

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS**

August 1990

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SUMMARY*

Business and banking contacts in the Reserve Districts generally report continued economic growth, though most noted that the pace was slow or had slackened recently. Among those Districts whose respondents commented on costs or prices, wages were reported as rising in a range of 3 to 5 percent, in most cases excluding benefits. Reports on prices did not display as much consensus, with some reporting widespread increases and others noting difficulty in passing on cost increases and attendant pressures on margins. Retail sales were generally described as a little better than a year ago or soft, with weaker-than-expected demand for big ticket items cited most often. In some Districts retailers indicated they had become less optimistic about the outlook for the rest of the year, though in others they were anticipating a slight pickup in sales.

Manufacturing activity is said to be flat, on balance, though healthy growth in tradeable goods is seen in a number of regions. Reports on real estate construction and sales suggest, for the most part, that activity is remaining below levels seen in 1989, largely because of continuing high inventories. Credit is said to be tight in some areas. However, little uniformity of opinion about the reasons for this was evident in the reports. Contacts in the

*Prepared at the Federal Reserve Bank of Atlanta and based on information collected before July 27, 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.

agriculture and natural resource sectors indicate a pretty good outlook at this point, reflecting better weather conditions in major crop and livestock producing areas and an improved energy sector.

CONSUMER SPENDING

Retail sales activity is described as soft to a little higher than a year ago, though contacts in Cleveland, Minneapolis, and Dallas noted strength in some areas. Retailers in New York City are less optimistic about the outlook given the continuing layoffs at banks and brokerage firms, while those in St. Louis expressed similar views in light of anticipated defense cutbacks.

Several Districts reported that demand for women's apparel in recent months was described as strong, while that for men's was weak. A few noted that sales activity in July had fallen off, though retailers in the Philadelphia District indicated that this was seasonal. Those in New York and Minneapolis remarked that an influx of Canadian shoppers was adding to sales in their Districts, while Dallas reported that retail activity in Houston and areas near the Mexican border was doing well. Reports on sales of home furnishings and appliances more frequently cited weakness, though there were exceptions to this. Vehicular sales were generally said to be flat or below year-ago levels, though contacts in Atlanta and San Francisco reported strong demand for used models.

Of Districts that inquired about inventories, five cited indications that they were higher than retail respondents desired,

while four noted that they were at levels acceptable to them. Kansas City added that financing for inventories is adequate.

MANUFACTURING

Contacts at manufacturing firms suggest that overall activity is flat, though responses varied considerably from industry to industry. Strength was reported in demand for products that are exported, and Richmond added that producers are looking to these markets for sales gains. Demand for domestic steel was also said to be stronger, and respondents in Dallas and Cleveland said that this reflected the reduced availability of imports given healthy demand in Europe. Current levels of auto production were also cited as a reason for the better demand for steel. Chicago noted that orders for liner board were stronger than contacts had expected.

With the exception of steel and commercial aircraft, backlogs and lead times were said to be working down. St. Louis, Minneapolis, and San Francisco noted that weakness was described as pronounced in defense-related activities. Dallas, Richmond, and Atlanta contacts saw weakness in textiles and furniture production.

Of Districts reporting on employment and price trends, most respondents indicated that labor utilization was either flat or likely to weaken based on announced layoffs. Wage increases appeared clustered in a 3-5 percent range, though two Districts noted that the benefit costs were rising faster, and two mentioned shortages of entry-level workers. Reports on materials prices were mixed, with stability to slight increases noted by some contacts

and flat to slight declines mentioned by others. Cleveland, Richmond, and St. Louis said costs and prices were generally rising, and contacts in the latter put the cost increases in a 3-5 percent range.

CONSTRUCTION AND REAL ESTATE

Reports on residential real estate construction and sales generally suggest that activity was below the pace of a year ago. High inventories of housing were said to be causing weakness in construction and in many cases causing downward pressure on prices. Cleveland, however, noted a mixed picture for sales, adding that prices were up in some cities by 6-8 percent over the last six months. St. Louis reported good demand for starter homes in the Memphis area. New York and Chicago realtors suggested that high-priced homes were the most difficult to sell. Respondents in San Francisco noted that a cooling of activity in coastal California dominated statistics for that District. Those in Boston indicated that the widespread media attention given to weakness in the District may be hurting real estate sales.

Five Districts reported asking about nonresidential construction, and most respondents saw weak or slackening activity in their regions due to large inventories of space. Some in New York added that, while rent concessions had increased leasing activity in Manhattan, corporate relocations had led to a rise in vacancy rates anyway, in contrast to stable or declining ones elsewhere in the District. Firms polled by Dallas indicated that

construction of petrochemical plants remains at a high level, and Atlanta respondents viewed public infrastructure as a bright spot.

FINANCE AND CREDIT

Several Districts report that the pace of commercial loan growth has recently slowed, and some indicate that its levels are below those of a year ago. Lending to consumers appears to have decelerated by a smaller margin in most Districts that reported on this, with current growth attributable largely to credit card and home equity lending. Respondents in several Districts indicate that new credit is more difficult to obtain for construction projects, though their remarks suggest some divergence of view as to the causes of this.. In New York, the glut of homes for sale is said to be the major deterrent to building, even though the shortage of finance for acquisition and construction loans appears to be spreading. Regulatory restrictions on S&Ls are said to be affecting small builders in Chicago, though Cleveland notes that a shift from thrifts has caused real estate lending to rise at banks. They also add that while increased borrower scrutiny is reported, there are few known outright cancellations.

About half the respondents in Boston saw the availability of bank credit as problematical for their own or other businesses. San Francisco notes similar views by a few respondents, though businesses and bankers in the District disagree about the extent of tighter standards and its impact on lending activity. Businesses in the Atlanta and Philadelphia Districts note problems with collecting on receivables.

AGRICULTURE AND NATURAL RESOURCES

District reports suggest that the outlook for agricultural production generally appears good at this point, though poor weather conditions are hurting crops in some areas. Kansas City indicates that wheat production in Kansas, the largest producing state, is the highest on record and more than twice last year's output. Prices are down sharply. St. Louis reports that wheat yields are lower by 12 to 26 percent due to disease. Chicago said that heavy rains earlier in the year had delayed planting. While Richmond said that rain brought relief to earlier drought conditions, Atlanta reported that hot and dry weather is reducing corn, soybean, and forage production by as much as 25 percent. Dallas also said that District crops, including cotton, corn and grains, were adversely affected by the heat and that prices in June averaged 6 percent above those a year earlier. Minneapolis noted that production costs for corn and soybeans were up 6-10 percent from last year.

The Districts reporting on meat production said output and prices were both strong, and Atlanta described robust conditions for poultry with export sales especially healthy. Minneapolis indicated that forest products were doing well. San Francisco, in contrast, said that a widely expected deterioration in logging and lumber had emerged due to weaker housing construction and environmental concerns. Kansas City and Dallas noted that oil production was up from a year ago.

FIRST DISTRICT-BOSTON

On balance, second-quarter growth at First District firms was slow and slowing. Retailers and wholesalers reported soft sales and intense price competition. They emphasized recent efforts to prune costs by reducing inventories. A majority of manufacturers continued to achieve year-to-year growth in sales, but the gains were often entirely attributable to exports. At many firms domestic sales were flat to down from year-ago levels, and incoming orders were slowing. Realtors interpreted a recent pickup in residential sales as very largely seasonal. Most businesses expect weak conditions to continue through 1991.

Retail

Retailers and wholesalers in the First District continued to report soft sales. About half the sample (primarily firms selling clothing, sporting goods, and drug-store items) achieved modest sales growth. They usually attributed these gains to increased promotional activities or to obtaining a larger market share because of weaker competitors' difficulties. For the remainder, sales were generally down several percent compared to year-ago levels for clothing and home items and were sharply lower for some specialty goods. This group of merchants also stressed that competitive pressures were leading to lower margins.

Most contacts have attempted to prune costs, especially by reducing inventories. They reported supply prices rising by 0 to 4 percent and modest wage increases. Some other costs, including fringe benefits, are rising more rapidly.

Half the respondents mentioned reduced availability of bank credit as a problem either for their own business or for other area businesses. The remainder indicated that they had had no problems obtaining required inventory financing.

A couple of large retailers are planning for a stronger fall season. The majority did not see any good news on the horizon, however, and expect continued weak sales for the foreseeable future.

Manufacturing

Domestic shipments were flat to down from year-ago levels at just over half of First District manufacturers contacted. Declines ranged from 1 to 10 percent. Exports performed considerably better than domestic sales at most respondents. Accordingly, total sales including exports were above mid-1989 levels at more than half of the firms surveyed.

Reported gains varied from 3 to 20 percent. New orders were generally described as flat, down, or slowing. Along with exports, niche and new products performed reasonably well. By contrast, domestic demand for office products, construction- and computer-related items, machine tools, instruments and consumer goods was relatively weak. Reports on incoming orders from the aerospace and auto companies were mixed. Manufacturers continue to watch inventories carefully, but few report any excessive buildups.

Materials prices were generally stable or down slightly from year-ago levels. Selling prices are flat to down at two-thirds of the firms contacted, with two offering discounts of 8 to 20 percent. At the remainder, recent or planned price increases average 2 to 5 percent, but one firm plans a price rise of 9 percent.

Employment remains at mid-1989 levels at over half of the manufacturers contacted. The remainder have reduced employment by as much as 10 to 15 percent through layoffs, attrition and shorter hours. Wages are above year-ago levels by 3 1/2 to 7 percent.

Two-thirds of First District manufacturing contacts are increasing capital spending from 1989 levels, with increases ranging from 7 to 50 percent. For the rest, capital expenditures are as much as 40 percent below 1989 levels. Spending plans focus on equipment, primarily computer systems, expected to improve productivity or needed for new products.

Sixty percent of First District manufacturers describe their outlook as very cautious. They generally foresee "tough" conditions lasting into 1991, but they are counting on exports, new products, or price increases to support their firms over the next 12 months. The remaining respondents are modestly optimistic. They too are looking for exports and new products to buoy sales. Nevertheless, an anticipated pickup in demand from the auto and computer industries is crucial to their expectations. Most contacts express more confidence about the prospects for their own firms than for the economy as a whole.

Residential Real Estate

First District realtors report a recent seasonal upturn. Sales are said to be roughly the same as this time last year in a market characterized as soft. Prices are falling, and inventories are large. Several realtors noted a slight pickup in condominium sales. Realtors link the industry outlook to the state of the regional economy and the coverage it receives in the press. They report that consumer confidence is now low because of uncertainty about interest rates and slow economic growth.

Second District--New York

Developments have been mixed to somewhat soft in the Second District economy since the last report. On the positive side, District unemployment rates have remained below the national average. Retailers have had varied sales results. Despite a decided pickup in office leasing activity, vacancy rates in Manhattan have moved somewhat higher and homebuilding activity has weakened in much of the District. Based on a survey of small and medium-sized banks, demand for both residential and commercial real estate loans is weaker than a year ago.

Consumer Spending

The pattern of District department store sales was mixed in recent weeks. Some contacts reported that sales were well below plan but results at other chains met expectations. Moreover, sales in Buffalo and some other upstate areas are reportedly being bolstered by an influx of Canadian buyers.

During June, over-the-year changes in sales ranged from -7.3 percent to +7.4 percent. Some New York City retailers with disappointing results expressed concern that the local economy may be in a downturn and were not optimistic about any near-term improvement. One cited the continuing layoffs at banks and brokerage firms, the disarray in the retail industry, and the weak real estate market as major factors in the slowdown.

Sales of home furnishings and men's apparel were most frequently cited as weak, while over-the-year gains in some types of women's apparel were widespread. Inventories remain satisfactory due primarily to careful monitoring. Some stores in bankruptcy or with substantial debt noted an improvement in their level of stocks due to less reluctance on the part of manufacturers to supply them. In Manhattan the space vacated on Fifth Avenue by a recently failed chain has just been leased by the largest department store company in France.

Residential Construction and Real Estate

Homebuilding activity in the Second District weakened somewhat further in recent weeks. Upstate New York areas where the pace of construction had previously remained strong are now reporting a slowdown and the New York metropolitan area and northern New Jersey showed no improvement. While the shortage of credit for acquisition and construction loans appears to be spreading, several respondents stated that the continuing glut of homes for resale is also a major deterrent to new construction. Prices on resale homes have declined but apparently are still unacceptably high in many cases. Demand for lower priced, "affordable" housing remains strong however, though the available supply is limited.

Despite a decided pickup in office leasing activity during recent weeks, in part because of declining rents and other concessions, vacancy rates in both midtown and downtown Manhattan moved somewhat higher primarily as a result of a continuing contraction by financial service firms and the relocation of some companies to other areas. Elsewhere in the District, vacancy rates have recently declined in Fairfield County and have stabilized in Westchester County and northern New Jersey as a result of strong leasing activity and a slowdown in new office completions. Since few new office projects are being proposed given the more than ample supply of space in the District, a shortage of credit seems to be less of a problem in this market than among homebuilders.

Other Business Activity

District unemployment rates in June were unchanged from May and remained somewhat below the national average. New Jersey's rate was 4.8 percent and New York State's 5.1 percent. The employment situation is even stronger in western New York where the unemployment rate declined in May to 4.6 percent in Buffalo and 3.6 percent in Rochester. However, two recent announcements cast a cloud on the employment outlook. Fisher-Price Toys plans to close a Buffalo area plant by the beginning of November, eliminating more than 700 jobs. In addition,

Maxwell House plans to close its coffee-processing plant in Hoboken, New Jersey, that city's largest industrial employer with 600 workers.

The June Rochester purchasing managers' survey described local conditions as stable. With regard to the outlook, 47 percent of respondents expect conditions to improve over the next three months compared with only 9 percent in June 1989. In Buffalo the percentage of purchasing managers reporting a rise in output increased while the percentage of firms with higher new orders showed little change from May.

Financial Developments

Based on a survey of small and medium-sized banks in the Second District, demand for both residential and commercial real estate loans is weaker than a year ago. Two bankers stated that local real estate prices are inflated and that the market is currently undergoing an adjustment. With regard to supply, a majority of bankers characterized their real estate lending practices as tighter than three months ago. Although only two had changed their qualifications for accepting loans, many are placing more scrutiny on existing qualification requirements. In particular, several banks are evaluating property appraisals more carefully and one banker reported placing an increased emphasis on the cash flow and net worth of borrowers. Only two bankers have lowered their maximum loan-to-value ratio, and none of those surveyed had changed the spread between the interest rate they charge on real estate loans and their benchmark rate. Three bankers reported declines in real estate loans as a share of all loans at their institutions. One mentioned that his bank had increased its advertising for consumer installment lending, hoping that it will be a safer market in which to make loans. Several bankers noted that an oversupply of commercial and residential development has led to an increase in both commercial and residential vacancy rates over the past year and that real estate prices have fallen as well. Two bankers stated that the drop in prices may result in a leveling off or perhaps a slight increase in real estate loan demand over the next year.

THIRD DISTRICT - PHILADELPHIA

The pace of economic activity in the Third District appeared to be easing somewhat in July, according to reports from business contacts. Manufacturers reported a slowdown for the month. Retailers generally indicated that sales in July were running below the rate that had prevailed in the first half of the year, although they thought the decline was largely seasonal, and auto sales were off from last year's pace. Bankers reported slowing overall loan growth for the month, with some gains in consumer lending while other credit categories were nearly flat.

Looking ahead, the consensus of expectations is that economic conditions will remain level. Overall, manufacturers anticipate just steady activity over the next six months. Retailers expect slow sales during the rest of the summer but they look for a slight pickup in the fall. Bankers expect consumer lending to continue growing modestly, but they anticipate no significant expansion of business lending unless overall economic activity accelerates, and they plan continued restraint in real estate lending.

MANUFACTURING

Third District manufacturing activity slipped overall in July, according to firms contacted for this report. While just over half reported steady business, companies reporting declining activity outnumbered those posting gains by nearly two-to-one. Slower business characterized nearly all the manufacturing industries in the district.

Overall, although area firms were stepping up shipments in July, other measures of activity indicated that they were operating at less than full capacity. Local companies were working down order backlogs even though they were

receiving new orders at a virtually steady pace; and, although most of the firms contacted were maintaining employment levels, one-quarter were reducing payrolls and nearly one-third were cutting working hours. Decreases in delivery times were generally reported, another sign of slackness in the manufacturing sector.

Looking to the future, forecasts are varied but the balance of opinion among Third District manufacturers is that business will stabilize at the current level over the next six months. Managers at area plants are nearly equally divided among those predicting improvement, those anticipating continued decline, and those who expect steady activity between now and January of next year. On balance, area manufacturers forecast a constant rate of orders and shipments through the beginning of next year, and they expect a further decline in backlogs and shorter delivery times. Consistent with this scenario of slack demand, area firms plan further reductions in payrolls and working hours this year.

RETAIL

Third District retailers generally indicated that sales for the year through June ran around even with the year-ago period in real terms, which was in line with their expectations. Most of the merchants contacted in late July said sales for the month had softened somewhat, but they considered the falloff to be largely seasonal. Store executives generally indicated that inventories were appropriate for the current sales pace. In discussing the overall inventory situation, some store executives noted that factors were continuing to exercise caution in extending credit to suppliers of stores that were not showing clearly healthy sales and profit trends.

In their outlook for the rest of the year, Third District retailers see slow sales through the rest of the summer and a pickup in the fall. Some mentioned that they are formulating fairly aggressive advertising and promotion campaigns for the second half. While most of the merchants contacted for this

report expressed guarded optimism for their own stores, several said they did not expect overall retail performance to improve much for the balance of 1990 or 1991.

Third District auto dealers indicate that their results recently have been running in line with the sales rate nationwide, but with a good deal of variation week-to-week. Unit sales are off from last year's pace so far, and dealers say unit sales for the entire year could be as much as 10 percent below 1989's but they expect an improvement in dollar sales and profits.

FINANCE

Third District bankers described total lending as growing very slowly in recent weeks. Most Third District banks are refraining from new commitments for commercial real estate lending while permitting drawdowns for borrowers who had made credit arrangements earlier. Bank lending officers report little or no growth in other business loans outstanding, and they attribute the weakness in this category of lending about equally to declining loan demand and tightened credit standards. Consumer lending is growing modestly at area banks, with increases in credit card balances and home equity credit outstanding. Auto loans, however, are described as flat.

Bankers in the Third District generally expect loan growth to remain weak in the months ahead. Several noted that commercial real estate credit outstanding will probably flatten out or decline because virtually no new commitments are being made and existing credit lines are close to being fully utilized. Bankers do not expect more than minor gains in other business lending, despite the recent easing in short-term interest rates, unless overall economic growth accelerates. Consumer lending is expected to continue growing slowly.

FOURTH DISTRICT - CLEVELAND

Summary. Consumer spending appears to have emerged from its slump earlier this year, and District retailers are cautiously optimistic about sales prospects for the fall season. Fourth District business activity is supported by a revival in manufacturing output, and respondents expect that activity in the second half will match or exceed the first half. There appears to be no abatement in price pressures this half from the first half. Housing construction in Ohio has eased somewhat less than in the nation, but housing prices continued to rise through mid-year. Ample funds are available for single-family units, but lenders are extremely cautious about loans for multifamily and commercial construction.

Consumer Spending. The consumer spending slump appears to have bottomed in May, according to District retailers. They report moderate sales growth in June that continued into July. Spending on household durables, particularly furniture, was reported to be soft, with the possible exception of small appliances. Apparel sales, a sluggish performer during the spring, seem to have improved so far this summer. Retail inventories remain high, but are generally reported to be falling, with most of the excess inventory expected to be gone by late August or September. The consumer spending outlook is guardedly optimistic for the fall, although major retailers report that orders for fall delivery were less than typical for the season. Consumer prices are reported to be stable, with little beyond seasonal discounting expected.

Manufacturing. District activity has been supported by a somewhat better-than-expected revival in manufacturing output in recent months. Strengthening in output has come from continued growth in exports, a mild comeback in auto output, and some buildup of inventories.

Steel output has held up better than expected. Operating rates of some flat-rolled steel producers have been hovering at about 90% of capacity, and order books at one mill are reported to be full, although lead times are not as extended as last year. Orders and shipments in July are reported to be stronger than usual. Orders for construction steel, however, have been weakening. Some of the unexpected strength in overall steel output has occurred because the volume of imported steel has fallen in response to weak domestic steel prices and strong demand abroad.

Auto output this quarter is expected to be sustained at last quarter's rate, barring a work stoppage in the industry because of labor contract negotiations. The cautious optimism for the third-quarter production outlook apparently is based on strong dealer demand for light trucks during much of the 1990 model year. Auto dealers in the District report a significant slowdown in new car sales in July from June. Dealers are not as optimistic about near-term sales prospects as they were in our previous survey. They note less showroom traffic, a perception that consumers are concerned about a slow-growth economy, and the price increases announced by the Big Three auto producers.

A capital goods producer is slightly more sanguine about over business spending for producers' equipment this half than they were a few months ago, because manufacturing output is better than he expected.

District surveys and respondents suggest cautious optimism that second-half production will be as good as or better than the first half. The latest survey of CPAs in Ohio shows that 87% of the 600 respondents expect that business in Ohio will equal or exceed the first half, which is slightly higher than in the previous survey. The latest survey of purchasing managers in Cleveland shows that 73% of the respondents expect a similar scenario.

Prices. There are no signs that inflation pressures are abating. The latest purchasing agents' survey in Cleveland shows that their "inflation forecast has increased slightly," and that 76% of respondents expect an inflation rate in a 4% to 5% range by year-end 1990. Economists in the District also expect inflation within that range at least well into 1991. Near-term prices may be jarred upward by higher crude oil and gasoline prices if OPEC cuts back production, or if state and federal governments increase taxes on gasoline. Some metal producers will attempt to raise prices this half in response to higher labor compensation costs, and some capital equipment producers and their suppliers will attempt small price increases over the next several months, following a period of virtually no change.

Construction. The tone of comments from District respondents suggests a continued slackening pace of construction, especially for commercial buildings. New housing starts in Ohio during the first half of 1990 were slightly below the pace of a year earlier. New home sales in Pittsburgh and Cincinnati rose during the first half, but fell slightly in Cleveland. Home prices in those cities rose between 6% and 8% in the first half. Lenders report that ample funds are available for single-family housing. Funds for multifamily construction are more difficult to obtain, according to builders.

Since spring, contract awards for nonresidential construction in Ohio have been lagging slightly from a year earlier, but the decline in awards through June has been relatively less than for the nation. Construction of office buildings and shopping centers has been under downward pressure because of high and rising vacancy rates, especially in suburban areas of the District's major metropolitan centers.

Financial Developments. Bankers generally report continued soft demand for loans in response to a slow-growth economy. Ample funds are available for qualified borrowers, and one lender states that his bank is actively soliciting loans. Real estate loans have strengthened as borrowers shift from thrifts to banks.

Banks and borrowers report that real estate loans are increasingly scrutinized. Builders of multifamily units complain of extensive requirements for loans, but acknowledge that alternative methods of financing are available so that there are few known outright cancellations of construction projects. A builder of shopping malls obtained financing from a bank in Canada, and a builder of condominiums reports that breaking up large planned units into smaller units that are largely leased is an alternative way to qualify for financing.

FIFTH DISTRICT-RICHMOND

Overview

District business conditions generally weakened in recent weeks. Tourism during the first month of summer was not as strong as in past summers. Retail sales fell, but retail inventories were essentially unchanged. Manufacturing activity softened, and manufacturers' optimism about future prospects waned somewhat. Price increases were widespread--for producer inputs and for wholesale and retail merchandise. Activity at District ports was mostly unchanged. Bankers reported lower interest rates and steady loan demand but a decline in the quality of loan applications. In agriculture, crop conditions improved and District lenders said they were seeking new agricultural loans.

Tourism

A telephone survey of hotels, motels, and resorts throughout the District indicated that summer tourist activity has been lower this year than in the last several years. About two-thirds of the respondents reported a decline in tourism while about one-fourth noted little change. Respondents attributed the decreases in activity to the mid-week July 4th holiday and the sluggish economy. About half of those contacted said that their August bookings were even with last year's while 40 percent reported declines. One-third of the respondents expect tourist activity to decline in coming months; one-fourth look for an improvement.

Retail

Responses to our regular mail survey of District retailers indicated that sales in the first two weeks of July were slightly lower than in the last half of June. About 40 percent of the retailers reported that their sales were down

while about one-third said they were higher. Big ticket sales as a share of total sales slipped in early July from June levels; 40 percent of the retailers reported declines while four percent reported increases.

Prices of merchandise rose while inventory levels were mostly unchanged over the period. Almost half of the respondents reported that they had raised their prices in the past month, and nearly 60 percent indicated that they had paid higher prices for goods at wholesale.

Manufacturing

Our regular mail survey showed that District manufacturing activity slowed in early July from early June. More respondents indicated decreases than increases in shipments, new orders, order backlogs, the length of workweek, and the number of employees. In our last survey, these categories had been mostly unchanged. Inventories of materials fell while inventories of finished goods rose slightly. On a more positive note, new orders for exports rose somewhat.

When asked to indicate the most important problem facing their firms, more than half of the respondents identified poor sales. Poor sales seem to be particularly pronounced in the textile and furniture industries. One textile firm said weak sales had pushed profits down, and another noted that several textile plants had closed this year.

District manufacturers' views of current conditions in the national economy mirrored their own business activity. Almost two-fifths of the respondents said they believed economic activity in the nation had declined compared to a month ago. Looking forward, respondents remained optimistic but were somewhat less so than earlier this year. A majority still expect increases over the next six months in their shipments, new orders, the workweek, and new orders for exports. They look for backlogs of orders to be unchanged, but expect inventories of materials and of finished goods to shrink.

Over one-third expect national economic activity to increase in the next six months while 27 percent look for a decline. In our June survey, however, 80 percent expected the nation's economy to turn up in coming months.

Ports

There was little change in port activity overall in the District. Reports received from the three major District ports--Hampton Roads (Norfolk), Charleston, and Baltimore--showed exports were higher in June than in May at Charleston, lower at Hampton Roads and about the same at Baltimore. June export activity was also mixed compared to a year ago with shipments higher at Hampton Roads and unchanged at Baltimore and Charleston. Imports rose in June from May levels at Hampton Roads and Charleston but fell at Baltimore. June import activity was about the same as a year ago at both Baltimore and Charleston, but lower at Hampton Roads. Port representatives expect the ratio of exports to imports to rise during the next six months at Hampton Roads, fall at Charleston and remain unchanged at Baltimore.

Financial

District financial institutions contacted by phone reported that loan activity had been steady since mid-July. Slightly more institutions reported increases than decreases in loan applications since mid-July, and respondents expect their lending to pick up in the weeks to come. Almost 40 percent of those contacted, however, said that the quality of loan applications had fallen over the past month, and only one respondent reported better quality applications.

Reductions in interest rates were reported by many respondents and most expect further reductions in the weeks ahead. Lower interest rates on loans were reported by 46 percent of the respondents and none reported higher rates. About three-fourths of those surveyed expect the rates they charge on loans to decline in the near future and none look for rate increases.

Agriculture

Widespread rainfall in July brought relief to District crops that had been severely stressed by June's heat and drought. In most areas crops were recently rated in generally good condition, although in some parts of South Carolina they were still short of moisture.

Preliminary results from a July 1 survey of District agricultural lenders show that over three-fourths of the respondents were actively seeking new farm loans. Four-fifths of the respondents said that the availability of funds was greater than usual at their institutions, but 28 percent characterized loan demand as less than usual compared to eight percent who reported it to be greater than usual.

SIXTH DISTRICT - ATLANTA

Overview: Contacts throughout the Southeast generally see a continuation of the slow growth they have been reporting for the past several months. Consumer spending on big ticket items, such as autos and houses, is turning out well below earlier expectations of moderate growth. Businesses also report increased efforts to conserve cash by not paying suppliers promptly. These factors are said to be causing increased pessimism over future activity compared to our earlier surveys. Reports on retail sales indicate at most modest growth as compared to the same period last year. Auto dealers continue to indicate their sales are even with or below the same period in 1989. According to bankers consumer lending remains below last year's levels, while real estate and business lending continue to grow at a moderate pace. Construction contacts indicate that the overall weakness in commercial and residential construction continues. Except in the textile and auto related industries, Southeast manufacturing is reportedly continuing to post modest growth. Farm contacts estimate that the drought in June and early July has destroyed approximately a quarter of the region's corn, soybean and forage crops. Shortages of entry level workers are increasing but no additional pressure on wages or prices are evident.

Retail: With a few exceptions, retail activity is reported to be growing but at a slower pace than at this time last year. Almost uniformly, contacts indicate that women's and children's apparel is selling well, while men's apparel sales have slowed noticeably in the last month. Reports on durable goods sales are mixed geographically, but most areas indicate some pickup recently in home appliances and items associated with home improvements. Consumers are reluctant to purchase houses, but a desire to fix up their current housing is most often given as the reason for the improvement in durables sales.

In light of slow sales and a more pessimistic outlook among retailers, they report plans to reduce inventories. Retailers are also expressing concern over reports of credit tightening by commercial banks and are reportedly slowing down payments to suppliers in an attempt to conserve cash. Some manufacturers and business services suppliers noted problems collecting on growing receivables.

Auto dealers continue to report slow sales and do not expect a pickup in the next few months. Import dealers are reporting stronger sales growth than are domestic dealers. Import sales are equal to or slightly better than last year's. Dealers report that domestic manufacturers have not come forward with new incentive plans as expected, while some import manufacturers have extended their incentive programs. Almost all dealers stated that used car sales are strong and report difficulty finding quality used cars.

Manufacturing: Reports from textile producers, auto, and auto related manufacturers, and furniture manufacturers continue to indicate weakness; however, most other manufacturers are reporting good year-over-year growth. Producers of heating and air conditioning equipment as well as marine equipment, continue to note increasing sales relative to last year. Paper producers saw a slowdown in domestic sales in recent weeks; nevertheless, a recent pickup in export sales has allowed most to run at capacity. Pulp and wood products production has rebounded in recent weeks amid growing export demand. An aluminum producer reports healthy growth in sales year-over-year and has announced plans for a new plant to expand capacity. Sales by producers of farm equipment are also increasing over last year as a result of the improvement in the agricultural sector nationwide.

Real Estate and Construction: Construction contacts indicate that residential and commercial construction remain weak, and are significantly below last year's levels. They also indicate that the overhang of both residential and commercial properties is being absorbed slowly.

More stringent lending standards continue to be mentioned as retarding factors for new commercial and residential projects. The only bright spot in the construction sector is in public infrastructure.

Financial Services: While most bank contacts indicate that business loan growth remains slow, some noted a pickup in demand for loans by petrochemical and medical businesses and nursing homes. Reports indicate real estate loans continue to grow slowly. Demand for consumer loans, especially auto loans, has slowed significantly in the last few months. A number of our banking contacts reported concern over a rise in credit card delinquencies and noted increasing consumer and small business bankruptcy filings.

Agriculture: District farmers report that the June and early July drought resulted in the loss of approximately 25 percent of the region's production of corn, soybean and forage crops. Losses are reportedly heaviest in Georgia and Tennessee, where two-thirds of the District's total production of these crops occurs. Poultry producers indicate a continuing high level of sales, especially for export with some reporting that export demand for poultry is up 40 percent from a year ago. District poultry producers indicate that recent sales to the Soviet Union, several Eastern European countries and Japan have brightened their outlook considerably.

Wages and Prices: As has been the case for the last several months, reports from around the District revealed little new wage or price pressures. Scattered reports that certain types of skilled labor are in short supply continue to be received, but these are localized. Reports of shortages of entry level workers are increasing.

SEVENTH DISTRICT--CHICAGO

Summary . Economic conditions in the Seventh District are mixed, with manufacturing contributing the most consistent but slow improvement. District employment rebounded in May, after two months of modest decline, and general economic indicators for metropolitan areas in the District expanded in June. Respondents report that manufacturing continues to post modest gains in sales and orders, except among defense-related markets. Retail spending in the District is mixed, with sales growth linked to price cutting, and the housing market in the Chicago area is softening. Several banks report a slowdown in lending activity related to regulatory changes and a slower economy, but overall credit standards are little changed from the beginning of the year. Crop prices have been volatile in recent weeks, but weather conditions have been near ideal.

Labor Markets and Economic Indicators. Labor market conditions in the District improved slightly in May, but unemployment rates were noticeably higher than a year ago. Total payroll employment in most District states rose in May, but remained below the high for this year reached in February. Virtually all the employment gains in recent months have come from the nonmanufacturing sector, including increases in the Chicago area despite sizable layoffs among several major retailers and financial institutions. The average unemployment rate for the District dropped a tenth of a percentage point to 5.6 percent in May from the previous month. Michigan's unemployment rate was highest in May at 7.7 percent, but dropped to 7.3 percent in June. However, the unemployment rate for the District a year ago averaged 5.0 percent, with Michigan's rate near 6.0 percent.

Purchasing managers' surveys in the District generally showed activity expanding in June. The Detroit survey in June rose 2 points from the previous month to 50.9, marking the first time in fifteen months that the index registered an expansion in activity. Much of the improvement was centered in auto-related production and orders. The Chicago purchasing managers' survey for June continued to show expanding activity, but at a slower pace than in May. According to the survey, production edged down from the previous month, which was its highest level this year. Although orders slowed markedly in June and backlogs declined, the

Chicago survey indicated that most purchasing agents expect business activity to improve over the rest of the year.

Manufacturing. Several respondents in the District reported that orders and production were continuing to make modest improvements. Orders for truck engines had an uptick in May, according to an industry source, after being weak since late 1989. Orders and backlogs of nondefense machinery were up in May, according to a capital-goods producer, but defense-related orders were down significantly. An electronic equipment producer reported good order's growth in recent months, despite some softness in key markets, including autos. While shipments are not expected to "boom" this year, sales of electronic components are expected to continue to improve. A producer of liner board reported that an expected weakness in shipments this summer has not materialized. After two months of flat sales, June and early July sales turned around and were running slightly above trend. A major supplier of construction materials stated that plants in the District were operating on average at about 95 percent of capacity, compared to 80 percent in the eastern part of the nation.

Steel shipments for the second quarter were about the same as in the second quarter of 1989, according to a major steel producer in the District. Summer bookings have been strong, in part because of increases in auto production. Appliances appear to be booking normally for the summer. Total steel shipments in the third quarter are expected to be ahead of seasonal gains.

Consumer Spending and Real Estate. Retail sales activity in the District was mixed in June. An economist for a major department store chain reported an overall lackluster sales performance in June, despite good sales in auto parts and appliances. Home improvement sales were particularly poor, as were lawn and garden sales. Sales growth in Iowa and Wisconsin was about average for the nation, but growth in Michigan and Indiana was below average. While inventories were down in June, weak sales pushed the retailer's inventory-to-sales ratio up. A major discount chain in the District reported above average gains, led by strength in apparel sales. Sales growth, however, was aided by increased price cutting.

Housing sales in the Chicago area dropped in June from year-ago levels, according to an

area realtor. Some of the decline was attributed to exceptionally high sales last year. However, June sales were also slightly below the six year average for that month, indicating some softness in the market. High priced homes are having the most difficulty selling, according to an industry analyst. The rate of pricing increases in the Chicago area has slowed significantly since last fall. Price increases since October were reportedly running slightly below the inflation rate, compared to double-digit rates earlier.

Banking. Several financial institutions in the District reported a slowdown in the growth of lending activity in recent months. Commercial and industrial loans were expanding below expectations at some banks, which was attributed to softness in the economy. However, other banks noted that loan growth was continuing at the trend rate. Mortgage lending continued to be relatively strong in June, according to several bank officials, although lending volume was below a year ago. As a result of higher lending restrictions on S&Ls that limit the share of total equity capital devoted to a single loan customer, construction lending has been hard hit. Small builders are particularly being affected, according to a financial analyst.

Credit standards have changed little since early in the year, according to several respondents, but bank examiners have become increasingly thorough in evaluating loan risk. Highly leveraged borrowing is down sharply and, in many cases, banks have shortened the maturity of loans to limit risk exposure. However, most bankers stated that "quality" loans are having no problems with funding. One District bank reported picking up business from other banks that had backed out of projects in recent months.

Agriculture. Crop prices have been quite volatile in recent weeks, with much of the volatility tied to weather conditions and the implications for potential yields. Near ideal weather conditions over the last couple of weeks have offset some of the earlier concerns about rain-delayed planting and the heat wave in early July. Corn and soybean crop conditions throughout much of the District are rated "good," despite smaller-than-normal plant growth for this time of year. However, yield prospects still hinge to a large extent on weather patterns through mid-August and the timing of the first killing frost this fall.

EIGHTH DISTRICT - ST. LOUIS

Summary

Sluggish economic growth is reported by most contacts throughout the District. Retail sales and employment levels are flat or expanding slowly. Manufacturers plan to eliminate several thousand jobs in the near future. Loan growth has slowed at the District's largest banks.

Consumer Spending

Retail sales in recent months are described by most contacts as flat to slightly higher than a year earlier. Memphis has shown moderate sales growth, however, partially because of increased sales at restaurants and apparel stores. Some retailers expect a slowing in sales because of the anticipated contraction of military bases and layoffs at auto and military aircraft plants. In most parts of the District, sales of durable goods, particularly home appliances, televisions, and other consumer electronics, are flat or below year-earlier levels. Most contacts report recent vehicle sales as flat to down slightly from a year earlier. Some contacts in Arkansas and Kentucky, however, report moderate gains in vehicle sales, particularly of vans, light trucks and small to midsize cars.

Labor Markets

District employment growth in recent months has ranged from small gains in Arkansas to slight declines in Kentucky, Missouri and Tennessee. Contacts expect no substantial job growth in St. Louis for the remainder of 1990 because of the planned layoffs of approximately 7,000 auto and defense industry workers. One labor analyst predicts that the layoffs will cause

the area's unemployment rate to be approximately one percentage point higher by year's end than it otherwise would have been. A slowdown in the trucking industry led to layoffs of St. Louis drivers and an easing of a driver shortage in Memphis.

Manufacturing

Manufacturing activity has weakened recently. Employment declined in plants making nonelectrical machinery and some nondurable products, such as chemicals, textiles and apparel. One tire plant will cut production soon in response to slow car sales. Many defense contractors, including those making shoes and electronic components, are curtailing their operations due to declining government contracts. To cut costs, one large defense contractor will lay off approximately 5,000 workers before year's end.

An increasing number of small manufacturers, including those making electronic components and valves, is opening plants or distribution centers in Europe to provide better service to European customers. One producer of computer-related equipment will soon export to Poland and receive shoes as partial payment.

Input costs and product prices generally are expected to be 3 to 5 percent higher next year, but some contacts note slight declines in some input prices and widespread resistance to product price increases. Several contacts note that they have been unable to raise their prices for two or three years due to competitive pressures.

Construction and Real Estate

In response to generally flat rents and high vacancy rates, the construction of multifamily dwellings has almost stopped in many parts of the District. Single-family homebuilding is weaker than a year earlier in most areas. In Louisville, however, the construction of both single-family

and multifamily dwellings has expanded and is well above year-earlier levels. The building of starter homes in Memphis is strong. There is widespread uncertainty regarding the near future, but contacts in most areas expect homebuilding to weaken slightly in the year's second half. Contacts report that residential construction contractors in St. Louis, with little available work, have lowered their bids to the point where some weaker firms may soon fail.

Agriculture

Most District crops are in fair to good condition. Soil moisture conditions are reported as adequate in Missouri and Tennessee, but the remaining District states report that soil moisture is short. The dry soil conditions, in conjunction with a recent heat wave, stressed the late-planted corn crop and may have lowered potential yields in some areas. District states' wheat yields were reduced by 12 percent to 26 percent from a year ago because of diseases that developed during the wet spring.

Banking and Credit

Loan data for the period from mid-May to mid-July point to a slowdown in credit growth. Total loans at the District's 11 largest banks increased 0.7 percent over this interval compared with a 2.3 percent expansion over the same period last year. Commercial loans, which represent about one-third of total loans at these banks, declined 0.1 percent over the two-month period compared with a 2.1 percent increase one year ago. Real estate loans increased 4.1 percent over the two-month period last year compared with a 3.3 percent rise this year; the increase in consumer loans was down from 0.9 percent to 0.2 percent this year. As of mid-July, commercial loans on these banks' books were 4 percent below their year-ago level.

NINTH DISTRICT--MINNEAPOLIS

Ninth District economic conditions have been moderately good lately. Labor markets have been strengthening, retail sales have been growing fairly well, and tourist spending has been strong. However, new cars have been selling very slowly, housing activity has been lackluster, and nonresidential construction has been weak. Conditions have been mixed in manufacturing, but resource-related industries have been doing very well.

Employment, Wages, and Prices

Labor market conditions have improved after showing signs of softening in the first four months of the year. Minnesota's unemployment rate was 4.3 percent in May and 4.2 percent in June. These rates are sharply lower than April's 5.4 percent rate and also lower than the 4.5 and 5 percent rates in May and June 1989. However, there have been reports that many applicants for jobs in Minnesota are overqualified. This phenomenon has been attributed to the continuing difficulties of high technology industries in the state. In the rest of the district, unemployment rates have been stable.

Wage and price increases have remained at a moderate 3 to 5 percent rate in the district. A manufacturer of wood products in the Minneapolis-St. Paul metropolitan area reports that wage and benefit packages have been increasing at a rate of around 4 percent. A contractor in the Upper Peninsula of Michigan reports that, in spite of strong demand for workers, wage and benefit packages have been increasing at only a 3.5 percent rate. However, costs in agriculture are reported to be increasing at a more rapid rate. The costs of producing corn and soybeans are reported to be 6 to 10 percent higher than last year, with most of the increase reflecting higher rental rates on land.

Consumer Spending

Retailers of general merchandise in the district report fairly good sales growth. One retailer reports that, compared to a year earlier, sales in June were up 4.1 percent and sales in the first half of the year were up 5 percent. Another retailer reports that sales in June were 8 percent higher than a year ago. In North Dakota and Montana, retailers report that their sales have continued to grow strongly, due mainly to Canadian shoppers. Inventories are reported to be at acceptable levels.

Tourism remains the brightest spot in the district's economy. In the Upper Peninsula of Michigan, tourist spending is said to have doubled over the last two years. In Montana, it has remained strong.

New car sales, however, have continued to be soft in the district. One dealer reports that sales in the first half of 1990 were 25 percent below a year earlier. Still, many dealers report signs of improving sales in late June and early July and are optimistic about sales prospects in the rest of the year. Inventories of cars and trucks are reported to be at satisfactory levels.

Housing activity has shown signs of slowing in the district. The number of new housing permits issued in Minnesota was 7.8 percent lower in May than a year earlier. At the same time, the number issued in the Minneapolis-St. Paul metropolitan area was 9 percent below a year ago. There have also been reports of a decline in the prices of high-priced homes.

Nonresidential Construction and Manufacturing

Conditions in the nonresidential construction industry have been weak, particularly in the Minneapolis-St. Paul metropolitan area. There an overhang of commercial and office space is reported to be depressing new construction. The construction sector in this area is expected to shrink over the next few years until the overhang is absorbed.

Conditions in the district's manufacturing industries have been mixed. Suppliers to the aircraft industry and manufacturers of capital goods report fairly good business. But the electronics industry and defense suppliers have continued to struggle. A supplier to the residential construction industry says its firm is "in a recession."

Resource-Related Industries

The district's resource-related industries appear to be very healthy. Generous rainfall throughout the district has improved the outlook of farmers. However, in some areas too much rain has damaged corn and soybeans. In northern Minnesota, for example, about 5 percent of the soybean acreage was not planted because the fields were too wet. Still, farmers and ranchers have had record volumes of meat production as well as record prices. Reservoirs in Montana are reported to be filling up for the first time in many years. Meanwhile, the forest product industries remain strong despite concerns that logging activity would be hurt by environmental regulations. The mining industry continues to do well.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow moderately. In the energy sector, drilling activity has picked up recently and remains well above the level of a year ago. Retail sales are unchanged or slightly higher than a year ago, but sales are mixed. While many retailers and manufacturers are trimming inventories, automobile dealers are keeping new car inventories at current levels. In the agricultural sector, winter wheat yields are average or better across most of the district. Yet the surge in production is driving wheat prices down sharply, limiting income gains for district wheat farmers. Housing starts in the district have fallen from a year ago, but prices for new homes remain stable. Although mortgage rates are edging down, mortgage demand stays mixed. Commercial bankers report slightly higher total loan demand, primarily for consumer and home equity loans. Demand for commercial, industrial, and real estate loans remains stable.

Retail Sales. District retailers report sales are unchanged or slightly increased from a year earlier, but mixed over the last three months. Sales are expected to increase slightly during the rest of the year. Demand is especially strong for women's apparel, while sales for junior wear is weak. Prices are changing in line with cost increases, but are expected to remain steady in coming months. Retailers are trimming inventories. Over the last month, new auto sales have improved slightly in some district states but have slowed in others. Adequate financing is available both for inventories and for potential buyers. Most dealers are maintaining current inventory levels as sales are expected to continue at their current pace.

Manufacturing. Most purchasing agents report only slightly higher input prices over a year ago. Prices have been mostly stable over the past three months and are expected to remain so over the next three months. Most agents

report no difficulty obtaining materials and expect no problems for the rest of the year. Lead times for steel are increasing but are expected to decrease over the remainder of the year. Many firms are trimming inventories, and plants are operating below capacity.

Energy. After plunging to near \$15 a barrel in late June, domestic oil prices have increased in recent weeks on speculation that OPEC will reduce oil production. Nonetheless, the price of West Texas Intermediate crude oil remains \$5 below its level at the beginning of the year. Exploration and development activity in the district picked up in June and remains well above the year-earlier level. The district rig count increased from 266 in May to 290 in June, up almost 30 percent from June 1989.

Housing Activity and Finance. Housing starts are down from a year ago in most areas of the district but have stabilized over the last month. New home sales are improving slightly, and prices remain generally stable. Builders report no problems with delivery times or availability of materials. New homes sales are expected to be steady to slightly lower the rest of 1990.

Most district savings and loan respondents report net inflows of deposits over the last month. Net deposit flows generally are running higher than they were a year ago and in the previous month. Respondents expect deposit growth to continue in the near term. Mortgage demand has been mixed. Mortgage rates remain stable to slightly lower and are expected to fall further in the near future.

Banking. Commercial bankers report that total loan demand increased slightly over the last month. Demand strengthened primarily for consumer loans and home equity loans. There has been little change in the demand for commercial and industrial loans or for residential real estate loans.

Commercial real estate loans have been steady overall, although a few banks are reducing lending for commercial real estate and land development because of concerns about credit quality. None of the respondents report a change in their prime rate over the last month, and few expect the prime rate to change in the near future. Most bankers also report no change in consumer loan rates. The level of investments have increased at Tenth District banks over the last month. Total deposits are rising because of increases in demand deposits and small time deposits. Large certificates of deposit, NOW accounts, and money market deposit accounts remain generally unchanged.

Agriculture. Harvest of the district's winter wheat crop is nearly complete. Wheat yields and quality are average to well above average across most of the district. The wheat crop in Kansas, the nation's leading wheat producing state, is estimated to be the largest crop on record and more than double the size of last year's drought-reduced crop. The surge in wheat production, however, is driving wheat prices down sharply, limiting income gains for district wheat producers.

The district's corn, soybean, milo, and cotton crops are generally in good condition. Crop development in Missouri and eastern Kansas is well behind normal, however, due to planting delays caused by excessive spring rains. Dry weather since late June has left crops in western Kansas and Nebraska in need of additional moisture.

The limited availability and high cost of feeder cattle has resulted in a modest reduction in district cattle feeding activity. Strong cattle prices continue to support incomes of district cattle ranchers, but the high cost of feeder cattle is limiting profit margins for cattle feeders.

ELEVENTH DISTRICT--DALLAS

The District economy is growing slowly. Manufacturing has shown little recent change. Retail sales growth is outpacing the nation's, while auto sales are down from a year earlier. Expansion in services is slow to moderate. Residential building is generating a small upturn in construction. Oil and gas drilling has reached a plateau. In agriculture, low soil moisture is becoming an increasingly serious problem.

Even though manufacturing firms cite little overall change in orders, they are generally more optimistic than during the last survey. Most recently, oilfield equipment firms note very little growth in sales, but year-over-year expansion has been moderate to strong. Steel firms say their orders are rising, in part, because increasing foreign demand has reduced the domestic availability of imported steel. Orders for fabricated metals products vary greatly; a can manufacturer reports large sales increases, but construction-related fabricated metals firms say their orders are flat to down. Demand for lumber and wood products varies greatly by product and region. A raw lumber producer notes rising sales and, until the last month, rising prices. The upswing in lumber partly reflects an industry shakeout that has left larger market shares for the survivors. Among stone, clay and glass producers, cement firms say product prices are up but sales are flat or declining; brick makers cite rising sales due to recent growth in residential construction. Reports by electronic equipment producers vary greatly. Considerable weakness was seen in some semiconductor markets, but telecommunications firms mention that sales are growing. Apparel producers

have seen little year-over-year expansion, but they say demand has picked up from earlier in the year. Paper producers cite slowing sales and declining prices. Food products firms note little recent change in orders beyond normal seasonal movements. Chemical firms report slight reductions in demand, but most respondents say sales remain very high nevertheless. District refineries say demand is high and rising.

District retail sales continue to outperform the nation's. Respondents cite particularly strong growth in the Houston area and along the Mexican border. Some say their Dallas sales have grown little from a year earlier. In apparel sales, women's clothing and shoes are said to be in particularly high demand, while sales of men's suits have been slow. In general, discount stores are showing stronger sales growth than traditional department stores.

District auto sales were down in June, despite dealer incentives. Both Dallas and Houston area new car sales were down from a year earlier. On average, for the first six months of 1990, Dallas/Ft. Worth sales are slightly below a year earlier while Houston sales are up by about 5 percent.

District service industries generally note slow to moderate recent growth, although some Houston area firms say demand has increased markedly there. Most business service firms say they face strong demand, but reports vary greatly by geographic area. Houston and Dallas business service firms cite growing sales and easing price competition. These changes are partially a result of mergers and shakeouts. In contrast, a San Antonio respondent cites soft demand and expects little if any growth over the next year. Although airlines say ridership is steady, some firms express concern over the possibility of widespread fare discounting later in the year.

District construction activity has grown slightly in recent months, due to an upturn in both single and multifamily residential building in Texas. District nonbuilding and nonresidential construction remain weak. Respondents note that while occupancy rates and rents in the commercial and industrial markets continue show improvement, any significant increase in construction is a long way off. Construction of petrochemical plants, however, continues at high rates.

The District energy sector has recently slowed somewhat. Although oil production has continued to increase, the number of rigs operating has slipped. Even so, the drilling rig count is 31 percent higher than a year earlier. Horizontal drilling in south Texas continues to boost production. In recent weeks, oil prices have increased, due to increased tensions in the Middle East and expectations that OPEC will reduce production. Nevertheless, respondents expect continued cheating by OPEC members to limit any price gains.

Dry weather continues to frustrate District farmers and ranchers. Corn, grain sorghum and cotton have been damaged and some farmers have abandoned their cotton crops. The index of prices received by Texas farmers and ranchers this year reached its highest June level ever, and was 6 percent above a year earlier, although it was down 1 percent from May. Higher prices for cotton, grain sorghum and potatoes pushed the June all-crops index up 4 percent over last year, while the livestock and livestock products price index was up 7 percent.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions remain satisfactory in most parts of the West, although western business leaders' expectations about national growth continue to be subdued. Wage and price trends have not changed appreciably during the past two months, with few sectors reporting increases beyond 5 percent. Several service sectors are experiencing strong growth, while retailers report generally satisfactory conditions. Information about manufacturing industries suggests that overall activity is flat, with strength in some sectors offset by weakness in others. Conditions in resource industries are little changed. Despite worrisome trends in aggregate real estate and construction data for the West, markets in most areas, particularly those away from the coast, exhibit robust activity. The pace of activity at financial institutions varies within the District.

Business Sentiment

Western business leaders' expectations continue to reflect caution about national economic growth. Two-thirds expect slow real GNP growth during the next twelve months, while 4 percent now expect a national recession. Respondents are relatively upbeat about the prospects for improvement in the trade balance, but expectations regarding consumer spending and business investment have deteriorated somewhat during the last two months.

Wages and Prices

Wage and price trends have not changed appreciably during the past two months. Current increases cluster in the 4 to 5 percent range, with few larger rises reported. However, some service-sector firms continue to face a shortage of entry-level workers, which is putting significant upward pressure on their pay scales. Some employers note that, while wages are rising by less than 5 percent, the cost of benefits rose 8 to 15 percent during the last year. An electronic

equipment maker reports stable prices despite heavy pressure on profit margins. Prices of several resource products, including wheat, corn, and some forest products, have fallen in recent months.

Retail Trade and Services

The trade and service sectors continue to be major contributors to economic growth in the West. Strength is reported across a broad range of service sectors, with particularly robust activity in health care, business services, and software. For example, one large software company plans to add 1,000 workers during the next year. The economies of Phoenix and Tucson are benefiting from recent or planned support facilities for national communications, credit card, and airline firms.

Most retailers report satisfactory conditions, although for many growth is somewhat slower than in recent years. However, one major retailer notes that sales have slowed significantly during the last two weeks. Auto dealers report that new vehicle sales are soft, while used cars and trucks continue to sell well.

Newspaper advertising volume is mixed. Reports from southern California indicate that help-wanted advertising is running below last year's levels, while a Seattle-area paper reports that employment advertising rose by more than 10 percent during the past year.

Manufacturing

Reports about manufacturing industries suggest that overall activity is flat, with strength in some sectors offset by weakness in others. Growth is reported in the Puget Sound ship-building industry, and sales of heavy equipment have risen sharply during the past year in most parts of the West. Some respondents report that delivery times for their supplies have fallen significantly, which they attribute to a combination of increased production and weak demand in other parts of the country. Several defense contractors with operations in the West have announced layoffs or plant closures in recent weeks. Order backlogs for commercial aircraft continue to grow, but the

region's largest manufacturers are cutting their work forces to cut costs or enhance productivity.

Agriculture and Resource-Related Industries

Conditions in resource industries are little changed. Farm conditions are good overall, although low water supplies continue to cause concern in many parts of the region. The salmon run in Bristol Bay (Alaska) was twice as large as was expected. The long-anticipated deterioration in logging and lumber is becoming more apparent in the Northwest, as reduced home-building activity at the national level reduces demand and environmental concerns restrict supply.

Construction and Real Estate

Information about overall conditions in western construction and real estate markets suggests significant deterioration during the past year. However, such aggregate statistics are dominated by cooling in coastal California from the boom levels seen a year ago, and by changes in the geographical composition of real estate activity. In most other parts of the West, home sales are robust and prices are rising, in some cases significantly. Las Vegas and Sacramento are particularly vigorous at present, with parts of Oregon, eastern Washington, Idaho, and Utah close behind. Arizona markets continue to be troubled, as absorption of current inventories proceeds slowly. Some respondents from California, Washington, and Arizona complain that tighter credit is restricting construction activity in those markets.

Financial Sector

Activity at financial institutions varies within the District. For example, some lenders report slack loan demand, others report slower growth in loan demand, and still others report accelerating growth. Most bankers report that delinquencies are down or low. A few small businesses complain that tighter credit conditions are hurting their ability to do business. However, bankers themselves disagree about the extent of the tightening and its impact on lending activity.