

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

June 1992

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SUMMARY*

Economic activity continues to improve. The manufacturing sector appears to be strengthening in all districts. The Chicago, Dallas and St. Louis districts report gains in nonmanufacturing sectors as well. All districts except Boston, New York and San Francisco report moderate increases in consumer spending. Residential construction activity remains well above year-ago levels in most districts, and new home prices have risen in several regions. Loan demand appears to be increasing in most districts. Price stability in the retailing and manufacturing sectors seems to be the rule across districts. Adverse weather has affected agricultural prospects in many districts.

Manufacturing

All districts report improving manufacturing conditions, except for the defense and aerospace industries. The Boston, Cleveland, Dallas, Philadelphia, St. Louis and San Francisco districts report that orders are increasing modestly, while Atlanta and Chicago note much sharper gains. Most of the increases come from durables-producing industries within each district. Employment at manufacturing firms continues to rise in the Chicago, Philadelphia and Richmond districts. The Atlanta district reports that some firms have increased hours in response to increased demand. The Boston, New York, Philadelphia and Richmond districts also report that at least one-fourth of the surveyed firms will hire new employees during the next six months. The Chicago district adds that an increase in orders for new cars is expected to require additional shifts and/or overtime. The St. Louis district reports employment

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declines because of plant closures and relocations, while the San Francisco district reports significant declines because of defense industry cutbacks.

Reported inventory levels are mixed. San Francisco district firms report no inventory concerns, while firms in the Kansas City district find their inventories either satisfactory or slightly high. Richmond district firms experienced no changes in inventories or backlogs and foresee no changes in the next six months.

Demand for exports of manufactured goods seems to be waning because of weakening foreign economies. For example, the Boston, Minneapolis, Richmond and San Francisco districts report a drop-off in the volume of durables exports, especially electronics to Japan and appliances to Canada. The San Francisco district, however, reports that exports of electronic components to other Pacific-Rim nations remain strong.

Nonmanufacturing

The St. Louis district reports strengthening in the growth of nonmanufacturing employment. Southern California, on the other hand, has experienced a large loss of retail and service-related jobs in the aftermath of the Los Angeles riots, and the New York district will post significant retail job losses by this fall when 15 major department stores in the New York metropolitan area are closed. Outside of retailing, the Chicago and Dallas districts report increased activity in business-related services. The San Francisco district indicates growth in advertising but declines in telecommunications.

Consumer Spending

Most districts report increases in non-auto merchandise sales. All districts except Boston, Cleveland, New York and San Francisco report modest gains in April and May, while the Minneapolis, Philadelphia and

St. Louis districts note year-over-year gains as well. Much of this growth is attributed to the late Easter season. The Dallas, Philadelphia and Richmond districts identify big-ticket items as slow movers, and Atlanta concurs by stating that nondurables are selling better than durables. The Dallas district notes greater improvement at mid- to upper-scale stores than at discounters, while San Francisco indicates increases at both department and discount stores. Contacts in the Boston and New York districts blame unseasonably cool weather and the news of potential additional layoffs for their poor sales. Auto dealership traffic and sales are increasing steadily in most districts; the Dallas and San Francisco districts, however, report slower or "spotty" growth.

Construction and Real Estate

Residential construction activity continues to be a source of strength in most districts. While construction has stabilized or dropped off slightly in some districts since its first-quarter surge, contacts in the Atlanta, Kansas City, Minneapolis, Richmond and St. Louis districts describe the pace of residential building activity as strong. New home prices are reportedly higher in the Dallas, Kansas City and Richmond districts because of increased lumber costs and low inventories. New and existing home sales are mixed, with the Atlanta and Minneapolis districts reporting a slight downward trend in sales and the Kansas City and Richmond districts reporting a continued increase in sales. No appreciable improvement in commercial real estate markets is reported.

Banking and Finance

Loan demand appears to have increased slightly in most districts. Contacts in the Atlanta, Dallas, Kansas City, New York, Richmond and San Francisco districts report stable-to-stronger loan demand. The Philadelphia district describes loan demand as soft, and the St. Louis district reports that loan demand appears to have weakened in

recent weeks. The source of increased demand varies by district; some report increases in consumer loan demand, while others note improvements in business loan demand. The Kansas City and San Francisco districts report increases in both categories.

Prices

Inflationary expectations in retailing and manufacturing remain relatively subdued. Contacts in the Boston, Dallas and Philadelphia districts report retail prices as stable, while contacts in the Chicago, Kansas City, Minneapolis, Richmond and San Francisco districts report slight-to-moderate price increases. Manufacturing and retailing wage pressures remain moderate-to-low across most districts. Manufacturing materials prices remain relatively stable across districts, although steel producers in the Chicago district report higher input prices.

Agriculture, Energy and Natural-Resources-Related Industries

Many districts report that unseasonably cool weather and inadequate soil moisture have hampered the planting and development of many crops. In the Chicago, Kansas City and St. Louis districts, adverse weather has affected the corn, cotton, soybean and winter wheat crops. Declining livestock prices have recently led cattle and pork producers in the Kansas City district to curtail production. The San Francisco district reports that, except for grains, agricultural exports to Mexico and the Pacific Rim (excluding Japan) have been strong lately. Despite the recent firming of oil and gas prices, the Dallas, Kansas City, Minneapolis and San Francisco districts indicate that the energy sector remains weak. Lumber production is up significantly in the St. Louis district, but down in the San Francisco district.

FIRST DISTRICT-BOSTON

First District manufacturers contacted in early June were more positive about the recovery than were retailers, although both remain cautious. Retailers expressed disappointment at recent fluctuations in economic conditions. They reported that the slight strengthening of consumer demand witnessed earlier in the year appeared to fade in May. By contrast, most manufacturing contacts were pleased to report small year-over-year increases in sales and orders, thanks, in several cases, to unexpectedly strong demand from the auto industry. Nevertheless, anticipating a subdued recovery, manufacturers, like retailers, were keeping their investment and employment plans modest.

Retail

First District retailers contacted in the first week of June reported that earlier sales gains, especially noticeable in April, were reversed in May. They attribute the slowdown to poor weather conditions that limited demand for summer apparel and home improvement items. In addition, continued news of layoffs in other New England industries was thought to have intensified consumer caution. Only one of the retailers contacted experienced a significant rise in sales, and the contact attributed the increase to the firm's market position rather than economic conditions.

With few exceptions, the cost of goods to retailers remains fairly constant, as are the prices offered consumers. Inventories remain intentionally low, as retailers feel uncertain about the direction of

the economy. Recent sales results have even convinced one contact to cancel plans for opening a new store. Others have restricted capital spending plans, typically to remodeling existing facilities.

With one exception, no contact plans to hire new employees. However, neither do the retailers contacted anticipate employment reductions, as staff levels had previously been reduced to a minimum. Two employers recently instituted small wage increases for all employees. Virtually all retailers are cautious about the summer ahead, and some express concern that, as in 1991, the positive results of earlier months may be followed by weakening.

Manufacturing

Two-thirds of the First District manufacturers contacted in early June indicate that sales and orders are modestly above year-ago levels. In all cases, the reported increase was 5 percent or less. Nevertheless, several respondents have experienced unexpectedly strong orders from the auto industry as well as improved demand for products related to residential construction. By contrast, defense, commercial real estate, and parts of commercial aerospace are said to be relatively weak markets; general-purpose capital goods remain sluggish as well. In addition, most First District manufacturing contacts say that their major foreign markets continue to weaken. Inventory-to-sales ratios are generally below year-ago levels; according to a few respondents, ratios should continue to improve.

Manufacturing contacts indicate that materials prices are stable or under downward pressure. In the case of selling prices, a minority have achieved small increases on some or all products; the rest reportedly face a tough pricing environment.

Reports on employment are mixed. For the majority, the work force has shrunk from year-ago levels, with the declines ranging from slight to 7 percent. By contrast, a few contacts have hired or are now hiring small numbers of workers. Within the foreseeable future, one-third expect to reduce employment while another third expect to expand. As for compensation, one contact just announced a 2 percent wage increase, while another recently reduced wages and restructured the benefits package.

Capital spending plans are described as modest. According to several respondents, capital spending will remain flat or will equal little more than depreciation. Investment objectives include increasing efficiency, introducing new products, and providing required maintenance. One-third say that they have excess space.

First District manufacturing contacts believe that a subdued upturn has begun. However, they all expect that persistent problems in important markets will restrain the pace of the recovery.

SECOND DISTRICT--NEW YORK

Reports on recent developments in the Second District continue to be basically mixed, but marginally more negative in tone than in recent months. On the plus side, office leasing activity in Manhattan continued at a moderate pace and a survey of District manufacturing firms showed business conditions have improved significantly since last November. In contrast, however, District homebuilders noted a recent slackening of activity and department store contacts reported some slowing in sales growth. Labor market developments were also unfavorable, with state unemployment rates rising in May and with layoffs of over 7,000 retail employees expected by summer's end. Senior loan officers surveyed at small and mid-sized District banks indicated no change in their willingness to lend from two months earlier.

Residential Construction and Real Estate

Homebuilders in upstate New York and northern New Jersey generally report a recent slackening of activity after the rise in sales earlier this year, although sales remain above last year's levels. A builders association projects new single family homes in western New York will total between 2,300 and 2,400 units this year, above last year's level of 2,100, but well below the more than 2,800 homes built in both 1988 and 1989.

Manhattan office leasing activity has continued to rise, but growing inventories of available space have led to increases in overall vacancy rates. In the market for sublet space in Midtown Manhattan, however, declines in asking rental rates have so increased leasing activity that the inventory of available space has finally begun to decline.

Consumer Spending

Second District department stores reported that sales growth was slightly stronger in April than in May. Although the range of year-to-year sales growth was quite similar for both months -- flat to +15 percent in April as compared to -3 percent to +15 percent in May -- more stores were clustered near the bottom of the range during the most recent period. Easter boosted sales of children's clothing in April, while unusually cool weather slowed apparel sales the following month. All contacts reported inventories on plan.

Fifteen New York metropolitan area department stores are scheduled to close by summer's end, resulting in the loss of 7,200 jobs. Several of the stores are the last remaining retail anchors in older downtown areas; the Fordham Road section of the Bronx and downtown Newark and New Rochelle are expected to be particularly hard hit. On a more positive note, a major New Jersey shopping mall has announced plans for expansion and renovation, including three new luxury department stores to replace two anchors which had previously closed.

Other Business Activity

A May survey of 15 Second District manufacturing firms suggests that local business conditions are now significantly more positive than they were when the same firms were surveyed last November. Ten of the firms anticipate sales will increase over the next six months, with seven of the ten having recently become more optimistic. Only three firms are anticipating layoffs, as compared to six firms in November. The most recent purchasing managers reports from Buffalo (for May) and Rochester (for April) suggest that general business conditions have been basically stable over the latest month reported.

Labor market developments in the Second District have generally been unfavorable. The unemployment rate in New Jersey rose sharply, from 7.8 percent in April to 9.0 percent in May; New Jersey now has the

highest unemployment rate of any major industrial state. New York State experienced a much smaller increase, from 7.6 to 7.9 percent. In addition to the expected loss of 7,200 District retail jobs, Bethlehem Steel and MONY announced the elimination of 350 and 267 positions, respectively. In contrast, Prestolite Electric will consolidate its national operations in upstate New York, creating 320 local jobs over the next three years.

Standard and Poor's has placed New Jersey on negative CreditWatch in response to the state's burgeoning FY1993 budget gap. A combination of factors -- including a one percentage point reduction in the sales tax rate, the loss of anticipated federal medicaid reimbursements, and lower than expected receipts -- have led to a prospective budget shortfall in excess of \$1 billion for the fiscal year beginning July 1.

Financial Developments

Nearly all senior loan officers surveyed at small and midsized banks in the Second District indicated that they are as willing to lend as they were two months ago. Borrowers who had weathered the recession were perceived by some officers as having improved their credit worthiness. Most respondents reported either maintaining or lowering loan rates. Loan demand was reported to be generally stable or somewhat stronger. Part of the strength in demand was attributed to the increase in new customers whose former banks had either failed or merged. Demand for consumer loans and non-residential mortgages remained steady.

A majority of respondents reported no change in delinquency rates for all types of loans during the past two months. Most officers did not indicate a marked increase in problem real estate loans. They did, however, express a preference for restructuring, rather than foreclosing, existing troubled loans.

THIRD DISTRICT - PHILADELPHIA

Reports from Third District business contacts in early June suggested that business conditions were improving slowly. Manufacturing activity continued to move up, on balance, and hiring at Third District industrial plants appeared to be on the increase. Retailers generally reported steady or slightly higher sales for May compared to the prior month and year. Bankers described loan volume as steady, with slight gains in mortgage and auto loans being offset by continuing declines in commercial and industrial lending.

Looking ahead, Third District business contacts forecast slow growth. Manufacturers are relatively optimistic. They predict a continuing increase in activity and they plan to step up hiring and capital spending in the second half of the year. Retailers anticipate improvement in the fourth quarter, but not strong gains. Bankers expect consumer lending to move up slowly but they believe business loan demand will remain soft.

MANUFACTURING

Reports from Third district manufacturers in late May and early June indicated that, on balance, industrial activity continued on an uptrend. One-third of the firms contacted said they were stepping up shipments while one-half said their shipments had been running at a steady pace. Reports on new orders paralleled the shipments situation. Durable goods producers indicated somewhat more positive conditions than did nondurables producers, although chemical companies generally reported gains in business. The manufacturing employment picture appeared to be brightening; although two-thirds of the firms contacted

for this report were maintaining steady payrolls, one-fourth were adding workers.

Looking ahead, almost two-thirds of the manufacturers contacted said they expect further gains in the second half of the year while nearly one-third said they anticipate just steady business. Overall, managers at Third District plants foresee increases in orders and shipments during the next six months. The positive outlook is apparently leading manufacturers in the region to step up hiring and capital spending plans; nearly four-out-of-ten said they will add workers and increase outlays for plant and equipment in the second half of the year.

RETAIL

Third District retailers generally indicated that sales in May were even with, or slightly up compared to both April sales and sales in May of last year. Store officials said the recent sales pace had been in line with their expectations. There were some reports that big-ticket items were not selling as well as other goods. Nearly all the merchants contacted for this report characterized their selling efforts as highly promotional, involving extensive discounting from list prices.

Looking ahead, most Third District retailers expect sales during the summer to be seasonally slow. They are hoping that sales will improve in the fourth quarter of this year, but they do not anticipate a strong upturn because they expect only a very gradual increase in consumer confidence.

FINANCE

Third District bankers contacted in early June described overall loan volume outstanding as virtually flat. Gains in mortgage and consumer lending were being offset by continuing declines in commercial and industrial loans. Bankers said they were booking new business loans but the amounts were less than

the amounts being paid off by existing borrowers. Lending to middle-size and small businesses was described as particularly soft by several bankers who said loan demand in these markets was weak. As to consumer lending, several bankers said credit card balances were being paid down but there had been an upturn in auto loans, pushing total personal loan volume up slightly in recent weeks.

Most of the bank lending officers contacted for this report expect loan demand from businesses to remain soft. They believe firms are still focusing on cutting costs rather increasing sales to boost profitability. They also said consumer lending is likely to grow only slowly, as they foresee slow economic growth and a sluggish advance in consumer confidence.

FOURTH DISTRICT - CLEVELAND

Summary. Economic activity in the Fourth District continues to expand slowly. District respondents believe that economic growth will be sustained in both the District and the nation, despite the recent slowdown in retail sales and housing. Retailers attribute the flatness in May and early June sales to unseasonably cool weather. Manufacturing output has been reviving and is expected to strengthen further next quarter as a result of inventory rebuilding and a broad-based pickup in capital goods and automotive industries. New mortgage loan activity eased in May and early June, following a stronger-than-seasonal rise earlier this year, and business loan demand is showing only scattered signs of strengthening.

Recovery in the District continues to be mild and uneven, but respondents expect a stepped-up pace of business over the next few months, led especially by manufacturing. In Ohio, the unemployment rate rose to 7.3 percent in May, because the labor force increased more than employment. The composite leading indicator for the state rose for the third straight month in March, which suggests to some analysts that the pace of activity in coming months will accelerate.

Nationally, total output is forecast to increase at about a 3 percent rate, accompanied by a similar rate of inflation, from 1992:IIIQ to the end of 1993, according to the June survey of Fourth District economists. The group

anticipates a gradually improving consumer sector, but has shaded predictions for nonresidential construction from last January because of a longer-term correction in commercial building.

Consumer Spending. Retail sales in May and early June were generally flat, but several retailers believe that the unusually cool weather this spring has dampened sales of seasonal goods, including women's and men's apparel and garden supplies. Some are concerned that inventories of seasonal merchandise may expand more than desired, which will result in greater-than-usual clearance sales before and after the July 4 holiday. Nevertheless, most retailers believe that consumer spending will continue on a slowly rising trend through the balance of the year. Except for the disappointing showing of seasonal products, a large retail chain reports that sales of home furnishings and major appliances in the last two months have posted sizable year-over-year gains.

Manufacturing. Fourth District respondents estimate that production in 1992:IIQ will rebound from declines in the last two quarters. Some of the revival is attributed to an ending of the runoff in inventories, and in some industries, to a slight rebuilding of stocks in response to improving sales. Only scattered recalls of workers who were laid off have taken place in recent months, and several manufacturers, while more optimistic about their sales outlook than earlier in the year, still have not lifted a freeze on hiring. More anticipate, however, that they will add rather than lay off workers in the third quarter.

A variety of "traditional" capital equipment producers report recent increases in profits, production, and orders, although unfilled orders have begun to increase in only a few industries. Producers of components for

heavy-duty trucks, industrial controls, industrial equipment, and electrical motors and equipment all report a slowly reviving order book in recent months that is boosting production this quarter from last, and that is anticipated to support a somewhat stronger pace of industrial production next quarter than this.

Steel producers in the District estimate their operating rates at about 83 to 85 percent of capacity, which is a little better than their predictions for this quarter a few months ago. They note improving orders from the appliance, automotive, and steel warehouse centers, but demand for construction steel remains weak. A steel producer reports that higher domestic content in new cars and a higher share of domestic steel consumed by the transplant firms are supporting a rise in orders from the auto industry.

New car sales and production in the third quarter are anticipated to rise to a 6.5 million to 6.7 million annual rate, and to a 7 million zone in the fourth quarter, according to some automotive analysts. Factory orders are said to be somewhat higher than dealer sales, although dealers contacted acknowledge that they will promptly cut back orders if sales prove to be slower than they now anticipate.

Housing. Lenders in the District report a less-than-seasonal increase in new mortgage loans in May and early June. Nevertheless, new loan applications are generally well ahead of the pace of a year earlier. A few major thrift institutions have recently lowered interest rates for a 30-year fixed-rate mortgage to 8-1/4 percent, and a few lenders are offering even lower rates. Mortgage loans for new and existing homes are said to be strong for houses in the \$150,000 to \$200,000 price range, but are described as being "very weak" for homes priced over \$400,000. Loan refinancing has accounted for about 20

percent of loans recently written, which is well below the proportion earlier this year.

Financial Developments. Bankers contacted report growing loan demand for mortgage and home equity loans, but only scattered evidence of strengthening in commercial and industrial loans. Those few banks that are reporting slowly rising demand for business loans also expect an accelerating pace in the months ahead in response to an anticipated step-up in inventory building.

FIFTH DISTRICT-RICHMOND

Overview

District activity from late April through May generally continued to improve at a modest pace. Growth was reported in retailing, manufacturing, housing and port activity. Contacts in the tourist industry gave mixed reports, but most were optimistic. Weather was blamed for slower agricultural activity in recent weeks.

Consumer Spending

Our regular mail survey indicated that District retail activity continued to improve in May. Shopper traffic and sales increased, although sales of big ticket items relative to total sales apparently decreased. Respondents reported increases in wholesale prices, retail prices and inventories over the survey period.

Retailers were optimistic about their prospects for the next six months. They expected sales, wages and prices to rise. They anticipated no change in retail employment.

Tourism

Hotels, motels and resorts throughout the District indicated that tourist activity in May was mixed compared with April and with a year ago. About half of the respondents reported that bookings were slightly above last year's while a third reported declines. Several respondents attributed the increases to a good Memorial Day weekend, while respondents with decreases attributed the declines to bad weather and to the economy. Over half expected tourist activity to pick up throughout the summer.

Manufacturing

Manufacturers surveyed by mail indicated that District factory activity continued to improve in recent weeks. Respondents reported increases in most indicators, particularly shipments and employment. Inventories and order backlogs were little changed. Manufacturers noted that excess capacity and the burdens of government regulation were important current problems. Most respondents expected profits in the first half of 1992 to be moderately higher than profits in the first half of 1991.

Manufacturers remained optimistic about general business conditions and about their own prospects over the next six months. They foresaw increases in all indicators except for finished goods inventories, which they anticipated would be flat.

Finance

District financial institutions contacted by telephone indicated that credit conditions improved modestly over the last six weeks. Commercial loan demand apparently strengthened slightly, while consumer loan demand was steady. Banks noted that they had kept their commercial loan rates steady in recent weeks but had reduced their mortgage rates slightly. Respondents reported that the demand for new residential mortgages had picked up while refinancing activity had continued to tail off.

Ports

Representatives at District ports--Baltimore, Charleston, Hampton Roads (Norfolk)--indicated that both imports and exports were generally higher in May than in April. Compared with a year ago, import activity was higher while export activity was lower. Exports were expected to continue increasing at the Port of Charleston and at Hampton Roads but to remain the same at

Baltimore during the next six months.

Housing

A telephone survey of real estate and homebuilding contacts suggested stable to improving housing activity in much of the District. Several respondents said activity in their areas was at its highest level in two to three years. Overall increases were reported in traffic, sales, starts and prices. There were exceptions to the general tone of optimism, however, especially in the Washington, D.C. area. Speculative homebuilding remained very slow.

Agriculture

According to agricultural analysts, bad weather slowed planting and crop development over much of the District in recent weeks. Rain in late May slowed planting, which is now behind last year's pace, and below-normal temperatures held back the development of small grains. The District's peach crop was in poor to fair condition because of late frosts in mountain areas.

West Virginia was an exception to the rest of the District. Sparse rainfall in May allowed planting to progress on schedule but left many parts of the state short of soil moisture.

SIXTH DISTRICT - ATLANTA

Overview: Contacts around the Sixth District reported that economic conditions have continued to improve at a slow but steady pace since mid-April. Retailers noted a moderate gain in sales of both consumer durables and non-durable goods. Auto dealers saw an improvement in showroom traffic and sales. Manufacturers observed increased activity in an expanding range of industries. Developers noted steady single-family home building activity, though commercial construction has not improved. Bankers reported modest gains in business loan demand and somewhat greater improvement in consumer loan activity. In general, wages and prices have remained flat.

Consumer Spending: Most retailers in the District reported moderate sales increases through early June. Contacts said that sales were again strongest for nondurable items such as apparel, but several noted gains in furniture and appliance purchases. Auto dealers also reported increased showroom traffic and sales. Still, retailers have remained cautious in placing new orders and have maintained lean inventory levels. Contacts do not anticipate significant inventory rebuilding in the near future. Convention- and tourism-related activity has also shown improvement. In commenting on the recent airfare price war, agents reported that price reductions had boosted individual travel, but they had little impact on family vacations and business travel.

Manufacturing: Manufacturing activity in the District continues to improve. Increases in new orders and production were noted in a broad range of industries, with firms linked to residential housing activity recording the biggest gains. Carpet and home appliance producers saw strength in new orders. Several furniture and cabinet manufacturers stated that they have

boosted hours worked to meet increased demand for their products. Lumber and wood producers have added to employment rolls in response to expanding residential construction activity.

Shipments have continued to pickup for a producer of mens wear. New orders have increased steadily for a firm producing sports apparel. One large textile firm producing for institutional customers reported that it was building inventories in anticipation of future increases in demand. However, several textile and apparel manufacturers noted that retailers continue to keep inventory levels low.

Business activity generally remains weak for firms in the energy sector. However, some suppliers of equipment and services to the oil and gas industry believe that this long-troubled market may be stabilizing with the recent firming of natural gas prices. Defense and aerospace industry contacts also reported a slowdown in industry activity as orders have been canceled and delivery times pushed back because of defense cutbacks. These cutbacks spread acquisitions over a longer period of time.

Construction: Most realtors reported steady home sales in May and early June, but activity has slowed from the rapid pace recorded earlier this year. Sales remain strongest in the low-to-middle price ranges. Resale inventories remain adequate as more people have put their homes up for sale in response to improved market conditions. As a result, realtors have not seen much change in the price of existing homes.

Contacts report that new home inventory levels are relatively low. Consistent with this observation, most builders stated that residential home building activity has continued to improve. Multifamily construction, however, is still weak despite reports that occupancy rates are relatively high in some areas.

Commercial construction activity remains at a minimum. Although some commercial realtors have seen an improvement in leasing activity and a firming in rental rates, contacts in several cities say that markets remain over supplied. Excess office space reportedly has kept rental rates at levels too low to justify new building.

Financial Services: Loan demand in the region increased slightly in May from April levels. Most bankers observed a small increase in business loan activity and a somewhat larger increase in consumer loan demand. The surge in residential mortgage refinancings that occurred earlier in the year, however, has almost worked its way through the system. Most contacts reported improved quality in loan applications of all kinds.

Wages and Prices: Most contacts report that input prices and wages remain stable. Firms that have expanded their employment rolls in the last month report that ample supplies of labor have allowed them to hire new workers at existing wage levels.

SEVENTH DISTRICT--CHICAGO

Summary. Manufacturing activity in the Seventh District generally continued to post gains in recent weeks, while conditions in service-related industries were more mixed. Reports from manufacturers, supplemented by business surveys, depicted a widening of the recovery in the District's industrial sector, with renewed gains for capital goods producers joining continued strengthening in production of consumer durable goods, primarily autos. The lengthening recovery in the motor vehicle sector has been accompanied by improved results reported by a wide variety of producers of auto parts and capital goods. Business-related services offered increasingly optimistic reports, while some consumer-related services indicated a slower pace from earlier this year. Cool, dry weather has adversely impacted the early development of many District crops. Price increases generally remained modest, and most contacts noted that efforts to raise prices have been strongly resisted.

Manufacturing. The manufacturing sector continued to strengthen in recent weeks, as reports from manufacturers and business surveys indicated further gains in industrial activity in the Seventh District. A large steel producer reported that orders have been building faster than the normal seasonal pattern, and year-to-date bookings are substantially above a weak year-earlier period. A manufacturer of hydraulic equipment expected a modest but continuing recovery, with a boost from Caterpillar's return to production. Strengthening in production of off-highway vehicles was also indicated by a motor vehicle parts supplier, who stated that orders have turned higher since the first quarter. A large chemical producer reported that orders have been "very positive," singling out engineered plastics used in automobiles. A large manufacturer of machine tools reported that the firm's bookings have risen substantially since the beginning of the year, with strength in orders from motor vehicle manufacturers joined by improvements in demand from producers of industrial machinery, farm equipment, and construction machinery. However, retail sales of farm equipment remained soft through May, according to a large manufacturer, and the firm recently shaved its forecast for 1992 shipments.

Recent surveys supported anecdotal evidence of further strengthening in District manufacturing activity. The composite index for the Chicago purchasing managers' survey climbed higher in May, led

by production and new orders. The new orders component has posted marked improvement in recent months and has risen to levels well above those that prevailed prior to the onset of the recession. The overall index for the Detroit survey was essentially unchanged in May, after climbing to its highest level in the past three years during April. Purchasing managers' surveys in Milwaukee, Southwest Michigan, and Indianapolis have also been posting results consistent with a recovery in recent months. Finally, an April survey of metalworking firms indicated solid gains in production, orders, and employment, with above-average results posted in a key activity considered to be a leading indicator for metalworking firms as a whole.

Motor Vehicles. Domestic motor vehicle sales and production generally continued to strengthen in recent weeks. One large automaker reported that "dealer orders continue to look good," implying production in excess of 100 percent of capacity (at straight time) at some plants in coming months. Auto dealer optimism has improved faster than actual showroom traffic, because closure rates and traffic quality have been rising. Another automaker reported that fleet purchases continue to take a lower share of deliveries, while program cars are accounting for a lower share of the retail sales mix. Used car prices, a good coincident indicator of retail sales of new cars, have climbed higher over the past few months. Light truck sales have exceeded forecast, and there is "no sign of weakening here." One producer noted that light truck production has increased substantially during 1992.

Reports of improving activity from motor vehicle suppliers generally reinforced these observations. For example, one manufacturer reported a pickup in sales as well as production planning, and the firm has reached the point where "we can't do the work we have to do with the labor force we have." A manufacturer of power train components stated that its strongest market now is heavy-duty trucks, where orders have shown a substantial acceleration in the past several months, although efforts to hedge against a price increase anticipated later this year may be playing a role in recent gains. However, this contact also noted that the medium-duty truck market still faces soft demand in some customer classes, notably construction contractors and state and local governments.

Business and Consumer Services. Suppliers of business-related services reported higher levels of activity in May, but some softening in retail sales growth has followed a robust first quarter. A large temporary help firm stated that "we are very much encouraged by recent trends." Demand began to turn up toward the end of last year and momentum has moved higher in recent weeks. While the national improvement has been broad-based, demand by industrial firms for temporary employees is above-average. With its large manufacturing base, employment in the Seventh District has been outperforming other regions. After a trough in January, industrial power sales in Western Michigan continued to post solid increases in recent months, reflecting improvement in appliance and motor vehicle production. Another large utility in Michigan reported that a leading indicator of business conditions in the Detroit area continued to improve through May. One large retailer reported that year-over-year sales gains continued to soften in recent weeks, although sales of durable goods continued to hold up relatively well. Last year at this time, sales were picking up after the end of the war, leading to some softening in the current year-over-year comparison, but the firm's inventory has again risen above plan after progress was reported in shaving it to desired levels earlier in the year. Some concern with the effect of softening in sales on inventory levels was also expressed by another major retail chain, where sales in May and early June were essentially flat compared to last year.

Agriculture. Rapid progress in May culminated in a "faster-than-normal" completion of the spring planting season for most District farmers. However, early-season development of most crops has been slow due to cool temperatures and very dry conditions. Northern portions of the District were hit by a frost in late May, causing modest damage to corn and soybeans and more extensive damage to fruits and vegetables. In some cases, farmers may be able to offset the frost damage by replanting.

Prices. Reports indicated that price increases, on balance, remained modest. A steel producer reported that an attempt by the industry to reduce sales discounts "fizzled out" in April, but producers are still experiencing price increases on purchased materials, and have announced the intention of increasing sheet prices in July. A large automaker stated that there was little sign of price pressures from parts suppliers and does not expect the recently announced steel price hike for July to hold. However, new car

sales volume (in units) has been held back somewhat by a 2 percent quality-adjusted increase in prices over the past year, primarily for foreign nameplates. An auto parts manufacturer acknowledged some price pressures from its own suppliers and, in turn, reported seeking price increases from large automakers. Another auto parts manufacturer reported that obtaining price increases is "extremely difficult." Crude oil and natural gas prices have firmed in recent weeks, according to a large refiner, primarily due to increased demand. A chemical producer reported that a cyclically-sensitive index of product prices has been relatively flat since last August, although some strengthening has been evident in recent weeks. A large personnel company reported that wage pressures have been minimal, and stated that "we don't see pricing coming back," despite improved demand in recent months.

EIGHTH DISTRICT - ST. LOUIS

Summary

Manufacturing activity remains mixed, with some firms reporting gains and others reporting declines in both sales and employment. Nonmanufacturing employment continues to grow. Consumer spending appears to be on a steadily increasing trend. Single-family home construction still is up sharply from year-ago levels. Loan demand appears to have weakened over the past two months. Dry soil has delayed planting and adversely affected crop conditions in many parts of the District.

Manufacturing

Expectations for continued manufacturing growth, based on reports of increased sales and employment by many District firms, were moderated by reports of layoffs and plant closures at other firms. In one indication of growth, a survey of Arkansas paper producers reveals year-to-date sales increases of 8 percent to 20 percent. A food producer's expansion in Tennessee will add 600 jobs to the local economy. A district manufacturer of heating and cooling systems reports significantly increased orders this quarter for cooling equipment and expects orders for heating equipment next quarter to be as strong. A manufacturer of industrial hydraulic components indicates that domestic and foreign orders are quite vigorous and that the firm has a substantial backlog.

Offsetting these gains, a Missouri-based shoe manufacturer recently announced its third round of plant closures, which will eliminate more than 1,400 jobs by September. A maker of hospital

thermometers will close its Missouri and Illinois plants and move production to Mexico over the coming six to 18 months, affecting about 135 jobs. A St. Louis defense contractor laid off 134 workers on one project, even though it continues to hire new employees for a different project.

Nonmanufacturing

Employment growth in District nonmanufacturing firms continues to strengthen. As part of their Little Rock consolidations, an information services firm and a telecommunications firm together will hire about 300 local employees. By August, a dockside casino will open in northern Mississippi, employing more than 400. On a broader note, a national temporary employment service reports that 37 percent of the surveyed Memphis firms, 28 percent of the surveyed St. Louis firms and 13 percent of the surveyed Little Rock firms will increase employment during the third quarter.

Consumer Spending

Non-auto sales are moderately higher than one year ago. Although the late Easter season is cited for the strong sales, preliminary indications point toward continued strength in May. After a slow start in the first quarter of 1992, increased sales in the last two months appear to have started a trend that many retailers expect to continue through the end of the year. Quarterly auto sales show no change from one year ago, although a few dealers note increases over the last few weeks.

Construction and Real Estate

Single-family home construction continues to rebound strongly. Little Rock, Louisville and St. Louis builders all report double-digit

increases in April housing permits from one year ago; Memphis builders were an exception, reporting an increase of only 1 percent. Commercial construction activity, except for public works projects, remains stagnant. Observers note, however, that office occupancy rates in both St. Louis and Little Rock have edged up slightly since the end of 1991.

Banking and Finance

Loan demand, as indicated by changes in loans outstanding at District banks, appears to have weakened somewhat since the last report. Total loans outstanding at large District banks rose just 0.1 percent in April and May, after a 0.8 percent increase from mid-February to mid-April. Loans on the books of a sample of small and mid-sized District banks rose 0.8 percent, after a 1.2 percent increase in the previous period. At both sets of banks, the slowdown appears to be concentrated in the consumer and real estate loan portfolios.

Agriculture and Natural Resources

Inadequate rainfall has caused some Illinois, Kentucky and Missouri farmers to delay soybean planting and has produced weed and insect problems in some Arkansas cotton and rice fields. One-third of Mississippi's cotton crop is in poor condition. Unseasonably cool weather in late May hampered the growth of corn and soybeans in the northern parts of the District. Despite these concerns, most other District crops are in fair condition. Southern pine lumber mills report that exports, production and orders all are up significantly from last year. Nonetheless, weather conditions in parts of the Midwest and New England have recently reduced lumber demand slightly. Lumber prices remain substantially above year-ago levels.

NINTH DISTRICT—MINNEAPOLIS

Economic conditions in the District were generally steady. Labor markets continued to show signs of mild improvements. Retail sales continued to exhibit growth relative to last year's level, while home sales showed some signs of retrenchment after a very strong first quarter. Manufacturing was steady to positive in the District, while conditions in the construction sector were mixed with poor conditions in commercial construction offsetting the strong performance of residential construction. Conditions in both the agricultural and mining sectors were mixed.

Employment, Wages, and Prices

There is some evidence that labor markets are modestly stronger. The latest reported unemployment rates were generally lower around the District. For example, in April, Minnesota's 5.0 percent unemployment rate was slightly below its year-ago level, but substantially below its March level. Directors report that more recent conditions in labor markets continue to show signs of improvement. There is also some evidence that labor markets will continue to improve. A recent survey of business intentions in Minnesota indicated that while slightly fewer firms were planning to increase employment than a year ago, fewer firms were planning reductions. On net the reduction in declines outweighed the decrease in expansions.

Price and wage increases are reported to be moderate with the exception of medical costs and, in parts of the District, construction costs.

Consumer Spending

Consumer spending around the District is generally moderate with some areas of strength. Major retailers in the District reported sales increases among comparable stores in May ranging from 5 to 9 percent relative to a year ago. Canadian shopping continues to be generally strong in areas

close to the border, with retail outlets in shopping malls reporting year-to-date sales increases of 17 to 30 percent. However, at least with regard to appliance sales, recent new regulations on appliance sales and service by the Canadian government are reported to be having some effect on discouraging appliance sales.

New car sales were mixed in May and ranged from up 20 percent to down 12 percent relative to a year ago. New truck sales in May ranged from up 1 percent to up 14 percent relative to levels of a year ago. Auctions of “nearly new” fleet cars are reported to be particularly strong in the Minneapolis-St. Paul area, attracting many bidders and sometimes aggressive bidding. Dealers are generally optimistic about new car and truck sales for the remainder of the year.

Home sales which were generally quite strong in the first quarter, showed some downward adjustment in parts of the District. After a record-setting first quarter, used home sales in the Minneapolis-St. Paul area dropped 2.7 percent. However, the housing market is reported to be booming in parts of Montana, due in part to the continuing influx of wealthy out-of-state buyers.

The summer vacation season is only just beginning, but indications are generally positive. Glacier National Park is already reported to be completely booked for the summer. Bridge crossings over the Mackinac Bridge onto the Upper Peninsula set a record for April, up 6.2 percent relative to a year ago. Recent changes in airfares are expected to have some positive impact through the summer months. However, this stimulus to tourism will be less felt in this District than in many others, since a high fraction of our District’s tourists travel by auto.

Construction and Manufacturing

Residential construction was generally strong in the District. Permits for single-family homes were up 18 percent in the Minneapolis-St. Paul area relative to a year ago. Some areas, such as Great Falls, Montana, report that rising building costs are restraining growth. Conditions in

commercial construction were mixed with the important Minneapolis-St. Paul area continuing to show weakness due to the overhang of office space.

Conditions continued to be steady in the District's manufacturing sector. The April level of average weekly hours in manufacturing in Minnesota of 40.0, while down slightly from the month before, was slightly above its year-ago level. The April level of Minnesota's average hourly earnings in manufacturing was up two-tenths of one percent.

Resource-Related Industries

Conditions were mixed in the agricultural sector. The North Dakota mid-April index of prices received on farm products was unchanged from its year-ago level with crop price increases of 6 percent offset by livestock price declines of 7 percent. Moisture conditions appear to be mixed in the District. North Dakota's pastures are greener than they have been in years, but continuing dry weather could change that, while parts of Montana and Minnesota report inadequate moisture. Farm land prices were mixed, with the January value of land and buildings up 4 percent in South Dakota and down 3 percent in North Dakota.

Conditions in the District's mining and lumber industries were mixed. While mining production generally remains steady, some prices have fallen. The price of copper is off by 9 percent since the first of the year. Oil production is generally lower in the District, though the number of active drilling rigs, while small, is up. Concern remains about the availability of timber to District saw mills.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow slowly, led by consumer spending and residential construction. Retail sales, including new car purchases, continue to improve, and single-family home building remains strong. Demand for most types of commercial bank loans rose last month. But district energy activity remains depressed, and lower livestock prices are restricting improvement in the farm sector. Retail prices have been rising only slowly while prices for manufacturers' inputs are generally stable.

Retail Sales. Retail sales improved slightly over the past month, and most retailers expect this trend to continue for the rest of the year. Retail prices in the district have been rising slowly. Over the rest of the year, retailers expect only modest price increases because value-oriented consumers will resist any large price gains. Most retailers expect to expand their inventories later this year due to rising sales.

Automobile sales over the last month improved in most parts of the district. Dealers and buyers are generally able to obtain financing. Most dealers are satisfied with their current inventory levels and are optimistic about sales prospects for the summer.

Manufacturing. Most purchasing agents report that input prices were stable over the last month but are higher than a year ago. Input prices over the next month are also expected to be steady. Most firms report no problems with availability or lead times for their materials inputs, nor do they report production bottlenecks or shortages of skilled labor. Half of the respondents are satisfied with their inventory levels, while the other half find their stocks somewhat heavy.

Energy. Energy activity in the district remains depressed despite some recent increases in oil and natural gas prices. The average number of operating drilling rigs in district states rose slightly to 192 in May from 188 in April. Nonetheless, the May rig count was about 15 percent below its year-ago level and still near the low levels reached during the energy bust in 1986.

Housing. Housing starts in the district are substantially higher than a year ago and generally up from a month ago. The improvement is concentrated in the single-family sector, and most builders expect further gains in single-family housing starts over the rest of the year. New home sales are also up, and inventories are low. The prices of new homes are higher than a year ago but unchanged over the last month. The prices of many building materials, especially lumber, continue to rise.

Mortgage demand is strong, even though mortgage refinancing has slowed somewhat. Mortgage demand is also likely to remain strong over the rest of the year, with mortgage rates expected to fluctuate in a narrow range.

Banking. Total loan demand rose at most reporting banks last month, pushing loan-deposit ratios higher than last month and a year ago. Bankers report generally higher demand for commercial and industrial loans, consumer loans, home mortgages, and agricultural loans. Demand for construction loans and commercial real estate loans at most banks was unchanged.

Changes in total deposits were mixed last month, with slightly more banks reporting decreases than increases. Demand deposits rose at most banks. Changes in MMDAs were mixed, but NOW accounts, IRA and Keogh accounts, large CDs, and small time deposits were all constant to down.

Almost all respondents left their prime rates unchanged last month, while about half reduced their consumer lending rates. Nearly all banks

expect these rates to stay unchanged in the near future. Lending standards were unchanged.

Agriculture. Crop conditions vary widely across the district. In parts of Colorado, Kansas, and Nebraska, a recent cold snap may have reduced winter wheat yields by nearly a third while slowing development of the recently planted corn crop. In Oklahoma, however, the winter wheat crop is in good condition and normal yields are expected. But wet weather in the state has temporarily delayed the start of the wheat harvest and the planting of the cotton crop.

District cattle feeders have trimmed inventories in expectation of falling cattle prices. As a result, most district feedlots are operating below capacity. Meanwhile, the recent expansion in district pork production appears to be slowing in response to low hog prices. Most large-scale pork producers are maintaining the size of their breeding herds, while some small-scale producers are dropping out of the industry.

Rural lenders report a modest pick-up in business activity in rural communities during the past year. While activity was up overall, main street merchants continue to struggle against increased competition from large retail chains.

ELEVENTH DISTRICT--DALLAS

Economic activity in the District continues to expand at a mild pace. Manufacturing respondents report slight gains in orders. Service firms report a gradual, broad-based rise in orders. Construction and real estate firms say that conditions remain good, although activity has declined somewhat following a strong surge in the first quarter. Commercial construction remains at low levels. Retail respondents say that sales continue to grow slowly and that the outlook has improved. The oil and gas industry continues to decline. District banks report plenty of liquidity and a slight rise in loan demand. Agricultural conditions are mixed.

Most manufacturers report a slight increase in orders. Respondents in the primary and fabricated metals, and electric and electronic component industries report that weakness in other countries has suppressed demand for their products. Respondents in these industries say that overall orders are flat or slightly increased. Paper producers continue to see a generally slow improvement in orders, although the demand for containerboard and corrugated boxes has increased significantly. Construction-related industries generally report continued strength. Orders for cement and brick have been increasing strongly and selling prices are rising. Lumber and wood producers note a recent slight decline in orders due to reduced home construction in areas outside the District and weakness in commercial construction. Producers of oil field equipment report that orders are generally unchanged. Domestic demand for oil field equipment has flattened out at low levels while growth in

international demand has slowed sharply. Chemical producers note some gradual rise in demand.

Respondents in the service sector report moderately improved activity. Business services respondents expressed increased optimism that demand from their clients will continue to grow moderately in the second half of 1992 and pickup further in 1993. Several business services respondents report an increase in banks' willingness to lend. Temporary employment agencies report gradual increases in demand coming from residential construction, mortgage finance and manufacturing companies. Respondents in the legal industry report a recent slight increase in business transactions activity. Several accounting firms note that activity began to improve during May. Advertising agencies report rising demand from small local companies.

Construction and real estate activity is mixed. Residential construction and sales have been stable in recent months following a surge in the first quarter. Home prices are reported to be increasing due to high lumber prices, steady home demand and low levels of new homes on the market. Multi-family construction is generally flat although respondents in Houston say that multifamily construction is increasing slightly due to increased bank lending. Multifamily occupancy and rents are stable in most markets. Industrial rents are flat and selling prices are reported to be up about 5 percent from last year in Dallas. Areas near the Mexico border are reporting an increase in the demand for commercial and industrial space.

District retailers report modest gains in sales and improved confidence that growth will continue. Inventories are generally at desired levels although a few retailers report that inventories are too high. Selling prices

remain competitive. Mid-to upper-scale retail stores have recently seen more improvement than discount stores. Sales in the Houston area have been weaker than in the rest of the District. Auto sales remain slow.

Conditions in the oil and gas industry continue to be weak. The District drilling rig count declined in May and is currently near historical lows. Natural gas prices have risen in recent weeks due to a cold spring and low inventories. Respondents expect natural gas prices to fall over the next several months. Oil prices rose at the end of May but respondents say that the outlook for oil prices remains cautious.

District financial institutions report stable to slightly rising loan demand. In general, respondents were again upbeat about near- and long-term loan demand prospects. All respondents report plentiful liquidity. Several respondents note that they are increasing output per worker either through attrition or resisting new hiring.

Recent wet weather has replenished ground water, and improved agricultural conditions in many areas. Range and pasture conditions continue to provide excellent forage. Excessive rain has delayed planting and damaged the cotton crop in some areas. The peach crop is reported to be in very good condition although insect and disease problems have increased. The majority of commodity prices have declined from last year's averages, most significantly, cotton prices have fallen 44 percent since May 1991.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions remain weak in California, but are improving moderately in other District states. In California, particularly in the south, cutbacks continue in aerospace and defense-related manufacturing, state government, and higher education. Tourism has also fallen in southern California following the Los Angeles riots. Outside of southern California, moderate improvement is reported in non-defense manufacturing, residential construction, retail trade, and agriculture. The strongest conditions remain in Utah and Idaho. Exports to Latin America and Pacific Rim countries are growing moderately, except to Japan where a weaker economy has reduced demand for several District products. Overall business sentiment has improved since our last report. Little upward pressure is reported in wages and prices, although the proportion of contacts expecting lower inflation has decreased.

Business Sentiment

Economic expectations of Twelfth District business leaders improved since our last report. Over half of our respondents now expect the real economy to expand during the next four quarters at a rate of at least 2.5 percent. This proportion is up from one-third in April. In contrast, almost no respondents expect output to decline during the next four quarters, compared to 5 percent in April and almost 33 percent in January. Most respondents expect improvement in investment, consumer spending, and housing starts. Although few respondents expect inflation to accelerate, the proportion expecting a reduction in inflation has fallen to one-fifth from over one-half in late 1991.

Wages and Prices

Contacts report little upward pressure on wages and prices in District markets. Wage increases are reported in be in the 3 to 3.5 percent range, with smaller increases reported for some

public-sector workers due to budget cutbacks. Price changes are reported to be modest except for health care and insurance. In California, gasoline prices in April were up 15 percent from a year earlier, partially as a result of new environmental restrictions. In Utah, gasoline prices were reported up about 10 cents a gallon since April. Aviation fuel prices, however, are reported down during the past two months. Lumber prices peaked in April and are now off one-third. Standing timber prices, however, have not come down as much as end-use product prices. Prices of materials are reported stable or declining slightly.

Retail Trade and Services

Contacts with major retailing operations report gradual improvement in department and discount store sales across much of the District, but sluggish conditions in southern California. A contact in Idaho reports some increase in customer traffic for auto dealers, but continued "spotty" sales. Consolidation in the legal profession is beginning to taper off in Washington, with one contact projecting some moderate new hiring by the end of 1992. Demand for telecommunications services is weak, particularly in southern California. A media contact in California reports that advertising activity seems to be picking up, although it is still below last year's level. State government budget problems in California threaten layoffs of state workers and in public higher education. In Hawaii, tourism was down 6 percent in April from a year-earlier, driven by an 18 percent decline in mainland visitors.

Violence in Los Angeles has led to the loss of over 5,000 retail jobs in the area. Over the longer-run, tourist activity is a major concern. Hotel occupancy rates have fallen and massive summer reservation cancellations are reported by some hotel managers.

Manufacturing

Cutbacks in aerospace and defense-related industries continue across the District. Job reductions of 6,500 are projected for Boeing this year in Washington, and McDonnell Douglas has

announced the closing of a 2000-worker production facility in southern California. Defense cutbacks have been felt even in the robust Idaho manufacturing sector.

Outside of defense and aerospace, conditions are improving modestly. A machinery manufacturer in Utah reports that construction equipment sales are better this year, with only a few final sales lost due to recent labor disputes. Conditions in the electronics manufacturing sector are improving modestly, with no capacity constraints or inventory problems reported. Employment emphasis in electronics has switched from downsizing to holding steady. Pronounced weakness, however, is reported in orders from Japan for electronic components, leading to layoffs in Arizona. Continued demand for electronic components is reported from other Pacific-Rim nations. California high-tech firms exporting circuit boards and other electronic components are finding a strong market in Taiwan, where computer assembly work is active.

Agriculture and Resource-Related Industries

A contact in the timber industry reports that lumber and plywood sales are down, as are product prices, and that inventory levels are adequate-to-high. Orders for paper products and for boxes were strong in April and May. In early 1992, lumber exports were down 21 percent from a year earlier, and shipments to Japan (America's largest overseas market) were off 22 percent. Exports of printing and writing paper, however, were up 30 percent. Exports of fishery products have improved somewhat, but overall demand and prices for seafood remain weak. New orders for export grain have slowed, but exports of other agricultural products to the Pacific Rim and Mexico are reported strong. Export demand from Japan, however, has fallen for produce and beef. Citrus fruit crops in California have rebounded strongly from last season's freeze damage.

Construction and Real Estate

Construction and real estate activity varies substantially across District markets. Utah and Idaho are experiencing a boom in residential construction, with single-family starts up 39 and 65

percent, respectively, in the first four months of 1992 from a year earlier. Home sales activity is reported mediocre-to-good in Alaska, but home construction is flat. In Arizona, a contact reports that while residential sales activity has risen during the past year, mortgage loan applications for new purchases have declined noticeably in recent weeks. In the Puget Sound area, residential real estate is characterized as improving slowly. Closed sales, however, declined markedly between February and April. In Hawaii, home sales are brisk in lower-end markets (below \$350,000), but slow in more expensive markets. Bids for public sector construction projects in Hawaii are coming in much lower than anticipated. The housing market in California is reported mixed. New home construction remains relatively weak, while sales of new and existing homes have rebounded somewhat from the weak conditions of late 1991. Commercial real estate conditions remain depressed in southern California.

Financial Institutions

In general, contacts in financial industries report slightly improving conditions. The banking industries in Utah and Idaho continue to enjoy favorable business conditions. Mortgage and consumer loan demand is very strong, while commercial loan demand is stable. A contact in California reports modest improvement in consumer and business loan demand, although overall loan demand remains weak. California savings and loans are experiencing an uptick in lending. Mortgage applications in the Puget Sound area have cooled from the refinance-driven pace, but are leveling out about eight percent ahead of last year. Loan demand in Oregon is reported strong for single-family mortgages. Financing for residential construction is reported available, but land development loans are difficult to find.