OVERVIEW OF BUSINESS ACTIVITY

Calendar Year 1998

Calendar Year 1998 gross income was up 3.6 percent over Calendar Year 1997 and represented a substantially lower rate of growth than the 10 percent increase in Calendar Year 1997. General weakness in wholesale trade, particularly nondurable goods, and declines in service stations, financial services, and computer services, were factors in slower overall gross income growth.

While 1998 growth trails the previous year, some explanation may be in order regarding the interpretation of gross income data. During Calendar Year 1998 employment growth has been strong, unemployment low, and wages and salaries are up. The indicated weakness in wholesale gross income was largely due to economic factors affecting certain wholesale goods; the same can be said for some manufacturing industries, although price constraints have also been a factor in the manufacturing sector. Weakness in these industries has affected the overall increase in gross income at a time when the state economy is strong. However, gross income data appears to be in a period of transition. Reported gross incomes, and the taxable base for the B&O tax, are being affected by a number of factors which understate gross income growth, especially for some industries. For example, in the rapidly growing high-tech and bio-tech industries the true level of gross income growth may not be accurately reflected in the data. This results from the fact that although a company may be located in Washington, with most of its employees here, its products are manufactured out of state. Thus, such manufacturing activity is not subject to state B&O taxes and is not reflected in our gross income data. However, the income from that manufacturing activity, in-state employees, and the benefits of their salaries and income, would accrue to the state because the company is located in Washington.

For 1998 the contract construction sector was up 7.8 percent with general building contractors up 9.8 percent and special trade contractors up 8.8 percent. Heavy construction, the smallest of the three major industries in this sector, was down 0.8 percent.

Manufacturing was up 9.7 percent, largely on the basis of a 28.2 percent increase in the transportation equipment industry. The fact that most major industries in the manufacturing sector reported year-to-year declines in gross income made the strong gain in transportation equipment all the more important for this sector. The transportation equipment sector alone reported over $39 billion in gross income for the year and accounted for nearly 48 percent of gross income reported by manufacturers. Two major industries in this sector, food products and lumber and wood products, were down 1.7 percent and 11.9 percent respectively, while petroleum refining was down 23.2 percent. On the other hand, printing and publishing posted a modest 2.2 percent gain, fabricated metal products was up 3.5 percent, and machinery (except electric) was up 13.7 percent.

Transportation and allied services was down 2 percent with declines of over 13 percent for both railroads and water transportation, air transportation services was down 3.1 percent, and transportation services down 4.9 percent. The largest industry in this sector, motor freight and warehousing, was up 3.9 percent.

Communication and utilities was up 2.7 percent. Individually, communication was up 2.5 percent, and water companies 10.5 percent. The 12.6 percent increase for electric companies, and the over 40 percent decline for gas companies, was due to reporting changes and industry reclassifications for a number of companies. Overall, combined gas and electric company gross income was up over 8 percent.

Wholesale trade reported a 5.1 percent decline with both the durable and nondurable goods sectors reporting declines. Durable goods was down 3.9 percent as a result of a 22 percent decline in professional/commercial equipment and supplies. Nondurable goods was down 6.4 percent with a number of industries that have been hit with product price declines due to reduced demand and/or oversupply of product. These were paper and allied products, down 19.5 percent, farm-product raw materials, down 53.6 percent, and petroleum and petroleum products, down 14.1 percent.

Retail trade reported an overall 6.5 percent gain, in sharp contrast to the decline in the wholesale trade sector. All major industries within retail trade reported gains. Building materials, hardware was up 4.9 percent, general merchandise, 7 percent. The largest increase was in furniture, furnishings and equipment, up 14 percent. Miscellaneous retailers was up 10 percent and eating and drinking establishments, 4.8 percent.

Finance, insurance and real estate was up 3.8 percent. Finance and other business were both down by about 1 percent, but insurance and real estate had substantial increases of 11.1 percent and 14.9 percent respectively.

The services and other business sector was up 5 percent in spite of a 14.4 percent decline in computer services. The decline in computer services limited the largest industry in this sector, business services, to a 1.9 percent gain for the year. Medical and health services checked in with a 9 percent gain and legal services was up 6.8 percent. The industry representing professional services was up 6.6 percent.

Overall, Calendar Year 1998 represented some marked changes to gross income data. While total gross income was up a moderate 3.6 percent, major manufacturing and wholesaling industries had outright declines in gross income. Moreover, the entire wholesale trade sector, both durable and nondurable goods, was down. The positive aspect to these declines was that it was centered in some key industries and was not prevalent throughout all sectors and industries. However, with the exception of transportation equipment in the manufacturing sector, there was a more pervasive slowdown in manufacturing. Strong retail and service sectors offset much of the decline in the manufacturing and wholesales trade sectors.