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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

June 1991

SUMMARY OF COMMENTARY

on

CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

June 1991

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SUMMARY*

Economic conditions appear to be improving modestly in much of the nation. Retail sales are up moderately in some districts. Manufacturing is gaining strength in some regions and industries, although several districts report weaker foreign demand for some manufactured goods. Prices are generally steady to up slightly at both the wholesale and retail levels. Home purchases continue to strengthen, but homebuilding has picked up in only a few regions. Mortgage lending continues to be the only source of strength in loan demand. Delayed planting could reduce production of some crops. Stable oil prices and low natural gas prices are keeping oil drilling in check.

Consumer Spending

Retail sales vary across districts. While there are no reports of substantial improvement, the overall situation is somewhat brighter than that described in the last Beige Book. A few districts describe gains as slight or moderate, while others report lackluster sales. Richmond reports a slight decline in sales, and Atlanta notes that spending increases of recent months have stalled. Sales are uneven in several districts, with soft goods selling better than consumer durables. But sales advances in the Chicago district were led by housing-related durable goods. Unseasonably warm weather has brought improved sales of summer goods in the Northeast, but skepticism remains about future gains. Retailers in several districts are also concerned

* Prepared at the Federal Reserve Bank of Kansas City based on information collected before June 10, 1991. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

about future sales gains in light of shaky consumer confidence and uncertainty about the course of the economy. A few districts, however, report optimism about future sales, particularly for items related to purchases of both new and existing houses. While retailers in some districts are comfortable with current inventory levels, others continue to emphasize keeping stocks lean and under tight control. Only modest increases in retail prices are reported. Most reporting districts say that new car sales remain weak.

Manufacturing

Manufacturing activity seems to be improving overall, but several districts report slower export growth. Prices of inputs are generally stable. Philadelphia reports activity picking up in most major industries, and Boston notes a recent pickup in both sales and orders. Cleveland says that manufacturing output appears to have bottomed as capital goods industries near a trough, but New York and San Francisco report continued slow activity. Steel industry respondents see little change in production, with gradual improvement in domestic markets offset by softer export markets. St. Louis reports mixed activity with some firms expanding but many still contracting due to defense cuts spreading to smaller firms. In the Chicago district, consumer durables producers are doing better than heavy equipment producers. Automobile production is improving, as is production of goods going into new homes. Weakness continues in the production and sales of capital goods. Dallas reports that oil field machinery production has declined slightly due to decreased domestic drilling.

Views of the outlook vary among respondents, with stagnation expected in the Boston district until early 1992 but healthy gains expected in the

Philadelphia district for the rest of this year. New York respondents see no significant turnaround before late summer, while Cleveland and Richmond respondents are optimistic for the second half of the year.

Construction and Real Estate

The improvement in home sales reported in the last Beige Book continues and is being translated into increased construction activity in some areas. While buyer interest and purchases still are found mainly in the market for existing homes, reduced inventories of new houses are leading to increases in starts in several parts of the Midwest. In the Atlanta district, tight lending conditions are restricting the rebound in residential sales and construction. And in the St. Louis district, new construction remains mixed in spite of lower inventories of unsold homes. Nonresidential construction remains weak. Little commercial construction appears to be under way, as vacancy rates are high and leasing activity sluggish. Construction activity is being supported by public projects in the Atlanta and Richmond districts, but Dallas reports a significant slowdown in most types of public construction.

Banking and Finance

Bank lending continues to be weak in the eight districts reporting on financial developments, despite a pickup in demand for home mortgage loans. Much of the strength in mortgage lending stems from refinancing rather than new purchases. Demand for business and consumer loans is weak, except for some modest strength in consumer lending in the Cleveland and Kansas City districts. While sluggish growth in business loans in the Richmond district

is attributed mainly to weak loan demand, some supply restraints were also noted. Small and midsized banks in the New York district report slower repayment for all types of consumer loans. Some respondents expect continued sluggish growth in lending even after the recession ends.

Agriculture and Natural Resources

Extreme weather conditions in several districts have hampered spring planting. Production estimates are being lowered for several crops. Heavy rains have delayed spring planting in parts of the Atlanta, St. Louis, Minneapolis, and Kansas City districts. Crops affected include cotton, soybeans, peanuts, rice, corn, and grain sorghum. Dry conditions in west Texas and the Texas panhandle have reduced production estimates for the area's wheat and cotton crops. Richmond reports generally favorable agricultural prospects, and Minneapolis notes that conditions are good in the Dakotas. Kansas City reports a high level of farm income, with strong cattle prices continuing to reduce the impact of weak crop prices.

Oil drilling in the Dallas and Kansas City districts has declined despite stable oil prices. The decline stems partly from low natural gas prices, which are down 20 percent from a year ago.

FIRST DISTRICT-BOSTON

Economic conditions in the First District show some signs of improvement. Although a majority of First District manufacturing contacts continue to report sales and orders below year-ago levels, almost half saw business pick up in April and May. Retail reports were more uniformly positive, with retail contacts indicating that sales in May were at or above year-ago levels. Because special factors may account for the pickup to date, most manufacturers and retailers feel that an economic recovery has not yet begun -- either in the nation or in New England. Nonetheless, retailers anticipate either stable or improved sales results for the coming year, and one-third of the manufacturers contacted believe that a national recovery is already under way.

Retail

Retail contacts in the First District report that May sales were between zero and 10 percent above year-ago figures, an improvement from the year-over-year declines seen earlier in 1991. Respondents are hesitant to interpret these recent results as an economic turnaround because the gains may partly reflect weather-related sales, purchases that could no longer be postponed, and comparisons with unusually poor figures in May 1990. However, most retailers also point to selected positive economic signs, either nationally or locally. The consensus is that the New England economy will show modest improvement over the coming year, and all the contacts anticipate either flat or rising sales for their company.

Employment levels have now stabilized at the majority of retail

contacts, after having declined during the previous year. Some retailers that had previously frozen wages are beginning to give selective increases. Capital budgets remain tight, with most retailers spending only for replacement and repairs. About half the sample report that managing or reducing inventory levels remains a priority.

Manufacturing

A slim majority of First District manufacturing contacts report that sales and orders are down from year-ago levels. Sales declines range from 1 to 6 percent; those for orders from slight to double-digit percentages. Elsewhere, sales and orders are steady or rising (in one case substantially) compared to 1990 figures. Several firms indicate that foreign (particularly German) sales have been stronger than domestic, but most contacts report that overseas demand has weakened recently. Despite the slowdown abroad, almost half of the contacts saw their total business improve in April and May. New or specialty products and those related to environmental monitoring, oil, telecommunications, and aerospace show the most strength. Products for consumer durables manufacturers have also improved. By contrast, commodity lines, and equipment for the auto, defense, construction, and retail industries remain relatively weak.

Firms discussing inventories describe them as satisfactory. Supplies are readily available, and carrying costs have declined with interest rates.

Input prices are reportedly stable or below 1990 levels, and some firms continue to achieve negotiated reductions. Half the respondents have held selling prices steady or have reduced them through discounts. The rest are adopting a mixed strategy -- raising prices on selected products (by as much as 5 percent) where market conditions permit,

lowering them on other items for which competition is severe.

A majority of contacts report that employment levels are below 1990 figures, generally by small percentages. Half the firms plan further modest reductions.

This year's capital spending will be below 1990 levels at over half of the responding firms. Declines range from small to as much as 20 percent. On the other hand, one-third of the contacts expect to increase capital spending substantially with significant expenditures planned for New England.

According to a two-thirds majority of manufacturers surveyed, an economic upturn is not yet in sight. These contacts expect "stagnation" to persist, in some cases into early 1992. One observer described the economy as just "bouncing along" the bottom. Nevertheless, a third of the respondents believe a national recovery has already started.

Outlook

The New England Economy Project (NEEP), a nonprofit organization comprising businesses, government agencies and educational institutions, released its biannual forecast in early June. Based on a national forecast that the recession will end this summer, NEEP expects New England's recovery to lag, with total nonfarm jobs beginning to grow in the first quarter of 1992. The projected regional turnaround reflects a noticeable slowdown in the rate of manufacturing job loss as well as gains in nonmanufacturing employment. Job growth is expected to be quite modest in 1992.

SECOND DISTRICT--NEW YORK

Reports on District developments remain soft to mixed. Sales results were very uneven among District department stores during April and May. Homebuilders are hopeful that an upturn in the existing home market will soon spur increased demand for new homes. Office leasing activity remains somewhat sluggish and vacancy rates have continued to rise. The May unemployment rate rose in New Jersey but edged down in New York. Senior loan officers at small and midsized banks reported that overall demand for consumer loans is moderate to weak.

Consumer Spending

Sales results at District department stores were mixed during April and May. Some contacts noted an improvement with sales better than planned while others reported continued sluggishness. Over-the-year changes in April ranged from -7.8 percent to +5.0 percent and in May, from -2.0 percent to +6.5 percent with stores fairly evenly divided as to gains and declines. Women's clothing and accessories sold well at most stores in April as did cosmetics and men's sportswear. Respondents with better-than-anticipated May sales attributed much of the gain to unseasonably warm weather, noting that the fastest-selling items were swimwear, weekend wear, sandals and other summer apparel. The pattern for home furnishings was mixed in both April and May, with one chain noting a pickup after several slow months but others experiencing further slackness.

Due to tight monitoring and, in some cases, to better-than-expected sales, inventories are generally at comfortable levels, though one chain reported a level somewhat above plan. Contacts remain cautious about the outlook for consumer spending citing the uncertainties about the course of the economy as well as the possibility that May's strength may represent sales borrowed from June.

Residential Construction and Real Estate

Interest on the part of potential buyers is reportedly strong in much of the District as a result of lower home prices and mortgage rates, but apparently its initial effect has been primarily on the resale market. Homebuilders are hopeful that this upturn in the existing home market will soon spur increased demand for new homes from sellers wanting to move up. The New York State Association of Realtors noted that, for the first time in five years, existing home sales increased from February to March north of New York City, and the Buffalo area reported an 11 percent over-the-year increase in April resales. Recently in Manhattan there were, for the first time, auctions of condominium and cooperative apartments; in the suburbs, this technique has been used quite successfully in the past couple of years to reduce surplus stocks of new single-family homes.

Office leasing activity has remained somewhat sluggish in recent weeks and additional space continues to be marketed due to new completions and further consolidations and restructuring. As a result, office vacancy rates have been rising in many parts of the District. At the end of the first quarter, the vacancy rate in the 15 northern New Jersey counties, for example, averaged more than 22 percent, up almost 4 percentage points from a year earlier. Over-the-year increases of 2 percentage points or more were common in several other areas such as Long Island, Westchester County and Manhattan. Vacancy rates in Manhattan are reportedly at their highest levels since the 1970s.

Manufacturing

Manufacturing firms contacted in the District report continued weak sales with none anticipating any significant turnaround until late summer or fall, at the earliest. A producer of construction equipment sees the weakness spreading as the anemic housing and government sectors have been joined in recent months by a noticeable slowing in demand from the auto industry. A small producer of electric machinery was the only firm reporting a jump in sales, but the pickup has only been enough to bring sales up to year-ago levels. Exports were

frequently reported to be growing faster than domestic sales, although more than half of the firms contacted felt their export growth rate is declining.

Most respondents have lowered their prices in recent months to shore up sales, but none plan to offer large price discounts in the near future. Half of the firms surveyed have reduced their employment levels significantly in recent months in the face of weak demand but plan no further significant layoffs over the coming months.

Other Business Activity

The May unemployment rate rose in New Jersey to 6.8 percent from 6.5 percent in April (seasonally adjusted), but edged down in New York State to 7.4 percent after a 0.7 percentage point jump in April. Unemployment rates in the District are no longer below the national average as they had been for several years and employment has been growing much more slowly than nationally in recent years. This trend primarily reflects layoffs and consolidations in New York City and on Long Island as well as sluggishness in northern New Jersey. Upstate New York had been registering sizable employment gains until the recession began. Budgetary problems that continue to plague local and state governments in much of the District cast a shadow on the employment outlook. Some 8000 New York City workers were recently notified that they may be laid off by July 1 and both New York State and New Jersey continue to mention the possibility of cutbacks of state employees. In an attempt to forestall layoffs as well as higher taxes, Bridgeport, Connecticut is filing for protection from creditors under Chapter 9 of the Federal Bankruptcy Code.

The April surveys of purchasing managers in Buffalo and Rochester showed somewhat conflicting patterns. In the Buffalo survey, 84 percent of firms reported stable to improved new orders in April, up from 72 percent in March. In Rochester, however, although fewer firms noted a worsening in April than in March, the 26 percent that did see a deterioration was still almost four times greater than in February.

Financial Developments

Most senior loan officers surveyed at small and midsized banks in the Second District reported that overall demand for consumer loans is moderate to weak. The majority of respondents also noted that demand for consumer installment loans is lower than a year ago. Most bank officers characterized the growth of automobile, credit card, and home equity loans over the last three months as slow to flat. Those banks that typically offer lines of credit on home equity reported that commitment fees have not changed in the last three months. Most bankers said current home equity lending is mainly to new borrowers rather than takedowns on existing credit lines.

The majority of respondents noted a slowdown in payment schedules for all types of consumer loans, though a few stated that the slowing was confined to automobile loans. However, most officers stated that outstanding balances are not rising and indicated that delinquencies are unchanged from three months ago. Several respondents noted some decline in the creditworthiness of borrowers due to high levels of debt, layoffs, and reductions in salaries. Nonetheless, two thirds of all respondents stated that, compared to three months ago, their institution is just as willing to extend credit for consumer installment loans.

THIRD DISTRICT - PHILADELPHIA

Reports from Third District business contacts in early June indicated that regional economic activity was essentially steady overall, although conditions varied by sector. Manufacturers generally noted continuing improvement, while retailers indicated business was only steady, and bankers reported continuing slackness in loan demand. On balance, industrial firms in the district were posting gains in shipments and orders in late May, and they were maintaining steady employment levels. Retailers gave mixed reports: discount stores were making year-over-year gains and seasonal merchandise was generally selling well, but total sales in May appeared to just match the May 1990 level, in dollar terms. Bankers said business and consumer loan volumes outstanding were slipping while residential mortgage lending was edging up.

Expectations among business contacts are generally positive although the level of optimism is not high overall. Manufacturers forecast a relatively solid improvement during the balance of the year and they are making plans to step up hiring and capital spending. Retailers, however, anticipate that real sales in the second half will be just even with the year-ago period. Bankers generally forecast a slow upturn in loan demand in the second half. They expect slight gains in consumer and residential lending, and, while they believe an increase in loans to business may be ahead, they do not foresee a rebound in commercial real estate lending.

MANUFACTURING

Reports from Third District manufacturers contacted in late May and early June indicated that activity was picking up in most of the major industries in the region. Although half of the firms queried said shipments were running at just a steady pace, one-third noted recent increases. One-third of the manufacturers polled also reported that new orders have

risen in recent weeks. Although demand for their goods appeared to be growing, most of the industrial companies in the region were not adding to payrolls or extending the workweek.

Looking ahead, most Third District manufacturers providing information for this report expect business to continue to improve this year. On the whole, they foresee healthy gains in orders and shipments. Managers at area plants indicated they intend to act on their optimism; one-third plan to add to their work forces and nearly half will step up capital spending over the next two quarters.

RETAIL

Third District retailers generally described May and early June sales as lackluster, although some said summer clothing and other seasonal goods sold well during a period of unusually hot weather. Overall, reports from store officials indicated that current dollar sales in recent weeks were even with the same period a year ago. Several discount and off-price stores, however, made year-over-year gains.

Most of the merchants contacted for this report believe the sales trend over the summer will be flat in real terms. They are somewhat apprehensive about the fall, and several voiced concern that consumers will not step up spending sharply even when the economy moves out of the current recession. They point to the possibility of growing restraint in consumer spending as a negative influence on retail sales growth in the future.

Auto dealers in the Third District reported that new car sales have been declining since March, both in unit and dollar terms. Some dealers said that potential buyers' reluctance to add significantly to debt loads while the economic outlook remains uncertain was depressing demand for new cars. In contrast, used car sales have been relatively healthy.

FINANCE

Third District bankers contacted in early June indicated that lending activity was soft; most reported that loan demand was weak in all credit categories. On the basis of these reports it appeared that total loan volume outstanding was declining. Although residential mortgage

lending was expanding, albeit slowly, business and consumer lending was declining. In particular, several bankers noted that auto and credit card loan volumes outstanding were falling at their institutions.

Most of the bankers who offered forecasts said they expect a slow economic recovery to start in the third or fourth quarter, setting the stage for an upturn in loan demand. However, most bankers expect only sluggish growth in lending when the recession ends. They believe consumers will not increase spending quickly and that residential real estate activity will not pickup appreciably from the current pace. As for business lending, the general opinion among *Third District* bankers is that commercial real estate lending will remain depressed through this year and next; and, although several bankers noted that their regular business borrowers are considering requesting additional credit, they said that loan applications have not increased yet.

Third District bank executives generally indicated that funding was adequate given the slackness in loan demand. Total deposits at banks in the district have been declining, according to bankers, as interest rates have eased. Money market deposit account balances have been steady, however, and bankers believe depositors are favoring these liquid accounts as rates on time deposits have fallen.

FOURTH DISTRICT - CLEVELAND

Summary. District respondents believe that the recession in both the nation and the Fourth District is about over, although they still expect a slow recovery. Auto and nonautomotive retailers note a strengthening in sales during May, but are still cautious about near-term sales prospects. Manufacturing output also appears to have bottomed, and respondents are generally more optimistic about second-half prospects than they were earlier this year. Demand for and construction of new housing appears to be increasing slowly this spring. There are only scattered signs of a step-up in commercial loans, and banks generally report that mortgage loans, excluding refinancings, have been increasing only slowly.

National Economy. A panel of Fourth District economists expects that recession will end in the second quarter. They expect virtually no change in real GNP from last quarter, with growth at about a 2.5% annual rate in the second half of 1991 and about 3.5% between 1991:IVQ and 1992:IVQ.

These economists are less optimistic about prospects for inflation now than they were in January. Overall prices are expected to increase at an annual rate of 3.7% in the second half of 1991, and at nearly that rate through the end of 1992. These forecasts are about half a percentage point higher than the panel had anticipated in January.

District Economy. There are mixed signs of recovery from the brief contraction in the District. In May, employment in Ohio rose slightly for the third straight month, and the unemployment rate fell below the national average for the first time since February. Also, manufacturing production declined only slightly more in Ohio than in the nation last quarter, after having outperformed the nation throughout 1990. Much of the decline was in auto and auto-related industries. District respondents expect that auto output will gradually strengthen by late this year.

Consumption. Retailers remain cautious about prospects despite the generally improved level of sales in May. Although most report weather-related increases in sales, they are skeptical that this represents a rising trend because there was no pickup in household furnishings. Despite a mixed pattern of sales so far this year, retailers believe that inventories are at about desired levels.

Automakers and dealers expect only a gradual improvement in sales throughout the balance of this year, despite the May increase in sales. Although inventories are lower than usual for this time of year, orders and production schedules for 1992 model cars are being held close to actual sales.

Manufacturing. Fourth District panelists are more optimistic about prospects for recovery in production than they were earlier in the year. They now expect a second-half rebound in production at about a 4.5% annual rate, led especially by a swing in inventories between the first quarter and fourth quarter of this year.

Auto analysts, however, believe that most of that industry's contribution to overall output growth will likely occur in the second quarter. Inventories of trucks are still reported to be excessive.

Steel respondents also expect little change in production from the recent 70% operating rate. Some expect a gradual improvement in domestic steel markets to be offset by softening in export markets. Correction of steel inventories is said to be nearly complete, and warehouse centers are apparently beginning to step up orders, but are hesitant to restock because prices might continue to slide. Some respondents note an erratic but small pickup in orders from auto and appliance producers, but not much change from capital-goods producers.

Capital goods respondents expect that most of those industries are close to a trough at present. Orders for heavy-duty trucks apparently have emerged from a first-quarter slump, according to a supplier, with successive monthly increases in April and May. Orders for industrial controls show signs of bottoming. An industrial equipment supplier reports that his order decline has also leveled out, but no signs of a pickup are yet apparent. An office and machinery equipment producer cites a significant upturn in electronic components, although office computer machinery is still in recession.

Construction and Real Estate. The flurry of mortgage loan activity and housing sales earlier this year subsided in May for some mortgage lenders, but continued strong for others. Some report that demand for refinancing also slowed after an unusually strong first quarter. Mortgage lending terms have been relatively unchanged for the past several months. A major lender in the

Cleveland market, however, states that May was one of its best months for mortgage loans, in part because of increases in market share for single-family home loans.

Several lenders report more activity for existing home sales than for new homes. In some parts of the District, lack of demand and builder caution have dampened a rise in new home starts.

Financial Developments. Bankers generally report that commercial and industrial loans have remained flat or have risen only slightly since the beginning of spring. In some areas, however, small business loans have picked up in recent weeks. Mortgage loans have continued to strengthen, but some banks report that at least half of the loans have been for refinancing, and that the spring pickup for new loans so far has not been strong. Consumer installment loans continue to increase irregularly. Bankers report no important changes in lending terms or in lending standards in recent weeks, and generally assert that there are ample funds available for creditworthy borrowers and projects.

FIFTH DISTRICT-RICHMOND

Overview

District economic activity in late May and early June was, on balance, not much improved from the month before, but the attitude of businesses about the near-term outlook remained optimistic. Retail sales were lower and manufacturing activity was flat. Almost no new commercial construction was started and housing activity was lackluster. Sluggish growth in the volume of business loans was attributed primarily to weak loan demand, although some supply constraints were noted. On the brighter side, retailers and manufacturers were optimistic about their prospects, export volume rose at District ports and the outlook for the District's farming sector appeared promising.

Consumer Spending

Our regular survey of retailers suggested that retail activity declined slightly in the past month. Reports of lower sales--including sales of big-ticket items--outnumbered reports of higher sales. Shopper traffic was slightly lower, as was retail employment. Retail prices showed little change, even though wholesale prices were reported to be somewhat higher.

Respondents were optimistic about retail activity over the next six months. About half expected shopper traffic and sales to increase, but only a small percentage anticipated any change in employment. Prices at the wholesale and retail levels were expected to rise.

Manufacturing

Responses to our regular survey of manufacturers indicated that District factory activity remained stable. Manufacturers reported almost no change in

shipments, prices, export orders, capital expenditures, and employment. New orders increased slightly, while inventories and order backlogs decreased slightly. About two-thirds of the responding manufacturers viewed poor sales as their single most important problem.

Manufacturers remained optimistic about business conditions and their prospects for the next six months, although somewhat less so than in our previous survey. About half of the manufacturers foresaw increases in shipments, new orders, and order backlogs. Respondents anticipated slight increases in capital expenditures and export orders, but they expected little change in inventories and employment.

Port Activity

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that exports were higher and imports were generally unchanged in May from April. Compared with a year ago, export activity was higher and import activity was lower. Exports are expected to increase faster than imports over the next six months.

Tourism

A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity increased significantly over the Memorial Day weekend compared with last year. Many beach areas were reportedly booked to capacity while most other beach and mountain areas experienced increases in bookings which they attributed to the unseasonably hot weather. A majority of the respondents expected tourist activity this summer to be above last year's level.

Finance

District financial institutions contacted by telephone indicated that the demand for commercial and industrial loans remained weak in April and late May. Among businesses that requested loans, smaller firms slightly outnumbered larger ones, and few new businesses sought financing. Loan delinquency rates edged down.

We also asked retailers and manufacturers about credit conditions. A majority indicated that loan activity was sluggish in their respective areas. Most felt that a moderate number of creditworthy borrowers had been refused loans recently. Most also indicated, however, that loan demand was weaker.

Housing

Results from our survey of home builders suggested that housing activity was mixed in recent weeks. The number of reports of increases in housing starts about equaled the number of reports of decreases. Although some builders noted an increase in sales, most reported that sales were unchanged to lower. Low- and medium-priced homes apparently sold better than high-priced homes. Nearly all builders reported that home prices were steady. A few indicated that credit conditions were stringent.

Nonresidential Construction

Commercial construction firms contacted by telephone noted few signs of an upturn in nonresidential building. These firms reported that little private commercial construction was underway and indicated that much of their current work was public projects--bridges, highways, and government buildings. Some respondents, however, suggested that the decline in activity had bottomed out, although none expected a strong upturn. The outlook in the Washington,

D.C. area was said to be especially uncertain. Several respondents reported that industry profit margins were extremely thin and that in some cases firms were bidding jobs at below variable costs.

Agriculture

Despite scarce rainfall and record high temperatures across much of the District in late May, our contacts in agriculture indicated that prospects were generally favorable as of the end of the first week of June. The harvest of small grains and peaches was in progress, and preliminary assessments indicated that yields for these crops would be excellent. The spring planting of corn, soybeans, and the transplanting of tobacco were nearing completion and were ahead of last year's pace. The condition of most crops was good to excellent with only scattered reports of heat stress and disease damage.

SIXTH DISTRICT - ATLANTA

Overview: Business contacts in the Southeast indicate a slight improvement in economic activity in May compared with both year-ago and recently-increasing monthly levels. Home sales are said to be remaining on an upward trend. Reports on retail sales and manufacturing suggested scattered improvements, though the majority of contacts indicated softness. The export sector, which is comparatively small in the District, displayed continued strength. Heavy rains in the Southeast have cut into the sales of several agribusinesses and limited crop plantings of cotton, soybeans and peanuts.

Retail Sales: Reports from most retailers indicate that the consumer spending increases posted in recent months have stalled, not meeting their previous expectations. Contacts report that they have seen no real improvement in May sales from recent months and posted only marginally higher sales from weak year-ago levels. About three out of four retailers reported that May durable goods sales were at best even with last year's levels, with the exception of slight increases in appliance and automobile sales. Overall, they still anticipate increases in activity, although they have become less confident about these expectations. As a result, most merchants continue to keep inventories lean.

The travel and convention industry is providing some boost to retail and service sales. Industry contacts in Atlanta, New Orleans, and Orlando all report continued increases in bookings and visitors from recent months and year-over-year. Increases in the number of tourists from foreign countries were also noted. A Georgia contact said that restaurant sales and other travel-related services account for most of a recent slight pickup in retail sales.

Manufacturing: Over half of District producers contacted in early June indicated continued flat or declining sales and persistently soft orders. Auto- and auto-related producers, business supplies manufacturers, poultry processors, and producers of bed and bath fabrics report

particular weakness. All have responded with further reductions in inventories, although less than half report additional layoffs. Excessive rains in the Southeast have exacerbated conditions for agribusinesses providing farming equipment and supplies, fertilizers, and lawn care. Contacts do not expect to make up these lost sales later in the season.

Other producers indicate that orders in May picked up from the depressed levels of recent months. Orders for home-related merchandise remain firm, and according to industry contacts, apparel and apparel-related textile production and employment levels turned up slightly in May in response to recently increased orders. Over half the container producers contacted reported increases in orders for paper and some types of plastic packaging. Several other manufacturers have reportedly expanded hiring in response to the improvement in business volume over recent months. A trailer manufacturer has recently hired additional people in a move to expand Georgia operations, while a refrigeration unit producer called back laid off workers during the past two weeks. In addition, lumber contacts said that exports have recently picked up from their previously depressed levels. Export tonnage of pulp, paper and citrus products continue to increase in the District.

Financial Services: The majority of bankers report that consumer and business loan demand remains anemic overall, with the exception of strong residential mortgage lending. Despite generally weak business loan demand, bankers did note that some service industries such as health care and telecommunications have shown increased borrowing needs. One also said that recent gains in tourism in New Orleans are leading to expansion in related service industries. Bankers report that loan quality is stabilizing or improving slightly. Although no bankers indicated changes in credit standards, several business contacts said that their borrowing terms have become more favorable recently.

Construction: According to most realtors, new and existing home sales continued to rebound in April and May, although about half noted that home sales have fallen back slightly in recent weeks. Builders reported that improved home sales have led to increased construction activity, and a few Alabama builders are now even starting to talk about building speculative homes. However, three out of four homebuilders report that tight lending conditions are still restricting a rebound. Nonresidential construction remains weak although the pace of decline has slowed. Contacts attribute this easing to rising public construction and the start of several large commercial construction projects that had been able to bypass tight lending conditions.

Wages and Prices: Contacts say that they are not having any trouble hiring workers or recalling laid off employees. Wage demands have subsided considerably in Louisiana's oil industry. An expected abundant beet crop has depressed sugar prices while high cotton prices are adversely affecting textile industry profits. Waterlogged fields have limited planting of cotton, soybeans and peanuts this spring. Some contacts expect reduced crops and higher prices to result. Linerboard, pulp and corrugated packaging prices are all currently depressed as a result of short-term oversupply conditions in the industry.

VII-1

Seventh District - Chicago

Summary. Most sectors of the District economy were flat to slightly expanding in May and early June, while traditionally lagging industries continued to decline. A solid recovery in residential real estate activity continued, although commercial construction remained soft. Retailers in the District reported that consumer spending advanced in recent weeks, with sales gains led by housing-related spending. Reports from District manufacturers were mixed, with producers of consumer durable goods generally reporting better results than those posted by producers of heavy equipment. Capital spending intentions of District businesses indicated continued cutbacks and postponements in the second quarter of 1991.

Real Estate/Construction. A recovery in District residential real estate activity continued in recent weeks, helping to bolster construction spending, consumer spending on household durable goods, and manufacturing activity related to housing. A large District realtor reported continued solid year-over-year sales gains in May and early June. District housing construction fell off slightly in April, but only after an unsustainable surge in March. Industry contacts indicated little change in the weak outlook for commercial construction, however. A large producer of cement reported that shipments continued to decline in the month of May (from the year-earlier period), but not quite so severely as in previous months. Cement shipments for commercial construction were decidedly weaker than those for residential building, and the company's backlog continued to shrink. At the end of May, this company's backlog was 65 percent below May 1990. A recent study found that the amount of new office space under construction in the suburban Chicago area declined by over 50 percent from the fourth quarter of 1990 to the first quarter of 1991, reaching the lowest level in ten years. Labor strikes in Chicago and Detroit have been holding back several large construction projects. A settlement is expected soon in the Chicago negotiations, while bargaining is in the early stages in the more recent strikes in Detroit.

Consumer Spending. The strengthening in the housing sector has begun to translate into gains in other forms of consumer spending, according to several District retailers. A large general merchandise retailer reported that May and early June sales in the District increased in real terms and

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outperformed the company's national average. This contact had previously reported relative weakness in sales in the District in the first quarter of 1991. Appliances and home improvement products provided the largest contributions to sales growth. A large discount chain reported continued modest sales gains in May, with District sales growth in line with national results despite an increasingly competitive District environment facing the retailer. This contact stated that sales growth has not yet been robust enough to translate into improvement of their orders to manufacturers, however, as efforts to trim inventory continue. Despite the surge in housing, several smaller specialty furniture retailers in the District continued to experience a very difficult period, with many store closings reported in the first half of the year. One small District furniture retailer reported that May and early June sales continued to post year-over-year declines, and noted that credit card sales were especially weak.

New car sales' trends remain difficult to interpret, according to several industry analysts. The 1990 switch from a two-turn to a three-turn strategy by automakers selling to captive rental fleets generated distortions to seasonal sales patterns. April sales figures (which under a two-turn strategy would include some sales to fleets) were understated by using traditional seasonal factors. The higher level of fleet sales in 1990 provided a second factor helping to understate recent sales strength, as higher resale levels of nearly-new program cars substituted for new vehicles in early 1991. A major domestic car manufacturer estimates that after accounting for these effects, total light vehicle sales (including domestic and imported vehicles) have been essentially flat in recent months. Reports from several District auto dealers generally support this conclusion. One large District domestic car dealer reported that sales fell 20 percent in May from a year earlier, in line with declines posted in March and April. Citing higher auction prices, this dealer ceased selling program cars, which is consistent with widespread expectations that sales of these "nearly-new" vehicles will lessen in importance in the months ahead. Sales to first-time car buyers declined significantly, in part because basic demand was off and in part because first-time buyers fall into stricter credit-quality categories.

Manufacturing. District manufacturers of consumer durable goods generally reported better results than producers of heavy equipment. A large District appliance manufacturer reported modest

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improvement in shipments, especially for products going into new homes. Shipments of air conditioners and microwave ovens remained weak, however, and excess inventories have to be worked off before shipments at the plant level improve. A large manufacturer of lawn care equipment reported that its factory sales strengthened from March to April, but remained well below year-earlier levels. Production in the auto industry (on a seasonally adjusted basis) generally continued to register the gains recorded early in the second quarter, although some early shutdowns for new model changeovers have held back overall production. Still, May output exceeded announced schedules for the first time in almost a year. A steel producer reported that orders from automakers indicate continued growth (on a seasonally-adjusted basis) in auto production through the third quarter. This contact stated that summer shutdowns may be shorter than anticipated, as automakers speed up production of new models. An electronics firm reported that orders rose for the second consecutive month in May, after experiencing moderate weakening earlier in the year. Orders received from the auto industry were particularly strong, consistent with other evidence of improved production levels in this key District industry. The automotive component of the Detroit purchasing managers' survey index advanced sharply in May, registering its first expansionary month in 1991.

Several capital goods producers, whose sales recoveries tend to lag a turnaround in the overall economy, reported continued weakness in sales and production. A large District manufacturer of heavy equipment reported that sales continued to decline at a significant pace in May but the rate of decline has improved somewhat over the past three months. Orders in-hand remain very weak, however, off as much as 60 percent from a year earlier. Dealer inventories remain high and are expected to dampen the production response to an anticipated sales increase in the second half of the year. Another capital goods producer reported that sales of construction equipment continue to show sharp year-over-year declines, and sales of agricultural equipment in May turned soft again, after some improvement in previous months. A large diversified manufacturer reported that orders have been mixed recently, with weakness concentrated on the capital goods side of the business. A truck manufacturer reported modest improvement in orders for heavy-duty trucks, but medium-duty truck orders remained at recessionary levels. This contact noted that medium-duty truck orders usually

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improve before heavy-duty trucks as an economic recovery asserts itself, and attributed some of the weakness in medium-duty trucks to financial problems facing small businesses. A manufacturer of motor vehicle engines also reported that orders for heavy-duty truck engines strengthened in recent months, but production planning remained cautious.

Capital Spending. A small sampling of District manufacturers indicates that cutbacks and postponements of capital spending plans may have extended into the second quarter of the year. A large manufacturer of heavy equipment reported 1991 capital spending plans had recently been cut to a level 16 percent below last year, after plans at the beginning of the year called for flat spending. A manufacturer of truck engines reported that 1991 spending plans were cut in the first quarter to a level 30 percent below last year, but have remained in place since then. A large District manufacturer of paper-based containers reported that 1991 capital spending plans were cut at the end of March to a level 50 percent below 1990, citing industry overcapacity and a reluctance to borrow. A steel producer reported that 1991 spending plans, previously scheduled to be 20 percent lower than 1990, had been newly cut to a level 40 percent below last year. The capital expenditures component of the Milwaukee purchasing managers' survey fell from 55 percent in April to 48 percent in May, reaching its lowest level since late 1987. Industry orders for machine tools have weakened in recent months, after holding up well through the early stages of the recession. An industry participant stated that sales have become less cyclical, as customers show increased sensitivity to efficiency considerations, relative to capacity requirements. This company still expected substantial internal capital expenditure growth this year. A machine tool industry representative reported that companies specializing in sales to the auto industry have suffered disproportionately in the current downturn.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy is flat, but some signs of strengthening are evident. Retail sales have improved slightly and residential construction has rebounded in some areas. Most service-producing sectors continue to add employees. While some manufacturers are expanding their operations, many are still contracting and commercial construction remains depressed. Lending activity has increased in recent months. Heavy rains have delayed cotton and rice plantings. Electricity generation for industrial usage is flat to slightly lower.

Consumer Spending

Some contacts report slight increases in retail sales; in the Louisville, St. Louis and Memphis areas, however, little or no strengthening is evident. Nominal retail sales growth in Arkansas has dropped to a 1 percent rate of increase in recent months. Sales of durables in Arkansas have been hindered by consumer wariness about economic conditions and increases in required down payments. Auto sales remain well below year-ago levels, though some contacts report increasing sales in May. Louisville auto dealers describe spring sales as "acceptable," but still below those of a year earlier.

Manufacturing

Manufacturing conditions are mixed. In St. Louis, some manufacturers report a recent upturn in orders, but relatively few have expanded their workforce. Approximately 2,000 St. Louis workers were let go when an automaker closed an assembly plant in late May. More than 300 engineering and manufacturing workers have been laid off in recent weeks

by a major St. Louis defense contractor following the loss of a new military aircraft contract, and an additional 200 layoffs are expected by year-end. Defense cuts have caused layoffs at smaller District firms as well. Weak auto and housing sales have led to lower earnings for a major chemicals manufacturer. Almost 1,000 workers have been recalled by a Louisville home appliance manufacturer in anticipation of increased demand for refrigerators as the housing industry turns around.

Construction and Real Estate

Single-family home sales continue to increase throughout the District. Contacts in Little Rock and Memphis indicate inventories of new and existing homes are declining; meanwhile, prices are holding steady or rising slightly. New home construction, however, is mixed. Contacts in Memphis, citing lower interest rates and drier weather, report single-family housing starts in May were substantially above their April and year-earlier levels. Contacts in St. Louis, however, report residential construction is still well below year-earlier levels and believe the industry has not bottomed out.

Banking and Finance

Total loans on the books of a sample of 93 small and mid-size District banks increased slightly in April and May after declining during the previous two months. Still, loan demand throughout the District remains weak. One St. Louis banker noted his customers--primarily small and mid-sized companies--were still concerned about the economic outlook and were hesitant to borrow for investment purposes.

Agriculture

Cotton and rice plantings have been delayed substantially in Mississippi, Arkansas and western Tennessee because of record or near-record rainfall. Mississippi appears to be the hardest hit of the

District states: as much as 20 percent of the intended cotton acreage and 40 percent of the intended rice acreage will not be planted. Many areas are reporting wheat crop losses of 50 percent or more because of moisture-related diseases. On the other hand, the corn, soybean and tobacco crops are in good condition.

Energy and Natural Resources

Above-average temperatures in May boosted electricity output significantly. A survey of District utilities found that peak electricity generation at many plants was the highest in several years. Generation for industrial usage, however, was mostly flat to slightly lower at major utilities. Year-to-date coal production is down almost 10 percent. Many District utilities continue to "test-burn" low-sulfur Western coal, which reduces demand for higher-sulfur Midwestern coal. Production at Southern Pine lumber mills rose in March, but remains below last year's pace.

Transportation and Distribution

Year-to-date passenger traffic is down slightly at all major District airports. Air cargo shipments in Memphis, however, have increased more than 15 percent. Airport officials report that lower air fares, the end of the Gulf War and lessened security measures are expected to boost airline traffic. Barge activity is mixed. Little Rock and Louisville report increased movements over last year, while St. Louis reports a decline. The rates charged for barge transportation in St. Louis--a barometer of river traffic--have fallen to record lows because of declining grain shipments.

NINTH DISTRICT - MINNEAPOLIS

Although the Ninth District has continued to feel the effects of the national recession, recently there is some evidence that the region is rebounding. Labor market conditions have improved slightly, while retail sales have exhibited moderate growth. Conditions in manufacturing, construction, and resource-related industries have been mixed.

Employment, Wages, and Prices

Labor market conditions improved in most of the District. North and South Dakota have continued to do well, with their unemployment rates falling in April from a year ago; 3.7 from 4.0, and 3.4 from 3.6 respectively. Minnesota rebounded in April with the unemployment rate falling to 5.0 from 5.5 a year ago. In Minnesota, however, this strength was a result of fewer people looking for work rather than more people finding jobs. Total nonagricultural employment was essentially unchanged in April from a year ago, with a drop in manufacturing, construction, and trade employment offset by growth in the service, financial, and government sectors. In North and South Dakota, by contrast, nonagricultural employment was up 1.6 and 3.1 percent respectively in April from a year ago. A recent survey of hiring activity in the Minneapolis--St. Paul area contained some grounds for optimism; 20 percent of the companies surveyed reported that they planned to increase the number of employees, while only 10 percent reported planned reductions. A Twin Cities help wanted index was 28.6 percent below its year-ago level in April, though this was better than at the national level where this was 31.7 percent below its year-ago level. Unemployment rates in Montana and the Upper Peninsula of Michigan were higher in April than their year-ago levels; 6.7 percent from 5.3, and 12.3 percent from 9.8 respectively; and were generally higher in western Wisconsin. In Montana, nonagricultural employment rose by only 0.5 percent in April relative to a year ago.

The state's average weekly hours in manufacturing at 39.7 in March, are still below their year-ago level of 40.0. However, March new business incorporations were substantially higher than their year-ago levels. Minnesota's April average weekly earnings in manufacturing was up 4.2 percent from its year-ago level, and up 1.8 percent from March. Employment in

manufacturing in Minnesota and Montana was lower in April than its year-ago level by 2.0 and 2.8 percent respectively. However, it rose in North and South Dakota by 5.4 and 1.5 percent respectively over the same period.

Consumer Spending

Retail sales in the District exhibited moderate growth, and some retailers expressed optimism about the future. March retail sales in Minnesota were 4.9 percent higher than a year ago. One District retailer reported first quarter sales in comparable stores were 9 percent higher, and May sales were 16 percent higher than the same periods a year ago. However, a number of major local retailers reported that sales were flat or only slightly higher in comparable store sales in May relative to a year ago, though sales in the first week of June are reported to be stronger.

New car sales in the District continue to be weak with dealers reporting sales declines of 6 to 11 percent thus far this year, relative to a year ago. Sales in May have continued this negative trend with dealers reporting new car sales declines of 11 to 20 percent, relative to a year ago. However, truck and used car sales appear to be picking up.

Housing sales have been weak in the District, due in large part to the depressed market in the Minneapolis--St. Paul area. However, recently both existing home sales and prices were up in Minneapolis--St. Paul. Existing home sales were up 13 percent in April relative to a year ago, posting a three-year high.

Tourism activity throughout the District has been generally good. The number of crossings over the Mackinac Bridge onto the Upper Peninsula of Michigan was up 1.2 percent in the first four months of this year, and 3 percent in May, relative to a year ago. Resort

owners in northwestern Wisconsin report that lodging reservations are ahead of last year and general inquires are 30 percent higher than a year ago. In Minneapolis, the U.S. Open is just beginning on a local golf course. In addition, the Wally Byam Caravan Club International, whose Airstream Convention brought in 8 million dollars to the Duluth region in 1983, has returned to Minnesota this June and July. Also, the International Special Olympic Games will be held in the Minneapolis--St. Paul area in July.

Construction and Manufacturing

Conditions in the District's construction industry have been mixed. The overhang of office space in the Minneapolis--St. Paul metropolitan area is expected to continue to depress commercial construction activity in the area. The value of future construction contracts in the Minneapolis--St. Paul metropolitan area remain substantially below year-ago levels. In addition, Minnesota housing permits were down 17 percent in March from their year-ago level.

Manufacturing conditions in the District have been mixed lately. An index of Minnesota's economic indicators rose slightly in March, but is still 0.4 percent below its year-ago level.

Resource-Related Industries

Recent high levels of precipitation in the District were a blessing for North and South Dakota. South Dakota, which had been reporting 40 to 60 percent of normal rainfall this year, reports that topsoil moisture is now in excellent condition, while planting in North and South Dakota is ahead of its five year average. However, recent precipitation in southern Minnesota was so high that parts of the state were flooded, and planting was delayed. Statewide, only 80

percent of the normal corn crop and 60 percent of the normal soybean crop has been planted. For corn, in particular, time is running out. The governor of Minnesota has applied to the Agriculture Department for disaster relief. To make matters worse, the mid-April index of prices received by Minnesota farmers was down 12 percent from a year ago.

Conditions in the District's mining industry have been fairly good. Ranchers in the District have also been doing well due to high cattle prices.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy is growing moderately due to continued strength in farm incomes and increased housing starts. Revival of home construction is reflected in higher demand for home mortgages; demand for consumer and home equity loans is also up. Growth in economic activity and in loan demand has been limited, however, by lackluster retail sales and further declines in drilling for oil and gas.

Retail Sales. Retailers report that sales have generally held steady over the last three months. Most respondents expect sales to remain flat through the summer, as consumer confidence remains shaky in some areas. Appliance and apparel sales are lagging, while seasonal lawn and garden sales are strong. Some retailers have raised prices slightly to cover higher wholesale costs, but prices are expected to change little during the summer. Respondents are satisfied with inventory levels and plan to continue keeping tight control over stocks.

Auto sales have been mixed in the last month, but dealers expect sales to improve during the rest of the year due to lower interest rates and improved economic conditions. Dealer financing is available in most district states, though potential buyers continue to have some difficulty getting loans. Dealers are either trimming or maintaining inventories.

Manufacturing. Purchasing agents report no increase in input prices over the last three months and expect prices to remain steady over the near term. Materials are still readily available, with no problems anticipated for the rest of the year. Most manufacturers continue to trim inventories and operate below capacity. Export sales are steady for most manufacturers. A few, however, report stronger foreign sales. A maker of buses and ambulances,

for example, reports booming export sales to Canada, Latin America, and the Pacific Rim.

Energy. High OPEC production is keeping oil prices relatively stable. As a result, producers are developing existing reserves but avoiding exploration. The average number of operating drilling rigs in district states fell from 237 in April to 224 in May. This dip caused the district rig count to fall about 16 percent below its year-ago level.

Housing Activity and Finance. Housing starts are up from last month and generally higher than a year ago. Most builders expect starts to rise somewhat further during the rest of the year. New home sales continue to improve, helping reduce inventories of unsold homes. Prices for new homes are also up moderately. Some builders expect higher sales this year than last, but others are less optimistic. Construction materials are readily available, but some builders report problems finding qualified workers.

Deposit flows at thrift institutions have been mixed over the last month. Deposits are expected to remain flat or increase moderately over the near term. Mortgage demand is generally stronger and commitments are up. Mortgage rates have been stable to down slightly and are expected to remain unchanged or drop slightly during the next several months.

Banking. Loan demand was unchanged at district banks last month, due to offsetting changes in several loan categories. Demand for commercial and industrial loans was unchanged to lower at most banks. But demand for consumer loans, home mortgages, and home equity loans increased. The demand for commercial real estate loans and agricultural loans was mixed. Most banks reported no change in their loan-to-deposit ratios over the last month.

Most banks have not changed their prime rates, but a few cut this key

lending rate in recent weeks. Others expect a prime rate cut in the near future. Most banks did not change their consumer loan rates or other lending terms. Deposits were stable at district banks during the last month.

Agriculture. The district winter wheat crop is expected to be average, but conditions vary widely. Yields are expected to be below normal in parts of Oklahoma, Kansas, and Missouri but above normal in parts of Nebraska. Harvest has begun in Oklahoma and southern Kansas and will move north through the district during the next two months.

Wet weather has hampered the planting of spring crops in the district. Most of the district's corn crop has been planted, but planting of soybeans and grain sorghum has been delayed in parts of Missouri, Kansas, and Nebraska.

Farm income, while down from last year, remains at a high level. Strong cattle prices continue to reduce the impact of weak crop prices on district farm incomes. Cattle prices may drop later this summer as an unusually large number of cattle in district feedlots go to market. Prices are expected to rebound quickly, however, as the inventory of cattle on feed returns to a more normal level.

ELEVENTH DISTRICT--DALLAS

The 11th District economy has improved since the last survey. Respondents note a slight pickup in orders and a more optimistic outlook. Much of the recent improvement stems from a mild pickup in District residential construction and some recent gains in consumer spending. Producers of lumber and wood, stone clay and glass, and primary and fabricated metals have noted increased orders from District home builders. District retail sales have increased slightly and many retailers say the outlook has improved. Growth in the service sector has increased to a modest pace with improvement in the hotel, advertising and temporary employment industries. Extreme weather conditions have slowed planting in some areas and estimates of crop production have been reduced slightly.

Overall, orders to District manufacturers have improved and are growing modestly. A main source of growth has been increased orders from District home builders. Demand has increased for brick manufacturers because of increased residential construction in Houston, Dallas and Austin. Brick producers expect demand to continue to grow as credit to builders is loosened. Lumber and wood producers note a sharp increase in production. While improved weather conditions are responsible for much of the recent increase, increases in Texas home and store construction was responsible for much of the gain. Most contacts in the lumber industry feel that the U.S recession has finally bottomed out and demand should improve gradually. Demand for primary metals has been steady to up slightly, following a weak January and February. Increases in residential construction in Texas and continued strong exports have helped this sector. Orders for chemicals have stabilized following declines during January and February. Weakness in the auto sector, however,

continues to suppress demand for plastics and related industries. Petroleum refining has been holding steady. Oil field machinery production has declined slightly due to decreased domestic drilling. Several apparel producers say that orders have recently jumped.

Although the District's business services are still reporting weak demand, several other service industries have noted improvement. The demand for legal services has been weak, although strength was reported in Houston and Austin where the Resolution Trust Corporation is now very active. Temporary employment agencies are seeing increased demand for services, and one firm noted strength in both the District and the nation. After declining dramatically for over a year, national and international demand for engineering services reportedly has bottomed out and recently has increased slightly. Advertising and communications firms noted large increases in demand from regional customers. Hotel occupancy rates continue to pick up slightly and airlines report stable to slightly improved demand.

Retail respondents in the District say that sales have improved and are now growing slowly. Sales in Houston are reportedly the strongest, while sales in Austin and along the Texas Border are also experiencing positive growth. Sales are weakest in the Dallas-Fort Worth Metroplex where recent defense-related layoffs have increased unemployment. Dallas-Fort Worth sales remain positive although very slow. Most retailers are optimistic that sales growth will improve in the coming months.

District auto sales have increased lately, but year-to-date sales remain well below last year. April auto sales in the Dallas/Fort-Worth metroplex were up 2.4 percent over last year, although year-to-date sales remain nearly

7 percent below last year. Houston sales were up 10 percent year-over-year in April, but year-to-date sales remained 8 percent below last year.

Oil prices have stabilized around \$20 per barrel after the end of the Middle East war. Prices should stay stable through the third quarter because OPEC has decided to hold production at current levels. District drilling has declined despite the price stability. The low drilling activity is partly due to low natural gas prices which are about 20 percent less than a year ago. Although domestic drilling activity is weak, foreign drilling by District oil and gas companies is healthy and is expected to pick up.

District construction activity has increased moderately due to some recent strength in single-family building. One respondent thought that the recent surge may be pent up demand from the Middle East war and may not continue. The multi-family sector is weak, but the outlook for this sector remains positive. There has been a significant slowdown in demand for civil-related projects (highways, infrastructure and public buildings) in Texas. The only area of growth in public structures has been prison building.

Extreme weather conditions have slowed planting in some areas of the District and agricultural production estimates have been reduced slightly. Dry conditions in West Texas and the Texas panhandle have reduced production estimates for wheat and cotton crops. Louisiana, north central Texas and portions of the coast have reported problems with excessive moisture. The index of agricultural prices received by Texas farmers and ranchers reached a record high in May, increasing 5 percent from last year.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic conditions in much of the Twelfth District are weak, although some bright spots have emerged recently. Most notably, lower interest rates have stimulated real estate sales activity in many parts of the District. In addition, some improvement in soft-goods sales has been noted in recent weeks. Manufacturing activity continues slow, with most firms taking a cautious approach toward investment plans. Agricultural conditions are mixed in the West, with many areas affected by drought and low commodity prices. Financial institutions continue to report weak growth in loan volume, although lower interest rates have spurred mortgage refinancing activity.

Business Sentiment

The economic outlook of Twelfth District business leaders continued to improve in June. Three quarters of respondents still expect GNP to grow less than 2.5 percent over the next four quarters, but the proportion of respondents anticipating slow growth has fallen steadily since the end of 1990. Expectations improved considerably for investment and spending. Eighty percent of western business leaders now foresee business investment and consumer spending improving or staying the same during the next four quarters. The outlook for housing starts also improved, with 70 percent of respondents projecting better housing starts over the next four quarters.

Wages and Prices

Wage and price increases in the Twelfth District remain modest. First-quarter consumer prices were only 2.7 percent above their year-earlier level in Phoenix, while consumer prices fell 1.6 percent during the last six months in Salt Lake City. Price increases for retail goods remain moderate. Food prices have risen at close to a 3 percent rate in recent months, and are expected

to rise less than 3 percent for the remainder of the year. A health-care industry executive expects the rate of increase in health care costs to moderate slightly in 1991, but still to exceed the general inflation rate. Most wage increases still are reported in the 3 to 5 percent range.

Retail Trade and Services

Conditions in the Twelfth District's retail sector are mixed. Two soft-goods retailers report that retail sales have picked up in recent weeks, prompting optimism for a reasonably good second half of 1991. Retail inventories remain tightly controlled. Many reports suggest that lower interest rates have not yet bolstered consumer durable goods sales. New-car sales still are slow in much of the West, although used cars are reported to be selling well. Advertising volume continues to decline for both television and newspapers.

Manufacturing

Twelfth District manufacturing activity is reported slow in many areas. Most firms are taking a cautious approach toward investment plans because of continued economic uncertainty. However, a survey of Puget Sound area businesses suggests that 67 percent anticipate increased capital spending during the next twelve months, and Boeing is undertaking a major expansion of its Puget Sound area facilities. Aluminum manufacturers report excess capacity and weak demand, pushing prices down 35 to 40 percent. Farm machinery sales are slow in Idaho because of drought and weak commodity prices. Conversely, heavy construction equipment sales are reported up over a year ago in some parts of the District.

Agriculture and Resource-Related Industries

Agricultural and resource industry conditions are mixed in the West. Agriculture in California is in good shape outside of the areas hit hardest by the drought and freeze. Dairy farmers are facing difficult conditions because of low milk prices. Cattle prices remain at record levels, which has caused increased costs and reduced profits for feedlot operators. Wood product

prices increased in recent weeks, while log supplies remain tight as a result of strict restrictions on timber harvests in federal forests.

Construction and Real Estate

Construction and real estate activity in the West is reported to have improved in recent months. Increased housing sales are attributed at least in part to lower interest rates. Increased residential activity was reported throughout California. Sales of existing homes in California rose 12 percent between March and April, for the third consecutive monthly increase. The median home price rose 1.7 percent during the month, to a new record high at a level 4.9 percent above its year-earlier level. In Oregon, the average home sales price is reported up 22 percent from last year. Commercial activity is reported to be stable to weak. In Los Angeles, leasing is down 19 percent in the first four months of 1991 compared to the same period in 1990, despite improvement since the beginning of the year. Several new commercial construction projects have started in Southern California. Overall construction activity is strong in Idaho and Utah.

Financial Institutions

Twelfth District financial institutions report relatively stable conditions. Loan growth remains weak in most areas, but lower interest rates are stimulating increased demand for mortgage refinancing. However, one California banker reports that some of the increased refinancing activity is substituting for home-equity loans. In California, credit card balances are reported to be increasing, while in Utah, consumer delinquencies have improved in recent months. Some banks report high liquidity as a result of strong growth in money market deposit accounts.