

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT

July 1992

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Residential Real Estate

Home sales and home building activity in recent weeks varied by region but appeared on balance unchanged for the nation as a whole. Cleveland and St. Louis reported decreased sales, and Richmond indicated that sales were flat. Atlanta, Chicago, and Minneapolis, however, reported increased sales, as did San Francisco for all states except California, where sales were weak.

Residential construction activity rose in the Chicago and Dallas districts, and in the San Francisco district outside of California. Homebuilding activity decreased in the St. Louis district and was generally unchanged in the Atlanta and Kansas City districts and in California. New York and Minneapolis indicated mixed activity in their districts.

Cleveland, Richmond, Kansas City, and Dallas said that lower interest rates were not spurring home buying, although Chicago indicated that lower rates were helping. In the New York and Richmond districts, real estate agents mentioned that the job security concerns of potential home buyers were continuing to dampen sales.

Nonresidential Construction

Nonresidential construction activity generally remained sluggish. Atlanta noted that most activity stemmed from either private custom-built or government projects. New York and Richmond, however, indicated that some new commercial projects were underway. Minneapolis, Dallas, and San Francisco reported continued depressed commercial real estate prices. Office building vacancy rates in the New York district, while still high, evidently fell in recent weeks as rents became more competitive. Dallas and San Francisco indicated that commercial property was selling far below construction costs.

Lower interest rates apparently had had little effect on commercial real estate loan activity. The demand for these loans was reported to be flat or down by Richmond, Kansas City, and San Francisco, and steady to somewhat higher by New York.

Financial

On balance, financial conditions improved slightly across the nation over the past six weeks. Loan demand was characterized as stronger by Richmond, Chicago, and Kansas City and described as stable by New York, Philadelphia, Cleveland, Atlanta, St. Louis, Dallas, and San Francisco. Commercial loan demand continued to exhibit weakness, although Richmond and Kansas City cited some improvement. Among districts commenting on consumer loan demand, Philadelphia, Atlanta, and Kansas City registered increases, while New York, Richmond, and St. Louis reported no change. Among loan categories, home mortgages exhibited the greatest strength in most districts, but the bulk of the activity was attributed to refinancing, which picked up somewhat in early July. Atlanta and Chicago noted that some banks were more aggressive in seeking new loans, but Boston found that small businesses were still choosing to obtain credit from nonbank sources.

Lenders in the Philadelphia and Dallas districts expected loan demand to be flat over the next few months. Boston, Philadelphia, and Chicago cited the continuing reluctance of bank customers, particularly businesses, to take on new debt.

Inventories

Inventory conditions varied across the country. Reports of retail inventories were especially disparate. Philadelphia and Chicago reported

levels below and in line with plans, respectively. Atlanta reported retail inventories to be at historically low levels. Inventories in manufacturing edged up in the Philadelphia district, and were unchanged in the Richmond district. Dallas district manufacturers described their inventories as high. Both Kansas City and Dallas respondents expected inventory levels to fall in the weeks ahead.

Prices and Costs

Richmond and Kansas City indicated small increases in the prices charged by retailers and manufacturers in recent weeks, while other districts reported little change. Manufacturers' input prices were stable, although Richmond, St. Louis, and Dallas noted increases in business and production costs. Construction costs rose in the Kansas City and Minneapolis districts. St. Louis, Dallas, and San Francisco reported recent declines in lumber prices, while Kansas City reported increases. Dallas indicated increases in the prices of chemicals, petroleum, and steel. Minneapolis and San Francisco reported greater-than-average increases in health care costs.

Agriculture and Natural Resources

Conditions in agriculture were slightly improved. In the Richmond, Chicago, and St. Louis districts, and in areas of the Kansas City district, recent rains have brought relief to heat- and drought-stressed crops. Dallas reported that crops in the district had benefited from a return to more normal weather. Damage to wheat was reported in the San Francisco district, however, where dry conditions in the Pacific Northwest reduced yields, and in the Chicago district, where too much rain harmed the crop. Minneapolis and Kansas City reported that hail had harmed some crops and that crop development had

been slowed by unseasonably cool weather. In the livestock sector, Chicago indicated increased hog production, and Kansas City reported that cattle herds were expanding slowly.

Movements in farm prices varied. Crop prices were reported to be above last year's levels by Minneapolis but declining in the Dallas district. Livestock prices were lower in the Chicago, Minneapolis, and Kansas City districts but stable in the Dallas district. Chicago indicated that milk prices were up.

Energy activity in the nation evidently continued to contract in recent weeks. The drilling rig count declined substantially in the Kansas City district, where activity was near historically low levels, but rose somewhat in the Dallas district. Oil industry respondents in the Dallas district indicated that they were cutting domestic exploration spending.

FIRST DISTRICT-BOSTON

First District manufacturing contacts reportedly face mixed and variable demand conditions. Those serving the auto industry have seen a recent pickup in demand; others are experiencing renewed weakness in several sectors. Most expect the economy to make continued small gains for the remainder of the year. Retailers express dissatisfaction with the pace of improvement in economic conditions within the District, and none anticipates any significant change in the near term.

Retail

Most First District retailers contacted in late July report no increase in sales over year-ago levels. They offer two explanations. First, cool weather has limited demand for summer merchandise, like gardening items and air conditioners. Second, consumers are said to be reluctant to spend while labor markets remain slack. Among the few retailers who have experienced increases in sales, only one attributes the improvement to a bottoming-out of the economy. All retail contacts agree that the New England economy is neither improving nor deteriorating, but at a standstill.

All note that the cost of goods remains stable or has increased only modestly. Similarly, prices offered to consumers are largely unchanged. Only one firm has been able to increase prices, and the majority say that discounts and promotions are still required to stimulate consumer interest. Nevertheless, inventories remain under strict control. Capital spending plans are generally limited to updating and remodeling; only two contacts expect to add to the number of their locations within New England.

Few contacts have increased employment at existing stores. And even within this group, one describes the new hires as mostly temporary, while another added workers only after existing staff had consistently

clocked considerable overtime. Only the respondents opening new stores plan to hire additional staff. Most are reluctant to increase wages; those who have done so have given only minimal raises. After seeing some improvement in the first months of the year, most retailers now feel that the economy has stagnated.

Manufacturing

First District manufacturing contacts describe business conditions as mixed and unusually hard to interpret. For almost 40 percent of the respondents, sales and orders are reportedly below year-ago levels by as much as 9 percent. But for an equal number, sales and orders are above 1991 levels, with gains reaching 20 percent. Recent trends are also generating mixed signals. Over the last month or so, half of the contacts have observed a modest improvement in demand, largely from the auto industry; the others have seen signs of renewed weakness. Orders for defense and commercial aircraft products are weakening, and regional computer companies have announced operating losses and declines in revenue in the second quarter. In addition, several contacts express concern that formerly robust European and Japanese markets may be slowing; by contrast, Latin American prospects are said to be taking a turn for the better.

A majority of manufacturing contacts report that employment is unchanged from or slightly below year-ago levels, but a minority cite gains of 7 to 10 percent. Moreover, by contrast with recent periods, most contacts expect to maintain their work force at its current size. A minority plan declines.

Most contacts indicate that capital spending in 1992 is unchanged from or below 1991 levels. This generally cautious approach reflects ongoing concerns about debt levels and liquidity needs; some companies are requiring divisions planning capital projects to generate the necessary cash themselves. Despite their current caution, several firms

plan increased capital spending in FY 1993. Investment goals include expanding capacity, launching new products, meeting environmental or communications needs, and cutting costs. Small business contacts still report difficulty in obtaining bank loans, but most have found alternatives; suppliers are now making credit available, even for capital projects.

Input prices were generally said to be stable. Some contacts indicate that they are still able to negotiate "deals" and continue to be pleasantly surprised by price developments. Nevertheless, rubber-related prices reportedly rose 2 to 4 percent on July 1, and a few respondents expect prices for paper and petroleum-based products to start up shortly. Respondents' selling prices are generally flat to down, with some discounting continuing both in this country and abroad. Several contacts mentioned that the auto companies are demanding price reductions, even on existing business. Only a minority of respondents have raised prices; the maximum increase was 3 percent.

Half of the respondents express optimism about their own company's prospects for the rest of the year. However, with recent trends so diverse, most contacts expect the U.S. economy to show little net change. Citing uncertainty, the debt overhang, and the steep yield curve, they see continued small gains as the most likely outcome through the end of 1992.

SECOND DISTRICT--NEW YORK

Reports on District developments continued mixed in recent weeks. Department store sales results varied widely in June though most contacts reported better-than-expected gains. Office leasing activity showed some further improvement and several areas experienced a decline in vacancy rates. Conditions in the residential construction market have been somewhat mixed, however, and unemployment rates rose in June to their highest levels since the early 1980s. Most loan officers surveyed at small and mid-sized banks noted no change in their willingness to lend but lackluster demand.

Consumer Spending

Sales results at District department stores varied widely in June though most contacts reported better-than-expected gains. The targeted levels were quite modest in some cases, however, and one chain had results that were below both plan and substantially below its year-earlier level. When compared with June 1991 changes ranged from -11 percent to +17 percent with most stores reporting gains between 4 and 9 percent.

Despite unusually cool weather, demand for men's and women's clothing was strong and one chain experienced its best Father's Day week in four years. Furniture and other household items also sold well. As a result of the generally positive sales results, inventories at most department stores were on or somewhat below plan. With regard to the outlook, respondents were still fairly cautious though they were hopeful that visitors to New York's Columbus quincentennial celebration and the Democratic convention would provide a significant stimulus to July sales.

Residential Construction and Real Estate

Conditions in the residential construction market have been

somewhat mixed in recent weeks. Homebuilders in two western and central New York areas reported a good response to this year's spring home shows with considerably better sales than a year earlier and some pickup in new orders as well. Sales were also off to a good start at a New Jersey site where 81 homes will soon rise. In other areas, however, activity was reportedly slow as consumers remained reluctant in response to continued layoffs and economic uncertainty.

Office leasing activity showed some further improvement as firms continued to avail themselves of lower rents and other concessions in order to upgrade their quarters. Several observers noted that, as commercial space is becoming more competitive with outside areas, some firms are cancelling plans to relocate and opting to remain in the District instead. As a result of these developments several areas, including Long Island, northern New Jersey, Westchester County and mid-Manhattan, have experienced a recent decline in office vacancy rates, although these rates remain at high levels. A major exception was downtown Manhattan where firms moving to newer buildings marketed older space and the vacancy rate rose.

Other Business Activity

District unemployment rates rose in June to their highest levels since the early 1980s and, at 9.2 percent in both New York and New Jersey, are now the second highest among 11 large states. New York's rate jumped from 7.9 percent in May while New Jersey's was up from 9.0 percent in May. While these seasonally adjusted state unemployment rates often show monthly volatility, their current high level and the continuing decline in nonfarm employment suggest to some analysts that the recession in the District has not yet run its course. Moreover, the outlook is dimmed by recent announcements of additional employment cutbacks ahead. In upstate New York, for example, Smith Corona will be

moving to Mexico within the next year, eliminating almost 700 jobs, and a footwear producer will be moving to Arkansas by the end of August eliminating another 145 jobs. On a more positive note, a pharmaceutical company employing 650 which had planned to relocate has instead decided to remain in the District and two manufacturing companies have just signed contracts with federal government agencies and could expand employment. In addition, the construction industry will receive a boost from a new \$235 million mixed-use tower for which land is being cleared in Manhattan's Lincoln Center area. Much of the building, which will cover an entire square block and have 38 floors of apartments, together with 8 floors of office and retail space, has already been sold or preleased. Reports from purchasing managers in June showed some improvement in general business conditions in Rochester and stability in Buffalo.

Financial Developments

Nearly all loan officers surveyed at small and mid-sized banks in the Second District indicated that their willingness to lend remained steady relative to two months ago, but the demand for loans was lackluster. Both consumer and residential mortgage demand were mediocre. The few respondents mentioning an increase in the demand for residential mortgages attributed it primarily to refinancing activity. However, the demand for business loans was reported as steady to somewhat higher.

Most respondents reported no change in delinquency rates during the past two months. Virtually all officers reported lowering their deposit rates but noted there was no outflow of deposits. Rather, deposits generally shifted from maturing certificates of deposit into more liquid savings accounts, as customers avoided being locked into low long-term rates.

THIRD DISTRICT - PHILADELPHIA

Business conditions in the Third District in late July appeared mixed. While manufacturers continued to report growth, other sectors were sluggish. Reports from area manufacturers indicated that orders and shipments were on the rise, although unfilled orders and employment were just steady. Most retailers said sales were running just even with or below the pace set this spring as well as in early summer of last year. Sales of summer apparel, in particular, were well below plan. Some discount stores, however, were achieving relatively good year-over-year gains. Bankers generally described loan demand as weak. While some institutions reported growth in home equity and consumer lending, on balance loan volume is virtually flat at major banks in the district.

The outlook in the Third District business community reflects current trends. Manufacturers forecast continued gains in orders and output but they do not expect order backlogs to mount. Retailers anticipate some improvement in the fall, but many do not expect a healthy sales pace to take hold until next spring. Bankers generally do not anticipate an increase in loan demand soon. They say both business firms and consumers appear reluctant to incur more debt and are unlikely to step up borrowing even when the pace of economic activity quickens.

MANUFACTURING

Manufacturing activity in the Third District continued to move up in July, on net; nearly one-third of the industrial firms contacted reported improved business, and nearly two-thirds said business was steady. On balance, manufacturers indicated that new orders and shipments were rising. Order backlogs appeared to be unchanged overall, and inventories were up marginally.

Producers of nondurable goods generally gave better reports than did makers of durable goods. In particular, metals producers and nonelectrical-machinery makers noted some recent slippage in shipments and orders. On balance, manufacturing employment was unchanged.

A majority of the manufacturers contacted for this report expect business to continue to improve over the next six months. They look for increases in orders to be matched by increases in shipments, leaving order backlogs virtually steady. Firms with plans to step up hiring and capital spending outnumber those that anticipate cutting back employment or capital expenditures.

Industrial prices remain generally stable, according to area manufacturers. Despite the current increase in business, three-fourths of the plant managers surveyed said that both input and output prices have been steady recently, and they expect price stability to persist into next year at the least.

RETAIL

Third District retailers gave mixed reports in July. Most of those contacted for this report said sales were running just even with or below the rate achieved in the spring months of this year and in July of last year. Auto dealers indicated that the sales rate in July slipped from June but remained above the year-ago pace. Some specialty stores and discount stores were faring better than the overall trend. In general, however, there were more reports of softness than strength. Sales of summer apparel were generally running below plan, and some merchants said their inventories of these goods were above desired levels. Merchants noted heightened competition as they have undertaken more promotions to maintain planned sales levels.

Several store executives believe that sales will be weak for the year as a whole and that it will be difficult to maintain profitability. While many

Third District merchants are looking to the fall for the first signs that consumer spending will begin trending up, some believe that a healthy sales pace will not be restored until 1993.

FINANCE

Third District bankers contacted in late July generally said loan demand was weak. A few indicated that consumer loans and home equity loans were up at their institutions, but total lending was flat. The most recent drop in mortgage rates has prompted an increase in mortgage applications, much of it for refinancing, but bankers said the volume of applications has not been as great as it was when rates fell at the beginning of the year.

Commercial bank loan officers do not foresee an increase in loan demand soon. Several said that both business firms and consumers appear reluctant to take on new debt. Some bankers also believe that loan demand will not rise strongly even when economic activity accelerates; they say businesses will be able to increase output significantly without having to borrow to expand capacity, and consumers will use growing incomes to improve their household balance sheets.

FOURTH DISTRICT - CLEVELAND

Summary. There is still little indication of a step-up in business activity in the Fourth District, although many respondents believe that the third quarter began stronger than the second quarter ended. Manufacturing continues to lead the recovery in the District, with respondents generally anticipating that production this quarter will at least match last quarter's increase. Retailers report that a recent spurt in sales helped to keep inventories near desired levels without the need to resort to the usual large summer clearance sales. Auto sales and production this quarter are expected to be slightly higher than last, despite scattered production cutbacks by some producers. Lower mortgage interest rates have contributed to another boost in loan refinancing, but have not yet added much to new loan activity.

Manufacturing. Despite the recent setback in manufacturing output in both the District and the nation, manufacturers anticipate that this quarter's performance will match or exceed that of the second quarter. Nevertheless, worker recalls, if any, are on a highly selective basis.

Chemical and plastics producers report sales increases for coatings, plastics, and special chemical products last quarter were at double-digit rates, and some producers anticipate that strong demand will continue through the balance of 1992. A small producer of chemical and metal products notes that record sales last quarter came from a variety of industries.

Respondents remark that capital spending is still primarily geared to productivity and product quality improvement. However, a tire producer

notes that rising demand for replacement tires has boosted output and profits sufficiently to support adding to production capacity.

Capital goods producers cite continued unevenness in business. Order backlogs have been inching up in the machine tool industry, although net new orders softened in recent months, according to some producers. A diversified manufacturer reports that their June orders rose strongly following weak months in April and May, but a producer of industrial components indicates that its order increases flattened in recent months. A producer of financial service products describes domestic demand as strong, and anticipates that production of office equipment machinery will continue near last quarter's high rate. Factory sales of heavy-duty trucks recovered substantially in the spring, and a rising trend is anticipated through the second half of the year, according to a major parts producer.

Consumer Spending. Retail sales in July showed little, if any, increase over June, according to District retailers, despite a recent sales flurry. Some retailers report a step-up in sales of consumer durable goods, but continued softness for nondurable goods. Because their inventories are either at or slightly higher than desired levels, they do not anticipate summer clearance sales will be as large as in recent years. Some retailers are apparently promoting fall merchandise, because of a dearth of summer goods.

Retailers are planning a less-than-usual inventory buildup of fall merchandise, not only because of uncertainty over sales prospects, but also because of improved inventory and sales techniques.

Automotive Prospects. Third quarter motor vehicle sales and production are expected to be slightly higher than in the second quarter, despite a recent cutback in production by Honda. Sales next quarter are expected to be

the best of the year, according to several automotive sources. They also note, however, that July sales were only at or slightly below anticipated levels but inventories are still described as being generally balanced. According to some producers, production next quarter could falter from this quarter if sales do not continue to improve.

Auto dealers appear to be more cautious in their sales outlook than in recent contacts. The level of July sales may fall somewhat short of June's. Those dealers that have begun to order 1993 models are planning to carry a smaller inventory than they had last fall.

Residential Construction. The latest reduction in mortgage interest rates has not yet sparked a revival in demand for new mortgage loans in most parts of the District. Mortgage rates in the Cleveland area have been lowered to between 7.6% and 8.6% for a 30-year, fixed-rate loan. While thrifts and banks report a strong revival in demand for loan refinancing, some major lenders expect new loan applications in July to fall short of the June level and even below that of a year earlier. In the Cincinnati area, however, where 30-year, fixed-rate mortgages average about 8.3%, demand for new loans is reported to be strong.

Banking. Major lenders report no significant change in net growth in business or consumer loans since the interest rate cuts earlier in July. They attribute continued softness in business loans in part, to a faster growth in loan pay-offs than in new loans. They also note a recent pickup in home equity credit and mortgage refinancing. They acknowledge that other lending rates, such as for new cars, have been reduced only marginally.

FIFTH DISTRICT-RICHMOND

Overview

District business conditions and attitudes in June and early July were little changed from the weeks before. Economic activity continued to grow modestly, and while survey participants remained concerned about the pace and sustainability of that growth, on balance they were optimistic about business prospects in coming months. Activity increased in manufacturing, ports and finance. Buyer traffic rose in residential and nonresidential real estate, but sales remained flat in most areas. Consumer spending and tourism were flat. In agriculture, recent rains partially reversed earlier damage to crops.

Consumer Spending

Our regular mail survey indicated little change in retail activity in recent weeks. Retail sales and shopper traffic were unchanged, and employment was stable. Wholesale prices, retail prices and wages apparently rose. Inventories increased, as did capital expenditures.

Retailers were optimistic about their prospects for the next six months. They expected sales, shopper traffic and employment to increase. They also anticipated higher employee wages, wholesale prices and retail prices.

Manufacturing

Our regular mail survey of manufacturers showed that District factory activity and general economic conditions improved moderately in recent weeks. Respondents reported increases in shipments, new orders and employee hours.

Prices rose, and most other indicators were stable. Manufacturers noted that, besides poor sales, government regulations and excess capacity were their most important current problems.

Manufacturers' forecasts for the coming months remained optimistic. They anticipated increases in all measures of economic activity except inventories and employment, which they thought would be stable.

Tourism

Hotels, motels and resorts throughout the District reported that tourist activity in July was below that in June but about the same as a year ago. About half of the respondents reported that bookings were slightly below last year's levels while one-third reported increases. Several respondents attributed the increases to an unusually good Fourth of July weekend, while those who experienced declines blamed general economic conditions. About half expected tourist activity to pick up through the remainder of the summer.

Finance

District financial institutions contacted by telephone indicated that credit conditions improved somewhat over the last six weeks. Commercial loan demand, while still weak, had strengthened. Consumer loan demand was steady. Loan rates had fallen somewhat for commercial, consumer and mortgage loans. Mortgage demand rose, but the bulk of the activity was in refinancings rather than in originations.

Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--reported that both imports and exports increased in June from May. Compared with a year ago, import activity was mixed, while export activity was generally higher. Export activity was expected to continue

increasing at Charleston and at Hampton Roads, but to decline at Baltimore during the next six months.

Residential Real Estate

A telephone survey of real estate agents and homebuilders indicated that activity had been mixed in the residential market since mid-June. Many respondents noted that buyer inquiries had increased, but that sales had remained generally flat. Respondents in several jurisdictions reported growth in the sales of lower-priced homes. Home sales appeared to have risen more in South Carolina than in other jurisdictions in the District.

Several respondents believed that a homebuyer's market existed and that many sellers had lowered prices. Most respondents said that lower interest rates had not improved their sales. As in previous surveys, some real estate agents said that the concern of prospective clients about their job security was causing them to delay home purchases.

Nonresidential Real Estate

Real estate agents surveyed by telephone said that the nonresidential market had been flat or had grown slowly over the past six weeks. On balance, the reports suggested a slight pickup in traffic across the District. District sales and leases had been flat, although weak growth was reported by some respondents, particularly in the Carolinas. Rents and prices on commercial real estate had been stable, and few nonresidential construction starts were reported. Most respondents thought that lower interest rates were having little effect on their markets.

Agriculture

Recent scattered rain throughout the District has brought some relief to heat- and drought-stressed crops, according to agricultural analysts. They

indicated that unfavorable weather in early to mid-July probably had reduced corn yields somewhat and had slowed the development of soybeans. Hay and pasture conditions were said to be fair to poor, but were expected to rebound quickly with the rain. Vegetable crops and tobacco were reported to be in generally good condition, with harvesting underway. The peach crop in the Carolinas, however, was poor.

SIXTH DISTRICT - ATLANTA

Overview: Contacts in the Sixth District generally reported that the economy is slowly but steadily expanding. Fewer retailers reported gains than in earlier months, but a growing number of auto dealers have begun to note a pickup in showroom traffic and sales. Manufacturers in a broad range of industries continue to record modest increases in output, and a small number of firms have reported adding production workers recently. Developers noted some recent leveling in single-family home building, but activity is improved over weak year-ago levels. Commercial construction, however, has not improved. Most banks report higher quality loan portfolios, and there were few reports of constrained credit supply. Wages and prices have remained essentially unchanged.

Consumer Spending: After several months of broad-based increases in retail sales, reports in June and early July were mixed. Sales of durable home furnishings and appliances have slowed, though sales of non-durables continue to show modest strength. Retailers are being very conservative in their sales projections for the rest of 1992 and many stores are maintaining historically lean inventory levels. Some report that they will not commit to adding jobs until there is a more substantial improvement in consumer demand. Reports from auto dealers, however, generally have been more positive: a small but growing number of dealers across the District noted improvement in both showroom traffic and sales in the last six weeks.

Manufacturing: Manufacturers in a broad range of industries report modest improvement in production and new orders. Textile and apparel firms have been particularly busy, especially producers of knits and active wear. Residential construction and remodeling continues to stimulate carpet, home appliance, furniture, and cabinet makers; although new orders have been slowing at some plywood producers. Producers of electronics in Georgia and

Florida report current increases in production and shipments and further expectations of improvement in activity over the next six months. Firms in each of these industries have reported that they are either lengthening factory workweeks or adding new employees.

However, business remains weak in some important sectors. Companies linked to commercial construction continue to report declines in production and new orders. Firms dependent upon defense department contracts expect reduced factory workweeks and permanent job losses.

Construction: Most realtors report that home sales gained modestly in June and early July. However, some noted that gains have slowed in comparison with the first quarter of the year. Again, first-time home buyers have contributed the most to recent sales, but some realtors have noted improvement in the upper price ranges as well. Builders report that single-family construction has leveled off this summer, but that new building activity remains above weak year-ago levels. Most contacts have not observed any improvement in multifamily construction, although there are reports of low apartment vacancy rates in certain markets. Commercial building remains slow, with most activity coming either from private built-to-suit or government building projects.

Financial Services: Bankers report that loan demand was mixed in the region in June and early July. Residential lending slowed noticeably from the first quarter of the year, although many institutions reported a pickup in mortgage refinancing applications in the first two weeks of July. Many banks noted an improvement in consumer lending for new and used auto purchases in June, but commercial loan demand remains weak. Bank loan portfolio quality continues to improve and several banks noted that they have become more aggressive in seeking new lending opportunities.

Wages and Prices: Most contacts reported that wages and prices remained stable in June. Firms that were hiring during the period found that ample supplies of labor allowed them to hire new workers at existing wage levels.

SEVENTH DISTRICT--CHICAGO

Summary. The Seventh District economy continued to recover in June and early July, but at a slower pace than in May. Establishment survey data indicate that the recovery in District employment has been better than the national average, although recent reports on District labor markets were mixed. Retailers indicated that consumer spending growth remained sluggish but positive. Manufacturing activity continued to lead the District's recovery, and increased motor vehicle production is expected to make a significant contribution to industrial production in the third quarter. District housing activity regained some momentum after recent declines in mortgage interest rates. Bank lending in the District continued to improve in recent weeks, although gains were concentrated in new residential mortgage loans and refinancing. Timely rains have alleviated the drought concerns of District crop farmers, while conditions faced by livestock farmers were mixed.

Employment. Establishment survey data indicate that District employment through May had recovered roughly one-fourth of its recessionary downturn, but more recent reports on labor markets were mixed. The employment component of most District purchasing managers' surveys generally continued to move higher in recent months, reaching levels consistent with stable or modestly increasing manufacturing employment. A private survey showed improvement in firms' hiring expectations for the third quarter, with reports for firms in the Midwest exceeding the national average. Some individual manufacturers reported plans to make significant employment increases in coming months. However, new hiring continues to be countered by the effects of previously announced layoffs, and there was little slowing in layoff announcements in District newspapers. Help-wanted advertising around the District has shown modest improvement in recent months, while initial claims for unemployment insurance gradually moved higher in most District states in June and early July.

Consumer Spending. Consumer spending growth was flat to slow in most areas of the District in June and early July. One large retail chain reported that sales in District markets were mixed, but year-over-year comparisons generally strengthened after some softening in trend was noted early in the second quarter. This contact reported that inventories were again in line with plan, after the unplanned increases noted in recent months. Another large retail chain reported that sales in District markets softened during June and early July, after exhibiting strength (relative to the national average) through most of last year and into 1992. Consumers' efforts to pare debt levels continued to dampen sales, according to this contact, although renewed strength in mortgage refinancing was expected to contribute to improvement in

sales during the rest of 1992. A survey of retailers in Illinois and Indiana indicated some loss of momentum during May, while a retailers' association in Wisconsin stated that its membership continued to be relatively insulated from demand weakness in other parts of the country. Reports from auto dealers and manufacturers indicated that retail sales closure rates continued to move upward in recent months. One of the largest auto dealers in the District reported that sales and traffic strengthened through the end of June. However, this contact noted that business softened in recent weeks, following the release of the unemployment rate for June.

Manufacturing. Manufacturing activity continued to lead the District's recovery through June and early July. Purchasing managers' surveys in Chicago, Detroit, Milwaukee, Iowa, and Western Michigan generally indicated continued gains in production and new orders. Slower growth was suggested by several of these surveys during June, but the Chicago survey for July suggested expansion picked up further upward momentum, led by production and new orders. Reports from individual manufacturers were mixed, with strength concentrated in production of consumer durable goods. An appliance industry representative reported that industry shipments growth increased during the second quarter on a seasonally adjusted basis, while orders continued their gradual recovery through June. One appliance manufacturer reported that orders and shipments have exceeded expectations thus far in 1992, although some concern with customer inventory building was also noted. Steel production in the District has been flat in recent months, although one manufacturer noted that orders were building somewhat faster than normal seasonal patterns, citing strength in orders for steel used in autos, appliances, and residential building. Several contacts noted that third quarter motor vehicle production plans are solid, calling for a significant increase from the second quarter.

Reports on capital goods production were mixed. A large truck manufacturer reported that heavy-duty truck orders and production continued to exhibit marked improvement in recent months. This contact stated that orders from customers in the District have been exceeding the national average. A large electronics firm reported modest but consistent improvement in orders through June, citing renewed strengthening in the market for computer hardware. Several capital goods producers noted that weakness in domestic orders was at least partially offset by export gains.

Residential Real Estate and Construction. Reports from housing industry contacts were generally positive, with renewed strength in sales and construction following recent declines in mortgage interest rates. One of the largest realtors in the District reported a record month for June, in part due to market share gains. A realtors' association stated that existing home sales had strengthened since early

July. A homebuilders association reported that strong construction gains earlier in the year had been followed by some softening in recent months, with relative strength noted in home improvement activity. One homebuilder stated that cyclical swings in activity have been concentrated in the upper end of the market, and reported renewed strength in demand for higher-priced homes following recent declines in mortgage rates. A realtor stated that housing starts may be exhibiting higher volatility due to lower inventories of land held by homebuilders. A large manufacturer of plumbing and furniture products stated that orders were still increasing, albeit at a decreasing rate, while shipments in the second half of the year were expected to continue to improve. Increased residential building activity and highway construction has generated consistent improvement in cement shipments in the District for the past five months.

Banking. Lending by District banks continued to improve, with gains concentrated in residential mortgage lending. Many contacts noted that recent declines in mortgage rates have again stimulated refinancing activity, although new mortgage lending also rose in recent weeks. Reports on commercial and industrial lending activity were mixed. A middle-market lender reported that credit line utilization in June and early July remained relatively flat, and stated that capital spending among its customers had been insensitive to interest rate changes. Another middle-market lender reported that borrower demand softened again in recent weeks. Several law firms involved in loan contract negotiations reported increasingly aggressive lending postures among banks, but a pickup in borrower demand remained relatively sluggish.

Agriculture. Frequent and extensive rains throughout the District during July have offset earlier drought concerns and significantly enhanced the condition of growing crops. Reflecting this, an unusually high proportion (about 85 percent) of the corn and soybeans in Illinois, Indiana and Iowa was rated "good" or "excellent" as of July 20. However, the frequent rains have also delayed the completion, and the quality, of the District's wheat harvest. Low temperatures continue to slow the pace in crop development and add to the risk that a frost could yet cause damage to fall-harvested crops. Conditions for the District's livestock farmers are mixed. Following a sharp downturn last year, milk prices have rebounded considerably this year. However, the continuing upswing in pork production will weigh heavily on hog prices this fall and well into next year. The latest estimates show hog numbers are up 5 percent from a year ago and 10 percent from two years ago, both in District states and nationwide.

EIGHTH DISTRICT - ST. LOUIS

Summary

Overall, District economic activity continues to increase slowly. Manufacturing reports are mixed, while nonmanufacturing reports indicate continued growth. Increased government regulation is reported to be hampering small business activity throughout the District. Construction activity has slowed relative to the beginning of the year, and real estate loan demand has declined recently. Reports of demand for other consumer and business loans, however, are mixed. District crops are, for the most part, in good condition because of recent rains.

Manufacturing

District manufacturing reports indicate little change in employment overall as some firms report expansions and growth, while others report layoffs and relocations. For example, an apparel manufacturer will begin renovating an old food-processing plant in Greenville, Mississippi, this fall, hiring 1,000 people upon its completion next year, while a furniture maker in Mississippi is expanding capacity, adding 125 employees. In addition, a Michigan-based maker of automobile seat covers expects to employ up to 400 people by January at its new plant in Kentucky.

Offsetting these gains, a St. Louis-based defense contractor, who has been reducing employment for almost two years, laid off an additional 222 people. An automaker announced that 500 will be laid off at its St. Louis plant this fall as it decreases production. A steel

manufacturer will eliminate 150 jobs when it closes an Illinois mill next year to move production outside the District. In addition, a Louisville clock maker, employing 185, closed.

Nonmanufacturing

District nonmanufacturing firms continue to show employment growth. For example, a major retailer plans to add 400 employees at its St. Louis operation before the end of the year, while a motor freight company will employ about 150 workers in Memphis this fall after relocating its southern Mississippi hub. A telecommunications company in Memphis added an additional 100 employees because of expansion. The St. Louis health services industry added 500 jobs in May, bringing the industry's total increase over last year to almost 4,000 jobs. On the other hand, a major bank that has already been reducing its regional workforce decided to close its Missouri operation next year to consolidate in Delaware because of that state's more favorable banking and insurance laws. Small-business contacts throughout the District report that increased government regulations have hampered growth and driven up business costs.

Construction and Real Estate

District construction activity has slowed from its early 1992 pace. Several contacts report that the recent level of single-family home permits is on par with its year-ago level; this contrasts sharply with early 1992, when the level of permits was up substantially from one year ago. Contacts are divided, however, about whether the recent slowdown is a "temporary lull" or whether it indicates that pent-up housing demand has been satisfied.

Banking and Finance

Recent balance sheet data from two samples of District banks give conflicting signals as to the direction of loan demand. Total loans outstanding at large District banks increased more in May and June (0.5 percent) than they had during the previous two months (0.1 percent). This turnaround is attributable to strength in business loans, which rose 0.6 percent over the period, compared with a 0.9 percent decline over the prior two months. Consumer loan demand, on the other hand, has weakened, with loans outstanding declining 0.6 percent in May and June after a 2 percent increase in March and April.

Loans outstanding at a group of small- and mid-sized banks rose less in May and June than they had in March and April. Business loans outstanding declined 0.6 percent over the current period after a previous 1 percent increase, while real estate loans increased much less than they had in the prior period. Consumer loans were the bright spot, increasing 0.5 percent after a slight decline in March and April.

Agriculture and Natural Resources

Most crops, aided by recent rainfall throughout the District, are in good condition. The winter wheat harvest is nearing completion in most District states, with yields and test weights generally reported as good to excellent. Some Mississippi cotton growers report that they have had to apply twice the normal quantities of herbicides because of dry conditions earlier this spring and a recent outbreak of weeds. Contacts in Kentucky and Mississippi report higher prices for new farm machinery. After an exceptionally rapid pace of first-quarter production, Southern pine lumber mills report slightly lower production and exports. Lumber prices are reported to have declined recently.

NINTH DISTRICT—MINNEAPOLIS

Economic conditions in the Ninth District declined somewhat. Labor markets, which had been showing modest signs of improvement, deteriorated. Retail sales continued to exhibit only modest growth relative to last year's level. Home and truck sales were relatively strong, while automotive sales were reported to have fallen off recently. Manufacturing was steady to positive in the District, while conditions in the construction sector were mixed. Conditions in the agricultural sector could become quite positive if the weather turns warmer this summer after a cool, wet first half.

Employment, Wages, and Prices

Unemployment rates rose across almost the entire District in May relative to their year-ago and month-ago levels. The only exceptions to this pattern were the Upper Peninsula where rates were substantially lower than their month-ago level, and western Wisconsin where unemployment rates were mixed. There have been a number of layoffs in the District, suggesting that unemployment may continue to be high when June and July figures become available. Also consistent with the rise in unemployment was the moderate growth in nonagricultural employment in May. June numbers are available only for Minnesota where nonagricultural employment was only 1 percent higher than its year-ago level. On the slightly brighter side, a recent study ranked the Minneapolis-St. Paul area fourth best in terms of job creation in a metropolitan area over the past year; however, this may be more a sign of national weakness than of local strength.

Reported increases in prices and wages continue to be moderate with the exception of medical costs and, in parts of the District, construction costs. A major food distributor in the District reports that their index of retail food prices actually declined in recent months.

Consumer Spending

Consumer spending in the District is generally moderate with some areas of strength. Major retailers in the District reported sales increases in comparable stores in June ranging from 2 to 17 percent relative to a year ago. Sales in rural areas are reported to be slow due in part to uncertainty over local agricultural conditions. Montana, however, reported a decline in their Canadian business.

Canadian shopping continues to be strong in North Dakota, with retail outlets in shopping malls reporting substantial year-to-date sales increases relative to a year ago. The Canadian government has sought to stem the cross-border flow. Recent regulations on appliance sales and service are reported to be having some effect on discouraging appliance sales. Additionally, in June the Canadian government agreed to collect provincial taxes on liquor and tobacco brought across the border. These factors, along with the greater driving distance involved, may explain Montana's recent declines in both Canadian sales and traffic.

New car and truck sales were reported to be stronger in the District in June than they were in the nation as a whole. However, figures for the first part of July indicate that sales have slowed somewhat, with some dealers reporting sales declines of over 15 percent for the first 20 days of July relative to year-ago levels. Truck sales, which have been strong in the District, are reported to be holding up better with sales in the first part of July reported to be slightly above their year-ago level.

Home sales which sagged in April and May after being quite strong in the first quarter, rose in June. Existing home sales in the Minneapolis-St. Paul area rebounded by 18 percent in June, relative to a year ago, though the median sales price was down slightly from a year ago. The housing market is reported to be booming in parts of Montana, due in part to the continuing influx of wealthy out-of-state buyers.

The summer vacation season is well under way and despite the cool wet weather, indications are generally good. Tourism in the District is being aided by special events and local government

spending to promote it. By way of example, there was a five day International Polkafest which attracted 10,000 people to Chisholm, Minnesota, and the Country Fest which attracted 80,000 to 100,000 people over a four day period to Eau Claire, Wisconsin. Glacier National Park is reported to be completely booked for the summer. Though crossings over the Mackinac Bridge onto the Upper Peninsula were off by almost 2 percent in June relative to a year ago, their year-to-date level is still 4.2 percent higher.

Construction and Manufacturing

Construction was mixed, with reports that it was booming in Montana and North Dakota, while from other parts of the District there were more negative reports. In Minnesota, total housing permits in May were down by 10 percent relative to a year ago. Commercial construction in the important Minneapolis-St. Paul area continues to show weakness due to the overhang of commercial real estate.

Conditions improved slightly in the District's manufacturing sector. The May level of average weekly hours in manufacturing in Minnesota of 40.5 was above its year- and month-ago level of 39.9. The June level of the Minneapolis-St. Paul area's average hourly earnings in manufacturing was up 2.5 percent from a year ago.

Resource-Related Industries

Conditions were mixed in the agricultural sector. Recent cool weather has slowed crop growth, however the precipitation that accompanied it has been most welcome. The fall harvest depends on how warm August turns out. There has been some hail damage in a few spots. The North Dakota mid-June index of prices received on farm products was up 4 percent from its year-ago level, with crop price increases of 13 percent and livestock price decreases of 8 percent.

TENTH DISTRICT - KANSAS CITY

Overview. Economic growth in the Tenth District appears to have slackened recently. Retail sales are sluggish to moderately improved, with new car sales holding steady. Housing starts are steady to slightly lower, despite lower mortgage rates. Farm income prospects are lackluster, and energy activity has weakened further. Prices have been rising only slowly, both at retail and for manufacturers' inputs.

Retail Sales. While some retailers report a moderate improvement in sales over the last month, others say that sales remain sluggish. Sales of apparel and home furnishings, however, are strong for many retailers. Retail price increases have moderated due to the sluggish economy and intense competitive pressures. Most retailers expect to post small price increases, if any, for the rest of the year. Retailers are maintaining current inventory levels because sales are expected to improve later in the year.

Automobile sales over the last month were steady in most parts of the district. Despite some reports of credit constraints, financing is generally available for both dealer inventories and new buyers. Most dealers are optimistic about future automobile sales and are reasonably satisfied with current inventory levels.

Manufacturing. Most purchasing agents report that input prices were steady to slightly higher over the last month, and should remain stable over the next month. No firms report any significant difficulties in obtaining materials, and several firms are experiencing shorter lead times for supplier deliveries. Although few firms express much dissatisfaction with current inventory levels, most plan to reduce their stocks somewhat further. Recent

export performance has been mixed, but most firms expect stronger exports over the next three months.

Energy. District energy activity remains near the low levels reached during the 1986 energy bust. The average number of operating drilling rigs in district states fell from 192 in May to 187 in June, pushing the June rig count nearly 20 percent below its year-ago level.

Housing. Housing starts remain significantly higher than a year ago, but are steady to slightly lower over the last month. Builders expect starts to remain steady for the rest of the year. Mortgage demand is picking up again in response to lower mortgage rates, with much of the pick-up due to refinancings. Respondents expect mortgage rates to be steady and demand relatively strong over the next few months. The inventory of unsold homes is lower than a year ago. The prices of most building materials have risen gradually except for lumber, which has jumped sharply over the last year. Higher lumber prices and stronger housing demand contributed to rising home prices in the district over the last year.

Banking. Loan demand rose at most reporting banks last month, while loan-deposit ratios were virtually unchanged. Most banks report higher demand for commercial and industrial loans, consumer loans, and home mortgages. Demand for residential construction loans was mixed, and flat or down for commercial real estate loans and agricultural loans.

All respondents lowered their prime rate half a percentage point last month and reduced their consumer lending rates. All banks expect their prime rates to remain unchanged in the near future, and most banks foresee no further change in their consumer lending rates. Lending standards were unchanged.

Changes in total deposits were mixed last month, with slightly more banks reporting increases than decreases. Demand deposits rose at most banks, while large CDs fell. Changes in NOW accounts, MMDAs, and small time deposits were mixed, and IRA and Keogh accounts were flat. All banks reported reducing their deposit rates along with their lending rates.

Agriculture. Crop conditions across the district vary widely. The district's winter wheat harvest is almost complete in Oklahoma, Kansas, and Missouri but just beginning in Wyoming, Colorado, and Nebraska. Overall, an average-sized wheat crop in the district is expected. Plentiful rainfall boosted yields above normal in central Oklahoma, but an early-summer cold snap and an extensive hail storm trimmed yields in parts of Kansas and Nebraska. Meanwhile, growing conditions have recently improved for the district's corn, soybean, and milo crops, although cold, wet weather slowed the early development of the crops.

The district's cattle breeding herd continues to expand slowly, with most district ranchers just maintaining the size of their herds. But despite a widely expected decline in cattle prices later this year, some ranchers are taking advantage of excellent pasture conditions to expand herds.

District agricultural bankers report no increase in farm loan demand, even with falling interest rates. Many farmers may be reluctant to take on new debt in a year when prospects for farm income are lackluster. Weak prospects for farm income are also restraining sales of farm equipment.

ELEVENTH DISTRICT--DALLAS

District economic activity is increasing slowly. Most beige book contacts remain cautiously optimistic that growth will continue, although many respondents express uncertainty surrounding the presidential election and its impact on economic conditions. Overall, respondents indicate very little upward pressure on prices. Manufacturing activity continues to increase slowly. Service sector activity is weak but growing. Retail sales have increased moderately, and auto sales are rebounding strongly. Construction and real estate markets are slow with the exception of residential home construction which has picked up again. The oil and gas industry continues to contract. Financial institutions report stable loan demand, but many respondents are disappointed with the level of loan demand from quality borrowers. Some service sector, retail and auto respondents note an increase in cash purchases. Agricultural producers report good crop development although most commodity prices have declined slightly.

Manufacturing activity continues to increase slowly. Apparel production has risen with particularly heavy demand for denim products. Demand for electrical and electronic machinery is up slightly, helping to reduce inventories which remain too large. Fabricated metal producers report increasing sales, with demand strongest from the petroleum and petrochemical market. Prices are rising because of increases in the price of raw steel. Demand and prices for primary metal are unchanged overall, although demand remains weak for products related to oil exploration. Chemical producers report a slight decline in the demand for industrial chemicals but demand remains strong for pharmaceutical chemicals and chemicals containing freon. Environmental restrictions have increased chemical production costs, and some producers have moved production outside the U.S. to avoid these regulations. Demand for paper products is unchanged. Stiff competition has held

prices stable despite rising pulp prices. Demand for lumber has risen slightly, mostly for producers who sell within the District. Demand is strongest for residential home construction and remodeling. Lumber prices have declined, however. Stone, clay and glass production has increased. Demand is strongest from single-family homebuilding and highway construction. Inventories of concrete rock are low and selling prices have increased. Domestic demand for oil field equipment has been weaker than expected because of the weak natural gas market. Producers are optimistic about future strength in the domestic market, however. International demand for oil field equipment has declined and producers are expecting continued weakness. Petroleum refining producers report weaker than expected demand. Prices have increased but costs are rising faster. Demand for food and kindred products is generally stable. Several food wholesalers report strong vegetable sales. Okra and peanuts, however, face strong global competition.

Service sector activity is increasing very slowly. Accounting, legal, advertising, consulting and temporary service respondents report slight increases in sales. Contacts are optimistic but not enthusiastic about future activity. Overall, prices are generally stable. Several respondents note that most transactions are occurring without the use of credit.

Retail sales are increasing moderately. Respondents say that they are becoming more confident that sales will continue to increase, although at a slower than desired pace. Retailers report little or no price increases, and are continuing to reduce costs. Auto sales are rebounding strongly. Dealers note an increase in cash purchases.

Construction and real estate markets are slow with the exception of residential home construction. Residential construction picked up in June and July after a brief slowdown in May. Inventories are tight, and selling prices have increased in high demand areas. One

respondent noted that homebuilding is not doing as well as might be expected given such low interest rates. Existing homes sales have fallen. Multi-family rental demand remains steady but below expectations. Office rental demand is steady at low levels. Office sales have picked up, but prices are 50 percent of construction costs. The industrial market is unchanged with moderate demand at low prices. Nonbuilding construction has increased recently because of increased highway construction which is expected to continue rising.

Crude oil prices have been averaging between \$21 and \$22 per barrel, depending upon the latest news from Iraq. The rig count has improved somewhat from an all-time-low in June. The oil and gas industry continues to contract, however. A survey of oil companies shows that they are cutting domestic exploration spending. A very cold spring and a heat wave in the South have kept natural gas prices moving upward. January futures prices have climbed to above \$2.00 per million Btu, about a 69 percent increase from the January 1992 average spot wellhead price.

District financial institutions report stable loan demand. Many respondents, however, are disappointed with the level of loan demand from quality borrowers. The residential real estate market, however, has been supporting good loan demand from new loans and refinancings. Liquidity remains plentiful. Loan demand is expected to remain flat over the next three months.

District agricultural conditions have improved. Producers report good crop development, with particularly good peach, orange and vegetable production. Most commodity prices continue to decline. Livestock prices have remained stable for the past month but are well below last year's prices. Severe weather conditions earlier in the year have delayed production and raised costs in some areas.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions remain weak in California, but are improving moderately in other District states. In California, further cutbacks are reported in aerospace and defense-related manufacturing. In addition, the state's fiscal problems threaten layoffs in education and other government services. Outside of California, moderate improvement is reported in retail trade, non-defense manufacturing, and residential construction. The strongest conditions remain in Utah and Idaho, but drought is threatening agriculture in certain sections of the Pacific Northwest. Overall business sentiment declined since our last report. Little upward pressure on wages and prices is reported.

Business Sentiment

Twelfth District business leaders are less optimistic than they were at our last report. Only one-third of our respondents now expect the real economy to expand during the next four quarters at a rate of at least 2.5 percent. This proportion is down from one-half in June. Almost two-thirds of our respondents expect output to expand, but at a rate below 2.5 percent. The proportion of respondents expecting improvement in employment, consumer spending, investment, and housing starts also declined, with the proportion expecting a decline in the unemployment rate over the next four quarters dropping from two-thirds to one-third. Most respondents expect little change in the rate of inflation.

Wages and Prices

Contacts continue to report little upward pressure on wages in District markets. Salaries in some sectors of California higher education are expected to decline by 5 percent, and only nominal increases are reported for state and city workers in Arizona. In Hawaii, proposed wage increases for

hotel workers may be delayed one year. In California, wage negotiations in the construction sector are reported to have been settled with no increase in labor costs. A wage settlement in the forest products industry, however, calls for an average 3.5 percent annual wage increase over the next two years.

Price changes are reported to be modest except for health care and insurance. Several respondents report retail price markdowns in department and shopping center stores. Supermarket prices are reported at last year's levels, with slight increases in non-food items balancing declines in food products. Drought conditions, however, are raising utility prices in certain sectors of the Pacific Northwest. Due to the state's budget crisis, higher education fees for California's state universities are expected to climb 40 percent.

Retail Trade and Services

Contacts with major retailing operations report gradual improvement in department and discount store sales across much of the District. Sales were reported as "very soft" in June by one major retailer, but picking up in July. Sluggish conditions continue in southern California. Contacts report that auto sales are up slightly in California, but down in Arizona after a strong first quarter. Auto dealers in Utah report good sales. Some deterioration in consumer confidence is noted by many contacts, particularly in California where the state budget crisis and defense reductions threaten further employment losses.

In Utah, strong expansion is reported in computer services, medical/health services, and engineering and management services. Layoffs in the insurance industry, however, are reported in California. Fiscal problems in California (and to a lesser degree property tax limitations in Oregon) are having a significant adverse impact on most levels of government.

Manufacturing

Cutbacks in aerospace and defense-related industries continue across the District, with major

employment reductions recently announced in southern California due to production slowdowns and consolidations. Layoffs are reported in aerospace in Utah, and defense cutbacks have been felt even in the otherwise robust Idaho manufacturing sector. The recent weakening of airlines' financial positions due to fare wars has raised concern about further cancellations of commercial aircraft orders. Electronic components manufacturing remains weak in most District markets.

Outside of defense and aerospace, conditions are improving modestly. In the Pacific Northwest, improvement is reported for fabricated metals, industrial machinery, and the region's shipyards. In Utah, production is expanding in office furniture, food products, and automotive airbags. Contacts report stable to declining employment in the utility industries. Railroad employment remains strong, however, due to increasing rail traffic.

Agriculture and Resource-Related Industries

Despite some recent rains, the sixth year of drought is affecting agriculture adversely in many parts of the Pacific Northwest. Contacts report a shift to drought tolerant (but less valuable) crops like grains. Even so, winter wheat yields are reported at only 85 percent of average. Water quality problems are reported, and reduced flows threaten trout streams and fish hatcheries. In Idaho, the drought could move up the timing of the potato harvest, affecting quality. Uncertain log supply and weak housing activity in California continues to hurt the lumber and wood industries in Washington and Oregon. A moderate decline in lumber prices is reported for the last two months, following good conditions earlier in the year.

Construction and Real Estate

Construction and real estate activity varies substantially across District markets. The strongest conditions are in Utah, Idaho, and eastern Washington. Property sales in Salt Lake City are reported up 25 percent from a year earlier, and the combined value of Idaho construction is up 57 percent from a year earlier. Home construction and remodeling work is reported to be expanding in

Oregon, where dry weather has advanced the start of the summer construction season. Home sales in Oregon for May were reported up 14 percent from their year-earlier level. Residential construction in Arizona continues to improve, though little commercial and industrial activity is reported. The housing market in California, however, is reported sluggish. New home construction remains weak, with permits for the first five months of 1992 down 12 percent from a year earlier. Sales of new and existing homes have rebounded somewhat from the weak conditions of late 1991, but remain below their year-earlier levels. Commercial real estate conditions remain depressed in southern California, with transaction prices of some properties falling substantially below replacement costs.

Financial Institutions

In general, contacts in financial industries report flat to slightly improving conditions. Downsizing continues in California due to mergers, cost containment, slow loan demand, and increased problems in loan portfolios. Several southern California bankers expect future staff cuts. Large California banks are reporting declines in commercial, consumer, and real estate lending. The bulk of real estate lending is for refinancing rather than for new loans. Soft loan demand has allowed California banks to make sizeable additions to their securities holdings. The banking industries in Utah and Idaho continue to enjoy favorable business conditions. Mortgage and consumer loan demand is very strong, while commercial loan demand is stable. Many banks across the District report sizeable shifts from banks into liquid money fund accounts or into higher yield bond funds in response to lower interest rates.