SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Available information suggests that slow growth continues in most Federal Reserve districts, although conditions vary substantially across both sectors and regions. Retail sales appear to be growing modestly overall, with substantial regional variation, and domestic automobile sales also show a mixed performance. Summer tourist traffic appears strong in most areas. Manufacturing activity remains weak. The decline in oil prices has hurt manufacturers in some areas, in addition to energy producers. Agricultural producers in the Midwest expect high crop yields, contrasting sharply with the drought-plagued Southeast. Homebuilding continues strong in most areas, although some districts report weakening from the frenzied pace of the spring months. Commercial construction and real estate activity remains in the doldrums in many areas. Total bank loan demand has grown in most districts, with residential real estate portfolios showing particularly strong growth.

Trade and Services

Retail sales have shown modest growth overall, with considerable variation across regions. Boston reports that sales were weak in May and June, but picked up in the beginning of July. New York, Philadelphia, Cleveland, and Chicago report relatively strong sales growth, while Minneapolis, Kansas City and Dallas report weakness. Atlanta, St. Louis, and San Francisco report that their sales performances varied considerably in different parts of their districts. Prices generally are flat, and inventories appear under control. All districts reporting on tourism cite it as a source of strength.

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*Prepared at the Federal Reserve Bank of San Francisco

Chicago and Minneapolis report that sales of domestic automobiles are outpacing last year's, while the Kansas City and Dallas districts have seen reduced sales during the past year. Philadelphia, Cleveland, and Atlanta report improved sales in recent weeks although sales remain below last year's levels.

Manufacturing

Manufacturing activity remains flat or down slightly in most parts of the country. Aerospace industries are providing a boost to the Boston and San Francisco districts, but in both districts the expected upturn in electronics has not yet materialized. Prime defense contractors in the Atlanta district report that new orders have fallen, although defense spending continues to bolster that region's economy. In the Philadelphia district, manufacturers report marginal improvements in orders and business volume. Cleveland reports that threatened labor disputes are hurting steel orders. Weakness in energy related industries has hurt manufacturers in the Chicago and Dallas districts. Many districts report that efforts to cut costs and retool are crucial to maintaining profitability in the current competitive climate.

Mining

Problems related to low oil prices continue to plague most energy producing parts of the nation. In Virginia and West Virginia, however, coal production reportedly is up because demand for electrical power has risen due to hot weather, and because new emphasis on environmental protection has increased the demand for low-sulfur coal.

Agriculture

Favorable weather conditions in the Midwest should result in excellent crop yields in that region. In contrast, extreme heat, drought, and insect

problems are causing severe crop damage along the eastern seaboard as far north as Delaware. In the Southeast's inland regions, the damage is less acute, and in some areas late rains could salvage crop production. Recent surveys suggest that deterioration in farmland prices is continuing in the Minneapolis district, slowing in the Chicago district, and accelerating in the Dallas district. Prices of most farm products remain low, and Kansas City reports that a shortage of storage space for corn could reduce corn prices further.

Construction and Real Estate

Most districts report strong homebuilding activity, with single family construction stronger than multifamily building. There is however substantial variation among regions. Although Cleveland, Atlanta, St. Louis, and San Francisco report a recent slowdown in housing starts, strength remains and is expected to continue. Some areas, however, report weak homebuilding activity, including New Orleans, Montana, parts of West Virginia, and the Dallas district.

Nonresidential construction and leasing activity are slowing in most areas, and concessions to tenants are becoming increasingly common. Despite the widespread weakness, particularly in the oil belt, some areas report strength, including New York City, Atlanta, Birmingham, Jacksonville, and Tennessee.

Financial Sector

Total loan demand grew in many districts. In the Dallas district, however, loan volume is down due to an absolute decline in non-real estate loan volume. Mortgage loan demand is particularly strong in most regions, although the rate of growth is slowing in some areas. In most areas the rate of growth in installment loans is positive but falling, although

Kansas City reports an absolute decline in demand for consumer credit. Commercial and industrial loan activity is relatively weak in most districts, showing little or no growth.

FIRST DISTRICT - BOSTON

Economic activity in the First District remains unbalanced. The manufacturing sector is in the doldrums. Retail sales were disappointing in May and June, but picked up in July. Both manufacturers and retailers report vigorous price competition. Reports from the real estate sector are mixed. The Boston area is experiencing a seasonal slowdown in home sales, while other parts of the region continue to experience very strong sales activity.

Retail

Department store sales in several New England chains were below plan in May and June and even lower than last year in some cases. The first few weeks of July, however, look much better, lending support to retailers' optimism about the second half of the year. Inventories are somewhat high but still not a source of concern, according to those contacted. Prices are stable but margins appear to be shrinking.

After lackluster sales in May and June, department store representatives reported a noticeable pickup in early July, attributed at least in part to July's bad weekend weather. Sales of TVs, VCRs, and microwaves are strong in stores aimed at moderate income customers, while an upscale chain's strongest departments are men's and women's sportswear. Sales of home repair and building supplies remain very strong. There is considerable geographic variation in sales results within the region, but respondents attribute this more to the competitive conditions of specific stores than to differences in the strength of local economies.

Inventories are higher than expected in a number of stores, largely because of failure to attain sales plans. Markdowns, especially for apparel, have been used to keep inventories in check. Aside from promotional reductions, prices are generally steady; several contacts reported, however, that intensified competitive pressures have increased promotional activity and eroded margins for the industry as a whole.

Disappointment with sales gains in recent months has not yet caused retailers' plans for the second half of the year to be revised downward. Merchants remain confident that consumers will continue to be a buoyant force in the economy.

Manufacturing

Manufacturing respondents in the First District report that business is "flat" or "mixed", continuing a pattern that has persisted for several months. Recreational equipment, aerospace and housing-related products are said to be doing well. Some respondents report strong demand from the auto industry, but others have seen a slowing in what has been, until now, a very strong market. Demand for industrial components remains weak. The electronics industry, which had seen signs of a pickup a few months ago, has experienced a levelling off. Two major First District computer firms recently announced layoffs.

None of the manufacturers contacted has seen an increase in exports attributable to the decline in the value of the dollar, although one representative of the metalworking industry thinks import pressure may be starting to ease. Respondents are continuing with current capital spending plans; plans for 1987 will probably be similar to 1986. None of the firms

contacted has seen any significant increases in prices from suppliers; several noted that they cannot raise their own prices. Manufacturing respondents are very noncommital about future prospects; if pressed, they expect a continuation of current conditions. A couple hope to improve profits through cost saving measures, most notably through consolidations and the sale of excess capacity.

Real Estate

Reports of sales activity in the New England housing market are mixed. While areas close to Boston are experiencing a seasonal slowdown (brokers are optimistic that the vacation season is responsible for the reduced number of buyers), other parts of the region are enjoying a booming pace similar to that in the spring. Listings are said to be plentiful, and the attractive properties are still turning over at a very rapid rate. Price experience is varied: prices are stabilizing in some areas, but continuing to climb in others. In general sellers are getting close to their asking prices. Condominiums, from the very affordable to the luxurious, are selling well.

Vacancy rates for office space are up slightly in some parts of the region as new buildings have recently come on line. Rental incentives are being offered, but agents are confident that there will be little problem filling the new space.

SECOND DISTRICT -- NEW YORK

In recent weeks, the economic expansion in the Second District varied across sectors. Retailers reported consumer spending at or above planned levels during June and early July, and demand for new housing remained strong. Leasing activity in the commercial real estate market was not uniform, however, and business conditions were also mixed. Delinquency rates on consumer loans at small District banks mirrored the national trend, leveling off in the first quarter following the earlier increase.

Consumer Spending

In general, consumer spending in the Second District during June and early July was at or above planned levels. Most New York City retailers reported growth between 10 and 14 percent over last year as the large influx of tourists for the July 4th Liberty Weekend contributed to gains in New York City that were above the District average.

Higher-priced stores in the region continued to report the greatest year-to-year increases with gains ranging from 8 to 15 percent. Discount stores registered growth between 6 and 10 percent, while medium-priced retailers generally recorded gains of 4 to 7 percent. However, one store in Western New York experienced only a 1 percent increase in sales, substantially below its expectations. Plant closings and recent layoffs reportedly have reduced consumer demand in that area.

Consumer durables, especially furniture, accounted for much of the growth in spending. Sportswear and athletic footwear were also in strong demand. With sales in line with expectations, most merchants were able to keep inventories under control.

Business Activity

Business conditions in the Second District have shown no clear direction in recent weeks. A higher percentage of purchasing managers in both Rochester and Buffalo reported some improvement in May. In addition, the District's unemployment rate is below the national average and year-earlier levels. In June, New York's unemployment rate fell sharply to 5.9 percent from 7.4 percent in May, while New Jersey's rate of 5.0 percent was half a percentage point lower than in May. However, disappointing corporate reports have raised concern in several areas about the future. G.E. announced that it will phase out small turbine production in Schenectady (idling 1400), two Syracuse plants have recently closed, and Kodak's layoffs continue in Rochester. Moreover, a Buffalo auto supply firm stated that increased employment there due to the popularity of a new windshield wiper will be shortlived. Production is soon to be shifted to a plant currently under construction in Mexico.

Construction and Real Estate

As the homebuilding industry moves into its peak summer period, demand for new housing remains strong throughout the District. Reports from many areas are that skilled workers, such as carpenters, electricians, and plumbers, are currently in short supply and as a consequence, completion times are being lengthened. In an attempt to recruit labor from outside the District, some builders are offering premium wages, thereby adding to upward pressure on home prices. The high level of building activity is expected to continue through year-end at least, resulting in a record number of housing starts in some areas. Future activity may also be

brisk. Plans were recently announced to build a 2200 unit condominium complex in Brooklyn, the biggest private housing development there in 25 years.

Conditions in the Second District commercial real estate market have been mixed. Leasing activity has been strong in New York City and on Long Island, where construction of new industrial and commercial space also has been very active. In contrast, the pace of leasing in Fairfield and Westchester counties has been more moderate, and some sluggishness persists in northern New Jersey. Few new construction projects are being started in Fairfield County and New Jersey where vacancy rates remain relatively high. Throughout much of the region, concessions to tenants continue to lower occupancy costs.

Financial Developments

Small banks in the Second District report that delinquency rates on consumer installment loans have mirrored the national trend: rising in 1984 and early 1985, and leveling off through the first quarter of 1986. Delinquency rates at some small District banks had been running above the national average. However, in the first quarter of 1986, rates at all surveyed banks had fallen below the national average. Most banks attributed the recent improvement to expanded facilities for verifying borrowers' income and credit history and to enhanced collection efforts. Several banks added that they are raising credit standards, lowering ceilings on revolving loans, and purchasing better quality loans.

THIRD DISTRICT - PHILADELPHIA

Business conditions are steady or improving for major sectors of the Third District economy. Manufacturing activity edged up in July, following three level months. Retail sales in June and July generally met merchants' expectations of 5-10 percent year-over-year growth. Automobile sales increased also. Total loan volume at large Third District banks in June was above the level of June 1985, but growth during the month was slow.

Expectations for the Third District economy are generally positive. More than half of the industrial firms contacted for the July Business Outlook Survey anticipate improved conditions over the next six months. Retailers say the summer selling season, which went well, is essentially over; they are preparing for the fall, and are holding to their earlier forecasts for a good year as a whole. Commercial bankers believe the Third District economy is fundamentally healthy, and they expect moderate loan growth during the rest of the year.

MANUFACTURING

Manufacturing activity in the Third District has picked up marginally, following a three month lull. Among industrial firms polled for the July Business Outlook Survey, 25 percent reported increased business since June while only 16 percent noted a slowdown; 49 percent indicated no change. Nondurable goods producers reported somewhat better conditions than did makers of durable goods.

Specific measures of industrial activity for July were mixed, but indicate some improvement, on balance. New orders and shipments were up fractionally, but order backlogs were unchanged. Employment in the manufacturing sector was also steady, and working hours edged up. Prices of industrial goods in the

region are stable. Eighty percent of the July survey respondents say neither input costs nor output prices have changed since June.

Third District manufacturers have positive views of the future, on the whole. More than half of the companies participating in the July survey predict better business conditions over the next six months while 20 percent expect a slowdown. Survey respondents forecast gains in new orders and shipments, but anticipate an essentially stable employment situation, with steady payrolls and a slight upturn in working hours. Local manufacturers plan some increases in capital spending for the next six months.

RETAIL

Third District retailers generally report good conditions. Department store and general merchandise sales met plans in June, with increases in the range of 5-10 percent above June 1985. Sales have been holding up in July, which retailers say is often a slow month. Merchants say seasonal goods have sold well, and they attribute this to several weeks of hot, dry weather. Sales of clothing and furniture are also strong. Automobile sales have picked up in recent weeks, but do not appear to be exceeding the sales rate in the comparable period of last year.

Third District retailers expect the usual lull in August, but are looking for further growth in sales in the fall season. Some major store chains expect to finish the year with record sales and gains over 1985 near 10 percent. However, competition among discount stores is increasing as national chains expand their presence in the District; and some merchants say that profit margins are contracting slightly.

FINANCE

Reports from major Third District banks indicate that the total volume of loans outstanding in June was approximately 16 percent above the level of June

1985. Since May, however, loans have grown at only a 4 percent annual rate. Growth has been weakest in the commercial and industrial sector, mainly as a result of efforts on the part of the bank's themselves. Some Third District bankers say they have retrenched in this category in order to maintain loan quality as demand for funds from more creditworthy borrowers slackens. In addition, some bankers have reduced the extent of their participations in national credits as net interest margins on these loans have narrowed and reduced their profitability.

Consumer lending is moving up at about the same pace as it has since the start of the year, but Third District bankers say this momentum may have been maintained by the marketing of low rate (9-10 percent) loans by some banks. These promotional rates were discontinued in July, and bankers expect slower growth in consumer lending for the balance of the year.

Real estate and construction lending slowed somewhat in June, but was still nearly 10 percent above June 1985. Construction lending is still strong although some industry contacts say the pace of building is slowing due to concern over anticipated tax changes. Mortgage lenders say they are still working on backlogs, although the pace of new applications has slowed in recent weeks.

Total deposits at large Third District banks in June were up approximately 10 percent from a year ago. The narrowing spread between rates paid on passbook savings and market-related rate accounts is becoming a matter of concern among local bankers. Some say they are beginning to think about possibly reducing passbook rates in order to maintain the customary differential.

AGRICULTURE

With the exception of farms in Delaware, and especially those in the southern half of the state, the agricultural sector of the Third District

economy is generally healthy at this time. Dairy, livestock, and poultry farmers in Pennsylvania and New Jersey are holding their own, with profit margins widening as a result of stronger prices and lower feed costs. Dry weather still prevails in most parts of the area, but recent rainfall saved some crops from failure.

Cattle and hog farmers in the area have seen prices rise in the last few months, probably by enough to offset lower production and give total revenues a boost. The dairy industry is holding steady, with June production by Pennsylvania farmers 2 percent higher than a year ago and at an all-time high; however, milk prices are down about 5 percent over that time. Poultry farmers are also posting gains, benefitting both from lower feed grain costs and higher prices for both eggs and broilers.

Most of the District experienced very dry weather in May and June, and, although wheat and barley crops were doing well, corn and soybeans were at a critical stage, and the second cutting of hay was reported to be short. Heavy rain arrived in mid-July, however, and prospects for field crop harvests in Pennsylvania and New Jersey are improved. Fruit and vegetable farmers in South Jersey report higher prices for their products, partly as a result of the crisis in the Southeast. Most fruit and vegetable farms in the area are irrigated and did not suffer from the earlier dry weather, and production, while not reaching last year's levels, should still be high.

Crop farmers in Delaware, especially southern Delaware, are reported to be experiencing drought conditions. Losses are expected to exceed 30 percent of projected crop yields, in some cases by a wide margin. Livestock farmers are in distress because they have little or no pasture left.

FOURTH DISTRICT - CLEVELAND

Summary

The Fourth District economy continues its pattern of slow growth with a sluggish manufacturing sector, depressed energy production, and a strong housing sector. Retail sales growth continues to be quite good. Unemployment rose in June and the unemployment rate remains above the national and year-ago levels. Manufacturing activity remains on its flat path and the energy industry is in the doldrums. Steel supplies may be disrupted by strikes against the two largest steel producers. Crops are growing well, and housing construction and sales remain robust. Commercial bank lending growth is strong for real estate, moderate for consumer installment credit, and slow for business.

Consumer Spending.

Consumer spending in this District appears to have improved recently. Major retailers report that sales steadily increased throughout the second quarter and into the first half of July. Year-to-date current-dollar sales increases range from 4% to 10% and July may be even better. Only one major chain reported higher inventories, and all of the retailers felt that inventory levels were satisfactory. Delinquent charge accounts continued their gradual rise, but none of the major chains indicated any great concern.

District auto dealers are showing satisfactory but relatively flat sales of domestic new cars. Domestic dealers' inventories continued to be slightly higher than desired, but no reason for concern. Several domestic auto dealers asserted that low-interest-rate financing incentives are too

costly and no longer very effective. On the other hand, demand for imported cars continues to outstrip supply. One dealer reported that sales have been good despite an approximately 10% price increase in the 1986 model-year imports.

Labor Market Conditions.

The unemployment rate for Ohio rose in June as employment fell and unemployment rose. At 8.9% (sa), the unemployment rate is 0.2 percentage points above its year-ago level. In the last twelve months employment grew slower in Ohio than in the nation (2.1% vs. 2.9%) and unemployment grew faster (4.5% vs. 0.2%). Within the District, the unemployment rate is very high in counties that rely on coal mining.

Manufacturing.

Manufacturing activity in this District continues to be sluggish. Production increased slightly recently but new orders declined slightly and several firms indicated they expect order declines to continue for the next month or two. Employment continues about flat as order backlogs decline. Prices of purchased commodities are flat but prices manufacturers pay for services and equipment are rising slowly. Firms continue to trim inventories of raw materials and supplies, while finished goods inventories are flat. On balance, manufacturers expect very slow growth in the second half of 1986.

Steel customers apparently have been diverting orders from USX (formerly U.S. Steel) to other suppliers, including LTV, because of a possible strike against USX widely expected to begin at the end of July. USX recently announced a layoff of 1,400 workers from its Lorain (Cleveland) works

because the threat of a strike has caused a sharp drop in orders for that mill. Ironically, production at the LTV East Chicago, Indiana plant has been halted by a strike in response to termination of health and life insurance benefits for retirees. LTV, the nation's second largest steel producer that recently filed a Chapter 11 bankruptcy, is also being threatened by work stoppages if they ask the bankruptcy court for wage concessions beyond those in the labor contract negotiated just last spring.

Agriculture.

Crops in Ohio, one of the largest agricultural-producing states, are doing better than average this year and corn especially is flourishing in response to ample moisture and warm weather.

Housing.

Housing activity remains strong in this District. Housing market firms are surprised that the housing market remains strong so late into a business expansion but the consensus is that house building and house buying will continue strong throughout 1986. However, some firms are cautious in their planning for 1987.

Housing starts have slowed recently, but builders view that as a temporary result of the unusual delays in obtaining mortgage loan approvals. In recent months, processing times had reached 90 to 120 days as the volume of applications surged. Few mortgage lenders expected the high volume to persist and thus virtually no lender added permanent staff. Real estate closing cancellations had begun to rise as mortgage rates rose and few lenders would guarantee the lending rate beyond 60 days. However, real estate brokers report that mortgage loan processing times are now

approaching the normal 60 days.

There are spotty signs that savings and loan institutions in this District are reducing their interest rates on new adjustable rate mortgages to increase their attractiveness relative to the fixed-rate mortgage loans the buyers seem to strongly prefer.

Commercial Banking.

Overall loan demand is picking-up somewhat at District banks. Loans outstanding in all major categories at large banks increased over the past six weeks. The largest gain was in real estate loans, reflecting the continued robust demand for mortgage loans. Consumer installment credit continues to grow but at a pace substantially lower than a year ago. Commercial and industrial loans registered the smallest increase, but the growth indicates some improvement in business loan demand since April and May. Contacts expect moderate business loan growth over the rest of the year.

FIFTH DISTRICT - RICHMOND

Overview

District retailers report a slight increase in activity over the last month, and there is little change in the District's housing market, which remains strong in most urban areas. Manufacturing remains generally weak, but some manufacturing data suggest a moderate improvement in some areas. The service sector continues strong, the tourist business is excellent, and municipal governments seem as yet unaffected by expected cuts in federal funds. Agriculture has been hit hard by heat and drought: many counties throughout the District are qualifying farmers for disaster relief.

Consumer Spending

New cars are selling at about last month's pace. In department stores, total sales are up slightly, but sales of big ticket items are down for the second consecutive month. Sixty-two percent of the retailers in our monthly survey expect sales to improve during the next six months, as compared with 21 percent who expect declines. Tourism continues strong. Attendance is breaking records at state parks and other major tourist areas.

Housing Market

Sales of single-family homes are steady to up slightly in most large urban areas, according to realtor associations. Demand continues to range from very strong in some large metropolitan areas such as Washington, D.C., where home price increases of 15 to 25 percent over last year are not uncommon, to fairly weak in many small towns and rural areas such as those in

West Virginia. Reports of mixed movements in mortgage interest rates and points suggest little net change in mortgage terms in the last month.

Manufacturing and Mining

District manufacturing activity has declined marginally by some measures and increased marginally by others. More survey respondents report declines than increases in shipments and new orders. On the other hand, more respondents report increases than decreases in employment and the workweek.

A majority of manufacturers still expect business to improve, but not as many are optimistic as last month. This month, 58 percent think the economy will expand during the next six months; last month, 68 percent thought so.

Apparel and textile firms report increased activity over last month, and they expect continued increases over the remainder of this year. Furniture manufacturers report a decline in activity, as do machinery manufacturers, where capacity utilization is around 50 percent.

Virginia and West Virginia coal mines have increased production in recent weeks, probably because the hot weather has increased demands for electric power, and because new emphasis on environmental protection has increased the demand for low sulphur coal.

Services and Government

Fifty-two percent of service sector survey respondents report increases in sales over last month, as compared with 24 percent who report declines. Sixty-six percent of the responding service firms expect sales to increase in the second half of the year while only 9 percent expect sales to

decline. Forty-eight percent expect a rise in employment over the next six months, while 7 percent anticipate a decline.

State, county, and city government respondents are concerned about budget cuts, but indicate that their expenditures have been holding steady or increasing. With regard to the next six months, 83 percent of the municipal government respondents expect a decline in revenue from the federal government, and 75 percent expect increases in tax revenues. Expenditures are expected to increase by 75 percent of the respondents; the remainder anticipate no change. Forty-eight percent of the respondents foresee increases in employment, as compared with 26 percent who foresee declines.

Agriculture

Record-setting heat and prolonged drought conditions have severely damaged District agriculture in recent weeks. Crops--particularly soybeans and corn--are experiencing extreme stress. In addition, agricultural scientists expect insect damage to be far above normal. The shortfall in yield due to heat, drought, and insects will result in hundreds of millions of dollars of losses to crop producers.

The drought has also hurt livestock producers. Cattle are being marketed long before they reach profitable weights, due to the poor conditions of pastures and shortages of hay. Shipments of hay from the Midwest have provided some relief, but heat stress continues to damage pastures and hay. Poultry producers report higher death rates among their flocks from heat stress.

SIXTH DISTRICT - ATLANTA

The southeastern economy continues to mark time. The unemployment rate is steady with job gains about offsetting labor force growth. Industrial activity is mixed with employment in most manufacturing industries remaining soft, while trade and services employment continues to register strong growth. Consumer spending, tourism, and residential construction are also boosting the economy, while commercial construction weakens and agriculture and mining experience severe problems. The banking industry is performing well even though there are problems in Louisiana.

Employment and Industry. Labor markets stabilized somewhat in May, with the region's unemployment rate remaining unchanged from April at 7.8 percent following three months of increases. Louisiana, Mississippi, and Alabama continue to post unemployment rates significantly above the national average, while Florida and Georgia again ranked well below the nation.

Industry employment figures continue to show a mixed pattern. While overall employment in the textile and apparel industry continues to decline, carpet manufacturing is strong, and one large producer recently announced expansion plans. Defense spending continues to bolster employment throughout the region, but prime contractors report a fall-off in new contract awards. Lumber exports are increasing with European buyers of hardwoods again appearing in response to the decline in the dollar exchange rate. Less positively, industry sources report a recent slackening in demand for southern pine as a a result of slowing housing starts.

Large oil firms continue to announce layoffs in Louisiana as oil drilling activity steadily drops to new lows. Louisiana's rig count is now 60 percent lower than the severely depressed level of this time last year. Coal industry executives foresee more mine closings in Alabama primarily because of a drop in demand as energy users turn to lower-priced oil.

Consumer Spending. Year-to-date retail sales growth in the Sixth District is running slightly ahead of the national rate with Birmingham, Nashville, and Mobile registering the fastest growth among metropolitan areas. The Atlanta market also remains strong, while, at the other extreme, sales activity levels in energy-depressed New Orleans and Baton Rouge continue to be dismal.

Sales of U.S.-made autos improved sharply in June as the weaker dollar, lower interest rates, and cheaper gas prices stimulated sales. Even so, sales for the first half of 1986 were below year-earlier levels, with Louisiana registering the largest percentage decline among District states.

Construction. After three consecutive monthly increases, single-family permits fell in May in all District states. The performance of different metropolitan area housing markets in the District varies widely, however. For example, Miami and Atlanta builders and realtors continue to report very active markets, with strong demand bidding up home prices. Meanwhile, home prices are falling in the New Orleans market, with out-migration of the jobless exacerbating market weakness.

Commercial construction activity around the Sixth District remains disparate, and differences in construction vigor are widening. With a five-year supply of unleased office space, New Orleans remains the region's weakest office market, and developers there see little hope for improvement in the near future. In other places, such as Atlanta, Birmingham and Jacksonville, office markets are continuing to expand at a fast pace. Nashville is spearheading the region's growth of industrial construction, with warehouse construction booming as the Tennessee capital develops into a major distribution center. Retail construction is volatile in all District states.

Financial Services. The pace of year-over-year total loan growth at large commercial banks increased in June compared to growth rates a year earlier, due primarily to an increase in real estate lending. Respondents report substantial

refinancing of single-family mortgages. In Jacksonville, however, commercial real estate lending is rising sharply.

Tourism. Declines in both the foreign exchange value of the dollar and gasoline prices continue to boost travel to the Southeast. Increased air fare competition also is making domestic travel more affordable. Tourism in Florida, Georgia, and Tennessee is up strongly, with central Florida faring especially well. Vacation travelers are reportedly taking advantage of package tour promotions and making multiple short distance and time trips instead of longer ones.

Agriculture and Non-Energy Mining. Severe heat and drought are wreaking havoc in southeastern agriculture with withered crops and pastures, substantial losses of poultry, and sharp increases in marketing of cattle. Costs of dairy production are rising as feed becomes scarce. Georgia, Alabama, and eastern Tennessee have suffered the most damage, while Louisiana, Florida, most of Mississippi, and western Tennessee have had more adequate soil moisture. The situation in Georgia is becoming critical with an estimated $200 million in damage as of mid-July.

The Southeast's non-energy mineral industries are also experiencing trying times. Phosphate production is about 75 to 80 percent of capacity due to reduced international demand for fertilizer and substantial reductions in planted U.S. acreage. Granite quarries in Georgia are facing cut-backs in production due to shortages in water supplies.

SEVENTH DISTRICT--CHICAGO

Summary. The pace of activity in the District, overall, continues short of the nation. Employment in the five states has been about flat since early 1986, compared with growth for the country as a whole. Illinois and Iowa are about even with a year ago, in contrast with 2-3 percent growth in Indiana, Michigan, and Wisconsin. Hardly anyone is expecting a recession and 1987 is expected to see improvement. Manufacturing jobs have fallen more sharply since January in the District than the nation. Purchasing managers in Chicago report continued though slower growth in production through June, but Milwaukee buyers say output, orders, and backlogs have slipped substantially. Bright spots in the region's economy remain residential building and sales, and related spending on appliances and furniture. Tourism is up strongly according to reports from Michigan and Wisconsin. Auto sales are at a high level, supported by manufacturers' incentive programs, and company projections indicate 1986 will be very close to last year's record for car/truck sales combined. Heavy trucks are down sharply. Capital goods remain weak. Nonresidential building remains robust but is beginning to show signs of slipping, particularly renovation work. A diversified producer of consumer and industrial goods indicates that the improvement in demand expected in most lines has not developed. The District has seen excellent crop growing conditions, in contrast with the devastating drought in the Southeast. Crop prices have declined sharply in recent weeks, in anticipation of a large harvest. Livestock prices have risen, and livestock farmers are also benefitting from lower feed costs. District farmland values continued to fall in the second quarter, but not as fast as in earlier quarters.

Residential Construction. The residential building boom continues in many parts of the District, sparked by lower mortgage rates, though some areas remain depressed. Contracts, in square feet, in the five states were up 31 percent in the first half from a year ago, but to about two-thirds of the 1978 level. In the Chicago area, both single-family and apartment construction are sharply higher this year. Apartment vacancies are described as low here, in contrast with some other parts of the country. Heavy resales and refinancings continue to tax facilities. A large backlog of mortgage loan applications slows processing and closings. There are few takers

for adjustable rate loans, quoted at rates as low as 7.75 percent in the Chicago area versus around 10.5 percent commonly quoted on 30-year fixed-rate loans.

Nonresidential Construction. There are signs of emerging weakness in commercial construction. Work on new office buildings continues at a very vigorous pace, but starts on several large commercial buildings in the Chicago area have been delayed recently. Some have been rebid, with new bids often lower. Renovation of existing commercial structures has slowed. Some observers are increasingly concerned about rising vacancies at the many suburban "strip" shopping centers currently under construction or built in recent years. Others are optimistic that the vigorous rise in residential construction is creating a need for this additional retail space. Demand has picked up for Chicago-area industrial space, primarily for warehouse and distribution use rather than manufacturing. Speculative building has increased, from very low levels a few years ago. District-wide nonresidential construction contracts in this year's first half were 17 percent above a year earlier, in square feet, with only Iowa lower.

Consumer Spending. A major general merchandise retailer reports that sales have continued at good levels, with appliances and home furnishings strong, and apparel relatively weak. The share of goods bought on credit has fallen slightly, and credit delinquency rates are down moderately. Wisconsin tourism officials say activity and inquiries are up 7 to 30 percent, and expect a "banner year". Airline travel (revenue passenger miles) is up helped by lower fares.

Motor Vehicles. Sales of autos and light trucks remain near record levels, supported by low interest rates offered by captive finance companies of major auto makers. These cut-rate financing programs are placing strains on various groups. An auto leasing company complains that it can no longer sell its used cars profitably because demand has been diverted to new cars. A trade group of consumer lenders is seeking to have the programs declared illegal on anti-competitive grounds. Sales of medium trucks are ahead of a year ago, but heavies are down to a rate of around 120,000 units, versus 140,000 last year. Deregulation has greatly improved efficiency in trucking. As current heavy truck production is far short of industry capacity, shutdowns of 2 plants in other parts of the country may do little to ease pressures on District producers.

Steel. Order trends suggest a "normal" seasonal decline in mill shipments from the second quarter to the third. For the year, an industry analyst expects shipments nationally to decline to about 72 million tons this year from 73 million in 1985. Raw steel production is expected to fall more because of increased use of continuous casting, which yields a higher ratio of finished product. The share of raw steel produced in the Seventh District this year (approximated by AISI's Chicago and Detroit districts, through mid-July) has slipped to 36.1 percent of the nation from 36.7 percent in 1985. Steel for autos and construction continues at good levels, capital goods remain weak, and the oil/gas market is in a state of collapse. Customers have been shifting orders away from steel companies that have not settled their labor contracts--currently, USS. Industry observers view the bankruptcy filing by LTV Corp as ominous for a relatively inefficient large Chicago mill.

Capital Goods. Sales of capital goods remain weak. Machine tool orders, which had recovered partially from recession lows, have again dropped below shipments, eroding backlogs. Recent weakness is attributed partly to uncertainties over tax law changes. A major District machine tool maker has announced further substantial staffing cuts. Sizable layoffs also have recently been announced or are expected at a producer of paving equipment and a maker of lift trucks in the District. Markets for industrial diesels remain very depressed.

Agriculture. District farmland values declined again in the second quarter, but the rate of decline continued to slow. Preliminary results from our latest survey of agricultural bankers indicate that District farmland values declined nearly 2 percent in the three months ending June 30. The latest drop compares to declines of 3 percent in both the first quarter and the fourth quarter of 1985, and 4.5 to 6 percent in the first three quarters of 1985. Credit conditions at District agricultural banks reflect weak farm loan demand, ample liquidity for lending, a high proportion of problem farm loans, and declining interest rates. As of midyear, interest rates charged by agricultural banks on farm operating loans averaged just over 11.75 percent, down 85 basis points from 6 months earlier and 110 basis points below a year ago.

EIGHTH DISTRICT - ST. LOUIS

Summary

The expansion of the Eighth District's economy is slowing slightly with growth of employment, retail sales and construction trailing that of the nation. District banking activity is characterized by strong commercial lending and slower growth of consumer and real estate loans. Crop conditions remain good to excellent in most District states.

Employment

Nonagricultural employment grew at a 2.0 percent annual rate in the three months ending May, slightly below the 2.1 percent national rate. Manufacturing employment declined at a 2.2 percent rate during the same period. Although District nonmanufacturing employment has increased steadily throughout the current recovery, employment in the manufacturing sector has not changed substantially since mid-1984. The District unemployment rate declined to 7.5 percent in May from 7.6 percent in April while the national jobless rate increased slightly during the period.

Consumer Spending

Despite strong April growth, District retail sales decreased at a 6.3 percent rate in the February-April period compared with a 2.3 percent national growth rate. A survey of major retailers in the

District's largest metropolitan areas suggests that second quarter sales were strong in St. Louis and Louisville compared with year-ago levels, moderate in Memphis (approximately 5.0 percent higher) and weak in Little Rock. Respondents anticipated continued third quarter strength in St. Louis and Louisville while the outlook for the other areas was uncertain. Several retailers reported that the declining value of the dollar has resulted in only slight increases in the prices of goods imported from Japan and Western Europe; exporters apparently have limited price increases and narrowed their profit margins in order to maintain their share of the U.S. market.

Construction

The value of District residential construction contracts awarded in the second quarter declined by 8.4 percent compared with a 14.0 percent increase nationally. Despite the recent decline, this indicator is 6.0 percent above its year-ago level. Building permit data from the District's major metropolitan areas indicate that, while single-family housing exhibited strong growth in recent months over year-ago levels, multifamily building has declined.

Nonresidential construction activity in the District increased by 0.2 percent in the second quarter compared with 11.9 percent national growth. In contrast to the District's stagnation, nonresidential construction increased by 29.3 percent in Tennessee during the period.

Banking

Total loans outstanding at large District banks grew at a 7.9 percent annual rate for the second quarter compared with a 6.7 percent rate for the same period last year. Second quarter loan activity saw an acceleration in commercial lending being offset by a slowing in the growth of consumer and real estate lending. Commercial loan volume grew at a 12 percent annual rate over first quarter levels versus a 2.5 percent rate for the same period in 1985. The Memphis and Louisville markets, in particular, have experienced strong growth in commercial loans as a result of some large banks becoming very active in loan participations originated by New York City banks. In contrast, consumer loans grew at only a 12.4 percent rate during the second quarter relative to a 28.5 percent rate over the same period last year.

Agriculture

Crop conditions are rated good-to-excellent in most District states as a result of favorable weather throughout the planting and growing season. The corn and soybean crops have enjoyed nearly ideal growing conditions in Illinois, Indiana and Kentucky and are two to three weeks ahead of normal development. Crops in western Tennessee have progressed at a near-average pace but are more vulnerable to moisture shortages than are the northern agricultural regions of the District. Northern Mississippi and Arkansas report crop conditions as below-average to average due to late planting and moisture shortages. Both areas note that timely rains could still result in very satisfactory crops.

NINTH DISTRICT - MINNEAPOLIS

Ninth District conditions have not changed much in the last few months. Some employment indicators have continued to move favorably. Consumer spending may have softened a bit, but still is not weak. The tourist industry still seems to be having a good summer. Resource-related industry performance remains mixed, with problems continuing in the extractive sectors. Little has changed in agriculture except meat animal prices, which have increased.

Employment

Unemployment rates in the Ninth District are still falling. The overall district (seasonally adjusted) unemployment rate dropped from 6.2 percent in April to 5.8 percent in May. During that period, Minnesota's rate dropped to 5.4 percent, its lowest level since September 1981. While the district's improvement is encouraging, it does not indicate growing labor demand; the rate drop was primarily due to a decline in the labor force. Jobs did increase significantly in the Minneapolis-St. Paul metropolitan area, though, which helped ease the stress of workers who have migrated there from more troubled parts of the district. District Bank directors report that other metro areas showing some employment strength were the Sioux Falls area of South Dakota and the La Crosse-Eau Claire area of west central Wisconsin.

Consumer Spending

Overall, retail sales of general merchandise have been a bit on the soft side lately, but they are probably still ahead of last year's pace. One retail chain reports that its recent sales have stayed in line with expectations. A Bank director notes that sales have been good in the Fargo and Grand

Forks areas of North Dakota, but that this success was probably at the expense of smaller surrounding cities. Another director reports that the outlook at a large mall in Duluth, the largest city in hard-pressed northeastern Minnesota, is bullish.

Sales of motor vehicles generally held firm in June. One large domestic manufacturer reports that its car sales were 3 percent higher this June than last, and while its truck sales were down 10 percent, it only has about two months of truck inventories on hand. The most recent reports indicate that district vehicle sales early in July were 20 percent ahead of sales a year earlier.

Scattered reports indicate that housing activity has remained strong in the Minneapolis-St. Paul area, but may have weakened in some other parts of the district. In the Twin Cities, residential building contracts were 55 percent higher this May than last and home sales were 17 percent higher this June than last. Also, members of this Bank's Advisory Council on Small Business, Agriculture, and Labor report housing growth in Baldwin, Wisconsin, and Fargo, North Dakota. But directors of this Bank's Montana branch note slack housing markets in the Bozeman and Billings areas.

Tourism

The tourist industry, an increasingly important sector of the district economy, is having a good summer. Tourism-related employment in South Dakota, for example, grew more than 47 percent in the last 10 years--much more than twice the growth rate of nonfarm employment there. Group travel in Montana is currently 20 percent ahead of last year. Attendance at campgrounds appears to be up throughout the district. Bank directors report that tourist travel to the Upper Peninsula of Michigan and northern Minnesota is good; many

Canadians have been passing through Minnesota on their way to the Expo in Vancouver.

Resource-Related Industries

The performance of major resource-dependent sectors continues to be mixed. A Bank director reports strong demand for wood products--including pulp, paper, lumber, and waferboard--although prices haven't increased. Indicative of this strength, a Canadian company plans to build a $10 million wood fiber sheeting plant in International Falls, Minnesota. This would partially replace the jobs lost when a U.S. corporation closed a siding plant there in December 1984. However, the district is doing very little drilling and almost no exploration for oil and gas, in either Montana or North Dakota. In fact, even some producing wells are being capped. And in conjunction with falling oil prices, coal prices have dropped 10 percent in Montana. Further, the bankruptcy of a large national conglomerate has resulted in the closing of another, jointly owned, iron ore processing plant in northeastern Minnesota. The surviving owner has lessened the impact, though, by announcing plans to triple raw ore production at a mine in that region.

Agriculture

Agricultural conditions remain nearly the same as a few months ago. Crop conditions still look good, and crop prices are still low. This Bank's latest survey of district rural lenders indicates that farm earnings and land values continued to decline in the second quarter, although the respondents' loan portfolios didn't deteriorate much further. Problems caused by low crop prices are being eased somewhat by government deficiency payments and lower fuel and fertilizer costs. And a Bank director reports significant recent strengthening in cattle and hog prices, the former occurring despite increased cow sales resulting from the dairy buy-out program.

TENTH DISTRICT - KANSAS CITY

Overview. Economic activity in the Tenth District appears to be generally sluggish. Significant weakness continues in the energy and agricultural sectors, but housing activity is strong. Retail sales are reported to be below year-earlier levels. Both retail inventories and manufacturers' inventories of materials inputs are being trimmed, an action expected to continue through the year. Loan demand at commercial banks is mixed as consumer and agricultural loan demand is down while residential real estate loan demand is up. Wheat yields were somewhat above average, and a large corn crop is expected that will put further downward pressure on corn prices.

Retail trade. Retailers report year-to-date sales slightly below levels established last year. Sales are expected to increase seasonally through the rest of the year due to upcoming back-to-school and Christmas buying activity. Prices, which have been stable the past three months, are expected to increase slightly. Retailers generally are trimming inventories slightly and expect to do so through the rest of the year.

Automobile sales. Auto sales are down slightly from last year, but dealers expect this small sales slump to bottom out in the near future. Good credit conditions exist, but they are helping sales only slightly. Most dealers are trying to trim inventory levels, now viewed as a little high.

Purchasing agents. In general, purchasing agents report slightly lower input prices, high inventory levels, and adequate availability of materials. Most purchasing agents surveyed report input prices somewhat lower than a year ago. However, they also report that prices have stabilized or risen slightly in the last three months. Expectations are mixed regarding price changes for the rest of the year. Most firms have been trimming inventories and expect to continue to trim throughout 1986.

Housing activity and finance. Area homebuilders report that starts of single family dwellings have increased sharply over the year ago period, while multifamily starts have increased to a lesser extent. Most homebuilders expect housing starts to remain strong during the remainder of the year. Sales of new homes are near year ago levels, and new home prices have remained steady. Builders also report good availability and steady prices of materials.

Savings and loan institutions have generally experienced slightly lower savings inflows this year compared with a year ago. Most expect savings inflows through 1986 to remain flat or fall slightly. Mortgage activity continues to be strong, but is not dominated by demand for refinancing to the extent that it was earlier this year. Mortgage interest rates have been steady and are expected to remain stable at current levels for the rest of the year.

Energy. The substantial drop in oil prices in early 1986 and recent price volatility continue to plague the district's energy industry. Exploration and development activity remain depressed. The average weekly number of operating drilling rigs in the Tenth District was 200 in June, compared with 550 in January and 221 in May. Further declines in drilling and production are likely in the near term if oil prices remain soft, as expected.

Agriculture. The wheat harvest is completed in the Tenth District except in Wyoming and Nebraska. Yields reported were average to above average in most of the district. Growers are expected to place much of this year's wheat crop in storage under Commodity Credit Corporation (CCC) loans. Storage space for the crop is reported to be generally adequate.

Ample rainfall points to excellent crops of corn, milo, and cotton. The corn crop is approximately two weeks ahead of schedule in the district. A

burdensome inventory of corn from previous crops and expectations of an exceptionally large crop in the making have forced the price of corn to life-of-contract lows on the Chicago Board of Trade. Of increasing concern to corn growers and their lenders is a critical shortage of storage space for the current crop. In some cases, grower efforts to place corn in storage under CCC loan may be thwarted by a lack of available storage space, forcing the sale of the grain at low harvest-time prices.

Rural communities remain under strain in the district. Bankers report that the pace of farm acquisition through foreclosure was the same or higher than a year ago. In addition, business conditions for local merchants are generally described as depressed.

Banking. Loan demand at Tenth District banks was mixed during the past month, with nearly equal numbers of surveyed banks reporting increased loan demand, lower loan demand, and unchanged loan demand. Among loan categories, demand for consumer loans and demand for agricultural loans were down, while demand for residential real estate loans was up. Demand for commercial and industrial loans and demand for commercial real estate loans were higher at some respondent banks, and lower at others. Most banks lowered their prime rate one-half percentage point; the rest expect to do so shortly. Most banks also lowered their consumer lending rates. Most banks report either increased or unchanged deposit activity. Demand deposits, NOW's, MMDA's, and passbook savings accounts increased. Large CD's and small time deposits were down almost uniformly.

ELEVENTH DISTRICT--DALLAS

The Eleventh District economy is still in a slump, but the rate of decline is decelerating. Drilling activity, which has been falling rapidly since early 1985, has stopped declining. The protracted slide in contract construction values has moderated. Manufacturing output is still falling. Auto and retail sales are weak. Assets of large banks are below a year earlier and loan demand is ebbing. Agricultural prices remain below a year ago.

District manufacturers are generally reporting poor business conditions as a result of weakened demand from the energy and construction sectors. Primary metal and nonelectrical machinery producers are particularly affected by declines in orders from firms in the energy sector. Although falling oil prices have reduced input costs to District chemical manufacturers, some note that sales are off because of reductions in demand from energy firms. Among producers of stone, clay, and glass, lumber and wood, and fabricated metals, brisker construction activity outside the District has partially offset reduced orders from builders within the District. Electrical machinery firms report low sales growth and slumping prices resulting from weakness in manufacturing demand. Stiff foreign competition is holding down prices in the apparel industry. Orders for paper and allied products are falling.

The drilling rig count in the District states stabilized in July, but it is almost 70-percent below a year earlier. Reductions in both drilling permits and the seismic crew count continued, suggesting that future declines in the rig count are likely.

The value of construction contracts has begun to stabilize, after a fairly steady decline that commenced in the third quarter of last year. Nevertheless, residential, nonresidential, and nonbuilding construction contract values remain well below a year earlier, with particularly large year-to-year declines in office building construction. Office vacancy rates in all major District cities have risen significantly in the last few months, owing to a combination of slow absorption rates and a large increase in the supply of office space. Respondents report concern over the financial health of office projects not only because of high vacancy rates, but because of an increasing rate of bankruptcies among District tenants. Despite stable residential contract values, the number of residential building permits has fallen. Single-family home permits have continued to edge down, while multifamily building permit activity is plummeting.

Dealers say that auto sales are declining, in part, because of overall economic sluggishness in the District. They also note that high sales volumes in recent years have drastically lessened the average age of the existing automobile fleet, so that the need to replace older vehicles is reduced.

Retail sales are below last year's level. Declines are broad-based across product lines. Particularly significant weakness was reported by respondents in the energy-dependent portions of the District. The depreciation of the dollar against some currencies has resulted in increases in the prices of consumer electronics products.

At the District's large banks, loan volume is below a year earlier. While business and other loans have declined absolutely, real

estate loan volume continues to expand, although at a markedly decreased rate. According to respondents, the growth in real estate loans is chiefly from take-downs on outstanding commitments on projects already under construction and out-of-state projects developed by locally-based borrowers. Bankers say they have tightened restrictions on loans for land purchases and construction. Total deposits have declined significantly since a year ago. The sharpest drop has been in large time deposits, but demand deposits also have contracted. Total liabilities declined in June from a year earlier, despite a large increase in borrowings. Texas savings and loans continue to increase their deposits, but year-to-year growth has slowed considerably, particularly in large time deposits.

District crop and livestock prices are down significantly from a year earlier and the perception is widespread that income prospects for farmers and ranchers are unlikely to improve this year. Increased payments from government programs this year are not expected to offset the impact of lower crop prices. Agricultural land values plunged during the second quarter. Declining oil and gas prices have affected the debt service capability of over 20 percent of borrowers in the agricultural loan portfolio of bankers responding to a recent survey in the District.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

The Twelfth District economy is growing modestly, as growth in the residential construction, trade, and service sectors continues to outweigh weakness in other sectors. Retail sales growth appears to have slowed somewhat, and now is either flat or growing modestly in most areas. Manufacturing activity remains slow. The lumber and high-tech industries appear to be emerging from their respective slumps, but more slowly than expected. Oil industry problems continue to mount. Agriculture continues its downward slide. Residential construction activity remains strong, as single family home building accelerates while multifamily building slows. Many lenders, overwhelmed by the volume of loan applications for mortgage refinancing received during the spring, have altered their application procedures for these loans.

Consumer Spending

Retail sales activity has been mixed. Respondents in coastal California and Washington report modest annual growth of 3 to 5 percent. However, total sales are flat or only slightly higher than last year's in Utah, Oregon, Arizona, central California, and Alaska.

Available information continues to suggest that, as expected, tourist related industries in the West will post strong gains this summer. Oregon tourist traffic was 12 percent higher in May than it was in May 1985. Reports from Alaska suggest that a record number of visitors will see that state this summer, providing a welcome boost to the oil-dependent economy there.

Manufacturing and Mining

The aerospace industry remains strong, bouyed by commercial aircraft sales and as yet unreduced defense contracts, but expected improvements in most manufacturing sectors have not yet materialized. Although greater demand for lumber and wood products has increased western lumber production by 8 to 10 percent during the past year, prices have dipped during the past few months. Consequently, firms continue to cut costs by reducing wages and modernizing plants. The condition of western high technology companies is no longer deteriorating, but the long-awaited upturn has not yet arrived.

Low oil prices continue to take their toll on oil producing areas in the Twelfth District. One respondent reports that in Kern County, California, only 30 percent of oil rigs are operating. In Alaska, one major oil company laid off 100 additional employees last month. Reduced state oil revenues have already led to a 15 percent wage cut for Alaska's state workers, and layoffs or further wage cuts may follow.

Agriculture

In most parts of the Twelfth District, low agricultural prices continue to hamper farm profitability. In Idaho, where low milk and potato prices have been particularly problematic, one sign of weakness is that seasonal growth in agriculture loans is only one sixth of last year's pace. In Oregon, yields of major crops including wheat, rye, and grass seed are expected to be high, but prices remain low. For a few crops, including grapes, apples, and berries, prices are adequate and the outlook is more promising.

Construction and Real Estate

In most parts of the District, residential construction activity is strong, although most areas that experienced a strong burst of activity this spring have reported some slackening during the past two months. Most respondents report that single family building is outpacing multifamily building by a wide margin. There is however wide variation among localities. In Arizona and Utah, single family permits are running 20 to 30 percent ahead of last year's level, while multifamily permits are down 20 to 50 percent. In Oregon, single family permits are some 5 to 10 percent higher than they were last year, but multifamily permits have fallen by a similar amount. The San Francisco and Los Angeles areas however report single family building up 10 to 15 percent, but multifamily construction up by 40 to 60 percent. In these areas, strength in multifamily permits is attributed to the effects of mortgage revenue bonds and tax reform, and most respondents expect building activity to slow soon.

Financial Sector

In the wake of last spring's home buying spree, residential loan demand remains strong, and has even increased in Los Angeles during the past few months. Banks have been deluged by refinancing applications and approval time has risen dramatically. Most banks have hired additional staff and streamlined application procedures, but the most severe bottlenecks arise in appraisals and credit reports which are outside the banks' direct control. Banks are faced with falling rates and increasing time between application and approval. In addition, some consumers "shop

around" their applications, multiplying bank workloads. As a result, most banks have shortened commitment periods and few still offer rate lock-ins upon application. In addition, many now require a nonrefundable "sincerity deposit," paid upon application, that is applied to processing fees if the loan is closed. Although no banks reported increasing mortgage contract rates to reduce loan demand, a few have increased origination fees.