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Summary of <sup>FCV-1-82</sup> Commentary on \_\_\_\_\_

# Current Economic Conditions

by Federal Reserve District

SUMMARY OF COMMENTARY

on

CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

October 1992

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**Summary\***

Economic activity has continued to increase in most of the districts, but at a slow and uneven pace. Boston, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas all reported some improvement, ranging from a slightly more positive tone in Boston to a modest expansion in St. Louis. Developments in New York, Philadelphia and San Francisco were described as mixed, with improvement in some sectors and sluggishness in others. Retail sales grew in most districts though the extent of the gain varied. Activity in the manufacturing sector apparently lost some momentum in much of the nation as several districts noted a slower pace of expansion or declining demand. An improvement in residential construction and sales was noted in several districts, with gains generally concentrated in the low-to-middle-income range of single-family housing. Several districts have reported a slight increase in overall loan demand. Cool and damp weather continued to delay harvests in much of the nation although yields on many crops were very good. The few reports received this time on wage and price developments referred to generally stable conditions, though with

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\*Prepared at the Federal Reserve Bank of New York and based on information collected before October 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.

scattered price increases reported on a few individual items.

#### Consumer Spending

District reports indicate that retail sales improved in most areas in recent weeks, though the extent of the gain varied. Moreover, some retailers stated that the selling climate remained difficult and that discounting and other promotional efforts were needed in order to achieve the latest increases. Sales gains varied from slightly improved in Boston and Philadelphia to markedly improved in Cleveland. Sales of nondurables were strong in New York, Atlanta, and Kansas City while Philadelphia and Cleveland registered gains in most items. Retail activity remained sluggish in California, however, as defense-related employment cutbacks continue. Districts reporting on automotive sales were evenly divided between those experiencing some softness and those with a pickup in demand. With the exception of some excess auto stocks, retail inventories remain at generally satisfactory levels in most districts at this time. Respondents in four of the districts expect at least somewhat higher holiday sales this year than last. Tourist activity has slowed in the Richmond District, primarily because of fewer convention bookings, but remains a bright spot in Atlanta and Minneapolis.

#### Manufacturing

Activity in the manufacturing sector apparently lost some momentum in much of the nation as several districts, including Atlanta, Chicago, Cleveland, New York and Philadelphia, noted a

slower pace of expansion or declines. Richmond, St. Louis, Dallas and the San Francisco District outside of California noted some improvement, however. Aircraft and defense goods, nonelectrical machinery, rubber and plastic products and primary metals were cited as products for which demand has slowed. Respondents pointed to the weakness in foreign economies and dampened consumer confidence in this country as sources of concern. On the other hand, manufacturers of building supplies, carpeting and other home furnishings have seen an increase in demand as a result of the post-hurricane rebuilding in the South and an uptick in housing demand in some other areas. Dallas reports strong demand for fabricated metals and electrical and electronic machinery and San Francisco notes that demand from Latin America and Pacific Basin countries is supporting manufacturing activity in that district. St. Louis reports that manufacturing employment gains continue to outnumber reports of losses. With regard to the outlook, Boston states that manufacturers are cautiously optimistic, and those in Philadelphia believe that the upturn which began last spring is still on track. Manufacturers in Cleveland are optimistic about the next six months.

#### Construction and Real Estate

An improvement in residential construction and sales was noted in several districts with gains generally concentrated in the low-to-middle-income range of single-family housing. Boston reported that the real estate market has stopped declining in

most New England states and that the volume of sales is up substantially from a year earlier. Cleveland and St. Louis noted that residential contracts and permits were well above the year-earlier pace and Richmond reported strong sales to first-time homebuyers. Single-family homebuilding is providing the only source of strength in the Dallas construction industry as was also the case in Kansas City. In Florida, a good deal of hurricane-related residential rebuilding is now taking place. San Francisco reported sluggish sales and declining prices, particularly on more expensive homes, in California and a big jump in foreclosures in the southern part of the state where defense-related job cutbacks are still occurring. However, stronger residential markets exist in other district states such as Oregon, Utah and Idaho. A majority of districts noted that multi-family housing starts have been flat. Most banks report relatively slow nonresidential construction activity, a major exception being Minnesota where there has been a substantial increase in awards for infrastructure such as roads, bridges, and water/sewer construction and where the building of casinos and new motel space is underway.

#### Financial Institutions

Several districts have reported a slight increase in overall loan demand in recent weeks. Mortgage refinancing activity, however, seems to have peaked in a number of areas. Philadelphia noted that some banks saw a recent pickup in commercial and industrial loans and that consumer lending was level or

increasing. Atlanta banks reported loan demand as flat or slightly higher with some increase in consumer loan activity. A few large banks in Cleveland saw a step-up in business loans in recent weeks though, as in several other districts, the most active part of the market continued to be residential mortgages. St. Louis and Kansas City also reported a recent increase in loans outstanding with business, real estate and consumer loans up in St. Louis and most categories stronger in Kansas City. Overall loan demand remained sluggish in New York where demand for business loans declined, and Dallas noted a softening of loan demand that some bankers attributed to business borrower caution about the near-term economic outlook. Financial conditions were mixed in the San Francisco District. There was weakness in California, where consumer loan demand continues to drop and commercial loan demand is weak, but brisk demand for mortgage loans in Utah from consumers upgrading their housing and from continued migration into the state. With regard to the outlook, bankers in Dallas expect business loan demand to rise slowly and Miami anticipates some increase in loan demand from the process of hurricane rebuilding. Philadelphia bankers say the outlook is uncertain and none predicted accelerated growth.

#### Agriculture and Resource-Related Industries

Cool and damp weather continued to delay harvests in much of the nation. In Richmond the harvesting of summer crops and the planting of small grains were slower than normal as unseasonably cool weather delayed the maturing of corn and soybeans.

Minneapolis notes that an unusually cool and wet growing season delayed crop maturity and continues to retard harvest operations, but that yields for all major crops except soybeans are generally excellent. Cool weather also impaired the growth of late-planted crops in Dallas and production estimates have been reduced slightly as a result. In Kansas City, however, corn, soybean and milo yields are generally larger than normal while cotton and peanut yields are near normal. In addition, the planting of winter wheat is nearly complete in that district and the crop is generally in good condition. The soybean harvest was at a near-normal pace in the Chicago district except in Michigan where rain slowed harvesting. Progress with the corn harvest has been considerably slower than normal due to the high moisture content of this year's crop. The cotton harvest in St. Louis was hampered by adverse weather conditions, but good to excellent yields are reported for corn, soybeans and rice. California reports that while parts of the district are experiencing drought, sunny weather has helped tree crops such as apples and cherries whose production is well above last year's levels.

Mining has been lackluster in Minneapolis with low prices for gold and copper and slack demand for iron ore. Aluminum production remains high in California despite sharply falling prices but the output of forest products continues low. The surge in domestic demand for plywood resulting from recent hurricane damage has apparently subsided and shipments to Japan and other Pacific Basin countries remain down.

## FIRST DISTRICT-BOSTON

First District business conditions have acquired a slightly more positive tone, according to contacts reached in the third week in October. Half the retail respondents report that sales in September and early October were flat compared with year-ago levels; for the rest, sales rose at a close-to-normal pace. The majority of manufacturing respondents also indicate that sales and orders were even with or slightly above year-ago figures. In most New England states, residential real estate markets have stabilized; prices are flat and volume is rising. Contacts in nonbank financial services report mixed trends, but most have seen increases in assets under management.

Retail

First District retail contacts have seen a slight improvement in prevailing conditions. Retailers who faced mixed results in past months noted some recent steadying in sales, while those who previously reported increases did so again. None attributes this modest strengthening to improved consumer optimism. All believe their firms' promotional efforts were especially effective.

With no change in the cost of goods sold, retail contacts continue discounting to attract bargain-conscious consumers. Inventories remain closely monitored, but four respondents plan to expand the number of store locations. Employment is increasing only to staff new locations, while wages are unchanged or rising modestly.

Manufacturing

Demand for manufactured goods has been mixed in recent months. The majority of respondents report changes in sales and orders compared to a year earlier ranging from zero to 7 percent. A couple had significantly better results, while others experienced declining demand. Sales of electronics and some housing-related products increased. Sales

of automotive products were highly variable, while those for aircraft and defense goods declined. Markets in Japan and Europe (especially the United Kingdom) were described as weak, although several manufacturers report doing quite well overseas because of gains in market share.

Manufacturing contacts report that their selling prices range from below to very slightly above year-ago levels. Increased input prices for paper, rubber, some chemicals, and imported goods have put pressure on margins for some companies.

About half the respondents have cut U.S. employment in the past year, by up to 16 percent. At the others, employment has been increasing, by as much as 5 percent. Capital spending was most often described as flat, and has been concentrated in cost-reducing or efficiency-improving equipment.

On balance, manufacturers expressed cautious optimism about the economy over the next year. Most project 1993 to be similar to or slightly better than 1992. Respondents indicate concern over weakness in foreign economies and dampened consumer confidence in the United States. Positive factors include a pent-up consumer demand for autos and housing and improved business and household balance sheets.

#### Residential Real Estate

The residential real estate market in most New England states has stopped declining, with prices flat since spring, and volume up as much as 20 to 30 percent over year-ago numbers. A large stock of properties continues to overhang the market, and transactions are still concentrated at the low end of the market, although selected areas are seeing an increase in "trade-up" activity. Connecticut is the exception, with prices still falling, especially in areas which are seeing additional layoffs in defense-related industries. Most contacts attribute the current real estate stagnation to high unemployment and

low consumer confidence, although many realtors believe that consumer confidence will pick up after the election, regardless of the outcome.

#### Nonbank Financial Services

Insurance companies report mixed sales trends, but firms seeing increases slightly outnumber those with declines. Most respondents experienced decreasing employment for the year, with the rest reporting little change. Wage costs have kept up with general inflation. A majority of respondents saw decreases in their pension business, which they attribute to employer sensitivity to continuing weakness in the insurers' commercial real estate portfolios. Sales of personal life insurance and retail investment products, such as annuities and mutual funds, rose. Investment management companies surveyed also report increases in assets under management. Respondents attribute growth in investment products to consumers' switching away from bank deposits because of low interest rates.

#### Outlook

The nonprofit New England Economic Project (NEEP) released its semi-annual forecast on October 21. According to this forecast, total nonagricultural employment in the region will stabilize in the first quarter of 1993 and begin to grow in the second quarter, albeit very gradually. NEEP predicts that half the net jobs added in the region in the first year of recovery will be in services; another third of the job growth is expected to be in trade. Manufacturing employment is not expected to improve until the third quarter of 1993.

## SECOND DISTRICT--NEW YORK

Developments in the Second District since the last report remained basically mixed. Most contacts at District department stores reported stronger-than-planned sales in September and positive over-the-year changes. Moreover, office leasing activity showed some improvement as firms continue to avail themselves of lower rents and other concessions in order to upgrade their quarters. The residential construction market was mixed, however, with homebuilders in upstate New York reporting somewhat stronger buying interest than those in downstate communities. New York's unemployment rate rose in September while New Jersey's fell following August declines in both states. The latest Buffalo and Rochester purchasing managers' reports were less favorable than earlier. Most senior loan officers at small and midsized banks indicated no change in their willingness to lend.

Consumer Spending

Most contacts at District department stores reported stronger-than-planned sales in September and positive over-the-year changes. However, while generally pleased with the results, some retailers cited the later back-to-school shopping this year and extra promotional activity as major factors in September's strength. No one thought a turnaround in consumer sentiment had occurred and most said they were cautiously optimistic about what lies ahead.

Year-to-year sales increases in September generally ranged from 4 to 16 percent. One chain reported a smaller-than-expected over-the-year decrease. Categories registering the greatest improvement were sports apparel, outerwear and bed and bath items. Inventories are reportedly in good shape--either on plan or a little below.

### Residential Construction and Real Estate

The residential construction market remained mixed in recent weeks with homebuilders in upstate New York reporting somewhat stronger buying interest than those in downstate communities. In some New Jersey areas, plans are being revived and revised for projects that have been in default, and in New York City, several moderate-income housing developments have recently been started or soon will be underway. Developers report continuing problems in obtaining acquisition and construction loans, however, and observers note that most new homebuilding involves substantial amounts of internal financing or government subsidies.

Office leasing activity showed some improvement as firms continue to avail themselves of lower rents and other concessions in order to upgrade their quarters. In addition, most areas report little or no new office space under construction at this time. As a result of these developments, several areas, including Long Island, Fairfield and Westchester counties and mid-Manhattan, have experienced a recent decline in office vacancy rates, although they remain at high levels.

### Other Business Activity

District unemployment rates moved in opposite directions during September following August declines. New York's rate rose to 9.0 percent from 8.5 percent in August while New Jersey's rate, also at 9.0 percent in September, fell from 9.4 percent. Two developments are likely to boost construction employment. The Port Authority of New York and New Jersey recently announced that it will build an additional international terminal at Newark Airport and that major projects are planned or already begun at La Guardia and Kennedy airports, including the first new passenger terminal at Kennedy since the 1960s. In another major construction project, New York City has embarked on a huge program to build or renovate 32 court facilities throughout the five boroughs over the next several years. In other news, a large discount chain has agreed to acquire and reopen

6 of the 11 Alexander Department Stores in the New York metropolitan area which closed earlier this year. Remington Products announced that it will remain in Bridgeport, Connecticut, thereby retaining 1100 jobs and probably repatriating some jobs from abroad as well. On the negative side, I.B.M. will reduce production of semiconductors and mainframe computers, probably resulting in layoffs at its factories in the District.

The September survey of Buffalo purchasing managers showed much smaller percentages of firms reporting a rise in new orders and production following substantial improvements in these categories during August. The latest survey of Rochester purchasing managers also showed a sizable drop in the percentage anticipating an improvement in business conditions over the next three months.

#### Financial Developments

Most senior loan officers surveyed at small and midsized banks in the Second District indicated that their willingness to lend remained steady relative to two months ago, although the percentage of officers citing an increased willingness was somewhat higher than in the last survey. Almost all bankers reported that they would not ease their standards in response to the recently revised federal guidelines recommending less rigid loan-to-value ratios for construction and land development loans.

A majority of respondents noted that overall loan demand remained sluggish. Largely due to refinancing activity, demand for residential mortgages continued to increase and consumer loan demand improved slightly. However, demand for commercial and industrial loans and nonresidential mortgages weakened. Almost all respondents reported either maintaining or lowering interest rates. A majority of officers indicated that delinquency rates for residential mortgages and commercial and industrial loans were unchanged to slightly lower during the preceding two months.

## THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District appeared mixed in early October. Activity in the manufacturing sector eased, according to surveyed firms, while retail and banking contacts reported some improvement. While half of the area manufacturers contacted recently said new orders were running at a steady rate, the number of firms that indicated drops in orders slightly exceeded the number noting gains. Area retailers reported a modest increase in sales, on balance, in the first half of October, continuing an upward trend they noted in September. Auto dealers gave mixed reports, but it appeared that sales were running at a steady rate. Bankers generally reported continuing gains in residential mortgage lending for both refinancings and purchases, and steady to slightly growing consumer lending. Some bankers said commercial and industrial lending had picked up recently.

The outlook among Third District business contacts is modestly positive. Despite recent signs of softness, a majority of the manufacturers polled look for improvement over the winter, and nearly a third plan to step up hiring. Retailers expect the current trend of rising sales to result in a slightly better fourth quarter this year compared to last. Bankers' expectations are muted; most of those queried said loan growth would remain slow in the months ahead.

MANUFACTURING

Manufacturing activity in the Third District appears to have slipped somewhat in recent weeks. Of those industrial firms contacted in early October, the number who reported that they had experienced some slowing in business in

recent weeks slightly exceeded the number who noted gains. On balance, Third District manufacturers said new orders were running at a slower rate in October than had been achieved in September, with drops especially noted among makers of transportation equipment, nonelectrical machinery, rubber and plastics, and metal products. Printing firms also reported declines in orders.

Employment indicators at Third District manufacturing plants also showed some deterioration in October compared to September. Although two-thirds of the firms contacted for this report were keeping employment steady, more companies were cutting back their workweeks and reducing employee levels than were extending hours or hiring more workers.

Despite these recent signs of softening business, most Third District manufacturers believe that the upturn in the region's manufacturing sector that began in the spring of this year is still on course. More than two-thirds expect business to improve over the next six months, and nearly two-thirds forecast increases in new orders for their products. While half indicated they will keep employment at current levels, nearly a third plan to hire more workers over the winter. One-third of the region's manufacturers contacted for this report also plan to step up capital spending while half will maintain such outlays at the current rate.

#### RETAIL

Third District retailers contacted in early and mid-October generally indicated that the slight pickup in sales they had experienced in September was continuing, resulting in year-over-year gains of a few percentage points for the first half of October, in dollar terms. These increases, although slight, appeared to extend to most types of stores and most lines of merchandise. Some merchants noted that the selling environment remained difficult, requiring

discounting and other promotional efforts. Auto dealers gave mixed reports, but, on balance, the sales rate in the first weeks of October appeared to be steady.

Store officials said they were unable to give specific forecasts for the important fourth quarter, but most of those contacted expected sales to exceed the year-ago level slightly. In general, merchants said they were keeping inventories lean and looking for cost savings to bolster profits as they anticipate that growth in sales will be slow. Auto dealers generally believe that sales will just inch up during the balance of the year as 1992 models are cleared out. Some dealers expect stronger growth next spring.

#### FINANCE

Total loan volume outstanding at major Third District banks in early October was slightly above the month-ago level. Most of the banks contacted for this report indicated that the growth of residential mortgage lending was continuing. Some indicated that the pace of refinancings was slackening while purchase mortgage lending was still moving up at a steady rate. Some bankers also noted that commercial and industrial loan demand had picked up in recent weeks. These bankers indicated that companies in a variety of industries were seeking new credit facilities. Most of the commercial bank lending officers surveyed said consumer lending at their institutions was level or moving up very slightly. Most of the gains appeared to be in home equity loans and credit lines while other installment loans and credit card lending was flat.

In general, bankers said the outlook for lending is uncertain, and none predicted accelerating growth. Bankers who noted recent gains in commercial and industrial lending said this was an encouraging development, but they were not convinced a sustained upturn had begun. Similarly, most of the bankers contacted this month do not expect strong growth in consumer lending.

## FOURTH DISTRICT - CLEVELAND

Summary. Business activity in the Fourth District continues to edge upward unevenly. Respondents anticipate further slow growth in both consumer spending and manufacturing over the next few months. A strong revival in manufacturing output is being checked by persistent tight management of inventories and by volatile sales and production of cars. Residential construction still outpaces last year, but nonresidential construction is generally weak, and builders anticipate little near-term improvement. Strength in bank loans remains centered in mortgages, with only scattered signs of a pickup in business loans.

Consumer Spending. Retail sales in the District strengthened in mid-September and have improved markedly in October, according to several sources. The recent revival followed less-than-expected sales volume during the summer, which caused some retailers to resort to aggressive price promotions to liquidate seasonal merchandise. A retailer notes stronger sales for a broad range of merchandise, except for women's apparel, which he speculates as reflecting a shift in consumer buying from discount to department and specialty stores.

Some retailers now anticipate that sales will post further small increases through the balance of this year, and that the 1992 holiday season will show larger year-over-year gains than they forecast just a few months ago. Consequently, they plan on carrying larger inventories, and have begun to step up factory orders.

Auto dealers, however, report that sales of new cars flattened in October following a September rise. Several dealers state that aggressive pricing of 1992 models at below cost brought their inventories down to desired levels. Stocks of 1993 models are said to be between 60 and 70 days, and dealers are generally holding back on new factory orders. Substitution of light trucks, especially minivans, for cars appears to be unabated, but

several dealers indicate that stiffening competition from Japanese producers may have peaked the market share for U.S. vehicles.

Manufacturing. Shipments and production in the District are rising at a slow and uneven pace. A commercial bank survey of 500 midsize and small business firms located mainly in Ohio shows that their business is still rising, but by less than expected in their spring survey and at a slower pace than last spring. Capital spending plans are virtually unchanged since that time, but businesses plan to cut instead of build inventories.

The latest Cleveland purchasing agents' survey also shows a slower pace of expansion in September, and preliminary information for October suggests a marginal increase. Little growth in employment is anticipated over the next few months.

Most manufacturers contacted report a slow but steady rise in orders and shipments again last quarter, which combined with further cost-cutting and lower interest rates, boosted earnings. With few exceptions, order backlogs are not accumulating, primarily because of a tendency toward smaller but more frequent placement of new orders. New hirings continue to be selective.

Several capital goods producers report that orders last quarter continued to climb, although their anticipations for the fourth quarter range from "excellent" to "flat." A heavy-duty truck supplier comments that a surge in the annual rate of new orders last quarter exceeded the 1988 peak and that a sizable order backlog is being built. Production this quarter should match or exceed last quarter's pace. A producer of medical equipment reports a further steady improvement in business last quarter that should be followed by another increase this quarter. Shipments of industrial metalworking equipment and supplies also rose a little in the third quarter, with further improvement expected in the final three months of the year, even though export orders are expected to fall again. Another producer of industrial parts also expects its domestic business to expand this quarter from last because of strong demand for maintenance and repair work. Machine tool orders surged in September and in the third quarter, although a producer

speculates that pace may not be matched this quarter or next because of weakness in the aerospace industry and uncertainty in the auto outlook.

Domestic auto producers estimate new car sales at about a 6.3 million-unit annual rate this quarter, up from a 6.15 million-unit rate in the third quarter. Little, if any, pickup in production is anticipated because of generally adequate inventories of 1993 model cars. Better-than-expected sales of the Jeep Cherokee in recent weeks have helped to retain a 700-worker second shift at an assembly plant in Toledo that was scheduled for a cutback.

Real Estate. A recent private survey of more than 100 builders in Ohio shows that the bulk of the respondents anticipate no pickup in construction for another year. A lender that specializes in small construction projects, such as shopping strip malls, notes scant demand for construction loans. In Pittsburgh, however, the newly opened \$750 million airport has already generated a boost in both retail stores and residential development in the adjacent area.

Residential contracts in the District continued to climb in August, well ahead of the pace a year earlier, but recent growth slowed from earlier in the summer. In Cincinnati, new home sales in August rose at less than a double-digit rate for the first time so far this year.

Banking. Only a few large banks in the District indicate a step-up in business loans in recent weeks, but little change in demand is generally noted even among small and midsize business firms.

The most active part of the loan market continues to be in residential mortgages. Banks and thrifts report strong but easing demand for mortgage refinancing. Thrifts say that many 30-year fixed-rate mortgages are being refinanced with 10- to 15-year mortgages, and one thrift reports that a one-year adjustable-rate mortgage has become more popular than the 30-year fixed-rate loan. According to a major lender in Cleveland, new mortgage loans through most of October held up better than usual for the month.

## FIFTH DISTRICT-RICHMOND

### Overview

District business conditions were uneven but, on balance, improved between mid-September and late October. Retail sales rose, and manufacturing activity edged higher. The residential real estate market improved somewhat, although the commercial real estate market remained sluggish. Tourism declined and was expected to remain weak throughout the fall. Activity at District ports fell. Loan conditions were unchanged, and District governments reported that tax revenues were meeting their projections. In agriculture, slow-maturing summer crops delayed harvesting activity and the fall planting of small grains.

### Consumer Spending

Our regular mail survey indicated that District retail activity improved in recent weeks. Respondents reported that sales and shopper traffic increased and that retail prices rose. Retailers indicated that employment was steady, but employee wages increased. Inventories apparently declined.

Respondents were optimistic about their prospects for the next six months. They expected increases in all indicators except employment, which they believed would be unchanged.

### Manufacturing

Manufacturers indicated that District factory activity strengthened slightly during the past six weeks. Respondents saw little change in most indicators, but they reported increases in shipments, new orders, and exports. Prices paid for raw materials rose, but the prices received by manufacturers

were unchanged. Excess capacity continued to plague District manufacturers.

Manufacturers were upbeat about their prospects for the next six months. Manufacturers expected increases in orders, shipments, and backlogs. Increases in employment, capital spending, and prices were also anticipated.

#### Tourism

Hotels, motels, and resorts throughout the District indicated that tourist activity for October declined compared to September and to a year ago. Respondents reported that fall bookings were below those of a year ago, primarily because of fewer convention bookings. Looking ahead, respondents expected tourist activity to remain weak throughout the fall.

#### Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that both imports and exports were lower in September than in August. Compared with a year ago, however, imports and exports were generally higher. During the next six months, exports were expected to increase at Charleston but to be unchanged at Baltimore and Hampton Roads.

#### Finance

District financial institutions contacted by telephone indicated that credit conditions were little changed in recent weeks. Respondents reported that commercial and consumer loan demand were steady. Rates on commercial loans were unchanged while rates on consumer loans were lower. Banks noted that residential mortgage activity, consisting mostly of refinancing, strengthened in September but weakened in October. Respondents reported that mortgage loan rates began to rise significantly in mid-October.

Residential Real Estate

Residential activity picked up modestly during the past six weeks according to a telephone survey of District realtors. Home prices were stable, and respondents noted that sales of homes in the mid-to-low price range, particularly to first-time homebuyers, were strong. The market for upscale homes, however, apparently remained soft. The residential market in Raleigh, North Carolina, was characterized as particularly strong, and the strength was apparently spilling over into the nearby Durham market.

Commercial Real Estate

Commercial activity remained sluggish, but realtors suggested that leasing activity had picked up somewhat in many areas of the District. The absorption of commercial space improved, particularly in suburban areas, but respondents noted that little new commercial development was underway. Leasing activity in Washington, D.C., however, decreased because of reduced demand for space by government agencies.

State Budgets

Government analysts contacted by telephone indicated that third quarter tax revenues were close to estimates in most District jurisdictions, lessening the likelihood of budget shortfalls. Revenue growth in West Virginia and in the District of Columbia, however, remained weak.

Tax receipt growth varied by jurisdiction and type. Personal income withholding tax collections increased substantially in most District states. Sales tax collections, compared to a year ago, were stronger in Maryland, North Carolina, and Virginia, steady in South Carolina and West Virginia, and weaker in the District of Columbia. Corporate tax receipts, however, were reported to be lower in several jurisdictions.

Agriculture

District agricultural analysts reported that the harvest of summer crops was progressing more slowly than normal in some states. Harvesting of corn continued to be hampered by the slow maturing of the crop because of unseasonably cool weather. Soybeans also were maturing late, delaying their harvest and increasing the risk of frost damage. Tobacco harvesting was almost complete, and yields were about normal. Small grain planting was underway, but progress was slowed by the delays in harvesting summer crops.

Livestock was reported in good condition. A large hay crop and good pasture conditions were expected to provide adequate forage for the winter months.

## SIXTH DISTRICT - ATLANTA

Overview: According to contacts in the Sixth District, economic activity edged higher in September and October, though the pace was more sluggish than in August. Manufacturers indicated that industrial production slowed somewhat across the District. Apartment development and commercial construction remained slow, but home builders and realtors again reported healthy activity in single-family markets. Retailers reported moderate increases in sales of both durable and nondurable goods. Business and consumer loan demand has been flat, and contacts reported that the recent wave of mortgage refinancings has begun to subside. Wages and prices have remained stable and several firms indicated that recent attempts to raise product prices have not been successful.

Consumer Spending: Retailers reported moderate sales increases in September and early October. Consumer expenditures continue to be concentrated on purchases of nondurable items, but retailers noted that sales of durable goods have also shown some improvement. Although most merchants expect upcoming holiday sales to surpass weak year-ago levels, they are monitoring inventories closely and are determined not to enter the holiday season with excess accumulations. Auto dealers continued to report mixed results, but a growing number saw sales increases in September compared with month-ago and year-ago levels.

Tourism remains a bright spot in the Sixth District economy. Contacts reported that air passenger traffic, particularly international arrivals, is significantly above year-ago levels. Convention attendance has exceeded 1991 levels and industry contacts indicated that advanced bookings through mid-1993 offer the promise of another good year.

Manufacturing: With some notable exceptions, factory activity in the District has slowed somewhat in recent weeks. According to industry contacts, economic weakness in Europe has reduced the demand for exports while cutbacks in federal contracts from the Department of Defense and NASA have also dampened the demand for manufactured goods. Contacts also cited the slow pace of the national economic recovery as an additional source of the poor demand for industrial products. Nevertheless, a majority of manufacturers contacted remain optimistic that business conditions will improve over the next several months and relatively few firms have reported reductions in labor force levels.

Although there has been a general lull in industrial production across the District, there are some exceptions. Producers of building supplies, carpeting, and other home furnishings have seen an increase in new orders as a result of the hurricane rebuilding effort. Apparel manufacturers have also reported increases in new orders and production for moderately priced goods, particularly denim products. However, rather than hiring new workers to meet higher production levels, most firms reported that they have simply increased the number of hours worked by existing employees.

Construction: After taking into account seasonal variations, realtors reported that single-family home sales have been relatively good in most parts of the District. Sales are still concentrated in the low-to-mid price range, and contacts noted that there is persistent weakness at the upper end. Abundant inventories of existing homes for sale have kept prices relatively stable. Builders reported that single-family home construction has continued at a steady pace, and some builders have seen an increase in speculative building. Builders and realtors are *cautiously optimistic for the fourth quarter.*

Multifamily construction remains slow in most areas. Even though several contacts noted improvement in occupancy rates, effective rental rates remain too low to justify new building. Similarly, new commercial construction activity remains weak, with speculative office building close to zero.

In south Florida, realtors reported that the hurricane rebuilding effort is underway. According to contacts, a majority of activity is concentrated in residential construction, and some expect it to take up to three years to rebuild all destroyed homes. Contacts also reported that vacancy rates in Miami's central business district have fallen temporarily as firms have taken short-term leases while damaged facilities are repaired.

Financial Services: Bankers around the region reported that loan demand was flat or up slightly in September and early October. The recent wave of mortgage refinancings has peaked, but many loans remain in the processing pipeline, waiting to be closed. Contacts reported that commercial loan activity was flat in most areas of the District but that consumer lending activity has increased slightly. Contacts in Miami have seen an influx of new deposits from insurance settlements related to hurricane damages, but as of yet there has not been much change in commercial or consumer loan demand.

Wages and Prices: Most firms reported that their materials input prices were unchanged in recent weeks. Although some firms have attempted to raise the prices of their final products, competitive pressures have made it difficult to sustain these increases. And because of the relative slackness in District labor markets, there have been no reports of increasing wage pressures.

## SEVENTH DISTRICT--CHICAGO

**Summary.** The composition of Seventh District economic expansion shifted in September and early October, as disruption in the auto industry combined with a sense of uncertainty to contribute to mixed reports from the District's manufacturing sector. In contrast to earlier in the year, when manufacturing activity led the District recovery, consumer spending now seems to be supporting income gains in the region. Growth in retail sales and housing activity continued in September and early October. Reports on commercial and industrial loan demand were mixed. A record corn and soybean harvest is well underway. Many contacts shared the perception that the nearing election has played a role in dampening economic activity, but they differed on the reasons why.

**Retailing.** Retailers indicated that sales growth continued in much of the District in September and early October. However, sales of durable goods were mixed, as growth in sales of housing-related products was offset by some reports of sluggish demand for cars. A large retailer expected its fourth consecutive monthly increase in same-store sales in October on a seasonally adjusted basis, led by durable goods linked to housing activity. This firm also reported that growth resumed in its outstanding customer credit in recent months, as new credit sales offset the continuing liquidation of existing credit balances. A large discount store chain reported little change in a trend of modest improvement in most District markets in recent months. A store chain selling mid-priced apparel experienced significant sales gains in September and October, and a regional analyst's survey of commissioned salespeople in department stores also indicated higher growth in sales and customer traffic. A large appliance manufacturer reported better-than-expected growth in retail sales of its own products, but gains remained restricted to inexpensive models within various categories.

**Autos.** Slower-than-expected growth in car sales combined with labor disputes to lead to a decline in District auto production in September and early October. One large automaker expected domestic sales of light vehicles in the fourth quarter to be flat to down slightly from the third quarter (on a seasonally adjusted basis). Another automaker reported that retail sales of its cars generally remained sluggish relative to pre-recession levels, but noted that sales in most markets in the Midwest continued to hold up better than the national average. One of the largest auto dealers in the District reported that sales weakness has persisted after a slowdown was first reported late in the summer, and this dealer recently lowered reorders for 1993 models from the levels that were planned earlier this year. An auto dealer exchange reported that used car prices continued to rise in recent months, even as the volume of trading

among dealers declined, and this contact expressed frustration with an unexpected shortage of used cars in its market. After labor disputes contributed to an underbuild in third quarter production, one industry analyst expects modest production gains for light vehicles in the fourth quarter on a seasonally adjusted basis.

**Manufacturing.** While reports were mixed by area and industry, overall District manufacturing activity lost some of its upward momentum in September and October. Purchasing managers' surveys in Chicago, Detroit, and Southwest Michigan generally indicated that expansion continued through September, albeit at a slowing pace in several areas. The Milwaukee survey for September showed especially strong results, but other data and reports from individual firms largely indicated softer conditions in more recent weeks. A large manufacturer of heavy machinery reported modest growth in orders and shipments over a weak year-earlier period, but expressed growing concern with conditions in several of its markets. A producer of heating, ventilating, and air conditioning equipment reported that demand softened in recent months. A manufacturer of construction and industrial equipment reported that shipments growth slowed since the summer. The firm is still expecting a sales gain for the fourth quarter, but distributors' sensitivity to price indicated that underlying demand remained sluggish. A machine tool manufacturer reported that bookings growth slowed during the third quarter, but expected higher growth during 1993. A large manufacturer of electronics reported that growth in industry orders has lagged previous economic recoveries, but stated that the industry is "still seeing good growth," and noted that its own orders have significantly bettered the gains shown in national statistics. A large truck producer stated that orders for its heavy-duty trucks recently flattened out, and some other industry contacts expressed concern about the vulnerability of heavy-duty truck orders to cancellations. An association of machining companies reported slowing production in September and October, citing production cutbacks by a large automaker. A large steel producer reported that its order book for fourth quarter production is full, but the order book for first quarter 1993 production has been slow to build due to weakness in orders from the auto industry.

**Real Estate/Construction.** Reports from realtors, banks, and other contacts were largely consistent with statistical evidence of improvement in the District's housing market, although several regions and market sectors remained soft. One of the largest realtors in the District reported a record month for sales in September, partly (but not entirely) due to market share gains. This contact also noted a modest upturn in its commercial mortgage business. A realtor based in a healthy market reported some

slowing in transaction volume on a seasonally adjusted basis, but only after strong gains during the summer. This realtor expected growth to resume in 1993. A large association of homebuilders reported that an uptrend in sales and building activity was little changed over the last three months (after accounting for seasonal factors). Traffic slowed in recent weeks, however, and the association does not expect acceleration in growth in the fourth quarter: a contact noted that "there is a lot of optimism among members about sales prospects in 1993." One large homebuilder stated that traffic was falling off somewhat faster than normal for this time of year, but expected demand to improve after the election. A large manufacturer of construction materials stated that production increases led to a further rise in its capacity utilization in September and October, although price increases became more difficult to implement. A large bank reported that residential mortgage activity continued to exceed plan, due both to refinancings as well as new lending.

**Banking.** Reports on trends in commercial and industrial loan demand were mixed. A middle-market lender reported that loan demand recently fell below expectations, stating that "clients' planning horizons skipped the third and fourth quarter -- many people seem to have decided to wait out the election." A regional bank holding company noted that loan demand from retailers in its market remained sluggish, despite a pickup in retail sales activity. A bank reported a pickup in demand for loans from small and medium-sized manufacturers and wholesalers, "mainly because borrowers are trading money between banks, not because there is any surge in capital spending." Reports from two middle-market lenders indicated that demand for loans from commercial borrowers in Michigan was little changed in recent months, while another lender reported increased growth in loans to borrowers in Wisconsin. The leader of an association of small banks reported that loan demand remained sluggish, and stated that low confidence levels were the most important reason for the continued insensitivity of loan demand to lower interest rates. A large bank revealed increased loan demand from companies expanding production and distribution capacity in Mexico.

**Agriculture.** The fall harvest is well underway. The soybean harvest has progressed at a near-normal pace and is now nearing completion in most areas, except for Michigan where rain has slowed harvesting. Progress with the corn harvest has been considerably slower than normal because of the high moisture content of this year's crop. The latest U.S. Department of Agriculture estimates suggest the corn and soybean harvest will be up a fifth from last year and modestly above the previous high set in 1985.

## EIGHTH DISTRICT - ST. LOUIS

Summary

District economic activity continues to expand, albeit modestly. Employment at manufacturing firms appears to have increased, while employment at nonmanufacturing firms has shown little change. Single-family housing construction remains substantially above its year-ago level throughout the District. All categories of loans at large District banks showed increases during the past two months. Record corn, soybean and rice yields have been reported in many areas of the District.

Manufacturing

District manufacturing firms continue to increase employment, with reports of employment growth outnumbering reports of decline. For example, an apparel maker announced that it will expand its Kentucky plant and hire an additional 1,000 workers, but a maker of household appliances, citing sluggish sales, will lay off 680 Louisville workers next month. In addition, a truck and tractor manufacturer in Kentucky plans to shift production from abroad, increasing employment by 140 in the District. Two paper manufacturers will open new plants in Kentucky, adding 650 jobs. In Indiana, another household appliance concern laid off 850 workers for both seasonal and cyclical reasons. In Tennessee, a carton-printing plant will close, eliminating 100 jobs, while a fireplace manufacturer increased employment by 195 because its headquarters moved from California. A St. Louis auto plant laid off 100 more workers than originally anticipated, but an area plastic container maker announced

that it will triple the size of its plant, resulting in 200 additional jobs. A northeast Mississippi sportswear manufacturer is expanding its productive capacity and increasing its workforce by 100.

#### Nonmanufacturing

Most District nonmanufacturing firms report no significant employment changes; however, a few noteworthy exceptions exist. In St. Louis, a major telecommunications organization announced the relocation of its corporate headquarters to San Antonio, Texas, moving about 500 jobs and employees. In Louisville, a credit card processor will double its employment to 160 within the next year.

#### Construction and Real Estate

Builders in most parts of the District continue to report substantial year-over-year increases in single-family housing permits. Although activity in the booming northwest corner of Arkansas has recently slowed, housing construction throughout the state is expected to remain strong through year-end. In light of the low level of interest rates, some contacts note that sales activity is not especially vigorous; one agent attributed this to the difficulty potential buyers have raising a down payment.

#### Banking and Finance

Loans outstanding at 12 large District banks rose modestly in August and September after declining slightly in June and July. Total loans on the books of these banks rose 2.2 percent during August and September after declining 0.6 percent during the prior two months. Business loans rose 3 percent, real estate loans rose 1 percent and consumer loans were up 2.5 percent in August and September. In contrast, business loans declined 2.3 percent and real estate loans declined 1.7

percent in June and July. Consumer loans are up almost 5 percent since the end of May.

#### Agriculture and Natural Resources

Harvest reports throughout the District indicate good to excellent yields for corn, soybeans and rice. Record rice and soybean yields are expected in Arkansas, and contacts in Kentucky and Tennessee report record corn yields. The cotton harvest, on the other hand, continues to be hampered by adverse weather conditions; likewise, harvesting of the corn crop remains well behind normal in the northern parts of the District. Crop and livestock prices across the District are generally below last year's levels. Contacts in Arkansas and Mississippi report that farm machinery and equipment sales are down slightly from last year. Year-to-date Southern Pine lumber exports, while down 27 percent from an unusually high June level, are up 16 percent from the same period last year. With the exception of western Kentucky, District coal production on a year-to-date basis is down slightly from last year.

#### Transportation

Contacts report that barge activity has slowed recently because of the late fall harvest. The prospect of bumper corn and soybean crops, however, is expected to increase barge activity measurably in the near future. Aircraft operations on a year-to-date basis are up moderately at most major District airports, and the St. Louis airport is anticipating a record year in terms of passenger movements.

## NINTH DISTRICT—MINNEAPOLIS

The Ninth District economy improved slightly in early fall following essentially steady to slower conditions in late summer. Weather threats to crops did not materialize and Ninth District directors report good cash returns in agriculture. They also report that the 1992 summer tourist season was strong. Retail chains reported stronger sales. Construction is also an area of tentative strengthening, particularly in infrastructure such as street and sewer improvements. Motor vehicle sales, however, are essentially steady and manufacturing and mining are slow. Labor markets appear to have stabilized.

Consumer Spending

General merchandise spending in the District shows some signs of strength. Some regional retailers report September sales increases of 15 to 25 percent compared to the previous year. Such reports are more positive than Minnesota and South Dakota sales tax remittances for September, which are reported to be "as projected" at levels slightly above a year ago.

Motor vehicle sales essentially match sales a year ago. Year-to-date figures for a major domestic distributor show car sales down 2 percent from 1991 but pickup trucks up 4 percent. South Dakota new vehicle titles issued in September and year to date were essentially unchanged from 1991.

The summer tourist season ended on an upbeat note. Directors, an industry association and newspapers report that the season had been "good" to "excellent" in all areas. Sources in South Dakota and Montana rated the season as excellent, though down slightly from records set in 1991. Early news reports from the Upper Peninsula note expectations of favorable game populations and weather conditions leading to good hunting-related business for the fall season.

### Home Sales and Construction

Construction shows some signs of reviving. In Minnesota and the Dakotas, substantial increases in contract awards for infrastructure such as roads, bridges and water/sewer construction more than offset slight declines in other building. In Minnesota, construction of Native American-owned casinos is a major activity with over \$100 million of projects in progress or completed so far this year. Congress recently authorized \$19.2 million maintenance and renovation projects at Air Force bases in Grand Forks and Minot, N.D. The strong tourist season was cited as motivation for construction of 300 new motel rooms in Billings, Mont.

Home sales are reported strong in most metropolitan areas. Eau Claire, Wis., and Rapid City, S.D., reported 1992 housing starts 17 percent and 35 percent above 1991 respectively. Duluth, Minn., was an exception, reporting a construction slump and sluggish sales.

Despite these encouraging reports, Minnesota's construction employment declined slightly in September as several major projects were completed, according to employment service officials.

### Manufacturing and Mining

Manufacturing activity appears to be slow. Hurricane-induced demand for building materials, which continues to support forest-product manufacturing, is an exception reported by directors. A computer manufacturer announced layoffs and the closing of one plant caused by disappointing sales. Manufacturing employment numbers for Minnesota in September were slightly above a year ago.

Mining is lackluster, with low prices for gold and copper limiting profitability in South Dakota and Montana and slack demand for iron ore affecting northern Minnesota. A major gold mine in western South Dakota announced plans to scale back production and offer early retirement to 132 workers.

### Labor Market Conditions

Labor markets are largely unchanged. Unemployment rates for August were slightly higher than the previous month and in August of 1991. Fewer large layoffs were reported in District media since the last Beige Book. Layoffs did include 650 employees of a computer manufacturer, 480 airline employees, 115 defense workers and 142 employees of a hospitality company.

### Agriculture

Weather concerns cited in previous reports did not materialize and conditions in agriculture are generally reported to be good. An unusually cool, wet growing season delayed crop maturity and continues to retard harvest operations, but yields for all major crops except soybeans are generally excellent. Crop prices are generally stable with wheat and small grain prices generally higher than last year but corn and soybeans somewhat lower. Overall, gross revenues per acre are reported to be above 1991 for all major crops except soybeans. Wheat growers in Minnesota and the Dakotas reported above average yields. Montana's 1992 wheat crop was down 11 percent from 1991 due to slightly lower yields and fewer acres planted.

Livestock profitability was generally unchanged to slightly lower. Prices for slaughter livestock were a marginally lower compared to the same period in 1991. September dairy prices were higher than in 1991, while poultry and eggs were largely unchanged. Prices for feeder livestock in Montana and the western Dakotas were strong.

With the exception of localized areas affected by frost, hail or drought, agricultural bankers responding to a quarterly survey of agricultural credit conditions reported that farmers generally were able to service their operating loans and continue with debt retirement. Directors noted that investment in new machinery was largely limited to new harvesting machinery needed to cope with the late, unfavorable harvest conditions. Some ranching areas of west-central South Dakota are extremely dry and much of Montana's pasture and range continue below normal condition, but soil moisture in nearly all crop-producing areas of the region is excellent going into the winter.

## TENTH DISTRICT - KANSAS CITY

Overview. Economic growth in the Tenth District continues to improve modestly. Retail sales are increasing, despite a slight drop in new car sales. Housing starts and new home sales are up again as mortgage rates remain low. Higher natural gas prices are boosting energy activity. And bank loan demand is gathering strength in most categories. Farm income is likely to be about unchanged from a year ago, however, as strengthening livestock prices continue to offset weakening crop prices.

Retail Sales. District retailers report continued improvement in sales over the last month. Demand is especially strong for apparel. Prices overall continue to be stable and are expected to remain steady for the next few months. While respondents are satisfied with their current inventories, most plan to increase inventories in expectation of better Christmas sales.

Automobile sales over the last month were down slightly from last month, but most dealers expect sales to improve gradually. Financing is generally available for both dealer inventories and potential buyers. Dealers are expanding inventories of the new models, but by less than in recent years.

Manufacturing. Most purchasing agents report stable input prices over the past month and expect no significant changes next month. Some firms whose inputs come from the steel industry report slightly longer lead times for obtaining materials. Most firms are trimming inventories in response to seasonal factors or sluggish sales. Firms are generally operating slightly below capacity.

Housing. Starts of single-family houses in the district are substantially higher than both last year and last month, but multi-family starts remain flat. Builders expect housing starts to remain strong over the

rest of the year. Sales of new homes are also strong and inventories are low. Mortgage demand remains very strong due to low mortgage rates, with much of the strength reflecting refinancing. Mortgage demand is expected to moderate over the rest of the year, as mortgage rates stabilize and seasonal factors take effect. New home prices are up slightly, partly reflecting rising lumber prices.

Energy. Higher natural gas prices continue to boost the district's energy industry. The average number of operating drilling rigs in district states increased from 222 in August to 250 in September. Moreover, the rig count continued to rise sharply in the first three weeks of October to an average of 282 rigs, or 13 percent more than a year earlier.

Banking. Loan demand strengthened last month, with half of the respondents reporting increases in demand and half reporting no change. Most categories of loan demand were stronger, although there were few reports of changes in commercial real estate and agricultural loans. Loan-deposit ratios showed no clear pattern, with about a third of the respondents reporting decreases, a third reporting increases, and a third reporting no change.

None of the respondents changed their prime rate in the last month, and only one expects any change in the near term. Half the respondents lowered consumer lending rates in the last month, and another one-fourth expect to lower them in the near term. Lending standards were unchanged.

Deposit behavior varied across the respondents. Half of the respondents reported increases in deposits while half reported either no change or decreases. Demand deposits, NOW accounts, and MMDAs were generally constant to up. Large CDs and small time and savings deposits were generally constant to down.

Agriculture. The fall harvest is in full swing across the district. Corn, soybean, and milo yields are generally larger than normal, while cotton and peanut yields are near normal.

Planting of winter wheat is nearly complete in the district, and the crop is generally in good condition. In Oklahoma, however, dry weather has slowed wheat planting and the development of winter wheat pastures. Rain is needed soon both to ensure an adequate forage supply for the winter months and to promote development of next year's wheat crop.

Recent gains in cattle and hog prices have bolstered the income outlook for district livestock producers. Relatively high feeder cattle prices are encouraging district ranchers to sell this year's calf crop to feedlots earlier than normal. Stronger hog prices and low feed prices have pushed up profits for district hog producers. Still, bankers see little expansion underway in district hog production.

Nonfarm business activity in many of the district's rural communities is picking up, although some communities continue to struggle. Overall, most rural bankers are optimistic about business conditions in their communities.

## ELEVENTH DISTRICT--DALLAS

The District economy continues its slow expansion. Although there is wide variation across industries, orders to the manufacturing sector are increasing slightly. Service sector sales growth is light, but persistent, while retail sales have begun to accelerate. Auto dealers report that demand remains above a year earlier, but that sales have recently leveled off. Construction activity is sluggish and banking conditions remain weak. Higher natural gas prices have motivated increased drilling activity. Cool weather has impaired growth of late-planted crops, while agricultural prices are up 3 percent from a year earlier.

Sales of manufactured products are up slightly, with most of the strength in durable goods and most of the weakness in nondurables. Among durable goods, demand growth is highest for fabricated metals and electrical and electronic machinery. Respondents are optimistic about future sales growth and some producers of electronic and electrical machinery say they are increasing capacity. Growth in homebuilding continues to boost orders for brick, cement, and lumber and wood products. Prices for these products are moving up. In contrast, demand for primary metals has declined slightly since the last Beige Book survey and is now well below a year earlier. Some glass producers report that their orders are falling because of slipping automobile production. Among nondurable goods producers, demand for chemicals is unchanged while sales of refined petroleum products remains below a year earlier. Respondents expect further consolidation in the refining industry. Demand for paper and boxes remains unchanged since the last Beige Book survey, although box sales are up from last year's levels. Pulp prices have fallen

significantly in recent months and some respondents anticipate temporary layoffs. Although orders for apparel are above a year earlier, demand growth has recently slowed. In the food and kindred products industry, sales remain stable.

Service sector sales continue to increase slowly. While respondents are cautiously optimistic, employment expansion remains slower than last year. Selling prices have shown little recent change, but several surveyed firms plan to attempt price increases early next year. In the Houston area, weakness in industries that purchase business services have lowered demand to that industry.

Retail sales growth has accelerated overall and respondents are increasingly optimistic that expansion will continue. Several companies surveyed noted that District retailing remains very competitive and they mentioned that they are looking hard for ways to reduce costs. Selling prices are said to be stable. Automobile sales remain above a year earlier although demand growth has recently softened.

Overall, District construction activity is sluggish. New single-family homebuilding continues to provide the only source of strength. Some respondents express concern that the homebuilding expansion will not last much longer. Apartment construction remains slow. Highway construction has dropped off recently and the outlook for future highway funding is said to be very uncertain.

After considerable weakness earlier in the year, District rotary rig activity has risen more rapidly than its usual seasonal uptick, and it now remains essentially unchanged from a year ago. Increased rotary rig activity

has been spurred by rising natural gas prices, which are now at a seven-year high. Firms say that gas prices are up for three reasons: (1) Hurricane Andrew has caused production curtailments. (2) Purchasers are attempting to replenish below-normal storage volumes. (3) Anticipations of severe weather this winter have motivated additional heavy buying. In contrast to natural gas prices, oil prices have remained relatively stable at around \$21 per barrel.

District banking conditions remain weak. Loan demand has softened although it is said to be stronger than a year earlier. Bankers attribute this softness to business borrower caution about the near-term economic outlook. Bankers expect loan demand to rise slowly.

Agricultural conditions have worsened slightly. Unexpectedly cool weather has slowed the growth of some late crops and, as a result, agricultural officials have slightly reduced their production estimates. District agricultural prices are unchanged from a month ago but prices are up 3 percent over a year earlier. Price increases over the last year are the result of upturns in livestock prices, which rose 4 percent. Crop prices declined by 1 percent.

## TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions are mixed in the Twelfth District, with continued weakness in California offsetting modest growth in other states. In California, weakness is reported in trade, finance, real estate markets, and construction activity. Moreover, health and welfare programs are beginning to feel cutbacks in state and local government spending resulting from the recent state budget agreement. In the southern part of the state, weakness persists in aerospace and defense-related manufacturing. Conditions in other District states are improving modestly, with the strongest conditions reported in Utah and Idaho. However, most contacts expect sluggish overall economic growth. Agricultural conditions are mixed, with drought affecting certain sections of the Pacific Northwest. Little upward pressure on wages and prices is reported.

Business Sentiment

The sentiment of Twelfth District business leaders was little changed from our last report, with most contacts expecting sluggish growth. Only 20 percent of our respondents expect the real economy to expand during the next four quarters at a rate of at least 2.5 percent. This proportion is about the same as in September but down from one-third in July and one-half in June. Almost three-quarters of our respondents expect real output to expand, but at a rate below 2.5 percent.

Wages and Prices

Contacts continue to report few upward pressures on prices in District markets. Lumber and roofing materials prices have risen due to recent hurricanes, but the surge in demand for plywood appears to have ebbed and prices are reported to have dropped 15 percent in recent weeks. Retail consumer prices in Utah and Idaho rose at a 4.5 percent annual rate during the first three quarters of 1992. A contact in the telecommunications industry reports generally declining prices and price concessions by suppliers.

Boeing Company machinists approved a new three-year contract with the company on October 2. The deal included a 12 percent lump sum bonus check this year followed by 3.5 percent pay increases during the next two years. Labor wages in the rail industry are reported to be increasing by 3 percent for less than a third of employees, with the rest receiving no increase.

#### Retail Trade and Services

Consumer sentiment appears severely affected in southern California, where contacts report general pessimism due to continuing employment cutbacks. One contact reports that while general merchandise retailers saw business pick up nationally in September, no significant change from sluggish conditions is apparent in California. Contacts from several states report that discount and outlet stores are doing well and expanding operations. In Arizona, retail sales rebounded during the summer, showing a 4.3 percent increase in August over a year earlier. One contact reports that durable goods sales in Arizona are suppressed by low consumer confidence, but that auto sales in August were up 6 percent from a year earlier. An auto industry contact from Idaho also reports that sales have improved somewhat since our last report.

The fall-out of the California state budget settlement reached in September is beginning to be felt. All public state agencies experienced major reductions in funds, with health and social welfare programs particularly hard hit. To offset lower funding levels, public colleges and universities are reducing employment and raising fees.

#### Manufacturing

District manufacturing conditions are mixed, but defense-related employment reductions continue in southern California. Contacts in Utah and Arizona report some increases in aerospace activity due to shifts from California, and employment cuts in defense appear to be over in Idaho and Utah. One contact reports that the aerospace industry has been helped by the avoidance of a strike at Boeing and continued strong airplane orders from Pacific-Rim airlines. However, Boeing is cutting

back the production rate of its 737 model this year, and plans to slow production of the 757 in September 1993. Aluminum production is reported to remain high, although prices have fallen sharply.

Outside of aerospace and defense, conditions are mixed. One contact from Silicon Valley reports that the price war continues in the personal computer industry, and that a significant shake-out in the industry is expected. High-tech manufacturers are reporting some cancellations of orders from Japan, but in general export demand from Latin America and Pacific Basin countries is supporting manufacturing activity across the District. One contact from Arizona reports that business is booming for suppliers to Mexican firms.

#### Agriculture and Resource-Related Industries

Eastern Oregon and most of Idaho are still in the grips of drought as irrigation water has been shut off for quite some time and reservoirs are at extremely low levels. Tree fruit crops, however, have been helped by sunny weather. Apple production in Oregon is 54 percent above last year's crop, and cherry production in eastern Washington is up 30 percent from a year earlier.

Forest products production continues weak. Lumber exports are 25 percent below 1991 levels, due primarily to declines in shipments to Japan and other Pacific Basin countries. While damage from the recent hurricanes caused plywood demand to surge, a contact reports that the short-term jump in demand has subsided.

#### Construction and Real Estate

Residential construction and real estate conditions are mixed. Contacts in California report sluggish sales, with prices decreasing in some areas, particularly for higher priced houses. A contact in southern California notes that home foreclosures are up 74 percent since the beginning of 1992, and another contact reports concern that people cannot sell homes. Weakness in construction activity in California is reflected in a 5.1 percent decline in lumber shipments to California during the first

half of 1992 versus a year earlier. Stronger conditions exist in other District states. Contacts in Oregon report a strong real estate market with a wave of construction activity in August. House sales in Salem were 31 percent above their year-earlier level in August. Housing sales, construction and prices are up in Tucson, but Phoenix still is reporting weakness. Contacts in Utah and Idaho are reporting continued strong growth in housing demand. Nonresidential construction remains weak in most District markets.

#### Financial Institutions

Financial industry conditions are mixed in the District, with weakness reported in California. One California banker reports that consumer loan demand continues to drop, and that commercial loan demand remains weak, although loan officers report some recent pickup among high-tech industries in northern California. Another contact reports that loan demand remains weak as consumers and businesses continue to be focused on debt reduction. Demand for mortgage loans in Utah remains brisk, with demand coming from consumers upgrading their housing and from continued migration into the state. Contacts in Oregon report that, despite recent mergers, employment in financial services is growing due to relatively strong economic conditions. Commercial loan demand in Utah and Arizona, however, is described as flat.