SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Virtually all districts report continued moderate economic growth. With the exception of Dallas, which is plagued by problems related to falling oil and gas prices, no district reports general stagnation. Energy sector problems, coupled with problems in agriculture and some manufacturing sectors, have led to unbalanced growth in the Kansas City, Boston, Cleveland, and Minneapolis districts. New York, Philadelphia, and Richmond report a more general improvement.

Consumer spending--particularly for housing--appears to have been strengthening lately. Active housing markets in almost all districts have generated much construction activity, boosted the demand for building materials, and caused a spurt in mortgage lending.

Sources of weakness include the energy and agriculture industries and some manufacturing sectors. Oil and gas price declines have led to drastic cutbacks in drilling activities and related supplies and spending. Low prices still hinder many farmers' attempts to return to profitability. While many districts mention that manufacturing output has been steady or rising, a few point out that manufacturing employment is still falling.

Consumer Spending

Most districts say that retail sales of general merchandise have registered gains, with San Francisco noting particular strength. Richmond and Kansas City say that sales have been improving--in the Richmond district, significantly in recent weeks. New York has seen greater strength in sales at

*Prepared at the Federal Reserve Bank of Minneapolis.

stores that cater to high-income shoppers. Inventories have rarely been excessive.

Auto sales, though, have leveled off lately. Kansas City, Dallas, and Philadelphia all say that vehicle sales have fallen off. But Boston has received mixed reports, and Cleveland believes that sales have been high, but flat.

Most districts report very active housing markets--as one New York contact says, in this industry "business is booming." Only the Dallas district reports the opposite. Chicago mentions that housing permits are 40 percent above their level last year at this time. Atlanta also adds that, except in New Orleans and Jackson, single-family home sales throughout the Southeast are higher than a year ago.

Atlanta and Richmond report healthy levels of tourist spending. Some districts are looking forward to more of the same, fueled by lower gas prices, the lower dollar, and citizen concerns about overseas travel.

Construction

Housing activity has led to a lot of construction in most parts of the country, particularly of single-family homes. Several districts, including New York and San Francisco, see signs of strength in commercial construction as well. Nonresidential construction contracts in the St. Louis district increased in the first quarter. The Boston and Chicago districts report much demand for commercial space in their Reserve cities. Atlanta notes that Southeastern industrial space construction is beginning to accelerate. But Richmond notes that high vacancy rates have been hindering urban office construction there.

Manufacturing

Reports from manufacturers are mixed. While Chicago notes that auto and steel production plans are being cut back some, Cleveland reports that sales of Ohio-made Hondas have been particularly strong. Demand for wood-based products is also strong. Chicago reports "near-boom conditions" at its cardboard box plants, while Minneapolis notes that waferboard production is high. Aerospace manufacturing--both commercial and defense--is a welcome help in the San Francisco and Dallas districts.

Among the weaker sectors, computer equipment production has remained sluggish in the Boston district. Both San Francisco and Dallas haven't seen a turnaround in the faltering electronics industry, but they think the worst times may be behind it now. While apparel production has remained steady in the Richmond district, Dallas reports a big layoff, but hopes that modernization and marketing efforts will help this sector.

Resource-Related Industries

Mixed conditions also characterize the resource-related sector. Drilling activities have plunged with oil and gas prices. The rig count is down 50 percent from a year ago in the Dallas district, 40 percent in the Kansas City district, and substantially in North Dakota and Montana. Atlanta reports that this has made Louisiana's unemployment rate the nation's highest. Cleveland points out that coal prices are down, too. But Richmond and San Francisco note growing lumber demand driven by housing starts.

Agriculture

With a few noteworthy exceptions, the nation's agricultural conditions aren't good. Low grain prices are hurting Minneapolis and St. Louis district farmers. St. Louis observes that corn futures prices recently reached their lowest level in nine years. Winter wheat has suffered substantial winter-kill in the Chicago district, and dry weather is hurting spring-planted crops in the Atlanta district. Demand for Kentucky horses is down, and cattle ranchers in the Minneapolis and Kansas City districts are upset about the aftermath of the government's dairy herd buy-out program. But San Francisco reports that production of many fruits and vegetables is still profitable, while Atlanta says that poultry production is more profitable than last year.

Finance

Lending activity appears to be fairly good. Leading the way is mortgage lending. In Cleveland, for example, mortgage lenders report that lending increased 100 percent over last year. Home refinancing is up across the country. Regional differences have occurred in commercial lending--picking up in Boston, Philadelphia, and San Francisco while falling off in Cleveland, Atlanta, and Dallas. Only Boston and San Francisco also note increased consumer loan growth. More agricultural loan losses are foreseen in the Dallas and St. Louis districts.

FIRST DISTRICT-BOSTON

Expansion in the First District remains unbalanced. Manufacturing activity is generally slow but some firms report encouraging signs. Retail sales are growing modestly, with upscale merchants doing better than discounters. Financial markets are active; real estate and businesses associated with homebuilding are robust and likely to continue so. Outside the real estate sector, prices are generally stable as both consumer and producer markets remain highly competitive.

Retail

Sales results in the First District were mixed but generally satisfactory in March and April. Several department store chains report "very good" increases of 6 to 10 percent over last year; another is disappointed with "sluggish" growth in comparable store sales - below plan but 6 to 8 percent ahead of last year. Hardware and building supply stores report excellent performance. Retailers doing well cite a combination of factors that leave more money in consumers' pockets, including falling oil prices and lower interest rates. One discount chain with slow sales suggested that home mortgage refinancing is a more positive factor for high and middle income customers; among those contacted upscale merchants are more upbeat than those serving low to moderate income customers.

Inventories are a little heavier than planned in a number of stores, but not a source of concern. In some cases, the pace of restocking has been slowed; others prefer to wait before they take action to see if the situation corrects itself.

Several contacts said they are having difficulty hiring sales help in stores or clerical workers in the home office. Labor markets are reportedly tightening even outside the region's major urban areas.

Prices are generally steady, except for an upward trend in lumber and plywood. Department store buyers report that foreign prices are rising and that they will therefore substitute some domestic goods for imports. According to one contact, consumers don't see much price change because the marketplace is still very competitive and promotional.

Retailers expect the rest of 1986 to be strong in New England - "not a boom but good solid demand". These expectations derive from the factors mentioned above, plus reports by those stores with national affiliates that New England again outpaces other areas.

Automobiles

Reports of sales activity from automobile dealerships are mixed for both imports and domestics. Those doing well claim that tax refunds, low gasoline prices, and warm weather are responsible. Dealers with disappointing sales suggest that large scale incentive programs late last year captured potential buyers from this spring. Domestic car purchases are shifting somewhat from compact to full-sized models. Truck sales are consistently strong.

Manufacturing

Manufacturing performance continues to be mixed in the First District. Firms producing computer-related items report sluggish sales and orders with some exceptions in the office automation area, while producers tied to homebuilding and other activities responding directly to consumers show signs of picking up. Tools, equipment, and other operations related to the oil industry are down. Some firms dependent on the capital spending of industries other than energy have seen orders improve but others report their industrial customers continue to postpone decisions about new equipment.

No major improvements are yet occurring as a result of the decline in the U.S. dollar. Several firms note the increased dollar value of sales made in foreign currencies, and one reports shifting some export production work from offshore facilities to its U.S. plants. A contact in the computer industry attributes the lack of real improvement in overseas sales to two factors: first, most of their competitors in Europe are other American manufacturers; second, declining prices create an incentive to postpone purchases in anticipation of further declines.

Inventories are in good shape and head counts are also lean. Capital spending plans are generally unchanged, and reflect programs to improve productivity, not to expand capacity with bricks and mortar.

The outlook is hazy. Firms are moderately optimistic, but in some cases this means they hope 1986 will be level with last year. Current order rates provide no indication that activity levels will shift significantly in the near future, but inquiries and proposals have picked up noticeably for two computer-related concerns.

Real Estate

The residential real estate market in New England is flourishing, with overall activity very high. Demand is outpacing supply; prices are climbing at a rate similar to last year and many homes are being sold at asking price. While the majority of those buying are upgrading to larger homes, low mortgage rates may also have brought additional first time purchasers into the market. Condominiums are maintaining their attractiveness in urban centers, but are weaker in some suburban areas.

Activity in the commercial real estate sector is healthy. Absorption rates are high. Prices for retail space in Boston are reportedly escalating, but prices for commercial space elsewhere are rising only slightly.

Finance

Consumer lenders in the First District report increased activity. Home equity loans, generally being used to pay off debt incurred at higher interest rates, are up the most; automobile and personal lending are also increasing.

Residential mortgage activity is at its highest level in several years, causing extensive processing backlogs. Most residential mortgage loan applicants are refinancing existing higher-rate loans. Interest rates are reportedly expected to continue declining, keeping activity at a high level.

Commercial loan demand continues to be strong, especially for commercial mortgages. Contacts report that businesses are refinancing existing debt as well as borrowing for expansion, and both of these activities are likely to continue at high levels.

SECOND DISTRICT--NEW YORK

In general, the Second District's economy has continued to improve since the last report. Retail sales showed over-the-year gains, particularly at higher income levels, and inventories remained in line. The spring homebuilding season was off to a good start, and the demand for office space continued to increase. Business activity was stable to somewhat improved. Demand for commercial mortgages has increased at small District banks as a result of declining interest rates.

Consumer Spending

Retail sales, although higher in general, have not shown equal strength for all income groups or in all regions. After a weak January-February period, retail sales in stores serving higher income consumers downstate and in New Jersey grew strongly in March. Most of these stores reported over-the-year increases of 10 to 15 percent (well above plan), and early April figures suggest that sales are continuing strong. However, sales at department stores in western New York and at lower-priced stores throughout the District showed more modest gains. Over-the-year increases in March and early April of 6 to 7 percent were somewhat below expectations. Some retailers mentioned an "economic stratification" of the market. Higher income households appear to have the discretionary income to continue generating strong sales growth. But low and middle income consumers, feeling the weight of high consumer debt, appear hesitant to increase spending.

Despite some difficulty in predicting sales, District stores were generally able to keep inventories in line with desired levels.

Most retailers planned promotions and sales similar to earlier years, though some higher-priced stores had more spring promotions this year. Sales of apparel and housewares--highly advertised items--were especially strong.

Business Activity

Economic conditions in the Second District have tended to stabilize in recent weeks. More than 80% of purchasing managers surveyed in Rochester and Buffalo reported unchanged or improved conditions in March. Inventories at the majority of these firms held steady as well.

Plans for several plant expansions and relocations into the District have recently been announced. These included an $11 million renovation and modernization at a Buffalo food plant, a $6 million expansion of a ceramics and brick plant in Niagara Falls, and the move to central New York of some frozen food operations from an Iowa location. In addition, an electronics firm that invested $14 million at its Long Island plant last year plans even larger capital outlays at that location in 1986.

Offsetting these developments, however, were announcements of some further layoffs and plant closings. In the Buffalo area, Westinghouse announced plans to close a factory, idling 800 workers by year's end. Layoffs associated with the recently announced production cutbacks at General Motors and further restructuring at Union Carbide could also have a negative impact on the District's employment. Thus far, however, the unemployment rates for March of 6.7% in New York and 4.2% in New Jersey remained below the national average.

Construction and Real Estate

The new homebuilding season is reportedly off to a good start in the Second District. "Business is booming," according to one contact, and builders in general are busy, fulfilling contracts negotiated this winter as well as negotiating new ones. Strong buyer interest, fueled in part by the sharp drop in mortgage rates, has led many builders to anticipate a repeat of last year's lively pace. Some possible deterrents were noted, however. A growing shortage of suitable land was cited as a major factor behind rising home prices in several areas. In addition, a short supply of subcontractors and other skilled labor could throw homebuilders behind schedule in the months ahead.

The commercial real estate market remained relatively strong in the Second District, and the demand for office space has increased further in several areas. The pickup in office leasing activity was most evident in Fairfield County, in northern New Jersey, and on Long Island. Nonetheless, conditions generally continue to be characterized as favorable to tenants, and rent concessions have been widespread in some areas. New York City's efforts to expand its office market to the outer boroughs were recently rewarded. British Airways announced that it will move its U.S. headquarters to Queens, and a stock exchange subsidiary plans to relocate its corporate headquarters to downtown Brooklyn.

Financial Developments

With the continued decline in interest rates, small Second District banks have seen an increased demand for commercial mortgages. At some banks this demand has been mainly for refinancings of both fixed and adjustable rate loans, while at others almost all requests have been for new loans. Prepayment penalties at some banks may discourage refinancings. Currently, some banks are incorporating floors into their variable rate loans. There is also some preference for shorter terms to maturity, in general in the 3 to 15 year range. Expectations are that demand for both new loans and refinancings will continue to increase.

THIRD DISTRICT - PHILADELPHIA

The Third District economy appears to be generally healthy in April. Retail sales, except for automobiles, have been strong, and bankers report that overall loan growth in the first quarter was not as fast-paced as last year, but still good. Mortgage lending is surging due to both refinancings and sales. The manufacturing sector is holding steady, although order backlogs have dropped and employment has declined.

The outlook in the Third District business community is for steady or improving conditions in the near term. Manufacturers expect business to improve, but they do not foresee gains in employment. Retailers expect current strong department store sales to continue into the summer. Bankers anticipate steady growth in commercial and industrial loan demand, but believe that growth in consumer loans will depend on further interest rate reductions.

MANUFACTURING

Manufacturing activity in the Third District is steady, according to the latest Business Outlook Survey. Of the industrial firms surveyed in April, 71 percent report no change in the pace of their business compared to March, 11 percent say business improved, and 16 percent indicate declining activity. Nondurable goods producers appear to be doing slightly better than producers of durable goods.

Most measures of industrial activity eased in April. Shipments increased, but new orders leveled off, pulling down backlogs of unfilled orders. Factory employment fell as well; one-third of the companies contacted for the April survey reported payroll cuts, while just 12 percent added to workforces. Prices of industrial goods in the region are stable. More than three-fourths of the survey respondents reported no change in the prices of either the goods they purchase or the products they sell.

Despite this month's pause in growth, Third District manufacturers are optimistic about the future. In their outlook for the next six months, over 40 percent of the firms participating in the April survey expect a pickup in new orders and a matching increase in shipments. Employment, however, may decline; although half of the firms polled intend to maintain current payrolls, 30 percent expect to reduce workforces. The rate of capital spending by manufacturers in the region is expected to show little change over the next six months.

RETAIL

Third District retailers say recent sales trends have been good. Department store officials report that February and March sales were above year-ago levels by healthy amounts--more than 10 percent for some stores. Discount store sales have been better than expected. Some of this improvement is attributed to growing sales of appliances and home furnishings coincident with more house sales in recent months. Clothing and children's items are also mentioned as particularly strong areas. Automobile sales have fallen, and dealers say a rebound is unlikely in the absence of even greater manufacturers' incentives.

Although household debt is high by historical standards, Third District merchants believe that consumers are in sufficiently good financial condition to continue the current rate of spending into the summer. They expect sales to be buoyed by rising real income, lower finance charges, and improved cash flow as mortgages are refinanced at lower interest rates. Further gains in sales of appliances, furniture, and home furnishings are expected in the wake of continued strength in the housing market.

FINANCE

Total loan volume outstanding at major Third District banks in early April was approximately 13 percent higher than a year earlier. In commercial lending, the retail and services sectors account for a major share of new loans at this time because financing needs are growing as business expands. Loan demand in the manufacturing sector is not as strong, and bankers note a fall-off in equipment financing as manufacturers postpone capital spending commitments while changes in rules on depreciation and investment tax credits are being considered by Congress. Lending officers expect overall C&I loan demand to remain strong and say that the current 10-14 percent annual growth rate is sustainable.

Real estate and construction loan volume is above year-ago levels at Third District financial institutions. Residential mortgage refinancing activity is brisk, as is mortgage lending for house sales. Bankers say they are continuing to lend for commercial and residential construction to developers with successful records and substantial financial resources, although concern is growing about possible increases in office vacancy rates later in the year.

Third District bankers report that consumer lending is growing, but at only about half the rate at which it started the year. The large amount of financing supplied by automobile manufacturers in recent months is cited as one factor in this slowdown, but area bankers generally report a substantial drop in the growth of credit card balances as well. Some banks have had no increase in credit card outstandings since March. Lending officers and bank economists do not think that consumers have reached their debt limits; they believe that consumers may be delaying credit purchases in anticipation of interest rate reductions.

Most Third District banks cut their prime rate to 8.5 percent in late

April. Commercial bank economists think that the prime rate will stay at this level for the rest of the year. As for other interest rates, most bank forecasts call for a drop of 25-50 basis points along the yield curve during the second quarter, followed by rising rates as the economy and inflation accelerate in the second half of the year.

FOURTH DISTRICT - CLEVELAND

Summary.

The Fourth District economy continues to expand slowly, but significant sectors of weakness remain. General merchandise sales are rising slowly while new car sales are high but flat. The unemployment rate is falling. Manufacturing output and orders are rising, but manufacturing employment is falling. Price behavior appears mixed. Oil and coal prices and production are down. Problems continue in agriculture. House construction and sales are robust as is mortgage refinancing activity. Bank commercial and industrial loans are down and expected to remain weak while consumer installment lending is growing slowly.

Consumer Spending.

Retailers in this District report generally small spending increases during the first quarter, particularly during the month of March. General merchandise sales in current dollars, as reported by three major District chains, were roughly 4-6 percent above year-ago levels. Although general merchandise inventories have risen since year-end 1985, none of the chains expressed concern over current inventory levels.

Auto dealers in the District are showing high, but relatively flat sales trends. Total domestic new-car sales in the Northern Ohio region during the first quarter were up only 1.4 percent from the year-ago level. Unlike the national experience, imported new-car sales in the Northern Ohio region have been accelerating in recent months. Sales of Ohio-made Hondas (included as "imports" by local reporting agencies) have been particularly strong this year. All of the domestic auto dealers contacted report new-car inventories were well above average at the end of March.

Labor Market Conditions.

The unemployment rate in Ohio averaged 8.4 percent (sa) in the first three months of 1986, down 0.5 percentage points from a year earlier. The national unemployment rate remains lower but fell only 0.25 percentage points over the period.

Manufacturing.

Output of manufacturers in this District continues to increase, but the rate of expansion has slowed. Despite this gain, more firms are reducing than increasing employment. Raw material and supply inventories are flat while finished good inventories continue to be drawn down. Firms report prices paid for raw materials and supplies are falling slowly but transaction prices for manufactured products sold are rising more rapidly than at any time in the last 12 months. Incoming orders are rising at an increasing pace.

A major food manufacturer reports his product prices are declining. Paper prices are up. There have been some production cutbacks in the tool and die business, but the plastic molding business is improving. Aluminum prices have risen because inventories have been reduced substantially and demand has improved.

Energy.

Oil exploration activity in this District is off sharply, and a major oil firm is shutting down stripper wells. Coal production is slowing, and the price of coal is weakening.

Agriculture.

The horse industry in Kentucky is in the midst of a shake-out as demand is weak. Many horse producers are overextended and many large farms are for sale. Grape and potato producers in this District have not been as adversely affected as agricultural producers in other regions.

Housing and Construction.

The high level of housing activity in this District continues unabated, and market participants expect the strong pace to persist through year-end. A major builder in the District reports that traffic and new orders are up 25 percent overall and up 50 percent in some markets. The builder fears that house construction may be escalating so rapidly that important materials shortages will occur, but so far the firm has experienced only minor shortages. The builder also reports that its average price on homes sold is up 10 percent from a year ago despite no increase in list prices, because many homebuyers are adding amenities now that financing costs have fallen.

Realtors report that closings surged in March and April and that the inventory of listings is falling to low levels because of a severe drop in new listings. In this region, the composition of homebuyers has continued to shift toward first-time buyers who now constitute over 40 percent of buyers, up from 30 percent a year ago. The trend toward shorter-maturity mortgage loans is growing stronger, as more buyers demand 15-year mortgage loans. The period from application to closing of mortgage loans has increased from a normal range of 30 to 45 days to 45 to 90 days, because of increased volume.

Mortgage lenders in this District report that mortgage lending is up over 100 percent from a year ago. At some institutions, refinancings represent as much as 80 percent of mortgage volume. Few lenders are actively marketing their adjustable rate mortgage loans.

Commercial Banking.

Loan demand appears to have weakened at District banks recently. Total loans outstanding at large banks fell over the past month. Commercial and industrial loans were down, while real estate and consumer installment lending inched up. Growth of consumer installment lending continues to taper off and is now at less than a 6 1/2 percent annual rate at large banks in this District. Contacts acknowledge the softness in loan demand and do not expect much improvement in the immediate future, despite the recent cut in the prime rate. One contact reports underlying weakness in business lending and expects it to continue over the next several months.

FIFTH DISTRICT - RICHMOND

Overview

Business conditions are reported to be stronger than a few weeks ago by most retailers and manufacturers, although weakness persists in the textile and shipbuilding industries and in mining. Residential construction continues very strong with some indications of a leveling off, while commercial building is slowing somewhat. According to our sources, banks are liquid and S&Ls are busy, agriculture is in the midst of a relatively normal spring, the regional ports are experiencing increased activity, and summer tourism is expected to be very good.

Consumer Spending

Retailers report significant increases in activity in recent weeks. Most attribute the surge in sales to declining interest rates. Major department stores report strong to very strong durable goods sales that are expected to remain robust along with the housing boom. Nondurable goods, especially apparel, are also moving well. Ski areas enjoyed their best season on record, and summer tourism is off to an excellent start. Resort bookings are running above optimistic expectations, and major tourist areas are revising their forecasts upward due to lower gasoline prices and decreased interest in traveling abroad.

Manufacturing and Mining

Regional manufacturing activity is up by some measures and down by others this month, according to our survey of business conditions. Fifty-two percent of the responding firms report increased shipments and 19 percent report no change over last month. The volume of new orders is also up, although the backlog of orders is reported to be down by 48 percent of the responding firms. Inventories remain mostly unchanged or reduced but are still judged too high, especially in light of the reduced backlogs. For this reason, perhaps, 32 percent of the responding firms report fewer employees and 27 percent report declines in hours worked as compared with a month ago. Within this environment, the majority of firms believe that business activity in their immediate market areas and the production of their own firms will pick up during the next six months.

Within the manufacturing sector, shipbuilding and ship repairs remain bleak, with foreign competition cited as the main problem. Apparel executives express concern over imports, especially those from the Orient, although production remains steady in both the textile and apparel industries.

The regional ports show increased activity in both import and export shipments. The lumber industry continues to grow along with housing. Mining output remains steady although slightly below a year ago.

Construction

The residential real estate market remains very strong, with the number of units sold running sharply above year-ago levels across the District. A decline in the length of time property is remaining on the market also attests to the robustness of current sales activity. Construction of new residential units is generally up, although reports of a leveling off are coming from some areas. Prices are moving upward almost everywhere in the District, but the size of the increases varies widely.

Commercial and office construction is generally perceived to be slowing somewhat. Vacancy rates for office buildings in urban areas remain high and are generally regarded to be a primary factor limiting more new construction.

Financial

Members of our Small Business and Agriculture Advisory Council report that banks are highly liquid and eager to make good loans at low rates.

S&L executives report very high volume in mortgage financing and refinancing. Mortgage rates are being held up artificially, they say, to reduce applications.

Agriculture

Spring planting is progressing at a normal pace throughout the District. Small grains and pastures have been held back by cooler-than-normal weather, but recent rains have alleviated the moisture shortage experienced during March and the first half of April. Livestock producers are currently facing some downward price pressure but lower feed costs should assist them in maintaining profit margins.

Agriculture in the Fifth District remains stronger than in many other areas of the nation. Recent data indicate that the region's farmland values have remained reasonably stable over the past year; possibly the multi-year downward trend may be nearing the bottom.

SIXTH DISTRICT - ATLANTA

Important economic sectors of the southeastern economy strengthened in the first quarter. However, the adverse employment impact of declining oil prices on Louisiana's economy and that of other energy-producing parts of the region has masked current and expected improvements. With few exceptions, construction activity is strong, and the activity and outlook for tourism has improved. Consumer spending increased in March following a lull in the beginning months of the year. In agriculture, dry weather has slowed the progress of crops thus far this growing season.

Employment and Industry. The region's unemployment rate edged upward from January to February, and available state estimates hint at a further slight rise in March. Weakness in the energy sector has pushed Louisiana's oil-based economy to the highest unemployment rate in the nation with little prospect for improvement in the foreseeable future. Mississippi and Alabama also are suffering from the drop in petroleum prices, with a refinery in Mississippi temporarily closed in reaction to falling oil prices. Florida and Georgia continue to post unemployment rates significantly below that of the nation, while Tennessee's rate is about on a par with the nation's.

More job losses are expected as a result of falling oil prices. The rig count for Louisiana has dropped to the lowest level since 1975, resulting in further layoffs by companies that service the dwindling number of offshore oil platforms. The offshore rig utilization rate has dropped to 40 percent from 79 percent in early December, with exploration at a standstill.

More positively, some small towns in the region have been able to attract new industry and diversify their economies out of textiles by taking advantage of the labor pool of workers displaced by imports or automation. Furniture producers are starting to note moderate backlogs and some overtime work. They, along with lumber producers, are optimistic that falling interest rates will continue to stimulate their industry but are concerned by growing low-cost imports. Several leading furniture manufacturers are discontinuing production of certain items and are instead importing them for resale. The defense-related aerospace industry continues to bolster many local economies throughout the region.

Consumer Spending. The District's year-over-year retail sales growth in January-February 1986 was slightly below that of the nation. March and early April retail sales were compared favorably to year-ago levels by merchants in all District states except Louisiana, where weak activity continues. Retailers attributed improving sales in March to Easter season apparel purchases. In March, Louisiana and Mississippi were the only states in the region that mirrored the nation's depressed sales of non-auto durable goods. Through mid-April, 1986 car sales remained weak throughout the region.

Construction. With the major exceptions of New Orleans and Jackson, construction and sales of single-family homes are above last year's levels throughout the Southeast. Lower mortgage rates are stimulating sales to both first-time buyers and families upgrading their housing; favorable weather for building has reinforced the positive interest rate impact. However, apartment markets in many metropolitan areas are experiencing softening rents, and condominium prices continue to fall in south Florida. Southeastern industrial space construction is beginning to accelerate, while low interest rates are said to be triggering some "high risk" office, retail, and hotel construction. Office vacancy rates are high and rising in all major cities except Birmingham, with suburban rates generally higher than those in downtown areas. Available retail space and lodging vacancy rates also are rising as a result of rapid increases in supply.

Financial Services. Total loan growth at large District banks continued its year-long slide in February and March. Real estate lending exhibits stronger growth than either consumer or business loans, but its growth rate also has been declining steadily. The Mississippi legislature has passed and sent a bill to the Governor that would allow interstate banking after a period for statewide expansions and consolidations. In

Louisiana, the remaining state in the region that prohibits interstate banking, enabling legislation is expected to be introduced in the current legislative session. After more than a year of active interstate banking in the District, merger and acquisition activity has enabled seven bank holding companies based in the region—up from five a year ago—to rank among the nation's 40 largest.

Tourism. Figures for visitor registrations and national park attendance through February show strength across the District. Most states are experiencing double-digit growth over last year for both of these measures. Some of this increase in activity has been attributed to already lower gas prices, and there is widespread expectation that summer tourism will grow at an even faster clip. In Florida, attendance records were set at major attractions in March, and expectations for the remainder of the year are very high. Lower airfares have stimulated passenger traffic through most airports compared to a year ago, with double-digit growth experienced by most major airports.

Agriculture. A prolonged period of dry weather has severely limited growth of forage for beef and dairy animals and has retarded the progress of spring-planted crops. Rainfall deficiencies also threaten water supplies that are likely to be needed for intensive irrigation during the summer. Prices received by farmers remain well below year-ago levels, with orange, vegetable, grain, and peanut crops showing especially large declines. At the same time, poultry producers are reaping favorable returns with market prices comparing favorably with year-ago levels, and feed costs have been declining.

SEVENTH DISTRICT--CHICAGO

Summary. Most contacts at District companies report improving conditions, continuing a trend toward somewhat greater optimism. District payroll employment has shown some expansion, but still trails the U.S. performance. Purchasing managers in Chicago and Milwaukee noted increasing production and orders in March. Other contacts note growth in real estate transactions, residential construction, and higher shipments of paperboard, cement, concrete, gypsum board, basic and specialty chemicals, household appliances, and oil products. There is increasing evidence of favorable results from the lower dollar. Lower than expected sales of some auto models have led to inventory accumulation and new sales incentives. Heavy truck sales also are down, but sales of light and medium trucks remain strong. Sales of RVs and tourism are expected to increase substantially, boosted by the sharp drop in gasoline prices. Mechanical capital goods remain depressed, but there has been some rise in lighter construction equipment. Slower growth of federal spending and flat capital spending, with weakness in oil/gas, electric utilities, steel, and most machinery, are tending to offset at least part of the positive effects on activity of lower energy costs, reduced interest rates, and the depreciation of the dollar. Analysts see increased evidence that the 5-year slide in District farm real estate values will end later this year.

Paperboard. District analysts report "near-boom conditions" in the cardboard box industry. Strength in this sector is not matched elsewhere. Supplies are tight and operating rates high. Exports of linerboard are well above last year, attributed to the lower dollar and renewed economic expansion in Europe. Price increases of about 10% have been announced by leading producers, with 6-7% expected to "stick."

Motor Vehicles. Auto production plans have been revised down in light of excessive inventories, but remain near last year's levels. Some assembly plants have been closed temporarily in Michigan and Wisconsin. Light-duty truck sales have softened slightly but remain near record levels and output schedules are still above last year. Orders for medium trucks have increased slightly in recent weeks. An industry analyst expects sales of heavies to be down about 10% this year, but sees sales of mediums about even with last year, rather than down as expected earlier. Foreign competition is increasing for both medium and heavy trucks.

Steel. Orders for sheet steel have slipped, after strengthening in the first quarter, because of cuts in auto production schedules. Production at Chicago and Detroit area mills, through mid-April, is ahead of a year ago, but still at low and unprofitable levels. The market for sheet is being supported by continued relatively high demand for most autos, light trucks, and appliances. Demand for structural steel and activity at service centers are vigorous. Orders for machinery are weak. Shipments to the oil and gas industries are virtually "at a standstill," except for pipelines.

Capital Goods. Weakness in capital spending is evident in electric utilities, machinery, steel, railroads, and water transport. A major electric utility is seeking regulatory approval of higher rates which would allow conversion of a stalled nuclear power plant to gas. No pickup is evident in orders for diesel engines for non-truck markets. A major District farm equipment producer has scheduled its North American farm equipment output 14% less than its low 1985 level, and plans further cuts in employment. Smaller types of construction equipment, paper-related equipment, and food processing equipment are picking up moderately. Demand has revived for electronic capital goods. The sharp decline in capital spending by oil companies has less adverse effect in this District than elsewhere.

Nonresidential Construction. Office building is slowing in the Chicago suburbs, but bidding volume continues strong in downtown Chicago, with large new projects announced. Commercial mortgages are readily available, with rates under 10%, down about 150 basis points since the beginning of the year. Life insurance companies are seeking more commercial mortgages. Construction of industrial buildings in the 40-50,000 square foot range is picking up. Ground was recently broken for an auto assembly plant in Illinois, a joint venture of an American and a Japanese auto maker.

Residential Construction. Demand for new and used housing is vigorous, spurred by low mortgage interest rates. Permits for new housing construction, for 3 months, are up 40% or more from year ago in the District. Fixed-rate, 30-year mortgages are available below 10%. Most borrowers want fixed-rate loans. New loans together with a huge volume of refinancings have caused delays in processing loan applications. Appropriately priced homes sell quickly, and home prices have risen substantially in favored suburban areas.

Consumer Spending. A large general merchandise chain reports improved sales in recent weeks, helped by mild weather. Inventories are described as flat. Analysts are optimistic about demand through the rest of this year, partly because of gains in spendable income associated with lower energy prices and reduced mortgage payments. Credit sales have not kept pace with total sales recently, and delinquencies are approaching 1980 highs. The strong housing market, for new and used homes, is boosting sales of appliances and home furnishings. Two large national oil companies are abandoning retailing in the Chicago area.

Agriculture. The District's winter wheat crop--which ranks a distant third to corn and soybeans in terms of crop marketings--suffered considerable winterkill damage. Wheat farmers will be able to offset some of the loss by replanting other crops or using seriously affected acreage to meet set-aside requirements. Favorable weather has permitted District crop farmers to get an early start on spring fieldwork, which may reduce subsequent weather stress. Bids from dairy farmers that account for 5.4% of the District's milk production, versus 8.7 percent nationwide, have been accepted for the government's whole-herd dairy buy-out program. These dairy farmers must liquidate their entire dairy herds within 18 months. Anticipation of increased dairy cattle slaughter undermined livestock prices in recent weeks. District farmland values, on average, declined nearly 3% during the first quarter, to 17% below a year earlier, and 45% below the 1981 peak, but analysts increasingly believe the land market will bottom later this year. Transactions in farm real estate are up, from very low levels a year ago. But with heavy surpluses likely to continue in agriculture, no bounceback in land values is expected.

EIGHTH DISTRICT - ST. LOUIS

Summary

The Eighth District indicators of real economic activity were higher than national figures over the most recent period. Expansion of both goods- and services-producing industries contributed to substantial employment growth in recent months. Retail sales have been strong this year with growth surpassing that of the nation. Respondents expect mortgage refinancing to result in increased disposable income that may boost future consumer spending. Spurred by mild weather in the region, construction activity in the first quarter also exceeded national figures. Financial and agricultural indicators are less encouraging, with commercial and consumer lending slowing in the first quarter and no change in the forecast of low prices for District farm products.

Employment

Eighth District nonagricultural employment grew at a 1.2 percent annual rate in February, trailing the 1.9 percent national rate. In the three-month period ending in February, however, the 10.7 percent growth rate of District nonagricultural employment exceeded the nation's 3.6 percent rate. District manufacturing employment increased at a 4.8 percent annual rate in the three months ending in February compared with a 2.1 percent rate for the nation. Despite these strong employment figures, even faster growth in the labor force raised the Eighth District unemployment rate in February from 7.7 to 8.0 percent.

Consumer Spending

District retail sales growth continues to exceed the national pace. January sales in the region were 10.9 percent above year-ago levels while nationally sales increased by 6.2 percent. District retail sales grew at a 1.3 percent annual rate for the three months through January while the nation's sales declined slightly during the period.

Some District retailers have suggested that spending would be higher were it not for the "up-front" closing costs incurred when consumers refinance home mortgages. The results of a survey of 11 District financial institutions, however, suggest that mortgage refinancing has not restrained consumer spending and, in fact, should result in improved cash flows that could lead to further growth of consumer spending. Most indicated that the overwhelming majority of refinancers have been able to include the closing costs in the new mortgage and still enjoy lower monthly payments.

<u>Construction</u>

Spurred by good weather, first quarter construction activity grew faster in the District than in the nation. Contracts for District residential construction grew by 8.5 percent (simple rate) from the previous quarter, while a 1.9 percent decline was posted for the nation. District nonresidential construction contracts increased by 4.3 percent in the first quarter while the national figure declined by 15.2 percent.

<u>Banking</u>

Total loans at large District banks grew at a 9.7 percent rate for the first quarter. This increase represents a considerable slowing from the 19.3 percent annual rate of growth recorded for the first three months of 1985. Commercial lending continues to be sluggish, increasing at a 6.6 percent rate, compared with a 16.0 percent rate of growth for the first quarter of last year. Over the most recent three months, however, month-to-month growth rates have been accelerating. Compared with recent experience, the growth of consumer lending is slower than that for the same period last year. Consumer lending expanded at a 15.8 percent rate, while a 24.1 percent rate of growth was recorded for the first quarter of 1985.

The Missouri interstate banking bill has received both Senate and House endorsement and now awaits the Governor's approval. The bill provides for a reciprocal agreement with eight neighboring states and contains no provision for full nationwide banking.

Agriculture

The price outlook for major District crops remains depressed as futures prices for this season's crops have fallen to levels well below old crop prices. Corn futures prices, for example, are at a nine-year low while fall cotton futures are 38 percent below current prices. Farmland values are expected to continue falling in tandem with crop prices as they have over the last four years. Bank data indicate similar farm lending trends in the District and the U.S. Loans outstanding to farmers declined in 1985 by 10.2 and 12.3 percent, respectively, at banks in the nation and the District. The percent of overdue farm loans at agricultural banks increased from 2.9 percent in 1983 to 5.5 percent in 1985 in the District and from 2.9 percent to 4.2 percent in the nation. Because loans that are eventually written off first appear as overdue loans, these increases in overdue loans suggest that agricultural loan losses will continue to rise in the future.

NINTH DISTRICT - MINNEAPOLIS

Since year's end, conditions haven't changed much in the Ninth District. Early in the first quarter, employment grew slightly. Overall, consumer spending growth was modest, with the exception of large gains in housing. Resource-related industries remained mixed, with good performance in the wood products sector but poor conditions in the energy sector. The agricultural outlook has not improved. Agricultural banking issues dominated the district's finance sector.

Employment

Overall, district employment conditions stopped deteriorating early in the first quarter, but they may now be declining in the oil-producing regions. In February, district states' unemployment rates hardly changed at all, and total employment grew in Minnesota, the Dakotas, and Montana during that month. But employment in durable goods manufacturing continued to falter. In Minnesota, this was largely due to a downturn in computer equipment manufacturing. Due to recent declines in oil prices, North Dakota's unemployment rate rose in March.

Consumer Spending

Retail purchases of general merchandise grew moderately. Although two department store chains in the district sold more than planned during the first quarter, sales at both slowed early in April. The chains' credit sales have been growing rapidly and are now being scrutinized for signs of deteriorating quality. Inventories were not excessive at either chain. Two big discounters report good sales generally throughout the district. However, Bank directors say sales have been spotty outside the Twin Cities metro area, with flat sales in parts of Montana and western North Dakota but growing sales at a large shopping mall in Duluth, Minnesota.

Sales of motor vehicles have leveled off and may even be below year-earlier levels. For one large domestic manufacturer, district car sales were running 16 percent below last year's, while its truck sales were down 4 percent since a year ago. New car sales were weak in both western Montana and Bismarck, North Dakota, but were good in Fargo, North Dakota, and Pierre, South Dakota.

Housing activity has been generally quite strong. Realtors report that more homes were sold during March in the Minneapolis-St. Paul area than during any other previous month. Requests for FHA appraisals in the Twin Cities were also higher in March than ever before. Lower mortgage rates have also been spurring home sales in other parts of the district, including western Wisconsin.

Tourist spending at district ski resorts was mixed this winter. Business at some big Montana resorts was harmed by late starts and high winds. Resorts on the Upper Peninsula of Michigan also had a less-than-desirable season, according to a Bank director. But another director says a resort in northeastern Minnesota that usually loses money actually turned a profit this winter. In preparation for the summer season, many Minnesota resorts are expanding their facilities.

Resource-Related Industries

Conditions among the district's resource-related industries remained mixed. The wood products industry has been doing well. One Bank director notes that waferboard production has been going strong and that its price has firmed; another mentions that a new fiberboard plant on the Upper Peninsula of Michigan should eventually employ 300 workers. However, wood suppliers for such plants are receiving low prices for their products. Low prices are also plaguing the district's energy sector. As a result, active oil and gas drilling rigs are almost nonexistent in North Dakota and Montana. Although coal production in Montana has increased, coal prices have dropped.

Agriculture

Conditions remained poor in the agriculture sector. This Bank's late March survey of rural bankers in the district found little cause for optimism. The surveyed bankers say their customers' net farm earnings and farmland values fell below year-earlier levels. The Minnesota farm price index didn't rise from its low level in February. Wet weather has impeded early field work in Minnesota, although the moisture should help crops grow later. Drought conditions affecting the wheat-growing area of northeastern Montana have eased.

The U.S. agriculture department's dairy herd buy-out program has received much attention. Nearly 10 percent of Minnesota's dairy farmers will be paid a total of $145 million to shut down operations for at least five years. The participation rate was lower in Wisconsin, according to a Bank director. The buy out spurred many farmers to sell off their cows, at least temporarily lowering cattle prices and infuriating ranchers.

Finance

Agricultural banking issues predominated in the district's finance sector. A group of seven rural Minnesota banks announced a program for reducing interest rates on farm loans secured by real estate. The Minnesota legislature enacted an interest buy-down program for farm loans, and participation has been so heavy that the program's budgeted funds have already run out. However, Minnesota's governor has promised continued funding for the program.

TENTH DISTRICT - KANSAS CITY

Overview. Recent improvements are reported in economic activity and the economic outlook in the Tenth District, apart from the agricultural and energy sectors which remain depressed. General retail sales are improving and retailers are optimistic about the rest of 1986. Auto sales are weaker, however, and dealers expect lagging sales throughout the year. Both retailers and manufacturers' purchasing agents expect reduced inventory purchases. Housing activity is expected to remain strong, except for some soft local markets. Much of the increased mortgage demand is for refinancing. Loan demand at commercial banks remains mixed, and deposits are higher. Agricultural lenders report somewhat tighter credit conditions than a year earlier.

Retail trade. The outlook for retail sales and prices is generally positive. Retailers report that sales remain higher than a year ago and recently have been improving. Sales of men's and women's apparel were particularly strong over the last three months. Retailers are optimistic that sales will stay above year-ago levels. Prices have been steady and are expected to change little over the rest of the year. Because inventory levels range from satisfactory to high, leading retailers expect steady to slightly reduced inventory purchases for the remainder of 1986.

Automobile sales. Auto sales typically are down compared with a year ago. Although financing is readily available, favorable credit conditions have not stimulated sales. Most dealers report their inventory levels are acceptable to slightly high. Dealers expect that automobile sales will continue to lag behind 1985 levels throughout the remainder of the year.

Purchasing agents. Most purchasing agents have seen little or no change in the prices of their major inputs compared with a year earlier. Moreover, no substantial price changes are expected for the remainder of 1986. Most firms have been trimming their materials inventory levels and plan to continue this process through the rest of the year. Purchasing agents generally are experiencing no problems with the availability or delivery of materials.

Housing activity and finance. Tenth District housing activity varies widely depending on the strength of the local markets. In some areas experiencing economic hardships, the demand for new houses has dropped dramatically and is expected to remain at a low level for the rest of the year. However, homebuilders in most areas report that starts of single-family dwellings have increased over the year-ago period, while multifamily starts have declined. These builders expect that housing starts will remain relatively strong over the rest of this year. Builders report good availability of housing materials and no delivery problems. Most materials prices are steady, though some builders are encountering higher lumber prices.

Savings and loan institutions have experienced reduced savings inflows relative to a year earlier, but give mixed reports about their expectations for the months ahead. Mortgage activity continues to increase mainly because of the strong demand for refinancing. In areas where homes are selling, mortgage demand is expected to increase further over the next few months. Mortgage rates have been declining along with rates nationwide. Most respondents expect mortgage rates to fall a little more but feel that increases could occur later in the year.

Energy. The downward slide in crude oil prices and a persistent surplus of natural gas have led to lower exploration, development, and production activity in the Tenth District. The average weekly number of operating drilling rigs fell from 550 in January to 327 in March. Production from high-cost stripper wells has been curtailed and substantial further cuts are expected if crude oil prices remain in the $12 to $15 per barrel range.

Banking. For a second month in a row, total loan demand was mixed and total deposits were higher at Tenth District banks. Residential real estate loans were generally up while consumer loans were mixed and commercial and industrial loans, agricultural loans, and commercial real estate loans were constant to down. Roughly half of the bankers surveyed lowered their prime rate during the last month, and a majority expected further declines even before the latest discount rate cut. Nearly half of the respondents lowered their consumer loan rates during the last month and another half look for declines in the near future. Total deposits rose at Tenth District banks, with categories other than large CD's and passbook savings all generally registering gains.

Agriculture. A good winter wheat crop is reported throughout most of the Tenth District. Due to the relatively mild winter weather, the crop is progressing on schedule. But a fairly dry spring for many winter wheat regions may soon cause the crop to begin to show signs of stress. With the dry mild weather conditions, field work for planting other crops is running on schedule or ahead of schedule.

District lenders are completing their spring loan arrangements. In some areas up to 10 percent of borrowers have been denied credit, though about 5 percent seems to be more representative. Even lenders not denying credit to clients report that conditions are somewhat tighter than last year, and the number of marginal borrowers is up from a year ago.

The dairy herd buy-out program has provoked strong emotional responses from cattlemen in the Tenth District. Weakened cattle prices are being blamed, wholly or in part, on the buy-out. Though bankers in a few areas report that cattle may have been withheld from the market in response to the lower prices, most indicate that markets have not been disrupted.

ELEVENTH DISTRICT--DALLAS

The decline in the price of oil has brought economic expansion in the Eleventh District to a standstill. The drilling rig count continues to plunge and there is no sign that the bottom has yet been reached. Contract values for both residential and nonresidential construction are down. Falling demand from the energy and construction sectors has led to reduced sales by manufacturers. Retail sales are soft, especially in the energy-dependent areas of the District. Auto sales have begun to slow from the rapid pace of the previous two years. The recent flat loan demand at the District's large banks reflects the sluggish economy. In agriculture, credit problems are becoming more serious.

Sales in manufacturing have been depressed by problems in construction and in the energy industry. Glass producers note a decline in orders that is tied to the downturn in nonresidential construction, but the output of lumber and wood products is stable as a result of strength in orders from outside the District. Primary and fabricated metals producers are adjusting to a drop in orders from the construction and energy sectors, but respondents indicate that past efforts to diversify their product lines should shelter them from serious weakness. Sales of oilfield machinery are sliding because of weakening drilling activity. District refiners have recently decreased production, but that is a response to a seasonal downturn in demand. Refiners expect sales this year to be high owing to reduced product prices. On the more positive side, electronics firms report that their sales have stabilized and are expected to rise, and aircraft employment and output is up sharply. Among apparel producers, one major manufacturer has just announced large layoffs, but past modernization and marketing efforts are beginning to help other firms against foreign competition.

The extraction portion of the energy industry continues to slide with little chance of stabilizing in the near future. The Texas rig count has fallen to 50 percent of year-earlier levels, compared to a 30-percent decline during the latter half of 1985. Well permit applications, a leading indicator of drilling activity, are 50 percent below a year earlier in District states. Another leading indicator, the seismic crew count, has dropped 30 percent from last year's level.

Reductions in the values of both nonresidential and residential construction contracts are widespread. Absorption rates for office space have fallen. Vacancy rates in most major cities are high and may increase further as office space that is now under construction is completed. Residential construction had been steady, but the value of contracts plummeted in March, paced by a large drop in multifamily units.

Retail sales mirror the slowdown in other portions of the District economy. The nominal level of retail sales in energy-dependent areas has declined significantly. Elsewhere, slight gains have occurred. All product lines are moving slowly, especially consumer durables. Respondents report acceptable inventory levels, but they indicate that continued sluggish sales may lead to undesired inventory accumulation.

Auto purchases have ebbed in response to weakness in the District economy and to what dealers say is buyer satiation in the wake of the special promotions of 1984 and 1985. Sales declines, compared with a year earlier, are widespread throughout the District. Dealers note that involuntary inventory accumulation has begun to occur.

Asset growth at the District's large banks varies widely among individual institutions, but overall increases are down sharply from growth rates last year. Growth in real estate loans has slipped and business loans have been declining absolutely from year-earlier levels. The level of deposits at large banks is little changed from a year ago. Continued weakness in energy and construction recently induced the large District banks to increase their provisions to loan loss reserves. At thrift institutions, deposit growth remains strong.

Income prospects for District farmers and ranchers are mixed. The impact of low crop prices is likely to be offset by more generous government programs and reduced grain costs will offset lower beef prices. Generally, District agricultural prices were lower in March than in February and they are likely to remain significantly below year-earlier levels. District agricultural land values continued to fall modestly in the first quarter. Agricultural bankers report that the proportion of agricultural loans with repayment problems is up from a year ago. Nearly 10 percent of last year's farm borrowers will not receive operating loans this year, compared with a reduction of 7 percent in 1985. Although the falling price of energy has lowered operating expenses for District farmers, declines in income from oil and gas royalties are likely to more than offset these cost reductions.

TWELFTH DISTRICT -- SAN FRANCISCO

Economic activity in much of the Twelfth District has shown some improvement during the past month. Most of the District should benefit from the recent plunge in oil prices, although oil producing regions have been hit hard. Consumer spending, while no longer growing at its previous high rates, remains high and shows no sign of slowing. Lower interest rates have generated renewed optimism in the construction and wood products industries, while the slump in high tech appears to have bottomed out. Weakness continues, however, in the agriculture and mining sectors. Nevertheless, strong loan volumes suggest that the overall mood is optimistic.

Trade and Services

Retail sales continue strong in much of the West, with Idaho, Utah, and Oregon showing increased strength in sales volume. While respondents in most parts of the District anticipate improved trade due to lower oil prices and interest rates, Alaska's oil related problems could hamper trade in parts of Washington and Oregon, where Alaska is an important market. In most parts of the District, lower oil prices have resulted in reduced retail gasoline prices. Lower travel costs, together with the lower value of the dollar and fears of terrorism abroad, are expected to boost tourist spending throughout the West this summer. Businesses in the Pacific Northwest expert particularly strong gains due to the World's Fair in British Columbia.

Manufacturing

Aerospace industries continue to prosper, as high defense contract volumes combine with strong commercial aircraft demand to boost activity. While the electronics sector appears to have weathered the worst of its downturn, employment levels in many areas remain below their year-earlier levels. Employment is unlikely to expand during the initial stages of the industry's recovery because many firms continue to operate with excess capacity.

Other manufacturing industries, such as aluminum, are likely to benefit from reduced energy costs. In some cases, these lower costs could make previously unprofitable plants profitable for the first time in years.

Resource Based Industries

The sharp reduction in oil prices is wreaking havoc in energy producing parts of the Twelfth District. In Alaska, drilling activity has been reduced substantially. In California and Utah, drilling and pumping activity is down sharply, with rig counts in most oil producing areas between 20 and 80 percent below their year-earlier levels. Respondents in Alaska, Utah, and Kern County (California) report that their governments have already lost millions of dollars in tax revenue due to the lower oil prices.

In contrast, the forest products industry currently is posting its best performance in several years. Lower interest rates and the reduced foreign exchange value of the U.S. dollar have boosted prices of some products to 22 percent above their year-earlier levels, while lumber orders at West Coast mills reportedly reached a record level during the week of March 8. One respondent reports that lumber mill inventories are at their lowest level in two years. Although lumber trade volume through some Northwest ports had not yet picked up in February, industry sources remain optimistic about future prospects.

Sustained weakness in copper prices continues to be a problem in Utah and in parts of Arizona. In contrast, gold mining is a healthy industry in Nevada, which currently produces more gold than does any other state.

Agriculture continues to show weakness due to low prices and increased competition from abroad. Despite the overall weakness, some crops, including many fruits and vegetables, continue to be quite profitable.

Construction and Real Estate

Lower interest rates have spurred real estate and construction activity in most parts of the Twelfth District. Home resales and residential and commercial construction are all strong, although the boom is not shared by oil producing parts of the District. In Alaska, where the government has in the past funded huge infrastructure construction projects, the building sector has been hit particularly hard.

Financial Sector

Mortgage loan originations continue to grow, spurred by a rush to refinance existing home mortgages taken out when rates were higher, as well as by renewed buying activity. In most of the District, consumer loan volumes continue to be strong. In addition, commercial loan volumes have picked up, apparently spurred by low interest rates and, in Oregon, by an improved economic outlook as well.