TABLE OF CONTENTS

SUMMARY*

<u>Introduction</u>. The expansion continues in all Federal Reserve Districts, but with variations in vigor among regions and sectors. Several banks emphasize a revival of consumer and business confidence, and widespread views that strong momentum will sustain the recovery through the year. Virtually all sectors are expanding or at least holding level, with oil and gas well drilling a significant exception. Geographically, the strongest gains are occurring on the West Coast, with much of the Midwest and Northeast still reporting substantial slack in durable goods manufacturing. Almost all districts noted exceptional strength in retail sales, often exceeding expectations. Demand for housing also is showing surprising strength, helped by wider use of adjustable rate mortgages. Capital expenditure plans are being raised cautiously, with emphasis on productivity and cost cutting. Employment and consumer income are rising at a good pace, but job markets are still generally soft in many northern states. Inventories, overall, remain quite low relative to sales. Inventory rebuilding is expected, mainly at the retail level. The farm sector remains depressed, but is being aided by higher prices and increased plantings. Pressures are building on capacity in some industries. Some shortages are reported. Price inflation is accelerating, but still only moderately overall. Credit demands are stronger, especially for home mortgages and installment loans.

<u>Retail Trade</u>. Consumers continue to lead the expansion, increasing spending since the turn of the year more than had been expected. While all products are selling well, the list is headed by larger domestic cars,

---

*Prepared at Federal Reserve Bank of Chicago imported cars (limited by quotas), small trucks, appliances, consumer electronics, furniture, and recreational equipment. Philadelphia and San Francisco report a rising share of retail sales on credit.

Housing. Demand for new and used homes continued "surprisingly" strong in January and February. The housing revival has been particularly vigorous in the West. Cleveland reported a leveling in activity. Stronger than expected buying is widely attributed to adjustable rate mortgages offered at interest rates initially well below those charged on fixed-rate mortgages. Richmond notes a revival of speculative building, in anticipation of strong spring sales. Atlanta notes a sharp drop in permits for multifamily construction, as first-time buyers move out of apartments. Dallas also reports concern about overbuilding of multifamily structures.

Employment. Job markets have strengthened in all districts, but unemployment remains disturbingly high, especially north of the Ohio river. Cleveland reports that cautious employers are increasing use of overtime and part-time help in preference to permanent increases in force. Chicago notes much slower advance in wages than in past years, and widespread moves to curtail non-wage benefits, especially soaring medical costs.

Manufacturing and Mining. Factory output continues to advance on a broad front. Output of some car and truck models is at capacity, restricted by component availability. District reports tell of strength in paper, carpets, farm chemicals, and fertilizer (Atlanta), defense and high tech capital goods (Boston, New York, and Minneapolis), and lumber, aircraft, and missiles (San Francisco). One of the few weak areas is oil and gas well drilling (Dallas), with associated manufactured goods. Steel is up sharply from the low point, but still far below capacity. Agricultural equipment output remains at low levels.

Capital Goods. The upturn in outlays for business equipment, earlier concentrated in electronic types, is becoming more widespread among heavier mechanical equipment. Further improvement is expected. A few capital goods industries are operating near effective capacity, but most are well short of these levels. Investment is frequently oriented toward controlling costs and enhancing productivity, rather than adding to capacity. Industries experiencing strong demand or sharply improved orders include electronics and robotics, heavy trucks, trailers, and aircraft. Machine tool orders have improved modestly, restrained by severe foreign competition. Orders are also up for freight cars, construction equipment, and mining equipment, but remain far short of prosperous levels.

Nonresidential Construction. Although office building construction continues strong in Chicago, New York, and Dallas, there are fears of excess space in some areas. San Francisco sees a strong rise underway in shopping centers and hotels. Richmond notes an improving outlook for commercial construction. With manufacturers' capital spending mainly to improve productivity, factory space is still generally ample. But some firms are expanding. San Francisco indicates that electronics and defense suppliers are investing in new structures. Most firms, however, are reluctant to add new space or even bring marginal facilities back on stream. An expected increase in highway construction this year may be hampered by Congressional delays in approving funding.

Agriculture. Higher farm prices and increased plantings, mainly because of the expiration of the PIK program, suggest a stronger agricultural sector in 1984. However, farmers continue under financial stress. Atlanta reports a high rate of farm loan delinquencies, especially on government agency loans. Kansas City finds farmland sales slow and values soft. Chicago mentions the low sign-up for the new dairy program intended to reduce the milk surplus. San Francisco reports plantings of fruits and vegetables going well, with good prices for produce, partly because of the freeze in Texas and Florida.

Inventories. Manufacturers and trade firms are keeping inventories at low levels relative to activity. Boston, New York, and St. Louis report retailers building stocks to accommodate stronger sales. While most companies say inventories are at "acceptable" levels (Richmond) or "satisfactory" (Kansas City), leadtimes are increasing and some shortages are evident. A number of districts report low inventories of motor vehicles--especially imported cars--electronic components, paper and paperboard, and gypsum board.

Inflation. Prices are rising at a faster pace, but still not to an alarming degree. Philadelphia and Kansas City state that purchasing managers expect prices to rise faster as the year moves on. Higher prices are related to shortages and longer leadtimes, which reflect pressures on capacity. So far the largest price increases have been for purchased materials, but increasingly tags are being raised on finished goods. Chicago finds large rate increases under discussion for electric utilities and telephone service. College tuitions have been boosted sharply. Cleveland states that price increases for tires have been held back by availability of imports, an observation that also applies to a wide range of products.

FIRST DISTRICT - BOSTON

Economic activity continues to expand in the First District. Retailers report strong sales gains and they are optimistic about the rest of the year. Several plan major capital expansions. Retail inventories have increased, but this is considered necessary to achieving ambitious sales targets. Manufacturers are seeing substantial order increases. The improvement is broad-based, although machine tool manufacturers continue to operate at depressed levels. Manufacturing respondents report that both their own inventory-to-sales ratios and those of their suppliers are low and likely to stay that way. A lot of attention is being given to inventory management. Capital spending plans have increased; the emphasis remains on productivity enhancement.

Retail

Retailers in the First District report strong performance totals at the close of fiscal year 1983 and continuing through February. Hardgoods remain the best sellers. Inventories are somewhat higher than last year, but this is not a cause for concern. All the merchants contacted are optimistic about 1984: some have significant capital spending and expansion plans.

Retail chains in several very different lines of business reported very strong earnings and sales increases. In two cases the fiscal year ending in January brought record profits. The largest sales increases were for hardgoods, but apparel also exceeded plan in several stores. Overall sales gains for the year and February ranged from 8 to 19 percent.

Inventories in some stores are above last year, but this is seen as a service improvement and a necessary part of planning for aggressive sales growth. The outlook for the year is generally very good. One contact has a store expansion scheduled for late this spring; two major chains plan to increase substantially their number of stores in the coming year.

Prices are increasing only slowly. According to one merchant, prices this spring are 2-2 1/2 percent above last year; another said that of an 18 percent sales growth rate, fully 95 percent was increased unit sales, not prices.

Manufacturing

Manufacturing orders and shipments are increasing. With the important exception of machine tools, most of the manufacturers contacted describe business as very good. The strength is quite general, but some high technology products and materials and equipment for the auto, appliance, defense and electronics industries are selling particularly well. The machine tool industry has also seen an upturn but it has been modest and from an extremely low base; foreign competitors have made dramatic gains in market share in this industry in the past two or three years.

Manufacturers respondents are working with much lower inventory-to-sales ratios than in the past, and they are committed to keeping these ratios low. Their suppliers are doing the same. To satisfy customers with lower inventory ratios requires careful management and the firms contacted are asking their customers and are being asked themselves to forecast more precisely when components are needed. So far, the lower inventories have not created any significant supply problems, although there is a shortage of semiconductors.

Capital spending plans have increased. In a February survey of New England purchasing managers, 74 percent said their companies would increase capital purchases over the next 3 to 6 months. This is the highest percentage in four years. The emphasis in capital spending continues to be on productivity enhancement and cost saving rather than on expanding capacity, although several respondents are building new offices and some of the machine tool companies are consolidating operations to cut fixed costs.

Housing and Mortgage Rates

Homes are selling at a very vigorous rate, with one realtor describing the situation as "exceptional." Housing inventories are quite low in much of Massachusetts and Connecticut and prices are rising in these areas. In Rhode Island prices are more or less stable, but there too demand is strong and increasing.

Mortgage rates eased slightly from December to January. The effective rate in January on a 25 year mortgage with 20 percent down was about 13 1/2 percent. Adjustable rate mortgages have become much more popular in the past year and a half.

SECOND DISTRICT -- NEW YORK

Introduction

Economic activity in the Second District continued to expand during recent weeks though at a somewhat uneven pace. Consumer spending slowed in January, but rebounded the following month. Manufacturing activity showed further improvement. Several firms announced plans to build or modernize plants, and purchasing managers are increasingly optimistic about the level of orders in 1984. The demand for homes has picked up, and builders expect to be busy through the summer. On the financial side, District banks remain willing to accommodate the strong demand for consumer installment loans.

Consumer Spending

District department store sales slowed early in the year from their brisk holiday season pace, but regained momentum in February. Sales growth over year-ago levels generally ranged from flat to 10 percent in January and from 10 percent to 27 percent in February. In part, the large increases in February were due to a major snowstorn that hampered sales a year earlier. Even among individual retailers, the January-February period was marked by extremes. One major retailer, for example, reported January sales were little better than the year-ago level, but February's were 20 percent greater than in 1983.

In contrast to the past few months when inventories were generally satisfactory, two major retailers noted unexpectedly high inventory accumulation in January. One intends to increase promotions and markdowns in order to reduce the overstock, but the other anticipates sufficient sales volume in coming months to resolve the problem. In general, our contacts are optimistic about sales in the near future.

Business Activity

Manufacturing activity in the District continued to improve at the same moderate pace of the last few months. The automotive industry remained strong and two transportation-related companies recently announced sizable investment plans for the production of new engine and tire lines. Makers of defense products and capital good manufacturers also registered gains. In addition, some upstate areas report an upturn in specialty steel orders. Activity in basic steel remains sluggish, however, and plans to close a foundry were announced.

Firms in a variety of industries announced plans for new buildings or expansion and modernization of existing plants. These projects include a computer products facility, an accounting services firm, a glass manufacturer and a sheet metal plant. Moreover, surveys of purchasing agents and manufacturers in several upstate areas indicate a widespread optimism concerning the outlook for area businesses in 1984 and plans for additional capital expenditures.

Employment levels are now higher than a year ago throughout the District although many areas have not regained their pre-recession peaks. Unemployment rates generally are well below year-earlier levels.

Construction and Real Estate

Demand for new housing has been surprisingly strong recently, and some builders now anticipate even higher levels of activity than last year. Demand by interest-sensitive, middle income buyers is particularly apparent in the southern part of the District. Stable interest rates and greater acceptance of adjustable rate mortgages are two factors cited for the attraction of middle income buyers. Over the longer term, the level of residential construction is likely to be boosted in the next few years by a series of court decisions mandating new low and middle income housing in parts of New Jersey.

The nonresidential market has been mixed in the District. The demand for space in Midtown Manhattan improved further in recent weeks, and was characterized by one real estate broker as "fantastic". Downtown Manhattan is also active, continuing the pace of recent months. Many firms seeking large blocks of space are said to be negotiating leases. However, the market softened somewhat in suburban areas of Westchester and Fairfield Counties, and western Nassau County, where large amounts of new office space have recently come on line.

Financial Developments

Sizable deposit inflows during 1983 have contributed to banks' willingness to accommodate strong consumer loan demand. While profit margins on consumer loans have fallen somewhat because of the continued high cost of funds, banks are still competing aggressively for larger shares of the market. Noting that consumer demand for funds usually picks up in the spring, some banks plan special promotions in the near future to try to gain additional market share.

THIRD DISTRICT - PHILADELPHIA

The Third District economy has shown unexpected strength over the last six weeks. Local manufacturing posted gains in February, and retailers continue to experience surprisingly high levels of sales. In the financial sector, C&I loan activity is finally showing steady growth after months of disappointing performance. And, in the real estate industry, steady mortgage interest rates and some pent-up demand for homes have spurred sales since mid-January.

The outlook for the next six months is marked by general optimism but with a touch of caution. Manufacturers expect increasing activity into the summer and retailers foresee continued strong sales. Both bankers and realtors, however, have expressed concern as mixed interest rate forecasts lead to varied outlooks for the two industries.

MANUFACTURING

The Third District manufacturing sector posted further increases in activity in February, according to the most recent Business Outlook Survey. While February's gains were not as robust as the previous month's, over 37 percent of those surveyed reported an improvement in activity over very healthy January levels. Roughly 40 percent of manufacturers surveyed reported that new orders and shipments have continued to rise, while producers' backlogs and delivery times were unchanged. Inventories increased marginally, their first monthly gain since May 1981. As for employment, both payrolls and the length of the average workweek held steady at their January levels.

Despite less prevalent gains in manufacturing activity during February, the outlook for the next two quarters is even more optimistic than January's. Eighty percent of those surveyed expect their businesses to expand further by July, and the percentage of respondents planning to increase capital expenditures remains encouragingly high. Additionally, over 70 percent foresee continuing gains in both new orders and shipments into mid-summer. The employment picture also looks bright, with roughly half of the survey respondents expecting larger payrolls, and one-third forecasting a longer workweek by July.

Industrial prices continued their pattern of steady increases in February. Thirty percent of the executives polled said they were paying more for materials than in January, while only 16 percent reported receiving higher prices for finished products. The six-month outlook was virtually unchanged from January's; 84 percent predicted higher producer costs by July, and 61 percent anticipated receiving higher prices for their own products.

RETAIL

Third District retailers are enjoying continued success as early March sales are up an unexpected 20 percent over a year ago. Merchants credit the performance to unusually mild weather, the continued strength of the consumer sector, and low sales at this time last year. Despite such surprising robustness, retail executives report no shortages of merchandise. Leading sellers include men's & women's sportswear and "soft" home furnishings. Several store managers note that credit sales have increased recently relative to cash sales, reflecting what they feel is perceived economic security on the part of the consumer and the anticipation of tax refunds. No area retailers expect to levy a surcharge on credit purchases if Congress votes to remove the ban on such fees. They feel that credit surcharges would penalize the majority of their customers and have a devastating effect on sales.

Retailers say that current in-store promotions are typical for this time of year, but add that the general level of such promotions is on the rise as the industry becomes more competitive in the Philadelphia area. Many report that they are conducting extensive media advertising and will continue to do so in the future.

Looking ahead, merchants are uncertain over late March sales due to the late Easter season, but generally forecast sales to be 10 percent to 15 percent higher than a year earlier over the next six months. Accordingly, inventory plans, even those of traditionally conservative retailers, are very expansive for the same period.

FINANCIAL

Third District bankers report moderate but steady increases in overall loan activity since mid-January. Many contacts are pleased that, despite the prevailing strength in corporate liquidity, C&I loan activity has made steady gains since early January. Current levels of business loans outstanding generally range from 10 percent to 20 percent ahead of February 1983, although one smaller bank reports an 8 percent decline from last year. Reports on consumer lending are mixed; the majority of those contacted are experiencing a seasonal slowdown in retail loan growth, while others, who have been marketing consumer loans very aggressively and expanding their credit card operations, have experienced growth rates of up to 4 percent over the past six weeks. Current reports of consumer loans outstanding range from 12 percent to 40 percent over year-ago levels.

Encouraged by the recent steady improvement in the C&I sector, bankers predict moderate, but consistent commercial loan growth throughout the year, with forecasts ranging from 10 percent to 15 percent above same-period 1983 levels. Financial executives base their optimistic outlook on the continued strength of the economy, rising capacity utilization rates, and an erosion of corporate liquidity. The retail outlook is mixed, however, with buoyant consumer confidence offset to some extent by the spectre of higher interest rates.

Area banks are currently quoting a prime rate of 11 percent, unchanged since August 1983, but contacts anticipate some upward movement in rates for 1984. Most predict, however, that rates will do very little over the next six months as economic growth eases and Fed policy remains steady. It is during the last quarter of 1984 that local bank economists foresee increased borrowing demands, rising inflation, and tight Fed policy driving rates up by 25 to 100 basis points.

REAL ESTATE/CONSTRUCTION

Real estate and housing activity in the Third District has been flourishing since mid-January. February housing sales are up between 15 percent and 20 percent from a fair February 1983, although one major builder in New Jersey says his sales have tripled. Stable mortgage interest rates are cited as the primary reason for the recent surge in sales. Also mentioned as strong contributing factors are very mild mid-winter weather and significant pent-up demand from last fall when more widespread interest rate uncertainty kept many prospective buyers out of the market.

Homes in the $75,000 to $125,000 price range in the City of Philadelphia and in the $70,000-$85,000 range in suburban areas are exhibiting the strongest sales. Buyer traffic seems to be split along geographical lines; suburban contacts report that traffic has nearly doubled since early January, while Philadelphia realtors have seen the same number of, or fewer, customers. Inventories of unsold homes have remained at fairly constant levels despite the heavy sales, but contacts note that units are staying on the market for a much shorter duration.

Fourth District - Cleveland

Summary. District labor market conditions continue to improve but the unemployment rate remains high. Retail sales gains slowed in February and are expected to slow further in March. Manufacturing activity apparently increased less rapidly in February than in January. Purchasing agents report a few products in short supply, and firms in several key industries report some operations are at or near capacity limits. Nevertheless, many firms are reluctant to add to capacity. Lenders and builders report little increase in demand for mortgage loans and new houses. Commercial and industrial loan demand continues to rise.

District Labor Market Conditions. Labor market conditions in this District improved further in January. The unemployment rate in Ohio fell to 9.3% (s.a.) in January from 10.4% in December. In the last year Ohio's unemployment rate fell 4.7 percentage points while the U.S. rate fell 2.2 percentage points. Nevertheless, the Ohio unemployment rate is still 1.3 percentage points above the national rate. Unemployment rates in eleven major SMSAs in the Fourth District in December ranged from 8.1% (nsa) in Columbus to 13.3% in Youngstown.

Retail Sales. An economist with a national retail chain reports year-over-year sales gains slowed in February, and March sales should slow further even after allowance for Easter being later this year than last. He forecasts consumer spending to grow slower next quarter than this.

Manufacturing. Manufacturing activity continued to increase in February but at a somewhat slower pace than in January. Surveys of purchasing managers in the Cleveland and Cincinnati areas for February indicate production, new orders and backlogs rose from January. Employment rose from January but firms are increasing overtime, using temporary help, and only slowly recalling laid-off workers. Inventory levels for raw materials and supplies rose from January in Cleveland but fell in Cincinnati while finished goods inventories are unchanged. Respondents report lead times are lengthening for several products and suppliers are allocating inadequate supplies of integrated circuits, circuit breakers, coated paper, and stainless steel rod and wire. Buyers expect allocations to be imposed for shipping cartons and some fasteners.

Capacity Utilization. Major firms in several key industries report operations approaching capacity but few plan to increase capacity or to bring marginal facilities into production. There is also a preference to use overtime or to subcontract rather than to recall workers. There is skepticism that the expansion will continue long enough to justify new capacity, and a reluctance to add capacity to meet peak demand.

Two major tire producers report operating at capacity (running as many shifts per week as labor unions will agree to), and one is purchasing tires from competitors to meet customer demand. Capital spending is being used to improve efficiency. Some capacity is still available at other domestic tire producers, and growth of imports has restrained price increases. Nevertheless, prices have begun to firm and industry sources suggest that another price increase is likely in the months immediately ahead.

A paper box producer reports the industry's capacity utilization is in the mid-90s%. Some bottlenecks have appeared but the industry can increase production a little more before physical limits of output are reached.

A chemical producer reports ample capacity in that industry, weak prices, and little interest in adding new capacity.

The auto industry has plenty of additional capacity to produce some compact and subcompact cars but is operating close to capacity for mid- and standard-sized cars. The industry doesn't plan to reopen marginal plants because they expect demand to ease as the year progresses.

Truck producers report light truck (particularly 4-wheel drive) production at capacity, and shortages of axles because supplier capacity was cut during the recession. Heavy-duty truck production is at 90% of capacity, but one parts producer expects demand to fall in the second half of the year after a special sales incentive has ended. Medium truck production is at 70% of capacity.

The aluminum smelting industry is operating at about 83% of physical capacity. Prices have been flat since September. Demand for aluminum is stronger than demand for steel because aluminum is used more extensively in consumer products.

The steel industry is operating at 77% of capacity overall but production of flat-rolled steel, used in cars and major appliances, is at full capacity, and flat bar production is at full capacity at some mills. There is ample capacity to expand production of other steel items.

Electrical equipment producers are experiencing weak demand because electric utilities have ample capacity and the machine tool industry, a major customer, is having a relatively mild recovery. Producers of electronics are experiencing very strong demand. Producers of electronic chips and chip-making equipment are operating near capacity and are planning capacity expansions.

<u>Construction.</u> Despite the recent strength in housing activity nationwide, Fourth District lenders and home builders generally report little increase in demand for mortgage loans and new houses so far this year. Although the

acceptance of adjustable rate mortgages (ARMs) by consumers has increased (probably because the spread relative to conventional mortgage rates has increased to as much as 300 basis points at some lenders), speculation that government borrowing will increase interest rates has tempered demand for these instruments. Refinancing of existing mortgages appears to have slowed sharply from last year. First-time home-buyers appear to be seeking financing through builders that offer buydowns and below-market rates, while banks are servicing more of the move-up market.

Two commercial and industrial building contractors in the Cleveland area expressed optimism for 1984. Although the vacancy rate of newly constructed buildings is still relatively high, they expect that the glut of space will be substantially reduced by yearend.

Commercial Banking. Loan demand, particularly commercial and industrial loan demand, continued to increase at banks in the Fourth District in recent weeks. Demand, savings and small time deposits have increased only moderately. Banks have funded loan demand by stepping up their issuance of large denomination negotiable CD's and by reducing their holdings of short term Treasury securities and sales of Federal Funds.

COMMENTARY ON ECONOMIC CONDITIONS

FIFTH DISTRICT - RICHMOND

Overview

Nearly all the evidence suggest that activity in the Fifth District is continuing to expand at a fairly rapid pace. Manufacturers responding to our survey report widespread gains in new orders and order backlogs, and modest further increases in shipments. Inventories were virtually unchanged. Retail sales continue to record substantial increases month to month as well as year over year. In addition, the sales increases are spreading to nondurables, although big ticket items seem to be keeping pace. Construction is also providing continuing support to District activity, with strength in all sectors and in most geographic areas. Sales of residential property also remain quite strong, and builders clearly expect this trend to continue.

Manufacturing

Manufacturing activity has recovered from a brief mid-winter lull, and is showing considerable buoyancy in nearly every sector. Across the District new orders, order backlogs, and shipments were all up in the past month, with new orders showing particularly broad-based strength. The expansion has clearly spread to the more basic industries such as primary metals and chemicals. Also, coal output is running well ahead of year-earlier levels. Manufacturers report virtually no change in inventories over the past few weeks and, for the most part, find current levels acceptable. There is some growing sentiment, however, that current plant and equipment capacity is inadequate. If this view continues to spread, it would be a change from a long-standing concern about overcapacity. Reports offer some evidence that there is currently some reevaluation of expansion plans going on, perhaps with an eye toward enlarging them.

District manufacturing employment also rose sharply from year end, as did employee compensation. Manufacturers are also encountering more frequent increases in prices paid and received for goods.

Consumer Spending

District retailers report a continuation of the lofty gains in activity that began before year end 1983. Year to year sales increases at individual establishments and chains are still running at double digit rates according to available information. More and more, the strength appears to be in non-durable lines, although it is difficult to find any evidence of slowing in sales of durables. Certainly, automobiles sales are proceeding apace. And with housing construction and sales at current and projected levels, declines in furniture and appliances sales seem unlikely.

Price increases do not yet appear as prevalent at the retail as at the manufacturing level, but the elimination or reduction of promotional programs may be a factor. In any event, list prices remain essentially flat. Retailers appear to have done some inventory rebuilding in recent weeks, but remain, for the most part, comfortable with current stocks.

Housing and Construction

The construction industry is still a bright spot in the District despite voiced concerns about overbuilding in the commercial sector and about housing sales prospects. In both areas, in fact, activity appears to be gathering momentum. It is our impression that the pipeline of commercial projects remains full. New announcements are not uncommon, and the outlook within the industry seems to be improving.

On the residential side, sales are holding up quite well for both new and previously owned units. Figures may be distorted as a result of unusually warm weather in February. However, the overall impression must be that the fundamentals on the housing markets are all positive. By all evidence, construction of new units is accordingly strong. Speculative building is being revived, as expectations of strong spring sales gain support.

The Outlook

The conditions described above have clearly affected expectations, which remain strongly positive. In nearly every sector a majority of respondents are expecting continued growth over at least the next two quarters. Most manufacturers surveyed, for instance, expect further gains nationally, locally, and in their respective markets. The largest number of positive responses comes on the question of the outlook for the firm's market. In other words, some who see little further gains nationally still expect their own business to improve. Retailers are also generally optimistic, expecting further gains in all areas. Also, builders and those in related or affected industries are planning on significant activity as the weather improves and for the rest of the year.

SIXTH DISTRICT - ATLANTA

No slowdown is apparent in recent reports on sales and employment. In fact, employment in most regionally important industries is increasing. Consumer spending continues to grow at a healthy pace, although cold weather adversely affected some localities. Bank loan demand softened in late February. Mortgage lending at thrifts remains strong; deposit growth, although modest, is better than usual for the period. Single-family residential construction and sales continue to rise, but excess capacity has slowed multifamily building. Although cold weather reduced vacation travel to Florida, convention travel is improving. Credit problems have yet to diminish for a large portion of southeastern farmers.

Employment and Industry. Sustained growth in auto and housing sales has stimulated the paper and carpet industries: packaging used in making a car requires 200 pounds of paper; that used in building a house amounts to 1,000 pounds. The American Paper Institute predicts record production in 1984. The South produces about 50 percent of the nation's paper. Industry spokesmen expect the boom in carpet sales to continue. Manufacturers are satisfied with current levels of inventories and do not foresee substantial price increases during the year.

The phosphate and farm chemical industries are expanding production in anticipation of an increase in farm acreage this year. Projected growth in phosphate fertilizer consumption ranges from 14 to 20 percent. Mines in Florida, the nation's largest phosphate producer, already are recalling laid-off workers. Louisiana's farm chemical companies, which produce 40 percent of the nation's ammonia—a primary ingredient in fertilizer and pesticides—are adding staff selectively. These reports suggest a continuation of the improvement reflected in labor market statistics for January, when unemployment rates fell in three of the six District states and the regional average dropped to 8.6 percent, seasonally adjusted. However, steadily declining rig counts portend renewed weakness in the oil and gas industry.

Consumer Spending. Retailers report February sales rose by healthier-than-expected margins. Their comments indicate that double-digit increases in January taxable sales are continuing. Sales promotions introduced during the President's Day holiday stimulated traffic and sales in areas not adversely affected by weather. Men's and women's apparel, appliances, and other home furnishings were the most popular items. New car sales in January and February maintained the high growth rates achieved in 1983. However, contacts from such diverse retail sectors as restaurants, clothing, furniture rentals, auto dealerships, and discount stores report increased prices or shortages and delays for intermediate goods.

Construction. Transfers and trade-ups by present homeowners account for strong sales of single-family homes. Area lenders report that capped adjustable-rate mortgages recalculated yearly have become the major financial planning tool. Continuing strength in sales augurs well for the substantial growth in single-family permits issued during January. However, home purchases by former apartment tenants are exacerbating problems of excess supply in multifamily construction, permits for which dropped sharply in four states. The Department of Housing and Urban Development has issued a moratorium on new multifamily housing insurance in southern Mississippi. Commercial construction and absorption are proceeding at a healthy pace in Nashville and Tampa. However, Atlanta's nonresidential markets have softened because of large supplies.

Financial Services. Demand for business, real estate, and consumer loans decelerated after strong growth in early February. Mortgage applications at S&Ls in early March are continuing at high levels. Contacts at southeastern banks and S&Ls say deposit inflows range from flat to good into early March. This is a sign of strength, since deposits normally decline in January and February.

The Georgia legislature enacted the Southeast's first regional banking legislation. The law will allow banks and bank holding companies, but not thrifts, to merge with and acquire other institutions in states with similar legislation; it does not sanction interstate branching. Meanwhile, Georgia's Attorney General has challenged the legality of remittance processing centers, or corporate lock boxes, operated in Atlanta by several out-of-state banks.

Tourism. Contacts report substantial improvements in convention business in Jacksonville, Atlanta, Mobile, Orlando, and Nashville in early 1983. However, projected occupancy rates for Mardi Gras were a less-than-normal 80-85 percent because of New Orleans' greatly expanded supply of hotel rooms. Vacation travel to Florida is below year-earlier levels. Sources attribute the decline to cold weather, the high foreign exchange rate of the dollar (which discourages foreign travel to the United States and encourages American travel abroad), and the sharp growth in visitors last year. Atlanta had a two percent drop in airline-passenger volume in January because of cutbacks in discount fares, and data from major trunk lines servicing Atlanta portend a repetition of this decline in February.

Agriculture. Financial distress is no better than a year ago. Georgia and Florida maintain Farmers Home Administration (FmHA) loan delinquency rates in excess of 50 percent, among the highest in the nation. Florida's delinquencies represent only 4 percent of the state's farmers, but Georgia's are 10 percent. Mississippi, where one-fourth of the state's farmers are FmHA customers, also is experiencing considerable financial difficulty.

A freeze in early March, accompanied by high winds, inflicted additional damage on Florida's agriculture. Damage was less widespread than in December, although some vegetable crops suffered heavy losses. As much as 80 percent of the early corn crop perished.

SEVENTH DISTRICT--CHICAGO

Summary. The expansion in the Seventh District has strong momentum, with prospects favorable for gains through the year. Consumer spending, still the prime mover, has been above expectations. Confidence levels are the highest in several years. However, employment increases are still mainly in manufacturing. Output of autos and heavy trucks is at capacity levels, restricted by component availability. Some producers of construction equipment, mining equipment, machine tools, and freight cars report increased orders, but capital goods output, overall, remains far below peak levels. Not all sectors in the District are expanding vigorously, but there is no evidence of new deterioration. House sales have been strong relative to past years. Price inflation is increasingly evident. Inventory investment is expected to accelerate, with stocks currently low in virtually all lines. The signup of dairy farmers for the new government output restriction program was far less than expected.

Price Inflation. Price increases clearly are accelerating, but District analysts believe that the general inflation rate will not accelerate over 2 percent this year. Price increases have been substantial for paper and paperboard, gypsum board, aluminum, and electronic components--all being produced at near-capacity rates. University tuitions are being boosted 8-10 percent. Electric and telephone utilities are requesting very large rate increases, but natural gas rates may level or decline because gas companies have "walked away" from high-priced contracts with suppliers. Rail and truck rates are expected to move up, but airline fares are under downward pressure.

Labor Market Conditions. Increases in employment in the District are still mainly confined to manufacturing. Unemployment is reported to be reduced substantially in virtually all localities, but declines in estimated unemployment have not been matched in most cases by increases in employment. Motor vehicles account for the major share of the rise in manufacturing employment, but even in that sector employment is far below past peaks. Motor industry employment has not recovered as much as unit assemblies of vehicles because of heavy overtime, more automation (including robots), and increased use of imported components. A large portion of the reported reduction in the number of indefinite layoffs reflects deletions of workers who are no longer eligible for recall. Scattered callbacks of workers in capital goods industries amount to only a small fraction of those released during the recession. Most companies that have slashed drastically their middle management staffs have no intention of restoring these jobs. A very large bank, that already has reduced employment by about 10 percent, plans a further reduction of similar magnitude, in part by attrition.

Wages and Benefits. Companies that are increasing wages and salaries this year indicate that such increases will average in the 5-6 percent range, down as much as 50 percent from increases in some recent years. But some firms are freezing compensation, and others are reducing wages and trimming benefits. Wage cuts have been most general in meat packing, with plant closings threatened if labor does not agree. The largest food chain in the Chicago area recently announced a cut of about 20 percent in hourly rates to get labor costs more in line with fast-expanding "warehouse store" competition. This move abrogates a 2½-year union contract signed only a few months ago. The union involved is suing, but no strike action appears imminent. A widespread move is underway by employers to slow the rapid rise in the cost of medical benefits, which now often amount to $1,500 per year per active worker--$6,000 in one company. Steps taken include increased employee contributions, higher deductibles, switches to less expensive plans, curtailed coverage, and requirements of "a second opinion" before elective surgery.

Consumer Purchases. Sales of virtually all types of consumer goods and services have been strong this year, often above expected rates. Major retailers are boosting orders to suppliers to keep stocks at adequate levels. Regional surveys indicate consumers are more confident of their future incomes than at any time in at least five years. Improved confidence, together with rising incomes and generally low installment debt burdens, is unleashing pent-up demand that had been building since 1979. Plans to buy cars are especially strong. Other big selling lines include major appliances, furniture, and personal and home computers. Demand for recreational vehicles and motorcycles also has picked up, but is far below past peaks. Finally, consumers are spending more on airline tickets and vacations.

Business Equipment. Output of mechanical capital goods, a major District activity, is increasing on a broader front. Heavy trucks, truck trailers, and associated diesel engines are scheduled at full capacity for several months ahead. A large producer of earth-moving equipment is recalling some laid-off workers as demand has increased and parts inventories have been depleted. Most companies report export business very slow, but a producer of huge mining shovels recently won a Turkish contract, the largest single order in the company's history. Orders for freight cars have been rising but only to about 25 percent of capacity. Demand for replacement parts is also up. Three District producers of mobile construction cranes have been phasing out their production activities, because of low demand and severe foreign competition. Farm equipment sales have not picked up as expected. Machine tool orders are increasing, mainly from the auto industry. Overall, the District's capital goods producing sector remains depressed.

Motor Vehicles. Assemblies of both cars and trucks in the first quarter will be far above last year, and the highest for the period since 1979. With demand strong and inventories of desired models low, this pace is expected to be about maintained in the second quarter. Output is restricted by availability of components, partly because of rejection of parts that fail inspection. Domestic producers are acutely aware that the quality "image" of their products is compared unfavorably with that of vehicles from Japan, Germany, and Sweden. Inventories of most Japanese cars are near rock bottom because of import quotas.

Housing. The market for new and used homes improved sharply last year and has been surprisingly strong in early 1984. Realtors report prices up 6-8 percent in the past year in good areas, with further gains expected. The market is supported by first-time home buyers who had deferred purchases in recent years because affordable financing was not available. A wide variety of ARMs are now offered, but careful reading of the "fine print" is advised. Some lenders are pushing 15-year amortized loans rather than ARMs.

Nonresidential Construction. Congressional delay in allocating funds for badly needed highway, bridge, and mass transit projects could require postponement of some projects until next year. Nonresidential private construction activity in the District is dominated by a new wave of large office buildings scheduled to start in the next several months.

EIGHTH DISTRICT - ST. LOUIS

On the whole, economic activity in the Eighth Federal Reserve District has been showing substantial improvement recently. According to the latest data, personal income in the District is rising at about the same rate as at the national level. The strength of the recovery across District states has been somewhat disparate, however, with some areas showing considerably more improvement than others. Indexes of general business activity have been rising at rates ranging from 10.8 percent for Arkansas to 4.3 percent for Tennessee.

Outlook

The managers of District business firms generally expect business activity to increase over the next six months. This was particularly true in the transportation industry and in professional services. Most of these firms (about 75 percent of those contacted) look for improvement in the near future with the remainder expecting business activity to remain roughly unchanged. About 60 percent of the firms in the areas of construction, manufacturing, finance, wholesale and retail trade expect improvement over the next six months. Well over half the firms surveyed cited general economic conditions as the reason for the brighter outlook. Of all firms contacted, relatively few (4.5 percent) expect business conditions to deteriorate in the coming months.

Employment

The general expansion in economic activity has had important consequences for District employment. Recently, growth in payroll employment has ranged from a high of 4.3 percent in Arkansas to a low of 1.0 percent in Missouri.

Despite the expansion in employment, the District's average unemployment rate has remained, roughly, unchanged. Recently, Tennessee has experienced a substantial reduction in its unemployment rate while slight increases have occurred in Kentucky and Missouri. Unemployment rates in other District areas have been fairly static.

These two factors--growth in employment and a stable unemployment rate--suggest that the labor force in the District has expanded at a rate commensurate with employment growth.

Over the next three months, about 20 percent of the District firms contacted plan to increase employment while only 6 percent expected to reduce their workforces. Most of the expected increase appears to be concentrated in the construction and manufacturing industries. A number of manufacturing firms have had job openings for more than six months that they have been unable to fill with qualified individuals.

Sales Volume and Prices

Many firms in the District have experienced higher sales volume recently. This was particularly true in the cases of transportation equipment manufacturers, agriculture and professional services. In addition, most firms expect sales volume to increase further over the next three months while only 15 percent of the firms surveyed expect sales to decline.

The expected increase in sales seems to be placing some upward pressure on prices. About 20 percent of the firms surveyed plan to raise prices and these firms were about equally divided between those planning an increase of less than 3 percent, an increase of between 3 and 5 percent, and an increase of between 5 and 10 percent. Only 3 percent of the firms surveyed plan price reductions.

Inventory

For the most part District firms believe their present level of inventory is about right. However, a substantial number of firms in the manufacturing industry and in wholesale and retail trade plan to increase inventory levels over the next three to six months. Relatively few firms, about 10 percent overall, plan to decrease inventory during this period.

Business Problem Areas

A recent survey highlights a number of problem areas for Eighth District business firms. The survey was conducted by the National Federation of Independent Business and includes responses from 264 District firms. On the whole, the two most often cited problems were taxes and interest rates. An exception were respondents from the transportation industry. These individuals indicated that government regulation is the most onerous problem they confront. Only 6 percent of the firms surveyed cited inflation as a significant problem.

NINTH DISTRICT - MINNEAPOLIS

As the Ninth District's snow cover inexorably deepens, so does its recovery. The most recently available statistics point toward general improvement in the labor markets. Similar to nationally reported trends, consumer spending has continued to be quite strong. Construction and manufacturing activities have generally sustained their upbeat performance into 1984. Agricultural conditions have generally not improved. Financial sector performance is consistent with the pace of the recovery.

Employment

The latest available data show continued improvement in labor market conditions. A prominent local economist estimates that in December seasonally adjusted unemployment in Minnesota fell to 7 percent, 1.2 points below the national average. As expected, the unadjusted rate for the Minneapolis-St. Paul metropolitan area rose slightly in December, but it was still only 5.6 percent. And the Conference Board's help-wanted advertising index for Minneapolis rose further in December. Unemployment rates remain below the national average in other parts of the district as well. In January, the unemployment rate was 6.5 percent in North Dakota and lower in its oil-producing area. South Dakota had only 5.3 percent of its labor force unemployed at year's end. But the Duluth-Superior metro area and the Upper Peninsula of Michigan continue to suffer from structural unemployment. The latter, for example, still had an unemployment rate of 17.3 percent in December.

Consumer Spending

So far this year, consumer spending has been growing at a healthy clip. Following the national trend, general merchandise sales have remained strong. One large retailer in the Twin Cities reports that its sales growth rate exceeded its target early this year. Retailers in downtown Rochester, Minnesota, also report good sales this year. This Bank's directors from Montana, the Dakotas, and Wisconsin report that retail sales in some places during January were better than a year ago.

Motor vehicle purchases in the district also mirrored the national strength. The district manager of one large domestic auto manufacturer reports that in January car and truck sales were over 65 percent higher that a year earlier. A January survey of Minnesota auto dealers shows excellent sales gains throughout the state, with both domestic and imported autos selling briskly. Many South Dakota dealers had a great February, with double-digit sales gains reported for both new and used cars. Directors' reports from North Dakota and Montana indicate that auto sales have been good throughout the rest of the district, too.

Housing activity in the district posted big gains recently as well. January home sales in the Twin Cities metro area were up 58 percent from January 1983. Growth in that area dropped off a bit in February, but remained in double digits. According to a director, variable rate mortgages are helping maintain the good market in Billings, Montana. Another director notes that a lot of housing activity is occurring in many areas of North Dakota.

<u>Construction</u>

Buoyed by the strong demand for housing and by space needs of small industrial users, construction activity has continued to recover so far in 1984. A recent survey of contractors and equipment distributors in Minnesota and the Dakotas found that a solid majority believed that construction activity was still on the rise. The Twin Cities Metropolitan Council expects new housing starts to rise 10 percent in 1984. Directors note some favorable signs outside the Twin Cities. One contractor in North Dakota expects highway construction activity to rise 20 percent this year. In February, a record number of building permits were issued in Rochester, Minnesota. Finally, an 18-story office building is going up in Billings, Montana.

Manufacturing

Good news is generally prevalent in the district's manufacturing industries. Paper production has started on the way to what appears to be an exceptionally good year. Low costs are helping that industry's profit margins. Scattered reports from district directors about other manufacturers are generally favorable. A construction supply firm in Wisconsin is doing extremely well. A large national firm there expects its employment to be up to full strength this spring. A new high tech manufacturing facility is opening in rural Minnesota. And a nondefense-oriented manufacturer of electrical controls in South Dakota has a big backlog of orders. The district's farm implement manufacturers, however, are still having a tough time.

Agriculture

A director sums up the farm picture by quoting one of his sources: "Agriculture is a powder keg--same as in 1900. But now they don't have inflation to cover up mistakes nor the FHA to bail them out." In this Bank's recent survey of Ninth District ag lenders, only 22 percent thought net farm earnings in the first quarter of 1984 would exceed year-earlier levels. Farm balance sheets have obviously been hurt by drops in land value. A director in Montana reports that much land is for sale, even at current prices. Some good farm news is reported, though. Cattle prices are improving and encouraging signs have appeared in the feeder pig futures market. And the winter wheat crop seems to be in good shape.

Finance

Financial sector activity is generally consistent with the pace of the recovery. District directors report good deposit and loan growth in southern Minnesota. A large South Dakota bank's deposits and loans are holding steady at a time when they usually decline. Seasonally adjusted district consumer installment credit rose at year's end, reflecting the unusually large increase in holiday buying. The only soft spots appear in ag lending. In late December, a majority of respondents to this Bank's survey of district ag lenders felt that their loan-to-deposit ratios, averaging slightly over 60 percent, were too low.

TENTH DISTRICT--KANSAS CITY

Overview. Business activity in the Tenth District continues to improve in early 1984. Price increases, both at retail and for materials inputs, remain moderate. Inventories of both retail goods and industrial inputs are generally regarded as satisfactory. Input availability problems are only spotty and are not regarded as serious. Housing starts are expected to remain strong throughout the year, as are both the demand for mortgage funds and the inflow of savings to savings and loan associations. Loan demand at commercial banks has recently increased somewhat, with lending rates generally unchanged. Adequate credit for spring planting appears to be available to creditworthy farm borrowers.

Retail trade. Virtually all retailers surveyed report that sales for 1984 continue to be up over the same period last year. Appliances and electronic merchandise have been selling particularly well, while most categories of apparel have been somewhat weak. In general, most respondents are holding to normal seasonal patterns for clearance sales and most are satisfied with present inventory levels. Although the majority of respondents are optimistic about sales for the remainder of the year, many indicate a cautious approach to inventory accumulation for the second half of 1984. Wholesale and retail prices have remained flat over the past three months, and few retailers expect any significant price increases in the near future.

Automobile sales. All automobile dealers associations contacted report that sales are higher in 1984 than in the same period last year. Financing is readily available for all dealers. Potential buyers are able to get loans, most of which are made directly with banks. Inventories of domestic cars are either being maintained or replenished as the recent surge in demand continues. Stocks of imported autos are low, and many dealers are making a high percentage of orders after sales. All respondents expect sales growth to be maintained or to accelerate this year.

Purchasing agents. Purchasing agents in the Tenth District report stable to moderately increasing input prices during the past year, generally in the zero to 10 percent range. In the past three months input prices have been stable to 6 percent higher. Half of the agents foresee stable prices for the remainder of 1984, while the rest are predicting increases of 5 to 10 percent.

Some minor difficulties are being experienced in getting materials, as some firms seek to expand inventories. However, troubles are spotty with most agents anticipating only slight problems for the remainder of the year. Materials inventory levels are generally satisfactory with little change expected.

Housing activity and finance. Home builders report that housing starts in January and February exceeded year ago levels, especially in the multi-family category. Starts are expected to remain strong throughout 1984. Sales of new homes have changed little from last year, while inventories have increased. Prices of new homes range from unchanged to 8 percent higher than a year ago. Home builders report that construction materials are in general readily available at steady or moderately increasing prices.

Savings inflows at savings and loan associations are up from last year and respondents expect inflows will continue to increase through the balance of 1984. Virtually all institutions surveyed report a strong demand for mortgage funds, which is expected to continue. Mortgage interest rates are steady and are expected to remain unchanged to down slightly through 1984.

Banking. Most Tenth District banks surveyed experienced some increase in loan demand in February. Commercial and industrial loans and consumer loans showed the strongest growth. Deposits rose moderately or remained unchanged at slightly more than half of the surveyed banks, and fell somewhat at the remaining banks. The strongest deposit categories were Super-NOW's, MMDA's, and IRA's. In those banks in which total deposits fell, demand deposits and conventional NOW's accounted for the decline. The prime rate ranged from 11 to 14.3 percent, with most banks charging between 11 and 11.5 percent. Both prime rates and consumer lending rates were unchanged from last month and the surveyed banks expect no changes in the near future.

Agriculture. Adequate credit for spring planting appears to be available to qualified farm borrowers throughout the Tenth District. However, fewer farmers than normal are considered creditworthy, because of increased cash flow problems and stricter credit standards. Financial pressures are causing some farmers to liquidate assets and the number of farm auction sales is much higher than usual. Although the quantity of land being offered for sale is up sharply, many attempts to sell land have been unsuccessful due to a soft market. Winter feed supplies are short in Colorado, Wyoming, western Kansas, and central Nebraska. As a result, some calves and cattle are being sold earlier than planned. Other parts of the district have good supplies of winter feed. Profits from wintering stocker cattle, especially those grazed on wheat pasture, are expected to be quite favorable. Many farmers in Kansas and New Mexico are participating in the 1984 wheat program, but there is little interest in participation throughout the rest of the district. Interest in the 1984 feed grain program is high in Nebraska and the 1984 cotton program is popular in Oklahoma. Most grain received by district farmers under the 1983 Payment-In-Kind (PIK) program has now been sold.

ECONOMIC COMMENTARY

ELEVENTH DISTRICT—DALLAS

The Eleventh District recovery paused, although some sectors continued to show improvement. Manufacturing employment declined but most manufacturing respondents reported that orders are now rising. Strong performance in commercial and residential construction and in portions of manufacturing is offsetting weakness in the energy sector. Retail sales continue to grow. Auto sales are strong. Although the December freeze caused ongoing problems for District citrus farmers, prices for a wide range of District farm and ranch products are significantly above a year ago.

Manufacturing employment in the District fell somewhat in both December and January, as layoffs occurred in energy-related durable goods manufacturing. Nevertheless, respondents in most sectors of manufacturing reported increasing orders and expressed cautious optimism. Sales of lumber and wood products were down slightly in January because wet weather had slowed homebuilding, but production remained at high levels and manufacturers expect continued strength in the housing industry. Raw steel production was static to slightly improved, with respondents expressing much concern over foreign competition. Orders for steel plate and tubular goods are increasing at some steel fabrication plants. Overall, however, the fabricated metals industry is sluggish. Orders for electrical machinery and apparel products are increasing. Rising demand cut the already low inventories of chemical and allied products. Manufacturers said that they were working to replenish stocks and to meet new orders.

District drilling activity remains above year-earlier levels, but it slowed more than the normal seasonal amount in both January and February. The seismic crew count dipped between December and January, while remaining above its year-earlier level. This, and other factors, suggest that drilling activity may turndown slightly during the first half of the year, but that drilling activity should remain above last year's level. Expectations of continued firmness in oil prices, a rundown in natural gas inventories, and anticipations of natural gas decontrol in 1985 are all likely to motivate increased drilling during the second half of this year.

Auto sales in the District remained seasonally strong. Auto purchases are traditionally slow during the winter months but sales in January and February have been high compared to year-earlier levels. Respondents expressed optimism for 1984 sales and noted that their largest current problem is depleted inventories.

Retail sales continued strong in February. Department stores in all major district cities reported double-digit percentage gains from a year ago. Even in Houston, where recovery has been slow, stores reported double-digit sales growth on a year-over-year basis. Retailers noted that prices have begun to rise lately and some also complained about producer delays in filling orders. District retailers are very optimistic about sales for the balance of 1984.

Commercial construction continues at a high level, despite fears of overbuilding in the District's largest metropolitan areas. Nonresidential construction is growing rapidly in Austin, but continues to decline in Houston. Many Houston developers are looking to other cities for projects. Dallas nonresidential building continues at a strong pace, but fears of excess office space are rising.

Residential construction activity continues strong despite widely-voiced concerns about overbuilding in the multifamily market. In January 1984, Texas' value of residential building contracts was 22-percent higher than a year earlier and more than twice as high as two years ago. Declines seem likely later this year.

Year-over-year growth in total loans and securities at large weekly reporting District banks slowed in February 1984. January's year-over-year growth also was below the average growth for any quarter in 1983. Business loan growth increased in both January and February from its fourth quarter pace, although it was below growth in the first three quarters of last year. Growth in real estate loans slowed in January and again in February but the average level was still more than 40-percent above last year's volume.

District farmers are generally planning to plant more acres-to-crops this year after last year's PIK-reduced acreage. Cotton farmers have not fully rebounded to the levels of 1982 despite the encouraging outlook for exports. Winter wheat farmers, faced with large stocks overhanging the market and stiff export competition, planted fewer acres this year than either of the past two years. Texas livestock producers are making money at current prices and are likely to continue profitable operations through the first half of the year.

TWELFTH DISTRICT

The Twelfth District economic recovery is continuing with increased momentum. Consumer spending in the post-Christmas holiday period has been stronger than it has been nationally, with both retail stores and automobile dealerships experiencing large year-to-year sales gains. Western homebuilding activity in January rebounded even more strongly than nationally, and permits for new units point to a continuing high-level of activity. Nonresidential construction spending is really beginning to pick up. In the manufacturing sector, nearly all industries have been increasing production and employment recently, with demand especially strong for defense and business capital equipment. Agricultural crop prices are up sharply from a year ago and the planting season is progressing well. In the deregulated environment, financial institutions have chosen not to compete aggressively against each other for small time deposits but to offer rates fairly close to those of money market funds.

Consumer Spending

Consumer spending has been strong in the post-Christmas holiday period and would have been even greater at some retail outlets had not late December "clearance" sales so depleted inventory as to reduce merchandise selection. Major department stores in Southern California, for example, experienced an average 11 percent gain in sales in both January and February over levels of a year earlier. This far surpassed the gain at department stores nationally in January. In other Western states -- even those where unemployment rates are still above the national average -- year-to-year sales gains were nearly as large as in California. Sales of nondurable goods, especially clothing, have been especially strong. But durable goods such as furniture and appliances also are selling well. Moreover, auto dealerships have been experiencing much larger sales gains than department stores, even in rural areas. To finance their heavy expenditures, consumers have been sharply increasing their installment debt but are reported to be very current on their payments.

Manufacturing and Mining

Nearly all manufacturing industries have been expanding output and employment recently, with the exception of some primary metals, notably copper. The Pacific Northwest lumber industry has not yet been adding workers but has been experiencing a resurgence in orders and prices since November as national homebuilding has shown renewed strength. Employment growth has been especially strong in the electronic equipment and missiles and space vehicles industries located in California, Oregon, Arizona and Utah. Electronics firms have been benefiting not only from rising defense and consumer demand but business capital spending to enhance efficiency. Orders also have been increasing sharply for other capital goods, including non-electrical machinery, trucks and aircraft. In Washington, the nation's leading manufacturer of commercial transport planes has been adding workers since October, reversing a two-year cutback. A large manufacturer of long-haul trucks experienced a doubling of profits during the fourth quarter from a year earlier. Even manufacturers of such big ticket discretionary consumer goods as recreational vehicles and pleasure boats are experiencing an upsurge in sales. Despite increased production, the manufacturing sector generally still has ample unused capacity, except for paper where demand for certain products has reached the "boom" stage.

Construction and Real Estate

Homebuilding activity has shown even more dramatic strength in the West recently than it has nationally. In January, Western housing starts soared upward by 46 percent, reaching the highest level since late 1979 and a pace 73 percent above the level of a year earlier. Permits issued for new dwelling units in the region also rose more than nationally, suggesting that Western homebuilding activity in coming months will remain relatively strong. Sales also are reported to be holding up well, although home prices in the West generally are up on average about 6 percent from a year ago. Respondents attribute the greater-than-expected strength in housing to increased availability of adjustable rate mortgage packages, which offer initial rates as much as 3 percentage points below conventional fixed rate mortgages, and to gains in real personal income. They also mention that buyers feel that both mortgage and inflation rates are going to move higher and that now is an opportune time to purchase a home. Equally impressive is the strong pickup already occurring and planned in nonresidential construction activity. Throughout the District, respondents report the launching of a large number of new projects such as shopping and convention centers, hotels, office buildings, and highway improvements. Firms continue to be cautious about investing in new industrial structures, however, except for electronic equipment manufacturers and other defense suppliers.

Agriculture

Crop conditions throughout the District generally are considerably more favorable than a year ago. District farmers are benefiting from sharply higher prices for vegetables and citrus crops, partly as a result of the winter freeze in Florida and Texas. California is experiencing one of the warmest and driest winters on record -- in contrast to last year's flooding -- so that the planting season is progressing normally. The mild temperatures -- and consequent early budding -- will mean that yields of tree fruits and grapes will be moderate. This will push up prices since tree fruit inventories are low. Production costs are stable, including interest rates, while the growing domestic economy generally is helping to boost prices. However, the slow export market is still a problem. Despite improved market conditions, many small growers in California are still in serious financial difficulty because of previous poor years. Numerous small farms and parcels have been put up for sale to lighten debt burden. Yet even at land prices far below those of a year ago, owners are having difficulty finding buyers.

Financial Institutions

The financial institutions in the Twelfth District have found the deregulated market for small time deposits to be rather calm after the initial scramble for funds. Some observers suggest that for short-term accounts interest rate differentials of greater than 20-30 basis points are required before significant movement of funds between institutions occurs. Rates have been generally stable in recent months, as the industry seems to have avoided "rate wars" by keeping their rates in line with those offered by money market funds. The rates on Super-NOWs have been particularly stable, staying around 7 percent, as its role as a transaction deposit apparently dominates any interest rate concerns. Financial institutions have not extensively used their increased ability to tailor the maturity of their deposits. Some have tried to lengthen maturity. But in general there seems to be a willingness to accept the consumers' desire to keep deposits under a year in maturity because of their uncertainty over future interest rates.