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Summary of Commentary on ______

Current Economic Conditions

by Federal Reserve District

July 1995

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

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SUMMARY[1]

Most districts continue to report economic expansion, although in some areas the rate of expansion has moderated recently. The upper Midwest, Southeast and West continue to expand. Other areas are experiencing little or no growth. Expansion of retail sales also varies by geographic region, with the center of the country generally doing somewhat better than other areas. Manufacturing, particularly the auto and construction-related industries, continues to slow in many districts. However, orders are up in some districts, and inventories generally are considered to be at acceptable levels. Reports of tight labor markets come from many districts, but few report increased wage pressures. Three-quarters of the districts continue to report higher prices for raw materials, but the rate of increase is decelerating. Retail prices are generally unchanged or up modestly. In most areas of the country, residential and commercial real estate markets are picking up; loan demand is steady or strengthening. Weather concerns dominate reports from most agricultural-producing districts, while livestock producers face reduced profits because of lower selling prices and higher feed grain prices.

Consumer Spending

Compared with one year ago, retail sales are up slightly in the Atlanta, Chicago, Kansas City, New York and St. Louis districts, while the remaining districts report sluggish or declining sales. The Atlanta, Chicago, Kansas City and New York districts report strong growth in apparel sales, while the Boston and Dallas districts report either declining or steady apparel sales. Boston also notes that sales of durables are below retailers' expectations. The Philadelphia district reports that discount stores are doing well and that the recent heat wave

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[1]Prepared at the Federal Reserve Bank of St. Louis from information collected before July 31, 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.

increased the demand for air conditioners, fans, outdoor furniture and lawn equipment. In general, though, retailers in this district are experiencing their usual seasonal slowdown. The Kansas City and New York districts note that sales of home furnishings and home improvement goods are weak, while retailers in the Atlanta district have seen a recent uptick for these products. Most districts report that retailers' inventories are at acceptable levels. Contacts in the Atlanta district expect a good back-to-school season, while St. Louis contacts are somewhat more pessimistic.

Reports on auto sales are mixed, ranging from sluggish in the Atlanta, Minneapolis and San Francisco districts, to above last year's levels in the Cleveland, Dallas and Kansas City districts. In the Philadelphia district, increases in auto sales are leveling off from their higher rates earlier in the year, and dealers in the St. Louis district report flat to moderately strong growth. In the Chicago district, auto leasing is very strong.

Manufacturing

Manufacturing production continues to slow in most districts. The Boston, Cleveland, Dallas, Minneapolis, Philadelphia, Richmond and St. Louis districts report some slowing, while New York and San Francisco have mixed reports from their contacts. Some districts note that the auto and construction-related industries have slowed recently, with accompanying effects on firms that supply these industries.

The Atlanta, Chicago and Kansas City districts report some gains in overall production, with Atlanta, Chicago and San Francisco noting increases in orders. The demand for machinery has jumped significantly in the Boston district. Computer and electronic firms in the Atlanta district indicate that recent increases in orders are adding to their backlogs. Heavy truck manufacturers in the Cleveland district report that a backlog of orders is sustaining their business. The Chicago district notes a decline in steel demand, while St. Louis is experiencing an expansion in the steel industry.

Exporters in the Boston district report that even though sales to European markets have been sluggish, demand from developing countries has grown substantially. Inventories at firms in the Cleveland and Kansas City districts are at desired levels, but firms in the Atlanta district report that levels remain below those posted earlier in the year. Small high-tech firms in the Minneapolis district note expanding activity.

Labor Markets

Labor market conditions vary across and within districts. Contacts in the Philadelphia district note that they have trimmed payrolls and reduced hours. Similarly, contacts in the St. Louis district note that the need for temporary workers or overtime has diminished greatly. The New York district says that announcements of employment gains have been mostly offset by recent layoffs. Temporary employment agencies in the Boston, Dallas and Richmond districts, however, report strong demand. Firms in more than half of the districts continue to report difficulty hiring and retaining both skilled and entry-level workers.

Wages and Prices

Nearly all districts note that price pressures remain on materials and supplies, with reports of increasing prices generally outnumbering reports of flat or declining prices. Overall, though, the rate of increases appears to be moderating. Despite reports of minimal wage pressures, there are some reported exceptions. In the Dallas and Richmond districts, for example, wages for temporary workers have been accelerating, while in the Chicago and Minneapolis districts, upward pressure on wages for entry-level employees continues. Retail prices in the Kansas City and New York districts are generally unchanged to up slightly, although individual districts report declining apparel and computer prices. Some retailers in the San Francisco district are now tempering their price increases for fear of hurting sales.

Input price increases at the manufacturing level are more widespread and appear to be most prevalent for raw materials like paper and wood products, chemicals and certain metals. Nine districts report higher input prices; of those nine, two—Boston and Cleveland—expect to see higher prices of cotton goods and furniture, respectively, later this year. In the Dallas district, on the other hand, recently announced increases in chemical prices have been rescinded, and in the Chicago district, prices for steel and resin have actually declined.

Construction and Real Estate

Residential and commercial real estate markets have improved somewhat in most districts. Contacts in the Atlanta, Chicago, Dallas, Kansas City, Philadelphia and San Francisco districts report recent increases in single-family home construction or sales, while New York and St. Louis report slack activity. Despite recent increases, year-to-date residential construction is still below the records set in many districts in 1994. Recent reductions in mortgage interest rates are credited for the pick-up in new construction and sales. Real estate agents in the Philadelphia district report a large inventory of homes for sale, but contacts in the Atlanta district complain of a low inventory.

Activity in commercial real estate markets, especially industrial markets, continues to increase or hold steady across all reporting districts. Commercial vacancy rates have declined in the Minneapolis and Richmond districts, while holding steady in the Dallas and Philadelphia districts. The multifamily sector is strengthening in the Atlanta, Boston and Dallas districts. New nonresidential construction is reported in the Atlanta, Chicago, Dallas and Minneapolis districts and in selected portions of the Richmond and San Francisco districts.

Banking and Finance

Loan demand appears to be steady or rising in a majority of districts. Both the Atlanta and St. Louis districts note that competition among lenders on price and credit terms is fierce. Atlanta, Cleveland, Kansas City, Philadelphia, Richmond, St. Louis and San Francisco report strong commercial and industrial loan demand. Consumer loan growth is reported to be up in the Cleveland, Dallas, Kansas City and St. Louis districts. The Atlanta, Cleveland, Dallas, New York, Philadelphia and Richmond districts report increased residential mortgage lending because of home sales, refinancings or both. Commercial real estate lending is reported to be steady in the Dallas and Kansas City districts and weaker in the Atlanta and New York districts. Loan delinquencies remain low in the Cleveland, New York and St. Louis districts.

Agriculture and Natural Resources

Crops conditions are generally favorable across the nation. Most districts, however, report some form of adverse weather that has led to heightened concerns about the size and quality of many crops, which stem in part from this year's unusually late spring plantings. For example, Kansas City reports that weather will need to be ideal for the remainder of the season to produce normal yields for corn and soybeans. Elsewhere, hot, dry weather has affected crops in the Dallas and St. Louis districts, while Chicago, Minneapolis and Richmond report some heat-related losses for poultry and cattle producers. Increasing feed grain prices and lower livestock prices have diminished profit levels for livestock producers in the Kansas City and Minneapolis districts; some producers in the Kansas City district plan to reduce the size of their breeding herds in response. With the wheat and small grain harvest complete in many areas, yields are reportedly smaller and of lower quality in the Kansas City district and parts of the St. Louis district. On the other hand, record or near-record yields are reported in the Richmond district and in other parts of the St. Louis district.

Energy production has changed little despite lower oil prices. A marked decline in crude oil prices has not prevented an increase in oil drilling activity in the Kansas City district. Despite lower natural gas prices in the Dallas district, drilling activity for natural gas is reportedly higher. Minneapolis reports robust growth in its natural resources industries. In particular, copper and wood products producers are operating at capacity, while activity in the San Francisco district's mining industry is increasing.

FIRST DISTRICT - BOSTON

Economic activity is slowing in the First District. Sales or revenues of a majority of retail and manufacturing contacts in New England are flat to down from a year earlier. Most prices are reportedly flat. Commercial real estate markets are mixed, with the office and retail sectors weaker than last year.

Retail

Most retail contacts in the First District express disappointment with their June and July sales growth from a year earlier, which ranged from 5 percent declines to gains of 5 percent. Even an exception, a large chain posting double-digit sales growth, noted that recent sales of durable goods were below expectations. Contacts view the next six months with great uncertainty, anticipating level to modest sales gains. Retailers of women's apparel see no immediate relief from continuing aggregate sluggish sales and battles for market share. Contacts suggest that women have become more reluctant to buy clothing because of greater expenses for health coverage and elder and child care, increased interest in home renovation and inexpensive casual wear, and little concern for "chasing fashion."

Most vendor prices remain stable; by exception, recent increases in cotton prices are expected to boost prices of cotton goods this fall and winter. Most retailers, particularly off-price discounters, are struggling to maintain gross margins and profits. Only two contacts plan significant increases in their 1995 employment levels and capital budgets.

In contrast to the disappointing retail situation, the region's tourist industry reports extraordinary activity this summer, far exceeding expectations. Both Americans and foreigners are attracted to

New England, reportedly by reasonably priced package vacations offering several points of interest, such as outlet shopping, cultural events, and outdoor experiences.

Manufacturing

Most First District manufacturers contacted report that recent revenues are flat to down slightly from their levels of a year earlier. However, about one-third of the contacts indicate double-digit sales gains for machinery and equipment. Although traditional European markets have been sluggish, some companies report substantial growth in exports to developing countries. Employment generally has moved in the same direction as sales.

Manufacturers indicate that their input and selling prices are mostly flat. Prices of petrochemicals and copper are reportedly rising and shortages of memory chips are leading to some temporary price increases. One contact notes that an anticipated increase in paper prices did not materialize, while another reports that surcharges for chrome appear to be ending. Prices of computers and of machinery sold to automakers continue to fall.

Capital spending has increased over the past year at most contacts, with close to half the sample reporting a substantial increase. Much of the additional investment is being driven by the development of new products. In some cases, a changing product mix is also leading to selective hiring.

Most manufacturers believe that they will be operating in an environment of slow economic growth in coming months. Some are hopeful that new products or successful promotion of existing products will boost sales.

Temporary Employment Firms

Temporary help firms are holding their own in the New England region, according to industry contacts. Although growth rates have declined slightly from last year, sales continue to climb at a healthy pace, averaging 15 to 20 percent increases over year-earlier levels. Personnel supply firms expect to see continued strong demand for temporary workers in the fall.

Commercial Real Estate

The apartment and industrial markets continue to expand in the First District, while the office and retail sectors are lagging behind. Contacts report negative absorption in downtown office markets in Hartford and Providence, small gains in Boston (well below last year's strong pace), and only Portland showing significant improvements. Suburban office markets are doing better than downtowns, a pattern one respondent attributed to substantial new leasing activity from small, fast-growing high-tech and software companies that prefer suburban locations. Net absorption is strong in the Massachusetts and Connecticut industrial markets, particularly among smaller companies that require less than 50,000 square feet of space. The lack of new multi-family construction combined with strong demand is leading investors to propose new apartments in suburban Boston.

Nonbank Financial Services

The majority of respondents at life insurance companies report lower sales in the second quarter of 1995 than in the second quarter of 1994. The decreases are mostly due to weakness in sales of variable annuities and individual life insurance. Employment at the responding companies was flat to down in the second quarter, and they expect flat or declining employment for the rest of the year.

SECOND DISTRICT -- NEW YORK

Reports on economic conditions in the Second District were generally mixed in recent weeks. Although Midtown's commercial real estate market firmed in June, reports from other markets varied widely. Announcements of major job gains in June and July were largely offset by announcements of job losses. Aggregate loan demand at small and mid-sized banks weakened over the past two months, despite declines in average loan rates.

Consumer Spending

District retail sales rose moderately during June. Sales gains ranged from +1 to +10 percent on a year-over-year basis and averaged roughly 5 percent. Inventories were generally on plan at the end of June. Sales of women's apparel (particularly sportswear), accessories, and cosmetics were strong. Men's sportswear and commodity consumables also sold well. As in recent months, sales of furniture and home goods remained weak. Several retail contacts noted that price pressures remain subdued.

Construction and Real Estate

Midtown Manhattan's commercial real estate market firmed during June. Office vacancy rates declined 0.4 percentage points to 13.5 percent, just equalling the rate at the beginning of the year. Moreover, the Midtown market received a major boost when the City reached agreement with a group of entertainment companies to open an array of attractions -- including two theaters and a wax museum -- on 42nd Street.

In contrast to renewed strength in Midtown, office vacancy rates in Downtown Manhattan rose to 24.6 percent in June as leasing activity remained unusually sluggish. Anticipation of the enactment of the Downtown Revitalization Program -- widely expected to provide a long-run boost for Downtown -- has contributed to the area's short-run difficulties;

in order to qualify for the program's financial incentives, some prospective tenants are deferring closings on new leases until the legislation passes.

The market for office space in New York City's suburban counties was mixed during the second quarter. Steady leasing activity led office vacancy rates to decline in Northern New Jersey, Westchester (NY), and Fairfield (CT). In contrast, vacancy rates rose on Long Island; Nassau's rate jumped a full percentage point as large blocks of space previously occupied by aerospace firms returned to the market.

Residential builders in Northern New Jersey report that sales of new single family homes -- slow throughout the normally brisk spring selling season -- have not yet rebounded. Several contacts noted that although customer traffic picked up in July, it has not yet translated into sales.

Other Business Activity

Nonfarm employment inched down in both New York and New Jersey during June. New York's employment decline was accompanied by a larger decline in unemployment, causing the unemployment rate to decrease 0.4 percentage points to 5.9 percent. New Jersey's unemployment rate edged up 0.1 percentage points to 6.6 percent.

Announcements of Second District job gains have been largely offset by announcements of job losses over the past two months. The roster of firms announcing plans to increase employment includes Bus Industries (+450 jobs in the Syracuse region), Buckbee-Meers (+300 Syracuse region jobs), Upgrade Corp. (+250 jobs in Buffalo), and General Motors (+200 jobs in the Albany region). Utica will retain Rome Laboratory's 1,000 jobs, but lose an equal number of positions as Lockheed Martin closes its Utica facility and transfers many of the plant's workers to the Syracuse area and New Hampshire. Other recent announcements of job cuts include Hughes Training (-1,000 jobs in the Albany region, with at least 700 jobs transferred to Texas and Virginia), CNA Insurance (-400 Albany region jobs), and the Seneca Army Depot (-300 mostly civilian employees).

Purchasing managers in the Buffalo and Rochester areas reported that manufacturing production increased during June, while purchasers in the New York metropolitan area reported a modest contraction in the overall pace of business conditions. Reports of commodity price pressures varied widely.

Financial Developments

Compared to two months ago, aggregate loan demand is steady at about forty percent of the small and medium sized banks surveyed in the District and lower at about thirty-five percent. The commercial and industrial (C&I) loan and nonresidential mortgage segments are generally weaker. Demand for C&I loans is lower at approximately two-fifths of the banks and higher at only one-fifth. Nonresidential mortgage demand is the same or lower at nearly all of the banks. Refinancing activity continues to increase; it is higher at almost one-quarter of those banks surveyed.

Average loan rates are lower at about eighty-five percent of the participating banks, and are the same at the remaining banks. About forty percent of the respondents note that the spread between the average lending and deposit rates has narrowed. Over the past two months, nearly all of those surveyed have maintained their credit standards, and are just as willing or more willing to lend. For the most part, delinquency rates are stable or lower.

THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District were mixed in July. Manufacturers continued to report declines in orders for their products, and the weakening demand for manufactured goods has led to some reductions in employment at area factories. Retailers said they were entering the usual summer slow period while posting modest year-over-year gains. Most merchants said their inventories were in line with plans. Auto dealers said sales picked up in recent weeks in response to aggressive incentive programs by car makers, but dealers are skeptical about prospects for continued improvement. Bankers reported some recent gains in commercial and industrial lending, and they continued to describe competition for new business loans as strong. Consumer lending was generally described as near steady. Real estate lending has picked up a bit as home sales in the region increased in June and July. Realtors said the increase was moderate, however, and the inventory of homes for sale remains large. Commercial real estate conditions appeared to be steady. Office vacancy rates--about 17 percent in the Philadelphia central business district and 15 percent in the suburbs--have changed little since the beginning of the year, according to realtors.

MANUFACTURING

Manufacturers in the region reported further slowing in business in July. Four in ten of those contacted for the month said orders for their products had slipped from the June level, an equal number said orders were steady, but only two in ten said orders had increased. On balance, order backlogs at Third District factories declined in July: half of the firms surveyed reported drops in unfilled orders while just one in ten posted gains. Several firms that produce transportation equipment and parts for the auto industry said their business was softening due to declining production rates in the automobile industry, but the slowdown in manufacturing activity in the Third District economy has affected nearly all the major industrial sectors of the region.

In line with the slackening pace of business, Third District manufacturers have trimmed payrolls and reduced working hours. Declining demand for their products apparently has also affected pricing: surveyed companies indicated that they have kept prices for their own products steady, on balance. While area firms continue to report increased costs for supplies and raw materials, increases do not appear to be as prevalent as they were in the first quarter of the year.

The overall outlook among Third District manufacturers is positive. Expectations are that there will be modest improvement in orders and shipments over the next six months. Despite the anticipated improvement in business conditions most of the companies polled do not expect to extend working hours or increase employment. Capital spending by area firms may be increased, but current plans indicate the overall gain is likely to be only marginal.

RETAIL

Most of the Third District retailers contacted for this report said sales in July exhibited the usual seasonal slowdown. Discount stores posted greater year-over-year gains than other types of stores. A period of above normal heat and humidity in the region boosted sales of air conditioners and fans. After a relatively cool spring, the hotter weather also appeared to provide an impetus for somewhat better sales of lawn equipment and outdoor furniture as well as summer apparel. Store inventories were generally in line with plans, according to merchants.

Auto dealers reported some improvement in sales in recent weeks, but the gains appeared to be based on extensive incentive programs by manufacturers. In general, dealers do not believe the annualized sales rate will continue to move up. Most think the pace of sales will level off for the rest of this year and into 1996.

FINANCE

Third District bankers said lending was moving up moderately in July. Several noted recent increases in commercial and industrial loan activity, but nearly all of those contacted said competition was very strong and margins were thin. Real estate lending was picking up as well, according to bankers, driven by an upturn in home sales. Refinancings also increased. Bankers generally indicated that consumer lending was about steady. Some noted that they were deliberately restricting growth in credit card debt in order to limit or reduce delinquencies.

REAL ESTATE

Commercial real estate brokers reported steady market conditions at midyear. Office vacancy rates for both the city and the suburbs have been virtually unchanged through the first half of the year. The rate in Philadelphia's central business district was estimated at 17 percent. Vacancy rates in suburban office markets varied widely, with the overall rate estimated at 15 percent. Realtors and property managers said the demand and supply for Class A space remained roughly in balance, but the supply of Class B space exceeded demand. The supply of Class B space is likely to grow, according to realtors, as business firms in the region continue to reduce staffs or relocate out of the area.

Residential realtors and builders said sales picked up in June in response to declining mortgage rates and the higher sales rate was being maintained in July. The increase in sales was generally described as modest, however, and the inventory of homes for sale remained large. Builders have effectively cut prices through a variety of incentives in order to sell a larger than normal inventory of new homes built on speculation and to keep the pace of building activity from dropping. Both realtors and builders are concerned that the sales rate will dip in the seasonally slow summer months and may not pick up again in the third quarter. They cite concerns about employment security as a major factor in restraining move-up buying by area residents.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

The District economy continues to operate at a high level, although the industrial sector has slowed from its exceptionally strong growth pace earlier in the year. Capital goods producers continue to lead the local economy's advance, and commercial construction appears to have gained strength very recently. No significant layoffs have been observed, but several sources have noted a drop-off in factory overtime. Indeed, unemployment rates remain low relative to the national average. Price pressures appear to have eased a bit from earlier in the year; no significant cost increases have been reported.

Manufacturing

The District's industrial sector, which had been growing at an exceptionally strong rate, has since slowed to a more average pace. Many capital goods producers have seen a drop-off in new orders, and in a few extreme cases, such as heavy truck manufacturing, production levels are being sustained by a rather formidable orders backlog. Sources for this industry anticipate a drop in production by year-end if orders growth does not improve. Machine tool makers continue to report a solid level of new orders, and production is thought to be nearing capacity. Only a few manufacturers have seen an acceleration in business activity recently. Some unexpected strength has come from aerospace-related products, and steel orders and production have also improved following a relatively slow second quarter. Export markets, by most accounts, are still favorable.

No indications of an inventory imbalance at the manufacturing level are noted, and virtually all sources consider current production and employment levels high by historical comparison. Labor appears to be amply available, with only a few, scattered shortages of skilled workers, notably in the northern Kentucky region.

Retailers

Retail sales are generally reported as normal for the season, having strengthened from an overall lackluster first half. District sales are still running somewhat below levels at this time last year; only one department store reported summer sales were better than last year. Optimism for the remainder of 1995 is mixed--about half of the retailers we contacted expect the recent strengthening in consumer spending to continue. A large share of the run-up in retail inventories during the past few quarters appears to have dissipated. District retailers' reports on inventory levels range from "on plan" to "slightly higher than planned."

Retail price increases remain moderate, with apparel prices actually declining during the past several months. Women's apparel prices have been especially depressed. Despite observations that demand for home-improvement products has been soft, furniture prices are expected to rise as higher materials costs are pushed through to retailers. Some labor shortages are occurring in the retail sector, especially in larger cities. Several retailers also note plans for capital expansion and renovation.

Autos

July auto sales in the District were mostly positive. In northern Ohio, sales levels were much improved--in some cases, 45% higher on a year-over-year basis--and well in excess of general expectations. Southern portions of the District gave more subdued sales reports: Auto sales in eastern Kentucky during July were down about 20% from last year.

District auto dealers report that mid- and full-size car sales have surpassed small-car sales, and one dealer notes that sport-utility vehicle sales have quadrupled from last year. Demand for options has also strengthened during the summer months. Virtually all dealers report lower new-car inventories from the District report of two months ago, but new car inventories vary substantially by model, ranging from a 35 to 90 days' supply.

Manufacturer incentives have helped sales when used. One dealer reports that incentives have offset the effects of high interest costs, although a few sources noted that new car loan rates have begun to edge lower from their recent cyclical peaks.

Banking and Credit

Major District banks report a further, but moderate, growth in their deposit base. Moreover, several sources note a lengthening in deposit maturities. Deposit expansion is reported to be the means for the continued growth in lending activity, although the extent of deposit growth is mixed by institution and region.

Bank lending remains especially strong in the commercial credit area, where loan demand for plant and equipment expansion, mergers, and inventory floor plans has increased substantially from the spring. Household borrowing is also reported to have strengthened, with an improvement in consumer and new mortgage credit over the past several months. Despite the continued rise in debt levels, however, District banks are reporting exceptionally low delinquency rates, particularly for consumer-related credit. Several institutions cite delinquency rates of less than 1 percent.

FIFTH DISTRICT - RICHMOND

Overview: The rate of economic expansion in the Fifth District appears to have been steady in late June and July. Retailers and manufacturers reported that growth slowed in their industries, but service producers reported that growth picked up. Residential and commercial real estate contacts and financial industry sources reported little change in their sectors. Contacts at area ports and in the tourism industry reported increased activity, and temporary employment agencies saw stronger demand for temporary workers. Government contacts reported mixed trends in state revenue growth. Agricultural conditions were good, although adverse weather damaged some crops and poultry.

Retail Trade: Indicators of retail activity growth decreased in July from their June levels, according to preliminary results from a mail survey of District retailers. The indexes of sales, employment, inventories, big-ticket sales, and shopper traffic were lower. The index of wages changed little, however. Survey respondents indicated that retail prices rose more slowly in July. They foresaw increased growth in the demand for their products, and they expected their prices to rise more rapidly during the next six months.

Service Production: Indicators of service-sector activity growth increased in July from their June levels, according to preliminary results from a mail survey of District service producers. The indexes of revenues and wages rose. The employment index changed little. Service producers reported that their prices rose more slowly in July. They expected the growth in demand for their services to change little during the next six months, and they expected their prices to rise more slowly.

Manufacturing: Indicators of factory growth decreased in July from their June levels, according to a mail survey of Fifth District manufacturers. The shipments and backlog indexes decreased, and the new orders, employment, and workweek indexes changed little.

Manufacturers were more optimistic about the growth in shipments and employment during the next six months, but their expectations about the workweek changed little from June. They also anticipated decreased finished goods inventories. Finished goods and raw materials prices rose more slowly in July than in June, and at rates below the general inflation rate. Respondents expected their prices to rise more slowly during the next six months than they had expected in June.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in June and early July was above that of May and a year ago. Summer bookings were up compared to a year ago, and contacts expected better-than-normal business and unchanged prices during the next six months.

Port Activity: Representatives at District ports indicated that export and import levels in June were higher than those in May and a year ago. Contacts expected that both exports and imports would increase during the next six months.

Temporary Employment: A telephone survey of Fifth District temporary employment agencies indicated that the demand for temporary workers in June and early July was higher than it was a year ago and was little changed from its May level. The demand for clerical workers was particularly strong. Contacts expected demand during the next six months to be greater than usual. Temporary workers' wages rose faster than the general price level during the past year, although most contacts expected wages to stabilize during the next six months.

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

Residential Real Estate: According to a telephone survey of District real estate agents and homebuilders, residential real estate activity was unchanged in June and early July. Building permits, housing starts, and home sales were stable over the period, except in North Carolina, where building permits and housing starts increased. Buyer traffic increased, and most contacts attributed the increase to lower mortgage interest rates. Contacts reported that lower- to middle-priced homes were selling better than expensive homes. Home prices were unchanged, except in North Carolina, where they increased. District building material prices and subcontractor wages were steady.

Commercial Real Estate: District contacts reported that commercial real estate activity changed little in June and early July. Leasing activity was unchanged, except in North Carolina, where it increased. Vacancy rates declined slightly, and commercial rents changed little. The availability of prime office space tightened in most District cities, and contacts reported shortages of such space in North Carolina and the District of Columbia. Contacts reported little new construction.

State Revenues: State government contacts reported mixed results in tax collection growth in June. Compared with May, real revenue growth was lower in the District of Columbia, Maryland, and Virginia; steady in North Carolina; and higher in South Carolina and West Virginia.

Agriculture: District agricultural conditions remained good in recent weeks, although adverse weather hurt crops and poultry in some areas, according to agricultural analysts. Record or near-record yields were reported for small-grain crops. Floods in Virginia and heavy rain in the Carolinas caused only minor damage to small-grain and tobacco crops in some localities. A more serious impact of the rains, however, was their promotion of blue mold growth on the tobacco crops, especially burley tobacco. On the other hand, recent rainfall benefited the corn, soybean, and hay crops. Above-normal temperatures meanwhile led to higher-than-normal poultry losses, especially along Maryland's Eastern Shore.

SIXTH DISTRICT - ATLANTA

Overview: Contacts in the Southeast generally reported improving economic activity since the last Beigebook period. Merchants said recent sales have bettered year-ago levels and expressed optimism about the fall season. Manufacturers generally expect to continue to see rising orders and output in the coming months, but gains are seen as modest and no significant hiring is expected. Summer tourism and theme park attendance appears to be exceeding expectations in most locales. Single-family housing sales are improving, and prices in some areas are increasing; markets also reportedly continue to strengthen for the commercial and multifamily segment. Bankers note generally healthy commercial and consumer loan demand. Most contacts believe that wage and price pressures are under control and expected them to remain so for the foreseeable future.

Consumer Spending: Retailers throughout the District reported that sales were above last year's levels during June and early July. Most merchants said that inventories were in good shape, with several noting that their inventories were actually a little under plan. Home furnishing sales have improved as have sales of women's and children's apparel. According to several retailers, men's apparel sales have slowed recently. Overall, retailers remain optimistic and expect good back-to-school sales. Auto sales, on the other hand, were generally characterized as sluggish.

Manufacturing: Factory activity is improving or steady, according to most industry representatives, but recent gains in shipments and new orders have been modest. Inventories for most producers are said to remain below levels posted earlier in the year. Most manufacturers contacted anticipate further near-term output increases; however, new hiring remains restrained. Some apparel manufacturing contacts said demand had recently been stronger than expected; however, some producers continue to announce layoffs. Increasing output was reported by chemical plants, but they expressed a concern about the availability of raw materials. Industrial computer systems and electronics manufacturers note increasing order backlogs. Shipments are increasing for medical equipment fabricators, and producers of heavy-duty trucks say that strong demand has them operating at 100 percent capacity. On the other hand, central Florida continues to be adversely impacted by military contractors' job cuts. Slow auto sales have also forced a regional tire producer to cut production. Although current sales remain good, some paper industry managers are becoming uneasy because of possibly slowing demand.

Tourism and Business Travel: Tourism is reported to be improving notably in Florida. There are more European visitors, and occupancy rates are rising. Savannah's tourist infrastructure is benefitting from improvements spurred by the Olympics. Casino gambling activity in Mississippi is reportedly stable to increasing, and hotel occupancies in New Orleans are above historical averages. On the basis of the record so far this summer, attendance at the region's theme parks is expected to outpace last year's figures.

Construction: According to real estate contacts, single-family home sales continued to improve throughout most of the District during June and early July. Realtors are again attributing the increase in housing demand to low mortgage rates. However, home inventories are extremely low in several markets, driving home prices up modestly. Single-family home construction activity is generally mixed. Both realtors and builders are cautiously optimistic that the market will continue to improve.

Commercial and multifamily contacts continue to report strengthening activity. Multifamily construction demand continues to be strong in many areas of the market but has slowed slightly in some. The majority of commercial construction remains build-to-suit; however, several major speculative office buildings have broken ground recently or been announced within the District. Realtors are optimistic and anticipate that both commercial and multifamily markets will continue to strengthen moderately during the remainder of 1995.

Financial Services: Bankers around the region report that overall loan demand remains moderately strong but portray competition on both price and credit terms as fierce. Commercial demand remains relatively strong. Most contacts reported moderate to strong activity in commercial and industrial lending; however, demand for commercial real estate loans has slowed. Consumer loan demand was generally characterized as mixed. Several bankers noted that home equity credit lines were doing quite well. They said that lower rates have spurred mortgage lending in the last few months. Refinancing activity has not been quite as strong as some bankers expected. With mortgage rates edging up again, many contacts expected home mortgage lending to slow somewhat in the coming months. Auto lending was reported to be flat.

Wages and Prices: Although a few areas still face a shortage of skilled workers, wages generally remain stable in the region. Most contacts continue to report little change in prices received for finished goods or prices paid for materials. Few expect price changes in the near term. Those reporting price increases were confined mainly to the chemical, paper, and building products industries.

SEVENTH DISTRICT--CHICAGO

Summary. District economic growth increased in June and early July. Consumer spending and housing activity remained on the higher growth path that developed late in the second quarter. Manufacturing output flattened out on a seasonally adjusted basis, following a significant deceleration centered in consumer durable goods production earlier in the year. Manufacturing inventory contraction abated, but many producers remain wary about inventory levels. District employment growth has slowed during 1995, but labor shortages have been partly responsible. Labor markets remain tight in many areas of the region. Crop prices have risen sharply, as yield concerns for the 1995 harvest added to earlier pressures from strong consumption and a cut in seeded grain acreage. Industrial input price increases continued to moderate, however, and prices have actually declined for some important industrial materials.

Retail Sales. Reports from retailing contacts suggest that District consumption growth remained on the higher plane that developed late in the second quarter. A survey of retailers in Michigan suggested that sales growth increased on a seasonally adjusted basis in May and June, led by sales of durable goods, while optimism about future sales gains remained high. Two large department store chains reported stronger apparel sales growth than earlier in the year. One large retailer stated that sales growth in June was boosted by an easier year-over-year comparison, but the gain was still stronger than earlier in the year, and durable goods sales continued to lead overall gains in early July. A large bank stated that revolving credit rose quite strongly in recent months, with particularly strong gains noted in spending on home electronics. Appliance and electronic firms agreed that computers and communications equipment continued to take a growing share of consumption spending. A large consumer goods manufacturer reported that sales of traditional television sets have remained relatively flat this year, but sales of large-screen TVs are "still going gangbusters," with unit sales growth in excess of 30 percent. An auto industry analyst estimated that the net effect of rising lease expirations on new vehicle sales has been increasingly positive in 1994 and 1995. Most surveyed auto dealers stated that the leasing option continued to promote new vehicle sales, on balance, thus far this year. Lease renewal rates have been holding steady during 1995, according to one large automaker.

Housing/Construction. Existing home sales in the region strengthened significantly during June and July on a seasonally adjusted basis. Residential construction remained relatively flat, but homebuilder optimism continued to improve. A number of realtors' associations noted that sales gains improved in June and July, after weakening in the spring. One of the largest realtors in the region characterized the existing home sales market as "very active" in June, with transactions "unusually strong." Another large realtor stated that "up until May, things were kind of slow. Since May 1, however, we've seen a dramatic turn upward." This firm posted sales records in May and June, and stated that "at this point in July, things look very, very strong." Banks reported that residential mortgage applications increased considerably in recent weeks, both for new mortgages and refinancing, and one bank stated that it had a large backlog of unprocessed applications. Industrial construction activity continued to grow at a brisk pace, and a number of contacts stated that contractors in the Chicago area were "fully booked" for 1995.

Manufacturing. District manufacturing output stabilized in June and July on a seasonally adjusted basis. The composite index for purchasing managers' surveys in Chicago, Detroit, and Milwaukee pointed to a significant slowdown in District industrial output in the second quarter. This index remained stronger than the national average, however, and both the Chicago and Milwaukee survey indexes firmed up in July. District steel production trended down along a normal seasonal pattern in the first three weeks of July, after declining on a seasonally adjusted basis in the three months ended in June. An industry analyst reported that order books for the third quarter have been filling up in recent weeks, and output in July is expected to be the low for the third quarter on a seasonally adjusted basis. However, this contact expected industry inventory to continue to decline in the third quarter. Most of the recent inventory trimming was concentrated in sheet products related to auto and appliance production. Demand for structural and plate steel used in construction applications and heavy equipment remained strong.

Auto and appliance output firmed up on a seasonally adjusted basis, but have yet to post any significant rebound in spite of reports of greater retail sales growth. Light vehicle deliveries strengthened in June and early July, and some industry analysts even expected auto output to increase slightly in the third quarter. Heavy-duty truck order cancellations rose considerably in recent months, however, and build plans imply a decline in assemblies by the end of the year. Factory shipments of major appliances weakened slightly on a seasonally adjusted basis during late June and the first two weeks of July, after strengthening in May and early June. Factory inventories of appliances fell sharply in June, and then flattened out in recent weeks. Reports from heavy machinery manufacturers remained relatively upbeat. For example, a construction industry analyst reported that unit sales of new equipment rose sharply in the latest reporting period (May). Year-to-date, this contact reported that sales in the Midwest posted the largest year-over-year increase in the nation, despite especially adverse weather earlier in the year. An air cargo firm focused on construction equipment and parts stated that "we had a huge June, and expect July and August to be just as strong."

Labor Markets. Employment growth has slowed along with the overall District economy, but labor markets remain relatively tight and shortages continue to constrain growth in parts of the region. The employment component of purchasing managers' surveys firmed up in recent months, after falling with the production indexes earlier in the year. A large daily newspaper reported that year-over-year gains in help-wanted advertising inches have been narrowing in recent months, but they remain high and showed a significantly stronger year-over-year gain in late July than for the year-to-date. Summarizing the results of a survey of Wisconsin employers, a regional analyst stated that labor shortages were likely to constrain growth in that state over the next five years. Manufacturing and services firms have reported continuing increases in entry-level salaries this year. One large bank has raised entry-level wages three times thus far in 1995, and has increased benefits paid to part-time workers.

Agriculture. Crop prices have risen sharply this summer as yield concerns for the 1995 harvest have added to earlier pressures from strong consumption and a cut in seeded grain acreage. Crop conditions vary across District states, with ratings better-than-normal in northern areas and lower-than-normal in southern areas. However, compared to the extraordinarily high per-acre yields of last year, even normal yields in 1995 will translate into a sizable decline. Crops weathered a mid-July heat wave reasonably well, but abnormally high livestock losses were reported in a few localized areas. Overall, livestock marketings and milk production continue above the record pace of a year ago but a downturn in pork production is likely this fall. The scaling back in pork production is more evident in District states as production continues to expand in a few other fast-growing areas.

Prices. Industrial input price increases continued to decelerate. The price component of the Chicago purchasing managers' survey dropped significantly in July, to a level consistent with only modest increases in industrial input prices. Spot steel prices have been declining, mainly for sheet products, and an industry analyst stated that a scheduled July 1 price increase failed to materialize (in fact, there was a decline). Plastic resin prices stabilized in July, after weakening in June. Although prices charged by resin producers were largely unchanged in June, an industry analyst stated that prices charged by distributors fell, and producers turned away sales at lower prices and suggested customers contact distributors. A large air cargo firm stated that emergency orders and premium pricing associated with shortages have fallen off this year, even as orders strengthened overall in June and July.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District's economic expansion continues to slow. The pace of consumer spending is unchanged to up slightly from year-ago levels, but some retailers are less optimistic about upcoming back-to-school sales. Relative to the robust growth of a year ago, building permits for new home construction on a year-to-date basis are down in most parts of the District. Loan demand continues strong at District financial institutions. Soil moisture conditions are deteriorating across much of the District.

Consumer Spending

District retailers report recent sales at or above their year-ago pace, with sales growth meeting or exceeding expectations in many cases. Retailers cite business expansion and population growth as reasons for robust sales. Compared with previous years, most retailers have used less discounting to stimulate sales. About half report wage pressures because of labor shortages. Although back-to-school sales activity is expected to be down from last year, retailers are modestly optimistic about the last two quarters of this year. One pessimistic retailer, however, anticipates that it will be "a hard fight with a short stick."

District car dealers report mixed sales activity. Most are experiencing flat to moderately strong sales growth, although dealers in Little Rock report slowing growth because of inventory shortages. Factory incentives and rebates have been used more than usual to spur sales in the District. Dealers generally report an increase in used car sales, but are divided about whether this increase is affecting new car sales. Assuming they can maintain inventory, dealers are generally optimistic about the rest of 1995.

Manufacturing and Other Business Activity

Most contacts continue to see a slowing in the economy. Many report that overtime and temporary employees are no longer needed to meet demand, although scattered comments like "sales remain steady" and "there still remains a shortage of skilled workers" mitigate these reports somewhat.

For the first time in a few years, the furniture industry in northeast Mississippi reports a slowdown in its rate of growth. Overall, though, the contact notes that the region continues to grow modestly. In northwest Mississippi, contacts believe the current slowing will continue through the fall. A St. Louis-based baking company will relocate to Kansas City after being bought by a firm from that area. Most of the company's 250 St. Louis employees will not be relocated to Kansas City. A maker of household appliances is laying off 600 workers, most of whom were hired to meet last year's record-setting demand. A supermarket chain is closing a Louisville distribution center, eliminating about 150 jobs.

An automaker announced it will choose one of two District plants to assemble a new luxury sport-utility vehicle. Two firms that supply parts to the auto industry will build new plants in Missouri, employing about 250 workers in total. The steel industry in northeast Arkansas is expanding east into Tennessee with the construction of a mini-mill that will employ about 300.

Real Estate and Construction

Residential building permits for new houses are down in most parts of the District on both a year-ago and year-to-date basis. Memphis is the only District region reporting an increase in permits, which are up about 6.5 percent so far this year. Home sales in

Memphis, however, are down from a year ago. Total construction permits (residential and commercial) in northwest Mississippi are up slightly in the most recent month, but down significantly on a year-ago basis. Interestingly, when Tunica County--where there has been a sharp dropoff in the construction of riverboat casinos--is excluded from these tallies, the area reports relatively robust growth.

Banking and Finance

Loan demand and competition among lenders are still reported to be strong in most areas of the District. Though some areas report a small uptick in loan delinquencies, most have experienced no change. A number of banks report eroding net interest margins, resulting primarily from intense competition in deposit pricing. Some areas report stronger demand for agricultural loans this year as farmers have been forced to replant crops because of earlier flooding.

Agriculture and Natural Resources

Hot, dry weather during much of July across the District has caused soil moisture levels to deteriorate markedly when compared with June. Although crops are generally in good-to-fair condition, there is widespread concern among farmers about the variability and growth of their crops, particularly corn and soybeans in the northern portions of the District. The wheat harvest in Arkansas was reported as one of the best in years, while yields in Missouri and Illinois were disappointing because of a crop disease caused by too much moisture in May and June.

NINTH DISTRICT--MINNEAPOLIS

At mid-year, moderate, broad-based economic growth continues in the Ninth District with a number of sectors improving from spring to summer. Construction is once again an engine of growth as strong non-residential activity more than compensates for any reduction in home building. Manufacturers, particularly of high-tech products, continue to report good business. Oil and gas leasing and drilling is at the highest level so far this decade, and oil production is increasing after several years of slow decline. Mines are busy, and the continued boom for paper producers counterbalances some slowing in lumber output. Banks and investment firms report good to record earnings. General merchandise sales are stable overall, with vehicles selling somewhat better than in the spring. Tourist business improved from spring into summer along with the weather. Employment continues to grow moderately and unemployment rates remain well below national averages. Wage increases are small and few price increases are apparent.

Agriculture remains a problem sector due to persistent low livestock prices and adverse weather. But crop prospects have improved substantially since mid-spring and the 1995 crop will likely be good, though well below 1994's record.

Real estate and construction

"It's tighter than a drum," is one senior agent's description of the commercial and industrial real estate market in the Minneapolis- St. Paul metro area where vacancy rates are down to about 5 percent and rents are reportedly rising sharply. This tight market is the fire under the boiler for the 1995 construction season. Commercial and industrial projects planned or underway for 1995 in Minneapolis-St. Paul are the highest in 10 years and 40 percent above last year's active pace. Publicly let government and private contracts through June for the states of Minnesota, South Dakota and North Dakota are 3 percent above year-earlier levels.

This strength in non-residential construction is more than compensating for the slight slowing of residential work. As evidence, construction employment in Minneapolis-St. Paul is up 8 percent from a year ago. For Minnesota as a whole and for North and South Dakota, employment in the sector is up 1 percent to 2 percent in spite of some slowing of single-family home building in many areas. Some residential builders report strengthening sales of new homes in mid-summer and restored buyer confidence in the economy, although they do not expect a return to 1994's record levels.

"Our residential business has really picked up since mid-winter although it is still below 1993 and early 1994," says a Minnesota regional manager for a major realtor. And one major mortgage lender reports strong increases in new loan and refinance business in early summer, although competing firms claim little change.

Manufacturing

"This is a very good year for us, but our order book is not as full as it was last fall," reports a Minneapolis manufacturer of industrial equipment. That generally characterizes manufacturing in much of the Minneapolis district. Industrial electrical demand in late spring rose over 1994 by only slightly more than long-run trend. Manufacturing employment grew similarly. But some sectors continue to experience strong growth. Industry sources report that small to medium high-tech firms have very good business.

Natural resource industries

Natural resource extraction is at its strongest level in this decade. North Dakota oil production has increased about 7 percent over year-earlier levels, the first uptick in a decade, and oil leasing is reportedly very active in northeastern Montana. Copper producers are generally running full out in response to near-record prices. The iron mining season is the strongest in at least three years in terms of output and employment.

Lumber mills have been whipsawed by gyrations in lumber prices, but output remains generally stable. For loggers, any decreases in work for sawmills is being offset by pulpwood cutting for paper mills. Paper producers continue at capacity and pulp and paper prices are at record levels.

Agriculture

The mood among farmers brightened considerably from late spring into mid-summer as fears of a crop failure diminished with more favorable weather. Progress of all major crops continues to lag five-year averages as a result of late planting, but the lag has diminished, particularly for corn and soybeans. Certain regions, particularly eastern North Dakota and east-central South Dakota, which were particularly hard hit by excess rain in the spring are likely to have short crops. But conditions are more favorable in Minnesota, Wisconsin and Montana. Grain prices, especially wheat, are up in response to low carryover and poor crop prospects.

In contrast to the improved situation for crops, livestock production continues to have severe problems. Cattle and hog prices remain depressed and the recent runup in grain costs is further squeezing producers. Periods of extreme heat in mid-July slowed livestock gains and caused severe death losses for district turkey producers.

Banking and Finance

"All appear headed for another year of record earnings," is one Minnesota newspaper's description of performance at major Minnesota-based banking, finance and investment companies. Strong profits generally characterize banks of all sizes across the district. Small agricultural banks in livestock-dependent areas are an exception; their managers expressed concerns about loan losses and profitability in a survey of agricultural credit conditions.

Consumer spending and tourism

"We are having to work harder and harder to keep sales up to projections," says the CEO of a chain of appliance and electronics stores. Other retailers agree that they have increased expenditures on advertising, specials and promotions in efforts to maintain sales. In midsummer, general merchandise sales show only modest increases over year-earlier levels. Discount chains and lower-price mass merchandisers generally report better results than do traditional department and full-price specialty stores. In spite of this slowing, new retail construction is underway in eastern Montana, North and South Dakota and urban areas of Minnesota.

Automobile sales numbers remain slightly below 1994 levels, but the gap closed somewhat in early summer according to new registration data. Dealer association representatives also report improved dealership traffic and buyer interest in many areas.

As the weather improved from mid-spring to mid-summer, so did tourist business in many areas, although the 1995 season is not expected to set any records. Sources in Montana report mixed conditions, with higher-altitude areas such as Glacier National Park suffering from cold, wet conditions well into July. But western South Dakota destinations report improvement. Camps and lake resorts in northern Minnesota, Wisconsin and the Upper Peninsula of Michigan had good business in July as urbanites fled extreme heat.

Employment, wages and prices

While the pace of employment growth is slightly lower than a year ago, it is still positive and in the range of 1 percent to 2.5 percent over year-earlier levels. Unemployment rates remain well below national averages. Firms continue to report difficulty in securing both skilled and entry level workers.

Reports on wages and prices are mixed. Pressure to raise entry-level wages clearly continues. One South Dakota grocery distributor had to raise hourly starting wages for data entry and warehouse workers from $5 to $7 in order to fill jobs. But wage contract settlements at many firms continue to be in the 1 percent to 3 percent range.

Once again paper is the most visible culprit in product prices. Prices of many printing and packaging grades are at historic levels. Copper, brass and aluminum are also more expensive and, in some cases, on backorder. Lumber prices have been volatile but generally well below a year ago. Gasoline and diesel prices were several cents above 1994 levels, but this spread has diminished in recent weeks.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continued to grow at a moderately strong pace over the past month. Retail sales increased, manufacturing activity remained generally strong, homebuilding rebounded somewhat, and energy activity quickened. Agriculture, however, was hampered by poor crops and low cattle prices. Manufacturers still report increases in some materials prices, but retail prices and wages have been stable.

Retail Sales. Most retailers report that sales increased last month and were higher than year-ago sales. Sales of apparel were strong, but sales of home improvement items were sluggish. Retailers generally expect sales to improve during the remainder of the year and plan to expand their inventories accordingly in coming months. Auto dealers report sales increased over the past month, helped by readily available credit for buyers and dealers. Most respondents expect sales to continue increasing during the next few months.

Manufacturing. Manufacturers continued to operate at high levels of capacity last month. None of the respondents report bottlenecks in production due to capacity or labor constraints, but some report difficulty in obtaining steel. Respondents were generally satisfied with current inventory levels, but a few were trimming stocks.

Energy. District energy activity picked up slightly in recent weeks despite a sharp decline in crude oil prices. Some of the new activity was spurred by a modest increase in natural gas prices from the low levels reached earlier this year. The average number of drilling rigs operating in the district during the first three weeks of July stood higher than the average for the previous two months. The uptick, however, was not large enough to restore drilling activity to year-ago levels.

Housing. Builders report housing starts rebounded somewhat last month but remained below their year-ago level. Sales of new homes also picked up but lagged behind their year-ago pace in many areas of the district. Building materials were generally available with no delays. Lenders expect lower mortgage rates to fuel moderate growth in mortgage demand in the coming months.

Banking. Loans increased slightly at district banks last month, resulting in higher loan-deposit ratios. Most respondents report gains in commercial and industrial loans, consumer loans, home equity loans, and agricultural loans. Demand was steady for home mortgages, construction loans, and commercial real estate loans. Security investments decreased.

Most banks report no change in their prime rate last month, but some banks lowered rates and additional declines may be forthcoming. Only a few banks lowered consumer lending rates or expect to lower rates in the near term. At all banks, lending standards remain unchanged.

Total deposits at district banks were steady last month. MMDAs increased slightly and NOW accounts decreased slightly. Large CDs, demand deposits, and small time and savings deposits were unchanged.

Agriculture. Unfavorable weather has diminished prospects for district crop production. Harvest of the district's winter wheat crop is nearly complete, but crop yields and quality are well below normal. Development of the district's corn and soybean crops remain a few weeks behind normal due to planting delays last spring. Ideal weather will be required during the remainder of the growing season to attain normal yields. Higher crop prices, however, promise to shore up incomes for farmers who escape severe crop losses.

Higher crop prices have also boosted feed costs and deepened losses for district cattle producers. A surge in red meat and poultry production promises to hold down cattle prices, delaying a rebound in industry profits. With profits down, some district ranchers plan to trim the size of their breeding herds.

Overall, farm income in the district may decline slightly this year after a much steeper drop last year. The drop in farm income has weakened business activity somewhat in small rural communities that depend heavily on agriculture. But business conditions remain healthy in the larger rural trade centers that have a broad economic base.

Prices and wages. Manufacturers continue to report increases in materials prices, especially in paper and steel. Labor markets remain tight in some parts of the district, but few employers report wage increases. Retailers report steady prices and expect no significant price increases over the next few months.

ELEVENTH DISTRICT--DALLAS

Eleventh District economic activity slowed to a moderate pace in June and July. Manufacturing orders were weaker for most products, and retail sales were reported to be very sluggish. Demand for business services increased slightly, however, and construction and real estate activity remained at high levels. Financial institutions reported higher residential real estate and consumer loan demand. Energy activity held steady despite a drop in oil and natural gas prices. Agricultural conditions have weakened.

Overall, there are few reports of **price and wage** pressures. Prices stopped falling for electronic products and were higher for some business services and agricultural products. Scattered wage pressure was reported in manufacturing, and service firms continued to have difficulty hiring skilled workers. Chemical prices leveled off after several months of increases, however, and recently announced price increases were rescinded. Some manufacturers said competition may bring price decreases in the near future. Retailers reported that real selling prices were below a year ago.

Orders weakened for most **manufactured** products, with the notable exception of telecommunications and semiconductor products where demand remained strong. Demand for paper products slowed slightly. Sales weakened for most construction-related products including lumber, fixtures and metals. A drop in sales to automotive and construction industries led to reduced demand for glass and inventory accumulation. Sales of primary metals weakened, and inventories were reported to be high, particularly for construction-related products. Demand was up for fabricated metals, however, although lower costs led to a 3 to 4 percent decline in selling prices. Apparel sales were steady and contacts reported that input costs have continued to rise. Weaker domestic economic activity led to slower demand for petrochemicals. Inventories have rebounded from low levels to normal for most chemicals, but some companies now report that inventories are too high. Yet, chemical companies are proceeding with capital expansion plans along the Gulf Coast. Demand for most refined products remains strong, although oversupply has caused gasoline prices to fall faster than oil prices, putting refiners margins under substantial pressure. Profit margins at the pump have grown, however, because pump prices have been relatively stable while wholesale prices have fallen sharply. Demand for oil-field machinery held steady.

Demand for **business services** increased slightly, although demand for trucking and air cargo services was flat to slightly down. Temporary help firms continued to report the greatest strength, followed by legal and accounting firms. Hiring was unchanged at cargo service firms but increased slightly at temporary, legal and accounting firms. With the exception of temporary services, competitive pressures held wages and prices at the same level. Increased competition and slower demand for interstate and intrastate shipping, however, has put downward pressure on shipping rates.

Retail sales remained very sluggish in June and July. National retailers reported that Texas sales were significantly weaker than the rest of the country. Sales were said to be slow across the state, with continued poor performance at stores along the Texas-Mexico border. While costs remained stable, discounting had increased and contacts said real selling prices were below a year ago. Auto sales increased in June.

Financial institutions reported steady loan demand except for residential real estate and consumer loans which increased over the past three months. Business and consumer loan demand is expected to pick up slightly, particularly for auto and home improvement loans. Contacts reported that prospects for mergers and acquisitions are continuing, particularly for smaller banks.

Construction and real estate activity remained at high levels in June and July. Homebuilders reported a pick-up in new home sales and were more upbeat about the outlook for the rest of 1995. Contacts reported tight occupancy and strong demand for apartments, although construction is expected to slow from its current pace. Nonresidential construction was at high levels, mostly due to strong retail and industrial demand. Occupancy rates for industrial and office space continued to improve and rents remained steady.

Energy activity held steady despite a drop in oil and natural gas prices. Continued strong growth in international drilling stimulated revenues for service companies, although domestic drilling activity was 8 percent below a year ago. The normal seasonal increase in drilling activity has been concentrated almost entirely in gas, and industry contacts report that domestic oil drilling is at the lowest level ever recorded. After falling by more than $2 in mid-June, oil prices have remained near $17 per barrel despite very strong demand for crude. Natural gas prices have consistently weakened throughout the summer despite strong demand from the recent heat wave.

Hot, dry weather, scattered insect infestations and reports of aflatoxin have weakened **agricultural** conditions and raised costs. The June Texas All Farm Products Index of Prices Received increased 1.1 percent above the May level. Higher prices for corn, potatoes, sorghum, wheat and most livestock offset lower prices for cotton and hay.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

The pace of economic growth in the Twelfth District picked up a bit in early summer, although some signs of weakness remained. Retail sales generally continued to be weak, and the earlier dropback in construction continued to hold down manufacturing production of construction materials. However, manufacturers of some other products reported higher rates of resource utilization. Residential real estate and construction activity reportedly experienced a slight uptick in early summer, with the exception of parts of California. District agricultural production has been hampered by abnormal weather. The banking sector reports further growth of loan demand in the District.

Business Sentiment

Twelfth District business leaders generally expect national economic growth over the next year to stabilize at about its long-run average pace. Also, about one-half of the survey respondents expect the national unemployment rate to exhibit little change or to improve slightly over the next four quarters. Within the region, housing starts and growth in consumer spending are expected to continue at about the pace of the prior four quarters, and business investment is expected to accelerate somewhat. Business sentiment is particularly optimistic in Oregon and Utah. California respondents generally expect business investment and consumer spending to continue expanding at a moderate pace.

Retail Trade and Services

Retail sales are weak for some products and in some geographic areas. District retailers report continued weak sales at automobile dealers and food stores, and sales of soft goods at department stores are reportedly falling short of last year's trend. Sales of both new and used motor vehicles were weak recently. Some retailers in California and Utah reportedly have tempered price increases out of fear of hurting their sales, given continued evidence of weak consumer confidence. Relative to a year earlier, retail sales are way off in the Riverside area of Southern California.

District service industries generally report continued moderate expansion of demand. In California, the demand for telecommunications services is growing moderately. The tourism industry is doing relatively well in San Diego. More generally, business activity near the border with Mexico reportedly has been stimulated by a proliferation of maquiladora factories just across the border. In Oregon, demand for business services is increasing, owing, in part, to additional outsourcing by major corporations.

Manufacturing

District manufacturing activity is mixed. Some respondents report continued high production levels, strong orders from their customers, and a lengthening of delivery times by suppliers. In contrast, manufacturing of construction-related materials continues to be weak, despite a recent uptick in orders for some materials. For example, wood products orders and prices reportedly have increased since early June, reflecting some revival of housing construction. However, manufacturers' sales of paint and coatings have not experienced any uptick and remain well below year earlier levels. In Arizona, Nevada, and Oregon, the rapid expansion by manufacturers of advanced technology products reportedly is boosting job growth. In Washington, an electronic components manufacturer reports that its suppliers are experiencing capacity constraints for the first time in this business cycle. Deliveries of farm equipment and parts also have been delayed, and heavy truck manufacturing remains at a high rate of capacity utilization.

Agriculture and Resource-Related Industries

District agricultural producers noted that unusual weather this year has hurt yields and boosted prices for several commodities. Abnormal weather reportedly is moving grain prices higher, knocking tree fruit yields down 25 percent, and delaying harvest of the cotton crop. However, cattle production reportedly continues at high levels, and harvests of most types of seafood are going well. Elsewhere, the mining industry in the Intermountain states reportedly is stable to improving, with an upswing in gold mining in Nevada.

Real Estate and Construction

In many areas residential real estate and construction activity experienced a slight uptick in early summer, but in some localities these sectors have deteriorated further. Housing sales and construction are reported to be firming in Arizona, Nevada, and Oregon. Within California, the residential real estate market in the San Francisco Bay area recently improved, according to some accounts; however, in Sacramento, residential building permits and existing home sales are reported down sharply, and respondents reported concern about the impact of the closure of McClellan Air Force Base. Residential construction also continues to slump in the Central Valley and Riverside areas of California, and local housing markets are weak in eastern Washington.

Commercial and industrial real estate activity in the District generally has been flat to improving. In Oregon, construction awards have increased, as the multiplier effects began to resonate from a string of expansions by high-technology product manufacturers and from earlier rapid population growth. Nonresidential construction activity also continues to be strong in southern Nevada.

Financial Institutions

District banks generally report further growth of loan demand. In Arizona, Nevada, and Utah, strong business loan demand prevails, and residential loan demand is reported to be rising, after slumping earlier. In recent months, large California banks have continued to see strong overall loan growth in the state as a whole, led by increases in commercial and industrial loans. However, in parts of Southern California loan demand continues to be weak.