

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT

October 1985

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SUMMARY*

This month's commentaries by the twelve Federal Reserve Banks suggest that the economy has advanced slightly since the end of summer and is poised for further growth. Representatives from the retail trade sector say auto sales have been strong and sales of general merchandise, though lower than expected, are still well ahead of last year. Retailers expect a good fourth quarter and continued strength as the economy resumes growth. Bankers say loan volume continues to expand, with strong gains in consumer and real estate loans leading the way. Residential construction, especially of single family houses, is also up in early fall. Sales of homes are brisk and are expected to remain so. Nonresidential construction also remains healthy, and, although some signs suggest a slowdown may be starting, projects already underway should provide momentum to keep the industry going at least through the first quarter of 1986. In the manufacturing sector, industrial activity remains unchanged, but manufacturers are more optimistic about the outlook for 1986.

The sector with the most significant problems and the bleakest outlook remains agriculture. Farmers continue to face financial distress in many areas of the country. Crop farmers in particular may find themselves sinking deeper as near-record crop yields depress already low farm prices further.

MANUFACTURING AND MINING

Business conditions in the industrial sector appear to be holding steady in October with most districts reporting mixed or unchanged manufacturing activity.

*Prepared at the Federal Reserve Bank of Philadelphia.

Specific indicators, such as new orders and shipments, vary among geographic areas and among industries, but reveal no clear trend. Employment also varies across districts and businesses, but little change is noted. Producers' inventories appear to be at acceptable levels, except in electronics, where some involuntary accumulation has resulted from the slump in that industry. Prices are generally steady; some districts report some downward movement.

Among the stronger industries are autos, auto related products, defense products, and aerospace products. Housing related items, chemicals, and building materials are mixed. The paper industry, one of the strongest in this expansion through 1984, is starting to show signs of weakening according to reports from Atlanta, Minneapolis, and San Francisco. Steel, electronics, and farm equipment are reported to be the biggest drags on the industrial sector at this time. The energy industry is also lagging far behind, with Dallas reporting the lowest oil rig count in Texas since 1976.

Looking ahead, some districts report a slightly better outlook for manufacturers for 1986, which is reflected in increased capital spending plans for the coming year. In many cases, however, planned increases will only replace spending originally scheduled for 1985 and then cancelled. Moreover, according to indications from Boston and Richmond, most of the expenditure on plant and equipment will be for cost containment, productivity enhancement, and the introduction of new products, rather than for capacity expansion.

Cleveland reports that coal mining remains very depressed in many areas, with unemployment in many mining counties running in double-digits. Richmond also notes that coal production is down from last year, although many mines are producing at high levels.

CONSUMER SPENDING

Cut-rate financing arrangements provided by auto manufacturers gave auto sales a strong boost in September and helped overall retail sales to turn in a good third quarter performance in most parts of the nation. Sales of general merchandise, while still posting gains on balance, have slowed from their pre-Labor Day pace and are behind retailers' projections in some areas. Some merchants say general sales might have been stronger and on target, but were weakened by bad weather conditions in many areas and a surge in spending on autos. Reports of retail inventories range from slightly tight to a little heavy; overall stock levels appear to be about where retailers want them, and no significant change is planned aside from the fourth quarter seasonal buildup.

Merchants' near-term outlook is generally optimistic, with renewed economic growth expected to result in continued strength in sales. Many store managers expect the fourth quarter to be good, with year-over-year gains in the 5-to-10 percent range, despite a shorter shopping season and growing concern over the consumer debt burden.

FINANCE

Total loan demand remains strong in most areas, with loan volume outstanding at major U.S. banks running 8-to-9 percent ahead of a year ago and nearly 1 percent higher than in August. San Francisco notes that small banks are experiencing greater loan demand than are large banks, as many customers of larger institutions have turned to the commercial paper market and have reduced bank borrowing.

Loan categories posting the biggest gains include real estate and consumer loans. Consumer loans might have been even stronger were it not for special financing deals offered by auto manufacturers. A major portion of the demand for

real estate loans results from refinancing of existing mortgages. The weakest performance is observed in agricultural loans. Farm loans are falling in many districts, as banks both cut back borrowing and increase write-offs.

Deposit growth is strong in most areas. Bankers in Philadelphia say they have been able to meet time deposit targets without aggressive pricing. Kansas City reports that many thrifts have yet to lower minimum balance requirements on MMDAs and SuperNOWs.

REAL ESTATE AND CONSTRUCTION

Residential construction is reported to be stronger in September, except in Kansas City and St. Louis, where homebuilding is continuing at the same rate as in late summer. The most significant gains are being posted in single family housing construction, while multi-family construction is holding steady in some areas and weakening in others. No shortages of either labor or materials are reported, except in parts of New York where Hurricane Gloria caused substantial damage. Residential sales are strong in most areas, spurred by stable mortgage rates at just over 12 percent, rising incomes, and the availability of subsidized mortgage money in some states. House prices are reported to be firm and new listings strong.

Nonresidential construction is generally weaker than residential building, but still healthy in many regions. There is some evidence that new construction may be slowing slightly, but projects already underway should provide continued strength. Many observers are surprised that nonresidential construction has not already lost steam, in view of rising vacancy rates and a general feeling that the office market is already overbuilt. Chicago notes that some projects have been started recently so that they will be grandfathered under the current tax code and thereby protected from future tax changes.

Office leasing activity is mixed, with vacancy rates at suburban locations generally higher than in downtown areas. As a result, rents in suburban areas may hold steady or even fall in coming months.

AGRICULTURE

While livestock farmers have gotten some measure of relief recently from higher livestock prices, crop farmers remain in financial stress in many areas, and may find their plight worsening. Harvests currently underway are likely to yield bumper crops that will drive farm prices and revenues even lower. Many farmers are storing their harvest under Commodity Credit Corporation loans. Others, however, are selling at current prices in order to get cash to pay off loans and stave off foreclosure.

Farm land values dropped further in the third quarter. Kansas City reports that a great deal of farm land is for sale, but that very little is actually changing hands. Credit has become tighter and many suppliers have become less willing to deal in terms other than cash.

FIRST DISTRICT-BOSTON

Business conditions in the First District have changed very little in recent months. Most manufacturers and retailers report incoming orders or sales below plan but above last year. Inventories are not excessive. Capital spending budgets reflect both merger activity and moderate optimism about the remainder of the year and 1986. Although slower than several months ago, the real estate market remains healthy.

Retailing

Growth in retail sales in September was generally weaker than in August, partly because an early Labor Day shifted some back-to-school sales to the earlier month. Taking the two months together, sales in most stores ran below plan but well above last year. October, according to early reports, is also below plan. Several contacts said Hurricane Gloria had a dampening effect on nonfood shopping.

In several department store chains, furnishings, linens, and household goods are performing quite well, but apparel is weak. Several merchants also cited surprisingly strong toy sales, mostly in traditional lines. Inventories, while higher than planned in some stores, are not a source of concern. Price increases are generally moderate.

Most chains are planning to open their "usual" number of new stores in the next 15 months. Some expansions of warehouse and distribution facilities are also planned. In spite of low unemployment rates in

New England, two merchants serving small towns reported no trouble hiring "high quality and steady" staff for new stores.

Some retailers have revised downward their expectations for the remainder of the year in light of recent performance, but others remain as confident as they were earlier. The consensus forecast is quite optimistic: comparable store sales are expected to be 9 to 10 percent higher in the fourth quarter of 1985 than a year earlier.

Manufacturing

Manufacturing activity does not appear to have changed much in the past several months. Respondents report that incoming orders for most products are holding steady at rates somewhat below plan. The auto industry remains a very important source of strength; although there has been little change in recent months, a variety of automotive products are said to be doing well. Defense spending is another source of ongoing strength. Demand for housing-related products has picked up according to one respondent, but others in this industry see no change. Reports from capital goods manufacturers also vary; improvements appear related to the introduction of new products.

A majority of manufacturing respondents are budgeting more for plant and equipment in 1986 than they spent in 1985, although not always more than they originally budgeted for 1985. In addition to normal replacement spending, the emphasis is on product development and cost containment. Several respondents commented that their capital spending plans are being shaped by their involvement in mergers and acquisitions.

In some cases new affiliations are resulting in higher levels of spending, but in others they are constraining capital expenditures.

Inventories are said to be in reasonably good shape. Electronics may be an exception; according to one respondent, the computer industry in its boom period a year ago double and triple ordered and suppliers still have not worked down the resulting excess. Respondents have not seen any sizable increases in the prices of materials and components. Several mentioned that it is very difficult to increase their own prices.

Manufacturers are looking for demand to strengthen slightly in the fourth quarter; 1986 is expected to be much the same as 1985, possibly a little better.

Real Estate

After a very busy summer, realtors in New England report slightly slower but healthy activity in residential markets. A majority of those contacted throughout the region still face a sellers' market and many houses are sold at asking price. However, prices in most markets are rising less rapidly than several months ago even though mortgage rates are steady or down slightly. Condominiums are selling well in urban areas, but buyers of vacation homes are demanding at least three bedrooms.

Vacancy rates for commercial real estate remain low in downtown areas, especially Boston. Yet in smaller urban areas and many suburbs, new commercial and industrial space has not been absorbed.

SECOND DISTRICT--NEW YORK

Some signs of a pickup in the Second District economy have appeared in recent weeks. Retailers report that August sales were the best in several months, and they attribute the slowdown in September to unseasonably warm weather and Hurricane Gloria. Business activity is generally described as stable or improved, despite continued layoffs by some manufacturers who are consolidating operations outside the District. Commercial leasing activity has increased in most areas, but office availability rates are still high. Throughout the District the demand for new homes remains strong. Small banks in the District report a decline in car loans due to lower cost financing by auto manufacturers.

Consumer Spending

Retail sales in August averaged 9% above year-earlier levels, the first substantial advance after a prolonged period of sluggishness. Brisk back-to-school business and a better-than-expected response to new fall fashions were cited as major factors. As a result, some stores posted their first above-plan sales figures in several months. Preliminary data indicate some slowing during September, but this was generally attributed to summer-like weather and the impact of Hurricane Gloria. However, one discount-chain contact suggested that the high level of consumer debt is hindering sales of its durable goods, and another retailer speculated that auto promotions have reduced general merchandise sales.

After several months of heavy promotional activity, most department stores had trimmed their inventories to desired levels by the end of July. Inventories have remained on target, and District retailers

are generally optimistic about the fall and holiday seasons ahead. Some are already stockpiling possible hot-selling items such as Cabbage Patch dolls and robot transformers.

Business Activity

Economic activity in the Second District was stable to somewhat improved in recent weeks. In both Buffalo and Rochester, for example, an increased percentage of purchasing managers reported that business conditions were either unchanged or better during August. Inventories there remain at comfortable levels. In other parts of New York State and New Jersey, conditions were also described as generally stable although some manufacturing firms continue laying off regional workers and consolidating operations outside the District in an attempt to become more competitive. Passaic, New Jersey was a major exception to this pattern of stability: a widespread fire in its industrial area recently destroyed 62 small plants which employed 2200 workers.

While the September unemployment rates remained below the national average in New York State and New Jersey, some employment cutbacks are expected in the District as a result of restructuring plans recently announced by AT&T Information Systems and Union Carbide. In addition, the redesign of an automotive plant in New Jersey will temporarily reduce employment in that sector by 4200 workers over the next 12-16 months.

The overall effect on employment is difficult to project, however, since other firms continue to move into and expand within the District. Major investments recently announced included the purchase of a former Western Electric plant in New Jersey for conversion to an industrial park, the approval of the \$15 million first step in the Port Authority of New York and New Jersey's \$500 million waterfront project in

New York City, and the purchase by local investors of two Buffalo area plants assuring the retention of at least 2200 jobs and perhaps the addition of others.

Construction and Real Estate

District homebuilders report no letup in the busy pace of their activity. Demand for new homes remains strong and the rush is on to complete as much work as possible before cold weather arrives. In addition, in Connecticut and Long Island where Hurricane Gloria was especially damaging, the demand for skilled labor and building supplies has increased even more. As a result, extensive delays in rebuilding and repairs have been noted there. Most District homebuilders expect residential construction to continue strong at least through early next year. However, they anticipate a somewhat less hectic pace than in 1985.

Nonresidential leasing activity has picked up in much of the District. Observers in Westchester and Fairfield Counties report an increase in leases signed, and in northern New Jersey the number of leasing inquiries is rising. In many areas, however, the supply of office space still greatly exceeds demand. Opinion is divided about the direction of the downtown Manhattan market. Although the availability rate there has increased, it remains among the nation's lowest.

Financial Developments

The special incentive financings offered by auto manufacturers have reduced car lending activity at small District banks, especially in August and September. Since the cost of raising funds has not declined recently for small District banks, they were unable to match the rate reductions offered by finance companies. Although some banks noted that lending has begun to pick up, a new round of incentive financing on autos is expected soon.

THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District in early October are substantially the same as they were in September. The pace of manufacturing activity has not changed significantly since late summer and loan growth at commercial banks has been nearly flat. The housing and retail sectors remain buoyant although a major newspaper strike in Philadelphia may restrain retail sales in the city and its suburbs this month.

The prevailing outlook among businesses in the Third District is positive. Manufacturers foresee improving business conditions and bankers expect increased commercial borrowing in the fourth quarter; some report a pickup in loan approvals already. Retailers are generally pleased with recent sales experience although some are becoming apprehensive about the effect on future sales of growing consumer debt.

MANUFACTURING

The pace of industrial activity in the Third District in October is about the same as it was in September, according to the latest Business Outlook Survey. This marks the seventh time in the last 10 months that the majority of firms responding to the survey have reported no change in the rate of their production. Conditions appear to be about the same for both durable and nondurable goods producers.

With respect to particular measures of current manufacturing activity, survey respondents indicate fractional increases in new orders and shipments but slight declines in unfilled orders and employment. Industrial prices in the

Third District are stable; the majority of survey respondents report no changes in the prices of either raw materials or the products they manufacture.

In general, Third District manufacturers remain optimistic in their outlook for the next six months. Forty-three percent of the October survey respondents expect business conditions to improve over the next two quarters while only 22 percent anticipate a worsening climate. Expectations vary across industries, however. Durable goods manufacturers do not foresee as much improvement as do makers of nondurables. For the manufacturing sector as a whole in the Third District, participants in the October survey forecast moderate gains in new orders and shipments, and a slight increase in capital spending; but they anticipate a marginal decline in payrolls.

RETAIL

The improvement in retail trade in the Third District that began in the late summer appears to be continuing in early October. Store officials are sticking with their earlier prediction of a year-over-year increase of approximately 8 percent in third-quarter sales. The back-to-school selling season was generally in accordance with expectations and all lines of merchandise shared in healthy sales during September and early October. Looking ahead, retailers cite the growing burden of consumer debt and a shorter holiday shopping season this year as factors that might limit fourth-quarter sales, although they expect total sales for 1985 to top 1984 levels by as much as 10 percent.

A matter of concern to Philadelphia area retailers is a strike which has kept the city's two largest newspapers out of circulation since September 7. Although it is too early to quantify the impact of the strike on the retail sector, Chamber of Commerce representatives say that many specialty and

department stores in the newspapers' circulation areas are experiencing lagging business which they attribute to the loss of these major advertising mediums.

FINANCE

Total loan volume at major Third District banks in late September is virtually unchanged from its level in August. Commercial and industrial loan amounts outstanding in September, while 18 percent above a year ago, are substantially the same as in August. However, some bank commercial lending officers say that the number of loans approved in recent weeks has increased and a rise in outstandings will follow.

Consumer loan volume in late September is also 18 percent above its level in September 1984 but has fallen slightly from August. Some Third District bankers say that demand for consumer credit at banks may have slackened in recent weeks because consumers are now becoming reluctant to increase their installment debt burden substantially. Moreover, those households that are borrowing to finance automobile purchases are taking advantage of the incentive financing offered by the manufacturers.

Real estate lending by commercial banks is increasing after a summer lull, and outstanding loans are now rising toward their September 1984 levels. Mortgage lenders report continued strong demand for fixed-rate mortgages at the current interest rate of 12 percent.

Local bank economists expect economic growth to accelerate in the fourth quarter, bringing greater demand for credit, especially from the commercial and industrial sectors. Predicting a less accommodating stance from the Fed, they have raised their interest rate forecasts. The prevailing view is that the federal funds rate will be near 9 percent and long-term Treasury bonds over 11.5 percent by year-end.

Demand deposits at major Third District banks are up approximately 13 percent from a year ago, little changed from the year-over-year increase experienced since June. Nontransactions deposits exhibit a similar pattern. Bank asset/liability managers in the District say that they have been able to meet targeted levels of time deposits in recent weeks without aggressive pricing.

FOURTH DISTRICT - CLEVELAND

Summary.

The District's economy remains weak overall albeit with pockets of improvement. The unemployment rate remains high and is exceptionally high in some areas, while manufacturing employment continues to decline. Department store sales are disappointing and auto sales have fallen to typical levels following the end of special financing programs. Manufacturing activity is increasing in the Cincinnati area but declining in northeast Ohio. The steel industry continues in difficulty with another major plant closing recently announced. The housing industry is showing further strengthening. Commercial bank loan demand has picked up somewhat.

Labor Market Conditions.

Labor market conditions in the District remain soft. The Ohio unemployment rate was 9.4% (s.a.) in September, up 0.2 percentage points from a year ago. Manufacturing employment continues to decline. Some manufacturing firms report they are not laying off but are not replacing workers who leave.

Retail Sales.

Major Fourth District department stores report that sales over the last six weeks were disappointing. Retailers point to exceptionally warm weather in September, which discouraged shopping, and an early Labor Day, which

shortened the back-to-school shopping period, as sources of sluggishness. One analyst asserted that record auto sales, most of which were heavily financed, hurt department store sales because monthly car payments reduce disposable income available for other spending. All major stores expect improved sales in the fourth quarter, and therefore are not worried about the moderate inventory accumulation from recent slack sales.

Auto dealers report that, as expected, sales fell during the first week of October as special financing on 1985 models ended. However, this decline was not as severe as many had expected and sales are described as "typical" for October. Expectations for the rest of 1985 are mixed, with some dealers building inventories in anticipation of strong sales through November, while others expect an immediate sharp decline in demand. Several dealers express confidence that major manufacturers are likely to re-establish low financing rates on virtually all models soon because bank loan rates for car purchases are far above the banks' cost of funds and these spreads are unlikely to diminish much in the near term.

Manufacturing and Mining.

Manufacturing activity is uneven in the District and mining remains depressed. Manufacturers in the Cincinnati area report solid gains in production and new orders, slight increases in employment, and small declines in inventories. In contrast, manufacturers in northeast Ohio continue to report declines in production, new orders, and employment, and slight, probably involuntary, increases in inventories. A survey of manufacturing firms in midwestern states shows incoming orders falling for consumer non-durables but rising for consumer durables and capital goods.

Purchasing managers generally report slight declines in prices paid for materials and components and in prices received for finished goods, and describe the current situation as a buyers' market. They expect no increase in inflation in the next six months.

Demand is improving in the fabricated aluminum products business, but ingot aluminum prices are very low and continue to decline because of excess world smelting capacity. A major aluminum producer recently announced plans to diversify away from supplying the primary aluminum market.

The steel industry continues to face weak demand and prices and strong competition from abroad. A major producer recently announced plans to close a 1,200 employee plant by yearend 1985 because of strong import competition and weak domestic demand for seamless tube. A strike continues at a major steel producer that is in Chapter 11 bankruptcy.

High labor costs are claimed to be hampering some other firms. A major manufacturing firm recently cancelled a \$185 million planned renovation of a mill because its union refused to make any concessions. Another firm is moving a plant out of this area because it is unable to obtain any concessions from its union.

The coal mining industry in the District remains in distress with no relief in sight. Unemployment rates in the teens are common in coal mining counties in this District.

Housing.

More optimism is evident in midwestern housing markets than last month because of lower mortgage rates, strong income gains, and availability of state-subsidized mortgage money. A major builder in this District reports strong gains in house construction in August and September, and if fourth

quarter earnings are only fair, the firm will post record earnings for 1985. Despite the gains, the firm recently reduced slightly its forecast for housing demand in the fourth quarter and into 1986. Sales of existing houses have been strong in Dayton and Columbus, Ohio, encouraging builders there to begin again to construct houses on speculation. Asking prices on new houses are reported to be much higher than on equivalent existing houses.

A major real estate firm reports new listings remain very strong and should sustain strong real estate broker activity into 1986. In Pittsburgh, lower interest rates have boosted existing home sales but it is still very much a buyers' market.

A large mortgage lender in this District reports that as mortgage rates have fallen to what many borrowers view as the interest rate trough, the incidence of mortgage refinancings has increased. Mortgage refinancings represent one-third of total mortgage volume at this mortgage lender.

Commercial Banking.

District loan demand has picked up somewhat. Loans outstanding in all major categories at large banks increased over the past month. Contacts report some pick up in business loan demand and expect a small increase in commercial and industrial lending during the fourth quarter. Despite weakness in auto lending due to the availability of cut-rate financing through auto companies, banks posted healthy gains in overall consumer loan volume during September. Unless these special financing deals are resumed on a broad scale, bankers anticipate further strength in consumer loans over the next few months.

FIFTH DISTRICT - RICHMOND

Overview

Once again, the District economy is giving off mixed signals. Employment is growing on balance, but losses continue to occur in several industries. Some of those job losses, however, are related to special factors and do not reflect the state of business activity per se. Other measures of activity in the manufacturing sector are also mixed, but in several cases suggest an end of persistent past declines, and even some unexpected gains. In particular, the textile and furniture industries seem likely to have added jobs in recent weeks in response to some improvement in orders and shipments. The manufacturing sector may have turned a corner, at least in terms of no longer representing a drag on overall activity. The retail sector is generally holding the gains it posted throughout the year, but further gains have been more modest of late. Construction remains consistently and uniformly strong, as do sales of houses.

Manufacturing

There are scattered reports of recent gains in some hitherto steadily declining segments of the manufacturing sector. Notably, the furniture and textile groups appear to have increased employment in recent weeks, reversing a protracted decline. On the other hand, some industries which had formerly been sources of strength may have given ground recently. In this category would be some types of building materials, chemicals, and electrical machinery. Also, there is some seasonal weakness in some sectors. Declines attributable to current or expected business conditions do not account for all of this weakness, however. Some chemical plants are

restricting activity because of the fear of leaks, and one major manufacturing employer is phasing out production in anticipation of relocating the facility.

On balance, the sector appears to be gaining since reports of improved order and shipment performance outnumber reports of deterioration. For the most part, however, activity levels are reported to be stable. Recent evidence suggests that many manufacturers still find plant and equipment capacity excessive, and that they are reluctant to undertake any expansion effort. Investment projects that are getting under way are productivity enhancing rather than intentional additions to capacity.

Total coal production continues to lag behind last year's record levels, although consumption by electric utilities is well ahead of last year's pace. Lower inventories and increased imports are making up much of the difference. Nonetheless, some areas of the District are currently producing at very high levels.

Consumer Activity

Gains in consumer activity, at least as indicated by retail sales, have not matched those of August by early indications. Sales remain strong compared to early in the year, but still fall short of retailers' expectations. There appears to be little inclination on the part of dealers to build stocks, although there is little apparent concern over current inventory levels. Automobile sales remain an area of considerable strength, and tourist spending, at least in some areas, seems to have turned in a very good year.

Housing and Construction

The entire private construction sector is still lending substantial strength to the District economy. Commercial construction already under way is sufficient to boost the economy for some months to come. Our impression is that perhaps fewer projects are getting under way than during most of the last several years, but it is certainly not clear that that is the case. The housing sector, in any event, is taking up whatever slack there may be elsewhere. New construction has shown no signs of slowing, and houses coming on the market continue to move well, extremely well in some areas.

Agriculture

Crop harvesting in the Fifth District is well under way due to favorable weather conditions during August and September. While yield levels on most major field crops are not expected to match the record levels being forecast for the U.S. overall, large harvests are nevertheless expected. Price levels for field crops, as well as prices for other agricultural commodities such as tobacco, remain depressed with little relief expected in the near term. Cash receipt levels are likely to fall below those of 1984 causing continued stress to the financial position of District farmers.

The Financial Sector

By and large, responses from the financial institutions suggest continued across-the-board strength in lending activity, and most institutions apparently look for continued activity at or slightly above present levels. One interesting point made by several respondents concerned the

effects of the recent activity in the automobile markets. Respondents suggest that auto loans at financial institutions have been exceedingly weak as a result of the financing arrangements available from dealers and manufacturers in recent months. As a result, at least in some consumer-oriented institutions, loan-to-deposit ratios have fallen below desired levels. In any event, institutions seem confident of their ability to fund loan demand even at current levels, since deposit flows continue strong.

SIXTH DISTRICT - ATLANTA

Broadly-based yardsticks of economic activity indicate a mixed performance of the Southeast economy in late summer. Employment growth exceeded labor force growth, reducing the region's jobless rate. Manufacturing employment showed a respectable increase in August, with transportation equipment responsible for much of the growth. Consumer spending is up from a year ago. However, September retail sales were up only moderately from August as consumers gave a lukewarm response to sales promotions. Construction of single-family housing is strong but signs of weakness have surfaced in multifamily, commercial and office construction. The pace of loan demand is slackening despite an uptick in business loans in September. Tourism has flattened somewhat around the region. While carpet mills are increasing employment, owing to strong demand and low susceptibility to imports, weakness persists in other textiles and apparel, petrochemicals, and agriculture.

Employment and Industry. Labor markets conditions improved since mid-summer. Employment growth exceeded labor force increases in August, and the District unemployment rate fell 0.4 percent from July to 7.9 percent. Job gains in the services and trade sectors have more than offset employment declines in manufacturing. Chemicals and textiles manufacturing have accounted for the most job losses. Spokesmen for Louisiana's chemical industry now feel that employment may remain stable for the remainder of 1985. However, the high comparative value of the dollar continues to pressure regional textile and apparel producers and employment in apparel plants is continuing to decline. In contrast to apparel manufacturers, carpet mills are adding employees. The strong housing market and the commercial office building boom are chief sources of strength for the domestic carpet industry which is somewhat insulated from imports, owing to high shipping costs and customization. Orders for

carpets are expected to remain strong through the end of the year. Contacts report that the region's paper and linerboard industry, unexpectedly weak in the first two quarters of 1985, is expected to strengthen towards the year's end. A record \$8 billion in capital spending by U.S. paper mills is expected in 1985, 13 percent above 1984 levels. Expanding employment at auto and auto-related plants in the region is related to growing new car sales.

Consumer Spending. Retailers report moderately higher sales in September compared to a year ago. Although consumers' response to recent sales promotions was lukewarm, merchants report inventories to be leaner, but at desired levels. Sales at department stores continue to exceed the sales pace nationally. Women's apparel, sportswear and sports equipment, and furniture and housewares have been the best-selling items during the early fall period. Most retailers polled expect Christmas sales growth to match last year's increase despite fewer selling days between Thanksgiving and Christmas this year. Car sales strengthened throughout the region in September, and industry contacts are optimistic about the demand for cars for the remainder of 1985.

Construction. The general outlook for single-family sales and construction remains good. Declines in mortgage rates have boosted demand amid only modest advances in home prices. August building permits were up from the previous year by 26 percent in Nashville, 20 percent in Atlanta, and 13 percent in Miami. In the multifamily sector, by contrast, there is a large unsold inventory of condominiums and prices have been falling, especially in the south Florida market. Reflecting the surplus of condos, building permits for apartments are down sharply from last year. Signs of slowdown in office markets have surfaced in Atlanta and Miami. Below-normal absorption for the first half of 1985 and a significant volume of new space expected to enter the market in

the fourth quarter, are likely to push up vacancy rates and place downward pressure on rents.

Financial Services. Although loan demand remains strong, a slowing trend is evident. A slight uptick in business loan growth in September cushioned the slowing growth rates in real estate and consumer loans. About one-third of current real estate lending reflects mortgage refinancing. Bankers were smarting over substantial losses in auto loan volume to special low-rate dealer financing during September.

Tourism. After good growth during the summer, tourist activity seems to have waned a bit. Air travel was mixed in August. While most regional airports have reported healthy increases in passengers in 1985, some, including Atlanta's Hartsfield, have experienced slower growth in August. Visitor center registrations in September fell in 3 of the 4 states for which data are available. Hurricanes adversely affected the region's coastal areas during the month. Although occupancy levels at hotels and motels in overbuilt cities such as Orlando, Miami, and New Orleans remain weak, performance continues to strengthen in many other southeastern cities.

Agriculture. Crop prospects are generally favorable throughout the region and indicated yields are significantly above the average for the past five years. However, crop prices averaging 29 percent below year-ago levels indicate sharp reductions in income from 1985's increased production. Farm loans outstanding, as of mid-1985, were below year-ago levels reflecting both reduced lending and increased write-offs of bad loans. Loan write-offs will increase as a result of further reductions in crop income in 1985. The livestock sector, and especially broiler and turkey producers, will fare better than crop producers because product prices have not weakened as much as crops and feed costs have dropped with grain prices. On balance, southeastern farmers are doing somewhat better than farmers elsewhere in the country.

SEVENTH DISTRICT--CHICAGO

Summary. Business activity in the Seventh District continues to lag the nation, with Illinois and Iowa, the leading agricultural states, particularly weak. Total employment in District states has risen more slowly than in the U.S. over the past twelve months, and since the turn of the year. Manufacturing employment has fallen more sharply in this region since the January peak than in the nation. Production of autos and light trucks, the only strong segments of manufacturing in the region, will do well to hold at current levels after the turn of the year. Chain store sales are somewhat improved, but still disappointing. Construction backlogs indicate that spending will stay near this year's much improved levels into 1986. Office overbuilding and uncertainties related to possible tax changes overhang these markets. Steel and most lines of mechanical capital goods remain depressed. Prices in most wholesale markets are under downward pressure. Inventories are generally low. So far, the decline in the dollar has not significantly increased demand for the region's manufactured goods, but analysts believe that a further significant decline will have the desired effect. District agriculture continues under severe financial stress. Large harvests will keep farm prices down.

Employment. Job markets in the District remain weak. In August, nonfarm payroll employment in the five-state region was 1.9 percent above last year, compared with a 3.3 percent rise for the nation. Illinois was up less than one percent and Iowa was down slightly. Manufacturing employment has declined, particularly in Illinois, Iowa, and Wisconsin.

Motor Vehicles. The unsustainable surge in auto deliveries from mid-August through early October, mainly in response to cut-rate financing, largely eliminated the overhang of 1985 models. Production plans remain strong through year-end. Major automakers have extended less generous programs of below-market financing into November. Analysts expect very competitive markets for motor vehicles over the next several years, with imports and domestic production of foreign producers taking a larger share of the U.S. market. The

decline in the value of the dollar since February has somewhat reduced but far from eliminated the foreign producers' cost advantage. Sales of medium- and heavy-duty trucks have softened, and are expected to be down next year. Mediums have held up this year better than heavies. Several producers are scheduling 5-6% reductions in output for October.

Steel. Producers of steel continue to operate at unprofitable levels. The District's share of U.S. output has climbed somewhat in recent months. OECD exporters to this country are adhering to restraint agreements, but some others are not. Prices remain weak. Rising investment by steel producers is to cut costs, improve quality, and meet demand for particular types of steel, not to add to overall capacity. Strongest markets for steel include autos, appliances, office furniture, building components, and store fixtures. Most lines of machinery remain weak. A larger share of steel is moving through service centers, which aids user efforts to keep inventories low.

Business Equipment. Demand for most types of heavy capital equipment, including those important in the Seventh District, remains weak. Railcar orders are low, though orders for auto carrying cars have increased. The farm equipment market is dismal, and more layoffs of production workers have recently been announced. Machine tool demand has improved, particularly from auto makers and the defense industry, but remains far below good levels reached in the 1970s. Sales of pumps, widely used in numerous industries, have increased from recession levels but remain well below the 1981 peak, and have flattened in recent months. A substantial further fall in the dollar's value in foreign currency markets is estimated to be needed to provide much help to makers of many lines of machinery. However, the rise in the Japanese yen reportedly has spurred interest of potential buyers in construction equipment of a major Seventh District producer.

Nonresidential Construction. Office building continues vigorous in the Chicago area, particularly downtown and in rapidly growing suburbs, despite widespread concerns about overbuilding. Construction of stores and rehab work also remain strong. Some of this activity is believed to reflect efforts to grandfather projects under existing tax

incentives. Backlogs indicate continued strength in nonresidential building well into 1986. Activity on large projects is limited by availability of skilled workers and capacity to pour ready-mix, reduced during the last recession. District-wide, nonresidential building contracts this year have continued to recover from their 1982 low, but remain well short of peaks reached in the late 1970s. Highway work is at high levels in District states. Contract lettings in Illinois earlier this year were the largest ever.

Residential Construction. Home and apartment building in District states in 1985 is slightly ahead of a year earlier and nearly double the recession low in 1982. The rise this year has been most pronounced in southeast Michigan, reflecting continued strength in motor vehicles. Apartment construction in the Chicago area is stimulated by low vacancy rates and proposed reduction of federal tax incentives. Activity is also up in Indianapolis, but has been flat to down somewhat from 1984 in most other areas. Tighter FNMA regulations on mortgages are believed to be constraining new construction somewhat. Despite improvement since 1982, the pace of residential construction in the District is less than half of the 1978 peak. In contrast, sales of used housing are nearer to pre-recession levels. One of the largest Chicago-area realtors reports a record volume of resales in recent months. Prices have probably averaged between flat and up 3 to 4 percent over the past year (no good statistics are available), but with wide variation among areas.

Consumer Spending. Chain store sales in September and early October have been disappointing but somewhat better than prior to mid-August. Demand for durables has picked up. Apparel is slow, and would be helped by cold weather. Inventories are normal, possibly somewhat tight in some lines, in contrast with excesses which developed in late 1984 and early 1985. A high proportion of sales are on credit. Delinquencies are high but are not deteriorating further. A large area retailer reported that the decline in the value of the dollar will not be reflected in higher prices charged to consumers until mid-1986. Costs are "locked up" through spring. Japanese exporters are absorbing about

half of the impact of the lower dollar in narrower margins.

Agriculture. Farm commodity prices remain very depressed, but crop prices may be at or near harvest-season lows. Livestock prices have recently recovered somewhat. Farm credit conditions continue to deteriorate. Farmland values declined sharply again in the third quarter, according to preliminary results from our latest survey of District agricultural bankers. A recent action by the governor of Iowa allows judges in that state to delay foreclosure proceedings against farm real estate mortgages for one year. Whether such a moratorium can be used against foreclosure proceedings initiated by Federal Land Banks, the leading supplier of farm mortgage credit to farmers in Iowa, is under debate.

EIGHTH DISTRICT - ST. LOUIS

Summary

District indicators suggest a slowing of economic activity during the third quarter of this year. As in past reports, employment growth continues to lag national trends. Evidence of strength in the retail sectors of the District is supported by consumer lending activity, which has maintained a pace well above that of last year. Construction activity, while strong in certain areas, has been relatively flat for the District as a whole. The agricultural outlook finds record-breaking harvests accompanying historically low commodity prices.

Business Activity

Business activity, as measured by an index of seven indicators, declined in Arkansas at a 3.4 annual rate in August, after a slight increase the previous month. Missouri business activity also declined, decreasing at a 2.8 percent rate in August after a 5.9 percent increase in July.

Payroll Employment

Payroll employment continues to expand more slowly in the District than in the nation. For the twelve months ending in August 1985, the District growth rate was 2.5 percent compared to a 3.3 percent national rate. A 1.9 percent decline in manufacturing employment contributed to the slower District rate. Over the same period, manufacturing employment increased at a 5.1 percent rate nationally.

The seasonally adjusted unemployment rate increased in the District to 8.2 percent in August from 8.0 percent in July. August jobless rates ranged from 6.5 percent in Missouri to 9.4 percent in Kentucky.

Consumer Spending

District retail sales were 6.4 percent higher in July than year-ago levels. Sales were particularly strong in Tennessee, increasing by 12.5 percent over the period. Missouri car sales were strong in the July through September period. Tax revenues from motor vehicle sales rose 17.5 percent for the quarter over the same period last year. A leading Missouri car dealer expected sales of both domestic and imported cars to remain vigorous through the end of the year, spurred by lower interest rates. A representative of a Memphis area trucking firm indicated that sluggish replacement of inventories can be interpreted as a signal of a slow Christmas retail season.

Construction

Construction contracts decreased in the District over the twelve months ending in August. Residential contracts decreased 5.0 percent from year-ago levels. Analysts have attributed the decline in residential contracts to the satisfaction of much of the pent-up demand for housing after higher mortgage rates in past years. Non-residential contracts in the District declined slightly. August figures were 0.4 percent lower than year-ago levels.

Banking and Finance

Total loans at large weekly-reporting District banks, although growing at a 5.5 percent annual rate during the third quarter, increased at a considerably slower rate than that recorded over the same period in 1984. Consumer lending continues strong with third quarter activity increasing at a 25 percent rate. Consistent with earlier periods, commercial lending remains sluggish. For the three months ending September, commercial lending fell 11 percent over second quarter levels. Real estate lending, although strong during July and August, slackened during the final month of the quarter. Real estate loans grew at an 8.1 percent pace as compared to an 18.8 percent rate over the same period last year.

Agriculture

Reports from the District have consistently supported the national trends of high yields, record harvests, and prices far below historical norms. The rice harvest is nearly complete, and early indications show that some new varieties have produced yields 50 percent larger than conventional varieties. One rice exporter, however, indicated that due to the price floor provided by the CCC loan rate, U.S. rice is overpriced by \$200 per ton relative to rice produced in Thailand.

Other information confirms continuing stress among farmers. Recent reports, however, indicate a large number of financially strong farmers expect to be acquiring the assets of failed farmers when the prices of those assets fall to levels consistent with the returns they generate.

NINTH DISTRICT - MINNEAPOLIS

Ninth District economic growth appears to have steadied, with no indications of significant advancement in its pace. Employment conditions remained stable between July and August. Aside from solid motor vehicle sales, strength has not generally been evident in key components of consumer spending. Manufacturing performance has been spotty. While livestock prices have improved substantially, major crop prices have remained poor. Reflecting the sorry state of Ninth District farmers, agricultural bankers report that their farmer clients' plights haven't eased.

Employment

The most recent unadjusted employment data show stability in overall employment conditions. During August, unemployment rates continued to hover around 5 percent in Minnesota and the Dakotas. Employment remained steady between July and August in Montana and the Upper Peninsula of Michigan. A Bank director notes that Sioux Falls and Rapid City, South Dakota, accounted for most of the monthly employment growth in that state, which is suffering from a slack rural economy.

Large, divisive strikes in the food processing industry have continued to plague Austin, Minnesota, and Sioux Falls, South Dakota. Other labor developments include the announcement of future layoffs in some iron ore processing plants in northeastern Minnesota and the hiring of nurses (who were in excess supply last year) in Rochester, Minnesota.

Consumer Spending

Retail sales of general merchandise have varied quite a bit. One large retailer reports that sales in September were less than expected and speculates that some of its normal September business may have already come during August. A Bank director notes that while sales slowed at some Sioux Falls, South Dakota, retail facilities, sales picked up again in October. Another director notes the continuing lackluster performance of small agriculturally dependent Main Street retailers. However, another large retailer had good September sales--better than expected. Among retail goods, home-related products have been selling particularly well. Credit sales appear to be much stronger than cash sales, causing some concern about speed of payback.

District sales of motor vehicles continued strong throughout September. Two domestic manufacturers have only a handful of 1985 models left. Year-to-date car and truck sales continue to surpass year-earlier levels. Inventories of 1986 vehicles are at extremely low levels, however, causing problems for dealers.

Housing activity wasn't bad in the Minneapolis-St. Paul area, but was spotty elsewhere. Sales in both Minneapolis and St. Paul were higher this September than last. Residential building contracts in Minnesota were 14 percent higher this August. And while home sales have slowed in Sioux Falls, South Dakota, a recent housing bond issue will finance the construction of about 244 apartments in Rapid City, South Dakota. A Bank director notes that sales of existing homes have also been slow in Rochester, Minnesota.

Manufacturing

Manufacturing performance has been mixed. Among major high tech firms, Sperry Corporation laid off 70 workers at its computer plant in suburban St. Paul. Control Data Corporation announced further austerity moves, including some mandatory unpaid vacation days. And 3M Company announced that it plans to temporarily shut down its industrial and medical supplies plant in Aberdeen, South Dakota, one day per week. Bank directors note that pulp and paper operations in northern Minnesota and the Upper Peninsula of Michigan are slowing from their full-capacity output earlier this year. But building material manufacturers report that business is good, and two new plants are expected to open in South Dakota: a plant to manufacture equipment for the transportation industry in Watertown and a meat packing plant in Pine Ridge.

Agriculture

Two bright spots on the dark agricultural horizon have been the dramatic improvement in livestock prices and Taiwan's agreement to buy \$14 million in wheat from South Dakota, Montana, and Minnesota wheat farmers. A Bank director is relieved to report that cattle prices in parts of Montana rose about 15 percent during the last month. But major crop prices have remained low. Prices received in Minnesota for corn and soybeans continued to sink further, with soybean prices in August hitting their lowest level since March 1976.

Bank directors note that crop harvesting is being hindered by wet, cold conditions in parts of North Dakota and throughout Minnesota. Some windy, dry weather is needed to ensure a good harvest.

Finance

This district's survey of agricultural bankers at the end of the third quarter reflects the continuing farm crisis. The median respondent banker estimates that 3 percent of her or his farmer clients went out of business in the past six months. Demand for refinancing farm loans remained high, while the rate of debt repayment remained low.

TENTH DISTRICT--KANSAS CITY

Economic activity in the Tenth District is improving somewhat, apart from the weak farm sector. Retail sales are growing, with new car sales especially strong. Prices at retail and for factory inputs are generally stable. Inventories of industrial materials and retail goods are generally viewed as satisfactory. Residential construction activity varies widely across the district. Inflows to thrifts are increasing, with mortgage demand mixed to slightly higher. Loan demand at commercial banks is off slightly and deposits have increased slightly.

Retail trade. Retailers report a slight increase in sales this year over last year, and sales have been improving in the past three months. Clothing sales have been strong while home furnishing sales have been weak. Sales are expected to increase seasonally with the coming holidays. Prices are stable and are expected to remain so through year-end. Retailers have been trimming inventories but expect to add stocks in anticipation of seasonal sales increases.

Automobile sales. Automobile dealers report strong sales and large reductions in inventories of 1985 models, due largely to financing incentives. Inventories of 1986 models are beginning to grow. Some dealers are apprehensive about sales following the end of the interest rate incentive programs, but generally express optimism for 1986 model year sales.

Purchasing agents. Most purchasing agents report that input prices have remained nearly constant from a year ago and 3 months ago, and they generally expect input prices to remain constant through the end of the year. Few difficulties in obtaining materials are reported, and few new problems are expected to arise. Most firms report either that materials inventories are satisfactory or that they are reducing stocks. Changes are not expected to be large for the rest of the year.

Housing activity and finance. Homebuilders report that starts of single family houses have remained flat, but give mixed reports about multi-family housing starts. Most area homebuilders expect starts for the remainder of the year to follow current trends. Sales of new homes, prices of new homes, and the inventory of unsold homes vary widely across reporting areas. Prices of materials are generally steady and material availability is good.

Most savings and loan associations report a significant increase in savings inflows relative to last year. Several institutions reporting strong inflows also report aggressive campaigns to attract funds. Each respondent expects the current trend to continue. Respondents also report mixed to slightly higher mortgage demand and commitments. Somewhat lower demand is expected as winter approaches. Mortgage rates are constant and are expected to remain so. Most institutions have not reduced to \$1000 their minimum deposit on money market deposit accounts, Super NOW accounts, and 7-31 day certificates of deposit. Those that have reduced their minimum deposit believe that deposits have grown as a result.

Banking. Respondents at Tenth District banks report loan demand has fallen slightly while deposits have risen slightly, on average, in the last month. Commercial and industrial loans and residential and commercial real estate loans fell slightly. Agricultural loans fell more sharply. Consumer loans, on the other hand, increased. The prime rate remained unchanged at nearly all of the banks surveyed. No change in the prime is expected in the near term. A majority of respondents report lower consumer lending rates. Although some respondents expect further easing in these rates, most report they did not anticipate any near term change. Deposits were slightly higher, on average, during the last month. Demand deposits, conventional NOW accounts, Super-NOW accounts, IRA and Keogh accounts, and small time deposits

increased slightly. Money market deposit accounts and large CD's showed greater increases. Passbook savings accounts were down slightly.

Agriculture. Most areas in the district have more farm land on the market this fall, but very little appears to be changing hands. Farm land values continue to drift lower reflecting the weak farm economy. Some of the increased amount of land for sale results from higher foreclosure rates. Many lenders believe farm business failures will continue to run well above normal over the next six months. Bankers report that Farm Credit System outlets are adhering to fairly strict loan review guidelines, apparently leading to the sale of more farm assets.

Fall grain harvest is underway in the district following a good wheat harvest. District farmers expect excellent corn, milo, and soybean yields. Nearly all farmers who are eligible are choosing to store their grain under Commodity Credit Corporation loans. In some areas, however, the number of farmers selling grain on the cash market is up somewhat from last fall. Though not a preferred option because of depressed grain prices, some farmers are pressed for cash to pay outstanding loans.

Winter wheat is being seeded in the district, though planting is behind in some areas due to wet weather. In general, district wheat growers are not having serious problems obtaining credit, although conditions are somewhat tighter than a year ago. A higher percentage of growers in Oklahoma and Missouri are having problems than in other district states. In most cases, input suppliers are unwilling to provide inputs on credit.

ELEVENTH DISTRICT--DALLAS

The Eleventh District economy remains sluggish. Manufacturing activity is flat. Drilling remains depressed with little hope of a resurgence owing to price instability. Retail sales are showing little growth. Auto sales are extremely brisk. Evidence of a decline in nonresidential construction is becoming apparent, but lower interest rates continue to fuel a mild recovery in residential construction. Asset growth is largely unchanged at the District's large banks. The agricultural sector continues to deteriorate owing to low cotton and beef prices.

Eleventh District manufacturing is maintaining its weak overall performance, but more firms report increasing sales than in earlier surveys this year. Apparel manufacturers say their orders have begun to increase on a year-over-year basis after a period of slack demand earlier in 1985. Manufacturers of primary metals report rising demand from the refining industry, and brisk sales to construction firms working on public works projects. Nonelectrical machinery producers note that sales of oilfield machinery are ebbing but that demand for food-processing equipment remains very strong. Chemical and allied products firms report that the general slump in manufacturing activity is keeping sales flat. Manufacturers of lumber and wood products and firms making stone, clay and glass goods attribute lower absolute sales levels to moderating construction activity. According to respondents among electric and electronic equipment manufacturers, sustained high inventories of electrical components continue to depress sales of semiconductors.

Drilling activity in the Eleventh District is still declining in what respondents say is a reaction to earlier declines in oil prices and uncertainty over future prices. The rig count in Texas has recently fallen below 700 for the first time since 1976. Leading indicators of drilling activity, such as well permits and the seismic crew count, suggest that the current depressed level of drilling should persist.

Retail sales growth is slight. The weakest sales items continue to be large appliances and other household goods, although an increase in home sales is expected to reverse this trend. Apparel and accessories are selling well, however. Retailers report optimism that renewed economic expansion will accelerate sales expansion in the future. In the meantime, employment gains in September were largely attributable to the beginning of Sunday sales in Texas.

Concessionary financing terms from manufacturers are keeping auto sales quite brisk. Inadequate inventories of desired models are hurting some dealers. Although many respondents report optimism about future sales, some are concerned that sales will slow significantly with the end of the special financing programs.

Nonresidential construction is slowing, although the level is still quite strong. For the three-month period ending in July 1985 the total value of construction contracts in the District states was somewhat below the three-month period ending in April. The decline in Texas was sharper than elsewhere in the District. Respondents expect the slowing to continue and offer as evidence a growing number of cancelled and deferred projects.

A slight resurgence in residential construction is occurring. The average monthly permit totals during the three-month period ending in July were 6 percent higher than for the previous three-month period. Despite the recovery, the number of permits is significantly below last year's level. The number of multifamily permits is holding steady after a long period of decline.

Growth of total loans and securities at the District's large banks slid in August from July, but increases were about the same as the average pace for the second quarter. Loan expansion decelerated markedly, while the rate of increase in securities rose. Consumer lending at large banks fell absolutely from July to August, in response to the relatively low interest rates introduced by automobile manufacturers. The year-over-year growth in real estate lending continued to slow, but remained strong overall. According to lenders, refinancings of existing projects predominate over loans for new projects. The demand for energy loans is increasing as lower prices restrict the cash flow of energy companies. Respondents note, however, that stricter lending criteria are preventing many applicants from qualifying for additional loans. At all member banks, including large banks, total deposit growth has been very steady.

Estimates of District agricultural income continue to drift downward as the revenue outlook for cotton farmers and cattle ranchers deteriorates. Prices for sorghum, wheat, rice, soybeans, cotton and cattle are all below the levels of a year ago. Cotton and cattle generate about 60 percent of District cash receipts to farmers and ranchers.

TWELFTH DISTRICT - SAN FRANCISCO

Summary

Although some key sectors of the Twelfth District economy continue to suffer, others remain strong enough to keep the region's economy generally healthy. Problems remain in the forest products, agriculture, electronics, and oil industries. In contrast, defense, aerospace, trade, and services continue to grow. Interregional differences in economic well-being within the Twelfth District largely reflect variations in industry mix.

Consumer Spending

Retail sales figures from throughout the Twelfth District suggest that consumer spending is healthy. Most stores show year-over-year sales gains of 5-10 percent, though some are posting relatively small sales decreases. Available figures indicate high credit card sales volume, which likewise suggests that consumer spending remains robust.

In most of the District, auto sales have been very strong. Oregon, however, posted a decline in August which more than offset July's sales increases. Many are concerned that sales will drop sharply when incentive financing stops.

Mining and Manufacturing

The oil industry slump continues to hurt oil producing regions in the Twelfth District. In Southern California, the oil rig count is 21 percent below its year-ago level, production is down, fewer wells are being drilled, and little money is being spent on oil exploration. In Alaska, reduced oil revenues have led to sharp cutbacks in state construction activity, which had been a major source of employment.

Activity in the forest products industries remains stagnant. U.S. producers complain that their competitiveness is compromised by subsidized Canadian production, as well as cultural and legal restrictions on sales to Japan. Although some Oregon firms recently posted profits and are optimistic about the future, many others remain depressed. Further mill shutdowns are contemplated, and for the first time the paper market shows signs of weakness.

Disappointment is evident in regions that had counted on the semiconductor and electronics industries to lead employment growth. Additional layoffs, short work weeks, and salary cuts are announced frequently.

Defense and aerospace production continue to provide employment growth throughout the Twelfth District, with California and Washington benefiting most from these sectors.

Construction and Real Estate

The market for single-family housing appears healthy. Permits, sales, and prices are all up in most markets, although increases vary substantially with location. In Portland, however, permit activity remained stagnant in August, while the median existing home price was 4 percent below its July level and 6 percent below the level of August 1984.

Multifamily and nonresidential construction exhibited greater variation. Continued commercial construction activity is exacerbating already saturated markets in the Los Angeles and Orange County areas, while vacancy rates appear to be falling in California's San Joaquin Valley. Multifamily residential construction is falling sharply in Utah and Arizona due to the past overbuilding that has increased vacancies in those markets. Previously torrid multifamily activity in the San Diego area appears to be

slowing somewhat, while in Portland, multifamily permits rose substantially in August.

Agriculture

Agriculture remains weak. Growers of most western crops continue to suffer from low prices induced by increased foreign competition and bumper crops. Farmers report that tariffs and quotas on fruit exports to Japan, and subsidies on European production, compromise their ability to compete in the world market. The recent depreciation of the dollar has had little effect as yet, and some believe that more fundamental changes in production decisions will be required even if the value of the dollar falls substantially. Beef prices remain below the cost of production despite a recent price increase. Other crops for which prices do not cover costs include wheat, cotton, grapes, and potatoes.

Finance

Business loan demand in the West continues strong for smaller banks but is weaker for large banks. Larger banks tend to serve larger borrowers, which can raise money by selling commercial paper and need not borrow from banks.

Demand for consumer credit continues strong and a bank study in Utah found that consumer debt relative to income is still only 77 percent of its 1977 peak. However, September delinquency rates on consumer loans and credit card purchases remain much higher than a year ago.

Mortgage rates remain essentially the same as last month, with some banks offering 30-year fixed rate mortgages at rates just above 12 percent. An Idaho bank reports that through the first eight months of 1985 its total new mortgage loan originations were 24 percent higher than the same period in 1984.