

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

May 1990

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SUMMARY*

District reports indicate that overall economic activity continues to expand slowly in April. The agriculture sector reports some weather-related damage to specific crops, but drought fears have been alleviated by recent rains, and the farm outlook is generally optimistic. Natural resource industries are generally reported to be healthy, with exploration and drilling holding up well in the oil and gas industry. Residential real estate markets remain generally weak, but with some specific geographic areas doing well. Nonresidential construction is mixed, with public works projects supplying some strength. Manufacturing is also mixed, with some improvement noted in half of the districts. Plants are still apparently operating below capacity, however, and there has been little upward pressure on industrial prices. Retail spending has been growing slowly in general, and merchants are looking for small real gains throughout the rest of the year. Auto sales, however, remain weak. In the financial sector, demand for loans is varied but generally flat, with loans for commercial real estate down in most districts. There is little evidence that a general "credit crunch" is developing; the majority of businesses say they have not seen any change in credit terms and have had no trouble getting credit. Where credit tightening by banks and thrift institutions has been noted, however, it has mainly affected newer small businesses and the real estate industry.

AGRICULTURE

The cold, wet weather that dominated much of the nation through spring took its toll on some crops. Richmond, Atlanta, and St. Louis say apple and peach crops were damaged, in some cases severely, and inclement weather has delayed field work and planting in the Atlanta, St. Louis, and Kansas City districts. However, soil moisture levels have now reached adequate, or even surplus, levels in most areas, with the exception of some parts of the Minneapolis district and California.

*Prepared at the Federal Reserve Bank of Philadelphia and based on information collected before April 20, 1990. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Although winter wheat sustained some weather-related damage in the Richmond and St. Louis districts, Minneapolis says losses were small in that district, and farmers in contact with Kansas City and Dallas are optimistic about the wheat crop this year.

Atlanta and St. Louis say farmers intend to plant more cotton, rice, and soybeans this year. Atlanta adds that higher cotton and grain prices may bring some previously idled land back into production.

NATURAL RESOURCES

Although oil and gas prices have fallen from year-ago levels, they remain at a level high enough to encourage continued drilling and exploration, according to Kansas City and Dallas. Dallas says the industry is "healthy"; Kansas City reports that the rig count, while down from the February level, is higher than a year ago; Atlanta says domestic drilling is holding steady and that no change is expected.

Minneapolis says mining, especially for precious metals, remains strong. Atlanta and St. Louis both report increased coal exports. Forest product industries are also healthy, according to San Francisco and Minneapolis, although concern about environmental issues is causing uncertainty about expansion plans.

REAL ESTATE AND CONSTRUCTION

Housing remains weak in most parts of the nation, with multifamily activity relatively weaker than single-family activity. Although a recent weather-related increase in activity is noted by several districts, no signs of a sustained turnaround are evident. Housing prices remain generally sluggish and are reported by Boston and New York to be falling further; New York, however, indicates that price declines are confined to the New York metropolitan area. Real estate activity in Michigan has been weak also as a result of softness in the auto industry. Pockets of strength in real estate are reported in Minneapolis-St. Paul, in parts of California, and in upstate and western New York. Although industry representatives expect some improvement in 1990, most anticipate a slow year, with sales dampened in part by tighter credit standards imposed by banks.

Nonresidential activity is mixed. In Atlanta, the office market remains "subdued," New York says the pace of leasing is good (but that renters are getting significant

concessions), and Dallas says the nonresidential market is weak. Atlanta and Philadelphia report strength in public construction projects.

MANUFACTURING

Manufacturing activity is mixed across the nation; a majority of the districts report some improvement, or expectations of improvement, in the coming quarters. Cleveland, Richmond, Atlanta, Chicago, Dallas, and San Francisco all indicate that industrial activity is increasing. St. Louis says the sector is weak, while Boston and Philadelphia report mixed conditions. New orders and shipments are up in most districts, although no general upward pressure on industrial prices is noted. Those areas that mention inventories indicate that they are in line with expectations; no district report indicates that stock levels are excessive.

Chicago says auto production is leading the pickup, despite continued sluggishness in sales, and that all auto facilities are expected to be operating by the end of April. Cleveland agrees that the auto industry is rebounding, but says contacts in that region still expect second-quarter output to be lower than a year ago. Other strong industries include apparel (Atlanta), steel (Chicago), and various capital goods (Chicago). The commercial aerospace industry is also among the stronger industries in the Boston and San Francisco districts. Atlanta, however, says there is concern in the southeast that the industry may soon show weakness in that region as a result of possible Defense Department cutbacks. Several Districts say auto-related products are still in the doldrums.

The outlook for the industrial sector is improving. Manufacturers in the Philadelphia region say they expect a pickup within six months and are planning to boost capital spending. Cleveland's report indicates that the "worst of the production cutbacks are over." Manufacturers in the Richmond area are also more optimistic; a recent survey indicates that developments in Eastern Europe are expected to give sales a push over the next two years, but that most businesses will benefit later rather than sooner.

CONSUMER SPENDING

Retail sales vary by district, but reports generally reflect slow, positive growth. Sales growth was strongest in the Cleveland, Richmond, Minneapolis, and San Francisco districts

and weakest in St. Louis and Dallas. Kansas City says sales are above year-ago levels but have been mixed recently. Philadelphia and Chicago note that sales gains in their areas have been achieved without resorting to promotions or markdowns. Retailers generally say inventories are in line with projected sales.

Apparel has been an especially strong seller in most districts. Hard goods, such as furniture, appliances, and other household items, while strong in some areas, are contributing less to overall growth.

The outlook for consumer spending also varies by region, but retailers are generally looking for modest gains in 1990 as a whole. Boston merchants say 1990 will be "difficult," and contacts in Philadelphia say they are looking for niches; they do not anticipate a broad-based surge in sales this year. Only in St. Louis are store managers overtly pessimistic, expecting the softness noted in that region to continue throughout the year. There is some concern in several districts that unseasonably warm weather led to sales that were borrowed, in part, from the second quarter, and that second-quarter sales will now suffer as a result. In addition, the uncertain outlook for the housing sector is blurring the outlook for sales of household goods and making many merchants cautious in developing projections.

Auto sales are reported to be spotty but generally weak across the nation, and little improvement is expected in the near future. The profitability of auto dealers also varies. Atlanta reports that, while many dealers are increasing profits and some popular models are in short supply, some small dealers in rural areas have gone out of business.

FINANCIAL

Total loan demand varies by district but is generally flat. In Philadelphia and St. Louis, loan volume is higher, while San Francisco and Kansas City say volume is stable. Richmond reports a slight increase in problem loans. Activity in specific categories also varies by District. In Philadelphia, business loans, especially to manufacturers, are leading the growth noted there, while New York says business loans to retailers have been providing strength. In St. Louis, business loans in general have been growing, along with loans in other categories as well. However, most districts report that commercial real estate

loans are down because of a number of factors: tightened lending requirements, more scrutiny by regulators, overbuilding in many markets, and locally sluggish economies.

Credit Conditions. Although virtually every District cites some specific cases of credit tightening by banks, with the most significant action taken by New England banks, there is little evidence of a general "credit crunch." Many banks have reviewed lending policies in recent months, cutting back on loans to the real estate industry and newer small businesses, or tightening up lending requirements by increasing collateral requirements or shortening loan terms. In addition, many builders are having a more difficult time securing financing because of the new lending limits in the thrift industry. Still, the majority of businesses say they have not seen any change in credit terms, and have not had trouble getting loans.

FIRST DISTRICT-BOSTON

First District economic activity continues at a slow pace. Manufacturing activity varies considerably by industry, but most contacts report slowing orders compared with previous months. Retail sales have stabilized, but respondents expect another difficult year. Residential real estate markets remain slow, with sizable inventories of unsold homes. According to industry contacts and media accounts, small businesses are experiencing (or anticipate) difficulty securing credit.

Retail

With Easter late this year, New England retail contacts find sales trends hard to read. Large chains expect comparable-store sales for March and April to be 3 to 10 percent above last year's levels. Sales at smaller stores and at those selling discretionary items continue to decline.

Although retail conditions in the region remain very competitive and highly promotional, inventory levels are generally in line, and less distress merchandise is reaching the marketplace. Profits, on balance, are lower than last year's levels.

Some First District retailers find wholesale prices rising at a steady pace, while others report some acceleration. In contrast to the mid-April CPI reading, the panel reports no significant increases in apparel prices. However, prices for health and beauty aids and pharmaceuticals have accelerated in recent months.

Labor markets continue to loosen, especially at the managerial level. Wage increases have moderated to a 4 percent annual pace.

Retailers found 1989 to be a difficult year and generally expect 1990 to be similar. However, most contacts do not anticipate any further deterioration.

Manufacturing

Reports from First District manufacturers suggest that business conditions continue mixed but generally softened during the first quarter. While a majority of contacts indicate that shipments exceeded year-ago levels, several respondents face declining backlogs. Only one-quarter of the firms report new orders above year-ago levels. Market conditions vary considerably by industry and product line. In general, consumer luxuries, office supplies, and products related to autos, construction and defense remain relatively weak; however, a few contacts noted a recent pick-up in major appliances, and in automotive and paper products. While soft, defense generally held up better than contacts expected. Commercial aircraft, power systems, and computer-related supplies face relatively strong demand, and exports continue to provide welcome support. Inventory levels are generally satisfactory.

In the face of anemic business conditions, selling prices are flat to down at a majority of contacts. By contrast, two firms raised prices by 5 to 8 percent on selected products and hope to introduce similar increases on other lines later this year. All contacts report that materials prices are stable or falling. Among firms discussing profit margins, improvements exceed declines.

Regional employment levels are stable to down. One firm that had hoped to reduce employment gradually through attrition has already had two lay-offs. Two recent wage settlements resulted in a 5 percent and a 3 1/2 percent wage increase for 1990.

Capital spending plans vary. Half of the firms expect significant declines from year-ago levels, and two firms have recently cut back on projects planned for 1990. Elsewhere, capital spending should continue at 1989 levels or

increase by as much as 25 percent.

Most respondents view the prospects for 1990 with concern. They expect very slow growth throughout the nation, not just within the region, and a few have downgraded their outlook on the basis of first quarter sales. Although most contacts believe that their firms are on solid ground, few expect to make much headway during 1990.

Credit Availability

Contacts in small businesses and in organizations serving them claim that financial difficulties at some of the region's banks have made it more difficult and costly than previously for small business to obtain credit. According to these contacts, banks are requiring small firms to increase their collateral and provide personal guarantees; some current loans are being called. Most large and medium-sized manufacturers, in contrast, are experiencing no difficulties obtaining credit.

Residential Real Estate

First District realtors report that March-April sales were slightly below year-ago levels. Homes are reaching the market faster than they are selling, and most realtors have large inventories of unsold homes. While prices are falling, realtors claim that buyers' unrealistic impressions of market weakness can delay agreement on a purchase price. Mid- to low-priced homes are moving better than more expensive houses. Expectations are mixed. Most realtors anticipate a seasonal upturn this summer but are uncertain about the timing of a genuine recovery.

SECOND DISTRICT--NEW YORK

Developments in the Second District economy since the last report have again been mixed, with no clear signs of overall strengthening or weakening. Homebuilders report some increased buyer interest with the arrival of spring, and the pace of office leasing has been good in many areas. Sales results at District department stores were mixed, however, in recent weeks and unemployment rates showed little change. Most officers at small and medium-sized banks noted an over-the-year weakening in commercial loan demand.

Consumer Spending

Sales results at District department stores were mixed in recent weeks with some at or above targeted levels and others falling below. Year-to-year changes during February ranged between -3 percent and +8 percent while the March range was -9 percent to +15 percent. To obtain a clearer picture of their Easter season performance, however, most respondents intend to look at the combined March and April results since the holiday occurred a month later this year than last.

In general, women's apparel continued to be the strongest selling item with some retailers noting a pickup in men's apparel as well. Sales of furniture and home furnishings tended to be sluggish, however, though one contact reported strong demand for floor covering and bedding. Inventories are generally on target, due in part to cautious stocking for the spring season. Merchandise is reportedly still below desired levels at some Campeau stores, though most suppliers have now resumed shipments to them. With the recently begun liquidation of yet another District department store chain and the closing of many small Financial District stores in the wake of the cutbacks in that area, some contacts expressed concern about the local retail industry.

Residential Construction and Real Estate

District homebuilders report some increased buyer interest with the arrival of spring, but most expect that regional housing starts will decline further in 1990. In the face of a continuing glut of existing homes for resale and, in some areas, a number of new houses and condos on the market as well, additional price markdowns and other concessions are being offered in much of the New York metropolitan area and further reductions are seen as possible. However, in upstate and western New York, where demand remains relatively strong, home prices increased at double digit rates in some areas during 1989 and the uptrend is expected to continue this year.

The pace of office leasing has recently been good in much of the District, with tenants reportedly availing themselves of generous landlord concessions. However, as substantial amounts of both new and existing space continued to be marketed, Manhattan office vacancy rates moved somewhat higher. As a result, reactions have been mixed to the announcement that, after a six-year legal battle, New York State has finally acquired most of the 13-acre site for the redevelopment of the Times Square area. While the transformation of that badly deteriorated area is generally applauded, many critics are apprehensive because the plan includes the addition of four more large office towers in the midtown area.

Other Business Activity

District unemployment rates showed little change in March. New Jersey's rate rose 0.2 percentage point from February to 4.7% while New York's rate was unchanged at 5.0%. While these rates remain below the national average, they have deteriorated both absolutely and relative to the nation over the past year. A recent U. S. Department of Labor report stated that job growth in New York State fell to a 7-year low in 1989 due to a faltering downstate economy and major manufacturing losses throughout the state. A positive development for District employment is General Motor's announced plans to spend \$140 million retooling its

Linden, New Jersey plant for the production of light trucks. The plant had been scheduled to end auto production next year.

The March survey of Buffalo purchasing managers showed an increase in the percentage of firms reporting improvement or stability in production and new orders. Eighty percent of the managers noted stable input prices, up from 64 percent in February. The Department of Labor study mentioned above cited Buffalo as one of three metropolitan areas in which most of New York State's job growth occurred in 1989.

Reports from firms in the Second District suggest that in most instances operations have not been affected by any shift toward more restrictive lending practices. While some manufacturers and homebuilders noted a withdrawing of credit lines and increased collateral requirements, others, especially in upstate and western New York, have seen little or no evidence of credit tightening.

Financial Developments

Based on a survey of senior officers at small and medium-sized banks in the Second District, demand for commercial loans is weaker than a year ago. Most bankers agreed that the general decline in interest rates over the last year failed to stimulate much loan activity, and cited the weak economy and cautious investing as the main factors for falling demand. One banker noted that any interest-rate-induced increase "would have been offset by the current economic climate". When asked if any particular sectors showed unusually strong or weak demand, two-thirds of the bankers cited a weakness in real estate and manufacturing loans, while a couple noted strength among retailers. Almost all respondents described their local economies as stable or weak. Signs of weakness cited were higher vacancy rates, more delinquent loans, contracting real estate markets and layoffs. The two bankers who characterized their economies as strong also described them as diversified. When asked about expectations of future loan demand, the majority of the bankers forecasted stable or lower demand. The bankers anticipate weak real estate markets and cautious attitudes by both investors and lenders for the remainder of 1990.

THIRD DISTRICT - PHILADELPHIA

The Third District economy showed some signs of improvement in April although measures of current business conditions indicate just slight gains from the first quarter, overall. Manufacturers continue to report declining business, but the extent of the slowdown among area firms has abated recently. Retailers generally report marginal gains in real sales in recent weeks, an improvement from the pace of sales earlier in the year.

Most sectors of the Third District economy are not experiencing any difficulty obtaining credit, and evidence of a "credit crunch" is largely confined to commercial real estate. Bankers note steady growth in overall loan demand; they were posting business loans at a somewhat greater rate in March and April than they had in the first two months of the year, although consumer lending was growing only slowly.

The outlook in the Third District business community is generally for modest growth, overall, and there is some confidence that the downturn in the region's industrial sector may soon be reversed. Among manufacturers, more foresee a rebound in the second half rather than further slowing. Retailers generally think they will continue to post real gains through the rest of the year although they do not expect a broad upturn in sales. Bankers expect lending to rise steadily, boosted by increased industrial loan demand, but they anticipate further constriction of real estate financing and only slight gains in personal lending.

MANUFACTURING

Manufacturing activity in the Third District edged down again in April, but the extent of the decline among the firms surveyed appeared to be easing. After relatively widespread reports of slowing business in February and March, the number of companies that reported weaker activity in April only marginally exceeded the number noting improvement.

Although some specific indicators of industrial activity showed improvement in April, most continued to signal weakness. Shipments were increasing and new orders were inching up, reversing two months of decline. But other measures of business conditions were still falling. Managers at area plants said the increase in new orders from March to April was not

enough to boost order backlogs, which continued on a nearly year-long decline. Other signs of the ongoing downtrend in the manufacturing sector are delivery times, which continued to decrease, and employment; on balance, both personnel and working hours were being reduced at area plants in April. Slack conditions in manufacturing are also reflected in stable industrial prices. Most local companies reported steady prices in April for their own products as well as for purchased inputs.

Looking ahead, manufacturing contacts expressed some optimism despite lackluster current conditions. In their forecasts for the six months ahead, two-out-of-five expect business to pick up while one-in-five think the current downturn has further to run. In general, executives at area firms expect the decline in order backlogs to level off, but they do not expect business to improve enough in the next two quarters to increase that backlog. They do not foresee any improvement in employment, either; although they intend to hold payrolls steady, they plan further reductions in working hours, on balance. Some indication of a more optimistic outlook for business in the longer term is given by capital spending plans at area plants. After two months in which more companies reduced spending plans than increased them, scheduled expenditures for new plant and equipment were being boosted marginally in April.

RETAIL

Retail sales in the Third District in March and the first half of April were marginally above sales in the same period last year, in real terms, according to area merchants, and most of those contacted in late April said sales appeared to be continuing on a trend of slight but steady real growth. Sales of spring apparel and other seasonal items have been meeting most retailers' expectations, and without recourse to deep price markdowns. Several merchants also mentioned a continuing healthy sales pace for furniture and home furnishings.

The general tone of the forecasts being made by Third District retailers is for very modest real growth during the rest of the year. Several described the immediate outlook as unsettled due to financial turmoil in the industry and heightened caution among consumers. In their own planning, store executives are looking for niches of opportunities to expand sales;

they do not expect sales to grow across a broad range of goods.

FINANCE

Total loan volume at major Third District banks in late March was approximately 17 percent above the level for the same time last year, and bankers contacted in late April said overall loan growth was continuing at about this pace. Third District bankers generally reported increased loan demand from builders and developers, and, although they are approving new loans selectively, they are being more cautious about real estate lending in light of increased regulatory concern and evidence of softening markets both for office space and for residential development.

Lending officers at commercial banks in the District say business loan demand is picking up somewhat from the first quarter, and some note an increase in requests for funds to finance capital investments in the manufacturing sector. Also mentioned was increased loan demand from construction firms engaged in road and bridge building in the District.

Consumer loan growth was described as sluggish by most bankers surveyed for this report. Some noted what they considered seasonal increases in utilization of credit cards and home equity credit lines, but most said overall personal lending was not growing appreciably.

Looking ahead, Third District bankers generally expect overall loan growth to continue at about its current pace. They believe business lending may accelerate, with the expansion mainly in loans to manufacturers; but they expect loan volume outstanding to builders and developers to remain at current levels or decline, and lending to wholesalers and retailers to show little growth. Lending to individuals, both for consumption expenditures and for home mortgages is expected to rise only marginally.

Credit conditions. Bankers note that, with a few exceptions, they are restricting commercial real estate financing to current customers and limiting the amount of new money extended to them; but they say a general restriction of credit--such as is implied by a "credit crunch"--is not being implemented. Creditworthy industrial firms are generally finding their requests for funds well-received, according to both bankers and businessmen. However, some entrepreneurs with very small or start-up businesses say they have been experiencing somewhat

greater difficulty obtaining funds in recent months, and there are some indications that apparel manufacturers' requests for loans are receiving greater scrutiny in light of the financial difficulties of certain retailers to whom they sell.

FOURTH DISTRICT - CLEVELAND

Summary. Respondents in the Fourth District are increasingly concerned that the inflation rate for 1990 will exceed 4%. Consumer spending in recent months has been better than many retailers expected. A strengthening in manufacturing output is generally expected to be mild. Respondents suggest there is little evidence of a "credit crunch" in the Fourth District, although credit standards are said to have tightened.

Inflation. The surge in consumer prices in March has led many respondents to believe that the 4% rate of inflation they expected for 1990 may be too low. Some expect that the increase in the GNP implicit price deflator was in a 5 percent to 6 percent range last quarter, although moderation in price increases is widely expected this quarter. A common concern seems to be that commodity prices continue to firm gradually, and service prices have been accelerating. Some point out that the hike in the minimum wage will add to wage costs especially in the trade sector of the economy. Moreover, food prices this year could increase more than the average in recent years because of environmental restrictions on use of herbicides that can constrain yields and output.

Consumer Spending. Retailers descriptions of sales in recent months range from "better than expected" to "very strong." One retailer reported that even furniture and appliance sales were "good," although consumers are resisting higher prices. Apparel sales were especially strong despite the

surge in prices in February and March. A retailer asserted that the price hikes were associated with consumers buying higher quality goods and with new fashions. Others stated that retailers are trying to restore profit margins that deteriorated badly during the Christmas season. In addition, higher raw materials prices and the increase in the minimum wage have added to retail costs and prices.

With both the level of sales and profits better than expected last quarter, retailers appear guardedly optimistic about near-term prospects. There is some concern, however, that some sales last quarter may borrow from the second quarter, and that demand for household goods may soften because of further weakening in housing. In general, retail economists still expect about a 2% increase in real consumer spending this year from last.

Auto producers and dealers have mixed reports on sales and prospects. For some, retail sales in February and March rebounded enough to bring inventories down to a desired level. April sales so far have been soft despite generous incentives. Dealers report floor plan costs have been held down because of smaller inventories this year than last, and some report shortages for some mid-sized cars. Profits are still being strained because incentives and marketing costs are said to average as much as \$1200 per car and are considerably higher for mid-sized cars. Incentives on some Japanese cars have increased by about \$500.00.

Manufacturing Conditions. District respondents generally agree that the worst of the production cutbacks are over, although most expect strengthening this quarter and next will be mild. Low-technology producers of industrial

and electrical machinery equipment expect only a few percent increase in output over the next few quarters. Auto production is rebounding from a poor first quarter, and cutbacks in second quarter plans are being rescinded, although output is still expected to be slightly below a year ago. Steel producers are raising their forecasts of production slightly for 1990 from earlier this year. Auto bookings for the second quarter have picked up from the first quarter, and steel warehouses have stepped up orders, probably in anticipation of a small increase in sheet steel prices announced for July. Also, the volume of imports has been less than expected and exports a little larger than expected.

Production and shipments of machine cutting tools continue to rise but solely on the strength of backlogs that have been dwindling rapidly because of the lag in orders.

An expected revival in heavy-duty truck business has been slow to develop. Orders in February fell below the low of last August, and a comeback in March only matched the relatively low average of last fall.

Cincinnati Purchasing Agents report orders and production rose for the third successive month in March, and commodity prices firmed again after several months of decline. A commercial bank shows that durable goods manufacturers expect a rebound in their business following declines in the previous three-month period.

Financial Conditions. Respondents suggest there is little evidence of a credit crunch in this District. There are, however, reports of some

tightening of credit standards. Nonetheless, lenders report that credit is available to qualified borrowers.

Small business firms in the District reported no awareness of credit restraints, although perceptions are that some lenders are tightening credit standards. Only one small business firm reported that banks are not lending, especially for commercial real estate because of depressed prices due to high vacancy rates. Several new car dealers reported some tightening in credit standards by both banks and thrifts.

Small builders apparently have not been shut off from credit, although FIRREA legislation has made it more difficult to obtain sufficient credit from a single lender. Thrifts contacted assert there is no lack of funds in the mortgage market for qualified builders and buyers, and reported that their loan volume so far this year exceeds the same period last year. They acknowledged that the 15% limit on loans is an inconvenience to some builders and developers. Several banks in the District also reported that their loans so far this year exceed last year, although some tightening in credit standards has taken place in view of rising office vacancy rates, foreclosures, and nonperforming real estate loans.

FIFTH DISTRICT-RICHMOND

Overview

The District economy continued to grow at a moderate pace in early April. Retail sales rose in most areas of the District, though big-ticket items contributed less than in late March. Manufacturing activity again posted modest gains, and shipments at District seaports were generally stronger. Financial institutions, however, experienced a slight increase in problem loans, particularly in commercial real estate. Also, large financial institutions and their borrowers reported tighter lending requirements, especially for commercial real estate and some other types of business loans. In agriculture, cold and wet April weather proved to be a mixed blessing--benefiting some crops while harming others.

Consumer Spending

Responses to our telephone survey of state retail associations indicated that all District states except West Virginia experienced increased sales of general merchandise during the first two weeks of April as compared with the last half of March. Sales of apparel were especially strong in Virginia, Maryland, and the District of Columbia. Sales of big ticket items declined relative to total sales in the District of Columbia, West Virginia, and Maryland while they remained about the same in Virginia and South Carolina. All of the respondents expect sales to increase during the next six months.

Manufacturing

The results of our regular mail survey of manufacturers showed that District manufacturing activity in April continued to grow at about the same slow rate that was indicated in our previous survey in February. In April as well as in February more respondents reported increases than decreases in shipments and new orders. New orders for exports were reported to be higher by

25 percent of the April respondents--up from 13 percent who reported increases in February. Unfilled orders, employment, and the length of the workweek, however, were largely unchanged. Prices for raw materials rose at the same moderate pace reported in February. Inventories of materials and finished goods were largely unchanged.

District manufacturers were more optimistic than earlier this year about prospects for growth in their businesses and in the national economy. More than half of the April respondents, up from 38 percent in February, look for their shipments and new orders to increase during the next six months, and the proportion who expect an increase in national economic activity rose from 31 percent in February to 42 percent in April.

In the April survey we asked manufacturers how foreign developments might affect their sales. The table below summarizes manufacturers' responses to the question: How do you expect the movement toward free markets in Eastern Europe to affect your firm's sales in the next...

	six months,	year,	two years?
No Effect	92%	77%	51%
Sales Will Increase	6%	19%	42%
Sales Will Decrease	1%	3%	6%

Ports

Representatives from the three major District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--noted steady to higher shipments in April compared to March. Exports were higher at both Hampton Roads and Baltimore and about the same at Charleston. Import shipments were also generally higher with volume up at Hampton Roads and Charleston and about the same at Baltimore. When compared to a year ago, export activity was higher at Hampton Roads, lower at Baltimore, and unchanged at Charleston while import activity was higher at Hampton Roads but lower at Charleston and at

Baltimore. Representatives at all District ports expect exports to grow faster than imports during the next six months.

Financial

A telephone survey of District financial institutions suggested that the number of problem loans increased slightly in recent weeks. Half of the respondents reported a small increase in the volume of nonperforming loans, while the other half reported no change. Those contacted indicated that the problem loans were concentrated in the commercial sector, particularly in commercial real estate.

A special telephone survey of business and financial people in the region revealed that most financial institutions had tightened lending requirements, especially for loans for the start-up or expansion of small businesses and for the speculative development of real estate. According to borrowers from the regional banks, new lending for commercial real estate has nearly dried up, and there has also been a definite but less pronounced tightening of certain other types of business credit. The borrowers from smaller banks and the smaller banks themselves, however, reported limited if any tightening of credit. Most manufacturers, retailers, and other businesses that borrow from smaller banks reported no change in credit conditions.

Lenders were also asked about their expectations for interest rates. Most expect rates to remain essentially unchanged or trend downward slightly in the coming months.

Agriculture

The effects of three weeks of cold, wet weather in April on District agriculture were mixed. Despite rain-shortened farm workweeks, the planting of corn and the transplanting of tobacco progressed at faster than normal rates. In addition, the recent precipitation raised moisture levels to adequate or surplus in all areas of the District except South Carolina. Dry conditions

prevailed there through mid April, especially in the state's mid to southern portions.

We received mixed reports on crops. The abundant rains were good for hay and pasture conditions around the District. Wheat was maturing rapidly but beetle infestations and mildew were reported in some wheat-growing areas. The recent cold weather damaged apple and peach crops in Virginia and in the Carolinas. The losses were severe in some areas.

SIXTH DISTRICT - ATLANTA

Overview: Our contacts continue to report steady growth in the Sixth District at a pace that shows, on balance, a little slowing from that of last year. They note that prices of most raw materials have been steady in the past few months, and there are no signs of added wage pressures. Manufacturers of consumer durables continue to report weak demand for their products, while producers of chemicals note strong business activity. Retailers report modest increases in sales from a year ago, with apparel sales being particularly strong. Real estate markets are described as being generally soft, and lenders are said to have become increasingly cautious in financing new building projects. Exports of raw materials and natural resources are reported to be strong.

Wages and Prices: Prices of raw materials are generally reported as stable. A manufacturer of chemicals and plastics reports that the prices of chemicals used in construction and of some input chemicals like benzene are down slightly this year. A producer of heating and cooling equipment noted that aluminum prices continue to fall slowly but that copper prices are now steady. Several of retailers in the District indicate that they see no significant increases in their prices. A furniture distributor pointed out that there has been no upward pressure on prices from manufacturers because of weak demand for furniture.

Few employers reported any new wage pressures, and most indicate that they are seeing wage increases of about 5 percent at most. The cost of employee health benefits, however, remains high and is still increasing.

Manufacturing and Employment: Contacts in the chemical industry continue to report strong demand for most of their products, especially from the paper and pulp industry. One manufacturer noted that exports of chemicals to the Far East have been down recently, owing to new plants in Korea and Taiwan, but that exports to Europe continue to increase. He added that because of strong domestic demand, his firm was increasing capital spending substantially over 1989's level to modernize equipment and expand capacity.

Apparel producers report that they expect their sales to increase as consumers spend less on autos and other durable goods. A carpet manufacturer expects 1990 to be a good year for the carpet industry because replacement demand should continue to support sales. He explained that carpet tends to be replaced in roughly ten-year cycles. Because 1979 was a very strong year, they are now seeing increases in replacement demand.

Contacts in the aerospace industry expect an increase in layoffs as a result of budget reductions at the Department of Defense. Firms in Georgia and Florida reported the largest cutbacks in employment. Aerospace firms related to the space program, however, report increased hiring as a result of renewed growth. Florida, Alabama, and Louisiana are gaining jobs as a result.

Retail Sales: Most District retailers indicate that sales in March met or exceeded their goals and in real terms were slightly above year-ago levels. They also expect the modest real growth to continue for the next few months. Contacts point out that apparel sales have been very strong in comparison to durable goods like appliances and furniture.

Auto dealers note that sales have been slightly below year-ago levels recently. But because they have been able to reduce their inventories and, therefore, interest costs, several large dealers said that profits are up over last year. A few dealers expect that sales will be up slightly this year, and some dealers noted that a few popular models are in short supply. Nevertheless, contacts continue to report that small dealers, particularly those in nonmetropolitan areas, are not doing well and that many have gone out of business.

Real Estate and Construction: Several home builders have reported that residential construction remains weak after an abnormally strong January. A number of contacts indicate that housing sales throughout Florida are down substantially compared to a year ago. Commercial developers mentioned that the value of nonresidential construction is up over last year, but they added that most of the strength has been in

public building projects in Florida and Georgia. Office construction remains subdued in much of the District.

Developers and builders across the District pointed out that it is becoming more difficult to obtain financing for new real estate projects. Much of the reluctance on the part of lenders has been a response to overbuilt markets, but builders are now saying the increased surveillance by the Comptroller of the Currency is adding to the already cautious lending attitudes.

Natural Resources: Domestic oil drilling remains steady, and most contacts do not expect significant growth in the next few months. Several producers in Louisiana felt that increasing environmental concern is discouraging new drilling.

Exports of coal, kaolin, wood pulp, and chemicals are reported to be holding steady or increasing. Few contacts indicated that the recent strengthening of the dollar had affected their exports substantially. They pointed out that the reliability of U.S. suppliers and long-term contracts are more important in determining the volume of exports than are short-term movements in exchange rates.

Recent cold weather has delayed planting of some crops and has damaged some of the new peach and apple crops. Farmers expect to increase substantially the acreage devoted to cotton while reducing soybean acreage. On balance, southeastern farmers plan to return a large share of idle land to production because of higher prices for cotton and some grains.

Credit Condition: Except for real estate credit, none of our contacts indicated a direct experience with tightening credit conditions. Some contacts report a reluctance on the part of financial institutions to engage in further real estate lending given the overbuilding which has occurred in most markets. One indicated that a financial institution withdrew support for the second and third phases of an office complex and others reported higher collateral requirements and interest rates on proposed projects. With regard to business and consumer lending, however, credit is said to be available as usual.

SEVENTH DISTRICT--CHICAGO

Summary. Contacts in the Seventh District continue to report generally improving business conditions, although areas of weakness were also cited. Purchasing agents' surveys indicate a rise in production, but orders are slowing in some areas of the District. Contacts in the manufacturing sector report slow but steady gains over a wide range of products. Construction activity remains stronger in the District than nationwide, but the housing market is showing signs of softening. Consumer spending has been holding up well in recent months, but sales for one large retailer were unexpectedly weak in early April.

Surveys of purchasing managers in the District showed improvements in production, but a mixed pattern in orders. Chicago's survey indicated a steady increase in the number of firms expanding production since the beginning of the year. Firms receiving more new orders also outnumbered firms receiving fewer new orders. Both Milwaukee's and Indianapolis' survey showed expanding production last quarter. However, in the March survey Milwaukee had the number of firms with lower production equalling the number with higher production. Similarly, after indicating increasing orders in January and February, Milwaukee's March survey indicated that the number of firms receiving fewer new orders outnumbered the firms receiving more new orders. Indianapolis' and Detroit's survey also showed declining orders in the first quarter.

Manufacturing. A number of contacts indicated that manufacturing activity continues to make modest gains. Improvements among consumer goods producers are being led by the auto industry. Although domestic car production in the second quarter is expected to be about 10 percent below its year-ago level, a recent survey of auto makers indicated that car production this quarter is expected to be 20 percent above the first quarter. One auto maker extended the temporary shutdown of an assembly plant in the District by one week in early April because of slow car sales. However, all auto facilities are scheduled to be operating by the last week of April, with some working overtime. An economist for the steel industry reported that orders have been "flooding in" from the auto industry, although the orders have had longer lead times. Steel shipments in the second quarter are expected to be about equal to a year ago.

Capital goods producers generally reported improving orders and sales. A producer of a wide range of capital goods noted that sales began to improve in February and orders have been strengthening since the beginning of the year, led by petroleum equipment and food machinery. Other special industry machinery orders were up slightly, with the exception of automotive service equipment which has been weak for over six months. An economist in the communications equipment industry cited an increase in orders across a variety of products and expects double-digit growth in the near future. An uptick in orders for electronic components, however, may be due to fears of shortages, which have led to double ordering, according to an industry analyst. Sales of farm and construction equipment continue to be extremely good, according to a industry economist. Farm equipment sales are very strong, particularly combines and large tractors. Construction equipment sales have also been holding up, despite sluggish housing and shopping center construction nationally. The economist noted that sales in that company's Midwest market have been showing solid gains.

Construction and Real Estate. Construction activity in the District continues to outpace the nation, as unseasonably warm weather boosted residential and nonresidential building. A supplier of building materials reported that year-to-date shipments to District states are up, compared to a drop for the nation as a whole. Similarly, an analyst in the cement industry noted that cement shipments to the District have grown substantially faster than nationally, with the exception of flatness in sales to Michigan, which was attributed to the weakness in the state's auto industry.

Several contacts cited special factors that may be hampering construction. A financial analyst stated that builders are in need of new sources of loans, because savings and loan institutions are "out of the market." A steel producer noted some slowing in orders from the construction industry that may reflect delays in projects due to financing problems. And, an equipment supplier also noted that some plant construction, particularly in the chemical industry, is being held back until environmental regulations are finalized.

The housing market is showing some signs of weakening. A bank economist cited a softening in Chicago's real estate loan market, especially for mid-to-high priced homes. Mortgage rates have moved above 10 percent at most lending institutions in the area and some banks have started tightening credit terms. Available funds for new construction are being absorbed mostly by single-family housing units, with few funds going to multi-family units, according to one financial analyst. A supplier to the mobile home industry reported sharp sales declines in most regions of the country, including the District. However, one bank economist noted that housing prices in the District have risen more closely in line with personal income than in other regions, which has contributed to a stronger housing market here than in the nation on average.

Consumer Spending. Recent patterns in general merchandise sales are difficult to interpret because of atypical weather and a late Easter, but several contacts indicated year-over-year sales gains in recent months. An economist for a major department store chain reported steady improvements through early April in their seasonally adjusted weekly sales figures, led by electronic goods and appliances. These sales gains occurred without special promotions. Sales declined, however, for women's accessories, men's clothing, and lawn and garden supplies. Sales have been strongest in Wisconsin and Illinois, and declined in Michigan. An analyst for a major discount chain reported that sales in February and March were the best for that period since 1983, with double-digit gains in all types of electronics. However, overall sales in the first full week of April unexpectedly declined from a year ago, even after adjusting for differences in the Easter selling season and despite the fact that store traffic remained relatively high. Domestic car and truck sales in the early part of April were down from a year ago. An industry economist, who had expected that first quarter sales would be strong enough to end the need for sales incentives, now sees promotional activity continuing through the second quarter.

Banking. Isolated reports of tighter credit standards were obtained from several lending officers in the District. With respect to commercial and industrial loans, the only report of credit tightening related to loan requests involving borrowing institutions that are highly leveraged.

Demand from leveraged borrowers has fluctuated widely in recent weeks. No lending officer stated, however, that their institution had directly altered credit standards. Other business traffic was reported by a major Chicago lending institution to be "routine." One respondent indicated that, in response to his bank's apparent concern over loan quality, the borrower was being asked for more loan documentation. This respondent indicated that the bank was now asking the borrower for what purpose were the funds to be used. Another respondent said that troubled loans were not being carried as long by banks. This respondent also noted that there was an increasing array of new sources of credit available to the small business borrowers. The general impression conveyed by several respondents was that funds were adequately available to good borrowers.

EIGHTH DISTRICT - ST. LOUIS

Summary

Economic growth in the Eighth District continues to be sluggish, a characterization similar to those presented in our reports since April 1989. Consumer spending appears to be flat or up only slightly. The manufacturing sector is still weakening, while the construction and service sectors show slow growth. Export activity has been mixed. No widespread tightening of credit appears to exist in the District.

Consumer Spending

Recent retail sales activity is described by most contacts as flat or up slightly from a year ago. Some of the March weakness, however, is thought to be due to wet weather and because Easter occurred later this year than last. Some contacts also mentioned that unusually mild weather earlier this year, which resulted in heavier spending for spring clothing and furniture, has borrowed from current and future sales. These contacts anticipate a slowing of sales in the next few months. Car sales have been weak recently, and have declined since February in most areas.

Manufacturing

A survey of Missouri purchasing agents suggests generally weak conditions. The rate of new orders received by manufacturers in the first quarter slowed from the previous quarter and from a year earlier. Most respondents reported that delivery lead times had declined or were unchanged last quarter. Fewer respondents reported increasing commodity prices in the first quarter compared with a year earlier.

Numerous plant closings, layoffs and production slowdowns have been reported in recent months. For example, firms producing shoes, women's apparel, school supplies, fabricated metal products and home insulation have reduced their output. Auto-related manufacturing remains generally stagnant with suppliers of auto components such as seats, fuel lines and vacuum harnesses cutting production. The workweek for those assembling minivans, however, continues to lengthen reflecting the strong demand for these vehicles.

Manufacturers producing primary metals, machinery and chemicals report flat to declining exports in 1990, relative to 1989. Exports of fabricated metal products were mixed. Contacts in the lumber, food products and coal mining industries report higher exports in the early part of 1990, relative to 1989, with increased exports to East Bloc countries contributing to the increase in lumber and food product exports.

Construction

Reports from contacts, as well as housing permit and building contract data, suggest there has been an increase in both residential and nonresidential building activity this year. There is disagreement, however, on how much of the increase is due to the unusually mild weather. Some contacts believe that the demand for new and existing single-family homes will strengthen this year in Missouri and in the Louisville area. Apartment building in the District is expected to remain depressed, however, as vacancy rates remain high in some areas. Uncertainty about the possible closing of a major military base has slowed construction activity in northeast Arkansas. Much of the District's gain in the nonresidential sector is due to growth in Arkansas, where a paper plant and other factories are being constructed.

Banking and Credit

A widespread "credit crunch" does not appear to exist in the District. Total loans outstanding at the District's 11 largest banks are up modestly from their level of one year ago. Real estate loans, and home equity loans in particular, are up sharply from last year. Commercial and industrial lending was also up sharply at District banks during the first quarter. Most small businesses contacted have not experienced a significant shift in their lenders' credit terms, nor have they had trouble obtaining financing during the past six months. Loan officers at District banks indicate that their willingness to make consumer loans is essentially unchanged from six months ago.

Commercial real estate lending is the notable exception to overall growth in real estate lending, and has been sharply curtailed by District banks in recent months. Lending terms and underwriting standards have tightened considerably, reflecting pressure from examiners to strengthen banks' real estate portfolios and the generally sluggish economy.

Agriculture

A late March freeze destroyed most of the peach crop in Tennessee and Kentucky and damaged the apple, strawberry, alfalfa and winter wheat crops in some areas. April rains have pushed topsoil moisture conditions to levels ranging from adequate to surplus in most of the District and have slowed fertilizer application, field preparation and planting. Reflecting increased planting intentions for rice and cotton, agricultural banks in southern portions of the District are receiving requests for larger production loans.

NINTH DISTRICT--MINNEAPOLIS

Ninth District economic conditions have been moderately good lately. Labor markets have been fairly tight, but wage and price increases have been moderate. Retail sales have been strong, but new car sales have been slow. Credit conditions have tightened moderately. Resource-related industries have generally been doing well. However, farmers still fear that, without good spring rains, another drought is possible.

Employment, Wages, and Prices

Labor markets have remained fairly tight throughout the district. The unemployment rate in Minnesota was 4.7 percent in February, down from 4.9 percent a year earlier. February unemployment rates in the rest of the district were also lower than a year earlier. In particular, Montana's unemployment rate, at 5.9 percent, was sharply lower than the 7.6 percent rate of February 1989. In Minnesota's Minneapolis-St. Paul area, job cutbacks in the computer and electronics industries were offset by strong growth at medical technology firms. District-wide, manufacturing employment in February was slightly ahead of a year ago.

Wage and price increases have remained moderate in the district, except for continued high growth in health care costs. Recent and prospective increases in minimum wages are not expected to have much of an impact here because shortages of entry-level workers and teenagers have already forced up their wages.

Consumer Spending

Retailers have continued to report strong sales throughout the district. Sales in March ranged from 4 to 8 percent ahead of last March. One retailer

calls Easter sales "spectacular." Inventories are reported to currently be at acceptable levels. But retailers in small towns have continued to lose business to regional shopping malls. Shopping centers near the Canadian border report exceptionally strong demand from Canadian shoppers.

New car sales have continued to be soft, but the used car market is reportedly strong. Most district dealers report that, even with the softness in new car sales, they are doing considerably better than the nationwide figures suggest.

Housing sales have showed considerable variation around the district. In the Minneapolis-St. Paul area, housing sales were 15.4 percent higher than a year ago in March alone and 16.2 percent higher than a year ago in the first quarter. In parts of North Dakota, however, housing markets are said to be very slow and prices sharply lower. The number of new housing permits issued in Minnesota in February was 11 percent lower than a year earlier. Much of this decline is concentrated in the Minneapolis-St. Paul area, where the number of new permits fell 21 percent.

Tourist activity has also been varied across the district. In the Upper Peninsula of Michigan, the ski season was shortened by a somewhat earlier-than-normal melting of snow. Most contacts report that they are optimistic about tourism prospects for the summer. The legalization of gambling in Deadwood, South Dakota, has caused property values there to increase several times over.

Credit Conditions

While credit appears to have tightened modestly in the Ninth District, there are no signs here of a "credit crunch." Real estate developers report

increasing difficulty in obtaining credit from their traditional sources of funds, the savings and loans. Most contacts report that lending to their own businesses has not significantly changed. However, these contacts also report closer scrutiny of collateral and downpayments by banks. Bankers in farm areas report increased competition from the Farm Credit System for agricultural loans.

Resource-Related Industries

Mining remains one of the strongest sectors in the Ninth District economy. Precious metal mines in Montana, in particular, have continued to expand. Technological developments in underground mining have created new interest in reopening previously abandoned mines. The district's forest product industries have remained strong. Environmental concerns have continued to affect proposed expansion in both the mining and lumber industries.

Farmers in most of the district are still concerned about the lack of soil moisture. The one bright spot is Montana, where recent rains are reported to have increased soil moisture to the best level in several years. Winter wheat losses have been smaller than feared, thanks to a mild winter. Cattle prices are now reported to be high, and ranchers are generally optimistic about their prospects for the rest of the year. Rental rates for pastureland are said to have risen sharply. Land prices in the district are continuing their steady recovery from the depressed levels of a few years ago.

TENTH DISTRICT -KANSAS CITY

Overview. The Tenth District economy continues to grow modestly.

Retail sales are up from a year earlier, and auto sales are beginning to pick up a bit in some district states. Manufacturing plants continue to operate below capacity, though a few are experiencing skilled labor shortages. Oil and gas exploration and development remain stronger than a year ago. Housing activity is down from a year ago, but starts have increased recently due to warmer weather. Mortgage demand is weak at thrift institutions, and loan demand at commercial banks is generally steady to down from a month ago. Small businesses report only slight tightening in the availability of credit to them from traditional sources. Little if any such tightening is reported by agricultural borrowers. Rural nonfarm businesses are benefiting from the improved performance of the agricultural sector.

Retail Sales. Most district retailers report higher sales over last year, but mixed sales over the last three months. Some improvement in sales is expected in the next few months. Retailers are generally satisfied with current inventories and will try to keep them at current levels. Prices have changed in line with cost increases and are expected to change little in the near future. New auto sales have improved slightly in some district states but remain sluggish in others. Some dealers report tighter credit terms for potential buyers. Most dealers continue trimming inventories in expectation of only slightly higher sales in coming months.

Manufacturing. Most purchasing agents report moderate input price increases from a year ago. Prices have been fairly steady over the last three months and are expected to remain so or to increase slightly over the next three months. Materials inputs are readily available, and purchasing agents

expect no problems in obtaining materials for the rest of the year. Lead times on certain inputs have increased slightly, however. Most firms continue trying to trim inventories. Plants are operating below capacity, though a few are experiencing skilled labor shortages.

Energy. Oil prices were expected to soften in the second quarter, but high OPEC production and weak world demand caused prices to fall faster than anticipated. Already down \$3 from their mid-winter peak, prices declined an additional \$2 a barrel during the first two weeks of April. Despite softer prices, exploration and development activity in the district has increased from a year ago. The district rig count fell from 255 in February to 226 in March, but was 7 percent above the rig count in March 1989.

Housing Activity and Finance. District housing activity is down from a year ago. However, builders report stronger housing starts over recent months because of warmer weather. Single-family construction continues to be stronger than multi-family. New home sales are slow, and prices remain generally stable. Respondents expect housing activity to remain slow for the rest of the year. Most district savings and loan respondents report deposit increases both over last month and over last year. Respondents have mixed expectations about deposits in the near term. Some expect outflows due to continuing problems in the industry, while others expect inflows due to a return of customer confidence. Mortgage demand is weak at most institutions, and is expected to improve only seasonally. Mortgage rates remain steady and are expected to be steady to down slightly over the rest of the year.

Banking. Commercial bank respondents report total loan demand was constant or down over the last month. Home mortgages, commercial real estate loans, and commercial and industrial loans were constant at most banks;

agricultural loans were down. In contrast, most banks report higher demand for construction loans, and higher or constant demand for home equity loans. Prime rates and consumer lending rates were unchanged at nearly all banks, with no change expected in the near term. Nonprice terms of lending have changed for some borrowers, however. Some small businesses, and especially newer businesses and start-ups, report facing slightly more stringent lending terms, often in the form of higher collateral requirements.

Most banks report loan-deposit ratios unchanged or up from last month. Deposit activity was mixed at district banks. Levels of NOWs, MMDAs, IRAs, and Keoughs were constant at most banks, while demand deposits and large CDs were down at many banks.

Agriculture. The district's winter wheat crop is in good condition due to plentiful rainfall and mild temperatures in recent weeks. Above average wheat yields are expected in much of the district. Continued rainfall and low soil temperatures threaten to delay planting of spring crops in some states. Improved soil moisture conditions have bolstered the outlook for the district's spring crops, however.

Credit standards at district agricultural banks are generally steady. Credit is readily available to creditworthy farm borrowers, with repayment capacity a key lending condition. Some bankers in areas affected by the past two years of drought, however, report a modest tightening of credit standards on farm loans. Where the drought was especially severe, some farm loans restructured during the mid-1980s have required additional attention. Across most of the district, however, bankers report no undue problems with previously restructured farm loans.

The performance of rural nonfarm businesses in the Tenth District varies

widely. Most are stable, but some are growing moderately and others are declining slowly. Those rural nonfarm businesses dependent on agriculture have benefited from the improved performance of the farm economy.

ELEVENTH DISTRICT--DALLAS

The District economy continues its pattern of slow growth. Expansion has accelerated slightly in manufacturing. Non-auto retail sales softened in March. Auto sales are generally below a year earlier, but not in all parts of the District. Expansion in the service sector has resulted in labor shortages in some professions. Construction contract values are showing renewed signs of weakness, but employment in the industry is expanding. Oil and gas drilling activity is strong. Recent rains and rising prices have improved the outlook for agriculture.

District manufacturing activity has picked up somewhat since the last Beige Book survey. Oilfield equipment manufacturers note some seasonal declines in sales, but they expect growth this year as a result of rising drilling activity. Orders to steel firms are a little below a year ago, but are up from six months ago, and selling prices are increasing slightly. A maker of extruded aluminum products cites strong sales growth and says that such reports are common in his industry. Orders to construction-related fabricated metals firms are also rising, but a can manufacturer notes that the agricultural damage due to Texas' December freeze has lowered demand for his products. In the wood industry, sales by flooring and millwork makers are sluggish while lumber and plywood sales have increased. Demand is essentially unchanged for most respondents in the stone, clay and glass industries. Among electronics producers, orders for telecommunications equipment are showing strong growth, but demand for most other products has not changed much. With a few exceptions, demand for food products has held fairly steady, but prices

have increased on average. Paper producers note softening orders and say that pulp prices have fallen, in part, because of increases in the value of the dollar. In the apparel industry, demand has changed little in recent months, but is somewhat below last year's levels. Although demand for chemical products has increased in recent months, it is lower than a year ago. Oil refineries report stable demand, after seasonal adjustment, and several note increasing profit margins due to a widening spread between gasoline and crude oil prices.

Some District retailers said their sales were weak in March because Easter came late this year. Nevertheless, several national chains noted that year-over-year growth was slower in the District than in the nation. Among larger District cities, growth was strongest in Houston, and weakest in San Antonio. At the department stores, women's ready-to-wear sales were said to be fairly high, while sales of housewares were low.

Auto sales vary widely across the District, but they are generally weak. Auto sales are down markedly from a year earlier in Dallas and San Antonio, but up in Houston, where sales so far in 1990 are 21 percent over the same period in 1989. Houston dealers say they do not expect such high growth rates to continue.

The services sector continues its pattern of expansion. Business services and health care firms cite recent acceleration in demand growth. Health care firms cite shortages of personnel and relatively strong increases in wages.

After a mild recovery during the second half of 1989, District construction contract values have weakened in recent months. Construction

employment is increasing, however, due to earlier growth in contracts. Nonresidential contracts have been particularly weak this year, following a runup last year that was led by increased chemical plant construction. Residential building has declined slightly after mild improvement in the second half of last year. Conversely, after a weak second half, nonbuilding construction has recently been increasing. Multifamily permits continue to suggest growth in apartment construction. In both Dallas and Houston, apartment occupancy rates are above 90 percent and rents are increasing. Respondents in the Dallas area note a strong increase in single-family home sales, but prices remain sluggish and inventories have not declined much.

Like that of the nation, seasonally adjusted District oil and gas drilling continues to grow at a healthy pace. Year-over-year, the growth rate of drilling in the District is more than 50 percent higher than in the nation -- partly because the new horizontal drilling technology is particularly applicable to the Austin chalk formations in Texas. Recently, however, drilling activity has begun to grow faster in the United States than in the District. Despite declines in oil prices within the last month, respondents say that prices remain high enough to motivate further growth in drilling.

Agricultural conditions are improving, as frequent rain in February and March provided necessary moisture across the District, and prices received by Texas farmers and ranchers continue to rise to new record levels. The rain has markedly increased soil moisture in drought-damaged south Texas. Rain in the Texas panhandle has led to more optimistic expectations about yields for the winter wheat crop there. The March index of prices received by Texas farmers rose 5 percent above a year earlier, to reach its highest level ever.

A survey of business borrowers finds that credit is tight in the District but that this is not a new development. Recent credit restrictiveness has primarily affected building contractors and some of their suppliers. As a result of new restrictions on loan size, tougher loan standards, and larger and more liquid collateral requirements, speculative home building is said to be curtailed in some portions of the District. Large businesses, including large home builders, had few complaints about credit shortages. Many smaller businesses say their long-established relationships with their banks have allowed them to avoid funding problems.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions in the West are little changed. Most reports indicate that western businesses continue to do relatively well, although most respondents still expect slow national growth. Wage and price increases in the West continue to cluster in the 3 to 5 percent range, although larger price increases as well as price declines also have been reported. Sales of nondurable goods are reported to be continuing at a solid pace. Most reports on service industries are relatively upbeat. Conditions in manufacturing industries seem to be good overall. Current conditions are satisfactory in most resource industries, but signals suggest that activity may slow in the near future. Conditions in western construction and real estate markets remain fundamentally unchanged, with healthy activity reported in most parts of the West. Most bankers in the West report "good" or "stable" conditions.

Business Sentiment

Western business leaders continue to anticipate relatively slow economic growth during the next twelve months, although the proportion of respondents anticipating healthy growth has increased during the last month. No respondents anticipate that economic growth will exceed the 2 1/2 to 3 percent range, and only about 15 percent expect improvements in business investment, housing starts, or consumer spending. 44 percent of the respondents do anticipate some improvement in the trade balance, however.

Wages and Prices

Wage and price increases in the West continue to have a "central tendency" in the 3 to 5 percent range. Changes in construction costs have a particularly wide range, with bids in the

booming Sun Valley market up 12 percent in the past few months, and prospects of slower building activity in the Los Angeles area reducing bids there by as much as 15 percent in the last eight months. Wage pressures seem relatively intense in Hawaii, where a recently negotiated hotel workers' contract calls for average increases of 10 percent per year over the next five years, and bus drivers recently settled on a new contract with wages up 7 percent. Grain prices have fallen substantially, while health care cost increases continue to flirt with the double-digit range. Timber and paper prices appear to have stabilized.

Trade and Services

Sales of nondurable goods are reported to be continuing at a solid pace. One retail chain reports that, while sales continue strong at most of its western stores, it has noted some softening in the Los Angeles market for the first time. The wholesale apparel market is still in the process of recovering from the disarray associated with the financial problems of a few large retailers.

Most reports on service industries are relatively upbeat. However, a publisher reports that help-wanted advertising has fallen significantly during recent weeks, with a recent dropoff noted in advertising for health care positions.

Manufacturing

Conditions in manufacturing industries seem to be good overall. Activity remains robust in commercial aerospace, with companies trying to increase production further so that they can make more progress on their sizeable order backlogs. However, obtaining timely delivery of materials, parts, and sub-assemblies is constraining production increases for some companies. In addition, there is some evidence of increased export activity by manufacturers of specialized products such as precision machine tools, scientific instruments, and safety airbags for automobiles.

Agriculture and Resource-Related Industries

Current conditions are satisfactory in most resource industries, but signals suggest that activity may slow in the near future. Farmers in many parts of the West face water shortages after the fourth straight year of substandard moisture. In California, where farmers have been relatively unaffected by water shortages in recent years, farm water allotments for this summer are being reduced by as much as 50 percent. Higher water costs and changes in plantings are likely results. Growing conditions are better in most of Washington and Oregon, where water currently is more plentiful. Deliveries of logs currently are strong, but forest products companies face cutbacks in logging allowances due to environmental concerns. The effects of these cutbacks are likely to be most severe in Oregon, where Forest Service land historically has supplied a majority of logs.

Construction and Real Estate

Conditions in western construction and real estate markets remain fundamentally unchanged. Activity in California is returning to more "normal" levels in the previous hot coastal markets, but prices and sales activity remain robust in the more affordable parts of the state, such as Sacramento, Riverside, and San Bernardino. In Oregon, residential construction activity continues to strengthen. Seattle housing market activity continues to be relatively frenetic, although anecdotal evidence suggests that selling times may have lengthened slightly in recent weeks. Observers in Utah and Idaho report some improvement in activity in those states. Construction activity remains strong in Hawaii, while problems persist in Arizona.

A southern California developer reports that major properties seem to be selling at a slower pace, probably due to extra caution on the part of buyers. At this point, the dropoff in buyer interest has been most noticeable for buildings whose quality does not warrant a Class A rating.

Financial Sector

Most bankers in the West report "good" or "stable" conditions. Loan demand is strong or growing in most parts of the District. Mortgage demand continues strong in Washington, and more than doubled for some Utah banks during the past year.

There currently is little evidence of a "credit crunch" in the Twelfth District. Most contacts indicate that they have neither experienced recent changes in credit conditions, nor are aware of others that have experienced significant changes. However, more stringent regulatory limits on the amount that one borrower can receive from a single lender are reported to be restraining lending activity in some cases. Moreover, about a fifth of the contacts report that lenders they regularly deal with have increased collateral requirements on new loans, increased required down payments, shortened loan terms, or otherwise tightened lending policies.