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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

March 1996

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

March 1996

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SUMMARY*

Reports from the 12 Federal Reserve districts suggest the national economy grew modestly in January and February. Over half the districts cite moderate economic growth or continuing solid levels of economic activity. Most of the others mention recent improvements, largely reflecting rebounds from weather-related slowdowns earlier in the year.

Accounts of manufacturing activity are mixed. More than half the districts report gains in at least some industries or sub-regions, but Boston, St. Louis, Minneapolis, Kansas City, and Dallas suggest production is either level or growing more slowly than in the last report. Retail results generally improved in February, but in several districts these improvements represent only a partial recovery from weak sales during the holidays and January.

Wage and price pressures are generally described as subdued, notwithstanding observations of tight labor markets in several districts. Wages are reported to be increasing at a modest pace. Retail prices are rising only slightly if at all. Most commodity prices are said to be steady, stabilizing, or increasing very little; a few are falling.

RETAIL

Districts across the country report weak retail sales in January; most, but not all, note an encouraging pick-up in February. Severe winter weather contributed to January's slow pace, particularly on the East Coast. February's uptick in sales was not seen in parts of the west and mid-west, where the San Francisco, St. Louis, and Minneapolis districts note continued

*Prepared at the Federal Reserve Bank of Boston and based on information collected before March 4, 1996. 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.

sluggishness. Durable goods and electronics are typically selling better than apparel, although some respondents observe a rise in demand for selected clothing items. Contacts in New York and Chicago report the largest sales gains in stores at the high end of the market.

Retailers in a majority of districts are optimistic that sales will pick up in the next few months. The outlook for those in the Cleveland, San Francisco, Dallas, and Minneapolis districts is more guarded. Upward movements in retail prices continue to be limited. Reports from Boston, Atlanta, and St. Louis indicate vendor prices generally remain stable.

Auto dealers in the Philadelphia, Chicago, Cleveland, and Kansas City districts report improved sales in February, following a disappointing January. Dallas notes sluggish sales in both months, leaving inventories larger than desired. Contacts in the Chicago, Cleveland, and Kansas City districts express more optimism about this spring's auto sales than those in Dallas, Minneapolis, and Philadelphia.

TOURISM

Excellent skiing conditions on the East Coast boosted tourism in the Boston and Richmond districts. Atlanta reports strong tourism and convention business, particularly in Florida, where northerners are fleeing to escape harsher than usual winter weather. Minneapolis notes a drop in tourism because of poor skiing conditions in Montana, an unfavorable Canadian exchange rate, and the temporary federal shutdown of South Dakota's national parks and monuments.

OTHER NON-FINANCIAL SERVICES

In most districts surveying business services, demand accelerated in February from a seasonal or weather-related lull in January; elsewhere, services continued to expand at a good pace over both months. Dallas notes gains in accounting and transportation while San Francisco reports growing exports of high-tech services like telecommunications, software, and financial

consulting. The demand for temporary workers picked up in Richmond, Chicago, and Dallas, with Chicago noting ongoing labor shortages and Richmond reporting that temporary workers' wages rose faster than the general price level over the last year.

MANUFACTURING

Manufacturing activity has been mixed but fairly flat on average. Several Federal Reserve Banks in the middle of the country (Minneapolis, Kansas City, and Dallas) report slightly slower sales and orders, while the majority of districts to the east (Philadelphia, Cleveland, Richmond, and Atlanta) indicate a slight strengthening since the latter part of 1995 or the beginning of 1996. Only the San Francisco report has a generally positive tone for recent months, based largely on trends for machinery and equipment.

A number of districts report growing demand for capital goods, notably industrial machinery, with Cleveland, Atlanta, and Chicago citing a boost from exports. Sales of electronic and computer-related equipment appear to be rising, although Minneapolis reports a slowing rate of growth for computer components, and Dallas notes a drop-off in demand for memory chips and microprocessors. St. Louis and Dallas indicate robust markets for cement. Auto-related and apparel demand are widely reported to be sluggish, and paper mills are experiencing declining sales according to contacts in several districts.

Manufacturers throughout the country report little or diminished materials cost pressures. Paper prices in particular are falling, and lumber prices are either falling or have ceased to rise. Several districts note growing wage pressures or tight markets for some categories of manufacturing workers. Overall wage inflation reportedly remains moderate, however. Philadelphia and Richmond report recent declines in finished goods prices, while most other districts indicate little or no increase. Several districts attribute the modest size of upward price movements to competitive conditions in addition to the lack of cost pressures.

REAL ESTATE AND CONSTRUCTION

All districts report increased interest and activity in residential real estate; most also report increased residential sales. Among those with higher sales, Cleveland, Richmond, Atlanta, Chicago, Kansas City, and Dallas indicate low-priced and subsidized houses have done better than higher-priced homes. Upstate New York and Philadelphia continue having excess inventories of housing stock. Prices are said to be stable in most districts, but appear to be showing some increase in the Kansas City (especially for low-priced homes) and Richmond districts and in the San Francisco Bay area. Richmond, Minneapolis, and Kansas City are seeing an increase in new residential construction, and San Francisco notes increased construction of apartment buildings in Arizona.

Commercial real estate markets have also experienced increased activity. New York, Philadelphia, Chicago, and Dallas report rising demand for commercial space. Vacancy rates are said to have dropped in the Philadelphia, Richmond, Atlanta, and San Francisco districts. Cleveland, Richmond, Atlanta, Minneapolis, Dallas, and San Francisco report increased commercial construction in their districts.

Contacts in all districts anticipate a strong and active spring season. Despite some concern about interest rates and about overbuilding in selected areas, respondents are optimistic about both residential and commercial real estate activity during the upcoming months.

FINANCIAL SERVICES

Loan demand appears to be increasing in the majority of districts, although it has eased in Cleveland and California. Most districts indicate that demand for commercial loans has risen more than the demand for consumer credit. Contacts in New York, Atlanta, and Cleveland report slightly higher loan delinquencies. Respondents in all districts reporting on bank activity mention a surge in refinancing activity.

AGRICULTURE AND NATURAL RESOURCES

Arctic cold, drought, and fire have damaged the winter wheat crop and pasturage in much of the St. Louis, Kansas City and Dallas districts. In addition, in the Richmond district, parts of the Pacific Northwest, and the eastern Dakotas, floods or heavy snows have also hurt crops. With uncertain prospects for the 1996 harvest and tight global inventories, grain prices are at their highest levels in many years. While these conditions are benefiting grain farmers in the parts of the Minneapolis and San Francisco districts that have adequate moisture, ranchers are caught in a squeeze. With the ratio of livestock prices to grain prices unusually low, the Minneapolis, Kansas City, and Dallas districts report declines in ranch profits. In Minneapolis, bankers reportedly expect a rise in ranch liquidations. Beef exports to Canada and Asia are helping to support producers in the San Francisco district.

In other natural resource industries, conditions are mixed. Iron mines in the Minneapolis district shipped at the highest level in over a decade, while output from nonferrous mines stayed stable. Energy prices are reportedly volatile, with natural gas and fuel oil prices fluctuating at high levels, while crude oil prices are relatively weak. Dallas and Minneapolis report strong gas and oil exploration activity, but in Kansas City and Dallas, the operating rig count remains low.

FIRST DISTRICT - BOSTON

Economic activity continues to be sluggish in the First District. Retail results range widely, with apparel and hardware stores seeing sales decline. Other stores are doing better, but all express concern about consumer confidence. Manufacturing activity is generally level with a year ago, although some respondents have seen sales rise. Price pressures continue to be moderate. The residential real estate market is picking up in most of New England, with home prices stable. Mutual fund firms in the region continue to expand their assets under management and increase employment.

Retail

First District retailers report mixed results in January and February. Sales activity compared with year-earlier levels ranged from double-digit declines to an increase of over 10 percent. Apparel and hardware contacts suffered the most serious losses, but the apparel merchants saw a slight improvement in late February and hope for sales equal to a year earlier throughout the spring. By contrast, non-apparel non-hardware retailers anticipate sales growth of 4 to 15 percent over the next several months. Even those doing well agree that consumers' worries about job layoffs and the economy are causing them to postpone discretionary purchases. In response, contacts are generally keeping inventories low and employment stable. Wage increases of 3 to 5 percent are planned for this year. Only one contact plans significant store expansions.

Retailers report most vendor prices remain stable; by exception, the price of paper has fallen 10 percent over the last few months, following a steep rise in the first half of last year. Lumber prices are starting to rise, in anticipation of the spring construction season. Contacts note increased profits in 1995.

Tourist offices report strong activity this winter throughout the region, thanks to exceptional skiing conditions. International travelers remain the fastest-growing and most lucrative segment of visitors to New England.

Manufacturing

Most First District manufacturing contacts report fairly flat sales relative to a year ago. By exception, sales of industrial parts, equipment used in commercial construction, cabinetry, and some consumer nondurables have risen. A number of respondents indicate recent swings in business. Some makers of consumer products report that sales were weak in January and stronger in February, a pattern they attribute to weather fluctuations. A parts manufacturer is benefitting from an end to temporary shutdowns of automotive assembly plants. Other respondents, including a paper manufacturer and two firms supplying discount chains, report being hurt by greater-than-anticipated reductions in inventories on the part of their customers.

Most manufacturers report that selling prices are flat or up modestly, except for a decline in paper product prices since late 1995. Trends for materials costs vary: contacts indicate rising prices for specialty chemicals and plastics and resins, falling prices for wood pulp and most grades of paper, mixed trends for polyester products, and stabilized prices for lumber and cotton (although the level of cotton prices reportedly remains high). Some manufacturers lament that strong competition is limiting their ability to raise prices, while others expect higher profit margins this year because of weaker pressures from materials costs.

Half the firms contacted report that employment is little changed from its year-earlier level, the remainder report decreases. Any new hiring tends to be selective rather than across-the-board. Several contacts indicate growing wage pressures. Capital spending patterns vary widely. The

largest increases are reported by businesses that are developing new products or shifting production locations. Other contacts indicate a pause or decline following last year's heavy capital investments.

Residential Real Estate

The residential real estate market in New England is reported to be doing well. After a slow winter, with low activity almost everywhere (caused partly by the large amount of snow), business has been picking up. Respondents report increased interest, high attendance at open houses, and more people putting their houses on the market. Although an increase in sales has not yet followed, all contacts are optimistic about the spring season.

Prices have been stable, with no major changes in either direction, and contacts do not anticipate any large changes in the near future. While inventories of existing houses are in line with the level of activity and sales, respondents report overbuilding and excess supplies of new homes in some areas. Interest rates remain low, despite small increases in some places recently, and credit is widely available. Most contacts express "guarded optimism." The major worry is that interest rates will increase.

The state of the local economy remains a concern in some areas. Connecticut and Maine continue to do poorly. Conditions in Vermont, Rhode Island, and the suburbs of Boston have improved, however.

Nonbank Financial Services

Investment management firms report increased assets under management in the first two months of 1996. Sales of equity funds were very strong, but bond funds were in net liquidation. Most respondents raised employment in the first two months of 1996 and plan further increases during the rest of the year.

SECOND DISTRICT--NEW YORK

Reports on Second District economic conditions were mixed, but on balance were more positive than in recent months. Beginning with the more upbeat developments, retail sales strengthened considerably in February. Moreover, robust leasing activity led to improvement in Manhattan's commercial real estate market. Finally, aggregate loan demand has strengthened over the past two months. In contrast, reports on homebuilding and manufacturing activity were mixed. The market for new homes in the New York City-Northern New Jersey area improved, while the upstate market did not. Conversely, manufacturing output increased in the Buffalo region but declined in the New York City area during February.

Consumer Spending

District retail sales strengthened in February, following disappointing January results. Year-over-year comparable-store sales gains ranged from +2 to +10 percent and averaged roughly 6 percent in February, nearly twice January's average result. Nearly all contacts report that February sales were on plan and inventories were generally at desired levels. A broad range of products -- including better apparel, home furnishings, and commodity consumables -- sold well. Several retail contacts noted that competitive price-cutting was widespread during January; in contrast, February saw a return to more "normal" pricing patterns.

Construction & Real Estate

Manhattan's commercial real estate market improved in January. Although leasing activity in Midtown Manhattan rose to a five month high, the vacancy rate was virtually unchanged at 14.1 percent. In Downtown Manhattan, leasing activity was fairly brisk for the third month in a row, pushing the vacancy rate down to 24.9 percent in January, from 25.1 percent in December and 25.4 percent in November.

The market for new homes has picked up in the New York City and Northern New Jersey areas, but upstate New York's depressed market showed no improvement. Homebuilders in the

New York City area, which includes Long Island and the lower Hudson Valley, report that sales are higher than a year ago; one contact described the market as "perky". Similarly, contacts in Northern New Jersey report some pickup in both traffic and buying activity in the past six weeks, but this is compared to an exceptionally weak market in late 1995. Also, some expressed concern that the pickup in activity may just be a temporary spike, with the recent uptick in mortgage rates motivating potential buyers with a sense of urgency.

Homebuilders in upstate New York report no recent improvement; they say demand for new homes continues to be depressed by corporate and government down-sizing and pervasive consumer pessimism. Moreover, high inventories of unsold existing homes -- partly due to corporations unloading homes of relocated employees onto the market -- are pushing down prices and competing with the new-home market. Only the low-end of the market, particularly subsidized units, is performing reasonably well. Contacts in both New York and New Jersey believe that the market is too weak to support any increase in selling prices.

Manufacturing

Buffalo area purchasing managers report steady growth in manufacturing output in January and February. In contrast, purchasers in the New York City area report a fairly sharp downturn in local manufacturing activity in February (and a more modest decline in activity outside the manufacturing sector). Both surveys show commodity price pressures easing in February, continuing recent trends.

Nearly two-thirds of District manufacturers polled in a recent Federal Reserve Bank of New York survey expect unit sales to increase over the next six months, with exports expected to grow more rapidly than domestic sales. Ninety percent of the respondents anticipate that prices will either remain unchanged or decline; however, one-quarter reported that they had raised prices recently. Wages are expected to rise 3 to 4 percent and capital spending will be similar to that of 1995.

Other Business Activity

Unemployment rates in the district were essentially unchanged in January. New York State's rate held steady at 6.2 percent, while New Jersey's rate edged down to 6.5 percent. Both states reported sharp drops in payroll employment in January, but these were attributed to temporary factors: a blizzard that hit during the survey week and a building workers' strike in New York City.

Consumer confidence for the Middle Atlantic region (New York, New Jersey, and Pennsylvania) rebounded in February, after falling to its lowest level in more than 2 years. Still, residents remain exceptionally pessimistic about job prospects. More large corporations have announced workforce reductions in New York State: TRW, General Electric, Nationwide, Bausch and Lomb, Pratt and Lambert, Deluxe Corporation, Reader's Digest and UPS announced layoffs totaling nearly 2,000 workers.

Financial Developments

Demand for nearly all types of loans strengthened over the past two months, according to a survey of senior loan officers at small and medium-sized banks. In general, loan demand was stronger at more than 25 percent of the banks surveyed and steady at over 55 percent. The largest increase in activity occurred in the consumer loan segment, with demand higher at nearly 45 percent of the banks and steady at close to 40 percent. Refinancing activity for all types of loans increased, and is now higher at approximately 40 percent of the banks.

Average loan rates were steady or lower at nearly all of the reporting banks, resulting in a narrower spread between lending and deposit rates at almost 65 percent of the banks. Loan delinquencies were higher at 20 percent of the banks and steady at 70 percent, with the nonresidential mortgage segment experiencing the largest increase in delinquencies. Although several of the survey participants tightened credit standards, nearly 60 percent of the banks were just as or more willing to lend than they were two months ago.

THIRD DISTRICT - PHILADELPHIA

Reports from major business sectors in the Third District in February indicated that economic activity has picked up after a storm-induced slowdown in January. However, the gain has not been sharp, and, according to these reports, business in the region has been relatively steady in recent weeks. Manufacturers generally indicated that while shipments were up a bit, new orders were flat. Retailers said sales had rebounded from January when snowstorms kept shoppers out of the stores, but most merchants indicated they were not making up all the lost sales and were merely back on a steady track. Auto dealers gave similar reports. Bankers said lending was either flat at their institutions or growing sluggishly. There were some positive reports from the real estate sector. Residential real estate agents and home builders were experiencing some increased traffic and greater sales. Commercial real estate agents said demand for office space appeared to be firming, and leasing and construction of industrial buildings were moving up.

Expectations vary within the Third District business community. Manufacturers anticipate some improvement in the next two quarters. Retailers do not foresee immediate gains, but they are hopeful the pace of sales will improve in the spring. Auto dealers expect only a steady sales rate. Bankers report no evidence that loan demand will accelerate soon. However, real estate agents expect continued modest improvement in both residential and commercial markets.

MANUFACTURING

Manufacturing activity in the Third District maintained a level pace in February according to reports from industrial firms, although slightly more firms said they were experiencing a pickup than said business was off. Firms in most of the major manufacturing sectors in the District indicated that demand for their products was just steady. However, some gains in orders were noted by firms producing metal products, nonelectrical machinery, chemicals, paper products, and textiles. Overall, however, demand for manufactured products did not appear to be strengthening for firms in the region; on balance, they reported that order backlogs continued on the downward trend that began late last year. A dip in employment and a decline in industrial prices that manufacturers noted in February are further evidence of slack in the goods-producing sector of the District.

Looking ahead, most of the Third District manufacturers contacted in February expect demand for their products to pick up by summer. On balance, they foresee a rising pace of orders and shipments, but they do not expect order backlogs to move up strongly. Likewise, they anticipate only very slight increases in employment.

RETAIL

Most of the retailers contacted for this report said sales at their stores rebounded in February from the slackened pace of January when snowstorms seriously hampered road travel and kept shoppers at home. Some store officials think they may have recouped some of the sales lost in January. However, the pickup appears only to have put retail sales in the District back on a steady course; February sales just matched expectations of most of the retailers surveyed at the end of the month. Selling strategies remain promotional and price markdowns are common.

Store officials are hopeful that sales will improve as spring approaches.

Auto dealers also noted a pickup in sales in February following a poor January.

However, they said sales were running at a pace just matching last year's at this time, and they expect that rate to continue in the months ahead.

FINANCE

Most of the Third District banks contacted for this report said overall loan demand was nearly flat or growing sluggishly in February. Lending officers continued to describe the market for business loans as very competitive. They said nonbank lenders were aggressively seeking to expand lending to large companies and competition was strong among banks for middle-market customers. Consumer lending was relatively level according to bankers because the usual seasonal decline in credit card loan volumes was offset by some gains in other types of personal loans. Some banks were stepping up commercial real estate lending and lending to home builders, but credit officers at these banks said this lending was confined to borrowers with significant equity stakes in their properties. In general, bankers expect overall lending to trend up slightly in the next few months.

REAL ESTATE AND CONSTRUCTION

Residential realtors surveyed in February said traffic at their offices had increased noticeably and serious interest in home buying was evident in some areas of the Third District. While reports varied around the District, in some local markets sellers were getting multiple offers for their homes and selling them relatively quickly. However, realtors noted that the inventory of homes for sale remains large and that asking prices and bids have been fairly stable. New home sales may be gaining also; several builders noted increased traffic at their

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developments and a pickup in the signing of contracts for new homes.

Commercial realtors said demand for industrial space, especially for warehouses and distribution centers, has been increasing. They attribute this to moves by several firms to consolidate activities into large buildings in the region. Realtors expect further increases in land development activity and construction for these types of buildings.

Office markets in the Third District appeared to be firming, according to commercial realtors and building managers. Vacancy rates at the end of 1995 were estimated at 15 percent for the Philadelphia central business district and in the range of 15 to 20 percent in suburban markets. Realtors expect a slow downward trend in vacancy rates in the absence of new construction. Some realtors noted increased interest in the purchase of office buildings by real estate investment trusts.

FOURTH DISTRICT - CLEVELAND

Overview

The District economy has marginally improved since the last report, although only construction activity has shown any broad-based growth since the first of the year.

Housing sales are reported to be strong in many areas, commercial construction activity has been especially vibrant, and suppliers of commercial construction materials and equipment have seen decidedly higher order and production numbers.

Unemployment in the District has been trending mostly upward since last spring, particularly in the manufacturing-intensive regions such as northern Ohio. In more diversified economies, including central Ohio and eastern Kentucky, labor markets have generally been steadier. Still, most regions continue to post jobless rates that are under the national average and low relative to historical averages. Survey data suggest new hiring plans are running about the same as this time last year -- perhaps a sign that labor markets are expected to firm a bit this spring.

Although some firms continue to see labor shortages, wage and cost pressures are reportedly light. Wage growth appears to be comparable to the rise in the cost of living -- in the 2% to 3% range. Area purchasing managers are noting only moderate (and limited) commodity price increases.

Manufacturing

After showing little net growth during the second half of 1995, industrial activity in the region appears to have strengthened a bit in early 1996. District manufacturers report

small gains in orders and production, although the growth rate varies by industry. Where production cuts have occurred, the reductions have resulted in a paring of overtime hours. Indeed, none of our contacts is reporting layoffs, and many plants are still operating at rates equal to or above their historical averages.

Auto and auto-related manufacturing is still soft, and inventories remain somewhat high. Industry sources anticipate additional production cuts unless a sustained improvement in consumer auto sales occurs. Heavy truck manufacturing, which has shown a 10 percent drop in production since last summer, has recently posted small gains in orders.

Other capital goods industries are reporting stronger numbers. Many of the industries we contacted saw double-digit sales growth last year, and early indications for 1996 suggest a continuation of that trend. Firms with significant export markets are noting particularly large orders growth.

Retailing

Retail sales in the District were hurt by bad weather in January and saw only a modest overall improvement in February. Both January and February sales appear to have surpassed last year's comparable monthly rates, which were weak. Apparel sales, particularly of clearance items and spring-season casuals, are reported to be stronger than sales of formal apparel and hard goods.

Inventories are near desired levels, however, and although retailers are reluctant to predict future performance based on activity over the past two months, many still report a positive near-term outlook.

Auto Sales

Despite the negative effect of poor weather during the first weeks of January, auto sales in the District improved throughout the month and into February, giving dealers reason for optimism. Many reported that January sales were slow and below expectations, particularly in the southern portion of the District. However, they also noted that despite the sluggishness, sales were up from January 1995. Low interest rates are reported to have positively affected sales.

Inventories are "desired" to "slightly heavy," ranging from a 40- to 90-day supply. However, many dealers are anticipating March to be a stronger month, so heavier inventories are not particularly disconcerting.

Banking

All of the District banks we contacted indicated a significant slowdown in borrowing activity, with the possible exception of mortgage refinancing. The drop-off in commercial borrowing has been especially severe. While consumer borrowing has moderated in most regions and institutions compared with the previous report, consumer credit demands are still generally expanding.

Delinquency rates continue to rise, though, and several banks are expressing concerns about credit quality. Deposit growth remains moderate, with transaction deposits basically flat. Some drain of deposits to money market funds was noted. Major-market banks have witnessed a further shrinking in margins and are anticipating a substantial slowdown in profitability this year compared to 1995.

FIFTH DISTRICT-RICHMOND

Overview: The pace of economic activity in the Fifth District quickened in late January and February, but some respondents indicated that the recent uptick was a rebound from January's weather-induced sluggishness. Retailers, manufacturers, and service producers reported that growth picked up in their industries. Growth in the real estate and financial sectors also increased. Employment agencies saw stronger demand for temporary workers. Area port representatives, however, reported slower business. Abundant snowfall boosted tourism at ski resorts, but harmed farmers.

Retail Trade: Preliminary results from a monthly mail survey of District retailers pointed to stronger retail conditions in February. Growth of sales revenues, employment, wages, big-ticket sales, and shopper traffic increased, while inventory growth slowed. Survey respondents said that retail prices rose more slowly in February than in January. They expected price increases during the next six months to be in line with their January forecasts.

Service Production: Service-sector growth increased in February, according to preliminary results from a monthly District mail survey. Several respondents reported that inclement weather adversely affected their businesses. Despite the weather, revenues and employment grew somewhat faster, although wages grew more slowly. Service prices rose more slowly in February than in January. Respondents expected larger price increases during the next six months than they had in January.

Manufacturing: Most indicators of manufacturing activity increased in February from their January levels, according to preliminary results from a monthly mail survey of

District manufacturers; this was the first such increase since September. Survey respondents reported that shipments, new orders, order backlogs, and the workweek increased; employment changed little. They were more optimistic about their prospects during the next six months than they had been in January, but they continued to report a scarcity of skilled labor. Manufacturers indicated that finished goods prices declined in February from the month before, but that raw materials prices rose. Compared to January, respondents expected raw materials prices to rise less rapidly during the next six months.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in February was above that in January and a year ago. Ski resorts in North Carolina, Virginia, and West Virginia reported unusually good business as record snowfalls continued to boost winter bookings above year-ago levels. Contacts expected better-than-normal business and some price increases during the next six months.

Port Activity: Representatives at District ports indicated that both export and import levels in January were lower than in December and a year ago. Severe weather hampered activity in Hampton Roads (Va.) and Baltimore. Contacts continued to expect exports and imports to increase during the next six months.

Temporary Employment: A telephone survey of Fifth District temporary employment agencies indicated that the demand for temporary workers rose in February, although it was unchanged from a year ago. One contact in Columbia, S.C. said that increased business development boosted demand in that area. Temporary workers' wages rose faster than the general price level during the past year. Most contacts expected wages to stabilize but demand to rise during the next six months.

Finance: District financial institutions reported that lending activity increased during

January and February. Demand changed little for consumer loans but increased for commercial and mortgage loans. A mortgage lender in North Carolina said that refinancings boosted activity at his institution to its highest level in several years. Compared to December, interest rates were lower on commercial and consumer loans, and higher on mortgage loans.

Residential Real Estate: According to a telephone survey of District real estate agents and homebuilders, residential real estate activity increased in January and February. Housing starts, sales, and prices were up compared to December. Participants reported a strong increase in customer traffic, which they attributed to recent declines in mortgage interest rates. Building permit levels changed little throughout the District, except in West Virginia where they decreased. Construction wages were steady and some materials prices declined slightly.

Commercial Real Estate: Commercial real estate activity strengthened in January and February. Leasing activity increased sharply and commercial rents rose in most areas of the District. Office vacancy rates decreased, except in the District of Columbia and Maryland where they were unchanged. The availability of prime office space continued to tighten, and many contacts reported shortages. Respondents in Virginia and the Carolinas said that some new construction was underway in their areas.

Agriculture: Adverse weather damaged some crops and farm buildings in recent weeks, according to District agricultural analysts. Near-record January and early February snowfalls and low temperatures stunted late-winter, small-grains crops in some areas. Heavy snows also collapsed numerous farm buildings, and flooding caused scattered crop losses in several District states. On the plus side, the cold temperatures benefited fruit growers in the Carolinas by preventing fruit tree overbudding.

SIXTH DISTRICT - ATLANTA

Overview: Reports from contacts in the District suggest that the Southeast economy grew moderately in January and February, despite the adverse effects of some locally harsh winter weather. Retail sales in January were damped throughout much of the District by weather conditions which forced stores to close or cut hours; however, some retailers report a rebound in February. Manufacturing performance edged up, halting a slowdown reported previously, but near-term expectations became more restrained. Tourism and business travel continued to grow vigorously throughout the District. Although bad weather slowed construction in many areas of the District, single-family home sales picked up in January and February after slowing at the end of last year. Commercial and multifamily markets continued to improve. Bankers characterized overall loan demand as mixed. Most contacts reported that wages and prices remained steady.

Consumer Spending: District retailers report that January sales were weak around the region; February sales results continued to be weak in the northern part of the District but rebounded in the south. Merchants in the north, an area hit by harsh winter weather, reported disappointing sales in February. Many stores operated on restricted hours or closed their doors because of icy conditions early in the month. As a result, inventories are a little heavy. These retailers noted that sales picked up at the end of February as the weather warmed up. Merchants in warmer climates reported a year-over-year rise in sales in February--a rebound from January--and describe current inventories as on target. Retailers throughout the District are optimistic that spring sales will exceed year-ago levels.

Manufacturing: Factory performance improved in late January and February after two weak months, with modest gains in shipments and production, according to most industry spokespersons. The volume of new orders also picked up, and more employers added to their

payrolls. Most contacts said inventories declined moderately. Expectations of future improvements in manufacturing conditions generally declined, despite the recent pickup in activity. Contacts generally expect production, new orders, employment, and the workweek to wane over the next six months; however, they expect capital spending to continue to increase as manufacturers seek to become more competitive in domestic and international markets. A regional producer of industrial machinery reports that strong foreign markets have increased his firm's order backlogs. Electrical and electronic equipment producers across the District also report increasing business. Regional chemical producers continue to operate at full capacity. By contrast, suppliers to the auto industry describe conditions within the District as sluggish. Some apparel producers report continued weakness in their industry, with the factory workweek and volume of new orders remaining below year-ago levels. Orders are declining for a paper manufacturer, and packagers note slowing production and sales.

Tourism and Business Travel: The tourism, convention, and business travel industry continues to lift the region's economy. Representatives for Atlanta's tourist industry say the area's convention attendance is surging and is not expected to decline this year over last, even though the Olympics will engage major facilities in a portion of the summer. Officials for South Florida's tourism industry report that hotel and motel bookings hit a peak in February with Northerners escaping the miserable weather. The number of domestic, European, and Brazilian tourists has increased significantly in Florida, but Mexican tourists have stayed away. Tourism officials expect that hotel occupancies in New Orleans will be greater in 1996 than in 1995 because of a series of large meetings booked there and a continued strong flow of visitors to the city's attractions.

Construction: Most real estate contacts reported that single-family home sales rebounded in January and February after slowing at the end of last year. Home sales in January and February generally surpassed last year's disappointing levels. However, construction was slow in many areas because of extreme cold. Inventories of new and existing homes continue to run low in several markets. Most Realtors and builders expect a strong spring housing market.

Contacts from across the District report that commercial and multifamily real estate markets continue to improve. Low vacancy rates and higher rents continue to propel new apartment and office development. While most commercial projects continue to be build-to-suit, several speculative developments are underway and more are anticipated this year. The retail market remains strong in most areas, but several contacts report an increase in vacancy rates after some stores went out of business following the holiday season. Most real estate professionals continue to anticipate that new commercial and multifamily construction will grow this year.

Financial Services: Contacts in the banking industry described overall loan demand as mixed. As in previous reports, contacts in most areas report that commercial lending is stronger than consumer lending. Mortgage refinancing continues to increase, but several contacts noted that auto lending remains weak and credit card delinquencies are on the rise.

Wages and Prices: Wages generally remain stable in the region since the previous Beigebook, even with scattered reports of labor shortages. Most contacts say that prices paid for materials and finished goods have remained essentially unchanged. Fewer contacts than in our previous survey anticipate that prices paid for materials or finished goods will increase over the next few months.

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SEVENTH DISTRICT--CHICAGO

Summary. Economic activity in the Seventh District remained at relatively high levels in January and February, although growth remained slow and was uneven across sectors and sub-regions. Despite adverse weather in February, retail sales improved somewhat from a soft January. Housing and construction activity remained relatively strong in the District, buoyed by a pickup in first and second-time home buyers. Manufacturing and banking activity, however, has become increasingly mixed since the beginning of the year. Job creation in the District continued to outperform the nation as a whole in early 1996 and labor markets remained very tight, while increases in wages and prices remained subdued.

Retail sales. Retail sales were generally described as soft in February, but better than January. Several large retail chains reported that February sales for their Midwest stores were slightly above the company-wide average, with one retailer showing the region as its second strongest market. Sales of durable goods and electronics are still leading other market segments, although one large retailer cited a shift toward soft goods, particularly in women's apparel. A general manager at a Chicago area shopping mall stated that their retailers were still experiencing double-digit growth in sales, but felt that their stores' sales were better than the regional average. Weather conditions in February slowed sales in the region and, in some cases, led to some stores being temporarily closed. A survey of small independent retailers in Michigan showed that retail sales continued to be slow in January, but retailers' optimism for the spring season remains high. A recent report also showed that supermarket sales in both the Chicago and Detroit areas were growing faster than for the nation as a whole over the last two quarters. A consumer finance company reported an increase in consumer bankruptcies, but consumers in the District appear to be in better financial shape than those in other regions of the country. Several auto dealerships reported that sales had been improving over the last several weeks, but a dealer noted that used car sales had softened.

Housing/Construction. Housing and construction activity remained relatively strong during January and February despite severe winter weather. Realtors and bankers across the District reported that

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sales of existing homes in January were up considerably in year-over-year comparisons and that this trend had carried over into February. Homebuilders also reported that sales of new dwellings were up markedly from January last year, and a national survey showed both increased traffic and sales in the Midwest region for February. Several contacts attribute the continued high demand for housing to strength in the labor markets and low mortgage interest rates. Sales have been strong in lower and medium-priced homes, led by first and second-time buyers; sales at the upper end have been slow for several months. Several contacts reported that industrial real estate demand was quite strong in early 1996 and prospects for construction opportunities were increasing. Capacity utilization at factories that supply materials to the construction industry remained at historically high levels in January and February, but growth appears to be flat. One cement producer in the District reported that the industry continues to add capacity in expectation of increased public construction and steady demand from residential construction. Despite continued high demand, sources reported that prices remain in check at both the producer and consumer levels.

Manufacturing Activity. Manufacturing activity in the District was mixed in February. Purchasing managers' surveys from around the District varied, with the Chicago area showing contractions among its key components (including prices) and Milwaukee continuing to show fairly solid expansion. A diversified producer of equipment and basic materials reported that machinery orders and backlogs in January generally were up from a year ago, but food machinery orders have been weak and signs of weakness are emerging in chemical markets. Several auto suppliers reported that sales were down in January and February, but one supplier attributed part of the weakness to its strong sales in December and noted that it was expanding capacity to support expected orders over the rest of the year. After a sharp decline in December, an appliance industry analyst noted that sales in January were flat year-over-year, with small appliances accounting for much of the recent slowing. A heavy construction equipment producer indicated that sales through February were about in line with an expected slowdown that has been underway since mid-1995. Several steel producers, however, reported orders for both sheet and structural

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steels to be quite strong, with one mill receiving orders at a rate 10% above its capacity through the second quarter.

Banking. Banks generally reported that the level of lending was quite strong, but the patterns of growth varied by location and market segment. A large bank in the Chicago area reported that loan demand was still increasing across most market segments. Several Michigan banks described lending activity as strong, but C&I lending (especially to auto suppliers) was off from peak levels last year. Also, global and large corporate markets were strong, while middle markets have slowed since January. However, a western Illinois bank reported strong growth in total loan demand, with its commercial and consumer loan volume up significantly. Most banks indicated that mortgage lending was increasing, although as much as one-half or more of the activity was in refinancing. Several banks cited lending to retailers as their only weak market, with several small retailers in the process of going out of business.

Labor markets. Labor markets remained tight through January and February, although job growth appears to be less robust than the same period last year. Labor market analysts in most of the District's metropolitan areas detect little change in employment numbers from late 1995 outside of normal seasonal variations, although a downturn was evident in average weekly hours worked in those areas dependent on durable manufacturing industries. Help-wanted advertising ticked up in January, although it remained below last year's high levels. A national survey of hiring plans suggested that employers in the Midwest region were the most optimistic in the nation for job growth heading into the second quarter of 1996, with gains anticipated in the nondurable manufacturing, wholesale and retail trade, and service industries. Durable manufacturers were less optimistic about job growth in this survey. Temporary help agencies reported that labor shortages continued to be their major concern. Most sources reported that upward wage pressure was modest.

EIGHTH DISTRICT - ST. LOUIS

Summary

District economic activity continues to expand at a slow and steady pace. While a few contacts noted some softening in the economy at the beginning of the year, they expect a slight pickup as the second quarter approaches. Reports indicate that the southern part of the District is growing somewhat faster than the northern part. Monthly residential and nonresidential building permit levels declined in most District metropolitan areas in December. Loan demand, especially for commercial loans, is still strong in most parts of the District. Significant crop and livestock damage occurred because of February's arctic cold snap.

Manufacturing and Other Business Activity

District firms report that economic growth has proceeded at a slower pace than that of the past few months. Firms in the southern part of the District report slightly stronger activity than their northern counterparts. Some contacts expect the pace to pick up somewhat as the second quarter of the year approaches. For example, a survey of small businesses in the District found that about one-quarter plan to hire additional workers over the next three months, with about three-quarters planning no changes. This survey also found that about one-quarter of the respondents increased employee compensation during the past three months, while one-fifth plan to increase it over the next three months. Contacts report, however, that there has been little upward pressure on costs so far this year, and that competition is not allowing firms to raise consumer prices.

Contacts in northern Mississippi generally report that sales for the past month or two are at levels comparable with a year ago, but signs of new growth have appeared. A producer of prefabricated metal buildings and several furniture manufacturers report unchanged sales in January, but have seen slight increases in February. Expectations are for less than 5 percent growth in the coming months. A brick

manufacturer reports record sales for 1995, noting that this pace has continued into 1996. Demand for mobile homes has been particularly strong in Mississippi, requiring several local manufacturers to add employees. Firms targeting specialty markets, like gourmet stoves and home decorating, report that sales are remaining steady at high levels.

In Arkansas, a cement supplier recently had to purchase 15 new delivery trucks to meet its high demand. A maker of glass containers reports that sales since the beginning of the year are up about 12 percent over the same period last year. A company producing military and civilian boots will take over a recently closed shoe factory in western Tennessee and hire about 150 of the previously laid-off workers. A producer of truck transmissions and a maker of outdoor leisure products, however, have seen year-to-date sales fall 2 to 5 percent from last year.

In Missouri and Kentucky, reports are more mixed. A large defense contractor in the St. Louis area announced layoffs for about 470 workers because of lulls in production for some products. At the same time, this company received a new fighter jet contract worth almost \$600 million, which will secure other jobs for the time being. An auto producer has reopened its Missouri plant as scheduled, employing about 2,400 people. A printing company in southern Illinois, trying to reorganize through bankruptcy, closed in late February, eliminating 850 jobs. Another high-sulfur coal mine in Illinois is closing, leaving behind 200 jobs. A major department store retailer, however, moved its credit department from Maryland to St. Louis and created 350 new jobs.

Real Estate and Construction

Residential building permits in December 1995 were above their year-ago levels in five of the District's 12 metropolitan areas. Only two metro areas, though—Fayetteville, Arkansas, and Memphis, Tennessee—experienced an increase in the number of residential permits between November and December. Most other District metro areas saw sharp declines in activity in December, including some of the areas that had levels above those of one year ago. Nonresidential building permits in December

were above their year-ago levels in only three of the District's metropolitan areas. Pine Bluff, Arkansas, was the only District metro area to experience an increase in permits between November and December. The level of nonresidential permits in all other areas fell off sharply in December.

Banking and Finance

Loan demand continues to be characterized as strong by most respondents, although signs of softening are scattered throughout the District. Commercial and industrial (C & I) loans appear to be the strongest segment of the loan market; respondents are divided, however, about the riskiness of new C & I loans. Pricing is still described as aggressive in a number of District markets, but respondents in other markets report a lessening of competition. A few respondents report a recent surge in refinancing in their areas.

Agriculture and Natural Resources

February's cold snap adversely affected the District's agricultural sector. Reports from crop analysts suggest that the wheat crop in Illinois, Indiana and Missouri, which was already hurting from inadequate soil moisture, suffered additional freeze damage. Although the true extent of the damage is yet unknown, one report indicates that a five-county area in southern Illinois was especially hard hit. Some farmers will be forced to plow their wheat fields under this spring and plant corn, soybeans or milo.

The cold weather also hurt livestock producers. For example, Mississippi catfish farmers reportedly suffered substantial losses because of ponds freezing over. On the positive side, cotton analysts said the cold weather destroyed a significant percentage of the boll weevil population. An increasing number of farmers indicate that the uncertainty surrounding the 1996 Farm Bill legislation has delayed final plantings. As a result, many farm lenders are reportedly proceeding at a cautious pace. Delta farmers are expected to reduce planted cotton acreage by about 10 percent this spring. In response to high grain prices, most of this acreage will be planted to corn or soybeans instead.

NINTH DISTRICT--MINNEAPOLIS

Overall, economic activity in the Ninth District economy remains moderate, but there is widespread feeling among businesspeople that the pace of growth is slowing. On one side of the coin, construction continues strong and builders expect another active season. Rising grain prices have generally increased optimism in the agricultural sector, in spite of the squeeze that such prices put on ranchers and on farmers who raise livestock as well as grain. Tourist businesses in eastern areas of the district report good activity, but Montana and the Dakotas have had a disappointing season. Metal mining output remains strong, but some profit margins are eroding as prices for nonferrous and precious metals soften. Labor markets remain tight and unemployment rates low, but there are few reports of wage or price pressures.

On the other side of the coin, manufacturers continue to report slackening orders. Retailers are experiencing sluggish sales of a wide range of durable and nondurable goods. With the exception of a few areas, auto dealers describe sales as slow. There are increasing reports of paper mills cutting production. Agricultural bankers in towns where cattle ranching predominates express alarm about the degree of price declines for feeder cattle and expect that some ranchers will choose or be forced to liquidate their operations.

Construction

"It's just like the Energizer bunny, it just keeps going and going," is how one South Dakota builder's spokesman describes residential and commercial building in his area. That characterization is valid for nearly all of the Minneapolis district as construction approaches a fourth consecutive strong season. Residential building demand, which had slackened somewhat in the Minneapolis-St. Paul area in mid-1995, appears to be regaining strength, reportedly in response to lower mortgage interest rates. Sioux Falls, S. D., and Missoula, Mont., anticipate a booming construction season in 1996. Fargo and Grand Forks, N.D., also expect a high level of residential building, although perhaps somewhat down from the fevered pace of 1994 and 1995. Dickinson, in western North Dakota, has near-zero available housing as a result of oilfield activity and expects its strongest construction season in years. "Motel construction booms" is the headline in a Rapid City, S. D., newspaper, and Montana sources report that "big box" store building continues despite slow retail sales. Large, publicly let contracts apparently are about level with last year.

Natural resource industries

Ninth District iron mines shipped 47 million metric tons in 1995, the highest level in over a decade, and expect a strong year in 1996. Increasing amounts of taconite pellets are being shipped by rail, reducing the usual winter slowing. Nonferrous mine output is stable in spite of

copper prices some 15 percent below year-ago levels and recent slight drops in gold prices. Oil and gas exploration remains active through the winter. Paper mills are slowing output and discounting output prices. Little change is reported in lumber and building board production.

Agriculture

Record corn prices and much higher wheat prices have brought greater optimism to crop farmers, according to a mid-February survey of agricultural bankers. The mood in grain producing areas is reportedly the most optimistic in more than a decade. Seed corn sales are hitting records, and orders for other inputs such as fertilizers and pesticides are strong. There is some increase in demand for tractors and implements, and good used equipment is reportedly selling well. Uncertainty about federal farm legislation continues, but several sources note that most farmers expect passage of some version of the "Freedom to Farm Act" and no annual acreage set asides or planting restrictions in the next few years.

However, this optimism on the crop side is at least partially offset by depressed livestock prices. The problems of livestock producers have been exacerbated by rising grain prices; the hog-to-corn and cattle-to-corn price ratios are at their most unfavorable levels in decades. Cow-calf producers are the end of the whip that is being cracked, as higher feed costs drive down prices for feeder cattle. Western South Dakota and ranching areas of Montana are particularly hard hit. Bankers and ranchers in these areas expect the level of voluntary and forced liquidations to rise dramatically in 1996.

As the winter ends, winter wheat conditions in Montana and South Dakota are generally good, and soil moisture levels in most areas are excellent. A few areas in the eastern Dakotas continue to suffer from excess moisture and localized flooding.

Manufacturing

"Orders have been lagging in the first six weeks of 1996, and we expect to turn out less product this year than last," says the owner of a North Dakota manufacturing firm. His sentiments are echoed by the CEO of a Minnesota manufacturer of industrial painting and lubrication equipment. "Business is soft and getting softer," he says. Other sources report that business is still good for medical equipment and computer component manufacturers, but orders are slowing. These reports and other indicators, such as industrial electricity use, generally point to significant slowing in manufacturing. One exception seems to be the printing industry.

Consumer spending

“People seem to have a wait-and-see attitude,” a Montana retailer reported in mid-February. Her view is corroborated by lackluster sales reports from large retail chains. “Traffic is OK but not great,” says a South Dakota mall manager. A Minnesota department store manager notes that small items are selling normally but that buyers seem reluctant to move on washers, refrigerators and other big ticket items.

Automobile sales are similarly slack in most areas. A western Montana dealer reports that 1995 sales were down 12 percent from 1994 and that “our outlook for 1996 is very cautious.” Some areas report better sales; oil and wheat producing areas of North Dakota and Montana seem to have stronger-than-average vehicle sales. A Minneapolis-St. Paul dealer, however, describes business as “so-so.” On balance, consumer buying seems to be quite slow.

Tourism

Many ski resorts in northwest Montana are having a slow season due to an unfavorable Canadian exchange rate and poor snow conditions, according to a resort executive. The government shutdown hampered visitations to national parks and monuments in South Dakota. A ski resort in northern Minnesota reports level sales compared to last year and looks forward to a strong March. Good snow conditions in northern Wisconsin have boosted snowmobiling and cross-country skiing for January and February compared to a year earlier.

Employment, wages and prices

“The shortage of labor has driven up wages a bit,” comments a building union official from western Wisconsin. “Our area has been phenomenal in the last two years and there is a shortage of qualified labor.” A North Dakota business owner reports “the labor shortage is an ongoing battle.” Unemployment rates remain well below national averages. Opinion is divided on which types of labor are scarcest. There are many reports of difficulty in filling entry level positions, and “Help wanted” signs remain ubiquitous, but one manufacturer says, “White collar help is harder to get than assembly line.” Reported wage increases continue in the 2 percent to 4 percent range.

Many Ninth District commodities, including copper, paper, lumber and livestock, have decreased in price. Grains are the strong exception. Because slaughter livestock prices continue low, there is little evidence that sharp increases in grain prices have had effects at the consumer level. But some voices of concern are heard. “I just can’t believe the press isn’t following these grain prices,” says a commodity analyst for a major Minnesota food manufacturer. “We potentially face a supply situation much worse than 1973-74.”

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continued to grow at a moderate pace during the past month. Retail sales increased modestly and homebuilding activity strengthened.

Manufacturing activity slowed slightly. Energy activity remained sluggish, while weak profits in the cattle industry held down farm income. Labor markets remained tight in much of the district, but wages generally held steady and retail prices rose only slightly.

Retail Sales. Retailers report sales increased modestly over the past month and remained above last year's level. Some retailers report sales of apparel were strong, while sales of home furnishings were weak. Retailers generally expect sales to strengthen during the next few months. Most retailers indicate satisfaction with their inventory levels and expect to hold inventories steady in the months ahead. Automobile dealers report sales increased slightly last month from the sluggish pace the month before, and most dealers are optimistic that sales will strengthen further this spring.

Manufacturing. District manufacturers continued to operate at high levels of capacity last month, although there were some signs of slowing in manufacturing activity. No production bottlenecks due to capacity constraints were reported. Manufacturing materials were readily available, and most manufacturers noticed a decline in lead times required to obtain materials. A January survey of district manufacturers indicated most manufacturers were trimming materials inventories and were planning further inventory reductions in the months ahead.

Housing. Builders generally report housing starts increased last month and remained above last year's level. Construction of single-family homes improved, while multifamily

construction remained steady. Builders expect housing starts to strengthen further with warmer spring weather. Sales of new homes increased slightly last month and remained above last year's pace. Builders report the inventory of unsold homes was generally lean and new home prices continued to rise, especially for low-priced homes, which have been in shortest supply. Building materials are readily available, and builders anticipate little change in the availability or prices of materials in the next few months, despite a recent rise in lumber and concrete prices. Most mortgage lenders expect mortgage demand to strengthen further in the months ahead.

Banking. Banks generally report loan demand was unchanged last month, holding loan-deposit ratios steady. Some banks report gains in consumer loans and home mortgage loans. Commercial and industrial loans, home equity loans, residential construction loans, and commercial real estate loans all held steady, while agricultural loans declined slightly. Security investments held steady.

Most bankers report gains in total deposits, supported by increases in MMDAs and small time and savings deposits. Demand deposits, NOW accounts, large CDs, and IRA and Keogh accounts held steady.

All respondent banks reduced their prime rate last month, and most expect a further cut in the near future. Most banks also reduced their consumer lending rates, with half of the banks anticipating further reductions. Lending standards were generally unchanged.

Energy. Activity in the district energy industry slowed further last month. Demand for heating fuel boosted natural gas prices, but crude oil prices remained weak. As a result, the number of drilling rigs operating in the district declined slightly and remained well below last year's level.

Agriculture. Dry, cold weather is eroding yield prospects for the district's winter wheat crop. Much of the crop is in poor condition in the district's primary wheat producing region in central Kansas and central Oklahoma, where the moisture shortage is most severe. The crop is generally in fair condition in other parts of the district, although timely spring rains will be required to ensure normal yields. With uncertain prospects for this year's harvest and tight global inventories, crop prices have risen to the highest level in years.

High feed costs and low cattle prices continue to hold down profits in the district cattle industry. Most district feedlots continue to earn modest profits, due to low prices for young feeder cattle. Low feeder cattle prices, however, have resulted in losses for district ranchers, who have begun to trim the size of their breeding herds. Agricultural bankers expect continued weak profits in the cattle industry to limit improvement in overall farm income in 1996, even though higher crop prices may boost profits for crop producers.

Wages and Prices. Upward pressure on wages and prices in the district remains subdued. Parts of the district continue to report tight labor markets, especially for entry-level workers, but reports of rising wages are few and widely scattered. Manufacturers report declining prices for some raw materials, such as steel and aluminum, and rising prices for other materials, such as rubber and some chemicals. Retailers report only slight price increases and most expect prices to remain stable in the months ahead.

ELEVENTH DISTRICT--DALLAS

Eleventh District economic activity continued to expand at a moderate pace in January and February, although weaker demand led to falling prices or inventory build up in several industries. Most contacts do not expect to change employment growth, and several major expansion plans remain in place. Manufacturing orders continued to weaken, but production remained at moderate levels. Demand for business services expanded. Retail sales were sluggish in January but picked up in February. Lending activity was unchanged, with the exception of an increase in residential real estate. Construction activity continued to expand, but some apartment and retail projects were scaled back because of concerns about overbuilding. Energy activity was at a high level. Agricultural conditions worsened.

Contacts reported falling **prices** for several products, although energy prices were higher and there was continued upward pressure on **wages** for skilled workers in some industries. In February, paper and box prices fell about 8 percent from the previous month, and contacts expect prices to fall another 5 to 10 percent over the next 3 to 6 months. Semiconductor prices had dropped "precipitously" since the last beige book, and stiff competition forced computer manufacturers to pass lower input costs to their customers. Petrochemical prices were pushed to low levels as slower demand, particularly for olefins, led producers to dump products on the spot market. Contacts expect any significant economic upturn to push chemical prices back up, however. Lower livestock prices outweighed a slight increase in crop prices, leading to a 1.0 percent drop in the January Texas All Farm Products Price Index from the previous month. Retailers reported little change in selling prices. Input costs were higher for apparel products, but selling prices were unchanged. Weather extremes, and changing expectations about Iraqi oil re-entering the market, kept crude oil and heating fuel

prices swinging. Prices for most energy products, particularly natural gas and fuel oil, were high and volatile during the past two months.

Manufacturing orders continued to weaken, but production remained at moderate levels. Demand had slowed for paper, boxes, apparel, primary metals, petrochemicals and semiconductors. Inventories were up for paper, apparel, primary metals and some types of semiconductors. Producers reported a slight increase in demand for computers and specialized semiconductors, but demand for memory computer chips and microprocessors dropped off significantly in the last 6 weeks. Overall, semiconductor sales were weaker than expected, and contacts expect demand to increase at a slower pace than in 1995. Petrochemical markets continued to soften. Chemical producers said there had been no significant inventory build up and sales were still profitable, which is unusual when demand is weak. Cold weather boosted demand for refined products, although rising crude prices kept profits mediocre. Low inventories of crude forced refiners to purchase crude on the spot market to raise output and take advantage of high product prices. Producers reported a slight pickup in demand for oil field machinery and lumber, and demand remained steady and strong for cement and fabricated metals.

Demand for **business services** continued to expand at a good pace. Accounting firms said demand was strong. Activity at temporary firms picked up in February after a seasonal slow down in January. Transportation firms reported steady cargo volume and a slight increase in passenger traffic.

Retail sales were sluggish in January but picked up in February. Retailers were cautious about drawing conclusions from stronger sales in February, what a contact referred to as "one short month." District sales were reported to be about even with the rest of the country after several months of reports that sales were slower than the nation. The change may have been a result of an improvement in sales comparisons along the Texas-Mexico border, rather than any relative change in consumer spending. Dealers reported that auto sales were sluggish in January and February, leaving

them with larger than desired inventories.

The **financial services** industry reported no change in lending activity, with the exception of an increase in residential real estate. Contacts said that the increase was spurred by lower interest rates and was mostly due to refinancings. Residential loan demand continued to decline in Laredo, however, where economic activity has been sluggish since the peso devaluation. District lenders are cautiously optimistic about the outlook for loan demand over the next 3 to 12 months and expect all types of lending to increase. Contacts reported that there is a lot of discussion about further mergers and acquisitions among financial services companies.

Construction activity expanded, but some apartment and retail projects were scaled back because of concerns about overbuilding. Lower mortgage rates boosted sales of new and existing homes. Demand for commercial space remained high, and industrial demand was very strong. While the construction of office space is sparse, some contacts said rising office occupancies in the suburbs may spur new construction in 1996.

Energy activity remained at a high level since the last beige book. Demand for oil services and equipment continued to strengthen, thanks to offshore drilling in the Gulf of Mexico and around the world. Oil services contacts reported that strong demand had boosted profits well above expectations. Higher capital budgets for exploration from integrated companies are expected to lead to another good year in 1996. The domestic U.S. and Texas rig count continued to be low, however, operating at levels comparable to this time last year.

Agricultural conditions worsened in January and February. Continued drought led to more than 350 fires which destroyed more than 20,000 acres of pasture land. Hay shortages still were reported in many areas. Supplemental feeding of livestock continued and rising feed prices were cutting into profits. As planting gets underway, some farmers expressed concern about having adequate water to produce a good quality yield.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Reports from contacts in the 12th District in early 1996 suggest generally solid economic activity, albeit with some sources of slack reported. Despite respondents' concerns regarding moderation in the national economy, most expect stability or improvement in their respective regional economies. In the recent period, District manufacturing activity has been particularly strong in the industrial machinery and high-tech sectors, although international competition had a moderating influence on the former. Activity in high-tech services, such as computer software, also exhibits ongoing strength. However, retail sales markets are weak. Despite reported capacity constraints and wage increases in some sectors, upward pressure on wages and prices is limited overall.

Business Sentiment

District respondents, while continuing to expect some slowing in the national economy, are looking for improved conditions in their respective regional economies. Among respondents, about half expect that national unemployment will increase and national economic growth will be below its long-run average, while most of the others expect average growth and no change in unemployment. In contrast, an overwhelming majority of respondents expect more rapid growth in their region than in the U.S. as a whole. Consistent with this, 80-95 percent of respondents expect improved or constant business investment, housing starts, consumer spending, and trade balances in their respective regions.

Retail Trade and Services

Weakness in retail sales apparently continued after the holiday season. Respondents in several areas noted that consumer demand is insufficient to sustain existing retail establishments. Sales of soft consumer goods--particularly apparel--continue to be low.

In contrast, service industries--particularly those that are technology-intensive--are expanding rapidly. District sales of computer software and financial consulting services to Europe and Japan reportedly are increasing. A major California supplier of telecommunications services reports increased demand and sales in late 1995, particularly to businesses. Also in California, recent state mandates have lowered electricity prices by 6 percent for all customer classes.

Manufacturing

Manufacturing activity is moderate to strong in the District. Industrial and construction machinery sales remain high in Utah and Nevada, with many firms facing capacity constraints; a sharp jump in order backlogs was reported. Despite this strong domestic demand, prices are being held down by foreign competition, and export markets for machinery reportedly are weak. However, continued expansion of semiconductor manufacturing plants is underway in Oregon, with similar expansion of high-tech manufacturing underway or planned in Washington state. In general, District exports of high- tech components to the Pacific Basin countries (and to a lesser extent Europe) are rising. Also, strong commercial airline demand--particularly for exports--is boosting production by District airline manufacturers and their suppliers.

In contrast, a District metal products company reports reduced export demand and lower levels of investment spending in its industry. Some District manufacturers--in sporting goods, for example--reportedly are moving production offshore. Also, demand and prices for most Pacific Northwest forest products continue to hover at low levels.

Agriculture and Resource-Related Industries

Agricultural activity in the District is mixed. Apple exports from Washington have been weak, but strong grain demand (particularly for wheat) has pushed prices to new highs throughout the District. District beef production reportedly is being propped up largely by high levels of exports to Canada and Asia. In contrast, with the exception of cotton growers, Central California farmers report strong sales and low inventories. However, the Alaskan salmon industry is suffering due to a worldwide glut, and recent heavy flooding in the Pacific Northwest caused uncertain but perhaps substantial inventory losses on some crops.

Real Estate and Construction

Reports suggest stable to moderately improving conditions in the District real estate and construction sectors. In Southern California, commercial vacancy rates are declining slowly from high levels, but rental rates have not increased sufficiently to spark substantial new commercial construction. In the San Francisco Bay Area, current commercial vacancy rates are low and recent sale prices for existing homes have exhibited modest increases. In Arizona, home building reportedly has peaked, but apartment construction continues unabated. Rebuilding following the recent severe flooding in Washington and Oregon is

expected to increase construction activity in affected regions in the near future. This will place additional pressure on the very tight Oregon construction industry; wages reportedly increased 13 percent in this sector during the year ending in January, primarily due to extensive nonresidential construction activity.

Financial Institutions

District bank respondents generally report strong earnings and good credit quality, despite stiff competition for loans and deposits. Slight easing of business loan demand is reported in California, but the level is still high, and consumer credit demand is increasing in the state. Furthermore, California thrifts reportedly are benefitting from improved residential housing markets.