

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

September 1994

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SUMMARY*

Economic activity continued to expand through the summer, according to reports from businesses in most Federal Reserve Districts. Regions that have been lagging are generally said to be doing better while most of the stronger areas saw growth plateau. The expansion in consumer spending is seen as healthy, albeit decelerating, and retailers' expectations for holiday sales are generally favorable. Summer tourism activity has generally been strong, outpacing last year's levels. Most manufacturers around the country continued to report at least moderate strength. Single-family home sales were seen as slowing modestly in most Districts, with home construction easing in some areas. At the same time, commercial real estate conditions were generally described as improved. Overall bank loan demand appears to be modestly increasing, but higher interest rates are reported to be slowing real estate lending in most areas. There are more reports of tightening labor markets than before, though wage pressures are still described as modest. Industrial materials prices edged up further, but businesses say that competitive pressures continue to restrain price increases on finished goods. Farm contacts report that crop conditions in most agricultural areas are favorable and point toward an excellent fall harvest.

CONSUMER SPENDING

Retail sales reports are mixed but generally positive. The majority of retailers report that sales continue to grow, while some characterize conditions as slow. St. Louis retailers saw year-over-year sales growth of 4 to 5 percent, but these figures fell short of their expectations. Stores

*Prepared at the Federal Reserve Bank of Atlanta and based on information collected before September 6, 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.

in both the Atlanta and Philadelphia Districts reported that back-to-school sales were mixed. Contacts in the majority of Districts suggested that retail prices were remaining stable because of intense competition. Expectations for the holiday season are generally good. Retailers in the Atlanta, Chicago, Kansas City, and St. Louis Districts expect modest increases over last year's sales figures, while both Boston and Philadelphia contacts were hesitant to predict results for the remainder of the year. Retailers in the Atlanta, Chicago, and Kansas City Districts say that they are expanding inventories for the upcoming holiday season, while those in New York believe that inventories are about right.

Automobile dealers in most Districts report that demand is strong, but those in Chicago, Kansas City, Philadelphia, and St. Louis say that a limited supply of autos on the lot is restricting sales. Dallas dealers report that although sales have slowed they are still above year-ago levels. The Kansas City, Philadelphia, and St. Louis Districts expect sales to remain healthy as long as inventories hold out.

TOURISM

Tourist activity over the summer has been generally good. In the Minneapolis District, hotel/motel occupancies, campground, and attraction traffic were above last year's levels. Tourism was especially strong in Boston, boosted by large conventions and international visitors. Traffic on Mississippi's Gulf Coast was reportedly heavy because of casino gambling attractions, but Florida tourism officials remain concerned about a sustained slowdown in visitor arrivals. Most of the San Francisco District saw an influx of foreign tourists taking advantage of the level of the dollar.

Less positively, some industrial sectors have shown little improvement. One aerospace supplier in the San Francisco District reports that its backlogs have increased in the past year, but they remain well below levels seen two years ago. Atlanta says that regional military contractors see orders declining and are concerned about future prospects. Manufacturing increased at a sluggish pace in Richmond and factory orders decelerated slightly in the Dallas region. Boston and Atlanta manufacturers indicate that orders for some types of apparel and textiles remain weak.

On the whole, service firms saw increased demand in most Districts. Dallas reports that demand for business services accelerated there, with temporary staffing and trucking firms noting the strongest gains.

REAL ESTATE AND CONSTRUCTION

Contacts in most Districts note a slowdown in single-family home sales. At the same time, the New York and Richmond Districts continue to report little change. Home prices are reported to be on the rise in the Atlanta, Kansas City, and San Francisco Districts, while contacts in the Dallas and Richmond Districts report prices remain unchanged. However, in Dallas, although home prices are steady, builders were said to be offering more discounts and incentives, such as free pools. Home builders in the Chicago, Kansas City, and San Francisco regions said that residential construction slowed, while those in the Atlanta, Dallas, Minneapolis, New York, and St. Louis Districts said the pace of such construction had increased.

Nationally, commercial real estate agents report improving conditions. However, realtors in the downtown areas of Dallas and Boston note that markets in those cities remain particularly weak while the surrounding suburbs are improving. Construction of retail stores is dominating

MANUFACTURING AND SERVICES

Steady to improving factory activity characterized most Districts' reports and comments on the near-term industrial outlook remained upbeat. Most firms are operating at high levels of capacity in the Kansas City District, and manufacturing activity remains vigorous in Chicago amid reports that capacity restraints are limiting production in some cases. Auto-related activity has rebounded from the summer slowdown in the Cleveland District, and suppliers to that industry note solid production gains in August. Forecasts by plant managers are generally positive in Philadelphia, where producers of durable goods report improving conditions. Firms in the St. Louis District note moderate growth, and those in Minneapolis say that producers of industrial machinery, farm implements, and construction-related products are posting strong sales. The San Francisco and Boston Districts commented on strong orders for computers, while electronic and telecommunications equipment demand is growing in Dallas. Although factory activity is mixed in Atlanta, most industrial contacts there expect to see increasing orders over the next few months; activity is currently rising at paper and some textile mills. Boston, Dallas, and Atlanta report that suppliers to the auto and light truck industry increased production in August, and in some cases expanded operations.

A number of manufacturers of heavy equipment and building materials have announced capacity expansion projects in the Chicago District. In the Kansas City region, manufacturers purchasing construction materials, such as cement and lumber, are facing longer delivery times. Dallas reports that the demand for chemicals is outstripping available capacity. Although overall manufacturers' shipments and new orders have evidently slowed in the Richmond District, exports have increased.

the markets in the Atlanta, Dallas, and Richmond Districts. Multifamily occupancy rates and rental rates have been on the rise throughout the Atlanta and Dallas Districts.

BANKING AND FINANCE

Banks around the country reported that overall loan demand was steady or up modestly. Business lending was the strongest, with only banks in the St. Louis District reporting softer loan demand. Several contacts noted, however, that competition for commercial loan customers was intense. Consumer lending was said to be stronger in the Cleveland, Kansas City, Philadelphia, San Francisco, and St. Louis Districts, while bankers noted decreases in the Atlanta, New York, and Richmond Districts. Real estate and mortgage lending activity is down in most areas.

WAGES AND PRICES

Labor markets seem to be steady or tightening in all areas. San Francisco reports that, outside of California, labor demand appears to be accelerating a bit in the District. Worker shortages are said to be growing increasingly frequent in the Chicago District and some contacts in the St. Louis and Atlanta Districts were also having trouble finding qualified workers. Temporary placement firms reported rising wages in the Chicago District and shortages of skilled construction and clerical workers in several Districts are putting upward pressure on area wages. Price increases have been reported for inputs of raw and intermediate materials. Prices of industrial commodities and building materials continue to trend upward in the Chicago and New York Districts. Atlanta contacts note that price increases for raw materials are becoming more wide spread, especially for paper, metals, and building products. Respondents in Philadelphia and San Francisco also report an upward movement in industrial prices. Boston and Dallas firms say that prices are increasing for fiber and paper, respectively. Minneapolis respondents see little

pressure on prices except for petroleum products and newsprint. The competitive environment is holding finished goods prices down, according to contacts in Atlanta and Chicago.

AGRICULTURE AND RESOURCE-RELATED INDUSTRIES

Farm sources say crops for the upcoming fall harvest are generally in good-to-excellent condition. Yields are expected in the good-to-record range for most plantings. Reports from Chicago indicate that a bumper fall harvest appears to be in store for District farmers. In the Kansas City region, corn and soybean yields are expected to approach record levels. Farmers in the Dallas District expect production of corn, sorghum, rice, peanuts, and soybeans to be higher than last year. However, sentiment across the country is that farm incomes will not rise with the favorable harvest because of lower commodity prices. The forest products industry in the Minneapolis District is reportedly being buoyed by continued strength in nationwide construction. Dallas reports that the decline in oil prices was expected, but contacts were surprised at the fall in natural gas prices. Energy-related activity there, as well as the Kansas City District, was seasonally slow and below last year's levels.

FIRST DISTRICT - BOSTON

While the First District economy continues to expand, recent economic conditions appear to be somewhat less robust than earlier in the summer. Some retailers, especially apparel merchants, report weakening sales, but hard goods and food are still selling well. Manufacturing sales results are mixed, and prices are reported to be stable, with a few exceptions. Commercial real estate continues to strengthen in most of the region, as evidenced by noticeable declines in office vacancy rates. Investment management companies report lower sales in the second quarter than in the first.

Retail

Most First District retail contacts were less heartened at summer's end than at the beginning. Sales results ranged from 5 percent above to 6 percent below year-earlier levels, with the gains concentrated primarily in stores selling hardware and food. Apparel contacts noted flat or declining sales for all or most of the last six weeks, and attributed the sluggishness to consumers' preference for big ticket items and home merchandise, the effect of exchange rates on purchases by Canadian tourists, and unexciting fashions.

Retail contacts were hesitant to predict results for the remainder of the year, and several perceive a "general spending malaise." Retailers of apparel anticipate sales increases of less than 2 percent compared to year-ago levels, while hardware and food retailers expect sales to continue growing at a steady 4 to 5 percent. Most contacts report little or no change in vendor or retail prices. Lean and more tightly controlled inventories have reportedly contributed to improved profits this year.

This summer's tourism has been exceptionally strong. Boston's hotel occupancy rates were up 5 percent in the first seven months of 1994 compared to year-ago levels, and up 11 percent in July compared to July 1993. The growth in tourists is attributed mostly to large conventions and international visitors, particularly those from Britain and Germany.

Manufacturing

First District manufacturing respondents indicate mixed sales trends from a year ago. Solid growth is reported for computers and semiconductor products, printed matter, furnishings, and small consumer durables. Half of the contacts supplying automotive products continue to experience strong gains, while the remainder report recent weakening. Demand for apparel and furniture upholstery textiles has fallen from a year ago. Sales of new aircraft are generally flat to down, although one contact reports much stronger sales of spare parts than a year ago.

Contacts generally indicate that materials costs and output prices are stable. However, one contact notes that costs for fibers have increased 3 to 5 percent, and another has agreed to fiber price hikes in early 1995. A purchaser of paper has experienced cost increases of 15 to 20 percent since July, but a paper manufacturer notes that prices remain depressed relative to historical norms. Prices of computers and components remain on a downward trend.

Approximately equal numbers of respondents report that employment has decreased, increased, or held steady over the last year. A majority expect the size of their work force to remain unchanged in coming months, but about one-third believe that cutbacks are possible or likely in response to lower sales volumes or cost-cutting pressures. Most

contacts report 1994 pay increases of 2 to 4 percent, although a couple indicate that at least some categories of employees are receiving no increase.

Manufacturers generally foresee slow U.S. macroeconomic growth in the coming year, which some attribute to tighter monetary policy. Projections for individual companies vary considerably.

Commercial Real Estate and Construction

The commercial real estate market has improved in many parts of New England, led by substantial leasing activity in the Boston area office market. A respondent in the construction industry expects serious renovations on older buildings to begin in the near future, with new construction at least several years down the road. In Providence, downtown office space is still plentiful, but suburban space is difficult to find, leading a contact to predict new suburban construction in the next couple of years. The Hartford office market is the exception to the regional trend, with little improvement in the downtown office market, but some additional activity in the suburbs.

Nonbank Financial Services

Investment management companies report weaker sales in the second quarter of 1994, following record sales in the first quarter. Sales of equity funds increased in July and August of 1994, but bond funds continue to suffer net outflows of cash. Among equity funds, international and global funds had the biggest growth, with emerging market funds being especially popular in the past two months. All but one of the respondents increased employment in the second quarter and plan to further increase their employment later this year.

SECOND DISTRICT--NEW YORK

Reports on District economic developments were by and large more favorable in recent weeks. Most retail contacts posted July sales results that were on or above plan and homebuilders noted a pickup in activity after some earlier slowing. Office leasing activity showed some recent improvement and unemployment rates declined in the District during August. Senior loan officers surveyed at small and midsized banks reported strength in business loan demand but weakness in the mortgage and consumer sectors.

Consumer Spending

Year-over--year sales results were generally positive among District retailers in July and partial data indicate that the pattern continued into August. A majority of respondents reported that sales were on or above plan with gains ranging between 0.5 percent and 6.0 percent. The one chain with a small year-to-year decline in sales attributed this in large part to having much less clearance merchandise on hand this July compared with last year. Items mentioned as strong sellers were men's wear, junior apparel, women's jewelry and accessories and merchandise for the home such as appliances and electronics. Several retailers noted some softness in sales of women's apparel but expressed hope about the new fall fashions.

With the exception of one chain which has been attempting to pare inventories for the past several months, retailers described inventories as both current and on plan.

Residential Construction and Real Estate

Homebuilders in the District noted a pickup in activity during recent weeks after slowing earlier this summer. Most stated that higher interest rates have not been a major deterrent thus far both because rates remain historically low and are spurring buyers to act before rates go

even higher. Some noted that higher new home prices resulting from increased costs for materials such as lumber, gypsum and drywall, could have a more pronounced effect on the market than higher interest rates. For the most part, respondents expect the overall volume of housing activity to show little change from last year.

Office leasing activity has shown some improvement in parts of the metropolitan area. During July the primary office vacancy rate in midtown Manhattan fell by half a percentage point and in the second quarter, Westchester County posted its largest decrease in available office space since the end of 1991. On Long Island, a 20-year lease was recently signed for two of the Grumman Corporation buildings being vacated--the largest commercial real estate transaction on the island thus far this year.

Other Business Activity

Unemployment rates declined in the District during August. New York's rate moved down to 6.9 percent from 7.1 percent in July while New Jersey's rate fell to 6.0 percent from 6.4 percent in July. This was the second consecutive decrease for New Jersey.

Demolition of the unused Eastern Airlines terminal at Kennedy Airport began in August in preparation for construction of the first new terminal to be built there in over 20 years. An international consortium will build and operate the terminal which will have 11 gates, each able to accommodate the largest jets in use. The new activity is particularly welcome at Kennedy, which had been severely impacted by the demise or downsizing of some of its major tenants.

Several department store chains have reportedly expressed interest in acquiring some of the stores that will likely be divested in the metropolitan area as a result of the Macy-Federated merger. These acquisitions would mitigate any adverse employment effect of the merger. On

the other hand, Mayor Giuliani recently ordered New York City agencies to make additional cuts totaling \$250 million and to prepare for the possibility of cutting yet another \$200 million in the months ahead. Further employment cutbacks are likely to result. In addition, G.E. announced plans to reduce its manufacturing work force in Schenectady by 1200 over the next several months.

Financial Developments

According to senior loan officers surveyed at small and mid-sized banks in the District, overall loan demand has been mixed. The largest declines in activity occurred in the residential mortgage and refinancing segments. About three-fifths of the banks experienced lower levels of residential mortgage demand, and almost all reported less or no refinancing activity. The demand for consumer loans was also somewhat weak. Business loans, however, remained healthy with close to one-half of respondents reporting higher demand and only one-quarter reporting lower demand. Loan rates have generally increased with the prime rate; only a few banks left their rates unchanged.

While nearly three-quarters of the surveyed banks noted no change in their willingness to lend, one-quarter reported an increase. The banks have not altered their credit standards, and more than four-fifths reported stable or lower delinquency rates. Despite the latest increase in the prime rate, the spread between the average lending and deposit rate has generally held steady, with fewer than two-fifths of the banks reporting a wider spread.

THIRD DISTRICT - PHILADELPHIA

Business activity in the Third District was increasing slightly in late August, according to reports from regional business contacts. Manufacturers said shipments and new orders were moving up and employment was steady. Retailers gave mixed reports on back-to-school shopping, although sales overall appeared to be running slightly above the pace of a year ago. Auto dealers continued to report a healthy rate of sales. Banks were posting gains in consumer lending and some slight improvement in commercial and industrial lending.

Expectations are generally positive, although not robust. About half of the manufacturers surveyed anticipate further gains in shipments and orders over the next six months; one-fourth expect slower business. Retailers expressed some concern about consumer confidence in the wake of rising interest rates, and although they see no indication of weakening, they are being cautious in forecasting sales for the fall. Bankers expect loan demand to continue moving up at its current modest rate, but they too are becoming concerned that recent increases in interest rates could lead to slower business activity and an easing in loan demand.

MANUFACTURING

Third District manufacturing activity continued to move up at a moderate rate in August, according to reports from manufacturers. About one-third of those queried said shipments and new orders were on the rise, while nearly one-half said demand for their products was running at a steady pace. Producers of durable goods generally reported improving conditions, and most makers of nondurable goods indicated that business was steady. Manufacturers in the District reported that output has been matching demand, as evidenced by

inventories and order backlogs that remain virtually unchanged. Staffing levels and working hours at area plants have also been steady.

Forecasts by managers at industrial plants in the region are positive, on balance. About half expect orders and shipments to continue to increase while one-quarter foresee no change from the current pace of activity and one-quarter anticipate some slowing. Employment plans at area firms call for no overall change in hours or work forces. About half of the firms contacted for this report plan to keep capital spending at current rates, but nearly one-third intend to step up outlays.

There appears to be some upward movement in industrial prices in the region. Just over half of the manufacturers reporting on prices said input costs have been rising, and just over one-quarter have raised prices for their own products. Few report any decreases for either input or output prices. Looking ahead, the balance of opinion among Third District manufacturers is that prices will increase for both the products they purchase and the goods they make.

RETAIL

Retailers in the Third District gave mixed reports for the late August back-to-school shopping period. On balance, however, sales appeared to be running slightly above the rate of a year ago, in real terms. As has been the case for much of this year, discount stores were posting better year-over-year gains than other types of stores. Several merchants noted that fall clothing styles were selling well.

Retailers said it is difficult to forecast sales for the upcoming fall months. Several expressed reservations about the strength of consumer confidence and voiced some concern that recent interest rate increases may lead consumers to revise their spending plans downward.

Auto dealers described the recent sales pace as good, although several said they were hampered by continuing problems in obtaining enough popular models to meet demand. Nevertheless, most of the dealers contacted for this report said they were satisfied with their current inventories and did not intend to increase them. Dealers generally expect sales to remain healthy as long as auto loan rates do not rise substantially.

FINANCE

Third District bankers said loan volume in late August was moving up slowly, propelled mainly by consumer lending. Most of the bankers contacted for this report said consumer installment lending was moving up on the strength of car sales and that lending on home equity credit lines was increasing in response to promotional efforts. Some bankers reported slight continuing gains in residential mortgage lending for home purchases, with adjustable rate loans predominating, but nearly all also said refinancing activity was at a low level. On balance, bankers indicated they were seeing slight growth in commercial lending, and they described the market for business loans as very competitive.

Most of the bankers interviewed for this report foresee little change in business conditions in the region or nation for the rest of the year. They expect the pace of loan growth to remain around its current rate. Some said the possibility that business activity and lending could fade has risen because of recent interest rate increases as well as expectations that further rate increases may occur later this year.

A major food processor also notes improving business conditions, with both domestic and foreign sales volume on the rise. Abundant harvests are keeping foodstuff price increases moderate, however, up about 1% to 2% on average from last year.

Consumers

Retail spending apparently soared during the Labor Day sales weekend, but this spike in activity is not viewed as a trend. Retail business around the District in August was mixed, but generally growing; early returns from back-to-school sales were good, though not spectacular. Apparel store sales are thought to have declined a bit from the previous District report, but hard goods, namely appliances, have been selling at an improved pace.

The rise in retail inventories during the second quarter was generally small relative to sales. In fact, several large retail chains saw the higher inventories as a welcome development in light of their increasingly short-stocked situation, and one retailer characterized the inventory turnover rate as "very good."

Auto sales are much improved as dealer inventories are refreshed by the model-year changeover. Most vehicle types are selling well, even imports, but light truck sales are especially strong. Dealer inventory shortages are not as prevalent as they were during the summer, although some models remain scarce.

Competitive pressures at the retail level are severe, and price increases here are still modest. Consequently, retail margins remain lean.

Lending Activity

Loan demand around the District continues to grow, although the strength of the credit expansion is somewhat mixed by category and institution. The credit market has become increasingly competitive, and a few banks note losing business to competitors or

FOURTH DISTRICT - CLEVELAND**Overview**

Many, if not most, sectors of the District report some slowing from the unusually strong gains seen earlier in the year, although business activity remains at a generally high level. While no broad-based wage and price pressures are being noted, District manufacturers continue to see increases among a range of commodity prices, especially metals and chemicals. Retailers are still holding the line on prices, though, and retail margins remain lean. Loan demand continues to be strong, especially in the consumer lending area. And although commercial lending growth has moderated somewhat, no significant retrenchment in business credit demand is seen, or apparently, anticipated.

Industrial Activity

Manufacturing production is still brisk in the District, with many capital goods and steel producers continuing to operate at near capacity. Auto-related production has rebounded from the summer slowdown, and District suppliers to the industry note solid production gains in August. Capital goods producers are still reporting strong orders, although the growth rate of order books has apparently eased from the blistering rates of early summer. Order backlogs for machinery goods are running five months or more for many District manufacturers, several of whom note a further improvement in foreign operations and orders from abroad.

Price increases in the industrial sector are apparently sticking, among them a sharp rise in industrial chemicals prices. A number of District sources are also reporting a further upward movement in metals prices--steel prices are up about \$10 per ton in the past month or so. Domestic capacity problems in the steel industry are evidently propping up foreign steel production as well, with imports reported to be 80% above last year's level.

other credit sources. Some District banks report a modest decline in commercial lending activity, presumably as large commercial borrowers have been lured away by alternative funding sources. Business credit demands are generally reported to be steady and strong, however. Consumer lending in the District is vigorous, although again, alternative funding sources (particularly for new autos) are seen as having cut into some of the commercial bank activity. Mortgage refinancing has slowed to a virtual standstill, and the growth of new mortgage credit has been mixed by area.

FIFTH DISTRICT-RICHMOND

Overview: District economic activity grew more slowly in July and early August than it had in June. Manufacturing and services sector activity increased at a sluggish pace. Retail sales rose little. Activity in housing was unchanged, and credit demand slackened. However, tourism continued to strengthen, and commercial real estate activity picked up. Price pressures were modest. In agriculture, crop conditions improved, but producers were concerned about lower farm commodity prices.

Consumer Spending: Respondents to a mail survey indicated that District retail activity barely grew in July. Retailers reported that sales and wages rose slightly, employment and shopper traffic changed little, and inventories fell. Respondents reported that retail prices increased 0.3 percent in July. Looking ahead to the next six months, retailers expected demand for their products to increase and their prices to rise 1.0 percent.

Service-Producing Firms: Respondents to a mail survey of District service-producing firms indicated that activity increased more slowly in July. Service firms reported that revenues and wages were up slightly; employment changed little, except for increases in the wholesale and health services sectors. Service prices rose 0.1 percent in July. During the next six months, respondents expected their prices to rise 0.6 percent and the demand for their services to increase.

Manufacturing: Factory activity grew more sluggishly in July according to a mail survey of District manufacturers. Respondents noted smaller increases in shipments, the volume of new orders, order backlogs, and the average workweek. However, employment rose slightly in July, and exports were up compared to six months ago. Manufacturers

expected shipments and exports to increase during the next six months, but they anticipated little change in employment. Finished goods and raw materials prices increased faster in July than in June but continued to rise by less than the general inflation rate.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity increased in August compared to July and to a year ago. Respondents attributed the increases to unseasonably good weather, better marketing, and a greater-than-normal number of repeat customers. Most respondents expected tourist activity to remain above year-ago levels for the rest of the summer.

Ports: Representatives at the ports of Baltimore, Charleston, and Hampton Roads (Norfolk) indicated that exports were lower in July than in June, but imports were higher. Compared to a year ago, however, both imports and exports were higher. Looking ahead, Baltimore contacts expected exports to increase faster than imports during the next six months, while Charleston and Hampton Roads contacts expected activity to remain about the same.

Finance: During the past six weeks, consumer loan demand declined slightly, and commercial loan demand remained steady. Interest rates on consumer, commercial, and mortgage loans increased. Lenders indicated that loan originations slowed and refinancing activity remained unusually low.

Residential Real Estate: According to District realtors and builders, residential real estate activity changed little during July and early August. Building permits, housing starts, and buyer traffic were steady. Home sales were unchanged, although some real estate agents reported an increase in sales of lower-priced homes. Most contacts indicated no impact on sales from recent mortgage rate increases. Home prices were unchanged; lumber prices and

construction wages were stable, although the prices of nonlumber building materials rose.

Commercial Real Estate: District contacts reported that commercial real estate activity picked up in August. Leasing activity remained strong and vacancy rates declined further. One contact in Greenville, S.C., reported that activity there was the strongest since the 1970s. Commercial rents inched upward, except in Charleston, S.C., and in parts of Maryland and West Virginia, where rents were unchanged. Contacts reported new retail and office construction throughout the District. Large discount stores continued to dominate retail construction, but some shopping center construction was reported underway in Virginia and the Carolinas. Some office construction was noted in Virginia and West Virginia, and warehouse construction was reported in the Carolinas.

State Revenues: State government revenue forecasters said July tax collections suggested moderate economic growth in all District jurisdictions except South Carolina, where real growth slowed, and the District of Columbia, where real growth turned negative. Tourism- and leisure-related tax collections were reported strong in several jurisdictions.

Agriculture: Conditions in agriculture improved in recent weeks, according to District farm analysts. Moderate temperatures and adequate rainfall boosted the condition of most crops to good or excellent. Peach and vegetable harvesting activity neared completion. Tobacco cutting was well underway, and corn and sorghum harvesting had begun. Preliminary yields indicated that most District crop harvests would be large. Farmers expressed concern, however, about poor price prospects for their crops.

increasing orders. Structural steel producers note strengthening orders for new building and bridge construction. Business is also increasing for paper and newsprint producers. Some textile markets, like denim, are improving, although other apparel fabric production reportedly remains weak. Home textile production remains at high levels. Some manufacturers of healthcare textiles and bedding fabric are adding employees and increasing factory workweeks in response to strong product demand. Suppliers to the auto and light truck industry continue to expand operations and increase production at plants in the region. Less positively, suppliers to the aerospace industry are operating at low levels of capacity due to a continued dearth of new orders. The recently announced purchase delay of F-22 fighters by the Air Force is expected to affect future hiring of production workers in Georgia. Other regional military contractors note declining orders and are concerned about future prospects.

Tourism and Business Travel: Tourist traffic remains heavy at casinos on Mississippi's Gulf Coast. Convention activity continues to push hotel occupancies to high levels in New Orleans. Florida tourism officials, however, are concerned about a sustained slowdown in visitor arrivals. Hotel occupancies are down from a year ago in southern and central Florida; officials blame this sluggishness on competition from other tourist destinations and adverse publicity about crime. Continuing growth in the Asian and Latin American markets, however, appears to be offsetting some of the reported slowdown in visitors from Europe, and cruise industry bookings remain strong year over year.

Construction: According to District realtors, home sales slowed in August, with most attributing this to higher mortgage rates. However, home prices continue to rise across the region. Existing home sales are reported to be stronger than sales of new ones. Builders said that activity has increased in August compared with July, because of better weather conditions.

SIXTH DISTRICT - ATLANTA

Overview: According to business contacts, the Southeast economy continued to expand in August, although at a somewhat less rapid pace than before. Retailers again reported higher sales, and their expectations for Christmas are mildly optimistic. Activity among District manufacturers has been mixed; however, most expect orders to increase over the next few months. Building remains strong, although single-family home sales slowed in August. Commercial and multifamily residential real estate markets continue to improve, with rising rental prices and falling vacancy rates. Commercial loan demand is generally on the upswing, while consumer loan demand is said to be weaker. Contacts report that some input prices are on the rise, but wage increases are described as stable except for a few specific sectors.

Consumer Spending: District retail contacts generally report improving sales. Women's apparel sales are showing gains, while sales of men's wear continue to increase. Back-to-school sales have been mixed in the region. Some contacts note strong sales with double digit growth while others report that children's apparel has not sold well. Sales of home-related products continue to slow. However, retailers generally expect year-over-year gains in fall and Christmas sales. Apparel sales are expected to make the largest gains over last year. In response to these better expectations, many retailers report that they are building up inventories, although some continue to purchase closer to time of need than they have in the past. Auto sales have slowed somewhat; the ending of the model year has some customers delaying purchases and some dealers running out of popular product lines, although the slowdown seems concentrated in imports. Merchants say that competition remains strong throughout the District, keeping pressure on retailers and manufacturers to hold the line on prices.

Manufacturing: Factory activity has been mixed since the last reporting period. The outlook over the next few months remains upbeat, however, as most contacts expect to see

Builders also report that construction time for homes has increased because of the reemergence of a shortage of skilled laborers seen earlier.

Commercial and multifamily real estate contacts continue to report improving conditions in their markets. Multifamily occupancy rates continue to rise and rental rates have also been on the increase. New apartment and condominium developments have been announced recently in many parts of the District. Commercial realtors continue to report tightening markets characterized by falling vacancy rates and rising rental prices, though commercial construction is reported to continue at low levels, except in the retail sector which is seeing moderate gains, and the Atlanta metro area, in which there is some new building in preparation for the 1996 Olympics.

Financial Services: Bankers around the region reported that overall lending was steady. Commercial loan demand outpaced consumer demand in most areas. Several bankers noted significantly increased competition on the commercial side. Some banks described consumer loan demand as disappointing. Auto lending has slowed at the end of the model year with the decline in sales. Mortgage lending seems to be slowing in most markets as refinancings have disappeared and home sales decelerate.

Wages and Prices: Although there have been some recent reports of labor market tightness in parts of the region, they have mostly been limited to clerical and some service personnel as well as skilled construction workers and are not widespread. Reports of price increases have become more numerous since the last reporting period, especially at the raw material level. Some contacts in the paper, apparel, metals, and building products industries note that their input prices are trending upward, but few say that they are able to pass on these rising costs. The competitive environment appears to be holding finished goods prices steady.

SEVENTH DISTRICT--CHICAGO

Summary. Seventh District economic activity advanced at a modest pace in recent months, as capacity constraints in manufacturing joined slower retail sales growth and housing activity to restrain the pace of expansion. Survey data and reports from large retailers were mixed, with little evidence of a change in trend following the slower growth witnessed during the second quarter. Manufacturing activity generally remained vigorous, except where hampered by production difficulties. Labor markets continued to strengthen; worker shortages grew increasingly frequent, and temporary help companies reported rising wages and higher recruitment costs. Prices of industrial commodities and building materials continued to trend upward.

Retail Sales. Reports from District retailers suggest that sales continued to grow at a slow pace in July and August. A regular survey of retailers in Illinois and Indiana showed continued modest year-over-year sales gains during May and June, on the heels of stronger increases during the first quarter. In July, this survey showed a somewhat more clear-cut loss of momentum, particularly in the hardware and homebuilding category. A survey of sales paid by check also showed modestly slower growth in the Midwest during July. However, a significant majority of small retailers surveyed in Michigan anticipated sales gains over the next few months (after adjusting for normal seasonal trends), with expectations running well ahead of assessments of current sales activity. This survey also showed a greater majority anticipated near-term inventory expansion than those reporting that stocks rose over the past month. One large discount retailer noted that sales in its District stores continued to grow at a modest pace during recent months. A large apparel retailer reported a positive consumer response to new apparel styles in the early stages of the fall season, which was believed to be a good sign for sales over the next few months. Automakers indicated that limited supplies accounted for much of the recent slowdown in light vehicle sales. One of the largest auto dealers in the District reported that sales and buyer traffic have flattened out at "mediocre" levels, after weakening during the second quarter. Limited supplies have constrained new vehicle sales, and used cars have accounted for an increased share of the overall sales mix. This contact stated that weaker demand has also dampened new car sales since March, however.

Manufacturing. District industrial output generally remained vigorous, although production difficulties and capacity constraints have hampered growth in a number of industries. A composite index of the production components of purchasing managers' surveys around the District has been in a modest downtrend since April, but remains at a level consistent with relatively strong gains in output. An industry trade association reported that appliance shipments ran at a record level for the month of July,

although the report implied a small decline in shipments of core products from June to July on a seasonally adjusted basis. Net orders for heavy-duty trucks declined slightly from June to July, and remained at very high levels. Current build plans suggest heavy-duty truck output will flatten out during the balance of 1994, with one industry analyst noting that the industry is "at capacity, with supplier limitations basically setting the limits." A number of manufacturers of heavy equipment and building materials announced new capacity expansion projects. One of these firms continued to forecast stronger sales growth than anticipated in early 1994, and expected interest rate increases thus far in 1994 to have little impact on demand over the balance of the year.

Housing/Construction. Housing sales and residential construction activity remained at relatively high levels, but growth has clearly slowed from the strong pace set last year. New and existing single-family home sales have been trending downward in the Midwest during 1994, and a number of bankers noted that mortgage loan applications for home purchases have weakened during the year. Likewise, homebuilders have been reporting significant declines (from high levels) in prospective buyer traffic. One of the largest realtors in the District reported that sales were trending lower during the second quarter, but held up relatively well in July. This contact stated that sales force optimism has been tempered in recent months, but remains positive. Construction contract awards showed weakening year-over-year comparisons in the District during the second quarter, both in residential and nonresidential building. Building remained active, however, and a study by a local development firm showed continued high rates of absorption of industrial space in the Chicago area. Gypsum wallboard shipments ran at a slightly slower pace than anticipated in June and July, according to one large manufacturer, with stronger nonresidential building activity bolstering overall demand in the face of slower growth in residential construction.

Labor Markets. Surveys and reports from staffing services firms indicated further strengthening in District labor markets, with reports of worker shortages growing somewhat more frequent. A quarterly survey indicated that employer hiring plans held at high levels during the third quarter. Nationally, this survey showed that durable goods manufacturers planned some of their strongest hiring in the past 16 years, and hiring plans among Midwestern durable goods manufacturers remained significantly above their national counterparts. The employment component of purchasing managers' surveys around the District generally continued to rise during recent months, with a small but growing number of respondents commenting about a short supply of skilled labor. The employment component of the Chicago survey has recently been hovering near its highest levels in the last 16 years.

Staffing services firms reported further strengthening in demand for temporary and permanent employees, with a continuing trend towards conversion of temporary employees to permanent status. August is a normally a busy month in the temporary help industry, and it was especially busy this year. These companies generally expect their business to continue to strengthen over the balance of 1994 on a seasonally adjusted basis. Most of these firms reported that the supply of better-qualified labor has grown increasingly scarce, and wages offered temporary workers are rising. One firm has noted higher wages offered in its competitors' help-wanted advertising. A number of staffing firms reported higher recruiting costs (as did a large distribution services company). Some temporary help firms noted that increased competition has restricted (but not eliminated) the ability to pass on higher wages in the prices charged to their client companies. Wages paid in permanent positions at their client companies do not yet seem to be under the same upward pressure for a similar temporary position, according to one temporary help firm, but "we think we see it before they do." Two firms separately reported that the wages paid to their temporary employees have increased roughly 5 to 10 percent, on average, during 1994.

Agriculture. A bumper fall harvest still appears to be in store for much of the District. Crop condition ratings edged lower in recent weeks, however, as cool temperatures and dry conditions over portions of the District slowed the final stages of crop development. Along with reports of problems with the wheat harvest in several foreign countries, these conditions have halted--at least temporarily--the recent sharp decline in crop prices.

Prices. Purchasing managers' surveys and trade information generally pointed to continuing price increases for industrial commodities and building materials. The price component of the Chicago purchasing managers' survey climbed especially sharply during August. Scrap steel prices firmed and rose anew in the Chicago area in recent months, after dropping off significantly in March and April, and an industry analyst expects further gains in the latter half of the year. Gypsum wallboard prices rose in August, the second such wave of moderate increases this year, and there was little sign of any weakening in orders following the latest increases. Corrugated paper prices have fallen somewhat in recent weeks, after substantial increases during 1993 and early 1994. Retailers continued to emphasize that competitive pressures significantly constrain their own price increases, however, and a recent survey showed a substantially higher share of retailers expecting increased promotional activity than rising prices.

EIGHTH DISTRICT - ST. LOUIS

Summary

District firms continue to report moderate growth, although some sectors have experienced a recent slowing. Many firms report minimal wage pressures, but some price pressures are apparent, as prices for raw materials have increased between 1 percent and 3 percent on average over the past six months. Recent retail sales increases were below expectations, but car and truck sales were robust. Residential construction continues at a brisk pace in most parts of the District, though rising interest rates are beginning to pinch residential housing sales. Total loans outstanding at a sample of District banks declined from mid-June to mid-August after rising in the prior two-month period. Crops are generally in good condition throughout the District, although dry weather has hampered growth in some areas.

Consumer Spending

District retailers report average year-over-year sales increases of 4 percent to 5 percent, but this was below expectations. Nonetheless, expectations are for a strong fourth quarter, with good volume in the coming holiday season. No price pressures were reported.

District car dealers report robust year-over-year sales growth of 7 percent to 10 percent. Shortages of many models, especially trucks, restricted sales growth to some extent. The use of rebates and other incentives to move inventory has declined dramatically. Expectations are that strong sales will continue as long as inventories can keep up with demand.

Manufacturing and Other Business Activity

District firms, particularly in manufacturing, report moderate growth and employment increases. Some contacts, especially in the Memphis area, have mentioned that they are having trouble finding qualified workers. Even so, employment increases

continue at many District firms. For example, a rail car manufacturer will open a new plant in northeast Arkansas, bringing 400 jobs into the area. Little Rock will be home to an airline's newest and largest customer service center, employing 900 people. A maker of kitchen products is expanding in Memphis, initially adding 150 to its current workforce.

Firms also report sales growth. A contact in the heating and cooling industry reports the industry is having its best year ever, with production up 15 percent over last year. Sales of air conditioning units are up about 600,000 units over last year. A manufacturer of oil filtration and reclamation equipment reports that business has rebounded in the third quarter after a sluggish start earlier in the year, as contracts from South America and Pacific Rim countries, in particular, have increased.

Some industries noted a slowing. A contact in the farm equipment industry reports that sales are down 16 percent from one year ago. A maker of rubber compounds reports slowing because of reduced orders from auto makers. A garment manufacturer will close its west central Arkansas plant because of increased global competition.

Prices

Reported wage increases, for the most part, have been minimal. Raw materials prices over the past six months have increased moderately, between 1 percent and 3 percent. One contact in the aluminum products industry has seen input prices increase between 10 percent and 12 percent, while a contact in the paper industry has seen input prices decline. Most contacts have not passed these cost increases through to customers. In one case, a paper industry contact reports that product prices have fallen slightly in response to intense competition. A metal manufacturer, though, does report a cost pass-through to customers; about four months ago this industry was unable to pass increased costs along as price increases.

Construction and Real Estate

Residential construction remains robust in most areas of the District. Builders in Memphis and St. Louis report that labor shortages are putting them further behind schedule. Contacts in Memphis attribute the labor shortage to continued casino building in the Tunica, Mississippi, area. Although sales of new and existing homes hit a record in Louisville in June, realtors in other parts of the District report a slight downturn in homebuyer traffic and sales, which they attribute to rising interest rates and a lessening of pent-up demand.

Banking and Finance

Total loans outstanding at a sample of 102 large, mid-size and small District banks declined 0.6 percent between mid-June and mid-August, after rising 1.1 percent between mid-April and mid-June. Commercial and industrial loans declined 0.8 percent from June to August, after increasing 1.6 percent from April to June. Real estate loans declined 1.3 percent compared with a 0.7 percent increase in the prior period. Consumer loans were the only major category to show continued growth, rising 1.9 percent after a 2.2 percent increase in the prior two months.

Agriculture and Natural Resources

Despite much-needed rainfall recently, soil moisture is inadequate in many areas, particularly Missouri. Nevertheless, crops appear to be generally in good condition across much of the District. Substantial increases in crop yields are expected, with near record crops predicted in some areas. For example, Mississippi farmers expect to harvest their largest rice crop ever this fall, while Illinois farmers expect to harvest their second-largest corn and soybean crops. The rice harvest is under way in Arkansas and Mississippi with early reports indicating good yields and high milling quality. Hot, dry weather has stressed the soybean crop in parts of Arkansas, Kentucky, Mississippi and Missouri. Southern pine lumber producers report that orders and production so far this year are up about 3 percent to 4 percent over last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy remains robust. Construction and manufacturing are strong. Metal mining shipments are growing and oil and gas drilling is above 1993 levels. Output of forest products for construction remains high, and beleaguered paper mills are benefiting from price increases for some products. Crop and livestock production is above year-earlier levels. Vehicle sales continue to be very good, but general merchandise retailers may have reached a plateau. The summer tourist season has been excellent.

Employment levels continue higher than year-earlier levels in all parts of the district and unemployment rates are lower. Some firms report difficulty in finding skilled employees, particularly in metropolitan areas. But there is little upward pressure on wages or prices except for petroleum products and newsprint.

Construction and Manufacturing

As has been true for more than a year, construction is one of the strongest sectors of the Ninth District economy. Residential building in the Minneapolis - St. Paul area in July was over 4 percent above 1993 figures. "Buyers are still coming out and, although they may be more cautious, they are nevertheless buying," reported a builders spokesperson. Similar conditions prevailed in most metropolitan areas across the district. "We are on a record year," said a Sioux Falls, S.D., association representative. "the higher interest rates really haven't hurt activity." Furthermore, commercial and heavy construction continues to expand. Publicly let contracts in Minnesota and the Dakotas through July are 2 percent higher for 1994 than 1993, but 23 percent above 1992 levels.

Manufacturing continues to grow. News media and district directors report good manufacturing sales, particularly by machining and metal fabricating businesses and by producers of construction-related products. Producers of farm implements and industrial machinery also reportedly have good business.

Natural resource industries

Sales prospects are generally good for the Ninth District's natural resource-related industries. Ongoing strength in construction continues to undergird the forest products industry. Producers of plywood

substitutes, windows and millwork are particularly busy. Reported increases in market prices for newsprint offer some relief for the beleaguered paper industry.

Prospects are good in the metal mining sector. One Minnesota iron mine, idled for a year after a labor dispute, is back in full production and other mines report strong shipments. A Minnesota industry spokesperson said, "We expect a 43 million ton year in 1995," roughly 6 percent above 1994 shipments. Oil production continues to erode in North Dakota and Montana, but drilling activity through mid-summer is generally above 1993, reportedly in response to higher oil prices. A Montana official noted that a new law lowering taxes for horizontally-drilled oil wells had caused a spurt of drilling.

Agriculture

Agricultural production in the Ninth District is above 1993 levels in most categories. Excellent harvests of major crops are expected, not only in comparison to 1993, but also relative to five-year averages. Wheat production in Montana is apparently down somewhat from 1993's record, but very good relative to the 1988-1993 average. Wheat output is also expected to be down slightly in South Dakota but up strongly in North Dakota and Minnesota. North Dakota and Minnesota anticipate a doubling of dry bean production compared to 1993 and a 10 percent increase in sugarbeets. In all states corn and soybeans are generally in very good condition. Minnesota corn and soybean crops will break previous records by 5 percent to 10 percent.

The numbers of livestock on farms and slaughtered remain high compared to year-earlier levels and longer term average levels. Cattle prices have recovered slightly from lows set in July, but hog prices have been essentially steady since June. Given the production cycles for cattle and hogs, output can be expected to remain high through the remainder of 1994. Minnesota and Wisconsin milk production in July was slightly below 1993 levels.

But any impetus to farmers' personal or business spending as a result of increased production may be limited by widespread declines in farm prices. A midsummer survey of agricultural credit conditions showed that more Ninth District bankers expected decreases rather than increases in farm capital spending in the third quarter. In spite of these expectations, farm machinery sales have been good thus far in 1993, a North Dakota implement dealers representative said, "The biggest limitation on sales is the inability of dealers to get as much as they want."

Consumer spending and tourism

Retail sales remain generally strong for the district as a whole, but with some indications of softening of general merchandise sales. Vehicles continue to sell well in all areas. One representative of a state auto dealers association said, "We don't see any slowdown, it is a very good year." Mall managers in both Dakotas say that customer traffic and sales remain very strong. And a news report from Grand Forks, N.D., described retail sales there as very good in spite of a decrease in Canadian shoppers. But a Minneapolis-based retail chain reported August sales only slightly above 1993 and described retail conditions as slowing. And a representative of a regional retail chain said, "Sales are not as good as earlier in the year."

Pleasant weather and successful marketing enabled Ninth District tourism businesses to enjoy a busy summer. An official in the Upper Peninsula of Michigan reports motel/hotel traffic in August up 5 to 6 percent over last year. Northern Wisconsin resort owners and campground operators laud this summer as the best in five years, according to a local newspaper. Businesses near Duluth, Minn., report double digit increases over last year's rainy summer. Visits at South Dakota campgrounds are up about 5 percent for July and August compared to 1993, and several South Dakota tourist attractions reportedly will set attendance records this year. Major attractions in Montana claim single digit increases to slight declines, staying close to last summer's record pace.

Employment, wages and prices

Labor markets reflect a strengthening district economy. Summer employment numbers continued to climb in all district states and generally remain nearly 3 percent above comparable 1993 figures. Unemployment rates remain well below year-earlier levels. In Mankato, Minn., where the unemployment rate is 2 percent, a Job Service director said, "It's definitely an applicant's market." And in other urban areas such as Sioux Falls and Rapid City, S.D., Grand Forks and Fargo, N.D., and Eau Claire, Wis., job growth reportedly is strong and some firms are experiencing difficulty hiring skilled workers.

However, directors and industry sources report little wage or price pressure. Hourly manufacturing earnings in Minneapolis-St. Paul are up barely 1 percent from a year ago. Petroleum prices have increased, with most motor fuels 5 to 8 cents above year-earlier levels in August. Newsprint prices reportedly have also risen.

Tenth District - Kansas City

Overview. The Tenth District economy is growing at a healthy pace. Retail sales increased over the past month and manufacturers continue to operate at high levels of capacity. In the farm sector, rebounding cattle prices have helped trim losses in the cattle industry and conditions remain generally good for crop producers. In other areas, residential construction and sales of new homes continue to slow and retreating oil and natural gas prices have restrained district energy activity. Retail prices are reported to be stable while prices of manufacturers' inputs are up from a year ago.

Retail Sales. Retailers report sales increases over both the past year and the past month. Several retailers report their strongest sales in apparel and furniture. Prices have changed very little since last year and are expected to remain steady for the rest of this year. Most respondents expect sales to grow moderately over the next few months. While most retailers are either satisfied with current inventory levels or are trimming slightly, some are planning to increase inventories for the upcoming holiday season.

Auto dealers report sales have been flat over the past month due to a lack of supply. Dealers are optimistic that sales will increase over the next few months. Financing is available for both dealers and potential buyers. Dealers are having difficulty building up their low inventories because new models are not yet widely available.

Manufacturing. Purchasing agents report their input prices are up from a year ago, although fewer agents report input price increases during the past month. Several agents report difficulties in getting materials. Manufacturers using construction materials

such as lumber and cement report significantly longer lead times. Firms are generally satisfied, however, with their current inventory levels. Most firms are operating at high levels of capacity, with a few agents reporting difficulty in obtaining skilled labor.

Exporting firms expect foreign sales to remain stable through the end of the year.

Energy. Retreating crude oil and natural gas prices have recently slowed district energy activity. After a two-month rebound, the average number of drilling rigs in the district slipped from 235 in July to 226 in August, well below the average from a year earlier.

Housing. Most builders report housing starts declined last month and that some additional decline is expected over the rest of the year. Respondents also report slower sales of new homes. Despite these declines, prices of new homes remain higher than a year ago. Some builders report shortages of building materials but expect prices of materials to remain stable. Mortgage demand continues to decline with higher mortgage interest rates. Most respondents expect mortgage demand to remain sluggish as rates level off.

Agriculture. The district's winter wheat harvest is complete. Wheat yields were slightly below normal in much of the district due to dry weather during the growing season. In contrast, corn and soybean yields are expected to approach record levels when harvest begins in a few weeks.

Cattle prices have rebounded somewhat in recent weeks, trimming losses in district feedlots. Large cattle-feeding losses during the summer pushed many speculative investors out of the industry. But most established cattle feeders were able to cut their

ELEVENTH DISTRICT--DALLAS

Economic activity continued to expand in late July and August. Growing strength in the service sector compensated for a slight deceleration in manufacturing orders. Despite slowing, manufacturing output was still strong. Construction and real estate activity remained robust, but new home sales and buyer traffic were less than in the second quarter. Retail sales were up, but competition remained stiff. Energy activity was slower than expected and below last year's level. Bankers said that loan demand was growing but not as fast as they would like. Agricultural producers expect overall production to be higher than last year, although there has been some damage to the cotton crop.

Manufacturing orders decelerated slightly but remained strong, particularly for paper, electronics, chemicals and refining. Slower homebuilding caused a decline in orders for construction-related products, such as lumber, metals, brick and cement. Despite the slowing, however, contacts in these industries said that sales were still relatively strong. Lumber prices were unchanged, although one contact said that higher inventories would probably lead to price declines. Demand for corrugated boxes was up sharply, pushing up selling prices and causing a shortage of liner board. Demand for other paper products also was strong, and contacts expect rising input costs will force them to raise prices soon. Demand remained very strong for electronics and telecommunications equipment. Inventories were low for some of these products, but selling prices continued to fall. Automobile and computer manufacturers created heavy demand for semiconductors and integrated circuits. Producers are increasing capacity of these products

losses and stay in business by reducing their cattle inventories. As a result, district feedlots are operating below capacity.

Bankers in most rural communities report modest improvement in overall business conditions since last year. Contributing to their upbeat assessment are a rebound in crop earnings after last year's floods, healthy retail sales, and strong loan repayments by most non-farm businesses.

Banking. Loan demand rose last month at most reporting banks. Demand for consumer loans rose and demand for home equity loans was flat to up. Changes in demand were mixed for commercial and industrial loans, construction loans, and commercial real estate loans. Demand for mortgages and agricultural loans was down at most banks. Loan-deposit ratios were flat to up from the previous month and security investments were mostly down.

All respondents raised their prime rate 50 basis points last month and about half expect to raise it again in the near term. All reporting banks also raised their consumer lending rates, with half expecting further near-term increases. Lending standards were unchanged at all banks.

Deposits fell last month at most respondent banks, due mostly to declines in demand deposits and IRA and Keogh accounts. MMDAs were flat while changes in NOW accounts, large and small time deposits, and savings deposits were mixed.

although contacts said that capacity was not increasing fast enough, and input prices would probably stop falling in the next few weeks. Apparel manufacturers said that sales had decelerated recently. Demand for food and kindred products continued to be above last year's level, and several food producers said that they had been hiring. Less than expected drilling activity kept oil field equipment manufacturing weak. In contrast, District refineries were operating near capacity. Contacts said that refining margins were very good but had weakened in recent weeks with falling gasoline prices. Demand for chemicals, particularly ethylene and propylene, was outstripping available capacity. Heavy contract commitments limited deliveries of these commodity chemicals to spot markets, and their prices were rising rapidly.

Demand for business services accelerated and many firms were hiring. Temporary service and trucking firms reported the strongest activity. Temporary firms reported slightly higher fees, but most contacts said that competition was keeping prices unchanged. Some contacts reported difficulty hiring workers but wages were not increasing.

Retail sales were up overall although sales along the Mexican border were still slower than expected. Continued entry of high volume discount retailers was keeping competition stiff, and several contacts said that Texas store-for-store sales were weaker than the nation. Automobile sales decelerated but year-to-date sales were above a year ago. Dealers said that tight inventory of some models may have affected sales.

Construction and real estate activity remained strong but new home sales and buyer traffic were down from the second quarter. Most homebuilders revised their outlook for the year downward, even though new and existing home

inventories remained tight. New home prices were unchanged but builders were offering more discounts, such as free pools. High occupancy rates and rising rents continued to spur apartment construction. Commercial construction also was increasing, mostly for retail space. Rents for suburban office space were higher but rents continued to be weak in most downtown areas. Labor shortages were reported in some construction trades.

Energy activity was slower than expected and below last year's level. District drilling did not increase seasonally, and foreign activity remained weak. Weak demand for gasoline, and a further understanding of the political situation in Nigeria, pushed down oil prices from \$20 to \$17.50 per barrel. The decline in oil prices was expected, but contacts had not expected a decline in natural gas prices. Weak demand and heavier than expected Canadian imports pushed down natural gas prices to near \$1.60 per thousand cubic feet. Contacts had mixed views about the near-term outlook for the energy industry.

Bankers reported that loan demand was growing but not as fast as they would like. Competition for loans remained intense. Contacts said that banks were cutting fees and offering special services to attract borrowers.

Agricultural producers expect production of corn, sorghum, rice, peanuts and soybeans to be higher than last year. Cotton production is estimated to be about the same as last year, but there have been heavy crop losses around Lubbock. Livestock remained in fair to good condition across the District. July commodity prices were higher, pushing the Texas All Crops Price Index up 4.6 percent from a year ago. Prices for beef cattle, calves, and hogs continued to decrease, however, causing the Livestock and Livestock Products Price Index to fall 12.4 percent below the previous year.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions in the Twelfth District remain mixed. In California, activity has stabilized at a low level and shows signs of improvement in some areas. In Idaho, Nevada, and Utah, states which have experienced very rapid growth, activity remains high, but business leaders generally expect more moderate growth over the coming year. Currently, retail sales appear to be increasing, and demand for services is holding up. Manufacturing conditions continue to improve. Agricultural output is expected to be high this season. Real estate and construction activity remains strong overall, particularly outside California, but residential sales and construction have slowed recently in some areas. Loan demand remains strong in most of the District.

Business Sentiment

Twelfth District business leaders generally remain optimistic, but they expect some slowing in interest-sensitive sectors, such as housing and business investment. For the national economy, about half of the respondents still expect growth to exceed 2 1/2 percent during the next four quarters. For most of the district outside California, regional growth is expected to exceed the national average. However, most California respondents still expect growth there to remain weaker than for the nation over the next four quarters.

Retail Trade and Services

Reports of some further improvement in retail and service sector conditions were received from most of the District. Retail sales increased moderately in California's Central Valley and Orange County, and sales also were up slightly in Los Angeles. In the

Intermountain states, retail sales remained strong, especially for durable goods. New car sales in Idaho were up 12 percent in July from the level of a year earlier. In Idaho, Oregon, and Utah, auto dealers are concerned that slow deliveries of some 1995 model year cars might create shortages.

Tourism remains strong in most of the District. Car rental agencies in Salt Lake City rented their entire inventory for each of the first three weeks of August. In California, tourism has been strong, reportedly buoyed by an influx of foreign tourists who are taking advantage of the continuing weakness of the dollar.

Maritime industry business is stable. Some weakness in employment is reported in other service-providing industries; a California telecommunications utility reports further downsizing of employment, as rapid technological advances permit investment in better equipment at lower prices.

More broadly, labor demand appears to be accelerating a bit in the District, as indicated by reported increases in help-wanted advertising at newspapers. Outside of California, some labor markets show signs of tightness. An Oregon bank reports increased difficulty filling part-time positions. A multi-state construction firm reports that the shortage of skilled construction workers is worsening. A Utah retailer reports unusual increases in wages for entry-level jobs.

Manufacturing

Manufacturing conditions appear to be improving, although activity remains at low levels in some industries. One aerospace supplier reports that its backlog has increased in the past twelve months, but the backlog remains well below the level of two years ago. A

computer manufacturer reports strong orders, partly in response to continued price cuts. An electronic components manufacturer reports that increasing wages have not been passed on to prices, as rapid productivity growth has held down unit labor costs. Aluminum manufacturers are reported to be operating at 85 to 90 percent capacity, with order lead times increasing and ingot prices up 36 percent from the beginning of the year. Pulp and paper product orders continue to strengthen: inventories are reported low and prices are up sharply.

Agriculture and Resource-Related Industries

Agricultural production appears to be increasing, but farm income is being held down by weak prices for some crops. Idaho's potato crop is reported excellent despite drought conditions. A bumper crop of grain is reported to be holding down prices, and the outlook for the corn crop is especially good. Beef production, as measured by the weight of cattle in feed lots, is strong. In California, prices for grapes and tree fruits have fallen.

Uncertainties created by domestic mining law reform are reported to be driving some mining exploration activity overseas. In Nevada, several mining exploration offices have closed.

Real Estate and Construction

In parts of the District, real estate and construction activity appears to have slowed a bit in recent months. In some areas, home sales are reported to have slowed recently from the rapid pace set earlier this year. In the Intermountain and Pacific Northwest states, reports suggest that the slowing of home sales is concentrated at the higher end of the market. A slowing of home sales also is reported for California's Central Valley. In Northern and Southern California, increases in existing home sales are reported, although overall prices are

relatively flat.

Construction activity generally remains strong outside California. In Seattle, commercial occupancy rates are increasing, and there is a growing shortage of light industrial facilities. In southwestern Utah, Idaho, eastern Oregon, and eastern Washington, residential construction has remained particularly strong. Single-family home construction is reported to have slowed recently in a few areas, particularly Portland and Salt Lake City. In California, both residential and commercial construction activity remain low. In Southern California, rents for commercial real estate still are weak, but occupancy rates have improved somewhat.

Financial Institutions

District banking conditions generally are strong, with a slight slowdown in mortgage lending being softened by a shift towards adjustable-rate loans. Banks in California's Central Valley are reported to be doing well, with good deposit growth and modest loan growth. Credit supply conditions in Northern California are competitive. Outside California, commercial and consumer loan growth is reported rapid in Arizona, steady in Nevada, and leveling off in Utah.