

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

December 1984

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SUMMARY*

The economy continues to show a widespread pattern of slowing expansion across both regions and industries. Manufacturing output is growing overall, but most Districts report substantial variation among industries. Retail sales growth on a year-over-year basis is sluggish compared to earlier this year. Auto sales continue to increase more than is seasonally normal. Residential construction is still weak, but lower interest rates are leading to some signs of a pickup. Most Districts note steady loan demand overall, although consumer lending is strengthening in some Districts. In agriculture, crop prices continue to fall while cattle prices are rising further. Agricultural debt remains a concern in several Districts.

Manufacturing and Industry

Manufacturing is growing slowly in every District, although some industrial sectors continue to perform vigorously. Growth is highest among paper and allied product firms and electrical equipment producers. Atlanta, Minneapolis, and Dallas report strong performance by the former, while Dallas and San Francisco indicate a good showing by the latter. Increased orders from defense firms and the automobile industry are contributing to demand in some manufacturing sectors. The weakest industries are those most exposed to import competition, especially the textile, apparel, wood product, and metal working industries. Boston, St. Louis, Richmond, Chicago, and Minneapolis all report deteriorating

*Prepared at the Federal Reserve Bank of Dallas.

performance in at least one of these industries. Several Districts report that inventories are rising, but among those reports only a few indicate that inventories are above desired levels. Input prices are stable or rising only slightly. Uncertainty about future growth is increasing, as evidenced by Chicago's notation of recession fears on the part of some respondents. Oil and gas drilling activity is continuing to improve, but the recent oil price decline threatens the industry's recovery.

Consumer Spending

Retail sales are increasing on a year-over-year basis, but they are slower than expected in several Districts. Boston and New York attribute slower sales growth to relatively warm fall weather. Richmond, on the other hand, reports quite strong sales. The pattern of sales is also uneven between consumer durables and nondurables across Districts. Many stores are increasing their advertising and markdowns to stimulate business. Respondents anticipate increased holiday sales, but the expectations regarding the strength of Christmas sales are lower than earlier.

Automobile sales are above year-earlier levels in each of the nine Districts reporting them. Inventory shortages are responsible for slower expansion in some areas. Availability problems persist, but increased production and recent strike settlements lead many dealers to expect further gains in sales.

Construction

Lower mortgage interest rates are contributing to an upturn in some previously declining residential construction markets. Philadelphia, Cleveland, and St. Louis report growth in residential construction. New

York is reporting exceptionally strong residential construction levels despite a shortage of skilled labor. San Francisco, Dallas, Chicago, and Minneapolis note general weakness in their residential markets, although some regions within these Districts are doing well. Atlanta and Kansas City expect strengthening residential construction on the basis of lower interest rates.

Nonresidential construction is generally more vigorous than residential. Several Districts comment that commercial construction is proceeding at a strong pace. New York is the exception with ebbing markets for nonresidential construction in all parts of the District except mid-town Manhattan.

Banking and Finance

Mirroring the slowdown in the overall economy, asset growth is moderating. Commercial lending is remaining flat, although St. Louis reports a recent pick-up in loan demand and Philadelphia expects such an increase soon because of continued economic expansion. Consumer lending still appears strong with widespread reports of sizeable increases. Atlanta and Cleveland report slight increases in mortgage lending. Mortgage loan demand is generally steady elsewhere despite the decrease in rates. Several Districts expect a demand pickup in the future. Dallas indicates that declines in oil prices may limit the availability of bank funds to the oil and gas industry.

Agriculture

The agricultural situation varies among Districts, reflecting the diversity of products, weather, and market conditions. Harvests this year will be considerably larger than last year, but declining prices are

blunting the possibility of substantial gains in farm income. Atlanta reports that late rains have significantly damaged the cotton and soybean crops in portions of the District. Both San Francisco and Chicago comment on the importance of poor export markets as one cause of low U.S. prices. Improving cattle prices are helping ranchers in many parts of the country, although St. Louis notes that increased herd liquidations are putting downward pressure on cattle prices. The brightest agricultural picture is offered by Richmond where a better growing season and stable input costs are improving repayments of agricultural loans. Several Districts note that many farmers are having difficulty meeting interest payments given current prices.

FIRST DISTRICT - BOSTON

Economic activity in the First District has slowed in the past several months, according to representatives from both the retail and manufacturing sectors. Retailers attribute the recent weakness, at least partly, to unseasonably warm weather; they continue to look forward to a strong Christmas season. Manufacturers have also seen a slowing since the summer, although a couple of respondents report that orders appear to be picking up again. Manufacturers are concerned that the recent slowdown means that there will be little or no growth in 1985. Even so, manufacturers' capital spending plans for 1985 are greater than or equal to spending in 1984. Some retailers and manufacturers report that inventories are higher than desired; but for the most part, inventory control is said to be good. Price increases continue to be very modest; competition is intense in both retailing and manufacturing.

Retail Sales

Retail sales growth slowed in the First District in October and the first half of November. More recent signs are mixed. Price competition is reportedly fierce. In spite of recent results, most contacts expressed optimism about the upcoming holiday season.

Explanations for the recent slowdown were varied. Warmer-than-usual fall weather reportedly inhibited purchases of cold weather apparel, with sales of outerwear noticeably below plan. One merchant also blamed

poor product availability caused by difficulty hiring employees for a distribution center. (New England's unemployment rate is currently about 4 1/2 percent). However, a chain selling consumer durables, with well into double digit sales growth for the last few years, had no explanation for an unprecedented drop to "near zero" growth beginning in mid-September. Shoppers just stopped coming to their stores.

There is extensive promotional price activity. Off-price retailing is growing, reducing margins. One contact commented that merchants are fighting so hard for market share that they are losing sight of the bottom line. Another, selling hardgoods, said ready-to-wear stores are facing particularly tough times. A mail order firm predicted a shakeout in the catalog sector and, citing competitive pressures, reported recent price increases averaging only 2 percent; 1985 price increases are also expected to be modest.

Two retailers with supply troubles have lower inventories than desired. They are concerned that customer service levels and, hence, sales could be adversely affected in the next critical month. Other stores, with unexpectedly weak sales, are currently overstocked but expect to work inventories down in December.

A local department store reported "fantastic" sales volume the day after Thanksgiving; but results were spottier on the ensuing weekend days. The slower weekend sales were attributed, at least in part, to the return of warm weather. With more seasonal cold temperatures, retailers project good holiday sales and strong, but not spectacular, increases over last year.

Manufacturing

Manufacturers in the First District report that orders have slowed from the pace set in the first half of the year. The slowdown has been fairly general, encompassing high technology products, traditional metalworking, packaging and some consumer products. One respondent has continued to enjoy strong, steady growth and two others have seen a pickup in orders after a slowdown earlier in the fall; but these are exceptions. The slowdown caught manufacturers by surprise; several report that inventories are a little higher than desired. However, most contacts feel that their inventory control is very good. The slowdown does not seem to be viewed as a serious problem in itself, but respondents are concerned about what it implies for 1985. Most expect business to be flat or up slightly next year.

Capital spending plans call for expenditures in 1985 to be about the same as or higher than in 1984. More additions and new plants seem to be planned, although the emphasis in capital spending is still on replacement expenditures and productivity enhancement. A couple of contacts mentioned that workers have become more receptive to productivity enhancing equipment and the more flexible work rules this requires.

There are no signs of increasing inflation. Materials prices are rising only modestly and several manufacturers noted that even these modest increases cannot be passed on to customers. Wage increases remain moderate.

One comment heard for the first time is that the decline in the value of the pound has made the United Kingdom a much more attractive

location from which to supply world markets. Two manufacturers, in very different industries, said they are expanding or thinking of expanding their U.K. operations. Several respondents also mentioned that the strong dollar and the pressures of foreign competition have forced them to devote more attention to developing new products and also to searching out new markets overseas for existing specialty products that are not very price sensitive.

SECOND DISTRICT--NEW YORK

Introduction

The pace of economic activity in the Second District has been uneven in recent weeks. Retail sales slowed significantly in October and early November, while purchasing managers reported significant improvement in business conditions in October after a sharp slowdown in September. The first reports on the Christmas season were mixed. Over the Thanksgiving weekend, department store sales were on or above plan, but several retailers had advertised heavily and cut prices. Homebuilders remain busy and skilled labor is increasingly scarce. The office market, in contrast, is weakening almost everywhere outside of midtown Manhattan. Thus far, the demand for mortgages and consumer loans has not responded to the recent decrease in interest rates.

Consumer Spending

Second District retailers report a weakening of consumer sales in October and November. Unseasonably warm weather was cited as the cause of the slow sales of winter clothing through most of the period, yet only one merchant reported sharp increases when the weather cooled in mid-November. As a result, most stores report unplanned increases in their inventories. Over the Thanksgiving weekend, sales at many stores showed some improvement, with increases over 1983 ranging from flat to 39 percent. However, the promotional environment has been escalating and some retailers reported needing aggressive advertising and price cuts.

Business Activity

During recent weeks the pace of economic expansion showed some improvement after the September slowdown. In Rochester, the percentage of purchasing managers reporting improved business conditions rose substantially in October; in Buffalo the percentage reporting declining orders fell. Inventories were steady to slightly higher and remain at satisfactory levels. Several New York firms plan to increase production and hiring as a result of newly-awarded government contracts and urban development grants. Additionally, a Japanese electronics firm will build a U.S. headquarters complex in Mahwah, New Jersey on the site of a large plant closed in 1980.

A recent report indicates that New York City's employment growth during the recovery extended to all five boroughs, in contrast to past years when most job gains were concentrated in Manhattan. Employment increases in Brooklyn and the Bronx reversed a six-year pattern of decline.

Construction and Real Estate

Residential construction activity remains intense. New contracts for home construction are being written by some upstate builders at a rate that exceeds even the rapid pace of last summer. In downstate New York, however, shortages of skilled labor in parts of the metropolitan area are reportedly worsening, and the delays have been very costly to some homebuilders. In parts of New Jersey, planning for multi-family housing is picking up as court-ordered down-zoning is gradually being implemented. Additionally, for the first time in several years, New York City is sponsoring the production of rental housing without Federal subsidy.

Observers across the entire District, however, report slower absorption of office space in almost all areas, with parts of Westchester, Connecticut and New Jersey especially sluggish. Potential renters of office space appear to be taking a "wait and see" stance before signing leases. Observers also believe that plans for many construction projects not yet started are likely to be postponed. The one exception to this softening trend is in midtown Manhattan, where demand is still strong and inventories of rental spaces are low.

Financial Developments

Despite the drop in interest rates since August, several regional banks said they experienced little or no increase in the demand for mortgages and consumer loans beyond the normal seasonal variation. One reason mentioned for the weakness is that their mortgage and consumer loan rates have not dropped as much as open market interest rates, and consumers are said to be delaying their borrowing in anticipation of a further decrease in the bank rates. The banks also reported that for new mortgages, fixed rate instruments have become more popular in the last few months.

THIRD DISTRICT - PHILADELPHIA

The Third District economy is turning in a somewhat mixed performance again in November. On the up side, retailers are starting the holiday season with strong sales, realtors are seeing an increase in traffic, listings, and sales, and consumer lending continues to grow steadily. Less positive are manufacturing, where the expansion continues to lose steam, and business borrowing, which has been flat over the past six weeks.

The overall economic outlook is generally upbeat. Retailers expect to finish the year with a bang, and realtors hope to continue to ride the tide of lower mortgage interest rates. Area bankers predict continued economic expansion and expect commercial loans to pick up again. Growth is expected in manufacturing also, but at a slower rate.

MANUFACTURING

The rate of expansion in local industry continues to decline, according to respondents to this month's Business Outlook Survey. Almost two thirds of the manufacturers polled in November say there has been no change in the level of business activity compared to last month. November is typically a slower month, but, even after adjusting for seasonal effects, this deceleration in growth is still evident. The slowdown is most pervasive in the durable goods sector where not one respondent indicated improvement. Producers of nondurables, on the other hand, are still posting solid gains.

Reports on specific indicators also reflect the apparent leveling off in manufacturing activity. The only indicator to increase in November is shipments; unfilled orders, delivery times, inventories, employee payrolls, and the length of the average workweek all register minuses.

The outlook for manufacturing over the next six months is still positive, but optimism is waning. The proportion of respondents looking for future expansion has been

shrinking steadily since mid-1983 and now stands at 47 percent. Nevertheless, projections of new orders and shipments are still strong, and payrolls and working hours continue on their way up.

Industrial price reports have been marked by stability over the past few months. This month, three out of four executives polled say there has been no change in either prices paid for raw materials or prices received for finished goods. As for the future, however, the same proportion of respondents predict higher costs by April, while about half expect to receive more for their output.

RETAIL

Retail sales over Thanksgiving weekend were strong, giving an extra push to what has been an already brisk six-week period. Most retail contacts feel that consumer confidence is up, citing increases in credit purchases and a "freewheeling" attitude about spending. Still, heavy promotional activity is being used to attract shoppers, and area merchants say they will continue to use the discounting tactic to boost sales throughout December. Currently, sales volume is running about 10 percent above last year at this time.

Inventories at Third District department stores are slightly heavier than usual relative to sales, but are in line with sales expectations for the next month. One contact said that the heavy stock levels are a reaction to last year's empty-shelf syndrome, pointing out that retailers want to have enough merchandise to avoid shortages.

Area merchants expect to finish 1984 on a strong note, topping last year's exceptional sales by 10 to 15 percent. In part this is the result of the date of Thanksgiving this year, which provides two extra shopping days compared to last year. Local retailers say that each additional day adds about 1 percent to holiday sales figures on a year-over-year basis.

Automobile sales are very strong in the Third District, up about 25 percent over a year ago. Car dealers also are seeing improved consumer confidence. One contact reports,

"people are not buying new cars because they need them but because they want them." The average wait for a new car is three to five weeks.

FINANCE

Reports on lending remain mixed in the Third District. Commercial lending has flattened somewhat over the past six weeks but is still up over last year. Area lenders look for a slight pickup in C&I loans by year-end 1984 in spite of the usual downward seasonal pressure. They also anticipate a surge in C&I loan growth in early 1985 in conjunction with continued overall economic expansion.

Consumer loans are growing steadily. On a year-over-year basis, local bankers report increases of 30 percent or more. In the past, credit card operations have been cited as the main source of growth, but auto loans account for a large portion of the pickup in late November. Bankers expect consumers to maintain their spending mood through December of this year. Spending in the first half of 1985, however, may slow down if the ratio of installment credit to personal income, currently about 14.5 percent, reaches or surpasses its 1979 peak of 15 percent.

The prime rate at most local banks has dropped to 11.5 percent as of November 27, and Third District bank economists expect another cut of 25 basis points by the end of the year. Forecasts of declining rates are based on sluggish fourth quarter economic growth and on expectations that the Fed will try to stimulate economic activity. Bankers apparently expect such efforts to be successful and see the prime climbing back up to 11.75 or 12 percent by mid-1985 as a result of renewed growth.

REAL ESTATE

Third District realtors enthusiastically report that traffic, listings, home prices, and sales are up. Seasonal factors which usually depress sales in late fall and early winter are being offset by lower mortgage interest rates and some pent-up demand. Thirty-year fixed-rate conventional mortgages are available for as low as 12-7/8 percent; 15-year mortgages for 12-1/2

percent. Adjustable rate mortgages start at 10-3/4 percent and go up to about 13 percent depending on the terms of the agreement. Although lenders are pushing ARMs, consumers are flocking to the relatively low fixed-rate loans.

Fourth District - Cleveland

Summary

Overall, this District's economy is soft and uneven. Labor market conditions weakened in October. Department store sales improved recently after being slow in the first two weeks of November. Automobile sales were strong throughout November. Manufacturing production has begun to expand again but orders are growing so slowly that backlogs are falling. Machine tool and steel producers continue to suffer from strong import competition. Inventories are high in several sectors. The housing market is showing moderate improvement. Commercial bank lending has been flat.

District Labor Market Conditions

Labor market conditions in the District softened in October. Employment fell and unemployment rose in Ohio, increasing the unemployment rate to 9.5% (s.a.), 0.8 percentage points above its July level but 1.6 percentage points below its year-earlier level. Manufacturing employment is growing at a slower pace. An index of leading indicators of employment for the Pittsburgh area fell again in September to its level of February, suggesting that employment there has peaked.

Retail Sales

Retail sales were relatively slow over the first two weeks of November but have since improved, according to Fourth District department store representatives. One economist now estimates that November sales will show a 7%-8% year-over-year increase. However, he and others noted that the November retail sales report period ended on the 24th, missing some of the late-month strength. As a result, reported November sales figures may be somewhat understated while those for December will be somewhat overstated.

Nevertheless, no one anticipates a return to double-digit gains for the two-month period. Further, part of the anticipated November-December gain will likely be achieved through price reductions as retailers attempt to cut inventories.

Auto dealers report strong sales throughout November for both domestic and imported cars. One dealer, in particular, noted that his November sales were about even with the October level. Typically, his November sales run about 20% below the October volume. Car buyers apparently have not been deterred by reports of weakened economic activity or by anticipation of tax increases. A major auto producer believes that auto sales are still constrained by shortages of GMC cars.

Manufacturing

Manufacturing activity in the District is growing slowly on balance. A survey of manufacturers in northeast Ohio indicates production is expanding once again after a recent brief contraction. New orders continue to grow at a slow pace. A survey of manufacturers in the Cincinnati area indicates production and new orders are rising very slowly, but order backlogs are falling for the first time since very early in the recovery. Other survey data indicate manufacturers expect backlogs to continue to decline. Manufacturers report prices paid for commodities and services are rising very slowly while prices paid for equipment are flat.

A manufacturer of machine tools expects orders to be slightly higher this quarter than last, with slow growth continuing into 1985. Machine tool orders from the auto and defense industries remain strong while weakness persists in orders from producers of farm, construction, and oil field equipment. Imports remain a major drag on the domestic machine tool

industry, and are absorbing about 40% of the market. Japanese producers are reported to be competing fiercely for sales of machining centers and numerically controlled lathes.

A diversified producer of components for capital goods reports that automotive related orders remain solid. Orders for some electronic components have declined but the firm views this as a correction of earlier overbuilding of inventories rather than a decline in underlying demand. Space-related and defense-related orders continue to grow but less rapidly than their previous exceptional pace.

Major steel producers report orders and production remain sluggish because customers are reducing excessive inventories and imports remain strong. Order backlogs are expected to continue falling throughout this quarter. Capacity utilization in steel production is 50%-55% for integrated producers and 55%-60% for the industry. Prices remain weak because of import competition. Producers expect market demand to be stable in 1985 and their shipments to increase slightly if quotas restrain imports.

Inventories

Department stores report excessive inventory, while some auto dealer inventories are tight. Inventories of raw materials and finished goods are reported to be flat among Cincinnati area manufacturers and rising slowly among northeast Ohio manufacturers. Lead times for deliveries appear to be stable. Steel producers report customers are reducing inventories. Petroleum firms are resisting seasonal inventory growth because of expectations of price declines.

Housing

Housing market participants in this District report a reversal of the summer's general downward trend. Because of softening mortgage rates and prospects for even lower rates, there is a consensus among market participants that housing activity will improve mildly until at least mid-1985. The possibility of a strong housing rebound is generally considered to be remote.

As a result of a substantial recovery in listings and contract closings, realtors are reversing their previous plans to scale down operations. Realtors, who are the most optimistic among market participants, now expect that housing activity will improve throughout 1985. Builders expect the rebound may continue to mid-1985 but are not reversing previous plans to reduce the size of their operations. Builders apparently would rather minimize down-side risk and forego potential profits if the housing market rebound persists. In contrast, lenders expect the housing rebound to be weak and brief. Although inquiries are up slightly, mortgage volume has been only marginally increased by lower mortgage rates.

Commercial Banking

Loan growth was relatively flat at Fourth District banks during the past five weeks. A few bankers who reported fairly strong business loan demand in recent weeks expect the demand for business credit to weaken. Some contacts said that consumer loan demand has been good and should remain that way for the balance of the year. A few large banks report that consumer leading rates have not yet been adjusted downward.

Retail deposit growth has been moderate at district banks in recent weeks. Banks have relied less on large certificates of deposit, but more on the use of borrowed funds.

FIFTH DISTRICT - RICHMOND

Overview

Although there are presently cross currents at work, the primary thrust of the District economy seems to be forward. Employment appears to be making substantial gains despite seasonal weakness in some sectors. Retail sales have been holding their own and most observers are encouraged by the early indicators of holiday buying strength. Construction activity is essentially unchanged, remaining strong in the metropolitan areas, somewhat less robust elsewhere. Countering all of these positive factors, is what appears to be a sharp contraction in the textiles and apparel industries. Several major layoffs and plant closings around the District have been announced recently, and industry employment has fallen substantially. This contraction is generally attributed to rapidly increasing imports of competing products. Business loan demand seems stable and relatively strong, although there are variations from area to area. In agriculture, an excellent growing season in much of the District, good prices, and a strong livestock sector should make for significantly improved cash receipts in 1984 and some relief on the agricultural credit front.

Manufacturing

The manufacturing sector must almost be treated as two, since the behavior of textiles and apparel differs sharply from most other sectors. On balance, the District's manufacturing industries are continuing to expand output and employment, and the gains appear significant in some industries, such as machinery and electrical equipment, where year over year gains in

employment remain the rule. Building materials and furniture production and employment have apparently stabilized after several months of ups and downs. Textiles and apparel, on the other hand, after a year of little change, began cutting back employment and output, severely in some cases. As noted, the import situation is a major factor. Nationally, 1983's record for textile and apparel imports had been broken by the end of September.

Inventories at the manufacturing level are essentially stable and there is little noticeable dissatisfaction with present levels. Current plant and equipment capacity also remains basically at desired levels, and there is little inclination on the part of most manufacturers to alter existing expansion plans. Prices in the manufacturing sector continue stable, with no significant upward pressure apparent in any sector.

Coal production in the District, as in the nation, fell rather substantially after the BCOA-UMW negotiations were completed. Nonetheless, production, year to date, remains well ahead of last year, and record output is still within reach.

Another segment of the District bringing in an outstanding year is the ports. Although much of the traffic is in imports, activity, particularly at the District's larger ports, has been very strong.

Consumer Activity

Consumer spending in the District has been quite strong for some time, and indications are that it remains so. Earlier, there was some trepidation among retailers, but recent developments have apparently relieved it. Early indications are that the holiday buying season got off to a good

start. Most observers think that sales will be up from a year ago, and thus, quite healthy.

Even before the seasonal kick-off, durable goods sales which sagged in late summer, had rebounded and were making gains relative to other product lines. Although retailers had expressed some concern over inventory levels, their fears on that front seem to have been quieted as well. Part of the improvement in retailers attitudes arose from their perception that sales were doing well despite unfavorable weather conditions.

Construction

In general, the construction industry in the District is staying busy. Variation persists, particularly between the larger cities and smaller towns and rural areas. There are presently indications, however, that industrial projects are lending support to a number of localities outside the urban areas. Within the metropolitan areas commercial and residential construction are still doing well, apart from seasonal factors. There are indications, however, that in some of these areas multifamily residential markets have or are about to weaken while excess supplies are worked off.

Agriculture

The agricultural sector of the Fifth District should experience an economic rebound in the current year. An excellent growing season throughout most of the District, good prices, and a strong livestock sector should provide \$8.15 - \$8.20 billion in cash receipts for 1984 about 10 - 12 percent above the drought reduced 1983 level, but only about equal the 1982 mark. The cost of production should exhibit only modest increases over the same

period, leaving the net income of farmers substantially improved over the 1983 position.

The improved income position of District farmers is expected to show up in the District agricultural credit picture. The quarterly survey of agricultural credit conditions indicates that agricultural loan repayment rates are improving at District banks. In addition, short and intermediate loan demand is strengthening although the demand for long term loans remains weak. District farmland prices are stabilizing.

Outlook

The outlook around the District has improved somewhat in recent weeks, although most respondents see activity as essentially flat in coming months. Apart from the textile and apparel sectors, the improvement in outlook seems to have arisen as activity continued at levels previously considered unsustainable. The trade deficit remains a major concern, particularly among the textile, apparel, and furniture manufacturers. Their attitudes are clearly less buoyant than those in other sectors.

Consumers and retailers are confident, particularly since recent sales activity has improved. There remains little concern with the prospect for inflation.

SIXTH DISTRICT - ATLANTA

Strengths continue to outweigh weaknesses in the southeastern economy. With the exception of certain import-sensitive industries, the manufacturing sector continues to expand, and optimism remains strong. Retailers expect healthy holiday sales without excessive pressures on profits. The large volume of commercial construction is helping to offset the slower pace of residential building, and contacts believe that underlying conditions portend a revival in housing next year. Bank loan demand remains on the upswing, and thrift mortgage commitments are above the seasonal norm. Business and convention travel is sustaining growth in lodgings and air transportation, although vacation travel has slowed somewhat. The agriculture sector, particularly cotton and soybean growers, also experienced some late-season setbacks as the result of heavy rainfall and flooding.

Employment and Industry. Unemployment rates changed marginally in September. However, more recent labor market data for three of the six District states suggest that the region's overall rate rose slightly in October. Industrial activity also is mixed. Fewer housing starts and rising imports of Canadian lumber are swelling forest product supplies and depressing prices. One-third of the lumber now sold in Alabama reportedly is Canadian. Clothing and textile producers continue to face stiff foreign competition that has resulted in layoffs and plant closings.

Although previously idled workers in Louisiana's petrochemical industry are being recalled, the industry remains weak. However, respondents anticipate chemical production to grow from current depressed levels if interest rates stabilize or fall further over the next quarter since demand for the state's chemical products stems largely from the credit-sensitive auto and construction industries. Drilling activity in south Louisiana continues its gradual upward trend. Over 89 percent of rigs are now

working compared to 68 percent a year ago. The region's many paper mills are operating near capacity. Industry spokesmen fear that packaging-related orders may slow as the economy cools, but they foresee ongoing strong demand for computer paper and other forms. Defense and space programs are providing additional stimulus. A satellite assembly facility and a cruise missile plant recently began operating in Florida. A major Mississippi defense contractor expects to add 1,500 workers to its payrolls by spring as naval shipbuilding and refurbishing contracts reach the assembly stage.

Consumer Spending. Southeastern retailers report varied sales gains ranging from 2 to 10 percent for October and November. Mild fall temperatures slowed consumer spending and contributed to the accumulation of unwanted inventories in a few areas. However, generally steady retail sales and increased advertising and sales promotions helped keep inventories at desired levels elsewhere. Electronic items and toys were best sellers in the October-November period. Sales of winter apparel items, especially outerwear, also spurted in November with the onset of cooler weather. Retailers report that prices for Thanksgiving weekend were at "regular discount levels." Although some retailers have lowered their expectations for consumer spending, most expect good Christmas season sales without the need for extreme price discounts to move inventory.

Shortages of certain popular models and strike-related sales declines slowed car sales activity in October and the first two weeks of November, but regional auto sales remain sharply ahead of 1983 on a year-to-date basis. Southeastern dealers expect new car sales to continue strong through the first half of 1985.

Construction. Many builders and real estate agents polled believe that declining interest rates, stable home prices, and increasing personal income augur a rebound in housing in 1985 from the current moderated level of residential construction. Commercial real estate construction continues at a record pace in most major

southeastern cities, but vacancy rates are generally high. Miami's vacancy rate edged down to 13 percent, though. Shopping center construction has increased in Birmingham and Miami with the entry of major retailing chains into those markets.

Financial Services. Loan activity remained strong in October. Consumer and business lending accelerated from the growth rate of previous months. The pace of real estate lending at banks slackened in October, but mortgage commitments at savings and loan institutions currently are above the level expected for this time of year, according to thrift officers surveyed. They report that the higher qualifying standards for customer income recently enacted by mortgage insurance companies has not noticeably dampened consumer demand for mortgages.

Tourism. Vacation tourism slowed somewhat in October, but business and convention travel remains strong. Attendance at many southeastern attractions decreased relative to year-earlier levels. For the first time since the beginning of the year, Florida welcome centers registered fewer visitors. However, hotels and motels increased revenues in October due to increased occupancy and steady room rates in most markets. Miami's convention bookings were 20 percent ahead of year-ago levels. Most regional airports, which, like hotels, serve primarily business and convention travelers, had higher passenger volume than in October 1983.

Agriculture. Late season weather has changed crop prospects. As a result of extensive rainfall and flooding, Mississippi's estimated cotton yield declined 115 pounds per acre, occasioning a 17 percent revenue loss from earlier projections. Rains and floods also proved damaging to the soybean crop in Louisiana and Mississippi. Production declines in those states, added to earlier drought-induced losses in Georgia, may reduce revenue to southeastern soybean farmers by 9 percent, or \$139 million, from 1983's relatively low level.

SEVENTH DISTRICT--CHICAGO

Summary. Total business activity in the Seventh District has been about stable since early this year, having flattened earlier than in the nation. Most District reports suggest relative stability in the months ahead, but concern has been growing that a general deterioration is underway. Auto production has returned to a high level, but only slightly above last year. Steel output has improved since late September, but remains well below the first half rate, and below break-even levels. Machine tool orders are up, mainly from the auto industry. Heavy construction and farm equipment makers, faced with weak markets, are selling off units and closing marginal plants. Cutbacks are occurring in the important health care industry, reversing a long-term expansion. Container loadings on flat cars, which had slowed earlier in the year, slipped significantly in November. Demand for most mechanical capital equipment remains weak. Sales of heavy trucks and trailers have softened recently from high levels. However, surveys show sizable additions to capital outlays next year by the auto and steel industries. Many lines of seasonal retail merchandise are reported moving well, but the 2-year boom in consumer hardgoods apparently has run its course. Retail inventories are viewed as excessive, encouraging price markdowns. Recent declines in paperboard demand partly reflect reduced orders for general merchandise. Residential construction continues to weaken, while nonresidential construction is expanding. District farmers, many in distress because of heavy debts and weak prices, continue to restrict purchases.

Recession Fears. The plateau in District activity since last spring, coupled with recent declines in factory orders and freight movements, raises the question of an imminent recession. Pressures to reduce or hold down inventories are intense. Our contacts with industries important in the District generally

expect relative stability during the rest of 1984 and early 1985--but no precipitous decline. However, some company analysts are warning their managements that the situation is fragile and that a general decline, rather than renewed expansion, is the more likely development.

Motor Vehicles. Auto makers are planning production at a high level through next year's first quarter, but with only small gains from year-earlier levels. Weaker auto sales in recent months reflect shortages of popular models. Strikes, unrelated parts shortages, and import quotas have limited supplies. Large "availability" premiums are reported on some models, recalling the situation after World War II.

Steel. Steel production in the Chicago and Detroit areas has improved somewhat from September lows associated with heavy imports, the auto strike, and inventory cutting. However, output remains well below the first half pace. Increasingly, imports have penetrated Midwest markets, usually through steel service centers, often owned by foreign steel producers. Fourth quarter shipments are expected to be about even with the third quarter, in contrast with a normal seasonal rise. Local analysts have lowered estimates for total U.S. mill shipments to around 74 million tons. Next year's shipments are expected to be helped by the Administration's import restraint plan, retroactive to October 1.

Capital Equipment. Many capital goods manufacturers with production facilities in the region are restructuring and downsizing operations. A major heavy construction equipment producer plans to close five plants. Other firms are consolidating divisions and laying off workers. Producers of most mechanical capital goods face intense competition from abroad in U.S. and foreign markets. Some farm equipment suppliers, long-time leaders in their fields, are selling or writing off money-losing divisions. Farm equipment sales, weak last year, have softened further. Some other types of capital goods, for oil and gas development, materials handling, food processing, and railroad transportation,

have improved but from low levels. Easing of orders for heavy trucks and trailers, in strong demand earlier in the year, is expected to reverse when regulations on size limits and routes are clarified. Surveys show further growth in capital spending next year, with sizable increases in outlays by the auto industry and steel.

Retail Trade. General merchandise sales in the District have been mixed in recent months, with good gains for some discounters and declines, seasonally adjusted, at other chains. Large appliance sales are at record levels, but the vigorous two-year expansion has lost momentum. Furniture demand also has slowed. However, small "traffic" appliances, toys, and other gift items are moving well, raising hopes for a good Christmas selling season. Consumer attitudes, measured in the region, remain optimistic. Inventories are widely viewed as excessive. Markdowns are frequent. Some general merchandise chains have cut back orders. This helps account for an easing in paperboard demand, after an 18-month expansion. Prices on average are about stable and little changed from last year.

Residential Construction. New housing construction in the region has weakened since about midyear. Despite sizable declines in mortgage interest rates since then, area lenders report softer loan volume. However, with lower rates, the outlook is somewhat improved. Fixed-rate loans are accounting for a larger share of the total, due to higher standards on adjustable rate mortgages and a narrower "spread" between rates on fixed- and adjustable-rate loans. Permits for residential construction in District states are 68 percent above the low 2 years ago for nine months, but 58 percent below the peak in 1977. Nationwide, permits are up 80 percent from 2 years ago and only 8 percent below the 1978 high.

Nonresidential Construction. Office and retail construction continues strong in the Chicago area. Total nonresidential building contracts this year in the five District states (F.W. Dodge data, in square feet) are up nearly 60

percent from 2 years ago, but still more than 40 percent below good levels of the 1970s. The backlog of public works projects is growing--mainly highways, bridges, water and sewer. The amount of road and bridge work next year will depend on resolution of a political impasse in Congress which is delaying release of accumulated funds.

Agriculture. Following rain-caused delays, the District farm harvest is finally drawing to a close. Corn and soybean prices remain well below year-earlier levels, keeping farm income low. Despite average domestic harvests, record crop production world-wide is forecast for 1984-85. This may dampen the expected recovery in U.S. grain exports. Meat output is down from last year, but above earlier forecasts, largely reflecting increased broiler output. Milk production is running about 4 percent under last year, partly because of federal payments to farmers to cut output. The milk surplus also has been trimmed by higher consumption. Dairy farmers apparently are poised to expand output when the paid diversion program ends in March.

EIGHTH DISTRICT - ST. LOUIS

Summary

The Eighth District economy has experienced slight reductions in employment levels recently and at least one District state has seen a small rise in unemployment. Though retailers continue to expect a good Christmas season, forecasts for sales through the end of the year have been revised downward. Lower interest rates have spurred small gains in residential construction levels. Total loan growth has increased recently, especially among commercial and industrial loans and consumer loans. Prices of District agricultural commodities remain weak as marketings continue to be sufficient to meet current demand.

Outlook

Most respondents in the Eighth District expect little change in business conditions through mid-1985. They expect the real volume of sales to go up slightly in the next three months, but plan to keep price and employment levels unchanged.

Consumer Spending

Retailers continue to expect a good Christmas season though not as robust as forecasted last summer. Sales of durable goods in Memphis were up significantly in early November, while retail sales in eastern Arkansas were considerably above last year's level. Auto sales for early November in the District were just slightly above November 1983 levels.

Employment

Employment levels in the District have declined slightly in recent weeks as several District firms have laid off workers. A major appliance producer in Kentucky laid off 1,400 production workers and will phase out nearly 300 white collar positions. Kentucky also recently experienced the loss of approximately 900 jobs in the cigarette manufacturing industry. Arkansas lost approximately 2,600 employees in the textile, metal and communications industries. Its unemployment rate rose 0.2 percent to 8 percent in October, but remained below the 8.3 percent rate of October 1983.

Business Activity

General business activity, as defined by an index of seven indicators, has slowed in Arkansas from a 4 percent annual rate of growth in September to a 2 percent rate in October. Business activity in Missouri declined at a 6 percent rate in October, following a 1 percent rate of increase for the month of September.

Construction

Housing sales in the District, which have been stable in recent months, seem to be picking up again on a seasonally adjusted basis. Housing market observers expect further improvement through the end of the year due to the recent fall in interest rates. Multi-family housing construction has been particularly strong in the St. Louis and Memphis areas.

Banking

The growth of total loans outstanding at large weekly reporting banks has picked up after a lull in recent months. The annual growth rate for the four-week period ending November 14 was 12 percent over the previous four-week period. Strong seasonal growth in commercial and industrial loans and consumer loans accounted for the overall increase. The growth of loans to financial institutions and real estate loans was flat. Total deposit growth slowed to a 5 percent annual rate, down from 17 percent a month earlier. All deposit categories experienced slower growth, while large denomination CD levels declined sharply.

Agriculture

Red meat producers, who had expected sharp price increases during the second half of 1984, continue to be disappointed by price weakness. Cattle prices have been pressured by a 7 percent increase in cattle on feed and a 2 percent increase in marketings over October 1983. Competition from a 5 percent increase in broiler production has prevented sharp increases in hog prices even though hog slaughter in October was 12 percent lower than a year ago.

Corn and soybean prices have declined in response to better estimates of this year's harvests. Large foreign and U.S. cotton crops and weak demand suggest further price declines in this market. Little evidence is available to suggest substantial price increases for any of these commodities in 1985.

NINTH DISTRICT - MINNEAPOLIS

Except for some large layoffs in northeastern Minnesota, economic conditions in the Ninth District have not changed much lately. Generally favorable employment conditions have changed little from earlier this fall. Consumer spending appears to be stronger in the Minneapolis-St. Paul area than in other less diversified parts of the district. The pulp and paper and the oil and gas sectors are performing well, while the lumber and plywood and the iron mining sectors are not. Crop farmers' profitability has not improved much, but dairy and fat cattle prices have.

Employment

District employment conditions are generally stable. While Minnesota's seasonally adjusted unemployment rate rose a bit in September, the increase is widely thought to be due to statistical quirks. In fact, in that state, seasonally adjusted nonfarm payroll employment posted a September increase only slightly less than the 1984 average monthly increase, and average weekly earnings in manufacturing industries increased slightly from August. Similar reports come from other parts of the district. In the Dakotas, for example, the September unemployment rate was only 4 percent. In the Sioux Falls, South Dakota, area, it was as low as 3 percent.

Employment in one of the district's industries has not been stable recently: massive layoffs in the northeastern Minnesota iron mining sector were announced in November. Due to a slump in steel demand, about 4,500 more workers were laid off in an industry which had at one time directly employed 14,500 workers, but which more recently had employed only about 8,000. The

latest layoffs are a severe blow to the northeastern Minnesota economy, which had been recovering from lingering effects of the national recession.

Consumer Spending

A mixed pattern of consumer spending is reported. While growth is generally noted in the Twin Cities, it is not in some other parts of the district.

Sales of general merchandise have not been uniformly strong lately. At two large Twin City retailers, sales appear to have picked up late in November. Both of these retailers report November sales about 12 percent ahead of year-earlier levels, although inventories are still high. This Bank's directors also report good sales in parts of western Wisconsin and around Bozeman, Montana. Retail sales have not been so good in other parts of the district, however. In Rochester, Minnesota, early November sales were generally slow, with smaller retailers doing worse than larger retailers. One Bank director reports small increases at best for retailers in South Dakota, while other directors report a general merchandise slump in many parts of Montana and North Dakota.

Motor vehicle sales, in contrast, seem to be continuing at a good pace in many areas of the district (despite the effects of the General Motors strike). Regional offices of domestic auto manufacturers report that sales rose between September and October. Indicative of this strength, one manufacturer experienced 9 percent higher car sales and 43 percent higher truck sales this October than last. Its inventories are low but still adequate. Bank directors report that car sales in October and November were a little light in South Dakota and about the same as a year earlier in Bismarck, North Dakota.

While housing purchases have picked up lately in the Twin Cities and in some scattered areas, they have been slow in other areas. After falling in August, Twin City home sales rose in September, maintaining a level over 17 percent higher than a year earlier. October sales in Minneapolis maintained the September pace. Sales in Sioux Falls, South Dakota, were good, in part due to the availability of subsidized mortgages financed with mortgage revenue bonds. But Bank directors report that housing starts slowed in western Wisconsin and Montana, and many units remain unsold in Bismarck, North Dakota, and in Rochester, Minnesota.

Resource-Related Industries

The picture in resource-related industries is mixed, too. Two sectors are continuing to do well. While expansion plans in the paper industry have been delayed, pulp and paper prices and production are still strong, particularly for coated printing paper. Oil production is also strong, with 50 rigs operating in the Williston Basin of North Dakota and a new \$51 million project to enhance oil recovery from these wells. Due to the warm, dry weather, oil and gas drilling has gone well in Montana, increasing employment there. Two other sectors are not doing too well, though. As noted above, continuing low steel demand helped cause massive layoffs recently in northeastern Minnesota's iron mining industry. And domestic lumber and plywood prices continue to be hurt by Canadian imports and substitute building products.

Agriculture

Despite a generally favorable harvest, many district farmers are still suffering from low product prices, excessive debt burdens, and low land prices. Dairy farming and livestock operations have seen some price improve-

ment, though. The Minnesota farm price index fell in October for the fourth consecutive month. It has fallen nearly 12 percent since June. Of the respondents to this Bank's late September survey of district ag bankers, 44 percent said that farmers in their areas earned less in the third quarter than a year earlier, and a full 50 percent said that debt repayment was slower than normal for that time of year. However, fat cattle prices have been quite strong recently, and milk prices went up in October, as fluid milk supplies tightened.

TENTH DISTRICT-KANSAS CITY

Overview. There appears to be a lull in economic activity in the Tenth District at this time. But retailers, including automobile dealers, are mildly optimistic about sales for the rest of 1984. Inventories are viewed as generally satisfactory by retailers and manufacturers. Few price increases are expected for the rest of the year at either the retail or the producer level. Housing starts and sales continue above year-ago rates, while demand for mortgage funds is weak. Most responding banks report no change in total loan demand, and some growth in total deposits. Agricultural bankers expect unsatisfactory progress in debt servicing by many farmers in 1985.

Retail Trade. Although most retailers report year-to-date sales have improved over year-ago levels, results have been mixed in the past three months. Stores with declines in sales in the past three months note some recovery more recently. Clothing has been selling particularly well. Inventory levels are slightly higher than some retailers desire, but this comes at a time when retailers are trying to position inventories for the holiday season. Retailers are mildly optimistic about sales through the remainder of the year with "better than last year" the predominantly expressed sentiment about this year's Christmas sales. Prices have remained flat in recent months, and no significant increases are expected for the remainder of the year.

Automobile Sales. Automobile dealers report sales are slightly ahead of year-ago levels. Credit market conditions remain satisfactory, and financing is available both for floor planning and new car sales. A number of dealers describe inventories as tight, and the mix of inventories is unsatisfactory with some of the 1985 models in short supply. Despite this, dealers remain optimistic about sales for the remainder of the 1984 and early 1985.

Purchase Agents. Respondents report input price increases ranging from 2 to 7 percent over the past year. Most have experienced smaller increases over the recent three months, and few expect price hikes during the remainder of 1984. Except for some difficulties with undependable suppliers, most agents have had no problem getting deliveries and expect none for the remainder of the year. Most respondents describe inventory levels as satisfactory while they continue to look for ways to trim further during the remainder of 1984.

Housing Activity and Finance. The majority of homebuilders report that housing starts are still running ahead of last year. Most report substantial improvement in multi-family starts, but only moderate increase in single-family starts. Sales of new homes are at or above last year's rate. Prices for new homes have remained constant or risen only slightly, and inventories are generally low. Prices for building materials have remained stable or risen slightly. No availability problems were reported, nor are any expected. Demand for mortgage funds at savings and loan associations is weak, especially for residential mortgages. Mortgage commitments are thus being made at a slow pace. Mortgage rates are expected to fall slightly, but no significant improvement in mortgage demand is anticipated before early next year. Savings inflows are reported to be somewhat higher than last year, with some further improvement expected.

Banking. A majority of respondents at Tenth District banks report no change in total loan demand during the last month. However, a sizable minority indicate that loan demand was somewhat higher. The situation is similar for commercial and industrial loans, and for commercial real estate lending. Some respondents express continuing concern about loan quality in industries such as energy and agriculture. Most banks report an increase in consumer loans, but lending for residential real estate is unchanged. A

majority of respondents experienced growth in total deposits. Demand deposits and conventional NOW accounts showed little change, but most banks registered increases in Super-NOW accounts and MMDA's. Large certificates of deposit, passbook savings accounts, and small time deposits were generally unchanged.

Agriculture. Banks in the Tenth District report a slight decline in interest rates on operating loans for farmers, with current rates ranging from 13.5 to 14.5 percent. The largest decrease was in New Mexico, and some bankers in Missouri and Nebraska expect interest rates to move lower yet. Despite slightly lower interest rates, paydowns on operating loans at agricultural banks have been much slower than expected throughout the Tenth District, with the exception of Colorado. Agricultural bankers now expect many farmers to make unsatisfactory progress in servicing their debts in 1985. Land prices continue to decline, but very little land is currently changing hands. Corn yields are reported above average, except in Missouri where yields are sharply lower than normal due to a summer drought. Soybean yields are generally reported below average. Extensive total and partial liquidations of cow-calf herds by major ranch operators are reported in Nebraska, Oklahoma, and Colorado. Stocker cattle operators are reflecting guarded optimism about 1985 price prospects, however.

ELEVENTH DISTRICT--DALLAS

The Eleventh District's economic expansion remains sluggish across a broad spectrum. Demand for manufactured goods continues to grow slowly. Oil and gas drilling is increasing as is normal for this time of year, but lower crude oil prices could dampen this activity. Retail sales have fallen far short of expectations. Auto sales continue their strong showing. The level of residential construction is continuing to decline as fears of overbuilding now affect single family construction. Nonresidential building is steady, but rising vacancy rates are beginning to deter construction.

District manufacturing growth remains low. Areas of strength are the paper and allied products and electrical machinery sectors which continue to show consistent growth. Transportation equipment manufacturers are reporting increasing demand from utilities and oilfield service companies. Apparel manufacturers, on the other hand, continue to experience low demand as a result of import competition and sluggish retail sales. Sales in the chemical and allied product sector are increasing only modestly. Lumber and wood products and stone, clay and glass producers are experiencing slow sales growth, except in Houston where weak construction activity has curtailed demand for these materials. Rising inventories and stiff competition are keeping prices low relative to costs. Primary metals, fabricated metals, and nonelectrical machinery manufacturers report slight increases in demand from energy firms, which are still restocking inventories, but little demand growth elsewhere. Refinery employment fell for the seventh straight month.

October drilling activity increased in District states, with the rig count rising slightly and remaining above last year's level. Some respondents report that despite the decline in oil prices, drilling should increase, following the normal seasonal trend at year-end. However, the drop in oil prices has lowered lenders' valuations of reserves used as collateral. This may reduce the availability of funds for drilling, and thus the extent of any upturn.

Retail sales are showing surprising weakness. Some respondents report that sales are down significantly on a year-over-year basis; for many this represents the first decline in this recovery. The weakness is widespread, affecting all product lines.

The normal seasonal downturn in auto sales continues, but sales are still above last year's level. The strike of Canadian auto workers led to increased availability problems, worsening the inventory shortage that has plagued dealers. Delivery of 1985 models and the strike settlement are beginning to ease inventory problems.

Residential construction continues to slow throughout the District. Both single-family and multifamily permits reached lows for the year and they are below last year's third quarter level. Overbuilding, long a concern in the multifamily market, now is also dampening single family construction. Some lenders have reported that the recent decline in interest rates has led to a slight increase in loan activity. This may lead to some resurgence in construction.

The value of nonresidential construction in the District is holding steady, although the number of projects is up significantly. This reflects strength in light office and warehouse construction. Some office and commercial projects are being developed, but overbuilding has resulted

in a generally weak market for new projects. Previously strong markets such as Dallas are showing signs of slowing, although San Antonio and Austin are still strong.

Monthly deposit growth at the District's member banks is declining slightly, although recent year-over-year growth rates remain well above the averages for the first three quarters of 1984. At large banks, the recent pattern of absolute monthly declines in deposits is continuing and year-over-year growth rates are slowing significantly. Borrowings by large banks have declined substantially, but remain high in comparison to two years ago. Large bank asset growth is slowing. Year-over-year growth rates in business, consumer and real estate loans continue to decline, with the largest reduction coming in consumer loans. While large bank real estate loan growth remains very high on a year-over-year basis, real estate loans have remained virtually unchanged since late in the summer. Respondents continue to report that a significant portion of real estate lending is for projects outside the District.

Texas cattle and sheep producers are gaining from high seasonal prices, despite an increase in drought-induced production costs. Stable prices and costs, along with increased production, should improve crop producers' net cash receipts. Because of herd liquidations, dairy program cutbacks and problems associated with the drought conditions of last summer and early fall, Texas beef producers marketed 25 percent more fed cattle in October than a year earlier.

TWELFTH DISTRICT -- SAN FRANCISCO

Economic activity in the Twelfth District continues to slow from the vigorous levels earlier in the year, although many economic indicators remain above their levels of one year ago. Retail sales at major department stores remain healthy, but are at a flat or slightly slower pace than last month. Automobile sales have declined significantly since last month in certain parts of the region, but remain above 1983 levels. With the exception of California, most states in the District have experienced continued deterioration in residential building activity despite the moderation in mortgage rates. Non-residential construction activity, however, remains healthy. Increases in manufacturing employment have slowed and, in a few instances, unemployment rates are up from a month ago. The lumber and wood products industries in the Pacific Northwest remain particularly weak, with continued plant closures and activity levels in some products that remain below those in 1979. Weak foreign demand and large harvests have depressed significantly the prices for many agricultural products, threatening the income and solvency of western farms. Commercial loan demand remained cool but consumer loan demand appeared to be strong, leading some to anticipate strong holiday sales activity.

Consumer Spending

The rapid growth of retail sales experienced earlier in the year clearly has ceased, but sales volumes are healthy and most retailers are optimistic about the upcoming holiday buying season. The large department stores in Southern California, for example, experienced October sales volumes about 12 percent higher than a year earlier. Good weather in Oregon is credited with stimulating particularly strong retail sales and the Pacific Northwest generally reported increased retail sales volumes over

last year. In Alaska, an actively promoted tourism program has provided stimulus to this consumer service sector. Retailers report that consumers are value conscious, but are attracted to large-ticket and luxury items, such as home video equipment and high fashion clothing. Most retailers anticipate strong holiday season sales but are following a cautious inventory strategy. The sales of both new and used cars appear to have slowed significantly throughout the District since last month but generally are above the levels of a year ago. Confirmation of the generally healthy state of consumer spending is provided by low consumer loan delinquencies, and steady levels of credit card usage and consumer borrowing.

Manufacturing and Mining

With a few exceptions, manufacturing activity in the District remains healthy but with little evidence of rapid growth. The lumber and wood products industries in the Pacific Northwest appear to be the weakest in the District, with continued plant closures and production levels for some products remaining below those of five years ago. Hopes for this industry hinge on a recovery of home sales and some relief from costly timber contracts provided by a recently passed federal law. In Oregon, continued growth of the electronics manufacturing industry offers hope of offsetting the declines in wood products manufacturing. Plans for five new plants -- offering two thousand additional jobs by 1986 or 1987 -- were recently announced by one U.S. and four foreign manufacturers. In California, recovery of the economy has slowed but large inflows of capital from the Far East and the strength of the aerospace and electronics industries in the state still generate optimism. In Arizona, growth continues in all non-agricultural sectors and in Tucson, Arizona, the unemployment rate is extremely low at 4.2 percent. Mining activity in the District remains

sluggish as the result of strong foreign competition, and lower metals prices. However, a new silver discovery in Shoshone County in Idaho brightens prospects in that one part of the region. The decline in world oil prices has had a significant effect on western oil producers and states that rely on severance income. In Alaska, for example, each dollar decline in the price of a barrel of oil results in the loss of \$150 million in revenue to the state. A major railroad reports generally steady or only slightly declining activity, confirming that despite the variations within the District and between industrial sectors, the economy of the District is in something of a holding pattern.

Construction and Real Estate

Construction and sales activity in residential real estate appear to have slumped in recent months throughout the District. In Oregon, residential building permits are running below 1983 levels and in Washington, the home building industry is described as being completely "stalled." In California, the pace of homebuilding remains above that of 1983 and architects, contractors, and builders report an encouraging increase in prospects for new projects. The available home sales reports suggest a continued slowing despite declines in long-term interest rates and generally easier mortgage credit. The general weakness in demand is reflected by the modest increases in home prices experienced in California this year to date; prices generally have increased only at or even slightly below the general rate of inflation. Nonresidential construction remains relatively stronger throughout the District and is extremely strong in Arizona. However, in Southern California, there is concern about oversupply of commercial real estate and that sector is experiencing a weakening in activity. In Oregon, the new entry of five electronics manufacturing firms

and the expansion plans of several others are expected to stimulate construction activity significantly in the Portland region.

Agriculture

The agricultural sector throughout the Twelfth District is having serious financial difficulties. These are brought about by a combination of accumulated debt, weak export demand, and large crops. In California, where the problems are particularly acute, the values of Central Valley farmland have fallen 20-40 percent below that of a year ago and thousands of acres are on the market unsold. Observers anticipate that many farmers will be unable to survive another year of similar conditions. Elsewhere in the region, problems are similar but complicated by local factors. In Oregon, for example, although crop yields have not been high, prices have been low and farm incomes depressed. Additional problems have been posed by a gypsy moth infestation in that state. Only the cattle, berry, and potato crops in Oregon offer a promising outlook. Similarly, although cotton crops in the District have not been unusually large, the world price remains low and cotton farmers are pressed seriously to repay previous debt. Only the intermountain region appears to have weathered this year's harvest with relative success; it is reported that farm cash receipts will increase in that region this year.

Financial Institutions

Commercial banks in the Twelfth District experienced continued growth in assets in the third quarter of the year -- at a 7 percent annual rate. Much of the increase was attributable to continued strength in consumer lending, as commercial, industrial and mortgage lending were generally flat during the third quarter. Funding occurred primarily through large denomination CDs and other time deposits. Money market deposit accounts and demand deposits in general did not register large inflows.

A similar pattern of growth is observed in the savings and loan industry, although the financial problems of a large Association generated a large savings outflow for total deposits of the Eleventh Federal Home Loan Bank District in August and September. Mortgage loan commitments declined in September although total mortgage lending in 1984 to date exceeds the level achieved in 1983. There have been declines in profits for the savings and loan industry as a whole since 1983 as new lending increasingly has been financed by expensive, consumer time deposits.