

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS

OCTOBER 1994

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SUMMARY¹

Economic activity continues to expand in all Federal Reserve districts, according to business contacts; there are signs of acceleration in the Chicago, Dallas, Minneapolis, and Philadelphia districts, while growth has slowed somewhat in the New York district. Consumer spending generally remains strong. Many districts report increased spending, but several districts report flat or slackening retail sales. Auto sales remain very strong. Manufacturing activity increased in nearly all districts, and demand for business services, where reported, has accelerated.

Single-family construction has declined from fairly high levels across much of the country. Most districts report gains in commercial real estate activity. Loan demand is advancing at a healthy pace in most districts.

Better-than-expected crop yields have added to record-breaking crop and livestock production nationwide, and large supplies have pushed down agricultural prices. Energy activity has improved, despite relatively weak oil and natural gas prices.

Labor markets are tight or tightening in most districts, although tightness is limited to specific sectors. There are a few reports of rising wages. Prices of raw and intermediate materials continue to rise, and there are increasing reports that manufacturers are passing along these costs by raising selling prices. Most districts report no change in retail prices, although pressure is building in some districts.

¹Prepared at the Federal Reserve Bank of Dallas and based on information collected before October 25, 1994. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary of the views of Federal Reserve officials.

Consumer Spending

Consumer spending (which includes automobiles) has picked up in many districts and is strong in most. Auto sales continue to be very strong across the country, and many dealers still complain that inventory shortages are curtailing sales of popular models. Generally, however, retailers are comfortable with inventory levels. Retail sales were unchanged or below expectations in the Atlanta, Cleveland, New York, and Richmond districts. Demand continues to be strongest for durable goods, such as furniture, appliances, and electronics. Several districts report weak apparel sales, particularly women's clothing. Contacts in the Atlanta, Boston, Cleveland, and New York districts suggest that unseasonably warm weather in September contributed to slow apparel sales. Retailers are optimistic about holiday retail sales growth in the Atlanta, Boston, Cleveland, Kansas City, Philadelphia, and San Francisco districts.

Manufacturing

Manufacturing activity has increased in all districts, and only Atlanta and Richmond note a slowing rate of growth since the last Beige Book. Demand remains particularly strong for heavy-duty trucks, automotive inputs and parts, steel, home appliances, electronics, furniture, chemicals, paper, and packaging. Several districts report that pulp, paper, and newsprint inventories are low, and food producers in the Dallas and San Francisco districts note higher packaging costs. In most districts, manufacturers have indicated that input prices are rising, and there are increasing reports that manufacturers are passing these costs along to consumers through higher selling prices.

The San Francisco district reports continued weakness in the commercial aerospace industry, and in the Boston district, demand for aircraft parts has dropped at double-digit rates. In Central Florida, defense manufacturers' ongoing downsizing and the space industry's cutbacks are slowing economic activity.

The apparel sector continues to shrink in the Atlanta district. Apparel demand is steady in Dallas, and producers are optimistic in the St. Louis district.

Services

In those districts reporting on the service sector, activity appears to be accelerating. Demand for business services has increased in the Atlanta, Boston, Dallas, Richmond, and San Francisco districts. Temporary service firms continue to report the strongest growth. Tourist activity is reported to be very high in the Atlanta, Minneapolis, Richmond, and San Francisco districts.

Construction and Real Estate

Single-family construction continues to decline in most districts, but activity remains at fairly high levels in the Atlanta, Chicago, Minneapolis, and San Francisco districts and parts of the St. Louis district. Sales of existing homes also have slipped in several districts, but sales were reported as brisk in the St. Louis district and strong in the city of Philadelphia. Home prices are reported as stable or lower in the Atlanta, Boston, Kansas City, Philadelphia, and Richmond districts.

Commercial real estate markets have strengthened in the Atlanta, Chicago, Dallas, New York, and Richmond districts, and construction is reported as increasing in many of these markets. Lower vacancy rates are reported for office markets in the Atlanta, Chicago,

Dallas, New York, and Richmond districts, and markets for multifamily real estate have tightened in the Atlanta and Dallas districts.

Banking and Finance

Loan demand is advancing at a healthy pace across the country. Most districts report solid gains in commercial and industrial lending, but residential mortgage and refinancing activity continued to slow or decline in many districts. Consumer lending is increasing modestly in many parts of the country but has declined moderately in the Richmond district. Competition among banks for loan customers is squeezing margins in several districts, but most bankers report no change in credit standards. The San Francisco district reports weak bank employment as part of consolidations and other cost-cutting efforts. The Philadelphia and Cleveland districts report that increased competition for deposits is placing upward pressure on funding costs.

Agriculture and Natural Resources

Better-than-expected crop yields in several districts are adding to record-breaking crop and livestock production nationwide. High crop yields are straining grain storage and handling facilities and pushing prices to very low levels. Record levels of production also have pushed down livestock prices, and the Chicago district reports that hog prices have reached the lowest level in fourteen years. The Chicago and Minneapolis districts expect low prices to limit farm household income and capital spending.

The Dallas, Kansas City, and Minneapolis districts report that energy activity has improved, despite relatively weak oil and natural gas prices. On-shore drilling in the Dallas and Kansas City districts is reported to be below year-ago levels, although drilling activity

was strong in the Gulf of Mexico, where the number of working rigs is the highest since 1990. Mines in the Minneapolis district are reported to be running at capacity.

Prices and Wages

Reports of labor market tightness have increased in most districts, but they are limited to specific sectors. There are a few reports of rising wages. The Atlanta, Chicago, Cleveland, Dallas, Kansas City, and St. Louis districts report tighter labor markets, although wages are not reported to be rising. In a few parts of the Atlanta district, labor market tightness is making it difficult for firms in the retail, service, and light industrial sectors to attract and retain employees. Cleveland reports labor shortages in the industrial sector, while Dallas reports hiring difficulties at temporary and trucking firms and in large metropolitan areas. A few manufacturers in the Kansas City district report shortages of skilled labor, and many contacts in the St. Louis district report a shortage of qualified workers for both permanent and seasonal work.

Labor market tightness has led to rising wages only in the Boston, Minneapolis, and San Francisco districts. San Francisco reports tight labor markets, especially for the retail and service sectors, and wages are rising at food stores and for experienced computer programmers. The San Francisco district also reports a shortage of skilled construction workers in Idaho, Oregon, and Utah, where wages are increasing rapidly.

Most districts continue to report that prices of raw and intermediate materials are rising, particularly prices of chemicals, plastic, paper, steel, and cotton. Prices of medical and computer equipment continue to decline, however. The Dallas, Philadelphia, and Richmond districts report that higher costs are being passed along through manufacturers'

selling prices. A growing number of factory contacts in the Atlanta and Cleveland districts expect cost pressures to be reflected in finished goods prices soon. Most districts report that retail prices have not risen. In the Atlanta district, however, pressures are growing, and in the Dallas district, retail prices are continuing to fall but at a slower pace.

FIRST DISTRICT - BOSTON

Business continues to improve in the First District, with the exception of the housing sector. Most retailers and manufacturers report improving results in the late summer and early fall, with corroborating indications from temporary services firms. Insurance companies report small sales increases in the third quarter.

Retail

First District retail sales have picked up considerably since the summer, particularly in hard goods. Chains selling home furniture, home audio, and business equipment report increases in sales of 20 to 30 percent over year-earlier levels. Other retail contacts cite gains ranging from 2 to 8 percent. One exception to the generally strong results, a department store, attributes sluggish sales to warm fall weather, which deterred shoppers from purchasing winter apparel.

Some retail contacts have observed modest increases in suppliers' prices, particularly plastic, paper, and cotton, which will be passed on to customers in some cases. Gross margins remain fairly stable. Inventory levels are generally satisfactory. Retailers with double-digit sales growth report large profits and increases in employment of 12 to 30 percent.

Retail contacts anticipate a strong holiday season with growth in sales of 2 to 20 percent. While none plans large pre-holiday markdowns like those offered last year, all agree that their customers continue to be frugal and discriminating shoppers.

Temporary Employment Services

Temporary employment firms report that their business is strong and growing. Contacts sense a definite shift toward temporary workers

on the part of many firms, especially larger ones; companies that have recently downsized are turning to contract labor as business picks up. Temporary assignments are reportedly increasing in length and tend to be more project-oriented than in the past. Personnel services firms expect strong demand for temporary staff to persist as the economy continues its modest growth.

Manufacturing

First District manufacturing contacts report continued growth in revenues from a wide range of products. Sales of automotive-related items, industrial machinery, personal computer and networking products, furniture, and biotech instruments, in particular, are said to show double-digit rates of increase from a year ago. One contact producing residential construction products reports a recent slowdown in orders, but notes they remain above year-earlier levels. By contrast, demand for aircraft parts and medical equipment has dropped at double-digit rates, and sales of minicomputer and mainframe products remain sluggish. Most exporters are still finding Western European markets to be slow, while seeing good growth in the Pacific rim.

Contacts generally report that they are operating in a stable pricing environment, although a few are able to raise prices, and medical equipment and most computer prices remain on a downtrend. About one-half report unchanged materials costs, in some cases because they have successfully fended off increases by suppliers. The other half report overall increases, typically in the range of 1 to 3 percent. With respect to labor, most reported pay raises are about 3 to 4 percent.

Two-thirds of the manufacturers contacted expect business trends in coming months to be similar to recent performance. The remaining respondents are split as to whether their company will be challenged by a slowdown in the rate of economic growth, or benefited by new products or more favorable export conditions.

Residential Real Estate and Construction

After a good spring in many parts of New England, the real estate market shows some signs of slowing down. Contacts in Rhode Island and Massachusetts report a decrease in sales activity in the summer and early fall compared to last year, which they attribute in part to the increase in interest rates. Connecticut activity has held steady at earlier levels, with prices at or near trough. New Hampshire is an exception, with sales growth reportedly accelerating each quarter this year.

Nonbank Financial Services

Almost all respondents at insurance companies report a small increase in sales in the third quarter of 1994 compared to the third quarter of 1993, with most of the increase in annuities. While employment is currently stable, two of the responding insurance companies plan significant downsizing in the first half of 1995.

The Outlook

The New England Economic Project (NEEP), a nonprofit forecasting group, released its semi-annual regional forecast in late October. NEEP projects a slight slowdown in the rate of total employment growth in New England, from 2 percent in 1994 to 1.8 percent in 1995. Services and retail trade are expected to continue to account for most of the region's job gains.

SECOND DISTRICT--NEW YORK

District economic growth slowed somewhat in recent weeks. A majority of retailers surveyed reported lower-than-expected sales and homebuilders noted a slackening of momentum in the market for both new and existing homes. The movement in September unemployment rates was mixed, however, and office vacancy rates fell in many parts of the District. Senior loan officers surveyed at small and midsized banks reported that overall loan demand remained mixed.

Consumer Spending

Although year-over-year sales results varied widely at District retail stores during September, a majority of contacts reported that sales were somewhat below plan. They attributed the shortfalls in part to unseasonably warm weather during much of the month which deterred buying of outerwear and much of the new fall apparel. Several chains noted a decided pickup in apparel sales with the return of cool weather in early October. Most respondents stated that goods for the home sold well in September and some, with a smaller concentration of apparel, reported better-than-expected sales results.

Year-to-year sales results in September ranged from flat to +9 percent among surveyed retail chains in the District. Items mentioned as selling well in addition to goods for the home were women's accessories and cosmetics, and men's suits and sportcoats. Early in the month back-to-school merchandise did well. Despite some buildup in inventories as a result of slower-than-planned sales, respondents were generally comfortable with inventory levels but intended to monitor them closely.

Residential Construction and Real Estate

District homebuilders reported a recent slowing of momentum in the market for both new and existing homes. One respondent described this year's activity as unusually volatile with traffic and sales up and down like waves. Most contacts expect that, on balance, District housing starts will show little change this year from last year's level.

The current lackluster activity was attributed by several respondents to the continued downsizing by major corporations in the region with a resultant negative impact on consumer confidence. Higher interest rates were cited as another depressing factor, though apparently not a major one since contacts noted that rates remain at historically moderate levels.

Office leasing activity was sufficiently brisk to lower vacancy rates in many parts of the District during the third quarter. The biggest drop was in the 11-county northern New Jersey area where the rate fell by almost a percentage point between June and September. Rates were down by smaller amounts in Fairfield County, (where vacancies were at their lowest level in five years), in Westchester County and on Long Island. However, vacancy rates backed up a bit in both midtown and downtown Manhattan from August to September.

Other Business Activity

District unemployment rates were mixed in September as New York's rate fell to 6.2 percent from 6.9 percent in August while New Jersey's rose from 6.0 percent to 6.7 percent. Several major employers announced additional employment cutbacks or reiterated their earlier plans to do so. Among those planning payroll reductions in the thousands are IBM, Northrop Grumman, Nynex, New York City government and the brokerage industry (taken as a whole). Despite earlier comparably-sized corporate cutbacks, however, District nonfarm employment has been growing fairly steadily for the last several months.

Several developments occurred in recent weeks which should impact positively on the District economy. Ground was broken for two mixed-use projects which have joint public and private sponsorship: a \$2.3 billion development in Queens combining residential, commercial and retail components, and a \$200 million retail and residential project in downtown Brooklyn. Additionally, the Port Authority of New York and New Jersey announced an \$800 million plan to rebuild the largest terminal at Kennedy Airport.

In the area of entertainment and tourism, MTV will develop a studio complex in three adjoining Times Square theatres and Disney has expressed interest in another 42nd Street theatre. New York City has been the location for several new movies in recent months following several years of little moviemaking, and the number of tourists and hotel occupancy rates in the City reached their highest levels in several years.

Financial Developments

Senior loan officers surveyed at small and mid-sized banks in the District reported that overall loan demand remained mixed. The largest declines in activity occurred in the residential mortgage and refinancing segments. More than half of the banks experienced lower demand for residential mortgages and over three-quarters reported less or no refinancing activity. The commercial and industrial loan segment saw the largest increase in activity, with demand higher at almost one-half of the banks. Consumer loan demand also showed a slight improvement. Loan rates have generally increased, though a few banks lowered rates on residential mortgages.

While more than half of the surveyed officers noted no change in their willingness to lend, over one-third reported increased willingness. Very few banks changed their credit standards, and almost all reported stable or lower delinquency rates. About one-half of the loan officers noted a smaller spread between the average lending and deposit rates following recent increases in deposit rates.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District moved up at a somewhat faster pace in October than in September, according to business contacts. Manufacturers noted stronger growth and reported higher rates of shipments and new orders. Manufacturers also reported increased hiring, on balance. Retailers generally indicated that the pace of sales picked up in October from the prior month although the increase was modest. Bankers reported a slight pickup in commercial and industrial lending and continued growth in consumer lending. Real estate conditions, however, continued to be described as about steady, although there were some positive reports on home sales.

Forecasts by Third District business contacts reflect current trends. Manufacturers foresee continuing gains, and their plans call for some further hiring. Retailers are optimistic that the pace of sales will continue moving up into the holiday shopping period. Bankers expect consumer lending to remain on an upward track, but they are less confident that business lending will continue to increase. For real estate, the outlook is that home sales should stay at their current pace, but construction activity of all types will remain at a low level.

MANUFACTURING

Reports from Third District manufacturers in October indicated that activity had increased significantly from the spring and summer months. Four out of ten firms polled said shipments and orders were on the rise in October, and about the same number of firms reported steady business. Producers of nondurable goods generally indicated stronger demand for their products than did makers of

overcome. They look for a good sales rate to continue through the rest of the year.

FINANCE

Third District bankers contacted for this report said loan volume moved up at a slightly faster rate in October than it had in September. Growth was noted in commercial and industrial lending and in consumer lending. In general, bankers said the increase in business lending was modest and competition among banks for commercial loan customers was shrinking lending margins. Consumer lending has picked up on the strength of auto financing and greater use of credit cards and home equity credit lines. Residential mortgage loan volume was virtually steady.

Looking ahead, bankers expect consumer lending to remain on an upward trend, but they are unsure of the course of business lending. Several said they expect further growth to be slight, and they expect competition to continue putting pressure on margins. Also, several bankers noted that a continuation of the current rate of loan growth may soon require them to step up funding and raise deposit rates.

REAL ESTATE AND CONSTRUCTION

Realtors in Philadelphia said home sales continued to be strong in October, maintaining a trend that got under way in the spring. Realtors in other parts of the Third District gave mixed reports, with an overall assessment that sales in October were steady but not strong. Realtors continued to mention that the supply of homes for sale was large in relation to the sales rate and selling prices have been steady. Looking ahead, realtors said consumer confidence seems high enough to sustain the current rate of sales.

durable goods, although manufacturers of metal products and stone, clay, and glass products reported stronger business as well. Increased demand for manufactured goods apparently has prompted stepped-up employment. On balance, area industrial firms added workers and extended working hours in October. Some firms also reported tightening labor market conditions for skilled workers.

Looking ahead, Third district manufacturers expect improvement to continue through the winter. Nearly half of the firms contacted expect the upward trend of shipments and orders to continue, and about one-third anticipate steady business. Plans at area plants call for some additional hiring and increases in capital spending over the next six months, although, on balance, the gains are expected to be modest.

Managers at area plants continued to note rising prices in October. Over half of those commenting on prices said input costs were going up, and more than one-fourth said they had raised the prices of the goods they manufacture. There were virtually no reports of price decreases.

RETAIL

Third District retailers generally reported a pickup in sales in October compared to September, although for most the gains were moderate. Merchants said apparel, especially sportswear, and home furnishings were selling well. Store executives characterized their inventories as in line with sales.

Although merchants said it is too early to speculate about the level of sales in the upcoming holiday shopping period, the general tenor of opinion is optimistic. Retailers believe apparel sales will remain healthy and that sales of electronic appliances will increase as the holiday period approaches.

Auto dealers indicated that sales in October were healthy and that the supply shortages that hampered sales of certain models have been largely

Commercial real estate activity remained subdued in October, as it has been for most of the year, according to contacts. The vacancy rate for office buildings was practically steady in central Philadelphia and down slightly in some suburban office markets. Rents in both the central business district and suburban areas continued to show little change.

Construction activity was flat throughout most of the Third District, according to reports received in October. While a few home builders noted recent increases in demand that they were able to meet, construction activity in total has not been strong, and contacts in the real estate industry see no signs of an upturn.

FOURTH DISTRICT - CLEVELAND***General Business Conditions***

The Fourth District economy continues to perform at a relatively high level, particularly in the industrial sector, where capacity constraints are becoming increasingly evident. Substantial price increases are noted along a broad range of industrial goods, and there is a general presumption that these cost pressures will soon be felt in finished goods prices. However, significant price increases have yet to be realized at the retail level.

Construction is spotty by region, although steel producers note an improvement in structural steel orders. Agricultural conditions are favorable, with record harvests seen in many regions. High crop yields have exerted some downward pressure on prices, but farm revenues are expected to be good.

Manufacturing

Industrial activity in the District remains brisk. Auto-related industries are operating at a high level, bolstering steel production. District steel producers also note an improvement in orders coming from the capital goods industry. Recovery in Europe is strengthening foreign demand for U.S. products. Rising foreign steel prices and lengthening backlogs from foreign steel producers appear to be further boosting domestic demand for steel.

A continued acceleration in industrial commodities prices, including steel, resin, a variety of paper products, and chemicals, is being noted, along with increasingly frequent reports of capacity strains and labor shortages in the industrial sector. Although a few firms are hesitating to add permanent staff or capacity, that reluctance appears to have diminished in the past few months. No respondents are citing substantial wage pressures, however, and there is little indication that the cost pressures from industrial materials are spilling into finished goods or retail prices.

Consumers

District retailers report some slackening in activity in early October, although one major discounter said that sales have quickened since then. The back-to-school sales period (mid-August through September) was described as good overall, with mid-single-digit improvements from last year.

Durable goods continue to sell well, especially furniture, appliances, and electronics. Some of the strength in this area is thought to be a lagged response to the strong housing starts earlier in the year that have recently been completed. Slower growth in housing demand and increased reluctance of consumers to take on new debt suggest some softening in this area through the end of the year.

Sales of soft goods have lagged, but are generally expected to strengthen. Sales of apparel, and particularly women's apparel, have been disappointing for District retailers. Although part of the weakness is characterized as cyclical, unseasonably warm weather over much of the Midwest has also temporarily reduced clothing demand.

Early indications suggest that the 1994 holiday sales period will be reasonably strong--retailers expect gains of 5 percent or so for the season compared with 1993. Seasonal hiring is expected to be on par with last year. Although one large discounter reports labor shortages in some locations, District retailers indicate they have not had much difficulty finding part-time employees. Suppliers have been increasingly pressing for price increases, but with little apparent success. The major retailers we contacted indicated little room for price increases, stating that a "brutally" competitive retail environment has kept profit margins razor-thin.

Autos

Sales by Fourth District auto dealers vary from "very good" to "best ever." Although sales rates have probably eased in October after a robust September, they

continue to improve on a year-over-year basis. Dealers are once again reporting that shortages of many popular models have damped sales, but confidence for the 1995 model year is still quite high.

Price increases on the 1995 models are similar to last year, in the 2 to 5 percent range, although incentives and other price discounting are reduced. Dealers also report only modest gains in parts prices and service charges.

Dealers are increasingly concerned that market interest rates will begin rising again, most immediately because of the impact on their floor-plan costs, and only secondarily because of their effect on consumer loan rates. Consumer finance rates have been stable recently in most markets.

Banking and Credit

District loan demand remains solid, especially for consumers. Real estate lending has moderated a bit, but is still characterized as reasonably strong. The most prominent change in the past few months has been a strengthening in commercial credit demands, particularly for small and medium-sized businesses. This may reflect rapidly rising floor-plan financing by auto dealers, although a more general business expansion is noted. No slippage in loan quality has been reported. Competition for deposits has intensified, although several large District banks note a continued run-off of certificates of deposit. Deposit rates have apparently become increasingly competitive with nonbank deposit sources.

FIFTH DISTRICT-RICHMOND

Overview: District economic activity grew moderately in September and early October. Areas experiencing growth included the service-producing sector, commercial real estate, ports, state revenues, and tourism. Manufacturing growth slackened, however, and housing activity declined. Consumer spending was unchanged, while conditions were mixed in finance and in agriculture.

Consumer Spending: Respondents to a mail survey and other contacts indicated that District retail activity was flat in September. Overall sales and auto sales were unchanged from August, and employment and wages changed little. Inventories increased, but shopper traffic and big-ticket sales declined. Survey respondents indicated that retail prices increased 0.5 percent in September. They foresaw increased demand for their products and an increase of 1.6 percent in their prices during the next six months.

Service-Producing Firms: Respondents to a mail survey and other contacts indicated that activity in the service-producing sector increased in September. Revenues and wages rose, but employment changed little. Revenues decreased, however, in real estate and health services. Service producers indicated that prices rose 0.6 percent in September. They expected increased demand for their services and an increase of 1.1 percent in their prices during the next six months.

Manufacturing: Indicators of factory activity growth declined in September from their August levels, according to a mail survey of District manufacturers. Finished goods inventories were down compared to six months ago, and respondents expected a further decline during the next six months. Manufacturers expected shipments and employment to

Commercial Real Estate: Real estate contacts reported that commercial real estate activity grew in October. Commercial vacancy rates declined throughout the District. Commercial rents were steady, but contacts anticipated slight increases in the near future. Leasing agents reported that the availability of large blocks of office space continued to tighten, particularly around Washington, D.C. Contacts reported little change in new construction, except in North Carolina, where new build-to-suit construction increased.

State Revenues: State government forecasters said September tax collections grew moderately. Real revenue growth remained slow in South Carolina, flat to negative in the District of Columbia, and moderate to healthy elsewhere.

Agriculture: Conditions in agriculture were mixed in early October, according to District farm analysts. Crop harvesting was progressing at a normal pace. Near-record crop yields were expected to lead to large production levels. Analysts, however, expected weaker crop prices to dampen increases in crop cash receipts. The planting of winter small grains was underway, and farm analysts believed that dry conditions may have slightly damaged the crop in some areas of Virginia and Maryland. In the livestock sector, hog production was steady in all District states, except in North Carolina, which experienced a dramatic increase; hog prices were sharply lower. Poultry production increased in Maryland, Virginia, and North Carolina, and prices were steady.

increase during the next six months, but they anticipated little change in the workweek. Finished goods prices increased faster in September than in August, while raw materials prices rose more slowly; both increases were below the general inflation rate.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in the first half of October was above that of September and a year ago, especially in mountain areas where fall foliage was near its peak. Fall bookings were up compared to a year ago, and contacts expected better-than-normal business over the next six months.

Ports: Representatives at the District ports of Baltimore, Charleston, and Hampton Roads (Norfolk) indicated that export levels in September were higher than those of August and a year ago. Imports increased in Baltimore and Charleston but decreased in Hampton Roads. During the next six months, port representatives expected both exports and imports to increase.

Finance: District financial institutions reported that loan demand was mixed during September and early October. Demand for commercial loans increased, but consumer loan demand declined moderately. Mortgage lending activity continued to decline. Interest rates were higher on commercial, consumer, and mortgage loans.

Residential Real Estate: According to District realtors and builders, residential real estate activity declined during September and early October. Building permits, home sales, and buyer traffic all decreased. Homebuilders indicated that they started fewer houses following the recent rise in mortgage rates. Home prices remained stable, although prices of nonlumber building materials rose slightly.

SIXTH DISTRICT - ATLANTA

Overview: The southeast's economic expansion held steady in early fall, according to business contacts. Retailers reported mixed results, but with strength in men's and women's apparel. Holiday sales are generally expected to be strong, although merchants generally expect pressures to grow on prices. Business travel and tourism remain robust in most of the region, and positive reports of advance winter bookings in south Florida may signal improvement there. While factory activity may have slowed a little since the previous report, contacts have become more optimistic about the near-term outlook. Home sales and building have slowed somewhat in most of the region, while rising rental rates and occupancies have boosted the multifamily market, and commercial real estate markets are reported to be tightening somewhat. Overall loan demand is said to be increasing modestly. Contacts report labor market tightness in a few parts of the region, and wages generally remain stable. Reports of pressures on prices of inputs continue to mount.

Consumer Spending: Reports from retailers were mixed, with some contacts noting double-digit growth and others saying that unseasonably warm weather slowed sales in the last half of September. Back-to-school sales were characterized as fair, with denim items continuing to be strong sellers. Generally, women's apparel sales are said to be improving while those for men's wear maintain a strong pace. Retailers note that traditional apparel lines are selling better than faddish ones. Merchants generally anticipate a strong holiday selling season. Currently, prices are remaining stable, but pressures are reported to be growing, and many retailers expect vendors to raise prices in the near future. Auto dealers report that sales are brisk, although many dealers continue to complain about inventory shortages of popular models.

Manufacturing: The District's manufacturing sector continued to expand, although most contacts said the pace of activity had slowed a bit from a month before. Although several

reported higher inventories of finished goods, most factory contacts were more optimistic about future prospects than before. Firms producing paper, pulp, chemicals, forest products, textiles, and aluminum products are currently increasing production at their plants. Shipbuilding and repair facilities report strengthening activity. Producers of heavy-duty trucks are running at capacity levels. Other sectors, however, are not so vibrant. The region's important apparel manufacturing sector continues to shrink with new layoff announcements, which producers attribute to foreign competition, corporate efficiency measures, and soft demand for certain products. Uncertainties surrounding the ongoing downsizing of defense manufacturers and cutbacks in the space industry are continuing to adversely affect central Florida.

Tourism and Business Travel: There are reports of signs of a turnaround along Florida's southeast coast. Advance winter bookings at major resorts are said to be up, and interest from Canadian and Latin American tourists has been increasing. Tourist, convention, and business travel is well above 1993 levels, according to reports from the rest of the region, and is providing an especially strong boost to the economies of New Orleans and Atlanta.

Construction: September home sales have moved below last year's strong level, according to District realtors. The fall-off in sales is attributed to rising mortgage rates which have squeezed some buyers out of the market and prompted others to wait and see. Even though home prices appear to have stabilized in most areas of the District, most realtors report that the market continues to be tight. Residential construction has slowed in much of the District with the exception of flood damaged areas that are experiencing a surge in construction.

Commercial and multifamily real estate contacts continue to report improving market conditions. Both occupancy and rental rates continue to rise within the multifamily market. New apartment developments are currently under construction in several cities whose markets are said to be tight enough to easily absorb the new space. Commercial realtors continue to report falling

SEVENTH DISTRICT--CHICAGO

Summary. Seventh District economic activity gained some upward momentum in recent months, with renewed strength in retail sales joining greater expansion in manufacturing output. Housing activity has slowed during 1994, but remains at relatively high levels. Commercial real estate markets strengthened further. District labor markets continued to firm up, but concerns over job security and heightened competition in the temporary help industry continued to dampen labor cost pressures. Large supplies have undermined farm commodity prices and will likely trim farm sector earnings and expenditures in the months ahead.

Retailing. Survey data and reports from large retailers suggest that retail sales advanced at an improved pace on a seasonally adjusted basis in recent months. Sales growth in the District has fallen more closely in line with the national average, but sales were relatively strong here during 1993. A regular survey of retailers in Illinois and northern Indiana showed some improvement in the most recent survey, after sales comparisons weakened during the second quarter and into the early stages of the third. A survey of independent retailers in Michigan showed a large majority anticipating greater sales gains in coming months.

One large national chain reported that sales growth improved in the first half of October on a seasonally adjusted basis, after some slowing in the summer. This contact noted that sales of appliances slowed around mid-year, then picked up again in recent months. Total inventories (for this retailer as well as its suppliers) are running in line with plan and moderately higher than last year. However, a higher turn rate and increased confidence in the purchasing department are expected to make the company's own inventory posture somewhat more aggressive in the months ahead. A manufacturer of consumer electronics also reported that inventory levels have been increasing, both at the company and among its dealers, even as inventory has been turning at a faster rate.

Real Estate/Construction. Housing activity in the region has trended sideways in recent months on a seasonally adjusted basis, although activity remains at relatively high levels. Recent reports showed new slowing in permit issuance for housing construction in Iowa (where gains held up relatively well through the first half of the year), and slower home sales in Illinois. One of the largest realtors in the District reported a slight upturn in transaction volume in August and September, after activity slowed during the second quarter and into July. This contact still believes that sales will soften further on a seasonally adjusted basis as the year comes to a close. Even so, "we are still showing good numbers, and there isn't too much grouching among the salespeople." An association of homebuilders reported that sales

vacancy rates and rising rental rates. Increasing demand for space in some areas is said to be bringing about some speculative building.

Financial Services: Banks noted flattening commercial loan demand, especially from larger companies, but healthy demand from small and medium-size companies. Commercial real estate lending was also strong and some felt there was too much money chasing deals in that area. Consumer loan demand was described as either flat or up modestly by most contacts. Auto lending is mixed, with some banks reporting demand as flat, and others noting a modest uptick. Home mortgage lending continues to slow in most areas of the District.

Wages and Prices: Contacts in some local area labor markets say that they are tightening, making it difficult for firms in the retail, service, and light industrial sectors to attract and retain employees. Reports of rising wages are becoming more numerous but are still limited to only a few parts of the region. The number of reports of price pressures continues to mount. A growing number of factory contacts expect finished goods prices to increase in the coming months. Price increases for lumber, paper, and other raw materials were reported.

and traffic continued to ease downward on a seasonally adjusted basis. This contact stated that members' expectations point to a further slowdown in 1995, "or perhaps some stabilization. 1995 should still be a good year, though, and we aren't complaining."

Commercial real estate markets continued to strengthen. A large real estate services company stated that the downtown Chicago office market "continues to move in the right direction," and the overall vacancy rate has fallen to its lowest level in over three years. This firm found stronger conditions in the suburban marketplace than the downtown area, with most of the surveyed areas showing record low vacancy rates. A large bank stated that industrial and commercial real estate markets in Chicago are showing "considerable strength, with signs of speculative activity arising for the first time in a long time." A large steel manufacturer noted that an increasing share of new construction projects seems to have a "hurry-up" quality, as firms authorize projects "and scramble to catch up" to meet tighter completion dates.

Manufacturing. District industrial output gained momentum in recent months, after expansion slowed during the summer. Production readings from the Chicago and Milwaukee purchasing managers' surveys remained quite vigorous during September, and the Detroit survey showed new strengthening. Surveys conducted in western Michigan have been depicting some of the strongest results in the District, and these surveys showed even greater momentum in late September.

Among key District industries, steel production moved higher on a seasonally adjusted basis in recent weeks in the region, after plant shutdowns for maintenance contributed to a greater slowdown in output than the seasonal norm late in the summer. One industry analyst stated that nearly all of the major markets for steel produced in the Midwest remain strong, including appliances, heavy equipment, and autos. This contact stated that producers' steel inventories are relatively low, partly because customers have demonstrated greater willingness to hold steel of their own accord. A large auto supplier reported that demand from transplant operations has shown recent renewed strengthening, joining continued strong sales to domestically based manufacturers. This firm expected continued moderate growth in 1995. The company has been adding capacity this year, and "only recently have we seen some stabilization in our ability to meet demand without using overtime." An association of home appliance manufacturers reported that the industry is headed for a record shipments year, topping its previous high in 1987. However, the association is expecting "some kind of a slowdown" in 1995. A number of large manufacturers noted greater momentum in exports to Europe, including producers of construction machinery, material handling equipment, and industrial automation controls.

Labor Markets. Seventh District labor markets continued to tighten, and reports of worker shortages seemed to grow somewhat more frequent. At the same time, few manufacturers or retailers reported significant new wage pressures in permanent positions. A regular survey of Wisconsin businesses showed a substantial, continuing majority planning to increase their employment. One large manufacturer recently began adding full-time workers to its operations in Milwaukee for the first time since 1978. Fully 95 percent of 100 senior executives of mid-sized companies surveyed recently in the Chicago area expect employment to remain stable or increase further, and this percentage has been on the rise consistently since the fourth quarter of 1993. Help-wanted advertising in the East North Central region fell back somewhat from July to August, according to the most recent Conference Board index, but only after especially strong gains in previous months, and the underlying trend continued to climb faster than the national average. A Chicago newspaper recently moved help wanted advertising to the front of its classified section, noting that demand climbed especially sharply in recent months, and the paper has increased its rates for help-wanted ad space.

A growing number of contacts reported difficulty finding skilled workers, but reports of tight labor markets are not universal, even in some of the strongest states in the District. One regional analyst stated that recent cutbacks by three significant employers in central Wisconsin have reinforced a continuing skepticism among workers that labor markets lack the strength and stability apparent in reported statistics. This contact stated that "many workers sense increased risk, and don't see a higher return." Temporary help companies have been reporting increased difficulty attracting employees for available positions, but heightened competition in the industry has held in check the prices these companies charge the ultimate employer. One large retailer stressed that the company has experienced no abnormal price pressures arising from labor costs, with base wage increases continuing to run below the increases seen in the late 1980s and early 1990s.

Agriculture. Large supplies have undermined farm commodity prices and will likely trim farm sector earnings and expenditures in the months ahead. The winding down of a record-breaking fall harvest, both in this District and nationwide, is straining grain storage and handling facilities and pushing corn and soybean prices to the lowest levels in several years. Likewise, livestock prices have retreated as updated reports show the record-setting pace in meat production will extend well into next year. Hog prices have fallen the most, down more than a fourth from last year and the lowest in fourteen years.

EIGHTH DISTRICT - ST. LOUIS

Summary

District firms continue to report expansions and new hirings. At the same time, plant closures and layoffs have dulled the momentum witnessed earlier this year. Residential construction activity is mixed, but new and existing home sales are still strong in most areas of the District. Business, real estate and consumer loans outstanding at large District banks have increased moderately in recent months. Record crops in many areas have buoyed District farmers after last year's poor harvest.

Manufacturing and Other Business Activity

District firms continue to report modest growth, although some firms are laying off workers and shutting down plants. Sales, for the most part, continue strong in many industries. Many contacts, particularly in the Memphis, northern Mississippi and eastern Arkansas areas, are reporting a shortage of qualified workers for both permanent and seasonal work.

One contact in the paper industry reports that the third quarter was the best since 1989, with capacity at about 96 percent. A contact in the heating and cooling industry reports a record year, with sales greatly surpassing last year's levels. This contact also noted that a slowdown in orders for the fourth quarter was larger than the normal seasonal decline. A farm equipment dealer states that new equipment sales have picked up very well over the past two months, while used equipment sales have dropped off somewhat. The poultry processing industry is entering Kentucky en masse; another firm announced plans to open a new plant, bringing the total to four within the past year. Makers of wood furniture in northeast Mississippi report that plants are operating at or above capacity, overtime is the norm, and plans for expansion are commonplace. An apparel manufacturer reports optimism about sales for the rest of the year given the current level of orders.

Some manufacturing firms in the southern part of the District report year-to-date sales increases of between 5 percent and 26 percent over last year. Firms throughout the District also report increases in employment levels. For example, a dry cleaning company will bring 300 new jobs into southern Indiana when it moves into refurbished Army facilities. An engine manufacturer will bring 600 jobs to central Missouri when its new plant opens next year. A maker of plumbing fixtures is building a new plant in western Tennessee and will hire at least 200 workers initially. Because of a new contract with a fast food chain, a poultry processor is adding 200 employees at its Missouri plant and will hire almost 500 in Kentucky. A maker of mobile homes that closed a plant in 1991 has reopened it because of high demand; the company has a 600- to 700-home backlog.

All the news is not positive, however, as layoffs and plant closings have also occurred. For example, a maker of tissues and other paper products closed its Memphis plant, eliminating 640 jobs. A maker of plastic products closed its Missouri plant, eliminating 200 positions. An Arkansas shoe company has placed all production employees on a four-day workweek in an attempt to avoid layoffs. A hydraulic pump manufacturer will lay off 175 workers when it closes early next year because of excess capacity.

Construction and Real Estate

Some softening of single-family residential construction, largely attributed to rising interest rates, is being reported in several areas of the District. Although single-family building permits are still up on a year-to-date basis, they were at or below their year-ago levels in July and August in both Louisville and Memphis. In St. Louis, permits were still above their year-ago levels in August and September, but the pace of activity is markedly slower than it was earlier in the year. Some pockets of strength still exist, however, as residential construction in northeast Mississippi, and in central and northwestern Arkansas continues at a strong pace. Even in areas of slowing construction, however, realtors still report fairly brisk sales of existing homes.

Banking and Finance

Total loans and leases at 11 large District banks rose 1.7 percent during the past two months, after declining 1.9 percent in the prior two months. Each category of loans showed growth during this most recent two-month period: Commercial and industrial (C&I) loans rose 1.7 percent, real estate loans were up 1.1 percent and consumer loans increased 3.2 percent. In the prior two-month period, C&I loans were down 0.9 percent, real estate loans had declined 3.6 percent and consumer loans were up a modest 1.3 percent.

Agriculture and Natural Resources

The fall harvest is reported as better-than-expected in many areas. Arkansas farmers, for example, expect to harvest a record rice crop, with milling quality generally reported as good to excellent. Similarly, Delta cotton farmers report that warm, dry weather in September has produced good yields, although recent rains may have diminished the quality of the crop somewhat. Corn and soybean yields are reported as above average in most areas, with some farmers reporting record yields. Even some fields in Missouri that were damaged in last year's floods have reportedly yielded unexpectedly good crops. Bumper crop prospects, however, have caused most grain prices to fall well below last year's levels. Despite low river levels in the southern parts of the District, primarily on the Mississippi, barge traffic has not been impaired. In fact, barge operators are expecting business to pick up because of the record fall harvests and the prospects of increased grain exports.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy continues to gain momentum. Construction continues strong. Manufacturers report continued good sales. Banks and financial service firms report excellent profits. Natural resource industries face favorable prices, and many mines and building board plants are operating near capacity. The 1994 crop is a record one in many areas and livestock numbers remain high. Vehicle sales are still the strongest force pulling the retail sector, but general merchandise sales are also robust. Summer tourism was excellent in most areas and some observers anticipate an active winter season.

Employment remains higher than year-earlier levels in all parts of the district and continues to grow. Unemployment rates are generally lower, particularly in metropolitan areas and in some cases are at their lowest level in two decades. Some firms report difficulty in finding skilled employees and reports of wage pressures are more frequent than in mid summer. Prices increases for steel, paper, plastics and other manufacturing inputs are reported, but prices for agricultural commodities and petroleum have eased.

Construction and Manufacturing

Construction remains a robust sector across the district. In Minneapolis-St. Paul, new residential permits for August were down somewhat from year-earlier levels, but industry officials still categorize building activity as strong. "Because 1993 was such a fantastic year for the single-family residential construction industry, 1994 has to work that much harder to beat it," said one building association official. Builders in metropolitan areas of North Dakota and South Dakota also continue to report strong business.

Commercial and heavy construction is running ahead of 1993's hearty pace. Publicly let contracts in Minnesota and the Dakotas for September were 4 percent above 1993 levels. Contracts for the first three quarters of 1994 were 6 percent above year-earlier figures and 18 percent above 1992.

Employment numbers illustrate the strength of the two-year construction boom in the western part of the district. In North Dakota, South Dakota and Montana, August 1994 construction employment stood 11 percent, 16 percent and 19 percent, respectively, above the same month in 1992.

Manufacturers report good orders, particularly for farm machinery and components for the auto industry. Many publicly-traded manufacturing firms announced strong revenue increases over 1993. One Minnesota-based utility noted that electrical use by industry grew from August 1993 to August 1994, at twice the five-year average rate.

Banking and financial services

Banks reportedly face excellent business conditions. Two large, publicly traded, Minneapolis-based banks announced record earnings for the third quarter. Several bankers responding to a survey of agricultural credit conditions also noted that their banks' earnings were solid in spite of continuing financial stress for some farmers. Two large insurance firms based in Minnesota also announced favorable earnings. However one securities firm reportedly suffered substantial losses in derivatives positions held earlier in 1994.

Natural resource industries

Favorable prices are spurring production in natural resource industries. After a long period in the doldrums, paper producers face strong demand for many grades, and sales volumes and prices have both increased. Prices remain very favorable for most metals, and mines are generally running at capacity. In August, Minnesota mines employed 22 percent more workers than two years previously. Oil and gas drilling rig counts have recovered from earlier in the year and are about at year-earlier levels, though oil production in the district continues to decline. Lumber and building board output in Minnesota, Wisconsin and Michigan remains strong, in contrast to South Dakota and Montana where cutting restrictions have sapped production.

Agriculture

The 1994 harvest is excellent in all Ninth District states and is setting records in many areas. Spring wheat production in Montana nosed out the previous record set in 1993. Sugar yields are very favorable in Minnesota and North Dakota. Record corn and soybean harvests are expected in South Dakota, Minnesota and Wisconsin. Some potato producers suffered losses from excess rain in early fall, but yields are good overall as are those of edible beans.

Wheat prices have recovered somewhat from lows set in late summer, but corn prices have declined to the lowest level in three years. In spite of the bumper crop, comments from a Minneapolis Fed third quarter survey of farm bankers indicate that low crop prices will limit farm household and capital spending.

Livestock numbers remain very high and prices continued to erode into early October. Farmers are expected to cut output of hogs by mid-1995 in response to current low prices, but for now pork supplies are more than adequate and retail pork prices are expected to decline even further in the next two months.

Consumer spending and tourism

Vehicle sales continue as the locomotive pulling retail sales. Pickup trucks are especially popular; September new registrations of all trucks in Montana ran 32 percent above the same month in 1993. New

registrations of cars and light trucks in South Dakota for the year through September were over 4 percent above year-earlier figures. In Minnesota, the increase for the same period was nearly 5 percent.

Mall managers and a regional department store chain report good sales. Minneapolis-based national retailers announced very good sales for September, with the best results in mid-priced and discount stores but less satisfactory sales in traditional department stores. Directors from western areas of the district report very favorable conditions for retailers, but in Michigan's Upper Peninsula "sales are so-so."

However the summer tourist season in the Upper Peninsula is described as "excellent, and the fall and winter are expected to be very good also." Wisconsin tourism continues a strong year with seasonally high occupancy rates at resorts this fall. A Minnesota tourism industry association described 1994 as the best season in five years. Major attractions in South Dakota report double digit increases for September. Although Canadian traffic is slower, tourism numbers in Montana remain at last year's pace.

Employment, wages and prices

Labor market indicators sketch a robust economy in the Ninth District. With the exception of Michigan's Upper Peninsula, August unemployment rates in most metropolitan areas were at 4 percent or less, with the dominant Minneapolis-St. Paul MSA at 2.9 percent. Montana's 3.6 percent rate was the lowest in 24 years. Overall employment numbers are 2.5 percent to 3.5 percent above year-earlier levels. News media, directors and industry sources indicate that some firms have difficulty securing enough workers with desired skills.

Evidence of upward pressure on wages and prices is emerging. Directors and news media note that some employers have raised wages in attempts to secure needed workers in tightening labor markets. A major credit card processor in South Dakota announced a 6.7 percent increase in compensation for 2,100 non-managerial employees. A St. Paul commercial building contractor said that compensation costs for skilled building trades will increase by 8 percent or more for 1995. But directors continue to report some new labor agreements with modest wage increases. Moreover, a Minneapolis-St. Paul personnel managers association poll of its members projected pay increases of 4 percent in 1995.

Several sources report price increases. Steel prices for construction and manufacturing have risen by as much as 10 percent since January and some steel users anticipate further increases. Plastic laminates and particle board for cabinetry have increased by 8 percent. Other manufacturing inputs including plastics and non-ferrous metals also have increased in price. Prices of some grades of office paper have increased by over 20 percent. But petroleum costs have declined from mid-summer levels and all prices of virtually all agricultural commodities are below year-earlier levels.

during the next few months. Firms are generally satisfied with current inventory levels, but a few plan to reduce inventories in the months ahead. Most firms are operating at high levels of capacity, and a few report shortages of skilled labor. Exporting firms report a slight increase in sales and expect sales to grow through the rest of the year.

Energy. Energy activity in the district has begun its usual fourth quarter surge despite soft crude oil and natural gas prices. In September, the average number of drilling rigs in the district surged, while crude oil prices fell for the second straight month and natural gas prices hit a two-year low. In the first two weeks of October, the district rig count continued to climb but remained below its year-ago level.

Housing: Housing starts and sales of new homes are generally down over the last month. Most respondents expect starts and sales of new homes to remain stable in the near future. Prices of new homes are stable to slightly lower than last month. Delivery times and prices of materials are mostly unchanged, although some builders report problems obtaining concrete. Mortgage demand continues to decline with higher interest rates. Lenders expect demand to remain sluggish in the months ahead.

Agriculture. The district's corn and soybean harvest is ahead of schedule. Agricultural bankers report above-average yields with some record yields reported in Nebraska. Winter wheat planing is nearly complete. Although dry conditions forced farmers to cut back planted acreage in Oklahoma and Colorado, recent rains have substantially improved the prospects for the district's wheat crop. The earlier dry spell hurt pasture conditions in the district, causing many cow/calf operators to sell calves

TENTH DISTRICT-KANSAS CITY

Overview. The Tenth District economy continues to grow at a healthy pace. Retail sales increased over the past month and manufacturers continue to operate at high levels of capacity. District energy activity is improving somewhat. In the farm sector, conditions are generally good for crop producers but somewhat less favorable for cattle producers. Meanwhile, residential construction and sales of new homes continue to slow. Retail prices remain stable, while the prices of manufacturers' inputs are up from a year ago.

Retail Sales. Retailers report sales increases over both the past year and the past month. Sales remain strongest in apparel and home furnishings. Prices have been stable since last year and are expected to remain steady for the rest of this year. Most respondents expect sales to continue to rise over the next few months. While most retailers are satisfied with current inventory levels or are expanding inventories for the holiday season, a few are trimming inventories.

Auto dealers report that sales have generally been stable over the past month but are concerned about a lack of supply. Most dealers are optimistic that sales will increase in the near future as new models become more widely available. Financing is generally available for both dealers and consumers.

Manufacturing. Purchasing agents report input prices are higher than a year ago, and some expect input prices to increase further in the next few months. Several agents report longer lead times in obtaining materials but do not expect major bottlenecks

earlier than normal. The large number of cattle entering feedlots this fall suggests cattle prices may not strengthen in the near future.

Banking. Loan demand at most reporting banks rose last month, due to rising demand for commercial and industrial loans, consumer loans, and commercial real estate loans. Demand for home equity loans and construction loans was flat to up. Changes in demand for home mortgages and agricultural loans were mixed. Loan-deposit ratios were up at most banks over the last month, while security investments were flat to down.

Only one of the responding banks raised its prime rate last month, but about half of the banks expect to raise it in the near term. Most banks increased consumer lending rates last month and expect to raise them slightly in the near term. None of the respondents changed its lending standards over the past month.

About half of the banks reported no change in deposits last month, while the other half were divided between increases and decreases. Large CDs, IRAs, and Keogh Accounts were flat to up, while NOW accounts and MMDAs were flat to down. Changes in demand deposits and small time and savings deposits were mixed.

ELEVENTH DISTRICT--DALLAS

Economic activity accelerated in September and October, with stronger demand for manufactured products and business services. Contacts in several sectors reported higher prices, and there were scattered reports of hiring problems particularly in large metropolitan areas. Retail sales, construction and real estate activity increased modestly. Growth in the supply of bank credit continued to outpace demand, creating intense competition by banks for credit worthy borrowers. Energy activity accelerated but levels remained below a year ago. Bad weather hurt agricultural production.

Manufacturing orders accelerated with strong demand for electronics, chemicals, paper products and packaging. Orders increased modestly for energy-related and construction-related products. Several producers raised selling prices, mostly in response to higher costs. Sales of electronics were strong. Inventories were below desired levels at some semiconductor companies, and capacity constraints were limiting sales. Electronics prices were still falling but at a slower rate. Sales of boxes, packaging and paper products were up strongly, and several contacts said inventories were low. Input costs were higher, particularly for new paper products as opposed to recycled products, and selling prices had increased. Demand for construction-related products such as concrete, glass and lumber was up slightly. Automobile and parts manufacturers continued to report strong demand. Metals producers said sales were unchanged, although higher costs pushed up selling prices. Demand for apparel products held steady, while contract garment finishing remained weak. Some contacts said higher cotton prices raised costs, although only a

portion is being passed along to customers. Demand for food products was stronger. One contact said new nutritional labelling caused shortages of packaging materials and higher costs. Demand for oil services and machinery picked up, while chemical sales and prices continued to rise. Capacity expansions are planned for ethylene and other chemicals. Environmental work was slower because of uncertainty regarding EPA rules. Demand for gasoline has been strong but several refineries reduced production because of falling prices. Gasoline prices fell because refiners had to empty and clean gasoline storage and transportation facilities before production switches to reformulated fuel. Refiners expect distribution problems and spot shortages while switching to reformulated products.

Demand for business services increased, with strong growth at temporary, transportation, accounting and consulting firms. Demand for litigation services was softer, but business legal activity was higher, particularly for regulation, real estate, mergers and acquisitions. Prices were rising at accounting, advertising and temporary service firms. Wages had increased at accounting and temporary service firms, and temporary and trucking firms reported difficulty hiring. Mergers and downsizing reduced employment at several hospitals, and price increases were slowing.

Retail sales were up modestly. Apparel stores continued to report very weak sales, although demand remained strong for hard lines such as computers, electronics and home improvement products. Overall, selling prices continued to fall, but at a slower rate. Automobile sales accelerated, and dealers said insufficient inventory of some models had limited sales.

Bankers reported that their willingness to supply credit continues to

outpace demand, resulting in intense competition for borrowers. Lending rose at a 7 to 12 percent annual rate at most banks. Real estate lending was expanding, particularly at large banks, although residential mortgage activity remained weak. Mortgage bankers are reducing employment levels and looking for ways to increase productivity.

Construction and real estate activity continued to increase. Demand for commercial space was strong, particularly for retail and industrial. New homebuilding picked up but remained below the March peak. Office markets tightened, except in downtown Dallas and Houston. Apartment construction accelerated, and contacts were concerned about overbuilding. Labor shortages were reported for plumbers and electricians, and higher wages were pushing up costs. Rents were unchanged or up slightly for most types of real estate.

Energy activity picked up strongly, although levels were lower than last year. Oil demand was strong, and prices stayed between \$17 and \$18 per barrel despite political uncertainties in Iraq. On-shore drilling was about 3 percent below last year's levels, but drilling activity was strong in the Gulf of Mexico where the number of working rigs is at the highest level since 1990. Maintenance on existing oil wells was up substantially. Natural gas prices continued to be weak, with futures prices between \$1.45 and \$1.70 per Mcf since mid-September. Recently, prices have stayed in the middle of that range. Several natural gas producers shut in capacity to wait for better prices.

Bad weather hurt agricultural production. Dry weather stressed crops, and reduced production estimates for corn, sorghum and peanuts. The cotton harvest is better than expected, however. The September Texas All Farm Products Index of Prices Received was 3.2 percent lower than a year ago.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

It is increasingly apparent that the California economy is growing modestly, and in the remainder of the Twelfth District economic conditions generally remain strong. However, reports suggest that economic growth in Idaho and Utah is moderating relative to the earlier robust pace. Among sectors, retail sales are strong, and conditions in the service industry generally remain solid. Manufacturing production remains strong outside of the aerospace industry. Agricultural conditions are mixed, with weak prices reported for several important District crops. Real estate and construction activity remains at high levels in most parts of the District, but expectations for future construction levels have been marked down. Loan demand generally is increasing.

Business Sentiment

The survey of Twelfth District business leaders finds they generally remain optimistic about real activity, but they expect a pickup in inflation over the next four quarters. About two-thirds of the respondents expect inflation to worsen, and most of the remaining one-third expect no further progress on inflation next year. About two-thirds of the respondents expect national growth to exceed 2 1/2 percent during the next four quarters, a higher fraction than in September. Regional growth over the next four quarters is expected to exceed the national average in Arizona, Oregon, and the intermountain states, match the national average in Washington, and be only slightly weaker than the nation in California.

Retail Trade and Services

Generally solid retail and service sector conditions continue to be reported in most

parts of the District. In California, Idaho, and Oregon, motor vehicle sales are reported to be strong, creating shortages of some new models, especially full-size domestic trucks. In Southern California, retail sales in August were up 1.8 percent from a year earlier. Reports from Reno, Nevada and the San Francisco Bay Area are cautiously optimistic about holiday season retail sales.

Tourism is strong or improving in most of the District. Hotel occupancy in Salt Lake City remains high. In Southern California, hotel industry conditions have improved significantly but remain below pre-recession levels.

Conditions are mixed among other service industries. In Oregon, business services employment growth has been strong. In the tri-cities area of eastern Washington, economic activity is being held down by cost-cutting at firms under contract to the Department of Energy. In some areas, sales of hospital suppliers are weak, as continued mergers have slowed major purchasing decisions at hospitals.

Labor markets are reported to be tight in many areas, especially for jobs in the retail and service sectors. In several District states, openings for entry level jobs in food stores are remaining vacant at current wages; food store wages are expected to rise 4 to 5 percent in 1995, after rising 3 to 3 1/2 percent in 1994. In Idaho, wages for experienced computer programmers have increased sharply in the past year.

Manufacturing

District manufacturing production is recovering further, although additional restructuring is holding down employment in some areas. In the Pacific Northwest, heavy-duty truck manufacturing is expanding, but commercial aerospace production has not yet

rebounded. Pulp, paper, and newsprint orders are strong, and inventories are declining. In Oregon, further increases in several large high technology projects have been announced. In Idaho, the elimination of 600 jobs by one large high technology manufacturer is expected to be partly offset by expansion at another manufacturing firm.

Agriculture and Resource-Related Industries

Agricultural production remains strong, but farm income is being held down by falling prices for some crops. Prices are reported weak for potatoes, apples, barley, and corn. In eastern Oregon and Washington, wheat yields are good and prices are high. California specialty crop producers report continued strong export demand and note that packaging and ocean freight costs are increasing. Cattle prices remain low, and the cattle feeding industry is reported to have lost a substantial amount of equity in the last several years. Cattle producers in eastern Oregon report a lack of irrigation water. Without sufficient rainfall, drought conditions in 1995 are predicted to be severe in California, Idaho, Oregon, and Washington.

Real Estate and Construction

Real estate activity generally remains at high levels despite some slowing in parts of the District. In the intermountain states, home sales have slowed, especially at the higher end of the market; sales price increases are expected to moderate in 1995. In Idaho, apartment vacancy rates are reported to be increasing. In the Pacific Northwest, some slowing of Washington home sales was reported, but otherwise activity remains robust. Within California, home prices are reported below year-earlier levels in most areas.

Construction activity remains at a high level in many parts of the District, but growth has moderated in some areas. After earlier strong gains, housing starts slowed in Utah, and

commercial construction activity slowed in Idaho. In Los Angeles as a whole, housing permits are up sharply, but construction of affordable housing remains weak. Increases in building activity continue in Arizona and Oregon. Respondents from Idaho, Oregon, and Utah noted a shortage of skilled construction workers. Construction wages and costs of raw materials are reported to be increasing rapidly.

Financial Institutions

District banking conditions generally are strong, with solid loan demand in most areas. At large California banks, business loan demand has picked up, but consumer lending remains sluggish. Bank lending policies are reported to be increasingly aggressive. In most geographic areas, employment at banks is expected to remain weak, owing to consolidations and other cost-cutting efforts. Wage increases at banks are expected to be moderate, except for some entry level positions.