SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

SEPTEMBER 1984

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SUMMARY*

The economic expansion appears to be moderating to a slower but still quite brisk pace. Manufacturing remains strong despite weaknesses in certain sectors that have been adversely affected by the increased strength of the U.S. dollar. Defense and energy are the chief sources of current expansion. Retail spending remains generally strong, but several Districts are experiencing a slower growth rate. Auto sales continue to advance in most areas; where some deceleration has occurred, the reason is lack of inventory rather than dampened demand. Consumer spending for domestic travel, however, has been disappointing in some areas because of the high exchange rate of the dollar as well as rainy weather. Residential construction is slowing in most Districts, but nonresidential building is proceeding at such a heady pace in certain areas that concerns about overbuilding are mounting. Lending remains strong primarily because of expanded consumer borrowing. Farm conditions are mixed: several Districts anticipate higher yields and revenues, but poor weather reduced supplies in some states.

Manufacturing and Industry. Manufacturing activity generally remains strong, but most regions report slower growth in orders and employment. Inventory levels are satisfactory, for the most part, although some steel customers are cutting inventories in anticipation of an auto strike. Price increases have been modest, at worst, and some Districts report flat or declining supply prices. There is no evidence of materials shortages. Capital goods spending has been strong, but Boston reports that plans for 1985 show no increase over current levels. Defense orders are a source of manufacturing strength for St. Louis, New York, San Francisco, and Atlanta. Energy demand is sustaining industry's momentum in the Dallas, Minneapolis, Richmond, and Atlanta

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*Prepared at the Federal Reserve Bank of Atlanta.

Districts. Demand for coal as well as pulp and paper is contributing to the strength of manufacturing reported by Richmond, Minneapolis, and San Francisco. Auto and related production is another source of continuing growth, especially in New York, Richmond, and St. Louis.

Weakness is concentrated in industries sensitive to import competition, but this effect appears widespread geographically; more than half the Districts mention it. Industries affected include aluminum, steel, copper, machine tools, shoes, textile, apparel, and lumber. Setbacks in the lumber industry are also attributable to slower residential construction, which is precipitating layoffs by furniture producers and building material suppliers as well.

Consumer Spending. Retail sales, spurred by back-to-school spending, generally strengthened in late summer. However, Cleveland, Minneapolis, Dallas, and San Francisco report a slower rate of growth. The relative strength of spending on hard goods and soft goods varies. Boston and Richmond report that hard goods are increasing their share, but Dallas and San Francisco note a softening of spending on consumer durables. Auto demand remains strong in most parts of the country and would be higher if more of the popular models were available. In contrast to the shortage of new cars, inventories of other retail goods generally are reported to be satisfactory. Inventory-to-sales ratios in the Philadelphia District are intentionally high because of anticipated strong demand through the fall. Price competition and promotions appear to be helping retailers attract buyers and move goods. Many buyers are using available credit lines but seem to be paying their bills without difficulty. Looking ahead, retailers, as usual, are optimistic, although auto dealers fear the consequences of the threatened strike.

Summer tourist expenditures are below expectations in most areas. The effect is greatest on attractions; business and convention travel is helping to boost the lodgings and air transportation sectors of the industry. However, St. Louis and Philadelphia report that late summer visitations at certain resort areas were up substantially. Boston, Philadelphia, Atlanta, and Minneapolis attribute the lackluster performance of vacation travel to rainy weather and the strong value of the U.S. dollar, which discourages Canadian tourists from visiting border resort areas and encourages increased travel abroad by Americans.

Construction. The residential sector continues to slow in most Districts despite generally declining mortgage rates. Atlanta, New York, Cleveland, and Richmond are experiencing continued or renewed strength, but most other Districts report substantial slowing in residential construction and sales, particularly of single-family houses. The August issuance of mortgage revenue bonds in Ohio stimulated an otherwise sluggish residential sector there. High-income home buyers, many of whom are making purchases with cash, account for New York's strong showing. Apartment vacancy rates are increasing, and some regions express concern about overbuilding in the multifamily sector.

Nonresidential construction is characterized as surging in Atlanta, Minneapolis, Richmond, San Francisco, and St. Louis. Concern over high and rising office vacancy rates is widespread and mounting, especially in Atlanta, Dallas, and San Francisco. However, commercial vacancy rates in Minneapolis have been declining, and New York reports low office vacancy rates in Manhattan.

Finance. Loan demand remains firm in most Districts. Consumer lending is the leading component of current growth. At least half the Banks report increased consumer borrowing, and New York and Chicago note that delinquency rates are quite low, given the increase in consumer credit. Many Districts report an increased pace of real estate lending, especially for nonresidential projects, although Philadelphia, San Francisco, and Dallas report a slowdown in such lending. The rate of business loan growth varies between regions. Deposit growth is advancing in Atlanta and Kansas City, but Dallas, Philadelphia, and Cleveland describe the pace as flat or declining, and deposit growth has slowed in Minneapolis.

Agriculture. The outlook for agriculture is mixed. Notwithstanding a drought in June and potential crop damage from Hurricane Diana, the Southeast is experiencing favorable growing conditions, and farmers may enjoy near-record yields. St. Louis and Minneapolis also anticipate good yields except in areas most affected by poor weather. The Philadelphia District had adequate rain, and farm income there should be improved, especially for growers of corn, potatoes, soybeans, and blackberries. Several Banks also note the positive effect of increased Soviet purchases. However, droughts in portions of the Dallas and Kansas City areas should depress yields. San Francisco decribes price conditions for fruit and vegetable farmers as "dismal." In addition, the farm sector, especially in Minneapolis and Kansas City, continues to face financial difficulties exacerbated by low prices for many commodities, falling land values, and the high cost of servicing existing debt. Farm equipment sales are below expectations, and Chicago notes manufacturers are cutting back even more.

FIRST DISTRICT - BOSTON

Business activity in the First District remains robust. Retailers are enjoying strong back-to-school buying and are optimistic about third and fourth quarter results. Manufacturers report that orders and shipments are significantly above year-ago levels. In some cases, the order rate has slowed from earlier this year, but the manufacturers affected do not view this as indicative of future weakness. Both retailers and manufacturers are generally satisfied with inventory levels. Price increases are reported to be very modest and respondents seem to be lowering expectations about future inflation. In banking, business lending is well above year-ago levels, but competition among banks for these loans is intense.

Retail

First District retailers continued to make gains. Two stores reported bumpy summer seasons but strong results for the end of August and the first weeks of September as back-to-school buying got underway. The up-and-down summer results were attributed, in one case, to the disruption caused by a major renovation and, in another, to weaker-than-expected tourist purchases. Tourist-related sales were especially disappointing in Maine where Canadian tourists appear to have been discouraged by the exchange rate. Other contacts also mentioned disappointing tourist activity - on Cape Cod and in Connecticut.

Hard goods continued to outpace soft, particularly women's sportswear, which is coming down from several years of excellent growth. Prices of hard goods are stable to falling, and one merchant commented that promotional discounting of all goods is so widespread that consumers can always get high value for their dollars.

Inventories, whether high or low, were reported to be causing no problems. Consumers' credit use is trending up, but merchants do not consider this a source of concern. One store has moved up its "buy now, pay next February" promotions from Christmas to the fall.

Manufacturing

A number of manufacturers, producing a variety of products, have seen a slowing in orders from earlier this year. However, orders remain healthy, substantially above 1983 levels. The affected firms do not view the slowing as a precursor to any major weakening in the economy. Some capital goods producers are experiencing strong and increasing orders. Overseas markets are said to be picking up slightly, but subsidiary operations are faring better than exports. Respondents' capital expenditures are considerably above those in 1983. Preliminary capital budgets for 1985 are about the same as 1984, although one contact noted that it would not take much of a deterioration in orders to discourage capital expenditures. The emphasis in capital spending continues to be on productivity improvements. Respondents were unanimous in reporting only moderate increases in materials prices; wage pressures were also said to be

SECOND DISTRICT - NEW YORK

Introduction

Second District retailers experienced a relatively weak summer, but all other segments of the regional economy report continuing strong and stable growth. Department store sales generally failed to match expectations in July and early August, for the first time in several months. Nevertheless, New York banks are sharing in the nationwide surge of revolving credit loans. Homebuilders reported a strong market dominated by high-income buyers and significant numbers of cash customers, and the suburban construction industry is generally working at capacity. Office space remains scarce in midtown Manhattan, but increasing vacancy rates are a concern elsewhere in the District. The employment outlook in New York and New Jersey is still improving as a result of the announcement of plans for more major expansion projects.

Consumer Spending

Retail sales in the Second District were very soft during July and early August. Volume generally fell short of retailers' expectations for the first time in several months. Local merchants reported July sales gains averaging only 5 percent over the same period a year ago, and only one major retailer registered a very large increase in business. In early August, the weakness persisted. Shoppers were widely believed to be staying home to watch the Olympic games. Most of our contacts reported improvements of varying magnitudes afterwards, and sales figures for the entire month ranged from a decline of 1 percent to an increase of 17 percent. Inventories have been brought more in line with desired levels over the past two months, with levels now averaging

20 percent over last year as compared to nearly 30 percent in May and June. However, in light of recent soft sales, retailers are still assessing their forecasts and their future inventory needs.

Financial Developments

Even with the slowdown in retail sales growth, New York State banks report that both the number of active revolving credit accounts and the proportion of available credit lines drawn down have been expanding rapidly. At the same time, high interest rates have encouraged households to pay off balances at least as fast as or slightly faster than in the past, and the proportions of delinquent accounts are at record low levels. Bankers attribute the rapid growth of revolving credit to the proliferation of new revolving credit instruments and the general strength of income and employment in this region's economy.

Business Activity

Economic conditions showed further moderate growth in the District during recent weeks. Upstate purchasing agents reported a modest expansion of new orders in August and inventories were generally at satisfactory levels. The automotive industry remained strong: a major producer began accepting job applications for the first time in four years, and a tire manufacturer broke ground for a $100 million plant expansion. Additionally, a $1.3 billion defense contract was awarded on Long Island, and an electronics firm is moving some operations from the south to its facility in the Schenectady area. Five television series are planned to begin production in New York City this fall and winter.

The unemployment rate, seasonally adjusted, declined in both New York State and New Jersey during August, in contrast to the unchanged rate for the nation as a whole. New York's 7.7 percent was slightly above the U.S. average of 7.5 percent, while New Jersey's rate of 6.1 percent remained below the nation's.

Construction and Real Estate

Residential building activity remains brisk in the region, and order books are largely filled for the year. Activity is limited by continuing shortages of skilled labor in New York City surburban areas. Ongoing construction has benefitted from employment growth in high-salaried technology industries. Cash purchases and private financing have helped sustain the District's solid, upper-tier housing market, even with increasing mortgage interest rates.

Nonresidential construction continued at its strong pace throughout most of the Second District. The major exception is midtown Manhattan, where lack of sites and high construction costs are restricting the supply of new space. Observers are looking to new development projects in places such as Times Square, south midtown, and the Hudson River area to provide relief. New York's downtown vacancy rate continues to grow as new buildings are coming on line at the same time as the financial services industry has been weakening, and demand for in-town back-office space has been depressed by high prices. On Long Island, leasing activity remains brisk, but observers are not certain that demand can keep pace with the amount of speculative construction activity.

THIRD DISTRICT - PHILADELPHIA

The Third District economy is still growing in September, led by strength in the retail sector. However, there is some easing in activity in other sectors. Manufacturers are seeing a slight slowdown, although some specific indicators are posting gains. Bankers report that consumer lending is thriving while commercial lending is slowing its pace. In the agricultural sector, farmers, with few exceptions, report a good year. Area resorts, faced with rainy weather and tough competition for tourist dollars, have turned in a mediocre season. In general, contacts look for continued slowing in all areas except retail sales and consumer lending.

Manufacturing. Respondents to the September Business Outlook Survey indicate that growth in the local manufacturing sector is still positive but is easing. Forty-three percent of the manufacturers surveyed this month say business activity continues to increase while only 6 percent report a decline; just over half say there has been no change over last month.

Despite the apparent cooling of the current business climate, most specific indicators show improvement over last month. New orders and shipments lead the pack, with 44 percent and 52 percent of manufacturers, respectively, citing increases. Only inventories and unfilled orders remain unchanged in September, with delivery time, employee payrolls, and the average workweek all posting slight gains.

The near-term outlook for local manufacturing is beginning to dim, according to this month's survey. However, while the portion of respondents expecting further growth in the next six months is the smallest it has been since June 1980, it still remains significant at 43 percent. Manufacturers' expectations about specific indicators are in keeping with the anticipated easing in future business. Survey respondents look for a reduction in inventories, and they plan to hold employee payrolls and the length of the average workweek at current levels.

The portion of respondents reporting increases in industrial prices has fallen for the second month in a row. Seventy percent of the executives polled this month say input prices are stable, and a like portion reports no change in the prices of finished goods. Looking ahead, approximately two-thirds of respondents predict that they will be paying higher prices for raw materials within six months and about half expect to receive higher prices for their output.

Retail. Retailers in the Third District report strong sales over the past six weeks, with back-to-school promotions and cool weather in late August giving sales a boost. Contacts in the retail industry indicate that big-ticket home furnishings are moving well, along with children's apparel. Inventories are slightly heavier than usual, relative to current sales, but are in line with expectations for the next four months. Sales are currently running 10 to 25 percent above last year's levels, and retailing executives say they are looking forward to tallying up an overall good year with the help of the holiday season.

Financial. Third District bankers are sending mixed signals on their loan activity. Contacts continue to see a slight slowdown in the rate of growth of commercial loans but report that the dollar volume of C&I loans is still up substantially over year-ago levels. Consumer lending has not faltered at all and is registering increases in the range of 20 to 28 percent over last year. Local bankers are lowering their expectations for commercial loan growth in the near future, but their optimism continues to be buoyed by strong prospects for growth in the consumer lending area.

The prime rate has been holding steady at 13 percent since the end of June. Third District bank economists foresee no fluctuations in that rate before the end of the year. The general easing in the economy has induced contacts to revise their federal funds rate forecasts downward slightly with the year-end rate expected to hover around 11.5 percent.

Agriculture. Third District county agriculture agents report that 1984 has been a premium farming year in terms of weather. After a dry, underpar season last year, plentiful rainfall has helped to produce a bumper crop of both sweet and feed corn, along with a healthy crop of blueberries and soybeans in south Jersey, exceptionally large fruits in Pennsylvania, and a strong potato crop in Delaware. Field and cereal crops are very good, and farmers expect to benefit from the easing of restrictions on grain exports. Weather did have some damaging effect on two crops this year. Peaches in New Jersey are down by about two-thirds due to a frigid winter, and tomato yields are running about 60 percent of normal, owing to cracking caused by too much rain.

Dairy farmers in Pennsylvania are having a good year and note that the consumption of milk is up about 6 percent. Chicken farmers, their flocks depleted last fall and winter by Avian flu, have excellent prospects for production when the quarantine on chickens is lifted shortly.

Farm prices, in general, have held steady since last year. While record yields in corn and potatoes in particular tended to push prices for those two crops lower, corn farmers still can expect to be "in the black" for this year. Grain sales to the Soviet Union are expected to boost prices and help local farmers.

Farm income is expected to be slightly better than last year, although peach farmers will be hit fairly hard. Peach crop yields in New Jersey and the surrounding Pennsylvania and Delaware counties were low enough to qualify farmers for Farmers Home Administration low-interest loans.

Tourism. Resort business in the Third District was disappointing to most vacation-spot entrepreneurs this year. Wet, unseasonable weather kept many vacationers at home through midsummer, but that was only one of the factors keeping the lid on local travel. Both European travel, encouraged by the exceptionally strong dollar, and the summer Olympics in Los Angeles were tough competitors for tourist dollars.

South Jersey seashore reports saw a drop in visitor volume of about 10 percent from last year, a result not only of rainy weather and cold ocean temperatures but also of the strong American dollar, which has cut the number of Canadian visitors virtually in half. Only in Atlantic City, where casino gambling flourishes, was business better than last year.

In the Pocono Mountains, as elsewhere, weather caused a disappointing June and July, but August showed surprising strength due mostly to last-minute bookings. Gross dollar volume this summer could run 3 to 5 percent above last season. Pocono resorts have excellent prospects for the fall.

FOURTH DISTRICT--CLEVELAND

Summary.

Growth of economic activity in this District appears to be slowing. Labor market conditions softened recently and price increases are slowing. Retail sales gains continue to shrink on a year-over-year basis. Manufacturing activity continues to expand, but at a slower pace than in early summer. Inventory trends are mixed but suggest slow growth of inventories. The downtrend in housing activity has been temporarily interrupted by funds from a special Ohio bond issue. Business loan demand is flat while consumer loan demand remains strong.

District Labor Market Conditions.

Labor market conditions in the District have softened. Employment fell and unemployment rose in Ohio in August, causing the unemployment rate to rise to 9.8% (s.a.), its highest level since May and only 1.5 percentage points below its level of a year earlier. Nevertheless, Ohio manufacturing employment continues to increase slowly while average weekly hours worked by manufacturing production workers continues to decline. The decline in overtime in manufacturing has been pulling down the average weekly earnings of manufacturing production workers in the last few months.

Prices.

Upward price pressures are easing but concern about inflation continues. Purchasing managers report continued slowing in the rate of increase in prices paid for commodities. One group reports prices are increasing at the slowest rate in a year. The rates of increase for prices paid for services and equipment are higher than for commodities and are slowing only slightly. A survey of midwestern manufacturing firms reveals a smaller percentage of firms are raising prices now than were doing so earlier in the year. Nevertheless, contacts report there remains substantial concern about inflation and they believe that increases in the rate of inflation would cause a resurgence of inflationary expectations.

Retail Sales.

Major department store chains in this District report year-over-year sales gains continue to slow in most product lines. Nevertheless, unwanted inventories are not accumulating at the retail level. One major chain expects year-over-year gains will continue to shrink to 8% in the fourth quarter of 1984 and 7% in the second quarter of 1985.

Cleveland area auto dealers report strong sales demand continued in August but in early September moderating consumer appetite and inventory problems have resulted in a mild sales slowdown. Dealers say an auto strike at the onset of the 1985 model year would sharply reduce fourth quarter domestic sales. Import dealer outlook for the fourth quarter is more positive because 1985-model deliveries are easing quota-induced shortages.

Manufacturing.

Manufacturing activity continues to expand. Purchasing agents report new orders continue to increase at a slower pace than recently in Cincinnati but more rapidly in Cleveland. Order backlogs remain flat, as production continues to increase steadily. Major steel producers report orders and shipments fell in June and July as customers reduced inventories, particularly in anticipation of an auto strike, and steel imports remained strong. Orders for steel improved slightly in August and steel producers expect further improvement in orders if there is an early labor settlement in the auto industry. A producer of consumable supplies used in mining reports a slowing of orders.

Inventories.

Inventories show mixed trends. A survey of purchasing agents in the Cincinnati area indicates manufacturers' inventories of raw materials are being held constant, but purchasing agents in the Cleveland area indicate manufacturers' raw materials inventories are being increased as a hedge against lengthening lead times. Both groups report continuing slow growth of finished goods inventories. Steel users, especially in the auto industry, and steel distributors continue to trim inventories.

Housing.

Housing activity in Ohio experienced an unexpected, one-time surge in August because of lower-cost financing made possible by state-issued mortgage revenue bonds. Although the near-term outlook of market participants remains gloomy, optimism is surfacing that housing activity will improve by mid-1985. Most market participants expect 1984 to closely approach the sales pace and profits of 1983.

Builders remain cautious and, except for August, have been experiencing a steady dwindling of their order backlogs. Housing completions were strong during July and August and new orders, which typically are seasonally low, registered unexpected gains because of the bond monies. Also, as a result of bond monies, lenders recorded stronger-than-expected loan volume during August, but otherwise are experiencing a gradual slowing of mortgage originations.

Realtors report an unexpected surge of new contracts in August, principally from home buyers using mortgage bond monies. Contract closings in August, which resulted from June's sales, also exceeded projected levels by a wide margin. According to realtors, the overall deceleration of housing activity will reverse in mid-1985 if interest rates fall and another dose of mortgage bond money becomes available.

Commercial Banking.

Business loan demand has been relatively flat recently at District banks, but consumer loans continue to grow at a strong pace. Bankers expect consumer loan demand to remain quite strong and business loan extensions to pick-up moderately in the next few months.

Banks appear to be funding new loans to a large extent by stepping up their issuance of large certificates of deposit and reducing the volume of federal funds sold. Although District banks registered increases in time and savings deposits, these gains were negated by declines in transaction deposits.

FIFTH DISTRICT - RICHMOND

Overview

Generally, Fifth District economic conditions have changed little in recent weeks. The expansion is continuing, but at a somewhat slower rate. Individual sectors are showing more variability from month to month, and inventory building seems to have run its course. The past month, for instance, drew strength from housing and construction, sales of consumer durables, and coal production. The manufacturing sector was essentially flat as imports continued to eat into sales of such goods as textiles, apparel, furniture, and lumber products. At the same time, however, manufacturers supplying the automobile industry continue to operate at near capacity, as does the paper producing sector. Despite the continued strength of imports, a lack of inventory accumulation, and the possibility of nationwide strikes that would significantly affect the District, the outlook among District businessmen remains generally positive.

Manufacturing

District manufacturing activity showed little change in August, but with the sizeable gains of July, the overall level is quite high. Consumer durables and capital and industrial goods continue as leaders, showing uniform strength and near capacity production. The building materials sector, a source of strength earlier in the year, seems to be coming under increased pressure from import competition, and the national market may have softened somewhat as well.

Apart from the auto related segments, textile and apparel producers report continued slack and further deterioration of their foreign trade position. Furniture producers are also reporting soft spots in their markets, but once again import competition and a slowing of inventory accumulation at the retail level appear to be at fault.

Coal production is one of the truly bright spots in District activity. Despite a sharp decline this year in total exports of bituminous steam coal, U.S. coal production is running nearly 20 percent ahead of 1983, and all indications are that the Fifth District may be doing even better. Furthermore, the latest reports show that stocks on hand at domestic electric utility plants are actually down from a year ago, despite the potential for a strike later in the year.

Consumption

Consumer activity is still robust. Further gains in sales, particularly at department stores and general merchandise outlets, were reported for the past month. Also, sales of big ticket items apparently rose relative to total sales. For the most part, consumers remain aggressive in their buying and borrowing, although there have been scattered reports of minor retrenching. Most respondents expect further expansion of consumer debt, at least over the remainder of the year. Comments from respondents suggest that consumers favor higher quality products and respond more enthusiastically to advertising and promotion of top of the line items.

Housing and Construction

The construction sector in the District is still very strong, with steady increases in commercial activity and a recent rebound from a temporary drop in the residential area. New announcements of hotel, shopping center, and urban redevelopment projects point to continued buoyancy in those sectors. Several of the metropolitan areas around the District are experiencing virtual construction booms in the downtown areas. In addition, the residential sector is seen as fundamentally strong even though it may not regain production levels of earlier in the year. Most respondents expect housing to at least hold at current levels over the rest of the year.

Banking and Finance

Financial institutions are showing further gains in business and consumer lending, but there is no indication that their liquidity positions will prove restrictive in the near term. In general, these institutions are expecting continued growth in loan demand, including the business, consumer, and real estate components. Yet, they seem willing and able to accommodate this growth.

The Outlook and Prices

Businessmen and representatives of financial institutions remain basically optimistic with regard to activity and prices over the next six months. On balance, they expect further growth in the national economy and in their respective markets, although there is a spreading feeling that the largest gains may be behind us. Negative factors most often mentioned are interest rates, the level of imports, and the prospects for strikes in major industries. There is little concern over inflation, and little reported evidence of its resurgence.

SIXTH DISTRICT - ATLANTA

Economic conditions in the Southeast are mixed, but strengths continue to outweigh weaknesses. Industries dependent on international trade continue to be hit hard by the climb in the value of the dollar. Consumer spending remained strong through August, but summer tourist trade fell below anticipated levels of growth. Very recently, declines in mortgage rates have contributed to renewed growth in residential construction. Deposits at financial institutions are also increasing for the first time in many months. The general outlook for farmers is somewhat brighter than in several years, but last winter's freeze devastated many citrus groves.

Employment and Industry. Conditions in industries sensitive to interest and foreign exchange rates have deteriorated, and labor markets have softened. Unemployment rates increased in each of the Sixth District states from June to July, after holding steady, on average, for three months. Higher short-term rates and slower residential construction nationwide caused many furniture plants to reduce inventories. As a result, some small sawmills expect to close temporarily. The increasing strength of the U.S. dollar is adversely affecting many southeastern industries. A Florida shoe manufacturer expects to furlough 1,500 workers because of import competition, and leather employment in Tennessee is down 17 percent from last year. A recently retooled steel plant in Alabama closed temporarily in response to weak foreign demand.

The outlook for the chemical, energy, and defense industries is brighter. Two large oil companies recently announced plans to build refineries in Alabama. For the third consecutive month, the number of active drilling rigs in Louisiana increased in July. Military contracts boosted manufacturing employment in Georgia this year, and job growth is likely to continue through 1986.

Consumer Spending. Retail sales activity in the region continued strong through August. Atlanta, Orlando, and Jacksonville led the region in sales gains. Thanks to a spending surge in the latter part of the month, August sales activity was reportedly better than in July. Electronics, fall clothing, and housewares moved particularly well, but all departments fared better than last year, according to most store managers polled. Auto sales remained healthy through August, but dealers are concerned about the impact of a strike, which some feel could keep potential customers out of showrooms.

Construction. The construction outlook has brightened over the past two months. Residential brokers and real estate agents report new strength in single-family home sales as a result of the recent mortgage rate decline, which enabled more home buyers to enter the market. In some areas, rates on fixed-rate mortgages fell from 15 percent in July to as low as 13 1/2 percent in early September. Mortgage rates appear high by past standards, and much of the activity has been in the resale market, where buyers can assume mortgages at less than current market rates. The attractiveness of adjustable-rate mortgages apparently is waning. Earlier this year, roughly 60 percent of new mortgages were of this type, but our latest survey suggests that this level may have been the peak and the proportion is now declining. Apartment vacancy rates are beginning to rise as first-time home buyers vacate. Estimates of vacancy rates range from 20 percent in Jackson, Mississippi, to below 6 percent in Atlanta.

Commercial construction in the Southeast continues to surge despite high interest and office vacancy rates. Developers, financiers, and leasing brokers, buoyed by the continued strength of nationwide business expansion, believe demand for office, warehouse, manufacturing, and retail space will increase. However, commercial developers have historically provided more office space than most southeastern markets could readily absorb. Office buildings are the most common type of commercial construction currently in progress, yet most markets have more excess office capacity than any other type of commercial structure.

Financial Services. Loans by large commercial banks advanced in July and August after a strong June showing. Real estate credit recorded faster growth than business or consumer lending. Mortgage commitments at S&Ls fell 12 percent from June to July, but recent mortgage rate declines are likely to have produced some growth through mid-September. Large commercial banks recorded the first substantial growth in deposits in July and August since February, but financial institutions report that loan demand exceeded new deposits in early September. The overall deposit advance is traceable to additions to nontransaction accounts, principally certificates of deposit, and a deceleration of the five-month decline in demand deposits. A slight majority of those polled indicate they are setting rates on their money market accounts on the basis of national rates. More than half the institutions contacted believe that time-deposit maturities on new issues are shortening, but only slightly. Most banks attributed this change to expectations of higher interest rates.

Tourism. Business conditions in the tourism industry are mixed. Rainy weather and increased international travel, due to the high exchange rate of the dollar, depressed midsummer tourism in the Southeast. However, hotels had higher revenues, and air travel remained strong through August. World's Fair average daily attendance through early September dropped slightly to 42,000. Attractions, such as theme, state, and national parks, are posting only slight gains or declines in attendance. Visitor center registrations also dropped in July. The lodgings industry is showing more positive signs. All states reported double-digit increases in hotel/motel tax receipts in July, reflecting increases in room rates and occupancy. The World's Fair and increased business travel are largely responsible for the strong performance of lodgings.

Agriculture. The outlook for District farmers appears more favorable than in recent years. Despite a drought in June, most crop yields are expected to approach record 1982 levels. Last year's sharp reduction in commodity stocks, a strong economy, and increased Soviet purchases may keep prices at a profit-making level. As a result, net revenue for major District crops is projected to be up substantially this year.

The full extent of Florida's citrus damage from last winter's freeze is now estimated at $1.1 billion. The freeze, the worst in this century, caused varying amounts of fruit loss and tree damage to approximately 100,000 acres of citrus. Florida's citrus industry is likely to shift further south as growers seek to replant trees, which take five years to reach bearing age, in areas less vulnerable to freezes.

SEVENTH DISTRICT--CHICAGO

Summary. Business conditions in the Seventh District appear less robust than earlier in the year. Payroll employment, adjusted for seasonal trends, has been about level since the first quarter. Steel cutput declined in August contraseasonally. Farm income remains depressed and farm equipment producers have scheduled extended plant shutdowns. Demand for mechanical equipment, generally, has failed to show expected gains. Retail sales improved in late August, but merchants report intense price competition. Housing activity has softened, but is holding up better than some realtors had expected in view of high financing costs. Auto sales continue to be limited by availability of preferred models. Lack of progress in the auto industry's labor negotiations casts a heavy shadow over District centers specializing in production of motor vehicles and parts. Inroads of imports in markets for an ever-broadening spectrum of consumer and producer goods present a serious threat to the viability of many producers of goods.

Employment. Payroll employment in the five District states has increased only half as fast as in the nation since late 1982. Compared to June 1979, employment in the five-state area was down 8 percent in contrast to a 5 percent rise for the nation. Moreover, while the national total continued to rise through August, District employment, seasonally adjusted, has been about even since February. Iowa employment showed a slight decline in the recent period and has been below the level of late 1982. Despite strength in the auto industry, employment in Michigan has been stable since February, both in manufacturing and nonmanufacturing. Estimated unemployment as a percent of labor force in the five-state area, while still above the national average, has declined more than the national rate since late 1982, implying withdrawals from the labor force. Iowa's statisticians estimate its unemployment rate well below the national average in the face of its poor economic performance. These comparisons cast doubt on the use of unemployment rates as measures of economic well-being for states and localities. Recent weeks have brought new layoffs of hourly workers in steel, farm equipment, autos, and construction components, and white-collar staff cuts in manufacturing, financial services, and health care.

Steel. Operating rates in the District's steel industry were lower in August than in July and trended downward through the month. This development had not been anticipated last June. Since steel consumption is believed to have held up, the decline in domestic steel production is attributed to increased imports coupled with reductions in user inventories. A larger proportion of steel going to fabricators has been coming from steel service centers, rather than direct from the mills, partly because of hand-to-mouth inventory policies under which smaller quantities are ordered at one time. A large share of foreign steel comes through service centers, many of which are owned by foreign steel producers.

Farm Equipment. Through much of the first half of the year, District producers of tractors, combines and other farm equipment clung to the belief that the year would see modest increases in sales to farmers, perhaps 10 percent. However, sales have been disappointing all year and, in July, were far below last year's dismal pace. As a result, extended shutdowns of major plants have been announced, plants that had been operating below 50 percent of capacity in some cases. In addition, further substantial cuts in white-collar staff are planned, apparently of a permanent nature. Reasons for poor sales of farm equipment include depressed farm income, increased imports, and a large supply of good used equipment, often disposed of at auctions.

Machine Tools. The Biennial International Machine Tool Show opened in Chicago on September 5 for a nine-day stay. A thousand exhibitors and 100,000 visitors are expected, about the same as in recent years. The upcoming show may have been responsible for some of the slowing in orders for metal-cutting machine tools in June and July. Sales are higher this year, but well below the levels of the late 1970s. Moreover, a sharp uptrend in imports since then has increased the share of market accounted for by imports from 20 percent to near 50 percent in 1984--over 50 percent for metal-cutting types. Some U.S. producers are incorporating foreign components in their machines or are offering complete foreign machines under domestic name plates.

Capital Goods--General. Demand for mechanical capital goods produced in the District, while varying greatly by type, remains soft overall. Heavy construction equipment is almost as weak as farm equipment. Sales of heavy-duty trucks levelled off in late spring after a rapid rise. Bookings of trailers, many of them tandems counted as two units, are still in excess of capacity. Freight car deliveries in 1984 are now estimated at 12,000, double last year's total, but only a fraction of the 90,000 shipped in both 1979 and 1980. Auto companies, recording record profits, have sharply increased appropriations to buy presses, machine tools, robots, and other items intended to update facilities and reduce labor requirements. New plans by electric utilities are at the lowest level in many years.

Auto Labor Talks. At this writing, chances of a settlement of the auto industry labor negotiation before the September 14 contract expiration date appear dim. On September 6, with only 8 days to go, the UAW named

General Motors as its "target" for concentrated discussions. Many large issues must be resolved: wages, COLA, holidays, pensions, medical benefits, mandatory overtime, outsourcing, job training and retraining, and, perhaps most difficult, "job security" (guaranteed employment). Reported profits of the big auto companies have been huge, but analysts warn that funds are vitally needed for investment in new facilities. Modern plants abroad have much lower labor costs. Cars, small trucks and components from Japan are the main current concerns, but major components also are coming from Mexico and other nations in which U.S. firms have subsidiaries. Korea, with labor costs well below those of Japan, is a potentially serious competitor. The choice of GM as the target has significant ramifications. With 350,000 union workers, a strike at GM would exhaust the UAW's record strike fund three times as fast as a strike at Ford with 115,000. GM, with very low inventories of finished cars, assembled 57 percent of the autos and 42 percent of the trucks produced in the U.S. in the first months of 1984. Moreover, GM produces a larger share of its components than Ford or Chrysler. A long strike at GM would be reflected noticeably in total industrial production and GNP. A 67-day strike against the company occurred in 1970.

Retail Sales. Sales of apparel and back-to-school merchandise picked up in late August, helped by warm weather. Consumers have continued to purchase major appliances at a record pace. Unlike autos, sales of appliances have not been limited by availability. Retailers complain of intense price discounting, especially from competitors trying to reduce excessive stocks. After improving last year and early in 1984, sales of recreational vehicles softened in the summer. General merchandise prices average no higher than last year currently, a surprising development to most analysts who had expected some increase. Credit use (especially through bank cards) has been heavy, but delinquency experience has been quite favorable.

EIGHTH DISTRICT — ST. LOUIS

Economic expansion continued during August and early September in the Eighth District. Expectations are for continued moderate growth over the rest of the year, and many planners assume that the expansion will continue at a reasonable pace throughout 1985. Department store sales and resort businesses were strong, but residential housing sales were below year-ago levels. Construction remained on a high plateau. Factory production and employment continued to grow, but new orders were mixed.

Consumer Spending

Sales at District department stores continued above year-ago levels in August and early September. Several merchants mentioned that there was a lull in activity during the Olympic games, but that volume swelled afterward. Back-to-school sales were successful in late August. Despite the overall sales strength, several merchants reduced prices of slower moving goods. Merchants are generally optimistic concerning the upcoming Christmas season.

The Missouri resort industry did an unusual volume of business in the last half of August when normally activity begins tapering off. Weekday attendance at amusement parks, resorts and motels was up significantly, partly reflecting a new Missouri law delaying the start of the public school year until after Labor Day. Traffic was up over 60 percent at one major amusement park, and a large resort reported that its lodging units were 95 percent occupied compared to 60 percent at this time last year.

At several dealers in the District, automobile sales were sluggish in August and early September. Others reported favorable sales and noted that they could have sold more if they still had the popular models. On balance, sales were higher than in the same period of 1983. New cars apparently sold better than used cars. Two dealers were greatly upset over recent factory price increases. Although the average price mark-up was relatively small percentage-wise, the dollar increase was said to be enough to hinder significantly sales of certain models. Small truck sales continued to run slightly ahead of year-ago levels.

Housing and Construction

Sales of older homes continued at year-ago rates in August and early September in the District, but according to builders, sales of new single-family homes were off 15 percent from the same time last year. Interest rates on fixed rate mortgages have declined nearly a percentage point from the peak early in the summer, but rates on variable-rate mortgages have changed little. Building costs and land values continue to rise; partly as a result, the average new home is slightly smaller than a year ago, and there has been a tendency to reduce lot sizes.

Most home builders in the District remained busy, but the volume of unfilled orders has declined substantially. There has been an unusual amount of new apartment building in both Memphis and St. Louis. Nonresidential construction also continued at the earlier fast clip, with the building of many offices, roads, stores, hospitals, warehouses and hotels.

Industrial Production

New factory orders were mixed during August and early September in the District, but production and employment inched up slightly. Demand was strong for motor vehicles and defense goods and there was an uptick in the demand for steel, which had been weak. Some businesses, such as synthetic fibers and plastics, noted a plateauing. Other businesses experienced a slackening in orders, largely because customers ceased building inventories. In the southern part of the District, a foundry is closing and an aluminum plant reduced operations because of declining sales, idling nearly 400. Because of projected flat sales over the next year, a major appliance manufacturer announced it will reduce its employment by nearly 1,700 in the next month; however, some operations are being moved to other locations. Industrial prices have risen only slightly on balance, and some profit margins have been squeezed. Foreign competition is a major factor in pricing policies.

Banking

Business, real estate and consumer loans continued to expand in August at 12 relatively large banks, but demand deposits declined and there was little net change in time deposits.

Agriculture

Rainfall was uneven across the District during the growing season causing crop yields to vary greatly. It now appears that in the aggregate, District crops will be relatively large in 1984.

NINTH DISTRICT - MINNEAPOLIS

Moderate economic growth continues in the Ninth District. Seasonal improvement in the labor market continues unabated. Modest consumer spending gains are reported by most sectors. While residential construction appears to have fallen off, nonresidential construction doesn't appear to have done so. Performance in the financial, agricultural, and resource-related sectors remains unchanged from our last report.

Employment

The most recent data show stability in the labor market. Unemployment rates in Ninth District states continued to seasonally improve in July, led by South Dakota's precipitous drop to 3.8 percent. While Minnesota's unemployment rate rose somewhat, analysts attribute most of the increase to statistical anomalies. Ninth District unemployment fell by close to 14,000 workers between June and July. Continuing stability is indicated by the increase in the Minneapolis help-wanted advertising index, which rose in July to a level 10 percent higher than a year earlier.

Consumer Spending

General merchandise sellers report modest gains in August. One large retailer says its August volume was slightly below expectations because of a slightly disappointing back-to-school promotion. Another large retailer thinks that some cool August weather depressed its air conditioner sales. Both of these retailers recorded an 8 percent nominal sales gain over August 1983. Reports from around the district are mixed, with modest gains in diversified cities and no gains in agriculturally dependent smaller towns.

be on the horizon, due to the congressional cap on industrial revenue bonds and recent changes in the federal tax code.

Finance

Between mid-July and mid-August, deposits grew slower and loans grew faster at large Ninth District commercial banks than at large banks in the nation as a whole. Commercial and industrial loans were especially strong at the district's large banks. Outside the Twin Cities, Bank directors report fairly flat deposit and loan growth.

Agriculture

Agricultural conditions haven't changed much from those reported earlier this summer. Crop conditions are generally good outside the excessively dry areas of the western Dakotas and northeastern Montana. For example, exceptional oat yields are reported in parts of Wisconsin. Furthermore, cattle prices are firming, and the dairy diversion program is cutting milk production. But low prices and high debt service continue to plague many farmers. A recent survey of Minnesota farmers found that 13 percent had high debt-to-asset ratios, in excess of 70 percent.

Resources

Bank directors report a mixed picture in resource-related production. Lumber is still suffering from low prices, although plywood prices have firmed a bit. But pulp demand is still strong. Coal production in North Dakota and Montana hasn't increased much. But oil and gas profits are helping to spur the economy of western North Dakota and northeastern Montana. Furthermore, Lake Superior ore shipments are greater than they were a year ago.

TENTH DISTRICT--KANSAS CITY

Overview. Some further moderation is apparent in Tenth District economic activity. While retail sales are expected to improve further, housing activity and mortgage demand are generally slowing. Inventories of both retail goods and materials inputs are at satisfactory levels. Price increases have been small, and are expected to continue so. Total loan demand at district banks remains relatively constant while deposits are higher. Fall crops in most district states are suffering from dry weather.

Retail Trade. Retailers report year-to-date sales up as much as 10 percent over a year ago. Sales have generally improved in the last three months, with apparel and accessories selling particularly well. Stronger sales are expected for the rest of the year. Retailers seem satisfied with inventory levels and plan no changes in the near future. Prices have generally been flat in the last three months, with some price declines reported.

Automobile Sales. Automobile dealers throughout the Tenth District continue to report improved auto sales compared to a year ago. Credit market conditions are satisfactory and financing is available both for floorplanning and customer purchases. Dealers in some areas report that only lack of availability is constraining sales. Dealers are optimistic about sales for the rest of 1984 and early 1985. Their only concern is over possible supply interruptions due to a strike.

Purchasing Agents. Purchasing agents generally report input prices from 2 percent to 10 percent higher than a year ago. Most respondents had either unchanged prices or quite small price rises in the past three months and virtually all expect steady input prices for the balance of 1984. Some firms are experiencing slight increases in lead times for materials, but no materials availability problems are reported and none are anticipated through 1984. Most respondents report satisfactory materials inventory levels, with several having trimmed inventories recently because actual sales are running below forecasted sales.

Housing Activity and Finance. Residential construction activity in the district is mixed both by type of structure and by location. Starts of single-family units are generally down, particularly since June. Starts in multi-family units range from below year-ago levels to considerably higher. Overbuilding of multi-family units is reported in some areas such as Colorado Springs and Oklahoma City. Housing starts are expected to slow through yearend if interest rates remain at, or rise above, their current level. Sales of new homes are generally down from last year, with much of the slowdown occurring since June. Inventory levels range from satisfactory to larger than desired. New house prices are stable. Building materials are in good supply and are expected to remain so. Prices for materials are generally steady, although sheet rock prices are still rising in some areas.

Demand for mortgage funds and mortgage commitments at savings and loan associations is slowing from a generally robust Spring due mainly to the sizable increase in both fixed and adjustable mortgage rates over the past several months. Most respondents expect mortgage demand to continue decreasing, although rates are expected to be stable or down slightly. Savings inflows are higher than last year, but respondents generally anticipate a zero inflow or net outflow over the remainder of 1984.

Banking. Total loan demand was generally constant over the last month at Tenth District banks, although real estate and consumer loans rose slightly. Commercial real estate loans were slightly stronger than residential loans. Some respondents report difficulty in competing with finance companies on consumer loans. Commercial and industrial and agricultural loans were flat. Total deposits were higher, mostly due to increases in Super NOW, MMDA, and IRA and Keogh accounts. Conventional NOW accounts rose slightly. Demand deposits were flat, while large CD's and passbook savings accounts declined. Almost all respondents report no change in their prime rate in the last month, and the majority do not foresee a change in the near future. Consumer lending rates were unchanged at most of the banks surveyed, with the rest reporting higher rates. None of the respondents expect further changes in the near future.

Agriculture. Dry conditions in several district states will affect production and yields of fall-harvested crops. In Missouri, where spring flooding prevented timely planting, lack of moisture and hot weather have cut expected crop yields. Corn yields are expected to be halved and soybean yields will also be substantially reduced. In Kansas, dryland milo production is well below average and rain is needed to prepare the fields for winter wheat planting this fall. Irrigated crops in the state are doing well, however, especially irrigated corn. Cotton yields in Oklahoma will be well below normal, and rain is also needed there for preparing winter wheat ground. Nebraska and Colorado are not as dry as the other states. Their corn crops are in good shape, as are soybeans in Nebraska. In general, Nebraska and Colorado crop production has been very good this year. Livestock production has not suffered as much as crops from dry conditions, nor has marketing of cattle been affected by the weather. Colorado, parts of Kansas, and Nebraska have abundant feed, both in pastures and hay. In Missouri and parts of Oklahoma and Kansas, however, rangeland is dry and cattle weight gains have been slower than normal. Bankers expect below-normal paydowns on their agricultural loans by the end of the year, and some expect more problems with agricultural loans this year than last year.

ELEVENTH DISTRICT--DALLAS

The Eleventh District's recovery is slowing. Expansion in demand for manufactures has begun to decelerate. A decreasing rate of increase characterizes retail sales. The recovery in oil and gas drilling is more sluggish than earlier this year. Nonresidential construction remains very active, but the pace of growth has fallen. Most measures of housing construction are declining absolutely, both from a year earlier and from earlier months of this year. Drought continues to hinder the agricultural sector.

The recovery in District manufacturing is cooling. Lumber and wood products and stone clay and glass manufacturers report falling demand due to declining homebuilding. Some construction materials firms have reduced employment in recent weeks. Apparel manufacturers face slackening demand from wholesalers and some firms have temporarily shut down production. Electronic equipment manufacturers are experiencing moderate growth in demand, due to business investment and to defense contracting, but the rate of growth is unchanged. Demand in District primary metals, fabricated metals, and chemicals manufacturing firms is rising as a result of continued needs by nonresidential building and energy-related industries. Growth is not accelerating, however, and some respondents expect smaller gains in the future. Metal manufacturers cite stiff competition from imports as a continuing problem. Inventories of some types of drilling equipment remain above desired levels and improvement in sales is very slow.

District oil and gas drilling has been diminishing moderately but is widely expected to commence further growth very soon. Strength in offshore drilling has partially offset recent declines in land-based rigs. Past instability in oil prices explains the recent slowing in drilling. Lately, oil prices have begun to climb. This pattern, together with growth in the seismic crew count, a leading indicator of drilling, motivates anticipations of further recovery in drilling. Even after recent declines, however, the rig count remains significantly above a year ago.

Retail sales continue their year-over-year increases, but at a slower rate than during the first two quarters of 1984. The declining growth is concentrated in consumer durables. Sellers are having to make bigger-than-planned markdowns on sale merchandise in order to clear the market. Nevertheless, most retail respondents anticipate brisk fall and Christmas seasons, although they are increasingly uncertain about sales prospects for early 1985.

Automobile dealers are still realizing record sales in the District, although they are moving into a period traditionally characterized by seasonal slowdowns. Dealers have become concerned about the possibility of strikes at the auto plants. Some dealers also express fears about the possibility of rising interest rates. Slower sales through the end of the year are widely expected in the District.

The rate of increase in the number of nonresidential construction projects is beginning to slow, but this market remains very active in the District. Dallas leads the nation in the number of square feet of office space under construction. There is increasing concern about overbuilding not only of office space, but also of retail square-footage.

Residential construction in the District continues to fall. The bulk of the residential permit decline is in multifamily residences, where overbuilding has been a significant problem for some time. Apartment vacancy rates in the District are generally high compared to the nation and further slowdowns are expected in apartment building. Despite the recent decline in mortgage rates, builders continue to blame high rates for a current weakness in single-family sales.

The deceleration of the District recovery is reflected in a number of financial statistics, but not in all. Year-over-year growth in total loans and securities at large banks is ebbing. The pace of expansion in business and real estate loans at large banks is slowing, although real estate loan volume is well above a year ago. The rate of increase in consumer loans is accelerating, as it has throughout 1984. Year-over-year deposit growth remains flat for all member banks in the District, but is declining at large banks.

A drought continues to punish agriculture in southern Texas. Even so, preliminary 1984 estimates of Texas crop production far exceed the PIK-diminished output of 1983. However, this year's harvest estimates for some crops are lower than for more representative years, such as 1981. Increased national production has depressed the price outlook for most crops, although reduced meat supplies mean potentially higher prices for cattle. Because Texas cattlemen have planned large marketings in the third quarter, they are likely to benefit from the higher prices. A July survey of Texas agricultural banks shows 17 percent reporting any farm or ranch bankruptcies, down from 21 percent both for last January and for July 1983.

TWELFTH DISTRICT -- SAN FRANCISCO

The Twelfth District economy continues to grow, but at a slower rate due to weakness in certain sectors. Retail sales at department stores and automobile dealerships are reported to have dropped in August, although there may have been extenuating circumstances such as the effect of the Olympic Games and shortage of popular automobile models. Nonresidential construction activity continues to pick up, with additional projects announced recently. But rising mortgage interest rates have further reduced both the construction and sale of new homes. Weakness in certain industries, especially primary metals and lumber, is slowing the overall growth of manufacturing employment. The agricultural sector has been experiencing a dismal summer as overly abundant harvests have brought low prices for fruits and vegetables, and farm land prices have continued to drop. Banks reported strong consumer loan growth in August, but most expected some slowdown.

Consumer Spending

Retail sales at department stores and shopping malls are reported to have dropped off in August, following a favorable month in July. For example, the four major department stores in Southern California experienced a noticeable slowdown which reduced their year-to-year gain in sales for that month to 13 percent compared with 17 percent in July. A similar slowdown was reported for stores in Washington and Utah. In Southern California, some of the slowdown occurred because residents stayed away from the stores during the Olympic Games. But the fact that sales fell even further in early September suggests that consumers may be becoming more cautious. Back-to-school apparel sales were disappointing, while sales of furniture and appliances declined. The slowdown has left retail inventories above desired levels. As a result, retailers plan to restrain their inventory investment until just before the Christmas holiday season. Automobile sales apparently also fell in August, but respondents attributed at least part of the decline to extreme shortages at the end of the model-year. Despite the pause, retailers expect a strong Christmas selling season.

Manufacturing and Mining

The growth of manufacturing employment in most Twelfth District states has slowed during the third quarter, reflecting weakness in such important industries as primary metals, lumber and petroleum refining. Aluminum companies in the Pacific Northwest and copper producers in the Intermountain states have been curtailing operations recently as the rising foreign exchange value of the U.S. dollar has increased the influx of lower-price imports and forced domestic producers to reduce their prices. The administration's decision in early September to deny copper producers import protection suggests that further layoffs will occur in that industry. Pacific Northwest lumber mills increased production in August, following extended vacation closures in July, but output still remained well below levels reached earlier this year due to the downtrend in national homebuilding activity and inroads by Canadian lumber imports. Two lumber companies declared bankruptcy in August due to their inability to pay for high-cost public timber under contract, and numerous others also could be forced to go out of business if Congress does not grant the industry contract relief. Fortunately, the paper segment of the forest products industry is experiencing extremely strong demand. The largest gains in manufacturing employment continue to occur in those industries benefiting from rising federal expenditures for defense and space programs and increased business investment. These include the electronic equipment, aircraft and missiles and nonelectrical machinery industries.

Construction and Real Estate

Housing starts in the West have shown further weakness recently, with the pace now off about 25 percent from this year's peak reached in January. Sales of new homes have declined by a similar percentage from levels reached earlier this year. Permits point to a further slowdown in homebuilding. The inventory of unsold new homes has risen but is not considered to have reached a disturbing level, partly because developers have attempted to protect themselves by building mainly on a pre-sold basis. Home prices are about equal or slightly higher than those of a year earlier. The use of creative financing is rising. In addition to below-market interest rates, some builders are offering to pay all closing costs. Despite rising interest rates, nonresidential investment continues strong in the West, with a large number of office towers, shopping malls and hotels planned or under construction in major metropolitan areas. Office vacancy rates in these areas already are considerably above the national average. Rental rates are falling, and bankers are concerned that a serious excess supply of office space may be developing.

Agriculture

This summer has been dismal for the California agricultural sector. Unusually hot weather either damaged fruit and vegetable crops or alternatively hurried their harvest, flooded the market with excess supplies and reduced prices below the break-even point for many growers. The fact that the heat caused many crops to ripen all at once aggravated the downward pressure on prices. Table grape prices have been the lowest in three years. The raisin inventory already amounts to two years' consumption, so the current harvest of raisin grapes is expected to bring very low prices. Similarly, the nation's largest winery -- Gallo -- is reported to be offering only 40 percent of last year's price for wine grapes not already under contract. The hot weather helped spur the growth of the California cotton crop, but the strong U.S. dollar and prospect of record world production have caused futures prices to move even lower recently. In California, Utah and other Intermountain states, the livestock sector has not shown significant improvement. In August, beef cattle prices were just about equal to last year's level, while dairy cattle prices were well below the level of a year earlier. Farm and ranch real estate values continue to fall, especially for nut and grape acreage in the San Joaquin Valley area of California.

Financial Institutions

In August, consumer credit (not seasonally adjusted) at large banks in the Twelfth District grew at a 24 percent annual rate. This represented the largest monthly increase in 1984 and offset weakness in commercial and real estate lending. A sample of smaller institutions showed similar behavior. These increases continue the pattern of strong consumer loan growth shown earlier this year. Bankers in the region attribute the strength to improved economic conditions which have boosted consumer purchases of new cars and recreational vehicles. While a number of banks also report strength in home equity loans, others have experienced slow to flat demand for those loans as consumers have shifted to use of personal credit lines and credit cards for financing. The forecast for consumer credit remains mixed. Many banks expect these loans to continue to grow rapidly through year-end. However, an even larger number of institutions expect slower growth in personal income and rising interest rates to cause a slowdown in both consumer spending and borrowing. A few of these already have experienced a falloff in consumer loan demand.