SUMMARY OF COMMENTARY

ON

CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

December 1989

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SUMMARY*

Most Federal Reserve districts describe economic activity as stable to modestly expanding, though two note some recent softening. Consumer spending has varied among districts. Strength has been mostly confined to nondurable items, while sales of autos and other durables have generally been weak. The majority of districts report some softening in manufacturing activity but there are pockets of strength. Construction is strong or improving in the West and Midwest but somewhat sluggish in other areas. Agriculture has improved in much of the country and several resource industries have been expanding. Those districts that reported on price developments generally noted flat to modestly increased input prices, with several mentioning the continuing escalation of medical insurance costs. Loan demand at commercial banks varied by type and region.

Consumer Spending

Retail sales have been mixed among the districts. Sales were described as on target or healthy in the New York, St. Louis, Minneapolis and San Francisco districts. Boston, Cleveland and Philadelphia reported that sales were about even with year-earlier levels while Richmond and Dallas noted some slowing. Most districts that commented on Thanksgiving weekend sales reported virtually no change in the pace of sales relative to a year ago, but Atlanta

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*Prepared at the Federal Reserve Bank of New York and based on information obtained before November 28, 1989. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

experienced double-digit gains at that time. Among items mentioned as selling well in several districts were apparel, jewelry, cosmetics and toys. Unseasonably warm weather hampered sales of winter apparel in several areas, however, and most districts noted a weakness in sales of autos and other big-ticket items.

Retail inventories were reported at satisfactory levels in Atlanta, Minneapolis, New York and Philadelphia, but are higher than desired in Boston and Chicago. Retailers in Boston, Minneapolis, Philadelphia and Richmond expect this holiday season to equal last year's while those in Kansas City and St. Louis appear to be somewhat more optimistic.

Manufacturing

Some slowing in manufacturing activity has occurred in most areas. While conditions in Chicago, Minneapolis and San Francisco were mixed, shipments and orders in Boston were flat or down compared with a year earlier. Philadelphia notes a continuation of the downtrend that began during the summer and Richmond and St. Louis also report a decline in manufacturing activity. In Cleveland, where the pace of industrial activity had been strong during the first nine months of the year, some easing has recently occurred and Kansas City notes a slowing of sales, though most plants are operating near full capacity.

Weakness in the auto industry and among its suppliers was most commonly cited as a major factor in the manufacturing slowdown. Softness was also reported in the computer, electronics and defense industries in Minneapolis and in the furniture, textiles and apparel industries in Richmond.

In the nonauto sectors of the transportation equipment industry some gains occurred. Cleveland noted an upturn in orders for heavy-duty trucks and several districts reported strength at aerospace-related firms. Cleveland and Chicago report expansion in the industrial machinery industry, while firms producing oilfield equipment and chemicals in Dallas increased their sales. Several food processing plants in the San Francisco district plan to expand and Atlanta reports that capital spending continues in the chemicals, metals, wood and pulp, and industrial equipment industries.

Construction and Real Estate

Construction is reported to be strong or improving in the West and Midwest but somewhat sluggish in most other areas. Housing starts in Kansas City have increased over last year and sales in Minneapolis were slightly higher. San Francisco reports that construction and real estate activity are strong or improving in most of the district, while in Chicago residential building is still good though the pace has slowed somewhat. Atlanta and Richmond note some weakness in residential construction activity, however, and Dallas reports that activity remains far below the levels of the mid-80's, though there are now tentative signs of expansion. Home sales in Boston were the same or slightly lower than in 1988 with homes remaining on the market longer and prices declining.

Nonresidential construction and real estate activity also is mixed. Boston, Atlanta and Minneapolis report some weakness in the commercial market and New York and St. Louis note some recent increases in vacancy rates. However, office leasing has been relatively strong in New York, and Atlanta and Chicago both mention continuing strength in industrial construction.

Agriculture and Natural Resources

Agricultural conditions have improved in much of the nation. Minneapolis reports that both wheat and barley production were double last year's level and Kansas City reports that corn and soybean yields were generally normal. Most of the winter wheat crop in Kansas City is in good condition though dry weather could present some problems. San Francisco, Chicago and St. Louis report an increase in agricultural exports, and farmland values continue to rise in Chicago and Minneapolis. Dallas reports that drought persists in south Texas and along the Gulf coast and that cattlemen have reduced herds. However, in the northern part of the Dallas district, winter wheat planting and the corn harvest are both on schedule.

Among natural resources industries, exploration for natural gas is boosting drilling activity in Kansas City, and Dallas reports that the oil and gas industry is optimistic about expanding next year. Richmond notes that coal prices are strong and coal production in West Virginia has been at a record level. Minneapolis and Richmond report robust activity in the lumber industry, and the mining and metals industries are strong in San Francisco and Minneapolis.

Financial Markets

Demand for commercial bank loans remains varied by type and among regions. San Francisco reports strong loan demand in most areas though the rate of growth seems to have slowed from its earlier robust pace. Bankers in both Kansas City and Philadelphia note a recent increase in total loan demand, with business, consumer and mortgage loans up in Kansas City but only business loans up in Philadelphia. Some types of consumer lending are still strong in Atlanta but commercial lending is down. Richmond reports an overall softness in demand affecting both business and consumer loans.

FIRST DISTRICT-BOSTON

Economic activity is generally flat and below the expectations of retail, manufacturing, and real estate contacts in the First District. While inventories have edged up at some firms, other cost pressures have eased. The New Year is expected to yield more of the same. A recently released forecast of economic activity in the District predicts employment declining in 1990 and then picking up in 1991-92.

Retail

First District retailers report that sales from October through mid-November are about even with year-ago levels and well below their earlier plans. Although unseasonably warm weather has contributed to weakness in winter apparel, a variety of respondents see soft demand. Retailers have stepped up promotions, but consumers are proving unresponsive. Because inventories have edged up, retail contacts are reducing orders and delaying deliveries of new merchandise.

Cost pressures on regional retailers have abated. Respondents report increased availability and generally flat to slightly lower prices for goods, labor, and capital. As exceptions, medical insurance costs continue to escalate, and credit for small firms and riskier projects is more difficult to obtain.

Most retailers contacted expect promotions to continue into 1990. However, several respondents foresee a revival of consumer buying and a normal, if not stellar, Christmas season. While firms are decidedly cautious and are not making new capital commitments, they are holding to existing schedules of store refurbishment and expansion.

Manufacturing

Almost all First District manufacturing contacts report that shipments and orders are flat or down from year-ago levels. The declines range from slight to 15 percent. Although two firms mention a recent pick-up in orders, others describe demand as weakening and below plan. Orders from the auto and computer industries are said to be off most sharply. Products related to the aircraft, telecommunications and medical equipment industries and most exports remain relatively strong. One-third of manufacturing contacts say their inventories are higher than desired.

Employment is below 1988 levels at two-thirds of the manufacturers contacted. Some are cutting management layers; another is not hiring seasonal help. One "cautious" firm, which is giving overtime, has instituted a hiring freeze. Labor markets are described as "favorable" in Vermont and "loosening but still tight" for professionals in Massachusetts and for low-skilled workers in Connecticut.

Capital expenditures are expected to remain at 1988-89 levels or to decline in 1990. Next year's spending will be directed toward maintenance and productivity improvements.

First District contacts indicate that input prices are generally stable or down slightly from recent peaks in what is now a "buyers' market." Manufacturers' sales prices are mixed. Half the respondents report that sales prices are flat or down, with some discounting occurring in the United States and the United Kingdom. Others have raised prices 3 to 5 percent from year-ago levels. Two firms hope for similar increases early next year. Among firms discussing profit margins, most report improvements.

First District manufacturers foresee little or no sales growth in 1990. Although no contact expects a recession, several expect that 1990 will prove to be a "difficult" year.

Real Estate

First District realtors report that residential real estate sales are slightly lower than or even with last year's level. Contacts say that they are working harder to attain comparable results, with homes staying on the market longer and prices declining. The most prevalent reason cited for the slowdown is buyer caution based on general uneasiness about the economy. Most of the realtors contacted expect level residential sales in the New Year. According to the Spaulding and Slye Quarterly Review, the commercial real estate market is also softer, with landlords in Greater Boston adopting aggressive strategies to retain tenants.

Outlook

The New England Economic Project (NEEP), a nonprofit organization of businesses, government agencies and educational institutions, held its semi-annual outlook conference in mid-November. The NEEP forecasts call for nonagricultural employment in the region to continue declining in 1990 as it has since early this year. Regional employment will recover in 1991 and grow more strongly in 1992, equalling the projected national growth rate of 1.5 percent in the latter year. The region's unemployment rate will remain below the U.S. average over the forecast period.

SECOND DISTRICT--NEW YORK

Developments have varied among sectors of the Second District economy since the last report with no clear sign of overall deterioration or improvement. Department store sales were generally on plan and the pace of office leasing was good. Demand for new homes remained mixed, however, and purchasing managers in Buffalo and Rochester noted some flattening of new orders and overall business conditions. Senior officers at small and midsized banks reported demand for home mortgages slowed over the year.

Consumer Spending

District retailers reported over-the-year sales gains during October which ranged from 1.4 percent to 11.6 percent. These results were on or slightly above plan though a couple of respondents described their sales as somewhat disappointing. Sales during the first half of November were generally on target and retailers were cautiously optimistic about the month as a whole. Women's apparel and junior sportswear continued to be the strongest selling items though unseasonably warm weather was blamed for slower-than-usual sales of winter apparel. Jewelry and cosmetics also sold well but sales of furniture and home furnishings remained sluggish.

The current level of inventories was characterized as manageable by most department store contacts though one retailer reported stocks above desired levels. In addition, some District stores that are subsidiaries of financially-strapped companies are reportedly somewhat understocked because of suppliers' concerns about being paid. Regarding the near-term outlook, liquidation of the 124-year old B. Altman's chain is producing uncertainty among some District retailers because of the possibility of substantial price-cutting during the current holiday season.

Residential Construction and Real Estate

Demand for new homes in the District remains mixed. In some upstate New

York areas where activity was already strong, further recent gains are attributed to lower mortgage rates and more realistic pricing of homes for resale. Much of the New York metropolitan area continues to report little or no improvement in buyer interest, however; despite the general slack, a few developers have undertaken projects they consider sufficiently attractive to elicit a favorable response. For example, a 24-story condominium apartment house is going up on New York City's Central Park West where sites for new buildings are virtually nonexistent. Offering many highly sought after features of pre-war structures and unobstructed views of the park and the city's skyline, 21 of 38 units have been sold for September 1990 occupancy in the last three months although prices reportedly range from $900,000 to $6 million.

The pace of office leasing has been good in much of the District but with the recent completion of substantial amounts of new space, vacancy rates have generally held steady or edged higher. Moreover, some New York City brokerage firms recently announced further staff reductions in their continuing cost-cutting efforts. These moves could throw additional office space on the downtown Manhattan market, where vacancy rates have already risen due to earlier restructuring by financial firms, even though no new buildings are currently planned there.

Other Reports on Business Activity

October surveys of purchasing managers in Buffalo and Rochester indicate some flattening out in general business conditions, orders and production with an increased number of firms noting "no change" in these categories. In addition, in both surveys, deteriorating conditions were reported by at least as many firms as reported an improvement. Substantially fewer purchasing managers reported higher input prices in October. Concerning the outlook, the Rochester survey showed a large increase in the percentage of respondents expecting a deterioration in business conditions over the next three months.

October unemployment rates of 4.7 percent and 5.1 percent in New York and New Jersey, respectively, were again below the national average. However, October was the first month in three years that New Jersey's rate was above 5 percent and the unemployment outlook for the District is uncertain. In the wake of relatively weak investor volume and a slowdown in new issues and merger and acquisition activity, several brokerage firms recently announced plans for additional cutbacks totaling some 1200 employees. Some observers expect this number to climb even higher as more restructuring occurs in the securities industry. Further layoffs are also occurring at some auto parts manufacturers as a result of sluggish demand for cars. On the other hand, while demand for autos is slow, interest in new minivans is reportedly strong enough to be boosting employment at minivan parts and assembly plants in the District. Moreover, the House of Representatives voted for the production of 18 more F-14 fighter planes which could maintain employment levels on Long Island.

Financial Developments

Most senior officers surveyed at small and midsized banks in the Second District report that demand for home mortgages has declined somewhat over the past year. The reported depth of the decline varied considerably, however, ranging from virtually no change to decidedly lower. All respondents stated that their mortgage activity is heavily concentrated in either fixed or adjustable rate loans; a few banks offer only one or the other type of financing. A majority of the banks reported greater demand for fixed rather than adjustable rate mortgages which may be due to declines on average in fixed rates while adjustable rates have increased. Responses were mixed regarding the current strength of the bankers' local residential real estate market. One officer noted that while overall demand was slow, certain pockets in highly desirable areas were still doing well. Several respondents cited a seasonal slowdown and recessionary fears as causes of the current downturn. Most bankers stated that that they are aggressively marketing mortgages at the present time but only one-quarter are currently offering concessionary first-year rates on adjustable rate mortgages. Despite a slight increase in national delinquency rates, fewer than half of the respondents expressed any concern about delinquencies.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District appears to be just steady overall, according to businesses surveyed in November, although conditions vary among sectors. Manufacturing remains on the downward trend that set in during the summer, although the extent of the decline among area firms may be diminishing. Retailers report that sales are running just level with the year-ago pace, in dollar terms, as the holiday shopping season begins. Bankers note that consumer lending is nearly stagnant; financing of auto purchases has fallen off with the drop in sales, and other categories of personal lending remain sluggish. Business lending is advancing moderately and real estate loan growth is being restrained.

Expectations among Third District businesses are that conditions may improve, but just slightly in the first half of 1990. Managers at area manufacturing plants anticipate an end to the current decline but foresee only marginal gains in the next six months. Retailers expect sales for their fourth quarter (November-January) to run just modestly above the year-ago period. Bankers expect some further gains in commercial and industrial lending but they generally are planning to be very cautious in extending their exposure to commercial real estate. Bankers do not anticipate renewed vigor in consumer loan growth until overall economic growth accelerates.

MANUFACTURING

Manufacturing activity in the Third District continues to edge down, according to firms surveyed in early November, as the region's industrial sector remains on a downward trend that began in July. However, negative reports from local manufacturers are less prevalent now than they have been since mid-summer. Most of the firms reporting slower business are durable goods producers, while makers of nondurables generally report steady conditions.

Specific measures of industrial activity, while mixed, generally reflect an overall picture of softening business. Although shipments are increasing, new orders are virtually flat; the resulting drop in unfilled orders continues a downward trend that started in June. And while employment is being held steady, on balance, area firms apparently are trimming production in response to the weak orders situation by cutting working hours slightly. Although one-third of the firms contacted recently report that the costs of the goods they purchase continue to rise, most indicate that prices of both inputs and outputs are stable.

As for the future, sentiment among area manufacturers is divided nearly equally among those expecting further slowing, those anticipating steady business, and those predicting some improvement over the next six months; a slight plurality favors the optimistic scenario. On balance, while firms contacted this month expect an upturn in orders and shipments by the spring of next year, they expect order backlogs to continue edging down, and they anticipate some cuts in payrolls, as well.

RETAIL

Third District retailers contacted in late November described current dollar sales for the month up to Thanksgiving as flat compared to the same period last year. Stores specializing in women's apparel were posting good year-over-year gains, but much of the apparent improvement is attributed to depressed sales in this line last year. Although some discount and off-price retailers achieved what were described as healthy advances over last year's results for the Thanksgiving weekend, most stores ran just even with or marginally above their 1988 performance. Retailers said markdowns were fairly widespread.

Area merchants generally expect modest year-to-year gains in dollar sales for the holiday period and for the fiscal fourth quarter (November-January) as a whole. Although most of the store officials contacted for this report said inventories were in line with sales, many said they were planning promotional efforts to give Christmas sales an early boost rather than waiting for a possible last-minute rush.

FINANCE

Bankers contacted in November report modest loan growth overall, with business lending on the rise and consumer lending virtually flat. Lending officers indicate that commercial and industrial loans outstanding have been rising moderately and they expect a step-up in the rate of growth as the year comes to an end. Some banks have boosted loan commitments recently, and they expect these credit lines to be drawn down soon.

Consumer lending in the Third District is moving up only sluggishly despite some banks' promotional efforts. Bankers believe the fall-off in auto sales has diminished the demand for credit from individuals in recent weeks; furthermore, some expect overall consumer spending to remain lackluster, holding down growth of personal loan volume.

Area bankers generally indicate that they are continuing to restrict expansion of lending for development and construction. Lending for construction of offices and stores is expected to flatten or even decline as banks grow more cautious, and demand for funds to finance industrial development is expected to diminish in response to the slackness in the manufacturing sector. While some bankers note increased demand for credit from firms involved in infrastructure construction, especially highways, bankers' expectations are that total real estate and construction lending will ease from its recent rapid growth.

FOURTH DISTRICT - CLEVELAND

District respondents are guardedly optimistic that aggressive sales promotions during this holiday season will boost sales about 5% to 6% from a year ago. Manufacturing output in Ohio has begun to ease recently, following stronger than national growth in production through most of this year. Some financial market participants believe the run-up in the federal funds rate to 8 1/2% will delay a prime rate reduction, and that relatively small interest rate reductions would not do much to stimulate demand.

Consumer Spending. Both producers and retailers of consumer goods believe that the slowdown in consumer spending is largely in new car sales. They believe that weak auto sales are not a symptom of a contraction in consumer spending, and that consumers will respond to price incentives that should boost sales of both automotive and nonautomotive goods.

Post-Thanksgiving Day sales were generally reported as "good" as last year. although a national chain reported their sales rose less than last year. A retailer reported that promotions so far have been larger than usual. Retailers expect about a 5% to 6% increase in sales this holiday season from last. Generally good sales have cut inventories to levels still higher than last year. Excess dealer inventories of major household appliances were apparently corrected during the summer months, and orders from dealers improved in both September and October, although at levels below last spring.

Economists with the auto industry report somewhat weaker-than-expected new car sales, and that the "payback" period following high incentives of recent months may be longer than they expected. Price increases of 1990 domestic models, partly reflecting added safety features, have made some imports less expensive than domestic models, and incentives on 1990 models are considerably smaller than recent incentives for 1989 models. Another large buildup of new car inventories in November has led most analysts to expect a wave of price incentives beginning in the next few weeks.

New car dealers report that overall sales have slowed especially in November, but foreign makes have fared better than Big Three lines. Toyota dealers have experienced shortages of their more popular models, primarily the Toyota Camry this fall. Sales of 1990 models have been comparatively slow also, and buyers still exhibit a preference for foreign cars.

Dealers report that consumers continue to perceive foreign models as superior in quality to Big Three cars, although that perception may be waning. They report fewer trade-ins of domestic cars for their dealerships' foreign models, and an increase in the number of foreign-to-domestic trade-ins.

Most dealers do not expect sales for 1990 models to improve until broader and/or more generous buyer incentives are offered by the manufacturers. They report that, to date, incentives on 1990 models have trended more toward dealers' incentives, which apparently lack the advertising value of buyer incentives and are usually less generous.

Manufacturing. The pace of industrial activity in Ohio held up stronger than for the nation through the first three quarters of this year, but has apparently receded in recent months, according to this Bank's estimates of production. The decline has centered in the automotive industry and its key suppliers, especially primary metals and rubber and plastics industries. In contrast, output in both electrical and industrial machinery industries has continued to expand through the fall months.

Manufacturing employment in Ohio has also been receding slightly from its latest high last January, but employment in the machinery industries has remained steady over the past three quarters. Employment declines have centered in the automotive, primary metals, and fabricated metals industries. Two auto producers recently announced plans for plant shutdowns of one to two weeks involving a total of 7600 workers.

The summer slump in orders and production of heavy-duty trucks appears to have run its course, according to some suppliers. One supplier had a temporary lay-off of a few hundred workers and another plans a 5% reduction in its work force through attrition. The revival in truck orders in October leads one analyst to believe that a recovery is now under way. He also expects a slightly stronger increase in overall manufacturing output next quarter compared with this quarter, especially if the auto industry steps up an incentive program over the next few weeks.

Cutting tool orders have fallen between 20% to 40% from a year earlier practically each month since last spring, mostly because of declines in orders from the automotive and defense industries. A major tool builder expects the order decline to continue into 1990. Shipments have been sustained by reducing the order backlog.

Financial Developments. Market participants were apparently prepared for a 1/2 point reduction in the prime rate, but some now believe prospects for an imminent reduction have lessened if the federal funds rate holds at 8 1/2%. They also believe that it will take more than a 1/2 point cut in interest rates to stimulate demand for credit, which has generally softened since mid-year. Fixed rate mortgages at about 10% are commonly available from banks and thrift institutions, but demand is reported to be less than expected.

FIFTH DISTRICT-RICHMOND

Overview

District economic activity softened further in November from a sluggish pace earlier this fall. Retail sales and manufacturing activity declined, and the housing market weakened. District financial institutions reported reduced demand for consumer loans and for commercial and industrial loans. Port activity was again mixed. On the brighter side, coal and timber production were strong. Financial conditions improved further in the District agricultural sector, and farmland values continued to rise.

Consumer Spending

Reports from various sources including our regular survey of retailers suggested that department stores in the District experienced declines in retail sales from October to mid-November. Some lines such as cosmetics were reported strong, but others such as apparel were weak. Sales of big ticket items such as furniture were mixed, but weaker on balance. Most department store executives, however, expect this Christmas season to be as good as or better than last year, and most do not plan to mark down merchandise as much as they did a year ago.

Manufacturing and Mining

Responses to our regular mail survey indicated a decrease in District manufacturing activity from mid-October to mid-November. Reports of declines outnumbered reports of increases in shipments, new orders, unfilled orders, employment, inventories, and the workweek. The largest declines were recorded in new and unfilled orders. New export orders were largely unchanged. The prices of finished goods and raw materials rose moderately.

Our November survey showed that most manufacturers remained optimistic about prospects for the U.S. economy and their own businesses, although they were somewhat less optimistic about the near-term outlook than in our previous survey. Most producers expect the nation's economy to grow at a slow to moderate rate during the next 18 months. Almost half of the respondents, however, up from one-third in September, expect a decrease in the nation's rate of economic expansion over the next six months. The percentage of respondents who expect a decrease in their own shipments in the next six months rose to 40 percent in November from 25 percent in September. The percentage planning to maintain or increase capital spending in the next six months declined slightly but remained high.

Reports from sources other than those surveyed by mail provided some specifics on District activity in particular industries in recent weeks. In the Carolinas, the furniture, textile, and apparel industries reduced their workweeks because of slow sales. In West Virginia, however, coal production was at a record pace and coal prices were strong. Timber production also maintained a robust pace in West Virginia and other District states.

Ports

Reports from the three major District ports--Hampton Roads (Norfolk), Charleston, and Baltimore--indicated that overall activity was mixed in October. Imports rose from September levels at Hampton Roads and Charleston, but declined at Baltimore. Exports increased at Charleston, decreased at Baltimore, and remained about the same at Hampton Roads.

Residential Real Estate

A telephone survey of home builders pointed to a weakening in residential construction activity in the first three weeks of November. Nearly all home builders reported declines in their housing starts. Most said that they were not building speculatively because inventories of unsold homes were high and home purchases were expected to remain weak.

Comments by realtors and others confirmed the builders' reports of softness in the District housing market in November. Sales of both new and existing homes were reported to be down in all but a few metropolitan areas. Some realtors reported an increase in open house traffic, which they attributed to good weather and lower mortgage rates.

Financial

District bankers reported softness in loan demand in early November. Almost all indicated declines in the demand for commercial and industrial loans, and some said that these declines were large. Most bankers also reported that the demand for consumer loans was down. They attributed weakness in car loans to depressed automobile sales and to greater use of dealer financing.

A number of bankers commented on the high level of consumer debt and noted an increase in their consumer loan losses and delinquencies. Others saw problems ahead in particular sectors, such as commercial real estate and automobile dealerships.

Agriculture

A recent survey of agricultural bankers indicated that the health of District agriculture has improved further. The bankers said that farm loan repayment rates were better than average at their institutions, and almost two-thirds were actively seeking new farm loans. The demand for farm loans was normal across the District, but bankers expect weaker loan volume during the next several months because they look for their nonbank competitors to become more aggressive. Farmland prices continued to rise in recent months, but only a few of the bankers surveyed expect further increases in the months ahead. With respect to crop conditions, wet weather has delayed the sowing of winter wheat in parts of the District, though the planting of other small grains is on schedule.

SIXTH DISTRICT - ATLANTA

Overview: The southeastern economy continues to grow modestly. A few new reports of weakness were received. They were mostly related to the construction industry, which, with the exception of the industrial building sector, has been sluggish for much of the year. Capital spending and capacity expansion continues in industries related to chemicals, metals, paper and lumber, and industrial equipment. Retailers expect good sales of consumer nondurables in the weeks ahead, and inventories are reported to be leaner this year than last. Weakness in purchases of consumer durables like appliances, autos, and furniture continues. Commercial lending is down, although there are still signs of strength in some types of consumer lending. Our contacts continue to report only mild wage and price increases and a few scattered shortages of skilled workers.

Prices and Wages: Most contacts report subdued wage increases and softness in input prices. No signs of new wage pressures were reported. Employers continue to note steeply rising costs of benefits, most notably employee health insurance. Few contacts thought that their labor market had changed much from last year, although some reports of difficulty in finding skilled workers surfaced. Several industrial contacts commented that finding skilled employees like mechanical and software engineers has been troublesome. Increasing demand for such employees was cited as contributing to the difficulty. A banker in Atlanta noted that positions like accountant and account analyst have been difficult to fill recently, although finding clerks and tellers has been relatively easy.

Input prices have been reported to be mostly stable or falling in some instances. Construction materials prices do not appear to be under pressure. Building materials prices are expected to remain stable or decline until construction picks up. A producer of wood building materials says that the price pressures usually seen this time of year are absent. Prices of metals like aluminum and copper are expected to remain stable into next year. Prices for communications equipment are also stable or declining. Several trucking firms have reported that freight rates have been falling owing to excess capacity in the industry. Even though volume is as good as in 1988, total revenue is down.

Retail Sales: Sales of automobiles continue to be weak, and most dealers do not anticipate much improvement soon. Several furniture retailers have reported that sales continue to decline, as have several retailers of home appliances. Sales of carpet have also slowed recently as replacement and home remodeling demand has weakened. A number of Atlanta retailers have stated that sales in the last few weeks have been at least equal to last year's levels. They noted that consumer nondurables have been selling particularly well. However, retail sales in New Orleans and Baton Rouge have generally been reported to be slower than last year. Retailers in various parts of the region added that sales after Thanksgiving posted double-digit increases over the same weekend a year ago. Most contacts report satisfaction with retail inventories that are flat to up moderately this year. They anticipate more price promotions to move their inventories during the Christmas season.

Construction and Capital Spending: Residential and office construction in the Southeast remain sluggish. Sales of existing homes have shown some strength recently, particularly in Jackson, Mississippi and New Orleans. Nonresidential construction is up from a year ago, however, because of continuing strength in industrial construction. New plans for several large chemical plants in Louisiana were announced recently. Construction of retail space in Nashville was also reported to be at record levels according to several contacts.

Spending on capital goods continues to hold up in the Southeast, although there have been a few reports of plans having been revised down recently. Much spending involves purchases of new equipment rather than capacity expansion. Producers of industrial pumps, fabricated aluminum, and processed food report plans to update older machinery. Several wood and pulp producers have announced plans to expand capacity because of strong overseas demand. A large producer of building materials, however, reports recent cuts in capital spending plans for 1990 by 50 percent. Their purchases of new equipment have been put on hold until construction activity picks up.

Financial Services: Several bankers in Georgia and Tennessee report that commercial loan demand is weak. Consumer lending, on the other hand, is reported to be growing in some states. Several lenders pointed out that auto loans by banks are down substantially because of falling auto demand and because more and more people are using home equity loans to finance automobiles. Real estate and mortgage lending is down compared to last year, and a contact in Atlanta thought that mortgage demand in that market is at its worst since the early 1980s. Several lenders added that lending standards have become much more strict for real estate loans in the last few months.

SEVENTH DISTRICT--CHICAGO

Summary. Several reports indicate softening in manufacturing, centered predominantly on motor vehicles but also including some types of electronic equipment and nonauto consumer durables. Other respondents with manufacturers see continued expansion in line with the pace set earlier this year, generally a more subdued rate of rise than last year's robust increases. Construction in the District continues relatively strong though Michigan is weakening. Consumer spending on nondurables is not showing the weakness evident in durables. General merchandise sales are expected to grow sluggishly over the year ahead. District farmland values continue to increase. Large grain shipments to the USSR are stressing domestic transportation facilities.

Total payroll employment in District states has been little changed, seasonally adjusted, since early this year and manufacturing has fallen, with half of the decline at Michigan factories. The average unemployment rate in the District rose to 6.1 percent in September, highest this year, from a low of 5.0 percent in April. Michigan unemployment increased most among District states, but Illinois, Indiana, and Iowa also recorded sizable increases.

Surveys of purchasing managers in the District show a mixed pattern. Chicago purchasing managers reported an upturn in production and orders in October and less widespread declines in backlogs. Indianapolis purchasing managers, still seeing expansion, indicated that increases in production and orders in October were more widespread than last summer but less so than a year ago. Milwaukee purchasers say orders, production, and backlogs fell in October, continuing a shift from expansion to slowdown underway for more than a year.

Manufacturing Industries. A number of contacts in manufacturing indicate that orders and activity are continuing to rise, in most cases less rapidly than last year. Others report declines, concentrated at motor vehicle makers and their suppliers, though volume also has turned down or is expected to slow in a few other sectors including nonauto consumer durables and some types of electronics. However, other motor vehicle plants continue to work overtime, and another foreign-owned assembly plant started production in the District in October. One major auto maker is forecasting a recession for the national economy; another thinks this projection is too pessimistic.

Markets for many types of industrial machinery and equipment have continued to expand, though generally more slowly than last year. In some cases, sales have been stronger than expected. Sales have remained 3 to 4 percent above a year earlier throughout this year for a maker of electrical controls and supplies sold widely to manufacturers of industrial equipment including pumps, compressors, fans, motors, and other types of capital goods. A second-half slowdown anticipated by customers earlier this year has not materialized; sales remain as brisk as before. Another capital goods producer indicated that sales of food industry machinery are holding up reasonably well. Materials handling equipment sales weakened earlier but may be bottoming. Sales of farm tractors and implements are running well ahead of last year, and a manufacturer in the District expects a further gain in shipments next year to meet retail demand and build inventories. Heavy construction equipment demand has been firmer for road building and mining. Light construction equipment sales, chiefly for residential building as well as some road repair work, were reported weaker earlier this year, but one producer expects its sales in 1989 to exceed last year, and projects a further gain in 1990. Lower orders for metal-cutting machine tools this year are said mainly to reflect cutbacks by motor vehicle makers. The market for diesel engines is off sharply because of lower orders and production cuts at heavy truck manufacturers and a less robust picture for industrial diesels. Softness in the semiconductor market reflects cutbacks at motor vehicle manufacturers and less favorable prospects for other end-markets.

Steel producers also are cutting shipments to motor vehicle manufacturers, but industrial and construction demands for steel are holding up well. Calendar-year 1989 shipments, previously forecast to be below 1988, are now expected to be higher. The pace of investment in projects making heavy use of steel has stayed strong in chemicals and the paper industry, as well as for investment in steel mills themselves. Sales of steel for use in commercial construction are also described as doing well. Starts on new projects have slowed, but may pick up as uncertainties over pollution abatement requirements are resolved.

Construction and Real Estate. Indicators of construction activity and prospects remain favorable in much of the District. Contracts for construction of nonresidential and residential buildings were higher, during this year's first nine months, than last year in the District states. Michigan, however, showed sizable declines. Indicators of current construction activity also indicate expansion. For example, year-to-date shipments of gypsum board to the five District states were 6 percent higher than a year earlier. A large Chicago-area building material supplier views prospects for downtown and suburban construction as favorable for the next four to five years, and plans to add capacity. Light industrial construction in the Chicago area is quite active. Residential building is down, but still at a "good" level. Existing home sales are sluggish, despite lower mortgage interest rates. The inventory of homes on the market has risen, and they are taking longer to sell.

Consumer Spending. A contact with a large general merchandise retailer thinks nonauto consumer spending is unlikely to provide much support for continued economic expansion in the year ahead. Sales of household durables generally have been weak. Home fashions have been selling poorly. Though appliance sales have improved recently at one large retailer, year-to-date sales of "core" appliances have been below last year. Buying of household furniture and lawn care equipment have softened. Some apparel lines have been selling relatively well, including men's and children's clothing. Industry-wide department store inventories are viewed as heavy, indicating that a highly promotional Christmas is likely. Next year's sales at general merchandise retailers are expected to be only a little higher than in 1989. Catalog and direct mail marketers' sales were described as soft in September and October.

Agriculture. Our latest survey of agricultural banks found that District farmland values rose 1.7 percent during the third quarter and 8 percent during the year ending September 30. The survey also indicated that farm loan repayment rates picked up somewhat this summer. Interest rates charged by banks on farm loans edged lower for the second consecutive quarter but were still 50 basis points higher than a year ago. Loan-to-deposit ratios at District agricultural banks, following a two-year uptrend, are at a five-year high but still far below the peak of the late 1970s.

Barge rates and the demand for rail cars have firmed considerably this fall in response to large grain shipments to the USSR. While not unprecedented, the volume of Soviet grain shipments will stress the domestic transportation network. A major bottleneck at the soon-to-be-replaced Alton (Illinois) Lock and Dam on the Mississippi River has resurfaced with the pick-up in barge traffic. Low water levels on both the Mississippi and the Missouri River could further limit barge traffic or result in an early, season-ending closure to traffic on the upper portions of those rivers.

EIGHTH DISTRICT - ST. LOUIS

Summary

Economic activity has continued to slow in the Eighth District in recent months. Manufacturing activity has declined with the transportation sector accounting for most of the slowdown. Construction activity has also been weak. While retailers are optimistic about the holiday season, small businesses are somewhat pessimistic about future economic conditions. Auto sales have weakened considerably. Smaller District banks reported increased third-quarter earnings, while larger banks reported lower earnings.

Consumer Spending

A November 16-21 survey of District general merchandise retailers indicated considerable variation in recent sales. Most respondents reported sales gains from a year earlier of 3 percent to 6 percent. Two respondents, a discount store and a large department store chain, reported double-digit sales increases. The holiday season outlook is generally optimistic. Items selling particularly well include women's apparel, cosmetics, toys and home furnishings. Sales of durable goods, such as consumer electronics, were mixed. Eighth District auto sales have weakened considerably in recent months. One Louisville auto dealer reported October sales of imported vehicles to be down almost a third from a year earlier. Most dealers believed weak sales and high inventories will continue into the first quarter of 1990.

Outlook

A recent survey of small businesses in the Eighth District revealed rising pessimism regarding future economic conditions.

Manufacturers tended to be more pessimistic than other businesses. Compared with last year's responses, fewer respondents planned to make major investments in plant and equipment in the next two quarters. The survey also revealed a slight easing in labor shortages, as the proportion of respondents with unfilled job openings dropped to approximately one-fifth compared with one-fourth a year earlier. Most openings were for skilled workers. Nevertheless, a larger proportion of respondents than in the earlier survey planned to increase average employee compensation.

Manufacturing

Reports suggest that District manufacturing activity declined slightly in recent months. Producers of electrical equipment, including home appliances and transportation equipment, experienced declining orders. Layoffs of motor vehicle assembly plant workers have continued in recent months both in Louisville, where slowing truck sales led to temporary layoffs, and in St. Louis, where 3,300 auto workers are scheduled to be idled until late November. The two plants will cut production again early next year, causing an indefinite layoff of up to 2,300 workers. Arkansas auto parts suppliers have also reduced their workforces in recent months.

Construction and Real Estate

Reports indicate that home building in St. Louis, Arkansas and western Kentucky is weak, with very little construction of multi-family dwellings. Recently, St. Louis vacancy rates for both office and industrial space have risen slightly. Construction of a $1.2 billion breakfast cereal plant in Memphis was recently suspended by a manufacturer that is experiencing slowing sales and falling market share.

Natural Resources

A damaged lock and dam (L&D) and low water levels have sharply curtailed commodity movement on the Mississippi River, and the situation will likely worsen through mid-December. These problems come at a time when barge traffic has increased due to an unexpected surge in Soviet corn purchases. Queue times at the damaged L&D are as much as six days, compared to a normal 10-hour delay. The delays are forcing some corn exporters to ship from the Ohio River valley, instead of the Iowa-Illinois area, in order to meet export contracts. The tie-ups will be exacerbated in early December when the river will close for about four days as part of a construction phase for a new L&D that will replace the damaged L&D in 1992. Industry contacts expect barge traffic to resume at a normal pace by year-end.

Banking

Most Eighth District banks reported increased third-quarter earnings. Smaller banks continued to add to their profits primarily as a result of larger spreads and improved asset quality, while the District's largest banks saw third-quarter earnings fall. Increasing problem loans forced District banks to add to their loan loss reserves, most notably at the larger banks. Large District banks are now experiencing the effects of overbuilt markets and the corresponding difficulty faced by developers in meeting their debt obligations. Continuing problems with commercial real estate lending, coupled with the continuing loan problems of less developed countries, are major factors depressing earnings at the District's largest banks.

NINTH DISTRICT--MINNEAPOLIS

Ninth District economic conditions have been fairly good. The employment situation in the district has been favorable, with reports of shortages of workers for entry-level jobs. Consumer spending on general merchandise has been strong, automobile sales have continued to show large month-to-month fluctuations, and housing activity has continued at a moderate pace. Manufacturing activity has been mixed, and conditions in resource-related industries have been fairly good.

Employment

The district employment situation has been fairly good. Employers throughout the district reported difficulty finding workers for entry-level jobs even at wages well above the minimum wage. The ongoing expansion of the mining industry in Montana created strong demand for workers. Strong demand for workers was also reported from lumber expansion projects in northern Minnesota and the Upper Peninsula of Michigan and prison construction in the Upper Peninsula. Nevertheless, skilled labor cost increases in the district remained at a moderate 3 to 4 percentage point range, with most of the increases due to fringe benefit costs. Unemployment rates in the district were roughly unchanged in the reporting period from the corresponding period a year ago.

Consumer Spending

Consumer spending on general merchandise has continued to be strong. One retailer reports that October sales were 8.5 percent higher than a year ago in comparable stores and total sales in October were 16.2 percent higher than in October 1988. An appliance retailer reports that October sales in comparable stores were 5 percent higher than a year ago. Inventories were reported to be at acceptable levels. Retailers were cautiously optimistic about year-end sales.

Automobile sales have continued to show large month-to-month variability. Dealers for one domestic line report that sales in October were 25 percent lower than a year ago, but sales in the three-month period from August to October were up 25 percent from the same period a year ago. Inventories of cars and trucks were at unusually high levels. Reports indicated that conditions in the used car market were good.

Housing activity has been basically unchanged from last year's levels. The number of new housing permits issued in Minnesota in September was 10 percent lower than in August but roughly the same as in September 1988. In the Minneapolis-St. Paul metropolitan area, the number of new housing permits fell by 25 percent from August to September but was 3 percent higher than in September 1988. Housing sales in this metropolitan area in October were about 2 percent higher than in October 1988. A sharp reduction in construction of homes priced above $250,000 was reported. Considerable home remodeling activity was also reported. A director reports weakness in commercial construction in the Minneapolis-St. Paul area with few new projects being started and only previously committed projects going forward.

Tourist spending has continued to be strong. Tourist associations in the district report many inquiries for the upcoming season. Most areas near the Canadian border reported strong demand from Canadian shoppers and tourists.

Manufacturing

Manufacturing activity has been generally mixed. There has been continued softness in the computer, electronics, and defense industries. Suppliers to the aircraft and aerospace industries report strong demand.

Reports from the capital goods sector were mixed. Most manufacturers report to be investing cautiously in capital equipment, preferring to pay down debts unless the equipment can reduce operating costs immediately. Lingering drought worries also slowed equipment purchases by farmers in parts of the district, although ranchers showed signs of increasing their investments in capital goods. The expansion of the mining and lumber industries contributed to the fairly good demand for capital investment in the western and northern portions of the district.

Resource-Related Industries

Resource-related industries have been doing fairly well. Conditions in agriculture were generally good, except in the western part of North Dakota, where fall precipitation was sparse. In Montana, the wheat and barley crop production was reported to have doubled over last year's levels. Farmland values continued to increase; prime corn and soybean lands in southern Minnesota sold for about $1,500 per acre, with some instances of sales at $2,000 per acre. These prices are considerably higher than the depressed levels earlier in the decade. Cattle prices were reported to be high, and ranchers were optimistic about their prospects. Expansion in the lumber industry was brisk with new construction and expansion plans in all the lumber producing areas of the district. The mining industry also reports strong activity.

TENTH DISTRICT-KANSAS CITY

Overview. The Tenth District economy continues to grow moderately. Although auto sales are weak, other retail sales have improved over the past three months. Auto and other retail inventories are above desired levels. In the manufacturing sector, slowing sales have contributed to leveling off of input prices and ready availability of most inputs. Some manufacturers expect to cut back on production unless sales improve. Resource industries continue to improve, as farm incomes remain strong and exploration for natural gas boosts drilling activity.

Retail Sales. District retailers report higher sales than a year ago, with improvement over the past three months. Demand for retail goods varies across the district. Winter apparel sales have generally been slow due to unseasonably warm weather. Prices have held steady or decreased in recent months. Most respondents report higher than usual inventories due to warm weather and expansion for the Christmas season. Inventory purchases will remain on hold through the rest of the year. Retailers expect holiday sales to exceed year ago levels, and some expect price reductions over the period. Automobile dealers report weak new car sales over the last month. Most dealers are trying to trim inventories and expect little improvement in sales during the coming months.

Manufacturing. Purchasing agents report input prices have remained steady or increased slightly from three months ago and have increased 3 to 5 percent from a year ago. Few price changes are expected over the next three months. Inputs are readily available, except for silicon used for computer components and certain wood products, while lead times have generally remained about the same. Most firms are satisfied with inventory levels after trimming them in recent months for seasonal reasons and to increase efficiency. But some firms plan continued modest inventory reductions during upcoming months. Most plants are operating near full capacity, with no reports of bottlenecks from labor shortages or inadequate plant capacity. However, there are some indications that operations soon will be scaled back because of slowing sales.

Energy. Stable oil prices and increased exploration for natural gas continue to push district drilling activity above year-ago levels. The average number of active drilling rigs in the district increased from 289 in September to 312 in October, the fourth consecutive month of increase. Thus, drilling activity stands nearly a fifth higher than one year ago.

Housing Activity and Finance. District housing starts have increased from a year ago, and most homebuilders report starts steady or ahead of last month. New home sales have generally been steady, with prices increasing. Stable housing activity is expected in coming months.

Most respondents from district savings and loan institutions report net deposit outflows over the past month, although deposit flows were more mixed than last month or a year ago. Expectations for future deposit flows vary. Healthy savings institutions expect greater inflows, while troubled savings institutions expect greater outflows. Mortgage demand remains weak, with continued weakness expected until spring. Respondents report steady to slightly lower mortgage rates and believe rates will decline in coming months.

Banking. District bankers report increased loan demand over the last month. Increases occurred in commercial and industrial loans, consumer loans, and mortgage loans. Home equity loans, commercial real estate loans, and agricultural loans were unchanged. Most bankers either have reduced their prime rate recently or expect to do so in the near future. Consumer loan rates were mostly unchanged, however, and generally are not expected to change in the near term. Deposits increased during the past month, primarily because of large gains in NOW accounts. Other deposit categories either increased slightly or were unchanged. With both loan demand and deposits increasing, loan-deposit ratios were relatively stable over the last month.

Agriculture. Yields of fall crops ranged from below normal to normal across the district. Early cold weather cut yields of the Kansas milo crop and the Oklahoma cotton crop. Corn and soybean yields were generally normal in the district, except for reduced soybean yields in northern Missouri due to the drought. Most of the new winter wheat crop is in good condition, but dry weather has left the crop susceptible to cold weather damage.

The supply of pastures and forages should be sufficient to meet livestock feeding needs throughout most of the district this winter. Where rainfall has not been sufficient to support grazing of the winter wheat crop, cattle herds are being sustained with hay and other forages. Ample forage supplies combined with strong cattle prices have encouraged some district cattle producers to begin expanding herds.

District bankers expect little change in generally strong farm credit conditions, but reduced crop yields and lower crop prices in some parts of the district may slow the rate of paydown and increase the carryover on farm operating loans. In most of the district, however, near-normal crop yields and strong livestock prices have maintained high farm incomes, leading district bankers to expect farm loan paydowns to reach last year's high level.

ELEVENTH DISTRICT--DALLAS

The District economy is showing little growth. Orders to District manufacturers are declining somewhat, growth in retail sales has begun to slow and auto sales are slipping. Expansion continues in the service sector. Contract construction values are rising modestly. Increases in oil and gas drilling are strictly seasonal. The drought persists in some agricultural areas.

Sales patterns vary widely among District manufacturers but, on balance, there has been a slight decline. Demand for oilfield equipment continues to increase. Sales of primary metals products have lately fallen in what one respondent noted as a "180 degree about face" from patterns of earlier in the year. In the fabricated metals industry, demand has slipped for construction-related products but has picked up for energy-related goods. Orders to lumber manufacturers are weakening in the wake of what one respondent referred to as a sales "bubble" in August and September. Sales of paperboard are also off. Stone, clay and glass firms report some recent increases in demand -- chiefly in the Houston area and in south Texas. Orders to electronics-related industries are generally softening, and some major layoffs have recently been reported. Transportation equipment output and employment are growing due, in part, to expansion in defense-related aircraft production. Little change has recently occurred in orders to the food products industry. Apparel producers' sales are down slightly from earlier this year, but remain above a year earlier, and inventories are said to have crept up to undesired levels. Some chemical producers are reporting increases in their sales in the wake of a recent chemical plant explosion, but they expect some softening next year. Oil refiners note that sales of gasoline have fallen below a year earlier.

Retail sales growth had begun to slow on a year-over-year basis, with particularly weak sales of durable goods, but post-Thanksgiving reports suggested some acceleration in general merchandise buying. Some stores that concentrate in nondurables have reported that sales growth in the District slightly exceeds national rates.

District sales have declined for both domestic and imported cars and trucks. The recent reductions are said to have occurred, in large part, as a backlash to September's heavy end-of-model-year purchases that stemmed from special incentive programs.

The services industry continues to grow strongly. Service industry employment is growing significantly faster than overall employment. Business services firms, in particular, report strong sales growth. Of such firms, the highest rates of growth are being reported by computer and data processing services. Business services firms in general are very optimistic about expansion over the next year.

Construction activity remains far below the levels of the mid-eighties, but there are tentative signs of expansion. Industry spokespersons are cautiously optimistic about the future, but they also express a great deal of uncertainty. The value of construction contracts is edging up in District states, chiefly as a result of growth in residential activity and some erratic expansion in nonresidential building. Nonbuilding activity continues to show sluggish performance at best. Industry spokespersons are optimistic about some continued expansion in homebuilding. They also say that falling multifamily vacancy rates and firming rents in some large District cities suggests the continued modest expansion in apartment-building.

Although District oil and gas drilling activity is expanding, recent growth only reflects seasonal patterns. After seasonal adjustment, drilling activity has shown little change. Leading indicators of drilling, including well permits and the seismic crew count, also suggest little near-term expansion beyond normal seasonally-based growth. Industry spokespersons are nevertheless optimistic about expansion in 1990, following the usual first quarter dip, because of what they say is a growing perception that $20 oil is here to stay. Another source of optimism about growth in drilling activity is the new horizontal drilling technology, which is particularly applicable to formations that are common in certain portions of the District.

In agriculture, the principal problem is low soil moisture. Conditions are particularly serious in south Texas and along the Gulf coast. In Texas, drought damage this year is valued at $1.5 billion and more than half of the total damage is said to have occurred in south Texas. Cattlemen have reduced their herds and Texas red meat production in September was 15 percent below a year earlier. Northern portions of the District have been less severely affected by dryness, and winter wheat planting and the corn harvest are both occurring on schedule. Prices received by District farmers are 5 percent above a year earlier, paced by a 10-percent increase in crop prices. Livestock and livestock products prices are up 3 percent.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions continue to be generally healthy in the Twelfth Federal Reserve District. Nevertheless, western business leaders' expectations about future growth have deteriorated somewhat during the past month, particularly regarding business investment. Wage and price pressures continue modest in most cases. Consumer spending is healthy but not growing rapidly, with weakness noted in auto sales. Manufacturing activity is reported to be mixed, with some producers at capacity and planning expansions, while others report slower orders. Conditions in most resource sectors are satisfactory, with strong growth in agricultural exports. Construction and real estate activity is reported to be strong or improving in most of the West, except Arizona. Banks and thrifts continue to compete vigorously for deposits, while loan demand remains strong for most categories and regions.

Business Sentiment

Twelfth District business leaders' expectations regarding GNP growth have deteriorated slightly during the past month, as three quarters of the respondents now anticipate that growth will be slower during the next year than its historical average. Expectations deteriorated particularly sharply for business investment. Only 15 percent expect stronger investment, compared with 30 percent last month, while 59 percent now anticipate weaker business investment, compared with only 30 percent of last month's respondents.

Wages and Prices

Wage and price pressures continue modest in most cases. Reports of wage and price increases of up to 4 or 5 percent are common. Retailers report that competition and priceconscious consumers are keeping a lid on retail prices. 57,000 machinists at Boeing recently agreed to a 10 percent increase in base wages over three years, in addition to cost-of-living adjustments.

Consumer Spending

Consumer spending is healthy but not growing rapidly. Department store sales are reported to be in line with expectations, with intense price competition. The financial problems of some department store chains are causing concern in the industry. A car dealer reports that customer traffic declined about 40 percent during the first half of November, to the lowest level of the year. Customers are not responding to incentives, but it is not clear whether this is an early sign of further weakening, or simply a payback for the strong sales of August and September. All product lines are affected: imports and domestics, new and used.

Manufacturing

Manufacturing activity in the West is mixed. An Idaho respondent reports that production in his area is at capacity, and several firms (particularly food processors) plan expansions. Food processing activity in California also is strong. The Boeing strike resulted in some lost commercial aircraft production, but the huge order backlog should yield healthy activity as work resumes in the wake of the recent settlement. A construction and engineering firm reports that while demand from manufacturers continues to grow, the rate of growth has slowed in recent months.

Several respondents, however, note slower orders for manufactured goods. Moreover, a heavy equipment manufacturer reports that export sales were down 1 percent during the third quarter compared to their year-earlier level. A paint and coatings manufacturer reports that most of the companies his firm deals with have experienced a slowdown during recent months.

Recent performance varies widely among high-technology manufacturers, as one respondent reports that lower chip prices have hurt semiconductor producers.

Agriculture and Resource-Related Industries

Conditions in most resource sectors are satisfactory. Gold prices are up. Metals industries are producing at high levels, although they are not growing. However, the forest products industries seem to be slowing somewhat. Lumber orders and log exports both have fallen during the past year, with recent activity 10 to 15 percent below year-earlier levels.

Agricultural industries report healthy conditions, with strong export growth. California farm exports are expected to be about 10 percent higher in 1989 than they were in 1988, with exports of nuts, fruits, and vegetables particularly strong. Livestock operators are doing well, with steady increases in exports. Wine exports are starting to "take off," particularly to the U.K. and Japan. The extent of earthquake damage suffered by food processors and by flower and nursery greenhouse operators in Watsonville, Gilroy, and Hollister remains unknown.

Construction and Real Estate

Construction and real estate activity is reported strong or improving in most of the West outside Arizona. Building activity in Nevada continues at a vigorous pace, and home values in the Puget Sound area are up by as much as 30 percent over their year-earlier levels. Increases in building and sales activity, as well as in property values, are reported in Oregon, eastern Washington, Idaho, and Utah. California's coastal markets have cooled since the frenetic pace seen a few months ago, but values continue to exceed their year-earlier levels by 10 to 15 percent, and activity in less expensive parts of the state is very strong. Arizona, however, continues to suffer from overbuilt markets for apartment, office, retail, and industrial space.

Financial Sector

Banks and thrifts continue to compete vigorously for deposits, while loan demand remains strong in most categories and regions. However, the rate of growth in lending appears to have slowed from the robust pace seen earlier this year. A California banker reports that the rate of growth in consumer lending slowed in September and October, as home equity lending grew more slowly and credit card borrowing continued to be slow. An Oregon banker notes some decrease in demand for non-mortgage credit. Several bankers report that delinquencies are down from their year-earlier levels.