SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Economic activity throughout the nation continues at a modest pace, though the agricultural and mining sectors are depressed in some areas. Most Districts report small but steady gains in overall employment levels, though there has been little growth in manufacturing employment. Unemployment rates have remained steady or fallen slightly in most Districts. Retail sales continued strong in February and promotions remained prevalent. Industrial activity increased from January to February in most Districts. All Districts reporting on new orders indicate they were up or unchanged with New York the only exception. Some Districts report involuntary inventory accumulation although equally as many note that inventories were at desired levels. Nonresidential construction continues at a strong pace in most Districts.

Construction

While multi-family residential construction was robust in many Districts, single-family construction was mixed, despite lower mortgage interest rates. Kansas City reports housing starts slightly lower than high year-ago levels and Dallas indicates that all residential construction is declining at an accelerating rate.

Nonresidential construction continues to be strong in most Districts. Many report that commercial construction is outpacing absorption rates for office space, however, and several express concern that a weak period may be in store as vacancy rates increase.

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*Prepared at the Federal Reserve Bank of St. Louis.

Industry

Manufacturing output has improved in most Districts. Weakness was cited in the following manufacturing industries: textiles and apparel, chemicals, machinery and equipment, furniture, and semi-conductors. Automotive parts and aerospace were among manufacturing industries contributing to strong growth. Increases in steel production are cited by Cleveland, Atlanta, and Chicago.

Indicators of manufacturing activity were inconsistent from District to District. New orders are reported to be up by respondents in the Boston and Philadelphia Districts and unchanged in the Cleveland and Richmond Districts while New York reports a sizable increase in the number of agents whose orders had decreased. Order backlogs generally were unchanged or declining. Manufacturers' inventories were at desired levels in the New York, Philadelphia and Kansas City Districts. Some involuntary inventory accumulation is reported by Richmond, St. Louis and Dallas.

Agriculture

The recession in the agricultural economy remains widespread. Grain farmers dependent on export markets appear to be most affected. Livestock producers have enjoyed a slightly better fate although some weakness is expected in the near future. Land prices continue to decline particularly for cropland. Dallas, however, reports modest gains in the value of ranch land. Kansas City estimates 5 to 10 percent of banks' agricultural borrowers will be denied credit for planting and that 5 percent or less of the District's farmers will leave farming this spring.

Consumer Spending

Retail sales are widely reported to have been strong in February, despite the colder-than-normal weather experienced in many areas earlier this year. Many Districts mention that price discounting and promotions remained prevalent as retailers attempted to increase sales volume. Inventories have been reduced to desired levels in most cases. Automobile sales ranged from vigorous in January and February in the Chicago and Dallas Districts, to slow in Atlanta due to cold weather. Most other Districts report generally strong auto sales. Auto dealers across the nation are optimistic about sales for spring and summer, and some are building inventories in anticipation. Cleveland indicates that sales of small trucks are at a record pace, but sales growth of heavy-duty trucks has slowed. Minneapolis and Chicago also report that trucks sold well in their Districts.

Banking and Finance

Most districts are experiencing sluggish loan growth mainly due to seasonal factors. Atlanta, Cleveland, Dallas, and San Francisco, however, cite healthy commercial and industrial loan growth while New York reports a contraction in business lending at large banks. Consumer lending increased after the Christmas season although many districts have experienced a slowdown in the most recent periods.

FIRST DISTRICT - BOSTON

Economic activity in the First District appears to be expanding at a modest rate. Retail sales continued to grow in January and February, with sales in some cases exceeding expectations and in other cases falling short. Inventory levels vary, depending upon past relationships between sales and expectations and upon individual stores' planning decisions; however, no one reports that inventories are seriously out of line. Prices are generally stable and the outlook is positive. Reports from the manufacturing sector are varied, with expectations playing an important role in manufacturers' assessment of recent results. Most manufacturers expect 1985 to be a reasonably good year. Capital spending plans are up, but much of the money spent on equipment will go to foreign suppliers. Price increases in the manufacturing sector are said to be negligible.

Retail

Most retailers contacted this month reported stronger-than-expected sales in February on the heels of a fair-to-good January. One chain, however, reported robust sales growth in January followed by an anemic increase in February. Several merchants mentioned slow sales of women's clothing and men's footwear; other items generally performed well.

Inventories are lean in those stores that enjoyed sales above expectations from December through February. Prices are rising only moderately. Some increases are attributable to commodity price increases, such as leather and rubber for footwear. Upgrading of merchandise has also created the appearance of price increases. Competitive pressures and widespread promotions were cited as causes of the moderation in inflation.

One month into fiscal year 1985, the retail outlook is promising. Projections of sales growth range from 6 to 12 percent over 1984; these projections for 1985 equal or exceed 1984's strong growth rates. Capital spending plans support these expectations, with new stores and additional warehouse space planned throughout the region.

Manufacturing

Most manufacturers contacted described business as fair, but a few reported disappointing results. To some extent, differences in manufacturers' assessment of current conditions reflect differences in expectations rather than differences in results. A "decent" increase for one firm is disappointing for another. A number of firms have seen a pickup in orders and production in the past 2 or 3 months; however, in the computer and semiconductor industries, there is reported to have been a marked slowing in the rate of growth. This slowing is attributed to a combination of factors, especially customers' uncertainties about economic conditions and the tax environment and the delaying effects of announcements of future new products. The slowdown is not expected to persist for very long.

In addition, manufacturers of capital goods report that orders are not as strong as one would expect given the stage of the recovery and business' ambitious investment plans. Foreign competition is said to be the explanation: much of business spending is going for equipment produced abroad. Several firms confirmed this from the buying side; their capital spending is up substantially but much of the equipment is coming from Japan and Europe. Interestingly, these contacts did not cite price as the primary reason for buying from abroad. Foreign equipment is said to be state-of-the-art; also, according to one contact, lead times for complex machinery are shorter if one buys from a Japanese rather than a domestic supplier.

Inventories are said to be a little higher than desired. This is a legacy from the slowing in demand that many firms experienced in the second half of 1984 rather than a recent development. Most of the firms contacted report that prices for materials and supplies are not increasing at all. Most also report that they cannot raise their own prices; increases for one product are offset by discounts for others. A couple of firms report keeping costs down by taking advantage of the strong dollar and importing from their own overseas subsidiaries; these subsidiaries previously served only overseas markets.

Manufacturing respondents expect 1985 to be a reasonably good year, but they are uneasy. The value of the dollar is the source of much of this unease; contacts are concerned about both the level and the possibility of large changes. Two executives were particularly concerned about how monetary policy would respond to a slowing in the foreign capital inflow.

SECOND DISTRICT--New York

Introduction

The District's uneven economic expansion has continued. The pace of consumer spending was mixed in recent weeks, with some suburban retailers reporting continued strength and others noting weak sales even with aggressive promotional activity. There were a few signs that the pace of the District's business expansion may be slowing, but so far the employment picture has been quite good. The housing market remained robust, with construction only delayed by bad weather. The demand for office space has been picking up in much of the District, although inventories remained high. Small banks reported continued strength of commercial and industrial loan demand.

Consumer Spending

Retail business in the Second District was mixed in recent weeks in a highly promotional environment. Most chains doing business in suburban areas, especially discounters, continued to fare well. Some merchants, however, reported weakness in January and into February. Sales for one New York City merchant fell during the period despite deep price markdowns. And an upstate New York retailer indicated that sales rose only moderately, in part due to heavy snowstorms. Inventories have been brought down to desired levels--to about 10 percent above 1984's holdings--at most stores contacted. One department store chain, however, reported continued growth of its stocks, to nearly 20 percent above last year's level, and has further reduced its orders for spring merchandise.

Business Activity

The Second District's business expansion has continued but its pace appeared to be slowing. While a majority of purchasing agents still reported either stable or improved business conditions in January, there was also a sizable increase in the number of agents whose new orders had declined. Businessmen seemed somewhat less optimistic than they did last month. Inventories, however, were currently deemed by most to be at satisfactory levels.

The employment picture remained very strong, although there were a few early signs of a possible slowdown. Employment in both New York and New Jersey remained at record high levels, unemployment rates were well below the national average, and several major employers have indicated their intention either to maintain or to increase employment in the District during 1985. However, layoffs and plant closings have become somewhat more prevalent. Firms announcing contractions included a drug manufacturer in northern New Jersey, a typewriter maker and a bottle manufacturer in upstate New York, and an aerospace producer on Long Island.

Construction and Real Estate

Cold weather has temporarily slowed residential construction activity. The demand for houses, however, has remained robust. Builders in many parts of the District expected 1984's record levels of activity to continue throughout 1985.

The housing market may be affected by several bills pending before state legislatures. In New York the renewal of rent regulations and various tax incentives are being considered; New Jersey's legislature is debating action on court-ordered low-income housing construction in suburban areas. Proposed bills in both states would also increase subsidies for low- and middle-income housing construction, directly and through reduced-interest mortgages.

Real estate brokers in many parts of the area noted that the nonresidential real estate market has stabilized in recent weeks, even though inventories were on the high side. The demand for office space has increased in Downtown Manhattan, owing in part to the recent strength of the stock market and the banking sector. Leasing activity was high in Midtown Manhattan and on Long Island. In contrast, demand was weak in northern New Jersey and Fairfield County in Connecticut, and observers believed that the large extent of speculative building underway in these areas has not been warranted by the current rate of space absorption. Westchester County (New York) has been an intermediate case: demand was viewed as satisfactory but large additions of new space next spring may upset the current equilibrium.

Financial Developments

Commercial and industrial loan growth at small banks remained fairly strong in recent weeks, in contrast to the continuing contraction at major New York City banks. According to the small banks contacted, the strength of loan demand came in response to a reduction in loan rates that was prompted by strong deposit inflows at lower interest rates. Industries with particularly strong loan demand included small manufacturers, homebuilders, and a wide variety of small businesses. Respondents expected this level of activity to continue for at least the next three months.

THIRD DISTRICT - PHILADELPHIA

Local industries in the Third District are reporting growth in February. Manufacturing activity has picked up speed, after several slow months; and retailing remains quite strong, contrary to its usual slack performance in February. The financial sector reports some sluggishness in both commercial and consumer loans relative to the beginning of the year, but bankers attribute this to seasonal pressure and note that current lending volume is substantially higher than it was last year at this time.

Overall, the outlook for Third District industries is bright. The majority of manufacturers expect to step up production further within six months. Retailers anticipate that the early Easter will lead into a strong spring and summer selling season. For bankers, the generally healthy economic news signals increased loan demand.

MANUFACTURING

Local manufacturers responding to this month's Business Outlook Survey say business is rebounding slightly after several months of only modest growth. February's survey of industrial activity shows a definite improvement over January as well as over the 4th quarter of 1984, with one-third of the executives polled reporting expansion of production in recent weeks. The pickup in production is noted in both the durables and nondurables sectors. Close to 40 percent of the survey respondents say both new orders and shipments are turning in a strong performance this month, while one-third indicate that inventories have held steady at January levels. Employee payrolls and working hours are virtually unchanged, as are producers' backlogs and delivery times.

The six-month outlook for both general industrial activity and specific business indicators remains bright. Over 60 percent of the executives polled anticipate stepping up production by August, while only 10 percent expect to ease off activity. Manufacturers' optimism is reflected in their projections for both new orders and shipments, with well over half expecting further growth in these indicators. Over 40 percent of the survey respondents plan to boost capital expenditures by August.

Current industrial prices are stable again this month. Three out of four manufacturers surveyed say there has been no change in either prices paid for raw materials or in prices received for finished goods. Price hikes are expected in the future, however, as almost three-quarters of those polled anticipate higher input costs and over half plan to charge more for their final products.

RETAIL

Retailers say the strong sales performance in January has extended into February; this reverses the normal seasonal slowdown which is usually attributed to the payoff of consumers' holiday shopping bills. Extremely mild temperatures in the second half of February helped to boost sales at area department stores by as much as 14 percent on a year-over-year basis. Valentine's Day in particular was a big success, with exceptionally strong jewelry sales. Promotions continue to be important in attracting customers. Inventories are being held in line with sales expectations.

The outlook for retailing in the spring and summer is upbeat. Merchants look for overall first quarter gains of about 10 percent over last year, and expect this year's early Easter to provide further momentum for consumer spending. Department store executives are guardedly optimistic; they continue to forecast further growth, but they do not anticipate making the same "spectacular" year-over-year sales gains posted in 1984.

FINANCE

Loan demand, in general, has been flat in February. Both wholesale and retail loans have grown only about 1 percent since the beginning of the year. Bankers attribute this sluggishness to seasonal effects. On a year-over-year basis, commercial loans, including commercial mortgages, are up 10 to 20 percent, and consumer loans are registering hefty increases, as local banks are still benefiting from promotional pushes in credit cards and auto loans.

The outlook for loan growth is rosy with lenders expecting a strengthening in demand through mid-year. C&I loans are predicted to run about 5 percent, and consumer loans about 10 percent, over year-ago levels. Continued healthy economic expansion and low inflation are expected to drive borrowing higher, but bankers say growth, especially in the retail areas, is not likely to attain the fast pace they grew accustomed to in the past year.

Local bank economists anticipate some gradual upward pressure on interest rates over the next six months as a result of a healthy economy. The federal funds rate will rise but should not exceed 9 percent, according to bank forecasts. The prime rate, currently at 10.5 percent, will follow suit by rising 25 to 50 basis points by August.

Fourth District--Cleveland

Summary

Economic activity in the Fourth District is reviving slowly after several months of weakness. Employment is rising and unemployment is falling. Durable goods are selling well but non-durable goods sales are sluggish. Manufacturing activity is weak but no longer declining. Housing activity is improving slowly, and business and consumer loan demands continue to increase.

District Labor Market Conditions

Ohio employment (s.a.) increased in December and January, while unemployment (s.a.) fell in January by more than it had risen in December. The unemployment rate (s.a.) fell from 9.1% in December to 8.4% in January. Surveys of manufacturers indicate little change in manufacturing employment (n.s.a.). Unemployment rates (n.s.a.) in December in ten metropolitan areas in this District ranged from 6.4% in Columbus to 15.1% in Wheeling, a steel-producing center. Local indexes of leading indicators of employment for the Pittsburgh and Cleveland metropolitan areas have been flat for several months, suggesting that employment in those areas is unlikely to grow much in the near term.

Retail Sales

February retail sales trends in the Fourth District have followed the national pattern. Hard goods, especially autos, continue to sell well. Car dealers are intentionally carrying higher-than-normal inventories in expectation of even stronger sales in the spring. Electronics, especially VCR's, are selling well, and competitive new imports are keeping prices down. The only weak durable goods are non-high-tech appliances and furniture. Soft goods, especially apparel, fell prey to bad weather and sales improved only marginally in the last half of February when Fourth District weather conditions improved. Nevertheless, department stores do not plan further price cuts to reduce inventories because their margins are already thin. Instead, they plan to reduce orders to eliminate excess inventories of soft goods.

Manufacturing

Surveys of manufacturers in the Cleveland and Cincinnati areas indicate weakness in manufacturing activity. Manufacturers in Cleveland and northeast Ohio report their level of production has stabilized after falling in January and new orders have stabilized after four months of decline. In Cincinnati, production is rising slowly, new orders are flat, and order backlogs are declining. Inventories of raw materials and components are falling in Cleveland and are flat in Cincinnati while inventories of finished goods are flat in Cleveland and rising slowly in Cincinnati. Prices paid by manufacturers continue to rise very slowly.

A major producer of industrial chemicals reports export markets are weakening, while growing shares of strong domestic markets are being absorbed by imports. Producers of parts for the automobile industry report demand is very strong. A large steel producer reports orders for flat-rolled sheet products used by the auto industry have surged to capacity. Steel prices are below published schedules and imports continue to rise.

A survey of manufacturing firms in the midwest indicates they are not changing their plans to increase capital spending this year. A producer of parts for trucks and autos is planning to invest significantly more this year to modernize production facilities and to locate production plants closer to customers to meet growing demands for just-in-time deliveries. The firm reports that sales of smaller trucks are at a record pace but sales growth of heavy-duty trucks has slowed and manufacturers are asking suppliers to delay delivery of components. A major producer of material used in commercial construction reports record demand, and believes that tax incentives must be stimulating construction of office buildings because vacancy rates continue to rise. The firm has pushed back to late-1985 its forecast for a decline in its sales, and expects a 3-year to 4-year slump in commercial construction, especially office buildings, because of excess space.

Housing

Housing activity in Ohio is reviving, but more slowly than in many other areas of the country. Market participants generally expect that sales will improve steadily during the first and second quarters because of lower mortgage rates, but builders remain extremely cautious.

A large savings and loan association reports that applications and inquiries in February were substantially higher than a year ago. Fixed-rate mortgages are regaining popularity among borrowers because of the narrowing rate spread between fixed-rate and adjustable rate mortgages and tighter underwriting criteria for adjustable rate mortgages. A savings and loan association reports that its mortgage delinquencies are rising, and higher delinquency rates are likely to persist because slow appreciation of home prices has eliminated the incentive for some buyers to reschedule payments with the mortgagee.

Most builders in this region had laid plans for strong sales in 1984 but had a poor year. Builders are assuming that housing starts nationally will equal 1.5 million units in 1985. They have reduced their geographic market coverage, scaled down production facilities, and reduced their inventories to maximize profits in a soft market.

Commercial Banking

Loan demand appears to have strengthened at District banks in recent weeks. Business loans registered the largest gain in outstandings, and consumer loan volume continued to grow at a relatively good pace. Contacts expect additional pick-up of business loan demand and continued strength in consumer loan demand. The market share of auto loans held by banks, however, is likely to decline somewhat because below-market loan rates are being offered on selected models by captive finance companies of some auto manufacturers.

Overall deposit growth has been moderate at District banks in the past six weeks. Inflows of time and savings deposits have more than offset reductions in demand deposits. District banks also have increased their reliance on purchased funds including large negotiable certificates of deposit.

FIFTH DISTRICT - RICHMOND

Overview

While the thrust of economic activity in the Fifth District remains positive, the evidence collected this month is less consistent than in other recent months. The manufacturing section in particular was spotty. Textiles and apparel continued to report many of the soft spots, but were joined by scattered firms in such diverse industries as machinery and equipment, furniture, and chemicals. Other sectors, meanwhile, continue to show robust performance despite, in some cases, quite adverse weather conditions. Retail sales are making consistent, occasionally exceptional gains in most areas and in a wide variety of product lines. Construction of nearly all types is also lending broad and substantial support to district economic activity. In the financial sector, loan demand is growing moderately and deposits seem, more or less, to be keeping pace.

Manufacturing

For the second consecutive month, conditions in the manufacturing sector of the District appear to have deteriorated. Although the volume of new orders was little changed in February, manufacturers report a rather sharp contraction of shipments, and a substantial working down of order backlogs as well. In addition, there seems to have been widespread inventory accumulation, particularly of finished goods, in recent weeks, and there is growing concern that perhaps current stocks are excessive.

Although manufacturing employment in the District has shown little change of late, there are reports that the average work week may have been shortened. Also, manufacturers continue to report weakness in prices. There are even suggestions that prices may have declined in recent weeks.

Despite the apparent slowing of demand, and an increasing sentiment for retrenchment, District manufacturers actually seem to have become more positive about the outlook. They foresee little change in the level of activity nationally in coming months, but, on balance, expect conditions on their respective markets and firms to improve in that time frame.

Coal production has been disrupted by very bad weather since the first of the year, and is running somewhat below year ago levels. It is likely though that even with good weather, 1984 output would be unmatched at this point. Production is still at relatively high levels by historical standards.

Consumer Activity

Consumer activity is almost universally described as strong around the District. Sales at department stores, discount houses, and automobile dealers are particularly good, but remain quite responsive to price cutting. Generally, reports are that sales strength cuts across nearly all product lines, non-durables, household durables, and automobiles. For the most part, retailers used the surge of buying in late 1984 to trim inventories and in the face of continued sales strength find inventories quite lean, but not restrictive.

The price discounting that became so prevalent around year end continues generally, although there seems to be a modest trend toward rebuilding margins. It remains to be seen how successful these efforts will be. Retailers as a group seem to be quite optimistic, calling for little change or modest increases in activity in coming months.

Construction

As in recent months, construction activity is quite strong around the District, including most areas and nearly all types of construction. In addition, the outlook appears to be for continued strength in this sector. Housing sales and construction are described nearly everywhere as moderate or strong, strong in most areas. Furthermore, evidence from the current housing market and from such indicators as building permits are taken to suggest that this strength is likely to continue for some months.

Similarly, commercial construction is very strong, unprecedented in several metropolitan areas. Office buildings and shopping centers seem to dominate the activity. The outlook for this sector is also positive. Reports suggest that new projects are continuing to come on line at all stages.

Financial Sector

Financial institutions are generally experiencing moderately expanding loan demand for most types of loans. Sources of funds are also growing and there is little evidence that any imbalances are likely to emerge at District institutions. Although credit demands are expected to continue to expand moderately, there is little concern that liquidity will be strained, at least over the next several months.

SIXTH DISTRICT - ATLANTA

The southeastern economy continued to expand in early 1985. Employment has increased in several basic manufacturing industries although some other manufacturers remain burdened by competition from imports. Sluggish consumer spending growth accompanied a severe mid-winter cold spell, but sales of new vehicles remain very robust. Housing markets are generally firm while still-booming office, retail and industrial construction shows signs of outpacing high levels of absorption. Business and real estate lending growth corroborates the moderately strong economic advance of the region. Tourism activity measures indicate that current and expected business and convention travel is strong. The agricultural sector continues to be the major soft spot, with prices for some important products falling and those for some others still depressed.

Employment and Industry. Business and labor market conditions generally have improved since the last reporting period, spurred by continuing growth of defense, construction, and auto-related industries. However, sluggish performance of major import-competing and energy industries continue to burden Alabama, Louisiana, and Mississippi with double-digit unemployment rates.

The region's tire plants, which have been running near capacity, recently increased their production schedules, and paper manufacturers are adding capacity to meet demand. A major steel producer has recalled 650 employees to its north Alabama plant, including some who have been laid off since 1980. Louisiana's petrochemical industry is producing at high levels for the specialty chemical segment, but the larger agricultural segment is not faring well due to foreign competition and the plight of the farmer. Petroleum refiners continue to trim operations.

Record-breaking trade deficits for apparel and textile products have resulted in mill layoffs throughout the region. Apparel fabric producers have been especially vulnerable to imports. The number of textile jobs declined by 2,000 in Georgia alone in early 1985. Industry spokesmen fear that their heavy domestic investment in productivity-enhancing equipment has not reversed the industry's declining trend. In contrast to other textile sectors, carpet sales are reaching record levels due to a sharp upturn in commercial contract orders. Carpet sales are expected to grow by 10 percent this year based on the office building boom.

Consumer Spending. Excluding autos, regional retail sales, as reported by surveyed merchants, were generally up from 5 to 8 percent in February compared to a year earlier. Retailers viewed this sales pace as sluggish but did not report any strong concerns about high inventory levels. Cold weather earlier in this reporting period limited overall shopping but helped to reduce the heavy stock of winter apparel that accumulated during the unusually mild early-winter period. Several retailers reported that they were discounting prices more than usual to spur consumer spending now that pent-up demand for some items has been met. Continuing strong consumer demand for new vehicles, particularly in Florida and Georgia, has encouraged dealers' optimism for another good year despite the mid-winter cold wave that slowed sales in some areas.

Construction. Single-family residential sales, prices, and construction remain strong in major southeastern markets, with the notable exception of New Orleans, where home sales and prices are weak. The region's multifamily residential market also remains firm amid heavy construction activity. Absorption of office building space is at very high levels in most large cities but is not keeping pace with construction activity. Vacancy rates have increased most noticeably in Tampa and Miami. High levels of shopping center and industrial construction activity are outpacing absorption in some large markets such as Atlanta and Orlando.

Financial Services. Business, real estate, and consumer lending by large banks accelerated at year-end 1984 and continued to grow in January. Savings and loan associations' mortgage commitments also showed renewed strength during this period. Preliminary bank and S&L information for February suggests some slowing of consumer lending, with the business and real estate lending trends unchanged.

Tourism. Tourist activity improved with the weather in February, following an apparent cold weather-related slowdown in January. Moreover, the near-term outlook is quite bright, especially because business and convention travel has continued to show healthy growth. A pickup in vacation travel solidified strong occupancy levels and advance bookings in Palm Beach, Miami, and Daytona Beach. Convention bookings in Miami Beach, Mobile, and Knoxville are well ahead of last year, and air travel rose 12 percent at Atlanta's airport.

Agriculture. Unfavorable prices for most crops and livestock products continue to squeeze regional farmers' profits. Broiler and cattle prices have shown some improvement in recent weeks, but egg prices have fallen about one-fourth as production has increased. Crop prices also remain depressed, particularly for soybeans and cotton, compared to year-ago prices. Farmers currently plan to reduce soybean acreage planted by one-half million acres this year and hold cotton planting to its 1984 level, but they intend to expand corn plantings.

SEVENTH DISTRICT--CHICAGO

Summary. Conflicting trends in the Seventh District suggest that overall improvement, if any, in this region in 1985 will again lag the national performance. With total payroll employment still 7 percent below the levels of 1978-79, job seekers far outnumber openings. Severe distress is reported throughout the Cornbelt, with many farmers complaining about availability of credit "to get crops in the ground." Depression in the farm sector is unprecedented since the 1930s. Producers of mechanical capital goods face very weak markets with more plant closings announced and anticipated, especially in farm and construction equipment. On the favorable side, motor vehicle output is scheduled above last year's high level in the first and second quarters. Steel output is improving, helped by new import controls. Commercial construction activity is vigorous, but both residential and nonresidential construction remain substantially below the levels of the late 1970s. Reports on consumer purchases vary, but retailers are pushing hard for available trade, with profit margins thin at best.

Plant Closings. Various District manufacturers have announced further plant shutdowns, some temporary, others permanent. A diversified firm will permanently close a construction equipment plant in Iowa. A meat packer will close two pork processing facilities in Iowa. A producer of large farm tractors is shifting operations to Europe from Michigan. A large Detroit brewery, dating to the nineteenth century, is to be closed. Reasons for plant closings include excess capacity, severe competition, the high value of the dollar, and antiquated, high-cost facilities.

Motor Vehicles. Auto sales in January and February have been vigorous and production schedules through mid-year exceed 1984. However, cutbacks have occurred in output of some small cars, and several companies are offering cut-rate financing to boost sales. While auto producers have been placing orders for steel to support planned output through April, they retain flexibility to lower schedules later in the second quarter. Industry observers see extension of current restraints on Japanese imports as unlikely, but less formal "guidance" may mean only moderately higher imports. A leading truck producer expects sales of medium trucks to rise 5 percent in 1985, with sales of heavy trucks to be near 1984's high level, but weaker in the second half.

Steel. Raw steel production in the Chicago area has improved in recent weeks to the highest levels since mid-1984. More furnaces have been lit and more workers recalled. Orders for most types of steel have improved "fairly sharply." Strongest lines are motor vehicles, appliances, office furniture, and commercial buildings. Demand for steel from heavy capital goods producers is still slow. New import restraints are taking hold. Foreign steel inventoried when imports surged last year probably is being drawn down. One analyst expects the restraint program to reduce imports by 5 million tons from 1984's record 26 million tons.

Capital Goods. Most heavy capital goods lines remain weak, partly because of the high value of the dollar. Orders for construction machinery, food processing, materials handling, and oil and gas exploration generally continue slow. Railcar orders have slipped from low levels in last year's first half. A District company which sold its domestic farm equipment lines is liquidating finished inventories, offering large bonuses to dealers. Another diversified company is seeking a buyer for its farm machinery business.

Gypsum and Paper. Gypsum board demand in 1985 is expected to remain near 1984's record level. Capacity in this industry has been shifting in recent years to the South and West as older plants have been closed and new plants opened. However, repair and remodel work--one-third or more of the market for gypsum board--is concentrated in regions with more older buildings, the East and Midwest. Paperboard shipments are projected to rise two percent in 1985 from the 1984 record. Industry output is near capacity.

Construction. Bidding activity on nonresidential projects, especially office and retail, in the Chicago area is vigorous, and activity should remain strong in 1985. Highway work also is projected to continue at a high level, depending in part on release of federal funds. The decline in mortgage interest rates since mid-1984 has improved the climate for new housing, but some lenders have raised rates recently. With the wide variety of mortgages now available, some speak of 100 varieties, generalizations about terms are difficult.

Consumer Spending. Reports on general merchandise sales recently have been mixed, but mostly disappointing. Airline passenger miles were up 12 percent in January from year ago. Fare cutting has intensified since then. A Chicago-based regional airline recently cut flights by one-fourth, froze pay, and announced layoffs.

Agriculture. District farmers expect to plant about the same acreage in corn and soybeans in 1985 as last year, according to the USDA February survey. The report attracted more interest than usual because of concerns that many farmers will be hard pressed to obtain sufficient production financing. Some analysts argue that current financial stress undermines the reliability of this year's planting intentions report, which historically has been fairly reliable.

EIGHTH DISTRICT - ST. LOUIS

Summary and Outlook

Little change is expected in business conditions through mid-1985. The volume of business is expected to rise marginally in the next three months. Respondents expect only modest increases in price and employment levels. Retail sales, though mixed, were up slightly overall in February from the January level. Growth in total loan volume slowed in the first half of February, from the seasonally strong January rate. There is evidence of additional erosion in farmland values, with the decline expected to last at least through 1985. Cattle and hog prices are beginning to weaken seasonally.

Consumer Spending

Retail sales were up slightly overall in February from the January level. Though some respondents report strong sales, one respondent said the retail industry as a whole is going through a period of weakness, and estimated only a 2 to 3 percent growth in retail sales over the 1984 level for the Louisville area.

Business Activity

Business activity as measured by an index of seven components has increased in the District. The index moved upward in Arkansas and Missouri in January, at rates of 7 and 4 percent, respectively. In Kentucky and Tennessee, where data are available only through December, the index rose 3 percent and 7 percent, respectively, for the month. Business activity in all four states was 2 to 6 percent above 1984 levels.

The paper and paper products industry reports that sales since mid-December have been only one-half as strong as previously expected. They cite price weakness and inventory build-up as their main concerns. Excessive inventory levels also were reported by other industrial firms in early February. As a result, industrial employment has remained essentially flat. Capital spending increases for 1985 have been reduced from earlier estimates, though an increase over last year's level is still planned.

Construction

Single-family housing starts remain sluggish despite lower mortgage rates. Respondents remain optimistic about the outlook for 1985, however. Housing starts are expected to rise 10 to 12 percent above the 1984 level in the Louisville area. Multi-family housing construction remains strong in the Memphis area. The time required to fill available office space in the District has lengthened, which generally indicates an excess supply of nonresidential buildings.

Banking and Finance

Total loans outstanding at large District banks grew at a 30 percent annual rate in January over the previous four weeks (not seasonally adjusted). Through the first half of February, however, total loan growth has fallen to a 10 percent annual rate, just slightly below the long term trend rate. Both the rapid January growth and the more recent return to trend can be attributed to fluctuations in consumer and real estate lending. Commercial and industrial lending has risen only modestly over the period. Much of the January growth in consumer lending can be attributed to the normal increase of the Christmas season.

A January survey found that bills to establish regional interstate banking zones had been introduced into legislative committees in 5 of 7 District states. Of the two remaining states, Kentucky enacted a regional interstate banking bill in 1984, while no such legislation was pending in Mississippi. More recently, the Missouri House banking committee rejected the interstate provisions of a banking bill. The House action will hinder interstate legislation proposed in the state's Senate. A House spokesperson stated that interstate banking provisions would be reexamined this year only if neighboring states adopt such legislation.

Agriculture

Despite uncertainty over loan guarantees and the 1985 farm bill, planting intentions surveys indicate increased feedgrain acreage and reduced acreage in oilseeds. With large surpluses still in storage, normal weather this year would show large harvests, keeping prices near loan rates. Survey evidence shows additional erosion in land values, further weakening the ability of some farmers to obtain credit; expectations are for a continuation of this decline, at least through 1985. Livestock producers, who currently face profitable marketing opportunities, also are beginning to see some seasonal price weakness.

NINTH DISTRICT - MINNEAPOLIS

With the exception of agriculture and some resource-related activities, the Ninth District economy has shown signs of strength so far this year. Nonfarm employment indicators have generally remained good, consumer spending in diversified cities has picked up a bit, and loans and deposits at large city banks have both grown.

Employment

Nonfarm employment conditions in much of the Ninth District have remained good. The seasonally adjusted unemployment rate for the district fell a bit to 6.4 percent in December. In January, the Minnesota unemployment rate also edged down to 6.4 percent, reversing a slight rising trend, with the biggest employment gain coming in the trade and service sectors. Employment in the Minneapolis-St. Paul metro area was over 50,000 people higher than a year ago, and a new race track is expected to employ another 500 people there. But unemployment remained over 20 percent in the mining-dependent areas of northeastern Minnesota and the Upper Peninsula of Michigan, and layoffs boosted unemployment in South Dakota.

Consumer Spending

Consumer spending on general merchandise has continued its familiar pattern: good-to-strong in diversified cities and poor in agriculture- or resource-dependent smaller towns. One chain of department stores in the Twin Cities had good traffic in January and February, although sales and discounts held down its profit margin. January net sales tax receipts in Minnesota were up 6 percent from a year earlier. This Bank's directors report that major malls were busy in the larger cities of South Dakota and in Duluth and Rochester, Minnesota.

After a slow start in January, motor vehicle sales picked up considerably in February. The regional office of one large domestic manufacturer reports that sales in late February were high enough to bring current year-to-date sales up to levels of a year ago. Another manufacturer says its trucks sold particularly well recently, leaving its inventory levels in the low-to-normal range. Dealers in Sioux Falls, South Dakota, and Fargo, North Dakota, also report good auto sales.

The pace of home buying has been generally at or above that of a year ago. Through February, Twin Cities home sales were up 14 percent over a year earlier. Both listings and housing permits were up there, too. According to scattered reports, housing activity was fairly good in Rochester, Minnesota, and Fargo, North Dakota. But home sales in Sioux Falls, South Dakota, were lower this January than last.

Tourist expenditures at ski resorts in northwestern Wisconsin and the Upper Peninsula of Michigan were harmed somewhat by warm weather late in February. They are expected to pick up soon, though. A lot of snow usually falls early in March. And a new hotel was just finished in Escanaba, Michigan.

Agriculture

Little improvement has been seen in the troubled agriculture sector. The Minnesota farm price index declined another 2 percent in February. Crop prices that month were 15 percent below their levels a year earlier. Dairy farmers worried about the ramifications of the March 31 end of the federal diversion program. Cattle prices weren't high enough to bring much profit to livestock operations in Montana. But the Minnesota legislature recently passed a bill providing $25 million to subsidize interest payments on additional loans to heavily indebted farmers. And the Standard Oil Company of Indiana's plan to substitute ethanol for lead in regular gas should somewhat increase the demand and price for corn.

Resource-Related Industries

Performance among resource-related industries has been mixed this year. After a big year for oil drilling and production in North Dakota's Williston Basin, drilling slumped during February, partly because of poor weather. While the district's timber industry has continued to be hurt by overproduction, federal pricing, and Canadian imports, the damage has been less in Montana than in other parts of the Northwest. Demand for district pulp and paper has remained strong, but foreign import substitution has increased. Waferboard production capacity has increased, too. Iron mining operations have continued to call back some of the many workers laid off last November.

Finance

Deposits at Ninth District banks didn't change much between mid-January and mid-February; decreases at country banks offset increases at the four largest banks. Commercial and industrial loans at the large banks also grew early this year. In January, their outstanding loan volume was 15.8 percent above volume a year ago.

TENTH DISTRICT--KANSAS CITY

Overview. With the notable exception of agriculture, the Tenth District economy continues to show modest improvement. Retail sales have picked up somewhat recently, accompanied by stable prices. Inventory levels are generally judged to be satisfactory. Housing starts are slightly lower than high year-ago levels but well above 1983 levels. Mortgage rates have shown little change recently and little change is expected in the months ahead. Problems remain in the agricultural sector, with 5 percent or somewhat less of farmers expected to be forced out of farming this spring. Most lenders are wary of the Farmers Home Administration (FmHA) program to restructure farm debt. Loan demand at district banks is mixed, as is deposit behavior.

Retail Trade. Most retailers report that sales picked up recently. Sales have been strongest in the area of women's wear. Retail prices have remained stable in the past three months. More than half of the reporting retailers are satisfied with current inventories and expect inventories to expand later this year if sales strengthen. Prices are expected to remain stable in the next six months, and sales are expected either to remain flat or increase slightly above 1984 levels.

Automobile Dealers. Automobile dealers report sales ranging from slightly ahead to slightly behind year-ago levels. Credit market conditions remain relatively attractive, and financing is available both for floor planning and new car sales. The inventory situation is mixed, with some dealers satisfied while others are expanding. Despite recent weakness in some areas, dealers are optimistic that 1985 sales will prove even better than strong 1984 sales.

Purchasing Agents. Purchasing agents report that input prices remained fairly constant during the last three months. Slight increases are expected in the remainder of the year. Agents report no problems in obtaining materials, and none are anticipated. Inventories are reported to be at satisfactory levels, with no bottlenecks.

Housing Activity and Finance. Homebuilders report that housing starts are slightly lower than the high year-ago level, although starts are well above 1983 levels. Sales of new homes are about the same as year-ago levels, and new home prices have remained stable. Savings and loans report that mortgage loan demand is about the same as a year ago. Mortgage rates have remained fairly stable so far in 1985, and few changes are expected during the rest of the year. Savings inflows have also been similar to last year, despite lower minimum deposit requirements on MMDA's and Super NOW's.

Agriculture. Estimates of the proportion of farmers and ranchers who will not receive credit from their usual bank source this spring vary widely across the district. Bankers in ranching areas report that practically all of their customers continue creditworthy. In grain-producing areas, most bankers report that 5 to 10 percent of their customers will not receive bank credit for spring operating expenses, though estimates are higher in some parts of the district, and as low as 2 to 3 percent in other parts. Some of these farmers will obtain credit from the FmHA or from suppliers. Many farmers will leave farming this spring, with the proportion estimated at 5 percent or somewhat less.

The land market continues very soft, with very little land changing hands. Parts of Kansas, Nebraska, and Colorado report that about 15 to 20 percent of the land in the area is for sale. Parts of Wyoming and Colorado report much higher proportions of land for sale, though the proportion is affected by nonagricultural uses of the land. In Missouri and parts of Nebraska and New Mexico, very little land is actually listed for sale, though bankers indicate that this is probably due to a lack of buyers, not an unwillingness to sell.

Most bankers continue to be wary of the FmHA program to restructure farm debt because of bureaucratic procedures that slow loan guarantee approvals. Moreover, many loans require a significant interest rate reduction to achieve a break-even cash flow. Many bankers appear reluctant to lower rates enough to meet the requirements. Participation in the program is heaviest in Kansas and parts of Nebraska, Oklahoma, and Colorado. Some bankers continue to ignore the program completely.

Banking. Respondents at Tenth District banks give mixed reports on loan demand. Roughly equal numbers of banks report increased, unchanged, and decreased loan demand. Consumer loans have shown the greatest tendency to rise, while residential and agricultural loans have shown the greatest tendency to fall. Deposits also have displayed mixed behavior across district banks. Super NOW accounts, MMDA's, and IRA's have registered gains, while demand deposits and passbook savings accounts have registered losses. The prime rate stands at 10.50 percent at a majority of the banks, down from 10.75 percent last month. Consumer lending rates have either not changed or fallen slightly. No further declines are expected. All institutions sampled either have lowered or will soon lower the minimum deposit on MMDA's and Super NOW's to the allowable $1,000. Lowering the minimum deposit is viewed as necessary to match competitors but has not generated any growth in deposits.

ELEVENTH DISTRICT--DALLAS

The performance of the Eleventh District economy is flat, but many respondents expect faster growth in the near future. In manufacturing, stable overall sales mask the conflicting effects of declining demand by the energy sector and modestly increasing demand for building materials. Drilling activity is declining as expectations of falling prices persist. Auto sales remain high, but retail sales overall continue to be sluggish. Nonresidential building remains the dominant construction sector.

District manufacturing sales and output show little evidence of overall change, with most respondents reporting that business conditions have remained stable since the start of the year. One reason cited for the lack of significant growth was the unusually cold weather in many parts of the District in January and early February. Manufacturers generally expect orders to increase in the second quarter, and are building inventories in anticipation. Manufacturers have also lately accumulated some inventories involuntarily, as a result of unexpectedly slow sales. The steep decline in the drilling rig count is starting to affect manufacturers of extraction equipment and materials. Respondents report the beginning of a rebound in residential construction and strong nonresidential construction is increasing output in lumber and wood products. Stone, clay, and glass production is also being buoyed by vigorous nonresidential construction. Reduced orders of electronics have forced the industry to pare production and inventories. Refining output is advancing slowly. Foreign competition continues to depress demand for District apparel manufacturers. Paper and allied products manufacturers report little change in demand, but respondents expect orders to increase in the second quarter.

for multifamily units continue to decline almost twice as fast as those for single family structures. Permit totals do not yet reflect the slight resurgence in activity that respondents indicate.

The value of nonresidential construction contracts rebounded sharply in the fourth quarter of 1984 after slow growth or declines during the rest of last year. The number of projects declined slightly in December, but the number of square feet increased. Lenders report modest increases in construction loans, portending continued strong activity.

Deposit growth at the District's large banks continues to increase, exceeding ten percent on a year-over-year basis for each of the last three months. Deposit growth rates at member banks have been even larger, though not accelerating. Borrowings by large banks have declined slightly in recent months, slowing the rise in total liabilities. Asset growth at these banks is slowing. The exception is the business loans category which grew in January at a faster yearly rate than December.

Agricultural land values declined slightly during the fourth quarter of 1984, when compared with the third quarter. Over the entire year, however, ranch land and nonirrigated cropland did modestly increase in value. Eighteen percent of bankers reported bankruptcies among their farm and ranch customers during the previous six months. These bankers reported that 1.7 percent of their agricultural borrowers underwent bankruptcy. A similar number of banks reported 1.4 percent of their customers were foreclosed during the last half of 1984. These data are little different from the results of the same survey taken a year ago.

TWELFTH DISTRICT -- SAN FRANCISCO

Introduction

The economy of the Twelfth District appears to be continuing its recent pattern of modest, but steady growth. Employment gains were registered in most states in the district, but growth in the labor force caused a slight increase in measured unemployment rates. The aerospace industries continued to provide momentum to the economy, but there has been a slowing of activity in semi-conductor manufacturing. Consumer spending generally remains strong, reflected in steady retail sales growth. Construction activity is strong, but has failed to revive fully the region's wood products industry. Agriculture and mining are the two weakest sectors in the economy of the Twelfth District. With the exception of deterioration in quality of agricultural loans, the financial sector displayed no major signs of weakness.

Consumer Spending

Growth in retail sales has been strong throughout the district. In Idaho, for example, retail sales have grown 12 percent in the past six months. In Utah, the figure for the same period is nearly 20 percent. Sales growth also has been strong in California, Oregon, and Washington. Reports of automobile sales activity are mixed, with a 23 percent year-over-year growth in sales in Idaho, but a decline of 3 percent over last year reported in Oregon, for example. Car dealers are reported to be building inventories, however, in anticipation of renewed post-holiday sales activity. The continued strength of consumer spending has buoyed employment in the services and trade sector of the Twelfth District economy.

Construction and Real Estate

Construction and real estate sales activity generally has been strong. Commercial construction is proceeding at a particularly fast pace in southern California and Utah. Although permits for new construction of single family homes in Oregon are off 3 percent from a year ago, permits for multi-family construction are up almost 500 percent. Sales of existing homes also have displayed strength in most parts of the district, up 33 percent in the last month in Portland, Oregon, for example. However, construction activity in the region has failed thus far, to revive the forest products industry of the Pacific Northwest. At least 8 mmore paper plants are closing, for example, plants, representing the loss of about 8,000 jobs. The strong dollar and the consequent strength of competition from Canadian imports is a major reason for the continued weakness of the industry.

Manufacturing and Mining

The manufacturing sector generally remains healthy throughout the district. Aerospace-related activities are an important source of strength, particularly in southern California and the Pacific Northwest, but also in Utah. Indeed, overall employment in the District is growing, although unemployment increased in most states in the District slightly between December and January due to rapid growth in the size of the labor force. The picture in the electronics industry is somewhat mixed; major new plants are under construction in Oregon, but Silicon Valley chip manufacturers report slow sales and there have been minor layoffs of production workers.

The mining industry continues to be depressed by low world prices for metals and minerals. The situation in the state of Nevada is reported to be the worst in 40 years. In Alaska, the recent declines in world prices have reduced state oil revenues by several hundred million dollars. In both Nevada and Alaska, however, activity in other sectors -- particularly services and trade -- have helped to maintain the general health of their economies.

Agriculture

The agricultural sector in the Twelfth District is in a seriously depressed condition. In the Pacific Northwest, the eastern wheat-growing regions have been affected most seriously by the strength of the dollar and the weakness of export markets. In California, raisin, grape and cotton crops have been most affected but the weakness is quite widespread. Unemployment rates in the eight counties of California's central valley range between 10 and 15 percent. Agricultural land prices, home sales, and automobile sales are all depressed, reflecting the generalized impact of deteriorating net farm income on the rural economy. In the central valley, for example, automobile sales are 20 percent lower than a year ago. California's farm exports in 1984 may be as much as 1 billion dollars lower than the year before. The value of farmland -- particularly that in vineyards and other permanent plantings have ceased to grow and are either flat or declining.

Financial Sector

Both commercial and consumer loan growth generally were healthy in January in the Twelfth District, although slight increases in home mortgage and consumer loans were reported. In Utah, for example, installment loan delinquency was 2.4 percent at a major bank compared with 2.3 percent in December. However, this was down from 2.7 percent a year ago. Savings inflows at thrift institutions also were healthy as was deposit growth at commercial banks. The deteriorating condition in the district's agricultural economy is reflected in a high rate of nonperformance of agricultural loans at commercial banks. In California, agricultural loans represent only about 5 percent of total loans at commercial but the proportion of nonperforming loans is reported to be nearly twice that of a banking industry nationwide. In addition, smaller banks in rural California, Oregon, and Washington have much less diversified portfolios.