

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS  
BY FEDERAL RESERVE DISTRICTS

March 1990

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## SUMMARY\*

Summary. Most Federal Reserve Districts describe economic activity as expanding slowly. Consumer spending varies from moderate to strong, except for auto sales which have slowed after a January rebound. The manufacturing sector is soft, but is improving in some Districts. The weakness in autos and auto-related industries, however, is widespread. Construction activity continues to slow in most Districts, but Chicago and San Francisco still are reporting relatively strong activity. Agricultural conditions are generally good, although several Districts cite serious concern over the lack of soil moisture. Banks have become less aggressive in making new loans, and demand for most types of loans has softened.

Consumer Spending. Retail sales have continued to improve in recent months. Most Districts indicate that retail sales gains in February were above a year ago, led by women's apparel and electronics. Cleveland and San Francisco note that retailers are reporting better-than-expected sales gains. However, retail sales in New England are weak, partly due to consumers turning cautious. Sales of "big ticket" items in Richmond are flat and demand for durable goods in Atlanta is weak. Most Districts report that retailers have inventories under control, although Chicago and Cleveland report downward pressure on prices as retailers attempt to cut excess inventories.

A slowdown in auto sales since January's rebound is widespread. However, dealers' inventories are in better shape, with several Districts reporting stocks to be at or below year-ago levels. Philadelphia and Chicago note that dealers are cautious about new orders because of slow sales. Minneapolis notes that some dealers are having financial problems and some consolidation may take place in 1990. Kansas City, Cleveland, and Dallas report that weak sales are associated with tightening credit availability. Reasons cited for the credit tightening range from tighter credit standards to personal credit history problems left over from earlier depressed times.

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\*Prepared at the Federal Reserve Bank of Chicago and based on information obtained before March 6, 1990. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Manufacturing. Manufacturing activity is mixed, with Boston, Philadelphia, and St. Louis reporting manufacturing declines and most other Districts reporting moderate improvement. New York indicates that purchasing agent surveys indicate rising new orders and production. Capital goods producers in Cleveland and Chicago report a slow upward trend in orders. San Francisco's commercial aircraft industry is showing no sign of slowing and aircraft-related equipment producers in Boston are facing rising demand. Both Chicago and San Francisco report strong sales of farm machinery. However, Boston cites weakness in computers, auto parts, and paper. St. Louis and Philadelphia report weakness in employment and orders, particularly among durable goods industries.

Only the weakness in the auto industry appears to be widespread. Atlanta notes that plant closings and layoffs in the auto industry are hurting suppliers, but no further weakening is expected. Auto output has already begun to revive in the Cleveland District, however, and most plants are expected to be running in the Chicago District by March.

Construction and Real Estate. Construction activity is slowing in most Districts. New York reports that their "boom" in residential construction has subsided throughout the District, due to higher prices, lack of good land, and an easing of pent-up demand. Most observers are not anticipating a pickup in 1990. Commercial building has slowed in Atlanta because of overbuilding and slow employment growth. Construction activity is flat in Minneapolis and not expected to improve in the near future. Although San Francisco reports nonresidential construction around its District is mixed, overall construction activity is strongest in Chicago and San Francisco. Homebuilding in St. Louis has been rising, due partly to favorable weather conditions. Kansas City notes that mortgage loan demand is weak and is not expected to improve.

Agriculture and Natural Resources. Improved economic conditions in the agricultural sector continue to buoy farm incomes. Richmond, St. Louis, and Kansas City report that the yields on the winter wheat crop are expected to range from near normal to above normal. Freeze damage to fruits and vegetables caused some problems in the Atlanta and Dallas Districts, with

prices of some produce rising to their highest levels since 1984. While most produce prices are expected to decline over the year, Atlanta notes that citrus prices are likely to remain high all year. Chicago and Minneapolis cite high livestock and dairy prices as bolstering farm income. Kansas City notes that farm income for livestock producers is doing better than for cash grain farmers. However, concerns were expressed throughout the farm belt that moisture levels in the soil are low, despite recent precipitation. Minneapolis notes some concern that below-normal precipitation could bring another drought to the Upper Midwest.

Other resource-related industries are generally very strong. Minneapolis states that mining is one of the strongest sectors of the Upper Midwest economy, with iron and precious metal mines expanding capacity. Forest product industries are strong, with most plants running at capacity and many expanding capacity. However, forest product firms in San Francisco have been scaling back output as logging restrictions take effect. Oil and gas drilling in the Southwest is up sharply, although drilling activity is expected to moderate. Kansas City cites a seasonal decline in exploration and development of oil and gas in January, but that decline is coming off six consecutive months of increase.

Financial Markets. Most Districts report that financial institutions are either less willing to extend credit or actually tightening credit terms. Atlanta particularly notes tightening of credit standards for real estate loans. Richmond cites a decline in the supply of real estate loans. Retailers in Boston and Philadelphia state that not only are sales being constrained, but retailers themselves are having difficulty ordering because of tighter credit availability.

Loan demand also appears to be softening. Richmond and Kansas City report that demand for commercial and industrial loans has softened recently. Except for home equity loans, growth in consumer loan demand has weakened in Atlanta. New York notes that a widespread decline in interest rates has had no effect on loan demand, which is currently lower than a year ago. Loan volume in Philadelphia was up in early February from a year ago, but was slipping in mid-February.

## FIRST DISTRICT-BOSTON

Contacts in the First District report that economic conditions continue to be mixed. Half of the manufacturers contacted are experiencing increases in shipments and orders compared with early 1989, while the other half face declines. Retailers report sales below expectations but sense a more stable business climate. Several contacts suggested that recent newspaper reports focusing on difficulties in the region's construction, real estate, and banking industries have led to exaggerated impressions of New England's economic slowdown.

Retail

A panel of First District retailers report February sales as generally weak and below planned levels. They attribute part of the recent weakness to weekend snowstorms and part to continuing consumer caution. But the heavily promotional climate of the recent holiday season has apparently eased in much of the industry. The respondents see business conditions as stabilizing, and their mood is brighter now than it was in January.

Respondents say inventories are generally in line. Some have excess stocks while at least one plans to increase inventory levels. A few retailers report that creditors - banks, factors, and vendors - have become more hard-nosed; others have observed no change in credit conditions. In the area of fixed investment, most retailers say they have scaled back their plans. Some firms are nevertheless adding new stores; and several

large malls, in various stages of completion, are moving forward.

Nonetheless, the reduced buoyancy of the regional economy and slowing cash flows have made the industry cautious and conservative.

Retail contacts see regional economic conditions, and thus their own business, continuing to stabilize over the next few months. They expect this stabilization to lead to an upturn in consumer confidence.

### Manufacturing

According to First District manufacturing contacts, demand conditions vary considerably across industries and products. Half of the respondents indicate that shipments and orders are above last year's levels - by as much as 25 percent in one case. For the remainder, sales and orders are down - from marginally to 12 percent. (Although the number of contacts where sales are growing about equals the number reporting declines, those facing soft demand tend to be the larger firms.) Demand for instruments, auto parts, paper and computer-related goods is weak. Niche or new products and aircraft-related equipment face stronger demand. Overseas markets continue stronger than domestic but are growing more slowly than they were a year or so ago.

Inventories are generally described as satisfactory. However, one-third of the respondents expressed some concern about inventory levels if shipments continue below expectation.

Most First District respondents expressed relief that materials prices are flat or declining slightly. Two firms mentioned recent increases in copper and petrochemical prices, however. In the case of their own selling prices, contacts are reportedly tailoring their pricing

strategies to fit specific markets. Almost one-half of the firms are offering discounts in those markets where competition is particularly stiff; however, an equal number reported price increases.

Employment levels are reportedly flat to down for most respondents. Several firms have made or plan substantial layoffs. By contrast, two manufacturers have recently increased employment, but their gains are small compared with the layoffs reported elsewhere.

One-third of the respondents plan capital expenditures 15 to 50 percent below 1989 levels; however, an equal number expect to increase capital spending - in some cases, quite significantly. Investment goals include retooling for new products, expansions and a few new facilities.

Manufacturers were divided in their assessment of the future. Almost half of the manufacturing contacts expect faster growth in 1990 than occurred in 1989 (with anticipated sales gains ranging up to 12 percent and profitability improving even more). The balance foresee sluggish growth at best. Members of this more pessimistic group describe themselves as "sober" and anticipate a "rough" couple of years for themselves and their industries. Several respondents (from among both optimists and pessimists) suggested that the state of the regional economy "feels worse than it really is" and that the "doom and gloom talk" is exaggerated.

## SECOND DISTRICT--NEW YORK

Developments continued to be mixed in the Second District in recent weeks. January retail sales results varied widely and conditions in the District's commercial real estate market were mixed. Residential construction slowed throughout the District in 1989 and most observers do not anticipate much of a pickup in 1990. However, January surveys of purchasing managers in Buffalo and Rochester showed an improvement in general business conditions and District unemployment rates fell below the national average. Following the lead of major banks, small and medium-sized banks in the District dropped their prime lending rate in January.

Consumer Spending

The pattern of retail sales varied widely in the District during January. Over-the-year changes ranged from -7% to +22% and from "decidedly below" to "very much above plan." The Campeau bankruptcy was cited as a factor explaining the divergent results. Consumer uncertainty about the future of the Campeau stores and the reluctance of some suppliers to ship merchandise to them may have led to a shift in sales elsewhere. With an increasing number of manufacturers resuming shipments and growing consumer perception that the Campeau stores will remain open, respondents anticipate a less varied pattern of sales results in the months ahead.

Apparel and sportswear remained best-sellers during January and household items were also popular at some stores. However, big ticket items moved slowly, particularly at stores whose viability and ability to provide service were in question. In general, District department store contacts reported inventories to be on or below target.

Residential Construction and Real Estate

Residential construction slowed throughout the District in 1989 and most observers do not anticipate much of a pickup in 1990. While homebuilding activity was

considerably more brisk in areas such as Buffalo and Syracuse than in the New York metropolitan region, the "boom" has apparently subsided everywhere. Factors most commonly cited are the continuing high prices of existing homes on the market, a lack of reasonably priced, developable land, and the satisfaction of much pentup demand. The need for "affordable" housing remains strong, however, and a number of communities are grappling with the problem in part because it is seen as a deterrent to future business development.

Conditions in the commercial real estate market have recently been mixed. Office leasing activity was quite strong in midtown Manhattan and, in Stamford, Connecticut overall leasing activity surpassed the addition to the market of new or existing space for the first time in several years. In Westchester County a sharp cutback in new construction is credited for the probable bottoming out of office rental rates and an expected decline in vacancy rates. However, the office market is described as soft in some other parts of the District such as Buffalo and downtown Manhattan, where financial firms have been retrenching, and in northern New Jersey as well. While a slowdown in new office building is expected to stabilize or lower vacancy rates in some of these areas, many observers expect Manhattan's rates to rise because of the large number of buildings nearing completion and ongoing downsizing at brokerage firms.

#### Other Business Activity

January surveys of purchasing managers in Buffalo and Rochester showed an improvement in general business conditions, new orders and production. None of the Rochester managers reported a worsening of conditions and in Buffalo, the percentage reporting a decline in orders fell to 7 percent from 42 percent in December. A sizable majority in both surveys noted stable input prices. With regard to the outlook, 90 percent of Rochester respondents expect 1990 to equal or surpass business conditions in 1989 and 82 percent foresee capital expenditures either equal to or greater than investment in 1989.

District unemployment rates continued moving erratically in January as New York's rate fell .8 percentage point to 4.7 percent while New Jersey's rate rose .9 percentage point to 4.6 percent. As was true nationally, New York's rate declined slightly from a year earlier, but New Jersey's rate rose. Recent developments in the brokerage industry could result in an increase in District unemployment levels in the months ahead. The unexpected liquidation of Drexel Burnham and the employment cutbacks recently announced by Shearson Lehman and Merrill Lynch could entail the layoff of about 10,000 and some observers anticipate additional restructuring in the industry. In addition, Fisher-Price will close a toy factory in upstate New York, and G.E. Aerospace announced plans to lay off 5600 workers at its east coast plants.

Fiscal problems are now plaguing all three states in the District as tax revenues fall increasingly short of projections. New Jersey expects a \$550 million deficit in the current fiscal year while New York faces a \$1 billion deficit in the year ending March 31 and sizable deficits over the next few years.

#### Financial Developments

Following the lead of major banks, small and medium-sized banks in the Second District dropped their prime lending rate by one-half percentage point in January. The majority of the surveyed banks reported a general decrease in lending rates across the board. Almost all bankers noted that other business loan rates have fallen since they are usually tied to the prime. Most mortgage rates also dropped, reflecting the tying of many adjustable rate mortgages to the prime. Rates on consumer loans, however, were generally steady. Nearly all of the bankers noted that the change in the prime had no effect on general loan demand. Loan demand today is lower than a year ago and many bankers spoke of a particular weakness in the real estate market. One banker stated that demand for primary mortgages was especially slow. Most bankers see no basic improvement in this situation unless a significant decline in interest rates occurs.

### THIRD DISTRICT - PHILADELPHIA

Indications from business contacts in the Third District in February were that economic activity was virtually flat, overall. The manufacturing sector continued on a downward path in February, with the orders picture even dimmer than in the past few months. Retailers reported only marginal year-over-year gains in dollar sales, while auto dealers said a healthy rate of sales early in the year was beginning to fade. Bankers noted a falloff in loan growth due to slackening demand and caution in extending commitments, especially for buyouts and real estate lending.

The consensus in the Third District business community is that current conditions are likely to persist through most of the year. Negative opinions about future business activity edge out positive views among manufacturers, prompting plans to trim employment and capital spending. Retailers do not expect consumer demand to regain vigor, and they are being cautious in ordering merchandise. Bankers foresee only a slight advance in lending, at best.

#### MANUFACTURING

Manufacturing activity in the Third District continued to decline in February, and indications from companies contacted during the month were that the downturn, which began last spring, was steepening. Within a generally soft manufacturing sector, conditions in durable goods industries are somewhat weaker than in nondurables.

Most measures of industrial activity indicated a slowing pace of business in February. While shipments were edging up slightly, the rate of gain slipped

from the pace set in the previous three months, and new orders, which had held up through the fall, were declining. Delivery times reported by industrial firms continued to grow shorter, reflecting the softening order situation. Despite the drop in orders, surveyed firms generally reported they were working down inventories. And, although the overall picture was dim, employment measures have shown little change; while area firms were trimming hours somewhat, overall, payrolls were being held steady. Industrial prices in the region show some signs of stabilizing; a majority of the companies contacted noted steady prices for the goods they purchase as well as for the products they make.

Looking ahead, pessimistic opinions about business conditions over the next six months slightly outnumber positive forecasts among Third District manufacturers, although, in the aggregate, managers at area plants expect both new orders and shipments to run at steady rates over the period. But the slower pace of business observed since the beginning of the new year apparently is affecting production plans, as local firms indicate they expect to pare back employment and working hours and make some cuts in capital spending.

#### RETAIL

Third District retailers surveyed in late February generally indicated that sales for the month were only marginally above the February 1989 level, in current dollar terms. While no line of goods stood out as selling particularly well or poorly, some merchants said that women's spring apparel was selling better than expected for this early in the year.

Most retail contacts in the Third District expect sales for the rest of the year, in current dollars, just to inch above last year's level. Most are being very cautious in ordering merchandise. Orders by retailers are also being

restrained by credit conditions, as factors financing inventories for some local stores have cut back on the amount of funds they are willing to advance.

Third District auto dealers generally posted sales in early February above the year-ago level, but sales after mid-month slipped to a level just even with the 1989 rate for the same period. Although some import dealers expect sales to continue to be healthy, most dealers, both of domestic models and of imports, expect further declines this year. Area dealers have cut back on orders to manufacturers and they consider their current inventories, at around one and one-half month's supply of cars, to be satisfactory.

#### FINANCE

Total loan volume at major Third District banks in early February was approximately 15 percent above the year-ago level but bankers contacted late in the month said growth has slipped from that rate. A combination of slackening demand and tighter credit standards has reduced growth in nearly all categories of lending. Commercial and industrial loan volume has been virtually flat in recent weeks, according to bankers, and commitments for leveraged buyout and capital investment financing have dropped sharply. Most Third District banks also have curtailed lending for real estate acquisition, development, and construction. Consumer lending growth has been below bankers' expectations, and bankers describe personal loan demand as weak, except for home equity credit.

Looking ahead, bankers do not expect lending activity to pick up significantly. In the absence of more vigorous economic growth, they expect virtually flat commercial loan demand and only slight gains in consumer lending. Real estate lending will remain restricted. In line with this scenario, banks are not aggressively seeking deposits.

## FOURTH DISTRICT - CLEVELAND

Respondents in the Fourth District expect a slightly improved pace of overall economic activity this quarter from last. They expect some let-up in food and energy prices, but a 4 percent underlying inflation rate is expected to persist, at least for the next several quarters. The worst of the slowdown in manufacturing activity is believed to have passed. Interest rates are still expected to ease over the next few months, but not as much as was thought a few weeks ago.

The Economy. Most respondents describe the economy as being sluggish or in a growth recession, but they expect a gradual strengthening in output over the next few quarters. Despite mixed signals about the economy, the respondents generally have not changed their outlook for 1990 and do not believe that prospects for a recession have increased. They believe that some of the special factors that accounted for the weakness in overall output in recent months, especially auto output cutbacks and the Boeing strike, are already providing some impetus to the economy.

Prices. Respondents believe that the latest surge in food and energy prices has about run its course. They see encouraging signs in the latest easing in crude oil and gasoline prices. The spike in those prices is judged to be temporary, originating from a convergence of special factors involving

supplies. Declines in spot prices for crude oil, fuel oil, and gasoline are taken as evidence of rapidly improving supplies that will probably lead to further declines in crude oil prices over the next several weeks.

The latest spurt in food prices was partly in response to the freeze last December. Produce, milk, and processed fruit and vegetable prices are easing. Some other prices, however, including cereals, some dairy products, and coffee, all rose much more than expected last quarter, and have been sticky on the downside. If those prices ease more, overall food prices could increase in a 4 percent to 4 1/2 percent range this year, similar to recent years, according to an industry source.

Despite the expected easing in food and energy prices, the prevailing view is that inflation will hold at about a 4 percent rate over the next several quarters.

Consumer Spending. Retailers are becoming more optimistic because sales in February were somewhat better than they expected. Sales are on an improving trend instead of being flat, according to one retailer. They assert that retail prices have been flat to moderately higher in recent months, and are likely to remain under downward pressure as some retailers cut higher-than-desired inventories.

Manufacturing. Most respondents believe that the worst of the slowdown in manufacturing output has passed and that a slight decline in production this quarter will be followed by a slight pickup next quarter. Production in February is generally believed to have rebounded from the January decline. Automotive output revived, and most traditional capital goods industries are

still on a slowly rising trend that is offsetting softening in some high-tech industries, especially office computers and communications equipment.

Purchasing managers in Cleveland and Cincinnati report higher output and production for the second consecutive month in February, and commodity prices in the Cincinnati area firmed for the first time in the last eight months.

Some of the cautiously optimistic tone about manufacturing stems from the auto industry. New car inventories have been brought down substantially since year-end 1989 and should be in a normal range by the end of March. Production in February and March is expected to rise to about a 6 million to 6.5 million unit annual rate from the 4.1 million rate in January. Dealers in the Fourth District expect to step up orders for second quarter delivery because of their improving inventory condition. Big Three auto dealers attribute the better sales level of this quarter than last to the incentive programs.

Although they report that captive finance companies have been tightening credit standards in response to the high percentage of loan defaults last year, they believe commercial banks are still making credit readily available for both consumers and dealers.

Steel producers continue to operate at about 80% of capacity. Production is expected to increase next quarter because of rising seasonal demands, some pickup in the auto industry, and less inventory liquidation by steel warehouses. Spot prices are described as weak, and prices in export markets are so depressed that some domestic producers have decided to withdraw from that market.

Profit margins in manufacturing have been deteriorating, especially in the auto and related industries and in computer and office machinery industries, and are characterized by some as recession margins. The erosion, however, doesn't necessarily imply a retrenchment in capital spending. A steel producer reported that modernization plans are still on schedule, and a capital goods producer pointed out that cash flow is a key to investment.

Financial Developments. Economists contacted still expect some easing in interest rates as market fears about inflation lessen and the economy continues on a slow growth path. Some economists, however, expect that interest rates may not recede as much as they previously thought because of rising interest rates abroad. Some banks and thrift institutions in this District report that their lending policies have been tightening. Nonperforming loans in this region rose last year but were still well below the national average. A thrift institution observed that new regulations that affect lending to any single builder probably are not constraining new construction because there appears to be ample funds available to credit-worthy builders.

## FIFTH DISTRICT-RICHMOND

Overview

District economic activity was mixed in February as it was in January. Sales of most retail goods rose, but not sales of new cars. Tourism was lackluster. The manufacturing sector rebounded somewhat after its January decline although furniture production remained depressed. Exports increased at District ports and imports were mixed. The demand for business loans was down and lenders were more cautious about making real estate loans. The agricultural sector survived a cold snap with little damage to crops.

Consumer Spending

Retail sales of general merchandise rose in mid-February as compared with earlier in the month according to our regular mail survey; however, department stores reported that sales of big ticket items were flat. Most retailers expect sales to continue rising over the next six months.

According to our telephone survey of automobile dealers and dealer associations, sales of new cars in February were below January and year-ago levels. Despite widespread manufacturer and dealer discounts, demand was depressed for all new models, foreign and domestic. Although new car sales were weak, nearly all car dealers said their inventories were now at comfortable levels. Some dealers said that sales of used cars were brisk.

Our telephone survey of hotels, motels, and resorts indicated that tourist activity this winter was about even with last winter's. Poor skiing conditions in some parts of the District were offset by good golf weather. Tourist areas throughout the District expect their business to be better than usual in coming months.

## Manufacturing

Our regular mail survey of manufacturers, which registered declines in virtually all measures of manufacturing activity in January, indicated increases in shipments and new orders in February. Unfilled orders, employment, and the length of the workweek, however, were unchanged. Prices for raw materials rose at the same moderate pace reported in January. Inventories of materials and finished goods were largely unchanged.

In contrast to overall manufacturing activity, furniture output weakened further in February according to most of our respondents. Many plants shortened their workweeks, and at least two companies announced plant closings.

District manufacturers, including furniture producers, remain optimistic about prospects for growth in their businesses and in the nation during the next six months. Respondents who look for increases in shipments, new orders, unfilled orders, employment, and the workweek outnumbered those who expect decreases. About 60 percent expect their exports to increase in 1990 compared to the half who reported increases in 1989. Most of the producers believe national economic activity will expand or remain close to its current level over the next six months.

## Ports

Representatives of the three major District ports--Hampton Roads (Norfolk), Charleston, and Baltimore--indicated that export activity was higher in February than in January while import activity was mixed. Imports increased at Charleston, decreased at Baltimore, and remained unchanged at Hampton Roads. All three ports expect the volume of exports to increase more than the volume of imports over the next six months.

### Financial

The demand for commercial loans softened further in recent weeks according to executives of District financial institutions. A few respondents noted increases in the pace of business bankruptcies. Some indicated that certain retailers, such as automobile and boat dealers, faced financial difficulties.

Several business and financial executives called attention to the reduced supply of real estate loans. They said that pension funds and insurance companies had become more cautious in their lending for land development. They also said that many banks and thrifts had reduced or were seeking to reduce their real estate loan portfolios in order to increase other types of loans and investments and their capital. According to these executives, some of this increased caution in real estate lending is warranted in light of overbuilding in many urban areas, but some viable development projects cannot proceed because of a lack of financing.

### Agriculture

A recent cold snap, which ended almost two months of unseasonably warm weather, caused little damage to District crops. Apple trees lost some blooms, but not enough to reduce production. Peach trees were almost fully in bloom and suffered some damage in northern parts of the District, but most orchards are located farther south and escaped the brunt of the cold. Some damage also occurred to blueberry and ornamental crops. Winter wheat growth has been far ahead of normal and suffered no damage from the cold.

## SIXTH DISTRICT - ATLANTA

Overview: Contacts continue to report generally slow growth throughout the Southeast, with little change reported in comparison to the last report. They report weakness in some raw materials prices and wage increases similar to the current inflation rate. Manufacturers indicate no further weakening except in the auto related industries. Retailers report some gains in sales relative to last year, although demand for durables remains weak. Contacts in the construction sector continue to cite overbuilding in most markets. Exploration for natural gas in the Gulf is reported to be increasing. District lenders and borrowers are reporting a tightening of credit standards for real estate.

Wages and Prices: A number of industrial contacts have indicated that the prices of some raw materials have been falling recently. One said that aluminum and copper prices have been dropping, in contrast to the tight markets seen last year. Several pulp and paper producers have commented that the prices of input chemicals have remained unchanged or have been weakening. A producer of polyester fibers notes that slowing carpet demand has recently resulted in falling prices for synthetic fiber.

Most employers reported that wages have been rising at roughly the rate of inflation. A few shortages of skilled workers were mentioned. A builder in the Jacksonville area said that skilled construction workers were in short supply. Several contractors and oil-rig operators in Louisiana also continue to report shortages of skilled workers.

Most retailers said they were having no trouble with deliveries from their suppliers. Several added that their suppliers had been giving them a better selection of products at lower prices.

Manufacturing and Employment: Several automobile plants in the Southeast are laying off workers or closing completely. A number of contacts noted that the slowdown in auto production is also hurting suppliers. Several producers of parts and tires have closed or are laying off workers in Alabama and Tennessee. A fabricator of aluminum auto parts says that the demand from domestic auto producers has softened recently.

Textile and apparel producers report no further weakening from last month, while paper producers report that business is up somewhat compared to a year ago. One contact revealed that his backlog of orders currently is up 30 percent over the same period last year. Another reports continued strong shipments of boxes and linerboard. Two producers in Mississippi noted that their firms have recently modernized and increased efficiency. One felt that the improvements would help their competitiveness overseas.

Retail Sales: Retailers in the District are generally reporting small increases in the inflation-adjusted value of sales in February compared to a year ago. Although they felt that sales in January and February were encouraging, they remain uncertain about the rest of the year. Several contacts noted that women's apparel and electronic products were selling well. A few retailers said, however, that sales of consumer durables, particularly furniture, continue to be below year-ago levels, and they do not expect much improvement soon.

Several auto dealers explained that the uptick in sales in January was unexpected and that sales in February were again weak. Most dealers said they do not expect much improvement for the rest of 1990. Almost all dealers indicated that excess inventories have been successfully worked down and now stand at levels lower than last year at this time.

Real Estate and Construction: Contacts continue to report a slow commercial construction market. They cite previous overbuilding and slower employment growth as reasons for weakness. Several developers have noted that while the demand for

speculative buildings is down, the demand for owner-occupied or signature type buildings and public buildings is still quite strong.

Residential construction was strong in January, but several builders said that this was due to unseasonably warm weather and are expecting declines in new starts and building permits. Many contacts are reporting that desired reductions in inventories of residential units are just beginning, particularly in Tennessee and Louisiana. They do not expect construction to pick up much until 1991.

The disposition of the RTC's residential assets was frequently mentioned as adding to uncertainty in real estate markets. Several developers stated that it is now more difficult to get bank financing, and they expect that new capital requirements and limits on how much a particular savings and loan can lend to a developer will keep the supply of loans tight. They added, however, that most of the tightness in lending has so far been the result of overbuilt markets rather than of the savings and loan problem.

Financial Services: Several bankers noted that overall growth in consumer loans has weakened in the past several months, although home equity loans are still increasing. A few bankers asserted that consumers appear to be paying off some of their outstanding debt. Other bankers added that problem real estate loans have caused a tightening of real estate credit standards. Problems associated with real estate loans are expected to persist in 1990 but at a level somewhat lower than in 1989. Several contacts in Louisiana expect a pickup in commercial and residential lending, although they will be starting from a very low level of activity.

Agriculture and Natural Resources: Agricultural contacts are reporting that the post-freeze vegetable crops in Florida are doing well and that prices may be back to normal by mid-March or early April. They expect prices of citrus products to remain high throughout the year.

Oil drilling continues to expand slowly. Domestic producers are reporting that they are shifting their exploration budgets more towards natural gas.

## SEVENTH DISTRICT--CHICAGO

Overview. Economic activity in the Seventh District is slow but improving, according to District respondents, with much of the softness coming from the auto industry. Retailers report that sales volume is strong, enough to suggest that the economy is not currently in a recessionary environment. However, production in the auto industry continues to be weak, with auto dealers reluctant to increase orders. Steel orders have risen, however, as the auto industry gears up to reopen plants that were temporarily closed to reduce auto stocks. Capital-goods producers report that orders are beginning to improve. District construction and real estate activity continues to outpace the nation. Movements in agricultural prices are mixed, but improvements in farm land values have slowed.

Consumer Spending. Retail sales have continued to improve since the beginning of the year, although District sales were lagging the nation in early February. A major mass merchandiser in the District reports that January sales of durable goods, in current dollars, were 3 percent above a year ago. Traffic counts in stores were above year-ago counts for the first time in eight months. Total company sales in the District were up substantially in the first week of February, but lagged sales nationwide. An economist in the retail industry expects that the dip in housing starts is now over and improvements over the next few months will begin to strengthen sales of housing-related goods. Several retailers report that inventories are high, in part because imported goods were ordered early in 1989 in order to be available for the Christmas season. As a result, buying from manufacturers is constrained and price discounting continues to be widespread. However, one retailer stated that the resolution of the Campeau Corporation's financial situation eased some of the price competitiveness among retailers.

On the production side, shipments of appliances have been below year-ago levels, but producers' inventories are in good shape. A producer of a wide range of household appliances reports that shipments were down 3 percent in the first six weeks of 1990, compared to a year ago. An industry analyst expects shipments to rise in the second quarter of 1990 and to continue rising gradually throughout the year.

Motor Vehicles. Auto production continues to be the major drag on the District economy. Car sales dropped in February from the brisk pace in January, according to an industry analyst, but stocks (measured in days supply) were at near normal levels for February. Some producers are reluctant to reopen plants until dealer orders improve. One industry economist reported that dealers are overly cautious in ordering, fearing a repeat of the overstocking that occurred in the fourth quarter of 1989. Sales during the second quarter of 1990 may be constrained because dealers will not be adequately stocked for the spring season. A shortage of minivans next quarter is also a possibility, but production can be expanded quickly if necessary, according to one producer. Plant closings were extended in February on some mid-sized cars, but most plants in the District are expected to be running in March.

Steel. Steel production was weak in December, but demand since January has been improving across a broad base. Inventories were being pulled down at the end of last year, because steel prices were falling and producers holding steel inventories wanted to avoid paper losses. However, shipments to durable-goods manufacturers have begun to edge up in recent months after reaching a bottom in November, according to a steel analyst. Coated sheet steel is reportedly in short supply. Orders are "flooding in" from auto producers and orders from appliance producers are also rising. Also, orders for steel used for oil and gas drilling and for pipelines were reported to be improving. Service centers report that business is good, with order volume up so far this year.

Capital Goods. Capital-goods producers in the District generally report some improvement in orders through February. Orders for heavy trucks have troughed and are now moving up, according to a supplier of components to the industry. Orders of metal-cutting tools, however, are down 10-15 percent from a year ago. Also, light industrial equipment sales for homebuilding and construction, which declined 5 percent in 1989, were still on a downward trend in January, according to an industry analyst. Farm machinery sales are doing exceptionally well, with tractor sales up 15 percent last year and still improving. A producer of a wide range of industrial products reports a good volume of orders for all product lines, with no apparent fall

in market demand for their industrial products since the beginning of the year. Most of their plants are operating at near-capacity levels.

Construction and Real Estate. Construction activity started the year briskly, according to Chicago-area suppliers to the industry. Strength is across-the-board, with industrial construction doing well and commercial construction described as very strong. A large Chicago-area building materials supplier reports that shipments are up 7 percent since the beginning of the year and backlogs have been rising. A producer of gypsum board reports plants are running close to capacity, with shipments to both residential and nonresidential construction contractors outpacing the national average.

Housing activity in the Chicago area shows signs of reviving from last year's slump. Warm weather has been a contributing factor, but favorable mortgage rates are also cited as important. Mortgage applications are 10 percent higher than a year ago, according to a Chicago bank. Sales of existing homes in the first two months of 1990 are far ahead of last year's pace, according to a local realtor. Moreover, housing permits for new construction surged in January, suggesting continued improvement in housing activity over the next few months.

Agriculture. Recent strength in cattle and hog prices has buoyed returns to District livestock farmers. Milk prices, after surging to record highs in late 1989, are now declining seasonally. The decline may pull milk prices down to year-ago levels by spring if milk production turns up as expected. Corn and soybean prices remain well below year-earlier levels despite relatively tight grain supplies both domestically and worldwide. Recent precipitation patterns have eased, but not overcome, the low soil-moisture conditions in the western corn belt.

Our latest survey of agricultural bankers indicates that the uptrend in District farmland values slowed in the final quarter of 1989. On average, District farmland values rose less than 1 percent in the fourth quarter and about 6 percent during all of last year. Lower crop prices and concerns that the 1990 Farm Bill will scale down government farm program benefits have contributed apparently to the slower rise in land values.

EIGHTH DISTRICT - ST. LOUIS

Summary

The Eighth District economy is still expanding slowly. Health and business services are experiencing moderate growth while manufacturing, especially durables production, continues to contract. Agricultural real estate values are rising. Large District banks report that credit standards for commercial lending for certain loan types and customers have tightened somewhat.

Outlook

A recent survey of small businesses in the District indicates that little change is expected in overall economic conditions in the next few months. Most plan no substantial changes in workforce size or product prices. Although the majority of firms report inventories at satisfactory levels, more than a quarter of the retailers report excess inventories, twice as many as a year ago. Manufacturers generally were more pessimistic than other respondents. The number of manufacturers who said it was a good time to expand their operations fell sharply from a year ago, and substantially fewer manufacturers plan major investments in plant and equipment in the near future.

Labor Markets

Moderate job growth continues in medical and business services while retail and wholesale trade shows little change. Manufacturing employment continues to decline. Layoffs of auto workers caused St. Louis' unemployment rate to rise to its highest level in nearly two years. The building of a jet maintenance facility, which was to employ

800 Memphis workers, was postponed indefinitely. A survey of small businesses indicates the shortage of qualified workers for nonmanufacturing jobs has eased slightly over the past few quarters while the shortage of manufacturing workers, particularly skilled labor, has lessened substantially. Louisville and St. Louis businesses, however, report increasing difficulty in finding qualified workers.

#### Manufacturing

Plant closings and temporary layoffs, mostly in small plants, have accelerated in recent months according to contacts. Employment levels in plants making machinery, fabricated metals and textile and apparel have dropped recently. After inventories of its products rose steadily, a Missouri auto assembly plant laid off almost 2000 workers and will close indefinitely this fall, eliminating 4000 jobs. Louisville workers who assemble medium- and heavy-duty trucks were laid off for one week in early February. Later this year, however, production of a cargo truck will be shifted to Louisville from Brazil, stabilizing employment levels. A large producer of electrical components for consumer durables reports that orders have weakened in recent months and are expected to remain flat through 1990. Sluggish auto demand and slow growth in construction and consumer durable goods production have weakened steel sales, resulting in a softening of steel prices. An upturn in orders is anticipated by year's end, however.

#### Construction

Aided by mild weather, homebuilding has picked up recently. One Missouri contact notes, however, that some developers are receiving relatively low prices for their new homes. Contacts in Memphis anticipate a decline in apartment building following moderate growth last

year, but expect a substantial increase in single-family homebuilding. Western Kentucky is experiencing a stagnant market for higher-priced homes, but sales of moderate- and lower-priced houses are strong. Louisville homebuilders say building will be strong this year because housing construction has not kept pace with job growth.

#### Agriculture

Contacts report that District agricultural land values are rising, with faster appreciation in the District's northern states. Contacts estimate current agricultural land values are 2 percent to 10 percent higher than six months ago. Recent rains have brought topsoil moisture conditions to levels ranging from excessive in southern parts of the District to adequate in northern regions. Subsoil moisture levels, however, remain deficient over most of Missouri. The winter wheat crop is reported to be in good condition over most of the District.

#### Banking

Five of the District's largest banks indicate that their willingness to extend credit to new and existing commercial and industrial customers has not decreased during the past six months. Most respondents say credit standards for loans related to mergers and acquisitions, however, have tightened somewhat during the past six months. Standards for non-merger-related loans have not changed for investment-grade commercial and industrial customers but have tightened somewhat for below investment-grade customers. The banks' willingness to make construction and land acquisition and development loans has declined over the last six months. Real estate lending at the 11 largest District banks slowed considerably during the three months ending in February from its pace of one year ago.

## NINTH DISTRICT—MINNEAPOLIS

Ninth District conditions are moderately good, and the general tone here is one of cautious optimism. Labor markets are still tight but manageable. Wage and price increases remain moderate in most district markets. Spending on general merchandise has been fairly strong during the first two months of this year, but car sales and construction activity have been generally lackluster. Resource-related industries have been doing quite well generally. However, concern about a lack of moisture is widespread. Unless spring brings precipitation across the Upper Midwest, another serious drought is possible.

Employment, Wages, and Prices

Labor markets remain fairly tight through most of the district, as they have been for some time. The unemployment rate in Minnesota was 4.3 percent in January, down from 5 percent a year earlier. Between December 1989 and a year earlier, unemployment declined in Montana, North Dakota, and South Dakota, but it rose in Wisconsin and the Upper Peninsula of Michigan. The Minneapolis-St. Paul area has continued to feel some effects of cutbacks in the computer and electronics industries, and districtwide December 1989 employment in manufacturing was slightly below a year ago.

Wage and price increases remain moderate. Wage increases in the 3-5 percent range are reported in most district industries. However, sharp increases in health care costs are prevalent. In some recent settlements, these costs have almost entirely absorbed employee compensation gains. High gasoline costs are causing problems for some district truckers and loggers, but gas prices appear to have peaked in mid-1989; they have modestly declined since then. This Bank's directors note that capital equipment price hikes are running in the 3-6 percent range, except in the paper industry, where they are a bit higher. One director reports modest increases in material costs.

### Consumer Spending

Retailers report that recent sales levels have been "OK" to "moderately good." One large retailer notes that inventories are well under control and expectations for Easter shopping are bright. Regional centers within 100 miles of the northern U.S. border are benefiting from brisk sales to Canadian shoppers. New car sales are reported as soft in much of the district, with used cars moving considerably better. Some dealers have been struggling in recent months, and modest consolidation in the auto dealership industry is possible in 1990. Housing sales have been generally flat overall, but with considerable variation around the district. Weakness is noted in most of North Dakota and the Upper Peninsula of Michigan, but moderate strength is reported in western Wisconsin. In Minnesota's Twin Cities, unusually warm weather is cited as the reason January 1990 home sales exceeded those a year ago by about 20 percent. Tourist activity has varied widely around the district, depending on the amount of snow. An excellent early snowfall has helped ski resorts in western Montana, and the Upper Peninsula of Michigan is enjoying good snow cover; resorts there are generally busy. Most parts of western Wisconsin, however, have had limited snowfall, and tourism has suffered. In several district states, dogsled racing is attracting crowds and media attention.

### Construction

Construction activity in the Ninth District is generally flat, and industry respondents are not optimistic for the rest of 1990—particularly not for commercial real estate. Although less affected than some parts of the United States, the Twin Cities suffer from excess capacity, with still more coming on line this year. Minnesota contracts for new construction declined throughout the second half of last year and by December were about 40 percent below midyear levels. A notable exception to weakness in commercial construction is the Upper Peninsula of Michigan, which will benefit from pipeline construction and several large public projects.

Resource-Related Industries

Mining remains one of the strongest sectors of the Upper Midwest economy. This is true in the Upper Peninsula of Michigan, where iron mines are profitable and expanding capacity. It is also true in Montana, where precious metal mines are running at full capacity and expanding. The drilling rig count in Montana, however, is down to about five, which is low by virtually any standard. The district's forest product industries are generally strong, with fiberboard plants running at full capacity and paper plants making substantial capital investments to expand capacity. Increasingly, however, environmental concerns are affecting capital spending plans in some industries, including mining, logging, and paper.

The agricultural sector has one or two bright spots in the Ninth District. Dairy prices dropped sharply in February, but until then had been running at record highs. A director reports that Wisconsin dairy operators are investing in equipment improvement. Cattle ranchers in Montana have benefited from excellent prices, good grass, and generally benign weather conditions.

Still, there is great concern in much of the district about a lack of soil moisture. The effects, so far, have been limited. Winter wheat losses due to lack of snow cover have been less than feared, thanks to relatively mild weather. However, most areas report below-normal precipitation. Since most areas are still recovering from drought, groundwater levels are typically very low. In parts of Minnesota, shallow wells have gone dry, and the state has recently reconvened its task force on drought. Many district lakes are at extremely low levels, and fishing, which is a major summer tourist attraction, is likely to suffer.

In sum, most of the Ninth District needs water badly. If precipitation comes when farmers need it and the weather cooperates thereafter (which is what happened last year), the agricultural sector could still do quite well. However, the risk of significant drought problems in 1990 cannot be ignored.

## TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy is still growing modestly. Retail sales continue to improve, although new car sales remain sluggish in some district states. Manufacturing plants are operating below capacity, lessening pressures on materials input lead times and prices. While housing starts vary across the region, mortgage loan demand remains weak at district thrift institutions. At district commercial banks, loan demand is generally constant to down slightly. Agriculture continues to lend support to the district economy, especially through strength in incomes of livestock producers.

Retail Sales. District retailers report higher sales over a year earlier and steady to improving sales over the last three months. Demand is especially strong for apparel and housewares. Most retailers expect sales to improve further during the coming months. Prices generally have been fairly stable over the last three months and are expected to remain so or rise slightly in the next few months. Retailers are satisfied with their inventories and expect to keep them at current levels. New auto sales remain sluggish in some district states but have improved in others. Some dealers report tightening credit terms both for inventories and for potential buyers. Most dealers continue trimming inventories in expectation of flat to slightly lower sales in the coming months.

Manufacturing. Most purchasing agents report input prices only slightly higher than a year ago. Prices have increased on a few items in the last three months, but no major price changes are expected over the next three months. Materials inputs are readily available and lead times are generally unchanged. Most firms continue to try to trim their inventories. Plants are operating below capacity, with no reports of labor shortages.

Energy. After six consecutive months of increase, exploration and development for oil and gas in the district declined in January. The average number of active drilling rigs in the district decreased from 337 in December to 298 in January. This mostly-seasonal decline caused the district rig count to fall about 3 percent below its year ago level.

Housing Activity and Finance. Residential construction activity varies widely across the district, but recent increases are partly attributable to unseasonably mild weather. Most home builders expect housing starts to be flat or up slightly this year, with the behavior of mortgage rates the big question mark for the industry. Construction materials are readily available with few reports of price increases. Most district savings and loan respondents report that deposits remained unchanged or declined over the last month. In most cases, however, net deposit flows were more favorable than a year ago. Most respondents expect no change or a slight fall in deposits in the near term. Mortgage demand is weak at most institutions and is not expected to improve significantly. Mortgage rates have remained steady to slightly higher, and expectations for future mortgage rates are mixed.

Banking. District commercial banks report loan demand unchanged or down somewhat over the last month. Commercial and industrial loans, construction loans, and commercial real estate loans were weak. Demand for other types of loans was generally unchanged, except for a higher demand for mortgage loans at several banks. Most banks report loan-deposit ratios unchanged from last month, but higher than a year ago. Most banks also report unchanged prime and consumer lending rates, and do not expect to change these rates in the near term. Deposit behavior was mixed at responding banks, with about equal numbers reporting higher, lower, and unchanged levels of total deposits. Most

banks report increases in demand deposits, and decreases or no change in NOW accounts. MMDAs, small time deposits, and large CDs generally increased or remained unchanged, although several banks report declines in large CDs.

Agriculture. Recent rains have improved the condition of the district's winter wheat crop. Soil moisture reserves have been partially replenished, but more moisture will be needed soon to ensure development of the crop. Despite some early winter-kill damage in Oklahoma and wind damage in Wyoming, near-normal wheat yields are expected in most parts of the district.

Spring credit reviews reveal greater strength in farm incomes for livestock producers than for cash grain farmers. Dry growing conditions lowered dryland crop yields and increased irrigation costs for grain producers. Reduced yields, smaller government payments, and lower crop prices combined to lower cash-grain income. Low feed costs and high livestock prices, however, bolstered incomes for livestock producers. Ranchers have postponed herd rebuilding in favor of selling feeder cattle to feedlot operators at high prices. While dry weather has limited pasture development in parts of the district, cheap grain and mostly plentiful forage supplies have reduced feed costs for most cattle producers.

## ELEVENTH DISTRICT--DALLAS

The District economy is growing slowly but persistently. Manufacturing orders are up slightly. Retail sales growth is moderate to strong. Auto sales have begun a modest rebound. The service sector continues to expand. Despite slipping construction contract values, employment is growing in that industry. Oil and gas drilling activity posted strong year-over-year gains in February. Drought and freezing weather have caused problems in agriculture, but product prices are up markedly.

Manufacturing sales have shown slight growth on net, but a large number of respondents report little change in either direction. Oilfield equipment manufacturers say that stable, high oil prices have led to year-over-year growth in sales, but some respondents note that seasonal factors have softened domestic orders for now. Foreign demand is cited as very strong. Among primary metals producers, orders to iron and steel firms are steady while orders for aluminum have softened compared to last year's extremes, but remain high. In fabricated metals, demand has changed little overall, but sales in the District have picked up very slightly while those to northeastern firms have slackened. Lumber and wood products sales are also generally steady. Reports by stone clay and glass producers are very mixed, with strong growth for some Houston-area firms and more sluggish sales elsewhere. Demand for electronics-related products has lately showed little change overall, but manufacturers are almost uniformly optimistic about growth during the second half of 1990. Food products companies note overall expansion in sales, with strong recent upticks in fast-food-related sales that are suspected to be

weather-related. Apparel orders are generally increasing; some firms said that unexpectedly high rates of growth had led to undesirably low inventories. In San Antonio, however, a large apparel firm closed its plant and moved it to the Caribbean, leaving 1100 workers unemployed. Demand for chemical products has slipped somewhat, compared to a year earlier, but volume is still very high. Selling prices have softened. By contrast, sales of refined petroleum products are above a year earlier although they have slipped, after peaking during December's extreme cold wave.

Among retailers, sales growth ranges from moderate to strong, and several chain stores note that rates of expansion for the District are higher than for the nation. Some respondents cited heavy discounting, however. Sales expansion rates are particularly high in cities near the Mexican border, owing to the strength of the peso. Sales growth in the Dallas/Ft. Worth area was also strong, with more moderate expansion in Houston.

District auto dealers note that sales are higher than a year earlier, but they are holding inventories to low levels. Dealers say they are having difficulty getting credit for their customers. A Houston respondent noted that this is sometimes a particularly acute problem there, because of personal credit history problems left over from the oil-related economic weakness of 1982-86.

The District services sector continues to show expansion, but with a good deal of variance among individual sectors. The business services sector is showing particular strength. Some medical-service related firms note that the first quarter has been soft so far.

The recovery in District construction has begun to slow. Nonresidential contract values have declined steeply, chiefly because of a drop in new petrochemical plant construction. Residential contract values have also recently slipped. Respondents say they nevertheless expect growth this year in both single-family and multifamily activity, as a result of falling apartment vacancy rates and of pent-up demand for single-family homes.

Oil and gas drilling activity continues to rise. Although oil prices have slipped somewhat from the high levels of January, they remain well above a year ago. Drilling has picked up sharply. In late February, the rig count was 33 percent higher than a year earlier. Applications of the new horizontal drilling technology have resulted in marked growth in extraction activity in some areas of the District. Despite the recent strong expansions in the rig count, a number of respondents expect overall District drilling activity to increase at a modest pace for the rest of 1990.

Drought and freeze damage are causing problems in District agriculture, but product prices have reached their highest levels since 1984. Subnormal soil moisture levels are impairing crop and livestock operations throughout Texas and New Mexico. Winter wheat is showing signs of drought damage. In south Texas, prolonged dryness has left virtually no subsoil moisture. As a result of December's freeze, it may be two years before marketable citrus can again be produced in the Rio Grande Valley of Texas. In January, the Texas All Crops Index of farm prices rose to its highest level since 1984, and was 6 percent above a year earlier, with grapefruit prices leading the increase.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Twelfth District economic conditions remain fundamentally unchanged, with healthy growth in most parts of the West. Nevertheless, business leaders continue to expect relatively slow national growth during the coming year. Wage and price pressures are significant in parts of the District, but prices are stable or falling in others. Sales of soft goods remain satisfactory, but car sales pick up only when attractive incentives are offered. Manufacturing activity continues at satisfactory levels. Prices and production are strong for most agricultural products. Forest products firms, however, continue to scale back output as logging restrictions take effect. Some builders and developers report that they are finding it more difficult to obtain financing as many lenders tighten their credit criteria.

Business Sentiment

Expectations of Twelfth District business leaders have changed little during the past month, as 80 percent still expect that real GNP will grow more slowly than its historical average during the next year. Respondents still anticipate slow consumer spending, although the proportion expecting improvement rose from 2 to 13 percent. The proportion of respondents expecting a rising inflation rate increased from 11 to 39 percent.

Wages and Prices

Wage and price pressures vary significantly by sector and region. The cost of providing health benefits rose by 30 percent for San Francisco Bay Area employers during the past year, and respondents report continued upward wage pressure for health care workers. Price increases are significant in the agricultural sector as well. Prices received have risen

significantly for citrus and vegetables, and costs have risen 8 to 12 percent during the past year for farm equipment and fertilizer.

On the other hand, retailers report flat prices due in part to heavy promotions. Prices for forest products have been flat to down during the past year, with newsprint prices down 10 to 15 percent from their year-earlier level. Aluminum and copper prices also are down. A surplus of premium wine "in the pipeline" is expected to lead to lower prices within the next two years.

### Consumer Spending

Retailers report that consumer spending on general merchandise and apparel has been "generally good," which is somewhat better than expected. Inventories of soft goods reportedly have been well managed.

Car dealers report that customer traffic is down in February, particularly for used cars. Traffic and sales are off for both domestic and import dealers, but weakness is more pronounced on the domestic side. Sales are reported to be much stronger when incentives are available, and fall sharply when incentives are lifted.

### Manufacturing

Reports suggest that conditions continue satisfactory in the manufacturing industries. Commercial aircraft orders show no signs of slowing, so production should remain at its current high level for the next several years. However, capacity constraints make further increases in production unlikely. Farm machinery dealers report strong sales for 1990 deliveries as a result of strong commodity and livestock sales.

Agriculture and Resource-Related Industries

Agricultural conditions are good in most parts of the District, with high prices and strong production. However, recent winter storms did not provide enough moisture to alleviate concerns about water shortages in many parts of the West.

The price of gold has been fluctuating in a narrow range and remains at a level that makes production quite profitable. Consequently, production at District gold mines, particularly in Nevada, continues at high levels.

Restrictions on timber-cutting from US Forest Service lands continues to make logs scarce and expensive. Some firms have closed mills and laid off workers because they are unable to produce profitably. Allowable cuttings are expected to be cut further in coming years.

Construction and Real Estate

Residential construction and real estate activity continue healthy in most of the West, but conditions in nonresidential markets are more mixed. Northwestern cities are seeing strong building activity and relatively low vacancy rates in most markets. Some observers consider segments of the Los Angeles and San Francisco area markets to be somewhat overbuilt, although respondents indicate that problems are unlikely to be serious unless rates of absorption fall below their current levels. The office vacancy rate in Phoenix continues to rise, since the volume of new space coming on line is outpacing absorption. A nationwide retailer reports that bids for construction of new shopping facilities come in at very competitive prices in Phoenix, but that in California and Washington it is hard to get bidders, and current contract prices are about 10 to 12 percent higher than their year-earlier level.

Some builders and developers report that they are finding it more difficult to obtain financing since the thrift bailout began. The new limits on loans to one borrower are having a particularly significant effect on some builders. As a result, some projects that otherwise would have been built are being curtailed. One respondent notes that well-financed developers seem to be proceeding on the theory that their projects will be delivered when others are unable to find financing.

#### Financial Sector

Since implementation of the thrift bailout began, many lenders (both thrifts and banks) have tightened their lending standards and become less aggressive about courting new loans. However, several observers, from both inside and outside the financial industries, have not seen any changes in lending practices since the bailout began.