

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

**September 1985**

**TABLE OF CONTENTS**

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

## Summary\*

Introduction. This month's commentaries on economic developments by the twelve Federal Reserve banks suggest general stability, with neither accelerating growth nor significant deterioration as near term prospects. This is indicated in key words and phrases in district summaries: Boston, "retail sales improving, manufacturing in the doldrums"; New York, "little growth"; Philadelphia, "same as August"; Cleveland, "soft and uneven"; Richmond, no "broadbased improvement"; Atlanta, "healthy on balance"; Chicago, "no overall pickup or weakening"; St. Louis, "continues to lag"; Minneapolis, "a bit weaker"; Kansas City and Dallas, "sluggish"; and San Francisco, "signals are mixed". Among economic sectors, however, there are significant variations. Perhaps the most troubled sector, at present, is agriculture, with prices and income severely depressed.

Total employment is growing moderately, but with great variation by region. Manufacturing output, overall, is about stable. Mining, including oil and gas development, is depressed. Retail sales are somewhat stronger, but mainly disappointing. Auto sales have been stimulated by special financing. Inventories are in fairly good balance, and all types of goods readily available. General price inflation is still in check--partly because of the heavy influx of imports of a wide range of goods. Business purchases of equipment are cautious. Residential construction and demand for building materials is vigorous. Nonresidential construction is strong, but with concern about overbuilding. Bountiful harvests are pushing down farm prices and income, and causing increasing concern over farm credits. Interest rates have not changed much in recent weeks. Private credit demand is about stable, with mortgage and consumer loans growing, and business loans soft.

---

\*Prepared at Federal Reserve Bank of Chicago.

Inflation. Little change is expected in wholesale prices, which are held down by ample domestic capacity, large agricultural crops, weak oil and gas prices, import competition, and sluggish growth in total spending. Surveys in Kansas City, Richmond, and St. Louis suggest little change in input or selling prices of manufacturers, and only moderate increases at retail.

Employment. Several districts are not participating in the strong employment growth reported for the nation in recent months. Weakest job markets are in the Midwest, especially in the Chicago, Cleveland, and St. Louis districts. But even San Francisco reports widespread layoffs because of the slump in electronics. The strongest job markets may be in the Northeast, especially parts of the Boston and New York districts.

Consumer Spending. Reports on retail sales are mixed. Boston, Philadelphia, and Richmond see improvement, while Kansas City and San Francisco find sales stable or down somewhat. Consumer price resistance and heavy promotion activity to move merchandise are common. Inventories, overall, seem to be in good condition, with increases in line with plans. Auto sales have responded strongly to cut rate financing programs, but Philadelphia reports concern that sales may drop when incentives expire. Cleveland indicates some car dealers regard inventories as excessive and may cut orders significantly. Atlanta reports increased attendance at District tourist attractions, except during the Labor Day weekend, disrupted by Hurricane Elena.

Manufacturing. Factory output, overall, has changed little in the past year, and is not likely to rise significantly in the months ahead. Imports continue to account for a large, and often growing, share of domestic consumption of steel, vehicles, machinery, wood products, furniture, textiles and apparel, and chemicals. Among the strongest manufacturing sectors are building materials and food processing. Motor vehicle production is holding at high levels, but is not expected to rise further. Producers of advanced electronics are in a

severe slump after a rapid rise in 1983-84.

Capital Expenditures. Business capital spending prospects appear somewhat weaker, with cuts in plans in Philadelphia, Boston, and San Francisco. Chicago and Cleveland report reduced demand for heavy trucks and trailers. Machine tool orders are mainly for the auto industry and defense, with total backlogs far below the levels of the late 1970s.

Inventories. With some exceptions, business inventories are at acceptable levels, even low. Cleveland states that some manufacturers are cutting stocks, but Boston reports factory inventories to be "very lean". All items are readily available, and, with wholesale prices soft, there is no incentive to accumulate.

Extractive Industries. Declines in oil and gas drilling and synfuel facility construction are depressing activity in the Atlanta, Dallas, Minneapolis, and San Francisco districts. A further drop in world oil prices could hit these activities even harder. Mining of metal ores is very depressed. Richmond reports coal mining as "flat", but likely to improve because of low inventories.

Housing. Residential construction is generally strong, though Chicago reports activity far short of peaks in the late 1970s, and Minneapolis and San Francisco note that activity varies widely among areas. Respondents in Cleveland expect current strength, helped by state subsidized mortgage funds as well as lower mortgage rates, to wane. New York, however, reports that a high level of activity is expected through 1985, with shortages of skilled labor and certain materials. Home prices are generally rising in the New York District but co-op and condo prices have fallen. Atlanta and San Francisco note that the condo market is depressed in some areas. Dallas, in contrast, has seen a rise in multifamily permits, after earlier declines. Apartment building has been vigorous in the Chicago area, and has been boosted in Manhattan ahead of expiration of a local tax break. New York and Cleveland report minimal speculative building. Philadelphia and Cleveland say demand for mortgages is

concentrated in fixed-rate loans. San Francisco reports strong demand to refinance fixed-rate mortgage loans at lower fixed rates.

Nonresidential Construction. Commercial construction is reported strong in several districts, but vacancy rates are rising. Boston and New York note use of concessions such as free rent. Bidding volume suggests continued strength in nonresidential building in Chicago into 1986. However, Dallas reports that plans are being deferred, suggesting a decline in contracts soon. Kansas City notes a shift from office building construction toward shopping centers. Construction of streets, highways, and water treatment plants is also strong, according to several reports.

Agriculture. All districts with extensive agriculture report excellent harvests, low farm prices, and depressed income. Farm sector problems in paying bills and servicing debt are growing. Strong statements on the "plight of the farmer" are made by Atlanta, Chicago, Dallas, Kansas City, Minneapolis, St. Louis, and San Francisco. Perhaps the greatest stress is in the corn and soybean areas. Farmers in the western plains have the additional problem of low yields caused by drought.

## FIRST DISTRICT - BOSTON

Retail results in the First District are generally improving, but manufacturing remains in the doldrums. Retailers report that sales remain modestly below plan for the year to date, but year-over-year increases strengthened over the summer and early back-to-school sales appear promising. Inventories are flat to up. Merchants are optimistic about the rest of the year. Manufacturing activity is weak but not deteriorating; respondents view 1986 with apprehension but do not actually expect a recession. The financial sector remains relatively healthy. Vacancy rates for commercial real estate are rising rapidly in parts of the region.

Retail

Retail sales increases compared to a year earlier were stronger in July than in June for most stores contacted, and stronger in August than in July. Customers are reportedly very responsive to advertising, but selectively so; items promoted with low prices are sought out, but related merchandise, undiscounted, sells only as usual. Some of the August sales increase was attributed to promotional activity, some to a slightly below average August last year, and some to improved consumer confidence. Appliances, televisions, and home improvement items were said to be especially strong, while sporting goods and physical fitness equipment performed least well.

Inventories have increased in several stores, but only one contact attributed the rise to sales being below plan. The others said that

increased competition now demands more inventories than were required in previous years to maintain customer service. Such additions to inventories, while planned, do raise store costs.

Back to school sales, only partially reported to date, are "promising." Most contacts expect sales during the rest of the year to remain well above year-earlier levels. They are purchasing and stocking on that basis.

### Manufacturing

Almost all of the manufacturers contacted, a group including representatives of high technology and traditional durable and nondurable goods industries, report that business is below plan. In some cases orders and shipments are also below year ago levels. The deterioration appears to have stopped, however, and the adjustment to lower than expected activity levels is largely completed. Several firms have recently had layoffs, but these were small and no large cutbacks are planned. All contacts are keeping close watch on payrolls. Inventories are very lean; several contacts commented that their customers also have very tight inventories.

Capital spending is falling below plan at a number of companies because of the disappointing order and shipments levels. One contact reporting a substantial scaling back of capital expenditures said that no change had been made at the corporate level, but individual managers did not think activity levels justified the planned expenditures. For most respondents, capital spending will be less in 1986 than in 1985. The exceptions were high technology companies with major product development programs.

All respondents regard the outlook for 1986 as highly uncertain. The consensus view, however, is a continuation of present levels of activity. While respondents would like to do better, such an outcome would not require them to make major inventory or employment adjustments.

Finance and Real Estate

New England banks are benefitting from a relatively strong and well balanced regional economy. This is one reason the region has been spared the bank failures suffered in other parts of the country. Loan demand is said to be strong; deposits are up.

There is excess office and light manufacturing space in the suburban Boston and southern New Hampshire areas. Vacancy rates are rising and renters can get several months of free rent. The excess is due to a lot of space coming available just as the slowdown in high technology occurred.

## SECOND DISTRICT--NEW YORK

Most sectors of the Second District economy are currently showing little growth in activity and our contacts' views of the outlook are varied. With retail sales slow except in cases of heavy promotional activity, merchants voice little optimism about the autumn. Business activity is seasonally slack in a number of areas, but some firms continue to make investments and others anticipate a pickup in orders. Office availability rates are generally high, though demand for office space in some areas is relatively strong. By contrast, the housing market remains quite active, and small District banks report no problems with consumer or mortgage loan delinquencies.

Consumer Spending

As yet there is no sign that District retail spending will overcome its recent sluggishness. One major chain reports July sales were 3.5 percent below last year's level while another had only a disappointing 2.5 percent gain. Some stores did register increases in excess of 10 percent but only with extremely heavy promotional activity and low profitability. A spokesman for one of these stores believes consumers have become accustomed to promotional markdowns and now avoid buying at full price. This is more of a problem for department stores than for discounters.

Opinions about the current state of inventories are varied. One of our contacts is satisfied with a 13 percent increase since his stocks are "clean" of leftover spring-summer goods. However, another chain finds a 10 percent increase unsatisfactory because sales levels are down. A third chain had to trim inventories by 6 percent in order to meet its plan. District retailers are not

very optimistic about the outlook given the less-than-robust state of the national economy. They are concerned that consumers will remain cautious and sales gains will only come through further heavy promotions.

#### Business Activity

Second District economic activity showed no clear direction in recent weeks. On one hand, Buffalo purchasing managers report a slight improvement in new orders during July coupled with stable or lower inventory levels. On the other hand, a higher percentage of Rochester area firms report slower business conditions and a buildup in inventories due to seasonal factors. Despite current conditions, Rochester purchasing managers anticipate a pickup in business activity during the next few months.

In contrast, the unemployment situation has improved markedly. The July unemployment rate of 6.1 percent in New York State was 2 percentage points lower than a year earlier. New York City had an even larger drop from 11.5 to 6.9 percent. New Jersey's unemployment rate, currently 6.0 percent, has been below the national level for more than a year.

Major investments continue to establish a base for future economic expansion. Ground was broken recently in the first phase of a \$30 million Dunkirk Harbor Development project in western New York and construction was started on two new hotels in that same vicinity. Plans have also been announced for a 650,000 square foot shopping mall and a \$28 million high-tech research and development plant in Rochester. In addition, through government assistance and tax-exempt financing, two abandoned manufacturing facilities will soon reopen: (1) an employee-owned castings firm will modernize a Binghamton area foundry which closed in 1982, and (2) a rail car assembly plant will open at the former Otis Elevator site in Yonkers.

### Construction and Real Estate

Residential construction activity remains strong in the District in response to continued heavy demand. In some areas lower mortgage rates are cited as a major factor. Shortages of skilled labor and certain materials still delay scheduled completions,, and speculative home building is generally at a minimum. Builders expect to maintain this busy pace at least through year-end. Home prices continue to move higher in much of the District. But in Manhattan luxury co-op and condo prices have begun to ease. An autumn 1985 cutoff date for certain City tax abatements prompted an unusually heavy volume of new multifamily building this year in Manhattan.

The District's nonresidential real estate market remains seasonally inactive. Availability rates are at relatively high levels in a number of areas, and concessions by sellers and landlords continue to prevail in much of the District. Moreover, in northern New Jersey and Fairfield County demand for office space is limited to small users. Some areas of relative strength do exist, however. In Rochester, for example, contacts report that office construction is reported robust with no current vacancy problems. In downtown and mid-Manhattan the leasing of new office space is proceeding at a satisfactory pace.

### Financial Developments

While consumer credit and mortgage loan delinquencies rose sharply nationally in late 1984 and early 1985, at small District banks consumer credit delinquencies have not increased and mortgage delinquencies have risen only slightly. In many cases, consumer delinquencies have actually shown an over-the-year decline. In general, delinquencies are not expected to become a problem, and small District banks do not plan to toughen or change their lending policies. Some banks attributed stable delinquency rates to the development and maintenance of close client relationships. They also cited lower interest rates and conservative eligibility guidelines.

THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District in early September are virtually the same as they were in August. Manufacturing activity has leveled off again after slight improvement in July and August, and loan growth at commercial banks has slowed substantially. Performing somewhat better are the retail and housing sectors. Department store sales have been increasing moderately but steadily since June and automobile sales have risen in recent weeks. Mortgage lending continues at a rapid pace, reflecting an increase in real estate sales that was sparked by the drop in interest rates in the spring.

The Third District business community is generally optimistic for the near term, despite the lack of clear signs of future growth. Although manufacturers have cut back planned capital expenditures, they generally expect stable or improving conditions over the next six months. Retailers have raised their estimate of third quarter sales and, though uncertain about the year-end shopping season, see no signs of trouble at present. Bankers expect more growth in commercial lending as the year comes to a close, and see the pickup continuing through 1986. Mortgage lending is expected to remain strong at current interest rate levels, although the growth of consumer lending may slow until consumer balance sheets improve.

MANUFACTURING

The level of industrial activity in the Third District in September is unchanged from August, according to the most recent Business Outlook Survey. More than half of the local manufacturers replying to the September survey say business is steady, and the number of firms reporting healthier business is

offset by an equal number experiencing decreases for the month. Conditions are relatively better for the food products and metal industries and for manufacturers of stone, clay, and glass products; optical equipment, machinery, and apparel manufacturers generally report relatively less favorable conditions.

Third District manufacturers have positive views on the near future. Forty-two percent of the September survey respondents expect improving business conditions over the next six months, while only 13 percent say deterioration is likely. New orders and shipments are expected to rise, but no increases in capital expenditures are planned, and the outlook for greater employment among area manufacturers remains poor. In their overall estimation of business conditions during the next six months, manufacturers of paper, rubber, and plastic products are relatively more optimistic, while food and apparel companies generally do not foresee much improvement.

#### RETAIL

Retail trade in the Third District has improved since early summer. August sales for all product lines were better than area store managers had expected, and indications are that September will be a solid month too. Thus, the improvement that began in July, after a flat June, should result in third quarter sales 6-8 percent above the same period in 1984 for major Third District retailers. While store officials are reluctant to forecast the late fall and Christmas shopping seasons at this time, they say they are not arbitrarily restricting inventory levels of fall and winter items.

Manufacturer-sponsored low interest rate programs have boosted automobile sales in the Third District. One area dealer says many people are trading in cars still being paid for in order to take advantage of lower rates, and says some prospective used car buyers are switching to 1985 models covered by the incentive financing. However, inventories are heavier than usual at most

dealers, and some are concerned that sales will fall sharply when special financing is discontinued in October and higher-priced 1986 cars arrive.

#### FINANCE

Total loan volume at major Third District banks in September is substantially the same as it was in August. While up approximately 15 percent from a year ago, outstanding volume for all loan categories combined has not changed over the last month. Consumer loan volume in early September is approximately 18 percent above the level of September 1984, but growth from August has slowed to a 3 percent annual rate, the lowest month-to-month increase so far this year. Area bankers say consumers may be approaching the maximum amount of debt they wish to take on and may even begin to reduce borrowings in order to keep debt-income ratios at manageable levels.

Commercial and industrial loan volume at large banks in the Third District ranged from flat to slightly off between August and September. A reduction in asset-based lending and a loss of borrowers through mergers and acquisitions are given as reasons for the recent decline in outstanding loans at some banks. Nevertheless, business loan volume in September is up approximately 17 percent from a year ago, and bank lending officers expect growth to resume towards the end of the year and continue through 1986.

Mortgage lending remains strong. The current interest rate on conventional, 30-year mortgages is 12 percent, the same as in June. Mortgage lenders say the demand for fixed-rate mortgages at this rate shows no signs of abating.

Local bank economists still predict higher interest rates, but have lowered their forecasts. They now see short-term rates rising 25 to 50 basis points over the next 12 months, instead of the 100 basis point rise that was the average forecast last month.

## FOURTH DISTRICT - CLEVELAND

Summary.

The District's economy continues to be soft and uneven. The unemployment rate remains high and manufacturing employment shows no improvement. Retail sales increases are moderate. Auto dealers report a recent sales surge from cut rate financing but overall see some downtrend in sales volume. Manufacturing activity is strong in auto- and defense-related sectors but generally weak elsewhere. Current strength in housing activity is expected to wane as the year progresses. Bank loan demand has softened.

Labor Market Conditions.

Unemployment remains high and manufacturing employment remains soft. Ohio's civilian unemployment rate fell 0.8 percentage points in August but is still 9.1%. The employment-to-population ratio rose. In manufacturing, almost as many firms report layoffs as report callbacks and new hires.

Retail Sales.

Fourth District retailers express satisfaction and little surprise in July-August sales. Major department stores report that sales of almost all goods continue to increase moderately along expected trends. Back-to-school sales have been slightly stronger than usual, helping to boost otherwise sluggish sales of nondurables. After some mid-summer weakness, durables sales have strengthened in the District, with appliance sales described as

the firmest component. With nearly optimal inventories, retailers do not expect to engage in extraordinary discounting during the remainder of the year. They expect demand to continue at or near present growth rates.

Auto dealers report a surge of sales in response to reduced financing rates, but looking at a longer period they see sales on a slight downtrend. This held especially for domestic dealers who say that Japanese competition is becoming a more important factor. Some domestic dealers express concern over high inventories and may significantly reduce factory orders for the rest of 1985. Some Japanese-make dealers are actually low on inventories, although they too have noticed a slowdown in demand.

#### Manufacturing.

Manufacturing activity continues to be sluggish. On balance, contacts indicate production and new orders are increasing very slowly. Inventories of raw materials and finished goods are being cut. Most manufacturers continue to report that import competition is making it very difficult to impose price increases. None of our contacts have yet seen any impact on their business from the depreciation of the dollar. A producer of road-building materials reports orders are strong and are expected to remain so because fuel tax increases are financing extensive road repairs. Contacts report sales of chemicals are soft. A producer of parts for heavy trucks reports production cutbacks because of order weakness, which the firm expects to continue into 1986. The weakness reflects slackening of capital spending rather than import competition. Parts demand for light trucks, which are more consumer- than business-oriented, continues to do well. Firms associated with the auto industry assert that the recent new car sales

spurt is borrowing from future sales and the producers are unlikely to increase their production schedules. Some suppliers believe that auto production may be cut back later this year unless the major producers offer sales incentives again later in the year. A tire producer reports sales of replacement tires continue to run below year-ago levels. A major steel producer reports orders are getting weaker in the third quarter and bookings for the fourth quarter are especially weak. Steel price pressures are intensifying as domestic producers compete aggressively to regain market shares. Steel users are cutting inventories because the economic outlook is uncertain and because low capacity utilization by steel producers assures customers of rapid delivery. A machine tool producer reports sales are up from a year ago but by only a half to a third as much as is usually associated with this stage of an economic expansion. The firm says its machine tool orders are still less than half of the peak level reached in 1979. Machine tool orders are strong from the auto and defense industries and weak elsewhere.

#### Housing and Construction.

Market participants agree that housing activity will deteriorate as the year progresses. They attribute the current strength of housing and mortgage markets to the lagged effects of lower mortgage rates and Ohio-subsidized mortgage funds.

A regional builder in the District reports a third consecutive month of strong ordering and heavy traffic by potential buyers. Most builders refuse to take the risk of speculative building because they are uncertain about the economy's direction. One builder asserts home buyers are not responding

to lower mortgage rates because they are increasingly uncertain about whether the current economic expansion will continue.

A large mortgage lender reports exceptionally strong closings in August. The firm attributes most of the higher loan volume to availability of Ohio-subsidized mortgage funds. Some lenders find customers are considering only fixed-rate mortgages because of the small gap between fixed-rate and variable-rate mortgages and because of a view that fixed rates may have reached a low point.

#### Commercial Banking.

Loan demand appears to have weakened at District banks in recent weeks. Total loans outstanding at large banks fell slightly over the past month due largely to a decline in commercial and industrial loans. Contacts generally acknowledge the weakness in business lending and they anticipate continued flatness in business loan demand. On the consumer side, installment loans outstanding are rising at a rapid pace but slower than in previous months. Contacts expect consumer loan demand to remain quite good.

## FIFTH DISTRICT - RICHMOND

Overview

What movement there has been in the District economy in recent weeks has been toward strength. But it is not yet clear that any broadbased improvement in activity is underway. Employment generally continues to show moderate growth, but with only spotty support from the manufacturing sector. Even that limited support represents improvement from earlier in the year. Early results suggest that August may have shown the first gain in manufacturing shipments since April, and that the slide in new orders may have been arrested. Retail activity also continues mixed, but upbeat reports are somewhat more common there as well. Commercial construction activity remains strong, although month-to-month gains are undoubtedly down somewhat. Residential construction and sales, on the other hand, are nearly uniformly strong, showing substantial month over month, and year over year gains in recent weeks. The agricultural economy in the District remains under stress, with preliminary estimates showing farm income below year ago levels, primarily as a result of weak commodity prices.

Manufacturing

Manufacturing activity is showing somewhat more life than in early summer. Overall, shipments apparently rose somewhat in the latest month, and the protracted slide in new orders seems to have ended, or at least paused. In addition, there have been some employment gains in the sector of late. Continued job losses in the textile and furniture groups have been more than offset by gains in the such areas as building materials, machinery and equipment, electrical equipment, glass, and metals. Inventories

generally remain above desired levels, having shown little change over the past several weeks. Manufacturers around the District are reportedly seeing almost nothing in the way of price changes, either for goods bought or sold.

The situation is basically unchanged in the coal producing sector. Output continues to lag behind last year's level, and employment is down even more. Nonetheless, consumption, particularly in the utilities sector remains strong, and inventories are down. The outlook for production remains positive.

#### Consumer Activity

Retail sales activity is mixed according to latest reports, but even that assessment represents an improvement from early summer. In some areas and in some product lines, consumer activity apparently picked up quite sharply in August after several months of very weak activity. Most respondents find sales to have varied across product lines, however, and apparently, there is some regional variation as well. In some areas sales remain below normal after adjustment for seasonal factors. Inventory levels are not widely thought to be a cause of concern.

#### Housing and Construction

Activity in commercial construction continues to be one of the bright spots in the District economy, although there appears to be a little room for further immediate expansion in this sector. Recent gains have been substantial in the residential construction sector, however, and sales of houses are such that there is little concern about bringing new units on

line. Conditions in the housing sector generally are characterized as strong to "feverish."

#### The Financial Sector

Lending activity remains relatively strong, although there is little reported evidence of any excesses developing in any sectors. There are isolated reports of individual financial institutions running somewhat higher than desired loan-to-deposit ratios, but it is clearly not a generalized phenomenon. Residential mortgage markets, of course, are showing considerable activity.

#### Agriculture

Along with deteriorating prospects for farm income, weakness in farmland prices is becoming more severe. Agricultural bankers in the District reported a 17 percent decline in farmland prices over the last year. These conditions are reflected at District agricultural banks where loan repayment rates remain very sluggish and restructuring of agricultural debt is commonplace. In addition, bankers are pessimistic concerning the short term outlook, and expect additional financial problems this winter as farm bills come due and income levels remain weak.

## SIXTH DISTRICT - ATLANTA

Economic conditions in the Southeast remain healthy on balance, and the outlook in several key sectors seems bright. Retail sales in August grew faster than nationally and compared to last year. The pace of residential building and sales or leasing in many regional markets continues to be brisk although multi-family and office construction are showing signs of excess supply. Bank lending, particularly to consumers, appears to have stabilized after decelerating appreciably earlier this year. Tourism business has been strong in most localities; however, Hurricane Elena drastically reduced tourist spending during the Labor Day weekend. The main areas of weakness are locally important industries, such as textiles, apparel, petrochemicals, and agriculture. The enervation of the region's manufacturing base is being felt in labor markets.

Employment and Industry. Labor markets continued to weaken in July. Primarily because labor force growth exceeded job gains, unemployment rates worsened in every District state. Total employment growth more than offset continuing job losses in the hard-hit apparel, textile, and petrochemical industries. Despite its problems, the textile industry's capital spending plans are up slightly from last year. Expenditures will be applied primarily to new equipment. As a result of reduced demand for phosphate fertilizer and low prices, Florida phosphate mine operators have recently furloughed workers and shortened the workweek. Imports of low-priced chemicals and reduced activity in the domestic metals industry are having an adverse effect on Louisiana's petrochemical industry. To meet current demand, producers are drawing down inventories rather than increasing production. More positively, the drop in natural gas prices is benefiting local producers of ammonia, for which natural gas is a feedstock. The outlook for the region's forest products industry has also improved. Contacts note that prices have stabilized and that inventories are not excessive at this time.

Consumer Spending. Retail sales in August were up from a year earlier as consumers responded favorably to heavy promotional efforts by retailers to move back-to-school items and remaining summer merchandise. Sales at regional department stores, especially those in Alabama, Florida, and Georgia, continue to advance at an above-national average pace. Merchants say that inventory levels are acceptable but they are closely monitoring their stocks. Although new orders are being planned cautiously, most retailers surveyed are optimistic that sales growth will be healthy over the remaining months of 1985 and generally expect year-over-year increases to be in the 3 to 10 percent range. After surging dramatically in late August, the region's car sales are widely expected to remain on the rise in the second half of 1985, either matching or slightly surpassing last year's performance.

Construction. Residential building shows mixed signs across the Southeast. Condominium markets generally are depressed as a result of excessive supply and low interest rates that enable first-time buyers to purchase the more popular single-family dwellings. Recent sluggishness in the Florida economy has adversely affected housing in the state, and inventories continue to accumulate in the New Orleans market. In contrast, cumulative residential permits in Atlanta through July were running about even with last year, well above the expectations of many industry analysts. The pace of sales and construction in Birmingham remains steady, and contacts express satisfaction with the inventory of single-family homes. Except in New Orleans, southeastern office markets continue to show strength. Atlanta, Miami, and Nashville are experiencing an improvement in leasing, although there are signs of overbuilding in Atlanta.

Financial Services. Regional bank loan growth stabilized somewhat during the summer after slowing substantially from January to May. This pattern is due primarily to a resurgence in consumer credit demand; real estate and especially business lending

have continued to decelerate. However, the strength of business and real estate lending varies widely across the District. The market in Atlanta, for example, is healthy, whereas those in Miami and New Orleans are weak.

Tourism. Summer air travel was up, according to data from major regional airlines and many airports, and advance bookings for fall look strong. In contrast, auto travel, as measured by visitor center registration, fell in July. However, the latter might reflect the one-time effects of last year's World's Fair. Hotel occupancies and receipts in major cities continue to lag behind year-earlier levels because of recent expansions in supply. However, some Florida contacts report modest improvement in occupancy despite the surfeit of new rooms, and reservations for the remainder of this and next year portend improvement in Atlanta's large convention market. Most attractions polled have experienced increased attendance compared to last year, and the pace accelerated in August. However, Hurricane Elena had an adverse impact on Florida and Gulf Coast tourism during the important Labor Day weekend.

Agriculture. The hurricane and related weather which struck Mississippi apparently did little damage to crops in that state. Prospects for crops this growing season remain favorable throughout the District as high yields appear likely. Nevertheless, much lower prices this year and less production of some crops may cause net farm income to fall from 1984. In addition, lower production and/or prices may result in a decline in gross income in the animal products industry. Financial distress also remains a concern. The Federal Land Bank of Jackson, Mississippi, which holds approximately \$3 billion in real estate loans in Mississippi, Louisiana, and Alabama, may experience a year-end loss for the first time since the 1930s.

## VII-1

### SEVENTH DISTRICT--CHICAGO

Summary. Recent reports on Seventh District economic activity suggest neither an overall pickup nor a pronounced weakening--except for the growing woes of cornbelt agriculture. Total employment in District states has been about flat since spring, and manufacturing has weakened since January. Mergers and "restructurings" of large enterprises have been accompanied by layoffs and close reins on new hires. Auto production, commercial and residential construction, and highway building are strong compared to the levels of the early 1980s. Many lines of capital goods important in the District remain weak. Steel production continues at depressed and unprofitable levels. However, the reported drop in steel imports in July raises hopes for higher output in the remainder of the year. General merchandise sales at major District retailers continue lackluster. Large prospective corn and soybean crops and weak export demand translate into downward price pressures and severe financial stress, particularly in Iowa and Illinois.

Teachers' Strikes. Tentative settlement was reached in a two-day strike by 28,000 teachers and about 12,000 other school employees in the huge Chicago district. Agreement to end the strike, the third in as many years, came after intervention by the governor of Illinois. The 2-year pact calls for a 6 percent first-year pay raise, with a further 3 percent pay increase in the second year contingent on additional state aid. Teachers also will get normal longevity increases. Teachers' strikes continue in some other public schools districts.

Motor Vehicles. Planned production of domestic cars and trucks remains vigorous through year-end. Cut-rate financing programs, along with improved availability following the carhauler's strike, are stimulating strong sales gains. Inventory imbalances resulting from the strike are being eased quickly, though stocks of popular car models, particularly imports, are tight. Many haulers have worked extended hours to clear

bloated inventories of cars and trucks awaiting transport at plants, ports, and railheads. Auto output was not curtailed by the strike. Domestic auto makers have relied increasingly on railroads to haul vehicles in recent years. In 1984, 57 percent of domestic autos were moved from factories by rail, up from about 50 percent in 1979. In contrast, importers rely on trucks for transport of 90 percent of cars from ports of entry. Because stocks of popular imported models had been tighter than stocks of domestics, the carhaulers walkout had a greater impact on sales of imports. Sales of small trucks, many bought for consumer use, have been setting records. Demand for medium and heavy trucks has softened since early this year. The mix has been shifting from heavies toward mediums. Production of truck trailers has slumped sharply following the surge in demand last year which had reflected regulatory changes.

Steel. Demand for steel has been strong for construction and autos. Nonelectrical machinery, agriculture, and various other markets are weak. Steel shipments of domestic producers are expected to rise in the second half, seasonally adjusted, partly because of lower imports. The normal summer slowdown in steel production has been less pronounced than usual at major District centers. Sharply lower steel imports in July, to 22 percent of the U.S. market from 26 percent in the first half of the year, apparently reflect partial success for the Administration's import restraint program. However, import data are erratic, and delays in reporting have lengthened in the past year. Court approval was finally given for demolition of over half of U.S. Steel's huge South Works in South Chicago where employment is down to around 900 from as many as 10,000.

Capital Goods. Demand for many types of capital goods produced in the Seventh District remains very weak. Included are equipment for heavy construction, mining, the oil and gas industries, public utilities, and railroads. Machine tool orders are weak except from defense contractors and the auto industry. Sales of large farm tractors and combines are off sharply from already low levels. Major farm equipment plants are expected to be closed for extended periods this fall. Foreign competition continues

intense in most capital goods lines.

Construction. Building activity in the District continues well above recession levels, but generally far short of peaks reached in the late 1970's. Office, retail, and apartment construction are vigorous in downtown Chicago and certain suburban areas. Some new building and renovation work apparently is being pushed in anticipation of possible unfavorable changes in tax laws. However, bidding volume suggests that strength will carry into 1986. Residential and nonresidential building is up strongly in southern Michigan, helped by the resurgence in the auto industry in the past three years. Highway construction is also strong in the District.

Consumer Spending. General merchandise sales of major District retailers, on a "same store" basis, have been disappointing for several months. Following last year's inventory buildup, buying has been closely restricted, and stocks are under better control. Sales of durables are expected to strengthen in the second half because of the high level of residential sales. A large retailer headquartered in the Seventh District is eliminating its century-old catalog business, which employs 5,000.

Agriculture. Estimates of the fall harvest, likely to be revised upward, point to an 8 percent increase in the District's corn crop, and an 11 percent increase for soybeans. Nationwide, the increases currently are forecast at 8 percent for corn and 5 percent for soybeans. Large prospective harvests and slumping exports have sharply depressed crop prices. In August, corn and soybean prices were down 10 percent from May, about 25 percent below last year, and the lowest since 1982. Livestock prices also are very depressed, with overall meat animal prices down 11 percent from a year ago and, except for a two-month period in 1983, the lowest since 1978. Low commodity prices and continuing declines in farm real estate values are further eroding precarious financial positions of many farmers and putting pressure on their lenders. Conditions are not expected to improve for a long time to come.

EIGHTH DISTRICT - ST. LOUIS

Summary

A large majority of representatives of both small and large industries foresee unchanged or improved business conditions for the remainder of the year. District employment growth continues to lag behind national trends. Business loans in the District have begun to decrease from earlier levels while consumer lending has maintained a pace well above that of last year. Large expected harvests and the resulting decline in commodity prices portend increasing difficulties for farm lenders.

Outlook

A recent poll surveyed executives of large midwestern firms and found that half expect business conditions to improve in the next six months, while 39 percent anticipate no change. The results of another survey indicate a majority of the District's small firms expect business conditions to be unchanged for the remainder of 1985. Approximately one third of those in the manufacturing and service industries perceive an improved business outlook for the next six months. These findings represent no change in the outlook of small businesses in the District since the previous survey during the second quarter of this year.

Half of the small businesses surveyed anticipate sales volume to increase slightly, while one fourth of the respondents expect no change for the next three months. Prices near current levels are planned by 60 percent of the respondents, while almost 20 percent, primarily those in the retail sector, anticipate price increases of 3 percent or less over

current levels. Fifty percent of the respondents plan to maintain the same inventory level over the next three to six months while approximately 25 percent, primarily those in the retail and wholesale industries, plan to increase inventory levels by 6 to 10 percent.

#### Employment

District payroll employment increased at a 1.9 percent annual rate for the first seven months of 1985, compared with a 3.0 percent rate nationally. Year-to-date employment growth for Kentucky has been particularly strong, increasing at approximately a 5 percent rate. The District unemployment rate went from 7.5 to 7.7 percent in June due to slight increases in unemployment in Arkansas and Kentucky. Kentucky's unemployment rate rose due to growth in the labor force which exceeded the employment growth.

#### Consumer Spending

Slower growth in retail sales continued throughout the District, particularly in the Kentucky and Tennessee markets as expenditures on durable goods fell from previous levels. Automobile dealer associations in the District report continued strong sales with several dealers reporting increases over last year's pace. One Kentucky domestic car dealer indicates that current sales are the best since 1979. Scheduled auto production in the St. Louis area for 1985 reflects a 14.6 percent increase over the 1984 model year.

#### Construction

Total construction contracts in July increased 5.8 percent from the July 1984 figure. District residential contracts have decreased 2.8

percent from year-ago levels, while nonresidential contracts have increased 21.7 percent.

#### Banking and Finance

Total loan growth over the three month period ending August 1985 (4.2 percent) was less than half the rate of growth over the same period last year (11.6 percent). Consistent with earlier periods, consumer loan growth has remained very strong (22.2 percent) relative to last year (5.7 percent). Commercial and industrial loans, which showed only slight growth earlier in the year, exhibited a sharp 10.9 percent rate of decline over the past three months. Over the same period last year, C&I loans posted growth of 9.7 percent in outstanding volume.

Total deposits decreased at a 1.8 percent rate over the most recent three months compared to a 12 percent rate of growth last year. The fall in total deposits can be attributed mainly to large denomination time deposits, which declined at a 27.2 percent rate compared to last year's 58.5 percent rate of growth over the same three month period.

#### Agriculture

All major crops continue to progress in good-to-excellent condition. Indications are for large harvests. To the extent prices decline further in response to large market supplies and weak demand, debt repayment problems are likely to worsen, both for commercial banks and the Farm Credit System. Farmers continue to increase cattle marketings and reduce placements of new cattle on feed. These events suggest continued low red meat prices through the end of 1985 with higher prices possible early next year.

## NINTH DISTRICT - MINNEAPOLIS

Employment conditions have weakened a bit this summer, while very recent signs indicate some firming of consumer demand, particularly for housing. The district's agricultural outlook has remained gloomy, increasing the anxieties of agricultural lenders. Performance in natural resource-related sectors has been mixed.

Employment

Employment conditions have deteriorated a bit in the Ninth District. Seasonally adjusted employment in the district fell a few thousand between June and July. Minnesota's seasonally adjusted unemployment rate rose to 5.7 percent in July, due in part to layoffs in manufacturing and mining. Also, a temporary layoff at an iron mine in the Upper Peninsula of Michigan just began. But the unemployment rate in South Dakota stabilized at 5.3 percent in July, while Montana's unemployment rate fell to 6.4 percent. South Dakota, however, was hit in September by a strike at a large meat packing plant in Sioux Falls.

Consumer Spending

Retail sales of general merchandise appeared to pick up a bit in August. One large district retailer reports that its department store sales in August were better than expected, being 16 percent above sales a year earlier. Another large retailer considers its sales very good, buoyed by back-to-school sales of junior wear. Both retailers report that late payments were up slightly, though. District Bank directors report that while retail

sales were generally good in larger diversified cities, they remained soft in smaller, agriculturally dependent cities and towns.

Factory low-interest financing has continued to spur sales of motor vehicles. One domestic manufacturer's car sales in this region increased in July and August to levels 15 percent higher than a year earlier. This high rate of sales has left its inventories at low levels of less than one month's supply. In Great Falls, Montana, dealers for all three major domestic manufacturers experienced sales hikes two to three times greater than normal for this time of year.

Housing activity appears to have revived somewhat. Home sales in Minneapolis increased 34 percent in July and 27 percent in August over levels a year earlier. The inventory of unsold homes there is 12 percent less than it was a year ago. After dropping in June, residential building contracts in Minnesota were 39 percent higher this July than last July. District Bank directors' reports yield a mixed housing picture in the rest of the district. Sales grew in Sioux Falls and Rapid City, South Dakota, but were flat throughout the rest of the state as well as in North Dakota. While a large inventory of unsold homes remains in Rochester, Minnesota, a record number of housing permits have been issued around Iron Mountain in the Upper Peninsula of Michigan.

#### Agriculture

The dismal district agricultural economy has not improved, however. Both farm prices and profits remain low.

In fact, farm prices fell further recently. The Minnesota farm price index fell again in July, to 14 percent below its low level of a year ago. Soybeans registered their lowest price since January 1983. Cattle and calf

prices also fell. Summarizing the meat animal business as "terrible," a Bank director from Montana notes that both fat cattle and hog prices are so low that losses are unavoidable.

Despite recent rains, crop conditions haven't improved much. At the end of August, the U.S. Department of Agriculture declared 55 of Montana's 56 counties disaster areas. Net farm income there is the lowest it's been since the Great Depression. Other parts of the district are too wet and need some warm, dry weather to foster development and harvesting of the would-be bumper crops.

#### Finance

Total deposits at banks, thrifts, and credit unions fell just a bit between late July and late August. Some Bank directors note that bank liquidity is still more than adequate, but that good lending opportunities are hard to find in agricultural areas. Another director points out the deepening worries of agricultural-dependent bankers.

#### Resource-Related Sectors

Mixed news comes from the district's natural resource-related sectors. A major favorable development is the U.S. Energy Department's decision to keep the large coal gasification plant in Beulah, North Dakota, operating at least until next spring, saving thousand of jobs. Another paper mill will start operating this December in the Upper Peninsula of Michigan, but other mills in northern Minnesota have taken some downtime due to softening demand and import competition. While waferboard plants are running at full bore, poor prices have idled oil and gas drilling in Montana and western North Dakota.

## TENTH DISTRICT--KANSAS CITY

Overview. Economic conditions in the Tenth District continue to be sluggish. Retail sales are generally stable to off slightly, with some seasonal improvement expected. New car sales have been weak recently, but dealers remain optimistic about the rest of the year. Prices generally remain steady, both at retail and for manufacturers' inputs. Some trimming of both retail inventories and material inventories is occurring. A generally good wheat harvest is being followed by anticipations of bumper fall crops. Little growth in deposits is reported by district banks, while loan demand is somewhat more mixed.

Retail trade. Most retailers report a modest drop in sales from the same time last year. Stable to slight declines characterize sales over the past three months. Clothing and accessories have been the strong sellers while home furnishings sales are below average. Sales are expected to increase with the coming of the holiday season. Prices are stable and are expected to remain so through the end of the year. Retailers are trimming their inventories except for anticipated seasonal increases.

Automobile sales. Automobile dealers report mixed sales, satisfactory inventory levels, ample financing, and a cautious optimism regarding sales for the remainder of the year. Sales are down slightly in most areas, although Wyoming reports a moderate increase over year-ago levels. Dealers are currently satisfied with inventory levels, having trimmed to make room for the 1986 models. The Teamsters' strike had little impact, with only New Mexico citing any adverse effects. Financing is readily available for dealer floorplanning and customer purchases. Despite recent weakness, the new factory sponsored financing has dealers optimistic that 1985 sales will equal the strong 1984 showing.

Purchasing agents. Most purchasing agents report that input prices have increased slightly relative to a year ago, but input prices are generally expected to remain constant through the end of the year. No difficulties in obtaining materials are reported, and none are anticipated. Finally, most agents report some trimming of inventories, due to decreased sales as well as to seasonal factors.

Agriculture. Wheat harvest is complete in the Tenth District, with the outcome being mixed across the states. The wheat crop in Colorado, New Mexico, and Oklahoma was much better than average. Yields in Missouri and Kansas, though not as high, were still better than average. In contrast, extremely dry conditions in Wyoming and western Nebraska resulted in a poor wheat harvest. Paydowns on loans by winter wheat farmers in most district states have generally met expectations, but paydowns have been slow in Wyoming and western Nebraska where the wheat crop was disappointing.

Good moisture throughout the Tenth District will favorably affect production and yield of fall harvested crops. Corn, soybean, and sorghum conditions are reported good to excellent, with bumper crops anticipated. Moisture is also good in Oklahoma, where the cotton crop is expected to be above average.

Only a small proportion of the district's wheat and grain crop will be sold. Instead, about three quarters of the wheat crop and two-thirds of the grain crop will probably go into Commodity Credit Corporation (CCC) loans. These proportions, which are well above average, have the potential to depress future commodity prices and thus increase the total amount spent by the federal government on deficiency payments to farmers.

Livestock production has also benefited from the good weather. Rangeland conditions are described as ideal, except in Wyoming and western Nebraska,

where conditions are very poor due to extreme dryness. As a result, ranchers are moving cattle off the range prematurely and selling them at discounted prices.

Banking. Loan and deposit behavior was, on average, reported to be unchanged by respondents at Tenth District banks, though loan demand was somewhat more mixed than deposit behavior. Banks surveyed were equally split between increased, decreased, and unchanged consumer loan demand. Those with decreased consumer demand cite as the primary cause competition from domestic auto manufacturers offering low interest loans to reduce inventories of 1984 models. Commercial and industrial loans were either unchanged or down, with only a small percentage of banks reporting increases. Agricultural loan demand was mostly unchanged. Residential real estate loan demand increased at most responding banks while commercial loan demand was mostly down. Respondents report a shift from office building construction toward more shopping center construction. The prime rate has remained the same at nearly all banks surveyed, as have consumer lending rates. Deposit behavior was unchanged for the most part during the past month. There was little variation in deposits in NOW accounts, Super-NOW accounts, small time deposits, and passbook savings accounts. Demand deposit behavior varied a little more-- though most banks surveyed report no change, a few report slight increases and a few report slight decreases. Money market deposit accounts tended to increase, while large CD's either decreased or remained unchanged.

## ELEVENTH DISTRICT--DALLAS

Economic growth in the Eleventh District is sluggish.

Manufacturing activity is virtually flat. Drilling remains depressed because there is still widespread concern about oil price stability. Retail sales expansion is slow overall, but automobile purchases are even stronger than last year's robust pace. Construction activity is high. Asset growth is accelerating at the District's large banks. Significant price declines will probably mean reduced agricultural income.

Eleventh District manufacturing activity is stable. Little, if any growth, is evident overall. Many respondents report that orders are significantly below those of late 1983 and early 1984. Industries tied to construction are reporting robust demand, however. Lumber and wood products sales are high, as residential construction continues to rise at a moderately strong pace. Nonresidential and non-building construction, such as streets, highways, and water treatment plants, are buoying orders for stone, clay, and glass. The demand for oilfield machinery is weakening slightly and respondents report minor reductions in employment. Strength in international orders has partially offset a decline in domestic orders. Orders for electrical machinery remain steady, but continued weakness in semiconductor demand has led to additional layoffs by some District electronics manufacturers. Defense spending is partially offsetting the weakness in private-sector demand for electronics, and it is also responsible for increased activity in the aerospace industry. Manufacturers of paper and allied products say their orders are slightly below a year earlier, but demand for computer-related paper products is

rising. Overall, output in the apparel industry is depressed and employment has reached a fifteen year low. Petroleum refinery utilization has dipped lately, but remains high by recent standards.

Drilling activity in the Eleventh District continues its downturn, despite fairly stable spot market oil prices in the recent past. Respondents say concern about future price stability is a major impediment to expansion in drilling. The pace of decline in the Texas rig count has slowed in recent months, however.

Retail sales show little growth overall. Sales of large appliances and other household goods have been declining absolutely. Respondents note that consumers are resisting price increases. Retailers are resorting more frequently to markdowns in order to reduce excess inventories. The beginning of Sunday sales in Texas has induced some stores to hire new workers, but overall employment expansion is negligible.

Low interest rates offered by automakers are keeping auto sales brisk. Sales in many areas are above last year's exceptionally strong pace. Most models remain in good supply, according to respondents, who note that the recent strike by automobile haulers had only a minor effect on inventories. Dealers report they are unsure about the extent to which increased automobile imports will affect prices this fall.

Construction activity in the District remains strong. Nonresidential construction contract values continue above the pace of last year, but many respondents report that building plans are being deferred and that the value of contracts will decline soon. The value of non-building projects is rising, as a result of increased construction of streets, highways, and water-treatment facilities. A resurgence of

residential construction is in process, in the wake of reductions in mortgage rates. A recent expansion in the value of residential permits has been accompanied by more modest growth in the number of permits. Respondents attribute the increased ratio of permit value to number of permits to a decline in the proportion of "starter" homes being constructed. After a long period of decline, the number of multifamily permits has increased, suggesting that the excess supply from previous overbuilding is beginning to abate.

Asset growth at the District's large banks has been accelerating. The growth rate of total loans increased in June and July, after declining in each of the six previous months. The rate of consumer loan expansion is rising. Real estate lending continues to move up strongly, although at a slower pace than earlier in the year. Business lending in July was virtually unchanged from a year earlier. Loan growth at Texas savings and loans is slowing, although it is still high. Deposit growth is ebbing at large banks and at all District financial institutions, but expansion of transactions deposits has accelerated. In July, large banks posted a year-over-year increase in borrowings, the first increase recorded this year.

District agriculture continues to show weakness. Overall crop production is expected to be up over last year's level, but will not offset significant drops in prices. Crop and livestock prices have fallen by 10 to 20 percent from a year earlier. As a result, recent agricultural income estimates for Texas show that net farm income is likely to be smaller in 1985 than 1984.

## TWELFTH DISTRICT — SAN FRANCISCO

Summary

Although signals are mixed, economic activity in the Twelfth District appears to be slowing. Forest products, agriculture, mining, and high technology industries all remain depressed due to continued low prices. Retail spending, which helped sustain the region through its recent problems in the manufacturing and agricultural sectors, seems to be slowing down. Construction and real estate activity is mixed, varying both with location and with building type. Employment growth in trade and services appears to be continuing although growth in trade employment appears weaker than its previously high rate.

Consumer Spending

In general, retail spending in the Twelfth District appears sluggish. In a small sample of California department stores, one reported July sales up 2 percent from a year earlier and one reported flat sales. July sales at two other department stores were below last July's level, one by 18 percent. Even high priced stores have resorted to price cuts in order to move merchandise. Auto sales are reported to be weakening. For example, auto sales in Oregon were down 9 percent in June, and 43 percent of these sales were imports. Nevertheless, sales at restaurants, including fast food outlets, remain strong, and limited available data suggest that credit card sales and consumer borrowing likewise continue to grow.

Manufacturing and Mining

Sales of forest products continue to suffer from slow demand and Canadian competition. Inventories have generally fallen, but this is more the result of production cutbacks than strong sales. Although prices are rising slightly, they remain low and the falling dollar has yet to affect sales. Fires in the Pacific Northwest and Canada have curtailed cutting in these locations, which will hurt producers in Washington and Oregon but should help Alaska's troubled timber producers.

The slump in high technology industries continues to reverberate throughout the Twelfth District. Layoffs, short work weeks, and suspension of investments continue unabated.

Mining and oil activity likewise continues to be flat or down from year earlier levels, with no end in sight for the low prices which are responsible for the weakness. Further oil price reductions would benefit consumers as well as the transportation, agriculture, and tourism industries. However, oil producing regions would be hit hard. Alaska, which is heavily dependent on oil revenues, would suffer a particularly strong setback.

Construction & Real Estate

Construction activity, as measured by permits and starts, is up in most of the Twelfth District. However, activity appears weaker in Washington, Southern California and in Utah. Multifamily residential construction is particularly volatile and varies substantially by location. For example, multifamily permits, which had been rising in Utah, fell

sharply in June, while in Oregon June multifamily permits were up 200 percent from their year earlier level.

Sales of existing houses are either flat or slightly up in most markets. The Portland market is strong, with existing home sales in July 16 percent above their June level and 23 percent above the year earlier level. Particularly weak markets include condominiums and, in some localities, vacation homes.

#### Agriculture

Yields promise to be strong this year, leading to further price reductions. Pest problems, including the grasshopper infestation in Idaho, have affected specific areas but are unlikely to affect overall yields. Prices remain below their year-earlier levels for wheat, canning crops, grapes, almonds and cattle.

#### Financial Sector

Interest rate changes present a mixed picture, with some states reporting increases in fixed-rate mortgage and consumer loan interest rates and others reporting declines. Similarly, new mortgage loan volume is up in some states and down in others. Strong demand for mortgage refinancing throughout the Twelfth District is focused on refinancing fixed-rate mortgages at a lower fixed rate.

Delinquency rates for credit card and consumer loans continue to rise in Utah, Idaho, and Nevada. Large loan losses at many financial institutions will prevent them from enjoying what would otherwise be one of their more profitable years.