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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

May 1995

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

MAY 1995

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SUMMARY*

Most Federal Reserve District Banks reported continuing gains in economic activity from March through April, but at a somewhat slower pace. Overall business conditions were described as improving solidly in the Cleveland, Chicago, Kansas City, and Minneapolis Districts. Growth was reported to be continuing at a somewhat slower pace by Boston, Richmond, Atlanta, St. Louis, Dallas, and San Francisco. Business activity was described as mixed in New York and less strong in Philadelphia. Most Districts reported sluggish growth in retail sales and declines in automobile sales, while manufacturing was up by varying degrees in most Districts.

Although reports of rising commodity and industrial prices remain widespread, except for construction materials, reports from many Districts described these increases as moderate or not accelerating or indicated that they were not being passed through to finished goods prices. In addition, despite tight labor markets in some sectors or regions, wage pressures were described as moderate in most areas.

Retail

Most Districts reported sluggish growth in general merchandise sales, although Chicago and Minneapolis reported improved sales and a few Districts (New York, Cleveland, and Atlanta) noted some improvement in April compared to March. Richmond indicated that sales growth was slowing. In the Boston and Philadelphia Districts sales were mixed and generally below expectations. Store inventories

*Prepared at the Federal Reserve Bank of Philadelphia based on information collected before May 1, 1995. 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.

were on the rise, according to Philadelphia, Atlanta, Dallas, and San Francisco. Auto sales softened in all Districts except Dallas. Some weakening in sales of home furnishings and consumer durables was also reported.

Manufacturing

Manufacturing activity remained strong in Cleveland, Kansas City, Minneapolis, and Dallas. Continuing, but smaller, gains were reported by Boston, Richmond, Atlanta, Chicago, and St. Louis. Demand was strong for capital goods, electronics, and petrochemicals. However, even in Districts with increases in overall manufacturing, demand for construction materials was easing.

San Francisco District manufacturers reported mixed results. Aerospace and lumber companies experienced declining demand, while producers of electronic goods, machinery, and aluminum increased output. Overall manufacturing activity declined in the Philadelphia District.

Real Estate and Construction

Commercial real estate activity was improving in most Districts. Office leasing and construction were reported on the rise by Richmond, St. Louis, and Minneapolis. Dallas and Minneapolis noted increased construction of warehouses. Nonresidential construction was mixed in the San Francisco District, moving up outside of California, particularly in Nevada and Alaska, but easing in the Los Angeles area. Boston and New York gave mixed reports; gains in some parts of those Districts were offset by declines in others.

Residential construction or sales were up somewhat in the Chicago and Kansas City Districts, but were slipping in the Atlanta, St. Louis, Minneapolis, and Dallas Districts. San Francisco reported slower growth in residential construction. Multifamily construction was increasing, according to Atlanta and Dallas, but real estate contacts in those Districts expressed concern that

apartments were approaching an overbuilt situation.

Banking

Overall bank lending was increasing moderately in most Districts, with gains most often noted in commercial and industrial lending. All five District Banks that reported on consumer lending (Philadelphia, Richmond, Cleveland, St. Louis, and San Francisco) noted drops in the demand for consumer loans. New York, Richmond, and St. Louis reported increased real estate lending. Lending terms in April were reported to be substantially the same as earlier in the year, but competition for business loans remains strong.

Agriculture

Several Districts noted some concern in agricultural areas about the outlook for summer crops because planting has been delayed. Cold and wet weather has caused postponements in planting in the Cleveland, St. Louis, Minneapolis, and San Francisco Districts, while dry weather has affected parts of the Richmond and Dallas Districts. According to agricultural contacts in Minneapolis, the delay could curtail crop yields later this year regardless of weather conditions during the summer. But the winter wheat crop is in good condition, according to reports received by St. Louis and Kansas City. Floods in California have damaged vegetable, fruit, and nut crops, according to information obtained by San Francisco, and some crop prices are expected to remain high through mid-summer. Both Kansas City and Dallas report falling livestock prices.

Tourism

Spring tourism business has picked up in the Boston, Richmond, Minneapolis, and San Francisco Districts, and part of the Atlanta District. Tour agencies and hoteliers in these regions expect a good summer. Boston and Atlanta both noted an increase in international visitors to some tourist regions. Atlanta also

noted, however, that a weakening of tourism in southern Florida has been attributed to the drop in the value of the peso. Boston also was told that spending by domestic tourists appears to be off from prior years.

Energy and Mining

Recent increases in oil prices have boosted drilling activity a bit, according to the Kansas City, Dallas, and Minneapolis Districts. But a relatively mild winter depressed demand for natural gas, and natural gas prices and production remain weak.

Minneapolis reported that rising demand for gold and copper was prompting output and employment increases in the District. San Francisco also reported increased production from gold and silver mines.

Prices

Except for prices of materials used in residential construction, reports of rising commodity and industrial prices remain widespread, although many Districts described these increases as moderate or not accelerating (including Philadelphia, Chicago, Atlanta, and Richmond) or indicated that they were not being passed through to finished goods prices (including Philadelphia, Cleveland, Atlanta, and Dallas). Chicago was the only District that reported that input price increases were more frequently being passed through to final goods prices. While some business contacts told District Banks that the rise in commodity prices appeared to be slowing, Boston, Chicago, and Cleveland reported the range of commodities affected by the increases was expanding. Cleveland and Kansas City contacts said retail prices were steady, while Richmond contacts reported higher retail prices.

Wages

Tight labor markets in some sectors or regions were reported by Cleveland,

Atlanta, Chicago, Richmond, Minneapolis, and Dallas, but wage increases were described as moderate in most of these areas, and Kansas City noted few reports of wage increases. Demand in some Districts for both skilled and semi-skilled workers, as well as technical and managerial workers, was strong. Labor markets appeared to be less tight in the Philadelphia District, where manufacturers reduced work forces in April, and in the Boston District, where business contacts gave no reports of labor shortages or growing wage pressures.

FIRST DISTRICT - BOSTON

The pace of the expansion continues to moderate in the First District. Most retail contacts report disappointing sales results. Manufacturing activity has slowed since the fourth quarter, but year-over-year gains reportedly continue at a satisfactory pace.

Retail

First District retailers report mixed results in March and April. Sales activity ranged from an increase of 12 percent to a decline of 10 percent compared with year-earlier levels. Most contacts express some disappointment, in part because April sales were generally softer than those of March, despite a late Easter. Retail respondents' expectations for the next six months also range widely, with some anticipating sales declines and others single-digit growth.

Contacts note that vendor prices have inched up 1 to 3 percent over the last year, with steeper increases in the prices of rubber, cotton, leather, and especially paper. Gross margins and profits for 1994 were up slightly from the previous year. Most contacts plan zero or very small increases in capital spending and employment this year.

Tourist industry contacts report a large increase in the number of visitors to New England in March and April, particularly to the Boston and Cape Cod area. The rise is attributed to more international travelers, Americans' current preference for family-oriented short trips, and the 375th anniversary of the Pilgrims' landing. Despite the increased numbers, tourist officials observe that domestic visitors are spending less in souvenir shops and restaurants.

Manufacturing

First District manufacturing contacts report a good first quarter. In most cases, sales and orders were well above year-ago levels, with

gains ranging from 3 to 18 percent. Nevertheless, two-thirds of the respondents note a modest slowdown from the fourth quarter pace. Demand for construction-related products weakened most broadly, with residential orders softer than commercial. However, reports on automotive products were mixed, with some manufacturers pleasantly surprised by how well auto-related orders have held up. Demand for office machinery and other capital equipment generally remains strong. Aerospace orders are also showing signs of life. Several contacts mentioned that dollar weakness is boosting sales.

Manufacturers described double-digit price increases for a wide variety of commodities, including rubber and petroleum-based products, paper, wood pulp and packaging materials, cotton, fabrics, and metals. Several also mentioned the impact of the yen's appreciation on the cost of inputs from Japan. Views were mixed on whether commodity price increases are abating. Just over half of the respondents are starting or continuing to raise selling prices on selected products. The others, facing ongoing competitive pressures, are holding the line.

Employment is slightly above year-ago levels at more than half of the manufacturing contacts, and one-third plan selective hiring in the coming months. Still, several First District manufacturers remain in the midst of previously announced consolidations; some of these firms plan ongoing cutbacks but at a slower pace. No one noted any labor shortages or wage pressures. Over half the contacts expect capital spending in 1995 at or above last year's pace, with the focus on cost-cutting equipment and new product development.

Although growth is widely seen to be moderating in response to higher interest rates, most contacts expect their own firms and the U.S. economy to keep expanding at a satisfactory pace. A few are keeping a

wary eye on the consumer, but most anticipate a "soft landing," with little pickup in inflation.

Temporary Employment Firms

Steady, solid business characterizes the temporary services industry in New England. Contacts report that sales and profits are up from year-ago levels, and they expect that growth to continue. Workers in biotechnology and health care, in particular, are in strong demand, especially in the Boston area. Overall, businesses continue to rely on contingent workers to supplement a trimmed permanent work force, a phenomenon personnel supply firms sense is here to stay.

Commercial Real Estate

Improvements in the First District commercial real estate market are spotty, with some markets showing promise, while others show signs of slowing. The strongest office markets are in the Boston and Providence suburbs, with much new leasing activity among start-up companies leading to serious plans for new construction. Contacts in Portland and Providence say that confidence is rising in their downtown office markets. By contrast, the Hartford office market shows little improvement, and new leasing activity in downtown Boston has slowed as landlords have increased asking rents 10 to 15 percent in the last year.

Nonbank Financial Services

The majority of respondents at life insurance companies report an increase in sales in the first quarter of 1995 compared to the first quarter of 1994. The increases were mostly in individual life insurance and annuities, while sales of health insurance were reported to be down. Employment at the responding companies was flat to down in the first quarter, with only one contact reporting a modest increase.

SECOND DISTRICT -- NEW YORK

Reports on District economic conditions were generally mixed in recent weeks. A number of District retailers reported that March sales were below planned levels, although preliminary reports for April suggest that sales have strengthened. While the market for office space in midtown Manhattan remained strong, office vacancy rates in the downtown and New York City suburban areas generally rose during the first quarter. Finally, although aggregate loan demand increased at small and midsized banks over the past two months, survey respondents attributed the rise to seasonal factors.

Consumer Spending

Retailers expected sales this March to be weak relative to last March because, unlike 1994, this year the Easter holidays fell in April. Despite only modest expectations, fully half of District retail contacts reported that March sales were below plan while only one contact reported above-plan results. Weaker-than-expected sales led several contacts to note that inventories had increased above planned levels.

Year-over-year sales results ranged from losses of 5 percent to gains of roughly 6 percent in March. In general, apparel and home products sold well. One contact noted that sales of auto supplies, particularly batteries and tires, had declined because the weather was considerably milder than in March of last year.

Preliminary reports from several District retailers suggest that sales rebounded in April and that combined March and April sales growth may well be back on plan.

Construction and Real Estate

Although the market for office space in midtown Manhattan remained robust during the first quarter, the downtown and suburban

markets generally weakened. Strong office leasing activity in midtown decreased available space and caused vacancy rates to decline. For the first time since the eighties, large blocks of contiguous midtown office space are in short supply. In contrast, a rise in downtown leasing activity was more than offset by return of space to the market as the financial sector downsized. As a result, both vacancy rates and available space downtown increased. Office vacancy rates also rose in Nassau, Suffolk, Westchester, and Fairfield (CT) counties.

Residential construction across much of New York State and northern New Jersey remained slow over the past two months; the usual spring pick-up in traffic and sales has not yet occurred. Several builders expressed concern that rising inventories and aggressive price-cutting in the market for existing homes would continue to dampen the sale of new homes. Homebuilding in the Albany area, which showed strength early in the year, has been slowed by uncertainty over proposals to reduce the size of the State workforce and relocate State workers.

Other Business Activity

The unemployment rate in New York State increased 0.5 percentage points in March to 6.6 percent, while the rate in New Jersey declined 0.3 percentage points to 5.8 percent. Unlike earlier in the year, there were few announcements of corporate downsizings. The only announcement of large-scale job cuts came from General Electric, which announced that it will cut its Schenectady workforce by nearly 1,000 over the next six months. On a more positive note, Wal-Mart announced plans to build a merchandise return facility in the Albany area that could eventually employ 400 people.

Financial Developments

Compared to two months ago, aggregate loan demand is higher at about half of small and mid-sized banks surveyed in the District and steady at over one-third. Many of the senior loan officers surveyed attribute this increase to seasonal factors. The commercial and industrial loan segment remains robust, with about forty percent of the banks reporting higher demand and nearly half reporting steady demand. The residential mortgage segment is strengthening, with demand higher at about one-third of the banks and lower at only one-fifth. Refinancing activity is still weak at almost all of the participating banks.

About sixty percent of the senior loan officers surveyed are just as willing to lend as they were two months ago, while about one-third are more willing. Nearly all banks have maintained their credit standards, and have stable or lower delinquency rates. Average loan rates are steady or lower at more than three-quarters of the banks. In particular, about half of those surveyed report lower rates on residential mortgages. The spread between the average lending and deposit rates has narrowed at more than half of the banks, primarily reflecting recent increases in rates paid on deposits.

THIRD DISTRICT - PHILADELPHIA

Indications of business activity in the Third District showed less strength in April than earlier in the year. Manufacturers reported a dip in orders and shipments. Retailers said sales were running at a steady pace, but somewhat below their expectations. Auto dealers also reported that sales were below forecasts for the month. Bankers generally indicated that loan demand was modest. Consumer lending was dropping, mortgage activity was moving up slightly, and business loan volume outstanding was about steady.

The outlook among business contacts surveyed for this report is subdued. Manufacturers forecast slight increases in orders and shipments over the next six months, but they are planning to trim payrolls. Retailers are looking for a seasonal upturn in sales, but they are being cautious in their planning. Bankers have mixed views on the future course of the economy but generally do not foresee stronger loan demand in the near term.

MANUFACTURING

Manufacturing activity in the Third District declined somewhat in April, according to reports from industrial firms. While about half of the manufacturers contacted during the month said operations at their plants were running at a steady pace, about one-third indicated a slowdown from March, and only one-fifth said business had improved. On balance, shipments from plants in the region were off fractionally, and new orders were down compared to March. Despite the slower shipments and order rates, manufacturers indicated that their inventory levels had declined. Plant managers reported that employment levels

were reduced in April compared to March, with cutbacks in both numbers of workers and hours worked.

The outlook among Third District manufacturers is mixed. Positive opinions just slightly outnumber negative views, resulting in a slight balance in favor of improvement in orders and shipments, although order backlogs and inventories are expected to continue trending down. The overall forecast for employment is also negative.

While Third District manufacturers continued to note price hikes for inputs, the extent of the increases appeared to be moderating from the first quarter. For their own products, area manufacturers generally reported they were holding prices steady. Looking ahead, nearly half of the area firms surveyed anticipate further increases in input costs and one-fourth plan to raise prices for the goods they produce.

RETAIL

Third District retailers generally reported that sales in late April were running about even with the pace set in March and early April and with the April 1994 rate. This was somewhat below merchants' expectations, and several noted that, as a result, inventories were above plan. Additionally, stores in Philadelphia suffered substantial reductions in sales during a two-week public transit strike at the beginning of April, and they have recouped very little, if any, of the lost business.

Most of the store executives surveyed for this report said they see few signs that sales are picking up, although they hope that the onset of spring weather will provide the usual seasonal upturn. Most remain cautious in their forecasts, however, and some said they may consider reducing planned purchases of goods if the sales rate does not improve.

Auto dealers reported that sales in April were steady, but below the year-ago pace and below their expectations. They said inventories have edged up. While dealers hope for the usual spring increase in sales, some believe the current decline from last year's sales rate portends a cyclically slow period ahead.

FINANCE

Third District bankers contacted in late April generally described overall loan demand as modest. Most reported that commercial and industrial loan volumes outstanding were level during April. Some bankers said that total consumer lending had slipped a bit, mainly due to a decline in auto loans. Residential mortgage lending activity appeared to be near steady, with recent increases in purchase mortgages offsetting a continuing drop in refinancings.

Looking ahead, bankers in the District have mixed views about whether economic growth will accelerate or remain at its current pace. Nevertheless, most said they see no current evidence that loan demand is rising. Competition for business loans remains strong, and, while terms are being eased, new business has not been forthcoming. Consumer lending also has shown no signs of picking up.

FOURTH DISTRICT - CLEVELAND***General Business Conditions***

Overall, the District economy continues to move solidly ahead, with only scattered indications of a falloff in business activity, mostly in retailing. A strong industrial sector continues to pace the expansion. Production and orders growth are continuing, even in the automotive area, where sales have been somewhat soft this year. Construction activity has been mixed, with commercial building significantly stronger than residential. In farming, a cold, wet spring has delayed the planting season by a few weeks.

Several District sources note a rise in labor turnover in recent months, and applications for job openings are reportedly down. Skilled workers are particularly difficult to find, although shortages of unskilled workers are also seen in some areas. However, wage growth in the District remains moderate, reportedly in the 2 to 4 percent per year range.

Manufacturing

District manufacturers report continued growth in production and orders, with capital goods producers operating at a particularly high level. In some instances, orders backlogs for capital goods now extend well into 1996. A few District producers indicate that orders are hedging against potential price increases next year. Moreover, these orders are not secured in the event of a deterioration in the economic climate. Several manufacturers report continued orders growth from foreign customers, presumably the

combined response of strengthening foreign economies and a further drop in the value of the dollar.

Industrial space is said to be in short supply, and this has apparently put some upward pressure on rents. Likewise, we continue to hear reports of rising prices for a broad range of industrial commodities, particularly aluminum, steel, caustic soda, and paper. However, resistance to finished goods price hikes continues, with capital goods producers in the District appearing to hold the line on any increases.

Retailing

Fourth District retailers report weaker sales during much of the period since early March. However, most also say that sales have improved somewhat in the past few weeks. Large discounters are enjoying much of the recent sales improvement, while specialty shops, such as women's apparel stores, appear to be faring the worst. Unseasonably cold weather was the most consistently cited reason for retail sales sluggishness last quarter, and indeed, observers have seen a marked improvement in traffic and sales whenever spring-like conditions have occurred. Contributing to the weaker first-quarter retail numbers was the late Easter. One District source also suggested that the first-quarter numbers represented a "payback" for the strong fourth quarter.

Within the overall sales picture, some nondurable goods have been strengthening slightly, while the demand for durables has flattened or declined. Furniture sales have eased slightly, as have home decorating products more generally. One observer linked the sales slump here to the drop-off in home sales last fall.

Retail profit margins are said to be very thin as higher wholesale costs continue to squeeze flat finished-goods prices.

Autos

Mixed impressions have emerged from the District's major auto markets, with sales in Ohio better than in southwest Pennsylvania. On balance, however, District auto sales during the last six weeks are down from the same period a year ago.

Dealers cite a number of factors, including the unseasonable weather and higher interest rates, for this weakness. New car loan rates are approaching, or in some cases have already reached, double-digit levels. Surprisingly, auto credit is reported to be readily available, and local finance markets are said to be aggressively competing for borrowers. Moreover, higher bank rates for vehicle loans are being partially offset by factory incentives, including special financing arrangements and cash rebates.

Auto inventories are higher than desired in many District markets. However, there are still shortages of a few popular vehicles, apparently resulting from production glitches rather than a shortage of capacity.

Banking and Credit

Loan activity is reported to be good, although some softening has been felt very recently, particularly in consumer lending. Competition for borrowers continues to intensify, and several sources note an easing in credit standards, although this may simply be an adjustment to the "artificially" tight standards coming out of the last recession. Indeed, delinquency rates in the District are reported to be extremely low. Deposit levels were generally characterized as steady or growing slightly.

FIFTH DISTRICT - RICHMOND

Overview: Economic activity in the Fifth District increased slightly in March and April. Areas reporting growth included tourism, ports, temporary employment agencies, commercial real estate, and state revenues. Areas exhibiting little or no growth included services, finance, and residential real estate. Growth in consumer spending and manufacturing activity was down, and conditions in agriculture were somewhat worse than a year ago.

Consumer Spending: Indicators of retail activity growth generally decreased in April from their March levels, according to preliminary results from a mail survey of District retailers. Sales, wages, and inventories decreased. Employment and big-ticket sales increased, however, and shopper traffic was unchanged. Survey respondents indicated that retail prices rose 1.1 percent in April. They foresaw decreased demand for their products and an increase of 2.0 percent in their prices during the next six months.

Service-Producing Firms: Indicators of service-sector activity growth changed little in April from their March levels, according to preliminary results from a District mail survey. Respondents indicated, however, that employment was lower. Service producers reported that prices rose 0.6 percent in April. They expected a slight decrease in demand for their services and an increase of 1.0 percent in their prices during the next six months.

Manufacturing: Most indicators of factory activity growth declined in April from their March levels, according to preliminary results of a mail survey of District manufacturers. The shipments, new orders, and employment indexes declined, and the backlog and workweek indexes changed little. Manufacturers expected shipments, the workweek, and capital expenditures to increase during the next six months. Finished goods

prices rose at the same rate in April as in March, and at a rate slightly below the general inflation rate. Raw materials prices rose less in April than in March, and at a rate higher than the general inflation rate. Respondents expected prices to rise slightly faster during the next six months than they had expected in January.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in April was above that of March and a year ago. Spring bookings at District hotels and motels were up compared to a year ago. Contacts expected better-than-normal business this summer; one predicted "our biggest summer ever."

Ports: Representatives at District ports indicated that export and import levels in March were higher than those in February and a year ago. They expected that, over the next six months, exports would increase and imports would change little. One contact attributed this outlook to the weak U.S. dollar.

Temporary Employment Agencies: A telephone survey of temporary employment agencies indicated that labor markets were tight throughout the District. Demand for temporary workers strengthened and wages rose somewhat in April compared to March and a year ago. One contact suggested that there were "more jobs than people right now," and another described "a bidding war" for workers. Demand was particularly strong from manufacturers, warehousemen, and distributors, and companies were seeking "anyone with computer skills."

Finance: District financial institutions reported that credit conditions were mixed during the past seven weeks. Interest rates rose moderately for consumer loans, fell for mortgage loans, and were flat for commercial loans. Demand for mortgage loans increased sharply; demand for commercial loans rose slightly; and demand for consumer loans declined.

Residential Real Estate: According to a telephone survey of District realtors and builders, residential real estate activity was unchanged in March and April. Building permits, home sales, and buyer traffic were stable over the period. Housing starts were also stable, except in West Virginia, where they decreased. Contacts reported that lower- to middle-priced homes were selling better than expensive homes. Home prices were steady, although building materials prices rose.

Commercial Real Estate: District contacts reported that commercial real estate activity increased slightly in late March and April. Leasing activity increased somewhat, but contacts reported little new construction. Vacancy rates inched downward, except in Maryland and the District of Columbia, where they were stable. Commercial rents changed little, except in North Carolina and the District of Columbia suburbs, where they increased. The availability of prime office space tightened in most District cities, and contacts reported shortages of such space in Raleigh, N.C., and the District of Columbia.

State Revenues: State government forecasters said that tax collections grew in March. Real revenue growth was strong in Maryland, North Carolina, South Carolina, and Virginia; somewhat slower in West Virginia; and flat in the District of Columbia.

Agriculture: Agricultural conditions in April were somewhat worse than a year ago, according to farm analysts. Despite some recent rainfall, soil moisture levels in most District states were well below normal. Winter small-grain crops remained in generally good condition, but damage from dry weather was apparent in some areas of the District. Spring planting activity generally progressed at a normal pace, although in some areas of Virginia, farmers were waiting for rain before resuming planting. Dry conditions contributed to forest fires in Virginia and West Virginia.

SIXTH DISTRICT - ATLANTA

Overview: According to most contacts in the District, the deceleration in the pace of growth in the region was becoming more evident. Retailers generally said sales were flat during March, but that they picked up in April. Comments from manufacturers were mixed, with some increase from earlier in the year in the number of those indicating a deceleration. Business travel is said to be up on a year-over-year basis, offsetting some weakness in tourism. Real estate contacts report that single-family home sales and construction continue to cool throughout the region, while activity in commercial and multifamily markets is still rising. Reports on prices and wages suggest that pressures remain moderate.

Consumer Spending: Retailers reported that sales during March were restrained by a late Easter season but improved during April. Inventory levels are generally deemed in good shape, although a few contacts note that they have begun to rise by more than they would like. Most retailers anticipate a good, but slowing, second quarter as compared to the first quarter.

Manufacturing: Reports from manufacturers suggest, on balance, a deceleration in growth that is becoming more generalized. Some firms linked to residential construction note slowing production and sales. Carpet production is down from a year ago at some regional plants and slack demand has forced layoffs. Producers of roofing products and concrete blocks point to slowing orders, while shipments have declined for cabinet manufacturers. A large producer of industrial equipment and machinery reports declines in both shipments and in the workweek, although new orders for export have recently picked up. Layoffs by military contractors continue to adversely affect the region, especially in Florida.

Other industrial respondents, however, report ongoing or new strength. Apparel contacts indicate that the two-year decline in employment at District plants has slowed. Denim production continues to increase, with a jeans manufacturer saying they are booked up through

the end of the year. There are scattered reports of apparel producers adding to capacity. The weakness of the dollar is said to be generating significant increases in exports for Louisiana's chemical industry. Contacts report that the region's paper industry continues to do well. Tire producers say they are running at capacity and have shortages of some key materials such as carbon black. Steel plants in Alabama are said to be aggressively adding to capacity in response to strong demand.

Tourism and Business Travel: Although international travel is down for key parts of Florida and the baseball strike hurt March hotel business, domestic business travel is currently boosting occupancy at Florida hotels and in the rest of the region. Travel officials note a serious decline in south Florida tourism, which they attribute to the decline in the Mexican peso. Cruise companies out of Miami report a huge drop-off of bookings. In the wake of the dollar's decline, the number of international tourists visiting New Orleans has increased dramatically and local tour companies are reporting revenue gains.

Construction: According to real estate contacts, single-family home sales and building continued to slow within the District during March and early April. Realtors continue to attribute the slowdown to uncertainty on the part of buyers despite a recent decline in mortgage rates. Several builders reported that new home inventories have begun to increase, and some added that inventories are uncomfortably high. However, most contacts remain optimistic that sales will pick up during the next couple of months.

Commercial and multifamily real estate contacts continue to report improving markets throughout the District. Several developers indicate that strong demand is driving multifamily construction; however, some are concerned that the pace of development within their market will lead to oversupply. Most contacts are optimistic and anticipate that both commercial and multifamily markets will continue to strengthen during 1995.

Financial Services: Bankers report that overall loan demand is moderate. Commercial demand is growing, and was generally reported to be stronger than consumer loan demand. Many contacts said there was strong competition on the commercial side, as institutions compete to give borrowers the best deals. Home mortgage lending continues below last year's levels, but some lenders noted increased activity in recent weeks. Auto finance is reported to be holding steady at levels lower than a year ago.

Wages and Prices: Contacts indicate that wage and price pressures around the District are generally moderate. Compared to the last Beigebook, fewer manufacturers report receiving higher prices for their own finished products, and fewer expect to receive higher output prices in the near future; however, they continue to say they are facing price pressures for materials. Building material contacts note that prices are falling and inventories are up in some locations because of a housing slowdown. However, producers of transportation equipment, rubber, plastic, paper, and textile goods report rising prices of raw materials. Wage increases were said to be stable in most of the District, and reports of labor shortages continue to be confined mainly to parts of Tennessee.

SEVENTH DISTRICT--CHICAGO

Summary. Seventh District economic activity gained momentum in April, after slowing in the first quarter, while reports of price increases grew increasingly frequent and widespread. Retail sales and housing activity showed signs of strengthening in March and April on a seasonally adjusted basis. Manufacturing output continued to expand at a moderate pace. District labor markets remained tight. Business loan demand remained quite strong, including financing demand for working capital, capital equipment, plant expansion, and inventories.

Consumption/Housing. Surveys and reports from individual firms suggest that retail sales and housing activity gained momentum in March and April in spite of lingering cold, wet weather. A survey of Michigan retailers showed increased sales growth in March, while optimism about future sales gains remained high. A survey in the Chicago area indicated that consumers' appraisals of their own financial condition improved during the first quarter and into April, after weakening in the fourth quarter of 1994 and into January. Retailers and manufacturers' associations indicated that durable goods sales growth (excluding autos) has not accelerated significantly since the fourth quarter of 1994, but sales results for April were encouraging, and gains from a year ago remained substantial.

New vehicle sales remained relatively slow for the time of year, according to a survey of District auto dealers, but dealer optimism remained high. Used vehicle sales continued to strengthen, particularly for late-model cars, and dealer service revenues related to "fix-or-buy" decisions were not increasing in line with what might have been expected if the new car market were fundamentally weakening. Vehicle availability has improved, and a dealer association stated that "dealers still don't want to get caught short like they did last year." Incentives declined from the fourth quarter of 1994 to the first quarter of 1995, but area auto dealers expect higher rebates as well as increased dealer incentives in May and June. Significant redesigns for half of the top 10 selling vehicles are reportedly constraining new vehicle sales. A survey of auto dealers indicated that interest rates on new car loans continued to increase in recent months.

Reports from District realtors suggest that existing home sales improved in March and April on a seasonally adjusted basis, with declining interest rates on mortgage loans playing an important role. Expectations for future sales have risen in recent months. An association of home builders stated that

new home sales are still anticipated to decline slightly in 1995, after a very good year in 1994. "Builders are prepared for some slowing, however, and inventories are not especially high." Traffic quality (buyer interest, credit-worthiness) remains strong. Cement producers also expected somewhat slower growth in shipments volume, partly because of weaker-than-expected public infrastructure spending. Shipments for cement used in residential construction gained renewed momentum in the region in recent months, however, and overall shipments volume is still expected to post a new record in 1995.

Manufacturing. Purchasing managers' surveys pointed to continued but somewhat slower growth in District industrial output in the first quarter of 1995. The Chicago survey posted a small increase in April, however, and first quarter earnings reports for large District industrial firms were generally stronger than many analysts expected. Industrial power sales in the Detroit area posted a significant increase in the first quarter (over a strong year-earlier period), according to an electric utility, and power sales strengthened further in April. District steel production fell back somewhat during April after a robust first quarter, but an industry analyst noted that an explosion and subsequent cutback at a large furnace accounted for most of the decline. Heavy-duty truck orders climbed to a record during March, and an industry analyst stated that order backlog quality remains high. Unit sales of construction machinery rose nearly 20 percent in early 1995 over a particularly strong early-1994 period, but unit sales gains are expected to moderate as 1995 progresses. An association of appliance manufacturers noted some slowing in shipments growth in recent months, but still expected shipments this year to slightly exceed their record level in 1994, as increased export shipments offset a small decline domestically.

Labor Markets. District labor markets remained tight. A recently released survey of job openings in the Milwaukee metropolitan area showed a sharp increase in the share of employers characterizing job openings as "hard to fill" in late 1994, with wage increases most clearly evident in the lowest paying occupations. One of the survey's organizers stated that the market continued to tighten in early 1995. A regional business analyst stated that many firms in Western Michigan face serious labor shortages, particularly for "qualified" workers. These shortages have curtailed expansion plans, added to recruitment and training costs, and combined with other factors to prompt some price increases in some industries. A staffing services firm specializing in manufacturing occupations stated that producers are paying higher salaries for executive positions, and manufacturers in the Midwest are incurring higher

relocation costs with an increasing share of new workers recruited from other areas. The distribution division of a large overseas-based manufacturer of heavy equipment stated that the firm was not keeping up with market-driven salary increases for field service engineers, citing margin pressure from exchange rate changes. An industry analyst believed that labor shortages have not yet resulted in significant wage increases among production workers in the fragmented plastics industry, but stated "we may be at the crux of this problem right now."

Prices. Purchasing managers' surveys suggested that purchased material price increases moderated in the region during early 1995. However, reports from individual firms and manufacturers' associations included increasingly frequent reports of price increases being passed through into final goods prices. Price increases accounted for a greater share of expected revenue growth in several industries anticipating slower growth in sales volume. A construction machinery industry analyst expressed some surprise with the number and size of price increases in this industry in early 1995. Prices paid by machinery dealers to manufacturers have been rising at a faster pace than list prices, while sales terms and conditions have tightened as well. Cement producers are running at "extremely high levels," according to an industry analyst, and shortages are most severe in the Midwest. Customer dissatisfaction with shortages is high -- not because price increases cannot be passed through, but because supply is still short and delayed, even at the higher price. Construction contractors have been reporting raw material price increases of about 30 percent in early 1995. An association of home builders expressed some concern about appreciation in land prices, and expected them to combine with labor and material cost increases to prompt greater increases in new home price increases in the latter half of 1995. A wide variety of paper buyers reported continuing price increases, with one large company stating that the increases "aren't stopping like we thought they would." Four times as many respondents to a survey of retailers in Michigan reported higher consumer prices in recent months as those reporting declining prices, while virtually all surveyed stores expected prices to increase in coming months.

EIGHTH DISTRICT - ST. LOUIS

Summary

The pace of District economic activity, while decelerating modestly in some areas, exhibits few signs of a pending slump. Instead, most contacts believe the economy has achieved its "soft landing" and do not foresee a sustained downturn in the near future. New residential construction is below last year's level, but last year was a record year in most areas. Commercial construction continues to increase at a steady pace, as vacancy rates decline and rental rates increase. Total loans outstanding at large District banks rose modestly during the past two months, spurred by strong growth in business loans. Banks continue to compete aggressively for retail CDs as well as commercial loans, which are being priced below prime by some institutions. Except for northern portions of the District, the pace of spring planting is ahead of schedule.

Manufacturing and Other Business Activity

Most contacts continue to report slowing economic activity; they do not, however, view this as a precursor to a sustained downturn anytime in the near future. Instead, this slowing is attributed to the "soft landing" so often reported by the media. Some contacts still report pockets of tight labor markets, especially for entry-level and some skilled workers. The consensus is for further growth in sales and employment, but at a slower pace than previously experienced.

A contact in the food and beverage industry reports slow, steady growth in sales of about 1 percent over the past quarter. This contact noted, however, that the price of aluminum—a major input—has been rising. Increases in productivity have mitigated this firm's higher costs for the most part, although some cost pass-throughs have occurred in the

Midwest. One contact in the metal distributing industry reports excellent business through the end of March, but some slowing in April because of price increases. Another contact in the scrap metal industry reports transportation/distribution problems because there are not enough rail cars available to move product to the steel mills.

A firm in the electrical equipment industry that supplies motors to defense contractors reports strong demand, particularly for high horsepower motors, despite uncertainty about future federal defense spending. A contact in the trucking industry reports that business is up about 5 percent over last year. A contact in the public utilities industry reports strong growth in the first quarter, but expects some slowing through the rest of the year. Suppliers to the auto industry are experiencing a slowdown that is being driven by higher car prices and consumers who are awaiting the release of new models of the most popular lines.

Construction and Real Estate

Compared with last year's record pace, residential construction and sales activity continues to slow in all parts of the District. Recent year-to-date declines in residential permits ranged from 7 percent in Louisville to 33 percent in Little Rock. In addition, the average price of homes in many areas is down slightly from one year ago. In some pockets, like western Kentucky, however, the market is still strong.

Commercial construction continues its upward trend in the District. There is even talk that speculative building might occur this year in the St. Louis and Memphis areas. Many areas have seen office vacancy rates decline and rents increase. For example, the vacancy rate in the St. Louis area has fallen to about 13 percent, its lowest level in 10 years. In Louisville, it fell from 24 percent to 16 percent over the past year.

Banking and Finance

Total loans outstanding at 11 large District banks rose 2.3 percent between mid-February and mid-April compared with a 1.1 percent increase during the same period one year ago. A 6.1 percent increase in commercial and industrial loans outstanding was the major contributor to the overall increase. Real estate loans also increased in the two-month period, by 2.1 percent. Consumer loans outstanding, however, declined by 0.8 percent, compared with a 3.7 percent increase during the same period one year ago. District contacts continue to report aggressive competition for deposits, especially retail CDs. On the lending side, competition is reportedly fierce, and a number of banks are making below-prime rate loans in an effort to build volume.

Agriculture and Natural Resources

Cold weather and excessive rainfall have slowed the pace of corn planting in parts of Illinois and northern Missouri. In contrast, much-needed rains in Mississippi, southern Indiana, southern Missouri and parts of Kentucky have allowed farmers to resume their field work, where the pace of corn planting is well ahead of schedule. The condition of the winter wheat crop looks good to excellent in nearly all areas. Despite falling slightly in late March and early April, cotton prices in the Memphis market appear to be holding above the dollar per pound level. High prices and strong demand for cotton is expected to boost cotton acreage by more than 10 percent in the Delta region. Lower corn prices and a higher government set-aside requirement, on the other hand, are expected to reduce corn acreage by an average of about 5 percent in the District. Substantial year-over-year increases in fertilizer prices have occurred for the second spring in a row, increasing total costs for wheat, corn and rice producers.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy continues to grow at a healthy pace in spite of consumer reluctance to purchase new homes and vehicles. Manufacturing is strong. Mines and paper mills are running at capacity. Commercial construction is also robust. General merchandise sales are good, with some sources noting an increase from the January-February period. Tourist business is solid, but not spectacular. Labor markets remain tight, and many employers find it difficult to hire new workers. Prices for industrial inputs continue to show upward pressure but those for construction inputs have eased.

But interest-rate sensitive sectors clearly have slowed. Automobile sales are substantially below year-earlier levels. Home construction has slowed in virtually all areas of the district compared to 1994's heated pace. Weather rather than interest rates is the problem for agriculture, where cold, wet weather has delayed planting and harmed beef producers.

Manufacturing

"Business is excellent, but margins are tight," sums up one Minnesota manufacturer. Managers, news media, industrial electricity use, employment and earnings reports all point to continuing strength in the manufacturing sector. Some firms squeezed by rising input costs complain that passing along such increases in their product prices is difficult due to competition.

Natural resource industries

Mining is geared up for a big year. Minnesota's mining employment is up 10 percent from 1994. In South Dakota and Montana gold and copper mines are running at capacity. Oil production is stable, but there are some indications of increased exploration activity.

Paper producers enjoy favorable prices and mills are running at capacity. Prices for recycled paper and cardboard have risen substantially as producers compete for raw materials.

Construction and real estate

Construction remains strong, but has slackened from the heated pace that characterized much of 1994. Commercial construction continues to outpace residential work. Large, publicly let projects in Minnesota and the Dakotas are up about 1 percent for the first quarter of 1995 compared to 1994. Commercial work such as warehouses, suburban office buildings

and stores remains robust, but reportedly with less of a backlog than was common in the last half of 1994.

Residential building is clearly down from year-earlier levels in most areas. New starts are typically down 5 percent to 20 percent in metropolitan areas. The extreme was Sioux Falls, S.D., where new permits for March declined 60 percent compared to a year earlier. But even that decline was reported under the heading, "Builders positive despite drop." In most areas declines are from a very fast pace set in 1994 and builders generally expect a satisfactory season in 1995. Minnesota's construction employment for March was up 1.6 percent over a year earlier. Reflecting strong commercial work, Minneapolis-St. Paul construction worker numbers increased 6.5 percent in the same period.

Agriculture

Cold, wet weather has cast a pall over the outlook for agriculture. Cow-calf operators experienced problems with rain and mud during calving, and calf mortality is reportedly higher than usual, particularly in South Dakota. More importantly, tillage operations and spring planting of wheat and other small grains have been seriously delayed by the unseasonable weather. In general, crop operations are one week to two weeks behind schedule. The delay is reaching a level where at least some potential yield is being sacrificed even if conditions are optimal later in the season.

A cautious mood was apparent among farmers even prior to April's unseasonable weather. Bankers responding to the Minneapolis Fed's first quarter 1995 survey of agricultural credit conditions describe their farm borrowers as cautious, particularly in regard to capital spending, citing low product prices and uncertainty about the future of federal agricultural legislation. Rates of loan repayment are described as somewhat below normal and requests for extensions somewhat higher, although most farm borrowers are reportedly able to service their debts. Farm interest rates continue to edge up, with most categories in the 10 percent to 10.5 percent range.

Consumer spending and tourism

"Our retail sales continue to be very strong," reports the CEO of a firm with department stores across the Ninth District. Across the region, sales of general merchandise appear to be improved since the preceding report. Some mall managers describe a recent pick-up in traffic

after a slump earlier in the year and national chains based in Minneapolis report improved sales.

Vehicles are another story. New vehicle registrations for the year through March were down about 8 percent for the state of South Dakota compared to the same period in 1994. For Minnesota and North Dakota the declines were 6 percent and 10 percent respectively. Dealers and association representatives agree that the strong sales climate which had prevailed through most of 1994 is definitely over.

Sparse snow cover hampered winter tourism in Montana and many other areas, although Michigan's Upper Peninsula had good cover through March and strong business. Tourism inquiries for the summer are active and up from last year, except in Montana. In South Dakota, visits to museums and major outdoor attractions are up sharply over last year and tourism officials expect a very busy summer season. New motels are being built in a number of South Dakota locations in anticipation of growing tourist business.

Employment, wages and prices

"Jobs aplenty" was the headline used by one newspaper to describe the labor market in southwest Minnesota. It would be accurate in most other parts of the Ninth District. In South Dakota, labor shortages continue to be described as a stumbling block to manufacturing growth. One firm announced a new plant in northern Iowa because of the difficulty of securing additional workers near its existing plant in South Dakota. One Minneapolis-St. Paul multi-screen theater chain has cut the number of showings of less-popular movies because of difficulty in hiring enough staff to keep the normal schedule. Managers who expected that their firms' employment would increase in the next 12 months outnumbered those expecting a decrease by two to one in a Minneapolis Fed poll of business people in northwestern Minnesota and eastern North Dakota.

Prices continue to increase for industrial inputs, particularly paper, packaging and basic chemicals. But lumber and other construction materials' prices have moderated somewhat. One Montana mill reportedly cut 2x4 lumber prices sharply to move excess inventory. Petroleum product prices rose in March and April, and are now about 4 percent above a year ago. At the consumer level, some fresh vegetable prices are markedly higher but meat is steady to lower. Few other price changes are reported.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy grew at a strong pace over the past month. Manufacturers continued to operate at high levels of capacity, homebuilding activity picked up slightly, and the district's winter wheat crop was in good condition. Amid ongoing strength in most sectors of the district economy, however, retail activity appears to have slowed from its brisk pace earlier in the year. Across the district, manufacturers continue to report increased materials prices, although few report upward pressure on wages. Prices at the retail level remained steady.

Retail Sales. Retailers report sluggish growth in sales over the past month and only slight improvement over year-ago sales. While apparel sales increased slightly, home furnishing sales were weak. Information about the economic impacts of the Oklahoma City bombing is still sketchy, but the disaster appears to have temporarily depressed local retail sales. Although most retailers across the district report expanding inventories compared with last month, current inventory levels are generally satisfactory. Auto dealers report flat or slightly declining sales, due primarily to higher financing costs for consumers. Nevertheless, most dealers expect increasing sales over the next few months.

Manufacturing. Most firms continued to operate at high levels of capacity last month. While difficulties in obtaining materials have been rare, some firms report longer lead times. Respondents generally regard inventories as too high and plan to reduce stocks during the coming months. Some firms report a sharp decline in exports

to Mexico, while others report a boost in exports to Europe.

Energy. A surge in crude oil prices in April helped boost district drilling activity. The average number of drilling rigs operating in the district picked up somewhat during the month, ending a three-month decline. Natural gas prices, however, sank to their lowest levels in three years and continued to curb overall activity in the district's energy industry.

Housing. Builders report housing starts were up slightly last month due to a pickup in single-family and multi-family construction. Housing starts remain below their year-ago level, though, and most respondents expect building activity to remain sluggish during the coming months. Some builders report sales of new homes remained stable over the past month but were ahead of their year-ago pace. Building materials were generally available with few delays. While mortgage demand continued to decline, lenders expect demand to level off or improve slightly in the near term.

Banking. Loans at reporting banks increased last month. Almost all banks saw gains in commercial and industrial loans. Demand was up slightly for consumer loans and commercial real estate loans, flat for home equity loans and agricultural loans, and down slightly for residential construction loans. Loan-deposit ratios were generally up from the previous month, while security investments were down slightly.

No respondents changed their prime rate last month and none expect to do so in the near term. Few banks altered their consumer lending rates last month, and none anticipate changes in the near future. Lending standards also were unchanged.

Deposits were up slightly last month. Demand deposits, money market deposit

accounts, large CDs, and small time and savings deposits rose slightly, while changes in NOW accounts were mixed.

Agriculture. District agricultural bankers report the winter wheat crop was in good condition last month, with recent rains brightening yield prospects. While crops in some parts of the district were damaged by an early-April frost, the damage was localized. Spring planting has generally progressed on schedule. Most farmers have completed fieldwork, although wet weather has hindered planting in some areas. Cash rents on district cropland are unchanged from 1994, indicating expectations for flat farm income in 1995.

Cattle feedlots in the district were relatively full last month but held fewer cattle than a year ago. Bankers remain cautious about lending to cattle feeders, as many fear a possible drop in cattle prices this fall. Despite record supplies of beef and low cattle prices during the past year, few district cattle producers are reducing their cow numbers.

Prices and wages. Retailers report stable prices due to sluggish sales, subdued wage pressures, and increased competition. Most retailers expect sales to pick up over the next three months, but expect prices to remain steady. While manufacturers report some shortages of skilled labor, few report significant wage increases. Prices of industrial materials, on the other hand, have increased from last month and last year.

ELEVENTH DISTRICT--DALLAS

Eleventh District economic activity continued to expand at the slower pace established in January and February. Retail sales remained sluggish in March and April and sales along the border continued to be very weak. Manufacturing orders were up although more contacts reported reduced sales to Mexican customers. Demand for business services remained strong, however, and construction activity was reported to be at good levels because of increased demand for nonresidential space. Bankers said loan demand grew steadily. Rising energy prices boosted respondents' outlooks, but domestic drilling activity remained below last year's levels. Agricultural producers said that dry weather hampered production slightly.

Manufacturing and service contacts said that price and wage pressures remained in some industries, much the same as reported in the last Beige Book. Rising prices for packaging and shipping materials continued to boost costs for most manufacturers. Apparel producers said that higher prices for cotton and some chemicals were adding to their costs, but that they had not increased selling prices. Capacity constraints in the semiconductor industry pushed up costs for some electronics manufacturers. In the services industry, fees and wages continued to rise at temporary help firms. Rising competition had reduced fees at trucking firms, but a shortage of drivers continued to push up wages. Retailers said their selling prices were lower than expected. Energy prices rose, but natural gas prices were still at very low levels. Weakening livestock prices led to a decline in agricultural prices.

Eleventh District **manufacturing** orders rose in March and early April. Demand for electronics and petrochemicals remained very strong, but orders for paper softened slightly. Although paper contacts noted a slowdown in demand, they said it was a welcome relief compared to the tight

conditions of the past few months. A notable exception was corrugated box distributors who said that demand had increased, likely a result of businesses trying to hedge another price increase. The demand for most construction-related products rose, although orders from residential builders were well below last year's levels. Brick producers said demand increased over the last six weeks, but sales were off 20 percent from year-ago levels. Glass respondents said orders remained strong despite rising competition from Mexican producers. Primary and fabricated metals producers said orders continued to rise due to strength in the nonresidential construction sector. Lumber producers said that demand had leveled off because of fewer housing starts. Orders remained strong for electronic equipment, and competition continued to drive down prices. Apparel sales rose, but some respondents noted increasing cautiousness in orders from retailers. Orders for food products increased, and contacts in the frozen food industry said the California floods stimulated orders for frozen produce. Domestic and international orders for chemicals were very strong, and contacts reported healthy profits. After an extremely weak first quarter, refiners said margins improved slightly in April as gasoline prices rose more quickly than crude prices.

Demand for **business services** continued to rise at a strong pace. Temporary employment firms reported rising demand, and labor market tightness continued to drive up wages and fees for skilled workers. Accounting and legal respondents reported growth in business activity such as mergers and acquisitions. The outlook for business services firms was positive, with no slowdown anticipated in coming months. **Hotel** contacts said business was up over last year, but that Easter season was disappointing because fewer Mexican families vacationed in Texas. Respondents in the **transportation services** industry said that demand was up slightly since the last Beige Book, but trucking contacts said that increased competition had reduced business and fees.

Retail sales remained sluggish in March and April, and most contacts said that sales were slower than expected. Larger than desired inventories at some stores was leading to a brief period of

discounting. In general, selling prices were reported to be the same or slightly higher than last year. Most retailers said that selling prices have not increased as much as they expected this year, and indicated that they are resisting higher prices from manufacturers. Sales along the Mexican border continued to be very weak. **Auto sales** improved in March and April but were below last year's levels.

District **bankers** reported steady loan demand. There was strong demand for construction loans despite fewer residential mortgage loans. Bankers reported increased liquidity because higher interest rates had reduced the relative attractiveness of non-bank investments.

Construction activity remained strong as nonresidential construction increased. Industrial construction picked up, especially near the Texas/Mexico border where manufacturing expansions boosted the demand for warehouse space. Apartment construction continued to increase at a rapid pace, but some contacts were concerned that the market would not be able to absorb all the new space. New home sales were weak, but contacts said that buyer traffic had picked up with the decline in mortgage rates. Most were expecting some improvement in sales in the coming months.

Energy respondents reported that drilling activity in the Gulf of Mexico seemed to have bottomed out in recent weeks, after declining about 10 percent during the first quarter. Although domestic drilling activity remained weak, contacts working in international markets said activity there had increased, more than offsetting the domestic losses. Crude oil prices increased from about \$18 in early March to over \$20 in April, raising optimism among contacts, even though the futures market suggests that \$20 oil prices will not be maintained. Natural gas prices remained weak.

Eleventh District **agricultural** producers said dry conditions in west Texas were hampering production slightly. Strong demand for cotton worldwide had increased prices and prospective cotton acreage. Despite higher crop prices, lower prices for livestock caused the Texas All Farm Products Index to fall 2.9 percent below the March 1994 level.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic activity in the Twelfth District grew at a slower pace in the first quarter. Weather disruptions caused some slowing in California's moderate recovery, and growth continued to decelerate from high levels in the intermountain states. Retail sales growth slowed further in March, especially for durable goods, and inventories were reported building for some businesses. Heavy rains during March were blamed for some of the weakness in California retail sales and caused substantial damage to several fruit and vegetable crops. District service sector firms reported continued strong demand. Among manufacturers, electronics, aluminum, and machinery producers report strong demand and tight capacity, while orders and employment remain weak at aerospace and lumber firms. Residential construction activity continued to slow in most parts of the District, but commercial activity was strong outside of California. District banks reported strong loan demand but slowing deposit growth.

Business Sentiment

Twelfth District business leaders continue to expect national economic growth to moderate over the next year. About three-fifths of survey respondents project national output to grow at its long-run historical average rate during the next four quarters following above-trend growth in 1994. About half of the business leaders surveyed expect an increase in the unemployment rate during the next year. However, respondents from California expect a strengthening in employment growth for the state. In Southern California, two to three times

more firms plan to add workers than to cut jobs this year. While further layoffs related to restructuring are anticipated, they are expected to be on a smaller scale and less widespread than in the past several years.

Retail Trade and Services

District retailers report continued sluggish growth in sales, particularly in first quarter sales of durable goods. Auto sales are reported down in Idaho, Oregon, Utah, and Washington, and motor vehicle dealers in Idaho have cut their orders to manufacturers substantially to stem the rise in inventories. Furniture sales for the first quarter fell below year-earlier levels in parts of Oregon and Washington. Sales growth of nondurable goods is reported flat or slowing by many retailers. Department store sales are reported flat compared with the end of 1994, with inventories reported rising at general merchandise stores in California. Reports attribute some of the slowing in California retail sales to heavy rains during the first quarter.

The District's service sector shows continued strong demand. The tourism industry in Southern California continues to strengthen. In San Diego, the America's Cup is reported to have provided a boost to the growth of visitor spending. Growth in employment in the casino and resort sector in Las Vegas has moderated from the rapid pace of the last several years. Computer service firms in Oregon report rising revenues.

Manufacturing

District manufacturing activity remains mixed, as further weakness in the aerospace sector in California and Washington is offset by strength elsewhere. In Oregon, several electronics manufacturing firms are adding to capacity. In Utah, a major electronic-

components manufacturer announced plans to build a memory chip plant that will cost \$1.3 billion and eventually employ 3,500 workers. Aluminum and machinery producers report high capacity utilization and lengthening delivery lead times. Lumber companies report shrinking product orders and rising inventories.

Agriculture and Resource-Related Industries

District agricultural conditions are dominated by the effects of the March flooding in California. Flooding caused damage to many tree crops as well as several winter vegetable crops. Production of some fruits and nuts will be substantially lower this year. Prices for some vegetables, especially lettuce, broccoli, and cauliflower, are expected to remain high through mid-summer. On a more positive note, the heavy rains filled California's reservoirs, allowing farmers to receive full irrigation allotments for the first time in several years.

Natural gas prices are reported well below year-earlier levels as a result of the mild winter. Rising gold and silver prices are reported to be giving a boost to mining employment in Nevada.

Real Estate and Construction

The growth in residential building continues to slow in most areas, while home sales and prices are reported mixed. In Arizona, Nevada, and Utah, new home construction generally is reported to be easing from last year's fast pace, although multi-family construction remains strong in Las Vegas. In Oregon, housing starts are reported down slightly from a year earlier. Home sales still are reported strong in Oregon, but in Idaho home sales are slowing at the higher-priced end of the market. District home prices are reported mixed, with prices up slightly in Los Angeles, flat in Seattle, and continuing to rise

in Phoenix and Tucson.

Commercial construction activity remains weak in Los Angeles, but is strengthening in other parts of the District. In Las Vegas, commercial vacancy rates are low and rents are reported rising. Alaska commercial construction activity is being fueled by several public works projects.

Financial Institutions

District banks report generally strong loan demand but slowing deposit growth. In California, commercial and real estate lending is reported strengthening, while the level of consumer installment debt outstanding continues to decline. Commercial loan demand has increased sharply in Arizona, but mortgage applications and deposit growth are weak. Banks throughout the District report continued efforts to reduce employment and overall costs.