

**SUMMARY OF COMMENTARY ON CURRENT
ECONOMIC CONDITIONS**

BY FEDERAL RESERVE DISTRICT

February 1994

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SUMMARY*

Federal Reserve district reports indicate that the economy expanded moderately in January and February despite unusually severe weather in the East and the Midwest. The weather adversely affected consumer spending and construction, delayed shipments, interrupted some production, and boosted selected tourism and energy markets, but these effects were largely temporary. Manufacturing activity increased in most regions and sectors, with the auto industry and its suppliers and building products showing the most strength. Weather-related retail sales losses were sizable in some areas, but elsewhere consumer spending rose steadily; almost all district reports suggest that merchants expect solid sales growth in coming months. Real estate markets are mostly improving compared with a year ago, with exceptions noted in southern California and Connecticut. Several districts indicate that rising interest rates have slowed mortgage refinancings. In agricultural regions, financial distress stemming from last summer's floods is generally abating. Overall, only limited price pressures are reported; prices of building materials, selected metals, and some chemicals are said to be rising, but prices of manufactured products and consumer goods generally are not experiencing upward pressure.

Retail

Although unseasonably cold and snowy weather hampered retail sales in two-thirds of the country, districts report that merchants are optimistic, expecting sales to increase during the first half of 1994.

*Prepared at the Federal Reserve Bank of Boston and based on information collected before February 28, 1994. 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.

The effect of winter weather on retail sales varied considerably. Eastern retailers were disappointed, citing substantial declines in sales (up to 20 percent) and minimal rebounds after storms. Midwest reports of sales performance were mixed, but retailers affected by storms expected to recoup sales losses, unlike their eastern counterparts. Several districts (particularly Chicago, Minneapolis, and Cleveland) indicated moderate to strong sales. In the West, retail conditions are generally good; California's consumer spending showed modest signs of improvement, except in the Los Angeles region.

Durable goods are selling well in all districts. Over half reported solid growth in car sales and expectations of continued strength throughout the spring. In contrast, several eastern districts noted sluggish sales of nondurables, particularly apparel. Retailers in only one district, Richmond, expect retail prices to rise slightly; others anticipate stable prices because of competitive pressures.

Services

Scattered comments on services industries, including temporary employment firms, freight forwarders, and utilities, generally suggest improvements in economic activity. A few services industries in the Chicago district reportedly face shortages of items such as cable supplies and broadcast equipment.

In several districts, the cold weather affected tourism, in some cases for better, in others for worse. Richmond reports that both ski resorts and beaches in the district are enjoying an unusually good season. By contrast, in the Minneapolis district, tourism is just starting to pick up, now that the weather has moderated. Hawaiian tourism has been sluggish, but advance bookings suggest improvement.

Despite the earthquake, tourism in southern California is also gaining strength.

Manufacturing

The manufacturing sector generally remains on a positive course, although severe weather substantially weakened early 1994 growth in the Philadelphia, Chicago, and St. Louis districts. Winter storms also produced minor setbacks in production, shipments, and/or orders for manufacturers located in the Boston, Atlanta, Kansas City, and Dallas districts.

Durable goods and construction account for most of the advance throughout the nation. Boston, Cleveland, Atlanta, and Chicago indicate very strong auto-related sales demand, although Chicago notes temporary slowdowns as a result of weather and truck-part shortages. Some areas also are experiencing growing sales of home furnishings, electronics products, or other durables. Even though cold weather is delaying some construction, Boston, Atlanta, Chicago, Minneapolis, and Dallas note strong demand for building materials and equipment.

Cleveland and San Francisco report that defense and aerospace markets are damping economic progress; Boston, New York, and Atlanta also mention cutbacks. Clothing and shoe business has been slow in the Philadelphia, Atlanta, and St. Louis districts, while energy-related manufacturing is weak in the Atlanta and Dallas districts. Food processing is reported to be sluggish by Philadelphia and Dallas, but St. Louis and Minneapolis cite increased demand for poultry.

Most districts indicate that prices for finished goods have remained relatively stable, despite increases for selected materials. Strong demand and scattered capacity constraints are contributing to rising prices for building products, according to Atlanta, Chicago,

Minneapolis, Dallas, and San Francisco. Prices also are increasing for some types of paper, chemicals, and metals.

Almost all districts report hiring and capital expansion plans on the part of some contacts, especially those supplying automotive and construction markets. However, streamlining and caution continue to temper general gains in manufacturing employment.

Real Estate and Construction

Real estate markets continue to improve, despite severe winter weather in many districts. Construction activity has borne the brunt of weather problems, with five districts reporting delays, although builders in the Minneapolis and Kansas City districts reported little effect on their activity. Philadelphia and Chicago indicated that weather temporarily slowed residential sales activity. The Los Angeles earthquake will increase demand for residential repair services over the next 6 to 12 months and freeway repair will push into 1995.

Residential sales activity is strong or growing in over half the districts and three-quarters observed positive developments in construction. Sales are reportedly flat only in the Kansas City district and California. Price increases for existing homes were noted in two districts. Low interest rates were cited as contributors to current and expected increases in residential sales in several districts. However, contacts from Cleveland and Chicago expressed concern that recent sales bursts induced by low interest rates might be short-lived.

On the commercial side, news is less positive, although construction is starting to increase. Boston, Philadelphia, Dallas, and San Francisco reported new construction of industrial and distribution facilities, while New York, Atlanta, Minneapolis, and Dallas indicated

building activity in the apartment market. Demand for office space is flat or slowly increasing in the Boston, New York, Philadelphia, Atlanta, and Dallas districts. Richmond and Atlanta report modest rent increases. Office construction has begun in those districts, and in Minneapolis and parts of the San Francisco district.

Financial Services

Financial institutions report that higher interest rates slowed mortgage refinancings, but in a few districts this slowdown was partly offset by stronger demand for home-purchase mortgages. Overall loan demand is characterized as stronger by the Kansas City, Atlanta, and Dallas districts and described as weaker by New York, Philadelphia, and St. Louis. Among loan categories, business loans exhibited the greatest strength, with New York, Richmond, Cleveland, and Kansas City all registering increases. Increases in auto financing were cited by Cleveland and Philadelphia. San Francisco reports stronger business loan activity in Washington and very strong overall loan demand in Oregon, especially for real estate loans.

Agriculture and Resource-Related Industries

Dry weather in the Kansas City and Dallas districts has stunted the winter wheat crop and reduced the pasturage available for grazing. With cold weather also increasing the need for supplemental feeding, several districts--Richmond, Kansas City, Dallas, and San Francisco--note rising hay and feed grain prices. Accordingly, producers are reducing their livestock inventories, and cattle prices are expected to soften, with adverse consequences for farm incomes in cattle-raising regions. Calving and lambing survival rates are close to normal despite the severe weather, according to contacts in the Richmond and Minneapolis districts. The financial stress caused by last summer's

floods generally appears to be easing, although Chicago district bankers suggest that land values and credit conditions still vary with the flood damage suffered.

The frigid weather caused a flurry of activity in the energy industry. Dallas and Kansas City report that natural gas prices rose, and drilling for natural gas increased in the Dallas region. Oil exploration fell, by contrast, in the Kansas City and Dallas districts, with glutted oil markets keeping a lid on the price of crude. While drilling in the Minneapolis district remained unchanged, refinery output was significantly above year-earlier levels. Minneapolis district contacts expect 1994 to be the best year thus far in the 1990s for iron ore production.

FIRST DISTRICT - BOSTON

Manufacturing continues its gradual recovery in the First District, but severe winter weather has temporarily set back area retailers. Contacts in both sectors see little price pressure and anticipate moderate growth for the remainder of the year. Commercial real estate continues steady, while investment management firms report strong growth.

Retail

Winter storms and cold temperatures took a considerable bite out of retail sales in the First District. Sales in January and early February were either flat or down, in some cases as much as 15 percent, compared to year-earlier levels. Apparel stores were particularly hard hit; fewer shoppers took advantage of January promotions, leaving retailers with excess inventories of seasonal clothing. Contacts reported no significant rebound in sales after storms. The fortunate retailers were those with stocks of winter survival items, such as salt, dry gas, shovels, and cold medicine.

Despite the short-term setback, retailers seem more optimistic about this year than last, anticipating 2 to 10 percent growth in sales. Many expect to see gross margins and profits increase as a result of fewer markdowns, better management of inventories, and continued cost controls. Retailers are encouraged by gains in the economy and consumer confidence; however, they remain cautious in their capital spending and hiring plans.

Manufacturing

First District manufacturing contacts generally report that the economic recovery is strengthening. Automotive suppliers indicate sharp

sales gains from a year earlier. Demand also is rising noticeably for construction materials, furniture, small computers and related supplies, publications, biotechnology instruments, and sporting goods, while sales of industrial machinery and equipment are just beginning to pick up. Contacts report continued weakness in the defense and aerospace, environmental, and pharmaceutical markets, as well as a pronounced slump in hospital equipment.

Most manufacturers indicate that severe winter weather caused little disruption in their operations, but a few believe it may have been responsible for a slowdown in orders during January. Cold temperatures have reportedly delayed spring housing construction in some areas, but the California earthquake and last year's Midwest floods have generated considerable construction-related demand.

Most contacts report that their selling prices are flat to down. Sellers of paper and metal products have increased selected prices by up to 3 percent, while cutting other prices. Several manufacturers note that customers are much more sensitive to price than they had been in the past. Automakers are continuing to require price reductions from vendors. Hospitals are forming buying pools. In other markets, prices are being held down by competition. Most raw materials prices remain flat, although contacts report increases for some metals and non-petroleum-based chemicals, as well as cotton fiber. Worldwide capacity constraints are causing increases or an end to decreases for some computer component prices.

Contacts producing for consumer durables markets have increased employment over the past year and are considering further expansions of their work forces. Some industrial goods manufacturers report that employment is flat to up slightly. Most of the remaining contacts,

representing over one-third of the sample, have reduced the size of their work forces and will continue doing so in order to cut costs.

Almost all manufacturers plan to increase capital expenditures during the coming year, the majority by substantial amounts. The new capital will serve to expand capacity, produce new products, and raise productivity.

Commercial Real Estate

The last three months have brought little change to the region's commercial real estate markets. The Boston area office market continues to exhibit slow steady gains, especially in the suburbs, and the industrial market has now turned the corner with positive absorption and rents firming up. Hartford office vacancy rates exceed 15 percent for class "A" space and 40 percent for "B" and "C" space, with heavy real estate tax bills based on outdated high assessed values adding problems. Demand for distribution facilities and space for smaller firms is leading to some industrial construction in the Hartford area. A Portland, ME contact noted that poor weather on top of an already bad winter season has pushed some smaller retailers on the coast to consider seasonal operations.

Nonbank Financial Services

Investment management companies continue to report strong sales since the beginning of 1994. None of the respondents reports adverse effects on operations or sales from the recent snowstorms in the Northeast. The respondents report that assets under management have increased in the range of 30 to 50 percent in January 1994 compared to January 1993. Sales were strongest in globally oriented equity funds. All the respondents plan to increase their employment this year, with increases ranging from under 5 percent to 10 percent for the year.

SECOND DISTRICT--NEW YORK

The District's economy showed some underlying modest improvement in recent weeks, though unusually harsh weather slowed consumer spending and construction. Office vacancy rates declined in several areas and District payroll employment continued to expand. While the majority of loan officers at small and midsized banks indicated no change in their willingness to lend from two months earlier, about a quarter said they were more willing to lend.

Consumer Spending

Most District retailers reported disappointing sales results during January, due, in large part, to unusually cold and stormy weather during the last part of the month. Sales snapped back in early February, when the weather moderated, but additional winter storms battered the region at midmonth and were expected to reduce overall February sales results as well.

While most contacts experienced January sales that were below expectations, retailers were fairly evenly divided between those with positive and negative results on a year-over-year basis. The changes ranged from -18 percent to +4 percent. Sales in suburban areas, dependent on cars, tended to be hardest hit by the ice and snowstorms, while in areas with mass transit, sales held up to a greater extent. Practical items such as home furnishings, electronics and outerwear were the best sellers, and several retailers noted that fashion apparel remained relatively weak. Inventories were generally at comfortable levels despite the recent storms.

Residential Construction and Real Estate

Homebuilding activity has been relatively slow throughout the District in the wake of the continuing ice and snow conditions, but builders anticipated a moderate overall increase in starts this year. They cited low mortgage rates, some improvement in consumer confidence, and more realistic home prices as the basis for their outlook. In New York City, two

developers have begun construction of the first apartment buildings that take advantage of recent changes in local and federal laws providing added incentives for such undertakings. Construction of other new rental apartment buildings is expected to follow later this year as a result both of these new incentives and of a reported improvement in the demand for rental housing in the City.

The combination of virtually no new speculative office building and a moderate amount of leasing activity resulted in lower office vacancy rates in several parts of the District. The largest decline--about 1 1/2 percentage points over the September to December 1993 period--was on Long Island, while smaller decreases occurred in northern New Jersey and Fairfield County, Connecticut. However, the primary vacancy rate in midtown Manhattan was unchanged in recent weeks, while the rates in downtown Manhattan and Westchester County rose as a result of the continued downsizing and merging of firms.

Other Business Activity

New York reported an over-the-year increase in payroll employment of 55,000 in January, its fourth consecutive over-the-year gain, and New Jersey posted an over-the-year rise of 45,000 in January, its sixth consecutive gain. New York and New Jersey have been generating sufficient job growth in recent months to produce net gains in employment despite the ongoing cutbacks by several large employers. More cutbacks have been announced for the future. Nynex, the major local telephone company, will cut almost 17,000 jobs over the next three years, and A.T.&T. will eliminate as many as 15,000 jobs in its long-distance unit over the next two years. GTE will also eliminate 17,000 positions, although much of its workforce is outside the District. In addition, Mayor Guiliani plans to pare the New York City workforce by 14,000-18,000. On a smaller scale, Grumman on Long Island, Niagara Mohawk in upstate New York, and G.E. in Schenectady plan reductions of several hundred additional workers each.

As is the case for the national data, January unemployment rates at the state level are not directly comparable with earlier ones because of an extensive redesign of the household

survey beginning with January data. However, New York's January rate of 7.1 percent and New Jersey's 6.8 percent represented decreases in unemployment from the old December survey figure to the new January figure even at a time when the new survey design increased the unemployment rate at the national level relative to the old December figure.

The January survey of purchasing managers in Buffalo showed a sharp decline in the percentages of firms reporting improved orders and production, possibly reflecting adverse weather conditions. At the same time, a much higher percentage of respondents reported a rise in commodity prices in January than in December.

Financial Developments

The majority of senior loan officers surveyed at small and midsized banks in the District indicated no change in their willingness to lend when compared with two months ago, while about a quarter of the respondents reported an increased willingness to lend. Overall loan demand appears weaker on balance, with one-third of the officers reporting stronger demand and almost one-half reporting weaker demand. This weakness came mainly from a slowdown in residential mortgages and mortgage refinancing, with roughly two-thirds of respondents noting reduced demand for such loans. The only lending category for which more respondents reported an increase in demand rather than a decrease was the commercial and industrial sector.

When asked about any response thus far to the recent increase in the federal funds rate, most respondents indicated that both their loan and deposit rates have remained the same as two months ago. Regarding expected movements in these rates in the near future, a few respondents foresaw increases, but significantly more expected no change in either loan or deposit rates. Approximately equal numbers of respondents reported higher, lower, and no change in delinquency rates. Some loan officers attributed their higher delinquency rate to seasonal factors such as higher consumer spending during the holiday season.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District was adversely affected by weather in February, as it was in late January, but business contacts generally retained positive opinions about underlying conditions. Despite interrupted production schedules, industrial firms reported an increase in shipments. Retailers, however, suffered significantly; many merchants and auto dealers indicated that sales for January were off as much as 20 percent from the prior year, and that results in February were not much better. Bankers generally reported declines in outstanding loan volumes for both business and consumer lending, although several said this was largely seasonal. Realtors indicated that the demand for homes seems to be on the rise, although recent bad weather had seriously hampered sales. The weather also delayed construction, but the recent trend was reported to be rising somewhat for homes but flat for most types of commercial buildings.

Looking ahead, most of the contacts surveyed for this report have positive views. Manufacturers predict further gains in shipments and orders in the next six months. Retailers and auto dealers believe sales will resume an upward trend as spring approaches. Bankers look for a pickup in consumer lending and modest gains in business lending. Realtors are optimistic that home sales will continue to increase. They look for further growth in demand for industrial space but very little improvement, overall, in office markets.

MANUFACTURING

Third District manufacturers reported in February that activity continued to move up, on balance. Half of those surveyed said business was steady, while nearly four-in-ten said business was increasing. Positive reports predominated

in most of the major industrial sectors in the region, with the exceptions of food processing and apparel. More firms in those sectors reported declines in orders or shipments than reported increases.

Winter storms in January and February affected many of the region's manufacturing firms. The inability of employees to get to work on several days restricted production. Also, although shipments by area firms rose, many reported transportation delays that prevented some shipments of their products and their ability to receive some inputs. Consequently, many firms were unable to meet production goals and they had unplanned buildups of finished goods inventories.

In general, manufacturers of durable goods expect to make up the lost production. Conversely, some makers of consumer nondurables think that sales lost at retail outlets during the period of bad weather will not be recouped. Looking further ahead, around half of the manufacturers contacted for this report forecast increases in orders and shipments over the next six months while only one-in-ten anticipate decreases. On balance, area industrial firms expect the increase in shipments to reduce inventories. Their employment plans, however, call for keeping work forces at current levels.

RETAIL

Most of the Third District retailers contacted in late February said sales for the months of January and February were adversely affected by winter storms and persistent difficult driving conditions that forced store closings and hampered shoppers getting to stores when they were open. Many merchants estimated that their sales for January were off as much as 20 percent from the same month a year ago and that sales were down in February also. Auto dealers reported similar results. As a result of the falloff in sales, store executives

said inventories were above desired levels, although most merchants said the overstocking was not extreme.

Third District merchants are generally optimistic that sales will pick up for all lines of merchandise as spring approaches. Several said they believe a trend to higher levels of purchasing by consumers is underway and that retail sales will move up when extreme winter weather abates. Auto dealers also believe the basic sales trend is upward.

FINANCE

Third District bankers reported in February that loan volumes outstanding had declined from the beginning of the year, which they attributed mainly to seasonal factors. Both outstanding commercial and consumer loan volumes were declining in February as payoffs exceeded new lending. Residential real estate lending was somewhat more stable as purchase mortgages were rising while refinancings were falling.

Several bankers noted that new business lending was poised to rise as the number of loan agreements being written by their banks was picking up, but they believe the increase in outstanding commercial and industrial loan volume will be modest. Some bankers also expect consumer lending to rise as the post-Christmas payoff period comes to an end and consumer spending picks up again. They pointed to recent increases in auto financing as an indication of this trend.

REAL ESTATE AND CONSTRUCTION

Third District realtors reported that homes sales in January and February were off substantially from the same months a year ago, due to heavy snowfalls and icy road conditions that hampered sales efforts. Otherwise, realtors generally said the sales trend has been strong since the fall, and that inquiries

from prospective buyers continued without interruption during the periods of bad weather. Several realtors noted that there is a growing demand for homes in the higher price ranges and that "move-up" buyers are joining first-time home buyers in boosting overall demand. Nonetheless, realtors also indicated that the inventory of homes for sale, while down from last year, is still relatively high, and they expect this situation to restrain increases in home prices during most of 1994.

Realtors active in office markets indicated that demand for space was flat in central Philadelphia but up slightly in most suburban areas. According to surveys by area realtors, the office vacancy rate in central Philadelphia has been steady at approximately 16 percent while vacancy rates in the suburbs have been edging down and ranged from 13 to 25 percent as 1994 began. Effective rental rates have been easing in Philadelphia but are nearly steady in the suburbs. Realtors said many companies in central Philadelphia have under-used space as a result of past downsizing and will not be in the market for more space soon. In the suburbs, realtors said, there could be an increase in demand for space by year-end.

Construction activity of all kinds was interrupted by the weather throughout the Third District in January and February. The trend in commercial construction remains weak, but some homebuilders have seen recent increases in contracts for new homes. Commercial realtors note that the growing demand for industrial space could lead to some new construction and renovation work toward the end of the year, and they say that demand for office space in some suburban markets might result in the beginning of some new buildings later in the year as well.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

Despite an evident fall-off from the brisk pace set in the fourth quarter of 1993, business contacts throughout the Fourth District remain generally optimistic. By most accounts, economic activity is continuing to expand solidly--none of the respondents has adjusted the 1994 outlook downward in response to weather-related problems experienced in the first few weeks of the year.

Respondents in all sectors discounted a repeat of the disappointing economic performance of the first half of last year, which followed a strong fourth quarter in 1992. This follows from a widespread belief that economic fundamentals are much stronger now than was the case a year ago.

Activity associated with automobile production continues to be a significant contributor to the District's healthy economic condition. Consistent with previous Fourth District reports, the strength in the auto sector has had a positive collateral impact on the capital goods sector, a trend that is expected to continue throughout 1994.

Retail sales, both auto and nonauto, were indeed hampered by bad weather in much of January and several days in February. However, little concern has been expressed about long-term sales losses. Consumer traffic and sales activity are reported to have jumped sharply during periods of improved weather, and most retailers contacted expressed confidence that lost revenues would be recouped over the balance of the year.

Loan demand, especially for consumer loans, continues to be relatively strong, although there is some feeling that growth in this sector will taper off later in the year.

Capital Goods

Capital good producers remain cautiously optimistic. With the exception of the defense and aerospace industries, orders are reported to be strong across the board. Several respondents described new auto and truck orders as being especially robust.

Although European demand is still characterized as spotty at best, overall foreign demand for capital goods is judged to be good, if not spectacular. Some reports indicate that North American industry is seeing some "straining at capacity," and one contact cited an orders backlog of several months.

Auto Dealers

On balance, most sellers have experienced high single-digit or, in some cases, double-digit year-over-year increases in vehicle sales in 1994 to date, although several say that there has been a slight decline in the pace of improvement during the past week or so. This follows solid year-end sales for most dealers and stands in sharp contrast to early 1993, when sales declined sharply. Nevertheless, fleet and other vehicle sales to businesses are not increasing as rapidly as consumer sales.

Retailers

Retailers relate that, excluding the period of unseasonable weather, sales rose significantly during January and February. Many retailers experienced near double-digit year-over-year sales increases for a broad range of products during the past two months. These comparisons must be discounted by anemic sales during January and February 1993, but retailers appear optimistic about recent sales gains and their implications for longer-term consumer demand. However, all of the respondents did speak of increasingly competitive market conditions and thinning profit margins.

Housing and Construction

The extremely strong performance of the housing sector in the last part of 1993 is not seen as sustainable. There is a sense that some of last year's activity was driven by a belief that interest rates had reached their trough, triggering some amount of speculative buying.

Nonetheless, 1994 is expected to be solid, reflecting strong underlying demand due to demographic factors, moderating long-term interest rates, and slight increases in income

and employment. Housing markets in the Fourth District have been strong for some time, and more of the same is expected for 1994.

Lending Activity

Consumers are said to "look healthy": Delinquency rates are low and indexes of borrowing by existing customers are their strongest in more than two years. Commercial loans, which were down at the end of 1993, picked up somewhat at the beginning of the year.

The rise in interest rates has cooled mortgage refinancings, and slower growth in consumer loans is expected to ensue as a result of mortgage borrowing having reached its peak. However, considerable strength is seen as a result of auto demand, including commercial borrowing for dealer floor plans.

FIFTH DISTRICT-RICHMOND

Overview

District economic activity expanded in January and early February. Manufacturing output increased, and the cold and snow boosted business at District ski resorts. Housing sales and commercial real estate activity strengthened, state tax collections increased, and loan demand rose somewhat. Retail activity and housing starts declined, in part because of unseasonably harsh winter weather. Housing prices were steady, but the costs of business inputs rose and commercial rents edged up. In agriculture, severe weather caused little damage to crops and livestock, but hay was in short supply.

Consumer Spending

District retailers reported that activity decreased in January. Revenues, employment, inventories, and shopper traffic declined, while wages and sales of big-ticket items were steady. Carolina respondents indicated that the mid-February ice storm barely affected their sales, but contacts in other District states reported reduced sales activity extending over several days. Looking ahead to the next six months, District retailers expected their sales to increase. They also expected retail prices to rise, but by less than the general rate of inflation.

Manufacturing

Despite unseasonably severe weather, manufacturers responding to our regular mail survey indicated that District factory activity grew moderately in January. Shipments, new orders, the average workweek, and order backlogs increased, and employment changed little. Finished goods prices were steady,

and raw materials prices rose by less than inflation. One bakery owner, however, noted that prices for oil, flour, and sugar had risen dramatically. Another contact said that sheet steel producers had raised their prices. Most respondents expected shipments, the workweek, and prices to increase over the next six months, but they foresaw little change in employment.

Service-Producing Sector

Our survey of service-producing firms indicated that activity was steady in January. Revenues, employment, and wages generally changed little from December. Firms in North Carolina, however, reported increased revenues, while those in West Virginia said revenues declined. Respondents expressed more optimism about their business prospects than they had previously, and they expected prices to increase only modestly during the next six months.

Ports

Representatives at the District ports of Baltimore, Charleston, and Hampton Roads (Norfolk) indicated that exports were unchanged while imports were higher in January than in December and a year ago. Fewer vessels called at the Port of Baltimore, but they more than made up for their decline in number by carrying larger loads. Baltimore and Charleston expected export growth to outpace import growth during the next six months, but Hampton Roads expected both to grow at about the same pace.

Tourism

Activity at District hotels, motels, and resorts was higher in February than in December and a year ago, according to our contacts. Ski resorts in North Carolina, Virginia, and West Virginia reported unusually good activity as did respondents at beach locations. Most contacts expected tourist activity to continue to improve during the next six months. Advance bookings

at some coastal areas in the Carolinas were at record levels.

Finance

Credit conditions improved during the last six weeks, according to District financial institutions. Some bankers noted that commercial loan demand was up and that loan activity had shifted from business refinancings to business expansions. Interest rates on commercial loans rose. Consumer loan demand and interest rates were steady. Several respondents noted that unusually harsh winter weather had had little impact on consumer loan activity.

Mortgage activity was steady, as a rise in originations offset a slight fall in refinancings. Rates on residential mortgages rose, which most respondents attributed to the recent tightening by the Federal Reserve. Loan officers had a positive outlook for all categories of lending activity in the near term but suggested that mortgage refinancing activity might taper off further if rates continued to rise.

Residential and Commercial Real Estate

District real estate activity strengthened in January and early February. Our contacts attributed stronger residential sales to continued consumer optimism about the economy and to a perception that mortgage rates had bottomed out. Recent harsh weather apparently did not dampen sales much but did reduce housing starts. Home prices were little changed during the period, but most homebuilders again reported increases in the costs of lumber and other building materials.

Commercial real estate conditions continued to improve. Lower vacancy rates in the retail sector were widely reported, and vacancy rates in Charlotte fell to a six-year low. Retail construction was underway in many

areas, much of it being built by its discount chain occupants. Similarly, activity in the office and industrial sectors strengthened. Contacts expected a pickup in office leasing activity in the Washington area because a freeze on federal government leasing recently ended. Respondents reported speculative office building construction outside of Raleigh and in the Washington suburbs and noted construction of buildings to be occupied by owners in several other areas. Office rents were higher as a result of reduced landlord concessions and, in some instances, direct rent increases.

State Revenues

State revenue forecasters reported healthy tax revenue growth in most jurisdictions. Growth was slower in Maryland than in other states but remained on an upward trend. Contacts reported a turnaround in the District of Columbia where one individual said of the local economy, "It's not healthy, but perhaps the fever is breaking." Most states reported strong January sales tax collections, although Maryland's fell short of estimates.

Agriculture

The agricultural sector suffered only slightly from the severe winter weather. Small grains were in fair to good condition in most areas, with few reports of freeze damage. Winter calving and lambing activity and survival rates were normal. Several livestock producers, however, reported ice-related injuries to cattle and sheep. The bad weather increased hay usage and short hay stocks were widely reported. In some instances, livestock producers were culling herds as a result.

SIXTH DISTRICT - ATLANTA

Overview: Business contacts report that Southeastern economic activity continued to expand at a moderate pace in February, and their expectations about the near-term outlook remain positive. The recent severe weather only affected some areas in the District. Merchants generally reported that retail sales are above year-ago levels and that factory activity is increasing for industrial equipment and sectors associated with residential construction and automobiles. However, the energy and defense industries are described as still contracting. Residential housing demand remains strong, commercial real estate markets continue to improve, and, on balance, bankers report stronger than expected loan demand thus far in the first quarter. There have been no reports of increased wage pressures, and while prices of finished goods remain stable, a few contacts again noted rising raw materials prices.

Consumer Spending: Some retailers reported that sales were hurt by bad weather in February. Many stores in Tennessee, Mississippi, and Alabama lost several shopping days in mid-month when severe weather caused power outages which closed the stores. Some of the affected retailers reported that activity has increased since then, but few believe they will be able to recover all the lost sales. In the states not affected by the severe winter weather, most retailers noted sales were up over January and year-ago levels. Women's apparel sales are still slow, but the early Easter holiday is expected to help boost sales of other spring merchandise. Durable goods are still selling well, but activity has slowed slightly from the hectic pace seen at the end of last year. Sales of autos continue to build from last quarter, and most dealers around the Southeast report year-over-year sales gains. In addition, there have been sporadic reports of supply constraints slowing sales, especially for some makes of trucks and sport-utility vehicles.

Manufacturing: Reports on manufacturing activity indicated that it continued to expand, despite temporary problems caused by the ice storms in parts of the region. Overall, factory

contacts note moderate increases in production and new orders in most sectors as well as optimistic expectations about future activity. Pent up demand for new cars is reportedly stimulating new orders and shipments at automotive suppliers. Some industrial equipment producers are adding to employment rolls anticipating strengthening sales of capital goods in the near future, and building products producers say they are beginning to reach capacity constraints as a result of strong residential markets. There are also reports that producers of home textiles are expanding or opening new facilities.

Some industrial representatives, however, still note sluggish business activity. Apparel producers comment that in addition to foreign competition, spending on autos and home products is reducing domestic apparel demand. Lower oil prices and stiffened environmental regulations are reportedly adversely impacting energy companies in the southwest part of the District, while manufacturers of defense goods continue to announce layoffs.

Construction: Single-family home sales remain strong throughout the Sixth District. Most realtors reported February sales were up from January and year-ago levels. Inventories are still tight in many areas, and more and more real estate agents are reporting rising home prices. Demand remains strongest for new homes. However, builders in several states have reported unseasonably poor weather has slowed construction of new homes. Nonetheless, most builders remain confident that with improving weather they will be able to increase their building activity and take advantage of an expected strong market this spring.

The commercial and multifamily real estate markets continue to report signs of slow but steady improvement. Vacancy rates are gradually declining, and many areas are experiencing modest increases in effective rental rates, as almost all concessions are gone. While commercial property values are still said to be low, they are rising in many areas, and distress sales have all but disappeared. Additionally, contacts reported some small speculative office projects were

underway, and new multifamily projects are currently under construction in several cities in the District.

Financial Services: Bankers around the region reported that loan demand was steady or up modestly in January and early February. Several bankers reported increased commercial refinancing activity, and residential mortgage loan demand remained strong. Refinancings combined with a relatively healthy new home market to keep most residential lending pipelines near capacity.

Wages and Prices: There were no reports of increased wage pressures, and most manufacturers continue to report that prices for finished products and raw materials remain unchanged. Producers of building products and furniture, however, continue to note increasing raw material prices.

Weather: A severe ice storm in the second week of February, characterized by T.V.A. officials as the worst in decades, knocked out power for thousands of residences and businesses in Alabama, Tennessee, Mississippi, and northern Louisiana. Over 100,000 homes and businesses in Mississippi and Tennessee were without power, and about 60,000 residents and businesses in Alabama and nearly that many in northern Louisiana also reported extended power outages. Agricultural experts say that Mississippi's pecan industry was dealt a setback as many trees were damaged by the ice. The state's timber industry also could have a significant amount of damage.

Although many small businesses closed because of lack of power, most major industrial plants reportedly kept their doors open. For example, the Nissan and Saturn plants in Tennessee kept building vehicles, and Bridgestone and Firestone continued making tires.

SEVENTH DISTRICT--CHICAGO

Summary. Harsher-than-normal winter weather put a chill on the District economy, but the underlying momentum in business activity remained quite positive. Manufacturing activity continued to lead the expansion, with auto production providing a major source of strength. In each District state, unemployment rates closed out 1993 at (or very close to) their lowest levels since 1977. Survey data and help-wanted advertising suggested that hiring plans rose significantly in early 1994. Purchasing managers' surveys pointed to a somewhat faster pace in price increases, much as they did when growth strengthened at this time last year. Nonetheless, evidence of broad-based or significant price increases remained relatively modest.

Manufacturing. District manufacturing activity continued to expand at a moderate pace in January and February. The composite production index of purchasing managers' surveys in Chicago, Detroit and Milwaukee rose slightly from the high level reached in the fourth quarter of 1993, in spite of the deterioration in the weather. After climbing sharply in January, the production index for Chicago registered no change in February, remaining at one of its highest levels in the past four years. Results for two surveys in Western Michigan remained quite strong in late January, when the weather was at its worst, and the survey organizer noted that results in one survey were the strongest since 1985. A utility in Michigan noted that power sales rose from December to January on a seasonally adjusted basis, after adjusting for the deterioration in the weather, with sales gains led by industrial customers.

Heavy-duty truck orders and output surged in the fourth quarter, and an industry analyst reported that assemblies rose further from December to January. Parts shortages are playing a more important role than bad weather in constraining heavy-duty truck production, according to this contact. A construction machinery industry analyst reported that manufacturers were raising production and building inventory to a greater extent than expected during the fourth quarter. A survey of freight forwarders showed sharply higher expectations for trade activity in coming months. District steel output rose 6 percent above year-earlier levels in the first three reporting weeks of 1994, but then plunged during the worst week of cold weather. Even so, output for January as a whole was 2 percent higher than January 1993, and reached the highest January level in the past five years. District steel output recovered only modestly in February, however, with faster growth evident for production in the nation as a whole.

Autos. Bad weather slowed production growth in the auto industry, as it did in almost every sector in the District. Even so, the underlying momentum in the industry remained quite positive. Automakers reported that car sales actually rose on a seasonally adjusted basis in January, in spite of the weather. Fleet sales rose only slightly on a seasonally adjusted basis, according to these contacts, and only accounted for a small part of the month-to-month increase in overall sales. A large automaker based

overseas reported that sales in January in the District were slightly higher than year-earlier levels, in spite of the weather. "The buyers are out there, and the outlook for the first quarter as a whole is very optimistic." After surging in the fourth quarter, District light vehicle output is expected to continue to grow in line with, or slightly faster than, the national average. Weather-related production postponements were disproportionately concentrated in the District in January, and sales expectations are high for some new models produced in District plants. Suppliers in the region also report sharply higher domestic parts purchasing plans for transplant assembly operations.

Consumption and Housing. Discussions with retailers indicated that District consumer spending continued to increase during January and February on a seasonally adjusted basis, after surging during the fourth quarter. One large retailer stated that sales certainly weakened on the worst weather days, but the losses were almost always recaptured when the weather improved. This firm's sales in the region continued to rise in January and February on a seasonally adjusted basis, after strengthening significantly in the fourth quarter. Durable goods continued to lead overall sales gains. Another large retail chain noted that sales growth remained on the higher path established late in the holiday season. This contact stated that weather disruptions were isolated to a few days, with only a marginal impact on overall sales. A survey of a large number of smaller retailers in Illinois and Indiana continued to show an improving trend in recent months.

Home sales and construction activity surged in the region as 1993 came to a close, with little sign of a slowdown in the underlying momentum thus far in 1994. Some realty and banking contacts attributed at least part of the increased activity to home buyers' beliefs that mortgage interest rates may have stopped declining, leading some to conclude that the recent burst in activity could prove short-lived. Still, reports from local realtor boards in the region remained quite optimistic, with most noting that sales closings rose faster in January and February than in late 1993. At the same time, the bad weather postponed home showings, which could be followed by slower growth in closings in March and April. One of the largest realtors in the District reported that transactions in January rose over 30 percent from year-earlier levels, partly due to special factors, but results were still a good deal better than expected.

Employment. Seventh District labor markets also continued to strengthen in late 1993 and early 1994. Unemployment rates ended 1993 at or below their lowest level since 1977 in each District state, and help-wanted advertising has been on the rise in the region in recent months. A survey showed further gains in hiring plans among Midwest employers during January and February, after significant improvement during the fourth quarter. A large metropolitan daily reported that help-wanted advertising space in January was over 20 percent higher than year-earlier levels, and space climbed consistently during each week in February. This contact stated that "it looks like employers are beginning to tee it

up." A large personnel recruitment firm noted that permanent placements growth slowed in early 1994, mainly as a result of a shortage of job candidates. An analyst of labor markets in Western Michigan reported that strong improvement in employment in the fourth quarter was led by manufacturing payrolls. Scattered reports of worker shortages in Western Michigan have been supplemented by a high level of average hours worked in the region (well above the national average) and growth in help-wanted ads. However, several large District manufacturers emphasized that their employment remained on a long-term downtrend, in spite of recent improvement in orders and output, and a large auto supplier reported that recent hiring has been confined to production workers.

Agriculture. A quarterly survey of agricultural bankers indicated that farmland values and credit conditions varied significantly around the region, with the effects of flooding in 1993 playing an important role. Bankers from Illinois and Indiana reported significant gains in farmland values, as farmers in these states experienced an above average harvest for 1993, along with sharply higher crop prices. Conversely, bankers in Iowa and Wisconsin reported flat to modestly higher farmland values, as many farmers in these states experienced sharply lower yields during 1993. Farm loan demand was also reported to strengthen in most areas, accompanied by ample funds for lending and further declines in the rates charged by banks on loans to farmers. Loan repayment rates weakened in areas hardest hit by flooding in 1993, but improved in most other areas of the District. Capital expenditures by farmers are expected to be weak in Iowa and Wisconsin this year, but strong in the other District states.

Prices. The price components of District purchasing managers' surveys generally suggested that purchased materials prices rose at a moderately faster pace in early 1994 (on a seasonally adjusted basis) than in late 1993, similar to the pattern when production growth strengthened at this time last year. The price component of the Chicago survey moved back down slightly from its January level. Most discussions with businesses suggested that upward price movements remained modest, even in some markets experiencing relatively strong demand growth. For example, two large capital goods manufacturers with strong sales gains each reported that in-house price indexes for their own purchased materials were flat or only increased slowly in recent months, with little change in trend since the third quarter of 1993. Another large capital goods manufacturer reported that signs of production bottlenecks among suppliers are spotty at best. While suppliers are testing price increases, this firm does not expect most of them to prove sustainable. Weak overseas economies and underutilized capacity among foreign competitors continued to weigh on output prices in domestic markets, according to this contact, and its own prices actually declined, on average, during 1993. Scrap steel prices surged in 1993, but have remained flat in recent months. However, capacity constraints and upward price pressures have been noted with increasing frequency and intensity by producers of building materials.

EIGHTH DISTRICT - ST. LOUIS

Summary

District economic activity, especially in the eastern and southern parts of the District, has been hampered somewhat by severe winter weather. Sales and employment reports from other parts of the District are mixed. Residential construction activity, while slow in some areas because of ice and heavy snow, continues to be unseasonably strong. Most categories of loans outstanding at large District banks have grown in recent months.

Manufacturing and Other Business Activity

Sales and employment reports from District firms are mixed. Severe weather, especially in the eastern and southern portions of the District, has hampered business operations and forced many small and large businesses to close temporarily. Auto plants in Louisville and St. Louis, operating with just-in-time inventory systems, shut down because snowy and icy conditions prevented the delivery of parts. Interstate commerce in the Louisville area was suspended for about four days when a record 16-inch snowfall effectively shut down the city and interstate highways. Many small businesses were closed for almost a week, incurring losses not easily recouped. Memphis and Little Rock also experienced icy conditions severe enough to close many businesses and government operations. Parts of southern Arkansas and northern Mississippi were without power for almost two weeks after the ice storm knocked out power lines and toppled electrical towers.

Several employment reductions were reported that were unrelated to bad weather. The most prominent was from a shoe manufacturer, which had already downsized. This manufacturer announced another 5,660 layoffs nationwide, almost 1,750 of which are in Missouri, and the closing of five factories and numerous retail outlets because of increased foreign competition. An aluminum producer released 350 workers because of a worldwide

excess supply of aluminum. A beverage company moved an Illinois instant tea plant to New Jersey, eliminating 180 District jobs. A St. Louis-area school district will lay off 700 employees, 400 of whom are teachers, because of budget shortfalls.

On the other hand, numerous expansions throughout the District have been announced. For example, a mortgage company will open a loan processing center in St. Louis, initially employing 500 workers, with 1,500 more workers expected to be added within the next two years. An appliance producer in Louisville has already added more than 350 people this year because of high demand for its products. The poultry industry continues to grow, with one firm expanding its processing plant and hatchery, adding 175 workers, and another soon opening four new plants (exact locations not yet determined). A bicycle manufacturer is coming to Missouri with 500 jobs, and a trucking company is hiring 500 more St. Louis employees to meet its shipping demands. In addition, various manufacturers report sales increases in January of between 4 percent and 30 percent over one year ago. Finally, a Mississippi manufacturer of bathroom fixtures reports that it has made its first export shipment to Japan.

Construction and Real Estate

A backlog of orders resulting from wet weather in 1993 continues to keep area homebuilders busy, despite occasional stoppages because of more recent inclement weather. In St. Louis, more single-family permits were issued in December than in any other month of 1993. Severe winter weather in Louisville brought construction to a standstill for several days, although January permits held steady from their year-ago level. In Little Rock and Memphis, construction activity remained above its year-ago pace during the last two months of 1993. Recent increases in lumber prices are being passed on to homebuyers; in St. Louis, builders expect new home prices to rise 3 percent to 5 percent as a result.

Banking and Finance

Total loans on the books of 11 large District banks decreased 2.7 percent in January after a 1.1 percent increase in December. The decline in total loans was due entirely to shrinkage in real estate loans, which fell 6.4 percent during the month. Business loans rose 3.1 percent in January and consumer loans rose a modest 0.3 percent. District bankers continue to report modest increases in loan demand from both commercial and retail customers.

Transportation and Natural Resources

Severe winter weather disrupted transportation in the Eighth District over the past month. A record January snowstorm forced the Louisville airport to close for approximately 24 hours, causing a major parcel package distributor there to incur tens of millions of dollars of additional expenses and lost revenues. The snowstorm also closed most of the state's major highways, substantially delaying shipment of goods that traverse the state. In February, a major ice storm caused significant disruptions in southern Arkansas, northern Mississippi and parts of Tennessee. The Memphis airport did not close, but operated at reduced capacity for two days.

The Army Corps of Engineers reports rising river levels in many places along the Mississippi and Ohio rivers. In some cases, this is normal for this time of year. Reports from the Corps and the National Weather Service predict that, over the next 30 days, the Mississippi River will exceed flood stage in some areas south of St. Louis and approach flood stage north of St. Louis. No major flooding is expected at this time, however.

Southern pine lumber mills report that orders on a year-to-date basis are down nearly 12 percent over the same period last year. An industry contact, however, reports that such mills expect to see some increase in demand stemming from the rebuilding efforts in the aftermath of the California earthquake.

NINTH DISTRICT--MINNEAPOLIS

In spite of unseasonably cold and snowy weather, the economy of the Ninth Federal Reserve District continued to grow in January and February 1994. Construction remains strong in comparison to past years, and commitments to new projects indicate that the spring and summer construction season is likely to be active. Markets for existing housing are tight. Manufacturing sales apparently are strong and output of building materials has increased. Mining and energy output is stable. In agriculture, anticipated plantings are up from 1993, and livestock numbers remain high. Consumer confidence in Minnesota is at a five-year high, and retail spending throughout the district is reportedly vigorous, especially for cars and light trucks. Winter recreation businesses are generally having a good season. Employment levels are 2 percent to 3 percent above year-earlier levels in most Ninth District states, and unemployment rates generally remain below the national average. Overall there is little evidence of upward pressure on wages or prices.

Virtually all areas of the Ninth District experienced extended periods of extremely cold weather and high snowfalls in January and February, but the overall economic effects apparently were not large. Construction is normally slow in winter, and recent cold spells did not abnormally reduce activity. Retail sales were reportedly depressed on very cold days, but rebounded when the weather moderated. Cold weather made some livestock care more difficult, but has not noticeably affected output. A few ski areas reported slack business during cold periods, but snowmobiling was not reduced, and overall winter recreation activity is good. There are concerns about spring flooding along some rivers and that ice could delay the 1994 Great Lakes shipping season.

Construction and real estate

Sources from all areas of the district continue to report that construction is very strong. "Construction for housing and retail is already backed up," reported a community leader from Grand Forks, N. D. "There are many new home starts and there is a renewed interest in multifamily housing," said an advisory council member from northwest Montana. Building industry spokespersons in Minnesota and South Dakota indicated that the pace did not slacken appreciably in January in spite of cold weather. Markets for existing residences were strong in virtually all metropolitan areas of the district. In Minnesota and the Dakotas, publicly let contracts in January for large buildings and heavy construction were nearly double year-earlier levels and industry spokespersons expect a busy season for medium and large projects. Construction on two \$100 million plus buildings in downtown Minneapolis will begin in 1994. And a major real estate company noted that office vacancy rates in Minneapolis-St. Paul stood at 16.3 percent at the end of 1993, down from 20.4 percent a year earlier, signaling some easing of a prolonged glut.

Manufacturing and natural resource industries

A recent newspaper report described sales and earnings growth for 11 Minneapolis-St. Paul manufacturers as "torrid" and cited a regional fund manager who argued that these firms were "beneficiaries of an improving economy." Industrial use of electricity continues to grow at about twice its five-year trend in Minnesota and South Dakota. Two Minnesota-based snowmobile manufacturers reported record sales and earnings. Also, Wisconsin chicken processing and brewing firms announced that they would double output. New small factories for automotive equipment and environmental controls were announced for South and North Dakota, respectively.

Building-related manufacturing is particularly active; one advisory council member from west-central Wisconsin noted that two window manufacturers in his town were enlarging their factories. Production of oriented-strand board and other wood-based plywood and lumber substitutes continues strong in Minnesota, Wisconsin and Michigan. Demand for sawn lumber from Montana and South Dakota is reportedly high, but output remains below historic levels due to limitations on timber sales from federal land. Paper output from virgin pulp is unchanged from a year ago, but production of paper from recycled inputs has raised total production slightly.

Crude petroleum production and drilling activity were essentially unchanged while refinery output in January and early February was about 9 percent above year-earlier levels. Mining shows little change from recent reports. Copper and gold output apparently remains steady from late 1993. New gold mines continue in the planning or permitting process in South Dakota and Montana, but are not expected to be in production this year. Iron ore officials continue to anticipate that production in the 1994 season will be the highest thus far in the 1990s, though there are concerns that unusually heavy ice coverage on the Great Lakes will delay opening of the shipping season by two weeks or more.

Agriculture

As farmers approach the spring tillage season they are described by one extension economist as "guardedly optimistic" about the 1994 crop season, despite concerns about potential flooding in some areas. Favorable prices combined with zero set-aside requirements in price support programs point to slightly higher planted acreages this year. A major sugar beet cooperative announced that it will expand its planted acreage by 5 percent. The National Weather Service announced that there was a high probability of spring flooding in some Minnesota and Dakota river basins.

Cattle numbers are higher than a year ago for the district as a whole. Hog numbers are largely unchanged. Newspapers reported that cold weather caused cattle raisers some difficulties with early calving, and there was some speculation that the weather might reduce survival of newborn pigs, but there is little evidence that production was reduced to any significant degree.

In an indication that flood-related financial stress may be easing, banker expectations of farm income and spending for the next three months rose somewhat from earlier in the year, according to a Ninth District survey of agricultural credit conditions at the end of fourth quarter 1993. Agricultural interest rates were unchanged to slightly down.

Consumer spending and tourism

"Retail trade is strong," reported an advisory council member from eastern North Dakota whose views are echoed by his colleagues, directors and other sources across the Ninth District. He noted that retail sales were slow on extremely cold days but rebounded when weather moderated. The owner of a Wisconsin chain of auto repair and accessory shops reported record sales in January. A consumer confidence poll conducted in Minnesota in early February showed the highest level since December 1989. The increase was largely attributed to statements of increased willingness to spend on appliances and other major items. Vehicle sales continue above year-earlier levels in all states.

Winter tourism was strengthening in late February after somewhat slower business in late January and early February. Skiing in the Upper Peninsula of Michigan was down slightly for January and February due to cold weather, but out-of-state snowmobilers kept their vacation plans in northern Wisconsin. Numbers of both skiers and snowmobilers are steady on South Dakota trails compared to year-earlier levels. Canadian traffic continues to lag in border states; one Montana ski resort near the border reported a 7 percent drop from last year, though ski business for the whole state was about even with last year.

Employment, prices and wages

Employment is generally 2 percent to 3 percent above year-earlier levels across the district. A few large layoffs were reported, including 600 packing plant workers and 450 medical employees in southern Minnesota, but these cuts were partially offset by new warehouse, poultry processing, food manufacturing and machine tool jobs. With the exception of the Upper Peninsula of Michigan, unemployment rates in Ninth District states remain well below the national average. An advisory council member and a director both noted that firms in their areas were experiencing some difficulty in attracting good workers, given low unemployment rates. Other directors and advisors reported limited wage increases for both private and public sector workers. They noted little upward price movement, with the exception of lumber, which remains substantially above pre-1992 levels. Retail gasoline prices remain 3 to 6 cents below year-earlier levels.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow moderately. Retail sales and residential construction are increasing, and the demand for bank loans is strengthening. Farm income prospects remain weak, however, and activity in the energy sector is sluggish. Retail prices are generally stable, while prices of manufacturers' inputs show some slight increases.

Retail Sales. Retailers report moderate increases in January's sales, despite bad weather in parts of the district. Most retailers attribute much of the strength to clearance sales on several categories of merchandise. Sales are expected to climb steadily in the next few months. Retailers expect pressure from competition to keep prices stable over the near term. While most retailers are satisfied with current inventory levels, a few respondents report higher-than-desired levels.

Automobile sales were mixed last month, but dealers are optimistic about sales in 1994. Dealers are generally expanding inventories to meet the expected demand. Financing is readily available.

Manufacturing. Purchasing agents report stable to slightly increasing input prices compared with a year ago. Few expect price increases in the near term. Some agents report slight problems with input availability and scattered increases in lead times, but they generally expect few problems for the remainder of the year. Most respondents are satisfied with their current inventory levels after actively moving to reduce them. Most respondents who sell abroad report flat to slightly decreasing export sales. Firms report a few incidental problems due to bad weather in the eastern United States, but no serious impact on production.

Energy. Energy activity in the district remains sluggish despite higher natural gas prices. While cold weather helped boost the price of natural gas, glutted oil markets held down the price of crude oil and drilling activity in the district slipped. Overall, the average number of operating rigs in district states slipped from 278 in December to 259 in January. The rig count continued to fall in the first two weeks of February to 239.

Housing. Builders report that housing starts were steady to off a bit compared with a month earlier, but up significantly from a year ago. Sales of new homes are flat compared with both a month ago and a year ago. Inventories of unsold homes remain low. Building materials are readily available, but prices of materials, especially lumber, have increased. Builders report that weather conditions have had little impact on construction apart from the usual seasonal effects.

Mortgage refinancing activity has declined, but respondents generally expect the demand for mortgages to rise due to increased homebuying in the spring and summer. Respondents report that mortgage rates have risen and expect rates to increase further over the rest of the year.

Banking. Loan demand rose last month at most reporting banks. Most banks report higher demand for commercial and industrial loans, consumer loans, and commercial real estate loans. Demand was mixed for home mortgages, home equity loans, residential construction loans, and agricultural loans. Loan-deposit ratios were constant to up compared with the previous month, while investments were mixed.

No respondents changed their prime rate last month or expect to in the near term. Most banks left their consumer lending rates unchanged and expect no change in the near future. Lending standards were also unchanged.

Deposits were flat to down at most banks. While money market deposit accounts were generally higher, demand deposits, NOW accounts, small time deposits, and large CDs were all mixed.

Agriculture. Dry weather has stunted the winter wheat crop in part of the district's main wheat-producing area. Timely rainfall will be needed through the rest of the growing season to ensure normal wheat yields this summer. The dry weather has also trimmed the supply of winter wheat pastures available for grazing by district cattle herds. An ample supply of hay and other forages, however, is available to offset the shortage of wheat pastures.

Most district feedlots are quickly selling off the large inventory of cattle that has built up in recent weeks. High feed prices and weak cattle prices have pushed feeding margins well below break-even. While some feeders continue to wait for higher cattle prices before selling their cattle, most feeders are selling now to limit their losses.

Early reports from year-end credit reviews at district agricultural banks indicate few problem loans and healthy equity levels among district farm borrowers. Federal disaster assistance and higher crop prices cushioned the financial impact of large crop losses caused by wet weather and flooding in the eastern part of the district. Overall, most farm borrowers in the district entered the new year in solid financial condition. But with further losses in the livestock sector, prospects for district farm income have weakened.

ELEVENTH DISTRICT--DALLAS

The Eleventh District economy expanded moderately in January and February. Manufacturers reported continued steady growth in orders and a slight pick up in employment. Business service contacts said activity was growing slowly and retail sales increased moderately. Growth of construction and real estate activity remained steady. Frigid weather and snowstorms in the Northeast gave a short boost to the energy industry although oil prices and activity have returned to previously low levels. Bankers said that loan growth continued to improve. Dry weather continued to hamper agricultural production.

Freezing weather and the California earthquake caused shipping delays for several industries. A few contacts reported that delays had negatively affected sales. Passage of the NAFTA heightened talk of increased trade opportunities. Border contacts, however, noted that inadequate infrastructure was causing serious delays at border crossings, particularly going into Mexico. These delays impaired sales for some contacts.

District manufacturers reported continued steady growth in orders and a slight pick up in employment. Brick producers said they had another record sales month and prices had increased. Glass producers also reported strong demand and slightly higher prices. Demand fell slightly for primary and fabricated metal products. Homebuilding continued to boost demand of metal products, although cold weather in the Midwest and Northeast delayed some sales. Demand for energy-related metal products, however, was reported as still in a slump. Lumber sales and prices were higher, and contacts were optimistic that demand would remain strong. Increased construction in the

District more than offset slower lumber sales to the Northeast. Paper contacts said that demand remained strong and prices were higher. An increase in advertising boosted demand for newsprint, while sales of corrugated containers were reported to be the strongest in the nation. Demand was higher for electrical and electronic machinery although prices remained unchanged or lower. Electrical contacts still anticipate a deceleration in sales because they believe demand has been growing at an unsustainable rate. Cold weather in the east increased demand for refined products. The demand spurt reduced inventories and improved prices and margins, but contacts said overcapacity will keep the industry outlook weak. Despite stronger demand for all chemicals, overcapacity keeps prices for many ethylene-based petrochemicals low. Producers of other chemical products report better prices, including polystyrene, benzene and some polymers. Despite a normal seasonal decline in the rig count, the demand for oil field machinery remains stable. Sales were slower for food and kindred products.

Demand for business services was still increasing slowly. Demand was growing slowly for accounting, advertising and transportation services. Legal contacts reported little or no growth in demand while temporary services continued to report the strongest activity.

Retail sales increased moderately. Prices were stable or lower for most products. Auto sales increased strongly in January but showed signs of slowing in February. Sales of domestic trucks, minivans and sports vehicles were particularly strong. Some dealers reported that their inventories fell below desired levels.

Construction and real estate activity remained steady. New home sales

were above last year's levels for all major markets and contacts do not anticipate any slowing in demand for at least six months. Apartment occupancy rates and rents are rising. Apartment markets remained particularly tight in Austin and San Antonio. Demand for warehouse space was strong and some speculative warehouses were under construction. Other commercial markets were unchanged although contacts were more optimistic that activity would increase, in part because of NAFTA. Contacts said that there was a surplus of sales people and development managers but a shortage of specialized tradesmen.

Frigid weather and snowstorms in the Northeast caused a light flurry of activity in the energy industry and boosted futures prices for oil and natural gas. Oil prices quickly fell back to around \$14 per barrel, but natural gas prices are not expected to fall until storage tanks are refilled in the spring and summer. Oil exploration fell sharply in January but was partially offset by more than expected drilling for natural gas.

Bankers said that loan growth continued to improve across the District. Growth in loan demand in south Texas and Houston was primarily for real estate. Other parts of the District had higher demand for all types of loans.

Dry conditions have hampered agricultural production. Texas wheat condition was rated at 55 percent of normal compared with 72 percent last year. Livestock conditions were reported to be fair to good. Ranges and pastures across much of the District remained short. Hay supplies continued to be tight and supplemental feeding remained steady. The January Texas All Crops Price Index was 19.3 percent above a year ago but the Livestock and Livestock Products Price Index fell 6.8 percent.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

California continues to lag behind the national economy, but much of the rest of the Twelfth District shows signs of solid economic growth. In California, weakness remains centered in the Los Angeles area, reflecting the region's dependence on aerospace and defense, while other regions of California are showing signs of bottoming out or of modest improvement. The Northridge earthquake is seen as causing a significant loss in quality of life in the Los Angeles region, but also should provide some short-term stimulus to the construction industry. In contrast to the California economy, Oregon and Arizona are experiencing solid growth across several sectors and the economies of the intermountain states continue to boom. Mixed conditions are reported in Washington, where weakness in aerospace is being offset by strength in other sectors and in the eastern part of the state. Business sentiment in the Twelfth District is strong.

Business Sentiment

Sentiment among Twelfth District business leaders has improved significantly in recent months. Almost all of the respondents expect the real economy to expand during the next four quarters at a rate at or above trend growth. This response is as strong as in January, but is up from three-quarters in November, two-thirds in October, and one-half in August. Furthermore, it remains the strongest such response in the six-year history of this survey. Respondents from California and western Washington, however, expect the pace of growth in their regions to lag the nation.

Retail Trade and Services

Retail and services industry conditions are reported mixed in California but good in most other District markets. Consumer spending in certain parts of California is showing modest signs of improvement, with the strongest conditions in the San Francisco Bay Area and San Diego. Sales in

Los Angeles and other parts of southern California, however, remain weak. Much of the increase in spending is reported in durable goods, especially autos and building materials, while nondurables remain sluggish. In Utah, favorable weather conditions helped sustain the pace of consumer buying following a very strong holiday season. One national retailer reports that overall sales are slightly better than in 1993, but that cold weather in the East and the Northridge earthquake had a sizeable negative effect in those areas. Another national retailer reports that current sales are on par with three months ago, but above a year earlier. Both national retailers report that inventories are in line with sales.

In the telecommunications sector some shortage of cable supplies and broadcast equipment is reported. A contact in the newspaper industry reports some improvement in profits and ad volume at the end of 1993. The contact reports that newsprint is selling at a deep discount due to oversupply and relatively weak demand. Visitor industry conditions remain sluggish in Hawaii, but an increase in advance bookings for 1994 has led to expectations for improvement. In southern California, visitor industry conditions are reported improving despite the earthquake.

Manufacturing

District manufacturing activity is mixed, with weakness reported in aerospace, defense, and wood products and strength reported in other sectors. A contact in Oregon reports that wood products production is flat due to timber supply shortages, but that other manufacturing companies in the region have experienced steadily improving sales and profits, particularly in durable goods. Another contact from Oregon reports strength in truck and rail car manufacturing, and that several expansions in the electronics sector are underway or have been announced. A contact from Silicon Valley reports that sales and production levels in the computer industry have improved during the past three months and are much better than a year earlier. Inventory levels in the industry have dropped and are expected to continue falling over the next quarter.

Weakness in aerospace continues to act as a drag on the economies of southern California and western Washington, but contacts report that the pace of new announced layoffs has declined from a year earlier. The recent decision by Saudi Arabia to purchase United States manufactured aircraft will help preserve jobs in these regions.

Agriculture and Resource-Related Industries

District agricultural conditions are generally good. Several contacts report that feed grain product prices are rising, with dairies and feed lots paying more than in at least the last two years. In contrast, cattle prices are expected to soften in 1994 due to increased inventory. The oil industry in California's Kern county is depressed, with oil prices at about the cost of extraction.

In the lumber industry, a contact reports that prices fell back from the January peak levels, but have stabilized about 15 percent over the 1993 average price level. Furthermore, with public timber supplies all but gone, the overall prices will stay above 1993 levels in 1994. Another contact reports that the threat of additional regulation of private lands has led to a rush in harvesting of private timber.

Construction and Real Estate

Both residential and nonresidential real estate and construction markets are reported strong in most District markets outside of California. Residential, commercial, and industrial construction is reported strong in central and eastern Washington, with low interest rates cited as a contributing factor. In Oregon, residential construction activity is reported up from a strong 1993 and several public infrastructure projects are underway. Boom conditions in construction and real estate continue in the intermountain states.

Sluggish construction and real estate markets persist in California. A contact in northern California reports an improving mood in real estate markets, but no significant increase in activity. Sales of single family homes in southern California are only slightly higher from a year earlier. In

the Central Valley, residential construction is slow, with no real pickup expected until late in 1994.

Contacts report that as a result of the Northridge earthquake, construction activity in the Los Angeles area will increase as repair and reconstruction efforts get underway. The timing of the activity, however, is uncertain. One contact expects increased activity for architectural, engineering, and construction services for residential repairs over the next six to twelve months. With respect to freeway construction, the state has announced a plan to complete much of the rebuilding by the end of this year. Some contacts, however, report that freeway construction could stretch well into 1995.

Financial Institutions

Some increased lending activity is reported in District financial markets. A contact in eastern Washington reports somewhat stronger commercial loan activity. In Oregon, loan demand is reported very strong in all categories, but especially in real estate sales. A contact from the California agricultural industry reports some easing in bank lending policies. A contact in northern California reports that small businesses find it very difficult to qualify for conventional bank financing, despite public announcements by commercial banks of their commitment to this market.