

For use at 2:00 p.m., E.D.T.
Wednesday
June 18, 1997

Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

June 1997

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

JUNE 1997

TABLE OF CONTENTS

SUMMARY	i
First District - Boston	I-1
Second District - New York	II-1
Third District - Philadelphia	III-1
Fourth District - Cleveland	IV-1
Fifth District - Richmond	V-1
Sixth District - Atlanta	VI-1
Seventh District - Chicago	VII-1
Eighth District - St. Louis	VIII-1
Ninth District - Minneapolis	IX-1
Tenth District - Kansas City	X-1
Eleventh District - Dallas	XI-1
Twelfth District - San Francisco	XII-1

SUMMARY¹

All twelve district economies expanded in May and early June, although there were pockets of weakness and evidence of capacity constraints restraining growth in some industries. Consumer spending growth was weaker than reported in the last Beige Book, with several districts reporting slower growth in retail and auto sales. Manufacturing activity appeared to remain at high levels and was growing in many districts, but there were some areas of weakening. Construction and real estate markets were strong across much of the country, but some districts reported pockets of weak growth. Overall lending activity was mixed, with stronger demand for commercial than for consumer loans. Labor markets tightened, leading to some wage increases. Although energy prices and some real estate prices were up, there were few reports of other price increases, and business contacts suggested that robust competition restrained upward pressure on final prices of goods. Agricultural reports were generally favorable, but cool weather and adverse moisture conditions hindered production in parts of the country.

Consumer Spending

Many districts reported weaker retail sales growth in May than in April. Unseasonably cool weather in the Cleveland, Chicago, New York, Richmond and St. Louis districts dampened sales growth. Sales were “weak” in the Atlanta district, and growth “downshifted” in the Dallas district. However, sales growth was “steady” in the Boston and Philadelphia districts, “adequate” in the San Francisco district, had “edged up” in the Kansas City district,

¹ Prepared at the Federal Reserve Bank of Dallas and based on information collected before June 9, 1997. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

and was “brisk” in the Minneapolis district. Sales were lower than anticipated in the Atlanta, Dallas and New York districts, but sales growth either met or exceeded retailers’ expectations in the St. Louis district.

Many districts reported slow sales of seasonal goods, such as air conditioners, swimwear, and lawn and garden supplies. The Cleveland district reported a dip in personal computer sales following strong sales in April. Apparel sales “have been notably soft” in the Cleveland district, with the exception of specialty clothing, such as better sportswear and business casuals. Apparel sales have been good in the Chicago and New York districts, however, and the Philadelphia district reported gains in men’s clothing and home furnishings. Outdoor furniture and gardening products were the “biggest sellers” in the St. Louis district.

Inventories were in line with sales in the Atlanta, Boston, Chicago, Kansas City, Philadelphia, San Francisco and St. Louis districts, but excess inventory was a problem for some retailers in the Cleveland, Dallas, New York and Richmond districts. Dallas and Chicago district contacts canceled purchases to keep inventories in line. Some New York district contacts expressed mild concern about an overhang of summer merchandise, but said inventories were “generally in good shape.” While retailers in the Cleveland district were generally satisfied with inventory, a few noted slightly higher than desired apparel inventories.

The Cleveland, Philadelphia, St. Louis and San Francisco districts reported slow auto sales growth. Sales were “little changed” in the Kansas City district, and the Dallas district reported good sales “in most major cities but a continued trend down in Dallas and Fort Worth.” Auto sales in Minneapolis were “brisk.”

Manufacturing

Most districts reported growth in manufacturing activity, and a few reported a very

high level of activity. Manufacturing production was at “high levels” in the Cleveland and Kansas City districts, while “tightening capacity constraints were noted by various respondents” in the San Francisco district. Overall shipments remained at “record levels” in the Richmond district. Manufacturing activity also continued to expand in the Chicago, Dallas, New York and Philadelphia districts. Sales growth was reported as “moderate” in the St. Louis district, and firms continued to report “good sales” in the Minneapolis district. The Boston district reported that recent business was “flat or up at a single-digit rate compared to a year ago.” Only the Atlanta district reported “production is slowing overall.”

Production was up for aircraft and related products in the San Francisco district, while the pace of new orders quickened for paper goods, textiles and apparel in the Richmond and Dallas districts. Orders also were up for electrical equipment and industrial machinery in the Richmond district. Plant expansions are under way in the electronics, telecommunications and chemical industries in the Atlanta district. The Atlanta and Dallas districts reported strong demand for equipment by the energy sector. The Dallas and St. Louis districts noted a pickup in sales of construction-related manufactured products, although Dallas noted that sales were below last year’s “gangbuster” levels.

Strong demand for steel and heavy equipment led to a pickup in production in the Chicago district, and steel producers reported capacity utilization remained very high. But the Philadelphia district noted “some slippage in demand” by primary metal and instrument producers, and the Cleveland district reported “some flattening in steel orders, although production is steady at a high level.” In the San Francisco district, demand for machine tools grew but at a slower rate than earlier, with growth focused on the export market.

High-tech manufacturers in the Dallas and San Francisco districts reported supply

constraints for some computer components and slower demand growth for telecommunications products. The Richmond district reported weaker shipments by the apparel, furniture and printing industries. There was continued weakness for soft goods in the Atlanta district, while the Minneapolis district reported that output of packaging materials was weak.

Some inventory problems were noted. One automaker in the Chicago district said weak sales had resulted in a sizable inventory buildup, while the Dallas district reported inventories of brick and cement were too high. Manufacturers have been trimming their inventories in the Kansas City district, and some say they plan further reductions because stocks exceed desired levels. In the Chicago district, inventory-to-sales ratios declined despite some inventory building. During the past month, order backlogs inched up for manufacturers in the Philadelphia district, and delivery times lengthened slightly and inventories edged down.

Services

Temporary-employment firms and other service providers continued to report strong activity in the Boston, Dallas, Richmond and San Francisco districts. Tourism activity was strong in the Atlanta, Minneapolis, New York, Richmond and San Francisco districts.

Construction and Real Estate

Real estate markets and construction activity “remained strong” in most areas of the San Francisco district, while “strong residential and heavy construction” was reported in the Minneapolis district. Construction activity remained very strong in the Chicago district, “particularly in nonresidential segments.”

Several districts reported increasing commercial real estate activity but slower growth in home sales than at this time last year. Residential real estate “continued its strong course” in the Boston district, although “somewhat less so than earlier.” The Chicago, Cleveland,

Kansas City and Philadelphia districts reported that home sales had slowed since the beginning of the year. Home sales and construction “flattened” in the Atlanta district.

Banking and Finance

Overall loan quality was “generally holding steady” in the Atlanta district and “good” in the Chicago district, with little change in credit standards. A few banks tightened their lending standards in the Kansas City district, citing concerns over credit quality. Contacts expressed concern about an oversupply of loanable funds in the Dallas district, but delinquency rates had not increased.

The Chicago, Cleveland, Dallas, San Francisco and St. Louis districts reported stiff competition for borrowers, particularly for commercial loans. Competition encouraged lower interest rates and a relaxing of credit requirements in the Chicago, Dallas and St. Louis districts and “ongoing efficiency-driven consolidation” in the San Francisco district.

Consumer lending was up in the Atlanta and Philadelphia districts, but was reported to be flat in the Richmond district, and have softened somewhat in the Cleveland and St. Louis districts. The Chicago district reported slower credit card usage but continued high delinquencies. Credit card loan charge-offs continued to rise in the Philadelphia district. The Cleveland and New York districts reported tighter standards on consumer loans and a decline in delinquencies, but in the Cleveland district “several bankers continue to note a rise in bankruptcies.”

Labor Markets

Labor markets tightened in the Chicago, Cleveland, Dallas, Richmond and San Francisco districts. Continuing labor shortages were reported in the Atlanta, Boston, Kansas City, Minneapolis and St. Louis districts. Tight labor markets were still reported for skilled

professionals in the high-tech, construction and energy industries. The Atlanta, Chicago, Dallas, Kansas City, Minneapolis and San Francisco districts noted greater difficulties finding skilled blue-collar and entry-level workers.

Most districts reported little or no wage pressure or noted that pressures were confined to a few markets. At some temporary-employment firms in the Cleveland district, however, the growing number of marginally qualified workers has translated into higher training and screening costs. The pressure to raise wages increased in the Dallas, Minneapolis and St. Louis districts. The Minneapolis district reported “a continuing move to extend benefits to groups of workers previously not covered. One Wisconsin contractor reportedly paid full wages to an idle crew for three weeks between jobs, just to avoid losing them to competitors.” In the St. Louis district, “Some firms are unable to meet higher demand because they are understaffed.”

Prices

Prices for energy and for some metals and real estate rose, but few districts reported upward pressure on final goods prices. Several districts suggested that retail and manufacturing prices were being held in check by heavy competition, which was stimulating continued cost reduction or productivity increases.

The Dallas district reported higher prices for oil, gasoline, natural gas and heating oil. Most steel producers in the Chicago district were successful in pushing through moderate price increases recently. Scrap metal prices were down in the Dallas district, although there was some feeling that this was a result of customers’ building too much inventory, and therefore only temporary. In the San Francisco district, the metal industry reported aluminum mill operations at 90–95 percent capacity, with prices escalating for certain materials in short

supply. The Dallas and Minneapolis districts reported higher chemicals and plastics prices. Philadelphia reported scattered rising input prices, mainly in the nondurable goods sectors.

A few districts noted higher housing, construction or land prices. Housing prices were up in the Boston district, and there were sharp rises in New York City co-op and condo prices and hotel rates. Office rents were up 20 percent over year-earlier levels in the Dallas district, and land prices were rising for industrial and office locations. The Kansas City and San Francisco districts reported increasing construction costs. The Cleveland and Chicago districts reported strong increases in farmland values.

Agriculture and Natural Resources

Excess moisture in the Cleveland, Dallas, Minneapolis and St. Louis districts slowed fieldwork and led to some replanting, while dry conditions slowed planting activity and crop development in the Chicago and Richmond districts. Planting and growth of crops were also hampered by cool weather in the Chicago, Richmond and St. Louis districts. Several districts reported improving livestock and pasture conditions, and growing demand for cattle and lower grain prices. The San Francisco district reported weak demand for the Idaho potato.

The Dallas, Kansas City and Minneapolis districts reported that energy industry activity was strong or improving. Dallas reported that, at current energy prices, cash flow is strong at oil service companies and the return on investment is “phenomenal,” creating a rush to get wells drilled. Bottlenecks continued to be created, however, by shortages of key personnel, such as machinists, engineers, ship captains and crews, as well as of drill pipe and many types of equipment. The Minneapolis district reported that iron mining production was strong, and forest production was “steady.”

FIRST DISTRICT - BOSTON

Most First District contacts in the retail and manufacturing sectors continue to report growing sales, and many are increasing employment as well. Temporary employment firms, residential real estate, and the mutual fund industry are all growing strongly, although somewhat less so than earlier. Contacts cite generally stable prices; one exception is house prices in the Boston metropolitan area which are up noticeably. Wage increases are concentrated in the 3 to 5 percent range, with larger increases and shortages confined to a few markets, notably high technology and asset management occupations.

Retail

Most retail contacts report that sales growth has maintained its steady pace in recent months, and inventories are in line with sales. Areas of strength include apparel, home furnishings, building materials, and office and graphic reproduction supplies, all of which report sales gains of 10 to 15 percent from a year earlier. Firms doing less well are selling appliances, which have been weak throughout the year, or seasonal merchandise restrained by New England's cold spring.

Wage rate growth is reported to be moderate as employment increases support rising sales. Contacts say that although employee turnover is rising, they are having little trouble finding replacements, except in a few areas.

All the retailers contacted are holding their selling prices steady, constrained by competitive pressures. Most respondents say that profit margins are increasing modestly as a result of efficiency improvements (better inventory control, automation, and purchasing efficiencies). Materials costs are also holding steady. Expecting continued growth, respondents have capital expansions underway.

Manufacturing

Most First District manufacturing contacts report that recent business is flat or up at a single-digit rate compared to a year ago. Sales of computer equipment and home furnishings continue to show above-average gains. Two instruments manufacturers and a medical equipment producer report pickups in orders

following a period of sluggish performance, and a paper mill indicates slight improvement relative to the very weak conditions prevailing at the beginning of the year. By contrast, a machine tool maker and a consumer items manufacturer report slowdowns.

Most manufacturers indicate little if any pressure from materials costs. A notable exception is the price of wool, up sharply in recent months. Selling prices are also largely stable. Some contacts report that retail stores are pressing for concessions.

Respondents generally report that employment levels are a little higher than a year ago. Except for some delays in filling vacancies in software, engineering, and international marketing, labor availability is said to be adequate. Wages and salaries are reported to be rising in the range of 2 to 5 percent, with substantially higher increases and added perks offered in occupations that are in heavy demand.

Most respondents indicate little change in the level of capital spending from a year earlier. Those making aggressive investments cite a need to develop new products or install more sophisticated equipment.

Manufacturers generally expect a continuation of positive business trends, although some are now expressing a little caution. Commodity-type producers tend to have a more conservative outlook than others.

Temporary Employment Firms

Business is better than ever for most personnel supply contacts in the First District. Most agencies report revenues to be growing 8 to 20 percent from year-earlier levels. Despite very tight labor markets across all industries, wage growth has leveled off at an annual rate of roughly 10 percent. Clients' resistance to higher labor costs is squeezing profit margins, but the resistance has weakened from six months ago since tight labor markets are widely acknowledged. High technology and financial services are the fastest growing client sectors, while contacts report profit gains from shedding their light industrial divisions.

Residential Real Estate

The residential real estate market in Massachusetts continued its strong course during April and May,

although growth was slower than during the first quarter. Because inventories are very low in most of the state, sales have increased only modestly. Since demand has risen faster than supply in some areas around Boston, prices now exceed their 1988-89 levels and are still rising. In other parts of the state, price growth has been only moderate. In a couple of pockets, notably Springfield, contacts say prices have declined and inventory levels increased.

Other parts of New England are mixed. Southern New Hampshire is similar to the Greater Boston area, but central New Hampshire, Maine, and Vermont have experienced only moderate increases in prices and sales. Rhode Island has seen minor changes. Some parts of Connecticut are very strong (influenced by the strong New York market), while others have not yet recovered from the downturn of the early 1990s.

Nonbank Financial Services

Investment management firms report substantial increases in assets under management in the first four months of 1997. Nonetheless, these inflows ran at a lower rate than during early 1996.

All the investment management respondents report they have increased employment since the beginning of the year, and they plan further increases. Firms report difficulty filling vacancies because of tight labor markets; shortages were noted in several segments, including customer service personnel, fund accountants, sales/marketing and investment analysts, portfolio managers, and most acutely, technology professionals. Contacts note that wage movements exceed inflation and report having to pay higher bonuses and other incentive compensation to a wider range of employees throughout their organizations.

The Outlook

The New England Economic Project (NEEP), a nonprofit forecasting group, released its semiannual five-year regional forecast in late May. NEEP expects regional employment to expand 2.0 percent in 1997, followed by increases of 1.2 to 1.4 percent in subsequent years. The most rapid job growth is projected for services, construction, and trade; modest declines are expected in manufacturing. New England's unemployment rate is forecast to be in the range of 4.3 to 4.5 percent for the next several years.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District has generally picked up since the last report, although unseasonably cold weather continued to depress consumer spending. Price pressures remained subdued, except for sharp rises in New York City co-op and condo prices and hotel rates. Retail sales continued to run below plan in May, reflecting weak sales of summer merchandise due to persistently cool weather. New York City's office market continued to tighten in April, buoyed by brisk leasing activity and dwindling supply, due to ongoing conversions to residential use. Housing activity continued to lag across upstate New York but gained momentum in and around New York City. Tourism continued to be robust, as hotel occupancy rates held steady at record highs. Regional purchasing managers' reports indicate sturdy growth in manufacturing but no significant price pressures in May. Finally, local banks report brisk growth in loan demand and falling consumer delinquency rates.

Consumer Spending

Major retailers in the region report that sales continued to be below plan in May, due mostly to cool weather. Compared to a year ago, same-store sales ranged from a 1 percent decline to a 5 percent gain. Retailers cited particular weakness in seasonal merchandise, such as air conditioners, lawn and garden supplies, and swimwear; this was attributed to unseasonably cold weather in both April and May. Otherwise, though, apparel sales were generally reported to be fairly good, while some contacts noted that sales of non-seasonal home goods have improved from their weak first-quarter levels.

While inventories are generally in good shape, some retailers expressed mild concern about an overhang of summer merchandise; however, most of the surplus is expected to be sold when hot weather eventually does arrive. All contacts reported flat selling prices and merchandise costs. Retail wage pressures remain subdued; while some contacts say that recruiting new workers is growing increasingly difficult, they have so far held the line on wages.

Construction & Real Estate

The region's housing market continues to gain momentum, led by New York City. A major real estate firm reports that prices of Manhattan co-ops and condos surged in March and April; the average price per room was up more than 15 percent since the end of last year and approximately 25 percent since April 1996. New apartment construction in the city and northern suburbs continues to surge—more than four times as many permits were issued in the first four months of 1997 as in the same period in 1996. Additionally, high-priced commercial-to-residential conversions (largely in the Wall Street area) are adding to the local housing stock, and buoying the construction sector.

The region's single-family market remains mixed. Sales of existing homes in downstate New York (New York City, Long Island, and the lower Hudson Valley) were up about 4 percent from a year ago in April, while prices were up 7 percent. However, in upstate New York, sales volume was down slightly, while prices were generally flat. Permits for new single-family construction followed a similar geographic pattern: for the first four months of 1997, permits were up roughly 30 percent from a year ago in New Jersey and downstate New York but well below early-1996 levels in upstate NY. Anecdotally, builders in northern New Jersey report that sales of new homes at both the moderate and very-high ends of the price range were strong in April and May; the former was buoyed mostly by first-time buyers, the latter by Wall Street and corporate transferees. The middle range of the market was characterized as slow but steady.

Commercial real estate markets continued to gain momentum early in the second quarter. Midtown's office availability rate fell to 12.0 percent at the end of April, from 12.3 percent at the end of March and from 13.4 percent at the end of 1996. Downtown's fell to 20.8 percent in late April from 21.1 percent in late March, reflecting a surge in leasing activity and dwindling supply due to residential conversions. However, asking rents remain stable in both Midtown and Downtown Manhattan.

Other Business Activity

The region's manufacturing sector appears to be strengthening in the second quarter. Purchasing managers in the New York area report solid growth in manufacturing activity, accompanied by stable prices in both April and May. Buffalo-area purchasers report an acceleration in production and new orders, continued strong gains in employment, and slower vendor deliveries; the mild price pressures reported in March and April appear to have subsided in May.

Tourism remained strong in April, as measured by hotel business: seasonally adjusted occupancy rates, which hit a record high of 86 percent in the first quarter, held steady in April. Average daily room rates, which had retreated modestly in the first quarter, rose sharply in April and were up 10% from a year ago. Separately, Broadway theaters reported that gross revenues for the 1996-97 season were up 14.5 percent from last year, while attendance jumped 11.8 percent to a 16-year high.

Financial Developments

The demand for loans strengthened during the past two months, according to a survey of senior loan officers at small and medium sized banks in the Second District. Forty percent of the banks reported an increase in demand, while less than 12 percent reported a decrease. Bankers reported stronger demand for all categories of loans—consumer, residential and non-residential mortgages, and commercial and industrial loans. Refinancing activity fell or was unchanged at most banks. Bankers' willingness to lend increased modestly, although credit standards on most types of loans were unchanged. However, bankers did report tighter standards on consumer loans.

Loan rates were higher than two months ago, particularly for residential mortgages. Deposit rates also increased on net, with 42 percent of banks offering higher rates and only 3 percent lowering rates. Delinquency rates on all types of loans fell. Consumer delinquencies improved the most, with almost a third of banks reporting declines in delinquencies and only 10 percent reporting increases.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District appeared to be improving slightly in some sectors but just holding steady in others in late May. Manufacturers reported some increases in shipments and orders, and bankers said lending was moving up slowly. Most retailers reported steady sales in recent weeks at a rate just even with last year's pace, although some large stores were posting year-over-year gains. Auto dealers said sales of both domestic and imported cars declined during the past month. Construction activity has shown little change recently, according to builders in the region. Commercial rents have moved up somewhat since the beginning of the year and vacancy rates have edged down. Residential real estate agents indicated that sales were continuing at a good pace but below the average for the first three months of the year. Builders and real estate agents said prices for both new and existing homes were mainly level.

MANUFACTURING

Information obtained from Third District manufacturers in late May indicated that activity appeared to be improving. While half of the firms contacted for this report said their business was steady, around one-third said shipments and new orders were on the rise. Gains were noted in nearly all the District's major manufacturing sectors except among primary metal producers and instrument makers. Firms in these industries reported some slippage in demand for their products. On balance, order backlogs inched up for the region's manufacturers during the past month, and delivery times lengthened slightly while inventories edged down.

III-2

Manufacturers also reported some increases in employment, although work forces were said to be steady at three out of four plants in the region.

There were scattered reports of rising input prices, mainly in the nondurable goods sectors, but most of the firms reporting on prices said both input costs and the prices of their own products have been steady. Manufacturers said prices are being kept in line by strong domestic and foreign competition. They also indicated that outsourcing and other rationalization efforts are continuing as firms seek to reduce operating costs at all stages of production.

RETAIL

Retailers in the District gave mixed reports for May. Large chain stores indicated that sales were running above year-ago levels, with fairly good gains in men's clothing and home furnishings. Independent merchants were nearly unanimous in reporting only a steady rate of sales compared to last year. Some store owners said consumers seem reluctant to increase their spending, but restaurant managers throughout the District said business has been up strongly in recent weeks. Despite the failure of sales to meet many merchants' expectations, most said their inventory levels were not excessive.

Auto dealers said sales of both domestic and imported cars have declined in the past month. Dealers believe the slowdown will be temporary and that sales for the rest of the year will move above the level of last year's second half. Although manufacturers have been increasing incentives to boost sales, dealers in the District generally said their inventories were not high.

FINANCE

Third District bankers said that, as of late May, loan volumes were moving up slightly, mainly because of growth in consumer lending. Bankers reported increases in both credit card and other types of consumer loans, including revolving home equity. Some, however, said credit card loan charge-offs were still on the rise. Some bankers said they were increasing lending cautiously to established, well-capitalized real estate developers, and some banks reported recent increases in loans to businesses; but, in general, bankers said there has not been much change in commercial and industrial loan demand in the past month or two.

REAL ESTATE AND CONSTRUCTION

Commercial real estate agents in the District said most major commercial markets were healthy. According to recent surveys, office vacancy rates have improved slightly since the beginning of the year, and rental rates have been steady to slightly up. The office vacancy rate was estimated to be 15 percent in central Philadelphia, 9 percent in the Wilmington area, and in a range of 7 to 16 percent in major suburban markets in Pennsylvania and New Jersey. Land acquisition and build-to-suit activity has been on the rise, according to commercial real estate agents, but the market has not tightened enough to prompt speculative construction. Industrial buildings continue to be in strong demand, especially in central and eastern Pennsylvania and central New Jersey. Some warehouse buildings have been started prior to full lease-up, but developers said most lending institutions will not finance construction without firm leases and significant equity participation.

Residential builders generally reported steady sales at rates equal to the year-ago pace or higher. Several noted some slowing from the sales rate set in the first quarter, but most of those contacted for this report do not expect sales to slip below last year's level. In some popular areas builders have raised prices, but for the region as a whole there does not appear to be a general increase in new home prices. Residential developers have stepped up their acquisition of land in areas where new home sales have been strong. Real estate agents said sales of existing homes have been running above last year's rate since January, but the year-over-year gain has eased in the past month. While homes appear to be staying on the market for shorter periods, a large inventory of homes for sale in most parts of the District has been limiting price appreciation.

IV-1

FOURTH DISTRICT - CLEVELAND

General Business Conditions

Economic activity in the District has been mixed by industry and area, with some weather-related softness noted. The home building season got off to a quick start in March and early April, but construction slowed appreciably in late April and May due to unusually wet weather. Poor weather is blamed for the recent rise in unemployment among construction workers, with many building projects delayed. Still, overall business activity remains strong in most areas, and the jobless rate is extremely low in many parts of the District.

Temporary employment agencies continue to have difficulty finding workers in some areas and occupations. Labor shortages are becoming an increasing problem for a variety of skill levels and for seasonal jobs, with the demand for summer workers exceeding the summer influx of students into the workforce. According to several temporary help agencies, the increasing number of marginally qualified workers has translated into higher training and screening costs at some firms. No appreciable change in the rate of wage growth has been noted.

Manufacturing

District manufacturers are reporting continued high levels of production. Generally, orders growth is similar or slightly higher than earlier in the year, and the orders backlog appears to be holding even or increasing slightly. Export orders growth appears to be especially strong. Some flattening in steel orders is noted, although

IV-2

production is steady at a high level. Demand for capital goods remains strong.

Prices are rising for a variety of commodities, and none (with the possible exception of some energy goods) are noted to be falling. Still, manufacturers see little ability to raise finished goods prices. Profit margins are apparently being maintained through continued gains in productivity.

Retailing

The cool and rainy weather has reportedly dampened retail sales to varying degrees throughout the District. Apparel sales have been notably soft, with the exception of specialty clothing (better sportswear and business casuals), which has sold well. Still, several District chain stores saw May sales rise moderately above last year's level.

Retailers are generally satisfied with current inventory stocks, although a few noted slightly higher-than-desired apparel inventories. Personal computer sales dipped in May after a strong April showing. The unseasonably cool weather has hurt air conditioner sales and is also blamed for a small drop in auto sales. Most car dealers indicate that year to date, unit sales are down somewhat from 1996's high levels, and a deterioration in profit margins has been reported. Used car sales have been particularly hard hit, and some dealers have discounted used car prices to wholesale levels.

Auto dealers remain somewhat optimistic about sales prospects, although a few anticipate a new round of promotions. New car inventories are reported to be at, or near, their desired levels, with shortages noted in a handful of models.

IV-3

Agriculture

The heavy rains and cooler temperatures have not substantially affected District agriculture. Although fieldwork has slowed recently, and some replanting of corn and soybeans has occurred, farmers have had a better-than-average number of days in the field since April, and crop production is generally ahead of schedule. Only winter wheat is noted to be underdeveloped for the season. Tobacco transplanting is lagging slightly.

The price of farmland has increased dramatically in some parts of the District--as much as tenfold for certain properties. Sources indicate that these higher prices stem primarily from farmland purchases for real estate development, a pattern that is concentrated around urban areas. The absorption of farmland for real estate development appears to be part of a longer-term pattern of "urban sprawl."

Banking and Finance

Commercial loan demand remains generally strong, with only a few community banks stating otherwise. Consumer loans are off a bit, reportedly due to higher interest rates and a softer automobile market. Mortgage refinancing has also fallen in the wake of higher interest rates.

Consumer delinquencies have declined slightly. However, several bankers continue to note a rise in bankruptcies, and credit standards on credit card debt have been tightened further. Commercial delinquencies remain very low. Competition for borrowers is strong in the District, and bankers report that depositors are moving funds from passbook savings accounts into higher-yielding investments, including money market deposit accounts.

FIFTH DISTRICT-RICHMOND

Overview: Economic growth in the Fifth District remained brisk in May, although a few sectors showed some deceleration. The manufacturing and service sectors continued to grow rapidly, while retail trade lost some of its vigor of earlier months. Commercial real estate activity increased further, and sources said that growth in residential real estate was mixed. Driven by stronger demand, bank lending edged up after several lackluster months. In agriculture, May's unseasonably cool and dry weather slowed crop development and hampered planting activity. Overall price pressures were less pronounced, and despite tighter labor markets, fewer reports of wage pressures were received.

Retail Trade: District retailers reported that activity grew more slowly in recent weeks. Sales revenues grew at lower rates; several contacts cited cooler-than-normal weather as the main reason for more sluggish sales growth. Customer traffic and sales of big-ticket items increased only slightly, and retailers noted rising inventories. Employment and wage growth eased somewhat and retail prices were little changed. Retailers generally remained optimistic, although fewer expected demand to pick up in the coming six months.

Services: Service sector activity continued to expand briskly. Revenue growth was particularly strong in the real estate, financial, and health services sectors. However, revenue growth slowed in wholesale trade and dropped sharply in business services. Service employment and wage growth picked up during the month, and prices rose at slightly faster rates. Service sector contacts lowered their expectations of future demand.

Manufacturing: Manufacturing activity continued to expand at a strong pace in recent weeks. Overall shipments remained at record levels but those in the apparel, furniture, and printing industries weakened. The volume of new orders increased at a generally slower pace, but producers of paper goods, electric equipment, textiles, and industrial machinery saw the

pace quicken. Although manufacturers continued to characterize labor markets as tight, workers apparently were more confident of their job prospects; one contact noted that prospective hires were refusing to submit to drug testing. Finished goods prices changed little, and raw materials prices declined. Contacts anticipated higher finished goods prices over the next six months.

Tourism: Tourism continued to strengthen during May. Contacts reported that, compared to a year ago, the average tourist stayed longer and spent more money over the Memorial Day weekend. A Virginia Beach hotelier attributed an increase in bookings at his hotel to higher consumer confidence and a strong economy. Sources expected hotel and resort prices to increase by two to eight percent this summer.

Port Activity: Representatives at District ports indicated that both imports and exports were lower in April than in March, but remained above year-ago levels. Most port contacts expected higher volumes during the next six months, with imports outpacing exports.

Temporary Employment: The demand for temporary workers remained strong, but aside from normal seasonal increases, was little changed from the previous report. Several contacts noted that an increase in students seeking summer work had little effect on their ability to fill vacant positions. One employment agent said that finding workers with the necessary skills, especially computer skills, remained a "constant challenge." Wages were generally reported as holding steady, but several contacts stated that employers desperate to fill jobs were considering raising wage levels.

Finance: Lending activity in the Fifth District was generally higher in May. A number of banks reported increased demand for commercial loans. One Richmond banker commented that increased business expansion and acquisition in his region was driving strong commercial lending. Home mortgage lending also rose. Several lenders suggested that the prospect of higher lending rates led homebuyers to commit to mortgages now rather than

later. Demand for consumer loans in general was flat; one banker described consumers as "tapped out."

Residential Real Estate: Homebuilders and realtors gave mixed reports on residential real estate activity. Homebuilders said that housing starts and permits increased slightly, whereas real estate agents said that home sales and customer traffic eased somewhat. One source characterized the market as "stable, but nothing that's ringing any bells and whistles." Contacts were skeptical that the level of customer traffic would lead to sales. One said "there's a lot of tire-kickers out there." Increases in building materials prices were less pronounced, and there were few signs of wage pressures. There were several reports that strong demand was raising home prices in South Carolina. In Charlotte, N.C., however, one builder said that they're "slashing prices" due to overbuilding.

Commercial Real Estate: Commercial real estate activity escalated further since our last report. Office, retail, and industrial leasing accelerated in most jurisdictions, although it slowed somewhat in Virginia and West Virginia. The market for prime office space continued to tighten except in Virginia and West Virginia. Many contacts reported shortages, particularly for large blocks of space. Rents rose in all jurisdictions. Sources noted an increase in new construction, and there were scattered reports of increased speculative construction.

Agriculture: Unseasonably cool and dry weather across most of the District slowed crop development and hampered planting progress. Cooler weather in North Carolina reduced germination of the cotton and peanut crops. In eastern South Carolina, the outlook for crops was characterized as "grim" due to a lack of moisture. A shortage of rainfall in Virginia led some farmers to begin irrigation of vegetable crops. There were scattered reports of blue mold on North Carolina tobacco.

SIXTH DISTRICT - ATLANTA

Summary: Contacts report mostly slower growth for the southeastern economy since the previous Beigebook. Reports by manufacturing contacts, while mixed, indicate weakening since the last reporting period. Retail sales have been weak recently, falling below expectations for many merchants. Home sales and construction flattened, but commercial markets remain strong. The tourism and hospitality sector continues to post impressive numbers and industry spokesmen expect a strong summer season. Bankers note strong overall loan demand. Wage and price pressures are being held in check, according to most contacts, despite continuing reports of labor shortages.

Consumer Spending: Most retail merchants reported little or no sales growth during May. They expect second quarter sales will exceed last year's only slightly. While a significant minority said that current sales were weaker than expected, most contacts reported that inventories are currently on target. The majority of contacts report that labor costs for the retail industry have risen between three and five percent on a year-over-year basis in recent months. Product prices are not expected to change much over the next six months.

Construction: Single-family home sales and construction in the District have been flat since the last Beigebook. For the month of May, most Realtors report home sales at levels similar to last year, while a notable minority said that sales were down from a year ago. According to most builders contacted, construction and sales of new homes were also flat in May. The majority of both builders and Realtors report adequate housing inventories and stable home prices. Overall, contacts expect home sales to be unchanged in the second and third quarters and building to be down in the second quarter and flat in the third quarter on a year-over-year basis.

District commercial real estate markets remain strong. Office markets continue to improve as vacancy rates drop in key District markets, and construction maintains a healthy pace. The industrial market also remains extremely strong across most of the region. The weakest segment of the commercial real estate market is multifamily housing, with several markets reporting declining occupancy rates. However, the declines are expected to be only temporary.

Manufacturing: Manufacturers contacted say that production is slowing overall. Spokesmen for the manufacturing sector note expansions in durable goods and continued weakness for some softgoods. Fierce competition and technical advancements continue to force closures and layoffs at apparel plants in parts of the region. More positively, on the durable goods side, military and nonmilitary contracts are energizing aerospace firms. Plant expansions are under way in the electronics and telecommunications sectors. In Louisiana, chemical firms are building new facilities. Tennessee auto parts suppliers report double-digit increases in exports. Increased demand by the energy sector for equipment and supply boats is galvanizing Louisiana manufacturers. The average employee workweek is increasing for a packager, and new orders are increasing for a producer of building products.

Tourism and Business Travel: Mostly positive reports characterize the tourism and hospitality sector. Forward bookings have been strong for south Florida hotels and resorts. On Florida's west coast, the number of visitors has been at record levels. Cruise ship bookings are up from a year ago, and industry spokesmen point to record passenger boardings. Central Florida theme parks continue to announce major expansion projects. Industry representatives are concerned about being able to staff the thousands of new positions created by the expansions over the next few years. One component of the sector not showing these gains is gaming. Profitability

in the Gulf Coast's gaming market has flattened in some areas because of the influx of new casinos and casino expansions, although Mississippi's year-to-date gambling revenues have topped those of a year ago.

Financial: Most bankers throughout the District report that overall loan demand is strong. Consumer loan demand has increased slightly, with some weakness reported in automobile financing which parallels the weaker auto sales. Commercial demand continues unabated at healthy levels. Mortgage lending, while below last year's levels, is robust. With loan quality generally holding steady, few bankers are reporting stricter standards.

Wages and Prices: Despite continuing reports of labor shortages, evidence of increasing prices or wage gains is thinly scattered. Skilled and unskilled labor markets are described as very tight in areas with a high proportion of high-tech employment. Larger than average wage gains have been noted for information technology positions. Shipyards along the Gulf Coast reportedly cannot find enough skilled workers to keep pace with the recent business boom. Low unemployment rates in some District cities are making it hard for employers to fill positions or retain experienced workers. However, some employment placement firms report no significant real wage increases in spite of labor shortages, and other contacts note that firm downsizings and restructurings have helped the labor supply in parts of the District. Competitive pressures continue to hold down final-goods prices, according to most contacts.

VII-1

SEVENTH DISTRICT--CHICAGO

Summary. The Seventh District economy continued its moderate rate of expansion with few new reports of intensifying wage or price pressures. Retail sales were above year-ago levels despite being hampered by unseasonably cool weather. Overall construction activity remained very strong, particularly in nonresidential segments. Manufacturing production picked up in response to strong demand for steel and heavy equipment. Bank lending activity remained strong, mostly concentrated on the business side. Labor markets continued to tighten across the District, amid reports of increased competition for recent college graduates. Corn and soybean planting proceeded at a rapid pace, but crop development was hindered by cool weather.

Consumer spending. Retail sales were above year-ago levels in April and May, but most retailers again indicated that unseasonably cool weather had limited sales gains. One retailer even noted that weather had reduced 'impulse buying' by consumers. Sales of apparel, primarily women's, continued to outperform other product lines, according to most retailers. Sales of seasonal merchandise--such as lawn mowers, patio furniture, and garden supplies and plants--picked up toward the end of May after poor sales results earlier in the spring. Most retailers expect to recoup weather-related sales losses in June. Midwest sales results were seen to be in line with, or only slightly lagging, those of the nation. Inventories generally continued to be in line with sales expectations, although one major retailer noted that purchases had been cut back to keep inventories in line. There were no new reports of heavy discounting. Contacts reiterated that competition remains fierce, limiting their ability to raise prices.

Housing/construction. Overall construction activity remained robust during late April and May, with most of the strength still on the commercial side. Residential resales were described by most realtors as steady. A large Chicago area realtor noted that April's sales were slightly higher than April 1996 levels and also expects May sales to be up slightly year-over-year. Year-to-date, however, sales were off between 5 and 10 percent from last year's very high levels. Median existing home prices in the Midwest were running 5 percent above last year. Most builders in the District reported that sales of new homes in May were down slightly from April and off noticeably from last May. However, none described the market as weak, and the drop-off from last year's sales was largely anticipated. Consequently, inventories remained at or slightly

VII-2

below last year's levels, and there were no new reports of significant price discounting. Builders remained optimistic for the coming months, citing increased traffic and declining interest rates in May as signs of strength. Commercial construction activity remained strong across the District, and one source pointed to increased efficiency in the delivery of funds as contributing to this strength.

Manufacturing. Manufacturing activity picked up slightly in late April and May, buoyed by sustained demand and settled strikes. Steel producers across the District generally reported that levels of production and capacity utilization remained very high, slightly above last year's levels. Inventory-to-sales ratios declined despite some inventory building, and new orders remained strong. Most producers were successful in pushing through moderate price increases recently, but steel prices remain below their 1994 peak. Manufacturers of steel plate products, however, were generally unsuccessful in raising prices due largely to increasing imports. Heavy equipment makers indicated that production picked up in May from already high levels, and inventories were lower than anticipated. Orders remained very strong with some products booked well into next year. Although equipment prices were generally unchanged, one large producer reported using fewer incentives to sell equipment. The demand for light vehicles was decidedly mixed--with light trucks faring well and autos softening considerably. One automaker reported that the weakness on the auto side has resulted in a sizable inventory buildup, and the company may have to increase its use of incentives to clear inventory. Several contacts noted that competition and the high value of the dollar will make it difficult for automakers to raise prices on their 1998 models. For the most part, manufacturers indicated that prices paid for raw materials were flat, and there were no new reports of shortages.

Banking/credit. Bank lending activity remained strong, similar to our last report. Most of the strength in April and May was on the business side, where demand remained high and competition fierce for business customers. Fewer banks reported lowering credit standards to attract business deals but margins continued to be squeezed. One large regional bank pointed to "terrific" growth in the middle market segment resulting from new business formation. An increase in lending related to mergers and acquisitions, restructurings, and international acquisitions and expansions was also noted. Homebuilders continued to borrow in anticipation of an improving new home market in the second half of the year. On the consumer side,

VII-3

residential mortgage lending remained mixed, while most contacts reported a noticeable increase in home equity loans. Credit card usage slowed in April and May according to one large issuer, and most contacts indicated that delinquencies remained high. Overall asset quality continued to be good at those banks contacted.

Labor markets. Employers continued to squeeze the slack out of the District's labor markets in April and May. The unemployment rate in District states continued to inch down toward 4.0 percent. Contacts at state employment agencies indicated that initial claims for unemployment insurance fell dramatically in May. Although claims had shown a strike-related increase in April, May's levels were the lowest since 1994 for this period. Changes in the employment component of purchasing managers' surveys were mixed in May, though all remained in the expansionary range. As was the case in our last few reports, labor shortages persisted throughout the District, particularly in the technology, professional, and managerial occupations. Several contacts indicated that these shortages resulted in significant year-over-year increases in entry-level salaries, with some paying large signing bonuses to recent college graduates. One staffing agency contact reported that orders for administrative assistants and professionals had picked up noticeably in April and May. This source also noted an increase in longer-term temporary assignments. Outside of those occupations where shortages persisted, there were few other reports of intensifying wage pressures. Retailers have not had to raise entry-level wages in order to attract workers, but concerns persisted about how long this situation will last. Many contacts suggested that the lack of widespread upward price pressures was the result of improving efficiency and productivity as well as fierce competition.

Agriculture. May weather in the Midwest was characterized by little rainfall and lower-than-normal temperatures. While this allowed corn and soybean planting to proceed at a pace well above average, the emergence of the new crop was hindered by the cool weather, and the lack of rainfall generated concerns about the adequacy of soil moisture. In addition, there were scattered reports of early-planted corn being re-seeded in some areas. However, the outlook improved considerably with widespread rainfall during the Memorial Day weekend and subsequent warmer temperatures. The gain in farmland values continued to be strong, rising 2 percent in the first quarter and 9 percent year-over-year. Cash rental rates paid by farmers this spring were also up from a year ago, registering an average increase of 8 percent.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to grow at a steady, sustainable pace. Although retailers report varied results for April and May, with unseasonably cool weather slowing sales of summer clothes, most expect sales to pick up as summer arrives. Car dealers have noticed a general slowing in sales recently, which they expect will continue for the rest of the year. District firms, for the most part, are still reporting moderate gains in sales and employment, although tight labor markets in some areas continue to stall expansion plans. Relative to a year earlier, a slightly smaller percentage of District small businesses plan to increase prices during the next three months. Meanwhile, these small businesses report facing pressure on wages and salaries similar to a year ago. While levels of sales and construction in residential and nonresidential real estate markets are continuing their upward trend, they are still below last year's record levels. A cool, wet spring has retarded the growth of crops in many areas.

Consumer Spending

Although retailers report varied sales results for April and May, most agree that sales growth either met or slightly exceeded their expectations. With the approach of summer, outdoor furniture and gardening products have been the biggest sellers. Below-average spring temperatures, however, have hampered sales of summer clothing and swimwear around the District. Contacts report that current inventories are at desired levels, and they do not anticipate having to use much discounting to move stock. Many retailers remain optimistic about sales for the rest of 1997.

Most surveyed automobile dealers report a slowing in sales for April and May compared with one year ago. Because of this slowdown, many have offered more frequent rebates to move stock. Dealers report that relatively more buyers are purchasing new cars rather than used cars. Dealers are somewhat pessimistic about car sales for the rest of 1997, however, expecting it to be a "soft" year.

Manufacturing and Other Business Activity

District contacts continue to report moderate sales and employment growth. Tight labor markets, especially for construction and other skilled trade workers, are still being reported from most parts of the District. Some firms are unable to meet higher demand because they are understaffed. One firm reports that it raised its starting wage about 15 percent to attract qualified candidates. More than 300 Teamsters who drive concrete trucks in the St. Louis region went on strike June 2, slowing or halting much residential and commercial construction in the area.

To supply the soon-to-open Toyota plant in Indiana, a new aluminum smelting plant will open in eastern Missouri next year. Several firms that supply materials to building contractors have recently seen sales increase as construction has picked up. One of these suppliers notes that he was able to pass along a 3 percent price increase, which seems to be sticking, to his customers.

On the other hand, a maker of ice cream and other frozen products has seen sales slip recently because of unusually cool weather. Public utilities have also seen usage fall below last year's levels because of cool weather. One contact remarked, though, that on a weather-adjusted basis, usage is most likely up slightly.

Outlook

For the most part, Manpower's third-quarter employment outlook survey shows increased job opportunities compared with three months earlier. Prospects for additional hiring are best in St. Louis, with somewhat less upbeat prospects noted in Louisville and Memphis. Third-quarter hiring intentions are modestly lower in Little Rock—albeit coming off a strong second quarter.

According to a survey of 223 small businesses in the District, about 18 percent plan to boost sales prices over the next three months, while only about 3 percent plan to lower prices. Last year, a similar survey showed that 21 percent planned to increase prices. The same survey shows little change in wage pressures compared with a year earlier, with a little more than a fifth planning to

boost wages and salaries over the next three months. In contrast, less than 1 percent plan to reduce compensation — again, roughly unchanged from a year earlier.

Real Estate and Construction

Residential real estate markets continue to expand, with increases in both sales and the number of new building permits issued. This year, however, has not been as strong as last year, which featured record numbers of sales and new construction. Pockets of slowing, which had occurred a few months ago because of early spring flooding and storms, have started to reverse themselves. A lack of qualified workers still hampers building in some areas, though. Nonresidential construction remains strong in parts of the District, although the average size of new projects this year is smaller than it was last year.

Banking and Finance

Loan demand appears to be slowing somewhat in most areas of the District, although many banks are still experiencing double-digit, year-over-year loan growth rates. Most contacts cite residential real estate and construction lending as the strongest areas of growth. Consumer and commercial loan demand have weakened slightly. A number of contacts continue to report strong competition in their markets for commercial loans, resulting in more generous underwriting terms and narrower interest rate spreads.

Agriculture and Natural Resources

Contacts in the Delta region report that the cotton and rice crops are off to sluggish starts because of the cool, wet spring. In general, though, these crops are in fair-to-good condition. Prices for cotton farmers continue to slump from year-earlier levels; weakening foreign demand is cited as the primary reason. A contact in Arkansas notes that agricultural land sales have picked up, a development not seen since the mid- to late-1970s.

NINTH DISTRICT--MINNEAPOLIS

In late spring, the Ninth District economy continues to enjoy moderate growth in most sectors with few economic problems reported by any source. Construction firms describe a fifth consecutive busy season, with strong residential and heavy construction reported in many areas. Retail sales of general merchandise and vehicles are brisk according to most reports, and summer tourism and recreation business is apparently off to a good start. Manufacturing firms continue to report good sales with few supply bottlenecks. Iron mining and oil production are strong, while forest product output is largely steady. Although crop planting and development have been somewhat retarded, the overall outlook is favorable. Beef producers are receiving higher prices, bringing relief to beleaguered ranchers and their lenders. Hog prices have risen, with strong export demand and reduced numbers on farms, and some packers face difficulty in procuring enough hogs to keep slaughter lines running at capacity. Unemployment rates remain low in most regions, and employment numbers high. Product prices show little increase.

A few problems are visible. Many firms report some degree of wage pressure, and some are unable to find all the qualified workers they need. Corrugated cardboard manufacturers have slowed production in response to low prices. Areas of the Red River Valley in Minnesota and North Dakota continue to clean up after flooding, and output remains below usual levels for many firms in the Grand Forks metropolitan area.

Construction and real estate

“There is a lot of work available,” reports a construction trade publication noting a 10 percent increase in publicly let contracts in Minnesota and the Dakotas for the first four months of 1997, compared to the same period in 1996. “Construction will be a banner year,” says a Wisconsin building trade union spokesperson. “We are scheduled tight,” is the comment of a South Dakota home builder. With the exception of western Montana, where immigration from other states has slackened from earlier in the 1990s, construction is strong in most regions of the economy and in public, commercial and residential categories.

Markets for existing real estate are also brisk. “It’s really a sellers’ market,” says one St. Paul suburban residential realtor. Commercial property rental markets also are active.

Natural resource industries

Oil and gas drilling continues at about year-ago levels. An industry journal reports that exploration has spread from one specific geologic formation in western North Dakota to a broader complex of formations covering a larger area, and that while new drilling may not match the intense pace set in mid-1996, it is expected to continue for several years. Iron mines around Lake Superior continue to run at capacity. Oriented-strand board plants have returned to normal production levels after some voluntary stoppages in late winter in response to excess inventories. Paper industry sources report moderate demand for most grades. Output is weakest in packaging materials, and one Minnesota plant that produces corrugated cardboard, largely from recycled materials, announced an indefinite shutdown of most of the plant.

Manufacturing and business services

“Sales are great,” reports a regional manager for a hardware-software integrator based in Minnesota. “We have plenty of work,” says a metal-treating firm owner. “Running full out,” is the word from a ceiling tile plant manager. Such reports, buttressed by generally strong sales and earnings reports from publicly traded companies, outline a strong manufacturing sector. Several plant expansions, including baking machinery, farm implements and circuit boards, have been announced recently. Two new teleservices operations have opened, one in LaCrosse, Wis., the other in Dickinson, N.D. On the negative side, one old poultry processing plant in southern Minnesota will close, with the loss of 420 jobs.

Agriculture

Despite some problems, crop conditions in the district are generally good. Unseasonably cold weather persisted through much of May, delaying field work and slowing plant growth. Stages of development for some crops lag usual levels in many areas, but are catching up with more favorable weather in early June. Excess moisture remains a problem in areas of North Dakota, where state officials estimate some 1.1 million acres, about 4 percent of that state’s cropland, will not be planted to any crop this year. Some areas of east-central South Dakota had very late planting, but crop conditions in Montana, most of Minnesota and western Wisconsin are quite favorable. One concern is the poor condition of many alfalfa fields, and hay prices are hitting record levels in some areas.

Ranchers reportedly are optimistic about prices after three difficult years, and pasture conditions have improved in recent weeks. Montana bankers indicate that their ranch

customers should do somewhat better this year than last. Hog prices have increased, in large measure due to export demand from Asia, and packers report difficulty in securing enough hogs to keep kill facilities running at efficient levels. One packer in Sioux Falls, S.D., is temporarily laying off one shift due to difficulty in securing enough hogs.

Consumer spending and tourism

“I believe consumer confidence is high -- and for good reason,” says a senior manager at a Minneapolis-based national retailer, explaining his firm’s continuing robust sales.

Appliances are reportedly selling well in several cities, as well as apparel, sports and recreation products and other general merchandise.

“It seems like there’s a lot more people in the market this year than last,” comments the general manager of a Minneapolis area car dealership. Other cities around the district also have generally strong auto sales, but in rural areas or smaller towns, sales reports vary greatly with specific local economic conditions.

Despite unpleasantly cool weather for the Minnesota fishing opener, camps, parks, and resorts report generally good business early in the season. Inquiries are up in some states, and tourist operators are generally in a positive frame of mind.

Employment, wages and prices

“No one even answers our ads,” is the lament of one St. Paul, Minn., printer trying to hire additional workers. “All applicants already have jobs,” says the owner of a chemical firm, “they are trying to move up to something better.” “It is extremely difficult to find and hire well-qualified people,” comments a South Dakota feedlot owner. Such remarks are common in all parts of the district, except Montana. Employers also report wage pressures for many skilled blue-collar specialties including most construction trades, auto mechanics and machinists. Many note a continuing move to extend benefits to groups of workers previously not covered. One Wisconsin contractor reportedly paid full wages to an idle crew for three weeks between jobs, just to avoid losing them to competitors.

In contrast to labor markets, where reports of wage pressures are common, few price increases are evident. One manufacturer noted that supplies of chlorine and plastic resins are tight and their prices up, but said the impact of this was partially offset by declines in the cost of packaging. Fuel prices continue 5 cents per gallon below year-ago levels.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy continued to grow moderately last month.

Manufacturing activity remained strong, retail sales edged up, and energy activity improved further. The only sign of weakness was a slight slowdown in construction activity. In the farm economy, the condition of the winter wheat crop ranged from average to very good, the outlook for spring crops was excellent, and the recovery in the cattle industry continued. Labor markets remained tight in much of the district, and some companies increased wages for entry-level workers. Prices generally held steady at the retail level while increasing for some construction materials.

Retail sales. Retailers report sales increased modestly last month and were slightly higher than a year ago. Sales are expected to increase somewhat in the coming months. Retailers have been holding inventories steady and are generally satisfied with current stocks. Automobile dealers report sales were little changed from the previous month and down from a year ago. Sales of light trucks and sport utility vehicles remained particularly strong. Most dealers have been trimming inventories but expect to expand stocks somewhat in the next several months to meet increased sales.

Manufacturing. Manufacturers continued to operate at moderately high levels of capacity last month. Manufacturing materials were generally available, with lead times unchanged. Manufacturers have been trimming their inventories, and some say they plan further reductions because stocks exceed desired levels. A quarterly survey of district manufacturers indicated that production, shipments, and new orders all increased modestly from March to April.

Housing. Builders report housing starts edged down last month and were slightly lower than a year ago. Builders expect construction activity to improve somewhat in coming months due to seasonal factors and stronger demand. Sales of new homes were generally unchanged from both the previous month and a year ago. Most building materials were readily available and delivery times were normal. Mortgage lenders say demand was unchanged last month.

Banking. Bankers report that loans increased during the past month while deposits remained unchanged, boosting loan-deposit ratios slightly. Commercial and industrial loans, home equity loans, and commercial real estate loans increased, while other loan categories were flat. Large CDs and small time deposits rose, outweighing declines in demand deposits and NOW accounts.

Most respondent banks left their prime lending rates unchanged last month, but some expect to raise rates in the near term. Most banks did not change their consumer lending rates and anticipate no future changes. A few banks tightened their lending standards, citing concerns over credit quality.

Energy. District energy activity continued to improve last month and remained somewhat stronger than a year ago. Crude oil and natural gas prices rose in May after falling earlier in the year. The district rig count was up 3 percent to a level 15 percent higher than a year ago.

Agriculture. The district's winter wheat crop is in above-average condition, and this year's harvest will likely be larger than last year's. Frost damage and dry conditions earlier this spring hurt the crop in parts of Colorado, Kansas, and Oklahoma, but yields in those states should still be about average. The wheat crop in the remainder of the district is rated very good.

Spring crops in the district are reported to be in excellent condition. Farmers planted more corn and soybeans than normal this spring, and if favorable conditions continue, the district should record another excellent fall harvest.

District cattle feedlots are full. The large numbers of cattle on feed are putting downward pressure on prices for fat cattle. To keep from being caught with large numbers of cattle if prices fall, feedlot operators are marketing cattle at lighter weights. Prices for feeder calves have remained high, leading district ranchers to sell their yearling calves this spring rather than keep them on grass through the summer. Ranchers do not plan to increase their herd sizes by retaining additional replacement heifers this year.

The strong farm economy is benefiting many of the district's rural communities. Bankers reported strong farm equipment and auto sales in the first half of the year. Most other main street businesses are also benefiting from the stronger farm economy, and business conditions are stronger than a year ago.

Wages and prices. Labor markets remained tight last month in much of the district, with some evidence of wage pressures at the entry level. Employers report qualified entry-level workers were in short supply, and some manufacturers say engineers were hard to find. Computer specialists and skilled construction workers were also in short supply in many markets. A number of companies indicate they raised wages more than normal to attract entry-level workers. There were relatively few reports, however, of wage increases for other types of workers. Prices held steady at the retail level but increased for some construction materials such as lumber. Retailers expect no major price changes in coming months.

ELEVENTH DISTRICT--DALLAS

The Eleventh District economy continued to expand at a modest pace in May and early June. Reports suggested that labor markets had tightened since the last Beige Book, pushing up wages, but price reports were mixed. The strongest economic growth was reported by business service firms and in the energy sector. Growth of sales in manufactured products was up slightly, and construction activity continued to grow at a modest rate. Retailers said sales growth had downshifted since the last Beige Book but was "not terrible." Demand for financial services was unchanged, but contacts expressed concern about an oversupply of loanable funds. Agricultural production was hampered by excessive rainfall.

Prices. There were more reports of upward price and wage pressures than in the last Beige Book, but there were reports of lower prices as well. Labor markets tightened in most industries, including those for engineers, software designers, retail workers, truck drivers and support staff, such as secretaries. Wages were up for some workers, particularly in the service and energy sectors. Office rents were up 20 percent over year-earlier levels, and land prices rose for industrial and office locations. Oil prices increased from between \$19 and \$20 per barrel for most of April to between \$20 and \$22 in May. Natural gas and heating oil prices were also higher, as late-spring cold weather reversed normal seasonal trends. Natural gas storage was only 35 percent full, which is expected to help support prices through the summer. Gasoline prices rose steadily over the past six weeks, boosted by low inventories and a heavier than usual maintenance schedule for refineries. Producers of polyethylene and polyvinyl chloride boosted selling prices in April, but the prices of both are expected to fall this summer when new ethylene capacity comes online because both contain a significant amount of ethylene. Lower ethylene prices also are expected to be passed through in a number of other plastics products. Telecommunications manufacturers reported that competition had pushed down prices. Prices of scrap metal were lower, but there was some feeling that this was a result of customers' building too much

inventory and therefore only temporary.

Manufacturing. Sales growth of manufactured products was up slightly. Warm weather boosted demand for construction-related products, although contacts noted that sales were below last year's "gangbuster" levels, and some inventories were too high, such as for cement and brick. Sales of paper and apparel products were up since the last Beige Book, but paper sales were slower than last year. Worldwide demand for computers remained strong, particularly for higher end products, but supply constraints for the newer and more sophisticated semiconductor components and microprocessors limited sales growth. Some contacts mentioned growing inventories of some PC components, but other contacts said inventories were still in good shape in the United States. Some electronics contacts were concerned that sales growth will be less than expected this year but said, "It's hard to tell if there is softening in the U.S. market." Telecommunications manufacturers said seasonal factors slowed demand growth. Refiners maintained good margins but expressed concern about the industry's long-term profitability given its excess capacity. Demand for gasoline is expected to be strong this year. Petrochemical demand remained strong and olefins margins were healthy, but new capacity coming online over the summer is expected to put downward pressure on ethylene and polyethylene prices.

Business Services. Business activity continued to increase for legal, accounting and temporary-employment firms. The energy, real estate, technology and financial services sectors were cited as sources of strength for business service firms, which recruited both professional and clerical workers heavily and with difficulty. Wages and salaries were higher at business service firms, and fees were also up. The outlook among these firms was positive, with continued growth, but some respondents felt a sense of caution that things have been growing so quickly and must, at some point, slow. As one legal contact said, "Things have been too good for too long."

Retail Sales. Retailers said sales growth had downshifted since the last Beige Book but was "not terrible." Nearly all contacts commented that sales did not meet expectations. Sales of seasonal items were particularly slow. Excess inventory was a problem for some retailers, leading one to cancel purchase options and another to characterize inventory as on the "upper side of O.K." More retailers

reported hiring difficulties than in the last Beige Book, pushing up wages at some stores. As one contact commented, "It is getting harder to find anyone who can add, talk and run a cash register for \$6 an hour." Auto sales remained "good" in most major cities but continued to trend down in Dallas and Fort Worth. Dealers in the D/FW area said they appear to be overwhelmed with supply.

Financial Services. Demand for financial services was unchanged over the last six weeks, although contacts expressed concern about an oversupply of loanable funds. Contacts said steep competition had pushed down interest rates and led to a relaxing of credit requirements for loaned funds. In spite of increased competition, however, delinquency rates did not rise over the past six weeks. Virtually all respondents reported hiring employees or open positions at their institutions.

Construction and Real Estate. Construction activity continued to grow at a modest rate, but contacts said that demand for most types of real estate was stronger than expected. High occupancy rates in the suburbs stimulated office demand in the commercial business districts, although contacts were cautious about overbuilding. Construction of speculative warehouse space continued. Apartment construction remained at high levels, with continued concerns about overbuilding, especially in Austin and parts of Houston. Retail activity was brisk, with increased demand and absorption in the Dallas and Houston markets. Housing growth rates remained below last year's.

Energy. Energy activity remained extremely strong. Contacts continued to report that utilization rates for drilling rigs in the Gulf are at 95 percent or higher, and would be higher yet if not for maintenance schedules. At current energy prices, cash flow is strong at oil service companies, and the return on investment is "phenomenal," creating a rush to get wells drilled. Bottlenecks continued to be created by shortages of key personnel, such as machinists, engineers, ship captains and crews, as well as of drill pipe and many types of equipment.

Agriculture. Although recent warm weather has improved conditions, above-normal rainfall slowed growth of corn, milo and cotton across the district and substantially reduced the vegetable crop in Texas' Lower Rio Grande Valley. Persistent wetness on range and pastures also reduced weed control and fertilization operations, although livestock conditions continued to be good.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

Twelfth District contacts reported strong economic performance in the most recent survey period, with evidence of tightening capacity constraints in several sectors. Manufacturing activity expanded further in the District, with aerospace and related products leading the way, although demand growth slowed for some other products. Service providers continued to do very well, and demand conditions and inventories in retail trade generally were acceptable. Residential and commercial real estate markets were active and healthy in most areas. However, widespread shortages of skilled labor continued, and several respondents noted emerging difficulties in filling entry level jobs. Despite tight supply lines for some intermediate products, upward pressure on final prices of goods and services was tempered by robust competition.

Business Sentiment

The bulk of District respondents expect national economic growth to remain on track at about a 2 percent annual rate in the near term, leaving the national unemployment rate at low levels. Among respondents anticipating a change in national growth and unemployment over the next 12 months, very few expect deterioration. In contrast, although most respondents expect a continuation of the existing national inflation rate, nearly 40 percent predict an increase. Spurred by expectations of increasing business investment, housing starts, consumer spending, and exports in the Twelfth District, the overwhelming majority of respondents continue to expect the pace of economic growth in their regions to exceed the national rate.

Retail Trade and Services

Most District contacts in the retail trade sector reported adequate demand and sales. A large retailer of food and drug products in several states reported moderate sales with healthy inventories, and limited price increases overall. Sales of new and used cars have weakened in some areas, although this was offset slightly by rising sales of light trucks. In the Pacific Northwest, respondents from the clothing and sporting goods industries reported average sales and inventories that were slightly higher than planned. Several respondents noted shortages of both skilled and entry level workers.

Conditions in District service industries remained top-notch. Demand for telephone and cable television services was strong. Investment in high-tech capital equipment has been rapid in most service industries in the District, although some respondents noted that high levels of spending in the past and current factors such as industry restructuring have served to moderate growth of expenditures on new computer equipment. Hotel occupancy was high and room rates rose in the coastal Pacific Northwest and in Utah's Salt Lake City area. Other reported service prices, such as those for electricity and cable television, remained relatively stable.

Manufacturing

District manufacturing activity expanded further in recent weeks, and tightening capacity constraints were noted by various respondents. Increased aircraft production at Boeing's Seattle facilities continued to spur demand in other District industries and areas. In Southern California, a respondent in the metals industry reported aluminum mill capacity at 90-95 percent, with prices escalating for certain materials in short supply. Demand for machine tools reportedly grew but at

a slower rate than earlier, with growth focused mainly in the export market. Also, a maker of high-tech products noted manufacturing capacity constraints for some computer components and slowed demand growth for cellular phones. Reports of difficulty finding skilled workers continued to be widespread.

Agriculture and Resource-related Industries

Generally healthy conditions were reported in the District agricultural sector. Conditions in the cattle industry improved substantially in recent months due to a combination of growing demand for cattle and reduced grain prices. Conditions for agricultural producers in Idaho were reported to be good overall, with the notable exception of weak demand for the state's key crop, the potato. Respondents also noted weak demand and low prices for District seafood products.

Real Estate and Construction

Real estate markets and construction activity remained strong in most areas of the District. California real estate markets firmed further. In the San Francisco Bay Area, home prices have increased substantially, and the inventory of homes for sale is minimal in certain desirable locations. Improvement has spread to Southern California, where housing permits increased and prices have shown signs of recovery. Respondents also noted ongoing strengthening in California's commercial real estate market.

Increasing construction costs due to rising materials prices and a shortage of skilled construction labor reportedly contributed to home price appreciation in many areas of the District. In the Portland, Oregon area, demand for new homes is strong and land costs have risen

substantially. Although housing starts have slowed in Utah, increased nonresidential construction reportedly has put pressure on already tight markets for construction labor.

Financial Institutions

District financial institutions reported strong loan demand and generally favorable banking conditions throughout the District. In Southern California, where economic activity has been weaker than elsewhere in the District, a recent increase in banking activity was reported. Stiff competition and ongoing efficiency-driven consolidation continue to characterize much of the District's banking industry.