SUMMARY OF COMMENTARY ON CURRENT CONDITIONS BY FEDERAL RESERVE DISTRICT

NOVEMBER 1991

TABLE OF CONTENTS

Summary*

Reports compiled by the Federal Reserve Banks generally suggested flagging momentum in the economic recovery in October and early November, with most Districts in the middle of the country indicating continued but slower growth and most other Districts reporting stable to slightly weaker conditions. Retail sales generally remained sluggish, with several Districts noting that gains were concentrated in nondurable goods. After improving in September, manufacturing activity levelled out in most Districts in October and early November. Housing activity expanded, albeit slowly, in most regions, while commercial construction remained weak. Demand for commercial and industrial loans remained soft, according to most bankers, while credit standards were generally unchanged. Most agricultural sources reported higher crop yields and lower prices for both crops and livestock. Reports on price trends suggested steady to diminished inflation, and discounting was widely reported in the retail sector. Several Districts stated that contacts remain optimistic about business conditions in 1992.

Consumer Spending. Retail sales generally remained sluggish in October and early November. Sources in Atlanta and Cleveland noted that sales gains were concentrated in nondurable goods, while Dallas, Boston and Kansas City each reported weakness in sales of big-ticket items. Minneapolis indicated that retail sales have generally been stagnant except for areas close to the Canadian border, which have benefitted from a surge in cross-border shopping. Minneapolis also reported a strong tourism season. Richmond noted continued softening in sales. Inventories were said to be above plan by sources in Chicago, Cleveland, and San Francisco, while contacts in New York, Atlanta, and Kansas City expressed satisfaction with recent levels. Active discounting was widely noted, and several reports indicated that discounting was necessary to achieve sales gains. Reports on new car sales were uniformly weak, with several sources indicating slower showroom traffic and lower buying interest expressed by customers who do enter the showroom.

---

*Prepared at the Federal Reserve Bank of Chicago and based on information collected before November 25, 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.

Manufacturing. Manufacturing activity was mixed, with some loss of momentum noted in regions that reported strengthening in the summer and early fall. After rising modestly in the past several months, manufacturing activity in Philadelphia edged down slightly in recent weeks. About half of the manufacturing contacts in Boston reported that orders have softened recently, after some improvement in the summer or early fall. Conditions in the auto industry contributed to some slowing in the growth expected in the Cleveland and Chicago Districts. Reports received in Atlanta, Kansas City, and San Francisco generally indicated continued sluggishness. Manufacturing activity continued to slip in Richmond, according to the bank's survey of local firms, and excess capacity was most frequently cited as the most important current problem. Reports on conditions in capital goods industries were mixed in Cleveland and Chicago. Recent layoffs and plant closings in the defense, computer and consumer electronics industries were noted in St. Louis, although solid demand was reported for motor vehicles produced in that region (which include minivans). New orders received by a commercial aircraft producer have softened, according to San Francisco. Continued sluggishness was noted in industries linked to construction activity by Boston, Philadelphia, Atlanta, Chicago, and St. Louis, while firms producing goods for housing construction in Dallas reported some improvement. Purchasing managers' surveys in Buffalo and Rochester revealed mixed but generally stable conditions in October.

Real Estate/Construction. Housing activity continued to expand at a slow pace. Demand for existing homes picked up in the New York metropolitan area, particularly among first time home buyers attracted by lower mortgage interest rates and lower home prices. Reports received by Kansas City indicate that home sales remain well above year-earlier levels. Several banks noted that improved sales activity is concentrated in the lower end of the market. Modest improvement in residential construction was noted in St. Louis and Kansas City, although St. Louis also noted that weak demand from the housing sector has depressed prices received by a metals producer. Housing starts remained weak in several markets covered by San Francisco and New York, while Atlanta noted small increases in activity among home builders. Sales of existing homes softened in parts of the Chicago District, and home remodelers in the Chicago metropolitan area reported sluggish demand. Sources generally noted little change in commercial construction among Districts.

Banking. Reports from bankers generally indicated that lending standards for approving commercial and industrial loan applications remained unchanged in recent months. Demand for commercial and industrial loans was generally reported to be stable but weak in Richmond, Philadelphia, Cleveland, Chicago, St. Louis, and Dallas. Bankers contacted by Kansas City stated that lending demand was steady to slightly higher; improved demand was concentrated in construction, agriculture, and home mortgage loans, while demand for commercial and industrial loans decreased. A small pickup in demand for commercial and industrial loans was reported in Atlanta, although demand still remained well below year-earlier levels. Bankers in Atlanta, New York, and Dallas stated that high quality loan applications remain difficult to obtain. Chicago noted that when good loan prospects do appear, competition between lenders has been intense, with the borrower benefitting from lower rates. Some reports cited instances of borrower difficulty in obtaining credit. Kansas City stated that some car buyers are finding it difficult to qualify for loans. Several of San Francisco's respondents cited tight credit as one reason for slow construction activity. Atlanta noted that auto dealers and construction contractors report continued difficulty obtaining credit. St. Louis noted that first-time home buyers in one market have found it difficult to qualify for mortgage loans, in part because of a lack of savings for a downpayment.

Agriculture. Most reports indicated larger-than-expected harvests and high levels of livestock production, coincident with weaker commodity prices. Chicago reported upward revisions in estimates for corn and soybean production, and noted that the improved harvest and weakness in exports have weighed on crop prices. Both Chicago and Kansas City noted weaker livestock prices, and farm bankers in the Kansas City District expect an increase in the number of problem loans over the coming year. Weaker livestock and cotton prices led sources in Dallas to revise farm income projections downward. San Francisco reported that agricultural conditions were generally satisfactory, although an infestation by the poinsettia whitefly has harmed the winter vegetable crop.

Heavy snowstorms hurt the corn harvest in Minnesota. Above-average yields were reported by St. Louis and Richmond, although Richmond stated that dry weather has affected recent plantings.

Outlook. Several District reports on business expectations revealed continued optimism for economic conditions in 1992. Most manufacturing sources in Philadelphia continue to anticipate growth over the next six months, despite some recent softening. Philadelphia also reported that bankers' forecasts of commercial and industrial lending growth have increased since earlier in the fall. Richmond noted that retailers anticipate sales and their own capital expenditures to rise over the next six months, although some softening was indicated in expectations for holiday season sales. Most manufacturers contacted by Dallas expect stronger growth in orders next year. However, weaker sales expectations were indicated by auto industry suppliers in both Cleveland and Chicago, and a survey conducted by San Francisco showed a moderate increase in the percentage of business leaders expecting a renewed recession. Sources in Boston expect some pickup in economic activity around mid-year, but still anticipate a "long, slow haul." A large group of economists who attended a recent roundtable in Cleveland uniformly expected the recovery to continue through 1992.

FIRST DISTRICT-BOSTON

Economic activity has not revived in the First District, but results are more varied than in recent months. A majority of retail contacts describe sales as level or rising slightly, but some report continued deterioration. Retailers foresee consumer skittishness and bargain-hunting combining to make the Christmas season very competitive. Manufacturing contacts also report mixed signals. At least half see recurring weakness in new orders and further cuts in employment. Yet, several describe new initiatives and plan increased capital spending. They expect no upturn in economic activity until mid-1992.

Retail

The majority of First District retail contacts report flat to slightly increasing sales in October and early November as compared to a year ago. However, one respondent suffered continued declines in sales, while another entered bankruptcy. Retailers who have experienced improvements attribute sales strength to consumers' long-delayed purchases of necessities and to an early start of the Christmas season.

Several retailers note that stimulating consumer demand now requires discounts. The cautious buying pace is attributed to concerns about employment stability as well as to consumers' expectations that anxious retailers will cut prices further. This downward pressure on prices has meant that margins remain thin despite the minor uptick in sales. Thus, profits are unchanged, and retailers complain that they will increase only with further cost reductions.

Most retailers see few remaining opportunities for cost cutting. In all but one case, capital budgets are slim to nonexistent. With few exceptions, wages are not increasing. Most retailers will conduct typical seasonal hiring, although one plans further staff reductions. All expect an extremely competitive Christmas.

Manufacturing

First District manufacturers give mixed reports on sales and orders in the third quarter, October, and early November. Contacts are almost evenly divided between those with sales and orders unchanged from year-ago levels, those with slight increases, and those with (sometimes sizable) declines. Nevertheless, half the contacts say that incoming orders have softened recently after improving in the summer or early fall. Government demand is described as weakening and construction-related business as dormant. By contrast, retail, service, biotech and environmental customers are said to be perking up. Demand from the computer, telecommunication, and aircraft industries reportedly varies. Views on foreign demand are also mixed. Some contacts see signs of recent upturns in the United Kingdom and Canada and continuing strength in Europe and the Pacific. Others see growing weakness in Europe and Japan and no improvement elsewhere.

Most contacts report that employment is below year-ago levels; in a few cases it has been stable since summer. Several firms have used part-time schedules, furloughs, salary cuts, and delayed pay increases to reduce labor costs. Over half of those surveyed expect further employment reductions -- in two cases in response to unwelcome increases in inventories. Two firms plan modest hiring.

At half of the manufacturing firms surveyed, capital spending is currently below budget, in some cases by as much as 30 to 50 percent. Next year, however, half expect to increase investment from its 1991 level. Some of the plans involve new or replacement facilities and require substantial increases in spending. A few firms are introducing new products; others are trying new marketing efforts.

Input prices are generally described as steady or mixed. Prices for steel, some types of paper, and standardized products are declining. Prices for proprietary products and for services, such as advertising, are up. Sales prices are flat to down at more than half of the firms surveyed, but a sizable minority have raised prices on some products by as much as 5 percent.

First District manufacturing contacts have budgeted 1992 sales growth at the current or a slightly improved pace. They expect some pickup in economic activity around mid-year, but, over the medium term, foresee a long, slow haul.

SECOND DISTRICT--NEW YORK

Reports on District developments remained mixed. October sales results at department stores were fairly evenly divided between those with sales above and below year-ago levels. District unemployment rates rose in October reversing September declines. The October purchasing managers' surveys indicated that business conditions stabilized in Rochester while deteriorating somewhat in Buffalo. Although residential construction continues sluggish, there has been some increased demand for existing homes and office space in several areas. Senior loan officers at small and midsized banks said their willingness to lend was unchanged from three months earlier.

Consumer Sector

October sales results at District department stores were divided fairly evenly between those with higher and lower sales compared to a year earlier. Over-the-year changes ranged from -2.5 percent to +4.6 percent and for the most part fell short of plans. Responses varied concerning best selling items with some citing women's and men's apparel and others noting a pickup in home furnishings. Contacts stated that they have not had any extra promotional activity compared with last year but that this could change if competitive preasures increase during the holiday season.

Inventories are reported to be in good shape and intentionally below year-earlier levels in some cases. District retailers do not anticipate large year-to-year gains for the rest of the fourth quarter in light of the sluggish economy and surveys showing continued reluctance to spend on the part of consumers.

Residential Construction and Real Estate

While residential construction remains sluggish in the District, some increase in demand for existing homes has been noted. In the New York metropolitan area, for example, homeownership is reportedly the most affordable it has been in years as a result of reductions in existing home prices and lower mortgage rates. First-time homebuyers in particular are said to be taking advantage of the improved situation. In the Buffalo area, the volume of resales increased 9.5 percent in October from a year earlier despite a recent rise in the median price of such houses. More generally, a recent study found that resales in both New York and New Jersey have been increasing this year after declining steadily from 1988-1990.

Office leasing activity improved in parts of the District but vacancy rates moved in varying directions. Vacancy rates moved up in midtown Manhattan and Westchester County, largely as a result of corporate relocations and restructuring, while northern New Jersey's rate increased due to the completion of several new office buildings. By contrast, Fairfield County, Connecticut recently experienced a decline of almost a percentage point in its vacancy rate as a result of strong leasing activity and rates in downtown Manhattan and on Long Island showed virtually no change. Overall, office vacancy rates remain at high levels in much of the District.

Other Business Activity

District unemployment rates rose in October after declining in September. New York's rate increased to 7.2 percent from 6.8 percent in September while New Jersey's rate rose to 6.8 percent from 6.2 percent. The District's employment outlook is dimmed by several recent developments. New York and Connecticut are now confronting sizable current fiscal year budget gaps only months after struggling to bring those budgets into balance. New York City is attempting to close a large budget gap as well. These shortfalls could mean the elimination of many additional government jobs. In preparation for their planned merger, Chemical Bank and Manufacturers Hanover have reportedly eliminated close to 1000 positions since last summer and are expected to eliminate several thousand more over time. In addition, a recently announced restructuring at Warner-Lambert will result in the loss of

340 jobs at its New Jersey headquarters. In upstate New York Crucible Materials plans to close a major part of its steel plant, eliminating 250 jobs in early 1992 and Niagara Mohawk Power will cut 400 jobs from its nuclear operations. On a positive note, a consortium of Lufthansa, JAL and Air France has proposed the first new terminal in 30 years to be built at Kennedy International Airport.

The Rochester and Buffalo surveys of purchasing managers showed differing results in October. General business conditions stabilized in Rochester where surveyed firms reported business conditions similar to those in September. The 32 percent of firms reporting an improvement was double the number reporting a worsening. In Buffalo, however, some deterioration occurred as the percentages with lower production and fewer new orders more than doubled. Nonetheless, by far the majority of firms in both areas reported stable to improved conditions.

Financial Developments

Most senior loan officers surveyed at small and midsized banks in the Second District reported that their willingness to lend remains unchanged from three months ago. However, while they are "actively and aggressively seeking high quality loans", demand remains weak. Those respondents noting an actual decrease in overall loan demand are using advertising campaigns as part of a marketing approach for new loans.

Nearly all loan officers are now charging lower loan rates than they were three months ago, reflecting decreases in the prime rate. With the decline in interest rates has come an increase in mortgage refinancing. Credit standards at all banks surveyed have not changed over the past three months. Although delinquency rates in general have increased over recent months, delinquencies on commercial and industrial loans and on nonresidential mortgages have remained stable. Slightly less than half of surveyed officers reported a rise in consumer loan delinquencies.

THIRD DISTRICT - PHILADELPHIA

According to most indications, economic activity in the Third District was easing in early November, although there were some positive developments. Manufacturers reported a dip in business and continuing reductions in employment. Retailers noted an upturn in sales, but they said extensive discounting was necessary to prompt the improvement. Bankers said the downward trend in overall loan volume was continuing although they reported a recent increase in residential mortgage lending for both home purchases and refinancings.

Recent developments have not altered the outlook among most contacts in the Third District business community. Manufacturers are still optimistic that business will improve over the next six months. Retailers forecast only slim year-over-year gains in the dollar value of sales for the Christmas shopping season. Several commercial bankers said they believe commercial and industrial lending may pick up by the middle of next year. This represents a more optimistic view for this lending category than the forecasts bankers made earlier this fall. For consumer lending, bankers expect some modest gains as the economy recovers; but they plan to maintain limits on commercial real estate lending.

MANUFACTURING

Manufacturing activity in the Third District was edging down in early November, according to reports from industrial firms in the region. Reports of slightly slower business are common from most industries. On balance, producers of nondurable goods note some improvement while producers of durable goods generally are experiencing weakening conditions. This is especially true among makers of building products and construction-related goods. While many manufacturing companies reported steady demand, the number noting recent drops in shipments exceeded the number posting gains. On balance, new orders and order backlogs were also declining slightly. Although more than two-thirds of the firms contacted for this report indicated that the prices they were receiving for their products were stable, nearly one-fifth were reducing prices while only one-tenth were raising prices. Apparently in response to slackening activity, more firms have been laying off workers and cutting hours than have been hiring or lengthening the workweek.

Despite the dip in activity in November, most manufacturers in the Third District are optimistic that business will pick up over the next six months. A majority of those polled for this report forecast increases in shipments and orders by next spring. While most intend to hold the line on employment over the period, more than one-fourth plan to add to their work forces.

RETAIL

Most retailers contacted in mid-November said the pace of sales had picked up in recent weeks, but they also said that extensive price reductions were necessary to generate the increased business. Merchants expect year-to-year comparisons for the month as a whole to be good, but they point out that the year-ago results were very poor. Specialty stores appeared to be faring somewhat better than general merchandisers.

Most of the store executives contacted for this report were holding to their earlier forecasts for the Christmas shopping season despite the recent upturn in sales. These forecasts call for gains in the range of 3 to 5 percent over last year in dollar sales. With most merchants concerned that extensive discounting will have to be maintained through the end of the year, few expect operating profits to improve significantly.

FINANCE

Reports from Third District bankers in mid-November indicate that outstanding loan volume continues to slip in most credit categories. Commercial and industrial loan volume at major Third District banks in the first week in November was 14 percent below the level at the start of the year, and bank lending officers generally said the runoff was continuing as current borrowers pay down debt and demand for credit from potential customers remains weak. Consumer lending is also slipping, according to bankers as declining auto loan volume offsets increases in credit card and home equity lending. Several bankers noted that, in response to lower mortgage rates, residential real estate lending had increased in recent weeks, for both purchase mortgages and refinancings.

Several bankers said that discussions with their business customers lead them to believe that commercial and industrial lending will increase near the end of the second quarter of next year as area businesses step up capital spending. For other credit categories, bankers generally see slow growth in consumer lending next year as confidence in a recovery gradually increases, but they expect to maintain limits on commercial real estate lending.

FOURTH DISTRICT - CLEVELAND

Summary. District respondents revised downward their expectations for growth this quarter and next, but still do not expect a double-dip recession. Retail sales continue to be mixed and generally flat, and retailers remain cautious about sales, inventory, and employment prospects for the holiday season. Growth in manufacturing in the District may slow, as a result of trimmed auto production schedules, but capital goods producers note an increase in orders in October. Bank loans continue to be sluggish, except for mortgage refinancing and home equity loans, despite lower lending rates.

The Economy. The Fourth District panel of economists from manufacturing, trade, and financial services remains cautiously optimistic that the national economy will continue on a slow growth path, despite an apparent stalling in recent months. The panel of 25 economists who met at this Bank on October 25 predicted a 3 percent real GNP growth between 1991:IVQ and 1992:IVQ, and an inflation rate of 3.1 percent.

A telephone survey of most of the Roundtable members in late November shows a downward revision to real GNP growth to about a 1 percent annual rate this quarter, and to about a 2 percent rate next quarter; however, but growth in the second half of 1992 has been revised upward to a 3 percent to 4 percent range. None of the respondents expects a double-dip recession, although a few acknowledge that growth in a zero to 1 percent range this quarter is possible.

Several respondents cite a slower-than-expected recovery, and a common perception that the economy is still in recession, as causes for the deterioration in business and consumer sentiment in recent months.

Latest information for the Fourth District is somewhat more encouraging han for the nation. Industrial production in Ohio rose again in September.

In October, employment held steady, and the unemployment rate was again below the national average. Purchasing managers in Cleveland and Cincinnati report that orders and production strengthened in October.

Consumer Spending. Retailers continue to cite a relatively flat level of sales over the past several weeks, with some department stores reporting somewhat better sales in October than in the summer, but others posting declines. Sales of major appliances, furniture, and home electronics products fell in October and early November, but sales of soft goods strengthened, according to several sources.

Retailers remain cautious in their outlook for sales during the Christmas season. The expected improvement in sales ranges from zero to about 4 percent higher than a year earlier, with most of the strength in soft goods. A retail economist estimates that real consumer spending this quarter will increase at about a 1 percent rate from last quarter, with all of the increase in services.

Retailers have been cautious about inventories, but less-than-expected sales growth, or even declines in some cases, have apparently resulted in larger-than-desired stocks, especially for hard goods and apparently for apparel. Consequently, retailers expect aggressive price promotions throughout the holiday season. Part-time hirings for the season are said to be much fewer than usual, which analysts warn will depress employment in November and December.

New car dealers in the District report that November sales were slower than a year ago. As a result, most dealers have higher than desired inventories, and have cut factory orders for the balance of the year.

Manufacturing. The pace of manufacturing activity in the District, which has been stronger than in the nation since the recovery began, is likely to abate, according to some forecasters. Auto production schedules are being trimmed, capital goods revival is still uneven, and businesses will keep inventory building below levels that are usual for this stage of recovery.

The revival in auto sales and production that began early this year has lost momentum in recent months. Automotive economists have lowered their estimates for both sales and output this quarter, and next, because the recent flattening in new car sales has left larger-than-desired inventories. Auto producers now forecast output at about 1.5 million cars this quarter and next. Total automobile and light truck sales this quarter are now estimated to fall a few percent from 1991:IIQ. Auto sources believe that significantly larger price incentives will be needed than at present in order to stimulate sales. Bank lending rates are reported to have been lowered in recent weeks, but with little effect on sales.

The surge in real producers' durable equipment output last quarter was unexpected by capital goods respondents, who look for a much reduced pace this quarter. Orders for recently introduced new computer machinery were disappointing, according to a producer. Some believe that a strike in the construction machinery industry will dampen output for the next few months. A large parts supplier for heavy-duty trucks reports that new orders rose strongly in October, following a mixed but slowly rising trend since early this year. Several small business equipment producers in northern Ohio note a marked pickup in business in both September and October. A hand tool producer reports that October was the second best shipment month in recent history. A supplier of plastic parts for commercial aircraft and a small machine tool builder also report that October orders were the best in several months.

Steel operations have been reviving gradually to about 80 percent of capacity from 70 percent earlier in the year. Order books for flat-rolled steel products are full through 1992:IQ, and operations are virtually at capacity, according to some sources. Output has been rising gradually, especially because of increased orders from the auto and appliance industries and from steel warehouses. Some rebuilding of steel inventories is occurring, but steel sources are apprehensive about how long the present level of operations will be sustained because orders appear to have leveled out. They are also concerned about whether the auto industry will take delivery of all of the orders now on the books in view of the trimming of auto production schedules.

Financial Developments. Large and small commercial banks in the District report no pickup in new loans in recent weeks, either for commercial and industrial loans or for total loans. A large bank notes that loan activity, while little changed from September, was better than during the summer months. Large and small banks have had a surge in mortgage refinancing, which one lender described as being at capacity, and home equity loans have also been rising sharply. Recent declines in mortgage interest rates, to about an 8 percent to 8-1/2 percent range for 30-year fixed-rate mortgage, are believed to have come too late in the season to strengthen housing sales, but some thrifts report a burst in new loan activity in recent weeks.

Most bankers contend that credit remains available to creditworthy borrowers, and that lending standards have neither tightened nor eased in recent months. Some large banks are still restricting loan growth because of possible losses that would affect their capital. Several small banks report constraint in lending, especially to gasoline stations, dry cleaning establishments, and auto garages because EPA and OSHA regulations place lenders at risk for compliance.

FIFTH DISTRICT-RICHMOND

Overview

District economic activity weakened somewhat in late October and early November, but respondents continued to be optimistic about business prospects for the next six months. Retail sales and shopper traffic were lower as were most indicators of District factory activity. Loan demand remained sluggish at District financial institutions and few commercial construction projects were underway. On a brighter note, activity was up at District ports and area farmers harvested bumper crops this fall, although the outlook for agriculture was tempered by concern about the effects of dry weather currently gripping the District.

Consumer Spending

Our regular mail survey indicated that retail activity fell in the District in October and early November. Sales decreased as did shopper traffic, retail employment and capital expenditures. Retailers reported that wholesale prices increased while wages and retail prices rose only slightly.

Almost half of the retailers surveyed believed that the recession had not yet bottomed out in their areas; however, they remained optimistic about retail activity for the next six months. Respondents expected sales, capital expenditures and shopper traffic to rise, employment to be stable, and inventories to be unchanged. Most retailers anticipated that wholesale and retail prices would increase over the period.

In their responses to our special telephone survey, District retailers expressed less optimism about sales in the weeks immediately ahead. Most said they would be pleased if this year's Christmas sales merely matched last year's. Several retailers reported that they had started their seasonal sales promotions about two weeks earlier than usual, and a number indicated that they might offer discounts for the first time. Generally, retailers who planned to offer discounts were counting on higher sales volumes to offset lower profit margins. They indicated that they were trying to limit their inventories while still offering a wide selection of merchandise.

Manufacturing

Responses to our regular survey of manufacturers suggested that District factory activity was somewhat lower in October. Respondents reported declines in inventories and employment and they cited excess capacity as the most important problem they were facing currently. Most other indicators of factory activity, including shipments and orders, were unchanged. Manufacturers indicated that general business conditions had worsened, and many felt that their local areas were still in recession.

Looking ahead, however, manufacturers remained optimistic about general business conditions and about their prospects for the next six months. Almost half foresaw increases in shipments and new orders, and few expected decreases. A majority of respondents also anticipated increases in most other production indicators except inventories.

Port Activity

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that exports and imports increased in October from September. Compared with a year ago, export volume was higher and import volume was mixed. Exports were expected to increase faster than imports during the next six months.

Tourism

A telephone survey of hotels, motels and resorts in the District indicated that tourist activity was unchanged in October when compared to September and a year ago. Over half the respondents reported that fall bookings were about the same as last year's and all respondents expected tourist activity to remain flat in the months ahead.

Commercial Construction

Commercial construction remained weak across the District, according to a telephone survey of lenders and contractors. Although some nonspeculative retail construction was proceeding, vacancy rates remained high, and some respondents said it would take several years to absorb the existing vacant space. Although public works projects were responsible for much of the ongoing construction, some large private projects were still underway. No new major commercial construction starts were reported.

Finance

District financial institutions contacted by telephone indicated that lending activity was lackluster. Most of those surveyed reported that their non-price lending standards had not changed over the last six weeks. With regard to pricing, all of the contacted banks indicated that they had lowered their prime rates recently, and most reported that other interest rates they charged their customers also had decreased over the period. Despite lower rates, banks reported that the demand for consumer and business loans remained weak, although the demand for home mortgage refinancings continued to increase.

Agriculture

District agricultural analysts reported that crop yields generally were above average, but they said that dry weather may have damaged recently planted crops and reduced winter hay supplies. With harvesting almost complete, analysts reported that District farmers had produced large crops of corn, peanuts, tobacco and sweet potatoes. The analysts cautioned, however, that very dry weather conditions over much of the District were slowing the emergence of fall-planted small grains. Also, dry weather has left District pastures in poor condition and caused concern about the adequacy of forage supplies for the approaching winter.

SIXTH DISTRICT - ATLANTA

Overview: In early November, reports on the District economy indicated that activity was again sluggish and showed the same uneven pattern that has persisted since last spring. Retailers saw relatively good sales in the past month, but they reported that they are concerned about the shorter-than-usual shopping season. Auto sales were generally unchanged from previous months' and year-ago levels. Manufacturing activity has been slow in construction-related industries, but has shown positive signs in food processing and packaging. Banking contacts report only slight increases in loan demand over the past month and add that credit standards remain unchanged. Residential real estate activity is strong only for homes in the lower price ranges.

Retail Sales: After accounting for normal seasonal patterns, most retail contacts reported an increase in nondurable goods sales, adjusted for price increases, during the first half of November, partly as a result of early discounting. They see little evidence of overall sales gains in consumer durables. Retailers retain cautious expectations for the holiday season and are concerned about the sustainability of recent sales growth. At present, they do not expect holiday sales in real terms to exceed weak year-ago levels despite active discounting. Contacts cite both the shorter holiday shopping season and anemic consumer confidence as reasons for this pessimistic outlook. Inventories remain lean and could become a constraint if early November's sales growth is sustained.

None of the auto dealers contacted reported improvement in sales from previous months' or year-ago levels even with the arrival of new 1992 models. Most saw flat year-over-year sales.

Manufacturing: Reports on factory activity pointed to softness. Weakness persists in construction-related industries where export orders are typically not significant. Carpet mill contacts say that slow commercial construction continues to depress the industry, and add that further layoffs are possible in the near future. Weak demand for consumer durables continues to hurt a regional producer of steel for appliances. Furniture manufacturers also report declining shipments in recent months. Consistent with these reports, transport companies have seen weak lumber, gypsum, and appliance shipments. Apparel producers characterize current orders as sluggish and report concerns that a poor Christmas buying season will increase retail inventories and cause them to reduce orders in the first quarter of next year. A contact in a printing and publishing firm noted that corporate cost cutting and reductions in magazine advertising continue to affect adversely the industry.

More positively, a producer of printed materials for food packaging has seen strength in new orders and production over year-ago levels and is currently planning a major capital expansion project. Several food processors also report increased new orders and shipments. Another producer of paper products and boxes expects currently slowing orders to stabilize in the first quarter of next year. Most contacts continue to carry lean inventories, and have no plans for additional inventory accumulation.

Financial Services: According to most banking contacts, loan demand increased only slightly in the past month and remains below year-ago levels. They complain that it is difficult to obtain high quality loan applications. Much of the reported increase in demand was attributed to market share gains by the reporting banks as borrowers moved from troubled or merged institutions.

On the other hand, one banker said that his institution may have tightened credit standards too much and was losing market share as a result. Auto dealers and construction contractors continue to report that credit is difficult to obtain.

Construction: Most realtor contacts had seen home sales levelling in their typical seasonal pattern in October and early November. Homes in the lower price range continued to report the most sales activity as lower mortgage interest rates stimulated first-time home buyers. Sales of higher priced homes remained sluggish, forcing sellers to reduce prices. Some contacts noted a strengthening in multifamily leasing and rental rates; however, they saw little new construction of multifamily residences. Meanwhile, several contacts report small gains in the activity of surviving home builders in the past several months.

The commercial real estate market has shown little change in this reporting period. Commercial office space remains overbuilt in many cities, with effective rental rates depressed, and little or no improvement in absorption. Corporate consolidations and mergers continue to put additional supply on the market and our contacts are generally unsure whether it has hit bottom.

Wages and Prices: For the most part, wage costs and materials prices remain relatively stable with adequate supplies of labor, especially in the service sector. Recently reduced raw materials prices are helping cut the cost of production for textile and apparel firms, but contacts do not expect these savings to be passed on to consumers. Instead, they plan to use these savings to offset increases in other costs of production, particularly health care benefits.

SEVENTH DISTRICT--CHICAGO

Summary. The recovery in the Seventh District economy has slowed, with contacts revealing slowing momentum in auto production and housing activity. Consumer spending gains remained sluggish, although most District retail contacts still expect holiday sales to be even with or slightly above last year. Auto sales remained weak, prompting further cuts in fourth quarter production schedules. Overall manufacturing activity generally continued to contribute to relative strength in the District economy, but smaller increases in orders and production were recorded by many manufacturers. Housing activity also softened in recent months. Most large District banks reported little change in lending standards, while lower borrower demand was noted by some banks.

Consumer Spending. District consumer spending gains remain sluggish, according to most contacts, although one large retailer reported significant sales improvement in early November. Surveys conducted for District state retailers' associations generally indicated that sales gains are still expected during the holiday season, but at a somewhat slower pace than last year. A large discount retailer reported that sales in Detroit and Chicago continued to run below year-earlier levels, in part due to increased competition. A large general merchandise chain reported improved year-over-year sales gains in early November, with increases well distributed across product lines and across regions. New credit usage at this chain was reported to be above a year ago for the first time in 1991. This contact also indicated that inventories remain higher than desired, particularly for some durable goods.

New car sales remained depressed. A District supplier of financial services to car dealers reported that business at most dealerships has continually slowed in recent months. Floor traffic weakened further and was joined by a new softening in the interest level of potential buyers. Car sales in the Midwest have been hit almost as hard as the national average, according to this contact. One of the largest auto dealers in the District reported that sales have been running at half the rate experienced during the summer and early fall, and stated that his experience was repeated for most dealerships in his market area. Another dealer reported that leasing as well as sales have softened in recent weeks, noting that "used car sales are keeping us afloat." A dealer of a relatively strong-selling model indicated that new business has been softer than projected.

Manufacturing. Purchasing managers' surveys supported by contact reports indicate that manufacturing activity continued to bolster the regional economy modestly, although momentum slowed in motor vehicle production. Car and truck assembly schedules continued to be trimmed in recent weeks. The number of plants idled by domestic automakers in mid-November was the highest since March. Underlying demand from consumers remains at recessionary levels, according to this contact. Heavy-duty truck sales and production remain "very depressed," according to an industry consultant, and new softening was reported in demand from agricultural markets. A parts supplier to truck manufacturers doesn't see any rebound signals. District producers of farm and construction machinery have also been trimming production schedules recently.

Purchasing manager surveys have been indicating continued expansion by a slimming majority of District manufacturers in the past two months. The overall index produced by the Chicago survey dropped from a seasonally adjusted 56.2 percent in October to 52.7 percent in November. The picture of slowing but continued growth was generally echoed in recent results for Detroit, Indianapolis, and Southwest Michigan, while the October results for Milwaukee showed conditions improving. Reports from individual manufacturers were mixed. A steel manufacturer reported that industry shipments are now expected to decline from the third quarter to the fourth quarter on a seasonally adjusted basis. A manufacturer of electronic connectors stated that the firm continues to cut costs, because the U.S. market remains sluggish. A brighter picture was offered by a large manufacturer of industrial machinery, who reported that domestic orders have begun to show some improvement on a month-to-month basis, after consistently reporting sluggish conditions during the summer and early fall. Several contacts report that exports and sales by foreign subsidiaries continued to outperform domestic sales.

Real Estate/Construction. District housing activity generally softened in recent months, although some individual markets continued to hold up relatively well. Recently released state level data show that seasonally adjusted existing home sales declined in four of the five District states from the second quarter to the third quarter, although most of them at a somewhat slower pace than the national average. Sales in Iowa showed a small increase, and one realtor stated that press reports of waning optimism in the Midwest "were written by people who haven't been to Cedar Rapids." Sales in Illinois have softened since June, but prices are holding, according to the state realtors' association. Sales in Wisconsin fell slightly, yet remain well above year-earlier levels, and the state's realtor association stated that sales are still on track for a record year. Statements by individual realtors generally were consistent with state-level data, although one large realtor reported the best October in their history, in large part due to gains in market share. The pace of the recovery in housing starts in the District has slowed along with new and existing home sales. A home remodelers' association reported that a seasonal surge in business failed to materialize, with business well below year-earlier levels. Several reports suggested little change in the weak commercial real estate market. A supplier of construction materials used in both residential and commercial construction in the Chicago metropolitan area reported that shipments continued to fall in October, and estimated that 1992 shipments will be as much as 25 percent lower than in 1991.

Banking. Credit standards for approving commercial and industrial loans essentially were unchanged over the past few months. Some of the respondents reported increased loan rate spreads and/or increased credit line costs, with increases more frequently reported for large and medium-sized borrowers than for small firms. At the same time, borrowing demand was generally reported to be little changed over recent months, with softer demand from smaller businesses reported more frequently than from medium-sized or large firms. Where weaker demand was reported, banks most often cited lower customer needs for inventory and capital investment. One banker stated that credit standards consistent with recessionary conditions still hold, but that when "good prospects" for loans appear, competition has intensified, with the borrower benefitting from lower loan rates.

Agriculture. Heavy rains in recent weeks slowed the wind-up of the fall harvest but helped recharge subsoil moisture. Corn and soybean production estimates for this District, and nationwide, were revised upward again in November. A better than expected harvest and prospects for continued weakness in exports have weighed on crop prices this fall. Corn exports, which declined 27 percent during the year ending with August, are projected to decline an additional 9 percent during the current crop marketing year.

Livestock prices have weakened considerably this fall due to evidence of an upturn in red meat production. The expansion now underway among hog farmers in District states and nationwide suggests that per capita pork production in 1991 will be up 7 percent and the largest since 1981. On a more positive note for farm earnings, the distressed conditions among dairy farmers over the past year have eased somewhat as production has leveled-off and milk prices have moved back up above the retreating levels of a year ago.

EIGHTH DISTRICT - ST. LOUIS

Summary

Consumer spending on general merchandise and automobiles continues to be weak. Local retailers are generally optimistic, however, about sales prospects for the holiday season. Additional layoffs at District durable goods manufacturers have been announced in recent weeks. Overall conditions in the District's manufacturing sector are decidedly mixed. Residential construction and existing home sales have picked up. Loan demand remains weak. Favorable cotton, rice and soybean harvests have boosted District agricultural prospects.

Consumer Spending

Retail sales of general merchandise in the Eighth District are reported to be up a modest 2 to 3 percent, although in real terms, sales are believed to be nearly flat. Among major District cities, Louisville reports the largest gains. In most other regions of the District, low consumer confidence was identified as playing a significant role in the continuing weakness of retail sales. In the Louisville area, retailers report higher-than-normal advertising and a sharp increase in price-cutting to attract hesitant consumers. Although retailers are concerned about the shortened holiday season, most are generally optimistic; contacts report, however, that consumers seem inclined to delay their Christmas purchases, few of which are likely to be luxury goods.

New vehicle sales continue to decline and lower-priced models are selling better than luxury cars. Used car sales are stronger than those of new cars. Some dealers expect no significant increase in sales until mid-1992.

Manufacturing

Manufacturing activity continues to be mixed. A number of large layoffs and plant closings have been announced in recent weeks, with the biggest job losses occurring in the defense, computer and consumer electronics industries. The planned closing of a major Mississippi apparel plant with 600 employees, however, has been averted because of a management buyout. Weak demand in the housing and automobile sectors has depressed the price received by a major District metals producer, but capital spending plans and employment have remained stable. A chemical manufacturer in the District attributes a recent leveling off of sales to the lull in the national economy. A pulp and paper manufacturer in Arkansas reports weak demand for paper used in advertisements. Two St. Louis area firms report that demand for their food and beverage products has declined.

Strong demand for some vehicles produced at Louisville and St. Louis plants has stabilized employment in the District's auto industry. Production at footwear manufacturer in Arkansas is at its highest level in several years. A cosmetics maker reports increased sales and has begun to add employees. Likewise, a heavy equipment distributor in Memphis reports strong demand.

Construction and Real Estate

Homebuilders report a modest improvement in single-family home starts over the previous year, although year-to-date starts are still substantially below 1990 levels. New home prices are flat to declining.

One Little Rock contact noted that, despite lower interest rates, many first-time homebuyers were being kept out of the market because of a lack of savings for a downpayment and difficulty qualifying for loans. The average prices of existing homes sold recently have risen slightly in most parts of the District.

Banking and Finance

Total loans outstanding at large District banks declined less in the last two months than they had in the prior two months, with all major categories except consumer loans showing improvement. Continued weakness in new car sales and a reluctance to incur additional debt are blamed for soft consumer loan demand. A large residential mortgage operation in St. Louis is laying off about 700 workers, one-third of its staff, over the next several months.

Agriculture

Contacts in Arkansas and Mississippi report bumper rice and cotton crops; some of the cotton in Mississippi is reported to be of exceptionally high quality. Although cotton prices have declined recently, mill demand is reported as strong. Soybean yields throughout the District states have improved from mid-summer estimates. Tennessee farmers report that mild fall weather and late season rains have significantly helped their cotton and soybean crops. The fall apple crop in the District is reported to be abundant, but concerns about quality persist. Catfish prices at the farm level continue to tumble, reaching their lowest level in several years. Poultry producers in Arkansas report reduced profit margins.

NINTH DISTRICT—MINNEAPOLIS

Labor market conditions in the District were mixed, with the western states showing signs of strength, while the rest of the District continued to be depressed. Retail sales in areas which haven't benefited from the continuing influx of Canadian shoppers stayed stagnant, while new car sales remained in the doldrums. Tourism has generally been excellent this year and looks promising for the winter as well. Crop yields in the District, with the exception of Minnesota, have been generally good, though farm prices have been mixed.

Employment, Wages, and Prices

Continuing its recent negative trend, Minnesota's unemployment rate in September, at 5.2 percent, was higher than both its year ago (4.7 percent) and month ago (4.8 percent) levels. State unemployment insurance claims for September were at their highest level since 1983, up 15 percent from a year-ago. The weakness in the Minnesota labor market was also reflected in the growth rate of nonagricultural employment, which in October was up only 0.5 percent from its year-ago level, with substantial declines being registered in manufacturing (down 1.3 percent), and construction (down 4.3 percent). September unemployment rates were also higher in the Upper Peninsula of Michigan (9.0 percent from 7.8 percent a year ago) and generally higher in western Wisconsin. Unemployment rates were unchanged from their year-ago levels in North and South Dakota (3.5 and 3.2 percent, respectively), and slightly lower in Montana (down to 5.8 percent from 5.9 percent). These states also exhibited robust rates of growth in nonagricultural employment, with September's level up 2.4 and 3.1 percent in North and South Dakota respectively, and up 1.9 percent in Montana.

Consumer Spending

Retail sales have been stagnant in those parts of the District which aren't near the Canadian border, with major retailers reporting October sales figures generally only moderately higher than the level of a year ago. Retailers attributed the weak sales to consumer caution, and expectations for the holiday season range from flat to 3 percent growth over last year. Retail sales are strong in those parts of Montana, North and South Dakota, and the Upper Peninsula of Michigan within a reasonable drive from the border, due to the continuing influx of Canadian shoppers. Hotel occupancy rates in these areas are quite high. Canadian currency transactions in northwestern Montana are reported to be up more than 20 percent over last year. The recent World Series generated approximately $25 million of business in the downtown Minneapolis-St. Paul area.

New car sales in the District continue to be weak, with local dealers reporting substantial declines. Even floor traffic on dealer showrooms remains slow. Truck sales have not fallen off as much as car sales, and have enjoyed a recent surge, although year-to-date sales figures are still below that of one year ago. Used car sales remain strong.

Housing sales have been 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, while median single-family home prices, "failed to keep pace with inflation." However, there are some recent indications of an improvement.

Tourist activity has generally been excellent in the District. Yellowstone National Park had its best tourism year ever. Bridge crossings onto the Upper Peninsula of Michigan have been up substantially this year, with crossings over the Mackinac bridge in October 4.7 percent above their year-ago level. Late fall traffic to view the autumn colors on Minnesota's North Shore is down slightly from a year ago, due to weather conditions in October.

Construction and Manufacturing

Conditions in the District's construction industry have been mixed. The September level of new housing permits in Minnesota was down 10.3 percent relative to a year ago. Commercial construction in the Minneapolis-St. Paul area continue to be depressed. Elsewhere, construction is reported to be particularly strong in North and South Dakota, and holding its own in Montana.

Conditions were mixed in the District's manufacturing industries, with a number of firms reporting layoffs. In Minnesota, average weekly hours at 40.4 in October were essentially unchanged from a year ago, and down only slightly relative to 40.9 in September.

Resource-Related Industries

Crop yields in the District with the exception of Minnesota were generally good, while crop prices improved and livestock prices declined relative to year-ago levels. North Dakota's mid-October index of farm prices was 2 percent below its year-ago level, with the All Crop index up 1 percent and the All Livestock index down 8 percent from their year-ago levels. Montana's October price index for all farm products, all crops, and all livestock was up 1 percent, up 14 percent, and down 4 percent respectively over year-ago levels. The recent 30 inch snowstorm coupled with spring floods resulted in a 7 percent decline in the Minnesota corn crop and an anticipated 50 percent decline in the wheat harvest relative to year ago levels. However the state's soybean, sugar beet, potato, and dry bean crops are projected to be substantially above year-ago levels.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continues to grow slowly overall, but business conditions vary from industry to industry. Retail sales and housing starts are up somewhat, but auto sales are down. Energy industry activity remains sluggish, and farm incomes are off. Most retailers expect better Christmas sales this year than last year. Prices remain generally steady for both manufacturers' inputs and for consumer goods. While retailers are satisfied with current inventory levels, manufacturers continue to trim their inventories.

Retail sales. Sales were generally higher than last year and higher than the previous month, with apparel sales leading the way. District retailers report stable prices for last month and expect prices to remain steady over the near term. Satisfied with their inventory levels, most retailers plan to keep purchases low. Expectations about sales in the next three months are mixed. However, most retailers expect Christmas sales to be better than last year. Expectations are weaker among sellers of high-end goods than among other retailers.

Auto sales declined in most district states over the last month, but most dealers expect sales to improve slightly in the next few months. While financing is available for floorplanning, many potential buyers are finding it difficult to obtain loans. Dealers are still striving to trim their already-low inventories.

Manufacturing. Most purchasing agents experienced no price changes last month and expect no significant changes in the month ahead. Materials are readily available, with few changes in lead times. Nearly all firms have been trimming inventories because of weak sales and plan to continue trimming for the remainder of the year. Plants are generally operating below capacity.

Energy. Energy industry activity in the district remains sluggish. Drilling has picked up somewhat, however, due mainly to increased drilling of new horizontal wells in the Rocky Mountain states. The average number of operating drilling rigs in district states increased from 232 in September to 250 in October. Nonetheless, the October rig count was 23 percent below a year earlier.

Housing Activity and Finance. Housing starts across the district were up slightly from the previous month and significantly higher than a year ago. Builders expect moderate growth in housing starts through early 1992. While new home sales were generally flat last month, sales were up significantly from a year ago. Prices for new homes are slightly higher. Builders report no problems acquiring materials and generally expect none through early 1992.

Most savings and loan respondents report net deposit outflows last month. Deposits are expected to remain flat or to decrease in the period ahead, especially if rates on savings deposits continue to decline. Most mortgage demand is for refinancing. Rates are expected to continue to decline in the coming months.

Banking. District bankers report that loan demand was steady to slightly higher last month. Demand increased for home mortgages, construction loans, and agricultural loans, but decreased for commercial and industrial loans and commercial real estate loans. The loan-to-deposit ratio for district banks was steady last month but lower than a year ago.

District bankers reduced their prime lending rates last month, but most expect to leave these rates unchanged in the near future. About half of the respondents also lowered their consumer lending rates in the last month, and several anticipate further cuts of consumer rates in the near future. Respondents report no changes in their other loan terms.

A majority of the respondents experienced deposit inflows last month. The growth in deposits was primarily in demand deposits, NOW accounts, and savings deposits. Large certificates of deposit declined slightly, and MMDAs were unchanged.

Agriculture. Dry weather cut nonirrigated fall crop yields up to 70 percent in parts of the district and delayed development of much of the district's winter wheat crop. Yields of the district's corn, milo, and soybean crops, however, were normal to slightly above normal in most parts of the district. Recent rainfall improved the condition of the wheat crop, but the crop's late start has left it vulnerable to freezing temperatures this winter.

District feedlot operators are feeding about the same number of cattle as a year ago. The backlog of heavy cattle that pushed down cattle prices last summer has gone to slaughter, enabling a partial recovery in cattle prices and cattle feeding profits.

Fall credit reviews for district farm borrowers showed little change in the number of problem loans since last year. Livestock profits were strong during the first half of the year and bolstered meager crop profits on diversified farms. Livestock prices fell in the second half of the year, however, and are expected to remain weak in 1992. Thus, farm bankers expect the number of problem farm loans to increase during the coming year, but the extent of the increase remains uncertain.

ELEVENTH DISTRICT--DALLAS

Economic activity in the District remains stagnant. Respondents report that a sluggish national economy and declines in the military equipment and energy industries continue to hold down economic growth. While construction growth has slowed, it remains positive. Business services are flat due to weak growth in new business formation and cost cutting measures by clients. Retailers say that sales were flat in October but improved slightly in early November. Agricultural conditions have worsened in recent months.

District manufacturing performance has been mixed, but generally orders appear to have increased slightly. Most manufacturers say that inventories are at desired levels and that they expect stronger growth in orders in 1992. Brick and lumber producers say that a moderate improvement in single family building has increased the demand for their products. Producers of electric and electronic equipment say that lower prices and the introduction of new products have increased their orders and market share. Petroleum refiners say that sales have been flat. Although respondents in the petrochemical industry say that orders are unchanged, recent plant completions in the District indicate that overall production has increased. Apparel producers note that sales growth has slowed but remains positive. Responses from the paper industry were mixed with sales declines reported for newsprint and increases reported for corrugated boxes. Orders for primary and fabricated metals have declined recently. Production and employment continue to shrink for defense-related manufacturers. The recently passed defense budget, however, should provide some stability to District defense contractors.

Demand for District services has shown little change since the last survey. Competition and cost-conscious clients are putting downward pressure on service fees. Consulting and legal firms note continued weakness in the demand for services that typically stems from business expansion. Demand for controversy areas such as lawsuits, bankruptcy, and labor disputes remain strong. One consulting firm responded that an area of growth is advising clients how to streamline their business and downsize their work force to gain efficiency. Many respondents noted that an abundance of skilled workers is putting downward pressure on wages.

District construction growth has slowed but remains positive. Residential building continues to increase in Austin and San Antonio but has recently flattened in Dallas/Ft. Worth and Houston. New home inventories are lean in most areas of the District. Nonresidential construction continues to grow partly due to the expansions of refineries along the Gulf Coast, public school construction in Houston, and several public and corporate projects in Austin.

Retail sales improved slightly in early November although growth remained slow. Respondents say that store traffic is moderately high and that consumers are responding to discounts. Apparel sales have improved. Sales of big ticket items such as appliances remain weak. October auto sales declined four percent over last year in the Dallas/Ft. Worth area and rose four percent in Houston. Year-to-date auto sales are still well below last year in both areas.

The District energy sector continues to decline but several respondents say that drilling appears to be bottoming out. The seasonally-adjusted rig count in the District declined only slightly in the first half of November. One reason for the improvement in the rig count is that natural gas prices have increased moderately. In the second week of November the wellhead price of natural gas was only 7.5 percent lower than a year earlier. In July, the price of natural gas was about 24 percent lower than its year-earlier level. The outlook for natural gas prices has also improved in recent months. The futures price of natural gas to be delivered in the spring of 1992 has stabilized at about 17 percent higher than it was trading at this summer. Respondents report that sales of drilling rigs and equipment in the third quarter were the lowest in two years. The outlook for drilling equipment is bleak. Although the rig count is stabilizing, respondents say that the low number of rigs in use should reduce the demand for equipment throughout much of next year.

District commercial banks report that loan demand remains sluggish. Respondent say that they have plenty of liquidity but that they are having trouble finding good loans. Some respondents are expecting a modest increase in loan demand over the next six months.

Agricultural conditions have weakened in recent months. Respondents have reduced their income projections for this year. Much of the weakness is centered in recent declines in prices for livestock and cotton. A recent increase of cattle on feed reduces the likelihood that livestock prices will rebound this year.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic activity remains slow in most parts of the Twelfth District, and the economic expectations of District business leaders deteriorated further in November. Continued sluggish sales have kept most wage and price increases modest, and concern about the holiday shopping season is widespread. Weakness in District manufacturing activity continues. Agricultural conditions remain satisfactory overall, despite several problems including the recent whitefly invasion. Construction and real estate activity remains slow in most parts of the District. With the exception of mortgage refinancing, lending is still weak in most parts of the District.

Business Sentiment

The economic expectations of business leaders in the Twelfth District deteriorated in November. Eighty-nine percent of business leaders now foresee GNP growth of less than 2.5 percent during the next four quarters, with 25 percent expecting recession. The share of business leaders expecting recession has increased from 7 percent in September and 17 percent in October. The majority of western business leaders now foresee weaker business investment and increasing unemployment during the next four quarters. Expectations of consumer spending also have worsened, with 31 percent of business leaders now projecting improved spending, down from 50 percent in September and 37 percent in October.

Wages and Prices

Wages and prices are reported stable or increasing only modestly in most parts of the District. Continued sluggish consumer demand is keeping downward pressure on soft goods prices. Prices of many food products are reported below year earlier levels, but the whitefly infestation has led to higher prices for several winter crops, including lettuce, broccoli, and cauliflower. Consumer prices in southern California in October were up 3 percent from a year ago. Wage increases for District firms cluster in the 3 to 4 1/2 percent range, with several firms reporting that wage increases will be lower in 1992 than they were in 1991. Benefits costs continue to rise faster than wages, led by increases in health care plan premiums of 10 to 25 percent.

Retail Trade and Services

Consumer spending in the District remains sluggish. Department store retailers report continued slow sales. Concern about the holiday shopping season is widespread, although some western retailers feel that the worst is behind them. New-car sales also are reported weak, with little enthusiasm for 1992 models. In contrast, used car sales continue strong, and prices are holding up well. Most retailers report tightly controlled inventories, but a few firms note that sluggish sales have caused some recent increases in inventories. Slow economic activity also is reported at law firms, newspapers, state and local governments, and research and development laboratories.

Manufacturing

Weakness in District manufacturing activity continues. Layoffs and cutbacks continue at some Oregon high-tech and metals manufacturers. Aluminum manufacturers continue to face low prices and over-capacity. Despite reports of high aluminum inventories, one manufacturer reports that his inventories are "manageable." At Boeing, commercial aircraft production continues strong, but the pace of new orders has slowed considerably from last year. Previously announced layoffs at Boeing in response to Stealth Bomber cutbacks probably will be avoided.

Agriculture and Resource-Related Industries

District agricultural conditions are generally satisfactory. In Washington, apple production fell 5 percent from last year, but prices currently are up 20 percent from a year ago. Prices for potatoes and soybeans are down from a year ago, but wheat prices have strengthened recently in response to the extension of grain credits to Russia. However, beef and dairy prices and demand remain low. In addition, the whitefly infestation in southern California is taking a toll on farmers already hurting from last winter's freeze and the ongoing drought. The poinsettia whitefly has destroyed a large part of the winter vegetable crop, pushing up prices for vegetables such as lettuce, broccoli, and cauliflower.

Conditions in other resource industries are mixed. Sawmills and plywood plants continue to close in Oregon, reflecting the persistent weakness in the lumber industry. Orders for some pulp and paper products remain relatively strong, however. Oil and gas drilling activity in the District is still depressed.

Construction and Real Estate

Construction and real estate markets remain slow in most parts of the District. In southern California, both residential and commercial activity is weak. House values and home sales are down in Silicon Valley, with particular weakness reported at the upper end of the market. Home prices in Washington are reported flat to down slightly, while the volume of sales is rising slowly after dropping off earlier this year. Housing starts in Washington are down 25 percent from last year. Commercial construction in San Francisco remains flat. Several respondents cite tight credit conditions as a reason for the slow construction activity.

Financial Institutions

Conditions at District financial institutions remain mixed. Banks report relatively healthy conditions in Idaho and Utah and, to a lesser extent, in the Pacific Northwest. Demand for home loans in Utah is strong and delinquency rates have fallen to their lowest levels in years. Mortgage refinancings account for a large share of lending activity throughout the District. Commercial construction loan balances at some California banks continue to shrink as existing loans are written off and few new loans are originated.