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SUMMARY*

Reports from the twelve Federal Reserve districts indicate generally modest improvement in economic conditions across much of the nation. Shopper traffic and retail sales were reported to have rebounded modestly in April, following general declines in March resulting in part from severe weather. Manufacturers in most districts report increases in shipments and orders, with near-capacity production at some automotive and steel facilities. Higher production schedules are being met through productivity gains and overtime, although some districts have reported new hires. Residential real estate activity in most districts is strong or on the rise, and pockets of improvement in commercial office markets are noted by some districts. The general increase in lending continues to be concentrated in consumer loans and mortgage refinancing, with some reports of pickup in small business borrowing. District reports show generally stable prices, except for increases in steel and energy.

Consumer Spending. Most districts report modest increases in retail sales during April, after widespread declines in March. Many contacts are encouraged by recent signs of improvement, but the net performance for March and April clearly will be much lower than for the first two months of the year. Respondents in the eastern third of the nation blame the mid-March blizzard for the net softening in sales. Retailers in the Boston district remark that, without the storm, sales would have been above the levels a year ago. Relative weakness in March merchandise sales is also noted in parts of the country not affected by the storm. Retailers in Chicago cite renewed consumer uncertainty and contacts in San Francisco point to concern about job security as reasons for lower-than-expected sales in parts of their regions. However, retailers in most districts report a rise in

* Prepared at the Federal Reserve Bank of Cleveland based on information gathered before April 23, 1993. 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.

shopper traffic and sales in April, apparently led by big-ticket items, such as furniture and home appliances.

A general pickup in the sale of autos and light trucks in the first half of April is also reported in most districts. Dealers in the Cleveland, Dallas, and Philadelphia districts note that domestically produced models are selling at a faster pace than foreign-produced ones. Also, most dealers remain optimistic that the improved trend will continue in the near term, and they are satisfied that inventories are at manageable levels.

Retailers generally report stable prices on most items, citing stiff competition, consumer sensitivity to price hikes, and slower sales growth. Merchants contacted by Dallas and Kansas City indicate that prices are stable or slightly lower compared to a year ago, and that they expect prices to remain stable over the near term. Richmond contacts, on the other hand, cite an upward trend in retail prices.

Several districts, including Richmond and San Francisco, note a decline in tourism compared to a year ago. Resorts and hotels surveyed by Richmond indicate that the number of visitors is down from last year and that tourists are spending less. Hotel and convention industry representatives contacted by San Francisco characterize the Southern California visitor industry as depressed. At the same time, Atlanta reports a strong spring tourism season, with air passenger traffic, convention attendance, and the number of spring-break visitors to Florida higher than a year ago.

Manufacturing. Most districts, except Dallas, Kansas City, and San Francisco, report general increases in shipments and orders, which have pushed some facilities to operate at near capacity. Cleveland notes tight conditions in some segments of the steel industry, where capacity-level production and full order books have sustained general price increases. Higher production levels in the steel industry are reportedly linked to increased activity in the motor vehicle and consumer appliance industries. One motor vehicle producer in the Chicago district indicates that production of light trucks has been bumping up against capacity limits. Increased demand has also created bottlenecks at a few

domestic motor vehicle parts and assembly plants surveyed by Cleveland. Boston and Chicago cite strong increases in automotive parts production, and Cleveland reports near-capacity production of heavy-duty trucks. Electronics manufacturers surveyed in the Boston and Chicago districts indicate strong demand, with some respondents citing the highest level of orders in the past five years. Contacts in Boston attribute part of the higher production levels to expanding Latin American and Far Eastern markets, which have partially offset weak demand in European markets. Factory officials in Atlanta and Minneapolis note some growth, primarily in the consumer durables, food processing, and industrial machinery industries.

With the exception of steel price increases noted by Cleveland and Kansas City, most districts report constant or only slightly higher input prices compared to a year ago. Manufacturers surveyed by Atlanta comment that competition continues to hold prices of intermediate materials and final goods stable. Dallas respondents indicate flat to slightly falling prices in chemicals, plastics, petrochemicals, and electrical and electronic machinery, and San Francisco contacts add that aluminum prices are also soft. However, purchasing managers surveyed by Chicago note a somewhat faster rate of price increases as demand improves in that region.

Atlanta and San Francisco report that cutbacks in the aerospace and defense industries continue to dampen manufacturing activity. San Francisco respondents indicate that Boeing continues to lay off workers, although they anticipate that increased orders from foreign carriers may partially offset the weak demand from domestic airlines. Dallas notes that low levels of nonresidential construction and oil and gas drilling have contributed to lower production among the firms they contacted. Firms contacted by Kansas City report operating below capacity, in part because of decreased foreign sales.

Employment. Job conditions are mixed in most regions. Boston, Cleveland, Minneapolis, Philadelphia, and St. Louis report that some firms are hiring modestly, particularly in automotive products and capital goods industries. However, no district

anticipates a flurry of new hiring in the near term, even though several industries are reportedly producing near capacity. Employers surveyed in the Atlanta, Cleveland, Dallas, and Kansas City districts report that they are avoiding new hires by extending hours, using temporary workers, or increasing productivity. Atlanta adds that wage pressures are generally absent among their contacts. Job losses continue for defense-related and computer companies in the Minneapolis district, for apparel makers and food processors in the St. Louis district, and for a few insurance and pension firms in the Boston district.

Real Estate/Construction. Most district reports indicate strong or improving residential real estate markets. Contacts in Boston and New York note recent improvement in low-priced and mid-priced home sales. A respondent in Boston expresses encouragement that condominium sales volume is up significantly, which he believes may mark an end to the slump in this market. Prolonged wet weather has reportedly dampened homebuilding in the Kansas City and St. Louis districts, but builders in both areas expect starts to pick up as the weather improves. San Francisco notes that homebuilding is strong only in areas outside of Southern California. Homebuilders surveyed by most districts indicate that the sharp increase in lumber prices in recent months has added to the cost of new homes. However, lumber industry representatives contacted by the San Francisco bank report a 20 percent decline in lumber and plywood prices from the March peak.

The commercial real estate market remains weak in most districts, except for isolated pockets of increased activity. Contacts in Minneapolis report that commercial contract awards are up significantly from a year ago. Realtors in New York note brisk leasing of commercial office space in midtown Manhattan but subdued activity in downtown Manhattan and in a few immediate suburbs. Richmond's survey finds strong commercial activity in the Carolinas and in Richmond, but weak conditions in Maryland and in the District of Columbia.

Financial Institutions. District reports of lending activity range from little change to moderate growth. Surveys of bankers generally reveal that most of the increase is

concentrated in consumer loans and residential mortgage refinancing. Several lenders in Cleveland report that the volume of mortgage refinancing is virtually at capacity, and respondents in Atlanta note that mortgage refinancing accounts for nearly two-thirds of the brisk pace in current originations. Philadelphia, on the other hand, indicates flat consumer and mortgage lending, as households reportedly continue to consolidate and reduce debt.

A few districts, including Atlanta, Kansas City, and St. Louis, note a pickup in commercial loans, particularly to small businesses. Some bankers surveyed by Cleveland cite a strong demand by businesses to refinance existing loans. Many respondents across the country report that deposit growth is steady, attributable in part to aggressive pricing and marketing programs. Bankers from several districts describe loan markets as very competitive and state that more aggressive pricing has decreased net interest margins. A few bankers contacted by St. Louis have expressed concern that narrow margins have contributed to slow deposit growth in their region.

Agriculture/Resources. An unseasonably cool and wet spring has delayed fieldwork and planting for a wide variety of crops in the Chicago, Kansas City, Minneapolis, Richmond, and St. Louis districts. This damage is reportedly not irreparable, provided the weather improves in the coming months. Winter wheat crops are said to be in good shape in the Kansas City and St. Louis districts. Richmond and St. Louis report recent improvements in the condition of their peach and apple crops. Livestock prices are high, benefiting producers in the Chicago, Kansas City, and Minneapolis districts. San Francisco indicates strong prices for several other agricultural products.

Minneapolis reports increased shipments of iron ore and stable conditions in copper mining despite low copper prices. Dallas and Kansas City report seasonally low domestic oil drilling. OPEC production cutbacks and blizzard-related consumption hikes are expected to keep oil and natural gas storage levels low and prices on the high side for several months.

FIRST DISTRICT - BOSTON

Economic conditions continue to improve modestly in the First District. Although New England retailers experienced sales declines that they attribute to late winter storms, they nevertheless observe a minor improvement in consumers' willingness to spend. In the manufacturing sector, the recovery generally strengthened in the first quarter. While improved business is causing an expansion in employment for some suppliers of automotive parts, most manufacturers expect to hold employment steady or to implement small reductions in 1993. Some pickup is evident in the residential real estate and insurance markets.

Retail

First District retail contacts report that sales declined slightly during March, largely because of snowstorms coinciding with weekend promotions. Had weather not prevented consumers from reaching stores, retailers estimate that sales would have been above year-ago levels.

The sales decline caused some deterioration in gross margins and an increase in inventories. Only one contact plans to increase employment; others continue to shrink by attrition. Wage gains are reportedly limited to 4 percent.

Capital spending is mixed, with some firms adding stores and others conducting only minor remodeling. Retail contacts think that the New England economy has bottomed out and that the degree of consumer caution has lessened somewhat.

Manufacturing

On balance, First District manufacturing reports are more positive than they have been for many months. Three-fourths of the sample report that recent sales have been flat or improved compared to year-earlier

figures. About one-third of the contacts indicate double-digit increases.

Manufacturers report strong increases in demand for automotive parts, semiconductors, defense exports, and engineering services. Domestic consumer goods sales also are increasing. On the other hand, aircraft and aerospace markets remain very weak. A variety of other capital goods, including items related to pharmaceuticals and environmental applications, also exhibited some falloff.

Contacts are mixed in their assessment of export markets. For example, one contact notes that the U.K. market is recovering, but another terms Europe a "disaster." Markets in Latin America and the Far East excluding Japan are reported to be expanding handsomely.

The majority of respondents report that employment is flat to down 8 percent from 1992 levels. At a minority of contacts, higher demand for automotive products has or is expected to lead to new hiring and added investment. Most other contacts plan either to hold employment steady or to implement small reductions.

Several contacts note either a deflationary environment or a resistance to price increases. However, a couple of manufacturers predict that consumer goods prices will firm up, thereby allowing for higher profit margins.

All of this month's manufacturing contacts project that their business will show improvement in 1993, although some add that the rate of recovery will remain weak, or that foreign markets continue to be a source of concern.

Residential Real Estate

Although the market for residential real estate is showing signs of picking up, most contacts express frustration about the slowness of

the pace of improvement. Several contacts see a firming of vacant land prices as a positive sign and consistent with the recent increase in building permits. Brokers stated that their biggest problem was many buyers' difficulty in obtaining financing, with closings now taking at least 8 weeks. These financing problems are attributed to weak credit histories (with buyers holding several jobs in the last two years because of layoffs) and the lack of a down payment because the value of a buyer's current property has fallen.

Despite comments from contacts over the last six months that the mid-priced trade-up market is improving, average sales price statistics are still significantly below year-ago levels; this trend suggests that most activity is in low-priced homes. Values are steady in most geographic areas except Connecticut, where an appraiser said that values are still falling as a result of poor economic news. One contact noted that the decline in the condominium market may be ending, with sales volume up significantly, but that many banks are still leery of financing condominiums in complexes with a low percentage of owner-occupants.

Nonbank Financial Services

On the whole, insurance companies report an increase in sales, though a few respondents continue to lag because of concerns about credit quality. The strongest sellers were among traditional life insurance products, annuities and mutual funds. Trends were mixed in health insurance, pensions, and property/casualty lines. Most respondents have kept their employment steady, but a few have either reduced employment in the last quarter or foresee a reduction later in the year.

SECOND DISTRICT--NEW YORK

Economic developments in the Second District were mixed in recent weeks, but on balance tended toward improvement. Plagued by severe snowstorms, most retail contacts reported sales results below plan during February and March, though some were able to recoup much of their shortfall during the final weeks of March. New York's unemployment rate declined in February and March while New Jersey's rate rose. Office leasing activity varied widely with some vacancy rates declining and others increasing. Homebuilders in most of the District reported some recent improvement and anticipate that home sales will surpass last year's level. In its first assessment of the local economic impact of the World Trade Center bombing, the Port Authority of New York and New Jersey estimated that the net short-term effect would be a small, positive one due to the increase in jobs for reconstruction and cleanup work financed by national insurers. Personal income tax receipts in both New York and New Jersey continued to show sizable over-the-year gains. The latest survey of small and midsized banks showed an increase in their willingness to make loans.

Consumer Spending

Plagued by severe snowstorms in February and March, most District retail contacts reported sales results that were less-than-targeted during both months. Some, however, were able to recoup much of their shortfall in the final weeks of March. Due in part to the earlier occurrence of Easter this year, some improvement was also noted during the first half of April. Over-the-year sales changes ranged from -7 percent to +6 1/2 percent in February with all retailers except one posting results that were below projections. A few more retailers had results that were on or better than plan during March when year-to-year changes ranged from -5 percent to +12 percent.

The cold and stormy weather reportedly put a damper on sales of adult spring apparel at several stores, but sales of children's clothes for Easter did well. Furniture and home appliances sold well at some chains and retailers are hopeful that warmer weather will spur apparel sales

in the weeks ahead. Despite some recent inventory buildup resulting from below-plan sales, the majority of contacts reported no significant inventory problems. However, a few stated that additional promotional efforts may be needed to pare stocks.

Residential Construction and Real Estate

Homebuilders in most of the District reported some recent improvement in the residential construction market and most anticipate that home sales this year will surpass last year's level. The continued low level of mortgage rates and somewhat more enthusiasm on the part of potential buyers at home shows were cited for this optimism. In addition, in New York City several well-known developers are reportedly planning to build new rental apartment buildings for the first time in several years. Apparently, these are now feasible because of a declining vacancy rate for market-priced rental units and because of recent changes in local and federal tax laws. No one is anticipating boom conditions, however, given the continuing concerns about job security in various parts of the District and general uncertainty about the impact of proposed changes in federal tax policy. Lumber prices remain quite high and some newly written contracts are guaranteeing home prices for only 30 days to safeguard builders against further escalation of lumber costs. Financing remains a widespread problem for construction as well as acquisition and development loans in some areas. However, a recent easing of bank construction loans was noted in western New York.

Developments in the District's office market have been mixed. Leasing activity was reportedly brisk in midtown Manhattan where, despite some additions to space, the vacancy rate edged down. While activity in downtown Manhattan remained subdued, the area has managed to absorb some of its vacant space in recent months and the primary vacancy rate has begun to decline. The vacancy rate has risen sharply in Westchester County, however, due in part to the addition of large blocks of space created by IBM's downsizing.

Other Business Activity

New York's unemployment rate declined in both February and March and now stands at 7.3 percent. However, New Jersey's rate rose in both months, reaching 8.3 percent in March. Personal income tax receipts in both states continue to show sizable over-the-year increases implying moderate gains in personal income. Layoffs have started at the IBM plants in New York State where some 6000 positions are to be eliminated. With the Justice Department's recent

approval of Martin Marietta's purchase of G.E.'s aerospace division, many additional workers could be laid off in the District as the division is absorbed. A recent report by the Business Council of New York State noted that a sizable majority of 800 surveyed businesses believe the State's recovery will lag behind the rest of the nation and that this will continue in 1994.

In its first assessment of the local economic impact of the World Trade Center bombing, the Port Authority of New York and New Jersey estimated that the net short-term effect would be a small, positive one. Since almost all of the damage to businesses was insured, the reconstruction and cleanup effort was largely financed from outside the region but provided jobs for people living here. The long-term effect could be different, however, if insurance premiums rise, revenue is lost because the Center decides to restrict public access to certain facilities, and/or the prestige of the Center is reduced as a result of the bombing.

Financial Developments

The latest survey of small and mid-sized banks in the Second District continued to show an increase in banks' willingness to make loans. The percentage of loan officers more willing to make nonresidential mortgages was the highest since 1991. Willingness to make all other types of loans was steady or higher than two months ago. Consumer loan demand and residential mortgage demand strengthened, with the latter generally attributed to increased refinancing activity. Demand for business loans was unchanged.

Surveyed bankers indicated that the recent policy change requiring less documentation on "character" loans by healthy banks has not affected their lending to small businesses. Moreover, their reactions to proposals to create a secondary market for business loans were mixed. Several officers mentioned that securitization often results in the loss of relationships with the community, which are essential to small business lending. Also cited as a potential hindrance was the customized and unique nature of small business loans, which renders them difficult to securitize. However, increased liquidity and reduced risk might encourage more small business lending. Several officers suggested that the expansion of Small Business Administration programs would be the best vehicle for stimulating small business loans.

THIRD DISTRICT - PHILADELPHIA

Reports from Third District business contacts in April suggest that economic activity in the region was continuing to move up at a very modest pace. Manufacturers generally indicated that shipments and orders were increasing while inventories remained steady. Retailers were posting slight gains, on balance, for April compared to the same month a year ago. Auto and truck dealers also reported year-over-year increases. Most bankers, however, indicated that loan volume was flat.

The consensus forecast among those contacted for this report calls for slow growth. Manufacturers believe that business will continue to move up, but their level of optimism has declined since the beginning of the year. Retailers expect consumer spending to gain slowly during the rest of the year. Bankers anticipate that business lending may pick up soon, amid strong competition among banks for commercial loans. They have mixed views on the course of personal lending in the near future: some foresee a slight increase but others expect loan volume to remain flat.

MANUFACTURING

Reports from Third District manufacturers indicated that activity remained on an upward trend, on balance. While just under half said business was steady, firms making gains outnumbered those experiencing decreases by two-to-one. Overall, both new orders and shipments were rising, and inventories were holding steady. Business continued to improve for nearly all major manufacturing sectors in the District; the exceptions were furniture and lumber--where conditions were

steady--and food processors, whose business had slipped from March. Employment appeared to be steady, on the whole.

The outlook among Third District manufacturers remains positive although the level of optimism has declined from the first months of the year. Nonetheless, around half of those contacted in April said they expect business to continue moving up while fewer than one-in-five expect a decline. On balance, the view is that orders and shipments will rise in tandem over the next six months, keeping inventories under control. The outlook for employment is modestly positive: one-fourth of the firms polled for this report plan to add workers over the next six months while, twice the number who plan cuts.

RETAIL

Third District retailers surveyed in the second half of April generally indicated that sales were increasing although the rate of gain was slow. Many said that the March snowstorm had significantly curtailed results for the month but consumer spending had rebounded since. Still, according to most of the merchants queried, the April sales rate was not exceeding expectations they had formed prior to the March storm.

For the most part, forecasts by Third District merchants are that sales will continue to move up during the year. Bad weather in both February and March is blamed for a poor start and store executives said that, consequently, the fourth quarter will have more than its usual significance for their full-year results. Most expect continuing improvement in overall economic activity, and they expect retail sales to share in that improvement.

Third District auto dealers lost sales in March due to the storm, but reports in April indicated that sales were on the rise. Dealers selling domestic cars appeared to be making greater gains than foreign auto dealers. Truck

dealers said sales of both light and heavy-duty trucks were on an upward path, and several reported substantial increases over the year-ago sales rate. In general, Third District auto dealers expressed optimism that sales will continue to improve through the spring.

FINANCE

Comments from Third District bankers indicated that loan activity had been flat in recent weeks. While some banks reported increases in consumer and mortgage lending, these gains appeared to have been offset by declines at other banks, leaving loan volume for these credit categories in the District virtually unchanged. Most of the bankers contacted for this report said commercial and industrial lending was steady although there were a few reports that lending to small businesses had picked up recently. All bankers described loan markets as very competitive and said net interest margins were decreasing as a result of more aggressive loan pricing.

Despite the slackness in lending in April, several bankers said they were receiving an increasing number of inquiries and applications from potential business borrowers. In general, bankers who reported this interest expected to see growth in commercial and industrial loans booked in the near future. The outlook for consumer lending is not as clear. Some bankers said consumers would continue to consolidate and reduce debt, but others indicated that personal lending at their institutions appeared to be taking a slight upward trend.

Fourth District - Cleveland

Summary. District business activity continues to expand, but with apparently greater growth in production than in consumption. Retail sales increased at a much slower pace in March and April than in the previous two months, particularly for automobiles and apparel. Severe weather in mid-March contributed to the mediocre performance, but retailers also point to consumer caution about the future course of the economy as an underlying factor. Manufacturers continue to report strength in orders, backlogs, and production. Producers of steel, heavy truck components, and many types of capital goods indicate near-capacity operations. Most of the higher production schedules are being met through productivity gains and overtime, but a few respondents report hiring a limited number of additional workers in order to accommodate a rising backlog. Financial institutions cite a moderate increase in overall loan activity, mostly as a result of refinancing both home mortgages and existing business loans.

Consumer Spending. Fourth District retailers report that sales growth has fallen off the pace set during the first two months of the year. Traffic in March and April has been relatively slow for this time of year, and sales have been flat. Many respondents blame unseasonable weather, pointing specifically to the mid-March blizzard. Even the positive influence of an early Easter could not offset the storm's devastating effects on consumer spending. While most retailers agree that better weather will revive consumer activity, they still express concern that consumer confidence may remain subdued by the slow pace of the area's economic recovery. The lackluster sale of big-ticket items, such as motor vehicles, reflects consumers' caution. Even with low interest rates and ample credit available, dealers expect a modest 5 percent year-over-year improvement during the remainder of the all-important spring selling season. Apparel retailers mention that they may discount spring/summer seasonal items a little earlier than usual, but most respondents are comfortable with their current inventory levels.

Manufacturing. A growing number of manufacturers report new orders and backlogs. They uniformly estimate further increases in production this quarter over last and believe that they have ample capacity to accommodate higher production schedules. Some of the tightest conditions are reported by the steel industry: Operating rates range between the low 80s for some specialty producers and near capacity for producers of flat rolled steel. The high operating rates and full order books have sustained a general price increase for many steel items. However, some producers report that orders for future delivery have slowed in recent weeks, making further price increases less likely.

Producers of truck components also report near-capacity operations, as new orders in March again exceeded expectations. Backlogs continue to climb rapidly, and heavy-duty truck production for 1993 now appears to be running at a rate close to the previous peak year in 1988. Stronger-than-expected demand for some automobile and light truck models and options has strained capacity and created bottlenecks at a few Big Three parts and assembly plants.

Producers of capital goods and special industrial and telecommunications equipment also cite better-than-expected orders and backlogs last quarter. For example, a manufacturer of equipment for depository institutions reports sizable increases in orders so far this year relative to last year, resulting in an additional shift at one plant. Some consumer goods producers also note a step-up in sales and production since late 1992. Sales of vacuum cleaners rose at a double-digit rate last quarter, and output of major household appliances held at about the previous quarter's level. For machine tools, however, orders continue on an irregularly rising trend because of further weakness in the aerospace and commercial aircraft industries.

Employment. Manufacturers in the District continue to stress that they can meet rising production schedules over the next several months without resorting to significant employment increases. Despite higher backlogs and operating rates at the end of last quarter, producers of truck components, depository institution equipment, industrial

supplies, and steel expect few, if any, new hires or employee recalls. Some believe that their higher production schedules can be met through productivity gains and overtime, and a few are relying on outside contractors. Several producers emphasize that their long-term goal continues to be greater productivity per unit of sales and output and are cautious about hiring in response to short-run rises in demand, in light of high employee benefits costs. Yet, some respondents report limited gains in payrolls. A capital goods producer, now operating some of its lines at capacity, plans to hire in order to accommodate a rising backlog. In addition, selected auto assembly and parts facilities report hiring additional workers, although they stress that new employment is the last resort after overtime has been exhausted.

Retailers expect only replacement hiring at this time, as they anticipate increased productivity and overtime hours to accommodate sales growth in the near term.

Financial Developments. Rising loan activity continues to be concentrated in home equity and mortgage loans. Several lenders report that the volume of mortgage refinancing is still virtually at capacity, although the pace of increase has leveled off at some banks. A large thrift, however, has experienced what may be another record month for refinancing. For new mortgage loans, a few depositories note a somewhat more than seasonal pickup in April, but most thrifts and banks indicate less than usual strength. Some banks, particularly larger ones, report a slight increase in business loans, which is aided primarily by a strong demand to refinance existing loans.

Several large banks state that savings deposits, especially certificates of deposit, fell sharply again in April, with some indicating a bigger decline than in March. A few large and mid-sized thrift institutions, however, report that aggressive pricing and marketing programs have generated growth in their deposits in April.

FIFTH DISTRICT-RICHMOND

Overview

On balance, the Fifth District economy continued to improve in recent weeks. Retailing strengthened and, although manufacturing was generally steady, the furniture market was the strongest in several years. The residential real estate market improved, particularly for houses in the mid-price range. Commercial real estate activity strengthened in the Carolinas and in the Richmond area, but remained weak in Maryland and the D.C. area. Residential mortgage demand rose, while commercial loan demand was unchanged. Activity at Fifth District ports increased. Bad weather led to a deterioration in some agricultural crops and also contributed to a decline in tourism.

Manufacturing

Our survey of manufacturers indicated that District activity generally held steady during the past month. Respondents noted little change in most indicators, although they reported increases in shipments, capital expenditures, and prices. Virginia manufacturers, however, reported increased activity, especially in shipments, new orders, and capital expenditures.

Manufacturers were optimistic about their prospects for the next six months. Increases were expected in almost all indicators except inventories and the number of employees, which were both expected to be steady.

Lumber and Furniture

Producers at the International Furniture Market in High Point, North Carolina, indicated that the '93 market was the strongest since before the

industry slump of 1988-91. Buyers were more confident than in the past few years and were trying to rebuild their inventories as quickly as possible. In addition, furniture analysts suggested that many retailers would be refurbishing their stores in order to better display new products.

Cost-conscious consumers and high lumber prices were squeezing manufacturers' profit margins. Three reasons were cited for high lumber prices: (1) recent weather has hindered timbering; (2) competition in the lumber industry has lessened as regulations have forced small mills out of business; and (3) environmental restrictions have reduced the availability of timber, despite increases in forest areas and volume.

Tourism

Hotels, motels, and resorts throughout the District indicated that tourist activity for March and the first two weeks of April declined when compared to February and to a year ago. The respondents attributed the declines to the "Blizzard of '93" and weak consumer confidence. Respondents also indicated that tourists were not spending as much per person. Spring bookings were unchanged when compared to a year ago, and all of the respondents expected tourist activity to improve during the next six months.

Consumer Spending

Our regular mail survey indicated that retail activity strengthened during late March and early April. Retailers reported increases in shopper traffic and sales, including sales of big-ticket items. Wages and prices rose, while employment and capital expenditures remained unchanged.

Retailers were optimistic about their prospects for the next six months. They expected sales, shopper traffic, wages, prices, and inventories to increase. They foresaw no change in employment or capital expenditures.

Ports

Representatives at District ports--Baltimore, Charleston, and Hampton Roads (Norfolk)--indicated that both imports and exports were generally higher in March than in February. Compared with a year ago, both imports and exports were about the same at Baltimore and Hampton Roads but were higher at Charleston. Exports were expected to continue increasing at Charleston and Hampton Roads but to remain unchanged at Baltimore during the next six weeks.

Finance

District financial institutions contacted by telephone indicated that credit conditions improved during the last six weeks. Respondents stated that commercial and consumer loan demand was steady, while commercial and consumer loan rates were down slightly.

Residential mortgage demand strengthened during the last six weeks. Application volume was at a record-high level in March, but fell off in April. Home mortgage loan rates were, on net, little changed during the period. Rates bottomed out in early March, rose during the next few weeks, and began to decline again in April. Activity was about evenly divided between originations and refinancings.

Residential Real Estate

Real estate analysts surveyed by telephone reported that residential activity remained relatively strong, although adverse weather conditions delayed housing starts in some parts of the District. Residential sales varied across the District but were, on net, higher; sales remained strongest for homes in the mid-price range.

Prices of existing homes remained mostly steady, but prices of new homes rose because of higher lumber costs. In areas where the residential market

was strongest, higher costs were almost entirely borne by homebuyers. In other areas, however, the result was lower profit margins for builders.

Nonresidential Real Estate

Commercial real estate activity remained strong in the Carolinas and Richmond but was weak in Maryland and the D.C. area during the past six weeks. Analysts noted that vacancy rates fell faster in the suburbs than in the downtown areas. Leasing activity was particularly strong in the retail sector because of a shift towards large, value-oriented stores. Analysts also reported an increase in industrial and warehouse leasing activity.

Some new construction was underway, particularly for large, anchored shopping centers and government buildings. Little speculative construction was underway, but some analysts noted that a few builders were beginning construction with only 80 to 90 percent of the building preleased. Other analysts reported that a shortage of large blocks of office space would stimulate construction demand in the future.

Agriculture

Above-normal rainfall and below-normal temperatures across most of the District delayed spring planting activity and led to the deterioration of some crops. Corn and tobacco plantings were only 5 to 8 percent complete, compared to 25 percent or more normally. Vegetable crop plantings were also behind schedule. Almost half of the District's small grains--planted last fall--were rated in fair or poor condition, either because they were drowned, were suffering from disease and powdery mildew, or were growing at below-normal rates on account of cold weather. On a more positive note, the condition of peach and apple trees improved during the last several weeks.

SIXTH DISTRICT - ATLANTA

Overview: According to Sixth District contacts, the Southeast economy grew at a moderate pace through mid-April, despite minor disruptions caused by unseasonably bad weather. Retailers reported year-over-year increases in consumer spending. Factory activity improved moderately with increased production noted particularly in consumer goods and home building materials. Realtors and home builders continued to see a favorable single-family housing market, and contractors noted some new multifamily projects but said commercial construction is still weak. According to banking contacts, lending activity was up modestly, driven by increases in commercial loans and another wave of home mortgage refinancings. Competition continues to hold prices of intermediate materials and final goods steady, while wage pressures were generally absent.

Consumer Spending: Despite unseasonably poor weather, retailers in the District generally reported increases in consumer spending through March and into mid-April compared with year-ago levels. Nondurable goods sold well because of Easter holiday shopping, while durable goods sales received a boost from home improvement purchases that rebounded with the better weather in early-April. Auto sales picked up modestly during the last month, and most dealers said they were optimistic about the prospects for continued increases in sales this year. Tourism and business travel continued to strengthen, and early reports indicate that the number of spring break visitors to Florida surpassed year-ago levels. Most contacts in the hospitality industry expect further improvement through the summer as air passenger traffic and convention attendance continue to outpace year-ago levels.

Manufacturing: District factory activity improved moderately through early-April, led by appliance, furniture, carpet, and building materials manufacturers who continue to benefit from regional and national increases in home building and renovation. Increasing backlogs of orders were reported by producers of plywood and textiles, with some plants running at full capacity. Utilities around the District saw modest gains in new residential customers and higher sales to existing industrial users. Although production levels generally have been increasing, relatively few firms have reported hiring new employees, instead choosing to extend the hours worked by current staffs. While increases in manufacturers' shipments and new orders were reported across a broad range of industries, many defense-related contractors are still faced with declining backlogs of orders and few new prospects.

Construction: Real estate agents across the District noted that home sales were at or above strong year-ago levels. Improved sales were observed in all price ranges, including the luxury market which previously had been very slow. Contacts expressed optimism about the remaining spring sales period, but were more cautious in their assessment of longer term prospects. According to builders, single-family home construction is gaining, although activity was slowed in some areas by the severe March weather. In contrast, multifamily construction continues to be generally slow, but plans for several large new apartment developments were announced in the last month.

Despite isolated reports of improved absorption and leasing activity, the commercial real estate market remains weak. No new speculative construction has been announced recently, although several large built-to-suit projects are underway. Commercial builders generally were pessimistic about their prospects for the rest of this year.

Financial Services: Bankers in most parts of the District reported that overall loan demand was up slightly in March and early-April. Commercial lending has increased in recent weeks. Although contacts report that home mortgage lending continues at a brisk pace, refinancing accounts for nearly two-thirds of current originations. This new wave of refinancings is approaching the record volumes recorded during 1992. Bankers report that some consumers who refinanced mortgages in late 1991 or early 1992 are taking advantage of lower rates for a second time. Other types of consumer lending were said to be flat or up slightly in the last month.

Wages and Prices: Few factory contacts reported increases in prices of either intermediate materials or finished products. There were no reports of increasing wage pressures.

SEVENTH DISTRICT--CHICAGO

Summary. Recent reports from businesses, trade associations and the results of a variety of surveys indicate that economic expansion slowed in the Seventh District in March and early April, but contacts' expectations for renewed growth in coming weeks were guardedly optimistic. Most retail and housing industry contacts stated that bad weather curtailed sales growth in recent weeks. Little change could be detected in the pace of expansion in manufacturing activity, and manufacturers seemed comfortable with modestly rising inventory levels. Price increases proceeded at a somewhat faster pace in recent months, due at least in part to improvement in demand. Weather conditions have delayed spring plantings.

Business Activity Indicators. An underlying upward trend in purchasing managers' surveys around the District generally remained intact in recent months, although results were increasingly mixed. The overall index for the Chicago survey slipped slightly in March, but remained at a level consistent with expansion in manufacturing activity. The production components of the Milwaukee and Detroit surveys continued to climb in March, and these indicators have reached and exceeded pre-recession levels. Purchasing managers' surveys in Western Michigan signalled modest to moderate improvement in March, in line with results for the first two months of the quarter. Led by the auto sector, an index of business activity in the Detroit area rose to a record high in March, and the unemployment rate for the Detroit area has fallen significantly over the last year. An index of business conditions in a purchasing managers' survey in Iowa also continued to climb in the first quarter, reaching its highest level in five years. An informal survey of a variety of small manufacturing, construction, and service firms in the District indicated that respondents were largely upbeat with respect to appraisals of current conditions as well as expectations for future activity, although several firms expressed concern about the recent slump in measures of consumer confidence.

Consumption and Housing. Most retail and housing industry contacts reported that unrelenting poor weather joined with renewed consumer uncertainty, especially about taxes, to dampen sales in March and early April. Continued gains in retail sales of nonseasonal merchandise and increased activity during breaks in the weather supported their expectations for renewed growth in coming months, however. A large retailer stated that sales growth was held back by concern over potential tax increases, uncertainty about the impact of withholding changes, a payback following aggressive promotion of credit sales in the previous quarter, and "some of the soggiest weather in our history." Sales reportedly surged,

however, on several days when the weather broke. This contact also noted that sales of nonseasonal items continued to strengthen in recent months, helping to offset weakness in spring apparel, and sales of furniture and housewares posted a double-digit increase in the first quarter on a same-store basis, reaching a record level. Another large retailer reported that credit utilization continued to rise even though sales slowed in March (on a seasonally adjusted basis), and sales rebounded in April, led by durable goods and apparel. A large shopping center reported that total sales increased (on a year-over-year basis) in March and early April. After a lengthy dormant period for sales of spring merchandise, this contact expected a burst in sales with the first sustained period of nice weather, but noted that it hadn't occurred yet.

Reports from bankers indicated that residential mortgage loan demand remained fairly strong, with continued relative strength in refinancing. A large homebuilder, however, expressed some frustration about a loss of momentum in traffic and sales in March, citing a reemergence of political uncertainty in addition to the bad weather. A report from an association of realtors indicated that closings slowed in the first quarter of 1993 on a seasonally adjusted basis, after a large increase in the fourth quarter last year. A report from a large realtor also indicated that transaction volume slowed in March, but activity seemed to pick up some momentum in April. This realtor stated that "the market is still pretty active," citing continued optimistic attitudes among salespeople.

Manufacturing. Reports from manufacturers and industrial trade associations indicated little change in the steady upward trend in District manufacturing activity, although pockets of weakness remained. Sales of electricity to industrial customers in March were significantly above the year-earlier period, according to one utility, largely due to strength in sales to the auto industry. One automaker reported that production of light trucks has been bumping up against capacity limits. Two producers of molds used in automobile production were experiencing a marked upturn in demand, which was attributed to increased optimism about sales prospects in future model years. An automaker reported that car sales strengthened significantly in the first twenty days of April, after some loss of momentum in March. A bank reported that auto loan volume rose in April, after softening in the first quarter. Among respondents to the purchasing managers' surveys in Western Michigan, above-average strength was reported for producers of capital equipment, and auto parts manufacturers are still doing somewhat better than firms in most other industries. An association of electronics manufacturers reported that orders in the first quarter ran at the highest level in the past five years, and an association of home appliance producers reported a record level of domestic shipments for a variety of products in March. One

appliance producer expected a record year for retail sales of appliances (in units) in 1993. Weakness has lingered in several manufacturing sectors in the District, however. A large diversified manufacturer reported that orders for oilfield and airline equipment, which had been weak for some time, fell off significantly further in March. Retail sales of farm equipment in the first quarter were slightly below soft year-earlier levels. New strengthening was evident in one previously weak sector, however, as a large manufacturer of construction equipment reported that sales into commercial construction markets have been rising rapidly in recent months.

Prices. Prices of a variety of commodities and final products have been increasing at higher rates in recent months, due at least in part to increased demand. The price components of several District purchasing managers' surveys rose in recent months. The director of two purchasing managers' surveys in Western Michigan noted that more commodities were being reported in short supply and rising in price. On the other hand, a large retailer reported that consumer sensitivity to price remains high. A banker stated that inflationary expectations may remain relatively muted, noting that the upturn in plant and equipment spending among borrowers has not been generalized, but specific by industry sector, by companies within industries, and projects within companies.

Agriculture. A recent survey found that farmers in this District and elsewhere intend to reduce corn acreage moderately this year while holding soybean seedings close to last year's level. The combination of a late harvest last fall and the wet and cool weather conditions of this spring has significantly reduced the amount of fieldwork completed so far for this year's plantings. Developments in the next couple of weeks will be important as the first 10 days of May are generally considered the optimum planting time for most of the District's corn farmers. The delays experienced so far could be quickly overcome with the right weather conditions. Alternatively, continued delays could trigger a shift toward quicker-maturing (but lower-yielding) seeds and/or encourage a shift from corn to soybean acreage. Livestock producers have enjoyed unexpectedly high prices so far this year. In contrast to the continued year-over-year gains expected in red meat production, pork production was down nearly 3 percent in the first quarter while beef production was down nearly 4 percent. The unexpected declines stem partly from slower weight gains due to the poor quality of last year's corn crop and the harsh weather conditions confronting feedlot operators. With USDA reports continuing to show larger inventories of hogs and cattle, most analysts are expecting red meat production will move above year-earlier levels again this spring.

EIGHTH DISTRICT - ST. LOUIS

Summary

District firms continue to report growth in both sales and employment. Unexpected increases in demand have spurred some companies to hire additional workers or cancel planned layoffs. Wet weather has slowed District homebuilding, although many areas still report permits and sales at or above last year's levels. Consumer and small business loan demand continues to increase at area banks; some bankers are concerned, however, that slow deposit growth could hamper their efforts to fund further increases in loan demand. Excessive moisture and unseasonably cool temperatures have delayed spring planting throughout the District.

Manufacturing

Reports from District manufacturers continue to be upbeat, as both sales and employment are increasing. Sales increases in the range of 4 percent to 10 percent over last year are not uncommon. One contact reports a steadier stream of revenues this year relative to last, citing the customers' use of just-in-time inventory as the cause. Many firms report employment increases because of expansions and increased demand. In particular, Arkansas is witnessing spurts of growth from various industries. A steel processor will open a plant in the northeast part of the state, which brings the total to six steel-related plant openings in this area over the past year. In western Arkansas, the expansions of a wheel manufacturer and two apparel manufacturers will add about 250 jobs, while a maker of major household appliances is adding 400 workers because of unexpectedly strong demand.

Reports from other areas of the District are also positive. For example, a Tennessee plant producing shoes with a workforce of 260, originally slated to close, will remain open indefinitely because of unexpected increases in demand. This is the second time this year the company has reversed its plans to close one of its plants because of

unexpected growth in demand. In March, a steel foundry in Illinois reopened after 18 months with 330 recalled employees. The firm also reports that up to 1,000 additional workers may be hired soon to meet the expected demand. A poultry processor in western Kentucky is undergoing a major expansion that will lead to 300 new jobs.

Some employment reductions did occur, however. A Tennessee producer of children's clothing reports that reduced sales and internal efficiency concerns will cause it to close a plant by June, eliminating about 300 jobs. In Memphis, a maker of food products will release up to two-thirds of its current 350 employees as it stops production of bulk products for other food companies. Because of a reorganization, a national computer company will lay off about 200 of its 550 workers in St. Louis.

Nonmanufacturing

Reports from District nonmanufacturing firms also continue to be positive. For example, an Arkansas building supplies company reports that sales are up 11 percent over last year because of strong growth in housing starts. The relocation of a nursing homes operator from Virginia to Arkansas will bring between 300 and 400 jobs into the area by next year, completing this firm's consolidation in Arkansas. A retail holding company that is moving its headquarters to St. Louis reports that 100 new jobs, in addition to the 430 jobs coming from New York, will be added. An athletic apparel maker, consolidating its national distribution in Memphis, is bringing 100 jobs. In addition, a retailer in southern Illinois reports that when its remodeling is complete by year-end, it will need 300 new employees. The District's mining industry, though, contracted further when an Illinois coal company announced that it will close two mines this month, laying off more than 370 workers.

Construction and Real Estate

Wet weather in much of the District has dampened homebuilding, although many areas still report construction activity at or above last year's pace. Rain and mud have put many District homebuilders 30 to 60 days behind schedule. Despite the weather, traffic

and sales activity is reportedly moderate to strong throughout the District. Sales of houses priced in the \$100,000-to-\$150,000 range are especially strong in Louisville. New home prices have risen slightly because of the pickup in demand and increases in materials costs, especially lumber.

Banking and Finance

Loan demand appears to be on the upswing in many parts of the District. Consumers continue to refinance variable-rate debt with fixed-rate instruments; at the same time, consumers and small businesses have increased their demand for new loans, bankers report. Several contacts are concerned about slow deposit growth, believing that the low rates being paid on deposits have led many customers to move funds out of the banking system. They also worry that, should a sharp upturn in loan demand occur, it will be difficult to fund without significant increases in deposit rates or purchased funds.

Agriculture and Natural Resources

Surplus soil moisture and unseasonably cool spring temperatures are reported in most District states. Consequently, spring tillage and planting operations have proceeded at an unusually slow pace: corn, cotton and rice planting are well behind normal in most areas. Two large fertilizer producers and distributors report that sales have been adversely affected by the weather, but should pick up if the weather improves soon. Although the cool weather has significantly damaged the blueberry and strawberry crops in parts of Arkansas, Mississippi and Tennessee, the peach and apple crops in some areas have benefited. The winter wheat crop in most states is generally in good condition, although some concerns about moisture-related diseases have been expressed. Initial estimates suggest that District farmers intend to plant less corn and rice this year, but more soybeans. Cotton acreage should be near last year's level. Flooding along many of the major rivers in the District has barge activity hamstrung recently.

NINTH DISTRICT--MINNEAPOLIS

The economy of the Ninth District is growing moderately. Consumer spending on merchandise, automobiles and new homes continues to grow and provide impetus for the economy. Moreover, other indicators signal that the recovery is firming. Commercial and heavy construction is reviving, with substantial state and local government projects slated for some areas. Recent indicators suggest some growth in manufacturing. In agriculture, cattle and hog numbers continue to rise in response to very favorable feed and slaughter prices. While current mining output is unchanged, industry officials predict an improved year for iron mining and profitability has improved for gold producers. Oil industry prospects are positive for the first time in years. Cold, wet weather is severely delaying grain planting but has helped ensure that soil moisture levels are adequate across virtually all of the Ninth District. However, labor markets show slight growth in total employment coupled with steady to slightly higher unemployment rates.

Consumer Spending

Automobiles constitute one strong area of consumer spending. In March, new registrations of passenger autos and pickups in Minnesota were 6 percent above year-earlier levels. North and South Dakota also report strong auto sales. "The first quarter has been very good," said a South Dakota auto dealers association spokesperson.

Spending on general merchandise apparently continued at levels 3 to 5 percent above year earlier levels for the month of March and for the first quarter of 1993. A major Minneapolis-based general retailer characterized its March same-store sales, up 3.6 percent from a year earlier, as "disappointing" in comparison to increases achieved in January and February. However, such levels seem typical for much of the district. Advisory council members, Ninth District directors and newspapers generally also report good retail sales conditions but no spectacular growth. And the Minnesota Department of Revenue announced that sales tax receipts through the first quarter were above projections.

Construction and Housing

Heavy and commercial construction is strong. A trade publication that tabulates construction industry data for all publicly-tendered contracts in North Dakota, South Dakota and Minnesota reports that contract awards for the first quarter of 1993 are 45 percent above the first quarter of 1992. Some local units of government reportedly will spend substantial amounts on construction in 1993, with \$75 million announced

for Sioux Falls, S.D. Directors and newspapers also report substantial amounts of small and medium-scale commercial construction that is not generally awarded through public bids.

New single-family housing permits in February for Minneapolis-St. Paul remained below year-earlier levels but rose after declines the previous two months. And industry spokespersons across the district continue to describe residential construction as strong. A Minneapolis area builder's association representative characterized sales as "very strong" and a newspaper noted a building boom in the Sioux Falls, S.D., area. A district director from western South Dakota described the housing market in the Rapid City area as "very tight", noting that many new single-family residences were planned.

Manufacturing

Available indicators point to some growth in the manufacturing sector. Minnesota's employment in manufacturing in February was about 2 percent above year-earlier levels. Weekly hours in manufacturing stood at 41.0, up slightly from the prior month and nearly an hour above February 1992 levels. An electrical utility serving most of the Ninth District manufacturing in South Dakota, Minnesota and Wisconsin reported that weather-normalized electrical use in industry grew at about 3.3 percent in the first quarter of 1993 compared to the same period in 1992. Food processing and non-electrical machinery manufacturing showed the greatest increases. And recent earnings reports of publicly-traded manufacturing firms in the district show a pattern of sales and earnings generally well above year-earlier levels.

Mining and Energy

Business conditions have improved somewhat in mining. One Minnesota iron mining industry spokesman estimated that 1993 shipments would be 2 million tons or 5 percent above 1992 levels. Recent price increases have improved profitability in South Dakota and Montana gold mining, and output and employment remain steady. Copper prices remain low, but no new production cuts or layoffs have been reported recently.

One high producing new oil well was completed near Dickinson, N.D. Ninth District directors from North Dakota and Montana report that oil companies show renewed interest in leasing and exploration and believe that with tight cost control, new production wells can be profitable at current oil price levels. Drilling rig counts for April are approximately equal to the same period in 1992.

Agriculture

Livestock are the most positive component in agriculture. Slaughter cattle and hog prices are strong. Good fat cattle prices combined with low feed costs have pushed feeder cattle prices to historic highs, and earnings by ranchers in western South Dakota and Montana are reported to be strong. Numbers of livestock on farms as well as slaughter numbers are high. One problem is that cold, wet weather has increased newborn calf mortality for beef producers.

The crop sector is still emerging from winter inactivity. Grain prices in mid-April are largely unchanged since February with the exception of an increase in the corn price. Unusually cool, wet weather has delayed field preparation and crop planting in all district states and for all major crops. Soil moisture levels are adequate to surplus across virtually all agricultural regions.

Labor Markets

In spite of indications of at least moderate growth in the sectors reviewed above, labor markets show little significant change in early spring. Indicators for February generally show slight increases in total employment compared to month and year-earlier figures combined with steady to slightly higher unemployment rates. Minnesota, with over half of the district's labor force, had an unemployment rate of 6.4 percent for February, one-half point higher than in January and 1.1 points higher than a year earlier. Unemployment rates also rose in South Dakota in spite of modest increases in employment levels. Michigan's Upper Peninsula, where unemployment rates have fallen 3 points in the last year to February levels of 10 percent, is one region with improvement. In Minnesota and the Dakotas, March initial claims for unemployment generally rose from February levels but were somewhat below year-earlier levels.

In spite of positive developments in the general economy noted above, such weakness in labor markets may continue due to ongoing processes of corporate restructuring and military downsizing that continue to affect the Ninth District. A large computer manufacturer announced that 700 full-time and 1,200 part-time or temporary workers will be laid off at its Rochester, Minn., plant out of a total of some 7,600 workers. And the Department of Defense announced that K.I. Sawyer Air Force Base, located in Michigan's Upper Peninsula, was on its list of facilities slated for closing. Sawyer AFB, with 3,300 military and 1,000 civilian personnel, is a major factor in Upper Peninsula employment and spending.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy is expanding at a moderate pace. Retail sales are rising, the housing sector remains strong, and demand for bank loans is up in most categories. Prospects for farm income are good despite weather-related problems, and the energy sector appears to have stabilized. District manufacturers continue to operate below capacity. Prices for retail goods and manufacturer's inputs are stable, but prices for building materials are increasing somewhat further.

Retail Sales. Retailers report moderate improvement in sales relative to last month and a year ago, despite poor weather conditions. Most retailers report strength in apparel sales. Prices are stable or slightly lower compared to a year ago, as retailers have trimmed profit margins. Prices are expected to remain stable over the next year. Most respondents are satisfied with inventory levels. Sales are expected to continue improving over the next several months.

Auto dealers report sales increases from last month and continued availability of dealer financing. Dealers are maintaining or increasing inventories and remain optimistic about sales in the near future. A few respondents report that some less credit-worthy consumers have had difficulty getting financing.

Manufacturing. Purchasing agents report steady to slightly higher input prices relative to last year, except for a significant rise in the price of steel. Prices are expected to remain stable over the next few months. Materials are available, although lead times are slightly extended. Firms are operating below capacity and are trying to cut costs by delaying hiring additional labor. Firms that export report a decrease in sales abroad.

Energy. Drilling activity in the district is stable following declines at the beginning of the year. The average number of operating drilling rigs in district states fell from 223 in February to 191 in March. The rig count rebounded somewhat in the first three weeks of April, however, to an average of 196. During the recent two-month period, drilling activity in the district was about even with year-ago levels.

Housing. Housing starts are generally up relative to last month. Most builders expect starts to pick up further in the period ahead as the weather improves. Sales of new homes are up, and inventories are low. Home prices are up from last month. Building materials are readily available, but respondents report some increase in lumber prices.

Mortgage demand is strong in response to lower interest rates, with much of the strength due to refinancing. Respondents expect mortgage demand to remain strong and interest rates to remain low.

Banking. Bankers report somewhat stronger loan demand last month. Demand increased for commercial and industrial loans, consumer loans, and residential real estate loans. Demand for agricultural loans and commercial real estate loans, however, was unchanged. The loan-to-deposit ratio increased slightly over the last month, as did the level of bank investments.

District banks did not change their prime rate in the last month and expect no change in the near future. While most banks did not change their consumer loan rates, a few respondents report recent reductions in consumer rates. Banks also did not change their other lending standards in the last month, except that one respondent tightened home equity lending standards.

Deposits were steady to slightly higher during the last month. The deposit growth centered in demand deposits, NOW accounts, and MMDAs. Large

CDs declined slightly, while small time deposits and savings deposits were steady to slightly lower.

Agriculture. The district's important winter wheat crop is in good condition overall. Although some areas are showing signs of winter kill or excessive moisture, most of the crop is making progress and is considered to have favorable prospects.

Row crop producers have made little planting progress due to an unusually wet spring. Muddy conditions continue to keep farmers out of their fields as frequent showers and cool temperatures have prevented adequate drying. Most of the fieldwork that has been completed was done last fall.

Feedlot conditions have improved since winter storms pounded much of the district. Although feedlots are not operating at capacity, they are generally as full as operators want them. With fed cattle prices hovering around \$82, feedlot managers are marketing cattle as quickly as they can. Poor weight gains and death loss due to the winter storms, however, still hamper efforts to maintain steady marketings.

The volume of farm real estate sales in most parts of the district remained steady over the past year, while land values edged up. According to district agricultural lenders, farm real estate values have advanced 3 to 4 percent in the past year. The cash rental value of farmland, however, has fluctuated little from 1992.

ELEVENTH DISTRICT--DALLAS

The District economy is growing slowly. The service sector continues to expand at a modest pace but manufacturing activity has weakened since the last survey. Most respondents say that selling prices are not rising. A few respondents indicate that input costs have risen slightly but they are not passing on these rising costs. New single-family construction and sales continue to dominate the District real estate market. Higher oil and natural gas prices are stimulating a slight pick-up in the District energy industry. Retail sales growth is moderate. District financial institutions report continued slow loan growth. Adverse weather conditions are negatively affecting agricultural production.

Manufacturing activity has weakened. Demand for fabricated metals has declined recently while primary metal sales have been sluggish. Respondents suggest that weak demand is a result of general caution surrounding the economy, along with low levels of nonresidential construction and oil and gas drilling. Primary metal respondents also suggest that caution surrounding the proposed energy tax has depressed growth. Steel producers believe their business has slowed because customers stocked up prior to an announced price increase. Slow domestic drilling also is reported to have weakened demand for oil field equipment although international demand has increased, particularly from Canada. Chemical producers indicate that sales are unchanged although a global surplus of chemicals and plastics are holding prices and profits low. Petrochemical prices have declined slightly despite sharp increases in several feedstocks, especially propane. Overcapacity problems and diminished exports continue to hurt domestic operations. Growth in apparel sales are reported to have slowed. Electrical and electronic machinery producers report that sales continue to be strong but prices remain flat despite a slight increase in cost. A paper producer reports weak export demand. Sales growth of lumber and wood products has

leveled off but remains well above last year. Increased homebuilding construction continues to boost demand for stone, shell, clay and glass.

New single-family construction and sales continue to dominate the District real estate market. Inventories of new homes remain low in San Antonio, Austin, Dallas and Houston. Low inventories, along with higher prices for lumber and hardboard siding, have raised home prices. Respondents report little resistance to rising prices, mostly because low interest rates are offsetting rising prices. Apartment occupancy rates and rents have risen although there is little construction activity. Office markets remain weak particularly in Dallas and Houston. Construction to rebuild from Hurricane Andrew continues in Louisiana and off the Gulf Coast. Offshore construction of oil and gas platforms is expected to continue into the summer.

Higher oil and natural gas prices have stimulated the District energy industry. Reduced OPEC production has boosted the price of West Texas Intermediate Crude to around \$20 per barrel. The East Coast blizzard increased demand for natural gas, unexpectedly draining storage facilities and raising prices. Storage levels, which are at a five year low, are expected to keep natural gas prices high for several months. Offshore natural gas drilling has increased. Domestic drilling remains seasonally slow but is expected to pick up soon, particularly for natural gas. Higher gasoline prices helped boost refining margins from the very low levels experienced in February but profits are reported to still remain weak.

Service sector activity continues to increase slowly. Business service and transportation respondents report that sales have increased. Temporary employment firms report that business has been particularly strong, partly because many companies are still hesitant about hiring permanent workers. Selling prices remain very competitive in the service sector. Several respondents noted that they must do more work with the same

number of people because they can not increase prices. Higher labor costs such as health insurance, unemployment insurance, and workers' compensation continue to be a problem for many companies.

Retail sales growth is moderate. Sales growth is expected to continue. Some retailers, however, express caution that near-term growth may slow slightly because reduced federal income tax withholding increased the amount of taxes many consumers owe now. Respondents report that selling prices remain very competitive despite some higher costs. Auto sales have picked up and dealers are optimistic that sales gains will continue. Dealers report that domestic vehicles are outselling imports because of price increases for many foreign vehicles.

District financial institutions report continued slow loan growth. Loan demand has increased modestly but remains low. Bankers say that loan customers are being cautious about the business outlook. Regulatory burdens are also reported to be slowing loan growth.

Adverse weather conditions are negatively affecting agricultural production. Severe wet weather has delayed planting in central Texas. Planting is now 20 percent behind the five year average. Dry weather has aided wildfires, and depleted range and pasture conditions in far West Texas. March prices for most crops were lower than last year, while prices for most livestock commodities increased. The Texas All Crops Price Index dropped 17.1 percent from a year ago. The Livestock Index rose 5.0 percent above the previous year.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Weakness in California continues to hold down overall District economic activity, but generally favorable conditions are reported in most other District states. In California, job cutbacks in aerospace and defense-related manufacturing are combining with recently proposed military base closings to hurt consumer confidence and economic activity in many areas. Conditions remain sluggish in the state across a broad range of industries. Layoffs in aerospace also are slowing growth in western Washington. Outside of these regions, growth is reported in several sectors, with the strongest conditions reported in eastern Washington, Utah, and Idaho. Overall business sentiment was little changed from our last report but remains generally favorable, and recent rains have improved District agricultural prospects.

Business Sentiment

Sentiment among Twelfth District business leaders, which had improved steadily since the last half of 1992, is showing some signs of leveling off. Two-thirds of our respondents now expect the real economy to expand during the next four quarters at a rate of at least 2.5 percent. This proportion is down from three-quarters in March but up from one-half in January and one-third in November. In general, contacts from Idaho, Oregon, and Utah expect their regions to perform slightly better than the national average. Most contacts in California and Washington, however, expect their regions to underperform the national average.

Retail Trade and Services

Consumer sentiment remains weak in California, with several contacts reporting that concern over job security is negatively affecting consumer spending. One national retailer reports that retail sales are continuing soft; April looks slightly better than March, but the West Coast trend is definitely

softer than in the Midwest or East Coast. Contacts in California report that small retail and service establishments near military bases are nervous about their long-term prospects. The visitor industry in southern California is reported to be depressed. In northern California, a contact reports that layoffs are continuing in the legal services industry.

Somewhat stronger conditions are reported in most other District markets, with consumer confidence noticeably more robust than in California. Contacts report stable or strengthening conditions in Idaho, Utah, and Oregon. In Idaho, for example, new vehicle registrations during March were up 26 percent over a year earlier. In Washington, however, consumer confidence is reported down due to aerospace cutbacks, adversely affecting retail trade and sales. A contact in the Washington legal industry also reports weak conditions. A contact in eastern Washington, however, reports that the region is benefiting from increased federal spending on nuclear cleanup projects.

Manufacturing

Cutbacks in aerospace and defense continue to dampen District manufacturing activity-- particularly in California and Washington. Most recently, a major defense manufacturer announced the further consolidation of production activity from several sites in southern California to Tucson. The move will result in the transfer of 2,000 workers by the end of next year and ultimately eliminate more than 6,000 jobs company-wide. In Washington, cutbacks at Boeing are proceeding. Newly announced airplane orders from China, however, are partially offsetting weak demand from domestic airlines. A contact in the aluminum industry reports high inventories and soft prices of aluminum, due to both weak demand and increased supply from Russia.

Stronger conditions exist in other sectors. A contact from Silicon Valley reports that orders are strong in several segments of the electronics industry, although there are signs that the peak in growth rates may be past. Contacts from Idaho and Utah report both strong demand and tightening inventories for heavy and construction equipment. No major delivery problems are reported, however.

Agriculture and Resource-Related Industries

Recent precipitation has improved prospects for irrigation water in several states. Grazing conditions are reported excellent, and livestock conditions are good. Prices are reported strong for cattle and several other agricultural products. Capacity constraints have eased in lumber and plywood, with lumber prices dropping 20 percent from the March peak.

Construction and Real Estate

District nonresidential real estate and construction shows some signs of bottoming out, although activity remains depressed in several markets. A contact in southern California reports little change in conditions, with commercial construction activity down nearly 50 percent from three years ago. In northern California, a contact reports that rents have stabilized, and that commercial real estate prices should be at or near the bottom. In Utah, the overall office vacancy dropped from 21 percent to 16 percent in the Salt Lake City market, showing considerable absorption over the past year.

The residential sector is showing more strength. Home building in southern Arizona is reported very strong, in part due to the shift of aerospace jobs from southern California to Tucson. Contacts also report that Utah and Idaho are experiencing a continued boom in residential construction and sales. Some shortage of lumber and construction labor is noted. In California, contacts report some pick up in real estate activity due to lower interest rates and decreased home prices.

Financial Institutions

Mixed conditions are reported across District financial markets. In California, contacts report continued weak loan demand. A contact in Washington reports a sharp drop in commercial and agricultural loan requests in the last two quarters. In contrast, contacts report that the banking industry in Arizona continues to show significant improvement and that conditions in Utah remain strong. In Oregon, a contact reports increased demand for credit during March and strong profits.