

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

May 1992

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SUMMARY*

According to contacts across the country, economic activity has increased further since the last survey although conditions remain uneven across regions and sectors. The Chicago, Atlanta, Richmond, and Cleveland districts report noticeable improvement, while the Dallas, St.Louis, Kansas City, and Minneapolis districts report continued moderate rates of economic expansion. The San Francisco, New York, Boston and Philadelphia districts report continued sluggish economic activity. These districts, however, report either slightly improved conditions or increased optimism about the near-term outlook.

Manufacturing activity has picked up in most regions of the country. Continued growth in residential construction has been widespread. Many districts report gains in retail sales. Several regions, however, report continued declines in commercial construction, energy extraction and defense manufacturing. While the demand for non-mortgage loans generally is reported as weak, there has been some pickup in demand for these loans in several regions. Producer and consumer prices are reported as generally stable.

Retail

Retail sales have increased in most regions and many districts report improved optimism about future sales. Sales of most product lines have improved. The Chicago and Richmond districts note particular strength in consumer durables such as home furnishings and appliances. Several other districts note gains in nondurables. Retail respondents in the

*Prepared at the Federal Reserve Bank of Dallas and based on information gathered before April 27, 1992. 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.

Chicago area note that much of the lost sales due to recent flooding downtown was made up by increased sales in the surrounding areas. Auto sales have increased in many areas. The most notable exception to improved retail sales is found in the Philadelphia district which reported a recent decline in sales. The San Francisco, New York and Boston districts report mixed retail performance.

Manufacturing

The most significant change since the last Beige Book survey appears to have occurred in the manufacturing sector. While respondents in the last survey generally described the manufacturing sector as weak, respondents have been significantly more upbeat recently. The Chicago and Cleveland districts report some improvement in motor vehicle and steel production and pronounced gains in orders for capital goods such as machinery and electrical equipment. Respondents in the Richmond district note strong increases in shipments and orders across many industries.

Respondents in the Atlanta and Dallas districts report strong gains in manufacturing industries tied to residential construction and moderate gains in industries such as apparel, paper and electronics. However, the manufacturing gains in the Dallas district have been offset somewhat by continued declines in energy-related industries such as oil field equipment. The San Francisco and Boston districts note continued weakness in defense-related manufacturing.

Construction

Residential construction has continued to increase in most districts although the rate of growth appears to have slowed. The San Francisco district reports widespread gains in residential construction; the New York district reports increased optimism from home

builders; and the Philadelphia district reports an overall slight increase in home construction. Several districts report increased pressure on home prices partly due to sharp increases in the cost of lumber. Respondents report that lumber prices have increased because of a sharp rise in lumber demand, harvesting restrictions and a recent trade levy on Canadian lumber. Commercial construction remains weak in most markets.

Services

Tourism and convention activity is increasing in the Atlanta, Dallas, Minneapolis and Richmond districts. Respondents in the San Francisco district report continued weakness in newspaper advertising revenue, due partly to low levels of real estate advertising. Residential real estate brokerage activity is reported to have increased in most markets across the country. The Dallas district reports that the demand for legal and litigation services remains strong and that accounting and consulting firms are seeing an increase in demand from companies seeking to increase productivity.

Agriculture and Energy Extraction

Several districts report favorable agricultural conditions although extreme weather has slowed planting in some areas of the country. Kansas City and St. Louis report that the winter wheat crop is in mostly good condition. Agricultural prices have generally declined. Although cattle prices remain at very high levels, Kansas City reports that cattle feeders remain wary that sluggish consumer demand for beef could trigger another drop in prices later this summer. Several districts report ample liquidity for agricultural lending.

The energy sector continues to decline. Oil and natural gas prices remain at low levels, and the drilling rig count continues to fall. Oil and gas industry respondents in the Atlanta district report that business activity continues to decline and that further layoffs are

likely over the next few months. St. Louis reports that year-to-date coal production has declined about 6 percent from a year earlier.

Bank Lending

Bankers in several regions report that loan demand has begun to increase, although demand remains uneven. Most banks across the country report an increase in mortgage originations and a slowdown in mortgage refinancings. Most regions continue to report soft demand for non-mortgage loans. The Richmond, Dallas and St. Louis districts report increases in non-mortgage loans. Boston reports that some small businesses continue to have difficulty obtaining bank credit, but contacts have found satisfactory alternatives, particularly trade credit from suppliers.

Prices

Producer and consumer prices are generally reported as stable. Boston reports that manufacturing prices are flat to down and that retailers are feeling pressure to lower prices. The San Francisco district reports little upward pressure on prices, with the exception of lumber and health care. Atlanta reports that while most contacts report relatively stable input prices, a growing minority of factory contacts are reporting increasing material prices. Respondents in the Kansas City district also note stable material prices, but prices are expected to rise slightly over the next few months.

FIRST DISTRICT-BOSTON

A majority of First District business contacts express guarded optimism that a recovery is imminent, if not already under way. Retail results were mixed, however, and retail respondents voice concern that the recovery may not reduce the intense competitive pressures within the sector. Manufacturing contacts say that first-quarter sales were equal to or slightly above year-ago levels. With most manufacturers observing mixed signals, they are somewhat less confident than the retailers; half conclude that a modest recovery has begun, but others see no significant change. All intend to pursue a cautious approach towards employment and inventory management; manufacturers' capital spending plans are more expansive.

Retail

Sales results for First District retailers were mixed in the first months of 1992. Those with increases in sales attribute their performance to a strong market position rather than to regional economic conditions. Other retailers report that sales are flat or slightly lower than a year ago, and blame these declines on the delayed arrival of spring weather.

Prices remain under pressure as consumers hesitate to spend and retailers prepare for the entry of rivals from outside the region. While the cost of goods is generally stable or declining, price competition continues and is expected to intensify over the next two years as new entrants seek market share. At present, gross margins and profits are stable, while inventories are closely monitored.

Employment and capital spending plans generally vary with retailers' sales performance. Firms with sales increases are adding new

personnel to staff new locations. Others are limiting capital spending to improving existing facilities while holding employment and wage levels steady. Even though they expect further consolidation in their market, virtually all retailers believe the New England economy is currently bottoming out or beginning to improve.

Manufacturing

First District manufacturing contacts indicate that U.S. sales were either even with or modestly above year-ago levels in the first quarter. Reported increases ranged from 2 to 8 percent. Most respondents are receiving mixed signals, with pockets of strength offsetting pockets of weakness. Several contacts report improved demand for housing- and auto-related products, sporting goods, and some telecommunications equipment. By contrast, commercial construction, aerospace, and defense remain relatively weak markets. Reports on exports were mixed, with some contacts developing new export business and others observing a slowdown in European sales.

Most contacts report that employment is below year-ago levels, with the declines ranging from slight to 25 percent. Half of the respondents plan further reductions, and one has recently instituted a hiring freeze. By contrast, a minority are currently seeking small numbers of skilled workers or have returned short-time workers to standard hours or overtime.

Over half of the manufacturers plan to increase capital spending from its 1991 level. A few mentioned that 1992 would be a big year for such investments. While equipment continues to absorb the bulk of these expenditures, half of the firms contacted are building or expanding facilities. By contrast, some firms indicate that capital spending is restrained by the need to pay down debt or match cash flow. Small

business continues to report difficulty in obtaining bank credit. Although banks are said to be seeking new business, they are unwilling to lend to firms with real estate collateral or classified liabilities. Nevertheless, most small business contacts seem to have found satisfactory alternatives, particularly supplier credit; and several express reluctance to return to bank lenders.

On balance, input prices are described as stable. Sales prices are flat to down, with a few contacts achieving increases of up to 3 percent on selected items. Several respondents point out that long-term contracts with suppliers or customers regulate most prices.

Half the manufacturing contacts report improved demand and believe the economy has turned the corner. Others, citing erratic monthly data or new sources of weakness (like the slowdown overseas), are not yet convinced that the recovery has begun. All expect the upturn to be modest; thus, all intend to remain cautious on employment and inventories. Several expect 1992 earnings to improve more than sales.

Outlook

The nonprofit New England Economic Project (NEEP) released its semi-annual forecast in mid-April. According to the forecast for the six states, total nonagricultural employment in the region will begin to grow in the current (second) quarter, albeit very gradually. The recovery is expected to be more modest in New England than the nation through 1995. Among industries, NEEP predicts that most of the employment growth this year will be in services; manufacturing employment losses are expected to continue until the end of 1992. Even in 1993 and 1994, predicted job growth is concentrated in services and trade.

SECOND DISTRICT--NEW YORK

Reports on recent developments in the District remain basically mixed but with a more positive tone about the outlook than in recent months. District homebuilders noted increased buyer interest and office leasing activity continued at a moderate pace. District unemployment rates fell in March. March sales results varied widely at District department stores while the surveys of purchasing managers in Buffalo and Rochester moved in divergent directions. Most loan officers at small and midsized banks indicated no change in their willingness to lend from two months earlier.

Consumer Spending

Sales results at District department stores varied widely during March from sizable over-the-year declines to sizable over-the-year gains. Year-to-year changes ranged from -13 percent to +13 percent and from somewhat below to substantially above plan. However, most contacts stressed the difficulty of evaluating their results because of the different Easter dates this year and last. In addition, several chains hold major spring promotional events which shift from year to year between March and April.

For the first time in many months several respondents cited furniture and various kinds of home furnishings as the best-selling items in March. Men's and women's apparel sales were mixed. Inventories at the end of March were generally on or slightly below plan.

Groundbreaking is scheduled for the first week in May at a long-delayed shopping mall on Long Island and plans were announced for construction of a three-level, glass-enclosed mall in the Bronx close to the huge Co-op City apartment complex. Two major department store chains have agreed to be the anchors at the Bronx mall.

Residential Construction and Real Estate

District homebuilders report increased buyer interest during recent weeks which they attributed to lower mortgage rates and two years' worth of pent-up demand. Attendance at spring home shows has been greater than in 1991 and in many areas sales of new and existing homes are relatively strong. As a result, builders are more optimistic about the housing market than they have been in quite awhile and definitely expect sales in 1992 to be stronger than last year's. A regional builders' association is projecting an increase in New York State housing starts this year of about 12 percent from their record-low 1991 level.

Office leasing activity continued at a moderate pace in recent weeks as firms took advantage of lower rents and other concessions in newer buildings to upgrade their quarters. Nevertheless, office vacancy rates rose during the first quarter in several areas including northern New Jersey, Westchester County, and Fairfield County (Connecticut). Corporate restructuring, moves out of the region, and, in New Jersey, a sizable amount of new construction, were major factors putting upward pressure on vacancy rates. Despite these trends, vacancy rates on Long Island and in downtown Manhattan showed some improvement.

Other Business Activity

District unemployment rates fell in March, reversing their February increases. New York's rate dropped to 8.0 percent from 8.9 percent in February while New Jersey's declined to 7.1 percent from 7.6 percent in February. Against March's improved unemployment rates, the regional Bureau of Labor Statistics commissioner recently stated that, between April 1989 and February 1992, job losses in New York State totaled 500,000, the state's most severe contraction on record. In recent months, however, job losses in both New York and New Jersey have slowed.

The March surveys of purchasing managers in Buffalo and Rochester were mixed. An increased percentage of Rochester firms reported better business conditions whereas in

Buffalo fewer firms reported an improvement in new orders and production. In both areas, however, as has persistently been the case, the majority of firms reported stable to improved conditions. The percentage of firms noting higher input prices declined in both areas.

A recent favorable development was New York City's announcement that it will end this fiscal year with a surplus rather than the previously projected deficit. Due in part to record profits on Wall Street, revenues were higher than expected. Also reflecting the improvement on Wall Street, investment banks have reportedly hired twice the number of MBAs as in 1991. New York City's economy is also getting a boost from the largest number of Broadway shows in recent memory, several of which are sell-outs.

Financial Developments

Most senior loan officers surveyed at small and midsized banks in the Second District indicated that they are as willing to lend as they were two months ago, although a few respondents did report tightening their credit standards and none reported easing. The number of banks reporting an increased willingness to make consumer loans grew slightly, to one quarter of those surveyed, while the percentage expressing increased willingness to make real estate or business loans declined relative to the last survey.

Loan demand was reported to be generally stable or somewhat increased. Demand for residential mortgages remained steady, though refinancing activity slowed. Consumer loan demand showed signs of improvement during the period, despite a weakness in the demand for automobile loans. In addition, several respondents indicated an increase in the demand for business loans relative to two months ago. Loan rates largely remained unchanged, although some surveyed loan officers did indicate lowering their rates recently in response to a downward trend evident in the market. A majority of respondents also reported no change or a decrease in loan delinquency rates during the period, which they attributed to their increased internal controls as well as improvements in the economic environment.

THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District during April appeared to be just steady overall, although there were some signs of improvement. Positive indications came from manufacturers, who generally noted a second consecutive month of growth in both shipments and orders, and realtors, who reported that home sales were picking up and prices were firming. A weaker situation appeared to prevail in retailing; most Third District merchants contacted for this report experienced a drop in sales in March and April compared to January and February. In the financial sector, bankers generally described total loan volume as flat.

The outlook in the Third District business community is generally positive, albeit restrained. Manufacturers expect continued improvement and they are planning modest increases in hiring and capital spending. Retailers hope for a rebound in the second half of the year, but they expect only slow growth once a recovery in sales gets underway. Bankers forecast moderate gains in lending in the second half, primarily to businesses as capital spending is stepped up. Realtors anticipate sustained improvement in residential markets provided mortgage rates do not continue to rise, but they expect commercial markets to remain weak for some time to come.

MANUFACTURING

On the basis of reports from industrial companies in the Third District it appeared that manufacturing activity was picking up in April. More than a third of the firms contacted for this report said their business was improving and nearly half said business was steady. Companies in nearly all major manufacturing sectors in the district noted improvements in orders and shipments; the exceptions were food processors and makers of rubber and plastic products who noted declines. Overall, Third District manufacturers were maintaining steady employment.

Nearly two-thirds of the manufacturers polled for this report predict continued improvement over the next six months. On balance, they forecast gains in shipments and new orders; they also expect order backlogs, which have been stable, to increase. While approximately half of the firms queried said they would hold employment and capital spending level over the next two quarters, more than one-third plan to add workers and more than one-fourth are scheduling increased capital expenditures during the period.

RETAIL

Most Third District retailers indicated that sales in March and April ran below the pace of January and February. Several also said that sales were off compared to March and April of last year. Retailers said sales of furniture, home furnishings, and other hard-goods were running closer to expectations than were sales of soft goods. Apparel, in particular, was described as weak; and merchants attributed this partly to a late Easter and unseasonably cold weather, and partly to the lack of a clear fashion trend in womens' wear.

The consensus forecast among Third District retailers is that recovery will be slow and erratic. While some look for the beginning of an upturn in the third quarter, others believe solid improvement will not take hold until next year. In the meantime, store executives indicated they will be focusing their attention on cost-cutting, including employment reductions.

Auto dealers also experienced a sales slowdown in March and April. On balance, they expect unit sales for this year as a whole to just match last year's results.

FINANCE

Reports from Third District bankers in late April indicated that total loan volume outstanding at major banks had been essentially flat in recent weeks, with

gains in residential real estate lending offset by declines in business and consumer loans. However, several bankers said they expected residential loan growth to taper off as a backlog of refinancing applications is worked down. Prospects for a modest increase in commercial and industrial lending appeared to be improving, according to bankers. Several mentioned that their regular borrowers were considering expanded capital spending plans for the near future, and several bankers indicated that their institutions were or would be stepping up marketing efforts to potential business borrowers.

REAL ESTATE AND CONSTRUCTION

Residential realtors contacted in April generally indicated that home sales were running above the year-ago pace. Some said that the pickup in sales began in March, largely for moderately priced new homes, and that sales of existing homes and higher-priced houses were increasing in early April. It was also noted that, compared to last year, houses seemed to be selling more quickly after being listed, and at their offering prices rather than at discounts. Realtors generally were optimistic that the pace of sales would be maintained for the rest of the year if mortgage rates do not continue to rise.

Commercial and industrial real estate markets did not appear to be sharing the improving health noted in residential markets. Demand for industrial and retail space was described as particularly weak by brokers. Commercial brokers continued to describe the market for office space as soft although some noted that vacancy rates were declining in some areas.

Construction activity, overall, appeared to be flat. While some slight gains were indicated in residential and public construction, commercial building activity remained at a low level.

FOURTH DISTRICT - CLEVELAND

Summary. Retail, manufacturing, and housing respondents in the Fourth District are more optimistic than in previous months that the renewed recovery will be sustained. Retailers are still cautious, however, and do not plan to build inventories. Auto output is expected to be a small contributor to overall output growth this quarter. Capital goods producers are uniformly encouraged by the recent strengthening in orders and profits. Housing appears to be increasing more than seasonally so far this spring and, consequently, lenders report a rising demand for new mortgage loans, but only a scattered pickup in business loans.

National and Regional Overview. The recent stepped-up pace in the economy leads Fourth District respondents to believe that renewed recovery is now on a more sustainable growth path than was evident last spring. A few forecasters have raised their estimates of total output growth to a 3.5% to 4% range late this year, but most still expect about a 3% growth rate in the fourth quarter of 1992.

In the Fourth District, a more positive outlook is also apparent in view of better-than-expected profits last quarter and the renewed strength in orders, housing, and retail sales. Purchasing agents in Cleveland, Columbus, and Cincinnati report that gains in manufacturing activity during February and March were as strong as or stronger than in the nation.

Consumer Spending. Retailers are now a little more optimistic about near-term sales prospects in view of the unexpected spurt in sales earlier this year. They are still cautious, however, and are not planning to build inventories. Some attribute the January and February surge in sales to temporary factors, such as aggressive clearance of winter merchandise and income-tax refunds. Sales in April were reported to be a little stronger than in March, and have recently been fairly good across all lines of merchandise.

Economists associated with consumer goods expect that real consumer spending in the second quarter will increase at about a 2% annual rate. Most believe that the recovery in consumer spending will be more lasting than the revival last spring because of pent-up demand and improving household balance sheets, but still do not see much sign of a pickup in auto demand this season.

Most of the Big Three auto dealers contacted were more positive about the spring selling season, while dealers of Japanese nameplate vehicles were less upbeat than in our previous survey. Sales of most of the Big Three dealers have been relatively stronger in recent weeks, partly reflecting another round of price increases for Japanese cars.

Manufacturing. Respondents across several manufacturing industries appear more confident than in recent months that recovery is again under way. The improving attitudes of management reflect a strengthening in orders and profits last quarter. Most manufacturers report that they are no longer cutting inventories, but neither are they building their stocks.

Economists associated with the automotive industry estimate that new car sales and production will improve this quarter from last, and that the industry will be a small contributor to overall output. Nevertheless,

temporary layoffs may continue this quarter because of excess stocks of specific models or because of model changeovers, according to auto sources.

Capital goods producers are more optimistic about recovery because of the quickened pace of new orders last quarter. A producer of small motors and electrical equipment notes a long-awaited pickup in new orders last quarter. A machine tool builder reports total orders last quarter were well above those a year earlier, despite a slide in export business, and order backlogs have been rising for the last several months. A midsize producer of plastic products machinery states that sales rose at a double-digit rate last quarter from depressed conditions during most of 1991, and profits of an industrial equipment producer soared on the strength of a rising trend in domestic orders. Heavy-duty truck orders rose sharply in February and March, and inquiries since then suggest another good month in April. Consequently, truck production is expected to rise steadily each quarter this year, according to a major supplier. Recovery for specialized industrial controls apparently began last December, according to a producer who believes that customers are gradually adding to capacity rather than simply ordering for maintenance. A small producer of metal castings is considering hiring more employees in response to a recent strengthening in business, and a small producer of electrical motors and parts for the mass transit industry reports a surge in both orders and profits last quarter.

Economists associated with capital goods industries expect that real investment in producers' goods will increase at annual rates at least 5% to 7% quarterly from this quarter through the balance of the year because of revival in traditional capital goods industries.

Steel. Production and operating rates in the steel industry were somewhat better than expected last quarter, but that performance was masked by continued weakness in steel prices and a cutback in steel capacity by a major steel producer. Industry sources expect steel orders and production in the second quarter to be marginally higher than in the first quarter, although recovery is still characterized as anemic because of weak prices and revenues.

Housing. Housing activity in the District shows signs of a better-than-seasonal increase, according to several mortgage lenders and builders. Housing starts in the Greater Cincinnati area in March were about double the level of a year earlier, and both starts and sales in the Cleveland area so far this spring are running well ahead of totals a year ago. A large mortgage lender described the market for houses below \$175,000 as strong. Land acquisition loans and loans for speculative building are said to be still difficult to obtain, but lenders apparently have ample funds available for builders of single-family homes.

Financial Conditions. Banks and thrifts report a step-up in new mortgage loans and tapering demand for refinancing from earlier this year. A few large banks also report a pickup in commercial and industrial loans, especially for auto dealers, but consumer paybacks on installment loans still exceed new loans. One lender notes that commercial real estate activity began picking up in April after a slower-than-seasonal period from last December through March. Several small banks blame a tepid economy for the weak consumer and business loan activity.

FIFTH DISTRICT-RICHMOND

Overview

Economic activity in the District apparently picked up steam in the last several weeks. Retail activity, including sales of big ticket items, rose broadly. Manufacturing activity also posted strong gains, as evidenced particularly by increased production and new orders. In the financial sector, loan demand rose and institutions caught up with home refinancing applications made earlier in the year. Home sales and prices strengthened. Commercial leasing activity rose, although the amount of square footage absorbed was apparently not large. In agriculture, good weather benefited spring planting, and agricultural bankers had ample funds to lend.

Consumer Spending

Our regular mail survey indicated that District retail activity continued to improve in late March and early April. Retailers reported increases in most indicators of activity, including sales of big ticket items. Retailer inventories and capital expenditures were unchanged from the previous month.

Survey respondents were optimistic about their prospects for business in the next six months. They anticipated that retail activity, particularly sales and shopper traffic, would increase.

Manufacturing

Manufacturers indicated that District factory activity and business conditions improved considerably in recent weeks. Respondents reported strong increases in shipments and new orders and said that most other indicators of activity rose as well. Producer inventories of raw materials were little

changed, and finished goods inventories apparently declined somewhat. Manufacturers noted steady to stronger overall business conditions this month compared to last month, nationally as well as in their local areas.

Respondents remained optimistic about their business prospects in the next six months. They expected increases in every indicator of activity except inventories, which they anticipated would be flat, and they anticipated further strengthening in general business conditions.

Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--reported that the volumes of exports were lower and imports were generally higher in March than in February. Compared with a year ago, both export and import volumes were lower. Over the next six months export activity is expected to increase faster than import activity at the Port of Charleston, while exports and imports are expected to rise at about the same rates at Baltimore and Hampton Roads.

Tourism

Hotels, motels and resorts throughout the District reported increases in the numbers and spending activity of tourists and convention attendees in recent weeks. Several respondents attributed the recent increases to the late Easter weekend and good weather, but others were optimistic that business would be strong in the months ahead. They noted that their convention and tourist bookings for the rest of the spring and summer were above last year's bookings.

Finance

District financial institutions contacted by telephone indicated that credit conditions generally improved over the last eight weeks. Respondents

noted that rates on commercial loans moved lower and that both commercial and consumer loan demand strengthened.

Bank respondents reported that the demand for home mortgages slowed as mortgage rates moved up in late March. The slowdown, they said, allowed them to catch up with the surge in home mortgage refinancing applications that occurred earlier in the year. Some bankers pointed to a second, smaller surge in refinancing activity in recent weeks as rates drifted lower.

Real Estate

Activity in both residential and commercial real estate apparently picked up in recent weeks. Real estate analysts and home builders contacted by telephone reported a moderate increase in residential sales and in housing starts in the first three weeks of April. The prices of new and existing homes rose slightly in many areas in the District, with some upward pressure on new home prices said to be due to rising lumber costs. Commercial real estate leasing activity improved in most urban areas in the District. Some respondents reported that potential lessees in their areas were shopping mainly for relatively small blocks of retail or office space.

Agriculture

Agricultural analysts and bankers in the District reported favorable conditions for spring planting and for financing farm activity. Analysts said that abnormally mild weather during the first half of April had allowed District farmers to begin spring planting ahead of schedule, but recent heavy rains in Virginia and North Carolina may have slowed planting progress somewhat in those states. A late frost in the Carolinas apparently damaged the peach crop, possibly reducing prospective yields by as much as 20 percent.

Preliminary responses to a quarterly survey of District agricultural bankers indicated that farm credit conditions were steady in late March. The survey showed stable loan demand, greater-than-usual funds availability, and falling rates on farm loans.

SIXTH DISTRICT - ATLANTA

Overview: Contacts around the Sixth District continue to be more upbeat in their assessment of economic conditions. Retailers noted slightly higher sales in April, even after adjusting for a late Easter. Auto dealers also reported modest sales gains. A majority of manufacturers observed increased orders and production. Single-family home sales and new home starts continued to improve. However, bankers reported that commercial and industrial loan demand is spotty. Prices and wages are generally steady, but a growing minority of factories reported increasing prices of material inputs.

Consumer Spending: The late Easter holiday creates some difficulty in comparing year-over-year results, but most retailers believed sales improved through mid-April even after adjustment for this distortion. Gains were concentrated in nondurables such as apparel, but several department store contacts again noted stronger spending on furniture and other home furnishings. Several district auto dealers reported modest sales increases, a clear improvement over March. However, retailers remain generally cautious in placing new orders. Business at a major wholesale apparel market was described as disappointing. Most retailers are waiting for a significant and sustained recovery in sales before increasing their buying substantially. Convention bookings and tourism in the region continue to improve. Gains are particularly strong in international travel to Florida.

Manufacturing: Most manufacturing contacts reported gains in new orders and production. Carpet makers are now seeing increased orders from residential builders; however, commercial sales remain weak because of stagnant commercial building. Some producers of sportswear reported strengthening orders and rising production employment. At least one apparel company is currently building inventories in expectation of increased demand. Several paper and

packaging producers have seen increases in orders and shipments. Electronics producers noted improved sales.

In contrast, energy extraction industries reported very discouraging conditions. Oil and gas company contacts say that business activity continues to decline and that further layoffs are likely over the next few months.

Construction: Most realtors reported continued improvement in housing market activity during March and early April. However, several noted that home buyers are interest-rate sensitive and traffic is responding to changes in mortgage rates. Momentum is now said to be building in the trade-up market. Resale inventories are reportedly adequate as more people place their homes for sale in recognition of improved market conditions. Since supply has increased with demand, few realtors report any notable increase in home prices.

New home inventories are generally declining. Consistent with this observation, most builders reported increased single-family construction. Several expressed concern that increased lumber costs are constraining profit margins which could potentially weaken the pace of building.

While several commercial realtors reported that the market has yet to hit bottom, others are noting some positive signs in leasing activity and absorption. Spotty improvement in net absorption has yet to generate a recovery in commercial development. Most new construction has been limited to owner-occupied or built-to-suit structures.

Financial Services: Loan demand in the region was generally unchanged from March to April. No clear upward trend has emerged, either by type of loan, or state. Refinancing of both mortgage and business loans continues to represent a large portion of total activity. Loan portfolios are stabilizing in size after persistent contraction last year. Most banking contacts report a mood of cautious optimism among businesses in their communities.

Wages and Prices: Most contacts report that input prices and wages remain relatively stable. To date, intense competitive pressures are restraining attempts to raise finished goods prices. However, after a year in which input price weakness was the rule, a growing minority of factory contacts are reporting some firming of industrial materials prices.

SEVENTH DISTRICT--CHICAGO

Summary. Economic activity in the Seventh District continued to expand in recent weeks, with some sectors appearing to gain momentum. Retail sales moved higher, and several industry contacts offered more optimistic interpretations of sales trends than they did earlier in the year. The recent flood in downtown Chicago resulted in lost sales and substantial property damage for area businesses. Reports from auto dealers were mixed but generally positive, and auto suppliers expect little revision in auto production schedules for the second quarter. Purchasing managers' surveys and reports from manufacturers indicated a continued upward trend in industrial activity. Commercial lending activity in the District was mixed; previous reports had been more uniformly indicative of sluggish credit markets.

Retail Sales. Retail sales activity in the District continued to improve in recent weeks, with several retailers indicating that sales in the Midwest outperformed the national average. A large national retailer reported a year-over-year sales gain in March despite the lack of the Easter holiday in this year's results, and noted that sales of durable goods (which are less sensitive to Easter spending patterns) posted a double-digit increase. A retailer specializing in women's apparel stated that sales exceeded plan in March, and business was especially brisk (and above plan) in the first half of April. Another large retailer stated that apparel sales strengthened in early April, joining continued solid gains in sales of home furnishings that developed beginning in the first quarter. A large discount retailer reported sales of small appliances and home furnishings have been particularly robust in most Midwest markets in recent months. Reports from other businesses related to the retailing industry reinforced a picture of improving conditions in this sector of the District economy.

However, the recent flood in downtown Chicago resulted in significant property damage and lost output for area businesses. Retailers reported significant losses from damaged inventory and curtailed store hours, although much of the retail sales lost in the downtown area were shifted to other local and suburban stores. A regional analyst noted that other offsetting effects are expected to include higher levels of construction employment in the downtown area.

Motor Vehicles. Auto industry contacts indicated some improvement in the motor vehicle market in March and early April, especially in the light truck segment. Using its own seasonal adjustment factors, a large automaker reported that industrywide sales of light vehicles increased in February and March, and expected a solid gain in the second quarter. An owner of several rental car franchises noted

that rental frequency started to improve in March, then increased dramatically in April. An auto dealer in downstate Illinois reported that sales increased sharply in early April, after a normal seasonal pickup in sales failed to materialize in March. This contact noted that the April gains came in spite of increasing tension during the Caterpillar-UAW negotiations, and that the recent progress in resolving the dispute has begun to relieve tension among area consumers. However, a large auto dealer based in Southeast Michigan stated that a sales upturn started in March but dissipated in April, noting that consumer uncertainty had risen following new auto industry restructuring announcements.

On the production side, a large supplier to the auto industry stated that "automakers are acting as if second quarter is sacred," and noted that schedules for at least one large automaker are more likely to be revised upward than downward. A supplier linked to light truck production reported that shipments in March and April were sharply higher than a year ago. In March, heavy-duty truck order backlogs reached their highest level since early 1990, according to an industry analyst, although build rates have not yet shown similar improvement. Still, the orders received by a truck engine manufacturer indicated that a heightened level of activity held through April.

Manufacturing. Surveys and contact reports suggested continued upward movement in industrial activity in the Seventh District. The Chicago purchasing managers' survey (seasonally adjusted) indicated expansion at a somewhat faster pace in April, and the employment component of the survey reached a level above 50 percent for the first time since June 1990. Reflecting the slow improvement indicated by reports from the auto industry, the Detroit purchasing managers' survey (also seasonally adjusted) indicated expansion in manufacturing activity in both February and March. Surveys conducted in Western Michigan and Southwest Wisconsin continued to post solid results in March. A steel producer reported that it has become more optimistic about industry conditions than it has been over the past 18 months, citing a noticeable improvement in orders. Machinery orders received by a large manufacturer of heavy equipment continued to post solid year-over-year gains through March, although much of the strength came from large individual orders from overseas. New strengthening in expected shipments was reported by a boiler manufacturer, as customer orders were again being released after postponements in 1991. This firm views the Midwest as its strongest market. A manufacturer of office furniture delayed a planned layoff after some strengthening in orders. An appliance manufacturer stated that retailers' orders have improved in recent weeks, "but they don't seem to be ordering for the back room

yet." A machine tool manufacturer expecting a solid sales gain in 1992 reported that orders haven't accelerated in recent weeks, noting that customers' capital spending on its products showed little sensitivity to the business downturn experienced in 1990 and 1991.

Real Estate/Construction. Continued strength in housing activity was joined by scattered signs of increased commercial construction. A large realtor reported that residential transactions (primarily for home resales) continued to run at record levels through March and early April, while commercial sales and leasing activity remain slow. At the same time, this contact stated that on the commercial side "we are seeing some light at the end of the tunnel for the first time in 6 to 8 months," as institutional investors have begun to indicate some willingness to consider financing new projects. A large contractor who had been expecting no new commercial construction in his market area reported some unexpected activity had arisen in recent months. Several financial institutions reported higher levels of activity in the residential real estate market in the Detroit area. An association of construction contractors specializing in homebuilding and small commercial projects throughout Wisconsin reported that the recent recession had little impact on construction activity among its membership, and activity is now improving along a normal seasonal pattern. The association itself recently broke ground on a new headquarters facility in order to accommodate the need for new space. A large cement producer reported that higher levels of bidding for small industrial construction projects joined increased public works activity in March and April.

Banking. Reports from borrowers and lenders on commercial lending in recent weeks were mixed, after more uniform indications of sluggish credit markets in previous reports. A large commercial bank reported that its lending department has been marketing more aggressively in recent weeks. Much of the new lending that has arisen has been in the residential mortgage area, although the bank has also emphasized lending to manufacturers. A middle market lender reported sluggish demand for commercial loans financing plant or equipment expansion. On the other hand, a law firm reported that its commercial loan documentation business quickened in recent months, and the nature of the work indicated that banks were making more -- and bigger -- new loans to businesses. Separately, a large bank reported that its commercial lending (outside of real estate) has increased over the past few months. A large construction contractor stated that its banking contacts have indicated a greater willingness to lend in recent weeks.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to recover. In recent weeks, several manufacturing firms announced plans to increase employment and expand production facilities. Residential construction activity is being spurred by low interest rates and good weather. District loan demand has increased slightly. Preliminary estimates indicate increased acreage for most District crops.

Manufacturing

District manufacturing employment has shown signs of increasing, as positive reports from firms continue to outpace negative reports. Topping the list, a major automaker plans to spend \$650 million to expand its Louisville plant and add 1,400 new employees by summer 1993. Northeast Arkansas continues to grow as a major steel center with the announcement of plant openings by two firms by January; combined, they will hire about 300 workers. Arkansas also will award approximately \$35 million in additional highway contracts this year, an increase that is expected to generate a significant number of jobs. A construction equipment manufacturer will add 150 jobs at its new worldwide distribution facility in Tennessee. A major Louisville oil refinery intends to hire an additional 100 persons as part of its expansion. In Arkansas, an aluminum products maker reports an increase in overtime to meet demand, and a school bus manufacturer recalled several hundred employees to resume full production.

Despite the recovery, layoffs and closings continue to occur throughout the District. A food producing plant in Evansville, Indiana,

announced its closing within the next year, eliminating 300 jobs. A St. Louis defense contractor laid off another 155 workers after cuts of more than 11,000 in the last one and one-half years. A maker of bathtubs and sinks, employing 345 workers, is closing its Louisville factory by year's end because of dwindling product demand. An Arkansas plastics company closed last month, eliminating more than 200 jobs. Because of bankruptcy by some of its major customers and its own heavy indebtedness, a children's clothing manufacturer in Kentucky will close in June and eliminate 310 jobs. The effects of this closure may be more than offset, however, by this winter's opening of a cookie and cracker maker in the same town, bringing 500 jobs.

Nonmanufacturing

District nonmanufacturing employment has grown steadily in recent months, and reports indicate continued expansion. A St. Louis construction company's contract to build housing in Israel recently was doubled to \$100 million. A mortgage company intends to hire about 100 Louisville workers this year rather than the original estimate of 75. Health services continued to grow in St. Louis, with 400 new positions added in February. In Louisville, however, a health organization plans to reduce costs by cutting 275 jobs from three of its hospitals.

Construction and Real Estate

Residential construction activity continues to improve from its year-ago level. Favorable weather and low interest rates have provided most of the recent stimulus. Most builders believe, however, that the current pace of activity cannot be sustained; nevertheless, they believe 1992 will be a good year for the industry, especially when compared with the two previous years. While some builders still report difficulty in obtaining construction financing, others report credit is easier to

obtain now than it was a year ago. In Memphis, builders note that "trade up" buyers are beginning to return to the market; earlier in the year, most new home sales were to first-time homebuyers. Builders also report that new home prices have begun to rise because of a combination of increased demand and record lumber prices.

Banking and Finance

Loan demand appears to be on the upswing. Total loans outstanding increased 0.8 percent at large District banks from mid-February to mid-April, while rising 1.2 percent at a sample of small and mid-sized District banks. All major categories of loans--real estate, consumer and business--showed increases at large banks during the period, and all categories but consumer loans, which declined 0.1 percent, rose at the small and mid-sized banks.

Agriculture and Natural Resources

Early reports indicate that District farmers intend to increase planted acreage this year for corn, rice, sorghum and, to a lesser extent, cotton, but decrease acres for soybeans. Except for the northern parts of the District, the winter wheat crop is mostly in fair-to-good condition. Soil moisture is generally adequate, with spring planting proceeding normally in most areas. A major fertilizer producer in the District reports greater demand, citing increased national corn acreage and increased exports to the former Soviet Union. An informal survey of District agricultural lenders suggests that operating loan demand is virtually flat compared with last year. Despite initial concerns, the March freeze resulted only in minor damage to most of the District's fruit and vegetable crops. Year-to-date District coal production is down about 6 percent from a year earlier.

NINTH DISTRICT—MINNEAPOLIS

The District continued to show modest signs of recovery. Labor market conditions generally strengthened. Consumer spending showed substantial signs of improvement with retail sales doing fairly well, auto and truck sales picking up, and home sales showing a strong upsurge. Conditions in the District's manufacturing sector remained even, while those in the construction sector show signs of improving. Conditions in the resource-related industries were mixed.

Employment, Wages, and Prices

The slight reduction in unemployment rates around most of the District appears consistent with the reduction in the number of sizeable layoffs that are being reported. The February unemployment rate fell in Minnesota to 5.3 percent from 6.0 percent the previous month, well below its year-ago level of 6.5 percent. In North Dakota the February unemployment rate of 5.0 was half-a-percent lower than the month before, but still above its year-ago level of 4.8 percent. In Montana the February rate of 8.3 percent was substantially below the previous month's 9.2 percent, but still above its year-ago level of 7.7 percent. In South Dakota the February unemployment rate of 3.4 percent was below its month- and year-ago level of 3.7 percent. In the Upper Peninsula of Michigan the February rate of 13.1 percent was above both its month-ago level of 12.4 percent and its year-ago level of 12.2 percent, while in western Wisconsin changes in various local unemployment rates were mixed relative to their year-ago levels.

Our Directors report that wage and price pressures have generally been modest around the District. One exception continues to be the rising cost of health care. Recently, the state

of Minnesota enacted a health rights bill. This bill, besides providing broad insurance coverage to 400,000 presently uninsured citizens, attempts to limit price increases for medical services.

Consumer Spending

Despite the fact that this year Easter fell in April and not March as it did last year, retail sales in March were generally good relative to a year ago. Sales in comparable stores are reported to range from a slight reduction to increases as high as 24 percent over March sales last year. Inventories are reported to be in line, and retailers outlook for May and June is generally optimistic. Part of the March sales are due to the continuing strong Canadian consumer demand in areas close to the border.

New car and truck sales continued above their year-ago levels in the District. However, the recent strike of mechanics at unionized car dealerships in the Minneapolis-St. Paul area has dealers concerned that this may keep some buyers away. Dealers reports on year-to-date sales of new trucks relative to a year ago range from even to 10 percent higher. New car sales also have improved in the District. One major manufacturer reported that sales in the region set a record in March. Dealers reports of new car sales in the District during the first 10 days of April relative to their year-ago levels ranged from even to 20 percent higher, with year-to-date sales reported to range from slightly below to 2 percent above their year-ago levels.

Home sales continue to improve in the District. March sales of existing single-family homes in the Minneapolis-St. Paul metropolitan area were up 23 percent over a year ago. The Twin Cities year-to-date sales figure is 36 percent above its year-ago level.

We are between seasons in the tourist industry, though the general positive trend we have been reporting appears to be continuing. Crossings over the Mackinac Bridge onto the Upper Peninsula of Michigan established a new record for the month of March, and the total number

of crossings in the first quarter of 1992 were up 7 percent from a year ago. The NCAA basketball Final Four tournament brought an estimated \$40 million to the Minneapolis-St. Paul metropolitan area.

Construction and Manufacturing

Residential construction was generally strong in the District. The level of new housing permits issued in Minnesota surged in February, up nearly 50 percent over a year ago. Conditions in commercial construction were mixed with the important Minneapolis-St. Paul area continuing to show weakness due to the overhang in office space. Commercial construction was also reported to be slow in western Wisconsin. However, commercial construction was reported to be strong in several other parts of the District. Employment in construction in February relative to its year-ago level was generally higher with increases ranging from 3 percent in western Wisconsin to 23 percent in Montana. The one exception was Minnesota, which posted a 4 percent decline.

Conditions were generally steady to improving in the District's manufacturing sector. The February level of average weekly hours in manufacturing in Minnesota of 40.4 was slightly higher than its year-ago level of 39.8, but down 1/10th of a percent from the previous month. The February level of Minnesota's average hourly earnings in manufacturing was 4 percent higher than a year ago. Employment levels in manufacturing were unchanged in February relative to a year ago in Minnesota and Montana, down 1 percent in North Dakota, and up 7 percent in South Dakota.

Resource-Related Industries

Conditions in the District's agricultural sector have been fairly good though prices have generally declined. North Dakota's mid-March All Farm Products index of prices received by farmers declined 2 percent both relative to February and its year-ago level. The recent cool, damp weather has hampered planting in parts of the District, but the precipitation was generally welcome.

The lumber industry continues to decline due to a shortage of trees available for harvesting, particularly on public land. Minnesota is expected to sell only half to one-third of its normal amount of timber. Nonetheless, saw mills are managing to acquire sufficient lumber to maintain operations. The recent trade levy on Canadian lumber along with the upsurge in housing construction has raised prices.

Production in the District's mining industry is largely unchanged from a year ago, though copper production is reported to have risen. Prices have weakened with regard to certain minerals such as taconite and gold.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy appears to be growing slowly. Retail sales continue to improve, housing starts remain strong, and auto sales continue to inch upward. Activity in the energy sector remains depressed, however, and higher cattle prices have only slightly brightened expectations for the farm sector. Most retailers are adding to inventories, but some manufacturers are still cutting back on stocks of materials and other inputs. Prices for retail goods and manufacturers' inputs generally remain stable.

Retail Sales. Retail sales increased over the last month, and most retailers expect continued improvement over the rest of the year. Prices are the same or lower than a year ago. Retailers generally expect prices to remain stable over the rest of the year. While most retailers are satisfied with their current inventory levels, they plan to increase inventory purchases in the coming months.

Auto sales increased slightly in most district states over the last month. Financing is generally available for inventories, and potential buyers are generally able to obtain loans. Most automobile dealers continue to expand inventories in anticipation of further increases in sales in the next few months.

Manufacturing. Most purchasing agents report virtually no change in input prices over the past month, continuing the trend of relatively stable prices over the past year. Prices are expected to rise slightly over the next few months. Most firms are able to obtain materials without difficulty, although some agents have noticed slightly longer lead times. While some firms are expanding inventories, others are trimming them.

Energy. Soft prices for oil and natural gas continue to depress energy activity in the district. The average number of drilling rigs operating in district states slipped from 198 in February to 194 in March. The March rig count was nearly 25 percent below its level of a year ago and very near the low levels reached during the energy bust in 1986.

Housing. Housing starts across the district are much higher than a year ago. Builders expect further increases during the second quarter before starts reach a steady level. New home sales have jumped sharply from a year ago, while inventories continue to drop. Mortgage demand is strong and is expected to remain strong, although mortgage rates are expected to stay relatively constant over the rest of the year. While the price of lumber is sharply higher than a year ago, the prices of other building materials have risen only slightly. Builders expect lumber prices to continue climbing but foresee no difficulty obtaining materials. Due partly to the lumber price increases, new home prices are up sharply from a year ago.

Banking. Loan-deposit ratios at most reporting banks were down slightly or the same as last month, with loan demand generally mixed. Most bankers report greater demand for home mortgages and construction loans, and greater or constant demand for consumer loans. Demand for home equity loans at most banks was constant. Demand for commercial and industrial loans was constant or down, while demand for commercial real estate loans and agricultural loans at nearly all banks was down. The level of investments at nearly all banks was up.

Deposits were up or constant at most banks over the last month. Demand deposits were mostly up, while NOW, super-NOW, and money market deposit accounts were mostly up or constant. At most banks, IRA and Keogh accounts

and small time and savings deposits were constant. At nearly all banks large CDs were down.

Nearly half the banks expect to lower their prime rate in the near term. Several banks lowered consumer lending rates last month, and a few banks expect to lower rates in the near term. Most banks, however, report unchanged consumer lending rates with no change expected in the near term. A small number of banks report tightening their lending standards in the last month.

Agriculture. Winter wheat yields are expected to be normal in most of the district, although the condition of the crop varies widely. In some areas, the crop is in excellent condition following timely spring rains. But in other areas, the crop is in poor condition after a late spring cold snap. At the same time, wet field conditions have slowed the planting of spring crops.

Cattle prices have rebounded to near record levels after falling sharply last year. Still, cattle feeders remain wary that sluggish consumer demand could trigger another drop in prices later this summer. Thus, many feedlots are operating below capacity and carefully avoiding a buildup of fed cattle inventories.

After steady gains in recent years, farmland prices this spring are generally unchanged from a year ago. In most of the district, last year's dip in farm incomes appears to have taken the steam out of the farmland market. But farm rents have edged up in isolated areas, suggesting some possible gains in farmland prices.

ELEVENTH DISTRICT--DALLAS

District economic activity is increasing moderately. Growth has been broadbased with the exception of the energy extraction and agricultural sectors. In general, prices are stable and inventories are in line with expectations. Manufacturing activity has increased modestly. Single-family construction is accelerating, stimulating the demand for construction-related materials. Offsetting some of this strength, however, is continued weakness in the oil and gas industry. Declines in oil and gas drilling have reduced the demand for products such as oil field equipment and drill pipe. Service sector activity has increased and is becoming more broadbased. Retail sales have increased and many retailers report better than anticipated Easter sales. Non-residential construction remains weak. Financial industry respondents report a slight increase in loan demand. Agricultural conditions have deteriorated somewhat.

Manufacturing activity has increased modestly. Although there are some exceptions, generally selling prices have remained stable. Demand is strongest for construction related materials such as lumber and wood products, stone, shell, clay, glass and aluminum. Demand for paper, apparel and food and kindred products has also increased. Demand for electronic and electrical machinery has increased recently although respondents remain cautious that increases may not continue. Steel demand and prices have weakened because of reduced commercial and industrial construction and oil and gas activity. The depressed natural gas market continues to reduce the demand for oil field equipment. Domestic demand for oil field equipment is now significantly below last year's level. International demand is constant. Although international growth has ceased, respondents are optimistic about future sales. Production capacity for oil field machinery has decreased. Petroleum

refining and petrochemical producers report little change in demand since last surveyed. Nonetheless, demand remains significantly below last year's level. Demand for pharmaceutical chemicals, however, has increased modestly. Chemical demand is expected to increase.

Demand for **services** has increased and is becoming more broadbased. Demand for legal and litigation support services remains strong. Transactions activity--such as real estate and those of the Resolution Trust Corporation--have been picking up some steam lately. Advertising has increased. Demand for transportation services has been flat recently, but remains above last year's level. Hotel occupancy has increased. Accounting, consulting and temporary firms report an increase in demand from companies trying to find new ways to increase productivity.

Retail sales growth has increased. Many retailers report better than expected Easter sales. Respondents are generally more confident that sales growth will continue, and a few retailers have increased their expectations for future sales. Sales growth continues to be strongest in the non-metropolitan areas, particularly along the Mexico border. Dallas-Fort Worth area sales growth remains weak. Retail selling prices remain stable and several retailers report they are obtaining some merchandise at a lower cost. Many retailers report they have reduced their cost of labor compared to last year. District auto sales have picked up significantly.

Homebuilding **construction** activity continues to increase. Single-family building permits have risen to their highest level in over a year. Home sales and property values have also increased. Apartment construction has increased but remains below last year's level.

Commercial construction has improved slightly but remains at very low levels. Office construction remains weak.

Economic conditions in the **energy** sector have taken a turn for the worse. Oil and gas prices have been low, and could fall even further in the second quarter. The price of West Texas Intermediate is around \$20 per barrel. Natural gas prices are about \$1.40 per thousand cubic feet, recently getting a boost from the cold March weather. Our respondents do not expect natural gas prices to move up much. As a result, oil and gas drilling has deteriorated. The U.S. weekly rig count has fallen to a record low of 623 rigs in April.

Financial industry respondents report a slight increase in loan demand. Respondents continue to report they have plenty of liquidity. Mortgage refinancing and mortgage originations continue to increase.

District **state governments** continue to report fiscal problems and have instituted formal and informal hiring freezes.

Agricultural conditions have deteriorated slightly. Wet weather has restricted planting activity for some farmers and increased costs for some livestock producers. After peaking in late March, livestock prices have declined modestly. Overall, Texas crop prices remain unchanged from a year ago. Higher prices for corn, grain sorghum, soybeans and wheat offset lower prices for cotton and hay.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions are improving very slowly in much of the Twelfth District, with moderate growth in intermountain areas offset by weakness in California. Retail and auto sales are reported soft in several markets, and continued layoffs are reported in defense-related manufacturing. Nonresidential construction remains weak in most District markets, although residential construction and home sales show some pick-up. Mortgage refinancing activity appears to have peaked, and overall loan demand remains flat. Continued drought threatens agriculture in Idaho and eastern Oregon, while prospects for California have improved with recent rainfall. Wage and price increases are modest, with some exceptions such as lumber and health care.

Business Sentiment

Economic expectations of Twelfth District business leaders were little changed since our last report, with most respondents expecting sluggish growth. As in March, almost two-thirds of respondents expect the economy to expand, but at a rate below 2.5 percent. Only 5 percent of respondents expect output to decline in at least two of the next four quarters, down slightly from 9 percent in March. Expectations are most optimistic for housing starts. A large majority of respondents expect inflation to decline or remain stable.

Wages and Prices

Contacts report little upward pressure on wages and prices in most District markets, although lumber and health care are notable exceptions. Wholesale lumber prices have risen to record levels due to extremely tight supply conditions associated with harvesting restrictions and the recently adopted tariff on Canadian lumber. Health plan costs are expected to increase at

double-digit rates in 1992, but the rate of increase does appear to have moderated somewhat from last year. Energy prices remain low. One oil industry contact expects several years of little or no price growth.

Retail Trade and Services

Contacts report retail and auto sales as soft in most District markets. Sales of new cars in Utah are reported to be "spotty", with buyer confidence affected by recent layoff announcements. A contact in Idaho reports some deterioration in auto sales since the last report, with traffic down 20 percent since mid-March. In contrast, auto dealers in Oregon report that after an extremely weak February, auto sales improved in March. Auto sales in the Puget Sound area also were above their year-earlier level in March. Contacts from large department stores report generally soft conditions. Signs of improved retail activity, however, are reported in Arizona following weakness early in the year, with auto, eating and drinking establishments, and general merchandising sales leading the way. District-wide food store sales are reported flat.

In southern California, the slump in ad revenue and circulation has claimed one of only two daily Spanish-language newspapers in Los Angeles. One media contact reports that employment and real estate ads are down 11 and 19 percent, respectively, from their weak year-earlier levels. Auto advertising, however, shows an increase of 9 percent over the previous year. Circulation and help wanted advertisements in Oregon and the Puget Sound area have begun to show modest gains.

Manufacturing

Job losses continue to be reported in defense-related manufacturing firms across the District. Arizona manufacturing had significant losses in February, principally in aircraft and missiles. Defense-related manufacturing has fallen in Utah as well. The Boeing company has

estimated that employment will be reduced by 6,500 during 1992, reflecting the cutbacks in defense and a slowing of the 737 production line. Orders continue to climb for Boeing 777s, however, which are scheduled to enter passenger service in mid-1995. Some nondefense manufacturers in Utah, however, are reporting a leveling off of the long slowdown in orders. While large job orders are still down, an upturn in small orders is having a leveling effect on the total volume of sales. Medical equipment manufacturers also are reporting an apparent leveling off in their sales slide of the past six months.

Agriculture and Resource-Related Industries

Parts of Idaho and eastern Oregon are suffering one of their worst drought years on record. Crop shortages are possible in potatoes, beans, sugar beets, and alfalfa, and utility costs are expected to rise. Prospects for crops in California have improved due to recent rainfall. Low ocean salmon counts--in part due to the drought--are causing severe curtailment of the 1992 ocean commercial and sport salmon fishing season. Supply conditions in lumber remain extremely tight due to environmental restrictions. In the last 30 days, however, there has been some softening of demand for wood products, and inventory levels have increased at the distribution and mill levels.

Construction and Real Estate

While home sales and residential construction activity are reported up in most District markets, prospects for nonresidential construction continue to look weak. In Hawaii, for the first time in years, construction employment is declining, in part reflecting a drop in Japanese investment. In Washington, government construction spending is off substantially, and Boeing's major facilities program appears to be slowing with construction schedules for projects being extended. Recent mergers of financial institutions are expected to put further upward pressure on vacancy rates in several District markets.

Financial Institutions

Demand for loans is reported to be weak to moderate in most District markets. Applications for mortgage refinancing in Utah have tapered off since January. Several southern California bankers are beginning to see real estate values affecting small business credit availability, since real estate holdings remain a primary source of collateral for small business loans. Nonperforming loans are reported to continue increasing modestly.