

**SUMMARY OF COMMENTARY**

**on**

**CURRENT ECONOMIC CONDITIONS**

**BY FEDERAL RESERVE DISTRICT**

**October 1993**

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SUMMARY\*

Business activity has been increasing at a slow to moderate pace recently according to reports received in most Federal Reserve districts. More mixed reports on economic conditions were received in the New York and San Francisco districts, however. Consumer spending rose in a majority of districts, with particular strength noted in sales of autos and other durables. Tourism also displayed signs of strength in some districts. Manufacturing showed some improvement, with reports of inventory shortages in the auto sector. Residential real estate markets were generally stronger, and some pickup in commercial real estate markets was noted as well. Several districts continued to report weather-related crop damage, but conditions among livestock producers were generally favorable. Mining showed little overall change, but oil and gas exploration increased. Overall loan demand was steady to slightly improved in most reporting districts. On the price side, retail prices were described as flat or "competitive", while price increases were noted for some building materials and manufacturing inputs.

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Consumer Spending

Retail sales registered gains in Cleveland, Dallas, Kansas City, Philadelphia and San Francisco, but were mixed or unchanged in other districts. Philadelphia noted that discount merchants made greater gains than others, and Boston retailers commented on the increase in competition resulting from the arrival of large discounters. Sales of appliances and furniture were strong in a number of districts, reflecting increases in home sales and remodeling. Response to the new fall apparel was mixed, however, with some areas reporting strong demand and others, sluggishness because of unseasonably warm weather. Auto sales were good in most of the districts. Some dealers reported that inventory shortages developed prior to the arrival of the 1994 models. The five districts reporting on the outlook for the holiday season stated that over-the-year retail sales growth is not expected to be as rapid as last year's strong Christmas season.

For the tourist industry, results were generally favorable. In the Richmond district, hotels, motels and resorts indicated an improvement due to good weather and an increase in convention bookings, while Minneapolis reported that casino visitors and campers boosted spending in northern Michigan to a three-year high. Activity was mixed in the Atlanta district, however, stronger on the Gulf in response to new casinos, but down in southern Florida.

Manufacturing

Manufacturing activity showed gains in most districts. In the Boston area, some contacts achieved double-digit year-to-year sales increases by introducing new products or expanding their customer base, and Philadelphia reported gains in new orders and shipments as well as increased hiring. Cleveland noted that domestic orders for capital goods appeared to be holding up well, with orders for some producers running more than 10 percent above a year ago. Manufacturing activity rose in Richmond and Chicago after a relatively flat period in preceding months, and Dallas reported a slow increase in demand and hiring. However, manufacturing activity was more mixed in St. Louis, New York and San Francisco.

The overall improvement in the manufacturing sector reflected increased demand in several industries, but some industries continued to have problems. A pickup in auto sales spurred output at auto producers and suppliers in several parts of the country, and construction-related products such as lumber, cement, brick and glass were also cited as in widespread demand. Electronics and paper producers added to payrolls in Dallas, and some gains in the semiconductor industry were noted in the Boston and Chicago districts. St. Louis stated that small businesses in particular showed strong growth recently, but that some larger firms were reorganizing and laying off. Aerospace and defense-related cutbacks continued in Arizona, California, Utah and Washington, and apparel plants in Mississippi and Georgia also

were still paring back employment in response to sluggish retail sales and foreign competition.

#### Construction and Real Estate

Most districts reported gains in the residential real estate market, with several citing sales of new and existing homes as a major source of strength in their economies. Among those districts where this sector was particularly strong (with home sales well above last year in most cases) were Atlanta, Boston, Chicago, Dallas, Minneapolis and St. Louis. Atlanta noted that demand for new starter and mid-priced homes remained strong and that luxury home sales have improved as well, while Boston said sales were strongest in the areas previously hurt the most by the downturn. Falling inventories and rising home prices were noted in Kansas City and St. Louis. Dallas reported strong housing construction in its major cities with the exception of Houston, while Richmond said that starts in the district trended up. The residential real estate market was mixed in the San Francisco district, however, with strength in several states but softness in much of California. Starts showed little change in the New York district.

Commercial real estate activity picked up and vacancy rates declined in New York and Richmond, while Atlanta saw signs of a revival in commercial construction. The market continued weak in downtown Minneapolis-St. Paul, but was strong in surrounding suburban areas.

## Prices

Minneapolis reported virtually no sign of inflationary pressures, and Atlanta found that wages and prices generally were stable. Boston and Cleveland noted that pricing remained "competitive" and in Kansas City, while manufacturers' input prices were rising somewhat, retail prices were generally holding steady. Lumber prices have been edging up in the Atlanta district, and Dallas reported that some other construction-related industries have also raised their selling prices.

## Financial Institutions

Overall loan demand at banks was reported as steady to slightly improved in most of the districts providing this information. Consumer borrowing has shown some signs of revival, while overall business borrowing remained slow. Mortgage financing and refinancing continued strong, and auto loans picked up in some areas. Kansas City and Philadelphia reported steady to somewhat stronger demand for other types of consumer loans as well. While business borrowing has remained soft in general, Philadelphia noted some improvement in demand from small and middle-sized business borrowers, and Cleveland also reported that commercial loan demand was up a bit. Bankers in Dallas noted that lending was slow, however. Loan volume in California was flat, although other states in the San Francisco district reported somewhat stronger demand.

Agriculture and Resource-Related Industries

Large parts of the agriculture sector continued to suffer from weather-related problems, but not all the news from this sector was downbeat. Richmond reported that yields on most crops were far below average, despite some recent improvement in temperature and rainfall, and in the St. Louis district, Delta cotton farmers said yields were significantly reduced due to heat and insects. Severe drought conditions persisted in parts of the Atlanta area where crop yields were down substantially. It was estimated that corn, soybean and wheat production will be down 20-50 percent from normal in most of the Minnesota district, and grain quality was reportedly generally poor. Kansas City noted that corn and soybean crops were destroyed by flooding in low-lying areas and Chicago stated that flood-related losses appear greater than earlier estimates, especially for corn.

On the positive side, cotton and peanut yields in Oklahoma and New Mexico were generally above normal, and the next winter wheat crop in the Kansas City district is reportedly off to a good start. The soybean harvest was progressing well in the Chicago area and Montana's wheat crop was 9 percent above the previous record. Due to the end of a prolonged drought, acreage was up on California farmlands, while Dallas reported that crop production was good in some parts (but suffering from too much moisture in others). Livestock production was reported to be stable or improved in several districts.

Minneapolis stated that metal mining output was generally stable, with no change in copper output in recent months. Gold production there continued above year-earlier levels and mine expansions were reportedly under consideration. Drilling rig counts were higher in both the Minneapolis and Kansas City districts, while Dallas noted that offshore drilling in the Gulf of Mexico remained near capacity levels. Volume was down in the Pacific forestry industry, however, due to restrictions on public harvesting.

FIRST DISTRICT - BOSTON

Economic conditions in the First District continue to improve gradually. While retail sales results are mixed, demand for manufactured goods has risen from a year ago, and residential real estate sales volume is up. Inflation reportedly remains low because of competitive pressures and soft input prices.

Retail

First District retail sales have varied widely in the last six weeks. Several chains report sales declines of up to 3 percent, notably in apparel and, more recently, in food. By contrast, some specialty and catalog stores, particularly those catering to the higher end of the market, cite significant sales increases since mid-summer. Some growth in sales of major appliances and building materials has led retailers to believe that homebuying in the region is picking up.

Established retailers express concern over the changing competitive landscape, as large discount stores step into the New England market, attracted by the availability of space and less prohibitive costs in the region's malls. The increased competition has put downward pressure on prices, margins, and profits. Employment levels are relatively stable and wage increases are said to be modest.

Seeing the market as unpredictable, most retailers describe their capital spending plans as limited. Holiday sales growth this year is expected to range from 0 to 10 percent--not as robust as last year.

Manufacturing

Most First District manufacturing contacts report that demand has risen from year-ago levels. Some firms have been able to achieve

double-digit rates of sales increase by introducing new products or expanding their customer base. Suppliers to the automotive industry report that year-over-year demand has risen by up to 10 percent. Contacts in the pharmaceutical and semiconductor industries report sales increases in the range of 6 to 10 percent, while a variety of other business and consumer goods manufacturers indicate increases of 0 to 5 percent. Computer manufacturers report declining sales from a year earlier, which they attribute to competitive markets and weak demand from Europe.

Widespread competitive pressures and soft prices for inputs including petrochemicals, photochemicals, and copper are responsible for a low inflation environment for most manufacturers. Contacts report that automakers are demanding yearly price decreases from suppliers. Several respondents indicate that the paper industry is trying to raise prices 2 to 7 percent, but they expressed some doubt about whether the increases would stick.

Over the past year, most manufacturing contacts report employment changes in the range of -3 to +5 percent. Some large companies have implemented sharper reductions. Looking ahead, just over one-half of the manufacturing respondents plan to maintain or slightly increase the size of their work force. Companies that have experienced sizable employment cutbacks foresee a diminished rate of shrinkage.

Close to one-half of First District manufacturing contacts plan to maintain a constant level of capital spending over the next year. A similar number intend to increase investment, in response to rising demand for automotive or other products, or to improve efficiency. Some respondents will allow capital spending to taper off, after a large increase in 1993.

Residential Real Estate

The residential real estate market has shown strong growth in sales volume over the last couple of months in many parts of the First District. Contacts in Maine, Massachusetts, and New Hampshire all report that single-family home sales in August and September were at least 15 to 20 percent above year-earlier levels, with the strongest increases in areas that were hardest hit by the downturn. Rhode Island and Connecticut reportedly lag the other states, but still show positive sales growth. New construction has grown modestly across the region.

Although prices, after accounting for the mix of properties, were mostly flat, a couple of contacts noted that prices in particularly desirable suburbs of Boston seem to be rising. Connecticut home prices, while still falling, are expected to bottom out within two quarters.

Nonbank Financial Services

Insurance companies report mixed results in the third quarter. Strong sales were reported in variable annuities and mutual funds, reflecting the low interest rate environment and the performance of the stock and bond markets. Pensions, group life, and health sales are flat or down according to most respondents. A majority of contacts have either reduced employment in the third quarter, or plan reductions in the rest of the year.

The Outlook

The New England Economic Project (NEEP), a nonprofit forecasting group, released its semi-annual regional forecast in late October. NEEP projects that total New England employment at the end of 1993 will be about even with its level of a year earlier, followed by modest growth in 1994. The projected job growth will be concentrated in services and construction, which have been expanding already.

## SECOND DISTRICT--NEW YORK

Economic developments in the Second District were generally mixed in recent weeks. A majority of retailers reported disappointing sales results during August, but some improvement in September. District homebuilding activity showed little change, with only a slight pickup in traffic and contracts in some areas. Office leasing activity has strengthened somewhat and primary vacancy rates declined in several parts of the District. The latest surveys of purchasing managers in Buffalo and Rochester presented a mixed picture. Unemployment rates remained above the national average in September. Most senior loan officers at small and midsized banks indicated no change in their willingness to lend over the last quarter.

Consumer Spending

A majority of retail respondents reported disappointing sales results during August but said that sales improved in September with the return of more seasonable weather. Retailers noted that the weather remained quite warm during August and consumers were not particularly responsive to the new fall merchandise. With the onset of cooler weather during September, there was a pickup in apparel sales as well as strength in items for the home. September sales results at most stores were generally on or better than plan and early October data indicated a continuation of this pattern. However, a few chains reported that sales of women's apparel remained weak.

Over-the-year sales results ranged from -5.5 percent to +10 percent in August and from -2.7 percent to +12 percent in September. Most stores reported satisfactory inventory positions, with only one stating that stocks were a little high. Regarding the outlook for the holiday season, all respondents spoke of strong gains last year and the likelihood of much smaller year-to-year increases this Christmas. Citing consumer concern about continuing employment cutbacks and a consequent unwillingness to spend freely, most District retailers are planning for increases of

3 to 5 percent over last year's holiday sales, with one respondent noting that no change over last year was a definite possibility.

#### Residential Construction and Real Estate

District homebuilding activity showed little change in recent weeks, though a slight pickup in traffic and contracts was reported in some areas. Larger builders reportedly are doing well, but some smaller builders are still finding it difficult even to obtain construction loans without a signed contract from a buyer. Acquisition and development loans remain virtually impossible to obtain. Low mortgage rates and relatively attractive home prices are stimulating demand, although less than some builders had anticipated earlier in the year. With continuing layoffs in some local areas and additional ones still being announced for the future, many would-be buyers remain cautious about committing themselves to the purchase of a new home. Observers were almost evenly split between those anticipating higher and lower housing starts this year compared with last.

Office leasing activity picked up momentum in recent weeks, and primary vacancy rates declined in several parts of the District, including midtown and downtown Manhattan and northern New Jersey. The largest decline--reportedly more than one percentage point over the June to September period--occurred in Fairfield County, Connecticut where much larger blocks of office space have been renting recently in place of the smaller 2000-20,000 square foot leases that had been the norm over the preceding three years. Office vacancy rates on Long Island rose, however, as downsizing firms marketed a large amount of space. Moreover, throughout the District vacancy rates remain at high levels even with the recent improvements.

#### Other Business Activity

Unemployment rates in the District continued to exhibit a good deal of volatility but remained above the national average. New York's rate fell in September to 7.1 percent from 7.9 percent in August, while New Jersey's rose to 7.7 percent from 7.1 percent in August. Both rates are well below their year-ago levels of around 9 percent. Almost all of the decline,

however, reflects a reduction in the labor force rather than an increase in total employment.

The latest surveys of purchasing managers in Buffalo and Rochester presented a somewhat mixed picture. Buffalo reported higher percentages of firms with increases in both output and new orders while there was a drop in the percentage of Rochester firms stating that general business conditions had improved. The percentage of Rochester firms anticipating gains over the next three months rose substantially, however.

Of the relatively few recent announcements concerning employment in the District, Martin Marietta will retain a Syracuse area complex and move some 300 jobs from Maryland to that facility, and two other firms are also expanding in Syracuse. In addition, Kodak announced that it will open a national service center in Rochester, bringing together its customer service operations from various parts of the country. On the negative side, three drug companies with headquarters and/or manufacturing operations in the District announced that they plan to eliminate a total of 7000 additional jobs over the next three years. No details were given as to the specific locations of the cutbacks.

#### Financial Developments

Most senior loan officers surveyed at small and mid-sized banks in the Second District indicated that their willingness to lend was unchanged from three months ago. One-quarter of respondents expressed an increased willingness to make loans, although a much smaller percentage of them reported easing credit standards. Overall loan demand was firm to slightly improved. Demand for residential mortgages, especially for refinancings, exhibited particular strength. Many officers mentioned that they were increasing advertising or lowering loan rates to help stimulate demand. Interest rates on loans were steady or lower, following market trends for the most part. In addition, almost all respondents reported either a stabilization or a moderate decline in loan delinquency rates during the preceding three months.

## THIRD DISTRICT - PHILADELPHIA

Business conditions in the Third District appeared to improve modestly in September and early October, according to reports from businesses in the region. Manufacturers noted gains in new orders and shipments as well as increased hiring. Retailers generally said that sales were running slightly above the year-ago pace. Bankers indicated that total lending was edging up, due mainly to an increase in loans to consumers.

Looking ahead, manufacturers expect further gains in shipments and orders, and they plan to step up hiring and increase capital spending over the next six months. Retailers generally forecast just a slight increase in sales for the coming Christmas shopping period compared to last year, and they report they have placed orders for seasonal merchandise accordingly. The outlook among bankers contacted for this report is positive but restrained. On balance, they expect moderate growth in overall economic activity and lending.

MANUFACTURING

Manufacturing firms in the Third District reported some improvement in business in mid-October. About one-third of the companies contacted said they were stepping up shipments, and about one-quarter noted recent increases in new orders as well. A steady shipment rate was reported by about half of the firms, and two-thirds indicated that new orders were running at an even pace. Gains were prevalent among manufacturers of apparel and nonelectrical machinery, and among makers of stone, clay, and glass products. Declining

activity was reported by producers of metal and paper products. Overall, more firms in the region reported stepped-up hiring than layoffs, although on balance the workweek was just steady among the reporting firms.

For the near future, about half of the surveyed firms anticipate continuing gains in orders and shipments, and less than one-in-ten expect business conditions to worsen. In line with this generally optimistic outlook, more than one-quarter of the companies queried said they plan to add workers and increase capital spending over the next six months.

#### RETAIL

On balance, Third District retailers contacted for this report said sales for September and the first half of October were slightly above the year-ago period, in current dollars. It appeared that discount merchants were making greater gains than other types of stores and that apparel sales were showing relatively more improvement than other lines of merchandise. Several store executives noted that they were maintaining lean inventories.

In general, area merchants are cautious in their forecasts for the upcoming Christmas sales period. While they expect sales to be above last year's levels, they indicate that they have exercised restraint in ordering merchandise for the season.

#### FINANCE

According to reports from bankers, loan volume outstanding in the Third District was moving up modestly in early October, due mainly to growth in consumer lending. Bankers said most types of consumer credit were on the rise, with notable gains in auto loans. Most of the bank lending officers contacted for this report said residential real estate financing continued to be healthy, with borrowers preferring fixed-rate loans for both purchase

mortgages and refinancings. Bankers also noted that consumers were opting for fixed-rate home equity loans as opposed to variable-rate home equity credit lines.

Based on comments from bankers, it appears that commercial and industrial lending ranged from flat to up very slightly. Several noted that small business lending and lending to middle market companies were showing some signs of improvement. Nevertheless, most said corporate borrowers were continuing to reduce debt and appeared to be planning further downsizing of their operations.

The balance of opinion among bankers contacted for this report is that total lending will continue to move up gradually in tandem with overall economic activity. They expect business borrowing to grow slowly, at best, held back by continuing restructuring among larger firms. They anticipate that the current upward trend in consumer lending will be maintained unless economic growth slips from its current pace.

## FOURTH DISTRICT - CLEVELAND

### General Business Conditions

Business activity in the Fourth Federal Reserve District appears to have gained some momentum over the summer. Industries that had been providing the thrust to the region's expansion, particularly capital goods producers, continue to do so. At the same time, a pickup in automobile sales has helped auto manufacturers. The improved conditions are also being reflected in the loan demand, with a somewhat surprising growth in the previously flat area of consumer-related loans.

Although capacity is generally adequate, a few manufacturers report rising backlogs and capacity strains in some specific areas. However, among the sources we contacted, there is still considerable uneasiness concerning business prospects in 1994. Pricing remains competitive and profit margins are reportedly lean. While area business contacts report a need to add workers in some skilled positions, there is still some apprehension concerning long-term commitments to newly hired labor. Moreover, inventories are being managed cautiously at both the manufacturing and retail level.

Small business contacts around the District, like elsewhere in the country, are reporting mixed signals. Certain manufacturing and retail establishments indicate that sales are merely holding even or are even declining in some instances. Others are enthusiastic about recent orders and sales strength, although few expect to expand payrolls significantly. The emergence of foreign markets has affected the region's small manufacturing businesses. Several firms indicated that a significant and growing source of sales revenue was either directly or indirectly tied to foreign demand.

## **Capital Goods**

Domestic orders for capital goods appear to be holding up well, according to several large District producers and in some cases orders are running more than 10 percent above year-ago levels. A key uncertainty in this important regional industry is the sustainability of foreign demand. Some District capital goods producers report a drop-off in orders from European customers. However, demand from other foreign sources, particularly Asian markets, continues to expand. A few areas of softness were indicated, although these would appear to be departures from the norm. Aerospace and defense-related capital goods demand, in addition to some construction-related areas, are declining and further erosion is anticipated in these markets in 1994.

## **Lending Activity**

Lending activity around the Fourth District remains somewhat uneven. Mortgage refinancing activity continues to be high, but new mortgage credit is less active and sporadic by area. Consumer demand has improved recently, presumably due to the revival in new car sales. Other consumer credit is also thought to have improved a bit since the last survey, and home equity credit is characterized as robust. Commercial credit demand is noted to have grown a bit, but remains soft. Bankers we talked with indicate that they continue to manage their real estate exposure carefully, as there is still thought to be a rather formidable glut of space on the market.

## **Auto Dealers**

New motor vehicle sales continued at a strong pace in September and early October in major Fourth District markets, following the best summer sales season in five years. September 1993 sales ranged between 5 and 10 percent over the same month a year earlier, and sales rates in most major Fourth District markets continue to outstrip national rates. Demand for domestic models is stronger than for foreign nameplates, but

dealers of transplants and imports also report significant year-over-year sales gains.

Inventory shortages reported during the summer appear to have eased somewhat with the arrival of 1994 models.

Most domestic dealers are encouraged by their current sales pace and are increasingly confident that a sustainable recovery is under way. They are not being quite as conservative in their ordering patterns as earlier in the year, and are increasing orders significantly for many popular models.

### **Retailers**

As in motor vehicle markets, retailers report sales strength, especially for durable goods. Retail sales increases have been strongest in furniture and appliances, and to a lesser degree in building materials. A large part of the gain in all three categories has been associated with new and existing home sales, and in home remodeling activity.

Retailers, although fairly optimistic about the 1993 holiday season, do not expect the dramatic rise in spending that occurred last Christmas. Orders have been conservative, and inventory control continues to be of major importance.

## FIFTH DISTRICT-RICHMOND

### Overview

Most sectors improved during the survey period. Manufacturing grew after a flat trend lasting many months. Tourism, finance, and real estate saw growth, and agriculture was recovering from the summer drought. Retailing was down slightly, though automobile sales were up in some areas. Port activity was mixed.

### Consumer Spending

Evidence on retail trends was mixed. Our regular mail survey indicated that retail activity declined slightly in late September/early October. Respondents reported that sales and employment fell, while prices and wages rose. All other indicators changed little. Survey respondents were optimistic about their prospects for the next six months and expected increases in every indicator. Other District contacts reported growth in some categories, particularly automobiles.

### Manufacturing

Our regular mail survey of manufacturers indicated that District factory activity improved in late September/early October, the first time respondents reported improvement since January/February 1993. Manufacturers saw increased levels of shipments, employee hours, capital expenditures, and new orders. Order backlogs and the number of employees changed little. Manufacturing prices increased no faster than the general level of inflation.

Manufacturers remained optimistic about prospects for production and capital expenditures for the next six months. They expected employment to remain steady and manufacturing prices to increase no faster than general prices.

### Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that exports were generally higher in August than in July, while imports were mixed. Compared with a year ago, imports were generally higher, and exports were lower. Both exports and imports were expected to grow at all three ports in the next six months. Charleston and Hampton Roads expected exports to increase faster, while Baltimore expected more growth in imports.

### Tourism

Hotels, motels, and resorts throughout the District indicated that tourist activity for September and the first three weeks of October increased when compared to August and to a year ago. The respondents attributed the improvement to good weather and an increase in convention bookings. All of the respondents noted that fall bookings increased compared to a year ago. Most of the respondents expected tourist activity to continue to improve during the next six months.

### Finance

District financial institutions contacted by telephone indicated that credit conditions strengthened slightly during the last six weeks. Respondents stated that commercial and consumer loan demands were marginally higher. Commercial loan rates were flat, while consumer rates fell slightly.

Residential mortgage demand increased during the last six weeks. Refinancing activity rose, while mortgage originations were steady. Residential mortgage lending rates were moderately lower.

### Residential Real Estate

Real estate analysts and homebuilders surveyed by telephone reported that sales

strengthened somewhat in most areas of the District. Starts trended upward, while home prices remained mostly steady. Analysts noted a particularly large increase in activity in Northern Virginia. In Charleston, South Carolina, the lower-end market remained flat because of the announced closing of the naval base, while the resort/retirement market continued to strengthen.

#### Commercial Real Estate

Commercial real estate activity improved slightly throughout the District during the past two months. Vacancy rates edged downward because of the absorption of existing space. Analysts reported little new construction, and virtually all new space was pre-leased. Effective rental rates rose slightly as office space tightened and as large discount retailers continued to expand substantially.

#### State Tax Revenues

State government revenues suggested moderate real growth (2 to 3½ percent) in North Carolina, South Carolina, Virginia, and West Virginia. Real revenue growth was less robust in Maryland, though there were some areas of improvement, particularly in retail collections. Real revenue growth remained flat to negative in the District of Columbia.

#### Agriculture

Agricultural conditions improved slightly in the last six weeks. Cool temperatures and normal rainfall in recent weeks improved the District's pastures and hay crop. The fall harvest progressed at a normal pace with the yields on most crops far below average, but within the ranges forecast by agricultural analysts late in the summer. An exception was tobacco, whose yields were better than expected. Fall planting of winter grains began, but only 5 to 10 percent of the crop had been sown.

## SIXTH DISTRICT - ATLANTA

Overview: The Sixth District economy continued to expand in September and early October, although most business contacts characterized recent growth as sluggish. After gaining momentum through the first half of the year, consumer spending has levelled off in recent months. New orders for manufactured goods improved slightly in September, but current production and employment levels generally remained flat. Residential real estate sales and construction have remained a source of strength for the District economy, and commercial construction has shown signs that it is beginning to revive. Although residential mortgage lending has remained strong, consumer lending for automobile purchases has slowed recently. Commercial loan demand has not improved. Wages and prices generally were reported to be stable, although some construction and manufacturing firms noted that lumber prices have been edging higher.

Consumer Spending: According to southeastern retailers, consumer spending has levelled off in the last few months following relatively strong growth during the first half of the year. Unseasonably warm weather through September and early October was cited as a factor contributing to below expectation fall apparel sales, while continued strength in residential real estate markets has maintained demand for furniture and other home furnishings at levels seen in the spring. Despite recent sluggishness, most retailers again said they were optimistic that upcoming holiday sales will modestly surpass the healthy levels of 1992. Auto sales, while higher on a year-over-year basis, have slowed from their torrid mid-summer pace. Dealers noted that sales of new model-year cars have been slightly below expectations. Tourism, recreation, and convention-related activity has been mixed in the District. In south Florida, contacts attributed year-over-year declines in hotel occupancy levels and convention attendance to a combination of the slow economy, high airfares, and the spate of publicity about criminal

activity. On the other hand, tourism along the Gulf Coast of Mississippi has continued to benefit from increased activity generated by new casino operations.

Manufacturing: Reports from industry contacts were mixed in September, but, in general, manufacturing production and employment levels were little changed from August. Several contacts reported, however, that new orders were up slightly and that the near-term prospects for their firms have improved. Most manufacturers reported that they do not expect to hire new employees in the next six months. In contrast, contacts with temporary employment agencies indicated that staffing for manufacturing firms had begun to pick up during the last two months following a mid-summer lull. Among those firms that indicated an improvement in current business activity, producers of medical equipment and supplies reported increases in production and shipments for the month of September, and companies producing automotive supplies and commercial construction materials also noted increases in production. Although employment in the carpet industry remained stable since the last Beigebook, apparel plants in Mississippi and Georgia continued to pare back their employment rolls in response to sluggish retail sales and stiff foreign competition. Weak demand from foreign markets was reported to be holding back production in Louisiana's chemical industry, and several paper producers reported cuts in production from mid-summer levels.

Construction: After a busy summer selling period, Sixth District realtors reported an expected seasonal downturn in September and early October. Home sales year-to-date, however, are well ahead of last year's levels, and real estate agents were optimistic that there would be another surge in sales before the end of this year. Demand for new homes, especially starter and mid-priced homes, remained strong, and contacts in some areas noted that luxury home sales have improved as well. Home builders also reported a seasonal slowing in sales in September,

but several contacts noted that this would allow them to replenish their nearly depleted inventories of new homes.

While commercial and multifamily real estate activity generally has remained slow, reports from industry contacts continued to suggest that these markets are beginning to revive. Several small speculative office and industrial projects have been announced recently in submarkets where available space has been reduced through absorption. Multifamily construction also has been improving slowly, and several contacts noted that the permanent extension of the low-income housing tax credit could stimulate new building activity.

Financial Services: Bankers reported that loan demand generally was flat in September and early October. Although residential mortgage lending has remained strong at most banks, refinancings continued to make up about three-quarters of all mortgage loans. Consumer lending for automobile purchases has slowed since the summer, and commercial loan demand has remained muted throughout the District.

Agriculture: Reports indicated that severe drought conditions persist in central and south Georgia. According to current estimates, total agricultural losses in Georgia are expected to surpass \$500 million. In Alabama, Tennessee, and Florida, crop yields are expected to be reduced by 5 to 20 percent as a result of the drought, although total losses in these states are not expected to approach those in Georgia. While Mississippi and Louisiana enjoyed excellent weather until late in the growing season, a lack of rain in late August and September has reduced yields on most major crops, including cotton and soybeans.

Wages and Prices: There were no reports of increased wage pressures in September and early October. Construction companies and furniture manufacturers, however, noted that lumber prices have been edging higher since early August.

## SEVENTH DISTRICT--CHICAGO

**Summary.** Economic activity in the region picked up renewed momentum in September and October, although gains in most sectors were modest. Manufacturing output strengthened considerably, with most of the improvement centered in the auto industry. Retail sales and housing activity continued to grow, and retailers' expectations for the holiday season were largely consistent with those reported around mid-year. After losing some momentum earlier in the year, the employment recovery in the District has been bolstered by the recent revival in industrial activity. The fall harvest has proceeded at a slower-than-normal pace, and yields on corn are proving to be lower than earlier anticipated.

**Manufacturing.** District manufacturing activity strengthened in September and October, after stalling out to a greater extent than usual during the summer months. The production component of the Chicago purchasing managers' survey fell off modestly in October, but only after surging in September, and the overall index continued to climb following an evident loss of momentum in the previous three months. Surveys conducted in Detroit, Western Michigan, and Milwaukee also depicted higher output growth in recent months, with auto industry respondents accounting for much of the improvement. A large auto supplier expected shipment gains to climb higher in the fourth quarter and into the first quarter of 1994, particularly as OEM and dealer inventories are "fairly skinny for this time of the year." Production problems at a large OEM customer are lingering, but are expected to be largely resolved by the first quarter of 1994. A manufacturer of heavy-duty trucks reported some modest weakening in orders in September, but wasn't overly concerned in light of sizable gains earlier in the year. This firm expected orders to remain fairly steady at high levels into early 1994. Two large capital goods manufacturers reported substantial year-over-year sales gains in the third quarter, although sales actually declined on a seasonally adjusted basis for one of these firms. Exporters in a variety of industries reported further declines in European markets, with one auto supplier describing output there as "completely in the tank." Several of these firms noted that an increasing number of European producers are pricing more aggressively in order to get orders from the United States. A manufacturer of semiconductors reported continuing sales gains in Europe, however, and this firm's domestic orders growth remained at high levels in recent months. A manufacturer of housewares reported substantially higher third quarter earnings, and noted continued strengthening in orders during the early stages of the fourth quarter.

**Consumer Spending/Housing.** Growth in retail sales and housing activity held up well compared to manufacturing output during the summer, and little change in consumption growth was

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evident in reports from District contacts in recent weeks. Two large chains reported that their holiday season hiring plans were in line with, or slightly stronger than, those at the same time last year. A large discount retailer reported slow, steady improvement in sales growth in this region, after its sales gains had lagged the industry average earlier in the year. This firm continued to report little generalized upward pressure on prices. A large general merchandise chain concentrated in District markets described sales gains as "pretty hard to get." Sales growth slowed earlier in the year, and in recent months comparable store sales have been flat on a year-over-year basis. This firm is still expecting a good holiday season, but it has not raised inventory plans after a reduction at mid-year. Discussions with a number of retailers in Michigan indicated that growth in apparel sales picked up in recent months, after slowing materially during the summer. An auto industry contact reported that sales closure rates have remained relatively flat during recent months, after rising during most of 1993. This contact expected lower sales than the consensus in 1994, citing lower expectations for pent-up demand and a ceiling on the potential that leasing holds for future growth. Another auto industry observer stated that sales this year have benefited from a stronger trade-in market, after trade-ins were dampened in 1991 and 1992 by the extension of auto loan maturities in the late 1980s. However, this analyst expected only a marginal further boost from this effect in 1994.

A large association of homebuilders reported that gains in sales of new homes in October were running in line with the substantial increases recorded year-to-date. Citing further strength in customer traffic, this contact expected sales and starts to continue to gain momentum on a seasonally adjusted basis over coming months. Construction of individual custom homes has accounted for an above-average share of the gains in the overall market this year, according to this contact. An October survey of homebuilders indicated substantial strengthening in sales expectations. One of the largest realtors in the District reported that sales in September were in line with an exceptionally strong year-earlier period, and this contact stated that the residential market remains very active for this time of year. A regional bank holding company reported that the rapid pace of residential mortgage refinancing was little changed, while demand for bank loans for new home construction is "okay, but nothing to write home about." Another banker stated that borrowers' savings from home mortgage refinancing remain targeted toward reducing the maturity of the mortgage, rather than the monthly payment, although an increasing share of younger borrowers seem to be using the savings to lower their monthly payment.

**Employment.** Stronger business activity in September and October helped to shore up labor markets in the region, after the pace of the District employment recovery slowed in the second and third quarters. Payroll survey estimates for the District states show a weaker pattern in 1993 than they did for the comparable period last year. A survey by a large temporary help company indicated that hiring plans among Midwest businesses ebbed during the second and third quarters on a seasonally adjusted basis, after surging in the latter half of 1992 and early 1993. While a majority of respondents still planned to increase their employment levels, hiring plans among Midwest businesses no longer exceeded the national average in the most recent survey. A survey of small businesses in Wisconsin showed a dropoff in hiring expectations, and a substantial majority of small firms in a Michigan survey indicated that regulatory uncertainty was prompting them to defer some hiring. District contacts were not entirely downbeat, however. A variety of personnel recruiting firms reported increased placement rates in recent weeks, although one contact expressed concern whether the strengthening would prove to be another in a series of false starts. A firm specializing in the placement of industrial engineers stated that employers are increasingly expecting health care reform to be a prolonged process, and that the related uncertainty was not so serious a hiring constraint as it had been earlier in the year. After declining in the second and third quarters, the employment component of purchasing managers' surveys in the District improved in September and October. An association of metalworking companies reported a growing shortage of skilled labor during a pickup in production in recent months.

**Agriculture.** The soybean harvest in District states is progressing well, but the corn harvest remains considerably slower than normal. Various reports tend to suggest that the flood-related crop losses were somewhat greater than earlier estimates indicated, especially for corn. A large, last-minute enrollment in the 0/92 option of the price support program resulted in more abandonment of corn acreage than had been estimated earlier. Moreover, yields on the acreage that will be harvested are proving to be somewhat less than expected, in part because of frosts that hit northern portions of the District in late September and early October.

## EIGHTH DISTRICT - ST. LOUIS

**Summary**

District economic activity continues to grow slowly even though several larger firms have announced reorganizations, some entailing job losses. Small businesses, in particular, report strong growth for the past two months. Residential construction continues to be a source of strength in most areas of the District. Loan demand is also on the upswing. The pace of the fall harvest remains significantly behind normal because of the lateness of the crop and recent, persistent rainfall.

**Manufacturing and Other Business Activity**

Reports from District firms continue to be mixed, as expansions and new plants create jobs in some industries, while reorganizations add to the number of layoffs in others. Small businesses, in particular, report stronger growth recently and are preparing for increased activity in the near future. Some larger companies, however, continue to lay off employees as they reorganize.

A survey of small businesses reveals that the recent upswing in activity has also led to new plans for capital outlays, inventory increases and employment gains. In fact, only 23 percent of the surveyed firms believe that conditions in the coming two quarters will deteriorate rather than improve. A contact in the construction materials industry reports strong sales, especially brick. The industry is experiencing a four-to-six-week backlog, and plants are running at capacity. The contact expects the growth to continue through the first half of next year, but expects 1994 to be slightly weaker than 1993 overall. Contacts report that sales are up 8 percent over last year in the glass container industry and 10 percent at discount stores. Very strong sales are also reported by mattress manufacturers and paper manufacturers. A rug manufacturer reports that plants are running seven days a week to meet demand. District auto dealers report that showroom

traffic is up and that, in some areas, domestic sales are the strongest they have been in 10 years. The furniture industry in northern Mississippi continues to grow with the opening of another plant, while northeast Arkansas' steel industry expands with the announcement of plans for a new mill. Retail sales in Illinois increased sharply after the bridges across the Mississippi River reopened following recent flooding.

Several larger firms have announced plans to reorganize and reduce employment. A telecommunications firm has already laid off 800 of a total of about 1,500 nonunionized workers to be let go, 200 of whom were in the St. Louis area. An alcoholic beverage and snack producer announced a reduction of 1,200 jobs, with about 500 in St. Louis. This cut will be almost offset, however, when the firm's snack division moves to St. Louis, bringing 475 positions. A maker of undergarments will close its Mississippi operations this month, eliminating almost 300 jobs. A contact in the apparel industry notes that more plants have been closing than are opening recently; much of this is business lost to foreign competitors. A local cable television company in Arkansas closed its plant last month after nearly 30 years, affecting about 140 employees.

### **Construction and Real Estate**

Residential real estate construction, though slowing somewhat, continues to be above year-ago levels in most areas of the District. Unseasonably wet weather, however, has put builders in some areas, particularly St. Louis, weeks and even months behind schedule. Many District builders and real estate agents report falling inventories and rising prices of new and existing homes. In Central Arkansas, residential properties in the \$70,000-to-\$90,000 range are said to be in short supply; employment increases by area firms are spurring housing demand.

### **Banking and Finance**

Loan demand--especially for consumer loans--continues to strengthen in the District. Total loans outstanding at a sample of 102 small, mid-size and large banks increased more from mid-August to mid-October than they had from mid-June to mid-

August. Some bankers are concerned that core deposit growth is not keeping up with loan demand and that alternative investment products such as mutual funds are draining actual and potential deposits from their institutions.

### **Agriculture and Natural Resources**

Wet weather has slowed the pace of the fall harvest in many areas and slowed the seeding of the winter wheat crop. Early reports indicate that weather disturbances earlier in the year have kept yields below expectations in many cases. Moreover, unusually low test weights for corn have been reported in certain areas. Some isolated areas, however, have reported record or near-record corn and soybean yields. Contacts in parts of Illinois and Arkansas report that the soybean size is smaller than usual this year, because of unusual dryness during a crucial phase of the growing season. Still, Illinois farmers should harvest their second-largest crop ever.

Delta cotton farmers report that yields have been significantly reduced because of heat and insects. Although yields on this year's rice crop appear to be running below last year's, analysts still expect an average size crop. There are also scattered reports that the milling quality of this year's crop is lower than usual. Rice prices have risen recently on the expectation that the Japanese, because of an anemic harvest, are contemplating a purchase of Arkansas rice. Some Arkansas and Mississippi farm equipment dealers report that sales have declined recently because of poor crop prospects. Arkansas timber producers report a firming of prices recently. Southern pine lumber producers report orders are running ahead of last year's strong pace.

**NINTH DISTRICT--MINNEAPOLIS**

Moderate growth continues to characterize the economy of the Ninth Federal Reserve District. Employment is growing modestly in all district states, and unemployment rates have declined slightly. Prices are stable, with no indication of inflationary pressures. Construction remains strong throughout virtually all areas of the district. Manufacturing is stable. Mining output is unchanged in spite of one iron mine closing, and there is increased oil exploration. The livestock sector shows good prices and output. But crop output is down sharply and spending by farmers has reportedly slumped. Retail sales of general merchandise vary across the district, although vehicle sales are up slightly. The summer tourist season turned out to be quite good in most areas.

**Employment, prices and wages**

Labor markets continue to show moderate improvement. Non-farm employment in August and September continued above year-earlier levels in all Ninth District states. Unemployment rates also declined year-on-year in all states. Sioux Falls, S.D., a particularly tight labor market, had an unemployment rate of 1.6 percent as businesses report difficulty finding qualified help. New claims for unemployment in September were below month-earlier and year-earlier levels in most district states. One iron mine in Minnesota was closed in October, putting 700 miners out of work, and a telephone company announced that it will lay off over 1,700 workers in four district states.

There is virtually no sign of inflationary pressures. Food, general merchandise and energy prices show little change from a year ago. New wage settlements are said to include small increases. Unions are reportedly seeking employment stability and continuation of existing benefit levels rather than increases in direct wages. A director noted that one mining firm signed an unprecedented six-year contract that included wage increases of 2 percent or less per year.

**Construction and housing**

Residential and light commercial construction is apparently the strongest sector in the economy. New permits for single-family housing in the Minneapolis-St. Paul area continue about 10 percent above year-earlier levels, and industry spokespersons rate the season as very good. Residential construction is also particularly strong in South Dakota cities. Directors and newspapers report good retail and other light commercial construction in Michigan's Upper Peninsula, Montana, North Dakota and South Dakota. In Minneapolis-St. Paul, commercial real estate markets and new construction are reportedly good in suburban

areas but continue weak in downtown areas. In August, publicly awarded construction contracts in Minnesota and the Dakotas dropped below year-earlier figures for the first time in 1993, but strengthened in September. Awards that month were 6 percent above year-earlier levels and year-to-date awards were up 11 percent.

### Manufacturing

Manufacturing shows moderate growth. Weather-adjusted electricity usage by manufacturers continues to grow slightly above trend levels. One director reported that manufacturing firms are investing to replace obsolescent equipment or to improve productivity, but not to expand total capacity. Publicly traded manufacturing firms continue to report moderately improved revenues. A director noted greatest strength in instrumentation and biomedical equipment, but a slump in sales of goods for schools.

### Natural resource industries

Metal mining output appears stable. Copper output in September and October is apparently unchanged from earlier months in spite of declining prices, but one Montana official warned that one mine may halt production soon if some price upturn does not occur. An iron mine in Minnesota was closed indefinitely following a strike, but the owners said they would buy output from other mines in the area. All other iron mines in the Lake Superior region now have signed labor contracts. Gold production in Montana and South Dakota mines continues above year-earlier levels and mine expansions are reportedly under consideration.

Drilling rig counts are up significantly from 1992 in both North Dakota and Montana, and one firm had a very good strike near Dickinson, N.D. Several refineries in Minnesota and Montana are completing upgrading projects, and refineries across the district are reportedly running at full capacity. North Dakota coal production is down slightly over the year to date as a result of slack consumption by utilities over the cool summer.

Traditional lumber output is declining in South Dakota and Montana as a result of dwindling availability of timber. One small sawmill in Rapid City closed and a much larger Montana operation is scheduled to close soon. But plants in Minnesota, Wisconsin and Michigan producing wood-based lumber substitutes are reportedly running at full capacity.

### Agriculture

There is a marked contrast between crop and livestock enterprises in agriculture. As a result of adverse weather experienced throughout the growing season, crops are poor in all Ninth District states with the exception of Montana. The Agricultural Statistics Service estimated on Oct. 1 that corn, soybean and wheat

production for 1993 will be down from 20 percent to 50 percent from normal levels in Minnesota and the Dakotas. Grain quality is generally poor, and wheat producers in Minnesota and North Dakota have experienced great difficulty in harvesting waterlogged fields. Edible bean production in these areas is also down. The sugar crop reportedly shows average yields in spite of harvesting difficulties. Montana is an exception to the generally bleak crop situation; the 1993 wheat crop was 9 percent above the previous record and nearly 40 percent above 1992. The Ninth District's latest quarterly survey of agricultural credit conditions showed a sharp drop in bankers' estimates of farm income and spending.

In contrast, output in the livestock sector, particularly for meat animals, has remained stable. Cattle prices, while still good relative to long-run trend, are declining somewhat, but slaughter numbers are above year-earlier levels. Hog prices are stable, with slaughter numbers down only slightly from 1992.

### Consumer spending

Available reports suggest little change in consumer spending on general merchandise, with poor sales in eastern areas of the district offsetting somewhat stronger sales in the west. One firm with department stores in the eastern half of the region reports that "sales are tough." And a Minnesota-based national retailer describes same-store sales increases as "disappointing." But news media and mall managers in regional centers in the Dakotas and Montana continue to report good business. Vehicle sales are reportedly above year-earlier levels in most states, though down somewhat in North Dakota and areas of Minnesota and South Dakota affected by flooding.

### Tourism

Most of the district enjoyed strong late summer and early fall tourist seasons. Casino visitors and campers boosted spending to three-year highs in northern Michigan. Bridge officials at Mackinac and Sault Ste. Marie report crossings up 8 percent and 3 percent, respectively, during September and October in comparison to year-earlier levels.

Northern Wisconsin resorts and restaurants report unusually heavy business for October, according to a chamber of commerce official. While outdoor activities saw modest improvement in Minnesota, tourist officials cite active shopping by visitors in Minneapolis-St. Paul.

A South Dakota tourist attraction reported a record year so far, with a 10 percent increase in business this fall compared to last year. Five consecutive years of record tourism in Montana probably ended this year, although inquiries were up 4 percent in September over year-earlier levels, according to tourist authorities. While totals didn't match last year's boom, North Dakota reported improvement in late summer.

## TENTH DISTRICT - KANSAS CITY

Overview. Moderate growth continues across most of the Tenth District economy. Retail sales are increasing and housing activity is strengthening. Demand is up for business loans, consumer loans, and home mortgages. Cattle feeders and ranchers have enjoyed several months of solid profits. While manufacturers' input prices are rising somewhat, retail prices are generally holding steady.

Retail Sales. Most district retailers report stronger sales, compared with both a year ago and a month ago. Retailers generally expect further sales increases in the next few months, and about half intend to increase inventories over that period. Retail prices are generally holding steady and are not expected to change much in the months ahead, as they are restrained by vigorous competition.

Auto dealers report increased sales last month. Financing is available for dealers and buyers. Inventories are low, but dealers are adding stocks of 1994 cars due to their optimistic outlook for sales.

Manufacturing. Most purchasing agents report that input prices are somewhat higher than a year ago and up from a month ago. In the near term modest price increases are expected to continue. Materials are readily available, and purchasing agents expect no availability problems for the rest of the year. Most agents say their inventories are too high and are being trimmed. Export sales are expected to remain steady for the rest of the year.

Energy. Drilling for natural gas and oil continues to pick up across most of the district. All district energy-producing states report recent increases in drilling activity except Wyoming, where the number of active rigs edged down in the first part of October. Overall, the average number of

operating rigs in district states climbed from 264 in August to 284 in September and 297 in the first three weeks of October. Despite these recent increases, the average rig count stands only about 3 percent higher than one year ago.

Housing. Housing starts remain higher than a year ago despite a slight weather-induced decrease last month. Over the rest of the year, builders expect starts to rise. Sales of new homes are steady or slightly higher than a year ago, and the inventory of unsold homes is low. Higher lumber prices have contributed to higher prices for new homes. Builders expect further price increases for lumber in the coming months.

Demand for mortgage funds remains strong as borrowers refinance and low rates persist. Mortgage rates are expected to be steady to slightly lower in the near term, and are expected to firm slightly next year.

Banking. Loan demand over the last month was steady to somewhat stronger at district banks. Most respondents experienced greater demand for commercial and industrial loans, consumer loans, and home mortgages. Demand was steady to somewhat stronger for home equity loans, residential construction loans, and commercial real estate loans. Demand for agricultural loans was mixed. Survey respondents reported loan-deposit ratios were unchanged to slightly higher over the last month.

None of the respondents changed their prime rate last month, and only one expected to change it in the near term. While a few banks lowered consumer loan rates, most had not; and few expected to change rates in the near future. All respondents reported no change in their other lending standards.

Deposit flows were mixed over the last month. Roughly equal numbers of respondents reported an increase, decrease, and no change in deposits. Demand deposits, NOW accounts, and money market deposit accounts were steady to higher at most responding banks. Large CDs, IRAs, and Keogh accounts were mostly unchanged over the last month, while small time and savings deposits were steady to somewhat lower.

Agriculture. The district's fall harvest is now in full swing after a late start caused by wet fields. Last summer's wet weather and flooding destroyed corn and soybean crops planted in low-lying areas along the Missouri River and its tributaries in Missouri, Kansas, and Nebraska. But bankers report normal yields in other parts of the district. Cotton and peanut yields in Oklahoma and New Mexico are generally above normal.

The district's next winter wheat crop is off to a good start. Planting is almost finished, and favorable growing conditions have bolstered the crop's early development. The new winter wheat fields are providing excellent forage for district cattle herds. Hay and other sources of forage are also in ample supply in the district.

Despite several months of solid profits, district cattle feeders and ranchers are wary about expanding herds after a recent downturn in fed cattle prices. Similarly, bankers see little expansion underway in district hog production, despite continued strength in hog prices.

Many district bankers report an uptick in nonfarm business activity in their communities, although some communities continue to struggle. Overall, most rural bankers in the district are optimistic about business conditions in their communities.

## ELEVENTH DISTRICT--DALLAS

District economic activity continued to expand at a moderate pace in September and October. Wages were reported to have risen at a few companies, and several industries indicated that they had begun to hire. Some industries reported that they had increased their selling prices, but other industries said that competition continued to hold down prices. Manufacturing and business service contacts reported increased orders and activity. Retail sales continued to increase slowly. Homebuilding remained strong, and contacts reported a recent pickup in commercial projects. Energy industry activity continued to expand at a slow pace. Bankers reported that lending was slow. Agricultural production was mixed. Some parts of the District reported good crop production, while other areas still suffer from too much moisture.

District manufacturers reported a slow increase in demand and employment. Electronics contacts reported that their companies are hiring in response to continued increases in demand. Sales remained strong for construction-related products such as lumber, cement and brick, and prices have begun to rise. Contacts reported strong glass sales to both construction and automobile industries. Demand for paper products remained strong and some companies reported that they are hiring. Primary and fabricated metal producers reported that demand remains above last year's pace and some selling prices were increasing slightly. Demand for refined products has been better than expected and is slightly ahead of last year. Continued overcapacity is expected to keep refining margins weak. The chemical market continued to see modest volume increases and weak prices. Foreign demand was reported to remain

a source of weakness for chemical producers. Oil machinery and service companies reported strong seasonal increases in demand. Sales of food and kindred products were reported to have remained strong, leading some manufacturers to increase wages and hiring. Prices for some food products have risen. Demand has increased for some apparel products.

Business service contacts reported that sales have increased and some companies say they are hiring. Prices, however, remained very competitive. Several service respondents said that their customers are still downsizing and working to increase productivity.

Retailers reported that sales continued to increase slowly in September and October. Sales in Houston and along the Mexico border are reported to be slower than the rest of the District. Retailers say that prices have been unchanged or lower because the industry continues to be very competitive. Retailers were generally optimistic that sales would continue to increase through the end of the year. District auto sales increased in September and were above last September's level.

A recent pickup in commercial construction projects has excited respondents, although activity remained at very low levels. Housing construction continued to be strong in most major cities with the exception of Houston. San Antonio, Austin and Dallas were still the strongest residential markets although contacts reported that home building was "booming" in Amarillo and El Paso. Respondents reported that recent increases in the price of lumber, cement and brick have led to higher prices for new homes. Office real estate markets remained unchanged.

District energy activity continued to expand slowly. After slipping

below \$17 per barrel in mid-September, oil prices improved steadily to \$18.50 per barrel in mid-October. Offshore drilling in the Gulf of Mexico remains near capacity levels. Most offshore and other domestic drilling has been for natural gas. Natural gas prices have declined recently but remain relatively strong compared to last year, above \$2.00 per thousand cubic feet. The U.S. rig count has stalled at about 860 working rigs but contacts are confident that there will be a normal seasonal increase in drilling through December.

Bankers reported that loan demand has been slow. Demand for residential mortgages continued to be a bright spot but commercial loan demand remained below expectations. Demand for consumer installment credit increased but has been very competitive.

Agricultural production has been mixed. Crop production is reported to be good in parts of the District while some areas still suffer from too much moisture. Excess world supplies have lowered most crop prices and the Texas September All Crops Price Index was 8.3 percent below a year ago. Contacts report that damaged crops and low prices have led many District farmers to carry a heavy debt load. The September Livestock and Livestock Products Price Index increased 2.1 percent above last year's level. Texas cattle and calves on feed for the slaughter market increased in September to the largest inventory on record.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic activity is reported generally improving across much of the Twelfth District, but California's economy remains sluggish. Relatively weak conditions also are reported in western Washington, affected by retrenchment in aerospace, and Hawaii, undergoing a slump in the visitor industry. In contrast, conditions are strong in eastern Washington, Utah, Idaho, and Nevada, and favorable conditions are reported in Oregon and Arizona. In California, weakness continues in aerospace and defense-related manufacturing and construction. Some improvement is reported, however, in California's electronics and retail trade sectors, and continued strength is reported in sectors such as motion pictures and agriculture. While contacts in California indicate more positive signs than in previous reports, the overall picture remains weak, particularly in the south.

Business Sentiment

Sentiment among Twelfth District business leaders shows some improvement from our August report. About two-thirds of the respondents expect the real economy to expand during the next four quarters at a rate at or above trend growth. This proportion is up from one-half in August and July, and returns to the proportion seen in early 1993. Most other respondents expect the economy to expand, but at a rate below trend. Several contacts report that capital spending and hiring plans are being delayed due to uncertainty regarding medical costs. Lower interest rates are reported to have done little to change capital spending plans in recent months.

Retail Trade and Services

Retail activity is reported generally improving. One large District retailer reports that October sales have been stronger than August and September, with earnings strong and inventories coming down. The same contact reports "no inflation on the horizon" in its cost structure. Another

major retailer also reports slightly better sales in October--especially in California. The retailer reports that activity in Utah remains quite strong, but that it is still soft in Washington. Demand for autos and consumer durables is reported strong by contacts in several states--in part due to lower interest rates. Auto dealers in Idaho report product shortages.

Conditions in service-related industries are mixed. Contacts report high-end restaurant closings in southern California. A contact in telecommunications reports especially weak conditions in southern California. The motion picture industry, however, remains strong. Outside of California, most service-producing sectors are doing well. However, cutbacks in government are reported in several states, and visitor industry conditions remain weak in Hawaii.

#### Manufacturing

Manufacturing activity is mixed in the District, with weakness centered in aerospace and defense-related industries. Cutbacks in these industries are reported continuing in Arizona, California, Utah, and Washington. Some announced aerospace layoffs in Washington, however, have been deferred until next year.

Other manufacturing industries show signs of improvement. In southern California, demand for transportation equipment is expanding due to light rail projects and new bus orders. High-tech industries are reported improving in Oregon and Washington. In Idaho and Utah, production of computers, semiconductor chips, and software is reported strong. A contact in northern California reports strong demand for electronics, and double-digit growth in components of communications equipment. Medical electronics, however, is reported weak due to the uncertainty of health care reform. Furthermore, strong final demand in electronics is not being reflected in increased hiring.

#### Agriculture and Resource-Related Industries

Most contacts report a generally favorable outlook for agriculture. Contacts report that the livestock industry is doing well, despite some recent lower prices for slaughter and feeder cattle.

Grain prices are reported somewhat higher. In California, acreage is up because the end of the drought has increased water supplies. In the Pacific Northwest forestry industry, volume is reported down due to public harvesting restrictions, but profits are reported up for private owners of timber. A contact in Idaho agriculture reports strong conditions for vegetables, fruits, and cattle--but some weakening in aquaculture, fishing, and seafood.

#### Construction and Real Estate

District construction and real estate markets are mixed. Housing starts, housing sales, and commercial real estate activity are reported soft in southern California. Prices in high-end residential areas are reported down 30 to 40 percent from peak levels, and medium-range housing is reported down 15 to 20 percent. Contacts in northern and central California also report depressed conditions in most real estate sectors. Low interest rates, however, are reported to have stimulated some low-end housing construction in California. Publicly-funded heavy construction also has fared relatively well during the state's downturn. A contact from Tucson reports strong sales of existing homes, strong new construction, and low vacancy rates for apartments. Contacts expect construction conditions in Oregon and Alaska to strengthen over the next year. In Oregon, construction conditions are tight with shortages reported for labor and supplies. Conditions in Utah and Idaho remain strong.

#### Financial Institutions

Varied conditions are reported across District financial markets. In California, loan volume is reported flat and additional layoffs were announced by financial institutions due to recent consolidation. Stronger conditions are reported elsewhere. For example, in Oregon, banking conditions remain strong, with deposits and loans reported up and loan delinquencies reported down. A contact from Utah reports that lower interest rates have led to considerable corporate refinancing, but have not stimulated new loan demand and new investment spending. Contacts in several states report that mortgage refinancing activity is increasing again.