

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

November, 1983

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SUMMARY*

Overview

Economic expansion continued through the early fall in all Federal Reserve districts. Generally increasing strength is reported in retail sales, as consumer confidence improves along with income and employment. Retailers in most districts are anticipating excellent Christmas season sales.

Manufacturing activity is growing at a moderate pace, but only limited improvement is reported for capital goods industries. House sales are generally reported to be weaker. Crop production was restricted by drought and acreage reductions, but farm income is being supported by higher prices and federal farm programs. Nearly all districts report increasing bank loan demand, while reports on deposit growth are mixed.

Consumer Spending

Continuing and generally increasing strength in retail sales is reported in all 12 Federal Reserve districts. Some districts, such as Cleveland and Kansas City, mentioned the widespread or broad-based nature of sales increases. Many other districts noted that sales were especially good for apparel, and for home furnishings and other household items. New automobile sales were also reported as a source of strength in consumer spending.

*Prepared at the Federal Reserve Bank of Kansas City.

In addition to growth in income and employment, most-often-mentioned sources of the strength in consumption were a turn to more favorable weather conditions and a significant improvement in consumer confidence. While Philadelphia and St. Louis reported heavy promotional activities by retailers, Atlanta noted a strong rise in sales with negligible sales promotions. Retailers in most districts appear optimistic about sales in the fourth quarter, and are reported to anticipate excellent Christmas season sales.

Retail inventories, described as generally satisfactory to a little high, are apparently not regarded as troublesome in the light of sales expectations. Chicago notes, however, that some retail inventories are tight enough to lead to sales losses if the Christmas season is as strong as expected.

Industrial Sector

Overall manufacturing activity continues to grow at a moderate pace according to most district reports. Gains in production and orders are generally reflected in reports of increases in employment and length of work week, though Boston reports a cautious recalling of production workers only and San Francisco notes weak manufacturing employment growth in its district. Manufacturers' inventories are generally reported as stable to accumulating somewhat, and appear to be generally regarded as satisfactory. Prices in the manufacturing sector are reported as ranging from stable to increasing moderately.

Cleveland and Chicago note that steel orders are continuing to rise, but emphasize differences among types of steel products. Cleveland notes the most improvement in demand for flat-rolled steel, while Chicago reports demand

concentrated in lighter products with plates and structurals very slow. Cleveland notes some increased demand for steel from capital goods producers. Both Chicago and Cleveland report only limited improvement in their districts' capital goods industries.

Construction

Although there may be mixed results within a given district, residential construction activity is reported by most districts as down from earlier this year. Clear exceptions are New York, which reports "Homebuilders have been quite busy and expect to remain so over the next few months," and St. Louis, which notes that "construction of homes... continued at a rapid pace." House sales are generally reported to be down, except in the Atlanta district where a recent revival is attributed to the increasing popularity of adjustable rate mortgages. In the Chicago district, however, variable rate mortgages are reported to be "shunned by most home buyers." Several districts report increases in nonresidential construction activity, and New York notes that some state governments in its area have authorized increased spending on infrastructure restoration.

Agriculture

Drought and reduced acreage cut crop production in a number of districts, but farm income is being supported by higher product prices and federal farm programs. Results varied according to geographical area and type of farm enterprise. For example, Minneapolis reports a good year for soybean farmers in its district, while Atlanta notes that producers of peanuts and tobacco--not covered by the PIK program--sustained heavy income losses because

of the drought. Livestock farmers and ranchers are feeling the impact of high feed costs and low livestock prices. Meat prices may fall in the short run due to increased marketings, but are expected to rise again next year.

Financial Developments

Nearly all districts reported increasing bank loan demand, although Atlanta noted slower recent loan activity following "healthy" growth last summer. The picture for business loans is somewhat mixed, but they appear to have been an important part of total loan growth in a number of districts. Aggressive seeking of new customers by banks was noted by New York, Richmond, and Philadelphia. The latter reports that "consumer credit demands have responded very positively to new marketing efforts."

Reports on deposit growth also vary among districts and by type of deposit. Several districts commented on the actions of banks and customers with regard to the deregulation of time deposits on October 1. New York noted that many banks and thrift institutions offered "very attractive rates" but Cleveland reported that its district banks were not aggressive about the new deposits. Richmond and Kansas City agreed that there was little effect on their financial institutions and little response from customers. San Francisco saw some significant early growth in new deposit accounts, but does not expect them to generate substantial inflows of new funds.

FIRST DISTRICT - BOSTON

Retailers in the First District are enjoying strong sales gains and more and more manufacturers are participating in the recovery. Retail inventories are a little higher than desired but not so high as to be troublesome. Manufacturing inventories are in good shape. Most of the manufacturers contacted are cautiously recalling production workers. Despite the pickup in manufacturing activity, the demand for working capital is said to be unusually low for this stage in a recovery.

Retail

Retailers in the First District reported strong sales growth in September and for the year to date. Inventories may be slightly above plan, but not at levels that cause concern. Expectations are for continuation of recent strength at more moderate levels.

Two chains had sales in recent months 15 to 20 percent ahead of last year, well ahead of their expectations. Success was attributed to long term promotional campaigns and more widespread consumer enthusiasm for shopping. However, a third merchant reported only 9 percent growth, which he called disappointing in comparison to recent growth rates of 25 to 40 percent, although "still quite respectable." Several of those contacted mentioned that low rates of inflation make these increases real and therefore even more substantial than they first appear to be. No specific products were cited as especially strong or weak, although one retailer concentrated in soft goods said he believed hard goods were picking up faster. However, another reported sales of furniture less strong than

housewares or paper goods. Sales of a nationwide chain continued to be stronger in New England than elsewhere.

Two retailers reported inventories above plan, but both said they were not so high as to be troublesome. In one case the increase was partially due to a change in strategy to provide better customer service.

Projected sales growth over the next few months ranges from 8 to 15 percent. All respondents mentioned that the Christmas season, beginning soon, will be critical in determining overall growth and profits.

Manufacturing

Reports from the manufacturing sector are generally encouraging. In a September survey of purchasing agents, more than 50 percent of the respondents reported that orders were up from the previous month and more than 60 percent reported increases in production. The survey also showed a majority of respondents with higher employment levels. Demand appears to be strongest for automotive, defense and housing-related products; supplies and other products related to the general level of industrial activity; and products purchased by the electronics industry. The recovery also appears to be filtering down to the capital goods industries; orders and backlogs have improved and several respondents are looking forward to a good 1984. Demand remains depressed for materials used in commercial construction, oil drilling and power plant equipment, and products purchased by the farm equipment industry.

The strong dollar is hurting export sales and adversely affecting the dollar-denominated profits of foreign subsidiaries. The latter is particularly a problem for Latin American operations. Several firms noted that their Latin American subsidiaries appear to be doing well until one

translates back to dollars. There seems to be some optimism that conditions are improving in Mexico. Sales in Europe are much slower than in the United States, although some manufacturers see an improvement over a year ago.

Most of the firms contacted are increasing employment, but they are proceeding very cautiously. Only direct production workers are being recalled, no indirect or office personnel. The one major exception is a firm which is aggressively recruiting engineers to support a large research initiative.

Inventories are generally in good shape. Prices are holding steady, except for the price of foreign steel which is increasing. Manufacturers seem confident that the recovery will continue through 1984.

Commercial Banking

There is considerable turmoil in the First District banking industry as banks compete to take advantage of recent legislation permitting interstate mergers and acquisitions within the region. Consumer loan demand is strong but commercial loan demand is sluggish for this stage in the recovery. The competition for commercial loans is keen and margins have eroded.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District continued to show improvement in recent weeks. In comparison to the mixed picture we reported in late summer, almost all Second District economic indicators now appear to be headed upward. Department store sales picked up sharply in late September when a long period of unusually hot weather ended. Homebuilders have been quite busy and expect to remain so over the next few months. The brisk pace of office leasing activity was maintained in New Jersey and southern Connecticut and has begun to spread into midtown Manhattan as well. The New Jersey and Connecticut legislatures have authorized increased expenditures on upgrading roads and bridges, and New Yorkers will vote on an infrastructure bond referendum in November. The region's manufacturing activity expanded further, but employment gains are still slow. On the financial side, business loan demand is beginning to pick up.

Consumer Spending

The pace of retail spending in the Second District has shown some improvement in recent weeks. Most respondents stated that the unusually hot weather in the first half of September depressed sales. However, after the temperature cooled, widespread sharp gains were registered towards the end of the month. A New York State chain, for example, noted overall September sales showed no improvement over the year-ago level, but activity in the final

week of the month was seven percent above the corresponding 1982 figure. Another large retailer with a lower-than-planned sales increase of five percent in September had a 15 percent gain in early October, albeit with the help of some special promotions. Only one merchant reported a weakening of sales in October, citing the fact that the weather had not yet been cold enough to spur sales of warm clothing. Inventories were reported at satisfactory levels with only one retailer mentioning that they may be a little high. Sales at most stores remained at or above planned levels, and the outlook for the fourth quarter generally is optimistic.

Construction and Real Estate

Residential construction activity remained strong throughout the District and builders have contracts which should keep them busy into the spring. After that, however, the outlook is uncertain. October is typically the time when prospective buyers begin looking for homes to be completed the next summer. However, while weekend traffic has picked up in New Jersey, demand thus far has been sluggish in much of New York. Higher mortgage rates were cited as a factor. In addition, some New York builders have postponed seeking contracts for summer delivery because of uncertainty about rising costs of materials and labor availability.

The brisk pace of nonresidential real estate activity was maintained in recent weeks. A high volume of leasing transactions continued in New Jersey, southern Connecticut and various New York City suburban areas. Our contacts also noted a definite upswing in

midtown Manhattan as earlier negotiations for space are now culminating in actual commitments.

State governments in the District plan a substantial upgrading of roads, bridges and public transportation. The legislatures of New Jersey and Connecticut have already increased bonding authority for improving transportation infrastructure. New Yorkers will vote in early November on a referendum for a \$1.25 billion debt issue, but even if that fails, the pace of infrastructure renovation will increase in New York.

Business Activity

Business activity continued to expand in the manufacturing sector, but at a generally moderate pace. The upturn at automotive manufacturers and suppliers has been maintained, but a producer of truck engines reported some temporary difficulty obtaining parts. Manufacturers of products such as electrical equipment and optical supplies have already begun a modest hiring of new employees. Other firms anticipate additional hiring when plant expansions which are currently underway are completed. Several high technology firms announced plans to expand and ground was recently broken on Long Island for a high-tech industrial park. Many manufacturers continued a cautious inventory policy, but for the first time in several months some firms expressed a willingness to begin inventory accumulation. A more positive attitude about the continuation of the recovery was noted throughout most of the District.

Unemployment rates have recently fallen throughout the region, but remain above year-ago levels in some areas.

Financial Developments

Second District banks report a pickup in business lending in recent weeks. Some banks have become more aggressive in seeking new customers. In addition, demand has also been increasing as business financing needs begin to rise and interest rates offered on loans remain relatively flat. Business lending appears to be comparatively stronger outside the immediate New York City area.

Mortgage lending seems to be flat, but banks offering particularly competitive rates have been able to raise their market shares.

The deregulation of most consumer time deposits on October 1 resulted in many banks and thrifts institutions in New York City offering very attractive rates, particularly on six-month certificates where rates were offered as high as 11 percent.

THIRD DISTRICT - PHILADELPHIA

Indications from the Third District in October are that the regional economy is expanding. Local manufacturing conditions have improved again, and retail sales have pushed even higher. In the financial sector, loan volume has improved recently, but it remains mixed. In addition, a dip in mortgage rates has halted the decline in activity in the local housing market.

Third District contacts expect the expansion to continue over the next six months. More gains for area industry are expected and substantial consumer spending growth is projected. Loan activity is also likely to gain strength by April.

REAL ESTATE AND CONSTRUCTION

Activity in the Third District housing market has held fairly steady since early September. Although sales are still better than a year ago, they remain disappointingly below the pace set this past spring. The steadying influence in current sales activity has been a slight dip in mortgage rates, but brokers indicate that many buyers are hesitant to commit now in anticipation of further declines in rates in the near future. Traffic through new and older homes is reported to be down, and, because of the earlier let up in sales, new starts are very slow.

MANUFACTURING

Manufacturers responding to the October Business Outlook Survey report that Third District industrial activity is entering the fourth quarter of 1983 with much the same strength as shown in the previous three quarters of the year. About 45 percent of participating executives indicate that overall business conditions have improved in October, and only a very small number of respondents report any drop-off since September. New orders and shipments continue to display widespread growth in October, and employment gains remain solid. Many manufacturers say they have added to factory

payrolls or lengthened working hours since September. Local producers do, however, report another marginal decline in inventories this month.

Looking ahead, general manufacturing activity in the Third District is expected to continue to expand over the next six months, but, as in September, respondent's forecasts seem to predict a moderation of the recovery. Roughly two thirds of the businessmen polled forecast better conditions within six months; that is about the same as a month ago, but noticeably less than earlier in the year. Nevertheless, strong gains in new orders and shipments are likely to continue and some inventory growth is projected. Manufacturers are planning to hire more workers and to expand the average workweek, but their expenditures for plant and equipment are expected to remain relatively weak.

Industrial prices continue to reflect the rapid expansion of manufacturing activity. The prices of both inputs and final products have risen again in October, and further escalation is projected over the next six months. More than three quarters of the participating manufacturers foresee higher raw materials costs by next spring and one half expect to up their own products' prices over that time.

RETAIL

Department store sales in the Third District have expanded more rapidly in the last six weeks than merchants had anticipated. According to local retailers, buoyant consumer attitudes, very favorable weather conditions and heavy promotional activity have pushed year-over-year sales gains even higher, reaching the mid-teens at most area stores. Merchants say apparel, home furnishings and personal computers are among the big movers in October. In spite of such hefty sales growth and a low inflation rate, however, many store owners report that profit margins have remained very slim. They attribute the squeeze to the costs associated with heavy reliance on promotional activity in generating current sales.

Because of the current surge in activity, local retailers have become less cautious about business in the next six months. They are now forecasting gains of between 6 percent and 9 percent over healthy year-earlier levels for spring 1984. If, as expected, prices rise only slightly, substantial real gains for area merchants are likely.

The outlook for consumer spending is apparently robust enough to warrant further accumulation of retail inventories. Stocks of consumer goods, which have grown in recent weeks to levels about 10 percent higher than a year ago, are expected to swell even more by April.

FINANCIAL

Loan activity at Third District banks has been on the upswing in October. Local bankers report that C&I loan demand is finally showing some signs of breaking out of its slump. They indicate, however, that further improvement in the cash flow of many area businesses has again limited the growth of commercial demand. The result is that, while slightly better than a month ago, business loan volume, now ranging from 8 percent below to 20 percent above a year ago, remains mixed. On the other hand, area banks are still reaping the benefits of their expanded push in retail lending. Lenders say that, with interest rates relatively steady and the general economy improving rapidly, consumer credit demands have responded very positively to new marketing efforts. As a result, retail loan volume in October is between 14 percent and 30 percent ahead on a year-over-year basis, according to contacts.

Third District bankers are projecting even better business for the next six months. By April, more substantial gains in C&I lending are anticipated as businesses begin to look more and more toward external sources for new financing. Bankers also plan to keep the push on consumer loans and expect to see further growth by spring.

The prime rate at major banks in the Third District is unchanged at 11 percent in October. Financial contacts do not foresee any substantial pressures pushing rates either up or down in the next six months. They expect that Fed policy will counterbalance expanding private credit demands and keep interest rates flat into early 1984. Contacts noted, however, that there is still a lot of uncertainty over the international debt situation, and that poses a threat to continued stability in rates.

Deposit flows have turned mixed in October, according to local bankers. Demand deposits have slipped below year-earlier levels for the first time in quite awhile, but time deposits remain strong. Although growth in the deregulated accounts has settled down, time and savings balances are now as much as 32 percent ahead of a year ago.

Fourth District - Cleveland

Summary. Improvement in labor market conditions in the Fourth District plateaued in September and unemployment remains high. Retail sales are improving. Orders, production, and shipments continue to rise for District manufacturers. Demand for steel continues to increase. New orders for single-family homes slowed in September because of high interest rates. Commercial and industrial loan demand increased at commercial banks while deposit growth stopped.

District Labor Market Conditions. Improvement in labor market conditions stalled in September in this District, and high unemployment continues. In Ohio, nonagricultural wage and salary employment (nsa) rose 1.8% in September, but total employment fell, unemployment rose, and the unemployment rate (nsa) increased to 11.1% from 10.8% in August. Nevertheless, the unemployment rate is still below the 12.3% level of September 1982. Recovery in District employment has been similar to past recoveries but still lags the national recovery in both manufacturing and non-manufacturing.

Food Prices. A national food retailer expects food price increases in 1984 in a 4-1/2% to 5-1/2% range. Upward pressures on grain prices from the drought and PIK programs are being mitigated by huge carryover of grains from the previous year, and by the dollar's high foreign exchange rate that has hampered grain exports. He expects only moderate price increases for fresh fruits and vegetables, dairy products, and bakery goods. He expects meat prices to decline in this year's fourth quarter but to rise by next year's final quarter.

Retail Sales. District retailers once again report broad-based sales gains in September and early October, after a rather unimpressive sales pace

in August. General merchandise sales by major Fourth District retailers in September were 9% to 12% above year-earlier levels, as they have been during most of 1983. Sales of apparel and household furnishings were particularly strong in recent months. Sales by District automobile dealers were also well above year-earlier levels, and have generally accelerated from August as lean inventories eased with 1984 model deliveries. Sales of used-cars and import autos continue to suffer from lack of availability. Most retailers contacted expressed optimism over sales prospects for the fourth quarter.

Manufacturing. District manufacturing activity continued to expand in September. A survey of purchasing manufacturers in the Cleveland area reveals production and new orders continued their strong increases in September. Inventories of raw materials and finished goods rose slightly, while employment fell slightly, the first decline since March. Moderate price increases were reported.

A survey of purchasing managers in the Cincinnati area indicated production, new orders, and backlogs rose in September at an increasing pace. Inventories of finished goods ceased their decline. Employment rose substantially. Price increases continue at the same moderate pace as in August.

This Bank's survey of Fourth District manufacturers shows shipments, new orders, and backlogs expanded in September and are expected to increase in October. Inventories and prices paid are stable. Employment rose a bit in September and is expected to increase substantially in October.

A producer of machine tools reports orders continue to rise, but are still at a low level. The industry's order level hit bottom in third quarter 1982 at only 50% of the previous recession's low. Backlogs are growing, but from a very low level, and the firm is still operating at well below 50% of

capacity and plans very little capital spending. The firm expects a minimal profit in 1984 and a good profit in 1985.

A producer of components for capital equipment reports a rising trend of orders from customers in various sectors of the economy. Backlogs are rising, as are production, employment and average hours worked. The firm is increasing its capital spending. Despite the increase in demand, list prices of its products remain flat, although discounts disappeared in spring and early summer. The firm reports prices rising for its purchases of corrugated boxes and aluminum ingots.

A tire producer reports shipments are up strongly and are expected to rise further. Inventories are being built in anticipation of growing demand. Employment is rising at the plant level but not at the white collar level. There has been no acceleration of cost increases, and product prices are rising at about the retail inflation rate. Capital spending is for cost reduction but not new capacity in tire production.

Steel. New orders for steel continue to rise. Demand improvements are primarily for flat-rolled steel but are spreading to bars and even pipe, which has been depressed by excessive inventories. Most demand is from producers of consumer goods, but improvement is starting to come from producers of business capital equipment and agricultural equipment, and from the construction industry. Some users are building inventory. Consequently, steel production and shipments are expected to continue rising in the fourth quarter. Some pressure on short-run production capability is being felt in certain product lines. Immediate capability to produce steel is less than theoretical capacity because the cash squeeze has led to low inventories and reduced maintenance of mills. Cash flow is expected to improve substantially this quarter, so that producers will be less willing to price at or below cost as they have in recent quarters.

Construction Activity. Builders of single-family homes report little change in construction activity from September as new orders continue to decline. Although the third quarter is typically a slow quarter for new orders, this year's third quarter new orders were off by about 15% from last year. Nevertheless, builders report their earnings are stronger for this third quarter than a year earlier because they are still working to complete the order backlog accumulated this past Spring. Realtors attribute the September decline in sales to high mortgage rates. The only bright spot in the housing sector, according to builders and realtors, is an increase in traffic - interested buyers - which began near the end of September, and which may eventually result in actual orders and sales. Vacancy rates in commercial buildings remain extremely high with declines contingent on an improved local economy. Despite this high vacancy rate, construction is continuing on several office building projects throughout the District.

Commercial Banking. Banks in the Fourth District reduced their holdings of U.S. Treasury securities, state and local government securities and federal funds in recent weeks. An increase in loan demand, in conjunction with a marked slowdown in deposit growth, may explain the reduction in bank investments. Virtually all of the increase in loan volume at district banks was in the commercial and industrial loan category. All categories of deposits were essentially flat. Banks in the District generally have not been aggressive about the new deregulated time deposits and hence have not experienced much shifting of deposits and have not attracted new deposits.

COMMENTARY ON ECONOMIC CONDITIONS

FIFTH DISTRICT - RICHMOND

Overview

Economic expansion is continuing across a broad front in the Fifth District. In the manufacturing sector shipments and new orders have risen sharply in recent weeks, while employment and weekly hours have almost kept pace. Inventories are reported to be unchanged and are now nearly in line with desired levels. Retail sales also strengthened in recent weeks as both big ticket items and non-durables made significant gains. The consensus around the District appears to be that housing activity has hit a plateau and should hold near present levels, on balance, until spring. At the same time, commercial and industrial construction is expected to pick up slightly by year end. Expectations are also positive elsewhere, and overwhelmingly so among manufacturers.

Manufacturing

Among District manufacturers, shipments and new orders were up significantly from last month although order backlogs were down. Inventories showed virtually no change, either at the finished goods or materials level. Currently stocks are generally considered appropriate. Manufacturing employment and, particularly, the average work week, continued their month-to-month gains. There is still some support for the view that current plant and equipment capacity is inadequate and that existing expansion plans should be enlarged. There continue to be only scattered reports of price increases. A substantial majority of our contacts report stable prices, including employee compensation, in recent weeks.

Widespread optimism is still the prevailing attitude among District manufacturers. A large majority now foresee continued economic expansion nationally and in their respective localities and markets over the next two quarters. Almost none believes that activity will slow over that period.

Consumer Spending

Retailers also continue to report expanding activity in most areas and product lines. Widespread gains in sales are getting roughly proportional support from big ticket items. The brief slowing in durable goods reported earlier in the fall is now attributed to seasonal or supply conditions in the automobile sector where activity is once more reported buoyant. Also, retail inventories are continuing to accumulate rapidly, but without generating any particular concern among retailers. The number and size of outlets is also generally considered appropriate.

District retailers, while still optimistic, continue to trim their expectations. The most commonly held view at this time is that the level of activity will be little changed over the next six months, but no respondent expects the level to decline in that period.

Housing and Construction

Housing activity remains something of a mixed bag looking across parts of the District. The evidence, however is that in most areas this activity has regained the levels of mid-summer. In addition, the most common expectation is that these levels of activity will be sustained for sometime to come, at least apart from seasonal influences. There is little sense that any problem, even potentially, is posed by big current rates of accumulation of

new, unsold housing units. There is very little mention of mortgage rates these days.

Commercial and industrial construction activity is still picking up somewhat, but new activity is hardly robust. Once again, however, expectations are generally positive. Most respondents foresee continued modest gains in C&I construction activity in coming months. It should be noted, though, that office space remains in excess in some metropolitan areas.

Banking and Finance

Financial institutions have apparently tried very hard to expand loans recently. Several respondents have suggested the overall credit quality of their portfolios has declined as a result of their having sought ever wider circles of borrowers. At least partly as a result of these conditions in the loan markets, recent steps in the deregulation of deposits appear to have had little effect on either institutions or their customers. The most widely expected effect, judging from comments from around the District, is a longer term restructuring of financial institutions' liabilities. There is almost no expectation, however, of any significant short term changes.

SIXTH DISTRICT - ATLANTA

The southeastern economy is showing renewed strength. Labor markets in most areas and industries continue to strengthen. Demand for durable and nondurable manufactured goods is increasing. Retail sales in early autumn appear to be sustaining the momentum attained in late summer, and merchants foresee an excellent holiday season. Housing sales, aided by easing mortgage rates, pent-up demand, enhanced variable-rate mortgages, and government bonds, have revived somewhat after slowing in August and September. Deposit growth accelerated in September after rising modestly during the summer, but the rate of increase in loans, particularly to businesses, slowed substantially after several months of healthy growth. Consumer lending, however, continued to expand. The tourist trade overall remains ahead of last year, but South Florida, middle and east Tennessee, and New Orleans have yet to enjoy significant improvement. Drought and reduced acreage have cut farm production and sharply curtailed business volume for farm-related businesses, but most farmers should fare better than in 1982 because of the Payment-in-Kind (PIK) program.

Employment and Industry. Employment is rising in a variety of industries, and jobless rates have fallen significantly in most states. After a long period of weakness, Florida's phosphate industry is recalling furloughed workers in response to apparent stockpiling by farmers who anticipate fertilizer shortages because of sharply increased crop plantings next year. Textile employment has been growing by a moderate but steady pace, and hours and earnings in the industry are up sharply from last year. Carpet shipments from Georgia mills have been quite strong. These trends portend further declines in Georgia's unemployment. Alabama respondents, expecting recovery to stimulate the coal industry, believe that many closed mines will reopen soon. Huntsville's high-technology manufacturing base is expanding rapidly: two computer

companies plan to hire a total of 1,500 workers in the near future. Automobile assembly plants in Georgia are recalling workers, and two new auto parts plants will soon open in Tennessee. The aluminum industry's resurgence has sparked demand for refining and smelting products, thereby stimulating Louisiana's chemical industry.

Consumer Spending. Consumer spending appears to be maintaining the growth evidenced by August taxable sales, which were more than 10 percent ahead of August 1982. According to many retailers, September and early October sales exceeded last year's levels and surpassed many retailers' projections. Moreover, unlike last year, promotional sales are playing a negligible role in current activity. Some merchants in Atlanta and north Florida report strong sales and increased profit margins on appliances and electronics items. However, most retailers indicate that the strong showing of fall clothing and back-to-school merchandise accounts for much of the recent surge in sales. Merchants anticipate an excellent holiday season. Despite the reported scarcity of new vehicles at dealerships, recent car sales figures continue to exceed 1982 levels.

Construction. Housing sales, which fell in August when conventional mortgage rates approached 14 percent, rose modestly in September. Easing of conventional rates and stability in the FHA/VA rate helped rekindle sales. Realtors cite pent-up demand and buyer adjustment to higher interest rates as other factors in the quick revival of housing sales. Adjustable rate mortgages (ARMs) are becoming more popular because many potential purchasers are unable to qualify for conventional loans at the current rate and since lenders have incorporated rate ceilings into ARMs, thereby reducing the risk to buyers. In Knoxville, Miami, and Mobile, ARM s have recently outpaced conventional loans, according to several realtors surveyed. Home buyers in Alabama and Knox County, Tennessee, have been aided by special issues of local government bonds from which proceeds were dedicated to financing housing. Florida recently announced a similar measure to assist Jacksonville residents.

Commercial construction is on the rise for the third consecutive month. Nashville and Atlanta lead the Southeast in the development of new commercial projects. Realtors in those cities expect a continued strong economy to facilitate corporate relocations and prevent a potential glut of office space.

Financial Services. After growing slowly in July and August, deposits at thrifts and large banks escalated sharply in September. Large denomination, or jumbo, savings accounts of more than \$100,000 sustained the strong performance of August and, with 2 1/2-year small savers certificates, accounted for most of the growth in savings capital at S&Ls. Time deposits and jumbo CDs contributed the largest shares to September's deposit gains at banks. In contrast, loan activity at large southeastern banks slowed significantly in September after advancing throughout the summer. Business lending, which failed to register a gain from August to September, was the primary source of this deceleration. However, consumer lending increased in September for the seventh consecutive month.

A money center bank is backing Florida legislation to allow out-of-state financial institutions to establish de novo operations in the state, thereby permitting out-of-state banks to enter the market without acquiring existing institutions. The proposal is a response to a legislative initiative by Florida bankers to limit out-of-state banking to institutions from regional states with similar reciprocal agreements.

Tourism. The industry is entering its traditionally slow fall season after a summer that proved to be generally positive, except in south Florida, middle and east Tennessee, and New Orleans. Hotels and motels increased revenues in August even though occupancy levels were below comparable 1982 levels in many District cities. Hotel construction in central Florida and the apparently rapid absorption of expensive resort properties along Florida's north Atlantic coast augur continued growth in these areas. Attendance at most national park facilities and many private facilities also rose

in the late summer relative to last year's figures; early fall attendance at private attractions that have added new exhibits, rides, or facilities is up over year-ago levels. However, heavy rains in August reduced visitation to state parks 5.7 percent below August 1982 levels, and industry representatives indicate that fewer people visited many older Florida and Tennessee attractions than last year.

Air travel continues to strengthen from 1982 levels at most of the region's airports. Moreover, service to smaller cities continues to expand. Convention trade is reportedly rising compared to last year in New Orleans. The planned opening of more than 12 non-chain restaurants in the city during the remainder of 1983 betokens great confidence in the future of its tourism and leisure industry. The expansion and upgrading of a major hotel in Nashville should boost convention traffic after a sluggish summer, but contacts there expect little substantial improvement until 1984. In Miami Beach, increased business travel has helped offset the effects of fewer convention delegates.

Agriculture. As a result of drought and idled acreage, revenue from major crops this year is projected to be \$5.2 billion, or 7 percent less than in 1982. The impact of the PIK program, however, should result in a 23 percent (\$307 million) increase in net revenue above operating costs. District soybean production has fallen 42 percent from 1982 levels, but higher prices are likely to generate a 3 percent (\$17 million) gain in net revenue above operating costs. Soybeans are the prime cash income crop in the Southeast. Most other regionally significant crops suffered similar drought-related productivity declines, and farm-related businesses are experiencing severe losses in volume and income. Producers of peanuts and tobacco, two important crops not covered by the PIK program, sustained especially heavy income losses because of the drought.

SEVENTH DISTRICT--CHICAGO

Summary--A Better Look. The economic picture in the Seventh District brightened significantly in the past six weeks. Morale has improved and more consumers and businesses are activating deferred spending plans. The recent monthly meeting at the Federal Reserve Bank of a group of economists representing leading District companies was the most positive in at least two and one-half years. Most of those present reported gains in demand and there were few new weaknesses. Also in October, purchasing managers' associations in Chicago and Milwaukee reported accelerating orders, output, and employment for September. Leadtimes on new orders have stretched out further, backlogs are rising, and more price increases are occurring. Retail sales are strong, but less so in the District than the U.S. Inventories, in all but a few lines, remain lean, but are increasing in line with activity. Steel orders are rising, but still concentrated in the lighter grades. Residential construction plans have been dampened by high interest rates, probably more here than in the nation, but commercial construction has shown new strength.

But Far Short of Prosperity. The recent improvement in District activity should be kept in perspective. This region is still generally depressed. Its performance gap relative to the nation probably has widened during the recovery. Despite increased hirings, jobs are still hard to find. Where increases in demand for manufactured goods have been substantial, activity usually remains far below the peaks of the late 1970s. Agri-business remains very depressed despite prospective gains in farm income. The high value of the dollar continues as a powerful restraint on exports while encouraging imports. With the exception of a boom in truck trailers, orders for capital goods produced in

the District have not improved much from the depression levels reached earlier in late 1982 or earlier this year.

Improvement in Chicago and Milwaukee. Monthly reports of purchasing managers in Chicago and Milwaukee have shown a gradual strengthening trend this year. In most respects, reports on September developments were the most vigorous of the year. Chicago managers found the area's economy "forging ahead," with "surging production" and "strong backlogs." The Milwaukee report showed "substantial improvement" with the highest proportion of respondents reporting higher production and new orders than at any time since the monthly survey was started in 1969. This recent improvement was from a very low base. Activity is still far short of prosperous levels. Perhaps the most significant aspect of these reports is the evidence that badly eroded confidence is rebuilding.

Jobs and Income. Employment has increased gradually in the District since last December, but probably not as fast as in the nation. Total payroll employment in the five-state area is still about 9 percent below the level of 1978-79. Manufacturing is off about 22 percent. Hiring intentions surveys and help-wanted ad volume indicate further gains for the months ahead. Unemployment rates are down, but welfare rolls are at record levels. Many long-term unemployed who have lost medical insurance are relying on public health programs. Nonunion employers are planning wage and salary increases in the 5½ to 6½ percent range for 1984, less than in past years, but surprisingly large in view of the weak job market. A number of long strikes are in progress in manufacturing, with unions resisting concessions on wages, benefits, and work rules. Chicago teachers settled a record 15-day strike on

October 24, gaining a 5 percent salary boost, for which funds are not yet available. Their average salary is about \$26,000 with liberal benefits. They eventually will be paid for all but one of the strike days.

Autos. Demand for cars strengthened dramatically in the summer and continues unabated in October. Dealers speak of "desperate" shortages of popular cars. Stock-outs of large, rear-drive, 8-cylinder cars have caused dealers to quote three-month delivery times--a situation unknown for many years. A similar problem exists for some Japanese models. Producers did not foresee this surge in demand for large cars. They are striving to boost production, hampered by some "quality problems."

Capital Goods. Truck trailer producers are expected to operate at capacity well into 1984. Mostly, this reflects the new size limits, but analysts believe that underlying demand also is improving. Companies report scattered increases in demand for communications equipment, heavy trucks, materials handling equipment, and a variety of components. Sales of equipment for mining, rail transport, marine transport, construction, agriculture, and metalworking have remained poor. With some exceptions export demand is "terrible." Much good used equipment is available at bargain prices. Capital expenditures of most firms are concentrated on outlays for replacement and modernization, including computers and other electronic equipment, rather than major new facilities.

Steel. Orders for steel have improved, but demand is still concentrated in lighter products with plates and structurals very slow. Order leadtimes for cold-rolled sheet and coated sheet are out three months, as far as bookings are taken. Some idle finishing capacity is being activated. Demand for

steel for frames for trucks and large cars is strong. Shipments to service centers are up "sharply." Demand for oil pipe and railroad rails increased recently from very low levels. There is no evidence of inventory building by customers.

Retail Sales. Colder weather brought immediate gains in sales of fall and winter apparel. Consumers are in a confident mood and are using credit freely. According to big chains, sales are up less in the Midwest than in the rest of the nation. Inventories are tight and some sales may be lost if the Christmas season is strong, as is generally expected. Gains over last year's poor performance are likely to be substantial. Wholesale prices of general merchandise are expected to increase somewhat faster in 1984.

Housing. Residential construction in the District continues well above last year's extremely depressed level, but has probably declined since midyear after allowance for seasonal trends. Rates on fixed-rate, long-term mortgages are now in the neighborhood of 13.5 percent. Variable rate mortgages are offered at about 150 basis points less, but are shunned by most home buyers. A wide variety of plans are offered. A general easing of terms probably is necessary to keep residential construction from declining further.

EIGHTH DISTRICT - ST. LOUIS

Summary

Economic expansion continued during September and October in the Eighth District, but the pace of the advance moderated. Retail sales continued brisk, and the outlook is for a banner Christmas season. Factory orders and production crept up, manufacturers' inventories changed little, and capital spending plans were revised upward at a few firms. Total employment increased, but with a rise in the labor force, the unemployment rate declined only slightly. Construction activity and auto sales remained strong.

Consumer Spending

Respondents throughout the District report that retail sales have continued to rise since August. Sales at six major department stores in September averaged 11 percent above the same month a year ago, and early October receipts continued lively. Some smaller stores had even larger year-over-year sales gains. Apparel and home furnishings moved particularly well. Respondents attribute the better spending trends to improved shopping weather, rising consumer incomes, increased job security, and retail promotions. Merchants anticipate an excellent Christmas season and are increasing inventories moderately based on these expectations.

Sales of both new and used automobiles remained favorable in September and early October. A major St. Louis dealer sold more than double the cars sold in the same period last year, and six other dealers reported year-over-year gains averaging 21 percent. All reported that sales were made with fewer price concessions. Truck sales also were improved.

Manufacturing

Orders and production at most industrial firms in the District have risen since August, but the rate of gain was slower than during the spring and early summer. The demand for consumer goods expanded at a reduced pace. Orders for business equipment inched up slightly after remaining depressed during most of the economic recovery. On the other hand, some defense business has ceased increasing. Most respondents anticipate a continued moderate growth in sales in 1984. Some manufacturers sought to build inventories selectively, but with the continued rise in sales, inventories were little changed. A few firms revised their capital spending plans upward slightly, and research and development budgets for 1984 are greater than in 1983.

Employment

Employment in the District rose in September and October, and the outlook is for further gains in the remainder of the year. The unemployment rate, however, decreased only slightly as the labor force continued to expand. Since late summer, the major hirings have been in the automobile and construction industries, but many manufacturing and transportation firms have added marginally to their work forces. Two large District employers announced that they will increase their staffs significantly in November and December, and retailers are planning to hire more than they usually do to accommodate the Christmas rush.

Real Estate and Construction

Residential home sales in the District during September and early October remained below the peaks reached last spring but were still above year-ago levels. Construction of homes, however, continued at a rapid pace in response to the backlog of orders. Costs of construction

changed little, with lumber prices declining and labor costs rising only moderately. Industry spokesmen expect that sales and construction of new homes in the St. Louis area during 1984 will be 10 percent greater than in 1983. Commercial construction has remained strong since August at about the same pace as earlier in the year.

Finance

Real estate and consumer loans remained about unchanged at large weekly reporting banks in the District during September and early October, while commercial and industrial loans rose seasonally. Demand deposits jumped 8 percent, but time deposits changed little.

Reports from eight savings and loan associations in the Louisville and Memphis areas indicate that outstanding real estate loans rose moderately in September. Withdrawals of deposit accounts approximately matched new savings received.

Agriculture

Farmers in the District this summer experienced the worst drought in 50 years, which reduced drastically the yields of corn, soybeans, tobacco and cotton. Because of these lowered yields and the reduced acreage planted under the PIK program, supplies of agricultural commodities have been limited, driving up grain prices. Because of higher feed costs, many cattle and hog producers have slaughtered more animals than usual. This increase in meat supplies has placed some downward pressure on current meat prices. With fewer animals for slaughter in the future, however, red meat prices are expected to rise in 1984 about 15 percent from current levels.

NINTH DISTRICT - MINNEAPOLIS

The recovery is continuing in the Ninth District, although it no longer appears to be gaining momentum. With the harvest of major cash crops almost complete, farm earnings seem unlikely to slow the pace of the recovery. The strength of consumer spending is also consistent with continued recovery. The employment picture still looks good as well, and there is some scattered news of expansion in manufacturing and mining. However, no clear trend is evident in district financial activity.

Agriculture. For the most part, district agricultural conditions continue to promise healthy farm earnings. While corn may not contribute to earnings as much as previously thought, income from soybeans looks better than expected, and the outlook for wheat is also good. Livestock profits continue to suffer, but some improvement is anticipated.

The expected yield for corn in Minnesota was recently revised downward 9 percent because of corn borer and windstorm damage. This represents a loss of \$132 million at current prices. Even though Minnesota's corn harvest is down about 45 percent from last year's level, corn still ranks as the state's largest cash crop and is expected to bring receipts of \$1.35 billion. One reason for the reduced harvest, though, is the PIK (payment-in-kind) program, which will swell farm income. This will partially offset the losses due to the small harvest.

Soybean yields in Minnesota and South Dakota are exceeding expectations, and prices remain good. Many Minnesota farmers are reporting yields well in excess of the previously forecast 31 bushels per acre, and a Bank director reports that South Dakota yields are around 35 bushels per acre.

Soybean prices are also strong, in part due to low crop output in much of the rest of the nation.

The wheat crop has been generally favorable in Montana and North Dakota. Bank directors report that the yields were good in eastern Montana and excellent around Bozeman. Wheat prices are generally running a little higher than last year in Montana. While the amount of wheat harvested in North Dakota was below the ten-year average, its protein content and overall quality were good.

Although livestock operators are continuing to be hurt by high corn costs and low cattle prices, they are expecting some improvement. The outlook for feeder cattle in Montana "may not necessarily be too bad," according to one Bank director. But livestock prices are still low. Reflecting these low prices, our recent survey of Ninth District rural bankers indicates that pasture and grazing land values fell 4 percent from March to September.

Consumer Spending. Consumer spending for general merchandise, motor vehicles, and housing appears to be maintaining the strength evident last month.

Retail sales in the Ninth District seem to be holding firm. A prominent bank holding company economist states that "we've seen considerable strength, much stronger than the nation," in the Twin Cities retail scene. One large Twin Cities retailer reports September sales 23 percent higher than last September. Another big Twin Cities chain reports a 20 percent increase for this 12-month period, its "biggest increase in many years." Also, Bank directors report brisk retail sales in the rest of the district.

The district's motor vehicle sales are also strong. For one large domestic manufacturer, truck sales were 23 percent higher and auto sales 7 percent higher this September than last. Auto sales in South Dakota were up 15 percent over the same period. Bank directors report that auto sales are going well in Montana and are up in economically depressed Upper Michigan, too.

While housing activity may have slackened from its torrid pace of earlier months, it remains better than a year ago. In August, residential building contracts in Minnesota nearly doubled compared with last August. The Minneapolis Board of Realtors reports that 25 percent more housing units were sold this September than last. But many homes have been pulled off the Twin Cities market in recent weeks due to lack of demand.

Employment. While the evidence is mixed, the most recent statistics indicate that the district employment picture is stable. In August, Ninth District employment rose only slightly to a seasonally adjusted 3.12 million, and the unemployment rate also rose a bit to 8.15 percent. However, a regional economist for a large area bank believes that the strike by 8,000 AT&T workers could have accounted for the smallness of the employment increase. Minnesota unemployment claims rose substantially in August, but a state analyst believes that the seasonal adjustment was "so atypical it would throw everything off." The unemployment rates in North and South Dakota were only 4.2 percent and 4.3 percent, respectively. The Sioux Falls SMSA recorded an unemployment rate of 3.2 percent, which was the nation's lowest. However, some parts of the district continue to report problems. A large manufacturer in Upper Michigan recently announced a big layoff, and northern Minnesota's recovery lags behind the rest of the state's.

Manufacturing and Mining. There are some signs of expansion in these vital sectors. The good news in Minnesota is Ford Motor Company's decision to increase employment by 270 workers soon and to spend \$250 million expanding its St. Paul assembly plant, which will create another several hundred permanent jobs. Also, printing and writing paper manufacturing facilities in the district are currently running at 100 percent capacity. While about half the plants in northern Minnesota are still inoperative, an iron pellet plant in that area is hiring back a large number of workers this month. Finally, although a Bank director finds that coal production was a little lower in Montana this August than last, he notes that oil and gas activity increased somewhat.

Finance. Financial sector activity is not moving strongly in either direction. District bank deposits and loans were down in September, but they appear to be rebounding in October. Our recent survey of district rural bankers indicates that in the third quarter the demand for new agricultural loans remained low to normal. It also indicates, however, that at the same time the demand for refinancing of existing ag loans--though still somewhat above normal--dropped sharply.

TENTH DISTRICT--KANSAS CITY

Overview. Reports from the Tenth District indicate further moderate improvement in economic conditions. Retail sales continue to improve, with generally stable prices. Prices of industrial inputs have shown recent increases, however. Inventories of industrial inputs and of retail goods are regarded as satisfactory, except among automobile dealers. Both housing starts and house sales have weakened, as have savings inflows to savings and loan institutions. Fall crops suffered from drought and other factors, and livestock prices are falling as marketings increase. Both bank loan demand and bank deposits have increased recently.

Retail Trade. Total dollar sales in the first nine months of 1983 increased up to 7 percent over the same period last year, with widespread improvement reported for the past three months. Prices have been generally stable in 1983 and are expected to remain so through the end of the year. Inventory levels are reported to vary from satisfactory to a little high. A normal seasonal upturn in sales is expected for the rest of 1983, with the national recovery expected to contribute to further improvement.

Automobile Sales. Automobile dealers throughout the Tenth District report improved sales in 1983 from weak year-earlier levels, with the strongest gains occurring in Missouri, Kansas, and Colorado. Sales of domestic and import models are still being suppressed by low inventories. Easing of automobile credit conditions is evident in more aggressive marketing of automobile financing by banks. Banks are also soliciting loans to finance dealers' floorplanning. The outlook for the 1984 model year is very good, especially for mid-size to large-size cars, which is expected to increase the domestic share of the market.

Purchasing Agents. Almost half of the purchasing agents contacted report substantial increases in input prices since October of last year. In the past three months, almost all have experienced increases in the prices of their major inputs. But on average, little or no further change in input prices is expected through the end of the year. Few difficulties are being experienced in getting materials and none are expected through the remainder of 1983. In general, materials inventories are at satisfactory levels. None of the respondents are experiencing bottlenecks due to internal shortages of labor or plant capacity.

Housing Activity and Finance. Housing starts have been slowed by recent increases in mortgage rates, and further slowing beyond the usual seasonal decline is expected in the months ahead. The rate of new home sales remains relatively strong. New home prices have increased by 5 to 10 percent this year. Materials prices are slightly higher than a year ago, although lumber prices have declined somewhat since summer. Materials price increases are expected to be modest the remainder of the year. Savings inflows into savings and loans have declined from their rapid first half pace and are expected to be about the same this year as last. Rates on variable rate mortgages currently range from 11.5 to 12.5 percent, while fixed rate mortgages carry rates ranging from 13.75 to 15 percent. Interest rates are expected to vary around current levels with no clear trend through yearend 1983.

Agriculture. Agricultural conditions vary widely across the Tenth District, but most bankers report that the summer drought has aggravated conditions in an already depressed farm economy. Although irrigated crops throughout the district produced record yields, Kansas, Missouri, and Oklahoma were severely affected by the summer drought and experienced large yield losses in fall harvested crops. All fall harvested crops were adversely

affected by insect damage. Furthermore, New Mexico's milo, peanut, and cotton crops were reported to have been damaged by premature frost and hail. The planting of winter wheat is nearly complete in most district states and the crop is generally reported to be in good condition. But in isolated parts of Oklahoma, winter wheat may need to be reseeded due to recent flooding.

Livestock prices continue to fall as marketings have increased due to rising feed costs and poor pasture conditions. No widespread liquidation of herds, however, is reported. Sales of farm equipment and farm inputs continue to be abnormally slow. The expected yearend increase in demand for farm equipment has not yet materialized, and probably will not. While some bankers in the Tenth District are optimistic about agriculture in the coming year because of high grain prices and fairly good yields, many others report an increasing number of problem loans and farm foreclosures.

Banking. Loan demand at Tenth District banks has increased slightly over the last month. Half of the respondents report an increase in commercial and industrial loans and a third report some increase in residential loans. The volume of consumer loans and agricultural loans has remained essentially unchanged. Almost all respondent banks have experienced an increase in total deposits during the last month. In most cases, this has been due to an increase in demand deposits. Conventional NOW accounts, Super-NOW accounts, MMDA's, and large CD's show little or no change. There has been relatively little response to the October 1 deregulation of small time deposits. All but two respondent banks indicate that they are not actively promoting the new, deregulated deposits. Most banks are paying about the same interest rates on the new deposits as they had been paying on the regulated deposits, and only a few banks have reduced their minimum deposit requirements. Consumer interest in the deregulated deposits has been weak, and most of the funds invested in them has come from the rollover of previously regulated time deposits.

ECONOMIC COMMENTARY

ELEVENTH DISTRICT—DALLAS

The expansion of the Eleventh District economy is broadening, but the rate of growth is slowing. Total manufacturing production continues to advance, but the growth in demand at aluminum and electronics firms has slackened. Retail and auto sales are increasing throughout the District and retailers expect Christmas sales to be the best in three years. Residential construction is slowing from record levels, but this is partly seasonal. Commercial construction, increasing overall, is still slow in energy-dependent areas. Business loan demand at large banks is up as is total loan demand at member banks. Higher crop prices are maintaining farm income despite losses by livestock producers.

Moderate gains in manufacturing production continue. Orders for aluminum are still increasing but at a decreasing rate. Capacity utilization and profit margins are also rising. Electronics firms report that orders are not increasing as fast as they had been. The level of orders, however, is high enough to increase backlogs. Capacity is being expanded and prices are trending up. Buoyed by strong Christmas orders, apparel production is still increasing and respondents are optimistic about the level of spring orders. Production at copper mills has picked up and most plants have now reopened. Steel demand is stable despite the continuing drag from the depressed oil-field equipment sector. Orders and prices at lumber and wood product mills are lower and trending down. Inventories are rising, and in response, production is being cut back. This production decline is in part seasonal although respondents also cite

the summer slowdown in residential construction resulting from higher mortgage rates.

The number of active drilling rigs in the District rose considerably throughout September and early October. Texas' rig count is now substantially above the year-earlier count. The utilization rate of oil-well servicing rigs also increased significantly in the last two months. Servicing companies are still experiencing low or negative profits because of intense price competition in bidding for servicing contracts. More bankruptcies are expected in this sector of the energy industry.

Department store sales for the District based on year-to-date figures continue to be weak, but an upward trend has emerged. Sales figures for the four weeks ended October 15 reveal increasing strength in the Border and Gulf areas. Other areas are registering strong sales gains both from earlier months and from last year. Respondents, citing renewed consumer confidence, are very optimistic about Christmas sales.

Auto sales are still strong throughout the District. Dealers in Dallas posted the best year-to-date sales increase in ten years. Auto sales in the Houston area are still down on a year-to-date basis, but in September, sales were up from the year-earlier level. Recent gains have been attributed to growing consumer confidence. Current sales and traffic levels have made dealers optimistic about sales during the final months of 1983.

Residential construction is slowing. Closings of single-family homes reached a record in August but sales contracts have since declined. Respondents indicate that this is largely seasonal, but they also point to the more permanent effect that higher mortgage rates are having on home

sales. Home prices and input costs are generally stable to up slightly. Multifamily starts declined further in September and October, but the large number of permits taken out in the late spring and summer should maintain a steady rate of construction activity during the next several months. Occupancy rates are declining and rental rates are stable. Multifamily starts should continue to slow as concerns about overbuilding increase.

Commercial construction is increasing. The year-to-date value of permits in Dallas is 18 percent ahead of last year's. These figures do not include three major office projects that were recently announced. Since the last report, there has been very little change in the Houston construction market. Some retail activity is occurring, but no major office projects are being started. The year-to date permit value for commercial construction in Houston is well behind last year's. Most other District cities are reporting increased activity.

Loan growth at member banks picked up in September from the modest pace reported in August. Large banks had a sharp increase in business loan demand while the rapid growth in real estate lending continued. Nonperforming loans, particularly in the energy sector, are holding down bank income. Deposit increases remain small at member banks. Banks have been relying more heavily on borrowed funds. Demand and savings deposits rose moderately, but a sharp decline in jumbo CDs at the large weekly reporting banks reduced time deposits at District banks.

TWELFTH DISTRICT -- SAN FRANCISCO

The economic recovery in the Twelfth District is continuing with very strong growth in retail sales for a wide range of products in most areas. Employment growth was very strong, especially in California, where September employment increased by 2 percent (184,000) and the unemployment rate declined by a full percentage point over August levels even though the labor force grew by 77,000. This more than made up for California's August decline in employment. The deregulation of time deposits has had a modest but significant effect on these balances, particularly shorter-term deposits. However, the effect of deregulation on time deposits is expected to be much less than on MMDAs and super NOWs.

Consumer Spending

Respondents throughout the Twelfth District generally report that consumer spending on a wide range of products continues to grow at a very high rate with sharp increases in September. Sales appear to be higher in most areas of the Twelfth District across a broad array of consumer goods including home goods, soft goods, and autos. Auto sales were mentioned by several respondents as being especially strong with shortages of many Japanese models due to strong demand and import restrictions. Employment in retail stores also was increasing in some areas and retail loans and credit card sales were up compared to last year. Respondents attribute increases in spending to pent-up demand, declining unemployment and increasing real income.

Manufacturing and Mining

Although total employment generally increased in the Twelfth District, with especially strong growth in California, manufacturing employment growth is

weak and employment in mining has actually been declining. In fact, the closure of a copper smelting operation in Ely, Nevada has seriously depressed local economic conditions. Manufacturing employment in the lumber-and-wood products industry increased somewhat, although this industry is far from strong with some plant closings still occurring. There was improvement in the transportation equipment sector. Even though the domestic market is weak, sales of aircraft on the foreign market has improved, boosting production. The aluminum industry continues to improve, and several companies are reopening smelters.

Construction and Real Estate

Housing starts in the West declined in September over the previous month's level. Some respondents indicated that the inventory of new housing also remained high due to the recent rise in mortgage rates. Sales are reported to be much lower than in previous months. However, commercial real estate sales and rental activity are reported to be strong.

Agriculture

In general, California farming has held its own this year with net farm income up slightly, although there have been problems due to weather with some crops such as grapes, cotton and almonds. However, losses due to weather damage may be partially offset by higher prices. In Oregon, net farm income is expected to be down by as much as 5% to 10% compared to last year. A bright spot appears to be Idaho, where there are record wheat, barley, and almost record levels of potato crops.

The PIK program was probably a major factor in increasing the incomes of grain, rice, and cotton producers. The PIK program along with the Midwestern

drought, however, has probably had a negative influence on beef and dairy producers because of the resulting increase in feed grain prices.

A local Southern Idaho Production Credit Association (PCA) failed due to loan losses and was taken over by the Farm Credit Administration. There have been similar steps taken by the Farm Credit Administration at four other market associations during the past year. Some farmers are worried about the effects of these failures on 1984 crop financing.

Financial Institutions Summary

Competition for consumer-type deposits following the October 1 deregulation of small-denomination time deposits has been considerably less intense than that following the introduction of MMDAs and super NOWs. The incidence of bonuses and premium rates is low. However, a number of institutions (savings and loan associations, in particular) have lowered the minimum denomination requirements on various time accounts.

Inflows to these accounts since the beginning of October have been modest in comparison with the surge in MMDA balances recorded in January. Nonetheless, the growth in these balances during the first few weeks of October has been significant, particularly in the shorter maturity range. This may reflect an increased desire to hold shorter-term deposits due to uncertainty regarding the future level of interest rates as well as the lowering of minimum denomination requirements. Shifts of funds out of MMDAs do not appear to be the source of this growth, as the growth in MMDA balances has also resumed after tapering off during the third quarter. While early growth figures are encouraging, most observers in the industry do not expect these newly deregulated accounts to generate substantial inflows of new funds.