

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

**OCTOBER 1991**

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## SUMMARY\*

Sources contacted by the Federal Reserve banks generally described the economy in September and early October as weak or growing slowly. In most districts there has been little improvement in retail sales, and a few reported some slowing. Auto sales have generally been weak. Expected crop yields vary, but agricultural prices remain low. Manufacturing output is still improving although at a slower pace in some areas. Several districts reported some increase in home sales, but residential construction is still at low levels. Loan demand has been weak for commercial, industrial, and consumer loans. Some districts noted a pickup in real estate loans, especially refinancings.

## CONSUMER SPENDING

Retail sales were reported to be slow or sluggish in most districts. Dallas and San Francisco cited weakness in the retail sector, and in Boston and Philadelphia sales have been flat to slightly below last year's levels. In Atlanta they have been flat to slightly above year-ago levels but have improved little since

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\* Prepared at the Federal Reserve Bank of Philadelphia and based on information collected before October 11, 1991. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

August. Cleveland and Richmond reported that sales have slowed in the last month. Two districts indicated improvement in retail sales. Kansas City reported sales increased somewhat, and Minneapolis reported "fairly strong" sales.

New York, Philadelphia, and Dallas indicated that retail inventories were under control, but some contacts in Cleveland and most in Kansas City considered inventories too high.

In general the outlook for the holiday sales season is cautious. In Kansas City, however, some retailers are expecting relatively strong sales for the holiday season, and in Richmond they are optimistic about their business over the next six months.

Auto sales were reported to be flat or down from last year in many districts although the Cleveland District indicated that sales rose in late September and early October, and Minneapolis noted a recent surge in truck sales. Several contacts in the Cleveland District said dealers' orders for new models are slightly above year-ago levels; but Atlanta indicated that orders have been mixed and dealers there do not expect an acceleration of demand. Dealers in the Philadelphia District are also pessimistic about prospects for the 1992 model year.

#### MANUFACTURING

In most districts output and shipments in the industrial sector have been stable to slightly higher. Philadelphia noted that the pace of advance had slowed recently. There was also some indication of slower growth in the immediate Chicago area. San

Francisco mentioned that conditions were still worsening in California and in the Pacific Northwest while the industrial sector in Idaho and Utah remained stable. Cleveland and Chicago reported that autos and steel have been most responsible for the recent increases in manufacturing. Boston and St. Louis noted weakness in the defense industry.

Boston and Cleveland mentioned that manufacturing inventories are at satisfactory levels while Kansas City noted that firms are still trying to trim inventories.

Reports about new orders were mixed. Richmond noted an increase in new orders, and some manufacturers in the New York District have seen an improvement, but new orders were weak or declining in Boston and Philadelphia. Orders for defense goods in St. Louis and for oil field machinery in Dallas were reported to be down.

Philadelphia and Richmond said that, on balance, manufacturers expect improvement over the next six months. Boston, however, noted concern about renewed softness.

#### REAL ESTATE AND CONSTRUCTION

Reports on housing were also mixed. New York, St. Louis, and Kansas City reported some increase in home sales, and Atlanta and Minneapolis reported mixed conditions with increases in some parts of their districts and declines in other parts. Richmond said that housing markets in the district are sluggish. Likewise, San Francisco reported that home sales in California and the Pacific

Northwest, which had rebounded earlier in the year, were now sluggish. New home construction is still slow in those districts that mentioned it.

In the commercial leasing market, the New York District said rents were still falling, and San Francisco reported plummeting commercial rental rates in the Los Angeles market.

#### AGRICULTURE AND NATURAL RESOURCES

In the agricultural sector, expected yields compared to last year vary by crop, but prices generally remain low. Drier than normal weather has reduced yields for corn according to several district reports. The Chicago District added that corn yields, although lower than last year, are turning out to be much better than earlier estimates. In the Dallas District and in parts of the Minneapolis District, excessive precipitation hurt crop production although yields are still good. In North Dakota, corn and dry bean yields are sharply higher than last year; in the Richmond District they are slightly lower. The wheat crop forecast for Montana is the highest in many years. Prices for many crops, livestock, and dairy products are weak. San Francisco reported that high production of fruits and vegetables in California's Central Valley has lowered prices for those products.

Low natural gas prices have reduced drilling activity in the Kansas City and Dallas districts. Dallas also reported that some energy firms have announced layoffs.

## FINANCE

In general, loan demand has been weak. Overall demand has decreased in the New York District, and total loan volume continued to decline in Philadelphia. In Kansas City demand for commercial and industrial loans is down, and demand remains soft in Chicago. New York and San Francisco specifically mentioned that consumer loan demand was sluggish. Atlanta, on the other hand, reported moderate improvement in loan demand in September. And in the last two months, total loans outstanding have increased in the St. Louis District. A number of districts have experienced increased demand for mortgage loans, especially refinancings spurred by lower interest rates.

Several districts reported that the majority of banks have not raised credit standards in the past few months. Cleveland noted that some banks appear to be less aggressive in seeking loans.

## FIRST DISTRICT-BOSTON

First District economic activity continued subdued in September and early October. Most retailers contacted report that sales remain weak, although a few experienced a pickup in recent weeks. Retail respondents do not expect sales to improve or deteriorate further in the remainder of the year. Among First District manufacturing contacts, a majority express concern that business conditions are showing no clear uptrend. While half of the respondents experienced a slight improvement in demand during the summer, several sense renewed softness more recently, and most expect no significant growth until 1992.

Retail

September sales were flat to down from September 1990 for most of the First District merchants contacted in mid-October. A few, however, have seen sales increases - one as high as 10 percent - in recent weeks. Sales improvements have been concentrated among heavily promoted items, as consumers become increasingly price- and value-conscious. Despite slow sales, inventories are generally low.

Retailers report very modest (or zero) increases in their prices in recent months, partly because of heavy promotional activity and partly because vendors are not raising prices. Respondents are maintaining margins and profits by cutting costs. Several contacts indicate that employee hours have been cut, but none plan layoffs, and seasonal hiring is scheduled as usual.

Contacts say they are approaching the Christmas season cautiously. Those with stores concentrated in New England are less optimistic than

nationwide chains. Some believe that the "worst is behind us," but most look forward to little change in their sales results for the remainder of the year.

#### Auto Sales

Reports on automobile sales are mixed. Dealers note that foreign car sales have been performing relatively well, while domestic car sales have only inched up since last month. Sales of less expensive and used cars are generally stronger than those of new cars. Tight credit is said to be a major factor behind the weak performance. However, dealers hope that the worst is over, partly because the average age of cars is rising.

#### Manufacturing

At a majority of the First District manufacturers contacted, sales are either flat or up very slightly compared with year-ago levels, but incoming orders are flat to down. As a result, backlogs are declining at some firms. Although half of these companies report that August or the third quarter showed some improvement over the previous period, several express disappointment about recent inquiries and concern about renewed softness. Much of the summer pickup was attributed to improved demand from the commercial aircraft, auto, and health care industries. By contrast, defense, commercial real estate, and less specialized industrial products were seen as remaining relatively weak. Moreover, the decline in August and September auto sales has reportedly raised doubts that sales to the auto industry will continue at the summer's pace. As for foreign markets, the United Kingdom is described as

surprisingly weak, and Europe and Japan are characterized as better but slowing.

Several contacts, but especially those serving the auto industry, report that they are facing pressure to cut prices. Respondents have frequently been able to force their own suppliers to reduce prices as well. However, cost-cutting programs or productivity increases have permitted some firms to maintain or improve profit margins despite these competitive pressures. All of these contacts are watching inventories closely and deem their current levels satisfactory.

Most First District manufacturing contacts continue to reduce their employment levels, either through attrition or through ongoing layoffs. In several cases, projected job cuts are substantial. Capital spending remains largely on budget. One firm has cut expenditures well below plan, but another has revised a previously reduced target upward. In 1992, capital spending is expected to remain close to current levels.

First District manufacturing contacts generally expect the recovery to be very slow, with little visible improvement before early to mid-1992. A majority see no clear uptrend or are concerned about "backsliding" in the third or fourth quarter.

## SECOND DISTRICT--NEW YORK

Developments in the District economy have remained mixed in recent weeks. September sales at District department stores were generally sluggish and homebuilders continue to report only subdued interest in new homes. Office leasing activity has been rather slow and vacancy rates remain high in many areas. On the other hand, September unemployment rates fell in New Jersey and New York following a rise in August while the survey of Buffalo purchasing managers showed a doubling of firms with increased new orders. Most senior loan officers surveyed at small and midsized banks reported their willingness to lend is unchanged from three months earlier.

Consumer Spending

September sales at District department stores were generally sluggish and, for the most part, below plan. One chain that did meet its target attributed that success to heavy promotional activity and a boost from Canadian shoppers in upstate New York. Over-the-year changes at District stores ranged from -5 percent to +2 percent during September. Some firms cited strength in sales of furniture and home furnishings with weakness in apparel while others noted the opposite pattern. Despite slower-than-targeted sales at many stores, inventories were reported to be in good shape due primarily to careful monitoring and some extra promotionals.

Showing optimism about the longer run outlook for consumer spending in the District, a leading French retailer just opened a large department store in midtown Manhattan and several national chains began operations in a rebuilt shopping mall in New Jersey. In Westchester

County a leading developer is expanding a shopping mall and in the Buffalo area, two retail chains which are new to the region recently opened stores as part of an expansion of a two-year old mall.

#### Residential Construction and Real Estate

District homebuilders continue to report only subdued interest in new homes and now expect 1991 housing starts in many areas to total less than the low levels of 1990. Several respondents commented on consumer reluctance to purchase new homes in the face of widespread layoffs and corporate restructurings. In addition, while the resale market shows some improvement as the result of lower prices and falling mortgage rates, the inventory of existing homes remains high in several parts of the District, further weakening the demand for new homes. In much of the District homebuilding activity is also reportedly impeded by a shortage of credit for acquisition and construction loans.

Office leasing activity has been rather sluggish in recent weeks and vacancy rates remain high in many parts of the District. Asking rental rates continue to decline due to the abundance of space and various other concessions are also being offered to attract new tenants. Despite the recent slow pace of leasing activity, the primary office vacancy rate in midtown Manhattan edged lower as virtually no new space was added. The vacancy rate in downtown Manhattan rose, however.

#### Other Business Activity

In September, District unemployment rates continued their seesaw pattern of the last several months. The seasonally adjusted unemployment rate fell 0.7 percentage point in New York and 0.5 percentage point in New Jersey after rising 0.4 percentage point in both states during August. New York's rate is now 6.8 percent and New Jersey's 6.2 percent. Nonfarm employment remains below year-earlier

levels, and in recent weeks American Express, Union Carbide and Allied-Signal announced plans to lay off several thousand employees, at least some of whom will be in the Second District. Meanwhile economic development officials from New York State and City, New Jersey, and Connecticut signed an agreement to work together towards keeping firms in the region and attracting new ones.

The September survey of Buffalo purchasing managers showed a doubling of firms with increased new orders to 42 percent as well as a substantial drop in those with a decreased orders. The August survey of purchasing managers in Rochester showed a rise in the percentage of firms anticipating a deterioration of business conditions over the next three months, though by far the majority continue to expect the same or improved conditions.

#### Financial Developments

Most midsized banks in the Second District reported that their willingness to lend remains unchanged from three months ago. These officers also reported a decrease in the overall demand for loans, especially for consumer loans. Demand appears somewhat stronger for real estate loans, where roughly equal numbers reported increased and lessened demand. Of the senior officers reporting a change in loan delinquencies from three months ago, most reported a rise in the delinquency rate for total loans, and for consumer loans in particular.

Nearly all surveyed banks are now charging lower loan rates than they were three months ago. Three fourths reported unchanged credit standards, with the remaining quarter having tightened somewhat. Tightening measures included lower loan-to-value ratios, more stringent collateral requirements, and more comprehensive analyses of applicants' credit histories.

## THIRD DISTRICT - PHILADELPHIA

Reports from the Third District business community in early October suggest that overall economic activity has been slower recently than it was in late summer. Manufacturers indicated that business was still moving up, but at a slower pace than in previous months. Retailers reported that sales remained sluggish, and auto dealers said sales were very slow. Bankers noted a continuing decline in business lending and some said that consumer lending, which had been steady through the summer, turned down in September.

The outlook is mixed. Manufacturers continue to express a high level of optimism, while the view ahead is dim in other sectors. Retailers do not expect to post real gains in sales for this year's fourth quarter compared to last year's. Auto dealers are pessimistic for the new model year. Bankers anticipate a continuing downward trend in financing activity for both businesses and households. Many business contacts cite low confidence as a deterrent to expanded spending by firms and consumers, and they say the factors required to restore confidence are less restrictive conditions for business credit and a healthier employment situation.

MANUFACTURING

A majority of Third District manufacturers contacted in early October reported that business was running at a steady pace. Based on these reports, it appeared that shipments from area plants were increasing slightly, on balance, while new orders were declining marginally. Approximately half of the manufacturers surveyed said they were cutting inventories and one-third indicated they were maintaining them at stable levels. Employment appeared to be somewhat weaker than in recent months; although approximately two-thirds of the industrial firms contacted were holding to steady employment and working hours, nearly one-fourth were cutting payrolls.

Although recent indications are that the upward trend in the region's goods-producing

sector was slackening, most of the manufacturers polled for this report were optimistic that further improvement is likely. Three-fourths expect increases in orders during the next six months and two-thirds anticipate stepping up shipments. Despite these forecasted gains in output, employment plans at plants in the Third District call for no change in the work forces, on balance, although a small increase in hours is possible. Capital spending could get a boost as one-third of the firms surveyed indicated they will increase expenditures for plant and equipment over the next six months while half will hold to steady rates of spending.

### RETAIL

Third District retailers generally indicated that sales in September were just even with or slightly below the level of last September, in current dollars. The year-over-year comparison appeared to be relatively better for discount stores than for department and specialty stores--except for toy stores, where there were some reports of good sales growth. Most store executives said they were satisfied that their inventories were in line with current and expected sales.

Third District merchants contacted for this report generally did not expect any improvement in the pace of sales in October, and they were nearly unanimous in giving very subdued forecasts for the Christmas shopping season. The consensus of expectations is that the best that can be hoped for is flat or very slightly better sales, in dollar terms, this year compared to last. Some retailers suggested that solid improvement will not take hold until next spring at the earliest. They describe the consumer as reluctant to step up spending while the economic outlook remains uncertain.

Most auto dealers reported that unit sales in September were well down from a year ago, and many said sales were the lowest in many years for the month of September. Even dealers who managed to achieve steady unit sales said dollar sales were insufficient to maintain profit margins. In general, dealers' forecasts for the 1992 model year are very pessimistic.

### FINANCE

Third District bankers reported that total loan volume outstanding continued to decline in September and early October, with declines in business and consumer credit and near stability in real estate based loans. Commercial and industrial lending continued to fall off,

according to bankers, as a result of low loan demand and banks' conservative approach to new business lending. Consumer loan volume outstanding has varied week-to-week recently, but most of the bankers contacted for this report said the trend has been down. Several bank executives said they believe consumers are making efforts to pay down debt, especially on credit cards. In contrast, revolving home equity credit volume has been stable and outstandings for other real estate lending have been virtually steady.

Bankers generally believe the current downward trend in lending will continue until confidence is restored among businesses and consumers. Some bank loan officers noted weakening financial condition in the small business sector that portends a decline in financing activity at these types of firms. Nonetheless, a stabilization or turnaround is possible for business lending in general, according to some bankers, if interest rates fall further. These bankers said that lower rates could encourage some of their potential borrowers to implement investment plans. A turnaround in consumer loan demand is dependent on an improved employment situation and a return of consumer confidence, in the view of most Third District bankers.

## FOURTH DISTRICT - CLEVELAND

Summary. Economic activity in the Fourth District continues to recover, albeit slowly, and business sources generally expect further improvement over the near term. Consumer spending has shown little sign of sustained strengthening, and retailers remain cautious about their order and inventory plans for the balance of the year. The revival in manufacturing continues to lead activity in the District, with the automotive and steel industries expecting their output this quarter to be the best of the year. Manufacturers' inventories are judged to be close to desired levels. Loan activity, except for mortgage refinancing, remains soft, and small businesses report credit is available.

The Region. Recovery in the Fourth District continues slowly. Total employment in Ohio rose in September for the fifth of the last seven months. A further but slow expansion in employment is suggested in the latest Ohio composite index of leading indicators, which rose for the sixth consecutive month in July.

In a recent survey of small businesses by a commercial bank in the District, nearly half of the 600 respondents expect business to improve further over the next three months, and a roughly similar proportion expect no change. Only 8 percent expect a worsening. Manufacturers are the most optimistic about the short-term outlook, while fewer than one-half of retail, finance and service respondents expect better conditions.

Consumer Spending. There is little indication of a step-up in retail sales, although several retailers believe that their sales have been better in the District than in some other regions. September sales fell from preceding months, resulting in some unwanted inventories, according to a few retailers. Some others believe that they were able to clear stocks of summer merchandise, and that their inventories are at about desired levels. Several complain about excess retail capacity, and do not expect much improvement in retail sales until employment and income improve. Consequently, they are cautious in purchase and inventory plans for the upcoming holiday season.

Auto dealers contacted appear to be a little more optimistic about near-term sales prospects than they were late this summer. Several report that orders for new model cars have been slightly above a year ago. A late-September, early-October rise in new car sales, apparently aided by widespread and generous price incentives, encouraged dealers who were concerned earlier that consumers might resist the latest price hikes.

Manufacturing. Most manufacturers report a continuation of the recovery in output that began last spring. Auto producers are reported to be planning a higher rate of car production this quarter than last, although schedules of some producers have recently been trimmed because of fewer-than-expected dealer orders. Still, production plans include some inventory rebuilding in view of the lower than usual levels of car inventories for this time of year, but output will be closely geared to dealer orders, according to auto sources.

Steel mill operations in the District have been boosted in recent weeks to the best levels of the year because of the higher auto and appliance orders and some rebuilding of depleted steel inventories. Although the operating rate in the steel industry has climbed to a recent 77 percent of capacity

nationally, some mills in the District are reporting operating rates in the mid-80s. A nearly-full order book for flat-rolled steel products has lengthened deliveries to late 1991 and early 1992. Steel warehouse centers have also stepped up orders, possibly because of the recently announced price increases that are expected to be sustained, following a declining trend in steel prices in recent years.

Recovery in the tire industry has been mixed and less-than-expected, especially for original equipment tires. The weak market leads some producers to believe that the September tire price increases will not last very long.

Generally, capital goods producers believe that the trough in their industries probably occurred in the spring, although revival has been slow. Machine tool builders complain that orders continue to drift downward, although at a reduced pace from earlier in the year. A supplier of industrial equipment to the machinery industries reports that orders bottomed last May, but have not improved enough to materially change operations. Orders for industrial controls also reached a trough in the spring quarter, and sales rebounded last quarter and are expected to rise even more this quarter, according to a large producer. Another capital goods manufacturer reports a slow revival in orders from a 1991:1Q recession low for both machinery and industrial consumable products. Finally, heavy-duty truck orders continue on a jagged, upward trend since early this year, according to a major supplier to this industry.

Manufacturers' inventories are generally believed to be close to desired levels. Except for some spotty rebuilding in steel and tire inventories, however, most respondents do not anticipate much of a buildup of inventories in the near term.

Financial Developments. There is still little sign of a pickup in business or consumer instalment loans, although further recent declines in mortgage rates have induced a revival in mortgage loan refinancing. In general, thrifts report that loan commitments outstanding during the late summer declined from earlier in the summer, and that loans for speculative building of single-family and multiple-family units are virtually non-existent. Depositories have continued to cut interest rates on deposits.

Banks generally report no pickup in commercial and industrial loans, but instalment loans have spurted for those banks that have offered rates competitive with auto finance companies. Some banks report they are still not soliciting new commercial construction loans, although inquiries have also "dried up" this summer, according to a lender that specializes in small commercial developments.

A number of small businesses in the District state that credit is available. Lending standards have not tightened in recent months, although some report that banks appear to be less aggressive in seeking loans. They also believe that there is an adequate number of lenders available to small businesses in their regions. Auto dealers report that floor plan financing for 1992 models has not been more difficult to obtain, although some report that banks are looking more closely at their financial condition than in the past.

## FIFTH DISTRICT-RICHMOND

### Overview

District economic activity was generally weak in late September and early October. Financial institutions reported that the demand for commercial and consumer loans was lackluster. The residential real estate market remained sluggish, though lower interest rates were said to have spurred activity in some areas. Retail activity slowed further, and dry weather reduced prospects for crop yields somewhat. Manufacturing remained steady, and exports increased at District ports.

### Consumer Spending

Our regular survey indicated that retail activity continued to slow in September. Shopper traffic and sales, including sales of big ticket items, apparently fell, as did employment and capital expenditures. Retailers reported increases in wages and in wholesale and retail prices.

Respondents were optimistic about the six-month outlook for the economy in general and for their own businesses. They anticipated increases in shopper traffic and sales. Most foresaw little change in employment but expected wages, wholesale prices and retail prices to rise.

### Manufacturing

Responses to our regular survey of manufacturers indicated that District factory activity was stable in September. Manufacturers reported almost no change in most indicators, although shipments, new orders and prices of raw materials increased. Besides poor sales, manufacturers cited excess capacity as their single most important problem.

Manufacturers remained optimistic about general business conditions and about their own prospects over the next six months. Half the manufacturers

foresaw increases in shipments and new orders, and few expected decreases. Respondents also anticipated increases in order backlogs, employee hours, exports and prices, but they expected little change in inventories, employment or capital expenditures.

#### Port Activity

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that exports were higher in September than in August and that imports remained about the same. Compared with a year earlier, exports were higher and imports were lower. Exports were expected to increase faster than imports during the next six months.

#### Housing

Real estate analysts and lenders surveyed by telephone indicated that the residential market remained sluggish in much of the District. Respondents blamed slow sales on potential homebuyers' insecurity about their jobs and income levels. Several, though, suggested that lower interest rates were beginning to spur activity in their areas. Despite large inventories of homes for sale, several noted that prices were steady.

#### Finance

District financial institutions contacted by telephone reported that credit availability and credit standards were unchanged over the last six weeks. Banks reported that demand for consumer and commercial loans remained weak and that commercial demand had softened further. Most banks contacted had lowered loan rates over the last six weeks; as a result, demand increased for the refinancing of home mortgages, as in the previous survey. All of the surveyed banks had reduced their prime lending rates in recent weeks.

Agriculture

According to District agricultural analysts, a drier-than-normal September had reduced yield prospects for some District crops but had not curtailed fall planting activity. Slightly lower yields were projected for corn, soybeans, peanuts and some types of tobacco, and pastures were said to be in generally poor condition. The apple crop in West Virginia was termed poor, although in the Carolinas, the weather apparently did not affect the apple crop or reduce cotton yields.

Dry weather had not yet affected the planting of winter wheat or other small grains underway across much of the District. Planting progress was reported to be somewhat better than normal, but analysts said more rain was needed soon to keep planting activity on schedule.

## SIXTH DISTRICT - ATLANTA

Overview: Signals of the economy's condition remained mixed during September according to reports from the District. Consumers remained largely on the sidelines. Retailers are reporting little good news and generally express pessimism about holiday sales prospects. Factory activity was described as mixed, with moderate strength in selected apparel and export industries and continued weakness in durable goods and construction-related products. Despite declining mortgage rates, home sales were lackluster as summer drew to a close. Consequently, new construction activity has not rebounded. Bankers report some improvement in loan demand, but borrowers continue to feel constrained by strict credit standards. Weak demand and employment uncertainty are said to be restraining product prices and wage pressures.

Consumer Spending: September consumer activity showed little improvement over August according to our contacts. Retail sales were flat to slightly above year-ago levels. Most respondents were clearly disappointed with back-to-school sales. Discount chains continued to post modest gains as consumers substituted away from higher-priced stores. Retailers remain pessimistic about holiday sales, expecting only to meet last year's relatively weak performance. Reflecting their lackluster expectations, advertising expenditures continue soft.

Durables consumption has shown no improvement in the District. Automobile dealers again reported flat sales relative to year-ago levels. Orders for 1992 models are mixed, dependent upon individual dealer inventories. However, dealers say they are not anticipating an acceleration in consumer demand and so are not expanding inventories. Floor traffic has been sparse.

Tourism improved moderately during September compared with year-ago levels. Contacts in Atlanta, New Orleans, and Orlando reported increases in convention bookings and visitors.

Manufacturing: Factory activity was again said to be mixed, with improvement noted in export goods and some textiles. In general, inventories are lean; some rebuilding is anticipated in the fourth quarter. Plans for capital expansion are also mixed.

The demand for fabric textiles has improved over the past two months, particularly for denim products. A sportswear manufacturer expects double-digit increases in shipments compared with year-ago levels. A producer of plastic containers reported that sales and production have been above expectations. Consequently, the firm is accelerating capital expenditures. Paper and pulp exports continue to expand.

Manufacturers dependent upon construction activity report no improvement. Carpet sales and production are at year-ago levels. A furniture manufacturer reported that orders continue to weaken.

A residential heating and cooling systems manufacturer, producing primarily for the replacement market, reports that sales have been declining since January. He foresees no recovery in his business and has pared inventories aggressively. Reflecting spotty improvement in production, regional shipping firms report modest increases in activity during September.

Despite some recent stability in natural gas prices, a supplier of offshore rig equipment reported that activity in the Gulf of Mexico is declining as major oil and gas producers move operations overseas.

Financial Services: Most regional banking contacts saw moderate improvement in loan demand during September. Bankers report that they have not changed credit standards in the last few months. Auto dealers, retailers, construction firms, and small businesses in general describe lending standards as tight. Larger firms continue to seek funding from other sources, such as commercial paper or private placements. As a result of slow loan growth, several banks report ample liquidity.

Construction: Home sales in the Southeast were mixed in September. Some recovery was observed in the western part of the District, but realtor contacts in Georgia and Florida reported September sales slowing more than seasonally from a stronger summer. Several contacts noted that new home sales were doing relatively better than resales because of financial incentives offered by builders.

The improvement in home sales is reported for the low end of the price scale, despite more restrictive mortgage standards. The middle-to-upper price ranges remain sluggish. Falling interest rates have not generally initiated a rebound in sales, but have led to some increase in customer traffic and a considerable increase in refinancing.

Home inventories, while declining, are still said to be excessive for current sales levels. Consequently, new construction activity has been mixed. A Florida utility company reported that actual construction activity has remained flat despite a recent acceleration in building permits. Building materials suppliers continue to struggle, keeping inventories at minimal levels.

Commercial construction continues to be depressed and most contacts expect that it will remain so for some time. Financing is still said to be difficult to obtain, even for projects that are significantly pre-leased.

Wages and Prices: Most contacts reported no change in direct wage pressures, although increases in health insurance and worker's compensation costs continue to push total compensation higher. Wage pressures are said to be especially weak in the services sector. Reports on wholesale product prices describe them as relatively stable because of aggressive competition and soft input prices.

## SEVENTH DISTRICT--CHICAGO

**Summary.** Underlying trends in the District economy have changed little over the past month, according to most contacts, although continued sluggishness in consumer demand has led to some slowing in the pace of recovery in industrial activity. Manufacturers generally continued to provide an important contribution to District growth, but several contacts stated that auto production gains could slow in the fourth quarter if car sales growth does not improve. District commercial and industrial loan demand remained soft, in part due to moderate requirements for inventory financing. The agricultural harvest is proceeding rapidly, and harvest estimates have been raised recently.

**Consumer Spending.** District contacts indicate that consumer spending gains remained sluggish in September and early October, with dollar sales depressed by intense price competition. A large general merchandise chain reported continued flat sales and stated that there was little sign of a recovery in consumer spending. A retailers' association in Indiana stated that its membership's sales growth generally remains flat, while losses from bad checks have not improved significantly. A retailing analyst reported that consumer caution has slowed spending growth in Iowa to the rate seen nationally, despite relatively high levels of consumer resources. Citing longer car holding periods, a retailers' association in Michigan stated that vehicle service stores were doing relatively well. After consistent year-over-year declines in sales over the summer months, a large department store chain reported that sales in early October were running slightly ahead of last year; but the year-ago comparison was against the period when sales began to be impacted by the recession. Sales for the rest of the year are expected to be flat with a year ago, according to this contact. A market research firm reported that Christmas purchasing plans dropped from August to September, reaching a level below the weak year-earlier period.

**Autos.** Disappointing new car sales growth could temper the production gains being experienced in the District's auto industry. Several industry analysts noted that September sales rates benefitted from strong fleet sales, and fleet sales are expected to run through November. An industry economist reported that car demand from individuals had improved somewhat early in the summer, but slipped a little in recent months. Current car and light truck production plans for the fourth quarter imply a small gain from

the third quarter on a seasonally adjusted basis, and a small decline in the first quarter of 1992, according to one economist. An auto parts supplier remained apprehensive about the first half of 1992 in the absence of an increase in car sales rates, although several analysts anticipated increasingly aggressive incentive programs in coming months. A finance subsidiary of a large automaker reported continued growth in lending, citing a pullback from banks in financing consumer purchases and dealers' inventory. Delinquency rates have caused some "severe heartburn" for many lenders, according to this contact, leading to higher down payments and generally stricter scrutiny of the marginal borrower. However, one industry economist reported that the overall loan turnaround rate generally has declined since the first quarter. Because dealer inventory commitments remain very cautious, financing inventory hasn't been a difficult problem for most dealers, according to this contact.

**Manufacturing.** Manufacturing activity generally continued to boost the overall District economy in recent weeks. The most recent purchasing managers' surveys for Chicago, Detroit, Western Michigan, Milwaukee and Indianapolis each showed a majority of respondents indicating expansion in orders and production, although some slowing in the pace was indicated in the Chicago survey. A large steel producer reported that the auto industry continued to provide the major source of strength in demand. Steel industry production is expected to continue to expand from the third to fourth quarter (on a seasonally adjusted basis) under conservative assumptions about shipments to the auto industry, according to this contact. A large manufacturer of a wide variety of specialty supplies reported that sales in most product lines remain flat, and that sales of a product that has historically been a leading indicator has yet to show an upturn. A supplier to District manufacturers of metal furniture stated that sales by these firms appeared to have passed their trough, after a difficult period. Sales of construction machinery in the District began to slump again in early August, according to an industry analyst, after a slow recovery earlier in the year. Year-to-date construction machinery sales in the District are still below last year's levels, but the decline has not been so severe as in the nation as a whole. A large shipper stated that overseas shipments of agricultural and construction machinery continued to expand over the summer months.

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**Banking.** Most banks reported that commercial and industrial loan demand remained soft in recent weeks, with several indicating that most customers remain unwilling to commit to inventories. One middle-market lender reported that loan demand is generally slow, and stated that customer optimism has been waning since a recovery in the summer. Capital spending project cancellations have begun to arise, according to this contact, joining the continuing reports of postponements. A middle-market lender to businesses located throughout the Midwest could not identify a commercial or industrial sector where customers had seen a significant upturn in activity. This banker stated that most customers linked to the auto industry continued to expect some small improvement in sales over the rest of the year, but these expectations had weakened over the past 60 days. Several banks reported that commercial and industrial loan demand in Michigan remained soft, and one contact expressed concern about the state's prospects in the absence of a solid recovery in auto sales. However, one banker reported that several banks in the state were "fully loaned" and were eager to sell participations. A recent survey indicated that firms in the Great Lakes and Pacific regions report the least difficulty in obtaining credit among firms surveyed nationwide, and the survey's directors stated that the survey results show that credit has been easier to obtain during the recent recession than in prior recessions. Residential mortgage loan demand in the District remained a bright spot, according to one contact, as mortgage rates continued to decline around the District.

**Agriculture.** The District harvest is progressing rapidly. The corn and soybean harvest ranges from 25 percent complete in Michigan and Wisconsin to 75 percent in Illinois. Except for Iowa, the harvesting progress is double the normal completion rate for early October. Yields are proving much better than expected in many areas, despite a premature killing frost in September. The corn and soybean production estimates for District states were revised upward by 4 and 6 percent, respectively, in the USDA projections released on October 10. The soybean harvest is now expected to match that of a year ago, both in District states and nationwide. Corn production is expected to be down 10 percent in District states and down 6 percent nationwide.

## EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to show signs of a gradual recovery. Manufacturing employment, except in defense-related industries, is strengthening somewhat and contacts expect further improvement before year-end. Manufacturing activity is mixed. Consumer spending remains depressed. Lower interest rates have stimulated new and existing home sales, although sources do not expect a rebound in residential construction until next year. The fall harvest continues to progress, but yields on some crops have been hurt by adverse weather.

Employment

Although respondents in many areas of the District expect some improvement before year-end, employment growth continues to be characterized by contacts as flat or weak. A number of District employers, especially those in defense-related industries, have announced small- and medium-sized layoffs in recent months. In contrast, a major home appliance manufacturer has been able to keep employment levels stable because declines in shipments and orders in recent months were correctly anticipated. A large apparel manufacturer, which reduced employment significantly this year, plans to rehire some or all of these workers in the near future. In addition, respondents in Arkansas and northern Mississippi believe their regions are rebounding, as evidenced by rising demand for manufacturing workers. A survey of Memphis companies revealed that more plan to add workers in the fourth quarter than they did in the third, holiday staffing excluded.

Manufacturing

Overall manufacturing activity remains weak, with durable goods manufacturers somewhat more upbeat about the future than producers of nondurable goods. Auto parts manufacturers in Arkansas have expanded production and hired more workers because of increased activity in the auto sector. A District home appliance manufacturer reports industry shipments have been flat on a seasonally adjusted annual basis, despite the significant downturn in housing construction. Manufacturers of defense-related products, however, report significant declines in new orders. Most contacts expect no upturn in capital spending in the near future. An Arkansas apparel maker reports higher sales, but also lower margins because of higher wage and input costs. He says that retailers have been reluctant to pass on these higher costs to consumers. In the food processing sector, most manufacturers report that the recession has not hurt business significantly.

Consumer Spending

Retail sales remain "poor," according to many contacts. Declines in interest rates have not stimulated purchases of traditionally interest-sensitive goods, such as automobiles. One contact noted that, despite rising personal income and employment in Arkansas, household spending continues to decline. Many District retailers are trying to jumpstart sales by beginning holiday advertising and sales earlier than usual, without additional workers.

Housing and Finance

Housing starts have not picked up appreciably in recent months and no significant rebound is expected until 1992. New home sales, especially to first-time homebuyers, have improved slightly because of declines in interest rates. Contacts stress that many prospective buyers have remained out of the housing market because of concerns about their

future employment and expectations of still-lower interest rates in the months ahead. One St. Louis mortgage banker noted that, although mortgage demand has picked up slightly, one-half of all closed real estate loans still are refinancings. Total loans outstanding at a sample of 93 District banks increased more during the last two months than they had the previous two months, with all categories but real estate showing improvement.

#### Transportation

Barge movements and rates charged for shipments on the Mississippi river in the St. Louis area have increased lately. Seasonal harvest activities and increased exports have provided the impetus. Barge traffic in Paducah has kept pace with last year's record level, while transportation of nonagricultural raw materials has boosted barge activity in Little Rock. Air cargo shipments have fallen below year-earlier levels in Louisville and St. Louis, but they are up significantly in Memphis.

#### Agriculture and Natural Resources

The fall harvest is nearing completion for most crops. Corn and soybean yields, hurt by lack of moisture during critical periods this summer, are expected to be lower in most District states. Although a record rice crop is predicted in Arkansas, contacts report that disease and cold weather may have damaged yields. Insects are reported to be affecting parts of the cotton crops in Arkansas, Mississippi and Tennessee, but a good crop is expected nonetheless. Year-to-date coal production is down from last year's levels in Illinois and western Kentucky, but is up slightly in Indiana. Southern pine lumber mills report that orders, production and shipments all are up compared with a year ago.

## NINTH DISTRICT—MINNEAPOLIS

Conditions in the Ninth District generally were mixed, but have deteriorated recently in the labor market, where unemployment rates were uniformly higher. Retail sales were fairly strong, but car sales remained weak, while homes sales turned down. Crop yields were mixed, and prices on most agricultural products were sharply lower than a year ago. Tourism remains a major bright spot.

Employment, Wages, and Prices

Reversing their generally positive trend, labor market conditions deteriorated somewhat in the District. In Minnesota the August unemployment rate was 4.8 percent, up from 4.6 percent a year ago, and 0.4 percent higher than the previous month. This weakness in the Minnesota labor market was also reflected in nonagricultural employment growth which was up only .56 percent in August relative to a year ago, with substantial declines being registered in manufacturing (down 1.52 percent), and construction (down 4.70 percent). In a possible signal that this trend will continue, initial unemployment claims in Minnesota were also up 13.7 percent in August relative to their year ago level. In Montana, the August unemployment rate was 5.8 percent, up from 4.6 percent a year ago (but down slightly from its July level of 6.1 percent), while the August nonagricultural employment was 1.03 percent higher than a year ago. In North Dakota, the August unemployment rate was at 4.3 percent, up from 3.4 percent a year ago, while in South Dakota it was 3.7 percent, up from 3.3 percent. In both cases, the August level was somewhat higher than the July level (3.9 and 3.2 respectively for North and South Dakota). South Dakota's nonagricultural employment was a robust 2.99 percent higher in August than its year ago level, while in North Dakota it grew by a respectable 1.43 percent over the same period. The strong employment growth in South Dakota over this period was led by manufacturing (up 3.43 percent), construction (up 5.80 percent), and trade

(up 4.07 percent). In the Upper Peninsula of Michigan the August unemployment rate was 8.6 percent, up from 8.0 a year ago, but down 0.1 percent from its July level. Unemployment rates in western Wisconsin, which are only available through July, were also higher than their year-ago levels.

### Consumer Spending

Retail sales have been fairly strong in the District, with major retailers reporting sales increases in comparable stores for the five week period ending October 5 of 5 to 10 percent. Gross sales tax receipts in Minnesota were up 8.4 percent in August relative to a year ago, but approximately 0.6 percent of this increase reflects a rise in the state's sales tax. Retail sales have been strong in Montana, North and South Dakota, and the Upper Peninsula of Michigan, which continue to reap the benefits of the influx of Canadian shoppers.

District new car sales continue to be weak with domestic auto companies reporting sales declines ranging from 9 to 20 percent in September relative to a year ago, and year-to-date sales declines are reported to be even larger. However, truck sales have surged recently with September sales increases reports ranging from 15 to 46 percent higher than a year ago, though year-to-date sales are still well below last year's levels.

Housing sales remain mixed in the District. In the Minneapolis—St. Paul area, housing sales dropped 13.4 percent in September relative to a year ago, after rising in August. The September median single-family home price was up only 3.2 percent from a year ago. This continues the trend of the 1980's in which home prices in Minnesota have failed to keep pace with inflation. In contrast, housing sales were reported to be improving in North Dakota and Montana.

Tourism activity has been excellent in all parts of the District. The number of crossings over the Mackinaw Bridge onto the Upper Peninsula of Michigan was 4.2 percent higher for the first nine

months of this year. The American League Championship and potential World Series are expected to bring \$6 million dollars in direct spending per local game to the Minneapolis—St. Paul area.

### Construction and Manufacturing

Conditions in the District's construction industry have been mixed, with the overhang of office space in the Minneapolis—St. Paul area expected to continue to depress commercial activity. In addition, August housing permits in Minnesota were down 8.0 percent relative to a year ago, and 31.2 percent relative to two years ago. Elsewhere, construction is reported to be particularly strong in South Dakota, and to be doing well in Montana and North Dakota.

Conditions were mixed in the District's manufacturing industries, with a number of firms reporting layoffs. However, in Minnesota's manufacturing sector, the August level of average weekly hours (at 40.8) was about the same as a year ago, though higher than in July (40.1), while the level of average weekly earnings was up 3.2 percent in August from a year ago. New business incorporations in the state were also up 7.0 percent in July relative to a year ago.

### Resource-Related Industries

Crop yields in the District, with the exception of Minnesota, were generally good. Excessive precipitation in Minnesota has hurt key crops (corn and wheat production are expected to be lower than last year), but apples in particular have benefitted. In addition, the high moisture level combined with a mild winter threatens the state's corn crop with extensive insect damage. In North Dakota, crop production estimates for corn and dry beans are sharply higher than year-ago levels (up more than 40 percent), but food and feed grain production is expected to decline by 9 percent. In Montana the wheat crop forecast for 1991 is the highest production level since 1982. Agricultural prices are down sharply. The September level of the Minnesota index of prices received was 7.8 percent below a year ago; crop prices were down 4.3 percent, livestock prices were down 13.7

percent, dairy products prices were down 4.6 percent, and poultry products prices were down 6.3 percent. Potato farmers in North Dakota are reported to be particularly hard hit by the price declines.

Mining has been mixed in the District. Despite substantial price declines, year-to-date income from copper, silver, and molybdenum mining was up substantially in Montana from last year. The lumber and wood products market is mixed, with problems due to environmental issues anticipated in the near future.

## TENTH DISTRICT - KANSAS CITY

Overview. Economic conditions in most of the Tenth District continue to show only modest improvement. Retail sales and new home sales are up somewhat. But new car sales are off slightly and housing starts are sluggish. Drilling for oil and gas continues to slip and falling cattle prices have slowed the growth of farm income. Both retailers and manufacturers want to trim inventories and retail and wholesale prices are generally steady to somewhat lower.

Retail sales. Retail sales have increased somewhat across district states over the past month. Clothing sales are strong, but sales of big ticket items are weak. Some retailers expect relatively strong sales when the holiday season arrives. Prices have been steady to somewhat lower over the past month and are expected to remain steady. Strong competition for the consumer's dollar appears to be keeping downward pressure on prices. Most respondents consider their inventory levels too high, but some expect to expand inventories more than seasonally as they stock up on spring goods.

Auto sales are down slightly from a month ago in most district states. Some potential buyers continue to have difficulty getting loans. Dealers are trimming their inventories of 1991 cars and expanding their new model inventory. Respondents expect auto sales to remain flat or improve slightly through the remainder of the year.

Manufacturing. Purchasing agents report few increases in input prices over the past month, and expect little further change in prices this year. Materials are readily available. Most firms are trying to trim inventories, and expect to do so through year-end. A few plants are working close to full capacity, but none report bottlenecks or skilled labor shortages.

Energy. Activity in the district's oil patch continues to slow in response to weak prices for natural gas and crude oil. The average number of operating rigs in district states fell from 235 in August to 232 in September. This dip caused the district rig count to fall about 24 percent below its year-earlier level.

Housing Activity and Finance. While housing starts over most of the district were down from last month, starts are above year-ago levels and are expected to end 1991 ahead of last year. New home sales are up, helping to reduce the inventory of unsold homes. Prices for new homes are also up moderately. Builders report no problems acquiring materials, but lumber prices remain high.

Most savings and loan respondents report net deposit outflows last month. Deposits are expected to remain flat or decrease in coming months. Mortgage demand varies widely across the district. Most respondents expect mortgage rates to soften slightly during the next several months.

Banking. Changes in loan demand were mixed at district commercial banks again last month. Half the respondents report no change in overall loan demand. The other half was split equally in reporting increases and decreases in overall loan demand. Demand was lower for commercial and industrial loans and most real estate loans, but higher for agricultural loans. Demand for home mortgage and home equity loans was constant to slightly higher. Loan-deposit ratios showed no definite trend last month. Changes in total deposits were also mixed. NOW accounts, MMDAs, and IRAs and Keoghs increased at some banks, however.

Most respondents report decreases in their prime and consumer lending rates. Several of the respondents expect to lower these rates further in the near term. No banks report changes in other lending terms.

Agriculture. The fall harvest is underway in most of the district. Corn, soybean, and milo yields vary widely. Dry weather cut dryland yields by more than half in some areas, but irrigated crop yields are expected to be better than average.

Unfavorable weather continues to plague district farmers and ranchers. Wet weather has delayed the cotton harvest in Oklahoma. But dry weather has slowed planting of the winter wheat crop in much of the district. Dry weather has also scorched district pastures, causing ranchers to feed previously

harvested forages to their cattle. Forage supplies are generally adequate, however, because the spring hay crop was large in most areas.

District cattle ranchers and feeders continue to adjust to last summer's sharp drop in cattle prices. Prospects of further declines in feeder cattle prices have encouraged many ranchers to sell their calves instead of feeding them to heavier weights or retaining them for breeding herds. Meanwhile, operating losses have led feedlot operators to reduce the number of cattle on feed. These adjustments should trim the backlog of unusually heavy cattle that pushed cattle prices down, enabling gradual recovery in prices during the rest of the year. Still, cattle prices are likely to remain below the record levels of recent years, eroding the main source of strength in district farm incomes.

## ELEVENTH DISTRICT--DALLAS

The District economy is growing very slowly and rates of expansion are uneven across the District. Many firms note that they are selling less than they expected and that they are unusually uncertain about the future. Service sector expansion is weak. Retail sales are below respondents' expectations and show only slight nominal growth from a year earlier. Auto sales remain anemic. Manufacturing output is expanding slowly. Although construction contract values are increasing, they remain at low levels. The oil and gas industry is in the doldrums as a result of low natural gas prices. Agricultural producers expect good yields. Some businesses report difficulties obtaining credit. Commercial banks say funds are available to lend, although credit standards have tightened from earlier this year.

Activity is strongest along the Mexico border where a strong peso is encouraging U.S. purchases. Growth in Houston has slowed but remains positive while activity in the Northern portion of the District may be contracting slightly.

The service sector is growing very slowly and respondents say that competition is intense. Temporary firms report an increase in demand for manufacturing-related employment but not for service-related temporaries. Accounting firms also note an increase in demand from manufacturing companies, although overall demand is flat. Activity in the advertising sector has increased slightly, but firms report a shift to cheaper direct-mail advertising. Demand for legal services is unchanged from a year earlier, although international demand is showing strength. Airlines report that heavy competition continues to hold down prices.

Retail sales growth remained weak in September. Sales were below expectations and several retailers have reduced their forecasts for the rest of the year. Several department store respondents note that weakness is widespread across their industry. Inventories have been reduced and prices remain very competitive. Children's merchandise has been selling well but sales of ladies and mens apparel remains weak. Sales growth continues to be strong along the Mexican border, but the rate of expansion has slowed.

District auto sales are mixed. September unit sales increased in Houston, but year-to-date sales are still below last year. Dallas area auto sales continue to decline and are about 8 percent below last year's level.

Manufacturing output is growing slowly. Sales of electric and electrical machinery are up a little and producers report increased demand for memory components, microprocessors and programmable logic drivers. District apparel producers cite continued sales increases. Demand for lumber, wood and paper products has fallen recently. Glass sales have changed little in the last few months, but the demand for brick has increased. Chemical production has increased to rates of a year ago, but firms say that competition is high and that input costs are rising. Demand for primary metals continues to decrease and is now well below this time last year. While fabricated metals sales have moved up lately, the expansion is said to be seasonal; orders are still well below last year. Petroleum refining is unchanged. Low natural gas prices and expectations of reduced drilling are said to have pushed down orders of oil field machinery. For some larger producers, increases in international sales have partially offset domestic declines.

District construction contract values are increasing very slowly, and remain at low levels. Although residential construction values have picked up across the District, demand is below last year's level in Houston and in the Dallas/Ft. Worth area. Public construction continues to increase. Demand for commercial and industrial construction has been flat and remains at very low levels.

Oil prices have held steady around \$21-\$22 per barrel for the past eight months. Natural gas prices, however, plummeted to twelve-year lows in July, leaving the oil and gas industry in the doldrums. Although natural gas prices have increased slightly since July, drilling activity in the region has declined, with many oil companies concentrating their exploration and production activities abroad. District energy firms are announcing layoffs. Respondents expect the fourth quarter to show seasonal increases in oil and gas prices. In the long run, respondents are optimistic about natural gas prices, because of expected increases in demand as a result of the Clean Air Act and of increased exports to Mexico.

Although agricultural yields are expected to be good, recent wet weather has damaged some crops. Producers report higher prices for most crops and lower prices for most livestock commodities. Strong demand is helping to keep cotton prices relatively high and record volumes of cotton are expected to be harvested.

District commercial banks report that funds are available for lending. Loan demand, however, is reported to be weak. Some banks indicate that they have tightened their credit standards over the past year.

## TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic weakness continues in much of the Twelfth District, though intermountain areas remain relatively strong. Retail sales are sluggish, with some contacts reporting declining consumer confidence. Manufacturing activity is mixed, with conditions in California and the Pacific Northwest deteriorating, while conditions in Idaho and Utah remain stable. The slump in commercial real estate continues, particularly in southern California. Residential sales activity has declined following the rebound in the first half of 1991, but median house prices remain stable. Wage and price increases, with the exception of health care, are modest throughout the District. Outside of refinancing activity, loan demand remains sluggish. Agricultural conditions are mixed.

Business Sentiment

Economic expectations of Twelfth District business leaders worsened in October. Eighty-five percent of respondents (versus 70 percent in September) now foresee national GNP growth of less than 2.5 percent during the next four quarters. The percentage of business leaders expecting the next four quarters to be characterized by recession increased to 17 percent (versus 7 percent in September), ending a trend of improved recession expectations that began in January. The outlook of business leaders in the West worsened in October for business investment, consumer spending, and the trade balance. The most optimistic expectations of business leaders were in the areas of housing starts and inflation, where about half of the respondents projected some improvement in the next four quarters.

Wages and Prices

Upward pressures on wages and prices remain minimal throughout most of the Twelfth District. Retail prices continue to be constrained by sluggish consumer demand. Prices have

fallen for fresh meats and vegetables, and remain stable for dry goods. Group health care coverage costs are expected to increase 20 to 30 percent, with HMO's projecting increases of 10 to 15 percent. Wage increases in the Twelfth District mostly are reported in the 3 to 4 percent range, although in some areas and industries in the Pacific Northwest, wages are reported to be rising 4 to 5 percent.

#### Retail Trade and Services

Consumer spending remains weak in the Twelfth District. Most reports suggest that consumers are hesitant to make large purchases in the face of increased economic uncertainty. Retail soft goods sales remain sluggish, although one retailer notes a recent pick-up in men's clothing sales which the retailer views as a leading indicator of overall sales. In Seattle, the bankruptcies of two large retailers are being blamed partially on sluggish sales. Auto sales also are reported slow, with one dealer indicating that consumers are expecting prices to fall. Business at law firms is reported flat to down 15 percent with some layoffs expected. State and local government budgets remain tight, especially in California and the Pacific Northwest.

#### Manufacturing

Manufacturing activity in the Twelfth District remains mixed. Conditions in California and in some industries in the Pacific Northwest continue to deteriorate. The aerospace industry in California continues to report layoffs, although the number of job losses is smaller than in the last two years. Boeing still is producing at full capacity, but orders so far in 1991 are well below last year's pace. Low aluminum prices and demand will likely lead to production cutbacks. In Idaho and Utah, however, manufacturing activity is reported stable. In Idaho, solid conditions are reported for food processors and electronics firms.

#### Agriculture and Resource-Related Industries

Agricultural conditions in the Twelfth District are varied, with prices for some crops still

low. Farmers in California's Central Valley report declines in fresh fruit and vegetable prices because of high production. In Idaho, dry bean prices are down 50 percent from last year, and potato prices have fallen over 40 percent since Spring. Livestock conditions remain split with producers still profitable, while feedlot operators continue to lose money. Dairy farmers are still facing tough conditions as a result of low prices.

The lumber industry continues to face falling finished product prices, while timber prices remain very high. Lumber product prices are expected to continue to erode into early 1992. Electric power prices in the Pacific Northwest have increased recently because of low runoff and the shutdown of two nuclear power plants in the region.

#### Construction and Real Estate

Construction and real estate activity remains slow in much of the Twelfth District, though some strength is reported in Arizona, Idaho, and Utah. New construction is reported to be constrained by lack of credit and the effects of Resolution Trust Corporation sales. Residential home sales, which had rebounded in the first half of the year, now are reported to be sluggish throughout California and the Pacific Northwest, though median prices remain stable. Commercial real estate markets continue to face sizable oversupply, particularly in southern California. In Los Angeles, office rents have plummeted and the downtown vacancy rate reportedly may reach 30 percent in 1992.

#### Financial Institutions

Twelfth District financial institutions continue to report mixed conditions. In California and the Pacific Northwest, loan demand remains sluggish outside of refinancings, especially for consumer loans. Non-performing loans continue to rise in California, but some institutions report increased selling or liquidation of these assets. Layoffs are reported among Arizona and California banks. Banking conditions remain solid in Idaho and Utah.