

SUMMARY OF COMMENTARY

on

CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICTS

July 1991

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SUMMARY*

According to contacts across the country, national economic conditions continue to improve, but at a slow, uneven pace. Retail sales are said to be flat or edging up on average. Nevertheless, respondents from all areas expect a modest recovery in retail sales during the second half of 1991. Manufacturers report some increase in activity, on balance, but recovery is not uniform; demand for consumer goods is said to be stronger than demand for capital equipment; demand for manufacturing labor shows signs of stabilizing. By contrast, several districts report that state and local governments and some service industries are cutting employment. The pickup in home sales in the spring has lost some momentum, and commercial real estate markets and nonresidential construction remain weak. In most districts, business loan demand shows little strength. Hot, dry weather threatens crops in several regions.

Retail

Retail sales during June and early July are described as flat or edging up in one-half of the Federal Reserve districts. In the remaining districts, New York, Cleveland, and Richmond respondents report declines, while those in Atlanta, Minneapolis, and Dallas report moderate increases.

Retailers east of the Mississippi note month-to-month variability. Unseasonably warm weather in May caused an acceleration in purchases of

*Prepared at the Federal Reserve Bank of Boston and based on information obtained before July 29, 1991. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

summer items, thereby weakening June results. Hot weather in July boosted demand for some seasonal products, but discouraged other purchases, especially automobiles.

In recent weeks, apparel sales were strong in the New York, Philadelphia, Atlanta, Kansas City, and Dallas regions. Major home furnishings were more often a source of weakness than of strength. Sales figures at automobile dealerships differed widely both across and within districts as a result of economic and credit conditions, weather, consumer preferences, and the timing of fleet purchases. Retail inventories are generally described as satisfactory, and many retailers remain conservative in placing new orders.

The consensus outlook calls for a modest recovery in retail sales during the latter half of 1991. However, some contacts believe that a noticeable pickup will not occur until the fourth quarter.

Manufacturing

In a majority of Federal Reserve districts, manufacturing contacts report that, on balance, demand is strengthening very gradually. However, respondents in the Cleveland, Atlanta, and San Francisco regions describe conditions as mixed, while those in Dallas and Boston note a recent softening in incoming orders. Although manufacturing inventories generally appear satisfactory, contacts in the Atlanta, Boston and Dallas districts note cases of unwelcome buildups.

Producers of consumer goods and auto supplies are said to enjoy the greatest improvement in demand. Contacts in a number of districts report stronger orders for appliances, furniture, carpets, textiles and apparel, and for plastics, steel and parts for the auto makers. By contrast, the capital equipment industries remain relatively weak,

according to the Boston, Atlanta, Chicago, Dallas, and Philadelphia regions. Demand for oil field and agricultural machinery and products for aerospace was also described as soft. Exports are a source of strength in several coastal districts, but contacts in Dallas and Chicago mentioned slowdowns in exports of steel and agricultural equipment.

The demand for labor in the manufacturing sector is stabilizing. Contacts in the Minneapolis and Atlanta districts report longer hours, while respondents in Chicago and St. Louis speak of smaller cutbacks and shutdowns averted (in steel and heavy-duty trucks).

Input prices are generally said to be flat to down. According to Dallas district contacts, metals prices are down, chemicals prices are falling but at a slower rate, and lumber prices have stabilized after surging earlier in the year. Competition is forcing most manufacturers to maintain or reduce their selling prices. Retail respondents report few wage or wholesale cost pressures.

Most manufacturers expect to see a gradual improvement in orders and production over the next three to six months. Producers of consumer durables generally believe the trough is behind them, while producers of capital goods and construction machinery say they are close to the bottom and expect a revival in the second half. Respondents from the steel and auto industries and the Boston district remain very cautious, however.

Services and Related Industries

Respondents in several districts report cost cutting efforts by service industries and state and local governments. In the New York district, mergers in the banking and airline industries are expected to

cause sizable employment losses. In St. Louis, the trucking industry is retrenching, while weak economic growth in both Europe and North America is hurting express shipping. Contacts in the San Francisco region note employment losses in the professional services sector. In Dallas, however, engineering firms, business services, and temporary employment agencies report weak growth. The tourist business is improving in many parts of the nation.

Real Estate and Construction

The spring pickup in home sales appears to have moderated, with respondents in half the districts reporting a loss of momentum. In Minneapolis the slowing was attributed to increases in the cost of FHA mortgages; in contrast, the prospect of higher FHA costs was seen as a spur to sales in the Dallas district. Residential construction was said to be edging up in the Atlanta, St. Louis, and Minneapolis districts, steady in Richmond and mixed in Kansas City.

Although contacts in the New York and Philadelphia districts have seen recent increases in commercial leasing activity, commercial real estate markets are weak across the country. Nonresidential construction is depressed by high vacancy rates and, according to contacts in New York and San Francisco, difficulties securing construction financing.

Banking

Loan demand from creditworthy businesses is generally said to be weak. In New York, banking contacts say they remain willing to lend to qualified business borrowers, but credit standards have tightened in recent months and borrowers' credit quality has declined. Philadelphia district banks are actively promoting business loans but are meeting slack demand from creditworthy borrowers. Moreover, Chicago respondents

say that businesses are issuing long-term debt and are using improved cash flow to reduce their bank debt. However, Atlanta banking contacts report that improvements in customers' financial condition are resulting in slightly higher loan approval rates; in the Cleveland district lenders' interest in development loans has revived a bit.

Agriculture and Natural Resources

Although Dallas and San Francisco report good conditions for most crops, hot, dry weather has reduced expected yields of corn, soybeans, and cotton in parts of the Richmond, Chicago, St. Louis and Kansas City districts. Contacts note that increased expenses, weak demand, and declining production prospects are clouding the outlook for farm incomes in some areas. Nevertheless, the cattle industry remains strong in all reporting regions, despite a recent drop in prices.

Kansas City and Dallas contacts describe oil and gas activity as fairly stable. Rig counts remain low, and natural gas prices are at their lowest level in 12 years. In the San Francisco region, lumber industry conditions are said to have weakened in recent weeks. By contrast, St. Louis and Minneapolis lumber producers see better prospects.

FIRST DISTRICT-BOSTON

First District business conditions are mixed and uncertain. Manufacturers are impatient to see clearer evidence of a national recovery. Their sales and orders are generally flat to down compared with mid-1990, and slightly more than half report recent softness in incoming orders. Retail contacts report that June sales were similar to their levels a year ago. However, two-thirds expect July sales to end above year-earlier figures. First District housing markets continue to improve.

Retail

Retail contacts report that consumer spending generally remains weak in the First District. For most stores, June sales ranged from 4 percent below to 3 percent above year-ago figures. Relatively strong products included housewares, home repair items, and electronics. In early July, year-over-year percentage changes in sales were generally as good as or better than the June results. With the hot weather, air conditioner sales were strong. Tourist business was brisk in coastal areas.

Retailers are keeping inventories very lean, although one contact is stocking up on some electronics items to take advantage of incentives for accepting early delivery. Except for a sharp rise in lumber prices, any wholesale price increases have been very modest.

Contacts report fairly steady employment levels in recent months. One retailer is opening an anchor store in a new mall in August. However, a recently acquired chain will close its New England headquarters, and a third firm notes that a major competitor recently went out of business.

Several retailers observe that economic conditions in New England are no longer worsening. However, retailers universally believe that continuing problems in the banking, real estate, and manufacturing industries, as well as state budget cutbacks, will impede the economic recovery in New England. For those contacts providing estimates, sales expectations for 1991 range between zero and a 5 percent increase over 1990.

Auto Sales

Auto dealers indicate that foreign car sales are healthy and, at a few dealerships, equal their levels in previous good times. By contrast, sales of American cars remain weak. As a result, dealers have kept inventories lean, despite factory incentives offered by the U.S. auto makers. Foreign auto dealers expect sales to remain robust; American dealers are less optimistic.

Manufacturing

Half of the First District manufacturers contacted express disappointment that they are not experiencing a recovery. For a majority, sales and orders are flat to down compared with year-ago levels, with declines ranging as high as 15 percent. Slightly over half of the respondents also indicate that incoming orders have softened recently. Orders from the semi-conductor and capital goods industries, retailing, and defense exhibit weakness. By contrast, two contacts note that orders from the auto industry have stabilized. Most respondents discussing overseas demand report that it continues stronger than domestic; however, two firms describe foreign sales as slowing. For the majority, inventories are at satisfactory levels. However, one-third of the respondents refer to problematic increases.

According to most contacts, input prices are stable or falling,

but a minority report increases in prices for rubber, chemicals, and packaging materials. Intense competition is forcing most respondents to maintain or reduce their own selling prices. Only a minority had raised prices in 1991 (by 2 to 6 percent).

Employment is below year-ago levels at all but one of the manufacturers surveyed. The declines range from 2 to 10 percent. Respondents also describe furlough and work-sharing programs, extended summer shutdowns, and postponed salary increases. A majority plan further cuts, primarily through attrition or reductions in the workweek.

Over one-half of the manufacturers questioned expect capital spending to continue at last year's pace, but one-third have reduced their capital budgets -- by double-digit percentages from 1990 levels. Investment plans focus on maintenance and modernization.

Most First District manufacturers contacted describe themselves as guardedly optimistic or hopeful about their own firms' prospects. However, half see little or no sign that a national recovery has begun. They worry that the upturn may be slower to arrive or weaker than they originally anticipated.

Residential Real Estate

First District realtors report that residential real estate sales have improved slightly over the past couple of months. Sales are noticeably better than a year ago, but below the traditional summer volume. Housing prices continue to fall but have almost hit bottom, according to most realtors. Lower priced homes are selling better than higher priced property. Moreover, the condominium and second home markets show no sign of improvement.

SECOND DISTRICT--NEW YORK

Developments in the District economy have remained mixed in recent weeks. The pace of office leasing picked up in parts of the District and the June surveys of purchasing managers in both Buffalo and Rochester showed some improvement. The unemployment rate declined in New Jersey but rose in New York and further substantial job losses are expected in the banking, airline, and government sectors. Many homebuilders now expect that sales of new homes this year will be at best only slightly improved over the low levels of 1990. June sales at District department stores were below year-ago levels though in some cases these results were on or above plan. Most officers surveyed at small and midsized banks reported no change in the ratio of business loans to total credit over the last three months.

Consumer Spending

June sales at District department stores were below year-ago levels though in some cases these results were on or even above plan. Over-the-year decreases of from 1.0 to 11.0 percent were attributed to a recessionary environment and stronger-than-expected May sales due to unusually warm weather which borrowed from June. Most respondents do not anticipate much improvement in sales before the fourth quarter at best.

Sales of big ticket items remained sluggish at most stores though extra promotional activity brought a pickup in furniture sales in one case. Items that sold best were various types of men's and women's apparel. Despite June's slow sales, most respondents reported that inventories were right on target when July summer clearance sales began.

Residential Construction and Real Estate

After a flurry of homebuying activity during the spring, sales have become more subdued. Moreover, since much of the earlier buying was in the resale market, many homebuilders now expect that sales of new homes this year will be only slightly to somewhat improved over the low levels of 1990. On the cost side, builders report that lumber prices have recently risen, and a shortage of credit for acquisition and construction loans continues in much of the District. One large builder reportedly faces bankruptcy because of nonrenewal of a loan for a sizable development he is constructing.

The pace of office leasing picked up in parts of the District during recent weeks though vacancy rates remain high in many areas. Leasing in midtown Manhattan was the strongest in several months and no major blocks of new space were marketed. As a result, the primary vacancy rate declined for the first time since last fall after several months of no change. While the primary vacancy rate in downtown Manhattan was unchanged in June, this followed declines in April and May. Office leasing activity has also reportedly improved in northern New Jersey, but in some other parts of the District such as Buffalo and Fairfield County, Connecticut, vacancy rates have been rising, largely as a result of corporate consolidations and moves.

Other Business Activity

The June surveys of purchasing managers in both Buffalo and Rochester showed some improvement. In Buffalo the percentage of surveyed firms with an increase in new orders rose to 27 percent from 4 percent in May while the percentage with greater production rose to 31 percent from 25 percent in May. More than 30 percent of surveyed firms in Rochester reported improved business conditions, up from 19 percent in May and 14 percent expected a worsening of business conditions over the next three months, down from 26 percent in May.

The June unemployment rate declined in New Jersey to 6.6 percent from 6.8 percent (seasonally adjusted) but rose in New York from 7.4 percent to 7.7 percent. New York's rate has surpassed the national average for the last three months while New Jersey's has been somewhat below. The District's employment outlook is dimmed by several recent announcements. The planned merger of Chemical Banking and Manufacturers Hanover is expected to reduce employment by some 6200, with up to 70 branch closings, while further restructuring at Citicorp could result in a job loss of another 10,000. In addition, the proposed sale of much of Pan Am to Delta is expected to leave some 10,000 more District workers without jobs. Government layoffs have also begun in New York and New Jersey and thousands of additional jobs may be eliminated.

Financial Developments

Most senior officers surveyed at small and mid-sized banks in the Second District reported that their ratio of business loans to total credit extended has not changed over the last three months. The few respondents noting a change were evenly divided as to the direction.

A majority of the surveyed banks have tightened their credit standards over the last three months. Most loan officers also stated that the credit quality of their applicants has declined. Nevertheless, they say their willingness to extend business loans to qualified borrowers has not changed.

The planned merger of Chemical Banking and Manufacturers Hanover would realign the banking market of the District. Their combined assets of \$135.5 billion would constitute the second largest banking company in the nation behind Citicorp with \$216.9 billion in assets. Their combined deposits would constitute 11.1 percent of the New York market behind Citicorp's 12.5 percent share.

THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District in late July appeared mixed. Manufacturers indicated that business continued to improve. Reports from retailers varied; but, overall, sales appeared to be sluggish. Bankers generally were experiencing declining loan demand. Real estate contacts said commercial leasing activity was slow but showing some signs of improvement, and residential sales were picking up also; however, construction activity remained weak.

Overall, sentiment among Third District business contacts is slightly positive, although reservations about commercial real estate persist, and the outlook for bank lending is clouded. The balance of opinion among manufacturers is optimistic, with improvement anticipated in orders and shipments, and gains forecasted for employment. Retailers look for some slight improvement in the fall and winter. Bankers said a rebound in lending is dependent upon an economic recovery, which they do not believe is firmly established yet. Realtors expect further increases in residential sales, but believe significant improvement in commercial activity is at least a year away. The pace of construction is expected to remain slow.

MANUFACTURING

Manufacturing activity in the Third District continued on the uptrend that began in May, according to firms contacted in July. Although half of the companies polled reported just steady business in recent weeks, one-third noted improvement. Gains were fairly evenly spread across industries in the region except for manufacturers of industrial equipment and building products; these firms indicated that demand for their products remained weak. Overall, however, both new orders and shipments were moving up at plants in the District, and both delivery times and order backlogs were edging up.

Improving business conditions were not being accompanied by increases in employment. Two-thirds of the manufacturers contacted said they were holding the line on payrolls, and one-fourth were making cuts. Most firms also reported no change in the length of the

workweek in July, and those reporting increases just offset those reporting decreases.

Looking ahead, most of Third District manufacturers surveyed expect business to continue to improve over the next six months. On balance, they foresee gains in new orders and shipments. In line with this outlook, they plan to add workers and step up capital spending during the rest of the year.

RETAIL

Retailers contacted in late July gave mixed reports on recent sales results. Some specialty retailers, particularly those selling apparel and jewelry, indicated that sales were improving, but general merchandise and department stores appeared to be experiencing sluggish sales. Some store officials said that although hotter than normal weather boosted sales of fans and air conditioners, the heat was having an overall depressing effect on sales by reducing store traffic.

Opinions about the balance of the year vary. Some merchants believe a pickup may begin this fall but others think that sales could remain slow until the Christmas shopping season. Few merchants expect a strong recovery, and some said they were being cautious in placing orders for merchandise intended to be sold during the fourth quarter.

Auto dealers generally indicated that sales slipped somewhat in July after a pickup in June. The selling rate has varied considerably month-to-month so far this year, according to dealers, and they say it is difficult to predict sales for the second half. On balance, however, they expect auto sales will improve only slowly even with an overall economic expansion.

FINANCE

Most Third District bankers contacted in late July said loan volumes outstanding were falling in nearly every credit category. Home equity loan volume was showing the least slippage, and some bankers said they were promoting these loans aggressively. Other types of consumer credit have been declining at a more rapid rate, as have real estate and business loan volumes. While some bankers said they were continuing to trim real estate portfolios, several said they were stepping up promotion efforts for business lending but meeting slack demand from creditworthy potential borrowers.

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Third District bankers generally indicated that they expect loan demand to remain slack in the near future. Several said they did not believe an economic recovery was firmly under way yet, and most expect only a slow expansion following the current recession. Nevertheless, some optimism was expressed that loan growth would resume with a recovery as consumer demand increases and improved business revenues qualify more firms for credit.

REAL ESTATE AND CONSTRUCTION

Third District real estate executives reported that commercial leasing activity for the first half was quite low compared to the past few years, but some noted a pickup in the past month. Estimates of vacancy rates for office space in the Philadelphia area range from 14 percent for the central business district to 26 percent in some suburban areas. Some realtors believe vacancy rates could decline during the second half given the lack of significant construction activity in the region; however, most expect that solid improvement in overall commercial real estate--including hotel, retail, and office space--is at least a year away.

Residential realtors expressed some optimism that the sales trend may be improving. Many reported a sales pickup in February and March, and, while there are indications that the upward momentum has flagged recently, realtors do not expect sales to fall off, after taking into account seasonal factors.

Overall, construction activity in the Third District remains weak and the latest reports on new contract values in the Philadelphia SMSA (May) indicate a continuing downward trend. Industry contacts polled in July said that some financially strong residential builders were continuing work on projects and that some new commercial construction was being planned for the fall; but, overall, private construction activity is expected to remain low. Significant increases in public construction are precluded by budget pressures on state and local governments, according to industry sources.

FOURTH DISTRICT - CLEVELAND

Summary. Activity in the Fourth District continues to improve gradually. Consumer spending for automotive and nonautomotive goods slowed in July, but retailers and producers of consumer goods remain cautiously optimistic for a continued, mild recovery in spending. Most manufacturers, except for some producers of construction machinery and machine tools, believe that they are in the early stages of a recovery. Builders of high-priced new homes report that demand is weak but note that lenders recently have been more actively seeking loans, including construction loans. Loan activity remains generally soft, with scattered signs of increases in business loans.

Regional Economy. The economy in the Fourth District continues to improve gradually. In Ohio, employment has risen in three of the last four months, and in June was nearly back to its latest peak in December 1990. The unemployment rates in Ohio and in the District's top four metropolitan centers were all below the national average in May and June. While respondents believe that the recession in the District is over, they continue to expect that recovery will be mild.

Consumption. Retailers report a slowdown in consumer spending in the past month, which some attribute to the unusually hot weather, but which others blame on tight inventories of summer-related goods, especially apparel,

fans, and air conditioners. They are cautious about near-term sales prospects because they believe that revival in consumer spending in spring and early summer was partly weather-related and because they anticipate only moderate gains in employment and income in the coming months.

Auto dealers report that car sales have eased since early July, which some believe was due to the heat wave of recent weeks. They nevertheless are encouraged about sales prospects for the 1992 model year, because initial orders for the new models are said to be at or above levels at comparable periods in the past. Dealers report about a 60-day inventory of new cars, with higher consumer and dealer incentives likely to slash the stocks of models in excess supply. "Nearly new" cars are still selling well and may be a substitute for new cars, according to some dealers.

Auto producers believe that fleet sales in June were higher than usual, and consequently are cautious about the strength of new car sales. One producer expects a sales pickup of about 10 percent in the second half of the year.

Manufacturing. Recovery in production has been mixed, and respondents anticipate continued but slow growth. Major producers of consumer durable goods believe the trough in their orders and output was in late 1990 and early 1991, but capital goods industries are marked by mixed patterns.

Auto producers acknowledge that new car production will not be a drag on GNP and industrial production as it was earlier this year, but are cautious

about whether auto production will contribute as much to total output in the second half of 1991 as it did last quarter.

Production of major home appliances is on a rising trend, according to a producer, because sales to dealers have strengthened and inventories are being rebuilt following a liquidation in late 1990 and early 1991.

Capital goods producers uniformly expect a revival in output in the second half of this year, but some still believe that their business is in a declining phase. One forecaster will trim his second-half outlook for producers' durable equipment because industrial and transportation equipment production last quarter was less than he expected. Heavy-duty truck orders revived moderately last quarter from a 1991:IQ trough, and by year-end are expected to be about twice the level of the weak first quarter, according to a supplier. A producer of electric motors and industrial equipment reports signs of revival in that industry late last quarter. The worst of the decline in the construction machinery industry is over, according to a producer, but recovery has not yet begun because construction activity, except for housing and highways, remains in recession. Finally, a machine tool producer believes that the decline in orders is close to bottom and expects a revival in the second half of this year.

Steel analysts see little change from the current 70 percent operating rate over the next few months. Orders from the auto industry have picked up,

but not so from the capital goods and construction industries. Steel inventory liquidation by customers is said to have run its course last quarter.

Construction and Real Estate. Some builders of new homes priced at \$250,000 and higher complain that demand has weakened since early June, and that second-half construction appears to be limited to replacing homes that were sold earlier this year. One builder reports that banks are now interested in making development loans that were not accepted just a few months ago. A major lender agreed that demand and new construction for the high end of the housing market is weak, and that his firm is now looking at custom home builders that previously were not its customers.

Financial Developments. In general, loan activity remains soft. There are only scattered signs of a pickup in business loans, despite the revival in economic activity. Some lenders note that commercial and industrial loans in recent business recoveries declined for several quarters before strengthening. Lenders insist that loan standards have not tightened in recent months, but neither have they been relaxed. Some bankers note a small pickup in consumer loans, especially for cars. One banker reports that business, consumer, and mortgage loans were off slightly in June, but that loan officials continue to search for creditworthy borrowers because loan growth so far this year has been disappointing.

FIFTH DISTRICT-RICHMOND

Overview

District economic performance was mixed from June through mid-July, and some of those surveyed expressed concern over the evidently slow and uneven pace of the recovery. Manufacturing improved, but retailing and commercial lending apparently did not, and no improvement was seen or expected in commercial real estate. Most state budgets had been balanced; at the time of the survey, however, South Carolina and the District of Columbia were still revising their spending plans. Agricultural conditions remained favorable, though inadequate rain threatened crops in some parts of the District.

Consumer Spending

Our regular survey of retailers indicated that business slowed in the past month. Most retailers noted declines in their sales and shopper traffic, as well as in their inventories, employment, and capital expenditures. Their wages and prices rose somewhat.

Despite slower current activity, respondents were optimistic about the business outlook for the next six months. Most expected general economic conditions to improve locally and nationally, and they also expected a rise in their own sales and shopper traffic. Wholesale and retail prices were also expected to rise.

Manufacturing

Our regular mail survey of manufacturers indicated that District factory activity improved slightly in July. Manufacturers reported stable to higher

levels of shipments and new orders. Inventories and order backlogs apparently fell, while other business indicators remained steady.

A majority of manufacturers foresaw improvement over the next six months in national and regional business conditions and increases in their own shipments, new orders, and prices.

Economic Recovery

We asked our manufacturing and retailing respondents if they thought the recession was over. Nearly half of the manufacturers believed the recession had bottomed out--both for themselves and for the economy as a whole--while less than a fourth thought it had not. Retailers had mixed feelings about whether general economic recovery had begun; almost half believed that the retail sector was still in a downturn, while less than a third thought the downturn had ended.

Port Activity

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that exports rose and imports fell in June from May and from a year earlier. Exports were expected to increase faster than imports throughout the remainder of the summer and fall.

Those surveyed thought that the declining dollar had boosted exports. Hampton Roads reported stronger exports of higher-valued items--such as industrial machinery--to Northern Europe. Coal exports rose at both Hampton Roads and Baltimore.

Tourism

A telephone survey of District hotels, motels and resorts indicated that tourist activity remained flat in July despite some reports of a strong July

4th. A majority of respondents expected tourism to remain lackluster for the rest of the summer and into the fall.

Finance

District financial institutions contacted by telephone indicated that the demand for commercial and industrial loans weakened slightly in June and early July. Few new businesses reportedly sought financing. Loan delinquency rates evidently edged down.

State Budgets

According to a telephone survey of state budget forecasters, four Fifth District states entered the new fiscal year with their budgets balanced. South Carolina was in the process of revising its spending plans in response to new revenue estimates. West Virginia had no shortfall going into the new fiscal year, and the other states corrected their shortfalls by either reducing spending, increasing taxes or a combination of both. The District of Columbia's fiscal year ends September 30 and some revenue shortfall remained when the survey was taken. Further budgetary actions were expected, including possible D.C. government employee layoffs.

Housing

A survey of homebuilders suggested that the housing market was steady in recent weeks. Builders reported little change in starts and most indicated that sales were flat or slightly up, with low-priced and medium-priced homes selling best. Inventories of unsold homes reportedly fell. Nearly all builders said that home prices were steady, despite a rise in lumber prices. Most expected no improvement in housing activity over the next few months.

Commercial Real Estate

Real estate contacts said that District commercial construction had come to a standstill. Weakness was especially pronounced in the Washington, D.C. area, where prospects for an upturn were termed poor because of high vacancy rates. In other large cities, commercial real estate markets were sluggish--though less than in Washington--and problems were even less severe in smaller District cities.

Agriculture

Conditions in the District's farm sector were generally favorable, according to analysts contacted, but hot and dry weather conditions in Virginia and Maryland threatened crops. Throughout the District, the planting of soybeans and the harvesting of small grains were almost complete. The condition of soybeans, corn, pastures, fruits and vegetables was reported to be good in most areas. Tobacco marketing was underway with both production and prices reported strong. In Virginia and Maryland, hot temperatures and scarce rainfall had begun to stress crops. Corn, soybean, and peanut yield prospects were beginning to dim, and the crops faced severe damage if adequate rain were not received soon.

SIXTH DISTRICT - ATLANTA

Overview: Businesses contacted in July indicate that signs of recovery are spreading slowly through the Southeast. Retailers report continued sales improvements which included scattered gains in consumer durables. Manufacturers' reports continue to be mixed, but more told of increased orders and production than earlier this year. Though home sales leveled off, inventories of unsold homes have fallen and building has edged up in a few markets. Industry contacts report that cotton and peanut crops have shown marked improvements from earlier rain-related conditions. No exceptional wage or price pressures were reported.

Retail Sales: June and early July retail sales have maintained the modest growth rate posted in the spring. District retail contacts all stated that apparel and home furnishings were leading the sales increases; reports on durables were mixed. One large retailer reported that furniture and appliance sales are down after doing better earlier in the year. Although, three out of four automobile dealers contacted increased orders of new models in response to better sales, their orders are still below last year's levels. Merchants plan no increases in orders except for apparel, and inventories continue to be lean. Reported declines in June retail advertising confirm retailers' cautious behavior.

Tourism and convention travel continues to do relatively well. Adjusting for normal seasonal fluctuations, contacts in Atlanta, New Orleans, and Orlando report further monthly increases in convention bookings and visitors for June and early July. The owner of an economy hotel reported that business "bounced back" in the second quarter and future sales look promising for that segment of the market since travelers continue to trade down in the cost of accommodations.

Manufacturing: Mixed manufacturing reports mirror the scattered improvements noted by retailers. A little over half of the manufacturers contacted saw evidence of a turnaround in orders. Textile producers unanimously report increased work hours and production levels in response to rising orders. Producers of refrigeration and air conditioning equipment, and carpet and carpet tiles all report stronger orders and production over previous months this year. A furniture manufacturer has increased production in response to better sales. A spokesperson for an automobile company expects one assembly plant in the region to soon increase hours worked in response to rising orders. Exports of paper products and kaolin continue to grow.

The remainder of the manufacturers have not yet seen any improvement in orders. A heavy equipment dealer, upon seeing further declines in sales early this summer, made additional inventory reductions. In Florida, a packaging company contact reported that June sales were down significantly on a year-to-year basis while a building materials manufacturer with excess inventory has seen no rebound in sales and is continuing to trim payrolls. Farm equipment sales have not recovered from their earlier depressed levels even though the weather has improved significantly. Grain and phosphate rock exports remain weak.

Financial Services: Three out of four bankers contacted reported some increases in June and July loan demand over last year. A few bankers also indicated that a strengthening of the financial condition of their customers has resulted in a slightly higher loan approval rate. A real estate lender in Georgia said that improved profitability of single family homebuilders has helped this June's new residential construction loans to significantly exceed last June's levels. However, some residential and commercial developers still say that they cannot get the financing to build. Auto dealers emphasize that credit terms are tight. Credit terms for small businesses do not appear to have eased.

Construction: Most residential realtors reported that home sales levelled off in June and July at levels about even with or slightly above those of last year. Higher FHA down payments have reportedly knocked out some potential home buyers. Diminished new home inventories have recently stirred activity in some residential markets. All commercial builders contacted believe that nonresidential construction has hit bottom but no rebound is expected for some time. Public projects are still the only reported strength in nonresidential construction throughout most of the region.

Wages and Prices: Employers generally report no increases in wage pressures. Substantial layoffs over the last year have increased pools of job applicants. Some natural gas producers are scaling back production and contemplate layoffs as a result of depressed prices. Several leasing agents reported that office rental rates have levelled off in the last sixty days at about thirty percent below last year's rates. Rising lumber prices have raised residential construction costs; however, homebuilders noted that they have been purchasing appliances at prices below those four or five year ago.

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SEVENTH DISTRICT--CHICAGO

Summary. The Seventh District economy generally remained on a modestly expanding path in June and early July. District consumer spending appears to have risen slightly over this period, according to several contacts. On balance, District manufacturing activity strengthened in June, and the recovery in the auto sector continued. However, several contacts reported that the capital goods sector remained weak. Drought-like conditions have placed stress on potential District crop yields. Bank credit growth in the District was restrained by both demand and supply factors, and commercial real estate portfolios continued to weigh on bank capital positions.

Consumer Spending. Consumer spending gains in the District were sluggish in June and early July. A recent survey of retailers in Illinois and Michigan indicated that June sales were about equal with last year, in contrast to a decline nationally. Earlier-than-expected growth in sales of seasonal merchandise helped generate a good national retail sales report in May, but was followed by some softening in June, according to one District contact. Sales were not simply shifted to the earlier month, however, as many retailers found themselves low on stocks of items that remained in demand through June. Several appliance retailers in the Illinois state capital reported that year-over-year sales gains resumed after state workers began receiving paychecks, which had been suspended during recent budget negotiations. The Wisconsin vacation season is going very well, but low occupancy rates and heavy discounting continue to depress the Detroit hotel industry.

Autos. National reports showing car sales rising from low levels in March and April were joined by increasingly optimistic reports from several District auto dealers. The slippage in auto sales reported for mid-July may have been due in part to a heat wave that made shopping unattractive, according to several dealers. An industry economist noted that sales were buttressed by fleet purchases in June and should have been expected to ease somewhat, but auto sales in the second half of 1991 are still expected to be better than in the first half. Several dealers located in stable markets reported that sales have begun to show a steady rebound. Dealers located in less stable or more diverse markets reported that sales remain sluggish, in part due to stricter financing conditions. A distributor of transplant autos reported good sales growth in the Midwest in June and early July, and market share gains in the District continue. Several contacts indicated a growing importance of need-based buyers in the sales mix. Fewer buyers are "reaching up" to more expensive models.

Manufacturing. The balance of momentum in District manufacturing activity shifted toward expansion in recent months, after lagging other sectors of the region's economy. Purchasing managers' surveys around the District continued to show improvement. In July, the Chicago index registered net expansion for the first time since last August, although new orders was the only component to register over 50 percent. Slower employment cutbacks also contributed to the rise in the overall index. Still, the trend in the overall Chicago index has been unambiguously positive since a January low. Sharper improvement was recorded in June by two surveys in Michigan. The Detroit index for June registered what the survey director described as "the first full-fledged recovery signal," with above-average gains recorded in the auto sector. A survey conducted in Southwest Michigan has shown solid expansion for several months, and sharp gains in the employment and production components of the June index joined continued expansion in new orders.

Reports by individual manufacturers suggested continued gains in production of consumer durable goods, while reports from capital goods manufacturers were mixed. A large steel producer reported that its order book points toward shipment increases through the end of the third quarter (on a seasonally adjusted basis), and additional growth is anticipated in the fourth quarter as well. This contact cited strength in orders from auto and appliance manufacturers, while bookings from producers of construction equipment, agricultural machinery, and office furniture remained soft. A large electronics supplier reported that new orders gains, which began in April, continued through June. A manufacturer of paper containers reported that year-over-year shipment growth returned in June, after new weakening was recorded earlier in the second quarter. This contact also cited strength in orders from appliance manufacturers. A survey of printers indicated modest yet clear improvement in orders from District manufacturers in May and June. Heavy-duty truck orders softened in June, but only after an earlier surge generated by a price increase announcement, and one large manufacturer delayed a temporary factory shutdown for the second time. Several other capital goods producers, which typically lag in the early stages of a recovery, reported that orders remain soft. Sales and rentals of construction equipment remained weak. Promotional activity bolstered sales of agricultural machinery in the second quarter, but one manufacturer stated that diminishing earnings prospects have dampened farmers' capital spending plans, both domestically and internationally.

Agriculture. Crops in major portions of the District have been under considerable stress recently because of the drought-like conditions that have prevailed since the end of May. The hardest hit areas stretch from north central Indiana to central Iowa. Many observers believe that corn yields in the hard-hit areas suffered considerable irreversible losses during the past two weeks. Forecasts of continued hot and dry weather during early August raise the possibility of more extensive crop damage, especially for soybeans.

Financial Markets. The need to strengthen capital positions and uncertainty over the future course of financial market regulation continued to suppress the demand for and supply of District bank credit. One large bank reported that its loan portfolio declined in the second quarter, despite the bank's growth objective. Customer demand ebbed in several areas, including cyclically-sensitive working capital financing. A middle-market bank in Michigan reported net shrinkage in its loan portfolio in recent months, after showing growth through most of 1990 and into early 1991. A contact with this bank stated that improving customer cash flow led to higher levels of debt retirement, which combined with low levels of demand for new financing to produce a net decrease in the portfolio. The surge in long-term debt issuance since the first quarter also contributed to the decline. A bank economist cited uncertainty over the future structure of financial market regulation as an important factor affecting banking markets.

Commercial construction loans secured by real estate continue to weigh on bank capital positions, according to a recent survey of large District banks and branches of large foreign banks. Roughly one-third of these loans that expired over the past year were retired as specified in the loan contract. Most respondents expect the proportion of loans requiring renegotiation or foreclosure to rise over the next twelve months. However, most respondents had not yet committed to internal refunding of the credits scheduled to mature over the next year, and few contacts had purchased commitments by other lenders to provide takeout financing. Still, several lenders reported making new commercial construction loans in 1991, suggesting that at least some credit-worthy projects continue to find funding.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy remains sluggish. Car sales have picked up slightly, but spending on general merchandise is flat. Manufacturing activity is mixed and residential construction remains weak. Shipping companies report declining business. Loan growth at large District banks has picked up in recent months. Weather-related problems continue to hinder agricultural production.

Consumer Spending

Most retailers of general merchandise report that sales have not strengthened appreciably since spring and, in real terms, are down from a year ago. Inventories are generally at planned levels. Some retailers feel that consumer confidence is increasing, but that heavy debt loads are forcing many consumers to curtail their purchases. Declining prospects for farm income are expected to reduce retail sales in some rural areas. Some contacts anticipate a slight sales increase in the third quarter, while others expect no increase before the fourth quarter. Most car and truck dealers report that sales have strengthened slightly in June and July, though they remain below last year's level. Reduced profit margins and slow sales have lowered dealers' profits. Many customers are buying used cars rather than new ones. Inventories generally are near desired levels. The outlook for vehicle sales is cautiously optimistic; some contacts expect a moderate pick-up as 1992 models are released.

Manufacturing

Unlike most District manufacturers, food processors have continued to add workers in recent months. Some District poultry

processors, for example, are expanding their facilities and workforce. One contact, however, reports that the Soviet Union, a primary buyer of U.S. poultry, has cut its orders for poultry because of a shortage of hard currency. Some manufacturers making auto-related goods, such as chemicals and plastic products, have received increased orders. One steelmaker, who has ordered intermittent layoffs this year, expects increasing orders from the auto industry, which will make further layoffs unnecessary. This contact anticipates, however, that orders from the commercial construction industry will remain at their currently low level. The indefinite shutdown of another steel factory was attributed to a sudden downturn in orders for castings for railroad freight cars.

Construction and Real Estate

Residential construction activity remains depressed throughout most of the District. Homebuilders in St. Louis, Memphis and Little Rock report that year-to-date, single-family home permits are still substantially below year-ago levels. Contacts report some strengthening in the second quarter, however. Louisville continues to be a bright spot, with new home prices steady and year-to-date permits down just slightly from a year ago. Other contacts report that declines in existing home prices have depressed new home prices. In addition, rising lumber costs have squeezed builders' profit margins further. Nonresidential construction activity, with the exception of seasonal infrastructure repair work and other public works projects, remains weak.

Shipping

Contacts report that depressed economic conditions in North America and Europe have led to a decline in the business of two major express shipping firms. One company spokesman expects that revenues will continue to be depressed by the soft worldwide economy in the next few months. The U.S. recession has resulted in intensified competition in

the trucking industry and has led to the liquidation of an Arkansas-based trucking firm, idling 3,800 workers in the Midwest and South.

Banking and Finance

Total loans on the books of 12 large District banks rose slightly from mid-May to mid-July, after a small decline during the previous two months. Real estate loans increased almost 4 percent during the period, compared with 1 percent growth from mid-March to mid-May and 2.6 percent growth a year earlier. Commercial and industrial loans outstanding declined just 0.6 percent during the past two months, after a 3.6 percent drop the period before. In contrast to other loan categories, consumer loans dropped more than 1 percent from mid-March to mid-May, after rising almost 1 percent during the previous two months.

Agriculture and Natural Resources

Significant yield reductions, resulting from weather-related diseases, caused the recently harvested winter wheat crop in the District to be at its lowest level in several years. Hot and dry weather is beginning to stress the corn, soybean and cotton crops in most areas. The exceptions are west central Illinois and parts of northern Missouri, where corn and soybean crops are reported in excellent condition. Because of the costs associated with the delayed spring plantings in the Delta region of the District (for example, additional tillage operations and increased chemical usage), this year's crops, primarily cotton and rice, will be among the most expensive ever to produce. As a result, some farmers are reported to have exhausted their short-term credit lines. Contacts report that a decline in available Pacific Northwest timber acreage and a rise in lumber prices, associated primarily with the spotted owl protection plan, has stimulated increased inquiries to Southern lumber producers. Two large plywood producers have even increased shipments to the West Coast.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District has continued to feel the effects of the national recession, but there are signs of recovery. Labor market conditions have continued to improve, while retail sales have exhibited moderate growth. Conditions in construction and resource-related industries have remained mixed, while manufacturing has shown signs of rebounding.

Employment, Wages, and Prices

Labor market conditions generally improved in the District, but still remained depressed. Minnesota's unemployment rate fell to 4.8 percent in June, down from 5.5 percent in the previous month, and only slightly higher than the 4.6 percent level of a year ago. May unemployment figures, while somewhat lower than in April, were still above their year ago levels in Montana, western Wisconsin, and the Upper Peninsula of Michigan. The May unemployment rate in Montana was 6.4 percent, 1 percent above its year ago level. In the Upper Peninsula of Michigan the May unemployment rate was 10.4 percent as compared to 8.5 percent a year ago. South Dakota's May unemployment rate of 3.4 percent was unchanged, both relative to the previous month and year-ago levels. In North Dakota, by contrast, the May unemployment rate of 4.2 percent was 0.5 percent higher than the previous month, but only 0.6 percent higher than a year ago. The growth of nonagricultural employment in May relative to its year ago level was fairly strong in North and South Dakota, 1.2 and 2.6 percent respectively, but generally weak in the rest of the District, rising by 0.3 percent in Minnesota, and 0.4 percent in Montana.

Consumer Spending

District retailers of general merchandise report slightly higher sales figures for June relative to year-ago levels, (figures are for the five-week period ending July 6) with sales increases in

comparable stores ranging from 2.3 to 8 percent relative to a year ago. Minnesota sales tax receipts were down 6.2 percent in June, but up 2.6 percent in May relative to year-ago levels. Retail sales in North and South Dakota, as well as in Montana, continue to benefit from the strong influx of Canadian shoppers.

New car and truck sales continue to be weak, though used cars show some improvement, and dealers report that their service departments are running close to capacity. Dealers report new car sales declines ranging from 5 to as much as 40 percent at some small dealers for the first half of this year relative to a year ago. However, recreational vehicle and boat sales are reported to be strong.

Housing sales in the District have been mixed lately. The depressed Minneapolis-St. Paul area experienced a surge in May, with sales at their highest level in three years. However, June sales were down 9.6 percent relative to a year ago, and 23.2 percent from May, with the change being attributed to a recent rising cost of FHA-insured mortgages. Home sales are reported to be especially strong in parts of South Dakota.

Tourist activity has been strong in the District. The number of crossings over the Mackinac Bridge onto the Upper Peninsula of Michigan relative to year-ago periods were up 3.6 percent in the first 22 days of July, and up 3.4 percent in the first half of the year. Bookings in Montana's Yellowstone National Park are up substantially from their year-ago levels.

Construction and Manufacturing

Conditions in the District's construction industry have been mixed with the large overhang of office space in the Minneapolis-St. Paul area depressing local activity. The office vacancy rate in downtown Minneapolis and St. Paul was 13.6 and 20.1 percent respectively in the second quarter of this year, and is expected to rise as current construction projects are completed. The number of

housing permits issued in Minnesota rose by 7 percent in May relative to a year ago, but was still slightly below its level of two years ago.

Conditions in the District's manufacturing industries appear to be improving. In Minnesota, the total hours worked in manufacturing rose 1.4 percent in April from March, but was still 0.6 percent below its year ago level. The level of new business incorporations in the state was down 6 percent in April from March's all time high, but was still 18 percent above the year ago level. The medical industry is reported to be doing well, while the computer and electronics industries are holding steady, and the aircraft supply industry has slowed.

Resource-Related Industries

Agricultural conditions have been mixed lately with some parts of the District receiving badly needed moisture while others have been hurt by excess precipitation. In southern Minnesota, 18 counties were declared to be a natural disaster area. In Montana, North and South Dakota, small grains and feed crops are in good shape. Prices of cereal grains were slightly higher while livestock prices were lower in June as compared to May. The Montana and Minnesota farm price indexes were respectively 2.0 and 13 percent lower in June as compared to a year ago. Ranchers in the District continue to do well due to cattle prices which are still high despite recent declines.

Conditions in the District's mining and lumber industries have been fairly good. Lower inventories of lumber have led to higher prices.

TENTH DISTRICT - KANSAS CITY

Overview. Economic conditions in the Tenth District appear to be improving modestly. Supporting growth in the district are steady to slightly higher retail sales, increasing new home sales, continued strength in the livestock sector, and increased drilling for oil and gas. Further momentum is expected from increases in housing starts and auto sales in the last half of the year. Neither retailers nor manufacturers are adding to inventories, and both retail and wholesale prices are generally holding steady.

Retail sales. Retailers report steady to somewhat higher sales over the last three months. Clothing and seasonal merchandise sales are strong, although home furnishings sales remain sluggish. Retailers generally expect strengthening sales over the last half of the year. Prices have been steady to somewhat lower over the past three months and are expected to remain steady. Most retailers are satisfied with their current inventory levels.

Auto sales are mixed across district states. Some potential buyers have to shop around to get loans, but adequate financing is available for dealer inventories. Dealers are striving for lean inventories even though sales are expected to increase in the second half of the year.

Manufacturing. Purchasing agents report steady to slightly lower input prices compared with three months ago. Input prices are generally expected to remain stable over the next three months. Materials are readily available, with no problems expected for the rest of the year. Most firms are maintaining or reducing inventories. Some plants are increasing operations but are not putting pressure on either labor supplies or plant capacity.

Energy. Energy activity in the district has edged upward in recent weeks in response to modestly higher oil prices. The average number of

operating drilling rigs in district states increased from 230 in June to 243 in the first three weeks of July. Despite this improvement in drilling activity, the district rig count remained about 20 percent below its year-ago level. Moreover, weak prices for their products have discouraged producers of natural gas and sour crude oil (especially abundant in Wyoming).

Housing Activity and Finance. New home sales are generally steady to slightly higher, but housing starts across the district are mixed. With sales expected to be steady to slightly higher in the months ahead, a declining inventory of unsold homes is likely to encourage further gains in starts later this year. Builders report no problems acquiring materials, although lumber prices have been climbing.

Most savings and loan respondents report increased net deposit inflows last month. Respondents expect inflows to continue in coming months. Mortgage demand and commitments are stable, although respondents expect somewhat stronger demand for housing finance later in the year. Mortgage rates have stabilized and are expected to fluctuate in a narrow range for the rest of the year.

Banking. Changes in loan demand were mixed at district commercial banks last month. Demand for consumer loans at most banks was stable to up slightly, while demand for home mortgages was generally stable. Demand for commercial and industrial loans and commercial real estate loans varied widely. Most banks report declines in their loan-deposit ratios. Total deposits were generally stable or up slightly, with demand deposits accounting for most of the strength.

None of the respondent banks changed its prime rate last month, or expect to change it in the near future. Consumer lending rates were generally

unchanged, although several respondents had reduced their rates. No banks report changes in other lending terms.

Agriculture. The cattle industry remains a major source of strength in the district farm economy. A combination of low feed costs and high feeder cattle prices have boosted profits for district cattle ranchers. Pastures and rangelands are generally in good shape, providing abundant, low-cost forage for cattle herds. Despite strong profits, ranchers are expanding their herds cautiously. High feeder cattle prices and a sharp decline in fed cattle prices have squeezed profits for district cattle feeders. While an unusually large number of cattle on feed has pushed fed cattle prices down in recent weeks, prices are expected to rebound later in the year.

The winter wheat harvest is complete in all district states except Wyoming. Overall, the district's crop is about a fourth smaller than last year's bumper crop, due to smaller planted acreage and lower yields. Yields vary from 20 percent above normal in southwestern Oklahoma to 30 to 50 percent below normal in parts of Missouri and Nebraska.

Reduced production of spring-planted crops is also possible. The district's corn, soybean, and milo crops got a strong start due to plentiful spring rains, but more rain is needed now. If the recent hot, dry weather continues, crop yields could be sharply reduced.

rise in the general sales tax, an expansion of coverage to include snacks, newspapers, and magazines, and an increase in taxes on alcohol. Food prices are reported to be stable, and livestock prices remain at relatively high levels. Substantial discounting was reported for computers, hotels, fast food, and designer clothing. Respondents from banking and service sectors report stringent efforts to control costs in response to weak markets and competitive pressures.

Retail Trade and Services

Consumer spending remains sluggish throughout the Twelfth District. Auto sales in Utah, Arizona, and Idaho are reported flat. Department store sales still are slow, but inventories remain under control. Some retailers are scaling back hiring substantially, especially in southern California. Japanese tourist visits to Hawaii have picked up recently, but their spending remains below pre-Gulf War levels. California state government workers are facing pay cuts, work furloughs, and reduced hours in response to budget cuts. Respondents report recent layoffs among lawyers, accountants, architects, real estate firms, banks, and community colleges.

Manufacturing

Manufacturing conditions in the West are mixed. Boeing continues to operate at or near capacity and has plans to expand and modernize facilities over a 10 year period. Metals industries, however, are facing sluggish demand and some firms supplying the aerospace industry currently are operating at less than 50 percent of capacity.

Exports remain a source of strength for District manufacturers. During the first quarter, all new orders at Boeing were from foreign carriers. Small to mid-sized communications, electronics, and paint-products firms reported increased orders during the second quarter. Foreign inquiries also have been made for the purchase of military helicopters.

Agriculture and Resource-Related Industries

Agricultural conditions in the Twelfth District are generally good, but recent unseasonable weather hurt some crops including the table grape crop in the southern San Joaquin Valley. Exports of agricultural products to Latin America are a source of strength. Mexico in particular is a growing market for California pears, peaches, wine, and nuts, and Washington apples.

Lumber industry conditions remain weak, with orders and prices slipping in recent weeks. Year-to-date lumber exports (volume terms) were up 2 percent through April, as a 37 percent decline in exports to Canada was offset by a doubling of exports to Mexico. Log export volume to Japan has dropped 32 percent, but exports to other Pacific Basin markets have increased 42 percent.

Construction and Real Estate

Construction and real estate markets remain weak in much of the West. The rebound in California and Washington markets seen after the Gulf War shows signs of tailing off. Home sales have picked-up somewhat in Los Angeles, but the rebound has moderated in Sacramento and Seattle with unsold inventory putting downward pressure on prices. Commercial real estate in southern California continues to face high vacancy rates, declining rents, and a lack of financing. Respondents report that several southern California real estate development firms are under financial stress. Real estate markets in Utah remain strong.

Financial Institutions

Financial institutions in the Twelfth District report mixed conditions. In California, loan demand remains weak while deposit generation is solid, led by strong growth in money market deposit accounts. Mortgage demand is strong in Oregon and Utah. In Hawaii, loan demand remains high, but it is becoming more difficult to secure financing from mainland U.S. and Japanese banks. Respondents in southern California report the unavailability of long-term financing for commercial real estate except for "institutional grade" projects with long-term leases already in place.