

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

August 1994

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SUMMARY¹

Business activity in most areas is continuing to expand at a solid pace, although a number of Districts report scattered indications of some slowing or slight declines. Retail activity, which had moderated during the spring, appears to have picked up recently. Most Districts report sales of autos, building materials, and apparel are improved since their June report.

Several Districts are reporting a tightening in labor markets that, in some cases at least, has resulted in faster wage growth. However, labor shortages appear to be concentrated only in a few skilled occupations. The range of commodities for which prices are rising appears to have broadened somewhat. However, a majority of Districts report that retailers are holding the line on price increases, and profit margins are narrowing in a retail environment that continues to be characterized as intensely competitive.

Loan demand appears to be fairly strong in most Districts. Commercial and industrial borrowing has improved in many regions and consumer lending is particularly active. Even in California, where the business trend remains flat, a moderate expansion in lending activity is reported to be underway.

Business Activity

Virtually all Districts are seeing an expansion of industrial activity, with only scattered observations of weakness. Industries such as motor vehicles, capital goods including industrial machinery, heavy trucks, microelectronics, computers, mining and

¹Prepared at the Federal Reserve Bank of Cleveland from information collected before July 25, 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.

construction equipment, and nondurable goods producers like chemicals and textiles, are all reported to be expanding their production.

Construction activity appears to be holding steady, although a drop-off in residential construction was prominently noted in many District reports. Higher mortgage interest rates are commonly blamed for a slowdown in home sales and new construction, although the Dallas District also notes a very low inventory of new homes. At least a share of the slower residential construction activity appears to have been offset by moderately stronger commercial building.

Retail markets are, in most regions, stronger than in the spring, particularly in the areas of autos, building materials, and appliances. Even apparel sales are noted as having improved since the June report, although not in all Districts. Several regions also report a reasonably busy tourist season.

Although activity has improved in retailing, competitive pressures have kept profit margins lean—discounts and promotions are frequently noted. Retailers are guardedly optimistic about prospects over the remainder of year, with continued strength anticipated in the new car market. There also appears to be a growing enthusiasm over the coming back-to-school season.

Prices

Price increases are noted among a broad range of business materials including finished steel and steel scrap, copper, wood, paper and paperboard, building materials including brick and glass, and wool and other textile products. Energy costs have also moved up a bit in the past month or so. In construction and some manufacturing industries, higher materials costs are thought to be exerting upward pressure on finished goods prices. The Philadelphia District survey of manufacturers taken in July indicates that nearly 25 percent of firms were implementing price increases, up from 15 percent in their

June survey. In the Boston District, about half of the manufacturing contacts have raised or plan to raise prices, by up to 5 percent. However, virtually all Districts report that competitive pressures are holding prices down at the retail level and, presumably, retail margins are being squeezed.

Employment and Wages

Several Districts indicate a general tightening in labor markets and an increase in help-wanted advertising is cited. However, few Districts see any broad-based wage pressures as a result. Actual labor shortages are mostly limited to occupations such as machinists, technicians, clerical workers, construction workers, and truck drivers, although shortages of some entry-level positions are also noted.

Jobs expansion in the industrial sector is uneven by District and industry. The use of temporary workers and high levels of overtime are continuing, and some Districts report a continuing resistance by firms to permanently expand their payrolls. Manufacturing jobs are reported to be holding steady in the Boston and Richmond Districts. In Philadelphia, where manufacturing employment is also steady, an increasing proportion of firms report plans to add to their payrolls during the next six months. In other Districts, such as St. Louis, recalls and new hires are on the rise, and in Atlanta, jobs growth is seen in the chemicals, steel, and auto industries. Reports of jobs cutbacks are more rare, although several Districts report continued layoffs of aerospace workers, and the New York District notes some jobs losses as a result of restructuring in the financial and retail industries.

Agriculture and Natural Resources

The agricultural regions of the country are generally reporting favorable growing conditions, and some crop prices are falling in anticipation of high yields. Earlier concerns about a potential drought in the Richmond and Chicago Districts seem to have lessened with late spring rains. And, although rainfall has been excessive in some areas, such as in parts of the St. Louis and Minneapolis Districts, crop yields there are still expected to be normal, or better. Agricultural exports are also strong, helped in part by the falling dollar.

The energy producing Districts note only a small increase in drilling and exploration activity as a result of the rise in oil prices. The Dallas District indicates that drilling activity has been focused on natural gas, although oil drilling is expected to improve through the end of the year. Other mining operations are reported to be running strong; iron-ore production for the year is exceeding industry expectations.

Lending Activity

Commercial bank lending remains active with high levels of consumer borrowing noted in virtually all Districts. Commercial and industrial borrowing is noted as having strengthened in the Philadelphia, Cleveland, Atlanta, Kansas City, and San Francisco Districts. The only major lending category that may have diminished is residential mortgages. Higher mortgage interest rates are widely cited, although interest rates are marginally higher on most types of credit. Credit standards are apparently changed very little and a further decline in credit delinquency rates is reported.

FIRST DISTRICT - BOSTON

The First District economy is experiencing moderately vigorous expansion on the strength of retail and manufacturing activity, but housing sales are slowing. Prices of some manufactured goods and new homes are rising, while store prices generally remain flat.

Retail

June and early July retail sales were up 3 to 20 percent compared to year-ago levels, according to most First District contacts. Home centers and lumber stores experienced the most rapid growth, which contacts attribute in part to the late start in this spring's building season. Air conditioners, large appliances, and outdoor equipment sold particularly well. Apparel sales grew moderately. The small number of retail contacts reporting level or declining sales cite inadequate inventories or shifting fashions.

The retail environment generally continues to be promotional. Prices and gross margins remain relatively flat, and inventories are intentionally lean.

Retail contacts anticipate a strong fall and holiday season with growth in sales of 5 to 12 percent. Encouraged by a perceived rise in consumer confidence and new mall developments in the region, some companies are planning increases in employment to staff new stores or expansions of existing stores.

Manufacturing

First District manufacturing contacts report broad-based growth. Sales to the automotive and microelectronics industries are well above year-ago figures, but rates of increases are expected to abate by late

1994 or early 1995. Sales of computer networking products, sporting goods, construction items, and woolen fabrics are reported to be increasing considerably. Makers of paper products report 4 to 5 percent growth, and manufacturers of small medical and pharmaceutical instruments indicate increases in the single-digit range. Demand for aircraft parts reportedly remains soft. Exports to Europe are increasing weakly at best, but some Asian markets are flourishing.

Most respondents indicate some materials cost pressures. Several face substantial price increases for steel and copper as existing contracts with suppliers expire or strong demand forces them to rely on spot markets. Prices for raw wool and some wood species have recently risen by 20 to 30 percent, and paper prices are moving upward. Chemicals prices are reported flat.

About one-half of the manufacturing contacts have raised or plan to raise prices, by up to 5 percent. Remaining selling prices are flat to down, as a result of pressures from automotive customers and competition in industries such as textiles, medical supplies, and computers.

Equal numbers of respondents report that employment has decreased, increased, or held steady over the past year. Three-fourths of the manufacturing sample report modest to heavy use of overtime in recent months. Most contacts report 1994 wage increases of 2 to 4 percent.

Manufacturing respondents generally are fairly optimistic about future growth, although some point to risks associated with particular product markets or the economy at large. One-half plan limited hiring or reductions in the rate of job cutbacks. Manufacturers producing

automotive parts, furniture, computer components, and paper goods are adding to capacity.

Residential Real Estate and Construction

Although the change is not yet reflected in the latest sales and construction numbers, the residential real estate market in New England has slowed after a very active spring. Contacts in Massachusetts, Vermont, Rhode Island, and Maine report that June and July sales agreements dipped below the levels seen earlier in the year, even accounting for normal seasonal declines. They attribute this falloff to higher interest rates. A couple of contacts note that confidence is fragile and that a further increase in interest rates or a downturn in the economy would have a significant impact on the real estate market.

Although new construction is continuing strong as a result of contracts signed in the spring, a recent slowdown in purchase agreements and price increases due to higher input costs are expected to limit future activity. One Massachusetts builder notes that he has business only through September, and another contact expects that overbuilding will lead to a decline in speculative construction. Renovations and additions are reported to be strong.

Nonbank Financial Services

The majority of respondents at insurance companies report a small rise in overall sales in the second quarter compared to a year ago. The largest increases were for variable annuities. Almost all respondents report flat or lower employment for the second quarter and expect a similar trend for the rest of the year.

In New York City, tourism has picked up, driven by special events and foreign tourists attracted by favorable exchange rates, although the critical convention business remains weak. Hotels report climbing occupancy rates, well above year ago levels, and attractions such as the Metropolitan Museum of Art and the Empire State Building boast of long waiting lines and strong growth in admissions.

Labor Markets

Unemployment rates rose slightly in June to 7.0 percent in New York State and 7.1 percent in New Jersey following unsustainably large declines in May. In recent weeks, mergers, acquisitions and restructurings were announced for two retail chains which number among the nation's largest, two of the metropolitan area's largest thrifts, several smaller retail chains and thrifts, and a major pharmaceutical manufacturer. While the staff reductions following these changes have yet to be fully implemented, corporate changes earlier this year restrained the district's payroll employment growth to a 1.4 percent annual gain during the January - May period, and the future appears to hold similar constraints.

Residential Construction and Real Estate

Although there are isolated spots of strength, in general builders noted that momentum in new home sales dropped in June and early July. Prospective buyer traffic is definitely down and builders expect demand to be flat at best through the end of the year.

Rising interest rates are blamed for the softening of demand, but builders feel besieged on the supply side as well. Complaints about rising lumber prices have broadened to include price increases for a wide array of building materials. However, builders also noted that in most cases these were the first price increases in several years. Acquisition and development loans also remain difficult to obtain.

Leasing activity slowed and office vacancy rates eked out only minor improvements in June. Earlier this year, the pace of absorption had been somewhat faster. In midtown Manhattan, the vacancy rate for prime commercial office space now hovers around 13.9 percent -- well below the rate for most of the nation's central business districts. Vacancy

SECOND DISTRICT -- NEW YORK

Regional growth slackened a bit over the past six weeks as the housing sector responded to higher interest rates. Home builders reported lackluster sales, and the sales rate of existing homes fell in many areas. In addition, the rate of absorption slowed in the commercial office markets. Payroll employment expanded, but only moderately, as corporate mergers and restructurings partly offset some of the gains. Unemployment rates bounced up in June following a very sharp decline in May. Although seasonal adjustment problems may have affected the data, the general downward trend probably remains intact. Retail sales were mixed. Inexpensive chains and discounters reported moderate to strong year-over-year gains, and motor vehicle sales were moderately strong, but general department stores reported small increases that were well below their expectations.

Consumer Spending

Retailers reported mixed sales results in June and the first two weeks of July. General department stores chalked up disappointing 12-month gains of 0.5 to 5 percent. However, inexpensive department stores, discounters, and variety stores reported gains in the range of 7 to 10 percent in the Second District, better than their results in the rest of the nation. Managers at these stores commented that sales were good across the spectrum of men's, women's, and children's apparel, small and large appliances, and electric goods. The general department stores noted increased difficulty moving apparel, some unwanted inventory accumulation, and the consequent need for markdowns and sales.

Motor vehicle dealers reported strong demand -- unit sales ran about 5 percent above year ago levels -- in June and early July. Dealers reported that the effects of higher interest rates were blunted by double-digit gains in leasing. Inventories of cars were slightly higher than desired, but supplies of light trucks were reportedly quite short.

rates for prime office space in most suburban areas in the Second District, including Long Island and Fairfield County, also show marked improvement compared to both year-ago levels and the prior quarter. Corporate restructuring and some deceleration in the volume of relocations have stymied improvements in the Westchester and Northern New Jersey office markets; however, vacancy rates in these suburbs rose slightly from March to June.

Financial Developments

About one-third of the senior loan officers surveyed at small and midsized banks in the District reported stronger loan demand, while fewer than 20 percent reported weaker demand. Consumer loans showed the most strength with more than half of the respondents reporting increased demand. Residential mortgage and refinancing activities remained weak. In general, loan rates have continued to increase. Nearly three-quarters of the banks reported higher rates, though a few reported lower business loan rates. Fewer banks raised their rates on consumer loans than on any other type of loans, as was the case in the last survey.

While three-quarters of banks surveyed reported no change in their willingness to lend, one-quarter did report an increase. In general, credit standards have not changed, and more than 90 percent of the banks surveyed reported stable or lower delinquency rates.

Approximately two-thirds of the respondents reported that deposit rates moved higher, and that the spread between the average lending rate and deposit rate was stable or narrowed.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District was edging up in July, according to reports from businesses in the region. Manufacturers indicated that shipments and orders were moving up modestly, although employment was steady. Auto dealers were seeing renewed growth in sales in July after a brief pause in June. General merchandise retailers, however, generally reported somewhat softer sales in July compared with June, especially for apparel. Bankers said consumer lending continued to move up and commercial lending was rising also, albeit slightly. Real estate loan volume has been flat.

Looking ahead, business contacts in the District expect growth to continue, but at a somewhat more subdued pace than in the first half of the year. Manufacturers anticipate further gains in new orders and shipments, but they do not expect order backlogs to increase. Auto dealers forecast sales for the year as a whole to exceed sales for last year. Retailers expect a boost from back-to-school shopping, but they anticipate only a slight increase for the second half of this year compared with the same period last year. Bankers predict that slower economic growth in the second half will restrain the growth of loan demand.

MANUFACTURING

Reports from Third District manufacturers in July indicated that activity remained on a moderate upward trend. About one-third of the industrial firms contacted said they were posting gains in both shipments and new orders while about half said shipments and orders were running at a steady pace. Conditions varied by sector, however: improvement was reported among makers of paper

products; chemicals; electrical machinery; transportation equipment; and stone, clay, and glass products; declining activity was noted by makers of textiles, primary metals, and nonelectrical machinery.

Employment at Third District manufacturing plants was steady in July, according to reporting firms, with both employee numbers and hours level. On balance, area industrial firms were allowing inventories to fall slightly.

Looking ahead, about 40 percent of the firms contacted for this report expect business to continue to improve during the next six months. They anticipate gains in shipments and orders, but they do not expect demand for their products to be strong enough to push order backlogs up or to require extending hours or adding workers.

While half of the firms surveyed reported that prices for inputs were steady in July, about 40 percent noted increases for at least some of the goods they purchase. About two-thirds of the firms were holding the line on prices of the products they make, but nearly one-fourth were implementing price increases. Nearly two-thirds of the manufacturers commenting on price expectations said they anticipate higher input costs over the next six months, and two-fifths plan to charge more for the products they make.

RETAIL

Third District retailers indicated that sales in July ran somewhat below the levels of the spring months. While some said that normal seasonal factors could be the cause of the slowdown, several noted that sales of clothing, especially women's apparel, remained weak as spring and summer fashions failed to attract consumers' interest. Despite slower than expected sales, most of the merchants contacted for this report said their inventories were not significantly higher than planned.

Retailers generally expect the pace of sales to accelerate with the fall back-to-school shopping period. Some expressed the opinion that clothing sales will bounce back once fall styles are in the stores. Most area merchants predict just small gains in overall sales, however, as they expect economic growth to begin slowing in the second half of the year.

Third District auto dealers said sales slipped a bit in late June but appeared to be picking up again in late July. In general, dealers still expect sales for the year as a whole to be good, and to exceed last year's level by a modest amount.

FINANCE

Third District bankers generally reported moderate loan growth in July. Most of those contacted said consumer lending for both credit cards and installment loans continued to expand. Commercial lending has been moving up slightly, according to bankers. With the decline in mortgage refinancing, residential real estate lending activity has dropped at banks in the District and mortgage loan volume outstanding has been level.

Most of the bankers surveyed in July foresee some slowing of economic activity in the second half of the year, and they expect a consequent slowdown in the rate of loan growth. Also, comments from some bankers indicate that they may become more cautious in consumer lending in response to rising ratios of consumer debt to income. This restraint may take the form of reduced credit lines and greater collateral coverage for secured debt such as auto loans and home equity loans.

FOURTH DISTRICT - CLEVELAND

Overview

Conditions in the District remain favorable. Orders and shipments in the industrial sector are continuing to expand, and an increasing proportion of manufacturers report adding workers to their payrolls. Construction activity is still good, with perhaps less of the new growth coming from residential and more from commercial and industrial building. The retail sector appears to have rebounded from its spring slowdown, although weather and price discounting may have temporarily propped up apparel sales. Loan demand is holding solid, with household borrowing reportedly brisk. Commercial borrowing is also growing, although alternative credit sources have apparently cut into the business of some commercial banks for this product.

Industrial Activity

The region's industrial sector continues to exhibit vigorous growth, particularly in areas related to motor vehicle production and capital goods. Several District producers report record shipments and orders for the second quarter, and early third-quarter returns suggest a continuation of that trend. A few capital goods makers indicate backlogs of six to eight months, roughly twice the typical level. While domestic demand for capital goods remains high, foreign orders are apparently on the rise. Even capital goods orders for European customers have apparently turned the corner and are now headed modestly higher.

Vehicle producers are equally upbeat, and this strength is reflected across a range of suppliers. Paints, metals, glass, and components producers are all reporting solid production levels. New hires are becoming increasingly common, and several firms note shortages of skilled labor. Cost pressures remain moderate, although rising prices are noted for metals and paperboard and packaging. Despite the exceptional orders and production numbers, many manufacturers in the District indicate that competitive pressures are still restraining their ability to raise prices.

Consumers

Fourth District retailers report that sales picked up substantially in June after declines in May and April, and the pace of improvement apparently increased during the first two weeks of July. Much of the early July gain appears to have been associated with aggressive post-holiday clearance sales, and retailers generally expect markets to settle into a slower, more sustainable growth pattern moving into the fall.

While electronics, furniture, and building materials continue to sell well, demand has broadened to include "soft" goods such as home furnishings--perhaps a lagged effect of the strong residential building activity earlier in the year. Apparel sales have also improved, although District sources say that hot June temperatures and summer price discounts may have had a temporary influence.

Traditional department stores appear to be the primary beneficiaries of the recent sales gains, with most reporting year-to-year improvements of 5 percent or so. Sales by discounters are being spread over an increasing number of competitors and individual companies have had mixed results. Specialty stores, especially apparel outlets, continue to lose ground in year-to-year comparisons, although monthly declines are diminishing. By contrast, these same companies are reporting growth in their catalog divisions--in most cases double-digit improvements from last year.

Price competition is reported to be severe in most retail markets, and some margins are being squeezed by rising merchandise costs.

Autos

Fourth District motor vehicle dealers are upbeat about their recent sales performance as well as about the upcoming 1995 model year. After a brief spring respite, most were again reporting year-to-year sales gains in June, and although profit margins remain thin, they have improved as consumer demand has risen.

Dealers report continuing shortages of popular auto and sport utility vehicles. Given demand levels and capacity constraints faced by U.S. motor vehicle manufacturers,

dealer association respondents anticipate continuing shortages of certain cars and trucks throughout the remainder of the year.

Area dealers are following the industry trend of increasing leases as a percentage of total sales. They note that some automakers are boosting incentives on leases even as they reduce them on straight sales. Lease arrangements have also become more attractive as interest rates have risen 50 to 75 basis points in major Fourth District markets over the past few months. The Japanese automakers have been particularly successful in the leasing segment of the new car market. Even as the rising yen and other factors have pressured purchase prices upward on new vehicles, aggressive leasing plans have allowed them to offer competitive monthly payments.

Overall, respondents say that they expect price increases on the 1995 models to average in the 3 to 6 percent range, as new car demand is expected to remain high. They do not believe sales have been significantly affected by recent interest rates hikes, although cash sales have reportedly picked up.

Lending Activity

Lending activity around the District is good, with most borrowing occurring at the household level. Consumer credit demand is up, and some banks report an improving mortgage credit market. However, the rise in mortgage rates was generally thought to have lessened the pace of home sales. Also expanding are commercial loans, particularly for small and mid-sized borrowers. A few institutions indicate that the fall-off in residential construction activity has been offset by an increased incidence of commercial building, and at least one banker observed that loan covenants on commercial building had been relaxed. Several banks indicated that nonbank credit sources remain a competitive alternative to commercial banks. While some deposit runoff has been seen, the fund outflows from commercial banks have apparently been modest, and a few institutions report a small rise in retail CD volume.

FIFTH DISTRICT-RICHMOND

Overview: Most sectors of the District economy grew moderately in June and early July, although finance and residential real estate slowed somewhat. Manufacturing and retail activity rose, and modest price increases were seen in both sectors. Port activity and tourism picked up, and commercial real estate activity was strong. Mortgage originations and consumer lending, however, declined slightly. Agricultural activity was at a normal level.

Consumer Spending: Respondents to a regular mail survey indicated that District retail activity increased in June. Sales, wages, and shopper traffic rose, but employment, big-ticket sales, and inventories changed little. Survey respondents indicated that retail prices increased 0.3 percent in June, and they expected prices to increase 1.3 percent during the next six months. They also foresaw increased demand for their products in the months ahead.

The District's board of directors reported that retail sales--especially sales of autos and building materials--generally were strong in their areas. They noted, however, that consumers continued to be price conscious and willing to shop at several stores before making a purchase.

Manufacturing: A mail survey of District manufacturers showed increased factory activity in June. Survey respondents reported increases in shipments, the volume of new orders, order backlogs, and the hours worked per week. Despite increased factory activity, there was no rise in factory employment. Capital expenditures were up compared to six months ago. Manufacturers expected shipments and capital expenditures to increase during the next six months, but they anticipated no change in employment. Finished goods prices

were steady; raw materials prices increased, but by less than the general inflation rate. Producers expected these price trends to continue during the next six months.

Service-Producing Firms: Respondents to a mail survey of District service-producing firms indicated higher revenues and wages in June. Employment changed little, except for increases in the wholesale and health services sectors. Service prices rose 0.2 percent in June, and respondents looked for them to rise 0.7 percent during the next six months. Respondents also expected demand for their services to increase.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in June and early July was higher than in May and a year ago. Over the last several weeks, many beach area hotels were reported booked to capacity; the Fourth of July weekend was especially busy. Other beach and mountain area hotels and resorts experienced increased bookings. All respondents expected tourist activity for the remainder of the summer to be above last year's level.

Ports: Representatives at the District ports of Baltimore, Charleston, and Hampton Roads (Norfolk) indicated that both exports and imports were higher in June than in May. Compared with a year ago, imports were higher, but exports were unchanged. Baltimore reported that warehouses were filling up because of increased imports but noted that the weak dollar could soon shift activity from imports to exports.

Finance: District financial institutions indicated that lending activity slowed slightly during the last six weeks. Mortgage originations declined somewhat, and refinancing remained weak. Consumer lending also declined slightly, although it remained at a fairly strong level. Interest rates on both mortgage and consumer loans rose. Commercial lending remained weak, and rates were unchanged. Most lenders were cautious about future loan demand and expected slow-to-moderate levels of activity through the summer.

Residential Real Estate: Real estate contacts reported steady buyer traffic but fewer home sales in June and early July. Homebuilders said there were fewer starts and building permits because of fears of future mortgage rate hikes. Home prices were unchanged; lumber prices and construction wages were stable, although the cost of other building materials rose.

Commercial Real Estate: District contacts continued to report strong leasing activity in June and declining vacancy rates, creating shortages of space in some areas. The supply of newer office space was particularly tight. The price of commercial office space continued to inch upward, especially in suburban areas. Increased prices of newer space led some businesses in Charleston, W.Va., to move to older, less expensive buildings to save money. Financing for speculative construction remained tight; however, real estate agents anticipated new build-to-suit construction in some areas.

State Revenues: State government revenue forecasters said tax collections from June suggested that economic growth in Maryland and South Carolina slowed slightly but remained steady in the other states.

Agriculture: Crop and weather conditions were normal across most of the District in recent weeks. Scattered rainfall brought relief to crops in many areas, although some remained dry, and temperatures were above-normal in others. Corn and soybeans generally were in fair-to-good condition. Hay cutting was underway, and the harvesting of tobacco, vegetable crops, and peaches was beginning. The small grains harvest was nearly complete, and reports suggested good yields.

SIXTH DISTRICT - ATLANTA

Overview: The Southeast economy continues to expand, although business contacts in the region have reported modest slowing in scattered sectors. Retailers reported higher sales levels in June and July, and most seem more encouraged about fall sales prospects. District manufacturers reported some moderation in production activity in June, but producers of building-related materials, auto parts, steel, paper, and chemicals all reported expanding operations. Home sales in the District remain good, but homebuilders are expecting a slowing in single-family construction activity in the next few months. Multifamily and commercial real estate activity continues to improve. Sixth District bankers reported that consumer loan demand was mixed but commercial loan activity has increased. Contacts report that consumer prices remain generally stable, but tight labor markets in some areas are pushing up wage rates. Georgia flood loss estimates now run on the order of one billion dollars, although initial infrastructure loss estimates are often revised down. There has apparently been little economic disruption outside the directly affected areas.

Consumer Spending: After slowing considerably in the spring, Sixth District retailers reported generally improving sales of late. Contacts continue to note that strong competition in most areas is holding down prices at both the wholesale and retail level. Apparel sales, which fell off sharply in April and May, rebounded in June and July. However, much of this improvement was said to be due to increased discounting and promotions. Nonetheless, contacts seem generally more optimistic than they were in late spring about back-to-school sales, with most expecting increases of 3 to 6 percent over last years' levels. Retailers are no longer reporting year-over-year gains for sales of home-related products, such as furnishings and appliances, in conjunction with the maturing housing cycle. Auto dealers in the District continue

to report healthy car and truck sales, though business customers note that the cost of new autos is rising.

Manufacturing: Manufacturing activity moderated slightly in the Southeast in early summer, reflected by slowing shipments and orders for some producers. However, most factory contacts remain optimistic about the near-term outlook. Producers of construction equipment are expanding in overseas and domestic markets aided by the lower dollar and growing commercial construction activity. Production levels remain high for carpet producers, and some apparel fabric manufacturers are encouraged by a recent strengthening in demand. The chemical industry, steel producers, and auto parts manufactures are expanding operations and adding jobs. At the same time, mergers and consolidations continue to cause layoffs in Florida's aerospace industry, and other large companies continue to trim payrolls in the region. The demand for paper is said to be rebounding in foreign and domestic markets, and prices have started to trend upward.

Tourism: Tourist activity remains healthy in most of the region. Overseas travel to Georgia has surged since Atlanta was named the site for the next summer Olympics, and tourism and trade officials expect the trend to continue. Miami's cruise industry reports that bookings have been good. Despite the temporary uptick provided by World Cup visitors, tourism is still off in central Florida. Hotel occupancies are down from a year ago due in part to fewer British and German tourists. Casino gambling continues to attract a record number of tourists to Mississippi's Gulf Coast, and the summer convention trade in New Orleans is at an all-time high.

Construction: District realtors reported brisk home sales in June and July. Most contacts noted that despite higher mortgage rates, home sales this summer have equaled last year's very strong level. Starter and mid-priced homes continue to sell well, but there have been some reports of first-time home buyers being squeezed out of the market by higher mortgage

rates. Luxury home sales continue to improve. Demand for new homes remains strong, but many realtors and builders are expecting a gradual slowing in building activity in the next several months, with some regions reporting the slowing already occurring. However, an unseasonably wet summer has delayed building in many areas of the District, and it may take builders some time to get caught up on planned building activity.

Commercial and multifamily real estate contacts continue to report improving conditions in their markets. Multifamily occupancy and rental rates are rising in most areas of the District, and many cities are seeing new multifamily development underway. In addition, commercial realtors are also reporting improved leasing activity and falling vacancy rates. While almost all new commercial construction in the District is either public or build-to-suit, some contacts have noted that they anticipate some speculative building in selected areas within the next year.

Financial Services: Bankers around the region reported that overall loan demand was steady or up moderately in June and July. Consumer loan demand was mixed from bank to bank. Mortgage lending has picked up a little in the summer months, but the loan pipeline seems to be emptying in many areas. Commercial loan activity was consistently reported as stronger, although in a very competitive market. Several bankers reported seeing more real estate deals, while one reported experiencing double digit growth on the commercial side.

Wages and Prices: Labor markets are tightening in parts of the District. In Tennessee, clerical support and skilled laborers are reported to be in strong demand pushing wages upward. In New Orleans, the demand for temporary workers is said to be the highest it has been in four years. Price increases have generally held steady since the last report, although some contacts in the paper- and construction-related industries report larger but sporadic gains. Some apparel producers note increasing raw material prices, but retail prices remain flat.

SEVENTH DISTRICT--CHICAGO

Summary. Seventh District economic growth has moderated from the robust pace of late 1993 and early 1994, but generally continued to advance at a good rate during the seasonally slower summer period. Survey data and reports from retailers suggest that sales growth may have picked up again in June and early July, after slowing in April and May. Manufacturing and distribution activity remained vigorous. Somewhat weaker demand has played a role (along with tight supplies) in constraining auto sales, but discussions with auto manufacturers and dealers suggest that underlying demand for vehicles remains relatively strong. Higher mortgage interest rates have definitely slowed housing activity, however. Competitive forces continued to preclude price increases in retailing, while industrial materials continued to rise. Labor shortages have been reported more frequently, but few manufacturers expressed concern about developing wage pressures. Favorable weather has significantly bolstered prospects for the District's fall crop harvest, and prices for corn and soybeans have fallen markedly since mid-June.

Retail Sales/Housing. Surveys and discussions with large retailers suggest that retail sales continued to grow at a moderate pace, after slowing earlier in the second quarter. One large retailer stated that "April and May were a small setback, but we think this is a boring, slow, middle-of-the-road upward trend, and it is likely to continue." Sales growth in this firm's District stores has been below the national average during 1994, but only because sales recovered in other important market areas later than they did in the District. Another large retailing firm reported that "the overall trend is not as strong as it was, but it's still very good." Sales gains in household furnishings continue to outperform those for apparel, according to several retailing firms. Sales tax revenues continued to post strong gains in Illinois through June. A state official in Michigan noted that growth in sales tax revenues has implied greater economic growth in the state than recent employment and income data, even after adjusting for the impact of changes in the tax law. Discussions with 12 auto dealerships were mixed but suggestive of relatively strong vehicle demand, although growth may still have slowed from earlier in the year. Tight supplies are still cutting into sales gains, and some (but not all) dealerships stated that higher interest rates were also dampening sales. No dealership expected accelerating lease expirations to hamper future new car sales.

Housing sales and construction have lost some momentum in recent months. An association of homebuilders reported that sales and traffic fell off significantly further than seasonally expected in May and June. Activity is well below expectations held earlier in 1994. One large homebuilder stated that "the initial sales push from fears of higher interest rates seems to have played itself out. The overall impact of higher rates is now negative." Demand from non-discretionary buyers has held up relatively

well under rate increases, according to this contact, but May and June results were still characterized as "lousy," and below plan. One of the largest realtors in the District reported that transactions volume in June was significantly below its year-earlier level; year-to-date in 1994, sales are even with last year, and "the trend isn't good." A large bank reported that housing loan demand has fallen off in recent months.

Manufacturing. Survey results and reports from manufacturers indicate that manufacturing activity remained vigorous. The production components of purchasing managers' surveys around the District continued to increase or remain at high levels in June. A large manufacturer of industrial power equipment division cited strong demand from the steel industry as a primary factor in its continuing sales gains, both from integrated mills (striving to improve productivity) and mini-mills. The underlying momentum in steel production remained strong, according to an industry analyst who recently raised his forecast for shipments in 1994. Construction and mining machinery sales (in units) rose significantly in the Midwest in the first quarter, although an industry analyst believed that sales growth may have moderated since then. This contact indicated that higher interest rates seem to have had little effect on construction and mining equipment sales thus far in 1994. A large manufacturer of appliances reported slowing sales growth in most product lines (air conditioners being an important exception). Domestic appliance sales to dealers still reached a record for June, and continued gains in housing completions should help strengthen demand, but this contact expected sales to flatten out (on a seasonally adjusted basis) over the balance of 1994. A survey of heavy-duty truck operators suggested that utilization rose to the highest level for the second quarter in the past eleven years, and a greater-than-seasonally-expected increase from the first quarter "spells heightened demand for ... replacement parts for the next six to nine months."

There are not yet any extraordinary shortages of construction equipment arising from an ongoing strike; some machine types are on allocation, but an industry analyst noted that "this is typical for the industry right now." Overseas productive capacity is still underutilized for most of the affected manufacturer's product lines. A capital goods manufacturer stated that sales to the paper industry remain relatively weak, even as that industry's operating rate has risen to high levels, because paper manufacturers' profitability has suffered with weak prices due to low capacity utilization levels among overseas manufacturers.

Prices. Discussions with retailers revealed little if any upward movement in the consumer prices. Asked about pricing, one large chain stated that "if you're looking for inflation, you better find another industry." Another large retailer indicated that the firm is still trying to lower prices "wherever possible."

On average, this firm's prices have continued to decline. A number of banking, retailing, and construction equipment firms cited renewed vigor in shopping center development and otherwise increased retailing capacity as evidence that competitive conditions will dampen retail pricing for some time to come.

Industrial material prices continued to climb faster than the overall price level. The price component of purchasing managers' surveys in Chicago, Detroit and Western Michigan each rose in June, and have been on upward trends during 1994. Finished steel prices have been heading higher this year on the spot market, while contractual prices with automakers are also expected to rise. After dropping off significantly in March and April, scrap steel prices firmed and rose anew during May and June, and an industry analyst expected further gains in coming months. A large petrochemical firm noted that future supply conditions are highly uncertain (citing output in the former USSR, in particular), and refrained from speculating about the future path of oil prices.

Several regional analysts reported strong gains in help-wanted advertising in their respective market areas, both in print as well as on the radio, with one noting increased advertising by employers based outside the local area where the ads appear. Few manufacturers stated that labor shortages were impacting wages, however, and those who did noted that upward pressures on wages were concentrated in skilled technical positions.

Agriculture. Favorable weather patterns this summer have offset earlier drought concerns and significantly bolstered prospects for the District's fall crop harvest. Crop condition ratings are among the highest in memory, especially in Iowa and Wisconsin where virtually all of the corn acreage is rated "good" or "excellent." The high ratings have prompted some analysts to view this year's potential harvest as comparable to the 1992 record. In line with these improved prospects, however, crop prices have retreated sharply. Both corn and soybean prices have fallen about 20 percent since mid-June.

Firms are recalling laid-off workers and hiring additional workers in all parts of the District. For example, a clothing manufacturer in Arkansas recalled 2,000 laid-off workers and reports that plants are operating at capacity. A jeans manufacturer will soon complete a new facility in Kentucky, employing 350 workers, with potential for 250 additional workers if consolidation plans are realized. Northeast Mississippi is getting a new waste recycling facility, generating about 200 new positions. An aerospace firm is transferring production from Utah to an abandoned Mississippi facility, bringing 850 jobs. A nationally known discount store announced the opening of three supercenters in western Tennessee that will employ 1,800 people. An automaker announced it will continue to build a particular model at its current plant, saving 1,100 jobs.

Some employee layoffs, firm reorganizations and sales declines occurred in the District as well. For example, a maker of medical products closed two divisions and laid off 500 workers, about 125 in St. Louis. Riverboat casinos in the St. Louis area have also laid off workers, partly because of the normal overhiring that occurs when they first open and partly because of the lack of traditional slot machines, which reduces attendance and makes the riverboats less competitive. A shoe manufacturer and a chemical company announced plant closings, together eliminating almost 300 jobs. A southern Illinois mining company is closing a mine and a preparation facility by late August, eliminating 200 jobs, because its major customer, wanting a lower-sulfur coal, will not renew its contract. A vehicle transmission manufacturer reports that year-to-date sales are down 13 percent. A contact in the paper products industry reports that year-over-year sales are down 5 percent; however, demand in this industry usually lags the rest of the economy by about one year.

Construction and Real Estate

Residential construction continues to be a source of strength in the District. Single-family housing permits are still significantly above year-ago levels in most areas. Moreover, many areas experiencing strong economic growth, such as central and western Kentucky, report a shortage of available housing. Despite the overall strength, rising

EIGHTH DISTRICT - ST. LOUIS

Summary

District economic activity continues to expand, as firms report sales increases, plant expansions and new hiring. The overall pace of activity, though, has moderated somewhat since the last report because of employee layoffs and firm reorganizations. Residential construction remains strong in most areas of the District, though rising interest rates are dampening activity in some areas. Total loans at a group of small and mid-sized banks continued to increase, though by less than they had earlier in the year. In general, crop conditions are favorable.

Manufacturing and Other Business Activity

District firms continue to report growth, although reports are slightly more mixed than previously. Sales increases were reported by numerous contacts. For example, contacts selling heavy construction-related equipment continue to report very strong demand, resulting in occasional shipping delays of up to eight weeks. In addition, they report that used equipment sales to Mexico have grown substantially since the passage of NAFTA. The upholstered furniture industry in northern Mississippi is booming, with expectations for more of the same. Auto parts manufacturers also report strong demand. In fact, some contracts have been turned down because demand exceeds plant capacity; plant expansions are expected to occur to correct this situation. One brick manufacturer reports a strong backlog and a continued positive outlook; expansion is under way to meet this demand. Hotel industry contacts report that hotels are finally seeing impressive gains in occupancy rates after years of decline, especially at all-suite and full-service properties.

In the southern parts of the District, building supplies companies report that year-over-year sales are up more than 20 percent; year-to-date sales are up 18 percent. A pallet producer reports year-to-date sales are up 15 percent. Other manufacturers report year-to-date sales increases of between 6 percent and 12 percent.

interest rates are beginning to affect some markets, like first-time homebuyers. One Little Rock contact described the housing market as brisk, but said the "buying frenzy" appears to be over.

Commercial real estate markets continue to improve. In Memphis, the office vacancy rate is at a six-year low, and industrial construction is headed toward a 10-year peak. Some District contacts expect multifamily construction, which has been dormant for several years, to pick up in the near future.

Banking and Finance

Total loans rose from mid-May to mid-July at a sample of 91 small and mid-sized District banks, but by less than they had increased from mid-March to mid-May. Each major loan category—commercial and industrial, real estate and consumer—showed a similar trend: increasing, but not by as much as during the prior two-month period. Still, District banking contacts report loan demand is strong, and many are expressing concerns about liquidity problems because of inadequate deposit growth.

Agriculture and Natural Resources

Crops are in mostly good condition throughout the District. Moisture conditions vary considerably, however, with some areas needing rainfall, while other areas, especially the southern region of the District, are experiencing excessive precipitation. Contacts in several areas indicate that, unless adverse weather develops, bumper crops are possible. For example, record or near-record cotton and rice crops are expected in Mississippi. Arkansas' rice crop is expected to be largest in several years. The corn and soybean crops appear to be in good-to-excellent shape, with minimal pest problems. Above-average yields appear to have been the rule rather than the exception in most wheat-producing areas this summer. High temperatures in parts of Missouri and Arkansas have reportedly caused above-average poultry losses for some growers. Southern pine lumber mills report that year-to-date orders and production are running about 5 percent above last year.

NINTH DISTRICT--MINNEAPOLIS

Growth in the Ninth Federal Reserve District continues to gain momentum. Manufacturing firms apparently have expanding orders and there is increased spending on capital goods. Metal mining prospects are brighter and output is increasing. New residential housing starts slowed slightly from earlier in the spring, but construction remains very robust. Crop conditions are excellent in most areas. Reports on tourist activity are strong from all areas of the Ninth District. Outlays on general merchandise continue to expand and motor vehicle sales remain strong.

Labor markets show increasing signs of tightness, especially in metropolitan areas across the district. Some firms report difficulty hiring skilled workers. However, there is little evidence of increasing labor costs. And while prices of a few materials, such as non-ferrous metals, have increased, some supply bottlenecks have apparently eased.

Manufacturing and capital goods

Manufacturing is generally robust and orders apparently are increasing. Firms producing building supplies or auto components report particularly strong sales. Manufacturers of medical supplies, electronic devices and commercial cabinets also indicate that business is very good. An electronic controls manufacturer reports "We are still well above plan in spite of the interest rate increases."

Increased capital investment is apparently responsible for some of the impetus in manufacturing. One manufacturer of industrial painting equipment had second-quarter sales 18 percent above a year earlier. Moreover, farmers are increasing their capital spending: North Dakota reports that first-quarter sales tax revenues on farm machinery sales were 28 percent above 1993 and other sources indicate that such sales have continued to increase as crop prospects become increasingly optimistic.

Natural resource industries

Natural resource-related industries are strong. An iron ore mine that has been closed for nearly a year will reportedly open by fall. Furthermore, shipments from existing iron mines are running above 1993 levels and above industry projections made earlier in the year. Copper prices remain 30 percent above year-earlier prices and production is strong.

In the forest products sector, plants manufacturing plywood substitutes in Minnesota and Wisconsin are reportedly running at capacity and lumber mills in that region have good business. But in South Dakota and Montana, output of lumber is reportedly below 1993 levels due to cutting restrictions. In the paper industry, which continues to suffer from overbuilding in the 1980s, there are some glimmers of improvement. A new plant to de-ink and re-pulp used paper reports good business, and a spokesman for a firm with two mills in Minnesota said, "We expect 1994 to be better than 1993." But another Minnesota mill laid off 220 workers.

Construction

Despite interest rate increases earlier in the year, the construction sector remains robust in most areas of the district. But residential building may have reached a plateau. For Minneapolis-St. Paul, June single-family permits dropped slightly from May, but remained 1 percent above the high levels attained a year-earlier. Residential construction reportedly remains very strong in such regional centers as Eau Claire, Wis., Sioux Falls, S.D., and Fargo, N.D. Commercial and heavy construction in Minnesota and the Dakotas through June was about 2 percent above 1993 and 28 percent above 1992.

Agriculture

Crops in most areas of the Ninth District are in excellent condition. Development of corn, soybeans and wheat is substantially ahead of normal. While hail damage is somewhat more widespread than normal and excess rainfall caused some crop damage in the Dakotas and northwestern Minnesota, overall prospects are for an excellent crop. Harvest of winter wheat has begun. There is some concern that plant diseases may again cut wheat yields and quality in eastern North Dakota and northwestern Minnesota, but no hard information is yet available.

Although crop prospects are much better than a year ago, livestock numbers and output show little change. While cattle and hogs both seem to be moving toward contractionary phases of their respective cycles, industry sources and extension economists anticipate current high slaughter levels and low prices will continue into 1995.

Consumer spending and tourism

Sales of all classes of retail merchandise continue strong across the district. A representative of a regional department store chain indicates that second quarter business was excellent, as do reports from a

large national chain based in Minneapolis. Mall managers in Minneapolis-St. Paul and other metropolitan areas also report expanding sales.

Motor vehicle sales continue to add impetus in many areas. The pace of automobile sales slowed slightly in Minnesota, with monthly sales for June about 2 percentage points below a year earlier. But 1994 year-to-date sales lead 1993's already strong sales levels by 2 percentage points. And South Dakota's pace quickened; June sales were 13 percent and year-to-date sales 12 percent ahead of the corresponding period in 1993.

Pleasant weather is keeping tourist attractions busy. Hotel occupancy in the Upper Peninsula of Michigan is up for July over 1993, after staying even during June. June crossings at the Mackinac Bridge are up 9 percent over year-earlier levels, reportedly due in part to nearby casinos. A chamber of commerce official in northern Wisconsin reports "the best summer ever." And a Duluth, Minn., official estimates about an 8 percent increase in tourism traffic for June and July over the same months last year. Campsite occupancy in South Dakota in June is up 47 percent over 1993, the highest level in five years. Montana reports for June were up slightly from last year's record levels.

Employment, wages and prices

Labor markets reflect a strengthening district economy. Late spring employment numbers continued to climb in all Ninth District states and unemployment rates dropped. Employment numbers are running 2 percent to 3 percent above year earlier levels in Minnesota and both Dakotas. In these states unemployment rates are at 3.2 percent or less, down a point or more from 1993. The Minneapolis-St. Paul unemployment rate is down to 2.5 percent while Sioux Falls and Aberdeen S.D., Fargo N.D., and LaCrosse, Wis., are even lower. Firms in many sectors report difficulty in securing qualified help. A personnel manager for a western North Dakota manufacturer said, "It is much more difficult to get help than a year ago." News media report shortages of over-the-road truck drivers, mold and die makers and electronics technicians.

Neither vigorous business conditions nor tightening labor markets have yet translated into significant upward pressure on wages or prices. Few sources report wage pressures. Hourly earnings in manufacturing for Minneapolis-St. Paul are about 1 percent above year-earlier levels. Shortages of steel and wood particle board reported in June have apparently eased. Non-ferrous metals have increased in price, and petroleum fuels have risen back to summer 1993 levels.

capacity, but few report shortages of skilled labor. Export sales have increased and are expected to grow throughout the remainder of the year.

Energy. Energy activity has picked up in the district, responding to the continued strength of crude oil prices. The average number of drilling rigs operating in the district climbed from 207 in May to 232 in June and climbed further to 240 in the first three weeks of July. Still, the district's rig count remains below its year-ago level.

Housing. Builders report that housing starts fell last month and expect them to decline slightly over the remainder of the year. Despite the decline, housing starts remain higher than a year ago. Sales of new homes also moderated due to very low inventories of unsold homes. Demand has been strong enough, however, to keep prices of homes higher than a year ago. Mortgage demand has declined considerably with increasing mortgage rates. Most respondents expect demand to remain sluggish as rates continue to gradually climb. Although building materials are generally available, builders expect the price of materials to rise slightly in the near future.

Banking. Loan demand rose last month at almost all reporting banks. Most banks reported higher demand for commercial and industrial loans, consumer loans, and commercial real estate loans. Demand was flat to up for home equity loans, residential construction loans, and agricultural loans. Loan-deposit ratios were up from the previous month, and security investments were flat to down at most banks.

Almost all respondents left their prime rate unchanged last month, and almost all expect to leave the rate unchanged in the near term. A few banks raised their consumer lending rates last month. However, most banks left

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow at a healthy pace. A few signs of slowing, though, are emerging in some sectors. Retail sales have leveled off in the past month, and residential construction and sales of new homes are slowing. However, manufacturers continue to operate at high levels of capacity use. And, in the farm sector, an uptick in cattle prices has helped stem losses in the cattle industry, while conditions are favorable for crop producers. Moreover, district energy activity is benefitting from firmer oil prices. Retail prices are reported to be stable, while prices of manufacturers' inputs are up from a year ago.

Retail Sales. Most retailers report sales higher than a year ago, but flat over the past month. Several retailers report their strongest sales in apparel and home furnishings. Prices have changed little since last year and are expected to remain stable for the rest of this year due to competition at both the wholesale and retail levels. Most respondents expect sales to rise in coming months but are maintaining inventories at present levels.

Most auto dealers report increases in sales from last month and expect further increases throughout the next few months. Financing is available for both dealers and potential buyers. Inventories are low, and dealers are having difficulty building inventories so close to the change in model year.

Manufacturing. Most purchasing agents report input prices are slightly higher than a year ago, but few expect prices to increase further in the near term. Several agents report longer lead times and some difficulties in getting materials, but they expect no major bottlenecks during the next few months. Most respondents are reducing their inventories and plan to continue reducing them in the months ahead. Most firms are operating at high levels of

these rates unchanged and expect no change in the near future. Lending standards were unchanged.

About half of the banks reported increases in deposits last month and the other half decreases. Demand deposits were flat at most banks, while changes in other deposit categories were mixed.

Agriculture. The district's winter wheat harvest is nearing completion. Most parts of the district report normal or above normal yields. The district's corn and soybean crops are generally in good condition, and most farmers expect above normal yields.

A modest rebound in cattle prices has reduced losses in the district cattle industry. The recent losses in district feedlots, however, have had relatively little impact on district ranchers. Most ranchers plan to sell their cattle in the autumn, when prices are expected to be higher.

District lenders report that most cattle feeders have been able to absorb their recent losses. Some small, under-capitalized feeders have been forced out of business. But most larger feedlots are well capitalized after several recent years of healthy profits. Thus, most lenders have experienced only a slight deterioration in cattle loan portfolios.

ELEVENTH DISTRICT--DALLAS

Economic activity and optimism increased in late June and early July. Demand growth for manufactured products and business services accelerated. Retail sales increased, and construction and real estate activity continued to rise despite modest slowing in the single-family housing market. District energy activity was still moderate, and there was no indication that domestic or foreign drilling had been affected by the recent upturn in oil prices. Loan demand continued to expand, and bankers reported that the industry is very competitive. Agricultural conditions were favorable despite hot, dry weather.

Manufacturing orders and optimism rose since the last survey. Brick and glass producers reported stronger demand and higher prices than both last month and a year ago. Brick and glass contacts were operating at capacity, and expect to remain busy through the end of the year filling a backlog of orders. Cement orders for homebuilding slowed, but demand from apartment and highway builders was up. Commercial and residential construction spurred lumber sales which slowed last Spring, when contacts said customers were concerned higher interest rates would curtail home building. Continued residential construction boosted confidence and encouraged inventory rebuilding. Demand for paper products increased, and prices were higher. Expanded exports, stimulated by recent declines in the value of the dollar, pushed up demand for corrugated boxes. Demand for semiconductors remained strong, and prices held steady, but contacts expect growth to slow. Primary and fabricated metal sales have stayed high, particularly for commercial construction. Metal producers reported that higher costs pushed up selling prices. Rising orders for apparel manufacturing led to more hiring and higher wages. Apparel contacts were optimistic that sales would continue to grow. Apparel input costs were higher although several producers said that they had not raised their selling prices. Garment finishers said that demand weakened in the last few months. Some contacts expect most garment finishing to move to Mexico. Sales of food and kindred products rose. Food manufacturers expressed optimism about future sales, and

several firms added employees. Domestic demand for oil field equipment and services was still strong but foreign demand was weak, except from that of Canada and Latin America. Contacts reported a shortage of skilled blue collar workers, particularly machinists. Domestic demand for refined products is nearly five percent higher than a year ago, and refineries have been running at utilization rates of 95 percent or higher. Refining margins fell because prices for oil products had not risen as much. Margins also narrowed because EPA mandates to blend renewable oxygenates into gasoline caused methanol and MTBE prices to increase sharply. Refinery contacts say that EPA mandates will reduce demand for gasoline and cause a shake-out in the industry. Demand for chemicals continued to rise. Producers of ethylene and propylene reported low inventories and higher prices, but they expect prices to moderate when additional capacity comes on line this fall.

Business services contacts report slightly greater sales than during the last beige book survey period. Demand remained strong at temporary firms, particularly for technical and professional workers, such as accountants, engineers and programmers. Legal firms said that transactions activity (mergers, acquisitions and public offerings) was particularly high although litigation work was softening. Legal contacts said that businesses are using alternative dispute resolution mechanisms to reduce the expenses of litigation. Accounting activity increased, particularly international business dealing with trade between Mexico and the United States. Demand for transportation services continued to rise, but competition kept prices stable.

District **retail** sales increased, but sales along the Mexican border were still sluggish. Home products continued to have the strongest growth, although apparel sales improved slightly. Selling prices were unchanged, and contacts do not expect price increases. Auto sales increased in May and June. Dealers reported that low inventory had begun to affect sales, and prices were rising.

Construction and real estate activity continued to rise despite modest slowing in the single-family housing market. Homebuilding remained stronger than a year ago, but contacts said sales of new and existing homes had slowed.

Inventories of new homes were still very low, but new and existing home prices stabilized after large increases earlier in the year. Apartment occupancy remained high boosting multifamily construction. Leasing and construction of retail space was reported to be strong. Office construction was almost nonexistent although demand for existing office space picked up.

District energy activity remained moderate, and there was no indication that higher oil prices had affected domestic or foreign drilling. Booming demand for oil products combined with supply disruptions in Yemen, Brazil and Nigeria to push oil prices back over \$20 per barrel in June. Drilling increased seasonally and is expected to rise through the end of the year, but remains slow. Most drilling was still focused on natural gas, and activity in the Gulf of Mexico remained high. The price of the NYMEX near-month contract for natural gas has been relatively high, although lower than last year, close to \$2 per mcf all summer. The August contract slipped under \$2 recently. Contacts are concerned that high levels of Canadian imports and growing domestic production, will put downward pressure on natural gas prices. Storage fields depleted over the winter refilled faster and more easily than expected.

Bankers reported that loan demand was increasing, but they said they would like to extend more loans. Some also said that intense competition was limiting their ability to lend because it encourages lower rates and looser credit standards than they desire. Large banks are reported to be particularly active in lending. Respondents noted an increase in mergers of smaller banks, and suspected that cost reduction was one motivation.

Agricultural conditions were favorable despite hot, dry weather. Crop progress was ahead of last year, and crop conditions were mostly good. Livestock remained in fair to good condition as supplemental feeding increased. Heat and insufficient moisture lowered yield estimates and stressed range conditions in some areas. Prices for beef cattle, calves and hogs continued to fall causing the June Livestock and Livestock Products Index to drop 13 percent below a year ago. All June commodity prices were higher than a year ago, except potatoes, pushing the All Crops Price Index up 14.9 percent.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions in California continue to be sluggish, while conditions in most other parts of the Twelfth District remain strong. Business leaders outside California still are optimistic about economic prospects, while those in California are less upbeat. Retail sales reports are generally good. Tourism activity this summer has been strong in many parts of the District. Manufacturing activity remains mixed. Oil prices have rebounded, but exploration activity remains weak. Construction and real estate activity remain strong outside of California, while the level of construction activity in California is higher than a year ago but down from the first quarter. Lending activity is growing in most parts of the District, including some improvement in California.

Business Sentiment

Twelfth District business leaders generally remain optimistic. About three-fifths of respondents expect national growth to exceed 2 1/2 percent during the next four quarters. Growth expectations continue to be strongest among residents in the intermountain states and Arizona, while more than half of California respondents expect the national economy to grow only slowly during the next twelve months. Almost two-thirds of respondents now expect the trade balance to improve during the next four quarters, up from about half in February.

Retail Trade and Services

Retail and service industry conditions generally are strong in most parts of the District. In California, retail sales have strengthened modestly, and prices for consumer nondurable goods show little increase. Automobile sales are reported up in Southern

California. In the intermountain states, retail sales are generally strong. Food stores in Arizona, Idaho, and Utah report that sales are up from a year ago, and they are having trouble finding enough entry-level workers to fill the available slots. In Utah, machinery sales are reported strong, but retail inventories are rising as consumer demand has been inconsistent. In Idaho, new car and truck sales were below expectations in June.

Summer tourism is reported strong in most parts of the District, although the number of visitors is well below last year's level at some national parks in the West. Hotel occupancies are at record levels in Salt Lake City, and at strong levels in Las Vegas and in many coastal and mountain areas of California. In Reno, Nevada, airport passenger traffic has reached record levels. The depreciation of the dollar is expected to boost tourism from Japan and Germany. In fact, the visitor count in Hawaii has risen from its earlier low level, due in part to the higher value of the yen. However, the lower value of the Canadian dollar may reduce the number of "snow geese" traveling south this winter.

Manufacturing

Twelfth District manufacturing activity remains mixed. Aerospace employment is down more than 10 percent from a year earlier in both California and Washington. An electronics manufacturer reports strong growth, with capacity constraints in some areas. A paint manufacturer reports raw materials price increases of 3 to 5 percent. The decline of the dollar against the yen has boosted exports of scientific instruments from Arizona.

Agriculture and Resource-Related Industries

Agricultural conditions generally are solid, with substantial variation among products. Agricultural exports still are strong, and the falling dollar is expected to help boost exports to

Japan even more. In California, almond prices are relatively strong because of low carryover stocks from last season. Oregon food processors report low inventories and high prices for vegetables. High production of many fruit crops in California has pushed prices lower. Low beef prices continue to cause large losses for many ranchers.

Oil prices have rebounded, helping producers in Alaska and California's Central Valley. Prices still are too low to spur increased exploration activity, however. In the Pacific Northwest, wood products orders are reported to have improved. Lumber prices remain low, down 30 percent from three months ago, while pulp and linerboard prices are up.

Real Estate and Construction

Real estate markets generally are strong, but weakness still is reported in many parts of California. Home values and building activity continue to rise in Utah. Home prices also are reported to be rising strongly in Phoenix, Las Vegas, Reno, and parts of Oregon. In California, home price changes vary considerably among local areas, with little overall trend either up or down. Market conditions are keeping downward pressure on office rents in San Francisco.

Construction activity remains strong in much of the District outside of California. In California, both home-building and nonresidential construction activity are above year-earlier levels, but construction activity has slowed since the first three months of 1994. Elsewhere in the District, reports of shortages of skilled construction workers and rising building materials prices are becoming more frequent. In Oregon, materials prices are reported up 10 to 15 percent. Skilled labor shortages in Utah have increased building delays.

Financial Institutions

Banks in most parts of the District report that lending activity is growing. Loan growth is reported strong in Oregon and Idaho. In California, loan demand is reported to be showing slow broad improvement; demand is strongest for commercial and industrial loans and home mortgages, while consumer lending remains weak.