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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

January 1996

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

January 1996

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SUMMARY*

Reports from the twelve Federal Reserve Districts suggest that the national economy was growing at a generally modest pace at the end of 1995. Holiday retail sales were generally reported to be below expectations, with extensive discounting. Manufacturers saw uneven growth, with weakness noted in auto-related production. The federal government shutdown hurt winter tourism at national parks, but other areas reported increased activity. Single-family home sales are experiencing some seasonal slowing in most of the country. However, commercial real estate contacts in many areas report strengthened markets. Loan demand is steady in most areas. Firms say that prices are generally remaining stable, but some areas still report shortages of skilled workers.

CONSUMER SPENDING

Retail sales during December generally fell below retailers' expectations, with heavy discounting the rule. However, the majority of retailers in the Atlanta, Kansas City, and St. Louis Districts experienced moderate growth over last year's levels. Reports from Boston, Chicago, Minneapolis, New York, Philadelphia, and San Francisco retail contacts indicated that year-over-year growth was mixed within each of these regions. According to District contacts, electronics, computers, fine jewelry, and cosmetics were the best-selling items, while apparel sales were generally disappointing. According to retailers in the New York and Cleveland Districts, overall retail sales suffered because of harsh weather; however, hardware stores got a boost from high

*Prepared at the Federal Reserve Bank of Atlanta and based on information collected before January 8, 1996. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

demand for snow-related equipment. Merchants in the Atlanta, Kansas City, New York, and St. Louis Districts report that inventories are in line with plans. Overall, retailers' outlook for the first quarter is guarded, with retailers in the Atlanta and Kansas City Districts anticipating little growth year-over-year, while the St. Louis District's outlook is mixed. Several retailers in the Dallas District are contemplating scaling back new store openings, and contacts in the Boston and Cleveland Districts anticipate rising retail vacancy rates this year.

Sluggish auto sales were reported in the Boston, Chicago, Cleveland, Kansas City, and Minneapolis Districts. Dallas was the only District that noted auto sales increases.

MANUFACTURING

Overall factory activity was mixed, according to District reports. Manufacturing output growth has slowed in Atlanta, New York, Philadelphia, and Richmond since the last Beigebook. Atlanta, Chicago, and Cleveland report recent orders weakness for auto suppliers. New orders have fallen for heavy equipment producers in Minneapolis. Dallas reports weaker orders for manufacturers over the past six weeks and points to a slight deceleration in the rapid growth of semiconductor production. San Francisco also reports excess capacity and rising inventories among some California semiconductor firms, but notes that, in general, demand for electronic goods continues strong.

Manufacturers continue to operate at high levels in Boston, Chicago, Cleveland, and Kansas City. Machine tool orders in Boston are above year-ago levels, and computer products continue to grow robustly. Steel orders have improved for producers in the Chicago and Cleveland Districts. St. Louis reports that although the pace of industrial activity remains relatively unchanged, new announcements of large plant openings will add to the District's factory

payrolls. Atlanta contacts anticipate that rebounding home sales and construction will boost building material and carpet production.

TOURISM AND CONVENTION BUSINESS

The Federal Government shutdown is hurting winter business in national parks, according to District reports. However, an early and above-normal snowfall has boosted tourism in the Minneapolis and Richmond Districts. Visits by Europeans are up, and advance bookings are strong in southern and central Florida.

REAL ESTATE AND CONSTRUCTION

Contacts in most Districts report a slowdown in single-family home sales during December mainly because of seasonal factors. However, home sales improved over last year in Cleveland, while sales equaled last year's levels in the Kansas City District and fell slightly in the Atlanta District. Single-family home construction in the Atlanta, Kansas City, and St. Louis Districts fell slightly behind last year's levels and equaled last year in Cleveland. Atlanta, Chicago, and Kansas City District Realtors report tight home inventories in several markets. Both Atlanta and Kansas City District contacts report rising home prices, while Richmond contacts reported declines. Real estate contacts in the Atlanta and Chicago Districts are optimistic going into 1996, while contacts in the Minnesota District anticipate building will be somewhat less.

Nationally, commercial real estate contacts report improving markets. Real estate agents in the Atlanta, Kansas City, and New York Districts report that new multifamily construction and conversion is strong. However, reports from the Dallas District indicate that worries about overbuilding are causing developers to curtail plans for new projects. Contacts in the Atlanta and Dallas Districts report that build-to-suit projects dominate nonresidential construction activity.

Office vacancy rates continue to decline in the Atlanta, Chicago, Richmond, and Dallas Districts; however, downtown Boston and midtown Manhattan have shown little improvement recently. Overall, commercial real estate contacts report a positive outlook.

FINANCIAL SERVICES

Loan demand appears to be steady, according to reports from most Districts. In general, loan demand is stronger from businesses than from consumers. Refinancing activity has increased for all loan types. Banks say that, although credit quality remains very good, delinquencies have increased modestly in the majority of Districts. Contacts in the Atlanta and New York Districts report weaker consumer loan demand since the last Beigebook; but in southern California, as well as in the Cleveland, Dallas, and St. Louis Districts, stronger demand was noted. On the commercial side, loan demand was reported as strong in the Atlanta, Chicago, Cleveland, Dallas, and St. Louis Districts. Only the Richmond District noted weaker commercial loan demand.

AGRICULTURE AND FOREST PRODUCTS

Agricultural conditions across the U.S. were, for the most part, reported to be normal for the season. Notable exceptions include the Dallas and Kansas City Districts where dry weather and insect damage have hurt the winter wheat crops. The St. Louis, Minneapolis, and San Francisco Districts reported slower lumber and forest product production.

WAGES AND PRICES

Boston, Dallas, Kansas City, Chicago, Richmond, and San Francisco report some shortages of skilled labor. Manufacturers in Dallas say that lack of skilled workers is a major concern, and wage pressures remain prevalent. In Chicago, placement specialists note a high number of unfilled orders for permanent and temporary employees. Most manufacturers report modest wage and salary

increases. Some Districts, such as Boston, report few or reduced cost pressures. There are scattered reports of increasing materials prices in some Districts, but prices remain generally stable, according to their contacts.

FIRST DISTRICT - BOSTON

Business activity in the First District continues to expand slowly, with sectoral patterns following those previously reported. Retail contacts again report mixed but generally disappointing results; manufacturers remain more upbeat, with many experiencing solid growth. Price pressures are reportedly minimal. Temporary employment continues to expand. Most sectors and areas in the region's commercial real estate market are holding their own. The insurance industry saw sales pick up in the fourth quarter.

Retail

First District retailers express disappointment with the lackluster holiday season, despite a burst of last-minute shopping activity before Christmas. Some respondents report sales declines of up to 10 percent in November. Sales levels at contacted firms in December ranged from 10 percent declines to 5 percent gains from a year earlier. Apparel continues to sell poorly. One bright spot in December was the high demand for snow-related equipment, which offered home supply and hardware companies some relief from an otherwise steady decline in sales for most of the second half of 1995. Retail respondents view the first half of 1996 with uncertainty, anticipating sales changes ranging from 6 percent decline to 5 percent growth.

Most vendor prices remain stable, including the prices of lumber, leather, and paper, which earlier had increased dramatically. One contact cites recent price increases on fabric and foam upholstery. None of the contacts reports increases in customer prices. Gross margins held or declined slightly for most of 1995, but profits were generally down because of sluggish sales. Contacts do not expect to expand employment and many plan cuts in capital spending in 1996.

Manufacturing

First District manufacturing contacts generally report that sales are ahead of year-earlier levels. Microelectronics and innovative computer-related products continue to experience robust growth. Machine tool demand is higher than a year ago. Sales to the health care industry are described as either recovering or continuing to grow. Except for selected gains in market share, makers of consumer durables products and parts report zero to slow growth in revenues from a year ago.

Many contacts report little or reduced cost pressure, while selling prices are flat on average. Prices for chemicals, rubber, resins, lumber, and fabrics are reported to have stabilized or declined. Paper and metals costs continue to increase, however. One-third of the respondents express concern about profit margins in view of the competitive pricing environment.

Capital spending trends vary widely, but about one-half the contacts report aggressive programs to modernize or expand their facilities. Compared to a year earlier, U.S. employment is flat to up slightly at one-half of the firms contacted. Another one-quarter report making substantial net new hires, while the remaining one-quarter have cut back through attrition. Businesses that are hiring report that strong competition is forcing higher compensation for information systems specialists. In addition, a couple of contacts located outside major metropolitan areas indicate difficulties finding qualified production workers. Manufacturers report average wage and salary increases of between 2 and 4 percent, which they tend to view as modest.

Most contacts expect reasonably good outcomes in 1996, given an environment of moderate GDP growth and little inflation. Several have modified their sales projections, however, because of sluggish automotive sales or financial difficulties at retail chains.

Temporary Employment Firms

Personnel supply firms report good performance overall for the fourth quarter of 1995. Demand for workers in technical and specialty fields remains high, and contacts note an increase in high-tech workers voluntarily leaving full-time payroll employment to work on a contract basis. Vendor-on-premises operations, in which a personnel supply firm contracts to perform all of a client's recruiting and hiring functions, continue to enjoy popularity among larger clients. Smaller, more specialized personnel supply firms have begun subcontracting with the larger firms winning the vendor contracts to obtain employee placements. All those contacted were optimistic about continued growth in 1996.

Commercial Real Estate

Respondents generally agree that the commercial real estate market in New England has been steady. Most contacts complained about a weak Christmas season and its effects on the retail sector. Although no increases in retail vacancy rates have been seen yet, respondents anticipate higher vacancy rates and lower rents in the near future. The office market has either recovered or remained flat everywhere except for Hartford, where mergers and bankruptcies have led to rising vacancy rates. The downtown Boston office market has been flat, with no new office buildings added and slightly higher rents. The suburban Boston office market, by contrast, has been doing very well.

Nonbank Financial Services

Most respondents at insurance companies report strong sales in the fourth quarter of 1995. However, sales for 1995 as a whole are reported to be slightly below sales for 1994. Employment at responding companies was flat to down in the fourth quarter. Several respondents expect employment to decline in 1996 on account of mergers and consolidations.

SECOND DISTRICT--NEW YORK

Reports on economic conditions in the Second District suggest that growth has slowed in recent weeks. District retailers were disappointed by December sales results. More corporate downsizings were announced, including the loss of over 6,000 New Jersey jobs at AT&T. Purchasing managers in Buffalo, Rochester, and New York City reported that manufacturing output growth slowed in November. Demand for new loans at small and medium-sized banks has weakened over the past two months. On a more positive note, the market for commercial real estate in Downtown Manhattan began to improve.

Consumer Spending

District retail contacts reported disappointing holiday-season sales. Year-over-year sales results ranged from losses of 5 percent to gains of over 7 percent in December, with roughly half of the contacts reporting sales declines. Nearly all of the survey respondents noted that sales were below plan. Despite weaker-than-expected sales, inventories were generally at desired levels by the first week of January.

In general, better apparel, jewelry, computers, and cosmetics sold well. In contrast, sales of moderate-price apparel and toys were weak. Several respondents noted the negative impact of weekend snowstorms -- particularly in Western New York State -- and the lack of any new, "must-have" toys this season.

Construction and Real Estate

The market for commercial real estate in Midtown Manhattan was nearly flat in November. Despite the lease of a large block of contiguous space, the Midtown vacancy rate edged up 0.1 percentage points to 14.1 percent.

In contrast, enactment of the Lower Manhattan Revitalization Plan in late October led the Downtown office market to strengthen in November. A surge in leasing activity -- combined with little space returned to the market -- caused the vacancy rate to decline 0.3 percentage points to 25.4 percent. Most of the leasing activity was concentrated in newer, post-1980 office buildings. Over time, the Revitalization Plan is also expected to spur the conversion of older office buildings into residential space; the first of the residential conversions under the new program is scheduled to begin this spring.

Other Business Activity

New York State's unemployment rate declined 0.3 percentage points to 6.0 percent in November. Job gains in the service, trade, and manufacturing sectors more than offset losses in finance and government. In contrast, New Jersey's unemployment rate rose 0.3 percentage points in November to 6.1 percent. Although the number of unemployed workers in New Jersey increased, total employment was nearly unchanged, with increases in the service and trade sectors offset by declines in manufacturing.

The pace of corporate restructuring picked up as 1995 ended. AT&T announced plans to eliminate over 6,000 jobs in New Jersey, with the majority of the cuts expected to occur in 1996. New Jersey will also be affected by the Public Service Electric & Gas company's plan to eliminate 1,000 jobs through attrition over the next three years. More immediate reductions of 500 employees each are expected at New Jersey's Interstate Bakeries Corporation and New York's Quebecor Printing Buffalo, Inc.

Reports from purchasing managers suggest that manufacturing output growth slowed in the Buffalo and Rochester areas during November, while manufacturing

output in New York City actually declined. However, strength in New York City's larger non-manufacturing sector more than offset weakness in manufacturing. Commodity price pressures moderated in New York City and Rochester, while increasing slightly in Buffalo.

Financial Developments

A survey of senior loan officers at small and medium-sized banks in the District reveals that demand for new loans has weakened over the past two months. The consumer loan segment has undergone the largest decline in activity. Demand for these loans is lower at roughly 50 percent of the banks and steady at about 35 percent. Over three-quarters of the respondents report higher or stable consumer loan delinquency rates. The only lending category which did not weaken was demand for commercial and industrial loans, which was higher at approximately 25 percent of the banks and steady at 50 percent. Refinancing activity for all types of loans increased.

The spread between average lending and deposit rates has narrowed at almost half of the banks, primarily due to a decline in the average lending rate. Average loan rates are lower at about 60 percent of the reporting banks and steady at over 35 percent. Overall, survey respondents are somewhat more willing to lend than they were two months ago while credit standards have remained constant.

THIRD DISTRICT - PHILADELPHIA

Reports from business contacts in the Third District in early January indicated that economic activity appeared to be easing. A decline in new orders for the products of area plants indicated that the pace of manufacturing was slipping a bit as the year began. The Christmas selling season was a disappointment for most retailers. Store executives said their year-over-year comparisons--in dollar terms--ranged from slight drops to slight gains. Unplanned price markdowns appear to have been widespread, and while this discounting boosted the sales of some goods, such as computers, it failed to spark the buying of others, such as apparel. Bankers generally noted some gains in credit card lending, although the overall pickup did not appear to be substantial, but said other categories of lending were flat.

Looking ahead, business contacts see only slight improvement in business conditions, at best, during 1996. Area manufacturers forecast some increased demand for their products during the first half of the year, but they indicate they may trim employment. Retailers expect consumers to be conservative in their spending, although they say some small sales gains may be posted for the year as a whole. Bankers expect overall economic activity in the region to advance slowly this year, and they expect lending, both to consumers and to businesses, to grow only slightly.

MANUFACTURING

The pace of manufacturing activity in the Third District appeared to slacken as 1996 began. Firms in the region reported that the increase in shipments they saw in December was

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losing momentum and new orders were falling. Order backlogs for area firms were dropping and inventories were steady. While about two-thirds of the firms contacted for this report were maintaining constant employment levels, about one in five were making cuts.

Prices of industrial goods in the region remain steady. Most of the area manufacturers who commented on costs and prices said charges for both the goods they purchase and the products they make were flat, although a few noted recent increases in input costs.

Expectations among Third District manufacturers are mixed. While more than one-third of the firms contacted for this report expect their new orders and shipments to increase during the first half of 1996, about one-fifth anticipate declining demand for their products. On balance, manufacturers in the region expect to make some reductions in employment in the first two quarters of the year and they plan to hold capital spending steady.

RETAIL

Most Third District retailers reported that sales for December did not come up to their expectations despite a surge the weekend before Christmas and during the final week of the year. Overall, the dollar volume of retail sales for stores in the region was about even with that of a year ago, and results for individual companies generally ranged from decreases of a few percent to increases of a few percent. Last-minute price markdowns were made on a wide range of goods, and store executives said gross selling margins were significantly reduced.

Merchants said personal computers, accessories, and software sold relatively well, although discounting was fairly heavy for these items, while apparel sales were weak despite discounting. Some retailers said they expect apparel sales to remain relatively soft as consumer buying patterns continue to shift toward home goods and away from apparel and personal items.

For overall retail sales, the consensus is that there may be some improvement during 1996, albeit slight.

FINANCE

Third District bankers contacted in early January said credit card lending had risen seasonally but other credit categories were essentially flat. The total rise in consumer loan volume was not expected to be large, however, as retail sales did not appear to be increasing substantially during the December-January selling period. Bankers generally indicated that credit demand from businesses was not likely to pick up strongly because many potential business borrowers appeared to be meeting their financing needs internally. Some bankers also noted that financing was readily available to businesses from nonbank sources, further damping demand for bank credit.

Looking ahead, bankers see slow economic growth for the Third District, which they expect will hamper their ability to increase lending. Some banks are increasingly looking outside the region for potential new commercial borrowers. Most bankers agree that competition for new business will be very sharp in 1996, but they expect to maintain current underwriting standards.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

Most indicators of the District economy have changed little since the last report, although some seasonal slowing in industrial activity has occurred. Despite the poor weather that has plagued the region, most areas note a pickup in home sales, and construction employment starts, compared to the fall.

November jobless estimates jumped in Ohio and Pennsylvania, perhaps reflecting temporary cutbacks in the auto industry. But overall, district businesses are reporting a generally strong and stable employment situation.

Cost pressures remain mixed by area and industry, with wages apparently rising more rapidly than materials costs. However, most respondents report a low inflation environment.

Manufacturing

District manufacturing activity remains strong, although net new orders growth has varied by industry. Auto and auto-related production is still generally flat, but a modest strengthening has been seen very recently. Steel orders have improved, and order books in the industry are reportedly full through the first quarter. Demand for structural steel has been particularly strong. No change in manufacturing inventories is noted.

Capital-goods makers continue to see a moderating pace of net new orders. Still, the industry reports extremely high production levels, and order backlogs, though diminishing, remain substantial. While domestic demand for capital goods appears to have waned a bit, demand from foreign sources has picked up some of the slack.

Industrial price pressures appear to have moderated from midyear, although some raw materials are said to be in short supply, including a variety of metals. Equipment prices are holding steady, but some pressure on employment costs is noted.

Retailing

After a rather hopeful start, retail sales in the District were generally disappointing during the holiday season. Few retailers reported that sales receipts were above last year - only a couple of large department stores met their sales expectations. According to several sources, the recent holiday shopping season was the weakest since 1990.

Although not a large factor in the sales numbers, poor weather in the region was noted to have disrupted last-minute Christmas shopping and typical post-Christmas sales activity.

Sales of women's specialty apparel were particularly soft, as were apparel sales generally. However, jewelry, toys, electronic goods, and stationery were reasonably strong. Retailers in Ohio, particularly in the northeast, regarded holiday sales levels more favorably than did respondents elsewhere in the District. One major department store chain reported that its Ohio stores led the company in December sales.

Retail inventories are adequate to somewhat high. Price discounting, now common during the holiday period, was evidently even more severe this year. Retailers continue to worry about narrow profit margins.

The outlook for the next few months was reported to be generally positive in the durable-goods areas, specifically home improvement items and furniture. However, some fallout in area retailing is anticipated this year, as several retailers have hinted at an increased number of store closings.

Autos

Contrary to national reports, December was a somewhat disappointing month for the District's auto dealers. For the most part, sales were at or below expectations, and were off as much as 40 percent from December 1994. Dealers in northern Ohio are a notable exception, however, with luxury vehicle sales reportedly quite strong. Various promotional incentives -- some offering rebates of up to several thousand dollars on luxury models -- were reportedly ineffectual.

Inventories are on target or slightly higher than planned, ranging between a 30- and 70-day supply. Higher stocks were noted in the southern part of the District. After-Christmas sales growth, typical for this industry, apparently did not materialize this year. Again, poor weather in the region is partly to blame. The dealers we contacted seem optimistic about the first quarter of 1996 and are expecting a better year ahead.

Banking and Credit

Commercial banks continue to report reasonably strong lending activity. Commercial, industrial, and consumer borrowing all remain high, and mortgage lending has picked up. Furthermore, a flurry of mortgage refinancing requests is anticipated.

Bankers note a deterioration in credit quality. Delinquency rates are still rising, as they have for several straight months. Loan delinquency levels, however, are considered low by historical standards.

FIFTH DISTRICT-RICHMOND

Overview: Fifth District economic indicators suggested slower growth since the last Beige Book. Growth slowed in manufacturing, retail, service production, and state revenues. Tourism industry sources reported increased activity, while employment agencies reported lower demand for temporary workers. Port, finance, real estate, and agriculture contacts saw little change in their industries' activity.

Retail Trade: A telephone survey of District retail associations and retail analysts indicated that, compared with last year, sales levels were somewhat weaker during December. Department and specialty stores reported lower sales. Auto and big-ticket sales, however, were higher than last year's. Contacts said that Christmas shopping started later than in previous years and that they ended up cutting prices by more and earlier than they had planned.

Service Production: Service-sector growth slowed in mid-December from November, according to results from a District mail survey. Revenue growth decreased, and employment and wage growth decreased slightly. Service producers reported that prices rose more in mid-December than in November. They expected their prices to rise somewhat more slowly during the next six months than they had expected in November.

Manufacturing: Indicators of manufacturing growth decreased in December from November, according to results from a mail survey of Fifth District manufacturers. Survey respondents reported that growth in shipments, employment, and the workweek slowed; new orders and backlog growth changed little. Manufacturers indicated that finished goods and raw materials prices rose faster in December than in November. Respondents expected their

prices to rise more during the next six months than they had expected in November. Many respondents reported a scarcity of available labor, particularly skilled labor; this observation was echoed by a service-sector contact who said that he had so much trouble hiring computer-literate workers that he had to replace computerized dry cleaning equipment with older, manual equipment.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in December was above that in November and a year ago. At ski resorts, above-normal snowfall and colder-than-normal temperatures boosted winter bookings above year-ago levels. Contacts expected better-than-normal business and unchanged prices during the next six months.

Port Activity: Representatives at District ports indicated that both export and import levels in November were unchanged from October and a year ago. They 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 lower in December than in November, although demand was unchanged from a year ago. Contacts said that temporary workers' wages rose faster than the general price level during the past year. They expected greater-than-usual demand for temporary workers to continue to push up wages during the next six months.

Finance: District financial institutions reported that lending activity changed little during the past six weeks. Interest rates were lower on consumer, commercial, and mortgage loans. Demand rose for mortgage loans, was unchanged for consumer loans, and fell for commercial loans.

Residential Real Estate: According to a telephone survey of District real estate agents and homebuilders, residential real estate activity declined in late November and December. Housing starts, permits, and prices were down. Many contacts in the Washington, D.C., area attributed declining activity to uncertainty resulting from the government budget negotiations. Prices of building materials and wages increased slightly. Several contacts believed that the recent drop in interest rates had brightened their business prospects for 1996.

Commercial Real Estate: District contacts reported that commercial real estate activity picked up in December. Leasing activity and commercial rents increased, and vacancy rates decreased. The availability of prime office space continued to tighten in most of the District, and many contacts reported shortages. In most of the District, there was little new construction; respondents in Virginia, however, reported increased activity.

State Revenues: In a mail survey, state government analysts indicated that District economic growth appeared slower in December. Compared with November, revenues for December suggested slower growth in the District of Columbia, Maryland, and West Virginia and steady growth in North Carolina, South Carolina, and Virginia.

Agriculture: District agricultural activity progressed at a normal pace in recent weeks, according to analysts contacted by telephone. Fall and early winter harvesting activity was completed for most crops. Contacts said that above-normal rainfall limited small-grain planting activity, and below-normal temperatures hampered the crops' development. Respondents reported that hay feeding began earlier than normal, but they believed that hay supplies would be adequate, barring an unusually harsh winter.

SIXTH DISTRICT - ATLANTA

Overview: Reports from contacts in the District suggest that the Southeast economy continued to grow modestly at the end of 1995 amid increasing signs of deceleration. Retail sales were generally below retailer's expectations and just slightly above last years' levels. Manufacturing slowed at the end of the year. On the other hand, tourism and business travel were described as strong throughout the District. New home construction remained active seasonally in most areas. Commercial and multifamily construction continued to rebound. Bankers reported that overall loan demand is steady. Most contacts reported only modest wage and price pressures.

Consumer Spending: District retailers generally reported that sales during December were below their expectations. However, most contacts noted that overall holiday sales did exceed last year's strong levels. The most positive reports came from upscale retailers. The busiest shopping period fell during the ten days before Christmas and was dominated by heavy discounting. Most retailers reported that they are comfortable with current inventory levels which were initially lean going into the season. They noted that the best-selling items during the holiday season were computers, electronics, fine jewelry, and cosmetics. Home-related products had a strong showing in New Orleans and in the Florida Panhandle because of weather-related replacement purchases. Generally, retailers' outlook for the first quarter is subdued with little year-over-year growth anticipated.

Manufacturing: Factory operations have slowed since the last Beigebook, according to industry spokespersons. Recent reports have noted general declines in shipments and production. A larger number of contacts also reported a decline in new orders. Most manufacturers anticipate modest near-term output declines and do not expect to increase payrolls significantly. However, several manufacturing firms expect to increase capital expenditures. The

District's apparel sector continues to lose ground in competition with producers from abroad. Suppliers to the auto industry noted slowing new orders and shipment volumes, reflecting the sluggish auto market. Restructuring in the paper industry is resulting in labor force cutbacks at some regional plants. NASA cutbacks are expected to result in the loss of a substantial number of jobs at the Kennedy Space Center. More positively, contacts anticipate that rebounding home sales and construction will boost residential carpet and building materials production. Several regional chemical producers noted increases in exports.

Tourism and Business Travel: The tourism, convention, and business travel industry remains one of the District's most rapidly growing sectors, according to most contacts. Occupancy rates at central Florida hotels are relatively high, and new attractions are expected to lure more conventions to the area in the next year. In Miami, contacts report that the number of European visitors is up. Snowbirds are flocking to Southern Florida in record numbers, although a recent interlude of bad weather temporarily damped the number of arrivals. Advance bookings at south Florida hotels have been strong enough to suggest that tourism will continue to grow well into the new year. According to contacts along the Mississippi Gulf Coast, casino gambling continues to be a catalyst for new economic development in the area.

Construction: While home sales and construction were below strong year-ago levels in December, most contacts still felt that local markets were relatively active. Inventories continue to run low in several markets, stimulating new home building. Contacts have witnessed a rise in home prices, with escalating new home prices pushing all home prices higher. Overall, District contacts are optimistic concerning prospects for the first quarter, in large part because of the low mortgage rate environment. Most Realtors and builders anticipate gains over last year's weak first quarter results.

Contacts from across the District described commercial and multifamily real estate markets as growing robustly. Low vacancy rates and higher rents continue to propel new apartment and office development. While most office and retail projects continue to be build-to-suit, contacts also noted a number of speculative projects that have gotten underway in recent months. Most real estate professionals contacted predict that the pace of new commercial and multifamily construction will remain strong well into 1996.

Financial Services: The majority of contacts characterized overall loan demand as steady. Commercial lending continues to be stronger than consumer lending in most areas. As 1995 came to a close, activity in commercial, industrial, and real estate lending generally was reported to be growing. However, most bankers noted that consumer lending was weak, particularly auto lending.

Wages and Prices: Most contacts continue to report little change in prices received for finished goods and prices paid for materials. Those reporting materials price increases were mainly confined to the chemical or apparel industries. Fewer contacts than in the last Beigebook think that prices will increase for materials or finished goods over the next few months. Wages are generally reported to be remaining stable in the region.

SEVENTH DISTRICT--CHICAGO

Summary. The Seventh District's economy expanded at a modest pace through December, continuing a pattern of slowing economic growth in recent months. Most retailers reported a "disappointing" holiday season despite a surge in consumer spending toward the end of December. Harsh weather in December slowed real estate transactions, but District sources maintain that the market remains strong and are very optimistic for the new year. Despite weakness in auto-related industries, overall manufacturing activity rebounded slightly after slowing in October and November. Banking contacts suggested that December's consumer and business loans continued to grow but at a slower pace than in November. Labor markets remained tight throughout the District with few signs of softening.

Retail sales. Despite retail sales showing improvement throughout December, a majority of District contacts reported that sales were below their expectations. Competition continued to be quite intense, and aggressive promotional activity and price reductions were needed to boost sales. Mall sales in particular appeared to do better than other types of retailing, with "one-stop shopping" being cited as a primary reason for increased sales this year. One general manager of a suburban mall reported double-digit sales growth (year-over-year), although these results were viewed as much higher than other malls in the area. Several retail contacts stated that sales results regionally were roughly comparable with national results. However, one major retail chain reported that sales gains in the Midwest region were above the store-wide average, noting that bad weather in early December actually boosted auto parts-related sales. Overall inventories for this retailer were viewed as within plan at year-end. A mail-order merchandiser also reported inventories at satisfactory levels. However, a District banker expressed concern that some of their retail customers were carrying heavier-than-planned inventories.

Housing/construction. The housing market remained strong through the fourth quarter and first week of January despite severe winter weather. Both new and existing home sales experienced a normal seasonal slowdown from November to December. Existing home sales were stronger than expected in November, but several realtors in the District noted an extraordinary number of cancellations of showings in December due to the weather. However, they also reported that buyers were back out in force in early January. All realtors contacted reported that buyers outnumber sellers in their markets and one realtor expressed concern of losing buyers because "the right home isn't on the market." A December survey of homebuilders suggested continued strength in the District's new home market as well as continued optimism for the next six months. Commercial activity was strong in December and early January, according to several District sources, with notable strength on the industrial side. Moreover, December's office vacancy rates in most metropolitan areas fell in year-over-year comparisons.

Manufacturing. Manufacturing facilities generally continued operating at high levels over the last six to eight weeks, but weakening activity was noticeable in auto-related industries. The Chicago, Detroit, and Milwaukee purchasing managers surveys for December all indicated expanding orders and production. However, the auto component of Detroit's survey and purchasing managers surveys for western Michigan showed contracting activity. An energy supplier to southern Michigan reported a decline in year-over-year sales to industrial customers, mainly auto-based companies. Several auto suppliers reported that order intake rates for December were flat to down from the previous month, after accounting for normal seasonal variations. However, a diversified producer of capital goods in the District stated that orders increased in most of their market segments, with the exception of material handling. A steel producer reported that order rates at integrated mills were coming in quite strong, mostly for structural steel. Several steel producers attribute the recent pickup in demand to steel service centers restocking their inventories. New mini-mill capacity expected in the first quarter

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of 1996 may take market share away from both imports and integrated mills. Moreover, recently announced price increases for sheet steel are not expected to hold once the new mini-mill capacity is available.

Banking. Contacts around the District reported that lending activity finished the year strong, but several bankers noted a distinct slowdown in the last six weeks. On the consumer side, mortgage lending remained at high levels and most sources reported a sharp increase in refinancing activity in December. While overall levels remained quite low by most standards, one banker cited an increase in consumer delinquencies and bankruptcies. Business loan demand remained generally strong but growth appeared to be leveling off. A widely cited source of softening loan demand was auto-related industries. However, several major regional banks reported accelerating lending activity in those areas of the District with strong local economies. Bank contacts noted that virtually all industrial lending was for new investment with little evidence of an increase in inventory financing.

Labor markets. Labor markets remained tight through December although some ebbing of demand for retail and auto-related workers was evident. The greatest concern of most contacts continued to be labor shortages. Several placement specialists report that unfilled orders for both permanent and temporary help remained extraordinarily high in the fourth quarter, with shortages broad-based across occupations and industries. A regional manager of a fast-food restaurant chain reported that labor shortages remain prevalent and that wage-related margin pressures were just starting to lead to higher consumer prices. Auto-related and retail trade industries showed some signs of softening demand for labor, but this softening is confined to a few metropolitan areas and market segments. The employment component of purchasing managers surveys around the District suggested modest softening in the demand for manufacturing workers in December, but the index numbers are consistent with steady employment levels.

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EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to grow at the slow-but-steady pace indicated in our last report. District retailers report that holiday sales were slightly above last year's levels, but the growth rate was below that of last year. Relative to previous reports, few plant expansions or closings were announced in recent weeks. Most firms report moderate sales increases. Most of the growth in residential construction is occurring in the southern part of the District, while much of the District's nonresidential construction is focused in Arkansas and Missouri. Total deposits and loan demand at large District banks increased during the last two months of 1995. The District's winter wheat crop appears to be in fair-to-good shape.

Consumer Spending

Most District retailers report that same-store holiday sales were up between 2 and 3 percent over last year's season, with a few reporting increases of up to 6 percent. These rates, however, are below last year's average increase of between 6 and 7 percent. Discounters posted slightly higher sales growth than malls and large department stores. Because consumers seemed to wait for last-minute sales, the holiday season started off sluggishly, pushing many of these sales gains to just before and after Christmas. Most retailers, however, used less pre-Christmas discounting to stimulate sales than in prior years. Electronics, household items, jewelry and toys were the strongest sellers. Anticipating soft holiday sales, retailers adjusted their orders accordingly; as a result, inventories are generally at or below their desired post-Christmas levels. Many retailers noted a greater use of credit and layaway for purchases. Most expressed mixed expectations about the current quarter, with discounters generally more upbeat.

Manufacturing and Other Business Activity

District firms report that the pace of economic activity has remained relatively unchanged from the previous reporting period. Some contacts report moderate increases in sales and employment. Fewer announcements than in prior reporting periods about new plants, plant expansions or closings were noted, but some of these are noteworthy.

A Japanese automaker announced that it will build its first U.S. pickup truck plant in southern Indiana. The \$700 million plant will open in 1998 and employ at least 1,300 workers. State incentives for the plant amount to almost \$30 million. A firm distributing industrial uniforms reports that it will bring more than 300 jobs to western Kentucky when it opens a new distribution center there within the current year.

Moderate sales increases are reported by some contacts. One from northwest Mississippi reports that businesses targeting specialty markets, like gourmet stoves or home decorating, have exhibited strong growth in the last few months. Another in eastern Arkansas reports that sales at some local manufacturing firms are up between 14 and 21 percent year-to-date through late 1995 over the same period last year. A building materials supplier, though, reports sales through late 1995 are essentially unchanged from the year before. A dealer in heavy farm equipment remains upbeat even though sales in 1995 were slightly below 1994's level because 1994 was an exceptionally good year.

A recent survey of firms in various cities nationwide by a temporary employment agency reports that 13 percent of St. Louis firms and 33 percent of Memphis firms plan to hire new employees during the first quarter of this year. Nationally, 20 percent of surveyed firms indicated they will hire this quarter. Counterbalancing these reported expansions, a major St. Louis-based retailer, that is currently reorganizing under Chapter 11, announced it will close

500 stores nationwide, 16 of which are in the St. Louis area, as part of its bankruptcy resolution.

Real Estate and Construction

Residential building permits on a year-to-date basis through late 1995 were above 1994's levels in only four of the District's 12 metropolitan areas. Three of these four areas are in the southern part of the District. In five of the remaining eight, the gap between the two years has been narrowing recently. The number of nonresidential building permits is well above 1994 levels and continues to rise in half of the District's metropolitan areas. Arkansas and Missouri cities are experiencing the strongest growth in nonresidential construction.

Banking and Finance

Loan demand at large District banks appears to have picked up in the last two months of 1995, after being relatively soft the previous two months. Total loans outstanding at 11 large District banks rose 2.3 percent from mid-October to mid-December, after increasing just 0.7 percent from mid-August to mid-October. All major categories of loans—consumer, real estate and commercial and industrial—posted increases in the October-to-December period. Total deposits at these banks increased 1.7 percent from mid-October to mid-December compared with a 1.3 percent increase in the prior two-month period.

Agriculture and Natural Resources

The winter wheat crop in most areas of the District appears to be in fair-to-good condition. Although seeding of the crop occurred under less than optimal soil moisture conditions last fall, recent rains and snowfall have been beneficial. Some isolated areas, however, are still reporting dry soil conditions. Southern pine lumber mills report that year-to-date orders and production for 1995 are modestly below 1994's levels.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy continues to move forward, but activity in some sectors is feeling a chill. Several factors remain positive. Continued tightness in labor markets indicates that many firms are not experiencing any slackening in activity. Farm income and spending show improvement, and petroleum exploration and metal mining are strong. Winter tourism businesses are reaping the benefits of favorable weather for snowmobiling and skiing. There are few indications of price pressures.

But while the economy continues to grow, the rate of growth apparently is slowing due to weakness in a number of areas. Builders' order books are getting thinner. Consumer spending on vehicles and general merchandise is subdued. Manufacturers describe diminishing orders for a variety of goods. Output of paper and other forest products is slowing in response to lower demand.

Construction

"Builders have some work, but there is no backlog any more," is how one Minnesota lumber dealer characterizes the construction sector. While it is difficult to quantify trends in the trough of the winter slowdown, the consensus across much of the Minneapolis district is that the 1996 construction season will be somewhat slower than in the preceding three years. However some areas, particularly Fargo, N. D., and western Montana, report brisk construction activity.

Natural resource industries

Natural resource industries are generally robust, with the exception of the forest products sector. Oil and gas exploration continue to boom. The drilling rig count of 19 in North Dakota in early January is double that of a year ago and over three times that of early 1994. Output at iron, copper and gold mines shows only seasonal slowing.

But forest product production is slowing. "A number of paper mills are scheduling some selected downtime," says the head of one Minnesota logging firm. Paper prices are dropping for the first time in two years and many mills are slowing production. Reduced demand reportedly is slowing output in other forest product areas. Lumber output has slowed, but oriented-strand board producers generally continue to produce at capacity. They face lower

prices which industry sources attribute to a combination of new capacity in other regions of the country and to somewhat reduced building activity compared to a year earlier.

Agriculture

As farmers plan for the 1996 season, there is general optimism about crops, but the outlook for livestock remains somber. Bankers responding to a Minneapolis Fed survey of agricultural credit conditions for the final quarter of 1995 generally described farm income and spending as up from earlier in that year, but still somewhat below normal levels. A majority expected higher crop prices to prevail into 1996, and many expected continued improvement in farm spending in early 1996. However, bankers in areas where cattle production is important stress the continuing financial pressures on their customers, and expect little improvement in the new year.

Other developments in agriculture include 10 to 40 basis point declines in farm interest rates from the preceding quarter. Land prices are generally up 2 percent to 4 percent over year-earlier levels. Many sources cite continuing uncertainty about federal agricultural programs as a disincentive to longer-term planning and investment by farmers. In midwinter, soil moisture levels are favorable and the winter has not been unduly hard on livestock.

Manufacturing

“We are sort of treading water, and we don’t see it getting better very soon,” says a business analyst at an electronic device manufacturer in Minnesota. The outlook is even less positive for a maker of components for trucks and heavy equipment: “Our new orders are just falling off a cliff,” says the company’s CEO. The bloom is definitely off the rose for many manufacturers; earnings of publicly traded corporations are slowing and industrial electrical use in Minnesota and South Dakota is falling below five-year trends in several categories. Nonelectrical machinery production seems particularly slow.

Consumer spending

“In a word, it’s been difficult,” says a representative of one Minneapolis-based retailer in describing a lackluster holiday sales season. Several other large retail chains echo that view, and the consensus for the Minneapolis-St. Paul area is holiday season sales of general merchandise sales were below retailers’ plans and only modestly above 1994 levels. But news from some smaller cities across the district is more positive. Sioux Falls, S. D.,

Marquette, Mich., and Billings, Mont., all report strong holiday sales. There also seems to be variation by product category. Apparel is described as particularly slow and toy sales somewhat below expectations, while stores selling home computers and electronic items fared somewhat better. Some reports indicate that smaller specialty stores did somewhat better than mass merchandisers, as consumers spent less but more selectively.

Auto sales show little change from late fall, generally slow with some regional variation. Sport utility vehicles and pickup trucks show the most strength; conventional sedan sales are the weakest.

Tourism

Snowmobilers and skiers have been out in force as early snow boosted tourism in the eastern part of the district. Business at tourism establishments is up 5 percent to 6 percent in the Upper Peninsula of Michigan for the last quarter of 1995 compared to a year earlier, according to one official. A northern Wisconsin town saw a 50 percent increase in tourism activity in December compared to 1994 when snow was sparse. Business at a ski resort in northern Minnesota is up 10 percent to 15 percent for the season. An executive of a ski resort in Montana reports a slightly softer market due in part to the Canadian exchange rate. "People are tightening a little," she says. Montana businesses adjacent to Glacier and Yellowstone national parks complain that the federal government shutdown of most park activities is hurting their winter business.

Employment, wages and prices

"It is still hard to get good workers," reports a North Dakota plant manager expressing a common sentiment in the district. Unemployment rates remain well below national averages, and many businesses employing skilled technicians or entry-level workers find it particularly difficult to fill all positions. Few employers report large across-the-board wage increases but some are extending benefits to previously uncovered workers.

News of price decreases outnumbers that of increases. Reductions in paper and packaging prices are reported for the first time in 18 months. Ferrous and nonferrous metals are also reportedly down from a year ago and there are no problems in deliveries. Grain prices remain high, and soybean prices have increased since harvest, but continuing low livestock prices have kept food price increases low. Gasoline and other motor fuels continue about 5 cents per gallon below year-earlier levels.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy continued to grow at a moderate pace during the past month. Retail sales held steady at a level slightly above last year's sales, and manufacturers continued to operate at high levels of capacity. Homebuilding activity weakened slightly. Agriculture's income prospects improved, and energy activity stayed sluggish. While manufacturers report rising prices for some materials and continued shortages of skilled labor, wages and retail prices held steady.

Retail Sales. Most retailers report sales were unchanged last month from the month before but remained slightly above last year's level. Sales of home furnishings and electronic products were strong, while apparel sales remained weak. Retailers generally expect sales to remain unchanged or to rise slightly during the first quarter of 1996. Most retailers indicate their inventories are in line with expected sales, although a few have plans to reduce inventories. Automobile dealers report sales last month remained relatively sluggish, which is normal for the season. Most dealers expect sales to increase modestly during the next few months.

Manufacturing. District manufacturers continued to operate at high levels of capacity during the past month. None report production bottlenecks due to capacity constraints, although a few continue to report shortages of skilled labor. Most manufacturers indicate manufacturing materials were readily available, and little change in the availability of materials is expected in the next few months. While most manufacturers were satisfied with inventory levels, some were trimming stocks.

Housing. Most builders report housing starts declined slightly last month and remained below last year's level. While construction of single-family homes remained sluggish,

construction of multifamily buildings strengthened. Sales of existing homes remained flat or declined slightly in most of the district during the past month and about equaled last year's sales. Builders report the unsold inventory of new homes declined in recent months, in part because winter weather slowed construction activity. Home prices continued to rise, especially for low-priced homes that were in the shortest supply. Building materials were readily available, and builders expect little change in the availability or prices of materials in the next few months. Most mortgage lenders expect mortgage demand to remain strong in the months ahead.

Banking Most banks report loan demand was unchanged last month, leaving loan-to-deposit ratios unchanged from the month before. Some banks report gains in commercial and industrial loans, agricultural loans, and commercial real estate loans. Consumer loans, home mortgage loans, home equity loans, and residential construction loans held steady. Security investments also held steady.

Total deposits rose slightly last month, but changes varied among different types of deposits. MMDAs increased, while small time and savings deposits decreased. Demand deposits, NOW accounts, IRA and Keough accounts, and large CDs held steady.

Half of the respondent banks reduced their prime rate last month, and most of the others expect to reduce their prime rate in the near future. While almost half of the banks also reduced their consumer lending rates, most of the others do not plan to lower consumer lending rates in the near term. Lending standards were unchanged.

Energy. Prices for crude oil and natural gas have increased recently, but not enough to boost activity in the district's energy industry. The average number of drilling rigs operating in

the district during the first three weeks of December was unchanged from the month before and remained well below the year-ago level.

Agriculture. The district's winter wheat crop remains in fair to poor condition, due to unusually dry weather. The wheat crop's uncertain yield prospects, combined with tight global inventories and strong export demand, have pushed crop prices to the highest levels in years. The recent surge in crop prices partially offset the financial impact of a disappointing 1995 crop in much of the district.

Profits in the district cattle industry remain weak. After heavy losses during much of 1995, feedlots now report modest profits due to low prices for young feeder cattle and a recent increase in prices for fed cattle. The lower feeder cattle prices, however, have resulted in continued losses for many district ranchers.

Year-end credit reviews at agricultural banks revealed some decline in the quality of farm loan portfolios. The decline was due to heavy crop losses in some parts of the district and weak profits in the cattle industry. Still, agricultural bankers generally expect farm incomes to improve in 1996. Most bankers anticipate little improvement in cattle industry profits, due to high feed costs and large supplies of beef and other meats. But the bankers expect crop producers to receive a boost from higher crop prices.

Wages and prices. Labor markets remain tight in much of the district, and some manufacturers report shortages of skilled labor. Reports of upward pressure on wages are few and widely scattered, however. Manufacturers report rising prices for some materials, especially plastics and packaging materials. Prices remain stable at the retail level, however, and retailers anticipate no significant price increases in the next few months.

ELEVENTH DISTRICT--DALLAS

The Eleventh District economy expanded at a slightly slower pace in late November and December, restrained in part by weak retail sales and sluggish orders in several manufacturing industries. Construction activity continued to increase, due to lower mortgage rates and strong demand for commercial space, and loan demand rose at a steady pace. Demand for business services accelerated, with strong demand from high-tech, real estate and lending companies. Energy markets improved as colder weather caused a surge in prices; however, the higher prices are not expected to be permanent. Farm income improved slightly as prices for crops and beef cattle rose.

Despite recent increases in energy and agricultural prices, there were few reports of **price pressures** among respondents. Retailers reported significant discounting, and prices were reportedly falling for paper products, petrochemicals, semiconductors and lumber. **Wage pressures** remained prevalent in the Eleventh District, although most contacts said they had not been passed on in the form of higher prices. Service industry contacts said labor shortages remained for electricians, engineers, software developers, accountants, temporary workers and long-haul truck drivers. In addition, many district manufacturers cited a lack of adequately skilled workers as a major concern.

Orders were somewhat weaker for some district **manufacturers** in the past six weeks. Contacts in the high-tech sectors said orders continued to rise at strong rates overall, but semiconductor manufacturers noted a slight deceleration from the torrid pace of growth noted in previous reports. Orders for construction-related products were flat to up, with steady growth in orders for brick but flat demand for residential lumber products. Lumber producers in the Eleventh District said lower prices for Canadian imports were reducing their market share. Orders for paper products continued to soften, and respondents expected selling prices to fall further as they try to

reduce inventories. Apparel producers said demand remained flat due to soft retail conditions in recent months. Food industry contacts said demand was up slightly, with the exception of orders for low-fat products which continued to increase strongly. Commodity chemical markets continued to weaken, with production and consumption down in the fourth quarter. Refiners, however, pushed output to maximum levels in the last two months to take advantage of a recent surge in gasoline and fuel oil prices. Demand for oil field equipment and machinery remained flat at good levels.

Demand for **business-related services**, such as temporary, accounting and legal services, picked up in recent weeks. Respondents cited real estate, banking and high-tech industries as sources of increased demand. Hiring increased at legal and temporary firms but was only flat to slightly up at accounting firms because of shortages of entry-level and experienced CPAs. Temporary firms reported a tighter labor market for semi-skilled workers, with rising wages cutting into profit margins but not leading to higher fees. Nonetheless, respondents remained optimistic about near-term business conditions.

Contacts in the **transportation services** industry reported flat demand overall, although a seasonal rush in December boosted cargo volume at some firms. Heavy competition in the trucking industry and an unstable Mexican economy continued to be cited as sources of weakness.

Eleventh District **retail sales** remained weak in December, and heavy discounting hurt profits, according to most contacts. Department store and discount store contacts said sales picked up before the Christmas holiday, but were not enough to offset slow sales earlier in the month. Most retailers said the Texas/Mexico border region continued to be one of the poorest performing areas in the country. Outlooks for 1996 were guarded, and several respondents said they may scale back the number of new store openings this year. Auto sales rose in November and early December, and contacts expected 1995 year-end sales to be up moderately over 1994.

Eleventh District **financial institutions** reported steady growth in loan demand over the past

six weeks. Demand for residential real estate loans was flat, and contacts said many consumers are waiting for mortgage rates to bottom out before refinancing. Commercial real estate loans increased significantly, and several contacts said consumer loans had risen. Contacts were positive in their outlook for 1996.

Construction and real estate contacts reported steady growth over the past six weeks. Demand remained strong for commercial space, and there were a few reports of speculative construction, mostly for industrial warehouse space. Demand for office space continued to rise and several respondents expected improvement in downtown areas in 1996 due to a lack of contiguous space in suburban areas. In addition, contacts expected hotel construction to pick up significantly in 1996. Lower mortgage rates kept demand for new and existing homes at good levels, but some contacts said buyer traffic had slowed recently, most likely a seasonal result. Respondents said apartment occupancies remained at very good levels; however, concerns of overbuilding had caused some contacts to curtail plans for new projects.

Eleventh District **energy** conditions improved in November and December as colder-than-normal November weather and a series of December winter storms combined to push energy prices up. After hovering between \$17 and \$18 per barrel for the previous five months, the price of crude oil moved to a range between \$18 and \$20 per barrel in late November and December. Fuel oil and natural gas prices were similarly pushed up by cold weather.

According to contacts, **agricultural conditions** improved over the past six weeks, and prices rose for most farm products. Respondents said livestock conditions were good. On a less positive note, dry weather and insect problems hurt the wheat crop. The Texas All Farm Products Price Index rose 3 percent from October to November, with a strong increase in beef cattle prices.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Reports from the 12th District indicate some signs of moderation in District economic activity entering 1996, although robust performance in several states continues. Holiday retail sales figures generally were disappointing, notably in California. There are signs of weakening demand in a few manufacturing industries, but the electronics sector remains strong. Loan activity is moderate to strong, with reports of a significant expansion of consumer loans in Southern California.

Business Sentiment

District respondents revised downward their expectations for national and regional economic conditions between late November and early January. The fraction of respondents expecting slowing GDP growth and rising national unemployment increased. Among respondents, 38 percent now predict slowing GDP growth and 49 percent predict higher unemployment over the next year, up from 8 percent and 18 percent in November. However, none of the respondents predicts a recession in 1996. Most respondents continue to expect that District growth will be more rapid than in the nation as a whole, but they are somewhat pessimistic about future housing starts and consumer spending in the District, with higher percentages of respondents predicting weakening in these areas compared to November.

Retail Trade and Services

Holiday season sales reports are mixed. Respondents in California, Arizona, Washington, and Hawaii generally report weak sales growth relative to the 1994 holiday season. Reports from other states vary, although overall sales appear to be below expectations, with only modest increases in boom states such as Utah, Oregon, and Nevada. Strength in retail electronics sales was generally offset by weakness in sales of other goods, particularly apparel.

Other reports suggest that some small firms were hurt by the lack of Small Business Administration loans during the federal government shutdown. Tourist trade also was hurt by the shutdown, which reduced government-sponsored conference travel and sales for businesses in or adjacent to National Parks. Skiing and related hotel revenues remain lower than usual due to continued unseasonably mild weather in traditional winter tourist regions.

Manufacturing

Reports on District manufacturing activity are mixed. Utah machinery producers continue to benefit from strong sales in Utah, Nevada, and Idaho, and demand for skilled labor in Utah -- particularly machinists -- continues to outstrip supply. However, one Nevada respondent noted that declining iron and steel prices are a troubling sign for future manufacturing activity. Several respondents noted continued excess capacity and rising inventories at some San Francisco Bay Area semiconductor manufacturing firms. General electronics demand, however, is reported to be strong in the San Francisco Bay Area and in Washington state, where order backlogs are high and components remain in short supply.

Demand for wood products is off in the Northwest, due to cutbacks in construction activity nationally.

Agriculture and Resource-Related Industries

Production costs for grain growers remain very high. The resulting high grain prices are squeezing dairy and cattle producers, causing high supply and low prices for cattle in the District. In Central California, final cotton yields were very low and growing costs high, due to insect problems. In Idaho, a respondent notes that national demand for fishery products is low and prices are declining. A more upbeat report from Nevada suggests that strong copper prices and steady gold prices are sustaining the metal mining industry, which experienced substantial employment growth over the second half of 1995.

Real Estate and Construction

Reports suggest mostly solid residential building and sales activity. Home loans and housing starts reportedly are increasing in California. Construction activity is holding steady in Arizona, but the construction labor market is not as tight as it was earlier in the year. In Washington, a respondent notes that real estate loans have increased significantly over the last two months, particularly for multi-family housing. Prices are rising in many areas of Washington and Oregon, but they have reportedly dropped significantly in Boise, Idaho and in south central Washington, in the latter case due to cutbacks at the federally funded Hanford nuclear facility.

Financial Institutions

Solid bank performance continues throughout most of the District, although employment in the financial sector continues to shrink. Bank profits reportedly are high in Utah and Idaho, and in Washington conditions are generally good, albeit with signs of slight downward pressure on loan margins. Real estate loan demand reportedly is strong throughout the District. In Southern California, rapid expansion of consumer loans is reported, accompanied by only slight moderation in recent solid growth in commercial and industrial lending. In Central California, insurance employment is expected to increase due to the opening in Bakersfield of a new regional office for a large national insurance company.