

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS  
BY FEDERAL RESERVE DISTRICT

October 1987

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## SUMMARY\*

Business conditions continue to improve in most districts, with particular strength in the manufacturing sector. Reports from Boston, New York, Cleveland, and San Francisco are particularly upbeat, whereas growth in the Kansas City and Dallas districts has been less robust. St. Louis continues to report generally less satisfactory economic performance. Even the three relatively weaker districts have enjoyed recent strength in manufacturing, however. Retail sales are showing modest gains in many regions, with particular strength in the Boston and Atlanta areas, but sluggishness in the Cleveland, Kansas City, and Dallas areas. Auto sales are flat, or even down a bit, according to most district reports. Construction activity is mixed, as it was last month, with commercial building a bit better than residential in many parts of the country. Mining is strong, and all districts commenting on oil drilling report some increases in rig counts. Crops and harvest conditions have been favorable almost everywhere. Only the Richmond district reports reduced corn yields, due primarily to adverse weather. Two districts report continued improvement in the financial condition of farmers and ranchers.

Reports indicate demand/supply imbalances in some markets. There is continued mention of tightness in certain labor markets, particularly in retail and service industries. And many districts report rising prices for some raw materials and imported inputs. Several note price hikes and even spot shortages for certain types of steel.

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\*Prepared at the Federal Reserve Bank of Minneapolis and based on information gathered before October 9, 1987.

### Manufacturing

Almost all districts report strength in manufacturing, continuing the trend noted last month. Even St. Louis, with weaker overall economic activity, reports a recent upturn in the manufacturing sector. Richmond's survey of manufacturers shows increases in shipments, new orders, unfilled orders, employment, and the workweek. Results of a Philadelphia survey are much the same. The San Francisco district emphasizes strength in manufactured exports, due to the dollar's decline and "buy American" campaigns in some Asian countries. As San Francisco says, "Manufacturers of commodities such as chemicals and paper were affected first, but gains now are spreading to a whole range of light manufactured products, including medical equipment and industrial valves." Of course, weakness in auto sales does not bode well for manufacturing activity in that important industry. Chicago reports an indefinite layoff of 2,000 workers at a truck assembly plant in September and planned closings of two more motor vehicle plants by year-end. Heavy truck sales have been quite good, reflecting in part the strength of manufacturing.

### Consumer Spending

Retail sales are mixed. Boston, New York, and Atlanta report considerable strength, with sales generally above plan for the month of September. More modest results are noted in the Philadelphia, Chicago, and Minneapolis districts. But retail sales in the Cleveland, Kansas City, and Dallas districts are sluggish or flat. In general, retailers appear guardedly optimistic about the coming fall and Christmas seasons. Auto sales were weak in almost all districts in September and early October, and most industry representatives are pessimistic about a quick turnaround. Minneapolis seems to buck the trend, reporting fairly good auto sales in recent weeks.

### Construction

Construction activity is mixed, with some evidence that commercial building is stronger than residential. Richmond reports "firm demand for new nonresidential construction but weakening demand for residential construction." The situation is similar in the Atlanta district. St. Louis, Minneapolis, Kansas City, and Dallas note some weakness in construction generally. But there are numerous bright spots. The demand for New York City office space has been good in recent weeks, and upstate New York builders are busy. Homebuilders in the Philadelphia district have a backlog of sales commitments. And residential construction is still quite healthy in several western states, including California, Hawaii, Nevada, Oregon, and Washington. Also, southern California has an abundance of real estate buyers from foreign countries, especially Japan.

### Mining

Strength is apparent in the mining sector. Mining operations in the Minneapolis district are generally active, particularly the four gold mines which are running at capacity. U. S. copper has become more competitive in world markets, stimulating output in Montana. Increases in rig counts are noted by all districts reporting on petroleum drilling, including Minneapolis, Kansas City, and Dallas. Analysts in Texas, however, believe that drilling activity has nearly completed its shift upward, as long as oil prices stay in their present range.

### Agriculture

Reports from the agricultural sector are generally quite strong. Crops and harvest conditions have been good in most parts of the nation, with only the Richmond district reporting weakness. There "corn yields are running

20 to 40 percent below normal and even less in areas severely affected by drought." Nationally, livestock farms are generally profitable due to favorable price structures. Both Minneapolis and Kansas City note that farm financial problems have eased somewhat and that ranchers are using recent profits to pay down loans.

### Tightening Markets

Demand is outstripping supply in some markets. There is continued and even increasing mention of tightness in specific labor markets, including reports from Boston, Richmond, Minneapolis, and San Francisco. Retail and service industries are generally the most affected, and several districts note recent wage increases in those sectors. Rising prices are noted for some raw materials and imported inputs, and several districts mention higher prices for imported apparel. Cleveland, Chicago, and Dallas note price hikes and even spot shortages for certain types of steel. Both the Boston and Philadelphia districts observe that most manufacturers are, so far, holding the line on their own prices. However, nearly half the manufacturers queried in a Philadelphia district survey indicate that they plan to raise prices during the next six months.

FIRST DISTRICT - BOSTON

Economic activity appears to be picking up in the First District. Retailers are quite upbeat about their recent sales results. Most of those contacted show double-digit percentage increases in September compared to a year earlier. However, the tight labor market in New England is creating cost pressures for retailers as wages rise and hiring difficulties cause delays. In manufacturing, most respondents have also experienced recent gains in orders and sales. Despite rising costs for some raw materials and imported inputs, most manufacturers are holding the line on their own sales prices. Manufacturers and retailers are both moderately optimistic about the remainder of the year and 1988. Many foresee continuing cost pressures but no real upsurge in inflation.

Retail

Sales in comparable stores posted increases over the year ranging from 0 to 22 percent, with all but one contact reporting increases of 10 percent or more. Sales growth was quite widespread across product lines, with seasonal items and heavily promoted products showing better than average gains. The one chain showing no growth, a building materials supplier, had budgeted accordingly since new construction has leveled off in the limited geographic area it serves, after booming for four years.

Inventories are generally in line with plans, mostly higher than last year to support increased sales. One chain reported selected inventories below plan because of difficulties obtaining consumer

electronics merchandise from "over-cautious" manufacturers who were stung by slow sales in the spring.

Hiring difficulties are an important source of concern among First District retailers. High-quality applicants to fill all job categories are in short supply despite wage increases. Some convenience stores have intermittently curtailed hours for lack of help, and some chains have had to postpone opening new stores because of hiring delays.

Sales for the remainder of 1987 are expected to continue as they have during the year to date, including a "good but not outstanding" Christmas selling season. Next year's sales are expected to be 5 to 10 percent ahead of 1987.

#### Manufacturing

Most First District manufacturers report a recent pick-up in orders. Respondents representing the machinery, fabricated metals and instruments industries cite gains ranging from 10 to 25 percent or more above their 1986 levels; however, some of these increases reflect defense and other large contracts that have been under negotiation for a long time. At many firms sales are also up 10 to 15 percent above 1986 figures. Medical and electronic testing instruments and fabricated metal products and plastics for the auto industry are especially buoyant, while textiles and other consumer and housing-related goods show little strength. Exports have played only a minor role in these increases. Respondents say that their major exports are too specialized to be very price-sensitive and that foreign producers have too much excess capacity to buy many U.S. capital goods right now.

Manufacturers' sales prices generally remain stable in the First District. Contacts mention that foreign competitors have raised prices far less than exchange rate changes would suggest; thus, despite rising costs for raw materials (such as pulp, paper, copper and chemical feedstocks for plastics) and for imports from their off-shore affiliates, most respondents are holding their own prices steady. Textile prices have even eroded slightly. Respondents also cite price resistance from the U.S. auto industry and the U.S. Department of Defense.

The employment report is mixed although the situation is muddled by some major restructurings and the first reported strike in many months. Declining employment - at about one-third of the firms - generally reflects restructuring efforts. Hiring is occurring at another third of the companies, primarily those producing tools, parts and other materials for the aerospace and auto industries.

Capital spending is generally running at or above last year's levels. By contrast with the recent past, when almost all capital spending was devoted to raising productivity, four firms indicate that some expenditures reflect expansions, including five new plants (two in New England).

First District manufacturers anticipate ending the year with good increases in sales and profits. In 1988 they expect sales to "chug along" at or slightly above the pace of GNP. Only one was concerned about a resurgence of inflation. Several believe raw materials prices will continue to rise faster than their own, however.

## SECOND DISTRICT--NEW YORK

In general, the Second District economy registered some improvement since the last report. The latest purchasing managers' surveys showed a sizable increase in firms reporting better business conditions, and retailers experienced satisfactory sales in recent weeks. Office leasing activity was also good, but the residential construction market remains mixed. On the financial side, most small and mid-sized banks have raised their lending rates in response to prime rate increases at money center banks.

Consumer Spending

In part reflecting the lateness of Labor Day this year, sales at District department stores registered stronger over-the-year gains in September than in August. Promotionals and back-to-school buying which typically occur in late August were postponed to early September this year. However, the remainder of September was also relatively strong. Our respondents reported year-to-year gains of 11 to 13 percent in September, up from a range of 2 to 8 percent in August. September sales were generally above plan whereas August sales at some stores were on or slightly below target.

Items in strong demand during recent weeks were most kinds of apparel, accessories, and home furnishings. One retailer, however, noted a weakness in women's apparel throughout his chain, possibly reflecting disenchantment with some of the more extreme new fashions. Inventories were reported from 4 percent below to 4 percent above plan, levels which respondents found tolerable.

### Business Activity

The improved tone in the District's economy continued in recent weeks. The latest purchasing managers' surveys from Buffalo and Rochester showed a sizable increase in the percentage of firms reporting an improvement in general business conditions. Inventories were also somewhat higher, but the level was not burdensome.

Plans were announced for several major new projects in the District. These include a proposal for a new residential community of some 1200 condominiums on a waterfront site in New Jersey where an auto assembly plant was formerly located and a project in Brooklyn to build 2500 middle-income apartments along the waterfront together with a public park, promenade, and space for light industrial use. On Long Island work is scheduled to begin in November on a 362-room hotel, resort, and conference center, the first phase of a \$150 million mixed-use development which will also include town houses and an office building. In addition, the lifting of a 7-month building ban elsewhere on Long Island is expected to result in the construction of several residential and commercial projects that have been on hold.

Unemployment rates in the District showed little change in September when both New York and New Jersey posted rates of 4.5%. New York City's unemployment rate also fell to 4.5%, its lowest level in 17 years. While unemployment rates have dropped substantially throughout the District in recent years, analysts in some labor markets such as Buffalo view the decline with caution. They attribute much of the improvement to substantial outmigration and the substitution of low-paying service jobs for the high-paying manufacturing positions which once were prevalent.

### Construction and Real Estate

The pattern of District residential construction activity was again mixed in recent weeks. Builders in upstate communities remain quite busy, and starts in

some of these areas are expected to equal last year's high levels. In the downstate and New Jersey markets, however, builders continued to experience a slowdown and little traffic from potential buyers. High prices resulting from a shortage of suitable land are cited as the major deterrent. The high cost of new homes is reportedly stimulating a boom in the remodeling and expansion of existing homes. In the District as a whole 1987 starts are expected to trail the year-earlier pace. Observers were generally reluctant to speculate about the longer term outlook.

The demand for office space in the District during recent weeks was generally good. A large number of modest-sized leaseings strengthened Manhattan's midtown market while the downtown market was bolstered by steady demand and the withdrawal of a large block of space for subleasing. In their continuing battle to induce firms not to relocate, New York City officials were recently heartened by a survey showing that manufacturing firms more than doubled the amount of office space which they leased in Manhattan during the first half of this year compared with a year earlier. City officials are particularly concerned by the abundance of new, less expensive quarters across the Hudson River in New Jersey, fearing that a decline in New Jersey's high vacancy rates will come at the City's expense.

#### Financial Developments

Most small and mid-sized banks in the Second District have raised their lending rates in response to the recent increases in the prime rate charged by money center banks. Despite the rise in interest rates, demand for commercial loans remains strong, according to senior officers who cited the robust regional economy as responsible for the steady demand for business loans. On the retail side, demand for consumer installment and home mortgage loans also has not been dampened by rising rates. However, one conspicuously weak segment of the market is the demand for bank auto loans. Respondents stated that the generous promotional offers by the auto finance companies have drastically reduced the market for bank auto loans.

## THIRD DISTRICT - PHILADELPHIA

Business conditions, overall, are improving modestly in the Third District in October. Manufacturing continues to expand, maintaining the trend that began in the second quarter. Industrial employment has been moving up in recent months and the October increase, as reported in the Third District survey, represents a new high for the current expansion. The retail and financial sectors also show improvement, although slowdown in their growth is evident. Retailers say sales in early September met planned year-over-year increases of 5-10 percent, although growth has eased somewhat since then. Third District bankers report increases in most categories of lending, but say only real estate loan demand is heavy. The volume of business and personal loans, while still moving up, is not advancing as strongly as in the first half of the year.

Views of the future are mixed, but mostly positive. Manufacturers generally expect growth to continue at its current pace, but they plan only small increases in capital spending and no changes in employment levels. Retailers believe sales this fall will be slightly ahead of last year, but concern is growing that Christmas sales may show little improvement over 1986. Bankers expect real estate loan demand to remain strong through next spring, and they believe business lending will grow moderately if interest rates stabilize, but they say consumer loan volume will only edge up in the months ahead.

MANUFACTURING

Industrial activity in the region is continuing the upward trend that began last spring, according to the latest Business Outlook Survey. Thirty-five percent of the area manufacturers participating in the October survey report an increased rate of production compared to last month, while only 3 percent

indicate their business is slower; 60 percent are operating at a steady pace. Conditions are similar in the durable and nondurable goods sectors.

All measures of manufacturing activity indicate growth this month. New orders and shipments are increasing, order backlogs are rising fractionally, and inventories are being trimmed. Employment indicators are giving their highest readings since the early months of the current business expansion. Although most survey respondents report steady payrolls and working hours, 23 percent are adding workers and 30 percent are increasing hours.

Industrial prices in the area continue to drift upward, with half of the October survey respondents noting higher input costs compared to last month, none reporting lower costs, and about half indicating no change. For their own products, 80 percent are holding the line, and 20 percent are raising prices.

Looking ahead, area manufacturers have mostly positive views. Forty-one percent foresee continued growth during the next six months, 44 percent anticipate steady business, and only 12 percent expect a slowdown. On balance, survey respondents forecast further gains in new orders and shipments, but they expect order backlogs to decline somewhat. Local firms project virtually no change in employment or working hours during the next two quarters, although they plan modest increases in capital spending. On the price front, 72 percent of the survey participants expect to pay more for purchased goods over the next six months, and nearly half plan to hike charges for their own products.

#### RETAIL

Third District retailers generally report that sales were good during the early September back-to-school shopping period, with most stores meeting their sales targets. However, some store officials noted that gains slackened in the latter half of the month. Year-over-year increases for September as a whole averaged 5-10 percent, in dollar terms. Upscale stores are experiencing better

sales growth than other outlets, a trend that has characterized Third District retailing for much of the year.

Merchants contacted in early October think sales for the rest of the fall will probably run about 10 percent higher than last year. However, some believe that the colder than normal weather in early October will boost sales of fall clothing, possibly driving total sales above expectations. Although most retailers say it is too soon to forecast the Christmas shopping season, one store executive reports that current opinion in the industry is that the year-over-year gain will be slight.

#### FINANCE

Most categories of lending at major Third District banks are growing, but the rate of increase is slackening, continuing a trend to slower growth that set in at the beginning of the year. Local bankers say commercial and industrial loan volume is increasing moderately and that home equity lending is expanding, although the volume of other types of consumer credit is virtually flat. Only real estate lending is increasing at a strong, steady rate.

Commercial bank credit officers believe current trends in loan demand will continue for at least another quarter. While growth in commercial and industrial loan demand is slowing, bankers say good business conditions in the region should sustain volume in this credit category. However, lending officers say business loan demand will drop substantially if rates move much higher. Bankers do not believe consumers will add significantly to present indebtedness unless economic growth accelerates. They say real estate lending should grow strongly through next spring because home builders in the region have a backlog of sales commitments for new houses yet to be built.

## FOURTH DISTRICT - CLEVELAND

Summary

The Fourth District's economy has picked up since the last report. Employment has increased in nearly every sector, pushing area unemployment rates to their lowest levels during the current expansion. The manufacturing sector appears to be heating up; new orders and backlog orders continue to rise, inventories are lower, and overall capacity is reportedly above 80 percent. The increase in production has put upward pressure on commodity and service prices and has left some commodities, including steel and paper products, in short supply. Weekly earnings of factory workers have also increased, but much of this is due to overtime pay.

Retail Sales

Retail sales continue to fall below expectations. Sales of household durables have been sluggish, partly because of the slowdown in housing construction. Area merchants report that higher-than-expected import prices of many apparel lines during the past few months have dampened sales in soft goods. Both domestic and foreign automobile sales in the area are flat despite recent incentive programs. Some dealers report that the recent incentive programs have helped to clear out remaining 1987 models, but many dealers feel that last year's incentive programs have drained the local demand for autos.

Labor Markets

Unemployment rates in the Fourth District continue to edge downward. In Ohio, the unemployment rate fell to 7.0 percent in August from 7.1 percent in July as the number of unemployed workers declined by 8,000 and employment increased in nearly every division. Similar declines in unemployment rates were experienced in western Pennsylvania and eastern Kentucky. The Pittsburgh area's unemployment rate fell below 7.0 percent after hovering around 8.0 percent for most of the year. The decline was due principally to a combination of recalls of laid-off manufacturing workers and industrial growth in nonmanufacturing sectors. The Lexington area, bolstered by a protracted building boom, once again registered one of the lowest unemployment rates in the District at 4.4 percent in August.

Factory employment rebounded slightly in August in many parts of the District. Manufacturing employment in Ohio was up 11,000 from July, signaling the first solid gains in the state's manufacturing employment since February. Most of the increase came in the durable-goods industries. For instance, the Youngstown-Warren area, which over the last year lost 4,000 manufacturing jobs, saw a healthy increase of 2,000 factory workers, as a substantial number of transportation equipment workers were recalled.

Employment prospects for the fourth quarter are generally favorable throughout the District. Employment gains in wholesale and retail are expected to exceed those of other industries. However, both durable and nondurable manufacturers appear much more positive about hiring additional workers than in comparable periods of the past two years.

Average weekly earnings also increased in August primarily due to an increase in the workweek. In Ohio and Pittsburgh, the average workweek lengthened by one-half hour to 42.5 hours.

### Manufacturing

The Ohio Manufacturing Index rose in August by a seasonally adjusted rate of 1.4 percent. All major sectors registered monthly gains, except for clay and glass products. Primary metals showed the largest increase (3.2%), with instruments (2.2%) and nonelectrical machinery (1.8%) close behind. August marks the third straight month that the index has increased, after falling throughout the first half of 1987.

The Purchasing Managers survey supports this outlook by reporting an increase in production and new orders. In addition, a backlog of orders and a reduction in inventories has put upward pressure on commodity prices. The Cincinnati survey reports that increases in commodity prices are the highest since the survey began in 1982. Purchasers in the area report problems with late deliveries and a shortage of some paper and steel products. A similar, though less dramatic, situation is reported for Northeast Ohio.

Steel shipments from Ohio's mills increased by less than 1 percent in August over July, compared with a 2.3 percent increase nationwide. However, shipments in the Pittsburgh area increased 15 percent between July and September as USX continued to increase output after its six-month work stoppage.

Banking

District loan demand has improved in recent weeks. Total loans outstanding at large banks rose at an annual pace of 8 percent from mid-August to the end of September. The recent pickup in lending has been broadbased, with real estate loans and business and consumer installment loans increasing at an annual rate of 7 percent and 14 percent. Home-equity lending also continues to rise.

## FIFTH DISTRICT-RICHMOND

Overview

Growth remains the predominant trend in the Fifth District. Manufacturing is leading the way, but retail sales continue to edge upward and loan demand is strong. Labor markets have tightened further in some areas, and an increased number of reports of rising wages attests to labor shortages. Agriculture faces lower fall yields due to the summer drought, but late rains have helped some crops. Although commercial construction remains strong, residential construction has weakened.

Consumer Spending

According to our regular survey of retailers, total retail sales in the District during the last ten business days in September were lifted slightly by higher sales at department stores, where business had been poor earlier in the month. Sales of big ticket items were mostly unchanged. Retail inventories showed little change except at department stores where they were reported to be higher and were expected to rise further in the next six months.

As compared with respondents to our previous survey, more retailers this month reported they had job openings that they were unable to fill, and well over half indicated that they had raised wages in the last month. While they remain optimistic that their sales will increase in the next six months, most retailers do not plan to increase employment.

Manufacturing and Mining

Our October survey of manufacturers indicates that activity in this sector continued to grow through September. Respondents reported increases in

shipments, new orders, unfilled orders, employment, and the workweek. Inventories of materials rose slightly while inventories of finished goods fell. Over half of the respondents indicated that raw materials prices had risen from the month before, while almost one-fourth reported higher prices received for finished products.

Manufacturers look for increases over the remainder of the year in all measures of their activity except employment and the workweek. It appears that the slower expected growth in employment is due primarily to tight labor markets. In our survey this month, more respondents than in our previous survey indicated they had unfilled job openings for skilled and unskilled labor, and 39 percent reported they had raised wages recently.

The nondurable goods sector showed a slightly stronger performance than the durable goods sector. Within the nondurable sector, textile and apparel respondents reported capacity utilization rates averaging 94 percent. Further increases in shipments and new orders are expected in these industries in the next six months.

In the mining sector, last month's data on coal production and comments by our directors indicated that electric utilities in the District were stockpiling coal, possibly in anticipation of a labor dispute involving coal miners early next year. Coal production rose in late September, and coal stocks at utilities also rose in recent weeks.

### Agriculture

Crop harvesting in the District is generally progressing at the same pace as last fall, although some areas report lower than normal activity. Corn yields are running 20 to 40 percent below normal and even less in areas severely affected by drought. Late crops show improvement due to September

rains. Some recent strength in grain prices was noted by directors, but crop prices remain weak by historical standards. Livestock prices are generally strong, but recent dips in poultry prices have decreased producer margins.

A good crab catch and strong prices helped Chesapeake Bay watermen this summer, but a parasite in oyster beds threatens to cut this year's oyster harvest in half. This reduction is likely to place severe financial stress on watermen and on small shucking houses.

#### Tourism

A telephone survey of hotels and motels in District resort areas indicated more empty rooms this summer than last. Fall bookings are running ahead of last year and the majority of respondents expect stronger activity this fall.

#### Finance

A special survey of our banking directors and advisors showed rising demand for commercial and industrial loans, home equity lines and home mortgages. Respondents expect demand to strengthen further in the next six months. They also noted that the use of consumer credit cards remains strong.

#### Construction

Several District building contractors were contacted by telephone. They indicated firm demand for new nonresidential construction but weakening demand for residential construction. Stable regional growth was the reason most often cited for the strength in commercial construction, and rising interest rates was the reason most often cited for the weakness in the residential market. Contractors were cautious about the outlook for the next several months. In general they expect little change from current activity.

## SIXTH DISTRICT - ATLANTA

Employment continues to expand in the District. The oil and chemical industries are increasing output and adding workers. Retail sales are mixed, with consumer durables and autos showing some weakness. Housing construction has slowed, although commercial construction shows some strength. Exports are increasing; the weaker dollar is in part responsible.

Employment and Industry. Most labor market indicators suggest continuing healthy employment growth. The region's unemployment rate has ranged between 6.5 and 6.9 percent since April. Employment continues to improve in the energy-producing regions, with Louisiana's unemployment rate having fallen 4 percentage points since the first of the year to 10.4 percent.

Demand for drilling machinery has strengthened, expanding employment rolls. The chemical industry is posting rapid productivity growth and high capacity utilization rates as a result of efficiency measures and strong product demand. The pulp and kraft components of the paper industry also continue to benefit from the drop in the value of the dollar. The weakening of the dollar has helped to curb tire imports to the point where some domestic producers have been able to raise prices. Prospects are bright for the region's aluminum producers, and prices are strengthening as a result of strong demand. Recent government contracts are helping aerospace firms in the region. Electronic components continues to benefit from defense spending and a resurgence in computer sales.

Consumer Spending. Retailers throughout the District report strong sales during the month of September. However, sales of appliances remain lackluster in spite of heavy promotions. Prices on foreign apparel are increasing, but foreign electronics producers are holding the line on them. Domestic car sales in the District have been disappointing in the last month of the model year. New vehicle registrations through July continued to reflect the sluggish car market, particularly for domestic autos.

Registrations in the Southeast rose 2 percent, with the rise accounted for by light trucks and vans. By July, imported cars accounted for 38 percent of sales, up from 31.7 percent a year earlier.

Construction. August home prices increased 8 percent over the same period last year. Experts say the uptick has been the biggest leap in home prices in the past decade. New starts, however, continue to decline throughout the District. Housing starts seem to have bottomed out in Louisiana, and sales of existing homes had the best second quarter performance since 1981. Apartment, condominium, and retirement construction remains firm in Florida, the only state in the District to show no decline in multifamily permits.

Commercial construction markets are mixed. The value, square footage, and number of commercial projects in the Southeast increased in August over year-ago figures and are now expanding at rates similar to the nation's. Office construction is strong in Nashville, central Florida, and metro Atlanta. Commercial construction slowed in Mississippi from year-ago levels, and commercial property values declined. After weakness in nonresidential construction earlier in the year, new highways, streets, and bridges helped boost each state's August total nonresidential construction figures over those of August 1986.

Financial Services. Total loans at large commercial banks have turned up following a first- and second-quarter decline. A large jump in real estate loans seems to be fueling the growth while consumer loans are close behind. Consumer loans have grown more slowly at large commercial banks because of competition from nonbank sources. Business loans have slowed as corporations turn to increased issuance of commercial paper.

Atlanta, Birmingham, Miami, and Nashville report improvements in mortgage collections. Consumer foreclosures are decreasing, although commercial foreclosures are increasing. Mobile, New Orleans, Jackson, and most of south Georgia report

increases in delinquency rates. Mississippi thrifts note that an increased number of bankruptcies are being filed.

Tourism. Tourism ranged from relatively flat to moderately increasing over last year. In Miami and Jacksonville, two festival malls that opened during the summer are exceeding expectations. Orlando is projecting a 17 percent increase in convention activity over last year, and its civic center expansion is expected to be completed late in 1988. Georgia, Tennessee, and Alabama have had moderate increases in tourist activity.

Port Activity. Except for New Orleans, total shipments from all District ports exceeded the nation's 6.8 percent gain for the 12 months ending in July 1987 over the previous 12 months. Georgia's exports of forest products, kaolin and manufactured goods are growing rapidly, and the state is becoming a major entry point for imported cars. In Miami, exports are growing faster than imports for the first time since early 1987 because of growing shipments to Latin America.

Mining. District coal production for the first three quarters of 1987 was approximately 8 percent less than during the same period in 1986. The cost of coal to electric utilities in the region has also fallen about 8 percent.

There are one-third more exploratory drilling rigs in operation in the District than a year ago, but this is still only 40 percent of the number operating in 1985. Crude oil production in the District continues a slow decline begun in early summer, reaching a level 6 percent below 1986 average daily production. There is considerable interest in the natural gas reserves at Mobile Bay because Florida's gas consumption is expected to increase 42 percent over the next decade.

Agriculture. Although drier weather has lowered crop yields, they remain above 1986 levels. Except for feed grains and rice, total crop output is up from last year. Reductions in acreage, higher yields, and stable or higher prices, are expected to improve net revenue substantially.

## SEVENTH DISTRICT--CHICAGO

Summary. Business activity continues to expand in the Seventh District, restrained by the slowdown in the auto industry. Chicago purchasing managers report vigorous growth in September, accompanied by further price increases, and are optimistic about the outlook for business activity over the next six months. Milwaukee purchasers see further strengthening, particularly in orders and backlogs, with some hedge buying thought to be taking place to beat rising raw materials prices. The impact of auto production cuts, in response to slow sales, has been particularly sharp in southeast Michigan, and further cutbacks are planned by year-end. Nonresidential construction has remained relatively strong in the District. Residential building in the District is also outpacing the nation. Demand for steel has shown the most broadly based strength since 1981. Consumer spending reports are mixed. The District's corn and soybean harvests are ahead of the usual pace. Pork production is expected to rise through 1988.

Motor Vehicles. The strike at Chrysler Canada, settled after 6 days, halted production at one District plant and reduced output at another for one to two weeks. However, agreements were reached on contracts at Ford in the U.S. and Canada and at GM in the U.S. with no interruption of output. Although third quarter sales incentives and production cuts brought car inventories down substantially, the restrained response of buyers to the incentives is a source of concern for the fourth quarter. Truck sales continue strong, but the District's share of U.S. truck assemblies is considerably smaller than its share of cars. In September, a southeast Michigan truck assembly plant eliminated its second shift, indefinitely laying off 2,000. Closings of two motor vehicle plants in southeast Michigan are planned by year-end. In contrast, a Japanese car assembly plant began production in September in that area. Two more assembly plants are being constructed in Illinois and Indiana. Heavy truck sales remain well above last year's pace, and also well above long-run replacement needs according to an industry analyst. Further small increases in sales of medium and heavy trucks are projected for 1988.

Nonresidential Construction. The pace of nonresidential construction continues relatively vigorous in the District. Contracts for nonresidential buildings, in square feet, were 10 percent above a year earlier in the District states during this year's first 8 months. Contracts for construction projects other than buildings, in dollars, were 15 percent higher. Construction activity continues at a high level in downtown Chicago. Additional large office buildings have recently been announced. Office construction has slowed in Chicago suburbs but remains at a high level, and light industrial building has picked up. Plans for auto parts plants have been announced for Illinois and Michigan to supply new Japanese assembly plants. Paving activity is expected to be strong in parts of the District this fall. Sections of the large construction project at O'Hare Airport are being pushed to completion.

Steel. The strength in steel demand is described as the most broadly based, in terms of product types, since 1981. Steel buyers and service centers reportedly are trying without success to add to stocks, reflecting demand for some types of steel near production capacity, and uneconomic mills not reopened or being renovated. Prices have been raised for most types of finished steel. Sharply higher prices for steel scrap reflect shortages at Chicago-area mills which have been buying scrap from other steel districts. Steel imports are expected to decline. Mills producing for the auto industry are booked to year-end and running behind schedule.

Other Manufacturing. Markets have improved considerably for abrasives and other "low-tech" products widely used in industry. Demand in the Midwest continues strong for paperboard. A box price increase went into effect in September with little resistance. Reflecting relatively good construction markets in the Midwest, cement shipments to District states have shown stronger gains from a year ago than the nation. Shipments of electrical equipment for installation in nonresidential buildings are expected to be strong in the fourth quarter. Export markets for large construction equipment remain restrained by the limited number of big projects around the world. A home appliance maker and a producer of ball bearings are shifting production out of the District to plants in other states with lower labor costs.

Residential Sales and Construction. Residential building permits in District states during the first 8 months of 1987 were about even with a year earlier, but have been below last year since April. Contacts reported an upturn in Chicago-area home buying and loan applications in August, prior to the September round of mortgage interest rate increases which appears to have pushed activity down again. The August rise was attributed to action by former "fence sitters" who had delayed buying and financing decisions following the spring upturn in mortgage interest rates. Mortgage interest rate volatility is viewed as more of a problem than somewhat higher but stable interest rates, because interest rate uncertainty causes would-be buyers and sellers to wait. Chicago-area mortgage interest rates have risen further over the past month, with 30-year fixed-rate loans commonly quoted at rates of 11% or higher. Sources also report an upturn in the number of Chicago-area mortgage bankers looking for jobs.

Consumer Spending. A large retail chain reports that sales in Illinois and Michigan remain fairly high, up from earlier this year. Iowa, which had been weak, continues to show improvement. Another large retailer located in the District indicated sizable sales gains from low year-ago levels, but not much strength in the seasonally adjusted trend in recent months. Gains from a year ago in apparel sales reflect in part the sharp rise in prices of imported clothing. Appliance sales were reported strong in September at this retailer, after showing less strength in July and August, but have tailed off in early October.

Agriculture. The fall harvest continues at a rapid pace in District states. Some 63 percent of the soybean acreage and 43 percent of the corn acreage had been harvested as of October 4, two to three times the normal progress for that date. Pork production, which turned above year-earlier levels in the third quarter, will likely record sizable gains throughout 1988. Hog numbers in the ten major producing states are up 9 percent from a year ago and producer intentions point to an 8 percent rise in farrowings over the next six months. Somewhat larger increases are reported for Iowa, but the gains for Illinois and Indiana are smaller than elsewhere.

## EIGHTH DISTRICT - ST. LOUIS

Summary

District economic activity has been uneven and generally weak. Despite a recent upturn in manufacturing, District employment has stagnated in recent months. Construction activity has declined as nonresidential building decreased. District lending activity slowed during the third quarter as consumer and commercial loan growth slackened. Agricultural conditions have been generally favorable for both crop and livestock producers.

Employment

The District unemployment rate dropped to 7.2 percent in August from 7.4 percent in July. The August jobless rate was below 7.0 percent in Missouri and Tennessee, but above 8.0 in Arkansas and Kentucky. District payroll employment was virtually unchanged between March and August, after growing at a 3.4 percent annual pace since the end of 1982. Employment in mining, construction, manufacturing and services has declined since the first quarter while growth in the remainder of the economy has been sluggish. Growth of services has been inhibited by a slowdown in health services.

Despite the decline since the first quarter, District manufacturing employment has picked up in the most recent months, growing at a 2.4 percent rate in the three months through August. The recent growth was due to the continued expansion of food processing and turnarounds in the electrical equipment and textile/apparel industries.

The number of transportation equipment jobs also increased as auto assembly workers returned from layoffs. Planned layoffs of auto workers in the St. Louis area in mid-October were postponed due to increased car sales. Regional production of shoes, concentrated in Missouri, has been growing steadily in recent months. The increase was attributed by some local analysts to the declining exchange value of the dollar.

### Construction

Although District residential construction has advanced slightly compared with a year earlier, recent evidence is not encouraging. The value of residential contracts fell 4.5 percent in the June-August period. Contacts anticipate continued declines in residential construction due to recent and expected future interest rate increases. Multi-family housing construction has exhibited particular weakness over the past year as well as over more recent periods. Multi-family permits issued in the June-August period were 63.7 percent lower than a year earlier.

The pace of District nonresidential building has slowed recently due to weakness in Arkansas and Kentucky. District nonresidential contracts expanded by only 2.4 percent in the three months through August following a 20.9 percent gain in the previous three-month period.

### Banking

Total loans outstanding at large weekly reporting District banks grew at a 2.8 percent annual rate for the third quarter. For the same period in 1986, total loans expanded at a 13.3 percent annual rate. A slowing in consumer and commercial lending contributed to the recent

quarter's slow growth. Consumer loans grew at a 9.1 percent rate during the quarter compared to 18.7 percent for the same period last year. Commercial lending in the District has also slackened, declining at a 2.4 percent annual rate. In particular, the St. Louis and Little Rock markets experienced notable declines in commercial lending during the third quarter. Real estate lending, however, picked up during the most recent period, rising at a 27.5 percent rate compared to a 19.3 percent rate for third quarter 1986.

#### Agriculture

The 1987 crop year has been generally favorable for District farmers. Harvests are far ahead of average due to early planting and ideal harvest conditions. Early harvested crops such as corn and cotton have recorded near-record yields due to favorable early summer conditions. Cotton prices have risen due to strong domestic and international demand. Yields of later crops such as soybeans have been reduced due to extremely dry conditions since mid-summer. The condition of pastures has also deteriorated for lack of rain.

Livestock producers have enjoyed a profitable year due to low feed costs and favorable meat prices. Beef prices remain high and prices for feeder cattle are the highest since 1979. Pork prices also remain high but are expected to fall because increased production is anticipated.

## NINTH DISTRICT - MINNEAPOLIS

Recent economic news from the Ninth District has been generally quite positive. In many areas, labor markets are actually tight. Consumer spending has been mainly favorable, although housing and construction, not surprisingly, have weakened. Among resource-related industries, mining has been exceptionally strong and oil drilling has even perked up a bit. And reports from the region's important ag sector are the most positive in some time.

Employment

District labor markets have remained exceptionally strong in recent months. In most states, unemployment rates (not seasonally adjusted) were lower in August than they were a month or year ago. In Montana, the preliminary unemployment rate was 5.8 percent, down from 6.8 percent in August 1986. In North Dakota, the unemployment rate was 3.8 percent, down from 4.1 percent in July and 5.2 percent in August 1986. In South Dakota, unemployment was also 3.8 percent, and nonfarm employment rose slightly over a year ago, reaching its highest August level on record. And in Michigan's Upper Peninsula, the July unemployment rate was 8.3 percent, its lowest since October 1979. Minnesota's labor markets proved an exception to the rule. In the Minneapolis-St. Paul metro area, the unemployment rate increased slightly in August, to 4 percent from 3.9 percent in July and 3.5 percent a year earlier; the Twin Cities' labor force and total employment also declined modestly in August. Labor market developments statewide were similar.

Consumer Spending

Reports on retail merchandise sales have generally been good, except for essentially flat sales in North Dakota. Throughout South Dakota, retail sales were up. In Montana, retail markets also showed signs of recent im-

provement, especially in the state's western part. One large Upper Midwest retail chain reports that back-to-school sales didn't meet its expectations, but the chain expects much better October sales and is optimistic about the fourth quarter. Another large retailer says September sales were quite good, with fall fashions moving well. For the most part, goods have been selling at regular prices, with few markdowns, and some price increases may be expected in the months ahead.

District sales of motor vehicles have been quite good. One domestic auto manufacturer indicates that September sales were good, even compared to an excellent August. The new 1988 vehicles have been selling well, and more equipment is being included as standard features on these models. Another domestic manufacturer reports that sales are strong, up slightly over the brisk business at this time last year. The manufacturer says consumers can expect about a 4 percent increase in car and light truck prices.

In general, reports on tourist spending have been favorable. In Montana, North Dakota, and western South Dakota, tourist traffic has been up slightly over last year's respectable levels. In the Upper Peninsula, observers say the weather has been perfect. Motel business there has been from 20 to 40 percent higher than last year's.

Although reports are mixed, recent developments in housing and construction run counter to the favorable conditions of most district sectors by showing considerable signs of weakness. In Montana, the housing market has been poor, and new construction there is virtually nonexistent, except in the Great Falls area. In Minnesota, August housing permits fell about 11 percent from a year ago, and in Minneapolis-St. Paul, August permits were down about 22 percent from last year. Multifamily permits have been hit most severely. In North Dakota, housing markets seem a bit stronger than elsewhere in the

district. There, sales have bottomed out and prices have firmed, although new construction is low in most of the state.

### Resource-Related Industries

The news is good in the district's resource-related industries. In North Dakota, 17 oil rigs are now drilling, and there is renewed interest in oil exploration in the Williston Basin. In Montana, 11 oil rigs are running with 14 total expected to be operating by year-end. Land-lease payments, an important source of extra income to some farmers and ranchers, have risen. Mining operations in the district are also picking up. In South Dakota, two gold mines are expanding output and hiring additional miners. In Montana, two other gold mines are running around the clock, seven days a week, and a third is beginning operations. Elsewhere in Montana, an aluminum plant at Columbia Falls is operating near capacity, and the Butte copper pit mine, closed for a number of years, is back in production and profitable.

### Agriculture

Reports from the district's agricultural sector are as strong as they've been in some time. Crops and harvest conditions look good to excellent throughout the district--from the trefoil crop in the Upper Peninsula to cherries in Montana. There have been some complaints about cash small grain prices and, as always, scattered problems with the weather and insects. But the general ag picture has surely improved and the tone of reports received has been upbeat. From Montana: "The small grain crop is excellent. Farmers' financial situation is improving." From North Dakota: "The harvest is going fast and well. Weather has cooperated." From South Dakota: "Farmers are no longer going out of business because of economic stress. Livestock producers are 'out of the hole' and are from 20 to 40 percent ahead of our projections."

## TENTH DISTRICT - KANSAS CITY

Overview. Economic activity in the Tenth District is mixed, with some sluggishness in retailing and housing, some improvement in agriculture and the energy sector, and some evidence of strength in the industrial sector. Retail sales have been flat in recent months, and are expected to continue so. Manufacturers' input prices are increasing significantly and some inventory accumulation is occurring. Limited improvement continues in oil exploration and development activity. Housing starts are flat and are expected to slow in the near future, developments that are paralleled in the demand for mortgage funds. Loan demand at commercial banks continues weak. Crop conditions and harvests are generally good, and farm loan paydowns are expected to be above normal in the fourth quarter.

Retail Sales. While district retailers generally report sales above year-ago levels, sales over the past three months have been mostly flat. Soft goods appear to be selling somewhat better than hard goods. Prices are reported as generally stable with this trend expected to continue into the near future. Inventories are considered to be at satisfactory levels with a few respondents trimming their inventories. Most retailers expect sales to show little growth in the near future.

Automobile Sales. Automobile dealers report that September sales were steady to slightly weaker compared with August and a year earlier. Inventories are expanding as dealers receive 1988 models. Overall, dealers are hopeful that sales will be stable or up slightly during the remainder of 1987.

Purchasing Agents. Purchasing agents report that prices have generally increased significantly over year-earlier levels. Most agents report increases in the past three months and all agents surveyed expect general price increases for the next three months. Most materials are readily

available, but some agents report longer lead times. Though inventory levels are satisfactory overall, some increases are being made in response to seasonal factors and general market conditions.

Energy. Although a strong rebound in the district's energy industry is not likely to occur soon, some significant improvement in exploration and development activity has been observed in recent weeks. The average weekly number of operating drilling rigs in the Tenth District increased from 311 in August to 351 in the first three weeks of September, 63 percent above the average weekly level recorded in September 1986. Nevertheless, the rig count in the district remains less than one-fourth its 1982 peak.

Housing Activity and Finance. District homebuilders report that housing starts are at or below last year's levels and are generally down from a month ago. Single-family home construction remains flat while multi-family unit construction has decreased. Looking ahead, homebuilders expect housing starts to slow further. Most homebuilders report that new home sales are down and inventories are steady. Builders report that materials prices remain generally unchanged or lower due to competition among suppliers and they expect no problems with material availability, delivery, or price increases.

Deposit growth at Tenth District savings institutions is reported down from a year ago, although respondents believe that aggressive rate increases could attract deposits. Any changes in deposit growth would depend on different pricing. Demand for mortgage funds has fallen sharply and is expected to be sluggish during the remainder of 1987. Mortgage rates, which have risen substantially, are generally expected to increase slightly during the rest of 1987.

Banking. Respondents at Tenth District banks report total loan demand as either down slightly or unchanged during the month. Demand weakened for

consumer, commercial and industrial, and residential real estate loans. Respondents reporting reduced demand for commercial real estate loans were about balanced by respondents reporting increased demand for these loans. Demand for agricultural loans held steady. Most respondents report having raised prime rates and expect to increase them further in the coming months. Responses concerning recent changes in consumer loan rates were split evenly between no change and slight increases. Most respondents expect to make no change in consumer loan rates in the coming months. Balances in all types of deposit accounts except large CD's generally remained constant, while a number of respondents report growth in large CD's.

Agriculture. The fall harvest and winter wheat seeding are progressing well across most of the Tenth District. The corn and soybean harvests are nearing completion in the southern parts of the district with a few exceptions. Good conditions have prevailed in the northern areas of the district as the harvests reach the half-way mark. Corn and soybean yields appear to be close to normal or a little above normal. The milo harvest is also under way, and excellent yields are expected. Winter wheat seeding is almost complete in district states. Good moisture and warm weather have prevailed throughout most of the district and good stands of wheat are appearing.

Bankers expect farm loan paydowns in the fourth quarter to be above normal. Strong crop yield prospects contribute to this expectation, but the increased paydown levels are primarily attributed to livestock producers. Increased profits and fears that livestock prices may soon weaken have encouraged ranchers to pay down debt. In addition, continued high feeder cattle prices have discouraged operators from buying replacement cattle.

## ELEVENTH DISTRICT--DALLAS

The District economy continues to grow very slowly. The manufacturing sector is rebounding. Drilling continues to recover, but some analysts believe the end of growth is in sight. Although new construction activity has fallen slightly, it remains above its trough of the end of last year. Retail sales are sluggish and auto sales have declined. Deteriorating conditions predominate at the District's financial institutions. The income outlook is favorable for District livestock and cotton producers.

Manufacturers indicate that, overall, demand for their products continues to improve. Orders to apparel producers have increased and output is up. Chemical manufacturers and refiners cite strong orders and they say that sales prospects for the coming months are favorable. Recent high demand for steel has led to shortages of some products and to rising prices. Producers of electrical and electronic equipment report that sales have been fairly stable in recent months and remain above year-earlier levels. Defense contractors say that output and prospects for new orders remain strong. Orders are unchanged overall in the energy-related durable goods industries and respondents expect no significant increases in demand for the remainder of this year. Some manufacturers of durable goods tied to the construction industry note that orders are stabilizing at very low levels, but others report continued declines.

The District drilling rig count continues to climb, but analysts believe that it has nearly completed its upward adjustment to oil prices in the \$19-20 per barrel range. The rig count rose in both August and

September but well permit applications and the seismic crew count, both of which are leading indicators of drilling activity, have remained nearly constant over the past few months.

Overall, new construction activity has fallen slightly in recent months, but remains above its trough of the end of last year. The monthly average value of total construction contracts was lower for July and August than for the second quarter, owing to reductions in both nonbuilding and residential contracts. The value of nonresidential contracts held fairly steady. The modest weakness in new nonbuilding construction is especially noteworthy because recent growth in total new construction had been focused in that category. The decline in new residential construction reflected substantial declines in both the single-family and multifamily sectors. Declines in construction employment have slowed in recent months.

Retailers report sluggish sales that, in real terms, are about unchanged from a year earlier. Respondents say that inventories are slightly above their desired levels and that they do not expect much sales growth in upcoming months.

Auto sales are showing renewed weakness. Dealers say that, after receiving a boost from interest rate incentive programs in August, sales fell in September and weakened further in the first week of October. Because the decline in sales was unexpectedly large, inventories are slightly above their desired levels. Demand for some foreign autos has fallen because of price increases linked to the diminished value of the dollar. All respondents expect sluggish sales in the foreseeable future.

The District's financial institutions continue to show weakness in the wake of the regional economic downturn. In August, deposits at a

sample of all District financial institutions fell 0.9 percent below a year earlier. This decline occurred despite continued, but slowing, growth in deposits at thrifts. The delinquency rate on mortgage loans at the Texas thrifts rose in July to 24.4 percent, compared with a 16.8 percent rate in December and 12.8 percent in September 1986. Regulatory net worth at these institutions fell further into the red, hitting negative \$3.25 billion in July compared with a positive value of \$289 million last December. At the District's large commercial banks, deposits, total liabilities, and loans all continue to decline. In August, total deposits at the District's commercial banks fell 2.7 percent below their year-earlier level.

In District agriculture, prices paid to crop and livestock farmers are up substantially over a year earlier. Earnings are particularly high for District livestock producers because of increases in beef prices and declines in feed costs. Although the number of Texas cattle and calf operations has dropped by 4 percent since 1985, producers who have remained in business are receiving feeder cattle prices almost 29 percent higher than a year earlier. The increases in feeder cattle prices, although favorable to the cow-calf operations that predominate in the District, have cut profit margins for cattle feeders. Last June, Texas High Plains cotton farmers replanted their fields after earlier plantings were damaged by hail and heavy rains. A warm September was required to protect this late crop and favorable weather did materialize. Further warm weather is needed in order to ensure full maturation of the cotton crop.

## TWELFTH DISTRICT — SAN FRANCISCO

Summary

Economic conditions in the West generally continue to be positive. Growth in some sectors and regions is creating shortages of some types of labor, and putting upward pressure on wages. Manufacturing, agriculture, and forest products are seeing further improvements in their competitiveness on world markets. Construction activity continues to vary widely across regions, with the coastal states generally strong. The rate of growth in loan demand has declined considerably during the past year, so many financial institutions are attempting to increase their loan portfolios rather than sell assets.

Consumer Spending

The market for automobiles currently is weak. Purchases of new mid-priced cars reportedly are weakening, and used cars are expected to claim a greater share of the market next year.

In some regions, trade and service firms are experiencing difficulty recruiting qualified workers, which in some cases is creating upward pressure on wages and salaries. Among unskilled workers, the new immigration law and possible increases in state minimum wages also may push wages up. In the Seattle area, employment service professionals report that it is an "applicant's market", with many job openings but high quality workers increasingly difficult to find. Workers either are staying with their current jobs, or are requiring more money to be induced to move. In contrast, wage pressures appear to be absent for the most part in Arizona, Utah, and eastern Washington, while Oregon's general economic health appears to have had little effect on wages thus far.

## Manufacturing

The dollar's decline, together with campaigns in some Asian countries to "buy American" in order to ease the threat of trade restrictions, has opened up significant opportunities for makers of computers, semiconductors and aircraft. Manufacturers of commodities such as chemicals and paper were affected first, but gains now are spreading to a whole range of light manufactured products, including medical equipment and industrial valves. Export-financing companies in California reportedly are being inundated with requests from trading companies in Hong Kong and Singapore, which just recently have begun seeking US products to sell in various Asian countries.

One respondent notes that his paint manufacturing company is turning increasingly to domestic suppliers for titanium dioxide, a raw material supplied both domestically and abroad. The price of this material, which is a key ingredient of paper and plastics as well as of paint and coatings, has increased substantially due to the dollar's slide.

In Utah, a previously closed steel plant has been reopened, largely because its new owner has contracted with a large German firm, which reportedly will purchase about 40 percent of the tonnage the mill produces during the next five years.

Throughout the District, reports indicate that manufacturing industries have adequate labor available at current wages, contrasting in some regions with labor market conditions in trade and the services. In California, despite a substantial pickup in orders, computer, electronics, and semiconductor firms only now are beginning to increase hiring. Aerospace firms, anticipating a slowdown in future defense orders, also are maintaining relatively cautious hiring policies unless they have major contract deadlines to meet. Nevertheless, pressure probably is building for larger wage increases in a number of sectors, including a potential increase for apparel workers due to the new immigration law.

### Agriculture and Resource Related Industries

Western forest products companies have seen dramatic improvements in exports during the past year. Volumes generally are greater than they were last year, and prices have increased as well. An Oregon respondent reports that the volume of lumber exported rose 20 percent, to well over a billion board-feet, between the first half of 1986 and the first half of 1987. Log exports rose 13 percent to 1.7 billion board-feet. During the same period, the value of exports of logs, lumber, and plywood rose by \$1.73 million, a 24 percent increase. One Alaska timber company's exports decreased from 114 million board-feet to 102 million, but the value of that timber posted a dramatic 75 percent increase.

Conditions also have improved for other agriculture and resource products. Cotton exports, for example, are up sharply from last year. Moreover, the weakened dollar has made domestically produced copper more competitive, lowering copper imports and improving US competitiveness in western Europe and Asia.

### Construction and Real Estate

Construction activity continues to be mixed in the Twelfth District. Geographical differences are reflected in sharp differences in construction labor market conditions. For example, in California, Hawaii, Nevada, Oregon, and Washington, where overall construction activity is healthy, construction employment grew by 5 to 10 percent during the past year. In contrast, construction employment has declined by close to ten percent during the past year in Alaska, Arizona, and Utah.

In southern California, demand for real estate continues strong, due in part to an abundance of foreign buyers, particularly from Japan.

### Financial Sector

Loan demand in many parts of the District currently is slow, leading many banks to seek additional assets rather than sell loans on the secondary market. A Seattle banker reports that installment loan volumes are increasing at a 3 or 4 percent pace

compared to 1986, whereas last year at this time they were growing at about a 13 percent rate. Likewise, commercial loan volume at the same bank is off about 3 percent (year-to-date through August) compared with last year. A Kern County banker reports that the demand for both consumer and business credit has been slack. Banks in Idaho and southern Oregon also report slow asset growth, with most institutions attempting to add to their loan portfolios.