SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Overview

Economic activity is continuing to expand in most regions and industries, but at very different rates. Consumer spending is still providing much of the strength, particularly in the automotive sector, where vigorous activity is leading to supply constraints and buoying a variety of supplying industries. Construction activity has been mixed, with most regions showing continued strength in nonresidential building, but various degrees of slowing on the residential side. Foreign competition and slower housing construction are seen to be restraining activity among producers of building materials. Foreign competition is also being blamed for lagging demand in the textile and apparel, furniture, lumber, and primary metals industries. Inventories are generally near desired levels, and price increases remain moderate. Loan demand remains generally strong, with the exception of the residential mortgage component. Deposit behavior has been mixed, but, on balance, growth appears to have slowed, which has caused some institutions to increase their issuance of CD's. On the agricultural front, crop conditions appear generally improved, although trouble spots remain.

Manufacturing and Industry

Manufacturing activity is continuing to expand in most areas, but more slowly in several, and with actual declines in some industries.

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*Prepared at the Federal Reserve Bank of Richmond.

Apart from seasonal factors, the automobile industry and related industries are operating at high and increasing rates. Atlanta finds suppliers of the auto industry bringing long idle capacity back on line and struggling to keep up with demand. The paper-related industries are also near capacity according to Atlanta, Chicago, San Francisco, and Richmond, and high levels of activity are reported for the chemicals, construction equipment and electronic equipment industries in several districts. In contrast, Cleveland and San Francisco report declining activity in the steel industry due in part to increased steel imports. Foreign competition is also reported to be restricting activity in the textile, apparel, and lumber industries. Producers of building materials are facing weaker markets as housing activity softens, although Boston and Dallas find significant continuing strength in that sector.

Consumer Spending

Retail sales are still generally strong, although there are indications of weakness in some areas. Both Boston and San Francisco reported that sales accelerated in July, but Cleveland found some weakening in general merchandise sales, and Minneapolis reported spotty results in rural areas dependent on agriculture. Retail inventories have declined slightly overall and seem to be generally at comfortable levels. Automobile sales remain robust across the country. In lines other than automobiles, apparel was doing well in the Philadelphia, Richmond, and San Francisco Districts, and strength was also reported in sales of home entertainment electronics goods, furniture, and appliances.

Atlanta, Minneapolis, and Richmond all reported mixed results at tourist and vacation sites in their districts. Some areas appeared to be meeting expectations, while others were having disappointing peak seasons.

Construction

Most districts report some degree of slowing in the residential sector, although Chicago found surprising stability, and in the St. Louis District backlogs of orders are continuing to support single-family construction. Where activity is slowing, recent increases in mortgage rates appear to be a principal factor. Also, several comments suggest that both borrowers and lenders are becoming disillusioned with adjustable rate mortgages. Nonresidential construction is apparently holding up well, with increased building reported in several districts. San Francisco reports that several metropolitan areas in the Twelfth District are "on the brink of a boom," and an increase in commercial construction is expected soon in downtown Chicago. New York, however, reports rising vacancy rates in office buildings in lower Manhattan and Long Island.

Finance

With the exception of residential mortgages, loan demand is continuing to make substantial year-over-year gains. Business and consumer loans are still rising strongly in most areas, although some banks in the Boston District reported a leveling off of loan demand, and Kansas City found loans flat to up slightly. Deposit growth has slowed in the Atlanta, Cleveland and San Francisco Districts, but remains steady in the Dallas, Minneapolis, and Philadelphia Districts.

Agriculture

Crop conditions have improved in recent weeks, although conditions remain poor in areas along the Gulf Coast, in central and southwest Texas, and in parts of California and New York. Kansas City reports generally good wheat, corn, milo, and soybean crops, with only isolated and relatively mild weather problems. Despite improvement in the near-term outlook, however, debt levels and falling land values continue to plague farmers.

FIRST DISTRICT - BOSTON

Economic activity in the First District continues to expand. Retail respondents report sales increases both over year-ago levels and over plan. Manufacturers also report significant gains over the year. The recovery among manufacturers has been uneven, however; for some firms business is excellent, but for capital goods producers supplying specific traditional industries, the recovery has been slower than normal. Modest inventory imbalances seem to have developed in both the retail and manufacturing sectors; in some cases, inventories are too large, in others, too small. Price increases for materials and components are still described as moderate. Mortgage lending, which had been very strong, is reported to be falling, and loan demand at some commercial banks has levelled off.

Retail

Retail sales in the First District continued to exceed plan in June and July. Among those contacted, sales increases for June ranged from 2 to 29 percent above June last year. July is somewhat stronger. The small 2 percent increase was attributed to administrative changes; and the respondent expects a strong pickup in the fall. Sales increases for both an upscale merchant and a discount department store were comfortably into double digits. Several stores reported that sales of home, camp, garden and patio goods were especially strong. Strength elsewhere reflected promotional efforts. One product area reported to be weak is computer games.

Two contacts mentioned inventory problems. One store has been marking down and promoting since the start of the year, but inventories, while declining, remain considerably higher than desired. Another has the opposite problem — slow shipments by suppliers have reduced inventories enough to harm customer service noticeably and reduce sales.

Retail prices are rising only slowly. One merchant attributed a modest 4 percent annual average price increase to three factors: market competition, no jumps in prices from suppliers, and their own ability to keep costs down.

Manufacturing

All manufacturing contacts report business is up over year ago levels; but the strength of the recovery is uneven. Some firms are enjoying record sales and earnings while others have seen only modest improvements since the recession. The diversity in performance is particularly pronounced in the capital goods sector and is ascribed to the fact that some major industries are doing very little investing. For capital goods producers heavily dependent on sales to the farm equipment, chemicals, oil drilling and mining industries, the recovery has been disappointing. On the other hand, for producers less focused on these industries the recovery has been more vigorous than expected. The electronics industry, in particular, is said to be booming and exerting a strong demand for investment goods. Outside the capital goods sector, the demand for automotive and some housing-related products remains strong. Sales of chemicals are reported to have improved. Respondents, even those experiencing large sales gains, are trying to hold down employment and, in most cases, are limiting hiring to small numbers of production people in scattered product lines.

Several respondents reported mild inventory imbalances. Inventories are higher than desired for some, a little lower than desired for others. In contrast to some past reports, when respondents stressed their commitment to holding down inventories, statements this month suggest that customer service has risen as a priority.

Price increases for materials and components are said to be modest. Supplies are adequate. Concerns about inflation center around next year's wage settlements in key industries. Also, one executive noted that foreign competition has held down the prices charged by U.S. producers; were the dollar to decline relative to foreign currencies, prices would rise not only for imports but also for many domestically produced goods.

Foreign markets are reported to have improved, at least for subsidiary operations. Business in Canada and Asia seems to be quite good; Europe is mixed and South America has stabilized at a depressed level.

Financial

Mortgage lending by thrifts in the First District had been running at a record pace until very recently. However, loan volume is now reported to be drying up. This decline is attributed to high and stable interest rates. Earlier, interest rate increases were thought to have stimulated demand as borrowers sought to avoid still higher rates later. Among thrift institutions, ARMs account for more than two-thirds of mortgage loans. Commercial banks are less active in ARMs.

Reports from commercial bank contacts on recent lending experience are mixed, with some reporting continued vigorous growth and others seeing a levelling off.

SECOND DISTRICT - NEW YORK

Summary

Although the Second District's economy continued to expand through June and early July, a few indications of some future slowing appeared. Consumer spending, production and commercial and residential construction were all strong. But higher interest rates on real estate loans have begun to discourage some marginal homebuyers, and rising vacancy rates have caused some concern among commercial developers bringing new office space on line. In the agricultural sector, weather conditions have made the outlook discouraging.

Consumer Spending

Retail sales in the Second District continued to exceed expectations of local merchants during the month of June, though posted increases of between 10 and 20 percent over year-earlier levels were generally lower than those recorded for the previous two months. For July, estimates of sales increases varied widely among informants. One retailer in New Jersey reported only a five percent increase in sales over last year, while another chain with mostly suburban outlets reported a gain of twenty-eight percent. By mid-July retailers' inventories had generally fallen to planned levels, stores having reduced the somewhat excessive stocks of May and June.

Business Activity

The expansion in the District's business activity quickened somewhat in recent weeks. A higher percentage of purchasing managers reported an improvement in new orders, particularly in the Rochester area, and the percentage reporting lower orders declined. Inventories generally remained unchanged from the satisfactory levels of a month earlier.

Employment gains were registered in most of the District's labor market areas in June, and the number of nonfarm jobs in New York State climbed above 7.5 million for the first time. The improvement occurred across all industry categories but was most heavily concentrated among wholesale and retail trade establishments. Additional employment data suggest that the reported June increase in New York State unemployment from 6.7 to 7.1 percent was probably a statistical aberration as was New York City's increase from 7 to 10 percent.

Financial Sector

Although New York money center banks typically have offered higher rates on unregulated consumer deposits than the national average, a rate war has broken out recently among these large New York City banks. By July 25 the average yield on six-month deposits was up 133 basis points from five weeks earlier, compared with 54 basis points nationally. Even with this run-up in yields at money center banks, there has not been any significant loss of consumer deposits at small institutions in the District.

Construction and Real Estate

The strength of the housing market is beginning to diminish in most parts of the District. Higher mortgage rates have been depressing traffic, especially among first-time buyers and for lower- and middle-priced houses. Homebuilders have experienced little adverse impact at present, but the outlook for construction for spring deliveries is increasingly uncertain. Concerns about interest rates and growing inventories of vacant space are also beginning to affect commercial real estate markets. In lower Manhattan both supply and vacancy rates are increasing rapidly due to the completion of seven million square feet of office space. On Long Island too, a sizable amount of space is available or under construction.

Agriculture

The agricultural picture has been adversely affected by weather conditions. Excessive rainfall and unusually cool weather delayed spring planting in much of the District, and lower vegetable and other crop production is likely this year. Diary farmers report that milk prices have been relatively flat, while costs continue to rise. Some increased demand for processed dairy products has occurred, however.

THIRD DISTRICT - PHILADELPHIA

Conditions in the Third District economy are mixed, according to business contacts. Bankers report a surge in savings deposits, and loan demand and retail sales continue strong, though not as strong as in the past few months. On the other side, however, manufacturers report a fractional decline in activity, and real estate contacts see slippage in traffic and sales since June.

Even though current conditions are mixed, forecasts from most sectors are optimistic. Contacts expect growth to continue, though at a somewhat slower pace for the remainder of the year. Realtors expect weak activity until interest rates stabilize, which, they indicate, may happen by year-end.

MANUFACTURING

Respondents to this month's Business Outlook Survey report a fractional dip in manufacturing activity, the first in 19 months. While 14 percent of survey respondents indicate an increase in activity, 26 percent cite a decline. Even after adjusting for seasonal factors that tend to restrain activity in July, this month's results show no growth from June levels. New orders have fallen, and shipments, inventory levels, and payroll sizes have shown no improvement since June. This performance represents a continuation of a general slowing trend which began in April. Manufacturers' outlook for the rest of the year is bright, however, as they anticipate continued economic expansion.

Industrial price increases are more widespread in July than in the last few months. Forty-six percent of respondents are paying higher prices in July than in June and 22 percent are receiving more for their output this month compared to June. Higher prices for both inputs and outputs are expected over the rest of the year.

RETAIL

Retail sales in the Third District are healthy, but exhibit less pep than they did during the spring and early summer holiday sales. June sales rose about 15 percent over year-ago levels, but July sales are about the same as a year ago. Retailers are not concerned, however, since July 1983 was an exceptionally strong month, and since July is traditionally a slack time when the industry "cleans out" the summer merchandise and takes physical inventories. In general, inventories are a little higher than usual for July, but they are in line with sales expectations for the coming months. Apparel continues to be a strong seller due to summer sale promotions. Retailers expect to do well the rest of the year, predicting growth of 8 or 9 percent on a year-over-year basis.

FINANCE

Loan demand remains strong as Third District bankers report continued growth in both commercial and consumer lending. Commercial loan activity is increasing but at a slightly slower rate than in past months, probably due to the "annual summer slowdown." C&I loans for July are up about 9 percent over June and are running approximately 20 percent over July 1983. Consumer loans are on the rise in all product areas, especially credit cards. The only soft spot in loan demand is mortgage activity, which has turned down as interest rates have crept up.

Loan demand is expected to remain strong throughout the rest of the year, according to local bankers. Bankers look for increases of 10 percent or higher in C&I loans and 8- to 10-percent growth in consumer lending by the end of this year.

The prime rate, currently at 13 percent at all area banks, was raised from 12.5 percent on June 25. Third District bank economists anticipate slight increases in the prime through the end of the year, to 13.5 or 14 percent, and they also look for the federal funds rate to inch up to 12 percent.

Third District bankers report that retail time and savings deposits are up about 10 percent from this time last year. Time deposits especially are growing, in part because of increases in personal income, and also because of the high cost of holding demand deposits and the relatively low rates being paid on money market deposit accounts.

REAL ESTATE

Real estate sales activity in the Third District has dropped off slightly since June, and is well below May levels, while traffic has slowed over 50 percent since June. Realtors explain that July is traditionally a slow month for the industry, and cite, in addition, the "high and rising" mortgage rates as a deterrent to buyers. Thirty-year fixed-rate mortgages are available for 14.5 to 15 percent. Adjustable rate mortgages, negotiable after one year, are going for as low as 11.9 percent. Real estate contacts observe that about half of their sales now are being financed by adjustable rate mortgages.

Realtors are looking for greater stability in interest rates by year-end 1984. They expect stable rates to boost the currently sluggish sales, which, in their view, are due to interest rate uncertainty.

FOURTH DISTRICT - CLEVELAND

Summary.

Economic activity in this District continues to improve, with some signs of slower growth and no indications of accelerating inflation. Labor market conditions continue to improve. Auto sales remain strong but general merchandisers report slower growth of sales. Growth in manufacturing activity is slowing. Inventories are growing slowly. Housing markets show more signs of weakening. Business and consumer loan demand, except for home mortgages, remains strong.

District Labor Market Conditions.

Labor market conditions in the District continue to improve and use of overtime is declining. Unemployment fell and employment rose in Ohio in June, reducing the unemployment rate to 9.0% (s.a.) from 10.2% in May. Manufacturing employment in Ohio continues to increase slowly but average weekly hours worked by production workers have fallen from 42.8 (n.s.a.) in December to 42.2 in June.

Price Pressures.

Contacts generally report little upward pressure on prices. A survey of purchasing managers suggests the rise in commodity prices has slowed sharply in the last three months. Some contacts report wanting to raise their own prices to restore historical profit margins but are unable to make increases stick, even though sales are rising.

Several contacts report producers of corrugated paper containers are at capacity and raising prices. A producer of television bulbs reports no price increases despite strong sales because of world-wide overcapacity in glass. A producer of railroad ties reports difficulty obtaining raw wood because it is being diverted to the pulp and paper industry, yet wood prices are not rising. Prices of steel remain weak. There has been some easing of shortages of chips and microprocessors.

Retail Sales.

District retail sales reports for July were mixed. Auto dealers continue to report strong sales gains with some sales lost because of a lack of inventory. Preliminary sales figures for general merchandisers indicate some weakening in sales. Most reported that July gains were below expectations because a dip in soft goods removed some of the strength seen in first and second quarter gains. One analyst, however, believes the July slowing was due in part to the large June increase. He expects sales to remain soft in August and turn up in September.

Manufacturing.

Growth of manufacturing activity shows some signs of slowing. This Bank's survey of District manufacturers indicates they expect business conditions in July will be little changed from June. Producers of components for durable goods report orders are generally strong except for some weakening in orders from producers of appliances and other consumer durables. Orders from the industrial sector are strong with no sign of slowing. Orders from producers of plastics-making machinery and construction equipment are particularly strong. Orders from heavy truck producers are being received at a high but slowing rate but orders from producers of agricultural machinery remain weak. Producers of components for refrigeration equipment, autos and trucks report production is at capacity. Production of chlorine for the plastics industry is at capacity.

A major steel producer reports orders for steel have been falling because of seasonal automobile model changeovers and inventory reductions of flat-rolled products, especially by steel service centers. Another steel producer reports that the decline in new orders experienced since March appears to have ended in June. Competition from imports remains a key concern of the industry.

Inventories.

Contacts generally report strong efforts to keep inventories leaner than usual. Purchasing managers report general vendor performance continuing to deteriorate but inventories continue to grow very slowly. One contact sees producers building inventories of materials and supplies later than normal in this recovery. Some general merchandisers report some involuntary inventory accumulation in July, but auto dealers are unable to build inventory.

Housing.

The outlook for housing is gloomier than a month ago as housing markets exhibit more signs of easing. One market participant described the current market as a "buyers' market without buyers."

Realtors are experiencing a significant deceleration in the volume of contracts being closed, which is expected to worsen. Adjustable rate mortgages (ARMs) have been sustaining greater-than-typical activity for recent levels of interest rates, but recent negative publicity about the "payment shock" of ARMs is reducing consumers' acceptance. Builders have become extremely cautious and are reducing inventories of unsold homes and undertaking new business by order only.

Mortgage loan activity at banks is slipping; two large banks report activity is 50 percent below last year's pace. Bankers say consumers increasingly are demanding interest rate and payment caps on ARMS.

Partially offsetting the effect of higher mortgage rates is the revival of mortgage revenue bonds under the recent deficit reduction legislation.

Commercial Banking.

Loan demand has been strong at Fourth District banks in recent weeks. The business loans category registered the largest rise in outstandings during the past month. Bankers expect business loan demand to remain at its current, fairly strong level. Banks report sizeable gains in consumer loans and expect demand for auto and credit card loans to remain quite good in the next few months.

Retail deposit growth at Fourth District banks has been relatively flat during the past month. Banks appear to be financing loans by issuing large CDs and reducing their holdings of securities.

Fifth District - Richmond

Overview

On balance, activity in the Fifth District is continuing to expand, rapidly in some areas and sectors. Nonetheless, there are also emerging signs of moderation in some industries as pipelines fill up and import competition remains strong. Drawing strength from construction, trade, and seasonal services, total employment is reaching record levels in parts of the District. Residential and commercial construction continue robust, although there is evidence of slower speculative building of residential units, and the major gains in total residential activity appear to be past. Coal production is running very strong in the District. Ports activity is setting records as a result of import volumes. Tourist activity is a mixed bag as some areas are having disappointing peak seasons. The quarterly survey of agricultural credit conditions revealed that the financial health of District farmers has improved somewhat of late.

Manufacturing

Overall, the manufacturing sector is continuing to make healthy gains in employment and output, but there is significant disparity within the sector. The strength is almost entirely in durable goods and building materials, and largely in the capital and industrial goods portions.

Even within the nondurables, however, there is significant variety. The paper industry has been operating at near capacity for some time, so gains have been restricted. The textile and apparel industry, on the other hand, may be giving ground as inventory building appears to have run its course and import competition continues to intensify. There are also scattered reports of some slack developing in the furniture industry. If accurate, these reports probably reflect slower inventory accumulation rather than weakening final sales.

Housing and Construction

Construction activity continues generally buoyant around the District. Commercial and industrial construction is showing strength at nearly every stage along the pipeline, and the projects now in progress should sustain the industry for a good while. Residential construction is also holding on to recent gains in most areas. There are reports, however, that house sales have slowed in recent weeks and that speculative building has dipped as builders have grown more cautious. The overall impression of the residential sector is, nonetheless, one of vigor.

Consumption

Nearly all available information points to further gains in consumer spending activity in recent weeks. Sales are rising nearly across the board, from apparel and general merchandise lines to furniture, appliances, and automobiles. Gains in consumer installment credit outstanding are still quite substantial.

Despite the appearance of great confidence and enthusiasm on the part of consumers, some areas which rely heavily on tourism have found summer business disappointing thus far. Such disappointment is by no means uniform across the District, however. In fact, analysis of the experience of various areas suggests that perhaps tourists and vacationers are venturing farther from home, at the expense of the areas favored during recent periods of recession and concern over gasoline prices and supplies. Tourist-related businesses in the more remote areas seem much more pleased with their experience this season.

Agriculture

Good weather conditions throughout the Fifth District have brought optimism to farmers and agribusiness establishments this summer. Barring a collapse of farm commodity price levels as harvest time approaches this fall, farm cash receipt levels should rebound sharply from the drought affected levels of last year. Problems do remain in the agricultural sector, however, with uncertainty surrounding the future of tobacco farmers, weakness in some livestock prices, and higher interest rates dampening the optimism arising from the summer's abundant rainfall.

A survey of Fifth District bankers has indicated that financial stress, as measured by foreclosures and/or liquidations of farm assets are well within "normal" levels, indicating that strength is returning to the agricultural economy.

Banking and Finance

With consumer and business lending both expanding at recent rates, and with deposit inflows having slowed somewhat, liquidity positions of

District financial institutions have been reduced significantly. Still, there is no indication that institutions in general, or even a significant number of individual institutions are under any liquidity pressures.

The Outlook and Prices

For the most part, businessmen and consumers around the District remain quite optimistic. They express concern over such things as the government deficit, the trade deficit, and the LDC debt problem, but have not let it affect their behavior.

Some businesses are facing what they perceive to be more pressing problems. Foreign competition is among them. Such industries as textiles and apparel and furniture are facing very weak markets for their exports and very strong foreign competition in domestic markets. They are concerned that if costs were to rise, margins would deteriorate since price increases would be nearly impossible. Costs are already reported to be putting significant pressure on margins of producers of a wide range of industrial products and goods, but price increases are apparently not tenable in the current market environment. Thus, while the outlook is for relatively stable prices, producers are very concerned about profits.

SIXTH DISTRICT - ATLANTA

The Sixth District economy slowed somewhat in midsummer, but areas of strength continue to dominate the weaker sectors. Slowing housing construction throughout the region has led to a softening of activity in concomitant industries. Foreign imports are pressuring apparel and textile producers, and the bankruptcy of a Florida-based airline has added to unemployment rolls. In contrast, consumer spending has been strong and bank loans to consumers have grown briskly. Auto dealers report inadequate inventories to meet strong demand. Tourism is outpacing that of last summer, and increasing rainfall has brightened the production outlook for most crops.

Employment and Industry. Labor market conditions have been mixed since the last reporting period. In June, jobless rates rose incrementally in two District states and remained unchanged in two others. Only Louisiana posted a significant decline, from 9.1 percent in May to 8.6 percent in June. The state's petrochemical industry is gaining strength and some plants are approaching full capacity utilization rates. Auto parts plants continued to recall workers to accommodate orders generated by surging new car sales. A large auto glass facility in Tennessee recently fired up its third production furnace, which had been idle four years. Tire-producing plants continue to be hard pressed to meet demand of auto manufacturers.

Contacts at apparel and textile firms throughout the region are expressing increasing concern over rising imports. Imports reached the highest level on record in May, and industry spokesmen see little hope of a downturn in the near term in spite of efforts to make domestic plants more competitive. Aluminum production is decreasing in Tennessee and spokesmen state that further capacity cutbacks could occur. Inventories of aluminum are building due in part to a slackening of demand from the housing industry. Lumber mills also report increasing inventory accumulations in response to the housing slowdown. Florida's impressive recovery suffered a setback with the bankruptcy of a major Miami-based airline and the resulting addition of 1,200 people to the state's unemployment rolls.

Consumer Spending. District retailers posted healthy sales increases in the first days of July, but they failed to match the strong double-digit increases of June. Regional department store sales continue to outpace comparable sales nationally. Electronic items such as personal computers and telephones were top sellers. Representatives from District automobile dealers confirmed that the 1984 auto sales recovery has continued well into July. District car dealers reported strong June/July sales despite widespread domestic car shortages and concerns for rising interest rates. Inventories of full- and intermediate-sized models are especially low, but dealers forecast moderate to strong sales for the remainder of 1984.

Construction. Southeastern home builders report a continued slowing in home construction. Mortgage loan applications have dropped in most states, and realtors observe increasing inventories of homes. Building materials suppliers also report continuing declines in sales and falling lumber prices. Mississippi posted the only significant growth in residential building permits issued among District states, while Georgia and Tennessee led the southeastern decline with 9- and 10-percent decreases, respectively.

By the end of August, recent federal legislation will provide bond-funded mortgage loans in District states as much as 4 percent below market rates. This should aid construction of low- and moderate-priced housing in certain areas. Even so, builders expect a continuing decline in residential construction in major southeastern cities, where purchasers may have difficulty in qualifying for these subsidized loans.

Commercial construction in Atlanta, Orlando, and Tampa continues its strong pace. Hotel construction is very active in the Orlando area despite concerns of overbuilding in the face of attendance declines at local tourist attractions.

Financial Services. All major types of bank loans increased in June, and preliminary data show growth continuing through mid-July. Consumer lending doubled its growth rate over May; and business credit likewise showed considerable strength. Although loans at regional savings and loan associations are running ahead of the level in May of 1983, mortgage originations have slowed sharply over the last two months.

Bank deposits have registered little growth since May, and thrifts in the region have also posted slow or negative deposit growth.

Tourism. All southeastern visitor centers are experiencing growth in the number of registrations when compared to last year. Lodging tax receipts and air traffic figures also indicate increased travel activity. Air traffic is up in almost all southeastern cities. Neighboring states are continuing to benefit from increased tourist travel to the New Orleans World's Fair although, total fair attendance lags well behind expected levels.

Agriculture. Increased rainfall in recent weeks has improved crop conditions in much of the Sixth District, but spots in Mississippi and Alabama remain seriously dry. The extended dry period in June reduced corn yields in Georgia and Alabama, but adequate moisture during the balance of the growing season will restore the production of most other crops.

Farmers Home Administration (FmHA) delinquency rates continue to climb in the District. The present rate is a record high 42 percent, representing 21,000 southeastern farmers. Farmers in Georgia and Mississippi are experiencing the most difficulty, accounting for 10,000, or nearly half of total delinquencies.

SEVENTH DISTRICT--CHICAGO

Summary. Business conditions continue to improve in the Seventh District, but the extent of the recovery has been less satisfactory than in the nation generally. Confidence of executives and consumers, overall, is at the highest level in several years. The strongest improvement has been in motor vehicles, where the outlook is clouded by complicated labor-management negotiations now in progress. Most producers of mechanical capital goods report gains over last year's severely depressed conditions, but the revival is far from satisfactory, especially in farm equipment. Export markets remain weak. Attempts to cut labor costs against union opposition have led to new confrontations, and threatened closings of additional factories and stores. Some electric utilities are under severe financial stress, mainly because of problems with nuclear plants. Retail sales continue at good levels, especially durables. Price inflation remains moderate. Except for some types of motor vehicles, there are no significant supply restraints. Paper and paperboard producers are operating near capacity. Housing activity, increasingly, is restricted by high interest rates and availability of credit. Nonresidential building prospects, in contrast, have strengthened. Both residential and nonresidential construction activity are far below levels of the late 1970s. Crop conditions generally are favorable, but many farmers are burdened by debts incurred in earlier years and are holding back on commitments. Farmland values have declined further.

District Versus Nation. Attitudes expressed at gatherings of financial and business executives in the Seventh District seldom reflect the felicitous aura of most evaluations from New York and Washington. Prosperity has not returned to the Midwest. The best evidence is found in employment data. The rise in payroll employment since late 1982 has been only half as great in the five-state area as in the nation. Manufacturing employment has increased somewhat faster here than in the U.S. in this period (largely because of motor vehicles), but remains 20 percent below the levels of five years ago. Non-manufacturing employment has increased only slightly here and remains below the levels of 1979, in contrast to substantial gains in the U.S. Comparisons of changes in income and retail sales with the nation reflect these trends.

Reasons for District Problems. Reasons for the weaker situation in this region relative to the nation are varied and complex. No relief is in sight. Most important has been the limited recovery in capital goods--including machine tools and equipment for construction, agriculture, mining, and railroads. Second, aside from weak domestic markets, durable goods producers have been especially hard hit by declines in exports and by increases in imports. Third, continued financial stress seriously depresses agriculture and businesses that serve farmers. Fourth, construction activity remains far below earlier peaks. Fifth, many District financial institutions, public utilities, state and local governments, and hospitals have been forced to curtail employment. Finally, most areas in the region have seen slow growth or declines in population, which both reflect and contribute to the problems described above.

Labor Negotiations. Labor-management negotiations over adjustments in labor costs have led to confrontations, sometimes bitter, in a variety of industries, including food retailing, machine tools, meatpacking, and state/local government. Some unions have voted heavily against proposals to cut wages and tighten work rules, even with the understanding that their facilities will close. In many cases, the main issue is a lower starting wage with freedom to use more part-time workers. A strike is expected in coal mining in October and utilities are increasing coal stocks. By far the most important negotiations, directly involving 500,000 workers, began in the auto industry on July 23. Unions want higher wages now and in subsequent years, larger pensions, job guarantees, and a reversal of concessions agreed to in early 1982. Managements wish to hold down such claims and also limit health benefits. Companies are making record profits; the UAW has a record strike fund. Managements threaten to increase foreign sourcing of components if a satisfactory agreement is not reached. Detroit sources describe both sides as outwardly optimistic on a settlement, but "negotiations will be the most complicated and difficult in their 47-year history." The outcome will be anxiously awaited throughout industry because the auto agreement usually has set the tone for subsequent negotiations in farm and construction equipment, rubber, and steel.

Housing. Residential construction has held up surprisingly well so far, but a decline appears to be imminent. In the first half of 1984, housing permits in the five-state region were up 25 percent from 1983, and double the 1982 level. However, permits were less than half as great as in 1977 or 1978. Nationally, permits this year have about equalled the strong performance of 1977-78. Current effective mortgage rates approaching 15 percent are barring many potential buyers, especially second-time buyers. Recent levels of housing activity have been aided by extensive use of ARMs. But high default rates on ARMs, double that on fixed rate loans according to a major insurer, have caused lenders and borrowers to re-examine this device. Private mortgage insurers headquartered in this region (which depends heavily on private insurance) wish to raise their rates on ARMs by 40-50%.

Nonresidential Construction. High financing charges do not appear to be slowing the recovery in nonresidential building. One analyst lists 27 large, new commercial buildings planned for the Chicago area, mainly downtown. Substantial office vacancies still exist, but leasing volume has increased and large blocks of prime space (50-100,000 square feet) are relatively scarce. Only one large, new building will open in downtown Chicago in 1985. Manufacturing building contracts also have increased from a very low base. Store construction has strengthened, but is concentrated in individual buildings or small shopping centers. Dodge nonresidential construction contracts (in square feet) in the first half of 1984 were double the level of 1982 in the five-state area. However, they were only half as great as in 1978. For the nation, first half volume was within 10 percent of 1978.

Agriculture. District farmland values continue to edge downward, reflecting low farm sector earnings of recent years and lackluster earnings prospects for the near future. Our latest survey of agricultural bankers indicates that District farmland values declined 1 percent in the second quarter and 7.5 percent in the year ending July 1. District farmland values are down about 20 percent from the 1981 peak and are near the levels of late 1978. Declines in the Midwest have been greater than in most other regions.

Electric Power. The decision, announced July 16, to halt construction of a long-delayed nuclear power plant in Michigan has far-reaching consequences. Over 6,000 construction workers and technicians apparently will be dismissed. If the utility cannot raise rates sufficiently to offset an apparent $4 billion write-off, it may be forced into bankruptcy. This could threaten both its ability to supply adequate electric power and to purchase natural gas reserves needed for the winter. Ironically, its sales of power are up strongly this year to residential, commercial, and, especially, industrial customers for the first time in five years.

EIGHTH DISTRICT - ST. LOUIS

Favorable economic trends continued during July in the Eighth District. Consumer spending, factory production, commercial investment and total employment continued to grow. The outlook is for further, but more moderate, expansion for the remainder of the year. Agricultural crops over a broad area have had near-ideal growing weather.

Consumer Spending

Department store sales in the District continued above year-ago levels in the first three weeks of July. Clothing moved better than hard goods. Merchants are optimistic about the upcoming Christmas season and are stocking their shelves based on this anticipation. Restaurant business is reported to be good.

New automobile sales at seven dealers in the District averaged 13 percent above year-ago levels in the first 20 days of July. Both trucks and used cars also moved well.

Industrial Production

New orders at a number of District factories decreased slightly in July, but production and shipments continued to rise because of large backlogs of orders. Capital goods spending has improved, but the demand has come in spurts. A major automobile manufacturer announced that it would add another shift in the early fall to produce a luxury car. Orders at both metal fabricators and basic metal producers were weak, in part reflecting foreign competition. Although the outlook is generally for prices to rise only moderately faster in the second half of 1984 than in the first half, a few firms began buying selected supplies in anticipation of price increases. On the other hand, a major chemical company noted it was becoming harder to make price increases stick.

The strike at the lead mines, which began at the end of March, continues. Prices of lead are now up about 25 percent from before the strike, but industry spokesmen believe prices will fall quickly if the strike is settled soon.

Housing and Construction

Realtors are experiencing a rise in the average length of time a house is on the market, and new single-family housing starts have run below year-ago levels since May. On the other hand, builders in both St. Louis and Memphis have started considerably more apartments than at this time a year ago. Construction activity remains strong, reflecting both the building of apartments and the large volume of back orders for single-family dwellings. A recent survey found that 65 percent of the new mortgages in the region around St. Louis were on the adjustable rate basis, and that rates on new mortgages ranged widely from 11-1/2 to 15 percent.

Employment

Total employment in the District continued to rise in July, and early indications are that the unemployment rate drifted slightly lower.

Both retail and wholesale firms added to their staffs, and employment in the services industries continued to expand. Hiring for construction continued to rise, but this is expected to reverse in August, since housing starts have declined, and several large road projects and commercial buildings will reach completion. There was also some hiring in the month to fill in for vacations and other temporary needs for help. Manufacturing employment increased only slightly, on balance, since one major company lost a government contract and another was on strike.

Agriculture

Weather conditions across major corn and soybean areas of the District have been favorable during much of July, and the outlook is for relatively large crops. Chemical companies report an increase of insecticide and herbicide sales. Feed sales to farmers, however, have been soft as a result of the decline in the numbers of hogs and cattle since a year ago. Farm equipment sales remain low, with many farmers repairing old equipment or buying used equipment from those going out of business.

Banking

Real estate loans at 12 relatively large District banks rose at a 24 percent annual rate in the first three weeks of July, while commercial and industrial loans increased at a 12 percent rate. Consumer installment credit, however, changed only slightly at these banks, while rising at smaller institutions.

NINTH DISTRICT - MINNEAPOLIS

The pace of economic growth in the Ninth District has moderated. Employment conditions remain healthy, in part due to heavy construction activity, and general merchandise and auto sales are still strong in the district's diversified cities. However, housing activity seems to have fallen off, and the region's agricultural sector is still suffering from declining land values and increasing debt service woes. As a result, both consumer spending and financial activities are slack in rural areas and in smaller cities and towns. The pace of tourism, an important contributor to the Ninth District's summer economy, appears to be varying around the region.

Employment

Employment conditions remain good in the district. In Minnesota, the seasonally adjusted unemployment rate fell slightly to 6.0 percent in May, then rose slightly to 6.2 percent in June. Analysts attribute the increase to statistical quirks and to temporary layoffs of nonstriking hospital workers, caused by a nurses' strike which ended in July. In Duluth, Minnesota, fueled in part by heavy public construction activity, employment rose to its highest level in 18 months. Heavy construction activity is also lifting labor demand in parts of Montana, in South Dakota, and in North Dakota. In North Dakota, oil production is also increasing demand. June job placements reached an all-time high at the Sioux Falls, South Dakota, employment bureau.

Consumer Spending

Recent reports about general merchandise sales have been mixed; sales remain strong in the diversified larger cities, but are spotty in the smaller cities and towns that depend on agriculture. One urban retailer says that its June and July sales were good. Its downtown stores in the Minneapolis-St. Paul area did particularly well, exceeding their sales goals. Retailers in Rochester, Minnesota, are finding that business is being spurred by a high level of visits to the city's famed medical complex. However, a Bank director reports that sales in both Bismarck, North Dakota, and western North Dakota haven't picked up. Directors of this Bank's branch in Helena, Montana, see similar weakness in many areas of Montana. While sales in diversified Sioux Falls, South Dakota, were up sharply in the second quarter, South Dakota's rural retailers suffered from declining sales.

District sales of motor vehicles--particularly full-size cars--continue to show strength across the district. A domestic manufacturer reports good sales in all models, with its full-size car sales 9 percent ahead of a year ago. Its inventories are about normal for this time of year.

Housing activity appears to have slowed somewhat. Twin Cities housing permits started to fall off in May. While Twin Cities home sales rose sharply in May, they fell off in June. Early reports indicate that sales in July won't be better than they were a year ago either. Slowing activity has also been noted lately in the Dakotas and in Montana, where a lot of home remodeling is being done in lieu of new home buying.

Agriculture

While crop conditions have improved throughout the district, farmers are still suffering from low land prices and high debt service burdens. The corn, soybean, sugar beet, and sunflower crop outlooks have all benefited from drier weather. Because northeastern Montana is still way too dry, though, both crop and livestock income is being destroyed. The federal dairy diversion program and strong ice cream sales are expected to help the district's dairy producers. But this Bank's latest survey of agricultural bankers indicates that local farmland values and farm debt service woes continued in the second quarter.

Finance

Deposits at district commercial banks, savings and loans, and credit unions rose at an annual rate of 7 percent between mid-June and mid-July. Most of the growth occurred in Minnesota and Wisconsin. District Bank directors report that financial activity has been slack in rural parts of the district because of farmers' difficulties. One notable event is the purchase of the largest insurance agency in Montana by the district's largest bank holding company.

Tourism

Tourism, which plays an important role in the Ninth District's summer economy, is having a mixed season. While employment levels in this industry and inquiries at state tourism offices are up in Minnesota this year, bad weather and a fishing regulation dispute with Canada have hurt the state's Arrowhead region (northeastern Minnesota). The Heartland region of north central Minnesota is doing better than last year, though. Wisconsin's Indianhead region is having an excellent summer; there short, mid-week vacations are becoming more popular. While tourist activity in the Upper Peninsula of Michigan is good, it has not been as heavy as last year, due to unstable weather. Bad weather and the Canadian exchange rate have hurt business in South Dakota, particularly at Mount Rushmore, which was fogged over during parts of June. A mixed picture is reported in Montana, with more visitors than usual to Yellowstone National Park and fewer to Glacier National Park.

TENTH DISTRICT--KANSAS CITY

Overview. Economic activity in the Tenth District continues to grow moderately, and price increases are expected to be relatively small for the rest of the year. Inventories of input materials are satisfactory but retail inventories are somewhat high. No major inventory adjustments are anticipated, however. Higher interest rates are restraining mortgage commitments, as well as housing starts and sales. Automobile dealers are also concerned about the impact of rising rates on new car sales. Loan demand has increased somewhat at commercial banks, in spite of increases in the prime rate and in consumer loan rates. The district wheat crop was generally good, and fall-harvested crops are also in good condition.

Retail Trade. Retailers report that year-to-date sales are slightly ahead of a year ago, but results for the last three months are mixed. Sales of home furnishings and men's and women's apparel have been particularly strong. Inventories are generally reported to be somewhat high, but little adjustment is anticipated in the near future. Clearance sales are occurring on schedule. Retail prices have remained approximately constant during the last three months and are not expected to change significantly before the first of the year. Expectations of sales for the remainder of the year are mixed, but no large changes from current rates are predicted.

Automobile Sales. Automobile dealers throughout the Tenth District continue to report improved sales in 1984 relative to 1983. Credit market conditions are satisfactory and financing is available for both floorplanning and customer purchases. Most dealers express concern over rising interest rates, indicating that further rate increases would restrict sales. Attempts to expand inventories have been frustrated by a lack of availability, with highly demanded models in short supply. Dealers anticipate strong sales for the balance of 1984.

Purchasing Agents. Over half of the purchasing agents contacted report input price increases over the past year ranging from 1 to 8 percent. Increases were concentrated in the second quarter of this year. Expectations of price movements for the remainder of 1984 vary by industry, with stable or falling prices expected by several soft goods producers. Some respondents report difficulties in getting materials because of strikes at suppliers and heavy demands placed on suppliers by the automobile industry. Most respondents are satisfied with their materials inventory levels, having slightly trimmed or maintained these inventories recently. Most intend to maintain or slightly trim inventories the rest of the year. None of the respondents report bottlenecks in skilled labor or plant capacity.

Housing Activity and Finance. Homebuilders in the Tenth District report mixed results when housing starts in the first half of 1984 are compared to year-ago levels. Starts of multi-family units are generally up, while starts of single family units vary across the district. Higher interest rates have slowed housing starts since early June and are expected to continue to do so through the remainder of the year. Sales of new homes are down from last year, with prices holding steady to slightly higher. Inventories of unsold homes vary considerably across the district. Building materials are in good supply at generally steady prices. Savings inflows at savings and loan associations are unchanged to slightly higher than a year ago, and are expected to remain steady throughout 1984. Mortgage demand has declined due to higher interest rates and is expected to soften further for the rest of the year. Fewer mortgage commitments are being made. Mortgage rates are expected to rise somewhat more in 1984.

Banking. Loan demand was moderately higher than last month at most Tenth District banks. At all of the banks surveyed, commercial and industrial loans and consumer loans were either flat or up slightly, while agriculture loans were either flat or down slightly. Residential and commercial real estate lending was considerably more variable, rising sharply at some respondents but falling or remaining unchanged at others. Total deposits were higher than last month at a narrow majority of the respondents. Most of the increases were in conventional NOW's, Super NOW's, and MMDA's, but some respondents reported weakness in these categories. The prime rate was 13 percent at most of the banks surveyed, up a half point over the previous month. Consumer lending rates were slightly higher at about half of the respondent banks and unchanged at the other half. Several respondents expect to raise their consumer lending rates in the near future.

Agriculture. The wheat crop in the Tenth District is generally good this year. Most wheat has been harvested, though rain has delayed cutting in Colorado. New Mexico and parts of Colorado report excellent crops, but production is lower than normal in Nebraska and dry conditions lowered production in parts of Oklahoma. Some farmers have sold enough wheat to cover immediate expenses, but are holding the rest of the crop. Producers are selling more wheat in Oklahoma, Missouri, and Nebraska than in other district states. Although some producers are actively selling harvested crops forward, there is not much use of forward selling or futures. The district's corn and milo crops are in generally good condition, though slightly behind in development. There are reports of localized hail damage, some of it heavy. The soybean crop is also in good condition but it, too, lags normal development. Moisture conditions are good to excellent in New Mexico, Colorado, and parts of Nebraska. The rest of the district reports dry conditions and some concern about the lack of rain. At the same time, land that was flooded earlier this spring did not dry out enough to be replanted, except in isolated higher areas.

ECONOMIC COMMENTARY

ELEVENTH DISTRICT--DALLAS

The Eleventh District's economic recovery continues strong, although there is some evidence of slowing. A broad spectrum of the District's manufacturers report increasing demand. The energy sector's slow upturn continued. Auto and retail sales remain brisk. Despite rising interest rates and earlier declines in permits, the level of residential and non-residential construction is still high. Drought is a major problem for central and southwest Texas farmers and ranchers.

District manufacturing growth remains moderate but steady. Despite rising rates of capacity utilization in a number of industries, there is little evidence of widespread plans for investment in additional capacity. Inventories continue to be tightly managed. Some respondents report price increases in raw materials. The demand for construction-related goods remains very strong and has stimulated the production of concrete, brick, lumber, and other building products. Foreign competition is keeping lumber prices and profits low. Concern over the possibility of mill closings among less efficient producers has surfaced. District pulp and paper plants are operating near full capacity and product shortages are expected. Defense spending for high-technology systems has led to increased electronic equipment production. Orders of machinery for the energy industry are rising, after a long period of decline. Chemical and allied products demand is increasing only modestly overall, although the market for specialty chemicals used in medicine and in the electronics industry is very high.

The number of active drilling rigs dropped slightly in early July, but the number was still 20 percent above the year-earlier level. The seismic crew count and the number of well permits issued, both leading indicators of drilling activity, continue to show an irregular pattern of modest increases. The Gulf of Mexico offshore rig count reached the highest level ever. Inventories of a number of drilling-related manufactured goods are falling to desired levels. Rising demand for these products, together with declining inventories, has led to employment increases in oilfield equipment manufacturing. Nevertheless, recent declines in oil prices have raised concerns over the sustainability of the energy recovery.

After a record-breaking May, auto sales in June registered a smaller increase over last year's level than in previous months. Sales rebounded in July, but respondents attribute some of this resurgence to fears of an autoworker strike this fall. Shortages of popular models were heightened by the end of production of 1984 models. Respondents said increased financing costs have not noticeably affected buyers' attitudes.

Retail sales are still rising, but some respondents report that year-over-year increases have begun to slow. Consumer durables, a strong contributor to sales earlier in the year, are no longer outpacing other categories.

Residential construction continues to show evidence of slowing. The number of permits increased in May, but second quarter 1984 totals are about 10 percent below the year-earlier level. In some markets, overbuilding has contributed to the slowdown. Savings and loan officials report that higher interest rates have reduced the demand for mortgage loans. Even so, most respondents expressed optimism that the level of residential construction would remain high.

The level of office and commercial construction is strong, as gains in May and June offset weakness in April. The value of permits for the second quarter of 1984 about equals the year-earlier level, but respondents report that concerns about overbuilding and higher interest rates have prompted caution among builders and lenders.

Loan growth at large District banks remained steady, with business and consumer loans showing larger year-over-year gains. Growth in real estate loans at these banks has ebbed somewhat, but it continues at a very fast pace. Total deposits have lately increased owing to significant growth in time deposits. Conditions at Texas S&Ls mirrored this asset and deposit growth, but year-over-year gains in loan volume are slowing.

Drought continues to affect central and southwest Texas farming and ranching. Cattlemen are continuing to liquidate their herds. The drought has also reduced income prospects for District feed grain producers. In spite of these problems, low levels of bankruptcies and problem loans are reported by agricultural lenders.

TWELFTH DISTRICT -- SAN FRANCISCO

In the Twelfth District, the growth of the economy appears to be slowing as rising interest rates and the strong dollar adversely affect certain key sectors. Consumer spending appears to have grown at an accelerated rate in July, with both department stores and automobile dealerships experiencing strong sales. Nonresidential construction activity also continues to pick up. But rising mortgage interest rates have further reduced both the construction and sale of new homes. Employment in the manufacturing sector generally has been growing at a slower rate as the rising foreign exchange value of the dollar has increased imports of lumber and primary metals, forcing Western producers to curtail operations. In agriculture, the prospects for significant improvement in farm income in 1984 have deteriorated further as prices have weakened in response to overly abundant harvests and declining exports. In July, Twelfth District banks experienced a further large outflow of money market deposit accounts, without an offsetting pickup in large time deposits.

Consumer Spending

July was a very favorable month for retailers. Sales are reported to have grown at an accelerated rate, following some moderation in June. Throughout the District, major shopping malls and department stores experienced year-to-year sales gains ranging from 10 to 15 percent. This occurred even in Oregon where the economic recovery generally has been faltering. While retailers are concerned that rising interest rates could dampen consumer spending, they are encouraged that thus far rapid gains in employment and income have been outweighing that negative influence. This is evidenced by continued strong demand for such discretionary durable goods as home entertainment electronics (video-recorders, televisions) along with strong sales of nondurable items, especially apparel. Auto sales also continue to be excellent and would be even higher were it not that dealer inventories are low. Consumer debt continues to grow at a record rate, but retailers do not consider this situation worrisome since consumers are keeping their payments current. The excess inventory situation that prevailed at department stores in June was corrected by July's strong sales pace. Despite the interest rate climate, most retailers are optimistic that they will experience a very robust fall and Christmas buying season.

Manufacturing and Mining

With the important exception of California, the growth of manufacturing employment in most District states has slowed recently. Such basic materials industries as aluminum, copper, steel and lumber cut back production and employment sharply in July. The cutbacks in the primary metals industries have been attributable to the strength of the U.S. dollar which has been increasing the influx of lower-priced foreign imports and forcing domestic producers to reduce their prices. Layoffs have been most severe at copper mining and processing facilities in Utah and Arizona, but steel mills in Utah and aluminum plants in the Pacific Northwest also have been curtailing operations. Pacific Northwest lumber mills have been closing for extended vacations to reduce the heavy buildup of inventory that has occurred in response to the downtrend in national homebuilding activity and to increased Canadian imports. Fortunately, the paper segment of the forest products industry is operating at near full capacity. Rising federal expenditures for defense and space programs, as well as increased investment in aircraft by the world's airlines, continue to generate new jobs in the electronic equipment and aerospace industries. But consumer and business demand for some electronic equipment has levelled off recently, suggesting that the rapid employment growth that has been occurring in that industry could slow.

Construction and Real Estate

Housing starts in the West have continued to fall further below this year's peak reached in January, contrary to the recent increase nationally. Sales of new homes also are reported to have slowed 20-30 percent in recent months. Bankers report that even rates on adjustable rate mortgages have reached the point where many more potential buyers are being priced out of the market. Similarly, even the increased offerings of "buy-down" programs by builders are no longer sufficient to prop up the housing market. In Southern California, the slowdown in home sales has caused some builders to cancel planned projects. In Oregon, residential foreclosures are increasing. Rising interest rates have not put a damper on the large number of nonresidential construction projects planned or under construction in the West however. Salt Lake City, Portland, Tuscon and some other metropolitan areas are reported to be on the brink of a boom in construction of new shopping malls, office towers and hotels. Firms continue to be cautious about investing in new industrial structures, except for electronic equipment manufacturers.

Agriculture

Prospects for significant improvement in California net farm income in 1984 have become even dimmer recently due to the effects of hot weather in hurrying the harvest of many crops, flooding the market with excess supplies and reducing prices below the break-even point for many growers. Harvests of most tree fruit and nut crops have been anywhere from one-third higher to as much as double production levels of a year ago. The harvest of summer vegetable crops also has been outstanding. But demand has lagged behind production, reducing prices for important vegetable crops to or below break-even levels. Growers of raisin and wine grapes also are likely to experience depressed prices due to the huge carryover of raisins and the slow growth in overall wine sales and increased share of the market being supplied by foreign imports. The cotton crop is progressing well, but the strong U.S. dollar and prospect of record world production have been reducing prices. In the Pacific Northwest, the outlook for farm income is less favorable than in California due to the greater importance of grains in the crop mix.

Financial Institutions

In July, banks in the Twelfth District continued to experience the large outflows in money market deposit accounts that began late in the first quarter. The $2.6 billion drop in these deposits from their February level of $40.4 billion is due in part to the hesitancy of banks to offer rates competitive with those available through money market funds.

In May and June, large time deposits picked up, helping to offset this outflow. But in the first three weeks of July, growth in those deposits slowed considerably. The sharp drop in business loans that occurred during this period, following two months of rapid growth, may be one reason banks were less aggressive in acquiring these funds. Consumer and real estate loans closed continued to grow at their trend rates for the year, with consumer loans showing remarkable growth. But bankers report a decline in residential mortgage loan applications, suggesting that the demand for those loans also is falling.