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Wednesday
October 30, 1996

Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

October 1996

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

OCTOBER 1996

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SUMMARY¹

Moderate expansion of business activity characterizes the economy in most Federal Reserve districts, but on balance the pace of growth reportedly has slowed somewhat. Slower growth is reported in the Southwest and along the eastern seaboard except for New England. The Midwest continues to show moderate to strong growth. Boston and San Francisco, two districts which had lagged much of the rest of the nation through the first half of the 1990s, indicate an improved performance. Although there are few indications of significant price increases for raw materials, goods or services, reports of upward pressure on wages are more widespread.

Consumer spending

On balance, consumer spending is best characterized as moderate. There are some signs of strength, but no areas where sales are booming. There is considerable variation in patterns of spending both by region and by category of merchandise. Boston describes double-digit growth in furniture and hardware, but slow sales for discounters and a shoe chain. In the New York district, apparel is strongest and durables such as appliances lag. The same pattern is true for Kansas City. Philadelphia describes strong women's and youth clothing sales, but notes that some retailers ascribe this strength to price cuts. Cleveland reports strength in sportswear and major appliances, with weakness in computers, toys and home items. Retailers in the Atlanta district are meeting their targets, with greatest strength in apparel. Conditions are similar in Chicago, where apparel leads home improvement goods and appliances in gains over year-earlier levels. Chicago and Dallas characterize the retail sector as one of intense competition, but they are generally optimistic about the upcoming holiday season. Competition is also sharp in the Minneapolis district, but sales tax revenues indicate moderate strength in general merchandise sales. San Francisco indicates that demand for retail goods and services was solid overall.

Reports on the auto sector are mixed. They are particularly strong in the Minneapolis district, where favorable crop incomes and overall economic strength bolstered September vehicle sales. For

¹ Prepared at the Federal Reserve Bank of Minneapolis based on information collected before October 22, 1996. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Cleveland, sales are up compared to a year ago, but somewhat below early 1996. Kansas City saw some slowing in September, but dealers expect sales to be “fairly strong over the remainder of the year.” For Philadelphia, vehicle sales are reportedly steady, and for Dallas sales have slowed more than expected.

Tourist spending is similarly mixed, with greatest strength along the East Coast. Tourism “remains strong” in New York. Richmond reports substantial strength in inland areas not affected by hurricanes. Atlanta lists brisk activity in Florida, the Mississippi Gulf Coast and New Orleans, and notes an upbeat outlook for tourism and convention activity. The Upper Midwest is less favored, with Minneapolis reporting a slow or somewhat disappointing summer season in its states.

Manufacturing

On balance, the manufacturing sector is largely stable to stronger, with considerable regional variation. Boston reports that a near majority of firms “indicate solid sales gains from a year ago.” Cleveland describes the sector as strong with “some pickup noted between August and September.” For Atlanta, “contacts report increasing activity.” And for Chicago, activity increased in the district through early October. St. Louis notes reports of sales and employment increases and plant expansions far outnumbering reports of declines and closures. San Francisco’s manufacturing sector expanded further, led by the aircraft sector.

However, obvious strength in these districts contrasts with Minneapolis, Kansas City and Dallas, where manufacturing was steady to mixed; Philadelphia, where manufacturing gains in October were less widespread than in summer; and New York, where surveys of purchasing managers reported sharp improvement in local manufacturing in September. Several districts report localized effects from the auto workers strike in Canada, but none foresee significant or long-term effects.

A number of districts report that manufacturing inventories are generally normal to somewhat below normal, and show little indication of either production bottlenecks or of weakening demand.

Construction and real estate

Construction is strong in several districts, but slackening in a few. New York notes that rising demand for apartments is spurring new construction, which had been dormant for some years. The

Midwest is generally strong, with Minneapolis and St. Louis noting particular strength. Chicago reports increases in commercial and retail work are “offsetting some slowing on the residential side.” Kansas City notes some slowing, but says that activity is still above a year ago. San Francisco characterizes the sector as generally robust, but with deceleration or weakness in some regions.

However, slowing is apparent in the Southeast. Richmond describes some decrease in residential construction overall, but notes increases in materials prices and a shortage of skilled construction labor in North Carolina. In Atlanta, construction activity has fallen below year-earlier levels.

Market conditions for residential and commercial real estate are mixed, with strength in the Northeast and West (New York, Boston, San Francisco) and some slackening in the Southeast (Richmond, Atlanta) and Midwest (Chicago, St. Louis, Kansas City).

Agriculture

The 1996 crop is turning out better than many anticipated this spring, when drought scourged the Southwest and unseasonably cold, wet weather delayed planting on the Northern Plains and in the Midwest. Although crop development still lags usual levels in several districts, there is little damage from early frosts. Cleveland reports that the corn harvest was past the halfway mark in Kentucky and starting in Ohio. Chicago describes the harvest as “well underway.” St. Louis says that corn and soybeans have generally “reached full maturity,” but notes that the harvest is slow in Illinois and Indiana. Minneapolis and Kansas City both tell of good to excellent yields, but with some harvest delays due to rain. The effects of drought continue to plague the Dallas district, especially corn and cotton. St. Louis also notes problems with cotton, in this case due to boll rot. Most winter wheat is grown in the Dallas and Kansas City districts; Dallas reports the new-crop condition as good, but Kansas City relates that fall planting is delayed by rain.

Conditions are less favorable for livestock producers; a number of districts report continued losses for cattle ranchers. San Francisco notes a decline in beef exports to Japan. But there are some glimmers of improvement: Minneapolis reports that beef prices are not as bad as had been anticipated, while Kansas City says that profitability has returned to the feeding end of the sector and that “feedlots are filling quickly.” Minneapolis and St. Louis report sharp increases in milk prices, in

response to higher feed costs. The Chicago district has had more apparent cuts in hog and milk production than elsewhere but says that the rate of decline has slowed as feed costs have dropped.

Energy, mining and forestry

Natural resource sectors are generally robust. Dallas describes shortages of offshore rigs, drill pipe, and drilling crews and “little capacity available anywhere” in oil services. Kansas City activity improved somewhat from August to September, but the rig count was unchanged from a year ago. Minneapolis reports continued strong oil activity in North Dakota and very strong output in iron mines. Forest product output is reportedly steady.

Financial institutions and credit

Districts describe a financial sector that is stable to slightly stronger. New York lists increases in nonresidential mortgage loans and stability in other categories, along with some increase in delinquency rates. Philadelphia reports steady to slower loan activity. Richmond, Atlanta, St. Louis and Dallas describe little significant change. Kansas City and San Francisco note strength in loan demand. St. Louis and San Francisco describe banking competition as “fierce” and “sharp.”

Labor markets

Employment continues to grow in most districts. A majority, including Minneapolis, Chicago, Cleveland, Richmond, Philadelphia, Kansas City, Dallas and San Francisco, describe labor markets as tight. For Minneapolis, labor markets “constitute a constraint to increased output.” “Labor shortages continue to be a problem in most areas,” reports Chicago. Labor markets remained tight and wage increases more common, according to Kansas City, while Philadelphia reports that employers have had increasing difficulty finding qualified workers. The Northeast is an exception to this pattern. Labor availability is not a problem, according to Boston sources, and New York notes an acceleration in manufacturing job losses.

Wages and prices

Indications of upward pressure on wages continue to spread geographically and to grow in terms of affected occupations and ranges of skill levels. Wage pressures appear most quiescent in the East. Boston reports that a couple of manufacturers have frozen wages, but that most are granting increases

of 2 percent to 4 percent. New York notes increases only in bonuses from Wall Street firms, and while Philadelphia lists labor shortage difficulties, it notes acute wage increases only for some entry-level clerical workers. Similarly, while Atlanta identifies increasing reports of labor shortages, wage pressures have apparently not systematically emerged.

In the rest of the country, more pay increases are evident. Cleveland identifies “steady pressure to increase wages” for some specialties, while Richmond sees wage increases in low-unemployment areas and reports expectations of upward pressures in the next six months. Chicago says that “wage pressures appear to have remained concentrated at the lower end of the pay scale, and ... this pressure may be intensifying.” For Kansas City, “reports of rising wages increased,” and in the Dallas district “there were more reports of labor shortages leading to wage pressures.” San Francisco describes wage pressures as “moderate overall,” but points to “upward pressure on the wages of entry-level workers ... has been added to existing upward pressure on wages for some categories of skilled workers.” The Minneapolis district apparently has the tightest labor markets, and notes “increasing reports of compensation increases.”

In contrast to some proliferation of wage increases, reports of price increases for raw materials, goods and services remain limited. Boston reports some increases in chemicals prices, but notes that half of manufacturers report no change in selling prices. New York reports that merchandise costs are generally flat. The cost of raw materials has not increased for most industrial firms surveyed by Philadelphia. Retailers contacted by Cleveland “have not experienced any substantial price pressures” and “note price declines in consumer electronics.” Most of Atlanta’s contacts expect no change in material or finished goods prices. St. Louis relates that some firms have experienced increases in raw materials prices but have been unable to pass them along, while other firms reported recent declines in raw material prices. From Minneapolis, price hikes generally remain scattered and small, while Dallas indicates “more reports of lower prices than in the last beige book,” although energy and some other materials were higher. Specific exceptions to this general pattern of low price pressures include Richmond, where manufacturers report increasing prices for finished goods and raw materials in September, and Kansas City, where retail prices held steady but those for some manufacturing and construction materials rose.

FIRST DISTRICT - BOSTON

Economic expansion remains solid in New England. Reports from contacts in retailing, manufacturing, and commercial real estate all have a positive tone. Insurance companies indicate mixed results. Input and materials prices are generally little changed; some manufacturers are raising prices. A recent forecast of the New England economy predicts current trends will continue, with employment growing more slowly than in the nation and unemployment remaining low.

Retail

First District retailers report varied results in September and the first half of October. Non-apparel contacts, such as furniture and hardware chains, cite steady double-digit sales growth in the past six weeks. By contrast, several off-price discounters and one shoe chain note soft September sales, ranging from level to 15 percent declines compared with year-earlier levels, followed by modest gains in early October. Respondents' expectations for the upcoming holiday season range from 1 to 15 percent sales growth over last year. Retail contacts believe the economy is strong in most areas of New England and that consumers are more confident and optimistic than a year ago.

Vendor and customer prices generally remain flat; one contact, however, noted a temporary price hike for European shoe leather. Gross margins and profits vary, and most inventories are high in anticipation of the holiday season. Several contacts plan new store openings in 1997 and expect small gains in employment as a result. Wage increases of 2 to 5 percent are anticipated.

Manufacturing

A slight majority of the First District manufacturers contacted indicate that sales are little changed from a year ago. Some of these firms, however, report improved profits through cost reductions. The remaining contacts indicate solid sales gains from a year ago. Manufacturers generally say that they are successfully managing their inventories.

A couple of contacts note medical supply markets as a source of rapid growth. A textile manufacturer detects a small improvement in apparel retailing, after several slow years. Several respondents mention adverse effects of foreign imports. For example, a maker of high-quality furniture notes that while his own business is thriving, the U.S. furniture parts industry is shrinking because of competition, especially from China. Automotive suppliers indicate a need to develop other products because carmakers increasingly are turning to low-cost offshore suppliers. Exporters tend to be experiencing slow business in Europe, but rapid growth in Asian markets.

Most manufacturers report that overall materials prices are similar to or lower than a year ago. Chemicals prices are rising, but contacts indicate that the increases are selective or smaller than a year earlier. About one-half of the contacts report that their selling prices remain unchanged. However, a maker of consumer durables recently raised prices by 7 percent, and several nondurables manufacturers, including firms in the paper products industry, report price increases in the 3 to 4 percent range. In contrast, a machinery manufacturer whose business has recently slowed has instituted a temporary price reduction for one product line.

About one-half of the manufacturing contacts report stable employment over the past year; most of the remainder have reduced their head counts. Currently, more respondents are adding than are cutting employment, but contemplated changes generally are modest. Although a couple of contacts report wage freezes, most have raised pay 2 to 4 percent this year. Most respondents state that labor availability is not a problem.

Commercial Real Estate

The New England commercial real estate market is doing well. The economy in most states has improved, resulting in increased demand. In Massachusetts, Connecticut, and Rhode Island, vacancy rates have declined and rental rates increased. The Greater Boston area continues to enjoy a modest boom, with vacancy rates around 5 to 6 percent in all sectors, both downtown

and in the suburbs. Connecticut is said to have experienced significant improvements in its economy, leading to lower vacancy rates even in downtown Hartford. Maine and Vermont are not doing as well, with more variation across sub-regions and sectors.

Despite strong markets, most contacts report little new construction. The low rate of construction constitutes the main difference between the current boom and the 1980s, and it reflects banks' reluctance to extend credit for speculative construction as well as more caution by everyone. Most contacts predict, however, that continued favorable economic conditions may soon lead to more construction.

Nonbank Financial Services

Respondents at insurance companies report mixed sales for the third quarter of 1996 compared to the third quarter of 1995. The biggest increases in sales are for variable annuities and mutual funds. Sales are also strong in international subsidiaries, particularly in Latin America and Asia. Sales of traditional life insurance are weak. Only two respondents report increases in employment in the third quarter. The rest cite a downward trend in employment which they expect to continue for the rest of the year.

The Outlook

The New England Economic Project (NEEP), a nonprofit forecasting group, released its semiannual regional forecast in mid October. NEEP expects regional employment to continue expanding 1.2 to 1.4 percent per year, with modest declines in manufacturing and most of the net job additions in services and trade. New England's unemployment rate is forecast to remain below 5.0 percent over the next several years, although the size of the labor force should begin to expand.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District has moderated somewhat since the last report. Sales at large retailers slowed a bit in September but were back above plan in early October. The commercial real estate and multi-family housing markets continued to strengthen in the third quarter, while the single-family sector lost some momentum. Private-sector job growth moderated in September, though the general trend is still fairly positive. The region's manufacturing sector gave mixed signals in September: strong reports from purchasing managers belie an acceleration in manufacturing job losses. Price pressures remain generally subdued, aside from New York City apartments and hotel rooms. Finally, an increasing proportion of banks report rising delinquency rates in all major lending categories.

Consumer Spending

Retail sales in the district were, on balance, close to plan in September, but rose above plan in early October. For the first half of October, same-store sales gains ranged from 2 to 10 percent. All of the major retail chains surveyed cite apparel (especially high-end apparel) as the strongest category of merchandise. Home appliances and electronics continued to lag other categories of merchandise, though one contact noted strength in home-improvement goods. Inventories were generally at desired levels, as the industry stocks up for the holiday season. Most retailers are planning for 2 to 4 percent same-store sales gains during the Christmas season, though a few expect stronger gains.

Retailers report stable input costs but some increase in effective selling prices. Merchandise costs are generally flat, though a few contacts cite cost reductions resulting from intensive negotiating; wage growth remains steady and modest. However, effective selling prices are up moderately, as retailers are discounting less aggressively than a year ago—a trend that is expected to prevail through the holiday season.

Construction & Real Estate

The region's commercial real estate markets continued to strengthen since the last report, with brisk leasing activity and declining availability rates across most of the New York metropolitan area. (Availability rates include vacant space, as well as space coming on the market over the next six months to a year). Office availability rates continued to decline in both downtown and midtown Manhattan in September. Availability rates in Long Island, northern New Jersey, and southwestern Connecticut fell during the third quarter and were well below year-earlier levels; however, rates edged up in the smaller Westchester County market. Asking rents for prime (Class A) office space throughout the metropolitan area have been essentially flat over the past year.

The District's residential real estate markets were mixed in the third quarter. Realtors in New York and New Jersey report that sales of existing single-family homes slowed from the second quarter's brisk pace. Builders in New Jersey describe the market for new single-family homes as steady; while traffic is fairly good, potential buyers still seem to be concerned about corporate layoffs and relocations. Despite a modest rebound from depressed 1995 levels, construction of single-family homes is still low.

In contrast, the multi-family sector continued to gain momentum. Rising demand for apartments in and around New York City—along with lean inventories—is evidently boosting prices and spurring new construction, which had been mostly dormant since the late 1980s. A quarterly survey covering prime Manhattan co-op and condo sales shows prices up 11 percent in the third quarter from a year earlier. Over the same period, permits to build apartments in down-state New York surged more than three-fold, pushing the cumulative year-to-date total to a seven-year high.

Manufacturing

Regional surveys of purchasing managers suggest continued strength in the manufacturing sector in September. New York City area purchasing managers report sharp improvement in local

manufacturing-sector conditions in September. The Buffalo-area survey indicates that production expanded at a somewhat slower pace than in August, but new orders and job growth accelerated. Both groups report a modest increase in price pressures.

Other Business Activity

New York's unemployment rate declined from 6.1 percent to 5.9 percent in September, but New Jersey's edged up 0.1 point to 6.2 percent. Private-sector job growth slowed moderately in September, largely reflecting an acceleration in manufacturing job losses. The region's bellwether industry, Wall Street, has generated strong job and income growth, and is expected to pay out record bonuses in the months ahead. Historically, this sector has been a fairly good leading indicator of job growth in other local sectors. Tourism remains strong, with hotels persistently running close to full occupancy. The baseball playoffs and World Series may have given a modest boost to local tourism-related businesses (restaurants, bars, souvenirs, etc.) but likely had a negligible impact on the region's overall economy.

Financial Developments

Based on the latest survey of senior loan officers at small and medium sized banks in the Second District, demand for nonresidential mortgage loans strengthened moderately since the last report; however, demand for consumer loans, residential mortgages and commercial and industrial loans was stable. Refinancing activity for all types of loans was down. Willingness to lend continued to increase for all categories; however, there was a general tightening in credit standards. Delinquency rates, which had been fairly steady for most of the year, rose in all loan categories—overall, 44 percent of banks report that delinquency rates increased since the last report, while 22 percent report that they declined.

The survey results suggest mixed trends in loan rates. Residential mortgage rates increased; consumer loan and nonresidential mortgage rates remained fairly stable; commercial and industrial loan rates declined slightly. Average deposit rates continued to rise.

THIRD DISTRICT - PHILADELPHIA

Reports from businesses in the Third District during October suggested that the region's economy continued to expand but the pace of growth had eased recently. Manufacturers posted gains in shipments and orders in October, but the improvement was not as widespread as it had been in the summer months. Area industrial firms noted increased prices for some of their purchased inputs but there did not appear to be a general increase in the cost of raw materials. Retailers reported mixed results for early October. Apparel retailers said back-to-school buying carried over from late September into the first few weeks of the month, boosting their year-over-year gains; but, in general, merchants said sales growth was slow. Auto dealers said sales have been steady. Reports from several area banks indicated that growth in consumer lending had eased in the most recent few weeks while commercial lending had picked up slightly.

Employers in the Third District have had increasing difficulty finding qualified workers for certain job openings, especially clerical and administrative positions requiring computer skills. In addition, some firms reported that the recent implementation of stricter licensing or qualification standards by governments or industry groups has reduced the pool of qualified applicants for certain manufacturing and other jobs.

MANUFACTURING

Manufacturers in the Third District continued to report improvement in October, but accounts of increased business were not as widespread as they had been during the summer months. About one-third of the firms polled said they were seeing gains in shipments and orders

in October while about one in five said they were experiencing declines. Among the major industrial sectors in the region, manufacturers of lumber, rubber and plastic products, chemicals, primary metals, and machinery noted improvement; producers of textiles and furniture reported decreased demand.

On balance, area industrial firms indicated that order backlogs were edging down. Looking ahead, one-third of the firms contacted said they expect orders to increase over the next six months while one-fourth anticipate further declines. In line with these modest expectations, manufacturers were trimming payrolls.

Industrial prices in the region, while mostly steady, have shown some signs of increasing. One-quarter of the firms commenting on prices noted higher costs in the past month for the goods they buy. Most, however, said the cost of raw materials has not increased despite the rise in prices for some other purchased inputs. With regard to the prices of the products they make, three-fourths of the surveyed firms are holding the line; only a few report they have raised prices.

RETAIL

Third District retailers gave mixed reports for October, with the overall picture apparently one of modest year-over-year gains. Some department stores and apparel retailers said there appeared to have been some continuing momentum in back-to-school sales in early October, especially for women's and youth apparel and sporting goods. Some merchants pointed out, however, that the increased sales were due in large measure to storewide price cuts during late September and early October. Auto dealers said sales have been steady recently. General Motors dealers expect some slowdown in new vehicle deliveries because of the strike at Canadian plants; this slowdown will result in some lost sales in the last quarter of the year.

Several retail executives noted that there appeared to be growing use of cash and debit cards rather than credit cards recently. They speculated that consumers may be starting to limit their buildup of debt and that this may portend slower growth in consumer spending.

FINANCE

Banks in the Third District have seen some slowing in the growth of consumer lending recently, and some reported actual declines in outstanding loans. Bankers contacted in October said the easing in consumer lending is due partly to a tightening of credit standards for new credit card customers and partly to reduced borrowing by current customers. Some banks have seen recent increases in borrowing by businesses, especially local companies, while others have just been able to keep outstandings level. Also, some bankers said they were declining to participate in large loans with low margins. On balance, real estate loan volumes at banks in the region have been steady in recent weeks.

LABOR DEMAND

Employers and employment agencies in the Third District have been reporting increased difficulty in finding qualified entry-level workers despite the large number of applicants for employment openings. A major part of the problem, according to these sources, is that minimal qualifications for many jobs now typically include at least some ability to use computers and computer-based systems. This is especially the case for clerical and administrative jobs, and some employment agencies have initiated training programs to prepare workers for these jobs. Employers note that entry-level clerical workers with this type of training are now being paid 10 to 20 percent more than such workers received just a year ago.

Besides clerical workers, employers say there are inadequate numbers of truck drivers,

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computer programmers and other data processing workers, and skilled trades workers in high-tech manufacturing and construction. Some of these shortages are at least partially due to the recent implementation of higher skills standards for certain manufacturing trades and stricter licensing requirements for truck drivers, both of which have reduced the pool of qualified applicants for these jobs. Where feasible, some employers have established training programs to provide new workers with the required specialized skills, and some are cooperating with educational institutions to develop such programs.

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FOURTH DISTRICT - CLEVELAND

General Business Conditions

The District's economy is still expanding and labor-market conditions are generally considered quite strong. Still, overall price and wage pressures are reported to be light.

Although employment growth in the District continues to lag the national average, with most areas reporting year-to-year jobs growth at or below 1 percent, unemployment continues to inch lower in most areas. The jobless rate is very low in a broad corridor running from central Ohio to northern Kentucky. Wage growth is generally steady.

Employment agencies report that the demand for temporary workers has been consistently high. Clerical and light industrial workers are still in great demand, and a few respondents say that skilled workers in accounting, healthcare, and technical support have also recently become much sought after. Agencies blame tight labor markets for difficulty in finding workers with specialized skills, such as registered nurses and laboratory technicians, and note steady pressure to increase wages.

Agriculture

Only minor crop damage was reported following the District's first frost in early October. Some frost damage to immature corn crops was recorded in West Virginia, and soybean crops sustained minimal damage in the Ohio Valley.

As of mid-October, corn in Kentucky was fully matured, and 64 percent had been harvested. In Ohio, however, only slightly more than half of the corn crop was mature (compared to an average of 88 percent in recent years), and only 9 percent has been

harvested. Ohio's soybeans are also behind schedule, but to a lesser degree. Kentucky's tobacco harvest, now nearly complete, is reported to be better than average. Apple harvests in Ohio and Kentucky are nearing completion and are in good condition.

Manufacturing

Manufacturing activity remains strong. Orders growth is continuing in most areas, with some pickup noted between August and September. Export orders in the past month or two are considered particularly good.

Production and employment levels are rising moderately or holding steady at a high level in many sectors and regions, and inventories are declining. Still, cost and price pressures are not appreciably greater than earlier in the year. Price increases are noted in a variety of materials, including some types of steel and agricultural products. However, price declines are also reported, including those for aluminum, stainless and rolled steel, and copper.

Retailers

District retailers reported mixed results for September. Men's and women's sportswear are still selling well. Sales of major appliances are also robust, but some weakness is evident in sales of personal computers, toys, and certain home items.

Inventories are described as normal for this time of year, and District retailers are now increasing stocks in preparation for the holiday shopping season.

Retailers say they have not experienced any substantial price increases recently. In fact, they note price declines in consumer electronics goods. Some retailers anticipate

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difficulties in holiday-season hiring, especially in central Ohio, where the labor market is considered “very tight.”

Retail businesses appear to be proliferating in the region. An electronics chain plans five store openings in Ohio and one in Pittsburgh this year. A major mall, with a capacity of about 130 stores and about 3,000 jobs, opened this month in northeast Ohio. It is expected to attract between 150,000 and 200,000 customers weekly.

Autos

The impact of the Canadian Auto Workers’ strike against General Motors has been difficult to gauge. Layoffs are minimal as stockpiles have been generally sufficient to maintain regular production. Auto dealers expressed little concern about product availability as a result of the strike. Only one contact reported stockpiling units in anticipation of strike-related shortages. The introduction of new products has been on schedule and dealers say they have sufficient inventory to meet current demand (with the exception of a slight shortage of four-wheel-drive trucks).

Sales continued to show moderate strength through September and early October. The majority of dealers report sales higher than last year’s, but down just a bit from their level earlier this year. Inventories were at or very slightly above desired levels.

Banking and Credit

Lending activity in the District is mixed, but good overall. Consumer loans generally remain fairly steady, with some banks reporting slight declines between August and September. Commercial loan demand increased moderately at most banks, but was

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off at a few. Delinquencies continue to rise mildly, but overall levels are not high enough to concern District bankers. Although a couple of banks have begun to tighten their credit standards, the majority report leaving them unchanged.

Competition for borrowers remains a concern for District bankers. The spread between lending and deposit rates is getting narrower for most banks. Deposits are flat, and most banks are finding it difficult to retain them because customers continue to move funds into higher-yielding accounts like money-market mutual funds and small time deposits.

FIFTH DISTRICT-RICHMOND

Overview: The Fifth District economy expanded at a more modest pace in recent weeks. Growth slowed in the manufacturing, service, and residential real estate sectors, while adverse conditions from Hurricane Fran damped tourist and farming activity. In addition, state revenues grew more slowly. Lending and port activity changed little, while retail sales grew faster and commercial real estate continued to gain momentum. Contacts in several sectors reported persistent labor market shortages and higher raw materials prices.

Retail Trade: Retail sales grew faster in September, although most other indicators of retail activity were steady or slowed. District retailers reported that big ticket sales and shopper traffic grew at the same pace as in September. However, wage and employment growth declined and some retailers expected negative impacts from recent minimum wage legislation. A North Carolina retailer said the minimum wage increase "will force layoffs," and a Maryland retailer noted that it "will raise our costs and prices." Contacts reported slower growth in inventory levels. Respondents indicated that retail prices rose more quickly in the last several weeks, but they expected their prices and demand for their products to rise more slowly during the next six months than they had in August.

Services: District service producers indicated that business activity increased more modestly in September. Revenues, wages, and employment all grew more slowly in recent weeks than they had in August. A Wilmington, N.C., real estate broker attributed slower September activity to the effects of Hurricane Fran, but noted that "the phone is slowly starting to ring again." On a positive note, a Raleigh hotelier remarked that the storm brought in "insurance adjusters, repair workers, and emergency-agency workers," and that "all hotels are filled." Service prices rose at a faster pace in September, but respondents expected prices and demand for their products to increase more slowly over the next six months.

Manufacturing: Manufacturing activity grew more slowly in September. Most paper product suppliers, printing firms, and durable-goods producers indicated that new orders had weakened in September. Some textile manufacturers reported that slack apparel demand, coupled with excess capacity, pushed their prices lower. However, complaints of

labor shortages remained widespread, particularly for industrial machinery and equipment producers. Manufacturers indicated that finished goods prices and raw materials prices grew at faster rates in September than in August. Respondents' six-month outlook was for higher finished goods and raw materials prices.

Tourism: Tourist activity continued to weaken at coastal areas in September in the wake of Hurricane Fran, but showed strength elsewhere. A hotel manager in the Myrtle Beach area said storm-related vacancies reduced his revenues by \$45,000; a contact from the Outer Banks' chamber of commerce noted that after the soft September, October activity was looking better. A respondent from a popular mountain resort said the September tourist activity was the best in the resort's history and continued to show strength during the first two weeks of October. Contacts reported that fall bookings were about the same when compared to a year ago.

Port Activity: Representatives at District ports indicated that import levels were lower in September than in August and that export levels were higher. Most port contacts continued to expect higher levels of imports and exports during the next six months, with export activity outpacing imports.

Temporary Employment: Fifth District temporary employment agencies reported increased demand for contingent workers during September and early October. Contacts from areas with low unemployment rates said that wages increased and they expected worker shortages and upward wage pressures to continue during the next six months. One contact remarked that employers in his area were reducing the time necessary for temporary employees to gain full-time status in an effort to retain the workers.

Finance: Lending activity in the District showed little change during September and early October. Lenders reported that mortgage interest rates fell slightly, but the demand for home loans was steady. District banks continued to price commercial loans aggressively, and banks' margins on these loans were being squeezed. One contact said that the quality of consumer loan applications at her bank had deteriorated, leading to a marked increase in loan refusals.

Residential Real Estate: Residential real estate activity continued to decline in recent weeks. Housing starts and permits, as well as home sales and prices, decreased. Contacts

reported that buyer interest had waned; one realtor noted, "it's the slowest traffic in 15 years." Despite the slowdown in activity, wages and materials prices increased. Homebuilders indicated that sheetrock and lumber prices rose, while contacts in North Carolina reported shortages of skilled labor.

Commercial Real Estate: Commercial real estate activity strengthened in the last six weeks. Leasing activity continued to escalate; one South Carolina contact characterized the market there as "frantic." Vacancy rates fell further and rental rates climbed again across the District. The availability of prime office space continued to tighten, and many contacts reported shortages. Respondents noted an increase in new construction, although a North Carolina broker remarked that "lenders aren't excited about speculative construction."

State Revenues: State tax collections generally increased, but at a slower pace in September than in August. Withholding tax collections rose at a slightly higher rate. Sales tax collections increased in all jurisdictions except North Carolina and Virginia. One North Carolina contact said that the shutdown of retail businesses because of Hurricane Fran lowered sales tax receipts there. Individual estimated payments and corporate income tax collections rose at a faster pace, but real estate recordation tax receipts grew more slowly.

Agriculture: The effects of Hurricane Fran were still being felt across the District. Agricultural analysts said that, in areas hardest hit by the strong winds and heavy rains, crop harvesting activity remained behind the average pace of the last five years. Excess rains associated with Fran and other severe storms delayed farmers' planting of winter small grain crops. In areas not directly affected by the storms, agricultural activities appeared to progress at a near-normal pace.

SIXTH DISTRICT - ATLANTA

Overview: With a few notable exceptions, contacts report moderating growth of economic activity throughout the Southeast in September and early October. Retailers indicate that sales are exceeding last year's levels. Contacts generally have an optimistic outlook for tourism and business travel. The single-family housing market slowed, while commercial real estate markets continued to improve. Banking contacts report that overall loan demand held steady. Despite current increases in production and new orders, manufacturing contacts are less optimistic about future production. Wage and price pressures have apparently not systematically emerged, in spite of increasing reports of labor shortages.

Consumer Spending: According to District retailers, sales in August and September modestly exceeded year-ago levels. More than half of the retailers contacted said that recent sales have met their expectations, and most merchants report that inventories are on target. Apparel and shoes continue to make a strong showing, while home-related product sales have rebounded somewhat recently. Looking toward the holidays, most respondents anticipate strong sales growth, despite this year's shorter than usual selling season.

Manufacturing: Factory contacts report increasing activity in early fall, with rising production and a growing volume of new orders following the modest growth posted through most of the summer. The manufacturing outlook, however, was not as optimistic as before with fewer plant managers expecting significant increases in output, orders, or employment rolls in the next few months. Moreover, several expect a moderate contraction in the factory workweek. Although contacts continue to report weakness in the region's apparel sector and are concerned about newly

reported layoffs and continuing competitive pressures, other sectors appear to expand, or at least, preserve their workforces. Contacts report that business continues to improve for plywood and building product producers. Order backlogs for electrical equipment are up for regional plants. Reduction in paper prices is stimulating Tennessee's printing and publishing industry. Auto component suppliers are also adding to employment rolls and expanding capacity in Georgia and Alabama.

Tourism and Business Travel: The outlook for tourism and convention activity is upbeat. Tourism and business travel to Florida resorts have been stronger than expected, with a notable increase in the number of overseas visitors. The future continues to look good for central Florida with a number of new attractions coming on line. Newly added flights to the Mississippi Gulf Coast areas are expected to boost tourism there. New Orleans contacts expect continued tourism strength for the remainder of 1996. Tourism officials are confident that Olympic recognition will boost future tourism and convention activity for Georgia and Atlanta.

Construction: According to real estate contacts, the single-family housing market slowed in September throughout much of the District. Home sales during September and early October were mixed according to Realtors, while a majority of builders contacted said that construction activity had fallen below last year's levels. Inventories of new and existing homes are said to be adequate throughout most of the District. Most builders anticipate that activity will decrease through the remainder of the year, while a majority of Realtors expect sales during the fourth quarter to exceed year-ago levels.

Contacts from across the District generally report that commercial real estate markets continue to improve. Low vacancy rates and higher rents continue to propel new industrial, office,

and retail development. Most commercial projects continue to be build-to-suits, several speculative developments are underway, and more are anticipated this year and next. Overall, the multifamily sector remains healthy; however, some markets have weakened.

Financial: Most contacts in the banking industry report that overall loan demand held steady in September and early October. Consumer loan activity was flat to slightly up, while commercial loan demand was said to be mixed throughout the District. Mortgage activity has slowed slightly. There are scattered reports of some deterioration of loan quality.

Wages and Prices: Wage pressures are not evident in the region at this time; however, reports of labor shortages are becoming more frequent, and unemployment rates in parts of the region are approaching historically low levels. Some contacts note that strong demand for management talent is bidding up benefits and fringes instead of resulting in higher wages and salaries. Craftsmen such as carpenters, masons, and plumbers are in especially short supply. One contact expects the shortage of skilled laborers to get worse before it gets better. Although there have been a few scattered reports of increasing material prices for residential builders, most contacts expect no change in material or finished goods prices over the next few months.

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SEVENTH DISTRICT--CHICAGO

Summary. The Seventh District economy continued its moderate pace of expansion in September and early October, while wage and price pressures were generally constrained. Retail sales growth in the District remained at or above national averages, due in large part to strong apparel sales. Overall construction activity was robust, led by strong growth in commercial construction. Manufacturing activity continued at high levels but the Canadian auto strike in October was causing minor disruptions for a few auto suppliers. Employment growth continued at a moderate pace with shortages of skilled labor persisting. Improving crop prospects began to moderate the decline in livestock production in September and October.

Consumer spending. Retail sales improved moderately from August to September, but early October results were mixed. Several large retailers attributed overall sales gains to strong year-over-year sales of men's and women's fall apparel. Several retailers reported that sales gains in District states were in line with or slightly above national gains in September. Home improvement goods and appliances have been performing better than last year, but not as well as apparel. One major retailer noted intense competition leading to downward price pressures, which--along with continuing modest wage gains--was squeezing profit margins. One discount retail chain, which experienced weaker-than-expected sales in early October, began cutting prices in an effort to regain market share lost earlier in the year. Most retailers contacted were very optimistic about sales heading into the upcoming holiday season, with Midwest performance expected to continue at or above the nation's.

Housing/construction. Overall construction activity remained strong with a pickup in business construction offsetting some slowing on the residential side. Commercial and retail construction was particularly strong and momentum appeared to be mounting, with building taking place in both the suburbs and inner cities. Industrial construction, notably warehouse space, continued to be sluggish in the region. Realtors and builders reported that sales of both new and existing homes continued to edge down from May's very high levels in the western half of the District, while sales growth remained positive in Michigan and Indiana. Mortgage lenders

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also reported that applications were down in the western half, while noting slowing growth in Michigan and Indiana. Several home builders reported an increased use of incentives recently, while at the same time there were no new reports of unwanted inventory buildup. A national survey of home builders indicated that Midwest builders are less optimistic than earlier in the year, though the survey results clearly suggest a very strong housing market. A builder in one of the District's largest metro areas reported that traffic remained high and moderating mortgage interest rates could lead to slightly stronger sales in the fourth quarter. Builders also reported that the less robust housing market had nearly allowed them to catch up on the projects delayed by inclement weather earlier in the year.

Manufacturing activity. Manufacturing activity in September and early October increased throughout the District, but indicators were mixed as to whether the pace of expansion was picking up or slowing down. Purchasing managers' surveys for September generally showed strong gains in both production and orders, even in metropolitan areas where the overall pace of activity appeared to be slowing from a month earlier. The prices-paid component of the surveys suggested modest price increases. However, lead times in most cases were either increasing at a slower pace or actually shorter than in August. Reports from individual producers suggested that demand remained at relatively high levels, especially among auto suppliers, although some of that strength was attributed to inventory building in anticipation of a possible auto strike in October. A steel producer reported that the order book for the first quarter of 1997 was beginning to fill up, but noted that hopes for an increase in contract prices for steel were fading. Several machine tool producers experienced a plateauing of orders in September and early October, even though order levels have been somewhat higher than expected at the beginning of summer. A producer of heavy construction equipment noted that dealers were very optimistic about sales going into next year, although foreign competition (aided by a strengthening dollar) has resulted in a rollback of virtually all of the modest price increase announced earlier in the year.

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The October Canadian auto strike began to have an impact almost immediately on about a dozen GM plants in the District, but only a few have been closed. Independent auto suppliers reported little effect through the first three weeks of the strike. If the strike continues into the last week of October, several GM suppliers expect that their sales to GM will be halted. If the strike is perceived to be nearing a conclusion, several auto suppliers stated that they expected to continue production and stock the parts, based on the expectation that auto assembly plants will work overtime to recapture any lost production. One auto analyst expects workers to return to work within two days of a settlement.

Labor markets. District labor markets tightened slightly through September and early October while reports of new wage pressures were virtually non-existent. Labor shortages continued to be a problem in most areas, with demand for skilled machinists, computer-literate clerical workers, technology workers, and skilled construction workers outstripping supply. Manufacturing employment appeared to be on a slow downward trend in the region, with Indiana experiencing the most significant decrease. Purchasing managers' surveys from across the District support this point, with the employment components signaling flat to slightly lower employment levels. Most manufacturers contacted indicated that they had not been hiring in the last six months. Overall wage pressures appear to have remained concentrated at the lower end of the pay scale, and several contacts indicated that this pressure may be intensifying. Some fast food restaurants were reportedly advertising bonuses on their marquees to attract help. However, none of our contacts reported that wage increases at the lower levels were translating into price increases.

Agriculture. The fall harvest, after a late start, is well underway. Despite some local exceptions, most of the District's slow developing crops have reached maturity with little or no frost damage. As a result, harvest prospects have improved in recent weeks and grain prices have fallen sharply. Livestock production continued to lag year-ago levels, with the cuts in hog and milk production more apparent in this District than elsewhere. However, the rate of decline in livestock production appears to have slowed in response to lower feed costs.

EIGHTH DISTRICT - ST. LOUIS

Summary

The pace of District economic activity has changed little since our last report. Sales and employment levels are generally up, and inventories are, for the most part, at or near desired levels. Contacts from around the District continue to report tight labor markets. Firms that have experienced price increases for materials have generally still not been able to pass them along to customers. Residential construction permit levels are ahead of last year, with recent upticks in most areas. Total loans outstanding at large District banks rose slightly during the past two months, led by consumer lending. Prices received by District milk producers have risen substantially over the past 12 months, although they are expected to fall somewhat before the end of the year. Record rice yields were reported in many areas, while some District cotton producers report a higher-than-usual outbreak of boll rot.

Manufacturing and Other Business Activity

Reports of sales increases, employment gains and plant expansions from contacts around the District far outnumber reports of declines and closures. Labor markets remain tight in most parts of the District. Striking McDonnell Douglas machinists voted to accept the company's contract offer in mid-September, allowing the 6,700 striking workers to return to their jobs. The strike lasted slightly more than three months. The strike by Canadian auto workers against General Motors has had little effect on District manufacturers and parts suppliers.

Contacts from a paper products company and a poultry processor report plant expansions, resulting in additional employment. A package delivery service has increased the size of its planned expansion, which will dramatically increase local employment and

capacity. The District's heating and cooling industry is again posting a record year for shipments and profits. Firms in the District's apparel industry, though, are still feeling the bite of layoffs, predominantly because of price competition and inventory pressures. More than 900 jobs will be eliminated by year's end.

The largest bank in the Eighth District, Boatmen's Bancshares, agreed to merge with NationsBank of North Carolina. The precise employment consequences of this merger remain uncertain, although plans call for St. Louis to be the headquarters for the bank's western operations and to house the combined company's trust business.

Inventories and Prices

Most firms relaying information about inventories state that current levels are either at or slightly below desired levels. Some contacts continue to report increases in the prices of raw materials, which they are generally not able to pass along to customers. In some rare instances, large buyers have requested price cuts, threatening to take away business otherwise. In others, increased productivity has offset the higher costs. Several contacts, including carpet makers, furniture manufacturers and textile producers, have reported recent declines in raw material prices.

Real Estate and Construction

Sales of new and existing homes have slowed somewhat in parts of the District. However, the number of construction permits for new homes was up in August in more than half of the District's 12 metropolitan areas. All but two of the District's metro areas have posted permit levels that are above those of a year ago. Some builders in the southern part of the District are either behind schedule or unable to take on new projects because of a lack of workers. Reports from commercial real estate agents are still mixed, although some increase in the demand for suburban office space was noted.

Banking and Finance

Total loans on the books of 11 large District banks rose 0.2 percent between early August and late September, after declining 1.4 percent in the prior two-month period and 0.1 percent in the same period one year ago. Business loans rose 0.3 percent in August and September, while consumer loans increased 2.6 percent. Real estate loans, which comprise about 40 percent of the total, declined 0.8 percent. Banking contacts continue to describe loan and deposit competition as fierce.

Agriculture and Natural Resources

A Missouri dairy industry contact reports that milk prices paid to producers in September were up 27 percent from last year—an increase that is expected to prevail into November. Not all of the increase, however, has been passed on to retailers. In response, some farmers have reportedly increased their use of production-enhancing hormones, while very few have yet to increase their herd size. This same contact says that, with increased production and expected declines in feed costs, prices should start to decline in December. High feed costs have also spurred some cattle producers in the southern parts of the District to increase the number of acres planted for grazing purposes.

With a hard frost yet to hit most of the northern reaches of the District, the corn and soybean crops, generally speaking, have reached full maturity. Nevertheless, the pace of the corn and soybean harvest, at least in parts of Illinois and Indiana, is well below normal; in general, it is on or ahead of schedule elsewhere. Parts of the Arkansas cotton crop have been substantially afflicted with boll rot. An industry contact, however, reports that the Mid-South cotton crop will probably have only slightly higher-than-average boll rot this season. Rice yields in parts of Arkansas were reportedly the highest on record.

NINTH DISTRICT--MINNEAPOLIS

In late fall, blue economic skies prevail in the Ninth District as moderate to strong growth continues in most sectors. September vehicle sales were markedly strong, and some indicators point to favorable overall retail sales in a very competitive sector. Construction remains an economic workhorse with stamina in all district states. The 1996 crop is turning out well, despite localized harvest difficulties due to wet weather. Natural resource industries follow the same pattern as earlier in the year: strong oil exploration and drilling, strong iron ore production and stable output in most forest products. Manufacturers report good, but not exceptional, business.

Very tight labor markets are producing increasing reports of wage hikes, and form a drag on possible output for some firms. But few price pressures for goods are evident at any level. Tourism continues somewhat slow, especially in the Dakotas and Montana.

Construction and real estate

“Business has been good so long that we don’t think of it as a boom anymore,” comments a St. Paul, Minn., light commercial contractor. Indeed, while strength in the construction sector attracts little attention in its fourth consecutive year of growth, Minnesota’s September construction employment was 3 percent and August housing permits about 8 percent above year-earlier levels. “We are trying to get several projects out of the ground before it gets cold,” says the manager at a large Minneapolis commercial project. “We can always lay block in the winter and if we get this foundation work done we can keep busy for a long time.” Western Wisconsin, southeast South Dakota, western Montana and eastern North Dakota also continue to enjoy brisk construction activity. Localized shortages of Portland cement are one indication of the brisk pace of construction. St. Cloud, Minn., concrete suppliers were rationing supplies in September.

Through September, highway and other publicly let infrastructure construction continues brisk in Wisconsin, Minnesota and the Dakotas, but in Montana has dropped a bit from 1995 levels.

Natural resource industries

“We are producing just about as much as we can,” remarks a representative of a Michigan iron mining firm. The same is true for mines in Minnesota, where the highest tonnage in two decades may be shipped if severe cold does not set in early. Oil exploration and drilling continue apace in North Dakota.

In contrast to iron mining and oil, forest product output is best described as steady. Lumber production through late summer is down in Montana from 1995 levels. Oriented-strand board production in eastern district states through September reportedly is modestly above a year ago. The paper industry appears to have stabilized after sharp price and order drops over the last year, but output remains below capacity.

Manufacturing and technology

“Business is pretty good,” reports a spokesperson for a Minnesota die casting firm. “We have plenty of work,” is the word from an electronics component assembler in South Dakota. On the whole, manufacturers report good business conditions, but perhaps somewhat slower growth than the rest of the regional economy. In Minnesota, September manufacturing employment was 0.5 percent above September 1995, while overall employment was up about 2 percent. Manufacturing growth appears somewhat stronger around Eau Claire, Wis., Fargo, N.D., and Sioux Falls, S.D. A poll of manufacturers in Michigan’s Upper Peninsula indicated that a majority anticipate increased investment and sales in the next year, but few expect to increase employment.

Agriculture

Crop producers have largely dodged the early frost bullet, and most crops have reached maturity. The harvest of wheat and other small grains is nearly complete, with generally good yields, comparable to five-year averages, but not setting new records. Some soybeans and much corn remains to be harvested, with work in some areas slowed by wet weather. Prices have dropped sharply from spring highs, but remain well above year-earlier prices for corn and soybeans, somewhat less so for wheat.

Cattle and hog slaughter prices are slightly higher than in early summer, and the situation for cattle producers, while still bad, is not as grim as many had anticipated in late spring. Higher than usual proportions of cull cows in total cattle slaughter indicates that needed adjustments in the beef sector are taking place. Milk prices are up sharply in response to reduced output from higher feed costs.

Bankers responding to the Minneapolis Fed’s third quarter survey of credit conditions indicate that farm income and spending has generally increased from earlier in the year, except in Montana. Bankers also report that Minnesota, North Dakota and eastern South Dakota farmers are increasing their machinery purchases compared to the previous three years. Repayment rates have improved, and interest rates are unchanged from early summer.

Consumer spending

“September was the best month we have had in 23 years,” reports an auto dealer from western Montana. In Minnesota, sales and excise tax receipts from vehicles for September ran 10 percent above projections. Moreover, reports from other dealers, association representatives and state registration officials indicate that early fall auto sales were strong across the district.

For general merchandise, separating same-store performance and manager perceptions in general retailing from overall consumer spending continues difficult in a sector that has experienced major additions to capacity in recent years. Many retailers report business only

slightly stronger in early fall than in prior periods, but nonvehicle sales tax revenues generally indicate more strength than individual firms' sales figures.

Tourism

"Tourism is mixed," reports a Michigan state official, who could be speaking for the entire Ninth District. On the whole, the season has been somewhat slow, but not disastrous. Montana officials note adverse publicity about wildfires, increased gasoline prices and competition from the Atlanta Olympics as reasons for a slow year. The wet, cold weather prevailing well into spring hurt Minnesota, Wisconsin and Michigan businesses, and while the pace reportedly picked up in the summer and early fall, improvements were not enough to make up for early losses. "We are hoping for a good winter skiing and snowmobiling season," remarks one banker from Michigan's Upper Peninsula, where tourist spending is important.

Employment, wages and prices

Labor markets in many areas of the district have tightened to the point where they constitute a constraint to increased output for some firms. A recent newspaper article described one fast-food outlet that repeatedly has closed either its dining room or its drive-up window due to lack of workers. Another news story noted the plight of food processing firms in southern Minnesota towns that have outgrown local labor markets and are mounting extensive campaigns to attract workers from other states. Still other Minnesota firms are offering \$50 payments for bona fide applications and \$25 to \$250 referral bonuses to current employees. A major printer seeks more than 100 skilled press operators. Skilled workers are also hard to find in Sioux Falls, S. D.

These tight conditions bring increasing reports of compensation increases, in base pay for some workers and in increased benefits, bonuses and incentives for many others. The personnel director for a major Minnesota financial institution says, "Good database people can pretty much write their own check." Fast food outlets in Missoula, Mont., reportedly are offering \$6.50 per hour for starting part-time help, a level previously unheard of in that area. But some other employers report moderate pay increases. Over 80 percent of business owners in Michigan's Upper Peninsula who responded to a Minneapolis Fed poll expect that wages would increase 2 percent to 3 percent in the next 12 months. Moreover, a survey of compensation managers for Minnesota firms indicated pay increases averaging 4 percent.

In spite of these reported pressures in labor markets, price increases in markets for raw materials, intermediate goods and final goods generally remain scattered and small. The drop in agricultural commodity prices over the summer eased pressures on food prices, with the exception of dairy products. Petroleum costs remain above year-ago levels, and trucking firms continue to complain of the resulting squeeze on their operating margins.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy continued to grow at a moderate pace during the past month. Retail sales edged up, manufacturing and construction activity remained moderately strong, and energy activity improved somewhat. In the farm economy, favorable weather brightened income prospects for crop producers, and stronger cattle prices brought profits to some cattle producers. Labor markets remained tight in much of the district, and reports of wage increases became more common. Prices increased for some materials used in manufacturing and construction. At the retail level, prices were generally steady.

Retail sales. Retailers report sales edged up during the past month but changed little from last year's level. Sales of women's apparel were strong, while sales of appliances and other "big-ticket" items were weak. Retailers remain optimistic that sales will increase over the rest of the year. Most retailers were satisfied with their inventory levels, and only a few plan to trim inventories during the next several months. Automobile dealers report sales slowed slightly last month as a result of some easing in demand and limited availability of popular models. Sales are expected to be fairly strong over the remainder of the year, however. Dealers have been expanding inventories but still do not have as many light trucks and sport utility vehicles as they would like.

Manufacturing. Manufacturers operated last month at moderately high levels of capacity. Manufacturing materials were generally available, with lead times increasing somewhat for steel but holding steady for other items. Most manufacturers were satisfied with their inventory levels.

Housing. Builders report housing starts slowed last month yet remained stronger than a year ago. Starts of both single-family homes and multifamily units declined. Builders expect no further decline in construction activity, except for the normal seasonal slowdown toward the end of the year. Sales of new homes also slipped last month. Most building materials were readily available, and delivery times were normal. Mortgage lenders report some slowing in demand last month and expect some further slowing the rest of the year.

Banking. Bankers report that both loans and deposits were up slightly last month, leaving loan-to-deposit ratios essentially unchanged. Commercial and industrial loans, consumer loans, home equity loans, and commercial real estate loans all edged up. Demand deposits and money market deposit accounts increased slightly, outweighing a modest decrease in large CDs and small time and savings deposits.

All respondent banks held their prime lending rates steady last month, and almost all expect to leave rates unchanged in the near term. Most banks also held their consumer lending rates steady and plan no changes in the near future. Lending standards were unchanged at most banks.

Energy. District energy activity improved somewhat last month, as higher oil prices offset the negative effect of lower natural gas prices. The district rig count rose 3.5 percent from August and was unchanged from its year-ago level.

Agriculture. The district's corn and soybean harvest is slightly behind schedule due to wet weather. Reported crop yields are mostly good to excellent, except in parts of western Nebraska and northeast Colorado, where crops sustained extensive hail damage. The wet weather has delayed planting of the district's winter wheat crop. Most cattle ranchers continue to

post losses but cattle feeders have returned to profitability. As a result of stronger fed cattle prices, feedlots are filling quickly. The large inflow of cattle is expected to put downward pressure on prices as the cattle are marketed next winter and spring.

Wages and prices. Labor markets were still tight last month and reports of rising wages increased. Almost all retailers report they have increased wages recently to attract qualified workers. Manufacturers report skilled and unskilled workers remained in short supply, and a greater fraction of companies than in past months say they have responded by increasing wages. Prices held steady at the retail level but rose for some manufacturing and construction materials. Retailers expect no major price changes in the months ahead.

ELEVENTH DISTRICT--DALLAS

In September and early October, Eleventh District economic activity expanded at a slightly slower pace than reported in the last beige book. There were more reports of lower prices than in the last beige book, but some prices were higher, including energy, and there were more reports of labor shortages leading to wage pressures. Manufacturing activity was mixed. Strengthening energy activity led to an increase in energy-related manufacturing, and the electronics industry reported a slight increase in demand, but slower growth in home building led to softer demand for construction-related manufacturing. The financial services industry reported little change in loan demand over the last six weeks. Retail sales were sluggish in September but picked up in early October. Rain improved agricultural conditions, but the effects of the 1996 drought continue to be evident.

More industries reported falling prices than in the last beige book, but some reported rising prices. Overcapacity in the trucking industry led to a drop in shipping prices, despite higher fuel costs. Falling demand led to lower aluminum and scrap iron prices. Lumber producers said prices were down 20 percent over the last 6 weeks, but some types of lumber experienced price increases. Prices continued to fall for semiconductors and personal computers, although a few contacts said some semiconductors prices were "flat" or "stabilizing." Telecommunications prices were flat to slightly down. Most retailers reported no change in selling or input prices, and a few reported that prices were lower. Selling prices for apparel products were unchanged despite some reports of rising input costs, particularly for chemicals and wages. New home prices softened, while office rents continued to rise. Selling prices for paper products were up, partly due to higher raw material prices, and contacts expect more increases next year. Crude oil prices were pushed as high as \$25 per barrel from \$21, thanks to strong demand, continued tension in the Middle East and the collapse of the Iraqi

oil for aid package. Continued low inventory levels for heating oil have kept its price steadily rising over the past six weeks. Heating oil prices are the highest since the Persian Gulf War began, and are expected to increase if the winter is normal or colder.

A shortage of low-wage workers led to scattered **wage pressures** in a few industries, such as apparel, retail and the hospitality industry. One contact attributed the labor shortage to a recent influx of telemarketing firms. Contacts reporting wage pressures said they were already paying above the minimum wage, with the exception of a couple of apparel firms and one retailer. Engineers are reported to be in short supply, particularly for the telecommunications industry. Wages were rising for engineers and production workers in Dallas, as well as computer programmers and computer scientists. Highly skilled construction workers continued to be in short supply, leading to wage pressures, but reports suggest there are plenty of construction workers in the less skilled crafts.

Manufacturing activity was mixed. Electronics firms reported a slight increase in orders, but demand was down for construction-related products. Demand for energy-related manufacturing was up. An increase in demand for personal computers led to a slight increase in computer and semiconductor manufacturing, and contacts said inventories are approaching desired levels for most products. Telecommunications manufacturing increased, and the industry is hiring in anticipation of further growth. Slower home building reduced demand for brick, primary and fabricated metals, and led to some layoffs. Aluminum and scrap metal producers reported demand had fallen by 25 percent and 15 percent, respectively. Lumber sales were steady, but down from last year. Paper producers said demand was up over the last three months, but not as good as a year ago. Apparel sales were up slightly, and several firms said they are hiring. Cement sales increased recently, due to increased demand from the oil industry. Petrochemical demand is up along with prices and profits. Synthetic fibers are the weakest part of the market, but sales of plastics for film and packaging are strong. Refiners on the Gulf Coast said crude prices continued to rise as fast as product prices, cutting into

profits, and contacts said the Gulf Coast seems to be suffering from overcapacity.

Retail sales were sluggish in September but picked up in October. Many contacts said sales were below expectations. Several retailers noted that competition is stiff, and one said "we're all fighting over market share." Contacts are cautiously optimistic about the holiday season. One contact said "we are expecting sales will improve because they will have to improve to meet our forecast." **Auto sales** slowed more than expected, and a Texas contact was surprised that "you can walk into a showroom and purchase a Suburban immediately." Sales jumped 12 percent in Houston, however.

The **financial services** industry reported little change in loan demand. Refinancings continued to decline and other residential real estate loans were down overall. Commercial real estate lending was flat, although credit standards had tightened somewhat over the last three and twelve months.

Construction and real estate industries reported steady growth in demand for new and existing commercial space but weakening demand for residential space. Respondents said sales of new homes were falling and backlogs—which had kept construction strong in the past several months—were lessening. Sales of existing homes were reported to be flat at good levels, however. In the commercial sector, demand for new warehouses and retail space kept construction activity strong, and rising demand for office space continued to push up rents, especially in suburban areas.

Energy activity strengthened. High prices kept demand for oil services extremely strong, with little capacity available anywhere in the industry. Offshore activity is particularly strong, operating near 100 percent of capacity. Contacts mentioned shortages of offshore rigs, drill pipe, geophysical skills, and drilling crews.

Rain improved **agricultural** conditions, but the effects of the 1996 drought continue to be evident. The winter wheat crop is looking good although planting has been delayed by rain and armyworms. Still, the corn crop is forecast to be 21 percent below 1995. The Upland cotton crop is expected to be down 18 percent, but in many areas cotton yields are turning out less than expected.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

Most contacts from the 12th District reported strong economic growth in their areas and industries in recent weeks. The District manufacturing sector continued its solid expansion, and the pace of retail goods and service sales was brisk. Construction and real estate sales activity was robust in most regions, although some deceleration was reported in several fast-growth states, and the Southern California market continues to be weak. Banking respondents reported good conditions for their industry throughout the District. With regard to the outlook, respondents' generally sanguine views were tempered only by expectations of increasing inflation. Although wage and price pressures in the District reportedly were moderate overall, upward pressure on the wages of entry-level workers in some areas recently has been added to existing upward pressure on wages for some categories of highly skilled workers.

Business Sentiment

District respondents expect the performances of the national economy and their respective regional economies to remain on track in the near term. Over half expect national GDP growth to continue at about its long-run potential, with most of the remaining respondents expecting improvement rather than deterioration. Most also expect their region to outperform the nation in coming months. However, respondents' inflationary expectations worsened in the most recent survey period, with 56 percent expecting inflation to accelerate during the next 12 months, compared to 39 percent in the last survey period; only 5 percent in both periods expected an improvement.

Retail Trade and Services

Demand for retail goods and services was solid overall. Sales were particularly rapid at large grocery and drugstore chains, though a Pacific Northwest respondent noted flat demand for consumer sporting goods. In the services sector, firms that provide services to other businesses did particularly well in the recent period. District software companies continued to expand, benefitting from gains in both domestic and international markets; the primary beneficiaries are in the Seattle, Washington area and in California. Also in California, demand for telecommunications services was very strong, with the introduction and expansion of new products helping to fuel an ongoing surge in this sector. More generally, continued tightness in retail and related labor markets reportedly has led to noticeable wage pressures for entry-level workers in several states.

Manufacturing

The District manufacturing sector expanded further in recent weeks. Employment, sales, and investment in aircraft production and related industries expanded at a rapid pace in Washington State, due largely to a push to fill a substantial order backlog at Boeing. In California, makers of metal products expanded their employment and sales at a healthy pace, and reports indicate similar strength in chemical production. Furthermore, manufacturers of high-tech electronics and computer products did well overall in that state and in most of the rest of the District. Although the District high-tech manufacturing sector had been held back somewhat by saturation in the computer memory chip market during much of 1996, several respondents reported recent signs of bottoming-out or slight recovery in this sector. Respondents also noted

rising labor market tightness for skilled high-tech workers in several areas, and an Oregon respondent noted the need for deferred vacation plans to meet orders at local high-tech firms. In another sign of strength in the Pacific Northwest, employment and output by lumber producers reportedly have picked up.

Agriculture and Resource-Related Industries

Reports indicate generally good conditions for District agricultural products. Sales of various California crops were stimulated by rising export demand, largely coming from China and other countries in Southeast Asia. California wheat producers had a good harvest, and they benefitted from high prices arising from low worldwide supply; high prices also benefitted Washington wheat growers. In contrast, although increasing District beef exports to some countries helped to offset a recent decline in beef exports to Japan, the glut in the District beef market continued, with feed cattle prices sitting as much as 40 percent below break-even levels.

Real Estate and Construction

Construction activity and real estate sales generally were strong in the District, with the exception of somewhat weak markets for residential property in California. Activity in that state was mixed, with the southern portion of the state still lagging behind the northern portion. Substantial residential building activity, home price appreciation, and rent increases were reported for Silicon Valley, the high-tech manufacturing center in the southern part of the San Francisco Bay Area, and some pickup in permits for lower-priced "entry level" homes was reported for Southern California. For California as a whole, however, any existing strength primarily was in

nonresidential markets; residential construction and sales remain low at the state level. Although building and sales activity continued at high levels and wages for construction workers rose noticeably in the District's fast-growth intermountain states and Oregon, several respondents in these states reported recent slowing in residential construction activity and plans. Reports also suggested some slowing in commercial construction in Idaho, Arizona, and Nevada.

Financial Institutions

Respondents representing banks and savings and loans reported strong loan demand and generally good credit conditions throughout the District. Reports from Southern California suggested somewhat improved conditions there, with increased loan demand at banking and thrift institutions; however, delinquencies also have increased a bit. San Francisco Bay Area banks registered strong performance, although some deterioration in consumer loan quality was reported. Elsewhere in the District, financial institutions continued to do very well, despite sharp competition for loans.