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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

September 1995

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

September 1995

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Summary¹

On balance, the district reports point to some further expansion in economic activity with no clear change in underlying price pressure. Broadly interpreted, the expansion in business activity is seen as largely the same as in the previous report with minor modifications. Industrial activity appears to have stabilized and in some areas may now be strengthening. Many districts also report a pickup in construction. In sectors where business conditions are reported to be soft, such as retailing and agriculture, the hot, dry summer weather is commonly blamed. Only the New York and Dallas districts characterized business conditions as having deteriorated since the last report.

Prices

There has been little change in price pressures since the last report. Industrial materials prices have slowed from their strong pace in 1994, although higher costs for some materials (including paper, certain plastics, and building materials) continue to trouble some manufacturers. Overall, however, industrial cost pressures appear to be relatively minimal. Reduced crop yields have boosted prices for a range of agricultural commodities, and in some cases, such as grains, prices are substantially above levels at this time last year. More generally, consumer price increases are somewhat restrained, and there is little apparent concern about an acceleration in retail price pressures over the immediate term.

¹ Prepared at the Federal Reserve Bank of Cleveland from information collected before September 5, 1995. This document summarizes comments received from businesses and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Labor Markets

Few changes in employment conditions are reported. In the New York and Cleveland districts, unemployment has risen, although in the latter instance, the higher rate of joblessness is tied to model-year changeovers in the auto industry. Some labor market tightness is noted, such as for construction workers in the Richmond and San Francisco districts, and in some specific areas of the St. Louis and Dallas districts. By and large, however, the demand for labor is seen as growing moderately with little unusual pressure on wage gains.

Retailing

A preponderance of districts report lackluster retail spending in August. Exceptions are the San Francisco district, where spending has improved after weakening earlier, and the Atlanta region, where a strong pace of back-to-school purchases and optimism over holiday sales are reported. The Philadelphia district notes a typical seasonal increase in retail activity. These reports break from a general pattern of a subdued back-to-school shopping season caused in large part by unusually hot August weather in much of the country.

Apparel sales are described as soft in a majority of the district reports. August home goods sales were off from July levels in the Boston, Cleveland, and Chicago regions, but stronger in the Kansas City district. Auto sales were mixed by district, showing little propensity to move much in either direction. With a few exceptions (many

districts report high apparel stockpiles), retail inventories are described as being in good shape.

Manufacturing

The slowing in manufacturing activity reported in the last district summary appears to have leveled off. In some districts, such as Philadelphia, Richmond, and San Francisco, manufacturing activity appears to have strengthened slightly. Only the New York district indicates a continued falloff in overall manufacturing production. Most reports echo the Minneapolis district, where manufacturing sales are described as “good, but not growing at the pace they were a year ago.” Continued high levels of production are noted in the Cleveland and Kansas City regions, and by sector, demand is strong in the areas of computer, fabricated metals, telecommunications, and electronics manufacturing.

Construction and Real Estate

Among the more favorable developments since the last district summary has been an apparent strengthening in construction activity in many regions. The Chicago and St. Louis districts note strong home sales, and Cleveland reports an improvement in residential construction. The Atlanta district indicates that single-family home sales are running “modestly above year-ago levels” and that residential construction has improved. Multifamily construction activity has picked up in the Kansas City district, and nonresidential construction has increased in many parts of the Cleveland, Atlanta, and San Francisco districts.

Agriculture

Of the seven districts reporting on agricultural conditions, the St. Louis, Minneapolis, and Dallas regions indicate that crops are in good shape, although heat and insect problems have affected some areas. The Kansas City district sees crops in fairly good condition, but their development is two to four weeks behind schedule as a result of spring rains. In the New York, Richmond, Chicago, and San Francisco districts, dry, harsh weather and other calamities have adversely affected crop yields and pushed some prices higher. In particular, corn, soybean, cotton, peanut, and tobacco harvests are down from last year.

Other General Business Conditions

The tourist season appears to have been a bright spot in many district economies. The New York district describes tourism as brisk, especially from abroad, Philadelphia reports a good season, and Minneapolis sees tourism in its eastern region as having improved. In addition, Minneapolis reports tourism as “outpacing that of last year,” as does Richmond, although traffic has apparently fallen off slightly in recent weeks.

In other sectors, business reports are mixed. Service-sector growth has decreased in the Richmond district, and drilling activity is flat in the Kansas City and Dallas regions. In the Dallas report, however, business services demand is seen as having strengthened, and the San Francisco district reports continued strong demand in service-producing industries.

Banking and Finance

Lending activity is reported to have held steady, and in some cases, such as the Philadelphia, Cleveland, Richmond, St. Louis, and Kansas City districts, it has actually grown somewhat further. Consumer borrowing has declined “considerably” in the New York district and is characterized as “soft” in the Atlanta report, but is growing in many other parts of the country. In two districts, Philadelphia and Cleveland, revolving credit demands are especially strong. Most districts report continued growth in commercial credit demand, while mortgage credit extensions are mixed by region. No deteriorations in credit quality are noted.

FIRST DISTRICT - BOSTON

Business activity in the First District is generally expanding, but more slowly than a year ago. Both retailers and manufacturers expect continued slow growth in coming months. Price pressures are reportedly moderate. The residential real estate market is sluggish in most of the New England states.

Retail

This summer's hot weather appears to have curbed shopping activity in New England. First District retailers of hard and soft goods report disappointing, below-plan sales in July and August, ranging from level to 8 percent gains over year-earlier levels. Home improvement and lumber chains cite sales declines of up to 20 percent, which they attribute to a slowdown in the building industry and the economy. Retail respondents continue to express concern about consumer confidence; their expectations for the remainder of the year range from moderate sales decreases to 10 percent gains.

Price reports for materials are mixed, with declines in lumber and cotton prices and increases for fabric, foam, and paint. Retailers say they and their manufacturing suppliers are hesitant to inch up prices, given this summer's slow shopper traffic. Two contacts plan to expand stores or open new ones; none, however, plans to increase employment.

Manufacturing

Most First District manufacturing contacts report that sales are ahead of year-ago levels. Computer-related demand is very strong in most cases, and gains are reported also for aircraft, medical equipment, and items related to nonresidential construction. By contrast, makers of consumer durables--including auto parts, home furnishings, and jewelry--report that sales are

softening, with some experiencing declines relative to a year ago. Apparel-related textile sales remain sluggish.

Over the past year, manufacturers have experienced higher costs for a number of materials, including petrochemicals, paper and packaging, metals, and cotton fibers. In most instances, however, cost increases now appear to be abating; some manufacturers attribute this change to soft demand. One-third of the contacts report that they have raised selling prices over the past year, mostly in the range of 2 to 8 percent. Remaining prices are generally flat, with some decreases noted for computers and medical equipment.

Most respondents foresee little change in the size of their work forces in coming months. Those who are hiring report that the only area of difficulty is finding qualified specialists in computer-related fields. Labor costs appear to be rising only modestly.

The majority of contacts report that capital spending is increasing, with some making very substantial investments to expand capacity and/or improve productivity. Two contacts mentioned added investments in Mexico.

Manufacturers generally expect the U.S. economy to grow rather slowly over the next year, with little inflation. Most feel that the macroeconomic environment and industry-specific factors will create reasonably good results for their company, but two said an interest rate cut would be desirable.

Residential Real Estate

Most contacts continue to report sluggish sales of residential real estate in the First District, although prospects are up slightly in the last two months. Respondents in Connecticut and Rhode Island are the most pessimistic, noting that sales activity is still at below-normal levels, while

reports from Vermont point to improving conditions. Activity in Maine has bounced around, with the latest movement suggesting a slight slowdown. New Hampshire activity has leveled off. Contacts attribute a significant reduction in sales of existing homes in Massachusetts to newly-passed environmental regulations. For the first time in several years, sales of very high-priced homes and new construction in Massachusetts have slowed. The market for low-priced homes is reported to be in the best shape in all states, partly because of an expansion of low down-payment loans and other special credit programs.

Nonbank Financial Services

Investment management firms report increased assets under management in the last six weeks. The increases are due to the rising market value of the assets and strong sales of domestic equity funds, particularly small company and growth funds. Bond funds experienced small but positive inflows. Municipal bond funds continue to be in net liquidation because of investor concerns about tax reform. Most respondents report stable or increasing employment levels.

SECOND DISTRICT—NEW YORK

On balance, reports on economic conditions in the Second District suggest that growth has slowed in recent weeks. Retail sales weakened considerably in August, with more than half the contacts reporting sales declines. Although the unemployment rate in New Jersey edged down slightly during August, New York State's unemployment rate jumped nearly a full percentage point. Finally, eighty percent of senior loan officers at small and midsized banks report steady or weaker aggregate loan demand over the past two months.

Consumer Spending

District retail sales weakened significantly in August. Year-over-year sales results ranged from losses of 2 percent to gains of nearly 5 percent, with more than half of the retail contacts reporting sales declines. Virtually all of the contacts report that August sales were below planned levels. In general, weaker-than-expected sales left inventories, particularly for apparel, above desired levels by month's end. Although disappointing back to school sales were the most common explanation for the weakness, few categories of goods sold well. One exception was software sales, which were spurred by the introduction of Windows 95.

Construction and Real Estate

The market for commercial real estate in Manhattan weakened in July but showed signs of strength in early August. The vacancy rate in midtown jumped 0.5 percentage points to 14.0 percent in July as leasing activity remained sluggish, while the downtown rate edged up to 24.7 percent despite an increase in leasing activity. Midtown showed evidence of a rebound in early August, however, including one very large transaction which removed the second biggest block of available space from the market.

Residential construction across much of New York State and northern New Jersey remained slow during July and August. In New York, the market for new construction is

weakest in the central part of the State, while activity in Buffalo and Rochester is sluggish but has generally remained at 1994 levels. One builder in northern New Jersey said housing construction during August was "as dry as the weather". In contrast, residential construction in New York's downstate area showed greater strength than elsewhere in the District, buoyed by subsidy programs for affordable housing as well as continued strength at the upper end of the market.

Other Business Activity

Based on the household survey, the unemployment rate in New York State jumped nearly a full percentage point to 7.1 percent in August, as the number of unemployed individuals rose sharply. In contrast, New Jersey's unemployment rate, which had increased steadily since March, edged down 0.2 percentage points to 6.6 percent. Looking ahead, the recently-announced merger of Chemical Bank and Chase Manhattan Bank is expected to cut approximately 4,000 jobs in New York City alone -- particularly in retail banking operations -- over the next three years.

Purchasing managers in the Buffalo and New York metropolitan areas reported that manufacturing production contracted sharply in August. However, in the New York metropolitan area, strength in the region's larger non-manufacturing sector more than offset weakness in manufacturing. Although commodity price pressures moderated in Buffalo, they increased slightly downstate.

Extremely dry weather has adversely affected field crops across much of the District. As a result, corn, hay, and soybean production is expected to decline from last year's levels.

On a more positive note, tourism -- particularly from abroad -- has been unusually strong this year. Hotel occupancy in Manhattan for the January through July period was up over four percent from the same period in 1994, while such other tourism-related industries

as restaurants, theaters, and museums report that traffic has been brisk. An influx of tourists is expected to visit New York's Finger Lakes region for this month's Ryder Cup golf tournament.

Financial Developments

Compared with two months ago, aggregate loan demand is steady at about fifty percent of the small and medium sized banks surveyed in the District and lower at thirty percent. Consumer lending softened considerably over the period and is now the weakest segment of the market; demand for consumer loans is lower at roughly forty percent of the banks and higher at only about ten percent. Similarly, demand for refinancings declined and many respondents noted that the level of refinancings was low. Over ninety percent of the loan officers surveyed report that demand for refinancings remained the same or decreased over the past two months. In contrast, demand for commercial and industrial loans firmed to become the strongest segment of the market. The share of banks reporting increases in demand for commercial and industrial loans is just equal to the share reporting decreases.

Average loan rates are lower at half of the participating banks and are the same at the other half. The spread between average lending and deposit rates is steady at sixty-five percent of the banks and narrower at nearly thirty percent. Almost all of the respondents maintained their credit standards and all are just as willing or more willing to lend. For the most part, delinquency rates are stable or lower.

THIRD DISTRICT - PHILADELPHIA

Reports from major economic sectors of the Third District suggest some improvement in activity in August. Manufacturers generally indicated a steady rate of orders and a slight upturn in shipments for the month following several months of declining business. Retailers reported the usual increase in sales for the back-to-school shopping period. Auto dealers said sales have been running at a steady pace. Bankers generally described overall lending as flat to up very slightly, with gains in consumer lending being nearly offset by a decline in borrowing by businesses. Tourist officials in the District said the summer season has been a relatively good one.

MANUFACTURING

Third District manufacturers generally indicated that the pace of business appeared to be steady in August, as there were signs that the decline in manufacturing activity that began in the spring might be leveling off. On balance, manufacturers reported a small upturn in shipments and a nearly steady flow of new orders. Producers of nondurable goods experienced somewhat better conditions than producers of durable goods during the month. While just over half of the companies contacted said their inventory levels were unchanged from the prior month, one-third had cut back stocks. Overall, the workweek at Third District plants was steady, but some cuts in employment were reported.

The balance of opinion among Third District manufacturers is that business will improve over the next six months. About half of the plant managers polled expect new orders and shipments to rise, while one-fourth anticipate they will be steady, and one-fourth anticipate declines. On

balance, surveyed companies expect both the workweek and total employment to remain at current levels during the next six months.

RETAIL

Third District retailers surveyed in late August said sales had picked up for the usual back-to-school season. Discount merchants continued to report somewhat better year-over-year gains than other types of stores, but in general, merchants indicated that their sales expectations were being met. Store executives are cautiously optimistic that the pace of sales will continue to improve into the fall months.

Auto dealers in the District reported a steady rate of sales in August. Sales of four-wheel-drive vehicles appear to have fallen below expectations, however, and price cuts and other incentives to reduce inventories of these vehicles were common. Dealers said sales may pick up as model-year-end promotions are put into place, but most expect the overall sales rate to remain flat through the end of the year.

FINANCE

Most of the Third District bankers contacted for this report said overall lending activity was flat or just inching up. In general, bank lending officers indicated that commercial and industrial loan volumes were edging down; current customers were retiring debt and little new business was being generated despite active marketing by the banks. Real estate lending was moving up modestly as home sales in the region were on the rise. Stronger loan growth was noted in consumer credit, especially credit card loans. After being relatively slow in June and early July, credit card lending began to rise in mid-July and the pickup has extended into August.

TOURISM

Tourism officials in the three states of the Third District (Delaware, New Jersey, and Pennsylvania) indicated that the summer season has been a relatively good one. While some noted that business at beach resorts had been adversely affected by the threat from Hurricane Felix in mid-August, they said that a strong start in the early summer should result in healthy results for the season as a whole. Several contacts in the tourism industry noted that long-term motel and cottage rentals at resorts were below expectations but that business generated by visitors on day-trips had increased from prior years.

In Philadelphia, hoteliers and retailers said summer business attributable to tourists and conventioners had generally met their expectations. City hotel occupancy rates were said to be slightly above rates attained last year despite a large increase in the number of rooms available, and the average room rate had increased from last year as well.

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FOURTH DISTRICT - CLEVELAND

General Business Conditions

Overall, business conditions in the Fourth Federal Reserve District remain about the same as in the last District report. Although unemployment increased between July and August, most of that rise is attributable to auto industry model changeovers that sent unemployment rates in Ohio and northern Kentucky upward. These higher rates do not seem to be characteristic of what is, on the whole, a strong District labor market. Indeed, a recent survey of business leaders in northeast Ohio reveals that more than half believe the area is suffering from a shortage of qualified workers.

Among the noteworthy changes in the District in recent months is a rather prominent improvement in construction activity, particularly of single-family homes. Virtually every major real estate market in the District saw an upturn in home sales and construction in July compared to earlier in the year.

Price and wage pressures are reported to be modest. Prices of paper and some plastics are rising, offset by lower steel and aluminum prices. Wage growth is tracking in the neighborhood of what is presumed to be the underlying inflation rate, about 3 percent.

Manufacturing

Industrial activity is holding even at a relatively high level. Capital goods producers continue to report a steady inflow of new orders. Production levels for capital goods remain high, and factory overtime is common. Auto and auto-related production is off from earlier in the year, partly due to model year changeovers, but also in response to

an inventory overhang earlier in the summer. A few auto suppliers report improved orders and production levels in late August. District steel producers cite a modest improvement in orders recently, despite a still somewhat-soft market and downward price pressure. Fourth-quarter production cuts in this industry remain a possibility.

Retailing

Retailers are reporting sales somewhat below expectations for July and August, but are still hopeful that early fall sales will improve. Many District retailers attribute the slow start of back-to-school purchases to unusually warm weather that prolonged sales of summer apparel items. Sales of home goods, such as furniture and electronics, are generally soft with one notable exception: air conditioners, whose inventory stocks are now nearly depleted.

In general, retail inventories have been reduced substantially over the past few months and are currently in a range considered about average for the period. Several District retailers note that computerized inventory management systems and other innovations have helped to monitor stockpiles before any substantive imbalances have developed.

Autos

Auto sales were somewhat mixed in the District in August. Northeast Ohio dealers report some improvement, with second-quarter sales generally exceeding levels at this time last year. Similar reports were heard in southwestern Ohio. However, auto

dealers in central Kentucky and in the panhandle of West Virginia report that sales only held even with July and were down slightly on a year-over-year basis.

A majority of the dealers we contacted have a positive outlook for the remainder of the 1995 model year, spurred recently by the introduction of factory incentives. New-car stocks are reported to be near a desired level, although scattered reports of inventory shortages were heard. District sources indicate that price increases for 1996 models are running about 1-1/2 to 3 percent above 1995 levels. Interest rates were not considered to be either a positive or a negative influence on recent auto sales performance.

Banking and Credit

District loan demand remains strong and generally growing. Commercial loan growth continues to pace the credit expansion, with both mid-sized and large commercial borrowers participating in the credit demand upturn. Commercial borrowing activity remains strong for plant and capital expansion, and for mergers and acquisitions. A small reduction credit for inventory floor plans is also noted.

Consumer demand for credit appears to be holding at a relatively high level, and in some cases, such as revolving credit, is still expanding. Most major consumer credit components were reported to be strong, with the exception of mortgage refinancing, which has languished over much of the summer.

While several sources noted a further deterioration in the terms and quality of credit covenants, loan delinquency rates in the District remain low.

FIFTH DISTRICT-RICHMOND

Overview: The rate of expansion in the Fifth District appears to have changed little in late July and August. Retailers and service producers reported that growth slowed in their sectors, but manufacturers and financial industry contacts reported that growth picked up. Residential and commercial real estate contacts reported little change in their sectors. Contacts at area ports reported increased activity, and employment agencies saw stronger demand for temporary workers. Tourism industry sources reported that business was down from July. Government contacts reported slower state revenue growth. Agricultural conditions deteriorated somewhat.

Retail Trade: Indicators of retail activity growth decreased slightly in August from their July levels, according to preliminary results from a mail survey of District retailers. Survey respondents reported that their sales, including those of big-ticket items, changed little. They indicated that employment decreased slightly; wages grew more slowly; shopper traffic decreased; and inventories were higher. Survey respondents reported that retail prices rose somewhat faster in August than in July. They foresaw decreased demand for their products, and they expected their prices to be unchanged during the next six months.

Service Production: Indicators of service-sector activity growth decreased in August from their July levels, according to preliminary results from a mail survey of District service producers. Survey respondents indicated that employment and wage growth slowed and that revenues changed little. They reported that their prices rose faster in August than in July. They expected the growth in demand for their services to fall during the next six months, and they expected their prices to rise faster.

Manufacturing: Indicators of factory growth increased in August from their July levels, according to preliminary results from a mail survey of Fifth District manufacturers; this was the

first such increase since March. Survey respondents reported that shipments, new orders, and the workweek increased; order backlogs and employment changed little. They were more optimistic about growth in the workweek and wages during the next six months, but their expectations about shipments and employment changed little from July. Manufacturers indicated that finished goods and raw materials prices rose more slowly in August than in July, and at rates below the general inflation rate. Respondents expected their prices to rise somewhat more slowly during the next six months than they had expected in July.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in August was below that of July but above that of a year ago. At coastal areas, visitors were driven away by Hurricane Felix and other tropical storms. Fall bookings were up compared to a year ago, and contacts expected better-than-normal business and unchanged prices during the next six months.

Port Activity: Representatives at District ports indicated that import levels in July were higher than those in June and a year ago. Export levels in July were unchanged from June but were higher than those a year ago. Contacts expected that both exports and imports would increase during the next six months.

Temporary Employment: A telephone survey of Fifth District temporary employment agencies indicated that the demand for temporary workers was higher in August than in July or a year ago. Contacts expected demand during the next six months to be greater than usual. Temporary workers' wages rose faster than the general price level during the past year, although most contacts continued to expect wages to stabilize during the next six months.

Finance: District financial institutions reported that credit market activity increased somewhat during the past six weeks. Interest rates fell slightly for consumer, commercial, and

mortgage loans. Demand increased for consumer and commercial loans and fell slightly for mortgage loans.

Residential Real Estate: According to a telephone survey of District real estate agents and homebuilders, residential real estate activity was unchanged in late July and August. Housing starts, building permits, and buyer traffic were stable over the period. Home sales were steady, but contacts indicated that lower- to middle-priced homes continued to sell better than expensive homes. Lumber prices rose, but other building material prices changed little. One contact in North Carolina reported that skilled labor was in short supply.

Commercial Real Estate: District contacts reported that commercial real estate activity changed little in late July and August. Leasing activity was unchanged, although vacancy rates declined. Commercial rents were unchanged, except in South Carolina and Virginia, where they increased. The availability of prime office space tightened in most District cities, and contacts reported shortages of such space in North Carolina. Contacts continued to report little new construction.

State Revenues: State government contacts reported lower tax revenue growth in July. Compared with June, real revenue growth was lower in the District of Columbia and West Virginia and was unchanged in the other Fifth District states.

Agriculture: District agricultural conditions worsened in recent weeks according to agricultural analysts. Near-record temperatures and below-normal rainfall reduced soybean, cotton, and peanut yield prospects, although analysts expected near-record corn yields. Tobacco poundage and quality were below average, especially in the Carolinas. Pastures were in poor condition in some areas of the District. In South Carolina, recent heavy rains caused flooding and minor crop damage; the state also suffered the worst outbreak of southern pine beetle on record, causing the loss of \$70 million of pine timber.

SIXTH DISTRICT - ATLANTA

Overview: The Southeast economy continued to grow at a moderate pace in late summer, according to contacts in the District. Merchants saw strong back-to-school sales increases and anticipate modest year-over-year growth in the remainder of the year. Similarly, manufacturers in a number of industries say that prospects remain bright. Tourism and business travel are surpassing last year's levels. Residential and commercial construction continue to expand in most of the region. Bankers report weak consumer loan demand but moderate to strong commercial loan demand. Most contacts report little change in wage and price pressures from the last Beigebook period.

Consumer Spending: Most retailers in the District reported that back-to-school sales have been excellent; however, a few said that sales were below their expectations. Some merchants also said that inventories are a little heavy but are not a great concern at this point. Both men's and women's apparel sales were disappointing and failed to move above last year's levels in most of the District, but children's apparel and home-related product sales were stronger. Most retailers say they are optimistic and anticipate strong holiday sales.

Manufacturing: Manufacturers report little current change in plant employment, on balance, from the last Beigebook period. Increasing textile exports are benefitting some regional firms and electronic equipment and computer manufacturers report increasing order backlogs, causing them to add to factory payrolls. Regional metal producers foresee accelerating demand for metal truck and automobile parts, as General Motors and Ford begin to invest a total of \$360 million in two assembly plants in Georgia. Reports indicate that orders at regional building material suppliers have increased due to damage from

recent hurricanes both in and outside the region. However, orders and purchases have slowed at several apparel manufacturers in recent weeks.

Tourism and Business Travel: This summer's tourism and business travel appears to be outpacing that of last year. International traffic through Miami International Airport has increased at double-digit rates over year-ago levels. Our contacts there attribute this in part to the return of European visitors. International passengers disembarking in Atlanta increased nearly 10 percent for the year's first half. Both business and leisure hotel occupancy rates are well above year-ago levels in central Florida. Tourism officials expect that new attractions being introduced will further stimulate activity there. Special casino gambling packages and tours continue to boost visits to Mississippi's Gulf Coast.

Construction: According to most real estate contacts, single-family home sales continued to run modestly above healthy year-ago levels during July and early August in most parts of the region. District Realtors believe that the housing market is being fueled by a combination of low mortgage rates and good job growth. Home inventories continue low in several markets, but prices have stabilized in most parts of the region. Single-family residential construction is said to be maintaining a healthy pace in most areas. Both realtors and builders anticipate that the recent sales and building pace will continue through the remainder of the year.

Real estate contacts again reported growing commercial and multifamily construction. The majority of new commercial construction remains build-to-suit. Low vacancy rates in several areas are said to be driving apartment construction. Real estate professionals anticipate that both commercial and multifamily construction will continue to increase during the remainder of 1995.

Financial Services: Bankers give mixed reports on overall loan demand. Consumer loan demand is generally characterized as soft. Several bankers noted that auto loan demand, in particular, continues the deceleration that emerged over the summer. Commercial lending, on the other hand, continues to grow. Most contacts reported moderate to strong demand for commercial and industrial, as well as commercial real estate loans. Several lenders noted very strong demand from small and medium size companies.

Wages and Prices: Most contacts continue to report that wage pressures remain low. Shortages of skilled workers are becoming less frequent. While reports on prices paid for materials have been mixed, most businesses expect finished goods prices to increase only moderately over the next few months.

SEVENTH DISTRICT--CHICAGO

Summary. Extended hot, humid weather weighed on District economic activity during August, but the underlying momentum remained positive and expectations seemed generally improved in recent weeks. The effects of the weather on retail sales were pervasive and negative on balance, but retailing contacts generally expected stronger sales over the balance of the year. Reports from realtors suggested that home sales continued to rise, while homebuilder optimism improved further. Manufacturing output stabilized, but production has yet to rebound significantly from a weak second quarter, partly due to the extreme summer heat. Employer hiring plans were little changed from the second quarter, and labor markets in the region remain relatively tight. Extremely warm temperatures and limited rainfall have probably trimmed the prospective corn and soybean harvest from earlier estimates. Industrial input price increases generally continued to ebb.

Retail Sales. Hot, humid weather dampened District retail sales growth in August, but the underlying momentum remained positive, and most retailing contacts remained optimistic about the balance of 1995. In late August, one large apparel retailer stated that "we're expecting a pretty good pop when this clears up;" hot weather delayed sales of newly arriving fall merchandise, but boosted summer clearance. A large general merchandise chain characterized its overall inventory as "in extremely good shape," partly due to favorable clearance sales. This contact reported that sales gains over the Labor Day weekend, while mixed by merchandise category, were generally in line with the growth pace during August. Reports from home improvement and building material store chains suggested that hot weather slowed construction and demand for lumber in the region in August, constraining a rebound from a weak second quarter. Most of these retailers remained optimistic about sales over the balance of 1995; one stated at the end of August that "our order files are full, and the trend is real strong right now." A used car auction observer noted that prices have risen in recent months, and stated that "we are expecting the balance of the third quarter to be real strong." A survey of Michigan retailers suggested that sales growth increased in recent months, while inventory plans rose further. This survey's organizer stated that "optimism has reached its highest level since March."

Housing/Construction. Reports from realtors indicated that existing home sales continued to strengthen. A survey showed further improvement in homebuilders' sales

expectations during August, continuing a rebound that began in May. A 'parade of homes' recently conducted in one large metropolitan area experienced lower traffic and sales than expected, although the homebuilder association involved ascribed most of the shortfall to the weather. This contact expected sales and traffic to strengthen over the balance of the year on a seasonally adjusted basis; "no great upswing, mind you, just some improvement." A large homebuilder focused on entry-level homes reported sharply higher sales gains in July and August, however, and boosted construction plans for the balance of the year. A homebuilder supply store chain stated that "most of our customers are expecting a big finish to 1995."

Manufacturing. District manufacturing output stabilized in July and August, but has yet to rebound significantly following a decline in the second quarter. District purchasing managers' surveys showed little significant change in orders or output in recent months, but inventories levelled off while employment firmed up. District steel production strengthened from July to August, in contrast to its monthly decline in the previous four years. Part of the recent increase reflected the resumption of output at several large facilities taken down for repairs in July, but output remained above year-earlier levels in both July and August. Several auto suppliers reported that purchasing delays were running longer than "normal" for the early stages of the third quarter, and while the automotive component of the Detroit purchasing managers' survey improved in August, it remained relatively weak. In late August, however, a steelmaker said that "after a slow start-up, auto output is now running about as expected," and auto suppliers' responses to Western Michigan purchasing managers' surveys also strengthened significantly in late August. Reports from capital goods producers grew increasingly mixed, after their output remained relatively strong in the first half of the year. Current build plans point to a modest decline in heavy-duty truck assemblies in the third quarter, and again in the fourth quarter. One large heavy-duty truck manufacturer stated that while net orders have fallen sharply with higher order cancellations, new order volumes have simply been "moderating." A large machine tool manufacturer stated that demand from automakers remained robust, but "seems to have lost some of its earlier urgency."

Labor Markets. A recent survey suggested that Midwest employers' hiring plans were little changed in the third quarter. These plans remained high by historical standards, consistent with continued positive employment growth in the region, and stronger among manufacturers

than the overall average. Another survey showed the share of Midwest employers planning to add mid-management and professional staff was little changed following a sharp increase in the first half of the year, and this indicator remained at one of its highest levels since the late 1970s. A large temporary help company reported that demand from manufacturing firms strengthened in August to a greater extent than expected for the time of year. This contact stated that growth in demand for temporary help, while slower than in 1994, was still consistent with positive growth in overall employment in its region. A permanent placement firm concentrating on manufacturing occupations stated that placements rose significantly in August, primarily in occupations closely tied to current trends in production. A number of construction and manufacturing contacts stated that hot weather reduced production hours in July and August, however. Discussions with help-wanted advertising managers in the region revealed little significant change in space or rates in the last month, with advertising remaining at high levels.

Agriculture. Crop conditions remain quite variable around the District. However, extremely warm temperatures and limited rainfall have probably trimmed the prospective corn and soybean harvest from earlier estimates. Recent reports also suggest that the Great Lakes region had a smaller than expected harvest for vegetables -- mostly for processing -- due to the extreme summer heat.

Prices. Industrial input price increases generally continued to abate. District purchasing managers' surveys suggested that industrial input prices flattened out in June, July, and August. Packaging materials price increases have dissipated, after exploding in 1994 and early 1995. While varying by grade, paper prices paid by packaging firms have generally levelled out following their substantial gains over the past year. One packaging company stated that "the latest annual paper price hike letter seems to be delayed; over the past year, I've been getting one of these every two months." One packaging company saw little sign of any new decline in prices among a wide variety of paper grades, except for corrugated scrap, where prices have fallen by 50 percent over the past two months. Commodity thermoplastic resin prices continued to decline in August, and an industry analyst expected further declines in the balance of 1995. Prices for stretch film plastic purchased by area packaging companies have fallen roughly 20 percent in the past few months, according to one contact, but still remain about 40 percent above year-earlier levels. Building materials price increases have gained greater headway, however.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to grow at a pace largely unchanged from recent reports. While plant closings, employee layoffs and sales declines are still occurring, they appear to have been mostly offset by plant expansions, new hiring and sales gains. In a survey of District small businesses, most foresee little change in economic activity over the last half of this year. Although new housing permits around the District, except in Memphis, are still below last year's record levels, the pace of issuance has picked up in recent months. Nonresidential construction appears to be rising in Little Rock, while it continues to grow steadily in Louisville. Total loans outstanding at large District banks continue to increase. The hot, dry weather has hurt the yield potential of some crops in many areas and has caused significant losses in the poultry industry.

Manufacturing and Other Business Activity

District economic activity is little changed from recent reports. While some note plant closings and layoffs, others see increasing sales and pockets of tight labor markets. A telecommunications firm reports gains in employment levels because of new contracts it has negotiated. After a reported decline in the District's wood furniture industry, a contact now states that it appears poised for an upturn. Contacts at firms fabricating metal and manufacturing commercial hardware report production at "full throttle." Sales at firms in many industries—prefabricated metal buildings, electric motors, brick manufacturers and scrap metal, for instance—are up on average between 7 percent and 15 percent so far this year. One contact from northwest Mississippi stressed that labor markets are still very tight in the area,

leading some companies to lure employees from other companies. Reports from Memphis and St. Louis relate instances of fast food restaurants posting help wanted signs.

There are some areas of decline, though. Reported layoffs from downsizing and plant closings are scattered throughout the District; such layoffs are slightly more concentrated in durable goods producers than in other industries. A few auto parts manufacturers and makers of industrial boilers and air conditioners point to declining sales as the reason for the employment losses. Some nondurable goods manufacturers also report recent setbacks. An apparel manufacturer announced layoffs because of declining market share. A food producer, although undergoing a plant renovation, is laying off workers as part of a nationwide downsizing effort.

Outlook

A survey of about 225 small businesses in the Eight District found that most expect little change in business conditions over the last half of 1995, although the number expecting the business climate to worsen outnumbered those who expect a more favorable outlook by almost two to one. A little more than half of firms do not plan to change their selling prices over the next three months, with about 20 percent planning to raise prices, less than 3 percent planning to reduce prices, and the remainder uncertain. More than 75 percent of surveyed firms plan no change in employment levels over the next three months, with 16 percent planning to add and another 5 percent planning to reduce the number of employees.

Real Estate and Construction

Although residential permits on a year-to-date basis continue to be below last year's record levels in all major District metropolitan areas except Memphis, where they are up about 6 percent, the gap between this year and last appears to be narrowing. Louisville, Little Rock

and St. Louis all report permit levels down between 10 percent and 17 percent, but these rates of decline are slowing. Sales in St. Louis, however, continue to be strong, as turnover times have shortened. New nonresidential construction is up in Little Rock and Louisville, relatively flat in St. Louis and down in Memphis so far this year.

Banking and Finance

Total loans outstanding at 12 large District banks continue to increase. Total loans outstanding rose 2.6 percent between mid-June and mid-August, after rising 1.9 percent in the prior two-month period. Real estate loan growth is responsible for much of the growth in total lending, as it rose 4.8 percent between mid-June and mid-August and 2.8 percent between mid-April and mid-June. Commercial and industrial lending has tapered off somewhat, rising just 0.5 percent in the most recent two-month period after a 3.1 percent increase in the prior two-month period. Consumer loan growth is soft, rising 0.8 percent from mid-June to mid-August after declining 3.5 percent between mid-April and mid-June.

Agriculture and Natural Resources

Hot, dry weather has been the rule rather than the exception for most of August, although showers were widespread enough to keep crops in mostly fair to good condition. The heat has caused poultry losses numbering in the tens of thousands in Arkansas and Mississippi and has also damaged the cotton crop in many of these areas. In addition, many Delta cotton farmers report an outbreak of insects, causing them to incur additional crop-related expenses. In one Mississippi county, insects reportedly destroyed 30 percent of the crop and severely damaged another 40 percent. Southern pine lumber producers report that year-to-date orders, production and shipments are all down 3 percent to 4 percent from last year's levels.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District is still experiencing growth in many sectors but softness is evident in a few. Residential, commercial and heavy building continues to show strength. Business for mining and energy firms remains favorable, with increased oil drilling giving western North Dakota an extra boost. In forest products, paper mills are pressing their output limits, while lumber and building board producers report increased output compared to the spring. As the summer has worn on, favorable weather has improved the prospects for district farmers. Tourist spending is up in the eastern half of the district, but retail and auto sales are generally described as soft. Manufacturing sales are not increasing as rapidly as a year ago. Employment growth is modest; some shortages of skilled and entry-level workers are reported and unemployment rates remain low. Wage increases reportedly are small, as are price increases, and manufacturers report no delays in delivery of raw materials.

Construction

“Builders are having trouble finding enough carpenters and subcontractors to work on the homes being built right now. No one has time to take on another contract.” That description of residential building in the Minneapolis-St. Paul area by a builder’s association representative also characterizes home-building in many district communities. Industrial and commercial building is strong too. Numerous 50,000 to 60,000 square foot industrial or warehouse buildings are under construction in Minneapolis-St. Paul suburbs, where some 5 million square feet of retail space is also reportedly being built. New retail buildings are also going up in smaller cities from Escanaba, Mich., to Great Falls, Mont. Publicly let contracts in Minnesota and the Dakotas through July, largely for heavy projects, are even with 1994’s near-record levels.

Natural resource industries

The oil boomlet continues in western North Dakota, with drilling for new wells up markedly from 1994 levels and production up somewhat. Iron ore shipments are at the highest level so far this decade, with shipments from Minnesota mines expected to hit 47 million tons. Copper mines are running at capacity.

Lumber production is up from this spring, and mill operators report improved prices and sales. Hardwoods are the one exception. Building board plants continue to produce at capacity and have eliminated the sharp price discounts offered this spring. Paper mills are generally running flat out.

Agriculture

For district farmers, conditions are also better than last spring when adverse weather was threatening crops. Most crops are in good shape, in spite of some periods of intense heat and a few instances of destructive hail. While an early frost could still upset the apple cart, many observers expect yields of major crops to be near long-run averages, though somewhat below 1994's records. Combined with grain prices that are about 25 percent above 1994 levels, near-average yields will mean improved income and debt service capabilities for farmers.

In livestock, hog prices have risen substantially from earlier in the year in spite of continuing high slaughter levels, and producers are generally making better profits. But cattle prices remain depressed.

Manufacturing

"Overall our business is good, but not nearly as strong as last year," says a district manufacturer. "We had real softening in the second quarter, but sales picked up significantly in the last five weeks," states another. These statements suggest Ninth District manufacturing sales are generally good, but not growing at the pace they were a year ago. Earnings of firms producing industrial machinery and high-tech products, like biomedical devices, however, have been very strong, while they have been weak for some consumer goods manufacturers.

Consumer spending

"Our sales reflect continued solid performance . . . but with higher than expected promotional markdowns. They also reflect a general softness in the retail market," says a major district retailer. A mall manager agrees: "Traffic at the mall is OK, but probably not up to last year." A manager with a regional department store chain reports slow sales of appliances, which is echoed by other sources who also note that apparel sales are lower than projected.

Automobile dealers report a roller coaster year with sales very slow in the spring, some strengthening in June and July, but apparent weakening again in August. "People are just being very conservative" says one Montana dealer.

Tourism

"I've never seen so many people; this has to be the best season ever," comments one northeastern Minnesota business owner as people have flocked north to escape this summer's unseasonably warm weather. Tourist operators and association officials across northern Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan confirm this report. But their counterparts on the plains are less expansive. Montana officials report tourist activity

somewhat below 1994 levels. And in South Dakota visits to major attractions such as Mount Rushmore and the Badlands are a few percentage points below 1994 levels, although visits to state parks are up. Some observers in these areas noted strengthening in late July and in August, but they think that the season as a whole will not catch up to last year's levels.

Employment, wages and prices

"Firms look high, low for skilled workers" was a recent headline in one western Wisconsin newspaper that typified the situation faced by many district employers. With unemployment rates in western Wisconsin falling below 4 percent for the first time since 1988, that state's labor agency is conducting workshops for employers entitled "Solutions for a Tight Labor Market."

Employment is up modestly in most areas of the district and in most job categories compared to a year ago. Unemployment rates remain below year-ago levels in many areas of the district and well below national levels in all areas except Michigan's Upper Peninsula. "We never used to see "help wanted" signs in Missoula, but we do now," says one Montana small business owner, who reports having to give modest raises to entry-level workers to avoid losing them. Another small business owner in North Dakota lists machinists, welders and CAD/CAM technicians as being particularly hard to hire. But most employers insist that overall wage increases are low.

"We aren't getting any price increases on the material we buy," says one North Dakota manufacturer, "and lead times from order to delivery are back to normal." That seems to be the case for raw materials and intermediate goods in most sectors, with the continued exception of paper and packaging materials. Petroleum product prices have declined 3 cents to 4 cents a gallon from increases posted in late spring and are close to year-earlier levels.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continued to grow at a moderately strong pace over the past month. Retail sales were mixed during the month, but remained healthy compared with last year's sales. Manufacturing remained generally strong, but showed signs of slowing. Homebuilding activity was steady. Activity in the district's energy industry slowed, and agriculture was hindered by low cattle prices. Manufacturers continued to report increases in some materials prices, but wages and retail prices were steady.

Retail Sales. Most retailers report sales were unchanged last month from the month before, but sales remained above year-ago levels. Over the past month, sales of household goods were strong, while sales of apparel, especially children's back-to-school clothing, were surprisingly weak. Retailers generally expect modest growth in sales over the rest of the year. While most retailers are satisfied with current inventory levels, some are trimming inventories slightly. Auto dealers report flat or increasing sales over the past month and are optimistic about the sales outlook for the rest of 1995.

Manufacturing. Most manufacturers continued to operate at high levels of capacity last month, although some signs of slowing were evident. None of the respondents report production bottlenecks due to capacity constraints, but some report slight labor shortages. While most manufacturers are satisfied with current inventory levels, several are trimming stocks. A late July survey of district manufacturers found declining product orders and shipments at plants across the region.

Energy. Low prices for crude oil and natural gas continued to hold down activity in the district's energy industry. The average number of drilling rigs operating in the district fell slightly during the first three weeks of August. Moreover, district drilling activity remained well below the year-ago level.

Housing. Most builders report housing starts and sales were unchanged last month from the month before and remained well below year-ago levels. Construction of single-family homes remained sluggish, but multifamily construction picked up slightly. Building materials are readily available with no delays, and little change in materials prices or availability is expected in coming months. Lenders expect mortgage demand to remain brisk.

Banking. Loans increased at district banks last month, pushing up loan-deposit ratios. Most lenders report gains in commercial and industrial loans, consumer loans, and home mortgage loans. Demand for home equity loans, construction loans, commercial real estate loans, and agricultural loans was steady. Security investments generally declined.

None of the respondents changed their prime rate last month, but half expect to lower it slightly in the near future. Some respondents lowered their consumer lending rates, but few expect further change in the near term. Lending standards generally remained unchanged.

Half of the respondents report an overall decrease in deposits, but changes were mixed among different types of deposits. Demand deposits and NOW accounts slipped, while MMDAs, large CDS, IRAs, and Keogh accounts rose. Small time and savings deposits were steady.

Agriculture. The district's corn and soybean crops are in fair condition, but crop development is two to four weeks behind schedule due to last spring's rain delays. Normal yields may still be possible if the growing season is not shortened by an early frost, but production is expected to be much smaller than last year's bumper harvest. Crop prices remain well above last year's level, lessening the impact of large crop losses for many producers while boosting incomes for those who will harvest normal crops.

Higher crop prices, however, are trapping district cattle feeders between higher feed costs and low cattle prices. With cattle prices held in check by record production of beef and competing meats, further losses appear in store for district cattle producers. The size of district cattle herds remains fairly steady, but continued losses may force some producers out of business later this year.

With farm incomes down, district bankers report some erosion in the quality of farm loan portfolios. The erosion is greater among livestock loans than crop loans, due to two years of losses in the district cattle industry.

Prices and wages. Manufacturers continue to report widespread increases for materials prices, especially for aluminum and paper. While some manufacturers report occasional shortages of temporary or skilled labor, none report upward pressure on wages. Retailers report stable prices with no significant price increases anticipated in the next few months.

ELEVENTH DISTRICT--DALLAS

Eleventh District economic activity weakened in August. Generally, contacts expect continued expansion over the coming months, but combined they expressed wide variance in the strength of that expansion. Economic activity remained sluggish along parts of the Texas-Mexico border, and contacts expressed little optimism that activity there will recover quickly. Manufacturing orders remained unchanged or slower for several products. Retail sales were weak. Demand for most business services increased, but cargo shipments had declined. Construction and energy activity was steady, and financial institutions continued to report steady loan demand. Agricultural conditions were unchanged.

Price and wage pressures were mixed. Oil prices strengthened from a low \$17 to near \$18 per barrel through August. Natural gas prices were also up slightly, as were wholesale gasoline and fuel oil prices. Strong demand led to scattered price pressure in the service sector, and labor shortages pushed up wages for some types of workers. There was little price and wage pressure in manufacturing industries, however, and most chemical prices had fallen. Retailers reported that heavy competition led to larger markdowns on selling prices, and most contacts expect continued downward pressure on prices.

Manufacturing orders remained unchanged or slower for several products although demand remained very strong for telecommunications and semiconductor products. Also, orders were up for food products and primary metals. Demand for fabricated metal and other construction-related products was unchanged, as were sales of apparel. Paper producers

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reported slower demand for most of their products. Orders of petrochemicals continued to weaken, thanks to sluggish domestic demand, particularly from construction and auto markets, and a limit on petrochemical imports by China. District refining is operating at less than full capacity only because mechanical problems have shut down a few facilities, but margins have weakened as oil prices have risen faster than gasoline prices. The market for oil services and drilling equipment continued to be strong, despite relatively weak domestic drilling activity. International work, and strong activity in the Gulf of Mexico, continues to offset any domestic weakness onshore.

Demand for business services picked up, while demand for trucking and air cargo services declined slightly. Legal firms reported more mergers and acquisitions activity, increased hiring and an optimistic outlook. Growing demand for specialized consulting and accounting services enabled firms to raise fees and increase hiring. Temporary firms continued to report strong growth and higher fees, but the cost of upgrading technology and increased recruiting kept profit margins from increasing. Several temporary firms reported difficulty finding qualified employees. Decreased freight volume and heavy competition at trucking and air cargo firms resulted in discounting and a slightly pessimistic outlook.

Retail sales were weak in August, with continued declines along the Texas-Mexico border. Retailers were surprised by the absence of back-to-school shopping, which has raised their concern about the outlook. Automobile sales were up slightly.

Financial institutions reported steady loan demand. Residential real estate lending was up slightly, while commercial real estate and business loan demand held steady. Business lending is reported to be strongest to the service sector, with little demand for loans from

manufacturing or retail companies. Contacts reported that all types of lending had weakened substantially along the Texas-Mexico border because "the reality of the peso crisis is setting in." Overall, contacts expect little change in loan demand in coming months, although they are uncertain about the outlook.

Construction activity was steady at high levels. Contacts reported no change in new home construction, but home sales remained much higher than earlier in the year. Demand for industrial buildings and suburban office space continued to rise, and contacts in these sectors remained optimistic. Apartment construction remained above year-earlier levels, but respondents were increasingly concerned that the large number of units scheduled for completion in 1995 and 1996 may lead to stagnant rents and rising vacancy rates.

Energy activity was up slightly in August. Higher prices for oil, gas and related-products led to a modest increase in drilling. Natural gas continued to lead drilling activity, but domestic oil drilling was up, rebounding from low levels. Inventories of crude oil continued to fall, and American Petroleum Institute data showed the lowest levels of domestic crude inventories in the last 10 years.

Agricultural conditions were unchanged, with continued hot, dry weather and scattered insect problems. Crop progress was reported to be generally on schedule, although insects and rain had delayed harvest activity in some areas. Most crops are reported to be in good condition. Major cotton crop losses from severe insect problems in parts of South Texas should be offset by good yield prospects in other parts of the state. Ranges and pastures were beginning to show signs of stress in areas where the hot, dry weather prevailed. Livestock remained in good condition.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

The economy in the Twelfth District expanded moderately in recent months. Retail sales reportedly improved after earlier weakening, and manufacturing activity strengthened in some areas. Although residential real estate and construction activity continued to be mixed, non-residential construction increased in many states. Consumer and construction loan volumes picked up at some District banks. Agricultural production was held down by weak yields for some crops.

Business Sentiment

Twelfth District business leaders' expectations for national economic growth improved recently, after deteriorating in early summer. The fraction of respondents expecting national growth to be weaker than the long-run average dropped in recent months, from about 35 percent in June to about 20 percent currently. Also, only about one-third of respondents expect the national unemployment rate to increase over the next year, down from the two-thirds who made a pessimistic assessment in June. Expectations for regional economic growth have been revised up slightly on the basis of an improved outlook for residential construction and consumer spending.

Retail Trade and Services

Retail sales reportedly improved in mid-summer at some types of stores. District retailers indicated that sales at food stores and auto dealers rebounded in July and early August from the weak June levels. However, apparel sales continued to be soft, which prevented retailers from adding larger markups to clothing prices. Among the states in the District, sales in California remained at much higher levels than a year earlier, and sales in Washington state increased moderately. Retail sales in Utah reportedly slowed.

District service-producing industries generally noted continued strong demand, with the exception of some providers of transportation services to business. Truck and rail cargo volumes in the District reportedly have been weak so far this year, given the earlier dropback in some types of manufacturing activity. In Utah, tourism traffic remained at elevated levels, keeping hotels relatively full and fostering room rate increases at a 9 percent annual pace.

Manufacturing

District manufacturing activity reportedly is strengthening in some areas. In Utah, a manufacturer indicated increasing demand for construction and mining equipment. A California metal fabricator mentioned that aluminum suppliers are reversing earlier price cuts, owing to increased demand for ingot. The electronics manufacturing industry remained very strong in California. In the Pacific Northwest, producers reported that sales of pulp and paper remain firm, and wood product sales improved. A manufacturer of paints noted strong growth in offshore business, which led to some problems obtaining raw materials as well as to large increases in product prices.

Agriculture and Resource-Related Industries

Recent yields on several agricultural crops have been low, leading to price increases for some commodities. Cotton yields are down, and prices are expected to be higher this season. District cattle ranchers reported that weak harvests of corn and other feedgrains boosted feed costs, leading to a desire to liquidate much of the cattle inventory. However, export demand for beef and other agricultural commodities reportedly has been strong, providing some offset to the impetus to cut product prices. In contrast, there were high yields on table grapes at vineyards in California.

Real Estate and Construction

Residential real estate and construction activity has been mixed. In Oregon, residential activity reportedly remained strong in the western portion of the state, but pockets of excess inventory of homes for sale have arisen elsewhere in the state. Reports on residential construction activity in Utah varied by local area, with some respondents noting strong gains and others indicating that construction of new homes slowed significantly. In northern Nevada, home sales increased sharply. In the San Francisco Bay Area of California, residential markets reportedly improved slightly, with particular strength in the Silicon Valley. In Southern California, residential sales and prices had been falling sharply, but some respondents indicate that conditions stabilized recently.

Non-residential construction increased in many areas, leading to some additional tightness in the market for construction labor. Major projects for hotels in Nevada and for manufacturing facilities in Oregon and Utah reportedly are creating higher demand for skilled

construction workers, and respondents in such fast-growing areas reported difficulty in obtaining bids on small construction projects.

Financial Institutions

District banks generally noted favorable conditions. In California as a whole, loan demand appears to be picking up gradually, with renewed growth in consumer lending and in real estate refinancing. However, some banks in Southern California suggested that consumers appear to lack confidence and businesses still are reluctant to make capital expenditures.