

OVERVIEW OF BUSINESS ACTIVITY

4th Quarter, 1999 (October, November, December 1999)

Fourth Quarter, 1999 gross income was up only 4.9 percent as the result of a 10.9 percent decline in the manufacturing sector. The impact of the manufacturing sector decline kept 4th Quarter from posting an increase at least equal to or greater than the 8.5 percent increase in 3rd Quarter. All other major industry sectors reported strong year-to-year growth led by a 14.5 percent increase in the retail trade sector.

Contract construction was up over 10 percent with double-digit gross income growth in heavy construction and special trade contractors. General building contractors was up 7.5 percent.

Lower gross income in the manufacturing sector was due to a 27.3 percent decline in the transportation equipment industry. Because transportation equipment typically represents over one-half of the gross income in the manufacturing sector, large gross income changes in this industry have substantial impact. As mentioned above, this transportation industry decline held statewide gross income growth this quarter to about one-half the expected gain based on income growth in the other major sectors. However, many manufacturing industries reported strong gains. Furniture and fixtures was up 31.9 percent, paper and allied products, 23.5 percent, chemicals and allied products 13.7 percent, and petroleum refining, riding a crest of higher crude prices, was up 48.7 percent. Another manufacturing industry that has shown consistent strong growth in recent quarters was professional and scientific instruments, up 30.5 percent with gross income of over \$555 million for the quarter.

The transportation and allied services sector was up 6.1 percent with strong increases in railroads, up 18.1 percent, local and suburban transit, 37.3 percent, and water transportation, 17.8 percent. The largest industry in this sector, motor freight and warehousing, was down 0.5 percent which accounted for the overall growth rate in this sector of 6.1 percent.

Communication and utilities was up 11.3 percent with the largest industry in this sector, communication, up 18.3 percent, and the second largest, electric companies, up 6.3 percent.

Wholesale trade was up 8.4 percent, slightly behind the 9.7 percent increase in 3rd Quarter. The slower growth for 4th Quarter was due to a 2.6 percent increase in durable goods versus a 6.6 percent increase in 3rd Quarter. On the other hand, nondurable goods were up 16 percent in 4th Quarter versus a 13.5 percent gain in 3rd Quarter. The leading factor in the nondurable goods increase was petroleum and petroleum products, up 42.8 percent. The largest gross income industry in the wholesale goods sector, groceries and related products, was up 9.6 percent.

Retail trade continued its strong growth as consumers continued their spending spree and carried retail trade to a 14.5 percent increase. There was probably no surprise in the fact that service stations reported a 53.6 percent increase; however, the largest increase was in miscellaneous

retailing where nonstore retailers were up 109 percent. A large part of this increase (over one-half) was due to mail order and Internet sellers while the rest of the increase was due to temporary assignment of SIC codes. A substantial part of the over 60 percent increase in the category, other retail stores, was also due to the temporary assignment of SIC codes. A noteworthy increase in this sector was posted by eating and drinking establishments with a 9.5 percent gain and may be the highest year-to-year increase for this industry since the days of double-digit inflation.

Finance, insurance and real estate was up a marginal 1 percent with its major industry, finance, down 1.5 percent. Other industries within the sector posted gains; the insurance industry was up 6.5 percent, and real estate 8.7 percent. Other finance was down 17.3 percent.

Services and other business posted a healthy 9.7 percent gain after a period of nominal growth. Slower growth in the service sector for nearly two years has largely been the result of declines in gross income for the computer services industry; however, during 4th Quarter, 1999, computer services posted a year-to-year gain of 24.2 percent. Legal services reported an 18.5 percent increase closely followed by business services, up 16.6 percent. Hotels/motels reported strong growth with an increase of 11.1 percent, and amusement and recreation services also had double-digit growth with a 12.1 percent increase.

Gross income growth for 4th Quarter was below previous quarters this year due largely to a decline in the transportation equipment industry within the manufacturing sector; however, wholesale trade was strong and retail trade reported the strongest growth for the year. The service sector was back on track with gross income growth in computer services for the first time since 4th Quarter, 1997.