

SUMMARY OF COMMENTARY

on

CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

April 1994

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SUMMARY*

Solid economic growth is reported in most parts of the country. In California, conditions remain weak, although some positive signs are starting to emerge. Reports from all Districts indicate that retail sales were strong in March, due in part to improved weather in many parts of the country. Retail pricing remains competitive, as few price increases and some price cuts are noted. Apparel sales improved, and auto sales are very strong. Service sector activity is reported to be good, with strength in business services and tourism. Manufacturing activity is expanding overall, although aerospace activity continues weak. Production of autos, vehicle parts, steel, and building materials is near capacity. Price increases are reported for some raw materials, but competitive pressures appear to be restraining prices for most manufactured products. Agricultural conditions are good in most parts of the country. Oil drilling activity is down, but drilling for natural gas remains strong. Home sales activity is reported brisk in most parts of the country, and improving in the Northeast and California. Several Districts note that recent interest rate hikes have contributed to a temporary surge in home sales. Contacts indicate that lending activity is picking up, with greater strength in consumer lending than in business lending.

Retail Trade

Several Districts report double-digit year-over-year increases in retail sales, as long-

* Prepared at the Federal Reserve Bank of San Francisco and based on information collected before April 25, 1994. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

awaited spring weather in much of the country, combined with an early Easter, boosted March results. Philadelphia reports that healthy sales continued into early April. Improved apparel sales are noted in the New York, Cleveland, Atlanta, Chicago, and Kansas City Districts. Pricing remains very competitive in most areas, with few price increases and some price cuts for retail products. Dallas reports slow sales growth, with the strongest gains reported by retailers who have reduced their prices during the past year. No inventory surpluses or shortages are noted.

Reports suggest that auto sales were very strong through early April. Inventories of some models are quite tight. Most Districts indicate that higher interest rates did not reduce auto sales through mid-April, although one Chicago District auto dealer saw a sharp decline in activity as interest rates rose and customers worried about their losses in the financial markets.

Services

The service sector is generally healthy. Dallas reports growing demand in a wide range of business services, and San Francisco notes growing demand for telephone services in California and Washington. Contacts indicate that employers' health costs are rising more slowly, and health care providers are cutting their costs. Boston reports that hospitals are sharply reducing orders for large equipment.

Hotel activity is strong in many tourist destinations throughout the West and Southeast, including Myrtle Beach, New Orleans, Las Vegas, and Salt Lake City, while activity is improving in many California markets and in Hawaii. In Florida, observers hope that very weak visitor activity from Europe will be offset by more tourism from the

improving economies of Latin America and the Caribbean. In the northern Midwest, cold weather restrained winter resort activity, but industry officials are optimistic about the summer season, especially in Montana.

Manufacturing

Manufacturing activity is expanding in most Districts, although the pace of activity is uneven across industries and regions. Many manufacturers in the Cleveland District report that demand from foreign buyers has improved. In the Richmond District, shipments, new orders, and backlogs grew, but employment changed little. In the Atlanta District, demand for apparel fabric appears to have improved. Electronic equipment manufacturers in the Chicago and San Francisco Districts report healthy sales growth, but at rates somewhat slower than last year. The Chicago and Cleveland Districts note that vehicle manufacturing activity is at or near capacity. Several Districts report strong demand for building materials. Aerospace and defense-related manufacturing continues weak. San Francisco reports strong investment in computer and communications equipment, as companies replace outdated equipment in order to increase productivity and improve their competitive positions.

Manufacturers note that competitive pressures are restraining prices for most products. However, significant price increases are reported for certain raw materials, including building materials. Chicago indicates that capacity constraints have led to price increases for special-order steel products, since extra production time must be set aside to fill these orders. Several manufacturers in the Boston, Richmond, Chicago, and St. Louis Districts have successfully resisted suppliers' price increases, but some have been forced to absorb the increased cost of materials.

Agriculture and Resource-Related Industries

Favorable spring weather through the third week of April created good conditions for field preparation and planting in much of the country. In the Richmond and Minneapolis Districts, field preparation and planting were on schedule or ahead of schedule. In the Kansas City District, however, farmers were waiting for warmer and drier weather before planting corn and soybeans. Kansas City District cattle feedlots are operating near capacity, and cattle prices are up. The Dallas and San Francisco Districts report good agricultural activity, but dry weather and water supply restrictions are creating concerns. St. Louis notes that fertilizer prices have increased substantially during the past year.

Low oil prices have led to reduced oil production and oil drilling activity in the Kansas City District. Natural gas prices declined slightly, but Dallas reports that drilling activity is very strong in the Gulf of Mexico, where more than 70 percent of drilling is for natural gas.

Real Estate and Construction

Home sales activity is reported brisk in most parts of the country, and improving in the Northeast and California, where activity had been weak. New homes are selling well in the New York and Atlanta Districts. A contact in the Chicago District reports that home-buying traffic fell off during April after a strong first quarter. Real estate agents in the St. Louis District report a shortage of houses on the market, especially in the mid-price range, and note that many sellers are receiving two or more bids at the asking price or higher. Minneapolis reports "tight" housing markets in its District, with strong growth in new housing permits. In the Kansas City District, building and sales activity both are strong, and

inventories of unsold homes are low. Several Districts report higher building materials costs. Through mid-April, higher interest rates appear to have generated a surge in activity, due in part to buyers' concerns that rates could rise further. Several respondents in various regions of the country expressed concern that higher interest rates could restrain activity later in the year.

Major commercial construction projects are under way for the first time in several years in Manhattan. Office leasing activity in New York is reported to be "fairly brisk." Vacancy rates and leasing activity have improved in the Atlanta District as well. Strong commercial building activity also is noted in North Dakota, Wisconsin, South Dakota, and Montana.

Financial Institutions

Several Districts report improved lending activity, with consumer lending generally characterized as stronger than business lending. In the Philadelphia District, consumer installment and credit card lending is reported up, while business lending is flat or increasing marginally. Mortgage lending for home purchases is up in many Districts, but refinancing activity has fallen sharply throughout the country.

FIRST DISTRICT - BOSTON

A moderate recovery continues in the First District. Most of the retailers, manufacturers, and residential realtors contacted report increased activity in recent months, although some results are negative.

Retail

The long-awaited arrival of spring brought out New England's shoppers. First District retail contacts were pleased with increases in sales ranging from 5 to 8 percent in March compared to year-earlier levels. April results were mixed, however, with two contacts reporting sales declines compared to April of 1993. One contact noted a decrease in sales of electric appliances, toys and kitchenware, but attributed it in part to a consumer shift toward big-ticket purchases, such as homes and automobiles. Two hardware and building companies voiced concern that continued fluctuations in lumber prices might dampen sales and profits. Other prices have remained stable, and only one contact expects vendor price increases later this year.

The region's retailers are reasonably optimistic about the next six months, anticipating modest sales growth of 3 to 5 percent over last year. Inventories are up slightly in anticipation of increased sales. Employment levels are expected to rise slightly, and contacts generally intend to increase wages about 3.5 percent.

Manufacturing

First District contacts indicate continued, though uneven, expansion in the manufacturing sector. Manufacturers serving consumer durables, housing, and some computer markets report year-over-year percentage revenue gains in the high single digits or greater. Sales of

nondurables are flat or increasing slightly, while demand for aircraft engines and minicomputer products is falling. Medical equipment sales are generally flat, but hospitals are reportedly cutting back sharply on orders for large equipment.

Manufacturers report only minor increases in materials costs, with the exception of double-digit inflation for cotton fibers and copper. Contacts generally indicate no possibility of passing through higher costs, because of highly competitive sales markets. Prices for computers and other equipment continue to fall, at an accelerated rate in the case of major hospital equipment. Wage increases range up to 3 or 4 percent, but reportedly are offset by productivity gains.

About one-third of this month's respondents (serving consumer durables and electronics markets) are expanding capacity. Worldwide capacity constraints for some computer parts reportedly are or may soon be delaying selected deliveries. One automotive parts supplier, by contrast, notes being able to increase utilization at either domestic or foreign plants to fill booming orders from Detroit.

Two-fifths of manufacturing contacts report that the size of their work force increased over the past year, two-fifths that it decreased, and the remainder that it held steady. Weak sales or cost-cutting efforts are expected to continue to lead to employment reductions at some large companies.

Manufacturers' views about the future range from optimism (resulting from perceived strength in the U.S. economy or their own earnings gains) to caution (resulting from tighter monetary policy or weakness in particular markets). Exporters anticipate a modest upturn in European demand starting in late 1994.

Residential Real Estate

Housing sales in much of the First District are reportedly as strong as they have been since the mid to late 1980s. Home prices are rising in much of eastern Massachusetts, particularly for new construction, with prices in some suburbs west of Boston exceeding their 1988-89 peaks. Much of this activity is attributed to pent-up demand among trade-up buyers. Respondents also reported sales volume rising in New Hampshire and Connecticut. Several contacts commented that the greatest improvements in activity are taking place in previously depressed areas of Massachusetts and Connecticut. Contacts were split on the impact of higher interest rates, with several arguing that the residential market will not be adversely affected until 30-year mortgage rates exceed 10 percent, but others expecting negative effects later in the year--either a reduction in activity or a shift of potential home buyers toward lower price ranges.

Nonbank Financial Services

Sales at insurance companies are mixed. Half of the respondents report that sales increased in the first quarter of 1994, compared to the first quarter of 1993, while the other half reported flat or declining sales. The strongest sales increases were registered in variable annuities, variable life insurance, and mutual funds. Almost all respondents reported flat or declining employment in the first quarter of 1994 and for the rest of the year.

SECOND DISTRICT--NEW YORK

Reports on District economic developments were by and large more favorable in recent weeks, suggesting that the pace of economic activity has been picking up in recent months. Most retail contacts posted February and March sales results that were above expectations, homebuilders in several areas noted an increase in traffic and contracts, and office vacancy rates declined. District payroll employment continued to show over-the-year gains. Most loan officers at small and mid-sized banks indicated no change in their willingness to lend from two months earlier.

Consumer Spending

Most District retail contacts reported that March sales results (on a year-over-year basis) were well above plan, following February sales that a majority said were also greater than expected. The strong March gains occurred even after allowance was made for this year's earlier Easter and a severe storm in March, 1993 which reduced sales activity in much of the area. Widespread demand for most types of merchandise was reported with both big ticket items and nondurable goods selling well in recent weeks. Several retailers mentioned being particularly pleased by a resurgence of demand for women's apparel after several months of sluggish performance.

Over-the-year sales changes ranged from -3 percent to +13 percent in February and from +3 percent to +17 percent in March, with the majority of contacts reporting double-digit gains in March. While better-than expected sales reduced inventories more than was intended at some stores, the majority of respondents still found stocks to be at sufficiently comfortable levels to avoid any difficulties in meeting demand. In general, retailers were cautiously optimistic about what lies ahead.

Residential Construction and Real Estate

Homebuilders in much of the District have noted an increase in traffic and contracts written in recent weeks, after a long and cold winter during which little or no building activity could take place. The situation in several places was described as spotty, however, with some builders doing well, but others less well. Response to spring exhibitions of new homes was generally reported as good and exhibitors are hopeful that this will result in additional contracts being signed in the near future. Thus far, the rise in mortgage rates has apparently not had a negative effect. Some respondents said that, if anything, it is motivating people to act now before rates go any higher. Most contacts anticipate a slightly better year than in 1993, but also stated that this will depend in part on the future course of mortgage rates.

After several years of little or no new construction activity in Manhattan, three large, mixed-use towers are going up in the Lincoln Center area that will contain substantial amounts of new retail and entertainment space together with rental and condominium apartments. Plans have also been announced to gut a nearby 44-story office building overlooking Central Park in order to reconstruct it with several hundred condominium apartments and possibly some offices as well.

Office leasing activity was fairly brisk in much of the District recently, and primary vacancy rates declined in all of the areas for which data are available except Downtown Manhattan. Lower vacancy rates were posted in northern New Jersey, Westchester County, Fairfield County, Connecticut and on Long Island, which registered a large, two percentage point decline in the first quarter. In addition to the lower vacancy rates, rents have begun to stabilize and smaller concessions are now reportedly being offered to potential commercial space renters.

Other Business Activity

New York reported an over-the-year increase in payroll employment of 87,000 in March, its sixth consecutive over-the-year gain, and New Jersey posted an over-the-year rise

of 32,000 in February, its seventh consecutive gain. Unemployment rates increased in both states during March. New York's rate rose to 8.1 percent from 7.8 percent in February, while New Jersey's rose to 7.9 percent from 7.3 percent in February.

For the first time in several months, only a few large-scale employment cutbacks have been announced recently. Natwest will shift 1300 jobs out of the District beginning in August; U.S. Surgical, which is headquartered here, will eliminate 900 jobs, and Fleet Financial Group plans to layoff 600 in New York State. The impact on Long Island of Northrup's recent purchase of Grumman remains to be seen.

The March survey of purchasing managers in Buffalo showed an increase in the percentage of firms reporting improved orders, but a decrease in the percentage with greater production. The February survey of purchasing managers in Rochester recorded a rise in the percentage anticipating improved conditions during the next three months.

Financial Developments

Most senior loan officers surveyed at small and mid-sized banks in the District indicated that they remain as willing to lend as they were two months ago. Several officers, however, did mention an increased willingness to lend, and a few reported easing credit standards. Loan demand was mixed, particularly for consumer loans and commercial and industrial loans. On balance, residential mortgage demand continued to decline due to the sharp drop in refinancing activity, but a few officers did report an increased demand for new home mortgages. The only loan category exhibiting significant improvement in demand was nonresidential mortgages.

Lending rates were generally higher for all types of loans, although a few officers mentioned lowering rates on business loans "to meet competition for quality loans." While only a third of the respondents had raised rates on deposits, the majority of those who reported rates unchanged intend to increase them in the near future. Finally, almost all respondents reported either stable or lower delinquency rates during the preceding two months.

THIRD DISTRICT - PHILADELPHIA

The trend in economic activity in the Third District remained positive in April, according to reports from area businesses. Manufacturers said they continued to post gains in orders and shipments, and the increases were fairly widespread across the industrial sectors in the region. Retailers reported a rebound in sales in March as extreme winter weather conditions abated, and the pickup appeared to continue in April. Auto dealers reported recent gains as well. Bankers noted growing demand for consumer loans, especially for auto loans and credit card purchases. They also noted a slight increase in commercial and industrial lending. Residential mortgage activity, however, was easing as refinancings dropped substantially.

The outlook in the Third District business community is generally positive. Manufacturers forecast continued improvement, including increases in orders and backlogs, although, on balance, they do not expect to boost employment. Retailers, noting signs of growing consumer confidence, expect the upward sales trend to persist through the summer. Auto dealers generally believe sales will be strong unless auto loan rates move higher. Bankers echo merchants' feelings that consumer confidence is improving, and they expect personal lending to remain strong. They also forecast gains, albeit slight, in commercial and industrial lending.

MANUFACTURING

Reports from Third District manufacturers in April indicated that industrial activity remained on the rise, although the number of firms posting

gains during the month declined somewhat from the prior month. Around 40 percent of the firms polled said they received more orders for their products in April than they had in March and they were stepping up shipments commensurately. Less than 20 percent noted decreased demand for their products. Gains were fairly widespread among industrial sectors in the region.

With respect to employment, three-fourths of the firms contacted for this report were maintaining steady work force levels, and nearly one in five hired additional workers during April. On balance, working hours were unchanged during the month.

Looking ahead, about half of the managers at area industrial plants expect orders and shipments to rise over the next six months and about one-third anticipate that order backlogs will move up as well. Few foresee weaker demand for their products. Despite the generally optimistic outlook, plans at area manufacturing firms call for just steady employment levels over the next six months.

RETAIL

Most of the retailers contacted for this report said sales in late March rebounded from the low levels prevailing earlier in the year when a series of winter storms kept shoppers at home and forced store closings. Some merchants said that a relatively early Easter boosted sales in March, possibly at the expense of April sales. Nevertheless, most retailers also said that sales in April were running at a healthy pace.

Third District merchants expressed generally positive views of the near future. Several said that consumer confidence appeared to be improving and could propel growing sales for the rest of the year.

Auto dealers in the region said sales picked up strongly in April after a

bleak first quarter. Most are optimistic that sales will remain strong this year as long as auto loan rates do not rise from current levels.

FINANCE

Bankers at major Third District banks generally indicated that loan volumes were rising moderately in April, propelled mainly by growth in consumer installment lending, especially auto loans and credit cards. While several noted that commercial and industrial lending seemed to be on an upward trend, most said the increase was marginal. Nearly all described residential real estate lending as easing, with refinancings off substantially.

In general, bankers contacted for this report expect modest growth in loan demand through the rest of the year. They expect consumer lending to be relatively strong, reflecting growing consumer confidence, but they do not anticipate more than slight gains in business lending unless overall economic activity moves to a steeper growth path.

FOURTH DISTRICT - CLEVELAND**General Business Conditions**

Business activity in the Fourth District continues to be strong, particularly in areas related to automobile and capital goods manufacturing. Although retailers noted some slowing in sales and traffic during April, the overall performance of the retail sector appears to be holding steady. District auto dealers continue to report shortages in many models, including some imports. A strike of roughly 70,000 Teamsters has virtually shut down major union trucking establishments; nonunion operations and alternative transport firms appear to have filled the void. There were no reports of transportation bottlenecks.

Manufacturing

In February, manufacturing employment in Ohio was up 1% from a year earlier, somewhat dampened by the severe winter weather in the region. Reports from manufacturers suggest that production recovered fully by mid-April and that new hires are slowly becoming more common. Although domestic orders appear to be holding at a relatively high level, many manufacturers noted improved demand from foreign sources.

Capital goods producers were uniformly upbeat concerning business conditions. Orders books were active across a broad range of capital goods categories, and were particularly strong in the vehicles area. Heavy and light truck production was at or quickly approaching capacity, and orders backlogs were thought to be commonplace. Respondents cited continuing softness in defense-related and aerospace industries, however.

Retailing

According to most sources, retail spending in March was very strong, although some spending retrenchment and a reduction in consumer traffic was noted during the first half of April. It is unclear whether the slowdown represented a payback from the strong March numbers, or was a downshift in underlying demand. Several retailers thought April tax payments may have had a dampening influence on spending. Confidence may have been affected by interest rates, although rates on most types of revolving credit were reported to be little affected by the recent upward pressures.

Some concern was noted that higher mortgage rates suggested the potential for slower home sales that may eventually damp durable goods spending, although no such slowdown was thought to have occurred yet. Durable goods sales continue to lead the retail categories. Apparel sales have picked up from the low levels posted earlier in the year, although pricing of apparel goods was still characterized as very competitive.

While interest rates in the market for auto loans have headed slightly higher, (about 1/4 to 1/2 percentage point), new car demand remains robust. A few auto dealers noted increases in the popularity of leasing, which may have minimized the interest-rate effects. Auto dealers reported inventory shortages in several models, even some import makes.

Auto producers have not altered their sales forecast for the year, although the full impact of the recent interest rate increases has apparently introduced an element of uncertainty. More hiring is occurring in some areas, but few auto-related manufacturers plan to expand capacity to meet current demand.

Loan Demand

Bankers in the District report mixed loan demand, although consumer lending activity continues to outpace business credit needs. While some bankers reported growth

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in various commercial and industrial loan categories in early April, most indicated that credit demands here remained about even. Some bankers suggested that high corporate profitability and improved liquidity may be prompting businesses to fund investments internally.

Consumer lending activity was reported to be brisk, even outside the auto-related categories. Loan demand has picked up from mid-March and the early April numbers appear to be good. Competition from nonbank credit sources remains stiff, however.

All of the bankers contacted anticipate further increases in the federal funds rate this year, although they differ in opinion concerning the timing of such actions.

FIFTH DISTRICT-RICHMOND

Overview

Continued economic growth was indicated by increased activity in manufacturing, real estate, agriculture, and in the service-producing sectors, including ports and tourism. Trends in the financial sector were less certain; mortgage refinancings declined, but consumer and commercial loan demand remained fairly strong. Upward pressures on prices were reported for manufacturers' inputs and for building materials. Wages rose in the service-producing sectors, and commercial rents increased in some areas.

Consumer Spending

Retailers in all District states reported improved business in March. Employment changed little, but most other indicators were up. Retailers expected consumer demand to increase in the next six months. Respondents reported a 0.4 percent increase in retail prices in March, and they expected prices to rise 1.1 percent during the next six months.

Manufacturing

Our mail survey of manufacturers indicated increased District factory activity in March. Shipments, new orders, and backlogs grew, but employment changed little. Raw materials prices rose by less than the general rate of inflation; finished goods prices were steady. Several contacts doubted that production cost increases could be passed along to purchasers. While most producers agreed that cost increases were limited so far to raw

materials, one manufacturer noted that "price pressures were no longer dormant."

Manufacturers expected higher shipments and prices over the next six months but little change in employment.

Service-Producing Sectors

Our mail survey of District service-producing firms showed increased activity in March. All sectors reported increased revenues, and respondents expected stronger demand in the next six months. All sectors except wholesale trade reported higher wages. The real estate and health services sectors reported increased employment; all other sectors indicated no change. Respondents reported a 0.2 percent price increase during March, and they expected prices to rise 1.0 percent during the next six months.

Ports

Representatives at the District ports of Baltimore, Charleston, and Hampton Roads (Norfolk) indicated that exports were generally higher in March than in February, while imports were unchanged. Compared with a year ago, imports were higher and exports remained about the same. All three ports expected exports to increase faster than imports during the next six months.

Tourism

Tourist activity at District hotels, motels, and resorts was higher in the first three weeks of April than in March or in April 1993. Myrtle Beach noted that group bookings rose because of the increased interest in golfing packages offered in that area. Almost all of the respondents indicated that spring bookings were higher than a year ago, and most respondents expected tourist activity to improve further relative to year-earlier figures during the next six months.

Finance

District financial institutions indicated that credit conditions were mixed during the last six weeks. Interest rates on commercial loans increased faster than did rates on consumer loans. Loan demand remained fairly strong. Some commercial lenders noted that a few businesses were delaying new projects because of interest rate uncertainty, but most commercial and consumer lenders were optimistic that demand would remain relatively strong, given current rates. Mortgage originations were steady, but refinancing activity fell substantially as residential mortgage rates rose. Mortgage lenders were cautious about future loan demand because of their fears of further rate increases.

Residential Real Estate Housing

Our contacts reported that District residential real estate activity remained strong in late February and March. Improved home sales were attributed to an improving economy. Most real estate agents indicated no discernible negative effect on sales from recent mortgage rate increases, though they observed heightened uncertainty among buyers. Most homebuilders indicated that housing starts were slightly fewer than expected during the period, and some attributed the slower pace to higher mortgage rates. Home prices changed little, and lumber prices rose only slightly, although prices of other building materials increased sharply.

Commercial Real Estate

Commercial real estate contacts reported declining vacancy rates throughout the District. Demand for space was especially strong in North Carolina, and contacts in Charlotte and Raleigh indicated that shortages of space might occur soon. Contacts reported little new

construction in most areas, although some speculative warehouse construction was underway in the Carolinas. Rental rates increased in North Carolina and in parts of West Virginia, while rents in other states remained unchanged. Charlotte contacts predicted larger rental rate increases in 1995; some Raleigh contacts, however, speculated that rent increases might end in 1995 with the addition of new space. Large discount retailers continued to dominate retail leasing except in Charlotte, where contacts noted increased leasing by smaller shops.

State Revenues

State governments' March revenues suggested reasonably strong economic growth across the District. North Carolina's revenue growth remained strongest; the District of Columbia's was weakest, though inflation-adjusted revenue growth there was no longer negative. Several states reported very strong retail sales, particularly of automobiles.

Agriculture

Generally favorable weather assisted farmers with their spring field work. Corn planting progressed at an above-normal pace across the District. Field preparation for soybean, tobacco, and peanut planting was also reported to be ahead of schedule. Cattle had been put into pastures, which were in generally good condition. Farmers were optimistic that the hay crop would be sufficient to replenish the stock depleted as a result of last winter's severe weather. The peach crop was in fair-to-poor condition. On a pessimistic note, dry weather was reported in eastern South Carolina.

SIXTH DISTRICT - ATLANTA

Overview: Business contacts reported that the Southeast economy continued to expand at a healthy pace in April. Retailers noted that spring sales improved over last year's levels, and the majority of auto dealers also saw year-over-year sales gains. Manufacturers in most sectors reported increases in new orders, shipments, and production, although defense-related producers continue to struggle. Bankers said that overall loan demand was more mixed than in recent months, mainly because of large but anticipated declines in residential mortgage refinancings. Single-family home building remained strong throughout the District, while commercial real estate markets also continued to show improvement. Wages and input prices were reported to be stable by most manufacturers. However, firms linked to the home building industry experienced rising materials prices as well as continuing upward pressure on wages, particularly for skilled construction workers.

Consumer Spending: District retailers reported that spring sales have been better than expected this year, with several noting double-digit year-over-year sales growth. Durable goods continue to sell well, but most of the recent improvement in sales have come from nondurable goods. Sales of women's apparel have improved considerably over last year's disappointing levels, while men's and children's clothing sales have been quite strong. Despite this improvement in sales, there were no reports of upward retail price pressures. Most retailers remain cautious in their expectations for this year and continue to maintain relatively lean inventories. Auto dealers continued to report year-over-year increases in sales, and most were optimistic about their prospects for the remainder of this model year.

Tourism: Tourism officials in Florida expect a 4 percent increase in visitor traffic in 1994 following a "disappointing" 1993. The state hopes to see an increase in tourists from the improving economies of Latin America and the Caribbean. However, the number of European

visitors remains down in south Florida. Several travel agencies that cater mainly to Europeans have been forced to lay off employees because of the dramatic reduction in bookings. By contrast, Mississippi's gaming industry reportedly has created 16,000 jobs directly and "energized" tourism in the state. In New Orleans, first quarter figures suggest record occupancy levels at local hotels.

Manufacturing: Manufacturers in most sectors reported increases in production, shipments, and new orders in April, as well as positive expectations for future activity. The major exceptions to this rule are defense and aerospace producers who continue to struggle in the face of domestic defense cutbacks and weak foreign markets. Production and shipments of household textiles remain strong, and there have been recent reports of improving demand for apparel fabric. Capital equipment producers have noted increases in recent business activity. Several consumer goods manufacturers announced plans for plant expansions to be completed in the District within the next year. Regional suppliers to the automotive industry are reported to be running at near capacity, while temporary help agencies that supply workers to the manufacturing industry continue to report strong demand for their services.

Construction: Realtors across the Southeast generally reported that single-family home sales were strong in April. According to several contacts, the recent increases in mortgage financing rates have created a slight surge in buying activity which they expect to taper off over the next few months. Inventories of homes for sale remain low in many areas, stimulating price increases in the most active markets. New homes continue to be among popular sellers, keeping building contractors extremely busy in most areas.

Commercial and multifamily real estate markets continue to improve slowly. Commercial and office vacancy rates have declined throughout the District while leasing has improved. Although no new speculative construction has been announced recently, commercial

real estate agents in several areas have noted an increase in discussions about possible speculative projects. In addition, rising apartment rents have encouraged new multifamily construction in several District cities.

Financial Services: According to District bankers, loan demand was more mixed in April than it had been in previous months. Most institutions reported declines in home mortgage lending as the recent uptick in rates caused refinancings to plummet. However, these declines were anticipated, and there was general agreement that it was too early to tell if rate increases would affect other loan areas. Commercial loan demand generally was reported to be moderate to strong, although contacts in several areas reported some slowdown in business lending.

Wages and Prices: Most contacts continued to report no change in the prices paid either for raw materials or for prices received for finished products. Although home builders reported that lumber prices have begun to stabilize, they noted that the prices of other building materials, as well as wages for skilled construction labor, have continued to rise.

SEVENTH DISTRICT--CHICAGO

Summary. Seventh District economic conditions continued to improve in March and April, with retail sales boosted by substantially greater improvement in the weather than the norm for this time of year. Aside from the weather effects, the underlying upward momentum in consumption and housing activity may have slowed somewhat from the unusually rapid fourth quarter pace. Reports from manufacturers generally remained quite upbeat, although a number of manufacturing contacts expressed greater uncertainty about the pace of activity in their markets in the latter half of 1994, citing the effects of increases in interest rates. Reports of price increases remained concentrated in building materials and metals industries. Early planting and weaker export prospects are currently weighing on crop prices, but District farmland values continued to appreciate in early 1994.

Retail Sales and Housing. Consumer spending and housing activity continued to expand in the District in recent months, aided by substantial improvement in the weather following unusually harsh conditions earlier in the year. A large general merchandise retailer stated that underlying sales momentum remained positive through early April, with sales of home furnishings and other housing-related items still leading overall sales growth. This firm's outstanding consumer loans are still rising, while delinquency rates continue to decline. Another large national retailer reported that its sales growth slowed in April on a holiday-adjusted basis. A large retail chain concentrated in the District reported that sales of seasonal items, such as lawn and garden and sports equipment, improved in line with plan during March and April. A group of retailers in Michigan reported improvement in apparel sales growth during March, and a large general merchandise firm also reported better apparel sales gains in March. A commercial real estate firm expected new shopping center construction in the Chicago area to rise nearly 40 percent in 1994, partly due to the entry of new chains in the local market, and some financial industry contacts expressed concern about the pace of new retail space creation in the area.

A large realtor reported that existing home sales transactions were about in line with last year, but noted that listings have been moving down for the first time in a long time. This contact stated that higher mortgage interest rates probably brought more buyers into the market in the first quarter, potentially borrowing from sales later in the year. A large association of homebuilders in the Chicago area reported that traffic increased from strong year-earlier levels in the first quarter, but then fell off during April. While many builders have expressed concern about the impact of higher mortgage interest rates, this contact believed buyer confidence remains strong.

Manufacturing. Manufacturing activity continued to lead the District economy in March and early April. Purchasing managers' surveys in Chicago, Detroit and Milwaukee suggested that manufacturing output growth in the District picked up further momentum in the first quarter, following significant gains in the fourth quarter of 1993. Purchasing managers' surveys conducted in Western Michigan suggested that strong growth continued in late March, with gains led by the auto industry. A steel industry analyst stated that "integrated mills are still going full out," as automakers continue to push for order fills. Heavy-duty truck orders surged to an all-time high in March, according to an industry analyst, and retail sales bounced back following slower, weather-impacted results in January and February. Shortages of construction machinery are developing sooner in the year than they did last year, according to an industry analyst. A large regional bank stated that its mid-sized manufacturing customers are still generally enjoying "very healthy" orders gains, led by firms in automotive and machine tool-related industries. A large manufacturer of communications systems stated that growth in systems installations was still running in line with the healthy results for the fourth quarter, with especially strong results in Northern Illinois. A large diversified manufacturer reported a pickup in industrial chemical sales in Europe, although its sales of agricultural equipment in Europe remain relatively weak. A large electronics manufacturer reported that its worldwide bookings continued to grow at a rapid pace in late 1993 and early 1994, but the growth rate may have slowed slightly in recent months.

Autos. Auto industry contacts reported that sales results thus far in April pointed to a modest slowing in seasonally adjusted sales rates. Discussions with a wide variety of auto dealers were mixed but generally positive, although one of the largest dealers in the District noted that "it seems like someone just turned off the faucet," citing interest rate increases and customer concern with their losses in financial markets. Several banking contacts noted that residential refinancing has "dried up," and one regional analyst expected this to inhibit auto sales in coming months. Auto dealers in Michigan reported substantial strengthening in April sales, as consumers rush to beat a state sales tax increase slated for May. Auto suppliers in the region continued to produce at high levels, and one large auto supplier stated that the run-up in long-term interest rates in early 1994 has not yet affected its expectations for significant growth in 1994. Year-over-year growth in motor vehicle assemblies in the District continued to post larger increases than the nation as a whole in early 1994.

Agriculture. Most areas of the District have experienced warm and unusually dry weather patterns this spring, although there was some localized flooding in mid April. Crop farmers responded with faster-than-normal progress with field work. The pace picked up dramatically during the week ending April 23, when corn planting began in earnest in most areas. The early start has buoyed prospects for the 1994 harvest, which has combined with a weak pace in export shipments to weigh on crop prices.

The latest survey of District agricultural bankers found the farmland market strengthened further this winter. The two percent gain reported for the three months ending with March was fairly widespread throughout the District, and it was the largest such increase in several quarters. The volume of farmland transfers picked up during the winter months, fueled both by a stronger demand among buyers and a pick up in offerings for sale.

Prices. Reports of price increases remained concentrated in metals and building materials markets. A steel industry analyst stated that steel prices are "definitely moving higher." Negotiations between integrated mills and automakers have taken on a more "commercial" tone, as opposed to a dictatorial character in recent years. Steel price increases are concentrated in special orders for nonstandard sizes that take more time to fill, as production time has become more valuable at current levels of capacity utilization. Steel scrap prices have stabilized in recent months, however, after exploding last year. A large bank stated that its mid-sized manufacturing clients are still unwilling to pass on metals price increases, and "for the time being, are willing to eat them." A large association of homebuilders stated greater lumber shortages are expected during the summer, along with new shortages of dry wall. A large manufacturer of a variety of chemicals has not experienced significant price increases for inputs, while competitive pressures continue to dampen its own prices and margins. A large auto supplier stated that it has recently received price increase notices from its suppliers, but has been successful in resisting those requests, and remains unable to implement price increases to its large automaker customers. A large electronics manufacturer noted that price increases for components sold to the auto industry seem to have become more feasible, but they haven't been implemented, noting that "we don't want to pay the price when the downside arrives." Two large retailers each stated that prices paid by their customers continue to decline, on balance. The price component of the Chicago purchasing managers' survey indicated modestly faster price increases in early 1994, but this index remained below year-earlier levels, and considerably below its average level in 1988 and 1989.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy has expanded robustly in recent months with many firms reporting expansions, additions to payrolls and increases in sales. Auto manufacturers in particular report booming activity, and expect to increase auto production employment in St. Louis to the highest level since 1989. Input price pressures remain muted for many firms. In a recent survey of District small businesses, about 30 percent believe economic conditions will improve further during the next quarter. The District's real estate sector remains in high gear, as evidenced by double-digit increases in building permits and frequent assessments that homes available for sale are in short supply. Loan demand, especially for consumer loans, continues to pick up at area banks. Fertilizer prices have risen dramatically from year-ago levels.

Manufacturing and Other Business Activity

District firms, particularly manufacturing firms, report healthy growth, citing plant expansions and new hirings. Announcements of expansions by two of the three auto makers in St. Louis will boost the region's auto production significantly. One firm will reopen its second plant to build pickup trucks and minivans. The other firm will build both minivans and sport utility vehicles in the same plant. Reports are that these moves, along with the third auto firm's plant reopening in 1995 to build full-size vans, will bring St. Louis auto production employment to 15,000, its highest level since 1989.

A St. Louis-based defense contractor received the Administration's approval to sell fighter jets to Israel, guaranteeing about 5,000 jobs through mid-1998. One of the nation's largest trucking companies is hiring 300 more drivers for its Memphis terminal to meet higher demand. A maker of screen-printed T-shirts in Louisville will add 220 workers because of increased demand. A maker of refrigeration compressors in northwest

Mississippi will add 400 workers as it undergoes an \$80 million expansion. An Arkansas poultry processor selected Pine Bluff for its first of four new plants to be built, bringing another 400 jobs into the area.

Firms in northeast Arkansas and northwestern Tennessee also report growth. For example, a building supplies company reports a 10 percent year-to-date sales increase over last year, and a metal salvage company reports year-to-date revenues up 40 percent over last year. A conveyor manufacturer and a caster manufacturer report year-to-date sales increases of between 3 percent and 5 percent over last year.

There were, however, also some reports of layoffs. An apparel maker is letting 250 workers go from its Arkansas plant because of cuts in production. A paper products maker sold its Memphis plant to another firm, resulting in the loss of 650 jobs. A shoe manufacturer will lay off 350 employees from its Missouri plant; about 100 of these workers will be offered positions at other plants, though.

A recent National Federation of Independent Businesses survey of District firms reveals that about 19 percent think now is a good time to expand and about 30 percent believe general economic conditions will improve during the next quarter. During the first quarter, 14 percent increased employment, and 20 percent plan to increase employment this quarter.

Prices

According to the aforementioned NFIB survey, about 17 percent of small firms reported price increases during the first quarter of the year, while nearly 30 percent plan to increase their prices this quarter. Elsewhere, an informal survey of several mostly large Eighth District firms suggests that, in general, cost pressures remain modest to nonexistent. A large appliance manufacturer, for example, reports that it continues to resist price pressures from its suppliers where possible; this behavior was also noted by other firms. A few firms reported that prices of important raw materials—for example, steel, aluminum and certain petrochemicals—have increased recently. A bathroom fixture

manufacturer reports that significant price pressures have developed in certain resins, chemicals and corrugated cardboard. A food and beverage manufacturer reports that lower packaging costs in the first quarter (year-over-year basis) more than offset higher prices for raw ingredients. Some firms suggest that they expect to see increased price pressures for raw materials beginning early next year. On the output side, nearly all firms surveyed report that competitive pressures preclude any substantive price increases. Some firms, however, are trying to increase prices where possible, with varying degrees of success.

Construction and Real Estate

Residential construction activity remains brisk, and recent increases in long-term interest rates have apparently spurred "fence sitters" into the market. Despite recent cost pressures, especially for lumber, two-thirds of District construction respondents in a first quarter 1994 small-business survey had no plans to increase prices in the next three months. District real estate agents report a shortage of houses on the market, especially in the mid-priced range, and note that many sellers are receiving two or more bids at the asking price or higher.

Banking and Finance

Loan demand continues to pick up modestly in most parts of the District. Consumer loan demand is generally characterized as stronger than commercial loan demand. Rates paid on deposits have risen only slightly in response to the general pick-up in interest rates. Mortgage refinancing activity has slowed considerably because of the recent increases in long-term rates.

Agriculture and Natural Resources

Fertilizer prices have increased substantially over last year's relatively low levels according to three large manufacturers. Prices have increased because of reduced ammonia supplies from the former Soviet Union, unanticipated shutdowns of domestic plants and an increase in demand stemming from a relatively large U.S. corn acreage. These prices are expected to prevail throughout the planting season and into late May.

NINTH DISTRICT--MINNEAPOLIS

The economy of the Ninth Federal Reserve District shows strong growth in early spring. Automobile sales are booming and general merchandise sales have reportedly increased. Construction remains strong in comparison to past years and markets for existing residences are tight. Manufacturing sales reportedly continue to strengthen. Mining output shows little change, but petroleum production in the district continues to erode slightly. With favorable weather, the crop season is off to a strong start. Livestock numbers remain high and continue to trend slightly upward. Employment levels are generally 3 percent above year-earlier levels, and unemployment rates remain below the national average and year-earlier levels. There is little evidence of significant upward movement in wages, but employers in some regions report difficulty in finding qualified new hires. A few manufacturers report difficulty in securing some inputs.

Consumer spending and tourism

"One of the best first quarters ever," said a state auto dealers association spokesperson in describing vehicle sales. His assessment was echoed by counterparts in other states and verified by Minnesota first-quarter new registrations, which were up 6 percent over year-earlier figures for automobiles and over 50 percent for pickups. In South Dakota car and pickup sales were up nearly 19 percent. General merchandise sales also appear stronger. "First-quarter sales were well above last year's," reported a marketing manager for one South Dakota mall. Regional department store chains also reported improved sales.

Tourism is stable. Winter business in Wisconsin, Minnesota and Michigan's Upper Peninsula was slower than normal due to cold weather, according to industry officials and a director. But South Dakota enjoyed a strong ski and snowmobile season. Industry officials are generally optimistic about the summer season; Montana, in particular, is gearing up for a very strong season after a recent spate of laudatory news articles about that state's tourism opportunities.

Construction and real estate

Construction of all types is very strong across the Ninth District, and markets for existing housing are tight in many metropolitan areas. March new housing permits in the Minneapolis-St. Paul area were 10 percent above 1993 levels. Commenting on the effects of recent mortgage rate increases, one building association spokesperson states, "We're concerned, but so far all it's done is get the fence sitters off the fence." Industry sources note very active home building in Sioux Falls, S.D., and described the market for existing housing as the tightest in years. Residential construction is reportedly also robust in Billings, Mont. and Eau Claire, Wis. Directors from North Dakota and Wisconsin describe very strong commercial building in their areas in addition to active home building. Newspapers from Montana, North Dakota and South Dakota echo these reports. In Minnesota and the Dakotas, commercial and heavy construction contracts through the first quarter were down slightly from 1993 levels but still 24 percent above 1992.

Manufacturing and natural resource industries

District directors note growing sales by small and medium-size manufacturing firms. Institutional furniture, farm machinery and building components face particularly good sales environments. A metal components firm describes good sales growth for automotive, appliance and housing-related items but little growth in other areas. First-quarter reports for publicly traded manufacturing firms show strong growth in revenues and earnings. Industrial use of electricity continues to grow above trend in Minnesota and South Dakota.

The Ninth District petroleum sector is reportedly suffering the effects of low crude prices. A director reports that some existing wells are being shut in, and published rig counts are the lowest in 10 years. Crude production is down about 5 percent from a year ago, although refinery throughput is up 12 percent as upgrades at three major refineries have come on stream. Non-ferrous metal mining output shows little change. Ice packed in Lake Superior near the Soo locks continued to impede ore shipping in mid-April but was expected to clear rapidly with warmer weather.

Agriculture

After 1993's difficulties, the 1994 crop season is opening with near ideal conditions. Moisture levels are adequate in virtually all areas, relatively few areas complain of surplus moisture, and little of the flooding that was anticipated earlier actually materialized. Crop planting on April 15 slightly lagged long-term averages but was generally ahead of year-earlier levels. State agricultural statisticians also noted that weather was ideal in the week of April 18-23 and anticipated that planting of most crops would be well ahead of historical levels by the end of the month. Planted acreages of most major crops are expected to be steady or up from 1993 levels.

Output of slaughter livestock is strong; numbers of livestock on farms and slaughter levels show moderate growth from year-earlier levels. With higher grain prices, feeding livestock is less profitable than a year ago, but industry observers expect numbers to continue to grow modestly throughout 1994. However, dairy production is down somewhat from comparable periods in 1993 in spite of generally higher milk prices. The decline is most pronounced in Wisconsin, but Minnesota and South Dakota also show some slippage.

Employment, prices and wages

Employment shows increasing growth. March non-farm employment numbers across the district are about 3 percent above year-earlier levels. A director noted that some firms in North Dakota experience increasing difficulty in attracting qualified workers. Similar problems are reported in areas of South Dakota, Minnesota and Wisconsin. Unemployment rates are down from March 1993 levels in all states but North Dakota. Excepting Michigan's Upper Peninsula, unemployment levels throughout the Ninth District remain well below the national average.

Directors and industry sources report wage increases in the 1 percent to 3 percent range for both private and public sector workers. Price increases have been reported for some industrial inputs, including wood particle board and metal finishing chemicals. Several firms reportedly have difficulty in securing desired quantities of particle board, and there is one report of shortages in certain types of steel. Lumber prices remain higher than a year ago, while petroleum fuels continue 3 to 10 cents per gallon below early 1993 levels.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy appears to be growing at a healthy pace. Residential construction and retail sales are increasing and the demand for bank loans is strengthening. In the farm sector, profit margins on cattle are higher. District energy activity, however, has slowed further. Retail prices remain generally stable, while manufacturers' input prices are increasing slightly.

Retail Sales. Most district retailers report moderate sales increases over both the past year and the past month. Led by strong sales of spring and summer apparel, total sales are expected to increase steadily in the next few months. Keen competition has kept retail prices stable and is expected to preclude any significant price increases in the near term. Most retailers are satisfied with current inventory levels, although some respondents expect to increase inventory purchases in response to rising demand.

Most auto dealers report sales increases from last month and anticipate further increases in the next few months. Financing is available for inventories, and potential buyers are generally able to obtain loans. Dealers are generally maintaining current inventory levels.

Manufacturing. Purchasing agents report slightly higher input prices compared with a year ago. Few expect further price increases in the near term. Most agents report no problems with input availability nor with changes in lead times, and they generally predict no major difficulties in acquiring inputs for the remainder of the year. Several respondents are reducing current inventory levels and intend to continue doing so in the near term. A number of respondents also report their firms are operating closer to

capacity, but most report no bottlenecks. Few purchasing agents report they have yet been seriously affected by the Teamsters strike.

Energy. District energy activity has slowed further as natural gas prices have softened and crude oil prices have remained low. Sources in Kansas report declines in oil production, with continued closings of high-cost stripper wells. Overall, the number of drilling rigs operating in district states fell from 237 in February to 218 in March. The rig count continued to fall in the first half of April to 212.

Housing. Housing starts remain significantly higher than a year ago and have generally increased over the past month. Builders expect starts to remain strong for the rest of the year. Sales of new homes are also strong, causing a very low inventory of unsold homes despite the increases in starts. Prices of building materials remain high. Slight increases in delivery times have been reported.

Mortgage demand has declined as refinancing has lessened, mainly due to increasing mortgage rates. But most respondents expect demand to remain about constant for the rest of the year, due to the expectation that rates will soon level off.

Banking. Loan demand at most reporting banks strengthened last month. Most banks report higher demand for consumer loans, residential construction loans, and commercial and industrial loans. Demand was generally unchanged for commercial real estate loans and agricultural loans, and mixed for home equity loans. Loan-deposit ratios were mostly unchanged from the previous month, and investments were flat.

Almost all respondents raised their prime rate last month and expect further increases in the near term. However, most banks left their consumer

lending rates unchanged and anticipate no change in those rates in the near future. Lending standards were unchanged.

Deposits at most banks were up. Demand deposits and money market deposit accounts were generally higher. NOW accounts and small time deposits were constant to higher, while large CDs were mixed.

Agriculture. The district's winter wheat crop remains in good condition, having escaped with only minor frost damage in early April. Spring rainfall has improved crop prospects in wheat-growing regions that had been unusually dry, but additional rainfall is needed to ensure normal wheat yields. While preparing fields for spring plantings, most district farmers are waiting to plant corn and soybeans until warmer and drier weather arrives.

Cattle feedlots in the district are operating near capacity. Producers are avoiding a buildup of cattle inventories, however, even though higher cattle prices and lower feed costs in recent weeks have boosted profit margins. Producers remain cautious because larger supplies of beef, and competing meats are expected to push cattle prices down later this year.

District bankers report generally steady retail sales activity and no adverse effects of the recent trucking strike activity in their rural lending areas. Spending was somewhat restrained, however, by lower incomes in some farm-dependent communities, which suffered large crop losses in last summer's heavy rains and flooding.

ELEVENTH DISTRICT--DALLAS

Economic activity continued to expand at a moderate pace. Price pressures were mixed. Additional hiring led to scattered wage pressures in some industries. Manufacturers reported an increase in orders. Business service firms said that demand was higher and that prices were generally stable or lower. Construction and real estate demand increased leading to higher prices in several markets. Strength in natural gas prices kept energy activity stronger than expected despite weakness in oil prices. Agricultural conditions improved.

Manufacturing orders increased, leading to hiring and scattered wage pressures. Price movements were mixed. Demand for construction-related manufacturing continued to be strong. Brick and cement producers were operating at capacity and tight inventories led to higher prices. Glass producers said that they were hiring because of higher demand from automobile manufacturers. Orders for lumber and wood products weakened but were stronger than a year earlier. Some contacts lowered their lumber prices to unload inventory because they were concerned that demand would slow. Sales of corrugated boxes increased, while sales of other packaging materials remained steady. Prices and input costs were higher for boxes and packaging products. Primary metal producers reported higher demand for their products, especially steel. Demand for fabricated metals was slightly below year-ago levels. Sales of electrical and electronic machinery increased. Prices were lower for semiconductors, printed circuit boards, and computers. Apparel contacts said that demand for garments increased, and they were optimistic that growth in orders would continue. Higher wages led to higher prices for some apparel products. Growth in contracts for garment-finishing slowed, however, causing lay offs in this segment of the industry. Some of this work was absorbed into other parts of the industry through vertical integration. Some garment-finishing was moved to other countries, including Mexico, and some contracts were delayed because a new "wrinkle-free" process had slowed production.

Demand for food and kindred products increased. Food producers reported that they were passing along higher costs by raising their prices. Demand for chemicals remained strong. Inventories of ethylene and propylene were very low, and prices increased for those and some other chemicals. Despite the increases, prices remained low for many chemicals and several companies were planning restructurings and job cuts. Refiners reported that cold weather had stimulated demand for oil products and that low oil prices had boosted profit margins. Demand and margins slipped this spring, but remained healthy. Natural gas drilling continued to boost demand for oil field equipment and services. A backlog of orders is expected to keep sales of energy-related manufacturing strong through the second quarter. Except for Canada, foreign demand for energy equipment and services had been weak.

Business service firms said that demand increased and prices were generally stable. Temporary service contacts still reported the strongest activity, but advertising, accounting, communications, consulting, transportation and legal firms also reported growing demand for their services. Temporary businesses said that they are having difficulty hiring in Austin and Dallas and expect wages and prices to increase. Heavy competition led to unusually heavy discounting of transportation services. Several service firms noted that their medical insurance costs were increasing at a slower rate or declining. Hospitals reported that lower demand for inpatient care led several facilities to restructure their operations to reduce costs and employees. One hospital contact said that HMOs and other managed care contracts are critical to maintaining demand and that selection is driven increasingly more by price than quality.

Retail sales continued to grow slowly. Sales remained very competitive, and contacts who reported the strongest sales gains also reported that their prices were below year-ago levels. Some contacts with national companies reported that sales at their stores in Texas were not as strong as at stores in other parts of the country. Auto sales were strong in March and contacts were optimistic that sales growth would continue.

Construction and real estate activity increased across most of the District. New home construction remained very strong and prices were higher because of higher costs particularly for sheet rock, brick, concrete, and developed land. Fear of higher interest rates was credited with causing a surge in existing home sales in Dallas and Houston. Apartment markets continued to be tight with some new construction in Dallas and Austin. Occupancies are high and rents are rising, particularly in Austin. Commercial markets strengthened, especially retail and industrial. Office markets tightened in Austin, El Paso and San Antonio.

Strength in natural gas prices kept **energy** activity stronger than expected despite weakness in oil prices. Oil prices bounced between \$14 and \$17 per barrel in March and April. Prices were pushed up by signs of stronger economic growth and reduced shipments out of the North Sea. Natural gas spot prices dropped to \$2.05 per Mcf as winter weather moderated. Still, the number of rigs searching for natural gas did not experience a normal seasonal decline and oil drilling dropped only slightly. Improved technology spurred drilling in the Gulf of Mexico -- "the hottest offshore market in the world." Rigs, supply boats and other offshore equipment were being brought into the Gulf from all over the world. Over 70 percent of Gulf drilling is for natural gas.

Bankers reported moderate loan demand. Lending was particularly strong in Austin and along the Mexican border. Real estate lending remained strong but contacts noted growth in consumer lending and said that they were being increasingly aggressive in obtaining business loans.

Agricultural conditions improved and crop planting was ahead of the 1989-93 average. Crops and livestock were generally in fair to good condition, and supplemental feeding of livestock had decreased. Still, most areas continued to be in need of a good soaking rain. In March the Texas Index of Prices Received for All Farm Products was 1.3 percent higher than a year earlier. Livestock and Livestock Product Prices were 5.2 percent below last year's level, while the Crop Prices rose 17.0 percent from a year ago.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic activity is strong in the Twelfth District outside of California and Hawaii. In California, conditions remain weak, although positive signs are starting to emerge. Business sentiment in the Twelfth District continues to strengthen. Retail and tourist activity are reported strong or improving in most parts of the District. Manufacturing activity is mixed, with weak aerospace markets and strong investment in computer and communications equipment. Export markets for District agricultural products continue to expand. Construction and real estate activity is booming in many parts of the District, while residential markets are starting to show signs of life in California. Loan demand is reported to be strong or improving in most parts of the District.

Business Sentiment

Sentiment among Twelfth District business leaders continues to improve. About two-thirds of respondents expect real national growth to exceed 2 1/2 percent during the next four quarters, compared with half of respondents in February. Growth is expected to be especially strong in Arizona and the intermountain states, and weaker than the national average in California and Hawaii. Well over half of respondents now expect the inflation rate to rise during the next four quarters, while less than half expected rising inflation in February.

Retail Trade and Services

Retail and service industry conditions are reported strong in most of the District. Sales in the intermountain states are reported strong for a wide range of products, but the

truckers' strike reportedly is starting to cause problems for retail distributions. Respondents in the Puget Sound area report strong sales of specialty products. In California, food store sales improved in March.

Conditions in the tourism industry are strong. In Las Vegas, bookings at the new hotels are very strong. In Salt Lake City, robust tourist and convention demand has boosted hotel occupancy rates above 90 percent. California ski resorts reportedly have had a good season. Hotel occupancy in San Diego, Orange County, and West Los Angeles has been better than expected, with strong advance summer bookings reported. Conditions for San Francisco's hotel industry are described as excellent. In Hawaii, where visitor activity has been disappointing, the visitor count increased 8 percent between February 1993 and February 1994.

In California, demand for non-cellular telephone services has increased since the end of 1993. In Washington, cellular phone subscriptions are reported stronger than anticipated.

Manufacturing

Manufacturing activity remains mixed in the District. Aerospace firms continue to report sluggish conditions and excess capacity. One machinery manufacturer reports strong first-quarter sales, and expects product prices to increase 3 to 4 percent this year. In April, Boeing introduced its new 777, which could be approved for commercial use by May 1995.

A producer of computers and related hardware expects sales to increase 5 to 10 percent in 1994, a slower rate of growth than in 1993. Strong investment is reported in a wide range of industries throughout the District, as companies replace outdated computer and communications equipment in order to increase productivity and improve their competitive

positions. As of mid-April, interest rate increases had not lowered 1994 capital spending plans significantly.

Agriculture and Resource-Related Industries

Agricultural conditions generally are good throughout the District, although reduced water allocations for farmers in California's Central Valley are causing concern. California exports of cotton to China have increased. Other agricultural export markets also have strengthened, particularly Japan, Korea, and Mexico. Beef and apple exports have risen. Increased imports of barley from Canada and strawberries from Mexico have lowered prices for those crops.

Real Estate and Construction

Real estate markets are reported to be strong in most District markets outside California and Hawaii. Double-digit home price increases are reported in Tucson. In Phoenix, home prices and residential construction are increasing and the commercial vacancy rate is declining. Virtually no Class A office space is reported to be available in some parts of the Phoenix area. Low vacancy rates also are reported in northern Utah. In California, home sales activity has picked up in recent months, and prices appear to be stabilizing after a prolonged decline.

Construction activity is reported to be booming in all parts of the West except California and Hawaii. The increased activity has strained capacity and lengthened development times in some areas. Shortages of skilled construction workers are reported in many areas. In addition, prices for some construction materials are increasing. In California, housing permit activity has improved in recent months, although the pace of

activity remains low by historical standards.

Financial Institutions

Loan demand is reported strong in most parts of the District. In Arizona and the intermountain states, deposit growth and loan demand have been strong, and the rate of problem loans continues to decline. Bank contacts in Oregon and Washington report strong profits with rising deposits and loan demand. Several contacts report sharp declines in refinancing demand. In California, respondents note some increase in lending activity, especially in home mortgages and real estate construction, although overall conditions remain soft.