

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

JUNE 1993

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SUMMARY*

Business activity was increasing at a slow to moderate pace in most Federal Reserve Districts in May and early June. Manufacturing was steady or improving in most Districts, with only scattered reports of upward pressure on prices in this sector. Retail sales were generally higher. Energy industries reported slight gains. Residential real estate sales and construction were on upward trends, mainly in the South and West (except California). There were also some reports of declines, albeit slight, in office vacancy rates in some markets. Reports on bank lending were about evenly divided among increases, decreases, and no change. Crop planting was hampered earlier by wet weather, but has been completed recently or is nearing completion.

Expectations generally are for continued slow growth. Manufacturers anticipate moderate expansion. Energy markets are forecast to improve slightly. Retailers expect improved sales for the balance of the year, and home builders anticipate a good summer. The agricultural outlook depends on a summer sufficiently warm to boost crop growth, which has been lagging due to poor weather.

Businesses commented that investment and hiring were being delayed because of uncertainties about federal tax increases and national health care reform. Retailers also said that such concerns might be preventing a more vigorous increase in consumer spending. Possible changes in U.S. international trade policy were also prompting caution among importers.

*Prepared at the Federal Reserve Bank of Philadelphia and based on information collected before June 15, 1993. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

MANUFACTURING

Manufacturers in Chicago, Cleveland, Dallas, and Minneapolis generally reported improving business, while activity was generally steady in Atlanta, Boston, Philadelphia, and Richmond. In the San Francisco District, manufacturing in California was reported to be slipping further. Sales gains were reported by makers of electrical and electronic equipment, building materials, transportation equipment, and textiles. Demand for construction equipment was good in Chicago and Dallas, but weakening in Atlanta. Demand for aircraft engines and parts was also softening.

Manufacturing employment was reported up in the Minneapolis District but down in Boston and Philadelphia. In addition, the outlook for employment was negative in Boston, Philadelphia, and Richmond.

Manufacturers in Boston, New York, Philadelphia, Richmond, and St. Louis look for continued improvement, but are not forecasting significant increases in capital spending plans. In fact, Boston and New York reported that some manufacturers were trimming planned outlays.

Manufacturing contacts in Atlanta, Boston, Kansas City, and New York reported little or no upward movement in sales or input prices. Information from industrial firms in Chicago's region indicated that price pressures have moderated in recent months. Some Districts, however, reported that firms have been able to sustain increases in their prices recently. Firms in the Richmond region reported increases in finished goods prices. In the Cleveland and Dallas Districts, higher prices were noted for some industrial materials, including steel, several chemicals, glass, and truck parts, although Dallas noted that prices of some other products were declining.

MINING AND AGRICULTURE

Dallas and Kansas City reported slightly higher oil-drilling activity, compared with the beginning of the year, and also reported expectations of an increase from current low levels for gas drilling. Minneapolis reported that coal shipments on the Great Lakes were off to a good start for the year.

Most of the Districts filing agricultural reports indicated that planting had been delayed by wet weather. Where seeding had been done, plant growth was said to be behind the normal schedule in the Chicago, Minneapolis, St. Louis, and San Francisco Districts. The outlook for grains, fruits, and vegetables now depends on whether the summer is sufficiently warm to boost plant growth. Soil moisture levels were generally termed adequate. Kansas City and St. Louis said the winter wheat harvest was getting under way and there were indications that it would be a good harvest. St. Louis said concern was growing that cotton crops are at risk from serious boll weevil infestation.

Livestock conditions were reported to be good by Kansas City, Minneapolis, Richmond, and San Francisco. Feedlots were at capacity, according to contacts in the Kansas City District, and some softening of fed cattle prices was expected.

RETAIL TRADE AND TOURISM

Nearly all Districts reported increased retail sales for May and early June. The exceptions were Boston and New York, where retailers had mixed results, and California, where sales were flat. Atlanta and Chicago said appliances, home furnishings, and consumer durables were selling well. Auto sales were up year-over-year in Atlanta, Cleveland, Dallas, Minneapolis, and the San Francisco District outside California. Domestic car sales were up in St. Louis, but foreign car sales were down. Philadelphia District dealers said truck sales were strong, but car sales, while still showing year-over-year gains, had eased recently.

Retailers expect moderate gains for the balance of the year in Cleveland, Kansas City, Philadelphia, Richmond, and St. Louis, but some Atlanta merchants believe the upward momentum may be waning.

Tourist officials and contacts in the lodging and transportation industries reported modest year-over-year improvement in the Atlanta, Minneapolis, and Richmond Districts. They expect further gains during the summer.

FINANCE

Reports on bank lending were mixed. Overall loan volumes were increasing at slow to moderate rates in St. Louis, Dallas, Cleveland, Kansas City, and some parts of the San Francisco District. Loan volumes were described as flat by bankers in the New York and Philadelphia Districts and down in California and Richmond. Cleveland and Kansas City reported recent gains in commercial and industrial loans. Atlanta said business loans were flat, while Richmond and St. Louis reported declines. Consumer borrowing was up in Atlanta, Kansas City, Philadelphia, Richmond, and St. Louis. Residential mortgage refinancing was generally said to be waning, except in Cleveland, where it was rebounding. Atlanta, Richmond, and St. Louis indicated that purchase mortgage activity was up.

REAL ESTATE AND CONSTRUCTION

Sales and construction of single-family homes were reported to be on an upswing in southern and western parts of the nation, except for California. Kansas City and St. Louis noted that improvements in housing activity in some areas were still delayed by wet weather. Nonresidential real estate activity was mixed, although Minneapolis and parts of the San Francisco District outside of California have experienced some improvements. In addition, slight improvements in office vacancy rates were noted in Boston, Minneapolis, New York, and Richmond.

FIRST DISTRICT - BOSTON

The First District economy continues to expand at a slow pace. Retailers, who had hoped that sales would improve once winter weather ended, express disappointment with results in late spring and early summer. Manufacturing contacts indicate that demand is flat to up modestly, and that inflation is not a major concern.

Retail

First District retail contacts observed decelerating sales during May. Results are mixed, with some retailers reporting declines, others gains, from a year earlier, but all agree that consumer caution is building again.

While the retail environment remains intensely promotional, prices and margins are stable. One exception is the price of lumber, which has declined following a price spike in the winter. Retailers are monitoring inventories carefully; none plan to add to current stocks.

Levels of permanent employment are generally unchanged, and summer seasonal hiring is limited. Wage increases are either nonexistent or limited to 3 percent. Among those contacted, capital spending plans are described as limited and focused on replacing equipment and remodeling stores. The few expansions under way are, for the most part, outside of New England.

Manufacturing

Just over half of this month's manufacturing contacts indicate that recent sales have been about flat compared to year-earlier figures. Most of the remainder have experienced moderate increases. First District manufacturers generally project that the economy will continue to grow only modestly.

Most contacts selling to the automotive industry report higher demand than a year ago. By contrast, contacts view the recovery in housing as disappointing or uneven, based on sales of housing-related products that generally are only slightly higher than in mid-1992. Sales of aircraft engines and parts typically are down sharply, but some contacts report rising exports to developing countries or stable demand from the Defense Department.

Although the U.K. economy is said to be in a modest recovery, declining demand in continental Europe is a source of heightened concern for First District manufacturers. A couple of contacts selling capital goods report strong sales to China and other Asian markets.

Manufacturing contacts report little or no inflation in sales and input prices. One manufacturer indicates that producers will "believe inflation when they see it," not when it is forecast by the bond market. Competitive pressures generally are reported as strong. Prices for a variety of capital goods - including computer parts and building components - are trending downward. Three manufacturers note that they have been able to raise prices only on products incorporating new features. One contact is paying higher prices for paper, and another has raised its prices for steel-based products.

Most contacts have reduced employment over the past year, by between 3 and 11 percent. The majority intend to continue to lower their U.S. head count. Increased demand for selected products is causing limited hiring or longer work hours, despite overall job cuts. This year's capital spending is projected to be flat to slightly down at most companies contacted.

Commercial Real Estate and Construction

The market for commercial real estate in New England continues to plod along, with many markets showing small signs of improvement. Vacancy rates have fallen in the Boston area on most types of property, and may have stabilized in Hartford. The office market is in better shape than the R&D and industrial markets.

Non-residential construction activity is slow, but in better shape than a year ago. Most new projects are in the health-care, education and public sectors. The large number of subcontractor failures has abated, and margins are now up a bit from a year ago.

Nonbank Financial Services

Mutual fund companies report an increase in net sales and assets under management caused by the continuing run-off of maturing certificates of deposit in the low interest-rate environment. Investors favor conservative equity funds while money market funds experienced an absolute decline. The majority of mutual fund respondents report that their employment has been slowly increasing and they expect that trend to continue for the rest of the year.

The Outlook

The New England Economic Project (NEEP), a nonprofit forecasting group, released its semi-annual regional forecast in May. NEEP projects that total New England employment will begin a sustained moderate recovery in the second half of 1993. Service industry jobs have been increasing since the middle of 1991 and are forecast to continue to grow modestly. By contrast, a turnaround in finance, insurance, and real estate is expected to be delayed until early 1994, and manufacturing employment is projected to keep slipping.

SECOND DISTRICT--NEW YORK

On balance, the pace of economic activity in the District seemed somewhat slower in recent weeks but the outlook remains modestly favorable. While retail sales results varied widely during April and May, a majority of contacts reported sales were under plan. Homebuilding activity slowed somewhat in parts of the District and the earlier optimism about surpassing last year's level of starts was less pervasive. Office leasing activity picked up in recent weeks, however, and primary vacancy rates declined in much of the District. New Jersey's unemployment rate fell sharply in May while New York's rate rose. Recent discussions with 26 manufacturing firms indicated a modest increase in sales is anticipated over the next six months. Small and midsized banks in the District reported no change in their willingness to lend.

Consumer Spending

While sales results varied widely at District retail stores during April and May, a majority of contacts reported that sales were somewhat below plan. They attributed this in part to cool and rainy weather during much of the period and also to a continued cautiousness on the part of consumers due to economic uncertainty. Some retailers noted a pickup in sales towards the end of May and into early June, however.

Over-the-year sales changes ranged from -4 percent to +10 percent in April and from -5 percent to +2.5 percent in May. Because Memorial Day was celebrated a week earlier last year, several respondents noted that promotionals associated with that holiday will benefit June this year instead of May. While the weather continued to put a damper on the sale of summer apparel, other types of apparel such as sportswear and children's wear sold well. Demand for furniture, appliances and other home items was also strong.

Despite somewhat disappointing sales, most retailers reported that inventories were at satisfactory levels. However, two stated that stocks were somewhat bloated and that some paring was necessary.

Residential Construction and Real Estate

Homebuilding activity slowed somewhat in parts of the District and the earlier optimism about surpassing last year's level of starts was less pervasive. Factors cited were continuing layoffs and uncertainty about jobs and probably higher taxes. Apparently sales to first-time homebuyers have been good, but trade-up demand has slowed in several areas. Although still high, lumber prices have started to decline and builders state that credit has become more available for construction loans. Funds remain very scarce for acquisition and development loans, however.

Office leasing activity picked up in recent weeks and primary vacancy rates declined in much of the District. The largest decline--reportedly almost one percentage point--occurred in downtown Manhattan where a major securities firm renewed an existing lease and rented a substantial amount of additional space as well. Despite the recent, widespread improvement, however, office vacancy rates remain at very high levels throughout the District.

Other Business Activity

New Jersey's unemployment rate fell sharply to 7.4 percent in May from a very high 9.1 percent in April while New York's rate rose to 7.5 percent from 7.0 percent. New Jersey's 130,000 increase in household employment was 15 percent of the national increase of 857,000. (Several published reports mistakenly compared the 130,000 to the nationwide payroll employment rise of 209,000 and stated that New Jersey accounted for more than half the nation's gain.)

Among recent announcements concerning the District, Bausch and Lomb plans to erect a new headquarters office tower in downtown Rochester and a \$25-40 million medical complex

will be constructed in Buffalo. On the negative side, New York Telephone will lay off 600 managers next September and Readers Digest will reduce its headquarters staff by 250 over the next 15 months. April reports from purchasing managers in Buffalo showed an improvement in production but a slight decline in new orders. In continuation of a recent up and down pattern, a much smaller percentage of Rochester purchasing managers reported better general business conditions in April than in March.

Discussions were recently held with 26 manufacturing firms in the District regarding sales, prices, wages, investment plans and exports. On the whole, our contacts anticipate a modest increase in sales over the next six months. Twenty expect sales to be flat or increasing while four anticipate declines of 5 percent or more. There was no evidence of inflationary pressures. Only three firms plan to raise their prices over the next six months and more than 20 said wage increases will be the same or lower than last year. Only one firm reported a noticeable increase in the cost of materials. More than half the firms plan to reduce capital spending, four significantly. More than two thirds expect exports to continue growing at the same rate or faster over the next six months.

Financial Developments

The latest survey of small and midsized banks in the Second District showed that loan officers' willingness to lend was unchanged during the last two months after four months of increased willingness. Most officers reported that their loan rates have remained stable. Overall loan demand was unchanged to somewhat higher from two months ago. Demand for residential mortgages was unchanged as refinancing activity leveled off.

Respondents noted some growth in overall deposits over the past year. Savings accounts increased as customers shifted funds from maturing certificates of deposit to passbook savings. Delinquency rates for all types of loans remained unchanged during the preceding two months.

THIRD DISTRICT - PHILADELPHIA

Reports from major sectors of the Third District economy in the first half of June were mixed, but indicated further slackening in growth in some areas. Manufacturers noted that while shipments were edging up, new orders were flat and order backlogs were declining. Employment in the manufacturing sector was easing also. Retailers generally reported a healthy sales pace for May, and said early June sales were good but a seasonal slowdown was developing. Auto dealers said car and truck sales were strong in April but car sales have eased since while truck sales have continued at a brisk pace. Bankers indicated that overall loan volumes in early June were flat, although some noted small gains in consumer lending and lending to small and mid-size businesses. Most continued to describe loan demand as soft, however.

Comments from Third District business contacts suggest that the outlook is still on the positive side but the level of optimism is declining. Manufacturers expect some improvement in orders and shipments, but no increase in order backlogs. Employment is forecast to drop over the next six months and capital spending plans, while still calling for increases, have been trimmed since earlier in the year. Retailers expect slow growth for the balance of the year and auto dealers expect sales to ease from the pace set this spring. Bankers do not foresee a significant increase in loan demand.

Contacts in all sectors remarked about the low level of confidence among consumers and business executives as well as concern about increases in taxes, the prospect of government-mandated health insurance programs and increased

business regulation in general. Business contacts listed these as factors restraining spending and borrowing by both individuals and firms.

MANUFACTURING

Third District manufacturers reported a pause in growth in early June. Around half of those contacted in the first half of the month said new orders and shipments were running at a steady pace compared to May. The number of firms posting increases in new orders was offset by the number experiencing decreases, while slightly more firms reported a step-up in shipments than declines. On balance, order backlogs were edging down. While two-thirds of the firms queried said they were holding employment levels steady, companies trimming hours and payrolls outnumbered those extending hours and hiring workers.

Looking ahead, area manufacturers remain somewhat optimistic, on balance. Overall, they forecast renewed but modest growth in orders and a slightly quicker pace of shipments for the second half of the year. Plans for capital spending, however, call for only slight increases, and employment estimates for the second half indicate some reductions in hours and work forces.

RETAIL

Third District retailers generally reported a healthy pace of sales for May. While the pace appears to have slipped a bit in June, most of the merchants contacted for this report said they had expected some seasonal slowing, and they characterized the situation as fairly good for early summer sales. Inventories appeared to be under control. Some store officials said they had to step up promotional efforts in the past two months to clear out merchandise as a result of sales lost in the March storm; however, most described their inventory levels in early June as about right.

While generally expressing satisfaction with the current sales rate, Third

District retailers are only cautiously optimistic about the balance of the year. Most of those interviewed forecasted only slow growth in the second half. A general comment was that consumer confidence remained subdued, with concerns about uncertain employment prospects and increased taxation restraining spending.

Auto dealers in the Third District said sales of cars and trucks in April exceeded the year-ago period by more than had been expected. While truck sales appeared to remain strong in May and early June, the pace of car sales seemed to have eased. Most dealers expect the sales rate for the balance of the year to be below the April pace and, like other retailers, dealers voiced concern that consumers did not have a sufficiently confident outlook to significantly step up spending.

FINANCE

Based on comments from major Third District banks, overall lending was flat in early June. While some institutions reported modest gains, on balance loan demand was reported to be low despite active promotional efforts. There were some reports of increased credit card and indirect auto lending as well as stepped up borrowing by small and mid-size companies, but bankers indicated that the volume of new loans being booked was not large.

Bankers echoed retailers comments that low confidence and concern about tax increases are restraining consumer spending. They added that potential business borrowers are also apprehensive about the possibility of increased regulation and the costs of a government-mandated program for health insurance. Under these conditions, bankers contacted for this report said they do not expect an improvement in economic growth or significantly stronger loan demand.

Fourth District - Cleveland

Summary. District business activity continues to grow moderately, as retail sales have improved in recent weeks and production remains strong. Increased sales of furniture and other household items and automobiles have sustained a modest recovery in consumer spending. Manufacturers generally report strong orders, pushing several producers to operate near capacity. Some producers, particularly those experiencing production constraints, have been able to sustain price increases in recent months, but many anticipate that softening in several commodity markets may help to alleviate further upward price pressure. A moderate rise in loan demand has been driven primarily by new mortgage financing and refinancing, and some large banks have noted a seasonal rise in business loan demand.

Consumer Spending. Fourth District retailers report that sales continued to climb higher in May and early June from the rebound that began in April. Activity among the various types of outlets was mixed, however, as department stores generally fared better than apparel chains and discount competitors.

Apparel sales have been slow to recover from their March decline, partly due to poor weather conditions during spring clothes sales and to consumer resistance to sharply increasing apparel prices. Instead of clothes, the popular items at department stores include hardware-type items and furniture and household goods.

Despite slower-than-expected sales earlier in the year, retail inventories are only slightly above desired levels. Clearance pricing of spring goods, especially apparel, has begun in earnest but is not expected to go beyond the usual discounting. Retailers believe that consumers will respond to clothing sales and that the overall retail market will continue a slow improvement. However, they are optimistic that the Midwest will outperform the national average.

Auto dealers report brisk sales in May, leading many to expect that a sustainable sales recovery is under way. Dealers attribute the increasing vehicle demand mostly to replacement or necessity buying, noting lagging sales of luxury models.

Manufacturing. District respondents report that growth in manufacturing output is reviving in most industries, except for defense and construction-related producers that are experiencing further adjustment. A few large producers in the District are operating near capacity and express concern about bumping against production constraints. However, most are confident that they have ample capacity to accommodate their steadily rising business.

Steel producers indicate that their flat-rolled operations are at capacity. Although incoming orders have eased from the peak rate of the 1993:1Q, a major producer claims to be booked through the third quarter and anticipates a full order book for the balance of the year. Traditional capital goods producers generally expect output to grow at an even faster rate during the second half of the year than it did in the first half. The high rate of truck output has led to capacity constraints among the smaller suppliers in the industry. Auto production is up sharply in several Ohio facilities, which has led to additional shifts and more hiring. However, not all plants have shared in this revival. One production facility of mid-size cars reported output down more than 12% from a year ago. A producer of electronic parts reports a rising pace in orders and production across its markets, except for construction. On the other hand, a producer of aircraft parts posted a sizable decline in orders in April, primarily from defense and international customers, although orders year-to-date were still ahead of a year earlier.

Large manufacturers report no plans to hire additional workers, at least for the next several months. The major exception is steel producers, who have recalled employees recently. However, even the steel industry expects these gains to be offset by layoffs later in the year.

Prices. Respondents believe that the surge in prices earlier in 1993 may be transitory, although some expect further, less-intense upward pressure in the second half of the year. Several producers acknowledge higher prices of materials, including steel, chlorine, special chemicals, glass, and truck parts in recent months, but surmise that these were in response to strong market conditions following several years of declining prices. A capital goods manufacturer and a chemical producer asserted that their price hikes this year represent the first such opportunity since the late 1980s. Other producers contend that the recent declines in industrial commodity and lumber prices may help to constrain upward price pressures in the second half of this year.

Financial Developments. The volume of new mortgage loans rose in May, according to banks and thrifts contacted, and mortgage refinancing rebounded from a let-up in the previous month. Some large banks also report that business loans rose in April and early May, but they doubt that the rise was more than seasonal. Bankers still report a runoff of certificates of deposit, and a few note that savings deposits are down from previous levels. However, bankers have generally refrained from resorting to incentives to hold or attract new deposits, because of what they describe as relatively weak demand for funds.

FIFTH DISTRICT-RICHMOND

Overview

The Fifth District economy continued to grow at a modest, uneven pace in May and early June. In some localities recent announcements of possible District military base closings dampened growth. In the District as a whole, however, retail sales edged higher while manufacturing activity remained steady. Activity at ports was mixed. Real estate activity rose with residential sales sharply higher in most areas and commercial vacancy rates slightly lower. Despite steady mortgage originations, overall loan demand weakened slightly. Good weather helped farmers complete spring planting and assisted hotel, motel, and resort bookings over the Memorial Day weekend.

Consumer Spending

Our regular mail survey indicated that retail activity was mixed in May. Survey respondents reported that sales increased slightly, but shopper traffic and employment declined. Wages, wholesale prices, and retail prices rose. Retailers indicated little change in the level of general business activity in their local areas.

Respondents were optimistic about the next six months. They anticipated increases in sales and shopper traffic. They expected wages, prices, and capital expenditures to rise.

Manufacturing

Manufacturers indicated that District activity remained steady during the past month. They reported little change in most indicators. They noted decreases in order backlogs and inventories and increases in finished goods prices. Manufacturers cited weak demand as their most important

problem.

Respondents were optimistic about their prospects for the next six months. New orders, shipments, and capital expenditures were expected to increase, but inventories and the number of employees were expected to decline. Respondents looked for order backlogs and employee hours to remain steady.

Military Base Closure List

Officials at local chambers of commerce reported that local business activity had not dropped as a result of the announcement in May of potential military base closures, but businessmen from the areas indicated that increased job uncertainty associated with the announcement had hampered growth. Nearly a dozen Fifth District military bases were added to the list of possible closures. Many of those bases, particularly those in eastern Virginia, are major employers in their regions.

Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that imports rose in May compared to April while exports fell. Measured against a year ago, imports were generally higher and exports were generally lower. All three ports expected exports to increase faster than imports during the next six months.

Tourism

Hotels, motels, and resorts throughout the District indicated that tourist activity in May and in the first week of June increased when compared to April and a year ago. Respondents attributed the increase to unseasonably good weather and to better marketing strategies. Although most respondents

reported that they were booked to capacity on Memorial Day weekend, summer bookings were only slightly better than last year. Despite slow summer bookings, most of the respondents still expected tourist activity to improve during the next six months.

Finance

District financial institutions contacted by telephone indicated that over the last six weeks, commercial loan demand was marginally lower while consumer loan demand strengthened somewhat. Commercial and consumer loan rates were steady. Residential mortgage demand fell somewhat during the last six weeks. Refinancing activity declined sharply while new mortgage originations were steady. Residential mortgage lending rates were flat.

Residential Real Estate

Real estate analysts and homebuilders surveyed by telephone reported increased residential activity during the past six weeks. Residential sales rose in all District jurisdictions except North Carolina, and especially strong sales were noted for homes in the lower price ranges. In North Carolina, the residential market remained strong, but sales leveled off in Raleigh and weakened slightly in Charlotte after posting particularly strong gains earlier in the year. Residential sales in West Virginia continued to grow substantially, drawing down the inventory of existing homes and spurring new construction. Residential sales were said to be especially strong around Morgantown. Home prices remained mostly steady during the past six weeks, although realtors in some areas reported slight increases.

Commercial Real Estate

Commercial real estate activity improved in most areas of the District

during the past six weeks but remained weak around Baltimore. Office, retail, and industrial vacancy rates fell somewhat in most metropolitan areas, especially in the suburbs. Analysts in Washington, D.C. and Charlotte noted that large blocks of class A space were relatively scarce in their downtown markets. Virtually no speculative building was underway, but several pre-leased office and industrial buildings were started.

Agriculture

Clear weather during most of late May and early June allowed farm activity to progress at a faster pace. District farmers completed their spring planting after having fallen behind schedule earlier in the season. Crops were mostly in good condition, although severe thunderstorms and hail had damaged the tobacco and corn crops in southern Virginia and there were reports of insect damage in some areas of the District. Haymaking and the harvesting of small grains for forage were underway. Pastures and cattle were reported to be in good condition.

SIXTH DISTRICT - ATLANTA

Overview: According to Sixth District contacts, the Southeast economy grew at a moderate pace through May and early June, led by gains in consumer spending and single-family housing. Retailers reported moderate increases in consumer spending, with particular strength noted for auto sales. Realtors and contractors continued to see favorable developments in most single-family housing markets, but multifamily and commercial construction remain weak. Manufacturers reported that factory activity generally was stable through May, with increased production noted in consumer goods and transportation equipment. However, manufacturing contacts also noted that expectations of future activity have been revised downward in recent months. While commercial loan demand has not grown much in the last month, bankers said that consumer lending has improved in most market areas, especially financing for new car purchases.

Consumer Spending: Retailers throughout the District reported that consumer expenditures improved on a year-over-year basis through the end of May, with particular strength noted during the Memorial Day holiday weekend. Sales increases were recorded not only for apparel and home improvement products, but also for big ticket consumer durables and autos. Still, for the first time in several months, retailers have begun to express some concern that current spending momentum may be waning. Tourism and business travel remain strong, and most contacts in the hospitality industry expect further improvement through the summer as air passenger traffic and convention attendance continue to outpace year-ago levels.

Manufacturing: According to District manufacturers, factory activity remained stable through May, although reports for particular types of manufacturing were mixed. At the same time, expectations concerning business conditions six months from now have been revised

downward. Contacts in the textile industry noted that current demand in the home furnishings segment of their business remained strong, while manufacturers and other suppliers linked to automobile and light truck production reported that recent increases in new orders have pushed factory utilization rates to near capacity levels. Manufacturers of construction and other industrial equipment, however, have seen a recent decline in new orders, some of which they attributed to uncertainties generated by the current political debate over federal fiscal policies. Several firms reported that these uncertainties have served to limit their hiring of new employees, and, in general, hiring reports from manufacturers have been more modest than in recent months.

Construction: According to realtors and contractors, single-family housing markets continue to improve in most of the District. Home sales in May were reported as brisk, with sales in many areas exceeding strong year-ago levels. Improved sales were observed in all price ranges, and new listings were said to be selling much more quickly than in the recent past. Increased demand and tightening inventories of homes for sale have pushed contract prices up, and contractors have now begun to pass higher lumber prices on to new home buyers. Builders reported that single-family residential construction is doing well, and that the outlook through the summer remains very good. Although multifamily construction activity remains weak, rising occupancy levels and effective rental rates have stimulated some new apartment development.

Commercial real estate markets also remain sluggish. Despite isolated reports of improved absorption and leasing activity, commercial realtors said that there is an abundant supply of office, retail, and industrial space for rent in most areas. Although there has been some recent increase in build-to-suit construction activity, no new speculative construction has been announced recently.

Financial Services: Bankers in the District reported that loan demand was mixed in May and early June, with consumer lending showing some improvement while business financing continues to be relatively flat. Consumer lending, especially for new car purchases, picked up moderately in May in most of the District. Residential mortgage lending also continues at a strong pace, although the wave of refinancing has peaked and begun to slow. Commercial loan demand has been relatively flat, and bankers report that this has stimulated fierce competition for new business loans.

Wages and Prices: Manufacturers reported that prices for finished products and raw materials were basically unchanged in the last month. However, contractors reported that after reaching a peak in March, lumber prices have been slowly falling, while packagers reported that the cost of paper has risen in recent weeks. There were no reports of increasing wage pressures.

SEVENTH DISTRICT--CHICAGO

Summary. Economic expansion in the District continued in May and early June. Reports from retailers and consumer goods manufacturers suggest that retail sales growth picked up modestly, aided in part by pent-up demand after unseasonably bad weather in the first quarter. Manufacturing activity continued its expansion, with slowing growth in some sectors offset by improving results in several industries that had previously been weak. Motor vehicle production continued to gain momentum, with output plans for the third quarter calling for a significant increase over year-earlier levels. Survey-based measures and reports from individual businesses gave no evidence of significant upward pressure on prices.

Retail Sales. Reports from large retailers and manufacturers of consumer goods suggest that consumer demand increased in the District in recent months. A large department store chain reported that sales growth in the Midwest increased moderately (on a seasonally adjusted basis) in May and early June, after a snapback in April from weather-depressed levels in the first quarter. Sales strength remained concentrated in durable goods, notably appliances and home improvement items. Credit utilization continued to rise and delinquency rates continued to improve. A large discount chain reported improvement in traffic and increased sales momentum during May and early June. This firm expected same-store sales growth to improve modestly in the latter half of 1993. A manufacturer of home entertainment products reported that shipments gains continued in the early part of the second quarter, and stated that feedback from dealers suggested that sales growth should continue into the summer. This contact stated that "inventories are not a problem, either for us or our dealers." An electronic industries association reported that year-over-year growth in retail sales of consumer electronics slowed modestly during the second quarter, but stated that "sales are still going well, after 1993 got off to a great start."

Manufacturing. Purchasing managers' surveys and reports from individual manufacturers indicate that production growth also continued in recent months. The production component of purchasing managers' surveys in Chicago and Milwaukee followed the national pattern by slipping back marginally in recent months, but both of these indicators remained at levels consistent with continued expansion in activity. The production component of the Detroit survey climbed again during May to a level above those for Chicago, Milwaukee and the nation as a whole, reflecting relative strength being experienced in the motor vehicle industry. Purchasing managers' surveys conducted in Western Michigan were also indicative of somewhat stronger production trends than those in Chicago and Milwaukee.

Reports from individual manufacturers were mostly positive. After lagging the recovery in much of the District's industrial sector, several manufacturers of construction machinery increased their production plans in recent months. One of these firms cited increased economic activity, growth in corporate cash flow, and favorable financial conditions as leading to "an upbeat domestic environment for the first time in a long time." The turnaround in demand for this firm's products has been led by housing activity, but demand for equipment used in nonresidential construction recently began to improve as well. A manufacturer of heavy-duty trucks reported that orders continued to run at high levels, but stated that "there may be some chinks in the armor," noting modestly increased cancellation rates. This contact noted that recent strengthening in medium-duty truck orders has been concentrated in leasing and rental firms. A heavy-duty truck industry analyst reported that production continued to rise on a seasonally adjusted basis during May. A large supplier to heavy-duty truck manufacturers reported that the pace of expansion in its own production has levelled off somewhat, but this contact also noted a recent pickup in orders from medium-duty truck manufacturers, a market that had been dormant for some time. A steel industry analyst reported that order books for integrated manufacturers are generally full into the fourth quarter, primarily due to strength in demand from auto and appliance producers, but also due to recent strengthening in construction and, to a lesser extent, agricultural machinery markets. A diversified manufacturer of heavy machinery stated that orders for its oilfield machinery and material handling equipment remained relatively weak. A manufacturer of plumbing products expressed some concern about recent trends in housing activity, but another producer reported that shipments of equipment linked to housing construction continued to run at good levels.

Autos. Production of light vehicles continued to gain momentum in May and early June, and several large automakers released third quarter assembly schedules calling for significant further improvement in production. Contacts with several automakers recently revised upward their forecasts for vehicle sales in 1993. One stressed that vehicle sales should not be seen as being detached from the rest of the economy; "modest gains in employment and income, reduced consumer debt, low interest rates and pent-up demand are all factors driving the recovery forward." Another large automaker remained confident regarding future sales growth, especially on the retail side of the market. This contact stated that increased production schedules appear very reasonable, in part because dealer orders have been outpacing sales. A large bank reported that commercial and industrial loan growth in Michigan has been running above the national average, citing strength in demand from auto suppliers. Auto suppliers generally reported stronger

orders and improved assessments of the potential for further gains in the latter half of 1993. One supplier expected sales gains in the second and third quarters to run in line with those in the past six months, with all of the expected gain arising due to increased volume; "customers are not paying our price increases."

Prices. Purchasing managers' surveys suggest that price pressures in the District's industrial sector moderated in recent months, while reports from a wide variety of individual firms gave no evidence of significant upward pressure on prices. The price component of the Chicago purchasing managers' survey rose at one of the highest rates in the past decade over the five months ending in March, then fell back somewhat in April and May. The price component of the Detroit survey also gave back some ground in recent months. Two large retailers continued to emphasize that intense competitive pressures in retailing are still holding down prices to consumers. One of these firms stated that price increases are generally running in line with, or slightly lower than, those experienced at this time last year. A manufacturer of consumer products also noted that intensified competition at the retail level has left little room for price increases by producers of consumer electronics. A chemical producer stated that overcapacity in production has dampened price increases in this segment of the company's business, while input price changes (except for steel) also have been relatively modest. A producer of heavy machinery expressed skepticism about the sustainability of recent or continued increases in steel prices. An auto supplier noted some new price increases in purchased materials, but stated that they were modest and selective by type of input. Earlier in 1993, some manufacturing contacts reported seeing larger price increases than normal for that time of year, but these posted increases were also accompanied by deeper discounts. A manufacturer of heavy equipment experiencing renewed strength in most of its business lines cited the lack of a generalized upturn in demand for commodities as the most important factor leading sales of mining equipment to lag the companywide average. One manufacturer in an international market stated "many of the price increases we do see are coming from the import side."

Agriculture. The pace in crop plantings improved considerably in recent weeks, overcoming most of the earlier delays from cool, wet weather. The delays may result in some modest shifting in the mix of crop acres. However, analysts believe that virtually all of the intended corn acreage in District states was seeded prior to the passing of critical planting dates. (June 15 is generally regarded as the latest acceptable date for planting corn.) Early crop development -- both for field crops and for much of the District's vegetable acreage -- is below normal due to the late plantings. However, moisture supplies in most areas are adequate to abundant and the return of warmer weather brings hopes for faster crop development.

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EIGHTH DISTRICT - ST. LOUIS

Summary

Recent changes in District economic activity have been mixed. Numerous firms report uncertainty and trepidation concerning the budget deficit and health care proposals. Many retailers report that consumers also seem hesitant, as they are unwilling to commit to major purchases until they see the results of Congressional deliberations. Despite continued wet weather, District homebuilding is still on the upswing in most areas. Total loan growth has slowed at large District banks in recent months. Cool, wet weather continues to stymie farmers in many areas of the District.

Consumer Spending

Retail sales in the District have increased modestly over one year ago. Sales are reportedly up between 2 percent and 3 percent; some in St. Louis report double-digit increases. Most contacts felt that their year-to-date sales expectations had been met. Price cutting to spur sales was reported only in Louisville, and only for jewelry. Contacts also report that consumers remain cautious about the effects of prospective fiscal policy changes. Most retailers, however, are optimistic about this fall and expect increased sales without many price cuts.

District auto dealers report that new and used domestic car sales are on the rise. Many dealers are optimistic and expect slow-to-moderate growth through the end of the year. Sales of Japanese cars, however, have declined because of rising prices and the perception of improved quality of domestic cars.

Manufacturing

District manufacturing firms are somewhat optimistic, but many are unwilling to make commitments regarding employment or investment plans until the outcomes of current Congressional deliberations are revealed. Reports are therefore mixed. The areas

of strongest growth appear to be Arkansas and northeast Mississippi. For example, a New York-based shirt manufacturer will open its eighth factory in Arkansas, employing an additional 300 workers. A meat-processing company will also open a new plant in eastern Arkansas that will employ 200. A school furniture maker is expanding its production in central Arkansas, creating an additional 100 jobs. Northeast Mississippi has two new firms, a furniture producer and a maker of building materials, which will employ 300 workers in the area.

Other District areas are not as upbeat. For example, a shoe manufacturer reversed its decision about the fate of a western Tennessee plant and will close it in late July, eliminating 265 jobs. In addition, a children's clothing manufacturer in Tennessee will close its plant in early July, eliminating 300 jobs. A St. Louis-based defense contractor laid off an additional 132 workers.

Nonmanufacturing

District nonmanufacturing firms have also expressed concerns about the pending deficit reduction and health care proposals. On top of these concerns, mines in southern Illinois and Indiana have closed as 3,100 union members went on strike. Positive reports were received, however, from some contacts. A trucking company in Memphis, for example, began operations at its new facility this month with more than 250 workers. Other contacts report increased use of just-in-time management of inventories, which has allowed for better inventory control and reduced costs. A recent survey indicates that 30 percent and 33 percent of the reporting firms in Memphis and Little Rock, respectively, will increase employment in the third quarter of this year. Some contacts in the construction industry report very high cement prices, but believe that such price increases are an aberration rather than a trend toward higher rates of inflation. Developers report that lease renewals no longer include the perks previously sought by lessees, although renegotiated rents can be up to 40 percent lower.

Construction and Real Estate

Wet weather continues to be a problem for many District homebuilders, as contacts indicate that issuance of single-family building permits has been delayed by the rain. Nevertheless, a number of areas report double-digit increases in March and April permits over the same period last year. Sales of new and existing homes are strong in most areas of the District, with St. Louis a notable exception. Many realtors have expressed concern about low inventories of homes for sale. In central Arkansas, prices received by home sellers are very close to the asking price, and in Louisville existing homes valued at less than \$140,000 are selling within five to eight days.

Banking and Finance

Total loans on the books of a group of large St. Louis banks rose just 0.2 percent from early April through late May after a 1.1 percent increase during the prior two-month period. All of the slowdown in growth was the result of a decline in commercial lending. Real estate loans increased 0.7 percent after a 0.2 percent increase in February and March; consumer loans rose 1.6 percent in the April-to-May period after a 0.7 percent decline in the prior two months.

Agriculture and Natural Resources

Cool temperatures and substantial rainfall have delayed planting and impeded crop emergence across the District. In many instances, planting took place under less-than-ideal conditions. Contacts in Missouri and southern Illinois have expressed concern over the planting delays and the slow development of the corn crop; as a result, some farmers have switched from corn to soybeans or sorghum. Record boll weevil infestations—a result of the mild winter and the wet spring—have been reported in most cotton-producing areas of the District. Although farmers have started to apply pesticide, some contacts believe that a substantial risk to the cotton crop is possible this year given the magnitude of the outbreak. Generally, the winter wheat crop is in good condition as the summer harvest approaches.

NINTH DISTRICT--MINNEAPOLIS

The pace of the Ninth District economy appears to have picked up somewhat from the moderate growth reported in mid-April. Construction and real estate continue to improve and lead the economy. New automobile sales remain good, while consumer outlays on general merchandise may be rebounding after sagging this spring. Moreover, tourism officials are optimistic about the summer season. Developments in manufacturing and mining signal improvement, while labor markets are strengthening. Meanwhile, livestock prices are strong and production is above year-earlier levels. While cold, wet weather has severely delayed grain planting, it has helped ensure that soil moisture levels are adequate across virtually all of the Ninth District.

Construction and Real Estate

Construction and real estate lead in adding strength to the economy. Minneapolis-St. Paul real estate brokers had their busiest May in recent history as the area's single-family home sales leaped 34.4 percent to 4,224, compared with the same month last year. Brisk sales are boosting prices as the median sales price rose to \$96,600 in May, a 5.5 percent increase from a year earlier. Minneapolis/St. Paul home builders are responding, and in April 1,631 new-home building permits were issued, the highest month in at least a decade. Sioux Falls and Rapid City, S.D., Helena, Mont., and Eau Claire, Wis., also report strong home sales and construction.

Non-residential building is also strengthening. In April, publicly awarded construction contracts in Minnesota and the Dakotas were 18 percent above April 1992. Year-to-date figures were 25 percent higher. Moreover, recently released figures indicate the Minneapolis-St. Paul office vacancy rates fell to 16.4 percent by the end of 1992 from a high of 20.2 percent in 1991, leading analysts to speculate that the commercial real estate glut has bottomed out. A report from Billings, Mont., described its commercial real estate market as the best since 1978.

Consumer Spending

General merchandise sales may be reviving. "In June, sales are springing back," says a spokesperson for a regional retailer with stores across the Upper Midwest. Its May sales were "soft" with same-store sales 2.5 percent above a year earlier. A Minneapolis-based national

retailer reports that its comparable-store sales were up 1.1 percent in May after declining 2.1 percent in April.

Moreover, prospects are bright for summer tourism. A tourism official in South Dakota reports inquiries are running about 10 percent above last year, and states, "We're anticipating a strong year this year." In a north central Wisconsin community tourist inquiries are up 70 percent from a year ago in response to its advertising initiatives.

Automobile sales continue to outpace general merchandise sales. An industry spokesperson in Minnesota says, "Sales are increasing and we anticipate a good year." A counterpart in South Dakota reports that "sales are good to very good." A North Dakota dealers' representative recounts "sales continue to be good."

Manufacturing and Mining

Manufacturing shows signs of growth. Year-to-date, weather-adjusted industrial use of electricity is about 4 percent above a year ago, double its five-year average growth, reports an electrical utility serving most of the Ninth District manufacturing in Minnesota, South Dakota and Wisconsin. Moreover, in all district states manufacturing employment this spring is up from a year ago.

Mining also shows some signs of growth. After posting eight quarters of losses, a large South Dakota gold mine was "back in the black" in the first quarter, due to vigorous cost reduction efforts. Duluth port officials report that the Great Lakes shipping season is off to a good start for iron ore, coal and grain.

Labor Markets

These signs of strength in the district's non-farm economy are manifesting themselves in improving labor markets. In May, Minnesota initial claims for unemployment compensation were down 21 percent from a year ago. Moreover, 51 percent of district business leaders responding to a May survey said employment in their communities would be up from a year ago during the next six months. Only 9 percent were looking for employment to decline.

The economy, however, was not immune to layoffs. The recently announced closing of a Sioux Falls credit card center will cost 181 South Dakota residents their jobs. Because of state budget problems, 62 North Dakota residents recently lost their jobs at the State Developmental Center in Grafton.

Agriculture

Livestock continues to be the brightest component in the agriculture sector, according to comments received in a quarterly survey of agricultural credit conditions. Although cattle and hog prices have dropped slightly from April peaks, they are still substantially above year-ago levels and are very favorable in relation to feed costs. Slaughter levels are largely unchanged from 1992, but the numbers of cattle and hogs on farms are up 3 to 9 percent. One negative note in the meat animal sector is that the spring calf and lamb crop is at best average because of high mortality resulting from prolonged cold, wet weather.

Prospects for the 1993 crop are shadowed by weather-induced delays in planting virtually all spring-seeded crops. The Agricultural Statistics Service reports that crop progress as well as planting is behind normal for all crops, though delays are less severe for small grains such as oats, wheat and barley than for row crops such as corn and soybeans. Delays thus far have not irrevocably damaged expected yields but have used up most of the season's margin for error. The weather throughout the rest of the growing season must be very favorable to allow crops to make up for lost time and achieve potential yields. Since soil moisture levels are adequate to surplus, concern now centers on receiving sufficient warmth and sunlight for optimal corn and soybean production.

A survey of 212 agricultural banks showed that interest rates continue to drop, down 25 to 50 basis points from the end of 1992 for all classes and terms of loans and more than one percentage point from the previous year. Bankers also report increased spending on new machinery or facilities in wheat growing areas with favorable 1992 yields and prices, but little change in capital spending in corn-soybean regions, which had a less favorable 1992 outcome.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow moderately. Retail sales are increasing, housing activity remains strong, and bank loan demand is generally strengthening. Moreover, farm income remains healthy and the energy sector is improving slightly. On the price front, retail prices are reported to be mostly stable, while prices of manufacturers' inputs are stable to slightly higher.

Retail Sales. Nearly all retailers contacted report higher sales than a year ago, although some note less improvement in sales over the last month. Several retailers report strong sales of home goods, such as furniture, appliances, and other home furnishings. Prices are mostly stable compared with a year ago and are expected to change little during the rest of this year. Respondents are generally satisfied with inventory levels, despite expected sales gains over the next several months.

Auto dealers report sales increased last month. Most buyers can obtain loans, but they are more readily available from captive financial institutions than from banks. Most dealers expect sales to rise during the next few months and are maintaining or increasing inventories.

Manufacturing. Purchasing agents report stable to slightly higher input prices compared with a year ago. Prices are expected to remain unchanged or rise slightly in the near term. Materials are readily available. Respondents are trimming inventories in response to sluggish sales or in an effort to increase efficiency. While some respondents are operating near capacity, few bottlenecks are reported. Most exporting firms report that sales abroad are flat or down.

Energy. Drilling activity in the district is improving somewhat following steep declines earlier in the year. The average number of operating drilling rigs in district states rose slightly from 197 in April to 203 in May, following a similar rise the month before. During April and May, the average rig count in the district was about 5 percent higher than during the same period a year ago.

Housing. Housing starts are generally steady relative to last month. Although demand is strong, starts have been delayed in some areas due to poor weather. Most builders expect starts to increase as the weather improves. Sales of new homes are unchanged from last month, and inventories remain low. Building materials are readily available. Prices of some materials have softened a bit, but builders expect prices to strengthen in the near future.

Mortgage demand is down slightly due to fewer refinancings, nonetheless, most respondents expect demand to stay high in the near term. While mortgage rates have been flat, most respondents expect rates to increase somewhat over the rest of the year.

Banking. District bankers report constant to stronger loan demand last month. Demand for commercial and industrial loans, consumer loans, and home mortgages was up at most banks, while demand for commercial real estate loans and agricultural loans was constant to up. Loan-deposit ratios were mostly higher compared with both last month and last year.

District banks did not change their prime rate last month, and no bankers expect to change that rate in the near term. But consumer lending rates were down at about half of the responding banks and unchanged at the other half. Most bankers expect no further change in their consumer lending

rates in the near term. Lending standards remained unchanged at all responding banks.

Deposits were constant or increased at most responding banks during the last month. Demand deposits, MMDAs, and IRA and Keogh accounts were up at most banks; NOW accounts were mixed. Both large CDs and small time and savings deposits were down at most banks.

Agriculture. District farmers are finishing the planting of spring crops after long delays caused by wet weather. Wet weather also delayed the start of the district's winter wheat harvest. The wheat harvest should be in full swing by late June, however, and most district bankers expect normal wheat yields.

Most cattle feedlots in the district are operating at capacity, but producers are avoiding a buildup of cattle inventories. After rising to record levels early last spring, fed cattle prices have edged down, and further declines are expected.

District bankers have completed their spring credit reviews and report the credit quality of farm borrowers improved during the past year. Diversified crop and livestock farms were generally more profitable than crop-only farms, due to strong livestock prices and weak crop prices. This year bankers expect farm income to remain healthy, about the same as last year.

Lenders report an uptick in business activity in rural communities during the past year. While retail activity was generally stronger, Main Street businesses continue to struggle against increased competition from national retail chains.

ELEVENTH DISTRICT--DALLAS

District economic activity is increasing slowly. Manufacturing activity has improved since the last beige book. Construction and real estate activity continues to be dominated by single family home-building although non-building activity has increased recently. Oil and gas drilling is increasing slowly but remains at very low levels. The service sector continues to expand slowly. Retail sales are increasing moderately and auto sales are about even with last year. Financial institutions report that loan demand continues to be slow. Agricultural producers report that drier fields have helped get planting back on schedule.

Manufacturing activity has improved since the last beige book. Contacts report that demand continues to be strong for electrical and electronic machinery, and prices have fallen for some products. Demand for primary and fabricated metals is reported to have increased slightly, and is particularly strong for construction-related products. Higher steel prices have increased costs for fabricated metal producers and, they report, their prices have risen. Respondents say that sales of brick, glass and rock have increased. Brick prices continue to increase although stone and glass producers report no price increases. Demand for lumber is reported to have slowed recently, and prices have declined. Respondents say that sales of corrugated boxes have declined slightly and prices have fallen, although sales are still stronger than this time last year. A slight increase in domestic drilling has led to a slight increase in demand for oil field equipment. Mexico continues to be a strong customer of rental oil field equipment. Chemical producers report slightly improved domestic markets but deteriorating exports.

Chemical prices have declined. Overcapacity remains a problem for most bulk chemical products and margins are so weak that some producers are shutting lines that require high price feedstocks. Contacts report that sales of apparel, and food and kindred products have increased.

Single family residential **construction and real estate** markets remain strong and selling prices are well above last year's levels. The apartment market continues to improve slowly. Demand for apartments has increased but at a slower rate than expected. The office market is mixed. Dallas has the highest downtown office vacancy rate in the nation, while Austin has one of the tightest office markets in the country. The industrial market is improving very slowly. Highway construction has increased in most of the District's major cities. Contractors are optimistic about infrastructure construction for the near future.

District **oil and gas** drilling is increasing slowly but remains at very low levels. Oil prices have moved under \$20 per barrel in recent weeks, but are still regarded as favorable. The rig count remains low but has been increasing slowly and is now just above last year's level. Natural gas drilling has not recovered from a big drop at year-end due to the expiration of tax breaks, despite prices that remain high and near \$2.00 per thousand cubic feet. Sharply expanded gas drilling is expected in the second half of the year, and some signs of improved gas drilling are already apparent in gas-bearing areas along the Texas Gulf Coast and especially in the waters of the Gulf of Mexico. Refiners' margins improved seasonally in late April and early May, in

anticipation of the summer driving season, but have since weakened as gasoline inventories built up.

The **service sector** continues to expand slowly. Many respondents believe that sales have been slow because of uncertainty surrounding federal tax and health proposals. Most contacts report no change in prices, or slight increases.

Retail sales are increasing moderately. Contacts report that they believe consumers are still spending cautiously because of uncertainty surrounding federal tax proposals. Heavy competition is reported to be keeping price increases small. Mexico's increased enforcement of a \$50 limit on imports continues to dampen retail sales in Laredo although other parts of the border report that sales have returned. Auto sales are about even with last year although dealers report that sales have been erratic.

Financial institutions report that loan demand continues to be slow. Credit-worthy customers are said to be cautious. Bankers report that often loan applicants are denied because they have insufficient owner-capital. Bankers remain optimistic although respondents do not expect any rapid loan growth. Some bankers are responding to forthcoming market-value accounting changes by shifting out of securities and into loans.

District **agricultural** conditions have improved. Overly wet fields have dried out and let farmers increase planting considerably since the last beige book. May prices were lower for most crops and higher for most livestock commodities. Higher prices were recorded for beef cattle, calves, hogs, sheep, hay and upland cotton. Prices were significantly lower for corn, grain sorghum, soybeans, potatoes and wheat.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Disparate economic conditions continue in the Twelfth District with the weakest performance reported in California. Contacts in most other District states are reporting expanding economic activity. In California, manufacturing activity continues to slump, construction and real estate markets remain weak, and retail sales and financial activity are flat. Weakness in aerospace also has dampened growth in western Washington. Outside of these regions, growth is reported in several sectors, with overall conditions strongest in eastern Washington, Utah, and Idaho. Overall business sentiment has deteriorated since early 1993, with most contacts expecting continued slow growth. Contacts report that uncertainty regarding several federal policies is delaying business investment and hiring decisions. Agricultural conditions are generally favorable, although recent wet, cool weather is harming several fruit and vegetable crops in California and Oregon.

Business Sentiment

Sentiment among Twelfth District business leaders has deteriorated since the first quarter of 1993. Less than half of the 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 down from two-thirds in April and three-quarters in March. The majority of our respondents expect the economy to expand, but at a rate less than 2.5 percent. In general, contacts from Idaho, Oregon, and Utah expect their regions to perform better than the national average. Most contacts in California and Washington, however, expect their regions to underperform the national average.

Retail Trade and Services

A national retailer reports that, while May was the best month of the year, sales at the beginning of June were sluggish and conditions in California remain flat. A national grocery retailer

reports that consumers remain cautious and that California food sales are down, with club stores continuing to take business from grocery chains. A contact from California reports continued subpar consumer spending and continued corporate restructuring in retail trade. In contrast, a contact in telecommunications in California reports a slight pickup in demand during the past few months compared to the fourth quarter of 1992.

Auto sales are showing strength in certain markets. In the Puget Sound area, sales of domestic autos in May were reported up 8 percent over a year earlier and import sales were reported up 12 percent. Auto sales were also reported strong by contacts in Arizona, Idaho, and Utah.

Manufacturing

Manufacturing activity is mixed in the District, with weakness centered in aerospace and defense-related industries. In Washington, aerospace employment is down due to cutbacks at Boeing. A contact from California reports that manufacturing remains in a serious slump, with aerospace hardest hit and primary and fabricated metals manufacturing activity also down. Overall activity in high-tech electronics also is down in California, except for selected computer products such as laptops which are experiencing strong demand. In Oregon, however, electronics production remains strong, and in Utah manufacturing activity is expanding in a diverse set of products including auto airbags, medical devices, sports equipment, and computer software. Railroad freight traffic is improving in western states, and is projected to be up 3.1 percent in the second quarter from a year earlier.

Several contacts are reporting that uncertainty regarding federal tax and spending policies is delaying business investment and hiring plans. In Oregon, a contact reports that a number of projects expected to go into construction in the second half of the year are in jeopardy. The ongoing discussion regarding health care reform reportedly also is delaying investment in pharmaceutical and bio-tech industries. Finally, uncertainty regarding trade policy is of concern for importers, and also is reported to have delayed some investment decisions. Trade policy towards China (now temporarily

resolved) is reported especially important to the Washington economy, where new airplane orders from Chinese airlines to Boeing in part have made up for cancellations from domestic airlines.

Agriculture and Resource-Related Industries

While most contacts report a generally good outlook for agriculture, the recent wet, cool weather is harming many crops. Field and vegetable crops are showing below normal growth, tree crops are tending to be light to normal, and mold and mildew are showing up on some fruit and grape crops. Contacts report generally good livestock conditions. The outlook for seafood, however, is reported poor and grain exports are reported slowing.

Construction and Real Estate

District real estate and construction markets show widely disparate conditions, with the weakest performance reported in southern California. A contact from the region reports that residential prices have fallen 10 to 40 percent in the last 2 years, depending on the market. Another contact reports that commercial real estate values in southern California continue to decline, with vacancy rates high and little building. A contact from northern California reports that while commercial real estate conditions remain slow with few sales, rents have stabilized. Other regions are showing strength. Conditions in Arizona are reported firm, with commercial rents increasing slightly and home sales strong. Housing markets in eastern Washington, Utah, and Idaho are reported to be very strong.

Financial Institutions

Mixed conditions are reported across District financial markets. Contacts in California report continued weakness in loan demand. A contact from Arizona reports a general reluctance to borrow, and a lack of good lending opportunities. Utah banking continues strong, with slightly heavier demand for commercial loans. Loan demand in Hawaii is reported soft except for home loans. A shortage of insurance for real estate, however, is reported because of Hurricane Iniki.