

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS  
BY FEDERAL RESERVE DISTRICTS

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## SUMMARY\*

Assessments of general economic conditions ranged from uneven or steady to improving. Expanding activity or optimism were reported by contacts in the Boston, New York, Richmond, and Atlanta Districts. Cleveland reported slow expansion. Kansas City indicated recent slight improvement. Chicago noted the effects of the mild winter in that District in boosting activity. Business conditions were described as on an even keel in Philadelphia, steady in Minneapolis, and uneven in San Francisco. Dallas noted signs of recovery but said important segments of the District remain weak.

Manufacturing. Most reports noted rising orders and activity in manufacturing. Increases were described as gradual or small, overall, by Boston, Philadelphia, and Cleveland. Manufacturers in the Boston, Philadelphia, and Richmond Districts were optimistic about further expansion in manufacturing activity. Orders were described as still very sluggish by Dallas. More production cutbacks or plant closings were reported by New York, Cleveland, and Chicago. New foreign-owned auto assembly and parts plants are being built in the Midwest and Southeast. Capital spending was projected about flat by contacts in the Boston and Philadelphia Districts. San Francisco said many firms plan less capital investment in 1987 than in 1986. Chicago reports that demand for mechanical capital goods remains slow. Cost containment continues as a high priority. Several Districts noted upward pressures on prices. Higher orders were reported for appliances, products used in housing construction, some communications and

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\*Prepared at the Federal Reserve Bank of Chicago

computer equipment, medical equipment, plastics, chemicals, and paper, attributed in part to the lower dollar. Dallas reports that semiconductors have stabilized after 2 years of falling orders and plant closings. Atlanta and Dallas report that demand remains weak from the construction and energy sectors.

Consumer Spending. Most Districts report further growth of nonauto retail sales. Boston and New York said some retailers saw "astoundingly" or "unbelievably" strong sales in February. At the other extreme, retail sales were weak in the Dallas and San Francisco Districts. Kansas City said sales were flat to only slightly higher than a year earlier. Inventories were described as at generally satisfactory levels, though some respondents told New York that stocks are low. Strength on the East Coast was attributed to the healthy regional economy and, in New York, to buying by foreigners whose currencies have strengthened against the dollar. Retail price increases, resulting in part from the lower dollar, are likely to be moderate. Tourism was described as good, except resort business curtailed by lack of snow in the Minneapolis District.

Motor Vehicles. Most Districts report improvement in auto dealer sales in February or early March, from very low levels in January following tax-related December strength. Dallas, however, saw little improvement from the January pace in February, which was attributed to local economic weakness. Dealers there expect continued slow sales. Chicago reported auto production cuts and layoffs at some District plants, in response to slower sales. Demand for heavy trucks has improved.

Residential Construction. Most Districts report strength in

residential building. An exception is Dallas, burdened by a large stock of unsold homes and high rental vacancy rates. Housing markets in Alaska and parts of the Minneapolis District are also soft because of the weak energy sector. Home building permits have trended down recently in the Atlanta District, but builders there are optimistic. Chicago reported that residential building was boosted by mild winter weather, but Richmond said construction in that area was slowed by bad weather. Sizable home price increases were reported in some local markets on the East and West Coasts. Building material costs are expected to rise because of the Canadian duty on lumber exports.

Nonresidential Construction. Office construction is slowing in most major cities, and office vacancies are high or rising. Chicago, however, reported that work on new buildings continues at a high level in that city. New York said that office leasing has increased. Chicago indicated that industrial construction had slowed in that region. Industrial space is in short supply in parts of northern New Jersey. Extensive work on military bases in upstate New York will be adding to construction activity in that region.

Energy and Mining. Investment in the energy sector remains very weak, except for construction of natural gas pipelines noted by Atlanta. Dallas reports that the drilling rig count declined in February, seasonally adjusted, after rising since July. February's level was about half of a year earlier, and little or no increase is expected. Minneapolis reported a decline in coal production. Lack of demand for iron ore in that area has led to further layoffs.

Agriculture and Forestry. Conditions in the farm sector appear to be stabilizing. Chicago reported that the decline in land values has slowed, farm earnings have improved, and agricultural debt repayments are faster. Minneapolis noted improved profits for livestock producers, but crop farmers remain dependent on the government for much of their income. Favorable prices for potatoes and beans have helped stabilize land prices in that area. St. Louis reported that farm incomes have stabilized. Dallas indicated that higher cotton prices are expected to help farmers in that District. Florida citrus growers have benefited from the lower dollar. Frost damaged the southern California avocado and citrus crops, and higher prices are expected for some fruits, vegetables, and nuts. Adverse weather delayed expansion of lumber production in the Atlanta District following imposition of the Canadian tax on lumber exports to the U.S. Demand for southern pine has remained strong.

Finance. Several Districts reported continued strong growth of home equity loans. Philadelphia noted that a significant portion of usage of these lines was initially to pay down credit cards, but usage has shifted toward net increases in total debt. Some credit card issuers are tightening credit scrutiny in response to higher delinquency rates. New York attributes a slowdown in IRA deposits to confusion over the new tax law, low interest rates on IRA deposits, and restrictions on withdrawals.

## FIRST DISTRICT - BOSTON

This month's reports from First District retailers and manufacturers were the most positive in some time. Retailers were both pleased and surprised by the strength of February sales. For the most part, auto dealerships were exceptions to the generally favorable sales picture, but within this group too there were reports of surprisingly good sales volumes. Reports from the manufacturing sector still indicate little vitality; nevertheless, there is some evidence of a gradual pickup in orders and respondents seem more optimistic about the future.

Retail inventories have increased, but respondents express no concern about this development. Manufacturing inventories are low by historic standards and respondents intend to keep them this way. No significant price changes have been observed by either retailing or manufacturing respondents.

Retail

Most retailers contacted were very pleasantly surprised in February. Reports on February sales included such phrases as "astoundingly good" and "unbelievable;" year-over-year increases ranged from 9 to 30 percent on a comparable stores basis. February is usually a slow month even with considerable price reductions, but stores did well with spring merchandise as well as with discounted older items. One merchant commented that if consumers are really going to pull back in response to high debt levels, they have postponed it. For the fiscal year as a whole, which ended in January, results were 6 to 10 percent ahead of 1985. This was above plan for all contacts but one.

Inventories were reported to be somewhat high. Some increases were by design. Others were not, but contacts did not regard these unplanned increases with much concern.

Prices are said to be stable, except for pharmacy items. However, one department store owner reported "reliable rumors" that prices will be up noticeably for fall merchandise because of the decline in the value of the dollar.

First District retailers are expecting a good first half of the year although they do not expect February's surprisingly high rates of increase to be sustained. The representative of a chain concentrated in the more rural areas of the East and Midwest said its stores in the Northeast are doing better than those elsewhere - a pattern he expects to continue.

#### Motor Vehicle Sales

The high level of automobile sales in December appears to have dipped into January's and early February's sales volumes for most of the dealerships surveyed. While the end-of-the-year rush to take advantage of the sales tax break is seen as a major factor in the slowdown, some claim that cold weather has also played an important role. (January and February are typically slower months.) Signs of improvement are reported, however, by both domestic and foreign dealerships. A few contacts are experiencing surprisingly good sales activity, which they attribute to product quality and reputation. Used cars continue to do well as their sales pattern is less seasonal. Trucks typically sell well during the winter months; light trucks are said to be especially popular because of their affordability.

Manufacturing

The pace of manufacturing activity in the First District seems to have inched up in the past couple of months, and there is a slightly more optimistic tone to respondents' reports. Orders are continuing to increase for such products as appliances and housing products, some communications and computer equipment, medical equipment, and plastics. Semiconductors have started to pick up, according to one contact. While demand in most other areas remains flat, there were no reports of deteriorating orders or shipments. For high tech respondents, sales to Europe are said to be quite good; some progress is also being made in selling in the Far East (from plants located in the Far East), although one contact reported that Japanese customers have cut back their orders because of declining export sales.

Cost containment continues to be a high priority. Inventory-to-sales ratios are generally low by historic standards. One contact commented that large purchases to take advantage of volume discounts are a thing of the past; his firm now buys precisely what it needs. Another observed that his firm's customers are doing the same thing: formerly they bought in lots of 5,000; now they order exactly "2,112" items. In a similar vein, employment levels are stable to slightly down, even for companies experiencing volume growth. One high tech firm noted that, because of automation, his firm must increase volume 15 percent just to maintain its manufacturing work force; the firm is currently growing at a 5 to 10 percent rate. Most respondents expect capital spending in 1987 to be fairly similar to that in 1986. No significant increases in vendor prices were observed. One contact had successfully increased its own prices at year end, while another reported that its prices have been falling on average.

## SECOND DISTRICT--NEW YORK

The Second District's economy showed some gains since the last report. January retail sales were mixed, but a decided improvement was noted in February. While residential construction was seasonally slack, a pick-up in office leasing was noted in several areas. Some improvement also occurred in District business activity. Most small and mid-sized banks report a noticeable slowdown in IRA deposits for this time of year.

Consumer Spending

The pattern of sales at District department stores was mixed during January as consumer spending ranged from somewhat below to considerably above retailers' expectations. However, a decided improvement was noted in February by those stores reporting early results, and one respondent characterized the month as "unbelievably good".

Foreign visitors utilizing their stronger currencies are still mentioned as one factor bolstering District spending; another factor is the health of its economy relative to areas with oil and farm debt problems. Items for which there was good demand during January were most types of apparel, jewelry and accessories; February's sales gains resulted from consumer buying across a wide spectrum of merchandise. As a result of both the recent strength in sales and a conscious effort to monitor stocks, retailers report inventories ranging from well below desired levels to on plan.

Business Activity

Some improvement occurred in the District's economic expansion in recent weeks. More than one-third of the purchasing managers in the Buffalo

and Rochester surveys reported that general business conditions were better in January, up from 25 percent in December.

Overall employment has grown in the District, though the manufacturing sector continues to decline. The February unemployment rates of 4.1 percent in New Jersey and 4.9 percent in New York were the lowest since the early '70s and are well below the national average. Moreover, the over-the-year reduction in the New York and New Jersey rates was three times the national decline.

Recent announcements point to a mixed impact on the District's economy. On the one hand, G.M.'s decision to produce its new mini-vans in Westchester County will secure several thousand jobs there for a number of years. On the other hand, several other long-established firms plan to curtail or phase out operations with a resultant loss of many jobs. In addition, while central New York will gain hundreds of jobs as the result of a recent merger, Buffalo and northern New Jersey will lose at least the same number due to that same consolidation.

#### Construction and Real Estate

Residential construction has been seasonally slack, but homebuilders in most areas continue to anticipate considerable demand for new homes in 1987. Plans for several new types of housing development have been announced in recent weeks. In downtown Stamford, Connecticut, where until now only new office building has been undertaken, construction of the first high-rise condominium is to begin this summer. In Newark, New Jersey the mayor recently signed a contract for the construction of 650 moderately-priced townhouses, the largest addition to that city's housing stock in decades. Finally, in New York City several programs are planned or underway to provide new middle- and low-income housing. Since a shortage of affordable housing is increasingly being mentioned as a deterrent to further economic growth in the New York metropolitan area, these new undertakings should help in this regard.

A pick-up in office leasing activity was noted in several parts of the District during recent weeks, and with the continued slowdown in new construction projects, lower vacancy rates are anticipated in a number of areas. Westchester, for example, reports strong demand for both large and small blocks of space in its new buildings, while in Manhattan some observers expect the office vacancy rate to decline to 9 or 10 percent in 1987 from its 10 to 13 percent range last year. Elsewhere in the District, industrial space is reported in short supply in northern New Jersey, particularly in areas near New York City or major highways, and prices of land and buildings have risen sharply. Upstate New York expects 1987 to be a busy year for nonresidential construction as the result of congressional appropriations for extensive expansion and renovation of three military bases in the area.

#### Financial Developments

Most small and mid-sized banks in the Second District report that there has been a noticeable slowdown in IRA deposits from the usual inflow at this time of year. Most of the banks surveyed indicated that the decline stems from confusion concerning the impact of the new tax law, and the low interest earned on IRA deposits. Many bank customers are unaware that there is still time to make an IRA deposit and claim a deduction for the 1986 tax year. In addition, others have reservations about making the investment because of concerns about the future impact of the tax law on money already placed in IRAs. One of the banks indicated that some of its own officers were not well informed about the implications of the tax reform, and were reluctant to suggest IRAs as an investment. Most banks added that these problems have been compounded by the current low interest rates available on IRA deposits and restrictions concerning withdrawal of these funds. All of the banks indicated that uncertainty concerning the tax law and the low level of interest rates would have an even more striking impact on the surge of activity which usually occurs as the April 15 deadline nears.

## THIRD DISTRICT - PHILADELPHIA

Reports from the Third District in March indicate that the regional economy is on an even keel. Manufacturers are operating at a steady rate, while retailers say that business has been good since the beginning of the year; many merchants indicate that sales are currently running above expectations. Automobile dealers report a pickup in sales early in March, after a slow start for the year. Bankers say business loan demand dropped in January but rose in the past month, while consumer lending has been growing steadily since the start of the year, bringing total loan volume outstanding in February about even with year-end 1986.

The consensus outlook in the Third District business community is positive. A majority of manufacturers predict expanding activity over the next six months, although they do not expect increasing orders to outstrip capacity. Retailers expect the current growth of sales to continue through the spring. Automobile dealers also predict continued improvement during the next few months. Bankers expect business loan demand to grow moderately throughout the year, in pace with continued economic expansion. They also expect consumer lending to be strong, with home equity loans adding significantly to growth in this category of credit.

MANUFACTURING

Preliminary results for the March Business Outlook Survey indicate that the gains posted by local industry in February have held, although the pace of activity has levelled off this month. Conditions are similar in both the durable goods and nondurable goods sectors. Overall, one-half of the companies

participating in the March survey report no change in the pace of their operations from February, one-fourth indicate improvement, and one-fourth report slower business. Specific measures of industrial activity are mixed, but indicate little change overall. New orders and shipments are up marginally, but order backlogs have eased slightly. Employment is steady.

Industrial prices in the region are generally stable. Over 70 percent of the firms polled in March say both input and output prices are unchanged from February. However, 22 percent report higher charges for the goods they purchase and 13 percent have raised the prices of their own products.

Looking ahead, area manufacturers remain mostly positive, although optimistic sentiment is no more widespread now than it has been for the past year and a half. Forty-four percent of the March survey respondents predict improved business over the next six months and 35 percent expect steady conditions; however, 20 percent anticipate slower business ahead. On balance, survey respondents expect gains in orders and shipments but no change in order backlogs. Local industrial firms' employment and capital spending plans call for little change over the next six months.

#### RETAIL

Retailers report that consumer spending has continued at a strong pace since Christmas. Sales in January and February were above sales in the same months of last year by more than 10 percent for many department and specialty stores. Discount stores posted more modest results. Most product lines are selling well, with apparel doing best and hard-goods sales relatively slower. Traditional Presidents Day sales were very successful for most stores. Retailers attribute the continued strength of sales to the region's healthy economy, but some merchants speculate that consumer spending may be getting a temporary boost because many individuals currently have higher take-home pay

than they did late last year due to delays in adjusting their payroll withholding to the levels required by the new tax law.

Retailers say their first quarter (February-April) should be very good, and they are optimistic that the current growth of sales will continue through spring. However, although their outlook for 1987 as a whole is positive, store officials say there could be a weakening in the second half. Merchants believe that higher tax liabilities will cause more affluent customers to cut back on discretionary spending, and that consumers will hold the line on financed purchases in any case, in order to bring their rising debt under control. In addition, some stores are tightening credit qualifications for their proprietary cards in response to rising delinquency rates, and, according to some retailers, proposed legislation to cap merchant credit card rates will likely result in even more restrictions on store credit.

Automobile dealers say that January and February have been slow, but they are seeing some pickup in sales in early March and are optimistic that sales this spring will be good. Dealers selling domestic cars say they have improved their competitive position against imports due to the dollar's decline, longer warranties on U.S. cars, and low finance rates. They expect manufacturers' financing programs to be a regular part of their marketing strategy from now on.

#### FINANCE

Total loan volume at major Third District banks in late February was about even with the year-end 1986 level, and approximately 13 percent above the level of a year ago. Lending officers say the lack of growth in total loans in the first two months of the year is due to an abnormal pattern of business borrowing, resulting from the movement of some normal January business into December due to changes in tax law. The drop was recouped in February, however, and bankers contacted in early March say they expect further growth in

commercial lending as economic expansion continues. Demand for fixed-rate business loans, in particular, is growing, and some banks are accommodating this demand, hedging interest rate risk through the use of interest rate swaps and financial futures.

Consumer loan volume has been growing at an annual rate of about 10 percent since December. Banks offering home equity credit lines report strong growth in commitments as well as usage, with drawdowns of up to 50 percent. Although consolidation of credit card debt was significant in early use of home equity loans, bankers now say that consumers are using this form of borrowing for new debt, giving consumer installment lending a further boost.

## FOURTH DISTRICT - CLEVELAND

Summary

The regional economy continues a slow and somewhat unsteady expansion. New orders, production, and inventories of manufacturers are up slightly. Ohio employment continues to expand at a rate equal to the nation, but with a number of manufacturing sectors showing continued employment decline. Retail sales are higher than a year ago, and automobile purchases have picked up. Residential construction has also rebounded, accompanied by sizable price increases in several local markets.

Retail Sales

Retailers reported that sales in January and February were 7 to 10 percent higher than a year ago. Clothing and other soft goods are among the best selling items at present, while sales of hard goods such as furniture and home appliances are spotty throughout Ohio. Retailers expect prices to increase from 2 to 3 percent in 1987, resulting primarily from higher import prices due to a weak dollar. Although many buyers have switched to suppliers from countries with relatively weaker currencies, comparable substitutes are not always available.

February automobile sales began significantly below last year's levels due to the end-of-year buying spree. However, by mid-month sales picked up and now appear to be on par with last year's sales. Domestic dealers reported that the weaker dollar is helping them compete with Japanese imports. Japanese import dealers reported slightly higher inventories. In addition, prices increased slightly in March in order to maintain an acceptable profit margin.

Labor Markets

The number of jobless Ohioans increased 39,000 from November to December, raising the seasonally adjusted unemployment rate from 7.2 to 7.9 percent. During this period, the U.S. rate declined from 6.9 percent to 6.7 percent. Within the state of Ohio, unemployment rates ranged from a high of 21.9 percent for the coal-producing areas to a low of 5.4 percent for the Columbus area. Seasonally adjusted manufacturing employment rose 4,000 from November to December. The increase occurred in durable-goods industries while nondurables remained unchanged. Workers in nearly all manufacturing industries had higher earnings in December, up \$11.32 from the previous month. Workers averaged a 43.2 workweek in December, up .6 hours from November.

Manufacturing

Manufacturing activity in the region is mixed. A survey of purchasing agents in Northeast Ohio showed very little change in manufacturing from last month. Production, new orders, and inventory levels were fairly stable, prices were higher, and employment was lower. A similar survey for Central Ohio showed signs of continued improvement. New orders, inventories, and prices were significantly higher than December's figures. On the other hand, more respondents reported a decrease in employment in January than those who reported an increase in employment.

Raw steel production for the Lake Erie and Pittsburgh regions continually increased throughout February. Employment in the basic steel industries also increased, reflecting to some extent the resolution of the USX work stoppage.

The region continues to be marked by large scale plant closings and layoffs. General Motors recently announced plans to close plants in the Greater Cincinnati area that will affect over 8,000 workers. Firestone and Goodyear have also announced layoffs. At the same time, the region continues to be a target for foreign investment, especially automobile assembly and parts facilities. For example, Mitsubishi Electric Corporation, recently announced plans to build a \$25 million plant to produce car audio equipment, car electronics and electrical parts for the U.S. auto industry.

#### Housing

Residential construction in Ohio has picked up considerably from last year. Value of future residential construction in Ohio rose 16 percent from last year. The number of housing permits issued in Ohio during December 1986 increased 7 percent from a year ago. House values have also increased. In Akron, for example, sale prices in January were 20 percent above what they were a year ago. While the single-family market appears very strong, multifamily housing is sluggish, which is partly due to the less favorable depreciation rules under the new tax code. Despite heavy advertising for adjustable rate mortgages, many mortgage borrowers are choosing fixed-rate mortgages with a shorter maturity.

#### Banking

District loan demand has softened considerably from the strong pace registered during December. Loans outstanding at large district banks fell significantly during the first six weeks of this year. The slower rate of bank lending was broadbased. Both commercial and industrial loans and

consumer installment loans fell at an annual pace of over 20 percent. Although real estate loans have expanded at an annual rate of 25 percent since the beginning of the year, this pace is slower than the growth registered in December. Moreover, some of the recent real estate loan volume is attributed to the rise in home equity loans.

## FIFTH DISTRICT -- RICHMOND

Overview

Manufacturing activity in the District increased again in February as it did in January, in line with the trend that began last summer. Producers are optimistic that local and national business conditions will improve further in the months ahead. Retail sales rose this past month following an unusually weak January, and store managers remain optimistic that consumer spending will increase moderately as the year progresses. Resort and other hotel room reservations for the summer are running ahead of last year's pace, and 1986 was a good year for tourism in this area. The market for single-family homes continued strong in recent weeks except where depressed by unusually bad weather. Realtors and homebuilders are optimistic about prospects for their businesses and the economy. In agriculture there are signs of some easing in credit conditions.

Manufacturing

Manufacturing activity in the region increased in February according to the results of our latest survey. Twice as many producers report increases as report declines in shipments, new orders, and unfilled orders. Producers also report increases in employment and the length of the workweek. Manufacturers reporting increases in their inventories of materials slightly outnumber those reporting declines. Inventories of finished goods appear to have increased.

Prices of raw materials rose in the past month according to 36 percent of the producers; 5 percent report declines. Three-fourths of the producers report no change in the prices they charge for finished goods, with the remaining one-fourth about evenly split between those reporting increases and those reporting declines. Responding to a separate survey question, 45 percent of the manufacturers report that, since the first of the year, the prices of their imported materials have risen.

Optimism among producers is growing. Sixty-eight percent of this month's respondents anticipate increases in shipments and new orders in the next six months, as compared with 61 percent last month. More than one-third of the respondents now believe they will increase employment and lengthen the workweek over the next six months. As was the case last month, this month's survey indicates that over half of the producers expect improvement in general business conditions over the next six months. Added optimism is evident in that a smaller proportion of the respondents--one eighth this month as compared with one fifth last month--expect conditions to deteriorate.

#### Consumer Demand

Retail sales increased in February according to our survey. Fifty-nine percent of the responding retailers report increases in sales and 23 percent report increases in employment. Nine of ten retailers expect that their business activity as well as general business conditions will improve in the next six months.

Resort and other hotel bookings for the summer are stronger than last year this time. Overnight spaces at many state parks are already booked to capacity. Public and private sector respondents to a special telephone survey say they expect even stronger tourist activity in 1987 than in the stronger-than-average 1986 season. Tourist businesses expect their profits to rise commensurately.

#### Residential Real Estate

Realtor and home builder associations report that sales and construction of single-family homes were quite strong in February, although activity was depressed by unusually bad weather in parts of the District. Industry representatives believe 1987 will be on a par with 1986 if interest rates decline or stay where they are now.

#### Agriculture

Our most recent survey of agricultural lenders indicates that farm credit conditions may be easing somewhat. Lenders report fewer instances of farm customers extending or renewing loans; repayment rates, however, remain sluggish. Agricultural bankers report falling interest rates across all categories of agricultural loans surveyed, although these rates are declining more slowly than nonagricultural loan rates. Loanable funds are plentiful, and bankers are actively seeking new farm loans. Collateral requirements remain high, however, because of uncertainty over agricultural income prospects.

#### Financial

Several banks and thrifts have extended deadlines associated with their promotions for home equity lines. Approvals have been delayed by the heavy flow of applications.

## SIXTH DISTRICT - ATLANTA

Economic activity has picked up in recent weeks. Manufacturing in the region is showing more life, reflecting better export demand and a reduction in import competition. Florida's citrus industry is prospering because of slowing imports of orange juice. Most of the energy sector remains depressed, but capital spending is rising in a few natural gas companies. Retail sales were unexpectedly strong in several District states, though auto sales were even weaker than they were in the nation in February. The region saw a moderate decline in single-family building permits, but builders seem quite optimistic that this decline was temporary. Tourism remains a strong positive force in the District.

Employment and Industry. The region's manufacturing sector appears to be rebounding from recent sluggishness. Strong demand for a wide range of textile mill products is boosting employment. Prospects look good for further recovery as orders for some goods are booked into 1988. The paper and chemicals industries have benefited from recent restructuring and the decline in the value of the dollar. Prices for pulp and linerboard are expected to continue to rise as exports expand. Merger and consolidation activity are said to have increased the strength of domestic paper firms. The cheaper dollar has improved U.S. chemical producers' ability to compete in export markets. Spokesmen expect both exports and productivity to increase further in coming months.

The outlook is not as bright for the metals and machinery industries. Aluminum producers anticipate 1987 to be only marginally better than 1986. Specialty steel mills and steel fabricators that have managed to remain profitable are beginning to feel the effects of a sagging construction market. Reduced demand for oil well drilling equipment continues to dim prospects for the region's machinery industry.

Consumer Spending. February sales for most southeastern retailers were quite favorable, although activity in Louisiana and Mississippi remained sluggish. Retailers in Georgia, Florida, and Tennessee, in particular, report surprisingly strong sales activity.

Regional car sales in February posted improvement from January's dismal activity, but they were weaker than the nation's sales, which declined 9.1 percent from a year ago. Over the past year market shares of imports have risen to about one-third of total sales in at least two District states.

Construction. Single-family building permits in the Sixth District have registered a modest downtrend recently, but builders are still optimistic about prospects for the single-family home market because of rising incomes and comfortable mortgage rates. Birmingham is enjoying some of the most active construction in the Southeast, and east Tennessee contacts report strong demand and a slight inventory shortage. Although there is very little construction of multifamily rental units, the condominium market seems to be picking up slightly. Miami and Knoxville realtors say current sales of condos are the highest in recent years.

Commercial construction continues to slow as the region adjusts to overbuilding. New Orleans reports drastic employment cutbacks in both construction and related businesses. While the Miami office market is glutted, demand is healthy for smaller owner-occupied buildings. Improved occupancy of the overbuilt retail sector in Jackson, Mississippi, is renewing the interest of developers who had fled the market.

Financial Services. After a spurt of tax-induced activity in December, January's loans at the District's larger commercial banks resumed the gradual decline of previous months. However, residential construction lending remains strong in Atlanta and in the larger cities of Alabama. Urban banks in Louisiana also report slight residential loan growth, but some small agricultural banks are not faring well.

The region's savings and loans are generally performing well, although a few have had some difficulties, particularly in Louisiana and Florida. According to District financiers, problems can be attributed to several sources, including principally a heavy reliance on long-term lending and weak economic conditions in certain areas.

Tourism. The tourism industry continues to boost the Southeast economy. Contacts in New Orleans term the Mardi Gras celebration a huge success as hotel occupancy rates reached their highest level in five years. Travel to Miami has been unusually strong as the number of foreign visitors has surged. In Birmingham, a brand-new horse-racing operation opened its doors in March, welcoming thousands of eager racing enthusiasts. Atlanta and New Orleans are beginning to gear up to host the 1988 political conventions. Both cities will increase hotel/motel tax rates.

Agriculture, Forestry, and Mining. Capital spending remains weak in much of the energy sector with a few exceptions in the natural gas industry. New construction of natural gas pipelines is planned for Florida and the Mobile Bay area. The increased activity reflects deregulation in the gas industry and expectations that the excess gas supply will be eliminated and prices will improve either in late 1987 or early 1988.

Weather problems have delayed the regional production expansion that was expected following the imposition of the Canadian export tax on lumber. Very strong prices for southern pine have been characteristic this year, but once the weather improves prices are expected to fall. Demand has remained strong throughout the winter.

Orange producers are earning favorable returns as a result of price increases and reduced imports of Brazil's orange products. Although the domestic grapefruit market is languishing, the export market is flourishing thanks to the weak dollar and growing foreign consumption.

## SEVENTH DISTRICT--CHICAGO

Summary. A mild winter in the Seventh District has boosted activity, and resulted in fewer than usual seasonal layoffs, particularly in construction. Residential building continues vigorous. Construction of office buildings remains strong in downtown Chicago. Industrial construction has slowed. Several more plant closings in the District recently have been announced. Slower car sales have led District producers to scale back production and increase layoffs, but total planned motor vehicle production in the first half is near year-earlier levels. Appliance buying continues at a high level. Supplies of steel for autos and appliances are reported tight as USX gradually returns to production following a labor settlement. Demand for mechanical capital goods remains soft. Though the farm sector continues under serious stress, farm earnings have improved and the decline in farmland values has slowed.

Nonresidential Construction. Building activity has remained strong, partly because of the very mild winter. Progress on some projects in the Chicago area consequently is three months ahead of schedule. Several more large office buildings have been announced or are being started in downtown Chicago. Slower activity on new commercial buildings had been expected but is not yet evident, though renovation work has slowed. Construction of manufacturing buildings in the region has weakened.

Residential Construction. The mild winter boosted residential building in the Midwest. Building permits in January, normally very low, were sharply higher than last year in Illinois, Michigan, and Wisconsin. Home mortgage interest rates in the Chicago area have stabilized at around

8.75-9% for 30-year fixed rate loans, and 7-8% for the first year on adjustable rate mortgages (ARMs). Our contacts indicate that area lenders are increasingly using interest rates above first-year rates in determining whether would-be borrowers qualify under their ARM programs.

Motor Vehicles. Plans for car and truck production in the first half remain near last year's levels despite slow sales in January and February. Output reductions scheduled by domestic producers are largely offset by increases at "quasi-domestics"--U.S. assembly plants of foreign producers--located outside the District. Quasi-domestic plants being built in Illinois, Indiana, and Michigan are not yet in operation. Slower sales have led to more layoffs at some District plants. American Motors announced plans to close its Wisconsin assembly plant in 1989, but subsequently agreed to resume critical negotiations over labor concessions. Demand has improved for heavy trucks and related components such as diesel engines.

Consumer Spending. Major chain stores in the District reported further gains in sales in January and February. Sales of household appliances continue at a high level. A District producer of large appliances again added to employment to meet strong demand. Production of television sets at an Indiana plant is being increased 30%, as the producer reduces its purchases of TVs made abroad.

Capital Goods. Demand for capital goods produced in the District remains slow, overall. Sales of industrial robots are projected to fall 30% in 1987, chiefly because of capital spending cuts by the auto industry. Machine tools, large construction equipment, and railroad

equipment continue weak. A District producer of sophisticated medical equipment will cut costs by buying, rather than making, certain components and reducing area employment 20%. North American sales of farm equipment, of which the District is an important producer, are projected to stay around 1986's low level in 1987.

Steel. Following settlement of its 6-month work stoppage, USX announced plans to leave shut, probably permanently, more than one-fourth of its steelmaking capacity, at plants outside of the District. Despite ample total steel capacity, supplies of steel sheet have remained tight as USX gradually has returned to production. Two other integrated steelmakers with plants in the District announced plans for sizable investments in facilities.

Agriculture. For the deeply distressed farm sector, recent developments cast a somewhat more optimistic tone. Farm earnings continue to improve because of massive federal payments, lower production costs, and better returns to livestock producers. Higher earnings have contributed to faster repayments on farm indebtedness and indications that the previous uptrend in problem farm loans at banks reversed in 1986. Exports of some agricultural commodities have exhibited a sustained upturn in recent months. But prospects for corn and soybean exports, which are vital to this District's farmers, remain dismal. Farmland values continued to decline through late 1986, but at a slower pace. Moreover, declining mortgage rates, new Federal Land Bank policies for liquidating acquired farm properties, and recent changes enhancing the attractiveness of the federal government's 10-year program for retiring land from production have raised hopes that land values may be close to a bottom.

## EIGHTH DISTRICT - ST. LOUIS

Summary

The expansion of District nonfarm employment slowed in the fourth quarter, despite faster manufacturing job growth. Construction activity also decelerated, with a sharp drop in nonresidential building activity. Loan growth at large District banks has been rapid but recent data indicate a slowing in commercial and real estate loans. Although crop production declined in 1986 farm income was flat. The financial position of the region's agricultural banks improved during 1986.

Employment

District nonagricultural employment grew at a 2.1 percent annual rate in the fourth quarter, about half its third quarter rate and 1 percentage point less than the national pace. While the goods-producing sectors grew more rapidly in the region than nationally, service-producing sectors trailed national growth rates. Spurred by mild weather, District construction employment grew at a 11.2 percent rate in the fourth quarter. District manufacturing grew at a 1.4 percent rate during the period, with gains in non-electrical machinery, food processing, textile/apparel, and printing/publishing. Despite these gains, manufacturing employment remained 0.4 percent below year-ago levels. The fourth quarter expansion of District manufacturing was constrained by a sharp drop in Missouri, where losses in motor vehicle production contributed to the decline. Moreover, while the number of jobs in aircraft production increased in Missouri last year, the value of federal prime defense contracts received in the state declined by 27.1

percent in fiscal year 1986, suggesting slower employment growth in the future.

### Construction

The value of District residential construction contracts grew by 4.1 percent in the fourth quarter--similar to the nation's expansion--but the growth was concentrated entirely in Missouri. Similarly, the number of residential building permits issued in the District increased 4.2 percent in 1986 with Missouri again responsible for the entire gain. While regional single-family permits increased 24 percent last year, permits for multi-family buildings declined 14.2 percent. January residential building activity slowed from year-ago levels, with single-family permits down 16.7 percent, and multi-family permits off 3.1 percent. The weakness in multi-family construction reflects overcapacity and changes in the federal tax code.

The same factors contributed to weakness in nonresidential building. December surveys indicate that office vacancy rates in downtown Memphis and St. Louis were above the national average. The value of nonresidential construction contracts declined 9.2 percent in the fourth quarter, following a 15.4 percent increase in the third quarter.

### Banking

Total loans outstanding at large District banks continued to increase over the three most recent months. Spurred by growth in commercial and real estate loans, total loans expanded at a 20 percent annual rate, more than double that for the same three-month period last year. Commercial loans advanced at a 23.3 percent rate, far outpacing

the 2.5 percent rate for the equivalent December-February period last year. A survey of the five largest banks in the District indicated approximately 5 percent of their December increase of business loans outstanding was induced by tax reform. Most of these borrowings, however, were paid-off by mid-February. Real estate loans grew at a 29.5 percent rate compared with 13.9 percent for the three months ending February 1986.

### Agriculture

Final data for 1986 indicate wide variations in crop production and yields across the District. Despite overall lower crop production levels, District total net farm income in 1986 should remain at the same level as in 1985 due to higher livestock profits and increased government payments. In Tennessee, the value of the state's major crops was down 29 percent from 1985 and down 36 percent from 1984 due to acreage reductions linked to government farm programs, low yields caused by early season dryness and falling crop prices. In contrast, Missouri enjoyed nearly ideal growing conditions that resulted in a new record corn yield and near-record yields of other major crops.

The average financial position of agricultural banks in the District, which had declined over the previous three years, appears to have stabilized and improved in 1986. This improvement is evident in third quarter measures of bank profitability, loan defaults, loan delinquencies and bank capital. The number of individual agricultural banks with negative earnings and deficient capital increased slightly, however, indicating a widening dispersion of performance among the institutions.

## NINTH DISTRICT--MINNEAPOLIS

Economic conditions in the Ninth District have remained steady so far in 1987. Unemployment rates rose, but most of the increase was seasonal. Consumer spending picked up in February. In resource-related industries, conditions remained mixed. And while some agricultural areas continued to show scattered signs of stabilization, farmers of major crops are still dependent on government programs for much of their income.

Employment

So far this year, employment conditions have kept steady. Although unemployment rates in district states rose in January, much of the increase appears to be seasonal. Large layoffs of temporary retail workers, hired for the holidays, resulted in higher unemployment rates. In the Minneapolis-St. Paul metro area, however, January's unemployment rate was still 0.4 percentage points lower than it was in January 1985. And the number of initial unemployment claims filed during January in Minnesota was 12.8 percent lower than those filed a year earlier. In South Dakota, nonfarm employment was 1.5 percent higher during January than it was a year earlier. A Bank director reports that employment conditions in western Wisconsin appeared to be a little better than last year. But in Montana, unemployment appeared to increase during January.

Consumer Spending

Retail sales of general merchandise by larger retailers posted solid gains in February. One chain in the Minneapolis-St. Paul metro area reports that February was its best overall month in the last five years or so. That chain experienced double-digit sales gains in almost every major line. An-

other large retailer also experienced double-digit gains compared to February 1985. This retailer also notes that consumers seem to be using their credit cards more moderately by carrying lower balances and defaulting less. Both retailers say their inventories are at satisfactory levels. Another chain, operating throughout the district, reports that even though general conditions in rural areas have stopped declining, they haven't yet picked up.

Sales of motor vehicles, after a very slow January, accelerated in February. One domestic manufacturer notes that its district car sales were much higher, while its truck sales only posted a modest gain. Another domestic manufacturer reports that unusually warm weather seemed to hamper its sales of trucks and four-wheel-drive vehicles. Existing incentive programs seem to be sufficient to stimulate sales.

Housing market conditions in Minnesota are still favorable, although residential building contracts fell throughout the state in January. A representative of Twin Cities realtors is more positive about single-family housing prospects than a year ago. In contrast, housing activity is still way down in Montana's and North Dakota's largely inactive oil-drilling areas.

While not all resort areas experienced good winter tourism conditions, many that did had good business. A Bank director reports that one large resort in Michigan's Upper Peninsula had its best season ever, while lack of snow created problems for another resort there. Two observers in Montana report that an influx of Canadian tourists helped resort business there.

#### Resource-Related Industries

Little change was evident in the district's major resource-related industries, where conditions remained mixed. In Montana and North Dakota, oil

and gas activity remained in the doldrums, and coal production decreased. A continued lack of demand for iron ore was evident from the decision to permanently lay off 400 workers from a northeastern Minnesota ore-processing facility. But demand for forest products remained firm. As a result, a plywood plant in Michigan's Upper Peninsula is expanding, says one Bank director.

#### Agriculture

Agricultural conditions continued to stabilize early this year. Bank directors note that the winter-wheat crop appears to be in good condition in Montana and parts of South Dakota. They also report that livestock prices remained at profitable levels. A Bank director reports that favorable prices for potatoes and beans have helped stabilize farmland prices in northeastern North Dakota, where farm equipment sales have picked up. But major crop farmers are still dependent on payments from government programs. And a lack of snowfall has led some observers in western North Dakota and eastern Montana to worry about the adequacy of soil moisture.

## TENTH DISTRICT - KANSAS CITY

Overview. Some recent slight improvement in Tenth District economic activity appears evident. While the energy sector remains weak, retail sales continue to improve somewhat and inventories are regarded as lean but satisfactory. Price increases remain moderate, both at retail and for materials inputs. Housing starts are up somewhat, but the demand for mortgage funds is somewhat weak and rates have softened a bit in some areas. Loan demand at district commercial banks is down slightly, while deposits are up. Credit conditions for farm borrowers vary widely.

Retail sales. Tenth District retailers report that sales are generally unchanged to slightly above year-earlier levels, depending partly on type of store and geographic location. Sales have shown some further improvement during the last three months. Price increases have been moderate, and prices are expected to remain relatively stable to slightly higher. Inventories are reported to be at satisfactory levels after some recent trimming. Retailers are optimistic that sales will be solid during 1987.

Automobile sales. Auto dealers report that February auto sales were generally down from previous months, partly due to the elimination of the sales tax deduction. Most dealers have been trimming their inventories, and are not overly optimistic about the outlook for future sales.

Purchasing agents. Purchasing agents generally report slightly to moderately higher prices for major inputs but expect little additional change in the period ahead. Materials supplies have been somewhat difficult to maintain in some industries, with a few firms experiencing longer lead times. Inventories have been kept lean deliberately and are generally regarded as satisfactory. None of the respondents report any production bottlenecks.

Energy. The district's energy industry remains weak. Uncertainty

about the ability of OPEC members to adhere to an agreement to restrict output and fix prices has caused oil prices to remain somewhat volatile. As a result, exploration and development activity in the district remains generally depressed. The average weekly number of operating drilling rigs in the Tenth District decreased from 272 in January to 226 in February, slightly more than half the number recorded a year earlier.

Housing activity and finance. Area homebuilders report that housing starts are mixed compared to year-earlier levels but have strengthened somewhat over the past month. Multi-family housing construction is weak throughout the District, while single-family housing construction is somewhat stronger. Builders expect overall housing starts in 1987 to match those of 1986. Sales of new homes remain good, with prices generally stable to up slightly. Builders report no problems with either the availability or delivery of housing materials, and materials prices are stable. However, the U.S.-induced export duty on Canadian shingles and lumber leads most builders to anticipate a jump in materials prices in the near future.

Most savings institutions report weak inflows or moderate outflows of savings over the last twelve months, but with some improvement in the last month. Most respondents expect some further improvement in the near future. Demand for mortgage funds is fairly weak, and opinions vary about future demand. Mortgage interest rates have softened a bit in some areas, but respondents generally expect slight increases in the future.

Banking. Total loan demand fell slightly at Tenth District banks during the past month, while total deposits rose. Demand weakened for agricultural, commercial and industrial, and commercial real estate loans, but was constant for residential real estate and consumer loans. All respondents report that their prime rate did not change and that they did not expect it to

change in the near future. Consumer loan rates were generally constant and no changes are expected in the near-term. Balances in conventional NOW's, Super-NOW's, MMDA's, IRA's, and passbook savings accounts tended to increase. Demand deposits and large CD's tended to decrease, and small time deposits remained constant.

Agriculture. Commercial lenders in the district are in the midst of annual credit reviews for their farm borrowers. Some bankers expect to approve credit for all their farm borrowers, although some borrowers may not receive all that they request. Other agricultural lenders expect a smaller proportion of their borrowers to be denied credit this year than last year. A number of bankers, however, expect that up to 15 percent of their farm borrowers will be denied credit this spring, a proportion as high or higher than a year ago. These mixed results suggest that while some agricultural lenders have successfully rid their portfolios of problem loans, others have not.

The Farmers' Home Administration's (FmHA) loan guarantee program has also met with mixed results. Some agricultural lenders are using few or no guarantees, because of the additional paperwork and past difficulties in securing FmHA approval. Other bankers are gradually increasing their use of FmHA loan guarantees, while still others are enthusiastically using the loan guarantee program for as many as 20 percent of their borrowers.

Most bankers have acquired farm real estate through foreclosures, and are handling the acquired property in a variety of ways. A few lenders are selling farmland as soon as possible after foreclosure, with little regard for price. In most cases, however, lenders note that most properties are not selling due to a lack of interested buyers. In the meantime, acquired farmland is being leased out by lenders--in some cases for the third consecutive year.

## ELEVENTH DISTRICT--DALLAS

Some important sectors of the Eleventh District economy remain weak, but signs of recovery are evident. Orders to manufacturers are growing, although very sluggishly. The drilling rig count slipped in February, after growing at a fairly steady pace since July. Auto sales have dropped considerably and retail sales remain low. Construction is declining at a quickening pace, chiefly because of reductions in residential building. The balance sheets of District banks reflect the area's general economic performance, which is still below year-earlier levels. District cattlemen are selling their livestock at substantially higher prices than last year.

An increasing number of manufacturers are reporting some expansion in orders. Nevertheless, reductions in demand from the weak construction and energy sectors have left most durable goods producers with sales that are unchanged since the last survey. Orders from outside the District are helping to prevent further declines in output by construction-related manufacturers. Stability has returned to the semiconductor industry after two years of declining orders and plant shutdowns. Sales by nondurable goods manufacturers are up slightly, on average, but conditions vary widely among individual industries. Chemical producers report gradually increasing demand. A growing number of District manufacturers--including producers of lumber, paper, electronics, and chemicals--report that the decline of the dollar has led to expansion in orders for their products.

The drilling rig count in the District states fell in February, on a seasonally-adjusted basis, after rising in almost every month since July.

Despite the increases, the February 1987 count was 55-percent below that of February 1986, although the year-over-year rate of decline has been slowing. Leading indicators of drilling activity are mixed but overall they point to little if any gain in the rig count.

Sales of automobiles fell dramatically in January from December and showed little growth in February, according to District auto dealers. Most respondents ascribed the low sales in part to local economic weakness. They said that heavy auto buying in December, in anticipation of tax law changes, had also diminished recent sales. Inventories have risen as a result. Although dealers hope for some seasonal increase in the next few months, their overall outlook is for continued slow sales.

Retail sales remain sluggish and retailers report small cutbacks in employment. Sales of big ticket items such as furniture and appliances remain particularly low while demand for some lines of clothing is showing modest increases. Most respondents say they expect continued weak sales for the next few months, but they anticipate some gains by midyear.

Construction values continue to decline in the District, with the largest reductions occurring in residential building. The number of building permits issued in the District has fallen significantly, with large year-over-year declines in multifamily and, more recently, in single-family permits. Respondents attribute the residential building decline to a large stock of unsold single-family homes and to high vacancy rates for rental units. The values of nonbuilding and nonresidential construction contracts have also showed recent declines. Office vacancy rates in the District's large cities continue to rise.

The balance sheets of large District banks still show declining deposits, increased reliance on borrowings, and reductions in some types of loans. Deposit reductions are being led by declines in large time deposits, but transactions deposits are also slipping. Business loans are falling. Real estate loans continue to increase, but at a decreasing rate. Securities holdings are markedly up from a year earlier. In contrast to the situation at the large banks, total deposits at all commercial banks in the District remain stable, with declines in large time deposits offsetting the gains in other types of deposits.

Income prospects for District farmers and ranchers are mixed. Projected reductions in world cotton supplies, together with increases in world demand, should result in higher prices for cotton farmers. Feed grain prices are down by more than 30 percent from a year earlier and show little likelihood of a marked increase. Feeder cattle are in heavy demand with prices 11 percent higher in mid-February 1987 than a year before. In January, the index of prices paid to Texas farmers increased 3 percent from December but still remained slightly below a year earlier. Rising livestock prices were responsible for the increase in the farm price index. The crop component of the index declined and it is substantially below the year earlier level.

## TWELFTH DISTRICT -- SAN FRANCISCO

Summary

The Twelfth District economy continues to present an uneven picture, across states as well as across sectors. The first two months of 1987 have seen weak retail sales, at least partially due to the tax-related buying binge at the end of 1986. Nevertheless, demand for consumer credit continues strong in some areas. Capital investment activity, while uneven, appears to be weakening overall. Prices of many products are edging upward, particularly in sectors strongly affected by exchange rates. Housing market activity has been robust in fast-growing states such as California and Arizona, but slow in hard-hit Alaska.

Consumer Spending

Retail sales have been weak during the early part of 1987, although it is not yet clear how much of the weakness is fundamental and how much is a result of the year-end tax-related buying binge. California retail sales reportedly have shared in the weakness during January and February.

Car sales have fallen since the first of the year in most parts of the District, as the tax-induced sales surge in December suggested they would. Auto sales decreased dramatically between December and January in California, Washington, Oregon, and Utah.

Manufacturing

Surveys of purchasing managers in Oregon and Arizona suggest that prices of some products are starting to creep upward. In January, the fractions of both surveys' respondents reporting rising prices increased while the proportions reporting falling prices declined. Price increases have been most pronounced in sectors heavily influenced by exchange rate fluctuations. Despite these inflationary

tendencies, many respondents pointed out that substantial market competition and limited consumer demand should keep any price increases modest.

Many firms plan to spend less on capital investments during 1987 than they did during 1986. These decreases are attributed to slow economic activity overall, to an increased focus on cost-cutting associated with recent restructurings, or to the reduced investment incentives under the new tax bill. One savings and loan plans to spend 15 to 20 percent less in 1987 than it did in 1986, while a survey of pulp and paper producers reveals that they plan to decrease investment spending by an average of 24 percent.

On the other hand, a survey conducted during January in Arizona suggests that investment spending in that state is likely to remain stable, since about 20 percent of the respondents said they would increase capital spending, while another 20 percent planned decreases and the remainder planned to continue spending at their 1986 levels. Throughout the District, investment spending is expected to increase for firms whose economic fundamentals indicate substantial investments, including an energy distribution company and a retailer that are expanding their territories, and a forest products firm newly flush with funds.

#### Agriculture and Resource Related Industries

The price of oil is expected to increase during 1987. Utilities disagree as to whether higher oil prices would cause significant increases in their rates. In the Pacific Northwest, the Bonneville Power Administration faces enormous debt obligations and has requested a 15 percent rate hike to pay them off.

An unusual mid-January frost in southern California caused extensive damage to avocado and citrus crops in Ventura and San Diego counties. The estimate of total damage currently stands at \$60 million, although the California Avocado Commission reports avocado damage alone at \$110 million. The damage, compounded

by more generalized low yields, is likely to cause price increases for some fruits, vegetables, and nuts.

Western farmers should benefit from the last-minute trade pact agreed upon between the U.S. and the European Economic Community since it averts stiff European tariffs on such products as avocados (California), roasted nuts (California), and flower and vegetable seeds (Oregon), as well as further tariffs that could have been imposed on other specialty crops if the trade war had escalated.

#### Construction and Real Estate

California housing market activity has continued at a robust pace, although the number of residential building permits issued in January fell sharply from December's inflated level due to the January imposition of a new school fee. The single-family segment of the market remains healthy in most parts of the District. In California, the median home price rose by 9.4 percent during 1986. In Alaska, however, where the drop in oil prices has affected the economy severely, single-family home prices reportedly fell 10 to 20 percent during 1986. The Alaska Housing Finance Corporation has foreclosed on many homes, and in December 23 percent of its condominium mortgages were in default.

#### Financial Sector

The performance of consumer lending in the West appears to be highly uneven. Some banks and savings and loans are experiencing a slowdown, which they attribute to a combination of high consumer debt levels, refinancing of consumer debt through home equity loans, and more favorable terms offered by auto companies' finance subsidiaries. Other financial institutions continue to experience growth in both installment and credit card outstandings. In some cases, the increase seems to be driven by continued strong consumer spending, but in other cases the growth is attributed to aggressive marketing that has increased their market share. In most areas, installment loans appear to be losing ground to home equity instruments.