

For use at Noon, E.S.T.
Wednesday
November 1, 1995

Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

October 1995

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

October 1995

TABLE OF CONTENTS

SUMMARY.....i

First District - Boston.....I-1

Second District - New York.....II-1

Third District - Philadelphia.....III-1

Fourth District - Cleveland.....IV-1

Fifth District - Richmond.....V-1

Sixth District - Atlanta.....VI-1

Seventh District - Chicago.....VII-1

Eighth District - St. Louis.....VIII-1

Ninth District - Minneapolis.....IX-1

Tenth District - Kansas City.....X-1

Eleventh District - Dallas.....XI-1

Twelfth District - San Francisco.....XII-1

Summary¹

Reports from the twelve Federal Reserve districts suggest that moderate growth in economic activity continued in early fall, although perhaps at a slower pace than at the time of the previous set of reports. The evidence of a possible slowing in demand mainly was from the reports on consumer spending, which suggested a pause in retail sales in some districts. However, a pickup in exports and strong domestic demand for certain types of business equipment led to stable or increased manufacturing activity in most districts, after the dropback earlier in the year. Although the summer rebound in residential construction was not generally augmented by additional gains, the slightly improved level of building activity appeared to be maintained in recent months. Some districts reported that nonresidential construction strengthened, and several districts noted a firming in commercial and industrial leasing activity. A few districts reported new manifestations of labor market tightness, but overall wage gains remained moderate, and reports of rapidly rising materials costs have lessened substantially.

Retail Trade

Retail sales, on the whole, appeared to be soft in early fall. Several of the districts with preliminary reports on

¹Prepared at the Federal Reserve Bank of San Francisco from information collected before October 24, 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.

October sales--Boston, Chicago, New York, and Philadelphia--noted some signs of weakened spending, although this partly was attributed to weather-related sales volatility. Elsewhere, retail sales results generally were described as disappointing and below expectations. Retail inventories are somewhat heavy with fall merchandise in several districts, and some retailers have scaled back stocking plans to prevent a further runup. Apparel and other soft goods appear to have been the weakest sales areas. Reports on sales of autos and other big ticket items were mixed.

Manufacturing

Many districts reported stable or increased manufacturing activity, after the dropback earlier in the year. Chicago, New York, Philadelphia, and Richmond noted generally rising manufacturing output. Dallas, Philadelphia, and San Francisco pointed to makers of semiconductors, computer products, and other electrical machinery as a major source of strength. Elsewhere--in Atlanta, Boston, Cleveland, and St. Louis--changes in manufacturing activity were mixed, as renewed strength in exports offset slowing domestic demand for some types of goods.

Real Estate and Construction

On balance, residential building activity appears to have been little changed this fall, after the summer rebound. However, the pace of residential construction varied widely by

geographic area. In Philadelphia and Richmond, residential construction was scaled back. Chicago and Minneapolis finished the peak building season at high levels, and parts of the San Francisco district reported increased residential construction. In Atlanta and Kansas City, multi-family construction strengthened recently, whereas Dallas reported a pickup in construction of single-family units. In many of the areas with increased residential construction, home sales also have improved lately, as buyers took advantage of lower mortgage interest rates.

Some districts reported strengthening nonresidential construction. St. Louis and San Francisco suggested that there has been a general increase in nonresidential building activity. Atlanta and Richmond pointed to gains in construction of structures for commercial use, whereas Minneapolis noted increased construction of office and warehouse space. Moreover, demand for nonresidential space picked up in Atlanta, Dallas, Richmond, St. Louis, and parts of the San Francisco district. In contrast, office and commercial real estate markets were sluggish in Philadelphia, Boston, and New York.

Services

Some districts mentioned increased activity in selected service-producing industries. Demand for business services increased in some districts; Dallas and San Francisco noted increased demand for legal or financial advice on business

transactions, and Boston mentioned a pickup in outsourcing of personnel department functions to temporary help agencies. Atlanta, Boston, Minneapolis, and San Francisco noted gains in tourism.

Financial Institutions

Loan demand reportedly increased in early fall in most districts. Philadelphia, Cleveland, Atlanta, and San Francisco singled out business lending as the primary source of increased loan volumes. New York found that demand for consumer loans also increased in the last two months.

Agriculture and Natural Resources

The recent harvests of many major crops were marked by lower than average yields and increases in prices. St. Louis, Kansas City, and other districts noted that yields of corn and soybeans were below average, and prices increased in recent months. Richmond, St. Louis, and Dallas also noted that adverse weather and insect problems hurt the cotton crop. In the San Francisco district, yields for selected crops were low too, but some agricultural producers there recently have benefitted from increased exports of apples and other agricultural commodities.

Wages and Prices

Reports of rapidly rising materials costs have lessened, and several districts noted a partial reversal of earlier commodity

price run-ups. Boston mentioned softening of prices of paper packaging materials, metals, and plastics. Cleveland reported a drop in steel prices, after earlier increases. Some finished manufactured goods prices still are under pressure from the earlier runup in costs of intermediate materials. However, reports from several districts suggest that retail goods prices were little changed, and in some cases, discounting this fall was heavier than last year.

A few districts reported new manifestations of labor market tightness, but overall wage gains apparently remained moderate. The report from the Minnesota district noted that, as it has become harder to attract and keep good workers in that area, some firms have expanded employee eligibility for benefits. Many districts continued to emphasize that skilled workers-- particularly construction workers in fast-growing states and employees in high technology industries--have been commanding larger than average wage gains. In this report, Cleveland also noted that the movement of workers from less-skilled jobs into skilled positions is increasing training costs of employers and pushing up wages for less-skilled workers, who reportedly also are in short supply in many parts of that District. In Richmond and Chicago, salaries of workers at temporary help supply agencies were said to have increased particularly fast. Reports from San Francisco suggested that other types of workers are focussing more on job security than on wages, restraining the overall pace of increase in labor compensation rates.

FIRST DISTRICT - BOSTON

Expansion continues at a lackluster pace in the First District. Although most retailers report sales declines from a year earlier, tourism is up. While some manufacturers continue to experience steady growth, half the manufacturers contacted have seen sales weaken in recent months. Commercial real estate in New England is sluggish, and the insurance industry reports mixed results.

Retail

Most retailers in the First District report sales declines relative to year-earlier levels during September and October, with decreases ranging from 1 to 20 percent. Apparel contacts, in particular, are disappointed that, for the second year in a row, a back-to-school upturn did not occur. Soft sales extend to most non-apparel retailers, including homebuilding/lumber companies; the one exception is a chain with double-digit growth from a year ago. Respondents plan to use frequent promotions during the approaching holiday season, hoping to achieve modest sales gains over last year.

Most vendor prices remain stable; however, promotional pressures are eating away at gross margins and profits. The New England retail landscape continues to shift as several off-price retailers disappear or reorganize under the protection of Chapter 11. Only one contact plans significant increases in capital budget and employment levels in the coming year.

By contrast, the region's tourist industry reports significant gains in September and October compared to the previous fall's strong performance. Earlier concerns of potentially disappointing foliage did not materialize and several state tourist offices report a rise in hotel and motel occupancy rates, attraction attendance, and general tourist traffic.

Manufacturing

Manufacturing contacts in the First District indicate mixed trends. Sales of some consumer nondurables and specialized equipment are comfortably

above year-ago levels. But about half of this month's sample, including firms in the paper and automotive products industries, report that sales growth has weakened in recent months compared to earlier in the year. Contacts generally indicate that trends overseas are stronger than in the United States, with Europe showing signs of recovery and most emerging markets performing well.

Many manufacturers report some softening of prices that had sharply escalated earlier in the year, including paper and packaging, metals, plastics, cotton, and synthetic fibers. Finished goods prices generally are increasing only 1 to 4 percent at annual rates, with higher inflation for paper products. Contacts selling to the aircraft, automotive, and apparel industries are experiencing a squeeze on profits as a result of their limited scope to raise prices.

Just over half the contacts report that their employment is little changed from a year ago; most of the remaining manufacturers have cut their work forces. Typical 1995 wage and salary increases are in the range of 2 to 4 percent, with higher increases for some high technology employees or in tight labor markets. About one-third of the contacts are contemplating a wage freeze and/or employment cutbacks in 1996. Most respondents report heavy capital expenditures this year, but one-third are now cutting back because of budgetary constraints.

Manufacturers expect modest growth in the U.S. economy in the next year. Some are optimistic about their own company's prospects based on export opportunities or a recovery for their industry, while others are concerned about having to reduce costs or reorient their mix of products.

Temporary Employment Firms

Temporary workers remain in high demand in New England, where contacts report that outsourcing is as popular as ever. The clerical sector enjoyed a strong summer season, while activity in the high tech areas has picked up during the fall. Temporary service agencies report a rise in vendor-on-

premises operations, in which they bid to handle all the hiring for a client firm.

Commercial Real Estate

Respondents agree that commercial real estate in the First District is moving at a sluggish pace. In the Boston office market, asking rents have increased a little bit, but net absorption is barely growing and leases are being signed at the same rates as last year. The suburban market is in better shape, with effective rents improving in some areas, although ample space is still available for all tenant sizes. Contacts report that office leasing in Hartford, Springfield, and Providence is languishing, while the Portland market shows some moderate gains. One contact noted that capital is plentiful to finance the purchase of existing (well-leased) buildings, because investors perceive New England real estate as having low downside risk at this time.

Nonbank Financial Services

Some life insurance companies report higher sales in the third quarter of 1995 than in the third quarter of 1994, others report declines. Employment at responding companies is flat to down. One company expects a large reduction in employment in the fourth quarter because of a merger. Property/casualty insurers face losses in the fourth quarter attributable to this fall's hurricanes.

The Outlook

The New England Economic Project (NEEP), a nonprofit forecasting group, released its semi-annual regional forecast in late October. NEEP has revised its forecast downward to show a 1.1 percent annual rate of total employment growth in New England in both 1995 and 1996. Health, business, and other services are projected to expand employment at an above-average rate. The number of jobs in the finance-insurance-real estate and transportation-public utilities industries is expected to remain virtually unchanged, while manufacturing employment continues to slip.

SECOND DISTRICT--NEW YORK

Reports on District economic conditions were mixed in recent weeks. The market for commercial real estate in Manhattan weakened in September and retail sales slowed sharply during the first two weeks of October. In more positive news, unemployment rates declined in both New York and New Jersey in September, while purchasing managers across much of the District reported that manufacturing production had increased. Finally, the demand for nearly all types of loans at small and medium sized banks is higher than it was two months ago.

Consumer Spending

District retail sales rose moderately in September. Sales were generally on or slightly below plan, with sales gains ranging from zero to five percent on a year-over-year basis. Several contacts suggested that September results were somewhat weaker than they appeared at first glance, because of a change in buying patterns; this year, consumers generally postponed purchases of back-to-school apparel until September.

Retail sales weakened considerably during the first two weeks of October. Nearly all of the contacts reported that sales were below plan, and several noted that they had curtailed orders to prevent inventories from building. Some of the contacts attributed the weakness to unseasonably warm weather which caused apparel sales to slow. But others noted that sales of such big ticket items as furniture and home electronics -- which are not weather-related -- also softened.

District retailers report that price pressures remained constant or eased during

September and October. Several contacts expressed concern that continued weak sales could lead to competitive markdowns early in the Christmas selling season.

Construction and Real Estate

The market for commercial real estate in midtown Manhattan was flat in September, while the downtown market continued to weaken. Midtown vacancy rates remained unchanged at 13.7 percent, as a pickup in leasing activity was offset by space returned to the market. Although leasing activity in downtown Manhattan remained steady, a sharp rise in space returned to the market caused downtown vacancy rates to jump 0.5 percentage points to 25.6 percent. The downtown market's weakness has caused average asking rents to decline to an average of \$26.12 per square foot -- the lowest level quoted since the downturn began in 1989. In more positive news, the State Legislature passed the downtown revitalization plan, which is widely expected to give the real estate market in lower Manhattan a much-needed boost.

In contrast to the weakness in much of Manhattan's commercial real estate market, the market for residential real estate in Manhattan strengthened during the third quarter. More co-ops and condos were sold and the average sale price per room increased -- particularly for large units in prime buildings.

Other Business Activity

Based on the household survey, unemployment rates in both New York and New Jersey declined in September. New York's rate decreased 0.3 percentage points to 6.8 percent, while New Jersey's rate declined a steeper 0.9 percentage

points to 5.7 percent. Although employment increased at a moderate pace in both states, New Jersey also experienced a sharp decrease in its civilian labor force.

Purchasing managers in the Buffalo, Rochester, and New York City metropolitan areas report that manufacturing production increased robustly during September; in the New York City area, the pace of overall business conditions strengthened for the third consecutive month. Commodity price pressures moderated in both the Rochester and New York City regions, while remaining constant in Buffalo.

Financial Developments

According to the senior loan officers surveyed at small and medium sized banks in the District, demand for nearly all types of loans is slightly higher compared with two months ago. The largest increases in activity occurred in the consumer loan and nonresidential mortgage segments. Demand for the former is higher at over 25% of the banks, and steady at almost 50%; demand for the latter is higher at about 20% and steady at about 70%. The residential mortgage segment is the only loan category that did not strengthen. It is now the weakest segment, with demand lower at about 40% of the banks and steady at another 40%.

Average loan rates are for the most part unchanged or lower. The spread between the average lending and deposit rates is narrowing, mainly due to lower loan rates. Over 40% of the participants report smaller spreads, and about half report steady spreads. The number of loan delinquencies has decreased over the past two months, especially for nonresidential mortgages. Credit standards have remained essentially unchanged, with all respondents just as willing or more willing to lend.

THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District were mixed in October. Manufacturers reported continuing gains in orders and shipments. General merchandise retailers noted a slowdown in the pace of sales, extending from September into October. Auto dealers generally indicated that sales were steady but that the rate in recent weeks was below the rate set in late summer. Lending by commercial banks was moving up, with gains in commercial and industrial loans and credit card loans. Most of the commercial and residential realtors contacted for this report described real estate activity as steady. Commercial construction activity was not strong, and some reports indicated that residential building was slowing.

Looking ahead, manufacturers expect business to continue to improve. Retailers are apprehensive that the current slow pace of sales may persist, but auto dealers anticipate some improvement in the weeks ahead as they take delivery of new models. Bankers said that growth in credit card lending might ease. Realtors expect demand for commercial space to remain relatively flat and they expect the supply of homes for sale to remain large relative to demand.

MANUFACTURING

Reports from Third District manufacturers in October indicated that industrial activity was rising. New orders were moving up, and production appeared to be keeping pace with demand as shipments were also on the rise while order backlogs were steady. Employment and working hours also were steady, and manufacturers reported almost no change in inventories during the month. Firms producing electrical machinery, metals and metal products, and glass

and glass products reported relatively stronger business, while apparel and furniture makers indicated that their business had eased.

In general, manufacturers in the region expect the current upward trend to persist in the months ahead. They forecast further gains in orders and shipments, with perhaps a slight increase in order backlogs. Some firms are planning a slight lengthening of the workweek in the next six months, and some intend to step up capital spending during the last quarter of this year and the first quarter of 1996.

RETAIL

Third District retailers interviewed in mid-October generally said that the pace of sales had eased in recent weeks. Some major apparel and appliance stores in the region reported substantial declines in their business. The slowdown was even affecting discount stores that had been experiencing stronger business than other types of stores in late summer and early fall. Store executives expressed surprise at the recent weakness but said they were planning to keep inventories lean in case sales do not rebound soon.

Auto dealers in the region also reported a drop in the rate of sales since the summer, although they generally said that the pace had been steady in recent weeks. Dealers believe that the end of model closeout incentives dampened sales, and several said the supply of vehicles had been interrupted due to manufacturers' shutdowns for model changeovers and a strike at firms that transport new vehicles. Consequently, inventories have not risen and dealers expect at least some pickup in sales when new models become available in the weeks ahead.

FINANCE

Lending at major Third District banks has moved up in recent weeks, largely due to

increased borrowing by businesses. Some bankers reported that large national firms have stepped up usage of credit lines. In contrast, these bankers indicated that local middle-market companies have been reluctant to expand operations and therefore have not taken on new debt. Consumer borrowing has increased somewhat in the District, mainly due to credit card lending; other types of personal borrowing have not been strong. Several bankers said they believe the growth of total consumer borrowing could ease in the near future. They anticipate this as a result of possible deterioration in consumer confidence and tightening of credit standards by banks.

REAL ESTATE AND CONSTRUCTION

Reports from commercial real estate firms in the Third District suggest that the market has been relatively steady in the past month, with little change in office vacancy rates. Effective rental rates appear to have eased a bit recently, and property prices have remained at what realtors characterize as low levels. Contacts in the commercial real estate industry foresee no major increase in demand for space on the immediate horizon, and they anticipate that new construction will be minimal.

Reports from residential realtors have been mixed, but the overall state of residential markets in the District appeared to be steady in October. New homes were selling somewhat better than existing homes in some markets, although there were reports that land development and construction efforts were being scaled back by some builders. Most of the realtors providing information for this report said there continues to be a large supply of homes for sale and that demand for homes in the higher price ranges was relatively weak.

FOURTH DISTRICT - CLEVELAND***General Business Conditions***

Restrained in part by a generally sluggish manufacturing sector, the District economy continues to follow a path of moderate expansion. Construction activity appears strong for the season, perhaps a reflection of mild temperatures. Elsewhere, District conditions remain nearly the same as in the previous few reports.

Low rates of unemployment, among other employment indicators, suggest that District labor markets continue to be somewhat tight. Labor shortages are being reported in many areas and job categories, including construction workers, nurses, engineers, and some business service occupations. At a recent meeting of District small businesses, several employers noted difficulty in retaining skilled workers and indicated that training costs were increasing as workers moved into more skilled job classifications. These costs are seen as a large and growing component of noncompensation labor costs in the region. Employers note that the migration of workers into skilled positions is pushing up wages for unskilled workers, who are reportedly in short supply in many parts of the District.

Manufacturing

Manufacturing has been slow in the District, especially in September. A Cleveland source states that very little growth occurred last quarter, purchase orders are down, and capital spending for major projects is being deferred until a later date. However, in a view that is more representative of most responses, a Cincinnati manufacturer reports that although orders growth has fallen from the pace of the previous six months, production

levels remain relatively high. Much of the moderation in manufacturing activity has come from a softening in domestic business, while export orders are continuing to strengthen.

Steel prices are still roughly 5 to 15 percent above last year, but have been falling in recent months. Material costs for construction have remained relatively high compared to two years ago, especially in southwestern Ohio. Prices for paper and some chemicals are also reported to be moving sharply higher. However, earlier reports of rising materials costs have dissipated, and in many cases, prices have begun to come down recently.

Manufacturing employment is holding about even with the second quarter, although hours have come down and many manufacturers have eliminated overtime. Project managers, supervisors, engineers, and other skilled workers are reported to be migrating from western Pennsylvania to Ohio, where labor market conditions are considerably stronger. A report from Dayton indicates difficulty in finding civil engineers and other skilled workers such as machinists and some construction workers.

Retailers

Retail sales in the District have been disappointing this season, showing little improvement following a slow start. Home improvement goods, women's apparel, toys, sporting goods, and certain domestic items have been selling weakly, only partially offsetting an increase in sales of computers, home theater systems, and infant clothing. Some retailers attribute poor sales to the warm weather that has persisted into the beginning of autumn. In any event, inventories are generally characterized as heavy as retailers head into the holiday shopping period.

Respondents continue to report pressure to hold prices down, and margins are still being squeezed by rising costs, especially for labor. As companies prepare to hire temporary workers for the holiday season, there is a strong demand for qualified workers in southwest and northeast Ohio. Cincinnati has many unfilled jobs in the retail sector. One large retailer in northeast Ohio says that hiring difficulties have been partially accommodated with more flexible work schedules.

Autos

Sales across the Fourth District were mixed in September. Dealers in northern Ohio reported better results than their counterparts elsewhere in the District. Compared to last September, most dealers reported stronger sales. Overall, inventories are currently at desired levels across the district. Dealers in the Fourth District have not been significantly affected by a limited trucking strike, although the arrival of domestically produced vehicles at dealerships has been somewhat slow.

Price increases on 1996 models have varied from above 5 percent to less than 1 percent, although most have been around 3 percent. Dealers report that higher interest rates are having little negative effect on sales. Although dealers are optimistic that sales will pick up further this quarter, several expressed concern that we are nearing the end of what has historically been the strongest sales period for a new model year.

Banking and Credit

Credit demand remains strong and generally growing, although some slowing in both consumer and commercial credit growth has been observed. Commercial credit

growth remains the stronger of the two credit categories, however, much of which appears to be targeted for business expansion. Mortgage credit demand continues to be mixed by area. Loan delinquency rates are still reported to be quite low. Several sources have seen a falloff in deposit growth recently, and a move to shorter maturities was noted.

FIFTH DISTRICT-RICHMOND

Overview: Indicators of Fifth District economic expansion changed little on net since the last Beige Book. Growth increased in manufacturing but decreased in service production and state revenues. Employment agencies saw stronger demand for temporary workers, and tourism industry sources reported that business was down from August. Retail, real estate, port, and agriculture contacts reported that activity was mixed in their industries, while financial industry sources saw little change in lending activity.

Retail Trade: Indicators of retail activity growth were mixed in September, according to results from a mail survey of District retailers. Sales revenue, employment, and wage growth slowed. Inventory, big-ticket sales, and shopper traffic growth increased. Survey respondents indicated that retail prices rose more slowly in September than in August. They expected their prices to rise more slowly during the next six months than they had expected in August.

Service Production: Service-sector growth slowed in September from August, according to results from a District mail survey. Revenue, employment, and wage growth declined. Service producers reported that prices rose more slowly in September. They expected their prices to rise during the next six months at the same rate as they had expected in August.

Manufacturing: Indicators of factory growth increased in September from their August levels, according to results from a mail survey of Fifth District manufacturers. Survey respondents reported that growth in shipments, new orders, and backlogs increased; workweek and employment growth changed little. Manufacturers indicated that finished

goods prices rose faster in September than in August and that raw materials prices rose at about the same rate; both grew at rates below the general inflation rate. Respondents expected their prices to rise slightly less during the next six months than they had expected in August.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in September and early October was below that of August and a year ago. Contacts suggested that the threat of storms had kept tourists away from coastal areas. Fall bookings were up compared to a year ago, and contacts expected better-than-normal business and some price increases during the next six months.

Port Activity: Representatives at District ports reported that export levels in September were higher than those in August and a year ago, while import levels were lower. Contacts expected exports and imports to 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 September and early October than in August or a year ago. One contact said, "There are more jobs than there are people to fill them." 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 in a telephone survey that credit market activity changed little. Demand was nearly unchanged for commercial, consumer, and mortgage loans. Interest rates fell slightly for all three loan categories.

Residential Real Estate: According to a telephone survey of District real estate

agents and homebuilders, residential real estate activity was down in September and early October. Housing sales changed little; starts, permits, and buyer traffic were down, however. Wages and building material prices rose during the period, although one contact in West Virginia said a sluggish market there was leading to falling wages.

Commercial Real Estate: District contacts reported in a telephone survey that commercial real estate activity increased in September and early October. Leasing activity and commercial rents rose, and vacancy rates declined. The availability of prime office space continued to tighten in most of the District, and several contacts reported shortages, especially in the Carolinas and Virginia. Contacts reported an increase in new construction.

State Revenues: In a mail survey, state government contacts indicated experiencing slower tax revenue growth in September. Compared with August, real revenue growth was slower in South Carolina and Virginia; the same in the District of Columbia, Maryland, and North Carolina; and higher in West Virginia.

Agriculture: District agricultural conditions were mixed in recent weeks, according to agricultural analysts surveyed by telephone. Moderate-to-heavy rainfall from Hurricane Opal fell across most of the District; this rain harmed unharvested cotton and soybean crops but benefited recently planted small-grain and late vegetable crops. The rainfall also improved pasture and hay conditions. Fall harvesting was delayed by the weather but was ahead of its normal pace at the time of the survey.

SIXTH DISTRICT - ATLANTA

Overview: According to contacts, the Southeast economy continued to grow through mid-October, although there were some signs of slowing. In particular, retail sales for September were described as below expectations. Goods production generally held steady, while tourism and business travel was again a bright spot in most of the District. New home construction remained stable but healthy in most of the District, while contractors working on commercial and multifamily projects reported good growth over year-ago levels. Bankers saw overall loan demand as flat. Most contacts said there was little change in wage and price pressures compared with the last time we spoke to them.

Consumer Spending: According to retailers throughout the District, sales during September were below expectations, although volumes were up slightly over year-ago levels. Most merchants reported that inventories were heavy with fall merchandise, but they were hopeful that cooler weather would spur consumer buying. However, many retailers have revised downward their expectations for the upcoming holiday shopping season. Hurricane Opal closed stores in the panhandle of Florida for three days, dampening early October sales. Auto sales remained flat in most of the District, although some dealers reported that they had been constrained by low supplies because of the recent strike in the hauling industry.

Manufacturing: According to manufacturers, goods production was little changed from the last Beigebook. Shipments and new orders remained flat, and most contacts expect only a moderate increase over current production levels in the near term. As a result, a majority of firms contacted do not expect to increase their payrolls in the near future. Factory inventories of finished goods have risen recently, but contacts generally felt that these accumulations would only be temporary. Several trucking firms reported a reduction of the number of loads that they are

flooding. Inventories of homes for sale continue to be low in several local markets, but sales prices appear to have stabilized in most of the region. Contractors in the panhandle of Florida expect to be quite busy in the next few months repairing the nearly 18,000 homes that were partially or completely destroyed by hurricane Opal. Generally, both Realtors and builders are optimistic about their prospects through the end of the year.

Real estate contacts across the District again reported gains in commercial and multifamily construction. Most office and retail projects continue to be build-to-suit, but contacts said that some speculative projects have gotten underway in recent months. Low vacancy rates continue to spur new apartment development in many local markets. Real estate professionals anticipate that both commercial and multifamily construction will remain vigorous through the end of 1995.

Financial Services: A majority of the bank representatives contacted in the last month characterized overall loan demand as steady. Commercial lending continues to be the source of loan growth in much of the District. Several bankers reported that commercial real estate and company buyouts were two of the stronger areas of demand for financing. Consumer loan demand, particularly the financing of automobile purchases, remains soft in most areas.

Wages and Prices: Wage increases generally were reported to be stable, although wage pressures are still reported in areas that continue to experience a shortage of workers. According to industry spokespersons, construction workers, machine operators, and food service workers are the sectors in which demand for labor has been greatest. Most contacts reported little change in the prices they received for finished goods or in the prices they paid for raw materials.

SEVENTH DISTRICT--CHICAGO

Summary. The Seventh District economy continued to expand moderately in September and early October. Retail sales growth rebounded in September from heat wave-depressed levels in August and then turned mixed in the first two weeks of October. Stronger housing activity is anticipated to help prompt greater retail sales gains in the near term, but several large retailers expressed more caution about growth prospects in 1996 than they did in previous months. Consumer durable goods production has taken the lead in District industrial output growth, while increasingly mixed messages have arisen in previously strong capital goods industries. Labor markets remain relatively tight, and reports of rising wages in entry-level positions have grown increasingly frequent. However, surveys of retailers and manufacturers showed little sign of accelerating price increases.

Retail Sales. Retail sales rebounded in September from heat wave-depressed levels in August, but October sales reports were mixed. Weather played the most important role determining recent department store sales patterns, with sales strengthening during colder weather in early October, and fading during unseasonably warmer weather during mid-month. Retailers generally remain optimistic about prospects for the holiday season, partly because of a longer-than-usual holiday season this year. Several large retailers expressed greater caution about sales prospects in 1996 than they did in previous months, however. One large retail chain reported pronounced weakness in customer traffic in its own and its competitors stores in the first two weeks of October. This chain reduced its orders and inventory plans slightly, and anticipated further retrenchment and greater promotional activity in the absence of a turnaround. Another large department store chain characterized recent trends as simply "okay, on balance" noting sharply increased volatility in within-month sales results. This contact reported that the tardy arrival of back-to-school and other seasonal sales prompted extraordinarily large year-over-year sales gains in mid-to-late September, followed by weaker results in early October. Retailing contacts remained optimistic that gains in sales of housing-related items would strengthen in line with traditional lags following stronger housing activity. A survey of retailers in Iowa showed inventory plans were in line with or slightly stronger than year-earlier intentions, while a survey of retailers in Michigan showed that inventory and hiring plans for coming months had risen in line with strong year-earlier levels. However, auto dealers in the region

reported slowing traffic and sales in recent months, and many have cut back their orders and inventory plans.

Housing. Survey data and discussions with realtors, homebuilders, banks and lumberyards indicate that home sales continued to strengthen during September and early October. Favorable weather enabled home construction to finish the peak building season at a high level of output. One of the largest realtors in the District reported that sales strengthened significantly in August and September, and noted that "our salespeople are all quite upbeat." Banks reported strong home loan applications and closures; one large bank closed a record number of home loans during September. Apartment rents were reported to be rising at a slightly faster pace this year than earlier in the 1990s; lower vacancy rates have squeezed out incentives, and owners have also passed on increased interest costs under adjustable rate mortgages. Homebuilders' appraisals of current and expected sales activity continued to improve from low second quarter levels. A survey showed homebuilders' responses in the Midwest remained the strongest among the four regions in the nation, and well above year-earlier levels. An association of lumberyards stated that members' requests for association services had dried up in the past month. "If our phones aren't ringing," this contact stated, "then the dealers are busy. Right now, it seems like they're busy from dawn to dusk."

Manufacturing. District purchasing managers surveys show stronger industrial output in the region in August and September, with little renewed upward pressure on input prices. District steel output rose sharply in September; it fell back slightly during early October, but remained well above year-earlier levels. One steel industry contact stated that demand from auto and appliance producers prompted much of the September increase in output in the region, but demand from construction machinery manufacturers weakened somewhat. Steel production plans for the fourth quarter have increased slightly in recent months, but this contact quickly noted "it's not a boom, mind you." An auto industry analyst stated that fourth quarter auto production schedules imply a substantial increase in assemblies during the fourth quarter. Distributor sales of appliances in the first two weeks of October continued to strengthen relative to year-earlier trends after weakening in the second quarter and into early July. An appliance industry analyst stated that housing activity has proven stronger than expected earlier in 1995, and a large manufacturer expected a modest gain in appliance shipments in 1996.

Signs of slowing have arisen within the District's capital goods sector, notably among producers of construction equipment and heavy-duty trucks. A construction equipment industry analyst stated that retail sales in the fourth quarter are expected to be flat to down slightly from last year, as an uptick in activity in August doesn't seem to have followed through into September and October. Sales remain at high levels, and recent strengthening in housing activity is still expected to boost construction equipment sales by the second quarter of 1996. Nonetheless, this analyst characterized manufacturers' current inventory as "high for all types of machinery." Another analyst reported that heavy-duty truck order cancellations have risen sharply in recent months. Order backlogs have declined considerably, albeit from dramatically high levels. Even so, current production schedules imply a small decline in heavy-duty truck output in the fourth quarter, and another trucking industry observer estimated that fleet utilization slipped further in the third quarter on a seasonally adjusted basis. A large manufacturer of locomotives also reported slower new orders in recent months.

Labor Markets. District labor markets continue to tighten, and reports of wage increases in entry-level positions grew increasingly frequent. Unemployment rates in District states remained at or near their lowest levels in the past two decades. Help-wanted advertising firmed up in the region in the third quarter, climbing back in line with first quarter levels. Initial claims for unemployment insurance in the region declined in recent months relative to year-earlier trends. In the manufacturing sector, the employment components of District purchasing managers' surveys slipped in the second quarter, but firmed up during the third quarter, and remained substantially above their averages for 1990, 1991, and 1992. Manufacturers' hiring plans remained stronger than the overall Midwest average in the latest hiring survey conducted by a large temporary help company, and several manufacturers reported increasing entry-level wages to attract new hires. A temporary help company reported that employers in its market area have increasingly displayed wage rates in help-wanted advertising. An auto supplier reported high and increasing turnover, and expressed concern that at current unemployment rates deer-hunting season could cut into output to a greater extent than usual this year.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy is growing at a somewhat more moderate pace than was noted in the last report. Announcements of plant closings and employee layoffs, often attributed to increased foreign competition or declining domestic demand, have been more frequent. Reports of tight labor markets, though, still surface in some areas. Although the gap between this year's and last year's levels of residential construction permits continues to narrow, most contacts do not expect permits to reach last year's record levels. Nonresidential construction is picking up in most areas, as office vacancy rates decrease. District loan demand appears to be waning somewhat. Crop yields are well below last year's bumper levels because of weather and insect problems.

Manufacturing and Other Business Activity

District economic activity increased at a slightly slower pace during the past month, as evidenced by an increase in announcements of plant closings and employee layoffs. Continued accounts of scattered tight labor markets and sales increases in a number of industries, though, ameliorate some of the negative news.

An Arkansas poultry processor completed a major expansion and will add about 400 workers by year's end, with another 400 expected next year. Some companies in Missouri report record levels of exports that have helped offset a slowing of domestic demand. Contacts in western Tennessee and northern Mississippi continue to report tight labor markets, especially for skilled workers. One contact reports that seasonal help has been extremely difficult to find this year: "This market is noticeably tighter than in previous falls." A contact at a textile firm reports strong sales for towels, but denim sales have flattened out. A contact at a metal salvage company reports sales are up about 17 percent for the month of September and year-to-date.

VIII-2

A company producing casters reports sales are up about 7 percent for the month of September and year-to-date because it has held its prices steady while its competitors' prices have increased. A video distribution firm that recently opened in central Arkansas plans to double its capacity, adding about 500 workers.

A major St. Louis-based shoe company announced that it is closing its remaining U.S. factories because of competition from lower-priced imports; about 900 jobs will be eliminated in Missouri and about 700 in Arkansas. A maker of household appliances let 200 workers go because of declining sales. A food producer will release about half of its 600-person work force at its Memphis plant because of its declining domestic market share. The southern Illinois coal industry continues to decline, as another mine closes later this month. A bus manufacturer is moving from southern Indiana to a newer, more efficient plant upstate; it currently employs about 400 people. Textile finishing operations in northern Mississippi are cutting employment because of competition from foreign firms. A contact reports that sales in the outdoor lighting industry are down about 20 percent year-to-date because of decreased housing starts.

Real Estate and Construction

Residential construction permits on a year-to-date basis continue to lag last year's levels in most parts of the District. Southern Indiana and western Tennessee are the only areas where year-to-date permits are up. The size of the gap between last year and this year, however, continues to shrink in most other areas. Nonresidential construction has been a bright spot in many parts of the District. Nonresidential construction permits are up in central Arkansas, southern Indiana, western Kentucky, and central and eastern Missouri. One contact reports that today's commercial and industrial real estate market in St. Louis is the healthiest in nearly a decade. Many areas also report high occupancy rates for Class A office space, which is leading to higher rents.

Banking and Finance

District loan demand shows signs of softening. For example, total loans outstanding at 11 large District banks were unchanged in August and September after rising 3.1 percent in the prior two-month period. Commercial and industrial loans declined 1.1 percent in August and September after a 0.9 percent increase in June and July. Real estate loans rose just 0.6 percent in August and September following a 5.8 percent rise in June and July; this change is most likely due to seasonal factors, however. Consumer loan demand is also weakening, with loans outstanding declining 1.4 percent in August and September after a 0.2 percent decline in June and July.

Agriculture and Natural Resources

With harvesting complete or nearing completion in most areas, early reports suggest that yields and production will be down considerably from last year's record and near-record crops. In Illinois, Indiana and Missouri, corn and soybean yields are reportedly running below average because of early season planting problems, drought-like conditions in mid-summer and a light, early frost in late September. In fact, in isolated parts of southern Illinois, the frost caused significant damage to soybeans. In the Delta region, insects and hot, dry weather curtailed cotton, rice and soybean prospects dramatically, leading to a deterioration in the quality of the harvested crops in many instances. For example, some reports from Mississippi suggest that several thousand acres of cotton were abandoned because of insect damage. In Arkansas, one report suggests that insect-control costs more than doubled for this crop year. Most crop prices are considerably higher than they were earlier this summer, ameliorating some of these problems for farmers.

NINTH DISTRICT--MINNEAPOLIS

The economy of the Ninth District continues to roll right along as moderate growth prevails in most sectors and regions. A late summer upswing in residential building stoked the fires for the construction sector. Oil exploration, leasing and drilling is giving a big boost to western North Dakota and business remains good for metal mining and forest products firms. The 1995 crop is better than expected and most prices, with the exception of beef cattle, are favorable to producers. Interest rates are falling for farm borrowers. Manufacturers report moderate to strong sales. Auto sales are somewhat below year-earlier levels, but other retail sales are growing moderately. Fall foliage attracted tourists in many regions. Labor markets remain very tight. Increases in a few prices contrast to declines in many others including steel and gasoline.

Construction

Single-family home building gained its second wind in late summer as new permits in Minnesota reached 18 percent above August 1994 levels and 12 percent above the building boom of 1993. Small multi-family units also posted substantial gains. Similarly, a Ninth District director describes home building in western Wisconsin as very strong. Active building continues in eastern North Dakota cities such as Fargo and Grand Forks, and is spreading to west-central areas of the state such as Bismarck and Dickinson. Western Montana builders reportedly are having a good season, although below the boom levels of the previous two years.

“Suburban office and warehouse building remains very strong,” says a Minnesota director, “but retail building has passed its peak.” Commercial building is described as strong in most other urban areas of the district with the exception of Michigan’s Upper Peninsula. Publicly-let construction projects in the Dakotas and Minnesota continue slightly above 1994 levels.

Natural resource industries

Booming oil exploration, leasing and drilling in western North Dakota continues as the most dynamic aspect of natural resource industries. Reflecting industry-wide interest in these new developments, the *Oil and Gas Journal* featured the Lodgepole oil formation in recent articles. Exploration and leasing radiate into Canada and Montana from initial wells near Dickinson.

Iron ore mining continues to have a good season with shipments generally running ahead of 1994. Existing copper mines in Montana and Wisconsin are running at capacity, and a large mining firm is advancing in permitting a new mine southeast of Eau Claire. Lumber and building board producers report sales down somewhat for the year-to-date compared to 1994, but note late summer improvement. High paper prices continue to fuel strong output.

Agriculture

1995 is turning out to be a much better year than expected for most farmers in the district. Farmers in east central South Dakota who experienced excessive rainfall in the spring, an early killing frost, and excess rainfall during the harvest are one exception. Cow-calf producers, particularly in South Dakota and Montana, are the other.

While 1995 yields are below 1994's record levels for most crops, harvests are much better than expected in late spring or even midsummer, especially for corn, durum wheat, sunflowers, and soybeans in most areas. Prices for all the grains are well above year-ago levels. One concern is that rail and barge capacity is lagging output and localized shortages of storage are appearing.

Higher hog prices have cheered producers from a year ago when inflation adjusted prices reached historic lows. While increased feed costs continue to crimp profits, prices in the high \$40 per cwt. range mean that most producers are at least recovering all costs. This increase in prices is apparently due largely to increased exports rather than changes in domestic demand or in output. Cattle producers, particularly those with breeding herds, continue to experience severely adverse prices. While well-capitalized producers who experienced favorable prices earlier in the decade should be able to weather the cycle trough, bankers in ranching areas expressed concern about recent entrants and highly leveraged operators.

The Ninth District third quarter survey of agricultural credit conditions showed a 10 to 40 basis point reduction in various categories of farm interest rates and adequate supplies of loanable funds. Most bankers noted increases in observed farm income and spending, which are confirmed by implement manufacturers' reports of good sales. But bankers in ranching areas report large increases in the proportion of their borrowers up against their credit limits.

Manufacturing

"Sales are good, but not great," is one Minnesota food processor's characterization of business conditions, noting that export sales of breakfast cereals is one area of strong growth. But computer component manufacturers are opening new plants in a Minneapolis suburb and in Eau Claire, Wisc. "This year is as good as 1994, which was outstanding," says one manager of a North Dakota construction machinery manufacturer. Sales of electricity to manufacturers continue above 5-year trends.

Consumer spending

"Business is good, but not booming." "An O.K. year so far, with some improvement in late summer." Such remarks are typical for retailers of general merchandise. But one experienced retail analyst notes that perceptions of sluggish sales by store managers may be due largely to

overcapacity in the sector after three years of fevered expansion rather than from weak consumer demand. Sales tax collections tend to confirm this view. Minnesota, North Dakota and Wisconsin all report tax receipts well above 1994 and prior projections.

Auto dealers continue to ride a roller coaster, with highly variable sales generally running somewhat below 1994 levels. But there are areas of strength, North Dakota dealers report good sales of pickups resulting from oil sector activity and improved earnings for farmers.

Tourism

Despite seasonal slowness, tourism officials in the Ninth District report moderate growth. Visitations at major tourism sites for September were up 5 to 10 percent in Montana compared to a year earlier. A tourism official in Duluth, Minn., reports a 6 to 8 percent increase in tourism activity for September, while a town in northwest Wisconsin has steady car traffic and 3 to 5 percent increase in business, according to a Chamber of Commerce official. But one source in northern Minnesota described the season as "so-so" and some North Dakotans report a decline in visits to regional attractions.

Employment, wages and prices

"Its becoming harder and harder to attract and keep good workers," is how a western Wisconsin director describes the labor market in his region. Labor markets are tight in most areas of the district, with unemployment rates below 3 percent for the states of Minnesota, North Dakota and South Dakota and near 2 percent in many urban areas. Ubiquitous help wanted signs and bulging employment ad sections in newspapers continue despite employment growth over 1994 above 2 percent across the district. Skilled technical specialties remain in shortest supply.

Reported increases in compensation levels are generally modest. One construction equipment manufacturer in North Dakota signed a 4-year contract with its union providing for a 3 percent per year increase in wages and another concluded an agreement for 1996 with no increase in wages. But some firms apparently are increasing benefits to attract and keep employees. An employee benefit plan firm reports a sharp increase in the number of restaurants and fast-food franchisees who are offering insurance packages and 401k plans.

Agricultural commodities have risen in price, and non-ferrous metals and paper remain high. But price declines are reported for a number of intermediate goods including most grades of steel and particle board. Declines are also reported for property and casualty insurance premiums, technology products, advertising specialties, and some trucking rates. Petroleum product prices continue to decline, and gasoline is advertised at less than \$1 per gallon for the first time in years at some Minneapolis-St. Paul gas stations.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continued to grow at a moderately strong pace during the past month. Retail sales and manufacturing activity remained strong, while energy and homebuilding activity stayed sluggish. Agriculture's income prospects remained weak due to disappointing crops and low cattle prices. Manufacturers continued to report shortages and rising prices for some materials, although wages and retail prices held steady.

Retail Sales. Most retailers report sales were unchanged from the month before but remained above year-ago levels. Unseasonably warm weather slowed sales of outerwear and seasonal apparel last month, but sales of most other products were steady. Retailers generally expect strong sales during the coming holiday season and have begun their normal seasonal build-up in inventories. Automobile dealers report last month's sales were down slightly from the month before. Most dealers are generally optimistic about sales prospects for the rest of the year, however, as new car models become more widely available.

Manufacturing. Most manufacturers continued to operate at high levels of capacity during the past month. None of the respondents report production bottlenecks due to capacity constraints, although a few report shortages of skilled labor and some materials. While most manufacturers are satisfied with inventory levels, some are trimming stocks.

Energy. Activity in the district's energy industry remained sluggish over the past month due to continued low prices for crude oil and natural gas. The average number of drilling rigs operating in the district during the first half of October was about even with the average for the previous two months. Drilling activity in the district remained well below the year-ago level.

Housing. Most builders report housing starts last month were unchanged from the month before and remained well below year-ago levels. Construction of multifamily homes strengthened

somewhat, but single-family construction remained sluggish. Sales of existing homes were also flat and continued to trail the pace of a year ago. Building materials are readily available with no delays, and most builders expect little change in material availability or prices during the remainder of the year. Lenders report strong mortgage demand, which they expect will continue in the months ahead.

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

Most of the respondents report total deposits were unchanged last month, but changes varied among different types of deposits. Demand deposits declined slightly while MMDAs increased. Large CDs, small time and savings deposits, NOW accounts, IRAs, and Keough accounts held steady.

None of the respondent banks changed their prime rate last month, and only one bank expects to lower its prime rate in the near future. A few respondents increased their consumer lending rates slightly, but most respondents expect no further change in the near term. None of the banks report a change in lending standards.

Agriculture. Dry weather has speeded harvest of the district's corn and soybean crops. Yields are well below normal, though, due to a growing season shortened by late planting and early frost. The recent dry weather has also delayed planting of the winter wheat crop, dampening prospects for next year's harvest. The overall drop in crop production has pushed up prices in recent weeks. The higher prices will boost farm incomes in parts of the district that harvest normal crops but will not fully offset crop losses elsewhere.

The rise in crop prices has also pushed up feed costs, worsening the profit outlook for the district cattle industry. With continued large supplies of beef and other meats in prospect, fed-cattle prices are not expected to rise much above break-even levels in the months ahead. As a result, cattle feeders are paying less for young cattle entering their feedlots, pushing down incomes for district cattle ranchers. Despite the recent surge in crop prices, disappointing crops and weak profits in the cattle industry point to little, if any, improvement in district farm incomes in 1995 following last year's sharp decline.

Prices and wages. Manufacturers continue to report price increases for some raw materials, especially paper, packaging materials, and some kinds of steel. While some manufacturers report shortages of skilled labor, few report upward pressure on wages. Retailers report steady prices with no significant price increases expected in the next few months.

ELEVENTH DISTRICT--DALLAS

The Eleventh District economy continued to expand at a moderate pace in September and early October. Demand for most manufactured products was unchanged or slower, and retail sales remained weak. Financial institutions reported steady loan demand, and energy and agricultural conditions were unchanged since the last Beige Book. On a more positive note, demand for most types of real estate continued to edge up, cargo shipments were up slightly and demand for business services continued to rise strongly.

Overall, there were few reports of **price or wage pressures**. Scattered wage pressures were reported by service firms who continued to have problems finding skilled workers. Several manufacturers also reported a lack of skilled laborers but had not raised wages. Natural gas prices rose and were slightly higher than last year, but oil prices held steady. Transportation fees continued to fall because of rising competition. Retailers reported that discounting was heavier than last year. Agricultural prices were up slightly.

Overall, orders were soft for Eleventh District **manufacturers**. The notable exception was the electronics industry where contacts reported rising demand for semiconductors and computer products. Orders for most construction-related products held steady, but several contacts expected sales to improve as a result of rising housing starts and robust commercial construction activity. Demand for corrugated boxes was unchanged since the last Beige Book but contacts said they were trying to work down a recent inventory buildup. Although the outlook for the paper industry is not as strong as it was earlier in the year, respondents said they expect demand to pick up in 1996. Orders for food products weakened slightly, but contacts were still pleased with the levels of demand. Apparel orders fell because of weak retail sales, and several apparel contacts said they were laying off

employees or initiating hiring freezes. Demand for chemicals continued to weaken and respondents said inventories were beginning to build up. Although prices were weaker than earlier this year, Gulf Coast firms remained profitable and were proceeding with expansion plans. Refiners reported seasonal weakness, with demand for oil products slack as the summer driving season ended. Despite a slight decline in domestic drilling activity, international activity and strong drilling in the Gulf of Mexico kept demand steady for oil services and machinery.

Demand for **business services** continued to increase at a healthy pace. Litigation remained strong, but business transactions services--such as initial public offerings, real estate and banking--were even stronger. Although contacts said they were still very cost-conscious, hiring was up slightly. Overall, fees remained competitive, but some firms were able to raise prices as a result of increasing demand. Respondents were bullish about the next six months, with only one cloud on the horizon: finding enough resources to handle all the work.

Transportation services firms reported mixed changes in demand: passenger airlines reported a slight decline, while cargo transportation demand was flat to slightly higher. Contacts in the cargo industry said that demand had increased from firms that produce paper, building products, electronics and food products. Trucking firms reported heightened efforts to recruit and retain qualified drivers. Heavy competition resulted in discounting at trucking firms, but prices for passenger transportation increased slightly. Cautious optimism characterized the outlook for both cargo and air passenger transportation industries.

According to respondents, district **retail sales** remained weak in September, growing more slowly than the national average. Several contacts said that inventories were rising but had not reached alarming levels. Contacts said that sales along the Texas/Mexico border continued to decline, and most expected Christmas sales to be below last year's levels. Automobile sales were down slightly from the last Beige Book, but were above year-ago levels.

Eleventh District **financial institutions** reported steady loan demand and competition for loans remained strong. Respondents were cautiously optimistic about the outlook for the next six to twelve months. Contacts said talks of mergers and acquisitions in the Eleventh District have heightened in recent months.

Construction and real estate activity improved slightly. Although apartment construction declined because of overbuilding concerns, rental demand remained strong. Single-family construction picked up as buyers took advantage of lower mortgage rates. Demand for industrial space was very strong and several contacts were considering speculative projects. Demand for suburban office space remained strong and rents continued to edge upward.

Conditions in energy markets have not changed much in the past two months. A series of hurricanes that threatened production and refining along the Gulf Coast provided the only excitement. The price of West Texas Intermediate Crude Oil remained firmly fixed between \$17 and \$18 per barrel, except for a brief period of \$18 prices when hurricane Marilyn visited the Caribbean in late September. Natural gas prices have been volatile, as hot weather boosted demand and hurricanes curtailed production. At \$1.70-\$1.75 per thousand cubic feet, October gas prices were reported to be above last years levels. While overall domestic drilling activity was down slightly, activity in the Gulf of Mexico has been unchanged since spring 1994 and international activity is ahead of last year.

Agricultural conditions were unchanged. Although September rains slowed planting and harvesting progress for some crops, most contacts said they expected corn, peanut, citrus and pecan production to be up this year. Parts of South Texas continued to suffer from very dry conditions, and the cotton crop was reduced by severe insect problems. A price index of Texas farm products increased slightly in August and again in September, with higher crop prices offsetting lower cattle and calf prices.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Moderate economic growth continued in the early fall in the Twelfth District. Survey respondents noted relatively strong growth in Utah, Oregon, and Nevada, with weaker conditions exhibited in parts of Southern California, Hawaii, and Idaho. Overall, retail sales growth reportedly slowed in recent months, but demand continues to be buoyed by strong business investment. Residential real estate markets are mixed. Manufacturing activity is benefitting from rapid growth in export demand, although sales of some items to Japan are off noticeably. In agricultural markets, the expansion of exports is buffering some of the effects on profitability from weak yields on certain crops. Labor markets are tight in several states, particularly for skilled, technical, and construction trade workers in fast-growing states. The labor market tightness has translated into only limited upward pressure on total labor costs, however, as increases in benefit costs have slowed and workers reportedly are focussing more on job security than on wages.

Business Sentiment

Businesses in the District are more optimistic concerning national and regional economic conditions, with 90 percent of respondents now expecting national growth over the next four quarters to match or exceed its long-run average pace, up from a recent low of 65 percent of respondents in June. The majority of respondents expect no substantial change in

national unemployment or inflation in the near-term. Respondents' expectations for their regional economies are particularly optimistic, with 58 percent predicting better growth in their region than in the U.S. as a whole. This optimism extends to most major areas of activity, with expected improvements in business investment, consumer spending, housing starts, and international trade in the District.

Retail Trade and Services

Retail sales in many District states reportedly slowed in recent months. Sales of soft goods in particular have been flat. However, most respondents report relatively low levels of retail inventories prior to the arrival of the holiday season merchandise. Retailers generally are optimistic about the prospects for holiday sales.

Among District service-producing industries, tourism continues to be a major source of growth. Increases in German and British tourist traffic were reported in Utah and Southern California. Asian tourism in Hawaii remains at high levels, although Japanese financing of the infrastructure for that industry reportedly is retrenching. Despite some restructuring, health services industries are expanding rapidly in states with strong population gains; in Oregon, for example, demand for primary care physicians is up, though hospital beds remain in excess supply. The demand for commercial legal services also is reported to be expanding in the Pacific Northwest.

Manufacturing

District manufacturing activity continued to expand in early fall, pushing production near capacity and adding to substantial backlogs. In Nevada and Utah, respondents report that demand for machinery and fabricated metal products increased further. In California, demand for ferrous metal products is also strong. In several District states, rapid growth of domestic electronic equipment sales has been augmented by strong exports to Europe and Asia. However, exports of wood products to Japan reportedly dropped off recently, and overall orders for wood products also are down.

Agriculture and Resource-Related Industries

The effects of poor weather in California earlier this year are still being felt in the agricultural sector, with low yields for some crops, and reportedly low income despite consequent higher prices. Agricultural exports from the California Central Valley, however, are up, as are Washington apple exports. Much of the new export demand comes from Asia (due in part to the lifting of trade restrictions on China and Vietnam) and South America. Export sales of wheat are particularly high.

Real Estate and Construction

Residential real estate and construction activity remains mixed. In fast-growing states such as Utah, Oregon, and Arizona, building activity is expanding but being constrained somewhat by high wages caused by shortages of qualified help. In Alaska, the development

of single-family and multi-family housing projects reportedly picked up. Residential building slowed in Idaho and Washington. Sales of existing homes reportedly remained weak in Southern California, and prices continued to fall; in contrast, sellers in parts of the San Francisco Bay Area reportedly are receiving higher prices.

Activity in the non-residential sector reportedly increased in recent months. The commercial real estate market in Oregon and Washington reportedly has heated up enough in recent months to attract investors who had retreated from the market earlier. Further expansion of resort facilities in Nevada has contributed to construction activity there, albeit at a less robust pace than last year.

Financial Institutions

Banks report favorable conditions in most of the District, with high loan demand, solid balance sheets and earnings, and good credit quality. The exceptions are in Hawaii, where increasing credit problems are reflected in increases in bankruptcies and foreclosures, and in parts of Southern California, where loan demand is low. For California as a whole, banks report flat to moderately growing loan volumes in early fall, with the strength concentrated in commercial and industrial lending.