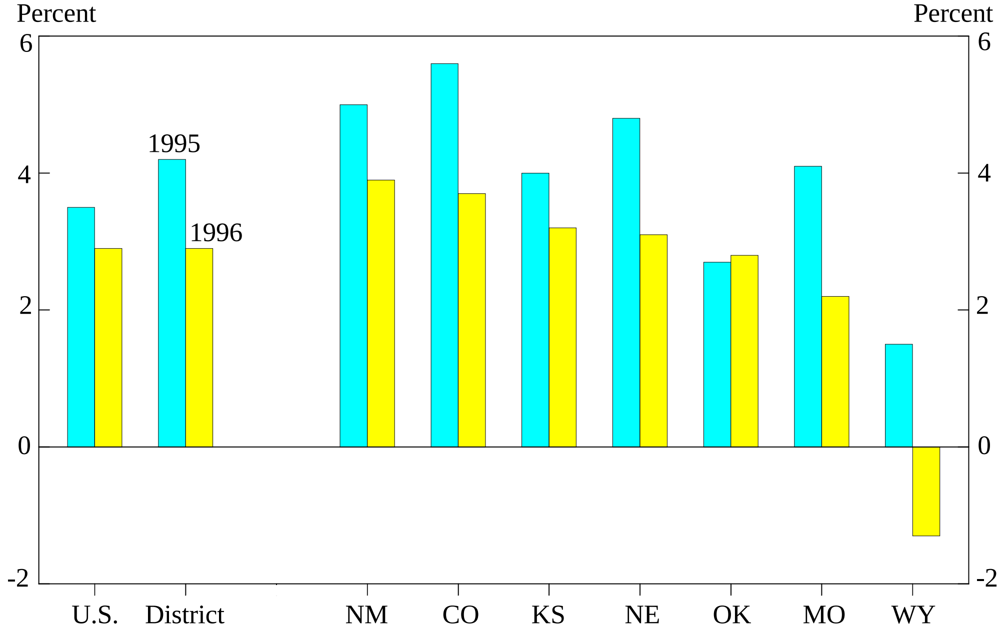
Notes: Income growth rates are based on real nonfarm personal income. For 1996, annualized growth rates reflect only seasonally adjusted data through the first two quarters.
Source: Department of Commerce.

of the fastest-growing sectors of the state economy, with employment up about 4.0 percent. While still strong, the 1996 gain in service jobs pales against the 6.6 percent gain recorded in 1995. Retail trade benefited from the overall performance of the state economy, adding jobs at a healthy pace of 2.7 percent, down only slightly from the 1995 pace.

Manufacturing activity improved markedly in Oklahoma in 1996. Employment growth jumped to 2.3 percent from only 0.7 percent in 1995. Durable goods industries, which account for nearly twice as many workers as nondurable goods industries, showed a gain in employment of 3.0 percent. The gain in nondurable goods industries was a more moderate 1.1 percent. Nonetheless, the performance in nondurables industries compared favorably with the job losses experienced in 1995.

Growth in construction activity remained moderate in 1996. The total value of construction contracts awarded during the first three quarters increased about 10 percent from the same period the year before. Strong gains in public nonbuilding projects, such as roads and bridges, and an uptick in homebuilding offset a decline in nonresidential building. Another indicator of construction activity, the number of

Chart 4
GROWTH IN INCOME
Tenth District states



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

single-family housing permits issued, also registered an increase. As a result of the healthy pipeline of construction activity, construction employment increased 1.4 percent, following a gain of 2.3 percent in 1995.

Oklahoma's mining industry weakened further in 1996, with employment in the industry dropping 3.6 percent, about equal to the decline in 1995. The long downward trend in crude oil production continued during the first half of the year, and natural gas production fell slightly for the third consecutive year. On the other hand, exploration activity increased due to higher prices for oil and natural gas. For example, the average number of drilling rigs operating in the state during the first three quarters of 1996 jumped about 11 percent from the same period the year before.

Another year of growth appears on the horizon for the Oklahoma economy in 1997, though the pace of growth may be somewhat slower than in 1996. Moderate growth in the national economy will help sustain the recent gains in the state's manufacturing sector and support further moderate gains in the service sector. However, growth in retail trade may continue to slow as the field of new retail stores and discount outlets becomes overcrowded. And homebuilding may diminish somewhat with the overall slowing of the state economy. The state's mining sector is unlikely to gather much strength in the year ahead, with few signals in the energy price outlook pointing toward further gains in exploration and development activity.

Nebraska

The Nebraska economy grew moderately in 1996, much like in 1995. Employment grew at a 1.4 percent annual rate during the first three quarters of the year, a pace about equal to the district average (Chart 2). Growth was constrained by tight labor markets across the state. During the first three quarters of the year, Nebraska's average unemployment rate was 2.8 percent, among the lowest in the nation. Real income in Nebraska remained healthy in 1996 but slowed from a robust pace the year before (Chart 4). The healthy income growth suggests the state's recent job growth has been concentrated among higher wage occupations.

The economic gains in Nebraska were led by the service sector, where job growth reached 4.2 percent in 1996. The pace of service job growth was up sharply from 1995 and stronger than in any other district state. While Nebraska remains an attractive location for teleservices, such as telemarketing and reservation services, the new service jobs were spread across a wide spectrum, including other types of business and health services. The expansion in Nebraska's manufacturing sector picked up some additional momentum in 1996. Overall manufacturing employment in the state rose 1.8 percent, up somewhat from the modest gains recorded in 1995. Most of the improvement was in the nondurables industries which, in Nebraska, are dominated by food processing. In contrast, job growth among durable goods manufacturers remained sluggish.

Nebraska's construction sector improved somewhat in 1996. After sagging the year before, the total value of construction contracts increased 15 percent in the first three quarters of 1996 from the same period in 1995. Most of the improvement occurred in residential and nonbuilding projects such as roads and bridges, while commercial construction remained steady. Another positive indicator of construction activity was a surge in housing permits authorized during the year. Despite the improvement in construction activity, construction job growth slowed considerably from the solid pace set in 1995, perhaps reflecting the mix of construction projects underway in the state.

In 1997, the Nebraska economy is likely to stay on its moderate growth path. Improving farm income will help sustain growth in the state's metropolitan areas and rural trade centers. However, the state economy will still be limited by the state's difficulty in attracting a pool of available workers, as suggested by the state's unusually low unemployment rate. The service sector is likely to remain the lead sector in the year ahead, with some slowing possible as the supply of labor is especially tight in service occupations. The manufacturing sector will probably continue to grow, spurred by expansion in the state's important food processing industry. Growth among durable goods manufacturers, however, will remain constrained by a shortage of workers in high-skilled manufacturing occupations. Highway construction and homebuilding are expected to support construction activity at roughly the same pace in 1997 as in 1996.

Kansas

The Kansas economy slowed to a moderate pace in 1996. Employment grew at a 1.3 percent annual rate during the first three quarters of the year, slightly below the district average and well below the 2.7 percent growth reached in 1995 (Chart 2). Despite slower employment growth, the state's unemployment rate still averaged 4.0 percent during the first three quarters, down from 4.4 percent in 1995. Income growth slowed somewhat, but remained strong, according to preliminary data from the first half of the year (Chart 4).

Manufacturing was by far the strongest industry in Kansas in 1996. Employment at Kansas factories jumped 3.7 percent, up sharply from sluggish gains in 1995. All of the 1996 gain came from surging durable goods industries. For example, the aircraft industry, centered in Wichita, continued its strong rebound. Many small and medium-sized manufacturing plants located in the state's rural areas also prospered during the year. The state's nondurable goods industries, dominated by food processing, reduced employment slightly during the year.

Construction activity remained healthy in 1996 but slowed considerably from the pace set in 1995. The total value of new construction contracts in the state during the first three quarters of the year was up about 17 percent compared with the same period the year before. Solid gains in homebuilding more than offset a dip in commercial building. Road and bridge maintenance also helped support moderate gains in construction activity. Overall, construction employment was up 3.5 percent, less than half the rate of growth in 1995.

The state's important trade sector remained a source of growth in the Kansas economy in 1996. Employment in the trade sector was up a solid 2.3 percent, although down considerably from the 4.4 percent gain in 1995. Both retail and wholesale businesses added jobs at a solid pace. While service employment growth slowed to a standstill from a robust pace in 1995, service businesses continued to expand in the Kansas City metropolitan area.

The Kansas mining sector remained weak again in 1996. Oil and natural gas exploration activity, which dominates the Kansas mining industry, continued to decline. The average number of drilling rigs operating in the state during the first three quarters of the year was down more than a fifth compared with the same period the previous year. Through the first half of 1995 crude oil production, much of which comes from high-cost stripper wells, was down 6 percent. However, natural gas production was up slightly.

The moderate pace of growth achieved in Kansas during 1996 is likely to be repeated in 1997. The state's manufacturing sector has staged a solid rebound and is poised for further growth. Growth in the construction sector may level off in 1997, but steady homebuilding and a modest rebound in commercial construction will likely support a healthy level of building activity, particularly in the state's metropolitan areas and rural trade centers. The overall growth in Kansas jobs and incomes will sustain growth in the trade sector, though perhaps at a slightly slower pace than in 1996. And the service sector may be somewhat stronger than the preliminary 1996 data suggest. Thus, the service sector will likely return as a source of growth in 1997.

Colorado

The Colorado economy continued to expand in 1996, but the pace of growth slowed sharply. As a result, the state posted much slower growth in employment and real personal income than in 1995 (Charts 2 and 4).[6] Despite the slower employment growth, the unemployment rate edged down to an average of 4.0 percent during the first three quarters from 4.2 percent the year before. Construction was by far the strongest sector in Colorado in 1996, 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 28 percent, fueled by strong gains in both homebuilding and commercial construction. In the Denver area, for example, low office and industrial vacancy rates spurred commercial building.

In addition to the commercial building, nonresidential construction was boosted by the building of public structures, such as schools, churches, and libraries, to service recently built neighborhoods and subdivisions.

Manufacturing activity improved across Colorado in 1996. Strong gains among durable goods producers more than offset losses in nondurables industries. In the durable goods industries, production of electronic components and other high-technology goods led the way. In contrast, job losses continued in nondurables industries, though the losses occurred at a much slower pace than in 1995.

A downshift in the trade and service sectors was a key factor in the slower statewide growth in 1996. Employment growth in the service sector slowed sharply to 1.7 percent in the first three quarters of the year from 6.8 percent in 1995. And employment in retail and wholesale trade was flat after increasing over 6.0 percent in 1995. New retail stores and shopping centers were a common occurrence in 1996—especially in the Denver metropolitan area. Much of the new retail activity, however, was simply shifted from older, obsolete shopping centers and thus represented only a small net change in total employment. Some of the slowing in trade and services can be traced to slower growth in the state's important tourism industry. Skier visits, for example, fell during the 1994-95 season for the first time in five years before rebounding modestly during the 1995-96 season.

The mining sector in Colorado turned in another lackluster year. The average number of drilling rigs operating in the state during the first three quarters was down about 10 percent from the same period the year before. The recent decline represents an improvement over the 50 percent drop in the rig count the year before. Following the trend of recent years, crude oil production declined further in the first half of the year. Natural gas production was a bright spot however, rising sharply to a level about 20 percent above the same period a year earlier. Overall, employment in the industry continued to decline.

Growth in the Colorado economy is likely to level off at a moderate pace in 1997. The construction sector will probably remain strong, with new commercial and public building projects offsetting a somewhat slower pace of homebuilding. The sluggishness in services is unlikely to be long-lasting, with a solid rebound in service job growth expected in 1997. Retail jobs will continue shifting from older shopping areas to new malls and strip shopping centers, leading to only modest overall growth in retail jobs. The manufacturing sector, led by the state's booming high-technology industries, will likely grow at about the same pace in 1997 as in 1996.

Missouri

The Missouri economy grew moderately again in 1996. Employment growth of 1.0 percent in 1996 was down slightly from the 1995 pace and somewhat below the district average (Chart 2). Measured job growth was depressed, however, by a strike against one of the state's largest manufacturers. The underlying trend in job growth suggests somewhat more strength in the state economy. Labor force growth lagged employment growth during the year, causing the state's average unemployment rate to fall to 4.1 percent during the first three quarters of 1996 from 4.8 percent in 1995. Slower income growth accompanied the slower job growth, falling below the average growth in the district and the nation during the first half of the year (Chart 4).

The trade and services sectors stayed on a moderate growth path in 1996, exceeding the pace of growth in most other sectors of the state economy. Employment in retail trade, for example, increased 1.5 percent during the first three quarters, only slightly less than the increase in 1995. The service sector added jobs at a 2.3 percent pace, up slightly from the year before. Service growth was particularly strong in the Kansas City metropolitan area where business, health care, and legal services flourished. The trade and services sectors also benefited from robust tourism activity around the Lake of the Ozarks and near Branson in southern Missouri.

Missouri's construction industry rebounded from a weak performance in 1995. Strong homebuilding activity brought modest gains in construction jobs, following a decline in jobs in 1995. The value of residential construction contracts and the number of new housing permits awarded in the state during the fist three quarters of 1996 both increased about 17 percent from the same period a year earlier. Activity in other kinds of construction projects fell off, however, with a decline in the value of new contracts for commercial and public works projects.

The state's large manufacturing sector was flat in 1996. Manufacturing employment fell 2.8 percent in the first three quarters. Most of the decline was due to a strike against McDonnell Douglas that idled 6,500 machinists in St. Louis from mid-June through September. Adjusting for the strike, employment in durable goods industries declined slightly throughout the first three quarters of the year. Employment in the state's nondurable goods industries continued to decline in 1996, but the falloff was modest and only about half as steep as in 1995.

The Missouri economy will probably remain on its moderate upward course during 1997. Trade and services are expected to remain the fastest growing sectors, supported by steady gains in jobs and income and the continued popularity of the state's tourist destinations. Hotel and retail expansion in the Kansas City metropolitan area may help boost the state's commercial building activity. And residential construction will be bolstered by multifamily construction in the state's metropolitan areas and by a pickup in homebuilding in the state's rural trade centers, where housing supplies have recently been tight. The manufacturing sector is likely to remain flat in 1997. While cars and trucks produced in the state promise to remain top sellers in the year ahead, overall production of durable goods will be dampened by the lack of new military contracts for aircraft and related parts.

Wyoming

Wyoming turned in another year of sluggish economic performance in 1996. Both employment and income declined somewhat during the year (Charts 2 and 4). While employment declined from the beginning of the year to the third quarter, it is worth noting that the average level of employment in the first three quarters of 1996 was slightly above the average level for 1995. Thus, the employment growth shown in Chart 2 may understate economic activity in the state. Despite the sluggish overall performance of the state economy, the state's unemployment rate shrank slightly to an average of 4.6 percent in the first three quarters of 1996 from 4.8 percent in 1995.

Construction was the only sector of the Wyoming economy to show much strength in 1996. Although the number of construction jobs declined through the first three quarters of the year, a surge of homebuilding and a steady stream of public building projects kept the average level of construction employment moderately above its 1995 average.

Wyoming's manufacturing sector, which accounts for only a small share of the overall state economy, weakened somewhat in 1996. Manufacturing jobs fell slightly, following a moderate increase in 1995. All of the job losses occurred in durable goods industries, while the state's nondurable goods industries posted moderate job gains.

The trade and services sectors reflected the lackluster state economy. Employment was unchanged in 1996 at wholesale establishments but fell somewhat at retail establishments. The service sector reversed course, losing 1.0 percent of its jobs in the first three quarters, after showing strong job gains in 1995. Despite the overall sluggishness, tourism remained a bright spot, lending some strength to retail and service businesses in the mountain areas of the state. While visits to Yellowstone National Park were down through the third quarter, visits to the Grand Tetons were up.

The state's important mining sector was relatively stable in 1996. The number of oil and gas drilling rigs operating in the state declined only about 4 percent in the first three quarters of 1996. That modest drop compared favorably with a drop of nearly 30 percent the year before. As in most other energy-producing states in the district, oil production continued to fall. Natural gas production, however, increased modestly. And coal production continued to increase, boosted by rising demand from eastern utilities for the state's low-sulfur coal. The state's producers of soda-ash—used in glass making—expanded capacity in 1996 as they continued to benefit from healthy construction activity in the region and across the nation. Overall, Wyoming's base of mining employment continued to erode, falling 1.3 percent in 1996.

The Wyoming economy will probably grow only slowly in 1997. The mining sector should remain stable, but jobs in this sector will continue to slowly disappear as the result of productivity improvements in the state's vast coal mines and continued slippage in oil production. The manufacturing sector, though small, could bolster the state economy if small manufacturing businesses across the state are successful in expanding markets for their goods, particularly international markets. Tourism will become an increasingly important sector of the Wyoming economy, helping to buoy services and retail trade. Homebuilding should remain healthy, particularly in the mountain resort areas.

IV. SUMMARY

The Tenth District economy slowed during 1996, after expanding at a more moderate, sustainable pace than in 1995. Slower growth in trade and services and a decline in farm income curbed overall growth. Construction, however, continued to post healthy gains, and energy activity improved somewhat. The region's manufacturing plants operated at high levels of capacity, but expansion occurred at a steady, modest pace.

The slowing in economic growth was shared by all seven district states. The New Mexico economy, while losing some of its vigor from 1995, remained the forerunner. Growth in Oklahoma, Nebraska, and Kansas was closer to the average for the entire region. Growth in Colorado, Missouri, and Wyoming was slower.

In 1997, the district economy will probably continue to grow moderately, about equal to the 1996 pace, with labor markets remaining tight in many parts of the district. Trade and services should expand at a more sustainable, moderate pace than in previous years. District manufacturing will likely remain stable, and construction activity may slow somewhat. With energy prices expected to trend lower throughout 1997, little improvement is expected in the mining sector. Agriculture, however, should improve somewhat as livestock profits improve and crop prices remain relatively strong.

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 1996; 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 1996.

[2] In this article, all discussions of employment growth are based on growth in 1995, calculated from the fourth quarter of 1994 to the fourth quarter of 1995, and growth in 1996, calculated as the annual rate of change from the fourth quarter of 1995 to the third quarter of 1996. 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 1995, calculated from the fourth quarter of 1994 to the fourth quarter of 1995, and growth in 1996, calculated as the annual rate of change from the fourth quarter of 1995 to the second quarter of 1996. The income data are seasonally adjusted real nonfarm personal income obtained from Data Resources, Inc.

[4] These preliminary estimates of 1996 fund balances and general fund expenditures are from the National Governors' Association.

[5] Examination of another measure of employment growth in New Mexico, the state's ES202 employment series, suggests slower growth in 1996 than shown by the survey data used in this article. Therefore, downward revisions to the growth reported in this article are likely.

[6] For Colorado, measures of employment growth calculated using the average level of employment during the first three quarters of 1996 compared with the average level of employment in 1995 show stronger employment growth for 1996 than the growth rates reported in this article due to the quarterly pattern of growth. Employment levels increased rapidly during 1995 and leveled off in 1996. Therefore, the growth from the fourth quarter of 1995 to the third quarter of 1996 is modest, but the growth from the fourth quarter of 1994 to the fourth quarter of 1995 is very strong. A comparison of average levels would show a more even pattern of moderately strong growth over the 1995-96 period.

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