

SUMMARY OF COMMENTARY

on

CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

April 1991

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Summary**

Economic activity remained weak in much of the nation, but there were some indications that the decline may be bottoming out. Retail sales were sluggish in most districts, with no sustained pickup following the end of the Persian Gulf war. Manufacturing showed indications of stabilizing, with some districts reporting slightly improved conditions and increased optimism about future activity. Other districts, however, report continued weakness in manufacturing. Wage increases appear modest and input prices in manufacturing are reported to be flat or down. Larger price increases continue, however, in certain service industries such as health care. Residential real estate activity improved across the nation, while non-residential construction remained weak. Loan demand was reported flat or slightly improving by most districts. Agricultural conditions outside of California are reported to be generally good. Stable oil prices and low natural gas prices are reducing exploration.

Consumer Spending

Retail sales remained sluggish in most districts, with the majority reporting no sustained pickup following the end of the Persian Gulf war. Districts report that renewed consumer

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confidence has yet to be translated into solid sales. Shoppers are remaining cautious and traffic is slow. Some softening of sales was reported by Philadelphia, Chicago, and Dallas. Cleveland reported a pickup in activity in areas not affected by auto layoffs, spurred in part by aggressive promotion. Increases also were noted in St. Louis for heavily promoted and discounted goods. Increased auto sales were noted by Kansas City, Cleveland, and Atlanta, but most districts reported little improvement and Dallas reported sharply reduced auto sales.

Low expectations for a significant improvement in sales are reported in Philadelphia and New York. Boston reports that the prevailing expectation among retailers is that 1991 will continue to be a tough year. Atlanta notes that some retailers fear that increased activity in their district may be "catch up" spending and not permanent. San Francisco, however, reports that expectations for improved consumer spending rose substantially. Richmond also reports increased optimism among retailers. Retail inventories are reported to be lean in most districts.

Manufacturing

Manufacturing activity showed signs of bottoming out in much of the nation. Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, and Kansas City all report stable or slightly improving conditions. Weaker conditions were reported by Dallas and St. Louis. Most districts report manufacturing input prices to be flat or down.

Cleveland noted some slow recovery in auto production, while Chicago reported an increase in orders received by suppliers to the auto industry. St. Louis, however, reported continued layoffs in the auto sector and a plant shutdown expected in May. Cleveland reports that steel production is expected to remain at 70 to 75 percent of capacity. Specialty steel and machine tool producers appear to be doing better than in previous recessions. Optimism among manufacturers for improvement was reported by Philadelphia, Richmond, and Cleveland.

Cleveland, Kansas City, and San Francisco reported strength in export activity. Richmond indicated that exports at District ports were higher than in the previous year and are expected to increase further. Boston, however, indicated disappointing export activity. Contacts in Kansas City, Dallas, and San Francisco expect orders related to the rebuilding of Kuwait.

Construction and Real Estate

Residential real estate activity improved across the nation, with most districts noting increased sales of new and existing single-family homes and modest improvements in residential construction. Increased buyer interest was attributed to renewed confidence following the end of the Persian Gulf war, and to the decline in mortgage interest rates. Atlanta, however, reported that some builders are skeptical whether the increased housing demand is sustainable.

Nonresidential construction activity remains weak. Boston

reported that construction of new commercial space has nearly ground to a halt, but that vacancy rates continue to increase due to further contraction in the financial services industry. New York reported that office leasing activity in midtown Manhattan declined to its lowest level in three years. Vacancy rates rose in downtown Manhattan with the addition of new space. High vacancy rates also were reported in Los Angeles and in Minneapolis/St. Paul. Dallas reported that construction activity remains sluggish, with respondents attributing weakness to tight credit conditions and uncertainty over the actions of the Resolution Trust Corporation.

Banking and Finance

Loan demand was reported to be flat or improving slightly in the eight districts reporting on financial developments. Increases were reported in mortgage lending and refinancings. Commercial and industrial loan demand was reported weak by Philadelphia, but slightly increasing by Richmond. In general, loan demand was expected to improve with the economy.

Reports on credit availability are mixed. New York reports that a majority of their surveyed banks have not changed their credit standards over the last three months, but a few are more cautious with respect to land development loans. Atlanta reports that most contacts feel that tight lending conditions continue to restrict loan growth. Boston indicates that half of their contacts report that a lack of credit is hampering capital

spending, while the other half report ample credit for projects such as renovations and computer upgrades.

Agriculture and Natural Resources

Dallas reported that prices for cotton, grain sorghum and soybeans have increased, and producers are indicating they will plant more acreage for these crops. According to Kansas City, warm weather has resulted in rapid development of the winter wheat crop, which is in generally good condition. Kansas City reports dry soil conditions in the western part of their district, and Minneapolis reports below normal precipitation in South Dakota. Favorable planting weather is reported by St. Louis and Richmond. In California, the freeze in late December cut citrus fruit production and exports in half and destroyed many fruit and nut trees. Continued drought conditions have caused farmers to cut back on acreage planted for many crops, including a 15 to 20 percent drop in cotton acreage planted in the San Joaquin valley.

Kansas City reports that stable oil prices since the end of the Persian Gulf conflict have resulted in continued development of existing reserves, but current prices are not stimulating much exploration. Drilling activity fell in March but remained about 13 percent above its year-ago level. Dallas reports dampened oil and gas production and drilling efforts. While oil prices are little changed from a year earlier, natural gas prices are the lowest in several years.

FIRST DISTRICT-BOSTON

Economic activity remains subdued in the First District. The retailers contacted report reduced sales in early 1991 compared to a year earlier. Although some retailers anticipate modest year-over-year increases by the third or fourth quarter, most expect slack sales conditions to continue. Demand also remains weak for First District manufacturing contacts; however, a few report signs of a recent bottoming out. While commercial and industrial real estate show no improvement, residential sales have increased.

Retail

Retail contacts in the First District report that February and March sales were below year-earlier figures. Declines were clustered around 4 to 5 percent, although for one-third of the sample the results were worse. Some retailers detect a slight improvement in consumer confidence as a result of the end of the Persian Gulf War, lower interest rates, and the anticipated resolution of the failure of the Bank of New England. However, the prevailing expectation is that 1991 will continue to be a tough year, especially given rising unemployment. Even the most optimistic retailers are projecting only low single-digit sales increases for the year as a whole.

Retailers continue to be very conservative in ordering inventories. Most contacts have been reducing employment in recent months, but about half note that it is becoming difficult to implement further staffing reductions without severely sacrificing customer service. About half the contacts feel that a lack of credit is

hampering their capital spending, while the other half report ample credit for projects such as renovations and computer upgrades.

Manufacturing

Manufacturing contacts indicate that economic conditions continue weak; however, a few report signs of a recent pickup. At two-thirds of the firms contacted, sales are flat to down from year-ago levels, with declines reaching 20 percent. The other third report year-over-year gains of up to 10 percent. New orders continue to fall at almost half the firms contacted, and some express concern about stretch-outs and dwindling backlogs. Nevertheless, a slight majority report a possible bottoming out, with incoming orders equal to or above year-ago levels. Demand from communications, health and other nonfinancial service industries is cited as relatively strong. However, export activity is termed "sluggish" and "disappointing."

Input and sales prices are generally flat to down. The few firms that have raised selling prices on selected items have simultaneously discounted or lowered prices on other products; thus, their average price increases are 1 to 2 percent at most.

Almost half the manufacturing contacts have decreased employment from year-ago levels -- by 5 to 30 percent; however, in contrast to recent reports, one firm is hiring and fewer than one-quarter plan additional reductions. Several contacts noted improvements in labor productivity.

Most respondents plan capital expenditures equal to last year's (generally low) levels. Two will increase capital spending -- in one case, very significantly because of a new product. Nevertheless, in the face of weak demand, a minority now expect to cut planned expenditures by 5 to 15 percent from budget.

Respondent expectations range from guarded to fairly confident -- with caution prevailing. A majority believe that the upturn will not occur before the third quarter, but a few report that the national recovery has already begun. Nevertheless, most expect that New England will lag the nation and that swollen debt levels will weaken the upswing.

Real Estate

First District realtors are optimistic for the first time in several months. Most are reporting increased home sales both from a few months ago and from this time last year, with low and moderately priced homes moving the fastest. One contact reported having the highest number of sales since 1986. Realtors attribute the pickup in sales to lower interest rates, falling prices, and an increase in consumer confidence. Thus, they caution that an increase in interest rates or a sharp drop in consumer confidence could have a negative effect on home sales.

Commercial and industrial real estate, by contrast, show no improvement. Construction of new commercial space has nearly ground to a halt in the First District. Nevertheless, with employment in the region's financial institutions declining, vacancy rates are not likely to ease. Instead, office rents are expected to continue falling. Vacancy rates are also increasing in the Boston area industrial market.

SECOND DISTRICT--NEW YORK

Developments in the Second District economy since the last report remained soft to mixed. Sales results at department stores were generally sluggish during February and March though some improvement occurred as the period progressed. Unemployment rose substantially in March and office leasing slowed during recent weeks. On the positive side, the latest surveys of purchasing managers indicate some pickup in business activity among manufacturers in Buffalo and stabilizing in the Rochester area. Moreover, homebuilders noted a substantial increase in traffic though sales remained soft. Most senior officers surveyed at small and midsized banks reported that overall demand for real estate loans in mid-April was the same as a year ago with the majority noting moderate growth in residential real estate loans.

Consumer Spending

Sales results at District department stores were generally sluggish during February and March, but in some cases where stores had been planning for sizable over-the-year declines, March results were actually better than anticipated. Year-to-year changes in March ranged from -11 percent to +6.8 percent and in February from -16 percent to +1.5 percent. The only contact with a worse performance in March than in February attributed it to the fact that a major promotional campaign that occurred in March 1990 is scheduled for April this year.

Sales of furniture and other durable goods continued slow though one respondent saw signs of a bottoming out. High priced women's apparel also moved slowly but other types of clothing and cosmetics sold relatively well. The inventory situation was mixed. Some were pleased that stocks are below plan since sales have been sluggish while others reported more of an inventory buildup than was intended. All of our contacts were pessimistic about the outlook until the economy revives.

Residential Construction and Real Estate

Homebuilders in most of the District have noted a substantial increase in traffic in recent weeks though sales remained soft. They attribute the heightened interest to "the lowest mortgage rates in years", an improved consumer outlook following the ceasefire in the Gulf, and more resale activity resulting from lowered prices on existing homes. Observers varied in their expectations for the year from those simply hoping for a near-term turnaround to those who anticipate a pretty good year. Mortgage money is considered plentiful in all areas but bank financing for acquisition and site development continues to be restricted.

Office leasing slowed in the District during recent weeks as activity in midtown Manhattan declined to its lowest level in three years. Nonetheless, the primary vacancy rate in midtown was unchanged because of virtually no new addition of space. A sizable amount of newly excess space was marketed in downtown Manhattan, however, and the primary vacancy rate rose substantially.

Other Business Activity

March unemployment rates rose in New York by 0.6 percentage point and in New Jersey by 0.5 percentage point to match the national average of 6.8 percent. This is the highest level in New York since May 1986 and in New Jersey since January 1984. The District's employment outlook is dimmed by several recent announcements of large-scale cutbacks planned by area companies. Due in large part to reduced defense spending, Grumman will lay off 1900 more workers by yearend--three-quarters of them on Long Island--and Metropolitan Life anticipates the loss of about 1000 jobs as the result of moving several thousand jobs from its Manhattan headquarters during a renovation project. In addition, both New York State and New York City continue discussing the layoff of large numbers of employees to help close budget gaps. More positively, the Pentagon selected Sikorsky Aircraft in Fairfield County, Connecticut as part of a team to build a new generation of combat helicopters with six prototypes to be built by 1996. The latest surveys of purchasing managers indicate some pickup in business activity among

manufacturers in Buffalo and stabilizing in the Rochester area. In March, 48 percent of firms surveyed in Buffalo reported increased production, up from 24 percent in February, and 43 percent reported higher orders, up from 27 percent in February. Almost three-quarters of the firms in the Rochester survey reported unchanged business conditions in February compared with 60 percent in January. Both surveys showed a sizable increase in the percentage of firms with lower input costs.

Financial Developments

Most senior officers surveyed at small and mid-sized banks in the Second District reported that overall demand for real estate loans in mid-April was the same as a year ago. Although almost all respondents saw no particularly strong or weak sector of the real estate market, the majority noted moderate growth in the demand for residential real estate loans, especially among first-time homebuyers. Of the banks reporting this moderate demand growth, more than half had an increase in loans for new purchases and the remainder had an increase in mortgage refinancings. Reasons cited for the growth in demand were declining home prices and interest rates as well as a recovery of consumer confidence. When asked about demand for commercial real estate loans as compared to last year, responses varied from "still down" to "substantially off". Bankers cited the soft economy and earlier overbuilding as major factors behind the current lackluster commercial real estate sector.

Credit standards for real estate loans at the majority of surveyed banks have not changed over the last three months though a few mentioned lower loan to value ratios as well as more caution with respect to land development loans and home equity lines. All respondents stated that over the last three months their qualifying procedures for real estate loans have not changed and nearly all said that their interest rates on real estate loans have been "low and stable" or have declined slightly. Most respondents reported that the ratio of their real estate loans to total loans has not changed over the last year. The only one noting an increase stated that this was mainly due to purchases of RTC assets.

THIRD DISTRICT - PHILADELPHIA

Indications of economic activity in the Third District in mid-April were mixed, but suggest conditions overall may be stabilizing. The two-year downtrend in manufacturing showed signs of levelling off as a majority of industrial firms contacted in April reported steady business compared to March. Retailers noted some softening in sales in recent weeks, following a pickup in March. In general, however, store officials indicated that sales in dollar terms for the first four months of this year will be even with the same period in 1990 for stores open at least a year. Bankers described overall lending as flat. Although there was a pickup in consumer and mortgage lending in March, new lending appeared to be easing in April.

The outlook in the Third District business community is beginning to brighten although expectations are not strongly optimistic. Manufacturers are generally positive: more than half of those contacted for this report expect business to expand over the next six months. Retailers anticipate sales in the second quarter will be flat compared to the year-ago period, but they expect some improvement in the second half. Bankers foresee a modest economic recovery that will boost lending slightly as the year progresses.

MANUFACTURING

The Third District manufacturing sector appeared to be stabilizing in April. A majority of firms contacted for this report indicated that they were operating at a steady rate compared to the prior month while the number reporting slower business was offset by those posting gains. This is the first indication that industrial activity might be levelling off since area firms began reporting

a general downturn two years ago. On balance, manufacturers noted increases in shipments and a pickup in orders in recent weeks. However, the rebound in demand does not appear to be pressing current manufacturing capacity in the region; overall, managers at area plants said order backlogs were still shrinking and inventories were holding steady. Area firms also reported that they were continuing to trim both the number of workers and the length of the workweek.

The outlook among Third District manufacturers is generally positive. More than half of those queried said they expect business to expand over the next six months while less than one-in-five anticipate further weakness. A majority predict increases in both orders and shipments between now and October, and a third plan to boost employment over that period. On balance, area firms are planning increased outlays for plant and equipment in the next six months.

RETAIL

Third District retailers contacted in mid-April generally said sales had been slipping in recent weeks. A pickup in March offset a lackluster February, according to merchants, but the gain was not carrying through into April. This pattern was being reported at most types of stores and for most lines of goods. Overall, merchants indicated that results for the first four months of this year will run just even with the year-ago period, on a current dollar, same stores basis.

Looking ahead, retail executives generally expect little or no improvement in the second quarter. They believe sales in the second half of this year will be greater than they were in the second half of 1990, which was weak, but they do not foresee strong gains. Several retailers noted that store traffic was running below expectations, and they believe shoppers will remain cautious until the employment situation improves.

FINANCE

Commercial bankers contacted in mid-April indicated that overall loan volume was essentially flat compared to the prior month. Most of those surveyed said commercial and industrial loan demand was weak and most types of consumer lending were also soft. An exception was revolving home equity loans, which had picked up in response to somewhat lower rates and bank promotions; however, bankers indicated that this increase was beginning to wane. Some bankers also said residential mortgage activity for both home acquisitions and refinancings picked up in March but had slowed since.

Commercial bank lending officers said lending will grow as an economic recovery gets under way, but they do not expect the rebound to be strong. A slow expansion of business activity will restrain growth in all categories of lending, according to bankers. In particular, they predict that consumer and residential real estate lending will not pick up vigorously until employment starts to trend up.

FOURTH DISTRICT - CLEVELAND

Summary. Signs of bottoming out are apparent in the Fourth District, even though the unemployment rate rose and manufacturing production fell more than nationally in recent months. However, the worst of the cutbacks in output and employment appear to be over, and District respondents report some signs of revival in activity. Auto output and sales apparently are recovering slowly from their depressed levels. Retail sales strengthened in April, and real consumer spending is expected to pick up this quarter. Mortgage loan demand and housing sales have strengthened. Depositories report an ample supply of funds, but loans are still generally weak, except for mortgages.

Regional Economy. The unemployment rate in Ohio rose half a percentage point above the national rate in both February and March, after six months when performance was better than in the nation. However, the latest spread between Ohio and the nation was small relative to previous recessions. Moreover, total employment rose in Ohio, but the increase was more than offset by a jump in the labor force. Nonfarm payroll employment has been relatively unchanged since last fall, in contrast to the nation.

Other information suggests an early end to the recession. The leading economic indicators for Ohio held steady for the third straight month in February, following a five-month decline. Moreover, the March survey of 450 CPAs in Ohio reported that business in the State is close to a trough and is "poised for recovery."

Manufacturing. Cutbacks in manufacturing production in recent months have been sharper in the District than nationally. Industry sources believe, however, that the worst of the reductions were in the first quarter.

Auto production has already begun a slow recovery from recent depressed levels, and industry analysts expect gradual improvements in both output and sales through the balance of this year. According to one estimate, weak auto production last quarter trimmed the real GNP growth rate by about one percentage point, and auto output this quarter will contribute either no change or a slight gain to overall output this quarter. Scattered recalls of production workers are also reported, although layoffs of white-collar workers continue. Auto production remains at a pace below sales, but dealers are reported to be satisfied with a smaller-than-usual 60-day supply of inventories.

Steel producers operated at about 70% of capacity in the first quarter, and expect operations in a 70% to 75% range this quarter. Steel inventory liquidation is likely to be somewhat larger than last quarter, according to some industry sources. Some specialty steel producers report that their operations have been faring better than the overall industry, and better than in past recessions.

Producers of traditional capital goods report that contraction in most industry groups has been less than in past recessions. Machine tool business has been holding up better than in previous recessions, but largely because of strong demand from the aerospace industry and exports that have masked weakness in some standard products.

A slide in industrial equipment shipments that began last fall appears to have leveled out in the first quarter, but the increase in April is less than seasonal, according to one producer. Also, heavy-duty truck output now appears to be bottoming out at extremely low levels, but is expected to gradually revive in the second half of 1991 as the pace of industrial activity quickens.

Construction machinery sales continue to decline and have not yet reached their trough, according to some industry sources. The weakness has been centered in domestic markets, especially in commercial and residential construction.

Most respondents expect a smaller decline in real producers' equipment output in the second quarter than in the first, especially if motor vehicle output increases enough to offset further expected declines in the information processing and industrial machinery industries.

Consumer Spending. District respondents are encouraged by the strengthening in retail sales in April, except in those areas affected by auto layoffs. They expect a revival in real consumer spending this quarter, supported especially by a higher volume of car sales than last quarter. One retailer reports a double-digit year-to-year increase in sales in the last two months, apparently because of its more aggressive advertising and sales promotions. Sales of appliances have picked up, according to a major retailer and a producer. Some also cite a step-up in use of consumer credit since March, which one retailer attributed to a no-interest-charge promotion.

New car dealers report that sales have been strengthening slowly over the past several weeks, and they expect continued but slow growth through the year. Dealers believe that new car sales have been dampened by increased credit tightening by banks and auto finance companies in recent months. They also believe that sales of "nearly new" cars purchased at auction from national car rental companies have dampened new car sales.

Credit Market Developments. Banks and thrifts generally report that an ample supply of credit is available, but that loan demand is still weak. Thrifts in Ohio are said to be highly liquid and are anticipating a better-than-seasonal pickup in housing sales this spring. Some report a significant revival in home sales since late March, especially in Cincinnati and Columbus. Mortgage loan activity has picked up in recent weeks, but a large volume is for refinancing, as mortgage holders substitute fixed-rate mortgages for adjustable-rate mortgages. Some thrifts also report deposits have risen each month this year.

Banks report ample funds for lending, and note a pickup in mortgage loans in the last two months. So far, the rise has been less than seasonal in Cleveland, but more than seasonal in Pittsburgh. Commercial real estate loans are still scrutinized by lenders. Some developers and builders of strip shopping malls claim that tight credit standards since early last summer have choked commercial construction, but acknowledge that financing is available for commercial buildings that are nearly pre-leased to creditworthy tenants, and when developers have an equity interest.

FIFTH DISTRICT-RICHMOND

Overview

District business and financial conditions apparently improved in March and early April. Commercial and industrial loan demand, housing starts and sales, and tourist activity all rose. Consumer spending and manufacturing activity were steady, after several months of decline, and export activity outpaced import activity at District ports. The return of military personnel boosted some local economies, and agricultural conditions remained strong.

Consumer Spending

Responses to our regular survey of retailers suggested that retail activity was steady in recent weeks. Retailers reported little change in sales and shopper traffic, although over half believed that the end of the Gulf War benefited sales. Employment apparently decreased slightly, while wholesale and retail prices evidently increased somewhat.

Retailers expressed optimism about their prospects in coming months. Over three-fourths expected their traffic and sales to rise. On balance, survey respondents expected retail employment to increase in the months ahead.

Manufacturing

Our survey of manufacturers indicated that District factory activity remained stable in past weeks. Respondents reported little change in shipments, orders, and order backlogs but noted increases in export orders. One-fourth said the conclusion of the Gulf war had led to improved sales, while most of the rest indicated that the war's end had had no effect on their businesses. Most manufacturers noted no change in the costs of their raw

materials or in the prices of their finished products. Manufacturers' inventories of raw materials and finished goods and manufacturing employment apparently declined over the survey period.

Manufacturers' forecasts for the coming months were quite optimistic. Nearly three-fourths believed shipments and new orders would increase over the next six months; only a few foresaw a decline. Similarly, three-fourths of the respondents expected conditions in their local areas and in the nation to improve in the next six months.

Ports

Representatives at District ports--Baltimore, Charleston, Hampton Roads (Norfolk)--indicated that exports were generally unchanged in March from February and that imports were generally lower. Compared with a year ago, export activity was higher and import activity was lower. Port representatives expected exports to increase faster than imports throughout the spring and summer.

Real Estate

A telephone survey of residential home builders and realtors suggested that housing activity rose moderately in recent weeks. Over two-thirds of the builders reported increased customer interest. Most of these builders attributed the heightened interest to greater consumer confidence and to the return of U.S. military personnel. A few builders said that lower interest rates contributed to the rise in shopper interest.

Half of the builders reported that housing starts increased in the last month; only a few said that starts declined. Builders noted that almost all homes were built under contract rather than for speculative purposes and that most of these homes were in the middle price range.

A majority of realtors indicated that home sales in their local areas

increased in the last month, while the remainder noted no change. Realtors commented that sales of owner-occupied homes exceeded sales of new homes. Almost half of the realtors said that middle-priced homes sold most readily, while slightly fewer said that lower-priced homes had been the easiest to sell. Home prices appeared to be stable across all price ranges.

Tourism

A telephone survey of District hotels, motels, and resorts indicated that tourist activity improved in March from February and was better than in recent springs. Most respondents experienced increased bookings and attributed them to the end of the Gulf war, good weather, and returning customers. A majority of tourist industry representatives expected tourist activity to increase in coming months. Other District contacts confirmed this upbeat picture.

Finance

A telephone survey of District financial institutions suggested no change in commercial and industrial loans closed compared with recent weeks. Demand for new loans, however, apparently picked up. Half of the lenders reported flat loan demand, but most of the rest reported an increase. Lenders attributed the increase to "bottled-up demand," the resolution of the Gulf war, and prospects for improved economic conditions. Respondents reported that borrowers were primarily larger, established customers rather than smaller, new businesses. Interest rates on loans apparently changed little over the survey period.

Most financial institutions reported that the delinquency rate on their loans stayed about the same or decreased in recent weeks. Lenders cautioned, however, that the improvement in delinquency rates may have reflected stronger collection efforts rather than improved economic conditions.

Return of Troops

The return of military personnel from the Gulf boosted economic activity, especially in areas near military bases. Business leaders indicated that economic activity--particularly sales of homes, cars, and other big-ticket items--in military-dependent areas had not yet returned to pre-conflict levels, but that retail traffic was up sharply. One respondent reported that apartments in his area were fully occupied in contrast to the 30 percent vacancy rate in early March. Other contacts reported a pickup in hiring activity and a drop in unemployment insurance claims.

Agriculture

Generally favorable weather led to active planting in early April according to District farm analysts. Corn planting was ahead of a year ago in most parts of the District, and vegetable and melon crops were on schedule in the Carolinas. Small grains were in good condition because of favorable temperatures and moisture, but some areas reported powdery mildew in wheat. Peaches and apples were in bloom, and no substantial frost damage was reported.

SIXTH DISTRICT - ATLANTA

Overview: Although the positive signs observed last month have been reinforced, reports from businesses contacted in April continue to give a mixed picture of the southeastern economy. Retailers and realtors report that the post-war sales pickup has been maintained, but most are concerned that recent improvements are linked more to "catch up" spending and good spring weather rather than to any sustainable improvement in the economy. Sales of homes continued to improve, but builders are skeptical about whether the recovery is sustainable. While manufacturing levels were, on balance, below or barely equal to those seen a year ago, most producers of home furnishings have seen a recent pickup in orders. Freight haulers say that April shipments are up across-the-board, suggesting evidence of a possible turnaround. Meanwhile, reports from bankers mirror those of businesses, indicating a slight increase in credit demand and some easing of credit conditions in recent weeks. Reports on prices indicated declines in several categories of materials.

Retail Sales: Retailers reported a significant improvement in March and early April sales from earlier this year, although volume remained below or only equalled year-ago levels. However, they attributed much of the improvement to normal seasonal patterns. Several contacts also expressed fear that the sales improvement during recent weeks may be only "catch up" spending without any permanence. Most merchants continue to keep inventories lean, waiting until there are further signs that recent improvements will be sustained. However, bankers indicate that some retailers, acting on sales expectations, are requesting a temporary increase in their lines of credit for planned additions to inventory. Auto dealers reported that the sharp post-war sales pickup has been maintained through March and early April, although units sold were still below year-ago levels. On a brighter note, the tourism and convention businesses have shown signs of a rebound with foreign visitors returning after a war-related reduction.

Manufacturing: Although construction materials manufacturing has continued to slip, home furnishings producers have seen significant improvements from their depressed orders of recent months. The household fabrics segment of the textile industry has reportedly posted increased orders that have resulted in extended mill operating schedules over the past few weeks. A manufacturer of replacement air conditioners and parts has received several sizable orders as distributors rebuild inventories depleted in recent days. Indicative of a more general turnaround, a packaging manufacturer reports a slight increase in orders recently and has responded by rebuilding inventory levels. Reports from truck and rail transporters give further evidence of an upturn, showing a recent pickup in total shipment volume and noting that industrial chemicals are especially strong. However, this increase was, in part, attributed to stock building because of railroad strike worries.

Other producers, however, report continued declining or flat sales and persistent soft orders for March and early April. A telecommunications company reports no letup in its overall business decline and anticipates additional layoffs of a work force already reduced by 20 percent over the past nine months. Steel producers, auto-related manufacturers, apparel, and some apparel fabric producers have also responded to continuing bleak sales with further layoffs and have indicated there are no plans to step up output at this time. Paper, pulp, and linerboard producers also report continuing slow sales and are delaying capital expansions until economic conditions improve. A slowdown is reported in exports of poultry, grain, and coal, although phosphate exports show strength. District banks verify that current production levels in several industries are flat to down. However, bankers report that most manufacturers have dropped their "doomsday" scenarios, and, as a result, have stabilized or slightly increased inventory levels in recent months.

Financial Services: Business and consumer loan demand is reported by bankers to remain weak, although some observed improvements recently. One banker reported a slight pickup in overall loan demand while another reports that retail business loan demand has improved as a result of retailers' increased sales expectations. Some contacts report easing of credit standards, particularly for small businesses with good track records, but most feel that tight lending conditions continue to restrict loan growth. Business contacts confirm this result, reporting that a number of large suppliers continue to serve as a "credit line" for customers by extending accounts receivables maturities and cosigning bank loans for clients.

Construction: Realtors indicate that the rise in both existing and new home sales reported earlier this year has continued through March and early April. Although builders that were contacted have responded with modest increases in residential building, they remain skeptical about the strength and sustainability of the housing recovery. This skepticism is reflected in reports from building materials suppliers and manufacturers whose sales continue to decline.

Wages and Prices: Most contacts reported subdued wage increases. However, shortages and wage increases in markets for certain types of workers in oil producing areas and health services are said to continue. Businesses report lower input prices for linerboard, boxes, and newsprint, while steel prices have dropped dramatically in response to the reduced demand from building and auto industries. Natural gas prices have plummeted to a five-year low causing some producers to scale back production and to review exploration plans.

SEVENTH DISTRICT--CHICAGO

Summary. Contacts indicate the rate of contraction in the Seventh District economy slowed in March and early April. Reports from District retailers suggest that consumer spending remained sluggish, although customer traffic gains continued. Residential real estate activity improved significantly. District auto dealers reported higher traffic levels, but new auto sales remained soft. At the same time, new orders received by District suppliers to the auto industry improved, brightening the outlook for production gains in the second quarter. Other District manufacturers report continued slow but stabilizing levels of activity, in line with results posted by purchasing managers' surveys. The financial condition of the District's banking sector is generally in better shape than the nation on average, and one large bank indicated a shift in April towards a more aggressive lending posture.

Retail Sales. Several District retailers indicated that real consumer spending may have declined slightly in March and early April, as improved consumer confidence has yet to translate into solid sales gains for retailers. District consumer spending no longer shows as much strength, relative to the national average, as it did through 1990. A large general merchandise retailer reported continued improvement in traffic and customer attitudes. However, sales continued to run below year-earlier levels. Consumer buying is increasingly sophisticated, according to this contact, leading to a more competitive pricing environment. A large discount chain, previously reporting consistent sales gains, revealed that sales in March fell below year-earlier levels. A contact with this firm stated that gardening equipment sales in early April were showing solid growth, however, and these sales have tended to be a good leading indicator of overall Spring spending.

Residential Real Estate. While household durable goods spending remained weak, residential real estate activity improved appreciably in March. Higher levels of inquiries reported by District realtors in the past few months have been followed by significant sales gains. Improved affordability, lower interest rates, and new governmental assistance programs for first-time home buyers contributed to the turnaround. A large realtor in the Chicago area reported that March residential sales were the highest for that month in the past ten years.

Autos. New motor vehicle sales remained slow in March and early April. District dealers continued to speak of improved traffic and customer attitudes, while new car sales gains continue to be limited. Several contacts indicated that new car sales were being constrained by tight financing from both bank and non-bank lenders. Down payment requirements have risen sharply in recent months, in many

cases posting a three-fold increase from last year. Efforts to shorten loan maturities also have impacted sales. Some lenders are putting increasing pressure on dealers to share in losses generated by higher defaults on previous loans, according to an industry source, causing some dealers to pass along fewer new loan applications. Several lenders also reported cutting back on the number of dealers from whom they accept loan applications.

Several dealers expected improved traffic to translate into sales gains soon, and contribute to some improvement in their orders to automakers. Auto production is being spread around to more lines operating at slower rates, according to one industry source, which could indicate that overall capacity is being prepared for stepped-up production. Assembly schedules for the second quarter were left unrevised in early April, marking the first time since last July that planners did not cut schedules from levels announced a month earlier. One auto industry analyst contended that the announced 5.5 million unit annual rate for second quarter production (still a low rate, but above that for the first quarter) could well be exceeded. A firm providing metal painting services for new auto parts reported that orders "bounced back" in early April. The firm's production is now running only 5 percent below year-ago sales, after experiencing production runs 40 percent below last year as late as mid-March. Steel producers also reported new improvement in orders from automakers in recent weeks.

Manufacturing. Reports by non-auto manufacturers generally indicate continued weakness in shipments and production. A large manufacturer of electrical equipment reported that sales declined significantly in the first quarter from a strong year-earlier period. After plunging in February, District steel production improved in the month of March, then flattened out in early April, at a level nearly 20 percent below year-earlier levels. A District steel manufacturer reported that industry shipments generally remained firm relative to production, as steel producers worked to reduce inventory built in advance of a threatened yet unrealized steelworker strike. A large capital goods manufacturer reported that machinery orders were "still on the weak side," but the overall impact of the recession remained mild. However, this contact stated that overseas revenues declined significantly in the first quarter, as slower growth in Western Europe and increased political uncertainty in the Soviet Union began to impact sales. A large manufacturer of a wide variety of specialty materials and office supplies, citing weaker foreign economies and the strength of the dollar, expects to export fewer goods in 1991.

Employment data and purchasing managers' surveys support producers' reports suggesting that the District manufacturing sector remains weak, but that the rate of decline has slowed since February.

District manufacturing employment continued to decline in February (the latest month available), but recent job losses have been in line with the results posted in the nation as a whole. Excluding Michigan, District manufacturing employment has been relatively stable in recent months. District purchasing managers' surveys indicate slowing rates of contraction. The index produced by the Chicago survey bottomed out in January. While the index continued to indicate contraction in March, some of the best improvement from January to March was evident in the new orders component. The Detroit index also improved from January to March, yet remained at a low level relative to the Chicago results. Most of the improvement in Detroit in March came from the automotive sector, described in the survey report as "desperately weak" earlier in the year.

Credit Developments. Reports from District bankers indicate that new lending activity is still weak, but at least one banker anticipates improvement in the near future. District banks are generally healthier than the national average, with lower exposure to losses on real estate and merger lending than those incurred by some banks in other regions. Several large District banks reported no further tightening in credit standards since January for nonmerger business, commercial real estate, or consumer lending. One major bank recently completed a bond issue for the purpose of expanding lending activity over the next few months.

Several reports by nonfinancial corporations indicated increasing difficulty in collecting receivables and financing inventory, but several small manufacturers reported continued access to bank credit. A large diversified manufacturer reported that a growing number of customers are slowing their payments, in response to slower payments customers themselves are experiencing. A District auto-parts manufacturer reported that most customers continue to pay reliably, including one distributor who recently reorganized in a leveraged buy-out. However, payments from several leveraged auto-parts retailers recently slowed, according to this source. Outside of commercial real estate, difficulty obtaining credit appears to be concentrated in retailing. A large national discount chain reported that a growing number of suppliers are having difficulty obtaining short-term credit, especially for inventory. However, several small manufacturers in Wisconsin, Illinois and Indiana reported continued access to bank funding, despite weak sales so far this year. One small machining shop recently was able to obtain a bank loan for the purchase of a tool costing one-third of its expected sales this year, in advance of a yet-to-be released customer order.

EIGHTH DISTRICT - ST. LOUIS

Summary

Economic activity in the District remains weak, especially in durables manufacturing. Some signs of recovery, though far from conclusive, are present in many sectors including residential real estate, retail, tourism and natural resources. Loan growth at large District banks is flat.

Consumer Spending

Some contacts report that retail sales of general merchandise--particularly heavily promoted or discounted goods--have picked up slightly. Others note that while their sales declines have stopped and consumer traffic has increased, there is no evidence of a sales upturn. Sales tax revenue data indicate that sales in Missouri have stabilized after declining for most of 1990. No noticeable increase in new car sales was reported, although used car sales have improved in several areas.

Manufacturing

Overall manufacturing conditions continue to weaken, although activity in some industries and firms has stabilized or expanded. Missouri purchasing managers report that vendor lead times and the rate of new orders received have declined. Production in most major durables manufacturing sectors is flat or declining. Several car and truck assembly plants have continued to experience intermittent layoffs, but production at plants making vans and sports/utility vehicles has stabilized. The national auto sales decline has contributed to a sharp reduction in Missouri in the mining and smelting of lead used in auto batteries. An automaker plans to close one assembly plant in May,

eliminating 1,700 jobs, but expects to add a third shift of 1,000 workers in early 1992 in a second plant, pending a pickup in demand. Some steelmakers, facing declining orders and, in some cases, rising inventories, have ordered layoffs. One large appliance factory has cut production sharply while another, having cut production sharply last year, has avoided further cutbacks.

Nondurables manufacturing conditions also are mixed. Many producers of textile and apparel face weak market conditions, and a chemicals producer reports no increased demand from the homebuilding or auto sectors. On the other hand, poultry and other food processors are reportedly doing well. Demand for paper used by advertisers has softened, but orders of paper products for food packaging and foreign markets are rising; paper mills are being built and expanded in Kentucky and Arkansas.

Services and Tourism

While job growth is sluggish in most services industries, the number of health services workers continues to increase moderately, with gains reported in all major metropolitan areas. Hospital construction has accelerated in Missouri. Because of the expansion of its international operations, one overnight express shipping firm has avoided any substantial declines in its operations. An airport expansion in the Evansville, Indiana, area is expected to generate many new service jobs.

Tourism activity is expected to be as strong as, or slightly stronger than, last year. Contacts believe that many cautious consumers will shun overseas travel and spend their money closer to home, boosting domestic tourism. Hotel occupancy rates in Arkansas are above year-earlier levels. Reports regarding tourism in Missouri, however, are mixed. While more inquiries regarding tourist activities have been

received, a theme park reports that some corporations have been hesitant to commit to bookings, given weak economic conditions.

Construction, Real Estate and Finance

Contacts in St. Louis and Little Rock report increased buyer interest in recent months, primarily because of the end of the Persian Gulf war and the decline in mortgage rates. Nonetheless, single-family housing starts are well below their year-earlier levels and construction employment remains weak, especially in St. Louis. The western Kentucky market, in contrast, is doing well in terms of starts, construction employment and sales. Some builders report difficulty obtaining financing from banks and thrifts for pre-sold as well as "spec" homes. Contacts report that the lower-end/first-time homebuyer segment of the market is the strongest, with the upper-end/move-up segment still fairly weak.

Total loans on the books of large District banks showed no change in March after a slight February decline. Real estate loans rose 1.8 percent after declining 4.7 percent in February. Commercial and consumer loans both were down slightly in March.

Agriculture and Natural Resources

District coal production declined moderately in recent months, reflecting mild weather conditions. Likewise, lumber producers report weaker output than a year earlier, as well as rising inventories. An anticipated rebound in the U.S. housing market, however, has led to expectations of increased lumber consumption in the future. Crop conditions are generally good to excellent. Spring planting is ahead of schedule in most areas. Farmers continue to benefit from strong livestock prices relative to grain prices. The outlook for cotton is favorable because of increased world demand and rising prices.

NINTH DISTRICT--MINNEAPOLIS

Ninth District economic conditions have been uneven. Labor market conditions have declined in much of the District with the only bright spots being North and South Dakota. Automobile sales continue to be depressed relative to a year ago, though there are signs of improvement. Housing sales have rebounded, but housing construction remains below its 1980's levels. Conditions in manufacturing and resource-related industries have been mixed.

Employment

Labor market conditions were mixed in the District, with North and South Dakota continuing to buck the national trend, while the rest of the District generally deteriorated. Unemployment rates in North Dakota fell to 4.6 per cent in February from 5.0 per cent a year ago, while in South Dakota they went to 3.9 from 4.1 per cent over the same period. North and South Dakota's strength was mirrored in job creation, with February's number of employed rising 2.4 and 3.3 per cent, respectively, relative to a year ago. This job growth in North Dakota occurred primarily in manufacturing and trade, with employment growing 7.3 and 2.5 per cent, respectively, in February over their year ago levels. South Dakota also showed growth in the trade sector, but additionally construction employment was up by 13.5 per cent in February relative to the same time last year. The unemployment rate in Minnesota rose to 6.6 per cent in February, up from 5.3 per cent a year ago, while employment was essentially unchanged in March from its level of a year ago. Additionally, the Minneapolis--St. Paul help-wanted advertising index was also down 30.1 per cent in February relative to a year ago. Unemployment rates were also up in Montana and the Upper Peninsula of Michigan in February relative to their year ago levels--7.5 per cent from 5.9, and 12.3 per cent from 9.9, respectively. This is somewhat surprising in the case of Montana since

employment rose 2.4 per cent over this same period. Labor market conditions were mixed in western Wisconsin.

Consumer Spending

District retailers of general merchandise report sharply higher sales figures in March as opposed to a year ago, but this was caused in large part by the fact that Easter fell in March this year and April last year. In February retailers had reported lower sales relative to a year ago in comparable stores, though Minnesota state sales tax receipts were almost 2 per cent higher relative to a year ago. The situation will not become clear until April figures become available, though some retailers have expressed optimism about the summer and fall.

New car and truck sales generally have been weak so far this year, in some cases year-to-date sales were down as much as 25 to 30 per cent relative to a year ago. As a result, several dealerships in the District have gone out of business. There have been some positive reports for the first 10 days of April, with one dealer reporting new car sales 10 per cent higher than a year ago, and there is guarded optimism about the rest of the year.

Housing has been depressed in the District due in large part to the depressed market in the Minneapolis--St. Paul area, with permits down 14 per cent in February relative to a year ago. (A recent HUD study foresees demand for new housing in the Twin Cities area falling by 2 or 3 per cent over the next two years.) However, housing sales in the District were higher in March, with sales in Minneapolis--St. Paul 12 per cent higher in March relative to a year ago.

Tourism activity has generally been moderate to good. The number of crossings over the Mackinac Bridge onto the Upper Peninsula of Michigan set a new record in January, up 1.2 per cent from a year ago. Tourism has been strong in South Dakota, especially in the Black Hills and Badlands areas. The popularity of the movie, "Dances With Wolves," which was filmed in South

Dakota, and the fiftieth anniversary of Mount Rushmore in July are expected to have a positive impact. The outlook for the summer season is positive, especially with gas prices staying low.

Construction and Manufacturing

Conditions in the District's construction industry have been mixed. The continuing overhang of office space in the Minneapolis--St. Paul area has depressed local construction activity.

Overall conditions in the District's manufacturing industries have been poor of late. An index of Minnesota economic indicators declined only slightly from its year ago level in January, however manufacturing employment in the state was down almost 3 per cent in March from its year ago level.

Resource-Related Industries

Ninth District conditions of resource-related industries have been mixed. The Minnesota index of prices received by farmers rose by almost 2 per cent during the first 15 days of March, but was still 5.6 per cent below its year ago level, due in large part to the fall in dairy and crop prices. However, cattle and hog prices are at record levels. Precipitation has been below normal in most of the District. South Dakota, in particular, has had between 40 and 60 per cent of normal rainfall thus far this year.

The District's mining industry conditions have been fairly good. However, the oil business continues to decline with employment the lowest in years and drilling only in proven fields.

TENTH DISTRICT - KANSAS CITY

Overview. Growth in the Tenth District economy has increased slightly, due to modest improvements in retail sales and housing activity. Continued strength in manufacturers' export sales and in livestock prices has also helped the district economy. The advance in growth, however, has been limited by sluggish capital spending on district farms and slower drilling activity in district oil fields.

Retail Sales. Retail sales have improved slightly over the past three months. Most of the gain has occurred in apparel sales, while home furnishings sales continue to languish. Most retailers are satisfied with inventory levels and are continuing to keep them low. Because retailers expect no further improvement in sales, prices and inventories are expected to remain flat.

Auto sales have improved slightly in most district states over the last month. Although adequate dealer financing is available, some potential buyers are having difficulty getting loans. Most dealers have been trimming inventories, but expected sales increases could soon lead to rising inventories.

Manufacturing. Purchasing agents report moderate increases in input prices. Agents expect prices to continue rising even though materials are readily available. Manufacturers generally continue to trim inventories and operate below capacity. Export sales have picked up in recent months, and some exporters expect further increases during the remainder of year.

Energy. Stable oil prices since the end of the Persian Gulf conflict are fostering continued development of existing reserves but are not stimulating much exploration. The average number of operating drilling rigs

in district states fell from 263 in February to 256 in March. Nonetheless, the district rig count remained about 13 percent above its year-ago level. Some district oil field supply firms expect to benefit from the rebuilding of Kuwait.

Housing Activity and Finance. Housing starts over most of the district were up from the previous month due in part to warmer weather. Starts are above year-ago levels for most builders in the district and are expected to end the year slightly higher than last year. Construction materials are readily available, and prices are steady. New home sales are improving, but prices remain stable. Builders expect small gains in sales for this year compared with last year.

Reflecting the pickup in home sales, mortgage demand has increased in the district. Commitments have increased recently and should continue increasing. Mortgage rates have stabilized and are expected to remain flat over the next several months.

Banking. Loan demand at district banks was unchanged or higher last month. Demand for commercial and industrial loans, consumer loans, home mortgage loans, and home equity loans was higher at several banks. In contrast, demand for construction loans continued to fall. Demand for commercial real estate loans and agricultural loans was mixed. Most banks report unchanged loan-deposit ratios during the past month.

The prime rate and consumer lending rates are unchanged, and banks do not expect a near-term change in lending rates. All banks reported terms of lending unchanged from last month. Deposit behavior varied across reporting banks, but the largest number of banks reported no change in total deposits during the past month. Demand deposits and large CDs were down slightly. In

contrast, NOW accounts, MMDAs, IRA and Keogh accounts, and small time and savings deposits were up.

Agriculture. Warm weather has encouraged rapid development of the district's winter wheat crop. The crop is generally in good condition in most areas, although dry growing conditions are beginning to affect the crop in parts of Kansas and Oklahoma. Tillage for spring crops is underway throughout the district. Corn planting has begun in Missouri, but planting of corn and milo in the western parts of the district has been delayed by dry soil conditions.

Despite the continued strength in cattle prices, little expansion in district breeding herds is occurring. Many young cattle that might otherwise be added to breeding herds are being fattened for slaughter in feedlots. Most district lenders are not encouraging ranchers to expand their herds. Instead, lenders are encouraging ranchers to maintain the size of their herds by balancing the number of cattle held for herd replacement with the number sold for slaughter.

The pace of capital spending by district farmers has increased only slightly from the sluggish pace last fall. Spending by crop producers is somewhat more restrained than spending by livestock producers, reflecting the continued divergence in crop and livestock incomes. Low crop prices and smaller government payments are holding down crop incomes. Strong livestock prices, however, continue to buoy livestock incomes.

ELEVENTH DISTRICT--DALLAS

District industries are feeling the negative effects of a slowing national economy and are no longer benefitting from the positive effects of higher oil prices. Compared with the last survey, overall output is unchanged to slightly down. Manufacturing orders have decreased a little. Service sector growth is positive but weak. Retail sales have been flat to down. Auto sales have fallen and sales are now well below last year's level. Low oil and gas prices have dampened production and drilling efforts. Growth continues in Houston, but at a slower rate than during recent surveys. Respondents in construction and in some manufacturing industries expect positive effects from Kuwait's rebuilding.

Manufacturing orders have declined slightly. Industries that serve the entire nation have seen a drop in orders from outside the District, but orders within the District are edging up. Demand for construction-related products such as lumber, stone, shell, clay, glass, primary metals and some fabricated metals are below a year earlier. The demand for glass and primary metals has also been reduced by weakness in the auto industry. Orders for chemicals have declined and respondents have excess inventories. The U.S. slowdown is said to have reduced the demand for plastics. Petroleum refiners say that product prices and sales volumes are stable, and that low oil prices have raised margins to their highest levels since 1980. Although reduced drilling activity and low natural gas prices are said to have caused sales of oil field machinery to drop recently, demand remains unchanged or slightly up from a year earlier. Paper producers note that, while sales volumes have increased, profits have been squeezed because of heavy price competition. Apparel orders continue to rise and demand is above a year earlier. Demand for electronics

is flat to slightly up. Sales of high-end microprocessors are strong while orders for low-end microprocessors are sluggish. Food products sales have shown little change.

Growth in business services has been slow but positive, and most respondents do not expect expansion to return to robust rates in the near future. Prices are stable but few firms expect to be hiring much in 1991. Demand has weakened at some temporary firms. Demand is flat for accounting, advertising and law firms. Lower fuel costs and fuller planes have benefitted District airlines. Houston is reporting more strength in services than most areas of the District.

Retail sales are flat to down, and sales of consumer durables have been particularly sluggish. Retailers continue to mark down selling prices, but say that inventories are at acceptable levels. Sales in the Houston area have slowed but remain positive and continue to outperformed those in the rest of the District.

District motor vehicle sales are markedly below a year earlier. Dallas-Fort Worth metropolitan area sales dipped 5 percent in March. Auto sales were flat while truck sales dropped 19 percent. Overall, year-to-date sales in the Dallas-Fort Worth area are now 10 percent below last year. Auto sales in Houston fell 26 percent in March. Year-to-date sales in Houston are 14 percent below last year.

Energy extraction has slowed. Respondents say that low oil and gas prices are dampening production and drilling efforts. The end of the Middle East crisis has brought stability to the oil market, albeit at lower prices. Oil prices have settled around \$20 per barrel. Although this price is

considerably less than oil prices during the crisis, it is little changed from a year ago. Natural gas prices, however, are the lowest they have been in several years.

Construction activity in the Eleventh District remains very sluggish. Growth has been slight to zero since last year and some respondents say that tight credit and uncertainty over the future effects of RTC behavior are significant reasons. Nevertheless, construction has been performing more positively in the District than in the nation. Single-family residential building has lately increased a little, but remains below a year earlier. Multi-family building has also recently turned up somewhat. Nonresidential construction has shown little recent change. Nonbuilding construction activity is also slow, but is slightly above last year's level.

District agricultural producers have begun to plant their crops. Prices for cotton, grain sorghum and soybeans have increased and producers are indicating that they intend to plant more acres of these crops. If full acreage intentions are planted, this will be the largest upland acreage for Texas since 1981. Planting intentions for corn, soybeans and sunflowers are down from last year. Texas winter wheat acreage is 7 percent less than a year ago. Overall crop prices remain 2 percent below last year's level. Livestock prices continue to increase, up 2 percent from last year and up 3 percent from February's level.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions in the Twelfth District are characterized by continued weakness in California offset partly by relatively strong activity in other states. The outlook of western business leaders, however, continues to improve. Materials prices are reported unchanged or down slightly, and wage increases remain moderate. Consumer spending continues to be sluggish, with little pick-up noted since the end of the Gulf War. Agriculture is hindered by drought conditions in some parts of the District. Construction and real estate markets remain soft, but some improvement has appeared in sales and prices in California. District financial institutions report generally slow conditions, although lower interest rates have spurred mortgage refinancing activity.

Business Sentiment

The economic expectations of western business leaders continued to improve in April. Forty-seven percent of those sampled expect improvement in housing starts in the coming four quarters, and a similar percentage expect increased consumer spending. This is a strong pick-up from the end of 1990 when over 90 percent of respondents expected conditions to worsen in these sectors. Over 50 percent of business leaders continue to project improvement in the foreign trade balance and inflation during the next four quarters. Even with the more positive outlook, over 65 percent of respondents still expect unemployment to increase and over 75 percent continue to foresee GNP growth of less than 2.5 percent in the coming four quarters.

Wages and Prices

Prices for many Twelfth District products and services are reported to be unchanged or down slightly. Many reports suggest that declines in fuel prices have helped to bring down overall prices. The Salt Lake City and Boise area CPIs declined in the first quarter of 1991. In Southern California, one report indicates that the price of newsprint is 2 percent below last year's level. Wage increases

remain moderate. Most respondents report wage gains of only 3 to 4 percent, with minimal wage pressure on large employers currently involved in labor negotiations. Increases of as much as 10 percent continue to be reported for health care and tuition costs, however.

Retail Trade and Services

Consumer spending in the Twelfth District remains sluggish, with only a few reports indicating a significant pick-up since the end of the Gulf War. A food and drug retailer notes some improvement in sales around Easter, especially outside of California. Auto sales continue weak in the District, although showroom traffic is reported to have increased steadily since the end of the war. Hawaii's tourism industry is just beginning to recover from the sharp drop in Japanese visitors earlier this year. Advertising at television stations in the Pacific Northwest has increased since the end of the war, but newspaper advertising volume in Southern California remains off 20 percent.

Manufacturing

Manufacturing activity in the Twelfth District is relatively solid outside of defense-related industries. Conditions in the aerospace industry continue to be split, with commercial aerospace growing while defense-related activity slows. In the Pacific Northwest, shipyards are reporting solid growth. In Oregon, a helicopter supply firm and a heavy equipment supplier are reported to be expecting orders associated with the rebuilding of Kuwait. Export demand has boosted sales of agricultural machinery to Mexico and Brazil.

Agriculture and Resource-Related Industries

Agricultural and resource industries in the Twelfth District continue to report weak conditions. In California, the freeze in late December cut citrus fruit production and exports in half and destroyed many fruit and nut trees. Continued drought conditions in California have caused farmers to cut back on acreage planted for many crops, including a 15 to 20 percent drop in cotton acreage planted in the San Joaquin Valley. Prices for many crops affected by the drought are expected to rise, which will

help to offset the impact of the reduced plantings on cash receipts. Grain prices are well below last year's levels. The cattle industry remains in good shape, but higher commodity costs are reported to be tightening profit margins.

Forest product industries in the District continue to be hampered by court actions which are halting federal timber sales. Some pick-up in lumber sales and prices is noted in recent months.

Copper and aluminum prices have fallen recently.

Construction and Real Estate

Construction and real estate activity show signs of improvement in California, and remain relatively healthy in the Pacific Northwest and Intermountain areas. In California, reports suggest that home prices are stabilizing. Moreover, sales activity has increased in recent months. Single-family and condominium sales in Los Angeles are reported to have doubled between February and March. Home prices are rising moderately in the Pacific Northwest, Idaho, and Utah. Commercial markets are weak in California as vacancy rates increased in Los Angeles and remained high in other markets. Some reports suggest that over-capacity will continue to depress commercial construction in Los Angeles for two to five years. Conversely, reports from Salt Lake City note low vacancy rates and rising rents.

Financial Institutions

Financial institutions in the Twelfth District report generally sluggish conditions. In Southern California, loan demand remains slow, while a Silicon Valley banker reports that loan demand is strong, but deposit growth has fallen off. The decline in interest rates has caused a flood of mortgage refinancing in the Pacific Northwest. One report indicates that 35 to 40 percent of recent real estate loan originations have been refinancings.