SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

DECEMBER 1986

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SUMMARY*

District Reserve Banks report economic conditions ranging from sluggish to generally good with more than half indicating some recent improvement. Strength in consumer spending is somewhat more widespread than in the last report, and most retailers anticipate a moderate to good holiday season. Residential construction continues at a healthy pace, but nonresidential construction has slowed as a result of oversupply. Manufacturing is still relatively weak, and some increase in input prices has been noted. While the energy sector remains depressed, an increase in the number of operating oil rigs has occurred. Farmers experienced near-record corn and soybean yields in some areas despite heavy rainfall, and livestock producers are benefitting from higher prices. Commercial bank loan activity has improved because of some upturn in business lending and strength in real estate and consumer lending. Many commercial banks are actively promoting the use of home equity lines of credit for consumers to retain interest deductibility under the new tax law.

Consumer Spending

Most districts see an improvement in retail sales. Philadelphia states that sales were up strongly, and California and Richmond also had generally good gains. Sales were sluggish in Boston, Cleveland, Dallas and St. Louis, but the remaining districts

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*Prepared at the Federal Reserve Bank of New York. District reports are based on information available prior to November 21, 1986.

report moderate increases. Items in strong demand were apparel, electronics, furniture, and other home furnishings. As a result of the recent improvement in sales, retailers for the most part anticipate a moderate to good holiday season. Inventories are at satisfactory or manageable levels. Prices (when mentioned) were generally reported as stable. However, Chicago attributed a jump in textile and apparel prices to recently imposed import restraints, and Dallas saw a significant increase in prices of imported electronics.

All districts reporting on auto sales had strong gains in September and a sharp dropoff in October, mirroring the national pattern.

Construction and Real Estate

Most districts report healthy residential construction activity, though at a somewhat slower pace than earlier this year. The Richmond district notes that home sales have been weakening due to the high level of home prices there. Atlanta reports a shift away from construction of multi-family units because of a high level of condominium inventories and generally poor demand. In contrast to most other areas, residential building in the Dallas district is substantially below a year earlier.

Nonresidential construction has slowed in Atlanta, Dallas and parts of New York where an oversupply of office space now exists. In Chicago and Minneapolis, however, work on new office buildings continues at a steady pace. Reflecting higher demand for space, vacancy rates in the Minneapolis district fell between June and September for both office and industrial buildings.

Manufacturing

Industrial activity remains relatively weak, and plans have recently been announced for additional plant closings and layoffs in several districts. The largest is the scheduled G.M. cutback, which will result in more than 20,000 job losses in the Chicago district and will affect other areas as well. Some industries and districts do report gains, however. The Philadelphia and Cleveland districts have seen an overall improvement in their manufacturing sectors in recent months. Both Boston and San Francisco state that the aerospace industry is doing well, and the USX strike continues to benefit competing steel producers in the Chicago and Cleveland areas. Many districts (Boston, Chicago, New York, Philadelphia, Cleveland, Kansas City and Dallas) mentioned an increase in input prices, which some attributed to the decline in the dollar. Most manufacturers are holding their own prices firm, however. Several districts reported no discernible benefit from the dollar's decline, San Francisco noted that increased exports of electronic products and higher capital goods orders have resulted from the weaker dollar.

Energy and Resources

The stabilization of oil prices at a somewhat higher level led to an increased number of operating oil and gas drilling rigs. However, the total is less than half the number in operation a year ago in the oil-producing states. Chicago found that the oil and gas industry's demand for steel pipe is up somewhat from a recent very low level. The wood and forest products industries of Minneapolis and San Francisco have improved further. These districts also report an upturn and brighter outlook in copper mining.

Agriculture

Despite heavy rainfall and flooding in many areas, farmers experienced record or near-record corn and soybean yields in the Cleveland, Kansas City, Minneapolis and St. Louis districts. Moreover, a feared storage crunch was alleviated by the rain-induced stretch-out of the harvest season. Attractive alternatives that encouraged farmers to redeem their PIK certificates and sell rather than store grain also helped avert excess stockpiling. Livestock producers and dairy farmers in several districts are benefitting from lower feed costs and from higher livestock and milk prices. The San Francisco district reports a record pistachio crop and higher potato and grape prices, while Florida expects an 8 percent increase in orange and grapefruit production over the year.

Financial Sector

Loan activity improved somewhat in recent weeks. Philadelphia reports continued strength in commercial and industrial loans and an upturn in consumer loans, and Atlanta also states that lending has remained strong. Cleveland notes that loan demand rose slightly in all major categories, with real estate and consumer loans registering the greatest growth. A marginal increase in Cleveland's C&I loans represents an improvement following no growth in the third quarter. St. Louis also reported strong real estate and consumer lending as well as some growth in commercial loans.

Several districts noted that banks are promoting the use of home equity lines of credit as a means for consumers to retain some

measure of interest deductibility under the new tax law. Atlanta reported that demand for home equity loans "has surged across the region", while Chicago, New York, Philadelphia, Richmond and St. Louis noted an expansion in banks' promotion of these credit lines.

FIRST DISTRICT - BOSTON

Economic activity in the First District remains sluggish. Retail markets in the region softened in October and were mixed in early November; nonetheless, sales remain solidly ahead of last year. Extensive promotional activity is holding down prices. Manufacturers continue to report that business is slow, with no evidence of a pickup. Price competition from both domestic and overseas producers is said to be very intense. Respondents are devoting much attention to cost containment.

Retailing

Several retail contacts reported sales below plan in October but above last year. November to date is much better in some stores, but similar to October in others. Year-to-date sales growth figures are generally better than those for recent months. The weakening occurred in most product lines, although clothing categories were off more generally than appliances and home electronics. Inventories are high in some stores but they are not reported to be a serious problem.

Prices have changed very little because retailers perceive a need for persistent promotional price reductions. According to one contact, "Customers are looking for victory every time they go into a store." In a similar vein, a department store representative reported opting for more and shorter sales events rather than a few traditional "big seasonal sales" to satisfy consumer demand for more reduced-price merchandise. The decline in the value of the dollar may force some price increases, however. A contact from a discount chain expects vendor prices to rise fairly soon

because of exchange rate changes; the chain imports a substantial fraction of its products. This contact also expects to be buying more goods in the United States in response. But neither of these changes has yet occurred.

First District merchants are moderately optimistic about the remainder of the year. They expect "pretty good" Christmas sales, finishing out the year with sales growth between 5 and 7 percent on a comparable stores basis.

Manufacturing

Manufacturing activity in the First District remains slow. Contacts have not experienced any deterioration in orders in recent months, but with one exception they see no improvement. Aerospace, consumer electronics and housing-related products are reported to be doing well; the general industrial market is flat to down; the demand for construction materials and supplies is down, apparently in response to weakness in nonresidential construction. The decline in the value of the dollar has been of no discernible benefit to most of the firms contacted.

Cost containment is receiving much emphasis. Most respondents have ongoing inventory control programs that are enabling them to operate with lower inventories than in the past. Employment levels are being reduced, even at firms with satisfactory sales results; more attention is being paid to the efficiency of white collar personnel. Capital spending plans for 1987 are conservative; contacts planning to reduce spending outnumber those planning increases.

The manufacturers contacted either report no increases in input prices or report increases in the 2 to 4 percent range, which they expect

to offset with efficiencies in purchasing procedures. Several respondents have recently instituted increases in their own prices of about 3 percent. However, competitive pressures are said to be very intense, with domestic competitors mentioned as frequently as overseas producers.

New England Economic Project Outlook

The New England Economic Project (NEEP), a nonprofit corporation made up of New England businesses and educational institutions, has just released economic projections for the six New England states. Taken together, the six state forecasts call for employment growth in the region to accelerate somewhat in 1987, then slow again in 1988. The composition of growth is projected to change. While nonmanufacturing industries will continue to account for most of the new jobs created in the region, the manufacturing sector will not be the drag on the region's economy that it was in 1985 and 1986. NEEP forecasts that manufacturing employment will increase, albeit very modestly, over the course of the next two years. Unemployment rates in the region will average a little below 4 percent in 1987, slightly higher in 1988. Per capita incomes in the region are projected to increase relative to the national average.

SECOND DISTRICT--NEW YORK

The modest uptrend in the Second District economy continued in recent weeks. Retailers reported over-the-year sales gains in October ranging from moderate to very good and residential building remained strong. Business activity was generally steady to improved, though leasing of office space moderated in some areas. Small Second District banks report that home equity lines of credit represent only a small portion of their consumer loans.

Consumer Spending

Second District retail sales showed further over-the-year improvement during October with respondents describing gains as ranging from moderate to very good. Purchases by foreign visitors continued to be an important factor, particularly in New York City. Apparel, accessories, furniture and home furnishings were cited as items in generally strong demand.

Sales increases during October were from 6-13 percent above year-earlier levels and, in most cases, were 2 to 3 percent higher than targeted. As a result, inventories are well under control and respondents do not anticipate the need for heavy promotional activity in order to move merchandise during the coming Christmas season. Retailers generally expect moderate over-the-year gains in holiday sales but one respondent, whose Christmas catalogue orders have been strong, is looking for a double-digit increase.

Business Activity

Little change occurred in the Second District's economic expansion since the last meeting. Eighty percent or more of purchasing managers surveyed in Rochester and Buffalo reported that business

conditions were stable or improved during October and three-fourths of the managers in the Syracuse area's third quarter survey also gave that response. While inventories were generally described as at satisfactory levels, an increasing percentage of managers has been experiencing a rise in commodity prices.

News concerning the District's employment outlook has been mixed in recent weeks. On the negative side, G.E. plans to end its color TV tube operations in upstate New York, where it continues phasing out large engine production, and ITT may cut back its international operations in New York City. On the other hand, several thousand jobs in the chemical and transportation equipment industries have been retained due to the successful negotiation of some longstanding problems. In addition, a new railway car plant has opened in Yonkers and plans for a sizable new operation in the garment industry have been announced. As of October, unemployment rates in New York State and New Jersey remained 1 1/2 percentage points below the national average.

With regard to the District's longer term development, New Jersey officials recently announced plans for the first new rail line in the New York metropolitan region in 50 years. The $825 million trolley-bus system will link billions of dollars of proposed residential and commercial projects along 15 miles of the Hudson River waterfront.

Construction and Real Estate

Activity among District homebuilders continued strong in recent weeks, though the pace was less hectic than at the height of the season in the spring and summer. After two years or more at a record pace, builders in several areas report that pent-up demand seems finally to have been satisfied, and they anticipate a more normal but healthy rate of activity in 1987. While some seasonal slack will occur over the next

few months, a number of builders have already signed contracts for homes to be constructed in the spring of next year.

Leasing activity in the commercial real estate market was at a slow to moderate pace in much of the Second District during recent weeks. A major exception was downtown Manhattan where leasing of new financial center buildings remained strong. While no dramatic absorption of space occurred in areas such as northern New Jersey, Fairfield County, and Westchester County, where more than ample supplies of office space exist, few major new projects have been undertaken there in recent months. As a result, vacancy rates in these areas have shown over-the-year declines. However, in downtown and mid-Manhattan, where many new buildings have come on line, rates have moved somewhat higher though they are still well below the national average.

Financial Developments

Small banks in the Second District report that home equity lines of credit currently represent only a small portion of their outstanding consumer loans. While all of the surveyed banks have increased their efforts to market the product, each expected only moderate growth in its volume of these loans through 1987. Several banks believe that more rapid growth would be restrained by competition from other banks and non-banks and also by a continued surge in second mortgages and refinancing arrangements. Loan officers state that the most common uses of the credit line include consolidating debt, financing education, and providing additional cash flow for business. The banks suggested that they can prevent consumers from using the line of credit as a proxy for other types of consumer loans by providing counseling and by maintaining high underwriting standards. However, only one bank indicated that it required its applicants to provide information on how the money is to be used, and none used this type of information as a criterion for lending.

THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District are generally good. Manufacturing activity increased in November for the fifth month in a row, and retail sales rose strongly in October and November following slower than expected growth in September. Total loan volume at major Third District banks increased in October at about the same rate as it has been growing since August, slightly above the pace earlier in the year. Bankers say this growth continued into November as well.

The outlook in the Third District business community is generally positive. Manufacturers expect to make further gains over the next six months. Retailers are optimistic for the Christmas shopping season and believe that 1987 will be a good year, although they expect the growth of sales to be somewhat less than it was this year. Bankers have the least optimistic views. They believe economic growth is likely to slacken next year, bringing a slowdown in lending and possibly lower bank profits.

MANUFACTURING

Manufacturing activity in the region is posting its fifth consecutive monthly gain, according to the latest Business Outlook Survey. Thirty-five percent of the industrial companies participating in the November survey have stepped up operations from last month's rate, while only 13 percent have cut back. Although this is the most widespread improvement since February, specific measures of industrial activity reflect only moderate growth this month. New orders and order backlogs are edging up, and shipments are rising fractionally. Employment indicators are mixed; the length of the average workweek is increasing slightly, but payrolls are unchanged. Overall, business conditions

are slightly better in the nondurable goods sector than in the durable goods sector.

Some upward price movement is noted by this month's survey respondents. Although two-thirds say their input costs are steady, 22 percent report paying higher prices for materials and supplies. Area firms have held the line on the prices of their own products, however.

Local manufacturers' expectations remain mostly positive. Looking ahead six months, 42 percent of the November survey respondents predict further improvement, 34 percent foresee steady conditions, and only 15 percent anticipate a slowdown. On balance, companies polled this month expect increases in new orders and shipments and a slight buildup in order backlogs. They also plan greater capital outlays over the next six months. However, most firms plan to hold employment at current levels.

RETAIL

Retailers in the region reported good sales in November, generally. Department stores have been experiencing greater than expected improvement over last year, with some marking gains in excess of 10 percent. Although discount stores are not achieving gains quite this large, store executives say they are pleased with the year-over-year increases they are making. Appliances and home furnishings are selling particularly well. Merchants say the new lines of fall clothing are proving to be very popular also.

While sales continue to be strong, store executives contacted recently say profits remain under pressure due to higher expenses. Many retailers are repositioning themselves for up-scale markets, which involves large up-front outlays for store remodeling, advertising, and new inventories.

Merchants say the current strength of retail sales indicates a good Christmas season for them, and they are raising sales projections accordingly.

Looking into 1987, retailers in the region believe the first half, at least, should be good. The consensus forecast for the year as a whole calls for solid gains but a lower year-over-year increase than expected for 1985-1986.

FINANCE

Total loan volume at large Third District banks in October was up approximately 12 percent from September and 16 percent above the October 1985 level. Commercial and industrial lending is described as strong by bank lending officers. However, narrowing net interest margins and a concern for credit quality have led some banks to direct funds to money market investments rather than loans.

Figures from weekly-reporting banks indicate that consumer loan growth slackened in October in the Third District, but banks contacted in November said that credit card and other consumer installment lending was picking up. Banks in the region are beginning to offer affinity group credit card programs and they are expanding promotion of home equity lending; however, they say it is too soon to tell whether these programs have significantly affected consumer borrowing.

Bankers expect economic growth to slow during 1987, and they expect both business and consumer loan demand to ease as a result. Regardless of economic developments in the coming year, bankers express concern about the outlook for bank earnings in 1987. Some note slower deposit growth currently, and say their cost of funds will rise if they have to pay more for deposits to support asset growth. The impact of the new tax law on banks is also mentioned as a negative factor for earnings.

FOURTH DISTRICT - CLEVELAND

Summary

The regional economy showed slight improvement during October. Production and new orders are up in some major cities in the district, and both manufacturing and nonmanufacturing employment continue to increase. Other economic indicators are mixed: retail sales have picked up, mostly in household and soft goods; housing starts are progressing at a moderate pace; but auto sales have fallen dramatically. A number of the respondents characterize their local economies as weakly healthy.

Retail Sales

Retail sales picked up slightly from a slow September pace but were unevenly distributed throughout the fourth district and across product lines. Major retailers report that sales in their Pittsburgh outlets improved more than in many of their Ohio outlets. Sales of major appliances have tapered off in the past 6 weeks, while furniture, home furnishings, and soft goods show strong gains relative to other areas of the country. Inventories are reported to be at normal levels. Retailers claim that prospects for the holiday season have improved some, and they expect sales increases between 5 to 7 percent over last year.

Domestic automobile sales in the fourth district have generally followed national trends in which sales dipped sharply after incentive programs expired. Inventories at non-GMC dealers remain on the low side, especially on small cars. GM dealers report that inventories are manageable, but this appears to be due to their reluctance to order large quantities of new models. Import dealers report mixed sales, but all state that inventory levels are rising.

Labor Markets

Ohio's unemployment rate dropped dramatically in October, from a seasonally adjusted rate of 8.5 percent (in September) to 7.7 percent. The decline is due in part to an increase in employment of 75,000 jobs.

The service sector appears to account for much of this growth. Over the past year, service industry employment increased by 7.0 percent, compared to 4.7 percent for services in the U.S. Overall employment grew by 3.0 in Ohio and 2.4 percent in the U.S. Business service industries were particularly strong in Ohio over the year, expanding employment by 13.2 percent.

Fourth quarter 1986 employment projections by Cleveland employers suggest that these employment trends will continue for the rest of the year.

Manufacturing

Manufacturing employment in the fourth district increased by roughly .3 percent during September, although employment is still below the level achieved a year ago. The recent employment growth was shared by most metropolitan areas in the district, with the notable exception of Pittsburgh. Average weekly hours and earnings are up slightly over last month.

Manufacturers report an increase in new orders, production, and prices but constant inventory levels during October. Part of the increase in production is attributed to the beginning of production of new car models. However, a current strike at a GM facility has caused the shutdown of operations of a number of assembly plants in the district. In addition, GM recently announced that two large assembly plants employing

6400 workers in the Cincinnati area will be closed by 1990.

Steel production in the fourth district continues to increase modestly, despite the continued shutdown of USX. Raw steel production in the first part of November was 13 percent above the pre-strike level. Falling inventory levels have now reached their lowest level in two years. Capacity utilization is still relatively low at 58 percent. Specialty steel production is also up. One customized steel finishing company reports that they are fully booked through December and overbooked through January.

Housing

The slowdown in Midwestern housing markets has tapered off. Housing starts and sales are increasing at a healthy but moderate pace.

Many midwestern mortgage borrowers prefer to lock in currently low mortgage rates, apparently because they perceive the current level of mortgage rates to be the trough in long-term rates for this economic cycle. Nonetheless, the adjusting rate mortgage is growing in popularity.

Banking

Loan demand has risen slightly at district banks. Loans outstanding in all major categories at large banks increased in October. Continued strength in the demand for real estate and consumer installment loans accounts for most of the overall loan growth. Both real estate and installment loans rose at an annual rate of 20 percent. Marginal increases in commercial and industrial loans outstanding in October represented an improvement over the lack of business loan growth in the third quarter.

FIFTH DISTRICT - RICHMOND

Overview

Manufacturing remains at about the level reported a few weeks ago, which was improved from midsummer's pace, and producers are generally optimistic about prospects for their businesses in the months ahead. In retailing, non-auto sales are stronger, and store managers expect a good holiday season. Three-fourths of producers and retailers forecast inflation to be between two and four percent in 1987. Sales of homes are weakening faster than usual at this time of year, and realtors believe that it will take lower mortgage rates to increase activity in this sector. In the financial sector, home equity-line loans are being offered by most large banks in the District, and customer response has been strong. District agricultural bankers expect a new round of farm failures due to the drought-depressed harvest and low crop prices.

Consumer Spending

Retail sales, other than new car sales, are generally strong throughout most of the District, and store managers expect a good Christmas season, according to our directors. Their reports are confirmed by our survey of retailers; 61 percent say that their sales volume in November is running ahead of October's pace, seasonally adjusted. This month's survey of retailers also indicates that a higher percentage of respondents are optimistic about the outlook for their businesses and for general business conditions six months from now.

Manufacturing

Manufacturing activity in November is little changed from October, judging from District survey results. The average rate of capacity utilization is up

one percentage point, but the percentages of firms reporting increases in shipments or employment are down slightly from the percentages reported last month. Reports of increases, however, still outnumber those of decreases.

Compared with the results of last month's survey, those for this month show a larger percentage of manufacturers optimistic about their business prospects six months from now. Forty-five percent of the respondents indicate that they expect increased sales as a result of improved international trade conditions, while 15 percent expect reduced sales due to less favorable international trade conditions. All but a handful of the remaining respondents indicate that international trade conditions have no influence on their businesses.

Housing

Housing sales remain above year-ago levels but are weakening rapidly. The downturn appears to be more than seasonal and is attributed to higher home prices that are keeping some potential buyers out of the market, despite lower mortgage rates. Realtors believe that it will take another decline in mortgage rates to support this industry in the months ahead.

Inflation Expectations

We asked our survey respondents--primarily manufacturers and retailers--to forecast the general level of inflation for 1987. The results are summarized in the table below.

1987 Inflation Forecast	Percent of Respondents
Under 2 %	5
2% to 3%	29
3% to 4%	48
4% to 5%	13
Over 5%	5

Financial

A telephone survey of twenty large District banks was conducted to determine the activity in and terms of home equity-line loans. Eighteen of the banks surveyed are currently offering these loans, and most of these are very active in advertising their new product. The remaining two banks expect to be offering equity-line loans by December 15.

The loans are structured in various ways. Most are tied to the prime rate, but some are tied to T-bills or CD's. Some banks offer the option of balloon payments or a rollover of the principal at maturity periods of up to 15 years, or amortization in monthly installments.

Most of the banks offering the loans describe the response with words such as "very strong," "dynamite," and "hot," although four banks located in a relatively depressed part of the District did not regard the response as unusually good. Bankers feel that home-equity line loans will become increasingly popular. One respondent describes these loans as the most significant new product since money market accounts.

Agriculture

Revised estimates of crop yields based on nearly complete harvests are in line with estimates earlier this fall. As expected, drought damage will mean severe hardship for some district farmers, especially because of low crop prices. Agricultural bankers expect that more farmers will be out of business by next spring.

SIXTH DISTRICT - ATLANTA

Economic activity in the Southeast remains mixed. Manufacturing employment has posted little growth, although employment growth in services is accelerating. Residential and commercial construction is active, but there has been a shift away from multi-family dwellings and office building. Lending has remained strong, but consumer purchases of cars and other durables have slowed. Stabilized oil prices have prevented further economic decline in the western part of the District. Crop production and income will be down substantially, although citrus growers should do well.

Employment and Industry. The District's unemployment rate for September was steady at 8.1 percent. The services industry kept its lead over all industries in both the level and growth rate of employment. Employment in the trade sector grew by 3.8 percent from a year ago in September, a slowing from 4.8 percent in the previous year. By contrast, construction employment growth has been flat since April.

Manufacturing employment has registered little change since the first of the year. Lack of demand for petroleum-related machinery and nuclear power generating equipment has forced layoffs in some regional states. A slump in some capital goods markets—electronics and construction equipment—has hurt fabricated metal producers. Labor disputes in the steel and transportation equipment industries have idled nearly 4,000 workers in Alabama.

More positively, apparel and textile employment has been increasing since July. Employment growth for food processors has been steady; falling commodity prices have stimulated this industry.

Consumer Spending. Sixth District retailers reported moderate sales gains during October. Cooler weather spurred apparel sales across the region, but movement of big-ticket items was sluggish. Retailers in Tampa, Orlando, Atlanta, and Nashville noted strong consumer demand induced by fierce price and promotional competition, cutting profit margins. Alabama, Mississippi, and Louisiana retailers, however, report weak

demand and less vibrant competition. Sales in Louisiana are expected to remain very weak despite the recent firming of oil prices.

With the ending of aggressive marketing and financing programs in October, District car sales returned to the sluggish pace prevailing earlier this year. Car dealers in the region also fear that September sales have borrowed heavily from demand late this year and early in 1987.

Construction. After declining in July and August, single-family building permits in the Sixth District turned up in September. Georgia led the nation in year-over-year sales growth of existing single-family homes. Florida placed third in the ranking, while only one state in the nation suffered a worse sales decline than Louisiana. Nashville stands out among District cities as a hotbed of activity.

Contacts in Miami report an all-time high of condominium inventories, and poor demand has brought multi-family construction in New Orleans to a standstill. Although builders in Atlanta and Nashville note slowing of construction, they believe their markets will fare better in 1987 than most in the nation.

Commercial developers across the Southeast report slowing activity and anticipate further deceleration in the coming months. New Orleans remains the region's weakest market, but contacts there report some expansion of retail construction to meet the demands of tourists and conventioneers. The south Florida market remains saturated with office, retail, and industrial space. Atlanta's glutted office market is leading developers to focus on retail and industrial construction. The relatively short construction time required for completion of such projects also suggests these markets will soon be saturated. Nashville developers are confident that their market will continue to experience strong but "controlled" growth.

Financial Services. Total loans at large Sixth District banks grew at the same rate in September compared to a year ago. Real estate lending dipped slightly from August, while business and consumer loan growth maintained its August pace.

In response to the effects of tax reform, demand for home equity loans has surged across the region. Bankers say these loans have gained popularity because they retain at least partial interest deductibility under the new tax laws. Some bankers expect many homeowners to substitute these loans for card and installment credit.

Tourism. Travel to the Southeast remains generally strong. Automobile travel has increased dramatically over last year. Passenger volume in the region's airports is also up, due largely to the addition of new flights. Cruise ship bookings are solid, according to industry sources. Convention business is up throughout the region. Year-to-date tax revenues from the hotel industry are up around 10 percent over last year. However, in response to a large revenue shortfall, Louisiana has closed 22 out of 32 state-operated visitor facilities and is laying off tourist-related government employees.

Agriculture, Forestry, and Mining. Since its low of $12.25 per barrel in midsummer, the price of Gulf Coast sweet crude petroleum has climbed approximately 15 percent to reach $14 in November. The price improvement was accompanied by a 20 percent increase in the number of oil rigs operating in the District. Even so, the 140 active rigs in early November equaled slightly less than half of the number a year ago. Approximately 2.3 million tons of coal were mined in October, down one million from October 1985 and roughly 9 percent less than in September this year. Despite a 5 percent coal price decline, oil and natural gas remain highly competitive.

Agricultural conditions are mixed; poultry and livestock producers are doing rather well, but income is down for most crops. Recent unfavorable weather and insect and disease damage have lowered field crop prospects in Louisiana, while recovery from the drought in Tennessee and Alabama has improved expected yields. Florida orange and grapefruit crops are projected to be almost 8 percent greater than last year. The lumber market has been relatively stable in recent weeks; prices have been modestly higher than during the summer but 10 to 20 percent less than last spring.

SEVENTH DISTRICT--CHICAGO

Summary. Trends in employment indicate that the pace of activity in this District continues to trail the U.S. Additional layoffs and plant closings recently have been announced in several industries. Capital goods demand generally remains weak. Auto production schedules have been reduced but remain near year-earlier levels. Consumer spending and residential investment are relatively strong. Commercial construction, mainly in the Chicago area but also in other District centers, continues at a high level. Some holders of real estate and other assets are pushing to dispose of these by year-end to receive more favorable tax treatment. Prices paid for materials and components increased significantly in October for steel and various other items. A large retailer reports prices of textiles rose after import restrictions were imposed. Livestock and dairy farmers have been helped by low feed costs.

Plant Closings and Jobs. District companies in several industries continue to announce reductions in employment and shutdowns of manufacturing plants and other facilities. Most notable is General Motors' planned closing of 7 manufacturing plants and part of another plant in the District, currently employing more than 20,000. Cummins Engine, a leading diesel producer, plans to close two plants in the District employing 1,500. We are informed by industry analysts that the GM and Cummins plant closings are part of broad programs to reduce capacity. Operations will be consolidated in other plants. Other closings recently announced include a computer parts distribution center in Indiana, a town's largest employer with 1,000 workers; an Illinois hog processing plant, 780 employees; two motor vehicles parts makers near Chicago; and the Michigan headquarters of a machine tool maker.

Reasons cited for these closings include foreign competition, excess capacity, high labor costs, and mergers. A Chicago-based paper company is cutting 1,000 jobs after a merger, and its local headquarters is expected to close. At least two more tire manufacturing plants in Illinois and Iowa are likely to be shut down. Additional jobs cutbacks have been announced in computers, health care products, banking, machine tools, and heavy-duty transmissions. On the plus side, additions to employment totaling nearly 400 are planned by two consumer appliance makers in Iowa, a response to strong demand. Also favorable are the expansion plans of Japanese vehicle producers in several locations.

Capital Goods. Demand for mechanical capital goods remains weak. The market for industrial diesel engines is very slow. Orders for machine tools have declined. Oil and gas development equipment continues depressed. The last U.S. producer of 50-100 horsepower tractors plans to close its Michigan plant, and shift all production to Europe. Most smaller tractors have been imported for years. The Department of Justice has signaled that it will raise no antitrust objections to consolidations that would reduce from four to two the number of U.S. producers of large four-wheel-drive tractors. Deere, shut down by a strike since August 1, has offered aggressive incentives to reduce tractor and combine inventories, including big discounts and zero-interest financing for up to two years. Orders have slumped for air conditioning equipment for office buildings, as construction nationwide has turned down.

Motor Vehicles. Auto production schedules have been cut from earlier plans but remain at high levels through the first quarter of 1987. Heavy truck orders have improved slightly. Sales of heavies are projected by one analyst at 125,000 in 1986 and 130,000, possibly up to 140,000, in 1987.

Steel. The work stoppage at USX since August 1 has boosted demand for other steel producers. A leading Chicago-area producer is now operating at effective capacity, in part reflecting a reduction by one-third in the firm's capacity. Steel prices have increased on new contracts, but most integrated producers are still losing money. Analysts expect prices to fall once the USX labor dispute is settled. Orders for steel from capital goods producers remain weak. Oil and gas industry demand for pipe is up, from a very low level.

Inflation. Prices paid rose at an "alarming rate" in October, according to the Purchasing Management Association of Chicago. Higher prices were reported for a broad range of products and materials. Largest increases were for steel sheet and plates, related to the work stoppage at USX, and also to the Administration's partially effective program to limit steel imports. Other categories with higher prices included corrugated and kraft paper, wood, caustic soda, resins, and precious metals. One airline analyst discounts reports of a renewed "fare war."

Nonresidential Construction. Work on office buildings in downtown Chicago continues at a vigorous pace, despite high vacancies. Some projects have been deferred for lack of sufficient preleasing, but others already underway assure a high level of activity into 1987. Manufacturing building is low except for warehouse facilities in locations well-served by major roads. Highway work is slowing rapidly because Congress did not pass enabling legislation prior to adjournment.

Residential Construction. Home building is well above last year in many parts of the Midwest including the Chicago area. Multifamily starts also are up substantially in the Chicago area. Thirty-year fixed-rate mortgages are commonly being offered at rates ranging from 9.5-9.75 percent. Mobile home shipments by

Indiana builders, a major center of this industry, are higher this year, in contrast with a declining national trend.

Consumer Spending. A large general merchandise chain projects a sizable rise in general merchandise sales in 1986, with prices up only slightly. A smaller rise in dollar sales and larger price increases are expected in 1987. Restraints on textile and apparel imports are blamed for a recent jump in prices in these lines, which had been stable. Airline traffic was up strongly in September and October, with prices stable. A consultant expects consolidations and resulting cost cuts to improve profitability in 1987. Second mortgages are being advertised extensively by banks, S&LS, and other lenders. Some advertisers are holders of first mortgages. Second mortgages are being advertised as a way of tapping accumulated home equity and avoiding loss of interest deductibility under the new tax law.

Agriculture. Bumper corn and soybean harvest estimates were raised recently for Iowa and Wisconsin, contrary to many analysts' projections following heavy September-October rains. Production estimates were cut slightly for Indiana. Prices remain low but have edged higher in recent weeks. A feared storage crunch was lessened by a stretched-out harvest season, caused by heavy rains, and attractive options offered to farmers which encouraged them to redeem PIK certificates and sell their grain rather than store it under the government's support program. Returns to livestock producers are quite favorable because of low feed costs and higher prices for cattle and hogs. Dairy farmers also are benefitting from lower feed costs. Milk prices have recovered to year ago levels as cuts in dairy cow numbers, from the whole-herd buy-out program, and strong gains in commercial demand for milk have trimmed the milk surplus.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District's expansion of employment and construction exceeded the nation's in recent months, while the pace of retail sales trailed the national trend. Strong real estate and consumer lending characterize the local banking market. Harvests are nearly complete except in Missouri where heavy rains have delayed the fall harvest.

Employment

District nonfarm employment increased at a 4.6 percent rate in the third quarter compared with 1.7 percent for the nation. Nonfarm employment growth in the region was led by the construction sector, with third quarter employment 15.8 percent above last year's third quarter level. Despite a 1.4 percent rate of decline in manufacturing jobs, the food processing sector continues to expand. Employment in the District electrical equipment sector picked up in the third quarter after declines in the first half. The weaker dollar reportedly has led to increased foreign demand for the region's wood pulp and paperboard products. Depressed coal prices have contributed to the contraction of mining activity in Western Kentucky this year. A strike by workers in an auto electronics plant in Indiana caused the layoff of 5,000 auto workers in St. Louis and 900 workers in Bowling Green, Kentucky beginning November 18.

Construction

Third quarter construction activity expanded faster in the District than in the nation. The value of residential construction

contracts awarded in the District grew at a 10.9 percent rate compared with a 5.0 percent rate of decline nationally. Third quarter residential contracts in the District were 14.0 percent above the level of the same period in 1985, exceeding the nation's 5.7 percent growth. In contrast to District trends, Louisville reported a sharp increase in multi-family building in comparison with last year. The value of nonresidential construction contracts expanded at a 15.4 percent rate in the third quarter, compared with the nation's 0.5 percent pace.

Consumer Spending

District retail sales grew at a 2.2 percent rate in the three months through August, with sharp losses in Missouri dampening regional growth. In comparison, national sales grew at a 6.8 percent pace during the period. Contacts reported vigorous spending on new cars in September, but few sales in October.

Banking

For the three months ending October, total loans at large District banks grew at a 12.8 percent annual rate, more than twice the 6.2 percent rate for the same period last year. Real estate loan growth was the dominant factor, expanding at a 24.1 percent rate compared with 4.0 percent for the same August-October period in 1985. Commercial lending, which had declined during the third quarter, picked up slightly in October. Consumer lending continues strong, expanding at a 19.9 percent annual rate, a rate comparable with the same period last year.

A recent survey of District bankers indicates a continued willingness to make consumer installment loans as they have not

experienced rising delinquencies. Bankers are actively promoting home equity lines of credit in response to the phasing-out of the tax deductibility of consumer interest costs. One large bank has eliminated all points and closing costs for home equity loans until January 31, 1987.

During the last five weeks, numerous banks and savings and loans have lowered their passbook rate to a range of 4.8 to 5.0 percent. One large bank, however, in an attempt to gain market share, increased its rate to 6.0 percent for accounts maintaining a minimum balance of $200.00.

Agriculture

Contacts suggest that despite low crop prices, high government payments have allowed many local farmers to improve their financial positions. They indicate that the failure rate of farmers is unchanged or slightly lower than last year because the most financially stressed farmers have already left farming. The slide in land prices is expected to slow or stop but no significant appreciation is anticipated.

Harvests are nearly complete or are ahead of schedule in all District states except Missouri where heavy October rains delayed corn and soybean harvests. Flooding destroyed approximately 4 percent of Missouri's soybean crop. Despite the adverse weather, Missouri farmers enjoyed a record corn yield and a strong soybean yield.

NINTH DISTRICT--MINNEAPOLIS

Moderate growth appears to have continued this fall in the Ninth District. Labor market conditions have held firm, as have most types of consumer spending. Aggregate nonresidential construction has held up, as has the district's important wood products sector. The agricultural outlook has been brightened by the likelihood of big crops and their attendant government payments. But farm bankruptcies have not abated.

Employment

Ninth District labor markets have not weakened recently. The Minneapolis-St. Paul help-wanted advertising index rose 2.7 percent in September. District unemployment rates did not rise significantly in September. Minnesota's unemployment rate fell a bit, to 4.2 percent, while its Twin City area rate rose a bit, to just 3.7 percent. At the same time, additional hiring in durable goods manufacturing helped bring South Dakota's unemployment rate down to 3.6 percent. Total employment declined somewhat in both Montana and North Dakota, but the unemployment rate rose only slightly in the former and fell in the latter.

Still, Twin City manufacturing employment continues to be affected by the problems of its large multinational manufacturers. One of those recently announced that 1,000 of its 19,000 area employees will be laid off by January.

Consumer Spending

Retail spending on general merchandise has held up well recently, reflecting the national trend. One large chain reports its October sales up 12.4 percent from a year ago and its November sales also good. Inventories

are in good shape. A banker reports that another chain operating throughout South Dakota has had good October and November sales too. But Bank directors continue to report the problems of small town, "Main Street" retailers in farm areas.

Motor vehicle sales have also been consistent with the national trend; they have fallen off recently after big gains earlier this fall. The district office of one domestic manufacturer notes that this October its car sales dropped 4.2 percent below last October's level. Another manufacturer reports a similar pattern, but notes that its inventories are still low.

Bank directors and members of the Ninth District Advisory Council on Small Business, Agriculture, and Labor report healthy levels of tourist spending in most district tourist areas. They say summer spending was generally higher than last year, as expected, and most are expecting winter business to be brisk.

Housing activity has slowed from its rapid pace earlier in the year. Minnesota's Twin City area home sales were lower this October than last. Over the same period, multifamily housing starts were also lower there. A banker reports that bad weather slowed housing activity in South Dakota as well. But a Bank director notes that the demand for seasonal dwellings in Minnesota resort areas has been good.

Construction

In contrast to housing, the steady pace of nonresidential building has continued. Reflecting higher demand for space, the vacancy rates for both commercial office and industrial buildings in the Minneapolis-St.Paul metropolitan area fell between June and September. In fact, nonresidential building contracts in Minnesota were 64 percent higher this September than last. A

Bank director notes an unusually large number of big construction projects in and around Duluth, Minnesota. And while a labor leader in North Dakota reports that construction activity in North Dakota has fallen overall, recent activity has included some public works and military-related construction.

Resources

Resource-related industries have continued to show a wide range of performance. The large and growing wood products sector continues to do quite well. A Bank director reports that paper mills in the northeastern part of the district are running at full capacity. Pulp prices are quite firm and may rise more. He notes that waferboard plants are also running full and that competition from new plants may create problems for existing wood products plants in this district. An open pit copper mine employing 300 is now operating in Montana, and the important White Pine copper mine in the Upper Peninsula of Michigan is now doing a little better than breaking even. But both iron and oil extraction are still at low levels, with an uncertain future.

Agriculture

Big crops and government payments are brightening overall agricultural conditions. A record or near-record corn crop is being reaped in Minnesota. A Bank director expects government payments on the excellent wheat crop in Montana to help the hard-pressed wheat farmers there. One respondent cites the potential economic stimulus inherent in the $670 million government payments to North Dakota. However, a South Dakota banker believes that farmers are going to use a lot of income just repaying debts and increasing their depleted savings. And several respondents note that farm bankruptcies are still rising in parts of the district.

TENTH DISTRICT - KANSAS CITY

Overview. Only modest improvement is apparent in Tenth District economic activity. Retail sales continue to improve, although district auto sales shared in the national decline. Inventory levels generally are viewed as satisfactory, and prices are expected to remain relatively stable. The energy and agriculture sectors remain weak. Some weakening in housing activity is expected. Demand for mortgage funds has moderated and mortgage rates are expected to remain steady. Total loan demand at commercial banks was generally constant or down over the past month.

Retail sales. Tenth District retailers report that sales are moderately stronger than a year ago and generally have been improving over the last three months. Recently, retail sales of furniture, electronics, and women's apparel have been particularly strong. Prices have changed little during the last three months and are expected to remain relatively stable. Most retailers are satisfied with their current inventory levels, although some would prefer to trim their inventories modestly. Most retailers expect sales during the holiday season to be as good as or better than last year.

Automobile sales. Tenth District automobile dealers experienced poor sales in October following the end of low-interest factory incentives. Inventories of 1986 models have been depleted, but dealers are building their stocks of 1987 models cautiously because they are not optimistic about the short-run sales outlook. Buyers have been conditioned to expect incentive programs, and many dealers expect that sluggish sales will soon force the automobile manufacturers into a new round of incentives.

Purchasing agents. Purchasing agents in the Tenth District continue to report slightly higher input prices, due partly to the depreciation of the dollar and the steel strike. Most purchasing agents expect relatively stable

prices over the next three months. Materials are readily available, and no problems with availability or lead times are expected. Inventory levels generally are regarded as satisfactory. Some firms, however, have been trimming inventories and plan to continue this policy for the rest of the year.

Housing activity and finance. Most homebuilders report that single-family housing starts have increased from last year's levels, but multifamily starts have varied widely by locality. Homebuilders expect normal seasonal declines in single-family starts during the winter. Multifamily construction, however, is expected to be substantially weaker because of overbuilding in many areas. New home sales are generally above year-ago levels. Builders report no problems with either the availability or delivery of housing materials. Materials prices have been steady, although some builders expect rising lumber prices.

Many Tenth District savings institutions have accepted limited savings inflows in the face of intense rate competition and flat loan demand. Most expect this situation to continue into 1987. Demand for mortgage funds has moderated. Mortgage interest rates have stabilized and are expected to remain steady or trend slightly downward.

Energy. The district's weakened energy industry continues to suffer from the uncertainty surrounding international crude oil markets. Oil prices have firmed somewhat, but remain well below year-ago levels. As a result, exploration and development activity in the district has rebounded slightly but remains generally depressed. The average weekly number of operating drilling rigs in the Tenth District was up again to 223 in October from 215 in September, but remains far below the 550 rigs working in January.

Agriculture. Wet fall weather conditions have delayed harvest operations in many regions of the Tenth District. The corn, soybean, and milo harvest is 85 to 100 percent complete in some areas, but elsewhere 50 to 65 percent of the crop is still in the field. Yields have been high across the district, with record yields expected in many areas. Many regions are experiencing tight storage conditions, but storage shortages are expected to ease as more of last year's stocks are marketed. Most areas report good to excellent winter wheat and wheat pasture conditions.

Harvest delays have meant production loan paydown delays, but many lenders still expect paydowns to improve over last year. Lenders also suggest no loosening in credit conditions for the coming production year, with credit refusal rates expected to be about the same as last year. Effects of the new farm bankruptcy legislation may be reflected in the 1987 farm credit situation. Lenders feel that the new Chapter 12 provisions weaken their position with troubled loans and marginal borrowers. Lenders expect the added creditor risk to lead to tougher credit review standards and more cautious lending.

Banking. Total loan demand was generally constant or down, and total deposit activity was mixed at Tenth District banks during the past month. In all categories of loan demand, more bankers reported increased weakness than reported increased strength. Consumer, real estate, and agricultural loans were areas of particular weakness. While most banks have lowered rates on consumer loans, further interest rate declines are generally not expected. Demand deposits, large CDs, and small time deposits tended to remain constant or decline, while NOWs, Super-NOWs, and passbook savings accounts tended to remain constant or increase. MMDAs, IRAs, and Keough accounts, on balance, remained unchanged. Most banks are considering lowering their passbook savings rate below 5 1/2 percent, if they have not already done so.

ELEVENTH DISTRICT--DALLAS

The Eleventh District economy is flat. Manufacturing is showing slight evidence of strengthening. Drilling has been stable for several months. Construction is substantially below a year earlier, but it appears to be leveling off. Auto sales have weakened lately, chiefly owing to the end of concessionary financing. Retail sales are slipping compared to last year's level. The balance sheets of the District financial institutions reflect the weakness of the District economy. Lower feed prices and higher meat prices have increased the profitability of District ranchers.

District manufacturers continue to report that orders have stabilized at low levels. Some respondents note slight increases stemming from strengthening in the national economy. For makers of primary metals, fabricated metals, and nonelectrical machinery, sales increases outside the District have helped to compensate for flat to declining sales in the region. Orders of electrical machinery are stable. Among apparel manufacturers, sales are unchanged overall and product prices are firm. Demand for stone, clay, and glass products, and for lumber and wood products, is weak because of reduced orders from the construction sector. Chemical and paper products sales are increasing slightly. Transportation equipment manufacturers say the pace of their orders is little changed. Refinery production has ebbed slightly as inventories of many products have been built up to high levels. A significant number of manufacturers link the falling value of the dollar to increases in prices of their inputs and to small upturns in their orders.

Drilling activity has varied little during the period from June through October. The number of well permits issued in the District states has been fairly steady since June. Respondents expect some upward movement in oil prices, but they believe that the increases will not lead to a significant upturn in drilling activity.

Construction continues to show signs of stability, but the potential for further downturns is evident. In Texas, the total value of construction contracts for the third quarter was slightly above the second quarter's total, but it was down 25 percent from a year earlier. As with total construction, nonresidential contracts have been steady in recent months at roughly 30 percent below last year's level. The downturn has been concentrated in office and retail construction, leaving other categories of nonresidential building only slightly lower than a year earlier. The market for office space is still weakening. In Houston, bankruptcies and consolidations have led to reductions in the amount of office space that is occupied. The office absorption rate in Dallas has dropped by half since last year. Residential construction is falling slightly. The value of residential contracts was slightly less in the third quarter than in the second quarter. Permits continue to drop, led by precipitous declines in multifamily building. Nonbuilding construction is steady.

Dealers attribute a recent sharp drop in automobile sales to the end of concessionary financing programs. As a result of sluggishness in the District economy, sales have also fallen significantly from a year earlier. Inventories are not excessive, as dealers have held their orders to modest levels. Respondents report that the full advantage of the

appreciating yen has been reduced by increases in the price of domestic models and by increased imports of non-Japanese autos.

Retail sales continue to falter. The largest declines have been in the energy-intensive regions of the District. Prices of imported electronics have risen significantly. Apparel prices remain stable, but respondents expect increases as a result of new import restrictions. Retailers are keeping their inventories quite low in anticipation of continued economic sluggishness.

Total assets at large District banks are still declining, principally as a result of reductions in business loans. Real estate lending continues to expand, but at a decreasing rate. Consumer loans show slight growth on a year-over-year basis. Holdings of securities have increased steadily throughout the year. Total deposits at large District banks have fallen dramatically since the first quarter, led by reductions in large time deposits. Borrowings have increased, but not enough to completely offset the reductions in time deposits. A decline in deposits at commercial banks has been more than offset by growth at thrifts, so that deposits at all financial institutions are up from a year earlier. The pace of expansion has slowed, however.

In District agriculture, crop prices are markedly down from a year earlier while livestock prices are up. Since last July, cattle prices have increased 5 percent while feed prices have fallen 25 percent. As a result, profit margins for ranchers have widened. An early freeze has reduced the value of District cotton production, through quantity and quality losses, by an estimated $100 million.

TWELFTH DISTRICT -- SAN FRANCISCO

Overall improvement in the Twelfth District economy appears to be continuing. The trade and service sectors continue to stimulate growth in regions not hard hit by other economic problems. Available information suggests that exports of products manufactured in the West are likely to improve. Moreover, markets for some western agricultural products, including potatoes, pistachios, and grapes, have improved in recent months. Forest products industries are prospering while gold and copper mining appear likely to recover during the next several months. Although single family residential building activity has slackened in recent months it remains relatively healthy. Apartment and nonresidential construction activity, in contrast, continues to weaken in many areas. Surveyed bankers agree that asset quality problems are likely to continue through next year, particularly in sectors that have experienced problems already.

Consumer Spending

The trade and service sectors continue to flourish in most parts of the Twelfth District. Retail sales growth has been very strong in Washington and California, and has been satisfactory in Oregon as well. However, in areas with struggling economies sales are weak. In Idaho, for example, retail sales have shown virtually no increase during the past 24 months. Alaska retail sales also have been slow. In California's central valley, retail sales reportedly have been flat, which actually represents an improvement compared to recent declines.

Manufacturing

Several respondents argued that exports of manufactured products should improve soon. Exports of some electronic products have risen in

recent months due to the reduced value of the dollar. Aircraft exports have shown strong improvement, largely due to global increases in demand for commercial aircraft.

Capital goods producers indicate that machinery orders from Europe are picking up, due to declining U.S. production costs as well as to the declining U.S. dollar. In addition, one respondent reports that Japanese distributors have begun contacting U.S. companies about purchasing consumer products, partly because Japan now is encouraging the purchase of U.S. products and partly because of the changing dollar-yen relationship. Taiwan also is beginning to promote imports from the U.S. in an attempt to deter U.S. protectionist measures.

Recent trade developments are not all positive, however. Forest products industry sources report that the decline of the U.S. dollar has only slightly increased the prices of imported machinery used in lumber mills. This machinery, most of which is produced in northern Europe and Scandinavia, still enjoys price and quality advantages relative to U.S. made machinery.

Agriculture and Resource Related Industries

Although problems continue for many Twelfth District farmers, some recent improvements have been noted. In Idaho, potato prices have risen significantly, providing farmers a chance to return to profitability. In California, the pistachio crop harvest was the largest ever recorded, and the bumper crop should not depress pistachio prices much because pistachios bear only in alternate years. Although 12 percent fewer wine grapes were harvested this year than last year, grape prices are higher than last year's.

Most economic indicators in the forest products industries suggest that, despite the national slowdown in residential construction, prosperity has returned at least for the moment. In Oregon, the number of millworking jobs in September set a new record for that month. Exports of many forest products, including lumber, pulp, and paper have increased, although not dramatically. Competition from Canada has been less fierce lately, partly because Canadian lumber workers are on strike with little hope of an imminent settlement, and partly because a preliminary ruling that would impose a 15 percent tariff on softwood lumber imports from Canada requires that, while waiting for a final decision, Canadian exporters post a bond with customs officials equal to the 15 percent duty.

The lingering problems of the mining industry in Utah appear to have bottomed out, and stability or perhaps even slight improvement is expected during the coming months. The outlook for the copper industry currently is much brighter than it has been for several years, and some observers expect copper to be a source of strength during the coming year. The prospects for gold mining in Nevada also have improved. Additional gold deposits have been discovered, but at this point it is unclear whether they can be mined profitably.

Construction and Real Estate

In most areas of the District, the pace of multifamily and nonresidential construction is slowing. Single family home construction remains relatively strong despite recent slackening. Although activity has been heavy in both new and used home markets, housing prices in most areas reportedly are flat or down.

Financial Sector

Surveyed bankers indicate that significant loan quality problems are

likely to continue in such sectors as agriculture, energy, consumer credit, and commercial real estate. In addition, a few bankers expect problems to emerge in health care portfolios. Strength in mortgage portfolios should at least partially offset these problems.