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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

November 1994

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS

NOVEMBER 1994

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SUMMARY¹

Reports from the twelve Federal Reserve Districts suggest economic activity generally is continuing to expand at about the same pace as in recent months. Retail sales in most districts have improved, with nearly all districts reporting strong sales early in the holiday season. Manufacturing activity is increasing further in most districts, especially in durable goods industries, and the service sector is continuing to show strength. While single-family homebuilding continues to slow across most districts, commercial real estate markets and nonresidential construction have picked up in many districts. Loan demand is up in most districts, led by consumer loans and commercial and industrial lending. Farmers have harvested large crops in most parts of the nation but face generally low prices, as do cattle and hog producers. Energy activity in regions producing oil and natural gas has picked up somewhat. Prices of raw and intermediate materials continue to advance, with reports of some increases being passed through to final product prices. Labor markets in most districts have tightened further and more districts are reporting increasing wages in selected occupations.

Retail

Retail sales have strengthened in most districts. While sales reports for October and early November were mixed due to unseasonably warm weather in some regions, Thanksgiving weekend sales were robust and year-over-year sales during the holiday season

¹Prepared at the Federal Reserve Bank of Kansas City based on information collected before November 29, 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.

generally are expected to be strong. Retailers in the Boston district are the least optimistic, expecting moderate holiday sales growth. Retailers in the Chicago, St. Louis, and Kansas City districts report strong activity recently and high expectations for holiday sales.

A wide range of merchandise apparently has been selling well, with some regional variation. Retailers in the New York, Philadelphia, Richmond, Atlanta, Chicago, and Kansas City districts report either recently improving sales of apparel or expectations of improving sales during the holidays. In some of these districts the improvement is a rebound from soft sales of seasonal apparel during warm-weather spells in October. Furniture in the Atlanta, Cleveland, and Kansas City districts has been selling well. Seasonal items such as snowblowers and car batteries have been selling well in the Chicago district. Retailers in the Philadelphia and Richmond districts expect strong sales of consumer electronic goods during the holidays. Auto sales have held up well in most regions, except where dealers continue to have difficulties obtaining popular models.

Manufacturing

Manufacturing activity continues to increase in almost all regions. Many districts report growing shipments and high levels of capacity use. One exception is the Richmond district, where indicators of factory activity remained unchanged in October from September. Nonetheless, manufacturers there expect shipments and employment levels to increase in the months ahead.

Durable goods industries over the past month have been the strongest performers. The strongest industries in the Boston district were consumer durables and new types of computer equipment. The electronic components industry has been strong in the Dallas and

San Francisco districts. Factory activity in the Philadelphia and Cleveland districts has been boosted by increased production of durable goods such as steel, other metal products, and machinery. The Cleveland, Atlanta, Chicago, St. Louis, and Minneapolis districts report strength in the production of automobiles and related products. While the Atlanta and Dallas districts note some slowing of orders for building materials, this industry remains robust in the San Francisco, Boston, Chicago, St. Louis, and Minneapolis districts.

Examples of weak industries are much less common. The aerospace industry continues to damp manufacturing gains in the Boston and San Francisco districts. And, the apparel industry remains weak in the Boston, Philadelphia, and Atlanta districts.

Services

Service activity continues to expand in all districts that report on this sector. Business services such as accounting, legal, computer, and temporary-help firms have seen their business grow in the Chicago, Dallas, and San Francisco districts. Temporary-help firms in the Chicago district report labor shortages across a wide range of service businesses. Tourism is generally operating at high levels of capacity and expanding in the Atlanta and San Francisco districts. Even the sluggish Florida tourism market appears to be improving. The San Francisco district, however, reports that the health care industry has been restrained by uncertainty about industry restructuring.

Construction and Real Estate

Single-family homebuilding continues to cool across most districts. The Richmond, Atlanta, Kansas City, and San Francisco districts report decreases in homebuilding or sales activity. Homebuilding is mixed across parts of the St. Louis district and appears to be

leveling off in the New York and Minneapolis districts. Homebuilding in the Dallas district remains strong, although builders expressed concern about higher interest rates. Multifamily housing markets have tightened in the Atlanta and St. Louis districts.

Commercial real estate markets have picked up in many districts. The Boston, New York, Atlanta, St. Louis, Minneapolis, and Dallas districts all report robust commercial real estate activity with a surge in sales and construction in most markets. In the Richmond district, activity was steady but commercial vacancy rates declined. In the New York, Atlanta, and Dallas districts, commercial real estate activity has been boosted by tightening markets for office space. Retail and industrial leasing was cited as an additional factor contributing to the strength in the Atlanta and Dallas districts.

Banking and Finance

Loan demand is up across most districts. Commercial and industrial loan demand has been rising in most districts, although the New York and Richmond districts are notable exceptions. Consumer lending continues to grow in many regions, led by new automobile loans. However, the Atlanta district reports steady overall consumer lending with a decline in auto loans, and the Richmond district reports a sharp drop in consumer lending.

Residential mortgage lending and refinancing activity remained flat or declined in many districts. Lenders in several districts report intensifying competition, which has reduced interest rate margins. The Boston district notes an outflow from bond funds, although employment levels at asset management firms in the region remain stable.

Agriculture and Resource-related Industries

The fall harvest of most crops is complete except in parts of the Richmond and Dallas

districts where wet weather slowed the harvest. Grain crops are reported to be large across most regions and are pushing prices to low levels. The Minneapolis and Kansas City districts report less favorable conditions for livestock producers due to low prices for cattle and hogs. The San Francisco district reports some improvement in agricultural conditions due to relatively strong prices for wheat and cotton and an uptick in prices of fresh fruit.

The Dallas, Kansas City, and Minneapolis districts report stronger energy activity, despite weak oil and natural gas prices. In the Minneapolis district, mining and forestry industries continue to boost output in response to strong demand.

Prices and Wages

Most districts continue to report rising prices of raw and intermediate materials, especially paper products, plastics, chemicals, steel, and building materials. Evidence of increasing prices of finished goods remains much less widespread. The Boston, Philadelphia, and Richmond districts report rising prices of finished goods. In the San Francisco district, one large grocery chain reports pressures on prices from higher food-packaging costs. In the Cleveland district, furniture and petrochemical manufacturers have been pressing for price increases, but competition at the retail level continues to keep those prices in check. A recent survey of business people in the Minneapolis district shows heightened expectations that rising business costs will be passed along to consumers. In the Dallas district, retail prices continue to fall.

Most districts report further tightening of labor markets, but the tightening remains confined to certain sectors. In the Cleveland district, labor shortages are limited to specific technical occupations. Markets for construction workers have been tighter in the Chicago,

St. Louis, and Kansas City districts. In the Atlanta, Minneapolis and St. Louis districts, retail and food service firms report difficulty in hiring temporary workers for the holiday season due to tight labor markets. In the Dallas district, labor market tightness has surfaced in technical and professional fields.

Labor market tightness has led to rising wages in more districts than reported in the last Beigebook. Districts reporting evidence of rising wages include Boston, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas. Wage increases have generally been confined to skilled construction and industrial occupations and entry-level service and retail occupations. In the Kansas City district, only a few contacts report increased wages, and those increases were limited to skilled construction workers such as carpenters. The Dallas district reports only scattered evidence of wage increases, mostly in temporary-help services, trucking, accounting, and communications. In the Richmond district, wages increased at service-producing firms.



related products, and single-digit increases for printed matter and paper goods. Contacts report a recent pickup in machine tool orders, after several years of weakness. Sales of medical instruments also appear to be firming up. Demand for apparel-related textiles has been erratic, while aerospace markets remain soft.

Contacts note sharp cost increases for paper products, polyethylene, alcohol-based products, and wool; costs have also risen noticeably for a variety of metals, other chemicals, and lumber. About one-half of the manufacturing respondents have raised or intend to raise their prices by between 2 and 6 percent, but makers of machinery and equipment are maintaining or reducing selling prices.

Employment trends over the past year have been mixed, but downsizing efforts appear to be nearing completion, and about one-half of the respondents anticipate making net new hires in the months ahead. Several contacts in New Hampshire and Vermont mention that it is becoming more difficult to hire and retain workers. Wage and salary increases mostly hover around 3 to 4 percent, but are lower for some companies facing weak demand and higher for some highly productive workers.

Most contacts are at least guardedly optimistic about their company's business prospects in the next six to 12 months, citing factors such as momentum in the U.S. economy, prospects for improved exports to Europe, and successful strategies by their firm. A couple indicate that higher interest rates are reducing their company's earnings, and some express longer-term worries about cost pressures or a downturn in consumer spending.

Commercial Real Estate and Construction

The commercial real estate market continues to recover in most parts of the region, but the pace is uneven across property types. Contacts in southern New England note that retail real estate is particularly "hot," with growth coming from large national chains, while the industrial and apartment markets also are strong. On the down side, vacancy rates for office buildings in downtown Providence and Hartford exceed 20 percent and contacts expect little change in the near future. Office markets in the Boston and Portland areas have recovered more quickly, with effective downtown vacancy rates below 10 percent in Boston. New office construction is expected in the Boston and Providence suburbs. Office rents in the region are mostly flat, but increasing slightly in the growing markets. Respondents note that rising interest rates are having little effect on new deals, with one contact seeing a surplus of capital looking to invest in real estate.

Nonbank Financial Services

Sixty percent of contacted investment management companies report small increases in assets under management since this summer. The remainder have experienced reductions and cite net outflows from bond funds and declines in the market value of their portfolios. Despite the market downturn, all respondents report either stable employment levels or continued hiring in the third quarter and for the remainder of the year. However, several contacts have scaled back their hiring plans from the beginning of the year.

SECOND DISTRICT--NEW YORK

Reports on District developments were mixed in recent weeks but on balance pointed to slower growth. A number of retailers reported lower-than-expected sales in October, though several reported a strong post-Thanksgiving weekend. Homebuilders noted a seasonal slowdown in activity and expressed concern about future weakness. The unemployment rate was up slightly in October in New York, with New Jersey unchanged. On the bright side, surveys of area businesses show considerable optimism about conditions, and office leasing activity improved. Senior loan officers surveyed at small and mid-sized banks reported stable or lower loan demand.

Consumer Spending

Year-over-year sales results varied at District retail stores during October, with a majority of contacts reporting that sales were below plan but one reporting exceptional strength. Part of the weakness was attributed to unseasonably warm weather which affected purchases of outerwear. In general, retailers are optimistic about holiday sales, especially of computers, electronics, and goods for the home. News reports suggest that sales during the post-Thanksgiving weekend were quite strong.

In addition to the items mentioned above, those said to be selling well include men's clothing and accessories, and jewelry. In general, respondents were comfortable with inventory levels.

Residential Construction and Real Estate

District homebuilders reported little change in the market for new and existing homes. Housing starts are about the same as or lower than a year ago. Most contacts believe that rising interest rates have not yet had a significant impact on activity, though several expressed concern that they will hurt the market next spring.

Office leasing has shown some improvement. The primary office vacancy rate in midtown Manhattan fell by one percentage point from September to October. Overall

leasing activity in midtown is up 18 percent over a year ago. The downtown vacancy rate was unchanged in October.

Other Business Activity

District unemployment rates were mixed in October. New York's rose 0.3 to 6.5 percent, while New Jersey's was unchanged at 6.7 percent. New Jersey payroll employment rose by a seasonally-adjusted 8000 in October, and is up 1.6 percent so far this year. New York State employment was up 1000 in October. District employers continue to announce downsizings. Hoffman-LaRoche has begun to lay off hundreds of workers in Northern New Jersey. Allied Signal will eliminate about 1000 jobs at an engine plant in Stratford, Connecticut. Kodak has announced a reduction of an additional 800 workers (on top of previously announced cutbacks) in Rochester by early 1995. Cutbacks and reduced bonuses on Wall Street are reportedly having a negative impact on nearby businesses. On a more positive note, Buffalo-American Axle will be adding 400 jobs in the Buffalo area during the next 3 years.

The National Association of Purchasing Managers - Buffalo, Inc. reported that the business climate in Western New York was the best in the last four months, with increases in new orders and inventories. 78 percent of respondents reported paying higher prices for materials--the highest figure since February 1979.

Surveys of small and medium-sized businesses in the region find considerable optimism about conditions. According to the New Jersey Business and Industry Association, the outlook for sales, profits, and employment is the best in the last six years. A survey by Chemical Bank covering the New York metropolitan area found that most businesses expect conditions to improve or remain the same during the next year.

Financial Developments

Aggregate loan demand is either steady or lower at more than nine-tenths of the small and midsized banks surveyed in the District. The largest declines in activity occurred in the residential mortgage and refinancing segments. About three-fourths of the

banks experienced less residential mortgage demand, and less or no refinancing activity. The consumer and commercial and industrial loan segments are generally weak as well, with only about one-fifth of the banks reporting higher demand.

Loan rates are higher or the same across all categories of lending. Recent increases in deposit rates have kept the spread between the average lending and deposit rates unchanged at more than half of the banks, while almost one-third reported smaller spreads. More than half of the senior loan officers surveyed maintained their willingness to lend; over one-quarter reported increased willingness. Very few banks changed their credit standards, and almost all have stable or lower delinquency rates.

THIRD DISTRICT - PHILADELPHIA

Business contacts in the Third District continued to report increases in activity in November. Manufacturers were posting gains in new orders and shipments, and they were extending hours and adding workers. Retailers said that store traffic had picked up and that sales of apparel, consumer electronics, and toys were on the rise. Auto dealers continued to describe the sales rate as good. Bankers generally indicated that business and personal lending were growing, but most said that residential mortgage lending was flat or declining.

Looking ahead, the consensus in the Third District business community is that improvement will continue through the winter. Manufacturers forecast further increases in activity during the next six months, although on balance their employment plans call for payrolls to remain steady during the period. Retailers expect the holiday shopping period to produce year-over-year gains of 5 to 6 percent, in dollar terms. Bankers anticipate a modest upward trend in overall lending, led by growing demand for business and consumer credit, but they do not expect a rebound in residential mortgage activity.

MANUFACTURING

Third District manufacturers continued to report increasing business in November. About one-third of those contacted said shipments and new orders were rising at their plants and about one-half said they were steady. Producers of durable goods, especially metal products and machinery, said their business was increasing, but producers of nondurable goods, especially apparel and other textile products, said they were seeing declining demand.

Manufacturers in the District said production was keeping up with rising

orders, leading to a slight drop in order backlogs. While employment was steady at about three-fourths of the firms polled, nearly one-fourth were adding workers and extending hours.

Nearly half of the manufacturers contacted for this report expect business to continue on an upward trend over the next six months; about one-third foresee steady conditions. On balance, manufacturers are planning to maintain payrolls at current levels and to keep working hours steady. Capital spending plans, however, call for increased outlays over the next six months.

Industrial prices continued to show some upward movement, according to District manufacturers. Just over half of those queried said they paid more for supplies and materials in November than they did in October, and one-fourth said they had raised prices for the products they make.

RETAIL

Third District retailers interviewed in late November said store traffic had picked up prior to Thanksgiving and was heavy during the Thanksgiving weekend. Overall, merchants said sales for the weekend were good, and they generally expected to meet their sales targets for the Christmas shopping period. Most forecasted year-over-year gains of 5 to 6 percent, in current dollars. Retailers' expectations that apparel, consumer electronics, and toys would be the biggest selling items for the holidays were borne out by the early sales activity.

Auto dealers in the District continued to report a healthy rate of sales. There were scattered reports of supply shortages for popular models, but availability appeared to be better than it was earlier this fall. Some dealers believe sales will slip as a result of rising auto loan rates, but none of those contacted for this report had seen a drop yet.

FINANCE

Third District bankers contacted in late November reported some growth in business lending, although most described it as slight. Bankers continued to note that competition among lenders was keen and interest rate margins were tight. Consumer lending was generally characterized as healthy, with growth in auto loans and home equity loans. Most of the bankers contacted for this report said residential mortgage lending was flat or falling, but some said they were adding mortgages to their loan portfolios, resulting in an increase in mortgage loan volume outstanding.

Some bankers said they had stepped up promotional efforts to keep outstanding balances of certificates of deposits from dropping. Others were allowing deposit totals to decline. Several indicated that higher interest rates on competing nonbank investments were prompting consideration of more aggressive pricing on a variety of deposit accounts.

Most of the bankers interviewed for this report were of the opinion that economic activity was on a firm upward trend that could carry into and possibly through 1995. They expect overall loan demand to continue moving upward modestly, led by a small increase in business lending and relatively stronger gains in consumer lending. They do not foresee renewed strength in residential mortgage activity.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

The District economy continues to expand vigorously, with virtually all sectors and regions reporting favorable trends. Price pressures continue to be felt in raw industrial materials, but these increases are not being reflected at the retail level. Moreover, wage pressures seem surprisingly light given growing indications of capacity constraints, particularly in the industrial sector. The rise in interest rates has had little measurable influence on either lending activity or consumer demand.

Manufacturing

Industrial activity in the District is operating at a very high level, with steel and capital goods producers, including auto and auto-related output, at virtual capacity. Orders backlogs for many capital goods producers in the District extend well into 1995, and a major heavy truck producer reports that its 1995 orders book is nearly full.

Price increases continue to be isolated primarily in the materials industries, such as metals, plastics, chemicals, and paper-related products. Resistance to price increases remains strong at the finished-goods level, however, and industry sources are troubled over narrowing margins. Some labor shortages were noted in specific technical occupations and in some regions, although there are still few reports of any general upward wage pressures. While many firms cited improved hiring plans, most continue to resist adding permanent staff.

Retailers

Although retail sales in the District have not been quite as strong as in other regions of the country, consumer demand began picking up in November and appears to have been stronger than expected during the bellwether Thanksgiving weekend. Overall last month, retail spending improved by mid-single digits from this time last year, with high single-

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digit increases posted during the final week of the month. Furniture and other home goods continued to lead the market in November, and electronics sales were also comparatively strong. Retailers say that consumer credit is expanding, a trend confirmed by District bankers.

Mall traffic was reported to be exceptional over the Thanksgiving weekend. Sales were especially strong for discounters and department stores. Although specialty stores, such as apparel outlets, continue to lag the market, their holiday weekend sales were significantly improved. Price discounting was thought to be a contributing factor.

Retail inventories are reported to be conservative, but satisfactory. Shortages were reported in some areas, but retailers expressed little worry about insufficient stocks. Suppliers of furniture and petrochemical-based products are reported to be pressing for price increases, but retailers indicate that competitive pressures are still restraining force. Prices are apparently falling for many apparel goods and are rising only marginally in most other areas. As in the past several District reports, profit margins in the retail area are thin.

Temporary workers are increasingly hard to find this holiday season, and retailers are aggressively competing for qualified part-time workers. Several respondents noted a large number of help-wanted advertisements, and employment of high school students is reportedly on the rise.

Autos

One observer of regional auto markets described sales in the District as "humming along," although that pace may have eased a little recently. Nevertheless, shortages continue for certain models, particularly minivans and pickup trucks, and many dealers indicate sales would be stronger if stocks were available. According to domestic nameplate dealers, price increases on the 1995 models range from 2 1/2% to about 6%, with little apparent detriment to sales activity.

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Growing parts shortages are being complicated by increasing supplier requests for higher prices. Many parts suppliers have reportedly reached capacity and are unable to meet demand without incurring additional marginal expenses, such as overtime. Prices of raw materials, such as metals and polymers, are also rising, and profit margins in the supply network are compressed.

Automakers are employing a variety of efforts to increase production at existing factories, including three-shift work schedules, capital equipment additions, and production shifts between existing assembly lines. Industry sources agree that these efforts are adding only incrementally to total output, however.

Dealers remain optimistic about 1995 model-year sales and model shortages are expected to ease before spring. Dealer reaction to recent interest-rate increases is focused on their influence on floor-plan costs, although continued rate hikes could reportedly hamper consumer demand.

Banking and Credit

Despite higher interest rates, banks around the District report continuing strength in loan demand, although lending activity was clearly mixed by institution. Consumer borrowing is active, with new auto credit particularly high and revolving credit balances on the rise. Mortgage credit has fallen off recently due to the usual seasonal slowdown in home buying and a further reduction in mortgage refinancing. Commercial and industrial loan demand actually strengthened a bit in October, according to several District sources. One bank noted that business borrowing was centered at medium-sized firms; another source speculated that floor-plan and other inventory financing arrangements were up sharply.

All of the District sources were concerned about a potential deterioration in loan quality as competition for loans continues to intensify. A few sources have begun to move away from some credit areas due to quality considerations and narrowing margins.

FIFTH DISTRICT-RICHMOND

Overview: Economic activity in the Fifth District grew moderately in late October and November. Areas experiencing growth included the service-producing sector, commercial real estate, ports, and state revenues. Consumer spending was up slightly, but very strong holiday sales were expected. Manufacturing, tourist, and agricultural activity were flat, and housing activity and loan demand declined.

Consumer Spending: Retailers, retail associations, and retail analysts contacted by telephone reported increased activity in November, and they expected sales during the upcoming holiday season to exceed last year's robust level. Contacts indicated that November retail sales increased because of weekend promotions. There was disagreement, however, over whether consumers began holiday shopping earlier than normal. Looking ahead, retailers expected December sales of computers and other electronics to be strong. They also expected good winter apparel sales in December, even though such sales were weak in November.

Service-Producing Firms: Respondents to a mail survey indicated that activity in the service-producing sector increased in October. Revenues rose, except in business services, where they decreased. Wages also rose, and employment changed little except in the wholesale sector, where it increased. Service producers indicated that prices rose 0.4 percent in October. They expected increased demand for their services and an increase of 1.1 percent in their prices during the next six months.

Manufacturing: Indicators of factory activity changed little in October from their September levels, according to a mail survey of District manufacturers. Capital

expenditures were up compared to six months ago, and respondents expected a further increase during the next six months. Manufacturers expected shipments and employment to increase during the next six months, but they anticipated little change in the workweek. Finished goods and raw materials prices increased faster in October than in September but at rates less than the general inflation rate.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity experienced its usual November slowdown. Contacts from mountain areas expected tourist activity this winter to exceed last year's level as long as the areas received normal amounts of snow. Rates for some rooms, meals, and activities were expected to increase more this winter than last winter.

Ports: Representatives at the District ports of Baltimore and Charleston indicated that export levels in October were higher than those of September and a year ago; import levels remained about the same. The port representatives expected that during the next six months both exports and imports would increase and exports would grow faster than imports.

Finance: District financial institutions contacted by telephone reported that loan demand slowed during late October and the first three weeks of November. Consumer loan demand fell sharply, while commercial and mortgage loan demand declined slightly. Interest rates were higher on consumer, commercial, and mortgage loans. Looking ahead, most lenders contacted were cautious about future loan demand. Some consumer and commercial lenders in North Carolina, however, were confident that loan demand in their areas would remain strong.

Residential Real Estate: According to a telephone survey of District realtors and

builders, residential real estate activity declined during the four weeks preceding Thanksgiving. Building permits and buyer traffic decreased. Home sales also decreased, except in West Virginia, where contacts reported an increase in sales of lower-priced homes following the introduction of a state program providing low-interest mortgages. Builders indicated that they started fewer houses after the recent rise in mortgage rates. Home prices remained stable, although subcontractor wages increased in West Virginia, South Carolina, and North Carolina.

Commercial Real Estate: District contacts reported that commercial real estate activity in November grew at the same pace as in October. Real estate contacts reported little change in construction, except in North Carolina, where speculative construction increased. Commercial vacancy rates, however, declined throughout the District. Posted commercial rental rates remained steady, except in the District of Columbia, where they rose. Real estate contacts reported that fewer landlord concessions were available to tenants, and they anticipated rental rate increases soon. Leasing agents reported that the availability of prime office space tightened in the District of Columbia, South Carolina, and North Carolina. Those in Charlotte, N.C., and Columbia, S.C., said the shortages in their areas existed even for less-than-prime office space.

State Revenues: State government forecasters said that tax collections grew moderately in October. Real revenue growth declined in South Carolina but picked up significantly in Maryland and slightly in the District of Columbia. Growth remained strong in North Carolina, Virginia, and West Virginia.

Agriculture: Agricultural activity progressed at the same rate as a year ago, according to District farm analysts. Fall harvesting activity for most crops neared

completion, but rain delayed cotton harvesting in some areas of the District. Crop yields were strong. Fall small-grains planting activity was comparable to that of a year ago, and the crops' condition was good in all District states except South Carolina, where crop growth was off to a slow start.

SIXTH DISTRICT - ATLANTA

Overview: According to business contacts, the Southeast economy grew at a healthy pace through the end of November, although recent year-over-year gains have been smaller than they were earlier in the year. The holiday shopping season got off to a good start over the Thanksgiving weekend, with most retailers reporting that sales had met or exceeded their optimistic expectations. Tourism and business travel remain above year-ago levels in most of the District, and recent reports indicate that many Florida tourist markets have begun to see a rebound. Factory activity in the District was reported to be mixed, with strength in some industries offsetting weakness in others. Single-family home sales and construction slowed on a year-over-year basis in November, but multifamily and commercial construction continued to show improvement. Reports of increasing wage pressures have become more frequent in the last month, and firms in a growing number of industries say that they are having difficulty finding qualified workers. Although many contacts continue to report rising raw materials prices, most producers continue to indicate that they have not raised prices of their own products.

Consumer Spending: A majority of the District retailers contacted after the Thanksgiving holiday weekend said that sales generally had met or exceeded their expectations. The strongest selling items were reported to be gift items and home-related products, although apparel sales also were relatively brisk. Retailers generally said they expect holiday sales to exceed last year's levels by between 5 and 7 percent. However, several retailers predicted that December sales will be dominated by promotions and discounts similar to those offered during the last several years. Although most retailers said that unexpectedly pleasant weather put a damper on sales in early November, the return of cooler weather in the second half of the month brought shoppers back into the stores. Auto sales around the District were said to be flat with some dealers noting year-over-year declines.

Manufacturing: Reports from manufacturers were somewhat mixed in November, with weakness in a few industries offset by strength in the majority of others. At the same time, most firms indicated that they were optimistic about their prospects for the next six months. Firms in the paper,

wood, chemicals, and aluminum industries all continued to report increasing levels of current activity. Auto makers and auto parts suppliers again commented on strong demand for their products. Although many District manufacturers of lumber and other building materials said that they were operating at near capacity, several firms indicated that current shipments have begun to slow. Firms producing home appliances, heating and cooling equipment, and carpeting also noted a slowdown in current shipments, although several carpet producers reported that exports had begun to pick up. Reports from the apparel industry, however, were much less positive, with most firms reporting declines in output as well as the factory workweek and payrolls.

Tourism and Business Travel: Tourist and business travel remain a bright spot in the District economy. Hotel occupancy rates were reported to be well above year-ago levels in Atlanta, Nashville, and New Orleans, while tourism along the Gulf coast continues to flourish. Although tourist travel to many Florida destinations remains below year-ago levels, winter bookings were reported to be up, particularly from Latin American and Canadian visitors. Several major resort areas in Florida recently have announced expansion plans aimed at reversing the attendance slump of the last year.

Construction: Single-family home sales and construction slowed throughout the District in November; however, real estate agents emphasized that the level of activity in most market areas remains near the strong year-ago performance. Builders reported that new home inventories have begun to increase slightly, and home prices generally have stabilized. Some realtors have begun to report price concessions on the part of sellers. Looking forward, realtors and builders generally expect the pace of home sales and construction to decline in 1995, although overall activity is expected to remain relatively high.

In multifamily and commercial real estate markets by contrast, real estate agents continue to report improving conditions. Apartment occupancy levels were described as extremely high in many District market areas. Apartment rental rates have continued to rise, and in recent weeks plans for several new multifamily developments were announced. Commercial realtors also reported falling vacancy rates

and improved leasing of industrial, office, and retail space. Commercial construction has accelerated in many areas of the District. However, shortages of qualified labor continue to push building costs up.

Financial Services: Reports on loan demand from bankers in the District were mixed in November. While some contacts noted that the demand for home mortgage lending had declined substantially, others reported increased commercial and industrial lending. Consumer loan demand was generally described as flat, while auto lending declined modestly. Several banks noted that the competition for loans remains fierce. Both commercial and consumer loan default rates remain near lows for the past decade.

Wages and Prices: Wage pressures were again described as on the rise amid tightening labor markets. In addition to the construction sector, food service and retail establishments have begun to report difficulty in filling available positions. This has been particularly true of retailers who have sought to hire temporary employees for the holiday shopping season. As a result, an increasing number of firms report that they have had to offer wage increases in order both to attract new workers, as well as to retain current employees. According to manufacturers, raw materials prices also continue to rise. However, many firms reported that they have not been able to increase their prices because of intense competition. Although most retailers concurred that competitive pressures have kept a lid on price increases to this point, many indicated that they expect their suppliers to increase prices on many items after the first of the year.

SEVENTH DISTRICT--CHICAGO

Summary. Seventh District economic growth remained strong in October and November. Retail sales seemed to grow at about the same pace or slightly higher than in previous months on a seasonally adjusted basis; durable goods continued to lead overall sales growth, while the tardy arrival of cold weather prompted greater strength in seasonal apparel sales. Manufacturing activity generally remained robust, although some durable goods producers' expectations for domestic sales gains in 1995 have been tempered in recent months. District labor markets continued to tighten up, and reports of labor shortages remained relatively widespread. Discussions with retailers, manufacturers and a wide range of staffing services firms revealed a greater frequency of reports of wage pressures in permanent positions, albeit for a subset of occupations and geographic areas. Reports of price increases remained concentrated in crude goods and intermediate materials.

Retailing. Retail sales growth seemed to strengthen further in recent weeks, after the underlying trend gathered momentum late in the third quarter. Reports from several large retail chains and shopping malls suggest that the holiday sales season began on a vigorous note, with full parking lots and high sales levels. One retail association stated that "things have been going great;" sales for the holiday season were previously forecast to rise 6 percent, but sales gains in the membership over the past week seem to have been significantly above that expectation. A survey by a check processing firm showed a stronger year-over-year same-store sales gain in the Midwest for the day after Thanksgiving than the survey had been showing in previous months. Several retailing contacts reported high sales levels for seasonal durable goods like snowblowers and car batteries, after the late-developing but harsh winter last year caught many consumers unprepared. One large retail chain noted that apparel sales rose significantly in recent weeks; unseasonably warm weather held back seasonal apparel sales in October and masked stronger gains in other apparel and home fashions lines within its overall mix. Another large retailer reported that apparel sales remained relatively weak in those regions of the country where warm weather continued to linger, while apparel sales in most District states picked up with the belated onset of colder weather. Nationally, this contact stated that sales over the past week have been "fabulous," with year-over-year growth well in excess of the growth for the month of November as a whole. A continuing large majority of Michigan retailers surveyed in November reported year-over-year sales growth, while an even larger share of respondents expected further gains over the next three months.

Manufacturing. District industrial activity remained robust. Production readings from the Chicago and Milwaukee purchasing managers' surveys remained quite vigorous during September and October, while the Detroit survey showed new strengthening. Surveys conducted in western Michigan have been depicting some of the strongest results in the District, and these surveys showed even greater momentum in September and into late October. In November, the production component of the Chicago survey showed faster growth than September and October. Large automakers reported that sales closure rates improved in recent months, after slipping during the summer. Showroom traffic continued to run at high levels for this time of the year, and dealer orders reportedly accelerated during October and early November. Heavy-duty truck build plans for the fourth quarter have been on the rise in recent months, after slipping in the third quarter. A large steel producer shipped its highest volume for a third quarter since 1981, and total steel production in the region showed stronger year-over-year gains in October and November than in previous months. This steel manufacturer's materials distribution group reported that the Midwest and the South continue to be its strongest geographical areas. A large cement producer stated that interest rate increases have not yet had a noticeable affect on its own market, with residential deliveries still "doing very well, and better than last year." A large manufacturer of gypsum wallboard reported that industry shipments have been running at a record level during 1994. This company expects housing starts in 1995 to run even with 1994, but with a larger multifamily component, which use less wallboard and could dampen overall shipments. Several durable goods manufacturers expected slower growth in domestic markets during 1995. At the same time, a number of heavy equipment producers noted increased sales to Europe, and these contacts expect greater export gains to help offset slowing growth in domestic markets during 1995.

Labor Markets. District labor markets continued to tighten, and discussions with many staffing services firms revealed a somewhat greater frequency of reports of wage pressures for permanent positions than in previous months. Among those staffing firms that reported little change in compensation for permanent positions, several expected greater pressure in early 1995. However, some staffing services stressed that organizational restructuring and technological advances continue to weigh on job opportunities and salaries for a significant portion of the overall workforce. Shortages and wage pressures seem to be centered in light industrial, construction, and entry-level retail occupations, although one large retail chain stated that it hasn't been any more difficult to attract seasonal labor for the current holiday season than it was in 1992 and 1993. Temporary help companies have been reporting wage

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increases for the past several quarters, and one temporary help company stated that "orders we used to be able to fill in two or three days, now it takes two or three weeks." Another staffing services firm reported that the price of help-wanted radio advertising space has risen in recent months. An engineering firm in a robust area of the District reported that construction has been moving at a very slow pace on individual projects, due to the shortage of skilled labor. This contact stated that customers of construction contractors are bidding against one another in order to get priority for project completions, and new contract prices are also moving higher. An auto supplier stated that a scarcity of production workers has curbed the firm's ability to add a third production shift, and a staffing services firm believed that labor shortages have played a role in auto component shortages. A number of managers of fast-food restaurants located in relatively strong areas of the District expressed heightened concern about labor shortages, with one busy manager stating "I've got to get back to work, we're short two people as I speak." While a majority of these restaurants reported that wages have risen, none of them reported higher menu prices.

Prices. Price increases remained centered in commodities and industrial materials. A wide range of respondents to area purchasing managers' surveys continued to comment about shortages, capacity constraints, demands for shorter lead times, planning difficulties for work-in-process inventory, and higher input prices generally. In November, the prices-paid component of the Chicago purchasing managers' survey climbed to its highest level since late 1988. A steel consumer expressed concern that faster growth in Europe would reduce supplies of imported steel next year, adding further upward pressure to steel prices. A large cement manufacturer stated that its baseline cement prices are slated to rise roughly 6 percent at the beginning of 1995, although this represents a smaller hike than the last baseline increase in April. Cement allocation restrictions have been shrinking in recent months.

Evidence of greater inflation in retail prices remained relatively scarce. Most retailing contacts continued to stress that price competition remains intense, with little change in overall prices reported even among those retailers experiencing increased labor shortages and higher wages. One large retail chain stated that department stores "seem to be running a little more promotional than people might have expected a few months ago." Another large chain concentrated in apparel stated that price increases have played "no role whatsoever" in same-store sales gains in recent months. "We've had a lot of threats, but very few suppliers have really had the guts to try to put anything through."

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EIGHTH DISTRICT - ST. LOUIS

Summary

Continued growth and tightening labor markets are the norm in most areas. Consumer spending is relatively strong in most parts of the District, and retailers expect strong sales during the holiday season. Tight labor markets are making it increasingly difficult for firms to find qualified workers, and many contacts report increasing wage pressures. Residential construction continues to slow in some markets, although commercial construction is picking up in several areas. Loan demand is still fairly strong in most parts of the District. Record crops have created storage problems in some areas.

Consumer Spending

District retailers report recent sales at or above their year-ago pace, with sales growth exceeding expectations in many cases. Strong local economies are cited by retailers as the principal reason for strong sales. Most retailers say discounting has not been a factor in generating these sales increases; some, in fact, expect prices to rise as the holidays approach. Most retailers report that holiday staffing and inventories are at desired levels. Contacts at discounters, specialty stores and department stores around the District report brisk holiday traffic and sales during the weekend after Thanksgiving.

District car dealers report mixed sales activity. Some dealers are still experiencing falling sales because of lack of inventory, while others are experiencing double-digit sales increases. Prices of most 1995 models have increased relative to their 1994 counterparts, although some dealers report that these increases are being absorbed in dealer costs rather than being passed on to consumers.

Manufacturing and Other Business Activity

A growing number of contacts in the District report increasingly tight labor markets, making it more difficult for firms to find qualified workers. In most parts of the District, construction workers are increasingly scarce. In southern Indiana and parts of Arkansas, Kentucky and Tennessee, contacts report increased wage pressures because of the tight markets. In some instances, fast food restaurants and entry-level positions at other firms are paying up to \$7 an hour. In many areas, unemployment rates have recently reached 20-year lows. A quarterly employment outlook survey projects further employment gains in the St. Louis metropolitan area through the first quarter of 1995.

Most District industries surveyed report increased sales in recent months. For example, a maker of concrete products reports that October figures show sales up 30 percent over last year. In addition, this contact reports that demand has not followed the normal seasonal pattern: Strong residential housing demand is keeping demand for building materials unseasonably high. Similarly, a District brick manufacturer currently has one-third of its annual production on back order, which is more than usual, especially for this time of year. A glass container manufacturer reports that October sales were up 8 percent over last year, and a contact in the footwear industry reports a 1.5 percent increase during October but a 15 percent increase year-to-date. A maker of car exhaust systems reports that automakers' just-in-time inventories keep this company operating around the clock to keep up with demand. In general, contacts throughout Arkansas and the Louisville, Memphis and St. Louis metropolitan areas all report healthy economic growth.

Some contacts, however, are not as positive. A maker of corrugated boxes reports October sales were down 6 percent, although year-to-date sales are still up 10 percent.

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A contact in northeast Mississippi reports an overall softening in the region's economy; he cites not-so-upbeat reports from computer and office suppliers, who expect some slowing over the next six months, partly because of rising interest rates.

Construction and Real Estate

Residential real estate markets have changed little since the last report: Some areas are still experiencing strong growth in permits and sales, while other areas are noticeably weaker. Most contacts expect the effects of rising interest rates on permits and sales to be substantial by mid-1995. Several areas in the District are experiencing new construction in multifamily housing, which had been dormant since the mid-to-late 1980s. Commercial construction is also picking up strength in parts of the District.

Banking and Finance

District bankers continue to report relatively strong consumer and commercial loan demand. Strength in auto sales and accompanying auto loans is responsible for much of the growth in consumer loans. Several loan officers from the District's largest banks report strengthening in demand for loans to small businesses, which they attribute to increased plant and equipment spending needs and inventory financing.

Agriculture and Natural Resources

Despite substantial rainfall that slowed the pace of the fall harvest in many areas, most contacts report little crop damage, with most still expecting record or near-record crops. These large crops have created storage problems in some areas, forcing many facilities to store crops on the ground or to construct temporary facilities. Many livestock producers report that cattle and hog prices have fallen below their costs, although they note that low grain prices have ameliorated their losses somewhat.

NINTH DISTRICT--MINNEAPOLIS

The economy of the Ninth District continues to grow briskly, but is apparently beginning to encounter some problems. On the positive side, manufacturers report strong orders. Overall mining and forest product output remains high. Agricultural production is at or near record levels. Non-residential construction remains robust. Retail sales of general merchandise are strong and vehicles generally continue to sell well. Fall tourism was excellent as are prospects for winter activities.

However, some problems are emerging. Residential building clearly is slackening. In agriculture, unfavorable prices are limiting farm household and capital spending. Urban labor markets have tightened to a point where many businesses encounter difficulty in securing employees. Reported wage increases are larger and more widespread than earlier in the year. Price hikes for raw materials and intermediate goods are becoming common, and a survey shows increasing expectations that such increases in business costs will eventually be passed along to consumers.

Manufacturing

“Manufacturing is very good,” reported an advisory council member from north-central Wisconsin, and other sources indicate that this is true across the district. News media report that some firms have such strong orders that they have difficulty meeting promised shipping dates. Auto and machine components, builders’ hardware, and commercial printing businesses are all described as having full order books. Publicly traded manufacturing firms continue to announce strong revenue increases over the previous year. Moreover, industrial sales of electricity continue to grow substantially faster than long-run averages.

Natural resource industries

Mining and forestry are responding to strong demand and favorable prices by increasing output wherever possible. A previously idled iron mine in Minnesota that was brought back into production in late summer is already outstripping production expectations, and an industry spokesman stated that Minnesota’s 1995 iron shipments will be the highest in over a decade. Copper producers and an aluminum processor face especially favorable prices and are described as producing at capacity. Paper mills are reportedly increasing output as strengthening national and international demand for many types of paper allow them to bring underutilized capacity back into use. Oil and gas drilling remains higher than earlier in the year. Lumber and building board production remains strong. Sawmills in Montana reportedly are having a better year than anticipated as timber sales from private lands have increased to partially fill the gap caused by reduced federal sales.

Construction

“Housing activity is starting to level off,” said one advisory council member from Wisconsin, noting the effects of higher mortgage interest rates. His comments were also echoed by colleagues from Montana. Single-family home permits issued in October in the Minneapolis-St. Paul area were about 9 percent below year earlier figures. And while building activity in the eastern Dakotas remains strong, advisory council members and directors indicate that fewer new jobs are in the pipeline and that the 1995 building season will be down somewhat from 1994. These views were confirmed by a Minneapolis Fed mid-November poll of business people who reported a marked softening of their expectations for housing starts in their communities, compared to responses to the same question six months and a year ago.

Commercial and heavy construction, however, continues to outpace year-earlier levels, and the number of projects already initiated should ensure that the 1995 season will also be a busy one, according to one industry source. Publicly let contracts in Minnesota and the Dakotas for 1994 through October were 13 percent above 1993 levels.

Agriculture

Ninth District agriculture is celebrating its best crop ever, but mourning the lowest combination of crop and livestock prices in many years. Corn, soybean and sugar crops were the best ever for the district and wheat yields were excellent in most areas. Grain prices have generally stabilized at levels 15 percent to 30 percent below 1993 harvest prices after dropping nearly continuously from February into early fall. Favorable yields will offset the drop in prices and crop incomes will be substantially above 1993 in all areas except Montana and western North Dakota. But 1993 was an unusually bad year and 1994 crop income is likely to be only slightly above longer run averages.

Livestock prices, particularly for hogs, is where the farmer's shoe is pinching. In early November slaughter hog prices hit the lowest point in more than two decades in current dollars and in constant terms approached 20th century lows set in 1933. Cattle prices are also down substantially, with the greatest impact felt by cow-calf operators in Montana and in western South Dakota.

The upshot of this pattern of good crops but unfavorable prices for both grains and livestock is that farm household and capital spending are expected to be muted this year. Bankers responding to a Minneapolis Fed third quarter survey of agricultural credit conditions indicated that while farmers are generally able to service debt, few are expected to make major capital expenditures. Exceptions are crop-dependent eastern North Dakota, where farm machinery sales are particularly strong. At the other extreme, Montana bankers in areas where no crops are grown have begun to express concern about the ability of less well capitalized ranchers to weather the slump.

Consumer spending and tourism

General merchandise sales reportedly improved through the fall. Traffic in malls and sales figures for national chains, regional retailers, and specialty “category killer” merchandisers all point to strong consumer spending as the year closes. Although a snowstorm slowed shopping at the end of the Thanksgiving weekend, store operators reported very good sales before the storm hit and expressed optimism about holiday season sales. But there are some signs of slackening demand; a few advisory council members described increasing consumer caution in their communities. And a director who operates a trucking business noted a distinct drop in furniture shipments into the region.

Vehicle sales continue to generally be robust, with reports from Wisconsin to Montana of dealers who are unable to get certain popular models. One industry source, however, noted a plateauing in sales of sedans, station wagons and minivans. Pickups and sport utility vehicles continue to sell well.

Tourism and recreation businesses are doing well. South Dakota had an excellent pheasant hunting season with optimal weather conditions and record spending by out-of-state hunters. The warm, late fall delayed ski and snowmobile recreation, but expectations for such winter business are very good. However, Canadian cross-border tourist traffic reportedly is down from previous years.

Employment, wages and prices

“It is hard to hire anyone to do anything,” is how one advisory council member from eastern North Dakota described labor markets in his area. There are many other indications that labor markets continue to tighten. Help wanted signs are ubiquitous in most urban areas. Employment applications commonly are placed at sales counters in retail establishments. Minneapolis-St. Paul school bus operators reportedly are short over 300 drivers, while retailers in these and other cities are having extreme difficulty finding seasonal workers for the holiday rush. Some firms offer employees bonuses for new recruits.

“Labor shortage raises wages in region,” was the headline in one central Wisconsin newspaper, but that headline would accurately characterize wage tendencies in many other areas of the Ninth District. One director from North Dakota described wage increases of 4 percent to 10 percent in manufacturing firms he had contacted. News reports and advisory council members also note that substantial wage increases are becoming more common. One Minnesota manufacturer reportedly raised its starting wages from \$6 to \$7 per hour to attract needed workers.

Many sources report price increases in raw materials or intermediate goods. Both steel and non-ferrous metals continue to rise in price, as have hardware items. Adhesives and plastic laminate prices have increased by 6 percent to 10 percent in recent months. And a Minneapolis Fed survey of business people showed a marked increase in expectations that consumer prices would increase at an above-trend rate, compared to responses to the same question six and 12 months earlier.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow at a healthy pace. Retail sales increased over the past month, and manufacturers continue to operate at high levels of capacity. District energy activity improved slightly, although homebuilding activity continues to slow. In the farm sector, conditions remain good for crop producers but somewhat less favorable for cattle producers. While the supply of skilled labor is tight across most parts of the district, only a few manufacturers and a few builders report upward pressure on wages. Retail prices remain stable, while the prices of some manufacturers' inputs are up slightly from a year ago.

Retail Sales. District retailers report that sales have increased from last month and a year ago. Sales of home furnishings and men's apparel remain notably strong. Most district retailers are satisfied with current inventory levels after increasing their stocks over the past month. Retailers expect holiday sales to be significantly higher than last year. Auto dealers report that, while sales were off slightly during the past month, sales are expected to increase over the next few months. Financing is available for both dealers and buyers. Dealers are generally maintaining steady inventory levels.

Manufacturing. Most firms are operating at high capacity levels. Most agents continue to report shortages of skilled labor. Several agents report longer lead times but do not expect significant problems in obtaining materials during the next few months. Firms are generally satisfied with their inventory levels.

Energy. Drilling activity in the district improved slightly in October and the first

two weeks of November. Crude oil prices helped, moving slightly higher in recent weeks. But energy activity across large parts of the district remains dampened by low natural gas prices.

Housing. Most builders report a decline in housing starts from last month and a year ago. Moreover, most builders expect building activity to continue cooling off during the coming months. Sales of new homes have picked up somewhat over the last month but are below their year-ago pace. Builders in most parts of the district report materials are generally available with few delays. Mortgage demand continues to decline as interest rates climb. Most lenders expect demand to remain sluggish in the months ahead.

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

All respondents raised their prime rate last month, and most expect to raise the rate again in the near term. All banks raised their consumer lending rates last month, and almost all anticipate further increases in the near future. Lending standards were unchanged.

Deposits last month were flat to up at most banks. Most respondents report increases in demand deposits. NOW accounts were constant to up, while large CDs were

constant to down. Money market deposit accounts and small time and savings deposits were both mixed, with about equal numbers of respondents reporting increases and decreases.

Agriculture. Harvest of the district's corn and soybean crops is nearly complete, with farmers in much of the district harvesting the biggest crops on record. The district's winter wheat crop is generally in good condition.

Large supplies of red meat and poultry are holding down livestock prices and clouding the outlook for district livestock production. Lower feed costs and somewhat stronger fed cattle prices have trimmed losses to near break-even levels in most cattle feedlots. But a sharp decline in feeder cattle prices has pushed down profits on ranches. Meanwhile, low hog prices have triggered the liquidation of hog herds by some small-scale producers. Despite the downturn in livestock earnings, bankers report their farm loan portfolios generally remain in good condition.

Prices and wages. Retail prices remain stable and are generally expected to remain constant over the next three months. Manufacturers' purchasing agents report input prices are flat to slightly higher than a year ago, and most expect input prices to rise slightly in the months ahead. Despite widespread tightness in markets for skilled labor, only a few manufacturers report upward pressure on wages. New home prices have been stable over the last month but remain above year-ago levels. A few builders report an increase in prices of certain materials such as sheetrock and lumber. While construction wages have generally remained stable, a few builders report higher costs for skilled workers such as carpenters.

ELEVENTH DISTRICT--DALLAS

Economic activity continued to rise at a solid pace, although contacts in several industries expect activity to soften in the new year. Manufacturing orders increased, while activity at business service firms accelerated slightly. Retail sales were sluggish but strengthened over the Thanksgiving weekend. Higher interest rates and economic uncertainty tempered growth in the construction industry, although activity is said to be strong overall. Loan demand was stable. Steady demand kept district energy activity unchanged, while excessive moisture and a late frost disrupted agricultural production.

Scattered price and wage pressure continued to be reported in manufacturing and services, but retailers said selling prices were lower. Rents were up for some types of property, but home prices stopped increasing despite higher costs for several inputs. Energy prices were up slightly, and agricultural prices were lower.

Manufacturing orders continued to increase at a solid rate. Demand was strongest for electronics, paper, food and petrochemicals. Declining housing starts slowed orders for construction-related products such as brick and lumber, but producers said they were still operating at capacity. Inventories were low for many electronics products, and manufacturers said that hiring had led to slight wage pressure, but selling prices continued to decline. Sales of industrial electrical products were extremely strong, partially because of rebuilding after floods in the Houston area. Orders for paper products were still strong, although a lack of storage space had reduced double ordering. Most paper contacts said they were still producing at capacity, and higher

costs pushed up selling prices. Demand for fabricated metals was unchanged, while orders were slightly lower for primary metals. Primary and fabricated metal producers reported low inventories because delayed rail shipments had caused shortages of raw materials. Rising apparel sales resulted in some hiring, but garment finishers continued to report declining demand. Demand for oil field services and machinery was unchanged, but contacts said cost cutting had increased profits. District refining was returning to normal following a break in the Colonial pipeline. The pipeline break improved profits briefly, but higher fuel oil prices and a seasonal decline in gasoline sales kept overall refiners margins weak. Demand for petrochemicals was extremely strong, and the industry had not completely recovered from the fire and flood on the San Jacinto River, which reduced capacity and led to a fifth round of price increases in 1994. Inventories were very low for most petrochemicals, particularly propylene. Capacity is being added as quickly as possible, although shortages of capital equipment are reported to be limiting expansion.

Economic activity at **business services** firms increased at a slightly faster rate. Accounting, temporary and legal firms reported an acceleration in demand, while demand at transportation firms continued to grow at a moderate rate. Demand for corporate legal services, such as mergers and initial public offerings, continued to increase. Labor market tightness in technical and professional fields, such as programming, engineering and word processing, resulted in wage and price increases in the temporary help industry. Trucking, accounting and communications firms also reported higher wages.

Retail sales were soft in early November, but gained strength over the Thanksgiving weekend. Most contacts said weekend sales were good but not great. Retailers expect good sales over the holiday period. Contacts report

that price competition heated up in the past month, and selling prices remain lower than a year ago. Auto sales declined seasonally in October, but remained above a year ago.

Overall loan demand at district **banks** is reported to be unchanged although higher interest rates have curbed demand for construction loans, particularly for residential mortgages. Consumer and business lending continues to expand, and continued competition from alternative credit sources is limiting increases in loan rates.

Construction activity remained strong, but higher interest rates and economic uncertainty led several contacts to revise their outlook downward. Commercial and retail construction was strong, although respondents said economic uncertainty caused some projects to be put on hold. Demand for office, retail and industrial space was strong, and rents moved up slowly. New home sales and starts dropped in October and November. Contacts said new single-family home prices stopped increasing, and median existing home prices had fallen. Labor shortages are still reported for some subcontracting trades.

Steady demand kept district **energy** activity unchanged. The rig count increased seasonally, but remained below last year's levels. Most drilling continued to be for natural gas, although oil drilling was up slightly. Oil prices were between \$17 and \$19 per barrel, which was slightly higher than the last beige book. Spot prices for natural gas remained at low levels, between \$1.55 and \$1.60 per mcf. Storage capacity for natural gas is 94 percent full.

Rainy weather, flooding and a late frost slowed the **agricultural** harvest. Producers said delays had increased costs. Lower crop and livestock prices pushed the October Texas All Farm Products Index of Prices Received down 8 percent from 1993's level, and 2 percent lower than last month.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

The expansion of economic activity in the District as a whole is continuing at a moderate pace. A slight pickup in growth in California, which accounts for about 60 percent of the District economy, is being offset by some slowing in fast-growing District states, like Idaho and Utah. Real estate and construction activity in the District has slowed to a more moderate pace. Within the retail sector, a slight dropback in motor vehicle sales has not overshadowed strength elsewhere. Business investment appears to be strong in most of the District, owing, in part, to manufacturers' efforts to expand capacity. Loan demand at banks is increasing, buoyed by strength in the commercial and consumer segments. Scattered reports of price pressures pertain mainly to intermediate materials.

Business Sentiment

Twelfth District business leaders generally remain optimistic. Survey respondents expect national output to grow faster next year than the long-run average pace of growth, and respondents continue to expect inflation to accelerate slightly next year. Regional growth over the next four quarters is expected to exceed the national average in Arizona, Oregon, and the intermountain states, match the national average in Washington, and be only slightly weaker than the nation in Alaska and California. Compared to the previous survey, the outlook for regional growth has been scaled back a bit for interest-sensitive sectors, such as business investment and residential construction; some potential investors were reported to be adopting a "wait-and-see" posture on whether the interest rate increases to date will seriously impede demand. Nevertheless, about one-half of the respondents still expect business

investment to accelerate next year.

Retail Trade and Services

Within the retail sector, a slight dropback in motor vehicle sales has not overshadowed strength elsewhere. Respondents from California describe recent retail activity as bustling and report high expectations for holiday sales; more recently, media reports suggest a strong Thanksgiving weekend start to holiday sales in California. A major western grocery chain reports good sales and some pressure on food prices from the earlier passthrough by manufacturers of increases in prices of plastics and other packaging raw materials. In Idaho and Washington, truck sales generally were reported to be strong, though some softening in the mini-van market was noted. New vehicle sales as a whole were reported to have been constrained earlier by delays in deliveries to dealers from manufacturers. More recently, the lead time from order to delivery is reported to have shortened, owing, in part, to a slight dropback in dealer sales.

Conditions are mixed among service producers. In California and Washington, employment and investment in the health care industry reportedly are being restrained by consolidation and uncertainty about future industry structure. Also, given an uncertain regulatory environment, a major auto and home insurer is modifying earlier plans to expand in Central California. In contrast, the transportation, communications, computer services, and tourism industries generally are operating at high levels and expanding. Sales of software produced in Washington are strong, and respondents expect software sales to be buoyed further by increasing exports. In Utah, hotel occupancy rates are high, and advance reservations for the ski season are strong; several hotels in Salt Lake City plan to expand their

capacity.

Manufacturing

Outside of the depressed aerospace sector, District manufacturing activity remains at high levels. A Washington electronic components manufacturer reported a further increase in order volume, and a Utah machinery manufacturer indicated that general business conditions remain strong. Sales of western wood products also have been strong, despite recent moderation of housing construction, as supplies of southern wood products have been limited by weather-related production difficulties. Respondents from Oregon indicate that paper prices are up sharply, and timber costs remain high.

Efforts to expand capacity were reported for many manufacturing industries. A U.S. affiliate of a Japanese television manufacturer is reported to be expanding research, development, and distribution facilities in San Diego, as production at its Tijuana manufacturing plant picks up. In Central California, a major food processing plant is doubling capacity. An air bag manufacturer is reported to be expanding operations in Utah, and a multinational consumer electronics manufacturer is building a large plant in Oregon.

Agriculture and Resource-Related Industries

Recent reports from the farm sector suggest improved sales volumes and prices for some major commodities. Sales volumes for cattle, grain, and late season crops have been moderate to strong, and most respondents from the agricultural sector report that product prices are relatively high. Particularly strong prices are reported for cotton and wheat, and fresh fruit prices have risen. In contrast, potato prices are weak.

Real Estate and Construction

Real estate activity has slowed noticeably in some areas. In California, housing sales volume dropped back in the third quarter from a strong second-quarter pace; however, respondents from Southern California described the overall increase in real estate activity as "meaningful." Outside of California, residential sales activity appears to have slowed significantly from a rapid pace, particularly in Idaho and Utah.

Construction activity is mixed. In Idaho and Utah, a slowdown in residential construction in the last three months is reported to have eased capacity constraints; however, prices of construction materials are reported to be still increasing quickly. In eastern Washington, residential housing investment continues at a relatively high level, but a respondent sees preliminary evidence of a softening in demand. In Southern California, new construction of office properties is almost non-existent, but the industrial real estate picture is reported to be brighter.

Financial Institutions

District banking conditions are reported to be healthy. In California, commercial loan demand at large banks has picked up, and asset quality is reported to be improving slowly. Consumer loan demand is strong in Utah and Idaho, but real estate lending is down substantially from a year earlier.