

ANNUAL REVIEW 1968 and OUTLOOK for 1969

THE WASHINGTON STATE ECONOMIC REVIEW 1968

ANOTHER YEAR OF ADVANCE Washington's economy continued to be highly stimulative, state growth rate being one of the most intensive on postwar record. The relative advance in industrial and commercial levels over the year was significant; however, the prevailing trend marked a decisive return to a more normal growth pattern than the highly expansionary conditions which characterized the regional economy throughout most of the prior

AND OUTLOOK FOR 1969

This statement of prevailing trend and outlook is based upon the consensus generated from major indicators into the latter months of 1968. More complete data for the year will be available in the coming weeks, and this will be incorporated into our final review for 1968 to be printed for circulation in mid-January.

Prepared by

THE NATIONAL ECONOMY Contributing to the regional experience, Washington State Department of Commerce and Economic Development even the most Business and Economic Research Division goods and services produced in the December, 1968 a nearly consistent record.

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THE NATIONAL ECONOMY Contributing to the regional experience, the national economy proceeded to advance at a pace which astounded even the most optimistic analysts. The total value of all goods and services produced in the nation climbed at a nearly consistent record \$20-billion rate through each of the initial three quarters, and GNP is estimated to be operating at close to a \$900-billion mark by year end. Growth of such magnitude precludes internal stability, the pressures of inflation bringing the consumer price index forward at the highest annual rate since the Korean War. Fully half of the third-quarter gain in GNP was attributed entirely to price increases. Undaunted by enactment of the belated fiscal tax measure in early spring, consumers refused to cut back their level of purchasing, supplementing the amount available for expenditure through increased borrowing and reduction in the rate of savings. The average savings rate dipped by fully one percentage point from a high 7.5% of disposable income, the resultant \$7-billion shift nearly offsetting the bite in higher taxes. As the economy enters into 1969, a less buoyant note is being resounded, the more restrictive credit policy of the Federal Reserve serving to reinforce tighter fiscal controls.

THE THIRD BEST YEAR Within the short-range perspective, Washington's economic advance in 1968 was dramatic. Additions to employment were heavily concentrated in nonmanufacturing as the impact of higher population and buying power were reflected in the area of trade, services, state and local government. An estimated 4% local growth factor was realized, the relative pace twice the national average, with nearly 50,000 new workers engaged in productive occupations over the year. By way of comparison, the big year 1966 saw 97,900 workers added to the State's employment rolls; the exceptional response to this growth in 1967 brought forth 52,000 new jobholders, which was nearly matched in 1968 and succeeded in surpassing the absolute labor experience posted in all other previous postwar years. Collateral growth in wage and salary payments generated the primary impetus of an estimated 11% gain in personal income.

MAJOR GROWTH INDICATORS

	<u>Washington State</u>			<u>United States</u>		
	<u>1967</u>	<u>1968*</u>	<u>% Increase</u>	<u>1967</u>	<u>1968*</u>	<u>% Increase</u>
Population (in thousands)	3,261.5	3,351.2	+ 2.7	198,608.0	200,658.0	+ 1.0
Employment (in thousands)	1,256.6	1,306.3	4.0	74,372.0	75,832.0	1.9
Personal Income (in millions)	\$10,980.0	\$12,170.0	10.8	\$628,800.0	\$686,300.0	9.1

*Estimated

A YEAR OF LABOR NEGOTIATION

The advance in employment levels over the year would have been even more decisive in 1968 had not labor-management disputes taken such a heavy toll. During the second quarter, an average of 8,200 workers in Washington were directly involved in strike action against management, primarily in the fields of communications, construction, metalworking, food processing, and transportation equipment other than aerospace. For the most part, the round of negotiations was

accomplished with only minor displacement of production. Members of the AeroMechanics Union and The Boeing Company worked in closed conference for five months prior to the contract expiration in October, successfully averting any work stoppage through agreeing to a 3-year, \$350-million wage package which provides for an automatic wage progression system and elimination of the previous job evaluation system. The 43,000 affected workers are a significant portion of the State's total aerospace labor force, the influence of the contract provisions having a definite impact upon the domestic economy.

INDUSTRIAL TRENDS

Aerospace - High Level Consolidation The world entered into yet another era of transportation with the official roll-out of the first model 747 jumbo jetliner at Everett on the final day of September. Tentative schedules announced two-and-a-half years earlier had been met to the day. In testament to its personal confidence in the craft potential, Boeing has invested three-quarters of a billion dollars in necessary facilities, design, and development. The preproduction reaction of the airline industry has paralleled this enthusiasm: orders have been received for 160 of the \$20-million planes from 26 airlines which fly more than 80% of the free-world's total passenger miles. Output is expected to reach 200 planes by 1975 and 400 by 1978. This program is vital to Boeing to absorb easing production requirements on the 707 and 720-series configurations over the next decade.

The immense capacity of the 747 will permit passenger loads two to three times greater than any present jetliner, the size factor influencing both the volume and the cost of operations. This high-capacity superjet is marketed by Boeing on the premise of being a third more economical than the standard 707-320, both in terms of direct operating costs per seat mile and cargo ton-mile depending upon density and length of trip. Once operations become economically feasible, the 747 will enable airlines to sharply reduce fares for passengers and cargo, while serving the transportation needs of the world in greatly enhanced comfort and convenience. The 747 is capable of operating from existing airfields; however, augmented passenger ground facilities will be necessary to accommodate up to 490 passengers in a single landing. Ten weeks of intensive ground and flight testing are scheduled before federal certification is made for commercial operations.

Aerospace was typified through 1968 by coordination and consolidation of recent vast additions to manning and facilities into the overall production system. In the previous three-year period, the employment base was doubled and the existing plant expanded by \$500 million in new facilities. From a record high of 105,000 workers during the initial months of the year, total manpower in aerospace dropped marginally through the year, largely through attrition and normal turnover.

Following a year of delay for engineering and design study, The Boeing Company is scheduled to make its final recommendations on the U.S. Supersonic Jet Transport before the Federal Aviation Administration in mid-January. The proposal will be for a departure from the originally conceived variable-swept wing concept in favor of a large-span, fixed-wing with conventional tail and advanced high-lift devices to reduce the weight factor. The craft will cruise at 1,800 miles an hour at altitudes above 60,000 feet, its greatest potential being for key trans-oceanic flight to eliminate the sonic boom problem over urban areas. The first flight of the prototype would be scheduled for 1972, with commercial service commencing some time between 1976 and 1978. Primary competition is the British-French Concorde, which is nearly a year behind schedule, but will go into service at least three years before its American counterpart. The world's airlines have reserved 74 delivery positions on the Concorde and 122 for the Boeing SST.

Forest Products - Resurgence at Long Last Pacific Northwest mills faced strong domestic demand for basic construction materials through 1968, the volume of orders outstripping plant capacity and sending prices soaring into the final months of the year. Following two consecutive years of abnormally weak market conditions, the forest products industry was hard pressed to meet current sales commitments. Local mills succeeded in boosting production by approximately 10% through the ensuing months, turning out an estimated 3.8 million board feet of lumber and 2.1 billion square feet of plywood (3/8" base). The increase in output production levels approaching the record highs of the 1964-65 period despite the loss of plant capacity due to mill closures during the intervening years. Under the pressures of intensive demand and tight supply, prices for building materials were pushed upward until by year-end key lumber products marketed for \$30 a thousand-board feet higher than 1967 and plywood prices stood 60% to 80% above prior-year levels. This strong resurgence in the demand for lumber and plywood held collateral implications for the general level of business and commercial activity in local areas heavily dependent upon timber processing. The industry proceeds into 1969 with determined optimism.

Despite highly restrictive monetary policy, construction of new housing across the nation advanced at a strong 1.5-million unit pace in 1968. This volume was comparable with the 1962-65 average, and

greatly exceeded the 1.3 million-unit starts recorded in 1967 and 1.2 million units of 1966. Mortgage rates have remained high; however, an accompanying factor of consideration has been the average 6% annual increase in residential construction costs. The Federal Reserve moved aggressively in pursuit of tighter credit restraint during the initial months of 1968, the discount rate being raised twice by April to 5 1/2%, the highest since 1929. As the influence of this action was reflected in the housing market, the level of activity showed signs of weakening from the initial strong recovery. Enactment of fiscal restraint in the early spring brought forth an easing in credit policy, the Federal Reserve moving to avoid excessive slowdown in economic activity and establish a better balance between monetary and fiscal measures. The tax increase did not slow the demand for funds, and by year end the prime rate of major banks had moved to 6 3/4%, the highest in history. Continuation of stringent credit conditions will influence the cost of borrowing to finance the flow of goods and services in the domestic economy, having a particularly heavy impact upon the level of housing construction.

Agriculture - A Year of Mixed Trend Preliminary production estimates indicate that Washington's farmers experienced a year of moderating influences in 1968, with high quality output being tempered by lower total yields for major crops. The aggregate value of agricultural production in the State dropped slightly from the record level established in 1967. Employment was off by approximately 2,000 workers, a factor of shorter crops limiting labor requirements but also a reflection of the dominant industrial trend toward greater scientific and technological application.

After posting a strong 30% gain in output during 1967, Washington's winter wheat harvest was adversely affected by extremely dry weather conditions in the late spring coupled with a 5% general reduction in total acreage allotments. It is estimated that the total State wheat crop was off by about 10% from the record level of last year, with perhaps 109 million bushels marketed. As Washington's single most valuable crop, the reduction has significant implications upon the economic contribution generated from the agricultural sector. Other field crops (notably barley, oats, and corn for grain) posted gains over prior output levels.

Washington's deciduous fruit industry suffered from unfavorable weather in 1968. Unseasonably severe spring frosts in the central valleys damaged potential harvests, although higher quality and prices tended to soften the economic impact upon local areas. Total apple production is estimated at 1,025 million pounds, compared to 1,240 million in 1967. Despite the short crop, Washington will retain its position as the nation's number one apple producer. Peach, pear, and cherry crops were also lower than posted last year.

It was a good year for both fresh market and processed vegetables in Washington, with the single exception of green peas. Asparagus, snap beans, sweet corn, and spinach for canning all showed large production increases over the period.

International Trade - Strong Growth During 1968 The first nine months of 1968 show Washington Customs District exports of \$971 million and imports of \$625 million, resulting in a trade surplus of \$347 million, almost 50% higher than national figures computed on the same basis. Washington exports, imports, and trade surplus were all substantially higher than for the comparable period of last year.

Washington's expanding trade has reached a level of national importance. Total trade through Washington Customs District ports expanded by 16.5%, close to the same rate as total U.S. trade during the nine months just past. However, a considerable difference in trade "mix" of exports versus imports has made Washington's trade performance outstanding as one of the nation's major foreign exchange earners. While total U.S. imports expanded by 24.4%, Washington Customs District imports grew by a record rate of 14.3%, little more than half the national pace. District exports expanded at more than double the national rate: 18.0% versus 8.7% for all of the U.S. We estimate that Washington State's international trade will alone prove responsible for between one-third and one-half of the total U.S. trade surplus for 1968 when year-end figures are available.

Travel - An Ever-Increasing Contribution to the Economy Travel volume in the State of Washington was again on the increase during 1968 as more out-of-state visitors decided upon the Northwest as their vacation destination. Business travel was also up during the

year due to increased commercial and industrial activities. It was estimated that more than 9 million nonresident travelers visited the State this year, and contributed expenditures in excess of \$320 million, an increase of 5.8% over 1967.

According to the latest figures released by the United States Travel Service, Seattle has enjoyed an increase of nearly 20% in the number of visitors from foreign countries. The most significant increases were among those from Scandinavia, the Far East, and the Mediterranean countries of Europe.

Despite a decrease in conventions, the hotel-motel business held its own and registered a 6.2% statewide increase in occupancy in 1968. This increase was arrived at through an independent survey of hotels and motels conducted by the division. Seattle, however, showed a decrease of 1.0%. Although slight, it was attributable to the slowing up of convention business plus the inclement weather during the fall and early winter. Spokane registered an increase of 8.0% in business, which was above the statewide average.

A general feeling of optimism is apparent as 1969 approaches. Washington State continues to be an attractive and exciting place to visit, increasing in popularity as a travel destination area.

REGIONAL TRENDS

North Puget Sound Region (Whatcom, Skagit, Island, and San Juan Counties) The economy of the North Puget Sound Region was one of sustained high employment and increased industrial production through 1968. Basic industry was typified by strong recovery in lumbering, further expansion in metalworking, and intensive activity in shipbuilding. With resurgence in the demand for lumber and wood products in national markets, local mills accelerated output to meet heavy orders. Farming activity was good, the harvest season being particularly favorable for vegetables and strawberries. Regional food processing capability expanded to meet firm domestic and foreign demand. Construction remained brisk as additions were made to the industrial base, public improvements were instituted, and further facilities were added to Western Washington State College. Intalco expanded output to 265,000 annual rated tons as the third giant potline was completed and placed on line during the year. Industrial development activities were highlighted by the announcement that Atlantic Richfield would construct its new \$100-million refinery at Cherry Point, which when completed in late 1971 will be the largest single petroleum refinery in the Pacific Northwest.

Central Puget Sound Region (King, Snohomish, Pierce, and Kitsap Counties) The Central Puget Sound Region continued to reflect one of the most intensive economic growth patterns in the nation during 1968. During the initial nine months, over 20,000 new workers were added to the regional labor force. The predominant growth remained centered in the secondary supporting industries, responding to the tremendous buildup in basic industry achieved in the 1965-66 period. The Seattle area continued to lead the nation in residential construction on a per capita basis, with a total of 38,000 housing units put in place in the region during the year. This unprecedented high level of housing construction is showing signs of easing as demand is being met. Employment in aerospace has stabilized at high levels, with approximately 14,000 engaged at the Everett plant on the 747 jumbo jetliner. The influence of this industrial activity is having a decisive impact upon supporting services in southwestern Snohomish County. Strong industrial activity will maintain high production and employment levels into the coming year, the greatest added impetus coming from expansion in diversified manufacturing.

South Puget Sound (Mason, Thurston, and Lewis Counties) and Lower Columbia Region (Clark, Cowlitz, Wahkiakum, and Klickitat Counties) The economy of the Southwestern area was bolstered through 1968 by strong resurgence in lumber and plywood, capacity production in metals, and heavy shipping activity from the ports of the Lower Columbia and Southern Puget Sound waterways. The intensive demand for lumber from domestic markets kept local mills operating at full capability to meet sales commitments, with skilled workers in short supply. Reynolds Aluminum nearly completed its major construction program at Longview, bringing total annual rated capacity to 150,000 tons by year end. When the third major potline is placed into operation in early 1969, the firm will add another 40,000 tons to the production process. Further expansion in the region's primary metal manufacturing came from Alcoa at Vancouver, which is constructing two 17,000-ton storage tanks. Work has commenced on the \$176-million coal-fired power plant near Centralia, engaging 50 workers in this initial phase. When completed in 1971, this plant will provide a million kilowatts of electrical energy to the existing power grid.

North Coast Region (Clallam and Jefferson Counties) and South Coast Region (Grays Harbor and Pacific Counties) The economy of the coastal regions is heavily oriented toward the forest products industry, and recovery in the demand for lumber and plywood has been particularly significant to general business levels within this geographical area. As sales volume for basic wood products firmed, employment and production rebounded. Local mills operated at capacity to meet commitments in domestic and foreign markets. Logging operations remained intensive during 1968, with the volume of log exports in the State up fully a third over the high of 1967, despite the federal limitation equivalent to 350 million board feet which can be exported from the coastal region of the Pacific Northwest. The limitation is restricted only to federal lands and does not apply to the purchases of logs from privately owned timber holdings, the source of nearly two-thirds of all log exports to Japan. Activity in supporting services remained brisk through 1968, a consequence of strong basic industrial operations and an excellent tourist season. Industrial development efforts were highlighted with the announcement that a major fish protein plant is to be constructed near Aberdeen.

Upper Columbia Region (Chelan, Douglas, and Okanogan Counties) and Yakima Valley (Yakima and Kittitas Counties) Farming in the

central irrigated valleys of Washington State was good in 1968; however, shorter fruit crops were typical throughout the regions. Late spring frosts damaged potential yields in the orchardlands, limiting total production to one of the lowest levels in recent years. The quality of output was exceptional, and the smaller crops maintained prices at a high level. A notable trend within fruit processing is the expansion and development of "controlled atmosphere" cold storage facilities, which have served to extend the effective marketing period. The aluminum industry was affected by a 56-day strike at Alcoa in Wenatchee; annual output proceeded at less than the rated 175,000 ton capacity. Construction was down from previous years due to completion of several major projects in the area, but two new motels and a six-story retirement home maintained activity in Yakima. Economic growth should proceed at a good pace into 1969.

Columbia Basin Region (Adams, Grant, and Lincoln Counties) Further development of the vast Columbia Basin Irrigation Project continues to accelerate the economic advance of the Columbia Basin Region. The Federal Bureau of Reclamation has made available over half-a-million acres of irrigated farmland through the project, with an additional 11,000 planned for development in the current fiscal year. Through this program, the agricultural base of the region has been greatly augmented and the food processing sector extended into the export of cash crops. The third powerhouse construction at Grand Coulee Dam currently represents a \$35.7 million expenditure and is nearly ten percent completed. Approximately 700 workers are engaged in this phase. The phased-out Larson Air Force Base at Moses Lake has proven to be an economic asset to the regional base. Over fifty major airlines use the facility for training, either individually conducted or administered through the established program of The Boeing Company. The latest to announce major operations under a three-year contract with the Moses Lake Port Commission was Japan Airlines, the ongoing program estimated to inject \$2 million annually into the local economy.

Two Rivers Region (Benton, Franklin, and Walla Walla Counties) The economy of the Two Rivers Region continued to advance strongly through 1968. The projects in force and under construction at Hanford paced the Tri-Cities' growth. The Chevron Chemical Corporation started work on a \$3.5 million nitric acid plant, and a \$4.3 million biological laboratory is being built at Hanford. Sandvik Metals

completed its new \$4.5 million zirconium tube plant during the year, adding another major manufacturing firm to the industrial base. The Port of Pasco has commenced upon a gradual program to increase facilities for greater barge traffic on the Columbia, the consequence of opening slack water navigation from Bonneville to the Two Rivers Region by means of the John Day Lock and Dam. Local trade is being augmented through a new \$4.5 million shopping center at Walla Walla and a \$10 million regional shopping mall in the Tri-Cities.

Northeastern Region (Ferry, Stevens, and Pend Oreille Counties)

The high demand for forest products maintained logging and mill operations at capacity output through 1968. A shortage of qualified lumber workmen plagued the industry, a persistent problem in many areas of the State. Mining activity was down, with closures reducing employment levels in the extractive industries by over 200 jobs. The phasing-out of the Northwest Magnesite plant has been completed at Chewelah; however, a local development group of concerned citizens has purchased a 30-acre site to stimulate industrial location within the area. Construction will be stimulated as work commences on an 89-bed nursing home in Colville, and job opportunities in services will be augmented as staffing commences in 1969.

Spokane County and the Southeastern Region (Asotin, Columbia, Garfield, and Whitman Counties) Spokane posted a year of exceptional growth in 1968, precipitated by strong activity in trade and services together with high levels of industrial output. Total employment advanced by 3,000 workers to a record annual average of 100,000. Construction remained brisk, particularly in the residential field. The total number of permits was up 17% to 5,440; the corresponding value climbed a steep 65% over the year to nearly \$63 million of new construction put in place. The advance in distribution services reflects the generated impact of higher industrial and commercial levels throughout the vast Inland Empire. Reduced wheat harvests affected the economy of the Southeastern Region, lowering total sales and income to regional farmers. Student enrollment at Washington State University reached 12,000 in 1968, boosting service and construction activities in the Pullman area.

OUTLOOK FOR 1969 Washington's economy will reflect a more moderate growth pattern in 1969 than at any time during the past three years. While the margin of advance has definitely eased, the annual pace will be significant on a regional as well as a state-wide perspective. Total employment will climb at a 30,000-worker pace in 1969, contrasted to nearly 50,000 in 1968. The corresponding gains in personal income levels will also be strong though not matching those of 1968. Again the dominant expansion will come from within the nonmanufacturing sector, primarily in the field of trade, services, and government. Aerospace will witness further marginal reductions in manpower largely through normal attrition. Added stimulus from basic industry will be generated from augmented strength in lumber and plywood manufacturing, together with continued growth in diversified production activities. Collectively, Washington's experience in 1969 will outperform its own average postwar trend while greatly exceeding the national pace.

The regional economy is strongly linked to conditions and events on the national level, local business firms and individual consumers served by external suppliers and in turn dependent upon national markets for sales of State goods. Any significant variation in the prevailing level of demand, the dominant lines of supply, and the affected prices influences the general prosperity of Washington citizens. In general, the national economy will provide less stimulation through 1969 than has been characteristic in recent years. Federal fiscal and monetary policy is aimed at curtailing the pressures of inflation through a more appropriate mix of restraining measures, and providing the atmosphere for a more orderly, sustainable growth pattern. To date, the belated income tax surcharge appears to have had little impact upon personal and corporate demand, and the Federal Reserve has shifted back into a position of restraint.

The combination of reduced spending, higher taxes, and tighter money will bring a decisive reduction in the rate of economic expansion--the exact timing in 1969 remaining uncertain. Gross National Product will advance by perhaps \$50 billion, compared to an estimated \$70-billion pace in 1968. Less contribution will be generated from consumer buying, federal spending, and business investment. Consumer prices will rise by 3% or more, but will not approach the 4% jump of the past year. A natural adjunct to the slower growth rate will be an increase in the unemployment rate slightly above the record lows of recent months.

The outlook for Washington's industries is highly optimistic. Growth is assured within the lumber and wood products sector. Despite continued high interest rates, the level of residential construction throughout the nation is expected to climb sharply in 1969. It is estimated that nearly 1.7 million units will be put in place during the course of the year, against an average of 1.5 million this year, and by the final months will be operating close to a 2.0 million unit pace into 1970. The demand for basic construction materials will remain strong, with prices and production holding at high levels.

Employment in aerospace will drift downward marginally during the initial months, stabilizing at slightly below a 100,000 employee average for the year. Coordination of the productive system will continue to increase operating efficiency, normal attrition accounting for the bulk of workforce reduction. Shifts in labor to the Everett 747 plant will provide manning of 17,000 by year end 1969. Diversified manufacturing will proceed to expand within the State in response to strong regional, national, and international demand.

A dominant feature of commercial and industrial activity in the State over the coming months will be far greater regional dispersion of growth than has characterized the economy in recent years. Advances in forest products and food processing should be widely reflected throughout the State, influencing the level of business operations in local communities. The strength in this basic sector is encouraging after two years of weak markets cutting back regional employment and production levels. The Metropolitan Puget Sound Region will not experience as rapid a growth pattern as posted in 1968, the influence of stabilized aerospace and a slower national growth trend being reflected in industrial production. Depending upon crop levels in 1969, agriculture and food processing should advance the economy of Wenatchee, Yakima, and other areas in the central regions. Strong domestic and international markets will provide the impetus for upward momentum in trade and services, enhancing the outlook for Vancouver, Longview, and Spokane.

Washington's economy will proceed strongly upward in 1969, consolidating past gains and expanding upon the prevailing industrial and commercial base.