

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

October 1990

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SUMMARY*

Economic activity appears to have grown slowly in most Federal Reserve districts since early August, but seems to have declined somewhat in others. Many districts reported a weakening in business and consumer confidence. Retail sales, including new car sales, were sluggish or down in most of the country. Indicators of manufacturing activity were mixed to weaker. Commercial and residential construction declined, although sales of homes rose in some areas. Total loan demand at commercial banks was lackluster, and business lending decreased across the nation. In agriculture, crop yields and livestock prices were generally strong, although various factors detracted from farm sector conditions in some areas. With respect to energy, higher oil prices appeared to be stimulating oil drilling, although some shortages of skilled workers were reported.

Retail Trade

Retail activity apparently weakened in most of the nation. All districts except Chicago reported that sales grew more slowly or declined. Many noted slower sales of durable goods, particularly autos, and some indicated that retailers had laid off workers. Retailers generally believed their inventories were at satisfactory levels, although some had begun to trim their stocks.

Most districts reported that retailers were generally pessimistic about their sales prospects in coming months. The retailers blamed lower consumer confidence brought on by greater uncertainty and higher fuel prices for the

*Prepared at the Federal Reserve Bank of Richmond and based on information collected before October 19, 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.

current and expected weakness in their sales. Some worried that they would have to discount prices significantly to move merchandise.

Industrial Activity

Conditions in the manufacturing sector apparently weakened somewhat. Chicago reported relatively strong activity, but most other districts gave mixed reports or indicated declines. Weakness was evident across most industries, although several districts reported boosts in energy- or defense-related production. Reports received from six districts indicated that, on balance, manufacturing employment declined. No district indicated serious manufacturer concern over inventory levels, although Philadelphia and Kansas City noted that producers were reducing inventories. Exports from the Richmond and Cleveland Districts rose but those from the Chicago and Boston Districts fell. Scattered reports on producer prices suggested that prices of raw materials rose while finished goods prices were relatively stable.

Manufacturers in several districts were concerned about their business prospects in the coming months. Some planned further reductions in employment and were cautious about their capital spending plans.

Construction and Real Estate

Most districts reported slower construction activity. Scarce financing and earlier overbuilding were associated with abrupt declines in starts of commercial buildings and residential developments in several metropolitan areas. New York observed that reduced commercial construction was expected to help ease the vacancy rate in midtown Manhattan.

Housing starts were reported to be down in most districts, but home sales registered increases in several. Six districts noted general weakness in residential construction, although multi-family activity was higher in the Dallas district. Home sales rose in at least parts of five districts, but

Atlanta and San Francisco reported general declines.

Some districts commented on home prices. Atlanta and San Francisco indicated that the median home price had declined from a year ago. New York attributed unsold homes to unrealistic pricing.

Financial

Activity in the financial sector was generally softer. Several districts reported that some financial institutions had tightened their lending standards, especially for real estate loans, because of uncertain economic prospects or higher capital requirements. Total loan demand was unchanged to lower in most districts. The demand for commercial and industrial loans was weak across the nation, while the demand for consumer loans was mixed. Many districts indicated that loans to commercial real estate developers were down.

Agriculture

The agricultural sector was generally strong across the country. Several districts noted that yields of most crops were expected to be good, and Minneapolis and Kansas City indicated that higher livestock prices and low feed costs would help support farm income. In the St. Louis and Richmond Districts, recent rains and cold weather caused some delays in harvest activity and damaged soybeans somewhat. Also, several districts reported that low crop prices or higher production costs might limit the incomes of some farmers in their areas.

Three districts reported on farm lending activity. Kansas City reported that the demand for agricultural loans rose, and Chicago and Richmond reported a good pace of repayments on agricultural loans.

Energy

Several districts reported on energy-related developments. Kansas City

noted increased oil drilling activity, and Dallas and San Francisco expected an increase soon. Atlanta and San Francisco indicated shortages of skilled labor in their oil-producing regions. St. Louis observed that higher fuel prices were being blamed for cutbacks in the transportation sector, and Boston and Chicago noted transportation surcharges resulting from these higher prices. Richmond and St. Louis indicated that coal production was up, although coal prices were mostly unchanged.

FIRST DISTRICT-BOSTON

Growing uncertainty about economic conditions characterizes reports from the First District. Retailers and wholesalers report weak sales, intense price competition, and tightening cost control measures. A majority of First District manufacturers report year-over-year gains in sales and orders. However, several contacts describe these increases as unrepresentative or unsustainable, and orders are generally growing more slowly than sales. Faced with an unusually large number of unknowns, manufacturers are battening down the hatches.

Retail

Retailers and wholesalers report flat or marginally higher sales at best. Sales were substantially lower than a year ago for some clothing and for building materials. Price promotions continued to be necessary to move merchandise. All respondents indicate that they are paring costs by reducing inventories or employment, or by deferring capital projects. In the absence of some new positive force, retailers and wholesalers continue to express a lack of optimism about the possibilities for an economic recovery in the region in the next year or so.

Manufacturing

A substantial majority of First District manufacturing contacts report that sales continue to exceed year-ago levels, with gains ranging

from 4 to 16 percent. However, several firms discount these gains as reflecting idiosyncratic developments, such as new products or recently announced but not yet effective price increases. Some also fear that a pick-up in demand from the auto industry may not prove sustainable.

The news concerning orders is mixed. At over half the firms, orders are above year-ago levels, but almost half the contacts report a slowdown in incoming orders or customer delays. On a positive note, a First District computer company announced in its quarterly earnings report that it had experienced growth in its U.S. orders for the first time in several quarters. By contrast, some respondents sense a softening in demand from the commercial aircraft industry. Construction and medical and financial services are also weak markets. Several contacts describe a recent slowdown in incoming orders as geographically widespread, encompassing many U.S. trading partners including Canada, the United Kingdom, France, Italy and Korea. Inventory levels are satisfactory at half the contacts but have become a slight problem elsewhere.

Input prices are generally reported to be stable. In buyers' markets, two contacts have been renegotiating vendor contracts and are receiving discounts of 5 to 10 percent. So far, recent oil price increases have surfaced only as transportation surcharges and increased airfares. A majority of contacts have raised their own selling prices on all or selected products by 2 to 7 percent.

At most of the companies contacted, employment levels are flat or down by 2 to 20 percent. Two firms anticipate additional reductions. Half of the respondents indicate that their New England employment has fallen more than average.

Several First District manufacturing respondents have revised their capital spending budgets downward in 1990. Their plans for 1991 are mixed. Almost all expenditures are for equipment, including computers, for productivity enhancement, and for new products. Much of this spending will occur in New England.

First District manufacturers expect to see more of the same slow, spotty business conditions at best. They report that they are battenning down, cutting costs. Most see the outlook as clouded by unusually large uncertainties that are inhibiting investment decisions. Nevertheless, one-half the respondents hope to outperform the economy because of new or high-quality products that are gaining market share.

Residential Real Estate

All First District realtors surveyed characterize the number of real estate transactions as "reasonable" this fall, given the current state of the regional economy. Sales have increased relative to the slump experienced a year ago as sellers become more realistic about asking prices. Nevertheless, homes still remain on the market for an average of 150 days, a considerable increase from the 30-day average of several years ago. Condominium sales have decreased, but single-family home purchases grew relative to the summer quarter.

SECOND DISTRICT--NEW YORK

Developments in the Second District economy show continued weakness since the last report. Retail sales contacts report a year-over-year decline for the second consecutive month. Residential construction remains weak in much of the District. The market for office space, while soft, appears to have improved slightly. Unemployment rates rose during September, but are below the national average. Several major New York City employers plan substantial layoffs. Respondents at small and medium-sized banks were equally divided between those reporting credit tightening and those whose willingness to extend credit has not changed.

Consumer Spending

For the second consecutive month, all of our retail contacts reported year-over-year sales declines in September. They attributed the fall in sales to concerns over the economy, uncertainty caused by the possibility of war and rising oil prices, and unseasonably warm September weather. In addition, particularly strong sales in September 1989 exaggerated the year-over-year decline.

Changes in comparable store sales -- which exclude the effect of stores opened during the year -- ranged from -7.2 percent to -14.0 percent between September 1989 and September 1990. The weakness in sales was broadly spread across most categories of goods, with home furnishings and childrenswear sales showing particularly sharp declines. Sales of women's higher-priced apparel remained strong, however. Reports on inventories were mixed, with some stores reporting above-plan inventories and modest inventory cuts while others reported inventories slightly below plan.

Residential Construction and Real Estate

Residential construction in the Second District remains very weak. Downstate New York and Northern New Jersey homebuilders characterize credit as extremely tight, with reports of no financing available for speculative building or land acquisition and many existing loan commitments being renegotiated or canceled. There continues to be a glut of housing inventory -- some of it unrealistically priced -- on the market. Although new construction in Western New York appears stronger than in the rest of the District, it too has begun to soften.

Three consecutive months of strong leasing activity caused midtown Manhattan's primary vacancy rate to fall for the first time this year. With only 700,000 square feet of additional space scheduled for completion in 1990, the midtown vacancy rate is expected to decline further over the next few months. Downtown Manhattan vacancy rates remained roughly stable as average asking rental rates declined. The market for office space elsewhere in the New York City metropolitan area was soft but generally stable.

Other Business Activity

Unemployment rates in the Second District rose significantly during September, but remain below the national average. New York State's unemployment rate rose from 5.0 percent in August to 5.5 percent in September, while New Jersey's rate rose from 4.8 percent to 5.2 percent over the same period.

Many recent job losses have been concentrated in the New York City metropolitan area. Last month, Pan Am cut 1,200 area workers and Chase Manhattan announced the layoff of 5,000 predominantly local employees. This month, Saks announced that it would cut approximately 350 employees from its New York corporate headquarters. On the other hand, in Central New York, more than 3,000 jobs were created with the opening of

Syracuse's Carousel Mall and an additional 340 positions were generated by Union Carbide's decision to consolidate its national technical operations near Albany.

Financial Developments

Senior officers at small and medium-sized banks in the Second District survey generally characterized the local economy as sluggish and weakening over the last three months. Roughly half of the respondents were generally less willing to lend as compared to three months ago, while the remainder said their willingness to extend credit had not changed. In contrast, the majority of lenders reported no change in their willingness to extend credit for consumer installment and home equity loans. For those banks which have tightened credit standards, some are more strictly enforcing existing rules while others are requiring lower maximum loan-to-value ratios and increased collateral. A weak local economy and a poor real estate market were commonly cited reasons for raising loan qualifications. Other bankers stated that they were simply maintaining their conservative lending policies. For commercial real estate loans, respondents were split between those reporting lower loan demand as compared to three months ago and those reporting unchanged demand; the weakness was most pronounced for new construction loans. Although several bankers predicted a decline in real estate loan demand over the next six months, the majority anticipated that demand will remain stable. Business loan demand was characterized as soft or weaker than three months ago.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District was generally sluggish in mid-October, with further weakening in manufacturing and retail trade and mixed reports from the banking sector. Manufacturing activity in the region continued to fall in October, and reports of slower business were more widespread than they were a month ago. Area firms noted declines in orders and shipments and said they were trimming employment. Retailers generally said sales were weaker than they had expected for the fall. Most reported sales running at or below year-ago levels, in dollar terms. Large Third District banks have been posting very slight gains in loan volume, overall, during the past six weeks. Most of the growth has been in consumer lending, including home equity loans, while commercial and industrial loan volume continued to fall.

Third District business contacts express concern that the regional economy could weaken further. Manufacturers expect business to drop further over the winter. They generally intend to hold capital spending to a steady rate over the next six months, and they plan more cuts in employment. Retailers are growing more cautious in their outlook. They hope to match the dollar sales level reached in the final quarter of last year, but they expect profits to suffer if extensive discounting is required to achieve this. Bankers anticipate slackening loan demand in all credit categories until the economy regains strength and they foresee only a modest rebound in lending even with a renewed business expansion.

MANUFACTURING

Manufacturers in the Third District continued to report deteriorating business in October. Over half of the firms contacted indicated that activity at their plants in the region was slowing, and weakness was noted in every major

industry in the region with the exception of stone, clay, and glass products. Area firms generally were experiencing a downtrend in both new orders and shipments, and the declines were more widespread in October than they were a month ago. In tandem with the drop in shipments, reductions in inventories reported by area firms indicated a slowing pace of output. Falling production activity was also reflected in deteriorating employment measures; virtually none of the firms polled was adding workers, and more than a third of the companies surveyed were scaling back working hours.

The outlook for the next six months among surveyed manufacturers remains pessimistic, on balance. About a third of the local plant managers surveyed expect a turn for the better but nearly half anticipate further weakening in the industrial sector. The consensus forecast is that the slowing trend in new orders and shipments will continue over the winter. With the declining pace of business, area firms expect to work down both order backlogs and inventories further between now and next spring. They also plan more cuts in employment. In line with their cautious outlook, area manufacturers said they will hold capital spending to a steady rate over the next six months, on balance.

RETAIL

Third District retailers contacted in mid-October overwhelmingly indicated that the pace of sales was below their expectations. Most said that sales for the past six weeks were flat or below the year-ago period, in current dollars. The usual fall upturn in sales has not materialized, according to merchants, and while some attributed this to unseasonably warm weather in recent weeks, the slow sales rate has affected all types of goods—not just seasonal merchandise—and all types of stores in the Third District.

Merchants are becoming apprehensive about sales for the rest of the year. They hope to match the 1989 final quarter, in dollar terms, but say that if price markdowns are necessary to do this their profits will drop significantly. Store

officials generally said they are satisfied with inventories, but stocks could prove excessive if sales decline further. One merchant noted that vendors are becoming more reluctant to ship under the usual credit terms in light of generally poor retail sales prospects and the continuing financial difficulties of certain major stores.

FINANCE

Total loan volume outstanding at major Third District banks barely increased in September after slipping in July and August, and while lending continued to gain slightly in early October, area bankers said they did not believe a sustained pickup in loan demand was getting underway. Most of the recent growth has been in consumer loans; bankers contacted in mid-October said credit card and other personal installment lending was moving up slowly but steadily, although auto loans were dropping fairly sharply as a result of both falling demand and tightened credit standards. Real estate lending was also moving up, and bank loan officers indicated that a substantial portion of the increase was the result of recent home equity loan promotions. Also, some banks were taking residential mortgage loans onto their own books as opposed to placing them with their mortgage company affiliates. Commercial and industrial loan volume in mid-October was still on the downward trend that began during the summer. Bankers generally noted weak demand for credit by businesses and some said their outstandings were reduced by recent charge-offs.

Looking ahead, Third District bankers expect a falloff in loan demand until the economy regains strength. They anticipate drops in all categories of credit until business and consumer spending picks up. Some bankers believe that even with an economic upturn, lending, especially to businesses, will grow only slowly, due to heightened concerns for credit quality and moves by banks generally to improve capital ratios.

Total deposits at large Third District banks declined in September

although, overall, deposits have been steady in recent months. Bankers surveyed in mid-October said the funding situation was adequate given slow current and anticipated asset growth. However, some noted developments that portend funding difficulties in the longer term; bankers referred to the recent severing of some long-standing interbank borrowing relationships and declining interest by institutional investors in placing uninsured funds with banking companies.

FOURTH DISTRICT - CLEVELAND

Summary. The economic outlook has deteriorated further in recent weeks because of the surge in crude oil prices, but Fourth District respondents do not believe this District is in a recession. Near-term prospects for inflation have worsened. Non-automotive retail sales have weakened but auto sales have been better-than-expected since the oil-price shock. Growth in the District's economy continues to be supported by manufacturing, but housing is weakening more than usual for this time of the year. Loan activity remains weak, and some lenders believe that credit tightness is now affecting some lending in the District.

The National Economy. A stronger-than-expected surge in crude oil prices has contributed to a further deterioration in the near-term outlook for the economy. About three-fourths of a panel of forecasters now expect at least two successive quarterly declines in real GNP beginning this quarter, compared with about one-third only six weeks ago. Others still expect sustained growth in real GNP at annual rates of about 1% to 2% this quarter and next.

Oil and Inflation. The downward revisions in output projections is accompanied by a step-up in expected inflation rates. Many respondents attribute their higher inflation forecast to higher crude oil prices than was assumed in their forecasts of six weeks ago. The rise in oil prices into a \$35 to \$40 per barrel range was judged to be based on fears of further

disruptions in oil supply. Respondents generally assume the price of crude oil to settle in a \$25 to \$30 range next quarter. The surge in the price indexes is still expected to be short-lived, moderating to a 4% to 5% rate by next spring.

Regional Economy. District respondents generally believe that the economy in the Fourth District is not in a recession, but they are cautious about short-term prospects. They are encouraged by the steadiness in manufacturing output and employment in the District. Some others are concerned over weaknesses in retail sales and construction, and a below-expected level of activity even before the oil-price shock. In Ohio, nonfarm employment in September virtually matched the latest peak in August, and manufacturing employment, unchanged in the last three months, was only slightly below its peak in early 1989. The unemployment rate in September was 5.2%, and for the third quarter, the average rate moved slightly below the national average.

Some public officials are concerned that Ohio could have a budget deficit of as much as \$300 million for the fiscal year ending June 30, 1991, partly because of a revenue shortfall.

Consumer Spending. Retail sales since the oil-price shock have been mixed but generally better than widely expected, especially for new cars. Some retailers report sales fell in the last two months because of uncertainties over an auto strike and the Gulf situation. Expected sales during the late fall and the holiday season are being scaled down from pre-oil shock forecasts.

Auto dealers in the District report, however, that new car sales in September were slightly better than in August, probably because of year-end clearance of 1990 models, and they also report rather "good" sales of 1991

models. Dealers do not note a marked shift in consumer buying toward more fuel-efficient cars. Orders for 1990:IVQ are reported to be at least equal to 1989:IVQ, and many anticipate order increases in late November and December for 1991:IQ delivery.

Manufacturing. Production last quarter held up a little better than many respondents expected, supported especially by the automotive, machinery, and steel industries. Nonetheless many respondents appear skeptical over near-term prospects. Auto production plans for the fourth quarter are being sustained at nearly the late July projections, according to some auto makers. Exports are still a major source of growth for capital goods, although some export-sensitive producers report a slump in export orders in August and September. Some producers also note a pickup in cancellations and deferrals, but not to the extent of suggesting a scaling back of capital spending plans. Despite some recent buildup, inventories are still believed to be at desired levels, and manufacturers do not plan to build inventories as a price hedge.

Steel operations have continued at nearly 85% of capacity, supported by a continued decline in steel imports, and strength in machinery and agricultural industries that have compensated for softness in autos and appliances. Domestic production has also been supported by a strike in the steel industry in Canada.

Construction. Home builders in northern Ohio report a slowdown in building that is more than seasonal. They attribute this partly to a lack of buyers. Small builders of single-family units apparently still have access to borrowed funds, but builders of multi-family units complain about difficulties in obtaining financing.

Home sales in the \$150,000 to \$200,000 price range have slowed, but are still generally strong in the \$250,000 to \$400,000 range, although some builders and lenders report a virtual standstill in activity in some high-growth suburban communities. In general, sales of existing homes averaged about 95% of the asking price in September, which has hardly changed from a year earlier.

Financial Developments. Loan activity is weak across the board, and has softened further since early August, according to some bankers. The reduced pace of loans reflects a sluggish economy and tight lending policies. Loan delinquencies and nonperforming loans have risen at several banks, and a few bankers now perceive a credit squeeze having spread to small businesses and consumers in the District. Some ascribe credit growth restraint to a need to meet higher capital requirements.

FIFTH DISTRICT-RICHMOND

Overview

District economic activity generally weakened further in early October, and the attitudes of businesses about the near-term outlook became more pessimistic. Retail and manufacturing activity slowed. Starts of new commercial buildings were virtually at a standstill. Loan demand was weaker at District financial institutions, but interest rates were little changed. On the brighter side, export volume rose at District ports and the District's farming sector was generally healthy.

Retail Trade

Responses to our regular mail survey of retailers suggested that retail sales--including sales of big ticket items--declined in early October. Most stores also reported declines in shopper traffic and many retailers indicated that they had trimmed employment.

Department store executives reported that they had reduced their sales projections and expected to hold down their employment and advertising this Christmas season. These retailers and others surveyed were pessimistic about the outlook for their businesses and local economies, and the national economy.

Manufacturing

Our regular mail survey of manufacturers showed decreases in their shipments, orders, and employment in early October. Nearly half of the respondents identified poor sales as their most important business problem. Rising crude oil prices apparently contributed to sales declines; about three-

fifths of the respondents said that their sales were adversely affected by the boost in oil prices.

Most surveyed manufacturers reported higher raw materials costs, but few had raised the prices of their finished products. Their inventories of materials and finished goods had changed little from the levels reported in our previous survey in August.

Manufacturers' assessments of current business conditions and their outlook for the near term were more pessimistic in October than in August. Most respondents believed that economic conditions in their local areas and in the nation had weakened in early October; only a few expected business conditions to improve in the next six months.

Coal

District coal production and prices have remained relatively stable, unlike in earlier periods when they rose sharply along with the price of oil. The reason for this stability, according to our contacts in southwest Virginia and West Virginia, was that most oil-burning electric utility companies converted to coal in the 1970s so that little additional conversion was now possible. Also, utility companies reportedly were heavily stockpiled with coal because the summer was not as hot as usual. Coal industry executives expect some upward pressure on coal prices, however, from increased export demand. At the port of Hampton Roads (Norfolk), coal exports were said to be near a record pace in September.

Ports

Reports received from District ports--Baltimore, Charleston, and Hampton Roads--showed that export volume rose from the prior month at all three ports,

while import volume was generally unchanged. Also, port representatives continued to expect exports to grow faster than imports over the next six months.

Nonresidential Construction

Contacts in the commercial real estate and banking sectors indicated that high vacancy rates and tighter loan standards have virtually halted new construction starts in the District. According to managers of office buildings and industrial parks, projects now underway were generally funded by loan commitments made more than six months ago.

Financial

A telephone survey of District financial institutions indicated lower demand for consumer and commercial loans in early October than in September. Lenders attributed the weaker demand to uncertainty resulting from Mideast tensions, the lack of a Federal budget accord, and slower growth in the domestic economy. Nearly all lenders reported no change in their loan rates.

Agriculture

Preliminary results from a survey of District agricultural bankers suggested that the area farm economy was generally healthy going into the peak harvest season. Most bankers contacted reported that farmland values had risen this year in their areas, but only one in six expects further increases in the next three months. Funds available for agricultural loans were at normal or above-normal levels at 90 percent of the reporting institutions, and a similar proportion reported that agricultural loan repayment rates were normal or above-normal. Collateral requirements for farm loans, however, were higher than usual at about one-fourth of the banks.

Heavy rainfall throughout the southern and western portions of the District delayed harvest activity somewhat--especially of soybeans--during the second week of October. Preliminary estimates indicate that soybean yields in the District may be somewhat lower than average due to a dry September.

SIXTH DISTRICT - ATLANTA

Overview: Most Sixth District firms contacted in October report marginally slower growth than last month and generally flat year-over-year sales. Retailers, with few exceptions, report slower sales in September than in August and attribute this to a further erosion in consumer confidence. Banking contacts supported this view and indicated that in the last month or so consumers have become more conservative in taking on new debt and business loan demand has softened. Retail contacts were less optimistic this month than last concerning their outlook for sales for the remainder of the year and into 1991, sentiments echoed by District manufacturers of consumer and nondefense goods. However, defense and oil related producers cited a recent increase in orders. Most realtors report weaker residential and commercial sales in September than in August but a few areas in the District are reporting improvements. Recent contacts report shortages of skilled labor in oil producing regions in the District. They generally indicate that oil price increases have not yet been incorporated into the price of most finished goods.

Retail Sales: Retailers generally report flat year-over-year sales volume in September, as compared to slight growth in previous reports. Contacts in Florida and Georgia, our two largest states, report that small retailers and department stores are seeing a significant reduction in gross receipts. These contacts indicate that announcements of layoffs at retail stores are becoming more common, some associated with debt-ridden parent companies but others associated with weakening sales. In contrast, discount department stores are reportedly showing some strength and are largely responsible for the aggregate level of retail sales remaining flat. Most retail contacts report that floor traffic is off from last month and consumers are purchasing less expensive items. These reporters still attribute the recent slowing to reduced consumer confidence resulting from the recent political and economic uncertainties and fueled by the

media. A contact in Florida reported that the most recent (September) University of Florida Consumer Confidence index fell from the July level (their last survey) and that the survey's report on the percent of consumers willing to undertake big-ticket purchases also slipped. While this survey is limited to Florida, the findings generally agree with the observations of most retail contacts in the District.

Financial Services: Banking contacts also report that growing consumer uncertainty was reflected in their attitude toward taking on new debt. Consumer loan growth in September was at less than half the pace of a year ago. Most of the lending officers that were contacted also indicated that business loan demand weakened in September reflecting slower business activity. The major exception was credit demand by firms associated with the health care industry.

Manufacturing: Reports on manufacturing around the District were mixed, with defense and oil related activities showing strength while orders slowed for most other producers. Contacts in Alabama report that military apparel producers are running at full capacity with tens of millions of dollars in new contracts awarded since July. Florida contacts indicated a pickup in high tech military orders destined for the Mid East. Most manufacturing contacts producing goods for the private sector reported flat to weakening orders in September. A manufacturer of pump and metering equipment reports that orders are down 5 to 10 percent. According to this contact, both domestic and foreign orders were down: domestic, because his manufacturing customers are reducing capital expenditures, and foreign, reflecting cessation of business with Iraq and Kuwait. A producer of heating and air conditioning equipment reports that total current sales are even with a year ago but distributors are now cutting new orders and reducing inventories and pre-season air conditioner orders are running 14 percent below last year's level. Textile and apparel contacts expect the continuing slowdown in orders to last through the first

of the year. Apparel producers without military contracts continue to announce layoffs and plant closings. Textile producers report a weakening of orders in the past few weeks.

Construction: Construction contacts indicate that construction activity is generally flat throughout the Southeast relative to last year. Several contacts indicated that a number of new commercial and residential projects were placed on "hold" in September. Realtors in most areas of the District indicate substantially weaker sales in September relative to last month especially in Florida and Georgia while in other areas, such as Louisiana and Alabama, reports were of flat to slightly stronger sales. These later reports come from oil producing or support areas and areas with significant aerospace activities.

Wage and Prices: Contacts reported continued tightening in labor market conditions for certain types of workers in oil producing areas. Skilled workers such as welders, pipe fitters, engineers, geologists and geophysicists are reportedly in short supply in Louisiana. Most manufacturing and transportation companies report that oil price increases are not yet reflected in higher final product prices to consumers. A textile producer noted that the price of synthetic fibers has escalated dramatically during the past month with the price of nylon, the major component of most synthetic carpet, increasing by 12 percent. He added that market conditions for carpet do not allow these increases to be passed through to consumers at present so the increased cost are shrinking profit margins.

SEVENTH DISTRICT--CHICAGO

Summary The District economy continues to expand slowly, although several contacts expressed concern about future growth. Consumer spending still appears stronger in the Midwest than in the nation as a whole. District manufacturing activity is rising, although several sources reported some new weakness in export markets. Capital investment planned for 1990 generally is being completed, but additional caution is being expressed about spending plans for 1991. Financing for new "speculative" construction projects has virtually ceased, according to several District sources, while projects that have received financing continue to move ahead. Some manufacturers have begun attempting to raise prices to reflect higher oil costs. Several contacts noted that buyer delinquency rates have risen slightly.

Consumer Spending Retail sales generally continued to be stronger in the District than in the nation as a whole, although some problem areas persist. A general merchandise chain reported slightly better than expected same-store sales growth in September, and an economist for the chain noted that spending on household durables grew faster than the company-wide average. Sales were reportedly weak, however, in areas of Michigan and Indiana that are linked to the auto industry. An analyst for a national discount chain stated that company sales experienced a year-over-year decline nationally in the first two weeks of October, after sales growth slowed consistently (in nominal dollars) over the five months ending in September. Traffic and sales volume in District stores were generally stronger than the company's national average, except in the Detroit area. Industry inventories are being watched closely, according one retail analyst, and efforts are being made to limit ordering to items that are out of stock.

Auto sales continue to show surprising strength, although car buyers still expect rebates. One of the largest motor vehicle dealers in the Seventh District reported continued sales growth in September and early October, with little change in mix. The dealer attributed some of the strength to aggressive promotion and market-share gains. However, heavily leveraged dealers are increasingly cautious in committing to inventory and promotions. An economist for a major domestic automaker stated that dealers continue to receive much of their inventory financing

from auto producers, but are ordering cautiously. This contact also noted that there was little evidence of substitution of cars for light trucks since the oil price increase. Still, a soft economy is expected to reduce car and truck sales by about a half a million units (at a seasonally adjusted annual rate) in the fourth quarter from earlier expectations, according to this economist.

Manufacturing District manufacturing activity continued to expand, on average, with strength in steel, auto, and industrial equipment production offsetting new softness seen in agricultural equipment and electronic components production. An economist with a major Midwest steel producer stated that industry order books for the fourth quarter were "virtually full," with no sign of an increase in order cancellations. While auto industry inventories are generally considered low, an analyst stated that fourth quarter auto production probably will be down from the relatively strong third quarter. An economist for a manufacturer of agricultural equipment stated that October sales continued to look "terrible," following weakness that began in August both for the company and the industry. However, this company's sales of industrial products in the District rose on a year-over-year basis, as well as on a seasonally adjusted month-to-month basis from July through September. An analyst for a major District producer of electronic components reported that order growth for his company's products had peaked in mid-summer, and growth is expected to continue to slow in the near future.

Area purchasing managers' surveys exhibit mixed conditions. The index produced by the Chicago area survey showed expansion in September, compared to the decline indicated by the national survey. In contrast, the Milwaukee and Detroit surveys showed weakening activity in September. One contact suggested that the Detroit weakness was due in large part to uncertainty prior to the resolution of labor negotiations between auto producers and the UAW.

Several District sources reported that exports, which have been a significant contributor to the relative strength in the Midwest economy, showed signs of softening recently. An analyst with a manufacturer of moving equipment stated that retail sales of its products outside of the United States had weakened over the past two to three months. An economist with a major manufacturer of agricultural equipment reported that overseas sales also had begun to trend

downward in recent months, particularly in much of Europe. On the other hand, a large District manufacturer of equipment and supplies reported that export growth was continuing.

Investment Capital spending plans for 1990 are generally proceeding on schedule, although increasing uncertainty is being expressed about plans for 1991. A major District manufacturer of machine tools reported that the company's sales to and orders from the auto industry remained strong through September. This contact expected continued growth over the near-term, as domestic producers continue retooling. Sales outside the auto industry remain relatively weak, although the weakness developed before the onset of the Middle East crisis. An economist for a major producer of basic materials used in construction reported little change in the company's own project schedules, noting that the company's largest project was, if anything, being accelerated. However, an analyst for a large District producer of a wide variety of capital equipment cited a recent decline in sales, as well as a flattening in orders, for customers producing in cyclically sensitive sectors. A bank economist stated that customer feedback indicates that capital projects underway are being completed, while there is some new reluctance to commit to start-ups that begin next year.

Construction and Real Estate A number of contacts stated that financing for new "speculative" construction projects had virtually ceased for both commercial and multifamily development. Many carefully researched projects continue to move ahead, however, particularly in the food processing, pharmaceuticals, and energy industries, as well as in public infrastructure. An analyst with a District manufacturer of moving equipment stated that sales to construction markets in the District have held up well. While construction markets in the District have been reported as generally outperforming the national average this year, two contacts reported data for August that show this relative strength receding, both in construction contract awards and in cement industry sales.

A Chicago real estate agent described the local housing market as "surprisingly strong." While homes are on the market longer and prices are not rising as fast as a year ago, sellers are

holding firm on price, according to the realtor, and volume is still up over last year. One large realtor reported that first-time home buyers may be more active recently, calling it a 'buyers market', in part because mortgage rates are relatively low.

Prices District sources indicate that some manufacturers have begun trying to increase prices in order to compensate for higher crude oil prices. An economist for a major District manufacturer reported increased usage of "temporary surcharges" covering transportation costs and energy-intensive materials. An auto industry analyst stated that it was "too early to tell" whether the oil price increase would spread through production costs to auto prices, noting that automakers stockpile oil and hedge their exposure to volatility in energy costs. An analyst with a manufacturer of agricultural machinery reported the price of its own products had not been raised since the recent escalation in oil prices began. This contact also stated there had been little change in the prices of many purchased materials, principally because of weakness in the markets for the final product.

Credit Conditions Several contacts indicated that borrower repayments had slowed slightly. A consumer credit analyst for a major District lender reported a small rise in delinquency rates over the past two months, principally in unsecured and revolving credit. This contact stated that the rise in itself was not alarming, but noted that there appears to be a growing proportion of consumers not accounted for in delinquency rates because of increasing personal bankruptcy filings. An economist with a manufacturer of farm equipment and consumer vehicles reported a rise in delinquencies by consumers of recreational vehicles, but little change in the delinquency rates for buyers of agricultural and construction equipment. An analyst for a manufacturer of moving equipment stated that delinquencies experienced by the company's finance subsidiary had climbed since late summer.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy showed little or no expansion in recent weeks. Slow District growth in consumer spending and in some service-producing sectors, particularly health services, is being offset by declining construction and durables manufacturing activity. Higher energy prices are being blamed for cutbacks in the transportation sector. New home construction is generally weak. Agricultural conditions are mixed. The amount of commercial and industrial loans outstanding at the District's largest banks continues to decline.

Consumer Spending

Contacts report that real retail sales have been near year-earlier levels. Spending on vehicles and other durables has been slowing. New car sales are flat to well below year-earlier levels in many areas, while used cars sales are flat to slightly higher. Contacts suggest consumer confidence has eroded because of weakness in the national economy and uncertainty regarding the federal government budget agreement and the Persian Gulf conflict. Retailers generally expect fourth quarter sales, adjusted for inflation, to be flat or just slightly higher than last year. As a result, some retailers are ordering or planning to order less merchandise than previously planned.

Manufacturing

Contacts report production slowdowns and layoffs at many durable goods plants. Falling orders from the construction and auto industries will cause a glass factory to close indefinitely in November and have resulted in production slowdowns in factories making rubber insulation,

heat exchangers, air conditioners, metal tubing and copper electrical components. Slowing sales, a trend that is expected to continue, have led producers of major consumer appliances to lay off more than 2,000 workers. In contrast, rising demand for freight cars has led one steel plant to begin recalling workers and double production. A primary aluminum producer reports that orders have not slowed and expects no abnormal slowing for the rest of the year. Nondurables manufacturing activity is generally steady or expanding slowly.

State Government Activity

Because of slowing economic activity, the growth of gross general revenues, and sales tax revenues in particular, has slowed in recent months, but revenues remain slightly higher than a year earlier in Arkansas, Missouri and Tennessee. Revenues are currently meeting anticipated levels in these states. In Missouri, contacts anticipate further weakening, which may necessitate budget cuts. There has been no deceleration of tax revenues in Kentucky, where the state's economy continues to expand slowly.

Transportation

Higher energy prices are being blamed for cutbacks in the transportation sector. A large airline announced that it would lay off as many as 100 management and clerical workers in St. Louis and stop hiring pilots and flight attendants. A Memphis-based trucking business said that higher energy prices, a truck driver shortage, and weak auto and home sales influenced the cancellation of a planned fleet expansion. Two contacts attribute a portion of the recent growth in express delivery services to the nation's widespread economic slowdown: as the economy slows, firms tend to monitor their inventories more closely and rely more on just-in-time deliveries.

Construction and Real Estate

Housing starts of single family homes and existing home sales in the District range from down substantially in St. Louis to fairly strong in Louisville. Developers in St. Louis, Louisville and Memphis report some difficulty obtaining construction financing, although mortgage financing appears plentiful. Memphis home sales are down slightly, especially in more upscale neighborhoods. In Louisville, however, both new and existing home sales are up over last year, with the market's relative strength attributed to continued growth in the service sector.

Agriculture and Natural Resources

Agricultural conditions are mixed. Recent rains throughout the District and above normal temperatures in the Delta have been beneficial to late-planted crops and pastures. These same rains, however, have caused flooding in Arkansas, delayed crop harvesting throughout the District, and may have reduced cotton quality. In addition, a recent cold front may have caused frost damage to late-planted soybeans in some areas. District coal production continues to run more than 5 percent ahead of last year.

Banking and Credit

Total loans and leases on the books of the District's 11 largest banks declined just over 1 percent in the third quarter, after increasing almost 9 percent during the same period last year. Commercial and industrial (C & I) loans declined 12.5 percent during the third quarter compared with a 5 percent decline a year earlier. Consumer and real estate loans continue to increase, albeit at a much slower pace than last year. Contacts at small and mid-size District banks report declining C & I loan demand from traditional as well as new customers. These same bankers indicate that they are reviewing the declining pool of loan applications more closely.

NINTH DISTRICT—MINNEAPOLIS

Ninth District economic conditions have been showing signs of weakness recently. Labor market conditions have been mixed. Growth in spending on general merchandise has slowed down lately, automobile sales have been sharply lower, and housing activity has declined. Conditions in the construction industry and in manufacturing have been mixed. Resource-related industries have been doing well. Wage and price increases have remained generally moderate.

Employment, Wages, and Prices

Labor market conditions have been mixed in the district. Minnesota's unemployment rate was 4.3 percent in August, down from July's 4.6 percent level but up from 4.0 percent in August 1989. Unemployment rates in Montana, North Dakota, and South Dakota were lower in August than in July and also lower than in August 1989. Manufacturing employment in the district has been flat for over a year. Production, construction, and electrical workers are reported to be in oversupply, but shortages are reported for medical and hospital workers. The nationwide slowdown in residential construction has resulted in layoffs among housing construction suppliers.

Wage increases have remained moderate except for technically skilled specialists whose wages have been rising sharply. The main source of pressure on labor costs has continued to be from benefits, mainly health insurance and workers compensation premiums. However, some directors report that they are expecting sharply higher wage increases beginning next year. Price increases, except for fuel costs, have generally been moderate. Trucking companies have begun to impose surcharges to recoup their sharply higher fuel costs. An index of prices received by farmers has declined substantially.

Consumer Spending

District retailers of general merchandise report a slight slowdown in sales growth lately. One major retailer reports that, compared to a year ago, September sales were up 2 percent and sales in the first 9 months of the year were up 4 percent. An appliance retailer reports that September sales were 4 percent higher this year than last. Retailers report that they are less optimistic about sales in the fall season than they were before the Gulf Crisis. Throughout the district, inventories are reported to be at acceptable levels.

New car sales have been sluggish. Dealers for one manufacturer report that September new car sales were 20 percent lower than a year ago. However, last September's sales were artificially boosted by incentive programs. These dealers expect October sales to be much better when compared with last year. Automobile sales, however, have generally been lower this year than last. Through the first 7 months of the year, Minnesota's new car and truck registrations were down 13.3 percent from last year. This decline has been concentrated in the Minneapolis-St. Paul metropolitan area. Sales in the rest of the state have held up fairly well compared to last year.

Housing starts have declined sharply in Minnesota. The number of new housing permits issued in that state was 25 percent lower this August than last. This decline was primarily concentrated in the Minneapolis-St. Paul metropolitan area where the number of new housing permits declined by 37.7 percent over the same period. In the first eight months of this year in this area, the number of permits issued has been the lowest since 1982. However, housing sales have been robust in the metropolitan area. Housing activity elsewhere in the district has been moderately good.

Construction and Manufacturing

Conditions in the district's construction industry have been mixed, with particular weakness in the Minneapolis-St. Paul metropolitan area. In that area, the dollar value of contracts for future construction in August was 16 percent lower than in August 1989. There is a substantial oversupply of office and commercial space, and very few projects are expected to be started for at least a couple of years. Elsewhere in the district, construction activity has been moderately good.

Conditions in the district's manufacturing industries have been mixed lately. The computer and electronics industries in the district are reported to be in a recession. Sales of recreational vehicles are reported to be 25 percent lower this year than in 1989 and 40 percent lower than in 1988. However, aircraft industry suppliers report that their sales are 30 percent higher this year than last, and the medical instruments industry is reported to be growing strongly. This industry expects a 10 to 15 percent growth in sales next year from this year's strong levels. Defense industry and ordnance suppliers have recently seen a sharp pickup in orders.

Resource-Related Industries

The district's resource-related industries appear to be fairly healthy. Crop yields throughout the district have been above expectations and close to record setting levels. Recent declines in agricultural product prices have prompted farmers to store crops rather than sell them. Ranchers in the district report that this year has been the best in their experience. Livestock prices have been holding fairly steady and feeding costs have been relatively low. The mining industry has also been doing well. However, the lumber and wood products industries have begun to feel the effect of the slowdown in home construction.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow slowly. The agricultural sector remains strong, supported by good fall crops and high cattle prices. In the energy sector, drilling activity is increasing at a modest pace. Retail sales--including new car sales--are softening, however. Both retailers and manufacturers are trying to trim inventories. Housing starts are down from a month ago as mortgage rates remain steady to somewhat higher. Loan demand at commercial banks was unchanged last month, despite decreases in the demand for commercial and industrial loans and commercial real estate loans.

Retail Sales. District retailers report flat to worsening sales over the past three months. Most respondents are trimming inventories as sales are expected to soften through the rest of the year. Prices, which have been generally flat to slightly higher, are expected to stabilize in coming months. New auto sales in most district states are down and are expected to be flat to down during the rest of the year. Dealers are generally trying to trim inventories, partly because of the cost of floorplanning. Dealers are having trouble getting some potential buyers financed because buyers are less qualified and lenders are tightening credit standards.

Manufacturing. Purchasing agents report increasing input prices over the last three months following a period of stable prices. The recent price increases result partly from fuel surcharges pushing up transportation costs. Respondents expect input prices to increase further over the next three months. Several firms are reducing stocks in light of higher than normal inventory levels. While few firms are having difficulties obtaining inputs, some are concerned about the future availability of petroleum derivatives.

Energy. Exploration and development activity in the district is increasing but continues to lag behind the rate of oil price increases. The district rig count rose from 282 in August to 305 in September, bringing the third quarter average to 12 percent above last year's level. Over the same four-quarter period, the price of crude oil increased about one-third. Industry observers expect a stronger increase in drilling activity only if oil prices remain above \$25 a barrel for a sustained period.

Housing Activity and Finance. Housing starts are generally down from last month. New home sales across the district are mixed, while new home prices are generally stable. Most builders expect starts and sales to remain flat or show slight improvement in the months ahead, depending on developments in interest rates and the Gulf crisis. Prices of building materials are rising, but availability is not a problem.

Most district savings and loan respondents report net outflows of deposits over the last month and expect additional outflows in the near term. Mortgage demand is down and is expected to weaken further due to seasonal factors, a weaker economy, and stable to higher mortgage rates. Respondents exhibit considerable uncertainty about the future direction of mortgage rates.

Banking. Commercial bankers report that total loan demand was unchanged last month. Increases in the demand for consumer loans, home mortgage loans, and agricultural loans were offset by decreases in the demand for commercial and industrial loans and commercial real estate loans. Loan-to-deposit ratios are down slightly from both last month and a year ago. Total deposits increased slightly over the past month, with increases in demand deposits, IRA and Keough accounts, and small time and savings deposits. NOW accounts and large certificates of deposit fell. Bankers report no major changes in their

prime rates or consumer lending rates and expect no changes in the near future. Most respondents report they have not changed credit standards over the past month. A few respondents, however, have either tightened credit standards or are reviewing loan applications more closely.

Agriculture. The fall harvest in much of the district has reached the halfway point and is progressing on a normal schedule. Dryland corn and soybean yields are generally about average, while irrigated crop yields are above average in parts of Kansas and Nebraska. Milo yields are variable.

Winter wheat planting is proceeding on schedule in most of the district, and the new wheat crop is developing nicely. But wheat planting was delayed by dry soil conditions in western Oklahoma and southern Kansas and by the late harvest of soybeans from double-cropped acreage in Missouri. Low wheat prices are expected to maintain a high rate of participation in the government price-support program despite anticipated cuts in support levels.

While lower crop prices and reduced support levels may restrain farm income growth, high cattle prices continue to support strong incomes for district cattle producers. In response to high prices, most district ranchers are choosing to sell feeder cattle instead of feeding them to heavier weights or retaining them for breeding herds. High fed cattle prices and low feedgrain prices are offsetting the effect of high feeder cattle prices on cattle feeding margins. As a result, most district feedlots are operating at capacity.

ELEVENTH DISTRICT--DALLAS

Economic output in the District is flat to slightly down. Manufacturing activity has slipped, particularly in the construction-related and electronics industries. Most retailers say sales have been flat or declining across a broad spectrum of goods and that they are reducing inventories from moderate levels. Auto sales have fallen. Output in the service sector continues to grow although several sectors have weakened. Construction activity has begun to decline. Higher oil prices have yet to motivate an increase in drilling but indicators suggest growth in the next few months. Falling product prices and increasing energy costs are reducing net farm income.

In general, manufacturing orders and production have declined in recent weeks, but most respondents say that inventories are still near desired levels. Although most product prices are holding steady, some food processors are raising their prices in response to rising transportation costs. Orders for lumber and wood products and fabricated metals have decreased due to declines in construction nationally. Stone, clay and glass producers also note a reduction in orders, although much of this weakness has stemmed from decreased highway construction in Texas. Orders and prices for oil field machinery have increased moderately and producers say the outlook is strong. Electronic producers note falling orders for semiconductors and products related to defense, housing, autos and appliances. Respondents say that orders from the personal computer industry have increased. Output remains strong in the steel industry. Demand for apparel products have declined noticeably. Petrochemical industry production has remained constant at high levels. Product prices for ethylene and plastics have increased only slightly

while input prices have jumped, causing margins to be squeezed. Oil refinery profit margins have been volatile, but are significantly lower than earlier this year. Some producers mention declines in gasoline and diesel fuel orders, but others say orders have been flat.

District retail sales have been flat recently with several respondents noting declines. Weakness is widespread across product lines. Retailers report that they are reducing inventories. One respondent said that the current reduction in inventories almost guarantees a slow holiday season. Sales at discount stores continue to be slightly stronger than at other stores. Sales continue to grow in Houston and along the Texas side of the Mexican Border, although growth is slowing.

District auto sales fell in September, dropping 3.5 percent from a year earlier in the Dallas/Fort Worth area and 10 percent in Houston. Respondents say that increased economic uncertainty has caused sales to decline.

Demand for District services continues to increase although it has softened in some sectors. Demand continues strong for consulting services, particularly office automation. Part-time employment agencies say that demand has been steady overall, despite declining placements in the finance, insurance and real estate industries. This weakness has been offset by increases in demand by manufacturers, who are holding their permanent staffs at lean levels. Suppliers of legal services note continued steady demand for bankruptcy services but slowing activity in business litigation. Airlines report declining ridership and large increases in input costs. Increased demand for services and declining property values have financially stressed local governments. Many local governments are finding it hard to increase

employment or services, although Houston is hiring workers in several areas.

District construction activity has declined somewhat. The recent weakness has occurred mostly in the non-residential and non-building sectors. Non-building activity, however, continues to increase in Louisiana. The District multi-family sector continues to improve while single-family homebuilding recently has dipped slightly.

Output in the District energy sector is increasing moderately. The continuing crisis in the Middle East is keeping the price of West Texas Intermediate crude near historic highs, around \$40 per barrel. One respondent says that the current supply shortfall of 1.1 million barrels per day should support prices of about \$25 per barrel, but that expectations of war have motivated a \$15 per barrel premium. High price expectations have led to a significant increase in well permit applications in Texas and Louisiana. The rig count is up slightly in Texas, but rig counts are down in Louisiana and New Mexico. While drilling has not increased significantly, many independent producers are increasing well maintenance in order to raise production. If oil prices remain high, major oil companies are expected to increase drilling significantly early next year.

District agricultural incomes will likely be less than previously forecast. Harvest is well underway and yields have been good despite dryness earlier in the year. Operating expenses, however, are above expectations due to increased irrigation and rising fuel and chemical prices. September prices received by Texas farmers and ranchers fell one percent from August, but remained 8 percent above last year's levels. Prices of most crops fell, while the livestock and livestock products index reached a record September high.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic growth in the Twelfth District continues, although the pace of growth has slowed further in recent months. Western business leaders are pessimistic about the prospects for national economic growth during the next year. Prices for petroleum-related products have increased sharply, but price increases for other products remain clustered near five percent. Retail sales are growing more slowly than previously, or are declining, in most parts of the District. Manufacturing activity continues to be mixed. Agricultural conditions remain solid, and some energy-related industries are benefiting from higher oil prices. Real estate markets continue to cool in many parts of the District. Financial institutions report mixed conditions.

Business Sentiment

Western business leaders' projections of future economic activity continue to deteriorate. Sixty-seven percent now expect a national recession in the coming year, while the remaining 33 percent foresee only slow GNP growth. Most respondents describe current inventory levels as acceptable, but many note that efforts are currently under way to reduce inventory levels as concerns about the economy's future grow.

Wages and Prices

Prices of petroleum, transportation, and products derived from petroleum have increased sharply, but price trends for most other goods remain relatively stable. One respondent reports that the large increase in crude oil prices has caused the addition of a "fuel surcharge" to shipment costs. Price increases for many non-fuel items are moderated by softening consumer and business demand. Most respondents report overall price increases of about 5 percent from last year.

Wage increases remain moderate, at about 4 to 5 percent compared with last year. In Washington, however, the continued boom in commercial aerospace has pushed up wages in the transportation equipment industry nearly 10 percent from a year ago.

Retail Trade and Services

Most respondents report that retail sales have recently grown more slowly or declined. Retailers attribute the sluggish sales to badly shaken consumer confidence. One auto dealer in the inter-mountain area reports that while showroom traffic remains high, customers are hesitant to purchase. A retailer in Southern California indicates that September was the weakest sales month in several years. General merchandise retailers expect this weak demand to continue into the holiday season, and report an increased effort to reduce inventories now to avoid heavy discounting in the coming months. In contrast, sales are reported to be strong in parts of the Northwest, inter-mountain states, and Hawaii. In Honolulu, one shopping center reported that August sales were 16 percent above their year-earlier level.

In the Seattle area, both law and accounting firms reported a flat August and September. Growth in tourism continues to fuel Hawaii's economy. In August, the number of visitors was up 7.8 percent from a year earlier.

Manufacturing

Western manufacturing activity remains mixed. In the Northwest, the boom in commercial aircraft activity continues, with record orders and backlogs, and hardly any slippage from the oil shock. However, productivity increases are preventing even this strong sector from experiencing significant employment gains. Total manufacturing employment District-wide is declining, with a majority of California's job losses in defense-related industries.

While most manufacturers' inventories are reported to be satisfactory, an electronics manufacturer and a maker of heavy equipment report that their inventories are higher than

desired. The heavy equipment company faces significant layoffs as a result.

Agriculture and Resource-Related Industries

District agriculture remains strong. Prices for most crops are high, with the exception of California pistachios and almonds, which are in over-supply. Livestock prices continue high.

The slowdown in housing construction nationwide has combined with stockpiling of logs, due to federal timber supply restrictions, to increase inventories of both logs and lumber. As a result, some lumber and plywood plants in the Northwest are laying off workers.

One respondent notes that spending plans for oil and gas exploration and production are up 25 percent. In California, however, new oil exploration is on hold because of the volatility of oil prices and the shortage of skilled oil field workers.

Construction and Real Estate

Real estate and construction activity are slowing throughout the District. Both home sales and median prices continue to decline from year-earlier levels in California. Even the previously robust Sacramento market appears to have cooled in the past two months. Slowing activity in the Seattle area is now showing up in the data, as prices and sales have levelled off. In Idaho, construction is reportedly slowing in the Sun Valley area and new commercial development loans are becoming more difficult to get.

Financial Sector

District financial institutions report mixed conditions. In California, loan demand is reported to be growing more slowly or declining in many credit categories, although some Central Valley banks note increasing deposit growth and "good" loan demand. Institutions in the Pacific Northwest and in Hawaii report continued strong conditions. Banks throughout the District continue to be very cautious in their lending practices, particularly with respect to land and land development loans.