



STATE OF WASHINGTON

OFFICE OF THE GOVERNOR

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DANIEL J. EVANS
GOVERNOR

RECENT ECONOMIC DEVELOPMENTS AFFECTING WASHINGTON STATE February 1-15, 1968

Prepared for Governor Daniel J. Evans by the Washington State Department of Commerce & Economic Development, Business & Economic Research Division

NATIONAL INDICATORS:

Industrial Output - The level of industrial output for the nation rose to a record 157.8% of the 1957-59 average during 1967, an increase of 1.0% above the peak established in the prior year. In contrast to the dramatic 9.0% gain of 1966, the sluggish advance in total production during the ensuing months of 1967 posted the smallest relative annual increase since 1961. The most serious drag upon the economy occurred within the durable goods manufacturing sector, with output trailing 0.6% the level of the previous year. Nondurable goods manufacturing was up 2.3%, mining advanced by 2.4%, and utility output climbed by fully 5.8%.

During the month of January, the level of industrial production declined fractionally, reflecting lower total output of consumer durable goods and industrial materials. At a seasonally-adjusted rate of 161.2% of the 1957-59 average, the index of factory, mining, and utility output was off 0.6 points from December's upward-revised record of 161.8%. Manufacturing fell 0.4% over the month to 163.0%; however, the index of factory output stood nearly 3.0 points above that for the comparable period of 1967. Automobile assemblies slid 7% to an annual production rate of 8.3 million units, with the index off 12.1 points to a level of 163.0%. This level was substantially higher than the 141.3% of January, 1967. Iron and steel production was down 3.6 points to an adjusted level of 137.0%, but early indications are for strong growth in steel production during February.

Personal Income - Total personal income in the United States reached a record \$651.2 billion seasonally-adjusted annual rate in January; however, the \$1.9 billion monthly rate of increase was less than a third as large as realized in December. Contributing to the adverse effects were such nonrecurring factors as the \$1 billion annual rate rise in Social Security taxes and the \$4.7 billion annual pay boost which increased wages and salaries of government personnel for December. Factory payrolls climbed by \$900 million in January, the increase being concentrated within the durable goods manufacturing industries. Higher employment and hourly-wage rates offset a decline in total work hours.

Employment - Total employment in the nation declined more than seasonally in January to a level of 73,273,000 workers. The number of workers on nonfarm payrolls fell by 1,851,000 last month to a level of 66,111,000. On a seasonally-adjusted basis, nonagricultural employment was up slightly by 36,000 workers, the smallest relative increase since September. The most significant factor contributing to the low-adjusted rise in employment levels was the drop of 120,000 construction workers due to severe weather conditions throughout the nation. Employment in services rose by 34,000, retail trade was up 32,000, and government increased by 44,000 workers on an adjusted basis.

The nation's unemployment rate fell in January to the lowest level in over 14 years. At a seasonally-adjusted rate of 3.5% of the civilian labor force, the jobless count was down 0.2 percentage point from the previous month. Not to overemphasize the monthly trend, the Bureau of Labor Statistics stressed that the greatest contributing factor over the month was the decline in the number of adult women engaged in the labor force, a condition which has been quite variable over the past year. Of particular significance was the fact that the jobless rate among married men eased 1.7% to 1.6% in January.

Housing Construction - The number of housing starts throughout the nation rose dramatically by 16.3% in January to a seasonally-adjusted annual rate of 1,445,000 units, a level substantially higher than the 1,111,000 unit rate recorded for the comparable period of 1967. With the exception of the 21.8% decline witnessed in December, housing starts have advanced steadily during each consecutive month since midyear, January's advanced rate was widely reflected through all sections of the country. Housing analysts were buoyed by the monthly trend, anticipating an increase in total housing starts in 1968 from 1.3 million to over 1.4 million, despite tight money conditions.

The average interest rate on conventional mortgage loans edged forward in January, with the prevailing rate in early February being the highest since the Federal Housing Administration began maintaining their records in 1960. The latest increase to 6.75% was the third consecutive month of advance. In contrast, the average rate on conventional loans for the comparable period of 1967 was 6.60%. The greatest advance in rates on new housing was experienced in the Southeastern section of the nation, with rates on existing structures being increased in both the Southeast and the West.

Capital Expenditures - Anticipated new plant and equipment expenditures for 1968 are not expected to change significantly from the level achieved in the past year. As a proportion of Gross National Product, capital spending will not contribute to the expected rise in "real" GNP this year. The growth in output of the nation will be reflected in greater capacity utilization.

STATE INDICATORS:

Aerospace Industry - The request of the Administration for \$223 million in federal funds for the Supersonic Transport program during the coming fiscal year is facing

opposition in the House of Representatives. In the past months, opponents of the program have failed to successfully block appropriations for the prototype construction in several Congressional hearings; however, present considerations for reducing the level of federal spending make the SST an inviting target, as it involves the greatest single increase of any civilian program. The SST project is designed to bring the 1,800 mile-an-hour jet transport into commercial service by the mid-1970's. The \$1.1 billion cost of the developmental phase is presently proposed to be financed 90% by the federal government and 10% by private interests.

The Boeing Company has requested a one-year's delay in production of the Supersonic Transport prototypes. The action was considered appropriate due to significant design problems relating to weight range of the airframe. Boeing recommended that the Federal Aviation Administration postpone the first flight of the SST to 1972. The delay will widen the gap between development of a U. S. supersonic transport and similar aircraft presently under construction by the Soviets and the British-French joint venture and could affect the international balance of payments. Boeing has stressed that while the present configuration design could result in an air-worthy prototype, improved range and payload should be incorporated into the design to provide an economically successful commercial airframe.

747 Program - Production on the giant 747 jet transport is proceeding on schedule, with the first planes expected to be flight tested beginning in December. At the present time, approximately 20,000 people are engaged in the 747 program, of which 7,000 are located at the Everett plant. The work force at Everett is expected to climb to a level of 10,000 by year end, ultimately reaching 15,000 by 1969. Preliminary schedules call for production of seven superjets a month by the Spring of 1970, increasing to 8.5 planes a month by 1971. Twenty-five major airlines have announced plans to purchase 149 of the giant planes at the present time, with total sales expected to exceed 400 of the \$20 million aircraft during the life of the program.

Primary Metals Industry - 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 Washington State, 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.

Oceanography - The University of Washington has been selected as one of three schools in the nation to share in the first institutional awards given under the National Sea Grant Program. The University is to receive an initial grant of \$229,000 over a six-month period, permitting institution of the program while future proposals are being prepared. The Sea Grant Act is designed to strengthen applied research in the marine sciences, making the information readily available to business and industry. Government sources

indicate that the year's total to the University of Washington will exceed \$500,000, doubling next year, and ultimately increasing until the grant stabilizes at about \$2 million annually. The University is required to provide 50% matching funds.

Military Construction - The Department of Defense has requested \$1.88 billion for new military construction during the fiscal year beginning July 1, including \$12.2 million in projects marked for Washington State. The largest single appropriation was \$3.4 million for construction at the Whidby Naval Air Station. The \$2.5 million requested for the Puget Sound Naval Shipyard at Bremerton included \$1,595,000 for a new nuclear repair shop, \$871,000 for barracks replacement, and \$45,000 for incidental drydock work. Other construction included \$1.4 million at McChord Air Force Base and \$1.9 million at Fort Lewis.

Foreign Trade - International trade recorded through the Washington Customs District advanced during 1967 to a value in excess of \$1.78 billion. Exports climbed fully 22% over the level established in the prior year, attaining a total value over a billion dollars. Imports were up 8.5% to a value of \$731.6 million. The leading export markets for Washington's products were Canada, United Kingdom, and Japan, with imports coming mainly from Canada, Japan, and the Philippines.

Capital Investment - On February 13 the voters of King County approved \$333.9 million in expenditures for public improvements as presented by Forward Thrust. The total capital investment represents the largest single outlay ever undertaken by the county. It also encompasses one of the largest comprehensive bond issues ever passed in the United States. The voters approved a new multi-purpose stadium, but not the \$385 million rapid transit system. Approval was also secured on \$70 million to separate storm and sanitary sewers in Seattle, but the proposed \$68 million to control storm water throughout the county was rejected. Seattle voters bought new fire stations, arterial highways, parks and recreation areas, a youth service center, and neighborhood improvements, but not low income housing and community centers. Forward Thrust officials noted that all 12 issues received a majority of those voting; however, 60% approval was necessary for passage.