

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

November 1993

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SUMMARY*

Most Federal Reserve Districts suggest that economic activity continued to expand at a moderate pace through the end of November and reports were generally more optimistic than those of this summer. Consumer spending improved in a majority of Districts, with sales of autos and other durable goods said to again show relative strength. Retailers in several Districts reported that the holiday shopping season got off to a good start over the long Thanksgiving weekend with sales at or exceeding expectations. Manufacturing activity also was seen as improving in most Districts, but few businesses reported new hiring. Residential real estate markets were once again noted as a source of strength in most District economies, while commercial real estate markets have begun to show a few signs of improvement. Wage increases and prices for final goods generally were said to be stable, although several Districts reported that prices for lumber and other building materials have risen since October. Commentary on conditions in three Districts--Boston, New York, and San Francisco--was more mixed, with particular weakness indicated in reports from California.

CONSUMER SPENDING

While retailers in a few Districts saw unseasonably slow retail sales in the early fall, most were reporting gains by late October. Stores in the Atlanta, Cleveland, and New York Districts noted that consumer spending momentum began to pick up in late October, and that it has continued into the holiday shopping season. Holiday sales through the Thanksgiving weekend

*Prepared at the Federal Reserve Bank of Atlanta and based on information collected before November 29, 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.

were better than they had anticipated in the Atlanta, Chicago, Kansas City, Minneapolis, and St. Louis Districts, despite severe weather in some areas. Reports from Richmond and San Francisco indicate that retailers in those Districts also expect relatively strong fourth quarter sales. The Boston, Cleveland and Philadelphia Districts said that retailers were relying upon special promotions to bring shoppers into the stores.

Dealers in most Districts noted moderate year-over-year increases in auto and truck sales in October and November. Those in the Dallas and St. Louis Districts reported that trucks and minivans were selling the fastest, while leasing activity picked up in Cleveland. At the same time, low inventories of new model year vehicles were said to be constraining sales in parts of the Chicago, San Francisco, and St. Louis Districts, although in Chicago most shortages had been alleviated by November.

MANUFACTURING

Manufacturers in most Districts reported some strengthening in current manufacturing activity, as well as improvements in expectations of future business conditions. Firms in the Atlanta, Dallas, and St. Louis Districts noted that production of lumber and other building materials continues to benefit from increased construction activity, while factory reports from the Cleveland and Minneapolis Districts noted increased demand for construction-related heavy equipment. Strong demand for consumer durables is said to have provided a boost to manufacturers in the Boston, Chicago, and Minneapolis Districts, while improved demand for autos and trucks increased production at plants in the Atlanta, Boston, Chicago, Cleveland, and St. Louis Districts. Capital goods producers in the Cleveland District indicated that automobile-related orders are a source of strength for the region into 1994. Looking forward,

manufacturers' expectations of future business activity in a majority of Districts have improved recently, while many firms in the New York and Philadelphia Districts have revised their capital spending plans upward for the next six months.

Although business conditions are seen as improved in many industries, employment gains remain muted, with continued reports of defense and aerospace cutbacks. Manufacturers in the Atlanta District said that employment has been flat, while those in the Cleveland District noted that small firms also were not adding new employees. Reports from manufacturers in California indicate continued sluggishness. Businesses in the Atlanta, San Francisco, and St. Louis Districts cited new layoffs prompted by cutbacks in defense and NASA programs, while manufacturers of aircraft parts and defense-related equipment in the Boston District have continued to experience sales declines. Employers in the apparel industry in the Atlanta and Boston Districts also reported decreases in employment. Weak demand from foreign customers was said to be a source of concern to producers in the Boston and Cleveland Districts.

REAL ESTATE AND CONSTRUCTION

Contacts in most Districts reported continued strength in housing markets, although those in the New York and San Francisco Districts were not as positive. Atlanta, Kansas City, and St. Louis District contacts said that year-to-date home sales remain well ahead of last year. Builders in the Minneapolis District reported that residential construction remains one of the District's strongest sectors. Builders and realtors in the Atlanta, Dallas, and Kansas City Districts said that inventories of homes for sale were tight, while those in the Richmond District noted that strong demand and rising lumber prices have pushed new home contract prices higher. Shortages of available subcontractors and developed lots were said to be starting to constrain

home construction in some areas of the Atlanta District. Builders in some part of the Dallas District are concerned about a shortage of qualified construction laborers and sales people, while those in St. Louis said they are struggling to keep up with the backlog of orders caused by rainy summer weather. In contrast, the reports from Philadelphia note that home inventories remain elevated, while those from New York saw few signs of increased interest from home-buyers.

Reports from commercial real estate markets were more mixed. Contacts in the Boston, New York, Philadelphia, and San Francisco Districts said that office and commercial vacancy rates remain at relatively high levels, although those in New York noted some improvement in downtown Manhattan. For Richmond, some improvement was seen in commercial leasing activity, as well as in office vacancy rates, but not enough to stimulate new building. In the Atlanta, Dallas, and Minneapolis Districts, however, construction of new retail space is said to reflect an improvement in commercial real estate markets.

BANKING AND FINANCE

Banks in most Districts said that overall loan demand improved modestly, with all reporting stronger demand in at least one sector. Those in the Atlanta, Chicago, Richmond, and St. Louis Districts noted that commercial loan demand had risen modestly, while banks in Cleveland, Dallas, and Philadelphia said it was still flat. Commercial lending was reported to be weak in the New York District and California. Atlanta, Kansas City, New York, and parts of the San Francisco District saw generally stronger consumer loan demand, while Cleveland, Philadelphia, and St. Louis noted specific improvement in auto lending.

WAGES AND PRICES

With the exception of some construction-related occupations, businesses generally commented that wage increases were modest and stable, while they said that prices of raw and intermediate materials as well as final goods were rising slightly in some areas. Higher agricultural prices stemming from weather-related crop damage were noted in several Districts. Contacts in the Atlanta, Richmond, and Kansas City Districts said that higher lumber prices were driving up new home prices. Firms in the Chicago District noted that signs of increased raw materials prices were becoming more common, while those in Boston and Richmond said that some manufacturers have been able to raise their prices. However, reports from contacts in the New York, Kansas City, Minneapolis, and Atlanta Districts said that prices for finished goods have remained stable.

AGRICULTURE AND RESOURCE-RELATED INDUSTRIES

Poor summer and fall weather were seen as having had a negative impact upon crop yields in several Districts. The Kansas City and Minneapolis Districts reported that corn and soy bean yields and quality have been disappointing. Cotton yields were described as substandard by contacts in the Dallas District and in much of the St. Louis District. Dry weather combined with a poor hay crop has some farmers in Richmond worried about the adequacy of their winter feed stocks. Ranchers in the Kansas City District also report concerns over possibly rising feed prices. Conditions in the seafood industry in the San Francisco District were said to be poor. On a brighter note, record levels were seen for soy yields in Illinois and Indiana, corn production in Texas, and the wheat harvest in the northern plains.

Recent weather conditions are said to have been favorable for agriculture in much of the country. In the Richmond District, the warm, dry weather has allowed fall planting activity to progress ahead of schedule. The recently planted winter wheat crop in the Kansas City District was reported to be in good condition.

Reports on mining activity were mixed. Kansas City reported that drilling activity was seen as steady to improved in all Tenth District states except New Mexico. Dallas, however, reported that rig counts had been falling in response to weak oil prices and a recent dip in natural gas prices. Miners in the Minneapolis District reported that strong gold prices were encouraging activity in South Dakota and Montana, but that low aluminum prices and higher electricity costs might begin to curb aluminum mining in Montana.

FIRST DISTRICT - BOSTON

Gradual economic expansion continues in the First District. Many regional retailers report their sales gains have been constrained by competition, although some specialty and outlet stores are doing well. Some New England manufacturers report strong growth; manufacturers serving a few industries report a falloff in sales. Commercial real estate markets continue to improve in Boston and northern New England, but no turnaround is visible in Hartford. Mutual funds' assets under management continue to grow.

Retail

Most First District retailers contacted report that sales gains were modest, at best, in October and the first half of November. Department store sales remained sluggish throughout the fall, as the hoped-for kick from back-to-school sales did not materialize. Merchants in Maine saw a severe erosion in sales, which they attribute to fewer Canadian shoppers. A few specialty and outlet chains, by contrast, report sizable gains compared to year-ago levels. Most retailers indicate employment is stable and wages have increased 2 to 3 percent.

New England retail contacts foresee a tough, competitive holiday season. All are going "all out" to attract shoppers, offering coupon promotions, longer store hours, and large discounts beginning in mid-November. Nonetheless, a majority expect only 2 to 3 percent sales growth in December versus a year earlier, far less than in 1992. Merchants also are cautious in their outlook for 1994, and they fear that fierce competition will force some department stores out of business. In response, they are keeping capital spending at a minimum.

Manufacturing

A majority of First District manufacturing contacts report that demand has risen from a year ago, but results vary considerably across products. Sales of furniture, automotive parts, and other consumer durables are increasing strongly. Suppliers to the personal computer industry are benefiting from double-digit sales trends, although one contact has experienced a slowdown attributable to competition among computer firms. Manufacturers of machinery, equipment, and other supplies used in commercial and industrial applications indicate minimal to high single-digit increases in sales. Sales of aircraft parts, defense equipment, medical instruments, and apparel textiles are reported to be down significantly.

Several contacts indicate that the Midwest and Southeast states are showing the best sales performance, but that New England markets are recovering. European demand is described as generally weak.

Several consumer goods manufacturers have raised prices 1 to 4 percent, while a few capital goods manufacturers have been forced to lower prices. Otherwise, selling prices are described as flat. Cost pressures remain minimal, except for lumber prices and some modest increases attributable to appreciation of the yen.

About one-quarter of this month's contacts report a significant reduction in employment over the past year, while three-quarters indicate little change. Manufacturers anticipating increases in sales volume are planning zero or only modest additions to their work force, as they intend to increase efficiency.

Most contacts expect the economic environment in 1994 to remain unchanged or to improve moderately. Some indicate that their forecast

is predicated on maintaining consumer confidence or reasonably low interest rates. Several note that their company's prospects depend in part on introducing innovative products.

Commercial Real Estate

First District commercial real estate markets have changed little over the last three months. Boston and Portland, ME have the most active office markets, with sales of existing buildings picking up and vacancy rates that are flat or falling slightly. Several contacts attributed part of the turnaround to the willingness of some banks to make aggressive new loans and, in some cases, accept more risk. REIT-related buying activity is also partly responsible. Hartford lags behind the northern cities, and reportedly still faces possible further cutbacks in the insurance industry. Commercial construction activity around New England is still largely based on government contracts. Rehabilitation of older offices in Boston is not yet economical, but this activity is expected to pick up in the next couple of years.

Nonbank Financial Services

Investment management companies in the First District report a very strong volume of sales in October. The majority of respondents report that assets under management were more than 50 percent higher than a year earlier. Sales continue to be strongest in tax-free bond funds and equity funds. Employment has increased 5 to 30 percent.

Venture capital firms report that among firms in their investment portfolios, telecommunications systems and capital equipment firms are experiencing stronger sales in the fourth quarter than earlier in the year, while software firms' sales are flat.

SECOND DISTRICT--NEW YORK

Economic developments seemed slightly more positive in recent weeks. A majority of District retail respondents reported that October sales were on or above plan. Homebuilders noted little change in the residential construction market in recent weeks though a few saw signs of some increased buyer interest. Office vacancy rates moved lower in downtown Manhattan, and some analysts believe that, if the trend continues, this could be the first year since the mid-80s that a net absorption of commercial space occurred downtown. The latest nonfarm employment figures showed some improvement in the region, but the state unemployment rates continued to be quite volatile. Looking to the future, most of our manufacturing contacts expect sales to increase over the next six months, and virtually all reported intense price competition. Most senior loan officers at small and midsized banks indicated no change in their willingness to lend over the last quarter though a few mentioned an increased willingness.

Consumer Spending

A majority of District retail respondents reported that October sales were on or above plan. Some retailers, however, said that October sales were somewhat disappointing, due in part to unseasonably warm weather. In the first half of November, a pickup in activity was noted at most stores and retailers were cautiously optimistic about the holiday season ahead.

Over-the-year sales results ranged widely in October, from -6.8 percent to +13 percent. Retailers reported varying experience even with comparable product lines. For example, some retailers noted strong demand for most kinds of apparel, but weakness in items for the home, while others reported opposite trends and attributed weak fall apparel sales to unusually warm weather. As compared with the relatively strong gains last year, they anticipate somewhat smaller year-to-year increases this Christmas. With one exception, all

respondents stated that inventories were in good shape going into the holiday season, with some describing them as "lean".

Residential Construction and Real Estate

Homebuilders noted little change in the residential construction market in recent weeks though a few saw signs of some increased buyer interest. Respondents were still fairly evenly divided between those anticipating higher and lower housing starts this year compared with last. Low mortgage rates, steady home prices and a reduced inventory of resales were cited as factors behind increased activity where it exists, but uncertainty about jobs and impending layoffs continue to contribute to buyer reluctance in many areas. One respondent noted that many builders were supplementing their income with remodeling work while another said that subcontractors were becoming hard to find in his area.

Office vacancy rates moved lower in downtown Manhattan, and some analysts noted that if the trend continues, this could be the first year since the mid-80s that net absorption of commercial space occurred in the downtown area. Vacancy rates rose somewhat in mid-Manhattan, however, as several firms added small amounts of excess office space to the supply.

Other Business Activity

The latest nonfarm employment figures showed some improvement in the region. New York's September-to-October gain was the largest since 1987, while New Jersey posted its largest manufacturing job increase in over ten years during September. However, unemployment rates continued to be volatile, with New York's October rate rising to 7.9 percent from 7.1 percent in September and New Jersey's falling to 6.5 percent from 7.7 percent in September. With regard to the outlook, recent developments concerning employment have been mixed. On the positive side, ground was recently broken in Newark for the \$150 million New Jersey Performing Arts Center, scheduled to open in 1996, which is

expected to create some 625 construction jobs and 470 permanent positions. On central Long Island, the Fairchild Corporation plans to demolish its abandoned 80-acre aircraft plant and erect a shopping mall with three major retailers and scores of specialty shops. Upstate, Crouse-Hinds announced that it will stay in the Syracuse area, retaining some 1200 jobs, and GM will add nearly 600 jobs at its engine plant in Tonawanda. KeyCorp's merger with Society Corp. could also result in 300 jobs being moved to Albany from outside the District. On the other hand, Delta plans to close its New York reservations office, affecting 400 positions, and Werner-Lambert intends to cut more than 1400 additional jobs in the U.S. In addition, Dun and Bradstreet announced that it will cut several thousand jobs worldwide over the next two years.

Most of our manufacturing contacts expect sales to increase over the next six months, with several projecting gains of 5 percent or more. Most firms report intense price competition, and anticipate flat-to-lower prices. Those planning price increases generally acknowledge that they are not sure they can make the prices stick. The majority of the firms expect capital spending in the next six months to equal or exceed spending in the first half of 1993, and most expect wage gains to be moderate and less than in 1993.

Financial Developments

Most senior loan officers surveyed at small and midsized banks in the Second District indicated that they were as willing to lend as they were two months ago, and a few mentioned an increased willingness to lend. The pattern of overall loan demand was mixed. The demand for commercial and industrial loans remained weak, with only a few officers noting improvement. In contrast, residential mortgage demand continued to be strong, largely due to the fast pace of refinancing activity. The demand for consumer loans exhibited considerable strength, which several officers attributed to lower rates and increased marketing efforts. In addition, almost all respondents reported either stable or lower delinquency rates during the preceding two months.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District remained on a modest upward trend in November, according to reports from the region's business community. Manufacturers noted gains in shipments and orders, although they indicated employment was only steady. Retailers generally said they were posting slight gains from a year ago, and auto dealers said that sales, while off slightly in recent weeks, were still running at a healthy pace. Bankers indicated that overall lending was up slightly, due mainly to growing consumer loan volume. Residential real estate activity had picked up, according to realtors, but demand for commercial real estate was stagnant.

Most business contacts in the Third District forecast a continuation of current trends. Manufacturers expect orders and sales to continue growing, and they are planning increases in capital spending. Retailers forecast year-over-year sales increases of 3 to 5 percent, in dollar terms, for the Christmas season. Bankers expect a seasonal increase in consumer borrowing, but, in general, they expect commercial and industrial lending to edge up very slightly, at best. Realtors and home builders believe the stepped-up pace of home sales will persist for at least another six months.

MANUFACTURING

Reports from Third District manufacturers in November indicated that business continued to move up. While just over half said their shipments and new orders were running at a steady pace, nearly one-quarter said they were seeing increases in orders and about one-third said they were stepping up shipments. Among major industrial sectors in the region, food processors, chemical

producers, and nonelectrical machinery manufacturers reported gains; manufacturers of paper products and primary metals noted declines in business. For the manufacturing sector as a whole, employment was steady.

Looking ahead, just over half of the area manufacturers contacted for this report expect continued improvement over the next six months. They forecast parallel increases in orders and shipments, and nearly half plan to boost capital spending. On balance, comments from manufacturers indicate that overall employment may edge up somewhat during the winter.

RETAIL

Most of the Third District retailers contacted in late November said sales for the month were running slightly above the year-ago pace and about in line with plans. Executives at area stores gave sales forecasts for the Christmas season ranging from 3 to 5 percent above last year's levels, in dollar terms. Several merchants said they were implementing expanded promotional efforts, such as increased advertising and extended store hours. Most retailers described inventories as under control and said they had been careful in ordering merchandise for the Christmas sales period.

Auto dealers generally said sales in November had slipped a bit from October but were running at a good pace. They said new models were being well received, and they expect to close the year on a healthy sales trend.

FINANCE

Comments from Third District bankers indicate that overall loan demand was moving up only slightly in November. A majority of those contacted for this report said consumer lending was up a bit because of growth in credit card borrowing, auto loans, and home equity credit, but a significant number said consumer lending was just steady. Commercial and industrial lending was

described as flat by most of the bank loan officers interviewed, while a few said they have seen recent increases in borrowing, especially by middle-market companies. Nearly all said the upward momentum of applications for residential mortgages was easing as the volume of refinancings declined, while the volume of purchase mortgages was holding steady or increasing.

Bankers expect consumer borrowing to increase seasonally, but they do not anticipate much growth in commercial and industrial lending. They also expect refinancing activity to taper off.

REAL ESTATE AND CONSTRUCTION

Real estate brokers and home builders in the region said activity picked up in late October and appeared to be continuing. Realtors generally ascribed the stepped-up pace of sales to buyers' perceptions that mortgage rates have bottomed and to sellers' willingness to accept less appreciation in the price of their homes. Realtors noted increased sales in both the lower and middle price ranges. Despite the recent pickup, realtors said the inventory of homes for sale remains high. Nevertheless, they expect the higher pace of home sales to persist at least another six months.

Commercial real estate activity remains flat, according to brokers and property managers. Office vacancy rates in the region have changed little from a year ago, according to some brokers' surveys, and demand for retail space was still described as soft. Some pickup in demand for industrial space was noted, however.

Some positive developments have been noted in regional construction activity. In addition to increased residential building, some utility and other nonresidential projects have gotten under way. Overall, however, the gain in construction activity is slight.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

Reports from business contacts throughout the Fourth District generally paint a picture of expanding economic activity, albeit at modest rates. Furthermore, most accounts suggest that this moderate growth path is expected to persist into 1994.

Activity associated with automobile production and sales appears to be the salient feature of the current economic environment. Lenders indicate that auto loan demand has been particularly robust, and capital goods producers cite automobile-related orders as a specific source of strength.

Despite the continued expansion of economic activity in the Fourth District generally, only marginal employment growth is reported. Small business representatives, in particular, note that smaller enterprises simply are not adding new employees.

The passage of NAFTA is widely viewed as a positive among businesspeople in the Fourth District. Nonetheless, little impact from the accord is predicted in the short run, and optimism arising from its passage is tempered by persistently slow economic growth among many of our major trading partners and by lingering concerns about pending health care reform and other regulatory issues at home.

The most significant financial development is the apparent topping-out of mortgage refinancing. Lenders uniformly report that home mortgage activity has dwindled in the last three weeks. However, contacts in the construction industry anticipate a pickup in new home demand coinciding with a growing perception among consumers that interest rates will soon head higher.

Capital Goods

Capital good producers are strongly optimistic about auto sales and production, citing the industry as a major source of strength into 1994. In addition, both general machinery and construction demand contribute to a generally optimistic outlook. Weak foreign demand remains a source of concern, despite the common belief that passage of NAFTA will eventually help business.

Auto Dealers

Continuing the trend reported in the last Beigebook, growth trends in Fourth District motor vehicle sales leveled in late October and November. Dealers are quick to point out, however, that current sales remain well above rates of the same period a year ago. Contrary to reports in the past several months, motor vehicle sales in major Fourth District markets appear to have edged slightly below national rates. While traditional sales are reported flat, vehicle leasing continues to grow rapidly, and most dealers (as well as the Big Three manufacturers) report that they are actively promoting this alternative to traditional buying.

Retailers

Overall sales gains for Fourth District retailers were less than anticipated during much of the early fall (through mid-October), and year-over-year increases for traditional back-to-school merchandise were marginal. However, it appears that consumer demand began to pick up in late October and has risen substantially during November (reported year-over-year November gains were in the 5 to 10 percent range).

Retailers believe that increasing demand for discretionary spending items may signal that consumers will indulge in more-liberal holiday spending. However, some retailers also attribute a significant portion of their recent success to aggressive advertising

and price discounts. Furthermore, most maintain that their markets are increasingly competitive and that they expect profit margins to tighten even further.

Lending Activity

Although mortgage activity has been quite strong in the last three months, most of it has been associated with refinancing. One bank representative reports that about 60 percent of recent mortgage business has been related to refinancing. However, there has been a marked "cooling off" of mortgage activity in the last three weeks, a phenomenon reported by lenders across the board.

Strong demand is reported for consumer loans, especially auto loans, but mixed signals are being given on loan demand from other sources. Some modest increase in lending to small businesses is reported, but this activity appears to be sporadic. Furthermore, while some lenders report a belief that commercial and industrial lending in the Fourth District is showing strength relative to the United States as a whole, others report that commercial and industrial lending activity is flat.

FIFTH DISTRICT-RICHMOND

Overview

Most sectors continued to improve in recent weeks. Retail sales were up and manufacturing activity strengthened further. Tourism, loan demand, and real estate activity improved. At District ports, imports were lower. In agriculture, harvesting was ahead of schedule, but dry conditions threatened pastures.

Consumer Spending

Our regular mail survey indicated that retail activity improved in October. Survey respondents reported that shopper traffic and sales increased. Inventories and sales of big-ticket items, however, were unchanged. Wages, wholesale prices, and retail prices rose, while employment declined.

Retailers were optimistic about their prospects for the next six months. They expected most indicators to increase but inventories and big-ticket sales to be unchanged.

Manufacturing

Our regular mail survey of manufacturers indicated that District factory activity strengthened again in October. Manufacturers reported increases in shipments, new orders, and order backlogs. They indicated that the number of employees was unchanged but that the average workweek increased. Most respondents reported that finished goods prices increased no faster than the general rate of inflation, but that the prices they paid for inputs rose somewhat faster.

Most manufacturers expected shipments and exports to continue to increase over the next six months. Generally, respondents looked for manufacturing prices to increase no faster than inflation.

Tourism

Hotels, motels, and resorts throughout the District indicated that tourist activity for October and the first three weeks of November increased somewhat when compared to September and a year ago. Respondents attributed the increase to unseasonably good weather and stronger-than-normal convention bookings. Looking ahead, respondents noted that bookings for the winter season were running ahead of last year's pace. Most expected tourist activity to continue to improve during the next six months.

Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that the volume of exports was unchanged while imports were generally lower in September than in August. However, compared to a year ago, imports were unchanged while exports were lower. Over the next six months, District ports expected export and import activity to be evenly matched.

Finance

District financial institutions contacted by telephone indicated that credit conditions strengthened slightly during the last six weeks. Respondents stated that commercial loan demand was moderately higher and that consumer loan demand was unchanged. Commercial loan rates were up slightly while consumer rates were steady.

Residential mortgage demand was unchanged during the last six weeks. Both refinancing activity and mortgage originations were steady. Residential mortgage lending rates moved moderately higher.

Residential Real Estate

Realtors and homebuilders contacted by telephone reported that residential real estate activity remained strong throughout most of the District during the past four weeks. Most respondents indicated moderate to strong growth in home sales and housing starts. Home prices apparently rose somewhat during the period. Strong demand and higher lumber costs apparently were behind the increase. In addition, several homebuilders in the Carolinas reported that wages were rising for framing carpenters.

Commercial Real Estate

Commercial real estate leasing activity was slightly stronger during late October/early November: it continued to improve in the Carolinas and Virginia, remained steady in the District of Columbia and Maryland, and was mixed in West Virginia. Analysts reported a decline in office building vacancy rates in all states except Maryland and a continued decrease in the supply of large blocks of office space. Little new construction was reported. Respondents noted that rental rates had apparently bottomed out in some areas and had increased marginally in others.

State Tax Revenues

State tax revenues in most jurisdictions grew 2 to 3-1/2 percent in recent weeks, after adjusting for inflation. Maryland revenue growth was higher than in previous months. In

West Virginia and South Carolina, revenue growth was slightly below that of last month.

District of Columbia revenues continued to decline in real terms.

Agriculture

Warm, dry weather allowed fall harvesting and planting activity to progress ahead of schedule. The harvesting of most crops was complete or near completion. Fall planting of small grains also was ahead of normal. The dry weather hurt pastures and, combined with a poor hay crop, increased farmers' uncertainty about the adequacy of winter livestock feed stocks.

SIXTH DISTRICT - ATLANTA

Overview: Sixth District contacts reported that the Southeast economy resumed a moderate pace of expansion after experiencing sluggish growth in the early fall. Retailers said that shoppers began to return to the stores in large numbers in late October, after a lull in sales activity. Auto dealers continued to report year-over-year gains in new car sales. The number of manufacturers reporting current production increases rose as did those expecting improvements in future activity. According to builders and realtors, the single-family housing market remains one of the strongest sectors in the regional economy, while commercial real estate activity finally has begun to show signs of slow improvement. Bank contacts reported that consumer loan demand continued to grow modestly. They noted that, for the first time in several years, commercial lending is increasing. Wage increases and prices of finished goods generally were said to be stable, but several contacts noted that they continued to see increases in the prices of lumber and other building materials.

Consumer Spending: After recording disappointing early fall sales, Sixth District retailers reported that cooler weather and an early start to the holiday shopping season resulted in a surge of sales beginning in late October. Although sales of durable goods such as furniture, appliances, and home electronics remained strong throughout the summer and early fall, sales of nondurables, particularly women's apparel, were weak during this same period. In late October, however, sales of nondurables picked up considerably, and this improvement was sustained through the end of November. Prior to the Thanksgiving holiday, most retailers reported that they were only cautiously optimistic about the prospects for this year's holiday sales. However, several reported that Thanksgiving weekend sales exceeded plans and increased their confidence that December sales will surpass last year's levels by a good margin. Although

auto sales have slowed somewhat from their mid-summer peak, most dealers continued to see year-over-year sales gains through November.

Manufacturing: According to factory contacts, current manufacturing activity improved moderately in October and early November, as did the outlook for future activity. Producers of lumber and other building materials, carpet, and home furnishings have continued to benefit from demand generated by relatively strong regional and national housing markets, and, more recently, from an improvement in commercial construction. The transportation equipment sector is receiving a boost from increased production of commercial trucks, while shipbuilding has improved recently as a result of new orders for floating casinos. On a less positive note, regional apparel producers continued to pare jobs; new Defense Department cutbacks also have resulted in additional layoffs. Although most industry contacts reported that they had not hired new workers in recent weeks, the share of firms contacted that plan to begin hiring new employees within the next six months has been increasing.

Construction: Southeastern realtors continued to report strong single-family home sales; most agents said that they recorded year-over-year sales gains in both October and November. Trade-ups and luxury homes are reportedly selling more rapidly in recent weeks, although demand remains strongest for both starter and mid-priced homes purchased by first-time buyers. Low inventories of both new and resale homes have decreased the length of time that homes remain on the market, which in turn has stimulated new building activity in many market areas. Most builders and real estate agents expect next year's home sales to remain at least at this year's levels. However, builders in some areas noted that a shortage of developed lots and qualified sub-contractors was beginning to slow home construction.

While still slow when compared to the 1980s, multifamily and commercial real estate markets have continued to show signs of steady improvement. Vacancy rates for both office and

industrial space have continued to edge downward while effective rental rates have climbed. In the last few months a relatively large number of new retail, commercial, and public building projects were announced across the District, along with several new multifamily residential developments. Nevertheless, most contacts do not expect to see an increase in speculative building for at least another year.

Financial Services: Bankers around the region reported that loan demand was up moderately in November. Residential mortgage lending for new homes has continued at a strong pace, despite the recent uptick in long-term interest rates, while other forms of consumer lending also were reported to have increased during the last month. Improvement in commercial loan demand, which had been flat during much of this year, also was noted by several bankers. In particular, they noted an increase in loans for business expansion, as well as increased demand for loans to finance construction of new retail outlets.

Wages and Prices: Wages and prices of finished goods generally were reported to be stable through November. However, several contacts continued to note that prices of lumber and other building materials have risen since August.

SEVENTH DISTRICT--CHICAGO

Summary. Seventh District economic expansion gathered increased momentum in recent months. Retail sales growth seemed to strengthen in October and November, and sales results for the Thanksgiving weekend generally met or exceeded retailers' expectations. Manufacturing activity strengthened further, as auto output climbed back toward previously scheduled levels and as production gains spread to a wider range of industries. The pickup in business activity has bolstered labor markets in the region, after the employment recovery faltered earlier in 1993. A survey indicated that loan standards and terms at the largest District banks remained on a modest easing trend, although only a bare majority reported increased demand for commercial and industrial loans. Our latest survey of agricultural bankers indicated that land values generally remained stable this summer, although banks in flooded areas expressed some concern about farm earnings and loan repayment rates. Reports of price increases became somewhat more prominent in recent months, but many of them seemed concentrated in basic materials responding to market-specific developments.

Retail Sales. Survey data and reports from individual firms indicate that retail sales growth strengthened in the District in October and November. A nationwide survey indicated that Midwest retailers expect modestly stronger holiday season sales gains than the national average. A survey of retailers in Michigan indicated that expectations for holiday season sales were running in line with those held at the same time last year, which were appreciably higher than expectations in 1988 through 1991. A survey of retailers in the Chicago metropolitan area showed an improving trend in same-store sales growth in recent months. A large retail chain reported that sales continued to strengthen "along a steady uptrend" through October, and sales gains then gathered greater momentum in the first two weeks of November, with further relative strength in sales of furniture and appliances. A large distributor of appliances reported that retail demand softened modestly in early November, but only from record levels, and demand strengthened anew in the latter half of November. One of the largest auto dealers in the District stated that inventory shortages constrained sales gains during the third quarter, but margins improved as underlying consumer demand remained relatively strong. The shortages eased in October and November, however, and sales picked up further from already-active levels.

Surveys and reports from retailers indicated that retail sales and traffic generally met or exceeded expectations over the Thanksgiving holiday weekend, despite difficult weather around much of the District. For example, a large department store chain stated that "we were very pleased" with sales over

the weekend, with sales exceeding projections. A check authorization firm reported a 5 percent year-over-year increase in day-after-Thanksgiving sales in the Chicago area.

Manufacturing. Seventh District industrial output strengthened in recent months, particularly as auto production climbed back toward scheduled levels. Purchasing managers' surveys in Chicago, Milwaukee, Detroit, and Western Michigan generally indicated an improving pace of activity. Auto industry suppliers provided the initial boost to the improvement seen in these surveys late in the third quarter, but the most recent reports showed production gains spreading to a wider variety of manufacturers. A steel industry analyst reported that integrated mills are still completely booked for the fourth quarter, and bookings are extended further into 1994 than is normal for this time of the year. A manufacturer of corrugated paper containers reported that its overall orders growth strengthened in recent months, particularly from firms in appliance, auto, and printing-related industries. A large manufacturer of consumer durable goods reported that dealer orders posted significant year-over-year gains in November. A manufacturer of gypsum wallboard stated that two large plants were brought back on-line in the industry in October to meet strong demand. A large diversified manufacturer reported continuing weakness in several important overseas markets.

Employment. The recent pickup in overall business activity has bolstered employment gains in the District, following a loss of momentum earlier in 1993. A survey by a large personnel services company found significant improvement in hiring plans among Midwest businesses during the fourth quarter, with renewed relative strength indicated for the region, driven in part by responses from manufacturers of durable goods. The employment components of District purchasing managers' surveys generally drifted higher in recent months. Temporary help firms specializing in clerical personnel reported a higher pace of permanent hiring by client firms in recent months. A contingency-based executive search firm stated that permanent placements were improving in the fourth quarter. A firm engaged in residential reconstruction in high-end markets, where a recovery had lagged economic recovery as a whole, stated that "We're swamped. We're also hiring, something we haven't done for a year and a half."

Banking. A recent survey of loan officers in the District indicated that standards for approving applications for commercial and industrial loans generally continued to ease among large District banks, while a modest majority of surveyed banks reported improvement in commercial and industrial loan demand. Most respondents indicated that standards for commercial real estate loans remained restrictive,

although some banks did report selectively easing their standards for approving applications for construction and land development loans. One middle-market lender stated that much of the increase in commercial and industrial bank lending activity has resulted from a fight for market share, with little new net lending growth in the aggregate. Another bank stated that loan demand from large commercial accounts remained relatively weak in recent months, citing continued competition from alternative financing channels and a slower-than-normal cyclical recovery in requirements for inventory financing.

Agriculture. The fall harvest is nearly complete. Crops in many areas were confronted with sizable drying charges and price discounts for low quality. Yields were down in general, but varied widely across the District. State average corn and soybean yields in Iowa -- the state hardest-hit by the flood -- dropped to levels comparable to those in the drought-disaster of 1988. At the other extreme, soybean yields in Illinois and Indiana reached new highs.

Our latest survey of agricultural bankers found that District farmland values were stable this summer, in general, and up about 3 percent from a year ago. The bankers' views on credit conditions varied widely, however, with most of the difference seemingly tied to the extent of crop damage from the summer floods. Bankers in the harder-hit states of Iowa and Wisconsin are concerned about farm earnings and loan repayment rates, while bankers elsewhere in the District generally expect earnings and loan repayment rates to match or exceed year-earlier levels.

Prices. Reports of price increases became somewhat more prominent in recent months, but they were often restricted to basic material prices reacting to market-specific developments. A steel industry analyst stated that scrap prices have appreciated over 35 percent this year, partly because of hedging prior to a strike deadline, but mainly as a result of stronger underlying demand. A manufacturer of paper containers expected an industry-wide price hike to hold firm in coming months, after flat-to-modestly-declining prices accompanied sporadic and unsuccessful attempts at price increases over the past three years. A manufacturer of gypsum wallboard reported that another price increase was announced in its industry. This contact also noted that paper used to cover wallboard was in short supply. District retailing contacts generally reported that competitive pressures continue to constrain price increases. One large retailer noted that "customers are shopping with a purpose," during the holiday season, with a greater share of traffic using lists and comparison shopping. A large distributor of paint sold for commercial construction purposes reported that competition continued to drive down prices in its markets, despite improvement in demand.

EIGHTH DISTRICT - ST. LOUIS

Summary

District economic activity continues to grow. Retailers are more upbeat about the holiday season than they were previously, and car sales are still very strong. Most surveyed firms report increases in sales, orders and employment. Residential construction and home sales have slowed somewhat from their year-ago levels. Loan demand at District banks is rising modestly. District cotton farmers report a small crop.

Consumer Spending

Preliminary reports suggest that post-Thanksgiving holiday sales were brisk in many areas, despite some weather-related problems. In a pre-Thanksgiving survey of retailers, most contacts noted sales increases of at least 3 percent over the same period last year. While discounting is becoming common in Louisville, it is not being used much elsewhere. Most report that inventory and staff levels are up in anticipation of a strong holiday season. Stronger local economic conditions are cited as the main reason for the high expectations.

Car sales throughout the District continue to show strength. Many dealers report 10 percent increases over the same period last year, with some in Memphis reporting slightly stronger growth. Trucks and minivans continue to sell very well. Louisville continues to experience extremely strong sales in both foreign and domestic models. Inventory shortages, however, have cut into the sales volume of newer models. Overall, a strong fourth quarter is expected.

Manufacturing and Other Business Activity

District firms continue to observe moderate growth, as sales, orders and employment increase. Minor cutbacks are still occurring, though. Contacts from various manufacturing and distribution firms say sales are up, in some instances by double digits,

over the same period last year. For example, a contact in the burglar alarm and security industry reports that sales have increased 42 percent. Contacts in the wood products, building supply, truck transmission and conveyor manufacturing industries cite sales increases of between 7 percent and 8 percent. A die casting concern reports a 4 percent increase, while a metal salvage company reports a 33 percent increase. A pharmaceutical company disclosed that increases in sales have led to 10-hour workdays and regularly scheduled Saturdays.

Firms are also experiencing strong orders and shrinking inventories. One contact in the tractor industry claims that inventories are at a 35-year low, owing partly to few suppliers remaining in the industry, one of which is undergoing a major reorganization. A firm in the air conditioning and heating industry reports that business has unexpectedly rebounded, after a downturn early in the third quarter. Orders to medical suppliers are booming according to a contact at a regional health center. Most firms expect slight increases in employment within the next month or two.

Two District areas of particular strength are northwest Arkansas (Benton and Washington counties) and northwest Mississippi (Tunica County). In northwest Arkansas, the regional unemployment rate has fallen more than 1 percentage point over the past year, and new home construction is booming. In northwest Mississippi, riverboat gambling has turned one of the nation's historically poorest counties into one of its fastest growing. A third casino is scheduled to open in December, and four more are under construction. More than \$1 billion in construction has occurred in the area in 1993. Area firms are having difficulty finding workers because of the boom. Monthly sales in the county during the third quarter were almost double last year's sales.

Layoffs at some firms temper the generally positive news. In northeast Mississippi, for example, the cancellation of a NASA contract eliminated 1,900 construction jobs and 1,500 other jobs that would have been created had the facility been completed. A public

utility in Kentucky plans to lay off almost 300 unionized workers because there is not enough work. An oil company will cut almost 150 jobs to reduce costs.

Construction and Real Estate

District residential construction has slowed somewhat in the last several months, although year-to-date activity is still well above that of one year ago in most areas. Builders in St. Louis are struggling to keep up with the backlog created by an unusually wet summer. Sales of existing homes are mixed. In some areas, recent sales and year-to-date sales are still above those of 1992 and on track for a record year; in other areas, the pace of sales activity has slowed substantially in recent months. Average sales prices of existing homes are up in most areas of the District.

Banking and Finance

A November survey of senior loan officers at large District banks indicated that loan demand continues to strengthen in portions of the commercial and retail markets. Increased financing needs for inventory, plant and equipment were cited as reasons for a slight uptick in commercial loan demand by large corporate customers. Most respondents noted a pickup in consumer installment loan demand, primarily for automobiles.

Agriculture and Natural Resources

The fall harvest is nearly complete, although substantial rainfall in some areas has delayed the soybean harvest. Expectations of a substandard crop became a reality for many District cotton farmers; in parts of Arkansas and Mississippi, the yield on this year's crop was approximately half the average yield. The price of cottonseed, an oilseed similar in nature to soybeans, has risen significantly in recent weeks because of this year's smaller soybean crop, which will reduce the supply of soybean oil. Seeding of the winter wheat crop is nearly completed, with the emerging crop in mostly good condition. Although Mississippi's pecan crop is reportedly one of the largest in recent years, its quality is said to be below average.

NINTH DISTRICT--MINNEAPOLIS

While still moderate, the pace of growth in the Ninth Federal Reserve District appears to have picked up somewhat in late fall. Holiday sales are off to a strong start, following improved fall retail sales. Residential construction remains strong throughout the district, and other construction is also expanding. District manufacturing appears to be improving as well, and recent increases in gold prices are boosting metal mining. Moreover, district employers are hiring, and wages are stable with district business leaders expecting smaller price increases than they did a year ago. Crop production is down in the eastern portion of the district, and up in the western portion; the situation is reversed for forest products, production is up in the eastern portion, but down in the west due to limited timber supplies.

Consumer spending

Holiday sales are off to a strong start, following improved fall retail sales. On the Friday after Thanksgiving, major Minneapolis/St. Paul retailers reported the highest customer traffic in recent years, and many district retailers anticipate good holiday business. Moreover, sales had been strengthening prior to Thanksgiving weekend. At two large Minneapolis/St. Paul shopping malls, sales had improved this fall, and a large Twin Cities retailer reported strong business in October and early November. A Minnesota retailer with stores outside the Twin Cities, however, reported weak fall sales. Meanwhile, in western South Dakota retail sales lately have been up 3 percent to 5 percent from a year ago, and at a North Dakota mall October sales were up 8 percent from last year. In west central Wisconsin large retailers' fall sales were running 4 percent to 6 percent ahead of a year ago.

Motor vehicle sales are also increasing. In North and South Dakota year-to-date new automobile and light truck registrations are up around 15 percent and 18 percent, respectively, from a year ago. In Minnesota they are up slightly.

Construction and housing

Besides buying merchandise and autos, consumers are purchasing homes, as residential construction remains one of the district's strongest sectors. Western Montana builders have enough work to keep them busy through the end of 1994, states an advisory council member, and directors and other advisory council members have similar reports from west-central

Wisconsin, eastern North Dakota, South Dakota and other areas of Montana. In Minneapolis/St. Paul, building permits for housing were up about 15 percent in October from a year earlier.

Other building is also expanding. In Minnesota and the Dakotas, the volume of construction contract awards, excluding residential, amounted to approximately \$3.2 billion during the first 10 months of 1993, a 9 percent increase from a year earlier. In Grand Forks, N.D., 60 construction projects are under way and Fargo, N.D., has even more construction projects. Meanwhile, in Eau Claire, Wis., businesses are acquiring spec buildings before they are completed.

Manufacturing

Across the district, manufacturing appears to be improving as well. In west central Wisconsin manufacturing is very strong says an advisory council member. In Minneapolis/St. Paul a large national manufacturer reports production is above last year and above projections for this year. In Duluth, Minn., an electronics firm plans expansion. In North Dakota construction equipment, food products, wood products and furniture manufacturers all report rising sales. In Rapid City, S.D., a denim clothing factory is opening.

Plant closings, however, persist. In Duluth, Minn., a 75-year-old tool and horseshoe factory is closing, and in St. Paul, Minn., a snack food plant, employing 288, is also closing.

Metal Mining and Forestry

Recent changes in metal prices are helping some district metal producers and hindering others. Increases in gold prices are spurring mining in South Dakota and Montana. Low aluminum prices and increased electricity prices could curb aluminum production in western Montana.

In the eastern portion of the district, forest products production is expanding, but declining in the west. In Montana and South Dakota timber cutting continues substantially below past-year levels. But in west central Wisconsin, output in the pulp industry is described as stable and hardwood production in these areas is reportedly very strong. Production of wood-based plywood and lumber substitutes continues strong in Minnesota, Wisconsin and Michigan, reflecting the healthy construction sector.

Employment, prices and wages

District employers are hiring but having some difficulty getting workers. A Minneapolis/St. Paul airline recently rehired 315 flight attendants and 240 mechanics. Many west central Wisconsin employers are making small additions to their work forces, and in western Montana and South Dakota labor markets are tight. "It's virtually impossible in Grand Forks to find construction workers," says a North Dakota advisory council member, but ample workers are still available for minimum wage jobs. Recently, there were 225 applicants in eastern North Dakota for 16 jobs paying \$4.50 an hour.

Despite the tightening in labor markets, directors and advisory council members report little change in wages.

Consistent with stable wages, district business leaders foresee smaller price increases than they did a year ago. In a recent Minneapolis Fed poll, 54 percent of respondents expect prices over the next year to increase 3 percent or less, compared to 27 percent who gave that response a year ago. In the current poll, 41 percent expect a 4 percent increase in prices and only 5 percent foresee a greater than 4 percent increase; comparable numbers a year ago were 48 percent and 25 percent.

Agriculture

As the 1993 crop season ended, final yield data for major crops varied greatly. In the eastern portion of the district, corn and soybean production were sharply down from normal levels and wheat was down somewhat. But wheat was up in the west.

Livestock output is essentially stable. Cattle slaughter continues slightly above and hog slaughter slightly below year-earlier levels. Prices remain favorable for both cattle and hog producers, and bankers report that livestock income is helping to stabilize farm finances in areas with poor crops.

While farm incomes are good in Montana as a result of favorable production conditions and prices for wheat and cattle, they are generally down throughout much of the rest of the district. Reflecting this variation, farm spending on new machinery or facilities is reportedly good in Montana and western areas of North Dakota, but slack in most other areas, according to reports by advisory council members and in newspapers. Montana crop land prices rose about 8 percent, while pasture and range land prices reportedly rose about 10 percent, reflecting strong feeder cattle prices.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow at a moderate pace. Retail sales and housing activity are still increasing, and loan demand at commercial banks is strengthening. District farm income should nearly match last year's level, but gains in the energy sector appear to be slowing. Retail prices continue to hold steady, and manufacturers' input prices are rising only slightly.

Retail Sales. Most district retailers report increased sales, compared with both a year ago and a month ago. Sales of men's and women's apparel have been notably strong. Holiday sales are reported to be good so far, and respondents generally expect significant gains over a year ago. While most retailers are satisfied with current inventory levels, some believe their stocks are too large. Most respondents expect to maintain inventories at normal levels following the usual seasonal buildup and drawdown. Retail prices have remained generally flat over the past year, and retailers expect to hold prices steady over the next few months.

Automobile sales increased last month and most dealers are optimistic about future sales. Financing is readily available for dealer inventories and potential buyers. Dealers are expanding inventories with 1994 models.

Manufacturing. Most purchasing agents report small price increases for their inputs over the past year, with some increases continuing in the past month. Agents expect few price increases in the near term. While a few respondents report some difficulty in obtaining specific inputs (such as carbon black), most find materials readily available and expect few problems in acquiring inputs in the months ahead. Most firms are satisfied with their present inventory levels, having trimmed them recently. Export sales are

expected to remain about steady in the short run.

Energy. Gains in district energy sector activity appear to be slowing amid slumping oil prices and a recent dip in natural gas prices. Still, all energy-producing states in the district report steady or increased drilling activity except New Mexico, where the number of active drilling rigs fell in early November. Overall, the average number of operating drilling rigs in district states rose from 284 in September to 294 in October. The rig count slid to 291 in the first three weeks of November, however, about 5 percent below its year-ago level.

Housing. Housing starts picked up moderately last month and remain above their year-ago level. Builders generally expect starts to rise over the next few months. Most respondents report new home sales steady compared with last month, but up from a year ago. The inventory of unsold homes is low. Demand for mortgages has been strong and is expected to remain so. Mortgage rates have begun to edge up, but most respondents expect rates to level off in the period ahead. Higher lumber prices continue to push new home prices up, and most respondents expect this trend to continue in the near future.

Banking. District banks report stronger loan demand last month. Most respondents report increased demand for consumer loans, home mortgages, construction loans, agricultural loans, and commercial real estate loans. Demand was mixed for commercial and industrial loans, and home equity loans. Changes in loan-to-deposit ratios were mixed at responding banks, while bank investments were generally lower.

No respondents changed their prime rates last month, and no changes are expected in the near term. Most respondents lowered consumer lending rates over the past month through special promotions. About half the survey

respondents expect to raise these rates soon by concluding the promotions, while the rest expect no change in the near term. Lending standards at all banks were unchanged.

Deposits increased at almost all responding banks last month. Deposit growth was concentrated in demand, NOW, and money market deposit accounts. IRA and Keogh accounts were mostly unchanged, while large CDs and small time and savings deposits were flat to down slightly.

Agriculture. The weather has favored the district's recently planted winter wheat crop but has taken a large toll on the corn and soybean crops. The winter wheat crop is generally in very good condition, encouraged by ample moisture and favorable temperatures. Harvest of the district's corn and soybean crops is nearly complete. Crop yields and quality have been disappointing in those parts of the district where last summer's wind, wet weather, and flooding caused large crop losses.

Despite the crop losses, district bankers expect little increase in problem farm loans. Crop prices have risen to ration smaller crop supplies, lessening the sting of crop losses for many farm borrowers and boosting incomes for others who harvest normal or near normal crops. In addition, government disaster assistance and sales of grain stored from previous harvests will help cushion the blow of crop losses for many district farmers.

Higher crop prices also are likely to push up feed costs and trim profits in the district livestock industry, the dominant source of farm income strength in recent years. District bankers report that higher feed costs are encouraging some cattle and hog producers to scale back their production plans in spite of relatively strong cattle and hog prices. Overall, district farm income should nearly match last year's relatively healthy level, despite a harsh year for some district farmers.

ELEVENTH DISTRICT--DALLAS

The District economy expanded at a moderate pace in October and November. Manufacturing respondents said that orders and output increased at a steady rate. Retail sales increased slowly. Business service companies reported a moderate increase in demand, and particular strength was noted by temporary employment agencies. Commercial loan demand was reported to be flat at district banks. Oil and gas prices and drilling activity declined. Agricultural producers reported a generally good harvest, an increase in crop prices and lower livestock prices.

Most District manufacturers reported steady growth in orders and output. Many respondents noted that the passage of NAFTA had improved their outlook for next year. Construction-related manufacturing respondents reported continued strong orders. Primary metal manufacturers said that demand was flat to slightly improved. Semiconductor manufacturers said that demand decelerated but that the reduction in growth from very high rates was expected. Respondents in the telecommunications industry reported continued strength in output and employment. Producers of corrugated box liners and fine and industrial grade paper noted an increase in demand. The petrochemical industry reported strong demand, although overcapacity problems continued to shrink profit margins for producers of ethylene and propylene. Oil field machinery companies reported continued revenue growth due to the expansion of drilling in the Gulf of Mexico. Employment and output at apparel industries were reported to be steady. Transportation equipment manufacturers who produce for the private sector reported some slight gains while those producing defense

products reported continued declines.

Overall retail sales increased slowly in October and November. Responses were more mixed than usual with some retailers reporting far better sales than others. Retailing remains very competitive and price increases are rare. Even though some reported weak growth, all contacts were confident that sales growth would improve slowly. Auto sales increased in October, keeping year-to-date sales above last year's level.

All of the District banking respondents reported that commercial loan demand was flat. Most stated that their customers are being cautious or had a wait-and-see attitude about the economy before committing to additional borrowing. Most respondents did not expect a significant upswing in the coming months. Mortgage bankers report continued strength due to strong home building and refinancings.

Oil and natural gas prices and drilling declined. The price of crude oil fell below \$16 per barrel in late November. From January to mid-November, West Texas Intermediate crude averaged only \$18.94 per barrel, the lowest price in real terms since 1976. Respondents said that heavy exports from the North Sea and from the former Soviet Union have combined with slack global demand to put downward pressure on prices. Spot natural gas prices weakened in October and futures prices for November, December and January also weakened. As of mid-November, the seasonally-adjusted rig count had fallen 8 consecutive weeks.

Demand for business services increased moderately. Business activity at legal and accounting firms was up slightly. A number of respondents in these industries reported that they are increasing revenues through productivity improvements rather than fee increases. Hiring is flat to slightly up.

Temporary employment agencies reported that demand had improved and that they had increased their hiring of workers. A temporary employment firm in Dallas reported that a rise in demand for temporary workers was broad-based across industries. Transportation firms report an increase in cargo shipments. Hotels reported stable demand.

Home construction remained healthy and inventories remained tight. Home building respondents were optimistic about 1994. Austin and San Antonio were still booming, Dallas was strong and Houston remained weak. Respondents in Austin and San Antonio continued to express concern over a shortage of qualified construction laborers and sales people. Commercial market respondents noted a pickup in retail building. Austin was reported as one of the hottest multi-family markets in the country with reported occupancy rates at 98 percent.

Agricultural producers reported generally favorable conditions, with most crops harvested before the Thanksgiving storm. Some producers expressed concern that the freeze would negatively affect livestock. Prior to the storm, livestock were reported to be in fair to good condition across the state. Texas corn production in 1993 is expected to reach a record high, an increase of 8 percent above last year's level. Cotton yields were reported to be good but lower planted acreage reduced production. Texas 1993 cotton production is expected to be 59 percent of last year's level. Lower prices for wheat, beef cattle and milk caused the October Texas All Farm Products Index of Prices Received to decline 1 percent from a year ago. The All Crops Price Index was 4 percent higher than a year ago while the Livestock and Livestock Products index decreased 3 percent.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic weakness persists in California. Much of the rest of the Twelfth District, however, shows signs of solid economic growth. In California, manufacturing, construction, trade, and financial sectors remain sluggish. Economic activity also lags in western Washington, reflecting retrenchment in aerospace, and in Hawaii, reflecting a weak visitor industry. Oregon and Arizona, however, are experiencing moderate growth in the construction, trade, and financial sectors. Furthermore, the economies of intermountain states continue to grow at a robust pace. Business sentiment has improved since our last report, and expectations for holiday retail sales are good.

Business Sentiment

Sentiment among Twelfth District business leaders improved from our October report. Three-quarters 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 two-thirds in October and one-half in August. Most other respondents expect the economy to expand, but at a rate below trend. Respondents from California and western Washington expect their regions to have slow growth relative to the nation.

Retail Trade and Services

Retail activity is reported improving. The weakest conditions are in California, where contacts report flat to slightly improving consumer confidence and retail sales. For example, one national retailer reports strong sales in October at its stores outside of southern California. Another national retailer, however, reports that California sales are "showing signs of life." Several contacts mention very strong retail sales in both Utah and Idaho. Automobile sales in these states are surging, and spot shortages of new domestic cars and light trucks are reported. Consumer confidence in these states is excellent, and merchants are expecting significant increases in holiday sales over a strong

performance last year. Consumer confidence, and expectations for the holiday season, are also reported improving in Arizona. Optimism also is reported among retailers in Oregon. Reports from the Puget Sound area are mixed. One contact reports that the recent Asia-Pacific trade conference generated significant visitor industry activity. The contact also reports high levels of activity at retail and restaurant establishments. In contrast, another contact cautions that the holiday retail season will be subdued due to expected further layoffs in aerospace.

Conditions in service-related industries are mixed. Potential health care reform is reported to be leading to consolidation among health care providers. Contacts indicate that law and accounting firms are reducing overhead through early retirement. In California, passage of a sales tax extension is expected to assist local government in the short run. A recent voter initiative in Washington is likely to limit state government spending and lead to restructuring in the next year. In contrast, fiscal conditions are good in state and local governments in Utah and Idaho.

Manufacturing

Manufacturing activity is mixed in the District, with lingering weakness centered in aerospace and defense-related industries. Layoffs in these sectors continue in several district states—with southern California and western Washington most affected. Sluggish conditions are also reported in California's machinery, metals, and construction-related manufacturing industries. One contact notes that the District's aluminum industry is suffering from an over-supply of ingot from foreign suppliers. Primary domestic aluminum producers are reducing capacity, and aerospace companies are benefiting from significant price reductions.

Other manufacturing industries show signs of improvement. Some types of cable television distribution equipment is reported in short supply, with some larger companies having bought out the complete stocks of some suppliers. Sales by western food processors of peas, corn, beans, and pumpkins are reported very strong due to a shortfall from the Midwest.

Agriculture and Resource-Related Industries

Most contacts report a generally favorable outlook for agriculture. Weather conditions in the Midwest are reported to have raised prices for grains, corn, and beans. Abundant lettuce supplies are reported. The cotton harvest is about complete with average yields and somewhat lower prices than a year earlier. Conditions in the seafood industry are reported poor. Heavy crude oil prices in California are reported declining. Orders for wood products remain firm, with inventories very low.

Construction and Real Estate

District construction and real estate markets are mixed. Sluggish conditions persist in most real estate markets in southern California. Sales in the high-end residential market remain weak--and commercial vacancies are reported very high. A contact in Los Angeles reports that federal aid is stimulating the construction of low income housing. In the central valley of California, a contact reports steady sales of entry-level housing--but sluggish conditions for higher-priced housing. The housing market in western Washington is reported stable--with steady sales and firm prices. In Oregon, conditions in the construction industry are improving. Contacts in Utah and Idaho report some capacity and supply constraints in residential construction, but nothing that will be disruptive.

Financial Institutions

Varied conditions are reported across District financial markets. A contact with a large California bank reports that the industry continues to feel the effects of recession--with business loan demand remaining weak and overall credit demand remaining lackluster. A contact in the thrift industry in southern California reports continued weak credit demand due to soft real estate conditions. In Arizona, a contact reports that consumer loan demand remains strong, and that commercial loan demand finally shows signs of reviving. A contact from the Puget Sound area reports a strong banking sector, although the level of mortgage refinancings may recede from its current high level. Healthy growth in deposits and loans are reported in Oregon.