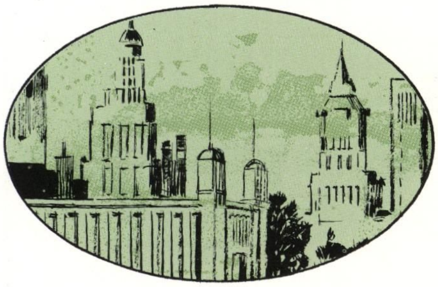
state of washington
economic review 1967
and outlook for 1968



state of washington
economic review 1967

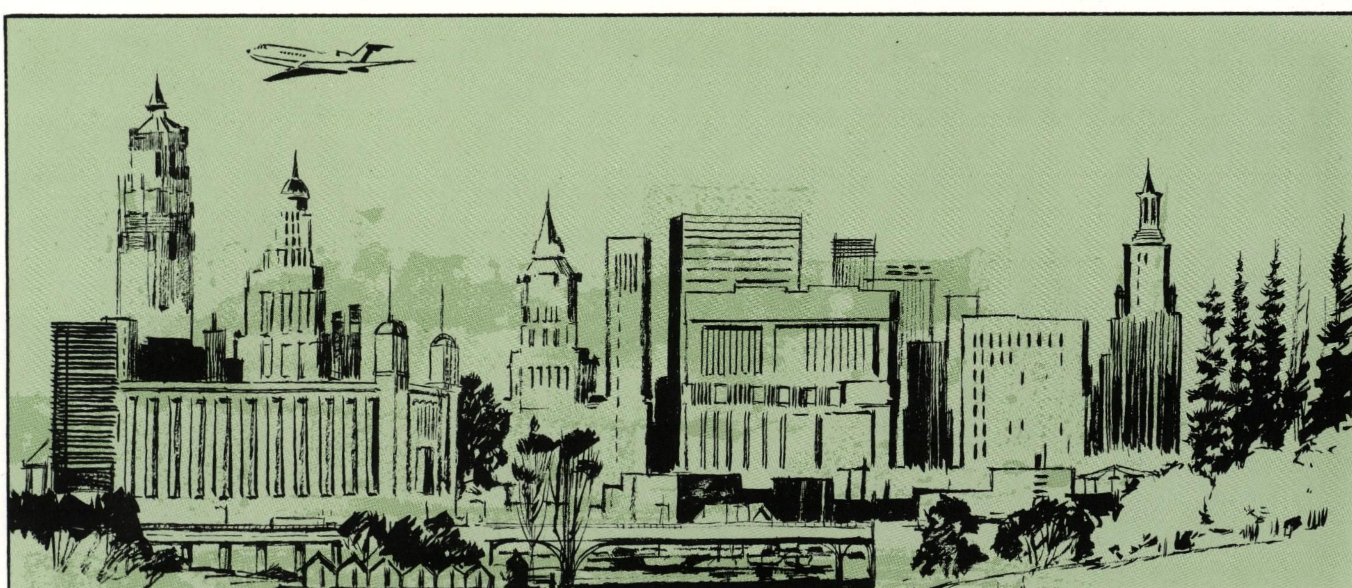
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
Business and Economic Research Division
April 1968
DANIEL J. EVANS, *Governor* DANIEL B. WARD, *Director*
Dennis Fusco, *Analyst* Robert Anderson, *Division Manager*

AN EXCEPTIONAL YEAR — Washington's economy thundered forward in 1967 at the most intensive pace ever witnessed in postwar history, aside from the single experiences of 1966 and the Korean War buildup of 1951. It was a year marked by tremendous growth. The primary export industries built substantially upon the greatly elevated production base established in the previous year, bringing total output and employment to all-time record levels. The surge in nonmanufacturing largely reflected the internal response of the economy to prior growth achieved in the manufacturing sector. With remarkable determination, the economy moved steadily through the ensuing months towards a more normal balanced structure. A foundation was established in 1967 capable of sustaining continued high industrial levels.

In contrast to the explosive pace of the prior year, 1967 reflected a very substantial but more restrained growth pattern. Neither in absolute nor in relative terms did the accomplishments of the year fully match those of 1966; in fact, the average annual rate was little more than half as great. This slightly reduced pace was a natural consequence following immediately behind the hectic advance of 1966—a period both necessary and welcome to provide proper assimilation of recent past developments. An average of 58,000 new nonagricultural workers were added to Washington's labor rolls over the year, an absolute gain in employment three times greater than the State's average annual experience for the first half of the decade, and a relative increase over twice that of the national average. Personal income swelled by nearly a billion dollars. Washington's economic growth in 1967 exceeded the national average by a strong margin, reflecting the continued advance of commerce and industry in one of the fastest advancing areas of the nation today.

PERSPECTIVE OF THE DECADE—The tremendous expansion of Washington's basic economic level during the past three years stands in stark contrast to the relatively slow pace which characterized the initial years of the Sixties. Washington suffered the economic setback resulting from two localized recessions at the very onset of the decade—one in 1961 and another in 1963-64, the latter precipitated by a 25,000 worker cut at The Boeing Company. It was not until 1965 that the State fully recovered. Since that time, Washington's progress has been phenomenal —not only exceeding its own prior postwar experience but greatly surpassing the national average. The outlook for each of the remaining years of this decade is for continued higher-than-average postwar advance.

THE NARROWING MARGIN—Washington entered 1967 on the momentum generated from a period of unparalleled postwar industrial expansion. The ensuing months proceeded to build further upon this resultant higher base. As the year progressed, the margin between the corresponding periods declined in relative magnitude, not in reflection of a lessening in the actual growth rate, but the movement of the State's



MAJOR GROWTH INDICATORS	Washington State 1966	Washington State 1967	% Increase	United States 1966	United States 1967	% Increase
Total Employment (annual average in thousands)	1,204.5	1,257.5	+4.4	72,895.0	74,372.0	+2.0
Total Personal Income (in millions)	$9,797.0	$10,750.0*	+9.7	$584,000.0	$621,000.0*	+6.3

*Estimated subject to revision.

economy toward a more comparable base.

Total wage and salary employment stood nearly 9% above 1966 in January, dropping off rapidly to 6.8% through the first half and ending the year at a more modest average 5.8% annual pace. Structurally, the initial months of 1966 marked only the beginning of the vast industrial advance which followed; the same period of 1967 reflected further development upon the elevated level. Washington's commodity-producing industries added yet another 12,000 workers over the year, the gain being almost totally confined to further additions in aerospace jobs. Over 80% of the total increase in employment levels resulted from greatly augmented capacity within nonmanufacturing; 45,000 new jobs were created to meet greatly intensified demand levels for basic services and facilities.

Paralleling the relative gains in employment was the growth in personal income, the most significant, pervasive indication of the State's general welfare. In the initial months of 1967, income levels were up nearly 12% higher than the corresponding periods of 1966, outstripping comparable growth in every other state of the nation. Washington continued in this enviable position throughout the first half, recording a 10% average pace. Preliminary data indicate Washington's personal income rose to a record $10.75 billion during 1967, up a narrower 9.7% margin over the year as capita income advanced 7.6%.

Severe inflation continued to mar the year's overall performance, generated in large measure by the absence of any further fiscal restraint upon an overheating domestic economy. As monetary policy eased in late 1966 and into 1967 with no corresponding fiscal action to curb burgeoning demand, the economy witnessed a massive outflow of bank credit and expansion in the money supply. The impass between the Administration and Congress over the proposed 10% surcharge on corporate and personal incomes continued into the following year. Prices rose further as a means of allocating intensive demand. As labor sought to offset the rising costs of living through wage settlements which exceeded the corresponding rise in productivity, cost-push pressures forced prices even higher. Consumer prices in the Seattle metropolitan area rose 3.0% with the average resident paying 19% more for goods and services by year-end than during the 1957-59 base period. Allowing for the relative erosion from spiraling costs, 'real' income in the State was up an estimated 6.5% in 1967.

THE MAJOR CONTRIBUTORS—Washington's economy was internally a paradox of trends in 1967, with weaknesses in several major industries being offset by the overall gain. Collectively, the manufacturing industries advanced with increasing strength. Aerospace continued to dominate the year's advance in the primary sector as staffing proceeded for the 747 and Supersonic Transport planes. The food processing industry added another 1,000 workers over the year, with comparable growth reflected in diversified manufacturing. The basic forest products industry faced its second year of soft markets. Employment was increased by over 10,000 workers in each of the trades, services, and government sectors. Despite the vast additions to Washington's civilian labor force, the unemployment rate remained at a relatively tight 4.2%.

ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT

	1965	1966	1967*	Change 1966-67	% Change 1966-67
Mining	1,800	1,800	1,700	− 100	−5.6
Contract Construction	46,400	54,600	55,500	+ 900	+1.6
Manufacturing	225,900	265,300	277,900	+12,600	+4.7
Trans., Comm., & Util.	61,700	65,800	69,400	+ 3,600	+5.5
Trade	198,900	214,400	227,900	+13,500	+6.3
Fin., Ins., & Real Estate	44,400	47,100	50,400	+ 3,300	+7.0
Services & Misc.	124,400	133,400	144,900	+11,500	+8.6
Government	193,100	206,200	218,500	+12,300	+6.0
TOTAL	896,600	988,600	1,046,200	+57,600	+5.8

*Preliminary data subject to revision.

The manufacturing industries

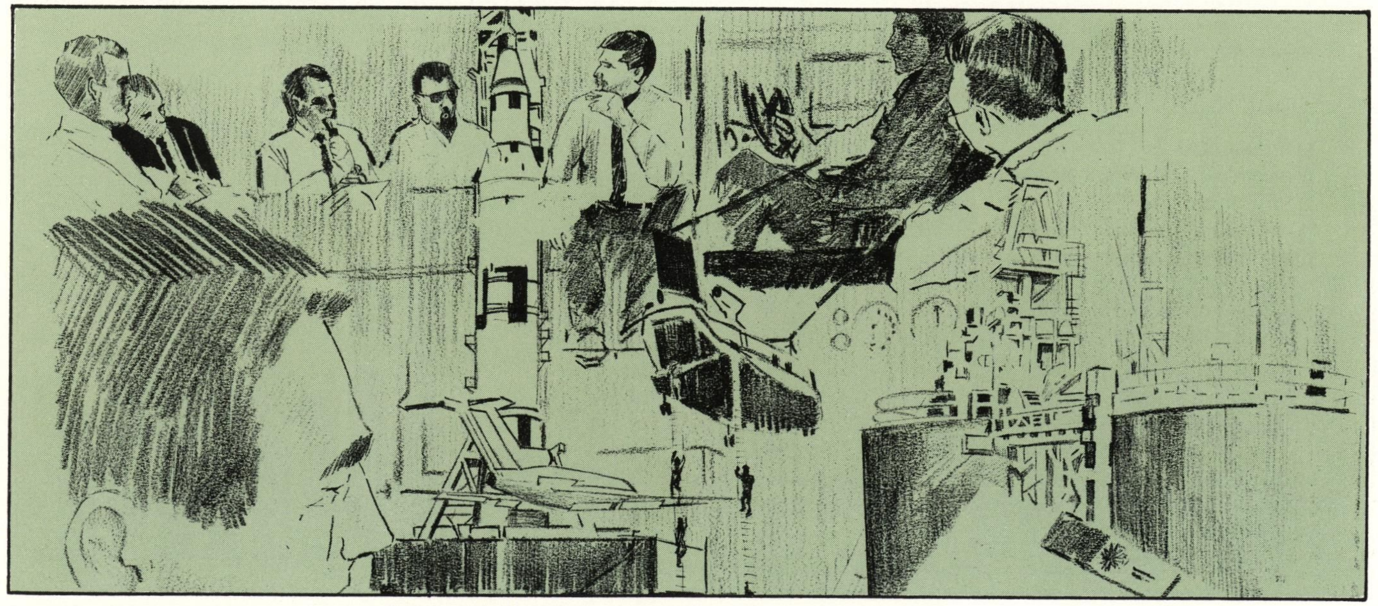
The industrial base of Washington State advanced steadily in 1967, following a temporary cutback in aerospace and a major shipyard strike at the very onset of the year. The rate of growth in manufacturing slowed considerably from 1966's hectic pace; however, a significant advance was evident particularly in the final half. Collectively, Washington's manufacturers attained record industrial levels in 1967, providing the catalyst for yet additional growth.

TRANSPORTATION EQUIPMENT Nearly half of Washington's total manufacturing effort is devoted exclusively to the production of transportation equipment, of which 90% is concentrated in aerospace. This substantial and vital segment of the State's basic economy has experienced remarkable growth in the past three years, with the recent resurgence serving not only to extend the industry's relative position but to provide the major impetus for burgeoning advance in secondary activities and other diversified manufacturing.

The aerospace industry proceeded in 1967 to consolidate recent gains, to establish greater internal efficiencies, and to further augment record productive capability. Employment climbed to a record 105,000 by year-end. As construction was completed on major facilities, manpower was shifted internally to provide the level of human resources necessary to meet unparalleled production commitments. Output increased from 18 to 23 planes a month, with a total of 277 jets delivered to the world's commercial airlines during the course of the year. The Boeing Company reported annual sales exceeding $2.88 billion, with a backlog of $5.8 billion extending well into the next decade. Structurally 60% of annual sales and nearly 90% of the total backlog represents the boom in commercial demand, providing the State's aerospace industry with a far more stable economic base than has existed in the past. High employment and production levels will be sustained well into the next decade.

Commercial production on the 707, 737, and 720 series airframes was highlighted as work commenced on the mammoth 747 jet transport plane near Everett. A total of 6,000 workers were physically located at the 747 facility by year-end; staffing ultimately will advance to 15,000 within the next two years. Although the 747 is not scheduled for commercial delivery until late 1969, The Boeing Company holds one of the largest preproduction orders in the history of aviation —149 planes to 25 major airlines at a cost of approximately $20 million each. Total marketing is estimated at 400 planes by 1975.

Developmental work continued on the Supersonic Transport following selection of Boeing's basic design during the final days of 1966. Congress approved the full $223 million Federal appropriation for prototype construction in October; however, budgetary considerations brought the program under careful scrutiny. Due to basic design problems relating to the weight-range



of the airframe, The Boeing Company has been granted a one-year delay in the developmental phase, bringing the first flight into 1972. The delay was considered necessary by Boeing to enhance the specifications in providing a more economical commercial craft by improving the basic range and payload of the SST. Presently, 129 delivery positions have been reserved for the 1,800 mile-an-hour, $40-million jetliner, with total marketing estimated at 800 to 1,200 planes.

Government contract work in aerospace is dominated by the Minuteman Intercontinental Ballistic Missile program, accounting for 30% of all government work at Boeing. The Lunar Orbiter Spacecrafts accomplished their assigned projects in photographing the moon's surface with such perfection that Boeing was awarded $5 million in incentive bonuses by NASA. In addition, Boeing holds a billion-dollar contract for developing the first stage of the Saturn V Moon Rocket and a $142-million contract for designing and producing a supersonic air-to-ground missile with nuclear capability.

While Washington's aerospace industry bears no direct relationship to the war effort in Vietnam, the shipbuilding industry is yet another story. Presently, the total value of ships under construction or on the drawing boards in the Puget Sound area exceeds $600 million; considering the yards on the Columbia, the Pacific Northwest holds work on over a billion-dollars' worth of ships. Perhaps as much as half of this workload is totally war oriented. The substantial backlog of orders at Lockheed and Todd Shipyards in Seattle, Tacoma Boatbuilding, United of Bellingham, and the Puget Sound Naval Shipyard at Bremerton extends well into the 1970's.

FOREST PRODUCTS—Bolstered by significant improvement in the level of housing construction throughout the nation, Washington's lumber and plywood industries advanced during the ensuing months of 1967 over the severely depressed levels of 1966. Gains in the final quarter were considered to mark the beginning of recovery from two consecutive years of decline. The industry ended the year on a note of optimism, with production up and prices stabilized at a higher level. Key grades of lumber marketed for $20 a thousand-board feet higher than in 1966; plywood prices stood 10% to 25% above the abnormally low level of the prior year.

As Federal monetary policy shifted rapidly during 1967 from extreme restraint to permissive ease, the housing industry rebounded. Demand for new homes advanced strongly. Toward the end of the summer, housing starts in the nation were running at a 1.5 million-unit seasonally adjusted annual rate, up nearly 40% from the level prevailing during the comparable period of 1966. By year end, the nation had placed 1.3 million new homes under construction, in contrast to a low 1.2 million in 1966. This level of new residential construction still remains well below the number required to meet normal demand. As the pent-up requirements for new homes is generated into the housing market, residential construction is expected to rise in 1968, the degree being largely dependent upon monetary and fiscal policy. At the end of 1967, the housing industry predicted a 10% to 15% gain in the number of new starts for 1968, bringing forth a 1.5 million-unit annual housing market. Since that time, substantial hikes in the Federal Reserve's discount rate has dimmed the housing outlook. In the absence of further fiscal action, government deficit financing and the collateral inflationary pressures are forcing the Federal Reserve back into a policy of monetary restraint. The swing toward tight money has deliberately restricted the soaring demand for credit, threatening to send mortgage rates even higher and reduce available mortgage funds.

Despite moderate advance, activity in lumber and plywood remained below normal seasonal levels through 1967. Even as sales improved, recovery was curtailed by a severe shortage of logs, the result of sharp increases in the volume of exports and forest closures due to fire conditions at the height of the logging season. Aggressive competition for publicly held timber intensified spiraling stumpage prices. Washington mills faced keen market competition nationally from Southern plywood and foreign lumber manufacturers. Numerous sawmills and plywood plants in the Pacific Northwest have fallen victims to recent structural and marketing trends in the industry and will never reopen. Employment in lumber and wood products dropped by 2,500 workers in Washington over the year, engaging an average of 44,100 wage and salary employees. Lumber production was off by 6.7% to an annual level of 3.554 billion board feet; plywood output was down 6.5% to 1.889 billion square feet (3/8 inch base). Despite lower output for the second consecutive year, the level of lumber production in Washington State remained 10% higher than the low of 1961 and held above the annual average prevailing in the first half of the decade.

Serving as a leading barometer of prevailing business conditions, the pulp and paper sector paralleled the general slowdown of the national economy. As sales weakened in the first half, the industry faced excess plant capacity and over production. Many local firms temporarily curtailed operations to adjust inventories rather than reducing prices. The paper industry witnessed a 2% decline in national consumption over the year and a 1% drop in total production. Pulpwood consumption was up a mere 1% through the first half, but as business accelerated in the final months, it is estimated that total consumption of domestic pulpwood moved perhaps 5% above 1966's level. Employment in paper and allied products advanced toward year-end, engaging an annual average of 20,000 local workers.

METALWORKING INDUSTRY—Growth in primary metals, metal fabrication and machinery manufacturing accounted for much of the State's industrial expansion beyond further advances in aerospace. Electrical machinery manufacturing advanced steadily; the demand for nonelectrical machinery closely paralleled the slower rate of capital expenditures on the national level. The threat of over capacity faced the aluminum industry in the second and third quarters; however, demand rebounded in the final months and sales firmed. Undaunted by the slight setback in shipments, Washington's primary aluminum manufacturers proceeded to increase capacity. New construction was highlighted during the year by the opening of Intalco's second giant potline near Ferndale. Upon completion of the third potline in 1968, Intalco will have achieved an annual rated capacity of 228,000 tons. Alcoa expanded at Wenatchee, and Reynolds continued work at Longview designed to triple-rated annual capacity by the end of this year.

Fabricated metal manufacturing advanced in 1967. Typically, those industrial firms closely oriented toward local markets have witnessed an accelerated growth rate in recent years. Through the ensuing months Pacific Car and Foundry was awarded a major contract to supply 55,000 tons of fabricated structural steel assemblies for the New York Trade Center. Kaiser is engaged in installing a new heat-treating furnace at its Spokane rolling mill and is constructing a multimillion dollar continuous aluminum rod plant adjacent to its primary reduction plant at Tacoma.

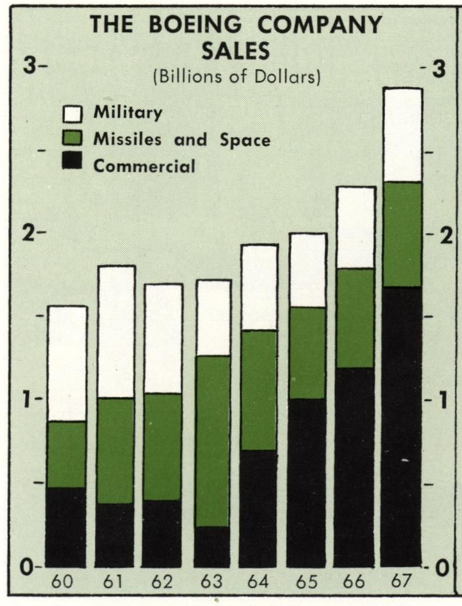
AVERAGE ANNUAL MANUFACTURING EMPLOYMENT

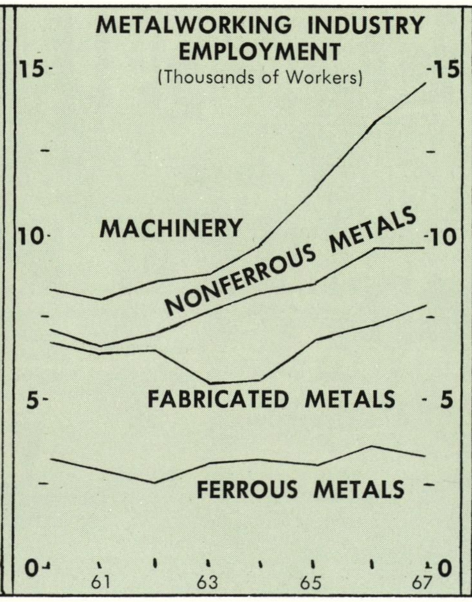
	1965	1966	1967*	Change 1966-67	% Change 1966-67
Total Manufacturing Employment	225,900	265,300	277,900	12,600	+ 4.7
Durable Goods	156,000	191,900	203,100	11,200	+ 5.8
Lumber and Wood Products	46,900	46,600	44,100	— 2,500	— 5.4
Furniture and Fixtures	2,800	2,900	3,000	100	+ 3.4
Stone, Clay, and Glass	5,400	5,600	5,600	.....	...
Primary and Fabricated Metals	18,600	20,800	21,100	300	+ 1.4
Machinery	11,400	14,000	14,600	600	+ 4.3
Transportation Equipment	68,700	99,600	112,100	12,500	+12.6
Other Durable Goods	2,200	2,400	2,600	200	+ 8.3
Nondurable Goods	69,900	73,400	74,800	1,400	+ 1.9
Food and Kindred Products	26,200	28,400	29,500	1,100	+ 3.9
Apparel and Allied Products	4,500	4,600	4,900	300	+ 6.5
Paper and Allied Products	19,800	20,300	20,000	— 300	— 1.5
Printing and Publishing	9,200	10,000	10,200	200	+ 2.0
Chemicals and Petroleum	8,600**	8,200	8,100	— 100	— 1.2
Other Nondurable Goods	1,600	1,900	2,100	200	+10.5

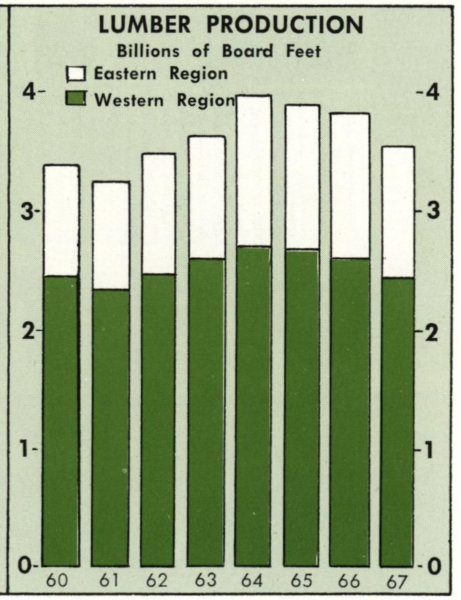
*Preliminary data subject to revision. **Adjusted for noneconomic code change reclassifying Hanford workers from Chemicals to Services.

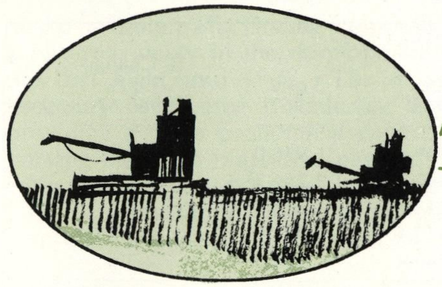
GROSS SALES OF MANUFACTURING INDUSTRIES
(in millions of dollars)

Industry	1965	1966	3 qtrs. 1966	3 qtrs. 1967	% Change 3 qtrs. 1966-67
Food and Kindred Products	1,064.6	1,263.2	949.4	936.0	−1.4
Forest Products	1,632.3	1,838.4	1,407.3	1,286.3	−8.5
Metal Working	768.4	1,002.8	754.6	819.6	+8.6
Transportation Equipment	2,016.8	2,395.8	1,812.5	1,987.0	+9.6
Other	880.8	998.8	749.4	721.3	−3.8
TOTAL	6,362.9	7,499.0	5,673.2	5,750.2	+1.4









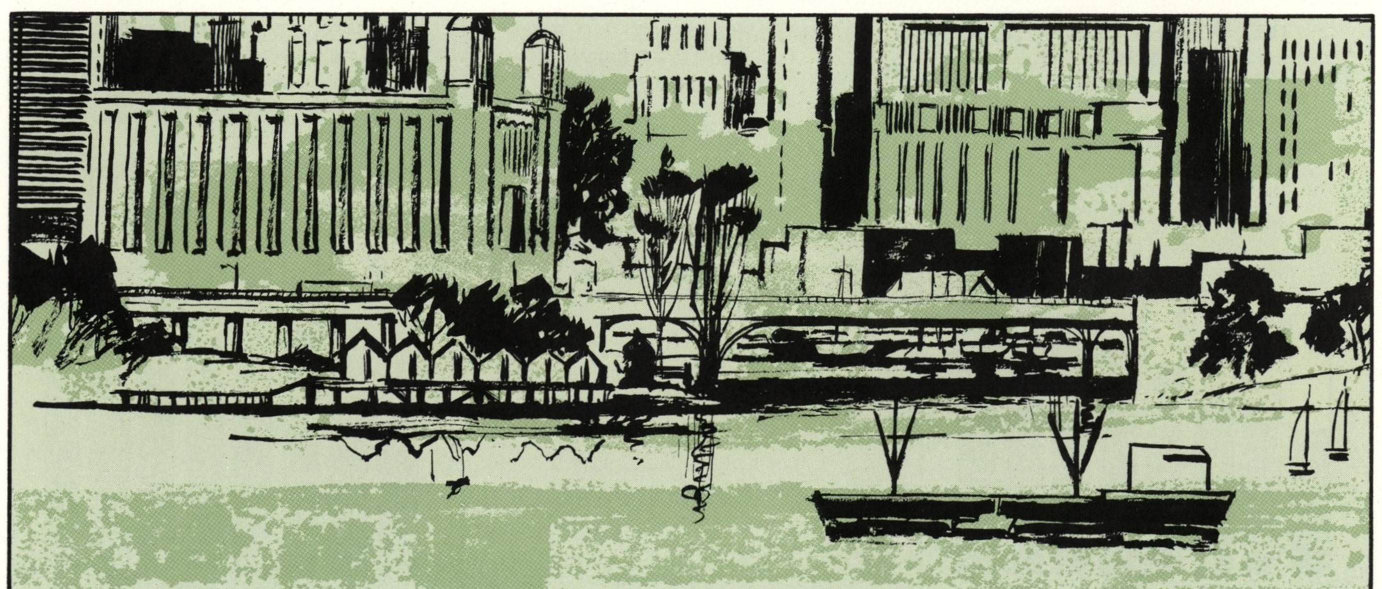
The nonmanufacturing industries

The greatest relative advance in 1967 occurred within Washington's supporting industries. This growth was a natural delayed reaction to prior gains achieved in the manufacturing sector. The State's greatly augmented labor force has served not only to stimulate primary production but to elevate the level of demand for housing, services, and basic consumer goods. By year-end, Washington had extended nonmanufacturing capacity by 45,000 additional workers.

AGRICULTURE—The year 1967 proved to be an outstanding period generally for Washington farmers, with high yields and favorable prices for most farm products bringing total production to a record value. Based upon preliminary estimates, the State's farm output advanced 2.7% over the downward-revised level of 1966 to an all-time high value of $816.2 million. Although total production was up, net farm income may prove to be lower in 1967 as expenses erode the relative gain in gross value. Farm employment fell by nearly 5,000 workers over the year, a reflection of prevailing industry trends. For several years the application of advanced methods and greater economies in agriculture have resulted in substantial increases in output and a corresponding reduction in absolute employment. This trend will continue. An average of 65,100 workers were engaged in agricultural activities in Washington during 1967, together with an additional 29,500 wage and salary employees in food processing.

The most dramatic advance over the year was a whopping 30% increase in total wheat production. The marketing of 118 million bushels boosted Washington's ranking as a major wheat-producing state from sixth to second in the nation, following behind only the State of Kansas. Local yields were up from 39.8 to 40.5 bushels an acre. With allotments increased in 1967 under the federal program, wheat was grown on 2,922,000 acres in Washington, up 650,000 from 1966. This vastly increased harvest served to offset lower prices which were off as much as 10% over the year. Vegetable crops were up, with potato production at record levels. Livestock marketing was relatively unchanged. Washington's fruit crops suffered from unseasonally hot, dry summer weather following immediately after a late spring, which retarded growth and lowered potential yields. Apple production fell by 18%, with 27.1 million bushels harvested; nevertheless, the year's apple crop exceeded the average annual harvest of 23.0 million bushels realized in the first half of the decade from 1960 to 1965. Crops of pears, cherries, strawberries, and raspberries were also lower than year earlier levels; however, smaller crops of fresh and processed fruits held prices high.

CONSTRUCTION—The pace of construction activity continued strong through 1967, with Washington emerging from the vast industrial expansion of 1966 with the greatest residential building boom in history. The total value of residential building permits in the State exceeded $600 million, up 50% over the spectacular level achieved in the previous year. The number of housing starts advanced 70% through the year, the highest of any state in the nation. Housing supply in the Central Puget Sound Region was increased over the year by an unprecedented 30,000 additional units. Approximately half of the total number of permits issued in the City of Seattle was for apartment units; local builders completed more than twice the number of apartment units in the final half of the year than the local market has ever been able to absorb in the past. It is rewarding that available housing has not become a major factor restraining regional growth.



VALUE OF WASHINGTON'S AGRICULTURAL PRODUCTION
(in millions of dollars)

	1965	1966	1967	Change 1966-67	% Change 1966-67
Field Crops	295.1	335.8	347.6	+11.8	+ 3.5
Fruit Crops	86.2	112.4	118.3	+ 5.9	+ 5.2
Berry Crops	11.5	14.5	12.1	− 2.4	−16.6
Vegetable Crops	40.7	44.3	48.6	+ 4.3	+ 9.8
Livestock and Livestock Products	235.5	261.0	260.7	− 0.3	− 0.1
Specialty Products	24.4	27.0	29.0	+ 2.0	+ 7.4
TOTAL	693.4	795.0	816.3	+21.3	+ 2.7

Nonresidential building was down fractionally in Washington from 1966's record level, with completion of major portions of work on industrial and commercial facilities, highways, and hydroelectric projects. The total value of nonresidential building held at $355 million. During the course of the year, local firms and new industry announced plans to invest over $400 million in additional plant and equipment facilities in the State of Washington, an aggregate commitment by industry twice that recorded for any comparable period for which records have been maintained save 1966.

TOURISM—Washington broke tourist records in 1967. Total nonresident tourist travel in the State swelled to an estimated 8.6 million visitors, spending over $300 million for local goods and services. General occupancy rates at selected hotels and motels were up 3% through the year, with attendance high at major tourist attractions. An unprecedented warm summer contributed to the year's highly-successful tourist season. Vast improvements in transportation, together with increased leisure time and higher disposable incomes for greater numbers of people have extended Washington's potential tourist markets.

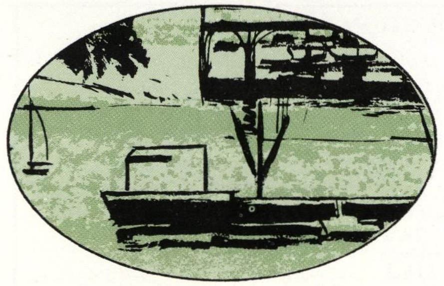
TRANSPORTATION AND UTILITIES—The State's burgeoning population and industrial levels together with heavy shipments of men and material to support U. S. commitments in Viet Nam have created an intensive demand for additional transportation and utility services. Air passenger traffic at Seattle-Tacoma Airport soared to over three million persons, up a million over 1966's level. The phenomenal growth of air traffic in recent years and the projected accelerated advance in the immediate future has led to extensive new capital investment programs. The Port of Seattle is scheduling $82 million in airport improvements over the next three years. During 1967, three additional major trunk airlines were granted routes to serve the Pacific Northwest through Seattle-Tacoma International Airport—Eastern, Braniff, and Continental Airlines.

The demand for electrical power in the Pacific Northwest is estimated to more than triple in the next 20 years, requiring an additional one-million kilowatt capacity annually beginning in 1975. Nuclear-powered steam generating plants supplementing existing hydroelectric facilities appear to offer the most feasible alternative in meeting these growing long-range power requirements. The proposed $150-million thermal power plant of Puget Sound Power and Light to be constructed near Bellingham will ultimately supply three to four million kilowatts of electrical energy and could very likely be a nuclear facility. The plant is scheduled to be operative in 1977, with a seven-year lead time and 42 months of actual construction. The new $176 million joint power plant near Centralia of Washington Water and Pacific Power and Light Company will be coal-fired, offering within the shorter-time frame greater economies. The first stage of the project will be in operation in 1971, adding a million kilowatts to the region's present electrical supply grid. Ultimately capacity could be doubled.

International trade recorded through the Washington Customs District soared to a record value of $1.8 billion in 1967, posting the greatest relative annual advance of any customs district on the Pacific Coast. Export values topped one billion dollars, a dramatic 22.3% advance over the year in contrast to a 2% increase in 1966. Imports were up 8.5% to $732 million.

TRADE, FINANCE, SERVICES, AND GOVERNMENT—The year marked significant gains in the trade, finance, services, and government sectors of Washington's economy. Propelled by the sharp rise in business levels, bank debits in the State rose 10%; department store sales in Washington's three major metropolitan centers were up 11% over the year. Record-high employment and income levels, coupled with the prevailing attitude among consumers across the nation which boosted the average rate of personal savings to the highest level in a decade, resulted in a 14.6% annual gain in total savings funds held by Washington's financial institutions to $5.1 billion by year end. The growth in government largely reflected continued Federal military needs and the demand for additional educational services.

The Hanford Nucleonics project continued to advance its basic diversification and research program through 1967. The newest member to join major contractors in the area was the Atlantic Richfield Corporation. This firm assumed operations for the atomic processing complex to separate plutonium and uranium from irradiated reactor fuels and contracted to include a six-point diversification program for the Tri-Cities area.



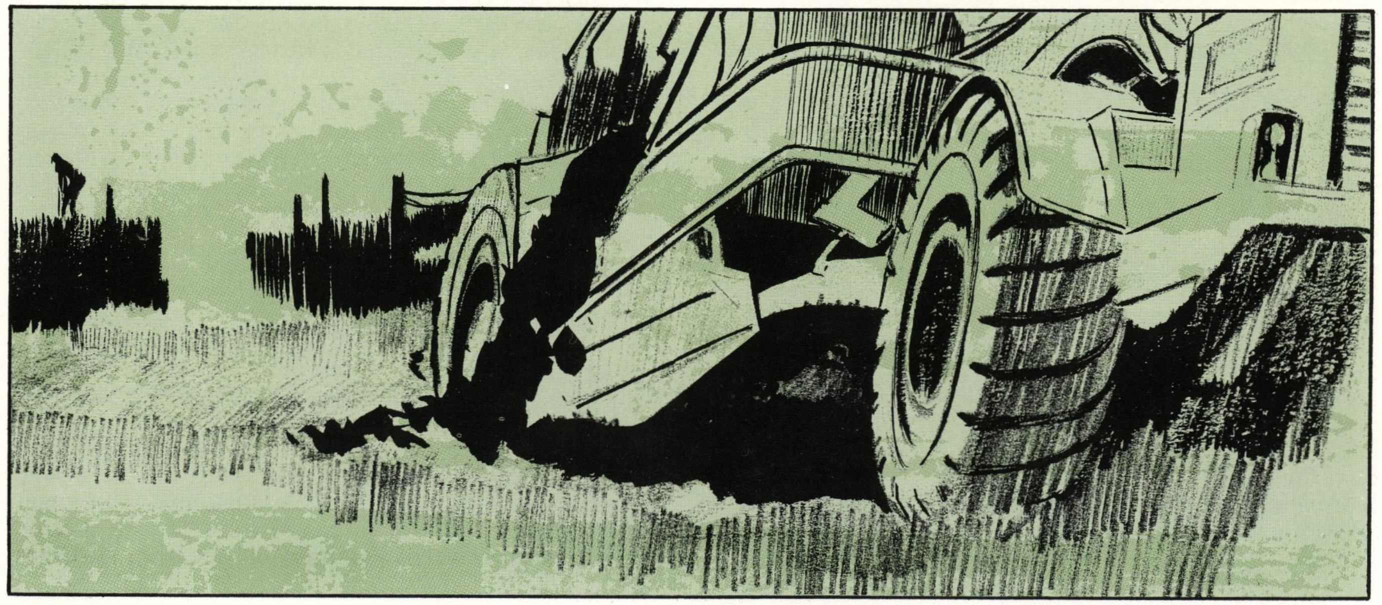
Regional trends

While the overall trend of 1967 was one of increasing strength, local conditions differed across the State in reflection of dominant economic trends. Washington State is more broadly integrated as an economic unit than is often realized, with the impact of conditions in any one sector of the economy or any one geographical area widely distributed.

NORTH PUGET SOUND REGION (Island, San Juan, Skagit, and Whatcom Counties) The level of economic activity in the North Puget Sound Region was one of sustained high employment and production, with gradual improvement in lumbering, further expansion in primary metals, and substantial government work in shipbuilding. Lumber production advanced over the severely-depressed fourth quarter 1966 levels. Local farmers realized a very good year, with food processing employment holding constant despite the loss of a major poultry plant in Skagit County. Construction in the area was highlighted by the opening of the second major potline at Intalco near Ferndale, bringing annual rated capacity of the plant to 170,000 tons. Great Northern purchased substantial acreage near Intalco for future industrial development, and Puget Sound Power and Light announced its selection of a site northwest of Bellingham for its new $150-million thermal-generating power plant. The town of Concrete will witness the closure of its cement plant in 1968; however, local efforts are underway to seek new industrial development in the area. The outlook for 1968 is for steady advance.

CENTRAL PUGET SOUND REGION (King, Kitsap, Pierce, and Snohomish Counties) The most dynamic industrial and commercial growth in the State continued to be centered in the Central Puget Sound Region. The Region added over 46,000 new workers to its local payrolls over the year, drawing additional workers from across the State and the nation. Resource utilization was intensive, with unemployment maintained at a tight 3.3%. Fully three-quarters of Washington's total gain in wage and salary employment occurred within the Region. Aerospace expanded further, with staffing of the 747 plant near Everett bringing the first 6,000 workers into Snohomish County. The burgeoning industrial advance of the Central Puget Sound area has served to stimulate the growth of secondary activities throughout all of Washington State. Construction remained strong with record residential building. The Region represents one of the fastest growing geographical areas in the nation, an enviable position which will continue through the years ahead.

NORTH COAST REGION (Clallam & Jefferson Counties) and SOUTH COAST REGION (Grays Harbor and Pacific Counties) Reflecting the heavy dependency of the Coastal Region upon the forest products industry, the general economic level closely paralleled the prevailing demand for lumber and wood products. Intensive demand for logs for export served to stabilize an otherwise shaky economy. Lumber production advanced through the year, with substantial strength noted particularly in the final months. The larger mills resumed full-time operations; however, two consecutive years of declining output have resulted in the closure of many local plants. A major mill was closed during 1967 in Port Angeles, together with a plywood plant and shake mill in the Aberdeen area affecting 370 local workers. A record tourist season served to bolster the local economy during the summer season, as ever-increasing numbers of visitors enjoyed the beauty of the Olympic National Forest and the Pacific beaches of Washington State.

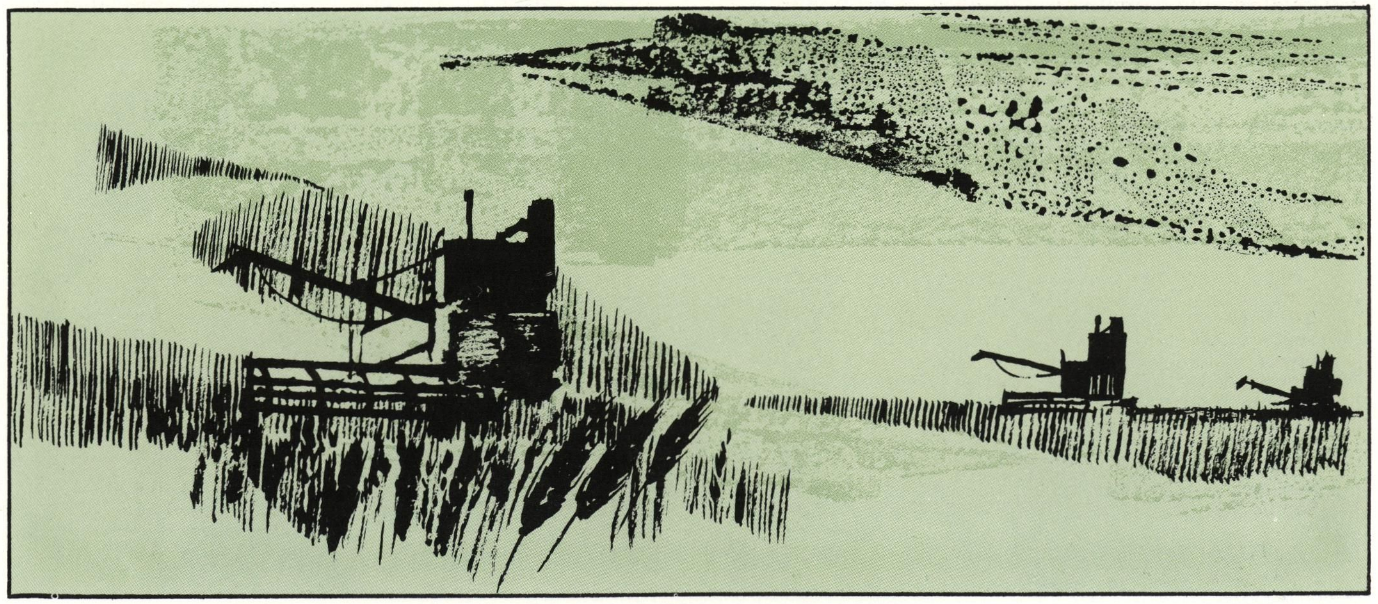


SOUTH PUGET SOUND REGION (Mason, Lewis, & Thurston Counties) and LOWER COLUMBIA REGION (Clark, Cowlitz, Skamania, Wahkiakum, and Klickitat Counties) The economy of the Southwestern Washington area was maintained at high levels through 1967, with capacity aluminum production and record trade handled through ports on the Columbia and Puget Sound. Reynolds Aluminum proceeded on work at its Longview facility, which will triple rated plant capacity when construction is completed in the late fall of 1968. The Port of Vancouver continued its vast industrial park development on Vancouver Lake. Construction levels in the region will be stimulated as work commences in 1968 on the $176-million coal-fired power plant near Centralia. Approximately 800 workers will be engaged in the actual construction phase. The plant will be operated as a joint venture of Washington Water of Spokane and Pacific Power and Light of Portland, with a capacity of a million kilowatts of electrical output beginning in late 1971. Olympia was selected as the site for Washington's new four-year college. Construction of the initial facilities should begin in 1969, with the first class admitted in perhaps 1971. Ultimately, attendance is expected to reach 10,000 students. Production of lumber and plywood remained at restricted levels, with three major plywood plants in the Olympia area closing completely. Harvey Aluminum Incorporated of California has announced plans to construct an $80 million aluminum reduction plant near the site of the John Day Dam in Klickitat County, utilizing 200,000 kilowatts of electrical energy generated from this power source. The facility will convert alumina derived from bauxite imported from the Virgin Islands into aluminum ingots, casting the ingots into alloys and exporting them for fabrication. The plant is expected to be completed by 1970, with an annual rated capacity of 100,000 tons, providing employment for 900 workers, and generating an annual payroll of approximately $6 million.

UPPER COLUMBIA REGION (Chelan, Douglas, & Okanogan Counties) The 1967 fruit harvest was good, despite a serious summer drought following immediately after a late spring which retarded crop development. Total apple production was lower than 1966's level but stood substantially higher than the average yield prevailing during the first half of the decade. Smaller crops of fresh and processed fruits held prices high. Labor was sufficient to meet local harvesting requirements; however, skilled farm workers were in short supply. The aluminum industry expanded at Wenatchee, with Alcoa placing an additional major potline into operation. Construction levels were down from prior years due to completion of major segments of the Wells Dam Project.

YAKIMA VALLEY (Kittitas and Yakima Counties) Farm activity in the Yakima Valley remained at high levels through 1967. The rapidly-expanding food processing industry of the region is becoming ever closer linked to the level of local agricultural production. Total marketing of fresh and processed fruit was lower than previously anticipated due to extreme climatic condtitions in the summer months. The local pear crop was outstanding; however, peach harvests were below normal seasonal levels. Temporary farm labor was present in sufficient quantities to meet harvest requirements. Tourist activity is becoming an increasingly important segment of the Valley's basic economy.

COLUMBIA BASIN REGION (Adams, Grant, and Lincoln Counties) The general economic trend of the Columbia Basin Region advanced strongly in 1967, with further development of the vast Columbia Basin Irrigation Project. This program of the Federal Bureau of Reclamation is transforming the region from dryland farming into one of the richest cash crop agri-



BANK DEBITS FOR SELECTED WASHINGTON CITIES
(in millions of dollars)

	1965	1966	1967	Increase 1966-67	% Increase 1966-67
Seattle	28,979	34,343	38,383	4,040	+11.8
Tacoma	4,369	5,461	6,709	1,248	+22.9
Spokane	4,566	4,827	5,022	195	+ 4.0
Yakima	1,154	1,329	1,385	56	+ 4.2
Everett	1,015	1,150	1,353	203	+17.7
Tri-Cities	807	868	955	87	+10.0
Bellingham	668	722	738	16	+ 2.2
Walla Walla	469	442	477	35	+ 7.9

cultural areas of Washington State. Potential crop yields were retarded in 1967, however, by a severe summer drought. The local food processing industry continued to expand rapidly. Portions of the former Larson Air Force Base complex at Moses Lake are currently in use for a Job Corps Training Center and the Community College. The Boeing Company was awarded 129 acres of prime industrial land and several structures on the Base, and although plans have not yet been formally announced, it is said to be considering perhaps transferring the final grooming operations for jet transports to the facility.

TWO RIVERS REGION (Benton, Franklin, and Walla Walla Counties) The economy of the Two Rivers Region advanced steadily in 1967, with stabilized growth in the Walla Walla area and intensive development in the Tri-Cities. Farm production was generally good although farm labor was in short supply. Further diversification and expansion marked the year's progress at the Hanford Nucleonics Project. Atlantic Richfield was selected to operate the atomic processing complex devoted to the separation of plutonium and uranium from irradiated reactor fuels. As part of the contract provision, ARHCO announced a six-point diversification program for the area, including a major hotel and convention center, cattle feed lot, meat-packing plant, and basic research program.

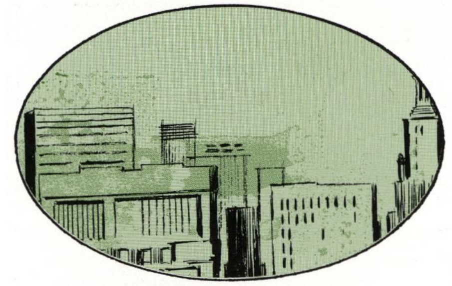
NORTHEASTERN REGION (Ferry, Stevens, and Pend Oreille Counties) The level of economic activity in the Northeastern Region continued at a relatively stable pace through 1967. Mining levels were down, with one major mine closing completely in the face of declining prices for zinc. Major portions of the Boundary Dam Project were completed during the year, resulting in a loss of temporary construction workers. Northwest Magnesite has announced plans for gradually phasing-out its operations at Chewelah during 1968, directly affecting 90 to 125 local workers. Structural trends within the industry have rendered the operation to be economically unsound. Logging operations were maintained at intensive rates through the year, with lumber mills operating at more normal seasonal levels.

SPOKANE COUNTY AND SOUTHEASTERN REGION (Asotin, Columbia, Garfield and Whitman Counties) The growth of Spokane's economy during 1967 reflected the increased demand for services and trade generated from Washington's greatly elevated industrial levels. Spokane serves as the major trade center for processed goods to consumers throughout the Inland Empire. During the first half, Spokane's business level remained unchanged; the final half was marked by significant gains in the support industries of services, trade, and government. Growth in the secondary sector of the economy more than offset the corresponding employment losses in manufacturing. The establishment of the Spokane Industrial park has been instrumental in attracting new light industry into the area. In the Southeastern Region wheat production was at a record. Student enrollment at Washington State University continued to increase, boosting the servicing industries of the Pullman area.

COVERED WAGE AND SALARY EMPLOYMENT BY ECONOMIC REGION
Monthly Average First Nine Months

Region	1965	1966	1967	Change 1966-67	% Change 1966-67
North Puget Sound	24,966	26,475	27,032	+ 557	+ 2.1
Central Puget Sound	390,934	453,020	490,736	+37,716	+ 8.3
South Puget Sound	21,065	22,407	23,483	+ 1,076	+ 4.8
North Coast	8,855	8,577	8,505	— 72	— 0.8
South Coast	18,281	19,038	16,749	— 2,289	—12.0
Lower Columbia	40,151	42,851	43,823	+ 972	+ 2.3
Upper Columbia	14,847	16,366	17,150	+ 784	+ 4.8
Yakima Valley	27,147	28,208	29,982	+ 1,774	+ 6.3
Columbia Basin	8,053	9,337	9,816	+ 479	+ 5.1
Two Rivers	27,462	27,774	28,668	+ 894	+ 3.2
Northeast	4,091	4,390	4,369	— 21	— 0.5
Spokane	53,883	57,081	57,530	+ 449	+ 0.8
Southeast	5,041	6,127	6,776	+ 649	+10.6
TOTAL*	644,776	721,651	764,619	+42,968	+ 6.0

*Excludes multicounty employment.

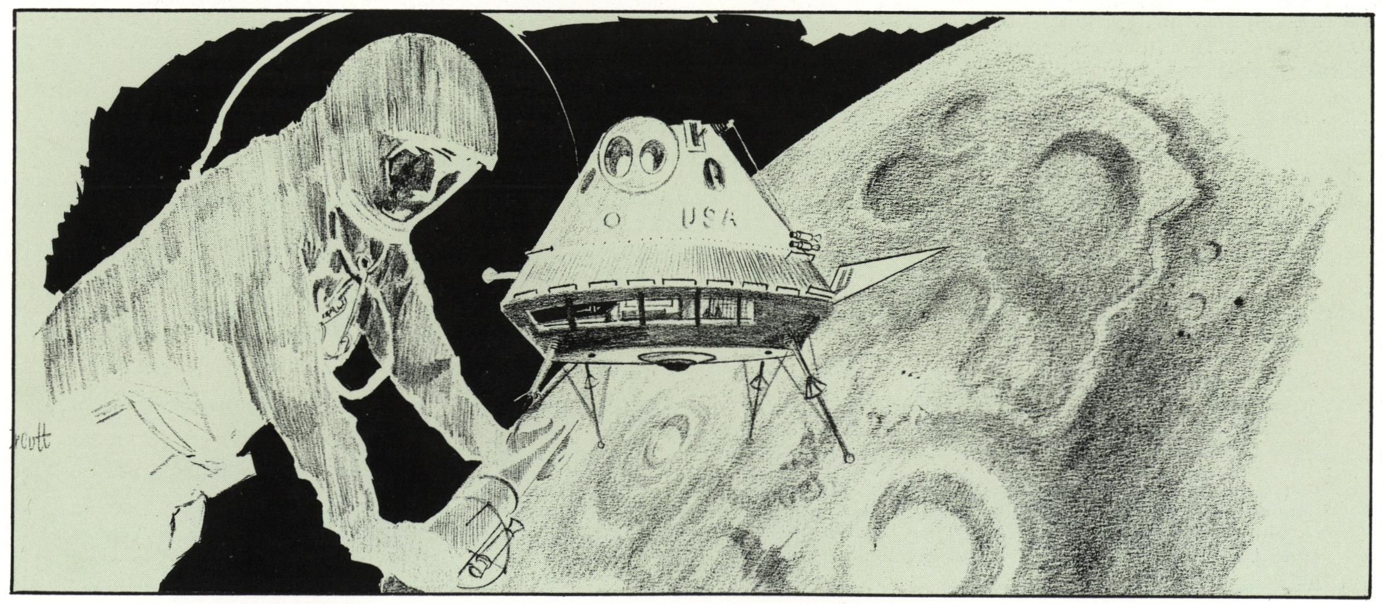


The outlook for 1968

Washington's economy soared to record heights in 1967 and prepares to advance strongly upon this elevated base into 1968. Economic growth during the ensuing months will not fully match the margin recorded in the past two years; however, the annual pace will significantly surpass that of every other year subsequent to World War II. It will be an excellent year for the State. The basic manufacturing industries will advance steadily, reflecting improved conditions in forest products and substantial gains in diversified manufacturing. Aerospace will be a less dominant contributor to the State's overall growth in 1968. The greatest employment increases will again be realized within the "secondary" industries—services, trade, transportation and government. These supporting industries need this period to more properly adjust to Washington's higher industrial levels. The year 1968 will witness a growth rate in Washington which greatly exceeds that of the nation and will continue to outperform the State's own average annual postwar experience.

The outlook for Washington State in 1968 will again be highly influenced by conditions and events on the national level. Among the nation's leading economists there appears to be a general consensus that the nation's advance in 1968 will be characterized by a rapid pace in the first half, followed by a more moderate growth pattern in the final two quarters. The rate of growth depends in large measure upon the direction of the Vietnam War and federal action regarding taxes and spending. One of the most pressing problems facing the national economy in 1968 is that of achieving balanced, noninflationary growth and equating the international balance of payments. During 1967, the nation's balance of payments deficit worsened considerably, running at about $3.5 billion over the year. The devaluation of the British pound in November accentuated the U.S. balance-of-payments problem, seriously eroding the position of the dollar as the world's reserve currency. The resultant speculative attack upon the gold reserve indicated growing concern that the nation would not take constructive, definite steps in meeting its fiscal responsibilities. The Administration has agreed to cut previously requested appropriations by perhaps $4 to $5 billion; however, the proposed 10% surtax on personal and corporate incomes continues to be held in Congress. Further fiscal restraint is necessary to resolve the array of problems facing the nation, particularly if the economy performs as strongly as expected with virtual full-employment.

Monetary policy is unmistakably shifted toward restraint, taking the initiative in a positive and systematic manner to strengthen international position of the dollar and curb inflationary pressures in the domestic economy. Through the initial months of 1968, the Federal Reserve raised the discount rate twice. In March the rate was increased from 4.5% to 5%, the highest since the monetary crisis of 1929. Reserve requirements of member banks have been increased and the reserve position of the banking system has moved from one of net free reserves to a borrowed reserve status. Interest rates have risen to levels nearly comparable with those prevailing during the 'credit crunch' of 1966,



and the availability of bank credit is being tightened. The move must be augmented by responsible fiscal measures or the domestic financial market will be seriously affected.

"Real" growth of the national economy is expected to climb by 4% over the year, with the Gross National Product reaching a level of $840 billion. The gain in the money value of all goods and services produced in the nation should rise nearly $60 billion, compared to roughly $40 billion in 1967. Capital spending for commercial and industrial construction was expected to rise modestly by 2% to 3% as of the end of the year, but this level has been advanced upward in recent months to perhaps 8%. Industrial production should advance by 4% after virtually no gain in the past year; prices will rise close to 4%; and unemployment will be held near 4%. The major thrust of the economy will be generated from improved consumer spending patterns. The year 1968 will mark the eighth consecutive year of expansion in the United States.

Leading indicators of economic growth in Washington State will advance strongly in 1968. Personal income will climb at a pace surpassing every other post-war year aside from 1966 and 1967. The rise in income levels will continue to be eroded, however, by the substantial advance in living costs. A further indication of Washington's accelerated growth during 1968 is provided by the U.S. Department of Commerce's estimate of value added by manufacturing firms. Value added, generally defined as manufacturing output less materials purchased, is forecast to increase to a level of $4.84 billion in 1968, up 11% over the prior year and 61% above that in 1964. Washington State is second only to Alaska among the Pacific Coast states in expected value added growth.

New construction in the nation is expected to rise by 8% in 1968 to a record annual expenditure level in excess of $83.5 billion. Over half of the year's gain is projected to be in the area of greater residential construction, an optimistic note for local lumber and plywood manufacturers. Depending largely upon the cost and availability of mortgage credit, housing starts are forecast to climb in the coming months. Without additional fiscal measures to restrain domestic demand, a new round of tight money will be forthcoming.

Inflation will continue to be a persistent problem in 1968. The prevailing wage-price spiral will be further accentuated in 1968 as five major labor contracts of particular significance to the Pacific Northwest come up for negotiation: steel, communications, aluminum, shipyard workers and aerospace machinists. Unions are pushing hard for even greater demands from industry, seeking an average 6% annual increase in additional wages and fringe benefits.

The outlook for Washington's industries in 1968 is excellent. Aerospace will sustain record employment levels, with production and sales advancing through the ensuing months. Relative additions to aerospace employment will be modest in comparison to the past two years, with perhaps a 5% rise. The industry has achieved an employment level which will remain relatively stable over the next few years. Boeing expects to increase production to 32 jets a month in 1968. The backlog of orders extends well into the 1970's. Diversified manufacturing in Washington will realize substantial gains in 1968, increasing capacity and production to meet intensified demand.

Within the resource industries, lumber and plywood demand should improve in 1968, precipitated by an advance in the volume of residential construction on the national level. Consumption of paperboard and pulpwood will parallel the advance in national business trends. The demand for farm products will continue strong, reflecting the needs of a growing population.

Washington's economic growth in 1968 will be more widely distributed than has been the prevailing case in the past two years. The Central Puget Sound Region will again witness great advances; however, most other regions will experience significant gains as the State's higher industrial level is reflected throughout the economy. The Tri-Cities area will continue to advance rapidly with the establishment of new firms and the development of new facilities at Hanford. The outlook for Spokane and Vancouver is enhanced by favorable expectations in aluminum and increasing trade volumes. Washington's business community views 1968 with great optimism and determination.

DATA SOURCES

POPULATION—United States—Current Population Reports, Bureau of the Census, United States Department of Commerce; Washington—Population and Research Division, Washington State Planning and Community Affairs Agency

EMPLOYMENT—United States—Bureau of Labor Statistics, United States Department of Labor; Washington—Research and Statistics Section, Washington State Department of Employment Security

PERSONAL INCOME—Office of Business Economics, United States Department of Commerce; 1967 Estimate—Business and Economic Research Division, Washington State Department of Commerce and Economic Development

GROSS SALES OF MANUFACTURING INDUSTRIES (preliminary data)—Research and Information Division, Washington State Department of Revenue

AGRICULTURAL PRODUCTION—U. S. Department of Agriculture

BANK DEBITS—Federal Reserve Bank of San Francisco

BOEING COMPANY SALES—Annual Report of The Boeing Company

LUMBER PRODUCTION—Washington State Department of Natural Resources