

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

December 1985

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SUMMARY*

Overview.

The economy appears to be growing slowly at best. Only Richmond describes its District economy as strong, although there is some optimism in the reports from Philadelphia and New York. Retail sales gains are uneven, and less-than-robust Christmas sales are expected. Auto sales are low now that special interest rate incentives have largely ended. Industrial activity continues quite sluggish with few gains yet from dollar depreciation. Residential construction is improving but non-residential construction is uneven. Agricultural prices remain weak despite some rises in meat prices; agricultural land prices continue to fall and farm finances remain weak. Commercial bank consumer and real estate lending is rising further but business lending is declining in most Districts.

Retail Sales.

October retail sales other than autos are mixed, with most Districts reporting moderate year-over-year gains. Sales are frequently described as strong for apparel and weak for various hardgoods. Inventories are generally at desired levels and are being built cautiously as most retailers expect Christmas sales to show only moderate increases from 1984. New car sales continue to run well below year-ago levels in most Districts in reaction to the end of most special financing. However, Richmond and Dallas report sales were stronger than usual in October.

*Prepared at the Federal Reserve Bank of Cleveland

Manufacturing and Mining.

Industrial activity continues to be quite sluggish. There is little indication in the District reports that dollar depreciation has resulted in higher prices or stronger demand for domestic producers, although Chicago reports "limited evidence of increased orders for mechanical capital goods." Defense goods producers report order gains and rising production. Domestic auto manufacturers are said to plan to continue high production levels into early 1986. Production and sales of heavy trucks have declined. Prices and sales of primary metals remain weak. Cleveland reports continued weakness in machine tool orders and prices. Atlanta reports textile employment has stabilized in recent months after a sharp decline, and Richmond reports "some pickup in textile and apparel exports" and that a recent small gain in textile employment is being sustained. Manufacturing firms generally report prices of materials and components are stable. Boston reports many firms are unable to raise their own prices and large firms "are refusing to accept increases from suppliers." Inventory levels are generally considered satisfactory, although Dallas reports semiconductor industry inventories are excessive and Cleveland reports raw materials inventories falling sharply. San Francisco reports that the lumber industry in the Northwest continues to be hurt by competition from the South and British Columbia, and by low prices, even though the price decline has been smaller this year than last. Coal production continues lower than in 1984. Drilling activity in the Dallas District "continues to decline at accelerating rates."

Construction and Real Estate.

Residential real estate markets are doing well generally but not in all areas. Listings and sales of used homes are rising and plans for construction and starts of new homes are increasing. Mortgage rate declines are a source of strength, but credit standards are being tightened by lenders and mortgage insurers, leading to some concern that effective demand may be crimped. District reports generally are moderately optimistic about 1986.

Non-residential property construction and vacancy rates are uneven. Construction is reported as still strong in some parts of the Atlanta, Chicago, St. Louis, and Dallas Districts. San Francisco reports high commercial vacancy rates in many areas are causing construction permits to slow. New York reports that overall demand for commercial real estate generally remains satisfactory and that work has recently begun on a "\$10 billion community planned for the New Jersey waterfront across from Manhattan." Chicago and Dallas report strong road building and repaving activity.

Agriculture.

Most harvests are bountiful, most agricultural prices are low, and farm financial difficulties continue. Although wet weather has delayed the corn and soybean harvest in some parts of the midwest, yields are high and prices remain weak. Grain sorghum yields are high. Cattle and hog prices are low

but have risen recently, and meat production is lower. Atlanta and Minneapolis report favorable conditions for poultry producers. Cotton yields are expected to be normal in Oklahoma but high in the Atlanta District, and the cotton price remains low. The Louisiana sugarcane crop has been damaged by hurricanes. Kansas City reports that continuing liquidations and foreclosures have "saturated the farm real estate market," causing farmland prices to continue to fall although very little land is changing hands.

Commercial Banking.

Most Districts report increases in commercial bank consumer lending, with some noting it has been boosted by the ending of most special financing rates on autos by automobile finance companies. Real estate lending continues to grow, partly because of mortgage rate reductions. Business loan volume is falling in most Districts. However, Philadelphia reports substantial growth in business loan demand, particularly "from middle-market companies that do not have convenient access to the commercial paper market." Kansas City reports agricultural lending is flat or slightly down, and Kansas City and Minneapolis report continued banker concern about the quality of agricultural credit.

FIRST DISTRICT - BOSTON

The First District economy appears to be in a holding pattern. While retail sales continue to exceed year ago levels, increases have been below plan in some cases. Retailers are anxious about the critical Christmas period. Manufacturing respondents report that sales are flat, continuing the experience of the past five or six months. One significant change has been a falling off in the demand for products associated with non-residential construction. Price increases are said to be negligible. Manufacturers expect 1986 to be very similar to 1985. The First District real estate market is healthy, but entering a seasonal slowdown. Listings fall short of demand for most realtors contacted. However, the market for condominiums is said to be saturated.

Retail

Retailers in the First District report that sales in October exceeded those in October 1984 by 4 to 17 percent; but for several contacts increases were smaller than expected. Merchants attribute their somewhat disappointing performance to a lack of consumer enthusiasm, which they fear will also affect November and December results. However, very early and incomplete November figures show sales for some merchants exceeding plan.

Areas of strength in October included video computers, other home electronics, toys, records and tapes, high quality ladies' sportswear, and womens' accessories. Furniture was weak. The atmosphere is highly competitive, although the prices of high quality items are said to be holding

up fairly well. Substantial markdowns have affected margins for some respondents.

Inventories are reported to be at or below planned levels, except for one retailer that "over-reacted" to short supplies in the last Christmas season. In spite of favorable current positions, several chains said sizable inventory reduction sales were likely in January, given the current outlook for Christmas.

Retailers are increasing staff as usual for the Christmas season. Some reported that low unemployment rates have forced them to offer recruiting incentives to current employees, raise wages, or reduce the quality of their new hires in order to staff up. None of these adjustments is said to pose serious problems.

Uncertainty about the volume of Christmas season sales is pervasive, although everyone expects sales to grow. According to one contact, "we're holding our breath and hoping for the best."

Manufacturing

Manufacturing activity in the First District is flat to down. Most respondents report that sales are about the same as a year ago or slightly lower; this situation has persisted for some months. One contact reports that the auto industry's demand for materials and components is quite strong but attributes this strength to Detroit's ambitious production plans for the fourth quarter and questions whether the strength will persist. Another contact, a manufacturer of electrical equipment, reports a softening in sales to the auto industry. Demand for housing related products is said to be strong but flat. Demand for products related to nonresidential construction,

which had been strong, has recently weakened. Sales of a variety of capital goods are disappointing for this stage in an expansion. Several firms report that overseas subsidiaries are experiencing stronger sales than domestic operations.

Small layoffs have recently occurred at some high technology firms. However, most of the firms contacted have adjusted to current activity levels and can continue without further cutbacks in personnel. Although one respondent will be increasing capital spending substantially in 1986, most are reducing expenditures. Most contacts face heavy price competition and have been unable to raise their prices; large firms, in turn, are refusing to accept increases from suppliers.

First District manufacturers expect 1986 to be a difficult year. While most think their own firms' performance will be about the same as in 1985, they seem to have revised downward their expectations for the economy as a whole.

Real Estate

The New England residential real estate market remains healthy despite the start of a seasonal slowdown. Price movements are mixed. While Boston agents claim that prices are stabilizing, agents in other parts of the region report that prices are still climbing. Listings, as reported by most, are short of demand. Multi-family buildings, in which a family lives in one unit and rents out the others, are especially popular. More people are buying lots with intentions of later building, as they see appreciation rates out-running building costs. Condominiums have become less popular. The condominium market is said to be saturated; as prices approach those of free standing

homes, buyers are opting for the latter. Tighter mortgage qualification standards may be hurting some potential buyers, particularly first timers.

New England Economic Project Outlook

The New England Economic Project (NEEP), a non-profit corporation comprised of New England business firms, government agencies and educational institutions has just released its semi-annual forecast for the New England economy. The forecast is based on state models developed by a local-area consulting firm and managed by NEEP representatives.

According to the NEEP forecast, New England's employment growth will be considerably slower in 1986 than in the past two years. Even so, growth is expected to be sufficient to maintain the region's unemployment rate at its current level of roughly 4 1/2 percent. New England's growth will also continue to surpass the nation's.

All of New England's employment growth in 1986 will come from the nonmanufacturing sector. Services, trade and finance will continue to expand at healthy rates. Construction employment, on the other hand, is forecast to level off. Manufacturing employment will be flat, with little change expected for most individual manufacturing industries.

SECOND DISTRICT--NEW YORK

The Second District economy has maintained its improved tone in recent weeks. A higher percentage of purchasing managers reports better business conditions, and consumer spending has recovered from its September slowdown. Residential building remains strong while demand in the commercial real estate market is satisfactory. Small banks in the District note an increasing use of fixed fees rather than compensating balances in the pricing of business loan commitments.

Consumer Spending

Consumer spending regained momentum in October following a September slowdown attributed to Hurricane Gloria and unseasonably warm weather. The average over-the-year rise of 8 percent in October was slightly below expectations, however, and gains varied considerably across the District. Although department stores catering to more affluent consumers indicated that sales met or exceeded expectations, some discount and suburban chains posted disappointing gains. In general, apparel and other soft goods sold well but electronics and home furnishings remained weak. Early November sales show little change. One retailer is concerned that he will lose business if consumers are diverted toward car purchases by low-cost financing. Another merchant, stuck with slow-selling hard goods since mid-summer, plans to intensify a television advertising campaign he began in August.

Inventories that were trimmed to desired levels last summer began to climb during the September slowdown. Although several merchants managed to reduce stocks to planned levels by the end of October, others report an excess. Inventories are currently being increased to meet the

Christmas demand, but stores that have had abrupt sales shortfalls are adopting a conservative posture. Since the 1985 Christmas season will be a week shorter than 1984, some retailers will push Christmas items earlier than usual.

Business Activity

Second District economic activity improved somewhat in recent weeks. A substantial percentage of purchasing managers reported more favorable business conditions in September. Most firms also experienced stable or improved production and new orders in October. Inventories generally remain satisfactory despite some increase in the share of managers reporting higher levels.

The outlook for the District's manufacturing sector is unclear. On the negative side, several firms have recently announced plans to move from or reduce their operations in the region. One of the largest such reductions could occur over the next two years at an auto parts manufacturer. While apparently still open to discussion, this move to a lower-cost area could affect some 1100 District workers. More positively, General Motors plans a \$340 million expansion program at a car engine factory. Elsewhere in the District, ground was recently broken for a \$125 million state-of-the-art chemical plant. And an Air Force contract recently awarded to a District aerospace firm should provide additional employment.

By far the biggest new project announced for the District is a \$10 billion community planned for the New Jersey waterfront across from Manhattan. Work was recently begun on the first phase of this project: four high-rise apartment buildings and a shopping center. By 1995 this new community is expected to include hotels, office buildings, parks, cultural facilities, a large marina, waterfront stores and restaurants, and up to 9000 residential units.

Construction and Real Estate

Residential construction remains in excellent condition and a boom continues in several parts of the District. Because of the cyclical nature of the industry, however, some homebuilders are concerned that this prolonged period of strong residential building activity is due for a reversal. As yet there are no indications of an imminent slowdown, and applications for additional residential development are still being presented to local planning boards. Except for the usual slackening due to winter weather conditions, most observers anticipate no decline in activity for at least six months.

The District's commercial real estate market appeared stable in recent weeks with only minor changes reported in rents and vacancy rates. While few large-scale transactions are taking place, overall demand generally remains satisfactory except in some parts of northern New Jersey. There is still concern, however, about the outlook in lower Manhattan and Fairfield County where older office space is being vacated by tenants moving to newly-constructed buildings.

Financial Developments

Small banks report that business borrowers now pay for at most ten percent of unused loan commitments through compensating balances. This is a much lower percentage than five years ago, and it is expected to decline further. Several banks suggest that many corporations prefer to pay an explicit, fixed commitment fee rather than incur the fluctuating opportunity cost of compensating balances. However, one bank notes that it has few formal compensating balance arrangements, yet it still encourages many of its customers to maintain demand deposit balances.

THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District in late October and early November appear to be improving. Manufacturing activity is turning up after several flat months and retailers report sales in line with optimistic expectations. Consumer and commercial lending is growing at a slightly faster pace now than earlier in the fall.

Expectations about Third District conditions are mixed, although generally optimistic. Manufacturers look for business to improve and plan to step up capital spending over the next six months. Retailers are somewhat uncertain about the strength of upcoming holiday sales at this point; nevertheless, they predict healthy sales for 1985 as a whole. Bankers expect commercial loan demand to remain strong for the fourth quarter and they say that current consumer loan demand levels can be maintained or increased with possible interest rate reductions.

MANUFACTURING

Industrial activity in the Third District is picking up, according to the latest Business Outlook Survey. Thirty-six percent of the companies participating in the November survey report increasing business while only 11 percent say that their business is slowing down. More nondurable goods producers indicate improvement than do durable goods producers, who report fairly steady activity.

Manufacturers note improvement in the levels of new orders and shipments, but report little change in employment. Industrial prices in the Third District

are stable; over three-fourths of the manufacturers polled say neither input costs nor output prices have changed this month.

Third District manufacturers are generally optimistic about the near future. A third of the November survey respondents expect the current level of activity to continue over the next six months, and about half anticipate further growth. Manufacturers expect increases in new orders and shipments, and are planning to step up capital spending. Durable goods makers, however, foresee some weakening in employment.

RETAIL

Third District retailers report that October sales fell slightly below expectations, but indications are that a rebound had taken hold by mid-November. As of the third weekend of the month, sales for 1985 year-to-date generally conformed to earlier forecasts of an 8-12 percent increase over 1984. Philadelphia area retailers attribute the October dip in sales to a strike that kept the city's two major newspapers out of circulation for more than a month, disrupting advertising and the distribution of promotional inserts. Another factor cited for weak October and early November sales is abnormally mild weather which has held down demand for seasonal apparel.

As the Christmas selling season approaches, Third District retailers are stepping up promotional efforts that, they say, are necessary to maintain store traffic. Department store and general merchandise executives are still uncertain about prospects for holiday sales, and are reluctant to make forecasts until they see post-Thanksgiving results. Some merchants have expressed concern that consumers may have reached their limit of comfort on installment debt, and that this may dampen end-of-year sales. One major chain, however, reports that credit purchases are growing as a percentage of sales.

FINANCE

Total loan volume at large Third District banks rose just over 1 percent from September to October, reaching a level 15 percent above that of October 1984. Commercial and industrial loan volume also rose at a similar rate, and now stands 17 percent above its year-ago level. Third District banks say that loan demand continues to be strong from middle market companies that do not have convenient access to the commercial paper market. Demand is also high for receivables financing and other types of secured loans. Bankers expect commercial loan demand to remain strong through the fourth quarter but do not expect loan growth to match the third quarter's pace.

Consumer loan volume increased approximately 1.5 percent in October to about 18 percent above its year-ago level. Some Third District banks report that demand for consumer installment loans has been very responsive to lower interest rates and promotional efforts and that further reductions in rates may be made in the near future.

Local bank economists have scaled back their predictions of growth for the next two quarters. Consequently, they have lowered their interest rate forecasts for the next six months. Their predictions now range from a general increase of up to 50 basis points to drops of 50 basis points or more in yields on Treasury securities of all maturities. They also expect a comparable drop in the federal funds rate.

FOURTH DISTRICT - CLEVELAND

Summary.

The Fourth District economy remains lackluster. The unemployment rate remains high and employment shows little growth. Retail sales growth is positive but not robust. Manufacturing activity remains flat with the steel and machine tool industries continuing in difficulty. House sales are strengthening and builders plan to step up construction. Commercial bank loan demand remains moderate.

Labor Market Conditions.

Labor market conditions in the Fourth District remain mixed. Unemployment rates range widely around Ohio's current rate of 9.2% (s.a.), from as low as about 4.5% in Lexington, Ky. to around 20% in some coal mining regions of southeastern Ohio and eastern Kentucky. Manufacturing employment shows little net change in recent months. A survey of manufacturing firms in the Cincinnati area indicates that, on balance, they expect a slight decline in their employment in 1986.

Retail Sales.

Retail sales in the Fourth District improved in October for most non-auto retailers, but sales growth was quite mixed within the District. Year-to-year growth rates of 7% to 9% were common in the southern

half of Ohio (Cincinnati), but nearer 0% to 4% in the northern portions of the state (Akron, Cleveland, Toledo, and Youngstown). Sales of apparel, particularly women's apparel, showed relatively strong gains between September and October, while most hardgoods sales are still moderate or declining. One department store analyst anticipates "near-double digit rates of increase for the Christmas selling period", although in general, retailers are only guardedly optimistic over holiday selling prospects.

Similar to the national market, new-car sales in this District are down so far in the fourth quarter because of exceptionally high third-quarter sales. Sales of larger models are especially soft. Import car sales are reported strong and getting stronger. Truck sales are moderate, which is not unusual for this area. Large inventories of used cars accumulated from third quarter trade-ins are beginning to thin out.

Manufacturing and Mining.

Manufacturing activity in the District is flat while coal mining remains depressed. On balance, contacts indicate industrial production is flat or up slightly, new orders are down, and backlogs are falling. Manufacturers are holding employment steady, although one contact reported increasing overtime being worked in his area. Raw materials inventories are falling sharply while finished goods inventories are flat. Prices paid by manufacturers for materials are unchanged.

In the steel industry, import competition continues to hold down domestic sales and prices. One senior executive asserts that it will take a very large depreciation of the dollar to get a significant price increase in basic steel. A major steelmaker in Chapter 11 bankruptcy recently negotiated a 16% compensation cut with its union, ending a 98-day strike.

An aluminum industry executive reports that turmoil in the tin market has spilled over into additional downward pressure on already low aluminum prices.

Producers of machine tools continue to report weak orders and low prices. Employment at many firms remains well below its pre-recession peak, and one firm expects to cut employment further next year unless orders improve quickly. Competition from imported machine tools remains very strong. Machine tool orders are weak also because an increasing share of capital spending is for computers and other information processing equipment.

A producer of components for heavy trucks reports North American production of heavy trucks and buses is down about 9.5% in 1985; the firm expects it to fall another 6% or 7% in 1986. A major diversified producer of components for capital goods reports all lines of business are "on hold" except for strength in defense goods.

Coal production remains low and the outlook for the District coal industry weak.

Housing.

The optimism evident in District housing markets last month continues unabated. Builders, who had been cautious and waiting for lower mortgage rates, are now stepping up construction plans. District builders expect housing demand to rise steadily in coming months if mortgage rates continue to ease. The confluence of lower mortgage rates, further income advances, the availability of state of Ohio-subsidized mortgage funds, and retention of housing's favored status in pending tax reform legislation has led to a consensus among builders, mortgage lenders, and realtors that favorable housing conditions should prevail through at least mid-1986.

Realtors in the District report a resurgence in both listings and closings in recent months. Particularly strong sales are reported for Columbus, Dayton, and Cincinnati. However, realtors are uncertain how much the recent tightening of private mortgage insurance standards by lenders will reduce the number of prospective house buyers.

According to a major mortgage lender, mortgage loan volume remains lower than expected at the current level of mortgage rates, because many potential borrowers are waiting for even lower rates. This lender continues to sell all of its fixed rate mortgages in the secondary mortgage market. Like a growing number of midwestern lenders, this lender may begin to retain shorter-term fixed rate mortgages in its loan portfolio if it decides that prepayments of shorter-term mortgages will be substantially less than on 30-year mortgages.

Commercial Banking.

Overall loan demand at District banks remains moderate. Declines in commercial and industrial loans are being more than offset by gains in real estate and consumer installment loans. Lower interest rates are helping to improve the demand for real estate loans. Consumer installment lending at banks has received a boost from the end of the cut-rate financing through auto dealers, even though car sales have declined significantly.

Contacts anticipate a small pickup in business lending primarily because of seasonal factors. While consumer loan demand is expected to remain good, the rate of growth is expected to decline in the months ahead.

FIFTH DISTRICT - RICHMOND

Overview

Most reports from around the Fifth District suggest that economic and business activity remains quite strong. Seasonal factors are causing some churning of employment activity, and special factors such as the end of the automobile financing opportunities of late summer and early fall are also causing some confusion. Nonetheless, employment, retail sales, construction, and housing sales are all reported, on balance, to be holding at quite high levels. Retail sales seem to be running well ahead of national trends, with experience varying significantly across product lines and regions. District employment has drawn recent support from construction, government, and to a lesser extent from manufacturing, sufficient to offset seasonal losses in agriculture related areas and tourism services.

Manufacturing

Manufacturing activity in the District, after leveling out in the past few months, is showing some signs of trying to bounce off of the bottom reached last summer. Several District states have experienced manufacturing employment gains lately, and even where employment shows continued weakness, average weekly hours of production workers has turned up sharply. The modest gains achieved in the textile, apparel, and furniture industries a month ago are being held, and in some cases even built upon. Some pickup in textile and apparel exports has developed of late providing some support for those industries, while in the furniture group, strong retail sales are beginning to feed back into production gains. Another encouraging note is

found in the attitude of District manufacturers concerning current inventory levels. Although there does not seem to have been any significant change in current stocks, present levels appear to be viewed as about right. For quite some time, most District manufacturers had found existing inventory levels excessive.

Coal production continues to run behind last year's levels despite high rates of consumption and improved export demand. In the Fifth District, production for the year is running more than 5 percent behind 1984 levels (compared to about 3 percent nationwide), despite improved production in Virginia.

Consumer Spending

Consumer spending is reported to be making major gains around the District. An important factor seems to be that automobile sales continue strong, despite the end of the manufacturers' attractive financing promotions. Car sales are down, to be sure, but remain at what would normally be considered quite healthy levels. Spending patterns in other product lines are being affected by seasonal and weather factors. Warm weather in much of the District has put a damper on sales of fall clothing, for instance. Most general merchandise lines continue to move well, however, as do building materials, food, furniture, and appliances.

Housing and Construction

The construction industry continues to lend considerable strength to the level of District business activity. Although recent changes in the level of activity vary around the District, our impression is that on

balance construction has at least held its own over the past several weeks, and may have even strengthened somewhat. In addition, sales of houses, both new and existing, continue to be very strong in most areas. In Virginia, for instance, single family dwellings under contract in October were nearly 3 percent ahead of September, and more than 21 percent ahead of October 1984. Year to date the gain has been more than 13 percent.

The Financial Sector

Financial institutions report some pickup in consumer installment loan demand since the end of the financing incentives offered by the auto manufacturers earlier in the year. That pickup, however, is generally described as slight. More generally consumer loan demand is moderate, and relatively stable.

SIXTH DISTRICT - ATLANTA

The weather has combined with some other factors to cloud the economic picture of the Southeast economy in the fall. As summarized by the broad unemployment rate yardstick, the regional economy weakened somewhat in September. With the ending of cheap auto financing deals, car-buying plummeted in October, pulling down consumer spending. Total consumer borrowing has slowed as buyers' appetites apparently have been temporarily satiated. Construction activity indicators show that sector rebounding in response to easing credit conditions. The pace of tourism has been uneven and below last year's Fair-boosted levels in some states, and wet weather has further depressed farm revenue estimates, particularly in Louisiana.

Employment and Industry. Labor markets continued to weaken in September, with the District unemployment rate edging upward to 8.1 percent. Total employment dropped, moderately, for the first time since June. However, trends in factory employment are little changed since the last reporting period. Textile employment, while down sharply from a year ago, has stabilized in recent months. Textile industry contacts are encouraged by the recent weakening of the dollar but they look to the protectionist measures now in Congress for fundamental relief from import pressure. Employment growth in the region's auto assembly and parts plants has plateaued temporarily, but industry spokesmen are encouraged by the planned renovation of an auto assembly plant in Atlanta that will add 900 jobs and the selection of a Tennessee site for a major new assembly plant. Estimates indicate the latter facility will provide 6,000 jobs directly and an additional 14,000 support jobs at parts suppliers' plants. At 11 percent in September, Louisiana continues to have the highest unemployment rate in the region. The petrochemical and oil field machinery industries continue to suffer, with the latter losing an additional 2,400 jobs in the year ending in September. Southeastern timbermen

expect lumber and wood prices to remain depressed in the year ahead despite the encouraging building outlook suggested by falling mortgage interest rates. Canadian import pressure is likely to continue keeping prices below break-even levels for many domestic producers.

Consumer Spending. Most merchants posted moderate gains in October although some stores, including a large national chain, fell short of October 1984 sales levels. On a year-to-date basis, sales activity remains above last year's levels throughout the region, with women's and children's apparel, electronics, appliances, and jewelry the best selling items. Retailers generally are projecting only moderate gains in year-end holiday sales and are consequently holding leaner inventories relative to 1984, when holiday sales were not as strong as expected. October car sales in most areas of the region were off sharply from October 1984 and September 1985 levels. During September, more cars were registered than in any other month in the 1980s.

Construction. Residential housing markets are slowing as usual as winter approaches, but sales levels are above those at this time last year, probably because of lower mortgage rates. The strong economic performances of Atlanta and Nashville are reflected in their healthy, migration-induced single-family home sales, and projections are for a continuation of high sales levels. Meanwhile, the Miami market is also showing notable growth over last year and the outlook is favorable, while the performance and outlook for Louisiana and Mississippi are poor. Office construction activity also has maintained its mixed growth course. Completion of new space has led to what are thought to be temporary increases in vacancy rates in Tampa and Orlando and to a more lasting increase in Miami. An unusually low vacancy rate makes Birmingham a good market for new construction, and the Nashville retail market is expected to boom in the next year. The Atlanta market keeps zooming along.

Financial Services. The growth rate in loan demand continues to trend downward for a sample of large commercial banks in the Southeast. October's growth in total loans, although still strong, represents the continuation of an unbroken pattern of softening growth since January. Both consumer and real estate lending account for recent weaknesses which follow unprecedented high growth in such lending earlier in this economic expansion.

Tourism. Consumer purchases of travel services in the Southeast do not seem to have accelerated appreciably in the fall, although the reports available indicate that air travel increased in September at most regional airports. Auto travel fell in both September and October in most District states, although sharp declines in Louisiana, Alabama, and Mississippi no doubt reflect the unusually high levels of auto travel last year in conjunction with the World' Fair. Attraction attendance showed little growth. State parks, for example, had fewer visitors in October, and most private attractions surveyed had only modest gains. In the lodgings sector, activity was mixed, and hotel occupancies in several markets, including Orlando, remain extremely depressed.

Agriculture. Low market prices continue to dim revenue prospects for District crop farmers. Louisiana farmers have had to cope additionally with multiple hurricane damage. Apparently, the sugarcane crop suffered most, with its projected yield falling by one-twelfth from earlier estimates. Prospective regional production of grain sorghum and cotton is the highest in this decade; yields of other major crops are also generally favorable throughout the region. The cattle, pork, and egg industries are experiencing low prices and poor returns but the poultry meat producers enjoy profitable conditions.

SEVENTH DISTRICT--CHICAGO

Summary. Recent developments suggest a relatively stable near-term outlook for business activity in the District--no new vigor and no significant setbacks. Growth of total employment in the District continues to trail the U.S. Auto and light truck output are expected to remain strong into 1986. Steel production and orders continue at disappointing levels, with strength mainly in motor vehicles, appliances, and construction, and at service centers. Demand for most types of capital goods remains weak--not getting worse, but not improving either. Residential, commercial, and highway construction are strong, but generally far short of past peaks. Sales of suburban industrial buildings have picked up. Inventories are judged to be fairly lean. General merchandise sales recently have been sluggish. Modest recoveries in grain and livestock prices in recent weeks have been encouraging, but far from sufficient to alter the distressed conditions facing the District agricultural sector.

St. Lawrence Seaway. Round-the-clock repair work on the 53-year old Welland Canal allowed vessels to resume passage of this section of the St. Lawrence Seaway on November 7. A line of waiting vessels had grown since October 14 when a 150-foot concrete section of a lock wall collapsed. The 24-day cutoff caused consternation among ship operators, shippers, sailors, and terminal employees directly affected, but no significant wider impact on output and employment in the District. Attractiveness of the Seaway for shippers is limited by the winter closing, bottlenecks at locks in peak periods, availability of improved and often cheaper and faster alternative means of transport, limits on size of vessels which increase costs, and vulnerability to delays caused by accidents or breakdowns. The Seaway has never played the major role envisaged for it when it opened in 1959.

Motor Vehicles. Auto sales fell sharply as expected in October, after being boosted to record levels in September by auto makers' buyer incentive programs. Inventories, very low at the end of September, have been increased to more normal levels. Domestic auto makers plan high production levels into next year. Truck sales continue to set records, but the strength

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is in light-duty models, especially imports. Sales of heavy-duty trucks have declined, and growth of demand for medium trucks has slowed.

Steel. Total demand for steel continues slow. Buying by heavy capital goods producers remains soft. Strength is concentrated in motor vehicles, appliances, and construction. Shipments to steel service centers also continue strong, as steel users try to hold lower inventories. Major steel producers, whose steel operations have been at unprofitable levels, are attempting to push through price increases.

Capital Goods. Orders for most types of mechanical business equipment are still slow. Oil development gear and food processing equipment are off substantially from last year. Farm equipment remains severely depressed. An airline recently announced a "record" order for aircraft, but the only firm order was for 20 aircraft to be delivered starting in the fall of 1986. As a result of the decline in the foreign exchange value of the dollar since February, some District equipment manufacturers are receiving inquiries from abroad again after a long lapse. Although there is only limited evidence yet of increased orders for mechanical capital goods as a result of the lower dollar, one District company reported that some orders are being placed with domestic suppliers for types of machinery which had previously been ordered abroad, in response to the shift in relative prices.

Nonresidential Construction. Over the past year, and since the end of recession in 1982, nonresidential building has risen more vigorously in the District than in the nation, despite weakness in Iowa, but remains far below the good levels of the 1970s. The rise in Michigan has been strongest. Commercial construction, mainly stores and office buildings, has accounted for much of the increase in activity. Office vacancies are large and growing as new buildings are completed. However, new starts on major office buildings in downtown Chicago are expected. Commercial mortgage rates have eased about 1/4 percentage point since September, to 11 percent on 10-year loans and 11-1/2 percent on 15-years loans. The resale market for smaller industrial and warehouse properties in suburban areas of Chicago has strengthened significantly in recent months. Overbuilding in industrial parks is being absorbed rapidly. But

construction of large manufacturing buildings is at a low level, except for motor vehicle assembly plants and parts plants of domestic and Japanese companies. Highway construction, mostly repaving, continues strong.

Residential Building. Construction of housing has continued to recover in the District, but is still only about half of the pace of 1978. Recovery has been uneven, with Michigan up most strongly, and Iowa weakest. Used home sales, which did not fall off as sharply as new homes in the recession, are highest ever (number of units as well as dollars) at some large realtors. Residential mortgage rates have eased slightly. Lenders and mortgage insurers are applying tighter standards, but credit is readily available for qualified buyers. Last year's market was dominated by first-time buyers. This year more sales have reflected people "trading up". In the Chicago area, there has been a strong rise in apartment construction, but from a low base and not enough to approach past peaks.

Consumer Spending. Major District retailers report continued sluggish sales of general merchandise. Inventories are mostly within a normal range. Appliance sales have been good. Airline traffic has flattened, and excess capacity has led to severe and widespread price cutting. Increases in prices paid by consumers generally remain low, but rates for auto and home owners' insurance are rising at least 5-6 percent this year in most areas, and much more in some localities.

Agriculture. Lower meat production and an unusually heavy movement of grain under price support loan with the Commodity Credit Corporation account for most of the recent upturn in farm commodity prices. Corn and soybean production estimates for District states were revised upward again in November. Corn production is projected up 16 percent from last year and soybean production up 24 percent. However, wet weather continues to delay completion of the fall harvest. Hardest hit areas include Iowa, Michigan, and Wisconsin. Some yield losses will likely result, inflicting more adversity on the financially-stressed farmers affected by the delays. But any weather-related yield losses will not materially alter the fundamental situation of excess grain supplies.

EIGHTH DISTRICT - ST. LOUIS

Summary.

Little change in business conditions is expected through next April. In the third quarter, District nonfarm employment grew faster than in the nation despite a regional decline in manufacturing employment. Residential construction activity increased in the third quarter, while nonresidential construction declined. After heavy consumer spending in August and September, District retail sales declined in October. District lending activity in August through October was characterized by strong consumer and sluggish commercial lending. Record yields for most District crops were recorded, despite heavy November rains that delayed the completion of the harvest in some areas.

Outlook.

Slightly more than half of the 240 District small businesses surveyed in October expect business conditions to be about the same through April 1986. Although 42.5 percent expected an increase in real volume through next January, only 17 percent thought the period was a good time to expand and most planned no change in employment levels, average compensation, or prices.

Business Activity.

Business activity in District states, as measured by an index of seven indicators, exhibited widespread weakness in recent months. After only

moderate gains in all four states in July and August, the indices declined in September in Arkansas, Kentucky, and Tennessee and rose only slightly in Missouri.

Employment.

Eighth District nonfarm employment grew in the third quarter by 2.9 percent (annual rate) exceeding the national rate of 2.5 percent. Third quarter strength in the District nonmanufacturing sector offset a 2.3 percent decline in manufacturing employment. The District unemployment rate remained unchanged in September from the August rate of 8.3 percent.

Construction.

District residential building contracts increased 2.0 percent (simple rate) in the third quarter but were only 0.2 percent higher than in the same period last year. Although nonresidential construction declined 2.8 percent in the third quarter, the level was 20.3 percent higher than year-ago levels.

Consumer Spending.

Despite an August increase, District retail sales declined 1.1 percent last summer (June-August) from the previous three-month period. Recent reports suggest the August expansion continued into September, resulting in a strong third quarter. Vigorous auto sales in response to low financing rates on domestic models and greater availability of imported cars contributed to the expansion. Reports from Mississippi, Tennessee, and Arkansas indicate retail sales, particularly car sales, declined sharply in October from September levels.

Banking and Finance.

For the three-month period ending October, total loans at large District banks grew at a 6.6 annual rate. This activity represented a slower rate of growth than that recorded for the same period in 1984 and was characterized by sluggish commercial lending and strong consumer loan volume. Commercial loans declined at a 9.0 percent rate compared with a 5.0 percent increase last year. Consistent with recent experience, consumer lending has grown more rapidly over the past three months (26.9 percent) than for the same period last year (11.2 percent). Real estate lending slackened, growing at a 4.5 percent rate during the three months ending October compared with a 13.0 percent rate over the same period last year. Total deposits grew slightly over the three most recent months, with increased activity in MMDA and NOW accounts.

Agriculture.

Harvests of most District crops have been completed with record-breaking yields in many instances. Heavy rains in November, however, have slowed the corn harvest in northern sections of the District. Soybean harvests also have been delayed in southern sections of the District where soybeans are harvested later due to double cropping. Efforts to unify and consolidate lending operations at the farm credit banks of Louisville and St. Louis are making some progress. Stockholders of 32 out of 35 production credit associations (PCA's) in the St. Louis farm credit district have approved a proposal to merge their associations into a single PCA for the purpose of more effective pooling of resources. A similar proposal is pending for federal land bank associations. The Louisville District will offer a similar plan to stockholders in the coming month.

NINTH DISTRICT - MINNEAPOLIS

While employment growth has slowed in the Ninth District this fall, several positive developments have occurred in the labor market. Consumer spending generally fell in October, but it may be rebounding in November. Sharp increases in cattle and hog prices are the main bright spots in the agricultural sector, where future farm finance remains a major concern.

Employment

The most recent available data indicate slow job growth throughout the Ninth District. Minnesota's seasonally adjusted unemployment rate increased to 6.2 percent in September, marking the fourth consecutive month it has risen. In Montana, the seasonally adjusted unemployment rate also rose this fall and is now hovering around 8 percent. Despite a 3.5 percent increase in nonfarm employment, South Dakota's unemployment rate rose a bit during the second quarter.

Major labor market developments in the district included the long-awaited reopening of the old White Pine mine in the Upper Peninsula of Michigan. Also, a Bank director notes that a preliminary agreement was signed to build and operate a big paper mill in the hard-pressed area around Duluth, Minnesota. In Sioux Falls, South Dakota, a large, divisive strike at a meat-packing plant was settled. But in Livingston, Montana, a railroad closed its repair operation, causing that area to lose 350 jobs.

Consumer Spending

Spending for general merchandise in the district slowed some in October, but it may be accelerating in November. One diversified retailer

notes that menswear and accessories sales had particularly lagged in October. Another large retail chain notes that sales so far in November exceeded their generally lackluster level in October. Due to the large increase in consumer indebtedness, retailers are closely watching customer credit lines to detect any deterioration in creditworthiness. Careful planning of inventories have helped the two retailers maintain good profit margins. Retailers around the district generally aren't expecting land-rush holiday business and are fearful of accumulating excessive inventories.

Motor vehicle sales have slowed, following an avalanche of September orders. Regional offices of domestic manufacturers report that car and truck sales were lower during this October than during last October. Inventories, which were very low earlier this fall, have now increased to more comfortable levels. The Bank's directors from North and South Dakota report that vehicle sales in their vicinities were still slow in November.

Housing activity continued to pick up in the Minneapolis-St. Paul area, but activity was spotty elsewhere in the district. In the Twin Cities, home sales were 12 percent higher during this September and October than they were during these months last year. Residential construction contracts in Minnesota were substantially higher this September than last. But while Bank directors find that housing starts were up in the area around Great Falls, Montana, they also note that activity was down around Bismarck, North Dakota, and in western North Dakota.

In general, tourist expenditures in both summer and fall appeared to have increased from 1984 levels. In the Upper Peninsula of Michigan, the increase appeared to be about 5 percent. Good tourism activity in both northwestern Wisconsin and western Montana was also noted by the Bank's Advisory Council.

Agriculture

Because of a sharp rise in cattle and hog prices, Minnesota's farm price index rose in October for the first time since last December. However, major crop prices continued to fall, with both corn and soybean prices dropping--the latter to their lowest level since April 1976. In Minnesota and South Dakota, the corn and soybean harvest looks bountiful, promising large government crop payments. Also, a drop in the cattle supply bodes well for future cattle prices and could help ranchers recover their summer losses. Turkey prices are also higher than they were a year ago, which will brighten Thanksgiving for growers in Minnesota, one of the largest turkey-producing states.

Farm Finance

Farm finance issues were once again in the forefront of district concerns. About one-third of the bankers responding to our late-September survey of rural bankers in the district said they referred an abnormally high number of poor farm-credit risks to nonbank lenders, such as the Farmers Home Administration. A Bank director thinks that from 5 to 10 percent of his farm borrowers won't obtain refinancing for next year.

TENTH DISTRICT - KANSAS CITY

Overview. Economic activity in the Tenth District appears to be generally sluggish, with little improvement anticipated in the near future. Retailers report flat sales and stable prices, conditions that are expected to continue into next year. Automobile dealers are pessimistic for sales through yearend and into 1986. Inventories of retail goods and materials inputs are both considered satisfactory. Homebuilders are cautiously optimistic for 1986, though current conditions are mixed. Savings and loan institutions also expect mortgage demand and mortgage commitments to improve slightly in 1986. Tenth District banks report relatively constant loan demands, deposits, and loan rates over the last month. Fall crop yields are well above normal. Further, but slower, declines in farm land values are expected.

Retail trade. Retailers report flat sales in the last three months, and no significant change in sales this year over last year. Women's wear and home furnishings sales have been strong while sporting goods and housewares sales have been weak. Retailers have been expanding inventories in anticipation of sales increases during the coming holidays. Most report that they are planning on having special sales and promotions for Christmas this year. For 1986 retailers expect sales to remain fairly constant and inventory levels to fluctuate only seasonally. Prices are stable and are expected to remain so the rest of this year and through next year.

Automobile Sales. Automobile dealers report sales have declined recently, due largely to the elimination of financing incentives. Sales currently are about the same to down slightly compared with a year ago. Most dealers expect sales to be flat to down slightly through yearend and down in 1986. Sluggish sales and large shipments of 1986 models have resulted in expanding inventories.

Purchasing agents. Most purchasing agents report that input prices have remained nearly unchanged over the past three months as well as from a year earlier. They generally expect input prices to remain constant for the rest of the year and foresee no major price increases in 1986. Very few difficulties in obtaining materials are reported and few problems are expected to arise. All firms report that materials inventories are satisfactory and no major changes are expected for the rest of the year or in 1986.

Housing activity and finance. Homebuilders give mixed reports about current housing conditions, but are cautiously optimistic for 1986. Housing starts range from slightly up to significantly down for both single-family and multi-family structures, relative to a year ago. But most area builders expect starts in 1986 to be as good as or better than 1985. Sales of new homes, prices of new homes, and the inventory of unsold homes vary widely across reporting areas. Prices of materials are generally steady and materials availability is good, with no changes expected.

Savings and loan institutions also give mixed reports about current and future mortgage behavior. Respondents report a moderate increase in savings inflows relative to last year, along with slightly lower to constant mortgage demand and commitments. Generally, stable inflows are expected for 1986, along with slightly higher to constant mortgage demand and commitments. Most savings and loans report declining mortgage rates recently, but expectations for 1986 rates are mixed.

Banking. Total loan demand, total deposits, and loan rates have been relatively constant at Tenth District banks over the last month. Most bankers report unchanged demand for commercial and industrial loans. Half of the respondents experienced a stronger demand for consumer credit, while the other half report no change. Several bankers note that their automobile loans have

not been competitive lately, but credit card lending has increased. Agricultural lending was flat to slightly down, and bankers continue to express concern about the quality of agricultural credit. The prime rate is constant at Tenth District banks. Most respondents also report no change in consumer loan rates. Total deposits have been stable. Half of the respondents had lower levels of demand deposits, but modest increases were registered for NOW accounts, Super NOW accounts, and MMDA's. IRA and Keogh contributions were steady to slightly higher. Most banks had no change in passbook savings accounts, although a few report decreases. Large certificates of deposit and small time deposits generally were unchanged.

Agriculture. Fall crop yields are above normal and paydowns on livestock loans are improving, but liquidations and foreclosures continue with farm land values still falling. Fall harvest in the Tenth District is generally on schedule, although wet weather has delayed fieldwork in some states. Corn, soybean, and sorghum yields are reported well above normal in several district states. In Oklahoma, normal cotton yields are expected. Paydowns on livestock loans in Nebraska, Kansas, Wyoming, and New Mexico are much better than a year ago. Much of this improvement is attributed to the recent rebound in cattle prices. Farm liquidations and foreclosures have saturated the farm real estate market, and very little land is changing hands. Some financial institutions that have acquired farmland through foreclosure or liquidation are not selling at current low prices. Lenders expect further declines in farm real estate values in the coming months, but the rate of decline may not be as sharp as it was a year ago. Agricultural lenders in most district states are encouraging their farm borrowers to apply for Farmers' Home Administration (FmHA) guarantees. Lenders in Colorado and Wyoming, however, report that they no longer send borrowers to the FmHA, as many sent in the past have failed to qualify.

ELEVENTH DISTRICT--DALLAS

Evidence of overall expansion in the District economy is scant. The energy industry continues to weaken. Manufacturers report little change in conditions. Retail sales are rising very sluggishly. The value of construction contracts has been increasing, but some signs of a downturn in office building construction are emerging. The rate of asset expansion has slowed at District banks. Agricultural prices have recently edged up, but they remain well below a year earlier.

District manufacturers report little change in conditions. With the exception of lumber and wood products, respondents find that declines in the value of the dollar have not yet resulted in increased orders. Despite some recent improvement in sales, lumber and wood producers expect the usual seasonal declines in demand to result in temporary plant shutdowns. Primary and fabricated metals manufacturers report reductions in orders, which they attribute to slowing current activity in commercial construction. These same manufacturing industries, together with producers of nonelectrical machinery, also face declining demand from the troubled oil and gas drilling industry. Continued sparse sales and excessive inventories have recently led a number of firms in the District's semiconductor industry to announce layoffs. Growing defense spending is pushing up production and employment in the District's aircraft and parts industry. Output is rising in the food processing and chemical industries, while petroleum refinery activity is slipping and apparel industry demand remains weak.

Drilling activity in the Eleventh District continues to decline at accelerating rates. The number of active drilling rigs in Texas is falling at slightly faster rates than in the U.S. Leading indicators of drilling, including the seismic crew count and the number of well permit applications, are also slipping.

Retail sales respondents report weak growth and say they expect a poor fourth quarter, overall. They also note that fashion lines are selling well while demand for big ticket items, such as home furniture and electronics, is low. Retailers say they are managing their inventories more closely than last year.

The seasonal reduction in auto sales was much smaller in October of this year than is normal for the period. Dealers attribute this strong performance to interest rate promotions offered by domestic manufacturers. More recently, respondents have begun to report further reductions in sales, which they attribute to consumer expectations of new financing incentives. Price increases for the 1986 models are said to be modest and dealers expect increased price competition in the coming year.

The value of nonresidential construction contracts increased strongly in the third quarter despite a slight dip in September. Non-building construction, particularly of streets and highways, continues to register the largest yearly gains of any major category. Construction contract values for retail stores and office buildings remain above a year earlier. The October permit totals for the Dallas/Forth Worth metropolitan area show a large decline in office building construction, although other types of construction buoyed nonresidential construction.

The rebound in residential construction that has been evident since mid-1985 has abated. The value of residential construction contracts fell in August and September, after strong growth earlier this year. The number of housing permits issued in the District fell in September, reversing the upturn in permit issuance that began early in the year. Much of the downturn is due to renewed declines in multifamily building. Single family permits continue to rise gradually in response to lower interest rates.

In October, both total loans and securities at the District's large banks declined absolutely from a year earlier. The rate of growth in loans and securities also declined in both August and September, although it remained positive in those months. The pace of decline in October for loans was substantially larger than for securities, and was concentrated in consumer loans, business loans, and other loans. Much of the weakness in consumer loans is said to reflect past special financing programs offered by U.S. auto manufacturers. Real estate loans continued to increase, but the rate of expansion has lately been ebbing. Deposits at large banks fell absolutely from a year earlier and from a month earlier, but MMDA growth accelerated substantially.

District agricultural prices increased slightly in October from September, but remained 9 percent below a year earlier. The increase in overall prices masked declines in some crops. Cattle prices are higher than expected and cattle futures prices for near-term deliveries suggest continued upward pressure. The impetus for higher prices comes from reduced supplies, however, so that total revenue may not increase.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Overall, the Twelfth District economy continues on its slow growth path, with substantial variations among sectors and areas within the District. Consumer spending appears to be slowing down in many parts of the District. Forest products and semiconductor firms continue retrenching, although some early signs suggest that the pace of deterioration in lumber activity is slowing. Agricultural producers, however, continue to suffer from low prices in key crops. While a glut of commercial space in many parts of the West has caused a slowdown in nonresidential building, residential construction activity continues to vary with location.

Consumer Spending

The growth in consumer spending appears to be slowing down in many parts of the Twelfth District. Although this could be related to the recent surge of auto purchases, recent substantial declines in shipments by a large freight carrier suggest that retailers expect sales to slow further. Oregon, Utah, Alaska, and Idaho all report flat or even falling retail sales. In contrast, in relatively healthy Southern California and Washington, where sales growth was relatively soft during the first half of the year, growth has strengthened in recent months. Throughout the District, more sales are being made by volume discounters rather than traditional stores. Moreover, most areas report a recent shift in consumer spending -- even excluding autos -- toward soft goods such as apparel and away from durable items such as consumer electronics and furniture.

Manufacturing and Mining

In general, manufacturing and mining sectors continue weak. Some isolated exceptions including strong drilling activity in Nevada and Utah, and the opening of some small specialty mines in Utah. For the most part, however, Twelfth District activity in these sectors is down. In particular, the electronics industries continue to suffer. Layoffs and losses continue to be reported from California, Utah, Oregon, and Arizona.

Some signs suggest that the forest products industries may be stabilizing after the troubles of the past few years, although problems remain. Some report increased lumber shipments to Asia as the value of the dollar falls, but attribute this movement to short-term inventory adjustments in Japan and China. They also point out that the declining value of the dollar does not improve producers' position relative to their principal competitors in Canada and the southern United States. Nevertheless, the continuing shakeout among lumber producers is yielding a leaner, lower cost, more efficient industry, which is better able to respond to these threats. One positive sign for the industry is that softwood lumber prices in October were less than 1 percent below the level of October 1984, compared to a 6 percent drop the previous year. Thus, while the downslide may be slowing, the industry remains troubled, as low-priced competition from British Columbia and the South continue to cause consternation in the Pacific Northwest.

Agriculture

Producers of agricultural products continue to suffer from low prices induced by growing worldwide production and relatively weak demand.

Spurred by a continuing downward price slide, cotton acreage has fallen by 300-400 thousand acres in recent years. Prices for wheat and cattle remain well below their year-ago levels, although they have inched upward in recent weeks. On the bright side, the prospects for potatoes are improving, as crop quality is good and prices are reviving from a short slide late in the summer.

Construction and Real Estate

In many parts of the Twelfth District, high commercial vacancy rates are starting to be reflected in slower nonresidential permit authorizations. Exceptions are primarily in smaller metropolitan areas in Idaho and California's San Joaquin Valley, where vacancy rates remain below 10 percent and nonresidential activity is, in the words of one respondent, "on a roll".

Residential construction activity varies substantially within the District. Despite Oregon's economic problems, some report an upswing in residential construction activity there, particularly of multifamily units. Multifamily construction is also strong in Idaho, but gluts in Utah and Arizona have curtailed apartment and condominium developments in those areas.

Finance

Trends in consumer loan volume likewise vary by location. Interestingly, some of the areas whose economies are struggling more, including Oregon and Alaska report steady -- although relatively modest -- growth in volume, while California and Washington, whose economies are

among the strongest in the District, report a slowdown from their earlier borrowing binges. Banks report that delinquency rates are either stable or rising, and range from less than 1 percent to almost 3 percent. Those who reported delinquencies for bank cards and installment credit separately invariably showed higher -- and frequently rising -- delinquency rates for credit cards.

Reported mortgage interest rates for 30-year fixed rate instruments hover at or below 12 percent. Several banks reported slightly lower rates than in the previous month, but one bank reduced its mortgage rate by 50 to 75 basis points during the past month. Mortgage volume appears strong overall, although there are exceptions. One Oregon bank, for example, reported that through August its volume had fallen 16.3 percent from the same period a year earlier.

The few reports on commercial loan activity suggest that it is weak. No respondents reported strong commercial loans.