

SUMMARY OF COMMENTARY ON  
CURRENT ECONOMIC CONDITIONS  
BY FEDERAL RESERVE DISTRICT

AUGUST 1993

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**SUMMARY \***

Slow to moderate growth characterized economic conditions in most Federal Reserve districts in late July and in August. Geographically, economic growth appears weaker on the East and West coasts while central areas such as Cleveland, Dallas, Kansas City and Minneapolis report stronger than average growth. Employment continues to grow slowly in spite of large companies' continued efforts to restructure and cut labor costs. Manufacturing reportedly is improving in several districts. Home construction is strong in many districts compared to a year ago, and a few see some improvement in commercial real estate markets. In agriculture, several districts describe weather-related damage to crops but note generally favorable conditions for livestock producers. Mining shows little overall change, but there is some increase in oil and gas exploration. Small increases in loans are noted in some districts, and some business lending rates reportedly have fallen. General retail sales show a mixed pattern, with strength in several districts but weakness in the remainder. Auto sales are strong in most districts. Tourism is a bright spot for some districts. With the exception of lumber, prices are generally stable and there is little evidence of inflationary cost pressures.

**Labor markets**

Continued corporate restructuring is taking the bloom off employment growth. Cleveland indicates that several manufacturers emphasize near-term revival in employment growth is unlikely, since curbing labor costs appears to be the favored option for improving profits in view of uncertainty over sales. Several large firms in the Minneapolis and New York districts recently have announced sizable layoffs. Boston and Philadelphia look for no change in manufacturing employment, and

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Richmond foresees a decline. In the St. Louis district flooding is still keeping some people from working.

But some districts also state that labor markets may be reviving. Several manufacturers, according to Dallas, have boosted employment, and in the Cleveland district retailers report cautious hiring. Some Minneapolis district firms have recently added workers. Moreover, even though employment has continued to decline in the New York district, the recent pace of decline has been modest.

### Manufacturing

Manufacturing production and sales are increasing in many districts. Several districts report strong sales for firms making building materials or construction-related items. Boston notes double-digit sales increases for automotive and electronics products compared to year-earlier levels. Cleveland reports a surge in appliance production and indicates that sheet steel and heavy truck manufacturers are operating at capacity. Chicago also notes very strong heavy truck sales along with strong light vehicle assembly. St. Louis lists improved business for petroleum equipment and apparel. Dallas also notes improvements in oil field equipment, in addition to strong orders for semiconductors and telecommunication devices. San Francisco describes improvements in semiconductors and electronics. Respondents to a Richmond survey of manufacturers are optimistic about prospects for the next six months.

The situation for some products varies by location. Dallas, Minneapolis and San Francisco have positive comments about food processors, but Boston reports food manufacturing output as flat. Similarly, Atlanta, St. Louis and San Francisco see strength in the furniture industry, which is described as flat for Boston. Textile sales are reportedly declining for Atlanta and Boston, but higher in California.

In the Atlanta, Boston and San Francisco districts the aerospace and defense industries are still weak, as are chemicals and petroleum for Dallas.

### Construction and real estate

Home construction is improving in many regions. For Dallas and Minneapolis, residential construction is strong. Home building reportedly is picking up momentum for St. Louis, and sales and permits rose for Richmond, particularly in the Carolinas.

While housing starts for Kansas City were slightly below year-ago levels, they are rising and expected to continue to increase. San Francisco describes regionally mixed conditions, with strong construction in Arizona, Idaho, Oregon and Utah, but relative weakness in California, Hawaii and Washington. New York notes no change in home-building activity, and Philadelphia describes the pace of construction and sales as about even with last year. In non-residential construction, Minneapolis reports strong commercial and public building across its district.

Boston and New York see some improvement in commercial real estate markets. New York describes the sale of a new, large office building as eliciting greater than expected interest and selling for a higher price than expected. According to Richmond, commercial real estate markets have improved in Virginia and the Carolinas but are slow elsewhere. For Philadelphia, commercial real estate is stagnant.

#### Agriculture, mining and energy

It is either too wet or too dry for normal crop development, according to reports from several districts. Continued drought has damaged corn, sorghum, tobacco and other crops as well as pastures in the Dallas and Richmond districts and in southern portions of the St. Louis district. On the other hand, flooding and excess moisture are the principal problems for Chicago, Kansas City and Minneapolis. These districts report substantial damage to corn, soybean and spring wheat crops. Slow crop development caused by unseasonably cool, wet weather has left many crops in the Midwest vulnerable to damage from early frosts.

But some positive crop developments are also noted. Scattered rains brought relief for some crops in Richmond's area, while Dallas reports good cotton crops in west and northwest Texas and estimates that overall crop output will be up from last year, in spite of dry conditions. Winter wheat production is good for Kansas City and excellent for the Minneapolis district. Cotton and peanuts in Oklahoma are reportedly in good condition. And San Francisco reports generally favorable agricultural output. The livestock sector is generally better than crops, with favorable range conditions in most areas and strong prices. Kansas City notes that cattle feeders reduced inventories somewhat in response to higher feed costs.

According to San Francisco, new mines are opening in Nevada in response to higher gold prices. An existing gold operation in South Dakota is contemplating expansion. Mining is stable for Minneapolis, though a strike at four iron mines in August cast a cloud over increased production in that sector. Dallas reports rising oil and gas drilling rig counts compared to earlier in the year and describes activity in the Gulf of Mexico as very strong. Kansas City also notes that drilling rig numbers continue to rise and are substantially above 1992 levels. St. Louis reports that lumber producers are rebuilding inventories.

#### Financial institutions and credit

Most districts report slight increases in loan volumes. Consumer borrowing and mortgage financing are up modestly in Atlanta, Chicago, Cleveland, Dallas, Kansas City, Philadelphia, Richmond and parts of the San Francisco district. Mortgage refinancing is especially strong in Atlanta, Philadelphia and Richmond.

Commercial and industrial loans, however, are generally flat across the country, though there are signs of improvement. Philadelphia reports that business loans may increase as previously postponed projects are reviewed. Loan volumes in California continue to decrease, though at a slower pace than in recent months. Chicago and Dallas observe that increased competition among banks in their districts is bringing down rates for prospective borrowers, and New York notes that about half of surveyed loan officers report moderately lower rates.

#### Consumer spending and tourism

General retail sales are strong in several districts, but weak in the remainder. For Cleveland, durable goods are moving well. Several retailers in the Kansas City and St. Louis districts report moderate increases in sales over last year. In California and New York sales are flat and mixed respectively. However, sales are unseasonably slow for Atlanta and Boston, and Minneapolis indicates that strength earlier in the year has ebbed somewhat. Boston, Chicago, Cleveland, Dallas and Richmond report that retail inventories have returned to satisfactory levels.

Auto sales are strong in most districts. Cleveland notes that dealers of domestic new cars and light trucks enjoyed the best summer sales in more than five years. St.

Louis car dealers report that sales of new and used domestic cars are up, in many cases by 10 percent. In the Philadelphia district, auto sales are running above year-earlier levels, while Minneapolis characterizes them as stable. While domestic auto sales have climbed, import sales, especially of Japanese cars, have dropped according to Cleveland and St. Louis.

Tourism is cited as a bright spot for several districts. Chicago, Minneapolis and Richmond report strong summer seasons. According to San Francisco, Idaho and Utah are enjoying record years, but Hawaii's visitor industry has slumped.

### Prices

Atlanta, Boston, Dallas and Kansas City report little or no change in prices. Food prices, according to Minneapolis, are stable, and gasoline prices continue below year-earlier levels. Boston and Kansas City say retail prices are holding steady, and Dallas states strong competition has been restraining retail price increases. While Kansas City area manufacturers indicate input prices are modestly higher than a year ago, Atlanta's factory contacts report stable prices for both raw materials and finished goods. Prices are even flat for manufacturers in strong markets, Boston observes.

Lumber is an exception to this pattern of stable prices. In the Atlanta district, home builders note lumber prices are beginning to rise again in anticipation of increased demand from rebuilding in Midwestern flood areas. Lumber prices, San Francisco says, are up about 30 percent from a year ago.

## FIRST DISTRICT - BOSTON

On balance, the First District economy appears to be expanding only marginally. Retail sales are flat to down among contacts reached in late August. Manufacturing growth is uneven, and respondents report competitive price pressures even in relatively strong areas like automobiles and electronics. Commercial construction shows scattered improvement. Asset managers are experiencing higher sales.

Retail

First District retail contacts report sales results ranging from unchanged to more than 5 percent below year-ago levels. Respondents observe that sluggish employment growth continues to inhibit spending. Also, retailers in northern New England believe the strength of the U.S. dollar has adversely affected trade with Canadian tourists.

Both costs and selling prices are largely unchanged. Retailers report that inventory levels generally are satisfactory, but, in the absence of sales advances, they are monitoring their stocks closely.

Most retail contacts intend to renovate some stores or upgrade equipment, and a minority plan to expand their locations. Employment is increasing only to staff new locations. Looking forward, contacts express concern that economic progress may have stalled.

Manufacturing

Manufacturers of automotive and certain electronics products are experiencing double-digit sales increases over year-ago levels. Construction-related sales are improving moderately, with some boost from rebuilding in hurricane- and flood-damaged areas. By contrast, contacts indicate zero to very modest sales increases for food, furniture, miscellaneous machinery, and products used by the



pharmaceutical industry. Sales of textiles for apparel, heavy machinery, and medical equipment are declining significantly. Demand for aircraft engines and parts also is reported to be sluggish, except by one manufacturer with increased foreign orders.

Almost all contacts cite downward pressure on prices. The majority, including those in strong markets, indicate that their selling prices are flat. Medical equipment suppliers have reduced their prices, by as much as 15 percent. Materials costs are flat or up just slightly. A growing number of contacts indicate that they are pressing suppliers to reduce prices--with some success where markets are competitive. By exception, lumber prices have reportedly risen by about 20 percent over the past year, and one contact anticipates a double-digit increase in the price of steel after a three-year freeze.

Employment has risen substantially at two contacts over the past year, but most report declines in the range of 1 to 10 percent. The majority expect the size of their work forces to remain steady in coming months, although some are continuing to reduce their numbers through attrition or layoffs. One manufacturer of auto parts intends to hire additional workers, and two other contacts mentioned the possibility of increasing overtime if demand continues to improve. Capital spending remains concentrated on modernization and automation, but about one-third of this month's contacts intend to expand capacity.

Most manufacturers feel that the economy at large will provide very little help to their business over the coming year. Over half mentioned higher federal taxes as a negative factor, and some voice concern about uncertainties resulting from pending health care reform.

Commercial Real Estate

The commercial real estate market has shown signs of improvement over the last three months. The apartment and retail markets reportedly are attracting some new investment. Results in the office market are more mixed. Sales of existing office buildings have picked up in some suburban Boston locations as buyers appear to have gained confidence that the market has bottomed. One contact notes that prices may be up 10 to 15 percent, while another indicates that prices have increased only for the most desirable, well-leased buildings. Vacancy rates in the greater Boston office market increased slightly in the first half of the year, mostly because of a drop-off in large lease signings. Office leasing in the Hartford area is reported to be slow, with vacancy rates continuing to rise. According to one contact, recovery in Connecticut real estate is at least six to twelve months behind the rest of New England.

Nonbank Financial Services

Investment management companies report strong sales. Increases in assets under management ranged from 4 to 10 percent between the first and second quarters of 1993. Sales were strongest in tax-free bond funds and equity funds. Venture capital contacts report that firms in communications software and health care cost containment experienced strong growth in the second quarter, while retailers are said to have had mixed results.

## SECOND DISTRICT--NEW YORK

On balance, economic developments seemed slightly more positive in recent weeks, although some negative reports continued to be received. Sales results varied widely at District retail stores during July and early August. Respondents reported no noteworthy change in homebuilding activity in recent weeks, and now expect housing starts to top last year's relatively low levels, though not by much. In the commercial real estate market the sale of a nearly vacant new office building in mid-Manhattan reportedly elicited more interest and sold for a higher price than many had expected. New York's unemployment rate decreased to 7.5 percent in July from 7.8 percent while New Jersey's rate held steady at 6.9 percent. Most senior loan officers surveyed at small and midsized banks indicated no recent change in their willingness to lend.

Consumer Spending

Sales results varied widely at District retail stores during July, and early August data indicated a continuation of this pattern. Fans and air conditioners were strong sellers in July as most of the District experienced record-high temperatures, and other items for the home also fared well. Sales of women's apparel and cosmetics were strong at some stores but quite weak at others. Some retailers attributed their lower apparel sales to the fact that they had smaller-than-usual stocks on hand for this year's July summer clearance.

Over-the-year sales changes ranged from -14 percent to +18 percent but despite several negative results, only one chain stated that inventories were somewhat worrisome. Stores were fairly evenly divided between those falling below and those exceeding plan. One chain with lower-than-expected results had moved a large promotional event from July to August and apparently underestimated the impact this would have on July sales. Several respondents were cautiously optimistic about the outlook, citing a continued lack of consumer confidence as the reason for their caution.

### Residential Construction and Real Estate

Respondents report essentially no change in homebuilding activity in recent weeks. Some noted a slight slowing of traffic and sales but stressed the fact that traffic has exhibited an up and down pattern over a period of time. The IBM layoffs have begun to have a negative impact in the Hudson Valley area, however, with an increasing number of homes being added to the resale market. Uncertainty about the economic outlook and concern about job security were factors mentioned as continuing to dampen demand for new homes in several other parts of the District as well. Low interest rates and stable home prices are sustaining some demand, however, and credit seems somewhat more available than had been the case, particularly for large builders. Housing starts are expected to top last year's relatively low levels throughout the District though not by large amounts.

In the commercial real estate market the recent sale of a 42-story, nearly vacant new office building in mid-Manhattan reportedly elicited more interest and sold for a higher price than many had expected. The buyer, Morgan Stanley, noted that a number of its businesses have been growing and that the new building will fit in with its expansion plans. Some other financial services firms in Manhattan also have already increased or plan to increase their space when negotiating new leases.

### Other Business Activity

New York's unemployment rate decreased to 7.5 percent in July from 7.8 percent in June while New Jersey's rate held steady at 6.9 percent, just above the national average. While employment has continued declining in the District, the recent pace has been modest. Moreover, a recent BLS report noted that, despite its employment doldrums, New York City wages and salaries grew by a sizable amount in 1992 even when the highly-paid Wall Street firms are excluded. New York State payrolls also rose in 1992, though by a smaller amount.

The July surveys of purchasing managers in Buffalo and Rochester indicated some improvement among manufacturers in those areas. Rochester had a sizable increase in the per-

centage of firms stating that general business conditions were better: 38 percent in July from 20 percent in June. A higher percentage of Buffalo firms reported a rise in output in July and, though the percentage with a gain in new orders fell, the percentage with the same or increased new orders rose.

The District's employment outlook was dimmed by several announcements of future job reductions. The largest of these were IBM's planned cutback of another 35,000 and Kodak's additional downsizing of 10,000. Smaller cutbacks of 3000 and up to 1500 are in the offing for Johnson and Johnson and New York's Empire Blue Cross. Most of these numbers pertain to worldwide operations and no information is currently available as to the local impact. On a smaller scale, Martin Marietta will cut almost 500 Albany-area jobs and will decide by October whether to close any of several other plants in New York which it acquired in its recent purchase of GE's aerospace division.

#### Financial Developments

Most senior loan officers surveyed at small and midsized banks in the District indicated that they are as willing to lend as they were two months ago. Loan rates decreased slightly in the last two months as roughly half of the surveyed loan officers reported moderately lower rates while the rest reported theirs unchanged. Overall loan demand was reported to be generally stable. Approximately three-fifths of the respondents reported steady demand while the remainder was evenly divided between those with higher and lower demand. With regard to specific categories, most surveyed loan officers reported that demand for consumer loans was unchanged and that mortgage demand and refinancing activity remained stable over the last two months. Business loan demand showed continued signs of sluggishness as two-thirds of the respondents indicated stagnant demand while others noted only slight increases or decreases. In addition, approximately 90 percent of respondents reported either no change or a moderate decline in loan delinquency rates during the last two months.

## THIRD DISTRICT - PHILADELPHIA

Reports from various sectors of the Third District economy were mixed in August, although indications were that overall activity was steady. Manufacturers reported steady orders but a drop in shipments. Retailers indicated sales were seasonally slow but slightly above the level in August of last year. Auto dealers said an upward trend in sales persisted through the month. Bankers generally indicated that overall loan volumes were edging up, with weakness in commercial loan demand being offset by increased consumer lending. Mortgage refinancing volume was growing. Realtors and builders said sales were up compared with last year for new and existing homes in lower price ranges, but were off for higher priced homes. Commercial real estate activity remained weak, especially in the Philadelphia central business district, but there were some reports that demand for office space in suburban areas was a bit firmer.

Looking ahead, manufacturers expect conditions to improve, but they do not plan to step up hiring. Retailers express cautious optimism for the fall, and auto dealers expect the upward trend in sales to continue through the rest of the year. Bankers generally expect consumer lending to continue moving up modestly, but most do not expect commercial loan demand to strengthen in the immediate future. Realtors anticipate continued weakness in commercial real estate activity.

MANUFACTURING

Third District manufacturers continued to report slack conditions in August. Around half said new orders and shipments were running at a steady pace. While as many firms reported increases in orders as reported decreases, the number of firms that indicated shipments had dropped was slightly greater than the number that posted increases. Around three-fourths of the firms contacted in August said they were holding payrolls steady, but nearly one-fourth were making cuts. Inventories were generally described as steady.

Looking ahead, nearly half of the manufacturers surveyed in August expect conditions to improve over the next six months, while only one in ten anticipates further weakening. On balance, industrial firms in the region expect rising orders and shipments. Overall, area firms' plans for the next six months call for some slight increases in capital spending but no change from current employment levels.

RETAIL

Most of the Third District retailers contacted in late August said sales were seasonally slow as the back-to-school shopping period was just getting under way. Many noted that sales were running a bit above the pace set last August, and they expect slight year-over-year gains to persist through the fall months. Auto dealers generally indicated that sales in August were above the level of August 1992. They expect the growth trend that began this spring to carry through the rest of the year.

FINANCE

Total loan volume outstanding at major Third District banks was edging up in August, according to reports from bankers. Most said that consumer lending was rising while commercial and industrial loan volumes were steady or easing.

Bankers also said that home mortgage refinancing activity was strong, with borrowers preferring fixed-rate loans.

While most bankers said they did not expect commercial loan demand to increase in the immediate future, some said discussions with potential business borrowers indicated that commercial loan demand could begin to improve as previously postponed capital spending projects are reviewed. Bankers generally expect consumer loan demand to remain on a modest upward trend. While some noted signs of increasing home sales and purchase-mortgage originations, the gains are not expected to be strong.

#### REAL ESTATE AND CONSTRUCTION

Third District contacts in residential real estate and construction indicated that the pace of new home construction and sales this summer has been about even with last year's rate. For both new and existing homes, realtors said there was strong demand for those in the price range associated with first-time home-buying. They said these homes were selling at a better rate than last year because of lower mortgage rates and some easing in price from prior years. Several realtors noted slower sales and growing inventories of existing homes for sale in higher price ranges.

Commercial real estate activity remained slow, according to realtors and property managers contacted for this report. The demand for office space in Philadelphia was weak, according to real estate contacts, while demand in suburban areas appeared to be somewhat firmer. Real estate contacts expect demand for office space to remain soft as a result of the slow job growth they anticipate.



### **Fourth District - Cleveland**

Summary. Growth in District business activity has been driven by brisk retail sales and steady gains in production. Strong demand for furniture and appliances and exceptional new-car sales have helped to sustain significant overall retail sales growth during the last two months. Manufacturers generally report strong orders. Steel producers (except for plate steel) continue to operate near capacity, and automakers expect higher production this quarter compared with 1992:Q3. Mortgage refinancing accounts for much of the moderate rise in loan demand, and some banks have noted a decline in deposits.

Consumer Spending. While total retail sales have continued to make significant gains in July and August, product demand has varied by type of retailer and product. The larger department stores appear to be the major beneficiaries of higher sales, although certain discount chains continue to do well. Despite heavy sales promotion by some specialty stores, this segment of the market continues to lag.

Retailers report that durable goods, including furniture, hardware, and appliances and electronics, have been moving well. Respondents attribute the strong demand to factors such as improving home sales, weather, and some pent-up demand for durables. Sales of apparel and of other nondurable items have been sluggish. Yet, aggressive clearance promotion has prompted some movement of these items, pushing inventories below the excesses reported earlier this year, particularly by department stores.

Although back-to-school sales have started slowly, retailers are cautiously optimistic about the fall season. This positive attitude is buttressed by the region's better-than-average sales performance and by the anticipation of only moderate price increases on fall items.

Dealers of domestic new cars and light trucks report the best summer sales season in more than five years. While the most dramatic increases occurred earlier in the summer,

demand has continued to improve in August, with sales running 5 to 10 percent above the same period a year ago. Some sources insist that sales could have been even better were it not for shortages of many popular models and options. In contrast, unit sales of Japanese nameplate vehicles are lower than last year.

Manufacturing. The durable sector continues to spearhead gains in manufacturing output. Orders and production of appliances surged in July, spurred by the heat-related demand for air conditioning and refrigeration units. Heavy-duty truck makers report that operations continue to be at capacity, and they expect that output this year will be the highest since 1977. Producers also note a steady pickup in orders for medium-sized trucks.

Steel producers anticipate that output for the remainder of the year will exceed levels attained during the first half. Sheet steel facilities continue to operate at virtual capacity, and order books are full well into the fourth quarter. Plate steel producers, however, report a softening in orders for the second half of the year. They attribute the slowdown to the deferment of investment in barges and freight cars until facilities destroyed by the Midwest floods are rebuilt.

A producer of power-generating equipment reports that domestic demand has slowed considerably in recent months. The respondent speculates that customers have delayed projects because of uncertainty about the economy and about pending legislation affecting energy and waste disposal.

District manufacturers anticipate that exports to Europe may be dampened by the latest run-up of the dollar vis-à-vis European currencies. Some also note scattered signs that the yen's appreciation may have slowed the growth of Japanese imports, although the impact to date is thought to have been moderate. A large steel producer reports some resistance from auto transplants to switch existing relationships with Japanese steel producers even though the strong yen may have temporarily left Japanese steel at a

competitive disadvantage. However, some respondents anticipate that the yen's rise will allow domestic automakers to gain greater market share at home.

Employment. Several manufacturers emphasize that near-term revival in employment growth is unlikely, because curbing labor costs appears to be the most appropriate option for improving profits in view of uncertainty over sales. For instance, although auto producers expect higher output this quarter, they plan to add on only a minimal number of workers. Retailers also report cautious hiring for the balance of this quarter.

Financial Institutions. Depository institutions continue to report that home mortgage financing is the main source of new loans, as interest rates in the District have receded to as low as 7.0 percent for a 30-year fixed-rate mortgage. However, several lenders note that the low rates have not spurred as many new mortgage applications as expected, particularly in Cleveland, where home sales and starts trail last year's pace.

Respondents describe business loan volume in July as slow or shrinking, but they indicate that consumer installment loans continue to grow moderately. Bank officials also report further declines in deposits, resulting largely from losses of maturing certificates of deposit.

## FIFTH DISTRICT-RICHMOND

Overview

The District economy continued to grow sluggishly during late July and the first three weeks of August. Hot, dry weather boosted tourism but dampened shopper traffic at retail outlets, pushed up manufacturers' costs, and devastated crops. Credit demand strengthened slightly as did residential and commercial real estate activity. At District ports, exports fell but imports rose.

Consumer Spending

Our regular mail survey indicated that retail activity was mixed in late July and early August. Respondents reported that sales rose slightly, even though big-ticket items decreased somewhat. Wages increased, as did wholesale and retail prices, while employment and inventories were lower. Capital expenditures were reported to be flat.

Survey respondents were optimistic about their prospects for the next six months. They expected increases in all indicators except sales of big-ticket items, which they believed would be unchanged.

Manufacturing

Our survey of manufacturers indicated that District activity continued to hold steady in late July and early August. Respondents indicated little change in most indicators, although raw materials prices rose and new orders fell slightly. Manufacturers cited government regulations and weak product demand as their most important problems, and they noted that the summer's hot weather had pushed up their production costs somewhat.

Respondents were optimistic about their prospects for the next six months. They anticipated increases in most indicators, but expected

inventories and the number of employees to decline. They anticipated no change in backlogs and employee hours.

### Tourism

Hotels, motels, and resorts throughout the District indicated that tourist activity for July and the first three weeks of August was higher than in June and a year ago. Respondents attributed the increases to unseasonably good weather. All respondents noted that their summer bookings increased when compared to a year ago, and most expected tourist activity to continue to improve during the next six months.

### Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that exports were lower and imports were higher in July than in June and a year ago. Hampton Roads expected exports to increase during the next six months, while Baltimore and Charleston expected export volume to be unchanged.

### Finance

District financial institutions contacted by telephone indicated that credit conditions improved slightly over the last five weeks. Respondents stated that commercial loan demand was flat while consumer loan demand strengthened somewhat. Interest rates were steady on commercial loans and somewhat higher on consumer loans.

Residential mortgage demand increased during the past five weeks. Refinancing activity increased significantly, while mortgage originations were flat. Residential mortgage lending rates were moderately lower.

### Residential Real Estate

Real estate analysts and homebuilders surveyed by telephone reported that residential activity increased throughout the District during the past six weeks. Residential sales and building permits rose on a seasonally

adjusted basis, as did home prices, particularly in the Carolinas. Most respondents indicated that higher prices reflected both higher building materials costs and stronger demand. Some also attributed increased prices to a lessened availability of residential lots and to increased regulatory and labor costs.

#### Commercial Real Estate

Commercial real estate activity was mixed during the past six weeks; it improved in Virginia and the Carolinas, but remained sluggish elsewhere. Office building and retail vacancy rates continued to edge down, and no speculative construction was reported to be underway. However, some analysts anticipated speculative office building activity in some areas as early as next year. Commercial rental rates remained steady throughout the District except in Raleigh, where they were higher.

#### State Tax Revenues

State tax analysts reported that revenue growth implied real economic growth of 2 to 3 percent in most District states. South Carolina's economy appeared to be growing at a slower rate, partly because of military cutbacks. In the District of Columbia, real revenues continued to shrink.

#### Agriculture

Agricultural analysts reported that scattered rain across much of the District in August brought relief to some crops but arrived too late for others. Drought damage to corn, sorghum, and tobacco reduced their expected yields substantially. The soybean and hay crops benefited from the August precipitation but remained in poor condition. As of late August, estimates of drought-related damage in the District approached \$600 million.

## SIXTH DISTRICT - ATLANTA

Overview: Reports from Sixth District contacts indicate that economic activity in the Southeast grew somewhat more slowly in July and August than during the first half of the year. After recording relatively strong growth in the first two quarters, retail sales gains tapered off early in the third quarter and have maintained this slower pace of growth since. Reports from manufacturers also varied over the same period. Firms in the apparel, packaging, and aerospace industries reported decelerations in new orders and current production, while manufacturers of home furnishings, appliances, and building materials reported steady to slight improvements in overall activity. Demand for housing-related items continues to be supported by single-family home sales and construction, which have remained healthy in most of the Southeast. Multifamily and commercial construction activity, however, has continued to be sluggish. According to bankers, consumer loan demand increased slightly during the last two months, while commercial lending was generally flat over the same period. Prices generally were said to be stable; some firms reported modest wage increases.

Consumer Spending: Retailers reported that consumer spending growth slowed unseasonably in July and August. Sales of apparel and other consumer nondurables were said to be particularly sluggish. Although sales of furniture, appliances, and automobiles have continued to improve on a year-over-year basis, recent gains have been more muted than earlier in the year. While most retailers reported that they continue to expect sales during the upcoming holiday shopping season to equal or surpass year-ago levels, they said that the recent softening in consumer demand has made them more cautious in placing orders. Tourism remains strong

in the Southeast. Hotel occupancy rates and convention attendance are above last year's levels, and most industry contacts expect further improvement through the end of the year.

Manufacturing: Reports on factory activity in the Southeast were mixed in July and August. Textile and apparel industry contacts reported that sluggish retail sales had led to reduced orders overall, with the exception of denim. Producers of packaging materials reported a fall in new orders that they attributed to the recent weakness in consumer spending. Chemical producers expressed concern that the floods in the Midwest could later contribute to reduced demand for agricultural chemicals, while cutbacks in the space station program are expected to add to the job losses already experienced in the aerospace industry. On the other hand, industries that are closely linked to regional and national housing markets have continued to report increases in overall business activity. Producers of lumber, carpets, appliances, and furniture continued to experience gains in production and shipments. However, even in these industries the expansion in the volume of new orders has declined from the more rapid pace recorded earlier in the year.

Construction: Realtors again reported strong single-family home sales through the end of August. Contacts noted that after slowing briefly at the beginning of the summer, home sales have picked up again. Year-to-date sales continue to outpace last year's relatively strong levels. New mid-priced homes were said to be selling particularly well, and agents noted that inventories of both new and existing homes for sale were tight in many market areas. Home builders reported that increases in demand had kept them extremely busy through August, and that they saw signs of a shortage of subcontractors available to work on new projects.



Multifamily and commercial construction activity remained sluggish across the District, though several contacts noted improvement in vacancy and rental rates in their market areas. In particular, large blocks of space are becoming scarce in some of the more desirable locations. However, no new speculative building projects were announced.

Financial Services: Bankers from across the Southeast reported that loan demand was flat or up modestly in August. Loans for automobile purchases have been the source of most of the growth in new consumer loans. Residential mortgage lending also has continued to increase, but bankers said that about three-quarters of this activity was due to refinancings. Business lending has been flat and dominated by debt refinancing.

Wages and Prices: Factory contacts reported that prices for both raw materials and finished goods have been stable in the last two months. However, home builders noted that lumber prices were beginning to rise again in anticipation of increased demand from the rebuilding in the Midwestern flood areas. In regard to wages, several firms said that they were giving their employees only cost-of-living wage increases.

## SEVENTH DISTRICT--CHICAGO

**Summary.** Seventh District economic expansion proceeded slowly in July and early August, while efforts to clean up after the flooding got underway. Reports from a variety of retailing contacts indicated modest improvement in consumer spending. Housing markets remained relatively active, although bad weather restricted construction and the delivery of building materials. Manufacturing activity flattened out during a seasonally slow period, but is generally expected to build momentum over the rest of the year. Reports from banks indicated that commercial, industrial, and consumer lending progressed at a somewhat stronger pace. Flood damage and related slow crop development reduced anticipated agricultural production and left a sizable portion of the remaining corn and soybean crop vulnerable to an early frost.

**Retail Sales.** Discussions with retailers, state tourism officials, auto dealers and other contacts were largely consistent with a modest pickup in consumer spending in July and August. A large discount store chain reported that same-store sales gains improved in August, with hard lines leading sales, and results in the District slightly stronger than the national average. While a major department store chain reported solid gains in back-to-school sales during August, some other retailers stated that back-to-school sales have proceeded somewhat more slowly than anticipated. One retailer speculated that a burst of later-than-usual vacations after an extended period of bad weather may have been partly responsible. According to another retailer, there has also been a trend toward later back-to-school sales, and this contact stated that continuing sales gains in home furnishings and nonseasonal merchandise were more indicative of the true underlying momentum in retailing activity. Bad weather limited tourism spending in Wisconsin in July, but a state official stated that with improvement in weather during August, a substantial increase in business has occurred in many parts of the state, with record-breaking weeks reported for one popular tourist area. An auto dealers' exchange stated that volume ran substantially above year-earlier levels in recent months, and used car prices continued to rise. One of the largest auto dealers in the District noted that profitability has been improving to a somewhat greater extent than volume. Inventories are leaner and consumers "aren't beating us up on price so much." A manager of shopping center properties reported that sales growth for the stores in its centers in the District seemed little changed thus far in the third quarter. This contact noted relative strength in department store sales results, and was encouraged that consumers seem increasingly focused on value as opposed to price alone.

**Housing and Construction.** Bad weather and hesitancy among producers has impeded residential construction activity through much of the year, but discussions with housing industry contacts suggested that the underlying tone of the home sales market remained firm. An association of realtors stated that local boards have been reporting further improvement in sales activity and buyer interest during the third quarter in Illinois. A realtors' association reported a significant increase in home resales in Wisconsin during July, and year-to-date sales are now ahead of a record breaking year-earlier period in spite of relatively weak results in early 1993. One of the largest residential realtors in the District reported a return to a record selling pace in July, after some softening in its markets during the second quarter, and early August results remained encouraging. A survey of residential mortgage lenders in Western Michigan showed a pickup in origination growth in recent months. Two mortgage lenders reported significant improvement in the housing market in the Detroit area.

Bad weather and the effects of flooding restricted shipments of construction materials through July and early August. A gypsum wallboard producer expected industry shipments to rise somewhat less than earlier expected this year, but shipments to the Seventh District were still expected to post a modestly higher gain than in the nation as a whole. A large cement producer reported relative strength in shipments for light industrial construction, which combined with extensive public works activity to boost overall shipments in the absence of improvement in the weak commercial market. This contact stated that "we definitely see some better times ahead." A cement industry association stated that bad weather did not affect production, but shipments were delayed in some parts of the region.

**Manufacturing.** Purchasing managers' survey results and reports from manufacturers indicate that industrial output in the District flattened out (on a seasonally adjusted basis) during the seasonally slow months of July and August. Light vehicle assemblies had been scheduled to surge in the third quarter, but underbuilds during August have pared those expectations. One large automaker expected output to continue to increase on a seasonally adjusted basis in the third quarter, and this contact expressed confidence that assemblies would continue to climb into the fourth quarter. Light vehicle assembly gains in the District have significantly exceeded the national average thus far in 1993, and District production should benefit when one large facility reopens later in the year. A steel producer selling into niche markets reported that their order books were full through October and November. Improvement in demand remains widespread by customer grouping, according to this contact. A steel industry analyst stated that continued relative strength among steel service centers is another sign that

improvement in demand has been generalized, and not confined to auto and appliance manufacturers. A large electronics and communications company stated that strong bookings growth continued, particularly in orders from Asia. A heavy-duty truck industry analyst reported that net orders in July climbed to their highest level for that month since 1978. The increase was partly driven by promotions, but there was little sign of an orders slowdown in preliminary results for August. Some small manufacturers that were closed due to flooding in July have begun the clean-up process.

**Banking.** Commercial, industrial and consumer lending activity generally continued to improve in recent months. Several large bank holding companies reported increased liquidity in the large corporate loan market, with a perceived strengthening in asset quality prompting greater willingness among banks to extend credit. Heightened competition has reduced the cost of credit lines and the spread of loan rates over base rates. A regional bank holding company stated that middle-market commercial loan demand is still "pretty good," with demand for working capital financing more robust than demand for fixed investment financing. Another middle-market lender stated that commercial borrowers seem to have increased their tendency to shop around for better loan terms, and competition on rates has intensified in most borrower classes, with little overall net lending growth. "We are continuing to go forward at rates we consider acceptable, but the overall market is best characterized as sluggish or weak." Auto loans still form an important source of strength in consumer lending, according to one regional bank holding company. A large retailing firm reported continued expansion in outstanding consumer credit, while a large bank holding company reported that credit card write-offs have been running at their lowest pace in almost a decade.

**Agriculture.** Recent flooding is estimated to have led to an expected total production loss of roughly 4 to 7 percent of this year's intended crop acreage in the hardest-hit District states (Iowa, Illinois and Wisconsin). Ponding and slow crop development have considerably reduced the yield prospects on the remaining acreage in Iowa and Wisconsin. Production uncertainties continued into late August, with ongoing rainfall in much of the District. A sizable portion of the corn and soybeans in the northern half of the District remain vulnerable to a frost prior to maturity, and even a normal first frost would cause some damage to this year's late crop.

## EIGHTH DISTRICT - ST. LOUIS

**Summary**

The District economy continues to grow slowly. Floodwater has receded in many areas, allowing the cleanup to begin. Our flood damage estimate for the District now stands at \$2 billion to \$3 billion, up from the \$1.5 billion to \$2 billion stated in the last report. The Coast Guard has reopened the Missouri River and is allowing restricted traffic on the Mississippi River between St. Louis and Cairo, Illinois. Residential construction has picked up in areas where it was lagging and continues to be strong elsewhere. Total loans outstanding at a sample of District banks rose less from mid-June to mid-August than they had in the prior two-month period. Hot, dry weather has hurt crop prospects in the southern parts of the District.

**Consumer Spending**

Most retailers throughout the District, except in St. Louis, report that sales are up between 1 percent and 7 percent over last year. Retailers in St. Louis have not fared as well, reporting that sales have been flat. Some department stores in Little Rock and Louisville report double-digit increases. Stores in Little Rock, Louisville and Memphis also report that back-to-school sales are above expectations, although some say that it is still too early to report. Contacts in Little Rock and Memphis expect sales this holiday season to be as good as, if not slightly better than, last year. Some contacts in Louisville and St. Louis were less optimistic though, expecting sales this holiday season to just match last year's.

Car dealers report that sales of both new and used domestic cars are up, in many cases by more than 10 percent, over the same period last year. Import sales, especially of Japanese cars, however, continue to decline. Most dealers expect that as the model year changes and the usual year-end incentives are offered, sales over the next few months will continue their increase from one year ago. Dealers in Louisville, on the other hand,

expect this year's total sales to be slightly lower than last year's because of the decline in import sales.

### **Manufacturing and Other Business Activity**

Most District firms contacted continue to report slow, steady growth. Many firms that had suspended operations because of flooding are returning to normal operations. At the height of the flooding, about 31,500 workers in Missouri were displaced, including about 10,700 workers in the St. Louis area. As of August 23, approximately 11,000 people statewide, including about 5,000 people in St. Louis, were still believed to be out of work because of flooding. Most of the displaced workers in St. Louis are from the Chesterfield area, where the Monarch Levee broke on July 30, flooding about 300 businesses, the second-busiest airport in Missouri and a county jail. Preliminary damage estimates for this area are between \$150 million and \$200 million. In Illinois, about 200 of the 500 displaced nonagricultural workers were still believed to be out of work.

While a few reports from District firms not affected by the flooding are negative, most are upbeat. A mine in southeastern Illinois will close permanently by late September, eliminating 365 jobs. At the same time, another mine in southern Illinois reopened, calling back almost 350 workers from a layoff in March. A domestic airline announced that its corporate headquarters will move to St. Louis from New York. This relocation, along with one by a medical supply company from Chicago, will bring about 500 jobs into the area.

A contact in the oil-extraction equipment industry reports that, for the first time in about a year, orders from domestic firms have picked up. In Tennessee, a shirt manufacturer that closed in early July has reopened, calling back 350 employees, and a furniture manufacturer will open two new plants, creating 400 new jobs. A major telecommunications firm, which recently announced widespread reductions in its workforce, will close its Louisville office, affecting about 120 employees. Many of these employees will receive other positions within the company, although not necessarily in the

District. In a July survey of District firms by the National Federation of Independent Businesses, only 13 percent believed that now is a good time to expand.

### **Construction and Real Estate**

Residential construction has picked up some of the momentum it had lost in areas of the District this spring because of adverse weather conditions. In St. Louis, for example, single-family home permits rose 8.4 percent in June and 10.1 percent in July from their year-ago levels, compared with small declines or no increases in prior months. Elsewhere, single-family home construction continues to buoy area economies: In Memphis and Little Rock, year-to-date, single-family home permits are up more than 25 percent from 1992.

### **Banking and Finance**

Total loans outstanding at a sample of 104 large, mid-size and small District banks increased 0.6 percent between mid-June and mid-August, after increasing 1.9 percent between mid-April and mid-June. Commercial and industrial loans fell 0.8 percent from June to August, after posting a 1.8 percent drop from April to June. Real estate loans rose 2.2 percent compared with a 3.5 percent increase in the prior period, and consumer loans declined 1.4 percent compared with a 2.2 percent increase in the prior period.

### **Agriculture, Natural Resources and Transportation**

Weather conditions remain mostly hot and dry in the southern portions of the District, adversely affecting the region's crops. Cotton producers in certain areas of Mississippi and Tennessee continue to apply pesticides actively; many believe that production costs for this year's cotton crop will be much higher than normal. Barge movement on the Mississippi River is slowly returning to its normal pace, although certain restrictions remain in effect. One concern is that a logistical problem may develop in the fall with so many boats and barges moving to New Orleans at the same time. Southern pine lumber producers are reported to be rebuilding their inventories; however, they expect only a modest increase in demand associated with the rebuilding efforts from the flood.

## NINTH DISTRICT—MINNEAPOLIS

The economy of the Ninth Federal Reserve District continues to grow moderately and economic conditions are, on balance, positive. Employment is growing in all district states, and two recently announced large layoffs appear to be the result of corporate restructuring rather than slack demand. On a sector-by-sector basis, construction is clearly quite strong and leads the economy. Manufacturing is improving, especially in small and mid-size firms. Mining output is generally stable, though a recent strike by iron miners has idled production in Minnesota and the Upper Peninsula of Michigan. Agriculture is the one sector with declining output; crop production, especially in Minnesota and the Dakotas, will be down sharply from 1992 levels. Retail sales have apparently slowed somewhat in some parts of the district, but tourism appears stronger after an initially slow start. Price levels are stable, with no indication of inflationary pressures.

### Employment

Non-farm employment continues at above year-earlier levels in all Ninth District states. Unemployment rates declined in Minnesota, Montana, South Dakota and North Dakota. Corporate restructuring caused layoffs of 900 insurance workers in Minnesota and 1,200 lumber company employees in Montana that were announced recently. One firm in Rapid City, S.D., announced that it would add over 200 new employees as did another in Hayward, Wis. Another South Dakota firm added a total of 70 workers to its plants in Sioux Falls and Huron.

### Construction and housing

Construction leads the economy. Publicly awarded construction contracts in Minnesota and the Dakotas for July were about 30 percent above July 1992, while year-to-date awards are up nearly 20 percent over year-earlier levels. South Dakota is an especially strong area for all types of construction, and employment in this sector is at near-record levels. Residential construction is reportedly the largest element in South Dakota, but commercial construction



and public building are also strong. Moreover, a Minneapolis-St. Paul building association official said that 1993 would surpass 1992 in terms of units built and dollars spent. Houghton and Hancock, Mich., also report a good construction season as do other regional centers in Montana and Wisconsin.

### Manufacturing

Manufacturing apparently is strengthening. Small manufacturing firms in Minnesota report good orders as do media reports from other district states. A utility serving large areas of Wisconsin, Minnesota and South Dakota reports industrial electrical use growing at a rate substantially above the five-year average. Publicly traded manufacturing firms generally report improved business; one evaluation of Minnesota-based corporations notes second quarter 1993 net earnings up 18 percent to 25 percent over 1992 for firms making food products, industrial machinery, biomedical equipment and consumer products.

### Mining

Metal mining output is stable. Gold output in Montana and South Dakota metal mines has risen somewhat in response to higher prices. A South Dakota gold operation requested permits for new exploratory drilling, and production has increased at a Montana platinum-palladium operation. However, Montana copper production fell slightly as one mine closed. Iron ore output around Lake Superior was above year-earlier levels until a strike idled two mines in Minnesota and two in Michigan on Aug. 1. No settlement has been reached to date.

### Agriculture

Crops in Wisconsin, Minnesota, South Dakota and North Dakota have all suffered extensive damage from excessive rain and flooding. Aug. 1, 1993, Agricultural Statistics Service reports estimate that corn production will be down 13 percent in Wisconsin and 30 percent or more in the other affected states, compared to 1992 levels. Soybean production will be down 8 percent in Wisconsin and 22 percent in Minnesota and South Dakota. All wheat production is estimated to be down slightly in the Dakotas, down about 20 percent in Minnesota, but up over 30 percent in Montana. Spring wheat in Minnesota and the Dakotas is reportedly heavily infested with plant diseases, including one that can render the grain

unfit for food use. The full extent of damage is not yet clear, but spring wheat prices have risen by one-third since mid-June.

However, reflecting good crop conditions in areas not affected by flooding, soybean and corn prices have subsided from mid-July increases and are now respectively only 12 percent and 5 percent above pre-flooding levels and about even with year-ago levels.

In the livestock sector, cattle slaughter numbers and prices remain slightly above year-earlier levels. Hog prices are about 8 percent above year-ago levels and output is essentially the same. Milk production is down slightly in Wisconsin, but unchanged in Minnesota and other district states.

#### Consumer spending and tourism

Consumer spending is mixed. Retail sales vary across the district. In Minnesota, sales tax collections have fallen behind projections, and retail businesses were the poorest performing category in a recent report on publicly traded companies based in that state. But news media and mall managers in regional centers in the Dakotas and Montana report generally good business, and retail employment in Michigan's Upper Peninsula had the strongest growth of any sector. Vehicle sales are reported as steady, except in areas affected by flooding where sales continue to be slack.

The tourism industry is having a good summer season. Montana and western South Dakota, which have been least affected by adverse weather, continue to have the most positive reports, while industry sources in Minnesota and Wisconsin report generally improved traffic after a slow start earlier in the summer.

#### Prices and wages

There is little evidence of inflationary pressures. Food prices in general are stable. Gasoline prices continue below year-earlier levels. Housing prices are stable across most of the district, though up somewhat in the larger urban areas. New wage settlements are reported to include small increases in direct wages, although health care costs continue to drive up total labor costs to firms.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy is still growing moderately. Retail sales are up, housing activity is increasing, and demand is up for consumer loans and home mortgages. The energy sector continues to improve, and farm income prospects remain healthy despite the wet weather and flooding. Retail prices generally remain steady, while manufacturers' input prices are rising modestly.

Retail Sales. District retailers report that sales are up both from a year ago and a month ago. Retailers generally expect sales to increase further in the next few months, and most plan to increase inventories over that period. Retail prices are generally holding steady and are expected to change little in the months just ahead.

Most auto dealers report continuing strong sales over the past month. Financing is readily available for dealers and for creditworthy buyers. Most dealers are trimming their inventories of 1993 models and expect sales to remain strong for the remainder of the year.

Manufacturing. Most purchasing agents report that input prices are modestly higher than a year ago. Input prices are expected to remain at current levels in the near term. A few purchasing agents report problems getting materials because of the flooding, but they do not expect the problems to be long term. Some respondents are trimming inventories, while others are increasing inventories. Many plants are operating near capacity but with few bottlenecks. Exporting firms expect foreign sales to remain steady or increase slightly.

Energy. Improvement in drilling activity in the district continues despite generally low oil prices. The average number of operating drilling

rigs in district states rose from 240 in June to 249 in July. During the first three weeks of August, the district rig count climbed to 259. As a result, the average rig count stands about 17 percent higher than during the same period a year ago.

Housing. Builders report that housing starts are down slightly from a year ago due to the weather. Still, starts are up from last month and are expected to increase for the rest of the year. Strong demand for new homes has reduced the stock of unsold homes and increased prices of new homes. Materials prices are also up and are expected to rise slowly in the near future.

Mortgage demand is strong but is expected to wane slightly as winter approaches. Mortgage rates have fallen further in recent weeks but respondents do not expect them to fall much more over the rest of the year.

Banking. Growth in loan demand last month was mixed, with half the survey respondents reporting increases in loan demand and half reporting no change. Commercial and industrial loan demand was mostly unchanged. Demand was up at most banks for consumer loans and home mortgages. Home equity, home construction, and commercial real estate loans were constant to up. Loan-deposit ratios were constant to up, compared with both the previous month and a year ago.

None of the respondents changed their prime rate last month, and none expect to change it in the near term. A few banks lowered consumer lending rates, but most banks reported no change. Lending standards were unchanged.

Deposit flows of responding banks were also mixed last month. Half reported decreases in deposits, while half reported either no change or increases. Demand deposits and NOW accounts were constant to up at most

responding banks. IRA and Keogh accounts, large CDs, and small time and savings deposits were constant to down at most responding banks.

Agriculture. Heavy rains and flooding have reduced the expected size of the district's crop of corn and soybeans. Much of the crop in low-lying areas along the Missouri River and its tributaries in Missouri, Kansas, and Nebraska will be a total loss. Moreover, wet weather has delayed the maturity of the remainder of the crop, leaving it vulnerable to an early cold snap. The district's winter wheat harvest is now complete and crop yields were generally very good, although in some areas yields and quality were reduced by heavy rains, hail, and disease. In Oklahoma, the cotton and peanut crops remain in good condition.

The smaller-than-expected corn and soybean crops--key ingredients in livestock feed--have pushed up feed costs and trimmed profits somewhat for district cattle and hog producers. In response, some cattle feeders have reduced cattle inventories. The district's large-scale pork producers, however, maintain rigid production schedules that are unfazed by modest changes in feed costs.

Overall, despite the recent weather problems, prospects for farm income in the district remain healthy. While crop losses caused by wet weather and flooding will create financial hardship for many district farmers, higher crop prices will boost incomes for the majority who escaped the flooding and expect to harvest normal or near normal crops. Meanwhile, despite somewhat higher feed costs, strong cattle and hog prices continue to support solid earnings for most district livestock producers.

## ELEVENTH DISTRICT--DALLAS

The District economy expanded at a moderate pace in July and August. Many respondents reported a pickup in sales and employment. Orders were strong in several manufacturing industries. Respondents in business service industries reported an increase in business activity. Retail sales continued to increase slowly. Homebuilding remained strong. Banking respondents said that loan demand picked up. The energy extraction industry showed continued improvement in response to strength in natural gas prices. Overall, crops in the District are expected to fare better than last year.

Most manufacturers reported a pickup in orders and an improved outlook. Several respondents noted an increase in employment. Producers of stone, clay, glass, lumber and fabricated metals reported strong gains in orders originating from the residential construction sector. Employment was reported to have increased in many of these construction-related industries. Orders for semiconductors and telecommunications devices were reported to be strong and employment levels have increased. Producers of food and kindred products said that sales and employment had increased. A steel industry respondent noted that orders continued to increase even though they recently implemented a price increase. Oil field equipment producers said that domestic orders have improved but that international drilling remains weak. Paper producers noted an increase in orders and employment. The petrochemical producers continue to report global overcapacity problems and weak exports. Refinery respondents reported that their margins improved slightly in August.

Most business service firms reported a pickup in activity and a positive

outlook. Temporary employment agencies report an increase in demand, partly because their clients are resisting hiring full-time workers, but also because business activity is increasing. The demand for part-time workers was broad based, although particular strength was reported for the professional fields such as accounting and engineering. Several law firms reported increases in employment. Accounting contacts said that business activity has picked up over the past three months. The main source of growth for accounting firms was reported as consulting on methods to increase productivity. Advertising respondents said that activity has risen because of increased demand from the auto, retail and nondurable goods industries. Hotels in the Dallas, San Antonio and Austin areas reported high occupancy.

Retail sales continued to grow slowly. Retailers generally were optimistic that sales growth will pick up. Respondents report that strong competition within the industry has been restraining price increases. Inventories are reported to be back at desired levels. Some retailers had experienced an unintended buildup during the early summer. Sales along the Mexican border are still below last year's levels although there are scattered reports of improvement. District auto sales slowed in July but year-to-date sales remain above last year's level.

Residential construction remains strong in many areas of the District. Respondents report that new home sales slowed somewhat in July but picked up again in early August. Construction is particularly strong in San Antonio and Austin, and weak in Houston. Respondents report that home sales are likely to remain strong as long as mortgage rates remain low.

The District oil and gas drilling rig count continues to rise. Activity

in the Gulf of Mexico remains very strong. Oil prices rose to about \$18 per barrel in August after falling to \$17 per barrel in July because of speculation that Iraq would reenter world oil markets, and discord within OPEC. Hot weather throughout the Southern tier of the United States pushed up natural gas prices in the last few weeks of August.

Most banking respondents reported that loan demand has picked up and is up over 1992. Mortgage originations and refinancings remain a bright spot. Respondents generally were optimistic about future loan demand. Respondents said that competition among banks for the best borrowers was beginning to intensify because the larger banks were becoming more aggressive.

Continued dry conditions in the District have had a negative impact on agricultural conditions in many areas. Overall crop production, however, is expected to fare better than last year. West Texas and areas north of Lubbock are expecting good cotton crops. Dry weather is having a negative impact on crop production in parts of central Texas. Many pastures have dried out forcing producers to move cattle to market. In general, however, cattle ranchers report favorable conditions. Higher prices for most livestock and livestock products pushed the Texas All Farm Products index slightly higher in July. Prices for most crops declined and the Texas All Crops Index was 10.7 percent below a year ago. Producers were receiving higher prices for hay, sorghum and soybeans but lower prices for other crops.



TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic activity is mixed across the Twelfth District. Economic recovery continues to elude California, while intermountain areas expand. In California, weakness continues to be reported in a broad range of sectors—including aerospace and defense-related manufacturing, trade, construction, finance, and government. Some strength is reported, however, in California's motion picture and nondurable manufacturing sectors. Sluggish conditions also are reported in western Washington, affected by retrenchment in aerospace, and Hawaii, undergoing a slump in the visitor industry. In contrast, conditions are stronger in eastern Washington, Utah, Idaho, and Nevada.

Business Sentiment

Sentiment among Twelfth District business leaders is little changed from our July report. About half of the respondents expect the real economy to expand during the next four quarters at a rate at or above trend growth. This proportion is about the same as in July and June, but is down from two-thirds in April and three-quarters in March. Most other respondents expect the economy to expand, but at a rate below trend.

Many respondents expect the recent federal budget agreement to have short-run negative effects on their regions and industries. Defense cuts reportedly will hurt manufacturing in California; higher tax rates are expected to affect small business owners, farmers, and individuals in high-income states such as California and Hawaii; and residents in areas with long driving distances are concerned about the effects of higher fuel taxes. Businesses and consumers are reportedly cautious due to the tax changes, and some hiring decisions also are being delayed due to uncertainty about health reform.

Retail Trade and Services

Retail activity varies widely across the District, and reflects the underlying regional economic

strength. Low interest rates are reported to have had only a limited effect on purchasing decisions. In both northern and southern California, retail sales are flat and consumer confidence is reported down due to continued job losses. Retail sales in western Washington also are reported slow due to concern over the regional economy. In contrast, sales in eastern Washington have continued strong for more than a year and consumer confidence has remained high. Consumer confidence remains very strong in Utah and Idaho, with retail sales reported up nearly 10 percent during the first half of 1993 from a year earlier, and auto sales reported strong.

Conditions in service-related industries are mixed. Idaho and Utah are having record years in tourism. In contrast, the Hawaii visitor industry has slumped--affected by recessions in both California and Japan. During the first half of 1993, visitor totals in Hawaii hit a five-year low. In California, business services have strengthened recently, particularly in Orange County. Furthermore, the motion picture industry in Los Angeles is growing at a double-digit pace, and summer box-office revenues are at record levels. Local governments in California are suffering budget shortfalls and in parts of southern California they are asking for major wage concessions from public employees.

#### Manufacturing

Manufacturing activity is mixed in the District, with weakness centered in aerospace and defense-related industries. In Washington, Boeing currently is cutting production of several aircraft models. Furthermore, concern is reported for future production levels at the company due to uncertainty about foreign orders. One contact with a smaller aerospace components firm expects that its current backlog of orders will fall 50 percent by 1994. California defense firms continue to shrink due to cutbacks and restructuring in defense and aerospace. Southern Arizona, however, is benefitting from a shift of aerospace production activity from California.

A few manufacturing industries show signs of improvement. In California, orders and sales

have risen in the semiconductor industry, but the increased demand has yet to translate into higher employment. Contacts also report strength in California textiles, apparel, and fruit and vegetable production. Strength outside of California includes electronics in Oregon and Idaho, and construction equipment in Utah.

#### Agriculture and Resource-Related Industries

Most contacts report a generally favorable outlook for agriculture. In California, most vegetable crops are reported to be in good condition. Tree fruit yields are high, but sales are slow and prices are low. In contrast, tomato yields are off but prices are reported very good. Cattle prices are rebounding from summer lows, demand is good, and export volume is expected to rise. Lumber prices are reported up 30 percent from a year earlier. A contact from Nevada reports that new mines are opening due to higher gold prices; higher fuel taxes, however, will increase delivery and transportation costs from remote locations.

#### Construction and Real Estate

District construction and real estate markets are mixed. In California, despite low interest rates, single-family home sales are little changed from their year-earlier levels. In Hawaii, sales of existing homes are down 18 percent from a year earlier. The median sales price in Honolulu, however, stands at \$358,000, up 5.6 percent from a year earlier and the highest in the nation. In Oregon, immigration from California and low interest rates are reported to have stimulated housing construction, and apartment market conditions are reported tight with vacancy rates less than 4 percent. In Washington, downtown office vacancy rates have stabilized, but no major new demand or construction is reported except by owner/users. Reflecting at least in part a shift in aerospace production, the Tucson housing market is booming both in new construction and sales of existing homes. Idaho and Utah construction and real estate markets remain strong.

Financial Institutions

Varied conditions are reported across District financial markets. In California, contacts report conditions in the banking industry as showing modest signs of improvement; outstanding loan volume continues to decline, but at slower pace than has been seen in recent months, while some measures of asset quality are improving. One contact, however, reports that banks continue to be restrictive in providing financing to small businesses throughout California. In Oregon, banking conditions are reported good in part due to strong construction and mortgage lending in the Portland area. Contacts in Utah report strong bank earnings for the first half of 1993 and improvement in balance sheets at most financial institutions.