SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

May 1985

TABLE OF CONTENTS

SUMMARY*

The pace of economic activity in most Federal Reserve districts appears to reflect the slower first-quarter rate of national economic growth. Retail sales generally are showing modest growth through early spring, while strength in auto sales is continuing. Retail inventories are viewed as generally satisfactory. Residential construction activity remains strong and the short-term outlook is optimistic. Commercial construction appears to be thriving in most areas. Indicators of manufacturing activity, however, are mixed. Due partly to international trade effects, the performance of many industries is weak, although steel production is increasing as is the demand for machine tools. Conditions remain depressed in the agricultural sector where downward pressures on prices, a tight cash flow situation, and increasing financial stress are pervasive. Reports on bank loan demand are mixed, both across the country and within individual districts.

Consumer Spending

Retail sales are generally reported to be showing modest growth through early spring. A notable exception is the Dallas district, where sales are reported below 1984 levels and are expected to remain sluggish in the near future. Some slowing in sales growth is reported by Boston, New York, and Cleveland, while Chicago calls recent sales gains "disappointing." Greater strength in retail sales is evident in the reports from Philadelphia, Richmond, and Atlanta. Apparel sales are frequently mentioned as an area of strength, and auto sales are reported as continuing strong in most districts. Retail inventories are reported to be generally satisfactory. Strong growth

*Prepared at the Federal Reserve Bank of Kansas City.

in tourism in the Richmond and Atlanta districts has contributed importantly to economic activity there.

Manufacturing and Industry

Indicators of manufacturing activity vary considerably from district to district. Recent improvement is reported by New York, Cleveland, and Richmond. But manufacturing activity has slowed in the Boston district, especially in the high-technology sector which was formerly a rapid-growth sector. Furthermore, nearly all districts report significant variations among industries and among geographic areas.

Foreign trade effects continue to be very important. Atlanta reports that import competition is still adversely affecting its district industries. While growth of textile and apparel imports has recently slackened, increased imports of refined petroleum products are hurting Louisiana's petrochemical industries. Minneapolis notes that Ninth District pulp producers are being hurt by low foreign pulp prices. San Francisco reports that, due partly to vigorous foreign competition, forest products industries and primary metals industries are still the weakest sectors in the district, with a number of plant closings occurring in each industry. On the other hand, Richmond notes that coal production is off to a good start in 1985, partly due to increased exports of metallurgical coal. And exports of southern pine to Europe are on the increase, according to the Atlanta report.

Steel production is rising, but remains below early-1984 levels. The stronger demand is centered in cold-rolled and coated sheets, primarily for motor vehicles, appliances, and light construction. Cleveland notes that the steel industry remains in difficulty, however. Both Chicago and Cleveland report growing demand for machine tools, but orders are still below past levels. Cleveland also states that "major producers of capital goods believe spending on plant and equipment is not likely to be slower in the second half than in the first half of 1985, despite the results of the recent survey of spending plans."

Construction

Residential construction activity remains generally strong and the short-term outlook is generally optimistic. Builders remain cautious, however, with speculative building reported only by Atlanta. House sales seem to be keeping pace with construction in most instances. Strength in multifamily unit construction was noted particularly by Atlanta and St. Louis. But Kansas City reports housing starts off from a year ago, and Dallas indicates a continuing slide in all residential construction.

Commercial construction appears to be thriving in most areas, including both Philadelphia (where vacancy rates are below the national average) and Chicago (where the vacancy rate is described as "substantial"). Atlanta cautions about potential oversupply, however, and Dallas reports a first-quarter decline in nonresidential activity as evidence of oversupply there becomes more apparent.

Agriculture

Conditions in the agricultural sector continue to deteriorate in most areas. Weak export demand and large domestic supplies contribute to more downward pressure on prices of farm products. A tight cash flow situation leads lenders to foresee increasing financial stress for farmers. Kansas City reports that liquidations and partial-liquidations of farm businesses are much higher than considered normal by lenders. Farmland values are still falling, off in Iowa by 40 percent from the previous peak. A decline in pork marketings has been accompanied by weaker prices, as poultry production increased and more pork was imported from Canada. In spite of large declines in corn and soybean prices, surveys show farmers intend to increase plantings. Minneapolis suggests that overproduction of dairy output is again likely. Atlanta reports that, even with a growing imbalance between the demand and supply of cotton, Sixth District farmers plan to expand cotton acreage. Kansas City notes that the winter wheat crop is in good to excellent condition, with the potential for harvesting a large crop. In spite of soft prices and weak exports, the condition of the more diversified western agriculture appears to have stopped worsening, according to San Francisco. And Dallas reports that cropland values in Texas have risen, on the average, keeping farm bankruptcy rates lower there than elsewhere.

Banking and Finance

Loan growth appears to be mixed across the country and within individual districts. Large New York City banks show relatively modest growth of assets, but small Second District banks have rapid loan growth in all categories. Philadelphia and Richmond report strong loan demand growth, while weakness in loans is reported by Cleveland and Atlanta. San Francisco cites steady loan demand and an improvement in loan quality, particularly among agricultural loans. Some districts report softness in consumer lending due to aggressive nonbank competition for auto loans. St. Louis notes considerable legislative activity on regional interstate banking, among the states of its district.

FIRST DISTRICT - BOSTON

Economic activity has slowed in the First District in recent months. The slowdown has occurred in both the manufacturing and retail sectors, but some individual firms continue to show substantial growth. Retailers' sales fell below plan in some cases but continue to exceed last year's levels. In manufacturing, the national slowdown in office equipment and computers has been well publicized, and New England's high tech firms have been among those experiencing difficulty. The region's traditional industries report mixed results, but remain optimistic about 1985.

Retail

Retail sales have slowed recently in the First District. The weakening is not universal, however, hitting some "upscale" department stores, for example, but not a discount chain, and showing wide geographic variation. The downturn is not substantial, and merchants remain moderately optimistic about 1985.

The shift of Easter from April last year to March this year complicates the interpretation of spring sales figures, but March was not an exceptional month for New England retailers. Apparel and other soft goods - traditional Easter items - sold well during the month, but sales in other areas, including home products, pets and sporting goods were disappointing. Early signs suggest that April is following the March trend, and without Easter the measured increases against April last year will be very small or negative. First quarter sales (February through April) will end higher than last year, but below plan in a number of cases. Thus the problem is slowing rates of increase rather than absolute declines. Inventory levels are close to plan.

Planned remedial actions depend on merchants' explanations of current trends, but generally include attempts to cut overhead expenses, more careful targeting of promotional activity, and downward adjustments in sales projections for the fall. The sales slowdown has not caused reductions in hiring or cutbacks in planned new store openings.

Manufacturing

Manufacturing activity in the First District has slowed. The slowdown is particularly striking in the high technology sector, which had been growing very rapidly. A number of firms have reported decreases in earnings and several are laying people off. Some of the layoffs are small but others involve hundreds of employees. A sluggish domestic market and the strong dollar are blamed for the disappointing performance; in addition, individual high tech companies have encountered difficulties launching new products.

Traditional industries have also seen some slowing but the firms contacted do not expect this to persist and look for 1985 to be a good year overall. Thus, in metalworking, production levels among respondents are good but new orders have tapered off a bit. The slowing in orders has not been pronounced enough to induce reductions in capital spending plans or layoffs, although some firms are not actively filling job vacancies as they occur. The aircraft segment of the metalworking industry is an exception to the slowing in orders: the military component has been strong for some time and is still strong; the commercial component has been weak but is now picking up. One metalworking contact also noted a recent pickup in auto-related orders and considerable quotation activity for large auto programs that are expected to become orders next year.

Labor markets in the region remain tight, especially in southern New Hampshire. Firms mentioned short supplies of good industrial salespeople and warehouse workers as well as continuing scarcities in professional specialities such as electronic and software engineers.

Price increases seem to be a little more prevalent but still modest. A couple of firms contacted have recently raised prices. One respondent reported increasing prices 5-6 percent; however, the new prices are intended to hold for two years, so that the annual increase is only half that. In a recent survey of New England purchasing agents, a majority reported no change in prices from the previous month; but the proportion reporting increases, 40 percent, was the highest in some time.

Capital spending will be higher in 1985 than in 1984. In a number of cases, the fraction of 1985 spending for replacement and upgrading of machines will be higher and the fraction for expansion of capacity lower than in 1984. Firms want both lower costs and increased flexibility to adapt their machines to shifts in demand.

SECOND DISTRICT--NEW YORK

Introduction

Economic activity in the Second District has continued to expand at an erratic pace. Department store sales softened in parts of the District, particularly in New York City. Business activity improved somewhat, as new development projects and expansions outnumbered plant closings and layoffs. Homebuilders continued to operate at full speed, impeded only by scarce labor and materials. The District's office markets were mixed, with strength in midtown Manhattan and Long Island, stability in Westchester County and northern New Jersey, and weakness in downtown Manhattan and southwestern Connecticut. Large New York City banks have been facing relatively modest asset growth. In contrast, small banks reported that the strength in the region's economy has led to strong demand for home mortgages, automobile financing, and business loans.

Consumer Spending

Department stores reported that the rate of consumer spending had slowed appreciably in parts of the District. In February, sales generally met expectations and were about 10 percent over last year's levels. Sales in March, however, fell significantly below expected levels for two department store chains and early reports for April reflected continuing softness. It appeared that New York City retailers faced the weakest sales, while some suburban and upstate New York merchants reported continuing gains. Inventories have been kept in check by most stores contacted, but one merchant facing persistently weak sales reported stocks that were above plan and rising.

Business Activity

Business conditions for the District's industrial firms have improved somewhat in recent weeks. In Rochester, more firms reported increased orders than in earlier months. For Buffalo, improving conditions have not become any more widespread, but the number of firms reporting worsening conditions was down significantly. In general, desired inventories have been rising lately, perhaps reflecting the improved outlook for sales many firms reported.

Although some layoffs and plant closings continued, there was a significant increase in announcements of new development projects and expansions. An automobile producer will spend over $100 million to refurbish and retool a stamping plant in Buffalo. Another auto plant is recalling its night shift of 2,200 workers in Tarrytown. Also planned are a large computer center in Rockland County, a new chemical facility in Western New York, a power plant near Albany, and the expansion of a ship terminal on Staten Island.

In the aggregate, however, manufacturing remains a weak spot even with record high employment levels in New York State. The largest plant closing announced recently was a Syracuse chemical plant, which will eliminate 1,400 jobs beginning early next year.

Construction and Real Estate

Commercial real estate activity continued to vary markedly by location and type of user. The demand for office space was strong in midtown Manhattan and Long Island, steady in northern New Jersey and Westchester County, and weak in downtown Manhattan and southwest Connecticut. Brokers in Manhattan, New Jersey, and Connecticut reported strong demand among small space users but surprisingly low activity for mid-sized spaces. Demand for large spaces in midtown Manhattan remained strong, especially in the services sector. Downtown, in contrast, net space absorption has fallen to zero in recent months. In Nassau County (Long Island), conversion of space to office and retail uses has made space very scarce for industrial firms.

The housing market was little changed from activity levels prevailing for the past year. Builders remained very busy in many parts of the District and several faced scarcity of skilled labor or lumber and sheetrock. The outlook for the next six months is for continued strength. In New York City, the first 800 apartments to be built with funds from the State's Municipal Assistance Corporation have been scheduled for construction this summer.

Financial Developments

Large New York City banks showed relatively modest growth of assets. But reports from small banks in the Second District indicated that the demand for several categories of loans has been growing rapidly over the past few months, more in line with national trends. The demand for home mortgages has been especially strong, owing to the region's robust market for new homes. The increasing demand for automobile financing was a major factor in the rapid expansion of consumer credit. Business loan activity has also increased rapidly, spurred by strength of economic activity across all industrial categories.

THIRD DISTRICT - PHILADELPHIA

Major sectors of the Third District economy are stable or growing in April. Manufacturing activity is holding steady after three months of accelerating growth, while retail sales remain strong after a successful Easter selling season. Loan demand is up at area banks. Sales of new and existing houses are rising, and both residential and commercial construction are increasing.

The outlook for the Third District economy is positive. Manufacturers expect to boost production and employment during the next six months, and retailers forecast higher sales for the second half of 1985 and for the year as a whole. Likewise, area bankers anticipate greater loan demand as economic growth continues. Real estate sales and construction activity are expected to remain strong through the summer.

MANUFACTURING

After expanding at increasingly faster rates for three consecutive months, manufacturing activity in the Third District levelled off in April, according to the most recent Business Outlook Survey. Sixty percent of the April survey respondents said there had been no change from March in the pace of their operations. The number of respondents reporting increases in new orders and shipments slightly exceeded the number reporting decreases, while around 40 percent reported no change. Inventories also were stable. As for employment, three out of four survey respondents reported that payrolls and working hours were holding steady.

Despite the lack of growth in April, the outlook for local manufacturing over the next six months remains fairly positive. Half of the companies participating in the April survey expect increases in production, new orders, and shipments during the summer. A quarter of those polled plan to hire more workers, and almost one-fifth expect to lengthen the workweek. About 30 percent have scheduled larger expenditures on new plant and equipment during the next six months.

Prices of industrial goods remained flat again in April. Although some survey respondents reported higher prices for their inputs, more than 80 percent of the survey respondents said there had been no change in the prices of the products they buy or sell. Looking ahead, two out of three of the respondents anticipate paying more for raw materials within the next six months, and one out of three expect the prices of their own products to go up during the same period.

RETAIL

The Third District's strong retail sales of the first two months of this year continued into March. The trend appears to be extending through April, although some store managers speculate that delays in income tax refunds may have interrupted consumer purchases early in the month. Department store and general merchandise sales for the first fiscal quarter (February, March, April) are up 5 to 10 percent above the comparable period in 1984. Retailers say this growth was assisted by favorable weather and an early Easter holiday. Although sales growth thus far in 1985 is less than last year, retailers are basically satisfied, as prices have been steady and virtually all of the increase represents higher unit sales volume. Inventories at department stores remain in line with sales.

Retailers are cautiously optimistic about the upcoming spring and summer seasons. Apparel and seasonal goods are selling well, and sales are expected to continue strong through the spring. Sales growth is expected to moderate in late summer and fall. For the year as a whole compared to 1984, retailers forecast increases ranging from 6 to 10 percent.

FINANCE

Bank lending officers in the Third District report that strong loan demand reflects a strong economy, despite some indications of a pause given by national economic measures in the first quarter. Compared to April 1984, commercial and industrial loan volume is up between 15 and 20 percent, and commercial real estate and construction loans are up about 15 percent. Consumer loans are approximately 35 percent above year-ago levels, partly due to continuing credit card promotion by local banks. Although area bankers expect growth to slacken somewhat from its present pace, they anticipate robust loan demand through the rest of the year. Lending in all categories in the second half of this year is expected to be 10 to 15 percent higher than in the second half of 1984.

For Third District bankers, a strong economy and concomitant loan demand imply that short-term interest rates are at or near their lows for the year. Local bank economists believe a slight dip is possible in the prime and federal funds rates before a gradual rise during the balance of the year. The consensus is that rates will be higher by the fall, with the prime rate approaching 12 percent and the federal funds rate hovering around 10 percent by the end of the year.

REAL ESTATE AND CONSTRUCTION

Residential real estate agents throughout the Third District report growing numbers of people shopping for homes, after a brief drop in March. Sales are rising, and developers and agents believe that current mortgage rates, which average 13 percent for a 30 year conventional loan, are consistent with sustained sales at the present pace. Sales would drop off at rates of 14 percent or more, and would pick up substantially if rates were to fall to 12 percent or less, according to agents.

For most areas of the Third District, real estate and construction activity is at or above 1984 levels. Some differences in local growth rates are noted, with those that dipped in 1984 now posting the biggest gains.

Commercial construction continues to thrive. Building agents say the local office vacancy rate remains below the national average and that the market should continue to absorb new space through the rest of the year.

Fourth District -- Cleveland

Summary

Economic activity in the Fourth District continues to improve slowly. Employment fell in March but there are some indications of a pickup in April. Retail sales strengthened in mid-April after a month of weakness. Car dealers report a temporary lull in sales. Manufacturing orders are strengthening but business is far from robust. The housing outlook is improving but builders remain very cautious. Business loan demand is flat.

District Labor Market Conditions

Ohio employment (s.a.) fell slightly in March, while the unemployment rate (s.a.) rose for the second consecutive month. The unemployment rate for Ohio rose to 9.2% (s.a.) in March, but is still below its year-ago level of 10.1% and well above the national level. A survey of manufacturing firms in the greater Cincinnati area reveals their employment increased slightly in March. The local index of leading economic indicators for Pittsburgh has been essentially flat from December through February, indicating little prospect for employment growth in the near term for that city. On the other hand, Cleveland's index of leading indicators recorded a large increase in January and a slight increase in February. A survey of Cleveland area manufacturers is validating the early-year growth in that index by suggesting that employment rose solidly in April.

Retail Sales

Fourth District retail sales weakened in March and early April, but recovered markedly in mid-April. Most retailers report that their March decline was not as severe as the 1.9% drop reported nationally and that the Ohio thrift problem has had no perceptible impact on their sales. They blame late tax refunds and unfavorable weather for recent slack. Retailers expect sales to recover strongly in the second quarter; improved weather has already boosted department-store sales. In anticipation of strong demand, few prices were cut in March, and retailers plan even fewer price promotions for future months. Stores are largely pleased with their inventory positions, although some report inventories are slightly above desired levels because of weak March sales.

Car dealers report slightly lower sales, but expect this to be only a temporary lull in the strong trend of auto sales. They have been moving cars at minimal mark-ups and assert that high sales volume is a key factor in allowing them to price competitively. Dealers voice concern that factories cannot keep up with their demand for some popular smaller models and worry that this problem will grow as sales pick up again. Otherwise, most dealers are pleased with their inventory positions and plan to increase stocks over the next few weeks. All dealers remain confident that consumers will continue to assume debt to acquire new cars.

Manufacturing

Local surveys of manufacturers indicate that new orders and production have improved from early in the year. However, firms are allowing raw-materials and finished-goods inventories to rise only very slowly. The chemical industry in southern Ohio continues to do well.

Machine-tool producers in the District report that demand for machine tools is growing in the aerospace, defense, automotive, and power-generating equipment industries but remains weak in agriculture and construction machinery industries. A major producer of machine tools expects rising sales in the second half of 1985. Despite this growth, orders are weak relative to the previous peak and the firm estimates that 40% to 50% of metal-cutting machinery is now imported.

The steel industry remains in difficulty. One District firm has narrowly averted bankruptcy proceedings, and reports losing money on its carbon steel operations despite operating its mills at 90% of capacity. Another has filed for protection under Chapter 11, and another recently laid off about 350 workers.

Major producers of capital goods believe spending on plant and equipment is not likely to be slower in the second half than the first half of 1985, despite the results of the recent survey of spending plans. Analysts in this District attribute the first quarter softness in PDE spending on computers to be a result of IBM's introduction of two new models, weakness in sales of personal computers, and a reaction to excessive levels of purchases in 1983 and 1984. They expect a pickup in computer purchases this quarter.

Housing

The outlook for housing in this District is more optimistic than a month ago. Market participants anticipate a moderate rebound in housing activity during the second and third quarters but are not expanding their business operations, nor do they plan to do so even if housing activity sustains its strength for the next two or three quarters. The consensus mortgage rate outlook is that rates will remain relatively flat until autumn.

A nationwide realty firm reports that listings and closings for existing homes in the first quarter matched last year's record-breaking first quarter pace, and in April exceeded March's higher-than-expected level.

Builders remain extremely cautious, as orders were down 10% to 15% in the first quarter. They have indicated that for the most part they will build only those houses for which they have firm orders.

Fixed rate mortages will remain popular with borrowers unless fixed rates rise substantially. Because of high rates of mortgage delinquencies and foreclosures, mortgage insurers recently raised down-payment requirements slightly and also raised premiums on insurance renewals. According to the experience of one lender, neither of these actions has materially affected customer ability to buy.

Commercial Banking

District loan demand has been mixed. Loan outstandings in all major categories at District banks fell over the past month. Consumer installment loans registered the largest decline and business loan volume was down marginally. While lenders acknowledge the flatness of business loan demand they report fairly strong consumer loan demand. The general decline in consumer loans at banks is attributed to aggressive nonbank competition for auto loans rather than weak loan demand. Captive finance companies of some auto manufacturers have been offering below-market loan rates on several models. Contacts expects consumer loan demand to remain quite good and business loan demand to pick-up in the next few months.

FIFTH DISTRICT - RICHMOND

Overview

Economic activity in the Fifth District appears to have regained much of the momentum lost earlier in the year. There has been some pickup in the manufacturing sector where most of the earlier slack had appeared, and nearly all other areas of activity are holding their own at quite high levels or making further gains. The only area in which activity has slowed in recent weeks is automobile sales. Overall, however, consumer activity continues very strong, as do construction, mining, and tourism. Furthermore, the earlier lull in the District is not generally perceived as commensurate with the slowing of growth recently reported at the national level. In many respects the District has lagged the U.S. economy during this recovery, and perhaps some catching up is underway. Loan demand, apart from auto loans, continues strong. Progress in the farm sector is being impeded by unusually dry weather.

Manufacturing

The earlier deterioration of conditions in District manufacturing has been arrested, and even reversed in some sectors. New orders have picked up, as have shipments, and order backlogs have stabilized. There seems to have been some further accumulation of inventories at the manufacturing level, primarily in materials, but the rate of accumulation slowed markedly from previous months. There is still some concern that current levels might be excessive.

Despite this generally positive overview, however, conditions across the manufacturing sector are by no means uniform. Much of the recent improvement may well be in a relatively few sectors. Forest products, building materials, and furniture all appear to be doing quite well, and machinery and equipment are at least holding their own. Elsewhere, conditions are less buoyant.

Coal production, however, is off to another good start in 1985, despite having had a few bad weeks as a result of severe winter weather. Weekly production is near year-ago levels, and year-to-date is only slightly below. Exports have improved, especially in the metallurgical segment which contributed so much to last year's outstanding performance in the industry.

Consumer Activity

The consumer remains a major force propelling business activity in the District. Despite some recent softening in automobile sales, consumer activity is almost uniformly described as strong to very strong. Apart from autos, the strength is essentially across the board. Non-durables, durables such as furniture, and services, especially those related to tourism, are performing well. Tourism is, in fact, a surprisingly bright spot in the District at present. Even relatively optimistic forecasts of tourist trade are being exceeded in many areas. Also, there seems to be a modest move underway to get away from the discounting that became so widespread in late 1984 and carried over into early 1985.

Construction

Construction activity also remains a major positive force in the District economy. Activity in the commercial and residential sectors is almost uniformly strong, although activity remains slightly weaker away from the metropolitan and tourist centers.

Housing activity has been very encouraging to most industry participants. With construction quite strong and sales keeping market supplies moderate, the prospects for continued strength in residential building are quite good. Also, the surprising strength of tourist activity has spurred what was already a very active hotel and other facilities sector in the tourism centers. In addition, hotel, office, and shopping center construction remains very strong in most of the District's metropolitan areas.

Financial Sector

District financial institutions continue to experience moderate to strong growth of loan demand. Once again, apart from automobile loans, the gains have been generally across the board. There is no evidence of any strains developing as institutions meet this growing demand for credit, and there does not seem to be any expectation that such strains will develop over the next several months.

Agriculture

Problems continue to confront farmers in the Fifth District. A lack of rainfall during the spring has delayed the planting of some crops and is causing those already planted to develop slowly. Price levels of crops and livestock continue to be under downward pressure as weak export demand results in large domestic supplies of farm commodities. Cash flow is tight, as lower incomes and limited borrowing ability are barely adequate to service the debt loads facing farmers.

According to a recent survey of District agricultural lenders, loan repayment rates from farmers are becoming more sluggish than in 1984. In addition, bankers foresee financial stress increasing throughout the year.

Expectations

Expectations around the District remain neutral to slightly positive, although there is evidence of modest improvement in recent weeks. That improvement, however, generally reflects the improvement in local market conditions and does not seem to carry over into the outlook for national business activity.

SIXTH DISTRICT - ATLANTA

Through late April, the southeastern economy pushed ahead, although somewhat unevenly. Florida and Georgia labor markets are generally tight, while those in Alabama, Mississippi, and Tennessee exhibit considerable slack. Foreign competition continues to pressure employment and industrial output, particularly in the textile, apparel, agriculture, and energy sectors. Consumer spending and installment lending advanced in lackluster fashion, although auto sales have improved since earlier this year. Southeastern construction, real estate, tourism, and convention industries all are having a good spring. In Louisiana, a soaring mortgage delinquency rate, slowing new automobile registrations, and increasing imports of refined petroleum products join the list of difficulties facing that state's beleagured economy.

Employment and Industry. Competition from imports continues to adversely affect employment in the region's industrial sector. Labor market conditions are tight in the service-oriented economies of Georgia and Florida, while double-digit unemployment rates continue to plague Alabama, Mississippi, and Tennessee. The growth of textile and apparel imports has slackened recently. Carpet producers report a slowing of activity from last year's unusually brisk pace. Rising imports of refined petroleum products attributed to the strong dollar are adversely affecting Louisiana's petrochemical industry. However, indications are developing that domestic oil prices may be firming. Bank directors report that exports of southern pine to Germany and Italy are on the increase.

Consumer Spending. District retailers reported April sales to be about even with year-ago levels. However, the Easter selling season came early this year. Through April sales remained healthy and ranged from 6 percent to 12 percent above last year. Seasonal goods such as clothing, home furnishings, and lawn and garden materials were in strong demand. According to retailers, shoppers have responded strongly to post-Easter promotions. First-half sales and profits are expected to be slightly higher than last year.

Auto Sales. New motor vehicle sales in the Southeast remained brisk through mid-April. Industry contacts attribute healthy spring buying to dealers' offerings of limited discount financing and to continuing strong demand for minivans and light trucks. New motor vehicle registrations in the region in the January-February period were 11 percent above the corresponding period last year, compared to 7 percent for the nation. Louisiana is the only regional state which registered fewer new cars and trucks during the January-February period than last year.

Construction. Contacts report a generally brisk pace of single-family home sales and construction through the fourth week of April. Developers expressed satisfaction with current inventory levels. Speculative building was evident in all major cities except New Orleans, where an influx of Jefferson Parish bond money should boost the market. Mortgage delinquencies for Louisiana have climbed from 4.1 to 5.7 percent, from November 1984 to February 1985, which is nearly double the rate for any other state in the region. The multifamily market is strong, with Nashville, Jackson, and Miami experiencing improved rentals. The office market remains vigorous, particularly in Atlanta and Tampa, but mentions of potential oversupply and a decline in construction have become more frequent. Contacts report the growing use of perquisites by leasing agents to close deals. The only major market in which contacts do not expect sizable new construction is New Orleans.

Financial Services. Unadjusted credit growth at large banks in the Southeast continues to lag behind December's peak rate. Weak and volatile consumer lending growth in February and March appears to be the major reason. Bank business and real estate credit both advanced in March. Preliminary data for April suggest some further weakening of total loan growth attributable to softer demand for business credit. State bank commissioners expect the Federal Reserve Board's recent limited support for interstate banking to accelerate bank combinations in the Southeast.

Tourism. Tourist activity has strengthened as the spring season progresses. Available air travel indicators showed healthy increases, and the number of auto travelers registering at state visitor centers was up in March. Lodging tax receipts for all states except Mississippi showed increases over year-ago levels. Convention business, particularly in Nashville, Miami, and Orlando has been strong. Contacts report advance bookings through April as very high and many feel this could be their best spring season ever. In Orlando, most hotels report higher occupancy levels than a year ago. Hotels have been running at near-capacity occupancy in some Florida resorts and cities. However, many of Georgia's attractions have experienced soft attendance in the early spring, and overbuilding has adversely affected occupancy in New Orleans' hotels.

Agriculture. Favorable weather accelerated planting in most of the Southeast. Reflecting the low profitability of past months, the marketing of pork and beef in the District fell in the first quarter of 1985 as a result of smaller farm inventories. Despite the 11 percent decline in marketed pork relative to a year ago, pork prices weakened and fell sharply near the end of the quarter due to increased poultry production and pork imports from Canada. Cotton, an important southern crop, faces a growing imbalance between supply and demand. Competition from foreign producers is heavy and domestic demand is weak, yet, Sixth District farmers plan to expand acreage planted this year.

SEVENTH DISTRICT--CHICAGO

Summary. Economic conditions in the Seventh District continue to trail the U.S., but there are some bright spots. Output of autos and trucks is scheduled at high levels in the second and third quarters, steel output is rising, and commercial construction is vigorous. However, orders for farm, construction, mining, and railroad equipment continue at very low levels; demand for heavy trucks and trailers has slowed; and the depressed farm sector has weakened further. Residential construction is expected to about equal last year. Total employment is flat, with new weakness in finance and medical care. Except for autos, retail sales are lackluster. Permanent plant closings continue to be announced in a variety of industries. Many financially-stressed businesses are pushing efforts to control costs, often with plant or office closings, hiring freezes and staff reductions. The flood of imports adversely affects a broad spectrum of industry, agriculture, and transportation.

Motor Vehicles. Further sizable increases in domestic auto and truck output relative to last year are planned for the second and third quarters. Sales continue strong helped by cut-rate financing on some models. Some Japanese imports and favored domestic models are in short supply. Car and truck makers plan large increases in capital spending for major renovations and new plant construction. Several states have been competing for new plants, domestic and foreign, offering tax breaks and other benefits. Easing of Japanese restraints on auto exports will affect investment plans and encourage foreign sourcing.

Steel. Production at District steel mills is rising, but remains short of levels reached in the first half of 1984. Stronger demand for steel is centered in cold rolled and coated sheets, especially for motor vehicles, but also for appliances, office furniture, and light construction. Orders from makers of heavy machinery are only slightly improved. A Chicago area mill is running two shifts at its structural steel facilities because of plant closings by competitors in the East, South, and West. Domestic producers hope to benefit from agreements being negotiated with major steel exporting countries to limit shipments to the U.S. Steel makers continue efforts to lower costs. One of the strongest District firms recently announced plans to shrink capacity and employment substantially.

Capital Goods. Most District equipment producers still face weak markets. Construction, farm, and mining equipment makers are still losing money. Rail equipment orders remain very low. Orders for hoists and indoor cranes have increased, from a low level. Few large outdoor cranes are being produced. Machine tool orders are better, but still far below good levels of the past. Competition from foreign producers continues fierce, here and abroad. More U.S. capital goods producers are shifting production to their foreign plants or are sourcing abroad. Demand for automated warehouse facilities, which offer large gains in productivity, is strong.

Farm Equipment. A leading farm equipment maker has agreed to sell its agricultural lines, and will close two plants. Another major firm sold out earlier this year. Tractor plant closings in District states, apparently permanent, announced over the past 6 months cut industry capacity by about half. Another producer plans a 6-month halt in output of four-wheel-drive tractors to reduce inventories.

Transportation. Reported shipments by truck and rail have been running below last year. This is believed to reflect a shift to owner-operator trucks and private truck fleets. Demand for rail equipment remains very low and sales of heavy trucks and trailers have been slipping. The huge trade deficit has created an imbalance in ground transport, with many trailers and freight cars returning empty to port areas.

Construction. Commercial construction, especially large office buildings in downtown Chicago, is strong. With vacancy rates substantial, it is believed that some of these projects are being pushed ahead to qualify for tax incentives which may be altered. Heavy industrial and utility construction are at very low levels. Residential building appears to be rebounding from the effects of adverse winter weather, but is still well below levels of the 1970s. Apartment rents are rising about 9 percent this year. Apartment vacancy rates are low, but new building is weak.

Highway and bridge construction is expected to continue very strong into 1986 as a result of release of impounded federal funds.

Consumer Spending. Sales gains have recently been disappointing at some major District general merchandise retailers. Inventories are being brought back into line, often through price promotions. Orders for standard appliances and recreational equipment have slipped below last year's improved levels. Increases in general merchandise prices continue small, around 2 percent over a year earlier. Consumer attitudes in the District remain relatively optimistic.

Agriculture. Conditions in agriculture continue to deteriorate, depressing local economies and industries dependent on agriculture. Prices of corn and soybeans, major District crops, have fallen 20 to 25 percent since the downtrend began last April. Surveys indicate large plantings, which could bring another year of surplus production and low crop prices. Livestock prices are down 12 to 15 percent from a year ago, but are expected to rebound by summer. Agricultural exports are expected to decline to a 6-year low. District farmland values fell again in the first quarter, by 6 percent, and were off a third from the 1981 peak, led by a decline of over 40 percent in Iowa. Payments under new government farm programs, with high enrollments in the District and the nation, will ease financial strains for crop farmers.

EIGHTH DISTRICT - ST. LOUIS

Summary

Modest increases in March retail sales over 1984 levels were attributed in part to Easter occurring earlier this year. Business activity in two District states also remained slightly above year-ago levels though it declined from the February figures. Loan growth at District banks, on the other hand, was slower in the first quarter of this year than in the same period a year ago, particularly at large banks. Cattle and hog prices declined unexpectedly due to increases in fed cattle slaughter and meat imports. Crops are expected to be large despite heavy participation in acreage reduction programs.

Consumer Spending

District department stores report modest increases in March retail sales over March 1984 levels due in part to Easter occurring two weeks earlier this year. Most apparel and accessory areas reportedly did well. When adjusted for the Easter period, March sales gains were less substantial. With the bulk of the Easter season falling in March, April sales results are expected to be lackluster when compared with last year.

Employment

Increases in District employment were reported in the manufacture of consumer nondurables and automotive parts, while a plant closing in the glass industry was postponed and a textile plant was reopened. On the other hand, job losses have occurred in the petroleum refining, telecommunications and carpet manufacturing industries.

Business Activity

Business activity in March, as measured by an index of seven indicators, declined in Arkansas and Missouri at rates of 3 and 2 percent, respectively. The March figures were up just over 1 percent in Arkansas and almost 2 percent in Missouri from the year-ago levels.

Building materials inventories have increased in some areas of the District and are considered ample to cover short-run demand. Prices for solid wood have fallen to 1982 levels. As a result, timber and timberland values are declining in the same manner as cropland.

Construction

Multi-family housing construction continues strong in the District's metropolitan areas. The St. Louis area reports multi-family housing permits issued in the first quarter of 1985 were up 50 percent from the year-ago level. There was a decline of 9 percent in single-family housing permits issued over the same period.

Banking and Finance

Total loans outstanding at large weekly reporting banks in the District grew at a 20 percent annual rate over the first three months of 1985, substantially slower than the 42 percent rate established over the same period a year earlier (all bank data are not seasonally adjusted). At small weekly reporting banks, total loans grew at an 8.3 percent rate in the first three months of this year compared to the 10.6 percent rate for the same period a year ago. Consumer lending has shown the greatest strength in March, the most recent month for which data are available, while real estate lending has been the weakest loan category at both large and small banks. Deposit growth at large banks in March, although modest at a 6 percent rate, exceeded deposit growth of March 1984. Large denomination CDs, which grew sharply in February and March of this year, were responsible for much of the increase in total deposits.

Legislative activity on regional interstate banking continues in the District. Indiana recently adopted legislation authorizing reciprocal interstate banking with neighboring states; two drafts of a similar proposal have been passed in the Tennessee state Senate and House and await reconciliation before final approval from the Governor. Illinois and Missouri legislators also will be reconsidering regional banking laws in the coming months.

Agriculture

Missouri farmers received higher prices for vegetables, eggs, cotton and sorghum in March. Sharp declines in prices received for hogs, cattle and milk, however, led to an overall decline in the index of prices received. The declines in cattle and hog prices were unanticipated as most market observers had expected lower production to raise prices. Instead, sharp (4 percent) increases in fed cattle slaughter and strong meat imports led to price reductions. Similarly, imports from Canada have increased total hog supply and reduced hog prices.

Despite widespread participation in the acreage reduction programs, intensive planting on the best land combined with average yields will produce crops equal to or larger than last year's.

NINTH DISTRICT - MINNEAPOLIS

While overall employment and consumer spending have recently increased in the Ninth District, agricultural and resource-related weaknesses have continued. Some signs of slower manufacturing growth are also evident.

Employment

District labor market conditions have continued to improve, particularly in the service sectors. Spurred by larger-than-usual quarterly employment growth, the district's seasonally adjusted unemployment rate fell a few tenths to 6.3 percent in the first quarter. Indicative of this improvement, Minnesota's seasonally adjusted unemployment rate fell to 5.6 percent in March, its lowest since August 1981. Also in March, nonfarm employment reached a record high in Minnesota. Employment growth has been particularly evident in the Minneapolis-St. Paul metro area, which at the end of last year ranked fifth fastest in employment growth among large metro areas. Strong labor demand is present in Minneapolis, where the help-wanted advertising index was recently 11 percent above its year-earlier level. The seasonally adjusted unemployment rate also appears to have fallen in Montana, dropping from 7.6 percent in January to a probable 7 percent in March.

Recent labor developments have been mixed. Layoffs at a conglomerate with plants in the Twin Cities and Sioux Falls, South Dakota, continued. As a result, the latter area's unemployment rate rose measurably. The end of large construction projects decreased employment in parts of North Dakota. But a large copper mining operation in the hard-pressed Upper Peninsula of Michigan is very likely to reopen. By employing around 1,000 workers, it would provide a huge stimulus to this small area.

Consumer Spending

Large retailers of general merchandise in the Twin Cities report that business has been good. Two large district chain operations had better-than-expected performance in the first quarter, which appears to have continued into April. Major retailers in bustling Sioux Falls, South Dakota, also report brisk business, attributed primarily to price reductions and aggressive advertising. But Bank directors note that business has slowed in southern Minnesota and has continued to lag throughout the agriculturally dependent parts of this district.

A similar story is told for auto sales, which have continued strong in diversified metro areas but have been generally weak in rural areas. Two domestic manufacturers report that their sales, when compared to 1984, increased 9 percent through April. Slack demand in nonmetro areas has bogged down truck sales somewhat, though.

Housing activity is also still slack in rural areas, but sales of homes in the Twin Cities have improved. Sales in both Minneapolis and St. Paul have been well above 1984 levels--by more than 12 percent this February, for example. A Minnesota mortgage revenue bond program is expected to buoy sales further. Several Bank directors note, however, that large inventories of unsold homes are still standing in other areas of the district.

Agriculture

As usual of late, there is little good news to report about agriculture. The Minnesota farm price index's steady decline continued through March. The spectre of overproduction looms over dairy operations again, due to the end of the dairy diversion program. Moisture is still lower than normal in northern Montana, and both crop and ranch land values are still falling in that state. There has been little participation in Minnesota's subsidized interest program to facilitate spring planting. But the weather has permitted earlier-than-normal plantings in Minnesota and South Dakota.

Resource-Related Industries

District Bank directors report that recent developments in the district's resource-related sectors haven't been favorable.

One large firm in Minnesota's paper industry is experiencing labor contract problems. Low foreign pulp prices are hurting district pulp producers. While waferboard plants are running at full speed, prices are depressed.

Due to soft prices and some business climate problems, oil and gas activities have slowed. In Montana, both the oil rig count and leased acreage renewals have dropped--the latter, dramatically. Oil drilling is off in North Dakota, too. Low prices there are also depressing the outlook for a big coal gasification operation.

Manufacturing

District manufacturing growth was particularly strong coming out of the last national recession, but signs of slower growth have emerged. Even the economically healthy Twin Cities metro area has seen an increase in the number of unemployment insurance claims from the durable goods manufacturing sector. High electricity costs have helped threaten the operation of an aluminum plant in Montana. Furthermore, farm implement production continues to lag, with a North Dakota producer laying off between 40 and 50 employees.

TENTH DISTRICT--KANSAS CITY

Overview. Modest growth continues to be evident in the Tenth District economy. Retail sales are up slightly and prices remain generally stable. Inventories are generally viewed as satisfactory, both at retail and for production materials. Housing starts continue to be off slightly from a year ago. Mortgage rates are constant to slightly lower, and are expected to remain stable or decline slightly. The winter wheat crop is reported in good to excellent condition. Liquidations of farm businesses continue to be greater than normal in number. Bank loan demand is mixed while deposits are growing slightly.

Retail trade. Most retailers report that sales are up slightly over year-ago levels. Sportswear and women's apparel are selling well, but sales of home furnishings, appliances, and electronics items are relatively weak. Retail prices have remained stable during the past three months. Retailers are generally satisfied with current inventory levels and expect little adjustment in the months ahead. Prices are expected to remain stable over the remainder of the year, while sales are expected to increase slightly.

Automobile dealers. Automobile dealers report that sales are unchanged to slightly improved from a year ago. Recent declines in interest rates have had some positive impact on sales. Inventories of foreign cars are in short supply, while overall inventories of domestic cars are at satisfactory levels. Most dealers are moderately optimistic that 1985 sales will be slightly improved over the strong 1984 performance.

Purchasing agents. Purchasing agents report that input prices have remained fairly constant during the past three months. The changes in input prices for the past 12 months have varied in the range of plus-or-minus 5 percent. Input prices are expected to remain stable for the rest of the year. No difficulties in obtaining materials have been experienced and none are expected. Inventory levels are generally satisfactory although some modest trimming is occurring, partly in response to seasonal factors.

Housing activity and finance. Homebuilders report that housing starts are off slightly to off sharply from a year ago. Housing starts are tracking the sale of new homes as the amount of speculative building has declined. Prices of new homes remain about constant, reflecting the ready availability and relatively stable prices of building materials. Savings and loan institutions report that mortgage demand and commitments are generally down, with Colorado and New Mexico notable exceptions. Expectations for future mortgage demand vary widely. Mortgage rates remain constant to slightly lower, with a slight decline or no change expected in the months ahead. The inflow of new savings is as good as, or slightly better than, a year ago. Lower minimum deposit requirements on MMDA's and Super NOW's have proved effective in attracting funds for institutions aggressively seeking them.

Agriculture. The condition of the winter wheat crop is reported mostly good in Kansas, Missouri, Nebraska, and Wyoming, although suffering somewhat from lack of moisture. In Oklahoma and eastern Colorado, the condition of the winter wheat crop is described as excellent, with potentially the best crop in years in prospect. Participation by farmers in government acreage set-aside programs for wheat, corn, and sorghum varies widely among Tenth District states. Little participation is reported in Wyoming, New Mexico, and parts of Colorado, partly because producers are anticipating strong grain prices locally. But agricultural lenders in Kansas, Missouri, and Nebraska report that individual farmers are signing up 75 to 100 percent of wheat acres, and 60 to 85 percent of corn acres, for set-aside.

Spring calving results are reported as good to excellent in Missouri, Nebraska, Colorado, and Wyoming, but only average in Kansas and Oklahoma. In Nebraska and parts of Wyoming, stocker cattle have moved into feedlots. However, in other Tenth District states stocker cattle are still being held in anticipation of higher prices.

Rates of farm liquidation vary among Tenth District states, but are generally lower than recent publicity might indicate. Liquidations of farm businesses are three to five times as high as bankers consider normal, however, with partial liquidations five to six times as high. District agricultural lenders expect these liquidation rates to remain high for at least several months. Despite current farm financial difficulties, few farm borrowers did not receive credit for spring planting. Banks in New Mexico and Wyoming report less than 2 percent of their borrowers did not receive credit. Percentages are somewhat higher in other district states, ranging from 3 percent in Kansas and parts of Nebraska to 12 percent in Missouri.

Banking. Loan demand at Tenth District banks is mixed, with about equal numbers of banks reporting slightly increased, unchanged, and slightly decreased loan demand. Consumer and residential real estate loans are tending to rise, while agricultural loans are tending to decline. Deposits are rising slightly, although they, too, display mixed behavior. Super NOW accounts, MMDA's, IRA and Keough accounts, and small time deposits are rising more rapidly than large CD's and passbook savings accounts; demand deposits and conventional NOW accounts are declining. None of the respondents changed their prime rate in the last month, but about half expect the prime to decrease slightly in the near future. Over three-quarters of the respondents have not changed consumer lending rates in the last month and do not expect changes in the near term. Most of the surveyed banks have reduced the minimum deposit on MMDA's and Super NOW's to $1,000, generally with no effect on deposits.

ELEVENTH DISTRICT--DALLAS

Economic growth in the Eleventh District remains slow. Respondents in manufacturing report modest gains in demand. Drilling activity is dropping farther below year-earlier levels. Auto sales continue to grow briskly, but only modest gains are expected as the year progresses. Retail sales are below levels of a year ago. Loan growth at District banks is slowing. District farmers face declining crop and livestock prices.

Eleventh District manufacturing is expanding, but very sluggishly. Respondents in most sectors report modest gains in demand, but few foresee rapid growth in the near future. There is wide geographic divergence in the performance of some building-related manufacturing industries such as stone, clay and glass and lumber and wood products. Only firms in areas where construction is least depressed have managed to increase sales. Fabricated metal producers, however, report somewhat greater demand from building contractors engaged in public works construction. The depressed energy sector has dampened growth in nonelectrical machinery manufacturing. Makers of electrical machinery and equipment continue to report sluggish demand, but their prospects are brighter because firms in a broad spectrum of industries report plans to invest in productivity-enhancing, automation-oriented equipment this year. Chemical makers report flat sales, while paper and allied product manufacturers note some renewed strength in demand. Primary metal manufacturers still observe that import competition is hindering sales.

The number of active drilling rigs in the Eleventh District states is responding more acutely to declining oil prices. Year-over-year declines in the seasonally adjusted rig count accelerated to almost 10 percent in March. The weakness in drilling reflects the pessimistic attitude about prices and uncertainty about tax changes on the part of many energy companies. The number of well permit applications and the seismic crew count, both of which are leading indicators of drilling, evidence this pessimism. Both measures declined sharply in March from one year earlier.

Auto sales have maintained their record pace in March, but some slowing is expected for the next couple of months. Modest shortages of large domestic cars are developing, but overall inventory levels remain steady. The removal of import quotas on Japanese cars will intensify price competition. Its full effect is not expected to be felt until late in the third quarter, however.

Retail sales remain below 1984 levels and are expected to remain sluggish in the near future. Consumers seem to be holding back expenditures because of slower income gains and subdued consumer confidence. Fashion lines are selling well, but big-ticket items are doing poorly. Profit margins remain below last year's level, but prices are not expected to increase. Reductions in employment levels are a prevalent cost-cutting measure among respondents.

After a strong gain in the fourth quarter of 1984, nonresidential construction has fallen off in the first quarter of 1985. The seasonally adjusted average monthly value of nonresidential construction contracts for the first quarter of 1985 was 15.6 percent below the level for the previous quarter for the Eleventh District states and 13.0 percent below for Texas. Evidence of the oversupply of commercial office space has become more apparent in recent months, contributing to the decline. Nevertheless, nonresidential contract value in the first quarter was significantly above its level one year earlier.

The value of residential construction contracts has declined at increasing year-over-year rates for the last four quarters in the District states. In Texas, first quarter residential contract value was more than 30 percent below its level one year earlier. Housing permits also continue to slide, falling in March 36.8 percent from their level one year before. The number of multifamily permits continues to decline at a greater rate than single family permits. March multifamily permits for Texas were 43.6 percent below their quarterly average one year earlier, compared to a 28.3 decline in the single family level.

Growth in total deposits at District member banks increased slightly in March after a substantial gain in the rate of increase for February. The March growth rate of 16.0 percent matched the increase in deposits at large banks. Although total loans at District large banks are expanding, the rates of increase are declining, and business loans at these institutions have actually fallen in the last two months. Both real estate loan growth at large banks and construction lending increases at Texas savings and loan associations, though still strong, have slowed in recent months.

Eleventh District agriculture is having a weak spring. Crop and livestock prices are significantly below last year and continue to decline. Despite lower product prices, cropland values have risen, on average, in Texas, instead of falling as they have in midwestern states such as Iowa. As a result, farm bankruptcy rates in Texas are much lower than in the Midwest. The income of state ranchers in 1985 is likely to drop from last year's levels because any price increases are likely to be only temporary.

TWELFTH DISTRICT — SAN FRANCISCO

Introduction

The economy of the Twelfth District remains healthy, but there are fewer signs of continuing improvement and some signs of weakness. Although retail sales and service sector employment are satisfactory, the share of manufacturing employment has fallen since last year. Home construction and sales activity are at satisfactory levels, but are sensitive to ambient interest rates. The problems with western agriculture do not appear as severe as elsewhere in the country and do not appear to have generated excessive loan loss exposures for lenders. The forest products industry in the Pacific Northwest and the primary metals industries are the weakest sectors in the District economy. The financial sector appears sound, with satisfactory deposit inflows and increasing earnings.

Consumer Spending

Retail sales activity in the District has been satisfactory, but the growth in sales over the same period in 1984 has been modest. Reports from several large department store chains, for example, suggest year-over-year growth as of February of about 9 percent. Service sector employment continues to be a major source of strength in the District. In the State of Washington, this sector has been particularly important in offsetting the continued weakness in other major employment sectors. Sales of new and used automobiles appear to be satisfactory, increasing by about 5 percent in March over February in the San Francisco Bay Area, for example. The sales increases are attributed partly to promotional financing offered by several manufacturers.

Real Estate and Construction

New construction and home sales activity appear to be at healthy levels and builders are optimistic about prospects for 1985 in general. Prices reportedly have stabilized or softened in many parts of the District, including the normally fast-paced Southern California market. Housing activity appears to be very sensitive to changes in the level of interest rates at current interest rate levels. There were several reports of sharp downturns in home sales activity during the recent modest uptick in mortgage loan rates. Commercial real estate development appears to be healthy, particularly in office and retail park construction, consistent with the growth in the service sector.

Business Activity

Business activity generally in the District shows little evidence of either significant growth or decline. This is reflected in unemployment rates which have either stabilized or declined only slightly in recent months. The share of total wage and salary employment represented by the manufacturing sector has fallen slightly since last year, continuing its slide from 1982. For the District as a whole, the manufacturing employment share stands at about 18 percent.

The forest products industry in the Pacific Northwest and the primary metals industries elsewhere in the District continue to be the weakest sectors. There continue to be mill closures in the Pacific Northwest and the industry is undergoing a major restructuring. This restructuring may ultimately involve wage cuts of as much as 20 to 25 percent in this highly unionized industry. In the mining industry, there have been several major mine and smelter closures in recent days. The impact of these events on

Utah's copper industry alone is estimated to represent 6 to 7 thousand lost jobs. In both industries, the strong dollar and vigorous foreign competition have contributed to continued deterioration.

Agriculture, although still weakened by soft product prices and poor export opportunities, does not appear to be weakening further. The western agricultural economy appears to be more diversified and resilient than elsewhere. In California's Central Valley, for example, the unemployment rate in February fell to 12.7 percent, down from 14.6 percent in the same month in 1984. Retails sales activity in the Central Valley — dependent upon the health of the primary agricultural sector — also have been recovering in recent months.

The Financial Sector

Commercial loan demand has been steady at District banks and loan quality reportedly has improved, particularly in the formerly weak agricultural lending business. There are several reports of improvements — and even major turnarounds — in bank earnings for the first quarter of 1985. This development is at least partly ascribed to recent declines in the cost of funds. Deposit inflows at District financial institutions also are reported to be healthy, particularly in the money market deposit accounts (MMDA). These accounts have benefited from recent narrowing in the spread between the yields in money market mutual funds and the rates offered by banks and thrifts. The bank closures that have occurred in the District have been confined largely to small institutions with undiversified portfolios and weak local economies.