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**Summary of Commentary on \_\_\_\_\_**

# **Current Economic Conditions**

**by Federal Reserve District**

**November 1992**

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

**NOVEMBER 1992**

TABLE OF CONTENTS

SUMMARY . . . . .	i
First District -- Boston . . . . .	I-1
Second District -- New York . . . . .	II-1
Third District -- Philadelphia . . . . .	III-1
Fourth District -- Cleveland . . . . .	IV-1
Fifth District -- Richmond . . . . .	V-1
Sixth District -- Atlanta . . . . .	VI-1
Seventh District -- Chicago . . . . .	VII-1
Eighth District -- St. Louis . . . . .	VIII-1
Ninth District -- Minneapolis . . . . .	IX-1
Tenth District -- Kansas City . . . . .	X-1
Eleventh District -- Dallas . . . . .	XI-1
Twelfth District -- San Francisco . . . . .	XII-1

## SUMMARY\*

Reports on economic conditions point to modest improvement in most Federal Reserve districts, but the rate of gain is uneven. Ten of the 12 districts note a slight to moderate pickup in some or all sectors of the economy. By contrast, San Francisco indicates that weakness in California is offsetting moderate growth elsewhere in the district. Retail activity is reportedly increasing across most of the nation, and retailers are optimistic about the current holiday season. Manufacturing is improving in about half of the districts - generally, quite modestly. Ongoing cutbacks in defense remain a notable drag on the recovery in some regions. Residential real estate markets continue to pick up in most of the nation, but commercial real estate, where mentioned, remains weak. Loan demand reportedly increased in several districts, but credit conditions remain unchanged in others. The fall harvest is almost complete - with record yields and output recorded in most crops.

Retail

Retail sales in October and early November reportedly gained strength in all districts but San Francisco; results in that district were mixed, with California performing poorly relative to the other states. In five districts, sales in recent weeks were better than expected. Respondents in most districts noted greater consumer confidence. The Boston and Chicago reports link the change in consumer attitudes to the end of the Presidential campaign. New York retailers

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\* Prepared at the Federal Reserve Bank of Boston and based on information gathered before December 1, 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.

attribute modest increases to promotional efforts rather than to improvements in general economic conditions. Consumer confidence remains poor in southern California.

Recent sales increases seem focused in nondurables. Apparel sales, in particular, were strong in New York, Cleveland, and Kansas City. Most districts reporting on auto sales found modest increases or slight declines, while sales of light trucks were strong in Chicago and Cleveland. In the three districts commenting on tourism, business was mixed.

Despite increased sales, retailers across districts are satisfied with current inventory levels. While costs and prices are generally perceived as flat, reports from Boston, Cleveland, and Atlanta note less consumer insistence on discounts. Only Richmond sees increases in wholesale and retail prices.

Except in California, retailers reportedly expect 1992 holiday sales gains to be better than last year's. However, the degree of optimism ranges from "the best performance in eight years" (in Chicago) to "nothing spectacular" (in New York).

#### Manufacturing

Recent manufacturing activity has been flat to slightly improved across much of the nation. Indicators from Dallas are generally strong, and Boston, Philadelphia, Cleveland, and Chicago report small gains, on average. Overall activity in the Richmond, Atlanta, St. Louis, and Minneapolis districts is described as "steady" or "unchanged," while many manufacturers in the New York district and California continue to experience weak demand.

Demand for home building and furnishing products has strengthened among manufacturers located in the Boston, Richmond, Atlanta, Chicago, Minneapolis, and Dallas districts. But demand for autos, auto components, and other transportation equipment varies considerably across districts. For example, while Chicago district automakers report recent growth after a third-quarter sag, transportation equipment did not participate in the widespread rise in production reported for the Philadelphia district. Sales have improved for computer software and some hardware (Boston, Dallas, San Francisco), as well as for various nondurables (Atlanta, St. Louis, Dallas).

The defense sector is an area of declining demand in the Boston, New York, Atlanta, St. Louis, and San Francisco districts. Although Kansas City notes positive export results, foreign sales are identified as an item of concern in the Boston, St. Louis, and Dallas districts.

Little to no general inflationary pressure is reported. However, high capacity utilization rates have led or are expected to lead to firming prices for some construction materials and steel.

Many districts continue to report employment reductions in manufacturing, although in some cases the rate of decline has abated and scattered hiring has occurred. Two-thirds of the Federal Reserve Banks note signs of positive or improved expectations about future business. Employment is not expected to increase in proportion to demand, however, as manufacturers across the nation are intent on cutting costs and improving labor productivity.

#### Construction and Real Estate

Construction and real estate tell a tale of two markets, with improvements in the residential sector but continued stagnation on the commercial side. All districts report improved sales for existing and

new single family homes, although Boston, New York and Richmond note doubts as to whether this improvement will be sustained. Home sales in the Dallas-Fort Worth area are at the highest level in five years. San Francisco reports that sales of existing homes in California rose in October, the first monthly increase since February. New York, St. Louis, Minneapolis, Kansas City and Dallas all cite increases in single-family starts or permits in their districts.

The commercial market, however, remains weak. Boston and Dallas report very sluggish conditions in commercial offices, while Richmond and New York have areas showing limited net absorption. Minneapolis finds a large excess supply of commercial property. In southern California, some rents have fallen 25 to 40 percent. San Francisco also cites forecasts that show California rents falling another 10 to 15 percent in 1993 and increased foreclosures. No district reports any growth in commercial construction, although Boston and Minneapolis report some public sector building.

#### Financial Services

Financial institutions report a slight increase in overall loan demand despite a fall-off in mortgage refinancings. A rising interest in business loans was noted by Philadelphia, Kansas City and St. Louis. Dallas and Atlanta report an increase in consumer loans. New York indicates that although residential mortgage activity continued strong, consumer loan demand weakened and demand for nonresidential mortgages remained soft. Demand for business loans is also weak in the San Francisco district. Boston reports that contacts among investment management companies experienced increases in assets under management.

### Agriculture and Resource-Related Industries

The fall harvest is over except for corn, which has been delayed by rain or snow in the Richmond and Midwest agricultural districts. Despite the wet weather, growers report record yields for corn as well as for the soybean, cotton, rice, and sugar beet crops harvested earlier. Abundant supplies have reduced feed prices and improved profits for dairy farmers, feedlot operators, and ranchers in the Minneapolis, Kansas City, and Dallas districts. Thus, farmers in these areas continue to pay down debt. Nevertheless, according to contacts in Dallas, net farm income is likely to fall in 1992 because of declines in prices and government subsidies and increases in production costs.

As for lumber and wood products, strong demand from U.S. and foreign furniture makers has raised prices for hardwood from the Richmond district. Demand for western newsprint also remains strong, but restricted access to public timber supplies is noted as a problem in the Northwest. Several mills have closed recently because of a shortage of logs.

Mining in the Minneapolis district continues slow; workers from the iron mines are on furlough, and oil and gas production and refining are generally unchanged. By contrast, contacts in the Kansas City and Dallas districts note a possibly temporary pickup in drilling, especially for natural gas. While oil and gas prices have drifted down, natural gas inventories are described as tight, and below-average temperatures could spur price increases.

## FIRST DISTRICT-BOSTON

Led by a reported pickup in consumer confidence, economic activity in the First District improved modestly in November. Most manufacturing contacts indicate that demand is even with or slightly above year-ago figures. For 1993, they generally expect a small increase in real GDP. A pickup in November sales has raised spirits in the retail sector; retail contacts now feel that consumer confidence may have rebounded in time for the Christmas season. Commercial real estate remains in the doldrums.

Retail

The modest upturn reported in October has strengthened further in November, according to First District retail respondents. Previously, retailers attributed sales increases to their promotional activities; now contacts unanimously agree that consumers' willingness to spend rose in the weeks following the election. A majority report sizable sales increases across product lines, and only one contact expressed concern that the current improvement in sales represents early buying that will reduce the important "last minute rush."

While pricing remains competitive, consumers are not showing the same degree of price-consciousness seen last year. Retailers believe that inventory levels are adequate but not excessive for the holidays, and seasonal hiring has occurred. Permanent staff levels and wages remain largely unchanged.

As demand has increased, margins and profits have begun to improve. However, capital spending plans in most cases remain limited to remodeling existing locations. All contacts express optimism for the 1992 Christmas season.

### Manufacturing

Most manufacturing respondents report that demand is flat to up 5 percent compared to a year earlier. The strongest sales increases involved some computer and home-related products. Auto-related demand was described as flat by a couple of contacts, but up substantially for another. Commercial aircraft-related sales are also highly variable. Defense business is flat at best, and down substantially for some contractors. Manufacturers generally expect that the U.S. economy will show modest growth in 1993.

Manufacturing contacts indicate that foreign sales have been mixed. In some cases they have achieved surprising success by offering an attractive product or technology, despite a generally weak economic climate. Several expressed concern that declining foreign markets will pull down their sales in 1993.

Except for selected items facing strong demand, manufacturers describe both materials and selling prices as flat to down. Just over half of this month's manufacturing contacts indicate that they have reduced U.S. employment--by up to 12 percent--in the past year. At the others, employment levels were unchanged. Most manufacturers report that capital spending has been flat to slightly up over 1991 investment.

### Commercial Real Estate

The commercial real estate market in the First District is very slow and shows no signs of recovery. Office vacancy rates are now about 20 percent with little net absorption. Even the most optimistic contacts see future absorption rates of only 2 to 3 percent per year. Most new leasing activity involves tenants moving to higher quality space, so vacancy rates on Class B and C space could be as high as 30 percent while vacancy rates on Class A space are below average and

falling. Effective rents for low quality space in poor locations have now declined below operating costs. Contacts say that many vacant buildings may eventually be torn down because they cannot recover the renovation costs necessary to attract new tenants. Conditions in Connecticut are reported to be worse than in other areas because of problems in the financial services and defense industries. Throughout the region, the retail and apartment markets are holding their own, and contacts suggest that the retail market may see some growth if the economy improves. Nonresidential construction is limited to the public sector and a few industrial buildings constructed to meet specific needs.

#### Nonbank Financial Services

Investment management companies surveyed report increases in assets under management in the range of 2 percent to 10 percent in the quarter. Tax-free funds and government bond funds were especially popular, followed by growth equity funds. The majority of respondents have increased employment in recent months and plan further increases in their work force.

Venture capital firms report mixed results for firms in their investment portfolios. According to these contacts, software and semiconductor firms had strong sales, while capital equipment firms had sales below projections. Retailers had trouble meeting their targeted margins, especially in the Northeast, although they experienced improvements over the second quarter; broadcasters were affected by declines in advertising revenue.

## SECOND DISTRICT--NEW YORK

Economic developments in the Second District remained mixed in recent weeks, but seemed slightly more positive, on balance, than in the last report. October sales at most District department stores were reported to be on or above targeted levels though results varied widely. Homebuilders in most of the District noted some recent improvement in the residential construction market, and office leasing activity has been relatively strong in midtown Manhattan. District unemployment rates improved in October but nonfarm employment has continued to decline. Reports from Buffalo purchasing managers showed a worsening in both production and new orders during November following an improvement in October. Loan officers at small and mid-sized banks indicated no change in their willingness to lend.

Consumer Spending

Sales results varied widely at District department stores during October but most were reported to be on or above targeted levels. Due in part to special attractions such as storewide promotionals and the opening of remodeled floors, the majority of the stores had over-the-year gains in October, which ranged from 0.5 - 11.0 percent. However, one chain reported a year-to-year decline. Categories of merchandise registering the strongest increases were most types of women's apparel, cosmetics and men's sportswear. Two respondents noted a pickup in furniture sales as well.

Inventories are generally at satisfactory levels and, indeed, a little below plan in some areas where sales were stronger than anticipated. With regard to the holiday season, most contacts anticipate somewhat larger year-to-year gains than occurred last year "but nothing spectacular".

### Residential Construction and Real Estate

Homebuilders in most of the District reported some recent improvement in the residential construction market. Several contacts spoke of increased traffic and an upturn in sales, spurred in part by the low level of interest rates and the desire to buy before mortgage rates rise. Buyers remain cautious, however, in the wake of continued layoffs and uncertainty about the economic outlook. Starts are expected to top last year's low level in most areas though the extent varies from "by quite a bit" in some upstate New York communities to "not by a lot" in downstate New York and New Jersey. Obtaining loans for acquisition and construction is still reportedly difficult in much of the District and one respondent stated that the problem is worsening rather than improving in his area.

In recent weeks, office leasing activity has been relatively strong in midtown Manhattan where for the first nine months of this year the footage leased was some 23 percent above the year-earlier level. In downtown Manhattan, however, the pace of leasing has been slower and for the first nine months totaled little more than in 1991. As a result, while the primary vacancy rate in midtown Manhattan has been declining, the downtown vacancy rate has risen and by October, according to one source, a two percentage point difference existed between the two rates.

### Other Business Activity

District unemployment rates improved somewhat in October as New Jersey's rate fell to 8.1 percent from 9.0 percent in September and New York's to 8.7 percent, also from 9.0 percent. However, nonfarm employment has continued to decline in both states though the pace of loss may have moderated. Regarding the outlook, the employment impact of Martin Marietta's intended purchase of G.E. Aerospace, which has offices and operations in several District locations, remains uncertain. Furthermore, Grumman plans to cut 500 more jobs on Long Island by the end of March, related to the closing of its aircraft factory, and in upstate New York, Miller Brewing will cut 180 jobs early next year. On the positive side, an

automotive transmission plant in the Syracuse area just hired new production workers for the first time since 1986 and might add more in response to increased product demand.

Two other developments which could have a positive impact on the District are noteworthy. Farmers in the West reportedly are now receiving shipments of some of New York City's treated sludge to fertilize crops, restore depleted croplands and curb erosion, which helps lessen the City's sizable waste-disposal problem. In addition, two new, employee-owned airlines have recently begun offering low-cost, unrestricted flights from Newark to various Florida destinations, adding to the growth of this rapidly developing airport.

Reports from Buffalo purchasing managers showed a worsening in both production and new orders during November following a substantial improvement in October. More generally, our District manufacturing contacts indicated continuing weak economic activity.

#### Financial Developments

Nearly all senior loan officers surveyed at small and midsized banks in the Second District indicated that they are as willing to lend as they were two months ago. Although residential mortgage demand continued strong during the last two months, consumer loan demand weakened and demand for nonresidential mortgages remained soft. A slight improvement in commercial and industrial loan demand was partly attributed to seasonal factors. In light of continued weakness in overall loan demand, several officers reported an increase in the use of advertising campaigns.

All respondents reported either maintaining or lowering loan rates. A majority of officers indicated that delinquency rates for mortgages and consumer loans were unchanged or lower during the preceding two months.

## THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District picked up in November according to contacts in major business sectors. Manufacturers noted increases in shipments and new orders although they continue to report declines in employment. Retailers generally indicated that both customer traffic and sales remained on an upward trend, and most of those contacted in late November said business was running at or above the pace they had expected for the month. Third District bankers noted an increase in demand for commercial and industrial loans. They said they continued to originate a large number of residential mortgages but applications for both refinancing and purchase mortgages had dropped sharply in recent weeks.

Looking ahead, most of the Third District business contacts polled for this report anticipate continuing improvement at a modest pace. Manufacturers generally expect the upward trend in orders to remain intact, boosting order backlogs and prompting some increases in employment during the next six months. On the basis of the current pace of sales, retailers have raised their expectations for the Christmas season. Many believe that sales for this holiday period will exceed last year's by a better margin than has been the case in recent years. Some express caution for 1993, however, as they expect potential tax increases, if they are enacted, to dampen consumer spending. Bankers expect both loans and deposits to move upward through next year, although they expect the rate of increase to be slow.

**MANUFACTURING**

Manufacturing activity in the Third District picked up in November,

according to reports from area industrial companies. While around half of those contacted said business was steady, just over one-third indicated that they had stepped up shipments and were receiving more new orders compared to the prior month. The gains appeared to be spread among most of the major industry groups in the region with the exception of textile producers and manufacturers of transportation equipment who noted declining shipments and orders. Despite the indications of improvement Third District manufacturers report that order backlogs are just steady and that employment has slipped, on balance. Area industrial companies continue to report that prices for both inputs and their own products are generally stable.

Looking ahead, managers at Third District industrial plants are optimistic. More than two-thirds of those contacted for this report expect increases in shipments and orders over the next six months, and nearly one-third anticipate rising order backlogs. While a majority plan to keep employment levels steady, one-quarter indicate they will step up hiring and extend working hours. An equal number are scheduling increases in capital spending for the next six months.

#### RETAIL

Most Third District retailers contacted in late November said both customer traffic and sales were on the rise, and the trend appeared to continue through Thanksgiving weekend. While some merchants said sales at their stores were running below the rate for which they had planned, most indicated that business was picking up to meet or exceed anticipated levels for this time of the year. The recent gains have led many Third District merchants to raise their expectations for the Christmas shopping period. Several said they believe the year-over-year gains could exceed those of the past several years. Some retailers expressed caution for 1993, however. These merchants said sales growth

could stall if personal income taxes are increased next year.

### FINANCE

Reports from major Third District banks in November indicated that overall loan volume outstanding was moving up slowly, representing an improvement in loan demand from the situation that has prevailed throughout most of this year. Bankers said lending was on the increase in three major credit categories-- business, consumer, and real estate loans.

Several bankers noted that demand for commercial and industrial loans was rising and that banks were competing aggressively for new business loans in the region. While the actual pace of growth was described as slow, bankers said the demand was coming from a broad range of companies, including middle market and small businesses.

Bankers gave mixed reports on consumer lending, but it appeared that consumer loan volume was increasing, on balance, at Third District banks. Several bankers said a significant number of their customers were consolidating installment credit into home equity loans. Nevertheless, these bankers said total consumer-oriented lending was increasing at their institutions.

Most of the bankers contacted for this report said they were continuing to book residential mortgages at a strong pace in November, but most also said that new applications for refinancings and purchase mortgages had fallen sharply.

Looking ahead, the balance of opinion among Third District bankers interviewed for this report was that both loan volume and deposits will grow in 1993, albeit slowly. Most bankers said they expect only modest increases in funding needs in the near future and they anticipate that net interest margins will remain at or only slightly below current levels.

## FOURTH DISTRICT - CLEVELAND

**Summary.** Business activity in the Fourth District continues to expand unevenly across industries. Retailers, reporting stronger year-over-year sales increases in October and early November, plan to carry larger inventories than they anticipated a few months ago. Growth in manufacturing production has revived in recent months, but some producers see no change in activity so far this quarter from last, while others report that orders and production are better than they estimated previously. Although District respondents anticipate larger gains in their business next year than in 1992, they foresee little growth in employment because of continued emphasis on productivity improvement.

**Consumer Spending.** Retailers in the Fourth District generally agree that sales in October and early November were better than they previously estimated. Consequently, they raised their sales estimates for the 1992 holiday season, and now anticipate a larger percentage increase this year than last. One discount retailer, however, experienced smaller year-over-year gains, largely in apparel, which they believe may represent a shift by consumers to more upscale stores.

Retailers attribute some of the recent unanticipated sales strength to special factors, especially the colder-than-usual weather in October, which boosted sales of outerwear and sweaters. They uniformly plan to build larger inventories than they previously expected, and one retailer has decided to expand its stocks of gift-type goods.

Economists associated with consumer spending estimate a 2% to 3% increase in real consumer spending this quarter from last, which is slightly higher than their earlier forecasts, but a let-up from the rapid pace of the third quarter.

Auto dealers were disappointed that November new car sales weakened for both domestic and foreign makes, although light truck sales strengthened again. New car

stocks are believed to be adequate, and dealers apparently will hold back on factory orders to prevent inventories from growing too rapidly.

**Manufacturing.** Growth in manufacturing output has revived in recent months, but capital goods producers still report mixed activity so far in the fourth quarter.

Some producers of electric motors and equipment, welding machinery, and industrial bearings report that business so far in the fourth quarter has been about unchanged from the third, perhaps because of talk about an investment tax credit next year, according to some industry sources. Orders and production of heavy-duty trucks, however, have been rising rapidly in recent months to levels that are approaching 1988 highs, although suppliers of truck components believe that the surge is associated with anticipated truck price increases. Some producers of industrial controls note signs of a turnaround in their business.

Steel producers estimate that orders and production this quarter will be higher than they forecast only a few months ago. Operating rates of some producers are presently averaging close to 85% of capacity, with demand strongest for flat-rolled steel products. Hedging against a scheduled 3% steel price hike in January may be pulling some business from early next year into this quarter.

Auto producers still estimate that production and new car sales this quarter will still be slightly higher than last, despite a sag in November new car sales. Production of light trucks continues to rise, partly at the expense of passenger cars. Market shares of the Big Three auto producers will likely benefit from more rapid increases in prices for foreign than domestic nameplates, according to some industry contacts.

**Employment.** Manufacturers and depository institutions plan no big step-up in employment next year, even though they anticipate more-rapid growth in their output and revenues. Achieving further productivity growth appears to be a common goal of District respondents.

Some manufacturers believe that they have sufficient capacity to accommodate a higher production level in 1993 and can resort first to more overtime hours and then to a recall of laid-off workers before adding new employees. Only a few anticipate that their business will expand enough to require new hiring, and then probably not until next spring. Auto sources indicate no prospect for employment growth because of further long-term cutbacks by some producers and only replacement hiring by others.

Some retailers are planning a larger increase in hirings for this holiday season than last, but many plan to achieve greater productivity growth by increasing use of technology, just-in-time stocking, and self-help centers within stores.

Financial Developments. Banks report that they are aggressively seeking qualified borrowers, but that loan demand remains soft. They see more intense competition for business loans, with some banks apparently paring their margins to meet bank and nonbank competition. The exit of a major issuer of commercial paper has led to some recent increase in business loan activity, according to some lenders.

The recent heavy volume of mortgage refinancing has let up since the latest rise in mortgage interest rates, according to several banks and thrifts. A few large lenders, who did not increase their mortgage rates in recent months, report that loan refinancing and new mortgage loan applications in November were strong.

## FIFTH DISTRICT-RICHMOND

### Overview

Overall District business conditions improved slightly in recent weeks, although activity in many sectors remained sluggish. Retail sales increased somewhat, but manufacturing was unchanged. Activity at District ports was mixed. Residential real estate continued to improve, but commercial real estate was lackluster. Credit conditions were unchanged at District financial institutions, while state tax collections showed strength in most jurisdictions. In agriculture, fall harvesting neared completion in most areas of the District.

### Consumer Spending

Our regular survey indicated that retail activity strengthened somewhat in recent weeks. Shopper traffic and sales, excluding big-ticket items, apparently increased, as did wholesale and retail prices. No change was reported in employment or capital expenditures. Wages generally were unchanged, although a few respondents indicated that wages rose.

Retailers were upbeat about recent business conditions and foresaw improved prospects for the next six months. Respondents said general business activity increased both in their areas and in the United States. Looking ahead, retailers expected increases in most indicators, especially sales and shopper traffic.

### Manufacturing

Manufacturers indicated that District factory activity held steady during the past month. Respondents noted little change in most indicators, although they reported lower levels of order backlogs and apparently paid

higher prices for raw materials. Respondents cited government regulation as the most important problem they faced.

Manufacturers were sanguine about their prospects for the next six months. Increases in most indicators were anticipated, but raw materials inventories and the number of workers were expected to be unchanged. Finished goods inventories were expected to decline.

### Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--reported that imports were higher in October than in September while exports were generally lower. Compared to a year ago, import activity was generally higher and export activity remained about the same. During the next six months, exports were expected to increase at Charleston but to remain unchanged at Baltimore and Hampton Roads.

### Tourism

Hotels, motels, and resorts throughout the District indicated that tourist activity in November was unchanged from October but was below year-ago levels. About half of the respondents reported that fall bookings were about even with a year ago while most other respondents reported declines. Regarding the outlook for the next several months, respondents were evenly divided between those who expected tourist activity to improve and those who expected activity to be unchanged.

### Finance

District financial institutions contacted by telephone indicated that credit conditions were little changed over the last six weeks. Respondents stated that both commercial and consumer loan demand were steady. Rates on commercial loans were unchanged while those on consumer loans were lower.

Banks noted that mortgage loan rates increased recently and that home mortgage activity slowed because of lessened home refinancings. Some nonbank institutions continued to report that stringent examination standards hampered their ability to lend to creditworthy customers.

#### Residential Real Estate

A telephone survey of realtors suggested that activity in the residential market continued to improve in most of the District, although increased buyer apprehension apparently slowed activity in some areas. Home prices remained steady. New home sales were stronger than existing home sales in the Carolinas and in the Washington, D.C. area, while the reverse occurred elsewhere in the District.

#### Nonresidential Real Estate

Activity in the commercial real estate market generally remained sluggish, but realtors indicated that leasing activity improved. Vacancy rates in the office and retail markets fell slightly because of the absorption of existing space. In the Columbia, South Carolina area, several new shopping centers were under construction, but little new commercial development was reported elsewhere.

#### State Government Revenues

Tax revenues continued to grow in District states according to forecasters contacted by telephone. In several states, tax analysts suggested that income tax withholding collections were running at higher levels than state employment figures would suggest, which indicated that state employment figures may have understated actual job growth. Several tax forecasters reported increases in tax collections from retail and real estate sales.

Agriculture and Forestry

Analysts reported that crop conditions improved in recent weeks. Favorable weather allowed completion of fall harvesting across most of the District, although rain continued to hamper activity in South Carolina. Preliminary estimates indicated record or near-record corn yields.

Lumber industry contacts reported strong demand and prices for hardwood lumber. Furniture manufacturers, both in the United States and abroad, apparently were the primary source of the increased demand. Industry contacts indicated that lumber prices rose in response to stronger demand and tougher government regulations on lumber suppliers.

## SIXTH DISTRICT - ATLANTA

**Overview:** According to contacts in the Sixth District, the Southeast economy was showing signs of moderate improvement through the end of November. After the first weekend of the holiday shopping season, retailers report sales increases across a broad range of goods, and most merchants believe that this season will be the most profitable one in three years. Most manufacturers indicate that factory activity has held steady in recent weeks, but persistent weakness is reported by firms linked to defense production. Home builders and realtors say that single-family residential markets remain healthy, and contacts in south Florida note that the hurricane rebuilding effort has begun to stimulate local construction and retail sales. Commercial construction, however, continues to be slow in most areas, and business and consumer loan demand remains muted. On the inflation front, most contacts report that they have seen no signs of upward pressure on either wages or prices.

**Consumer Spending:** Retailers throughout the District were upbeat in their assessment of sales through the end of November. Weekend sales following Thanksgiving were reported to be above year-ago levels throughout the District. Increases have been reported across a broad range of goods, with nondurable items leading the way, but sales of durable goods such as home furnishings, electronics, and appliances have also shown improvement. Inventories are relatively lean as planned, and merchants expect this season to be characterized by fewer discounts and higher profit margins than in the past few years. Retailers are in the process of hiring seasonal employees to meet this annual surge in activity, and most indicate that they will hold the line even if sales are stronger than anticipated. Although auto dealers have seen little change in

showroom traffic in recent weeks, the majority continue to report at least modest increases in sales over year-ago levels.

**Manufacturing:** Manufacturers' reports on factory activity were mixed in November. Some industries continue to be plagued by persistent weakness. This is particularly true of defense contractors, several of which have announced plans to cut a substantial number of jobs at District plants. Firms linked to the production of communications equipment and autos have also reported slowing production, shipments, and new orders. Producers of nondurable goods, however, generally have recorded moderate increases in factory activity. Apparel and textile manufacturers characterize current levels of production and shipments as encouraging, but they expect a leveling off by early next year as their backlogs are reduced and customers' inventories restored. Manufacturers of building supplies and other home products continue to report increases in demand stemming from the hurricane rebuilding effort. Producers of shingles, plywood, roofing felt, and carpeting report that they are running their plants at capacity levels.

**Construction:** After taking into account normal seasonal patterns, most residential realtors report that conditions continue to improve in single-family housing markets. Low-to-mid priced homes are still the best sellers, but the market for trade ups and more expensive homes has improved. Builders note steady single-family construction activity, and a growing minority are seeing increases in speculative building. Multifamily and commercial construction, however, remains slow in most parts of the District and contacts suggest that there is little near-term prospect for improvement.

South Florida is beginning to experience the expected increase in economic activity as a result of the hurricane rebuilding effort. In particular, contacts report that the local economy

of Dade county has recorded substantial increases in both retail sales and construction. However, contacts also report that a number of individuals and families have opted to move out of the area rather than to rebuild their damaged or destroyed homes. On the commercial side, realtors in areas around Dade county have seen a surge in short-term leasing from companies whose facilities were damaged by the storm.

**Financial Services:** Bankers around the District report that loan demand was flat to up slightly through the end of November. Mortgage refinancings still represent the most prevalent form of loan activity, but contacts believe that this wave of refinancings has finally peaked. Other forms of consumer lending have shown some improvement in recent weeks, particularly auto financing in parts Florida and Georgia. Commercial lending, however, is reported to be flat, and most loan applications have been for refinancing, debt consolidation, or acquisitions, rather than new business activity. Contacts in Miami have seen deposits rise by about 10 percent since the hurricane, but there still have not been any reports of a significant increase in commercial or consumer lending in the area. Small business continues to report difficulties obtaining credit, although conditions have not worsened. It appears that lenders are becoming more aggressive in consumer lending.

**Wages and Prices:** Contacts report that wage pressures are practically nonexistent. Firms continue to focus on cost cutting, including workforce reductions, in order to improve balance sheets. Materials input prices have remained stable for most producers, and competitive market forces have foiled recent attempts to raise prices of final products.

## SEVENTH DISTRICT-CHICAGO

**Summary.** Seventh District economic conditions improved in October and November. Consumer spending continued to advance on a seasonally adjusted basis, and appears to have gained momentum in recent weeks. Retrenchment was evident in the District's manufacturing sector in August and September, but activity seems to have stabilized and moved somewhat higher. Automakers' appraisals of market conditions were much improved compared to the third quarter, when production edged downward. Household survey data depict a significantly more robust recovery in District labor markets than establishment survey estimates, and a quarterly survey of hiring plans showed continued improvement in the Midwest. However, large firms generally have stated that hiring in 1993 will be restricted even in the event of a significant economic upturn. Reports on commercial and industrial loan demand were mixed but suggestive of some strengthening overall. A record soybean harvest is nearly complete, but extensive rains have led to major delays in the corn harvest.

**Consumer Spending.** Consumer spending in the District appears to have moved higher in October and November, and retailers' expectations for holiday sales gains rose in recent weeks. One recent survey showed that the percentage of Michigan retailers expecting holiday sales increases reached the highest level in the past eight years. The survey's director stated that "this is a clear break from the uncertainty of the recent past." Another holiday sales survey indicated that a greater share of retailers in Illinois and southern Wisconsin expect sales gains than the national average. A discount retailer reported that sales stalled out during election week, then reversed and strengthened significantly in mid-to-late November. This retailer raised its forecast for sales in the holiday season, and is now looking for its best year-over-year holiday sales increase (in real terms) in the last eight years. A survey conducted by a check processing firm indicated that day-after-Thanksgiving activity rose over 10 percent in the Midwest, compared to 5 percent nationally. One District retailer reported that same-store sales gains improved over the Thanksgiving weekend in spite of bad weather.

**Autos.** After losing some momentum in the third quarter, the auto industry contributed to growth in the District economy in recent months. A large automaker stated that dealer orders had been lagging sales as the market softened in the third quarter, but orders turned around and rose faster than sales during October and early November. Another automaker noted that recent light truck sales gains have been well distributed by product category, with new increases in sales of full-size pickups (which are primarily for commercial use). Dealer complaints about the "upside-down" problem (where used car trade-in value is less than the outstanding loan balance) have been on the wane, according to another automaker, and there has been a substantial increase in the number of debt-free vehicles on the road. One automaker noted continued increases in used car prices, which also could help buoy the trade-in market. Increasingly optimistic appraisals of sales trends were joined by higher expectations for production, although significant gains were not expected to develop until the first quarter of 1993. Another automaker noted that the scheduled gain in car production in the first quarter of 1993 would be the best (on a seasonally adjusted basis) in the last two years, although actual assemblies are dependent on dealer orders holding at current levels.

**Manufacturing.** District manufacturing activity moved sideways to modestly higher in October and November, and reports from individual firms took on a more positive tone following the national election. A majority of District manufacturers continued to report production gains in various purchasing managers' surveys. That majority grew increasingly thin during the third quarter and into October, although some improvement was evident in the Chicago survey for November. The price component of the Chicago index fell for the fifth consecutive month in November, reaching one of the lowest levels in the past five years. The production component of the Milwaukee survey joined its counterpart in the Chicago survey by falling in October and rising in November, but signalled expansion in activity during both months. Surveys conducted in Western Michigan were summarized in October by the survey's director as indicating that "things are flat and getting flatter," although modest

improvement was noted in November. A survey of metalworking firms in the Chicago area indicated some slowing in the rate of recovery in October.

Reports provided by individual manufacturers were more optimistic in recent weeks than in October. A manufacturer of parts used in heavy machinery stated that "after the usual lead times following the end of a recession, we are beginning to see a recovery in capital goods markets." This company also noted that sales of controls for household appliances continue to benefit from the housing recovery. A large appliance manufacturer expected industry-wide domestic shipments to rise modestly again next year. A chemical company reported that sales of coatings used in finishing consumer durable goods are "by far our strongest" area, principally due to strength in sales of housing-related products like cabinetry and furniture. At the same time, this contact noted that sales of coatings used in general industrial purposes remained soft. An office furniture manufacturer stated that sales stopped declining in August, and have experienced a modest but consistent recovery since then. A large manufacturer of fluid power equipment reported that the heavy-duty truck market "is clearly the strongest area of our business." Assemblies have grown slower than orders, mainly because OEMs have been trying to lock in production for later-than-usual delivery next year. However, this contact did not express concern about the prospect of order cancellations, and expects heavy-duty truck assemblies to rise nearly 20 percent in 1993.

**Employment.** District labor markets continued to recover in recent months, although measuring the extent of the recovery is difficult with available data. Establishment survey data suggest that total District nonfarm payroll employment was flat to slightly higher in recent months, but household survey data and reports from temporary help firms suggest a stronger upturn may be underway. According to household survey estimates, District employment began a significant recovery late in 1991, and by August 1992 had returned to pre-recession levels. More recently, the unemployment rate fell markedly in Illinois over the four months ended in October, as a sharp decline in the number of people reporting themselves unemployed was joined by a significant increase in the number of people having a job. A quarterly survey of employer hiring intentions

indicated renewed improvement among Midwest firms. Anecdotal evidence for a recovery in permanent employment among larger District companies remained sparse at best, however, with most firms indicating that productivity gains are expected to restrict hiring, even if economic growth increases. A large retailer stated that retailing is rapidly becoming more capital intensive. A communications company reported that continued growth in telephone line installation has been driven partly by a trend among its customer base towards substitution of labor with capital. A large food processing company stated that "as we put capital in, we take people out."

**Banking.** Reports from large banks on the demand for their commercial and industrial loans were mixed but suggestive of some strengthening overall. Those banks reporting improved demand cited customers' financing needs for capital spending more frequently than for inventory investment. Several banks reported having undertaken efforts to strengthen capital positions in recent months; planned or actual equity issuance was the most frequently cited measure. Loan sales and securitization initiatives were noted more frequently than credit standard tightening. Regulatory capital positions were characterized as adequate or comfortable by each bank contacted. Credit standards and loan terms were largely unchanged, although a minority of respondents noted a modest decline in the spread between loan rates and base rates.

**Agriculture.** Farmers in District states have nearly completed what is estimated to be a record soybean harvest, but progress in harvesting the record-large corn crop is characterized as the slowest in 20 or 30 years. As of November 22, a third of the corn acreage in District states was still waiting to be harvested. The high moisture content of this year's slow-to-mature crop accounted for the initial harvest delays. More recently, extensive rains have limited the amount of field-drying and rendered many fields too muddy. The harvest in several areas of the District may not be finished until well into the winter months. The field losses on the remaining acreage will be larger than normal. The losses will be costly to individual farmers but are not likely to alter the overall implications of a record crop.

**EIGHTH DISTRICT - ST. LOUIS**

**Summary**

District economic activity continues to increase modestly, fueled by positive expectations for the current holiday shopping season. Many manufacturing firms have not experienced any recent changes in their demand, but see a bright future. Others, especially those in defense-related industries, continue to undergo reorganizations to compete in global markets. Nonmanufacturing firms have experienced increases in demand, especially retailers; many retailers predict the strongest year-end rally in recent years. Residential housing construction continues to be a source of strength throughout the District. Buoyed by business loan growth, total loans outstanding continue to increase at large District banks. Bumper crops are expected in most areas of the District.

**Manufacturing**

Reports from District manufacturing firms continue to be mixed, as some see better times ahead, while others are extremely cautious. One contact in the air conditioning and heating equipment industry reports an optimistic outlook for next year, especially in the aftermath of Hurricane Andrew; sales are expected to increase 10 percent. Other durable goods producers also see improvements. For example, a maker of aluminum wheels for cars and trucks is expanding, leading to 300 new jobs, and an electrical components assembler is moving production from New Jersey to the Memphis area, creating 130 positions. In addition, a maker of tennis equipment will renovate its plant and resume production after a two-year suspension, creating 150 new jobs by March, and a shoe plant, previously scheduled to close, will remain open until at least early next year because of an unexpected increase in orders.

Among firms less optimistic about the future, one contact in the electrical equipment sector reports that worsening foreign economies have led to growing skepticism about export

growth, which had been a bright spot in the company's sales picture. Sales are down about 6 percent from last year's modest level. A glass company in Illinois and an art supply manufacturer in Missouri will close by January, eliminating a total of 500 jobs.

As for restructuring in the District, a major chemical company announced a new reorganization and cost reduction plan that will eliminate 500 jobs. Increased development costs for new pharmaceuticals, without similar increases in product prices, have strained the company. A St. Louis defense contractor laid off another 400 workers at the beginning of November. Additional layoffs, possibly affecting up to 3,500 St. Louis workers, are expected in the near future. A maker of agricultural spraying equipment in Arkansas announced that it will move production to Texas and northern Illinois, taking 160 jobs with it. Finally, a company producing household storage containers is closing its Tennessee plant and consolidating production in South Carolina, resulting in a loss of 800 District jobs.

#### **Nonmanufacturing**

Reports from District nonmanufacturing firms are generally optimistic, especially from area retailers. Many area retailers reported increases in sales during October. In light of recently reported increases in consumer confidence and initial reports of strong post-Thanksgiving Day sales, retailers expect inflation-adjusted holiday sales to be up significantly from last year. Some retailers have reported that they would rather forego sales than be stuck with excess inventory; therefore, stock is being maintained at minimal levels. Other nonmanufacturers also see growth. For example, a women's clothing chain is expanding its Memphis distribution facility, adding 100 new jobs, and a mortgage company that had previously laid off about 700 St. Louis employees will add 250 new positions during the next six months. A telecommunications firm, however, decided to close its Louisville office, eliminating more than 110 jobs.

#### **Construction and Real Estate**

Residential construction continues to be a bright spot in most parts of the District. Single-family housing permits in September and October were up substantially from their

year-ago levels, though most areas reported stronger year-over-year increases in September than in October. New and existing home sales are also reported as strong in most areas of the District. One contact noted that recent increases in interest rates have encouraged potential homebuyers to get into the market before rates rise further.

### **Banking and Finance**

Loans outstanding at 12 large District banks increased 0.6 percent from mid-September to mid-November, after declining 0.4 percent during the prior two months. Much of this turnaround can be attributed to business loans, which grew 1 percent during the past two months after a 4.7 percent decline during the prior two months. Consumer loans rose 1.6 percent from mid-September to mid-November after a 2.8 percent increase from mid-July to mid-September. Real estate loans, however, remained flat, declining as much in the last two months as they had risen in the prior two months. A sample of 93 small and mid-sized District banks showed comparable trends. All categories of loans except for consumer loans posted increases in the last two months that exceeded their performance in the prior two months.

### **Agriculture and Natural Resources**

Persistent rainfall has hampered the fall harvest in many District areas. For example, the corn harvests in Illinois, Indiana and Missouri are expected to continue well into December. The cotton harvest is also behind schedule in Tennessee. Nonetheless, bumper crops are expected in most areas. Record corn and soybean yields are expected in Illinois, Indiana, Kentucky, Missouri and Tennessee; Arkansas also expects to have a record soybean yield this fall. In terms of actual production, Illinois and Indiana farmers expect to have record-breaking corn and soybean crops, while Kentucky and Missouri farmers expect to harvest a record corn crop as well. A record rice crop is expected in Arkansas and Missouri; likewise, Tennessee cotton producers expect to harvest a record crop.

## NINTH DISTRICT--MINNEAPOLIS

Most sectors of the Ninth District economy continue to improve slowly in late fall. Retail sales are strengthening. Residential construction is strong. The 1992 crop is in and generally good, with the exception of wet weather retarding the corn harvest. Prospects for winter tourism appear excellent. Labor markets are slightly stronger. A mid-November Minneapolis Fed poll of business and community leaders reflects this improvement. It showed that most considered their local economy to be better than the nation's and many thought that economic activity would be up in 1993. But manufacturing shows little growth, and mining continues to be slow.

Consumer Spending

Consumers appear willing to spend. Major retailers report improving sales and stronger profits. Moreover, Advisory Council members and representatives of retail firms report expectations that holiday sales will be stronger than in 1991. News media note generally good sales over the Thanksgiving weekend. For example, the Mall of America, in a Minneapolis suburb, attracted 170,000 shoppers on the Friday after Thanksgiving, its second best day since opening in August.

The district sales office for a domestic auto manufacturer reported sharply stronger auto sales in November and described its outlook for the balance of 1992 as "extremely good." Three Helena Branch directors report strong auto sales or increased dealer profits in their areas.

The winter tourist season appears to be off to a good start. Deer are abundant in Michigan's Upper Peninsula, northern Wisconsin and northern Minnesota and large numbers of hunters are anticipated. Downhill ski resorts are open in Montana and owners anticipate an excellent season, although spotty snow cover has delayed cross-country skiing in eastern areas of the District.

Home Sales and Construction

Construction, especially of homes, is generally strong. An Advisory Council member from Montana reports that some home contractors are advising buyers that home orders are backlogged until next summer. In Minnesota, building permits for September were up approximately 15 percent from a year ago, with virtually all the growth in single-family residences. Strong residential construction was also reported in eastern North Dakota and in Wisconsin cities.

Other construction is not as strong. A Minnesota director reports that non-residential building is generally limited to the public sector. Road and heavy construction is slowing seasonally as winter sets in. The severe surplus of office space in Minneapolis/St. Paul has cast a pall on large building construction. One director notes that his firm was laying off senior tradespeople who specialize in constructing tall office buildings.

Manufacturing, Mining and Forestry

Manufacturing shows little growth. September manufacturing employment for District states was steady or slightly down from a year earlier except in South Dakota. An Advisory Council member reports that sales of several Minneapolis/St. Paul manufacturers are essentially flat, with these firms reaching beyond traditional markets in an effort to maintain, not improve sales. But forest products production, especially of plywood substitutes and hardwoods in the eastern part of the region, is reported strong and one Council member notes strong sales of machinery to the paper industry. Furthermore, over half the manufacturers responding to the Bank poll indicate that their capital spending will be up in 1993.

Mining continues to be slow. Iron mines have temporarily furloughed workers due to lack of orders. New oil and gas drilling permits

issued in North Dakota through Nov. 1 were below the level for 1991 and substantially below 1990. Though growing, the average drilling rig count for North Dakota in the year to date is below 1991. Production and refining in Montana and North Dakota are generally unchanged from last year.

#### Labor Market Conditions

Labor markets are slightly stronger. In November fewer large layoffs were reported by the media than in the previous two months. Advisory Council members generally report improved employment conditions. The mid-November Bank survey of business and community leaders showed 49 percent anticipating that employment would increase in 1993; only 10 percent thought it would fall.

#### Agriculture

With the exception of corn, the 1992 harvest is largely completed. Some early snows and wet weather across the region have severely retarded the corn harvest and hurt quality. Sugar beet producers in Minnesota and North Dakota report outstanding yields and sugar content.

Soil moisture and pasture conditions going into the winter are rated at adequate or better across most of the region, with the exception of a few districts in the western Dakotas and Montana.

While milk production is generally unchanged from a year ago, dairy profitability is generally satisfactory due to adequate feed supplies and somewhat stronger milk prices.

Most Advisory Council members report somewhat stronger sales of farm machinery. One from eastern North Dakota noted that his report on machinery sales was "the most positive one in three years." Others report that farmers continue to pay down debt and that land sales had picked up slightly in some areas.

## TENTH DISTRICT - KANSAS CITY

Overview. Tenth District economic activity continues to expand moderately. Retail sales including new car sales are improving, housing starts and new home sales are still rising, and activity in the energy industry continues to pick up. Moreover, bank loan demand has strengthened during the last month. In agriculture, the effect of weaker crop prices has been nearly balanced by gains in the livestock sector.

Retail Sales. District retailers report an improvement in sales over the past month. Sales have been strong in a variety of categories, including durable goods such as computers, appliances and carpet, as well as soft goods such as women's apparel. Selling prices have remained stable or have fallen, and are expected to remain stable over the next three months. Retailers foresee a significant improvement in sales over the same period, sparked by a better-than-average Christmas season. Most retailers express satisfaction with current inventory levels and expect to hold them steady over the next three months.

Automobile sales were up slightly from last month and most dealers are optimistic about future sales. Financing is generally available for both dealer inventories and potential car buyers. Dealers are expanding inventories slightly because of the new model year and increased showroom traffic.

Manufacturing. Most purchasing agents report steady to slightly higher input prices in the past month and expect a similar trend over the month to come. Some firms report longer lead times for obtaining some materials, but availability is not a problem. Firms are either maintaining current inventory levels or are trimming inventories due to seasonal factors. Most firms are

still operating at well below capacity. Firms that export generally report improved sales abroad.

Energy. Drilling activity continues to pick up, especially in the district's natural gas fields. The average number of operating drilling rigs in district states increased from 250 in September to 291 in October. This recent jump in drilling activity pushed the region's rig count 16.2 percent above its year-ago level.

Housing. Single-family housing starts are up sharply over the past year and the past month, but multifamily starts remain flat. Builders expect housing starts to remain strong over the next three months despite colder weather. Sales of new homes are also substantially higher than both last year and last month, and inventories are low. Mortgage demand and commitments are strong due largely to refinancing, but are expected to weaken due mainly to seasonal factors. Respondents express considerable uncertainty about the direction of mortgage rates. Prices of new homes are up moderately, largely reflecting past increases in the price of lumber.

Banking. District bankers report somewhat stronger loan demand during the last month. Demand was up for home mortgages, commercial and industrial loans, and agricultural loans. The demand for consumer loans and home construction loans was unchanged, however, and the demand for commercial real estate loans weakened slightly. The loan to deposit ratio for district banks was higher compared with both a year ago and a month ago. The level of bank investments was unchanged over the last month.

District bankers held their prime lending rates steady last month, and most respondents expect no further change in the near future. District banks recently cut their consumer lending rates, but do not expect further changes

in consumer rates in the near term. Respondents report no changes in their other lending standards.

A majority of the respondents experienced deposit inflows in the last month. The growth in deposits was primarily in demand deposits, NOW accounts, and MMDAs. Small time and savings deposits fell slightly in the last month, while large certificates of deposit were unchanged.

Agriculture. The district's fall harvest is nearing completion slightly later than normal due to wet weather. Corn and soybean yields are generally well above average, and milo yields are about average. While the wet weather has slowed the fall harvest, it has encouraged development of the recently planted winter wheat crop, which is in generally good condition.

The harvest of large corn and soybean crops has pushed down feed prices, boosting profits for cattle feeders. With stronger profit margins, district feedlot operators are feeding more cattle than a year ago.

The uptick in profits for cattle feeders has helped offset the effects of weaker crop prices on farm incomes. Some dryland wheat producers face weaker incomes due to the low yields and weak prices. Overall, district bankers expect timely paydown of most farm loans.

## ELEVENTH DISTRICT--DALLAS

Economic growth in the Eleventh District has increased since the last survey. Respondents from most sectors of the economy report a noticeable rise in orders and an improved outlook. Manufacturing respondents note improved economic conditions with the exception of continued weak international demand. Responses from business service firms confirm a general improvement in the regional economy. Construction and real estate activity continues to be boosted by strength in residential home building. Pre-holiday retail sales were stronger than expected and retailers are optimistic about the holiday season. Oil and gas drilling has been increasing, partly due to temporary factors. Banks report an increase in real estate and consumer lending. Farm net income is expected decline in 1992.

Most manufacturing respondents report an increase in orders and an improved outlook for 1993. Construction-related industries continue to report strong growth in orders. Brick demand has been particularly strong. Respondents in electrical and electronic equipment say that demand has picked up, particularly in telecommunications, computers, and construction-related products. A producer of primary metal says that orders improved in mid-November but that the outlook remains cautious because of the continued weakness in the international economy. Apparel demand is reported to be strong, particularly for denim products. Producers of corrugated boxes and newsprint report sizable gains in sales. Demand for oil field equipment has increased due to strength in natural gas prices and the year-end expiration of a tax credit for certain types of natural gas drilling. Respondents in the

petrochemical industry say that orders have been flat due to increased world capacity and weak economic conditions in Europe.

Construction and real estate activity continues to be buoyed by strength in single-family home construction. Most of the major markets in the District report strong gains in single-family housing starts. One respondent notes that in 1992 new home sales in the Dallas/Ft. Worth area will be the strongest in five years. Most of the major office markets remain weak although occupancy rates and rents in Austin continue to rise. Energy sector restructurings are contributing to weakness in the Houston office market.

Business services firms note an increase in demand from a broad array of economic sectors. Temporary employment agencies in Dallas/Ft. Worth and San Antonio cite seasonally-adjusted gains in demand from the manufacturing sector. A temporary employment agency in Louisiana notes a sharp rise in demand due to a resurgence in oil and gas activity and in industrial construction. An accounting firm respondent says that overall demand continues to be subdued by the advent of better software programs which allow small businesses to do their own bookkeeping. Despite this trend, however, most respondents in the accounting/consulting industry note a moderate rise in demand from the manufacturing, retail and energy sectors. The Texas/Mexico border was noted as particularly strong. While the demand for legal services is reported as flat to slightly up, one respondent says that the health care industry was "stronger than a horseradish."

Most respondents say that pre-holiday retail sales in the District were better than projected and that they now expect the holiday season to be the strongest in several years. Respondents from national retail companies say

that sales from their Texas stores have been stronger than the national average. New car sales were down sharply in October. Respondents say that most of the fall was due a new agreement between auto manufacturers and rental companies that prolongs the time which rental companies hold cars. After adjusting for the decline in fleet sales, auto sales were down only slightly.

District oil and gas drilling has improved sharply. Respondents say that a historically high 53 percent of the rigs running are searching for natural gas. Section 29 tax credits for natural gas drilling, which are set to expire at year-end, have motivated much of the rise in drilling activity. Oil and natural gas prices drifted down throughout much of November. Respondents say that oil prices are being influenced by the weak world economy and strong OPEC production. While natural gas prices have slipped, the recent spot price for November delivery was 30 percent higher than November, 1991. Respondents say that inventories of natural gas remain tight and that an unseasonably cold winter could spur price increases.

Banking industry respondents note a recent pick up in residential real estate and consumer lending. Most banks, however, continue say that there is a shortage of loan demand from quality borrowers and that business loans continue to decline. Most respondents expect a moderate increase in loan demand over the next 12 months.

Agricultural respondents say that 1992 is turning out to be a weak year for District farming although ranchers are likely to have a good year. Farm net income in the District is expected to decrease in 1992 due to lower prices for commodities, decreased government subsidies, and increased production costs.

**TWELFTH DISTRICT -- SAN FRANCISCO**

**Summary**

**Economic conditions are mixed in the Twelfth District, as weakness in California is offsetting moderate growth in most other District states. In California, cutbacks continue in aerospace and defense-related manufacturing, retail sales are sluggish, and the state's fiscal condition has worsened. Outside of California, moderate improvement is reported in retail trade and residential construction, with the strongest conditions reported in Utah and Idaho. However, Washington faces further cutbacks in aerospace, and tourist activity is down in Hawaii. Overall business sentiment improved slightly and District agricultural conditions are generally good. Little upward pressure on prices is reported, and several contacts expect wage increases of around 3 percent.**

**Business Sentiment**

**Sentiment among Twelfth District business leaders has improved moderately since our last report. 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 up from one-fifth in October and September and has returned to the level seen this past summer. An additional sixty percent of our respondents expect real output to expand, but at a rate below 2.5 percent.**

**Wages and Prices**

**Several contacts are projecting wage increases of around 3 percent for the coming year, down from an average of 3.5 to 4 percent for the past twelve months. The same contacts are reporting that benefits increases during the coming year will be at least double that--over 6 percent. The increase is attributed largely to the cost of medical benefits, projected by some contacts to rise 10 or 11 percent. Several respondents noted that their organizations either had cut back or were planning cutbacks in medical benefits in order to hold down costs.**

Outside of medical costs, few upward pressures on prices are reported in District markets. One exception is wholesale electricity prices in the Pacific Northwest, which have risen with demand and a decreasing power surplus.

### Retail Trade and Services

Weakness in California is holding down District consumer spending. Contacts report that sales are barely above year-ago levels for California as a whole, before adjusting for inflation, and are declining in certain regions, mostly in southern California. Retail sales are showing a slight pickup in recent weeks, however, particularly in northern California. Consumer confidence in the southern part of the state is reported as still poor. Outside of California, contacts report increasing sales and expectations for a good Christmas season. With respect to retail employment, one contact from a major retail chain reports that the trend is definitely toward improving productivity, even if it means laying off more workers.

A telecommunications firm in California reports that orders for new business hookups are weak, and that uncollectible bills remain high. In Hawaii, tourist-related businesses are still in the process of cutting their staffs due to a decline in visitors from the mainland. Tourism in California is reported to have increased slightly in dollar volume over a year ago, but market share is down. The sluggish California economy has led analysts to project a significant state budget shortfall through the end of the 1993-94 fiscal year. Official estimates of the shortfall range from \$4.1 billion to \$7.5 billion.

### Manufacturing

District aerospace activity continues to contract as layoffs continue in southern California and Washington. In Washington, Boeing has completed its slowdown of 737 production, but has announced plans to reduce production of the 757 and 767 models by one-third in 1993 with a layoff of 2,500 workers (2,000 in the Seattle area). Observers in Seattle are forecasting that the local

aerospace industry will drop a total of 10,000 jobs by the end of 1994, with an additional 26,000 "spinoff" jobs lost as a result.

Other District manufacturing activity is mixed. Contacts in Utah still report some reduction in defense-related industries, but new hiring by computer software companies. A contact from northern California reports that conditions for small personal computer and defense-related electronic companies continue to soften. Computer software sales by Washington companies are reported strong. Construction machinery sales are reported up 5 percent over a year earlier. A contact in the paint and coatings industry reports that national sales continue at a level slightly more than 5 percent above a year earlier.

#### Agriculture and Resource-Related Industries

District agricultural conditions are generally good in most markets. Contacts in Idaho and Utah report agricultural conditions as favorable, and contacts in eastern Washington report a strong crop year. Concern remains, however, about continued drought.

Demand for wood products is holding steady, and western lumber production is running slightly above the level of a year earlier. The operating environment for western lumber producers, however, is described as "tough" due to restricted public timber supplies. Contacts report several recent mill closures due to the shortage of logs, with one contact expecting attrition of one-third of existing Northwest lumber and plywood mills. Demand for western newsprint continues to be very strong, however, and several companies are running at capacity.

#### Construction and Real Estate

Nonresidential real estate and construction markets are reported to be weak in several District markets. In southern California, one contact reports that tenants renewing leases are negotiating rent discounts of 25 to 40 percent. The same contact expects foreclosures for major projects in 1993 to exceed those in 1992. Another contact in northern California reports that rents and the purchase price

of space will probably decline another 10 to 15 percent. Commercial real estate is reported flat in Utah, and a contact in the Oregon construction industry reports fierce competition among contractors due to excess capacity.

Stronger conditions are reported in the residential sector. In California, existing home sales climbed sharply during October, and posted the first concurrent monthly and annual sales increases since February. Contacts in eastern Washington report a continued boom in residential real estate and construction, and housing starts in Utah are reported strong.

#### Financial Institutions

Conditions at District financial institutions are reported as sluggish. In California, contacts report that loan demand remains weak for most types of commercial and consumer credit. The number of applications for small business loans continues to decline, while the volume of larger commercial loans also is falling. The residential mortgage market in California is reported to be mixed. Moderate demand for first mortgages is largely offset by weak demand for second mortgages and home equity lines of credit. Outside of California, contacts report some growth in loans in Arizona and Nevada and light to moderate business loan demand in Utah. Weak loan demand, however, is reported in Alaska and Hawaii.