

OVERVIEW OF BUSINESS ACTIVITY

**2nd Quarter, 2001
(April, May, June 2001)**

Second Quarter gross income was down 1.4 percent and represented the first year-to-year decline in gross income since the 4th Quarter of 1995, during the depths of the Boeing strike.

The decline this quarter represents the months April, May, and June and does not reflect gross income changes due to any economic slow-down from terrorist activity. Any potential economic impact from terrorist activity would not be evident in QBR data until the 3rd Quarter, which will not be released until after the first of next year.

Manufacturing, wholesale, and retail trade all reported declines from last year; however, the transportation and allied services, and communication and utilities sectors both reported strong gains, up 9.7 and 20.9 percent, respectively. The services and other business sector was also up with a 4.2 percent increase.

Contract construction eked out a small 0.9 percent gain from last year. General building contractors was down 6 percent and special trade contractors was up 2.8 percent. However, heavy construction (including highways) was still very strong in 2nd Quarter with an 18 percent increase.

Manufacturing was down 9 percent with gross income dropping from \$23.6 billion to \$21.5 billion. Transportation equipment was a significant factor in this decline with a decrease of 11.6 percent. The primary metals industry was particularly hard-hit as energy shortages and production shutdowns affected the aluminum industry. One manufacturing industry that countered this trend was professional and scientific instruments, up 11.2 percent.

Transportation and allied services reported a 9.7 percent increase with strong gains in local and suburban transit, and motor freight and warehousing. The gains in these two industries offset declines in other transportation service industries such as air and water transportation, and railroads. Motor freight and warehousing had a particularly strong 22.6 percent increase.

The communication and utilities sector was the bright spot among all sectors with a 20.9 percent increase. Strong increases in energy industries such as electricity and gas boosted this sector. Sharply higher electricity prices resulted in a 51 percent increase for electric companies, and gas companies was up 47.9 percent. The communication industry, the largest industry in this sector, reported a 13.2 percent gain.

Wholesale trade was down 3.7 percent as a result of an 11.5 percent decline in durable goods. The decline in durable goods more than offset a 5.2 percent increase in nondurable goods. Every industry reporting in the wholesale durable goods sector reported a decline. Nondurable goods reported strong increases in wholesale paper and paper products, and drugs and sundries.

Chemicals and allied products also had a strong increase with a 14.7 percent gain. Miscellaneous nondurable goods was up 10.6 percent.

Retail trade fell into the negative column with a 1.9 percent decline. However, a number of major industries within retail trade posted positive results. General merchandise stores was up 2.3 percent, food stores 5.6 percent, and eating and drinking establishments 3.2 percent. A large part of the overall sector decrease was due to lower gross income from two of the largest industries in the sector, automotive dealers and gas stations, and miscellaneous stores, down 5.1 percent and 6 percent, respectively.

Finance, insurance and real estate just made it into the plus column with a 0.7 percent increase. The largest industry in this sector, finance, was down 2.2 percent, but insurance was up 7.9 percent and real estate 7.8 percent.

Services and other business was up 4.2 percent in spite of a decline in the largest industry in this sector, business services, which was down 4.3 percent. Strong growth in a number of other leading service industries contributed to positive growth in the service sector. Automotive repair services was up 6.2 percent, amusement and recreation services 14.8 percent, medical and health services 10.6 percent, and legal services was up 10.6 percent. Other services, including engineers and architects, accountants and bookkeepers, reported a strong 11.2 percent increase.

Overall, 2nd Quarter gross income reflected slowing in a number of major sectors with continued strong growth in key sectors such as transportation, utilities, and in service industries such as medical and professional services.