

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS  
BY FEDERAL RESERVE DISTRICTS**

**March 1992**

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## SUMMARY\*

Most Federal Reserve Districts report some improvement in economic conditions. Business sentiment is described as modestly more optimistic in many parts of the country, though it remains cautious. Representative of many Federal Reserve Districts, Chicago notes "a slow but increasingly widespread advance in the economy since the end of January." Or as St. Louis puts it, "Most sectors . . . are reporting growth." Most-often mentioned as improving are residential construction and home sales, auto sales, and other retail sales. There are few indications of significant upward pressures on retail and wholesale prices of goods.

Most-often mentioned as flat or weak are manufacturing and nonresidential construction; bank loan demand is described as little changed. The manufacturing sector remains generally flat, with layoffs and rising unemployment often noted. Yet several districts report glimmerings of recovery in manufacturing, with improving expectations for future activity. Commercial construction remains moribund. Bank loan demand is best described as flat, although residential mortgage lending is often mentioned as a bright spot. Mortgage refinancing activity appears to be tapering off somewhat.

### Wages and Prices

Continuing the trend of recent reports, wage and price pressures appear generally quite moderate. An exception is a survey of Buffalo (New York) purchasing managers: the percentage reporting higher input prices jumped markedly in February. In addition, several districts mention lumber prices. These are up sharply in some areas, due to increased construction activity and

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\*Prepared at the Federal Reserve Bank of Minneapolis and based on information collected before March 9, 1992. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of the Federal Reserve officials.

restricted supply. San Francisco observes that some grades of lumber are selling at historically high price levels. As reported in the last Beige Book, oil and gas prices remain low.

### Consumer Spending

Most Federal Reserve Districts report some improvement in retail sales so far in 1992 and guarded optimism on the part of merchandisers. An exception is San Francisco, which notes that retail sales remain soft in that district. Perhaps more representative is Boston, which reports improvement for retailers of all types. Richmond notes that consumer spending improved in late January and February after a flat December and early January. And Cleveland observes that consumer spending exceeded expectations in both January and February.

Automobile sales have exhibited widespread (if often modest) improvement. Districts reporting at least some increase in car sales include Boston, Philadelphia, Cleveland, Atlanta, Chicago, Minneapolis, Kansas City, and San Francisco. Only Dallas notes declining auto sales. Several districts also mention strength in light truck sales.

### Manufacturing

The manufacturing sector is probably best described as "mixed." A number of districts report continuing layoffs and rising unemployment in manufacturing (for example, New York, Minneapolis, and San Francisco). But other districts describe modest gains in manufacturing shipments or output (Philadelphia, Richmond, and Dallas). St. Louis notes that several outside manufacturers are relocating in that district. Those areas reporting some strength in manufacturing often attribute it to improved demand from the retail sector and residential construction. Several districts, including Richmond and Kansas City, report declining inventories, but Cleveland notes that inventory liquidation may have ended.

### Real Estate Sales and Construction

Continuing the trend noted in the last Beige Book, all Federal Reserve Districts report at least modest improvement in real estate sales or residential construction or both. In a few areas, gains have been quite substantial. In Chicago, building material sales to homebuilders were quite strong, and Dallas reports that the inventory of houses has fallen to a low level. In many parts of the country, demand is apparently strongest for moderately priced homes. Richmond, San Francisco, and Chicago report that home prices are generally flat, but Minneapolis and Dallas note some increases. As has been true for some time, nonresidential construction is moribund in most parts of the country. San Francisco notes a decline in commercial building sales prices, and New York mentions rising vacancy rates for commercial office space.

### Banking and Finance

Loan demand is generally flat, with most districts reporting little change in demand for consumer or commercial loans and commercial real estate lending remaining in the doldrums. Credit standards are described as largely unchanged. Although most districts note that the wave of mortgage refinancing has continued, it appears to have slackened in response to the recent rise in mortgage rates. New residential mortgage lending is mentioned as a bright spot by a number of districts.

### Agriculture and Resource-Related Industries

Conditions in agriculture are varied, depending on the product and the weather. Richmond reports that weather and crop conditions were excellent in January and February. However, Kansas City cites a recent downturn in farm incomes and a slight rise in problem agricultural loans. Dallas and Minneapolis comment that declines in livestock prices have hurt some ranchers. Recently, much-needed rains fell in the Kansas City and San Francisco districts.

Dallas, San Francisco, and St. Louis note continued low oil and gas prices. Minneapolis and Dallas report that as a result of these low prices energy exploration and development expenditures are down.

## FIRST DISTRICT-BOSTON

According to contacts made in early March, First District retailers appear to be emerging from recession ahead of the region's manufacturing sector. Most retail contacts report an increase in sales but are not sure whether this uptick presages a significant turnaround. By contrast, at most First District manufacturers surveyed, total sales and orders have continued to decline from year-ago levels. Nevertheless, almost half the manufacturers see improvements in demand from the retail trade, residential construction or auto industries, and most expect a modest recovery in the second half of 1992. Reports from local auto dealers and realtors have a positive tone.

Retail

First District retailers, now tallying results for the fiscal year ending in January, report that 1991 sales were below those of 1990. However, a late 1991 improvement has extended into 1992 for retailers of all types. While the rise has boosted retail optimism, some respondents feel that comparisons to year-ago performance may overstate the improvement, given the low level of activity during the Gulf War. Virtually all contacts agree that consumers remain cautious, but one respondent observes the first significant interest in regularly priced items in some time.

Despite the noticeable uptick in sales, retailers remain reluctant to change their present plans. Some have experienced increases in the cost of goods sold but will absorb them to avoid raising their own prices. Similarly, inventories remain stable, as retailers believe that

demand has not yet increased enough to justify extending themselves.

Margins and profits show no consistent trend.

Retailers' employment levels are flat and are expected to remain so. Planned wage increases remain minimal. A few firms opening stores at new locations are hiring to staff them, but for most, capital spending budgets continue to be restrained. Most describe themselves as "guardedly optimistic" that the current upturn marks a reversal in the recent pattern of decline.

#### Auto Sales

Auto sales in the First District have generally improved over the past several months. The used car market continues to be relatively strong. Expectations are mixed, although the majority of dealerships appear slightly bullish.

#### Manufacturing

According to a panel of First District manufacturers, January-February shipments and orders were generally below their year-earlier levels. Reported declines ranged from slight to 20 percent. As several contacts pointed out, however, the Gulf War made January 1991 exceptional -- in some cases, exceptionally busy, in other cases, exceptionally slow. Despite the continuation of generalized weakness, almost half of the respondents saw modest improvements in demand from customers in retail trade, residential construction or the auto and computer industries. By contrast, defense, commercial aircraft and commercial and industrial construction were described as still very weak. Views on overseas demand were mixed. In general, however, Japan and Europe were said to be slowing while Canada and the United Kingdom

show little sign of improvement. By contrast, Latin American markets were termed promising.

Input prices were described as stable, with several respondents seeking and receiving better prices and service from vendors. Half of the contacts have left their own sales prices unchanged, in some cases for over two years. Others report a less competitive pricing environment. Small price increases taken last fall are sticking, and discounts are declining.

At most manufacturing contacts, employment is below its year-ago level, with declines generally in the 3 to 4 percent range. Roughly half expect the downtrend in employment to continue. A few firms are hiring selectively. By contrast, over half the contacts expect capital spending to equal or surpass last year's levels. These expenditures will focus on maintenance and productivity improvement; only one firm plans to increase capacity.

Most respondents hope to see a modest recovery in the second half of 1992. While a few contacts are starting to think that an upturn could occur even sooner, firms with no evidence of improvement continue to outnumber those where promising signs have materialized into new business. Some contacts see their firms as well poised to take advantage of the turnaround when it occurs. Others report the need for continued restructuring.

#### Residential Real Estate

First District realtors report increased residential sales compared with last year and the past few months. Most realtors registered a slight increase; a few report healthy sales. Sales of condominiums and high-priced homes are weaker than low-priced, single-family homes.

## SECOND DISTRICT--NEW YORK

Reports on District developments in recent weeks were mixed, as has generally been the case for some time. Department store sales in the District were stronger than expected in January and February, with most stores reporting no inventory problems. At the same time, homebuilders in the District reported a significant increase in customer interest, with actual sales improving though still light. By contrast, labor market developments continued to be unfavorable in the District with state unemployment rates rising and with a continued heavy schedule of planned corporate layoffs. Loan officers at small and midsized banks report only few changes in their willingness to lend as compared with their practices two months ago.

Consumer Spending

Most contacts at District department stores reported stronger-than-expected sales in both January and February and positive over-the-year changes. However, while generally pleased with the results, retailers cited the Persian Gulf War as a deterrent last year and exceptional promotional activities this year as major factors in the recent improvement. Year-to-year gains ranged from 5 to 10 percent in January and 5 to 7 percent in February. The major exception was a chain with a sizable over-the-year decline in January.

Most categories of merchandise registered year-to-year gains in the first two months of the year with the strongest results in women's and men's apparel, cosmetics and accessories. In addition, for the first time in many months, all respondents noted some improvement in furniture sales. With the relatively strong sales performances, most retailers reported inventories in good shape and on plan or a little below.

The retail scene in the District has undergone some churning in recent weeks with one major group emerging from two years in Chapter 11 bankruptcy and several other chains filing for protection under that chapter. While some chains are having difficulty, a large jewelry and houseware chain announced plans to build a \$194 million shopping center on Long Island and several national and foreign retailers are entering the New York City market now that rents are lower and desirable space is available.

#### Residential Construction and Real Estate

Homebuilders in several parts of the District report a decided pickup in buyer interest as evidenced by increased traffic and phone inquiries. However, the volume of sales has been light, although improved, as consumers remain hesitant due to economic uncertainties and the possibility of future tax incentives for homebuyers. In general, builders now expect this year to show some modest improvement over 1991. Credit conditions reportedly are still tight, particularly for acquisition and development loans, though money for construction loans has become more available.

Office leasing activity increased somewhat in recent weeks but with the continued release of excess space resulting from corporate restructuring and relocation, vacancy rates in much of the District have been rising. Moreover, some areas have also had new office construction coming on line, adding further upward pressure on vacancy rates. The latest data show office vacancy rates of 20 percent or more in northern New Jersey, Fairfield County, (Connecticut), Long Island and Buffalo. While rates in Westchester County, Manhattan and Syracuse remain below the national average of about 19 percent, most of them have been rising as well.

#### Other Business Activity

District unemployment rates rose in February to their highest levels since the early 1980s. New York's rate climbed to 8.9 percent--the second highest among eleven large states--from 8.4 percent in January while New

Jersey's jumped to 7.6 percent from 6.8 percent in January. The District's employment outlook was dimmed further by General Motors' announced plan to close its Westchester County plant, with almost 3500 jobs, by mid-1995. More immediately, thousands of layoffs are scheduled to take place this year and next at several large banks, A.T.&T. and NYNEX, the regional telephone company. In addition, I.B.M. will be cutting back substantially through early retirement and attrition. On the positive side, G.M. will invest \$65 million in updating and technological improvement at two Buffalo area plants and Continental Airlines plans to add up to 1000 jobs in northern New Jersey.

The February survey of Buffalo purchasing managers showed somewhat higher percentages of firms reporting reduced new orders and production following substantial improvements in these categories in January. There was also a sharp increase in the percentage reporting higher input prices in February. The January survey of Rochester purchasing managers, however, showed a decrease in the percentage anticipating a deterioration of business conditions over the next three months.

#### Financial Developments

Most senior loan officers surveyed at small and midsized banks in the Second District indicated no change in their willingness to lend as compared with two months ago, although a few respondents did report tightening their credit standards. Consumer loan demand remained weak. Demand for residential mortgages continued to rise sharply due to the surge in mortgage refinancings resulting from the drop in interest rates two months ago. Almost all surveyed loan officers indicated that they do not expect changes in their lending practices or deposit rates when lower reserve requirements become effective April 2. A majority of respondents reported no change or a decrease in loan delinquency rates during January or February, contrary to the usual pattern of increased delinquencies after the holidays.

## THIRD DISTRICT - PHILADELPHIA

Conditions varied across major sectors in the Third District in late February and early March; overall, economic activity appeared to be steady or slightly improved. Most manufacturers reported that business has been stable to somewhat better in recent weeks, and new orders were on the rise. Retailers generally indicated that sales were running a few percent above the levels of last February in dollar terms. Many auto dealers said unit sales picked up in January, and although results were mixed for February, customer traffic continued to be good. Most major banks in the Third District reported continuing declines in loan volume outstanding although residential mortgage activity was generally up. Realtors and home builders said sales were rising, especially for moderately priced houses. Commercial and industrial real estate was characterized as soft.

Looking ahead, Third District business contacts express some optimism. Most manufacturers expect orders and shipments to increase over the next six months. Retailers and auto dealers look for gradual improvement. Bankers said they were receiving more inquiries from potential business borrowers although loan applications had not yet picked up. Realtors foresee further increases in residential activity although the recent upturn in mortgage interest rates has caused some concern that recent gains could be short-lived. Demand for commercial office and retail space is not expected to strengthen soon.

MANUFACTURING

Manufacturing activity has been running at a steady pace according to a majority of the industrial firms contacted for this report, and a good percentage reported some recent improvement. Although shipments remained stable at about

half of the manufacturers polled, they were up at almost one-third of the firms. Both durable and nondurable goods producers reported increases in new orders. Manufacturing employment remained weak, however. While a large majority of firms reported steady payrolls, a considerable number are still making reductions.

Most Third District manufacturers expect business to improve over the next six months. A majority of managers at area plants look for an increase in orders and shipments during the spring and summer, and order backlogs are expected to rise. Expectations of improved business are leading area firms to plan higher capital outlays over the next two quarters.

#### RETAIL

Reports from Third District retailers indicated that sales in January exceeded sales in the same month last year. Although the year-over-year comparison for the month is skewed by the low level of sales in January 1991, most merchants said that they continued to make gains in February as well. Although results varied greatly from store to store, on balance retailers indicated that sales in late February were running a few percent above the year-ago period in dollar terms. Most store officials said they continued to be aggressive in pricing and promotion.

Third District merchants expressed some optimism for the rest of the year. Although most remain cautious in their planning, some store officials said they were reviewing their sales forecasts and might raise them. However, retailers continue to mention the fragile state of consumer confidence, and several said that a stronger sales trend will not take hold until worries about job security diminish.

Third District auto dealers said that unit sales in January were generally above the average for the month in the past few years. Although reports were

mixed for February, most dealers reported that customer traffic had remained fairly healthy. On balance, dealers look for gradual improvement during the year, especially if auto loan rates remain at or below current levels.

#### FINANCE

Most Third District bankers contacted for this report indicated that overall loan volume was continuing to edge down. Most large banks in the district were experiencing declines in business and consumer installment lending. Some bankers said seasonal factors could account for much of the drop. Residential real estate lending--including home equity loans, purchase mortgages, and refinancings--was generally steady or up at banks in the district.

Looking ahead, commercial bank lending officers generally expect the demand for residential mortgages to continue moving up, although a few believe the recent backup in mortgage interest rates could slow the current spurt of activity. As for commercial and industrial lending, most of the Third District bankers surveyed said that loan applications were not on the rise, but they were receiving more inquiries from potential business borrowers.

#### REAL ESTATE

Reports from some realtors and home builders indicated that home sales were on the rise. Several builders said customer traffic at their projects had grown in recent weeks and sales had picked up, especially for moderately priced houses. Realtors noted increased interest from potential buyers of existing homes, but they indicated that sales have been picking up only slowly, especially for higher-priced homes. According to real estate contacts, the recent behavior of mortgage interest rates--falling, then moving back up--may spur some sales in the short run, but could restrain sales if the rates continue to rise.

Commercial and industrial real estate values remain under downward

pressure, according to Third District brokers. They reported that office leasing activity has been fairly healthy, but property values and rents have been soft as excess capacity remains to be absorbed. While new office buildings have been finding tenants, older buildings have been losing tenants. Demand for retail space and industrial buildings was reported to be weak.

## FOURTH DISTRICT - CLEVELAND

Summary. The tone of District comments is mixed, but a little more optimistic than in recent months. Retailers are buoyed by better-than-expected sales in recent weeks, and automotive sales are expected to rise next quarter from this. Several District respondents expect an impending recovery in manufacturing production, in part because inventory liquidation appears to have about ended. A recent flurry of consumer traffic and new mortgage loans suggest better home sales and starts this year than last, according to both builders and lenders. Loan demand, except for mortgages, remains relatively flat.

Consumer Spending. Retailers are a little more sanguine about second-quarter sales prospects than they were a few weeks ago because of better-than-expected sales in both January and February. A national chain described its performance in this District as being somewhat stronger than in the nation. Retail sales in an upscale shopping center, and a large discount chain excelled February, 1991 levels, and a large retailer described its sales as being better than consumer confidence surveys would suggest. Some large retailers were able to reduce their excess stocks, substantially, although one indicated that inventories are still higher than desired.

Automotive. Auto producers and dealers continue to be cautious about new car sales and production over the next few quarters. Motor vehicle sales in February rose a few percent from January, but still fell short of the pace last December. Big Three auto makers apparently plan to trim production from

earlier projections again in March, with some weeklong furloughs likely, according to a producer. Motor vehicle sales in the first quarter are estimated at just below the level of last quarter, but economists in the industry still expect a second quarter increase of 5% to 8%. These sources believe that consumer confidence is no longer declining.

Auto dealers in the District are also cautious about near-term sales prospects, and apparently do not plan much change in factory orders from recent months. The present 60-day supply of new cars is considered satisfactory in view of an uncertain outlook. Despite the "Buy American" campaign, dealers of Japanese cars and Japanese and domestic cars report higher sales than dealers of only Big Three models.

Manufacturing. An impending rebound in output is expected by some manufacturers, who are encouraged by recent improvements in orders and profits. They point out that manufacturers are no longer liquidating stocks, and that rising numbers of inquiries and requests for prompt delivery of small orders suggest that inventories may be low relative to sales.

A major appliance producer, however, sees little prospect for an early comeback in appliance production even though shipments are expected to climb slowly over the next few months. In this view, inventories will be trimmed further in order to reduce costs and improve profits. In contrast, a producer of small appliances posted record sales and earnings last quarter.

Capital goods production is recovering slowly and unevenly. Industrial controls used in machine tools are strengthening, but orders for the construction and farm machinery industries remain weak, according to some producers. An industrial instrument manufacturer reported an unexpected decline in January and February orders, following a bubble late last year.

Orders for heavy-duty trucks soared in February, which sharply boosted the January-February average from the second half of 1991. A small computer producer experienced a surge in sales and profits last quarter, and expects an even better year in 1992. Orders for forgings rose sharply in January from December levels, and shipments were relatively unchanged, which some producers believe will add to production and shipments in the months ahead.

Steel output has held up better than some producers had anticipated for this quarter. Steel service centers have been ordering more than expected because of growing optimism about the capital goods outlook, according to a producer. Operating rates of some steel producers are between 80% and 83% of capacity, but steel prices are still declining, and the outlook for profits remains depressed.

Housing and Construction. Home builders and lenders are encouraged by the step-up in consumer traffic and sales in January and February, and several expect that home sales this spring will top that of a year ago. Home buying and starts have been especially strong in Cleveland and Cincinnati, according to builders and realtors. Some officials believe that the recent runup in mortgage interest rates has not deterred buying, and may indeed be an incentive for consumers to buy before rates advance further.

A large builder of single-family homes and condominiums reports good demand for units priced between \$100,000 and \$125,000. Credit is available, according to those contacted. Some builders complain that environmental and other regulations are increasingly a constraint on new housing starts.

Financial Conditions. Most large commercial banks contacted report little change in commercial and industrial loans, although one noted its first signs of a pickup since early 1991. A banker also states that a combination of

developments improved its capital position, and that the bank is now more aggressively seeking loans. Both banks and thrifts report a slowed pace in mortgage refinancing. Until the latest runup in mortgage rates, several lenders temporarily suspended accepting refinancing applications. New mortgage loan demand, however, has been rising even since recent hikes in the mortgage rates, according to several banks and thrifts. Depositories contacted reported that they have ample funds available for what they expect to be better spring sales this year than last. Commercial real estate loans, however, are still difficult to get, but are available to qualified borrowers.

## FIFTH DISTRICT-RICHMOND

### Overview

Most sectors of the District's economy improved modestly in late January and in February, in contrast to the sluggish conditions reported in mid-January. Retailers noted a rise in sales and in spending by tourists, and factory activity apparently increased modestly. Most retailers and manufacturers were optimistic that business conditions would improve further in coming months. Realtors reported a rise in home sales which they attributed to a combination of lower interest rates and improved consumer confidence. In the financial sector, lending and interest rates were steady. District port activity rose, mainly because of higher imports, and farm crop prospects were good.

### Consumer Spending

Our regular mail survey indicated that District retail activity improved in late January and in February after having been unchanged in December and early January. Survey respondents reported increases in most indicators of retail activity, although sales of big ticket items were flat and retail employment apparently declined. Most retailers reported that factors other than this year's low interest rate environment had helped profit margins and sales; one in three, though, believed that the decline in rates had helped business. Retailers continued to be optimistic about their prospects over the next six months. They expected activity, particularly sales and shopper traffic, to increase.

### Manufacturing

Manufacturers indicated that District factory activity improved somewhat

in past weeks, in contrast to the decline reported in the previous survey period. Respondents reported increases in shipments, new orders and exports. They noted little change in most other indicators, and inventories apparently declined somewhat. Manufacturers indicated that, besides poor sales, excess capacity was their most important current problem. About two-thirds of the respondents said that lower interest rates had not boosted their profits or sales significantly so far in 1992.

Manufacturers gave optimistic forecasts for the coming months. They expected all indicators of production and sales to improve, and thought that their inventories would be stable.

#### Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that exports were unchanged and imports were higher compared with early January and with a year ago. They expected export activity to increase somewhat over the next six months and import activity to be flat.

#### Tourism

Hotels, motels and resorts throughout the District reported by telephone that tourist activity in February remained unchanged compared to early January and to a year ago. Most respondents reported that bookings were about even with a year ago. Tourism was helped by a good ski season and strong convention bookings. Over half of the respondents expected activity to strengthen throughout the remainder of the winter and into the spring.

#### Finance

District financial institutions contacted by telephone indicated that credit conditions were mostly unchanged over the last eight weeks. On balance

banks reported the demand for consumer and commercial loans was stable. Respondents stated that interest rates on commercial loans at their institutions were steady, but rates on consumer loans were lower. Respondents said that demand for home mortgage refinancing trailed off over the last eight weeks as mortgage interest rates rose. They noted, however, that the home mortgage sector continues to be the strongest single source of loan activity.

#### Real Estate

A telephone survey of real estate analysts and mortgage bankers indicated increased activity in the residential market since mid-January. Home sales and customer traffic increased and many respondents suggested that these increases were due to lower mortgage rates coupled with higher consumer confidence. Home prices remained mostly steady, although some respondents suggested that prices for upscale homes weakened in their areas. Commercial real estate activity remained flat in most of the District, although increased leasing activity was reported in the Carolinas.

#### Agriculture

Agricultural analysts across the District reported that farm conditions remained strong in January and early February. Mild winter temperatures and abundant precipitation had left small grain crops in generally good condition. Winter planting preparation was on schedule, and the seeding of tobacco and the planting of potatoes was underway. In the livestock sector, feed and hay supplies were expected to be adequate for the remainder of winter and through the spring.

## SIXTH DISTRICT - ATLANTA

Overview: According to Sixth District contacts, economic conditions have improved somewhat since January. Retailers generally report modest sales increases, especially for nondurables. Auto dealers reported increased showroom traffic but relatively small gains in car sales. Most manufacturers reported steady or higher new orders and production. Bankers saw a firming in demand for business loans and continued improvement in loan portfolio quality. Home sales increased again, although some realtors noted that the recent rise in mortgage rates has dampened activity. Single-family home building gathered momentum, and if sales remain at higher levels, contractors and suppliers expect further acceleration during the spring. Aside from rising lumber prices, input and output prices have remained steady under very competitive conditions.

Consumer Spending: Over half the retail contacts reported higher sales from weak year-ago levels; the remainder reporting flat consumer spending. Gains were still concentrated in nondurable items such as apparel. However, sales of some types of durables began to show signs of life in February. Several contacts reported significantly improved furniture sales, the first positive news for that product line in several months. Auto dealers said that while showroom traffic increased, sales gains were only modest. Most retail contacts remain cautiously optimistic, expecting a pickup in sales during the second half of the year. This caution is reflected in lean inventories and conservative placement of new orders. Contacts in the region's tourism and convention industries expect increased activity. Convention bureaus in New Orleans, Orlando, and Atlanta report that advance bookings continue to exceed year-ago levels.

Manufacturing: Most factory contacts reported steady or higher levels of new orders and production from early in the year. Nearly three-quarters of the contacts expect business activity to strengthen over the next six months. Brisk sportswear demand has stimulated

production for some apparel producers. Producers of construction-related materials are expanding employment in response to improved orders. An industrial equipment producer noted recent improvement in business activity and a coincident upturn in production.

However, carpet mill contacts characterize current demand as flat, although improvement originating from new home construction is expected. Several consumer durable producers remain concerned about conservative consumer spending. Generally, profit margins remain thin because of keen competition. Consumer electronics producers noted that continued declines in finished goods prices are encouraging increased levels of offshore production.

Financial Services: Loan demand in the region was mixed through February. Mortgage refinancing continues at a record pace, but the flood of applicants is abating. Other types of consumer lending remain sluggish. Bankers report that business loan demand is flat or slightly higher in recent weeks but is still generally below year-ago levels. Most banking contacts report improvement-in loan portfolio quality. However, the size of existing loan portfolios in most banks contacted continued to contract in early 1992.

Construction: Most realtors report increasing home sales in January and February, and newspapers are selling more real estate ad lineage. However, several realtors noted some slowing in purchases coincident with the recent rise in mortgage rates. Homes sales remain strongest in the lower price range, but some contacts are now seeing improved sales in the trade-up market. Although home inventories are being absorbed, realtors suggest that an adequate supply is on the market, especially of luxury homes.

According to contractors, single-family home building accelerated more than seasonally through February. Builders are relatively optimistic but fear an increase in mortgage rates. Multifamily activity remains moribund.

Commercial construction remained dormant. However, several commercial realtors reported that the office leasing market is in the early stages of recovery, aided by the reduced new supply of office space coming to the market.

Wages and Prices: Retail and factory contacts report that input and output prices have remained relatively constant under intense competitive pressure. However, manufacturers expect higher input prices in the second half of the year. Home builders have seen lumber prices jump and some expect price increases in other construction materials during the spring as more activity pushes product demand higher. Ample natural gas inventories have been swollen by the mild winter, forcing prices lower and initiating cutbacks in domestic exploration and production. No general acceleration of wage pressures has been reported.

## SEVENTH DISTRICT--CHICAGO

**Summary.** The Seventh District has experienced a slow but increasingly widespread advance in economic activity since the end of January. Recent indicators of regional economic activity generally signalled expansion in February. Most manufacturers reported flat to modest improvement in activity and expect production to improve in the months ahead. Auto dealers' orders over the last month have been better than the industry expected, but auto suppliers have seen only limited improvements in their orders. Several retailers have also indicated "surprisingly strong" sales in February, even though part of the improvement over year-ago levels still reflects weak sales last year. Housing activity in the District picked up markedly in February, aided in part by unseasonably warm weather. Business lending activity has changed little in recent months, but an increase in loan demand was noted in selected markets.

**Regional Indicators.** Indicators of District economic activity for the month of February were generally positive. Purchasing managers' surveys for Chicago and Milwaukee showed solid gains in orders and production, although their employment indexes remained relatively weak. The Detroit index switched from signalling widespread contraction to modest expansion in both non-auto and auto-related businesses, led again by increases in production, orders, and--for nonauto-related businesses--vender performance. Purchasing managers' reports taken over the second half of January for Western Michigan, which is more dependent on office furniture and appliances than autos, indicated some slowing in the overall rate of decline in that area's activity, although several survey participants stated that business was picking up or was expected to pick up by the end of the first quarter. Help-wanted advertising in the Midwest region declined slightly in January, although in recent months it has been holding up somewhat better than in other regions. A survey of hiring activity in the region expects hiring to be down this quarter, but to rebound in the second quarter.

**Manufacturing.** Reports on manufacturing activity in the District have turned increasingly positive since the last report, although some producers were still reporting that activity has remained depressed since the end of last year. Several auto producers report a marked improvement in dealer orders for light vehicles, especially minivans, since the end of January, and one producer has begun to

revise production schedules upward. Car orders remain weak relative to light truck orders, but car production this quarter is still expected to be slightly higher than in the fourth quarter on a seasonally adjusted basis. With sales rates running above production rates, several sources expect that dealers will have to increase car orders soon.

While several auto suppliers are anticipating an increase in auto production, improvements in their auto-related activity has not yet appeared. One supplier noted that delivery schedules to auto producers have stabilized in recent weeks, suggesting that auto production plans are firming. A supplier of transmissions stated that sales were down in January, although spot improvements were noted, particularly in 5-speed transmissions. A steel producer reported that first quarter bookings show a seasonally adjusted improvement over the fourth quarter. However, gains were not attributed to autos, but rather to an increase in orders from steel service centers, which generally derive their demand from small industrial customers.

**Consumer Spending.** Several District retailers reported solid year-over-year gains in same-store sales during January and February, even when considering the weakness in sales a year ago. A large discount chain reported improved sales, particularly in home products, despite intense competitive pressure on prices. Nondurable-goods producers are offering attractive bulk deals to large retailers, apparently to reduce inventory, and retailers are running special promotions to take advantage of the deals. A major department store chain, which recorded double-digit sales growth in January, continued to post equivalent year-over-year gains in February, led by furniture and appliance sales. A survey of retailers in the Northern Illinois and Indiana area suggests that recent sales gains are concentrated among department stores, while sales at speciality stores continue to be weak. However, one retailer noted that department stores suffered greater weakness a year ago than the specialty stores, which may account for the current difference in performance.

Several auto dealers were upbeat about February auto sales. Traffic has been improving since the end of last year, according to several contacts. One Michigan dealer recorded the best February in the franchises' ten-year history. According to another dealer, "nearly new" program cars

are still an important source of dealership sales, but reduced availability of program cars over the next few months should shift the mix of sales toward new cars.

**Housing Activity.** Gains in housing starts for the Midwest in January were followed by a surge in new home sales in February. A larger realty firm noted that existing home sales in the Chicago area began to strengthen in January, and sales for the firm continue to run about 25-30% above "normal" levels for this time of year. Gains are attributed to lower interest rates, a mild winter, and stable house prices. Home builders are reporting an upward trend in sales, and one developer has started planning two new projects in the Chicago area. A supplier of building materials sees an unmistakable uptick in sales, with sales to professional home builders in the Chicago area up 40% from a weak year-ago period.

**Banking.** Business loan activity in the District has changed little since the end of last year, but several large banks in the District cited signs of improvement in loan demand from middle-market businesses. With credit standards unchanged, several banks cited weak loan demand, rather than credit availability, as the reason for the lack of improvement in lending. However, a bank economist reported a few cases of customers seeking financing to activate capital spending programs that had been postponed in the fourth quarter. One bank reported some increase in loans to small businesses for the purpose of financing inventory. Mortgage demand was moderately stronger at some large banks, but unchanged at others. An auto dealer noted that effective interest rates on new auto loans declined in recent months, as local banks have become more aggressive in their lending than at the end of last year. However, several large banks reported little change in demand for consumer installment loans.

## EIGHTH DISTRICT - ST. LOUIS

Summary

Most sectors in the Eighth District are reporting growth. Increasing demand for goods and services and outside firms relocating to the District are stimulating economic activity. Construction activity has picked up in recent weeks. Business and consumer loan demand are showing signs of increasing. Transportation companies report a pick-up in demand.

Manufacturing

Since our last report, both employment increases and plans for employment increases have multiplied. For example, a major tire manufacturer in Memphis recalled 100 workers because of rising sales and greater-than-expected demand. A major household appliance producer in southwest Indiana will increase employment by 200 after a previous increase of 900 employees. An electrical equipment company announced the consolidation of its North Carolina plant at its Tennessee plant, which will add 150 workers over the coming year. A barge builder in southeast Indiana recalled 200 workers. Both an aerospace company and a plastics company chose northeast Mississippi for their new plants. The aerospace plant, which will produce engines for the space shuttle program, will open in 1994 with 1,000 workers; the plastics firm will begin hiring this spring. An Arkansas electric motors company is expanding its facilities because of increases in demand and technological advances. Also in Arkansas, a jet engine producer is building a new plant, and a steel company is building a new mill. A California piping company will close its four plants and move to Little Rock, bringing 400 to 500 jobs.

Another California transplant, a medical equipment maker, will arrive in St. Louis by April, bringing 400 jobs.

Companies in some sectors, especially defense-related firms, continue to lay off workers. An ammunition equipment maker released 130 employees at two St. Louis plants. In addition, a plastics molding firm laid off 100 when restructuring plans closed the Louisville plant. A major St. Louis defense contractor laid off an additional 420 workers in January and February; however, the firm also announced that it will hire 500 engineers by year's end because of new contracts.

#### Nonmanufacturing

Positive news from nonmanufacturing firms also dominated the negative news. Strong sales spurred a national discount retailer to recall employees laid off after Christmas. Patronage at St. Louis restaurants was reportedly up in January and February over the previous months. Health services continue to grow with 500 new positions added in St. Louis over the past month. In addition, a recent temporary employment agency's report revealed that 25 percent of the surveyed St. Louis firms plan to increase their employment during the second quarter of 1992, with most new jobs anticipated in the public sector and service-related industries.

#### Construction and Real Estate

Residential construction activity is up substantially from its year-ago level. Although much of the increase can be attributed to the low levels of activity during with the Gulf War, contacts say favorable interest rates and potential tax incentives are spurring both new construction and sales. A first-quarter 1992 survey of small construction firms indicated that almost half believed business conditions would improve during the next six months.

Banking and Finance

Total loans outstanding at large District banks declined slightly over the past few months. The downturn was concentrated in real estate, where loans declined almost 1 percent in January and February, compared with 2.3 percent growth during the prior two months. Commercial and industrial loans outstanding continue to grow, rising 1.2 percent so far in 1992. Consumer loans were flat over the two-month period, compared with a 0.5 percent decline during the prior two months.

Agriculture and Natural Resources

Delta catfish producers report increased production and higher prices because of the Lenten season. Mississippi cotton producers intend to increase planted acreage this spring, while Arkansas, Missouri and Tennessee cotton producers plan slight decreases. Arkansas oil and natural gas producers report low prices, but lumber producers report relatively high prices. District coal production is off about 6 percent from a year earlier.

Transportation

Because of financial and legal difficulties, an Arkansas trucking firm recently closed, releasing 400 employees. Meanwhile, two major Louisville freight and parcel carriers announced plans to expand their facilities because of increased demand. Barge movement of nonfarm commodities in the St. Louis area has increased recently; for example, a significant amount of cement is reported to be moving from a Missouri cement maker into the Chicago area. Barge tonnage through Little Rock is up substantially from last year. Passenger movements through the St. Louis and Little Rock airports have increased recently, while freight operations are up modestly in Memphis.

## NINTH DISTRICT—MINNEAPOLIS

Economic conditions in the District appear to be strengthening somewhat. Retail, housing, and automotive sales have all improved. Agriculture seems on net to be doing reasonably well, and tourism remains strong. Labor market conditions remain weak, while conditions in construction and manufacturing appear mixed.

### Employment, Wages, and Prices

Minnesota's December unemployment at 5.3 percent was 0.3 percent above both its month-and year-ago levels. Minnesota's nonagricultural employment was up 0.76 percent in December relative to a year-ago. Job growth during this period occurred primarily in services (up 2.75 percent), government (up 1.15 percent), transportation (up 0.55 percent), and wholesale and retail trade (up 0.32 percent), while employment in manufacturing (down 1.12 percent), and construction (down 3.79 percent) declined substantially. Montana's December unemployment rate of 7.3 percent was 0.1 percent below its month-ago level, but substantially above its year-ago level of 6.7 percent. On the bright side, the December level of Montana's nonagricultural employment was 1.10 percent above its year-ago level, with substantial gains being posted in construction (up 11.58 percent), finance, insurance and real estate (up 1.50 percent), and government (up 1.13 percent). North Dakota's December unemployment rate at 4.1 percent was slightly above its year- and month-ago levels of 3.8 and 4.0 percent respectively. However, North Dakota's December level of nonagricultural employment was up a robust 1.56 percent relative to its year-ago level, with mining and construction employment leading the way (each up 4.65 percent). December's unemployment rate in the Upper Peninsula of Michigan of 11.1 percent was above its year-ago level of 9.3 percent.

### Consumer Spending

Major District retailers have reported February sales increases, in comparable stores, of 6 to 35 percent, relative to a year ago. The strong Canadian demand in border areas appears to be

continuing, despite recent Canadian government attempts to impose higher taxes on U.S. goods. Motel occupancy rates in towns like Fargo, North Dakota, are at close to full capacity, and new motels are being constructed to accommodate more Canadian visitors.

Auto sales have also revived, apparently bucking the national trend. Dealers are reporting new car sales increases of up to 10 percent and year-to-date sales increases of as much as 11 percent relative to a year ago. New truck sales were reported to be up to 17 percent higher in February and over 20 percent higher for the year-to-date relative to a year ago.

Home sales have recently improved in the District. February sales of single-family homes in the Minneapolis-St. Paul area were up 49 percent relative to a year ago. The median February sales price is not yet available, but in January it was up 4 percent. Fargo-Moorhead had record real estate sales in 1991, with sales of existing single-family homes up 3.4 percent over the previous year.

Tourist activity has been generally good throughout the District. Crossings over the Mackinac Bridge onto the Upper Peninsula rose 9.6 percent in January, setting a record for the month. The total number of bridge crossings in 1991 was 4.9 percent above the previous year's record level. Heavy early snowfall got winter recreation off to a good start, but lack of consistent snowfall has hurt many areas. Late snowfalls in northern and western sections of the Upper Peninsula have greatly improved conditions there. Both Yellowstone and Glacier Parks had record years for tourism. The recent running of the 20th American Birkebeiner cross-country ski race is estimated to have brought \$4.5 to \$6.5 million in tourist spending to western Wisconsin.

#### Construction and Manufacturing

Conditions in the District's construction industry have been mixed. January's level of new housing permits in Minnesota was up 34.8 percent relative to a year ago, but still 36.6 percent below that of two years ago. Commercial construction in the state has also slowed, and there remains a large overhang in office space. Montana, and North and South Dakota reported generally strong construction activity.

Conditions were mixed in the District's manufacturing industries. In Minnesota there were continuing reports of layoffs. Average weekly hours in the state were at 40.5 in January, down relative to the 41.0 level of the previous month, but above the 40.2 level of a year ago. In South Dakota manufacturing was reported to be doing quite well.

#### Resource-Related Industries

Conditions in the District's agricultural sector have been fairly good, with price declines offset by good crop yields. Total crop output in North Dakota in 1991 was 2 percent above the previous year's record level. South Dakota had a record soybean crop in 1991. Minnesota had near-record corn and soybean crops. However, January's Minnesota Index of Prices Received was at its lowest level since April of 1988. The all-farm-products subcategory was down 2.29 percent from a year ago. Substantial price declines occurred for livestock (down 19.0 percent), and poultry products (down 8.7 percent). Minnesota's average of crop prices received was up 3.6 percent in January relative to a year ago, while the average of dairy product prices received was up 19.4 over the same period. Unseasonably warm weather damaged the sugar beet crops in Minnesota and North Dakota, where beets are stored outdoors during the winter.

The lumber industry in the District continues to experience difficulties due to environmental issues, and in particular the as-yet-to-be-determined set aside for wilderness areas. Conditions in the District's mining industry appear to be mixed. Exploration expenditures in Montana were \$5 million in 1991, down from \$35 million in 1990. Copper producers appear to be doing well, however, with smelters running at capacity.

## TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow slowly, despite some weakening in the farm and energy sectors. Housing starts are still increasing, new car sales are picking up, and retail sales continue to improve. Retailers are satisfied with their inventory levels, but manufacturers continue to trim inventories of materials and other inputs. Prices for retail goods and manufacturers' inputs generally remain steady.

Retail Sales. Retail sales improved slightly over the last month, with demand for housewares especially strong. Most retailers expect sales to climb steadily over the rest of the year. Prices are expected to remain steady, or perhaps inch up, over the next few months. Most retailers are satisfied with current inventory levels and expect little change in the coming months.

Auto sales in most district states were up slightly over the past month. Most dealers expect further increases in sales during the next few months, although some potential buyers are facing difficulty obtaining loans. With a brighter outlook for auto sales, most dealers are expanding inventories slightly.

Manufacturing. Purchasing agents generally reported only small price increases for their inputs over the past year, and virtually no increases over the past month. Prices are expected to remain stable during coming months. Materials are readily available and agents expect no problems in acquiring materials for the remainder of the year. Most firms expect to keep trimming inventories until they see signs of economic improvement. Export sales have risen and further gains are expected.

Energy. Slumping oil and natural gas prices have dampened already weak energy activity in the district. The average number of operating drilling

rigs in district states slipped from 200 in January to 198 in February. While the monthly decline was modest, the February rig count was nearly 25 percent below its year-ago level.

Housing Activity and Finance. Housing starts across the district are much higher than a year ago, continuing the improvement observed last month. Builders expect further increases in the rest of the first quarter and in the year as a whole. New homes sales are up from a year ago, and inventories are dropping. While the price of lumber has risen sharply, the prices of other building materials have risen only slightly. There is little difficulty in obtaining materials, but builders in some areas anticipate shortages of lumber.

Most district savings and loan respondents reported net deposit outflows last month. Mortgage demand is very strong, largely due to refinancing. Demand is expected to remain strong, even though mortgage rates have risen recently. Respondents expect little change in rates in the near term and over the rest of the year.

Banking. Loan-deposit ratios at most reporting banks were lower or the same as last month, as bankers reported generally constant loan demand. Nearly all bankers reported greater demand for home mortgages, and greater or constant demand for consumer loans and agricultural loans. Demand for construction loans and commercial and industrial loans was constant or down at most banks, while commercial real estate loan demand was mostly down.

Deposit behavior across reporting banks was mixed. NOW, super-NOW, and money market deposit accounts were mostly up, while demand deposits were mostly down. Large CDs at nearly all banks were down.

Most reporting banks lowered consumer lending rates during the last month, and a few bankers expect further declines in the near term. Prime

rates, however, were unchanged at nearly all reporting banks, with no change expected. Lending standards at all reporting banks were unchanged from last month. Bankers generally said the recent lowering of reserve requirements on transaction deposits would have little or no effect on their financial condition or on their lending.

Agriculture. Credit reviews at district agricultural banks reflect the recent downturn in district farm incomes. Farm lenders note a slight rise in the number of problem loans and a slight drop in repayment rates. Last year's plunge in livestock prices hurt livestock producers, and drought in some parts of the district hurt crop producers. Financial reserves built up in recent years cushioned the recent drop in livestock profits, however. And higher grain prices brighten prospects for district grain producers in the year ahead.

Recent rainfall has eased the drought that threatened the district's winter wheat crop, although the crop remains vulnerable to a sudden cold snap. With average temperatures and timely rainfall during the remainder of the growing season, normal to above normal yields are attainable in most of the district.

Despite the sluggishness in the national economy, mainstreet businesses in the district's rural communities have performed well in recent years. The recent drop in farm income, however, has dampened business activity in many rural communities and trimmed profits for some rural businesses.

ELEVENTH DISTRICT--DALLAS

Economic activity in the District has improved slightly since the last survey. The improvement generally has been broad-based, with the exception of the energy extraction and agricultural sectors. Manufacturing and business service companies report a modest increase in demand. Retailers say that they are seeing visible signs of recovery. The strongest sector in the District is residential construction which has increased significantly. The improvement in residential building has boosted demand for construction-related products such as lumber, cement and brick. Continued weakness in oil and natural gas prices has reduced exploration and development and led to related declines in the production of oil field equipment and fabricated metals. Farm and ranch conditions have deteriorated in recent months due to above average rainfall and declines in livestock commodity prices.

Manufacturing activity has improved in recent months. A strong increase in residential construction has boosted orders for lumber, cement and brick. Producers of primary metals and electrical machinery note slight to moderate increases in orders. Orders for apparel have increased moderately to strongly. Respondents in the paper industry say that increased capacity in their industry has resulted in reduced orders for many producers of business paper. The demand for corrugated boxes remains stable. Refining and petrochemical producers say that orders are flat to slightly down. Declines in domestic oil and gas drilling have reduced the demand for oil field equipment. Fabricated metal producers who manufacture products for energy and commercial construction companies note recent declines in orders.

Demand for services has increased. Law firm respondents say that for the first time in many months they are experiencing a rise in the demand for services dealing with business formation and expansion. One legal respondent says that, in order to cut costs, companies are switching from out of state legal firms to local firms. Respondents in the accounting industry note that, aside from seasonal activity, demand is flat to slightly up. One accounting firm, however, has noticed a recent weakening in demand in Houston. Engineering firms report a modest increase in demand due to growth in housing developments and proposed highway projects. Respondents in advertising agencies and airlines say that business has improved.

Construction activity has picked up due to a significant rise in home building. New home sales generally have risen faster than home construction, so that new home inventories have fallen to very low levels. Single family home prices are rising in most markets. Infrastructure construction (roads, highways, sewer systems, etc.) has not changed, although the Highway Bill should cause highway construction to increase beginning in the third quarter. Commercial construction remains at low levels.

Oil and gas producers say that conditions continue to deteriorate and that 1992 will mark historic lows for domestic oil and gas drilling. As a result of low prices for oil and natural gas, exploration and production activity in the District continues to decline and respondents say that they are shifting more of their exploration activities overseas. Energy companies continue to cut domestic jobs and drilling budgets. While the rig count increased slightly in early March, it has declined over 36 percent since its recent peak in February 1991.

Most retailers say that sales have increased across a broad spectrum of products. While sales gains have been modest, retailers say that the pickup generally was not expected. Retailers continue to keep inventories lean. Sales have improved in most metropolitan areas. Sales growth is strong along the Mexican border. Auto sales have declined. Sales of imports and transplants have been particularly weak.

Financial industry respondents continue to report weak loan demand. Banks report that they are having trouble finding quality credits and that they have plenty of liquidity. Some respondents are expecting a modest increase in loan demand in the second quarter. Mortgage refinancing has been strong and mortgage originations have increased moderately.

Agricultural conditions have worsened in recent months. Livestock prices declined in January and are well below last year's averages. Large supplies of meat and poultry, high competition among meats, and a weak economy are putting downward pressure on livestock prices. Above normal rainfall is delaying planting of many crops such as corn and rice and may soon affect the planting of grain sorghum and cotton. Severe weather damaged a significant part of the cotton crop in the last quarter of 1991. Cotton prices have declined recently.

## TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions in the Twelfth District range from persistent weakness in California to moderate growth in intermountain regions. Sales of homes and autos are responding positively to recent interest rate reductions. Continued employment declines, however, are reported in the defense-related manufacturing, banking, legal, and government sectors. Wage and price increases are modest, with the exception of health care. Mortgage refinancing activity appears to have peaked, and overall loan demand remains weak. Recent rains have improved agricultural prospects.

Business Sentiment

Economic expectations of Twelfth District business leaders improved modestly since our last report. Only 12 percent of respondents now expect output to decline in at least two of the next four quarters, compared to 32 percent in January and 25 percent in November. Most respondents (70 percent) expect the economy to expand, but at a rate below 2.5 percent. The proportion of business leaders expecting improved business investment, consumer spending, and housing starts continues to increase. Expectations regarding housing starts were particularly optimistic, with 79 percent of the respondents projecting some improvement in the next four quarters, up from 40 percent in November. Ninety-one percent expect inflation to decline or remain stable.

Wages and Prices

Upward pressures on wages and prices remain minimal throughout most of the Twelfth District. Most wage increases in the Twelfth District are reported in the 3 to 4 percent range. Smaller increases are projected for state workers. Employee benefits, however, continue to rise due to health costs, which continue to increase at double-digit rates. Lumber prices are rising, due to decreased supply and rising demand. Outside of these sectors, inflationary pressures are hard to find.

Contacts in retail establishments report continued discounting and flat wholesale prices. Materials prices are reported down for several industries, with paint materials prices down 2 to 3 percent, and discounting of newsprint expected to continue.

Retail Trade and Services

Retail sales remain soft in most of the Twelfth District. A major retailer reports inventories are at their planned levels, and that no shortages exist. Another retailer reports they continue to reduce staff size, and that all retailers are emphasizing cost control. One bright spot is auto sales, however, with dealers in several markets reporting increased activity since January.

Professional firms in Washington expect flat to modest growth, with some increased competition in the legal field reported. Print media contacts in California report that circulation and advertising volume remain below their year-earlier levels. Classified ads in employment, real estate, and autos are down. Conditions in California public education remain uncertain, with hiring plans being delayed due to possible budget cutbacks.

Manufacturing

Manufacturing activity in the Twelfth District remains sluggish, with layoffs continuing in aerospace, electronics, and defense-related industries. Orders for helicopters and transport aircraft have fallen in Oregon. Boeing's Washington payroll has dropped about 2,700 since its 1989 peak, with 600 lost since October, mostly in defense and without direct layoffs. Another 6,500 reduction has been announced for 1992 with a layoff of 2,400 by May. Boeing projects its long-term prospects as strong, however, forecasting a 5.2 percent annual increase in passenger traffic through 2010. Their expansion plans appear firm. The overall outlook for business investment has improved, but contacts report little immediate impact of interest rate reductions on capital spending.

Agriculture and Resource-Related Industries

The agricultural outlook in the Twelfth District has improved somewhat due to recent rains.

Farmers in California are now hoping for increased allocations of water, though the lingering effects of the drought will limit deliveries and keep pumping costs higher. Timber sales for this fiscal year are severely restricted. Ponderosa pine and Douglas fir lumber prices are up dramatically due to scarce supply, with prices in many grades at historic levels. Spot natural gas prices are down 6 percent from last year's already low levels.

#### Construction and Real Estate

Residential real estate markets show signs of improvement. Sales activity has increased in several District markets, and housing starts are up in Idaho, Utah, and eastern Washington. Renewed investor interest in housing developments is reported, though financing remains tight. Conditions in the nonresidential construction industry, however, continue to weaken in several states, with a contact in Oregon expecting weak conditions for 1 to 2 years. Median sales prices for single-family homes are stable or increasing slightly in most District markets, and the drop in prices of the upper-end residential market in California appears to have slowed. Some decline, however, is reported in commercial building sales prices.

#### Financial Institutions

Twelfth District financial institutions report continued but moderating interest in home mortgage refinancings, but otherwise flat demand for loans. Commercial and construction loans continue to decline, and consumer loan categories are weak with the exception of home equity credit lines. Some deposit outflow is reported, as interest rate reductions are inducing investors to seek higher returns. Banks in California appear to remain cautious in making loans, and contacts outside the financial industries report problems in finding credit for real estate development and small business. Small business loan demand is strong and usage of Small Business Administration guarantees is reported up both locally and nationwide.