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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

June 1995

SUMMARY OF COMMENTARY ON
CURRENT ECONOMIC CONDITIONS BY
FEDERAL RESERVE DISTRICT

JUNE 1995

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SUMMARY¹

Economic activity remains at a high level across much of the nation, although there are indications of some softening in many reports from the 12 Federal Reserve districts. Activity in interest-sensitive sectors generally remains well below year-earlier levels and continues to decline in some areas. There are regional variations, with strongest growth reported in the center of the country, but generally less favorable conditions on the East and West coasts. Manufacturers of capital goods and electronics continue to report good sales. But producers of some consumer items, automobiles and their components, and building materials report slowing demand. Residential building remains slower than last year, but strength in commercial and other non-residential construction is taking up the slack in some areas. Developments in energy and mining are favorable, but agriculture has been hurt by unfavorable weather and livestock prices. Loan demand is largely flat, with some declines reported in lending rates. Most districts report that non-auto retail sales improved in May from earlier in the year. Auto sales remain depressed, with a few indications of an upturn. Tourism is mixed, with some districts reporting slow business due to unfavorable weather. Labor markets generally remain tight, but little wage pressure is evident. Similarly, price increases for products such as paper and semiconductors have been partially offset by price declines for building materials.

Manufacturing

Conditions for manufacturers vary across the country. At the extremes, Philadelphia and Richmond report notable declines, while Boston, Minneapolis and Kansas City describe continued strength. Other districts fall somewhere in between. There are some common threads running through several district reports. Orders for high-tech items appear stronger than for traditional products such as apparel or home furnishings. Chicago notes that a manufacturer of industrial automation equipment has an order “backlog of Biblical proportions,” while Dallas and Atlanta describe rising orders for electronic products, semiconductors and telecommunications equipment. San Francisco

¹ Prepared at the Federal Reserve Bank of Minneapolis based on information collected before June 12, 1995. 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.

reports increased capacity utilization and lengthening lead times for makers of electronics components.

Demand for capital items seems more sustained than for durable consumer goods, particularly for Chicago and Cleveland. Several districts report slowing output of vehicles and their components and a decrease in orders for building materials. Reports on consumer items are mixed; several districts, especially Boston, see weakness in this area. Atlanta notes specific declines in carpet, furniture and some apparel categories. Apparel is also down for St. Louis, but footwear is stable and furniture strong. Within this overall pattern for the manufacturing sector, several districts cite export orders as one source of strength.

Construction and Real Estate

Residential construction remains below year-earlier levels in all districts and a few report continuing declines in single-family home activity. But a few others, including Dallas and San Francisco, report gains in home building, and several districts report some degree of optimism on the part of builders with regard to the 1995 construction season. Moreover, multifamily construction activity is buoying some regions, especially St. Louis and San Francisco. Furthermore, in several districts, notably Cleveland, Minneapolis, Dallas and San Francisco, commercial and other non-residential construction is strong, in some cases fully offsetting any weakness in the residential sector.

Leasing and sales of existing housing follows a similar checkered pattern. Eastern cities such as Boston, New York and Washington reportedly have weakening rental markets for housing and commercial property, as does Chicago. But Atlanta and San Francisco report strong rental markets in some areas.

Agriculture

Conditions are poor for farmers in several districts, largely because of adverse weather. For Chicago, Kansas City, Minneapolis and St. Louis, the problem is too much rain. Corn, soybean and wheat planting has been severely delayed across most of the Midwest and much of the Great Plains, and yield expectations are dropping. Missouri,

North Dakota and South Dakota are particularly hard hit. Dallas and Kansas City report that winter wheat is in poor condition due to unfavorable weather earlier in the year.

Bad weather is also hurting agriculture in the Richmond and Dallas districts, but here the problem is drought and unseasonable heat. The Carolinas and southern Texas are particularly hard hit. Livestock prices remain depressed. Kansas City reports higher than normal levels of farm loan refinancing, largely as a result of losses in the livestock industry.

Cleveland, which describes producers as expecting excellent harvests, is one bright spot in the agricultural sector. San Francisco, which reports strong growth in exports of fruit and other agricultural products, is another.

In other natural resource sectors, Dallas and Minneapolis report increased oil and gas activity, but Kansas City notes continuation of a half-year decline in drilling. For Dallas, the increase is concentrated offshore, while for Minneapolis production drilling into a new formation has led to a minor boom in North Dakota and Montana. Minneapolis also reports high production in iron and non-ferrous metal mining, and good business for paper mills and loggers in spite of a price slump for lumber producers.

Financial Institutions and Credit

Most districts report flat to slight increases in loan demand. One exception is San Francisco where growth is strong throughout the district, with improvements in real estate and construction lending in California. Loan demand softened somewhat in Cleveland, although new mortgage lending and mortgage refinancing have improved with declining rates. Loan demand is mixed in Atlanta, with moderate to strong activity in commercial real estate, industrial and general business lending, and slower activity in consumer lending, especially auto loans.

Loan rates decreased slightly in several districts. Average loan rates declined at about 60 percent of small and mid-size banks in the New York district. In Richmond rates fell slightly for consumer and commercial loans and fell sharply for mortgage loans. Kansas City reports little change in rates.

Consumer Spending and Tourism

General retail sales improved slightly in May compared to April in most districts. Exceptions include New York and Minneapolis where sales show moderate growth and Richmond, St. Louis and San Francisco where sales are sluggish. In Boston sales are up 1 percent to 10 percent over year-earlier levels, though retailers view the second half with uncertainty. Computers and telecommunications equipment are selling well in Cleveland, while home improvement products are moving slowly. A large retailer in Chicago reports that sales of appliances and home electronics exceeded average for May and June, while apparel sales also strengthened.

Auto sales are slow in many districts. Sales are described as significantly lower than year-earlier levels in Cleveland and Dallas, while waning in St. Louis. Kansas City dealers report flat or declining sales for the past month. Sales continue somewhat below last year's pace in Minneapolis, but there are signs of an upturn. Chicago dealers report that sales are up for May and early June, compared to April, and they expect a small gain in the latter half of 1995.

Tourism is mixed across districts. Activity for May was above April and year-earlier levels in Richmond. Tourism in Florida is spotty, but growing in the rest of the Atlanta district. Cold weather has slowed activity in Minneapolis, while San Francisco service industries report continued strong demand.

Labor Markets

Labor markets remain tight. Employment growth remains robust, Minneapolis notes, and several New York small business executives relate difficulty in attracting and retaining skilled workers. Many areas of the St. Louis district are still experiencing tight labor markets, particular for entry-level positions, and have relaxed hiring standards. One-third of manufacturing firms surveyed by Boston have current openings or hiring plans. Help-wanted advertising and demand for temporary workers are strong in the Chicago district. Philadelphia, however, notes that area manufacturers plan to trim payrolls.

Wages and Prices

Notwithstanding taut labor markets, wage pressures are muted. Reports of wage increases remain scattered, according to Kansas City, and recent wage agreements specify increases in the 2 percent to 3 percent range in the Minneapolis district. Wage increases remain generally stable, states Atlanta. Moreover, although district labor markets remain tight, Chicago reports that a slowing of expansion in the demand for labor may have eased wage pressures in recent months.

While prices continue to increase, the rate of increase has recently diminished, according to Chicago, Cleveland, Dallas, Kansas City, Philadelphia and Richmond. Some of this easing relates to the letup in home-building as Atlanta, Dallas, Minneapolis and San Francisco report a softening in building material prices. Atlanta's apparel and carpet producers are having trouble passing on higher material prices to consumers. Only 10 percent of manufacturers are raising prices on their own products, according to a Philadelphia survey. Semiconductor prices, however, have accelerated, states Dallas, while Boston, Kansas City and Minneapolis report price increases for packaging materials. But according to Dallas, manufacturers of paper and corrugated boxes said that selling prices have flattened, which may signal easing cost pressures in coming months.

FIRST DISTRICT - BOSTON

Economic activity continues to expand in the First District, although signs of a slowdown are apparent. New England retailers are slightly more upbeat than six weeks ago. Manufacturing contacts report ongoing year-over-year gains in sales. A few have experienced significant slowdowns in incoming orders in recent weeks; the majority have not. The residential real estate market has slowed.

Retail

First District retail sales have varied considerably in April and May. Most contacts from discount and specialty chains cite somewhat encouraging sales gains of 1 to 10 percent during this period compared to year-earlier levels. A slight upturn in apparel sales is also welcome news. By contrast, lumber companies and others selling home building materials report disappointing results, particularly in May, with sales down 1 to 4 percent from year-ago levels. These contacts attribute the May slump in activity to high mortgage rates in this year's first quarter. Retail respondents generally view the second half of 1995 with uncertainty, anticipating some fits and starts in consumer spending, and sales growth of 0 to 5 percent.

Contacts cite few increases in vendor prices on merchandise; however, they report significant increases in the prices of retailer supplies, such as paper and plastic. An exception is lumber prices, reported to have declined by more than 20 percent in the past two months. Most respondents note an increase in 1995 profits, despite varied success at improving gross margins. Contacts generally anticipate little growth in employment and capital spending in 1995 and wage gains of less than 4 percent.

Manufacturing

Most First District manufacturers contacted in early June continue to report good growth in shipments, with year-over-year gains ranging from 5 to 16 percent. Almost half of the respondents see no evidence that demand is weakening; among the rest, two-thirds note signs of modest deceleration, one-third has experienced a significant slowdown in incoming business in recent weeks. Contacts observing signs of weakness tend to serve customers in the auto or other consumer-goods industries. Several respondents mentioned that the dollar depreciation is supporting sales overseas.

Views on input costs are mixed, with some contacts reporting that materials prices are stabilizing but others seeing no moderation in rates of increase. In particular, firms using oil-based and paper products (resin, polyester, pulp, paper and packaging materials) note little or no deceleration. Most contacts have achieved selling price increases on selected products, with the increases ranging from 1 to 5 percent. A minority have unchanged prices or across-the-board gains.

Most contacts report that employment levels are little changed from a year ago; however, two have had recent layoffs, and three cite job gains ranging up to 12 percent. While a few firms mentioned that overtime hours are down, no additional layoffs are planned. By contrast, one-third of the firms have current openings or hiring plans.

First District manufacturers surveyed generally expect capital spending to equal or exceed last year's pace. The increases cited range from 10 to 100 percent. Roughly half of the contacts mentioned the need to ease capacity constraints.

Looking ahead, most contacts describe themselves as wavering between hopeful optimism and watchful concern. They contrast their own

order books with media reports and are keeping a wary eye on the auto industry, Congress, the stock market and corporate earnings. Some foresee further deceleration in growth; no one expects a recession.

Residential Real Estate

The residential real estate market continues to show signs of cooling off, with brokers in all parts of the region noting a decline in spring sales versus the previous year. The inventory of unsold houses is reported to be rising across New England, even in previously strong markets in suburban Boston. However, respondents in Maine and Rhode Island note that traffic has increased in the last 6 weeks and attribute this improvement to the recent decline in interest rates. Other contacts expect the drop in rates to stimulate activity in the near term as consumers recognize the new lower rates.

New construction is reported to be significantly slower, as many builders struggle to sell "spec" houses built in anticipation of a stronger spring market. One Massachusetts builder noted that this was his worst spring in a number of years and that layoffs were imminent.

Nonbank Financial Services

Investment management firms report increased assets under management in the last six weeks and since the beginning of the year. The increases are due to rising market value of the assets and strong sales of domestic equity funds. Bond sales are still in net liquidation, despite recent bond-market gains. Municipal bond funds have been particularly hard hit because of concerns about the possible enactment of a flat tax and lingering concerns about Orange County. Most respondents report stable employment levels this year.

SECOND DISTRICT -- NEW YORK

Reports on District economic conditions remain mixed, but somewhat more positive than in recent months. Retail sales were significantly stronger in May than in the preceding two months. Discussions with small business executives suggest that output of small manufacturing firms remains strong, spurred in part by exports. However, purchasing managers in the Buffalo and New York metropolitan areas report that production has declined. Manhattan's commercial real estate market weakened considerably during April as leasing activity slowed. Finally, aggregate loan demand has remained steady over the past two months, although average loan rates have declined.

Consumer Spending

District retail sales strengthened significantly in May, following disappointing results in March and April. Although May's sales gains varied from +2 to +11 percent on a year-over-year basis, most results were clustered at the upper end of the range. Moreover, fully half the contacts reported that May sales were above plan, while only one contact reported below-plan results. Strong May sales left inventories at or slightly above desired levels by month's end.

Sales of women's apparel strengthened during May, while Mother's Day gift items -- including cosmetics, fragrances, and jewelry -- sold well. Furniture sales remained weak, however, and several retailers noted that cool, rainy weather had slowed sales of lawn and garden products. Finally, several contacts noted that continuing increases in costs had led to modest increases in prices.

Construction and Real Estate

Midtown Manhattan's commercial real estate market weakened dramatically during April. Leasing activity -- which peaked in October and remained above 1.3 million

square feet a month between November and March -- declined to just 815,000 square feet. Lower levels of leasing activity coupled with return of space to the market caused the supply of commercial space available in Midtown to rise.

Other Business Activity

In contrast to the sharp decline in U.S. household employment, employment in both New York State and New Jersey rose during May. New York's employment increase was attributable to a decline in the number of unemployed; as a result, New York's unemployment rate fell 0.5 percentage points in May to 6.3 percent. New Jersey's rise in employment was accompanied by a slightly more rapid increase in the labor force, causing the unemployment rate to edge up to 6.5 percent.

Two major corporate changes will have an immediate impact on employment in the Buffalo area. The expansion of Ingram Micro, Inc. -- a wholesale distributor of computer products -- has just created 600 new jobs, while the closing of Occidental Chemical Corporation's production facility in North Tonawanda eliminated 150 positions at the end of May.

Purchasing managers in the Buffalo and New York metropolitan areas report that production declined in May; in the downstate area, weakness in the non-manufacturing sector more than offset strength in manufacturing. Managers in both regions noted continued increases in commodity prices.

Small Businesses

In recent discussions, executives of small manufacturing firms expressed a more positive view of business conditions in the Second District. Two-thirds of those interviewed reported that production increased in May and early June, with several

attributing increases in output and new orders to dollar-driven increases in exports. Nearly all of the executives noted that commodity prices -- particularly for paper products -- had continued to rise. Finally, several of the executives reported difficulty in attracting and retaining skilled labor.

Financial Developments

Over the past two months, aggregate loan demand has remained steady at three-fifths of the small and midsized banks surveyed in the District; demand is evenly divided between higher or lower at the remaining banks. The residential mortgage and the commercial and industrial loan segments have the highest levels of loan generation, with about one-third of the banks reporting higher demand, and nearly half reporting stable demand in each of these categories. Though refinancing activity is steady or lower at almost all of the banks, some of the senior loan officers surveyed expect an increase in the near future.

Average loan rates have decreased at about sixty percent of the participating banks, and are the same at close to forty percent. The decrease in rates is most widespread in the residential mortgage market, occurring at about seventy percent of the banks. All of those surveyed are just as willing or more willing to lend compared to two months ago. Almost all of the banks have maintained their credit standards, and delinquency rates are stable or lower at over eighty percent of the banks.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District showed some signs of slowing in late May and early June, according to comments from business contacts. Manufacturers continued to report declining demand for their products, and they were scaling back production. Retailers generally reported that sales were running at a steady pace, but below plan, and many were implementing unscheduled price reductions to keep inventories from rising to problem levels. Auto dealers also said that sales were slow and that inventories were above desired levels. Comments from bankers indicated that loan demand remained soft. While consumer lending has edged up, business loan volumes have been slipping. On balance, bankers indicated that mortgage lending has not picked up despite the recent decline in interest rates.

Third District businesses contacted for this report foresee little change in conditions in the second half of the year. Manufacturers expect a slight pickup in orders and shipments, on balance, but they plan to trim payrolls and cut back capital spending nonetheless. Retailers do not anticipate a significant rebound in sales during the seasonally slow summer months, but some auto dealers said vehicle sales could pick up by the fall if auto financing costs declined. Most of the bankers surveyed do not expect any strengthening in overall credit demand, and they see no signs that competitive pressure for new lending is abating.

MANUFACTURING

Third District manufacturers continued to report declining activity in early June. While about half of the firms contacted were operating at a steady pace, about one-third were

experiencing softening demand for their products--twice the number that reported increased business. In most of the major industrial sectors in the District, orders and shipments were declining. Manufacturing employment was also trending down in early June: while three-fourths of the firms polled were maintaining steady staffing levels, one-fourth were reducing work forces.

Industrial prices in the region continued to move up, according to manufacturing contacts, although reports of increases appeared to be somewhat less widespread than they had been earlier in the year. Nearly one-third of the firms commenting on prices said input costs continued to increase while about two-thirds said they were steady. For their own products, only one in ten of the firms surveyed were raising prices; three-fourths were holding prices constant.

Third District manufacturers are nearly evenly divided among those expecting further slowing, those expecting a leveling off at current production rates, and those anticipating a rebound in activity. However, firms expecting increased orders for their products slightly outnumber those predicting a further drop. Nonetheless, Third District manufacturers plan further reductions in employment, on balance, and some scaling back of capital spending during the second half of the year.

RETAIL

Most of the Third District retailers contacted in early June said sales have been running at a steady pace in recent weeks, but many also said the sales rate was lower than they had expected. Some merchants also noted that the pace of sales at discount stores, while steady recently, had declined from the pace set earlier in the year, even after accounting for seasonal factors. Several merchants said inventories going into June were above planned levels and price reductions were being made to reduce stocks. Some store executives said additional promotional

efforts may be instituted in an effort to keep sales from slipping further during the summer. Other indications of slackening consumer demand were reports that a major store chain would be closing some stores in the District and that another chain was reducing hours for its sales workers.

Auto dealers in the District generally reported a slow pace of sales for May and early June, and they said inventories were moving up. Dealers were reducing their forecasts for the full-year level of sales, although some said they thought sales could pick up by the fall if auto financing costs declined.

FINANCE

Third District bankers contacted in early June generally said loan demand remained soft. Comments from bankers indicated that overall lending was steady to down slightly. Consumer lending was on the rise, but commercial and industrial lending has been falling in recent weeks. While some banks reported slight increases in mortgage activity, on balance mortgage lending in the District did not appear to be increasing despite the recent decline in interest rates.

Third District bankers do not see any indications that credit demand might pick up soon. Most of the bankers surveyed said competition for business loans continues to be strong and that net interest margins remain narrow. Furthermore, those banks that have been able to increase consumer lending recently said they have been making strong promotional efforts to gain the additional loan volume.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

The growth rate of business activity in the District has slowed, with many industries indicating production levels about even with the first quarter. Construction activity is mixed: Residential construction remains mostly flat, but the District continues to see growth in commercial construction, especially in Ohio. The region's agricultural producers are expecting excellent harvests, and some downward pressure on crop prices has already occurred.

Unemployment has risen in the region, but is still low relative to the national average. Despite scattered reports of labor shortages, wage pressures remain generally moderate.

Manufacturing

Although District manufacturers have seen a slowing in the growth rate of production and new orders over the past few months, they still note generally high production levels.

Excluding makers of transportation equipment, capital goods producers are continuing to enjoy strong production and orders, albeit at a somewhat more moderate pace. Heavy truck production has weakened, with new orders down by about half since March, and some cancellations of earlier orders have occurred. On balance, the region's automakers have seen lower-than-expected new vehicle sales and associated inventory buildups, and several assembly plants in Ohio have cut production. Auto suppliers have

also scaled back production plans in the face of a noticeable drop in orders. While there has been a sharp falloff in auto exports to Mexico, shipments of auto parts to Canada appear to be holding firm. Other export markets continue to strengthen, particularly in Europe, presumably reflecting both the rise in foreign currency prices and a strengthening in foreign economies.

No widespread manufacturing layoffs have been reported. To date, production slowdowns have been accommodated with a reduction in the workweek, mostly from fewer overtime hours. Nevertheless, the industrial sector is currently operating at a slightly-more-than-typical work schedule.

Industrial price pressures have eased in the past several months, although some commodities, including aluminum, paper, plastic resins, and stainless steel, are still reported to be in short supply, and their prices continue to move sharply higher. Energy and copper prices are noticeably lower.

Retailing

District retailers report mixed results. Retail spending gains in the region seem to be somewhat better than along the East Coast, but below levels in the Central and Southeastern U.S. Nondurable goods are generally selling better than durables, although the market for consumer electronics is reportedly booming, including computers and telecommunications equipment. Demand for home improvement products has been very soft, and while apparel sales have strengthened in the the past few months, the gains have been limited mostly to large chain stores.

Retail inventories are generally described as a little heavier than desired, but there are no reports of any substantive imbalance.

Auto Sales

District auto dealers report that May and early June sales were a little better than April's dismal performance. On a year-over-year basis, second-quarter sales are coming in much lower than in 1994. Shortages of popular car models that were noted in the previous District report have vanished. Dealers also report lower-than-usual profit margins for the spring market, and more intense price competition. New vehicle loan rates are hovering in the 10 percent range for a 60-month term, although a few dealers have noted an easing in auto loan rates recently.

District auto dealers say that inventories are high at current sales rates. Local dealers report a 70 days' supply--about 10 days less than the national average. In fact, District dealers say that current inventory levels would be appropriate in a normal market.

Banking and Credit

Loan demand in the District has softened somewhat, although new mortgage lending and mortgage refinancing have improved with the recent decline in rates.

Consumer lending patterns have been mixed, with auto credit off substantially and revolving credit somewhat stronger. Commercial lending activity is still growing, although not in all regions or at all institutions. Some of the commercial credit expansion originates from higher inventories, but some reflects borrowing for plant expansion. Although delinquency rates remain very low, several District bankers are concerned about a further decline in credit standards.

FIFTH DISTRICT - RICHMOND

Overview: The rate of economic expansion in the Fifth District appears to have decreased in late April and May. Retailers, service producers, and manufacturers reported that growth decreased in their industries. Likewise, government forecasters reported somewhat slower growth in state revenues. Contacts at area ports and in the tourism industry reported experiencing increased activity. Temporary employment agencies saw increased demand for temporary workers. Dry, hot weather continued to hamper some agricultural production, but conditions improved somewhat.

Retail Trade: Indicators of retail activity growth decreased in May from their April levels, according to a mail survey of District retailers. The indexes of sales, employment, inventories, big-ticket sales, and shopper traffic decreased. The index of wages increased, however. Survey respondents indicated that retail prices rose 0.6 percent in May. They foresaw slower growth in the demand for their products and an increase of 1.1 percent in their prices during the next six months.

Service Production: Indicators of service-sector activity growth declined slightly in May from their April levels, according to a District mail survey. The revenues index decreased, and the employment and wage indexes changed little. Service producers reported that prices rose 0.3 percent in May. They expected slower growth in the demand for their services and an increase of 0.9 percent in their prices during the next six months.

Manufacturing: Most indicators of factory growth declined in May from their April levels, according to a mail survey of District manufacturers. The new orders, backlog, and workweek indexes declined, and the shipments and employment indexes changed little. Manufacturers were less optimistic about the growth in shipments and in the workweek during the next six months, but they expected higher employment growth than they had expected in

April; they also anticipated increased exports. Finished goods and raw materials prices rose more slowly in May than in April, and at rates below the general inflation rate. Respondents expected their prices to rise more slowly during the next six months than they had expected in April.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in May was above that of April and a year ago. Contacts reported above-normal bookings from both vacationers and business groups. Contacts expected better-than-normal business and some price increases during the next six months.

Port Activity: Representatives at District ports indicated that export levels in April were higher than those in March and a year ago; import trends were mixed. Contacts expected that, during the next six months, exports would increase faster than imports.

Temporary Employment: A telephone survey of temporary employment agencies indicated that the demand for temporary workers strengthened in May compared to April and a year ago. Demand was particularly strong for skilled computer operators and customer service employees. Contacts expected demand during the next six months to be greater than usual. Wages rose faster than the general price level did during the past year, although contacts expected wages to stabilize during the next six months.

Finance: District financial institutions reported that credit conditions were mixed during the past six weeks. Interest rates fell slightly for consumer and commercial loans and fell sharply for mortgage loans. Demand increased moderately for mortgage loans and fell slightly for consumer and commercial loans. Mortgage lenders across the District reported an increase in mortgage refinancing inquiries and applications in May.

Residential Real Estate: According to a telephone survey of District real estate agents and homebuilders, residential real estate activity was unchanged in late April and May.

Buyer traffic, home sales, and housing starts changed little over the period, except in South Carolina, where home sales increased. District building permits fell. Contacts reported that lower-priced homes were selling better than expensive homes. Home prices were steady across the District, although the price of lumber decreased.

Commercial Real Estate: District contacts reported that commercial real estate activity changed little in late April and May. Leasing activity was unchanged except in Charlotte, N.C., where it increased, and in Washington, D.C., where it decreased. Vacancy rates declined slightly in the Carolinas but were stable elsewhere. Commercial rents changed little except in Charlotte, N.C., and Columbia, S.C., where they inched upward. The availability of prime office space tightened somewhat, and contacts reported that build-to-suit office and retail construction changed little in most District cities. Contacts reported some speculative warehouse construction in Greenville, S.C.

State Revenues: State government forecasters said that tax collections grew somewhat more slowly in May. Real revenue growth was slightly lower in the District of Columbia and Maryland; steady in North Carolina, South Carolina, and Virginia; and slightly higher in West Virginia.

Agriculture: District agricultural conditions improved in recent weeks, although weather-related problems persisted in some areas, according to agricultural analysts. Spring planting and small-grain harvesting progressed at a normal pace in most areas. In South Carolina, however, and to a lesser extent in North Carolina, above-normal temperatures and below-normal rainfall continued to hamper spring planting and to reduce small-grain yields. Contacts also reported below-normal hay yields in some areas of the District.

SIXTH DISTRICT - ATLANTA

Overview: According to contacts, growth continues unevenly in the Southeast economy with some sectors continuing to slow and others rebounding. Retailers generally reported that sales increased during May, and inventories were in good shape. Most manufacturers report little change in production. Tourism remains mixed, but the outlook for this summer is positive. Both commercial and multifamily construction markets continue to improve, while the recent decline in mortgage rates is reported to have reinvigorated single-family housing markets in some parts of the region. Reports on prices and wages suggest that pressures remain moderate.

Consumer Spending: Retailers throughout the District report that sales were up during May, and met or exceeded their expectations. At the same time, most merchants said that they are comfortable with current inventory levels. Sales of home-related products continued to slow with the exception of New Orleans where retailers found it difficult to keep up with demand for home products after recent flooding. Retailers generally anticipate significant sales growth this summer compared with last year.

Manufacturing: Many industrial contacts reported little change in output during the past month. For those reporting changes, increases matched decreases. Export demand for paper remains strong, offsetting declines in the domestic market. New parts production facilities for the District's expanding number of vehicle assembly plants continue to be announced. Steel producers are expanding operations and modernizing, and several telecommunications equipment manufacturers report an upsurge in orders. In contrast, competitive pressures continue to force carpet manufacturers to scale back with new announcements of layoffs. Sales have been slowing at low-end furniture and bedding manufacturers, and they are paring hours worked and near-term forecasts. Although apparel production is steady for some products such as blue jeans, demand

has fallen off for others such as hosiery and women's clothing. Slowing dealer orders have reduced heavy machinery production. Output for packagers is below last year's levels and is expected to decrease further. Some producers of lumber products note a slowdown in demand. Large employers such as NASA continue to downsize, adversely impacting a myriad of small suppliers.

Tourism and Business Travel: Although contacts characterize Florida tourism as spotty, tourism and business travel are growing in the rest of the region. In south Florida, tourism is rebounding and destination resorts are reporting healthy advance bookings for conventions. Airport arrivals have slowed and hotel occupancy has declined in central Florida. Travel agents report, however, that families are arranging more expensive vacations. Northern Florida resorts reported record-breaking Memorial Day crowds. A new theme park and several outlet malls are stimulating tourism in Mississippi, and hotel occupancy is above last year levels in Nashville and New Orleans.

Construction: According to most real estate contacts, single-family home sales and construction increased during May. Realtors attribute the increase in housing demand to a dramatic decline in mortgage rates; however, several contacts noted that some buyers are holding off on home purchases because they anticipate rates will go even lower. Both builders and realtors remain optimistic and expect to maintain their current pace through the summer.

Commercial and multifamily real estate contacts continue to report strengthening markets. In several parts of the District builders continue to report that strong demand is driving apartment construction. The majority of commercial construction remains build-to-suit; although very little unleased space is available. Realtors anticipate that both commercial and multifamily markets will continue to strengthen during 1995.

Financial Services: Bankers report that overall loan demand is mixed. Most contacts said there was moderate to strong activity in commercial, industrial, and commercial real estate lending. Consumer loan demand, on the other hand, was characterized as soft. Several bankers noted that auto loan demand had slowed significantly. They said that so far lower mortgage rates had not led to significantly greater mortgage lending.

Wages and Prices: Wage increases remain generally stable. Skilled construction workers are in such high demand in some areas that employers are recruiting outside their states. Although there are some instances of pressures on input prices, most contacts report that these are not being passed on. At the same time, some construction materials suppliers have recently noted a softening of prices. Apparel and carpet producers are having trouble passing on higher material prices to the consumer. Other contacts report that material prices charged by paper, plastics, tire, and chemical producers continue to escalate.

SEVENTH DISTRICT--CHICAGO

Summary. District economic conditions improved in May and early June, as consumer spending strengthened and input price pressures eased in the manufacturing sector. Inventory paring prompted retrenchment in District industrial output growth in recent months, while capital equipment producers' reports remained stronger than those from manufacturers of consumer goods. Retail sales growth strengthened in May and early June, after bad weather and some other special factors cut into sales in March and early April. Lower mortgage interest rates have yet to spark a widespread rebound in home sales and construction, but they have certainly buoyed optimism in this sector. District labor markets remained tight, but slowing growth in labor demand eased wage pressures in some areas.

Manufacturing. Inventory paring prompted retrenchment in District industrial output growth in recent months. Purchasing managers' surveys in the region depicted substantial easing in production and new orders growth during March, April, and May. In turn, the price components of these surveys pointed to diminished input price pressures. Survey respondents' comments and reports from other District contacts pointed to a smoother flow of goods in the pipeline. However, even after its recent decline, the prices-paid component of the Chicago purchasing managers' survey remained at a relatively high level (in line with the late 1980s).

District steel production flattened out at high levels through the early part of the second quarter, then declined relatively sharply in late May and early June -- largely due to an explosion and downtime at a large blast furnace in Gary. Orders for steel from auto and appliance producers have eased in recent months, according to a large steel producer, while other markets remain relatively strong. A large appliance manufacturer stated that shipments remain below year-earlier levels, but have improved recently. Appliance industry data suggest shipments increased slightly in April and the first four weeks of May on a seasonally adjusted basis. A large manufacturer of housing products stated that shipments are running ahead of orders, but the company is building inventory even as backlogs decline. "We think things could turn up in the latter half of the year, and we don't want to get caught short."

Capital equipment producers' reports generally remained stronger than those from manufacturers of consumer goods. A large manufacturer of machine tools characterized orders from the automotive industry as "stable;" with no significant recent cancellations. Manufacturers

of construction equipment continued to report strong sales gains. A heavy-duty truck manufacturer reported that orders fell below year-earlier levels after a stronger-than-expected first quarter, but a price increase and tighter order cancellation policies prompted some of the recent pullback. A manufacturer of industrial automation equipment reported a slight decline in orders growth in April and May, but noted that "we've still got a backlog of biblical proportions."

Retail Sales. Retail sales growth improved in the District in May and early June. A large retailer reported a stronger sales gain during May than in April, in spite of a more difficult year-over-year comparison. In turn, sales gains in early June were running above May's pace. Growth in this retailer's sales of appliances and home electronics exceeded the company-wide average in May and June, while apparel sales strengthened as well. Another large retailer stated that appliance sales increased along normal seasonal trends and in line with expectations during May, after falling below expectations in March and April. A large superstore chain also reported faster sales gains in May and early June than earlier in the year. Improved weather boosted sales of seasonal items, although this contact noted that these sales remain below targets set earlier in the year. A large apparel retailer stated that sales growth improved in May, particularly in areas where poor weather curtailed seasonal improvement in spring apparel sales in March and April. "We are cautiously optimistic," this contact noted. "We aren't optimistic, we are cautiously optimistic." A large car rental firm stated that business in the region strengthened significantly during May, after adjusting for normal seasonal trends. Sales tax revenues in one large District state posted a year-over-year increase in May twice the rate of the increase for the year-to-date.

A majority of surveyed District auto dealers reported stronger sales in May and early June than in April, after discounting normal seasonal trends, while a slimmer majority expected sales to strengthen from the first half of the year to the second half. Most speaker presentations prepared for our recent auto industry outlook conference were cautiously optimistic, and the consensus forecast prepared for the meeting implied a small gain for new vehicle sales in the latter half of 1995.

Housing. Reports from realtors and homebuilders did not yield evidence of a widespread upturn in housing, but lower mortgage interest rates have certainly buoyed optimism in the sector. A minority of surveyed realtors stated that lower rates boosted homebuying interest in recent weeks. The latest survey conducted by a state association of realtors showed a significant year-

over-year decline in existing home sales in the first quarter of 1995. Home prices have been relatively stable this year, according to an association leader, and seem to remain on an uptrend. Homebuilding permits continued to decline in the Chicago area through April, and the leader of a large association of homebuilders stated that declining mortgage interest rates "haven't really sparked all that much new activity, yet." Nonetheless, most housing industry contacts still expected better results in the latter half of the year.

Labor Markets. District labor markets remain tight, but slowing expansion in the demand for labor may have eased wage pressures in recent months. A survey by a large temporary help company showed a flattening out in the rate of expansion in Midwest firms' hiring plans in the second quarter. However, this measure remained at its highest level since the survey began in 1977. Expansion in hiring plans among Midwest durable goods manufacturers has abated thus far in 1995, but these plans remained stronger than those of other Midwest employers as well as their national counterparts. Help-wanted advertising in the East North Central region posted an increase from the first quarter to April. A District newspaper reported that its help-wanted advertising section continued to expand strongly in May, albeit at a slightly slower rate than earlier in the year. "Its still very robust here," this contact stated. Another large newspaper reported that help-wanted advertising revenues posted a larger increase in May than the substantial increase for the year-to-date. An index of help-wanted advertising slipped in Western Michigan, but remained at a relatively high level. Several temporary help companies reported that expansion in demand for temporary workers slowed, but remained positive. At the same time, the supply of workers continued to tighten. One temporary help firm stated that its placements could grow faster were the supply of labor to increase, even if expansion in demand were to continue to slow. Prices charged client companies are still expected to increase, largely due to the rising expense of attracting workers. The regional manager of one large temporary help company stated that unfilled orders "are still running at a high level, and we're only just starting to enter into our busy period." Automotive-related placements slowed in Indiana, according to this contact, but total unfilled orders are still at high levels.

VIII-1

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to grow, albeit at a slower pace. Residential construction activity continues to slow, although multifamily and commercial construction have increased recently. District bankers report little change in loan demand and supply conditions. Record rainfall has produced severe flooding along major rivers in the District, affecting thousands of acres of farmland and causing further delays in planting spring crops.

Manufacturing and Other Business Activity

Contacts continue to report mixed signals about economic activity, with many more noting a slowdown than in prior periods. Despite the slowing, reports of tight labor markets are common. Although many contacts expect a continued slowing in the economy, most do not foresee a recession in the near future.

Contacts describe a general slowdown in the national and regional economies, although the regional slowdown is more spotty. Overnight package delivery firms and interstate trucking companies report a slowing in orders. Suppliers to the auto industry have felt the effects of waning auto demand; one such supplier reports the company's first decline in sales in more than a year. Contacts in the apparel industry report that apparel sales are down and do not show any sign of bouncing back soon; however, shoe sales are stable. Competitive pressures have caused firms in this industry to obtain most of their product overseas to control costs. In addition, by managing their clients' inventories, these firms have held prices down and improved overall industry efficiency. Generally, international markets appear to be the strongest areas of growth.

Contacts at public utilities report that the pace of new residential installations has fallen because of the construction slowdown; meanwhile, the pace of industrial installations for small businesses has been steady. A chemical company that depends largely on the auto and construction industries reports strong sales in recent months, with plants operating almost at capacity; this company's plastics division has been operating above capacity. This contact expects the recent slowdowns in auto production to dampen sales, though.

Some District industries continue to report growth. Mobile home manufacturers around the District report sharp increases in sales and employment. In addition, they report increases in starting wages to improve recruitment and retention of new employees. Furniture makers in northeast Mississippi are operating at capacity with plans to expand. A contact whose firm makes prefabricated metal buildings also reports rapidly growing sales.

Many areas of the District are still experiencing tight labor markets, particularly for entry-level positions. Some contacts still report difficulty finding qualified applicants. One firm reports a 60 percent turnover rate for new employees, and many firms have resorted to hiring those applicants with "good attitudes," that is, those who are willing to be trained. Some firms have been substituting capital—especially computers—for labor as a way to increase productivity. In some instances, though, this action has added to hiring pressures because the new technology raises the job's qualifications, and firms are finding that many entry-level applicants are computer-shy.

Real Estate and Construction

Most parts of the District are still experiencing declines in the number of residential construction permits issued, owing mostly to last year's interest rates hikes. Home sales in most areas are also lagging behind last year's levels. In general, there continues to be a need for more "starter" home construction (less than \$100,000) in many parts of the District.

“Trade-up” homes, especially those in the mid-\$100,000 to \$200,000 range, are not moving well. On the other hand, permits for multifamily buildings are on the rise in many areas, especially for apartment complexes, and commercial construction is continuing to show a moderate gain.

Banking and Finance

District bankers report little change in loan demand or supply conditions over the last several months. A number of banks have eased terms on commercial loans for small, mid-sized and large borrowers in response to intense competition in some markets. Loan demand is reported to be steady, although a number of institutions have noted a pickup in residential mortgage demand in recent weeks.

Agriculture and Natural Resources

Heavy rains during May have slowed the pace of corn and soybean planting in Missouri, Illinois, Indiana and parts of Kentucky and have caused flooding in many areas. Planting that should have been completed by mid- to late-May was reported as only half to two-thirds complete by the first of June. In some areas, further delays may force farmers to plant soybeans instead of corn. The heavy rains have also caused substantial flooding along the Mississippi, Missouri and Illinois rivers. Reports suggest that several thousand acres have been flooded because of levee breaks. The amount of flooded farmland has been especially acute in Arkansas, with 100,000 to 200,000 acres affected. The flooding also closed the port of St. Louis for two weeks, stranding more than 1,000 barges and several million bushels of grain. Cotton prices in the Memphis market continue to trade above \$1 per pound, as demand for cotton remains strong.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy shows few signs of slackening from the brisk pace reported previously. Manufacturing is strong. Oil drilling is experiencing a resurgence, mines are looking for ways to expand output and paper mills are running full out. The construction sector as a whole is robust, with commercial and heavy building projects more than offsetting declines in residential work. General merchandise sales are improved from earlier in the year. Vehicle sales remain below year-earlier levels, but some sources note an upturn in sales. Employment growth remains robust and employers report continuing problems in finding employees. Few substantial wage or price increases are reported other than for paper products and some industrial inputs.

Adverse weather is responsible for problems in two sectors. Excess rainfall and cool weather severely delayed planting in many areas. Some loss of potential yield appears likely, particularly in the Dakotas. Moreover, the same wet, cool weather has dampened business in most tourist regions.

Manufacturing

“We are as busy as we ever have been,” says one Minneapolis small manufacturer, “and so is everyone else that I talk to.” That statement generally characterizes conditions for manufacturers across the district, and is especially true for Minneapolis-St. Paul, Minn., Fargo, N.D., and Sioux Falls, S.D. Orders remain strong and the most pressing problem for many firms is securing skilled employees.

Natural resource industries

Energy and the other non-agricultural natural resource sectors are very strong. New drilling technology and a recently discovered oil formation have caused an upswing in drilling in North Dakota. Leasing, exploration and drilling activities in that state are at their highest levels in a decade. Gas and oil drilling is also strong in Montana. The non-ferrous metal mining sector continues to respond to strong prices by producing at capacity. An open-pit gold mine in South Dakota proposed doubling in size, while a new copper refinery is being constructed adjacent to a mine in Michigan’s Upper Peninsula. Iron mines around Lake Superior continue to expect 1995 shipments to be the strongest in several years.

Favorable prices have paper mills running at capacity and looking for ways to eliminate bottlenecks. Lumber prices are down in response to slowing of residential construction for the nation as a whole, but loggers remain busy. Plants producing oriented-strand board and other plywood substitutes are also busy.

Construction and real estate

“The construction industry will continue strong, although the boom in residential and commercial construction will be replaced by industrial and public works projects,” says a Montana business forecaster. That aptly summarizes the construction sector for the Ninth District as a whole. There is some slackening of residential work from the effervescent levels reached a year ago, but non-residential projects are so strong that overall activity is up slightly. In Minnesota, for example, total construction employment in April was up 1 percent over year-earlier levels in spite of a 25 percent decline in single-family permits over the same period. For the Minneapolis-St. Paul metropolitan area, the employment increase in the same period was nearly 9 percent as increased commercial work more than compensates for the drop in home building. Moreover, in early June, one builders association representative reported that declining mortgage interest rates are causing increased interest in home building. Large, publicly let projects in Minnesota and the Dakotas for the year through April are even with 1994 and well above levels of the previous three years.

Agriculture

Persistent rain, flooding and excessive soil moisture are widespread problems for crop producers. Spring planting was delayed by two weeks or more for all major crops in all district states except Montana. Large areas of eastern North Dakota and South Dakota are still unplanted. While weather conditions improved in early June, planting delays were so severe and so widespread that some yield loss can be expected. For example, as of June 4, only 55 percent of South Dakota’s corn was planted compared to a five-year average of 91 percent. The growing season in this region is such that corn planted after the first week in June is usually ensiled as cattle forage, but seldom produces marketable grain. In the livestock sector, hog and cattle numbers remain high and prices low.

Consumer spending and tourism

“Our retail sales continue to be very strong,” reports the CEO of a firm with department stores across the Ninth District. Across the region, sales of general merchandise apparently have improved since the preceding report. Some mall managers describe a recent pickup in traffic after a slump earlier in the year, and national chains based in Minneapolis report improved sales.

Vehicle sales continue somewhat below levels that prevailed a year ago. In North Dakota, South Dakota and Minnesota new registrations for the year through May are about 10 percent below year-earlier levels. But there may be some upturn. While South Dakota’s year-to-date totals continue to lag 1994, new registrations for the month of May were up 11 percent from year-earlier levels. Some dealers and association representatives confirm some strengthening of sales, particularly for pickups and sport-utility vehicles,

A cold, wet spring has dampened tourism in many parts of the Ninth District. Tourism in the Upper Peninsula of Michigan decreased during May from a year ago due to poor weather and the Canadian exchange rate, according to tourist officials. In South Dakota, visitations to major outdoor attractions dropped about 10 percent. On a brighter note, an official in Duluth, Minn., reports a 7 percent increase for May.

Employment, wages and prices

“State economy still churning out new jobs,” was a headline in a recent Montana newspaper that could be used to characterize the Ninth District as a whole. Employment levels are generally 2.5 percent to 3 percent above a year ago. Unemployment rates in most important labor market areas range from less than 2 percent to 4.5 percent. Many firms continue to report difficulty in securing both skilled and entry level workers.

With respect to wages and prices, reports are mixed. Paper products continue to increase in price, and there are reports of magazine publishers switching to cheaper grades. Some manufacturers report increases in prices for steel and plastic components. But a builders association noted that building materials prices, especially lumber, have dropped dramatically. Reports on wage trends are mixed. Many employers report they have raised entry-level wages substantially in order to secure needed workers. But others report new wage agreements with increases of 2 percent to 3 percent.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy grew at a moderately strong pace over the past month. Retail activity improved in most parts of the region. Manufacturing activity remained generally strong across the district, although some signs of slowing emerged. In other sectors, homebuilding activity eased slightly, energy activity slowed, and heavy rains dimmed prospects for district crop producers. Manufacturers continue to report increases in materials prices, but prices of finished goods have been stable and wage pressures remain subdued.

Retail Sales. Most retailers report sales increased last month from the previous month and were generally running above year-ago sales. Several retailers report strong sales in apparel and household goods. Most respondents expect sales to grow steadily throughout the remainder of the year. Despite this optimistic outlook, many retailers are trimming inventories. Auto dealers report flat or declining sales over the past month, citing bad weather and higher financing costs as the main causes. Most dealers expect sales to increase during the summer months.

Manufacturing. Most manufacturers continued to operate at high levels of capacity last month, although some signs of slowing were evident. Backlogs of orders fell at plants across the region. Respondents generally report no difficulty in obtaining materials and do not expect supply problems in the coming months. Most manufacturers are satisfied with current inventory levels, although some are trimming stocks.

Energy. District energy activity slowed in May, despite an uptick in natural gas

prices and crude oil prices above year-ago levels. The average number of drilling rigs operating in the district fell slightly, resuming a six-month decline after pausing in April. Some industry observers suggest, however, that activity in the district's energy industry may pick up if the current forecast for higher natural gas prices holds true.

Housing. Builders report housing starts fell slightly last month, due mainly to bad weather across the region. Housing starts also remain below their year-ago level. Some builders report sales of new homes remained stable over the past month but were below their year-ago pace. Building materials were readily available with no delays. With mortgage rates declining, lenders expect moderate growth in mortgage demand during the coming months.

Banking. Loans increased slightly at district banks last month. Most respondents report gains in commercial real estate loans, home equity loans, and agricultural loans. Demand for consumer loans was constant, while demand for commercial and industrial loans, construction loans, and home mortgages was mixed. Loan-deposit ratios were up over the last month, and security investments were mostly down.

None of the respondents changed their prime rate last month, and only one expects to change it in the near term. Almost all respondent banks report no change in consumer lending rates, and few expect to change rates in the near future. Lending standards were unchanged at all banks.

While more than half of the banks report an overall decrease in deposits, changes were mixed across various types of deposits. Large CD, IRA, and Keogh accounts rose slightly, while demand deposits and NOW accounts slipped. Changes in MMDAs and

small time and savings deposits were mixed.

Agriculture. Inclement weather has eroded prospects for district crop production. Winter wheat yields in much of the district are expected to be well below normal due to last spring's freezing temperatures, recent heavy rains, and developing disease problems. Heavy rains have also delayed the planting of the district's corn and soybean crops.

Rising feed prices and low livestock prices have hurt the profit outlook for district livestock producers. As a result, some large-scale pork producers have delayed expansion plans, and some small-scale producers are leaving the industry. Despite weak cattle prices, few district cattle ranchers have reduced the size of their herds.

District bankers report an increase in the number of farm loans refinanced this year, following last year's losses in the livestock industry. While little if any improvement is expected in district farm incomes this year, bankers indicate that most farm borrowers remain in solid financial condition.

Prices and wages. Manufacturers continue to report widespread increases in materials prices. Several manufacturers report increases in prices for packaging materials. Labor markets remain tight in many parts of the district, but reports of wage increases remain scattered. A late-April survey of manufacturers across the district showed that price increases for finished goods were much less widespread than earlier in the year. Retailers continue to report stable prices and expect prices to remain steady over the next several months.

ELEVENTH DISTRICT--DALLAS

Economic activity remained fairly strong in May and June, but there were some further signs since the last survey that growth may be slowing. Manufacturing orders remained at high levels, but contacts in some manufacturing industries said demand had moderated recently. In addition, transportation contacts said cargo volume had fallen since the last Beige Book. Retailers reported a slight pickup in sales in late May, although sales were still weak at stores near the Texas-Mexico border. On a more positive note, demand for business services continued to increase, with no slowdown in sight. Contacts in the construction industry said that commercial construction continued to rise and that home sales had risen in May and June as mortgage rates declined. Bankers reported steady loan demand. Energy contacts said that drilling had improved in the Gulf of Mexico. Agricultural conditions are generally good, but drought continued to hamper agricultural production in some areas of the Eleventh District.

Price and wage pressures seem to have subsided in the last six weeks. The notable exception was in the semiconductor industry, where contacts said low supplies led to higher selling prices. Although some manufacturing contacts said that high prices for packaging had raised costs, manufacturers of paper and corrugated boxes said that selling prices had stopped rising. Manufacturers of construction-related products said prices had softened because of slower homebuilding in the first quarter. In the service-producing industries, retailers said that apparel discounting was widespread, and fees for business services were stable after rising earlier in the year. Crude oil prices were lower in May and June after moving above \$20 per barrel in April, and natural gas prices were flat.

Eleventh District **manufacturing** demand remained at high levels, but there were some signs

that growth may be slowing. Corrugated box and paper manufacturers said demand remains very high, but that orders had flattened in the past few months, which may signal a slowing in the growth of overall manufacturing shipments. Similarly, respondents in construction-related manufacturing industries said that while demand related to commercial construction remained strong, orders for lumber and cement had slowed as fewer homes were constructed in the first quarter of 1995. In addition, glass producers noted a decline in orders stemming from lower auto sales. Demand for electronic products continued to increase, however. Semiconductor manufacturers said that orders were rising strongly and that a lack of capacity was putting pressure on selling prices. Apparel sales were steady, and contacts expected demand to remain at current levels through the rest of the year because of slower growth in retail sales. Demand for food products was flat. Respondents in the petrochemicals industry said that demand had eased slightly, but that high prices were still providing very strong profits. A sharp increase in gasoline prices from April through May provided improved margins for refiners, after one of the worst quarters in the history of the refining business. Demand for oil field machinery remained flat despite a pickup in drilling in the Gulf of Mexico.

Respondents at **business service firms**, such as temporary employment agencies, accounting and consulting firms and legal firms, said demand continued to rise. Sources of increased demand included real estate transactions, mergers and acquisitions and high technology manufacturing. Hiring increased, and the outlook for the next several months was optimistic. Despite the strong demand, competition kept prices flat. Respondents in the **transportation services** industry said that a slowdown in economic activity and Mexico's peso crisis had caused demand to fall in the last six weeks. Nevertheless, some contacts said they were starting to see a slight pickup in shipments from Texas to Mexico.

Retailers reported a slight pickup in sales in late May, although sales continue to grow at a slower pace than last year. Selling prices were very competitive, with contacts reporting no change in

price for most products and continued discounting for apparel. Sales remained weak at stores along the Mexican border. **Auto sales** remained flat in May and June, and were well below year-ago levels.

District **bankers** reported steady loan demand. Construction loan demand remained strong, primarily because of warehouse and plant construction. Although demand for new residential mortgages was slightly weaker, refinancing was slightly stronger. Continued competition between banks and other lenders for business and commercial and industrial loans squeezed margins.

Construction activity remained strong. Rising demand for warehouse and retail space kept the level of nonresidential construction high. In addition, there were several reports of new office construction, something that has not been seen since the real estate bust of the mid-1980s. Homebuilders said that sales were up in May and June after declining in the first quarter, mostly a result of lower mortgage interest rates. Homebuilders have revised their outlooks upwards but still expect 1995 sales to be below 1994 levels.

Energy respondents said that drilling activity in the Gulf of Mexico had improved, with both the number of rigs under contract and the number of active rigs rising. After moving above \$20 per barrel in April, crude oil prices fell to \$18.69 on May 26th on news that a refinery strike in Brazil had ended. Crude prices have since rebounded to about \$19 per barrel. Natural gas prices remained relatively flat.

Agricultural conditions were rated as mostly good, with the exception of the wheat crop which was rated as fair to poor. Drought continued to hamper production in South Texas, greatly reducing the amount of forage available to cattle. Dry conditions have also stressed crops, and irrigation is heavy although the lack of rainfall has led to pumping limits on the Edwards Aquifer. Texas farmers received higher prices for most crops in May, although livestock prices continued to decline and are now 14 percent below last year's level.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

The pace of economic growth in the Twelfth District continued to be slow in the second quarter. Retail sales were sluggish, especially for automobiles. Single-family home construction remained below 1994 levels in most areas. Manufacturers of building materials reported that the decline in home building caused weaker sales and an increase in inventories. In contrast, firms in several other manufacturing industries, such as metals and electronics, reported continued strong demand and tight capacity. Tourism continues to be a source of strength in the District. Agricultural exports generally are strong, despite sluggish sales to Mexico. Loan growth is reported strong throughout the District, with an improvement in real estate and construction lending in California.

Business Sentiment

Twelfth District business leaders expect continued moderation in the pace of national economic growth over the next year. About three-fifths of survey respondents project national output to grow at its long-run historical average during the next four quarters, while about one-third expect output growth to slow even more. No survey respondents expect a recession during the next four quarters. Business leaders in Arizona, Nevada, Oregon, and Utah expect growth in their regions to outpace the national average; in Idaho growth is expected to slow to the national pace; and, in California and Washington growth is expected to be slightly slower than the nation.

Retail Trade and Services

District retailers report weak sales at automobile dealers and food stores, but note some recent strengthening in sales at department stores. Department store sales are reported to have improved in May after remaining weak through April. Among sectors, automobile sales showed the steepest declines. In Idaho, new car sales in May were down 9 percent from a year earlier, causing a rise in inventories and an increase in the use of rebates. Auto sales in the Puget Sound area are reported to have declined in each of the last two quarters. The recent increase in U.S. tariffs on Japanese luxury cars is causing concern, particularly in California where these cars make up 3.4 percent of total automobile sales, compared with 1.4 percent for the nation. Food store sales have slowed since January, and food price increases at the retail level remain modest despite larger increases in wholesale prices.

District service industries report continued strong demand. In a national survey of travel agents, California cities held 4 of the top 11 spots in terms of advance summer vacation bookings. In Las Vegas, the rapid growth in tourist activity tapered off slightly in March, most likely because of severe weather in California. Convention attendance and air passenger traffic continued to increase in March, but auto traffic from California declined.

Manufacturing

District manufacturing activity remains mixed, with weakness in the aerospace and lumber industries offset by strength in other sectors. Aluminum sales and metals prices continue at high levels, although reports suggest possible price discounting in the second half of 1995. Electronic components manufacturers report increased capacity utilization and lengthening delivery lead times. Lumber prices are down sharply from last year's levels, as

sales slow and inventories build. Exports of wood products to Japan remain strong, however.

Agriculture and Resource-Related Industries

District agricultural producers report generally strong export growth, although sales to Mexico remain weak, and concern over a trade war with Japan has increased. Japan reportedly purchases a quarter of California's overall agricultural exports and a larger share of some individual commodities. Japan purchased 80 percent of this year's California cherry crop at record prices. The high prices also benefited cherry producers in Washington. Washington apple exports to Mexico are reported down 50 percent from last year's pace, but sales appear to have improved recently.

Real Estate and Construction

Single-family residential construction has weakened in most areas. Building permits are reported well below year-earlier levels in Idaho, Nevada, Utah, and the Puget Sound area. In California, home building remains at a low level, and home prices are still below year-earlier levels, but residential construction lending is reported to have improved recently. Home construction remains strong in Oregon, with a significant shortage of skilled construction workers reported.

Commercial and multi-family real estate activity in the District generally remains strong. Commercial office rents in San Francisco are reported strengthening slightly at the higher end. In Las Vegas, commercial construction activity increased in the last quarter, as several new resort-casino projects started and the development of a large new mall continued. Apartment construction continues at a steady pace in Las Vegas. Apartment rents are reported rising at an 8 percent annual rate in Salt Lake City, but rent increases have slowed to

a 4 percent annual rate in Boise. In some parts of Oregon, the apartment vacancy rate is reported to be near zero.

Financial Institutions

District banks continue to report strong loan demand. In California, business lending is reported to have strengthened, with a noticeable increase in construction and real estate lending. Some of the increase in lending was attributed to increased financing of unintended inventory accumulation, however.