

SUMMARY OF COMMENTARY

ON

CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

September 1989

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## SUMMARY\*

Summary

Most Federal Reserve districts describe the growth of economic activity as modest or slow, although regional variation in activity is substantial. Consumer spending has been mixed, but most districts report strong sales of apparel and cars recently. Manufacturing conditions are generally satisfactory or improving in the nation's Southern and Western regions, but some weakening was noted in New England and much of the Midwest. Construction activity is mixed. Agricultural conditions continue to improve over much of the nation.

Consumer Spending

Merchandise sales have been mixed across the country. Retail sales have expanded at satisfactory rates or above in the New York, Philadelphia, St. Louis, Minneapolis, San Francisco and Kansas City districts. Boston, Richmond and Dallas all report that retail sales have softened in recent months, while Cleveland reports mixed sales patterns. In several districts, increased sales of women's apparel have spurred overall apparel growth.

Inventories appear to be under control in the New York, Philadelphia, St. Louis, Minneapolis and Kansas City districts, while in Boston and Cleveland, inventories are a bit high. The sales outlook for

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\*Prepared at the Federal Reserve Bank of St. Louis and based on information obtained before September 12, 1989. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

the remainder of the year is optimistic in the Richmond, Minneapolis, Dallas, Cleveland and Kansas City districts. St. Louis retailers expect sales to be flat or slightly higher, while Philadelphia retailers believe a slackening in demand through next spring is more likely than an acceleration in spending. Boston notes that retailers are split half-and-half over sales potential for the rest of 1989, while Chicago reports that retailers expect further weakness in spending on durables. A surge in auto sales has helped reduce auto inventories over most of the nation. In several districts, dealers are worried that recent incentive-boosted sales may cut into 1990 model sales.

#### Manufacturing

The performance of manufacturing is mixed, varying significantly among districts and across industries. Increased activity was reported by New York, Richmond, Atlanta, Kansas City and Dallas. Weak or slowing activity was reported by Boston, Philadelphia, Chicago and Minneapolis and St. Louis. Although manufacturing conditions in the San Francisco District are generally satisfactory, some sectors, such as defense-related production, continue to decline. Cleveland also reports that manufacturing activity remains at a high level, but some softening is apparent in the production of steel and capital goods. Manufacturers' inventories are generally at satisfactory levels, but are being reduced from relatively high levels by producers in the Kansas City District. Five districts report that input pricing pressures have eased, while the Kansas City District reports an increase in such pressure.

The outlook for manufacturing is mixed. Of the districts that mentioned an outlook, Philadelphia and Richmond contacts generally anticipate a weakening in conditions while Boston contacts expect

activity to continue at its current pace through the end of the year. Several manufacturers in the Atlanta District, primarily in the chemical, textiles and primary metal industries, recently have revised their expectations for the near future upward.

#### Construction and Real Estate

District reports indicate substantial variation in the strength of construction and real estate activity. Recent strength in nonresidential construction was reported by the Richmond, Chicago, St. Louis, Dallas and San Francisco districts, while nonresidential activity reportedly weakened in the Minneapolis-St. Paul area. Residential construction activity, though generally weak compared with a year ago, picked up in the Richmond, St. Louis and Minneapolis districts and remained strong in the San Francisco District. New York reports that homebuilding in parts of its District has been deterred by an oversupply of existing homes. Home sales picked up in the Boston, Richmond, Chicago and Minneapolis districts and remained strong in the Far West, but are slow in the Kansas City District. Several districts report that declines in mortgage rates stimulated the construction and sales of existing homes.

#### Labor Markets

Three districts report labor shortages. Boston reports that, although manufacturing labor market conditions are generally unchanged or softer, some types of labor continue to be hard to find. St. Louis reports a reduction in the availability of skilled labor in several sectors, while San Francisco noted shortages of retail and construction workers in some areas.

### Financial Markets

The demand for loans continues to vary considerably by region and type of loan. Overall loan volume is reported up in Philadelphia and San Francisco. Commercial and industrial loan growth has been good in Philadelphia, and Richmond and Kansas City report steady demand. Cleveland, however, notes a continued softening in commercial and industrial loans. Consumer loan demand has fallen off since last year in the New York District, but Philadelphia reports that consumer loan growth has strengthened. Auto loans appear to be a major factor in determining consumer loan growth rates. Real estate lending is growing at a strong pace in Philadelphia, with San Francisco also reporting expanded loan volume. Bank earnings are growing significantly in San Francisco, while in St. Louis earnings declined in the second quarter with particular problems in real estate loans.

### Agriculture and Natural Resources

Agricultural conditions have improved over much of the country. Recent rains have helped crops and pastures in the Chicago, St. Louis, Kansas City, Minneapolis and Dallas districts. Despite the improved conditions, weather-related stress has damaged crops in the Plains States, Iowa, Oregon, Utah and Idaho. Dallas reports that central and southern Texas remains dry. In the Dallas and Richmond districts, agricultural prices for most commodities are relatively strong. The mining industry has showed increased activity in the Minneapolis, Dallas, Atlanta and Kansas City districts in recent months. Lumber industry contacts in the Minneapolis and San Francisco districts report difficulties in securing timber for mills.

## FIRST DISTRICT-BOSTON

Economic activity continues at a modest pace in the First District. Manufacturing sales are flat to rising modestly, while retailers are experiencing sales declines as well as increases compared with last year. Capital spending plans are mixed. The commercial real estate market has softened, while residential realtors are seeing improvement.

Retail

Retail sales activity was generally soft through the month of August, according to a panel of First District retailers. Receipts were sluggish at department stores, both up-scale and discount chains. Building materials did somewhat better, and sales at novelty and sundry outlets were satisfactory and on plan. With this general softness, inventories are reported to be a bit high.

Retail prices were generally stable but rose as much as 6 percent for novelty goods. Margins slipped a bit in August. Weak sales and increased competitive pressures forced merchants to absorb some increases in the cost of goods sold. Rising expenses, especially health insurance premiums, also cut into retail revenues. Profits are thus down from last year, and some firms are operating at or below break-even.

Despite the recent weakness, half of the retailers surveyed are optimistic about the rest of 1989 and plan to enlarge their operations over the next six to twelve months. The remaining half are less sanguine and are not planning significant expansion.

Manufacturing

Sales and orders exceed year-ago levels at most First District manufacturers contacted. Reported gains range from zero to 8 percent and order backlogs are at record levels in a few cases. Nevertheless, the pace of growth is very modest at most firms, and almost half the respondents experienced some slowdown in June and July. Several contacts mentioned that activity has picked up very recently, however. Firms serving the defense, construction and auto industries continue to experience weak demand, while respondents producing specialty textiles, paper and consumer products found demand to be more robust. Foreign markets are said to be stronger than their domestic counterparts.

Manufacturers continue to monitor inventories very carefully and are generally satisfied with their current levels. Employment levels are reportedly stable or declining slightly. Labor market conditions are generally described as unchanged or softer, but some types of labor continue to be hard to find in parts of Connecticut and New Hampshire.

All manufacturing contacts report that materials prices are unchanged or falling. Their own pricing behavior varied, however. One third said that their own sales prices are unchanged, but another third mentioned recent or anticipated increases ranging from less than 1 percent to 5 percent. Prices for computer-related products remain under pressure, and machine tool prices have become "negotiable."

Capital spending plans are also mixed. Some firms expect 1989 expenditures to exceed their 1988 levels by as much as 25 percent while others anticipate declines of a similar size. One firm has reduced this

year's capital spending budget by 15 percent because of a weak first half. One-third of all respondents plan new or expanded facilities in New England.

Manufacturing contacts describe their outlook as "cautious," "guarded" and "healthy." They generally expect economic activity to continue at its current pace with no further softening or real pick-up in the current year.

#### Real Estate

According to local real estate consultants and brokers, commercial real estate markets in Boston and its suburbs are softening. While vacancy rates remain lower than in the rest of the country, the absorption of available space continues to slow. Developers are finding financing harder to get as lenders become less optimistic about the economy. Furthermore, as the amount of space available for subleasing has increased, prime real estate rents have fallen.

By contrast, First District realtors sound more positive than in recent weeks about the residential real estate market. Realtors surveyed all report that current sales are comparable to or higher than last month's levels but remain sluggish compared with year-ago activity. A majority of realtors contacted said that small and large homes are moving quickly. However, midsized homes (in the \$150,000 to \$200,000 range) are staying on the market longer than last year. Several respondents believe sales will continue at about the same rate, while a few expect lower interest rates to lead to a busy autumn despite large inventories.

## SECOND DISTRICT--NEW YORK

District activity continues to be basically mixed but with some recent signs of strengthening. Retail contacts reported over-the-year sales gains during July and August that, for the most part, were on or above targeted levels. Unemployment rates in the District have bounced around in recent months but remain slightly below the national average. Buffalo purchasing managers report improved business conditions. In contrast, demand for new housing continued mixed, with some areas noting price declines, and office leasing activity slowed somewhat in its usual summer pattern. Most small- and medium-sized banks stated that they have not lowered rates on consumer loans since the latest decrease in the prime rate.

Consumer Spending

District retail contacts reported a wide range of over-the-year sales gains during July and August, but they were, for the most part, on or above targeted levels. July gains ranged between 2.5 percent and 13.0 percent while the August range was even wider: from 0.5 percent to 19.0 percent. Most respondents described their July results as on or above plan though a couple found them to be disappointing. Two chains characterized their August sales as "well above plan", and a third posted higher-than-targeted results for the first time in several months. Women's apparel remained in strong demand at all stores during both July and August, and in August back-to-school departments also fared well. Reports on the demand for items such as men's clothing, furniture, and home furnishings were mixed, however.

Inventories at the end of August were generally described as satisfactory. One retailer continued to have stocks above desired levels, but greatly reduced from

the previous two months, while another reported an actual shortage of fall merchandise which he expected to be rectified in September.

#### Residential Construction and Real Estate

Demand for new housing in the District remained mixed in recent weeks. An oversupply of homes in the resale market continues to be cited as a major deterrent to new construction activity in downstate New York and New Jersey where price cutting by both homeowners and developers has been noted lately. Some developers on Long Island, for example, have reportedly been reducing home prices by more than 10 percent in order to reduce swollen inventories and pare carrying costs. However, in several upstate communities where prices continue to rise, homebuilders are quite busy and report an upturn in demand as a result of lower mortgage rates and an end to exceptionally rainy weather. Observers in these communities anticipate that construction activity in 1989 will come close to the high level attained in 1988.

Office leasing activity slowed somewhat since the last report in its usual summer pattern. Several new buildings were completed in midtown Manhattan which had tenant commitments for less than half their space, while in downtown Manhattan a sizable amount of existing prime office space was also placed on the market. As a result, the vacancy rate for prime space has increased somewhat in both these areas, though the rates remain below the national average. Office vacancy rates in most other District areas showed little change in recent weeks.

#### Other Reports on Business Activity

District unemployment rates have bounced around in recent months but remain slightly below the national average with August readings of 5.0 percent in New York and 4.5 percent in New Jersey. In contrast to the national pattern of an over-the-year decline, though, unemployment rates in both New York and New Jersey have risen since last year.

The August survey of Buffalo purchasing managers reversed the July pattern, showing a sharp rise in firms with improved orders and production and a decline in

## THIRD DISTRICT - PHILADELPHIA

Overall economic activity in the Third District is advancing modestly in September, although the manufacturing sector continues to soften, with area industrial firms reporting declining business activity edging out those indicating improvement for the third month in a row. Retailers, however, report moderate growth in line with expectations, and auto sales picked up in August as manufacturers offered more generous incentives. Banks benefitted from improved auto sales in the consumer lending area, while the growth of business lending has slackened. Real estate lending remains on a strong upward trend.

Third District business contacts generally foresee a continuation of current trends. Manufacturers predict some further declines in business over the next six months. Retailers expect sales to grow at about their current pace but they are being cautious in their planning for the fall and winter. Bankers anticipate slower growth in lending of all kinds during the rest of the year as a result of the slower economic activity they forecast, as well as the more stringent credit standards they are implementing.

MANUFACTURING

Third District manufacturing activity continued to slow in August and early September, according to firms contacted for this report, as the region's goods-producing sector experienced a third consecutive month of slowing business. Overall, while about half the companies surveyed indicated they were maintaining steady operations, nearly one-third said they were experiencing a drop in activity. Durable goods producers, particularly those in heavy manufacturing industries, indicated the sharpest drop in activity while nondurables

those experiencing a worsening. August data for Rochester are not yet available but in July, 90 percent of surveyed managers there anticipated stable to improved conditions over the next three months after some deterioration from June to July.

Eastman Kodak recently announced that it will lay off an additional 4500 workers this year, but it did not specify how many would be affected at its Rochester, New York headquarters. On Long Island a final decision has not yet been made public with regard to the Pentagon's plan to cancel Navy aircraft contracts at the Grumman plant. Among other recent developments which could have an adverse impact on the District's economy, two of New York's oldest retail chains--B. Altman and Bonwit Teller--filed for Chapter 11 bankruptcy protection as a result of their parent company's financial difficulties, and a large furniture chain was unable to meet its interest payments and began discussing debt restructuring with its lenders.

#### Financial Developments

Most senior officers contacted at small- and medium-sized banks in the Second District stated that they have not lowered their rates on consumer loans since the decrease in the prime rate on July 31 nor do they plan to although many said other loan rates have been reduced. The majority of respondents noted that consumer loan demand has fallen off since this time last year. Those who have not experienced a decline in demand for consumer loans ascribed their success to aggressive marketing campaigns. Auto loan demand was perceived as very weak compared to this time last year due to a slowing of auto sales and to increases in dealer financing incentives. Respondents also stated that delinquency rates on consumer loans were slightly higher than a year ago. One banker said that their collection department has been expending increasing effort in order to keep delinquency rates from rising above acceptable levels. Most respondents believed that consumer loan demand will remain soft in the near future due to a weakening economy and two bankers said that consumers were far too extended to incur more debt. Some respondents indicated that if demand falls further, they may be forced to lower rates.

manufacturers generally reported steady or improving business conditions.

On balance, area firms were stepping up shipments in August and September, but they were obtaining new orders at just a steady rate, leading to a drop in order backlogs. Employment also showed some weakness, as area firms were reducing both payrolls and working hours; many firms that had been running double shifts have now pared second shift hours. Industrial contacts noted continued slackening in the pace of price increases for both inputs and outputs.

Looking ahead, managers at area plants generally expect a further decline in business. Among firms polled for this report, pessimistic forecasts for the next six months edge out optimistic predictions. On balance, area companies expect a pickup in both orders and shipments while order backlogs continue to fall. With some further slippage on the horizon, local firms plan additional cuts in payrolls and working hours between now and next spring.

#### RETAIL

Third District retailers generally described sales as having run at a satisfactory rate in August and into September. Department store sales showed a year-over-year increase of approximately 6 percent, in dollar terms, while discount and specialty stores achieved somewhat better gains. However, some local specialty chains that have been expanding locations aggressively indicated that results at new stores were not meeting expectations.

Nearly all retail contacts reported that inventories were under control. Auto dealers trimmed inventories as sales picked up in August with new manufacturers' incentives to clear out 1989 models.

Area merchants said they are being cautious in their planning for the rest of the year. Orders to suppliers are conservative and promotional plans are modest. Store officials generally do not anticipate a consumer pullback in the months ahead but they believe that some slackening in demand through next spring

is more likely than an acceleration in spending.

#### FINANCE

Outstanding loan volume at major Third District banks in late August was approximately 12 percent above the level at the same time last year. Commercial and industrial loan growth was described as good by bank lending officers contacted in early September, but several noted that growth has been easing over the summer and they believe it is likely to slacken further as the year comes to a close. The slower growth is predicted by area bankers as a result of easing demand as well as a tightening of credit standards. Besides taking a more restrictive stance with regard to new applicants for business loans, some banks indicated they were winding down relationships with current borrowers who do not meet more rigid credit standards.

Consumer loan growth picked up in August, primarily due to increased auto loans as consumers took advantage of manufacturers' rebates. Other categories of consumer lending were showing only slight growth, according to local bankers. As with business lending, personal loan credit standards are being tightened by several banks in the region; lending officers said this move is being taken even though they do not expect strong loan demand from consumers.

Real estate lending continued to grow at a strong pace at most Third District banks. However, bankers noted that weakness is developing in office leasing in some suburban areas and they plan to limit the expansion of commercial real estate lending.

## FOURTH DISTRICT - CLEVELAND

Summary. Retailers appear more optimistic about sales prospects for the balance of this year, although sales patterns have been mixed. Manufacturing activity remains at high levels, but softening is apparent even in some capital goods industries. Steel operations have been reduced largely because of inventory liquidation. Commercial and industrial loans continue to soften. Money market rates are expected to ease over the next few months, and the thrift bailout has resulted in lower rates on CDs issued by thrifts.

Retail Sales. Department store retailers have become more optimistic about fall and holiday-season sales prospects apparently because of better-than-expected sales so far this summer. Apparel sales in particular revived from the slump in 1988, and profits and profit margins improved last quarter without more than usual sales promotions. Retailers plan to hold larger inventories than they did late last year.

A chain department store, however, believes that retailers are too optimistic and that inventories will become a growing problem over the next few months.

Another major chain retailer reports a spurt in July and August sales of household furnishings and home improvement products, but large inventories will require cutbacks in orders from some manufacturers. This retailer also expects a better fall and Christmas sales season this year than last. It has been attempting to hold the line on prices for imported goods by shifting sources of supply, and, in the case of apparel, by increasing purchases from domestic producers.

A surge in car sales in late July and August helped to cut inventories, but current levels of stocks of 1989 models are still slightly above normal for this time of the year, according to auto dealers. The latest round of incentives and public awareness of excess stocks boosted sales, especially of domestic luxury cars. Dealers are concerned, though, that the high level of sales will borrow from future markets. Most dealers report that their initial orders for 1990 models will be well below the level for 1989 models at a comparable period.

Manufacturing. District respondents report high levels of operations in manufacturing, but slowing is apparent even in some capital goods industries and in steel. Purchasing agents in Cleveland report that industrial activity continues to soften. Production and new orders declined in August, but the number of managers who reported price increases was half as large as those who reported decreases. Cincinnati purchasing agents, however, report that new orders and production rose, but backlogs, vendor performance, and commodity prices all suggest that industrial activity in that area is softening.

A machine tool builder reports that both its domestic and export orders have been holding up better than for the industry. Lead times, therefore, have not shortened. The builder is neither hiring nor adding capacity because of the highly cyclical nature of the business.

Heavy-duty truck shipments will likely remain at peak levels through the balance of this year, but new orders in recent months have not revived as much as expected by some suppliers.

The decline in steel production in the quarter is a little more than seasonal, according to steel producers. Lead times have shortened and allocation of steel products has largely ended, except for some selected products, such as galvanized sheets used especially by the automotive industry. The steel industry will probably be operating at about 75% of capacity through the balance of this year, which is well below the near-capacity operations reported by most producers earlier this year. Inventory liquidation is expected to curtail steel output over the next few quarters. Spot prices for selected steel products have dropped considerably in domestic markets and even more in export markets in the past few months.

Financial Developments. Some large banks in the District report continued softening in commercial and industrial loans, although mortgage loan demand is strong apparently because of refinancing. Bank economists generally expect that short term interest rates will ease over the balance of this year, aided by the thrift bailout, which will require long-term financing. Lower interest rates and narrowing of spreads between money market rates and deposit components of M1 and M2 will revive growth of deposits and will support somewhat larger growth in M2 this quarter and next than in the first half of 1989.

Thrift institutions report that since the bailout legislation, some thrifts have been selling their mortgage-backed securities in order to meet new capital standards. Also, easing from premium rates paid on CDs by some thrifts in the District should help them to absorb the higher cost of deposit insurance.

## FIFTH DISTRICT-RICHMOND

Overview

District economic activity strengthened somewhat in August from its sluggish pace in July, although a few sectors remained flat. Retail sales continued lackluster but tourism rose. Manufacturing activity grew slightly after declining the previous month. Export and import activity was again mixed at District ports. Home sales increased in some areas and remained steady in others, and nonresidential construction activity strengthened. Loan demand was generally steady. The District's agricultural sector looks strong this year.

Consumer Spending and Tourism

Our regular mail survey indicated that retail activity in the District was flat in August. New car sales apparently increased somewhat after two consecutive months of decline, but department store sales were unchanged after two months of reported increases. Sales of big ticket items at department stores declined slightly in August. Some stores, however, reported strength in sales of fall apparel. Most retailers expect sales to rise in the next six months.

A telephone survey of hotels, motels, and resorts in the District indicated an increase in tourism this summer compared to last summer. Most respondents expect tourist activity to continue better than a year ago in coming months.

Manufacturing

District manufacturers responding to our regular mail survey reported increased activity in August following a decline in July. Reports of

increases outnumbered decreases in shipments, new orders, and new export orders. Unfilled orders, employment, and the length of the workweek were largely unchanged. Inventories of materials and finished goods declined somewhat. Prices for finished goods continued to rise, but at a rate slightly slower than reported in July. Increases in the prices of raw materials slowed sharply, however, as 30 percent of our respondents reported increases in August compared with 41 percent in July.

District manufacturers were less optimistic than in July about prospects for growth in their businesses in the next six months. Respondents who expect declines in sales, new orders, unfilled orders, employment, and the length of the workweek slightly outnumbered those who expect increases. Textile producers, for example, expect demand to decline soon because of a recent increase in the volume of imports. In all manufacturing, the number of respondents who expect decreases in overall U.S. economic activity in the next six months remained above the number who expect increases, while the number who expect no change remained about the same.

### Ports

Reports received from the three major District ports--Hampton Roads (Norfolk), Charleston, and Baltimore--indicated that import and export levels were mixed in August as in July. Imports were reported to be higher at Baltimore, slightly lower at Hampton Roads, and about the same at Charleston. Exports were slightly higher at Hampton Roads, lower at Baltimore, and unchanged at Charleston. Both Charleston and Hampton Roads indicated that export activity outpaced import activity, a trend they expect to continue in coming months. Baltimore reported exports were lower than last year and expected them to decline further in coming months. Hampton Roads noted that

coal exports were down about 35 percent from a year ago, evidently because of the Pittston coal strike.

### Housing

A telephone survey of District realtors and homebuilders' associations suggested that housing activity in the District remained steady or increased slightly in recent weeks. Some respondents credited lower interest rates for increases in home sales. Most homebuilders observed, however, that construction remained well below the levels of a year ago. Looking ahead, respondents expect activity in the housing market to increase soon.

### Nonresidential Construction

Nonresidential construction activity apparently gained some strength in recent weeks. Industrial building was reported strong, and one respondent sensed an end to the decline in commercial building activity. Another noted that public construction continued steady with good prospects for increases in road building, but that power plant construction had slowed. Architectural engineering firms were reported to be busy, which implies a favorable outlook for activity in the months ahead.

### Financial Institutions

A telephone survey of District financial institutions indicated that demand for commercial and industrial loans remained steady in August. Nearly all respondents reported moderate increases in mortgage demand, especially for fixed-rate loans. The cost of funds to depository institutions was apparently largely unchanged in August. Deposit growth was generally sluggish to moderate.

Agriculture

With the harvest approaching, crop prospects are excellent for the Fifth District. Yields of corn, soybeans, and small grains should be at or near record levels, and tobacco yields should also be good. Prices of most grain and bean crops are likely to average well below last year's drought-boosted levels but to be relatively strong nonetheless when compared to most other recent years. Tobacco prices also have been firm this year. Prospects for livestock producers are bright as fall approaches. Firm prices for beef, pork, and poultry are helping producers offset higher feed costs, and with feed costs expected to decline faster than meat prices, margins may widen somewhat in the fall.

Income prospects for District farmers are good, with cash receipts possibly exceeding the relatively strong 1988 showing. Further adding to farmers' financial security are rising farmland values. All District states are experiencing rising values, but particularly Maryland and Virginia, where increases in land values over the last year exceeded 10 percent.

## SIXTH DISTRICT - ATLANTA

Overview: Contacts throughout the Southeast report that business activity in general is no longer weakening and their expectations for the remainder of the year are somewhat brighter than before. Several contacts in manufacturing have recently revised upward their expectations of business activity for the near term and report their capital spending plans will remain unchanged or increased as a result. These manufacturers are primarily in chemicals, textiles, and primary metals industries. The few manufacturers reporting a downward revision in their expectations tended to be associated with residential and office construction. The railway and trucking industries continue to report a decreasing volume of shipments. Contacts indicate that consumer spending is stronger than they expected last month. Oil and gas exploration is still showing some renewed strength, although expectations are for only a slow improvement in activity.

Manufacturing: Most manufacturers report generally good business activity and their expectations for the next few months remain unchanged or have been revised upward in August. A producer of plastic containers noted that to begin a new product line, capital spending plans had been recently increased. He added that most of the additional investment would be in their southeastern plants, where wage pressure and labor shortages were lower than in the rest of the nation. He also reported that the price of plastic resins has been falling, which he thought would eventually lead to a decline in the prices of their final products. Another producer of thermoplastics reported that prices of raw materials like ethylene have been coming down all year, and he expects them to fall further by year's end. He anticipates business will remain good for the remainder of the year with the only weakness occurring in construction related plastic goods such as plastic pipe.

Producers of aluminum expect continuing good business after record business last year. The sources of strength are large orders from aircraft producers and strong export

demand. From a year ago, exports of aluminum have been up by 50 percent. Weaker auto and appliance sales have not affected aluminum production so far, but producers expect some inventory buildup by the end of the year. A manufacturer of kitchen appliances reports that although 1989 started out strong, production over the past few months has been below last year's level by about 15 percent; he expects production to remain weak for the rest of the year.

Contacts in the textile and apparel industry have reported concern about competition from imports, although strong domestic demand has been able to absorb both imported goods and domestic production. One producer notes that there has been a slight easing in the costs of raw materials like cotton and chemicals recently. Another, describing his outlook as "guardedly optimistic," reports that capital spending will continue at the same level for the next three years, a level he considers substantial.

Construction: Reports on residential construction vary considerably. Reporters indicate that building permits in Orlando are up over 50 percent compared to year-ago levels, while contacts in Miami describe their market as depressed. Some Miami lenders note that they do not expect to encourage new borrowing until the real estate picture clears up. Uncertainty related to the potential impact of the new S&L legislation on the real estate market was mentioned a number of times. A major supplier of building materials in Florida says that business is down substantially because of declining residential construction, and while he sees signs of activity leveling off, he does not expect any recovery this year. On the other hand, a spokesman from the lumber and wood industry reports that home remodeling has been steadily increasing in importance and has taken up the slack from weak residential construction demand. His expectations of future business activity have not changed recently. Nonresidential construction is reported to be holding up well in most areas of the Districts.

Consumer Spending: Contacts continue to indicate that spending for home appliances and furniture is soft. A furniture retailer pointed out that sales so far in

September have been about the same as last year and that they are expecting only slow growth for the rest of the year. They have been postponing capital expenditures in case business weakens further. Purchases of nondurables like apparel and textiles are generally described as strong.

Auto sales in August are reported to be up substantially over previous months as a result of manufacturer rebates, although sales in the Sixth District were somewhat weaker than the rest of the nation. It is feared, however, that the recent gains may be at the expense of reduced sales in 1990.

Natural Resources and Energy: Reporters indicate that interest in drilling for oil and natural gas in the Gulf of Mexico has picked up recently. Contacts thought that increased interest in exploration to replenish domestic reserves combined with some consolidation in the industry might result in improved drilling activity later this year. A couple of our contacts indicated that the increased interest in oil and gas exploration in the Gulf is a consequence of the Alaskan oil spill and uncertainties concerning future regulation of production.

Services: The trucking industry has been reporting declining volume of shipments for the past several months. Reduced shipments of building materials and lumber products have been sources of weakness. Representatives of several trucking firms said that they have recently decided not to increase capacity, any capital spending would be to maintain existing equipment. Railway representatives report that carloadings have been down for all products, including autos and other manufactured goods. One contact noted that the Southeast is faring about the same as the rest of the nation. Most have attributed the reduced volume to overall economic conditions rather than seasonal factors.

The health care industry has reported that the shortage of nurses has eased recently. Efforts to increase enrollments in nursing programs seem to be paying off.

## SEVENTH DISTRICT--CHICAGO

Summary. Contacts in the District report slower growth in activity in some industries and declines in others. Total payroll employment in the five states, through July, showed only a sluggish increase from year-end 1988 levels (seasonally adjusted), and manufacturing employment was lower reflecting, in part, cutbacks at motor vehicle plants. Chicago purchasing managers in July and August reported lower production, orders, and backlogs, faster deliveries, and continued easing of inflationary pressures. However, the July-August softness may have been partly seasonal, in contrast with a year earlier when usual summer shutdowns in some industries were shortened. Uncertainties over the extent of possible further cutbacks in motor vehicle assemblies, particularly if stronger sales in July and August prove temporary as some expect, overhang that industry and its suppliers. The pattern in machinery markets is mixed, with demand continuing strong in some industries and slowing in others. Lower mortgage interest rates, partly reversed since August lows, have stimulated an upturn in nonresidential and residential sales and lending activity. Sales of consumer durables are expected to remain slow. Crop conditions have improved in much of the District, helped by rainfall in August.

Manufacturing. Recent reports from contacts with industrial firms show business activity growing more slowly than earlier this year in some sectors and declining in others. This slowdown in the third quarter appears to reflect in part a return to a more "normal" pattern of July-August shutdowns in several industries in which such plant closings--for vacations, maintenance, and model changeovers--had been shortened or largely foregone in recent years. Uncertainties regarding the extent of upcoming cutbacks in car and truck production continue to overhang suppliers as well as motor vehicle producers. Industrial materials are more readily available than earlier, and

pricing pressures have eased with price increases less widespread and decreases more common.

Machinery markets have turned increasingly mixed over the course of this year, after widespread improvement last year. Sales of construction equipment are below last year, except highway construction equipment which is higher. Mining equipment sales are quite strong, partly to meet long-deferred replacement demand, but a general decline in minerals prices is expected to lead to lower sales next year. Diesel engine demand, robust virtually across the board earlier this year, is less vigorous with some markets softer including heavy trucks, marine equipment, and generating equipment. Machine tool orders have slowed while shipments have picked up, eroding backlogs. Farm equipment demand has strengthened substantially this year.

Though motor vehicle sales have picked up in the third quarter, this rise is attributed by observers to enhanced incentives and concerns about higher prices in the 1990 model year. A contact with a supplier to the industry thinks planned fourth quarter production cuts may be inadequate to bring inventories back into line. However, the sharp cuts in auto assemblies scheduled by the "Big Three" are being partly offset by large increases at plants partly or wholly owned by foreign companies, most of which are located in or near this District and are supplied by components makers located here. Shipments of medium duty trucks have slowed, and orders for heavy trucks, strong early in the year, have softened.

Construction and Real Estate. Lower interest rates on commercial and residential mortgage loans, since the peak last March, stimulated an upturn in inquiries and activity. Interest rates on mortgage loans have since reversed part of the earlier decline. A number of Chicago-area lenders have raised quotes on 30-year fixed-rate loans, to around 10 percent in early September. Rates ranging 9.5-9.75 percent were typical in early August. A large

Chicago-area real estate broker reported an upturn in unit sales of homes, after declines in the first half. Nevertheless, homes in some formerly "hot" suburbs remain harder to sell than a few years ago. Year-over-year increases in prices of homes sold, on average, are reported in single digits after double-digit rates of rise earlier. Construction activity on downtown Chicago office buildings continues at a high rate, and industrial construction in the metropolitan area is strong, as is activity on public works, especially highways.

Consumer Spending. A contact with a general merchandise retailer expects further weakness in consumer spending on durables. Sales of women's apparel, on the other hand, are doing better. Softness in durables was attributed to slower employment and income growth; weaker home sales, compared with peaks a few years ago; reduced consumer buying intentions; and heavy consumer debt levels.

Agriculture. Crop conditions continue to show strong improvement throughout most of the District, with the August rains being particularly beneficial for soybeans. Corn crops in Indiana and Wisconsin are excellent, with 90 percent of the crop rated good or better in early September. Iowa, although showing some improvement in early September, has only 35 percent of its corn crop rated good or better.

## EIGHTH DISTRICT - ST. LOUIS

Summary

District economic growth remains sluggish with most contacts anticipating no major changes for the remainder of 1989. Several sectors, however, report worsening shortages of skilled workers. Consumer spending increased in August and early September following generally sluggish summer activity. Real residential construction activity remains below year-ago levels. Bank profits were reduced by rising loan losses. Many bankers anticipate additional commercial real estate loan problems.

Consumer Spending

District retail sales of general merchandise picked up slightly in August and early September after being flat for most of the summer. Sales of women's apparel were strong throughout the region while back-to-school sales were moderate. Spending on durables, including building materials and furniture, were lower than a year earlier. Most contacts report inventories at satisfactory levels. Car sales are either flat or lower than a year earlier in most areas, though contacts in Arkansas and Louisville report increases in August and early September spurred by dealer incentives. Auto inventories remain above desired levels. The outlook for the remainder of the year for both general merchandise and autos is for flat or slightly higher real sales compared with last year.

Labor Markets

District employment has leveled off since the first quarter, with no major sector showing significant growth. Construction employment has

rebounded in some parts of the region in recent months but remains below the levels of a year ago. Regional manufacturing employment declined slightly in recent months, except in Arkansas, where it has expanded moderately over the last year because of growth in nondurables production. Producers of poultry products, apparel, paper and boxes have either expanded or announced major expansions.

The St. Louis unemployment rate declined 0.1 percentage points to 5.2 percent in July despite temporary layoffs of 4,000 auto workers. One labor analyst expects the jobless rate to drop even lower in August, then remain near 5 percent for the rest of the year.

Although District job growth has generally been sluggish, labor shortages have become more severe over the last year. Little change in the availability of unskilled workers was reported, but finding qualified skilled workers is increasingly difficult for manufacturing, wholesale/retail trades, finance and services firms. For the rest of 1989, businesses surveyed in the District expect little change in overall economic conditions and most plan no substantial changes in the size of their workforce or inventories in the next few months. Among the District's major metropolitan areas, employment opportunities were expected to be most limited in Louisville, where construction job reductions are expected.

#### Construction and Real Estate

The value of contracts for nonresidential building increased moderately in recent months in Arkansas, Kentucky and Missouri and is slightly above the level of a year earlier. Following several years of strong construction growth, the recent completion of a one million square-foot office building precipitated a rise in St. Louis downtown

vacancy rates to 24 percent, the highest rate of the decade. No new office construction of any magnitude is expected in the downtown area for several years.

Although slight gains were reported this summer, District residential construction growth remains sluggish. The value of District residential contracts issued in the first seven months of 1989 is virtually identical to that of a year earlier, with building of multi-family dwellings particularly weak.

#### Agriculture

Most District crops are in fair-to-good condition. Drier conditions in southern states have helped improve cotton and soybean crops that were damaged by excess rain earlier in the season. Continued rains in northern Missouri have helped drought-stressed late soybeans and pastures, but arrived too late to help the corn and sorghum crops. Agricultural banks servicing weather-stressed areas are not anticipating a substantial change in the quality of their agricultural loan portfolios this year.

#### Banking

District bank earnings declined 4.6 percent in the second quarter. Loan losses in the commercial area and additions to loan loss reserves hampered earnings. Asset quality declined during the second quarter, particularly at the largest banks where nonperforming loans represent 2.16 percent of total loans. Problems with real estate loans are of particular note. District commercial banks continued to improve their capital adequacy position with only four banks failing to meet the minimum regulatory primary capital guideline.

## NINTH DISTRICT--MINNEAPOLIS

Ninth District economic conditions have been mixed. The Minnesota labor market has continued to display signs of weakness, while the employment situation in the rest of the district has improved. Consumer spending on general merchandise has been strong, automobile sales have risen sharply from levels earlier in the year, and housing activity has shown signs of improvement. Conditions in resource-related industries have been mixed.

Employment

The district employment situation has continued to be mixed, with signs of increasing unemployment in Minnesota. The unemployment rate in Minnesota in June was 4.9 percent, 0.6 percentage points higher than in May and 0.8 percentage points higher than in June 1988. The unemployment rate in the Minneapolis-St. Paul metropolitan area was 4.4 percent in June, up from 3.9 percent in May and 3.0 percent in June 1988. Manufacturing employment, in particular, has been stagnant since June 1988. Analysts attribute the lack of growth in manufacturing employment to the problems experienced by area firms in the computer and electronics industries. The one bright spot is the growth in employment by firms specializing in advanced medical technologies.

The unemployment rate in North Dakota declined to 3.8 percent in July from 4.6 percent in June and 4.4 percent in July 1988. The unemployment rate in South Dakota was 4.0 percent in July, 0.2 percentage points lower than in June and 0.5 percentage points higher than in July 1988. In Montana, the unemployment rate fell to 5.2 percent in July, from 6.0 percent in June and 6.5 percent in July 1988. The unemployment rate in the Upper Peninsula of Michigan dropped to 6.0 percent in July from 7.5 percent in June.

### Consumer Spending

Consumer spending on general merchandise has continued to be strong. One retailer reports that August sales were 19 percent higher than a year ago and 8 percent higher on a year-to-date basis. This retailer said that sales were the best they had been in a long time. Another retailer reports that sales in August were 5.1 percent higher than a year ago, and year-to-date sales were 5.7 percent higher than last year. Inventories were reported to be at acceptable levels. All of our contacts were optimistic about fall and Christmas sales.

Automobile sales have continued to recover rapidly from a poor first quarter. One domestic manufacturer reports that sales in the Minneapolis-St. Paul metropolitan area in August were 25 percent higher than in August 1988 and were about even on a year-to-date basis compared to last year. Another domestic manufacturer reports that sales in the Minneapolis-St. Paul metropolitan area were 22 percent higher in August than in August 1988 and 5 percent higher on a year-to-date basis. Automobile dealers were generally optimistic about sales prospects for the new model year.

Housing activity has also rebounded from its depressed levels earlier in the year. In Minnesota, the number of new housing permits issued in June was roughly the same as in June 1988. Earlier this year, the number of new housing permits issued was as much as 30 percent below the levels of last year. Housing sales in the Minneapolis-St. Paul area were 6.3 percent higher in August than in August 1988 but 3.4 percent lower on a year-to-date basis. Nonresidential construction has not fared as well. The dollar value of contracts for future construction in the Minneapolis-St. Paul metropolitan area was 25 percent lower in July than in July 1988 and about 15 percent lower on a year-to-date basis.

Tourist spending has been fairly strong. North Dakota, South Dakota, and Montana have been celebrating their centennial year as states in the Union, and all three states report very good tourist seasons. One observer reports that in some areas of

Montana it was nearly impossible to find lodging. The city of Northfield, Minnesota, anticipates that over 100,000 people will turnout for its annual "Defeat of Jesse James Days," the reenactment of the shootout between the citizens of Northfield and the James Gang in 1876.

#### Resource-Related Industries

Conditions in resource-related industries have been mixed. Agricultural conditions in Minnesota improved since our last report. It was reported that in early September 62 percent of Minnesota farmland had adequate or surplus moisture. This report was an improvement over earlier reports that over half the farmland was dry or very dry. The spring wheat harvest in Minnesota was projected to be 91 percent higher than the drought-affected levels of a year ago. An index of prices received by Minnesota farmers was 6 percent lower in August than in August 1988. In North Dakota, it was estimated that 60 to 65 percent of the spring wheat harvest was lost this year due to unseasonably hot weather and grasshopper infestation. The mining industry throughout the district reports to be doing well. Gold mines in Montana are having a good year. Manufacturers of heavy equipment used in mining also report an excellent year. A platinum mine in Montana plans to expand operations. The lumber industry in the district continued to report difficulties in securing enough timber.

## TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy is still growing moderately. Retail sales are up over last year and over the last three months. Automobile sales are down from last year, but up slightly from last month. Manufacturers report moderate price increases for both inputs and products. Inventories at retailers are low and expected to stay low. Manufacturers, however, are trimming inventories from relatively high levels. Drilling activity has increased slightly in recent months. Housing activity remains weak. Loan demand at commercial banks remains flat, while deposits have increased. Recent rains have alleviated the drought situation, and agricultural credit conditions continue to improve.

Retail Sales. District retailers report sales increases over last year and over the last three months, with additional improvement expected as the holiday season approaches. Most respondents plan to keep inventory levels low in the upcoming months. Recent higher costs have led some retailers to increase prices slightly, but most expect stable prices in the future. Automobile dealers report slightly higher sales over the last month, but sales this year to date remain down from a year ago. Most dealers continue to trim inventory levels and expect sales to continue at about their current pace.

Manufacturing. Most respondents report moderate input price increases from a year earlier. Prices have increased in the past three months but are expected to stabilize soon. Firms report no problems in acquiring materials, although lead times have lengthened. Most respondents continue trimming inventories from relatively high levels. Many plants are operating at full

capacity, with some extending work days or shifts. Labor supply is not a problem, although one aircraft manufacturer reported a shortage of experienced labor.

Energy. Although district drilling activity remains below year-ago levels, more stable oil prices and increased exploration for natural gas have brought some recent improvement to the district's energy industry. After increasing sharply in July to 249, the average number of active drilling rigs in the district increased again to 259 in August. Exploration and development activity nonetheless stands about 5 percent below the level of one year ago.

Housing Activity and Finance. Most district homebuilders report housing starts down from a year ago. Compared with a month ago, housing starts vary across the district. Most respondents report that construction materials are available and that prices are generally stable. New home sales are slow, and most respondents expect only slight improvement for the rest of the year.

Deposit flows at district savings and loan institutions have mostly held steady over the past month, although a few respondents have noticed a slight outflow of funds. Respondents expect steady deposit flows in coming months, with slightly increased inflows expected only after press coverage of the new savings and loan legislation dies down. Mortgage demand has been down modestly over the summer months, and respondents expect a further seasonal decline during the winter. Respondents report stable mortgage rates and believe rates will remain steady or drop slightly in the coming months.

Banking. District bankers report that total loan demand was stable during the last month, with both consumer loans and commercial and industrial loans reported as unchanged. Home mortgages and home equity loans increased, however, offsetting a decline in commercial real estate lending. Increased deposits brought declines in loan to deposit ratios. Demand deposits declined

during this period, but NOW accounts, MMDAs, and small time and savings deposits were all steady to slightly higher. IRA accounts and large certificates of deposit were largely unchanged. About half of the respondents report a reduction in prime rate during the last month, with the other half reporting no change. Most respondents expect no further change in bank lending rates in the near future.

Agriculture. Plentiful late summer rain is alleviating the severe drought that affected much of the district during the past year. In Nebraska and northern Missouri, where the corn and soybean harvest will begin soon, the recent rains will boost crop yields. Still, yields may be a fourth to a third below average. In Kansas, the rainfall did not arrive in time to improve drought-diminished milo yields, and the wet weather may delay the milo harvest. Cool, wet weather in southwest Oklahoma has delayed the development of the cotton crop and left the crop vulnerable to an early frost. Although recent rainfall has temporarily halted winter wheat planting in Oklahoma and could delay planting in Kansas, greater soil moisture will benefit the early development of the new crop.

The rains have improved range and pasture conditions across most of the district. Adequate forage and strong cattle prices are encouraging district cattle ranchers to expand herds. The limited supply of young cattle available is likely to maintain high feeder cattle prices that, in turn, will limit profits for district cattle feeders.

In the parts of the district where the drought was most severe, bankers expect a slight decline in farm loan repayment rates. Well-targeted federal drought relief, however, will be of greatest benefit to those farmers suffering the greatest losses. On balance, agricultural credit conditions in the district continue to improve.

## ELEVENTH DISTRICT--DALLAS

The District economy is growing slowly. Manufacturing expansion appears to have ebbed. Retail sales are increasing moderately, but more slowly than earlier in the year. Auto sales have dipped. Construction activity continues to show signs of a modest recovery. The oil and gas drilling upturn is still in place. Prices paid to District agriculturalists reached their highest August levels since 1980, but crop yields are down.

Orders to District manufacturers are showing slight growth, but there is great variation across industries. Although weakness in construction and automobile manufacturing have made stone, clay and glass sales sluggish, expansions in chemical plants are stimulating some demand increases along the Gulf Coast. Firms in the stone, clay and glass industry that supply construction are optimistic about rising demand in the coming months. Lumber and wood products firms say that sagging homebuilding activity has lately pushed down orders and they do not expect a recovery in the near future. Producers of primary metals generally cite slowing sales, slipping prices and increased foreign competition as recent problems. Nevertheless, orders for a variety of cast-metal products are picking up. Sales by fabricated metals producers have been expanding moderately. Demand for oilfield equipment has risen somewhat during 1989. Further increases are anticipated and some firms expect to increase their product prices later this year. The very recent patterns of demand for electronics varies widely among products but, generally, orders have softened. Past shortages of D-Ram chips have ended,

and demand and prices have dipped. In the computer industry, some upper-end products remain in strong demand, but lower-end personal computers are said to be selling poorly. Chemical firms report some slippage in sales and product prices, and they say that inventories are somewhat higher than desired. Sales at paper and allied products companies are stable but remain a little below a year earlier. For apparel firms, demand has remained fairly consistent in 1989, and sales remain above a year earlier.

Retail sales growth has slowed somewhat from earlier this year. Stores specializing in apparel cite strong year-over-year increases in sales, while some stores selling other merchandise had less positive reports. Recent expansion in retail sales appears to be strong in south Texas and the Houston area. West Texas sales are soft. Retailers are generally optimistic about the future, but they are cautious.

Auto sales are generally weak in the District, but moderate year-over-year expansion is reported for the Houston area. Dealers are not optimistic about sales growth for the next few months and some mentioned the likelihood of substantial rebates for the 1990 models.

The construction industry is maintaining a mild, but persistent recovery. Nonresidential construction has generated nearly all of the gains, and most nonresidential growth is in plant construction. The value of nonbuilding construction, which includes highways and water and sewer systems, has been declining. Residential building shows little change overall, but some expansion has recently occurred in New Mexico. At the same time, declines have taken place in Louisiana. Multifamily residential construction activity continues to be very weak in much of the District. Multifamily

permits in New Mexico have been greater than those in Texas and Louisiana combined. The rate at which residential building permits are issued is essentially unchanged across the District.

The oil and gas industry continues to recover at a modest rate. After dipping in July, the District rig count increased again in August. Drilling in Texas posted year-over-year growth for the first time since June 1988, but drilling in Louisiana and New Mexico is still below year-earlier levels. The seismic crew count, considered to be a leading indicator of drilling activity, edged up slightly in July after four consecutive months of decline. Also in July, District oil and gas extraction employment grew strongly. The spot price of West Texas Intermediate crude oil increased in the first half of August and has since remained at nearly \$19 per barrel. Employment in oil and gas extraction in the District grew strongly in July.

In August, District agricultural product prices rose to their highest level for an August since 1980 -- largely as the result of rising livestock prices. Overall, farm product prices were up 5 percent from a year earlier and 2 percent from July. Rising livestock prices were dominated by sharp increases in beef cattle prices. Hog, sheep, and broiler prices fell. Crop prices were 3 percent above a year earlier and were unchanged from July. Harvesting is well underway throughout the District, but production estimates for many crops are below last year's. Estimates for cotton and winter wheat are down particularly hard, but production of corn, hay, sorghum and soybeans is expected to increase. Moisture conditions have generally improved in the District, but central and south Texas remain dry.

## TWELFTH DISTRICT -- SAN FRANCISCO

Summary

The economy in the West is expanding at a healthy pace. Twelfth District business leaders' expectations of further growth have improved during the past month. Annual increases in wages and in the prices of most products are running at or below 5 percent. Consumer spending growth continues healthy. Apparel sales continue strong, and a pickup in car sales during August buoyed the generally lackluster sales of durable goods. Manufacturing industries report generally satisfactory conditions, with little change in exports in recent months. Crop yields are good in most parts of the District, and exports of many products continue strong. Lumber mills in the Pacific Northwest still face limited log supplies. Construction and real estate activity are strong in most of the West, although Arizona remains weak. Western bankers report increases in loan volume and earnings, and stiff competition for deposits.

Business Sentiment

The most recent information on the economic mood of Twelfth District business leaders indicates improvement in all categories. Although almost three-quarters of respondents still expect weak growth in GNP during the next four quarters, expectations for housing starts, consumer spending, and the trade balance improved markedly during the past month.

Wages and Prices

Annual price increases at or below the 5 percent range are reported for automobiles (both foreign and domestic), building materials, and natural gas. Respondents note larger price increases for processed vegetables (up 20 percent), raw stumpage (up 64 percent), and Idaho potatoes (up 30 percent). Grape and silver prices have fallen in recent months, and easing capacity constraints for paper manufacturers are putting downward pressure on paper prices.

Recently negotiated union settlements generally call for annual wage increases of 4 percent or less. Exceptions to this trend are nurses and teachers in several western cities who recently negotiated annual salary increases in the ten percent range. Businesses report difficulty hiring sufficient qualified labor in many parts of the District, including Oregon, southern Idaho, and agricultural regions of California.

#### Trade and Services

Retail sales continue to exhibit healthy growth, with particular strength in apparel sales. One retailer notes that the primary constraint to expanding his operations is the difficulty of finding adequate labor in many locations. Sales of durable goods have been less robust, although a car dealer notes that 1989 models moved well in August as buyers tried to beat the price increases scheduled for 1990 models. Summer tourist activity is reported to have increased over last year's level in Idaho, Utah, and southern California.

#### Manufacturing

Conditions in manufacturing industries generally are satisfactory, with significant variations by product line and company. One electronic component manufacturer reports that the order rate is flat, while other high tech firms report strong growth and still others announce cutbacks and layoffs. A heavy equipment dealer reports that construction machinery sales throughout the West continue to do "very well." Defense contracting activity continues to slide. A cable television company faces delays in receiving wiring and materials from manufacturers because strong demand is creating bottlenecks in existing facilities.

Most Twelfth District manufacturers report little change in exports following the recent appreciation of the dollar. For example, international demand for aircraft is so strong that fluctuations in the exchange value of the dollar have little effect on aircraft exports. One

banker notes that current exports were contracted in early August when foreign prices of U.S. products were more favorable. Nevertheless, an electronic component manufacturer reports that the dollar value of his export sales has fallen.

#### Agriculture and Resource-Related Industries

Crop yields and product quality are reported to be good in most parts of the District, although weather conditions have hurt crops in eastern Oregon, Utah, and pockets of southeastern Idaho. Exports, buoyed by strong demand from Pacific Rim countries, are reported to be strong for a wide range of agricultural products, including almonds and corn. However, grain exporters report slow sales following the recent dollar appreciation. Exports of beef continue to increase, with one Asian country currently negotiating a large order.

The environmental controversy regarding logging of old-growth forests, combined with continued strong demand for exported logs, has reduced log supplies available to mill owners. One large mill reports having a 10-month supply in the pipeline, compared with a 24-month supply a year ago.

#### Construction and Real Estate

Construction and real estate activity are reported to be strong in most parts of the West. The pace of activity in Utah, where activity had been weak for several years, appears to be picking up. Sales and construction activity continue strong in California, Nevada, Washington, Oregon, Hawaii, and in much of Idaho. Finding trained construction workers is reported to be troublesome in most of the region. Bidding wars to purchase single-family homes seen in California a few months ago seem to have moved north to the Puget Sound area in Washington. However, a southern California developer notes that leasing activity is not keeping up with the pace of new office building construction. Arizona remains weak, although

the virtual absence of building activity during the past two years has begun to yield net absorption of commercial and industrial space.

Financial Sector

Twelfth District bankers report generally good conditions and significant earnings growth. Loan volume is up, with particular strength reported in real estate and mortgage lending. Deposits continue to shift away from savings and demand deposit accounts and toward certificates of deposit and money market demand accounts, increasing the cost of funds to banks. Several bankers note that competition for deposits is stiff, since customers are very conscious of yields and account fees.