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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

November 1989

SUMMARY OF COMMENTARY

ON

CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

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SUMMARY*

The pace of economic growth is reported as slow to moderate in most Federal Reserve districts. Consumer spending is mixed, with a number of districts describing retail sales as steady to growing slowly. Manufacturing activity is also mixed, with some districts reporting weakness in orders and shipments. Weakness of construction in some markets contrasts with evidence of some improvement elsewhere. Resource industries, including the energy sector, appear to be improving, as is agriculture generally. Loan demand at commercial banks continues to vary by region and type of loan.

Consumer Spending

District reports show that retail sales have been mixed across the country. Overall retail sales are described as steady to growing slowly in several districts (Philadelphia, Richmond, Atlanta, Chicago, Kansas City, and San Francisco). Dallas reports a recent acceleration in retail sales increases, Cleveland notes better-than-expected sales recently, and Minneapolis says general merchandise spending is strong. Boston and New York report mixed retail sales results. Where specific lines of goods are mentioned, sales of apparel, basic housewares, and other nondurables are described as relatively strong. Sales are weaker for discretionary, big-ticket items such as furniture, home appliances, and consumer electronics; auto sales have also been weakening recently. Retail sales expectations for the upcoming holiday season are modest in the Boston district, average in the

*Prepared at the Federal Reserve Bank of Kansas City and based on information obtained before October 20, 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.

Kansas City district, generally positive in the Philadelphia district, and optimistic in the Cleveland and Dallas districts. Most businesses in the San Francisco area have resumed operations since the earthquake, but road closures and property damage are delaying a complete return to business as usual.

Manufacturing

Manufacturing performance is mixed, both among districts and across industries. Philadelphia reports further declines in manufacturing activity, especially for durable goods, as orders and backlogs fall. Chicago reports slower growth, and some declines in orders and sales, for most manufacturers. Producers of both high-tech and traditional capital goods in the Cleveland district report slower growth or outright declines in orders and production in recent months. Boston reports sales and orders up modestly for most manufacturers, and Dallas notes a slight expansion overall in its manufacturing sector. San Francisco reports solid manufacturing activity in the West. Richmond and St. Louis report varied business conditions for their district manufacturers. Prices of materials inputs are reported as mostly stable by four districts, while Richmond reports a slower rise in input prices.

Significant variations in manufacturing performance also exist across industries. Minneapolis says "troubles have continued to mount in the computer and electronics industries," citing recent employment reductions by Minnesota computer manufacturers. But Cleveland notes that orders for office equipment may be levelling out, following a decline. And Chicago says the slowdown in communications equipment demand appears to have bottomed out. Producers of construction machinery and heavy duty trucks in the Cleveland district report further slowdowns in orders and sales. Chicago reports steel

shipments are down as "industrial procurement of steel has peaked," but that order backlogs will continue to support steel production. Auto industry contacts are optimistic about maintaining current assembly schedules, and shipments of large farm tractors and combines are well above those of a year ago. St. Louis reports declines in manufacturing employment in several sectors, with recent layoffs by makers of autos and home appliances. San Francisco reports capacity constraints in commercial aircraft manufacturing still exist but are no longer worsening.

Construction and Real Estate

Signs of weakness in housing markets in some districts contrast with some evidence of improvement elsewhere. Residential construction is showing signs of weakness in the St. Louis district, with considerable weakening in Louisville and St. Louis. Kansas City reports soft housing activity with starts down and sales stable to down slightly. Atlanta says residential construction continues to be slow across the Southeast. Dallas reports little change lately in residential building. Chicago is receiving mixed reports on residential sales, while Richmond reports stronger demand for mortgage loans in most parts of its district. Home sales have picked up somewhat in the Boston district, due partly to lower prices and creative financing. New York reports strong demand for new housing in Buffalo and Syracuse, but an abundance of resale homes weakens the market in the New York metropolitan area.

Nonresidential construction activity also varies among districts. Signs of weakness in nonresidential building are present in the St. Louis district. Office construction continues to be slow in the Atlanta district, but some manufacturing plant expansions are underway. Construction is holding up well

in much of the Chicago district, as evidenced by strength in shipments of construction materials. Commercial building in downtown Chicago remains at a high level. Dallas reports a mild improvement in nonresidential building. Office vacancy rates, though still high, are falling in most cities in the Dallas district, and industrial vacancy rates are also falling. Office leasing activity has picked up recently in the New York district, especially in midtown Manhattan. Construction and real estate activity have been strong in the San Francisco district, except in Arizona.

Resource Industries and Tourism

Conditions appear to be improving in some resource industries, including the energy sector. Minneapolis reports a good year for mining, especially copper mining, and continued expansion for the lumber industry. Both Dallas and Kansas City report further gradual expansion in oil and gas drilling activity. Exploration and development activity are significantly above the year-ago level in the Kansas City district. Dallas reports a slow steady increase in its drilling rig count. All of the increase has been in Texas, with declines elsewhere in the district. A turnaround is expected in Louisiana and New Mexico along with further growth in Texas.

Minneapolis reports moderately strong tourist activity. Yellowstone National Park received a large number of visitors this summer, but their spending was lower than expected. Tourist activity in the Richmond district is up from a year ago in spite of Charleston's lost business due to Hurricane Hugo. With about 85 percent of the city's hotels reopened, however, bookings for the fall are about the same as a year ago.

Agriculture

Conditions in the farm sector generally continue to improve. The fall

harvest brought better than expected crop yields to the Chicago district, especially in Iowa. While cool, wet weather delayed the harvest of cotton and soybeans in the St. Louis district, other fall crops were harvested on schedule. Fall crop yields were average to above average in the Kansas City district, where good prices for wheat and feeder cattle are maintaining farm incomes. Minneapolis reports generally good agricultural conditions and notes that the Montana range recovered well from last year's drought. Soil moisture conditions have improved for much of the Dallas district, but parts of southern and central Texas still have serious drought problems. In the Richmond district, yields were excellent for most fall crops, farm income prospects are bright, and land prices are steady to rising in most areas. Hurricane Hugo severely affected the agricultural sectors of North and South Carolina, bringing extensive damage to crops and structures as well as considerable destruction of livestock and poultry. Total damage to the farm sector in both states has been estimated at nearly \$1.2 billion.

Banking

Loan demand at commercial banks continues to vary by region and type of loan. Demand for business and real estate loans has been slow to moderate at small and medium-sized banks in the New York district. Philadelphia reports strong growth in most types of lending at major banks, but growth in consumer loans and real estate loans is expected to slow soon. Slow-growing or steady loan demand is noted by Cleveland, Richmond, and Kansas City. Atlanta reports slightly higher--but still slow--demand for most consumer and business loans; real estate and auto loans are weak. In the St. Louis district, total lending by large banks is growing. San Francisco reports strong growth in construction loan activity during recent weeks.

FIRST DISTRICT-BOSTON

Economic activity in the First District held steady in September. Most retail respondents experienced little sales growth. A majority of manufacturers reported that sales and orders are up modestly from year-ago levels. Prices are generally stable, and firms are concentrating on cutting costs through efficiency gains, in some cases by reducing their work force. A "conservative" outlook dominates.

Retail

First District retailers report mixed sales results through the month of September. They found demand essentially flat relative to year-ago levels for discretionary items, such as autos, major appliances, outdoor equipment, and upscale apparel and housewares. The movement of basic hardware and household goods improved, and discount store apparel sales were reportedly brisk.

Wholesale prices are generally stable or up a few percent, with the exception of a sharp increase for autos. Because retail trade in upscale and big-ticket items remains highly competitive, heavy promotions and margin reductions have kept prices for such goods at or below last year's levels.

Retailers report continuing reductions in their operating expenses. Respondents have improved inventory management; thus, despite slow sales, all are comfortable with their current stock levels. At the larger

outlets, computerized labor scheduling has become commonplace in just one year. Major efforts are now underway to "quicken response" to consumer demand, largely through sophisticated communications systems linking stores, warehouses, buyers, and suppliers. Layoffs of headquarters personnel have also reduced costs at some retail chains. Current capital spending plans generally aim at improving efficiency rather than expanding operations.

Most retailers surveyed have modest expectations for the upcoming Christmas season, reflecting the pace of current operations. One respondent expects a "battle," while another sees a "bumpy road" ahead. Two chains, currently doing quite well, are very optimistic about the fourth quarter.

Manufacturing

Among First District manufacturing contacts, sales are 3 to 10 percent ahead of year-ago levels. A majority of respondents report that orders are also up by 4 to 10 percent, but a minority characterize new orders as flat, down or disappointing. Firms in or serving the computer, auto, or financial services industries faced weakest markets. Overseas demand continues stronger than domestic according to several contacts.

Inventories are generally in satisfactory condition, and employment is stable or declining at most firms contacted. Several respondents plan to reduce employment even further - to put their companies in "fighting trim." Most contacts report achieving productivity gains by consolidating management and some manufacturing facilities.

Capital expenditures remain on target for most First District respondents. Among contacts discussing their plans for 1990, three expect

capital spending to remain flat or decline while one anticipates a big increase. Current spending emphasizes equipment rather than plant; however, one machinery company is building R & D facilities in New England.

First District manufacturers report that input prices are rising less than 5 percent and that materials prices, other than those for copper and tungsten, have stabilized. While a few respondents were able to raise their selling prices by 3 to 5 percent, the rest report that their sales prices were flat to down. They cite competition and excess industry capacity.

The outlook among First District manufacturers ranges from "sober" to "cautiously optimistic." A minority expects a recession in 1990.

Residential Real Estate

Among First District realtors surveyed, a majority report some pick-up in sales activity compared with levels prevailing during the summer or at this time last year. They cite lower prices and creative financing as the major explanations. Condominium prices have softened most. Realtors expect the current pace of sales activity to continue through the winter in the "best buyers' market in twenty years," as one agent described it. Contacts at First District firms outside the real estate sector expressed concern that public perceptions regarding the weakness of the regional real estate market are overblown and may prove damaging for other industries.

SECOND DISTRICT--NEW YORK

A mixed pattern of developments continued in the Second District economy during recent weeks. Unemployment rates were at or below the national level, though above levels recorded early this year, and the pace of office leasing picked up. Sales at department stores and homebuilding activity varied across the District. Demand for commercial business and real estate loans at small and medium-sized banks was moderate to slow.

Consumer Spending

Sales results at District department stores were mixed during September. Most respondents reported that sales fell below targeted levels, although a few experienced demand that met or exceeded plan. Some chain retailers noted a recent slowdown in the northeast in general relative to the rest of the nation. Over-the-year sales changes in September ranged from -1.0 percent to +13.2 percent among District retail contacts. Children's back-to-school items were the biggest sellers followed by women's and junior apparel. However, sales of big ticket items like furniture and rugs remained weak and women's and men's accessories also moved slowly.

With the exception of one chain that had stocks somewhat above desired levels, department store contacts described their current inventories as being in good shape. Most said they would continue a close monitoring of stocks because their outlook is not particularly optimistic.

Residential Construction and Real Estate

The pace of homebuilding activity continues to vary across the District. Demand for new housing remains strong in upstate New York communities such as Buffalo and Syracuse where current activity is comparable to the relatively high levels of 1988. A glut of homes for resale continues to plague much of the New York

metropolitan area, however, with price markdowns and other concessions increasingly being offered. One notable exception is a New Jersey developer that builds relatively low-priced housing, primarily for first-time buyers: in one of its subdivisions 130 new homes recently sold over the course of a single weekend, and hundreds of phone calls were received at the company's main office regarding another new 1200-unit development before the on-site sales office was actually opened.

Office leasing activity picked up recently in the District. The vacancy rate declined in midtown Manhattan as activity reached its highest level this year. Leasing activity has also been strong in some other areas of the District as well. Opinions are mixed concerning what lies ahead, however. Several very large leases are reportedly under negotiation by companies seeking new headquarters in midtown Manhattan, but with 17 more office buildings scheduled for completion there over the next two years, it is unclear what will happen to the vacancy rate in coming months. The opposite pattern holds in downtown Manhattan. The vacancy rate has risen in the past few months as further consolidations at brokerage firms have occurred. However, no new buildings are planned in that area after this year.

Other Reports on Business Activity

District unemployment rates are currently at or below the national level with September readings of 5.4 percent in New York and 4.6 percent in New Jersey. Nonetheless, rates in both states have risen in recent months. Because of virtually no increase in District employment over the last several months and its rising unemployment rates, some recent articles have voiced concern that the region will face a rerun of the stagnant employment picture of the 1970s without some improvement in its business climate.

Some 40 percent of purchasing managers in Buffalo and Rochester reported improved business conditions in September, up from 33 percent in the previous surveys. Substantially more firms reported an improvement than reported a

deterioration, although the number of firms in both cities reporting worse conditions increased. With regard to the outlook, a recent survey of 550 chief executives of medium-sized firms in the region found that 88 percent plan either to expand their businesses or to maintain current employment levels during 1990.

Several new developments were announced or undertaken since the last report. Ford Motor Company plans to spend \$285 million retooling its Edison, New Jersey, plant for producing pickup trucks instead of small cars. Also in New Jersey, ground was broken for a \$250 million pharmaceutical research facility at the Schering-Plough campus in Kenilworth. In Yonkers, New York, a Japanese-owned rail car manufacturer was awarded a \$170 million contract to build the first 132 subway cars for a new mass transit system under construction in Taiwan. The three-year-old plant has already done work for local transit companies and is currently working on contracts to build rail coaches for Massachusetts and "people-mover" cars for the Las Vegas airport.

Financial Developments

Demand for commercial business and real estate loans at small- and medium-sized banks in the Second District has been moderate to slow in recent weeks. Half of the respondents surveyed reported slow demand, citing concern about the economy and a weak local real estate market. None reported strong demand for commercial loans and all stated that the recent leveling off of interest rates had had no appreciable effect on demand. Most respondents anticipate that the demand for these loans will continue to be slow to moderate through the first half of 1990.

No bankers reported a change in the short-term to long-term loan mix. Most stated that the majority of their loans were short to intermediate-term (less than 5 years), with commercial real estate loans comprising the bulk of long-term loan portfolios. Of all the banks surveyed, only one purchased merger and acquisition loans on the secondary market. A representative from this bank said that each deal is examined separately because of the risk with highly leveraged transactions.

THIRD DISTRICT - PHILADELPHIA

Economic conditions in the Third District vary among sectors, with overall activity apparently flattening out from growth earlier this year. Manufacturers indicate continued declines in business, with new orders and backlogs edging down, leading area firms to trim employment. Retailers report just steady sales in recent weeks, overall, with gains in apparel sales being offset by weakness in hard goods. Automobile dealers are experiencing a drop-off in sales following strong results during the model-year closeout period. Bankers report that lending has advanced in all categories.

Expectations in the Third District business community, on balance, are that activity will be relatively flat well into next year. Manufacturers generally anticipate a bottoming out of the industrial downturn during the next six months, but they do not foresee a significant rebound. Retailers express some optimism that sales will be good during the holiday shopping season but they expect dollar sales in 1990 to run just even with this year's pace, at least through spring. Automobile dealers expect a lower sales rate for the rest of this year and all of next year. Bankers expect personal lending to slow as consumption spending, especially for automobiles and other durables, flattens out. They also anticipate a significant slowdown in real estate lending as they reduce commitments to commercial developers and as long-term, nonbank financing becomes more difficult to obtain, as well.

MANUFACTURING

Manufacturing activity in the Third District continues to decline, according to local firms contacted in late September and early October. This marks the fourth consecutive month in which manufacturing contacts report slowing

business, on balance. The slowdown is predominantly affecting durable goods producers while nondurable goods makers generally indicate they are operating at a steady rate. Overall, half of the local manufacturers contacted recently said business was stable while nearly 3 in 10 said business was falling off and only 2 in 10 noted improvement.

In the region's manufacturing sector as a whole, shipments were running at a steady rate; however, new orders were falling slightly, leading to a drop in order backlogs. In line with the slackening order situation, delivery times were being reduced, continuing a trend that began in January. On the employment front, two-thirds of the firms polled for this report were holding payrolls steady. On balance, however, both workers and hours were being cut in October.

Industrial prices in the region are moving up but at a slackening pace, according to local manufacturers. While increases are still noted, three-fourths of the firms responding to recent inquiries said prices of both the goods they purchase and the products they make were stable. In general, indications of price increases in the region's goods-producing sector have been fading since January.

Looking ahead, managers at plants in the region say the current business downturn could end within the next six months. Nearly 4 in 10 of those contacted for this report said business should stabilize over the winter, and the rest were about evenly divided between those expecting activity to turn up and those anticipating further deterioration. On balance, Third District manufacturing executives foresee a level rate of new orders and marginal gains in shipments. Nevertheless, area firms plan further cuts both in employment and in working hours and they foresee no changes in the rate of capital spending.

RETAIL

Retail sales in the Third District were running at just a steady pace overall in early October, according to local merchants, with results varying among types of stores and goods. Discount stores were making better year-over-year gains than department stores and apparel sales were described as good, but other specialty merchants said sales results were falling below expectations. In particular, electronics and consumer durables were weak.

Third District merchants have generally positive expectations for sales during the holiday season. They anticipate a fairly healthy improvement in sales for the period, compared to last year, despite lackluster current performance. For next year, however, they are not so optimistic. Most expect little or no gain over 1988 sales, in dollar terms.

Automobile dealers in the Third District report that sales in September and October slumped after a strong summer. Both domestic and import dealers indicate that buyers took advantage of model-year-end incentives and that 1990 models have not been selling well. The consensus among area dealers is that sales in the last quarter of this year and all of 1990 will run below the rate of the last two years. Dealers, whose profit margins have been squeezed all year, are stepping up cost-cutting efforts, and some have started laying off employees. Inventories are described as under control as a result of the clearing out of 1989 models and restrained ordering of 1990 models.

FINANCE

Total loan volume outstanding at major Third District banks in September stood around 14 percent above the year-ago level as a result of strong growth in most types of lending. According to lending officers at commercial banks, business lending gained in September from loans to management buyouts of units

of large corporations and from mergers and acquisitions among middle market companies. Bankers said this type of financing was still active in October, despite the uncertainties in financial markets.

Lending to consumers has advanced strongly at area banks since July, fueled by indirect auto lending and home equity loans, according to bankers. Other kinds of personal lending, such as credit card and installment loans, have not been gaining as vigorously. Consequently, bankers expect growth in personal loans to ease if the recent drop in auto sales becomes a trend.

Real estate lending continued on a strong upward trend in September but bankers contacted in October said they do not expect this growth to continue. Some said they have cut down sharply on commitments for construction loans recently and others noted that real estate developers are starting to experience difficulty in obtaining the nonbank financing that is usually required to complete the funding for development projects.

FOURTH DISTRICT - CLEVELAND

Summary. Economists who attended this Banks' outlook meeting on October 20 expect that growth of output will be sustained at least through the end of 1990, accompanied by very little moderation in inflation. Retailers are cautiously optimistic over sales for the balance of this year. They note consumers are highly responsive to sales promotions, which supported apparel and new car sales in recent months. Reports from capital goods firms suggest easing from peak rates of activity early this year. Growth of bank loans continues to be relatively slow, and some respondents view the latest easing in the federal funds rate as being too accommodative, but probably not enough to result in a reduction in bank lending rates.

Economic Prospects. Economists who met at this bank recently to discuss the economic outlook for 1990 still expect that the economy will continue to grow at below its potential growth rate through most of next year, but the rate of inflation will hardly improve from this year. The 25 forecasters expect real GNP growth this quarter at about a 1.4% annual rate (a.r.), at a 1.7% a.r. in the first half of 1990, and at 2.5% in the second half. The GNP implicit price deflator is expected to increase at a 4.5% a.r. this quarter, 4.2% in the first half of 1990, and 4.0% in the second half. Several of the group asserted that it is difficult to achieve a lower inflation rate because of regulations that contributed to rapid increases in services prices. The output and price outlooks were virtually unchanged from June, except that there appeared to be more uncertainty over the outlook now than last June. Only two forecasters still expect a mild contraction in 1990,

while the few who previously expected a contraction now expect mild growth in output through 1990. The latest drop in stock prices was judged to have little, if any, negative effect on consumer or business spending.

Consumer Spending. Most retailers appear cautiously optimistic about sales prospects for the balance of this year. They pointed out that the better-than-expected retail sales in recent months were not across-the-board. Retailers noted the sensitivity of consumer spending to sales promotions, which stimulated sales of apparel and new cars in recent months. A national retailer reported year-to-year sales increases in consumer appliances, but only because of aggressive pricing that apparently weakened sales of a regional chain of appliance stores. A national retail chain plans much larger inventories for this holiday season than last year.

Retailers of domestic and imported new cars reported mixed consumer behavior in August and September. A few dealers of domestic cars reported their sales in September were "very good," which greatly improved their inventory position. A few other dealers, however, reported flat sales and price incentives were insufficient to reduce their inventories. October sales so far have been lackluster, and most auto dealers appear reluctant to carry large inventories of 1990 models.

Capital Goods. Producers of both high-tech and traditional capital goods producers reported either a slower growth or outright declines in orders and production in recent months. Orders for office machinery have fallen from both export and domestic customers, according to a major producer. A materials supplier to the electronics and office equipment industries reported that the decline in orders appears to have leveled out, although

orders have not turned up yet. Their operating rate has been reduced by about 5 percentage points from last year. A high-tech producer of industrial controls reports that orders and shipments last quarter were the best so far this year, partly because of new products and also because of a catch-up in deliveries from earlier this year, when shortages of computer chips caused shipment delays. Declines in orders for communication equipment since mid-1988 apparently ended, but further declines for electronic components are expected into 1990, according to another producer.

Some traditional capital goods producers report a more-than-expected slowdown in business. Construction machinery sales have been slackening in response to weakening in residential and nonresidential construction. Heavy-duty truck orders, which were at peak levels late last year and early this year because of anticipated price increases, slumped during the summer months and did not revive in September as much as expected, suggesting a relatively soft first quarter production schedule.

Financial Conditions. Bank directors and economists generally report slow demand for loans, although loans at a moderate-size bank rose 9% last quarter from a year earlier. Bank profits last quarter ranged from satisfactory to very good, according to bank respondents. A bank economist commented that the Federal Reserve has been very accommodative in response to the latest stock market decline. The easing in the federal funds rate was interpreted by one economist as inconsistent with bringing the inflation rate down. In his view, interest rates are unlikely to come down much until the inflation rate is reduced. Some bank economists expect that bank lending rates not be adjusted downward until the fed funds rate eases to about 8.5%.

FIFTH DISTRICT-RICHMOND

Overview

The performance of the District economy in late September and early October showed little change from a month earlier, although the impact of Hurricane Hugo was clearly evident. Retail sales, which rose somewhat overall, were strong in some categories and weak in others. Manufacturing activity was also mixed and about unchanged on balance following a small increase in August. Most District financial institutions reported steady loan demand. The tourist industry expects a good fall season, with hotel and motel bookings above those of last year, although hurricane damage and the publicity surrounding it may have a negative impact in some local areas in South Carolina. The District agricultural sector as a whole should finish the year strong, despite considerable damage in the Carolinas.

Consumer Spending

Our regular mail survey indicated that retail sales in the District rose in the first part of October. Department store sales were up after being flat in September, but sales of big ticket items were unchanged. After increasing in September, car sales fell in early October. Most retailers expect their sales to rise in the next six months.

Manufacturing

Respondents to our regular manufacturing survey reported mixed activity in September following a small increase in August. (Many of our usual respondents from South Carolina did not respond to this survey.) Shipments and new orders were up slightly, unfilled orders and employment were down, and the length of the workweek and new export orders were flat. Prices for finished goods and raw materials continued to rise, but at a slower rate than

in August. Inventories of materials and finished goods were largely unchanged.

District manufacturers were somewhat more optimistic than in August about prospects for growth in their businesses in the next six months. Respondents who expect increases in sales, new orders, and employment outnumbered those who expect declines. However, more manufacturers anticipate decreases than increases in unfilled orders and the length of the workweek.

The effects of Hurricane Hugo on the industrial base of South Carolina and North Carolina appear to be small. Most textile plants were not located in the path of the storm, and we have no reports of damage to furniture plants, although Hugo traveled directly through some of the major furniture production areas of the Carolinas and Virginia.

Power outages did reduce industrial production somewhat. For example, furniture production in North Carolina, where about 25 percent of U.S. furniture is manufactured, declined about 1 to 2 percent during September. Pulp and paper production was also reduced somewhat by power outages and, apparently, because some logging roads were temporarily impassable.

Ports

Reports received from the three major District ports--Hampton Roads (Norfolk), Charleston, and Baltimore--showed imports were higher in September than in August at Hampton Roads and Baltimore, but were lower at Charleston where the port was closed for five days because of the hurricane. The export picture was mixed with shipments slightly higher at Baltimore, lower at Charleston and about the same at Hampton Roads.

Tourism

A telephone survey of hotels, motels, resorts, and divisions of tourism indicated that tourist activity was above that of last fall. About half of

the respondents indicated increased activity while about one-fourth experienced declines. About two-fifths of the hotels and motels reported an increase in fall bookings when compared to last year, and the remaining three-fifths saw little change. Approximately two-thirds of the respondents expect tourist activity in the coming months to be better than usual and none of the respondents expect declines.

According to South Carolina's Division of Travel and Tourism Development, 85 percent of the hotels in the Charleston area have reopened. About one-third of the hotel business for the month was lost because of the hurricane. Fall bookings are about the same as last year.

Financial

A telephone survey of financial institutions indicated that demand for commercial and industrial loans remained steady over the last thirty days. Most lenders reported no change in the rate of loan growth from a month ago, though a few reported slight increases or decreases.

The demand for home mortgage loans appeared to strengthen in most parts of the District in the last thirty days, although reports from the Washington, D.C. area were mixed. Elsewhere in the District, a few lenders reported a slight downturn in mortgage loan activity, but the majority said that the demand for mortgage loans was at or above the levels of the previous month.

Agriculture

With the fall harvest nearly complete, yields for most crops appear excellent. Recent rainfall across the District has not hampered harvest activity substantially, but has caused delays in the fall planting of small grains. Prospects for 1989 farm income generally appear bright, though the impact of hurricane damage in the Carolinas is not yet fully known. Farmland prices are reported to be steady or rising in most areas of the District.

Hurricane Hugo did extensive damage to the agricultural sectors in both South Carolina and North Carolina. In South Carolina, USDA estimates total crop losses at roughly \$80 million, with cotton, corn, and soybeans all hard hit. Structural damage totaled about \$270 million. Estimates of livestock damage were incomplete, but thousands of head of cattle and hogs were reportedly destroyed, along with 2.7 million chickens and turkeys. Overall losses to the South Carolina farm sector are believed to be close to \$1 billion.

In North Carolina, USDA estimates total crop losses were near \$40 million, with corn accounting for about half of the total. Poultry industry losses were also approximately \$40 million. Total damage is estimated to be in the vicinity of \$175 million.

SIXTH DISTRICT - ATLANTA

Overview: Although economic activity in the Southeast has moderated in the past few months, there are few indications of any further slowing and most contacts expressed optimism for the remainder of the year. Manufacturing is continuing to show signs of strength in textiles and apparel, petrochemicals, and paper, while transportation equipment, construction and construction materials remain weak. Consumer spending remains relatively stable with most contacts indicating increases smaller than earlier this year and smaller than for the same period last year. Sales of household durables, especially furniture, continue to be soft with no improvement expected. While our contacts continue to mention substantial increases in the cost of health care benefits, most reported only modest wage or price pressures. Exporters, importers and port representatives agree that the recent rise in the value of the dollar has had and is likely to have little impact on economic activity.

Prices and Wages: Contacts indicate no generalized wage pressures although a few cases of upward pressure for entry-level workers were mentioned. A survey of Nashville manufacturers revealed that some labor supply problems are beginning to appear for quality skilled workers, but they do not appear to be serious and have not resulted in wage pressures. A few manufacturers, however, indicated that the key to obtaining new workers seems to lie in the fringe benefits offered. Several contacts report trouble in finding skilled workers in trucking and engineering. In settling recent labor contracts, several firms reported that the cost of health care benefits remains high and is still increasing rapidly. They do not expect any slowing soon.

Several manufacturers are reporting falling prices for inputs such as freight charges and raw materials. The price of resins used in plastic goods has fallen steadily this year and continues to decline. Other producers, specifically producers of paper products, are indicating stable input prices and note no change in the price of their final

product in the past six months, with none expected for the rest of the year. In contrast, several land and air freight firms report a recent rise in fuel costs. An air freight firm revealed that jet fuel prices have risen unexpectedly recently, and several trucking firms noted increased fuel costs. Even so, major carriers and independents alike still feel compelled to offer discounts on freight rates of 30 to 40 percent. Price competition among freight carriers is reported to be fierce.

Financial Services: Several bankers have reported that both consumer and business loan demand remain slow but slightly up from last month. Real estate and auto loans remain weak throughout the Sixth District. One banker in Atlanta pointed out that the slow commercial loan demand reflects caution on the part of business given the uncertain economic outlook. Loan quality seems to be improving as banks establish tighter loan standards, particularly for real estate development.

Consumer Spending: Retail sales in Alabama and Tennessee are holding up well, and Florida retailers report that sales are quite strong. Strength is apparent for apparel and nondurable goods; demand for big ticket items is slow. A furniture retailer reports that sales have fallen recently and are down seven percent from a year ago. This is unusual because October is normally a strong month. Smaller retailers in Miami, however, say that sales were slow all summer and remain so. Auto sales have been weak for the past several months across the Southeast, and while some dealers said that sales recently were unexpectedly strong because of rebates and other incentives, they added that these additional sales had probably come at the expense of sales next year. A few dealers noted that sales of domestic autos had been stronger than of foreign autos.

Construction: Office and residential construction has been slow across the Southeast for most of this year, and builders expect no pickup soon. Bankers report that real estate loans have been growing slowly. Builders in Nashville report a five year supply of houses, although they say that vacant office space is being absorbed and the supply is now below two years. Although the housing market is also slow in Florida,

demand for homes above \$500,000 is still very strong. A builder in Birmingham pointed out that most industrial buildings are full and that he is planning to build several on speculation.

Manufacturers still are willing to expand capacity in the Sixth District. A large paper firm in Louisiana has announced a substantial modernization program to begin next year, while a new textile plant will be opening on the site of a plant abandoned in 1986. Several chemical firms in Louisiana and Florida have recently announced plans to expand existing plants next year. Although the oil and gas industry has started to turn around, firms supplying drilling equipment are still delaying plans to expand capacity until the strength of the industry's recovery becomes clear.

Exports, Imports, and the Dollar: Few contacts have reported that the recent fluctuations in the value of the dollar have affected their businesses much. A shipper of grains and soybeans noted that foreign subsidy programs had more impact on trade than did changes in the value of the dollar. A dealer in chemicals and fertilizers added that foreign restrictions on trade were more important in determining his volume of exports than were exchange rate fluctuations. An exporter of sugar said that the dollar's appreciation has had no effect on his volume of trade. A producer of plastic containers does not expect the higher dollar to affect his business.

SEVENTH DISTRICT--CHICAGO

Summary. Indicators of economic activity in the District remain more subdued than last year. Growth of employment in District states since late 1988 has trailed the nation. Manufacturing employment declined from early 1989 levels, but rose in August. Reports from contacts with manufacturers generally show slower gains in business volume or declines, in some cases from high levels. Farm equipment sales, in contrast, are registering large gains. Many large industrial investment projects reportedly remain on the agenda. But slower growth in various industries raises concern that increases may continue to taper off, leading to downturns in these industries and at suppliers. Construction activity continues relatively strong in the region. General merchandise sales are rising, albeit slowly, and credit delinquencies do not signal deterioration, overall, in ability to pay. The District's fall harvest, aided by ideal weather conditions, is generating "better than expected" crop yields.

Manufacturing. The trend for most manufacturers contacted was toward slower growth in orders and sales, with some noting declines. A producer of electrical controls and power supplies sold to machinery markets has seen a small further rise in orders this year following strong increases last year. Orders for electrical equipment from metals producers have been slightly lower following very large orders last year. Electrical equipment prices were little changed. A manufacturer of capital goods noted slower orders for some types, including defense equipment, petroleum equipment, food packaging machinery, and material handling equipment. A diversified producer of consumer products and of supplies widely used in industry reported a further tapering off of growth in its sales. A slowdown in communications equipment demand appears to have bottomed. Shipments of corrugated containers are estimated to have continued to expand slowly through September; investments, mostly incremental enhancements of existing facilities, are bringing capacity on-line more rapidly than growth of sales, exerting downward pressures on prices. Sales of large farm tractors and combines continue well above year-ago levels.

Shipments of steel were expected to be below a year earlier in the second half, after being higher in the first half of 1989. Industrial procurement of steel has peaked, as a large number of large projects moved off of drawing boards to the procurement stage in 1988 and early 1989. There are now fewer big projects being started, but numerous smaller ones. This has resulted in a peaking and subsequent easing of pressures on available capacity, but many projects remain underway, and this backlog will tend to support activity in the months ahead.

The outlook for steel also reflects an expectation that automakers will produce close to announced schedules for the rest of this year. Contacts in the auto industry were optimistic about maintaining reduced assembly schedules. These production cuts are being reflected at parts plants in the District.

Construction and Real Estate. Construction activity is holding up well in much of the District. Shipments of portland cement to the Midwest have been relatively strong, with metropolitan areas where building picked up earlier, such as Chicago, remaining at high levels but not growing as before, while less heavily populated areas have been catching up. Michigan, however, is slowing. Shipments of gypsum board to District states have registered larger gains from a year ago than nationwide. Strength in gypsum board shipments reflects not only finishing work on new construction projects but also the continued high level of renovation activity. Construction activity on downtown Chicago commercial buildings is still at a high level and is expected to remain vigorous, based on building plans and demolition activity. Building of light industrial structures continues at a good pace in Chicago suburbs. Highway work has been strong in the metro area this year.

Reports on residential sales are mixed. Some realtors indicate relatively good volumes of business following declines in mortgage interest rates from peaks last spring, but others view sales as sluggish. There are indications of weakening in housing prices. Some realtors regard property sales as soft partly because sellers have exaggerated views of what their properties are worth. Affordability is a problem for many would-be buyers. On the other hand, houses that are selling include numerous larger and more expensive properties.

Consumer Spending. General merchandise retail sales in early October, on a comparable-selling-days basis, were showing modest gains from a year earlier, according to a contact with a large chain. Some durable goods were selling well, including washers and dryers, refrigerators, home electronics, and computers. Sales of other product lines, including home improvements and home fashions, were weak. Children's apparel was selling well. Credit sales continued strong, with no deterioration in delinquencies.

Agriculture. Ideal weather conditions the past three weeks have helped to dry crops and speed up both the fall harvest and the planting of winter wheat. The corn and soybean harvest, as of October 15, ranged from two-thirds complete in Illinois and Iowa to one-third complete in Indiana, Michigan, and Wisconsin. Despite frost damage in some areas, numerous reports note "better-than-expected" yields, especially in Iowa.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to grow slowly. Despite record low unemployment levels in several District states, manufacturing employment has fallen in several sectors, and both residential and nonresidential construction are showing signs of weakness. Exports of manufactured goods, however, have been strong in recent months. Cool, wet weather has slowed the harvest of some District crops. Total lending by large commercial banks, especially for real estate, increased in the third quarter.

Employment

Unemployment rates in Arkansas, Kentucky and Missouri dropped to their lowest levels of the decade. While the drop in Missouri was the result of its labor force falling more rapidly than total employment, the declines in Arkansas and Kentucky reflected moderate employment growth. Largely because of the recall of 4,000 auto workers, the St. Louis unemployment rate also hit a 10-year low of 5 percent. Contacts report, however, that the Louisville economy has been weakening for several months.

Manufacturing

District manufacturers report varied business conditions, with most expecting flat to slow growth through year-end 1989. None of the District apparel manufacturers contacted reported unusually large increases in Christmas-related production. In fact, many apparel manufacturers are

experiencing declines in orders, but most expect business to increase in early 1990. A fleecewear manufacturer plans to open a plant in Arkansas that will hire 600 workers immediately and 1,400 more in the future.

In the durables sector, most manufacturers report satisfactory inventory levels. Many are experiencing declining backlogs and slowdowns in new orders. Most manufacturers have no plans to hire new workers or make additions to physical capacity over the next three months. Several industries have laid off workers in recent months to reduce inventories, and more layoffs are scheduled through year-end. One auto assembly plant in St. Louis will lay off approximately 3,000 workers for four weeks beginning October 20 to reduce inventories of slow-selling models. Several analysts expect total District employment in the automobile sector to hold steady or decline through the rest of 1989 as higher prices for 1990 model cars depress sales. District home appliance manufacturers report declining sales and layoffs, citing higher 1989 interest rates, lagging home sales and economic uncertainty as the reasons consumers are postponing major purchases. Most manufacturers who export indicated that exports were up over last year and that sales have not been affected by recent exchange rate changes.

Construction

Considerable weakening in single-family homebuilding was noted by contacts in August and September in the Louisville and St. Louis markets, with further weakening expected through the end of the year and into 1990. Industry contacts report that some home builders in St. Louis are cutting sales prices by as much as 15 percent. The construction of multi-family dwellings in St. Louis and Louisville also continues to be weak. Using comparable periods, 1989 construction has been less than half of 1988

construction. Consequently, vacancy rates are declining and fewer incentives for renters are available. No further decline is expected in multi-family building in the St. Louis area next year. Despite a recent surge, the growth of District nonresidential building contracts was weaker than at the national level compared with last year.

Agriculture and Natural Resources

The harvest of the District's corn, tobacco and sorghum crops is keeping pace with the average rate of harvest over the past five years, but cotton and soybean harvesting are behind normal over most of the District. Cool, wet weather has slowed soybean maturity in most District states and caused harvest delays in some of the District's southern states. Industry contacts expect that low water levels on the Mississippi River will cause only a slight slowdown in grain movement this fall. District coal production is down slightly compared with a year ago, while U.S. coal production continues to run slightly ahead of last year's pace.

Banking

Total loans at the 12 largest District banks increased more rapidly in the third quarter than for the same period one year ago. Spurred by exceptionally strong real estate growth in August and September, real estate loans passed commercial loans as the largest component of total loans at these banks. For the third quarter, real estate lending grew at almost twice the rate registered during the same period last year, while commercial lending declined over the period. Finally, consumer lending increased during the three months ending in September, showing continued recovery from the declines of one year ago.

NINTH DISTRICT--MINNEAPOLIS

Ninth District economic conditions have been fairly good. The employment situation in the district was fairly good. Despite layoffs caused by the restructuring and size reduction of the computer industry in Minnesota, the unemployment rate in Minnesota has declined. Consumer spending on general merchandise has been strong, automobile sales have continued their recovery from low levels earlier in the year, and housing activity has shown signs of improvement. Conditions in resource-related industries have been fairly good.

Employment

The district employment situation has been fairly good. The unemployment rate in Minnesota in August was 3.9 percent, 0.1 percentage points lower than in July and 0.7 percentage points lower than in August 1988. A supercomputer manufacturer based in the Minneapolis-St. Paul metropolitan area reduced its employment by 18 percent, with most of the reductions in Minnesota and Western Wisconsin. A manufacturer of mainframe computers announced plans to reduce employment in Minnesota by 4 percent. This reduction is part of the firm's plans to reduce its worldwide employment by 10 percent. The unemployment rate in the rest of the district was lower than last year. The August unemployment rate in Montana, in particular, was the lowest in ten years at 4.9 percent.

Consumer Spending

Consumer spending on general merchandise has continued to be strong. One retailer reports that sales in September were 10 percent higher than a year ago and were 8.3 percent higher on a year-to-date basis. This retailer also expects sales this Christmas season to be better than a year ago. Another retailer reports that sales at its discount stores were 10

percent higher on a year-to-date basis. A direct-mail marketing company opened a 600,000 square foot warehouse in St. Cloud, Minnesota. Inventories were reported to be at acceptable levels.

Automobile sales have strongly rebounded from a poor first quarter. One domestic manufacturer reports that September car sales in the Minneapolis-St. Paul metropolitan area were 6 percent higher than last year. Car and truck inventories were reported to be very low.

Housing activity has also rebounded from depressed levels earlier in the year. The number of new housing permits issued in Minnesota in August rose by 17 percent from July, although it was 3 percent lower than in August 1988. The number of new housing permits issued in the Minneapolis-St. Paul metropolitan area in August was 30 percent higher than in July and 7 percent higher than in August 1988. Construction activity in Minnesota was lackluster. The dollar value of contracts for future construction in August in Minnesota was roughly unchanged from a year ago.

Tourist spending has been moderately strong. The Upper Peninsula of Michigan reports a 1 percent increase in tourism through September over a banner 1988 season. An unexpectedly large number of tourists visited Yellowstone Park in Montana. However, concessionaires report lower-than-expected spending because of a relatively large number of one-day visits. As part of Montana's centennial year celebrations, about 5,000 horse riders and 2,700 cattle participated in the Great Centennial Cattle Ride, a 60 mile drive from Roundup to Billings.

Manufacturing

There have been some bright spots in district manufacturing, although troubles have continued to mount in the computer and electronics industries. Suppliers to the aircraft industry report an excellent year and great

prospects for 1990. A director forecasts that sales of aircraft parts will be 18 percent higher in 1990 than in 1989. Sources of strength were also seen in the capital goods and machine tools industries. However, some observers anticipate some slowing in 1990 because of a decline in new orders. Ordnance and small arms suppliers also report a decline in orders because arsenals are full. A director's survey of several manufacturing firms shows that most of these firms anticipate only slight to moderate increases in sales. Prices of raw materials and labor costs in manufacturing were reported to be rising moderately.

Resource-Related Industries

Resource-related industries have been doing well. Conditions in agriculture varied from moderate to good. Land prices and rents in North Dakota increased from last year. Soil moisture conditions were reported to be adequate or fair. A director reports that range conditions in Montana recovered very well from last year's drought. An agricultural implements dealer in Montana reports that 1989 sales were the best in the 50 years the dealer has been in business. The mining industry continued to have an excellent year. District copper mines, in particular, were doing well partly due to strikes and other problems in copper mines in the rest of the world. The lumber industry in Minnesota continued its expansion, although one major construction project was affected by labor problems. A major paper producer announced plans to expand its paper mill in Northern Minnesota, and it is anticipated that 120 permanent jobs will be created.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy appears to be growing moderately. Retail sales have been steady over the past three months. Retail prices and prices of manufacturers' inputs have changed little in recent months. Most retailers are satisfied with their inventory levels, but manufacturers continue to trim their materials inventories. Drilling activity continues to increase. Housing activity is soft. Loan demand at commercial banks has increased slightly. Fall crop yields are average to slightly above average, and agricultural credit conditions remain stable.

Retail Sales. District retailers report sales increases over last year and steady sales over the past three months. Demand is strong for fall merchandise and women's apparel, but sales of housewares and furniture are somewhat weak. Respondents expect normal seasonal increases in sales as Christmas approaches. Retailers typically have no plans for special sales other than the usual holiday promotions. Prices have changed little over the past three months and are expected to remain generally stable in coming months. Most retailers are satisfied with their inventory levels. New car sales have picked up in some district states. Sales outlooks are mixed, but dealers generally expect little change from last year's sales levels.

Manufacturing. Most respondents report little change in input prices from a year ago or from three months ago. Few price changes are expected over the next three months. Materials inputs are readily available, and some lead times have shortened. Most firms continue trimming inventories, and plan to maintain lower levels in upcoming months. Although most plants are operating near full capacity, reports of bottlenecks or labor shortages are rare.

Energy. Recent gains have propelled district drilling activity above

year-ago levels. More stable oil prices and increased exploration for natural gas have been credited for much of the improvement in the district's energy industry. The average number of active drilling rigs in the district increased from 259 in August to 289 in September, the third consecutive month of increase. Thus, exploration and development activity stands about 11 percent above the level of one year ago.

Housing Activity and Finance. Most area homebuilders contacted report housing starts at or below the levels of last month and last year. New home sales are stable to down slightly, while new home prices are stable to up slightly. Most homebuilders report rising materials prices. A wholesale distributor of lumber reports sales below those of a year earlier and well below the level of three months ago. Most respondents expect housing activity to remain steady or to decline slightly.

Most savings and loan respondents experienced net inflows of deposits over the past month. Mortgage demand has softened. While mortgage rates have recently been relatively steady, most respondents expect a slight decline through the remainder of the year.

Banking. District bankers report a slight increase in total loan demand during the past month. All loan categories except residential construction and commercial real estate contributed to the increase; those two types of loans did not change. The level of investments also rose. Two-thirds of the respondents reported that loan to deposit ratios were higher than a year ago but constant over the past month. All but one respondent reported no change in the prime rate last month. About half of the respondents expect the prime rate to fall in the near term, with the other half expecting no change. Most respondents did not change consumer lending rates last month and do not expect

a change in the near term.

Agriculture. The harvest of row crops and seeding of winter wheat are nearing completion in the Tenth District. Dry weather has allowed the harvest to progress rapidly. Dryland corn and soybean yields are expected to be about average in most parts of the district, but irrigated crop yields are expected to be above-average in some states. In Kansas, however, an early frost has reduced the yield and quality of the late milo crop. The cotton harvest will begin soon in southwest Oklahoma, and good yields are expected. Warm weather and sufficient early rainfall have promoted the development of excellent winter wheat stands. Topsoil moisture levels have declined recently, however, and more rain is needed to ensure further development of the crop and to provide adequate winter wheat pasture for cattle.

District cattle ranchers continue to benefit from strong feeder cattle prices. Despite strong cattle prices, however, expansion of district cattle herds was restricted by drought-reduced feed supplies earlier in the year. A limited supply of young cattle available for herd expansion and placement in feedlots has maintained the high cost of feeder cattle and, in turn, has limited profits for district cattle feeders.

Agricultural credit conditions in the district remain stable. Strong wheat and feeder cattle prices continue to support farm incomes across most of the district. Crop insurance benefits, federal drought relief payments, and financial reserves built up in recent years will help farmers in some parts of the district to withstand the 1989 drought.

ELEVENTH DISTRICT--DALLAS

District economic expansion is slow. Manufacturing activity is expanding slightly, but rates of growth have declined. Although retail sales increases have very recently accelerated, auto sales are softening. The service industry continues to add to its workforce. Construction maintains a pattern of very mild improvement. Oil and gas drilling is showing gradual expansion. Prices paid to District farmers are unchanged from a year earlier.

District manufacturing activity is showing slight expansion overall. Oilfield equipment firms cite moderate growth and they say that recent expansions in sales have been higher than expected. Orders to primary metals manufacturers are expanding slightly overall, with some firms noting marked increases and others mentioning marked declines. Essentially the same can be said for fabricated metals manufacturers. Lumber and wood firms say demand for their products is growing at rapid rates and that sales are far higher than a year earlier. Electronics and computer-related firms generally cite soft sales and declining prices for some products. They expect this softness to continue through the next two quarters. Most manufacturers of food products say that sales have changed little in recent months, after seasonal adjustment. Paper industry demand has softened, but mills continue to run at full capacity and prices of some products are accordingly declining. Sales patterns among apparel manufacturers vary widely but, on average, some growth is occurring. Chemical firms note some slippage in demand at the same time that new plants are coming on line. As a result, product prices are falling.

Petroleum refineries sales and production have changed little recently and firms note that oil product prices have changed little.

Retail sales growth has been uneven across the District, but it is generally strong and respondents are optimistic about continued expansion through Christmas. Warm weather is said to have discouraged consumer spending for Fall items in some areas, but several national chains report that their sales in the District are expanding faster than in the nation.

Automobile sales patterns vary considerably among District cities, but the market has been softening very lately. Respondents say that sales of 1990 models have been slow. At the end of the 1989 model year, consumers are said to have purchased 1989 models in anticipation of higher prices for the 1990 models. Dealers expect sales for the rest of 1989 will be below year-earlier levels.

Growth in the service industry is widely perceived as an important factor in the District employment recovery. A significant contributor to this expansion has been business services. This expansion is due both to increasing sales to purchasers outside the District and to a shift in the practices of District nonservice firms toward the purchase of services that were formerly produced in-house. Contract labor services have shown marked expansion in the District, for example. Some respondents in the contract labor industry say that rising demand is motivating them to increase prices, even though their costs of operation are not going up.

District construction activity has been very erratic in recent months, but generally shows mild improvement -- the result of gains in nonresidential building. Office vacancy rates remain high, but they are

declining in most District cities, and industrial vacancy rates are also falling. Residential building has shown little change lately, but recent increases in permits for residential building suggest some growth in the months ahead. Nevertheless, builders of single-family homes are concerned over the increasing restrictiveness of financial institutions' policies on interim financing. This restrictiveness, some of which is said to be tied to new thrift industry regulations, has particularly affected smaller speculative homebuilders. Nonbuilding construction continues to decline. The District oil and gas extraction industry continues to expand gradually. The rig count has been increasing slowly but steadily in recent months -- the result of growth in Texas. Most of the gains are said to be in natural gas. Rig counts are declining in Louisiana and New Mexico. Leading indicators of drilling, including well permits and the seismic crew count, suggest a turnaround in Louisiana and New Mexico and further growth in Texas. Respondents generally expect mild growth during the rest of the year, with some slippage in the first quarter of 1990.

Increased soil moisture levels in much of the District have improved conditions for agriculture, but portions of south and central Texas continue to face serious drought problems. In September, District agricultural product prices were down slightly from August, but unchanged from a year earlier. September crop prices were up 2 percent from August and 5 percent from a year earlier. Livestock prices slipped 2 percent from a year earlier and 4 percent from August.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

The economy in the West continues to grow at a healthy pace. Respondents continue to expect relatively slow growth during the next year. Wage and price increases remain modest. Consumer spending growth has stabilized at a healthy rate, with inventories reported to be in line with desired levels. Most reports of manufacturing activity indicate strength, with several manufacturers planning expansions. Agriculture and resource-related industries continue to perform well. Construction and real estate activity continue strong throughout the District, with Arizona the major exception. Western banks continue to report healthy conditions. Most businesses in the San Francisco area have resumed operations since the earthquake, but road closures and property damage are delaying a complete return to business as usual.

Business Sentiment

Expectations regarding GNP growth are holding steady, with 73 percent of respondents continuing to anticipate somewhat slower growth during the next twelve months. Expectations regarding most components of GNP are essentially unchanged, although expectations about business investment improved and expectations regarding housing starts and the trade balance deteriorated somewhat.

Wages and Prices

Little change is reported in wage and price conditions. For the most part, upward pressures on wages and prices remain modest. A West Coast retailer notes that his prices seem to be moderating after a surge early this year. Labor shortages in many parts of the District are putting upward pressure on entry-level wages. Respondents in some states report that

recent increases in the minimum wage have had little effect on labor costs, since employers must pay even more than the new, higher minimum wage to attract entry-level workers.

Consumer Spending

Consumer spending continues to grow modestly. Retailers report that inventories are close to desired levels. While many Bay Area retailers survived the earthquake with relatively little damage, a few experienced inventory or structural losses that are hurting profits for their stores. Some auto dealers report inventory shortfalls due to the recent sales strength combined with delays in receiving 1990 models.

Manufacturing

Many manufacturers in the West continue to report solid manufacturing activity. Capacity constraints in commercial aircraft manufacturing still exist, but no longer are getting worse. Capacity at Boeing was underutilized through most of October because mechanics are on strike. Investment spending in commercial aerospace is expected to be lower during the next year than it was during the past year.

A paint and coatings manufacturer reports that demand for his company's products has been higher in 1989 than it has been since 1979. This company does not plan to increase investment spending in 1990, but it has purchased property that would facilitate expansion should it be called for in the future.

A newspaper publisher reports plans to expand press facilities, in order to increase both capacity and efficiency. These plans include an increase in investment spending for 1990 over its 1989 level.

Agriculture and Resource-Related Industries

Agriculture and resource-related industries continue to perform well. Prices for agricultural products are reported to be strong, and agricultural producers continue to seek expansion of their export markets. A food processor reports that inventories have increased significantly during the past year. He notes that this increase could cause a drop in prices unless export sales rise significantly.

Construction and Real Estate

Construction and real estate activity continue strong throughout the District, with Arizona the major exception. One respondent reports that strong demand for commercial properties from investors in Japan, Korea, Taiwan, Hong Kong, and Singapore is exerting upward pressure on the prices of commercial properties. Prior to the earthquake, several respondents in California noted that appreciation of residential properties seemed to have slowed considerably. It is not clear whether the earthquake will significantly affect property values outside the hardest-hit areas. Although many roads and buildings remain fundamentally sound, work crews are busy demolishing unsafe buildings and repairing those structures that can be fixed. Repair and rebuilding activity is expected to continue for at least two years.

Financial Sector

Western banks continue to report healthy conditions. Several banks report robust growth in construction loan activity during recent weeks. Competition for deposits and for quality loans continues to be stiff.