

SUMMARY*

Reports from the twelve Federal Reserve districts indicated that economic growth continued in early 1993. Trends in economic activity seemed increasingly uniform by region, and although New England and California remained relatively weak, signs of growth were apparent in several sectors in each of these regions. Nationally, retail sales growth generally held up well in early 1993 after a strong holiday season, although inclement weather may have constrained sales in several districts during February. Reports from manufacturers generally indicated continued moderate expansion in activity, with production gains led by consumer durable goods and household items. Commercial and industrial loan demand remained flat or increased only modestly, however, with most districts reporting that loan growth was concentrated in consumer and home mortgage lending. Reports on employment gains were mixed, but still suggestive of some overall improvement in labor markets. Scattered price increases for basic materials were noted, and lumber price increases were widespread, but district reports continued to show little evidence of generalized upward pressure on prices.

Consumer Spending. Retail sales growth held up well in most districts in January and early February, with contacts in several regions reporting better-than-expected sales following a strong holiday season, although some contacts noted that adverse weather held back sales during February. Relative strength was reported in sales of durable goods, household items, or big-ticket items by retailers contacted in Cleveland, Richmond, Chicago, Minneapolis, and Dallas. Some department store contacts reported double-digit sales increases in St. Louis. In the Northeast, Boston noted some strengthening in sales after mixed results for the holiday season, and retailers in the New York district reported better-than-expected sales gains during January. Relative weakness was noted in parts of the Dallas and San Francisco districts, although one large retailer stated that conditions in California had improved somewhat. Atlanta reported some slowing in the pace of growth after a strong fourth quarter, and some retail contacts in Boston stated that sales gains slowed in late February. Bad weather reportedly impacted sales in February for retailers contacted by Philadelphia, Chicago, and Kansas City. At the same time, Richmond and Minneapolis both reported strong winter tourism seasons, and tourism was also a bright

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spot for contacts in Atlanta and Dallas. Several districts noted relatively low levels of discounting for this time of year, citing lean inventories in winter goods, and a good start for sales of spring merchandise was reported by retailers in the Philadelphia and Cleveland districts. Surveys conducted by several district banks found that retailers' expectations were generally optimistic, and planned inventory accumulation was underway in several cases, although ordering and inventory stances generally remained somewhat cautious.

Manufacturing. Reports generally indicated continued moderate expansion in industrial activity, with signs of slowing in some markets balanced by accelerating momentum in others. Production growth was led by output of consumer durable goods, principally goods related to housing activity as well as motor vehicles and parts. Above-average gains in production of appliances, furniture and residential construction materials were reported by contacts in Boston, Cleveland, Atlanta, Chicago, and St. Louis. Robust sales gains in construction-related manufacturing industries were noted in Dallas. Production gains among auto parts manufacturers were cited by Boston, Atlanta, and Chicago. Several large domestic automakers contacted by Cleveland expected to meet March production schedules calling for output to rise 20 percent from a year ago. Contacts in several districts expressed concern about sales in Europe, but St. Louis stated that strong exports continued to bolster production for a number of manufacturers in the region, and each of the ports contacted in the Richmond district expected exports to pick up over the next six months. Relatively weak results were noted for firms producing energy exploration and production equipment, firms in the paper industry in the Minneapolis district, and aerospace and defense companies reporting in Boston, Cleveland, Atlanta, and San Francisco. At the same time, however, San Francisco noted that conditions were generally improving for other manufacturers in the region, with relative strength noted for manufacturers of computer equipment and software, capital goods, and biotechnology products. A broad majority of manufacturers surveyed in New York and Philadelphia expected stable or increasing activity, and Philadelphia also noted a pickup in the demand for industrial space. Broadening strength in output was indicated by the expectations of a group of capital goods producers surveyed in Cleveland, although Cleveland also noted a modest slowdown in growth in the relatively robust heavy-duty truck market. Sales gains reportedly rose among a wide majority of manufacturing contacts in the St. Louis district, with orders exceeding expectations for many firms.

Banking. District reports indicated sluggish to modest growth in bank lending activity, with growth concentrated primarily in consumer and home mortgage lending. Surveys of bankers generally indicated flat to modestly stronger commercial and industrial loan demand. Banks surveyed by Kansas City and San Francisco reported that commercial and industrial loan demand was largely unchanged, while reports in Richmond, Atlanta, and Chicago indicated somewhat stronger increases in demand. However, Atlanta noted some disappointment among bankers in the pace of improvement. The Philadelphia, Cleveland, and Dallas districts reported some of the strongest gains in manufacturing activity in the nation, but reports from bankers surveyed by each of these districts indicated that commercial and industrial loan demand was only flat to slightly increasing. Cleveland noted that potential borrowers were relying on strong internal cash flow or alternative sources of financing. Still, where surveyed, bankers' expectations for future growth in business lending were generally favorable. New York reported a sharp increase in the willingness of small and medium-sized banks to make some forms of business loans, although San Francisco observed that financing for small businesses remained tight. Consumer and mortgage lending was stronger than business lending across most regions, and most districts also noted renewed strengthening in home mortgage refinancing activity as well as new residential mortgage lending.

Real Estate/Construction. District bank reports on new and existing home sales and residential construction were almost universally positive. Underlying trends in housing activity remained relatively robust during a seasonally slow period for many areas, although inclement weather adversely impacted results in several regions. Declines in mortgage interest rates, increased buyer confidence, increased new home sales activity and/or lean inventories reportedly led to improved appraisals of market conditions by homebuilders in New York, Philadelphia, Atlanta, Kansas City and Dallas. San Francisco noted that sales activity increased in California, although prices remained soft. Residential construction activity was one of the strongest aspects of the report from the Minneapolis district. Weather difficulties were reported to have constrained activity in parts of the districts covered by Atlanta, Richmond, Kansas City, and San Francisco, although San Francisco also reported that housing starts in Arizona rose to their highest level in ten years. Most reports indicated little sign of improvement in commercial real estate markets, but reports of new deterioration were also thin, and Richmond noted an increase in activity and declining vacancy rates in both industrial and office markets.

Agriculture. Reports on agricultural conditions were mixed but generally favorable. Increased rains and snowpack accumulation were aiding crop production in several regions, although St. Louis noted some concerns that substantial rainfall may have damaged the winter wheat crop, and flooding threatened the winter lettuce crop in Arizona. Crop prices were reported weak or below year-earlier levels in Richmond, St. Louis, and Minneapolis, with Richmond noting some concern about the potential impact on 1993 cash receipts. San Francisco reported favorable conditions for livestock producers, with good spring grazing expected. Higher beef prices were reported to have improved returns for ranchers and feeders in the Minneapolis district, although Kansas City noted that harsh winter weather slowed weight gains, increased death losses, and raised production costs for cattle feeders in that region. Still, bankers in the Kansas City region reported that farm borrowers generally remained in strong financial condition, with timely payments reported on agricultural loans.

Employment. District bank reports on employment gains were mixed, but suggestive of some strengthening overall. Stable or increasing employment was more consistently noted in trade and service sectors than in manufacturing. A survey of retailers in the Boston district indicated little change in employment at existing locations, but about one-quarter of these firms reported plans to open new stores and hire new workers. Similarly, Cleveland reported that retail employment was following the normal layoff pattern after the holiday season, but expansion by several chains was expected to prompt hiring gains. Reports in the Richmond district indicated that retail employment was expected to improve over the next six months. Increased hiring by industrial firms was reported in some regions, helping to offset other reports of continued pressure on manufacturing employment. Significant layoffs in aerospace and defense-related industries were noted by San Francisco and Atlanta. Employment reportedly showed little sign of strengthening in Minneapolis, and layoffs proceeded at paper mills in that region. Producers were largely comfortable with current employment levels in the St. Louis area, but many of these contacts reported improved prospects for hiring. Most of the manufacturing firms contacted by Philadelphia expected employment to remain flat, although roughly one-quarter of these firms expected hiring gains. Some manufacturing firms in the Cleveland, Chicago and St. Louis districts have been rehiring previously laid-off workers. Temporary help firms in Chicago and Dallas reported increased demand from manufacturing firms, and Dallas also stated that many manufacturers reported permanent employment gains. Several personnel supply companies contacted in the Chicago district reported increased permanent hiring of individuals previously working on a temporary basis.

FIRST DISTRICT - BOSTON

Economic activity in the First District continued to increase modestly in early 1993. On the retail side, the strength exhibited at Christmas has extended into January and early February, and has given retailers increased confidence in their prospects for 1993. Manufacturing is more mixed, with about one-half of contacts reporting little or no improvement in their overall sales from year-earlier levels. However, demand for some consumer goods, personal computer parts and accessories, and residential construction materials is growing strongly.

Retail

A majority of First District retail contacts report continued strengthening of sales in the weeks following Christmas. Most attribute the improvement to rising consumer confidence, although one credits only the cold weather. Two contacts observed a slowdown in the pace of improvement in late February.

The improvement in sales has yet to affect prices or margins significantly. Nonetheless, most contacts have permitted slight increases in their inventory, and some retailers, expecting strong sales in the spring and summer, plan further additions to stocks. The current increase in demand, however, is not sufficient to prompt retailers to raise employment or wage levels at existing locations. About one-quarter of those contacted are undertaking major capital investments, and they are hiring in order to staff new locations. Although encouraged by the post-holiday performance, First District retailers remain cautious in the face of an uncertain pace of recovery.

Manufacturing

Almost one-half of this month's manufacturing contacts report that recent sales are flat relative to year-earlier levels. One-third indicate increases in the range of 4 to 6 percent.

Compared with a year ago, New England manufacturing contacts report strong growth in demand for automotive and personal computer parts, residential construction materials, and equipment used in the retail industry. Some pickup also is noted for metalworking machinery. Sales of nonresidential construction and defense-related products remain sluggish. Demand for heavy industrial equipment and commercial aircraft engines and spare parts is down considerably. Most respondents indicate that European markets are weak.

Some contacts have been able to raise prices modestly - by up to about 2 percent. However, not all price increases are sticking, and prices continue to decline for a variety of machinery and equipment.

Of those manufacturers reporting on employment, the majority have reduced the size of their work force over the past year, from 3 to 15 percent. For the coming year, most contacts intend to make only very small adjustments in the number of employees. However, a minority of respondents mention continuing reductions in employment or a potential vulnerability to further defense cutbacks.

Most firms contacted intend to keep capital expenditures roughly unchanged in the coming year. These expenditures are concentrated on modernization; only a couple of contacts plan to expand capacity.

Manufacturers generally observe that the economic recovery is slow, but that it now appears to have some momentum. The majority continue to be concerned about the coming year as a result of weakness in the airline industry and European markets, or uncertain responses to

fiscal policy initiatives. About half the respondents volunteered that low interest rates are important in maintaining an economic recovery.

Commercial Real Estate

Activity in the First District commercial real estate market remains slow, with prices stabilized but little new leasing activity. Contacts pointed to Burlington and downtown Boston as areas with the most growth, while northeastern Connecticut and southern New Hampshire lag. A Portland contact believes the market's recovery is constrained by some banks' refusal to fully realize their losses.

Citing commercial rents that never declined to levels comparable to those in cities like Houston, Chicago and Los Angeles, one national real estate investment firm is recommending that clients look only at apartment and retail projects if they want to invest in New England. All contacts expect the commercial market to grow only slowly in the First District over the next three to five years.

Nonbank Financial Services

Investment management companies surveyed report strong sales of mutual funds in January and February. Sales were strongest for municipal bond funds, followed by small-capitalization stock funds and other taxable bond funds. This sales growth has led to some modest recent and planned hiring.

Venture capital funds report mixed results for the firms in their portfolios. In high technology portfolios, revenues of software and computer network firms have picked up since the beginning of the year, while those of hardware and semiconductor firms have been flat to down. Capital equipment firms and radio and TV stations also experienced improvement, according to these venture capital contacts.

SECOND DISTRICT--NEW YORK

Economic developments in the Second District were mixed in recent weeks but seemed slightly more positive on balance. Most District retail contacts reported better-than-expected sales results in January and positive over-the-year changes. District homebuilders appear to have become more widely optimistic in recent weeks with respondents noting an increase in buyer traffic and a reduction in the volume of homes for resale. Office leasing activity slowed in recent weeks and changes in vacancy rates were mixed. New Jersey's unemployment rate fell sharply in January while New York's was unchanged. Our manufacturing contacts suggest a moderate increase in activity over the period immediately ahead with eight of the twenty-five firms expecting unit sales to grow by 5 percent or more over the next six months. The latest survey of small and midsized banks in the District showed a sharp increase in their willingness to make certain types of loans.

Consumer Spending

Most District retail contacts reported better-than-expected sales results in January and positive over-the-year changes. In addition, with smaller post-Christmas inventories than in recent years, fewer and smaller markdowns were required during the January clearance period. Retailers remain cautiously optimistic about the outlook, however, noting that consumer reception to the new spring merchandise will be the test of what lies immediately ahead.

The majority of stores had year-to-year gains in January ranging from 1 to 6.5 percent. However, one chain reported a small decline. Categories of merchandise cited as posting strong increases were TVs and VCRs, furniture, linens, and various kinds of apparel. Inventories are generally at satisfactory levels though a little below plan in some areas.

Residential Construction and Real Estate

A somewhat more pervasive optimism has developed among District homebuilders recently as respondents noted an increase in buyer traffic and a reduction in the number of houses for resale. The improvement was attributed to the decline in mortgage rates and stronger demand. Builders said that two factors could prove problematic, however: a continuing lack of credit for acquisition and development loans and a recent skyrocketing of lumber prices.

Office leasing activity slowed in recent weeks and vacancy rates in areas such as downtown Manhattan, Westchester and Long Island moved somewhat higher. Rates edged lower in midtown Manhattan and Northern New Jersey, however, and stabilized in Fairfield County as little additional commercial space was brought to market.

Other Business Activity

New Jersey's January unemployment rate fell to 7.4 percent from 8.0 percent in December while New York's rate was unchanged at 8.5 percent. New York has exhausted its unemployment insurance funds for the first time since 1977, one of only five states confronting this problem. Several recent announcements will impact negatively on District employment. I.B.M. now plans to eliminate some 6000 positions at its New York mainframe and technology product plants, almost twice the initial estimate, and Kodak will lay off another 2000 workers, mostly in its headquarters city of Rochester. On a smaller scale, May Department Stores will move its merchandising office to St. Louis, eliminating 430 jobs in New York City by June.

Discussions were recently held with 25 manufacturing firms in the District regarding sales, prices, wages, investment plans and exports. On the whole, our contacts point to a moderate increase in sales over the next six months. Eight firms project sales to rise at least by 5 percent while all but three expect either flat or moderately higher sales. Most of the firms feel they cannot successfully raise prices by any significant amount in the current

environment. More than half the firms are cutting back on capital spending in 1993 and there appears to be continued pressure to moderate wage increases and reduce employment. Two-thirds of the firms expect exports to grow at the same rate or somewhat faster than last year.

Employment in the District will probably be boosted by the construction of a new 776-bed building by New York Hospital and a new \$250 million Westchester shopping mall for which construction financing was recently arranged. The mall is, reportedly, largely pre-leased to several well-known retail chains. Upstate, the Syracuse area will soon have a new plastics container plant, initially employing 200 workers, and the area will see the expansion of an automotive plant which will create almost 200 more jobs. Finally, the District's entertainment industry has received some good news: the David Letterman show will remain in New York City and, after a period of reduced activity, some film companies are reportedly again producing movies in the City.

Financial Developments

The latest survey of small and midsized banks in the Second District showed a sharp increase in banks' willingness to make certain types of loans. The percentage of banks more willing to make nonresidential, and commercial and industrial loans was the highest since a year ago, while the percentage of banks more willing to make consumer loans was comparable to June 1992. The percentage of banks more willing to make residential loans showed little change from previous months.

Responses concerning loan demand were mixed. A majority of officers reported that loan demand from small businesses was unchanged or higher than one year ago. Respondents noted, however, that consumer loan demand weakened over the past two months, and that refinancing remained soft after heavy activity during October and November.

Nearly all loan officers reported no change in their credit standards during the preceding two months, and delinquency rates for all types of loans were unchanged or lower.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District was growing slightly in February, according to reports from business contacts in the region. Manufacturers continued to post gains in shipments and orders. Retailers generally said sales were running even with or above the year-ago pace. Bankers noted recent increases in commercial and industrial lending, and rising mortgage loan volumes as February drew to a close. Consumer lending was generally flat, due to seasonal factors according to bankers. Realtors reported increasing demand for industrial space while demand for office space remained weak. Home sales eased in January and February following an increase in the fourth quarter of 1992, but realtors said the slowdown may be largely seasonal.

The outlook remains positive in the Third District business community. Manufacturers forecast continued improvement and indicate they may step up hiring somewhat and increase capital spending. Retailers expect sales to improve through the first half of the year. Bankers anticipate continued gains in commercial and industrial lending and growing strength in consumer loan demand, but they expect real estate lending to ease. Realtors have a more optimistic view; they look for renewed growth in residential sales in the spring but they do not expect healthier commercial real estate markets this year. Builders expect some growth in residential and public construction by spring.

MANUFACTURING

Third District manufacturers reported continuing expansion, on balance, in February. About half said they were stepping up shipments and posting increases

in orders while about a third said shipments and orders were running at a steady pace. Improvement was noted in all major industries in the region except textiles and transportation equipment. Firms in these industries noted some slippage in orders during February. Among all manufacturers employment and working hours were virtually steady.

Looking ahead, Third District manufacturers generally forecast continued improvement. Nearly two-thirds of those contacted for this report expect further gains in shipments and orders over the next six months, and almost one-third expect order backlogs to rise. While most plan to maintain steady employment, one-fourth intend to step up hiring. About a third of the area firms polled indicated they will increase capital spending during the next six months while only a few said they might cut back.

RETAIL

Most of the Third District retailers contacted in late February said sales for the month were running at or above the year-ago pace. However, some said that snowstorms during the month had held down customer traffic and sales. Merchants remarked that February is a seasonally slow month, but several said they were encouraged by the fact that sales of spring merchandise were getting off to a healthy start.

Most of the merchants interviewed expect sales to improve gradually through the first half of the year with modest gains, in real terms, for most merchandise lines. Some said they expect sales of home furnishings to pick up soon in the wake of the increase in home sales in the latter half of last year. Most store executives continued to describe the competitive situation as tight, with increasing competition in the region from discount chains.

FINANCE

Third District bankers gave mixed reports on lending activity, but overall, total loan volume appeared to be on a modest rise in late February. Some bankers noted a recent pickup in commercial and industrial loans booked while others described business lending as steady or down slightly. On balance, it appeared that commercial and industrial loan volume outstanding at major banks in the Third District was rising moderately as February neared a close. Most bankers said total consumer lending was about flat despite seasonal paydowns on credit card loans. Most also said that they were continuing to make net additions to residential mortgage loans outstanding but that applications were still easing. Although some noted that refinancing applications had picked up lately, they said the increase was not as great as was reported on the national level.

Looking ahead, bankers generally expect commercial and industrial lending to follow an upward trend, and they expect consumer lending to move up as well. They do not expect real estate lending to remain as strong as it has been in the past several months even if mortgage rates fall a bit farther.

REAL ESTATE AND CONSTRUCTION

Realtors in the Third District described commercial markets as flat but said there was some strengthening in industrial markets. Demand for office space remains low, according to realtors, but they say the decline in property values and rental rates may be near an end, especially in view of the absence of current or planned construction activity in regional office markets. Demand for industrial space appeared to be picking up, and some realtors noted recent increases in leasing and acquisitions. Reports on residential markets were mixed. Realtors said the increase in homes sales in the latter half of last year appeared to be at a pause, although sales remained strong in some parts of the

region. Realtors also noted that January and February are seasonally slow months and that the inventory of homes for sale is not increasing. Consequently, most are fairly optimistic that sales will resume an upward trend in the spring.

Contacts in the construction industry generally expect activity to move up through the year. They look for gains primarily in residential and public construction. Some caution, however, that rising lumber prices are boosting construction costs, and resulting higher house prices may dampen sales, especially in the lower-priced range.

FOURTH DISTRICT - CLEVELAND

Summary. District business activity continues to improve. Consumer spending is stronger than retailers expected after the December buying spree, with spring apparel and household durables selling particularly well. Orders and production schedules for many manufacturers, including steel, autos, and capital goods, are higher this quarter than last. Increased production and orders have led some companies to rehire workers, but employment gains still lag far behind output growth. Lenders report an increase in credit-card use and mortgage refinancing, but little growth in business loans.

Consumer Spending. District retail sales continue to be stronger than retailers expected, with sales reported to be 5% to 10% higher than last year at this time. The post-holiday performance has been particularly impressive because the companies interviewed have not been discounting prices heavily, as inventories of leftover winter goods are low and early orders for spring merchandise were conservative. Demand for spring fashions is significant, and consumers appear particularly interested in new design items as opposed to basic apparel. Retailers see this trend as indicating that consumers are moving beyond basic needs to more discretionary items. Durable goods, including high-end entertainment electronics, are also been moving well. Pittsburgh area retailers point to an improving new home market as a major source of increasing demand for household durables, such as furniture and appliances.

Motor vehicle sales continue to improve, with truck sales faring better than autos and Big Three models outselling their foreign-nameplate counterparts. Dealers say that sales are generally up over last year, but that improvement is gradual. Every dealer interviewed reports a favorable inventory position. Stocks vary widely between a 60-to-120 days' supply, reflecting different stages of spring inventory buildup.

Manufacturing. Capital goods producers generally anticipate continued and broadening strength in orders and production this quarter from last, with weakness mainly

in the aerospace industry. Orders for industrial controls in January and February rose more than was expected late last year, but controls and instruments for the electric utility industry eased in January following the best quarter of the year last quarter. One producer suspected that some customers may be holding back on orders pending the outcome of energy tax legislation. Heavy-duty truck suppliers also report that orders during February are off the strong pace set during the last half of 1992. One supplier points to the effect of the proposed diesel fuel tax on marginal truck buyers as a reason for the slowdown in orders.

Auto manufacturers anticipate a nearly 7% year-over-year improvement in U.S. motor vehicle sales during the first quarter of 1993. Most of the expected increase in demand continues to be in light trucks and sport/utility vehicles, although some of the newly designed car models are selling exceptionally well, according to industry sources. With dealer inventories well under control, factory orders have been rising with greater vehicle demand. The three U.S.-based automakers expect March assemblies to meet schedules that call for an increase of more than 20 percent over a year ago.

District steel producers report that the surge in new orders since late last year has continued into February, which has led to rising backlogs of unfilled orders and stretching out of deliveries. Some producers report that order books for flat-rolled steel producers for the first half of 1993 are virtually at capacity, and some mills are taking orders for June delivery. Auto and appliance producers have led the order surge, which has induced other steel customers to place their orders. Steel industry respondents assert that a strengthening economy and a drop in steel imports have contributed to strong demand. Despite a steel price hike in January and another increase announced for April, price hedging is not believed to be much of a factor in the current market, according to some producers.

Employment. Few respondents report near-term plans to rehire or to add new workers, although a number of business officials indicate that they are more likely to increase hiring than to reduce their employment this year. Nonetheless, employment gains have not matched output growth in many industries. For example, while manufacturers of industrial controls, truck components, and steel note a high level of operations in recent months, they are resorting primarily to outsourcing, extra shifts, and overtime to accommodate output growth instead of adding workers. One exception is the auto industry. As many assembly plants have increased their production schedules, most employees on temporary layoff have been recalled, and some facilities are hiring additional workers.

Retail employment followed normal layoff patterns after the holiday season, and most companies anticipate little more than replacement hiring for spring. However, several retailers have announced the opening of new stores and the expansion of existing outlets later this year, which will increase employment.

Financial Developments. District lenders report that loan growth is still confined largely to consumer and mortgage loans. Some large banks report another strong month of consumer lending in January, which followed a spurt late last year. Several lenders note an increase in the use of credit cards and home equity lines of credit in recent months. Most lenders also report another surge in mortgage loan refinancing, although not yet as strong as early last year. Business loans are generally described as showing little growth because business firms have access to strong cash flows and to equity and capital markets.

FIFTH DISTRICT-RICHMOND

Overview

District economic activity strengthened somewhat during the past six to eight weeks. Retail sales continued to improve, and manufacturing activity picked up after several months of little change, although employment was flat in both sectors. Tourist activity increased, the demand for loans rose slightly, and both residential and commercial real estate activity improved modestly. Coal production fell in West Virginia as the result of a coal miner strike. At District ports, imports and exports declined. Agricultural harvesting was completed after having been delayed by wet weather; in the seafood industry, the oyster harvest was poor.

Consumer Spending

Our regular mail survey indicated that District retail activity improved in late January and the first two weeks of February. Retailers reported increased shopper traffic and sales, including sales of big-ticket items. Capital expenditures by retailers strengthened, but inventories were unchanged. Employment was steady to slightly lower.

Survey respondents were optimistic about their prospects for the next six months. They expected sales, shopper traffic, and employment to rise. In addition, they anticipated some increases in wages and in wholesale and retail prices.

Manufacturing

Manufacturers indicated that District factory activity improved during the past month after remaining flat since November. Respondents to our regular mail survey reported increases in most indicators of manufacturing

activity, although they noted that employment and levels of raw materials inventories were little changed. Manufacturers continue to be optimistic about the next six months, expecting most indicators, except inventories, to increase.

Tourism

Hotels, motels, and resorts throughout the District indicated that tourist activity in recent weeks was higher than in December and a year ago. Respondents, especially those at mountain resorts where skiing weather was good, reported that bookings and tourist spending were above a year ago. Over half of the respondents expected tourism to improve further during the next six months.

Finance

District financial institutions contacted by telephone indicated that credit conditions improved over the last six weeks. Respondents said that commercial and consumer loan demand strengthened slightly and that commercial and consumer loan rates were steady. Banks noted that residential mortgage demand--both for new loans and refinancings--picked up when home mortgage rates fell sharply over the last six weeks.

About half of the commercial loan officers surveyed reported that regulatory requirements had hindered their ability to make loans, while most of the residential mortgage and consumer loan officers reported that regulation had not restricted their activity.

Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that imports and exports were lower in January than in December and a year ago. Exports were expected to pick up at all ports

during the next six months.

Residential Real Estate

Real estate analysts surveyed by telephone reported that residential activity remained strong during the past six weeks. Housing sales were steady in most price ranges but higher for homes in the mid-price range. Housing starts declined, mainly because of an unusually wet January. One analyst reported that large builders in some parts of the Carolinas were unable to meet demand for low-priced homes because of a shortage of building lots.

Home prices rose in some areas of the District. Most District analysts noted that new home prices had not yet reflected higher lumber prices except in South Carolina. Analysts expected higher lumber prices to push up new home prices soon, however, and they anticipated that some homebuyer interest would then shift from new to existing homes.

Commercial Real Estate

Commercial real estate activity in the District picked up during the past six weeks. Vacancy rates declined, particularly in the office and industrial markets. Despite lower vacancy rates, relatively little new construction was reported. Where building activity was underway, virtually all of the space was pre-leased. District commercial leasing and construction activity continued to be strongest in the Carolinas, particularly in the Charlotte, Raleigh, Columbia, and Greenville/Spartanburg areas.

State Government Revenues

Government analysts contacted by telephone reported that recent state revenue collections had met projections in most District states. Inflation-adjusted revenues were growing in all District states except West Virginia,

where they were flat, and in the District of Columbia, where collections were down.

Coal and Timber

Coal production for the week ending February 13 in West Virginia was 10 percent below year-ago levels because of a strike by coal miners. The decreased production had not affected electric utilities, however, because of the large coal stockpiles held by both the utilities and the coal companies.

In West Virginia and the Carolinas, industry contacts reported that the demand for softwood and hardwood lumber remained strong. Even though timber-cutting was active, some wood product firms apparently cut back their operations because of difficulty in obtaining logs.

Agriculture and Seafood

Conditions in agriculture and in the seafood industry were mixed. Dry conditions in late January helped farmers complete harvesting activity that had been delayed by persistent rains during December and early January. Also, a cold snap in mid-February apparently benefited fruit trees in the Carolinas by preventing a premature end to their winter dormancy. Crop prices, however, remained below year-ago levels, and farmers were concerned that continued low crop prices would depress their 1993 crop cash receipts. In the seafood industry, the winter harvest of oysters was unusually poor, according to District watermen.

SIXTH DISTRICT - ATLANTA

Overview: According to Sixth District contacts, the pace of the region's economic expansion eased modestly in February from late 1992. Retailers reported that sales remain above year-ago levels but by smaller margins than in December. Factories continued to edge production higher with negligible work force expansion. Realtors and home builders expressed confidence in the housing market, although sales and building intentions have been frustrated by unfavorable weather throughout most of the District. Aside from a new wave of mortgage refinancing, bankers generally reported that consumer and commercial loan demand is slowly improving. Except for some construction products, particularly lumber, prices have remained relatively stable and no significant wage pressures are reported.

Consumer Spending: Most retailers reported year-over-year increases in sales through mid-February and were generally upbeat about prospects through mid-1993. However, year-over-year sales gains did not match the vigorous pace of year-end 1992. Spending growth at smaller establishments reportedly slowed more than at department stores. Retailers remained content to carry lean inventories, so price discounting was less widespread during February than in recent years. Strength in auto sales varied, although most dealers reported slight year-over-year increases in February. Tourism remains a bright spot in the regional economy. Air passenger traffic and convention attendance continue to out-pace year-ago levels, and further gains are expected at least through mid-1993.

Manufacturing: Overall factory activity continued to expand early in 1993. Although most contacts reported increases in new orders and production, few indicated expanding employment rolls. Appliance, furniture, carpet, and building materials producers are benefitting

from increases in home building and renovations nationally. In addition, auto industry suppliers have increased production in response to growing new orders. Some textile contacts report new intentions to invest in productivity-enhancing equipment. However, the region's aerospace/defense industry announced layoffs, and suppliers of commercial construction materials have yet to see an upturn in business activity.

Construction: Realtors report that generally favorable housing market conditions are being sustained by falling mortgage rates and improved buyer confidence. They remain optimistic about sales of single-family homes and construction for the rest of the year. While most contacts saw better home sales in early February, several did note that inclement weather slowed their January business. Sales currently are running at or below strong year-ago levels. Most of the activity remains in the low- to mid-price ranges, while sales of luxury homes remain weak. Contacts are now reporting some inventory tightening. According to home builders, single-family construction continues to improve, but sharply higher lumber prices are reportedly pushing up new home prices.

Most office construction has been limited to build-to-suit contracts and there is very little speculative activity, despite scattered reports of declining vacancy rates. Financing for speculative projects remains hard to obtain.

Financial Services: Most bankers around the region reported modest gains in loan demand in January and February, but some commercial lenders expressed disappointment in the pace of improvement. For consumers, credit card receivables are running moderately ahead of last year. Mortgage lending is again on the upswing in response to falling rates, with refinancing generally comprising a majority of total mortgage originations.

Wages and Prices: Although a few factory contacts reported increases in materials prices, finished goods prices remain relatively steady. Some manufacturers are attempting to post price increases, but are unsure whether they will stick in a very competitive environment. There are no indications of wage pressures.

SEVENTH DISTRICT--CHICAGO

Summary. Seventh District economic expansion continued in January and early February. Labor markets strengthened, with some indications of increased hiring momentum. Consumer spending growth held up relatively well following the better-than-expected holiday season, but adverse weather may have dampened sales in February. Expansion in production continued along the pattern of improvement in the fourth quarter of 1992, although several producers noted increased concern about overseas markets. Reports from banks suggested commercial loan demand strengthened in recent months.

Employment. Reports from recruiting firms, individual companies, and employer surveys generally indicated that District labor markets strengthened in early 1993, with some indications of increased momentum. A large survey conducted by a temporary help company found continued improvement in hiring plans among Midwest businesses, with modestly stronger plans indicated for the region than the national average. After bottoming out in early 1991, the employment component of the Chicago purchasing managers' survey reached a five-year high in January, then slipped back slightly in February. A number of respondents to purchasing managers' surveys in Western Michigan reported hiring previously laid-off workers in recent months. A January survey of over 150 metalworking firms in the Chicago area showed strengthening in employment among respondents, and the survey director stated that some businesses are "beginning to scramble to try and find people." A number of personnel firms reported that client companies increased their permanent hiring of employees previously working on a temporary basis. One recruiting firm reported a "pretty good pickup" in permanent placements in early 1993. Increased demand remained centered among small-to-medium sized employers, where a recovery began in mid-1992, but this contact also said that a "sprinkling" of a recovery was emerging among larger companies, and at higher salary levels. One firm noted that inquiries from potential employees have declined about 50 percent since peaking in the second quarter of 1992. An auto parts and industrial equipment manufacturer stated that "we're doing all we can to keep from hiring," but employment has been moving higher with the current upturn in the firm's business, and is expected to continue to go marginally higher in the second half of the year. A number of large firms stated that employment gains were not expected to follow recent increases in business activity, citing productivity gains, and some large companies expect restructuring to adversely affect their employment in the District during 1993.

Consumer Spending. Retailers generally indicated that sales growth held up well after a better-than-expected holiday season, although some contacts noted that bad weather impacted sales in February. A large department store chain indicated that year-over-year same-store sales growth improved from January to February, with above-average sales gains reported for new seasonal merchandise, household goods, and big-ticket items in general. This contact stated that it is still planning conservatively, however. A retail chain with stores located primarily in the Midwest noted modest softening in year-over-year sales gains in early 1993, but after a better-than-expected holiday season and over a relatively good year-earlier period. A large retail chain stated that sales of durable goods, particularly appliances, continued to improve in early 1993, although inclement weather hurt overall sales in February. This firm's year-over-year sales gains reportedly lagged the national average in several Midwest markets in recent months. A number of retailers in the Detroit area reported better-than-expected sales gains in January, and sales held up relatively well in February in view of the bad weather. The average year-over-year sales increase for dealers surveyed at a recent recreational vehicle trade show in the Midwest was over 40 percent. Attendance at a recent auto trade show in Milwaukee surpassed the record set last year in spite of bad weather, with dealers generally reporting that the share of potential buyers in total attendance was higher than it was last year.

Manufacturing. Purchasing managers' surveys and reports from individual firms indicated that expansion in District manufacturing activity continued in recent months, in line with the rate of improvement seen in the fourth quarter of 1992. The production components of purchasing managers' surveys in Chicago, Milwaukee and Detroit continued to indicate moderate expansion in production in early 1993. In January, the production component of the Chicago survey reached its highest level since 1988, then slipped slightly to a still-healthy level of 69.8 percent in February. Production and new orders improvement were evident in surveys conducted in Western Michigan, and one respondent stated that "our suppliers are getting a little arrogant." Output by producers of basic materials used in durable goods production continued to move higher, although weakness lingered in some markets, and several contacts noted further slowing in sales into Europe. A large steel producer reported that a slow recovery in orders continued, with above-average strength noted for several sectors where District production is specialized, including autos, appliances, and industrial machinery. Steel shipments growth continued in January, but difficult weather impacted shipments in the District in February. A large oil refiner reported that the underlying trend in investment spending related to domestic exploration remained weak, and a heavy

equipment manufacturer stated that sales of petroleum equipment have softened worldwide. An electronics manufacturer reported continued gains in domestic markets in line with those posted in late 1992, but this contact stated that "Europe is beginning to look like a basket case." A diversified manufacturer noted that weakness persists in overseas markets for several product areas, although domestic orders for auto servicing equipment have been a bright spot. A large auto parts manufacturer stated that demand has been getting stronger over the last 90 days, both from the aftermarket and OEM customers. A large appliance manufacturer stated that "we had a fantastic fourth quarter," also noting that new energy standards induced accelerated dealer procurement in the fourth quarter of 1992. A large retailer, however, stated that consumer demand remained strong in early 1993.

Banking. A survey of large District banks indicated that commercial loan demand was unchanged to moderately stronger in recent months, with increased demand distributed across small, medium and large customers. A middle-market lender stated that loan demand continued to pick up, but slowly and "is not yet robust," although loan marketing intensified in recent weeks. Another bank reported that outstanding commercial loan volume increased in recent months, driven by customers' needs for financing growth in inventory and receivables. This contact said that commercial loan quality has been improving along with borrowers' earnings, but some financing challenges remain. Several banks in Michigan reported increased loan demand from firms in heavy equipment industries. One large bank in the Chicago area stated that commercial lending activity "picked up dramatically" in January, citing capital investment by large manufacturing firms. Several banks stated that home mortgage refinancing picked up renewed momentum. One bank reported a record year for new consumer installment lending in 1992, as rising demand for auto loans promoted increased strength in lending toward the end of the year.

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EIGHTH DISTRICT - ST. LOUIS

Summary

District manufacturing and nonmanufacturing firms report increases in both production and sales since the beginning of the year. Some cite strong export activity as a major source of demand. Many manufacturers are comfortable with current employment levels. Residential construction activity and both new and existing home sales remain above their year-ago levels. Business and consumer loans outstanding have increased since the beginning of the year, while real estate loans have declined, primarily because of refinancing activity and pay-downs. Southern pine lumber producers report that orders are up substantially from year-ago levels.

Manufacturing

More than three-fourths of District manufacturing contacts report that sales are up since the beginning of the year. Sales increases range from 5 percent for plumbing and heating and cooling equipment to more than 13 percent for an aerospace-related equipment business that has converted some of its defense technologies into consumer goods. A maker of hydraulic parts and equipment reports that exports are booming, especially for oil reclamation equipment. A contact in the food distribution industry, however, is concerned that the recent increase in sales is another false start.

Orders have exceeded expectations for many firms. Another maker of hydraulic parts reports a current backlog equal to about 80 percent of current annual volume.

Many contacts say they currently are comfortable with employment levels but see some prospects for hiring in the near future. Producers of hydraulic equipment expect to hire as demand, especially from foreign firms, increases. An Indiana appliance producer will add 1,800 hourly employees this spring because of increasing foreign demand. A Kentucky poultry processor announced an expansion that will add 300 jobs.

Some firms continue to contract, however. Large defense-related firms continue to reduce employment as government and foreign demand fall. St. Louis will lose one of its three auto plants, which employs about 3,800 workers, by the end of this year. In addition, a pharmaceutical company in Indiana eliminated more than 200 jobs as it reduced the size of its company. Many small manufacturers report difficulty obtaining bank financing. In particular, they are concerned about their dwindling lines of credit; as they pay down credit lines, banks are concurrently lowering their caps.

Nonmanufacturing

Several District nonmanufacturing firms report increased sales as well. Retailers have seen consistent gains in year-over-year sales, with some department stores reporting double-digit increases. This has translated into higher levels of retail employment, especially in St. Louis. In addition, a retail holding company will relocate its headquarters to the St. Louis area, bringing about 400 employees. Since the beginning of the year, plumbing contractors have experienced close to a 5 percent increase in sales after two years of decline. Most of this increase has come from residential and public works projects. Public utilities also expect steady growth over the coming months from increased residential construction. Employment in the St. Louis health care industry has continued to expand in recent months. In addition, a mortgage company in Missouri, after reducing employment by almost 2,100 during 1991 and 1992, has been rehiring and is now 500 workers below the company's peak level of employment. The District mining industry, however, sustained more losses as a Missouri mine closed, eliminating 340 jobs.

Construction and Real Estate

Single-family home construction and new home sales continue to be above year-ago levels in most parts of the District. Prices of both new and existing homes are rising. Contacts note that first-time homebuyers are still the largest segment of the market, but that move-up buyers are increasing in number. Builders are increasingly

concerned about rising lumber prices, which are reducing their profit margins. These higher prices will likely be passed on to consumers this spring when lumber stocks are exhausted and activity picks up further.

Banking and Finance

Loan demand appears to be strengthening. Business loans outstanding have increased 1.3 percent since the start of the year at a sample of small and mid-sized District banks but have been flat at a sample of large District banks. Consumer loans, in contrast, have been flat at the small and mid-sized banks and up 1.9 percent at the large banks during the same period. Real estate loans outstanding have fallen at both groups of banks; contacts attribute the decline to the continuation of refinancing activity and the pay-down of mortgages by consumers. Mortgage origination activity continues to be unseasonably high.

Agriculture and Natural Resources

The winter wheat crop in the District is reported to be in mostly fair to good condition. In a few areas, however, substantial amounts of precipitation may have caused damage to the crop. District rice producers expect prices to remain at current low levels through the first half of the year because of weak export prospects. In general, both crop and livestock prices are higher across the District than they were in the previous month; crop prices generally remain below last year's levels, while livestock prices are somewhat higher than a year ago. Southern pine lumber producers report orders are up nearly 15 percent from one year ago. Tight supplies are expected to keep lumber prices relatively high for the foreseeable future.

Labor Markets

In spite of strong consumer spending and construction, Ninth District advisory council members describe their communities' economic conditions as "slow," "steady," "mixed bag" and "level." Such comments reflect labor markets, which show little strengthening. Non-agricultural employment declined slightly from December 1992 to January 1993 for most district states. Unemployment rates show slight increases over year-earlier figures.

A supercomputer firm in Wisconsin closed in response to losses at a major financial backer, wiping out 320 well-paying jobs. And 100 hospital workers were laid off in Great Falls, Mont., a significant blow in that small labor market. A Minnesota-based airline will lay off 123 pilots April 1.

Forest Products

The forest products sector faces a variety of problems. Paper mills in Minnesota, Wisconsin and Michigan's Upper Peninsula continue to suffer from excess capacity and depressed prices. One Ninth District advisory council member reports that "industry officials do not expect prices to recover for another three years" and that mills have reduced output and laid off employees.

South Dakota and Montana sawmills face financial pressures from a different source. Timber supplies are tight, due in part to reduced cutting allocations in national forests, and output is down.

Plywood substitutes continue to be a bright spot in the forest industry; plants in Minnesota and Wisconsin are reportedly running at capacity.

Mining

As 1993 opens, metal mining in the Ninth District faces difficulties. Gold mining is unprofitable at current prices, although output remained steady through 1992. One small South Dakota mine closed in early February. Three others remain open but are reported to be considering closures or layoffs. Copper prices are also weak, and a director from Michigan reports that a copper mine, one of the largest employers in the Upper Peninsula, laid off workers and reduced production. Iron mining also continues its slump. Minnesota shipments for 1992 declined about 4 percent for the second consecutive year. On a positive note, one mine called back furloughed workers in mid-February.

NINTH DISTRICT--MINNEAPOLIS

The economy of the Ninth District appears to be growing modestly. Consumer spending, especially on retail sales and tourism, together with construction continue to be the engines pulling the economy forward.

Other sectors are less positive. Labor markets are static. Paper producers, squeezed by low prices, have cut output and employment. Some mine production is down and new mining layoffs are reported. Declining crop and milk prices are cited as a cause of reduced farm spending.

Consumer Spending

Consumer spending in January continued above year-earlier levels, as it had through the final quarter of 1992. A major Minneapolis-based general retailer reported January same-store sales up from a year earlier. And an aggressive Minnesota-based national retailer of appliances and consumer electronics reported January same-store sales well over year-earlier figures. News reports from around the district also note good retail sales.

Advisory council members, Ninth District directors and newspapers all report a good winter tourism season across the district.

Construction and Housing

January housing sales and residential construction across the district continued at the strong pace set in the closing months of 1992. Building permit numbers for the Minneapolis-St. Paul area fell from January 1992 but still reached the second-highest January total in 10 years. "One of the biggest problems right now for consumers is that builders have a backlog of new-home orders," commented a Minnesota building association spokesman. And a Sioux Falls, S.D., city planner said, "We're anticipating a very strong construction year."

District directors and advisory council members report plans for new retail outlets in every Ninth District state. Some also note plans for substantial heavy construction in 1993. An Upper Peninsula director says that planned construction in her city is considerably above average and consists of a mix of municipal, residential and commercial projects. A Montana director notes dam, power plant and refinery construction or renovation.

Agriculture

The year opened with agriculture in a slight decline. A Minneapolis Federal Reserve Bank survey of agricultural credit conditions showed year-end 1992 farm spending to be slightly down from a year earlier. Most grain prices are down since the beginning of the year, as are dairy prices that have declined 8 percent in Wisconsin since December. Advisory council members report reduced spending and investment by dairy farmers.

Livestock raising enjoys a more positive outlook than crops. Higher beef prices have improved returns to ranchers and feeders, and cattle on feed numbers are up from a year earlier. Hog prices are up, reflecting smaller fall pig numbers.

Weather conditions are generally favorable for the 1993 crop season. There is good snow cover on virtually all fall-seeded crops such as winter wheat and rye, protecting these dormant crops from the cold, although plantings of those crops are down about 25 percent from a year earlier. Snowfalls are adequate to recharge reservoirs in western areas of the district.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to strengthen slowly. Retail sales are still rising, housing sector activity is increasing, and farm income continues to improve. However, activity in the energy sector has slipped and district manufacturers continue to operate below capacity. Prices remain generally stable for both retail goods and manufacturers' inputs.

Retail Sales. Retailers report further sales increases last month, following the Christmas season surge. Several retailers noted marked strength in apparel sales. Prices are unchanged or slightly lower compared with a month ago and are expected to remain stable. Sales are expected to continue increasing over the next few months. Most respondents are satisfied with inventory levels, but a significant minority of respondents report higher-than-desired inventories.

Auto sales in the district were mixed last month, with some dealers reporting slower sales due to adverse weather. Dealers are optimistic that car sales will increase over the next few months and are padding inventories. Financing is readily available in most parts of the district.

Manufacturing. Purchasing agents report input prices were steady to slightly higher last month, with little change expected in coming months. Materials are readily available, although some respondents report increasing lead times for aluminum and steel. Most respondents are trimming inventory levels as part of their long-run efforts to improve financial performance. Firms generally continue to operate below capacity. Firms report mixed expectations for exports as a consequence of German reunification, problems with the transition to a market system in the former Communist countries, and other unrest in Europe.

Energy. Drilling activity in the district is trending downward following the yearend expiration of tax credits for some types of natural gas drilling. The average number of operating drilling rigs in district states fell from 327 in December to 287 in January. The rig count continued to fall in the first three weeks of February to an average of 228. Despite the recent declines in drilling activity, the region's rig count remains about 15 percent higher than one year ago.

Housing. Housing starts in the district were up last month, except where hampered by bad weather. Sales of new homes were also up, and inventories dropped to very low levels. Home prices increased and are expected to continue rising in coming months, reflecting both strong demand and sharply higher lumber prices. Demand for mortgages has been strong and is expected to remain strong. Mortgage rates are low, with little change expected in the near term.

Banking. Loan demand at district banks was constant to up somewhat last month. Demand was generally stronger for consumer loans and home mortgages. Demand was mostly unchanged for commercial real estate loans, construction loans, and commercial and industrial loans. Loan-deposit ratios were mixed compared with the previous month but mostly higher compared with year-ago levels. Investments were unchanged to lower at most banks.

No reporting banks changed their prime rates last month, and none expect change in the near future. Consumer lending rates at about half of the banks were lower than a month ago and unchanged at the rest. Most banks expect no changes in their consumer lending rates over the near term. Lending standards were unchanged.

Total deposits were flat or down at most banks compared with the month before. Demand deposit changes were mixed. NOW accounts, MMDAs, and IRA and Keogh accounts were up at most banks, while large CDs and small time and savings deposits were generally down.

Agriculture. The district's winter wheat crop remains in excellent condition, due to almost ideal growing conditions. A series of winter storms has provided a protective blanket of snow and boosted soil moisture, which is usually in short supply. In some parts of the district, however, the crop has received too much moisture, which could trigger disease problems and reduce crop yields. But overall, at least normal yields are expected.

The harsh winter weather has slowed weight gains and swelled death losses in district feedlots. As a result, production costs have surged, and the supply of fed cattle available for sale is smaller than normal. The smaller supply of fed cattle has pushed up cattle prices to near record levels. But despite the higher prices, the surge in production costs has trimmed profits for district cattle feeders.

Yearend credit reviews by agricultural lenders indicate that most farm borrowers entered 1993 in strong financial condition. Livestock producers last year recorded larger financial gains than crop producers. Last year's record grain harvest pushed down grain prices and squeezed profit margins for district crop producers. But the lower grain prices reduced feed costs and bolstered profit margins for livestock producers. Overall, most borrowers made timely payments on their farm loans.

ELEVENTH DISTRICT--DALLAS

The District economy has grown moderately since the last survey. Manufacturing activity has accelerated and business services continue to expand at a moderate pace. Many manufacturers report employment gains although several say that the increasing cost of employee benefits continue to restrict their hiring. Accounting and legal firms report a slight rise in activity. Retailers say that sales have held steady after a strong increase in the fourth quarter. Mortgage activity is increasing at District financial institutions although business loan demand remains weak. The drilling rig count has declined due to the expiration of tax credits, weak oil prices and normal seasonal factors. Agricultural conditions have improved slightly.

Manufacturing activity continues to accelerate. Average weekly hours worked in manufacturing in Texas hit a historical high of 43.4 hours in December. Several respondents say that, in response to continued growth in orders, they have recently begun to increase employment and reduce overtime. Many respondents, however, note that continued increases in non-wage benefit costs have caused them to resist hiring. Most manufacturing industries report gains in orders with the exception of oil field equipment, refining and petrochemicals. Petrochemical producers report that margins have shrunk due to declining international demand and growing production capacity. The expiration of drilling tax credits at the end of 1992 has reduced the demand for drilling equipment. Construction-related manufacturing industries continue to report robust sales. Sales of lumber and wood products are reported to be particularly strong and prices have increased sharply. Orders

for primary metals have risen and respondents report recent gains in employment. Fabricated metals producers report a continued gradual increase in both orders and employment. Producers of electric and electronic machinery, and food and kindred products report strong orders.

The construction sector continues to be dominated by strength in residential building. Home inventories are generally lean and prices are edging up. Home prices are expected to get a further boost due to a strong increase in the price of lumber. Despite the likely increase in building costs, home builders remain optimistic about the industry in 1993. The office market remains overbuilt in most areas of the District. Respondents report that there is unlikely to be a significant increase in office construction this year.

Oil and gas drilling has dropped sharply since the end of December. Respondents say the decline is due to the end of Section 29 tax credits, weak oil prices, and normal seasonal factors. Following OPEC's movement of their target range for oil prices, oil prices rose in February for the first monthly increase since last September. Respondents note, however, that futures prices for oil, which during the latter part of February were flat for second quarter delivery, suggest that OPEC will not cut production enough to balance the market. Natural gas prices have been edging up and remain significantly above the levels of a year ago. Respondents say that the recent increase was due to cold weather in February and low storage levels.

The service sector continues to grow slowly. Most sectors report flat to moderate employment gains. Temporary employment agencies say that demand from the manufacturing sector has increased and several respondents report an

increase in fees. After adjusting for a seasonal rise, accounting firms report only a slight increase in demand and employment. One consulting firm noted that a slowdown in RTC activity has reduced his business. Law firms report little change in activity although employment has risen slightly. Respondents in the hotel industry note a recent rise in occupancy.

Home financing and refinancing has been a source strength to District financial institutions. Business lending remains sluggish and several respondents report either slowing or declining loan demand over the past few months. Regulatory burden and slow loan demand were cited as the most onerous constraints on loan growth. Most respondents were optimistic that conditions would improve during the next several quarters.

Retail sales respondents say that sales have been steady since the last survey. Sales in Houston are reported to be weaker than in most areas of the District. Sales of furniture and other home goods are reported to be particularly strong. Auto sales are sluggish, although respondents say that the outlook for sales has improved.

Agricultural conditions have improved slightly since the last survey. Respondents say that favorable weather in many parts of the District has improved field conditions. Prices for the majority of livestock commodities increased slightly in January and were 5 percent higher than last year. Prices for crops remained relatively stable in January but were 14 percent lower than last year's levels.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions remain mixed in the Twelfth District, with weakness reported in California and Washington, but generally favorable conditions reported in most other District states. In California, weak conditions continue in areas dependent on aerospace and defense-related manufacturing; and in Washington, significant layoffs in 1993 were announced at Boeing. Outside of these areas, growth is reported in several sectors, with the strongest conditions reported in eastern Washington, Utah, and Idaho. Overall business sentiment continues to improve, and recent rains have improved District agricultural prospects. Little upward pressure on prices is reported and wage increases are reported to be modest.

Business Sentiment

Sentiment among Twelfth District business leaders continues to improve. Almost three quarters 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-half in January and one-third in November. In general, contacts from Idaho, Oregon, and Utah expect their regions to perform slightly better than the national average. Most contacts in California and Washington, however, expect their regions to underperform the national average.

Wages and Prices

Little upward pressure on prices is reported by contacts in most District markets. An exception is timber prices, which are reported to have risen 20 percent since December. Pulp prices, however, have declined due in part to weak export demand. Aluminum prices are reported as very soft due to declining demand. Most contacts are projecting wage increases near 3 percent, although some decreases are reported for public employees in fiscally strapped regions.

Retail Trade and Services

Contacts report generally good retail sales in most District markets. One national retailer reports that sales continue moderately better than last year, that inventories are slightly leaner, and that conditions have improved somewhat in both northern and southern California. Another national retailer reports stronger than expected sales in January and February, and also that inventories are lean, but that California remains a weak spot. Robust new truck and used car sales are reported in Idaho, although consumers remain cautious.

In California, weakness is reported in a broad range of service sector activities. In legal services, a contact from northern California reports that a number of firms have announced layoffs in the last month and that more firms are expected to contract in size. In telecommunications, demand is reported as very weak with a large number of disconnections occurring in southern California. The state's public universities face further cutbacks, and overall tourism is flat.

Manufacturing

District manufacturing activity continues to contract as layoffs in aerospace and defense-related industries continue in southern California and Washington. In mid-February, Boeing confirmed it would eliminate 23,000 jobs this year and another 5,000 during the first half of 1994. Of the total this year, 15,000 jobs will be cut in Washington state. Contacts report that these job reductions were widely expected following Boeing's announcement in late January that it would reduce production. The Boeing cutbacks are expected to have a negative impact on its suppliers, with layoffs already announced by smaller firms in Washington, Oregon, and southern California.

Outside of aerospace, District manufacturing activity shows signs of increased activity. Orders for computer equipment and software are reported strong, the heavy equipment industry is reported as doing well, and bio-tech firms continue to expand. A contact from southern California reports that exports of high-tech high value-added goods are one of the region's few bright spots.

Agriculture and Resource-Related Industries

Recent rains and the large snowpack have improved agricultural prospects in much of the District. Acreage for several crops will be expanded due to improved water supplies. Conditions are reported to be favorable in the livestock industry, and spring grass should be exceptional for grazing. Flooding in Arizona, however, threatens the winter lettuce crop.

Construction and Real Estate

Nonresidential real estate and construction activity remains weak in several District markets. A contact in southern California reports that effective commercial rents continue to decline, and that concessions to tenants are up. A contact from northern California reports a four year supply of office space in San Francisco, and that available construction funds are being used to bring buildings up to code. In Oregon, a contact reports excess capacity in the construction sector, and in Utah, a contact reports that permanent financing for commercial properties is unavailable in most cases.

The residential sector is showing more strength. A contact in Arizona reports that housing starts are the highest in 10 years, and that good residential lots are in short supply. Housing prices remain soft throughout California, although sales activity has increased. Real estate conditions remain strong in Idaho, Utah, and eastern Washington. Residential lending in Hawaii is reported to be hampered by a lack of homeowner insurance due to Hurricane Iniki.

Financial Institutions

Mixed conditions are reported across District financial markets. In California, a contact at a large bank reports that construction, commercial, and industrial lending continues at levels below a year ago. Another contact in California expects continued weak demand for business and consumer loans through 1993, but expects some improvement in mortgage activity. Overall balance sheets are cleaner and stronger. Slow to moderate loan demand and good credit quality is reported by contacts in Utah and Oregon, and at community banks. Financing for small businesses remains tight.