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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

September 1996

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

SEPTEMBER 1996

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The National Summary*

Inflation indicators from the District reports were varied and generally inconclusive, although there appears to be greater upward pressure on wages than on prices. Business activity in most Districts is reported to be generally good and expanding moderately.

Wages and Prices

Reports of substantial price increases were notably absent from many District summaries. Several Districts indicated that consumer prices are either stable or rising only slightly (Boston, New York, Cleveland, and Kansas City). Price increases were cited for a wide variety of industrial commodities, but these appear to be confined to a small set of markets, such as lumber (Boston, Richmond, Chicago, and Dallas), steel (Cleveland and Chicago), and various agricultural commodities including grains and dairy products. Several Districts also noted price declines in a few areas, especially memory chips (Boston and Dallas).

Wage gains have tended to outstrip price increases, however. The Richmond District sees “widespread” upward pressure on wages, and rising labor costs were also noted in the San Francisco District. The Boston District’s wage and salary increases are in the 2% to 4% range. In Cleveland, wage growth is reportedly 2% to 3%, although “the cost of new hires is accelerating.” This is consistent with the Minneapolis report, in which

* Prepared at the Federal Reserve Bank of Cleveland and based on information collected prior to September 4, 1996. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

several sources observed “upward pressure on entry-level wages.” The Chicago District notes that small retailers in Michigan were “raising their starting wages to attract qualified workers,” but most contacts reported no discernible acceleration in wages. In the remaining regions, upward wage pressures were characterized as either “subdued” (as in the New York and Chicago Districts), or “scattered” (Atlanta, Kansas City, and Dallas).

None of the Districts indicated inflationary pressures are subsiding and at least one report noted that price increases are expected to intensify. According to the San Francisco District, although about 55% of respondents see inflation remaining constant over the next 12 months, “nearly 40% expect [inflation] to accelerate.”

Labor Markets

Many District reports indicated pockets of labor market tightness, and in a few regions, this tightness appears to be broadly based. In the Richmond District, tight labor markets are “widespread,” labor markets “remained tight in much of the [Kansas City] District,” the Chicago District’s labor markets are “tighter than the nation as a whole,” and tight labor markets “continue to be a concern for most contacts” in the St. Louis District. Elsewhere, “some reports of labor shortages” were noted in the San Francisco District, and a number of District summaries contained scattered indications of labor shortages in entry-level positions, retailing, and some skilled occupations. Low unemployment rates were noted in the Cleveland and Minneapolis Districts.

Business Activity

Overall, the District reports reveal a moderately expanding economy, with only a few exceptions: Growth in the San Francisco District is characterized as “strong,” and the St. Louis region has “continued to moderate slightly.”

Manufacturing

In most Districts, industrial activity is either expanding or holding steady at a high level. Richmond reports “substantially faster” manufacturing growth. Although a moderation in industrial production growth is seen in the Cleveland and Kansas City Districts, both report continued high levels of production. Orders growth is indicated by many Districts (Philadelphia, Cleveland, Richmond, Chicago, and Dallas). Notable exceptions include continued cutbacks or closings in apparel and textiles (Atlanta and St. Louis) and drop-offs in heavy truck production (Cleveland and San Francisco). Only a few constraints on industrial capacity are reported, and capacity increases are occurring in the Boston and Atlanta Districts.

Retailing

The back-to-school shopping season got off to a good start, and several Districts indicated that sales are meeting--or exceeding--expectations. A good number of Districts reported strong apparel sales (Boston, New York, Cleveland, Atlanta, and Kansas City), although these vary by type and outlet. Household appliances and other “big-ticket” items are a noted weakness in two reports (Cleveland and Chicago).

Overall, inventories are considered “in line with sales,” and the Boston District reported that some retailers are “cautiously building inventories.” While auto sales are generally described as flat or declining slightly, thin car stocks are seen as a contributing factor (Cleveland, Kansas City, and Dallas).

Real Estate and Construction

Building activity remains strong in most parts of the country. The Chicago District reports “robust” construction, Minneapolis sees all types of construction as “brisk,” and Kansas City indicates “solid” home building activity. The San Francisco District reports “tight” residential and commercial real estate markets in most areas, and office vacancy rates are low in parts of the New York, Philadelphia, Minneapolis, and Dallas Districts. Construction and sales vary more for residential properties than for commercial ones. Boston reports the residential real estate market to be in good shape across much of New England. Residential real estate has improved in the New York District, and inventory problems are noted in downstate New York and Massachusetts. However, softer residential markets are reported in the Cleveland, Richmond, and Dallas regions.

Banking and Financial Markets

Loan demand appears to be holding steady at a generally high level. Exceptions to this trend include the Richmond District, where overall lending has slowed slightly, the Atlanta District, where demand is “moderate,” and the St. Louis District, which saw slight declines in total loans between mid-June and mid-August. Borrowing activity is mixed by category. Several Districts indicate a moderation in commercial lending (New York,

Richmond, and St. Louis), but some also see relatively strong commercial lending growth (Chicago and San Francisco). Consumer borrowing reports are equally varied. While some deterioration in credit quality and increases in delinquency rates were noted, no concerns about overall debt quality were expressed.

Seasonal Industries

Agricultural conditions vary widely by District, but most regions report better crop conditions today than earlier in the summer. Still, a delayed planting season has resulted in underdeveloped crops in many areas, and there is concern that crops could be threatened in the event of an early frost (Chicago and Minneapolis). The Richmond and Kansas City Districts report very good corn and soybean crops. High feed costs are contributing to livestock liquidations, and milk production is down substantially from last year (Chicago and Minneapolis).

Districts with a significant tourist trade reported mixed results for the summer season. "Ticket revenues for the Olympics, overall, exceeded projections," according to Atlanta. That District also notes that while tourism in central Florida remains strong, its other, non-Olympic venues have been disappointing. In New York, hotel occupancy rates are near record highs, and the San Francisco District indicates strong hotel occupancy and other tourism trade in several states. The Richmond region had "below average" tourism revenues in the Atlantic coastal areas, and a "weak, but not disastrous year" for tourism was reported in the Minneapolis District.

FIRST DISTRICT - BOSTON

The First District economy continues to expand as the summer draws to a close. Manufacturers and personnel supply firms report solid growth. Most retail contacts indicate that sales were better than expected in August. Investment management firms are growing modestly. Residential real estate markets in much of New England are in good shape. With exceptions, input and selling prices are said to be stable while wages and salaries are up 2 to 4 percent.

Retail

Most retail contacts in the First District are upbeat about the economy and report higher-than-expected sales, particularly in August. Retailers of high-priced apparel and home building materials cite sales increases from year-earlier levels as high as 37 percent in July and August; by contrast, two respondents note sales declines of 3 to 9 percent during the summer months compared with a year ago. Retail respondents are cautiously building inventories in anticipation of holiday sales, and they expect 2 to 10 percent sales gains for the remainder of the year.

Vendor and customer prices remain stable; by exception, the retail price of leather has risen 5 to 10 percent and the cost of lumber continues to move up. Contacts note that offering fewer sales promotions has generally improved gross margins; profits, however, are mixed for the first half of the year. Capital spending increases this year are limited primarily to improvements in technology. Only one respondent cites a major reduction in employment; most others have level job counts and anticipate wage increases of 2 to 4 percent for the year.

Manufacturing

Most manufacturing contacts in the First District report that overall sales are solidly higher than a year ago. Incoming orders generally suggest a continuation of current trends. Results for similar products vary across firms, however. For example, one producer reports continued double-digit

increases in the demand for plastic parts, while another reports sharp declines. Such unevenness extends to the medical, industrial, and utility equipment markets.

On the whole, inventories are reported to be roughly in line with company targets. However, a contact in the paper industry is curtailing production in order to eliminate excess inventories. A producer of industrial machinery intends to add to inventories, while a metals fabricator reports being unable to do so because the company is operating at full capacity.

Manufacturers report that selling and input prices generally are little changed from a year ago. By exception, the price of memory chips has fallen by half in the last few months. Thus far, this development has not led to an intensification of the downward trend in computer prices, however. Paper prices have recovered a bit from their recent lows but remain far below year-ago levels. Plastics prices have subsided after rising earlier this year, while some metals prices continue to increase a little.

Most manufacturing contacts indicate that their U.S. employment is flat to slightly higher than a year ago. Wages and salaries have increased 2½ to 4 percent, with the lower end of this range reflecting contracts negotiated in previous years. Businesses recruiting computer specialists or engineers indicate that they must offer attractive salaries and profit-sharing or discounted stock plans. Nevertheless, contacts report that they are able to hire the employees they need even in such sought-after professions.

Manufacturers typically are continuing to spend the same amount on capital as last year. Such spending represents sizeable increases in capacity for about one-third of the contacts.

Temporary Employment Firms

Personnel supply firms in the First District report very good business in the summer of 1996, with revenues expanding 20 to 30 percent from a year earlier. Summer sales rose in the clerical sector because of student workers and leveled off in high technology fields, trends that typically reverse in the fall. Temporary-to-permanent job conversions have subsided, and workers

reportedly continue to leave full-time payroll employment to work on a contract basis for higher hourly pay and state-of-the-art projects. Nonetheless, demand for qualified temporary labor is rising faster than supply, so wages have risen. As competition continues to increase, contacts are exploring new recruiting methods such as the Internet. Double-digit revenue growth is anticipated for the remainder of 1996.

Residential Real Estate

The residential real estate market remains in good shape across much of New England. Contacts report that sales of existing homes in the last two months are above year-ago levels in Connecticut, Rhode Island, and Massachusetts. A respondent in Maine reports that the spurt of sales earlier in the spring has slowed substantially in the last two months. While the recent activity in Connecticut and Massachusetts reflects a steady trend of sales growth over the last year, reports from Rhode Island and Maine show no sustained pattern of gains or losses.

Inventory levels are reported to be adequate in most parts of the region except Massachusetts, where one contact suggests that low inventories could lead to diminished sales in the rest of the year. New construction remains solid overall, and credit for consumers and builders is reported to be readily available. Contacts note signs of decline in real-estate-related employment in southern New England, with consolidation reported among brokers in Rhode Island and appraisers in Connecticut.

Nonbank Financial Services

First District investment management firms report modest increases in assets under management since the beginning of the second quarter. Inflows into small company and growth funds were still positive despite the July correction in stock prices, but bond funds continued in net liquidation. Most respondents plan to increase employment during the rest of the year, but some report that it takes a long time to fill open positions, particularly in the area of retirement planning.

SECOND DISTRICT--NEW YORK

Economic conditions in most sectors of the Second District continued to improve since the last report. Most retailers report that sales rebounded in August and were running on or ahead of plan. Real estate markets strengthened across the board, with demand for both single- and multi-family homes firming throughout the region and New York City's office market tightening further. Purchasing managers in the region report ongoing improvement in the manufacturing sector in August. Private-sector job growth accelerated in July, but public-sector employment fell sharply, mostly due to reductions in the federal summer jobs program. There are no signs of increased price or wage pressures, aside from some firming in real estate values. Finally, banks report a slight softening in demand for commercial and industrial loans.

Consumer Spending

Retail sales in the district were generally on or above plan in August, as business picked up from July's disappointing pace. On a year-over-year basis, same-store sales gains ranged from 3-7 percent. Upscale women's apparel and men's casual wear continued to be the top performers. Home goods were again characterized as lagging other categories; one contact attributed this ongoing weakness to relatively cool weather, especially compared to last summer, which held down sales of air conditioners and other hot-weather goods. Inventories were generally at desired levels, with contacts crediting effective control systems, as well as increased caution after last year's overhang. Expectations for the Christmas season were mixed, with same-store sales expected to be up 3 to 6 percent from last year.

Retailers report that price and wage pressures remain subdued. Selling prices are said to be flat to slightly higher, while merchandise costs are steady to slightly lower. All contacts report that there is no noticeable wage pressure; most anticipate a modest impact, if any, from the upcoming minimum wage hike.

Construction & Real Estate

New York City's commercial real estate market continued to firm in July. Office leasing activity accelerated, and availability rates declined for the second consecutive month. (Availability rates include vacant space, as well as space coming on the market over the next six months). Downtown Manhattan's availability rate fell to 23.9 percent—an 18-month low—from 24.7 percent in June; Midtown's rate edged down to 14.3 percent from 14.5 percent.

The District's residential real estate markets continued to improve in July and August. Homebuilders in New Jersey report that both traffic and sales have picked up in recent weeks, after a sluggish second quarter. Builders in New York report a continued pickup in activity across most of the state, with only the Syracuse and Binghamton areas lagging. Strong demand and thin inventories are reportedly spurring more speculative building activity, mostly in downstate New York (notably Long Island). In general, demand continues to be strongest at the lower end of the market.

Similarly, realtors in both states report strong sales of existing homes, along with moderate price appreciation. New York State realtors report that July home sales were up 18 percent from a year ago, while prices were up 8 percent. In New Jersey, second-quarter sales climbed 13 percent from a year earlier, to their highest level in nearly a decade, with prices up 5 percent. Similarly, Manhattan's co-op and condominium market has been buoyed by rapidly rising rents. One large real estate broker reports that demand for studio and one-bedroom apartments, which had languished for years, has picked up dramatically in recent months, with some buyers bidding above the asking price.

Manufacturing

Regional surveys of purchasing managers suggest continued growth in the manufacturing sector and a slight easing of price pressures. Buffalo purchasing managers report that manufacturing activity

resumed a strong pace of growth in August, after pausing in July. New York City area purchasing managers report continued improvement in the local manufacturing sector in August, though growth has slowed from July's torrid pace. (A parallel survey of purchasing managers in New York City's non-manufacturing sectors signals steady, fairly robust growth for the third consecutive month).

Other Business Activity

Private-sector job growth in New York, New Jersey and Connecticut accelerated in July, but reductions in the federal summer jobs program caused a temporary but sharp drop in public-sector employment—particularly in New York. New York's unemployment rate rose 0.2 points to 6.5 percent in July, New Jersey's edged down 0.1 point to 6.1 percent, and Connecticut's edged down 0.1 point to 4.7 percent (a six year low). New York City's tourism boom may be abating, but only slightly—hotel occupancy rates (seasonally adjusted) edged down in July, though they remain near record highs, and room rates are still up more than 12 percent from a year earlier.

Financial Developments

Commercial loan demand weakened moderately, while consumer loan demand held steady in August, according to the latest survey of senior loan officers in the Second District. Demand for commercial and industrial loans was lower at almost 30 percent of the banks and higher at just over 15 percent. Refinancing activity continued to slow, decreasing at 40 percent of the banks. The proportion of loan officers reporting increased willingness to lend declined since the last report, but is still higher than during the spring. Nearly all banks say their credit standards are unchanged.

Average loan rates were steady to slightly lower in all categories, after rising in the prior survey, while deposit rates were generally higher. Loan delinquency rates, which had risen moderately in July, held steady for consumer loans and declined for commercial loans in August.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District was gaining slightly in August. Manufacturers continued to report increases in orders and shipments, although the portion of firms noting increased demand for their products was smaller than it had been earlier in the summer. Retailers said sales were starting to move up for the back-to-school period, and they were expecting the year-over-year increase to be a few percent in current dollars. Auto dealers reported steady sales in recent weeks. Bankers generally reported that consumer lending was moving up slightly, but business loan volumes have been flat. In commercial real estate markets, office vacancy rates have edged down since the beginning of the year, but rents have been steady. Demand for industrial space remained healthy, and there has been stepped-up construction of warehouses. Most of this construction has been build-to-suit, and vacancy rates for industrial space have remained steady. Reports from residential builders varied across the District; overall, however, the pace of residential construction has been steady since summer began.

The consensus outlook is positive but modest. Manufacturers expect some further gains in output, but they are not planning to increase employment, on balance. Retailers expect a small year-over-year improvement in sales this fall, but auto dealers anticipate just steady sales. Bankers foresee little change in loan demand. Real estate contacts expect relatively steady conditions to persist, with commercial space demand and supply remaining in balance.

MANUFACTURING

Third District manufacturers generally noted continuing increases in orders and shipments in August, although the number of firms posting gains was fewer than in the prior two months. About four in ten reported increased demand for their products during August, while two in ten reported declines. Business was relatively weak for manufacturers of building products, as it has been since June. In addition, some makers of consumer products indicated that the seasonal increase in orders they usually see at this time was below their expectations.

According to plant managers contacted in August, both employment levels and working hours have been increased slightly. However, capital spending plans have been trimmed; only one in four of the firms surveyed indicated they would be boosting outlays for new plant or equipment in the next six months.

RETAIL

Third District merchants contacted in late August reported the usual back-to-school pickup in sales. Most said the gains for the period this year compared to last will be only a few percent in current dollars. Retailers' expectations for the fall selling season as a whole are varied. While some are optimistic that there will be a healthy year-over-year increase, most anticipate just modest gains. Some retailers expressed apprehension that women's apparel sales will not meet forecasts made earlier this year, and this will limit the dollar value of total sales for the fall. Another possible limiting factor on sales growth is the more restrictive credit standards that several major retailers have begun to implement. In general, retailers said their inventories were in line with the current sales rate.

Auto dealers indicated that the pace of sales has been steady. While popular models were

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selling briskly, dealers have been reducing prices to clear out some current model-year cars and sport-utility vehicles before they receive new models.

FINANCE

Third District bankers generally reported slight increases in consumer loan volumes in August, which they considered mostly seasonal. Bankers said commercial and industrial lending markets remain competitive, with credit available from large and small banks, nonbank finance companies, and institutional investors. On balance, banks contacted for this report have not been able to increase their business loan volumes.

Looking ahead, bankers expect loan levels to be fairly steady except for some seasonal increases. Some bankers reported that their commercial and industrial borrowers have indicated that they expect their own business to be steady through the end of this year and their credit needs to remain at current levels. Bankers do not expect much change in consumer lending.

REAL ESTATE AND CONSTRUCTION

Commercial real estate brokers generally reported that office vacancy rates in the Third District have edged down from the beginning of the year. In recently released mid-year surveys, real estate firms estimated the vacancy rate for the Philadelphia central business district at 13 percent. Estimated vacancy rates for suburban office markets were 10 percent in southeastern Pennsylvania and 19 percent in southern New Jersey. Office vacancy rates in northeastern and central Pennsylvania markets were estimated to be lower than in the Philadelphia area. Real estate agents caution that some of the drop in vacancy rates is the result of older buildings being removed from the market; including space available for sublease would raise effective vacancy rates. Real estate agents also noted that office rents have been steady so far this year.

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Demand for industrial space remains healthy in the region. Industrial rental rates have edged up this year, and vacancy rates have remained steady at around 13 percent despite recent construction of warehouse and distribution buildings.

Nonresidential construction activity remains below the 1995 pace in Third District states. Nonetheless, build-to-suit construction of office and industrial buildings has picked up during the first half of the year in central and northeastern Pennsylvania and southern New Jersey. Most real estate contacts expect the current rate of commercial construction to persist through the end of the year.

Residential construction activity varies around the District; some markets have seen healthy gains this year compared to last, especially in townhouse construction, while others have seen declines. Overall, home building has been steady recently. Realtors also generally reported steady rates of sales for existing homes.

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FOURTH DISTRICT - CLEVELAND

General Business Conditions

The growth in District business activity appears to have moderated recently. Although most industries continue to report high levels of production and employment, construction activity has slackened noticeably, mostly because of a decline in residential housing construction. Commercial construction remains generally strong, however.

Unemployment is still remarkably low in most parts of the District, but there is little evidence wage growth is rising. Wage gains for existing employees reportedly remain in the 2% to 3% range. A few firms, however, note that the cost of new hires is accelerating, creating concern that these wage increases may spill into existing labor agreements.

Agriculture

Crop conditions are generally good, though crops are still under-developed for this late in the season. While 81% of Ohio's corn crop is rated fair-to-excellent, corn crop development is about two to three weeks behind schedule. Similar reports are heard for the state's soybean crop. The oat harvest was nearly complete as of late August, but hay cutting is behind schedule.

In Kentucky, the soybean crop is considered "promising," with a solid 18% rated as excellent. Also, the recent hot and dry weather has been beneficial to the state's tobacco crop. Corn development in Pennsylvania is near normal for the season.

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Manufacturing

The District's industrial sector has leveled off, with production, employment, and orders all reportedly at high levels. Auto and auto-related production remains generally strong, despite increased concern about a possible UAW strike this fall. Steel production has fallen somewhat from its extremely strong first-quarter level, but is still running 1% or more above this time last year. Steel orders are also reported to be good. Orders growth remains strong for machinery. Orders softness continues to be felt in heavy truck manufacturing, however, and producers anticipate additional production cutbacks by year's end.

Employment conditions in manufacturing are holding firm. Hours have come down a bit from earlier in the year, and hiring rates are considered about average. While skilled labor shortages are still reported to be a problem, the situation does not seem to have worsened much in the past few months. Cost pressures are also said to be relatively light. Cold-rolled and scrap steel prices have risen, as have a variety of chemical prices, but downward price adjustments are noted for paper and wood products.

General Retailing and Autos

Fourth District retailers report mixed results, with no significant overall change in sales activity from earlier in the summer. Retail spending has picked up in the area of children's apparel and is holding strong or women's and men's sportswear. Sales of

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household items, including furniture and major appliances, continue to disappoint District retailers.

General retail inventories are in good condition and prices remain steady. Competition for qualified workers remains a problem for most retailers and hiring difficulties are noted.

District auto sales slowed somewhat in July and August, although year-to-date sales are still relatively strong. Most dealers attributed the recent downturn to lean inventories and slack fleet activity. While a few dealers see waning consumer demand as a contributing factor, dealer optimism over the new model year is high.

Banking and Credit

Loan demand is holding steady at a relatively high level, although the mix of credit extensions has changed somewhat in the past few months. Commercial credit demand is generally stronger than consumer credit, with the possible exception of credit card debt, which continues to rise at a moderate pace. Business credit growth appears to be funding business expansion, while loans for inventories have been negligible. Most categories of household debt, including new auto credit and home equity loans, are little changed from earlier in the summer. The strength of new mortgage loans varies by region.

A number of District bankers continue to see a deterioration in household balance sheets. Still, while loan quality has fallen and delinquencies continue to rise, most bankers report relatively healthy credit markets.

FIFTH DISTRICT-RICHMOND

Overview: District economic activity continued to expand in recent weeks, although growth has moderated in some sectors. Manufacturing rebounded sharply from July; commercial real estate activity continued to gain strength; and state tax revenues grew more quickly. Activity at ports and in the service sector was steady. Retail sales growth and housing activity weakened, and lending continued to slow somewhat. Reports of labor market tightness and upward pressures on wages were widespread, but only scattered reports of price pressures were received. In agriculture, weather-related diseases damaged some crops, but most yields were still expected to be excellent.

Retail Trade: Several District retailers reported that activity expanded more slowly in August. They said that overall sales growth was sluggish, with little improvement in shopper traffic, although big ticket sales were steady. One large chain of home improvement stores, however, reported much stronger sales in August than in July. Employment grew only modestly; one West Virginia retailer commented that "finding quality employees continues to be difficult." Wage growth continued to be strong. Contacts noted that their inventory levels increased. Retail prices rose more slowly during the last several weeks; respondents, however, expected prices to rise more during the next six months than they had expected in July. Compared to July, contacts lowered their expectations of demand for their products over the next six months.

Services: Service producers contacted by mail reported a steady pace of activity in August. Revenues and employment grew at the same rate in recent weeks as in July, although wage growth was more modest. Contacts said their prices rose more slowly in August, and respondents expected smaller increases in prices and in the demand for their product over the next six months.

Manufacturing: Manufacturing activity grew at a substantially faster pace in August. Respondents to a mail survey of District manufacturers reported stronger growth in shipments, particularly of industrial machinery and equipment. New orders increased sharply, especially at printing firms, and order backlogs rose. Manufacturing employment edged up slightly amid

widespread complaints of labor shortages. Manufacturers, however, indicated that their inventories remained above desired levels. Contacts reported that finished goods prices decreased slightly and that raw materials prices increased slightly in August from July. Respondents' six-month outlook was for lower finished goods prices and somewhat higher raw materials prices.

Tourism: Tourist activity generally softened in late August. Except at mountain resorts, most District contacts reported that hotel room occupancy rates were below July levels, possibly due to the early opening of schools in neighboring states. Many contacts from coastal areas said that their August revenues were below average. One respondent from the Outer Banks told us that tourists' concerns about Hurricane Edouard had led to a drop off in inquiries for the Labor Day weekend. In addition, fall bookings throughout the District were down slightly compared to a year ago.

Port Activity: Representatives at District ports indicated that July import levels were higher than in June but that export levels were lower; both import and export levels were lower than a year ago. Most representatives continued to anticipate that exports and imports would increase during the next six months.

Temporary Employment: The demand for contingent workers grew faster in August, according to a survey of Fifth District temporary employment agencies. Clerical and light-industrial workers were particularly in demand. Respondents characterized labor markets as generally tight and several expected their local markets to tighten further as students returned to school. One respondent from Roanoke, Va., said that labor shortages in her area were becoming desperate. Several contacts noted that wage levels increased during August, especially for skilled labor.

Finance: Overall lending activity in the District slowed slightly during August. Contacts at financial institutions suggested that consumers had adopted a "wait-and-see" attitude toward further borrowing. Several mortgage lenders reported that the short-lived dip in interest rates in late July and early August was accompanied by a temporary increase in mortgage demand, but that as rates rose, demand eased. Some contacts noted declines in commercial lending at their institutions. Two respondents reported that they had recently tightened their lending standards while several others

indicated that a future tightening of standards was likely.

Residential Real Estate: According to a telephone survey of District real estate agents and homebuilders, residential real estate activity declined slightly in late July and August. Housing starts, permits, and customer traffic were somewhat lower. Respondents indicated that home sales were steady and that sales prices increased slightly. Subcontractor wages rose slightly and some materials prices increased sharply; one West Virginia homebuilder said that lumber prices had "skyrocketed."

Commercial Real Estate: Commercial real estate activity picked up in August, according to a telephone survey of commercial real estate brokers. Leasing activity continued to escalate; one Richmond agent characterized the market there as "red-hot," and a South Carolina respondent remarked, "We don't know how much better it could get." Vacancy rates declined and rental rates continued to climb. The availability of prime office space continued to tighten, and a number of contacts reported shortages in their areas. Respondents throughout the District reported an increase in new construction, including speculative projects, although contacts in Northern Virginia and the District of Columbia noted that local rent levels were not high enough to spur much new construction.

State Revenues: State tax collections generally increased faster in July than in June. Withholding tax collections rose in most jurisdictions, but were slightly lower in West Virginia. Sales tax collections and real estate recordation tax receipts increased. Corporate tax collections increased only slightly; a North Carolina contact blamed flat corporate profitability for the small increase in corporate collections.

Agriculture: Drier weather in late August allowed farmers to catch up on field work and slowed the spread of moisture-related crop disease, according to agriculture analysts. Disease damage was expected to reduce tobacco and peanut yields, but analysts anticipated that the production of those crops would be sharply higher than a year ago. Bumper crops of corn and soybeans were also expected. Hay harvesting activity picked up as drier weather allowed cutting and curing activities to resume.

SIXTH DISTRICT - ATLANTA

Overview: Contacts report a mixed but generally positive economic picture for the Southeast economy in late summer. Merchants have a positive outlook for the remainder of the year and say that recent sales are at least meeting expectations with back-to-school purchases bettering those of a year ago. Although factory activity has picked up, manufacturing contacts were less optimistic than earlier about the next few months and expect some slowing in production and hiring. Theme park and resort attendance in Florida remains strong, and Olympic events in the rest of the District drew very well. Residential builders and Realtors report slowing business in parts of the District but are optimistic about activity for the remainder of the year. Multifamily and commercial real estate markets are reportedly improving with increasing rents, low vacancies, and more speculative activity. Banking contacts characterize loan demand as generally flat in both consumer and commercial sectors as compared to last year. Contacts are mostly satisfied with labor supplies at this time, and there have been few reports of wage or price pressures.

Consumer Spending: According to District retailers, sales were mixed in July but picked up noticeably in early August. More than half of the retailers contacted said that recent sales levels have met their expectations, and most merchants report that inventories are on target. Apparel continues to have a strong showing throughout the District, with men's and children's stronger than women's apparel sales. Most retailers expect back-to-school sales will exceed year-ago levels, and the outlook among retailers for the remainder of the year is generally optimistic.

Manufacturing: Contacts report that the pace of factory activity picked up in August following a sluggish July. Industry spokesmen, however, expect production as well as employment and new orders to slow over the next few months. Most contacts expect both material and finished

goods inventories to remain at current levels through year-end. Production capacity contractions and employment declines continue to be recorded in the region's large apparel and textile sector, with new reports of plant closings and layoffs. However, some producers in the carpet and denim components report increasing orders and are adding to capacity. Orders for pulp and paper products and chemical products have picked up. The outlook for capital expenditures has improved with new reports of auto parts suppliers and chemical producers adding to capacity as well as large contracts for District shipbuilders. Improvement in Louisiana's petroleum industry is resulting in more business for District suppliers of oil field equipment.

Tourism and Business Travel: Reports on tourism have generally been strong, but a few non-Atlanta Olympic venues had disappointing attendance. Ticket revenues for the Olympics, overall, exceeded projections. Non-Olympic-related reports show that central Florida tourism remains strong, with growing domestic and international airport arrivals and strong theme park attendance. However, heavy discounting was required to boost traffic at some Tennessee attractions and motel bookings were weak.

Construction: Most real estate contacts reported that single-family home sales were ahead of year-ago levels in July, while reports of sales were decidedly mixed within the District during early August. Building contacts also indicated that construction had slowed recently, but most Realtors said that current new home construction was adequate for expected sales. Both Realtors and builders in the Atlanta market noted a rebound in sales and construction activity in August after an Olympic-related pause in July. Realtors and builders continue to report that housing inventories are adequate and are cautiously optimistic concerning their prospects for the remainder of the year.

Contacts from across the District report that commercial and multifamily real estate markets continue to improve. Low vacancy rates and higher rents continue to propel new industrial, office, and multifamily development. While most commercial projects continue to be build-to-suits, several speculative developments are underway and more are anticipated this year and next.

Financial: Most contacts in the banking industry report moderate overall loan demand in August as compared to July and last year. Mortgage lending was described as mixed over last month and flat compared to last year. Deposits are described as flat to slightly down, while consumer lending was mostly flat compared to last month and last year. Commercial loan demand was reported to be flat over both periods. Bankers also observed some weakening in both consumer and commercial loan quality.

Wages and Prices: Most contacts report adequate supplies of labor and expect to maintain current employment levels over the next few months, although, as before, a few service sector employers and retailers note that the labor supply is tight for entry-level jobs. The thousands of temporary Olympic employees are expected to be quickly absorbed back into the region's labor force. Although material and finished goods prices have increased slightly since the last report, most contacts expect these price pressures to be temporary.

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SEVENTH DISTRICT - CHICAGO

Summary. The Seventh District economy continued to expand at a moderate rate in August. Retail sales improved from July's pace, with several retailers citing improved back-to-school sales from a year ago. Commercial construction activity picked up across the District, while residential activity varied from state to state. Manufacturing activity remained robust, but reports were mixed as to whether the sector was gaining or losing momentum. Overall bank lending remained strong, despite reports of a decrease in mortgage lending. Labor markets continued to be tighter than the nation as a whole, but wage pressures remained subdued. High grain prices and poor quality forage are cutting milk production.

Retail sales. Retail sales improved moderately from July to August and were up from one year ago. Several large retailers attributed sales gains to year-over-year improvements in "back-to-school" items, most notably apparel. Most retailers expect this strength to carry into September with "back-at-school" sales. Results from a Michigan survey suggested that these sales patterns were similar for small retailers. One major retailer pointed out that August's year-over-year sales comparisons may be distorted because of exceptionally strong sales of air conditioners and other hot-weather related items in the Midwest last year. This retailer noted that sales of appliances (other than air conditioners) remained strong, while electronics sales (other than computers) were soft in August. Computer sales were reported to be strengthening, in part due to improved back-to-school sales. However, a major discount chain reported that sales in District states

were at or below expectations, with weakness in big-ticket items--small appliances, electronics, etc.--prompting plans to increase price discounting over the next three months.

Housing/construction. While overall construction activity remained robust during July and August, residential housing activity was mixed. Recent data releases showed that Midwest sales of new and existing homes increased significantly in July, but reports from District contacts varied widely from state to state. A builder in one large metro area described activity as “the best (residential housing) market in 20 years,” while a contact in another area reported that “(unsold) inventory is now a concern.” A national survey of home builders suggests that sales of new homes in the Midwest were down in August and virtually every banker contacted reported that mortgage lending activity decreased. While most areas reported pockets of both increasing and decreasing residential building activity, contacts in Michigan reported increasing activity throughout the state. Commercial building activity was reportedly strong and increasing throughout the District in July and August. One lumber supplier reported that strength in commercial construction was responsible for shortages of building materials, most notably wallboard. This source also noted that a shortened summer building season (resulting from inclement weather in much of May and June) strained lumber supplies and prices increased significantly, reaching a two-year high. However, competition among suppliers to maintain market share is preventing them from passing along the entire cost increase to

builders, whose margins have already been squeezed. In addition, the price increases are not expected to endure.

Manufacturing Activity. Manufacturing activity remained at a very high level in July and August, but views were mixed about whether momentum was building or slowing. Purchasing managers indexes across the District jumped in August, including one metro area which had been signaling flat activity for several months. These increases were led by strong gains in new orders and production. Most manufacturers contacted, however, reported that demand was flat or moderating in July and early August. Steel producers reported that mills were at effective capacity in August, and order books were full through November. One medium-sized machine tool producer noted a jump in orders in July from a year ago, while another said orders have been below year-ago levels for several months. A producer of heavy construction equipment noted an increase in orders, after encouraging customers to place their year-end orders early to ensure production and on-time delivery. Otherwise, their order intake continued to slow across most market segments. An appliance producer reported that domestic shipments slowed in July and August from their stronger-than-expected pace earlier in the year. Except for recently announced steel price increases, which appear to be sticking, neither purchasing managers surveys nor individual reports suggested any recent increase in price pressures.

Banking Activity. Reports from bankers generally indicated that lending activity remained strong in July and August. Several Michigan banks reported that business lending continued to post solid gains. Recent merger and acquisition activity in the state

increased the demand for capital equipment-based loans. Bankers in other areas, however, noted recent flattening in business lending from very strong growth earlier in the year. A major regional bank cited double-digit growth in consumer loans from a year ago. Rising delinquency rates, while still low, encouraged some smaller banks to shift their emphasis from installment loans, including credit cards, to equity loans.

Labor markets. Labor markets remained tighter in the District than in the nation as a whole, with the unemployment rate in July virtually unchanged for the fifth straight month. Manufacturing employment continued its slight decline in July, but purchasing managers surveys suggested that payrolls were again increasing in August. Temporary help agencies also reported that "the industrial segment of the business is tightening up." Shortages of construction, skilled clerical, and technology workers persisted throughout the District. Despite the tight conditions, most contacts reported no discernable acceleration in wage pressures. One survey of small retailers in Michigan, however, suggested that smaller firms across the state were raising their starting wages to attract qualified workers. The survey also noted that the added costs were being absorbed by the retailers, rather than passed on to consumers.

Agriculture. Corn prices remained high in August, but down sharply from the very high levels of late spring, early summer. The extreme tightness in old-crop supplies was being overcome by cancellations and deferrals in export orders, the curtailed operations of many processors (especially ethanol plants), the use of alternative grains for feeding livestock, and regional imports of newly harvested grain from southern states.

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New crop prospects remained mixed, with sizable portions of the District's late-planted corn and soybean crops in a close race to reach maturity prior to normal first-frost dates. Meanwhile, evidence of scaled-back production among the District's dairy farmers continued to mount. Milk production during June and July was down 5.5 percent in District states and down 2.1 percent elsewhere. The cuts reflect fewer dairy cows and less output per cow. High grain (feed) prices and poor quality forage accounted for the abnormal decline in the productivity of dairy cows.

EIGHTH DISTRICT - ST. LOUIS

Summary

District economic growth has continued to moderate slightly. Retailers in most parts of the District report that sales are up over the same period last year and that back-to-school sales have, so far, met expectations. Tight labor markets continue to be a concern for most contacts. A recent survey of small businesses notes expectations of a slight deterioration in business conditions over the next six months. Sales of new and existing homes around the District have increased recently. Loans outstanding at large District banks continue to decline. Despite persistently dry conditions in parts of the Districts, crops generally remain in fair-to-good shape.

Consumer Spending

Most retailers surveyed report summer sales increases of up to 5 percent over the same period last year. Some St. Louis retailers, though, note declines in sales during June and July. Most retailers have not used and do not anticipate using much discounting to move merchandise. Back-to-school sales have generally met expectations, although many had lowered expectations from the previous year. A few are reporting increased wage pressures. Almost all retailers expect sales to pick up in the fall.

Most auto dealers report either no change or a slight increase in sales levels. Those facing flat or declining sales blame their troubles in part on higher interest rates. Some import dealers report a shortage of product. Most contacts report a lower-than-usual stock of 1996 models as they begin the new model year. The balance between new and used car sales has not shifted recently. Most contacts expect sales levels to increase somewhat for the rest of the year.

Manufacturing and Other Business Activity

District contacts continue to report growth in sales and employment in most instances, but some plant closures have also been observed. According to most contacts, labor markets are still tight. For example, a major hotel and catering chain is seeking about 2,000 workers in the St. Louis area in the coming year. It has held numerous job fairs and established a toll-free phone number to search for and aid applicants. A national food processing firm is building a new plant in southern Indiana that will employ 200. A contact in the construction materials industry reports that sales of brick are up about 10 percent over the same period last year. A railroad company will move about 400 jobs to St. Louis from Denver by year's end. District automotive plants expect output to rise considerably in the fourth quarter and to be up strongly on a year-over-year basis.

The District apparel industry has taken a hit recently, though. One firm in Kentucky will close this month and eliminate about 350 jobs. A firm in Arkansas will lay off about one-third of its workforce (slightly more than 100 workers) because demand has declined. A St. Louis-based food processing company sold off its cereal division, eliminating about 150 jobs from its headquarters. The strike that is affecting McDonnell Douglas remains unsettled. For the most part, the effects on the local economy appear to be isolated.

Outlook

According to a recent survey of 216 small businesses in the Eighth District, a little more than half of the firms expect no change in business conditions for the remainder of the year. On the margin, though, the outlook for business conditions over the next six months has tempered somewhat compared with a similar survey conducted three months earlier, with the number of respondents anticipating a worsening of conditions modestly outnumbering those expecting an improvement. Slightly more firms plan to reduce inventory levels over the next six months than in the previous

period, while about one-fifth of the respondents plan to increase prices—a number that is unchanged from the previous survey and is considerably more than the 2 percent who plan to reduce prices over the next three months.

Real Estate and Construction

Sales of new and existing homes are up in most parts of the District. In many cases, sales in July were up about 10 percent over the same period last year, and up about 7 percent over June. Only five of the District's 12 metropolitan areas saw monthly increases in their July residential construction permit numbers, though; three of them are in Arkansas. All metro areas except Memphis are above their year-ago permit levels. Some commercial real estate agents continue to note a moderation in the market.

Banking and Finance

Total loans outstanding at 11 large District banks declined 0.6 percent between mid-June and mid-August, compared with a 0.3 percent decline in the prior two months and a 2.6 percent rise in the same period one year ago. Consumer loans dropped a sharp 1.7 percent, while commercial and industrial loans declined 0.9 percent. Real estate loans were up 1.3 percent compared with a 4.8 percent increase one year ago.

Agriculture and Natural Resources

Dry weather continues to affect crop conditions adversely in most parts of the District. The driest conditions appear to be in southern Illinois, southeastern Missouri and northeastern Arkansas. In several isolated areas, crop conditions are significantly worse. For example, some farmers in parts of south-central Illinois report that little moisture has been received since late May, causing considerable harm to the corn and soybean crops. Overall, though, most crops still appear to be in fair-to-good condition.

NINTH DISTRICT--MINNEAPOLIS

As the summer has progressed, the Ninth District continues to experience favorable economic conditions in most sectors. All types of construction are strong. Crop conditions are good, though delayed development may expose corn and soybeans to frost damage. Farmers are responding to high grain prices and favorable crop expectations by increasing capital spending. Oil, gas, iron and nonferrous mining output continues strong. Manufacturing is generally robust, and inventories are described as normal. Vehicle sales continue moderate to strong, while other retailers report good sales. Tourism is somewhat slow, especially in western areas. Despite some indications of wage pressure, most compensation increases appear modest. Commodity prices have fallen, and intermediate and final goods prices are largely stable.

Construction and real estate

“Phone company unable to keep up with growth” headed a recent newspaper report on Sioux Falls, S.D., where the telephone company has been issuing cellular phones to homeowners in some new developments because it is falling behind laying cable to newly constructed houses. The pace of building is somewhat less fervid elsewhere.

All types of construction are brisk. Single-family permits in Minnesota are running 4 percent above year-earlier and two year-earlier levels. Housing construction is also brisk in west central Wisconsin, eastern North Dakota and some Montana cities. A very low 4.3 percent vacancy rate for industrial property in Minneapolis-St. Paul has boosted light industrial building. And publicly let bids for highway and heavy construction in Minnesota and the Dakotas are 13 percent above 1995 for the year through July, the fourth consecutive year of strong increases.

“July and August have been very good for us,” comments an officer of a large Minnesota realty company. Strong sales of existing housing are making headlines in Minneapolis-St. Paul, and reportedly are also strong in the Eau Claire, Wis., area. Commercial rentals in the same area also are described as good.

Natural resource industries

There is little change in the natural resource sector from earlier in the summer. North Dakota oil continues as the boom sector, and iron mine output is the highest in several years. Nonferrous output is reportedly stable.

Lumber and oriented-strand board production is somewhat above summer 1995 levels. Paper prices have stabilized and sales of some types are reportedly good. Overall output, however, remains down from a year ago.

Manufacturing and technology

“It has slowed a little in August, but overall we are having a very good year,” commented a representative of one Minnesota electronics manufacturer. “First and second quarters were below plan and below last year,” says a North Dakota CEO, “but halfway through third quarter, we are doing very well and I expect fourth quarter to be well above plan also.” Manufacturing continues to be a sector that is generally solid, but not spectacular. Medical device and nonconsumer electronics manufacturers remain the strongest. Manufacturers contacted report no delays in raw material deliveries and describe their own inventories as normal.

Agriculture

Crops across the Ninth District continue in good shape, but behind usual levels in development and maturation. Corn and soybeans, in particular, will be vulnerable to early frosts. Wheat harvesting is under way in several areas, but behind normal levels. Cash prices and futures for the 1996 crop have retreated from highs set in late spring, but continue at levels that will ensure the highest net returns so far this decade, barring disastrous frost.

Cattle and hog slaughter prices are slightly higher than in early summer, with cattle slaughter numbers somewhat ahead of year-ago levels. Market sources report that cows as a percentage of total slaughter is about 4 percentage points higher than last year, an indication that herd liquidations are taking place. Hog slaughter numbers, weights and percent sows show little change from summer 1995 levels. Milk prices are at new nominal highs, and some 20 percent above year-earlier levels. Production continues down and industry officials expect it to remain low in response to high feed costs.

Farm spending is reportedly on the increase in many crop areas, particularly for machinery. “It’s been an exceptional year,” says a Grand Forks, N. D., implement dealer. Overall, dealers in that state are having the strongest sales in five years and their counterparts in Minnesota and eastern South Dakota also report brisk business.

Consumer spending

“July was a little slow, but for the year to date, we are about 3 percent ahead of 1995,” comments a South Dakota automobile registrations official. “Business is pretty good,” says an auto dealers’ association official in North Dakota, where favorable conditions in oil and grain sectors have boosted incomes and confidence.

“Retail sales seem to be a little bit above our projections,” reports a South Dakota revenue official. “Traffic in our stores is excellent,” according to a Fargo, N.D., mall manager. On balance, retail sales seem moderate to strong, with consumers reportedly very selective and value-oriented in their purchases. Retailers complain that stiff competition stemming from recent growth in retail capacity is cutting into margins. “We have to advertise much more than two years ago to keep same-store sales marginally above what we were selling then,” says a spokesperson of one Minnesota-based electronics and appliance retailer.

Tourism

“Though it started out slow, the rest of the summer has been real good,” remarked one western Wisconsin tourism representative. “Still a little slow,” is the report from a counterpart in South Dakota. Business is slowest in Montana, where sources report drops of 5 percent to 20 percent at major attractions. On balance, 1996 seems to be a weak, but not disastrous year for the tourism industry.

Employment, wages and prices

There has been little change in labor markets from earlier in the summer. Unemployment rates remain well below national levels in most areas. Posted offers of entry-level jobs in food service and retail sales are widespread. Skilled electronics technicians, CAD/CAM machinists, printers and other skilled workers are also highly sought after. Several sources report upward pressure on entry-level wages. Hourly earnings in manufacturing in Minneapolis-St. Paul are about 3.3 percent above year-earlier rates compared to a 1.9 percent increase from 1994 to 1995. But other employers report only modest increases in pay and benefits. Many commodity prices are lower than earlier in the year. Few prices increases are reported for either intermediate or final goods, except milk.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy grew at a moderate pace during the past month. Manufacturing and construction remained strong but showed signs of slowing from the brisk pace of previous months. Retail sales improved modestly, and energy activity slowed. In the farm economy, income prospects improved for crop producers while losses continued to mount for many cattle producers. Labor markets remained tight in much of the district, although reports of rising wages remain scattered and confined mainly to retailers. Retail prices held steady.

Retail Sales. Retailers report sales improved modestly during the past month and remained above last year's level. Sales of men's and children's apparel were particularly strong and most retailers expect sales in general to increase over the remainder of the year. Most retailers were satisfied with inventory levels, although some expect to expand inventories as they gear up for the holiday season. Automobile dealers report sales slowed somewhat from the brisk pace of recent months. The slowdown was due mainly to a lack of inventory during the changeover to new models. Demand reportedly remains strong, especially for light trucks and sport utility vehicles, and dealers expect sales to pick up after inventories of new models are in place.

Manufacturing. Most manufacturers continued to operate at high levels of capacity last month, although signs of slowing were evident. Manufacturing materials were generally available, with some recent improvement in lead times. Manufacturers were trimming inventories, and some expect to continue trimming over the next few months.

Housing. Most builders report housing starts leveled off last month to about last year's level. While single-family homes accounted for most of the construction activity, multifamily building picked up. Builders expect homebuilding activity to remain solid in the coming months with a normal seasonal slowdown toward the end of the year. Sales of

new homes weakened during the month but remained above last year's pace. Inventories of unsold homes were reported at normal levels. Many builders report tight markets for construction labor, although materials were readily available. Mortgage lenders report a slight increase in mortgage demand over the past month and expect demand to remain strong in coming months.

Banking. Loan demand at district banks held steady last month. Consumer, construction, home mortgage, and commercial and industrial loans remained unchanged. Commercial real estate loans showed solid gains, while home equity loans increased slightly and agricultural loans decreased. A decrease in total deposits at district banks resulted in slightly higher loan-deposit ratios. Large CDs slipped, while demand deposits, NOW accounts, IRA and Keogh accounts, and small time and savings deposits held roughly constant. MMDAs increased slightly.

One respondent bank increased its prime rate last month. None of the other banks expect to change their prime rate soon. Most of the respondents held their consumer lending rates steady and plan to keep them unchanged in the near term. Almost a third of the respondent banks tightened their lending standards last month.

Energy. Lower oil and natural gas prices damped activity in the district energy industry in recent weeks. The district rig count fell slightly in August but remained 5.6 percent above year-ago levels. In contrast, coal production in Wyoming continued to record strong gains.

Agriculture. The district's corn and soybean crops remained in excellent condition during the past month. The crops are maturing on schedule and the chances of widespread damage from an early frost this fall are small. With corn and soybean prices strong, district crop farmers should enjoy a significant income boost this year.

Income prospects for district livestock producers are not so bright. Cattle feeders have returned to thin profits recently, while ranchers continue to post substantial losses

In response to ongoing losses, many district ranchers have trimmed their herds significantly this summer. Industry participants report contraction in the cattle numbers could end this fall due to improved pasture conditions, ample hay supplies, and expectations that corn prices will drop as the harvest gets under way. Having sustained losses earlier in the year, most cattle feedlots in the district operated well below capacity during the past month. The cutback in cattle on feed has reduced beef supplies enough to push prices slightly above break-even levels. Nevertheless, many bankers expect a heavy inflow of calves into district feedlots this fall, which could renew downward pressure on cattle prices and erode profit margins.

District bankers report stronger crop loan portfolios and weaker livestock loan portfolios than a year ago. Bankers in wheat-growing areas in the district report that high wheat prices have generally offset a disappointing wheat harvest, leaving the quality of loan portfolios unchanged. Bankers in areas growing corn and soybeans expect their loan quality to improve this year. In contrast, bankers report some continued erosion in the quality of ranching loans.

Wages and prices. Entry-level and skilled workers remain in short supply in much of the district, and reports of rising wages among retailers have increased somewhat. Wages in the manufacturing and construction sectors, however, remained generally stable despite the tight labor markets. Prices continued to hold steady at the retail level, with retailers expecting little change in the months ahead. District manufacturers also report stable input prices.

ELEVENTH DISTRICT--DALLAS

Eleventh District economic activity strengthened in August from July's moderate pace. Despite relatively strong demand and desired inventory levels for most products, there were only scattered reports of price pressures since the last survey. Manufacturing orders accelerated in August, with strong demand for construction- and energy-related products. Back-to-school retail sales were good, and sales continued to pick up along the Texas-Mexico border. An increase in commercial construction offset slower new home construction, and Eleventh District loan demand remained steady. Energy activity continued to strengthen, and heavy rains improved agricultural conditions.

Prices and Wages

There were scattered reports of price pressures. Prices were up for oil field machinery, apparel, lumber and some paper products. In addition, crude oil prices remained relatively high, despite approval for Iraqi entry into the market. Real estate prices continued to firm up as low office, warehouse, and apartment vacancies pushed up rents. Nevertheless, prices continued to fall for electronic products--such as memory chips, telecommunication products, and computer components--where inventories were still too big, according to contacts. Brick producers said prices were steady to slightly lower after rising strongly earlier in the year. Also, natural gas prices fell to six month lows, a result of milder weather and rising storage levels.

There were some reports of wage pressures in the past six weeks. Contacts in the energy industry said labor shortages for workers with certain oil-related skills were pushing up wages. Several contacts in the high-tech sector noted wage pressures for skilled development engineers. Furthermore, some manufacturing respondents noted a lack of qualified, entry-level applicants, which has been a recurring observation throughout the year.

Manufacturing

Manufacturing orders accelerated in August following slow growth in July. Several respondents in the electronics industry said unit demand for semiconductors was flat in August after falling since early this year. Despite the recent improvement, contacts did not expect a sustained increase in overall chip orders until the first half of 1997. Demand for telecommunications products held steady at July's healthy levels, and unit computer demand picked up slightly, although contacts in both industries said inventories were too high. Most construction-related producers said orders remained strong and inventories were slightly tighter than desired, especially those supplying commercial contractors. Lumber orders continued to rise, with much of the strength stemming from increases in commercial construction and home remodeling. Brick producers said demand was steady, with fewer orders from homebuilders but rising orders from commercial and apartment builders. Demand for metal products remained steady at good levels, with much of it related to the construction of industrial warehouses. Paper manufacturers said orders had improved, and demand was also up for corrugated box producers. Apparel orders were up slightly. Strong energy activity caused oil field equipment orders to strengthen further, and some contacts noted that demand was outstripping available capacity. Chemical orders remained strong, the only exception being for products tied to synthetic fibers. Refiners noted a slight improvement since the last survey, but overall, low product prices and high crude oil prices continued to squeeze margins.

Retail and Auto Sales

Most retailers reported good back-to-school sales, although in general, department stores reported better August sales than discount stores. Some retailers said Texas sales growth was not as strong as in the rest of the nation despite improvement along the Texas-Mexico border. Auto sales were flat over the past six weeks, as the 1996 models became "picked over" but the 1997 models were not yet in stock.

Financial Services

Loan demand was mostly steady since the last survey. The exception was residential refinancings, which continued to decline. Demand for other residential loans was mixed, according to contacts. Demand for consumer, business and commercial real estate loans was unchanged at good levels.

Construction and Real Estate

Construction activity was mixed, with rising commercial building offsetting slower new home construction. New and existing home sales have softened from the record-setting pace of the second quarter, but contacts remained optimistic about the rest of the year. Strong rental demand for office space coupled with low vacancies continued to push up rents, and several office projects are slated to break ground by year-end, according to contacts. Warehouse and retail construction activity picked up, while apartment construction held steady.

Energy

Energy activity continued to rise over the past six weeks. Offshore drilling activity in the Gulf of Mexico was reported to be strong, and some contacts in Texas and Louisiana said a lack of skilled workers was making it difficult to form drilling crews. Strong domestic demand for oil products kept crude oil prices relatively high. Despite a decline in natural gas prices, natural gas still accounts for the majority of drilling activity, according to contacts.

Agriculture

Heavy rains improved agricultural conditions across most of the District, although drought remains a problem. Subsoil moisture and pasture conditions are better, and haying activity has increased. Still, cotton and corn production are expected to be roughly 30 percent below last year, and livestock liquidation continues, albeit at a slower pace.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

Reports from 12th District contacts indicate continued strong growth in California and the District as a whole, although with some moderation among states that have been growing the fastest. District manufacturing activity was robust overall but tempered slightly by weakness in some sectors, notably in the market for computer memory chips. Sales of retail items and services were strong. District real estate markets were tight in general, with residential sales in California exhibiting signs of a pickup. Despite some reports of labor shortages and rising labor costs, price pressures were reported to be modest overall, with the exception of noticeable increases in grocery prices.

Business Sentiment

District respondents expect solid national and regional economic performance in the near term. Most respondents expect that national unemployment will remain stable and national GDP will continue to grow moderately; among the respondents expecting a change, more expect improvement than deterioration. In contrast, although 55 percent of respondents expect inflation to remain constant during the next 12 months, nearly 40 percent expect it to accelerate. With regard to regional conditions, over three-quarters of the respondents expect growth in their area to continue outpacing national growth. Respondents' expectations regarding District business investment are particularly favorable, with nearly 60 percent expecting acceleration, but their expectations regarding new housing starts in the District are somewhat less optimistic than they were earlier in the summer.

Retail Trade and Services

Sales by retail and service establishments were healthy throughout the District. Respondents from several states reported large increases in retail sales relative to year-ago levels. Grocery sales were strong in most of the District, and respondents noted grocery store expansion plans in several states. Moreover, prices on some items—particularly fruits and vegetables and dairy products—rose noticeably. In California, strong demand for telecommunications services continued, and several District states benefitted from expanding computer software development and sales. Southern California port traffic was heavy, and significant expansion of terminal facilities and other infrastructure is underway there. Hotel occupancies and other tourism trade were strong in several states, such as Utah and Hawaii, although higher hotel rates and a weakened Japanese currency have increased effective tour prices in the latter state.

Manufacturing

The manufacturing sector exhibited substantial strength in most areas of the District, although a primary exception was continued slack in the computer memory chip industry. In Washington, a large order backlog at Boeing has led to significant new hiring and equipment expansion by that company and some of its suppliers, such as electronics equipment manufacturers. In addition, several respondents noted wage pressures and difficulties finding qualified personnel in the state. Sales were very strong for heavy construction machinery and machine tools, with growing foreign orders offsetting slowed domestic demand growth for the latter. Sporting goods manufacturers have been expanding in Washington and in the southernmost portion of California. However, weakness was reported among heavy truck and

aluminum manufacturers in Washington. In the Pacific Northwest more generally, lumber demand was high, reportedly due to growing demand for construction lumber, but pulp and paper markets were weak and characterized by rising inventories.

High-tech manufacturing activity was mixed in the region. Some companies in the San Francisco Bay Area—particularly those that supply production equipment to computer memory chip manufacturers—recently have cut staff and delayed building plans. However, reports of cutbacks by semiconductor manufacturing firms were offset by reports from respondents in several states of continued expansion among makers of other high-tech product lines.

Agriculture and Resource-Related Industries

District agricultural production and sales were solid overall, although some crops were affected by recent hot weather in California. Reports indicated good grain harvests in Washington, Idaho, and Utah, and nut and cotton yields were high in California. Due to hot weather, several California fruit crops have come in prematurely, although the impact on yield size and quality reportedly has been limited. Despite a recent small increase in beef cattle prices, the District's struggling cattle industry has been hurt by reductions in exports to Japan due to a scare about contaminated beef in that country.

Real Estate and Construction

Residential and commercial real estate markets were tight in most areas of the District, although commercial construction reportedly has cooled in some locales. Residential construction has improved in much of California, due to the state's economic resurgence. Public works

construction in California also is up, including a major freeway reconstruction project in San Francisco. In the broad San Francisco Bay Area, commercial vacancies were low, but rental rates remained stable and new building was limited. Commercial real estate markets tightened in Washington, and lease rates rose there. In contrast, although current and planned construction remain at high levels in Utah, construction activity and housing price appreciation have decelerated there.

Financial Institutions

District financial institutions registered solid performance. Retail and commercial loan demand was reported at “all time highs” by a bank that covers much of the District, and deposit growth was unusually rapid. Banks in Southern and Central California reported modestly improved conditions. The strong District financial outlook was tempered only by margin pressures on banks in accelerating growth areas such as Washington, and by reports of substantially increased bankruptcy filings in Idaho and Utah.